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BEFORE THE ARIZONA CORPORATION COMMISSION

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CHAIRMAN
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- 7

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AZ CORP COMMISSION
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Arizona Corporation Commission

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8 IN THE MATTER OF THE APPLICATION OF
 9 UNS GAS, INC. FOR THE ESTABLISHMENT
 10 OF JUST AND REASONABLE RATES AND
 11 CHARGES DESIGNED TO REALIZE A
 12 REASONABLE RATE OF RETURN ON THE
 13 FAIR VALUE OF THE PROPERTIES OF
 14 UNS GAS, INC. DEVOTED TO ITS
 15 OPERATIONS THROUGHOUT THE STATE
 16 OF ARIZONA.

Docket No. G-04204A-06-0463

13 IN THE MATTER OF THE APPLICATION OF
 14 UNS GAS, INC. TO REVIEW AND REVISE
 15 ITS PURCHASED GAS ADJUSTOR.

Docket No. G-04204A-06-0013

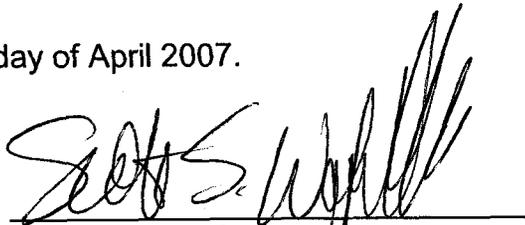
16 IN THE MATTER OF THE INQUIRY INTO
 17 THE PRUDENCE OF THE GAS
 18 PROCUREMENT PRACTICES OF UNS
 19 GAS, INC.

Docket No. G-04204A-05-0831

NOTICE OF FILING

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

1 RESPECTFULLY SUBMITTED this 4th day of April 2007.

2
3 
4 Scott S. Wakefield
Chief Counsel

5 AN ORIGINAL AND SEVENTEEN COPIES
6 of the foregoing filed this 4th day
7 of April 2007 with:

8 Docket Control
9 Arizona Corporation Commission
10 1200 West Washington
11 Phoenix, Arizona 85007

12 COPIES of the foregoing hand delivered/
13 mailed this 4th day of April 2007 to:

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Secretary to Scott Wakefield

UNS GAS, INC.

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

SURREBUTTAL TESTIMONY

OF

MARYLEE DIAZ CORTEZ, CPA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 4, 2007

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1 **INTRODUCTION**

2 Q. Please state your name for the record.

3 A. My name is Marylee Diaz Cortez.

4

5 Q. Have you previously filed testimony in this docket?

6 A. Yes. I filed direct testimony in this docket on February 9, 2007.

7

8 Q. What is the purpose of your surrebuttal testimony?

9 A. In my surrebuttal testimony I will respond to the positions and arguments
10 set forth by various UNS Gas witnesses in their rebuttal testimony. I will
11 show that certain arguments are without merit and demonstrate why such
12 arguments should be rejected.

13

14 Q. What issues will you address in your surrebuttal testimony?

15 A. I will address the following issues in my surrebuttal testimony:

16

Rate Base

17

* Fair Value Rate Base

18

* Citizens Acquisition Adjustment

19

* CWIP

20

* GIS Deferral

21

* Working Capital

22

Operating Income

23

* Fleet Fuel Expense

- 1 * Customer Annualization
- 2 * Corporate Cost Allocations
- 3 * Bad Debts – Uncollectibles
- 4 * Out-of-Period Expenses
- 5 * Legal Expenses

6 **Rate Design**

7 **Rules and Regulations of Service**

8

9 **RATE BASE**

10 **Fair Value Rate Base**

11 Q. In its rebuttal testimony, has the Company proposed any significant
12 revisions to its application as originally filed?

13 A. Yes. In its rebuttal testimony the Company has significantly altered its
14 cost of capital recommendation, such that UNS Gas is requesting that its
15 original cost rate of return of 8.80% now be applied to its fair value rate
16 base, whereas in its original application this rate of return was applied to
17 the original cost rate base. This is a significant alteration in the
18 Company's request.

19

20 Q. Why did the Company change its position on this issue?

21 A. According to UNS Gas, it has altered its position based on an Arizona
22 Court of Appeals decision regarding Chaparral City Water Company.

23

1 Q. Are you familiar with this decision?

2 A. Yes. While I am not a lawyer, I believe the decision the Company is
3 referring to is a Memorandum Decision issued by the Court of Appeals in
4 Arizona on February 13, 2007. (Chapparral City Water v. ACC, Docket No.
5 1 CA-CC 05-0002) (Court of Appeals, February 13, 2007). That decision,
6 in part, addressed the issue of how the Commission had determined its
7 fair value rate of return in that case, and ultimately remanded the issue to
8 the Commission.

9

10 Q. Does that decision require that UNS Gas revise its rate request in the
11 instant case?

12 A. No. The decision is a memorandum decision, which has no precedential
13 effect on other cases. Further, the court recently granted an extension of
14 the time for the Commission to seek review of the decision by the Arizona
15 Supreme Court. Thus, the issue is, at best, prematurely raised, and more
16 likely irrelevant given the decision's non-precedential status.

17

18 Q. Had the Company originally filed its application requesting that an original
19 cost rate of return be applied to a fair value rate base, would RUCO's
20 analysis and conclusions in its direct testimony have been different?

21 A. Certainly. RUCO's analysis of both the cost of capital as well as the
22 Reconstruction Cost New Depreciated (RCND) rate base would have
23 been entirely different, and most likely produced different conclusions.

1 Q. Is the untimeliness of this revision prejudicial to the parties?

2 A. Yes. The parties have had no opportunity to conduct discovery and
3 analysis of this new request. In fact the Commission in its own rules
4 recognizes that substantial revisions to a utility's application are prejudicial
5 and provides the following relief under such circumstances:

6 Upon motion by any party to the matter or on its own
7 motion, the Commission or the Hearing Officer may
8 determine the time periods prescribed by sub-section
9 (B)(11)(d) should be extended or begin again due to:

10 i. Any amendment to a filing which changes the
11 amount sought by the utility or substantially alters the
12 facts used as a basis for the requested in rates or
13 charges; (R14-2-103 (B)(11)(e))
14
15

16 Q. Are you recommending an extension in this case as a result of this
17 material change to the Company's request?

18 A. No. The Chaparral decision has not reached its final conclusion in the
19 courts, and even if it had, it is not binding in other proceedings. An
20 extension of time to undertake additional analysis would not be necessary
21 to resolve the issue, as there is currently no change in the applicable legal
22 requirements.
23
24
25
26
27

1 **Citizens Acquisition Adjustment**

2 Q. Please discuss the Company's rebuttal comments pertaining to your
3 adjustment to the Citizens Acquisition Adjustment.

4 A. The Company continues to maintain in its rebuttal testimony that the
5 depreciation rates that were proposed in Docket No. G-1032A-02-0598
6 have been authorized by the Commission.

7
8 Q. Did Decision No. 66028 authorize a change in depreciation rates for UNS
9 Gas?

10 A. No. Furthermore, in its rebuttal testimony¹ the Company acknowledges
11 that Decision No. 66028 makes no mention of a change in depreciation
12 rates.

13
14 Q. Why then does the Company continue to maintain that Decision No.
15 66028 authorized a change in depreciation rates?

16 A. The Company argues that one element of the increase in revenues that
17 was approved in Decision No. 66028 was depreciation expense based on
18 the then Company-proposed depreciation rates and that the Commission's
19 approval of that revenue level constitutes Commission approval of those
20 depreciation rates.

21

22

¹ Rebuttal Testimony of Karen G. Kissinger, page 8, lines 1-2.

1 Q. Do you agree?

2 A. No. Decision No. 66028 was a result of a settlement agreement between
3 Staff and the Company. The terms of that agreement are specifically
4 stated in the agreement and in the resultant Commission order. Nowhere
5 in the settlement agreement or the Commission's order is there any
6 indication that the agreed upon revenue level is based on the depreciation
7 that would result from the Company's then-proposed depreciation rates.
8 Depreciation rates simply are not addressed in the terms of that
9 agreement, and thus remain unchanged by Decision No. 66028.
10 Accordingly, my proposed adjustment to the accumulated amortization of
11 the Citizens Acquisition Adjustment is correct and appropriate.

12
13 **Construction Work in Progress (CWIP)**

14 Q. Please discuss the Company's rebuttal comments regarding CWIP.

15 A. The Company argues that CWIP in rate base is an accepted ratemaking
16 concept that is routinely recognized in many states. The Company further
17 expounds that, contrary to my testimony, CWIP inclusion in rate base
18 does not require extraordinary circumstances.

19
20 Q. Please respond.

21 A. While CWIP in rate base may be accepted ratemaking treatment in some
22 states, it is not accepted ratemaking in Arizona. In fact, Arizona has
23 always required extraordinary circumstances before it even considered

1 rate base treatment for CWIP. The Commission explicitly stated such in
2 Decision No. 54247:

3 Beginning in Decision No. 53909 (January 30, 1984) and
4 again in Decision No. 54204, the Commission has
5 recognized that the **extraordinary** inclusion of Palo Verde
6 CWIP necessitates an equally extraordinary reward to
7 ratepayers for their admittedly involuntary investment in
8 Palo Verde carrying costs. [Decision No. 54247, dated
9 November 28, 1984, page 5-6]
10

11 Q. What other arguments does the Company make on the CWIP issue?

12 A. The Company further argues that RUCO's exclusion of CWIP from rate
13 base creates a mismatch because of some of those projects have CIAC
14 balances associated with them, which are included in the test-year rate
15 base.

16
17 Q. Please respond.

18 A. As just discussed, Arizona has historically excluded CWIP in rate base
19 and historically included CIAC in rate base. Thus, under RUCO's
20 recommendations, UNS Gas is being afforded the same rate base
21 treatment for these two items that every other utility in Arizona is afforded.
22

23 Q. In fact, isn't it the Company's proposal to rate base CWIP that creates a
24 mismatch?

25 A. Yes. Mismatches result from the Company's CWIP proposal because
26 while it has included its investment in CWIP in rate base, it has failed to

1 recognize the additional revenues those construction projects will
2 generate.

3

4 Q. How do you know these CWIP projects will create additional revenue?

5 A. The Company provided RUCO with a workpaper that the identified FERC
6 plant accounts where the \$7.2 million in CWIP will eventually reside. Fully
7 86% of the \$7.2 million in CWIP projects are for Mains, Services, and
8 Meters. These projects will extend service to new customers and create
9 additional revenue. Biased rates will result if the investment in these line
10 extensions is recognized, but not the additional revenue the line
11 extensions will generate.

12

13 **Global Information System (GIS) Deferral**

14 Q. Please discuss the Company's rebuttal comments pertaining to your GIS
15 deferral adjustment.

16 A. The Company argues that even though it failed to obtain an accounting
17 order allowing it to capitalize these expenses as a regulatory asset, it
18 should be able to do so anyway.

19

20 Q. Do you agree?

21 A. No. The costs associated with the GIS are expenses, not assets, under
22 Generally Accepted Accounting Principles (GAAP)² accounting.

² Statement of Financial Accounting Standards No. 71

1 Accordingly, the only way UNS Gas could have accounted for these
2 expenses as assets was to have obtained approval of an accounting order
3 from the Commission, which it did not.

4
5 Q. What other arguments does the Company set forth in its rebuttal testimony
6 on this issue?

7 A. In response to my testimony that UNS Gas already recovered the GIS
8 expenses during the test year because it generated over \$10.5 million in
9 operating income³, the Company states it has not recovered these costs.

10

11 Q. If the Company's operating income exceeded its operating expenses how
12 is it possible that the Company did not recover these costs?

13 A. That is a good question, and one the Company does not explain in its
14 rebuttal testimony, other than to claim that by definition if it deferred these
15 expenses it did not recover them.

16

17 Q. Please respond.

18 A. That is precisely the point. The Company did not obtain an accounting
19 order from the Commission permitting deferral treatment of these
20 expenses and accordingly did not defer these expenses. Rather, in
21 accordance with GAAP, the Company expensed the GIS expenses during
22 the test year. Since test-year revenues exceeded test-year expenses by

³ In my direct testimony I said, "net income of over \$10.5 million". This was inadvertent and should have read "operating income of over \$10.5 million".

1 over \$10.5 million the test-year costs associated with the GIS have in fact
2 been recovered by UNS Gas.

3

4 **Working Capital**

5 Q. Please discuss the Company's rebuttal testimony regarding working
6 capital.

7 A. The Company has provided no rebuttal testimony regarding working
8 capital. Thus, it appears the only working capital issue in contention is the
9 level of operating expenses to be used in the cash working capital lead/lag
10 calculation. The Commission will ultimately determine the appropriate
11 level of operating expenses in its decision in this docket.

12

13 **OPERATING INCOME**

14 **Fleet Fuel Expense**

15 Q. Has the Company provided any rebuttal comments to your recommended
16 adjustment to Fleet Fuel Expense?

17 A. Very little. Other than to say the Company prefers the Staff witness'
18 suggested adjustment over RUCO's recommended adjustment, the
19 Company is silent on this issue. The Staff proposed adjustment
20 normalizes the average cost of gasoline, as does RUCO's adjustment.
21 The Staff adjustment, however, does not correct for error the Company
22 made in calculating the average miles per gallon (mpg) its fleet realizes.

1 My adjustment corrects for Company's understatement of mpg and is
2 necessary to reflect an appropriate level of fleet fuel expense.

3

4 **Customer Annualization**

5 Q. Please discuss the Company's rebuttal comments regarding your revenue
6 annualization adjustment.

7 A. The Company argues that the "traditional" approach that myself and the
8 Staff witness used to annualize the test-year revenue is inappropriate for
9 UNS Gas given the seasonal characteristics of its customer base.

10

11 Q. Do you agree?

12 A. No. The test-year customer count data that the Company provided does
13 not support the Company's argument regarding seasonality. The
14 Company realizes the majority of its revenue from Residential Rate 10. I
15 have prepared Surrebuttal Schedule MDC-1, which shows the percentage
16 increase in customers on this rate schedule from month to month during
17 the test year. As shown on this schedule, the customer base has
18 incrementally increased in every month of the test year excepting April,
19 May, and July. The decreases in those three months range between
20 $9/100^{\text{ths}}$ of a percent to $1/3^{\text{rd}}$ of a percent. This is hardly the extreme
21 seasonality that the Company portrays in its rebuttal testimony, or a
22 reason to depart from the "traditional" or Commission-accepted
23 methodology of revenue annualization.

1 **Corporate Cost Allocations**

2 Q. Please discuss the Company's rebuttal comments pertaining to your
3 Corporate Cost Allocation adjustment.

4 A. The Company agrees with my recommended adjustment which removes
5 additional non-recurring charges related to the recent merger attempt.
6

7 **Bad Debts – Uncollectibles**

8 Q. Please discuss the Company's rebuttal comments regarding your bad
9 debt adjustment.

10 A. The Company argues that my bad debt recommendation is flawed
11 because while I removed the Griffith Plant and NSP revenues from the
12 calculation, I did not likewise remove these revenues from my calculation
13 of the bad debt ratio.
14

15 Q. Do you agree?

16 A. Yes, both the numerator and the denominator of the bad debt ratio would
17 have to be adjusted to remove the NSP and Griffith Plant. Because this
18 issue only recently arose, I have not as yet obtained the information
19 necessary to make a revised calculation that would adjust the numerator
20 of the ratio for both 2004 and 2005 and that would adjust the denominator
21 for 2004.
22
23

1 **Out-of-Period Expenses**

2 Q. Please discuss the Company's rebuttal comments pertaining to your Out-
3 of-Period Expense adjustment.

4 A. The Company agrees that the test year contains a number of expenditures
5 that relate to 2004 that should not have been included. However, the
6 Company argues that likewise there were expenses recorded in 2006 that
7 should have been recorded in 2005, and that these out-of-period
8 expenses would outweigh the 2004 out-of-period expenses removed in my
9 adjustment.

10

11 Q. Do you agree?

12 A. I can't know. My audit in this case was primarily of the 2005 test year.
13 Thus, I am not familiar with the 2006 data to which the Company's rebuttal
14 testimony refers. The Company has provided no accounting
15 documentation to support its rebuttal claim regarding 2006 out-of-period
16 expenses, and therefore I can neither agree nor disagree with its rebuttal
17 arguments.

18

19 **Legal Expenses**

20 Q. Please address the Company's rebuttal arguments regarding your legal
21 expense adjustment.

22 A. The Company argues that the FERC rate case settlement in the El Paso
23 matter has continued, and while certain cases may not repeat each year,

1 legal expenses for different cases are recurring. The Company suggests
2 using a two-year average to normalize the test year.

3

4 Q. Do you agree with this argument?

5 A. No, not entirely. While the Company is correct that the identical legal
6 issues may not necessarily arise every year, other legal issues will arise.
7 What makes the legal adjustment recommended by RUCO and Staff
8 appropriate is not just that the El Paso settlement legal expenses are non-
9 recurring, but also these legal expenses are extraordinary in their
10 magnitude.

11

12 Q. Please explain.

13 A. During the test year, the Company incurred 46 invoices for outside legal
14 services. Of these 46 invoices, RUCO and Staff determined 7 of them to
15 be related to the El Paso rate settlement and non-recurring. The average
16 cost of these 7 non-recurring invoices was \$44,436, whereas the average
17 cost of the other 39 recurring invoices was \$5,292. Thus, the El Paso
18 legal expenses were much larger than the routine or recurring legal
19 expenses.

20

21

22

1 Q. Are there any other reasons why your legal expenses adjustment is
2 reasonable?

3 A. Yes. Despite the fact that the El Paso rate settlement is non-recurring, I
4 have not disallowed all of the El Paso legal invoices, only those that
5 exceed \$20,000. Thus, the test year, even after my proposed
6 adjustment, contains over \$75,000 in legal expenses associated with the
7 El Paso settlement.

8

9 **RATE DESIGN**

10 Q. Please discuss the Company's rebuttal comments regarding your
11 proposed rate design.

12 A. The Company's rebuttal takes exception to my characterization of its
13 proposed rate design as creating rate shock for certain customers,
14 resulting in perverted price signals, and stifling conservation. The
15 Company claims that because customers do not have to pay the cost of
16 gas charge of approximately 60 cents per therm when they conserve, that
17 under its proposed rate design there still remains a price signal to
18 conserve.

19

20 Q. Do you agree with this latter claim?

21 A. Yes, and RUCO has not claimed otherwise. The point I make in my direct
22 testimony is that the Company's proposed rate design shifts so much
23 revenue from the commodity charge to the fixed charge that it results in a

1 large increase in the fixed charge and a significant decrease in the
2 commodity rate. The price signal this sends to customers is that low users
3 will receive the highest percentage increase in their bill and the highest
4 users will actually receive decreases in their bills. This phenomena of the
5 Company's rate design is irrespective of gas cost savings that can be
6 achieved through conservation. RUCO's proposed rate design also
7 includes an increase in the fixed charge, but not to the degree that
8 commodity rates need to be decreased significantly.

9

10 Q. Please address the Company's rebuttal comments regarding RUCO's
11 position on the Throughput Adjustment Mechanism (TAM).

12 A. The Company claims that, contrary to my assertion in direct testimony, the
13 TAM would not entirely remove any risk associated with revenue recovery.
14 UNS Gas maintains that it would have risk associated with increased
15 costs and with those customers not subject to the TAM.

16

17 Q. Please respond.

18 A. The Company has the ability to control and mitigate increasing costs, and
19 thus, increasing costs do not pose a big risk to the Company.
20 Furthermore, the Company has the ability to file for a rate increase at any
21 time that it perceives its revenue to be insufficient to cover its costs. What
22 the TAM does is remove virtually all of the risk that the Company is unable

23

1 to control and/or mitigate, such as weather, conservation, and
2 consumption.

3

4 Q. What other arguments does the Company set out regarding the TAM?

5 A. The Company argues that other states have adopted such mechanisms
6 and that while the ACC rejected such a mechanism in the recent
7 Southwest Gas rate case, it also encouraged the parties to seek rate
8 design alternatives that will encourage conservation.

9

10 Q. Have the parties to the Southwest Gas case met to explore rate design
11 alternatives that will encourage conservation as ordered in Decision No.
12 68487?

13 A. Yes. Southwest Gas, Commission Staff, SWEEP, and RUCO have met
14 on several occasions to have such discussions. While no consensus has
15 been reached the parties have acknowledged that Southwest Gas' ability
16 to recover its margin rates is primarily related to weather as opposed to
17 declining usage attributable to conservation. Thus, at least in Southwest
18 Gas' case, a TAM would do little to encourage conservation, which was
19 the Commission's motive for encouraging the parties to discuss rate
20 design alternatives.

21

22

23

1 **RULES AND REGULATIONS OF SERVICE**

2 Q. Please address the Company's rebuttal comments regarding RUCO's
3 position on shortening the length of time customers have to pay their gas
4 bill.

5 A. The Company argues that the shortened period of time for when a bill
6 becomes delinquent is entirely reasonable and that my observation that
7 the Company already receives adequate compensation for its billing lag
8 through its working capital allowance is "irrelevant".

9

10 Q. Please respond.

11 A. I would differ from the Company's opinion that the shortened bill due date
12 is "reasonable." RUCO has had calls from UNS Gas customers regarding
13 this issue and none of those customers believed the proposal was
14 reasonable. Further, the Company's characterization of the fact that they
15 are compensated for the billing lag via the working capital allowance as
16 "irrelevant" is irresponsible at best. Ratepayers are required to reimburse
17 the Company through the rates they pay for this billing lag, so I do not
18 believe this fact is "irrelevant" to them. The Company is not harmed by the
19 current billing terms, but customers perceive harm in the shortened billing
20 terms. Thus, RUCO believes the public interest is not served by granting
21 abbreviated billing terms.

22

23

1 Q. Does this conclude your surrebuttal testimony?

2 A. Yes.

SURREBUTTAL SCHEDULES

MDC-1 AND MDC-2

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
PERCENTAGE INCREASE IN RESIDENTIAL
RATE 10 CUSTOMERS

DOCKET NO. G-04204A-06-0463
SURREBUTTAL SCH. MDC-1

<u>LINE NO.</u>	<u>MONTH</u>	<u># OF CUSTOMERS</u>	<u>% INCREASE</u>
	JANUARY	117,503	
	FEBRUARY	117,602	0.08%
	MARCH	118,507	0.77%
	APRIL	118,170	-0.28%
	MAY	118,064	-0.09%
	JUNE	118,566	0.43%
	JULY	118,318	-0.21%
	AUGUST	118,974	0.55%
	SEPTEMBER	119,000	0.02%
	OCTOBER	119,735	0.62%
	NOVEMBER	120,289	0.46%
	DECEMBER	121,125	0.69%

UNS Gas, Inc.
 Legal Invoice Query
 2005

DOCKET NO. G-04204A-06-0463
 SURREBUTTAL SCHEDULE MDC-2

GL Date	Account	Amount	Payee/Vendor Name	Subject Matter	Service Performed
1	JAN-05 52010	18.00	ROSHKA DEWULF & PATTEN PLC		
2	JAN-05 52010	200.00	MARY L BONILLA		
3	JAN-05 52010	307.13	LEWIS AND ROCA LLP		
4	JAN-05 52010	600.00	THELEN REID & PRIEST LLP		
5	JAN-05 52010	6,248.77	FLEISCHMAN & WALSH LLP		
6	JAN-05 52010	19,216.41	LEWIS AND ROCA LLP		
7	MAR-05 52010	89.34	LEWIS AND ROCA LLP		
8	MAR-05 52010	252.00	ROSHKA DEWULF & PATTEN PLC		
9	MAR-05 52010	386.00	ROSHKA DEWULF & PATTEN PLC		
10	MAR-05 52010	563.40	ROSHKA DEWULF & PATTEN PLC		
11	MAR-05 52010	19,887.55	FLEISCHMAN & WALSH LLP		
12	APR-05 52010	111.35	LEWIS AND ROCA LLP		
13	APR-05 52010	180.00	ROSHKA DEWULF & PATTEN PLC		
14	APR-05 52010	11,201.01	ROSHKA DEWULF & PATTEN PLC		
15	APR-05 52010	19,083.78	FLEISCHMAN & WALSH LLP		
16	APR-05 52010	19,482.02	FLEISCHMAN & WALSH LLP		
17	MAY-05 52010	87,268.56	FLEISCHMAN & WALSH LLP		
18	JUN-05 52010	(720.00)	THELEN REID & PRIEST LLP	Rate case settlement negotiations	El Paso Gas Allocation/Rate Case
19	JUN-05 52010	133.75	LEWIS AND ROCA LLP		
20	JUN-05 52010	2,490.20	ROSHKA DEWULF & PATTEN PLC		
21	JUN-05 52010	11,030.00	FLEISCHMAN & WALSH LLP		
22	JUN-05 52010	11,234.83	ROSHKA DEWULF & PATTEN PLC		
23	JUL-05 52010	3.75	THELEN REID & PRIEST LLP		
24	JUL-05 52010	216.00	ROSHKA DEWULF & PATTEN PLC		
25	JUL-05 52010	360.00	ROSHKA DEWULF & PATTEN PLC		
26	JUL-05 52010	14,299.22	FLEISCHMAN & WALSH LLP		
27	AUG-05 52010	28,463.40	FLEISCHMAN & WALSH LLP		
28	SEP-05 52010	40.80	LEWIS AND ROCA LLP		
29	SEP-05 52010	56,611.88	FLEISCHMAN & WALSH LLP	Rate case settlement negotiations	El Paso Gas Allocation/Rate Case
30	OCT-05 52010	297.80	ROSHKA DEWULF & PATTEN PLC		
31	OCT-05 52010	313.61	LEWIS AND ROCA LLP		
32	OCT-05 52010	462.00	BOULEY SCHIESINGER & SCHIPPERS		
33	OCT-05 52010	1,928.24	ROSHKA DEWULF & PATTEN PLC		
34	OCT-05 52010	2,304.50	ROSHKA DEWULF & PATTEN PLC		
35	OCT-05 52010	3,411.86	ROSHKA DEWULF & PATTEN PLC		
36	OCT-05 52010	32,330.68	FLEISCHMAN & WALSH LLP		
37	NOV-05 52010	396.00	ROSHKA DEWULF & PATTEN PLC	Rate case settlement negotiations	El Paso Gas Allocation/Rate Case
38	NOV-05 52010	15,277.45	ROSHKA DEWULF & PATTEN PLC		
39	NOV-05 52010	28,712.29	FLEISCHMAN & WALSH LLP		
40	DEC-05 52010	17,612.56	ROSHKA DEWULF & PATTEN PLC	Rate case settlement negotiations	El Paso Gas Allocation/Rate Case
41	DEC-05 52010	39,128.51	FLEISCHMAN & WALSH LLP		
42	DEC-05 52010	139.20	LEWIS AND ROCA LLP		
43	DEC-05 52010	228.00	BOULEY SCHIESINGER & SCHIPPERS		
44	DEC-05 52010	1,662.40	ROSHKA DEWULF & PATTEN PLC	Professional Research and filing services	Prudency Audit/PGA Surcharge/Broderick Complaint
45	DEC-05 52010	25,452.58	ROSHKA DEWULF & PATTEN PLC		
46	DEC-05 52010	38,534.74	FLEISCHMAN & WALSH LLP	Rate case settlement negotiations	El Paso Gas Allocation/Rate Case

Total Legal Expense	517,451.57
Total Non-recurring	311,051.00
Total Recurring	206,400.57

Average recurring expense	5,292.32
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Average non-recurring	44,435.86
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UNS GAS, INC.

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

SURREBUTTAL TESTIMONY

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 4, 2007

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12		

1 **INTRODUCTION**

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

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

6

7 Q. Please state the purpose of your surrebuttal testimony.

8 A. The purpose of my testimony is to respond to UNS Gas Inc.'s ("UNS" or
9 "Company") rebuttal testimony on RUCO's recommended rate of return on
10 invested capital (which includes RUCO's recommended cost of debt and
11 cost of common equity) for the Company's natural gas distribution
12 operations in northern Arizona and Santa Cruz County in southern
13 Arizona.

14

15 Q. Have you filed any prior testimony in this case on behalf of RUCO?

16 A. Yes, on February 9, 2007, I filed direct testimony with the Arizona
17 Corporation Commission ("ACC" or "Commission"). My direct testimony
18 addressed the cost of capital issues that were raised in UNS' application
19 requesting a permanent rate increase ("Application") based on a test year
20 ended December 31, 2005.

21

22 ...

23

1 Q. How is your surrebuttal testimony organized?

2 A. My surrebuttal testimony contains four parts: the introduction that I have
3 just presented; a summary of UNS' rebuttal testimony; a section on the
4 cost of debt; and a section on the cost of equity capital. My testimony is
5 supported by a set of revised surrebuttal schedules labeled WAR-1
6 through WAR-9, which can be found at the end of this document.

7
8 Q. Have you made any revisions to your original cost of capital
9 recommendation?

10 A. Yes. As I will explain in my testimony, I have made upward revisions to
11 both my recommended costs of debt and equity. I am now recommending
12 a cost of debt of 6.60 percent and a cost of common equity of 9.84
13 percent. These changes can be viewed on pages 1 and 2 of my
14 Surrebuttal Schedule WAR-1.

15

16 **SUMMARY OF UNS GAS, INC.'S REBUTTAL TESTIMONY**

17 Q. Have you reviewed UNS' rebuttal testimony?

18 A. Yes. I have reviewed the rebuttal testimony, filed on March 16, 2007, of
19 Company witness Kentton C. Grant.

20

21 Q. Please summarize Mr. Grant's rebuttal testimony.

22 A. Mr. Grant's rebuttal testimony expresses his belief that the cost of equity
23 recommendation presented in my direct testimony is too low as a result of

1 the estimate that I obtained from my DCF analysis and explains why he
2 believes that my growth estimates are unrealistic. Although Mr. Grant is in
3 agreement with my recommendation to adopt the Company-proposed
4 capital structure comprised of 50 percent equity and 50 percent debt, he
5 disagrees with the 6.23 percent cost of debt that I originally recommended
6 in my direct testimony.

7
8 **COST OF DEBT**

9 Q. Why have you revised your recommended cost of debt of 6.23 percent?

10 A. My decision to revise my recommended cost of debt was based on
11 information that was provided to me by UNS in response to a RUCO data
12 request that was sent to the Company after I filed my direct testimony in
13 February¹, and a review of specific Federal Energy Regulatory Account
14 ("FERC") balances that UNS included in the Company's Application. As a
15 result, I have decided to adopt the 6.60 percent cost of debt that Mr. Grant
16 proposed originally.

17
18 Q. Briefly summarize the current positions of the parties to the case regarding
19 capital structure, cost of debt, cost of equity and weighted cost of capital.

20 A. Both RUCO and UNS are in agreement with the Company-proposed
21 hypothetical capital structure comprised of 50.0 percent debt and 50.0
22 percent equity. Mr. David C. Parcell, ACC Staff's cost of capital witness,

¹ RUCO's Eighth set of Data Requests sent on March 1, 2007.

1 is recommending that the Commission adopt the Company's actual test
2 year capital structure, which was comprised of 44.67 percent equity and
3 55.33 percent debt. To date, all of the parties to the case are in
4 agreement on the cost of debt now that I have revised my
5 recommendation to 6.60 percent. In regard to the cost of equity, the
6 parties to the case are presently recommending the following estimates:

7

8	UNS	11.00%
9	ACC Staff	10.00%
10	RUCO	9.84%

11

12 Mr. Parcell's 10.00 percent cost of common equity recommendation is the
13 mid-point of the upper end of his DCF range of 9.50 percent to 10.50
14 percent. The weighted costs of capital being recommended by the parties
15 to the case are as follows:

16

17	UNS	8.80%
18	ACC Staff	8.12%
19	RUCO	8.22%

20

21 As can be seen above, there is presently a 58 basis point difference
22 between the Company-proposed 8.80 percent weighted cost of capital and
23 RUCO's recommended weighted cost of capital of 8.22 percent. RUCO

1 and ACC Staff's recommended costs of capital fall within 10 basis points
2 of each other.

3

4 **COST OF EQUITY CAPITAL**

5 Q. Has there been any recent activity in regard to interest rates?

6 A. Yes. On March 21, 2007, the Federal Reserve decided not to increase or
7 decrease the federal funds rate for the sixth straight time and left it
8 unchanged at 5.25 percent.² The short-term 91-day T-Bill rate has fallen
9 to 5.03 as of March 21, 2007, and is 31 basis points higher than the
10 benchmark long-term 30-year T-Bond yield of 4.72 percent (Attachment
11 A).

12

13 Q. Please explain why you revised your recommended cost of common
14 equity from 9.64 percent to 9.84 percent?

15 A. My revised cost of common equity is the result of updated Value Line and
16 Zacks Investment Research projections (Attachments B and C
17 respectively) and updated closing stock price information on the natural
18 gas (distribution Industry) that is used in my DCF model. I also updated
19 the 91-day T-Bill yields and betas that were used in my CAPM model.

20

21 ...

22

² Blackstone, Brian and Campion Walsh, "Fed Holds Rates Steady, Softens Tightening Bias" The Wall Street Journal, March 21, 2007

1 Q. Please describe the updated Value Line projections that you used in your
2 DCF model.

3 A. During the week ending March 16, 2007, Value Line published its
4 quarterly update on the natural gas distribution industry with revised
5 projections on earnings, dividends and book values. Because this is
6 information that cannot be ignored in this proceeding, I decided to use it
7 and revise the cost of equity recommendation that I made in my direct
8 testimony. The updated Value Line projections can be viewed in my
9 surrebuttal schedules.

10

11 Q. Please address Mr. Grant's criticism that the growth rates used in your
12 DCF model are problematic from the standpoint of market expectations.

13 A. Mr. Grant presents two arguments in regard to the growth rates used in
14 my DCF model. His first argument states that investors expect a
15 convergence of individual growth rates towards the industry average
16 growth rate and that my growth rate estimates fail to take this into account.
17 Mr. Grant's second argument states that my growth estimates are not in
18 line with long-term inflation-adjusted estimates of U.S. gross domestic
19 product ("GDP") which is the long-term growth component used in the
20 multi-stage DCF model that he has relied on for his cost of equity
21 estimation. Both arguments presented by Mr. Grant are groundless and
22 should be given no weight.

23

1 Q. Please explain why Mr. Grant's first argument regarding your growth rate
2 estimates should not be afforded any weight.

3 A. Mr. Grant's first argument assumes that investors place their funds in an
4 individual LDC's stock because they expect the individual LDC's growth
5 rates to converge with the long-term average of the natural gas distribution
6 industry. In other words, if you've seen one LDC stock, you've seen them
7 all because you are investing in an industry as opposed to an individual
8 utility. If his argument were true, then investors would be investing in the
9 natural gas industry as a whole (i.e. through an investment vehicle such
10 as a mutual fund) as opposed to investing in an individual LDC. His
11 argument totally ignores the premise that rational investors place their
12 funds in individual stocks because they feel comfortable with the dividend
13 yields and the growth potentials offered by the individual LDC that they are
14 investing in. I believe that rational investors also weigh other factors such
15 as superior management, corporate culture and philosophy, and past
16 records of performance when making their investment decisions. If you
17 subscribe to Mr. Grant's argument, then it would not make any difference
18 which LDC you made an investment in since they will all eventually
19 provide the same returns in growth. This begs the question as to why
20 there is so much investor information available on individual companies or
21 why the managements of publicly traded firms tout their ability to provide
22 returns that will exceed industry averages.

23

1 Q. Please address Mr. Grant's second argument regarding your growth rate
2 estimates.

3 A. Mr. Grant's second argument assumes that my growth rates are
4 unrealistic because they do not take into consideration the long-term
5 inflation-adjusted estimates of U.S. GDP, which is the long-term growth
6 component used in his multi-stage DCF model. If you subscribe to his
7 argument then you have to believe that every individual LDC included in
8 Mr. Grant's sample is going to have inflation-adjusted growth that mirrors
9 the GDP of the entire U.S. economy into perpetuity. This in itself is a
10 rather broad and unrealistic expectation. Professional analysts often have
11 enough trouble making accurate projections of the near-term (i.e. one-
12 year) earnings of the companies that they follow. It would be unrealistic to
13 believe that projections that extend into perpetuity would be more accurate
14 than the near-term projections. The growth estimates used in my DCF
15 model are a balance of known historical 5-year growth figures and
16 projected growth estimates over the next five-year period (i.e. 2007
17 through 2012). I believe that this is a reasonable horizon for future growth
18 estimates, given the fact that utilities typically apply for rate relief within a
19 three to five-year time frame.

20

21

22 ...

23

1 Q. Are there any other reasons why you believe that Mr. Grant's second
2 argument on your growth rate estimates is flawed?

3 A. Yes. It is interesting to note that in the multi-stage DCF model adopted by
4 the FERC, more emphasis is given to short-term growth expectations as
5 opposed to inflation-adjusted estimates of future U.S. GDP growth. This
6 can be seen in the following excerpt from the FERC's Cost-of-Service
7 Rates Manual (Attachment D):

8

9 **"Return on Equity or Cost of Equity:** This is the pipeline's
10 actual profit, or return on its investment. The return on
11 equity is derived from a range of equity returns developed
12 using a Discounted Cash Flow (DCF) analysis of a proxy
13 group of publicly held natural gas companies. The two-stage
14 method projects different rates of growth in projected
15 dividend cash flows for each of the two stages, one stage
16 reflecting short-term growth estimates and the other long-
17 term growth estimates. These estimates are then weighted,
18 two-thirds for the short-term growth projection and one-third
19 on the long-term growth, and utilized in determining a range
20 of reasonable equity returns. Two-thirds is used for the
21 short-term growth rate on the theory that short-term growth
22 rates are more predictable, and thus deserve a higher
23 weighting than long-term growth rate projections. An equity
24 return is then selected within this zone based on an analysis
25 of the company's risk."
26

27 As stated in the excerpt above, the FERC multi-stage DCF model weighs
28 short-term estimates, similar to the ones used in my single stage DCF
29 model, by a factor of two-thirds based on the fact that they are more
30 predictable and deserve more weight than long-term estimates such as
31 the inflation-adjusted estimates of future U.S. GDP growth used in the
32 multi-stage DCF model that Mr. Grant has relied on.

1 Q. Have the comments made by Mr. Grant on page 5, lines 5 through 18 of
2 his rebuttal testimony caused you to change the views that you expressed
3 in your direct testimony?

4 A. No. As I stated in my direct testimony, the Commission has consistently
5 rejected issues such as company size, customer growth, and the historic
6 test year concept as reasons for making upward adjustments to estimated
7 costs of common equity. Nowhere in his rebuttal testimony is Mr. Grant
8 willing to concede that the implementation of a decoupling mechanism
9 would merit a lower return on common equity for UNS given the fact that it
10 would remove all of the risk associated with operating income volatility.
11 Mr. Grant clearly wants the best of all worlds for UNS: a guaranteed return
12 on investment and a high cost of common equity that reflects a riskier
13 operating environment.

14
15 Q. Please discuss on Mr. Grant's comments regarding your grasp of the
16 additional risk resulting from high customer growth and regulatory lag.

17 A. With all due respect to Mr. Grant, I believe that my grasp of the additional
18 risk resulting from high customer growth and regulatory lag is much better
19 than what he believes. I can say with confidence that high customer
20 growth has been business as usual and a fact of life for utilities operating
21 in the Arizona jurisdiction for the last fifty years. If a utility's management
22 can't deal with that fact of life then they should consider getting into
23 another business. The issue of high customer growth in UNS' service

1 territory certainly never deterred the Company's parent, UniSource Energy
2 Corporation ("UniSource"), from acquiring the natural gas and electric
3 assets from Citizens Communications Company ("Citizens") in the first
4 place. One cannot believe that the management of UniSource, which is
5 based in Tucson, was blind to the fact that they were acquiring assets
6 located in one of the fastest growing states in the U.S. High growth in
7 Arizona is one of UniSource's biggest selling points to potential investors.
8 UniSource even presents high growth in a positive light in the Chairman's
9 Letter to Shareholders that appears in UniSource's 2005 Annual Report
10 (Attachment E). Obviously the investment community does not view
11 UniSource's high growth service territories in a negative light given the
12 fact that shares of UniSource have increased from \$25.25, at the time the
13 ACC rejected an acquisition attempt by a limited liability partnership
14 (which included the well heeled Wall Street investment firm of Kolberg
15 Kravis Roberts & Co.), to a current price of \$37.75 as of March 28, 2007.
16 In regard to regulatory lag, unless the utility is operating under an
17 agreement that provides for a rate freeze, it is the utility that decides when
18 to apply for rate relief and generally utilities apply for rate relief at times
19 when it is an advantage to them. Once again, UniSource's management
20 was well aware of the regulatory environment that they would be operating
21 in when they acquired the natural gas and electric assets from Citizens in
22 2003. For the reasons stated above I believe that Mr. Grant's arguments

1 regarding additional risk resulting from high customer growth and
2 regulatory lag should be given no weight in this proceeding.

3

4 Q. Did Mr. Grant take issue with your use of a geometric mean to calculate
5 the historical return on the market that is used in the equity risk premium
6 component of your CAPM model?

7 A. Not directly. However he does take issue with Mr. Parcell's use of the
8 geometric mean and for this reason I believe that it is important that I
9 defend the use of the geometric mean in this proceeding.

10

11 Q. Please explain why Mr. Grant's criticism regarding the use of a geometric
12 mean in a CAPM analysis is unfounded.

13 A. The information on both the geometric and arithmetic means, published by
14 Ibbotson Associates, is widely available to the investment community. For
15 this reason alone I believe that the use of both means in a CAPM analysis
16 is appropriate.

17 The best argument in favor of the geometric mean is that it provides a
18 truer picture of the effects of compounding on the value of an investment
19 when return variability exists. This is particularly relevant in the case of
20 the return on the stock market, which has had its share of ups and downs
21 over the 1926 to 2005 observation period used in my CAPM analysis.

22

23

1 Q. Can you provide an example to illustrate the differences between the two
2 averages?

3 A. Yes. The following example may help. Suppose you invest \$100 and
4 realize a 20.0 percent return over the course of a year. So at the end of
5 year 1, your original \$100 investment is now worth \$120. Now let's say
6 that over the course of a second year you are not as fortunate and the
7 value of your investment falls by 20.0 percent. As a result of this, the
8 \$120 value of your original \$100 investment falls to \$96. An arithmetic
9 mean of the return on your investment over the two-year period is zero
10 percent calculated as follows:

11
12
$$(\text{year 1 return} + \text{year 2 return}) \div \text{number of periods} =$$

13
$$(20.0\% + -20.0\%) \div 2 =$$

14
$$(0.0\%) \div 2 = \underline{0.0\%}$$

15
16 The arithmetic mean calculated above would lead you to believe that you
17 didn't gain or lose anything over the two-year investment period and that
18 your original \$100 investment is still worth \$100. But in reality, your
19 original \$100 investment is only worth \$96. A geometric mean on the
20 other hand calculates a compound return of negative 2.02 percent as
21 follows:

22

23

1 (year 2 value ÷ original value)^{1/number of periods} - 1 =
2 (\$96 ÷ \$100)^{1/2} - 1 =
3 (0.96)^{1/2} - 1 =
4 (0.9798) - 1 =
5 -0.0202 = -2.02%

6

7

The geometric mean calculation illustrated above provides a truer picture of what happened to your original \$100 over the two-year investment period.

8

9

10

As can be seen in the preceding example, in a situation where return variability exists, a geometric mean will always be lower than an arithmetic mean, which probably explains why utility consultants typically put up a strenuous argument against the use of a geometric mean.

11

12

13

14

15

Q. Can you cite any other evidence that supports your use of both a geometric and an arithmetic mean?

16

17

A. Yes. In the third edition of their book, Valuation: Measuring and Managing the Value of Companies, authors Tom Copeland, Tim Koller and Jack Murrin ("CKM") make the point that, while the arithmetic mean has been regarded as being more forward looking in determining market risk premiums, a true market risk premium may lie somewhere between the arithmetic and geometric averages published in Ibbotson's S&P yearbook.

18

19

20

21

22

23

1 Q. Please explain.

2 A. In order to believe that the results produced by the arithmetic mean are
3 appropriate, you have to believe that each return possibility included in the
4 calculation is an independent draw. However, research conducted by
5 CKM demonstrates that year-to-year returns are not independent and are
6 actually auto correlated (i.e. a relationship that exists between two or more
7 returns, such that when one return changes, the other, or others, also
8 change), meaning that the arithmetic mean has less credence. CKM also
9 explains two other factors that would make the Ibbotson arithmetic mean
10 too high. The first factor deals with the holding period. The arithmetic
11 mean depends on the length of the holding period and there is no "law"
12 that says that holding periods of one year are the "correct" measure.
13 When longer periods (e.g. 2 years, 3 years etc.) are observed, the
14 arithmetic mean drops about 100 basis points. The second factor deals
15 with a situation known as survivor bias. According to CKM, this is a well-
16 documented problem with the Ibbotson historical return series in that it
17 only measures the returns of successful firms, that is, those firms that are
18 listed on stock exchanges. The Ibbotson historical return series does not
19 measure the failures, of which there are many. Therefore, the return
20 expectations in the future are likely to be lower than the Ibbotson historical
21 averages. After conducting their analysis, CKM conclude that 4.00
22 percent to 5.50 percent is a reasonable forward looking market risk
23 premium. Adding the current 5-year Treasury yield of 4.43 percent to

1 these two estimates indicate a cost of equity of 8.43 percent to 9.93
2 percent. Given the fact that utilities generally exhibit less risk than
3 industrials, a return in the low end of this range would be reasonable. In
4 fact, my revised 9.84 percent cost of common equity estimate falls within
5 this range.

6

7 Q. Does your silence on any of the issues or positions addressed in the
8 rebuttal testimony of the Company's witnesses constitute acceptance?

9 A. No, it does not.

10

11 Q. Does this conclude your surrebuttal testimony on UNS?

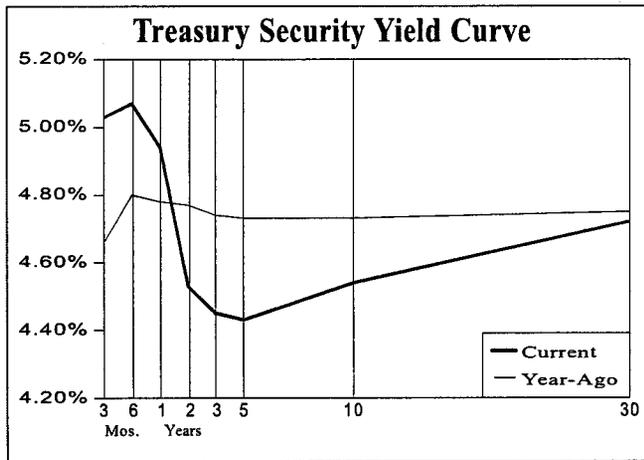
12 A. Yes, it does.



ATTACHMENT A

Selected Yields

	Recent (3/21/07)	3 Months Ago (12/20/06)	Year Ago (3/23/06)		Recent (3/21/07)	3 Months Ago (12/20/06)	Year Ago (3/23/06)
TAXABLE							
Market Rates							
Discount Rate	6.25	6.25	5.50	Mortgage-Backed Securities			
Federal Funds	5.25	5.25	4.50	GNMA 6.5%	5.53	5.53	5.53
Prime Rate	8.25	8.25	7.50	FHLMC 6.5% (Gold)	5.60	5.68	5.93
30-day CP (A1/P1)	5.24	5.25	4.73	FNMA 6.5%	5.50	5.61	5.85
3-month LIBOR	5.35	5.37	4.96	FNMA ARM	5.60	5.55	4.53
Bank CDs							
6-month	3.26	3.30	2.97	Corporate Bonds			
1-year	3.87	3.84	3.57	Financial (10-year) A	5.40	5.45	5.66
5-year	3.92	3.91	3.96	Industrial (25/30-year) A	5.68	5.69	5.84
U.S. Treasury Securities							
3-month	5.03	4.96	4.66	Utility (25/30-year) A	5.86	5.75	5.86
6-month	5.07	5.06	4.80	Utility (25/30-year) Baa/BBB	6.01	6.02	6.17
1-year	4.94	4.96	4.78	Foreign Bonds (10-Year)			
5-year	4.43	4.56	4.73	Canada	4.08	4.03	4.21
10-year	4.54	4.60	4.73	Germany	3.93	3.86	3.68
10-year (inflation-protected)	2.12	2.31	2.23	Japan	1.57	1.62	1.72
30-year	4.72	4.73	4.75	United Kingdom	4.83	4.71	4.34
30-year Zero	4.68	4.67	4.61	Preferred Stocks			
				Utility A	7.22	7.13	7.18
				Financial A	6.31	6.34	6.28
				Financial Adjustable A	5.47	5.47	N/A



TAX-EXEMPT

	Recent (3/21/07)	3 Months Ago (12/20/06)	Year Ago (3/23/06)
Bond Buyer Indexes			
20-Bond Index (GOs)	4.13	4.12	4.43
25-Bond Index (Revs)	4.38	4.52	5.08
General Obligation Bonds (GOs)			
1-year Aaa	3.54	3.48	3.43
1-year A	3.64	3.58	3.55
5-year Aaa	3.51	3.48	3.55
5-year A	3.80	3.77	3.83
10-year Aaa	3.65	3.69	3.93
10-year A	3.95	4.10	4.25
25/30-year Aaa	4.00	4.03	4.38
25/30-year A	4.30	4.35	4.65
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.33	4.47	4.39
Electric AA	4.30	4.38	4.45
Housing AA	4.55	4.50	4.65
Hospital AA	4.57	4.52	4.74
Toll Road Aaa	4.40	4.36	4.63

Federal Reserve Data

BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	3/14/07	2/28/07	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1586	1772	-186	1577	1661	1663
Borrowed Reserves	43	30	13	133	196	227
Net Free/Borrowed Reserves	1543	1742	-199	1444	1465	1436

MONEY SUPPLY

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

	Recent Levels			Growth Rates Over the Last...		
	3/5/07	2/26/07	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1379.2	1347.6	31.6	0.3%	0.2%	0.4%
M2 (M1+savings+small time deposits)	7127.5	7144.3	-16.8	7.9%	7.5%	5.5%

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ATTACHMENT B

INDUSTRY TIMELINESS: 81 (of 96)

The Natural Gas (Distribution) Industry's Timeliness rank remains about where it was in December, though it has gained a few places in the last year. In 2006, the industry outperformed the Standard & Poor's 500 index, returning about 20%, including dividends, though the group's stock prices have generally moved little since our last report. Still, the estimated dividend yield for most of the issues is below last year's, since dividend increases have not kept pace with the stock price gains of 2006.

Natural gas distribution stocks usually offer dividends that are substantially above the *Value Line Investment Survey* median, currently 1.7%, but they also, as a group, have below-average capital appreciation potential. Indeed, some of the stocks are currently trading within their 2010-2012 target price ranges, leaving dividends as the only source of forecast investment return. That's because we believe that interest rates will likely be higher in the out years than at present, when the long-term Treasury bond rate has been below 5% for some time.

Regulated Earnings and Regulation.

Most of the gas distribution companies derive over 85% of their earnings from local natural gas distribution. Like their larger cousins, the electric power distribution companies, gas distribution companies are allowed by their state-based public service commissions to earn a limited return on equity, generally in the 10%-12% range. In a few cases, regulators allow gas utilities to earn performance-based rates of return on equity of up to 15% and to share profits above that level with rate payers, provided the utility keeps rate growth at less than the general level of inflation. Other recent regulatory innovations include weather-adjusted rate mechanisms, which help the utility when weather is warmer than average and its customers when it's colder. Some states have gone a step further and have rules that "decouple" the utilities' revenues from gas usage to a certain extent in order not to discourage conservation. All told, the regulatory climate is better for the industry than ten years ago. That leaves volume as a main driver of earnings growth, and here, the group has wide variation. With natural gas consumption increasing about 1.5% a year, regulated earnings growth will likely be in the mid-single digits. The companies that appear to have

better prospects, such as *Northwest Natural Gas*, tend to have dividend yields that are lower than stocks facing slower growth, such as *Laclede*.

Nonregulated Activities

In an effort to boost earnings, most gas distribution companies also have small, unregulated businesses. These tend to include heating, ventilation and air conditioning services (HVAC), gas marketing, and gas storage for off-system customers. The group also invests in gas pipelines, the returns of which are regulated by the FERC, rather than the states. As demand for gas grows, the U.S. will need to import substantially more gas in liquid form, and liquefied natural gas (LNG) plants could offer some of the companies investment opportunities, as well as the chance to raise earnings by moving more gas through their pipelines.

Earnings and Dividend Growth Prospects

So far, customers seem to have handled recent high gas prices fairly well. Bad debt costs are up, but regulators are making allowances for that in some states, and gas price inflation will probably be less over the next two years than over the last two. Enlightened state regulation, combined with cost savings from measures like automated meter reading, will probably permit earnings to rise at a modest pace; dividends should follow suit.

Wheeling and Dealing

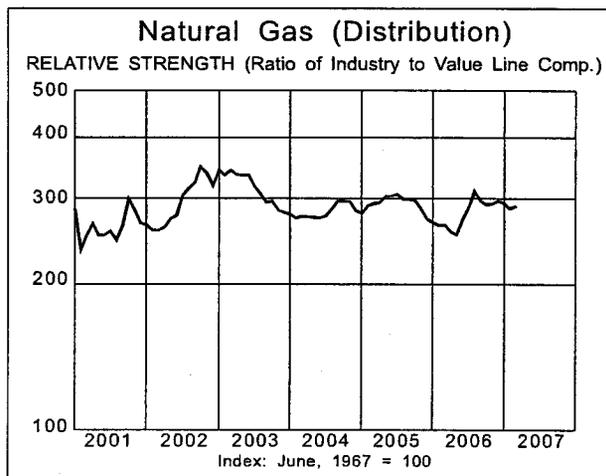
In the 1990s, many publicly held natural gas distributors were acquired, considerably reducing the variety of investment choices available. At present, three of the companies in our group are in the process of being acquired. While we don't encourage investors to bet on a company's being taken over, the possibility remains and could boost investment returns.

Investment Considerations

The Natural Gas (Distribution) Industry offers above-average dividends and, in some cases, some capital appreciation. Investors seeking relatively safe income can find prospects here, but dividend growth will likely be slow. Moreover, the industry is in fashion now; a change of investor sentiment unrelated to the industry's prospects or higher long-term interest rates could drive stock prices down.

Sigourney B. Romaine, CFA

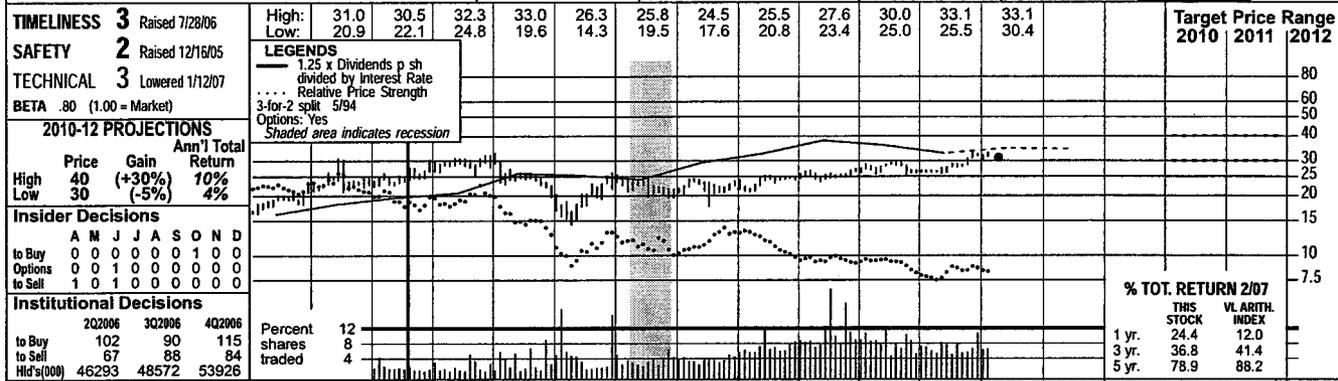
Composite Statistics: Natural Gas (Distribution)							
2003	2004	2005	2006	2007	2008		10-12
29981	33220	41399	43500	44500	46500	Revenues (\$mill)	58000
1395.3	1517.2	1788.8	1950	2050	2150	Net Profit (\$mill)	2800
37.4%	35.7%	35.8%	36.0%	36.0%	36.0%	Income Tax Rate	36.0%
4.7%	4.6%	4.3%	4.5%	4.6%	4.6%	Net Profit Margin	4.8%
55.9%	53.2%	50.7%	51.0%	51.0%	51.0%	Long-Term Debt Ratio	52.0%
43.7%	45.7%	48.3%	48.0%	48.0%	48.0%	Common Equity Ratio	46.0%
28436	31268	33911	35400	36750	38000	Total Capital (\$mill)	42000
31732	32053	35030	37000	39000	41000	Net Plant (\$mill)	45000
6.4%	6.4%	6.9%	7.0%	7.0%	7.0%	Return on Total Cap'l	7.5%
11.1%	10.4%	10.7%	11.0%	11.5%	11.5%	Return on Shr. Equity	12.0%
11.2%	10.5%	10.8%	11.0%	11.5%	11.5%	Return on Com Equity	12.0%
4.1%	4.0%	4.4%	5.0%	5.2%	5.3%	Retained to Com Eq	5.5%
64%	63%	59%	61%	60%	60%	All Div'ds to Net Prof	60%
14.1	15.6	16.2	16.5	<i>Bold figures are Value Line estimates</i>		Avg Ann'l P/E Ratio	13.0
.80	.82	.87	.90			Relative P/E Ratio	.85
4.5%	4.0%	3.6%	3.5%			Avg Ann'l Div'd Yield	4.6%
314%	308%	331%	325%	325%	325%	Fixed Charge Coverage	325%



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ATMOS ENERGY CORP. NYSE-ATO



1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC. 10-12	
30.59	27.90	22.09	26.61	35.36	22.82	54.39	46.50	61.75	75.27	58.75	60.10	Revenues per sh ^A	72.90
2.85	3.38	2.62	3.01	3.03	3.39	3.23	2.91	3.90	4.26	4.15	4.25	"Cash Flow" per sh	4.65
1.34	1.84	.81	1.03	1.47	1.45	1.71	1.58	1.72	2.00	2.00	2.10	Earnings per sh ^{A B}	2.50
1.01	1.06	1.10	1.14	1.16	1.18	1.20	1.22	1.24	1.26	1.28	1.30	Div'ds Decl'd per sh ^C	1.35
4.13	4.44	3.53	2.36	2.77	3.17	3.10	3.03	4.14	5.20	5.00	5.30	Cap'l Spending per sh	6.60
11.04	12.21	12.09	12.28	14.31	13.75	16.66	18.05	19.90	20.16	22.45	21.75	Book Value per sh	25.20
29.64	30.40	31.25	31.95	40.79	41.68	51.48	62.80	80.54	81.74	89.50	92.50	Common Shs Outst'g ^D	107.00
17.9	15.4	33.0	18.9	15.6	15.2	13.4	15.9	16.1	13.5	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	14.0
1.03	.80	1.88	1.23	.80	.83	.76	.84	.86	.73			Relative P/E Ratio	.95
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%
906.8	848.2	690.2	850.2	1442.3	950.8	2799.9	2920.0	4973.3	6152.4	5260	5560	Revenues (\$mill) ^A	7800
39.2	55.3	25.0	32.2	56.1	59.7	79.5	86.2	135.8	162.3	180	195	Net Profit (\$mill)	270
37.5%	36.5%	35.0%	36.1%	37.3%	37.1%	37.1%	37.4%	37.7%	37.6%	38.0%	38.0%	Income Tax Rate	39.0%
4.3%	6.5%	3.6%	3.8%	3.9%	6.3%	2.8%	3.0%	2.7%	2.6%	3.4%	3.5%	Net Profit Margin	3.5%
48.1%	51.8%	50.0%	48.1%	54.3%	53.9%	50.2%	43.2%	57.7%	57.0%	49.0%	50.0%	Long-Term Debt Ratio	51.0%
51.9%	48.2%	50.0%	51.9%	45.7%	46.1%	49.8%	56.8%	42.3%	43.0%	51.0%	50.0%	Common Equity Ratio	49.0%
630.2	769.7	755.1	755.7	1276.3	1243.7	1721.4	1994.8	3785.5	3828.5	3940	4020	Total Capital (\$mill)	5500
849.1	917.9	965.8	982.3	1335.4	1300.3	1516.0	1722.5	3374.4	3629.2	3900	4200	Net Plant (\$mill)	5300
8.3%	9.0%	5.1%	6.5%	5.9%	6.8%	6.2%	5.8%	5.3%	6.1%	6.0%	6.5%	Return on Total Cap'l	6.5%
12.0%	14.9%	6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.9%	9.0%	9.5%	Return on Shr. Equity	10.0%
12.0%	14.9%	6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.9%	9.0%	9.5%	Return on Com Equity	10.0%
3.9%	6.3%	NMF	NMF	2.1%	1.9%	2.8%	1.7%	2.3%	3.6%	3.5%	3.5%	Retained to Com Eq	4.5%
67%	58%	NMF	112%	79%	82%	70%	77%	73%	63%	64%	62%	All Div'ds to Net Prof	54%

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.

CAPITAL STRUCTURE as of 12/31/06
 Total Debt \$2336.4 mill. Due in 5 Yrs \$1450.0 mill.
 LT Debt \$1878.7 mill. LT Interest \$135.0 mill.
 (LT interest earned: 2.9x; total interest coverage: 2.8x)
 Leases, Uncapitalized Annual rentals \$16.0 mill.
 Pfd Stock None
 Pension Assets-9/06 \$362.7 mill.
 Oblig. \$326.5 mill.

Common Stock 88,577,022 shs.
 as of 1/31/07
MARKET CAP: \$2.8 billion (Mid Cap)

CURRENT POSITION	2005	2006	12/31/06 (\$MILL.)
Cash Assets	40.1	75.8	94.4
Other	1224.3	1041.7	1481.2
Current Assets	1264.4	1117.5	1575.6
Accts Payable	461.3	345.1	762.5
Debt Due	148.1	385.6	457.7
Other	503.4	388.5	407.3
Current Liab.	1112.8	1119.2	1627.5
Fix. Chg. Cov.	395%	408%	420%

Fiscal Year Ends	QUARTERLY REVENUES (\$ mill.) ^A				Full Fiscal Year
	Dec.31	Mar.31	Jun.30	Sep.30	
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	1602.6	1800	900	957.4	5260
2008	1390	1390	1390	1390	5560

Fiscal Year Ends	EARNINGS PER SHARE ^{A B E}				Full Fiscal Year
	Dec.31	Mar.31	Jun.30	Sep.30	
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	.97	1.15	d.03	d.09	2.00
2008	.95	1.15	.08	d.08	2.10

Calendar	QUARTERLY DIVIDENDS PAID ^C				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
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	1.27
2007	.32				

BUSINESS: Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to 3.2 million customers via six regulated natural gas utility operations: Louisiana Division, West Texas Division, Mid-Tex Division, Mississippi Division, Colorado-Kansas Division, and Kentucky/Mid-Texas Division. Combined 2006 gas volumes: 272 MMcf. Breakdown: 53%, residential; 32%,

Atmos Energy got off to a good start in fiscal 2007 (ends September 30th), driven by its non-utility businesses. Profits for the core natural gas marketing segment were boosted by higher unrealized storage mark-to-market gains, and underlying business trends were solid, as well. The pipeline operation reaped the benefits of the North Side Loop and other projects completed last year, plus rate adjustments arising from filings under the Gas Reliability Infrastructure Program (authorizing companies to earn a rate of return on their incremental annual capital investments). **But full-year earnings per share could be flat.** The utility unit may be weighed down a bit by increased operating expenses, reflecting costs from a higher employee headcount. (Weather-normalization mechanisms applicable to around 90% of the customer base ought to help here, though.) Moreover, the fourth-quarter comparison ought to be quite difficult, given that our fiscal 2006 figure excludes an \$0.18-a-share charge for the impairment of irrigation properties in the West Texas Division. Lastly, the recent public

commercial; 10%, industrial; and 5% other. 2006 depreciation rate 3.6%. Has around 4,600 employees. Officers and directors own approximately 1.9% of common stock (12/06 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.

offering of 6.3 million common shares is estimated to dilute share net by around a nickel. (The \$192 million in net proceeds from that transaction were used to reduce short-term debt.) Atmos is gradually strengthening its capital structure following the issuance of debt to finance the acquisition of TXU's gas business. **The company is awaiting the results of several rate cases.** The largest one seeks \$60 million in additional annual revenues in Texas, which would affect some 1.5 million customers. There is also a filing in Kentucky for a \$10.4 million annual revenue increase (175,000 customers) and Missouri for \$3.4 million in additional annual revenues (60,000 customers). Note that our presentation will account for the aforementioned amounts if the measures are approved. **These good-quality shares offer a decent yield, a well-covered payout, and moderate dividend growth.** But performance wise, they are already trading within our 3- to 5-year Target Price Range, and are ranked only 3 (Average) for Timeliness. *Frederick L. Harris, III March 16, 2007*

(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '97, d53g; '99, d23g; '00, 12g; '03, d17g; '06, d18g. Next eggs rpt. due early May. (C) Dividends historically paid in early March, June, Sept., and Dec. (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.

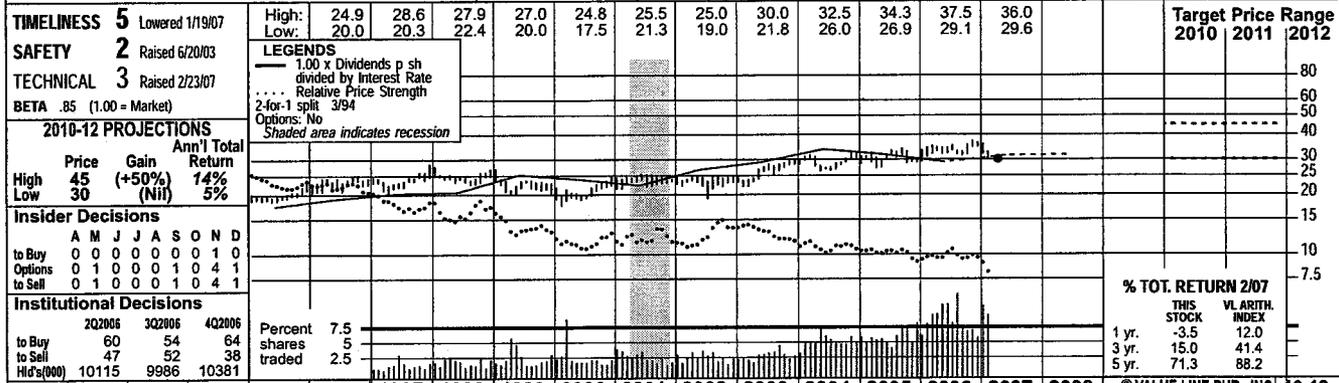
Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	35
Earnings Predictability	70

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LACLEDE GROUP NYSE-LG

RECENT PRICE **30.18** P/E RATIO **15.9** (Trailing: 14.9 Median: 15.0) RELATIVE P/E RATIO **0.88** DIV'D YLD **4.9%** VALUE LINE



1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC. 10-12	
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	93.51	82.80	84.55	Revenues per sh	110.00
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	3.81	3.60	3.95	"Cash Flow" per sh	5.00
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	1.90	2.00	Earnings per sh ^{A B}	2.35
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	1.49	Div'ds Decl'd per sh ^C	1.60
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	2.97	2.95	3.05	Cap'l Spending per sh	3.80
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	20.70	20.90	Book Value per sh ^D	24.50
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	21.36	21.50	22.00	Common Shs Outst'g ^E	25.00
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	13.6	13.6	Avg Ann'l P/E Ratio	16.0
.80	.96	.80	1.08	1.04	.75	.72	.81	.90	.97	.74	1.09	.78	.83	.86	.86	.73	.73	Relative P/E Ratio	1.05
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%	4.3%	4.3%	Avg Ann'l Div'd Yield	4.3%

CAPITAL STRUCTURE as of 12/31/06
 Total Debt \$652.8 mill. Due in 5 Yrs \$275.0 mill.
 LT Debt \$355.5 mill. LT Interest \$20.0 mill.
 (Total interest coverage: 3.1x)

Leases, Uncapitalized Annual rentals \$.9 mill.
 Pension Assets-9/06 \$246.1 mill. Oblig. \$282.1 mill.

Pfd Stock \$.8 mill. Pfd Div'd \$.05 mill.
 Common Stock 21,566,851 shs. as of 1/26/07

MARKET CAP: \$650 million (Small Cap)

CURRENT POSITION	2005	2006	12/31/06
Cash Assets	6.0	50.8	51.9
Other	418.1	409.0	522.3
Current Assets	424.1	459.8	574.2
Accts Payable	138.4	103.3	150.0
Debt Due	110.7	207.5	297.3
Other	116.5	120.1	115.0
Current Liab.	365.6	430.9	562.3
Fix. Chg. Cov.	293%	285%	290%

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06
of change (per sh)	10.0%	16.0%	5.5%
Revenues	10.0%	16.0%	5.5%
"Cash Flow"	1.0%	3.0%	7.0%
Earnings	3.0%	6.5%	2.0%
Dividends	1.0%	.5%	2.5%
Book Value	3.0%	3.5%	5.0%

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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	330.6	269.0	1997.6
2007	539.6	650	340	250.4	1780
2008	465	465	465	465	1860

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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	.89	.99	.15	d.13	1.90
2008	1.03	1.07	.20	d.30	2.00

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	1.41
2007	.365				

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 10 other counties. Has roughly 631,000 customers. Purchased SM&P for approximately \$43 million (1/02). Terms sold and transported in fiscal 2006: 1.02 mill. Revenue mix for regulated operations: residential,

Laclede Group's share earnings took a dive in the first quarter of fiscal 2007, which ends September 30th. But we were not surprised because of the difficult comparison. For one thing, the performance of Laclede Energy Resources was not as strong as the prior-year period, when margins were substantially higher as the result of supply/demand imbalances arising from the 2005 Gulf Coast hurricanes (one of the busiest storm seasons on record). Furthermore, Laclede Gas Company, accounting for the biggest portion of revenues, suffered from heightened operation and maintenance expenses and decreased income from entities outside the service territory. Lastly, SM&P Utility Resources posted a loss primarily because of costs incurred from expansionary initiatives, although its longer-term performance should benefit nicely. At this point in time, it appears the company's bottom line may plummet roughly 20%, to \$1.90 a share, in fiscal 2007. Share net may perk up a bit next year, assuming that the comparison will be easier.

The company's prospects for the coming three to five years look unexceptional.

commercial and industrial, 25%; transportation, 1%; other, 14%. Has around 3,880 employees. Officers and directors own approximately 7.0% of common shares (1/07 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.

Annual growth in the customer base for the natural gas distribution unit has been sluggish for some time. That's because the market in eastern Missouri is in a mature phase. As such, any substantial gains will have to be derived from the unregulated businesses or from major acquisitions, scenarios we don't see happening anytime soon. Consequently, annual earnings-per-share increases may only be in the mid-single-digit range out to 2010-2012.

Income-oriented accounts should find the dividend yield of interest. (Note that the quarterly distribution just rose by 3%.) Future hikes in the payout will likely continue to be moderate, given that the regulated subsidiary operates in a slow-growth environment.

These shares have lost some ground in recent months, attributable largely, it seems, to the company's substantially lower results in the first quarter. The diminished price and earnings momentum has caused the Timeliness rank to be 5 (Lowest). Total-return potential over the 3- to 5-year horizon is limited, as well.

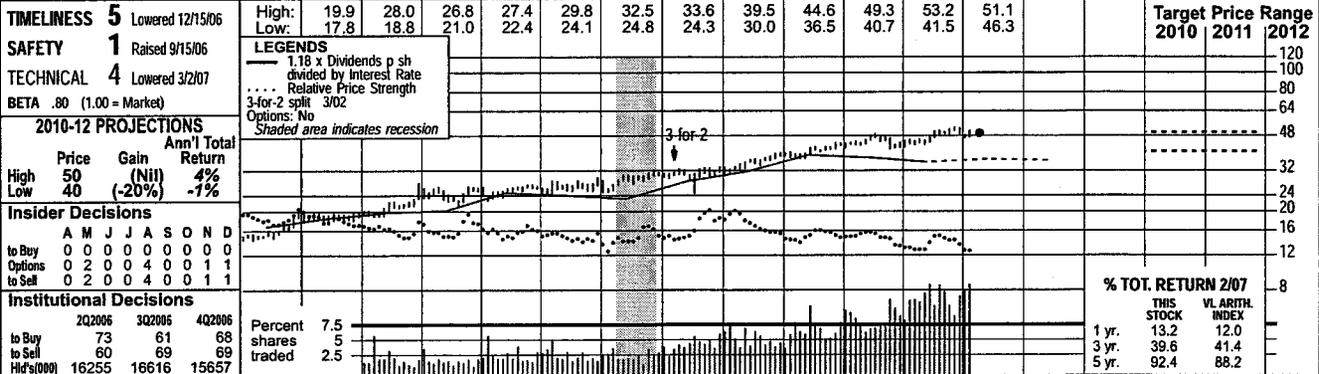
Frederick L. Harris, III March 16, 2007

(A) Fiscal year ends Sept. 30th. (B) Based on average shares outstanding thru '97, then diluted. Excludes nonrecurring loss: '06, 7¢. Next earnings report due late April. (C) Dividends historically paid in early January, April, July, and October. (D) Dividend reinvestment plan available. (E) Incl. deferred charges. In '06: \$256.8 mill., \$12.02/sh. (F) In millions. Adjusted for stock split. (G) Qlty. egs. may not sum due to change in shares outstanding.

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

NEW JERSEY RES. NYSE-NJR

RECENT PRICE **49.49** P/E RATIO **17.1** (Trailing: 18.0 Median: 15.0) RELATIVE P/E RATIO **0.94** DIV'D YLD **3.1%** VALUE LINE



1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
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	123.00	Revenues per sh ^A	128.50
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	4.25	4.30	"Cash Flow" per sh	4.70
.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	3.00	Earnings per sh ^B	3.15
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	1.56	Div'ds Decl'd per sh ^C	1.68
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	2.50	2.10	Cap'l Spending per sh	2.05
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	24.10	25.65	Book Value per sh ^D	0.50
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	28.50	Common Shs Outst'g ^E	29.50
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	16.1	16.1	Avg Ann'l P/E Ratio	14.0
1.42	.75	.89	.85	.78	.85	.78	.80	.87	.96	.73	.80	.80	.81	.86	.86	.86	.86	Relative P/E Ratio	.95
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%	3.2%	3.2%	Avg Ann'l Div'd Yield	4.5%

CAPITAL STRUCTURE as of 12/31/06
 Total Debt \$626.4 mill. Due in 5 Yrs \$300.0 mill.
 LT Debt \$336.7 mill. LT Interest \$25.0 mill.
 Incl. \$7.4 mill. capitalized leases.
 (LT interest earned: 6.0x; total interest coverage: 6.0x)
 Pension Assets-9/06 \$95.8 mill.
 Oblig. \$103.7 mill.

Pfd Stock None

Common Stock 27,833,620 shs. as of 2/6/07
MARKET CAP: \$1.4 billion (Mid Cap)

CURRENT POSITION (\$MILL.)

	2004	2005	12/31/06
Cash Assets	5.0	25.0	10.1
Other	681.0	927.8	1078.8
Current Assets	686.0	952.8	1088.9
Accts Payable	42.9	54.7	45.5
Debt Due	287.4	177.4	289.7
Other	357.4	744.2	687.8
Current Liab.	687.7	976.3	1023.0
Fix. Chg. Cov.	826%	660%	450%

ANNUAL RATES

	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06
of change (per sh)			to '10-'12
Revenues	19.0%	16.0%	2.5%
"Cash Flow"	6.0%	5.5%	3.0%
Earnings	7.5%	8.0%	2.5%
Dividends	3.0%	3.5%	3.0%
Book Value	6.5%	8.5%	8.0%

QUARTERLY REVENUES (\$ mill.)^A

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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	741.5	1285	688	685.5	3400
2008	1195	1090	585	630	3500

EARNINGS PER SHARE^{A, B}

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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	1.01	2.20	d.05	d.26	2.90
2008	1.26	2.03	d.04	d.25	3.00

QUARTERLY DIVIDENDS PAID^C

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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
2007	.38				

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

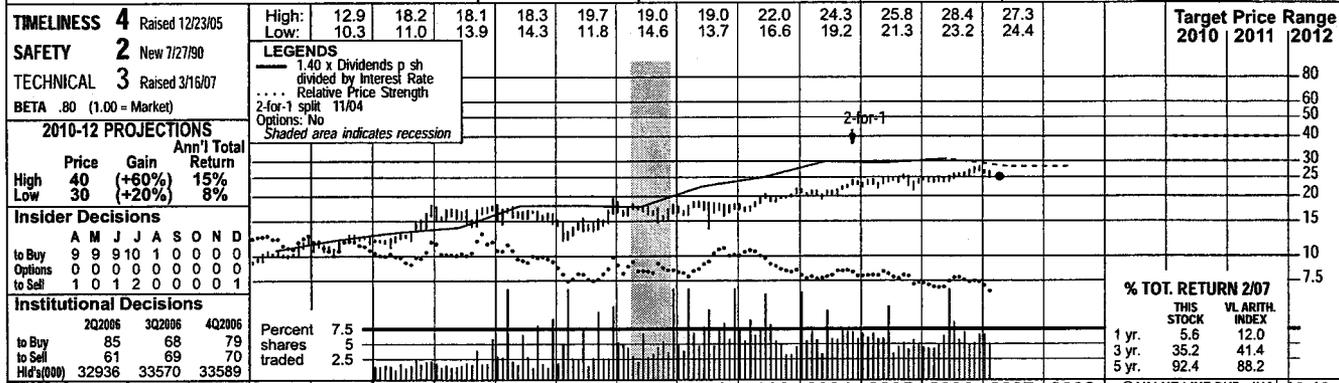
New Jersey Resources began fiscal 2007 (ends September 30th) on a weak note. First-quarter profits increased 7% in the natural-gas-distribution segment (NJNG), but dropped 50% in the energy-services unit (NJRES) and dropped 40% in the retail business. Revenues declined in all three segments due to lower customer usage at NJNG and lower sales at NJRES, which was the result of lower natural gas prices and higher pipeline transportation costs due to infrastructure damage from regional hurricanes. Even so, we look for a modest increase for share earnings, both this year and next. NJNG added about 10,000 new customers per year in 2005 and 2006 through new housing agreements and customer conversions from other fuels. We anticipate this annual new customer growth rate trend will continue. According to the company, the customer growth rate should increase natural gas sales volume by 1.5 billion cubic feet annually over the next two years and add \$40 million in new utility revenues per year. Natural gas is being used in 95% of new construction due to its efficiency and

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 empl. Off/dir. own about 2% of common (12/06 Proxy). Chrmn. and CEO: Laurence M. Downes, Inc.: N.J. Addr.: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 732-938-1480. Web: www.njving.com.

reliability. In late 2006, the Conservation Incentive Program (CIP) went into effect. NJNG's earnings and cash flows will be affected by this tariff. The CIP decouples the link between customer usage and the utility's profits. This feature will allow customers to conserve energy while addressing the company's utility profit margin variations due to weather and customer usage. The wholesale energy services provider is on track to leverage its transportation and storage capacity to manage sales to its energy company customers. The portfolio maintains physical asset contracts across the North American continent and its varied weather areas. The portfolio's value increases when there are natural gas price differences in these different regions. In maintaining and trading this portfolio, we think that NJRES's customers will receive better pricing on these commodities. We think this company will be able to register steady growth. Even so, the stock is untimely and is trading at the top of our 3- to 5-year price target.

(A) Fiscal year ends Sept. 30th.	April, July, and October. ■ Dividend reinvestment plan available.	(E) In millions, adjusted for split.	Company's Financial Strength	A
(B) Diluted earnings. Next earnings report due late April.	(D) Includes regulatory assets in 2006: \$323.0 million, \$11.70/share.		Stock's Price Stability	100
(C) Dividends historically paid in early January.			Price Growth Persistence	85
			Earnings Predictability	95

PIEDMONT NAT'L GAS NYSE-PNY



	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC. 10-12	
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	25.80	27.10	28.75	27.10	Revenues per sh ^A	33.50
.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	2.60	2.70	2.70	"Cash Flow" per sh	3.00
.44	.70	.73	.68	.73	.84	.93	.98	.93	1.01	1.01	.95	1.11	1.27	1.32	1.27	1.40	1.45	1.40	Earnings per sh ^B	1.55
.44	.46	.48	.51	.54	.57	.61	.64	.68	.72	.76	.80	.82	.85	.91	.95	.99	1.03	1.03	Div'ds Decl'd per sh ^C	1.15
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	2.74	2.65	2.75	2.65	Cap'l Spending per sh	2.90
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	11.83	12.00	12.40	12.00	Book Value per sh ^D	13.40
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	74.61	73.80	73.00	73.00	Common Shs Outst'g ^E	71.80
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	19.4	19.4	19.4	19.4	Avg Ann'l P/E Ratio	22.0
1.04	.75	.91	1.03	.92	.87	.78	.85	1.01	.93	.86	1.01	.95	.88	.95	1.02	1.02	1.02	1.02	Relative P/E Ratio	1.30
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%	3.9%	3.9%	3.9%	3.9%	Avg Ann'l Div'd Yield	3.5%

CAPITAL STRUCTURE as of 10/31/06
 Total Debt \$995.0 mill. Due in 5 Yrs \$150.0 mill.
 LT Debt \$825.0 mill. LT Interest \$50.0 mill.
 (LT interest earned: 4.0x; total interest coverage: 4.0x)

Pension Assets-10/06 \$211.9 mill.
 Oblig. \$236.3 mill.

Pfd Stock None

Common Stock 74,606,758 shs.
 as of 1/8/07

MARKET CAP: \$1.9 billion (Mid Cap)

CURRENT POSITION 2004 2005 10/31/06 (\$MILL.)

Cash Assets	5.7	7.1	8.9
Other	329.5	497.8	467.1
Current Assets	335.2	504.9	476.0
Accts Payable	99.6	182.8	80.3
Debt Due	109.5	193.5	170.0
Other	97.1	152.3	150.1
Current Liab.	306.2	528.6	400.4
Fix. Chg. Cov.	378%	400%	325%

ANNUAL RATES Past 10 Yrs. Past 5 Yrs. Est'd '04-'06 to '10-'12

Revenues	7.5%	11.0%	5.5%
"Cash Flow"	7.0%	5.5%	3.0%
Earnings	5.5%	5.0%	3.0%
Dividends	5.5%	5.0%	4.0%
Book Value	6.5%	6.5%	2.5%

Fiscal Year Ends QUARTERLY REVENUES (\$ mill.)^A Full Fiscal Year

	Jan.31	Apr.30	Jul.31	Oct.31	
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	282.2	1924.7
2007	900	550	250	300	2000
2008	925	575	275	325	2100

Fiscal Year Ends EARNINGS PER SHARE^{A B F} Full Fiscal Year

	Jan.31	Apr.30	Jul.31	Oct.31	
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.08	1.27
2007	.96	.58	d.09	d.05	1.40
2008	.95	.60	d.06	d.04	1.45

Cal-endar QUARTERLY DIVIDENDS PAID^C Full Year

	Mar.31	Jun.30	Sep.30	Dec.31	
2003	.20	.208	.208	.208	.82
2004	.208	.215	.215	.215	.85
2005	.215	.23	.23	.23	.91
2006	.23	.24	.24	.24	.95

BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 1,016,000 customers in North Carolina, South Carolina, and Tennessee. 2006 revenue mix: residential (44%), commercial (26%), industrial (11%), other (19%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 72.8% of revenues. '06 deprec. rate: 3.5%. Estimated plant age: 8.7 years.

We expect Piedmont Natural Gas' earnings for the first quarter of fiscal 2007 (ends October 31st) to rise by \$0.02 a share. Customers continue to be added in Piedmont's North Carolina, South Carolina, and Tennessee service areas. In addition to South Carolina's increased large-volume customers, the 2006 Rate Stabilization Act filing was settled. Both of these factors should increase margins. We expect earnings for the full fiscal year to rise 10%, to \$1.40 a share. That's the midpoint of Piedmont's target of \$1.35-\$1.45.

The Public Service Commission of South Carolina approved a gas cost hedging plan for the purpose of cost stabilization. The plan targets 30% to 60% of annual normalized sales volumes. Any benefits recognized are deemed to be reductions in gas cost and are refunded to South Carolina customers in rates. **The capitalization ratios of 48% long-term debt and 52% common equity were both in the target ranges.** Maintaining sufficient cash flows and achieving this capital structure will allow PNY to have an attractive credit rating,

which will facilitate obtaining capital for future infrastructure expenditures. **Piedmont's joint venture is performing well.** Piedmont Energy's 30% equity interest in SouthStar Energy services, a Georgia-based unregulated retail natural gas marketer, earned \$22.9 million of PNY's \$29.9 million overall joint venture pretax earnings in fiscal 2006. We expect similar results to continue due to growth in joint markets. **In the three-state service area of the Carolinas and Tennessee, the overall customer growth rate was 3.5% in 2006.** The gas distribution system serves a million customers company-wide with an increase last year of a near record 34,400. The growth rate is among the highest in the nation for natural gas distribution companies. A record was set in 2006 for residential construction customer growth. **Untimely Piedmont stock offers an attractive yield.** Investors should note that the company offers a 5% discount on dividend reinvestment. Good dividend growth over the next 3 to 5 - years should produce worthwhile total return over that time.

Enzo DiCostanzo *March 16, 2007*

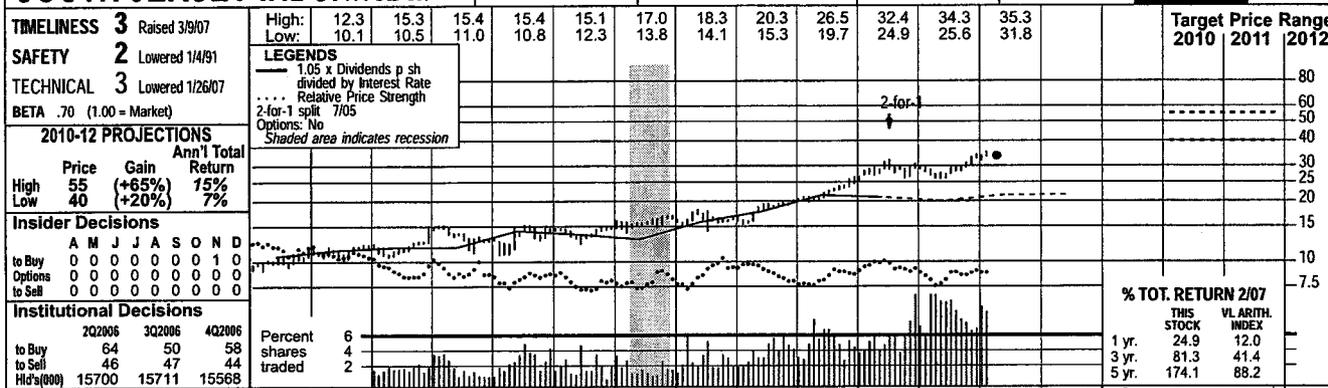
(A) Fiscal year ends October 31st.
 (B) Diluted earnings. Excl. extraordinary item: '00, 8¢. Excl. nonrecurring charge: '97, 2¢. Next earnings report due early May.
 (C) Dividends historically paid mid-January, April, July, October.
 (D) Includes deferred charges. At 10/31/05:
 \$4.0 million, 5¢/share.
 (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 **33.74** P/E RATIO **12.7** (Trailing: 17.2 Median: 14.0) RELATIVE P/E RATIO **0.70** DIV'D YLD **2.9%** VALUE LINE



2010-12 PROJECTIONS												Target Price		Range
High	Price	Gain	Ann'l Total									2010	2011	2012
55	40	(+65%)	15%											
Low	40	(+20%)	7%											

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC. 10-12	
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	30.85	32.75	34.35	Revenues per sh	38.70
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	3.39	3.65	3.85	"Cash Flow" per sh	4.30
.64	.81	.78	.61	.83	.85	.86	.64	1.01	1.08	1.15	1.22	1.37	1.58	1.71	2.46	2.70	2.90	Earnings per sh ^A	3.30
.71	.71	.72	.72	.72	.72	.72	.72	.72	.73	.74	.75	.78	.82	.86	.92	.98	1.05	Div'ds Decl'd per sh ^B	1.20
2.17	1.69	1.87	1.93	2.08	2.01	2.30	3.06	2.19	2.21	2.82	3.47	2.26	2.67	3.21	2.52	2.70	3.00	Cap'l Spending per sh	3.40
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	15.12	16.05	16.65	Book Value per sh ^C	18.55
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	30.00	Common Shs Outst'g ^D	31.00
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	14.9	Avg Ann'l P/E Ratio		14.0	
.93	.80	.93	1.06	.82	.83	.80	1.10	.76	.85	.70	.74	.76	.74	.88	.81	Relative P/E Ratio		.95	
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%	3.2%	Avg Ann'l Div'd Yield		3.3%	

CAPITAL STRUCTURE as of 12/31/06		2004	2005	12/31/06	BUSINESS:	
Total Debt	\$555.0 mill. Due in 5 Yrs \$232.5 mill.	348.6	450.2	392.5	515.9	837.3
LT Debt	\$358.0 mill. LT Interest \$21.0 mill. (Total interest coverage: 5.4x)	18.4	13.8	22.0	24.7	26.8
		36.8%	46.2%	42.8%	43.1%	42.2%
		5.3%	3.1%	5.6%	4.8%	3.2%
		54.6%	57.3%	53.8%	54.1%	57.0%
		35.8%	33.5%	37.0%	37.6%	35.9%
		387.1	401.1	405.9	443.5	516.2
		456.5	504.3	533.3	562.2	607.0
		6.7%	5.3%	7.4%	7.4%	6.9%
		10.5%	8.1%	11.7%	12.1%	12.1%
		13.3%	10.3%	14.6%	14.8%	12.8%
		2.1%	NMF	4.2%	4.8%	3.5%
		84%	112%	72%	67%	76%

South Jersey Industries has restated its earnings. In February, the company determined that its documentation of certain hedge transactions did not contain the specificity required by FASB 133. Therefore, the hedges did not qualify for hedge accounting treatment. As a result, SJI restated its financial statements for 2004, 2005, and the first three quarters of 2006. We have adjusted our 2006 figures accordingly. In keeping with Value Line convention, we have not restated figures from previous years.

The company's earnings per share advanced significantly in 2006. The Conservation Incentive Program (discussed below) boosted net income by \$4.6 million. The Wholesale Commodity Marketing business reported impressive bottom-line growth, as volatility in natural gas prices and increased storage capacity created lucrative opportunities. Pension and other postretirement benefit costs declined. Strong performance will probably continue, although mark-to-market accounting will make earnings more volatile.

The company has implemented its Conservation Incentive Program. This initiative allows South Jersey Gas to promote energy conservation, while insulating the company from the negative impact of reduced customer usage (as a result of warmer weather, higher prices, or more efficient heating equipment).

ANNUAL RATES		Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	5.5%	7.5%	4.0%	
"Cash Flow"	4.5%	6.5%	7.5%	
Earnings	8.0%	11.5%	9.5%	
Dividends	1.5%	2.5%	5.5%	
Book Value	5.5%	13.0%	5.0%	

QUARTERLY REVENUES (\$ mill.)					Full Year
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	
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	250.3	903.9
2007	375	170	155	270	970
2008	390	190	170	280	1030

Several projects at Marina Energy may benefit SJI in the coming years. Marina develops, owns, and operates on-site energy plants, which provide income streams as part of long-term contracts. It brought three projects on line during the second half of 2006. In addition, Marina has three projects scheduled to commence operations by early 2008.

The board of directors has increased the dividend by 9%. The board raised the quarterly payout from \$0.225 a share to \$0.245. SJI has increased its dividend at a solid clip in recent years and will probably continue to do so.

This stock is ranked to pace the broader market for the year ahead. At the current quotation, the yield is low (by utility standards), although the issue does have worthwhile total-return potential for the pull to late decade.

Michael F. Napoli *March 16, 2007*

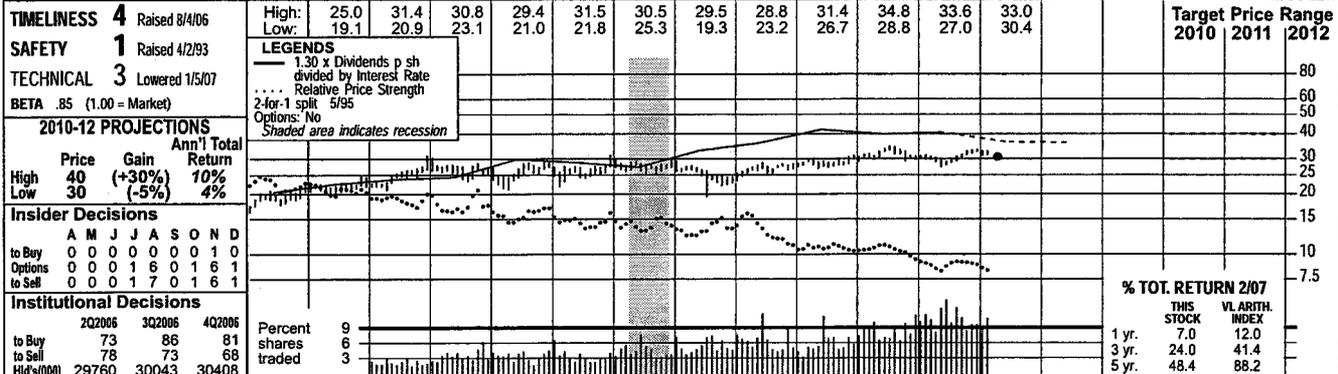
(A) Based on avg. shs. Excl. nonrecur. gain: '01, \$0.13. Excl. gain (losses) from discount. ops.: '96, \$1.14; '97, (\$0.24); '98, (\$0.26); '99, (\$0.22); '00, (\$0.04); '01, (\$0.02); '02, (\$0.04). (B) Dividends paid early Apr., Jul., Oct, and Dec. (C) Div. reinvest. plan avail. (2% disc.). (D) In 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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WGL HOLDINGS NYSE-WGL

RECENT PRICE **30.81** P/E RATIO **15.7** (Trailing: 16.0 Median: 15.0) RELATIVE P/E RATIO **0.87** DIV'D YLD **4.4%** VALUE LINE



1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC. 10-12	
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	53.96	54.90	56.70	Revenues per sh ^A	62.50
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	3.93	4.00	4.15	"Cash Flow" per sh	4.40
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	1.94	1.96	2.05	Earnings per sh ^B	2.20
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	1.34	1.38	1.42	Div'ds Decl'd per sh ^C	1.45
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	3.27	2.45	2.45	Cap'l Spending per sh	2.55
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	18.28	18.90	19.60	Book Value per sh ^D	22.0
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	48.89	48.91	48.92	Common Shs Outst'g ^E	49.0
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	15.5	15.5	15.5	Avg Ann'l P/E Ratio	15.0
.82	.82	.92	.92	.85	.72	.73	.89	.99	.95	.75	1.26	.63	.75	.78	.81	.81	.81	Relative P/E Ratio	1.0
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%	4.5%	4.5%	Avg Ann'l Div'd Yield	4.3%

CAPITAL STRUCTURE as of 12/31/06

Total Debt \$882.8 mill. Due in 5 Yrs \$290.0 mill.
 LT Debt \$605.1 mill. LT Interest \$40.6 mill.
 (LT interest earned: 4.8x; total interest coverage: 4.2x)

Pension Assets-9/06 \$699.9 mill.
 Oblig. \$697.4 mill.

Preferred Stock \$28.2 mill. Pfd Div'd \$1.3 mill.

Common Stock 49,141,163 shs.

MARKET CAP: \$1.5 billion (Mid Cap)

CURRENT POSITION	2005	2006	12/31/06
Cash Assets	4.8	4.4	12.2
Other	476.2	556.9	798.8
Current Assets	481.0	561.3	811.0
Accts Payable	204.9	208.5	313.1
Debt Due	91.0	238.4	277.7
Other	115.5	113.9	214.4
Current Liab.	411.4	560.8	805.2
Fix. Chg. Cov.	460%	450%	450%

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 (1,031,916 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 pro-

vides 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 9.6% of common stock; Off/dir. less than 1% (1/07 proxy). Chrmn. & CEO: J.H. DeGraffenreid, Inc.: D.C. and VA. Addr.: 1100 H St., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.

ANNUAL RATES Past 10 Yrs. Past 5 Yrs. Est'd '04-'06 to '10-'12

Revenues 7.5% 14.5% 4.0%
 "Cash Flow" 5.0% 6.5% 2.0%
 Earnings 4.5% 6.0% 1.0%
 Dividends 1.5% 1.5% 1.5%
 Book Value 4.0% 3.0% 3.0%

Fiscal Year Ends	QUARTERLY REVENUES (\$ mill.) ^A	Full Fiscal Year			
	Dec.31	Mar.31	Jun.30	Sep.30	
2004	585.3	862.2	356.9	285.2	2089.6
2005	623.4	929.8	349.0	284.1	2186.3
2006	902.9	1064.5	346.9	323.6	2637.9
2007	732.9	1095	440	417.1	2685
2008	970	1040	390	375	2775

Fiscal Year Ends	EARNINGS PER SHARE ^{A,B}	Full Fiscal Year			
	Dec.31	Mar.31	Jun.30	Sep.30	
2004	.81	1.62	d.08	d.37	1.98
2005	.88	1.63	d.17	d.23	2.11
2006	.93	1.17	d.01	d.15	1.94
2007	.92	1.20	d.01	d.15	1.96
2008	.95	1.26	d.01	d.15	2.05

Cal-endar	QUARTERLY DIVIDENDS PAID ^C	Full Year			
	Mar.31	Jun.30	Sep.30	Dec.31	
2003	.32	.325	.325	.325	1.30
2004	.325	.333	.333	.333	1.32
2005	.33	.33	.333	.333	1.33
2006	.333	.333	.338	.338	1.34
2007	.34				

WGL Holdings, Inc.'s consolidated operating revenues were down 2% to \$733 million for the first three months of fiscal 2007. The biggest declines were in the regulated utility segment, where gas delivery revenues were down 30% due to warm weather and customer conservation. In addition the nonutility operation HVAC segment was down 60% owing to the completion of large projects for its customers at the end of fiscal 2006 that have not yet been replaced in the segment's revenue stream. The regulated utility segment is WGL's core business; it represents 91% of the holding company's total assets. Even so, corporate income increased 2% to \$45.1 million thanks to a 20% decrease in operating expenses.

Washington Gas is continuing to address the natural gas leaks in its distribution system in Maryland. Gas used in the system from a liquefied natural gas terminal has a lower concentration of heavy hydrocarbons, that, when introduced into the overall distribution system, can cause the seals in the pipe couplings to leak. These gas service lines and couplings are being replaced and rehabilitated in the

distribution system. The project is expected to be completed by December, 2007 at an estimated cost of \$144 million. This project is necessary to provide safe and reliable utility service. It is anticipated that these costs will be recognized in the rate-making process. Washington Gas' financial condition, results of operations, and cash flows will, of course, be affected by the Public Service Commission of Maryland's rate-making judgment.

WGL Holdings expects to benefit from robust economic growth in its service area. The DC market is one of the most prosperous in the United States. New customers have been added at an average of 20,000 per year for the last few years. And attention will be focused on residential customer conversions to natural gas from other forms of energy.

These shares are trading within our Target Price Range, and we see negligible price appreciation for the 3- to 5-years ahead. The stock stands out for its yield, however, which is one of the highest among the gas distribution companies. Moreover, finances are strong.

Enzo DiCostanzo March 16, 2007

(A) Fiscal years end Sept. 30th. (B) Based on diluted shares. Excludes non-recurring losses: '01, (13¢); '02, (34¢); discontinued operations: '06, (15¢). Next earnings report due late April. (C) Dividends historically paid early February, May, August, and November. (D) Includes deferred charges and intangibles. (E) In millions, adjusted for stock split.

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

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ATTACHMENT C



Zacks.com Quotes and Research

ATLANTA GAS LIGHT (NYSE)		Scottrade	
ATG	41.74	▼ -0.50 (-1.18%)	Vol. 99,000
			12:26 CST

AGL Resources principal business is the distribution of natural gas to customers in central, northwest, northeast and southeast Georgia and the Chattanooga, Tennessee area through its natural gas distribution subsidiary. AGL's major service area is the ten county metropolitan Atlanta area.

General Information

AGL RESOURCES
 Ten Peachtree Place NE
 Atlanta, GA 30309
 Phone: 404 584-4000
 Fax: 404 584-3945
 Web: www.aglresources.com
 Email: scave@aglresources.com

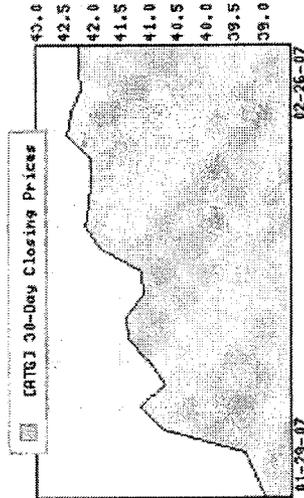
Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Reported Quarter: 12/31/06
 Next EPS Date: 05/09/2007

Price and Volume Information

Zacks Rank: **1.2**
 Yesterday's Close: 42.24
 52 Week High: 42.45
 52 Week Low: 34.75
 Beta: 0.35
 20 Day Moving Average: 454,960.94
 Target Price Consensus: 42.42

% Price Change	9.49	% Price Change Relative to S&P 500	7.05
4 Week	9.92	4 Week	5.71
12 Week	8.51	12 Week	5.28
YTD		YTD	



Share Information		Dividend Information	
Shares Outstanding (millions)	77.70	Dividend Yield	3.88%
Market Capitalization (millions)	3,280.32	Annual Dividend Payout Ratio	\$1.64
Short Ratio	10.00	Change in Payout Ratio	0.54
Last Split Date	12/04/1995	Last Dividend Payout / Amount	-0.02
			11/15/2006 / \$0.37

EPS Information

Consensus Recommendations	
Current Quarter EPS Consensus Estimate	1.40 Current (1=Strong Buy, 5=Strong Sell)
Current Year EPS Consensus Estimate	2.78 30 Days Ago
Estimated Long-Term EPS Growth Rate	5.00 60 Days Ago
Next EPS Report Date	05/09/2007 90 Days Ago

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate:	15.18 vs. Previous Year	-29.41% vs. Previous Year
Trailing 12 Months:	15.52 vs. Previous Quarter	30.43% vs. Previous Quarter:
PEG Ratio	3.04	62.90%

Price Ratios

Price/Book	ROE	ROA
12/31/06	2.04 12/31/06	13.36 12/31/06
09/30/06	9.37 09/30/06	14.81 09/30/06
06/30/06	1.25 06/30/06	13.75 06/30/06

Current Ratio

Quick Ratio	Operating Margin
12/31/06	0.75 12/31/06
09/30/06	0.67 09/30/06
06/30/06	0.64 06/30/06

Net Margin

Pre-Tax Margin	Book Value
12/31/06	13.01 12/31/06
09/30/06	12.72 09/30/06
06/30/06	11.75 06/30/06

Inventory Turnover

Debt-to-Equity	Debt to Capital
12/31/06	1.01 12/31/06
09/30/06	1.03 09/30/06
06/30/06	1.04 06/30/06



Zacks.com Quotes and Research

ATMOS ENERGY CP (NYSE) 12:57 CST
 ATO 31.36 ▼ -0.11 (-0.35%) Vol. 158,700 Scottrade

Atmos Energy Corporation distributes and sells natural gas to residential, commercial, industrial, agricultural and other customers. Atmos operates through five divisions in cities, towns and communities in service areas located in Colorado, Georgia, Illinois, Iowa, Kansas, Kentucky, Louisiana, Missouri, South Carolina, Tennessee, Texas and Virginia. The Company has entered into an agreement to sell all of its natural gas utility operations in South Carolina. The Company also transports natural gas for others through its distribution system.

General Information
 ATMOS ENERGY CP
 Three Lincoln Centre, 5430 Lbj Freeway
 Suite 1800
 Dallas, TX 75240
 Phone: 972 934-9227
 Fax: -
 Web: www.atmosenergy.com
 Email: investorRelations@atmosenergy.com

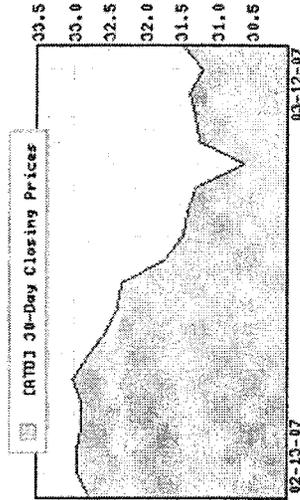
Industry UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End September
 Last Reported Quarter 12/31/06
 Next EPS Date 05/10/2007

Price and Volume Information

Zacks Rank **1B**
 Yesterday's Close 31.47
 52 Week High 33.01
 52 Week Low 26.00
 Beta 0.45
 20 Day Moving Average 322,488.00
 Target Price Consensus 33.9

% Price Change 4 Week -2.07
 % Price Change Relative to S&P 500 4 Week 2.02



12 Week -2.37 12 Week -0.88
 YTD -1.94 YTD 0.23

Share Information

Shares Outstanding 88.58 Dividend Yield 4.09%
 Market Capitalization 2,771.57 Annual Dividend \$1.28
 (millions) Payout Ratio 0.54
 Short Ratio 4.76 Change in Payout Ratio -0.17
 Last Split Date 05/17/1994 Last Dividend Payout / Amount 02/22/2007 / \$0.32

EPS Information

Current Quarter EPS Consensus Estimate 1.17 Current (1=Strong Buy, 5=Strong Sell) 2.50
 Current Year EPS Consensus Estimate 1.95 30 Days Ago 2.40
 Estimated Long-Term EPS Growth Rate 5.30 60 Days Ago 2.57
 Next EPS Report Date 05/10/2007 90 Days Ago 2.57

Fundamental Ratios

P/E
 Current FY Estimate: 16.12 vs. Previous Year 10.23% vs. Previous Year -29.83%
 Trailing 12 Months: 13.26 vs. Previous Quarter 288.00% vs. Previous Quarter: 64.97%
 PEG Ratio 3.07

Price Ratios

Price/Book 1.42 12/31/06 11.18 12/31/06 3.29
 Price/Cash Flow 7.33 09/30/06 11.03 09/30/06 3.07
 Price / Sales 0.51 06/30/06 8.84 06/30/06 2.45

Current Ratio

12/31/06 0.97 12/31/06 0.65 12/31/06 3.54
 09/30/06 1.00 09/30/06 0.59 09/30/06 2.98
 06/30/06 1.03 06/30/06 0.60 06/30/06 2.36

Net Margin

12/31/06 4.68 12/31/06 4.68 12/31/06 22.01
 09/30/06 3.85 09/30/06 3.85 09/30/06 20.20
 06/30/06 3.25 06/30/06 3.25 06/30/06 20.51

Inventory Turnover

12/31/06 9.09 12/31/06 0.98 12/31/06 49.45

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) 2.50
 30 Days Ago 2.40
 60 Days Ago 2.57
 90 Days Ago 2.57

09/30/06	10.27	09/30/06	1.32	09/30/06	56.95
06/30/06	10.53	06/30/06	1.31	06/30/06	56.71



Zacks.com Quotes and Research

LACLEDE GROUP INC (NYSE)

LG 31.58 ▼ -0.39 (-1.22%) Vol. 29,300 12:16 CST

Scottrade

The Laclede Group, Inc. is a public utility engaged in the retail distribution and transportation of natural gas. The Company, which is subject to the jurisdiction of the Missouri Public Service Commission, serves the City of St. Louis, St. Louis County, the City of St. Charles, St. Charles County, the town of Arnold, and parts of Franklin, Jefferson, St. Francois, Ste. Genevieve, Iron, Madison and Butler Counties, all in Missouri.

General Information

LACLEDE GRP INC
 720 Olive Street
 St. Louis, MO 63101
 Phone: 314-342-0500
 Fax: -
 Web: www.thelacledegroup.com
 Email: mkulliman@lacledegas.com

Industry UTIL-GAS DISTR
 Sector: Utilities

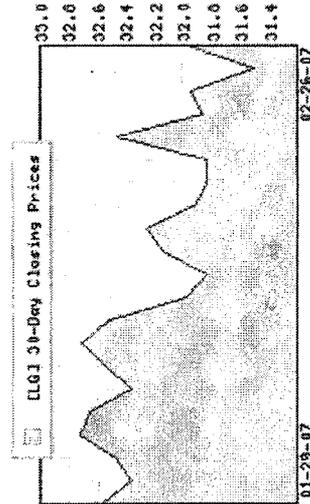
Fiscal Year End September
 Last Reported Quarter 12/31/06
 Next EPS Date 04/27/2007

Price and Volume Information

Zacks Rank **1**
 Yesterday's Close 31.97
 52 Week High 36.95
 52 Week Low 31.35
 Beta 0.47
 20 Day Moving Average 123,355.00
 Target Price Consensus N/A

% Price Change
 4 Week -2.41
 12 Week -12.66

% Price Change Relative to S&P 500
 4 Week -4.59
 12 Week -16.00



YTD	-8.79	YTD	-11.43
Share Information			
Shares Outstanding (millions)	21.53	Dividend Yield	4.57%
Market Capitalization (millions)	687.91	Annual Dividend	\$1.46
Short Ratio	22.64	Payout Ratio	0.72
Last Split Date	03/08/1994	Change in Payout Ratio	-0.07
		Last Dividend Payout / Amount	12/07/2006 / \$0.37

EPS Information			
Current Quarter EPS Consensus Estimate	0.98	Consensus Recommendations	
Current Year EPS Consensus Estimate	1.97	Current (1=Strong Buy, 5=Strong Sell)	3.00
Estimated Long-Term EPS Growth Rate	-	30 Days Ago	3.00
Next EPS Report Date	04/27/2007	60 Days Ago	3.00
		90 Days Ago	3.00

Fundamental Ratios			
P/E		EPS Growth	
Current FY Estimate:	16.22	vs. Previous Year	-27.64%
Trailing 12 Months:	15.74	vs. Previous Quarter	2,325.00%
PEG Ratio		Sales Growth	vs. Previous Year
			-21.72%
			100.58%

Price Ratios			
Price/Book	1.64	ROE	12/31/06
Price/Cash Flow	8.13		10.61 12/31/06
Price / Sales	0.37		12.54 09/30/06
			11.74 06/30/06
Current Ratio			
12/31/06	1.02	Quick Ratio	Operating Margin
09/30/06	1.07		0.67 12/31/06
06/30/06	1.15		0.69 09/30/06
			0.88 06/30/06

Net Margin			
12/31/06	3.44	Pre-Tax Margin	Book Value
09/30/06	3.63		3.44 12/31/06
06/30/06	3.34		3.63 09/30/06
			3.34 06/30/06

Inventory Turnover			
12/31/06	12.45	Debt-to-Equity	Debt to Capital
09/30/06	13.92		0.85 12/31/06
			0.98 09/30/06
			45.88
			49.50

06/30/06 13.28 06/30/06 0.97 06/30/06 49.24



Zacks.com Quotes and Research

NJ RESOURCES CP (NYSE)

NJR 49.22 -0.51 (-1.03%) Vol. 62,200 13:11 CST

Scottrade

NJ RESOURCES is an exempt energy svcs holding company providing retail & wholesale natural gas & related energy services to customers from the Gulf Coast to New England. Subsidiaries include: (1) N J Natural Gas Co, a natural gas distribution company that provides regulated energy & appliance services to residential, commercial & industrial customers in central & northern N J. (2) NJR Energy Holdings Corp formerly NJR Energy Svcs Corp & (3) NJR Development Corp, a sub-holding company of NJR, which includes the Company's remaining unregulated operating subsidiaries.

General Information

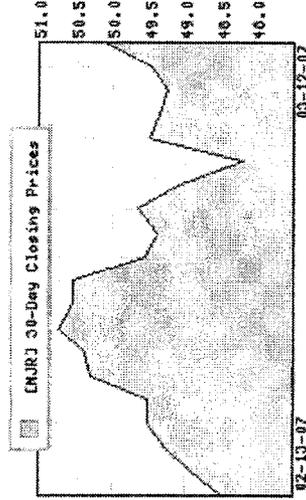
NJ RESOURCES
 1415 Wyckoff Road
 Wall, NJ 07719
 Phone: 732 938-1480
 Fax: -
 Web: www2.njresources.com
 Email: investcom@njresources.com

Industry UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End September
 Last Reported Quarter 12/31/06
 Next EPS Date 05/09/2007

Price and Volume Information

Zacks Rank **A**
 Yesterday's Close 49.73
 52 Week High 52.55
 52 Week Low 42.91
 Beta -0.01
 20 Day Moving Average 212,657.34
 Target Price Consensus 48



% Price Change 4 Week 2.66
 % Price Change Relative to S&P 500 4 Week 6.94

12 Week	-3.29	12 Week	-1.82
YTD	1.61	YTD	3.38

Share Information

Shares Outstanding (millions)	27.83	Dividend Yield	3.08%
Market Capitalization (millions)	1,373.89	Annual Dividend Payout Ratio	\$1.52 / 0.59
Short Ratio	10.88	Change in Payout Ratio	0.07
Last Split Date	03/04/2002	Last Dividend Payout / Amount	12/13/2006 / \$0.38

EPS Information

Current Quarter EPS Consensus Estimate	2.12	Consensus Recommendations Current (1=Strong Buy, 5=Strong Sell)	2.33
Current Year EPS Consensus Estimate	2.91	30 Days Ago	2.33
Estimated Long-Term EPS Growth Rate	6.00	60 Days Ago	2.33
Next EPS Report Date	05/09/2007	90 Days Ago	2.33

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate:	16.95 vs. Previous Year	-17.89% vs. Previous Year
Trailing 12 Months:	19.13 vs. Previous Quarter	334.88% vs. Previous Quarter:
PEG Ratio	2.82	38.72%

Price Ratios	ROE	ROA
Price/Book	2.12 12/31/06	11.68 12/31/06
Price/Cash Flow	12.20 09/30/06	13.30 09/30/06
Price / Sales	0.48 06/30/06	15.73 06/30/06

Current Ratio	Quick Ratio	Operating Margin
12/31/06	1.06 12/31/06	0.58 12/31/06
09/30/06	1.08 09/30/06	0.50 09/30/06
06/30/06	1.15 06/30/06	0.54 06/30/06

Net Margin	Pre-Tax Margin	Book Value
12/31/06	4.10 12/31/06	4.10 12/31/06
09/30/06	3.90 09/30/06	3.90 09/30/06
06/30/06	3.97 06/30/06	3.97 06/30/06

Inventory Turnover	Debt-to-Equity	Debt to Capital
12/31/06	5.83 12/31/06	0.52 12/31/06
		34.29

09/30/06	9.48	09/30/06	0.53	09/30/06	34.84
06/30/06	12.61	06/30/06	0.56	06/30/06	35.92



Zacks.com Quotes and Research

NICOR INC (NYSE)		Scottrade	
GAS	46.61	▼ -0.40	(-0.85%)
		Vol.	184,200
			13:14 CST

NICOR Inc. is a holding company. Its principal subsidiaries are Northern Illinois Gas Company, one of the nation's largest distributors of natural gas, and Tropical Shipping, one of the leading transporters of containerized freight in the Caribbean. Gas distribution is Nicor's primary business, representing the majority of consolidated operating income and assets. Nicor also owns several energy-related subsidiaries and is a partner in Nicor Energy, a provider of unregulated energy products and services.

General Information

NICOR INC
 1844 Ferry Road
 Naperville, IL 60563-9600
 Phone: 630 305-9500
 Fax: 630 983-9328
 Web: www.nicor.com
 Email: None

Industry: UTIL-GAS DISTR
 Sector: Utilities

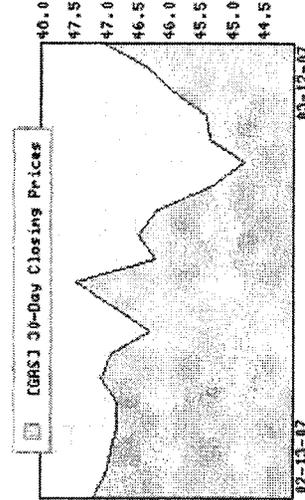
Fiscal Year End: December
 Last Reported Quarter: 12/31/06
 Next EPS Date: 05/08/2007

Price and Volume Information

Zacks Rank: **A**
 Yesterday's Close: 47.01
 52 Week High: 49.66
 52 Week Low: 38.91
 Beta: 0.87
 20 Day Moving Average: 423,751.91
 Target Price Consensus: 46.38

% Price Change
 4 Week: -1.77
 12 Week: -7.91

% Price Change Relative to S&P 500
 4 Week: 2.32
 12 Week: -6.51



YTD	-2.99	YTD	-0.97
Share Information			
Shares Outstanding (millions)	44.91	Dividend Yield	4.10%
Market Capitalization (millions)	2,039.01	Annual Dividend	\$1.86
Short Ratio	19.32	Payout Ratio	0.64
Last Split Date	04/27/1993	Change in Payout Ratio	0.00
		Last Dividend Payout / Amount	12/27/2006 / \$0.47

EPS Information

Current Quarter EPS Consensus Estimate	1.00	Consensus Recommendations	
Current Year EPS Consensus Estimate	2.77	Current (1=Strong Buy, 5=Strong Sell)	3.00
Estimated Long-Term EPS Growth Rate	2.00	30 Days Ago	3.00
Next EPS Report Date	05/08/2007	60 Days Ago	3.00
		90 Days Ago	3.00

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 16.39	vs. Previous Year	26.47% vs. Previous Year
Trailing 12 Months: 15.55	vs. Previous Quarter	360.71% vs. Previous Quarter:
PEG Ratio 8.19		138.74%

Price Ratios

Price/Book	ROE	ROA
12/31/06 2.33	12/31/06 15.53	12/31/06 3.35
09/30/06 6.46	09/30/06 14.21	09/30/06 2.95
06/30/06 0.69	06/30/06 12.56	06/30/06 2.55

Current Ratio

Quick Ratio	Operating Margin
12/31/06 0.80	12/31/06 4.42
09/30/06 0.69	09/30/06 3.38
06/30/06 0.71	06/30/06 2.95

Net Margin

Pre-Tax Margin	Book Value
12/31/06 5.88	12/31/06 19.52
09/30/06 4.52	09/30/06 18.60
06/30/06 3.65	06/30/06 18.66

Inventory Turnover

Debt-to-Equity	Debt to Capital
12/31/06 19.96	12/31/06 36.29
09/30/06 21.86	09/30/06 35.67

06/30/06	16.93	06/30/06	0.57	06/30/06	36.22
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Zacks.com Quotes and Research

NORTHWEST NAT GAS (NYSE)			
NWN	45.23	▼ -0.68	(-1.48%)
			Vol. 59,000
			12:36 CST

Scottrade

NW Natural is principally engaged in the distribution of natural gas. The Oregon Public Utility Commission (OPUC) has allocated to NW Natural as its exclusive service area a major portion of western Oregon, including the Portland metropolitan area, most of the fertile Willamette Valley and the coastal area from Astoria to Coos Bay. NW Natural also holds certificates from the Washington Utilities and Transportation Commission (WUTC) granting it exclusive rights to serve portions of three Washington counties bordering the Columbia River.

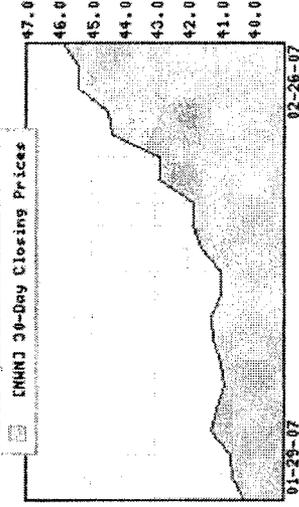
General Information
NORTHWEST NAT G
 220 N.W. Second Avenue
 Portland, OR 97209
 Phone: 503 226-4211
 Fax: 503 273-4824
 Web: www.nwnatural.com
 Email: investorinformation@nwnatural.com

Industry UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End December
Last Reported Quarter 12/31/06
Next EPS Date 05/10/2007

Price and Volume Information

Zacks Rank	2
Yesterday's Close	45.91
52 Week High	45.40
52 Week Low	33.27
Beta	0.14
20 Day Moving Average	124,529.50
Target Price Consensus	44.67



% Price Change Relative to S&P 500

4 Week	11.49	9.01
12 Week	10.09	5.87

YTD	6.97	YTD	-1.50
Share Information			
Shares Outstanding (millions)	27.50	Dividend Yield	3.13%
Market Capitalization (millions)	1,248.73	Annual Dividend	\$1.42
Short Ratio	17.22	Payout Ratio	0.62
Last Split Date	09/09/1996	Change in Payout Ratio	0.00
		Last Dividend Payout / Amount	01/29/2007 / \$0.35

EPS Information			
Current Quarter EPS Consensus Estimate	1.54	Consensus Recommendations	2.50
Current Year EPS Consensus Estimate	2.38	Current (1=Strong Buy, 5=Strong Sell)	2.86
Estimated Long-Term EPS Growth Rate	5.30	30 Days Ago	2.86
Next EPS Report Date	05/10/2007	60 Days Ago	2.86
		90 Days Ago	2.86

Fundamental Ratios			
P/E	19.11	EPS Growth	Sales Growth
Current FY Estimate:	vs. Previous Year	17.20%	vs. Previous Year
Trailing 12 Months:	19.83	vs. Previous Quarter	411.43%
PEG Ratio	3.58	vs. Previous Quarter:	-2.86%

Price Ratios			
Price/Book	2.11	ROE	ROA
Price/Cash Flow	10.44	12/31/06	12/31/06
Price / Sales	2.39	09/30/06	0.43
		06/30/06	0.52
Current Ratio		Quick Ratio	Operating Margin
12/31/06	-	12/31/06	12/31/06
09/30/06	0.84	09/30/06	11.46
06/30/06	0.92	06/30/06	13.49

Net Margin			
12/31/06	-	Pre-Tax Margin	Book Value
09/30/06	17.94	12/31/06	12/31/06
06/30/06	21.10	09/30/06	17.94
		06/30/06	21.10
Inventory Turnover		Debt-to-Equity	Debt to Capital
12/31/06	-	12/31/06	12/31/06
09/30/06	8.60	09/30/06	0.83
			45.37

06/30/06

8.61 06/30/06

0.81 06/30/06

44.61



Zacks.com Quotes and Research

PIEDMONT NAT GAS CO (NYSE)

PNY 26.02 -0.43 (-1.63%) Vol. 107,500 12:37 CST

Scottrade

Piedmont Natural Gas Co, Inc., is an energy and services company engaged in the transportation and sale of natural gas and the sale of propane to residential, commercial and industrial customers in North Carolina, South Carolina and Tennessee. The Company is the second-largest natural gas utility in the southeast. The Company and its non-utility subsidiaries and divisions are also engaged in acquiring, marketing and arranging for the transportation and storage of natural gas for large-volume purchasers, and in the sale of propane to customers in the Company's three-state service area.

General Information

PIEDMONT NAT GA
 4720 Piedmont Row Drive
 Charlotte, NC 28210
 Phone: 704 364-3120
 Fax: 704 364-1395
 Web: www.piedmonting.com
 Email: margaret.griffith@piedmonting.com

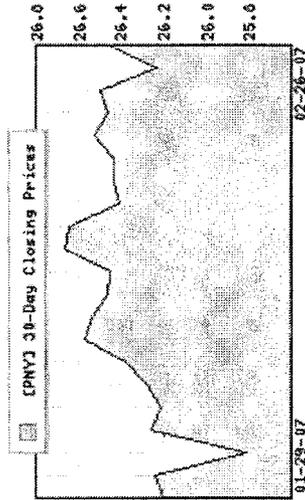
Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: October
 Last Reported Quarter: 01/31/07
 Next EPS Date: 03/13/2007

Price and Volume Information

Zacks Rank: **A**
 Yesterday's Close: 26.45
 52 Week High: 28.28
 52 Week Low: 23.29
 Beta: 0.30
 20 Day Moving Average: 188,864.25
 Target Price Consensus: 27.5

% Price Change 4 Week: 1.07
 % Price Change Relative to S&P 500 4 Week: -1.19



12 Week -4.92 12 Week -8.56
YTD -0.93 YTD -3.72

Share Information

Shares Outstanding
(millions) 74.72
Market Capitalization
(millions) 1,980.00
Short Ratio 27.75
Last Split Date 04/01/1993

Dividend Information

Dividend Yield 3.62%
Annual Dividend \$0.96
Payout Ratio 0.00
Change in Payout Ratio 0.00
Last Dividend Payout / Amount 12/19/2006 / \$0.24

EPS Information

Current Quarter EPS Consensus Estimate 0.98
Current Year EPS Consensus Estimate 1.42
Estimated Long-Term EPS Growth Rate 5.50
Next EPS Report Date 03/13/2007

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) 3.00
30 Days Ago 3.00
60 Days Ago 3.00
90 Days Ago 2.89

Fundamental Ratios

P/E
Current FY Estimate: 18.68
Trailing 12 Months: 20.87
PEG Ratio 3.40

EPS Growth

vs. Previous Year -33.33%
vs. Previous Quarter 50.00%
vs. Previous Year -16.90%
vs. Previous Quarter 18.64%

Sales Growth

01/31/07 -
10/31/06 10.64
07/31/06 10.76

Price Ratios

Price/Book 2.26
Price/Cash Flow 10.31
Price / Sales -

ROE

01/31/07 2.26
10/31/06 10.31
07/31/06 -

ROA

01/31/07 -
10/31/06 10.64
07/31/06 10.76

Current Ratio

01/31/07 -
10/31/06 1.19
07/31/06 1.41

Operating Margin

01/31/07 -
10/31/06 0.82
07/31/06 0.94

Net Margin

01/31/07 -
10/31/06 8.29
07/31/06 8.12

Book Value

01/31/07 -
10/31/06 8.29
07/31/06 8.12

Inventory Turnover

01/31/07 -

Debt-to-Equity

01/31/07 -

Debt to Capital

01/31/07 -

10/31/06	9.67	10/31/06	0.93	10/31/06	48.30
07/31/06	9.96	07/31/06	0.91	07/31/06	47.77



Zacks.com Quotes and Research

SOUTH JERSEY IND (NYSE)

SJ 34.36 ▲0.81 (2.41%) Vol. 174,800 **Scottrade** 14:41 CST

South Jersey Inds Inc. is engaged in the business of operating, through subsidiaries, various business enterprises. The company's most significant subsidiary is South Jersey Gas Company (SJG). SJG is a public utility company engaged in the purchase, transmission and sale of natural gas for residential, commercial and industrial use. SJG also makes off-system sales of natural gas on a wholesale basis to various customers on the interstate pipeline system and transports natural gas.

General Information

SOUTH JERSEY IN
 1 South Jersey Plaza
 Folsom, NJ 08037
 Phone: 609 561-9000
 Fax: 609-704-1608
 Web: www.sjindustries.com
 Email: investorrelations@sjindustries.com

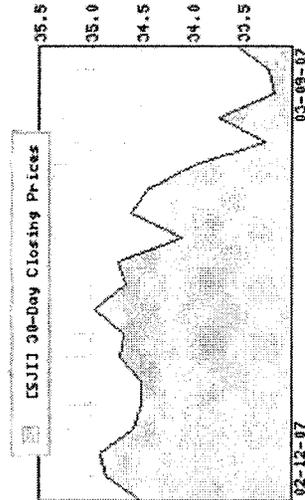
Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Reported Quarter: 12/31/06
 Next EPS Date: 05/11/2007

Price and Volume Information

Zacks Rank: **1.4**
 Yesterday's Close: 33.55
 52 Week High: 34.97
 52 Week Low: 26.00
 Beta: 0.26
 20 Day Moving Average: 163,580.70
 Target Price Consensus: 36

% Price Change
 4 Week: -3.29
 12 Week: -1.01
% Price Change Relative to S&P 500
 4 Week: 0.74
 12 Week: 0.50



YTD	-0.69	YTD	4.02
Share Information			
Shares Outstanding (millions)	29.34	Dividend Yield	2.95%
Market Capitalization (millions)	973.53	Annual Dividend Payout Ratio	\$0.98
Short Ratio	9.33	Change in Payout Ratio	0.50
Last Split Date	03/04/1993	Last Dividend Payout / Amount	0.00
			12/07/2006 / \$0.25

EPS Information			
Current Quarter EPS Consensus Estimate	0.98	Consensus Recommendations	
Current Year EPS Consensus Estimate	1.97	Current (1=Strong Buy, 5=Strong Sell)	1.33
Estimated Long-Term EPS Growth Rate	6.50	30 Days Ago	1.33
Next EPS Report Date	05/11/2007	60 Days Ago	1.33
		90 Days Ago	1.33

Fundamental Ratios			
P/E	16.87	EPS Growth	Sales Growth
Current FY Estimate:	vs. Previous Year	72.50%	vs. Previous Year
Trailing 12 Months:	16.93	vs. Previous Quarter	666.67%
PEG Ratio	2.60	vs. Previous Quarter:	88.14%

Price Ratios			
Price/Book	2.24	ROE	ROA
Price/Cash Flow	12.63	12/31/06	12/31/06
Price / Sales	1.08	09/30/06	09/30/06
		06/30/06	06/30/06

Current Ratio			
12/31/06	-	Quick Ratio	Operating Margin
09/30/06	0.85	12/31/06	12/31/06
06/30/06	0.90	09/30/06	09/30/06
		06/30/06	06/30/06

Net Margin			
12/31/06	-	Pre-Tax Margin	Book Value
09/30/06	8.53	12/31/06	12/31/06
06/30/06	8.37	09/30/06	09/30/06
		06/30/06	06/30/06

Inventory Turnover			
12/31/06	-	Debt-to-Equity	Debt to Capital
09/30/06	6.08	12/31/06	12/31/06
		09/30/06	09/30/06
			45.32

06/30/06	6.67	06/30/06	0.85	06/30/06	45.83
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Zacks.com Quotes and Research

SOUTHWEST GAS CP (NYSE)

SWX 37.70 ▲0.91 (2.47%) Vol. 180,300 **Scotttrade** 15:01 CST

SOUTHWEST GAS CORP. is principally engaged in the business of purchasing, transporting, and distributing natural gas in portions of Arizona, Nevada, and California. The Company also engaged in financial services activities, through PriMerit Bank, Federal Savings Bank (PriMerit or the Bank), a wholly owned subsidiary.

General Information

SOUTHWEST GAS
 5241 Spring Mountain Road
 P.O. Box 98510
 Las Vegas, NV 89193-8510
 Phone: 702 876-7237
 Fax: 702 873-3820
 Web: www.swgas.com
 Email: None

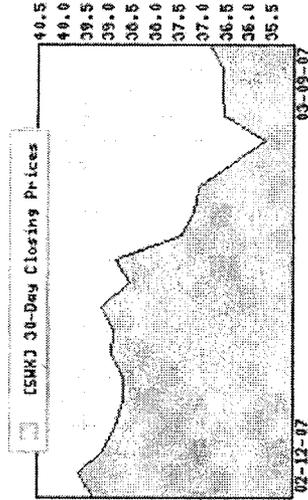
Industry UTIL-GAS DISTR
 Sector Utilities

Fiscal Year End December
 Last Reported Quarter 12/31/06
 Next EPS Date 05/08/2007

Price and Volume Information

Zacks Rank **1**
 Yesterday's Close 36.79
 52 Week High 39.68
 52 Week Low 26.76
 Beta 0.26
 20 Day Moving Average 192,076.70
 Target Price Consensus 37.33

% Price Change
 4 Week -7.71
 12 Week -4.82
 % Price Change Relative to S&P 500
 4 Week -3.86
 12 Week -3.37



YTD	-4.80	YTD	-3.27
Share Information			
Shares Outstanding (millions)	42.00	Dividend Information	
Market Capitalization (millions)	1,534.15	Dividend Yield	2.24%
Short Ratio	8.92	Annual Dividend	\$0.82
Last Split Date	N/A	Payout Ratio	0.41
		Change in Payout Ratio	0.00
		Last Dividend Payout / Amount	02/13/2007 / \$0.20

EPS Information			
Current Quarter EPS Consensus Estimate	1.21	Consensus Recommendations	
Current Year EPS Consensus Estimate	2.17	Current (1=Strong Buy, 5=Strong Sell)	3.00
Estimated Long-Term EPS Growth Rate	-	30 Days Ago	3.00
Next EPS Report Date	05/08/2007	60 Days Ago	3.00
		90 Days Ago	3.00

Fundamental Ratios			
P/E	EPS Growth	Sales Growth	
Current FY Estimate:	16.83 vs. Previous Year	20.65% vs. Previous Year	13.71%
Trailing 12 Months:	18.45 vs. Previous Quarter	526.92% vs. Previous Quarter:	60.64%
PEG Ratio	-		

Price Ratios			
Price/Book	1.81	12/31/06	10.02
Price/Cash Flow	6.93	09/30/06	8.97
Price / Sales	0.76	06/30/06	8.35
Current Ratio			
12/31/06	-	12/31/06	-
09/30/06	-	09/30/06	-
06/30/06	0.75	06/30/06	0.75
Pre-Tax Margin			
12/31/06	-	12/31/06	-
09/30/06	-	09/30/06	-
06/30/06	4.95	06/30/06	4.95

Net Margin			
12/31/06	-	12/31/06	-
09/30/06	-	09/30/06	-
06/30/06	4.95	06/30/06	4.95
Inventory Turnover			
12/31/06	-	12/31/06	-
09/30/06	-	09/30/06	-
Debt-to-Equity			
12/31/06	-	12/31/06	-
09/30/06	-	09/30/06	-
Debt to Capital			
12/31/06	-	12/31/06	-
09/30/06	-	09/30/06	-

Zacks.com

60.71

1.55 06/30/06

- 06/30/06

06/30/06

3/12/2007



Zacks.com Quotes and Research

WGL Holdings (NYSE)

WGL 32.28 ▼ -0.52 (-1.59%) Vol. 110,600 12:43 CST

Scottrade

WASHINGTON GAS LIGHT CO is a public utility that delivers and sells natural gas to metropolitan Washington, D.C. and adjoining areas in Maryland and Virginia. A distribution subsidiary serves portions of Virginia and West Virginia. The Company has four wholly-owned active subsidiaries that include: Shenandoah Gas Company (Shenandoah) is engaged in the delivery and sale of natural gas at retail in the Shenandoah Valley, including Winchester, Middletown, Strasburg, Stephens City and New Market, Virginia, and Martinsburg, West Virginia.

General Information

WGL HLDGS INC
 101 Constitution Ave, N.W
 Washington, DC 20080
 Phone: 703 750-2000
 Fax: 703 750-4828
 Web: www.wglholdings.com
 Email: madams@washgas.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

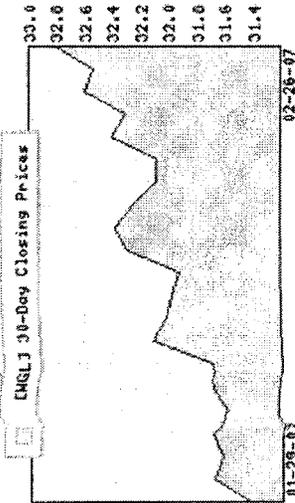
Fiscal Year End: September
 Last Reported Quarter: 12/31/06
 Next EPS Date: 05/09/2007

Price and Volume Information

Zacks Rank: **1.83**
 Yesterday's Close: 32.80
 52 Week High: 33.47
 52 Week Low: 27.38
 Beta: 0.24
 20 Day Moving Average: 239,499.75
 Target Price Consensus: 32

% Price Change
 4 Week: 4.15
 12 Week: -1.36

% Price Change Relative to S&P 500
 4 Week: 1.83
 12 Week: -5.14



YTD	0.06	YTD	-4.02
Share Information			
Shares Outstanding (millions)	48.89	Dividend Yield	4.14%
Market Capitalization (millions)	1,593.68	Annual Dividend	\$1.35
Short Ratio	21.85	Payout Ratio	0.71
Last Split Date	05/02/1995	Change in Payout Ratio	-0.10
		Last Dividend Payout / Amount	01/08/2007 / \$0.34

EPS Information			
Current Quarter EPS Consensus Estimate	1.18	Consensus Recommendations	2.60
Current Year EPS Consensus Estimate	1.79	Current (1=Strong Buy, 5=Strong Sell)	2.67
Estimated Long-Term EPS Growth Rate	3.00	30 Days Ago	2.67
Next EPS Report Date	05/09/2007	60 Days Ago	2.67
		90 Days Ago	2.67

Fundamental Ratios			
P/E	18.21	EPS Growth	Sales Growth
Current FY Estimate:	vs. Previous Year	1.10%	vs. Previous Year
Trailing 12 Months:	17.25	vs. Previous Quarter	611.11%
PEG Ratio	6.07	vs. Previous Quarter:	127.31%

Price Ratios			
Price/Book	1.66	ROE	ROA
Price/Cash Flow	8.43	12/31/06	12/31/06
Price / Sales	1.06	09/30/06	09/30/06
Current Ratio	1.01	06/30/06	06/30/06
12/31/06	1.00	Quick Ratio	Operating Margin
09/30/06	1.17	12/31/06	12/31/06
06/30/06		09/30/06	09/30/06
		06/30/06	06/30/06

Net Margin			
12/31/06	12.32	Pre-Tax Margin	Book Value
09/30/06	5.91	12/31/06	12/31/06
06/30/06	9.88	09/30/06	09/30/06
		06/30/06	06/30/06
Inventory Turnover			
12/31/06	8.74	Debt-to-Equity	Debt to Capital
09/30/06	7.91	12/31/06	12/31/06
		09/30/06	09/30/06

06/30/06	3.29	06/30/06	0.61	06/30/06	37.38
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ATTACHMENT D

Cost-of-Service Rates Manual

Federal Energy Regulatory Commission
888 North Capitol Street, N.E.
Washington, D.C. 20426
United States of America
www.ferc.gov

June 1999

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\$159,602,000, is equity financed. This means that the owners of Pipeline U.S.A. used their own funds to finance this portion of their investment.

** Pipeline U.S.A. issues its own debt which is not guaranteed by its parent, has its own bond rating and its capital structure is comparable to other equity capitalizations approved by the Commission. Therefore, Pipeline U.S.A. meets the Commission's criteria for using its own capital structure for setting its rates.*

Cost of Debt: This refers to the cost of long term debt incurred by the pipeline to construct or expand the pipeline. For ongoing pipelines that have been issuing debt, we use the actual imbedded cost of debt in the capital structure. The actual imbedded cost of debt is the weighted average of all the debt issued and the cost at which the debt was issued. For new pipelines that have indicated that they would issue debt to finance their investment, but have not yet actually issued the debt, we compute the cost of debt based on a projection, or recent historical debt cost such as historical average Baa utility bonds (Moody's Bond Survey), which is the most prevalent rating for utilities. We also use Moody's to compute the cost of debt if we decide use of a hypothetical capital structure is appropriate.

A-8, column 3, shows the cost of debt of Pipeline U.S.A. of 8.25%. The cost of debt represents a return to Pipeline U.S.A.'s bondholders. The debt return dollars appearing in Column 5 represents the cost to Pipeline U.S.A. to pay the interest on the debt to its bondholders. This debt return, or interest on debt, of \$30,723,000 as shown in column (5) is included in the Return component of the cost-of-service.

Return on Equity or Cost of Equity: This is the pipeline's actual profit, or return on its investment. The return on equity is derived from a range of equity returns developed using a Discounted Cash Flow

(DCF) analysis of a proxy group of publicly held natural gas companies. The Commission currently uses a two-stage Discounted Cash Flow (DCF) methodology. The two-stage method projects different rates of growth in projected dividend cash flows for each of the two stages, one stage reflecting short term growth estimates and the other long term growth estimates. These estimates are then weighted, two-thirds for the short-term growth projection and one-third on the long-term growth, and utilized in determining a range of reasonable equity returns. Two-thirds is used for the short-term growth rate on the theory that short-term growth rates are more predictable, and thus deserve a higher weighting than long term growth rate projections. An equity return is then selected within this zone based on an analysis of the company's risk. It is assumed, that most pipelines face risks that would place them in the middle of the zone of reasonableness. However, a case could be made depending on the facts of the specific pipeline that the return on equity should be outside the zone. As an example, a pipeline with a high debt capitalization ratio is usually considered more risky and thus, a higher return on equity would be expected.

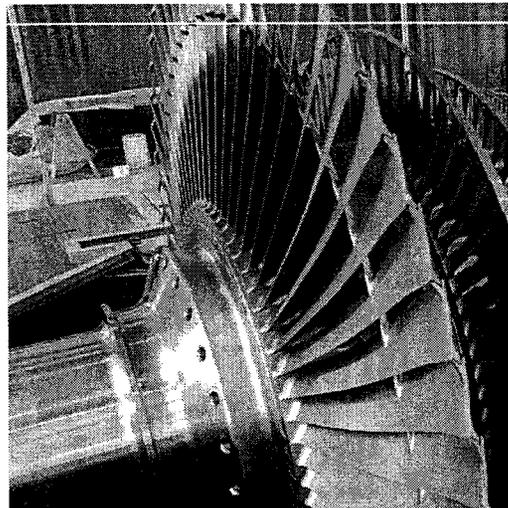
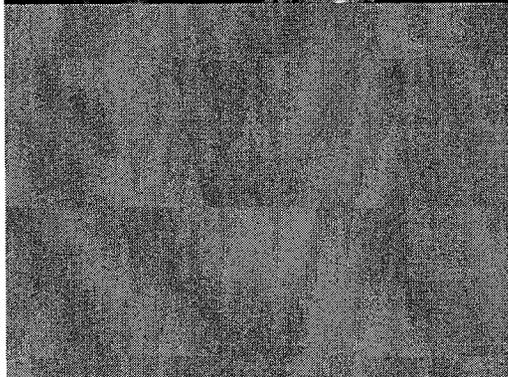
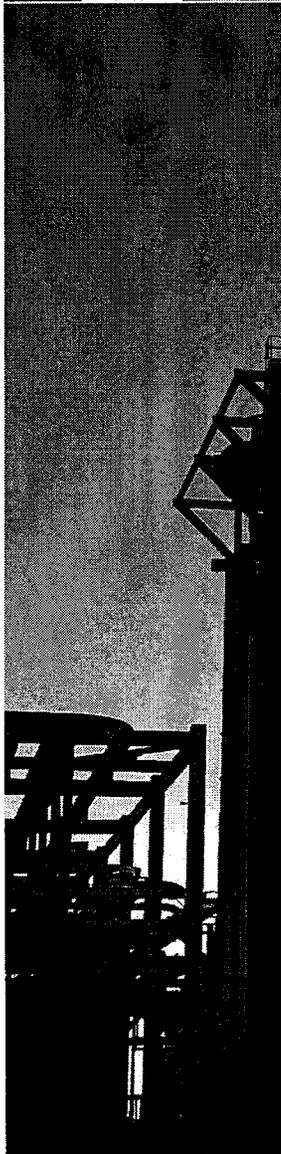
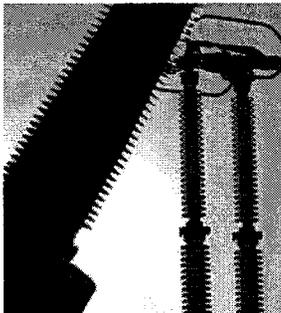
We have determined that a reasonable return on equity for Pipeline U.S.A. is 14.00%. This return was at the high end of our range of equity returns because Pipeline U.S.A. is a relatively new pipeline company with a high debt capitalization ratio. The equity portion of the return permitted to be collected in rates is \$22,344,000 shown in column (5) of A-8.

Pretax Return. Pretax return is the amount earned by a pipeline before income taxes and debt interest payments. Pretax return is often calculated for pipelines and used to further settlement negotiations. Using a pretax return figure can avoid the lengthy discussions and debates that surround the issues of capitalization ratios and ROE calculations and analyses. Use of a pretax return reduces these issues down to one number, a pretax percentage that can easily be compared to other pipeline's pretax returns. The pretax return figure



ATTACHMENT E

UniSource Energy Corporation
Annual Report 2005



Generating Success

Generating

Confidence

Dear Fellow Shareholder,

In many ways, UniSource Energy Corporation is focused on a single, powerful concept: generation.

Utilities use that term to describe power production – the transformation of coal, natural gas, sunlight and other resources into the electricity that powers our modern lives. But generation means much more than power to UniSource Energy.

Our growing utility business generates positive returns for shareholders as it provides safe, reliable energy for customers. Our infusion of capital into Tucson Electric Power (TEP) and UniSource Energy Services (UES) in 2005 generated confidence in our financial standing, including a two-notch upgrade of TEP's credit rating from Moody's Investors Service. Our proposal to extend TEP's current rate agreement through 2010 would generate a level of price stability virtually unprecedented in today's volatile energy market. And our award-winning employee volunteer program continues to generate goodwill in the communities we serve.

In 2006, our commitment to generation will be apparent in its most literal sense. By year's end, we will have added two new plants to TEP's energy generating operations. The new units will complement the expanding operations of TEP and UES, which now combine to serve approximately 613,000 customers across Arizona.

These new facilities have been years in the making, and their completion will mark a historic expansion of our company's generating operations. But as our progress in other areas makes clear, UniSource Energy isn't just producing power – we're generating success.

Construction of a third unit at TEP's coal-fired Springerville Generating Station (SGS) remains on track with an accelerated timeline that calls for the 400-megawatt (MW) unit to be brought online during the third quarter of 2006. Crews working under the direction of project contractor Bechtel have made steady progress without sacrificing quality or safety. Through the end of 2005, workers had logged more than three million hours on the project without a single lost-time accident.

TEP will operate Unit 3. It also will purchase up to 100 MW of the unit's capacity for up to five years from Tri-State Generation and Transmission Association, a wholesale power cooperative that will lease the completed unit from a financial owner and control its output. In this way, we can capitalize on the expertise we've developed during two decades of power production at SGS while spreading the fixed costs of existing common facilities across an additional unit.

Phoenix-based Salt River Project (SRP), which will purchase 100 MW of Unit 3's output, also holds the right to build a fourth unit at SGS – a 400-MW generator that would be owned by SRP and operated by TEP. SRP has sought more time to evaluate its need for the unit's output.

While Unit 3 is still months away from completion, the expansion of SGS already has delivered significant benefits to TEP. As part of the project, Tri-State funded environmental improvements to Units 1 and 2 to ensure that the total regulated emissions from all four planned units will be significantly lower than previous emissions from the two existing 380-MW units.

Generating

Growth

While the effects of those improvements are difficult to detect with the naked eye, they've had a noticeable impact on our bottom line. The reduction in sulfur dioxide (SO₂) output left TEP with a surplus of emissions allowances at a time when the price of this traded commodity was rising. The sale of SO₂ allowances contributed a \$13 million pretax gain to TEP's results in 2005, and we're anticipating additional sales in 2006 and beyond.

The new gas-fired Luna Energy Facility, meanwhile, has been built from the ground up with state-of-the-art emissions controls and a combined cycle design that ensures it will serve as a clean, efficient source of power for decades to come.

TEP will share ownership of the facility with Phelps Dodge Energy Services and PNM, an Albuquerque-based utility. PNM will oversee operations of the plant, which is located two miles north of Deming in southern New Mexico. TEP and its partners each hold a one-third stake in the 570-MW facility and will split its output three ways.

Duke Energy had begun construction of the facility in October 2001, but it suspended work about a year later after investing \$275 million in the project. TEP, Phelps Dodge and PNM bought the unfinished plant in November 2004 for \$40 million. TEP invested about \$50 million of internally generated cash toward the purchase and completion of the facility.

The power TEP will receive from both Luna and SGS 3 will expand our wholesale sales opportunities while ensuring our ability to meet the growing needs of our retail customers. Electric usage by TEP customers peaked at 2,225 MW in the summer of 2005, a nearly 7 percent increase over the previous year's peak. Usage should continue to rise along with Tucson's population. TEP's customer base is growing between 2 and 3 percent each year, well ahead of the nation's 1 percent annual population growth rate.

TEP has served this growth without sacrificing reliability or customer service. Our ability to minimize outages and to restore service promptly when interruptions do occur ranked well ahead of recent regional averages in 2005. Meanwhile, TEP once again finished among the leaders in customer satisfaction for western electric utilities last year, according to J.D. Power and Associates' 2005 Electric Utility Residential Customer Satisfaction Study.

Growth also is a defining characteristic of UniSource Energy Services, which serves some of Arizona's fastest growing communities. UES' gas utility, which operates in northern Arizona as well as Santa Cruz County on the U.S.-Mexico border, enjoyed greater than 4 percent customer growth last year. The customer base for the company's electric operations in Santa Cruz and Mohave Counties grew nearly 5 percent in 2005.

To help TEP and UES manage these dramatic growth levels, we completed a financial restructuring in 2005 that bolstered the stability of both utilities. Taking advantage of favorable financial markets, UniSource Energy issued \$240 million in debt and used the proceeds, along with internal cash, to retire \$320 million of debt obligations at TEP while contributing \$20 million to UNS Electric and UNS Gas, the operating subsidiaries of UES. The transactions significantly improved the equity position of TEP while providing additional resources to help UES fund its growing needs.

Generating

Stability

While skyrocketing natural gas prices and other cost increases have put upward pressure on utility expenses, retail customers of both TEP and UES enjoy the stability and predictability that come from long-term rate freezes. The base rates for UES service are frozen through at least August 2007, while TEP's rates are capped through the end of 2008.

Rising operational costs and increasing capital investments will compel us to file requests later this year for increased UES gas and electric rates that would take effect after the current rate freeze expires. In the meantime, we've asked the Arizona Corporation Commission (ACC) to update the formula used to calculate how wholesale gas costs are passed along to UNS Gas customers. At times, the current formula hasn't kept up with dramatic price increases, delaying recovery of our gas purchase costs.

For TEP, though, we're looking to extend the period of rate stability for customers for another two years. We've asked the ACC to maintain TEP's current rates through 2010 with the addition of an energy cost provision that would take effect in 2009. This new mechanism would help account for changes in market power costs since the settlement agreement establishing TEP's current rates was signed in 1999. This proposed extension was designed to provide TEP with some protection from market volatility while sparing customers from dramatic cost increases that could result from the initiation of market pricing contemplated under that settlement agreement.

The extended cap on TEP's rates has not prevented our Board of Directors from rewarding shareholders with rising dividend payments. Earlier this year, the Board voted to increase the quarterly payments to \$0.21 per share, the sixth annual increase since the dividend was established at \$.08 per share in 2000.

The Board's vote of confidence is particularly meaningful in light of our disappointing financial performance in 2005. UniSource Energy's year-end earnings of \$46.1 million, or \$1.33 per basic share of common stock, reflect the heavy toll of an extended shutdown of SGS Unit 2 and other plant outages. The unplanned outage struck SGS Unit 2 in August, when customer demand was high and energy prices were boosted by the impact of Gulf Coast hurricane activity. The outage contributed to an 82 percent increase in TEP's purchased power expense in 2005, offsetting our utility revenue growth and the benefits of our financial restructuring.

As a result, we did not achieve my 2005 earnings goal of \$1.50 to \$1.75 per share. And while the \$276 million in operating cash produced by UniSource Energy was strong by most measures, it fell short of my \$300 million goal for the year. Despite this shortfall, we internally funded our entire capital expenditure requirements of \$203 million, including the Luna Energy Facility project.

I was further disappointed by increased losses at Millennium Energy Holdings, which contains UniSource Energy's unregulated investments. The increase was almost entirely due to higher costs at Global Solar Energy, a company that develops thin-film photovoltaic material. We have agreed to sell Global Solar in a transaction that would allow us to repurchase between 5 and 10 percent of the company for a nominal fee, giving us an opportunity to capitalize on its future success. The sale is consistent with our strategy of scaling back Millennium's involvement in actively managed investments to focus on UniSource Energy's core utility operations.

Generating

Goodwill

That focus will continue to include a strong emphasis on community service. Employees at both TEP and UES joined their friends and families in contributing nearly 39,000 hours of their own time to charitable activities in 2005. We've also asked our employees to provide direction for UniSource Energy's corporate giving program, rewarding their efforts with critical support for the causes most important to them. This strategy, which continues to attract significant national acclaim, has served to strengthen the bonds between our employees and the communities we serve together.

Our bond with some of TEP's most critical employees was solidified earlier this year when the International Brotherhood of Electrical Workers Local 1116 ratified a comprehensive three-year labor agreement. The agreement, which will remain in effect through January 2009, provides a balanced wage and benefit package that serves the long-term interests of both the company and our employees.

With a committed work force, a solid financial base and expanding utility operations, UniSource Energy is in a strong position to produce improving results in 2006 and beyond. In addition to the completion of SGS 3 and the Luna Energy Facility, my goals for this year include improved availability from our existing generating units, particularly during the critical summer months. We'll also press for resolution of the disagreement over the basis of TEP's future rates while addressing the need to increase the rates charged by UNS Gas and UNS Electric.

Other goals include the successful implementation of a new billing system that will improve customer service and streamline the operations of TEP, UNS Gas and UNS Electric. The upgrade, which replaces three separate older systems, is a highlight of our ongoing campaign to improve our business processes – an effort that will receive even greater emphasis this year. The success of these measures and the continued growth of our utility businesses should help us achieve year-end earnings between \$1.65 and \$2.05 per share for 2006.

I would like to thank you, my fellow shareholders, for your continued faith in UniSource Energy. I would also like to thank our employees, who have pursued our goals with admirable resolve. Together, we've invested in our future and followed a course that leaves us poised to capitalize on growth instead of falling victim to it. Such strategic planning is key for regulated utilities because we operate in a unique environment; unlike other companies, we provide a product far more valuable than the price our customers pay. In so doing, we create significant benefits for customers at the same time we're producing value for our shareholders. In 2006 and beyond, UniSource Energy will remain committed to generating success on both these fronts.

Your fellow shareholder,



James S. Pignatelli
Chairman, President and CEO
UniSource Energy Corporation



UNS GAS, INC.

DOCKET NO. G-04204A-06-0463

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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%	6.60%	3.30%
2	PREFERRED STOCK	-	-	-	0.00%	0.00%	0.00%
3	COMMON EQUITY	98,859	-	98,859	50.00%	9.84%	4.92%
4	TOTAL CAPITALIZATION	\$ 197,718	\$ -	\$ 197,718	100.00%		

5 WEIGHTED COST OF CAPITAL

8.22%

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 - TESTIMONY, WAR; LINE 3 - SCHEDULE WAR-1, PAGE 2
- COLUMN (F): COLUMN (D) x COLUMN (E)

COST OF COMMON EQUITY CALCULATION

<u>LINE NO.</u>			
1	<u>DCF METHODOLOGY</u>		
2	DCF - SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	9.16%	SCHEDULE WAR-2, COLUMN (C), LINE 11
3	<u>CAPM METHODOLOGY</u>		
4	CAPM - GEOMETRIC MEAN ESTIMATE	9.68%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 11
5	CAPM - ARITHMETIC MEAN ESTIMATE	<u>11.33%</u>	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 11
6	AVERAGE OF CAPM ESTIMATES	10.51%	(LINE 4 + LINE 5) + 2
7	<u>AVERAGE</u>	<u>9.84%</u>	(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
 SURREBUTTAL 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.	4.00%	+	5.99%	=	9.99%
2	ATO	ATMOS ENERGY CORPORATION	4.02%	+	5.54%	=	9.57%
3	LG	LACLEDE GROUP, INC.	4.66%	+	3.71%	=	8.37%
4	NJR	NEW JERSEY RESOURCES CORP.	3.11%	+	6.14%	=	9.25%
5	GAS	NICOR, INC.	3.99%	+	3.71%	=	7.70%
6	NWN	NORTHWEST NATURAL GAS CO.	3.29%	+	5.09%	=	8.38%
7	PNY	PIEDMONT NATURAL GAS COMPANY	3.67%	+	3.69%	=	7.36%
8	SJI	SOUTH JERSEY INDUSTRIES, INC.	2.77%	+	11.17%	=	13.94%
9	SWX	SOUTHWEST GAS CORP.	2.25%	+	7.22%	=	9.47%
10	WGL	WGL HOLDINGS, INC.	4.29%	+	3.33%	=	7.62%
11	NATURAL GAS LDC AVERAGE						9.16%

REFERENCES:
 COLUMN (A): SCHEDULE WAR - 3, COLUMN C
 COLUMN (B): SCHEDULE WAR - 4, PAGE 1, COLUMN C

UNS GAS, INC.
 TEST YEAR ENDED DECEMBER 31, 2005
 DIVIDEND YIELD CALCULATION

DOCKET NO. G-04204A-06-0463
 SURREBUTTAL 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.	\$1.64 +	\$40.99 =	4.00%
2	ATO	ATMOS ENERGY CORPORATION	1.28 +	31.83 =	4.02%
3	LG	LACLEDE GROUP, INC.	1.46 +	31.32 =	4.66%
4	NJR	NEW JERSEY RESOURCES CORP.	1.52 +	48.91 =	3.11%
5	GAS	NICOR, INC.	1.86 +	46.61 =	3.99%
6	NWN	NORTHWEST NATURAL GAS CO.	1.42 +	43.14 =	3.29%
7	PNY	PIEDMONT NATURAL GAS COMPANY	0.96 +	26.15 =	3.67%
8	SJI	SOUTH JERSEY INDUSTIES, INC.	0.96 +	34.65 =	2.77%
9	SWX	SOUTHWEST GAS CORP.	0.86 +	38.29 =	2.25%
10	WGL	WGL HOLDINGS, INC.	1.36 +	31.71 =	4.29%
11	NATURAL GAS LDC AVERAGE				3.61%

REFERENCES:

COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 03/16/2006.

COLUMN (B): EIGHT WEEK AVERAGE OF CLOSING PRICES FROM 01/28/2007 TO 03/23/2007

COLUMN (C): STOCK QUOTES OBTAINED THROUGH BIG CHARTS WEB SITE - HISTORICAL QUOTES (www.bigcharts.com)

UNS GAS, INC.
 TEST YEAR ENDED DECEMBER 31, 2005
 DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. G-04204A-06-0463
 SURREBUTTAL SCHEDULE WAR - 4
 PAGE 1 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) INTERNAL GROWTH (br)	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	ATG	AGL RESOURCES, INC.	5.75%	+	0.24%	=	5.99%
2	ATO	ATMOS ENERGY CORPORATION	4.50%	+	1.04%	=	5.54%
3	LG	LACLEDE GROUP, INC.	3.00%	+	0.71%	=	3.71%
4	NJR	NEW JERSEY RESOURCES CORP.	5.50%	+	0.64%	=	6.14%
5	GAS	NICOR, INC.	3.65%	+	0.06%	=	3.71%
6	NWN	NORTHWEST NATURAL GAS CO.	4.75%	+	0.34%	=	5.09%
7	PNY	PIEDMONT NATURAL GAS COMPANY	3.25%	+	0.44%	=	3.69%
8	SJI	SOUTH JERSEY INDUSTRIES, INC.	10.50%	+	0.67%	=	11.17%
9	SWX	SOUTHWEST GAS CORP.	6.25%	+	0.97%	=	7.22%
10	WGL	WGL HOLDINGS, INC.	3.25%	+	0.08%	=	3.33%
11	NATURAL GAS LDC AVERAGE						5.56%

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

DOCKET NO. G-04204A-06-0463
 SURREBUTTAL SCHEDULE WAR - 4
 PAGE 2 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) SHARE GROWTH	(B) $\{ [((M + B) + 1) + 2] - 1 \}$	(C) EXTERNAL GROWTH (sv)
1	ATG	AGL RESOURCES, INC.	0.50%	$\{ [((1.96) + 1) + 2] - 1 \}$	= 0.24%
2	ATO	ATMOS ENERGY CORPORATION	5.00%	$\{ [((1.42) + 1) + 2] - 1 \}$	= 1.04%
3	LG	LACLEDE GROUP, INC.	2.75%	$\{ [((1.51) + 1) + 2] - 1 \}$	= 0.71%
4	NJR	NEW JERSEY RESOURCES CORP.	1.25%	$\{ [((2.03) + 1) + 2] - 1 \}$	= 0.64%
5	GAS	NICOR, INC.	0.10%	$\{ [((2.27) + 1) + 2] - 1 \}$	= 0.06%
6	NWN	NORTHWEST NATURAL GAS CO.	0.75%	$\{ [((1.90) + 1) + 2] - 1 \}$	= 0.34%
7	PNY	PIEDMONT NATURAL GAS COMPANY	0.75%	$\{ [((2.18) + 1) + 2] - 1 \}$	= 0.44%
8	SJI	SOUTH JERSEY INDUSTRIES, INC.	1.15%	$\{ [((2.16) + 1) + 2] - 1 \}$	= 0.67%
9	SWX	SOUTHWEST GAS CORP.	2.65%	$\{ [((1.73) + 1) + 2] - 1 \}$	= 0.97%
10	WGL	WGL HOLDINGS, INC.	0.25%	$\{ [((1.68) + 1) + 2] - 1 \}$	= 0.08%
11	NATURAL GAS LDC AVERAGE				0.52%

REFERENCES:
 COLUMN (A): TESTIMONY, WAR
 COLUMN (B): VALUE LINE INVESTMENT SURVEY RATINGS & REPORTS DATED 03/16/2006
 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
SURREBUTTAL SCHEDULE WAR - 5
PAGE 1 OF 3

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (c) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	ATG	AGL RESOURCES, INC.	2002	0.4066	14.50%	5.90%	12.52	56.70	
2			2003	0.4663	14.00%	6.53%	14.66	64.50	
3			2004	0.4956	11.00%	5.45%	18.06	76.70	
4			2005	0.4758	12.90%	6.14%	19.29	77.70	
5			2006	0.4559	13.00%	5.93%	20.69	77.75	
6			GROWTH 2002 - 2006			5.99%	8.50%		8.21%
7			2007	0.4143	13.50%	5.59%		78.00	0.32%
8			2008	0.4345	14.00%	6.08%		79.00	0.80%
9			2010-12	0.4194	14.00%	5.87%	2.50%	80.00	0.57%
10									
11	ATO	ATMOS ENERGY CORPORATION	2002	0.1862	10.40%	1.94%	13.75	41.68	
12			2003	0.2982	9.30%	2.77%	16.66	51.48	
13			2004	0.2278	7.60%	1.73%	18.05	62.80	
14			2005	0.2791	8.50%	2.37%	19.90	80.54	
15			2006	0.3700	9.90%	3.66%	20.16	91.74	
16			GROWTH 2002 - 2006			2.50%	8.50%		18.34%
17			2007	0.3600	9.00%	3.24%		89.50	9.49%
18			2008	0.3810	9.50%	3.62%		92.50	6.38%
19			2010-12	0.4600	10.00%	4.60%	4.00%	107.00	5.53%
20									
21	LG	LACLEDE GROUP, INC.	2002	-0.1356	7.80%	NMF	15.07	18.96	
22			2003	0.2637	11.60%	3.06%	15.65	19.11	
23			2004	0.2582	10.10%	2.61%	16.96	20.98	
24			2005	0.2789	10.90%	3.04%	17.31	21.17	
25			2006	0.4093	12.50%	5.12%	18.85	21.36	
26			GROWTH 2002 - 2006			3.46%	3.50%		3.02%
27			2007	0.2368	9.00%	2.13%		21.50	0.66%
28			2008	0.2550	9.50%	2.42%		22.00	1.49%
29			2010-12	0.3191	10.00%	3.19%	5.00%	25.00	3.20%
30									
31	NJR	NEW JERSEY RESOURCES CORP.	2002	0.4258	15.70%	6.69%	13.06	27.67	
32			2003	0.4790	15.60%	7.47%	15.38	27.23	
33			2004	0.4902	15.30%	7.50%	16.87	27.74	
34			2005	0.4868	17.00%	8.28%	15.90	27.55	
35			2006	0.4857	12.60%	6.12%	22.50	27.63	
36			GROWTH 2002 - 2006			7.21%	8.50%		-0.04%
37			2007	0.4759	12.50%	5.95%		28.00	1.34%
38			2008	0.4800	12.00%	5.76%		28.50	1.56%
39			2010-12	0.4667	11.00%	5.13%	8.00%	29.50	1.32%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
RATINGS & REPORTS DATED 03/16/2007
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (D): 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

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(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.	2002	0.3611	17.50%	6.32%	16.55	44.01	
2			2003	0.1185	12.30%	1.46%	17.13	44.04	
3			2004	0.1622	13.10%	2.12%	16.99	44.10	
4			2005	0.1878	12.50%	2.35%	18.36	44.18	
5			2006	0.3861	14.00%	5.41%	19.35	44.70	0.39%
6			[GROWTH 2002 - 2006			3.53%	1.50%		-0.22%
7			2007	0.2963	13.00%	3.85%		44.60	0.00%
8			2008	0.3091	13.00%	4.02%		44.70	0.00%
9			2010-12	0.3103	12.00%	3.72%	4.50%	45.00	0.13%
10									
11	NWN	NORTHWEST NATURAL GAS CO.	2002	0.2222	8.50%	1.89%	18.88	25.59	
12			2003	0.2784	9.00%	2.51%	19.52	25.94	
13			2004	0.3011	8.90%	2.68%	20.64	27.55	
14			2005	0.3744	9.90%	3.71%	21.28	27.58	
15			2006	0.3930	10.60%	4.17%	21.96	27.28	
16			[GROWTH 2002 - 2006			2.99%	3.50%		1.61%
17			2007	0.4000	10.50%	4.20%		27.50	0.81%
18			2008	0.4118	11.00%	4.53%		27.50	0.40%
19			2010-12	0.3898	12.00%	4.68%	3.50%	29.00	1.23%
20									
21	PNY	PIEDMONT NATURAL GAS COMPANY	2002	0.1579	10.60%	1.67%	8.91	66.18	
22			2003	0.2613	11.80%	3.08%	9.36	67.31	
23			2004	0.3307	11.10%	3.67%	11.15	76.67	
24			2005	0.3106	11.50%	3.57%	11.53	76.70	
25			2006	0.2520	11.00%	2.77%	11.83	74.61	
26			[GROWTH 2002 - 2006			2.95%	6.50%		3.04%
27			2007	0.2929	11.50%	3.37%		73.80	-1.09%
28			2008	0.2897	11.50%	3.33%		73.00	-1.08%
29			2010-12	0.2581	11.50%	2.97%	2.50%	71.80	-0.76%
30									
31	SJI	SOUTH JERSEY INDUSTRIES, INC.	2002	0.3852	12.50%	4.82%	9.67	24.41	
32			2003	0.4307	11.60%	5.00%	11.26	26.46	
33			2004	0.4810	12.50%	6.01%	12.41	27.76	
34			2005	0.4971	12.40%	6.16%	13.50	28.98	
35			2006	0.6260	16.30%	10.20%	15.12	29.30	
36			[GROWTH 2002 - 2006			6.44%	13.00%		4.67%
37			2007	0.6370	17.00%	10.83%		29.60	1.02%
38			2008	0.6379	17.00%	10.84%		30.00	1.19%
39			2010-12	0.6364	17.50%	11.14%	5.00%	31.00	1.13%

REFERENCES:
 COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 03/16/2007
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (D): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2002 - 2006
 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
 SURREBUTTAL SCHEDULE WAR - 5
 PAGE 3 OF 3

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (f) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	SWX	SOUTHWEST GAS CORP.	2002	0.2931	6.50%	1.91%	17.91	33.29	
2			2003	0.2743	6.10%	1.67%	18.42	34.23	
3			2004	0.5060	8.30%	4.20%	19.18	36.79	
4			2005	0.3440	6.40%	2.20%	19.10	39.33	
5			2006	0.5859	9.00%	5.27%	21.58	41.77	
6			[GROWTH 2002 - 2006				3.00%		5.84%
7			2007	0.5943	9.50%	5.65%		43.00	2.94%
8			2008	0.6178	10.00%	6.18%		44.00	2.63%
9			2010-12	0.6538	10.00%	6.54%	4.00%	47.50	2.60%
10									
11	WGL	WGL HOLDINGS, INC.	2002	-0.1140	7.20%	NMF	15.78	48.56	
12			2003	0.4435	7.20%	3.19%	16.25	48.63	
13			2004	0.3434	11.70%	4.02%	16.95	48.67	
14			2005	0.3744	12.00%	4.49%	17.80	48.65	
15			2006	0.3093	10.20%	3.15%	18.28	48.89	
16			[GROWTH 2002 - 2006				3.71%		0.17%
17			2007	0.2959	10.50%	3.11%	3.00%	48.91	0.04%
18			2008	0.3073	10.70%	3.29%		48.92	0.03%
19			2010-12	0.3409	10.50%	3.58%	3.00%	49.00	0.04%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
 - RATINGS & REPORTS DATED 03/16/2007
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (C): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2002 - 2006

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

NATURAL GAS LDC SAMPLE:

LINE NO.	STOCK SYMBOL	(A)		(B)		(C)		(D)		(E)		(F)		
		(br)	(sv)	ZACKS	EPS	VALUE LINE PROJECTED	BVPS	EPS	VALUE LINE HISTORIC	BVPS	VALUE LINE & ZACKS AVGS.	EPS	5 - YEAR COMPOUND HISTORY	DPS	BVPS
1	ATG	5.99%	5.00%	5.00%	3.50%	5.50%	2.50%	13.50%	2.00%	8.50%	5.79%	10.57%	8.20%	13.38%
2	ATO	5.54%	5.30%	5.00%	5.00%	1.50%	4.00%	10.00%	2.00%	8.50%	5.19%	8.37%	1.65%	10.04%
3	LG	3.71%	-	2.00%	2.00%	2.50%	5.00%	6.50%	0.50%	3.50%	3.33%	19.05%	1.10%	5.75%
4	NJR	6.14%	6.00%	2.50%	8.00%	3.00%	8.00%	8.00%	3.50%	8.50%	5.64%	7.59%	4.66%	14.57%
5	GAS	3.71%	2.00%	4.00%	4.00%	1.00%	4.50%	-3.50%	3.50%	1.50%	1.86%	1.28%	0.27%	3.99%
6	NWN	5.09%	5.30%	7.00%	3.00%	4.00%	3.50%	5.00%	1.00%	3.50%	4.19%	9.04%	2.49%	3.85%
7	PNY	3.69%	5.50%	3.00%	3.00%	4.00%	2.50%	5.00%	5.00%	6.50%	4.50%	7.53%	4.39%	7.34%
8	SJI	11.17%	6.50%	9.50%	5.00%	5.50%	5.00%	11.50%	2.50%	13.00%	7.64%	19.16%	5.24%	11.82%
9	SWX	7.22%	-	8.00%	4.00%	1.50%	4.00%	-0.50%	-	3.00%	3.20%	14.30%	-	4.77%
10	WGL	3.33%	3.00%	1.00%	3.00%	1.50%	3.00%	6.00%	1.50%	3.00%	2.71%	14.22%	1.35%	3.75%
11	AVERAGES	5.56%	4.83%	4.55%	4.20%	3.00%	4.20%	6.15%	2.39%	5.95%	4.40%	11.11%	2.93%	7.93%
12	AVERAGES	5.56%	4.83%	4.55%	4.20%	3.92%	4.83%	6.15%	2.39%	5.95%	4.40%	11.11%	2.93%	7.93%

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 03/16/2007
- COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 03/16/2007
- 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 03/16/2007

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	(A)				(B)	
		$k = r_f$	$+ [\beta$	$\times (r_m - r_f)$	$=$	EXPECTED RETURN	
1	ATG	$k = 5.10\%$	$+ [0.95$	$\times (10.40\% - 5.10\%)] =$	$=$	10.13%	
2	ATO	$k = 5.10\%$	$+ [0.80$	$\times (10.40\% - 5.10\%)] =$	$=$	9.34%	
3	LG	$k = 5.10\%$	$+ [0.85$	$\times (10.40\% - 5.10\%)] =$	$=$	9.60%	
4	NJR	$k = 5.10\%$	$+ [0.80$	$\times (10.40\% - 5.10\%)] =$	$=$	9.34%	
5	GAS	$k = 5.10\%$	$+ [1.30$	$\times (10.40\% - 5.10\%)] =$	$=$	11.99%	
6	NWN	$k = 5.10\%$	$+ [0.75$	$\times (10.40\% - 5.10\%)] =$	$=$	9.07%	
7	PNY	$k = 5.10\%$	$+ [0.80$	$\times (10.40\% - 5.10\%)] =$	$=$	9.34%	
8	SJI	$k = 5.10\%$	$+ [0.70$	$\times (10.40\% - 5.10\%)] =$	$=$	8.81%	
9	SWX	$k = 5.10\%$	$+ [0.85$	$\times (10.40\% - 5.10\%)] =$	$=$	9.60%	
10	WGL	$k = 5.10\%$	$+ [0.85$	$\times (10.40\% - 5.10\%)] =$	$=$	9.60%	
11	NATURAL GAS LDC AVERAGE				0.87		9.68%

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

- WHERE:
- k = THE EXPECTED RETURN ON A GIVEN SECURITY
 - r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
 - β = 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 02/23/2007 THROUGH 03/30/2007 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE MARKET RATE PROXY USED WAS THE GEOMETRIC 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	+	[	β	x	(	r _m	-	r _f	)	=	(B) EXPECTED RETURN
1	ATG	k	=	5.10%	+	[	0.95	x	(	12.30%	-	5.10%	)	=	11.94%
2	ATO	k	=	5.10%	+	[	0.80	x	(	12.30%	-	5.10%	)	=	10.86%
3	LG	k	=	5.10%	+	[	0.85	x	(	12.30%	-	5.10%	)	=	11.22%
4	NJR	k	=	5.10%	+	[	0.80	x	(	12.30%	-	5.10%	)	=	10.86%
5	GAS	k	=	5.10%	+	[	1.30	x	(	12.30%	-	5.10%	)	=	14.46%
6	NWN	k	=	5.10%	+	[	0.75	x	(	12.30%	-	5.10%	)	=	10.50%
7	PNY	k	=	5.10%	+	[	0.80	x	(	12.30%	-	5.10%	)	=	10.86%
8	SJI	k	=	5.10%	+	[	0.70	x	(	12.30%	-	5.10%	)	=	10.14%
8	SWX	k	=	5.10%	+	[	0.85	x	(	12.30%	-	5.10%	)	=	11.22%
9	WGL	k	=	5.10%	+	[	0.85	x	(	12.30%	-	5.10%	)	=	11.22%
10	NATURAL GAS LDC AVERAGE						<u>0.87</u>								<u>11.33%</u>

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
 r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
 β = 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 SURVEYS "SELECTION & OPINIONS" PUBLICATION FROM 02/23/2007 THROUGH 03/30/2007 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%	3.38%	7.59%	8.02%
13	2002	2.40%	1.60%	4.67%	1.17%	1.66%	1.60%	1.60%	7.41%	7.98%
14	2003	1.90%	2.50%	4.12%	2.03%	1.13%	1.01%	1.01%	6.18%	6.64%
15	2004	3.30%	3.90%	4.34%	2.35%	1.35%	1.37%	1.37%	5.77%	6.20%
16	2005	3.40%	3.20%	6.16%	4.16%	3.16%	3.17%	3.17%	5.38%	5.78%
17	2006	2.50%	3.30%	7.97%	5.97%	4.97%	4.83%	4.83%	5.94%	6.30%
18	CURRENT	2.50%	2.50% (a)	8.25%	6.25%	5.25%	5.03%	4.72%	5.86%	6.01%

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 03/30/2007
 COLUMN (G) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 03/30/2007
 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

UNSGAS, INC.
 TEST YEAR ENDED DECEMBER 31, 2005
 CAPITAL STRUCTURES OF SAMPLE COMPANIES

DOCKET NO. G-04204A-06-0463
 SURREBUTTAL 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	\$ 317.2	42.0%	\$ 1,071.8	56.9%
2										
3	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.9	0.0	0.0%	0.6	0.0%
4										
5	COMMON EQUITY	1,499.0	48.1%	2,183.1	57.7%	366.5	438.1	58.0%	811.3	43.1%
6										
7	TOTALS	\$ 3,114.0	100%	\$ 3,785.5	100%	\$ 707.9	\$ 755.3	100%	\$ 1,883.7	100%
8										
9										
10		NWN	PCT.	PNY	PCT.	SJI	SWX	PCT.	WGL	PCT.
11										
12	DEBT	\$ 521.5	47.0%	\$ 625.0	41.4%	\$ 328.9	\$ 1,224.9	59.0%	\$ 584.2	38.8%
13										
14	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	1.6	100.0	4.8%	28.2	1.9%
15										
16	COMMON EQUITY	586.9	53.0%	884.2	58.6%	344.4	751.1	36.2%	894.0	59.3%
17										
18	TOTALS	\$ 1,108.4	100%	\$ 1,509.2	100%	\$ 674.9	\$ 2,076.0	100%	\$ 1,506.4	100%
19										
20										
21		NATURAL GAS LDC								
22	AVERAGE		PCT.							
23										
24	DEBT	\$ 823.1	48.1%							

UNS GAS, INC.

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

SURREBUTTAL TESTIMONY

OF

RODNEY L. MOORE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 4, 2007

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21 SURREBUTTAL SCHEDULES

1 **INTRODUCTION**

2 Q. Please state your name for the record.

3 A. My name is Rodney Lane Moore.

4

5 Q. Have you previously filed testimony regarding this docket?

6 A. Yes, I have. I filed direct testimony in this docket on February 9, 2007.

7

8 Q. What is the purpose of your surrebuttal testimony?

9 A. My surrebuttal testimony will address the Company's rebuttal comments
10 pertaining to adjustments I sponsored in my direct testimony.

11

12 **SUMMARY OF ADJUSTMENTS**

13 Q. What areas will you address in your surrebuttal testimony?

14 A. My surrebuttal testimony will address the following RUCO proposed
15 adjustments:

16 Rate Base:

17 Adjustment No. 1 – Pre-Acquisition Plant And Accumulated
18 Depreciation

19 Adjustment No. 2 – Test-Year Accumulated Depreciation

20 Operating Income:

21 Adjustment No. 2 – Incentive Compensation

22 Adjustment No. 3 – Test-Year Depreciation Expense

23 Adjustment No. 4 – Postage Expense

24 Adjustment No. 5 – Customer Service Cost Allocation

25 Adjustment No. 6 – Unnecessary Expenses

26 Adjustment No. 7 – Property Tax Computation

- 1 Adjustment No. 8 – Rate Case Expense
- 2 Adjustment No. 10 – Non-Recurring/Atypical Expenses
- 3 Adjustment No. 11 - SERP
- 4 Adjustment No. 22 – Income Tax Calculation
- 5

6 To support the adjustments in my surrebuttal testimony, I have revised
7 specific direct testimony Schedules and prepared Surrebuttal Schedules
8 numbered SURR RLM-1, SURR RLM-2, SURR RLM-3, SURR RLM-6,
9 SURR RLM-7, SURR RLM-9, and SURR RLM-14 through SURR RLM-17,
10 which are filed concurrently in my surrebuttal testimony.

11
12 These Schedules quantify the adjustments recommended in RUCO's
13 surrebuttal testimonies and consist of revisions to:

- 14 1. Allowance For Working Capital to reflect changes in the operating
15 expenses associated with the surrebuttal adjustments;
- 16 2. Postage Expense to reflect computations based on the Company's
17 rebuttal testimony;
- 18 3. Legal Expenses to reflect calculation error identified by the
19 Company;
- 20 4. Income Tax Expense to reflect changes in the operating expenses
21 associated with the surrebuttal adjustments;
- 22 5. Rate Design, Proof of Recommended Revenue and Typical Bill
23 Analysis to reflect changes in the operating expenses associated
24 with the surrebuttal adjustments; and

1 6. Cost of Capital to reflect current market conditions.

2

3 **RATE BASE**

4 RUCO Rate Base Adjustment No. 1 – Remove Unsubstantiated Pre-
5 Acquisition Gross Plant and Adjust Understated Accumulated
6 Depreciation

7 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
8 adjustment to remove unsubstantiated pre-acquisition gross plant and
9 adjust understated accumulated depreciation?

10 A. No. RUCO has empathy for the Company's dilemma to provide adequate
11 documentation to substantiate all the perceived plant assets theoretically
12 incorporated as an integral component of the acquisition price. Any of the
13 remaining records from Citizens' are notoriously inadequate for a
14 determination of the actual value of the pre-acquisition gross plant and
15 accumulated depreciation. It is commonly accepted by those who have
16 attempted (in past proceedings and in the instant case) to establish an
17 accurate rate base for ratemaking purposes from Citizens' records that
18 these records are inaccurate. Therefore, RUCO was supportive of the
19 Company's predicament and accepted Citizens' gas assets identified by
20 UNS. However, RUCO believes since the Company is requesting
21 recognition of an adjusted rate base that UNS still has the burden of proof
22 to provide reasonable documentation to substantiate the value of these
23 adjustments to rate base. It is contrary to established rate making

1 principles, detrimental to ratepayers, and normally not approved by the
2 Commission to automatically assume that where there is a lack of
3 adequate records to substantiate plant additions, the inclusion of these
4 unsubstantiated plant assets are routinely accepted into rate base. RUCO
5 believes it is disingenuous of the Company to request UNS's adjusted
6 level of the prior test-year rate base receive ACC approval even though
7 there is a lack of evidence all these plant assets exist.

8

9 Q. Does the fact UNS fulfilled the FERC accounting requirements associated
10 with the acquisition of Citizens' assets change RUCO's position on this
11 adjustment to remove unsubstantiated pre-acquisition gross plant and
12 adjust understated accumulated depreciation?

13 A. No. The Company's "clean" audit simply represents the accurate
14 recording of the value of the gross plant in service was \$248,032,644 as of
15 August 11, 2003 (UNS' acquisition date), which is the level of gross plant
16 UNS believes it purchased from Citizens and also the same amount
17 requested as a component of the rate base in the instant case. However,
18 for rate making purposes the Commission stipulated in the Settlement
19 Agreement of the prior rate case the value of the test-year gross plant in
20 service was \$219,383,559 as of December 31, 2001. The difference
21 between the value of the Commission approved test-year gross plant in
22 the prior rate case and the Company's requested amount in the instant
23 case is \$28,649,085. Both RUCO and the Company are in agreement

1 with this value. Regardless of the FERC approval of the Company's
2 appropriate recording of this plant balance, UNS was unable to provide
3 any documentation for the existence of plant assets worth \$3,133,264 of
4 the \$28,649,085 requested. Therefore, as clearly outlined in my direct
5 testimony RUCO removed \$3,133,264 in gross plant and correspondingly
6 increased the level of accumulated depreciation by \$3,857,413 for a total
7 reduction in the rate base of \$6,990,677.

8
9 RUCO Rate Base Adjustment No. 2 – Reduce Test-Year Accumulated
10 Depreciation

11 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
12 adjustment to the test-year accumulated depreciation?

13 A. No. The Company continues to maintain in its rebuttal testimony that the
14 depreciation rates that were proposed in Docket No. G-1032A-02-0598
15 are Commission authorized depreciation rates.

16
17 Q. Did Decision No. 66028 authorize a change in depreciation rates for UNS
18 Gas?

19 A. No. Please refer to RUCO witness Ms. Marylee Diaz Cortez surrebuttal
20 testimony's discussion of Citizens Acquisition Adjustment in which RUCO
21 clearly explains the Commission did not approve the depreciation rates
22 proposed in Docket No. G-1032A-02-0598.

23

1 Accordingly, my proposed adjustment to the test-year accumulated
2 depreciation is correct and appropriate.

3

4 **OPERATING INCOME**

5 Operating Income Adjustment No. 2 – Incentive Compensation

6 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
7 adjustment on incentive compensation?

8 A. No, for the same reasons as outlined in my direct testimony, the Company
9 has failed to justify why the ratepayers should be burdened with the
10 additional costs of an incentive program that provides no direct ratepayer
11 benefit.

12

13 RUCO's reasons for denying the pass through to the ratepayers of the
14 costs associated with the 2005 Special Recognition Award are:

15 1. Despite the considerable effort the Company takes in rebuttal to
16 explain the ultimate benefits of its Performance Enhancement Plan
17 ("PEP"), in reality Unisource Energy did not meet its 2005 financial
18 performance goal and therefore the PEP program was not initiated
19 in the test year;

20 2. RUCO is very reluctant to abandon the Historical Test-Year
21 principle that avoids mismatches in the ratemaking elements.
22 Therefore, RUCO dismisses the Company's proposal to average
23 the 2005 Special Recognition Award and the 2004 PEP program;

1 3. The Company promotes the PEP program as a valuable
2 management tool to promote additional cost savings and motivate
3 individual employees and encourage groups of employees to work
4 together to impact specific goals. However, over 60 percent of the
5 workforce do not even participate in this program; and

6 4. The Company also touts the PEP program as an employee
7 program that reduces costs, promotes safety, increases customer
8 service and increases the financial soundness of the Company.
9 However, even if these efforts had been successful enough in 2005
10 to trigger the PEP program, 60 percent of employees sufficiently
11 motivated to impact the actualization of these corporate goals
12 received no compensation from the PEP program or any other
13 arbitrary special award.

14
15 If the Company is reasonably confident it can attain its financial
16 performance goal, operational cost containment target and customer
17 service objectives despite the fact that the incentive compensation
18 program incents less than half the workforce, the necessity to embed such
19 expenditures in rates is highly suspect.

20
21
22
23

1 Operating Income Adjustment No. 3 – Depreciation Expenses

2 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
3 adjustment to test-year depreciation expenses?

4 A. No, the level of RUCO's recommended test-year depreciation expenses is
5 directly related to RUCO's recommended value of test-year gross plant in
6 service. RUCO's recommended value of test-year gross plant in service
7 was discussed previously in Rate Base Adjustment No. 1.

8
9 Operating Income Adjustment No. 4 – Postage Expense

10 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
11 adjustment to postage expenses?

12 A. Yes, after reviewing Company witness Mr. Dukes' rebuttal testimony,
13 RUCO accepts the level of test-year book postage expense as \$445,171,
14 and has corrected its calculation to reflect this amount. However, RUCO
15 maintains its strict adherence to the historical test-year principle and
16 disagrees with the Company's proposed proforma adjustment, which
17 averages the 2004 and 2005 postage expenses.

18 As shown on Schedule SURR-RLM-9, RUCO's revised calculation
19 decreases adjusted test-year expenses by \$51,851.

1 Operating Income Adjustment No. 5 – Customer Service Cost Allocations

2 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
3 adjustment to the corporate allocated costs for the customer service call
4 centers?

5 A. No. The Company takes considerable effort in rebuttal to explain the
6 perceived improvements in customer service attributable to this 432
7 percent increase in the costs associated with the direct interaction with its
8 customers. However in reality, there is compelling evidence that the
9 customer-base has become very dissatisfied with the Company's
10 transition to a consolidated call center. Therefore, RUCO maintains that
11 with such an increase in the level of customer frustration related to
12 Unisource Energy's decision to integrate similar job functions among its
13 affiliates, the UNS ratepayers should not be burdened with this imprudent
14 expenditure until such time as statistical information proves the costs
15 provide a beneficial impact to UNS ratepayers.

16
17 The increased level of customer dissatisfaction directly related to the
18 consolidation of the TEP call centers is clearly evident in complaints filed
19 at the Commission's Consumer Services Section and through customer
20 contacts with the Arizona Community Action Association ("ACAA") as
21 stated in the direct testimony of the ACAA witness Ms. Miquelle Scheier.

22

23

1 Through discussion I discovered the Commission's Customer Services
2 Section recorded an escalation in consumer complaints directly
3 attributable to the consolidation of UNS customer services. Prior to
4 consolidation, in 2004 the Commission received 24 "quality of customer
5 service" complaints out of a total of 178 complaints filed against UNS, or
6 13 percent. In 2005, when the consolidation was initiated, "quality of
7 customer service" complaints jumped to 65 out of a total of 263 complaints
8 filed against UNS, or 25 percent.

9
10 Continuing in 2006, the level of "quality of customer service" complaints
11 filed remains high: 68 out of a total of 273 complaints filed against UNS, or
12 25 percent.

13
14 As referenced in ACAA testimony, the Company issued a pamphlet to
15 justify the consolidation of the call centers and the corresponding closing
16 of branch offices under the pretense of the Company's need to realize
17 cost savings. It is very difficult to rationalize the reduction in customer
18 service levels by embedding nearly a million-dollars in rates under the
19 guise of cost savings.

20
21
22
23

1 Operating Income Adjustment No. 6 – Disallowance of Inappropriate
2 and/or Unnecessary Expenses

3 Q. Has the Company accepted your adjustment to miscellaneous expenses?

4 A. No. The Company takes considerable effort in rebuttal to establish a
5 warm and fuzzy feeling to guarantee that all test-year operating
6 expenditures identified by RUCO “are reviewed by immediate supervisors
7 and numerous controls are in place to ensure they are valid charges”
8 and/or “the expenses referred to were incurred while performing
9 regulatory-mandated functions”. However, in reality the Company
10 completely ignores the substance of RUCO’s adjustment. Aggregately,
11 the Company inappropriately padded the historical test-year expenses
12 with unnecessary purchases worth over \$200,000.

13 RUCO maintains certain categories of expenses should not be the
14 financial burden of the ratepayers. For example:

- 15 1. Liquor, Coffee, Water, Bagels, Donuts, Subs, etc.
- 16 2. Flowers, Gift Certificates, Photographs, etc.
- 17 3. Charitable/Community/Service Club Donations, etc.
- 18 4. Recognition Events, Sports Events, Club Memberships, etc.
- 19 5. Numerous purchases at Circle K, Walgreen, Wal-Mart, Basha’s,
20 Fry’s, Safeway, etc.

21
22 Nevertheless, the Company continues to maintain these items are
23 appropriately charged to ratepayers.

1 In consideration of the Company's request for "RUCO to set a realistic
2 materiality" to this adjustment, RUCO still questions the Company's
3 avoidance to address several major expenses identified in my direct
4 testimony.

5

6 For instance, the Company fails to acknowledge and/or explain the
7 reasonableness and necessity of:

- 8 1. \$1,200.00 for two people to play in Flagstaff's 8th Annual Golf
9 Tournament;
- 10 2. \$5,750.00 for an employee appreciation dinner in Prescott;
- 11 3. \$1,000.00 for Toys for Tots;
- 12 4. \$3,058.00 to the Flagstaff Chamber of Commerce, and
- 13 5. \$1,246 for a chartered air flight.

14

15 The Company makes no attempt to mitigate this adjustment except to
16 have the entire amount disregarded because "UNS Gas has established
17 practices, policies, procedures and internal controls in place to assure that
18 expenses recorded in the identified FERC accounts are materially correct,
19 prudent and properly classified". The Company has made no concession
20 that maybe an errant invoice here or there slipped past its internal controls
21 nor has it discussed a meaningful adjustment. The burden of proof is on
22 the Company to substantiate the appropriateness of the journal entries
23 identified. The Company's mere avowal that the expenditures are prudent

1 and necessary to provide gas service is not sufficient to satisfy that
2 burden.

3

4 Operating Income Adjustment No. 7 – Property Tax

5 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
6 adjustment to test-year property tax expenses?

7 A. No, the level of RUCO's recommended test-year property tax expenses is
8 directly related to RUCO's recommended value of test-year gross plant in
9 service and the revised Arizona Department of Revenue's ("ADOR")
10 assessment ratio. RUCO's recommended value of test-year gross plant in
11 service was discussed previously in Rate Base Adjustment No. 1. The
12 ADOR assessment ratio recommended by RUCO is the effective rate
13 through December 31, 2007 of 24 percent. Since the assessment ratio
14 will continue to decline by one-half percent each year until it reaches 20
15 percent on December 31, 2014 this is the appropriate ratio to reflect a fair
16 and reasonable level of property tax expense based on the rate making
17 elements authorized in this case.

18

19 Operating Income Adjustment No. 8 – Rate Case Expense

20 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
21 adjustment to rate case expenses?

22 A. No. The Company is suggesting the rate case expenses may reach
23 nearly a million dollars. UNS is now requesting to amortize rate case

1 expenses of \$900,000. This is an unreasonable level of rate case
2 expense, given that the entire requested rate increase is \$9.6 million.
3 Nearly ten percent of the requested increase is attributable to rate case
4 expense.

5
6 The Commission did consider the reasonableness of rate case expenses
7 in a recent Arizona-American rate case by stating in Decision No. 67093,
8 dated June 30, 2004 on page 20 starting on line 14:

9 "In addition, we agree with RUCO that the Company chose
10 the test year for the application, and we believe that
11 ratepayers should not be made to bear the burden of the
12 Company's choices to incur unreasonable increases in
13 expenses."
14

15 It is RUCO's position that the Company's request to burden the ratepayers
16 with \$900,000 in rate case expense is unreasonable and therefore RUCO
17 is not revising this adjustment.

18
19 Operating Income Adjustment No. 10 – Non-Recurring/Atypical Expenses

20 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
21 adjustment to non-recurring/atypical expenses?

22 A. No, I am confused by the Company witness Mr. Smith's rebuttal
23 testimony. Specifically, Mr. Smith's response or actual lack of response to
24 this adjustment does not reflect information conveyed during a telephone

1 conversion we had during the discovery process. Mr. Smith and I
2 discussed line by line the general ledger details provided by the Company
3 in response to RUCO's data request 4.01 designated as "Procard Details
4 – Data Request RUCO 4.01", pages 1 through 4. During that
5 conversation I expressly asked for clarification of the entries noted as
6 "M.A.R.C. Training (Union Training)". Mr. Smith indicated this training was
7 a one-time only instructional session to acquaint Company personnel with
8 working in a unionized environment. Based on that conversation with Mr.
9 Smith, I selectively excluded only expenses denoted "M.A.R.C. Training
10 (Union Training)" from data provided. Therefore, I continue to recommend
11 disallowance, as this is not a recurring or typical test-year expense and is
12 not appropriate for inclusion as a rate case operating expense.

13
14 Operating Income Adjustment No. 11 – Supplemental Executive
15 Retirement Plan

16 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
17 adjustment to the Supplemental Executive Retirement Plan ("SERP")?

18 A. No, RUCO's position is unchanged – the ratepayers should not be
19 responsible to pay the cost of supplemental benefits to a small select
20 group of high-ranking officers of the Company. However, RUCO did allow
21 the cost of Company's officers' Deferred Compensation Plan ("DCP") to
22 be included in test-year expenses.

23

1 The ratepayers are already burdened with the cost of adequately
2 compensating this small select group of high-ranking officers for their work
3 and who are provided with a wide array of benefits including a medical
4 plan, dental plan, vision coverage, employee life insurance, supplemental
5 life insurance, dependent life insurance, accidental death and
6 dismemberment, business travel accident insurance, personal accident
7 insurance, short and long term disability, health and dependent care
8 spending accounts, pension, 401(k), incentive pay, vacation pay, holiday
9 pay and sick time. If the Company feels it is necessary to provide
10 additional perks to a select group of employees it should do so at its own
11 expense.

12
13 It seems disingenuous in the present climate of spiraling utility costs to
14 request that the ratepayers be burdened with the cost of this elite
15 retirement plan for a select group of employees who are already receiving
16 lucrative salaries and benefits.

17

18 Operating Income Adjustment No. 22 – Income Tax Expense

19 Q. Please explain RUCO's adjustment to the income tax expense.

20 A. This adjustment reflects income tax expenses calculated on RUCO's
21 surrebuttal recommended revenues and expenses.

22

23

1 **RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

2 Q. Have you revised your direct testimony Schedule to present proof of your
3 revised surrebuttal recommended revenue?

4 A. Yes, I have. Proof that RUCO's direct testimony recommended rate
5 designs would produce the revised surrebuttal recommended required
6 revenue as illustrated, is presented on Schedule SURR RLM-15.

7
8 **TYPICAL BILL ANALYSIS**

9 Q. Have you revised your direct testimony Schedule to present a typical bill
10 analysis based on your surrebuttal recommended revenue?

11 A. Yes, I have. A revised typical bill analysis for metered residential
12 customers with various levels of usage is presented on Schedule SURR
13 RLM-16.

14
15 **COST OF CAPITAL**

16 Q. Is RUCO revising its adjustments to the Company proposed cost of
17 capital?

18 A. Yes, it is. As shown on Schedule SURR RLM-17, this revised adjustment
19 increases RUCO's direct testimony weighted cost of capital by 28 basis
20 points, which is still 58 basis points below the Company's requested
21 weighted cost of capital. This revised adjustment is fully explained in the
22 surrebuttal testimony of RUCO witness Mr. Rigsby.

23

1 Q. Does this conclude your surrebuttal testimony?

2 A. Yes, it does.

UNS Gas Corporation
Docket No. G-04204A-06-0463
Test Year Ended December 31, 2005

SURREBUTTAL
TABLE OF CONTENTS TO RUCO REVISED SCHEDULES

SCH. NO.	PAGE NO.	TITLE
SURR RLM-1	1	REVENUE REQUIREMENT
SURR RLM-2	1	FAIR VALUE RATE BASE
SURR RLM-3	1	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
SURR MDC-2	1 & 2	RATE BASE ADJUSTMENT NO. 6 - ALLOWANCE FOR WORKING CAPITAL
SURR RLM-6	1	OPERATING INCOME
SURR RLM-7	1 TO 6	SUMMARY OF OPERATING INCOME ADJUSTMENTS
SURR RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 4 - POSTAGE EXPENSE
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SURR RLM-14		OPERATING INCOME ADJUSTMENT NO. 22- INCOME TAX
SURR RLM-15	1	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
SURR RLM-16	1	TYPICAL BILL ANALYSIS
SURR RLM-17	1	COST OF CAPITAL

**SURREBUTTAL
REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	(A) ORIGINAL COST		(B) COMPANY AS FILED		(C) FAIR VALUE		(D) ORIGINAL COST		(E) RUCO REVISED SURREBUTTAL		(F) FAIR VALUE	
				RCND		FAIR VALUE			RCND		RCND		FAIR VALUE
1	Adjusted Rate Base	\$	161,661,362	\$	220,694,068	\$	191,177,714	\$	144,646,160	\$	197,732,117	\$	171,189,139
2	Adjusted Operating Income (Loss)	\$	8,428,981	\$	8,428,981	\$	8,428,981	\$	10,219,499	\$	10,219,499	\$	10,219,499
3	Current Rate Of Return (Line 2 / Line 1)		5.21%		3.82%		4.41%		7.07%		5.17%		5.97%
4	Required Operating Income (Line 5 X Line 1)	\$	14,223,179	\$	14,223,179	\$	14,204,479	\$	11,889,914	\$	11,889,914	\$	11,889,914
5	Required Rate Of Return		8.80%		6.44%		7.43%		8.22%		6.01%		6.95%
6	Operating Income Deficiency (Line 4 - Line 2)	\$	5,794,198	\$	5,794,198	\$	5,775,498	\$	1,670,416	\$	1,670,416	\$	1,670,416
7	Gross Revenue Conversion Factor (Schedule RLM-1, Page 3)		1.6649		1.6649		1.6649		1.6649		1.6370		1.6370
8	Increase In Gross Revenue Requirement (Line 7 X Line 6)	\$	9,646,901	\$	9,646,901	\$	9,615,767	\$	2,734,443	\$	2,734,443	\$	2,734,443
9	Adjusted Test Year Revenue						47,169,528						47,280,434
10	Proposed Annual Revenue Requirement (Line 8 + Line 9)						56,785,295						50,014,877
11	Required Percentage Increase In Revenue (Line 8 / Line 9)						20.39%						5.78%
12	Rate Of Return On Common Equity						11.39%						9.84%

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)

SURREBUTTAL
FAIR VALUE RATE BASE - OCRB / RCND (50/50 SPLIT)

LINE NO.	DESCRIPTION	COMPANY AS FILED			OCRB/RCND % DIFF.	RUCO REVISED SURREBUTTAL		
		(A) OCRB	(B) RCND	(C) FVRB		(E) OCRB	(F) RCND	(G) 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	2,580,308	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%	\$ 120,969	\$ 120,969	\$ 120,969
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		\$ 144,646,160	\$ 197,732,117	\$ 171,189,139

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)

SURREBUTTAL
SUMMARY OF ORIGINAL COST RATE BASE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED 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 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)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,166,115	\$ 120,969
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)	\$ 1,166,115	\$ 144,646,160

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)

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

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

SURREBUTTAL

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>REFERENCE</u>
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	<u>0</u>	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	<u>0</u>	LINE 5 - LINE 4
7	CASH WORKING CAPITAL PER UNS	(3,280,886)	SCH. B-5, PG. 2
8	CASH WORKING CAPITAL PER RUCO	(2,114,771)	SCHEDULE MDC-
9	ADJUSTMENT	<u>1,166,115</u>	LINE 8 - LINE 7
10	TOTAL ADJUSTMENT (See RLM-3, Column (G))	<u>\$1,166,115</u>	SUM LINES 3, 6 & 9

**SURREBUTTAL
 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	<u>\$ 11,121,745</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ -</u>
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	(54,434)	1,311,540	20.72	27,175,105
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)	5,690,904	4,487,682	41.42	185,879,804
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	<u>\$105,720,050</u>	<u>\$ 3,730,327</u>	<u>\$109,450,377</u>		<u>\$ 4,337,225,581</u>
19	Total Operating Expenses	<u>\$116,841,794</u>	<u>\$ 3,730,327</u>	<u>\$109,450,377</u>		<u>\$ 4,337,225,581</u>
Other Cash Working Capital Elements:						
20	Interest on Long-Term Debt	\$ 5,334,825	\$ (561,502)	\$ 4,773,323	91.62	\$ 437,331,879
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	<u>\$ 24,123,360</u>	<u>\$ (7,383,631)</u>	<u>\$ 16,739,729</u>		<u>\$ 1,349,770,337</u>
23	TOTAL			<u>\$126,190,106</u>		<u>\$ 5,686,995,918</u>
24	Expense Lag	Line 23, Col. (E) / (D)	45.07			
25	Revenue Lag	Company Workpapers	38.95			
26	Net Lag	Line 25 - Line 24	(6.12)			
27	RUCO Adjusted Expenses	Col. (C), Line 23	<u>\$126,190,106</u>			
28	Cash Working Capital	Line 26 X Line 27 / 365 Days	<u>(2,114,771)</u>			
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		<u>1,166,115</u>			

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)

**SURREBUTTAL
OPERATING INCOME**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)
		COMPANY AS FILED	TEST YEAR ADJ'TMENTS	TEST YEAR AS ADJUSTED	PROPOSED CHANGES	AS RECOMMENDED
	Operating Revenues:					
1	Gas Retail Revenues	\$ 45,689,224	\$ 110,906	\$ 45,800,130	\$ 2,734,443	\$ 48,534,573
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	\$ 2,734,443	\$ 50,014,877
	Operating Expenses:					
4	Purchased Gas	\$ 355,528	\$ (54)	\$ 355,474	\$ -	\$ 355,474
5	Other O & M Expense	24,459,038	(1,955,752)	22,503,286	-	22,503,286
6	Depreciation & Amortization	7,220,391	(646,479)	6,573,912	-	6,573,912
7	Taxes Other Than Income Taxes	4,730,093	(525,485)	4,204,608	-	4,204,608
8	Income Taxes	1,975,497	1,448,158	3,423,655	1,064,027	4,487,682
9	TOTAL OPERATING EXPENSES	\$ 38,740,547	\$ (1,679,612)	\$ 37,060,935	\$ 1,064,027	\$ 38,124,962
10	OPERATING INCOME (LOSS)	\$ 8,428,981		\$ 10,219,499		\$ 11,889,914

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)

SURREBTAL
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 REVISED	(F) ADJ. NO. 5 CUSTOMER SERVICE COSTS	(G) ADJ. NO. 6 UNNECESSARY EXPENSES	(H) ADJ. NO. 7 PROPERTY TAX
1	Operating Revenue								
2	Net Sales to Ultimate Customers	\$ 42,950,315							
3	Transportation of Gas	2,738,909							
4	Gas Retail Revenue	\$ 45,689,224							
5	Forfeited Discounts (Late Fees)	\$ 398,966							
6	Miscellaneous Service Revenues	1,046,891							
7	Other Gas Revenues	34,447							
8	Other Operating Revenue	\$ 1,480,304							
9	Total Operating Revenue	\$ 47,169,528							
10	Operating Expense								
11	Purchased Gas	\$ 355,528							
12	Transmission - Maine Expense	\$ 11,280							
13	Transmission - Meas. and Reg. Station	(52,221)							
14	Transmission - Maint. Compressor Stat. Equip.	19							
15	Transmission - Oper. Super'n and Eng.	315,963							
16	Distribution - Load Dispatching	162							
17	Distribution - Mains and Services	1,337,349		(42,144)					
18	Distribution - Meas. and Reg. Station - Gen.	244,463							
19	Distribution - Meas. and Reg. Station - Ind.	150,536							
20	Distribution - Meas. and Reg. Station - City	56,529							
21	Distribution - Meter and House Regulator	1,349,114		(34,242)					
22	Distribution - Customer Installations	539,082							
23	Distribution - Other Expenses	1,090,666							
24	Distribution - Rents	44,510							
25	Distribution - Maint. Super'n & Eng.	243,170							
26	Distribution - Maintenance of Mains	1,084,194		(26,340)					
27	Distribution - Maint. M & R Stat. Equip. - Gen.	25,623							
28	Distribution - Maint. M & R Stat. Equip. - Ind.	2,072							
29	Distribution - Maint. M & R Equip. - City Gate	850							
30	Distribution - Maintenance of Services	465,066							
31	Distribution - Maint. of Meters and Reg.	167,015							
32	Distribution - Maintenance of Other Equip.	96,826							
33	Customer Account - Supervision	74,309							
34	Customer Account - Meter Reading	719,037							
35	Customer Account - Records and Collection	5,462,173		(60,562)		(51,851)	(490,413)		
36	Customer Account - Uncollectibles	722,634							

LINE NO.	DESCRIPTION	SURREBTOTAL							
		(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
35	Continued								
36	Customer Account - Miscellaneous	\$ 34,351	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
37	Customer Account - Superv'n - Cust Service	14,743	-	-	-	-	-	-	-
38	Customer Account - Assistance	(34,228)	-	-	-	-	-	-	-
39	Customer Account - Info and Instruct Advert.	65,794	-	-	-	-	-	-	-
40	Customer Account - Miscellaneous	22,602	-	-	-	-	-	-	-
41	Sales - Demonstrating and Selling	558	-	-	-	-	-	-	-
42	A & G - Salaries	1,529,696	-	(94,687)	-	-	(25,437)	-	-
43	A & G - Office Supplies and Expenses	1,365,974	-	-	-	-	(11,157)	-	-
44	A & G - Transferred - Credit	(152,817)	-	-	-	-	(133)	-	-
45	A & G - Outside Services Employed	2,696,531	-	-	-	-	(2,569)	-	-
46	A & G - Property Insurance	7,415	-	-	-	-	(1,329)	-	-
47	A & G - Injuries and Damages	574,128	(34,234)	-	-	-	(293)	-	-
48	A & G - Employee Pension and Benefits	2,452,071	-	-	-	-	(143,577)	-	-
49	A & G - Miscellaneous General Expenses	1,082,411	-	-	-	-	(6,230)	-	-
50	A & G - Rentals	109,053	-	-	-	-	(76,494)	-	-
51	A & G - Maintenance of General Plant	169,826	-	-	-	-	-	-	-
52	A & G - Rate Case Expense	200,000	-	-	-	-	-	-	-
53	Interest On Customer Deposits	170,459	-	-	-	-	-	-	-
54	Other Oper. and Maint. Expense	\$ 24,459,038	\$ (34,234)	\$ (257,895)	\$ -	\$ (51,851)	\$ (674,898)	\$ (233,347)	\$ -
55	Dep. & Amort. - Citizens Acq. Discount	\$ (729,791)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
56	Dep. & Amort. - Intangible Plant	929,602	-	-	(57,341)	-	-	-	-
57	Dep. & Amort. - Transmission Plant	285,187	-	-	(1,618)	-	-	-	-
58	Dep. & Amort. - Distribution Plant	5,631,142	-	-	(427,753)	-	-	-	-
59	Dep. & Amort. - General Plant	1,104,251	-	-	162,629	-	(23,373)	-	-
60	Depreciation and Amortization	\$ 7,220,391	\$ -	\$ -	\$ (324,083)	\$ -	\$ (23,373)	\$ -	\$ -
61	Property Tax	\$ 4,103,375	\$ -	\$ -	\$ -	\$ -	\$ (28,439)	\$ -	\$ (309,309)
62	Payroll Tax - FUTA, SUTA, FICA & Medicare	537,877	-	(20,853)	-	-	-	-	-
63	Medical and Dental	86,130	-	-	-	-	-	-	-
64	Other	2,711	-	-	-	-	-	-	-
65	Taxes Other Than Income Taxes	\$ 4,730,093	\$ -	\$ (20,853)	\$ -	\$ -	\$ (28,439)	\$ -	\$ (309,309)
66	Income Taxes	\$ 1,975,497	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
67	Total Operating Expense	\$ 38,740,547	\$ (34,234)	\$ (278,748)	\$ (324,083)	\$ (51,851)	\$ (726,710)	\$ (233,347)	\$ (309,309)
68	Operating Income	\$ 8,428,981	\$ 34,234	\$ 278,748	\$ 324,083	\$ 51,851	\$ 726,710	\$ 233,347	\$ 309,309

SURREBUTTAL
SUMMARY OF OPERATING INCOME ADJUSTMENT - CONITD
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 ANNUALIZN	(P) ADJ. NO. 15 CUSTOMER WEATHERIZN
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	-	-	-	-	-	(65)	-	-
49	A & G - Rents	-	-	-	-	-	-	-	-
50	A & G - Maintenance of General Plant	-	-	-	-	-	(120)	-	-
51	A & G - Rate Case Expense	-	-	-	-	-	-	-	-
52	Interest On Customer Deposits	(116,333)	-	-	-	-	-	-	-
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	-	-	-	-	(299,023)	-	-	-
56	Dep. & Amort. - Transmission Plant	-	-	-	-	-	-	-	-
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

SURREBUTTAL										
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 UNCOLLECTIBLES	(S) ADJ. NO. 18 CWIP	(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
35	Continued									
36	Customer Account - Miscellaneous	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,372
37	Customer Account - Supervh - Cust. Service	-	-	-	-	-	-	-	-	14,877
38	Customer Account - Assistance	-	-	-	-	-	-	-	-	(34,299)
39	Customer Account - Info and Instruct Advert.	-	-	-	-	-	-	-	-	65,791
40	Customer Account - Miscellaneous	-	-	-	-	-	-	-	-	22,602
41	Sales - Demonstrating and Selling	-	-	-	-	-	-	-	-	558
42	A & G - Salaries	-	-	-	-	-	-	-	-	1,409,672
43	A & G - Office Supplies and Expenses	-	-	-	-	-	-	-	-	1,236,177
44	A & G - Transferred - Credit	-	-	-	-	-	-	-	-	(152,950)
45	A & G - Outside Services Employed	-	-	-	-	-	-	-	-	2,368,183
46	A & G - Property Insurance	-	-	-	-	-	-	-	-	6,086
47	A & G - Injuries and Damages	-	-	-	-	-	-	-	-	539,598
48	A & G - Employee Pension and Benefits	-	-	-	(21,120)	(311,051)	-	-	-	2,209,189
49	A & G - Miscellaneous General Expenses	(12,765)	-	-	-	-	-	-	-	970,444
50	A & G - Rents	-	-	-	-	-	-	-	-	109,053
51	A & G - Maintenance of General Plant	-	-	-	-	-	-	-	-	169,706
52	A & G - Rate Case Expense	-	-	-	-	-	-	-	-	83,667
53	Interest On Customer Deposits	-	-	-	-	-	-	-	-	170,459
54	Other Oper. and Maint. Expense	\$ (12,765)	\$ (95,583)	\$ -	\$ (21,120)	\$ (311,051)	\$ -	\$ -	\$ -	\$ 22,503,286
55	Dep. & Amort. - Citizens Acq. Discount	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	(729,791)
56	Dep. & Amort. - Intangible Plant	-	-	-	-	-	-	-	-	872,261
57	Dep. & Amort. - Transmission Plant	-	-	-	-	-	-	-	-	(15,454)
58	Dep. & Amort. - Distribution Plant	-	-	-	-	-	-	-	-	5,203,389
59	Dep. & Amort. - General Plant	-	-	-	-	-	-	-	-	1,243,507
60	Depreciation and Amortization	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,573,812
61	Property Tax	\$ -	\$ -	\$ (166,864)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,598,743
62	Payroll Tax - FUTA, SUTA, FICA & Medicare	-	-	-	-	-	-	-	-	517,024
63	Medical and Dental	-	-	-	-	-	-	-	-	86,130
64	Other	-	-	-	-	-	-	-	-	2,711
65	Taxes Other Than Income Taxes	\$ -	\$ -	\$ (166,864)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,204,608
66	Income Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,448,158	\$ -	\$ 3,423,655
67	Total Operating Expense	\$ (12,765)	\$ (95,583)	\$ (166,864)	\$ (21,120)	\$ (311,051)	\$ -	\$ 1,448,158	\$ -	\$ 37,060,935
68	Operating Income	\$ 12,765	\$ 95,583	\$ 166,864	\$ 21,120	\$ 311,051	\$ -	\$ (1,448,158)	\$ -	\$ 10,219,499

SURREBUTTAL
OPERATING INCOME ADJUSTMENT NO. 4
NORMALIZATION OF POSTAGE EXPENSES

(A)

LINE NO.	DESCRIPTION	REFERENCE	POSTAGE
	Postage Associated With Customer Records and Collections		
1	Actual Test-Year Costs	Company Workpapers	\$ 426,102
2	Actual Number Of Test-Year Customer Bills	Company Schedule H-2	1,632,576
3	Cost Per Customer Bill	Line 1 / Line 2	<u>\$ 0.2610</u>
4	RUCO Annualized Number Of Test-Year Customer Bills	RLM-15, Column (C)	1,669,426
5	RUCO Adjusted Postage Costs For Annualized Customer Base	Line 3 X Line 4	<u>\$ 435,720</u>
	Postage Associated With Office Expenses		
6	Actual Test-Year Costs	Company Workpapers	\$ 19,070
7	Total RUCO Adjusted Test-Year Postage Costs	Line 5 + Line 6	<u>\$ 454,790</u>
8	Postage Increase		5.00%
9	RUCO Total Adjusted Postage Cost	Line 7 + 5.00% Increase	\$ 477,530
10	Company As Filed	Company Workpapers	<u>\$ 529,380</u>
11	Difference	Line 7 - Line 8	\$ (51,851)
12	RUCO Adjustment (See RLM-7, Pages 1 & 2, Column (E))	Line 9	<u><u>\$ (51,851)</u></u>

**SURREBUTTAL
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	\$ 13,643,154
LESS:			
2	Arizona State Tax	Line 11	(618,050)
3	Interest Expense	Note (A) Line 22	(4,773,323)
4	Federal Taxable Income	Sum Of Lines 1, 2 & 3	<u>\$ 8,251,781</u>
5	Federal Tax Rate	Schedule RLM-2, Column (A), Line 9	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	<u>\$ 2,805,605</u>
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 13,643,154
LESS:			
8	Interest Expense	Note (A) Line 22	(4,773,323)
9	State Taxable Income	Line 7 + Line 8	<u>\$ 8,869,831</u>
10	State Tax Rate	Tax Rate	6.9680%
11	State Income Tax Expense	Line 9 X Line 10	<u>\$ 618,050</u>
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ 2,805,605
13	State Income Tax Expense	Line 11	618,050
14	Total Income Tax Expense Per RUCO	Sum Of Lines 12 & 13	<u>\$ 3,423,655</u>
15	Total Income Tax Expense Per Company Filing (Schedule C-1)		1,975,497
16	Difference	Line 14 - Line 15	<u>\$ 1,448,158</u>
17	RUCO ADJUSTMENT TO INCOME TAX EXPENSE (See RLM 7, Page 6, Column (W))	Line 16	<u>\$ 1,448,158</u>
NOTE (A):			
Interest Synchronization:			
18	Adjusted Rate Base (Schedule RLM-3, Column (H), Line 16)	\$ 144,646,160	
19	Weighted Cost Of Debt (Schedule RLM-16, Column (F), Line 1 + Line 2)	3.30%	
20	Interest Expense (Line 20 X Line 21)	<u>\$ 4,773,323</u>	

SURREBTAL
RATE DESIGN AND PROOF OF RUCO RECOMMENDED REQUIRED REVENUE

LINE NO.	(A) DESCRIPTION	(B) SCH. NO.	(C) RUCO ADJUSTED BILL COUNT	(D) WEATHERIZED SALES (THERMS)	(E) PROPOSED BASIC SERVICE CHARGE	(F) COM. CHARGE	(G) BASIC SERVICE CHARGE	(H) MARGIN AT PROPOSED RATES	(I) TOTAL MARGIN	(J) FIXED ALLOCATION FACTORS	(K) VARIABLE ALLOCATION FACTORS	(L) RES/COM ALLOCATION FACTORS
1	Residential Service	R-10	973,181		8.34		8,113,648		8,113,648	64.11%		
2	Basic Service Charge per Month - Summer		485,639	69,822,061	8.34		4,133,925		4,133,925	32.87%		
3	Basic Service Charge per Month - Winter											
4	Commodity Charge All Therms		1,463,020	63,922,081		0.28668	20,714,528		20,714,528		97.17%	
	Total Residential Service						12,241,573		32,962,101			
4	Residential Services Cares	R-12	33,439		8.34		278,790		278,790	2.20%		
5	Basic Service Charge per Month - Summer		15,478		8.34		129,027		129,027	1.02%		
6	Basic Service Charge per Month - Winter											
7	Commodity Charge All Therms		48,915	2,036,847		0.28668	604,283		604,283		2.83%	
	Total Residential Service Cares						407,817		604,283			
8	SUB-TOTAL RESIDENTIAL		1,517,825	71,858,907			12,655,390		33,574,201	100.00%	100.00%	70.00%
9	Small Volume Commercial Service	C-20	133,276		34.46		4,592,054		4,592,054	64.87%		
10	Basic Service Charge per Month		133,276	29,382,577		0.18819	5,472,834		5,472,834		59.80%	
11	Commodity Charge per Therm											
	Total Small Volume Commercial Service						4,592,054		5,472,834			
12	Large Volume Commercial Service & Trans.	C-22	225		285.03		56,570		56,570	1.10%		
13	Basic Service Charge per Month		225	4,170,979		0.11819	497,148		497,148		5.44%	
14	Commodity Charge per Therm											
	Total Large Volume Commercial Service						56,570		497,148			
15	Small Volume Industrial Service	I-30	148		34.46		5,048		5,048	0.06%		
16	Basic Service Charge		148	474,830		0.17608	83,135		83,135		0.91%	
17	Commodity Charge per Therm											
	Total Small Volume Industrial Service						5,048		83,135			
18	Large Volume Industrial Service	I-32	238		285.03		63,158		63,158	1.16%		
19	Basic Service Charge		238	22,588,654		0.08680	1,508,698		1,508,698		18.51%	
20	Commodity Charge per Therm											
	Total Large Volume Industrial Service						63,158		1,508,698			
21	Small Volume Public Authority	PA-40	12,795		34.46		440,860		440,860	8.13%		
22	Basic Service Charge per Month		12,795	5,970,389		0.18259	1,071,854		1,071,854		11.73%	
23	Commodity Charge per Therm											
	Total Small Volume Public Authority						440,860		1,071,854			
24	Large Volume Public Authority	PA-42	113		285.03		29,835		29,835	0.55%		
25	Basic Service Charge per Month		113	5,938,070		0.08220	485,508		485,508		5.31%	
26	Commodity Charge per Therm											
	Total Large Volume Public Authority						29,835		485,508			
27	Special Gas Light Service	PA-44	869		42.88		37,157		37,157	0.68%		
28	Customer Charge Lighting Group A		3,787		51.45		193,788		193,788	3.57%		
29	Customer Charge Lighting Group B		4,633									
	Total Special Gas Light Service						230,943		230,943			
30	Irrigation Service	IR-60	66		34.46		2,289		2,289	0.04%		
31	Basic Service Charge		66	79,409		0.22234	17,859		17,859		0.19%	
32	Commodity Charge per Therm											
	Total Irrigation Service						2,289		17,859			
33	SUB-TOTAL COMMERCIAL		151,491	68,480,887			5,423,739		14,560,372	100.00% #	100.00%	30.00%
34	TOTAL TARIFF SALES		1,669,428	140,339,795			18,078,128		48,534,573			
35							30,485,444					
36												
37												
38												
39												
40												
41												
42												
43												
44												

RES. REVENUE	\$ 33,974,201	RES. TO TOTAL	70.00%
COM. REVENUE	\$ 14,960,372	COM. TO TOTAL	30.00%
RES. FIX REV	\$ 12,655,390	FIXED TO TOTAL	37.25%
COM. FIX REV	\$ 5,423,739	VAR. TO TOTAL	62.75%
RES. VAR REV	\$ 21,318,811		
COM. VAR REV	\$ 9,138,833		

OTHER REVENUE	1,480,304
TOTAL REVENUE	50,014,877
RUCO PROPOSED REVENUE	50,014,877
DIFFERENCE	\$ (0)

SURREBUTTAL

TYPICAL RESIDENTIAL BILL ANALYSIS

LINE NO.	DESCRIPTION	(A)	(B)	(C)		(D)	(E)		(F)
		PRESENT		COMPANY AS FILED			RUCO REVISED SURREBUTTAL		
				PROPOSED			PROPOSED		
REVENUE ALLOCATION									
1	RESIDENTIAL	\$ 31,123,034	70.02%	\$ 39,021,053		70.19%	\$ 33,974,201		70.00%
2	OTHER	\$ 13,323,588	29.98%	\$ 16,573,116		29.81%	\$ 14,560,372		30.00%
3	TOTAL	\$ 44,446,622	100.00%	\$ 55,594,169		100.00%	\$ 48,534,573		100.00%
ALLOCATION RATIOS									
4	FIX REVENUE	12,110,551	27.25%	\$ 28,769,014		51.70%	\$ 18,079,128		37.25%
5	VARIABLE REVENUE	32,336,071	72.75%	\$ 26,879,714		48.30%	\$ 30,455,444		62.75%
6	TOTAL	44,446,622	100.00%	\$ 55,648,727		100.00%	\$ 48,534,573		100.00%
RESIDENTIAL RATE DESIGN									
	BASIC MONTHLY CHARGE	PRESENT		COMPANY PROPOSED		RUCO PROPOSED			
7	SUMMER	\$ 7.00		MONTHS 8	\$ 20.00	\$ 8.34			
8	WINTER	\$ 7.00		MONTHS 4	\$ 11.00	\$ 8.34			
9	COMMODITY CHARGE	\$ 0.3004			\$ 0.18625	\$ 0.2967			
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	\$ 19.33	\$ 1.29	7.18%		
11			50.00%	\$ 29.06	\$ 30.31	\$ 1.25	4.30%		
12			100.00%	\$ 51.13	\$ 52.29	\$ 1.16	2.28%		
13			150.00%	\$ 73.19	\$ 74.27	\$ 1.08	1.47%		
14			200.00%	\$ 95.25	\$ 96.24	\$ 0.99	1.04%		

**SURREBUTTAL
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%	6.60%	3.30%
3	Preferred Stock	N/A	\$ -	\$ -	0.00%	0.00%	0.00%
4	Common Equity	\$ 98,859,000	\$ -	\$ 98,859,000	50.00%	9.84%	4.92%
5	TOTAL CAPITAL	\$ 197,718,000	\$ -	\$ 197,718,000	100.00%		
6	WEIGHTED COST OF CAPITAL						8.22%

References:

- Column (A): Company Schedule D-1
- Column (B): Surrebuttal Testimony, WAR
- Column (C): Column (A) + Column (B)
- Column (D): Column (C), Line Item / Total Capital (L5)
- Column (E): Surrebuttal Testimony, WAR
- Column (F): Column (D) X Column (E)