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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS SUN CITY WATER DISTRICT.	Docket No. W-01303A-07-0209

Arizona Corporation Commission
DOCKETED
OCT 15 2007

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NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Direct Testimony of Marylee Diaz Cortez, CPA, William A. Rigsby, CRRA, and Timothy J. Coley in the above-referenced matter.

RESPECTFULLY SUBMITTED this 15th day of October 2007

Daniel W. Pozefsky
Attorney

AN ORIGINAL AND THIRTEEN COPIES of the foregoing filed this 15th day of October 2007 with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

COPIES of the foregoing hand delivered/ mailed this 15th day of October 2007 to:

Lyn Farmer
Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Christopher Kempley, Chief Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Ernest Johnson, Director
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Paul M. Li
Arizona American Water Company
19820 N. 7th Street, Suite 201
Phoenix, Arizona 85024

William P. Sullivan, Esq.
Susan D. Goodwin, Esq.
Larry K. Udall, Esq.
Curtis, Goodwin, Sullivan, Udall
& Schwab, P.L.C.
501 E. Thomas Road
Phoenix, Arizona 85012-3205

Lloyce Robinson, Town Manager
12030 Clubhouse Square
Town of Youngtown
Youngtown, Arizona 85363

Tracy Spoon, Executive Director
Sun City Taxpayers Association
12630 N. 103rd Avenue, Suite 144
Sun City, AZ 85351

Craig A. Marks
Craig A. Marks PLC
3420 E. Shea Blvd., Suite 200
Phoenix, Arizona 85028

By Ernestine Gamble
Ernestine Gamble
Secretary to Daniel Pozefsky

ARIZONA-AMERICAN WATER COMPANY, INC.

DOCKET NO. W-01303A-07-0209

DIRECT TESTIMONY

OF

MARYLEE DIAZ CORTEZ, CPA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

OCTOBER 15, 2007

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

A. My name is Marylee Diaz Cortez. I am a Certified Public Accountant. I am the Chief of Accounting and Rates for the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

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

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

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to respond to Sun City Water Company's ("Sun City" or "Company") request for a Public Safety Surcharge designed to recover the cost of over-sizing its system to increase fire flow.

Q. Is Sun City required by the Arizona Corporation Commission ("ACC") to meet a fire flow level of 1500 gallons per minute?

A. No. Under Arizona Administrative Code §R14-2-407, water utilities are required to deliver potable water to customers at a minimum pressure of 20 psi. There is no requirement for 1500 gallons per minute fire flow.

Thus, this is entirely a discretionary project on the part of Arizona-American.

Q. Do other regulated water utilities in Arizona have system-wide capacity for 1500 gallons a minute of fire flow?

A. Very few Arizona regulated water utilities have the capacity necessary to generate 1500 gallons per minute.

Q. Why is that?

A. I suspect that is because the Commission does not require it, so it is not necessary. Further, the cost of over-sizing Arizona's regulated water utilities to meet a system-wide 1500 gallon per minute fire flow would be cost-prohibitive and result in state wide rate shock.

Q. What size mains would be required to generate 1500 gallons per minute in fire flow?

A. Water systems would have to over-size to at least 12-inch mains to generate that level of fire flow.

Q. Have you done a study of the current size of Arizona's regulated water systems?

A. Yes. I reviewed the 2004 annual reports of 132 Arizona water companies. Specifically, I looked at all water companies with at least $100,000 in annual revenue and only those with fire hydrants.[1] Out of those 132 water utilities, only 24 had mains 12 inches or greater. Of those 24, only 3 companies had any significant portion of their system sized at 12 inches or greater. Thus, Sun City's request for a near doubling of its rate base in order to generate system wide fire flow at 1500 gallons per minute far exceeds the norm and is unwarranted.

Q. Who will pay the cost of the fire flow construction program?

A. Initially, Arizona-American will pay for the construction. However, the Company is requesting authorization of a special surcharge that would allow it to flow through the additional costs of the fire flow projects to its customers via a number of step surcharges. These surcharges would be similar to the Arsenic Cost Recovery Mechanism ("ACRM") that has been authorized, except the proposed safety surcharge would not be limited to two steps, as is the ACRM. The proposed surcharge mechanism would afford the Company immediate cost recovery for fire flow improvements once in service. No rate case would be required.

[1] Without fire hydrants the size of the main used is irrelevant to fire flow capacity.

Q. What is the approximate rate impact of the proposed fire flow construction project once completed?

A. Assuming that costs do not exceed the estimated $5 million, Sun City's rates would have to increase by approximately $800,000, or 10.6%[2].

Q. Should public utility rates be burdened with the cost of discretionary construction projects?

A. No. In recent years water and wastewater rates have in many cases more than doubled as a result of federal and state mandates. Examples include new requirements for aquifer protection, safe drinking water, arsenic, etc. In fact, there is mounting pressure on all utility prices due to sharp increases in fuel and energy costs. These price escalations have begun to threaten the very affordability of basic utility service. RUCO believes that it would be very bad public policy to set a standard in this case that burdens a basic service like water, with discretionary expenditures that will jeopardize the affordability of water service in Arizona.

Further, as discussed above, fire flow is not required under ACC Rules, and the Company admits the cost is discretionary for Sun City. Also as previously discussed, no comparable Arizona-regulated utility has over-

[2] This is the required increase for fire flow and would be in addition to the current Sun City requested rate increase.

sized its water system beyond what is required by ACC standards[3]. The cost of over-sizing the Sun City's water system will have the effect of inflating the Company's rate base beyond what is required to provide adequate service under ACC standards.

Q. What was the Commission's rationale for granting a rate increase to Paradise Valley for its fire flow construction?

A. In Decision No. 68858, the Commission stated that it would allow the costs of the fire flow construction in rates because the construction was necessary for public safety, and the Paradise Valley ratepayers were largely in support of the fire flow construction and willing to pay for it.

Q. Did this in fact turn out to be the case?

A. No. Since the rates -- which include a high usage surcharge to fund the fire flow -- have gone into effect in Paradise Valley, there has been a significant outcry from ratepayers, both residential and commercial, about the unfairness of the surcharge. In fact, the Town of Paradise Valley Council, which had originally supported the rate increases for fire flow, has recently announced that they would like the Commission to reopen its decision and to modify the fire flow rates.

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[3] The exception is Paradise Valley Water Company, a sister company of Sun City. The upsizing project is currently in progress pursuant to Decision No. 68858.

Q. What are some of the other ramifications of granting Sun City's request for rate recognition of fire flow projects?

A. Granting Sun City's request for rate recovery of over-sizing its system for fire flow would send a message to all other Arizona water companies that they can substantially inflate the size of their rate bases by making similar requests, thereby enhancing shareholders' equity earnings. This is particularly attractive to water utilities like Sun City that are essentially built-out and have little growth potential. Without growth, a utility's rate base has little opportunity to increase; and because the only way a utility turns a profit is through its return on rate base, it cannot increase its profits. Allowing massive investment in fire flow to be included in rates will allow utilities a perfect opportunity to maximize their earnings at ratepayer expense and create rate shock in Arizona's water industry as a whole.

Q. Are there any other ramifications of granting rate treatment of the fire flow projects?

A. Yes. The Company has proposed that cost recovery of the fire flow projects be through a series of "step" rate increases. As portions of the fire flow projects are completed, the Company proposes to receive rate increases to recover those costs. No rate case would be required.

Q. Is this the normal way for water companies to receive rate recognition of plant additions?

A. No. Under Arizona Administrative Code § R14-02-103 rates are examined in the context of a historical test year. Thus, under normal ratemaking practices, companies' plant additions are reviewed in the context of a rate case and the revenue requirement for those additions is determined in conjunction with all the other ratemaking elements.

Q. Has the Commission ever departed from the normal ratemaking practice?

A. Yes, but only under very unique sets of circumstances. For example, an ACRM was approved for many Arizona water companies in response to a federal mandate, including other AZ-AM systems as well as several Arizona Water systems.

Q. How do Sun City ratepayers feel about this fire flow issue?

A. For the most part we do not know. While the officials of Youngtown have taken a position in support of the fire flow project, the general consensus of the ratepayers is unknown. During the course of discovery in this case the Company indicated that it intended to survey the Sun City ratepayers to get their opinion on whether they wanted to pay for this project. However, as of this date the survey has not been taken.

Q. What are the Youngtown officials' reasons for supporting the fire flow project and surcharges?

A. It is my understanding that Youngtown has problems in certain sections of town with adequate water pressure. It appears that some work was done during 2005 that remedied some of the problem, but not all.

Q. Is it necessary to invest $5 million in fire flow over-sizing in order to resolve the Youngtown pressure problems?

A. No. This would be overkill. RUCO recommends that the Company immediately begin work on getting pressure up to the ACC required 20 psi for all sections of Youngtown. The pressure issue can be resolved for a cost far less than the $5 million, and can be accomplished more quickly than the anticipated 4 to 5 year fire flow project.

Q. What is RUCO's overall recommendation on the fire flow issue?

A. Sun City's request for automatic step rate increases to fund the cost of over-sizing its system for fire flow should be denied. Further, the Commission's Rules do not require this over-sizing, and thus the planned construction projects are discretionary and are not necessary for the provision of water service. The fire flow projects are designed to serve existing customers; thus, they will produce no incremental revenue that could help defray the additional costs, thereby resulting in double digit rate increases. RUCO recommends that the Commission deny the requested step rate increases proposed to fund $5 million in discretionary fire flow construction. Instead, the Company should begin immediate work with the intent to get all sections of its service territory up to the Commission required pressure of 20 psi. RUCO believes that customers, particularly those in Youngtown, may be satisfied with these improvements, and avoid the need for double digit rate increases.

Q. Does this conclude your direct testimony?

A. Yes.

APPENDIX I

Qualifications of Marylee Diaz Cortez

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

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

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

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

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

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

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

Performed on-site audits and regulatory reviews of public utility companies including gas, electric, telephone, water and sewer throughout the continental United States.

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

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

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

Utility Company	Docket No.	Client
United Cities Gas Company	176-717-U	Kansas Corporation Commission
General Development Utilities	911030-WS & 911067-WS	Florida Office of Public Counsel
Hawaiian Electric Company	6998	U.S. Department of Defense - Navy
Indiana Gas Company	Cause No. 39353	Indiana Office of Consumer Counselor
Pennsylvania American Water Co.	R-00922428	Pennsylvania Office of Consumer Advocate
Wheeling Power Co.	Case No. 90-243-E-42T	West Virginia Public Service Commission Consumer Advocate Division
Jersey Central Power & Light Co.	EM89110888	New Jersey Department of Public Advocate Division of Rate Counsel
Golden Shores Water Co.	U-1815-92-200	Residential Utility Consumer Office
Consolidated Water Utilities	E-1009-92-135	Residential Utility Consumer Office
Sulphur Springs Valley Electric Cooperative	U-1575-92-220	Residential Utility Consumer Office
North Mohave Valley Corporation	U-2259-92-318	Residential Utility Consumer Office

Utility Company	Docket No.	Client
Graham County Electric Cooperative	U-1749-92-298	Residential Utility Consumer Office
Graham County Utilities	U-2527-92-303	Residential Utility Consumer Office
Consolidated Water Utilities	E-1009-93-110	Residential Utility Consumer Office
Litchfield Park Service Co.	U-1427-93-156 & U-1428-93-156	Residential Utility Consumer Office
Pima Utility Company	U-2199-93-221 & U-2199-93-222	Residential Utility Consumer Office
Arizona Public Service Co.	U-1345-94-306	Residential Utility Consumer Office
Paradise Valley Water	U-1303-94-182	Residential Utility Consumer Office
Paradise Valley Water	U-1303-94-310 & U-1303-94-401	Residential Utility Consumer Office
Pima Utility Company	U-2199-94-439	Residential Utility Consumer Office
SaddleBrooke Development Co.	U-2492-94-448	Residential Utility Consumer Office
Boulders Carefree Sewer Corp.	U-2361-95-007	Residential Utility Consumer Office
Rio Rico Utilities	U-2676-95-262	Residential Utility Consumer Office
Rancho Vistoso Water	U-2342-95-334	Residential Utility Consumer Office
Arizona Public Service Co.	U-1345-95-491	Residential Utility Consumer Office
Citizens Utilities Co.	E-1032-95-473	Residential Utility Consumer Office

Utility Company	Docket No.	Client
Citizens Utilities Co.	E-1032-95-417 et al.	Residential Utility Consumer Office
Paradise Valley Water	U-1303-96-283 & U-1303-95-493	Residential Utility Consumer Office
Far West Water	U-2073-96-531	Residential Utility Consumer Office
Southwest Gas Corporation	U-1551-96-596	Residential Utility Consumer Office
Arizona Telephone Company	T-2063A-97-329	Residential Utility Consumer Office
Far West Water Rehearing	W-0273A-96-0531	Residential Utility Consumer Office
SaddleBrooke Utility Company	W-02849A-97-0383	Residential Utility Consumer Office
Vail Water Company	W-01651A-97-0539 & W-01651B-97-0676	Residential Utility Consumer Office
Black Mountain Gas Company & Northern States Power Company	G-01970A-98-0017 & G-03493A-98-0017	Residential Utility Consumer Office
Paradise Valley Water Company & Mummy Mountain Water Company	W-01303A-98-0678 & W-01342A-98-0678	Residential Utility Consumer Office
Bermuda Water Company	W-01812A-98-0390	Residential Utility Consumer Office
Bella Vista Water Company & Nicksville Water Company	W-02465A-98-0458 & W-01602A-98-0458	Residential Utility Consumer Office
Paradise Valley Water Company	W-01303A-98-0507	Residential Utility Consumer Office
Pima Utility Company	SW-02199A-98-0578	Residential Utility Consumer Office
Far West Water & Sewer Company	WS-03478A-99-0144 Interim Rates	Residential Utility Consumer Office

Utility Company	Docket No.	Client
Vail Water Company	W-01651B-99-0355 Interim Rates	Residential Utility Consumer Office
Far West Water & Sewer Company	WS-03478A-99-0144	Residential Utility Consumer Office
Sun City Water and Sun City West	W-01656A-98-0577 & SW-02334A-98-0577	Residential Utility Consumer Office
Southwest Gas Corporation & ONEOK, Inc.	G-01551A-99-0112 & G-03713A-99-0112	Residential Utility Consumer Office
Table Top Telephone	T-02724A-99-0595	Residential Utility Consumer Office
U S West Communications & Citizens Utilities Company	T-01051B-99-0737 & T-01954B-99-0737	Residential Utility Consumer Office
Citizens Utilities Company	E-01032C-98-0474	Residential Utility Consumer Office
Southwest Gas Corporation	G-01551A-00-0309 & G-01551A-00-0127	Residential Utility Consumer Office
Southwestern Telephone Company	T-01072B-00-0379	Residential Utility Consumer Office
Arizona Water Company	W-01445A-00-0962	Residential Utility Consumer Office
Litchfield Park Service Company	W-01427A-01-0487 & SW-01428A-01-0487	Residential Utility Consumer Office
Bella Vista Water Co., Inc.	W-02465A-01-0776	Residential Utility Consumer Office
Generic Proceedings Concerning Electric Restructuring Issues	E-00000A-02-0051	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-02-0707	Residential Utility Consumer Office
Qwest Corporation	RT-00000F-02-0271	Residential Utility Consumer Office

Utility Company	Docket No.	Client
Arizona Public Service Company	E-01345A-02-0403	Residential Utility Consumer Office
Citizens/UniSource	G-01032A-02-0598 E-01032C-00-0751 E-01933A-02-0914 E-01302C-02-0914 G-01302C-02-0914	Residential Utility Consumer Office
Arizona-American Water Company	WS-01303A-02-0867	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-03-0437	Residential Utility Consumer Office
UniSource	E-04230A-03-0933	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-04-0407	Residential Utility Consumer Office
Qwest Corporation	T-01051B-03-0454 & T-00000D-00-0672	Residential Utility Consumer Office
Tucson Electric Power Company	E-01933A-04-0408	Residential Utility Consumer Office
Arizona-American Water Company	W-1303A-05-0280	Residential Utility Consumer Office
Southwest Gas Corporation	G-01551A-04-0876	Residential Utility Consumer Office
Arizona-American Water Company	W-1303A-05-0405	Residential Utility Consumer Office
Arizona-American Water Company	W-1303A-05-0718	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-06-0009	Residential Utility Consumer Office
Black Mountain Sewer Corporation	SW-02361A-05-0657	Residential Utility Consumer Office

Utility Company	Docket No.	Client
Arizona Public Service Company	E-01345A-05-0816	Residential Utility Consumer Office
Arizona-American Water Company	WS-1303A-06-0014	Residential Utility Consumer Office
Tucson Electric Power Company	E-01933A-05-0650	Residential Utility Consumer Office
UNS Gas, Inc.	G-04204A-06-0463 et al.	Residential Utility Consumer Office
UNS Electric, Inc.	E-04204A-06-0783	Residential Utility Consumer Office

ARIZONA-AMERICAN WATER COMPANY, INC.

DOCKET NO. W-01303A-07-0209

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

OCTOBER 15, 2007

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INTRODUCTION

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

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

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

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

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present recommendations that are based on my analysis of Arizona American Water Company's ("Arizona-American" or "Company") application for a permanent rate increase ("Application") for the Company's Sun City Water District ("Sun City District"). Arizona-American filed the Application with the ACC on July 28, 2006. The Company has chosen the operating period ended December 29, 2006 for the test year in this proceeding.

Q. Briefly describe Arizona-American.

A. In addition to the Sun City District, Arizona-American operates ten other water and wastewater systems in Arizona. The Company is a subsidiary of American Water, which is based in Voorhees, New Jersey. According to information contained on American Water's website[1] American Water provides water and wastewater service to customers in nineteen other states (including California, Hawaii and New Mexico in the western U.S.) and three Canadian provinces. American Water is owned by Thames Water Aqua Holdings GmbH ("Thames GmbH"), which in turn is owned by RWE AG, a large multinational utility holding company headquartered in Essen, Germany. At the present time RWE AG is in the process of

[1] http://www.amwater.com

divesting American Water[2]. The divestiture has been approved by the ACC[3] and will involve the merger of another RWE AG subsidiary, Thames Water Aqua U.S. Holdings, into American Water[4]. Upon completion of the merger, Thames GmbH will offer 100 percent of the common stock of the new American Water entity through an initial public offering ("IPO"). Shares of American Water's common stock will be sold to the investing public during the IPO. After the IPO is completed, the same shares of American Water will be traded daily, like any other publicly traded company's shares of common stock, on a yet-to-be-announced U.S. stock exchange.

...

[2] In a press release dated November 4, 2005, RWE AG announced its intentions to divest both of its water business segments, which include Thames Water in the UK and American Water in North America. RWE stated that it had made the decision because it believes it can make better use of its core strengths by concentrating on the converging European electricity and gas markets. RWE also stated that limited synergies between its North American and UK water businesses and its European energy business were a major factor in the decision. RWE AG further stated that its aim is to temporarily increase its dividend payout ratio on completion of each transaction and to reduce debt. In a second press release dated March 24, 2006, RWE stated that American Water would be offered either through an initial public offering ("IPO") or by selling American Water to a group of financial investors. RWE went on to state that "the sales process is expected to be initiated shortly through filings for approval with certain state public utility commissions. The IPO will require filing of a registration statement with the U.S. Securities and Exchange Commission ("SEC"). The transaction will also be subject to the approval of the RWE AG Supervisory Board. The target is to complete the transaction during 2007." The ACC approved the divestiture for RWE's Arizona-American Water Company subsidiary in Decision No. 69344, dated February 20, 2007.

[3] Decision No. 69344, dated February 20, 2007

[4] American Water needs approval from other state commissions as well as the ACC

Q. Please explain your role in RUCO's analysis of Arizona-American's Application.

A. I reviewed Arizona-American's Applications and performed a cost of capital analysis to determine a fair rate of return on the Company's invested capital. In addition to my recommended capital structure, my direct testimony will present my recommended costs of common equity and my recommended cost of debt (the Company has no preferred stock). The recommendations contained in this testimony are based on information obtained from Company responses to data requests, the Company's Applications and from market-based research that I conducted during my analysis.

Q. Is this your first case involving Arizona-American?

A. No. In addition to the Sun City District I have also testified, as a witness for RUCO, on cost of capital issues in rate case proceedings for Arizona-American's Sun City and Sun City West Wastewater Districts[5]. I also appeared as a witness in rate case proceedings that involved the Company's Anthem/Agua Fria Water and Wastewater Districts[6], as well as Arizona-American's Mohave[7] and Paradise Valley Districts[8]. I also

[5] Docket No. WS-01303A-06-0491

[6] Docket No. WS-01303A-06-0403

[7] Docket No. W-01303A-06-0014

[8] Docket No. W-01303A-05-0405 et al.

recommended, as a Senior Rate Analyst on the ACC Staff, that the Commission reauthorize a revolving line of credit for the Paradise Valley Water District[9]. In addition to the rate increase and financing proceedings cited above, I have also prepared testimony in cases that involved a request for an arsenic cost recovery surcharge for Arizona-American's Paradise Valley District, and a request for an increase in hook-up fees, which will fund the construction of a surface water treatment facility (i.e. the White Tanks Plant), for the Company's Agua Fria District[10].

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

A. No. RUCO witness Timothy J. Coley handled those aspects of the Company's Application and Marylee Diaz Cortez, CPA, RUCO's Chief of Accounting and Rates, supports RUCO's position regarding the Company's requested fire flow surcharge.

Q. What areas will you address in your testimony?

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

Q. Please identify the exhibits that you are sponsoring.

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

[9] Docket No. W-01335A-00-0327

[10] Docket No. W-01303A-05-0718

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

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

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

...

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

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

<u>Cost of Equity Capital</u> – I am recommending a 10.02 percent cost of equity capital. This 10.02 percent figure is based on the results that I obtained in my cost of equity analysis, which employed both the DCF and CAPM methodologies and includes an upward adjustment of 50 basis points, which takes the Company's leveraged capital structure into consideration.

<u>Cost of Debt</u> – I am recommending a 5.37 percent cost of debt. This is based on my review of the costs associated with Arizona-American's various long-term notes and payment in lieu of revenue ("PILR") agreements.

<u>Capital Structure</u> – I am recommending that the Company-proposed capital structure, which is comprised of approximately 61 percent debt and 39 percent common equity, be adopted by the Commission.

<u>Cost of Capital</u> – Based on the results of my recommended capital structure, cost of common equity, and debt analyses, I am recommending a 7.16 percent cost of capital for Arizona-American. This figure represents

the weighted cost of my recommended cost of common equity and my recommended cost of debt.

Q. Why do you believe that your recommended 7.16 percent cost of capital is an appropriate rate of return for Arizona-American to earn on its invested capital?

A. The 7.16 percent cost of capital figure that I have recommended meets the criteria established in the landmark Supreme Court cases of Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia (262 U.S. 679, 1923) and Federal Power Commission v. Hope Natural Gas Company (320 U.S. 391, 1944). Simply stated, these two cases affirmed that a public utility that is efficiently and economically managed is entitled to a return on investment that instills confidence in its financial soundness, allows the utility to attract capital, and also allows the utility to perform its duty to provide service to ratepayers. The rate of return adopted for the utility should also be comparable to a return that investors would expect to receive from investments with similar risk.

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

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

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

COST OF EQUITY CAPITAL

Q. What is your recommended cost of equity capital for Arizona-American?

A. Based on the results of my DCF and CAPM analyses, which ranged from 8.02 percent to 11.48 percent, I am recommending a 10.02 percent cost of equity capital for Arizona-American. My recommended 10.02 percent figure represents a 9.52 percent average of the results of my DCF and CAPM analyses, which utilized a sample of publicly traded water providers and a sample of publicly traded natural gas local distribution companies ("LDC"), plus an additional 50 basis point upward adjustment which takes the Company's debt leveraged capital structure into consideration.

Discounted Cash Flow (DCF) Method

Q. Please explain the DCF method that you used to estimate Arizona-American's cost of equity capital.

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

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

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

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

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

g = the expected rate of future dividend growth.

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

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

A. There are two primary assumptions regarding dividend growth that must be made when using the DCF method. First, dividends will grow by a constant rate into perpetuity, and second, the dividend payout ratio will remain at a constant rate. Both of these assumptions are predicated on the traditional DCF model's basic underlying assumption that a company's earnings, dividends, book value and share growth all increase at the same constant rate of growth into infinity. Given these assumptions, if the dividend payout ratio remains constant, so does the earnings retention ratio (the percentage of earnings that are retained by the company as opposed to being paid out in dividends). This being the case, a company's dividend growth can be measured by multiplying its retention ratio (1 - dividend payout ratio) by its book return on equity. This can be stated as $g = b \times r$.

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

A. RUCO consultant Stephen Hill illustrated this relationship in a Citizens Utilities Company 1993 rate case by using a hypothetical utility.[11]

Table I

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

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

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

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

...

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

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

Table II

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

In the example displayed in Table II, a sustainable growth rate of four percent[12] exists in Year 1 and Year 2 (as in the prior example). In Year 3, Year 4 and Year 5, however, the sustainable growth rate increases to six percent.[13] If the hypothetical utility in Mr. Hill's illustration were expected to earn a fifteen-percent return on common equity on a continuing basis, then a six percent long-term rate of growth would be reasonable. However, the compound growth rates for earnings and dividends,

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

[13] [(1 – Payout Ratio) x Rate of Return] = [(1 - 0.60) x 15.00%] = 0.40 x 15.00% = 6.00%

displayed in the last column, are 16.20 percent. If this rate were to be used in the DCF model, the utility's return on common equity would be expected to increase by fifty percent every five years, [(15 percent ÷ 10 percent) – 1]. This is clearly an unrealistic expectation.

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

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

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

...

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

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

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

A. As I explained earlier, one way that a utility can increase its equity is by selling new shares of common stock on the open market. If these new shares are purchased at prices that are higher than those shares sold previously, the utility's book value per share will increase in value. This would increase both the earnings base of the utility and the earnings expectations of investors. However, if new shares sold at a price below the pre-sale book value per share, the after-sale book value per share declines in value. If this downward trend continues over time, investors might view this as a decline in the utility's sustainable growth rate and will have lower expectations regarding growth. Using this same logic, if a new stock issue sells at a price per share that is the same as the pre-sale book value per share, there would be no impact on either the utility's earnings base or investor expectations.

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

A. In his book, The Cost of Capital to a Public Utility,[14] Dr. Gordon (the individual responsible for the development of the DCF or constant growth model) identified a growth rate that includes both expected internal and external financing components. The mathematical expression for Dr. Gordon's growth rate is as follows:

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

where: g = DCF expected growth rate,

b = the earnings retention ratio,

r = the return on common equity,

s = the fraction of new common stock sold that

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

accrues to a current shareholder, and

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

and v = 1 - [(BV) ÷ (MP)]

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

MP = the market price per share of common stock.

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

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

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

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

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

A. Yes. In the most recent Southwest Gas Corporation rate case[15], the Commission adopted the recommendations of ACC Staff's cost of capital witness, Stephen Hill, who I noted earlier in my testimony. In that case, Mr. Hill used the same methods that I have used in arriving at the inputs for the DCF model. His final recommendation for Southwest Gas Corporation was largely based on the results of his DCF analysis, which incorporated the same valid market-to-book ratio assumption that I have used consistently in the DCF model as a cost of capital witness for RUCO.

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

A. I analyzed data on two separate proxy groups. A water company proxy group comprised of four publicly traded water companies and a natural gas proxy group consisting of ten natural gas local distribution companies ("LDC") which have similar operating characteristics to water providers.

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

A. One of the problems in performing this type of analysis is that the utility applying for a rate increase is not always a publicly traded company, as is the case with Arizona-American itself. Although shares of Arizona-

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

American's holding company, RWE AG of Germany, are traded in the U.S. in the form of American depository receipts or ADR's (ticker symbol RWEOY in the case of RWE AG), there is no financial data available on dividends paid on *publicly held* shares of American Water, Arizona-American or the Company's Sun City/Sun City West Districts water and wastewater operations. Consequently it was necessary to create a proxy by analyzing publicly traded water companies and LDC's with similar risk characteristics.

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

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

Q. What criteria did you use in selecting the companies that make up your water company proxy for Arizona-American?

A. Three of the water companies used in the proxy are publicly traded on the New York Stock Exchange ("NYSE"), and one of them, Southwest Water Company is traded over the counter through the National Association of

Securities Dealers Automated Quotation System ("NASDAQ"). All four water companies are followed by The Value Line Investment Survey ("Value Line") and are the same companies that comprise Value Line's large capitalization Water Utility Industry segment of the U.S. economy (Attachment A contains Value Line's July 27, 2007 update of the water utility industry and evaluations of the four water companies used in my proxy).

Q. What companies comprise your water company proxy group?

A. My water company proxy group includes American States Water Company (stock ticker symbol "AWR"), Aqua America, Inc. ("WTR"), formerly known as Philadelphia Suburban Corporation, California Water Service Group ("CWT") and Southwest Water Company ("SWWC"). Each of these water companies face the same types of risk that Arizona-American faces. For the sake of brevity, I will refer to each of these companies by their appropriate stock ticker symbols henceforth.

Q. Briefly describe the areas served by the companies in your water company sample proxy.

A. In addition to providing water service to residents of Fountain Hills, Arizona, through its wholly owned subsidiary Chaparral City Water Company, AWR serves communities located in Los Angeles, Orange and San Bernardino counties in California. CWT provides service to customers in seventy-five communities in California, New Mexico and Washington. CWT's principal service areas are located in the San Francisco Bay area, the Sacramento, Salinas and San Joaquin Valleys and parts of Los Angeles. SWWC owns and manages regulated systems in California, New Mexico, Oklahoma and Texas. WTR is a holding company for a large number of water and wastewater utilities operating in nine different states including Pennsylvania, Ohio, New Jersey, Illinois, Maine, North Carolina, Texas, Florida and Kentucky.

Q. Are these the same water companies that Arizona-American used in its application?

A. Arizona-American's cost of equity witness, Mr. Joel Reiker, used the same four water companies included in my proxy. In addition to these four companies, Mr. Reiker also used three other water companies, in both his DCF and CAPM analyses[16], which are included in Value Line's Small and Mid Cap Edition.

Q. Why did you exclude the water companies that are followed in Value Line's Small and Mid Cap Edition?

A. Value Line does not provide the same type of forward-looking information (i.e. long-term estimates on return on common equity and share growth) on small and mid-cap companies that it provides on the four water

[16] Connecticut Water Services, Inc., Middlesex Water Company and SJW Corp.

companies that I used in my proxy. Consequently, these water companies are not as suitable as the ones that I have used in my analysis.

Q. What criteria did you use in selecting the natural gas LDC's included in your proxy for Arizona-American?

A. As are the water companies that I just described, each of the natural gas LDC's used in the proxy are publicly traded on a major stock exchange (all ten trade on the NYSE) and are followed by Value Line. Each of the ten LDC's are tracked in Value Line's natural gas (distribution) industry segment. All of the companies in the proxy are engaged in the provision of regulated natural gas distribution services. Attachment B of my testimony contains Value Line's most recent evaluation of the natural gas proxy group that I used for my cost of common equity analysis.

Q. What companies are included your natural gas proxy?

A. The ten natural gas LDC's included in my proxy (and their NYSE ticker symbols) are AGL Resources, Inc. ("ATG"), Atmos Energy Corp. ("ATO"), Laclede Group, Inc. ("LG"), New Jersey Resources Corporation ("NJR"), Nicor, Inc. ("GAS"), Northwest Natural Gas Co. ("NWN"), Piedmont Natural Gas Company ("PNY"), South Jersey Industries, Inc. ("SJI") Southwest Gas Corporation ("SWX"), which is the dominant natural gas provider in Arizona, and WGL Holdings, Inc. ("WGL"). These are the same ten LDC's that I analyzed recently in the UNS Gas, Inc. proceeding.[17]

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

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

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

A. No, he did not.

[17] Docket No. G-04204A-06-0463

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

A. Schedule WAR-5 provides retention ratios, returns on book equity, internal growth rates, book values per share, numbers of shares outstanding, and the compounded share growth for each of the utilities included in the sample for the historical observation period 2002 to 2006 for both the water and LDC industries. Schedule WAR-5 also includes Value Line's projected 2007, 2008 and 2010-12 values for the retention ratio, equity return, book value per share growth rate, and number of shares outstanding for both the water utilities and the LDC's.

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

A. In explaining my analysis, I will use American States Water Company, (NYSE symbol AWR) as an example. The first dividend growth component that I evaluated was the internal growth rate. I used the "b x r" formula (described on pages 12 and 13) to multiply AWR's earned return on common equity by its earnings retention ratio for each year in the 2002 to 2006 observation period to derive the utility's annual internal growth rates. I used the mean average of this five-year period as a benchmark against which I compared the projected growth rate trends provided by Value Line. Because an investor is more likely to be influenced by recent growth trends, as opposed to historical averages, the five-year mean noted earlier was used only as a benchmark figure. As shown on Schedule WAR-5, Page 1, AWR had sustainable internal growth that averaged 2.40 percent over the course of the 2002 to 2006 observation period. This reflects a downward trend that occurred during the 2002 - 2003 time frame. AWR rebounded from negative growth of 0.72% in 2003 to 1.01% in 2004. Value Line is predicting an increase in growth to 3.35% for 2007 with higher projected increases ranging from 3.71% in 2008 to 4.35% during the 2010-12 time frame. After weighing Value Line's higher 9.50% earnings projection, I believe that a 4.15% rate of growth is reasonable for AWR.

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

A. Schedule WAR-5 demonstrates that the pattern of share's outstanding increased from 15.18 million to 17.05 million during the 2002 to 2006 time frame. Value Line is predicting that this level will increase from 18.00 million in 2007 to 22.00 million by the end of 2012. Based on this data, I believe that a 5.00% growth in shares is not unreasonable for AWR. My final dividend growth rate estimate for AWR is 7.34 percent (5.00 percent internal + 3.19 percent external) and is shown on Page 1 of Schedule WAR-4.

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

A. Based on the DCF model, my average dividend growth rate estimate is 5.80 percent as displayed on page 1 of Schedule WAR-4.

Q. Did you use the same approach to determine an average dividend growth rate for the proxy comprised of natural gas LDC's?

A. Yes.

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

A. Based on the DCF model, my average dividend growth rate estimate is 5.48 percent, which is also displayed on page 1 of Schedule WAR-4.

Q. How does your average dividend growth rate estimates on water companies compare to the growth rate data published by Value Line and other analysts?

A. Schedule WAR-6 compares my sustainable growth estimates with the five-year projections of both Zacks (Attachment C) and Value Line. In the case of the water companies, my 5.80 percent estimate is 151 basis points higher than the historical rate of growth published by Value Line (which is an average of EPS, DPS and BVPS), and 53 basis points lower than the 6.33 percent average of historical growth rates and projections of

Value Line Analysts and consensus opinions published by Zacks Investment Research, Inc. ("Zacks"). My 5.80 percent estimate is 30 basis points higher than the Value Line 5-year compound historical average also displayed in Schedule WAR-6. This indicates that investors are expecting increased performance from water utilities in the future. Although my estimate is lower than the forward projections of Zacks and Value Line, I would still say my 5.80 percent estimate is a fair representation of the growth projections that are available to the investing public.

Q. How do your average dividend growth rate estimates on natural gas LDC's compare to the growth rate data published by Value Line and other analysts?

A. In regard to the natural gas LDC's, my 5.48 percent estimate is 67 basis points higher than the 4.81 percent consensus projections published by Zacks, and 117 basis points higher than Value Line's projected estimates. As can also be seen on Schedule WAR-6, the 5.48 percent estimate that I have calculated is 27 basis points higher than the 5.21 percent average of the 5-year historic EPS, DPS and BVPS means of Value Line and 187 basis points lower than the 7.35 percent five-year compound historical average of Value Line data (on EPS, DPS and BVPS). In fact, my 5.48 percent estimate is 65 basis points higher than the combined Value Line and Zacks averages. Unlike the water companies, this indicates that investors are expecting lower performance from natural gas distribution companies than what has been realized in the past. In the case of the LDC's I would say that my 5.48 percent estimate, which is higher than Zack's projections and higher than Value Line's forecasts, is a much more optimistic representation of the growth projections presented by securities analysts at this point in time.

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

A. For both the water companies and the natural gas LDC's I used the estimated annual dividends, for the next twelve-month period, that appeared in Value Line's July 27, 2007 Ratings and Reports water services industry update and Value Line's September 14, 2007 Ratings and Reports natural gas (Distribution) update. I then divided those figures by the four-week average price per share of the appropriate utility's common stock. The four-week average price is based on the daily closing stock prices for each of the companies in my proxies for the period September 4, 2007 to September 28, 2007.

Q. Why did you rely on a four-week observation period for the closing stock prices as opposed to a longer period of time?

A. Typically I rely on an eight-week period, but in this case I decided to use a shorter four-week period because of recent instability in the financial markets. The aforementioned instability was directly linked to the deterioration of the market for U.S. subprime mortgages and the securities linked to them (an issue that I will discuss later in my section on the current economic environment). Because of this unrest in the major stock markets, I decided not include the period from August 6, 2007 to August 31, 2007 in my observation period for closing stock prices. I have also used the same four-week period, as opposed to my typical six-week period, for observing the yields of 91-day U.S. Treasury bills that I use as a risk-free rate of return in my CAPM model.

Q. Based on the results of your DCF analysis, what is your cost of equity capital estimate for the water and natural gas utilities included in your sample?

A. As shown in Schedule WAR-2, the cost of equity capital derived from my DCF analysis is 8.02 percent for the water utilities and 9.26 percent for the natural gas LDC's.

Capital Asset Pricing Model (CAPM) Method

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

A. CAPM is a mathematical tool that was developed during the early 1960's by William F. Sharpe[18], the Timken Professor Emeritus of Finance at

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

Stanford University, who shared the 1990 Nobel Prize in Economics for research that eventually resulted in the CAPM model[19]. CAPM is used to analyze the relationships between rates of return on various assets and risk as measured by beta.[20] In this regard, CAPM can help an investor to determine how much risk is associated with a given investment so that he or she can decide if that investment meets their individual preferences. Finance theory has always held that as the risk associated with a given investment increases, so should the expected rate of return on that investment and vice versa. According to CAPM theory, risk can be classified into two specific forms: nonsystematic or diversifiable risk, and systematic or non-diversifiable risk. While nonsystematic risk can be virtually eliminated through diversification (i.e. by including stocks of various companies in various industries in a portfolio of securities), systematic risk, on the other hand, cannot be eliminated by diversification. Thus, systematic risk is the only risk of importance to investors. Simply stated, the underlying theory behind CAPM states that the expected return on a given investment is the sum of a risk-free rate of return plus a market risk premium that is proportional to the systematic (non-diversifiable risk)

[19] Dr. Sharpe shared the 1990 Nobel Prize in Economics with Harry M. Markowitz of City University of New York, and the late Merton H. Miller of the University of Chicago.

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

associated with that investment. In mathematical terms, the formula is as follows:

$$k = r_f + [\, ß\,(r_m - r_f)\,]$$

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

r_f = risk-free rate of return,

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

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

$r_m - r_f$ = market risk premium.

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

A. As I noted earlier in my testimony, I used a four-week average on a 91-day Treasury Bill ("T-Bill") rate.[21] This resulted in a risk-free (r_f) rate of return of 4.09 percent.

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

A. Because a 91-day T-Bill presents the lowest possible total risk to an investor. As citizens and investors, we would like to believe that U.S. Treasury securities (which are backed by the full faith and credit of the

[21] A four-week average was computed for the current rate using 91-day T-Bill yield quotes listed in Value Line's Selection and Opinion newsletter from September 14, 2007 to October 5, 2007.

United States Government) pose no threat of default no matter what their maturity dates are. However, a comparison of various Treasury instruments will generally reveal that those with longer maturity dates do have slightly higher yields. Treasury yields are comprised of two separate components,[22] a true rate of interest (believed to be approximately 2.00 percent) and an inflationary expectation. When the true rate of interest is subtracted from the total treasury yield, all that remains is the inflationary expectation. Because increased inflation represents a potential capital loss, or risk, to investors, a higher inflationary expectation by itself represents a degree of risk to an investor. Another way of looking at this is from an opportunity cost standpoint. When an investor locks up funds in long-term T-Bonds, compensation must be provided for future investment opportunities foregone. This is often described as maturity or interest rate risk and it can affect an investor adversely if market rates increase before the instrument matures (a rise in interest rates would decrease the value of the debt instrument). As discussed earlier in the DCF portion of my testimony, this compensation translates into higher rates of returns to the investor. Since a 91-day T-Bill presents the lowest possible total risk to an investor, it more closely meets the definition of a risk-free rate of return and is the more appropriate instrument to use in a CAPM analysis.

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

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

A. I used both a geometric and an arithmetic mean of the historical returns on the S&P 500 index[23] from 1926 to 2006 as the proxy for the market rate of return (r_m). The risk premium (r_m - r_f) that results by using the geometric mean calculation for r_m is equal to 6.31 percent (10.40% - 4.09% = 6.31%). The risk premium that results by using the arithmetic mean calculation for r_m is 8.21 percent (12.30% - 4.09% = 8.21%).

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

A. The beta coefficients (ß), for the individual utilities used in both my proxies, were calculated by Value Line and were current as of July 27, 2007 for the water companies and September 14, 2007 for the natural gas LDC's. Value Line calculates its betas by using a regression analysis between weekly percentage changes in the market price of the security being analyzed and weekly percentage changes in the NYSE Composite Index over a five-year period. The betas are then adjusted by Value Line for their long-term tendency to converge toward 1.00. The beta coefficients for the service providers included in my water company sample ranged from 0.80 to 1.00 with an average beta of 0.90. The beta

[23] The historical return information on the S&P 500 index was obtained from Morningstar's SBBI 2007 Yearbook, which was previously published by Ibbotson Associates.

coefficients for the LDC's included in my natural gas sample ranged from 0.70 to 1.05 with an average beta of 0.84.

Q. What are the results of your CAPM analysis?

A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation using a geometric mean for r_m results in an average expected return of 9.77 percent for the water companies and 9.39 percent for the natural gas LDC's. My calculation using an arithmetic mean results in an average expected return of 11.48 percent for the water companies and 10.99 percent for the natural gas LDC's.

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

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

METHOD	RESULTS
DCF (Water Sample)	8.02%
DCF (Natural Gas Sample)	9.26%
CAPM (Water Sample)	9.77% – 11.48%
CAPM (Natural Gas)	9.39% – 10.99%

Based on these results, my best estimate of an appropriate range for a cost of common equity for Arizona-American is 8.02 percent to 11.48 percent. My final recommendation for Arizona-American is 10.02 percent.

Q How did you arrive at your recommended 10.02 percent cost of common equity?

A. My recommended 10.02 percent cost of common equity is the 9.52 percent average of my DCF and CAPM results, plus an additional 50 basis points for the increased financial risk faced by Arizona-American as a result of the Company's debt heavy capital structure. The calculation can be seen on Page 3 of Schedule WAR-1.

Q. Why have you made a 50 basis point upward adjustment to the results of your DCF analysis?

A. The 50 basis point adjustment takes into consideration the higher level of debt in the Company's capital structure. My recommended capital structure for Arizona-American is comprised of approximately 61 percent debt and 39 percent common equity. This capital structure has a larger percentage of debt than the capital structures of the four water companies and the ten LDC's that I included in my DCF and CAPM proxies. As can be seen in Schedule WAR-9, the utilities included in my samples had capital structures of approximately 48 percent debt and 52 percent common equity, for water providers, and roughly 53 percent debt and 47 percent common equity for natural gas LDC's. Because Arizona-American's capital structure has a higher percentage of debt, the Company faces a higher level of financial risk (i.e. the risk of not being able to meet debt service obligations) than the companies in my proxies. For this reason a higher cost of equity is warranted and I have decided to make such an adjustment. In this case, the 10.02 percent return on common equity that I am recommending is higher than the 9.52 percent average of the results obtained from my DCF and CAPM models.

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

A. The 11.30 percent cost of equity capital proposed by the Company is 128 basis points higher than the 10.02 percent cost of equity capital that I am recommending.

Current Economic Environment

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

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

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

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

In 1991, as measured by the most recently revised annual change in gross domestic product ("GDP"), the U.S. economy experienced a rate of growth of negative 0.20 percent. This decline in GDP marked the beginning of a mild recession that ended sometime before the end of the first half of 1992. Reacting to this situation, the Federal Reserve Board ("Federal Reserve" or "Fed"), then chaired by noted economist Alan Greenspan, lowered its benchmark federal funds rate[24] in an effort to further loosen monetary constraints - an action that resulted in lower interest rates.

During this same period, the nation's major money center banks followed the Federal Reserve's lead and began lowering their interest rates as well.

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

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

Although GDP increased in 1992 and 1993, the Federal Reserve took steps to increase interest rates beginning in February of 1994, in order to keep inflation under control. By the end of 1995, the Federal discount rate had risen to 5.21 percent. Once again, the banking community followed the Federal Reserve's moves. The Fed's strategy, during this period, was to engineer a "soft landing." That is to say that the Federal Reserve wanted to foster a situation in which economic growth would be stabilized without incurring either a prolonged recession or runaway inflation.

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

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

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

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

Despite several intervals during 2002 and 2003 in which the Federal Open Market Committee ("FOMC") decided not to change interest rates, moves which indicated that the worst may be over and that the current recession might have bottomed out during the last quarter of 2001, a lackluster economy persisted. The continuing economic malaise and even fears of possible deflation prompted the FOMC to make a thirteenth rate cut on June 25, 2003. The quarter point cut reduced the federal funds rate to 1.00 percent, the lowest level in 45 years.

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

During the latter part of 2003, the FOMC went on record as saying that it intended to leave interest rates low "for a considerable period." After its two-day meeting that ended on January 28, 2004, the FOMC announced "that with inflation 'quite low' and plenty of excess capacity in the economy, policy-makers 'can be patient in removing its policy accommodation.[25]"

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

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

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

The FOMC's January 31, 2006 meeting marked the final appearance of Alan Greenspan, who had presided over the rate setting body for a total of eighteen years. On that same day, Greenspan's successor, Ben Bernanke, the former chairman of the President's Council of Economic Advisers and a former Fed governor under Greenspan from 2002 to 2005, was confirmed by the U.S. Senate to be the new Federal Reserve chief.

As expected by Fed watchers, Chairman Bernanke picked up where his predecessor left off and increased the federal funds rate by 25 basis points during each of the next three FOMC meetings for a total of seventeen consecutive rate increases since June 2004, and raising the federal funds rate to a level of 5.25 percent. The Fed's rate increase campaign finally came to a halt at the FOMC meeting held on August 8, 2006, when the FOMC decided not to raise rates.

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

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

Q. How did analysts view the Fed's actions between January 2001 and August 2006?

A. According to an article that appeared in the December 2, 2004 edition of The Wall Street Journal, the FOMC's decision to begin raising rates two years ago was viewed as a move to increase rates from emergency lows in order to avoid creating an inflation problem in the future as opposed to slowing down the strengthening economy.[26] In other words, the Fed was trying to head off inflation *before* it became a problem. During the period following the August 8, 2006 FOMC meeting, the Fed's decisions not to raise rates were viewed as a gamble that a slower U.S. economy would help to cap growing inflationary pressures.[27]

...

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

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

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

A. Yes, however, as pointed out in an August 2006 article in The Wall Street Journal by E.S. Browning, soft landings, like the one that the Fed managed to pull off during the 1994 – 1995 time frame, in which a recession or a bear market were avoided rarely happen[28]. Since it began increasing the federal funds rate in June 2004, the Fed has assured investors that it would increase rates at a "measured" pace. Many analysts and economists interpreted this language to mean that former Chairman Greenspan would be cautious in increasing interest rates too quickly in order to avoid what is considered to be one of the Fed's few blunders during Greenspan's tenure – a series of increases in 1994 that caught the financial markets by surprise after a long period of low rates. The rapid rise in rates contributed to the bankruptcy of Orange County, California and the Mexican peso crisis[29]. According to Mr. Browning, at the time that his article was published, the hope was that Chairman Bernanke would succeed in slowing the economy "just enough to prevent serious inflation, but not enough to choke off growth." In other words, "a 'Goldilocks economy,' in which growth is not too hot and not too cold."

[28] Browning, E.S, "Not Too Fast, Not Too Slow…," The Wall Street Journal Online Edition, August 21, 2006.
[29] Associated Press (AP), "Fed begins debating interest rates" USA Today, June 29, 2004.

Q. Was the Fed's attempt to engineer a soft landing successful during this period?

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

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

A. Yes. On August 7, 2007, the FOMC decided not to increase or decrease the Federal Funds rate for the ninth straight time, and left its target rate unchanged at 5.25 percent.[31] At the time of the Fed's decision, analysts speculated that a rate cut over the next several months was unlikely given the Fed's concern that inflation would fail to moderate. In addition to this, evidence of a slowing economy and a possible recession were beginning to surface. Within days of the Fed's decision to stand pat on rates, a borrowing crises, rooted in the recent deterioration of the market for U.S.

[30] Henderson, Nell, "Bullish on Bernanke" The Washington Post, January 30, 2007.

[31] Ip, Greg, "Markets Gyrate As Fed Straddles Inflation, Growth" The Wall Street Journal, August 8, 2007

subprime mortgages and securities linked to them, forced the Fed to inject $24 billion in funds (raised through open market operations) into the credit markets.[32] By Friday, August 17, 2007, after a turbulent week on Wall Street, the Fed made the decision to lower its discount rate (i.e. the rate charged on direct loans to banks) by 50 basis points, from 6.25 percent to 5.75 percent, and took steps to encourage banks to borrow from the Fed's discount window in order to provide liquidity to lenders. According to an article that appeared in the August 18, 2007 edition of The Wall Street Journal, [33] the Fed had used all of its tools to restore normalcy to the financial markets. If the markets failed to settle down, the Fed's only weapon left was to cut the Federal Funds rate – possibly before the next FOMC meeting scheduled on September 18, 2007.

Q. Did the Fed cut rates as a result of the recent borrowing crises?

A. Yes. At its regularly scheduled meeting on September 18, 2007, the FOMC surprised the investment community and cut both the federal funds rate and the discount rate by 50 basis points or 25 basis points more than what was anticipated. This brought the federal funds rate down to its current level of 4.75 percent. The Feds action was seen as an effort to curb the aforementioned slowdown in the economy. The Feds rate-cutting

[32] Ip, Greg, "Fed Enters Market To Tamp Down Rate" The Wall Street Journal, August 9, 2007

[33] Ip, Greg, Robin Sidel and Randall Smith, "Fed Offers Banks Loans Amid Crises" The Wall Street Journal, August 9, 2007

actions bolstered investor confidence and sparked a buying rally on Wall Street.

Q. Putting this all into perspective, how have the Fed's actions since 2000 affected benchmark rates?

A. Despite the increases (prior to June 2006) by the FOMC, interest rates and yields on U.S. Treasury instruments are for the most part still at historically low levels. The Fed's actions have also had the overall effect of reducing the cost of many types of business and consumer loans. As can be seen in Schedule WAR-8, the previously mentioned federal discount rate (the rate charged to the Fed's member banks), has now dropped to 5.25 percent from 5.73 percent in 2000, the other key interest rates (i.e. the prime rate and the federal funds rate) are still below their year-end 2000 levels.

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

A. As of October 5, 2007, the leading interest rates have all dropped from the levels that existed a year ago (Attachment G). The prime rate has fallen from 8.25 percent a year ago to its current level of 7.75 percent. The benchmark federal funds rate, just discussed, has decreased from 5.25 percent, in September 2006, to its current level of 4.75 percent (the result of the Fed's recent 50 basis point cut described earlier). The yields on several maturities of U.S. Treasury instruments have decreased over the past year. A previous trend, described by former Chairman Greenspan as a "conundrum"[34], in which long-term rates fell as short-term rates increased, thus creating the somewhat inverted yield curve that existed as of June 8, 2007, appears to have ended and a more traditional yield curve (where yields increase as maturity dates lengthen) appears to be forming. The 91-day T-bill rate, used in my CAPM analysis, has fallen from 4.86 percent, in September 2006, to 3.69 percent as of September 26, 2007. The 1-Year Treasury constant maturity rate also decreased from 4.89 percent over the past year to 4.04 percent. Again, for the most part, these current yields are considerably lower than corresponding yields that existed during the early nineties (as can be seen on Schedule WAR-8).

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

A. According to The Wall Street Journal article cited on page 46 of my testimony, traders in the futures market are expecting the federal funds rate to drop another 50 basis points to 4.25 percent, by the end of the year. If the traders' forecasts are correct, the prime rate, which generally moves in lockstep with the Federal Funds rate, should also fall to 7.25 percent by the end of December, 2007.

Value Line analysts, who are anticipating lower rates of inflation in the coming months, had this to say in their Economic and Stock Market

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

Commentary that appeared in the October 5, 2007 edition of Value Line's Selection and Opinion publication:

> "We expect the Federal Reserve to reduce interest rates again in the coming months. Our reasoning is that GDP growth is likely to be low enough (averaging 2%, or so, through the middle of 2008) that any sizable new declines in housing demand may jeopardize the business expansion to such a degree that a mild recession becomes practically unavoidable. However, should the rate of inflation increase materially as a result of efforts to stimulate the economy, via reductions in interest rates, we think the Fed would be less inclined to loosen the monetary reins any further."

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

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

...

Q. Please summarize how the economic data just presented relates to Arizona-American.

A. If Federal Reserve Chairman Bernanke continues to keep inflation in check, and keep it contained within his preferred range of 1 to 2 percent[35], Arizona-American could look forward to relatively stable and even possibly declining prices for goods and services, which in turn means that the Company can expect its present operating expenses to either remain stable or possibly decline in the coming years. Lower interest rates would also benefit Arizona-American in regard to any short or long-term borrowing needs that the Company may have. Despite the recent slowdown in the housing market that is expected to continue into 2008, lower interest rates could further help to accelerate growth in new construction projects and home developments in the Company's service territories, and may result in new revenue streams to Arizona-American. Value Line analyst Nils C. Van Liew took note of the current environment of low interest rates recently. In Value Line's Electric Utility (East) Industry update dated March 2, 2007, Mr. Van Liew had this to say:

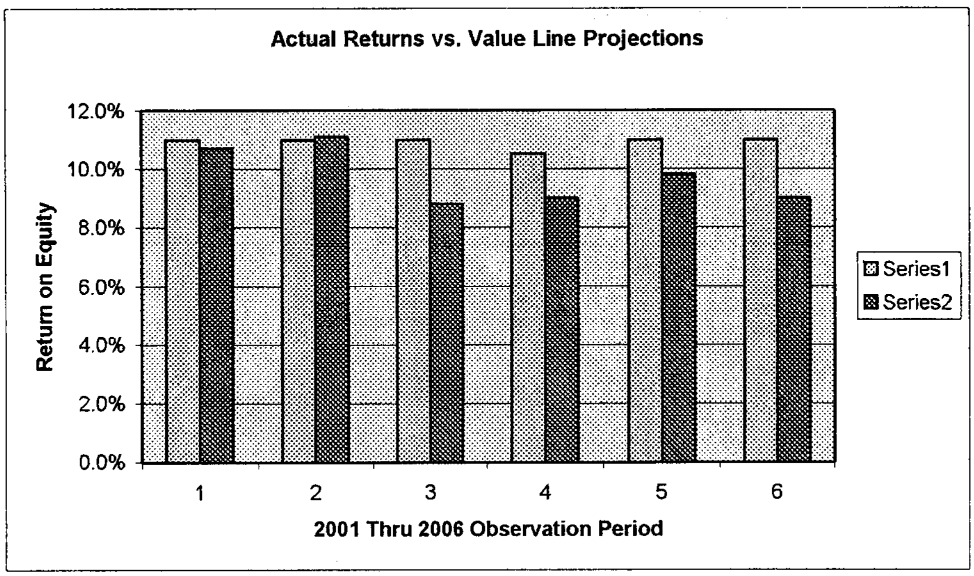
> "Several factors are, no doubt, driving the electric utilities' strong share - price performance. Perhaps most important is a benign interest-rate environment. Utilities frequently tap the credit markets to fund their operations. (Low interest rates mean they can cost-effectively build new power plants and maintain existing ones.) 'Cheap money' also tends to drive economic expansion, thereby increasing electricity demand. That said, interest rates should remain relatively low, though the likelihood that the Federal Reserve eases (monetary) policy is small, given persistent inflation concerns."

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

Although inflation appears to be less of a concern to the Fed at this point in time (given the recent 50 basis point cut to the federal funds rate described earlier), Mr. Van Liew's remarks are, for the most part, applicable to the water utility industry also.

Q. What has been the trend in Value Line's return on common equity projections for the water utility industry over the last seven years?

A. Up until 2005, and with the exception of 2003, Value Line's analysts have been making downward projections on water industry book returns on common equity ("ROE"). In addition to the downward trend in projections that I just addressed (exhibited in Attachment D), Value Line's analysts have been somewhat more optimistic in their forward-looking one-year and long-term projections. As can be seen in the chart below, Value Line's analysts have been somewhat high in their coming year projections on ROE.



The bar chart above illustrates Value Line's water utility industry projections on ROE (the lighter bar identified as series 1), over the 2001 to 2006 period, versus the actual returns (the darker bar identified as series 2) that actually occurred during that same time frame (observation periods 1 through 6). The actual basis point spreads between the Value Line projections and the actual returns on ROE are as follows:

Year	Value Line Projected	Actual Book Return on ROE	Difference
2001	11.0%	10.7%	-30 Basis Points
2002	11.0%	11.1%	+10 Basis Points
2003	10.5%	8.8%	-170 Basis Points
2004	11.0%	9.0%	-200 Basis Points
2005	11.0%	9.8%	-120 Basis Points
2006	11.0%	9.0%	-200 Basis Points

As can be seen above, with the exception of the 2002 operating period, Value Line's analyst's projections on water utility ROE's from one year out were 30 to 200 basis points higher than the actual returns booked by the water utilities. This is why I rarely rely on projections at face value, and only use Value Line's and Zacks' analyst's projections as guides in developing my growth estimates for the DCF model.

...

Q. After weighing the economic information that you've just discussed, do you believe that the 10.02 percent cost of equity capital that you have estimated is reasonable for Arizona-American?

A. I believe that my recommended 10.02 percent cost of equity will provide Arizona-American's Sun City District with a reasonable rate of return on the Company's invested capital when economic data on interest rates (that are still low by historical standards), a resumption of growth in new housing construction (attributed to historically low interest rates), and a low and stable outlook for inflation are all taken into consideration. As I noted earlier, the Hope decision determined that a utility is entitled to earn a rate of return that is commensurate with the returns it would make on other investments with comparable risk. I believe that my DCF analysis has produced such a return.

COST OF DEBT

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

A. Yes.

Q. Briefly explain how Arizona-American calculated the Company-proposed cost of debt.

A. The Company-proposed cost of debt is the weighted cost of Arizona-American's various debt instruments that were issued to finance assets that were in place during the Test Year. In arriving at the Company-proposed 5.56 percent weighted cost of these instruments, Mr. Reiker made a pro forma adjustment to reflect a planned refinancing of the Company's $25 million September-2014 series note with a single $10 million note and an additional $6.45 million in long-term debt at an expected effective interest rate of 5.84 percent over a twenty-year period.

Q. Have you adopted the Company-proposed cost of debt?

A. No. For several reasons I have decided not to adopt the Company-proposed cost of debt. First, Mr. Reiker's cost of debt is based on projections that have not yet occurred to the best of my knowledge. Second, there are several outstanding cost of debt issues related to Arizona-American's pending rate case applications for the Company's Anthem/Agua Fria Water and Wastewater Districts[36] and the Company's Sun City and Sun City West Wastewater Districts.[37] Specifically these issues deal with ACC Staff's proposed accounting treatments for the Phoenix Interconnection Agreement associated with the Company's Anthem/Agua Fria Water and Wastewater Districts docket and the Tolleson Obligation associated with the Company's Sun City and Sun City West Wastewater Districts docket. As a result of these two factors, I have decided to recommend the same 5.37 percent cost of debt that I

[36] Docket No. WS-01303A-06-0403

[37] Docket No. WS-01303A-06-0491

recommended previously in the Sun City and Sun City West Wastewater Districts docket.

My recommendation is based on information contained in Decision No. 68994, dated October 20, 2006 (Attachment E), which approved a financing application dealing with the refinancing of the Company's November '01 series and January '02 series bonds, and a related compliance report (Attachment F) which contains copies of the executed loan agreements (i.e. promissory notes) that stated the borrowing terms on three loans totaling $159 million at rates of interest ranging from 5.39 percent to 5.62 percent over periods ranging from six to twelve years. I have included the information on these three loans on Schedule WAR-1, Page 2 of 3 to arrive at my recommended weighted cost of debt of 5.37 percent.

CAPITAL STRUCTURE

Q. Have you reviewed Arizona-American's testimony regarding the Company's proposed capital structure?

A. Yes.

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

A. The Company is proposing a projected capital structure comprised of 57.6 percent debt and 42.4 percent common equity.

Q. What capital structure are you recommending for Arizona-American?

A. I am recommending a capital structure comprised of 61.4 percent debt and 38.6 percent common equity. This is based on the outstanding balances of the various debt instruments that I based my cost of debt recommendation on and the level of stockholders equity that existed at the end of the Company's test year.

Q. Is Arizona-American's capital structure in line with industry averages?

A. No. As I explained earlier in my testimony, Arizona-American's capital structure is heavier in debt than the capital structures of the other water companies included in my cost of capital analysis (Schedule WAR-9). The capital structures for those utilities averaged 48.3 percent for debt and 51.7 percent for equity (51.6 percent common equity + 0.1 percent preferred equity).

Q. In terms of risk, how does Arizona-American's capital structure compare to the water utilities in your sample?

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

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

A. Yes. As discussed earlier, I have made a 50 basis point adjustment to my recommended cost of equity based on the results of my DCF and CAPM analyses. I believe that this adjustment, along with the hypothetical capital structure that I am recommending, provides the Company with a return on common equity that will compensate the Company's shareholders for the higher financial risk that they face.

WEIGHTED COST OF CAPITAL

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

A. The Company has proposed a weighted cost of capital of 8.00 percent. This composite figure is the result of a weighted average of Arizona-American's proposed 5.56 percent cost of debt and 11.30 percent cost of equity capital for the Sun City District. The Company-proposed 8.00

percent weighted cost of capital is 84 basis points higher than the 7.16 percent weighted cost that I am recommending.

COMMENTS ON ARIZONA-AMERICAN'S COST OF EQUITY CAPITAL TESTIMONY

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

A. The 11.30 percent cost of equity capital proposed by the Company is 128 basis points higher than the 10.02 percent cost of equity capital that I am recommending.

Q. Who estimated the Company-proposed cost of equity capital?

A. As noted earlier Mr. Joel Reiker, a former employee of Arizona-American, estimated the Company-proposed cost of equity capital. Mr. Reiker estimated a cost of common equity to be within a range of 8.80 percent to 9.80 percent with a mean average of 9.40 percent. His final recommendation for Arizona-American is 11.30 percent. In arriving at his final estimate, Mr. Reiker relied on the Hamada[38] methodology in order to produce a Company-proposed cost of equity which takes the Company's debt leveraged capital structure into consideration.

[38] Named after Robert S. Hamada, the University of Chicago professor of finance who developed the methodology

Q. What methods did Mr. Reiker use to arrive at his cost of common equity for the Sun City District?

A. Mr. Reiker used both the DCF and CAPM methods to estimate a cost of equity capital. His DCF analysis employed both the constant growth version of the DCF model, which I used in my analysis, and a multi-stage version that includes a 6.50 percent historical rate of growth of GDP from 1929 to 2005.

DCF Comparison

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

A. Yes. As I just noted, Mr. Reiker conducted two separate DCF analyses. His first DCF analysis is a one-step constant growth model, similar to the one that I used, which uses a proxy of seven water providers. Mr. Reiker's second DCF analysis uses the two-step multi-stage growth DCF model.

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

A. Primarily because the growth rate component that I estimated for my single-stage model places more emphasis on the individual 5-year growth rate projections of the utilities in my samples as opposed to assuming that they will all continue to grow at the same 6.50 percent rate of historical

GDP into perpetuity (the long-term component of the multi-stage DCF). In addition, the 5-year window used in my model is closer to the average three to five-year time frame that utilities generally apply for rates. Because a 5-year projection is more reasonable in my opinion, I saw no need to conduct a separate multi-stage DCF analysis. As I pointed out earlier in my testimony, the method that I used also takes into consideration analysts' tendency to make overly optimistic growth estimates.

Q. What is the difference between your constant growth DCF results, using both water companies and LDC's, and Mr. Reiker's constant growth DCF result using water companies?

A. The 8.02 percent cost of common equity derived from my constant growth DCF analysis, that uses an average of four sample water companies, is 78 basis points lower than the 8.80 percent estimate derived from Mr. Reiker's constant growth (one-step DCF analysis), which is an average of seven sample water companies (as exhibited in schedules JMR-4 through JMR 14 of Mr. Reiker's testimony).

The 9.26 percent cost of common equity derived from my constant growth DCF analysis, that uses an average of ten sample LDC's, is 46 basis points higher than the 8.80 percent estimate derived from Mr. Reiker's constant growth model.

Q. Please explain why your 8.02 percent to 9.26 percent constant growth DCF results are 78 basis points lower to 46 basis points higher than the 8.80 percent figure produced by Mr. Reiker's constant growth DCF model.

A. One reason is the dividend yield calculation, which can be attributed to observation period timing. Over the past six months there have been no substantial changes in dividend payouts for either the water companies or the LDC's included in my samples, but stock prices have generally increased for three of the four water companies included in my sample and have generally decreased for eight of the ten LDC's. The difference between the 4-week average closing stock prices used in my analysis and the January 26, 2007 spot prices included in Mr. Reiker's analysis are as follows:

	Rigsby	**Reiker**	**Difference**
AWR	$40.52	$37.43	$3.09
CWT	$40.11	$39.62	$0.49
SWWC	$13.18	$12.85	$0.33
WTR	$24.15	$22.59	$1.56

Concentrating strictly on the four water companies used in my sample, Mr. Reiker's analysis produced an approximate average annualized dividend yield of 2.32 percent versus the 2.22 percent figure, which I calculated for water companies (Schedule WAR-3) and the 3.78 percent figure calculated for my LDC sample. In the growth component (g) of his constant growth DCF analysis, Mr. Reiker relied on Value Line's historical and projected growth estimates for earnings, dividends and book value in order to arrive at an average expected growth rate of 6.0 percent versus my estimates of 5.80 percent for water companies and 5.48 percent estimate for LDC's. His constant growth DCF estimate of 8.80 percent (rounded) is the sum of his 2.7 percent dividend yield (of the seven water utilities in his sample) and his aforementioned average expected growth rate of 6.0 percent.

Q. What is the difference between your constant growth DCF result and Mr. Reiker's two-step or multi-stage growth model DCF result?

A. The 8.02 percent cost of common equity derived from my constant growth DCF analysis, that uses an average of four sample water companies, is 108 basis points lower than the 9.10 percent estimate derived from Mr. Reiker's multi-stage (two-step) DCF analysis, which is an average of seven sample water companies (as exhibited in schedule JMR 15 of Mr. Reiker's testimony).

The 9.26 percent cost of common equity derived from my constant growth DCF analysis, that uses an average of ten sample LDC's, is 16 basis points higher than the 9.10 percent estimate derived from Mr. Reiker's multi-stage model. Again Mr. Reiker's multi-stage model assumes that each of the water companies in his sample will all grow at the same rate of 6.50 percent from five years out into perpetuity.

CAPM Comparison

Q. Please compare Mr. Reiker's CAPM analysis to your CAPM analysis.

A. Mr. Reiker and I both used the yields on various U.S. Treasury instruments for our risk-free rate components and betas published by Value Line. Mr. Reiker's final CAPM estimate is an average of the results obtained by using both an historical risk premium and a current market risk premium. Mr. Reiker and I both used the Sharpe Litner version of the CAPM model. Mr. Reiker supplements his CAPM analysis by providing information on betas that he calculated himself.

Q. What is the difference between your CAPM results and Mr. Reiker's CAPM result?

A. Mr. Reiker's CAPM estimate of 9.80 percent is 3 basis points higher to 168 basis points lower than my 9.77 percent (using a geometric mean) to 11.48 percent (using an arithmetic mean) CAPM estimates obtained from my sample of water companies. His CAPM estimate of 9.80 percent is 41 basis points higher to 119 basis points lower than my 9.39 percent (using a geometric mean) to 10.99 percent (using an arithmetic mean) CAPM estimates obtained from my sample of LDC's.

Q. What financial instruments did Mr. Reiker use as proxies for his risk-free rate of return in his CAPM analysis?

A. Mr. Reiker used an average of the 5, 7, and 10-year U.S. Treasury constant maturity rates (at the time of his analysis in January 2007) for the risk-free (r_f) component of his CAPM model. This produced his risk-free return of 4.70 percent versus the 4.09 percent 4-week average of 91-day T-bills that I used in my analysis.

Q. Where do Mr. Reiker's 5, 7, and 10-year U.S. Treasury constant maturity rate yields stand in the current interest rate environment?

A. As of the week ending October 5, 2007, Mr. Reiker's 5, 7, and 10-year U.S. Treasury constant maturity rates of 4.69 percent, 4.74 percent and 4.75 percent respectively have all dropped to 4.25 percent, 4.38 percent and 4.57 percent.

Q. Did Mr. Reiker use betas published by Value Line?

A. Yes. For his CAPM analysis Mr. Reiker used the 0.86 average of the Value Line betas published on his seven water companies. His 0.86 beta coefficient is lower than the more recent 0.90 average that I obtained for my sample of four water companies and is higher than the 0.84 average that I obtained for my sample of ten LDC's.

Q. Please compare the market risk premium used in your CAPM analysis with the market risk premium used by Mr. Reiker.

A. I used a market risk premium of 6.31 percent in my model using a geometric mean and a market risk premium of 8.21 percent in my model using an arithmetic mean. Mr. Reiker used an historical risk premium of 7.50 percent and a current market risk premium of 4.40 percent in order to arrive at his average CAPM estimate of 9.80 percent.

Q. Please comment on Mr. Reiker's supplemental betas that he calculated himself.

A. Mr. Reiker's supplemental betas were calculated in order to demonstrate that water company betas are higher than those published in Value Line. According to Mr. Reiker his beta calculations demonstrate that water company betas are steadily increasing when using data obtained over a shorter time than the five-year observation period used by Value Line's analysts.

Q. Do you believe that Value Line betas are still reliable based on the results of Mr. Reiker's analysis?

A. Yes. If anything, the use of Value Line betas is actually more desirable from the standpoint of consistency and comparability. The use of Value Line betas, which, as I stated earlier are adjusted to compensate for their long-term tendency to converge toward 1.00, are calculated over the same

5-year historical period that Value Line uses to collect the fundamental accounting data that almost all analysts use in the DCF model (i.e. the historical information that I used as a benchmark for making long-term projections). Furthermore, as in this case, the use of Value Line betas allow for easier comparisons of CAPM analyses performed by various parties.

Q. How did Mr. Reiker arrive at his final 11.30 percent cost of common equity for the Sun City District?

A. Mr. Reiker's final 11.30 percent cost of equity estimate falls within a range of equity estimates that were calculated using the Hamada methodology which recalculates the beta coefficient used in the CAPM to reflect capital structures containing levels of debt that range from 25 percent to 75 percent (Schedule JMR-25). The cost of equity estimates, using the Hamada methodology, range from 9.0 percent assuming a capital structure comprised of 25 percent debt, to 14.80 percent assuming a capital structure comprised of 75 percent debt.

Q. Please comment on Mr. Reiker's method of obtaining his final cost of equity estimate.

A. Mr. Reiker's final estimate ignores all of the results obtained from his DCF analysis and relies solely on the estimates obtained from his Hamada adjusted beta coefficient. In effect it provides a cost of common equity estimate that relies too heavily on the CAPM model, which I believe is less reliable than the DCF model.

Q, Please explain why you believe that the CAPM model is less reliable than the DCF model?

A. Because the CAPM model ignores fundamental data (i.e. the accounting information on dividends and retention ratios) that is specific to individual firms that make up proxy samples. Over the years I have used CAPM in a supporting role only and have placed more emphasis on my DCF results. Only recently have I given my CAPM equal weight by averaging the results with my DCF analysis. A good argument could be made to weight the DCF more heavily in order to arrive at a final cost of equity estimate. This is mainly to provide the Commission with an estimate that is comparable to the estimates made by ACC staff. For this reason I believe my 10.02 percent recommendation is a better estimate of what Arizona-American's cost of equity is.

Q. Does your silence on any of the issues, matters or findings addressed in the testimony of Mr. Reiker, Mr. Reiker constitute your acceptance of his positions on such issues, matters or findings?

A. No, it does not.

Q. Does this conclude your testimony on Arizona-American's Sun City/Sun City West Districts?

A. Yes, it does.

Qualifications of William A. Rigsby, CRRA

EDUCATION:

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

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

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

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

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

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

EXPERIENCE:

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

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

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

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

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

Utility Company	Docket No.	Type of Proceeding
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval
Arizona-American Water Company	W-01303A-05-0405	ACRM Filing
UNS Gas, Inc.	G-04204A-06-0463	Rate Increase
Arizona-American Water Company	WS-01303A-06-0403	Rate Increase
Arizona-American Water Company	WS-01303A-06-0491	Rate Increase
UNS Electric, Inc.	E-04204A-06-0783	Rate Increase
Arizona Water Company	W-01445A-00-0962	ACRM Filing
Arizona Water Company	W-01445A-02-0619	ACRM Filing

ATTACHMENT A

Water utility companies, for the most part, stumbled out of the gate. Most posted little, if any, earnings growth in the first quarter (none had reported second-quarter results at the time that we went to press with this issue), hampered by unfavorable weather conditions and burgeoning operating expenses.

Although we look for more normalized weather, coupled with an improving regulatory climate, to help earnings growth get back on track in the coming months, we do not envision that stock price's will follow suit. In fact, as a whole, this industry offers minimal investment appeal at this juncture. None of the stocks here are ranked favorably for the year ahead or out to late decade because of concerns about rising infrastructure costs and more stringent standards by the Environmental Protection Agency (EPA) regarding water purification standards.

Improved Backing

In this day and age, every state has an appointed administration in place designed to keep a balance of power between utility providers and consumers and to ensure fair play. Unfortunately, such has not always been the case. State run regulatory authorities have tended to side with consumers in recent memory, causing a great deal of problems for utilities. That said, it appears as though the tide may be turning back in the providers favor. In California, for example, the California Public Utilities Commission (CPUC), thanks to the urging of Governor Schwarzenegger, has taken a much more business-friendly approach of late, handing down quicker and generally more favorable rulings. And things may even get better for Cal-based utility providers such as *California Water Service Group* and *American States Water*. There is heavy speculation that the CPUC will authorize some of the proposals included in the Water Action Plan that was adopted a few years back as soon as the end of the year. Such a scenario would be a boon for utility providers, resulting in more stable earnings growth looking ahead.

Capital Constraint Concerns

None of the companies included in this industry has a healthy cash position. In fact, most have very little capital on hand. This is a significant concern, given the infrastructure demands that we anticipate going forward. Maintenance costs have been increasing at a decent clip in recent years and are likely to only creep higher, given the age of current water systems and increasingly stringent EPA regulations. Indeed, many of the current infrastructures are more than 100 years old and in need of serious upkeep, or even complete replacement in some cases. Making matters worse, the Environmental Protection Agency (EPA) continues to increase its water purification standards, given the geopolitical volatility worldwide and the threat of bioterrorist actions on U.S. water systems. In all, infrastructure repair costs are expected to climb into the hundreds of millions of dollars over the next two decades. However, the dearth of funds on hand will force each of the companies here to look to outside financiers to make the improvements. Unfortunately, the necessary stock and/or debt offerings limit any potential shareholder gains.

On the other hand, though, some of the bigger players in this industry are benefiting from the aforementioned. Many smaller companies without the resources to meet the higher expenditures are selling, giving larger enterprises an opportunity to increase their customer base and improve their long-term prospects. *Aqua America* has been the biggest beneficiary to date, inking deal after deal. In fact, it has another 15 to 20 purchases slated for this year.

INDUSTRY TIMELINESS: 96 (of 98)

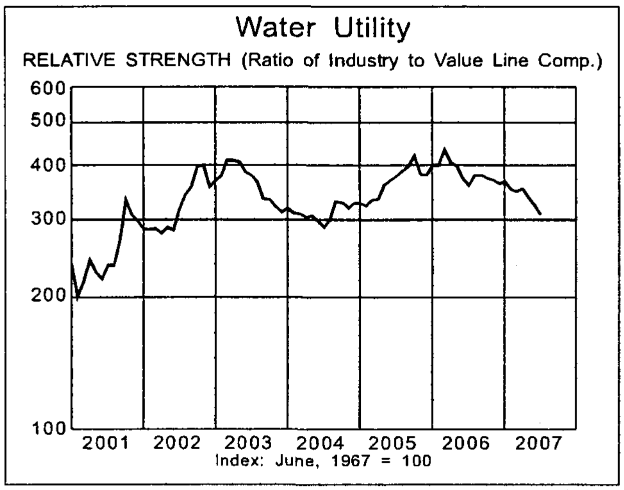
Investment Advice

Most investors will want to avoid stocks in this industry. Although an improving regulatory landscape and a white hot acquisition market augur well for larger players bottom-lines, the capital intensive nature of the industry strips away most of the growth potential that we envision. In fact, each of the issues in the coming pages holds below-average appreciation potential for both the coming six to 12 months and 3 to 5 years. Although some of the issues here offer better-than-average dividend yields, we still think that there are better income alternatives to be had. *California Water* is the only dividend-bearing offering worthwhile at this time. That said, potential investors ought to carefully examine the individual reports in the next few pages before making any commitment.

Andre J. Costanza

Composite Statistics: Water Utility Industry

2003	2004	2005	2006	2007	2008		10-12
1030	1173.6	1256.9	1361.0	***1465***	***1660***	Revenues ($mill)	***1950***
105.9	127.1	148.3	150.0	***180***	***205***	Net Profit ($mill)	***265***
39.7%	39.1%	40.5%	39.1%	***40.0%***	***40.0%***	Income Tax Rate	***40.0%***
1.9%	1.0%	1.1%	3.7%	***1.0%***	***1.0%***	AFUDC % to Net Profit	***1.0%***
51.0%	49.1%	50.4%	48.8%	***50.0%***	***50.0%***	Long-Term Debt Ratio	***50.0%***
48.8%	50.7%	49.5%	51.0%	***50.0%***	***50.0%***	Common Equity Ratio	***50.0%***
2296.4	2543.6	3057.5	3421.3	***3675***	***4000***	Total Capital ($mill)	***5040***
3186.1	3532.5	4194.7	4587.7	***5000***	***5255***	Net Plant ($mill)	***6465***
5.9%	6.0%	6.3%	5.9%	***6.5%***	***6.5%***	Return on Total Cap'l	***6.5%***
8.8%	9.0%	9.8%	8.6%	***10.0%***	***10.5%***	Return on Shr. Equity	***10.5%***
8.8%	9.0%	9.8%	8.6%	***10.0%***	***10.5%***	Return on Com Equity	***10.5%***
2.7%	3.1%	3.7%	2.8%	***3.5%***	***4.0%***	Retained to Com Eq	***3.5%***
70%	66%	62%	67%	***62%***	***56%***	All Div'ds to Net Prof	***55%***
25.6	25.4	29.4	33.3	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	***18.0***
1.46	1.34	1.57	1.80			Relative P/E Ratio	***1.20***
6.7%	2.6%	2.1%	2.0%			Avg Ann'l Div'd Yield	***2.0%***



AMER. STATES WATER NYSE-AWR

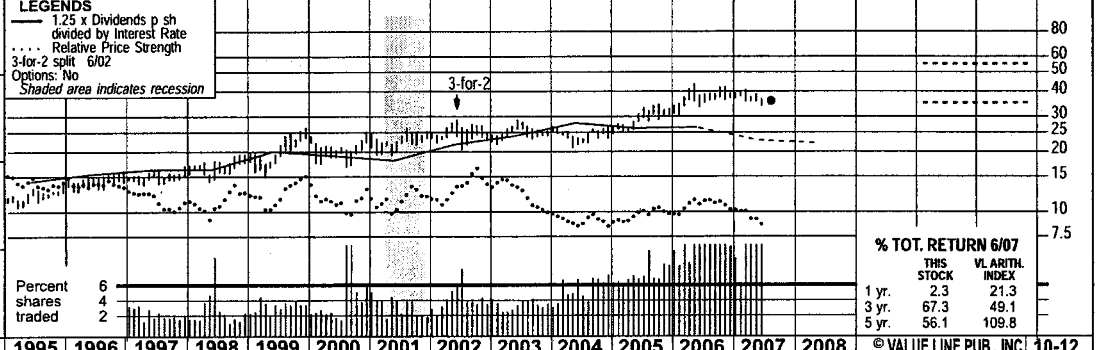
RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
35.83	23.1	(Trailing: 27.8 Median: 18.0)	1.17	2.6%	VALUE LINE

TIMELINESS **4** Raised 5/18/07
SAFETY **3** New 2/4/00
TECHNICAL **3** Raised 6/22/07
BETA .80 (1.00 = Market)

High:	16.1	17.1	19.5	26.5	25.3	26.4	29.0	29.0	26.8	34.6	43.8	41.1
Low:	12.5	13.5	14.1	14.8	16.7	19.0	20.3	21.6	20.8	24.3	30.3	33.6

Target Price Range 2010 | 2011 | 2012

LEGENDS
— 1.25 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 6/02
Options: No
Shaded area indicates recession



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+55%)	13%
Low	35	(Nil)	2%

Insider Decisions

	S	O	N	D	J	F	M	A	M
to Buy	0	0	1	0	0	0	0	0	0
Options	0	0	1	0	0	0	0	0	2
to Sell	0	0	2	0	0	0	0	0	2

Institutional Decisions

	3Q2006	4Q2006	1Q2007
to Buy	53	59	57
to Sell	55	39	47
Hld's(000)	8361	8944	9282

% TOT. RETURN 6/07

	THIS STOCK	VL ARITH. INDEX
1 yr.	2.3	21.3
3 yr.	67.3	49.1
5 yr.	56.1	109.8

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
9.15	10.10	9.27	10.43	11.03	11.37	11.44	11.02	12.91	12.17	13.06	13.78	13.98	13.61	14.06	15.75	**16.10**	**16.30**	Revenues per sh	**18.20**
1.78	1.81	1.67	1.68	1.75	1.75	1.85	2.04	2.26	2.20	2.53	2.54	2.08	2.23	2.64	2.90	**3.10**	**3.25**	"Cash Flow" per sh	**3.70**
1.19	1.15	1.11	.95	1.03	1.13	1.04	1.08	1.19	1.28	1.35	1.34	.78	1.05	1.32	1.33	**1.55**	**1.70**	Earnings per sh A	**2.10**
.73	.77	.79	.80	.81	.82	.83	.84	.85	.86	.87	.87	.88	.89	.90	.91	**.94**	**.97**	Div'd Decl'd per sh B■	**1.12**
2.77	2.31	1.90	2.43	2.19	2.40	2.58	3.11	4.30	3.03	3.18	2.68	3.76	5.03	4.24	3.91	**3.90**	**3.95**	Cap'l Spending per sh	**4.00**
8.39	8.85	9.95	10.07	10.29	11.01	11.24	11.48	11.82	12.74	13.22	14.05	13.97	15.01	15.72	16.64	**17.80**	**19.20**	Book Value per sh	**22.25**
9.91	9.96	11.71	11.77	11.77	13.33	13.44	13.44	13.44	15.12	15.12	15.18	15.21	16.75	16.80	17.05	**18.00**	**19.00**	Common Shs Outst'g C	**22.00**
8.8	10.6	13.4	12.8	11.6	12.6	14.5	15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	*Bold figures are*		Avg Ann'l P/E Ratio	**21.0**
.56	.64	.79	.84	.78	.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.47	*Value Line*		Relative P/E Ratio	**1.40**
7.0%	6.3%	5.3%	6.6%	6.7%	5.8%	5.5%	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.4%	*estimates*		Avg Ann'l Div'd Yield	**2.5%**
						153.8	148.1	173.4	184.0	197.5	209.2	212.7	228.0	236.2	268.6	**290**	**310**	Revenues ($mill)	**400**
						14.1	14.6	16.1	18.0	20.4	20.3	11.9	16.5	22.5	23.1	**28.0**	**33.0**	Net Profit ($mill)	**47.0**
						41.1%	40.9%	46.0%	45.7%	43.0%	38.9%	43.5%	37.4%	47.0%	40.5%	**41.0%**	**41.0%**	Income Tax Rate	**42.0%**
						--	--	--	--	--	--	--	--	--	--	**Nil**	**Nil**	AFUDC % to Net Profit	**Nil**
						43.0%	43.6%	51.0%	47.5%	54.9%	52.0%	52.0%	47.7%	50.4%	48.6%	**49.5%**	**49.0%**	Long-Term Debt Ratio	**49.5%**
						56.3%	55.7%	48.4%	51.9%	44.7%	48.0%	48.0%	52.3%	49.6%	51.4%	**50.5%**	**51.0%**	Common Equity Ratio	**50.5%**
						268.4	277.1	328.2	371.1	447.6	444.4	442.3	480.4	532.5	551.6	**635**	**720**	Total Capital ($mill)	**965**
						383.6	414.8	449.6	509.1	539.8	563.3	602.3	664.2	713.2	750.6	**795**	**835**	Net Plant ($mill)	**975**
						6.9%	7.0%	6.6%	6.4%	6.1%	6.5%	4.6%	5.2%	5.4%	6.0%	**6.0%**	**6.0%**	Return on Total Cap'l	**6.5%**
						9.2%	9.4%	10.0%	9.2%	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	**8.5%**	**9.0%**	Return on Shr. Equity	**9.5%**
						9.2%	9.4%	10.1%	9.3%	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	**8.5%**	**9.0%**	Return on Com Equity	**9.5%**
						1.8%	2.1%	2.9%	3.0%	3.6%	3.3%	NMF	1.0%	2.8%	2.7%	**3.5%**	**3.5%**	Retained to Com Eq	**5.0%**
						80%	78%	72%	68%	65%	65%	113%	84%	67%	67%	**60%**	**56%**	All Div'ds to Net Prof	**52%**

CAPITAL STRUCTURE as of 3/31/07
Total Debt $304.4 mill. **Due in 5 Yrs** $20.0 mill.
LT Debt $267.8 mill. **LT Interest** $24.0 mill.
(LT interest earned: 3.3x: total interest coverage: 3.0x) (48% of Cap'l)

Leases, Uncapitalized: None
Pension Assets-12/06 $64.3 mill.
Oblig. $86.1 mill.
Pfd Stock None. **Pfd Div'd** None.

Common Stock 17,061,007 shs.
MARKET CAP: $600 million (Small Cap)

CURRENT POSITION ($MILL.)	2005	2006	3/31/07
Cash Assets	13.0	3.2	9.1
Receivables	13.3	14.8	22.9
Inventory (Avg Cst)	1.4	1.6	1.7
Other	41.2	44.8	38.0
Current Assets	68.9	64.4	71.7
Accts Payable	19.7	24.0	23.0
Debt Due	27.6	32.6	36.6
Other	30.3	29.3	28.8
Current Liab.	77.6	85.9	88.4
Fix. Chg. Cov.	413%	268%	330%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	3.0%	2.5%	4.0%
"Cash Flow"	4.0%	2.0%	6.0%
Earnings	1.5%	-0.5%	9.5%
Dividends	1.0%	1.0%	3.5%
Book Value	4.0%	4.5%	6.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2004	46.7	59.3	69.0	53.0	228.0
2005	49.8	60.5	68.1	57.8	236.2
2006	64.3	63.0	75.0	66.3	268.6
2007	72.3	**68.7**	**79.0**	**70.0**	**290**
2008	**77.0**	**73.0**	**85.0**	**75.0**	**310**

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2004	.08	.30	.52	.15	1.05
2005	.22	.34	.47	.29	1.32
2006	.35	.36	.32	.30	1.33
2007	.31	**.39**	**.50**	**.35**	**1.55**
2008	**.37**	**.43**	**.53**	**.37**	**1.70**

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.221	.221	.221	.221	.88
2004	.221	.221	.221	.225	.89
2005	.225	.225	.225	.225	.90
2006	.225	.225	.225	.235	.91
2007	.235	.235			

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to more than 250,000 customers in 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to nearly 23,250 customers in the city of Big Bear Lake and in areas of San Bernardino County. Acquired Chaparral City Water of Arizona (10/00). Has roughly 555 employees. Officers & directors own 3.1% of common stock (4/07 Proxy). Chairman: Lloyd Ross. President & CEO: Floyd Wicks. Incorporated: CA. Addr.: 630 East Foothill Boulevard, San Dimas, CA 91773. Tele.: 909-394-3600. Web: www.aswater.com.

Unforeseen regulatory delays took a toll on American States Water's first-quarter performance. Although we have been positive on the California Public Utilities Commission (CPUC), which is responsible for overseeing utility companies and their business practices in California, for its more business-friendly disposition in recent years, the board appears to have reverted back to its old ways. The company's general rate case (GRC) for Region II, originally expected to be handed down by the end of last year, has yet to be resolved. The company reported earnings of $0.31 a share in the first quarter, $0.04 lower than we anticipated, as we had been expecting a favorable resolution.

Still, we think that the delay is an anomaly and that a ruling is likely to be handed down shortly. Although the claim is still being disputed by the Office of Ratepayers Advocate, there has been a clear change in the regulatory climate since Governor Schwarzenegger took the helm. He has made it a point to give utilities better representation during the decision-making process by changing the makeup of the CPUC to include advocates of swifter decisions. Recent rulings, along with the 2005 adoption of a Water Action Plan, point to a clear shift in the regulatory playing field. This is very important as AWR files a GRC every year for one of its regions. Consequently, we look for a favorable decision in the aforementioned case, along with future GRCs' to pave the way for solid earnings growth in the next few quarters at least.

Expansion into military bases is improving the company's long-term prospects. American has been actively pursuing contracts with the government to outsource water and wastewater operations at military bases. Further traction in these nonregulated sectors could substantially increase AWR's profitability out to late decade.

Nevertheless, these untimely shares are not for everyone. Capital constraints are likely to erase most of the top-line benefits mentioned above in the coming years. Indeed, the financing initiatives required to meet the growing infrastructure costs that we envision limit the stock's 3- to 5-year total return potential.

Andre J. Costanza *July 27, 2007*

(A) Primary earnings. Excludes nonrecurring gains: '91, 73¢; '92, 13¢; '04, 14¢; '05, 25¢; '06, 6¢. Quarterly earnings may not sum due to change in share count. Next earnings report due early August.
(B) Dividends historically paid in early March, June, September, December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for splits.

Company's Financial Strength	B++
Stock's Price Stability	75
Price Growth Persistence	85
Earnings Predictability	60

AQUA AMERICA NYSE-WTR

RECENT PRICE 22.27 | P/E RATIO 27.8 (Trailing: 31.8; Median: 24.0) | RELATIVE P/E RATIO 1.41 | DIV'D YLD 2.2% | VALUE LINE

TIMELINESS 4 Raised 3/9/07

SAFETY 3 Lowered 8/1/03

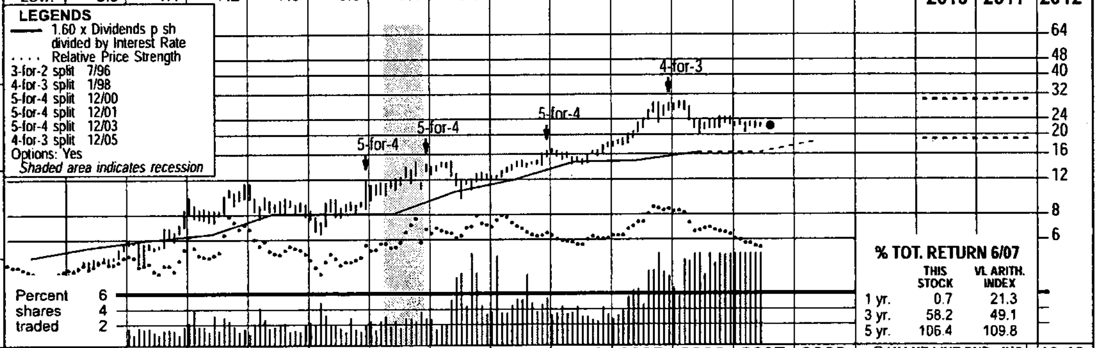
TECHNICAL 3 Raised 7/13/07

BETA .90 (1.00 = Market)

High:	5.7	8.5	11.5	11.5	12.0	14.8	15.0	16.8	18.5	29.2	29.8	24.0			
Low:	3.9	4.4	7.2	7.6	6.3	9.4	9.6	11.8	14.2	17.5	20.1	20.5			

Target Price Range 2010 | 2011 | 2012

LEGENDS
— 1.60 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 7/96
4-for-3 split 1/98
5-for-4 split 12/00
5-for-4 split 12/01
5-for-4 split 12/03
4-for-3 split 12/05
Options: Yes
Shaded area indicates recession



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+35%)	10%
Low	19	(-15%)	Nil

Insider Decisions

	S	O	N	D	J	F	M	A	M
to Buy	0	0	0	0	0	0	0	0	0
Options	0	2	4	2	0	1	0	0	2
to Sell	0	2	3	2	0	1	0	0	2

Institutional Decisions

	3Q2006	4Q2006	1Q2007
to Buy	119	122	108
to Sell	84	91	95
Hld's(000)	44837	51814	56295

Percent shares traded 6 4 2

% TOT. RETURN 6/07

	THIS STOCK	VL ARITH. INDEX
1 yr.	0.7	21.3
3 yr.	58.2	49.1
5 yr.	106.4	109.8

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
2.14	1.82	1.70	1.82	1.84	1.86	2.02	2.09	2.41	2.46	2.70	2.85	2.97	3.48	3.85	4.03	**4.50**	**4.80**	Revenues per sh	**5.35**
.45	.39	.42	.42	.47	.50	.56	.61	.72	.76	.86	.94	.96	1.09	1.21	1.26	**1.40**	**1.55**	"Cash Flow" per sh	**1.80**
.25	.24	.24	.26	.29	.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	.70	**.80**	**.90**	Earnings per sh A	**1.05**
.19	.20	.21	.21	.22	.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	.44	**.48**	**.55**	Div'd Decl'd per sh B ■	**.70**
.54	.60	.47	.46	.52	.48	.58	.82	.90	1.16	1.09	1.20	1.32	1.54	1.84	2.05	**2.10**	**2.15**	Cap'l Spending per sh	**2.30**
2.07	2.09	2.29	2.41	2.46	2.69	2.84	3.21	3.42	3.85	4.15	4.36	5.34	5.89	6.30	6.96	**7.15**	**7.45**	Book Value per sh	**9.30**
41.42	51.20	59.40	59.77	63.74	65.75	67.47	72.20	106.80	111.82	113.97	113.19	123.45	127.18	128.97	132.33	**134.00**	**136.00**	Common Shs Outst'g C	**140.00**
10.8	12.5	14.4	13.5	12.0	15.6	17.8	22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	34.7	*Bold figures are*	*Value Line*	Avg Ann'l P/E Ratio	**23.0**
.69	.76	.85	.89	.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.87	*estimates*		Relative P/E Ratio	**1.55**
7.2%	6.8%	5.9%	6.0%	6.2%	4.9%	3.9%	2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.8%			Avg Ann'l Div'd Yield	**2.9%**

CAPITAL STRUCTURE as of 3/31/07
Total Debt $1089.8 mill. Due in 5 Yrs $143.3 mill.
LT Debt $1048.6 mill. LT Interest $16.5 mill.
(LT interest earned: 3.6x; total interest coverage: 3.4x) (50% of Cap'l)

Pension Assets-12/06 $126.5 mill. Oblig. $178.3 mill.

Pfd Stock None

Common Stock 132,593,971 shares as of 4/23/07

MARKET CAP: $3.0 billion (Mid Cap)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		10-12
136.2	151.0	257.3	275.5	307.3	322.0	367.2	442.0	496.8	533.5	**600**	**650**	Revenues ($mill)	**750**
23.2	28.8	45.0	50.7	58.5	62.7	67.3	80.0	91.2	92.0	**105**	**120**	Net Profit ($mill)	**150**
40.6%	40.5%	38.4%	38.9%	39.3%	38.5%	39.3%	39.4%	38.4%	39.6%	**39.5%**	**39.0%**	Income Tax Rate	**39.0%**
--	--	--	--	--	--	--	--	2.9%	2.0%	**2.0%**	**2.0%**	AFUDC % to Net Profit	**2.0%**
54.4%	52.7%	52.9%	52.0%	52.2%	54.2%	51.4%	50.0%	52.0%	51.6%	**51.0%**	**52.0%**	Long-Term Debt Ratio	**51.0%**
44.8%	46.6%	46.7%	47.8%	47.7%	45.8%	48.6%	50.0%	48.0%	48.4%	**49.0%**	**48.0%**	Common Equity Ratio	**49.5%**
427.2	496.6	782.7	901.1	990.4	1076.2	1355.7	1497.3	1690.4	1904.4	**1970**	**2110**	Total Capital ($mill)	**2550**
534.5	609.8	1135.4	1251.4	1368.1	1490.8	1824.3	2069.8	2280.0	2506.0	**2700**	**2850**	Net Plant ($mill)	**3500**
7.4%	7.6%	7.6%	7.4%	7.8%	7.6%	6.4%	6.7%	6.9%	6.4%	**7.0%**	**7.0%**	Return on Total Cap'l	**7.5%**
11.9%	12.3%	12.2%	11.7%	12.3%	12.7%	10.2%	10.7%	11.2%	10.0%	**11.0%**	**11.5%**	Return on Shr. Equity	**11.5%**
12.0%	12.4%	12.3%	11.7%	12.4%	12.7%	10.2%	10.7%	11.2%	10.0%	**11.0%**	**11.5%**	Return on Com Equity	**11.5%**
3.6%	4.5%	4.3%	4.7%	5.1%	5.2%	4.2%	4.6%	4.9%	3.7%	**4.0%**	**4.5%**	Retained to Com Eq	**4.0%**
70%	64%	65%	60%	59%	59%	59%	57%	56%	63%	**63%**	**64%**	All Div'ds to Net Prof	**66%**

CURRENT POSITION ($MILL.)	2005	2006	3/31/07
Cash Assets	11.9	44.0	15.1
Receivables	62.7	72.1	73.7
Inventory (AvgCst)	7.8	10.2	10.9
Other	7.6	8.4	8.5
Current Assets	90.0	134.7	108.2
Accts Payable	55.5	49.4	28.9
Debt Due	163.1	150.4	41.2
Other	44.7	55.8	168.2
Current Liab.	263.3	255.6	238.3
Fix. Chg. Cov.	377%	360%	360%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	7.5%	8.5%	6.0%
"Cash Flow"	10.0%	9.0%	7.0%
Earnings	9.0%	8.0%	7.5%
Dividends	6.5%	7.0%	9.5%
Book Value	9.5%	11.0%	6.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	99.8	106.5	120.3	115.4	442.0
2005	114.0	123.1	136.8	122.9	496.8
2006	118.0	131.7	147.0	136.8	533.5
2007	137.3	**150**	**165**	**147.7**	**600**
2008	**145**	**165**	**185**	**155**	**650**

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.13	.14	.20	.17	.64
2005	.15	.17	.22	.17	.71
2006	.13	.17	.21	.19	.70
2007	.13	**.19**	**.25**	**.23**	**.80**
2008	**.20**	**.24**	**.24**	**.22**	**.90**

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.084	.084	.084	.09	.34
2004	.09	.09	.09	.098	.37
2005	.098	.098	.098	.107	.40
2006	.107	.107	.115	.115	.44
2007	.115	.115			

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately 2.8 million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '06: residential, 60%; commercial, 14%; industrial & other, 26%. Officers and directors own 1.2% of the common stock (4/07 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

Aqua America will soon release its June-period financial results. We estimate that the company earned $0.19 a share, 12% better than the year-ago quarter. The healthy share-net rise we envision mostly stems from increased rates. Over the last several months, Aqua has implemented rate hikes in several states, with additional contracts pending. All told, these rates hikes should help the company achieve a 14% share-earnings advance this year, compared to 2006's figure.

The outlook for 2008 appears solid, as well. Along with additional rate hikes, earnings will likely be fueled by the several acquisitions Aqua has recently completed. The company has already made 10 purchases this year, and has been successful at integrating these additions, which have expanded Aqua's customer base, particularly in Texas, Illinois, Florida, and Pennsylvania. The purchases have added about 55,000 customers, bringing Aqua's total to 2.9 million. We believe that these additions, along with the many acquisitions Aqua completed in late 2006, will add a couple of pennies to share earnings next year, with further contributions being realized thereafter. In sum, the purchases, along with more rate increases, will likely lead to an almost 13% share-net advance next year. Furthermore,

The company continues to be active on the acquisition front. Management recently stated that it will attempt to make 15 to 20 more purchases this year. Aqua's track record in regards to acquisitions is good, and we assume that any additional purchases would benefit revenues and profits going forward.

These shares are not particularly appealing at this time. Although Aqua will likely achieve 14% and 13% share-earnings advances this year and in 2008, respectively, our *Timeliness Ranking System* suggests that this issue will lag the year-ahead market. In addition, long-term investors may want to look elsewhere because this stock already trades within our projected Target Price Range for 2010–2012, limiting appreciation potential to that timeframe. However, our earnings estimates would likely be increased if WTR can complete some more meaningful acquisitions over the next several years.

Ian Gendler *July 27, 2007*

(A) Primary shares outstanding through '96; diluted thereafter. Excl. nonrec. gains (losses): '91, (34¢); '92, (38¢); '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from disc. operations: '96, 2¢. Next earnings report due early Aug.
(B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount).
(C) In millions, adjusted for stock splits.

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	90
Earnings Predictability	100

CALIFORNIA WATER NYSE-CWT

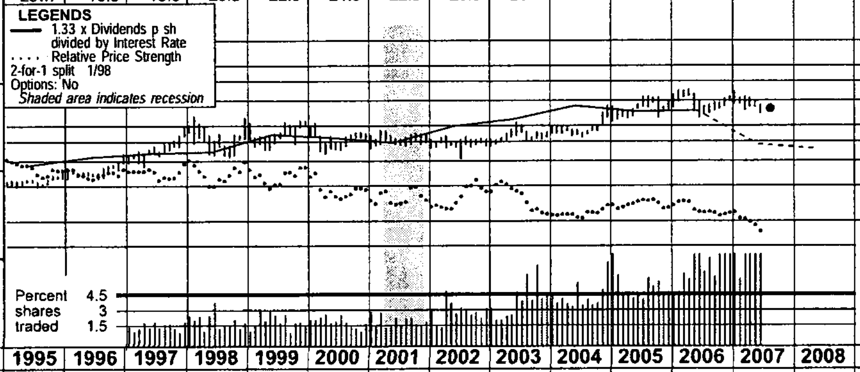
RECENT PRICE	P/E RATIO	(Trailing / Median)	RELATIVE P/E RATIO	DIV'D YLD
36.53	22.8	(Trailing: 26.7 / Median: 20.0)	1.16	3.2%

VALUE LINE

TIMELINESS 4 Raised 5/18/07
SAFETY 3 Lowered 7/27/07
TECHNICAL 4 Lowered 7/6/07
BETA .90 (1.00 = Market)

High:	21.9	29.6	33.8	32.0	31.4	28.6	26.9	31.4	37.9	42.1	45.8	44.6		
Low:	16.3	18.6	20.8	22.6	21.5	22.9	20.5	23.7	26.1	31.2	32.8	34.2		

Target Price Range 2010 | 2011 | 2012



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+50%)	13%
Low	35	(-5%)	2%

Insider Decisions

	S	O	N	D	J	F	M	A	M
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	3Q2006	4Q2006	1Q2007
to Buy	35	65	51
to Sell	37	26	39
Hld's(000)	5853	8338	8626

% TOT. RETURN 6/07

	THIS STOCK	VL ARITH. INDEX
1 yr.	8.2	21.3
3 yr.	49.8	49.1
5 yr.	78.2	109.8

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
11.18	12.29	13.34	12.59	13.17	14.48	15.48	14.76	15.96	16.16	16.26	17.33	16.37	17.18	17.44	16.20	*17.60*	*18.60*	Revenues per sh	*21.30*
1.98	1.92	2.25	2.02	2.07	2.50	2.92	2.60	2.75	2.52	2.20	2.65	2.51	2.83	3.03	2.71	*3.20*	*3.45*	"Cash Flow" per sh	*3.90*
1.21	1.09	1.35	1.22	1.17	1.51	1.83	1.45	1.53	1.31	.94	1.25	1.21	1.46	1.47	1.34	*1.60*	*1.75*	Earnings per sh A	*2.15*
.90	.93	.96	.99	1.02	1.04	1.06	1.07	1.09	1.10	1.12	1.12	1.12	1.13	1.14	1.15	*1.16*	*1.17*	Div'd Decl'd per sh B ■	*1.20*
3.03	3.09	2.53	2.26	2.17	2.83	2.61	2.74	3.44	2.45	4.09	5.82	4.39	3.73	5.14	5.05	*4.35*	*4.50*	Cap'l Spending per sh	*4.35*
10.35	10.51	10.90	11.56	11.72	12.22	13.00	13.38	13.43	12.90	12.95	13.12	14.44	15.66	15.79	18.15	*19.05*	*19.55*	Book Value per sh C	*21.30*
11.38	11.38	11.38	12.49	12.54	12.62	12.62	12.62	12.94	15.15	15.18	15.18	16.93	18.37	18.39	20.66	*21.00*	*21.50*	Common Shs Outst'g D	*23.00*
11.2	14.1	13.6	14.1	13.7	11.9	12.6	17.8	17.8	19.6	27.1	19.8	22.1	20.1	24.9	29.2	*Bold figures are*		Avg Ann'l P/E Ratio	*21.0*
.72	.86	.80	.92	.92	.75	.73	.93	1.01	1.27	1.39	1.08	1.26	1.06	1.33	1.58	*Value Line*		Relative P/E Ratio	*1.40*
6.6%	6.1%	5.2%	5.8%	6.4%	5.8%	4.6%	4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	2.9%	*estimates*		Avg Ann'l Div'd Yield	*2.7%*

CAPITAL STRUCTURE as of 3/31/07
Total Debt $293.2 mill. Due in 5 Yrs $12.0 mill.
LT Debt $291.4 mill. LT Interest $22.0 mill.

(LT interest earned: 4.0x; total int. cov.: 3.7x)

Pension Assets-12/06 $78.4 mill.
Oblig. $109.1 mill.
Pfd Stock $3.5 mill. Pfd Div'd $.15 mill.
139,000 shares, 4.4% cumulative ($25 par).

Common Stock 20,666,459 shs.
as of 5/1/06
MARKET CAP: $750 million (Small Cap)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		10-12
195.3	186.3	206.4	244.8	246.8	263.2	277.1	315.6	320.7	334.7	*370*	*400*	Revenues ($mill)	*490*
23.3	18.4	19.9	20.0	14.4	19.1	19.4	26.0	27.2	25.6	*35.0*	*40.0*	Net Profit ($mill)	*50.0*
37.4%	36.4%	37.9%	42.3%	39.4%	39.7%	39.9%	39.6%	42.4%	37.4%	*41.0%*	*41.0%*	Income Tax Rate	*41.0%*
--	--	--	--	--	--	10.3%	3.2%	3.3%	10.6%	*Nil*	*Nil*	AFUDC % to Net Profit	*Nil*
45.4%	44.2%	46.9%	48.9%	50.3%	55.3%	50.2%	48.6%	48.3%	43.5%	*44.5%*	*46.5%*	Long-Term Debt Ratio	*48.5%*
53.5%	54.7%	52.0%	50.2%	48.8%	44.0%	49.1%	50.8%	51.1%	55.9%	*55.0%*	*53.0%*	Common Equity Ratio	*51.0%*
306.7	308.6	333.8	388.8	402.7	453.1	498.4	565.9	568.1	670.1	*730*	*790*	Total Capital ($mill)	*965*
460.4	478.3	515.4	582.0	624.3	697.0	759.5	800.3	862.7	941.5	*1000*	*1060*	Net Plant ($mill)	*1240*
9.4%	7.8%	7.8%	6.8%	5.3%	5.9%	5.6%	6.1%	6.3%	5.2%	*6.5%*	*6.5%*	Return on Total Cap'l	*7.0%*
13.9%	10.7%	11.2%	10.0%	7.2%	9.4%	7.8%	8.9%	9.3%	6.8%	*8.5%*	*9.5%*	Return on Shr. Equity	*10.0%*
14.1%	10.8%	11.4%	10.1%	7.2%	9.5%	7.9%	9.0%	9.3%	6.8%	*8.5%*	*9.5%*	Return on Com Equity	*10.0%*
6.0%	2.8%	3.5%	1.8%	NMF	1.0%	.7%	2.1%	2.1%	1.0%	*2.5%*	*3.5%*	Retained to Com Eq	*4.5%*
58%	74%	70%	82%	119%	90%	91%	77%	78%	86%	*70%*	*63%*	All Div'ds to Net Prof	*55%*

CURRENT POSITION ($MILL.)	2005	2006	3/31/07
Cash Assets	9.5	60.3	43.1
Other	42.7	49.3	45.1
Current Assets	52.2	109.6	88.2
Accts Payable	36.1	33.1	33.2
Debt Due	1.1	1.8	1.8
Other	39.6	35.3	27.9
Current Liab.	76.8	70.2	62.9
Fix. Chg. Cov.	361%	317%	390%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	2.5%	1.0%	4.0%
"Cash Flow"	2.5%	3.0%	5.5%
Earnings	1.0%	2.5%	7.0%
Dividends	1.0%	.5%	1.0%
Book Value	3.5%	5.0%	4.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	60.2	88.9	97.1	69.4	315.6
2005	60.3	81.5	101.1	77.8	320.7
2006	65.2	81.1	107.8	80.6	334.7
2007	71.6	*90.4*	*120*	*88.0*	*370*
2008	*78.0*	*100*	*130*	*92.0*	*400*

Cal-endar	EARNINGS PER SHARE A E Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.08	.59	.59	.20	1.46
2005	.03	.41	.71	.32	1.47
2006	.04	.31	.68	.31	1.34
2007	.07	*.41*	*.77*	*.35*	*1.60*
2008	*.10*	*.45*	*.82*	*.38*	*1.75*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.281	.281	.281	.281	1.12
2004	.283	.283	.283	.283	1.13
2005	.285	.285	.285	.285	1.14
2006	.2875	.2875	.2875	.2875	1.15
2007	.290	.290			

BUSINESS: California Water Service Group provides regulated and nonregulated water service to over 2 million people (483,900 customers) in 83 communities in California, Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired National Utility Company (5/04); Rio Grande Corp. (11/00). Revenue breakdown, '06: residential, 70%; business, 18%; public authorities, 5%; industrial, 5%; other, 2%. '06 reported deprec. rate: 3.3%. Has roughly 870 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson. Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwater.com.

California Water Service Group came out of the gate quickly. The Cal-based water utility provider posted earnings of $0.07 in the first quarter, nearly doubling last year's figure. Revenues increased 9% to $71.6 million, benefiting from unusually dry weather conditions.

An improving regulatory landscape ought to help the company maintain its earnings momentum over the next few quarters. The California Public Utilities Commission (CPUC), which is in charge of keeping a balance between consumers and utility companies operating in the Golden State, has taken on a new stance since Governor Schwarzenegger took the helm a few years back. In a stark contrast to earlier years, it has been ruling on general rate cases (GRC) in a more timely and favorable manner. This is a major boon for CWT because it files a GRC to recover higher nonoperational costs for eight districts every year. Meanwhile, there is a likelihood that some of the proposals included in the adopted Water Action Plan will be authorized by yearend. The implementation of the revenue adjustment mechanism, which is a weather normalization clause, or streamlining of the filing process, should further reduce regulatory lag and remove a great deal of earnings volatility. Currently, we look for CWT to post earnings growth of 19% this year.

Rising infrastructure costs will likely slow share-net growth in 2008, though. Like many of its counterparts, CWT's pipelines require a lot of maintenance due to increasingly strict EPA guidelines. However, with capital expenditures slated to total roughly $20 million a quarter for the foreseeable future, CWT will probably need to look to outside financing to keep up. The higher share count and/or increased interest expense will dilute earnings. We look for share-net growth to slow to 9% in 2008.

Most will want to take a pass on this untimely issue. It is ranked to lag the market in the year ahead.

Still, it may pique the interest of risk-adverse investors looking for an income vehicle. Investors should note, however, that capital constraints may well limit the current dividend yield a bit.

Andre J. Costanza *July 27, 2007*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; 02, 8¢. Next earnings report due early August.
(B) Dividends historically paid in mid-Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available.
(C) Incl. deferred charges. In '06: $69.5 mill., $3.36/sh.
(D) In millions, adjusted for split.
(E) May not total due to change in shares.

Company's Financial Strength	B++
Stock's Price Stability	75
Price Growth Persistence	80
Earnings Predictability	70

SOUTHWEST WATER NDQ-SWWC

RECENT PRICE 12.76 | P/E RATIO 28.4 (Trailing: 31.9 Median: 21.0) | RELATIVE P/E RATIO 1.44 | DIV'D YLD 2.0% | VALUE LINE

TIMELINESS 4 Lowered 7/6/07

SAFETY 3 New 10/28/05

TECHNICAL 3 Raised 7/20/07

BETA 1.00 (1.00 = Market)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
High:	3.7	5.0	5.6	9.2	8.3	10.2	12.4	11.2	14.3	15.2	19.1	15.3
Low:	2.0	2.6	3.5	3.6	5.1	6.9	7.6	8.1	10.3	9.0	10.8	12.1

Target Price Range 2010 | 2011 | 2012

2010-12 PROJECTIONS

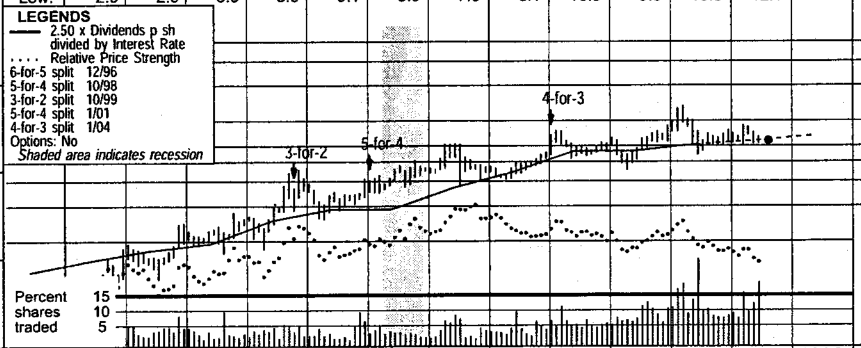
	Price	Gain	Ann'l Total Return
High	18	(+40%)	10%
Low	12	(-5%)	1%

Insider Decisions

	S	O	N	D	J	F	M	A	M
to Buy	0	0	0	0	0	0	1	0	1
Options	1	1	2	0	0	1	2	1	2
to Sell	1	2	2	1	1	1	1	1	2

Institutional Decisions

	3Q2006	4Q2006	1Q2007
to Buy	30	40	34
to Sell	20	16	26
Hld's(000)	9034	10780	11936



% TOT. RETURN 6/07

	THIS STOCK	VL ARITH. INDEX
1 yr.	8.5	21.3
3 yr.	12.4	49.1
5 yr.	7.7	109.8

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
3.34	3.77	4.03	4.20	4.84	5.31	5.61	5.63	6.16	7.49	8.15	9.12	10.70	9.23	9.10	9.42	9.60	10.00	Revenues per sh	11.00
.28	.44	.38	.38	.44	.46	.53	.59	.65	.76	.87	.86	.91	.67	.78	.85	1.00	1.10	"Cash Flow" per sh	1.40
.02	.19	.08	.09	.12	.15	.21	.25	.31	.38	.42	.39	.44	.23	.34	.40	.45	.50	Earnings per sh A	.70
.18	.18	.14	.08	.08	.09	.09	.10	.11	.13	.14	.15	.16	.18	.20	.21	.24	.26	Div'd Decl'd per sh B	.34
.39	.42	.60	.72	.84	.95	.74	.79	.53	.55	1.06	1.78	1.14	1.26	1.66	1.87	1.90	1.95	Cap'l Spending per sh	2.05
2.41	2.42	2.31	2.31	2.45	2.40	2.52	2.70	3.05	3.44	3.84	4.27	4.90	6.17	6.49	6.98	7.60	8.45	Book Value per sh D	10.50
11.60	11.80	11.97	12.13	11.74	12.45	12.65	12.83	13.12	13.99	14.17	14.35	16.17	20.36	22.33	23.80	25.00	26.00	Common Shs Outst'g C	30.00
NMF	14.5	35.8	22.3	14.6	16.5	16.9	17.2	19.6	17.0	19.8	24.8	21.2	51.6	35.5	34.8	Bold figures are	Value Line	Avg Ann'l P/E Ratio	21.0
NMF	.88	2.11	1.46	.98	1.03	.97	.89	1.12	1.11	1.01	1.35	1.21	2.73	1.89	1.88	estimates		Relative P/E Ratio	1.40
5.5%	6.6%	4.7%	4.2%	4.7%	3.4%	2.7%	2.3%	1.8%	2.0%	1.7%	1.5%	1.7%	1.5%	1.6%	1.5%			Avg Ann'l Div'd Yield	2.3%

CAPITAL STRUCTURE as of 3/31/07
Total Debt $137.2 mill. Due in 5 Yrs $60.0 mill.
LT Debt $135.7 mill. LT Interest $2.1 mill.
(Total interest coverage: 2.7x) (44% of Cap'l)

Leases, Uncapitalized: Annual rentals $6.7 mill.
Pension Liability None

Pfd Stock $.458 mill. Pfd Div'd $.006 mill.
Common Stock 24,063,654 shs.
as of 5/4/07

MARKET CAP: $300 million (Small Cap)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		10-12
71.0	72.2	80.9	104.7	115.5	130.8	173.0	188.0	203.2	224.2	240	260	Revenues ($mill)	330
2.6	3.4	4.2	5.4	6.2	6.0	7.2	4.5	7.3	9.3	12.0	14.0	Net Profit ($mill)	22.0
41.6%	39.5%	39.0%	37.0%	36.0%	34.9%	35.9%	36.1%	36.0%	35.0%	36.0%	36.0%	Income Tax Rate	35.5%
--	--	--	--	14.4%	3.2%	--	11.0%	9.5%	12.5%	11.5%	12.0%	AFUDC % to Net Profit	12.5%
47.9%	48.7%	45.2%	48.8%	51.4%	56.7%	47.9%	47.9%	44.7%	43.6%	44.0%	44.0%	Long-Term Debt Ratio	43.5%
51.3%	50.5%	54.1%	50.7%	48.2%	42.9%	51.8%	52.0%	55.1%	56.3%	56.0%	56.0%	Common Equity Ratio	56.5%
62.2	68.5	73.9	95.0	113.0	142.8	152.8	242.0	262.9	295.2	340	380	Total Capital ($mill)	560
102.1	109.2	113.7	157.8	171.1	203.9	219.5	302.6	344.8	389.6	450	510	Net Plant ($mill)	750
6.8%	7.1%	7.6%	7.6%	7.6%	5.8%	6.2%	3.1%	4.1%	4.5%	4.5%	5.0%	Return on Total Cap'l	5.0%
8.0%	9.5%	10.3%	11.1%	11.4%	9.7%	9.0%	3.6%	5.0%	5.6%	6.0%	6.0%	Return on Shr. Equity	7.0%
8.1%	9.6%	10.4%	11.1%	11.4%	9.7%	9.1%	3.6%	5.0%	5.6%	6.0%	6.0%	Return on Com Equity	7.0%
4.5%	6.0%	7.0%	7.8%	7.8%	6.3%	5.8%	.8%	2.1%	2.6%	3.0%	3.0%	Retained to Com Eq	3.5%
45%	38%	33%	31%	32%	36%	36%	78%	58%	54%	51%	51%	All Div'ds to Net Prof	54%

CURRENT POSITION ($MILL.)	2005	2006	3/31/07
Cash Assets	3.0	4.3	3.0
Receivables	26.5	27.5	25.6
Inventory (Avg Cst)	--	--	--
Other	18.2	16.5	16.4
Current Assets	47.7	48.3	45.0
Accts Payable	10.0	12.7	7.6
Debt Due	9.5	1.4	1.5
Other	21.1	21.7	19.1
Current Liab.	40.6	35.8	28.2

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	7.0%	5.0%	3.0%
"Cash Flow"	6.0%	0.5%	10.5%
Earnings	10.5%	-2.5%	14.0%
Dividends	9.0%	9.0%	9.5%
Book Value	10.5%	13.5%	8.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2004	39.8	45.7	55.0	47.5	188.0
2005	45.2	51.3	54.7	52.0	203.2
2006	50.8	55.4	60.1	57.9	224.2
2007	48.1	63.0	67.0	61.9	240
2008	62.0	66.0	68.0	64.0	260

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2004	--	.13	.11	d.01	.23
2005	d.01	.15	.14	.06	.34
2006	.03	.08	.16	.13	.40
2007	.03	.13	.16	.13	.45
2008	.06	.15	.18	.11	.50

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.042	.042	.042	.046	.17
2004	.046	.046	.046	.050	.19
2005	.048	.048	.048	.052	.20
2006	.052	.052	.052	.058	.21
2007	.058	.058	.058		

BUSINESS: Southwest Water Company provides a broad range of services including water production, treatment and distribution; wastewater collection and treatment; utility billing and collection; utility infrastructure construction management; and public works services. It operates out of two groups, Utility (38% of 2006 revenues) and Services (62%). Utility owns and manages rate-regulated public water utilities in California, New Mexico, Oklahoma, and Texas. Services does mostly maintenance work on a contract basis. Off. & dir. own 6.3% of com. shs.; Stein Roe Investment Council, 9.7% (4/07 proxy). CEO and Chairman: Mark Swatek. Inc.: DE. Addr.: One Wilshire Building, 624 S. Grand Ave. Ste. 2900, Los Angeles, CA 90017. Tel.: 213-929-1800. Internet: www.swwc.com.

Shares of Southwest Water are down more than 11% since our April report. The decrease stems from the company's March-period results. For the quarter, share net was $0.03, a couple of pennies below our estimate. The lackluster results were attributed to increased expenses stemming from ongoing restructuring initiatives and unfavorable weather conditions in Texas, which hampered certain construction work. On the bright side,

Share earnings probably rebounded in the June quarter. We estimate that share net came in at $0.13, 63% better than the year-ago period. The strong performance we envision was mostly a reflection of the Services Group. This segment, which accounts for about 60% of SWWC's total revenues, continues to benefit from expansion opportunities. The company recently acquired Diamond Water Company, which provides water services to 7,500 residents near San Antonio. This purchase helped expand Southwest's market reach and customer base. In addition, management has been restructuring the Services Group in order to reduce expenses. It has renegotiated some lower-margin contracts and replaced some of its workforce. These strategies should help widen the operating margin by 100 basis points this year. All told, for 2007, we expect share earnings of $0.45, 13% better than 2006's tally.

The long-term prospects appear decent. The company's ongoing restructuring efforts should lead to increased margins and profits over the next few years. In addition, its recent acquisitions, once fully integrated, will likely begin adding more and more to the bottom line. In sum, annual share net should advance by about 10% out to the 2010-2012 period.

These shares are not particularly appealing at this time. Although Southwest should achieve a healthy share-net advance this year, our *Timeliness Ranking System* suggests that this issue will lag the year-ahead market. Also, this stock already trades within our projected Target Price Range for the 2010-2012 period, limiting capital appreciation potential to that timeframe. However, our earnings estimates will likely be enhanced if Southwest Water can complete more acquisitions over the next few years.

Ian Gendler *July 27, 2007*

(A) Diluted earnings. Excludes nonrecurring gains (losses): '00, (3¢); '01, (5¢); '02, 1¢; '05, (23¢). Next earnings report due late Oct.
(B) Dividends historically paid in late January, April, July, and October.
(C) In millions, adjusted for splits.
(D) Includes intangibles. In 2006: $36.0 million, $1.51/share.

Company's Financial Strength	B
Stock's Price Stability	55
Price Growth Persistence	75
Earnings Predictability	55

ATTACHMENT B

The Natural Gas Utility Industry remains ranked near the bottom of our industry spectrum. However, most of the companies have posted solid earnings gains in recent months. Additionally, they tend to offer an above-average dividend yield and decent total return potential. Still, the majority of these firms have below-average capital appreciation potential over the 3- to 5-year pull.

Acquisitions

The number of companies in our Natural Gas Utility Industry roster has declined from 15 to 13 since our last report (two companies were acquired.) This is reflective of the ongoing consolidation in the industry. These companies are targets because of their cash-rich businesses. Additionally, utilities tend to produce consistent and sustainable profit gains as service territories expand. Therefore, we believe the industry will continue to consolidate in the foreseeable future.

Weather

Unseasonably warm or cold weather is a risk to the companies in this industry. Any fluctuations that deviate too far from the historical norm can create volatility, which may cause these businesses to stray from their slow, but consistent, growth. Some utilities are able to hedge their risk by using weather-adjusted rate mechanisms, which stabilize results when atypical conditions occur. Warmer weather conditions affected many of the companies in this industry in recent months. Notably, it appears that rate mechanisms are becoming increasingly common in this business. As such, investors should keep an eye out for any firms that implement this new strategy, if they are more interested in taking a position in a utility that is less subject to seasonal swings in earnings.

Operating Environment

The companies in this industry have to settle rate cases with the respective state commission when trying to change their charges for service. Currently, most of the rates for these utilities are set. However, one of *WGL's* subsidiaries just negotiated a new rate with Virginia, which is tentatively in effect while pending approval. Additionally, *Southwest Gas* is expected to file rate cases in California and Arizona in the near future. A favorable rate can spur bottom-line gains, so the investment community is usually paying close attention

INDUSTRY TIMELINESS: 95 (of 99)

to any pending cases with these firms. Recently, regulators have had a tough time finding rates that strike a balance between consumer and shareholder interests. In fact, shareholders seem to be losing out. This has caused some of these businesses to see their cash position tighten as they try to work with a smaller profit margin.

Despite the aforementioned challenges, numerous companies have been trying to improve their operations by expanding or upgrading their infrastructure. However, these initiatives will likely pressure operating margins in the coming months. Still, this may be of interest to investors with a long-term view, as these enhancements will probably contribute to growth in 2008 and beyond.

Nonregulated Activities

Many of these utilities have smaller businesses that are unregulated by state commissions. These secondary businesses can provide an interesting means for these firms to diversify their revenue. Moreover, these ventures provide additional flexibility, since the primary stream of income is regulated by these commissions. Some examples of these businesses include gas marketing, gas storage for off-system customers, and heating, ventilation, and conditioning service (HVAC). The fact that these operations can increase share net is notable, since return on equity is set by the regulatory state commissions (usually in the 10%-12% range). All told, we believe these ventures will not overtake the core businesses as the driver of these firms anytime soon.

Investment Considerations

Most of the stocks in this industry are not suitable vehicles to achieve above-average capital appreciation potential over the 3- to 5-year pull. What's more, this industry is ranked in the bottom half of our industry spectrum, thereby limiting its appeal for the coming six to 12 months. However, these business do tend to offer healthy dividend yields. In fact, the average yield here is more than double the *Value Line* median of 1.8%. Conservative accounts may be interested in the industry's stable business and attractive payouts, but should be cautious when considering a position in the Natural Gas Utility Industry given the current environment. Most investors would do better to look elsewhere, due to the limited potential of this sector.

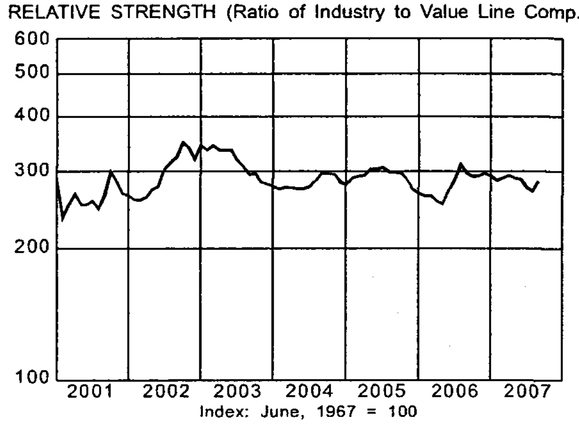
Richard Gallagher

Composite Statistics: Natural Gas Utility

2003	2004	2005	2006	2007	2008		10-12
29981	33220	41399	41401	44500	46500	Revenues ($mill)	58000
1395.3	1517.2	1788.8	1823	2050	2150	Net Profit ($mill)	2800
37.4%	35.7%	35.8%	36.1%	36.0%	36.0%	Income Tax Rate	36.0%
4.7%	4.6%	4.3%	4.4%	4.6%	4.6%	Net Profit Margin	4.8%
55.9%	53.2%	50.7%	52.0%	51.0%	51.0%	Long-Term Debt Ratio	52.0%
43.7%	45.7%	48.3%	47.0%	48.0%	48.0%	Common Equity Ratio	46.0%
28436	31268	33911	35357	36750	38000	Total Capital ($mill)	42000
31732	32053	35030	35944	39000	41000	Net Plant ($mill)	45000
6.4%	6.4%	6.9%	6.7%	7.0%	7.0%	Return on Total Cap'l	7.5%
11.1%	10.4%	10.7%	10.7%	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%	4.6%	5.2%	5.3%	Retained to Com Eq	5.5%
64%	63%	59%	59%	60%	60%	All Div'ds to Net Prof	60%
14.1	15.6	16.2	15.8	*Bold figures are*	*Value Line estimates*	Avg Ann'l P/E Ratio	13.0
.80	.82	.87	.90			Relative P/E Ratio	.85
4.5%	4.0%	3.6%	3.6%			Avg Ann'l Div'd Yield	4.6%
314%	308%	331%	315%	325%	325%	Fixed Charge Coverage	325%

Natural Gas Utility

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)



Index: June, 1967 = 100

AGL RESOURCES NYSE-ATG

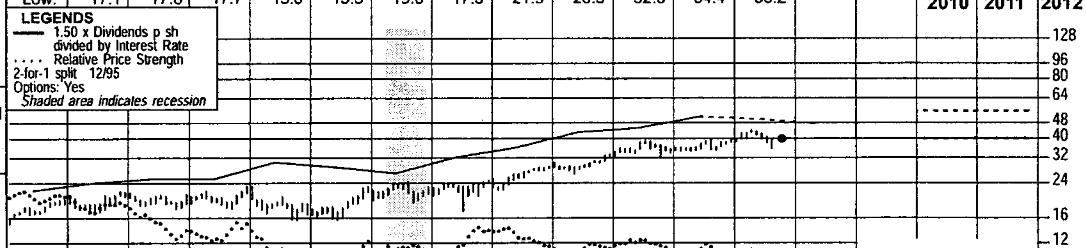
RECENT PRICE 40.11 | P/E RATIO 13.8 (Trailing: 14.5 / Median: 14.0) | RELATIVE P/E RATIO 0.77 | DIV'D YLD 4.1% | VALUE LINE

TIMELINESS 4 Lowered 8/11/06
SAFETY 2 New 7/27/90
TECHNICAL 3 Lowered 7/13/07
BETA .85 (1.00 = Market)

High:	22.0	21.6	23.4	23.4	23.2	24.5	25.0	29.3	33.7	39.3	40.1	44.7
Low:	17.1	17.8	17.7	15.6	15.5	19.0	17.3	21.9	26.5	32.0	34.4	35.2

Target Price Range 2010 | 2011 | 2012

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



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+35%)	11%
Low	40	(Nil)	4%

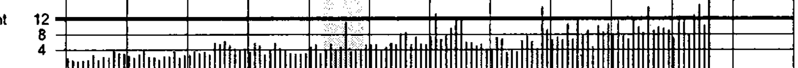
Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	1	0	0	0	0	0	0	0
Options	0	3	6	0	1	0	0	0	1
to Sell	0	4	1	0	0	0	0	0	0

Institutional Decisions

	4Q2006	1Q2007	2Q2007
to Buy	121	134	132
to Sell	89	97	101
Hld's(000)	49321	49480	50323

Percent shares traded 12 8 4



% TOT. RETURN 8/07

	THIS STOCK	VL ARITH. INDEX
1 yr.	13.6	15.8
3 yr.	46.5	52.6
5 yr.	111.7	126.5

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
20.26	20.43	22.73	23.59	19.32	21.91	22.75	23.36	18.71	11.25	19.04	15.32	15.25	23.89	34.98	33.73	*34.35*	*35.15*	Revenues per sh A	*40.00*
2.07	2.31	2.25	2.24	2.33	2.49	2.42	2.65	2.29	2.86	3.31	3.39	3.47	3.29	4.20	4.62	*4.80*	*5.00*	"Cash Flow" per sh	*5.55*
1.04	1.13	1.08	1.17	1.33	1.37	1.37	1.41	.91	1.29	1.50	1.82	2.08	2.28	2.48	2.72	*2.80*	*2.90*	Earnings per sh A B	*3.10*
1.02	1.03	1.04	1.04	1.04	1.06	1.08	1.08	1.08	1.08	1.08	1.08	1.11	1.15	1.30	1.48	*1.64*	*1.64*	Div'ds Decl'd per sh C■	*1.80*
2.95	2.74	2.49	2.37	2.17	2.37	2.59	2.05	2.51	2.92	2.83	3.30	2.46	3.44	3.44	3.26	*3.20*	*3.30*	Cap'l Spending per sh	*3.50*
9.42	9.70	9.90	10.19	10.12	10.56	10.99	11.42	11.59	11.50	12.19	12.52	14.66	18.06	19.29	20.71	*21.65*	*21.85*	Book Value per sh D	*22.50*
47.57	48.69	49.72	50.86	55.02	55.70	56.60	57.30	57.10	54.00	55.10	56.70	64.50	76.70	77.70	77.70	*78.00*	*79.00*	Common Shs Outst'g E	*80.00*
15.3	15.5	17.9	15.1	12.6	13.8	14.7	13.9	21.4	13.6	14.6	12.5	12.5	13.1	14.3	13.5	*Bold figures are*		Avg Ann'l P/E Ratio	*15.0*
.98	.94	1.06	.99	.84	.86	.85	.72	1.22	.88	.75	.68	.71	.69	.76	.73	*Value Line*		Relative P/E Ratio	*1.00*
6.4%	5.9%	5.4%	5.9%	6.2%	5.6%	5.4%	5.5%	5.5%	6.2%	4.9%	4.7%	4.3%	3.9%	3.7%	4.0%	*estimates*		Avg Ann'l Div'd Yield	*3.9%*

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		10-12
1287.6	1338.6	1068.6	607.4	1049.3	868.9	983.7	1832.0	2718.0	2621.0	*2680*	*2775*	Revenues ($mill) A	*3200*
76.6	80.6	52.1	71.1	82.3	103.0	132.4	153.0	193.0	212.0	*220*	*230*	Net Profit ($mill)	*250*
37.9%	32.5%	33.1%	34.3%	40.7%	36.0%	35.9%	37.0%	37.7%	37.8%	*38.0%*	*38.0%*	Income Tax Rate	*38.0%*
5.9%	6.0%	4.9%	11.7%	7.8%	11.9%	13.5%	8.4%	7.1%	8.1%	*8.2%*	*8.3%*	Net Profit Margin	*7.8%*
48.7%	47.5%	45.3%	45.9%	61.3%	58.3%	50.3%	54.0%	51.9%	50.2%	*48.0%*	*48.0%*	Long-Term Debt Ratio	*49.0%*
45.9%	47.1%	49.2%	48.3%	38.7%	41.7%	49.7%	46.0%	48.1%	49.8%	*52.0%*	*52.0%*	Common Equity Ratio	*51.0%*
1356.4	1388.4	1345.8	1286.2	1736.3	1704.3	1901.4	3008.0	3114.0	3231.0	*3250*	*3325*	Total Capital ($mill)	*3525*
1496.6	1534.0	1598.9	1637.5	2058.9	2194.2	2352.4	3178.0	3271.0	3436.0	*3550*	*3700*	Net Plant ($mill)	*4000*
7.3%	7.6%	5.7%	7.4%	6.5%	8.1%	8.9%	6.3%	7.9%	8.0%	*8.0%*	*8.5%*	Return on Total Cap'l	*8.5%*
11.0%	11.1%	7.1%	10.2%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	*13.0%*	*13.5%*	Return on Shr. Equity	*14.0%*
11.3%	12.3%	7.9%	11.5%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	*13.0%*	*13.5%*	Return on Com Equity	*14.0%*
3.2%	4.4%	NMF	3.2%	4.2%	7.0%	6.6%	5.6%	6.2%	6.3%	*5.5%*	*6.0%*	Retained to Com Eq	*6.0%*
74%	64%	101%	72%	65%	52%	53%	49%	52%	52%	*58%*	*56%*	All Div'ds to Net Prof	*58%*

CAPITAL STRUCTURE as of 6/30/07
Total Debt $1883.0 mill. Due in 5 Yrs $648.0 mill.
LT Debt $1544.0 mill. LT Interest $95.0 mill.

(Total interest coverage: 3.8x)
Leases, Uncapitalized Annual rentals $32.0 mill.

Pension Assets-12/06 $375.0 mill. Oblig. $454.0 mill.
Pfd Stock None
Common Stock 77,695,018 shs. as of 7/26/07

MARKET CAP: $3.1 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2005	2006	6/30/07
Cash Assets	30.0	20.0	17.0
Other	2002.0	1802.0	1416.0
Current Assets	2032.0	1822.0	1433.0
Accts Payable	264.0	213.0	145.0
Debt Due	522.0	539.0	339.0
Other	1153.0	875.0	837.0
Current Liab.	1939.0	1627.0	1321.0
Fix. Chg. Cov.	442%	397%	405%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	3.5%	13.5%	4.5%
"Cash Flow"	5.5%	7.0%	5.5%
Earnings	7.0%	15.0%	3.5%
Dividends	2.5%	4.0%	5.5%
Book Value	6.5%	10.5%	2.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	651	294	262	625	1832
2005	908	430	387	993	2718
2006	1044	436	434	707	2621
2007	973	467	*450*	*790*	*2680*
2008	*1000*	*495*	*470*	*810*	*2775*

Cal-endar	EARNINGS PER SHARE B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	1.00	.33	.31	.64	2.28
2005	1.14	.30	.19	.85	2.48
2006	1.41	.25	.46	.60	2.72
2007	1.30	.40	*.45*	*.65*	*2.80*
2008	*1.40*	*.35*	*.45*	*.70*	*2.90*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.27	.28	.28	.28	1.11
2004	.28	.29	.29	.29	1.15
2005	.31	.31	.31	.37	1.30
2006	.37	.37	.37	.37	1.48
2007	.41	.41	.41		

BUSINESS: AGL Resources, Inc. is a public utility holding company. Its distribution subsidiaries include Atlanta Gas Light, Chattanooga Gas, and Virginia Natural Gas. The utilities have more than 2.2 million customers in Georgia, Virginia, Tennessee, New Jersey, Florida, and Maryland. Engaged in nonregulated natural gas marketing and other allied services. Also wholesales and retails propane. Deregulated subsidiaries: Georgia Natural Gas markets natural gas at retail. Acquired Virginia Natural Gas, 10/00. Sold Utilipro, 3/01. Off./dir. own less than 1.0% of common; Barclays Global Investors, 5.0% (3/07 Proxy). Pres. & CEO: John W. Somerhalder II. Inc.: GA. Addr.: 10 Peachtree Place N.E., Atlanta, GA 30309. Tel.: 404-584-4000. Internet: www.aglresources.com.

AGL Resources continues to register solid performance. Second-quarter revenues increased roughly 7%, compared to the prior year. Operating margins widened across each segment, and share earnings advanced 60%. The Distribution segment benefited from customer growth and increased customer usage, due partly to colder temperatures in April. Meanwhile, the Wholesale Services business experienced unrealized gains on storage and transportation hedges from declining forward NYMEX natural gas prices.

Looking forward, we anticipate modest revenue growth at AGL for full-year 2007. The company has reaffirmed its bottom-line guidance of $2.75-$2.85 a share for the current year. This assumes normal weather and average volatility in natural gas prices for the remainder of the year. We anticipate share earnings will come in at the midpoint of this range, roughly 3% above the prior year's tally. Share net will likely advance at about the same clip in 2008.

Subsidiary Golden Triangle Storage has plans to build a natural gas storage facility in Beaumont, Texas. In late June, it filed with the Federal Energy Regulatory Commission seeking a certificate to construct and operate this project. Construction will probably begin early next year, following the receipt of regulatory permits. The project, which should cost between $220 million and $260 million, will initially offer 12 billion cubic feet of working gas capacity in two underground caverns. The first cavern is likely to commence operations by early 2011, with the second coming on line in 2013. Golden Triangle will also build a nine-mile pipeline to connect the storage caverns with larger interstate and intrastate pipelines.

Shares of AGL Resources are ranked 4 (Below Average) for Timeliness. However, income-oriented accounts may find this issue attractive, considering its healthy dividend yield. Also, these good-quality shares score high marks for Price Stability, Safety, and Earnings Predictability. Nevertheless, the company's growth prospects appear to be reflected in the current quotation, and appreciation potential is modest to 2010-2012.

Michael Napoli, CPA *September 14, 2007*

(A) Fiscal year ends December 31st. Ended September 30th prior to 2002.
(B) Diluted earnings per share. Excl. nonrecurring gains (losses): '95, ($0.83); '99, $0.39; '00, $0.13; '01, $0.13; '03, ($0.07). Next earnings report due late October.
(C) Dividends historically paid early March, June, Sept, and Dec. ■ Div'd reinvest. plan available.
(D) Includes intangibles. At 6/30/07: $420 million, $5.41/share.
(E) In millions, adjusted for stock split.

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

ATMOS ENERGY CORP. NYSE-ATO

RECENT PRICE	P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	
28.16	14.9 (Trailing: 12.4; Median: 16.0)	0.83	4.6%	VALUE LINE

TIMELINESS **4** Lowered 8/17/07
SAFETY **2** Raised 12/16/05
TECHNICAL **4** Lowered 9/7/07
BETA .80 (1.00 = Market)

High:	31.0	30.5	32.3	33.0	26.3	25.8	24.5	25.5	27.6	30.0	33.1	33.5
Low:	20.9	22.1	24.8	19.6	14.3	19.5	17.6	20.8	23.4	25.0	25.5	23.9

Target Price Range 2010 | 2011 | 2012

2010-12 PROJECTIONS

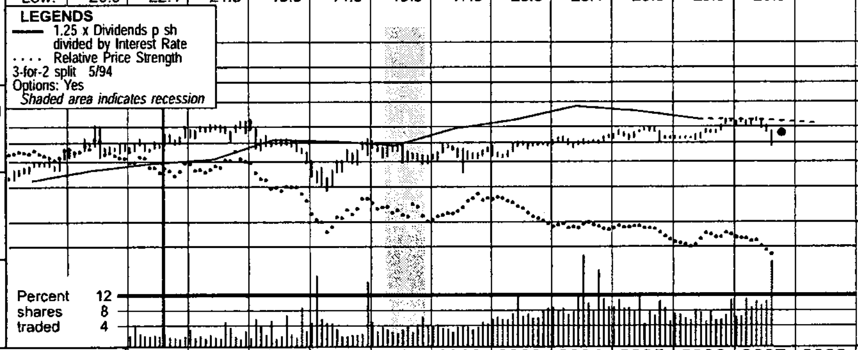
	Price	Gain	Ann'l Total Return
High	40	(+40%)	13%
Low	30	(+5%)	6%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	1	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	1	0
to Sell	0	0	0	0	0	1	0	1	0

Institutional Decisions

	4Q2006	1Q2007	2Q2007
to Buy	115	135	115
to Sell	84	80	101
Hld's(000)	53926	56091	58169



% TOT. RETURN 8/07

	THIS STOCK	VL ARITH. INDEX
1 yr.	1.7	15.8
3 yr.	26.9	52.6
5 yr.	65.5	126.5

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.

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	*69.45*	*70.25*	Revenues per sh A	*80.35*
2.85	3.38	2.62	3.01	3.03	3.39	3.23	2.91	3.90	4.26	*4.15*	*4.30*	"Cash Flow" per sh	*4.70*
1.34	1.84	.81	1.03	1.47	1.45	1.71	1.58	1.72	2.00	*1.90*	*2.05*	Earnings per sh A B	*2.45*
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	*4.25*	*4.55*	Cap'l Spending per sh	*6.30*
11.04	12.21	12.09	12.28	14.31	13.75	16.66	18.05	19.90	20.16	*22.60*	*23.25*	Book Value per sh	*26.35*
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		Avg Ann'l P/E Ratio	*14.0*
1.03	.80	1.88	1.23	.80	.83	.76	.84	.86	.73	Value Line		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%	estimates		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	*6215*	*6500*	Revenues ($mill) A	*8600*
39.2	55.3	25.0	32.2	56.1	59.7	79.5	86.2	135.8	162.3	*170*	*190*	Net Profit ($mill)	*260*
37.5%	36.5%	35.0%	36.1%	37.3%	37.1%	37.1%	37.4%	37.7%	37.6%	*39.0%*	*39.0%*	Income Tax Rate	*40.5%*
4.3%	6.5%	3.6%	3.8%	3.9%	6.3%	2.8%	3.0%	2.7%	2.6%	*2.7%*	*2.9%*	Net Profit Margin	*3.0%*
48.1%	51.8%	50.0%	48.1%	54.3%	53.9%	50.2%	43.2%	57.7%	57.0%	*52.0%*	*52.0%*	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%	*48.0%*	*48.0%*	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	*4215*	*4480*	Total Capital ($mill)	*5750*
849.1	917.9	965.8	982.3	1335.4	1300.3	1516.0	1722.5	3374.4	3629.2	*3850*	*4150*	Net Plant ($mill)	*5300*
8.3%	9.0%	5.1%	6.5%	5.9%	6.8%	6.2%	5.8%	5.3%	6.1%	*5.5%*	*6.0%*	Return on Total Cap'l	*6.0%*
12.0%	14.9%	6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.9%	*8.5%*	*9.0%*	Return on Shr. Equity	*9.0%*
12.0%	14.9%	6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.9%	*8.5%*	*9.0%*	Return on Com Equity	*9.0%*
3.9%	6.3%	NMF	NMF	2.1%	1.9%	2.8%	1.7%	2.3%	3.6%	*2.5%*	*3.0%*	Retained to Com Eq	*4.0%*
67%	58%	NMF	112%	79%	82%	70%	77%	73%	63%	*67%*	*63%*	All Div'ds to Net Prof	*55%*

CAPITAL STRUCTURE as of 6/30/07
Total Debt $2430.5 mill. **Due in 5 Yrs** $1450.0 mill.
LT Debt $2126.5 mill. **LT Interest** $120.0 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 89,160,099 shs. as of 7/31/07
MARKET CAP: $2.5 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2005	2006	6/30/07
Cash Assets	40.1	75.8	350.4
Other	1224.3	1041.7	984.1
Current Assets	1264.4	1117.5	1334.5
Accts Payable	461.3	345.1	428.8
Debt Due	148.1	385.6	304.0
Other	503.4	388.5	360.9
Current Liab.	1112.8	1119.2	1093.7
Fix. Chg. Cov.	395%	408%	400%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	7.5%	17.0%	4.5%
"Cash Flow"	4.0%	5.0%	4.0%
Earnings	3.5%	10.0%	5.5%
Dividends	3.0%	2.0%	1.5%
Book Value	6.5%	8.5%	5.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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	2075.6	1218.2	*1318.6*	*6215*
2008	*1625*	*1625*	*1625*	*1625*	*6500*

Fiscal Year Ends	EARNINGS PER SHARE A B E Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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	1.20	d.15	*d.12*	*1.90*
2008	*.96*	*1.20*	*d.03*	*d.08*	*2.05*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	.32	.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-States Division. Combined 2006 gas volumes: 272 MMcf. Breakdown: 53%, residential; 32%, 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.

Atmos Energy's bottom line may decrease roughly 5%, to $1.90 a share, in fiscal 2007 (ends September 30th). For a start, the fourth-quarter comparison could be quite challenging, since our fiscal 2006 figure does not include an $0.18-a-share charge for the impairment of irrigation properties in the West Texas Division. Moreover, the public offering of 6.3 million common shares last December ought to dilute share earnings by around a nickel. Lastly, the effective income tax rate has been higher.

But there are some bright spots. The utility unit is benefiting from higher throughput, plus the implementation of weather-normalization mechanisms for the Mid-Tex and Louisiana operations. What's more, margins for the natural gas marketing segment have widened partly because of initiatives to capture more favorable arbitrage opportunities with regard to storage activities. Finally, the pipeline business is reaping the rewards of the North Side Loop and other projects that were completed last year, and there has been a rise in asset management fees.

The company stands to generate steady, though unspectacular, share earnings advances over the coming three to five years. With the utility division now serving 3.2 million customers across 12 states, Atmos is not dependent on the business environment in any one region of the country. Also, the non-utility segments, particularly pipelines, possess healthy overall prospects. Excluding future acquisitions, annual bottom-line growth could be in the mid-single-digit range out to 2010-2012.

Income-oriented accounts may be attracted to the dividend yield, which is adequately covered by earnings. We look for additional increases in the payout to occur, as well.

But these shares have lost some ground in recent months. We attribute that, in part, to a slumping market (reflecting uncertainty surrounding the timing of a recovery in the housing industry). This diminished stock-price momentum is partially behind the 4 (Below Average) rank for Timeliness. Long-term total-return possibilities are decent, on a risk-adjusted basis, though.

Frederick L. Harris, III September 14, 2007

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

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	30
Earnings Predictability	75

LACLEDE GROUP NYSE-LG

RECENT PRICE 32.64 | P/E RATIO 13.9 (Trailing: 14.5 Median: 15.0) | RELATIVE P/E RATIO 0.77 | DIV'D YLD 4.6% | VALUE LINE

TIMELINESS 3 Raised 9/14/07
SAFETY 2 Raised 6/20/03
TECHNICAL 3 Raised 8/17/07
BETA .90 (1.00 = Market)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
High:	24.9	28.6	27.9	27.0	24.8	25.5	25.0	30.0	32.5	34.3	37.5	36.0
Low:	20.0	20.3	22.4	20.0	17.5	21.3	19.0	21.8	26.0	26.9	29.1	28.8

Target Price Range 2010 2011 2012

2010-12 PROJECTIONS

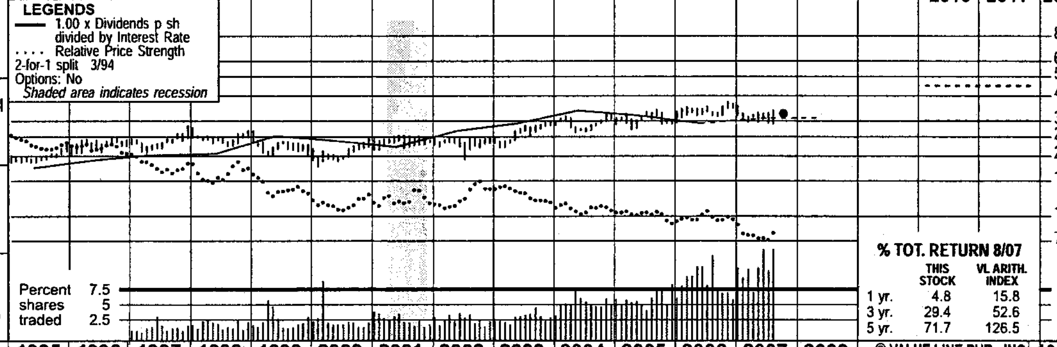
	Price	Gain	Ann'l Total Return
High	45	(+40%)	12%
Low	30	(-10%)	3%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	1	0	0	0	0	0	1	0
Options	0	4	1	0	1	0	0	0	0
to Sell	0	4	1	0	1	0	0	0	0

Institutional Decisions

	4Q2006	1Q2007	2Q2007
to Buy	64	62	67
to Sell	38	49	50
Hld's(000)	10381	9942	9261



% TOT. RETURN 8/07

	THIS STOCK	VL ARITH. INDEX
1 yr.	4.8	15.8
3 yr.	29.4	52.6
5 yr.	71.7	126.5

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	***91.15***	***88.20***	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	***3.85***	***4.00***	"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	***2.15***	***2.10***	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	***21.00***	***20.95***	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	*Bold figures are*		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	.73	*Value Line*		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%	*estimates*		Avg Ann'l Div'd Yield	***4.3%***
						602.8	547.2	491.6	566.1	1002.1	755.2	1050.3	1250.3	1597.0	1997.6	***1960***	***1940***	Revenues ($mill) A	***2750***
						32.5	27.9	26.9	26.0	30.5	22.4	34.6	36.1	40.1	50.5	***46.0***	***46.0***	Net Profit ($mill)	***60.0***
						36.1%	35.6%	35.5%	35.2%	32.7%	35.4%	35.0%	34.8%	34.1%	32.5%	***35.5%***	***35.5%***	Income Tax Rate	***35.5%***
						5.4%	5.1%	5.5%	4.6%	3.0%	3.0%	3.3%	2.9%	2.5%	2.5%	***2.3%***	***2.4%***	Net Profit Margin	***2.2%***
						38.0%	40.9%	41.8%	45.2%	49.5%	47.5%	50.4%	51.6%	48.1%	49.5%	***45.0%***	***47.0%***	Long-Term Debt Ratio	***49.0%***
						61.6%	58.6%	57.8%	54.5%	50.2%	52.3%	49.4%	48.3%	51.8%	50.4%	***55.0%***	***53.0%***	Common Equity Ratio	***51.0%***
						406.8	438.0	488.6	519.2	574.1	546.6	605.0	737.4	707.9	798.9	***820***	***870***	Total Capital ($mill)	***1200***
						467.6	490.6	519.4	575.4	602.5	594.4	621.2	646.9	679.5	763.8	***815***	***865***	Net Plant ($mill)	***1150***
						9.7%	8.1%	7.1%	6.7%	6.9%	6.0%	7.4%	6.6%	7.6%	8.4%	***7.0%***	***6.5%***	Return on Total Cap'l	***6.5%***
						12.9%	10.8%	9.5%	9.1%	10.5%	7.8%	11.5%	10.1%	10.9%	12.5%	***10.0%***	***10.0%***	Return on Shr. Equity	***10.0%***
						12.9%	10.8%	9.5%	9.1%	10.5%	7.8%	11.6%	10.1%	10.9%	12.5%	***10.0%***	***10.0%***	Return on Com Equity	***10.0%***
						3.9%	1.8%	1.0%	.2%	1.8%	NMF	3.1%	2.7%	3.1%	5.1%	***3.5%***	***3.0%***	Retained to Com Eq	***3.5%***
						70%	83%	89%	98%	83%	113%	74%	73%	72%	59%	***68%***	***71%***	All Div'ds to Net Prof	***67%***

CAPITAL STRUCTURE as of 6/30/07
Total Debt $497.8 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 $.6 mill. **Pfd Div'd** $.05 mill.
Common Stock 21,633,811 shs.
as of 7/27/07

MARKET CAP: $700 million (Small Cap)

CURRENT POSITION ($MILL.)	2005	2006	6/30/07
Cash Assets	6.0	50.8	36.4
Other	418.1	409.0	362.9
Current Assets	424.1	459.8	399.3
Accts Payable	138.4	103.3	128.6
Debt Due	110.7	207.5	142.3
Other	116.5	120.1	93.8
Current Liab.	365.6	430.9	364.7
Fix. Chg. Cov.	293%	285%	280%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
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	QUARTERLY REVENUES ($ mill.) A 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	700.8	457.9	***261.7***	***1960***
2008	***485***	***485***	***485***	***485***	***1940***

Fiscal Year Ends	EARNINGS PER SHARE A B F 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	.97	.43	***d.14***	***2.15***
2008	***.98***	***1.07***	***.20***	***d.15***	***2.10***

Cal-endar	QUARTERLY DIVIDENDS PAID C■ 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	.365	.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). Therms sold and transported in fiscal 2006: 1.02 mill. Revenue mix for regulated operations: residential, 60%; 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.

It appears that earnings for Laclede Group will be lower in fiscal 2007 (ends September 30th). That can be traced largely to Laclede Energy Resources (LER), which has not performed as well as last year, when margins were substantially higher as a result of supply/demand imbalances arising from the severe 2005 Gulf Coast hurricanes. Furthermore, results for SM&P Utility Resources are being weighed down by higher operating expenses.

But there has been a bright spot. Laclede Gas, the core subsidiary, is benefiting partly from higher volumes from entities within the service territory (reflecting cooler temperatures). A decline in the provision for uncollectible accounts has also helped here.

Still, consolidated share net may decrease about 9%, to $2.15, in fiscal 2007. The comparison would be quite difficult, though, given LER's exceptional showing last year. The bottom line for next year may be around the same level as fiscal 2007.

A request for a general rate increase was granted by the Missouri Public Service Commission. The measure, effective August 1st of this year, will generate additional annual revenues of $38.6 million. (The company last received such a rate hike in 2005.)

Prospects over the next three to five years are lackluster. The customer base for Laclede Gas has expanded at a sluggish pace for some time, leading us to believe that internal growth here will remain moderate. As such, any substantial gains will have to come from the unregulated businesses or from acquisitions, scenarios we don't see happening anytime soon. Thus, annual share-net advances may only be in the low-single-digit range over the 2010-2012 period.

Income-oriented accounts may be drawn to the dividend. Further increases in the distribution could be minimal, however, given the uninspiring long-term view for the regulated unit.

These shares, ranked 3 (Average) for Timeliness, are now trading within our 3- to 5-year Target Price Range. The good-quality stock's high yield reflects the company's subpar growth prospects.

Frederick L. Harris, III September 14, 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 October.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) Incl. deferred charges. In '06: $256.8 mill., $12.02/sh.
(E) In millions. Adjusted for stock split.
(F) Qtly. egs. may not sum due to change in shares outstanding.

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

NEW JERSEY RES. NYSE-NJR

RECENT PRICE **48.33** | P/E RATIO **14.6** (Trailing: 14.0 Median: 15.0) | RELATIVE P/E RATIO **0.81** | DIV'D YLD **3.1%** | VALUE LINE

TIMELINESS **4** Raised 5/11/07
SAFETY **1** Raised 9/15/06
TECHNICAL **3** Lowered 9/7/07
BETA .80 (1.00 = Market)

High:	19.9	28.0	26.8	27.4	29.8	32.5	33.6	39.5	44.6	49.3	53.2	56.4
Low:	17.8	18.8	21.0	22.4	24.1	24.8	24.3	30.0	36.5	40.7	41.5	45.5

Target Price Range
2010 | 2011 | 2012

2010-12 PROJECTIONS

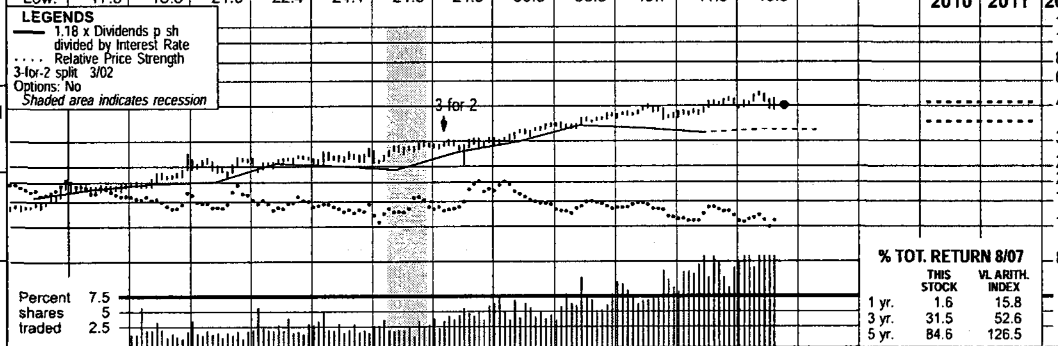
	Price	Gain	Ann'l Total Return
High	50	(+5%)	5%
Low	40	(-15%)	Nil

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	1	1	2	0	0	0	5	0
to Sell	0	1	1	0	0	0	0	5	0

Institutional Decisions

	4Q2006	1Q2007	2Q2007
to Buy	68	82	77
to Sell	69	76	83
Hld's(000)	15657	15824	17707



% TOT. RETURN 8/07

	THIS STOCK	VL ARITH. INDEX
1 yr.	1.6	15.8
3 yr.	31.5	52.6
5 yr.	84.6	126.5

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	**113.20**	**113.35**	Revenues per sh A	**117.65**
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	**4.40**	**4.45**	"Cash Flow" per sh	**4.60**
.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	**3.10**	**3.15**	Earnings per sh B	**3.35**
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**	**1.60**	Div'ds Decl'd per sh C■	**1.84**
2.91	1.99	2.31	2.10	1.77	1.78	1.72	1.60	1.81	1.85	1.66	1.53	1.71	2.17	1.92	1.92	**1.95**	**1.95**	Cap'l Spending per sh	**1.85**
8.57	9.44	9.81	9.64	9.70	10.10	10.38	10.88	11.35	12.43	13.20	13.06	15.38	16.87	15.90	22.50	**24.50**	**26.65**	Book Value per sh D	**33.25**
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	**30.00**
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	*Bold figures are*	*Value Line estimates*	Avg Ann'l P/E Ratio	**14.0**
1.42	.75	.89	.85	.78	.85	.78	.80	.87	.96	.73	.80	.80	.81	.89	.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%			Avg Ann'l Div'd Yield	**4.5%**
						696.5	710.3	904.3	1164.5	2048.4	1830.8	2544.4	2533.6	3148.3	3299.6	**3170**	**3230**	Revenues ($mill) A	**3530**
						41.5	43.3	44.9	47.9	52.3	56.8	65.4	71.6	74.4	78.5	**88.5**	**91.5**	Net Profit ($mill)	**105.0**
						33.3%	30.4%	36.2%	37.8%	38.0%	38.7%	39.4%	39.1%	39.1%	38.9%	**39.0%**	**39.0%**	Income Tax Rate	**40.0%**
						6.0%	6.1%	5.0%	4.1%	2.6%	3.1%	2.6%	2.8%	2.4%	2.4%	**2.8%**	**2.8%**	Net Profit Margin	**2.9%**
						49.3%	51.2%	48.7%	47.0%	50.1%	50.6%	38.1%	40.3%	42.0%	34.8%	**32.8%**	**30.6%**	Long-Term Debt Ratio	**27.3%**
						47.1%	45.6%	51.2%	52.9%	49.9%	49.4%	61.9%	59.7%	58.0%	65.2%	**67.2%**	**69.4%**	Common Equity Ratio	**72.7%**
						590.6	638.2	590.4	620.1	706.2	732.4	676.8	783.8	755.3	954.0	**1020**	**1095**	Total Capital ($mill)	**1375**
						659.4	680.0	705.4	730.6	743.9	756.4	852.6	880.4	905.1	934.9	**955**	**975**	Net Plant ($mill)	**1030**
						8.6%	8.1%	9.0%	9.0%	8.5%	8.7%	10.7%	10.1%	11.2%	9.6%	**9.5%**	**9.0%**	Return on Total Cap'l	**8.0%**
						13.9%	13.9%	14.8%	14.6%	14.8%	15.7%	15.6%	15.3%	17.0%	12.6%	**13.0%**	**12.0%**	Return on Shr. Equity	**10.5%**
						14.3%	14.4%	14.8%	14.6%	14.9%	15.7%	15.6%	15.3%	17.0%	12.6%	**13.0%**	**12.0%**	Return on Com Equity	**10.5%**
						4.0%	4.4%	5.0%	5.4%	6.1%	6.9%	7.7%	7.8%	8.5%	6.3%	**6.5%**	**6.0%**	Retained to Com Eq	**5.0%**
						73%	71%	67%	63%	59%	56%	51%	49%	50%	50%	**48%**	**50%**	All Div'ds to Net Prof	**54%**

CAPITAL STRUCTURE as of 6/30/07
Total Debt $565.8 mill. **Due in 5 Yrs** $300.0 mill.
LT Debt $334.5 mill. **LT Interest** $17.0 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 28,063,442 shs. as of 8/1/07
MARKET CAP: $1.4 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2005	2006	6/30/07
Cash Assets	25.0	5.0	5.7
Other	927.8	960.5	805.6
Current Assets	952.8	965.5	811.3
Accts Payable	54.7	46.8	53.7
Debt Due	177.4	284.4	231.3
Other	744.2	566.0	471.6
Current Liab.	976.3	897.2	756.7
Fix. Chg. Cov.	660%	570%	550%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	19.0%	16.0%	1.5%
"Cash Flow"	6.0%	5.5%	2.5%
Earnings	7.5%	8.0%	4.0%
Dividends	3.0%	3.5%	5.0%
Book Value	6.5%	8.5%	10.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2004	643.0	1037	438.5	415.1	2533.6
2005	854.1	1065	544.3	684.9	3148.3
2006	1164	1064	536.1	535.5	3299.6
2007	741.5	1024	665.4	**739.1**	**3170**
2008	**765**	**1040**	**675**	**750**	**3230**

Fiscal Year Ends	EARNINGS PER SHARE A B 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	2.87	d.18	**d.60**	**3.10**
2008	**1.20**	**2.90**	**d.30**	**d.65**	**3.15**

Cal-endar	QUARTERLY DIVIDENDS PAID C■ 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	.38	.38		

BUSINESS: New Jersey Resources Corp. is a holding company providing retail/wholesale energy svcs. to customers in New Jersey, and in states from the Gulf Coast to New England, and Canada. New Jersey Natural Gas had about 471,000 customers at 9/30/06 in Monmouth and Ocean Counties, and other N.J. Counties. Fiscal 2006 volume: 102.8 bill. cu. ft. (56% firm, 7% interruptible industrial and electric utility, 37% off-system and capacity release). N.J. Natural Energy subsidiary provides unregulated retail/wholesale natural gas and related energy svcs. 2006 dep. rate: 2.7%. Has 766 empls. 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.njresources.com.

New Jersey Resources' results over the first nine months of fiscal 2007 (year ends September 30th) have been solid. Earnings over this timeframe increased approximately 15%, to $3.70 a share. The majority of the gains were driven by a larger portfolio of pipeline & storage contracts and the company's ability to take advantage of market volatility. Due to the geographic diversity of its holdings, the energy service division's contracts become more valuable when price changes occur between areas, creating arbitrage opportunities. This segment now represents about 45% of the bottom line. As is consistent with the seasonal nature of its business, NJR will likely post a loss in the September period.

We look for the annual earnings tally to advance approximately 10% this year. Revenues will likely decline in 2007 and grow at a slower pace in future years, owing to warmer-than-normal weather. Normal is based on the 20-year average temperature. So far this year, temperatures have been roughly 5.5% warmer than the norm. Also, there is the potential for a lower level of gas usage because of conservation efforts. However, top-line reductions should have less of an effect on earnings due to the Conservation Incentive Program. This plan shelters the bottom line from both weather- and non-weather-related issues.

Provisions are being made to lift revenues. So far in fiscal 2007, 5,500 new customers have been added, and NJR expects that number to reach 9,000 by yearend. Furthermore, the company's entry into a partnership with Spectra Energy to provide storage services looks promising. The natural gas storage facility will have access to both the Texas Eastern and Dominion pipeline systems. The project will cost $250 million, and will have up to 12 billion cubic feet of storage capacity. It is expected to be operational in 2009.

However, these shares have little appeal. The equity is ranked to underperform the broader-market averages for the coming year. Furthermore, since our June report its price has dropped 5%–10%, but it is still trading within our Target Price Range, thus limiting appreciation potential to 2010-2012.

Bryan Fong *September 14, 2007*

(A) Fiscal year ends Sept. 30th.
(B) Diluted earnings. Next earnings report due late Oct.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) Includes regulatory assets in 2006: $323.0 million, $11.70/share.
(E) In millions, adjusted for split.

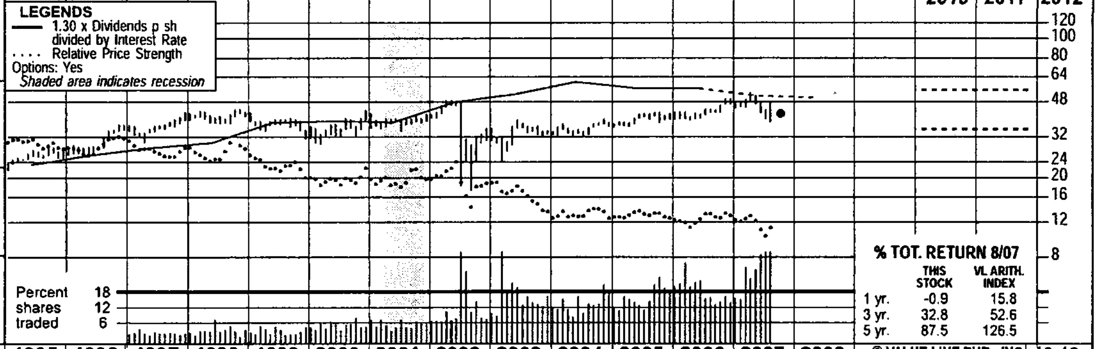
Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	70
Earnings Predictability	95

NICOR, INC. NYSE-GAS

RECENT PRICE **42.08** | P/E RATIO **14.9** (Trailing: 13.4 / Median: 15.0) | RELATIVE P/E RATIO **0.83** | DIV'D YLD **4.4%** | **VALUE LINE**

TIMELINESS 4 Raised 9/7/07
SAFETY 3 Lowered 6/17/05
TECHNICAL 3 Raised 7/20/07
BETA 1.05 (1.00 = Market)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
High:	37.1	42.9	44.4	42.9	43.9	42.4	49.0	39.3	39.7	43.0	49.9	53.7
Low:	25.4	30.0	37.1	31.2	29.4	34.0	17.3	23.7	32.0	35.5	38.7	37.8



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+30%)	10%
Low	35	(-15%)	1%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	1	0	0	0	1	0	0	0
Options	0	2	0	0	2	0	0	3	0
to Sell	0	2	0	0	2	1	0	3	0

Institutional Decisions

	4Q2006	1Q2007	2Q2007
to Buy	124	118	119
to Sell	80	101	111
Hld's(000)	32939	34865	37018

% TOT. RETURN 8/07

	THIS STOCK	VL ARITH. INDEX
1 yr.	-0.9	15.8
3 yr.	32.8	52.6
5 yr.	87.5	126.5

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
26.46	28.90	31.02	31.23	29.42	37.39	41.33	30.84	34.45	50.52	57.30	43.11	60.46	62.12	76.00	65.92	*73.35*	*74.45*	Revenues per sh	*80.00*
3.92	4.14	3.80	4.11	4.19	4.97	5.29	5.21	5.59	6.16	6.41	6.03	5.37	6.00	6.19	6.82	*7.25*	*7.35*	"Cash Flow" per sh	*7.70*
1.86	1.92	1.97	2.07	1.96	2.42	2.55	2.31	2.57	2.94	3.01	2.88	2.11	2.22	2.29	3.03	*2.80*	*2.90*	Earnings per sh A	*2.90*
1.12	1.18	1.22	1.25	1.28	1.32	1.40	1.48	1.54	1.66	1.76	1.84	1.86	1.86	1.86	1.86	*1.86*	*1.86*	Div'ds Decl'd per sh B ■	*1.86*
3.65	3.12	2.62	3.34	3.12	2.42	2.34	2.87	3.28	3.48	4.18	4.37	4.12	4.32	4.57	4.17	*4.45*	*4.45*	Cap'l Spending per sh	*4.75*
12.28	12.76	13.05	13.26	13.67	14.74	15.43	15.97	16.80	15.56	16.39	16.55	17.13	16.99	18.36	19.43	*20.45*	*21.50*	Book Value per sh	*23.05*
57.30	55.77	53.96	51.54	50.30	49.49	48.22	47.51	46.89	45.49	44.40	44.01	44.04	44.10	44.18	44.90	*45.00*	*45.00*	Common Shs Outst'g C	*45.00*
11.5	11.6	14.1	12.5	13.1	12.5	14.2	17.6	14.6	11.9	12.8	13.1	15.8	15.9	17.3	15.0	*Bold figures are*		Avg Ann'l P/E Ratio	*16.0*
.73	.70	.83	.82	.88	.78	.82	.92	.83	.77	.66	.72	.90	.84	.92	.81	*Value Line*		Relative P/E Ratio	*1.05*
5.2%	5.3%	4.4%	4.8%	5.0%	4.4%	3.9%	3.6%	4.1%	4.7%	4.6%	4.9%	5.6%	5.3%	4.7%	4.3%	*estimates*		Avg Ann'l Div'd Yield	*4.5%*

CAPITAL STRUCTURE as of 6/30/07
Total Debt $498.1 mill. Due in 5 Yrs $498.1 mill.
LT Debt $498.1 mill. LT Interest $5.1 mill.
(Total interest coverage: 4.6x)

Pension Assets-12/06 $432.3 mill. Oblig. $271.3 mill.

Pfd Stock $.6 mill. Pfd Div'd $2.0 mill.
(11,681 shares of 4.48% mandatorily redeemable preferred stock)
Common Stock 45,113,846 shares as of 7/26/07
MARKET CAP: $1.9 billion (Mid Cap)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		10-12
1992.6	1465.1	1615.2	2298.1	2544.1	1897.4	2662.7	2739.7	3357.8	2960.0	*3300*	*3350*	Revenues ($mill)	*3600*
124.3	111.1	121.9	136.4	136.3	128.0	93.1	98.1	101.1	128.3	*125*	*130*	Net Profit ($mill)	*130*
35.0%	34.4%	34.7%	34.8%	33.5%	31.0%	35.2%	31.8%	28.3%	26.3%	*30.0%*	*31.0%*	Income Tax Rate	*33.0%*
6.2%	7.6%	7.5%	5.9%	5.4%	6.7%	3.5%	3.6%	3.0%	4.3%	*3.8%*	*3.9%*	Net Profit Margin	*3.6%*
42.3%	42.1%	35.5%	32.7%	37.8%	35.1%	39.6%	39.8%	37.4%	36.3%	*35.0%*	*34.0%*	Long-Term Debt Ratio	*33.0%*
57.2%	57.4%	64.0%	66.7%	61.7%	64.5%	60.3%	60.1%	62.5%	63.7%	*65.0%*	*66.0%*	Common Equity Ratio	*67.0%*
1300.6	1322.6	1230.1	1061.2	1180.1	1128.9	1251.5	1246.0	1297.7	1370.7	*1420*	*1465*	Total Capital ($mill)	*1600*
1735.8	1731.8	1735.2	1729.6	1768.6	1796.8	2484.2	2549.8	2659.1	2714.1	*2850*	*2950*	Net Plant ($mill)	*3225*
11.1%	9.9%	10.9%	13.7%	12.3%	12.2%	8.3%	8.8%	9.4%	10.9%	*10.5%*	*10.5%*	Return on Total Cap'l	*10.0%*
16.6%	14.5%	15.4%	19.1%	18.6%	17.5%	12.3%	13.1%	12.5%	14.7%	*13.5%*	*13.5%*	Return on Shr. Equity	*12.5%*
16.7%	14.6%	15.4%	19.2%	18.7%	17.5%	12.3%	13.1%	12.5%	14.7%	*14.0%*	*13.0%*	Return on Com Equity	*13.0%*
7.6%	5.4%	6.2%	8.5%	7.9%	6.5%	1.5%	2.1%	2.3%	5.2%	*4.5%*	*5.0%*	Retained to Com Eq	*4.5%*
55%	63%	60%	56%	58%	63%	88%	84%	81%	65%	*66%*	*64%*	All Div'ds to Net Prof	*64%*

CURRENT POSITION ($MILL.)

	2005	2006	6/30/07
Cash Assets	126.9	67.6	190.4
Other	1218.8	843.1	535.2
Current Assets	1345.7	910.7	725.6
Accts Payable	658.2	564.5	525.3
Debt Due	636.0	350.0	--
Other	328.7	227.9	395.6
Current Liab.	1622.9	1142.4	920.9
Fix. Chg. Cov.	367%	NMF	29.2%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	7.5%	7.5%	*0.5%*
"Cash Flow"	3.5%	1.0%	*0.5%*
Earnings	1.5%	-3.0%	*4.5%*
Dividends	4.0%	2.5%	*1.0%*
Book Value	3.0%	2.5%	*5.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	1115.7	429.5	299.9	894.6	2739.7
2005	1179.9	484.4	236.0	1357.5	3257.8
2006	1319.4	451.3	351.1	838.2	2960.0
2007	1334.7	556.9	*400*	*1008.4*	*3300*
2008	*1350*	*565*	*415*	*1020*	*3350*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.96	.44	d.26	1.08	2.22
2005	.98	.35	d.06	1.02	2.29
2006	.94	.41	.39	1.29	3.03
2007	.93	.40	*.34*	*1.13*	*2.80*
2008	*.95*	*.43*	*.35*	*1.17*	*2.90*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.465	.465	.465	.465	1.86
2004	.465	.465	.465	.465	1.86
2005	.465	.465	.465	.465	1.86
2006	.465	.465	.465	.465	1.86
2007	.465	.465	.465		

BUSINESS: Nicor Inc. is a holding company with gas distribution as its primary business. Serves over 2.1 million customers in northern and western Illinois. 2006 gas delivered: 438.7 Bcf, incl. 206.0 Bcf from transportation. 2006 gas sales (232.7 bcf): residential, 80%; commercial, 18%; industrial, 2%. Principal supplying pipelines: Natural Gas Pipeline, Horizon Pipeline, and TGPC. Current operations include Tropical Shipping subsidiary and several energy related ventures. Divested inland barging, 7/86; contract drilling, 9/86; oil and gas E&P, 6/93. Has about 3,900 employees. Off./dir. own about 1.7% of common stock. (3/07 proxy). Chairman and CEO: Russ Strobel. Inc.: Illinois Address: 1844 Ferry Road, Naperville, Illinois 60563. Telephone: 630-305-9500. Internet: www.nicor.com.

Nicor reported flat June-period bottom-line results. The top line registered solid growth, but profits were dragged down by weak results in the gas distribution and shipping businesses. Additionally, the company had less tax benefits available this year, which also weighed on results.

The remainder of 2007 doesn't look much better. Indeed, earnings will probably be down from 2006's tally, which benefited from a strong performance in wholesale natural gas marketing. Moreover, base rates, which with relief from regulatory bodies can boost profitability, will probably remain unchanged. Bad debt and high costs will likely continue to offset gains registered in the gas deliveries segment for the remainder of the year. As a result of the recent challenges, we have lowered our share-net estimate by a nickel, to $2.80 a share.

Management has been trying to trim expenses. Nicor seems focused on improving margins through cost containment, particularly in the gas distribution division. Indeed, better cost control will likely be a key driver for 2007's results.

Former executives have been charged with fraud by the SEC. Specifically, the SEC is investigating these former officers for manipulating earnings through fraudulent transactions. Those charged include former CEO Thomas Fisher, CFO Kathleen Halloran, and Treasurer George Behrens. Note that the former executives plan to contest the charges. This follows legal troubles at Nicor last year, when the company paid $10 million to settle civil charges for engaging in accounting fraud.

Results should begin to improve starting in 2008. Although the company will likely need rate relief somewhere in this timeframe, we believe Nicor's cost-cutting initiative should begin to contribute to gains in 2008. What's more, the company's focus on better utilizing its resources may also spur growth. Moreover, Nicor's diversified business should benefit top- and bottom-line expansion.

These shares are ranked to lag the market in the year ahead. All told, we believe investors should stay on the sidelines until some of Nicor's problems are resolved.

Richard Gallagher *September 14, 2007*

(A) Based on primary earnings thru. '96, then diluted. Excl. nonrecurring gains/(loss): '97, 6¢; '98, 11¢; '99, 5¢; '00, ($1.96); '01, 16¢; '03, (27¢); '04, (52¢); '05, 80¢; '06, (17¢). Excl. items from discontinued ops.: '93, 4¢; '96, 30¢. Next egs. report due early November.
(B) Dividends historically paid mid February, May, August, November. ■ Dividend reinvestment plan available. (C) In millions.

Company's Financial Strength	A
Stock's Price Stability	85
Price Growth Persistence	35
Earnings Predictability	75

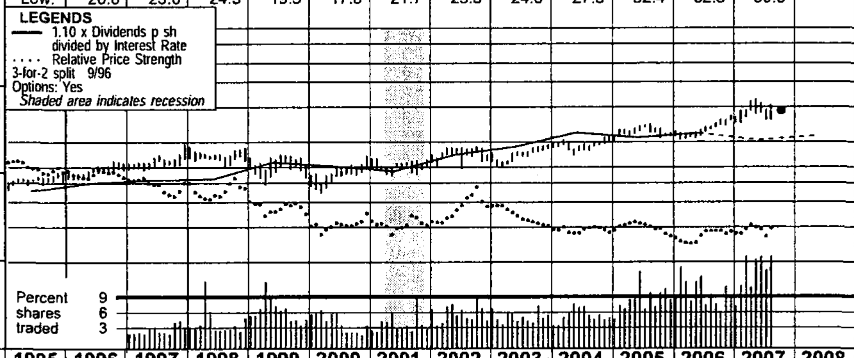
N.W. NAT'L GAS NYSE-NWN

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
46.07	17.5	(Trailing: 17.7 Median: 16.0)	0.97	3.2%	VALUE LINE

TIMELINESS 4 Lowered 7/20/07
SAFETY 1 Raised 3/18/05
TECHNICAL 2 Raised 9/14/07
BETA .80 (1.00 = Market)

High:	25.9	31.4	30.8	27.9	27.5	26.8	30.7	31.3	34.1	39.6	43.7	52.8
Low:	20.8	23.0	24.3	19.5	17.8	21.7	23.5	24.0	27.5	32.4	32.8	39.8

Target Price Range 2010 | 2011 | 2012



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	65	(+40%)	12%
Low	50	(+10%)	6%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	1	0	1	0	0
Options	0	1	2	0	0	0	0	1	0
to Sell	0	1	2	0	0	1	0	1	0

Institutional Decisions

	4Q2006	1Q2007	2Q2007
to Buy	75	87	94
to Sell	60	64	65
Hld's(000)	14381	14681	16847

% TOT. RETURN 8/07

	THIS STOCK	VL ARITH. INDEX
1 yr.	25.6	15.8
3 yr.	68.1	52.6
5 yr.	102.2	126.5

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
16.74	14.10	18.15	18.30	16.02	16.86	15.82	16.77	18.17	21.09	25.78	25.07	23.57	25.69	33.01	37.20	*38.50*	*39.80*	Revenues per sh	*46.45*
2.57	3.25	3.74	3.50	3.41	3.86	3.72	3.24	3.72	3.68	3.86	3.65	3.85	3.92	4.34	4.75	*5.20*	*5.20*	"Cash Flow" per sh	*5.90*
.67	.74	1.74	1.63	1.61	1.97	1.76	1.02	1.70	1.79	1.88	1.62	1.76	1.86	2.11	2.35	*2.65*	*2.65*	Earnings per sh A	*3.20*
1.13	1.15	1.17	1.17	1.18	1.20	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.30	1.32	1.39	*1.44*	*1.52*	Div'ds Decl'd per sh B■	*1.86*
3.58	3.73	3.61	4.23	3.02	3.70	5.07	4.02	4.78	3.46	3.23	3.11	4.90	5.52	3.48	3.56	*4.25*	*3.85*	Cap'l Spending per sh	*3.85*
12.23	12.41	13.08	13.63	14.55	15.37	16.02	16.59	17.12	17.93	18.56	18.88	19.52	20.64	21.28	22.01	*22.20*	*23.00*	Book Value per sh	*26.35*
17.68	19.46	19.77	20.13	22.24	22.56	22.86	24.85	25.09	25.23	25.23	25.59	25.94	27.55	27.58	27.24	*27.00*	*27.00*	Common Shs Outst'g C	*28.00*
28.1	27.0	12.9	13.0	12.9	11.7	14.4	26.7	14.5	12.4	12.9	17.2	15.8	16.7	17.0	16.3	*Bold figures are*	*Value Line*	Avg Ann'l P/E Ratio	*18.0*
1.79	1.64	.76	.85	.86	.73	.83	1.39	.83	.81	.66	.94	.90	.88	.91	.88	*estimates*		Relative P/E Ratio	*1.20*
5.9%	5.7%	5.2%	5.5%	5.7%	5.2%	4.8%	4.5%	5.0%	5.6%	5.1%	4.5%	4.6%	4.2%	3.7%	3.7%			Avg Ann'l Div'd Yield	*3.3%*

CAPITAL STRUCTURE as of 6/30/07
Total Debt $619.1 mill. Due in 5 Yrs $179.7 mill.
LT Debt $517.0 mill. LT Interest $31.0 mill.

(Total interest coverage: 3.5x)

Pension Assets-12/06 $236 mill.
Oblig. $269 mill.
Pfd Stock None

Common Stock 26,580,275 shs.
as of 7/31/07
MARKET CAP $1.3 billion (Mid Cap)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		10-12
361.8	416.7	455.8	532.1	650.3	641.4	611.3	707.6	910.5	1013.2	*1040*	*1075*	Revenues ($mill)	*1300*
43.1	27.3	44.9	47.8	50.2	43.8	46.0	50.6	58.1	63.4	*70.5*	*71.5*	Net Profit ($mill)	*87.0*
32.9%	31.0%	35.4%	35.9%	35.4%	34.9%	33.7%	34.4%	36.0%	36.4%	*37.0%*	*37.0%*	Income Tax Rate	*37.0%*
11.9%	6.6%	9.9%	9.0%	7.7%	6.8%	7.5%	7.1%	6.4%	6.3%	*6.8%*	*6.7%*	Net Profit Margin	*6.7%*
46.0%	45.0%	46.0%	45.1%	43.0%	47.6%	49.7%	46.0%	47.0%	46.3%	*47.0%*	*47.0%*	Long-Term Debt Ratio	*48.0%*
49.0%	50.6%	49.9%	50.9%	53.2%	51.5%	50.3%	54.0%	53.0%	53.7%	*53.0%*	*53.0%*	Common Equity Ratio	*52.0%*
748.0	815.6	861.5	887.8	880.5	937.3	1006.6	1052.5	1108.4	1116.5	*1150*	*1200*	Total Capital ($mill)	*1350*
827.5	894.7	895.9	934.0	965.0	995.6	1205.9	1318.4	1373.4	1425.1	*1485*	*1525*	Net Plant ($mill)	*1650*
7.4%	5.0%	6.8%	6.7%	6.9%	5.9%	5.7%	5.9%	6.5%	7.0%	*7.0%*	*7.0%*	Return on Total Cap'l	*7.0%*
10.7%	6.1%	9.7%	9.8%	10.0%	8.9%	9.1%	8.9%	9.9%	10.6%	*11.0%*	*11.0%*	Return on Shr. Equity	*11.5%*
11.0%	6.0%	9.9%	10.0%	10.2%	8.5%	9.0%	8.9%	9.9%	10.6%	*11.0%*	*11.0%*	Return on Com Equity	*11.5%*
3.6%	NMF	2.8%	3.1%	3.5%	1.9%	2.6%	2.7%	3.7%	4.2%	*5.0%*	*5.0%*	Retained to Com Eq	*4.5%*
70%	118%	74%	70%	67%	79%	72%	69%	63%	60%	*54%*	*57%*	All Div'ds to Net Prof	*58%*

CURRENT POSITION ($MILL.)

	2005	2006	6/30/07
Cash Assets	7.1	5.8	4.9
Other	316.6	303.0	156.6
Current Assets	323.7	308.8	161.5
Accts Payable	135.3	113.6	66.3
Debt Due	134.7	129.6	42.1
Other	56.6	98.3	105.3
Current Liab.	326.6	341.5	213.7
Fx. Chg. Cov.	340%	349%	NMF

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	6.5%	8.0%	*6.5%*
"Cash Flow"	2.0%	3.0%	*5.0%*
Earnings	2.0%	3.0%	*7.0%*
Dividends	1.0%	1.5%	*5.5%*
Book Value	4.0%	3.5%	*3.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	254.5	109.7	81.4	262.0	707.6
2005	308.7	153.7	106.7	341.4	910.5
2006	390.4	171.0	114.9	336.9	1013.2
2007	394.1	183.2	*120*	*342.7*	*1040*
2008	*405*	*190*	*125*	*355*	*1075*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	1.24	d.03	d.30	.95	1.86
2005	1.44	.04	d.31	.94	2.11
2006	1.48	.07	d.35	1.15	2.35
2007	1.70	.10	*d.33*	*1.18*	*2.65*
2008	*1.69*	*.08*	*d.33*	*1.21*	*2.65*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.315	.315	.315	.325	1.27
2004	.325	.325	.325	.325	1.30
2005	.325	.325	.325	.345	1.32
2006	.345	.345	.345	.355	1.39
2007	.355	.355	.355		

BUSINESS: Northwest Natural Gas Co. distributes natural gas to 90 communities, 641,000 customers, in Oregon (90% of customers) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.5 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system. Owns local underground storage. Rev. breakdown: residential, 55%; commercial, 28%; industrial, gas transportation, and other, 17%. Employs 1,200. Fidelity owns 14.9% of shares; Snyder Cap'l, 8.7%; off./dir., 2.0% (4/07 proxy). CEO: Mark S. Dodson. Inc.: Oregon. Address: 220 NW 2nd Ave., Portland, OR 97209. Telephone: 503-226-4211. Internet: www.nwnatural.com.

Northwest Natural remains on track for a record year. Earnings rose a bit in the seasonally slow second quarter as a result of higher profits in the small gas storage business. Gas distribution profits were at roughly breakeven, as in the prior-year period. First-quarter earnings benefited from $0.22 a share in profits from the purchased gas adjustment in Oregon. Northwest retains one third of the difference between forecast and actual gas costs in Oregon, whether at a profit or loss; in Washington, 100% of gas costs are passed through to customers.

We anticipate little change in earnings over the balance of the year. Customer growth was about 2.6% in the first half of the year. While that's still about double the national average, it's down from last year. With the crisis in housing continuing, customer growth will probably continue to fall, while remaining above the national average.

Earnings will likely be about the same in 2008, barring another large gain from astute gas purchasing in Oregon. Customer growth will probably remain above 2%, and costs should remain under good control as Northwest completes its work reorganization program, now under way. The program aims to reduce cost creep by centralizing and standardizing the utility's operations, while outsourcing new construction and some other non-emergency response work.

Earnings and dividend growth ought to be above industry averages out to 2010-2012. Earnings should benefit from Oregon's weather normalization and conservation clauses, which protect Northwest's profits from the effects of unusual weather and lower usage due to conservation. And the state is extending the urban density boundary to the southeast of Portland; the move will probably cause rapid population and customer growth there. Moreover, three new liquefied natural gas plants in Northwest's territory could add to its throughput by 2012.

These untimely, high-quality shares may appeal to conservative accounts. NWN's dividend yield is below the industry average, but earnings growth should be above average, producing worthwhile, risk-adjusted total-return potential.

Sigourney B. Romaine September 14, 2007

(A) Diluted earnings per share. Excludes nonrecurring items: '98, $0.15; '00, $0.11; '06, ($0.06). Next earnings report due early November.
(B) Dividends historically paid in mid-February, mid-May, mid-August, and mid-November.
■ Dividend reinvestment plan available.
(C) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	65
Earnings Predictability	80

PIEDMONT NAT'L. GAS NYSE-PNY

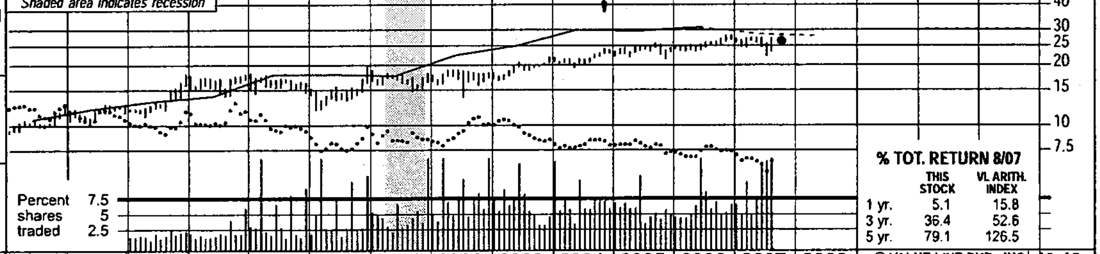
RECENT PRICE **26.46** | P/E RATIO **18.6** (Trailing: 19.0 / Median: 17.0) | RELATIVE P/E RATIO **1.04** | DIV'D YLD **3.8%** | VALUE LINE

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
High:		12.9	18.2	18.1	18.3	19.7	19.0	19.0	22.0	24.3	25.8	28.4	27.5				
Low:		10.3	11.0	13.9	14.3	11.8	14.6	13.7	16.6	19.2	21.3	23.2	22.0				

TIMELINESS 3 Raised 6/15/07
SAFETY 2 New 7/27/90
TECHNICAL 3 Raised 7/6/07
BETA .80 (1.00 = Market)

Target Price Range 2010 | 2011 | 2012

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



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+70%)	17%
Low	30	(+15%)	7%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	1	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	1	0	0	0	1	0	0

Institutional Decisions

	4Q2006	1Q2007	2Q2007
to Buy	79	74	84
to Sell	70	70	77
Hld's(000)	33589	31059	35264

Percent shares traded 7.5 / 5 / 2.5

% TOT. RETURN 8/07

	THIS STOCK	VL ARITH. INDEX
1 yr.	5.1	15.8
3 yr.	36.4	52.6
5 yr.	79.1	126.5

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	**25.55**	**26.85**	Revenues per sh A	**30.65**
.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	**2.55**	**2.65**	"Cash Flow" per sh	**2.95**
.44	.70	.73	.68	.73	.84	.93	.98	.93	1.01	1.01	.95	1.11	1.27	1.32	1.27	**1.45**	**1.50**	Earnings per sh B	**1.70**
.44	.46	.48	.51	.54	.57	.61	.64	.68	.72	.76	.80	.82	.85	.91	.95	**1.00**	**1.04**	Div'ds Decl'd per sh C■	**1.16**
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	**1.95**	**2.05**	Cap'l Spending per sh	**2.30**
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	**12.15**	**12.40**	Book Value per sh D	**13.60**
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**	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	*Bold figures are*		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	*Value Line*		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%	*estimates*		Avg Ann'l Div'd Yield	**3.5%**

CAPITAL STRUCTURE as of 4/30/07
Total Debt $854.5 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 73,909,836 shs.
as of 6/4/07
MARKET CAP: $2.0 billion (Mid Cap)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		10-12
775.5	765.3	686.5	830.4	1107.9	832.0	1220.8	1529.7	1761.1	1924.7	**1885**	**1960**	Revenues ($mill) A	**2200**
55.2	60.3	58.2	64.0	65.5	62.2	74.4	95.2	101.3	96.7	**105**	**110**	Net Profit ($mill)	**120**
39.1%	39.2%	39.7%	34.7%	34.6%	33.1%	34.8%	35.1%	33.7%	35.0%	**35.0%**	**35.0%**	Income Tax Rate	**35.0%**
7.1%	7.9%	8.5%	7.7%	5.9%	7.5%	6.1%	6.2%	5.8%	5.0%	**5.7%**	**5.6%**	Net Profit Margin	**5.5%**
47.6%	44.7%	46.2%	46.1%	47.6%	43.9%	42.2%	43.6%	41.4%	48.3%	**49.0%**	**50.0%**	Long-Term Debt Ratio	**48.7%**
52.4%	55.3%	53.8%	53.9%	52.4%	56.1%	57.8%	56.4%	58.6%	51.7%	**51.0%**	**50.0%**	Common Equity Ratio	**51.3%**
800.8	829.3	914.7	978.4	1069.4	1051.6	1090.2	1514.9	1509.2	1708.0	**1755**	**1810**	Total Capital ($mill)	**1910**
941.7	990.6	1047.0	1072.0	1114.7	1158.5	1812.3	1849.8	1939.1	2075.0	**2100**	**2150**	Net Plant ($mill)	**2350**
8.9%	9.2%	8.1%	8.3%	7.9%	7.8%	8.6%	7.8%	8.2%	7.1%	**7.5%**	**7.0%**	Return on Total Cap'l	**7.5%**
13.1%	13.2%	11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	**12.0%**	**12.0%**	Return on Shr. Equity	**12.5%**
13.1%	13.2%	11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	**12.0%**	**12.0%**	Return on Com Equity	**12.5%**
4.6%	4.7%	3.3%	3.5%	3.0%	1.7%	3.1%	3.7%	3.6%	2.8%	**3.5%**	**3.5%**	Retained to Com Eq	**4.0%**
65%	65%	72%	71%	75%	83%	74%	66%	68%	75%	**69%**	**69%**	All Div'ds to Net Prof	**69%**

CURRENT POSITION ($MILL.)

	2005	2006	4/30/07
Cash Assets	7.1	8.9	10.4
Other	497.8	467.1	375.0
Current Assets	504.9	476.0	385.4
Accts Payable	182.8	80.3	101.7
Debt Due	193.5	170.0	29.5
Other	152.3	150.1	133.9
Current Liab.	528.6	400.4	265.1
Fix. Chg. Cov.	271%	261%	300%

ANNUAL RATES

of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	7.5%	11.0%	5.0%
"Cash Flow"	7.0%	5.5%	3.5%
Earnings	5.5%	5.0%	4.5%
Dividends	5.5%	5.0%	4.5%
Book Value	6.5%	6.5%	3.0%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
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	677.2	531.6	**336**	**340.2**	**1885**
2008	**800**	**540**	**275**	**345**	**1960**

Fiscal Year Ends	EARNINGS PER SHARE A B F Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
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	.94	.69	**d.10**	**d.08**	**1.45**
2008	**.95**	**.65**	**d.06**	**d.04**	**1.50**

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.20	.208	.208	.208	.82
2004	.208	.215	.215	.215	.85
2005	.215	.23	.23	.23	.91
2006	.23	.24	.24	.24	.95
2007	.25	.25	.25		

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. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 2,051 employees. Officers & directors own less than 1% of common stock (1/07 proxy). Chairman, CEO, & President: Thomas E. Skains. Inc.: NC. Addr.: 4720 Piedmont Row Drive, Charlotte, NC 28210. Telephone: 704-731-4226. Internet: www.piedmontng.com.

Piedmont Natural Gas likely posted solid earnings advances in the first nine months of fiscal 2007, in comparison to last year. Share-net losses are probable in the third and fourth quarters, as is the norm for this seasonal business. The top line likely experienced a decline sequentially, a trend that should continue in the fourth quarter. However, margin stabilization features, coupled with business process improvements, have helped spur cost savings and greater efficiency. In fact, the company has reduced expenses by 5% so far this year. All told, we look for the annual earnings tally to rise approximately 15% over last year.

The Hardy Storage Company, Piedmont's joint venture, is on schedule for the 2007-2008 winter season. The storage facility initiated service and began accepting gas during the April period. Hardy adds a cost-effective and diverse underground storage asset to PNY's supply portfolio. At present, Piedmont is trying to build sufficient reserves to serve the North Carolina and South Carolina markets during the upcoming winter months. Should capacity allow, the company may well garner additional income from off-system sales to other providers. In turn, a large portion of these proceeds can finance customer refunds, which would not only boost the top line, but help increase customer retention.

We look for year-to-year earnings advances to moderate in 2008 and beyond. Even with an expanding customer base, above-average temperatures are affecting the top line. And most of the margin improvements stemming from cost-cutting efforts should be seen in the current year. Thus, we anticipate future share-net gains to occur at a slower pace.

These shares are moderately appealing at this time. The equity's appreciation potential for the 3- to 5-year timeframe is about average. And it is ranked to perform in line with the overall market for the year ahead. Investors with an eye on capital preservation should note the issue's Above-Average Safety rank (2), and its top score for Price Stability, which is evident in its stable quotation during recent market downturns. Too, it offers an attractive dividend yield.

Bryan Fong *September 14, 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 Nov.
(C) Dividends historically paid mid-January, April, July, October.
■ Div'd reinvest. plan available; 5% discount.
(D) Includes deferred charges. At 10/31/06: $11.3 million, 15¢/share.
(E) In millions, adjusted for stock split.
(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	60
Earnings Predictability	80

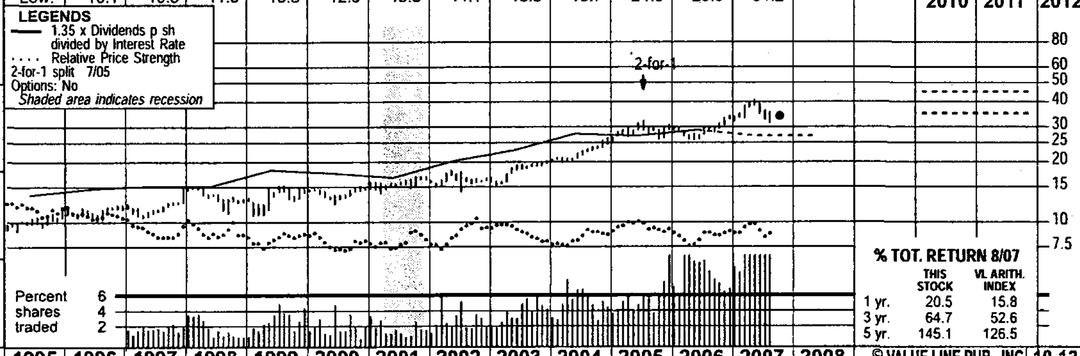
SOUTH JERSEY INDS. NYSE-SJI

RECENT PRICE 34.02 | P/E RATIO 16.2 (Trailing: 14.6 Median: 14.0) | RELATIVE P/E RATIO 0.90 | DIV'D YLD 3.0% | VALUE LINE

TIMELINESS 4 Lowered 9/14/07
SAFETY 2 Lowered 1/4/91
TECHNICAL 3 Lowered 1/26/07
BETA .70 (1.00 = Market)

High:	12.3	15.3	15.4	15.4	15.1	17.0	18.3	20.3	26.5	32.4	34.3	41.3
Low:	10.1	10.5	11.0	10.8	12.3	13.8	14.1	15.3	19.7	24.9	25.6	31.2

Target Price Range 2010 | 2011 | 2012



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+30%)	10%
Low	35	(+5%)	4%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	1	0	0	0	1	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	2	0	3	0

Institutional Decisions

	4Q2006	1Q2007	2Q2007
to Buy	58	75	69
to Sell	44	41	64
Hld's(000)	15568	17152	16955

% TOT. RETURN 8/07

	THIS STOCK	VL ARITH. INDEX
1 yr.	20.5	15.8
3 yr.	64.7	52.6
5 yr.	145.1	126.5

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	31.77	**32.60**	**33.75**	Revenues per sh	**37.50**
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	3.49	**3.25**	**3.40**	"Cash Flow" per sh	**4.05**
.64	.81	.78	.61	.83	.85	.86	.64	1.01	1.08	1.15	1.22	1.37	1.58	1.71	2.46	**2.15**	**2.35**	Earnings per sh A	**2.85**
.71	.71	.72	.72	.72	.72	.72	.72	.72	.73	.74	.75	.78	.82	.86	.92	**.98**	**1.04**	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	2.36	2.67	3.21	2.51	**2.00**	**2.45**	Cap'l Spending per sh	**3.15**
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	15.11	**16.45**	**16.70**	Book Value per sh C	**17.95**
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	29.33	**29.75**	**30.50**	Common Shs Outst'g D	**32.00**
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	11.9	*Bold figures are*		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	.64	*Value*	*Line*	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%	*estimates*		Avg Ann'l Div'd Yield	**3.0%**
						348.6	450.2	392.5	515.9	837.3	505.1	696.8	819.1	921.0	931.4	**970**	**1030**	Revenues ($mill)	**1200**
						18.4	13.8	22.0	24.7	26.8	29.4	34.6	43.0	48.6	72.0	**65.0**	**70.0**	Net Profit ($mill)	**90.0**
						36.8%	46.2%	42.8%	43.1%	42.2%	41.4%	40.6%	40.9%	41.5%	41.1%	**38.0%**	**40.0%**	Income Tax Rate	**40.0%**
						5.3%	3.1%	5.6%	4.8%	3.2%	5.8%	5.0%	5.2%	5.3%	7.7%	**6.7%**	**6.8%**	Net Profit Margin	**7.5%**
						54.6%	57.3%	53.8%	54.1%	57.0%	53.6%	50.8%	48.7%	44.9%	44.7%	**43.5%**	**44.0%**	Long-Term Debt Ratio	**42.5%**
						35.8%	33.5%	37.0%	37.6%	35.9%	46.1%	49.0%	51.0%	55.1%	55.3%	**56.5%**	**56.0%**	Common Equity Ratio	**57.5%**
						387.1	401.1	405.9	443.5	516.2	512.5	608.4	675.0	710.3	801.1	**865**	**910**	Total Capital ($mill)	**1000**
						456.5	504.3	533.3	562.2	607.0	666.6	748.3	799.9	877.3	920.0	**960**	**1025**	Net Plant ($mill)	**1200**
						6.7%	5.3%	7.4%	7.4%	6.9%	7.6%	7.3%	7.9%	8.3%	10.1%	**8.5%**	**9.0%**	Return on Total Cap'l	**10.5%**
						10.5%	8.1%	11.7%	12.1%	12.1%	12.4%	11.5%	12.4%	12.4%	16.3%	**13.5%**	**13.5%**	Return on Shr. Equity	**15.5%**
						13.3%	10.3%	14.6%	14.8%	12.8%	12.5%	11.6%	12.5%	12.4%	16.3%	**13.5%**	**13.5%**	Return on Com Equity	**15.5%**
						2.1%	NMF	4.2%	4.8%	3.5%	4.7%	5.0%	5.9%	6.2%	10.2%	**7.5%**	**7.5%**	Retained to Com Eq	**9.0%**
						84%	112%	72%	67%	76%	62%	57%	52%	50%	37%	**45%**	**45%**	All Div'ds to Net Prof	**43%**

CAPITAL STRUCTURE as of 6/30/07
Total Debt $467.0 mill. **Due in 5 Yrs** $146.9 mill.
LT Debt $358.0 mill. **LT Interest** $22.0 mill.
(Total interest coverage: 5.4x)

Pension Assets-12/06 $117.1 mill. **Oblig.** $132.6 mill.

Pfd Stock none

Common Stock 29,512,811 common shs. as of 8/1/07

MARKET CAP: $1.0 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2005	2006	6/30/07
Cash Assets	4.9	7.9	5.1
Other	352.6	363.8	292.5
Current Assets	357.5	371.7	297.6
Accts Payable	179.0	101.6	85.8
Debt Due	149.7	197.0	109.0
Other	74.4	124.2	113.5
Current Liab.	403.1	422.8	308.3
Fix. Chg. Cov.	486%	527%	526%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	6.5%	4.5%	3.0%
"Cash Flow"	5.5%	6.5%	NMF
Earnings	8.5%	9.5%	NMF
Dividends	2.0%	3.5%	5.5%
Book Value	6.0%	13.5%	4.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	307.6	136.5	129.5	245.5	819.1
2005	328.6	154.0	157.0	281.4	921.0
2006	372.6	153.8	154.7	250.3	931.4
2007	368.4	171.7	**160**	**269.9**	**970**
2008	**390**	**190**	**170**	**280**	**1030**

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.91	.15	.02	.50	1.58
2005	.96	.27	.09	.39	1.71
2006	1.06	.20	.51	.69	2.46
2007	1.30	.21	**.25**	**.39**	**2.15**
2008	**1.25**	**.25**	**.35**	**.50**	**2.35**

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	--	.193	.193	.395	.78
2004	--	.202	.202	.415	.82
2005	--	.213	.213	.438	.86
2006	--	.225	.225	.470	.92
2007	--	.245	.245		

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 330,049 customers in New Jersey's southern counties, which covers 2,500 square miles and includes Atlantic City. Gas revenue mix '06: residential, 43%; commercial, 24%; cogeneration and electric generation, 3%; industrial, 30%. Non-utility operations include: South Jersey Energy, South Jersey Resources Group, Marina Energy, and South Jersey Energy Service Plus. Has 611 employees. Off./dir. cntrl. 1.2% of com. shares; Dimensional Fund Advisors, 8.3%; Barclays, 6.0% (3/07 proxy). Chrmn. & CEO: Edward Graham. Incorp.: NJ. Address: 1 South Jersey Plaza, Folsom, NJ 08037. Tel.: 609-561-9000. Internet: www.sjindustries.com.

South Jersey Industries reported solid top-line growth for the second quarter. This was a result of strength in nonutility operations, as sales in these businesses advanced roughly 35%. Revenue comparisons ought to remain favorable going forward, and we project a top-line advance in the mid-single digits for 2007. Readers are advised that share earnings are now based on economic earnings, a *non*-GAAP measure that excludes highly volatile unrealized gains and losses from commodity derivative transactions. As a result, bottom-line figures from 2007 onward are not directly comparable with those from prior years.

Subsidiary South Jersey Gas has been reporting mixed performance. Revenues at this business decreased roughly 9% in the second quarter. A greater decline in operating costs resulted in improving margins, and operating income advanced 17%. This was partly due to the Conservation Incentive Program (CIP), which continues to benefit performance. This initiative allows South Jersey Gas to promote energy conservation, while insulating the company from the negative impact of lower customer utilization. The CIP augmented the bottom line by $1.4 million in the recent interim. Looking forward, customer growth may ease to a degree, owing to the housing slowdown. Despite this, we are optimistic about the prospects for this business over the long haul, as natural gas will likely remain the fuel of choice within its service territory.

The company has announced a new project for Marina Energy. Marina and DCO Energy have formed an agreement with the Salem County Utilities Authority (SCUA) to construct, own, and operate a facility that will generate electricity from landfill methane gas in Salem County. The companies will sell the project's electricity to SCUA over a 20-year period. This facility will probably be constructed and operating by the third quarter of next year.

This stock is untimely. However, these good-quality shares have superior scores for Price Stability and Earnings Predictability. This issue offers worthwhile total return potential for a natural gas utility company, and may interest investors looking for exposure to its industry.

Michael Napoli, CPA *September 14, 2007*

(A) Based on GAAP EPS through 2006, economic earnings thereafter. GAAP EPS: Q1 2007, $0.92; Q2 2007, $0.37. Excl. nonrecur. gain: '01, $0.13. Excl gain (losses) from discont. ops.: '96, $1.14; '97, ($0.24); '98, ($0.26); '99, ($0.02); '00, ($0.04); '01, ($0.02); '02, ($0.04); '03, ($0.09); '05, ($0.02); '06, ($0.02). Next egs. report due early November.
(B) Dividends paid early Apr., Jul., Oct., and late Dec. ■ Div. reinvest. plan avail. (C) Incl. regulatory assets. At 6/30/07: $228.2 mill., $7.73 per shr. (D) In millions, adjusted for split.

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

SOUTHWEST GAS NYSE-SWX

RECENT PRICE 29.11 | P/E RATIO 13.5 (Trailing: 14.5; Median: 19.0) | RELATIVE P/E RATIO 0.75 | DIV'D YLD 3.0% | VALUE LINE

TIMELINESS **5** Lowered 8/17/07

SAFETY **3** Lowered 1/4/91

TECHNICAL **4** Lowered 8/10/07

BETA .85 (1.00 = Market)

High:	19.9	20.3	26.9	29.5	23.0	24.7	25.3	23.6	26.2	28.1	39.4	39.9
Low:	14.9	16.1	17.3	20.4	16.9	18.6	18.1	19.3	21.5	23.5	26.0	26.5

2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+105%)	22%
Low	40	(+35%)	11%

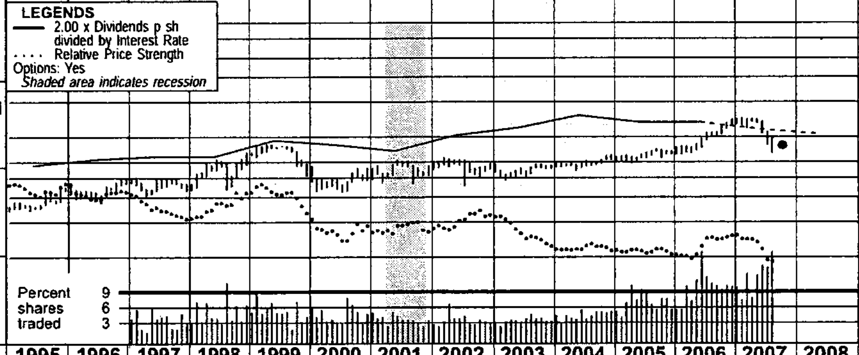
Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	1	0	0	0	0	1	0	0	0
Options	1	8	2	3	0	3	0	0	0
to Sell	1	8	4	3	0	5	0	1	1

Institutional Decisions

	4Q2006	1Q2007	2Q2007
to Buy	92	99	93
to Sell	65	62	79
Hld's(000)	30129	29184	32178

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



Target Price Range 2010 | 2011 | 2012

% TOT. RETURN 8/07

	THIS STOCK	VL ARITH. INDEX
1 yr.	-11.9	15.8
3 yr.	33.8	52.6
5 yr.	60.7	126.5

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
24.99	25.93	25.68	28.16	23.03	24.09	26.73	30.17	30.24	32.61	42.98	39.68	35.96	40.14	43.59	48.47	**51.15**	**54.55**	Revenues per sh A	**58.95**
1.53	3.34	3.24	5.09	2.65	3.00	3.85	4.48	4.45	4.57	4.79	5.07	5.11	5.57	5.20	6.07	**6.35**	**6.60**	"Cash Flow" per sh	**7.20**
d.76	.81	.63	1.22	.10	.25	.77	1.65	1.27	1.21	1.15	1.16	1.13	1.66	1.25	1.98	**2.10**	**2.25**	Earnings per sh A B	**2.70**
.88	.70	.74	.80	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	**.86**	**.86**	Div'ds Decl'd per sh C■	**.90**
3.76	5.02	5.43	6.64	6.79	8.19	6.19	6.40	7.41	7.04	8.17	8.50	7.03	8.23	7.49	8.27	**7.80**	**9.10**	Cap'l Spending per sh	**9.45**
15.88	15.99	15.96	16.38	14.55	14.20	14.09	15.67	16.31	16.82	17.27	17.91	18.42	19.18	19.10	21.58	**22.65**	**22.75**	Book Value per sh	**25.25**
20.60	20.60	21.00	21.28	24.47	26.73	27.39	30.41	30.99	31.71	32.49	33.29	34.23	36.79	39.33	41.77	**43.00**	**44.00**	Common Shs Outst'g D	**47.50**
--	16.6	26.5	14.0	NMF	69.3	24.1	13.2	21.1	16.0	19.0	19.9	19.2	14.3	20.6	15.9	*Bold figures are*		Avg Ann'l P/E Ratio	**18.0**
--	1.01	1.57	.92	NMF	4.34	1.39	.69	1.20	1.04	.97	1.09	1.09	.76	1.10	.86	*Value Line*		Relative P/E Ratio	**1.20**
7.0%	5.2%	4.4%	4.7%	5.4%	4.7%	4.4%	3.8%	3.1%	4.2%	3.8%	3.6%	3.8%	3.5%	3.2%	2.6%	*estimates*		Avg Ann'l Div'd Yield	**1.9%**

CAPITAL STRUCTURE as of 6/30/07

Total Debt $1333.7 mill. **Due in 5 Yrs** $454.8 mill.
LT Debt $1303.9 mill. **LT Interest** $93.0 mill.
(Total interest coverage: 2.4x)

Pension Assets-12/06 $413.5 mill.
Oblig. $534.9 mill.

Pfd Stock None

Common Stock 42,408,116 shs.
as of 8/1/07

MARKET CAP: $1.2 billion (Mid Cap)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		10-12
732.0	917.3	936.9	1034.1	1396.7	1320.9	1231.0	1477.1	1714.3	2024.7	**2200**	**2400**	Revenues ($mill) A	**2800**
20.8	47.5	39.3	38.3	37.2	38.6	38.5	58.9	48.1	81.1	**90.0**	**95.0**	Net Profit ($mill)	**125**
29.2%	43.4%	35.5%	26.2%	34.5%	32.8%	30.5%	34.8%	29.7%	34.7%	**36.0%**	**35.0%**	Income Tax Rate	**35.0%**
2.8%	5.2%	4.2%	3.7%	2.7%	2.9%	3.1%	4.0%	2.8%	4.0%	**4.1%**	**4.0%**	Net Profit Margin	**4.5%**
63.6%	60.2%	60.3%	60.2%	56.2%	62.5%	66.0%	64.2%	63.8%	60.6%	**57.0%**	**57.5%**	Long-Term Debt Ratio	**54.0%**
31.5%	35.3%	35.5%	35.8%	39.6%	34.1%	34.0%	35.8%	36.2%	39.4%	**43.0%**	**42.5%**	Common Equity Ratio	**46.0%**
1224.7	1349.3	1424.7	1489.9	1417.6	1748.3	1851.6	1968.6	2076.0	2287.8	**2275**	**2350**	Total Capital ($mill)	**2600**
1360.3	1459.4	1581.1	1686.1	1825.6	1979.5	2175.7	2336.0	2489.1	2668.1	**2800**	**3000**	Net Plant ($mill)	**3500**
3.9%	5.8%	4.8%	4.6%	5.1%	4.3%	4.2%	5.0%	4.3%	5.6%	**6.0%**	**6.0%**	Return on Total Cap'l	**6.5%**
4.7%	8.9%	7.0%	6.5%	6.0%	5.9%	6.1%	8.3%	6.4%	9.0%	**9.0%**	**9.5%**	Return on Shr. Equity	**10.5%**
5.4%	10.0%	7.8%	7.2%	6.6%	6.5%	6.1%	8.3%	6.4%	9.0%	**9.0%**	**9.5%**	Return on Com Equity	**10.5%**
NMF	5.0%	2.8%	2.4%	1.9%	1.9%	1.7%	4.3%	2.2%	5.3%	**5.5%**	**6.0%**	Retained to Com Eq	**7.0%**
107%	50%	64%	67%	71%	70%	72%	49%	65%	41%	**41%**	**39%**	All Div'ds to Net Prof	**33%**

CURRENT POSITION ($MILL.)	2005	2006	6/30/07
Cash Assets	29.6	18.8	20.7
Other	513.1	482.8	287.4
Current Assets	542.7	501.6	308.1
Accts Payable	259.5	265.7	107.9
Debt Due	107.2	27.5	29.8
Other	254.3	202.9	286.7
Current Liab.	621.0	496.1	424.4
Fix. Chg. Cov.	167%	220%	226%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	6.0%	4.5%	*5.0%*
"Cash Flow"	4.5%	4.0%	*4.0%*
Earnings	12.0%	6.0%	*9.0%*
Dividends	--	--	*1.5%*
Book Value	3.0%	3.5%	*4.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	473.4	278.7	264.5	460.5	1477.1
2005	542.9	361.1	313.3	497.0	1714.3
2006	676.9	430.9	351.8	565.1	2024.7
2007	793.7	426.5	**380**	**599.8**	**2200**
2008	**850**	**475**	**425**	**650**	**2400**

Cal-endar	EARNINGS PER SHARE B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	1.18	d.24	d.51	1.23	1.66
2005	.88	d.07	d.43	.87	1.25
2006	1.11	.02	d.26	1.11	1.98
2007	1.17	d.01	**d.20**	**1.14**	**2.10**
2008	**1.22**	**Nil**	**d.15**	**1.18**	**2.25**

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.205	.205	.205	.205	.82
2004	.205	.205	.205	.205	.82
2005	.205	.205	.205	.205	.82
2006	.205	.205	.205	.205	.82
2007	.205	.215	.215		

BUSINESS: Southwest Gas Corporation is a regulated gas distributor serving approximately 1.8 million customers in sections of Arizona, Nevada, and California. Comprised of two business segments: natural gas operations and construction services. 2006 margin mix: residential and small commercial, 85%; large commercial and industrial, 6%; transportation, 9%. Total throughput: 2.4 billion therms. Sold PriMerit Bank (acquired in 1986) in July of 1996. Has 4,902 employees. Officers & Directors own roughly 1.4% of common stock (3/07 Proxy). Chairman: LeRoy C. Hanneman, Jr. Chief Executive Officer: Jeffrey W. Shaw. Incorporated: California. Address: 5241 Spring Mountain Road, Las Vegas, Nevada 89193. Telephone: 702-876-7237. Internet: www.swgas.com.

Shares of Southwest Gas have declined over 20% since our June review, as the company reported an unimpressive performance for the second quarter. Revenues were relatively flat, compared to the prior year's period. During the past 12 months, Southwest Gas increased its customer base by roughly 57,000, an advance of about 3%. This was lower than in recent times, as customer growth appears to have moderated somewhat. Operating expenses increased, and the bottom line declined somewhat, to a loss of $0.01 a share. Due to the seasonal nature of the company's operations, such losses are not unusual in the second and third quarters.

We anticipate modest growth at Southwest Gas going forward. SWX has remained focused on obtaining rate relief and improving rate design. Indeed, the company anticipates filing rate cases in California and Arizona in the near future. This is encouraging, as Southwest Gas depends upon such approved revenue increases to help it cope with higher natural gas prices and to provide greater earnings stability. Moreover, customer growth should continue in the coming years, although probably at the slower pace experienced recently. Looking forward, we anticipate favorable comparisons for the remainder of the year. Revenues and earnings per share ought to advance roughly 9% and 6%, respectively, for full-year 2007. This pattern will probably continue to next year, as well.

Investors should be aware of several caveats. As Southwest Gas continues to expand, it is likely to incur increased operating costs. Warmer-than-normal temperatures may well also hurt performance. The possibility of insufficient, or lagging, rate relief remains another risk.

These shares have declined a notch in Timeliness, and are now ranked 5 (Lowest). Nevertheless, we look for steady annual growth in revenues and share earnings in the coming years. Following the recent selloff, the stock has above-average appreciation potential for the pull to 2010-2012 and may appeal to patient, risk-tolerant investors. Furthermore, this issue offers a more attractive dividend yield at the current quotation.

Michael Napoli, CPA *September 14, 2007*

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

Company's Financial Strength	B
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	65

WGL HOLDINGS NYSE-WGL

RECENT PRICE **33.34** | P/E RATIO **16.3** (Trailing: 14.4; Median: 15.0) | RELATIVE P/E RATIO **0.91** | DIV'D YLD **4.1%** | **VALUE LINE**

TIMELINESS **3** Raised 5/25/07
SAFETY **1** Raised 4/2/93
TECHNICAL **3** Raised 6/29/07
BETA .85 (1.00 = Market)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
High:		25.0	31.4	30.8	29.4	31.5	30.5	29.5	28.8	31.4	34.8	33.6	35.9
Low:		19.1	20.9	23.1	21.0	21.8	25.3	19.3	23.2	26.7	28.8	27.0	29.8

Target Price Range
2010 | 2011 | 2012

2010-12 PROJECTIONS

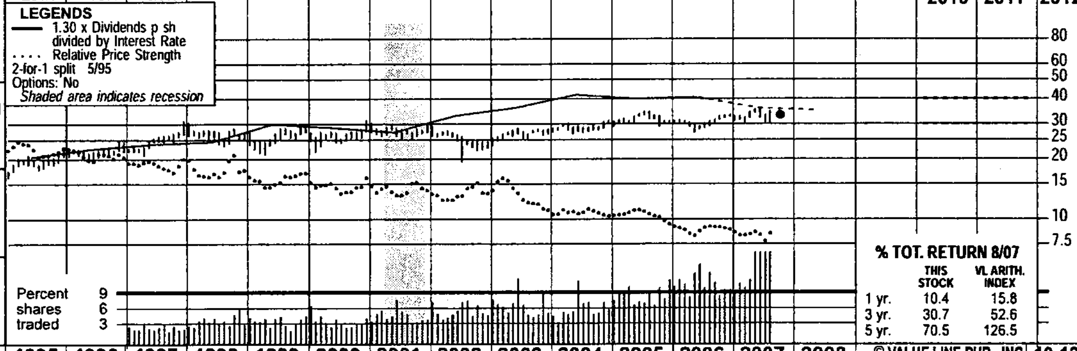
	Price	Gain	Ann'l Total Return
High	40	(+20%)	9%
Low	30	(-10%)	2%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	1	0	0	0	0	0	0	0
Options	1	6	1	0	0	0	0	1	0
to Sell	1	6	1	0	0	0	0	1	0

Institutional Decisions

	4Q2006	1Q2007	2Q2007
to Buy	81	97	94
to Sell	68	62	81
Hld's(000)	30408	33055	35310



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	*54.85*	*56.45*	Revenues per sh A	*61.20*
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	*3.95*	*4.00*	"Cash Flow" per sh	*4.30*
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	*2.05*	*2.10*	Earnings per sh B	*2.30*
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	*1.36*	*1.40*	Div'ds Decl'd per sh C ■	*1.52*
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	*2.40*	*2.40*	Cap'l Spending per sh	*2.50*
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	*19.60*	*20.40*	Book Value per sh D	*22.70*
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	*49.50*	*49.60*	Common Shs Outst'g E	*50.00*
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	*Bold figures are*		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	*Value Line*		Relative P/E Ratio	*1.00*
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%	*estimates*		Avg Ann'l Div'd Yield	*4.3%*
						1055.8	1040.6	972.1	1031.1	1446.5	1584.8	2064.2	2089.6	2186.3	2637.9	*2715*	*2800*	Revenues ($mill) A	*3060*
						82.0	68.6	68.8	84.6	89.9	55.7	112.3	98.0	104.8	95.1	*100*	*105*	Net Profit ($mill)	*115*
						36.9%	35.6%	36.0%	36.1%	39.6%	34.0%	38.0%	38.2%	37.4%	39.0%	*38.0%*	*38.0%*	Income Tax Rate	*38.0%*
						7.8%	6.6%	7.1%	8.2%	6.2%	3.5%	5.4%	4.7%	4.8%	3.6%	*3.7%*	*3.8%*	Net Profit Margin	*3.8%*
						41.1%	40.3%	41.5%	43.1%	41.7%	45.7%	43.8%	40.9%	39.5%	38.5%	*36.2%*	*35.4%*	Long-Term Debt Ratio	*32.9%*
						56.2%	57.1%	56.1%	54.8%	56.3%	52.4%	54.3%	57.2%	58.6%	61.5%	*62.4%*	*62.9%*	Common Equity Ratio	*65.5%*
						1049.0	1064.8	1218.5	1299.2	1400.8	1462.5	1454.9	1443.6	1478.1	1497.8	*1575*	*1610*	Total Capital ($mill)	*1735*
						1217.1	1319.5	1402.7	1460.3	1519.7	1606.8	1874.9	1915.6	1969.7	2068	*2170*	*2280*	Net Plant ($mill)	*2640*
						9.3%	8.0%	7.1%	7.9%	7.9%	5.3%	9.1%	8.2%	8.5%	7.7%	*8.0%*	*8.0%*	Return on Total Cap'l	*8.0%*
						13.3%	10.8%	9.7%	11.4%	11.0%	7.0%	13.7%	11.5%	11.7%	10.3%	*10.5%*	*10.5%*	Return on Shr. Equity	*10.0%*
						13.7%	11.1%	9.9%	11.7%	11.2%	7.2%	14.0%	11.7%	12.0%	10.2%	*11.0%*	*11.0%*	Return on Com Equity	*10.5%*
						5.1%	2.5%	1.8%	3.7%	3.8%	NMF	6.2%	4.1%	4.6%	3.1%	*3.5%*	*3.5%*	Retained to Com Eq	*3.5%*
						63%	78%	82%	69%	67%	112%	56%	65%	62%	70%	*66%*	*66%*	All Div'ds to Net Prof	*65%*

CAPITAL STRUCTURE as of 6/30/07
Total Debt $670.1 mill. Due in 5 Yrs $290.0 mill.
LT Debt $605.4 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 49,309,995 shs. as of 7/31/07

MARKET CAP: $1.6 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2005	2006	6/30/07
Cash Assets	4.8	4.4	67.2
Other	476.2	556.9	477.4
Current Assets	481.0	561.3	544.6
Accts Payable	204.9	208.5	250.2
Debt Due	91.0	238.4	64.7
Other	115.5	113.9	156.6
Current Liab.	411.4	560.8	471.5
Fix. Chg. Cov.	460%	465%	460%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	7.5%	14.5%	*4.5%*
"Cash Flow"	5.0%	6.5%	*1.5%*
Earnings	4.5%	6.0%	*2.0%*
Dividends	1.5%	1.5%	*2.5%*
Book Value	4.0%	3.0%	*4.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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	1119.9	467.5	*394.7*	*2715*
2008	*970*	*1040*	*390*	*400*	*2800*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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	1.29	.22	*d.38*	*2.05*
2008	*.95*	*1.26*	*.04*	*d.15*	*2.10*

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.318	.32	.32	.32	1.28
2004	.32	.325	.325	.325	1.30
2005	.325	.333	.333	.333	1.32
2006	.333	.338	.338	.338	1.34
2007	.34	.34	.34		

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 provides energy related products in the D.C. metro area; Wash. Gas Energy Sys. designs/installs comm'l heating, ventilating, and air cond. systems. American Century Inv. own 9.6% of common stock; Off./dir. less than 1% (1/07 proxy). Chrmn. & CEO: J.H. DeGraffenreidt. Inc.: D.C. and VA. Addr.: 1100 H St., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.

WGL Holdings will likely post a modest earnings increase for fiscal 2007 (ends September 30th). This should result from higher gas and electric volume due to additional customers. The company has added approximately 14,000 new accounts year to date and estimates that number will reach 16,000 by the end of the fiscal year. Furthermore, rate cases and capital investments should help WGL grow at a steady pace.

Favorable rate case settlements should moderate earnings volatility and may bolster the bottom line. One of WGL's subsidiaries has reached a settlement in its Virginia rate case. The resolution implements an annual rate hike of $3.9 million, as well as a weather-normalized regulatory mechanism (WNA). When coupling the WNA with previous volatility mechanisms, 90% of the fluctuations related to changes in gas usage in Virginia (the largest area serviced) are eliminated. The rate increase is already in effect, but the SCC of Virginia must approve the changes before it is finalized; WGL expects this to happen by the end of this fiscal year. A similar program was put into use in Maryland earlier this year. These combined efforts have neutralized the effects of top-line variations on earnings in over 80% of areas serviced by WGL.

The company continues to invest in capital projects to foster expansion. Currently, it is recovering the costs related to the Gardner Road facility, which blends hexane into the Cove Point gas (CPG) to make it more like domestic pipeline natural gas. The lack of hexane was causing O-rings to shrink, allowing gas to escape from the pipeline. CPG will eventually be used to service a large portion of WGL's customers. To allow for such usage, the company recently broke ground on a second facility in Rockville, Maryland and recently purchased property to construct a third in Granesville, Virginia.

However, at present, these neutrally ranked shares are not very compelling (Timeliness: 3). Too, based on our projected earnings, the equity's current quotation is within our Target Price Range, leaving little room for capital appreciation out to 2010-2012.

Bryan Fong *September 14, 2007*

(A) Fiscal years end Sept. 30th.
(B) Based on diluted shares. Excludes nonrecurring losses: '01, (13¢); '02, (34¢); '07, (4¢) discontinued operations: '06, (15¢). Next earnings report due late Oct.
(C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available.
(D) Includes deferred charges and intangibles. '06: $296.6 million, $6.07/sh.
(E) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	65

ATTACHMENT C

PROFIT FROM THE PROS

Zacks.com Quotes and Research

AMER ST WATER (NYSE)

Scottrade

AWR	41.90	▲2.90	(7.44%)	Vol. 168,500	14:34 ET

American States is a public utility company engaged principally in thepurchase, production, distribution and sale of water. The company alsodistributes electricity in some communities. In the customer service areas for both water and electric, rates and operations are subject to the jurisdiction of the California Public Utilities Commission.

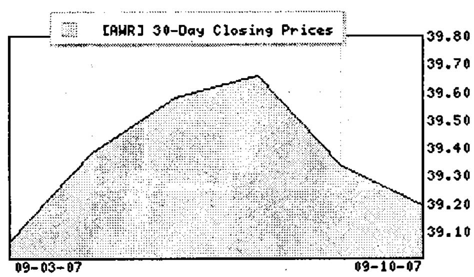
General Information

AMER STATES WTR
630 East Foothill Boulevard
San Dimas, CA 91773
Phone: 909 394-3600
Fax: 909 394-0711
Web: www.aswater.com
Email: investorinfo@aswater.com

Industry	UTIL-WATER SPLY
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	09/30/07
Next EPS Date	11/05/2007

Price and Volume Information

Zacks Rank	
Yesterday's Close	39.00
52 Week High	44.84
52 Week Low	33.57
Beta	0.18
20 Day Moving Average	115,115.00
Target Price Consensus	42



% Price Change

4 Week	4.08
12 Week	13.08
YTD	5.64

% Price Change Relative to S&P 500

4 Week	-0.93
12 Week	12.64
YTD	-1.58

Share Information

Shares Outstanding (millions)	17.11
Market Capitalization (millions)	698.25
Short Ratio	8.49
Last Split Date	06/10/2002

Dividend Information

Dividend Yield	2.30%
Annual Dividend	$0.94
Payout Ratio	0.64
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	08/08/2007 / $0.23

EPS Information

Current Quarter EPS Consensus Estimate	0.58
Current Year EPS Consensus Estimate	1.59
Estimated Long-Term EPS Growth Rate	5.00
Next EPS Report Date	11/05/2007

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.60
30 Days Ago	2.60
60 Days Ago	2.00
90 Days Ago	2.00

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	25.71	vs. Previous Year	16.67%	vs. Previous Year	27.53%
Trailing 12 Months:	27.75	vs. Previous Quarter	35.48%	vs. Previous Quarter:	9.65%
PEG Ratio	5.14				
Price Ratios		**ROE**		**ROA**	
Price/Book	2.38	06/30/07	8.89	06/30/07	2.71

Price/Cash Flow	13.94	03/31/07	8.66	03/31/07	2.63
Price / Sales	2.39	12/31/06	8.56	12/31/06	2.60
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/07	0.84	06/30/07	0.82	06/30/07	8.71
03/31/07	0.81	03/31/07	0.79	03/31/07	8.87
12/31/06	0.75	12/31/06	0.73	12/31/06	8.98
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/07	15.05	06/30/07	15.05	06/30/07	17.14
03/31/07	14.96	03/31/07	14.96	03/31/07	16.84
12/31/06	14.43	12/31/06	14.43	12/31/06	16.65
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
06/30/07	52.77	06/30/07	0.92	06/30/07	47.78
03/31/07	50.52	03/31/07	0.93	03/31/07	48.24
12/31/06	53.74	12/31/06	0.94	12/31/06	48.56

ZACKS
PROFIT FROM THE PROS

Zacks.com Quotes and Research

CALIFORNIA WATER SVC (NYSE)

Scottrade

CWT	41.38	2.89	(7.51%)	Vol. 155,000	14:36 ET

California Water Service Company's business, which is carried on through its operating subsidiaries, consists of the production, purchase, storage, purification, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. It also provides water related services under agreements with municipalities and other private companies. The nonregulated services include full water system operation, and billing and meter reading services.

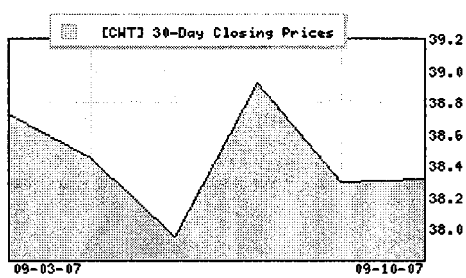
General Information

CALIF WATER SVC
1720 North First Street
San Jose, CA 95112
Phone: 408 367-8200
Fax: 408 437-9185
Web: www.calwatergroup.com
Email: klichtenberg@calwater.com

Industry	UTIL-WATER SPLY
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	09/30/07
Next EPS Date	11/07/2007

Price and Volume Information

Zacks Rank	
Yesterday's Close	38.49
52 Week High	45.37
52 Week Low	34.23
Beta	0.73
20 Day Moving Average	156,010.00
Target Price Consensus	43.4



% Price Change		% Price Change Relative to S&P 500	
4 Week	0.90	4 Week	-3.96
12 Week	5.84	12 Week	5.43
YTD	-0.40	YTD	-5.32

Share Information		Dividend Information	
Shares Outstanding (millions)	20.67	Dividend Yield	2.88%
		Annual Dividend	$1.16
Market Capitalization (millions)	831.60	Payout Ratio	0.81
Short Ratio	6.76	Change in Payout Ratio	-0.10
Last Split Date	01/26/1998	Last Dividend Payout / Amount	08/02/2007 / $0.29

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.79	Current (1=Strong Buy, 5=Strong Sell)	2.25
Current Year EPS Consensus Estimate	1.55	30 Days Ago	2.25
Estimated Long-Term EPS Growth Rate	7.30	60 Days Ago	1.86
Next EPS Report Date	11/07/2007	90 Days Ago	1.86

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	25.92	vs. Previous Year	19.35%	vs. Previous Year	18.10%
Trailing 12 Months:	28.14	vs. Previous Quarter	428.57%	vs. Previous Quarter:	33.83%
PEG Ratio	3.53				

Price Ratios		ROE		ROA	
Price/Book	2.21	06/30/07	7.95	06/30/07	2.49
Price/Cash Flow	14.61	03/31/07	7.86	03/31/07	2.38
Price / Sales	2.34	12/31/06	8.15	12/31/06	2.40
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/07	1.16	06/30/07	1.10	06/30/07	7.97
03/31/07	1.40	03/31/07	1.33	03/31/07	7.72
12/31/06	1.56	12/31/06	1.50	12/31/06	7.64
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/07	12.78	06/30/07	12.78	06/30/07	18.18
03/31/07	12.36	03/31/07	12.36	03/31/07	18.10
12/31/06	12.21	12/31/06	12.21	12/31/06	18.31
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
06/30/07	32.11	06/30/07	0.78	06/30/07	43.44
03/31/07	30.42	03/31/07	0.78	03/31/07	43.57
12/31/06	29.61	12/31/06	0.77	12/31/06	43.32

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PROFIT FROM THE PROS

Zacks.com Quotes and Research

SOUTHWEST WATER COMPANY (NASDAQ)

Scottrade

SWWC	12.85	▲0.22	(1.74%)	Vol. 195,636	14:45 ET

Southwest Water Company provides a broad range of utility and utility management services and serves people from coast to coast. Through its various subsidiaries, Southwest operates and manages water and wastewater treatment facilities along with providing utility submetering and billing and collection services.

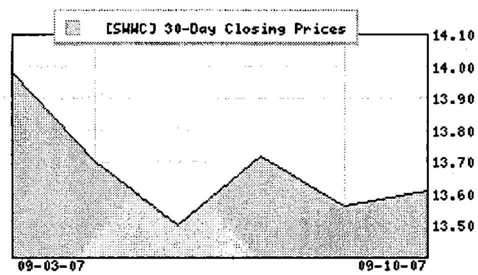
General Information

SOUTHWEST WATER
One Wilshire Building 624 South Grand Avenue
Suite 2900
Los Angeles, CA 90017-3782
Phone: 213 929-1800
Fax: 213 929-1888
Web: www.southwestwater.com
Email: swwc@swwc.com

Industry	UTIL-WATER SPLY
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	09/30/07
Next EPS Date	11/08/2007

Price and Volume Information

Zacks Rank	
Yesterday's Close	12.63
52 Week High	16.41
52 Week Low	11.84
Beta	0.39
20 Day Moving Average	264,064.94
Target Price Consensus	16



% Price Change		% Price Change Relative to S&P 500	
4 Week	-11.67	4 Week	-15.92
12 Week	-0.47	12 Week	-0.86
YTD	-7.56	YTD	-12.92

Share Information		Dividend Information	
Shares Outstanding (millions)	24.17	Dividend Yield	1.81%
		Annual Dividend	$0.23
Market Capitalization (millions)	307.49	Payout Ratio	0.56
Short Ratio	9.60	Change in Payout Ratio	0.00
Last Split Date	12/28/2005	Last Dividend Payout / Amount	06/27/2007 / $0.06

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.17	Current (1=Strong Buy, 5=Strong Sell)	3.40
Current Year EPS Consensus Estimate	0.43	30 Days Ago	3.40
Estimated Long-Term EPS Growth Rate	9.00	60 Days Ago	2.50
Next EPS Report Date	11/08/2007	90 Days Ago	2.50

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	29.41	vs. Previous Year	-35.71%	vs. Previous Year	-0.70%
Trailing 12 Months:	31.02	vs. Previous Quarter	200.00%	vs. Previous Quarter:	14.35%
PEG Ratio	3.27				

Price Ratios	ROE	ROA

Price/Book	1.80	06/30/07	5.82	06/30/07	1.96
Price/Cash Flow	13.75	03/31/07	6.60	03/31/07	2.21
Price / Sales	1.39	12/31/06	6.90	12/31/06	2.30
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/07	1.42	06/30/07	1.43	06/30/07	4.36
03/31/07	1.60	03/31/07	1.60	03/31/07	4.81
12/31/06	1.35	12/31/06	1.35	12/31/06	4.82
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/07	6.71	06/30/07	6.71	06/30/07	7.06
03/31/07	6.42	03/31/07	6.42	03/31/07	7.01
12/31/06	6.40	12/31/06	6.40	12/31/06	7.04
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
06/30/07	-	06/30/07	0.85	06/30/07	45.74
03/31/07	-	03/31/07	0.81	03/31/07	44.67
12/31/06	-	12/31/06	0.77	12/31/06	43.58

ZACKS PROFIT FROM THE PROS

Zacks.com Quotes and Research

AQUA AMERICA INC (NYSE)					Scottrade
WTR	24.29	▲1.61	(7.10%)	Vol. 1,196,100	14:11 ET

Aqua America is the largest publicly-traded U.S.-based water utility serving residents in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. The company has been committed to the preservation and improvement of the environment throughout its history, which spans more than 100 years.

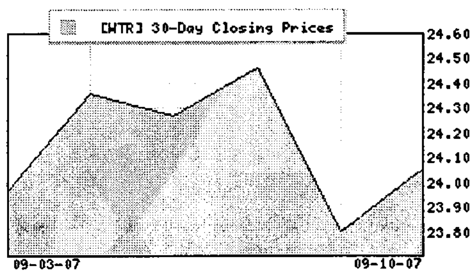
General Information

AQUA AMER INC
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489
Phone: 610 527-8000
Fax: 610 519-0989
Web: www.aquaamerica.com
Email: investorrelations@aquaamerica.com

Industry	UTIL-WATER SPLY
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	09/30/07
Next EPS Date	11/07/2007

Price and Volume Information

Zacks Rank	
Yesterday's Close	22.68
52 Week High	26.62
52 Week Low	20.50
Beta	0.13
20 Day Moving Average	929,745.00
Target Price Consensus	26



% Price Change		% Price Change Relative to S&P 500	
4 Week	-1.35	4 Week	-6.10
12 Week	4.47	12 Week	4.06
YTD	2.63	YTD	-2.59

Share Information		Dividend Information	
Shares Outstanding (millions)	132.97	Dividend Yield	2.14%
		Annual Dividend	$0.50
Market Capitalization (millions)	3,108.79	Payout Ratio	0.65
Short Ratio	5.38	Change in Payout Ratio	0.05
Last Split Date	12/02/2005	Last Dividend Payout / Amount	08/15/2007 / $0.13

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.23	Current (1=Strong Buy, 5=Strong Sell)	2.11
Current Year EPS Consensus Estimate	0.76	30 Days Ago	2.11
Estimated Long-Term EPS Growth Rate	10.50	60 Days Ago	1.44
Next EPS Report Date	11/07/2007	90 Days Ago	1.44

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	30.58	vs. Previous Year	5.88%	vs. Previous Year	14.33%
Trailing 12 Months:	32.93	vs. Previous Quarter	38.46%	vs. Previous Quarter:	9.70%
PEG Ratio	2.91				
Price Ratios		**ROE**		**ROA**	
Price/Book	3.28	06/30/07	10.17	06/30/07	3.20

Price/Cash Flow	18.49	03/31/07	10.22	03/31/07	3.25
Price / Sales	5.44	12/31/06	10.49	12/31/06	3.33
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/07	0.42	06/30/07	0.38	06/30/07	16.38
03/31/07	0.45	03/31/07	0.42	03/31/07	16.69
12/31/06	0.53	12/31/06	0.49	12/31/06	17.25
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/07	27.09	06/30/07	27.09	06/30/07	7.12
03/31/07	27.60	03/31/07	27.60	03/31/07	7.01
12/31/06	28.54	12/31/06	28.54	12/31/06	6.98
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
06/30/07	7.04	06/30/07	1.10	06/30/07	52.46
03/31/07	0.00	03/31/07	1.13	03/31/07	53.09
12/31/06	0.00	12/31/06	1.03	12/31/06	50.85

ZACKS
PROFIT FROM THE PROS

Zacks.com Quotes and Research

ATLANTA GAS LIGHT (NYSE)					Scottrade
ATG	39.99	▲0.37	(0.93%)	Vol. 249,800	15:29 ET

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.

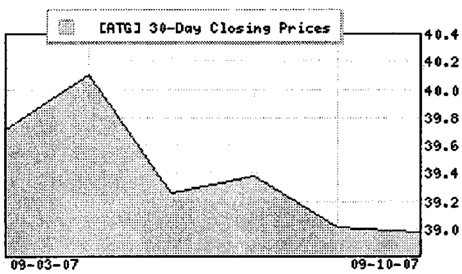
General Information

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	09/30/07
Next EPS Date	10/25/2007

Price and Volume Information

Zacks Rank	
Yesterday's Close	39.62
52 Week High	44.67
52 Week Low	35.24
Beta	0.45
20 Day Moving Average	403,765.00
Target Price Consensus	44.7



% Price Change		% Price Change Relative to S&P 500	
4 Week	0.73	4 Week	-4.12
12 Week	-2.40	12 Week	-2.78
YTD	2.29	YTD	-4.34

Share Information		Dividend Information	
Shares Outstanding (millions)	77.69	Dividend Yield	4.12%
		Annual Dividend	$1.64
Market Capitalization (millions)	3,092.26	Payout Ratio	0.59
Short Ratio	1.41	Change in Payout Ratio	0.04
Last Split Date	12/04/1995	Last Dividend Payout / Amount	08/15/2007 / $0.41

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.34	Current (1=Strong Buy, 5=Strong Sell)	1.89
Current Year EPS Consensus Estimate	2.79	30 Days Ago	2.00
Estimated Long-Term EPS Growth Rate	4.50	60 Days Ago	2.22
Next EPS Report Date	10/25/2007	90 Days Ago	2.38

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	14.28	vs. Previous Year	60.00%	vs. Previous Year	7.11%
Trailing 12 Months:	14.42	vs. Previous Quarter	-69.23%	vs. Previous Quarter:	-52.00%
PEG Ratio	3.17				
Price Ratios		**ROE**		**ROA**	
Price/Book	1.85	06/30/07	13.15	06/30/07	3.66

Price/Cash Flow	8.84	03/31/07	12.67	03/31/07	3.47
Price / Sales	1.20	12/31/06	13.36	12/31/06	3.61
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/07	1.08	06/30/07	0.62	06/30/07	8.33
03/31/07	1.27	03/31/07	0.92	03/31/07	8.00
12/31/06	1.12	12/31/06	0.75	12/31/06	8.08
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/07	13.41	06/30/07	13.41	06/30/07	21.49
03/31/07	12.86	03/31/07	12.86	03/31/07	21.55
12/31/06	13.01	12/31/06	13.01	12/31/06	20.71
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
06/30/07	2.59	06/30/07	0.92	06/30/07	48.65
03/31/07	2.52	03/31/07	0.97	03/31/07	49.73
12/31/06	2.58	12/31/06	1.01	12/31/06	50.84

Zacks.com Quotes and Research

ATMOS ENERGY CP (NYSE)					Scottrade
ATO	28.87	▲0.55	(1.94%)	Vol. 261,200	15:30 ET

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.

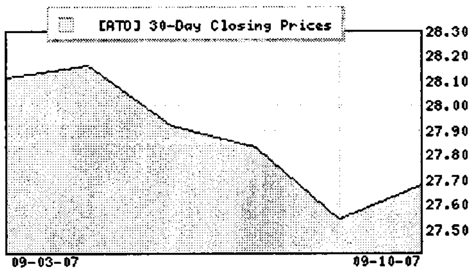
General Information

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	09/30/07
Next EPS Date	11/06/2007

Price and Volume Information

Zacks Rank	
Yesterday's Close	28.32
52 Week High	33.47
52 Week Low	23.87
Beta	0.49
20 Day Moving Average	417,560.00
Target Price Consensus	31.61



% Price Change

4 Week	1.90
12 Week	-6.26
YTD	-10.87

% Price Change Relative to S&P 500

4 Week	-3.01
12 Week	-6.63
YTD	-17.56

Share Information

Shares Outstanding (millions)	89.16
Market Capitalization (millions)	2,535.71
Short Ratio	2.61
Last Split Date	05/17/1994

Dividend Information

Dividend Yield	4.50%
Annual Dividend	$1.28
Payout Ratio	0.56
Change in Payout Ratio	-0.11
Last Dividend Payout / Amount	08/23/2007 / $0.32

EPS Information

Current Quarter EPS Consensus Estimate	-0.09
Current Year EPS Consensus Estimate	1.91
Estimated Long-Term EPS Growth Rate	5.30
Next EPS Report Date	11/06/2007

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.00
30 Days Ago	2.29
60 Days Ago	2.57
90 Days Ago	2.57

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	14.90	vs. Previous Year	-475.00%	vs. Previous Year	41.11%
Trailing 12 Months:	12.53	vs. Previous Quarter	-112.50%	vs. Previous Quarter:	-41.31%
PEG Ratio	2.84				

Price Ratios		ROE		ROA	
Price/Book	1.27	06/30/07	10.30	06/30/07	3.24
Price/Cash Flow	6.66	03/31/07	11.66	03/31/07	3.58
Price / Sales	0.43	12/31/06	11.18	12/31/06	3.29
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/07	1.22	06/30/07	0.80	06/30/07	3.32
03/31/07	1.03	03/31/07	0.77	03/31/07	3.84
12/31/06	0.97	12/31/06	0.65	12/31/06	3.54
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/07	5.05	06/30/07	5.05	06/30/07	22.39
03/31/07	5.24	03/31/07	5.24	03/31/07	22.83
12/31/06	4.68	12/31/06	4.68	12/31/06	22.01
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
06/30/07	10.11	06/30/07	1.07	06/30/07	51.68
03/31/07	9.52	03/31/07	0.93	03/31/07	48.16
12/31/06	9.09	12/31/06	0.98	12/31/06	49.45

Zacks.com Quotes and Research

LACLEDE GROUP INC (NYSE)

Scottrade

LG	33.37	▲1.09	(3.38%)	Vol. 43,000	15:30 ET

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

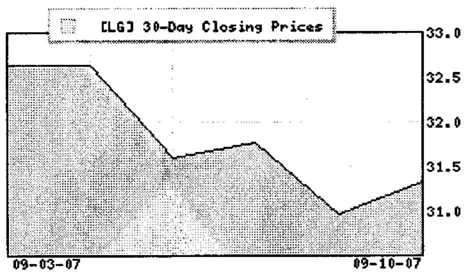
LACLEDE GRP INC
720 Olive Street
St. Louis, MO 63101
Phone: 314-342-0500
Fax: -
Web: www.thelacledegroup.com
Email: mkullman@lacledegas.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	September
Last Reported Quarter	09/30/07
Next EPS Date	10/26/2007

Price and Volume Information

Zacks Rank	
Yesterday's Close	32.28
52 Week High	37.51
52 Week Low	28.84
Beta	0.58
20 Day Moving Average	84,590.00
Target Price Consensus	N/A



% Price Change		% Price Change Relative to S&P 500	
4 Week	1.13	4 Week	-3.73
12 Week	2.68	12 Week	2.28
YTD	-5.88	YTD	-11.55

Share Information		Dividend Information	
Shares Outstanding (millions)	21.63	Dividend Yield	4.43%
		Annual Dividend	$1.46
Market Capitalization (millions)	713.27	Payout Ratio	0.65
Short Ratio	11.69	Change in Payout Ratio	-0.09
Last Split Date	03/08/1994	Last Dividend Payout / Amount	09/07/2007 / $0.37

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	-0.12	Current (1=Strong Buy, 5=Strong Sell)	3.00
Current Year EPS Consensus Estimate	2.09	30 Days Ago	3.00
Estimated Long-Term EPS Growth Rate	3.00	60 Days Ago	3.00
Next EPS Report Date	10/26/2007	90 Days Ago	3.00

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	15.81	vs. Previous Year	230.77%	vs. Previous Year	38.54%
Trailing 12 Months:	14.65	vs. Previous Quarter	-55.67%	vs. Previous Quarter:	-34.66%
PEG Ratio	5.27				

Price Ratios		ROE		ROA	
Price/Book	1.64	06/30/07	11.48	06/30/07	3.07

Price/Cash Flow	8.38	03/31/07	10.09	03/31/07	2.68
Price / Sales	0.36	12/31/06	10.61	12/31/06	2.79
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/07	1.09	06/30/07	0.84	06/30/07	2.46
03/31/07	1.15	03/31/07	0.98	03/31/07	2.27
12/31/06	1.02	12/31/06	0.67	12/31/06	2.35
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/07	3.73	06/30/07	3.73	06/30/07	20.13
03/31/07	3.43	03/31/07	3.43	03/31/07	19.95
12/31/06	3.44	12/31/06	3.44	12/31/06	19.44
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
06/30/07	10.84	06/30/07	0.82	06/30/07	45.02
03/31/07	12.17	03/31/07	0.83	03/31/07	45.21
12/31/06	12.45	12/31/06	0.85	12/31/06	45.88

Zacks.com Quotes and Research

N J RESOURCES CP (NYSE)

NJR	50.47	▲0.88	(1.77%)	Vol. 76,900	15:33 ET

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

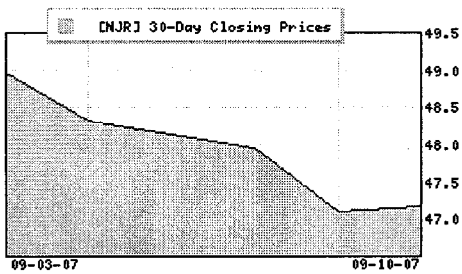
NJ RESOURCES
1415 Wyckoff Road
Wall, NJ 07719
Phone: 732 938-1480
Fax: -
Web: www2.njresources.com
Email: investcont@njresources.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	September
Last Reported Quarter	09/30/07
Next EPS Date	11/07/2007

Price and Volume Information

Zacks Rank	2
Yesterday's Close	49.59
52 Week High	56.45
52 Week Low	45.50
Beta	0.13
20 Day Moving Average	180,490.00
Target Price Consensus	53.5



% Price Change

4 Week	2.55
12 Week	-2.50
YTD	3.36

% Price Change Relative to S&P 500

4 Week	-2.39
12 Week	-2.89
YTD	-5.95

Share Information

Shares Outstanding (millions)	28.06
Market Capitalization (millions)	1,409.04
Short Ratio	8.66
Last Split Date	03/04/2002

Dividend Information

Dividend Yield	3.03%
Annual Dividend	$1.52
Payout Ratio	0.46
Change in Payout Ratio	-0.04
Last Dividend Payout / Amount	09/12/2007 / $0.38

EPS Information

Current Quarter EPS Consensus Estimate	-0.56
Current Year EPS Consensus Estimate	3.10
Estimated Long-Term EPS Growth Rate	5.70
Next EPS Report Date	11/07/2007

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.00
30 Days Ago	2.00
60 Days Ago	2.33
90 Days Ago	3.00

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	16.22	vs. Previous Year	-28.57%	vs. Previous Year	24.11%
Trailing 12 Months:	15.35	vs. Previous Quarter	-106.27%	vs. Previous Quarter:	-35.06%
PEG Ratio	2.86				

Price Ratios		**ROE**		**ROA**	
Price/Book	2.09	06/30/07	14.16	06/30/07	3.91
Price/Cash Flow	12.41	03/31/07	14.74	03/31/07	3.99
Price / Sales	0.48	12/31/06	11.68	12/31/06	3.15
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/07	1.07	06/30/07	0.55	06/30/07	3.09
03/31/07	1.02	03/31/07	0.63	03/31/07	3.27
12/31/06	1.06	12/31/06	0.58	12/31/06	2.52
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/07	5.07	06/30/07	5.07	06/30/07	23.99
03/31/07	5.38	03/31/07	5.38	03/31/07	23.45
12/31/06	4.10	12/31/06	4.10	12/31/06	23.25
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
06/30/07	5.93	06/30/07	0.50	06/30/07	33.25
03/31/07	5.53	03/31/07	0.51	03/31/07	33.94
12/31/06	5.83	12/31/06	0.52	12/31/06	34.29

Zacks.com Quotes and Research

NICOR INC (NYSE)				Scottrade
GAS 43.41	▲0.51	(1.19%)	Vol. 521,000	15:35 ET

Nicor Inc. is a holding company and is a member of the Standard & Poor's 500 Index. Its primary business is Nicor Gas, one of the nation's largest natural gas distribution companies. Nicor owns Tropical Shipping, a containerized shipping business serving the Caribbean region and the Bahamas. In addition, the company owns and has an equity interest in several energy-related businesses.

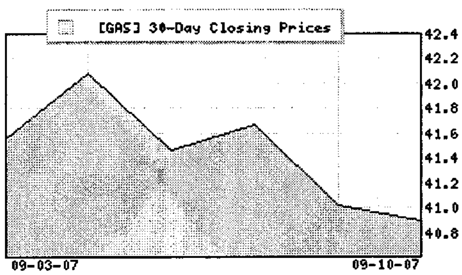
General Information

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	09/30/07
Next EPS Date	11/07/2007

Price and Volume Information

Zacks Rank	
Yesterday's Close	42.90
52 Week High	53.66
52 Week Low	37.80
Beta	0.50
20 Day Moving Average	485,100.00
Target Price Consensus	49.13



% Price Change		% Price Change Relative to S&P 500	
4 Week	4.01	4 Week	-1.00
12 Week	-0.16	12 Week	-0.55
YTD	-8.59	YTD	-14.65

Share Information		Dividend Information	
Shares Outstanding (millions)	45.11	Dividend Yield	4.35%
		Annual Dividend	$1.86
Market Capitalization (millions)	1,929.98	Payout Ratio	0.64
Short Ratio	7.82	Change in Payout Ratio	-0.12
Last Split Date	04/27/1993	Last Dividend Payout / Amount	06/27/2007 / $0.47

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.32	Current (1=Strong Buy, 5=Strong Sell)	2.33
Current Year EPS Consensus Estimate	2.77	30 Days Ago	2.33
Estimated Long-Term EPS Growth Rate	4.00	60 Days Ago	3.00
Next EPS Report Date	11/07/2007	90 Days Ago	3.00

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	15.44	vs. Previous Year	-2.44%	vs. Previous Year	23.40%
Trailing 12 Months:	14.75	vs. Previous Quarter	-56.99%	vs. Previous Quarter:	-58.28%
PEG Ratio	3.86				
Price Ratios		**ROE**		**ROA**	
Price/Book	2.10	06/30/07	14.81	06/30/07	3.29

Price/Cash Flow	6.09	03/31/07	15.25	03/31/07	3.34
Price / Sales	0.63	12/31/06	15.53	12/31/06	3.35
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/07	0.79	06/30/07	0.74	06/30/07	4.24
03/31/07	0.83	03/31/07	0.79	03/31/07	4.41
12/31/06	0.80	12/31/06	0.63	12/31/06	4.42
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/07	6.35	06/30/07	6.35	06/30/07	20.35
03/31/07	6.21	03/31/07	6.21	03/31/07	20.33
12/31/06	5.88	12/31/06	5.88	12/31/06	19.52
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
06/30/07	19.79	06/30/07	0.54	06/30/07	35.18
03/31/07	19.76	03/31/07	0.55	03/31/07	35.30
12/31/06	19.96	12/31/06	0.57	12/31/06	36.29

Zacks.com Quotes and Research

NORTHWEST NAT GAS (NYSE)

NWN	46.85	▲1.15	(2.52%)	Vol. 93,000	15:37 ET

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.

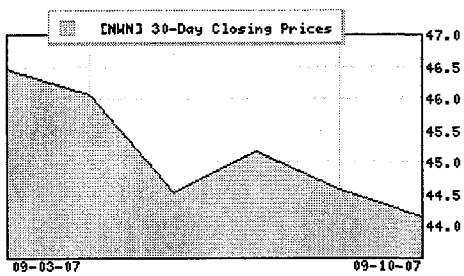
General Information

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

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	09/30/07
Next EPS Date	11/08/2007

Price and Volume Information

Zacks Rank	
Yesterday's Close	45.70
52 Week High	52.85
52 Week Low	38.53
Beta	0.23
20 Day Moving Average	114,197.50
Target Price Consensus	50



% Price Change

4 Week	1.25
12 Week	1.56
YTD	10.27

% Price Change Relative to S&P 500

4 Week	-3.62
12 Week	1.17
YTD	3.12

Share Information

Shares Outstanding (millions)	26.58
Market Capitalization (millions)	1,243.94
Short Ratio	8.37
Last Split Date	09/09/1996

Dividend Information

Dividend Yield	3.03%
Annual Dividend	$1.42
Payout Ratio	0.55
Change in Payout Ratio	-0.12
Last Dividend Payout / Amount	07/27/2007 / $0.35

EPS Information

Current Quarter EPS Consensus Estimate	-0.32
Current Year EPS Consensus Estimate	2.59
Estimated Long-Term EPS Growth Rate	5.30
Next EPS Report Date	11/08/2007

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.33
30 Days Ago	2.33
60 Days Ago	2.50
90 Days Ago	2.50

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	18.06	vs. Previous Year	42.86%	vs. Previous Year	7.18%
Trailing 12 Months:	18.00	vs. Previous Quarter	-94.32%	vs. Previous Quarter:	31.83%
PEG Ratio	3.39				

Price Ratios	ROE	ROA

Price/Book	2.07	06/30/07	11.69	06/30/07	3.77
Price/Cash Flow	10.07	03/31/07	11.58	03/31/07	3.78
Price / Sales	2.27	12/31/06	10.47	12/31/06	3.42
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/07	0.76	06/30/07	0.47	06/30/07	12.95
03/31/07	0.95	03/31/07	0.73	03/31/07	13.13
12/31/06	0.91	12/31/06	0.68	12/31/06	12.13
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/07	20.55	06/30/07	20.55	06/30/07	22.61
03/31/07	20.82	03/31/07	20.82	03/31/07	23.13
12/31/06	9.83	12/31/06	9.83	12/31/06	21.80
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
06/30/07	9.10	06/30/07	0.85	06/30/07	45.86
03/31/07	8.28	03/31/07	0.82	03/31/07	45.06
12/31/06	8.56	12/31/06	0.86	12/31/06	46.30

PROFIT FROM THE PROS

Zacks.com Quotes and Research

PIEDMONT NAT GAS CO (NYSE)

PNY	25.70	▲0.61	(2.43%)	Vol. 155,900	15:39 ET

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.

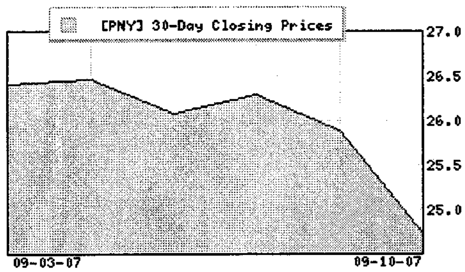
General Information

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

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	October
Last Reported Quarter	07/31/07
Next EPS Date	12/07/2007

Price and Volume Information

Zacks Rank	
Yesterday's Close	25.09
52 Week High	28.44
52 Week Low	22.00
Beta	0.33
20 Day Moving Average	288,595.00
Target Price Consensus	27.5



% Price Change

4 Week	-2.35
12 Week	3.25
YTD	-3.74

% Price Change Relative to S&P 500

4 Week	-7.05
12 Week	2.84
YTD	-11.60

Share Information

Shares Outstanding (millions)	73.91
Market Capitalization (millions)	1,903.18
Short Ratio	13.66
Last Split Date	11/01/2004

Dividend Information

Dividend Yield	3.88%
Annual Dividend	$1.00
Payout Ratio	0.70
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	09/20/2007 / $0.25

EPS Information

Current Quarter EPS Consensus Estimate	-0.05
Current Year EPS Consensus Estimate	1.45
Estimated Long-Term EPS Growth Rate	5.30
Next EPS Report Date	12/07/2007

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.83
30 Days Ago	2.67
60 Days Ago	2.67
90 Days Ago	3.00

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	17.72	vs. Previous Year	25.00%	vs. Previous Year	-5.65%
Trailing 12 Months:	18.01	vs. Previous Quarter	-117.39%	vs. Previous Quarter:	-57.78%
PEG Ratio	3.38				

Price Ratios		ROE		ROA	
Price/Book	2.11	07/31/07	11.77	07/31/07	3.86
Price/Cash Flow	10.01	04/30/07	11.41	04/30/07	3.79
Price / Sales	1.11	01/31/07	10.58	01/31/07	3.54
Current Ratio		**Quick Ratio**		**Operating Margin**	
07/31/07	1.23	07/31/07	0.81	07/31/07	6.21
04/30/07	1.45	04/30/07	1.02	04/30/07	5.97
01/31/07	1.19	01/31/07	0.90	01/31/07	5.71
Net Margin		**Pre-Tax Margin**		**Book Value**	
07/31/07	10.69	07/31/07	10.69	07/31/07	12.18
04/30/07	9.82	04/30/07	9.82	04/30/07	12.39
01/31/07	9.38	01/31/07	9.38	01/31/07	12.21
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
07/31/07	8.46	07/31/07	0.92	07/31/07	47.81
04/30/07	8.73	04/30/07	0.89	04/30/07	47.16
01/31/07	8.52	01/31/07	0.90	01/31/07	47.49

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Zacks.com Quotes and Research

SOUTH JERSEY IND (NYSE)

Scottrade

SJI	35.39	▲0.59	(1.70%)	Vol. 138,000	15:38 ET

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.

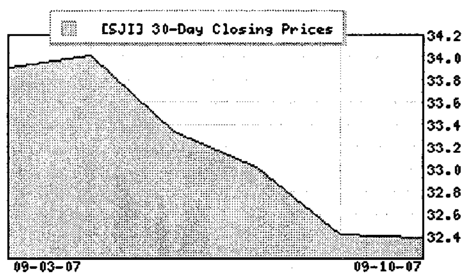
General Information

SOUTH JERSEY IN
1 South Jersey Plaza
Folsom, NJ 08037
Phone: 609 561-9000
Fax: 609 561-8225
Web: www.sjindustries.com
Email: investorrelations@sjindustries.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	09/30/07
Next EPS Date	11/07/2007

Price and Volume Information

Zacks Rank	
Yesterday's Close	34.80
52 Week High	41.27
52 Week Low	29.10
Beta	0.37
20 Day Moving Average	119,815.00
Target Price Consensus	40.67



% Price Change

4 Week	5.01
12 Week	-2.56
YTD	6.11

% Price Change Relative to S&P 500

4 Week	-0.05
12 Week	-2.94
YTD	0.08

Share Information

Shares Outstanding (millions)	29.51
Market Capitalization (millions)	1,046.24
Short Ratio	10.53
Last Split Date	07/01/2005

Dividend Information

Dividend Yield	2.76%
Annual Dividend	$0.98
Payout Ratio	0.51
Change in Payout Ratio	-0.03
Last Dividend Payout / Amount	09/06/2007 / $0.25

EPS Information

Current Quarter EPS Consensus Estimate	0.04
Current Year EPS Consensus Estimate	2.05
Estimated Long-Term EPS Growth Rate	7.00
Next EPS Report Date	11/07/2007

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	1.33
30 Days Ago	1.33
60 Days Ago	1.60
90 Days Ago	2.00

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	17.29	vs. Previous Year	-16.00%	vs. Previous Year	10.37%
Trailing 12 Months:	18.56	vs. Previous Quarter	-77.17%	vs. Previous Quarter:	-53.41%
PEG Ratio	2.47				

Price Ratios **ROE** **ROA**

Price/Book	2.21	06/30/07	12.44	06/30/07	3.71
Price/Cash Flow	10.07	03/31/07	13.01	03/31/07	3.82
Price / Sales	1.13	12/31/06	13.31	12/31/06	3.87
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/07	0.97	06/30/07	0.54	06/30/07	6.09
03/31/07	1.05	03/31/07	0.77	03/31/07	6.31
12/31/06	0.88	12/31/06	0.53	12/31/06	6.32
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/07	7.70	06/30/07	7.70	06/30/07	16.05
03/31/07	12.64	03/31/07	12.64	03/31/07	15.79
12/31/06	12.97	12/31/06	12.97	12/31/06	15.13
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
06/30/07	3.09	06/30/07	0.76	06/30/07	43.22
03/31/07	5.22	03/31/07	0.77	03/31/07	43.62
12/31/06	5.39	12/31/06	0.81	12/31/06	44.73

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SOUTHWEST GAS CP (NYSE)

SWX	29.04	0.75	(2.65%)	Vol. 163,500	15:43 ET

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.

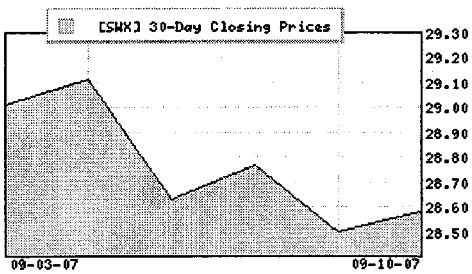
General Information

SOUTHWEST GAS
5241 Spring Mountain Road
P.O. Box 98510
Las Vegas, NV 89193-8510
Phone: 702 876-7237
Fax: 702-876-7037
Web: www.swgas.com
Email: None

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	09/30/07
Next EPS Date	11/08/2007

Price and Volume Information

Zacks Rank	
Yesterday's Close	28.29
52 Week High	39.95
52 Week Low	26.45
Beta	0.18
20 Day Moving Average	326,155.00
Target Price Consensus	36.5



% Price Change		% Price Change Relative to S&P 500	
4 Week	-1.74	4 Week	-6.48
12 Week	-13.18	12 Week	-13.52
YTD	-25.12	YTD	-28.63

Share Information		Dividend Information	
Shares Outstanding (millions)	42.41	Dividend Yield	2.99%
		Annual Dividend	$0.86
Market Capitalization (millions)	1,218.38	Payout Ratio	0.43
Short Ratio	6.12	Change in Payout Ratio	-0.14
Last Split Date	N/A	Last Dividend Payout / Amount	08/13/2007 / $0.22

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	-0.24	Current (1=Strong Buy, 5=Strong Sell)	2.33
Current Year EPS Consensus Estimate	2.06	30 Days Ago	2.33
Estimated Long-Term EPS Growth Rate	5.00	60 Days Ago	2.33
Next EPS Report Date	11/08/2007	90 Days Ago	3.00

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	13.97	vs. Previous Year	-150.00%	vs. Previous Year	-1.01%
Trailing 12 Months:	14.29	vs. Previous Quarter	-100.85%	vs. Previous Quarter:	-46.26%
PEG Ratio	2.79				
Price Ratios		**ROE**		**ROA**	
Price/Book	1.27	06/30/07	9.41	06/30/07	2.53

Price/Cash Flow	4.77	03/31/07	9.91	03/31/07	2.63
Price / Sales	0.57	12/31/06	9.70	12/31/06	2.52
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/07	0.73	06/30/07	0.73	06/30/07	4.00
03/31/07	0.89	03/31/07	0.89	03/31/07	4.05
12/31/06	1.01	12/31/06	1.01	12/31/06	4.00
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/07	6.19	06/30/07	6.19	06/30/07	22.63
03/31/07	6.49	03/31/07	6.49	03/31/07	22.64
12/31/06	6.34	12/31/06	6.34	12/31/06	21.74
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
06/30/07	-	06/30/07	1.37	06/30/07	57.75
03/31/07	-	03/31/07	1.38	03/31/07	57.92
12/31/06	-	12/31/06	1.54	12/31/06	60.60

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Zacks.com Quotes and Research

WGL HOLDINGS INC (NYSE)

Scottrade

WGL	34.22	▲0.33	(0.97%)	Vol. 370,700	15:44 ET

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

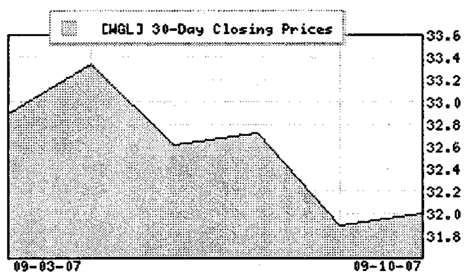
WGL HLDGS INC
101 Constitution Ave, N.W
Washington, DC 20080
Phone: 703 750-2000
Fax: 703 750-4828
Web: www.wglholdings.com
Email: madams@washgas.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	September
Last Reported Quarter	09/30/07
Next EPS Date	11/06/2007

Price and Volume Information

Zacks Rank	
Yesterday's Close	33.89
52 Week High	35.91
52 Week Low	29.79
Beta	0.34
20 Day Moving Average	347,245.00
Target Price Consensus	33.58



% Price Change		% Price Change Relative to S&P 500	
4 Week	4.94	4 Week	-0.11
12 Week	4.50	12 Week	4.09
YTD	5.59	YTD	-3.73

Share Information		Dividend Information	
Shares Outstanding (millions)	49.31	Dividend Yield	3.98%
		Annual Dividend	$1.37
Market Capitalization (millions)	1,696.26	Payout Ratio	0.61
Short Ratio	8.04	Change in Payout Ratio	-0.14
Last Split Date	05/02/1995	Last Dividend Payout / Amount	07/06/2007 / $0.34

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	-0.30	Current (1=Strong Buy, 5=Strong Sell)	2.60
Current Year EPS Consensus Estimate	2.02	30 Days Ago	2.60
Estimated Long-Term EPS Growth Rate	3.00	60 Days Ago	2.60
Next EPS Report Date	11/06/2007	90 Days Ago	2.60

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	17.06	vs. Previous Year	2,300.00%	vs. Previous Year	89.38%
Trailing 12 Months:	15.43	vs. Previous Quarter	-82.68%	vs. Previous Quarter:	-58.26%
PEG Ratio	5.69				

Price Ratios		ROE		ROA	

Price/Book	1.68	06/30/07	11.26	06/30/07	3.72
Price/Cash Flow	8.90	03/31/07	10.23	03/31/07	3.36
Price / Sales	0.64	12/31/06	9.77	12/31/06	3.20
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/07	1.15	06/30/07	0.72	06/30/07	4.15
03/31/07	1.14	03/31/07	0.98	03/31/07	4.05
12/31/06	1.01	12/31/06	0.67	12/31/06	6.14
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/07	7.27	06/30/07	7.27	06/30/07	20.50
03/31/07	6.98	03/31/07	6.98	03/31/07	20.51
12/31/06	10.46	12/31/06	10.46	12/31/06	19.62
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
06/30/07	12.06	06/30/07	0.60	06/30/07	36.86
03/31/07	10.98	03/31/07	0.60	03/31/07	36.87
12/31/06	8.70	12/31/06	0.63	12/31/06	38.00

ATTACHMENT D

Infrastructure costs in the Water Utility Industry will continue to rise over the long term. Larger companies will acquire smaller ones in an effort to achieve economies of scale.

Foreign companies had been buying a number of U.S. water utilities, but that trend appears to be waning.

Water utility stocks are ranked to underperform the market over the coming 12 months; however, conservative investors can find attractive risk-adjusted choices here.

The Need For Consolidation

Long-term trends in the Water Utility Industry indicate that infrastructure costs will steadily rise. Many of the facilities and pipes that now purify and transport drinking water were built about 100 years ago. Ongoing upgrading and replacement are necessary for these old systems to remain in compliance with rules laid out by the Environmental Protection Agency (EPA). The cost of fixing and upgrading these systems is significantly higher than in the past (even adjusting for inflation) because more-expensive materials need to be used for modern construction. Moreover, transportation costs are much higher and should continue to rise, as nearby sources of water are depleted and farther-away bodies of water must be used. Water is quite difficult and expensive to move because it is heavy and cannot be compressed. Also adding to industry costs is the ongoing issuance of guidelines from the EPA that typically require water utilities to comply with more-stringent water-purity standards. Industry sources estimate that about $140 billion will be needed over the next 20 years to fund necessary water-system infrastructure improvements.

Small and mid-sized water companies usually welcome large-scale suitors. Smaller utilities generally lack the funds needed for long-term structural improvements, and might risk being out of compliance with local and federal laws at some point down the road. In an effort to prevent this unpleasant scenario from happening, many of these smaller companies welcome larger utilities that have the capital resources to remain in compliance with the law. The larger company gains greater geographic diversity from its acquisitions, which helps lessen its susceptibility to weather fluctuations that might cause volatility in earnings. Acquirers also benefit from economies of scale in which costs are generally reduced. Too, the regulatory-intensive nature of the Water Utility Industry means that some specific local governments might be more uncooperative with the utilities than other comparable local officials. A larger territory lessens the impact of a particularly onerous regulatory atmosphere.

INDUSTRY TIMELINESS: 81 (of 92)

Acquisition Update

Foreign companies have purchased a large number of domestic water utilities over the past year. These global water companies are attracted to this country's relatively safe political climate and its trend towards the privatization of municipal water and wastewater systems. Currently, there is concern among investors that the large premiums paid for U.S. takeover targets, which approached three times book value, will become more infrequent. British utilities are having regulatory difficulties at home that stand to weaken their designs on the U.S. market. Consequently, there appear to be fewer bidders in the market.

SDWA Regulations

The Safe Drinking Water Act (SDWA) of 1974 (amended in 1996) authorized the EPA to work with state and local governments to test for five potential impurities in drinking water every five years. The EPA mandates what levels of a certain contaminant is acceptable per a specified amount of water. Water utilities typically spend about 15% to 50% of their annual capital outlays in efforts to comply with SDWA guidelines. These companies must also stay in compliance with the Clean Water Act, and numerous state and local laws. At present, the EPA is considering lowering the allowable level of arsenic in drinking water from 50 parts per billion (ppb) to 5 ppb. This measure would be controversial because it would be lower than the standard of the World Health Organization (10 ppb) and would potentially cost domestic water companies billions of dollars.

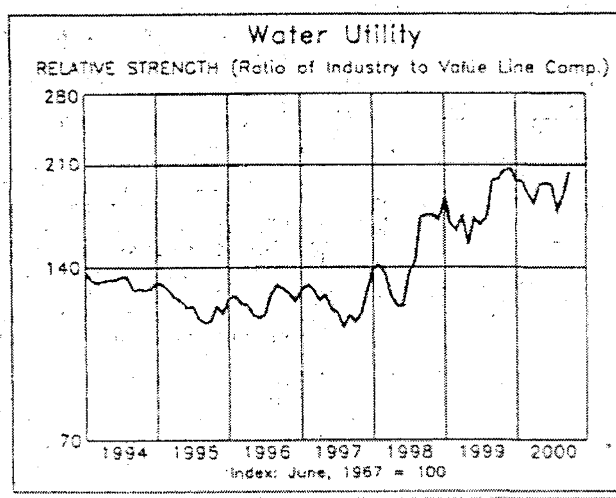
Investment Advice

Most of the water utility stocks that are covered in this review are not timely for the coming six to 12 months. Nonetheless, favorable Safety ranks among the group make some of these issues appealing for risk-averse investors seeking decent dividend yields.

Joseph Espaillat

Composite Statistics: Water Utility Industry

1996	1997	1998	1999	2000	2001		03-05
1793.9	1924.7	1994.2	2422.6	**2550**	**2750**	Revenues ($mill)	**3500**
214.4	2.92	255.8	295.3	**315**	**335**	Net Profit ($mill)	**415**
39.2%	37.8%	37.0%	38.2%	**39.0%**	**39.0%**	Income Tax Rate	**39.0%**
7.0%	6.3%	7.5%	8.7%	**6.0%**	**8.0%**	AFUDC % to Net Profit	**8.0%**
55.7%	56.6%	56.9%	55.9%	**53.0%**	**52.0%**	Long-Term Debt Ratio	**50.0%**
40.0%	39.6%	39.7%	42.0%	**45.0%**	**46.0%**	Common Equity Ratio	**48.0%**
5271.8	5703.3	6188.6	7223.7	**7300**	**7900**	Total Capital ($mill)	**9300**
6377.2	6785.5	7361.9	8961.3	**8700**	**9300**	Net Plant ($mill)	**9700**
6.0%	6.2%	6.2%	8.0%	**6.5%**	**7.0%**	Return on Total Cap'l	**7.5%**
9.2%	9.7%	10.0%	9.3%	**10.5%**	**10.5%**	Return on Shr. Equity	**11.5%**
9.7%	10.2%	10.4%	9.5%	**11.0%**	**11.0%**	Return on Com Equity	**12.0%**
3.3%	3.6%	3.9%	3.2%	**3.5%**	**3.5%**	Retained to Com Eq	**4.5%**
68%	66%	64%	67%	**70%**	**70%**	All Div'ds to Net Prof	**60%**
14.5	15.8	18.3	20.2	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	**13.0**
.91	.91	.95	1.15			Relative P/E Ratio	**.85**
4.6%	4.1%	3.4%	3.3%			Avg Ann'l Div'd Yield	**5.0%**



WATER UTILITY INDUSTRY

The events of September 11th have altered many priorities in the Water Utility Industry.

Long-term trends in the industry indicate that the cost of maintaining and upgrading water/wastewater systems will rise. The industry is consolidating, with larger companies acquiring smaller operators to achieve economies of scale.

Water Utility stocks are ranked to underperform the year-ahead market, though some of these issues offer conservative investors appealing risk-adjusted, total-return potential.

INDUSTRY TIMELINESS: 85 (of 97)

Security Issues

In response to the events of September 11th, the need to secure water systems against terrorism has become a top priority for regulators and water utilities alike, pushing many other legislative issues to the side. The FBI has stated that water companies should be on alert for potential threats in the months ahead. Many water companies are already heeding this warning, and incurring additional costs in the process that may limit near-term bottom-line growth. Also, the industry and regulators are working together to provide approximately $5 billion in federal funds for immediate infrastructure improvements as part of the pending economic stimulus legislation.

Industry Consolidation

Infrastructure costs in the Water Utility Industry will likely rise dramatically over the next 20 years. These companies have to maintain and upgrade their systems continually in order to remain in compliance with increasingly stringent rules issued by the Environmental Protection Agency (EPA) and local regulators. Many of the facilities and pipes that now treat and transport drinking water were built about a century ago. The costs of replacing those systems are significantly higher these days, even adjusting for inflation. Adding to the cost is the fact that nearby bodies of water tend to get depleted and expensive to use, so more-distant sources of water must be brought in to keep up with increasing demand for purified water. Water is difficult and costly to transport, since it is heavy and incompressible. All in all, industry sources estimate that over $140 billion will be needed to upgrade the nation's water-distribution system over the next 20 years.

The costs of staying in compliance with drinking water laws are especially onerous for smaller regional operators, since they have a limited base of customers over which to spread these costs. Small and mid-sized utilities generally welcome takeover offers from larger acquirers because of their superior capital resources. The acquiring utility attempts to achieve economies of scale through the transactions. Also, it gains greater geographic diversity, and that can reduce its susceptibility to unfavorable weather patterns and potentially burdensome local regulators.

Large-scale foreign acquirers have been very interested in purchasing domestic water utilities over the past few years, and the latest evidence is the generous takeover offer RWE AG made for *American Water Works*, the nation's largest public water company. RWE, a Germany-based firm, stands to gain cost synergies in the deal, along with geographic diversity in a politically stable country. Foreign utilities have been fascinated with the risk-adjusted earnings potential of U.S. water companies, and they are likely to continuing their buying spree over the next few years. As such, the number of investor-owned water providers with large territories is steadily dwindling. This development gives additional hope to those U.S. water utilities and investors looking for substantial buyout offers.

SDWA Regulations

The Safe Drinking Water Act (SDWA) of 1974 (amended in 1996) authorizes the EPA to work with state and local governments to test for five potential impurities in drinking water every five years. The EPA mandates what levels of a certain contaminant is acceptable per a specified amount of water. Water utilities usually spend a significant portion of their annual capital budgets on efforts to stay in compliance with SDWA guidelines. These companies must also comply with the Clean Water Act, and numerous state and local laws.

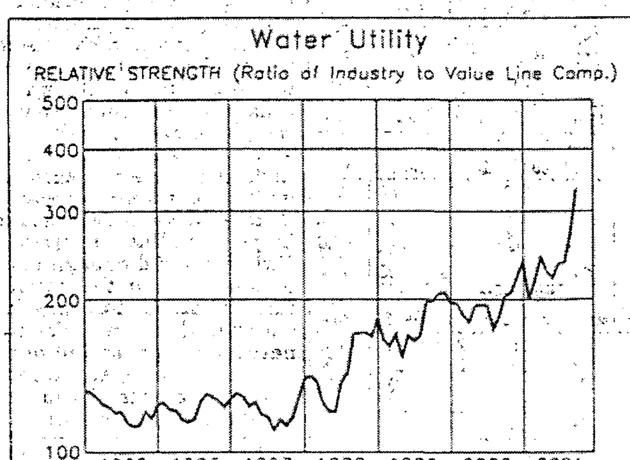
Investment Advice

The Water Utility stocks in this review are not timely for investment over the next six to 12 months. Nonetheless, a few of these issues possess favorable Safety ranks and solid dividend-growth prospects that may appeal to conservative investors.

Joseph Espaillat

Composite Statistics: Water Utility Industry

1997	1998	1999	2000	2001	2002		04-06
1439.5	1503.1	1898.0	2054.9	**2210**	**2315**	Revenues ($mill)	**2895**
183.2	192.9	232.8	254.2	**270**	**295**	Net Profit ($mill)	**410**
38.4%	39.1%	39.7%	40.1%	**40.0%**	**40.0%**	Income Tax Rate	**40.0%**
6.4%	7.9%	8.5%	5.5%	**6.5%**	**6.5%**	AFUDC % to Net Profit	**7.5%**
57.3%	58.0%	56.2%	54.9%	**54.5%**	**54.0%**	Long-Term Debt Ratio	**53.0%**
40.0%	39.7%	41.9%	44.0%	**44.5%**	**45.0%**	Common Equity Ratio	**46.0%**
4113.2	4524.6	5566.3	5654.5	**6055**	**6335**	Total Capital ($mill)	**7495**
5069.2	5544.7	7039.7	7545.4	**7975**	**8425**	Net Plant ($mill)	**9935**
6.5%	6.3%	6.2%	6.6%	**6.0%**	**6.0%**	Return on Total Cap'l	**6.5%**
10.4%	10.2%	9.6%	9.8%	**10.5%**	**11.0%**	Return on Shr. Equity	**11.5%**
10.9%	10.5%	9.8%	9.9%	**10.5%**	**11.0%**	Return on Com Equity	**11.5%**
4.7%	4.4%	4.1%	4.0%	**4.5%**	**4.5%**	Retained to Com Eq	**5.0%**
57%	59%	59%	61%	**60%**	**59%**	All Div'ds to Net Prof	**52%**
15.2	19.4	19.2	16.3	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	**13.5**
.88	1.01	1.09	1.08			Relative P/E Ratio	**.90**
3.7%	3.0%	3.0%	3.7%			Avg Ann'l Div'd Yield	**3.0%**



Infrastructure costs in the Water Utility Industry will rise considerably over the coming 20 years. Consequently, larger companies are buying smaller ones in an attempt to achieve economies of scale.

Water utility stocks are ranked to perform in the middle of the pack over the coming 12 months. Nonetheless, conservative investors can find above-average Safety ranks and attractive dividends in the group.

Industry Consolidation

Infrastructure costs in the water utility industry will likely soar over the next two decades. These companies must constantly repair and upgrade their existing water/wastewater systems in order to comply with increasingly strict rules issued by the Environmental Protection Agency (EPA) and local regulators. Many of the facilities and pipes that transport water were constructed over 100 years ago. The costs of replacing these systems is considerably higher now than it was in the past, even adjusting for inflation. Too, the ongoing depletion of nearby sources of water forces many water utilities to obtain water from more-distant, more-expensive sources. Water is difficult and costly to transport because it is heavy and incompressible. Nonetheless, utilities must continue to keep pace with rising demand for drinking water from growing residential and industrial customers. Recent estimates are that it will cost hundreds of billions of dollars to replace and upgrade failing water infrastructures over the next 20 years. This amounts to more than the entire current assets of the water industry in America. Much of these costs will likely be financed by federal spending and higher water rates. Nevertheless, water utilities are going to have to ante up much higher capital investments over the coming years.

The costs of staying in compliance with drinking water laws are especially onerous for smaller regional companies because they have fewer customers over which to spread their costs. Small and mid-sized water utilities tend to welcome takeover offers from larger, better-capitalized companies so that they can utilize the bigger firm's superior resources. For instance, the EPA's new rules on the allowable levels of arsenic in drinking water (10 parts per billion by January, 2006) is compelling some smaller utilities to merge with larger ones in an effort to remain in compliance with the new standards. By purchasing these smaller entities, large utilities seek to achieve economies of scale. Also, a bigger company gains greater geographic diversity that can reduce its susceptibility to unfavorable weather patterns and potentially burdensome local regulators. For example, the regulatory climate in California has been extra costly for utilities in the past couple of years, so companies, such as *California Water*, have been actively looking for acquisition targets outside of the state. On a positive note, the passage of a new law in California will allow water utilities to charge higher rates to customers (subject to refund) if regulators do not render decisions on rate cases within established processing periods. This ought to improve revenues for three out of four companies in this review.

INDUSTRY TIMELINESS: 54 (of 98)

Recent Challenges

The events of September 11, 2001 have introduced a whole new set of challenges for the industry. Companies have been spending a lot of time, energy, and money on making sure that their water systems are reasonably secure from potential terrorist attacks. Utilities have turned to local and federal regulators for reimbursement and additional funding, but the amount and timing of future funds is uncertain. Also, insurance costs have soared in the past year, as insurers are now more reluctant to cover companies, like water utilities, that can potentially have catastrophic losses.

SDWA Regulations

The Safe Drinking Water Act (SDWA) of 1974 (amended in 1996) authorizes the EPA to work with state and local governments to test for potential impurities in drinking water. The EPA mandates what particular level of a certain contaminant is acceptable per a specified amount of water. Water utilities routinely spend large portions of their annual capital expenditures on efforts to remain in compliance with SDWA guidelines. These companies must also comply with the 1972 Clean Water Act, and numerous other state and local laws, another costly endeavor.

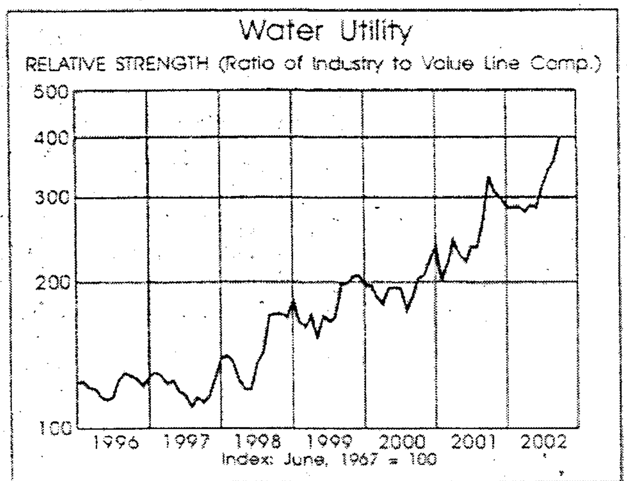
Decent Grounds For Conservative Investors

The water-utility stocks in this review are unlikely to outperform the year-ahead market. Nonetheless, they offer above-average Safety ranks, attractive dividend yields, and decent risk-adjusted total-return potential.

Joseph Espaillat

Composite Statistics: Water Utility Industry

1998	1999	2000	2001	2002	2003		05-07
1503.1	1898.0	2054.9	2190.5	**2495**	**2710**	Revenues ($mill)	**3360**
192.9	232.8	249.7	261.8	**275**	**315**	Net Profit ($mill)	**465**
39.1%	39.7%	40.1%	39.5%	**41.5%**	**40.0%**	Income Tax Rate	**40.0%**
7.9%	9.5%	5.5%	3.4%	**2.0%**	**2.0%**	AFUDC % to Net Profit	**3.0%**
58.0%	56.2%	54.9%	56.7%	**57.0%**	**56.0%**	Long-Term Debt Ratio	**52.5%**
39.8%	41.9%	44.0%	42.4%	**42.0%**	**43.0%**	Common Equity Ratio	**47.0%**
4524.6	5566.3	5654.5	6198.1	**7005**	**7085**	Total Capital ($mill)	**8780**
5544.7	7039.7	7545.4	7991.2	**9210**	**9940**	Net Plant ($mill)	**12085**
6.3%	6.2%	6.6%	6.3%	**6.0%**	**6.5%**	Return on Total Cap'l	**7.0%**
10.2%	9.5%	9.8%	9.8%	**10.0%**	**10.5%**	Return on Shr. Equity	**11.5%**
10.5%	9.8%	9.9%	9.9%	**10.0%**	**10.5%**	Return on Com Equity	**11.5%**
4.4%	4.1%	4.0%	3.9%	**3.0%**	**4.5%**	Retained to Com Eq	**6.0%**
59%	59%	60%	61%	**61%**	**58%**	All Div'ds to Net Prof	**47%**
19.4	19.2	16.3	20.9	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	**13.5**
1.01	1.09	1.06	1.07			Relative P/E Ratio	**.90**
3.0%	3.0%	3.7%	2.9%			Avg Ann'l Div'd Yield	**3.0%**



WATER UTILITY INDUSTRY

INDUSTRY TIMELINESS: 97 (of 98)

The Water Utility Industry's consolidation continues to gain momentum, as industry leaders look for opportunities to buy out smaller companies that are struggling to keep up with escalating infrastructure costs and heightened regulatory requirements.

Water Utility stocks are unlikely to outperform the broad market for the year ahead. With that said, however, some of these issues offer conservative investors attractive risk-adjusted, total-return potential.

Government Regulations

In order to keep water supplies safe, national purification standards have been established that the water industry is required to meet. Amended in 1996, the Safe Drinking Water Act (SDWA) of 1974 authorizes the Environmental Protection Agency (EPA) to work with state and local governments to periodically test for impurities in drinking water and regulate the levels of contaminants that are acceptable per a specified amount of water. These standards take into account the health effects of chemicals, measurement capabilities, and technical feasibility. One of the most significant contaminants that the industry screens for is arsenic, a naturally occurring substance. However, the EPA is in the process of lowering the tolerated amount of arsenic to 10 parts per billion from 20 parts currently. The change is expected to be in effect by January, 2006. Large chunks of water utilities' annual capital budgets are already spent on infrastructure maintenance and improvements in order to stay in compliance with the SDWA, the Clean Water Act, and numerous state and local laws. This percentage is likely to climb even higher, as fears of terrorism have prompted officials to further tighten regulation requirements.

Rising Infrastructure Costs

Along with the necessity to remain in compliance with increasingly strict water purity standards, water companies are also being pressured to continually upgrade aging facilities. Many of the water/wastewater systems that are presently in use were built over 100 years ago and are growing outdated. The costs associated with replacing these systems are dramatically higher now than when they initially were put in place. The EPA and other industry sources indicate that hundreds of billions of dollars over the next 20 years will be needed to repair the nation's entire water system. The Water Infrastructure Network believes that there will be a $12 billion annual shortfall for wastewater infrastructure over that period, and long-term help from the federal government is needed to solve the problem. Water companies will most likely foot the majority of the bill, though, as budget deficits at state and local levels will limit funds dedicated to the industry.

Industry Consolidation

With the costs of meeting safe drinking water guidelines on the rise, many smaller companies lack the funds to commit to long-term structural improvements. As such, these smaller water companies have been increasingly willing to accept takeover offers from larger suitors with significantly greater capital resources. The larger utilities benefit from economies of scale, which enables them to reduce overhead. In addition, the acquisitions usually enhance geographic diversity, reducing a company's vulnerability to weather fluctuations. Then, too, a multistate territory helps to alleviate a company's exposure to especially onerous regulatory atmospheres. Large foreign utilities have been particularly active in recent years, swallowing up domestic water companies in an effort to gain exposure to the United States' steady population growth.

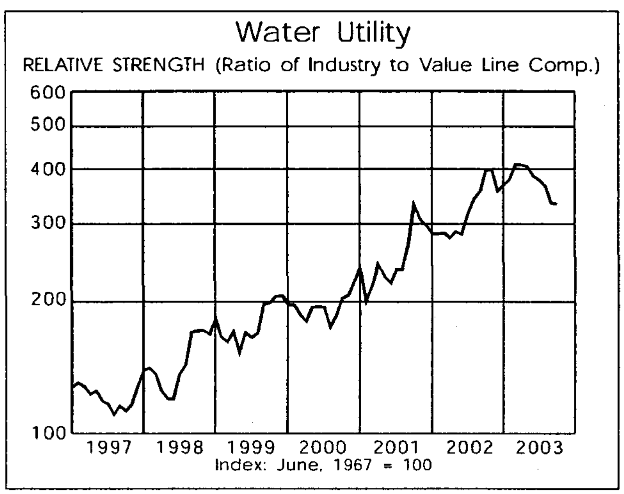
Investment Advice

None of the stocks under review are timely at this juncture, as poor weather conditions have resulted in inconsistent earnings patterns. Although *Philadelphia Suburban, California Water Services Group, and American States Water* all have below-average total-return potential out to 2006-2008, income-oriented investors might may find one of these stocks attractive, given their favorable risk profile. Income-bearing stocks have gained some additional popularity of late, because of the recent federal tax bill that reduced the top rate investors pay on dividend income to 15%. As usual, though, we recommend that potential investors careful review individual reports before making any new commitments.

Andre J. Costanza

Composite Statistics: Water Utility Industry

1999	2000	2001	2002	2003	2004		06-08
637.2	704.3	751.8	794.4	***845***	***950***	Revenues ($mill)	***1185***
72.4	90.9	95.4	106.6	***105***	***130***	Net Profit ($mill)	***190***
40.0%	41.2%	40.2%	38.8%	***39.0%***	***39.5%***	Income Tax Rate	***40.0%***
--	--	--	--	***Nil***	***.5%***	AFUDC % to Net Profit	***.5%***
51.1%	50.3%	52.4%	53.9%	***53.0%***	***51.5%***	Long-Term Debt Ratio	***51.0%***
48.3%	49.3%	47.2%	45.9%	***46.5%***	***48.5%***	Common Equity Ratio	***49.0%***
1444.7	1661.0	1840.7	1973.6	***2250***	***2425***	Total Capital ($mill)	***3050***
2100.3	2342.5	2532.3	2751.1	***3025***	***3225***	Net Plant ($mill)	***3950***
7.4%	7.0%	6.8%	7.0%	***6.5%***	***7.0%***	Return on Total Cap'l	***7.5%***
11.5%	10.7%	10.6%	11.2%	***10.0%***	***10.5%***	Return on Shr. Equity	***12.0%***
11.5%	10.8%	10.7%	11.2%	***10.0%***	***11.0%***	Return on Com Equity	***12.0%***
3.8%	3.6%	3.3%	3.9%	***3.0%***	***4.0%***	Retained to Com Eq	***5.5%***
68%	67%	69%	66%	***75%***	***65%***	All Div'ds to Net Prof	***54%***
19.5	18.6	22.6	21.5			Avg Ann'l P/E Ratio	***13.5***
1.11	1.21	1.16	1.17	***Bold figures are Value Line estimates***		Relative P/E Ratio	***.90***
3.5%	3.6%	3.1%	3.1%			Avg Ann'l Div'd Yield	***3.0%***



WATER UTILITY INDUSTRY

INDUSTRY TIMELINESS: 94 (of 98)

The Water Utility industry continues to rank near the bottom of the *Value Line* investment universe. Infrastructure costs will limit earnings for at least the near future, as the high expenses associated with maintaining and improving the country's water-distribution systems continue to rise.

However, it appears that relief is on the way for some companies. Favorable regulatory rate case rulings have been handed down across the country and look as though they might become the norm.

Meanwhile, consolidation remains the name of the game. Although many of the industry's smaller players lack the capital requirements to meet growing government regulations, larger companies are using the consolidation as way to boost profitability via growing its customer base.

Infrastructure Costs

Infrastructure costs continue to climb higher as water utility companies, with little help from strapped government branches, are forced to deal with maintaining and upgrading existing facilities. Costs are becoming an even greater concern as time passes because a number of the functioning systems currently in place are over 100 years old and in need of significant repair. That said, we believe that it will take hundreds of billions of dollars to renovate existing pipelines over the next few decades. To make matters worse, the costs of staying in compliance with regulatory laws are growing even more difficult, due to fears of terrorist activities against the country's drinking supplies. Although the Safe Drinking Water Act (SDWA) of 1974 remains the authority for the safety and purity of drinking water, recent amendments are making compliance even more demanding. In 1996, an amendment authorized the Environmental Protection Agency (EPA) to step up local compliance levels. And, governing law-makers now insist that the EPA work with local and state governments to test for impurities in drinking water and to regulate the levels of contaminants that are acceptable.

A Buying Opportunity

The growing regulations and costs associated with staying in compliance with government standards related to the quality and purification of drinking water is forcing many of the smaller water companies to look to larger suitors. Bigger companies with the market scale to withstand the current onslaught of costs are clearly taking advantage of this situation. Indeed, these firms are growing their businesses at relatively low costs as well as diversifying their operations into less regulated and more-rapidly developing areas of the U.S. *Aqua America* is a perfect example, making nearly 20 acquisitions since the close of last year. *Aqua* recently purchased a number of Pennsylvania-based companies in order to help drive top-line growth. We anticipate that the current consolidation theme will persist, as we expect restructuring costs to continue to rise.

Regulatory Assistance

Although water utility company's have been forced to deal with lethargic case rulings in the past couple of years, some governing bodies are picking up the pace. In California, for example, the California Public Utilities Commission (CPUC) has handed down a number of favorable rate-relief rulings in recent months, and more are expected. With the California electric crisis seemingly in the rearview mirror, the current administration seems intent on delivering more timely assessments. *American States Water Company* and *California Water Service Group* have both seen profits benefit from recent case rulings over the past quarter.

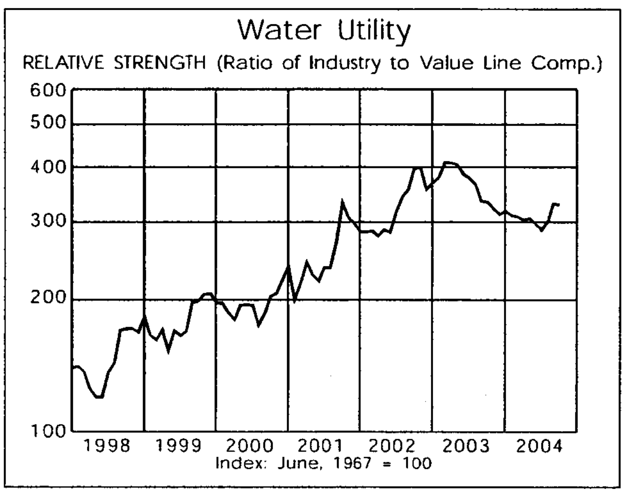
Investment Advice

Most investors will want to take a pass on the stocks covered in the next few pages, as they offer uninspiring returns out to decade's end. In addition, not one of the stocks in this edition is ranked to outperform the market in the next six to 12 months. Nonetheless, income-oriented investors may like the industry's solid dividend yields. *California Water* may have some added appeal for the risk-averse, given its above average Safety rank. Still, we advise that potential investors carefully review the individual reports in the ensuing pages before making a commitment to any of the stocks mentioned above.

Andre J. Costanza

Composite Statistics: Water Utility Industry

2000	2001	2002	2003	2004	2005		07-09
704.3	751.8	794.4	857.0	**990**	**1075**	Revenues ($mill)	**1345**
90.9	95.4	106.6	98.6	**130**	**150**	Net Profit ($mill)	**205**
41.2%	40.2%	38.8%	40.0%	**40.0%**	**40.0%**	Income Tax Rate	**40.0%**
-	--	--	--	**Nil**	**Nil**	AFUDC % to Net Profit	**Nil**
50.3%	52.4%	53.9%	51.2%	**51.0%**	**51.0%**	Long-Term Debt Ratio	**50.0%**
49.3%	47.2%	45.9%	48.6%	**49.0%**	**49.0%**	Common Equity Ratio	**50.0%**
1661.0	1840.7	1973.6	2296.4	**2615**	**2870**	Total Capital ($mill)	**3550**
2342.5	2532.2	2751.1	3186.1	**3400**	**3605**	Net Plant ($mill)	**4150**
7.0%	6.8%	7.0%	5.9%	**6.5%**	**7.0%**	Return on Total Cap'l	**7.0%**
10.7%	10.6%	11.2%	8.8%	**9.5%**	**9.5%**	Return on Shr. Equity	**10.0%**
10.8%	10.7%	11.2%	8.8%	**9.5%**	**9.5%**	Return on Com Equity	**10.0%**
3.6%	3.3%	3.8%	2.5%	**3.5%**	**4.0%**	Retained to Com Eq	**4.5%**
67%	69%	66%	72%	**62%**	**58%**	All Div'ds to Net Prof	**52%**
18.6	22.6	21.5	26.0	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	**18.0**
1.21	1.16	1.17	1.49			Relative P/E Ratio	**1.20**
3.6%	3.1%	3.1%	2.8%			Avg Ann'l Div'd Yield	**3.5%**



WATER UTILITY INDUSTRY

INDUSTRY TIMELINESS: 93 (of 98)

After showing some brief signs of a turnaround last year, the Water Utility Industry appears to have reverted back to its old ways. Feeling the effects of uncooperating weather conditions and high infrastructure costs, the stocks in this industry have had trouble meeting earnings expectations and, as a result, have sorely underperformed the broader market in recent months. In fact, none of the water utility stocks that are covered in the next few pages are ranked better than 3 (Average) for Timeliness, based on our momentum based ranking system. As a whole, the industry ranks near the bottom of the Value Line investment universe.

And the future does not look much brighter. Although a more favorable regulatory landscape and normalized weather conditions ought to provide a better landscape, we are concerned that rapidly growing infrastructure costs will continue to undermine this group's earnings out to late decade.

Easing Tensions

Although designed to keep a balance of power between consumers and providers, regulatory authorities, have long been a thorn in the side of water utility companies. Rate relief case decisions had often been unfavorable and untimely, with some rulings being pushed off for as long as two years. But, it finally looks as though things are taking a turn for the better, especially in the state of California. The California Public Utilities Commission (CPUC), which is responsible for ruling on general rate case requests in the Golden State, has been handing down more-favorable and timely decisions in recent months, thanks, in part, to the efforts of Governor Schwarzenegger. He has replaced members thought to be antagonists of rate relief with more-business-friendly members, and additional moves may be in the works. The recent changes makes for a favorable backdrop for water utility companies operating in California, such as *American States Water Co.* and *California Water Service Group.*

Costs

But, while regulators are easing their stance on rate case decisions, this does not look to be the case for infrastructure demands. Many of the current infrastructures are upwards of 100 years old and are in severe need of maintenance and, in some cases, massive renovations and rebuilding. And, given the geopolitical volatility worldwide and the heightened threat of bioterrorism on U.S. water pipelines and reservoirs, these costs are likely to continue to only rise, as companies strive to comply with EPA water purification standards. Infrastructure repair costs are expected to climb in the hundreds of millions of dollars over the next two decades, putting many smaller water companies at a distinct disadvantage. With a dearth of resources to fund these improvements, many such companies are being forced to sell. But, given the current landscape, larger companies with the flexibility and capital to deal with the higher costs are utilizing the weakness to add additional legs of growth to their businesses. *Aqua America*, the largest water utility in our survey, for example, has made more than 90 acquisitions in the past five years, doubling its revenue base during that time. The company does not seem to be slowing its aggressive spending ways and has the highest return on equity of any of the stocks that we cover here.

Investment Advice

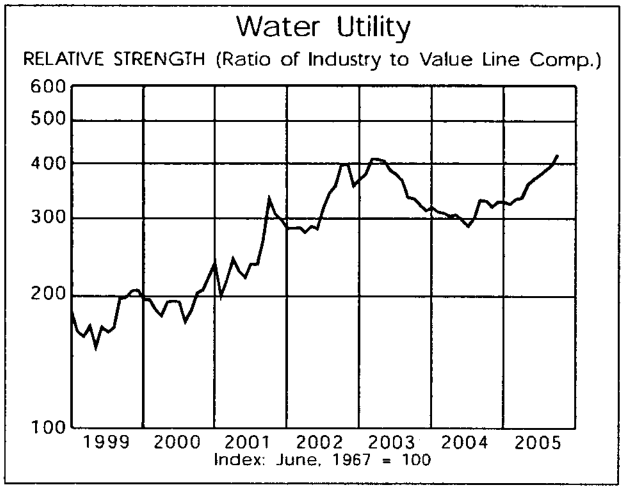
Most investors will probably want to take a pass on the stocks in this industry. Typically market laggards, not one of the issues covered in the next few pages stands out for near-term or long-term capital gains potential. The limited financial resources of most of these companies, along with the capital-intensive nature of the industry, will probably limit any substantial growth out to late decade.

Those seeking to add an income component to their portfolio may find an attractive option here, though. Each of the stocks in this industry carries an above-average dividend yield, with *American States Water* and *California Water* offering the highest percentages. *California Water* offers some additional appeal, as it has a 2 (Above Average) Safety rank. As is always the case, we recommend that all potential investors take a more in depth look at the individual reports on the following pages before considering making any future financial commitments.

Andre J. Costanza

Composite Statistics: Water Utility Industry

2001	2002	2003	2004	2005	2006		08-10
751.8	794.4	857.0	985.6	*1250*	*1350*	Revenues ($mill)	*1725*
95.4	106.6	98.6	122.4	*155*	*170*	Net Profit ($mill)	*235*
40.2%	38.8%	40.0%	39.4%	*39.5%*	*39.5%*	Income Tax Rate	*39.5%*
--	--	--	--	*Nil*	*Nil*	AFUDC % to Net Profit	*Nil*
52.4%	53.9%	51.2%	50.0%	*52.0%*	*51.0%*	Long-Term Debt Ratio	*48.0%*
47.2%	45.9%	48.6%	50.0%	*48.0%*	*49.0%*	Common Equity Ratio	*52.0%*
1840.7	1973.6	2296.4	2543.6	*3000*	*3400*	Total Capital ($mill)	*4100*
2532.2	2751.1	3186.1	3532.5	*4050*	*4250*	Net Plant ($mill)	*5000*
6.8%	7.0%	5.9%	6.7%	*7.0%*	*7.5%*	Return on Total Cap'l	*7.0%*
10.6%	11.2%	8.8%	10.7%	*11.0%*	*11.0%*	Return on Shr. Equity	*11.5%*
10.7%	11.2%	8.8%	10.7%	*11.0%*	*11.0%*	Return on Com Equity	*11.5%*
3.3%	3.8%	2.5%	4.6%	*5.0%*	*5.0%*	Retained to Com Eq	*3.0%*
69%	66%	72%	57%	*60%*	*55%*	All Div'ds to Net Prof	*45%*
22.6	21.5	26.0	25.5			Avg Ann'l P/E Ratio	*18.0*
1.16	1.17	1.48	1.36	*Bold figures are Value Line estimates*		Relative P/E Ratio	*1.20*
3.1%	3.1%	2.8%	2.2%			Avg Ann'l Div'd Yield	*3.4%*



WATER UTILITY INDUSTRY

INDUSTRY TIMELINESS: 96 (of 97)

Despite better regulatory backing, most of the water utility companies covered in the next few pages have continued to struggle in recent months. Unseasonably wet weather conditions and escalating infrastructure costs remain at the heart of the problem, pressuring margins and limiting bottom-line growth. As a result, these perennial market laggards continue to rank at the bottom of the *Value Line* investment universe for Timeliness. Although we suspect that more-normal weather conditions will eventually resume, the growing need for infrastructure renovations remains a major concern going forward. Higher spending poses a threat to the industry's long-term prospects, especially given the capital constraints that most companies are facing. As a result, none of the issues in this industry hold worthwhile 3- to 5-year appreciation potential at this time. Meanwhile, dividend yields have lost some appeal, as well.

Regulatory Landscape

Regulatory authorities, designed to keep a balance of power between consumers and providers, have long been a nemesis to water utility companies. Rate case decisions have been unfavorable and untimely, sometimes taking as long as two years to complete. However, the tide appears to have turned more recently, particularly in California, where a few of the utilities in this *Survey* generate a fair portion of their revenues. The California Public Utilities Commission, for example, behind the efforts of Governor Schwarzenegger, has been handing down more-favorable and timely decisions. He has replaced members thought to be adversaries of rate relief with more-lenient constituents. The changes provide a healthy backdrop for utility companies that request a step-up in rates each year.

Drowning In Expenses

Although regulators appear to be more business-friendly with case decisions, they are becoming increasingly more stringent with infrastructure demands. Many of the current infrastructures are more than 100 years old, and in need of serious upkeep and even complete renovation in some cases. Meanwhile, the Environmental Protection Agency (EPA) continues to increase its water purification standards, given the geopolitical volatility worldwide and the threat of bioterrorist actions on U.S. water systems. In all, infrastructure repair costs are expected to climb into the hundreds of millions of dollars over the next two decades. However, these increasing costs will make it very difficult for water utility companies to maintain the earnings momentum that we the expect the improved regulatory landscape to produce this year out to late decade.

Opportunity???

With limited resources to fund rising capital expenditures, many smaller companies in this industry are being forced to shop their businesses, presenting an opportunity for larger suitors with the resources to foot the bill. No company exemplifies this better than *Aqua America*, the largest water utility in our *Survey*. It has made well over 100 acquisitions in the past five years, using the aforementioned weakness of smaller players to improve their operations and increase their presence. It has drastically increased its customer base and clearly improved its longer-term prospects, and therefore holds the best 3- to 5-year appreciation potential of all the stocks in this industry. We expect that the consolidation trend will continue as water standards continue to climb.

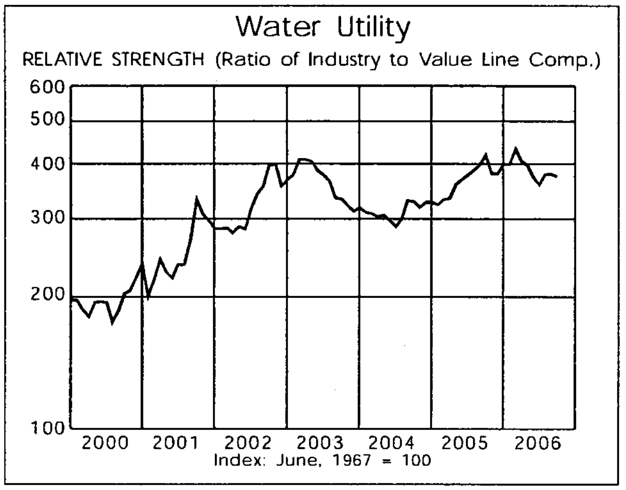
Investment Advice

This is not an industry that most investors will want to emphasize. Not one of the stocks here stand out for Timeliness or 3- to 5-year appreciation potential. Making matters worse, higher interest rates have increased the income-producing appeal of alternative investments, making the yields found in this industry modestly attractive at best. Thus, most will want to avoid this untimely industry for now. However, *California Water* is ranked 2 for Safety. This, along with its historically steady stream of income, may appeal to more-conservative investors. As always, though, we recommend that investors study the individual reports of each company in the next few pages before making any financial commitments.

Andre J. Costanza

Composite Statistics: Water Utility Industry

2002	2003	2004	2005	2006	2007		09-11
925.2	1030.0	1173.6	1256.9	***1350***	***1485***	Revenues ($mill)	***2025***
107.8	112.6	105.7	148.3	***150***	***185***	Net Profit ($mill)	***265***
38.6%	39.7%	39.1%	40.5%	***39.0%***	***39.0%***	Income Tax Rate	***39.0%***
.2%	1.9%	1.0%	1.1%	***1.0%***	***1.0%***	AFUDC % to Net Profit	***1.0%***
54.1%	51.0%	49.1%	50.4%	***50.0%***	***50.0%***	Long-Term Debt Ratio	***50.0%***
45.7%	48.8%	50.7%	49.5%	***50.0%***	***50.0%***	Common Equity Ratio	***50.0%***
2116.4	2449.1	2785.6	3057.5	***3300***	***3600***	Total Capital ($mill)	***4565***
2995.1	3405.6	3836.9	4194.7	***4475***	***4750***	Net Plant ($mill)	***5650***
6.9%	5.9%	6.0%	6.3%	***7.5%***	***8.0%***	Return on Total Cap'l	***9.0%***
11.1%	8.8%	9.0%	9.8%	***9.5%***	***10.5%***	Return on Shr. Equity	***11.5%***
11.1%	8.8%	9.0%	9.8%	***9.5%***	***10.5%***	Return on Com Equity	***11.5%***
4.0%	2.7%	3.1%	3.7%	***4.0%***	***4.5%***	Retained to Com Eq	***5.0%***
64%	70%	66%	62%	***60%***	***55%***	All Div'ds to Net Prof	***55%***
21.6	25.6	25.4	29.4	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	***18.0***
1.18	1.46	1.34	1.57			Relative P/E Ratio	***1.20***
3.0%	2.7%	2.6%	2.1%			Avg Ann'l Div'd Yield	***2.5%***



INDUSTRY TIMELINESS: 96 (of 96)

Many of the stock's in the Water Utility industry have continued to benefit from more favorable regulatory backing since our October review. Nevertheless, as usual, the industry, as a whole, ranks at the very bottom of the *Value Line* investment universe for Timeliness. Elevated well and waterway maintenance costs are responsible for most of the blame and will likely continue to dampen profits for years to come. Indeed, the growing need for infrastructure renovations poses a significant threat to the industry's long-term prospects, especially given the capital constraints that most companies are facing. As a result, many investors are going to want to steer clear of the issues in this industry.

Regulatory Winds at its Back

Regulatory authorities, designed to keep a balance of power between utility providers and consumers, have been extremely tough on utility companies in years past. However, current administrations have taken a much more business-friendly approach in recent months in handing down timely and generally favorable rulings. This has not been more glaringly evident than in California, where the California Public Utilities Commission's board has undergone a major facelift with adversaries being replaced with business supporters. Recent rulings set a good tone for utility providers doing business in the Golden State, which typically request a step-up in rates every year. This augurs particularly well for *California Water Service Group* and *American States Water*, which both derive a significant amount of business from California.

But Choppy Waters Lie Ahead

Even still, the same cannot be said for infrastructure costs. Although regulators are softening their stance on rate case decisions, infrastructure demands are growing more stringent. Many of the current infrastructures are more than 100 years old and in need of serious upkeep, or even complete replacement in some cases. Water companies are being forced to pony up significant cash in order to get their systems up to par. Making matters worse, the Environmental Protection Agency (EPA) continues to increase its water purification standards, given the geopolitical volatility worldwide and the threat of bio-terrorist actions on U.S. water systems. In all, infrastructure repair costs are expected to climb into the hundreds of millions of dollars over the next two decades. These extra costs will make it very difficult for most water utility companies to sustain the earnings momentum that we think the improved regulatory landscape will produce this year.

Many of the smaller companies in the industry do not have the resources to meet the capital expenditures that they are being saddled with. Some are deciding to merge with larger, more financially sound enterprises. As a result, some of the biggest water utility companies are growing bigger, faster than ever. *Aqua America*, for example, has made well over 100 acquisitions in the past five years (28 coming in 2006), based on the aforementioned weakness of smaller players, improved operations and increased their lines. This has drastically increased its customer base and clearly improved its long-term prospects. We expect *Aqua* to continue growing its business via acquisitions as rising water standards spark further consolidation.

Investment Advice

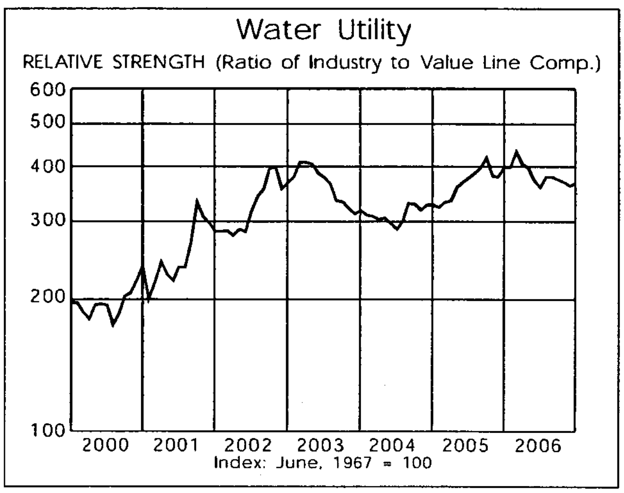
Most investors will want to steer clear of the stocks in the Water Utility Industry. Each of the issues in the coming pages hold below average appreciation potential, whether it be for the coming six to 12 months or out to 2009-2011. In fact, each is ranked either 4 or 5 for Timeliness. The growing infrastructure costs and capital constraints mentioned above are likely to continue pressuring bottom lines of water utility companies for years to come.

Meanwhile, most look to have lost their income appeal as well. Higher interest rates have increased the income-producing appeal of alternative investments, making the yields found in this industry modestly attractive at best. That said, more conservative investors looking for a steady stream of income may want to take a peek at *California Water*, which is ranked 2 (Above Average) for Safety. Its yield is still above the *Value Line* average. Nevertheless, we advise all potential investors to carefully look over the individual reports of each company in the next few pages before making any decisions.

Andre J. Costanza

Composite Statistics: Water Utility Industry

2002	2003	2004	2005	2006	2007		09-11
925.2	1030.0	1173.6	1256.9	**1350**	**1450**	Revenues ($mill)	**1825**
107.8	112.6	105.7	148.3	**155**	**180**	Net Profit ($mill)	**240**
38.6%	39.7%	39.1%	40.5%	**39.0%**	**39.0%**	Income Tax Rate	**39.0%**
.2%	1.9%	1.0%	1.1%	**1.0%**	**1.0%**	AFUDC % to Net Profit	**1.0%**
54.1%	51.0%	49.1%	50.4%	**50.0%**	**50.0%**	Long-Term Debt Ratio	**50.0%**
45.7%	48.8%	50.7%	49.5%	**50.0%**	**50.0%**	Common Equity Ratio	**50.0%**
2116.4	2449.1	2785.6	3057.5	**3360**	**3650**	Total Capital ($mill)	**4500**
2995.1	3405.6	3836.9	4194.7	**5350**	**5750**	Net Plant ($mill)	**6800**
6.9%	5.9%	6.0%	6.3%	**7.0%**	**8.0%**	Return on Total Cap'l	**9.0%**
11.1%	8.8%	9.0%	9.8%	**9.0%**	**10.0%**	Return on Shr. Equity	**10.5%**
11.1%	8.8%	9.0%	9.8%	**9.0%**	**10.0%**	Return on Com Equity	**10.5%**
4.0%	2.7%	3.1%	3.7%	**3.0%**	**3.5%**	Retained to Com Eq	**2.5%**
64%	70%	66%	62%	**68%**	**65%**	All Div'ds to Net Prof	**62%**
21.6	25.6	25.4	29.4	***Bold figures are***	***Value Line estimates***	Avg Ann'l P/E Ratio	**18.0**
1.18	1.46	1.34	1.57			Relative P/E Ratio	**1.20**
3.0%	2.7%	2.6%	2.1%			Avg Ann'l Div'd Yield	**2.5%**



ATTACHMENT E

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
BARRY WONG

Arizona Corporation Commission
DOCKETED
OCT 20 2006
DOCKETED BY nr

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR AUTHORITY TO INCUR LONG-TERM DEBT THROUGH ITS AFFILIATE, AMERICAN WATER CAPITAL CORPORATION.

DOCKET NO. WS-01303A-06-0283

Decision No. 68994

ORDER

Open Meeting
October 17 and 18, 2006
Phoenix, Arizona

BY THE COMMISSION:

On April 26, 2006, Arizona-American Water Company, Inc. ("Arizona-American") filed with the Arizona Corporation Commission ("Commission") an application for authority to incur long-term debt through its affiliate, American Water Capital Corporation ("American") and for authorization of payment obligations to the City of Tolleson, Arizona.

* * * * * * * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. Arizona-American Water Company, Inc. ("Arizona-American" or "Applicant") is a Class "A" Arizona public service corporation providing water and wastewater services in portions of Mohave, Maricopa and Santa Cruz counties. Arizona-American provides utility service to approximately 97,000 water customers and 47,000 sewer customers in Arizona.

2. Arizona-American currently has three rate cases in progress for the following districts: (1) Mohave Water and Wastewater, Docket No. WS-01303A-06-0014; (2) Anthem Water and Anthem/Agua Fria Wastewater, Docket No. WS-01303A-06-0403; and (3) Sun City Wastewater and Sun City West Wastewater, Docket No. WS-01303A-06-0491.

3. On April 26, 2006, Arizona-American filed an application with the Commission requesting permission to incur long-term debt through its affiliate, American Water Capital Corporation ("AWCC"). The Applicant also requested approval of an obligation to the City of Tolleson ("Tolleson"). Arizona-American published notice of its application in this matter on May 15, 2006 in the *Mohave Valley Daily News,* on May 18, 2006 in the *Arizona Business Gazeette,* and on May 19, 2006 in the *Nogales International.*

4. On September 15, 2006, the Commission's Utilities Division ("Staff") filed a Staff Report recommending approval of this application.

5. Arizona-American asks for Commission approval to borrow $165.45 million from AWCC for the purpose of paying off two promissory notes, totaling $158.45 million[1], which mature in November 2006, and to fund two new capital projects with $7.0 million.

6. Arizona-American anticipates obtaining a ten-year interest-only loan of $165.45 million from AWCC at an interest rate not to exceed 6.5 percent per annum. All principal is due at maturity. The actual interest rate will be determined by market conditions at the time of the transaction, and there are no expected financing costs or issuance fees. AWCC has no coverage ratio requirements for Arizona-American.

7. Arizona-American has also requested Commission approval of an $8.56 million obligation ("Obligation") to Tolleson. In its application, Arizona-American stated that it is the successor in interest to Sun City Sewer as the purchaser of sewage treatment services from Tolleson under a Sewage Treatment and Transportation Services Agreement ("Services Agreement"). Tolleson issued $8.56 million in bonds to finance the facilities needed to provide service under the Services Agreement. Payments for the bonds, guaranteed by Arizona-American, are made from revenues received under the Services Agreement. The Obligation previously was guaranteed by Citizens Utilities Company ("Citizens") in 1998, however, Arizona-American subsequently acquired the water and wastewater assets and Certificates of Convenience and Necessity held by Citizens in Arizona. The Commission authorized the acquisition in Decision No. 63584 (September 26, 2000).

[1] One note is for $154,948,119 (Dec. No. 64002 (August 30, 2001)), and the other is for $3.5 million (Dec. No. 63586 (April 14, 2001)).

Decision No. 63584 approved the transfer of assets and recognizes in the description of the transaction that Arizona-American would assume liabilities for contracts, but is silent regarding approval of the terms of the transaction. Arizona-American seeks to clarify this uncertainty by obtaining Commission approval in this docket for the Obligation.

Engineering Analysis

8. Staff Engineering reviewed the material costs estimates of the two new capital projects submitted in support of the application, expansion of its Mohave Wastewater Treatment Plant in Mohave County, and its Verrado Wastewater Treatment Plant Phase 2 expansion in Maricopa County.

9. Applicant plans to expand its Mohave Wastewater Treatment Plant by 250,000 gallons per day to meet projected demands and required wastewater treatment standards. The Mohave Wastewater Treatment Plant currently has a design capacity of 250,000 gallons per day. The projections of new hookups show the existing plant capacity will be exceeded by early 2008. The expansion project will include a pre-packaged 250,000 gallons per day treatment facility (matching the existing plant), solids handling facility, expanded blower building, sitework, electrical, and foundation, etc. The estimated total project cost is $2,763,000.

10. Applicant plans to expand the Verrado Wastewater Treatment Plant, which has an existing capacity of 450,000 gallons per day. The projected flow will reach the existing capacity in the summer of 2007. The proposed expansion will increase treatment plant capacity from 450,000 to 1,160,000 gallons per day, which will meet projected demands until 2011. The estimated total project cost is $4,910,000.

11. Staff concluded that the proposed plant additions are reasonable and the estimated total project costs for the two new capital projects are reasonable. However, no "used and useful" determination of the proposed projects was made and no particular treatment should be inferred for rate making or rate base purposes in the future.

Financial Analysis

12. The Debt Service Coverage ("DSC") ratio represents the number of times internally generated cash will cover required principal and interest payments on long-term debt. A DSC ratio

greater than 1.0 means that operating cash flow is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met from operations and that another source of funds is needed to avoid default.

13. The Times Interest Earned Ratio ("TIER") represents the number of times earnings will cover interest expense on short-term and long-term debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER of less than 1.0 is not sustainable in the long term but does not necessarily mean that debt obligations cannot be met in the short term.

14. Cash Coverage Ratio ("CCR") represents the number of times internally generated cash covers required interest payments on short-term and long-term debt. A CCR greater than 1.0 means that operating cash flow is greater than interest expense.

15. For the year ended December 31, 2005, Staff's financial analysis shows Arizona-American had a 0.52 TIER, a 2.05 DSC and a 2.06 CCR. Staff's pro forma analysis, reflecting the effect of the AWCC debt proposed by Arizona-American assuming a 6.5 percent annual interest rate and 10-year amortization shows a decline to a 0.46 TIER, a 1.81 DSC, and a 1.82 CCR.

16. Arizona-American's TIER results reflect that operating income would suffice to cover interest expense in the short-term, but not in the long term. However, DSC results indicate that Arizona-American will be able to meet all obligations with cash generated from operations. Therefore, operating cash flow is sufficient to cover both principal and interest payments on short- and long-term debt obligations.

Capital Structure

17. At December 31, 2005, Arizona-American's capital structure consisted of 8.5 percent short-term debt, 58.6 percent long-term debt, and 32.9 percent equity. Pro forma analysis reflects a capital structure composed of 8.1 percent short-term debt, 57.7 percent long-term debt and 34.2 percent equity.

18. On March 21, 2006, Arizona-American received $35 million in new equity from American Water Works, Inc., its parent company. The effect of this new equity on Arizona-American's equity position was partially offset by a goodwill write-off of $24.4 million.

Staff's Conclusions and Recommendations

19. Based on its review and analysis, Staff concluded that authorization of the $8.56 million Tolleson Obligation is appropriate to clarify any ambiguity regarding Commission authorization. Staff stated its conclusion that the estimated costs associated with the new capital projects appear to be reasonable, and stated that issuance of the proposed AWCC debt financing not to exceed $7.0 million to fund new capital projects and not to exceed $158.45 million to pay off maturing debt is within Arizona-American's corporate powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

20. Staff recommended that the Commission authorize Arizona-American's request to borrow an amount not to exceed $165.45 million in new funds from AWCC for the purposes described herein. Staff further recommended that the Commission approve Arizona-American's $8.56 million Tolleson Obligation pertaining to the Services Agreement as successor in interest to Sun City Sewer.

21. Staff further recommended authorizing Arizona-American to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

22. Staff recommended that the executed loan documents be filed with Docket Control within 30 days of this Decision.

23. Staff's recommendations are reasonable and should be adopted.

CONCLUSIONS OF LAW

1. Arizona-American is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-281, 40-282, 40-301 and 302.

2. The Commission has jurisdiction over Arizona-American and the subject matter of the application.

3. Notice of the application was given in accordance with the law.

4. Staff's recommendations are reasonable and should be adopted.

5. The financing approved herein is for lawful purposes within Arizona-American's corporate powers, is compatible with the public interest, with sound financial practices, and with the proper performance by Arizona-American of service as a public service corporation, and will not

impair Arizona-American's ability to perform that service.

6. The financing approved herein is for the purposes stated in the application and is reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably chargeable to operating expenses or to income.

ORDER

IT IS THEREFORE ORDERED Arizona-American Water Company, Inc.'s application for authority to borrow an amount not to exceed $165.45 million in new funds from American Water Capital Corporation for the purposes described herein shall be, and hereby is, granted.

IT IS FURTHER ORDERED that Arizona-American Water Company, Inc.'s application for authorization of its $8.56 million obligation to the City of Tolleson Obligation pertaining to the Sewage Treatment and Transportation Services Agreement as successor in interest to Sun City Sewer shall be, and hereby is, granted.

IT IS FURTHER ORDERED that such authority is expressly contingent upon Arizona-American Water Company, Inc.'s use of the proceeds for the purposes set forth in its application.

IT IS FURTHER ORDERED that approval of the financing set forth herein does not constitute or imply approval or disapproval by the Commission of any particular expenditure of the proceeds derived thereby for purposes of establishing just and reasonable rates.

IT IS FURTHER ORDERED that Arizona-American Water Company, Inc. is hereby authorized to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

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IT IS FURTHER ORDERED that Arizona-American Water Company, Inc. shall file with Docket Control, as a compliance item in this docket, within 30 days of this Decision, a copy of all executed documents associated with the financing authorized herein.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 20th day of Oct., 2006.

BRIAN C. McNEIL
EXECUTIVE DIRECTOR

DISSENT ____________________

DISSENT ____________________

SERVICE LIST FOR: ARIZONA-AMERICAN WATER COMPANY, INC.

DOCKET NO.: WS-01303A-06-0283

Craig A. Marks
ARIZONA-AMERICAN WATER CO., INC.
19820 N. 7th Street, Suite 201
Phoenix, Arizona 85024

Christopher Kempley, Chief Counsel
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Ernest G. Johnson, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

ATTACHMENT F

ORIGINAL

RECEIVED

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2007 JAN -8 P 3:02

January 8, 2007

AZ CORP COMMISSION
DOCUMENT CONTROL

Compliance Item:

Decision No. 68994 dated October 20, 2006 in WS-01303A-06-0283 states, "IT IS FURTHER ORDERED that Arizona-American Water Company, Inc. shall file with Docket Control, as a compliance item in this docket, within 30 days of this Decision, a copy of all executed documents associated with the financing authorized herein."

Response:

Attached are three new long-term Inter-Company Loan Agreements effective December 21, 2006 between Arizona-American Water Company and American Water Capital Corp. totaling $159,000,000.

These long-term loans replaced the short-term loans in place from November 6, 2006 until December 21, 2006.

Arizona Corporation Commission
DOCKETED

JAN 08 2007

DOCKETED BY

PROMISSORY NOTE
FOR LONG-TERM BORROWINGS
5.39% Maturity - December 21, 2013

$24,700,000 **December 21, 2006**

FOR VALUE RECEIVED, **Arizona-American Water Company**, an **Arizona** corporation (herein "Borrower") hereby promises to pay to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at 1025 Laurel Oak Rd. Voorhees, NJ 08043 or such other place as Lender may from time to time designate, the principal sum of **Twenty-Four Million Seven-Hundred Thousand** dollars **($24,700,000)**, together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waivers presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of Lender and Borrower.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

Arizona-American Water Company

By: Christopher C. Bl

Name and Title: Vice President Finance & Treasurer
Chris Buls

PROMISSORY NOTE
FOR LONG-TERM BORROWINGS
5.52% Maturity - December 21, 2016

$11,200,000 **December 21, 2006**

FOR VALUE RECEIVED, **Arizona-American Water Company**, an **Arizona** corporation (herein "Borrower") hereby promises to pay to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at 1025 Laurel Oak Rd. Voorhees, NJ 08043 or such other place as Lender may from time to time designate, the principal sum of **Eleven Million Two-Hundred Thousand** dollars (**$11,200,000**), together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waivers presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of Lender and Borrower.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

Arizona-American Water Company

By: Christopher C. Buls

Name and Title: Vice President Finance & Treasurer

Chris Buls

PROMISSORY NOTE
FOR LONG-TERM BORROWINGS
5.62% Maturity - December 21, 2018

$123,100,000 **December 21, 2006**

FOR VALUE RECEIVED, **Arizona-American Water Company**, an **Arizona** corporation (herein "Borrower") hereby promises to pay to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at 1025 Laurel Oak Rd. Voorhees, NJ 08043 or such other place as Lender may from time to time designate, the principal sum of **One-Hundred Twenty Three Million One-Hundred Thousand** dollars **($123,100,000)**, together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waivers presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of Lender and Borrower.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

Arizona-American Water Company

By: Christopher C. Buls

Name and Title: Vice President Finance & Treasurer
Chris Buls

ATTACHMENT G

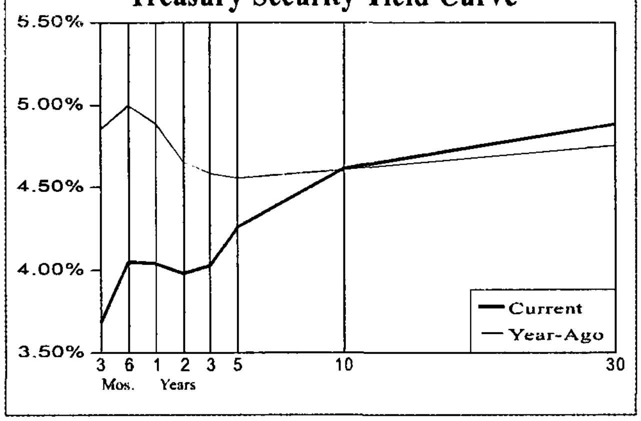
Selected Yields

TAXABLE

	Recent (9/26/07)	3 Months Ago (6/27/07)	Year Ago (9/28/06)
Market Rates			
Discount Rate	5.25	6.25	6.25
Federal Funds	4.75	5.25	5.25
Prime Rate	7.75	8.25	8.25
30-day CP (A1/P1)	4.83	5.25	5.23
3-month LIBOR	5.20	5.36	5.37
Bank CDs			
6-month	2.96	3.11	3.37
1-year	3.67	3.73	3.92
5-year	3.93	3.95	4.08
U.S. Treasury Securities			
3-month	3.69	4.77	4.86
6-month	4.05	4.94	5.00
1-year	4.04	4.97	4.89
5-year	4.26	4.97	4.56
10-year	4.62	5.08	4.61
10-year (inflation-protected)	2.35	2.70	2.27
30-year	4.89	5.19	4.76
30-year Zero	4.90	5.15	4.71

	Recent (9/26/07)	3 Months Ago (6/27/07)	Year Ago (9/28/06)
Mortgage-Backed Securities			
GNMA 6.5%	5.84	6.14	5.66
FHLMC 6.5% (Gold)	5.98	6.29	5.86
FNMA 6.5%	5.89	6.27	5.82
FNMA ARM	5.81	5.44	5.42
Corporate Bonds			
Financial (10-year) A	6.09	6.09	5.54
Industrial (25/30-year) A	6.13	6.21	5.70
Utility (25/30-year) A	6.31	6.36	5.74
Utility (25/30-year) Baa/BBB	6.49	6.53	6.18
Foreign Bonds (10-Year)			
Canada	4.42	4.62	4.00
Germany	4.39	4.55	3.69
Japan	1.68	1.88	1.66
United Kingdom	5.06	5.42	4.49
Preferred Stocks			
Utility A	6.26	6.52	6.08
Financial A	6.89	6.63	6.26
Financial Adjustable A	5.47	5.47	5.48

Treasury Security Yield Curve



TAX-EXEMPT

	Recent (9/26/07)	3 Months Ago (6/27/07)	Year Ago (9/28/06)
Bond Buyer Indexes			
20-Bond Index (GOs)	4.51	4.63	4.23
25-Bond Index (Revs)	4.76	4.74	4.77
General Obligation Bonds (GOs)			
1-year Aaa	3.43	3.73	3.46
1-year A	3.53	3.83	3.60
5-year Aaa	3.51	3.90	3.47
5-year A	3.81	4.01	3.76
10-year Aaa	3.83	4.10	3.72
10-year A	4.13	4.60	4.09
25/30-year Aaa	4.47	4.49	4.17
25/30-year A	4.65	4.79	4.44
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.60	4.80	4.28
Electric AA	4.70	4.75	4.30
Housing AA	4.85	4.95	4.38
Hospital AA	4.80	4.90	4.50
Toll Road Aaa	4.70	4.85	4.37

Federal Reserve Data

BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	9/12/07	8/29/07	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1379	1057	322	2649	2096	1871
Borrowed Reserves	2250	1559	691	717	399	307
Net Free/Borrowed Reserves	-871	-502	-369	1932	1697	1564

MONEY SUPPLY

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

	Recent Levels			Growth Rates Over the Last...		
	9/10/07	9/3/07	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1373.8	1422.5	-48.7	-2.0%	-0.1%	0.4%
M2 (M1+savings+small time deposits)	7348.5	7365.8	-17.3	6.5%	6.1%	6.7%

ARIZONA-AMERICAN WATER COMPANY
SUN CITY WATER DISTRICT
DOCKET NO. W-01303A-07-0209

TABLE OF CONTENTS TO SCHEDULES WAR

ARIZONA-AMERICAN WATER COMPANY
SUN CITY WATER DISTRICT
TEST YEAR ENDED DECEMBER 29, 2006
COST OF CAPITAL SUMMARY

WEIGHTED COST OF CAPITAL - SUN CITY WASTEWATER

LINE NO.	DESCRIPTION	(A) CAPITALIZATION PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED CAPITALIZATION	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	LONG-TERM DEBT	$ 199,289,822	$ 4,204	$ 199,294,026	61.40%	5.37%	3.29%
2	SHORT-TERM DEBT	-	-	-	0.00%	0.00%	0.00%
3	COMMON EQUITY	125,408,846	-	125,408,846	38.60%	10.02%	3.87%
4	TOTAL CAPITALIZATION	$ 324,698,668	$ 4,204	$ 324,702,872	100.00%		
5	**WEIGHTED COST OF CAPITAL**						7.16%

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

ARIZONA-AMERICAN WATER COMPANY
SUN CITY WATER DISTRICT
TEST YEAR ENDED DECEMBER 29, 2006
COST OF CAPITAL SUMMARY

WEIGHTED COST OF DEBT

LINE NO.	(A) DESCRIPTION	(B) BALANCE	(C) ANNUAL INTEREST	(D) INTEREST RATE	(E) BALANCE RATIOS	(F) WEIGHTED COST OF DEBT
1	AUG '08 L-T SENIOR NOTES	$ 4,500,000	$ 320,490	7.122%	2.26%	0.161%
2	SEP '30 L-T PROMISSORY NOTE	25,000,000	1,230,000	4.920%	12.54%	0.617%
3	SEP '28 L-T NOTE - MARICOPA	10,635,000	264,427	2.486%	5.34%	0.133%
4	SEP '13 PILR - MONTEREY	45,267	2,834	6.261%	0.02%	0.001%
5	AUG '15 PILR - ROSALEE	48,223	3,462	7.179%	0.02%	0.002%
6	AUG '15 PILR - T.O. DEVELOPMENT	40,620	2,917	7.181%	0.02%	0.001%
7	SEP '13 PILR - MONTEX/LINCOLN	24,916	1,435	5.759%	0.01%	0.001%
8	DEC '13 L-T PROMISSORY NOTE	24,700,000	1,331,330	5.390%	12.39%	0.668%
9	DEC '16 L-T PROMISSORY NOTE	11,200,000	618,240	5.520%	5.62%	0.310%
10	DEC '18 L-T PROMMISSORY NOTE	123,100,000	6,918,220	5.620%	61.77%	3.471%
11						
12	TOTALS	$ 199,294,026	$ 10,693,355		100.00%	
13						
14	**WEIGHTED COST OF DEBT**					5.37%

REFERENCES:
COLUMN (A) LINES 1 THRU 7: COMPANY SCHEDULE D-2, PAGE 2
COLUMN (B) LINES 1 THRU 7: COMPANY SCHEDULE D-2, PAGE 2
COLUMN (C) LINES 1 THRU 7: COMPANY SCHEDULE D-2, PAGE 2
COLUMN (A) LINES 8 THRU 10: DECISION NO. 68994 COMPLIANCE REPORT FILED ON JANUARY 8, 2007
COLUMN (B) LINES 8 THRU 10: DECISION NO. 68994 COMPLIANCE REPORT FILED ON JANUARY 8, 2007
COLUMN (C) LINES 8 THRU 10: COLUMN (B) x COLUMN (D)
COLUMN (D) LINES 1 THRU 7: COLUMN (C) ÷ COLUMN (D)
COLUMN (D) LINES 8 THRU 10: DECISION NO. 68994 COMPLIANCE REPORT FILED ON JANUARY 8, 2007
COLUMN (E): COLUMN (A) LINES 1 THRU 10 ÷ LINE 12
COLUMN (F): COLUMN (D) x COLUMN (E)

ARIZONA-AMERICAN WATER COMPANY
SUN CITY WATER DISTRICT
TEST YEAR ENDED DECEMBER 29, 2006
COST OF CAPITAL SUMMARY

COST OF COMMON EQUITY CALCULATION

LINE NO.			
1	**DCF METHODOLOGY**		
2	DCF - WATER COMPANY SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	8.02%	SCHEDULE WAR-2, COLUMN (C), LINE 5
3	DCF - NATURAL GAS LDC SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	9.26%	SCHEDULE WAR-2, COLUMN (C), LINE 13
4	AVERAGE OF DCF ESTIMATES	8.64%	(LINE 2 + LINE 3) ÷ 2
5	**CAPM METHODOLOGY**		
6	CAPM - WATER COMPANY GEOMETRIC MEAN ESTIMATE	9.77%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 5
7	CAPM - NATURAL GAS LDC GEOMETRIC MEAN ESTIMATE	9.39%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 13
8	CAPM - WATER COMPANY ARITHMETIC MEAN ESTIMATE	11.48%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 5
9	CAPM - NATURAL GAS LDC ARITHMETIC MEAN ESTIMATE	10.99%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 13
10	AVERAGE OF CAPM ESTIMATES	10.41%	(SUM OF LINES 6 THRU) ÷ 4
11	**AVERAGE OF DCF AND CAPM ESTIMATES**	9.52%	(LINE 4 + LINE 10) ÷ 2
12	**ADD: 50 BASIS POINT ADJUSTMENT FOR FINANCIAL RISK**	0.50%	TESTIMONY WAR
13	**COST OF COMMON EQUITY ESTIMATE**	10.02%	LINE 11 + LINE 12

ARIZONA-AMERICAN WATER COMPANY
SUN CITY WATER DISTRICT
TEST YEAR ENDED DECEMBER 29, 2006
DCF COST OF EQUITY CAPITAL

DOCKET NO. W-01303A-07-0209
SCHEDULE WAR - 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) DIVIDEND YIELD	+	(B) GROWTH RATE (g)	=	(C) DCF COST OF EQUITY CAPITAL
1	AWR	AMERICAN STATES WATER CO.	2.32%	+	7.34%	=	9.66%
2	CWT	CALIFORNIA WATER SERVICE GROUP	2.89%	+	5.41%	=	8.30%
3	SWWC	SOUTHWEST WATER COMPANY	1.76%	+	4.95%	=	6.71%
4	WTR	AQUA AMERICA, INC.	1.90%	+	5.49%	=	7.39%
5	**WATER COMPANY AVERAGE**						8.02%
6	ATG	AGL RESOURCES, INC.	4.14%	+	5.93%	=	10.06%
7	ATO	ATMOS ENERGY CORP.	4.57%	+	4.80%	=	9.37%
8	LG	LACLEDE GROUP, INC.	4.55%	+	3.73%	=	8.27%
9	NJR	NEW JERSEY RESOURCES CORPORATION	3.15%	+	6.28%	=	9.43%
10	GAS	NICOR, INC.	4.43%	+	4.69%	=	9.11%
11	NWN	NORTHWEST NATURAL GAS CO.	3.10%	+	7.09%	=	10.19%
12	PNY	PIEDMONT NATURAL GAS COMPANY	3.92%	+	3.51%	=	7.42%
13	SJI	SOUTH JERSEY INDUSTIES, INC.	2.87%	+	8.71%	=	11.58%
14	SWX	SOUTHWEST GAS CORPORATION	2.96%	+	6.68%	=	9.63%
15	WGL	WGL HOLDINGS, INC.	4.11%	+	3.37%	=	7.49%
16	**NATURAL GAS LDC AVERAGE**						9.26%

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

ARIZONA-AMERICAN WATER COMPANY
SUN CITY WATER DISTRICT
TEST YEAR ENDED DECEMBER 29, 2006
DIVIDEND YIELD CALCULATION

DOCKET NO. W-01303A-07-0209
SCHEDULE WAR - 3

LINE NO.	STOCK SYMBOL	COMPANY	(A) ESTIMATED DIVIDEND (PER SHARE)	÷	(B) AVERAGE STOCK PRICE (PER SHARE)	=	(C) DIVIDEND YIELD
1	AWR	AMERICAN STATES WATER CO.	$0.94	÷	$40.52	=	2.32%
2	CWT	CALIFORNIA WATER SERVICE GROUP	1.16	÷	40.11	=	2.89%
3	SWWC	SOUTHWEST WATER COMPANY	0.23	÷	13.18	=	1.76%
4	WTR	AQUA AMERICA, INC.	0.46	÷	24.15	=	1.90%
5	**WATER COMPANY AVERAGE**						2.22%
6	ATG	AGL RESOURCES, INC.	$1.64	÷	$39.65	=	4.14%
7	ATO	ATMOS ENERGY CORP.	1.28	÷	28.03	=	4.57%
8	LG	LACLEDE GROUP, INC.	1.46	÷	32.10	=	4.55%
9	NJR	NEW JERSEY RESOURCES CORPORATION	1.52	÷	48.26	=	3.15%
10	GAS	NICOR, INC.	1.86	÷	42.02	=	4.43%
11	NWN	NORTHWEST NATURAL GAS CO.	1.42	÷	45.78	=	3.10%
12	PNY	PIEDMONT NATURAL GAS COMPANY	1.00	÷	25.52	=	3.92%
13	SJI	SOUTH JERSEY INDUSTIES, INC.	0.98	÷	34.18	=	2.87%
14	SWX	SOUTHWEST GAS CORPORATION	0.86	÷	29.06	=	2.96%
15	WGL	WGL HOLDINGS, INC.	1.36	÷	33.05	=	4.11%
16	**NATURAL GAS LDC AVERAGE**						3.78%

REFERENCES:
COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 07/27/2007 (WATER COMPANIES) AND 09/14/2007 (NATURAL GAS LDC's).
COLUMN (B): FOUR WEEK AVERAGE OF CLOSING PRICES FROM 09/04/2007 TO 09/28/2007 STOCK QUOTES OBTAINED THROUGH BIG CHARTS WEB SITE - HISTORICAL QUOTES (www.bigcharts.com).
COLUMN (C): COLUMN (A) ÷ COLUMN (B)

ARIZONA-AMERICAN WATER COMPANY
SUN CITY WATER DISTRICT
TEST YEAR ENDED DECEMBER 29, 2006
DIVIDEND GROWTH RATE CALCULATION

LINE NO.	STOCK SYMBOL	COMPANY	(A) INTERNAL GROWTH (br)	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	AWR	AMERICAN STATES WATER CO.	4.15%	+	3.19%	=	7.34%
2	CWT	CALIFORNIA WATER SERVICE GROUP	4.30%	+	1.11%	=	5.41%
3	SWWC	SOUTHWEST WATER COMPANY	3.30%	+	1.65%	=	4.95%
4	WTR	AQUA AMERICA, INC.	4.00%	+	1.49%	=	5.49%
5		**WATER COMPANY AVERAGE**					5.80%
6	ATG	AGL RESOURCES, INC.	5.70%	+	0.23%	=	5.93%
7	ATO	ATMOS ENERGY CORP.	4.20%	+	0.60%	=	4.80%
8	LG	LACLEDE GROUP, INC.	3.00%	+	0.73%	=	3.73%
9	NJR	NEW JERSEY RESOURCES CORPORATION	5.55%	+	0.73%	=	6.28%
10	GAS	NICOR, INC.	4.65%	+	0.04%	=	4.69%
11	NWN	NORTHWEST NATURAL GAS CO.	4.70%	+	2.39%	=	7.09%
12	PNY	PIEDMONT NATURAL GAS COMPANY	3.50%	+	0.01%	=	3.51%
13	SJI	SOUTH JERSEY INDUSTIES, INC.	7.90%	+	0.81%	=	8.71%
14	SWX	SOUTHWEST GAS CORPORATION	6.30%	+	0.38%	=	6.68%
15	WGL	WGL HOLDINGS, INC.	3.35%	+	0.02%	=	3.37%
16		**NATURAL GAS LDC AVERAGE**					5.48%

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

ARIZONA-AMERICAN WATER COMPANY
SUN CITY WATER DISTRICT
TEST YEAR ENDED DECEMBER 29, 2006
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-01303A-07-0209
SCHEDULE WAR - 4
PAGE 2 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) SHARE GROWTH	x	(B) { [((M ÷ B) + 1) ÷ 2] - 1 }	=	(C) EXTERNAL GROWTH (sv)
1	AWR	AMERICAN STATES WATER CO.	5.00%	x	{ [((2.28) + 1) ÷ 2] - 1 }	=	3.19%
2	CWT	CALIFORNIA WATER SERVICE GROUP	2.00%	x	{ [((2.11) + 1) ÷ 2] - 1 }	=	1.11%
3	SWWC	SOUTHWEST WATER COMPANY	4.50%	x	{ [((1.73) + 1) ÷ 2] - 1 }	=	1.65%
4	WTR	AQUA AMERICA, INC.	1.25%	x	{ [((3.38) + 1) ÷ 2] - 1 }	=	1.49%
5	**WATER COMPANY AVERAGE**						1.86%
6	ATG	AGL RESOURCES, INC.	0.55%	x	{ [((1.83) + 1) ÷ 2] - 1 }	=	0.23%
7	ATO	ATMOS ENERGY CORP.	5.00%	x	{ [((1.24) + 1) ÷ 2] - 1 }	=	0.60%
8	LG	LACLEDE GROUP, INC.	2.75%	x	{ [((1.53) + 1) ÷ 2] - 1 }	=	0.73%
9	NJR	NEW JERSEY RESOURCES CORPORATION	1.50%	x	{ [((1.97) + 1) ÷ 2] - 1 }	=	0.73%
10	GAS	NICOR, INC.	0.07%	x	{ [((2.05) + 1) ÷ 2] - 1 }	=	0.04%
11	NWN	NORTHWEST NATURAL GAS CO.	4.50%	x	{ [((2.06) + 1) ÷ 2] - 1 }	=	2.39%
12	PNY	PIEDMONT NATURAL GAS COMPANY	0.01%	x	{ [((2.10) + 1) ÷ 2] - 1 }	=	0.01%
13	SJI	SOUTH JERSEY INDUSTIES, INC.	1.50%	x	{ [((2.08) + 1) ÷ 2] - 1 }	=	0.81%
14	SWX	SOUTHWEST GAS CORPORATION	2.65%	x	{ [((1.28) + 1) ÷ 2] - 1 }	=	0.38%
15	WGL	WGL HOLDINGS, INC.	0.07%	x	{ [((1.69) + 1) ÷ 2] - 1 }	=	0.02%
16	**NATURAL GAS LDC AVERAGE**						0.59%

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 07/27/2007 (WATER COMPANIES) AND 09/14/2007 (NATURAL GAS LDC's)
COLUMN (C): COLUMN (A) x COLUMN (B)

ARIZONA-AMERICAN WATER COMPANY
SUN CITY WATER DISTRICT
TEST YEAR ENDED DECEMBER 29, 2006
DIVIDEND GROWTH COMPONENTS

LINE NO.	STOCK SYMBOL	WATER COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	AWR	AMERICAN STATES WATER CO.	2002	0.3507		9.50%		3.33%	14.05	15.18	
2			2003	-0.1282		5.60%		NMF	13.97	15.21	
3			2004	0.1524		6.60%		1.01%	15.01	16.75	
4			2005	0.3182		8.50%		2.70%	15.72	16.80	
5			2006	0.3158		8.10%		2.56%	16.64	17.05	
6			GROWTH 2002 - 2006					2.40%	4.50%		2.95%
7			2007	0.3935		8.50%		3.35%		18.00	5.57%
8			2008	0.4294		9.00%		3.86%		19.00	5.56%
9			2010-12	0.4667		9.50%		4.43%	6.00%	22.00	5.23%
10											
11	CWT	CALIFORNIA WATER SERVICE GROUP	2002	0.1040		9.50%		0.99%	13.12	15.18	
12			2003	0.0744		7.90%		0.59%	14.44	16.93	
13			2004	0.2260		9.00%		2.03%	15.66	18.37	
14			2005	0.2245		9.30%		2.09%	15.79	18.39	
15			2006	0.1418		6.80%		0.96%	18.15	20.66	
16			GROWTH 2002 - 2006					1.33%	5.00%		8.01%
17			2007	0.2750		8.50%		2.34%		21.00	1.65%
18			2008	0.3314		9.50%		3.15%		21.50	2.01%
19			2010-12	0.4419		10.00%		4.42%	4.50%	23.00	2.17%
20											
21	SWWC	SOUTHWEST WATER COMPANY	2002	0.6154		9.70%		5.97%	4.27	14.35	
22			2003	0.6364		9.10%		5.79%	4.90	16.17	
23			2004	0.2174		3.60%		0.78%	6.17	20.36	
24			2005	0.4118		5.00%		2.06%	6.49	22.33	
25			2006	0.4750		5.60%		2.66%	6.98	23.80	
26			GROWTH 2002 - 2006					3.45%	13.50%		13.48%
27			2007	0.4667		6.00%		2.80%		25.00	5.04%
28			2008	0.4800		6.00%		2.88%		26.00	4.52%
29			2010-12	0.5143		7.00%		3.60%	8.00%	30.00	4.74%
30											
31	WTR	AQUA AMERICA, INC.	2002	0.4074		12.70%		5.17%	4.36	113.19	
32			2003	0.3860		10.20%		3.94%	5.34	123.45	
33			2004	0.4219		10.70%		4.51%	5.89	127.18	
34			2005	0.4366		11.20%		4.89%	6.30	128.97	
35			2006	0.3714		10.00%		3.71%	6.96	132.33	
36			GROWTH 2002 - 2006					4.45%	11.00%		3.98%
37			2007	0.4000		11.00%		4.40%		134.00	1.26%
38			2008	0.3889		11.50%		4.47%		136.00	1.38%
39			2010-12	0.3333		11.50%		3.83%	6.50%	140.00	1.13%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 07/27/2007
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2002 - 2006

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16, 26 & 36 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)	x	(B) 8.50% BOOK EQUITY (r)	=	(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		13.20%		6.02%	20.71	77.70	
6			GROWTH 2002 - 2006					6.01%	10.50%		8.20%
7			2007	0.4143		13.00%		5.39%		78.00	0.39%
8			2008	0.4345		13.50%		5.87%		79.00	0.83%
9			2010-12	0.4194		14.00%		5.87%	2.50%	80.00	0.59%
10											
11	ATO	ATMOS ENERGY CORP.	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	81.74	
16			GROWTH 2002 - 2006					2.50%	8.50%		18.34%
17			2007	0.3263		8.50%		2.77%		89.50	9.49%
18			2008	0.3659		9.00%		3.29%		92.50	6.38%
19			2010-12	0.4490		9.00%		4.04%	5.50%	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	0.3256		10.00%		3.26%		21.50	0.66%
28			2008	0.2905		10.00%		2.90%		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 CORPORATION	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	0.5097		13.00%		6.63%		28.00	1.34%
38			2008	0.4921		12.00%		5.90%		28.50	1.56%
39			2010-12	0.4507		10.50%		4.73%	10.50%	30.00	1.66%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
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COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2002 - 2006

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16, 26 & 36 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)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	GAS	NICOR, INC.	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		14.70%		5.68%	19.43	44.90	
6			GROWTH 2002 - 2006					3.58%	2.50%		0.50%
7			2007	0.3357		14.00%		4.70%		45.00	0.22%
8			2008	0.3586		13.00%		4.66%		45.00	0.11%
9			2010-12	0.3586		13.00%		4.66%	5.00%	45.00	0.04%
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	0.4085		10.60%		4.33%	22.01	27.24	
16			GROWTH 2002 - 2006					3.02%	3.50%		1.57%
17			2007	0.4566		11.00%		5.02%		27.00	-0.88%
18			2008	0.4264		11.00%		4.69%		27.00	-0.44%
19			2010-12	0.4188		11.50%		4.82%	3.50%	28.00	0.55%
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	0.3103		12.00%		3.72%		73.80	-1.09%
28			2008	0.3067		12.00%		3.68%		73.00	-1.08%
29			2010-12	0.3176		12.50%		3.97%	3.00%	71.80	-0.76%
30											
31	SJI	SOUTH JERSEY INDUSTIES, 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%	15.11	29.33	
36			GROWTH 2002 - 2006					6.44%	13.50%		4.70%
37			2007	0.5442		13.50%		7.35%		29.75	1.43%
38			2008	0.5574		13.50%		7.53%		30.50	1.98%
39			2010-12	0.5789		15.30%		8.86%	4.50%	32.00	1.76%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
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COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2002 - 2006

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16, 26 & 36 COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

ARIZONA-AMERICAN WATER COMPANY
SUN CITY WATER DISTRICT
TEST YEAR ENDED DECEMBER 29, 2006
DIVIDEND GROWTH COMPONENTS

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	SWX	SOUTHWEST GAS CORPORATION	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					3.05%	3.50%		5.84%
7			2007	0.5905		9.00%		5.31%		43.00	2.94%
8			2008	0.6178		9.50%		5.87%		44.00	2.63%
9			2010-12	0.6667		10.50%		7.00%	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%	3.00%		0.17%
17			2007	0.3366		11.00%		3.70%		49.50	1.25%
18			2008	0.3333		11.00%		3.67%		49.60	0.72%
19			2010-12	0.3391		10.50%		3.56%	4.00%	50.00	0.45%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 09/14/2007
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6 & 16, SIMPLE AVERAGE GROWTH, 2002 - 2006

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6 & 16 COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

ARIZONA-AMERICAN WATER COMPANY
SUN CITY WATER DISTRICT
TEST YEAR ENDED DECEMBER 29, 2006
GROWTH RATE COMPARISON

DOCKET NO. W-01303A-07-0209
SCHEDULE WAR - 6

WATER COMPANY SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED EPS	(C) DPS	(C) BVPS	(D) VALUE LINE HISTORIC EPS	(D) DPS	(D) BVPS	(E) VALUE LINE & ZACKS AVGS.	(F) 5 - YEAR COMPOUND HISTORY EPS	(F) DPS	(F) BVPS
1	AWR	7.34%	5.00%	9.50%	3.50%	6.00%	-0.50%	1.00%	4.50%	4.14%	-0.19%	1.13%	4.32%
2	CWT	5.41%	7.30%	7.00%	1.00%	4.50%	2.50%	0.50%	5.00%	3.97%	1.75%	0.66%	8.45%
3	SWWC	4.95%	9.00%	14.00%	9.50%	8.00%	-2.50%	9.00%	13.50%	8.64%	0.63%	8.78%	13.07%
4	WTR	5.49%	10.50%	7.50%	9.50%	6.50%	8.00%	7.00%	11.00%	8.57%	6.70%	8.29%	12.40%
5				9.50%	5.88%	6.25%	1.88%	4.38%	8.50%		2.23%	4.71%	9.56%
6	AVERAGES	5.80%	7.95%		7.21%			4.92%		6.33%		5.50%	

NATURAL GAS LDC SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED EPS	(C) DPS	(C) BVPS	(D) VALUE LINE HISTORIC EPS	(D) DPS	(D) BVPS	(E) VALUE LINE & ZACKS AVGS.	(F) 5 - YEAR COMPOUND HISTORY EPS	(F) DPS	(F) BVPS
1	ATG	5.93%	4.50%	3.50%	5.50%	2.50%	15.00%	4.00%	10.50%	6.50%	10.57%	8.20%	13.41%
2	ATO	4.80%	5.30%	5.50%	1.50%	5.50%	10.00%	2.00%	8.50%	5.47%	8.37%	1.65%	10.04%
3	LG	3.73%	3.00%	2.00%	2.50%	5.00%	6.50%	0.50%	3.50%	3.29%	19.05%	1.10%	5.75%
4	NJR	6.28%	5.70%	4.00%	5.00%	10.50%	8.00%	3.50%	8.50%	6.46%	7.59%	4.66%	14.57%
5	GAS	4.69%	4.00%	4.50%	1.00%	5.00%	-3.00%	2.50%	2.50%	2.36%	1.28%	0.27%	4.09%
6	NWN	7.09%	5.30%	7.00%	5.50%	3.50%	3.00%	1.50%	3.50%	4.19%	9.75%	2.49%	3.91%
7	PNY	3.51%	5.30%	4.50%	4.50%	3.00%	5.00%	5.00%	6.50%	4.83%	7.53%	4.39%	7.34%
8	SJI	8.71%	7.00%	NMF	5.50%	4.50%	9.50%	3.50%	13.50%	7.25%	19.16%	5.24%	11.80%
9	SWX	6.68%	5.00%	9.00%	1.50%	4.00%	6.00%	-	3.50%	4.83%	14.30%	-	4.77%
10	WGL	3.37%	3.00%	2.00%	2.50%	4.00%	6.00%	1.50%	3.00%	3.14%	14.22%	1.35%	3.75%
11				4.67%	3.50%	4.75%	6.60%	2.67%	6.35%		11.18%	2.93%	7.94%
12	AVERAGES	5.48%	4.81%		4.31%			5.21%		4.83%		7.35%	

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 07/27/2007 (WATER COMPANIES) AND 09/14/2007 (NATURAL GAS LDC's)
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 07/27/2007 (WATER COMPANIES) AND 09/14/2007 (NATURAL GAS LDC's)
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 07/27/2007 (WATER COMPANIES) AND 09/14/2007 (NATURAL GAS LDC's)

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	k	=	r_f	+ [	(A) ß	x (	r_m	-	r_f	)]	=	(B) EXPECTED RETURN
1	AWR	k	=	4.09%	+ [	0.80	x (	10.40%	-	4.09%	)]	=	9.14%
2	CWT	k	=	4.09%	+ [	0.90	x (	10.40%	-	4.09%	)]	=	9.77%
3	SWWC	k	=	4.09%	+ [	1.00	x (	10.40%	-	4.09%	)]	=	10.40%
4	WTR	k	=	4.09%	+ [	0.90	x (	10.40%	-	4.09%	)]	=	9.77%
5	**WATER COMPANY AVERAGE**					0.90							9.77%
6	ATG	k	=	4.09%	+ [	0.85	x (	10.40%	-	4.09%	)]	=	9.45%
7	ATO	k	=	4.09%	+ [	0.80	x (	10.40%	-	4.09%	)]	=	9.14%
8	LG	k	=	4.09%	+ [	0.90	x (	10.40%	-	4.09%	)]	=	9.77%
9	NJR	k	=	4.09%	+ [	0.80	x (	10.40%	-	4.09%	)]	=	9.14%
10	GAS	k	=	4.09%	+ [	1.05	x (	10.40%	-	4.09%	)]	=	10.72%
11	NWN	k	=	4.09%	+ [	0.80	x (	10.40%	-	4.09%	)]	=	9.14%
12	PNY	k	=	4.09%	+ [	0.80	x (	10.40%	-	4.09%	)]	=	9.14%
13	SJI	k	=	4.09%	+ [	0.70	x (	10.40%	-	4.09%	)]	=	8.51%
14	SWX	k	=	4.09%	+ [	0.85	x (	10.40%	-	4.09%	)]	=	9.45%
15	WGL	k	=	4.09%	+ [	0.85	x (	10.40%	-	4.09%	)]	=	9.45%
16	**NATURAL GAS LDC AVERAGE**					0.84							9.39%

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

$$k = r_f + [\,ß\,(r_m - r_f)\,]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
ß = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) A 4-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 09/14/2007 THROUGH 10/05/2007 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 - 2006 PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR, INC.'S STOCKS, BONDS, BILLS AND INFLATION: 2007 YEARBOOK.

ARIZONA-AMERICAN WATER COMPANY
SUN CITY WATER DISTRICT
TEST YEAR ENDED DECEMBER 29, 2006
CAPM COST OF EQUITY CAPITAL

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	k	=	r_f	+ [	(A) ß	x (	r_m	-	r_f	)]	=	(B) EXPECTED RETURN
1	AWR	k	=	4.09%	+ [	0.80	x (	12.30%	-	4.09%	)]	=	10.66%
2	CWT	k	=	4.09%	+ [	0.90	x (	12.30%	-	4.09%	)]	=	11.48%
3	SWWC	k	=	4.09%	+ [	1.00	x (	12.30%	-	4.09%	)]	=	12.30%
4	WTR	k	=	4.09%	+ [	0.90	x (	12.30%	-	4.09%	)]	=	11.48%
5	WATER COMPANY AVERAGE					0.90							11.48%
6	ATG	k	=	4.09%	+ [	0.85	x (	12.30%	-	4.09%	)]	=	11.07%
7	ATO	k	=	4.09%	+ [	0.80	x (	12.30%	-	4.09%	)]	=	10.66%
8	LG	k	=	4.09%	+ [	0.90	x (	12.30%	-	4.09%	)]	=	11.48%
9	NJR	k	=	4.09%	+ [	0.80	x (	12.30%	-	4.09%	)]	=	10.66%
10	GAS	k	=	4.09%	+ [	1.05	x (	12.30%	-	4.09%	)]	=	12.71%
11	NWN	k	=	4.09%	+ [	0.80	x (	12.30%	-	4.09%	)]	=	10.66%
12	PNY	k	=	4.09%	+ [	0.80	x (	12.30%	-	4.09%	)]	=	10.66%
13	SJI	k	=	4.09%	+ [	0.70	x (	12.30%	-	4.09%	)]	=	9.84%
14	SWX	k	=	4.09%	+ [	0.85	x (	12.30%	-	4.09%	)]	=	11.07%
15	WGL	k	=	4.09%	+ [	0.85	x (	12.30%	-	4.09%	)]	=	11.07%
16	NATURAL GAS LDC AVERAGE					0.84							10.99%

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

$k = r_f + [\ ß\ (r_m - r_f)\ ]$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
ß = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) A 4-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 09/14/2007 THROUGH 10/05/2007 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 - 2006 PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR, INC.'S STOCKS, BONDS, BILLS AND INFLATION: 2007 YEARBOOK.

ARIZONA-AMERICAN WATER COMPANY
SUN CITY WATER DISTRICT
TEST YEAR ENDED DECEMBER 29, 2006
ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. W-01303A-07-0209
SCHEDULE WAR - 8

LINE NO.	YEAR	(A) CHANGE IN CPI	(B) CHANGE IN GDP (1996 $)	(C) PRIME RATE	(D) FED. DISC. RATE	(E) FED. FUNDS RATE	(F) 91-DAY T-BILLS	(G) 30-YR T-BONDS	(H) A-RATED UTIL. BOND YIELD	(I) Baa-RATED UTIL. BOND YIELD
1	1990	5.40%	1.90%	10.01%	6.98%	8.10%	7.49%	7.49%	9.86%	10.06%
2	1991	4.21%	-0.20%	8.46%	5.45%	5.69%	5.38%	5.38%	9.36%	9.55%
3	1992	3.01%	3.30%	6.25%	3.25%	3.52%	3.43%	3.43%	8.69%	8.86%
4	1993	2.99%	2.70%	6.00%	3.00%	3.02%	3.00%	3.00%	7.59%	7.91%
5	1994	2.56%	4.00%	7.14%	3.60%	4.20%	4.25%	4.25%	8.31%	8.63%
6	1995	2.83%	2.50%	8.83%	5.21%	5.84%	5.49%	5.49%	7.89%	8.29%
7	1996	2.95%	3.70%	8.27%	5.02%	5.30%	5.01%	5.01%	7.75%	8.17%
8	1997	1.70%	4.50%	8.44%	5.00%	5.46%	5.06%	5.06%	7.60%	8.12%
9	1998	1.60%	4.20%	8.35%	4.92%	5.35%	4.78%	4.78%	7.04%	7.27%
10	1999	2.70%	4.50%	7.99%	4.62%	4.97%	4.64%	4.64%	7.62%	7.88%
11	2000	3.40%	3.70%	9.23%	5.73%	6.24%	5.82%	5.82%	8.24%	8.36%
12	2001	1.60%	0.80%	6.92%	3.41%	3.88%	3.38%	5.95%	7.59%	8.02%
13	2002	2.40%	1.60%	4.67%	1.17%	1.66%	1.60%	5.38%	7.41%	7.98%
14	2003	1.90%	2.50%	4.12%	2.03%	1.13%	1.01%	4.92%	6.18%	6.64%
15	2004	3.30%	3.90%	4.34%	2.35%	1.35%	1.37%	5.03%	5.77%	6.20%
16	2005	3.40%	3.20%	6.16%	4.16%	3.16%	3.17%	4.57%	5.38%	5.78%
17	2006	2.50%	3.30%	7.97%	5.97%	4.97%	4.83%	4.88%	5.94%	6.30%
18	CURRENT	2.40%	3.80%	7.75%	5.25%	4.75%	3.69%	4.89%	6.31%	6.49%

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 10/05/2007
COLUMN (G) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 10/05/2007
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

ARIZONA-AMERICAN WATER COMPANY
SUN CITY WATER DISTRICT
TEST YEAR ENDED DECEMBER 29, 2006
CAPITAL STRUCTURES OF SAMPLE COMPANIES

DOCKET NO. W-01303A-07-0209
SCHEDULE WAR - 9

AVERAGE CAPITAL STRUCTURES OF SAMPLE WATER COMPANIES

LINE NO.		AWR	PCT.	CWT	PCT.	SWWC	PCT.	WTR	PCT.	WATER COMPANY AVERAGE	PCT.
1	DEBT	$ 267.8	48.6%	$ 291.8	43.3%	$ 128.6	43.6%	$ 951.7	50.8%	$ 410.0	48.3%
2											
3	PREFERRED STOCK	0.0	0.0%	3.5	0.5%	0.5	0.2%	0.0	0.0%	1.0	0.1%
4											
5	COMMON EQUITY	283.7	51.4%	378.3	56.2%	166.0	56.3%	921.6	49.2%	437.4	51.6%
6											
7	TOTALS	$ 551.6	100%	$ 673.6	100%	$ 295.1	100%	$ 1,873.3	100%	$ 848.4	100%

AVERAGE CAPITAL STRUCTURES OF SAMPLE NATURAL GAS COMPANIES

LINE NO.											
1		ATG	PCT.	ATO	PCT.	LG	PCT.	NJR	PCT.	GAS	PCT.
2											
3	DEBT	$ 2,161.0	57.3%	$ 2,565.9	60.9%	$ 395.5	49.5%	$ 613.0	49.6%	$ 851.6	56.2%
4											
5	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.8	0.1%	0.0	0.0%	1.4	0.1%
6											
7	COMMON EQUITY	1,609.0	42.7%	1,648.1	39.1%	402.6	50.4%	621.7	50.4%	661.4	43.7%
8											
9	TOTALS	$ 3,770.0	100%	$ 4,214.0	100%	$ 798.9	100%	$ 1,234.7	100%	$ 1,514.4	100%
10											
11											
12		NWN	PCT.	PNY	PCT.	SJI	PCT.	SWX	PCT.	WGL	PCT.
13											
14	DEBT	$ 517.0	46.3%	$ 825.0	48.3%	$ 358.0	44.7%	$ 1,286.4	56.2%	$ 576.1	37.8%
15											
16	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.0	0.0%	100.0	4.4%	28.2	1.8%
17											
18	COMMON EQUITY	599.5	53.7%	882.9	51.7%	443.0	55.3%	901.4	39.4%	921.1	60.4%
19											
20	TOTALS	$ 1,116.5	100%	$ 1,707.9	100%	$ 801.1	100%	$ 2,287.8	100%	$1,525.4	100%
21											
22											
23		NATURAL GAS LDC									
24		AVERAGE	PCT.								
25											
26	DEBT	$ 1,015.0	53.5%								
27											
28	PREFERRED STOCK	13.0	0.7%								
29											
30	COMMON EQUITY	869.1	45.8%								
31											
32	TOTALS	$ 1,897.1	100%								

REFERENCE:
MOST RECENT SEC 10-K FILINGS OR ANNUAL REPORTS

ARIZONA-AMERICAN WATER COMPANY, INC.

DOCKET NO. W-01303A-07-0209

DIRECT TESTIMONY

OF

TIMOTHY J. COLEY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

OCTOBER 15, 2007

INTRODUCTION

Q. Please state your name and business address.

A. My name is Timothy J. Coley. My business address is 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. In what capacity and by who are you employed?

A. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO").

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

A. Appendix 1, which is attached to this testimony, describes my educational background and includes a list of the rate cases and regulatory matters in which I have participated.

Q. Have you previously testified in rate proceedings before the Arizona Corporation Commission ("ACC")?

A. Yes. I have previously presented testimony regarding revenue requirements in rate case proceedings before the Arizona Corporation Commission (hereafter referred to as "ACC" or "Commission").

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present findings and recommendations resulting from my analysis and review of the Arizona-American Water Company, Inc. (hereafter referred to as "AZ-AM", or "Company") rate application for a determination of the current fair value of its utility plant and property and for increases in its rates and permanent rate increases in the Company's Sun City Water District. The Sun City Water District is located in the northwest portion of the Phoenix metropolitan area, Maricopa County, and provided water service to approximately 23,094 customers during the Test Year ("TY"), December 29, 2006, in the communities of Sun City, Youngtown, portions of the City of Surprise, and the City of Peoria. The water district is essentially built out under the current Certificate of Convenience and Necessity ("CNN") on file with the ACC. Sun City Water District is a class A Utility under the current and proposed rates recommended by RUCO.

I will sponsor RUCO's recommended overall revenue requirements, rate base adjustments, operating income and expense adjustments, other remaining issues, and later will file testimony on the rate design pertaining to the Sun City Water District. Ms. Marylee Diaz Cortez provides testimony on policy related positions that RUCO maintains regarding the Company's forthcoming proposed fire flow surcharge. RUCO witness Mr. William A. Rigsby is providing testimony and sponsoring RUCO's recommended cost of capital and capital structure issues.

Q. Please describe your participation and work effort on this project.

A. I performed the following procedures to determine whether sufficient, relevant, and reliable evidence exists to support the financial data and claims in the Company's rate application, reviewed and analyzed the Company's rate application, schedules and supporting work papers, reviewed all other intervenors' data requests, prepared written data requests and evaluated the Company's responses, contacted Company witness, Ms. Linda J. Gutowski, for other information and reviewed annual reports and prior Commission decisions regarding Sun City Water District.

Q. Please identify the exhibits and schedules that you are sponsoring in this testimony.

A. The schedules are labeled TJC-1 through TJC-17 respectively. The exhibits that support my testimony follow immediately after my schedules and are labeled RUCO Exhibit 1 through RUCO Exhibit 8.

Q. Does your silence on any issues or matters pertaining to the Company's application constitute RUCO's acceptance of the Company's position?

A. No.

THE TEST YEAR

Q. What historical TY did the Company utilize in its rate application?

A. The Company chose a TY ending December 29, 2006 ("Test Year").

Q. Did the Company request any post-test-year adjustments to either rate base or operating income and expenses?

A. No, not to my knowledge.

Q. Does RUCO agree with the Company's chosen historical Test Year?

A. Yes. RUCO has consistently supported the Commission's position that the most "recent" known and measurable historical Test Year should be the year selected for rate applications when setting rates. This approach conforms to the accounting framework established by the Commission's rules and regulatory principles. AZ-AM's selection of a Test Year ended December 29, 2006 in this case utilizes the most current Test Year data available.

REVENUE REQUIREMENTS

Q. Please summarize the results of your analyses of AZ/AM Sun City Water District and your recommended revenue requirements.

A. The Sun City Water District's revenue should be increased by no more than $1,684,658. This recommendation is summarized on Schedule TJC-1. My recommended original cost rate base is $25,340,359 for Sun City Water District. This information is shown on Schedule TJC-2, and the detail supporting the original cost rate base is presented on Schedule TJC-3. The Company has agreed that its original cost rate base is its fair value rate base and therefore fair value calculations are not presented. My recommended adjusted operating income for Sun City Water should be no more than $7,690,323 as shown on Schedule TJC-7. The detail supporting my recommended operating income is presented on Schedule TJC-8.

SUMMARY

Q. Please summarize the recommendations and adjustments you cite in your testimony.

A. I recommend the following adjustments:

Rate Base Adjustments

Adjustment #1 - Plant and Accumulated Depreciation – This adjustment reflects RUCO's recommended Sun City Water District Utility Plant in Service ("UPIS") and Accumulated Depreciation balances since the District's last rate case (Decision No. 67093). I started with the last Commission approved balance and accepted certain Company adjustments for a starting point. Then, I reconstructed all plant additions, retirements, adjustments, and transfers since the last rate case at the approved depreciation rates. I also accepted the Company's responses to Staff data request 1.15 to properly reflect those UPIS adjustments.

Adjustment #2 – Intentionally Left Blank

Adjustment #3 – Remove Maintenance Charges on a Well Incorrectly Recorded to Sun City Water District - This adjustment removes capitalized charges that were incorrectly recorded.

Adjustment #4 – Allowance for Working Capital – This adjustment calculates cash working capital based on an AZ-AM lead/lag study as applied to RUCO's recommended level of operating expenses.

Operating Adjustments:

Adjustment #1 – Labor Expense – This adjustment adjusts the hourly pay rate of four employees to TY end rates. The adjustment reduces Sun City Water District's labor expense accordingly.

Adjustment #2 – Remove Eastern Division Allocated Labor Expense – This adjustment removes all Eastern Division allocated labor expense. The adjustment reduces Sun City Water District's allocated labor expense accordingly.

Adjustment #3 – Remove All Other Eastern Division Allocated Expenses - This adjustment removes all other Eastern Division allocated expenses. The adjustment reduces Sun City Water District's Eastern Division allocated expenses accordingly.

Adjustment #4 - Late Charges on Power Bills – This adjustment removes the amount of late charges found on TY power bills.

Adjustment #5 – Property Tax Expense – This adjustment reduces property tax expense by adjusting three factors: 1) the three years of revenue used, 2) the tax rate, and 3) the inclusion of net book value of transportation equipment.

Adjustment #6 – Revenue Annualization – This adjustment annualizes revenues to the number of customers at the end of the TY. This increases revenues for the additional customer growth on a going forward basis.

Adjustment #7 – Miscellaneous Expense - This adjustment removes additional expenses beyond the Company's pro forma adjustment in its rate application that RUCO finds to be inappropriate in rates.

Adjustment #8 – Management Achievement Incentive Pay ("AIP") – This adjustment reduces the level of AIP expenses to be borne exclusively by ratepayers.

<u>Adjustment #9 – Rate Case Expense</u> – This adjustment reduces rate case expense.

<u>Adjustment #10 - Depreciation and Amortization Expense</u> – This adjustment reduces depreciation and amortization expense related to RUCO's level of recommended utility plant in service ("UPIS").

<u>Adjustment #11 – Waste Disposal Expense</u> – This adjustment removes the waste disposal expense erroneously shown in the Company's rate application.

<u>Adjustment #12 – Income Tax Expense</u> – This adjustment is necessitated by RUCO's recommended level of operating income.

Other Remaining Issues

<u>RUCO's Position on a Low-Income Program</u> – See TJC Testimony

<u>Ground Water Savings Plan Fee</u> – See TJC Testimony

<u>Fire Flow Surcharge Proposed by the Company</u> – See MDC Testimony

RATE BASE

Rate Base Adjustment #1 – Plant and Accumulated Depreciation

Q. Does RUCO accept the Company's January 1, 2002 level of Utility Plant In Service ("UPIS") and accumulated depreciation for a starting point?

A. Yes, RUCO accepts the Company's post-acquisition adjustments for a clean starting point to build UPIS and accumulated depreciation on a going forward basis. For the accumulated depreciation balances, RUCO allocated the Commission authorized balance based on each plant account ratio to total UPIS.

Q. Is RUCO recognizing the level of UPIS authorized in the last rate case?

A. Yes. Both the Company and RUCO are recognizing the level of UPIS and accumulated depreciation that Decision 67093 authorized. RUCO, however, is accepting the corrections the Company made in its plant accounts post-acquisition as an adjusted starting point.

Q. Did RUCO make any necessary UPIS or Accumulated Depreciation adjustments to Sun City Water District?

A. Yes. RUCO made adjustments to UPIS and accumulated depreciation for Sun City Water District.

Q. What adjustments did RUCO make in the Sun City Water District?

A. I adjusted Sun City Water's UPIS by ($1,122,241), which decreased the utility plant in service. An adjustment was made to accumulated depreciation in the amount of $484,265 that decreased the accumulated depreciation balance. Those adjustments are on Schedule TJC-3. The supporting detail is on Schedules TJC-4.

Q. Why was it necessary to make the UPIS adjustment to Sun City Water District?

A. The adjustments to Sun City Water District were necessary for the following reasons:

1. In the Company's response to Staff data request 1.15, attached as RUCO Exhibit 1, the Company agreed to several adjustments. I made those adjustments in my plant schedules. There were three adjustments in January 2002 that removed or retired $747,449 of plant from UPIS. The first adjustment removed $408,640 of plant. The other two adjustments were retirements that totaled $338,809, which also reduced UPIS for a total of $747,449.
2. The Company's response to Staff data request 1.15 agreed to the removal of $228,968 in account 303300 – Land & Land Rights Pumping. This plant was charged to Sun City erroneously and belongs to the Agua Fria District instead.
3. In the same Staff data request referenced above, the Company agreed to an adjustment of $191,726 to account 304600 – Structures & Improvements Office. The Company had originally booked the entire $220,892 of plant directly to Sun City Water's books. Instead, it is more appropriately allocated based on the

four-factor allocation of 13.204 per cent, which results in the adjustment of $191,726.

4. The third and final component that makes up my total adjustment of ($927,754) to gross UPIS is RUCO's disallowance of the Eastern Division allocated plant to Sun City Water in the amount of $13,835. RUCO's rationale for disallowing the Eastern Division allocated plant is based on the Company's response to RUCO data request 2.06, attached as RUCO Exhibit 2. The Company's response to that data request was as follows:

> What was called Eastern Division plant was moved from the Eastern Division business unit to strictly the Mohave business unit in 2007. Therefore, there is no longer an Eastern Division plant to be allocated after the end of the test year.

RUCO's basis to disallow the Eastern Division plant allocation is grounded on the ratemaking principle of nonrecurring. Since the Eastern Division has been abolished and strictly located in the Mohave business unit, this allocation will no longer take place on a going forward basis and does not belong in Sun City Water's UPIS.

To sum RUCO's UPIS adjustment up, I have compiled all four components of the adjustment below.

1.	January 2002 Plant Removal & Retirements	$ 747,449
2.	Removal of Agua Fria Plant - Land & Land Rights	228,968
3.	Allocation of Account 304600 Plant Item	191,717
4.	Disallow Eastern Division Plant Allocation	13,835
	Total RUCO Rate Base Adjustment #1	$ 1,181,969
	RUCO Total UPIS Adjustment	1,122,241
	Unreconciled Amount	$ 59,728

The unreconciled amount of $59,728 was not identified but works in the Company's favor.

RUCO had an adjustment to accumulated depreciation after reconstructing its plant and accumulated depreciation schedules and reflecting the Company's second response to Staff's data request 1.15 in the amount of $484,265 that decreased the Company's accumulated depreciation balance. Since this adjustment is in the Company's favor and for sake of expediency, I did not perform an analysis to determine the exact cause that gave rise to that adjustment, but in a large part, it would be attributable to the retirements and corrections (as discussed above) I made to UPIS.

Rate Base Adjustment #2 – Intentionally Left Blank

Rate Base Adjustment #3 – Plant and Accumulated Depreciation

Q. Please explain RUCO rate base adjustment #3.

A. Again, the Company agreed to this adjustment, which incorrectly charged Sun City Water District for charges related to well maintenance when the well involved was not in Sun City's Certificate of Convenience & Necessity ("CC&N"). Staff data request 4.1, attached as RUCO Exhibit 3, verifies that the Company is in agreement with this adjustment. The adjustment is for $19,085, which reduces Sun City Water District's UPIS.

Rate Base Adjustment #4 – Working Capital

Q. What amount of working capital is the Company requesting?

A. The Company is requesting working capital in the amount of $309,400 for its Sun City Water District.

Q. How did the Company determine the requested amount of working capital?

A. The Company determined its working capital request by adding material and supplies inventories in the amount of $254,674 and prepayments in the amount of $54,726 for a total of $309,400 for Sun City Water. The Company assumes a zero *cash* working capital amount for Sun City Water without providing a supporting lead/lag study that verifies that assumption.

Q. Should companies the size of AZ-AM file a lead/lag study in support of cash working capital requirements?

A. Yes. It has been noted in several decisions "that a lead/lag study is the most accurate way to determine a working capital requirement, and that a lead/lag study is appropriate for a company of Arizona-American's size."[1]

Q. Please explain the concept of cash working capital.

A. A company's cash working capital requirement represents the amount of cash the company must have on hand to cover any differences in the time period between when revenues are received and expenses must be paid. The most accurate way to measure the cash working capital requirement is via a lead/lag study. The lead/lag study measures the actual lead and lag days attributable to the individual revenues and expenses.

Q. Is RUCO proposing a cash working capital requirement adjustment in this case?

A. Yes. RUCO proposes a cash working capital requirement adjustment for Sun City Water that would increase the working capital requirement by $35,522. This adjustment is shown on Schedule TJC-5, page 1, with the details on pages 2 – 7 for the Sun City Water District.

[1] Arizona Corporation Commission Decision No. 68858 – Arizona-American Water Company - Paradise Valley Water District; July 28, 2006, page 14.

Q. If the Company failed to file a lead/lag study in this case, how did RUCO make its cash working capital adjustments?

A. In the absence of a lead/lag study in this case, RUCO used the most recent lead/lag study filed by AZ-AM, which was in the two Mohave Districts' rate application. However, I did calculate a revenue lag study specific to Sun City Water.

Of the 17 different expenses involved in this lead/lag study, 15 of the 17 expenses should have very minimal to no variance across AZ-AM districts in Arizona. The only two that could likely vary is purchased water and waste disposal expense. Twelve of the expenses should be the same, with respect to lead/lag days, across all AZ-AM Districts.

Q. Is the lead/lag study utilized by RUCO in this case the same one as approved in Commission Decision No. 69440 on May 1, 2007.

A. Yes. It is the same lead/lag study approved in Decision No. 69440 - Mohave rate applications. However, RUCO made the necessary adjustments to make it applicable to this case.

OPERATING INCOME & EXPENSES

Operating Adjustment #1 – Sun City Water Total Labor Expense

Q. Please explain the adjustment(s) made to Sun City Water District regarding Sun City Water's labor expense.

A. The labor expense adjustment is the result of one principal component. RUCO employs the last known TY end hourly wage rate for Sun City Water as the Company professes it does in Ms. Gutowski's direct testimony on page 5, lines 15-17. I will admit that Ms. Gutowski uses TY end hourly rates in most instances but with the exception of four employees.[2] The adjustment affects four line item expenses on the income statement.

For Sun City Water District, the adjustment reduces labor expense by $1,047, reduces group insurance by $7, reduces miscellaneous expense (401K) by $41, and reduces general tax expense by $105. This is a total reduction of payroll and payroll benefits in the amount of $1,200 for Sun City Water.

All of those adjustments are summarized on Schedule TJC-8 in adjustment #1. RUCO's work papers are available to support the details of the adjustments.

[2] See Company's workpapers Expenses\Labor\2006 AZ Labor\2006 Labor Payroll\Column V, lines 3,650-3,840 for an example of one of the four cited employees.

Q. Why does RUCO disagree with the hourly pay rate the Company used to normalize labor expense?

A. RUCO completely agrees with the Company's witness' testimony and largely agrees with Ms. Gutowski's workpaper supporting her adjustment, but RUCO disagrees with four employees' labor rate employed in the Company's workpaper, which supports her adjustment. It appears, in those four isolated instances, Ms. Gutowski inadvertently utilized a post-test-year hourly labor rate. I assume that she accidentally used a post-test-year hourly labor rate because she clearly states in her direct testimony that she used "the latest known wages as of the end of the test year." RUCO's adjustment used the last known hourly rate listed in the Company's payroll ledger as of TY end December 2006 for each employee. Thus, the matching principle is upheld for ratemaking purposes.

Operating Adjustment #2 – Remove Eastern Division Allocated Labor Expense

Q. Explain RUCO's rationale for removing all allocated labor expense related to the Eastern Division.

A. RUCO's rationale for removing all the Eastern Division's allocated labor expense is akin to one of the components that gave rise to RUCO's rate base adjustment #1 (see RUCO Exhibit 2 as attached). Per Company's response to RUCO data request 2.06, the Eastern Division was established sometime in 2006 and by year-end was completely transferred to the Mohave Districts. Thus, the allocated Eastern Division plant and expenses are strictly non-recurring and have no basis to be included in this case on a going forward basis. The Eastern Division was less than a one-year experiment.

Q. What adjustment is necessary to remove the non-recurring Eastern Division allocated labor expense in this case?

A. An adjustment to reduce labor expense in the amount of $2,475 is necessary to properly account for the non-recurring Eastern Division allocated labor expense. There are four other payroll benefits and tax accounts that also must be adjusted to properly account for the non-recurring expenses as follows:

1. Group Insurance expense must be reduced by $1,010;
2. Pension expense must be reduced by $105;
3. Miscellaneous 401K expense must be reduced by $58;
4. General Payroll Tax expense must be reduced by $247.

Those adjustments will properly reflect the necessary reductions to remove the non-recurring Eastern Division allocated labor expense and associated payroll benefit expenses. RUCO's total operating income #2 adjustment equals ($3,895). The details are shown on Schedule TJC-8.

Operating Adjustment #3 – Remove All Other Eastern Division Allocated Expenses

Q. Please explain RUCO's operating income adjustment #3 that removes all other Eastern Division allocated expenses (see RUCO Exhibit 2 as attached).

A. It is necessary to remove all other Eastern Division allocated expenses beyond just the labor and payroll benefits to properly reflect the non-recurring expenses related to the Eastern Division allocated expenses. The adjustment either reduces or increases the following expenses as follows:

1. Reduce Fuel & Power expense by $266;
2. Increase Insurance Other Than Group by $634;
3. Increase Customer Accounting by $12;
4. Reduce Rent expense by $31;
5. Reduce General Office expense by $5,496;
6. Reduce Miscellaneous by $3,548;
7. Reduce Maintenance expense by $298;
8. Reduce Depreciation & Amortization expense by $770.

Those adjustments will properly reflect the necessary reductions and increases to account for all the other non-recurring Eastern Division allocated expenses. RUCO's total operating income #3 adjustment equals ($9,764). The details are shown on Schedule TJC-8.

Operating Adjustment #4 – Late Payment on Power Bill

Q. Please explain RUCO's adjustment that removes a late payment for power expense?

A. It appears AZ-AM out-sourced the responsibility of paying power bills to a third party in Texas in 2005. The Company identified one late payment in the amount of $334 for Well 3.1. Late payments are expenses that ratepayers should be held harmless for in the provisioning of water service. A copy of the bill can be provided upon request. This adjustment is shown on Schedule TJC-8.

Operating Adjustment #5 – Property Tax Expense

Q. What property tax methodology is RUCO proposing in the instant case?

A. RUCO's primary property tax methodology utilizes the Arizona Department of Revenue ("ADOR") methodology. Since 2001, there have been several debates in water and sewer utility rate cases before the Commission. RUCO has persistently maintained that using two historical years' revenues and one TY revenue, as the formula states in ADOR's memo of January 3, 2001, is the correct methodology.

Q. What causes companies' property taxes to be so overstated?

A. This is caused by the companies' failure to recognize two historical Test Years and one TY of revenues when averaging the three-years as required by the ADOR valuation formula.

Q. Who modified the ADOR valuation formula in 2001?

A. After careful study and consideration, the ADOR and the Water Utilities Association of Arizona reached an agreement on the change in the valuation formula for water and sewer utility companies for property tax purposes.[3]

Q. What were the reasons and/or goals to modify the ADOR valuation formula?

A. The original valuation method was overly subjective. The goal of the ADOR and the Water Association was to arrive at a valuation formula that would:

1. Produce predictable values.
2. Be easy to administer.
3. Be easy to report.
4. Produce logical results.
5. Be non-controversial.
6. Produce a minimum tax impact from the previous year.

Further, it was hoped that the new modified valuation would assist the companies in future dealings with the ACC regarding projections of future property tax expense.

Q. How does this Company's methodology vary from the ADOR formula?

A. The Company has disregarded the use of any historical years' revenue. AZ-AM utilized two years of adjusted revenues plus one year of proposed revenues, which will undoubtedly cause an over-collection of property taxes into the future.

[3] Arizona Water and Sewer Utility Companies Memo issued by ADOR to all Arizona Water and Sewer Utility Companies dated January 3, 2001.

The property tax formula, as prescribed in ADOR's memo of January 3, 2001, determines the Full Cash Value ("FCV") of water utilities, for property tax purposes, by multiplying the average of the three previous years of reported gross revenues of the Company by a factor of two (2) and more accurately estimates projected property tax expense.

Using the Company's property tax calculation, it would over-collect the property tax expense for quite a few years before the actual assessment would catch up to the Company's 2008 projected revenue. In the meantime, the Company will be over-recovering its property tax expense based on an inflated revenue projection.

Q. When will the Company pay the property tax impacted by the changes in revenues approved in this rate case?

A. Assuming rates go into effect in the second quarter in the 2008, it will not be until the end of 2009 before the Company will have one full year of operating revenues at the new rates. The Company will pay property taxes for tax-year 2009 semi-annually, the first payment becoming due on October 31, 2009 and the last payment due in April 30, 2010.

Q. Is RUCO offering an alternative methodology in this case?

A. RUCO continues to believe its proposed methodology is the most accurate. However, the Commission has regularly rejected RUCO's arguments on this issue, and pursuant to this, RUCO is offering a compromise alternative methodology in this case.

Q. What is the alternative methodology that RUCO is offering in this case?

A. Rather than the three-years of historical revenues for inputs that RUCO has consistently recommended, RUCO's alternative methodology uses two-years of historical revenues and one-year of RUCO proposed level of revenue. The supporting detail of RUCO's alternative property tax expense methodology is shown on Schedules TJC-11(a). This methodology was authorized in Decision No. 64282, Arizona Water Company – Northern Group rate case.

Q. What adjustments are necessary using RUCO's two property tax methodologies?

A. RUCO's primary property methodology results in an adjustment that reduces property tax expense by $23,686. RUCO's alternative property tax expense methodology reduces property tax expense by $1,391.

Q. Are there any other issues that RUCO has with the Company's property tax expense calculation?

A. Yes. In the Company's rate application, the Company failed to list its net book value of transportation equipment and used a slightly different tax rate than what RUCO calculates from the property tax bills. The Company failed to calculate the individually assessed parcels as it calculated the centrally assessed parcels.

The details of RUCO's property tax calculations can be seen on Schedules TJC-11 and TJC-11(a).

Operating Adjustment #6 – Revenue Annualization

Q. Did AZ-AM include a revenue annualization adjustment in its rate application?

A. No. However, the Company provided a response to RUCO data request 4.2, attached as RUCO Exhibit 4, which identifies an additional $1,844 in revenue resulting from the Company's own revenue annualization.

Q. Does RUCO accept the Company's response to RUCO data request 4.2?

A. Yes. The appropriate revenue annualization adjustment for $1,844 has been made in RUCO operating income adjustment #6 that increases the Company's revenue by that amount. This adjustment is shown on Schedule TJC-8.

Operating Adjustment #7 – Miscellaneous Expense

Q. Please explain RUCO's adjustment to Miscellaneous Expense.

A. Before the Company filed its rate application, it removed certain miscellaneous expenses that it believed to be unnecessary in the provisioning of water services to ratepayers. RUCO made further adjustments that removed meals, gifts, and flowers.

Q. What adjustments did you make pertaining to Miscellaneous Expense that included meals, gifts, and flowers?

A. The adjustment further reduces Miscellaneous Expense by $4,405. This adjustment is shown on Schedule TJC-8.

Operating Adjustment #8 – Achievement Incentive Pay (AIP)

Q. Please describe RUCO's adjustment to Achievement Incentive Pay (AIP).

A. This adjustment to AIP reflects the authorized adjustment accepted in the Company's recent Paradise Valley Water District rate case in Decision No. 68858.[4] The Commission decision stated the following:

> RUCO recommends disallowing 30 percent, or $5,555 of the $18,517 in Arizona Corporate allocated management fees related to the Company's Annual Incentive Plan expenses, because 30 percent of the AIP is directly related to Company financial performance measures and 70 percent to operational and individual performance measures (RUCO Br. at 18). RUCO argues that the 30 percent portion of AIP expenses based on financial performance measures benefit only shareholders (id.)...
>
> We agree with RUCO that shareholders are the primary beneficiaries of additional profit the Company achieves as the result of the Company meeting its financial targets, and therefore find RUCO's proposal to disallow the 30 percent of the AIP that is based on the Company's financial performance measures to be reasonable and appropriate.

[4] Arizona Corporation Commission Decision No. 68858, dated July 28, 2006; page 20, lines 23-26.

Q. What adjustment is necessary to reflect the authorized adjustment in Decision No. 68858 for Sun City Water District?

A. The Company's response to RUCO Data Request 5.7, attached as RUCO Exhibit 5, stated that the amount of AIP allocated to Sun City Water District was $107,432. I multiplied that amount by 30 percent to obtain the adjustment of $32,230. That adjustment is shown on Schedule TJC-8.

Operating Adjustment #9 – Rate Case Expense

Q. What amount of rate case expense is AZ-AM requesting for Sun City Water District?

A. The Company requested $150,000 in its rate application to be amortized over three-years. However, I believe the Company has since modified its original position regarding the level of rate case expense.

Q. Why do you believe the Company has modified its position since filing its rate application?

A. While I was auditing the Company's rate application, it came to my attention that the Company's workpapers did not include the data necessary to determine how the Company made its original request of $150,000. At that point, I contacted Ms. Gutowski and asked for the necessary information concerning rate case expense. She informed me that Commission Staff, Mr. Igwe, had contacted her earlier in the week requesting the same information, and that she was still in the process of gathering the needed information. She said that she would e-mail the information to both Mr. Igwe and me later that day, which she did. After having a chance to review the information I received, I requested a further breakdown of the information originally provided. Evidently, there had been a series of prior e-mails between Mr. Igwe and AZ-AM witness Mr. Broderick concerning the same information that I requested. Ms. Gutowski e-mailed three separate e-mails of Mr. Broderick's and Mr. Igwe's prior correspondence. In the final e-mail between Mr. Broderick and Mr. Igwe, attached as RUCO Exhibit 6, it appears that Mr. Broderick has now accepted a lower amount of requested rate case expense than what was originally filed in the Company's rate application.

Q. Please explain RUCO's basis for making its adjustment to rate case expense.

A. RUCO's rate case expense adjustment is based on two components. The first component is the assumption that Mr. Broderick has in fact decided to reduce the Company's request from $150,000 to the amount of $101,766 that he lists in his e-mail to Mr. Igwe. That part of my adjustment equals $48,234 divided by the three-year amortization period that amounts to $16,078 annually.

The second component is a 50/50 sharing of the Company's cost of capital witness between the ratepayers and shareholders, which equals a $2,500 ($7,500 adjustment divided by the three-year amortization period). This adjustment was adopted for the Mohave Water and Wastewater Districts in Decision No. 69440 because shareholders receive a benefit through potential higher returns on equity and should share in such an expense. RUCO's total rate case expense adjustment is ($18,578). This adjustment is shown on Schedule TJC-8. The supporting detail is shown on Schedule TJC-14.

Operating Adjustment #10 – Depreciation & Amortization Expense

Q. Please explain your adjustment to the depreciation expense.

A. My adjustment to depreciation expense reflects the Commission's approved depreciation rates in the last rate case applied to RUCO's recommended plant balances, as shown on Schedule TJC-15.

Q. Why did RUCO have different plant balances than the Company?

A. That is discussed in my Rate Base Adjustment #1.

Q. What adjustment did RUCO make to depreciation and amortization expense?

A. RUCO's adjustment reduced the Company's adjusted TY Depreciation and Amortization Expense by $37,825 for Sun City Water, which includes amortization expense for the Y2K costs.

Operating Adjustment #11 – Waste Disposal Expense

Q. Please explain the reason why RUCO removed the waste disposal expense from the Company's rate application.

A. The reason RUCO removed the waste disposal expense from the Company's rate application arose when the Company provided an explanation to RUCO data request 2.10.

Q. What did RUCO data request 2.10 ask and what was the Company's response to it (see attached RUCO Exhibit 7)?

A. The data request asked, "Please explain what the waste disposal expense for $4,270 on Company Schedule C-1 was for"? The Company's response was that the waste disposal expense was erroneously charged to Sun City Water in December 2006 and subsequently reversed in January 2007. The Company added, "The charge was to record an accrual for taxes."

Q. Please explain why RUCO made the decision to remove the waste disposal expense based on the Company's response to RUCO data request 2.10.

A. First, it was not a waste disposal expense at all but rather an accrual for taxes that was reversed and recorded post-test-year in January 2007. Second, I have recalculated the appropriate TY income tax expense based on RUCO's recommended operating income. Therefore, the accounting accrual in January 2007 is not relevant to my adjusted TY revenue requirement. This adjustment is shown on Schedule TJC-8.

Operating Adjustment #12 – Income Taxes

Q. Please explain RUCO's adjustment to the Company's Income Tax Expense.

A. This adjustment results from RUCO's recommended level of operating income. These adjustments are shown on Schedules TJC-8 for Sun City Water. The supporting detail is provided on Schedules TJC-16.

OTHER REMAINING ISSUES

Low-Income Program

Q. Please discuss RUCO's position pertaining to the Company's current unimplemented low-income program that was authorized in Commission Decision No. 67093.

A. It was RUCO's opinion, as well as the Company's opinion, that the mechanism to fund the previously authorized low-income program would have a larger balance than it does today. The low-income program authorized in Commission Decision No. 67093 for Sun City Water District permitted a waiver of the "CAP" surcharge for residential customers on a 5/8 inch X 3/4 inch meters with incomes below 150 percent of the federal poverty guidelines. The CAP surcharge, officially known as the "Groundwater Savings Fee (GSF-1 tariff)" for residential customers, would generate a modest $1.08[5]. RUCO believes that mere amount is not significant enough for a low-income customer qualifying for the program, which is also the Company's position.

Q. Why hasn't the groundwater savings pipeline project collected more fees to increase this waiver to low-income residential customers?

A. The pipeline project in Sun City Water was proposed nearly 10 years ago. There has been no construction on it whatsoever to date. It remains highly uncertain if it will ever be constructed, so the waiving of the surcharge would not likely

[5] See Thomas Broderick Direct Testimony on page 11, line 3.

provide any material benefit to the qualifying customers for the low-income program now or in the foreseeable future.

Q. What is RUCO's position in this case regarding the formation of a new low-income program for Sun City Water District?

A. If a low-income program properly targets the appropriate set of customers, creates material benefits for qualifying participants, is not overly burdensome on non-participants of the program, and is efficiently administered, RUCO is highly supportive of forming a new low-income program for Sun City Water.

In his direct testimony, Mr. Broderick asks all intervenors in this case to indicate in their initial testimony whether they support a low-income program. RUCO supports a low-income program for Sun City Water if the program meets the above-mentioned criteria.

Q. What does RUCO recommend in this proceeding to form a new low-income program for Sun City Water District?

A. RUCO suggests AZ-AM submit a detailed program as part of its rebuttal testimony for all intervenors to review and evaluate. Mr. Broderick points out in his direct testimony that AZ-AM has access to American Water's low-income administrator, Ms. Cindy Datig, Executive Director, Dollar Energy, which develops low-income programs in other states. RUCO recommends that Ms.

Datig file rebuttal testimony that supports a low-income program for Sun City Water to be reviewed by all other intervenors.

Ground Water Savings Plan Fee

Q. Please discuss RUCO's issue regarding the Company's Ground Water Savings Plan Fee.

A. In RUCO data request 4.4, RUCO asked questions of the Company pertaining to the Ground Water Savings Fee. AZ-AM's response to RUCO's request 4.4(b) concerns RUCO. RUCO may conduct further discovery on this issue (see RUCO Exhibit 8 as attached).

Q. What in the Company's response concerns RUCO to seek potential additional discovery?

A. In response to RUCO data request 4.4 b., the Company stated the following:

4.4 Ground Water Savings Tariff – Please provide the following information regarding the Ground Water Savings balancing account:

Question b.: Identify the account balance at test-year end;

Answer: The Company has recently determined that the calculation of the Groundwater Savings Fee is not up to date. We are in the process of determining the balance in Annual Costs for December, [sic] 2006. We will be filing an update to the Groundwater Savings Fee when we have completed our analysis and will provide that information in this proceeding at that time.

Thus, the Company's position is not final and RUCO reserves the right to take a position on this issue once the referenced updates are provided.

Fire Flow Surcharge

Q. Please address RUCO's position regarding the Company's proposed Fire Flow Surcharge.

A. As previously stated, Ms. Diaz Cortez addresses that issue fully in her testimony.

Q. Does that conclude your direct testimony at this time?

A. Yes, it does.

APPENDIX 1

Qualifications of Timothy J. Coley

WORK HISTORY

July 2000 – Present: **RESIDENTIAL UTILITY CONSUMER OFFICE,** Phoenix, Arizona
Public Utilities Analyst V. The Residential Utility Consumer Office (RUCO) is a consumer advocate group providing residential consumers a voice in utility regulation and backed by a professional staff with legal and financial expertise. Responsibilities include: audited, reviewed and analyzed public utility companies various filings; prepared written testimony, schedules, financial statements, and spreadsheet models and analyses. Testified and stand cross-examination before the Arizona Corporation Commission.

January 2000 - April 2000: **JACKSON HEWITT TAX SERVICE,** Phoenix, Arizona
Tax Preparer. Interviewed clients, determined tax situation, and explained how the tax laws benefited them in their specific situation. Ensured that each customer received every deduction that they were entitled. Prepared individual and business income tax returns, which best utilized each specific situation that minimized their tax obligations.

May 1998 - November 1999: **BENEFITS CONSULTING,** Cypress, Texas
Consultant Assistant. The consulting firm specialized in alleged medical claim charges brought against the government of Harris County in Houston, Texas. Assisted in the review, examination, and analysis of the attested charges. Determined if the purported medical claim charges were prudent, customary, and reasonable for the alleged sustained injuries. The firm analyzed cases for both the County's Risk Department and Attorneys Office.

January 1992 - April 1998: **PHOENIX SERVICES,** Villa Rica, Georgia
Owner. Provided landscaping services primarily in a high growth gated community where the Property Owners' Association approved mandated ordinances to be strictly adhered and abided by. Coordinated and supervised all aspects of projects from inception to completion, from master planning to site design to installation.

May 1989 - October 1991: **GEORGIA PUBLIC SERVICE COMMISSION,** Atlanta, GA
Senior Auditor. The Public Service Commission (PSC) was responsible for regulating many intrastate telecommunications, electric, and gas utility industries operating in Georgia. It was the PSC's job to ensure that consumers received adequate and reliable service at reasonable rates. It must also assure the utility companies and investors an opportunity to earn a fair rate of return on prudent investments. The Commission participated significantly in Georgia's economic health and growth. I was promoted to the PSC's Electric/Gas Division where I examined, verified, and analyzed various financial documents, accounting records, reports, ledgers, and statements. In addition, I was assigned to automate the PSC's Electric Division where I utilized a computer application process that I had developed earlier while with the (PSC) Telecommunication Division. I was later ascribed to work in conjunction with the Engineering Department and established a procedure to track and compare costs of operation and maintenance (O&M) expenses of nuclear electric generating plants. This effort determined a comparative price per kilowatt-hour produced that influenced the awareness for the company to control the O&M costs, which benefited the consumer through lower prices.

- Developed computer application system that streamlined audit procedures by 30 – 40%.
- Various other schedules were implemented to track, maintain, and control costs.

GEORGIA PUBLIC SERVICE COMMISSION (continued)

November 1986 - April 1989: **Georgia Public Service Commission,** Atlanta, Georgia
Auditor. Regulated telecommunications and also oversaw the deregulation process that was currently under way in that industry. Examined and analyzed accounting records to determine financial status of companies and prepared financial reports concerning audit findings. Reviewed data including payroll, time sheets, purchase vouchers, cash receipt ledgers, financial reports, and disbursements. Verified statewide telephone company transaction classifications and documentation.

- Developed computer application utilizing Lotus to completely automate and streamline the entire telecommunication audit process. The results saved 25% in field audit time and produced a product of professional appearance.
- Created, coordinated, and implemented "Operational Project Training" automated procedure-training program. Trained and supervised staff of five auditors.
- Computerized "Desk Audit Analysis" program that identified 11 independent telephone companies in the state of over-earning and resulted in $4.1M annual savings to the Georgia ratepayers affected.

October 1985 - October 1986: **Georgia Public Service Commission,** Atlanta, Georgia
Junior Auditor. Assisted in planning and performing telecommunication audit engagements. Examined financial records, internal management control, correspondence, bills, and records of services delivered in order to verify or recommend compliance with company specifications contained in contracts, agreements, regulations, and/or laws.

- As a special project, I was assigned to analyze the results of a survey designed to evaluate "Interest in Organizing a Multi-State Nuclear Management Review Group" by the Director of Utilities. Wrote the draft and findings for the speech that was presented to all participatory commissions.

PROFESSIONAL MEMBERSHIPS

- Elected Member of the National Honor Society for Public Affairs and Administration.
- Active Member of Delta Sigma Pi - Professional Business Fraternity.

SPECIAL TRAINING AND CERTIFICATES

- The Graduate School of Business Administration - Michigan State University; completed the Annual Regulatory Studies Program of the National Association of Regulatory Utility Commissioners.
- Completed Graduate Exit Paper on "Deregulation of the Electric Industry".
- Attended Eastern Utility Rate School in 2000 and 2005.

EDUCATION

- Currently enrolled at Arizona State University - West in the Post Baccalaureate Graduate Certificate Program in Accountancy with two courses remaining.
- Master of Public Administration, State University of West Georgia, 1997, GPA 3.5.
- BS Business Management & Administration, Minor in Economics, Sorrel School of Business, Troy State University, 1985.
- AA Business Administration, Miles Community College, 1981.

RESUME OF PUBLIC UTILITY RATE CASES & AUDITS PARTICIPATION

Residential Utility Consumer Office For Years 2000 To Present

Arizona-American Water Company – Docket No. WS-01303A-05-0405

Arizona Public Service Co. – Docket No. E-01345A-03-0437

Tucson Electric Power Company – Docket No. E-01933A-04-0408

UniSource Merger – Docket No. E-04230A-03-0933

Arizona-American Water Company – Docket No. WS-01303A-02-0867

Arizona Water Company (Eastern Group) – Docket No. W01445A-02-0619

Litchfield Park Service Company – Docket Nos. W-01427A-01-0487 &
SW-01428A-01-0487

Arizona Water Company (Northern Group) – Docket No. W-01445A-00-0962

Rio Verde Utilities, Inc. – Docket Nos. W-02156A-00-0321 &
SW-02156A-00-0323

Arizona-American Water Company (Paradise Valley) –
Docket Nos. W-01303A-05-0405 &
W-01303A-05-0910

Arizona-American Water Company (Mohave District) –
Docket No. WS-01303A-06-0014

Arizona-American Water Company (Sun City & Sun Cit West Wastewater) –
Docket No. WS-01303A-06-0491

Georgia Public Service Commission For Years 1985 – 1991

Atlanta Gas Light Company

Georgia Power Company

Atlanta Gas Light Company (Management Audit)

<u>Georgia Public Service Commission For Years 1985 – 1991 (continued)</u>

Georgia Power Company

Trenton Telephone Company

Fairmount Telephone Company

Ellijay Telephone Company

GTE, Inc.

ALL-TEL Telephone Company

Citizens Utilities Co.

Ball Ground Telephone Company

Lanett Telephone Company

Brantley Telephone Company

Blue Ridge Telephone Company

Waverly Hall Telephone Company

St. Marys Telephone Company

Darien Telephone Company

Statesboro Telephone Company

Statesboro Telephone Co-op

Wilkes Telephone Company

RUCO EXHIBIT 1

COMPANY: ARIZONA AMERICAN WATER COMPANY
DISTRICT: SUN CITY WATER DISTRICT
DOCKET NO: WS-01303A-07-0209

Response provided by: **Linda Gutowski**

Title: **Senior Financial Analyst**

Address: 19820 N 7th Street, Suite 201
Phoenix, AZ 85024

Company Response Number: All 1.15 – 2nd Response

Q: Staff has highlighted certain plant additions, retirements and adjustments depicted on Company Schedule B-2, pages 5-27. For each plant account identified for each month, please provide the following information:

1. A schedule showing a breakout of plant additions, retirements and adjustments from the aggregate amount for each month for the plant account identified in the attached schedule (on CD).

2. Provide supporting documentations, such as invoices or work order, evidencing the posted transaction for each plant account identified for each month. Please separately provide supporting documentation for additions, retirements and adjustments.

A: The Commission Staff Mr. Alexander Igwe came to the Corporate offices of Arizona-American the week of August 27th for an on-site audit of the supporting documentation on his requested list of additions, retirements, and adjustments. In the course of the audit, the Company and Mr. Igwe agreed to several adjustments to be made to the books, as follows:

Jan 2002 – remove ($408,639.65) from 307000 Wells & Springs and move to
Acct 104000 Plant Held for Future Use
Jan 2002 – retire ($19,594) from 320100 Water Treatment Equipment
Jan 2002 – retire ($319,215) from 330000 Distribution Reservoirs & Standpipes

The Sierra Montana Booster Station in Surprise belongs in the Agua Fria Water District. A mistake was made, and the plant was charged to Sun City Water and later moved to Agua Fria Water. The following entries to Sun City Water are the errors that were made involving this one project. All of them need to be reversed:

Acct 101002.303000 – Land & Land Rights Pumping

12/05/03	$228,967.92	
01/21/04	$228,967.92	
01/21/04		($228,967.92)
08/17/04	$228.967.92	

RUCO Exhibit 1

COMPANY:	ARIZONA AMERICAN WATER COMPANY
DISTRICT:	SUN CITY WATER DISTRICT
DOCKET NO:	WS-01303A-07-0209

08/17/04		($228,967.92)

Response provided by: **Linda Gutowski**

Title: **Senior Financial Analyst**

Address: 19820 N 7th Street, Suite 201
Phoenix, AZ 85024

Company Response Number: All 1.15 – 2nd Response

09/24/04		($ 24,724.56)
10/22/04		($ 309.16)
11/19/04		($ 12,208.43)
12/10/04		($ 56,442.12)
10/06/05	$ 12,846.41	

Post TY Entry made to fix the last several entries:

01/31/07	$ 80,837.86	

The correct balance that should be in 303300 every month is $8,456.29. There were no additions to Land & Land Rights Pumping in Sun City Water in this timeframe.

Account 101002.310100 – Power Generation Equip Other

12/05/03	$421,791.98	
01/21/04	$421,791.98	
01/21/04		($421,791.98)
09/09/05		($421,791.98)
09/09/05		($204,232.27)
9/12/05	$204,232.27	

Net effect is zero; just timing differences.

Account 101002.346300 – Communication Equip Other

12/05/03	$204,232.27	
01/21/04	$204,232.27	
01/21/04		($204,232.27)
09/12/05		($204,232.27)

Net effect is zero; just timing differences.

RUCO Exhibit 1

COMPANY: ARIZONA AMERICAN WATER COMPANY
DISTRICT: SUN CITY WATER DISTRICT
DOCKET NO: WS-01303A-07-0209

Response provided by: **Linda Gutowski**

Title: **Senior Financial Analyst**

Address: 19820 N 7th Street, Suite 201
Phoenix, AZ 85024

Company Response Number: All 1.15 – 2nd Response

The Verrado Middle School Developer Advance was charged to Sun City Water in error and then moved to Agua Fria Water. Both of the following entries should be removed from the Sun City Water books:

101002.335000 – Hydrants
12/10/04 $8,801.01
11/03/05 ($8,709.97)

In answer to Mr. Igwe's remaining questions concerning plant additions, retirements and adjustments that came up during the audit:

101002.304200 – Structures & Improvements Pumping
09/08/05 $39,042.37

The company added a sewer tap to the mobile mini trailer that serves as a maintenance crew office at Sun City Water Plant #2. The sewer line is booked to Sun City Water plant because it is part of the water plant, and as a company use account, provides no revenue to Sun City Sewer.

101002.304600 – Structures & Improvements Office
12/03/05 $220,882.56

The company remodeled, rehabilitated, and performed security upgrades at the office located in Sun City. All of this work is currently on the books of Sun City Water District. Instead, 15.269% should be allocated to Sun City Water based on the 2006 4 Factor Allocation.

RUCO EXHIBIT 2

COMPANY: ARIZONA AMERICAN WATER COMPANY
DISTRICT: SUN CITY WATER DISTRICT
DOCKET NO: WS-01303A-07-0209

Response provided by: **Sheryl Hubbard**

Title: **Senior Rate Analyst**

Address: 19820 N. 7th Street, Suite 201
Phoenix, AZ 85024

Company Response Number: RUCO 2.06

Q: Plant and Accumulated Depreciation - Please explain why there is an Eastern Division allocation of plant in Sun City Water district because there is no Eastern Division Corporate plant allocations in Sun Cities Wastewater recent rate application. Explain where the Eastern Division is located, if in Arizona, please define the Eastern Division service territory and services they provide. Please confirm if the Eastern Division is allocated plant. If it is allocated, please provide the districts to which receive the allocations.

A: Arizona-American began segregating the Arizona Corporate investment among the Central Division districts and a recently-established Eastern Division in 2006. The wastewater case test year was 2005, before the reorganization into these two Divisions. This process is still in progress and Arizona-American has been determined that these investments are more fairly allocated among all Arizona entities and accordingly, the allocation factors used in this proceeding are the same as the factor to allocate the Arizona Corporate investments.

What was called Eastern Division plant was moved from the Eastern Division business unit to strictly the Mohave business unit in 2007. Therefore, there is no longer an Eastern Division plant to be allocated *after* the end of the test year.

RUCO EXHIBIT 3

COMPANY: ARIZONA AMERICAN WATER COMPANY
DISTRICT: SUN CITY WATER DISTRICT
DOCKET NO: WS-01303A-07-0209

Response provided by: **Sheryl Hubbard**

Title: **Senior Rate Analyst**

Address: 19820 N. 7th Street, Suite 201
Phoenix, AZ 85024

Company Response Number: DH 4.1

Q: The Company stated that in 2006, $549,918 was paid for well installation/repair for Well #2.1 & Well 2.4. The service was conducted by Zim Industries and Layne Christensen. After a review of the invoices from these two work providers, I believe that $19,085 for Well #55-602967 (Layne Christensen's invoice #10814267) should be removed from this project. My reasons are (1) Well #55-602967 is not listed in the Arizona American Sun City Water District property, (2) based on ADWR's well log database, Well #55-602967 is located in Santa Cruz County and is belonged to the U. S. Department of Interior BLM. Layne Christensen may have wrongly billed the Company. Please explain if you feel that our conclusions are incorrect.

A: Upon closer analysis, the Company agrees that the $19,085 invoice should not be charged to this project.

RUCO EXHIBIT 4

COMPANY: ARIZONA AMERICAN WATER COMPANY
DISTRICT: SUN CITY WATER DISTRICT
DOCKET NO: WS-01303A-07-0209

Response provided by: **Linda J. Gutowski**

Title: **Senior Financial Analyst**

Address: 19820 N. 7th Street, Suite 201
Phoenix, AZ 85024

Company Response Number: RUCO 4.2

Q: Revenue Annualization – Please provide a test-year end revenue annualization calculation that reflects the Company's response to Staff DR DH 3.2.

A: The change in customers from 2005 to 2006 is only 30. The change through August, 2007 is only 9 customers more. Attached is an excel spreadsheet, DR 4.2 Customer Annual.xls that displays all the classes by month and annualizes the revenue for 2006. The end result is additional revenue of $1,844.

RUCO EXHIBIT 5

COMPANY: ARIZONA AMERICAN WATER COMPANY
DISTRICT: SUN CITY WATER DISTRICT
DOCKET NO: WS-01303A-07-0209

Response provided by: **Linda J. Gutowski**

Title: **Senior Financial Analyst**

Address: 19820 N. 7th Street, Suite 201
Phoenix, AZ 85024

Company Response Number: RUCO 5.7

Q: Management Fee - Please identify the amount and account in the Company's trial balance for the Service Company incentive pay and bonuses (i.e. AIP) that is included in the test year Management Fee for Sun City Water district.

A: The following table shows the account numbers and amounts in the Analysis of Income Statement for the Service Company incentive pay and bonuses that are included in the 2006 Management Fee for Sun City Water District:

Account No.	Amount
534600	$23,160
534620	$17
534650	$10,328
534700	$55,896
534750	$18,031
Total	$107,432

RUCO EXHIBIT 6

RUCO Exhibit 6

SUN CITY WATER
CASE NO. W-01303A-07-0209

RATE CASE EXPENSE

Rate Case Expense:	Actual through 9/24/2007	Additional Expense	Total Estimated Expense
Craig Marks, External Counsel	$8,550.00	$40,790.00	$49,340.00
Joel Reiker, Cost of Equity External Witness		$15,000.00	$15,000.00
Dollar Energy Fund			
Low Income Program Testimony, External Witness	$1,650.00	tbd [1]	$1,650.00
Copying Services, Public Meetings, Notices, Surveys			
Fedex Kinko's	$1,392.07	$2,000.00	$3,392.07
Arizona Republic Classified	$33.03		$33.03
Mesa Tribune	$170.00		$170.00
Office Max	$1,367.34		$1,367.34
Moody's Quick Delivery	$24.78	$25.00	$49.78
Direct Impact (Postage, Copying Notice)	$8,298.72		$8,298.72
Additional Fire Flow & Ratemaking Survey		$20,000.00	$20,000.00
Public Participation Meetings	$0.00	$2,000.00	$2,000.00
Miscellaneous Other	$464.73		$464.73
	$21,950.67	$79,815.00	$101,765.67

RUCO EXHIBIT 7

COMPANY: ARIZONA AMERICAN WATER COMPANY
DISTRICT: SUN CITY WATER DISTRICT
DOCKET NO: WS-01303A-07-0209

Response provided by: **Sheryl Hubbard**

Title: **Senior Rate Analyst**

Address: 19820 N. 7th Street, Suite 201
Phoenix, AZ 85024

Company Response Number: RUCO 2.10

Q: Waste Disposal Expense - Please explain what the waste disposal expense for $4,270 on Company Schedule C-1 was for.

A: The waste disposal expense of $4,270 charged to Sun City Water in December 2006 was subsequently reversed in January 2007. The charge was to record an accrual for taxes.

RUCO EXHIBIT 8

COMPANY: ARIZONA AMERICAN WATER COMPANY
DISTRICT: SUN CITY WATER DISTRICT
DOCKET NO: WS-01303A-07-0209

Response provided by: **Linda J. Gutowski**

Title: **Senior Financial Analyst**

Address: 19820 N. 7th Street, Suite 201
Phoenix, AZ 85024

Company Response Number: RUCO 4.4

Q: Ground Water Savings Tariff – Please provide the following information regarding the Ground Water Savings balancing account:

a. In what account does the balancing account reside;

b. identify the account balance at test-year end;

c. Explain how any positive and/or negative balances are trued-up.

A: a. The balancing of the Groundwater Savings Fee occurs off line on an excel spreadsheet that is put together using account 165500 where the payments and credits are, the revenue accounts 401119, 401219, and 401719 for Residential, Commercial, and Sale for Resale Revenue respectively, and the purchased water account, 510100.11.

b. The Company has recently determined that the calculation of the Groundwater Savings Fee is not up to date. We are in the process of determining the balance in Annual Costs for December, 2006. We will be filing an update to the Groundwater Savings Fee when we have completed our analysis and will provide that information in this proceeding at that time.

c. If there is an under collection in the recovery of the Deferred Costs Portion of the Groundwater Savings Fee, the Company will absorb the deficiency as stated in its tariff. If there is an over collection in the Deferred Costs Portion of the Groundwater Savings Fee, the Company will identify the balance for future regulatory disposition which may include offsetting actual payments to CAP not presently recovered by the ongoing surcharge. Any under or over collection in the Annual Costs Portion of the Groundwater Savings Fee is rolled into the next year's calculation of the new fee.

ARIZONA-AMERICAN WATER COMPANY
SUN CITY WATER DISTRICT
DOCKET NO. WS-01303A-07-0209
TABLE OF CONTENTS TO DIRECT TESTIMONY SCHEDULES TJC

SCHEDULE #

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
REVENUE REQUIREMENTS

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-1
PAGE 1 OF 2
DIRECT TESTIMONY

REVENUE REQUIREMENTS

LINE NO.	DESCRIPTION	(A) COMPANY REQUESTED	(B) RUCO RECOMMENDED
1	ADJUSTED RATE BASE	$ 25,961,898	$ 25,340,359
2	ADJUSTED OPERATING INCOME	693,412	779,993
3	CURRENT RATE OF RETURN (L2 / L1)	2.67%	3.08%
4	REQUIRED RATE OF RETURN	7.98%	7.16%
5	REQUIRED OPERATING INCOME (L4 * L1)	2,071,759	1,814,370
6	OPERATING INCOME DEFICIENCY (L5 - L2)	1,378,347	1,034,377
7	GROSS REVENUE CONVERSION FACTOR	1.6286	1.6287
8	GROSS REVENUE INCREASE	$ 2,244,777	$ 1,684,658
9	CURRENT REVENUES T/Y ADJUSTED	7,688,479	7,690,323
10	PROPOSED ANNUAL REVENUE (L8 + L9)	9,933,256	9,374,981
11	PERCENTAGE AVERAGE INCREASE	29.20%	21.91%

REFERENCES:
COLUMN (A): COMPANY SCHEDULE A-1
COLUMN (B): SCHEDULE TJC-1, PG. 2, TJC-2, TJC-7 AND TJC-17

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
GROSS REVENUE CONVERSION FACTOR

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-1
PAGE 2 OF 2
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	REVENUE	1.0000	
2	UNCOLLECTIBLES	0.00000	COMPANY SCH. C-3
3	SUB-TOTAL	1.0000	LINE 1 - LINE 2
4	LESS: TAX RATE	38.60%	NOTE (a)
5	TOTAL	0.6140	LINE 3 - LINE 4
6	REVENUE CONVERSION FACTOR	1.62867	LINE 1/LINE 5

NOTE (a):
CALCULATION OF EFFECTIVE TAX RATE

OPERATING INCOME BEFORE TAXES	100.00%
LESS: ARIZONA STATE TAX	6.97%
TAXABLE INCOME FEDERAL	93.03%
TIMES: FEDERAL INCOME TAX RATE	34.00%
SUBTOTAL	31.63%
ADD STATE TAX RATE	38.60%
LINE 3 ABOVE	100.00%
EFFECTIVE TAX RATE	38.60%

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
RATE BASE - ORIGINAL COST

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-2
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED
1	PLANT IN SERVICE	$45,025,075	$ (1,141,326)	$ 43,883,749
2	ACCUMULATED DEPRECIATION	(17,192,328)	484,265	(16,708,063)
3	NET PLANT IN SERVICE	$27,832,747	$ (657,061)	$ 27,175,686
4	CONSTRUCTION WORK IN PROGRESS (CWIP)	-	-	-
5	TOTAL NET PLANT	$27,832,747	$ (657,061)	$ 27,175,686
	Less:			
6	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(3,576,920)	-	(3,576,920)
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET	(63,004)	-	(63,004)
8	IMPUTED REGULATORY ADVANCES	(551,760)	-	(551,760)
9	IMPUTED REGULATORY CONTRIBUTIONS	(567,874)	-	(567,874)
10	CUSTOMER METER DEPOSITS	(2,100)	-	(2,100)
11	DEFERRED INCOME TAXES	1,938,781	-	1,938,781
	Plus:			
12	DEFERRED DEBITS	642,628	-	642,628
13	WORKING CAPITAL	309,400	35,522	344,922
14	UTILITY PLANT ACQUISITION ADJUSTMENT	-	-	-
15	TOTAL RATE BASE	$25,961,898	$ (621,539)	$ 25,340,359

REFERENCES:
COLUMN (A): COMPANY SCHEDULE B-1
COLUMN (B): SCHEDULE TJC-3
COLUMN (C): COLUMN (A) + COLUMN (B)

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
SUMMARY OF RATE BASE ADJUSTMENTS

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-3
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) ADJ #7	(I) RUCO ADJUSTED
1	PLANT IN SERVICE	$45,025,075	$(1,122,241)		$ (19,085)		$ -	$ -	$ -	$ 43,883,749
2	ACCUMULATED DEPRECIATION	(17,192,328)	484,265							(16,708,063)
3	NET PLANT IN SERVICE	$27,832,747	$ (637,976)	$ -	$ (19,085)	$ -	$ -	$ -	$ -	$ 27,175,686
4	CONSTRUCTION WORK IN PROGRESS (CWIP)	-								-
5	TOTAL NET PLANT	$27,832,747	$ (637,976)	$ -	$ (19,085)	$ -	$ -	$ -	$ -	$ 27,175,686
	Less:									
6	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(3,576,920)								(3,576,920)
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET	(63,004)								(63,004)
8	IMPUTED REGULATORY ADVANCES	(551,760)		-		-				(551,760)
9	IMPUTED REGULATORY CONTRIBUTIONS	(567,874)		-		-				(567,874)
10	CUSTOMER METER DEPOSITS	(2,100)								(2,100)
11	DEFERRED INCOME TAXES	1,938,781								1,938,781
	Plus:									
12	DEFERRED DEBITS	642,628					-	-		642,628
13	WORKING CAPITAL	309,400				35,522				344,922
14	UTILITY PLANT ACQUISITION ADJUSTMENT	-							-	-
15	TOTAL RATE BASE	$25,961,898	$ (637,976)	$ -	$ (19,085)	$ 35,522	$ -	$ -	$ -	$ 25,340,359

ADJUSTMENT #:	REFERENCE:
1. PLANT & ACCUMULATED DEPRECIATION ADJUSTMENTS PER STAFF DATA REQUEST 1.15	SCHEDULE TJC-4
2. INTENTIONALLY LEFT BLANK	TESTIMONY TJC
3. REMOVE CHARGES INCORRECTLY CLASSIFIED (SEE STAFF DR DH 4.1)	TESTIMONY TJC
4. CASH WORKING CAPITAL ADJUSTMENT	SCHEDULE TJC-5, PAGES 1 THRU 7

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
OPERATING ADJ. #1 - TOTAL UTILITY PLANT IN SERVICE (UPIS)
AND ACCUMULATED DEPRECIATION

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-4
DIRECT TESTIMONY

Total Sun City Water UPIS:

Line No.	Description	Amount
1	Sun City Water Direct Plant Per Company	$44,512,311
2	Sun City Water Direct Plant Per RUCO	43,403,905
3	RUCO's Direct Plant Adjustment	(1,108,406)
4	Sun City Water AZ-Corporate Allocated Plant Per Company	414,338
5	Sun City Water AZ-Corporate Allocated Plant Per RUCO	414,338
6	RUCO's AZ-Corporate Allocated Plant Adjustment	0
7	Sun City Water Central Division Allocated Plant Per Company	84,591
8	Sun City Water Central Division Allocated Plant Per RUCO	84,591
9	RUCO's Central Division Allocated Plant Adjustment	0
10	Sun City Water Eastern Division Allocated Plant Per Company	13,835
11	Sun City Water Eastern Division Allocated Plant Per RUCO	-
12	RUCO's Eastern Division Allocated Plant Adjustment	(13,835)
13	Total Sun City Water Gross UPIS Per Company	45,025,075
14	Total Sun City Water Gross UPIS Per RUCO	43,902,834
15	Total RUCO Gross UPIS Adjustment	$ (1,122,241)

Total Sun City Water Accumulated Depreciation:

Line No.	Description	Amount
16	Sun City Water Direct Plant Accumulated Depreciation Per Company	$16,887,027
17	Sun City Water Direct Plant Accumulated Depreciation Per RUCO	16,432,305
18	RUCO's Direct Plant Accumulated Depreciation Adjustment	(454,722)
19	Sun City Water AZ-Corporate Allocated Plant Accumulated Depreciation Per Company	272,212
20	Sun City Water AZ-Corporate Allocated Plant Accumulated Depreciation Per RUCO	245,685
21	RUCO's AZ-Corporate Allocated Plant Accumulated Depreciation Adjustment	(26,527)
22	Sun City Water Central Division Allocated Plant Accumulated Depreciation Per Company	29,547
23	Sun City Water Central Division Allocated Plant Accumulated Depreciation Per RUCO	30,073
24	RUCO's Central Division Allocated Plant Accumulated Depreciation Adjustment	526
25	Sun City Water Eastern Division Allocated Plant Accumulated Depreciation Per Company	3,542
26	Sun City Water Eastern Division Allocated Plant Accumulated Depreciation Per RUCO	-
27	RUCO's Eastern Division Allocated Plant Accumulated Depreciation Adjustment	(3,542)
28	Total Sun City Water Accumulated Depreciation Per Company	17,192,328
29	Total Sun City Water Accumulated Depreciation Per RUCO	16,708,063
30	Total RUCO Accumulated Depreciation Adjustment	$ (484,265)
31	RUCO's Sun City Water Plant Adjustment - Net of Accumulated Depreciation	$ (637,976)

Supporting Schedules:
\TJC-4(a)Schedules\Pages1-5\DirectPlant\AZ-CorpPlant\CentralDivisionPlant\
Regarding RUCO's Eastern Div. treatment see Company response to RUCO DR 2.06

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
RATE BASE ADJ. #3 - WORKING CAPITAL ADJUSTMENT
WORKING CAPITAL ADJUSTMENT SUMMARY

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-5
PAGE 1 OF 7
DIRECT TESTIMONY

LINE NO.	DESCRIPTION		AMOUNT
1	Cash Working Capital per Company	$	-
2	Cash Working Capital per RUCO		35,522
3	RUCO Adjustment		35,522
4	Materials & Supplies Inventories per Company	$	254,674
5	Materials & Supplies Inventories per RUCO		254,674
6	RUCO Adjustment		-
7	Prepayments per Company	$	54,726
8	Prepayments per RUCO		54,726
9	RUCO Adjustment		-
10	Total Working Capital Adjustment	$	35,522

REFERENCES:
Lines 1, 4, and 7: Company Schedule B-5, Page 1
Line 2: See RUCO Schedule TJC-5, Page 2 of 7
Line 10: Line 3 + Line 6 + Line 9

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
RATE BASE ADJ. #3 - WORKING CAPITAL ADJUSTMENT
LEAD/LAG CALCULATION

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-5

DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) EXPENSES PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED EXPENSES		(D) RUCO (LEAD)/LAG DAYS	(E) RUCO $ DAYS
1	LABOR	$ 1,137,093	$ (3,521)	1,133,572	*	12.00	$ 13,602,860
2	PURCHASED WATER	-	-	-	*	0.00	-
3	FUEL & POWER	1,573,296	(600)	1,572,696	*	32.42	50,988,840
4	CHEMICALS	49,041	-	49,041	*	28.47	1,395,991
5	WASTE DISPOSAL	4,270	(4,270)	-	*	30.00	-
6	MANAGEMENT FEES	1,386,158	(32,230)	1,353,928	*	(3.88)	(5,253,242)
7	GROUP INSURANCE	276,821	(1,018)	275,803	*	(4.64)	(1,280,969)
8	PENSIONS	51,046	(105)	50,941	*	45.00	2,292,338
9	INSURANCE OTHER THAN GROUP	51,587	634	52,221	*	45.00	2,349,942
10	CUSTOMER ACCOUNTING	165,878	12	165,890	*	7.46	1,237,653
11	RENTS	19,442	(31)	19,411	*	(10.68)	(207,343)
12	DEPRECIATION & AMORTIZATION	1,287,646		N/A	*	0.00	N/A
13	OTHER OPERATING EXPENSES	631,161	(13,847)	617,314	*	30.00	18,519,414
14	TAXES OTHER THAN INCOME	100,225	(352)	99,873	*	15.65	1,563,123
15	PROPERTY TAXES	297,758	(23,686)	274,072	*	212.50	58,240,323
16	STATE INCOME TAXES	(15,589)	126,709	111,120	*	62.65	6,961,643
17	FEDERAL INCOME TAXES	(70,766)	575,023	504,257		37.50	18,909,650
18	INTEREST	830,781	4,736	835,517	*	106.84	89,265,843
19	TOTAL OPERATING EXPENSES	$ 7,775,848	$ 627,454	$ 7,115,656			$ 258,586,065
20	EXPENSE LAG					36.34	
21	REVENUE LAG					38.16	
22	NET LAG					1.82	
23	CASH WORKING CAPITAL	$ 35,522					

REFERENCES:
Col. A, Line 23 = Cash Working Capital Allowance = (Col. D, Line 19/365) X Col. E, Line 22
Col. B = RUCO's Expense Adjustments on TJC-8
Col. C = Col. A + Col. B + Col. C
Col. D = Company's and RUCO's Calculated Expense Lead and Lag Days from Study
Col. E = Col. C x Col. D
Col. D, Line 20 = Col. E, Line 19 / Col. C, Line 19
Col. D, Line 21 = Company's Revenue Lead/Lag Calculation on Page 3
Col. D, Line 22 = Col. D, Line 21 - Col. D, Line 20

NOTE
N/A = NON CASH CHARGES EXCLUDED FROM CASH WORKING CAPITAL LEAD/LAG STUDY CALCULATION
* RUCO RECOMMENDED LEVEL OF CASH WORKING CAPITAL EXPENSES

ARIZONA-AMERICAN WATER COMPANY
SUN CITY WATER DISTRICT
TEST YEAR ENDED DECEMBER 29, 2006
RATE BASE ADJ. #3 - WORKING CAPITAL
REVENUE LAG ANALYSIS

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-5
PAGE 3 OF 7
DIRECT TESTIMONY

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
	SERVICE PERIOD									
LINE NO.	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	BILL DATE	BILLING LAG	DUE DATE	PAY LAG	REVENUE LAG DAYS	AMOUNT OF BILL	RUCO $ DAYS
1	9/28/2006	10/30/2006	16.00	11/2/2006	3.00	11/22/2006	20.00	39.00	$ 52.94	$ 2,065
2	8/1/2006	8/30/2006	14.50	9/5/2006	6.00	9/25/2006	20.00	40.50	51.72	2,095
3	8/1/2006	8/30/2006	14.50	9/5/2006	6.00	9/25/2006	20.00	40.50	49.26	1,995
4	10/3/2006	11/2/2006	15.00	11/6/2006	4.00	11/27/2006	21.00	40.00	35.63	1,425
5	9/11/2006	10/10/2006	14.50	10/12/2006	2.00	11/1/2006	20.00	36.50	109.83	4,009
6	8/4/2006	9/5/2006	16.00	9/8/2006	3.00	9/28/2006	20.00	39.00	103.31	4,029
7	2/10/2006	3/16/2006	17.00	3/16/2006	0.00	4/5/2006	20.00	37.00	67.93	2,513
8	5/4/2006	6/6/2006	16.50	6/9/2006	3.00	6/29/2006	20.00	39.50	65.48	2,586
9	4/12/2006	5/11/2006	14.50	5/16/2006	5.00	6/5/2006	20.00	39.50	99.37	3,925
10	12/30/2005	2/3/2006	17.50	2/3/2006	0.00	2/23/2006	20.00	37.50	133.06	4,990
11	3/1/2006	3/15/2006	7.00	3/17/2006	2.00	4/6/2006	20.00	29.00	23.46	680
12	12/30/2005	2/3/2006	17.50	2/3/2006	0.00	2/23/2006	20.00	37.50	133.06	4,990
13										
14									$ 925	$ 35,302
15										
16										
17										
18										
19										
20	RUCO REVENUE LAG DAYS							38.16		

REFERENCES:
12 Sun City Water District Bills

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
RATE BASE ADJ. #3 - WORKING CAPITAL
INTEREST EXPENSE (LEAD)/LAG ANALYSIS

		(A)	(B)	(C)	(D)	(E)	(F)	(G)
		SERVICE PERIOD						
LINE NO.	DESCRIPTION	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	PAYMENT DATE	PAYMENT (LEAD)/LAG	PAYMENT AMOUNT	DOLLAR DAYS
1	L-T Senior Notes	11/15/2004	11/15/2005	5/16/2005	2/15/2005	(90.50)	$ 160,245	$ (14,502,173)
(a)					8/15/2005	90.50	160,245	14,502,173
2	L-T Prommissory Note	9/30/2004	9/30/2005	3/31/2005	3/31/2005	(0.50)	615,000	(307,500)
(a)					9/30/2005	182.50	615,000	112,237,500
3	L-T Prommissory Note	11/6/2004	11/6/2005	5/7/2005	11/6/2005	182.50	172,200	31,426,500
4	L-T Prommissory Note	1/14/2005	1/14/2006	7/15/2005	11/6/2005	113.50	7,623,448	865,261,291
5	L-T Note - Maricopa	6/25/2004	6/24/2005	12/24/2004	1/30/2005	37.00	41,299	1,528,064
					4/29/2005	126.00	33,983	4,281,863
					5/20/2005	147.00	15,153	2,227,539
					7/23/2005	211.00	24,171	5,100,003
					9/23/2004	(92.00)	26,188	(2,409,327)
					10/18/2004	(67.00)	12,165	(815,064)
					12/8/2004	(16.00)	29,768	(476,286)
6	TOTAL PAYMENTS & DOLLAR DAYS						$ 9,528,865	$1,018,054,583
7	**INTEREST EXPENSE LAG DAYS**							106.84

REFERENCES:
Col. (A), Line 1 & 2 Obtained From Paradise Valley Rate Case RUCO Data Request 2.12 and Staff 3.3 (Semi-Annual Payments)
Col. (A), Line 3 & 4 Obtained From Paradise Valley Rate CaseStaff Data Request 3.3 Utililizing Issue Date of Most Current One-Year Period (Annual Payment)
Col. (A), Line 5 thru 9 Utilized the Test Year June 25, 2004 thru June 24, 2005 as the Starting-Point
Col. (B), Line 1 thru 9 Utilizes a Full One-Year Cut-Off Date To Capture 12 Full Months of Interest Expense
Col. (C), Line 1 thru 9 Utilizes the Annual Mid-Point Service Period
Col. (D), Line 1 thru 9 All Obtained in Paradise Valley Rate Case RUCO Data Request 2.12 and Updated RUCO 2.12 on December 1, 2005 and Line 5 in RUCO 9.08
Col. (E), Line 1 thru 9 Calculated Utilizing Payment Date, Col. (D) Minus Mid-Point Service Period
Col. (F), Line 1 thru 9 Obtained on Company Schedule D-2, page 1
Col. (G), Line 1 thru 9 Calculated by Multiplying Col. (E) X Col. (F)

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
RATE BASE ADJ. #3 - WORKING CAPITAL
PROPERTY TAX LAG DAYS ANALYSIS

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-5
PAGE 5 OF 7
DIRECT TESTIMONY

	(A)	(B)	(C)	(D)	(E)
	SERVICE PERIOD				
LINE NO.	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	DUE DATE	EXPENSE LAG DAYS
1	1/1/2005	12/31/2005	7/1/2005	10/31/2005	61.00
2				4/30/2006	151.50
3	**TOTAL PROPERTY TAX LAG DAYS**				212.50

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
RATE BASE ADJ. #3 - WORKING CAPITAL
CALCULATION OF FEDERAL INCOME TAX LAG

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-5

DIRECT TESTIMONY

LINE NO.	(A) PAYMENT DATE	-	(B) SERVICE PERIOD MIDPOINT	=	(C) (LEAD)/LAG DAYS	X	(D) PAYMENT AMOUNT	=	(E) DOLLAR DAYS
1	04/15/05		07/01/05		(77.00)		25.00%		(19.25)
2	06/15/05		07/01/05		(16.00)		25.00%		(4.00)
3	09/15/05		07/01/05		76.00		25.00%		19.00
4	12/15/05		07/01/05		167.00		25.00%		41.75
5	TOTALS						100.00%		37.50
6	INCOME TAX LAG				37.50				

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
RATE BASE ADJ. #3 - WORKING CAPITAL
CALCULATION OF STATE INCOME TAX LAG

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-5

DIRECT TESTIMONY

LINE NO.	(A) PAYMENT DATE	-	(B) SERVICE PERIOD MIDPOINT	=	(C) (LEAD)/LAG DAYS	X	(D) PAYMENT AMOUNT	=	(E) DOLLAR DAYS
1	04/15/99		07/01/99		(77.00)		22.50%	$	(17)
2	06/15/99		07/01/99		(16.00)		22.50%		(4)
3	09/15/99		07/01/99		76.00		22.50%		17
4	12/15/99		07/01/99		167.00		22.50%		38
5	04/15/00		07/01/99		289.00		10.00%		29
6	TOTALS						1.00		62.65
7	INCOME TAX LAG				62.65				

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
RATE BASE ADJUSTMENT #4 - AMORTIZATION OF CIAC & AIAC

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-6
DIRECT TESTIMONY

LINE NO.	DESCRIPTION		AMOUNT
1	Advances In Aid of Construction Per Company on 12/31/2006 - Net		$ 551,760
2	Advances In Aid of Construction Per RUCO on 12/31/2006 - Net		551,760
3	RUCO's Adjustment		-
4			
5			
6	Contributions In Aid of Construction Per Company on 12/31/2006 - Net		$ 567,874
7	Contributions In Aid of Construction Per RUCO on 12/31/2006 - Net		567,874
8	RUCO's Adjustment		0
9			
10			
11	Total RUCO AIAC & CIAC Adjustment		0
12			
13			
14			
15			
16			
17			
18			
19			
20	Description	AIAC	CIAC
21	Beginning Balances on January 15, 2002	$ 2,331,186	$ 1,127,078
22			
23	Amount Amortized for Jan. 15 thru Dec. 31, 2002	344,850	108,373
24	Amount Amortized for Jan. 1 thru Dec. 31, 2003	358,644	112,708
25	Amount Amortized for Jan. 1 thru Dec. 31, 2004	358,644	112,708
26	Amount Amortized for Jan. 1 thru Dec. 31, 2005	358,644	112,708
27	Amount Amortized for Jan. 1 thru Dec. 31, 2006	358,644	112,708
28			
29	Total Amortization thru December 31, 2006	1,779,426	559,204
30			
31	AIAC & CIAC Imputed Balances on December 31, 2006 (Line 21 minus 28)	551,760 *	567,874 *

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
OPERATING INCOME - TEST YEAR AND RUCO PROPOSED

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-7
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY TEST YEAR AS FILED	(B) RUCO TEST YEAR ADJUSTMENTS	(C) RUCO TEST YEAR AS ADJUSTED	(D) RUCO PROPOSED CHANGES	(E) RUCO RECOMMENDED
	REVENUES - WATER:					
1	WATER REVENUES	$ 7,578,436	$ 1,844	$ 7,580,280	$ 1,684,658	$ 9,264,938
2	OTHER REVENUES	110,043	-	110,043		110,043
3	MICELLANEOUS REVENUES	-	-	-		-
4	TOTAL REVENUES	$ 7,688,479	$ 1,844	$ 7,690,323	$ 1,684,658	$ 9,374,981
	OPERATING EXPENSES:					
5	LABOR	$ 1,137,093	$ (3,521)	$ 1,133,572	$ -	$ 1,133,572
6	PURCHASED WATER	-	-	-	-	-
7	FUEL & POWER	1,573,296	(600)	1,572,696		1,572,696
8	CHEMICALS	49,041	-	49,041		49,041
9	WASTE DISPOSAL	4,270	(4,270)	-		-
10	MANAGEMENT FEES	1,386,158	(32,230)	1,353,928		1,353,928
11	GROUP INSURANCE	276,821	(1,018)	275,803		275,803
12	PENSIONS	51,046	(105)	50,941		50,941
13	REGULATORY EXPENSE	50,000	(18,578)	31,422		31,422
14	INSURANCE OTHER THAN GROUP	51,587	634	52,221		52,221
15	CUSTOMER ACCOUNTING	165,878	12	165,890		165,890
16	RENTS	19,442	(31)	19,411		19,411
17	GENERAL OFFICE EXPENSE	97,290	(5,496)	91,794		91,794
18	MISCELLANEOUS	360,734	(8,053)	352,681		352,681
19	MAINTENANCE EXPENSE	173,137	(298)	172,839		172,839
20	DEPRECIATION & AMORTIZATION	1,287,646	(38,595)	1,249,051		1,249,051
21	TAXES OTHER THAN INCOME	100,225	(352)	99,873		99,873
22	PROPERTY TAXES	297,758	(23,686)	274,072		274,072
23	INCOME TAX	(86,355)	51,450	(34,905)	650,281	615,377
24	**TOTAL OPERATING EXPENSES**	$ 6,995,067	$ (84,737)	$ 6,910,330	$ 650,281	$ 7,560,612
25	**NET INCOME**	$ 693,412	$ 86,581	$ 779,993	$ 1,034,377	$ 1,814,370

REFERENCES:
COLUMN (A): CO. SCH. C-1
COLUMN (B): SCH. TJC-8
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): SCH. TJC-1, PAGE 1 OF 2
COLUMN (E): COLUMN (C) + COLUMN (D)

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
SUMMARY OF OPERATING ADJUSTMENTS

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-8
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) ADJ. #1	(C) ADJ. #2	(D) ADJ. #3	(E) ADJ. #4	(F) ADJ. #5	(G) ADJ. #6	(H) ADJ. #7	(I) ADJ. #8	(J) ADJ. #9	(K) ADJ. #10	(L) ADJ. #11	(M) ADJ. #12	(N) RUCO ADJUSTED
	REVENUES - WATER:														
1	WATER REVENUES	$ 7,578,436	$ -	$ -	$ -	$ -	$ -	$ 1,844	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,580,280
2	OTHER REVENUES	110,043													
3	MICELLANEOUS REVENUES	-													-
4	TOTAL REVENUES	$ 7,688,479	$ -	$ -	$ -	$ -	$ -	$ 1,844	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,690,323
	OPERATING EXPENSES:														
5	LABOR	$ 1,137,093	$ (1,047)	$ (2,475)	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	1,133,572
6	PURCHASED WATER	-	-	-		-		-		-				-	-
7	FUEL & POWER	1,573,296			(266)	(334)									1,572,696
8	CHEMICALS	49,041			-	-									49,041
9	WASTE DISPOSAL	4,270						-					(4,270)		-
10	MANAGEMENT FEES	1,386,158			-					(32,230)					1,353,928
11	GROUP INSURANCE	276,821	(7)	(1,010)									-		275,803
12	PENSIONS	51,046	(0)	(105)	-								-		50,941
13	REGULATORY EXPENSE	50,000			-					-	$ (18,578)				31,422
14	INSURANCE OTHER THAN GROL	51,587			634										52,221
15	CUSTOMER ACCOUNTING	165,878			12										165,890
16	RENTS	19,442		-	(31)			-							19,411
17	GENERAL OFFICE EXPENSE	97,290			(5,496)			-		-					91,794
18	MISCELLANEOUS	360,734	(41)	(58)	(3,548)				($4,405)				-		352,681
19	MAINTENANCE EXPENSE	173,137			(298)									-	172,839
20	DEPRECIATION & AMORTIZATIOI	1,287,646			(770)							(37,825)		-	1,249,051
21	GENERAL TAXES	100,225	(105)	(247)									-		99,873
22	PROPERTY TAXES	297,758					(23,686)								274,072
23	INCOME TAXES	(86,355)												51,450	(34,905)
24	**TOTAL OPERATING EXPENSES**	$ 6,995,067	$ (1,200)	$ (3,895)	$ (9,764)	$ (334)	$ (23,686)	$ -	$ (4,405)	$ (32,230)	$ (18,578)	$ (37,825)	$ (4,270)	$ 51,450	$ 6,910,330
25	**UTILITY OPERATING INCOME**	$ 693,412	$ 1,200	$ 3,895	$ 9,764	$ 334	$ 23,686	$ 1,844	$ 4,405	$ 32,230	$ 18,578	$ 37,825	$ 4,270	$ (51,450)	$ 779,993

ADJUSTMENT #:	REFERENCE:
1. End of Test Year Hourly Labor Rate Expense Adjustment	Schedule TJC-9
2. Remove Eastern Division Allocated Labor Expense	Schedule TJC-10
3. Remove All Other Eastern Division Expenses	See RUCO\Coley\Workpaper
4. Late Charges on Power Bills	Testimony of TJC
5. Property Tax Expense	Schedule TJC-11
6. Revenue Annualization (See RUCO DR 4.2)	Testimony of TJC

ADJUSTMENT #:	REFERENCE:
7. Miscellaneous Expense	Schedule TJC-12
8. Achievement Incentive Pay	Schedule TJC-13
9. Rate Case Expense	Schedule TJC-14
10. Depreciation & Amortization Expense	Schedule TJC-15
11. Remove Errant Recording of Waste Disposal	Testimony of TJC
12. Income Taxes	Schedule TJC-16

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
OPERATING INCOME ADJUSTMENT #1 - TOTAL LABOR & PAYROLL BENEFITS ADJUSTMENTS
TO ADJUST HOURLY LABOR RATE TO TEST YEAR END RATE

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-9
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	AMOUNT
1	SUN CITY WATER HOURLY RATE LABOR ADJUSTMENT	
2	Sun City Water - O&M Payroll Hours & Hourly Rate Per RUCO	$ 1,100,631
3	Sun City Water - O&M Payroll Hours & Hourly Rate Per Company	1,101,678
4	RUCO Sun City Water Labor Expense Adjustment	(1,047)
5		
6		
7	SUN CITY WATER ARIZONA GROUP INSURANCE ADJUSTMENT	
8	Sun City Wastewater - Group Insurance Expense Per RUCO	$ 276,814
9	Sun City Wastewater - Total Insurance Expense Per Company	276,821
10	RUCO Sun City Water Group Insurance Expense Adjustment	(7)
11		
12		
13	SUN CITY WATER PENSION EXPENSE ADJUSTMENT	
14	Sun City Water - Pension Expense Per RUCO	$ 56,038
15	Sun City Water - Pension Expense Per Company	56,038
16	RUCO Sun City Water Pension Expense Adjustment	(0)
17		
18		
19	SUN CITY WATER 401K EXPENSE ADJUSTMENT	
20	Sun City Water - 401K Expense Per RUCO	$ 16,289
21	Sun City Water - 401K Expense Per Company	16,330
22	RUCO Sun City Water 401K Expense Adjustment	(41)
23		
24		
25	PAYROLL TAXES	
26	Sun City Water - Payroll Tax Expenses Per RUCO	$ 97,030
27	Sun City Water Water - Payroll Tax Expenses Per Company	97,135
28	RUCO Sun City Water - Payroll Taxes Expense Adjustment	(105)
29		
30		
31	TOTAL PAYROLL, BENEFITS, & TAXES	
32	RUCO Total Adjustment	(1,200)

REFERENCE:
RUCO Workpapers\Coley Workpapers\Sun City Water Labor-Correct Labor Rate.xls

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
OPERATING INCOME ADJUSTMENT #1 - LABOR & PAYROLL BENEFITS ADJUSTMENTS
TO REMOVE EASTERN DIVISION ALLOCATED LABOR

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-10
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	AMOUNT
1	SUN CITY WATER HOURLY RATE LABOR ADJUSTMENT	
2	Sun City Water - O&M Payroll Hours & Hourly Rate Per RUCO	$ 1,099,203
3	Sun City Water - O&M Payroll Hours & Hourly Rate Per Company	1,101,678
4	RUCO Sun City Water Labor Expense Adjustment	(2,475)
5		
6		
7	SUN CITY WATER ARIZONA GROUP INSURANCE ADJUSTMENT	
8	Sun City Wastewater - Group Insurance Expense Per RUCO	$ 275,811
9	Sun City Wastewater - Total Insurance Expense Per Company	276,821
10	RUCO Sun City Water Group Insurance Expense Adjustment	(1,010)
11		
12		
13	SUN CITY WATER PENSION EXPENSE ADJUSTMENT	
14	Sun City Water - Pension Expense Per RUCO	$ 55,933
15	Sun City Water - Pension Expense Per Company	56,038
16	RUCO Sun City Water Pension Expense Adjustment	(105)
17		
18		
19	SUN CITY WATER 401K EXPENSE ADJUSTMENT	
20	Sun City Water - 401K Expense Per RUCO	$ 16,272
21	Sun City Water - 401K Expense Per Company	16,330
22	RUCO Sun City Water 401K Expense Adjustment	(58)
23		
24		
25	PAYROLL TAXES	
26	Sun City Water - Payroll Tax Expenses Per RUCO	$ 96,888
27	Sun City Water Water - Payroll Tax Expenses Per Company	97,135
28	RUCO Sun City Water - Payroll Taxes Expense Adjustment	(247)
29		
30		
31	TOTAL PAYROLL, BENEFITS, & TAXES	
32	RUCO Total Adjustment	(3,895)

REFERENCE:
RUCO Workpapers\Coley Workpapers\Sun City Labor-RemoveEasternDiv.xls

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
OPERATING ADJ. #6 - PRIMARY PROPERTY TAX EXPENSE

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-11
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	REVENUES - 2004	$ 7,480,971	COMPANY SCHEDULE E-1
2	REVENUES - 2005	7,884,260	COMPANY SCHEDULE E-1
3	REVENUES - 2006	8,379,784	COMPANY SCHEDULE E-1
4	TOTAL	$ 23,745,015	SUM LINES 1, 2, & 3
5	3 YEAR AVERAGE	$ 7,915,005	LINE 4/3 YEARS
6	MULTIPLIER FOR REVENUES (2 X LAST 3 YRS. AVERAGE REVENUE)	x 2	ADOR VALUATION FACTOR
7	REVENUES FOR FULL CASH VALUE	$ 15,830,010	LINE 5 X 2 (MULTIPLIER FOR REVENUES)
8	ADD: 10% OF CWIP BALANCE	$ 20,865	COMPANY TRIAL BALANCE
9	LESS: NET BOOK VALUE OF VEHICLES	181,994	CORRECTED COMPANY C-2 SCHEDULE
10	FULL CASH VALUE	$ 15,668,881	LINE 7 + LINE 8 MINUS LINE 9
11	ASSESSMENT RATIO	23.5%	PER HOUSE BILL 2779
12	ASSESSED VALUE	$ 3,682,187	LINE 10 X LINE 11
13	PROPERTY TAX RATE	7.4432%	PER TAX BILLS
14	PROPERTY TAXES PAYABLE PER RUCO	$ 274,072	LINE 12 X LINE 13
15	PROPERTY TAXES PER COMPANY	297,758	PER COMPANY
16	RUCO ADJUSTMENT	$ (23,686)	LINE 14 MINUS LINE 15

Workpapers & Supporting Documents:
RUCO Workpapers\Coley Workpapers\PropertyTaxRate-RUCO

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
OPERATING ADJ. #6 - ALTERNATIVE PROPERTY TAX EXPENSE

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-11(a)
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	REVENUES - 2004	$ 7,884,260	COMPANY SCHEDULE E-1
2	REVENUES - 2005	8,379,784	COMPANY SCHEDULE E-1
3	RUCO PROPOSED REVENUES	9,374,981	SCHEDULE TJC-9
4	TOTAL	$ 25,639,025	SUM LINES 1, 2, & 3
5	3 YEAR AVERAGE	$ 8,546,342	LINE 4/3 YEARS
6	MULTIPLIER FOR REVENUES (2 X LAST 3 YRS. AVERAGE REVENUE)	x 2	ADOR VALUATION FACTOR
7	REVENUES FOR FULL CASH VALUE	$ 17,092,684	LINE 5 X 2 (MULTIPLIER FOR REVENUES)
8	ADD: 10% OF CWIP BALANCE	$ 20,865	COMPANY TRIAL BALANCE
9	LESS: NET BOOK VALUE OF VEHICLES	181,994	CORRECTED COMPANY C-2 SCHEDULE
10	FULL CASH VALUE	$ 16,931,555	LINE 7 + LINE 8 MINUS LINE 9
11	ASSESSMENT RATIO	23.5%	PER HOUSE BILL 2779
12	ASSESSED VALUE	$ 3,978,915	LINE 10 X LINE 11
13	PROPERTY TAX RATE	7.4432%	PER TAX BILLS
14	PROPERTY TAXES PAYABLE PER RUCO	$ 296,158	LINE 12 X LINE 13
15	PROPERTY TAXES PER COMPANY	297,758	PER COMPANY
16	RUCO ADJUSTMENT	$ (1,600)	LINE 14 MINUS LINE 15

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
OPERATING INCOME ADJUSTMENT #2 - MISCELLANEOUS EXPENSE

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-12
DIRECT TESTIMONY

Line No.

Adjust for Line 21 Miscellaneous Expense Clean Up

RUCO went through the 1,360 line items in the Sun City direct office Miscellaneous Expense account and also went through the 3,600 line items in the Corporate Miscellaneous General Expense account and removed those items which it deemed the Commission would disallow for ratemaking purposes, such as Community Relations expense. RUCO did the same study of the more than 6,300 lines of the same accounts for the Central and the Eastern Division offices.

Pro forma adjustment to Line 21 Miscellaneous General Expense:

Sun City Water Direct Office amount	$ (294.43)	
Corporate Office amount	(92,589.51)	
Central Division Office amount	(16,826.18)	
Eastern Division Office amount	(2,343.00)	
	(112,053.12)	
4 Factor Allocation to Sun City Water	13.2040%	
RUCO pro forma disallowance to Misc. Expense		(15,051.01)
Company pro forma to Misc. Expense		($10,646)
Adjustment to Revenue and/or Expense		($4,405)

Workpapers & Supporting Documents:
\Coley Workpapers\Expenses\Line 21 Misc. Exp. Clean Up.xls\
\RUCO Analyst Workpapers.xls\

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
OPERATING ADJUSTMENT #8
TO REMOVE 30% OF ACHIEVEMENT INCENTIVE PAY (AIP)

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-13
DIRECT TESTIMONY

Line No.	Description	Sun City Water Amount	RUCO Percentage Disallowance	RUCO Adjusted Amount
1	Account 534600	$ 23,160	30%	$ 6,948
2	Account 534600	17	30%	5
3	Account 534600	10,328	30%	3,098
4	Account 534600	55,896	30%	16,769
5	Account 534600	18,031	30%	5,409
6	RUCO Total	$ 107,432		(32,230)

REFERENCE:
RUCO Data Request 5.7

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
OPERATING ADJ. #9 - RATE CASE EXPENSE

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-14
DIRECT TESTIMONY

Line	Description			RUCO Rate Case Expense Adjustment
1	Summary Regulatory Expense			
2				
3	**Company Rate Case Expense:**			
4	Sun City Water District		$	150,000
6				
7	**Less RUCO Adjustments:**			
8	Company Rate Case Expense Adjusted Per Co. E-mail dated Sept. 27, 2007	$ 101,766		(48,234)
10				
11	50/50 Shareholder/Ratepayer Sharing Cost of Equity Witness	15,000		(7,500)
12				
14	RUCO Adjusted Rate Case Expense			94,266
15				
16				
18	RUCO Adjustment			(18,578)
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
OPERATING ADJ. #10 - DEPRECIATION AND AMORTIZATION EXPENSE

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-15
DIRECT TESTIMONY

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	(A) ACTUAL TEST YEAR BALANCE PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED BALANCE	(D) COMPONENT DEPRECIATION RATES	(E) RUCO RECOMMENDED DEPRECIATION EXPENSE
1	303600	Land & Land Rights AG	4,691	$ (4,691)	$ -	0.00%	$ -
2	304510	Struct & Imp AG Cap Lease	-	-	-	5.63%	-
3	304600	Struct & Imp Offices	2,780	(1)	2,779	4.63%	129
4	304800	Struct & Imp Misc	-	-	-	4.63%	-
5	304620	Struct & Imp Leasehold	22,012	-	22,012	14.20%	3,126
6	340100	Office Furniture & Equip	121,377	-	121,377	4.04%	4,904
7	340200	Comp & Periph Equip	44,127	(210)	43,917	15.89%	6,978
8	340300	Computer Software	200,454	(127)	200,327	37.71%	75,543
9	340330	Comp Software Other	4,097	-	4,097	37.71%	1,545
10	340500	Other Office Equipment	-	-	-	7.13%	-
11	341100	Trans Equip Lt Duty Trks	71,614	-	71,614	28.05%	20,088
12	343000	Tools,Shop,Garage Equip	2,769	-	2,769	3.61%	100
13	344000	Laboratory Equipment	-	-	-	3.71%	-
14	345000	Power Operated Equipment	7,318	-	7,318	4.64%	340
15	346100	Comm Equip Non-Telephone	22,175	-	22,175	9.76%	2,164
16	346200	Comm Equip Telephone	7,586	(7,586)	-	9.76%	-
17	346300	Comm Equip Other	1,765	(1,219)	546	7.91%	43
18	347000	Misc Equipment	-	-	-	5.10%	-
19	380400	WW TD Equip Aux Effl Trmt	-	-	-	5.00%	-
20	393000	WW Tool Shop & Garage Equip	-	-	-	4.74%	-
21	301000	Organization	471	0	471	0.00%	-
22	302000	Franchises	2,851	0	2,851	0.00%	-
23	303200	Land & Land Rights SS	180,023	0	180,023	0.00%	-
24	303300	Land & Land Rights P	156,586	(148,130)	8,456 *	0.00%	-
25	303500	Land & Land Rights TD	10,493	-	10,493	0.00%	-
26	303600	Land & Land Rights AG	2,125	-	2,125	0.00%	-
27	304100	Struct & Imp SS	787,273	-	787,273	2.50%	19,682
28	304200	Struct & Imp P	456,858	0	456,858	1.67%	7,630
29	304300	Struct & Imp WT	126,815	(0)	126,814	1.67%	2,118
30	304400	Struct & Imp TD	28,604	0	28,604	2.00%	572
31	304600	Struct & Imp Offices	260,489	(191,726)	68,763	4.63%	3,184
32	304800	Struct & Imp Misc	1,328,185	0	1,328,185	1.67%	22,181
33	305000	Collect & Impounding	314	0	314	2.50%	8
34	307000	Wells & Springs	3,021,387	(408,640)	2,612,747 *	2.52%	65,841
35	310100	Power Generation Equip Other	146,519	(0)	146,518	4.42%	6,476
36	311200	Pump Equip Electric	6,713,399	0	6,713,399	4.42%	296,732
37	311300	Pump Equip Diesel	36,032	0	36,032	5.00%	1,802
38	311500	Pump Equip Other	140,654	-	140,654	5.01%	7,047
39	320100	WT Equip Non-Media	396,541	(19,594)	376,947	4.00%	15,078
40	330000	Dist Reservoirs & Standpipe	1,802,878	(319,215)	1,483,663	1.67%	24,777
41	331001	TD Mains Not Classified by Size	777,906	-	777,906	1.53%	11,902
42	331100	TD Mains 4in & Less	12,547,934	0	12,547,934	1.53%	191,983
43	331200	TD Mains 6in to 8in	1,713,259	-	1,713,259	1.53%	26,213
44	331300	TD Mains 10in to 16in	79,891	-	79,891	1.53%	1,222
45	333000	Services	5,572,172	(1)	5,572,171	2.48%	138,190
46	334100	Meters	3,178,281	(0)	3,178,281	2.51%	79,775
47	334200	Meter Installations	634,504	-	634,504	2.51%	15,926
48	335000	Hydrants	2,175,095	(91)	2,175,004	2.00%	43,500
49	339100	Othber P/E Intangible	-	(0)	(0)	0.00%	-
50	339500	Other P/E TD	523		523	2.00%	10
51	340100	Office Furniture & Equip	596,432		596,431	4.59%	27,376
52	340200	Comp & Periph Equip	307,123		307,123	4.59%	14,097
53	341100	Trans Equip Lt Duty Trks	649,927		649,528	25.00%	162,382
54	341200	Trans Equip Hvy Duty Trks	23,777		23,777	25.00%	5,944
55	342000	Stores Equipment	21,022		21,021	3.91%	822
56	343000	Tools,Shop,Garage Equip	262,900		262,899	4.02%	10,569
57	344000	Laboratory Equipment	9,560		9,560	3.71%	355
58	345000	Power Operated Equipment	103,966		103,967	5.20%	5,406
59	346100	Comm Equip Non-Telephone	221,454		221,454	10.30%	22,810
60	346300	Comm Equip Other	165,577		165,976	4.93%	8,183
61					-		
62		Less: Youngtown Plant	(127,485)	(21,012)	(148,497)	2.83%	(4,202)
63							
64		TOTAL PLANT IN SERVICE	$ 45,025,078	$ (1,122,244)	$43,902,834		$ 1,350,548

Amortization of Y2k Costs at 2.83% (AZ Corp. 4 Factor)	*	2,836
Amortization of Deferred Debit - Fire Flow Study @ 3.06%		5,915
Less: Amortization of Contributions		972
Amortization of Imputed Regulatory CIAC		112,708
Amortization of Youngtown Plant (CIAC)		(4,202)
Total Depreciation Expense Per RUCO		1,249,821
Total Depreciation Expense Per Company		1,287,646
RUCO Adjustment		(37,825)

REFERENCES:
COLUMN (A): COMPANY SCHEDULE E-5 PAGE 2 OF 3
COLUMN (B): COLUMN (C) - COLUMN (A)
COLUMN (C): RUCO SCHEDULE TJC-4, PAGE 4
COLUMN (D): COMPANY SCHEDULE C-2, W/P C2-15b, PAGE 2 OF 4
COLUMN (E): COLUMN (C) x COLUMN (D)
LINE 24, COLUMN L, IS LESS RUCO RATE BASE ADJ. #2
LINE 34, COLUMN L, IS LESS RUCO RATE BASE ADJ. #3

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
OPERATING ADJ. #16 - INCOME TAXES

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-16
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
	FEDERAL INCOME TAXES:		
1	OPERATING INCOME BEFORE INCOME TAXES	$ 745,088	SCH. TJC-7
	LESS:		
2	ARIZONA STATE TAX	(6,301)	LINE 11
3	INTEREST EXPENSE	835,517	NOTE (a)
4	FEDERAL TAXABLE INCOME	$ (84,128)	LINE 1 - LINES 2 & 3
5	FEDERAL INCOME TAX RATE	34.00%	TAX RATE
6	FEDERAL INCOME TAX EXPENSE	$ (28,603)	LINE 4 X LINE 5
	STATE INCOME TAXES:		
7	OPERATING INCOME BEFORE INCOME TAXES	$ 745,088	LINE 1
	LESS:		
8	INTEREST EXPENSE	835,517	NOTE (A)
9	STATE TAXABLE INCOME	$ (90,429)	LINE 7 - LINE 8
10	STATE TAX RATE	6.968%	TAX RATE
11	STATE INCOME TAX EXPENSE	$ (6,301)	LINE 9 X LINE 10
12	TOTAL INCOME TAX PER RUCO	(34,905)	COMPANY SCH. C-1, PG. 3
13	INCOME TAXES PER COMPANY FILING	(86,355)	LINE 13 - LINE 14
14	RUCO INCOME TAX ADJUSTMENT	$ 51,450	

NOTE (a):
INTEREST SYCHRONIZATION

ADJUSTED RATE BASE	$ 25,340,359
WEIGHTED COST OF DEBT	3.30%
	$ 835,517

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 29, 2006
SUN CITY WATER DISTRICT
COST OF CAPITAL

DOCKET NO. WS-01303A-07-0209
SCHEDULE TJC-17
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) RUCO ADJUSTMENT	(C) ADJUSTED BALANCE	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	LONG-TERM DEBT	$ 199,289,822	$ 4,204	$ 199,294,026	61.40%	5.37%	3.30%
2	SHORT-TERM DEBT	-		-	0.00%	0.00%	0.00%
3	COMMON EQUITY	125,408,846		125,408,846	38.60%	10.02%	3.87%
4	TOTAL	$ 324,698,668	$ 4,204	$ 324,702,872	100.00%		7.16%

REFERENCES:
COLUMN (A): COMPANY SCH. D - 1
COLUMN (B): TESTIMONY, WAR
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): COLUMN (C) ÷ COLUMN (C), LINE 5
COLUMN (E): TESTIMONY, WAR
COLUMN (F): COLUMN (D) x COLUMN (E)