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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF SOUTHWEST GAS CORPORATION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF SOUTHWEST GAS CORPORATION DEVOTED TO ITS OPERATIONS THROUGHOUT ARIZONA.	Docket No. G-01551A-07-0504

NOTICE OF FILING DIRECT TESTIMONY

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

RESPECTFULLY SUBMITTED this 28th day of March 2008.

Daniel W. Pozefsky
Attorney

AN ORIGINAL AND THIRTEEN COPIES
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of March 2008 with:

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SOUTHWEST GAS CORPORATION

DOCKET NO. G-01551A-07-0504

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

March 28, 2008

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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 Southwest Gas Corporation's ("SWG" or "Company") application for a permanent rate increase ("Application"). SWG filed the Application with the ACC on August 31, 2007. The Company has chosen the one-year operating period ended April 30, 2007 for the test year in this proceeding.

Q. Briefly describe SWG.

A. SWG is a local distribution company ("LDC") based in Las Vegas, NV, and is publicly-traded on the New York Stock Exchange ("NYSE"). The Company is the dominant provider of natural gas distribution services in the state of Arizona. SWG also provides natural gas in the states of California and Nevada. The Company's last rate increase was approved in Decision No. 68487, dated February 23, 2006. In that case, SWG was granted a rate of return of 8.40 percent with a cost of equity capital of 9.50 percent.

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

A. I reviewed SWG's Application 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, cost of preferred equity and my recommended cost of debt. The recommendations contained in this testimony are based on information obtained from Company responses to data requests, the Company's Application and from market-based research that I conducted during my analysis.

Q. Is this your first case involving SWG?

A. No. I testified on cost of capital issues for RUCO during SWG's prior rate case proceeding during 2005.

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

A. No. RUCO witnesses Marylee Diaz Cortez, CPA, RUCO's Chief of Accounting and Rates, and Rodney L. Moore will provide testimony on those issues.

Q. What areas will you address in your testimony?

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

Q. Please identify the exhibits that you are sponsoring.

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

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

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

A. My cost of capital testimony is organized into eight 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 SWG is operating in. Fourth, I will discuss my recommended cost of debt. Fifth, I will explain my recommended cost of preferred equity. Sixth, I will compare my recommended capital structure with the Company-proposed capital structure. Seventh, I will explain my weighted cost of capital recommendation and eighth, I will comment on SWG'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 SWG, I am making the following recommendations:

Cost of Equity Capital – I am recommending a 9.88 percent cost of equity capital. This 9.88 percent figure is based on the results that I obtained in my cost of equity analysis, which employed both the DCF and CAPM methodologies.

Cost of Debt – I am recommending a 7.96 percent cost of debt. This is based on my review of the costs associated with SWG's various debt instruments.

Cost of Preferred Equity – I am recommending that the Commission adopt an 8.20 percent cost of preferred equity. This figure represents the effective cost of SWG's $100 million issue of trust originated preferred securities ("TOPrS").

Capital Structure – I am recommending that the Commission adopt the Company-proposed target capital structure of 51.0 percent debt, 4.0 percent preferred equity and 45.0 percent common equity.

Cost of Capital – Based on the results of my recommended capital structure, cost of common equity, and debt analyses, I am recommending an 8.83 percent cost of capital for SWG. This figure represents the weighted cost of my recommended costs of common equity, preferred equity and debt.

Q. Why do you believe that your recommended 8.83 percent cost of capital is an appropriate rate of return for SWG to earn on its invested capital?

A. The 8.83 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 SWG, 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 SWG?

A. Based on the results of my DCF and CAPM analyses, which ranged from 9.20 percent to 10.83 percent, I am recommending a 9.88 percent cost of equity capital for SWG. My recommended 9.88 percent figure represents a mean average of the results of my DCF and CAPM analyses, which utilized a sample of publicly-traded natural gas local distribution companies ("LDC").

Discounted Cash Flow (DCF) Method

Q. Please explain the DCF method that you used to estimate SWG'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:

$$k = \frac{D_1}{P_0} + g$$

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

$\frac{D_1}{P_0}$ = 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 SWG'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 SWG, 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.[1]

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%

1 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 $g = b \times r$, 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[2] 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.[3] 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,

[2] [(Year 2 Earnings/Sh – Year 1 Earnings/Sh) / Year 1 Earnings/Sh] = [($1.04 - $1.00) / $1.00] = [$0.04 / $1.00] = <u>4.00%</u>

[3] [(1 – Payout Ratio) x Rate of Return] = [(1 - 0.60) x 15.00%] = 0.40 x 15.00% = <u>6.00%</u>

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,[4] Dr. Gordon identified a growth rate that includes both expected internal and external financing components. The mathematical expression for Dr. Gordon's growth rate is as follows:

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

where: g = DCF expected growth rate,

b = the earnings retention ratio,

r = the return on common equity,

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

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

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

and $v = 1 - \left(\frac{BV}{MP}\right)$

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 prior SWG rate case[5], 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 SWG was largely based on the results of his DCF analysis, which incorporated the same valid market-to-book ratio assumption that I have used consistently in the DCF model as a cost of capital witness for RUCO.

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

A. I analyzed data on a natural gas proxy group consisting of eight natural gas local distribution companies ("LDC").

Q. Why did you use this methodology as opposed to a direct analysis of SWG?

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. Although SWG is publicly-traded on the NYSE, SWG's Arizona operations are not. Because of this situation, I used the aforementioned proxy that includes eight publicly-traded natural gas providers that have similar risk

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

characteristics to SWG in order to derive a cost of common equity for the Company.

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 natural gas LDC's included in your proxy for SWG?

A. 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 The Value Line Investment Survey ("Value Line"). Each of the eight LDC's are tracked in Value Line's Natural Gas Utility industry segment. All of the companies in the proxy are engaged in the provision of regulated natural gas distribution services. Attachment A of my testimony contains Value Line's most recent evaluation of the natural gas proxy group that I used for my cost of common equity analysis.

Q. What companies are included your natural gas proxy?

A. The eight 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"), Nicor, Inc. ("GAS"), Northwest Natural Gas Co. ("NWN"), Piedmont Natural Gas Company ("PNY"), South Jersey Industries, Inc. ("SJI"), and WGL Holdings, Inc. ("WGL").

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

A. The eight LDC's listed above provide natural gas service to customers in the Middle Atlantic region (i.e. 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).

...

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

A. Yes. The Company's cost of capital witness, Mr. Frank Hanley, CRRA, used the same eight LDC's that I have included in my proxy.

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 2003 to 2007. Schedule WAR-5 also includes Value Line's projected 2008, 2009 and 2011-13 values for the retention ratio, equity return, book value per share growth rate, and number of shares outstanding for the LDC's that make up my proxy.

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

A. In explaining my analysis, I will use AGL Resources, Inc., NYSE symbol ATG, as an example. The first dividend growth component that I evaluated was the internal growth rate. I used the "b x r" formula (page 10) to multiply ATG's earned return on common equity by its earnings retention ratio for each year 2003 through 2007 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 2008 internal growth rate and 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, ATG's sustainable internal growth rates experienced an up and down pattern during the 5-year observation period. This resulted in a 5.84% average over the 2003 to 2007 time frame. Value Line's analysts are forecasting a steady pattern of growth through 2013 ranging from 5.00% in 2008 to 6.16% by the end of 2013. Value Line has made no changes to its prior 5-year earnings projection of 5.50% but has revised its projections for dividend growth and book value downward from 5.50% and 2.50% to 4.00% and 1.50% respectively. Based on these estimates I believe a 5.75% rate of growth is reasonable for ATG (Schedule WAR-6).

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

A. Schedule WAR-5 illustrates that ATG's average share growth was 4.32% over the current 2003 – 2007 observation period. Value Line expects negative growth during the 2008 and 2009 operating periods. After remaining stagnant at 76.00 million shares for the aforementioned periods, outstanding shares are expected to increase to 80.00 million during the

2011-13 period. Taking this data into consideration, I am standing on my prior estimate of a 0.55 rate of growth for ATG. My final dividend growth rate estimate for ATG is 5.92 percent (5.75 percent internal + 0.17 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 LDC's in your sample?

A. Based on the DCF model, my average dividend growth rate estimate is 5.18 percent as displayed on page 1 of Schedule WAR-4.

Q. How does your average dividend growth rate estimates 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 B) and Value Line. My 5.18 percent estimate is 131 basis points higher than the average projected rate of growth published by Value Line (which is an average of projected EPS, DPS and BVPS), and 8 basis points higher than the 5.10 percent average of projected 5-year EPS of analyst consensus opinions published by Zacks Investment Research, Inc. ("Zacks"). My 5.18 percent estimate is also 44 basis points higher than the 4.74 percent average of Value Line's and Zacks' projected and historical figures on EPS, DPS and BVPS. This indicates that investors are expecting increased performance from LDC's in the future. Based on this comparison, I would still say my

5.18 percent estimate is a fair representation of the growth projections that are available to the investing public.

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

A. I used the estimated annual dividends, for the next twelve-month period, that appeared in Value Line's March 14, 2008 Ratings and Reports natural gas utility industry update. I then divided those figures by the eight-week average price per share of the appropriate utility's common stock. The eight-week average price is based on the daily closing stock prices for each of the companies in my proxies for the period January 28, 2008 to March 20, 2008.

Q. Why did you rely on an eight-week observation period for the closing stock prices as opposed to a spot price at a given point in time?

A. The eight-week average tends to smooth out random events that may influence a stocks price on any one particular trading day. For this reason I typically rely on an eight-week mean average of closing stock prices as opposed to a spot price.

Q. Based on the results of your DCF analysis, what is your cost of equity capital estimate for the 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 9.73 percent for the LDC's included in my sample.

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[6], the Timken Professor Emeritus of Finance at Stanford University, who shared the 1990 Nobel Prize in Economics for research that eventually resulted in the CAPM model[7]. CAPM is used to analyze the relationships between rates of return on various assets and risk as measured by beta.[8] In this regard, CAPM can help an investor to determine how much risk is associated with a given investment so that he or she can decide if that investment meets their individual preferences. Finance theory has always held that as the risk associated with a given investment increases, so should the expected rate of return on that investment and vice versa. According to CAPM theory, risk can be classified into two specific forms: nonsystematic or diversifiable risk, and systematic or non-diversifiable risk. While nonsystematic risk can be virtually eliminated through diversification (i.e. by including stocks of

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

[7] 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.

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

various companies in various industries in a portfolio of securities), systematic risk, on the other hand, cannot be eliminated by diversification. Thus, systematic risk is the only risk of importance to investors. Simply stated, the underlying theory behind CAPM states that the expected return on a given investment is the sum of a risk-free rate of return plus a market risk premium that is proportional to the systematic (non-diversifiable risk) associated with that investment. In mathematical terms, the formula is as follows:

$$k = r_f + [\, ß\, (r_m - r_f)\,]$$

where:	k	=	cost of capital of a given security,
	r_f	=	risk-free rate of return,
	$ß$	=	beta coefficient, a statistical measurement of a security's systematic risk,
	r_m	=	average market return (e.g. S&P 500), and
	$r_m - r_f$	=	market risk premium.

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

A. I used a six-week average of the yields on a 91-day Treasury Bill ("T-Bill").[9] The yields can be viewed in Attachment C of my testimony. This six-week average resulted in a risk-free (r_f) rate of return of 1.65 percent.

[9] A six-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 February 22, 2008 to March 28, 2008.

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. This is because a 91-day T-Bill presents the lowest possible total risk to an investor. As citizens and investors, we would like to believe that U.S. Treasury securities (which are backed by the full faith and credit of the United States Government) pose no threat of default no matter what their maturity dates are. However, a comparison of various Treasury instruments will generally reveal that those with longer maturity dates do have slightly higher yields. Treasury yields are comprised of two separate components,[10] a true rate of interest (believed to be approximately 2.00 percent) and an inflationary expectation. When the true rate of interest is subtracted from the total treasury yield, all that remains is the inflationary expectation. Because increased inflation represents a potential capital loss, or risk, to investors, a higher inflationary expectation by itself represents a degree of risk to an investor. Another way of looking at this is from an opportunity cost standpoint. When an investor locks up funds in long-term T-Bonds, compensation must be provided for future investment opportunities foregone. This is often described as maturity or interest rate risk and it can affect an investor adversely if market rates increase before the instrument matures (a rise in interest rates would decrease the value of the debt instrument). As discussed earlier in the DCF portion of my

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

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.

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[11] 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 8.75 percent (10.40% - 1.65% = 8.75%). The risk premium that results by using the arithmetic mean calculation for r_m is 10.65 percent (12.30% - 1.65% = 10.65%).

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 my proxy, were calculated by Value Line and were current as of March 14, 2008 for the natural gas LDC's that comprise my sample. 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

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

are then adjusted by Value Line for their long-term tendency to converge toward 1.00. The beta coefficients for the natural gas service providers included in my sample ranged from 0.80 to 1.00 with an average beta of 0.86.

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 9.20 percent. My calculation using an arithmetic mean results in an average expected return of 10.83 percent.

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

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

METHOD	RESULTS
DCF	9.73%
CAPM	9.20% – 10.83%

Based on these results, my best estimate of an appropriate range for a cost of common equity for SWG is 9.20 percent to 10.83 percent. My final recommendation for SWG is 9.88 percent.

Q How did you arrive at your recommended 9.88 percent cost of common equity?

A. My recommended 9.88 percent cost of common equity is the mean average of my DCF and CAPM results. The calculation can be seen on Page 4 of Schedule WAR-1.

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

A. The 11.25 percent cost of equity capital proposed by the Company is 137 basis points higher than the 9.88 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[12] in an effort to further loosen monetary constraints - an action that resulted in lower interest rates.

During this same period, the nation's major money center banks followed the Federal Reserve's lead and began lowering their interest rates as well. By the end of the fourth quarter of 1993, the prime rate (the rate charged by banks to their best customers) had dropped to 6.00 percent from a 1990 level of 10.01 percent. In addition, the Federal Reserve's discount rate on loans to its member banks had fallen to 3.00 percent and short-

[12] This is 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.

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 a recession.

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 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, 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.[13]"

...

[13] Wolk, Martin, "Fed holds interest rates steady," 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.[14] 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.[15]

...

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

[15] 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 1994-95 time frame, in which a recession or a bear market were avoided – rarely happen[16]. Since it began increasing the federal funds rate in June 2004, the Fed had 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[17]. 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."

[16] Browning, E.S, "Not Too Fast, Not Too Slow…," The Wall Street Journal Online Edition, August 21, 2006.
[17] 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 the period that followed the August 8, 2006 FOMC meeting?

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."[18]

Q. What has been the state of the economy over the past year?

A. Reports in the mainstream financial press during the majority of 2007 reflected the view that the U.S. economy was slowing as a result of a worsening situation in the housing market and higher oil prices. The overall outlook for the economy was one of only moderate growth at best. Also during this period the Fed's key measure of inflation began to exceed the rate setting body's comfort level.

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

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

unchanged at 5.25 percent.[19] 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. However, during this same period, evidence of an even slower economy and a possible recession was beginning to surface. Within days of the Fed's decision to stand pat on rates, a borrowing crises rooted in a deterioration of the market for U.S. 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.[20] 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, [21] 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.

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

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

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

Q. Did the Fed cut rates as a result of the subprime mortgage 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 (25 basis points more than what was anticipated). This brought the federal funds rate down to a level of 4.75 percent. The Fed's action was seen as an effort to curb the aforementioned slowdown in the economy. Over the course of the next four months, the FOMC reduced the Federal funds rate by a total 175 basis points to a level of 3.00 percent – mainly as a result of concerns that the economy was slipping into a recession. This included a 75 basis point reduction that occurred one week prior to the FOMC's meeting on January 29, 2008.

Q. What recent actions have the Fed taken in regard to interest rates?

A. As of this writing, the Fed has continued to cut rates and announced a 75 basis point reduction in the federal funds rate on March 18, 2008. The Fed's decision to cut rates was based on its belief that, at this point in time, the slowing economy is a greater concern than the current rate of inflation (which the majority of FOMC members believe will moderate during the present economic slowdown).[22] As a result of the Fed's rate cutting action, the federal funds rate now stands at 2.25 percent.

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 fallen to 2.50 percent from 5.73 percent in 2000.

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

A. As of March 28, 2008, the leading interest rates have all dropped from the levels that existed a year ago (Attachment C). The prime rate has fallen from 8.25 percent a year ago to 5.25 percent. The benchmark federal funds rate, just discussed, has decreased from 5.25 percent, in March 2007, to a level of 2.25 percent (as a result of the March 18, rate cut discussed above). The yields on several maturities of U.S. Treasury instruments have also decreased over the past year. A previous trend,

[22] Ip, Greg, "Credit Worries Ease as Fed Cuts, Hints at More Relief" The Wall Street Journal, March 19, 2008

described by former Chairman Greenspan as a "conundrum"[23], in which long-term rates fell as short-term rates increased, thus creating a somewhat inverted yield curve that existed as late as June 2007, appears to have ended and a more traditional yield curve (one where yields increase as maturity dates lengthen) presently exists (Attachment C). The 91-day T-bill rate, used in my CAPM analysis, has fallen from 5.03 percent, in March 2007, to 0.56 percent as of March 19, 2008. The 1-Year Treasury constant maturity rate also decreased from 4.94 percent over the past year to 1.40 percent. Again, for the most part, these current yields are considerably lower than corresponding yields that existed during the early nineties and at the beginning of the current decade (as can be seen on Schedule WAR-8).

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

A. As a result of the FOMC's March 18, 2008 rate cutting action, the federal funds rate of 2.25 percent is already below The Wall Street Journal's February 2008 Economic Forecasting Survey's prediction that the rate would drop to 2.64 percent by December 2008. The change in the consumer price index, a key measure of inflation, is also expected to fall from the December 2007 level of 4.10 percent to 2.30 percent by December 2008.

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

Value Line's analysts have been decidedly pessimistic in their outlook on the economy recently and had this to say in their Economic and Stock Market Commentary that appeared in the March 28, 2008 edition of Value Line's Selection and Opinion publication:

> **The evidence that we are in a recession continues to build.** Such indicators include declining nonfarm payrolls, sluggish manufacturing and nonmanufacturing data, a falloff in March retail sales, and additional softness in industrial production.
>
> **The economic problems, which began with the housing market, are spreading and could well spread further in the months to come.** Not only are housing's woes intensifying and weakness evolving in other key markets, but businesses are unlikely to increase their spending on plant and equipment given the slowdown on the consumer front. We also think nonresidential construction, which gave a boost to the economy in 2007, will ease this year due to the recent tightening in credit conditions. The spreading construction slump, in the meantime, is likely to increase the unemployment rolls still further.

Despite their less than favorable outlook on the economy, Value Line's analysts believe that the Federal Reserve is on the right track as also stated in the March 28, 2008 edition of Value Line's Selection and Opinion publication:

> **Effective action by the Federal Reserve should lessen the severity of an economic setback.** The Fed has not only been reducing interest rates aggressively, taking the federal funds rate (the overnight lending rate between banks) down from 5.25% to 2.25% since last September, but it has extended its lending program to provide liquidity to cash-strapped companies. We think other innovative moves to alleviate the strains caused by the tightening in the credit markets will be taken by the Fed in the weeks to come to lessen the severity of any economic downturn and to hopefully boost flagging investor confidence.

Q. How has the current economic environment of lower interest rates affected various regulated utility industries as a whole?

A. Value Line analyst Nils C. Van Liew took note of the environment of low interest rates that existed in the early part of 2007. In Value Line's Electric

Utility (East) Industry update dated March 2, 2007, Mr. Van Liew had this to say:

> **Low Interest Rates.** 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.

While Mr. Van Liew's views appeared in Value Line's Electric Utility Industry update, I believe his comments hold true for all regulated utilities including the natural gas distribution segment. Given the fact that interest rates are even lower now than they were at the time of Mr. Van Liew's writing, and utility bond rates are currently lower than their 2007 averages (Schedule WAR 8), I believe that his views are still valid. In fact, my opinions are supported by Gabe Moreen, an analyst for Merrill Lynch, who had this to say in his February 21, 2008 report[24] on SWG:

> **Falling interest rates bode well for utilities** The Fed's recent interest rate cuts buoyed our natural gas utility index stocks, which had underperformed during recent credit market turmoil. The liquidity squeeze elevated concerns over higher capital costs for this capital-intensive industry, but credit market concerns do not fundamentally threaten the sector, in our view. Most gas utilities in our index have investment grade credit and, were the cost of debt to rise, could recover higher capital costs via rate cases. The interest rate cut also boosted gas utility stocks as 10-year Treasury prices rose and yields fell. 10-year Treasury yields provide a common benchmark for utility valuation; like Treasury bills, utility stocks typically offer steady income and are often valued by yield differential above Treasury bills. The dividend yield-Treasury yield differential has recently shrunk to 85 [basis points], just shy of the long-term average 86 [basis point] differential. Treasury yields are relatively low at 3.9%, and we expect this low differential to help sustain gas utility stocks at their high valuations in the near term. For

[24] Provided in the Company's response to ACC Staff data request STF-2-8 dated March 6, 2008.

Merrill Lynch's current interest rate outlook, please see The Market Economist. 15 February 2008.

Q. How does the average dividend yield of your sample LDC stocks compare to the average dividend yield for all of the LDC stocks followed by Value Line?

A. As can be seen in Schedule WAR-3, my sample LDC's have an average dividend yield of 4.55 percent which falls between Value Line's 3.60 percent 2006 average dividend yield for the natural gas industry and their 2011-13 projection of 4.60 percent (Attachment A).

Q. How has the slowdown in housing construction impacted SWG?

A. It would appear the housing slowdown discussed above is actually having a positive effect on SWG. This was reflected in several security analysts' reports that the Company provided in response to ACC Staff data request STF-2-8. Analysts for North American Equity Research, a subsidiary of J.P. Morgan Chase, had this to say:

> **Slowing Customer Growth; Reduced Equity Issuance Need** Southwest Gas highlighted a decline in its customer growth rate to below 3% in 2007, a decline attributable to problems in the housing market. Specifically, unoccupied homes and associated inactive meters accounted for a significant portion of the year-over-year decline. The large inventory of existing homes is expected to place downward pressure on new construction. As such, for the next two years the company anticipates growth in the range of 1.5-3% until the housing market returns to more normal levels. A more normalized growth rate reduces capital expenditures, mitigates cost creep associated with serving the growing demand and thereby should reduce the impact of regulatory lag caused in part by rate making in AZ which utilizes a historical test-year. On a related issue, we note that Southwest Gas has placed meters in approximately 20,000-30,000 homes that are currently vacant. The company highlighted that once these houses are occupied and gas meters turned on, Southwest Gas will begin bringing on new customers at no cost. As the capital for these meters are already

> included in the company's AZ rate case, these new customer additions would be incremental to earnings. Along with the decline in the company's customer growth forecast, Southwest Gas has revised its 2008-2010 capital expenditure forecast as disclosed in the 2007 10K. SWX forecasts capex of $850 million with $70-80 million equity financed. That is a reduction from the prior three-year outlook of $880 million and $100-125 million of equity financing. The reduction in their equity financing needs equates to about 2.8% of outstanding shares and is a positive development for shareholders.

Analysts at Citigroup Global Markets, Inc. had this to say:

> **What's Wrong? -** We believe the housing downturn in AZ, NV and CA has led some to believe that SWX will be negatively impacted by lower customer growth (6% previously down to 3% on the high-end). We think differently. First, we had always assumed that customer growth would trend back to normal levels. Second, during times of high customer growth, SWX struggled to earn its cost of capital because of historical test years in its rate cases (EVA negative). We estimate a one to two year lull in housing growth will enable SWX to push ROR above its costs of capital creating positive EVA.

Based on the above analysts' outlooks, it is reasonable to say that the slowdown in the housing sector is actually having a positive effect on SWG, given the fact that the Company will not have to devote higher levels of internally generated funds on capital expenditures, thus providing SWG with the opportunity to build on its existing equity position and possibly increase dividends.

Q. After weighing the economic information that you've just discussed, do you believe that the 9.88 percent cost of equity capital that you have estimated is reasonable for SWG?

A. I believe that my recommended 9.88 percent cost of equity will provide SWG with a reasonable rate of return on the Company's invested capital when economic data on interest rates (that are low by historical standards), the current lull in growth in new housing construction, and the Fed's ability to keep inflation in check 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 cost of equity analysis, which is an average of the results of both the DCF and CAPM models, has produced such a return.

COST OF DEBT

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

A. Yes. I have reviewed the testimony provided by SWG witness Theodore K. Wood who presents the Company's capital structure, cost of debt and cost of preferred equity proposals.

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

A. The Company-proposed cost of debt is the weighted cost of the SWG's fixed rate and variable rate debt instruments excluding industrial development revenue bonds ("IDRB") that were issued to finance specific assets located in Clark County, Nevada and the City of Big Bear, California.

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

A. Yes. The weighted cost of the Company's debt was also used in RUCO witness Rodney L. Moore's synchronized interest calculation which produced the interest deduction reflected in RUCO's recommended level of income tax expense.

COST OF PREFERRED EQUITY

Q. Have you reviewed SWG's testimony on the Company-proposed cost of preferred equity?

A. Yes. SWG witness Wood presented testimony on the Company-proposed 8.20 percent embedded cost of preferred equity, which reflects the effective cost of the Company's $100 million in trust originated preferred securities ("TOPrS").

Q. Have you accepted the Company-proposed 8.20 percent cost of preferred equity?

A. Yes I have.

Q. Is the weighted cost of SWG's preferred equity also reflected in RUCO's recommended level of income tax expense?

A. Yes it is. Ordinarily this type of regulatory accounting treatment would not be considered for the dividends of preferred equity instruments. However, as explained on pages 34 and 35 of SWG witness Theodore K. Wood, the dividends of the TOPrS are tax-deductible as a result of the trust structure used by the Company to issue the securities. Given the tax-deductible nature of the dividends, it is only logical that their weighted cost be included in the synchronized interest calculation that produces an appropriate interest expense deduction that is used to compute a final recommended level of income tax expense.

CAPITAL STRUCTURE

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

A. Yes.

Q. What was SWG's actual capital structure during the test year?

A. According to the direct testimony of SWG witness Wood (pages 10 and 11), the Company's actual capital structure during the test year was comprised of 52.70 percent debt, 4.40 percent preferred equity, and 42.90 percent common equity.

...

Q. How does the Company's actual capital structure compare to the average capital structure of the eight LDC's in your cost of equity capital proxy group?

A. As can be seen in Schedule WAR-9, the average capital structure of the eight LDC's included in my sample was comprised of 45.90 percent debt, 0.20 percent preferred equity, and 53.90 percent common equity. My analysis shows that the equity positions of the LDC's in my sample have increased slightly since SWG's cost of capital consultant, Mr. Hanley, conducted his analysis (as seen on page 11 of Mr. Wood's direct testimony).

Q. Is SWG's capital structure in line with industry averages?

A. No. As I explained above, SWG's actual capital structure is heavier in debt and preferred equity than the natural gas utilities included in my sample (Schedule WAR-9). 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 SWG's. In the case of a publicly-traded company, such as those included in my proxy, a company with SWG'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. Please describe the Company's proposed capital structure.

A. The Company is proposing a target capital structure comprised of 51.00 percent debt, 4.00 percent preferred equity, and 45.00 percent common equity.

Q. What capital structure are you recommending for SWG?

A. I am recommending the same capital structure being proposed by SWG.

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

A. No, I have not. The target (i.e. hypothetical) capital structure that I am recommending will provide SWG with additional operating income and cash flows that will offset any perceived financial risk.

Q. Please explain.

A. The higher level of equity in my recommended capital structure will provide the Company with a higher overall weighted cost of equity (i.e. 8.83 percent as opposed to 8.80 percent) and will likewise provide SWG with a higher level of operating income. The higher level of equity in the target capital structure also results in a lower weighted cost of debt which in turn produces a lower synchronized interest deduction. This has the overall effect of providing SWG with a higher level of income tax expense. This higher level of income tax expense results in additional cash flow to

SWG because the Company's actual income tax liability will be lower (as a result of the higher actual interest expense deduction that the Company is entitled to). For these reasons I have made the decision not to make any adjustment to my recommended cost of equity which was based on the results of my DCF and CAPM analyses. In summary, I believe that my recommended target capital structure will provide SWG with a return on invested capital that will compensate the Company's shareholders for any perceived financial risk that they may 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 9.45 percent. This composite figure is the result of a weighted average of SWG's proposed 7.96 percent cost of debt, 8.20 percent cost of preferred equity, and 11.25 percent cost of equity capital. The Company-proposed 9.45 percent weighted cost of capital is 62 basis points higher than the 8.83 percent weighted cost of capital that I am recommending.

COMMENTS ON SOUTHWEST GAS CORPORATION'S COST OF EQUITY CAPITAL TESTIMONY

Q. Please describe SWG's cost of equity capital testimony.

A. As noted earlier in my testimony, SWG's cost of capital testimony was prepared by the Company's cost of equity consultant Mr. Frank J. Hanley, CRRA. Mr. Hanley's testimony presents the results of his cost of common equity analysis, which used the DCF, CAPM, risk premium, and comparable earnings methodologies. Mr. Hanley believes that the Company is entitled to an 11.25 percent cost of common equity based on the results of his cost of capital analysis.

Q. Please compare the way you conducted your DCF analysis with the way that Mr. Hanley conducted his.

A. Mr. Hanley conducted a DCF analysis using a similar single-stage constant growth model as I did. As I explained earlier in my testimony, Mr. Hanley also conducted his analysis using a proxy group comprised of the same eight natural gas utilities that were included in my sample. In addition to the aforementioned proxy group, Mr. Hanley also treated SWG as a stand-alone company in his analysis.

...

Q. How did Mr. Hanley determine the dividend yield component in his DCF model?

A. For the P_0 portion of the DCF formula, Mr. Hanley averaged spot prices that occurred on June 25, 2007 with average high and low prices that occurred during the months of May 2007 and April 2007 to arrive at initial average dividend yields of 3.94 percent, 3.67 percent, and 3.67 percent respectively for his proxy group of eight LDC's. After obtaining his initial dividend yields, he averages the results to arrive at an unadjusted average dividend yield of 3.76 percent. Mr. Hanley then adds a dividend growth component, which averages 0.08 percent for his sample LDC's, to arrive at a final adjusted average dividend yield of 3.84 percent. His final adjusted dividend yield is 71 basis points lower than the average 4.55 percent dividend yield that I obtained using an average of closing stock prices during a more recent 8-week period (Schedule WAR-3).

Q. How did Mr. Hanley obtain his final growth (i.e. g) estimate in his DCF analysis?

A. Mr. Hanley averaged the long-term (i.e. 2010-12) June 15, 2007 earnings per share projections of Value Line analysts and the June 23, 2007 five-year earnings per share projections of Thompson FN/First Call analysts to arrive at an average DCF growth rate of 4.51 percent for his proxy group of eight LDC's. His final average DCF growth estimate result of 4.51

percent is 67 basis points lower than my growth rate estimate of 5.18 percent.

Q. What is the average DCF result for the average dividend yields and growth estimates that were obtained by Mr. Hanley?

A. Mr. Hanley's final average DCF cost of equity estimate, using the inputs that I have just described, is 8.35 percent or 138 basis points lower than my DCF estimate of 9.73 percent. Mr. Hanley's final DCF estimate of 9.92 percent is 19 basis points higher than my final DCF estimate of 9.73 percent.

Q. How did Mr. Hanley obtain his final DCF cost of equity estimate of 9.92 percent when the average of his LDC sample produced an estimate of 8.35 percent?

A. To arrive at his final DCF cost estimates, Mr. Hanley ignored any results that were lower than 9.60 percent, which he states was the lowest rate awarded to a gas distribution utility during the twelve month period ended March 31, 2007. This methodology had the effect of eliminating the results of six of the eight LDC's in his proxy group.

...

Q. Do you agree with Mr. Hanley's method which eliminates any results under 9.60 percent?

A. No, I do not. Even though my final DCF estimate falls above the 9.60 percent threshold established by Mr. Hanley I still don't agree with his methodology. By setting his 9.60 percent threshold, Mr. Hanley is in effect refusing to consider the fact that the market has priced the returns of LDC's at a lower level than what regulators have adopted and that the investment community is willing to accept lower rates of returns.

Q. Please compare the results of your CAPM analysis with the results of Mr. Hanley's CAPM analysis.

A. Mr. Hanley performed two CAPM analyses, one using the traditional CAPM model which I used (i.e. the Sharpe/Lintner version expressed as $k = r_f + [\, ß\, (r_m - r_f)]$) and a second using the empirical ("ECAPM") version of the model which assumes that the risk-free rate of return used in the traditional model is understated. Typically the ECAPM uses unadjusted betas that are lower than the adjusted Value Line betas that I used in my CAPM analysis (a point on which Mr. Hanley and I disagree).

Q. Why didn't you use the ECAPM version in your CAPM analysis?

A. I did not use this version mainly because the ECAPM has been given little to no weight by the ACC in prior Commission proceedings (most notably in a number of Arizona-American Water Company filings where the model was employed by a Boston consulting firm known as the Brattle Group).

Q. What were the differences between your CAPM analysis and Mr. Hanley's CAPM analysis?

A. Mr. Hanley performed his analysis using the same proxy that he used in his DCF analyses and also treated SWG as a stand-alone entity. His CAPM analysis produced an average expected return, or k, of 10.35 percent for his group of eight LDC's. As in his DCF analysis, Mr. Hanley simply rejected any results lower than 9.60 percent. Thus, his final CAPM estimate of 10.49 percent is higher than the aforementioned average of all eight of the LDC's used in both of our samples. His final CAPM estimate of 10.49 percent is 129 basis points higher than my 9.20 percent CAPM analysis result using a geometric mean, and 34 basis points lower than my 10.83 percent CAPM analysis result using an arithmetic mean. His stand-alone result for SWG is 10.17 percent. Mr. Hanley's ECAPM analysis produced an average expected return of 10.51 percent for his group of eight LDC's (the results for all eight of his sample companies exceeded his 9.60 percent threshold). His final ECAPM estimate of 10.51 percent results is 131 basis points higher than my 9.20 percent CAPM analysis result using a geometric mean, and 31 basis points lower than my 10.83 percent CAPM analysis result using an arithmetic mean. His ECAPM result for SWG as a stand-alone entity is 10.38 percent.

Q. What beta coefficient (ß) did you use in your CAPM model and what beta coefficient did Mr. Hanley's use in his CAPM analysis?

A. I used a beta coefficient of 0.86, which is an average of Value Line's adjusted betas for the eight LDC's included in my proxy. Mr. Hanley used an average beta coefficient of 0.88 for his group of eight LDC's. The lower average beta used in my analysis reflects the fact that the betas for several of the LDC's used in our samples have fallen (indicating lower risk) since Mr. Hanley conducted his analysis. Technically, Mr. Hanley's ECAPM model overstates the expected return because of his use of an adjusted beta in a model that contains an upward adjustment for the risk-free rate of return.

Q. Please compare the risk free rate of return (r_f) proxies used in both your and Mr. Hanley CAPM analyses.

A. As I explained earlier in my testimony (page 25), I used a six-week average on a 91-day T-Bill rate. This resulted in a risk-free rate of return of 1.65 percent. Mr. Hanley on the other hand, used an average of economist's projections, reported in Blue Chip Financial Forecasts dated July 1, 2007, on the yields of 30-year U.S. Treasury Notes for the six quarters ending with the final calendar quarter of 2008. This resulted in a higher risk-free rate of return of 5.33 percent. The difference between the two average yields is 368 basis points.

Q. What is the difference between your market risk premium and the market risk premium used by Mr. Hanley?

A. Mr. Hanley derived his 5.69 percent market risk premium figure by averaging Value Line and Morningstar data. The 5.69 percent market risk premium used by Mr. Hanley is 306 basis points lower than my 8.75 percent market risk premium, using a geometric mean, and is 496 basis points lower than my 10.65 percent market risk premium, using an arithmetic mean.

Q. Did you conduct a risk premium study or a comparable earnings analysis similar to the ones performed by Mr. Hanley?

A. No I did not. The risk premium methodology is basically an offshoot of the CAPM and the comparable earnings method, though used by most analysts to some degree, has been largely replaced by forward-looking methods such as DCF and CAPM.

Q. How does Mr. Hanley arrive at his 11.25 percent cost of common equity figure after presenting the results of his DCF, risk premium, CAPM and comparable earnings analyses?

A. Mr. Hanley arrived at his recommended 11.25 percent cost of common equity by weighing the results of all four of his models. This resulted in a cost rate of 11.00 percent for his proxy group of eight LDC's. After this he makes an upward adjustment of 31 basis points as a result of SWG's credit ratings. His final 11.25 percent cost of common equity for SWG is conditioned on the Commission's adoption of the 45.00 percent level of equity, in the Company-proposed capital structure, and the Company's proposed tariff tools.

Q. Has Mr. Hanley given any consideration to the risk mitigation inherent in SWG's decoupling proposal in his cost of equity analysis?

A. No. Mr. Hanley's testimony concentrates on why his recommended 11.25 percent cost of common equity is appropriate for SWG given the various characteristics of the LDC's in his sample which includes their credit ratings and the fact that six of the eight have some form of decoupling or weather normalization in some of the jurisdictions they serve. However, Mr. Hanley's testimony does not address the fact that the implementation of a decoupling mechanism, which would essentially provide SWG with a guaranteed return on the Company's invested capital, does in itself merit a lower cost of common equity that reflects the elimination of the risk of not being able to earn an authorized rate of return.

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

A. No, it does not.

Q. Does this conclude your testimony on SWG?

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/ACRM
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/ACRM

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/ACRM
Tucson Electric Power Company	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/ACRM
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
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-American Water Company	W-01303A-07-0209	Rate Increase
Tucson Electric Power Company	E-01933A-07-0402	Rate Increase

ATTACHMENT A

INDUSTRY TIMELINESS: 70 (of 97)

The Natural Gas Utility Industry ranks in the bottom half of our industry spectrum for Timeliness. However, many firms are developing opportunities to bolster growth for the years ahead. Moreover, companies in this sector tend to be stable businesses that offer attractive dividend yields, which may add appeal to many issues, given the current lackluster economic environment. Still, limited near-term earnings prospects and a tough regulatory environment continue to weigh on firms here.

Economic Environment

The domestic economy appears to be moving closer to a possible recession. Investor sentiment has soured over the past year, as turmoil in the credit markets and a weak housing market have been a drag on the broader economy. The weakness in the housing market has hurt companies in this industry, as customer growth has slowed for many Natural Gas Utilities. Oil prices have risen, which has helped offset some of this pressure, as natural gas has become an increasingly popular choice for consumers to meet their energy needs. Given the current turmoil in the world's financial markets, good quality businesses such as these may come increasingly into favor. These equities offer fairly predictable results, solid balance sheets, and above-average yields. Thus, conservative accounts may want to consider some of the stocks in this industry if they are trying to reduce risk in their portfolios.

Regulation

Rate cases are a key theme for the companies in this industry. These firms are regulated by state commissions that dictate the return on equity these companies can achieve. As a result, these utilities tend to register flat bottom-line results from year to year. Notably, numerous firms are in the process of applying for new rates or have cases pending. Therefore, when reading the following pages, investors should pay special attention to this factor as it will likely remain key for these firms going forward. This should be increasingly important if the tough real estate market continues to hinder demand for natural gas. When considering new cases, regulators try to strike a balance between consumer and shareholder interests. Given the recent challenges of this industry, the management of these firms are eagerly hoping for relief from these commissions in order to boost results.

Business Structure

Companies in this sector have sought various ways to drive profits. One such way has been developing or adding unregulated businesses to their operations. These ventures are not limited by state commissions and possess the potential to drive share-net beyond their typical levels. Currently, this strategy only makes up a small portion of this industry's results. However, it may become an increasingly important long-term opportunity. Another way firms have been trying to boost performance is by improving cost controls. Firms have also been looking to evolve their business model in an effort to create more sustainable growth. Companies have developed new ventures such as the ones mentioned above, while others have added bolt-on acquisitions to improve their position in this mature market. As a result, we believe that there will probably continue to be consolidation in this industry for the foreseeable future. All told, these strategies have been necessary for companies to continue to grow their business.

Weather

Weather is another factor that firms have to contend with in the Natural Gas Utility industry. Unseasonably warm or cold weather can create increased volatility. As a result, the predictable growth these firms enjoy can be disrupted. Some of these utilities hedge their risk through weather-adjusted rate mechanisms. This can minimize volatility if these weather abnormalities occur. Therefore, investors interested in firms with more stable performance should look for companies that use these strategies.

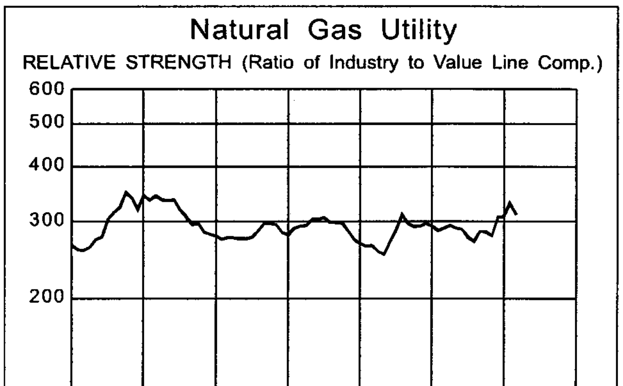
Investment Consideration

The majority of the stocks in this industry have subpar prospects over the 3- to 5-year pull. Additionally, the lion's share of the equities in this industry are ranked average or lower for Timeliness. Therefore, we believe performance-minded investors should look elsewhere. However, conservative income-oriented accounts may be attracted by these companies' above-average yields.

Richard Gallagher

Composite Statistics: Natural Gas Utility

2004	2005	2006	2007	2008	2009		11-13
33220	41399	41401	**44500**	**46500**	**49500**	Revenues ($mill)	**61500**
1517.2	1788.8	1823.0	**2050**	**2150**	**2350**	Net Profit ($mill)	**3000**
35.7%	35.8%	36.1%	**36.0%**	**36.0%**	**36.0%**	Income Tax Rate	**36.0%**
4.6%	4.3%	4.4%	**4.6%**	**4.6%**	**4.7%**	Net Profit Margin	**4.9%**
53.2%	50.7%	52.0%	**51.0%**	**51.0%**	**51.0%**	Long-Term Debt Ratio	**52.0%**
45.7%	48.3%	47.0%	**48.0%**	**48.0%**	**48.0%**	Common Equity Ratio	**46.0%**
31268	33911	35357	**36750**	**38000**	**39750**	Total Capital ($mill)	**44000**
32053	35030	35944	**39000**	**41000**	**43000**	Net Plant ($mill)	**47500**
6.4%	6.9%	6.7%	**7.0%**	**7.0%**	**7.5%**	Return on Total Cap'l	**8.0%**
10.4%	10.7%	10.7%	**11.5%**	**11.5%**	**12.0%**	Return on Shr. Equity	**12.5%**
10.5%	10.8%	11.0%	**11.5%**	**11.5%**	**12.0%**	Return on Com Equity	**12.5%**
4.0%	4.4%	4.6%	**5.2%**	**5.3%**	**5.5%**	Retained to Com Eq	**6.0%**
63%	59%	59%	**60%**	**60%**	**60%**	All Div'ds to Net Prof	**60%**
15.6	16.2	15.8				Avg Ann'l P/E Ratio	**13.0**
.82	.87	.90		*Bold figures are Value Line estimates*		Relative P/E Ratio	**.85**
4.0%	3.6%	3.6%				Avg Ann'l Div'd Yield	**4.6%**
308%	331%	315%	**325%**	**325%**	**330%**	Fixed Charge Coverage	**330%**



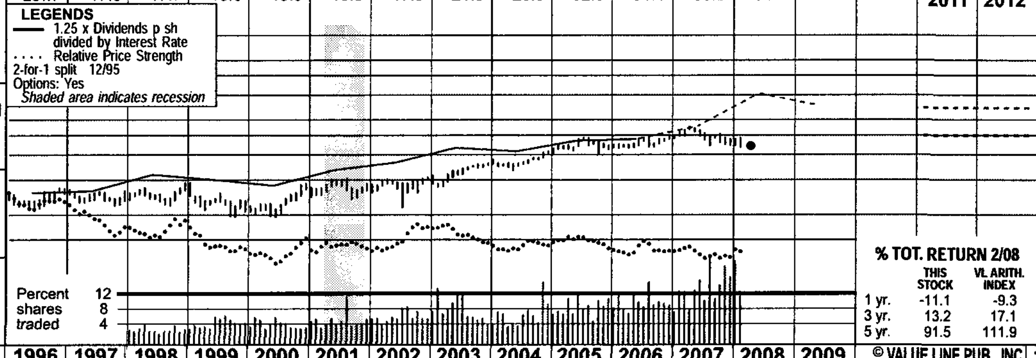
AGL RESOURCES NYSE-ATG

RECENT PRICE	35.54	P/E RATIO	12.4 (Trailing: 13.0; Median: 14.0)	RELATIVE P/E RATIO	0.80	DIV'D YLD	4.7%	VALUE LINE

TIMELINESS **3** Raised 3/14/08
SAFETY **2** New 7/27/90
TECHNICAL **3** Raised 12/21/07
BETA .85 (1.00 = Market)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
High:	21.6	23.4	23.4	23.2	24.5	25.0	29.3	33.7	39.3	40.1	44.7	39.1
Low:	17.8	17.7	15.6	15.5	19.0	17.3	21.9	26.5	32.0	34.4	35.2	34.4

Target Price Range 2011 | 2012 | 2013



2011-13 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+55%)	15%
Low	40	(+15%)	7%

Insider Decisions

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

Institutional Decisions

	2Q2007	3Q2007	4Q2007
to Buy	132	106	128
to Sell	101	112	99
Hld's(000)	50323	47302	47469

% TOT. RETURN 2/08

	THIS STOCK	VL ARITH. INDEX
1 yr.	-11.1	-9.3
3 yr.	13.2	17.1
5 yr.	91.5	111.9

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
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	32.64	**34.55**	**36.20**	Revenues per sh A	**41.25**
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	4.50	4.77	**4.95**	**5.15**	"Cash Flow" per sh	**5.65**
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	2.72	**2.80**	**2.90**	Earnings per sh A B	**3.20**
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	**1.68**	**1.72**	Div'ds Decl'd per sh C■	**1.84**
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	3.39	**3.50**	**3.60**	Cap'l Spending per sh	**3.65**
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	21.74	**22.35**	**23.05**	Book Value per sh D	**22.50**
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	76.40	**76.00**	**76.00**	Common Shs Outst'g E	**80.00**
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	14.7	*Bold figures are*	*Value Line*	Avg Ann'l P/E Ratio	**15.0**
.94	1.06	.99	.84	.86	.85	.72	1.22	.88	.75	.68	.71	.69	.76	.73	.77	*estimates*		Relative P/E Ratio	**1.00**
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%	4.1%			Avg Ann'l Div'd Yield	**3.8%**
						1338.6	1068.6	607.4	1049.3	868.9	983.7	1832.0	2718.0	2621.0	2494.0	**2625**	**2750**	Revenues ($mill) A	**3300**
						80.6	52.1	71.1	82.3	103.0	132.4	153.0	193.0	212.0	210.5	**215**	**225**	Net Profit ($mill)	**260**
						32.5%	33.1%	34.3%	40.7%	36.0%	35.9%	37.0%	37.7%	37.8%	37.6%	**38.0%**	**38.0%**	Income Tax Rate	**38.0%**
						6.0%	4.9%	11.7%	7.8%	11.9%	13.5%	8.4%	7.1%	8.1%	8.4%	**8.2%**	**8.2%**	Net Profit Margin	**7.9%**
						47.5%	45.3%	45.9%	61.3%	58.3%	50.3%	54.0%	51.9%	50.2%	50.2%	**50.0%**	**50.0%**	Long-Term Debt Ratio	**50.0%**
						47.1%	49.2%	48.3%	38.7%	41.7%	49.7%	46.0%	48.1%	49.8%	49.8%	**50.0%**	**50.0%**	Common Equity Ratio	**50.0%**
						1388.4	1345.8	1286.2	1736.3	1704.3	1901.4	3008.0	3114.0	3231.0	3335.0	**3400**	**3500**	Total Capital ($mill)	**3600**
						1534.0	1598.9	1637.5	2058.9	2194.2	2352.4	3178.0	3271.0	3436.0	3566.0	**3700**	**3800**	Net Plant ($mill)	**4150**
						7.6%	5.7%	7.4%	6.5%	8.1%	8.9%	6.3%	7.9%	8.0%	7.5%	**7.5%**	**8.0%**	Return on Total Cap'l	**8.5%**
						11.1%	7.1%	10.2%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	12.7%	**12.5%**	**13.0%**	Return on Shr. Equity	**14.5%**
						12.3%	7.9%	11.5%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	12.7%	**12.5%**	**13.0%**	Return on Com Equity	**14.5%**
						4.4%	NMF	3.2%	4.2%	7.0%	6.6%	5.6%	6.2%	6.3%	5.3%	**5.0%**	**5.5%**	Retained to Com Eq	**6.5%**
						64%	101%	72%	65%	52%	53%	49%	52%	52%	58%	**59%**	**58%**	All Div'ds to Net Prof	**57%**

CAPITAL STRUCTURE as of 12/31/07
Total Debt $2254.0 mill. **Due in 5 Yrs** $897.0 mill.
LT Debt $1674.0 mill. **LT Interest** $95.0 mill.

(Total interest coverage: 3.7x)
Leases, Uncapitalized Annual rentals $26.0 mill.

Pension Assets-12/07 $383.0 mill. **Oblig.** $427.0 mill.
Pfd Stock None
Common Stock 76,439,305 shs. as of 1/31/08

MARKET CAP: $2.7 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2005	2006	12/31/07
Cash Assets	30.0	20.0	21.0
Other	2002.0	1802.0	1790.0
Current Assets	2032.0	1822.0	1811.0
Accts Payable	264.0	213.0	172.0
Debt Due	522.0	539.0	580.0
Other	1153.0	875.0	893.0
Current Liab.	1939.0	1627.0	1645.0
Fix. Chg. Cov.	442%	397%	391%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '05-'07 to '11-'13
Revenues	3.5%	13.5%	*3.5%*
"Cash Flow"	5.5%	7.0%	*4.0%*
Earnings	7.0%	15.0%	*3.5%*
Dividends	2.5%	4.0%	*4.0%*
Book Value	6.5%	10.5%	*1.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	908	430	387	993	2718
2006	1044	436	434	707	2621
2007	973	467	369	685	2494
2008	***1000***	***475***	***400***	***750***	***2625***
2009	***1025***	***500***	***425***	***800***	***2750***

Cal-endar	EARNINGS PER SHARE B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	1.14	.30	.19	.85	2.48
2006	1.41	.25	.46	.60	2.72
2007	1.29	.40	.17	.86	2.72
2008	***1.35***	***.35***	***.30***	***.80***	***2.80***
2009	***1.35***	***.40***	***.35***	***.80***	***2.90***

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	.41	1.64
2008	.42				

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. Sold Utilipro, 3/01. Acquired Compass Energy Services, 10/07. 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.: Ten Peachtree Place N.E., Atlanta, GA 30309. Telephone: 404-584-4000. Internet: www.aglresources.com.

AGL Resources reported solid performance for the fourth quarter. Revenues declined slightly in the recent interim. However, the company enjoyed lower operating costs, and the bottom-line improved considerably. But share earnings for 2007 as a whole only matched the prior year's figure, owing to unfavorable comparisons in the first and third quarters. Operating earnings were lower at the company's Wholesale Services business, resulting from a significant decrease in commercial activity due to lower volatility *in* the natural gas market during the year. Performance was supported by solid earnings growth in the company's Distribution Operations, and a strong bottom-line advance in its Retail Energy Operations. The Distribution business benefited from modest customer growth and higher base rates at Chattanooga Gas. The Retail Energy line experienced higher average customer usage, a greater customer base, and increased late payment fees.

Earnings growth ought to resume in 2008. The company has initiated share-net guidance of $2.75 to $2.85 for the current year. Our estimate lies at the midpoint of this range. This assumes normal weather patterns and average volatility for gas prices in 2008. Earnings per share stand a good chance of advancing at about the same deliberate pace in 2009, as well.

The board of directors recently approved a modest dividend increase. The quarterly dividend will now increase to $0.42, beginning with the March payout. This represents slower growth than in the past few years, which makes sense, considering the company's flat earning comparison for 2007 and its lower cash balance in recent times. Nevertheless, *this* level of dividend growth will probably continue going forward.

These shares have improved a notch in Timeliness, and are now ranked 3 (Average). That said, this issue earns good marks for Safety and Price Stability, and we project steady earnings growth at AGL Resources over the pull to 2011-2013. Income-seeking investors may also find this stock attractive, considering its healthy dividend yield. Overall, these shares offer worthwhile total return potential for the coming years.

Michael Napoli, CPA *March 14, 2008*

(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 April/early May.
(C) Dividends historically paid early March, June, Sept., and Dec. ■ Div'd reinvest. plan available.
(D) Includes intangibles. In 2007: $420 million, $5.50/share.
(E) In millions, adjusted for stock split.

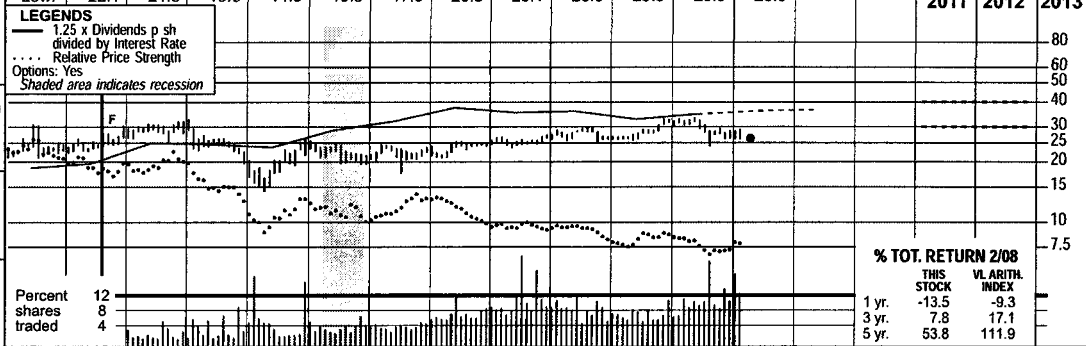
Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	70
Earnings Predictability	80

ATMOS ENERGY CORP. NYSE-ATO

RECENT PRICE	26.34	P/E RATIO	13.2 (Trailing: 14.5 / Median: 16.0)	RELATIVE P/E RATIO	0.85	DIV'D YLD	5.0%	VALUE LINE

TIMELINESS 3 Raised 1/25/08
SAFETY 2 Raised 12/16/05
TECHNICAL 3 Lowered 3/7/08
BETA .85 (1.00 = Market)

High:	30.5	32.3	33.0	26.3	25.8	24.5	25.5	27.6	30.0	33.1	33.5	29.3
Low:	22.1	24.8	19.6	14.3	19.5	17.6	20.8	23.4	25.0	25.5	23.9	25.8



2011-13 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+50%)	15%
Low	30	(+15%)	8%

Insider Decisions

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

Institutional Decisions

	2Q2007	3Q2007	4Q2007
to Buy	115	100	113
to Sell	101	112	104
Hld's(000)	58169	56311	59007

% TOT. RETURN 2/08

	THIS STOCK	VL ARITH. INDEX
1 yr.	-13.5	-9.3
3 yr.	7.8	17.1
5 yr.	53.8	111.9

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

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
27.90	22.09	26.61	35.36	22.82	54.39	46.50	61.75	75.27	66.03	***65.30***	***64.65***	Revenues per sh A	***76.50***
3.38	2.62	3.01	3.03	3.39	3.23	2.91	3.90	4.26	4.14	***4.25***	***4.35***	"Cash Flow" per sh	***4.65***
1.84	.81	1.03	1.47	1.45	1.71	1.58	1.72	2.00	1.94	***2.00***	***2.10***	Earnings per sh A B	***2.45***
1.06	1.10	1.14	1.16	1.18	1.20	1.22	1.24	1.26	1.28	***1.30***	***1.32***	Div'ds Decl'd per sh C■	***1.40***
4.44	3.53	2.36	2.77	3.17	3.10	3.03	4.14	5.20	4.39	***4.85***	***5.00***	Cap'l Spending per sh	***6.20***
12.21	12.09	12.28	14.31	13.75	16.66	18.05	19.90	20.16	22.01	***22.75***	***22.50***	Book Value per sh	***25.15***
30.40	31.25	31.95	40.79	41.68	51.48	62.80	80.54	81.74	89.33	***94.00***	***99.00***	Common Shs Outst'g D	***115.00***
15.4	33.0	18.9	15.6	15.2	13.4	15.9	16.1	13.5	15.9	*Bold figures are*	*Value Line*	Avg Ann'l P/E Ratio	***14.5***
.80	1.88	1.23	.80	.83	.76	.84	.86	.73	.83	*estimates*		Relative P/E Ratio	***.95***
3.7%	4.1%	5.9%	5.1%	5.4%	5.2%	4.9%	4.5%	4.7%	4.2%			Avg Ann'l Div'd Yield	***4.0%***
848.2	690.2	850.2	1442.3	950.8	2799.9	2920.0	4973.3	6152.4	5898.4	***6140***	***6400***	Revenues ($mill) A	***8800***
55.3	25.0	32.2	56.1	59.7	79.5	86.2	135.8	162.3	170.5	***190***	***210***	Net Profit ($mill)	***280***
36.5%	35.0%	36.1%	37.3%	37.1%	37.1%	37.4%	37.7%	37.6%	35.8%	***36.0%***	***36.0%***	Income Tax Rate	***38.0%***
6.5%	3.6%	3.8%	3.9%	6.3%	2.8%	3.0%	2.7%	2.6%	2.9%	***3.1%***	***3.3%***	Net Profit Margin	***3.2%***
51.8%	50.0%	48.1%	54.3%	53.9%	50.2%	43.2%	57.7%	57.0%	52.0%	***51.0%***	***52.0%***	Long-Term Debt Ratio	***51.0%***
48.2%	50.0%	51.9%	45.7%	46.1%	49.8%	56.8%	42.3%	43.0%	48.0%	***49.0%***	***48.0%***	Common Equity Ratio	***49.0%***
769.7	755.1	755.7	1276.3	1243.7	1721.4	1994.8	3785.5	3828.5	4092.1	***4360***	***4640***	Total Capital ($mill)	***5900***
917.9	965.8	982.3	1335.4	1300.3	1516.0	1722.5	3374.4	3629.2	3836.8	***4040***	***4250***	Net Plant ($mill)	***5450***
9.0%	5.1%	6.5%	5.9%	6.8%	6.2%	5.8%	5.3%	6.1%	5.9%	***6.0%***	***6.0%***	Return on Total Cap'l	***6.5%***
14.9%	6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	***9.0%***	***9.5%***	Return on Shr. Equity	***9.5%***
14.9%	6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	***9.0%***	***9.5%***	Return on Com Equity	***9.5%***
6.3%	NMF	NMF	2.1%	1.9%	2.8%	1.7%	2.3%	3.6%	3.0%	***3.0%***	***3.5%***	Retained to Com Eq	***4.0%***
58%	NMF	112%	79%	82%	70%	77%	73%	63%	65%	***64%***	***62%***	All Div'ds to Net Prof	***58%***

CAPITAL STRUCTURE as of 12/31/07
Total Debt $2330.8 mill. **Due in 5 Yrs** $920.0 mill.
LT Debt $2124.9 mill. **LT Interest** $125.0 mill.
(LT interest earned: 2.9x; total interest coverage: 2.8x)
Leases, Uncapitalized Annual rentals $16.9 mill.
Pfd Stock None
Pension Assets-9/07 $389.1 mill. **Oblig.** $335.6 mill.
Common Stock 89,957,651 shs. **as of 1/30/08**
MARKET CAP: $2.4 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2006	2007	12/31/07
Cash Assets	75.8	60.7	51.9
Other	1041.7	1008.2	1468.1
Current Assets	1117.5	1068.9	1520.0
Accts Payable	345.1	355.3	739.8
Debt Due	385.6	154.4	205.9
Other	388.5	410.0	389.9
Current Liab.	1119.2	919.7	1335.6
Fix. Chg. Cov.	408%	405%	400%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '05-'07 to '11-'13
Revenues	8.5%	19.0%	*2.0%*
"Cash Flow"	4.0%	5.5%	*2.0%*
Earnings	3.5%	7.5%	*4.5%*
Dividends	2.5%	1.5%	*2.0%*
Book Value	7.0%	9.0%	*3.5%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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	1002.0	5898.4
2008	1657.5	***2135***	***1280***	***1067.5***	***6140***
2009	***1600***	***1600***	***1600***	***1600***	***6400***

Fiscal Year Ends	EARNINGS PER SHARE A B E Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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.05	1.94
2008	.82	***1.30***	***d.07***	***d.05***	***2.00***
2009	***.90***	***1.30***	***d.06***	***d.04***	***2.10***

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	.325	1.29
2008	.325				

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 2007 gas volumes: 297 MMcf. Breakdown: 56%, residential; 32%, commercial; 8%, industrial; and 4% other. 2007 depreciation rate 3.7%. Has around 4,470 employees. Officers and directors own approximately 1.8% of common stock (12/07 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 began fiscal 2008 (ends September 30th) on a sour note. That was attributable primarily to the nonregulated marketing segment, which experienced a drop in margins because of less volatility in natural gas prices. We look for this trend to continue, barring major storm activity.

But one bright spot was the utility unit, thanks to higher rates in Texas, Louisiana, Tennessee, and Kentucky. It should also be mentioned that mechanisms reducing exposure to possible adverse weather patterns during the 2007-2008 winter heating season are in place for virtually all operations.

Nonetheless, we think share net will advance only 3%, to $2.00, this fiscal year. The bottom line stands to increase at a somewhat stronger 5% pace, to $2.10 a share, in fiscal 2009, assuming additional expansion in operating margins. Please note that our estimates exclude amounts from pending rate cases in Texas, where Atmos is seeking a $52 million increase in annual revenues, and Kansas (where a $5 million boost in annual revenues is being sought).

We envision steady, albeit unspectacular, earnings gains out to 2011-2013. With the utility unit currently serving customers across 12 states, Atmos does not depend on the business climate in any one region of the country. Moreover, the nonregulated segments, particularly pipelines, possess healthy overall prospects. Lastly, management will undoubtedly stick to its winning strategy of purchasing less-efficient utilities and shoring up their profitability via expense-reduction initiatives, rate relief, and aggressive marketing efforts. (Future business combinations are not factored into our presentation, however.) In the present configuration, annual share-net growth may be in the mid-single-digit range over the 3- to 5-year horizon.

The good-quality stock offers an attractive dividend, which is well covered by the company's earnings. Further moderate increases in the distribution seem plausible.

Risk-adjusted total return possibilities are decent, too. But the shares are ranked only 3 (Average) for Timeliness.

Frederick L. Harris, III *March 14, 2008*

(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '99, d23¢; '00, 12¢; '03, d17¢; '06, d18¢; '07, d2¢. Next egs. rpt. due early May. (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	25
Earnings Predictability	80

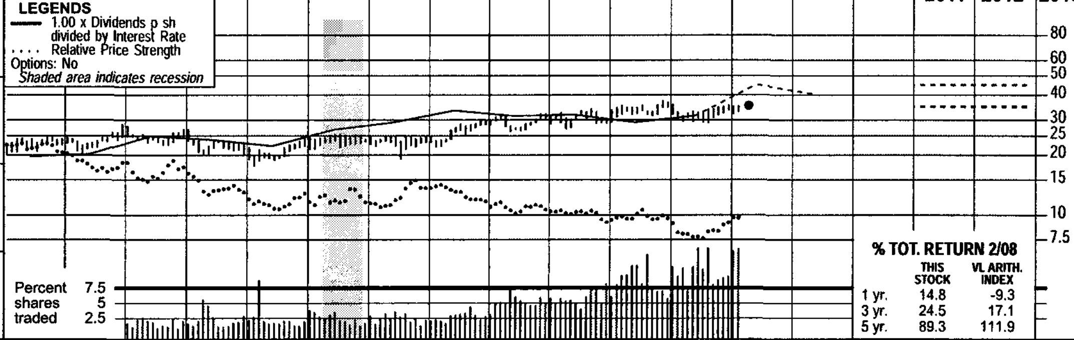
LACLEDE GROUP NYSE-LG

RECENT PRICE **35.50** | P/E RATIO **15.1** (Trailing: 14.8, Median: 15.0) | RELATIVE P/E RATIO **0.97** | DIV'D YLD **4.3%** | **VALUE LINE**

TIMELINESS 3 Raised 9/14/07
SAFETY 2 Raised 6/20/03
TECHNICAL 3 Lowered 2/29/08
BETA .90 (1.00 = Market)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
High:	28.6	27.9	27.0	24.8	25.5	25.0	30.0	32.5	34.3	37.5	36.0	35.5
Low:	20.3	22.4	20.0	17.5	21.3	19.0	21.8	26.0	26.9	29.1	28.8	31.9

LEGENDS
— 1.00 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: No
Shaded area indicates recession



Target Price Range 2011 | 2012 | 2013

2011-13 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+25%)	*10%*
Low	35	(Nil)	*4%*

Insider Decisions

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

Institutional Decisions

	2Q2007	3Q2007	4Q2007
to Buy	67	57	64
to Sell	50	57	51
Hld's(000)	9261	9337	9951

Percent shares traded 7.5 / 5 / 2.5

% TOT. RETURN 2/08

	THIS STOCK	VL ARITH. INDEX
1 yr.	14.8	-9.3
3 yr.	24.5	17.1
5 yr.	89.3	111.9

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
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	93.40	*92.75*	*91.55*	Revenues per sh	*107.85*
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	3.87	*4.10*	*4.30*	"Cash Flow" per sh	*5.10*
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	2.31	*2.35*	*2.35*	Earnings per sh A B	*2.70*
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*	*1.53*	Div'ds Decl'd per sh C■	*1.65*
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	2.72	*2.85*	*2.95*	Cap'l Spending per sh	*3.70*
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	19.79	*20.65*	*21.15*	Book Value per sh D	*24.95*
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	21.65	*22.00*	*22.50*	Common Shs Outst'g E	*25.50*
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	14.2	*Bold figures are*		Avg Ann'l P/E Ratio	*15.0*
.96	.80	1.08	1.04	.75	.72	.81	.90	.97	.74	1.09	.78	.83	.86	.73	.75	*Value Line*		Relative P/E Ratio	*1.00*
6.5%	5.6%	5.3%	6.3%	5.6%	5.6%	5.4%	5.8%	6.6%	5.7%	5.7%	5.4%	4.7%	4.4%	4.3%	4.4%	*estimates*		Avg Ann'l Div'd Yield	*4.1%*

CAPITAL STRUCTURE as of 12/31/07
Total Debt $650.1 mill. **Due in 5 Yrs** $275.0 mill.
LT Debt $355.5 mill. **LT Interest** $20.0 mill.
(Total interest coverage: 3.0x)

Leases, Uncapitalized Annual rentals $.9 mill.
Pension Assets-9/07 $260.3 mill. **Oblig.** $293.3 mill.
Pfd Stock $.6 mill. **Pfd Div'd** $.04 mill.
Common Stock 21,788,966 shs. **as of 1/31/08**

MARKET CAP: $775 million (Small Cap)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009		11-13
547.2	491.6	566.1	1002.1	755.2	1050.3	1250.3	1597.0	1997.6	2021.6	*2040*	*2060*	Revenues ($mill) A	*2750*
27.9	26.9	26.0	30.5	22.4	34.6	36.1	40.1	50.5	49.8	*51.5*	*53.0*	Net Profit ($mill)	*70.0*
35.6%	35.5%	35.2%	32.7%	35.4%	35.0%	34.8%	34.1%	32.5%	33.4%	*33.5%*	*34.0%*	Income Tax Rate	*36.0%*
5.1%	5.5%	4.6%	3.0%	3.0%	3.3%	2.9%	2.5%	2.5%	2.5%	*2.5%*	*2.6%*	Net Profit Margin	*2.5%*
40.9%	41.8%	45.2%	49.5%	47.5%	50.4%	51.6%	48.1%	49.5%	45.3%	*45.0%*	*45.0%*	Long-Term Debt Ratio	*47.0%*
58.6%	57.8%	54.5%	50.2%	52.3%	49.4%	48.3%	51.8%	50.4%	54.6%	*55.0%*	*55.0%*	Common Equity Ratio	*53.0%*
438.0	488.6	519.2	574.1	546.6	605.0	737.4	707.9	798.9	784.5	*825*	*865*	Total Capital ($mill)	*1200*
490.6	519.4	575.4	602.5	594.4	621.2	646.9	679.5	763.8	793.8	*820*	*850*	Net Plant ($mill)	*1150*
8.1%	7.1%	6.7%	6.9%	6.0%	7.4%	6.6%	7.6%	8.4%	8.5%	*7.5%*	*7.5%*	Return on Total Cap'l	*7.0%*
10.8%	9.5%	9.1%	10.5%	7.8%	11.5%	10.1%	10.9%	12.5%	11.6%	*11.5%*	*11.0%*	Return on Shr. Equity	*11.0%*
10.8%	9.5%	9.1%	10.5%	7.8%	11.6%	10.1%	10.9%	12.5%	11.6%	*11.5%*	*11.0%*	Return on Com Equity	*11.0%*
1.8%	1.0%	.2%	1.8%	NMF	3.1%	2.7%	3.1%	5.1%	4.3%	*4.0%*	*4.0%*	Retained to Com Eq	*4.5%*
83%	89%	98%	83%	113%	74%	73%	72%	59%	63%	*64%*	*65%*	All Div'ds to Net Prof	*60%*

CURRENT POSITION ($MILL.)	2006	2007	12/31/07
Cash Assets	50.8	52.7	66.9
Other	409.0	414.6	495.5
Current Assets	459.8	467.3	562.4
Accts Payable	103.3	106.8	128.6
Debt Due	207.5	251.6	294.6
Other	120.1	115.3	129.0
Current Liab.	430.9	473.7	552.2
Fix. Chg. Cov.	285%	282%	280%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '05-'07 to '11-'13
Revenues	11.5%	16.5%	3.5%
"Cash Flow"	1.5%	5.5%	6.5%
Earnings	3.0%	9.5%	3.5%
Dividends	1.0%	1.0%	2.5%
Book Value	3.0%	4.5%	5.0%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.)A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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	323.3	2021.6
2008	541.4	*708*	*447*	*343.6*	*2040*
2009	*515*	*515*	*515*	*515*	*2060*

Fiscal Year Ends	EARNINGS PER SHARE A B F Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2005	.79	1.06	.29	d.24	1.90
2006	1.23	1.05	.13	d.04	2.37
2007	.89	.97	.43	.03	2.31
2008	.97	*.97*	*.36*	*.05*	*2.35*
2009	*.96*	*1.01*	*.33*	*.05*	*2.35*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	.365	1.46
2008	.375				

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 632,000 customers. Purchased SM&P for approximately $43 million (1/02). Therms sold and transported in fiscal 2007: 1.12 mill. Revenue mix for regulated operations: residential, 60%; commercial and industrial, 24%; transportation, 1%; other, 15%. Has around 3,845 employees. Officers and directors own approximately 7.0% of common shares (1/08 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.thelacledegroup.com.

Laclede Group began fiscal 2008 (which ends September 30th) on a decent note. That can be attributed largely to Laclede Energy Resources, which enjoyed higher per-unit gas sales prices and increased volumes (held back a bit by a rise in operating expenses). Furthermore, results for Laclede Gas, the core subsidiary, benefited from a general rate hike that became effective on August 1st of last year, that, among other things, provides greater earnings stability and recovery of its distribution costs. But partial offsets here included a decline in margins within the service area (reflecting an unusually late start to the winter heating season) and increased maintenance costs. At this juncture, we look for earnings per share to advance at a moderate rate, to $2.35, this fiscal year. The bottom line may be relatively flat in fiscal 2009, given the utility operation's limited growth prospects.

Management intends to sell SM&P Utility Resources, the unregulated unit specializing in locating and marking services for underground facilities, to Stripe Acquisition. A portion of the $85 million in proceeds (nearly double what Laclede paid for SM&P in 2002) would be used to bolster the balance sheet. We think SM&P was not central to present corporate strategy, as it accounted for just around 6% of fiscal 2007 share net. (Our presentation will exclude the divestiture when it is completed shortly, pending customary closing conditions.)

Unexciting results appear to be in store for the company over the next three to five years. The market in which the natural gas division operates has encountered sluggish customer growth for some time because it is in a mature phase. Too, we don't see any major acquisitions on the horizon. Consequently, annual share-net gains may be between 4% and 5% out to 2011-2013.

Total return potential is limited. That's because Laclede shares are currently trading within our 3- to 5-year Target Price Range, and we assume moderate hikes in the dividend (just increased 2.7%). What's more, the equity is ranked to perform only in line with the broader market averages.

Frederick L. Harris, III *March 14, 2008*

(A) Fiscal year ends Sept. 30th.
(B) Based on average shares outstanding thru. '97, then diluted. Excludes nonrecurring loss: '06, 7¢. Next earnings report due late April.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) Incl. deferred charges. In '07: $289.7 mill., $13.38/sh.
(E) In millions.
(F) Qtly. egs. may not sum due to rounding or change in shares outstanding.

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

NICOR, INC. NYSE-GAS

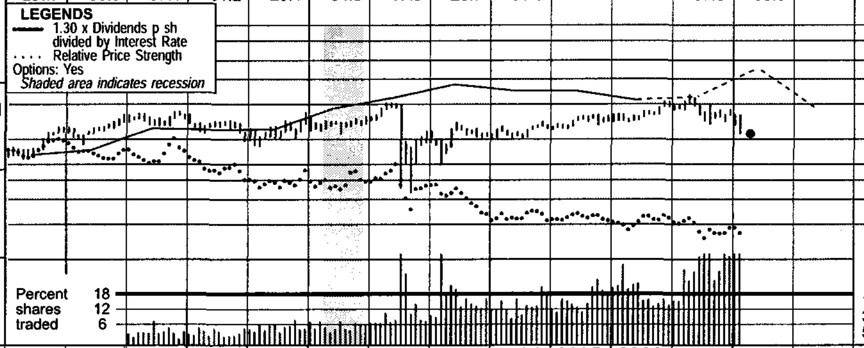
RECENT PRICE	P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD
34.12	13.7 (Trailing: 11.9 / Median: 15.0)	0.88	5.5%

VALUE LINE

TIMELINESS **3** Raised 12/7/07
SAFETY **3** Lowered 6/17/05
TECHNICAL **3** Lowered 2/15/08
BETA 1.00 (1.00 = Market)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
High:	42.9	44.4	42.9	43.9	42.4	49.0	39.3	39.7	43.0	49.9	53.7	42.7		
Low:	30.0	37.1	31.2	29.4	34.0	17.3	23.7	32.0	35.5	38.7	37.8	33.6		

Target Price Range 2011 | 2012 | 2013



2011-13 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+75%)	19%
Low	40	(+15%)	9%

Insider Decisions

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

Institutional Decisions

	2Q2007	3Q2007	4Q2007
to Buy	119	93	96
to Sell	111	123	111
Hld's(000)	37018	36014	32986

% TOT. RETURN 2/08

	THIS STOCK	VL ARITH. INDEX
1 yr.	-23.5	-9.3
3 yr.	4.3	17.1
5 yr.	44.1	111.9

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
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	70.27	**74.45**	**77.80**	Revenues per sh	**80.45**
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	**6.95**	**6.70**	**7.25**	"Cash Flow" per sh	**8.00**
1.92	1.97	2.07	1.96	2.42	2.55	2.31	2.57	2.94	3.01	2.88	2.11	2.22	2.27	2.87	2.74	**2.25**	**2.60**	Earnings per sh A	**3.25**
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**	**1.90**	Div'ds Decl'd per sh B	**1.90**
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**	**4.55**	**4.65**	Cap'l Spending per sh	**4.65**
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	**20.40**	**20.80**	**21.50**	Book Value per sh	**24.25**
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	45.20	**45.00**	**45.00**	Common Shs Outst'g C	**46.00**
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	16.3	*Bold figures are*		Avg Ann'l P/E Ratio	**16.0**
.70	.83	.82	.88	.78	.82	.92	.83	.77	.66	.72	.90	.84	.92	.81	.86	*Value Line*		Relative P/E Ratio	**1.05**
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%	4.2%	*estimates*		Avg Ann'l Div'd Yield	**4.5%**
						1465.1	1615.2	2298.1	2544.1	1897.4	2662.7	2739.7	3357.8	2960.0	3176.3	**3350**	**3500**	Revenues ($mill)	**3700**
						111.1	121.9	136.4	136.3	128.0	93.1	98.1	101.1	128.3	135.2	**100**	**115**	Net Profit ($mill)	**150**
						34.4%	34.7%	34.8%	33.5%	31.0%	35.2%	31.8%	28.3%	26.3%	**30.0%**	**31.0%**	**31.5%**	Income Tax Rate	**33.0%**
						7.6%	7.5%	5.9%	5.4%	6.7%	3.5%	3.6%	3.0%	4.3%	4.3%	**3.0%**	**3.3%**	Net Profit Margin	**4.0%**
						42.1%	35.5%	32.7%	37.8%	35.1%	39.6%	39.8%	37.4%	36.3%	**30.0%**	**27.0%**	**24.0%**	Long-Term Debt Ratio	**21.0%**
						57.4%	64.0%	66.7%	61.7%	64.5%	60.3%	60.1%	62.5%	63.7%	**70.0%**	**73.0%**	**76.0%**	Common Equity Ratio	**79.0%**
						1322.6	1230.1	1061.2	1180.1	1128.9	1251.5	1246.0	1297.7	1370.7	**1315**	**1285**	**1250**	Total Capital ($mill)	**1400**
						1731.8	1735.2	1729.6	1768.6	1796.8	2484.2	2549.8	2659.1	2714.1	**2850**	**3000**	**3050**	Net Plant ($mill)	**3400**
						9.9%	10.9%	13.7%	12.3%	12.2%	8.3%	8.8%	9.4%	10.9%	**11.0%**	**9.5%**	**11.0%**	Return on Total Cap'l	**12.0%**
						14.5%	15.4%	19.1%	18.6%	17.5%	12.3%	13.1%	12.5%	14.7%	**13.5%**	**11.0%**	**12.0%**	Return on Shr. Equity	**13.5%**
						14.6%	15.4%	19.2%	18.7%	17.5%	12.3%	13.1%	12.5%	14.7%	**13.5%**	**11.0%**	**12.0%**	Return on Com Equity	**13.5%**
						5.4%	6.2%	8.5%	7.9%	6.5%	1.5%	2.1%	2.3%	5.2%	**4.5%**	**2.0%**	**3.5%**	Retained to Com Eq	**5.5%**
						63%	60%	56%	58%	63%	88%	84%	81%	65%	**67%**	**82%**	**73%**	All Div'ds to Net Prof	**58%**

CAPITAL STRUCTURE as of 12/31/07
Total Debt $867.4 mill. **Due in 5 Yrs** $422.7 mill.
LT Debt $423.3 mill. **LT Interest** $32.0 mill.
(Total interest coverage: 4.6x)

Pension Assets-12/06 $478.7 mill. **Oblig.** $262.2 mill.

Pfd Stock $.6 mill. **Pfd Div'd** None

Common Stock 45,135,079 shares as of 10/26/07
MARKET CAP: $1.5 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2005	2006	12/31/07
Cash Assets	126.9	67.6	91.1
Other	1218.8	843.1	932.7
Current Assets	1345.7	910.7	1023.8
Accts Payable	658.2	564.5	662.7
Debt Due	636.0	350.0	444.0
Other	328.7	227.9	169.7
Current Liab.	1622.9	1142.4	1276.4
Fix. Chg. Cov.	367%	543%	544%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '11-'13
Revenues	7.5%	7.5%	2.5%
"Cash Flow"	3.5%	1.0%	3.5%
Earnings	1.5%	-3.0%	4.0%
Dividends	4.0%	2.5%	.5%
Book Value	3.0%	2.5%	4.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	1179.9	484.4	336.0	1357.5	3357.8
2006	1319.4	451.3	351.1	838.2	2960.0
2007	1334.7	556.9	365.2	919.5	3176.3
2008	**1350**	**575**	**375**	**1050**	**3350**
2009	**1400**	**600**	**400**	**1100**	**3500**

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.98	.35	d.06	1.02	2.29
2006	.94	.41	.39	1.29	3.03
2007	.93	.40	.32	1.09	2.74
2008	**.82**	**.33**	**.25**	**.85**	**2.25**
2009	**.90**	**.35**	**.30**	**1.05**	**2.60**

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	.465	1.86
2008	.465				

BUSINESS: Nicor Inc. is a holding company with gas distribution as its primary business. Serves over 2.2 million customers in northern and western Illinois. 2007 gas delivered: 468.3 Bcf, incl. 212.1 Bcf from transportation. 2007 gas sales (256.2 bcf): residential, 79%; commercial, 19%; 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 posted disappointing results in 2007. Earnings were down in all four quarters year over year, due to higher costs and a decline in utility earnings. Additionally, the gas distribution segment struggled, which also hurt profitability. However, the company managed to post an increase on the top line as a result of a solid performance in the shipping business.

Management revised its guidance for 2008. Indeed, Nicor now expects the bottom line to be between $2.20 and $2.40 a share. The new outlook is notably lower than our $2.90 earnings estimate from our last report. Upon news of the revised guidance, GAS shares declined slightly. In response, we have dropped our share-net estimate to $2.25 for 2008.

The company may seek rate relief. Management is evaluating the need for a filing with the Illinois Commerce Commission. The process usually takes about a year, and a positive ruling would help Nicor meet its allowed return. The company would also likely seek a rate mechanism that decouples gas revenues from gas sales, which would further help results. Until Nicor gains rate relief, these shares may not show any special strength.

We are introducing our 2009 estimates. The company should post earnings of roughly $2.60 a share on sales of about $3.5 billion. Management's focus on cost controls should help GAS rebound.

This stock offers an above-average dividend yield. Nicor offers a yield that is double the *Value Line* median despite not raising its payout in recent years. What's more, we believe the board will increase the distribution in the coming years once the regulatory environment improves.

This issue has below-average capital appreciation potential over the 3- to 5-year pull. However, if the company receives rate relief and continues to improve its cost controls, the long-term picture should improve. Moreover, Nicor's other energy-related ventures may also help drive growth over this time frame.

These shares are ranked to mirror the market in the year ahead. Despite the company's solid balance sheet and diversified business, this issue has limited appeal at this time.

Richard Gallagher *March 14, 2008*

(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¢); '07 (13¢). Excl. items from discontinued ops.: '93, 4¢; '96, 30¢. Next egs. report due late April.
(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	90
Price Growth Persistence	25
Earnings Predictability	75

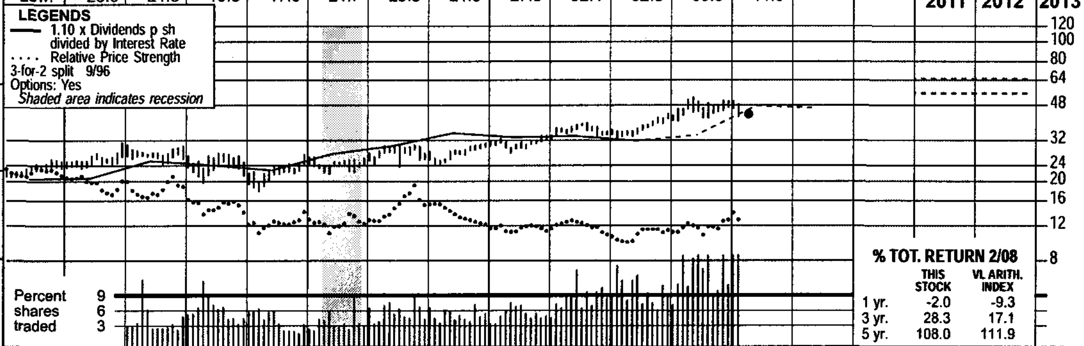
N.W. NAT'L GAS NYSE-NWN

RECENT PRICE	43.28	P/E RATIO	17.2 (Trailing: 16.1 / Median: 16.0)	RELATIVE P/E RATIO	1.11	DIV'D YLD	3.6%	VALUE LINE

TIMELINESS 4 Lowered 2/22/08
SAFETY 1 Raised 3/18/05
TECHNICAL 3 Lowered 2/29/08
BETA .80 (1.00 = Market)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
High:		31.4	30.8	27.9	27.5	26.8	30.7	31.3	34.1	39.6	43.7	52.8	50.7				
Low:		23.0	24.3	19.5	17.8	21.7	23.5	24.0	27.5	32.4	32.8	39.8	41.5				

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



Target Price Range 2011 | 2012 | 2013

2011-13 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	65	(+50%)	14%
Low	55	(+25%)	10%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	1	0	0	0	0	0	0	0	0
Options	0	1	0	0	0	0	0	4	0
to Sell	0	1	0	0	1	0	0	5	1

Institutional Decisions

	2Q2007	3Q2007	4Q2007
to Buy	94	66	95
to Sell	65	88	60
Hld's(000)	16847	16048	16848

Percent shares traded 9 6 3

% TOT. RETURN 2/08

	THIS STOCK	VL ARITH. INDEX
1 yr.	-2.0	-9.3
3 yr.	28.3	17.1
5 yr.	108.0	111.9

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
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	39.12	*41.35*	*42.90*	Revenues per sh	*48.20*
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	4.76	5.41	*5.40*	*5.70*	"Cash Flow" per sh	*6.60*
.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	2.76	*2.60*	*2.75*	Earnings per sh A	*3.35*
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*	*1.60*	Div'ds Decl'd per sh B■	*1.88*
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	4.48	*4.60*	*6.80*	Cap'l Spending per sh	*4.50*
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	21.97	22.52	*23.00*	*23.75*	Book Value per sh	*26.50*
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	27.28	26.41	*26.00*	*26.00*	Common Shs Outst'g C	*28.00*
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	15.9	16.7	*Bold figures are*		Avg Ann'l P/E Ratio	*18.0*
1.64	.76	.85	.86	.73	.83	1.39	.83	.81	.66	.94	.90	.88	.91	.86	.88	*Value Line*		Relative P/E Ratio	*1.20*
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%	3.1%	*estimates*		Avg Ann'l Div'd Yield	*3.1%*

CAPITAL STRUCTURE as of 12/31/07
Total Debt $660.1 mill. **Due in 5 Yrs** $179.7 mill.
LT Debt $512.0 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 26,407,000 shs.

MARKET CAP $1.1 billion (Mid Cap)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009		11-13
416.7	455.8	532.1	650.3	641.4	611.3	707.6	910.5	1013.2	1033.2	*1075*	*1115*	Revenues ($mill)	*1350*
27.3	44.9	47.8	50.2	43.8	46.0	50.6	58.1	65.2	74.5	*68.0*	*71.5*	Net Profit ($mill)	*94.0*
31.0%	35.4%	35.9%	35.4%	34.9%	33.7%	34.4%	36.0%	36.3%	37.2%	*37.0%*	*37.0%*	Income Tax Rate	*37.0%*
6.6%	9.9%	9.0%	7.7%	6.8%	7.5%	7.1%	6.4%	6.4%	7.2%	*6.1%*	*6.4%*	Net Profit Margin	*6.9%*
45.0%	46.0%	45.1%	43.0%	47.6%	49.7%	46.0%	47.0%	46.3%	46.3%	*46.5%*	*46.5%*	Long-Term Debt Ratio	*47.0%*
50.6%	49.9%	50.9%	53.2%	51.5%	50.3%	54.0%	53.0%	53.7%	53.7%	*53.5%*	*53.5%*	Common Equity Ratio	*53.0%*
815.6	861.5	887.8	880.5	937.3	1006.6	1052.5	1108.4	1116.5	1106.8	*1150*	*1200*	Total Capital ($mill)	*1500*
894.7	895.9	934.0	965.0	995.6	1205.9	1318.4	1373.4	1425.1	1495.9	*1550*	*1650*	Net Plant ($mill)	*2000*
5.0%	6.8%	6.7%	6.9%	5.9%	5.7%	5.9%	6.5%	7.1%	*8.5%*	*7.0%*	*7.0%*	Return on Total Cap'l	*7.0%*
6.1%	9.7%	9.8%	10.0%	8.9%	9.1%	8.9%	9.9%	10.9%	12.5%	*11.0%*	*11.0%*	Return on Shr. Equity	*11.0%*
6.0%	9.9%	10.0%	10.2%	8.5%	9.0%	8.9%	9.9%	10.9%	12.5%	*11.0%*	*11.0%*	Return on Com Equity	*11.0%*
NMF	2.8%	3.1%	3.5%	1.9%	2.6%	2.7%	3.7%	4.5%	6.0%	*5.0%*	*5.0%*	Retained to Com Eq	*5.0%*
118%	74%	70%	67%	79%	72%	69%	63%	59%	52%	*58%*	*56%*	All Div'ds to Net Prof	*56%*

CURRENT POSITION ($MILL.)	2005	2006	12/31/07
Cash Assets	7.1	5.8	6.1
Other	316.6	303.0	268.8
Current Assets	323.7	308.8	274.9
Accts Payable	135.3	113.6	119.7
Debt Due	134.7	129.6	148.1
Other	56.6	98.3	122.1
Current Liab.	326.6	341.5	389.9
Fx. Chg. Cov.	340%	349%	NMF

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '11-'13
Revenues	6.5%	8.0%	6.5%
"Cash Flow"	2.0%	3.0%	5.0%
Earnings	2.0%	3.5%	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
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	124.2	331.7	1033.2
2008	*405*	*190*	*125*	*355*	*1075*
2009	*415*	*200*	*130*	*370*	*1115*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	1.44	.04	d.31	.94	2.11
2006	1.48	.07	d.35	1.15	2.35
2007	1.77	.10	d.22	1.11	2.76
2008	*1.60*	*.10*	*d.30*	*1.20*	*2.60*
2009	*1.70*	*.10*	*d.30*	*1.25*	*2.75*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	.375	1.44
2008	.375				

BUSINESS: Northwest Natural Gas Co. distributes natural gas to 90 communities, 652,000 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 1,100. 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 benefited from unusually high gas cost savings in 2007. The company retains one-third of the difference between forecasted and actual gas costs in Oregon, passing on two-thirds to its customers. Last year, it earned a record $0.27 a share through skillful gas buying, mostly in the first and third quarters. While Northwest has usually made a small profit on gas *purchasing*, it has shared a loss on the activity about a quarter of the time. Ignoring the commodity profits and some other unusual items, NWN would have earned about $2.45 a share in 2007, a respectable but not extraordinary performance.

We look for a roughly 6% earnings gain, from normalized 2007 results, this year. Northwest's customer growth, at over 3% per year for many years, slowed to 2.4% in 2007. Customer growth will likely continue to ease in 2008 as the Portland area suffers a bit from the widespread housing problems but should remain above the national average. The company is increasing its marketing efforts directed at persuading people to switch to gas heat, and that should bear fruit this year. Operating costs, which rose just 1% on a normalized basis last year, will likely grow slower than revenues.

Another mild earnings gain is likely in 2009. By then, customer growth will probably be heading back toward the recent 3% average. Northwest will have completed its work reorganization program, including outsourcing some functions and centralizing others. And the company could start to *benefit from* enhanced automated meter-reading capacity.

Continued customer growth and two large projects should help boost earnings toward the end of our time horizon. Portland's high-density zoning has been expanded many times over the last 30 years, making it profitable to lay gas mains. An expansion to the southeast of the city should add substantially to customer growth over the next 10 years. And by 2011, NWN will probably invest around $300 million in a gas storage project in California and a new pipeline in Oregon.

These top-quality shares, though untimely, have worthwhile risk-adjusted total-return potential.

Sigourney B. Romaine *March 14, 2008*

(A) Diluted earnings per share. Excludes nonrecurring items: '98, $0.15; '00, $0.11; '06, ($0.06). Next earnings report due late April.
(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	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD
24.98	16.7	(Trailing: 17.8) (Median: 17.0)	1.08	4.0%

VALUE LINE

TIMELINESS 3 Raised 6/15/07
SAFETY 2 New 7/27/90
TECHNICAL 3 Lowered 3/7/08
BETA .85 (1.00 = Market)

2011-13 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+80%)	19%
Low	35	(+40%)	12%

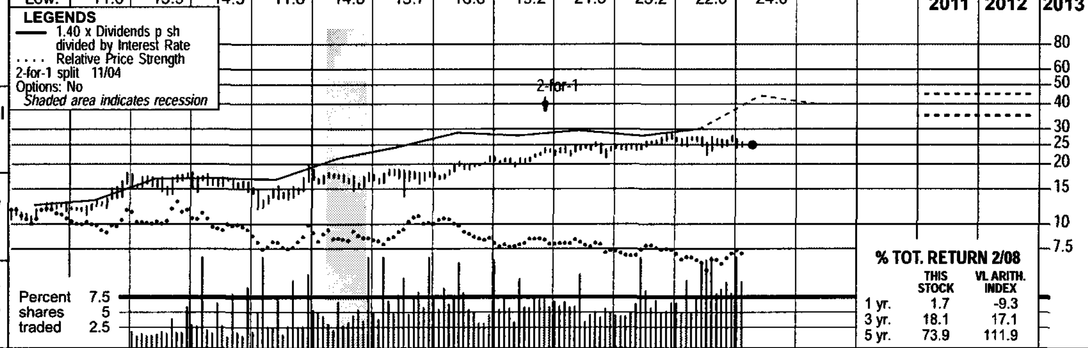
Insider Decisions

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

Institutional Decisions

	2Q2007	3Q2007	4Q2007
to Buy	84	78	85
to Sell	77	80	81
Hld's(000)	35264	35472	36470

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
High:	18.2	18.1	18.3	19.7	19.0	19.0	22.0	24.3	25.8	28.4	28.0	27.0
Low:	11.0	13.9	14.3	11.8	14.6	13.7	16.6	19.2	21.3	23.2	22.0	24.0



% TOT. RETURN 2/08

	THIS STOCK	VL ARITH. INDEX
1 yr.	1.7	-9.3
3 yr.	18.1	17.1
5 yr.	73.9	111.9

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
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	23.37	*24.20*	*24.95*	Revenues per sh A	*27.55*
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	2.51	2.64	*2.75*	*2.80*	"Cash Flow" per sh	*3.00*
.70	.73	.68	.73	.84	.93	.98	.93	1.01	1.01	.95	1.11	1.27	1.32	1.28	1.40	*1.50*	*1.55*	Earnings per sh B	*1.75*
.46	.48	.51	.54	.57	.61	.64	.68	.72	.76	.80	.82	.85	.91	.95	.99	*1.04*	*1.08*	Div'ds Decl'd per sh C■	*1.20*
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	1.85	*2.00*	*2.05*	Cap'l Spending per sh	*2.30*
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	11.99	*12.45*	*12.85*	Book Value per sh D	*14.30*
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	73.23	*73.00*	*72.75*	Common Shs Outst'g E	*72.00*
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	19.2	18.7	*Bold figures are*		Avg Ann'l P/E Ratio	*22.0*
.75	.91	1.03	.92	.87	.78	.85	1.01	.93	.86	1.01	.95	.88	.95	1.04	.98	*Value Line*		Relative P/E Ratio	*1.50*
5.3%	4.3%	4.8%	5.4%	4.9%	4.8%	4.0%	4.1%	5.0%	4.5%	4.6%	4.4%	4.1%	3.8%	3.9%	3.8%	*estimates*		Avg Ann'l Div'd Yield	*3.1%*

CAPITAL STRUCTURE as of 10/31/07
Total Debt $1019.9 mill. **Due in 5 Yrs** $150.0 mill.
LT Debt $824.9 mill. **LT Interest** $55.7 mill.
(LT interest earned: 4.0x; total interest coverage: 4.0x)

Pension Assets-10/07 $225.0 mill. **Oblig.** $188.7 mill.

Pfd Stock None

Common Stock 73,233,664 shs. as of 12/20/07
MARKET CAP: $1.8 billion (Mid Cap)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009		11-13
765.3	686.5	830.4	1107.9	832.0	1220.8	1529.7	1761.1	1924.6	1711.3	*1765*	*1815*	Revenues ($mill) A	*1985*
60.3	58.2	64.0	65.5	62.2	74.4	95.2	101.3	97.2	104.4	*110*	*115*	Net Profit ($mill)	*125*
39.2%	39.7%	34.7%	34.6%	33.1%	34.8%	35.1%	33.7%	34.2%	33.0%	*35.0%*	*35.0%*	Income Tax Rate	*35.0%*
7.9%	8.5%	7.7%	5.9%	7.5%	6.1%	6.2%	5.8%	5.0%	6.1%	*6.2%*	*6.2%*	Net Profit Margin	*6.4%*
44.7%	46.2%	46.1%	47.6%	43.9%	42.2%	43.6%	41.4%	48.3%	48.4%	*48.1%*	*47.8%*	Long-Term Debt Ratio	*46.7%*
55.3%	53.8%	53.9%	52.4%	56.1%	57.8%	56.4%	58.6%	51.7%	51.6%	*51.9%*	*52.2%*	Common Equity Ratio	*53.3%*
829.3	914.7	978.4	1069.4	1051.6	1090.2	1514.9	1509.2	1707.9	1703.3	*1750*	*1790*	Total Capital ($mill)	*1930*
990.6	1047.0	1072.0	1114.7	1158.5	1812.3	1849.8	1939.1	2075.3	2141.5	*2200*	*2250*	Net Plant ($mill)	*2400*
9.2%	8.1%	8.3%	7.9%	7.8%	8.6%	7.8%	8.2%	7.2%	7.8%	*7.5%*	*8.0%*	Return on Total Cap'l	*8.0%*
13.2%	11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	11.9%	*12.0%*	*12.0%*	Return on Shr. Equity	*12.5%*
13.2%	11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	11.9%	*12.0%*	*12.0%*	Return on Com Equity	*12.5%*
4.7%	3.3%	3.5%	3.0%	1.7%	3.1%	3.7%	3.6%	2.8%	3.5%	*3.5%*	*3.5%*	Retained to Com Eq	*4.0%*
65%	72%	71%	75%	83%	74%	66%	68%	74%	70%	*69%*	*70%*	All Div'ds to Net Prof	*68%*

CURRENT POSITION ($MILL.)	2005	2006	10/31/07
Cash Assets	7.1	8.9	7.5
Other	497.8	467.1	427.8
Current Assets	504.9	476.0	435.3
Accts Payable	182.8	80.3	97.2
Debt Due	193.5	170.0	195.0
Other	152.3	150.1	132.3
Current Liab.	528.6	400.4	424.5
Fix. Chg. Cov.	271%	261%	225%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '05-'07 to '11-'13
Revenues	8.0%	11.0%	*2.5%*
"Cash Flow"	5.5%	7.0%	*3.0%*
Earnings	5.0%	6.0%	*5.0%*
Dividends	5.0%	4.5%	*4.0%*
Book Value	6.0%	6.5%	*3.5%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2005	680.6	508.0	232.9	339.6	1761.1
2006	921.4	483.2	237.9	282.1	1924.7
2007	677.2	531.5	224.4	278.2	1711.3
2008	*685*	*540*	*240*	*300*	*1765*
2009	*697*	*553*	*250*	*315*	*1815*

Fiscal Year Ends	EARNINGS PER SHARE A B F Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2005	.93	.52	d.06	d.07	1.32
2006	.94	.57	d.16	d.08	1.27
2007	.94	.69	d.12	d.11	1.40
2008	*.95*	*.70*	*d.10*	*d.05*	*1.50*
2009	*1.00*	*.75*	*d.13*	*d.07*	*1.55*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.208	.215	.215	.215	.85
2005	.215	.23	.23	.23	.91
2006	.23	.24	.24	.24	.95
2007	.24	.25	.25	.25	.99
2009	.25				

BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 932,097 customers in North Carolina, South Carolina, and Tennessee. 2007 revenue mix: residential (54%), commercial (30%), industrial (14%), other (2%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 69.4% of revenues. '07 deprec. rate: 3.4%. Estimated plant age: 8.7 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 1,876 employees. Officers & directors own less than 1% of common stock (1/08 proxy). Chairman, CEO, & President: Thomas E. Skains. Inc.: NC. Addr.: 4720 Piedmont Row Drive, Charlotte, NC 28210. Telephone: 704-364-3120. Internet: www.piedmontng.com.

Piedmont Natural Gas likely posted relatively unchanged earnings for the first quarter (ended January 31st). The company was scheduled to report earnings for its January interim after this report went to press. We have racheted down our top-line estimate for 2008, though, we look for some progress this year. During the first quarter, Piedmont's revenues likely advanced in the low single-digit range. The reduced expectations stem from slower growth in the residential construction market. Subsequently, in an effort to increase volumes, PNY has been working on converting users of other types of energy to natural gas. Meanwhile, the fourth quarter of 2007 experienced warmer-than-normal weather. But that interim *is not* subject to the weather normalization clause (WNC) for its Tennessee and South Carolina service areas. The WNC protects the bottom line against decreased usage. The adjustment should help during the January interim, though. Overall, we look for a nominal advance in share net for the first quarter.

The company ought to experience better volume comparisons as the year progresses. And its revenues ought to advance approximately 3% this year and next. Efforts to gain customers from the conversion markets should help this cause. Furthermore, the company intends to file a general rate case in North Carolina, its largest service area. Meanwhile, its non-utility business ought to pick up steam as the Hardy Storage joint venture (JV) contributes to both top and bottom lines for the whole of 2008. And, we expect solid performance to persist from its South Star Energy JV.

All told, we look for the bottom line to advance 7% and 3% for this year and next, respectively. This ought to stem from continued investments in its natural gas infrastructure. Further streamlining and consolidation of business processes and operations should help maintain margins, as well.

The equity offers a solid dividend yield and decent total return potential to 2011-2013. Meanwhile, these shares are ranked to perform in line with the broader market averages for the year ahead.

Bryan Fong *March 14, 2008*

(A) Fiscal year ends October 31st.
(B) Diluted earnings. Excl. extraordinary item: '00, 8¢. Excl. nonrecurring charge: '97, 2¢. Next earnings report due early May.
(C) Dividends historically paid mid-January, April, July, October.
■ Div'd reinvest. plan available; 5% discount.
(D) Includes deferred charges. In 2007: $23.9 million, 33¢/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	55
Earnings Predictability	80

SOUTH JERSEY INDS. NYSE-SJI

RECENT PRICE **34.23** | P/E RATIO **15.3** (Trailing: 17.5 / Median: 14.0) | RELATIVE P/E RATIO **0.99** | DIV'D YLD **3.2%** | VALUE LINE

High:	15.3	15.4	15.4	15.1	17.0	18.3	20.3	26.5	32.4	34.3	41.3	38.4
Low:	10.5	11.0	10.8	12.3	13.8	14.1	15.3	19.7	24.9	25.6	31.2	33.6

Target Price Range 2011 | 2012 | 2013

TIMELINESS 4 Lowered 9/14/07

SAFETY 2 Lowered 1/4/91

TECHNICAL 2 Raised 3/14/08

BETA .80 (1.00 = Market)

2011-13 PROJECTIONS

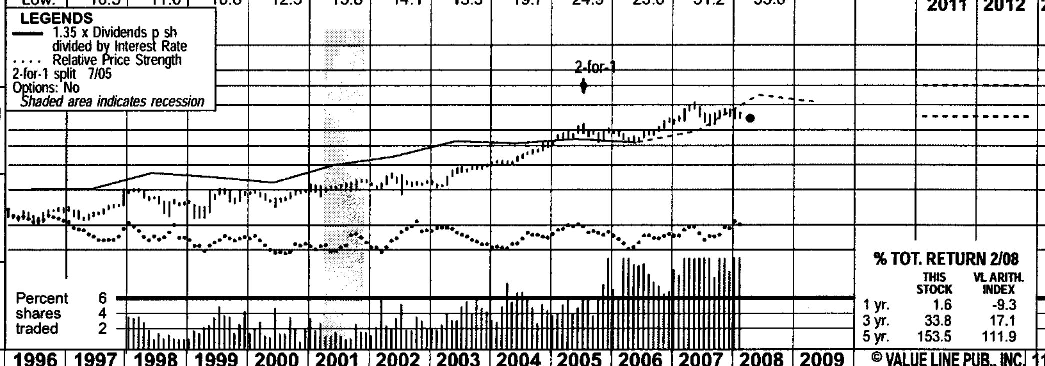
	Price	Gain	Ann'l Total Return
High	50	(+45%)	12%
Low	35	(Nil)	4%

Insider Decisions

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

Institutional Decisions

	2Q2007	3Q2007	4Q2007
to Buy	69	67	66
to Sell	64	58	59
Hld's(000)	16955	16787	16995



% TOT. RETURN 2/08

	THIS STOCK	VL ARITH. INDEX
1 yr.	1.6	-9.3
3 yr.	33.8	17.1
5 yr.	153.5	111.9

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
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	31.76	32.29	*34.35*	*36.05*	Revenues per sh	*39.05*
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	3.51	3.03	*3.20*	*3.50*	"Cash Flow" per sh	*4.05*
.81	.78	.61	.83	.85	.86	.64	1.01	1.08	1.15	1.22	1.37	1.58	1.71	2.46	2.09	*2.25*	*2.45*	Earnings per sh A	*3.00*
.71	.72	.72	.72	.72	.72	.72	.72	.73	.74	.75	.78	.82	.86	.92	1.01	*1.10*	*1.16*	Div'ds Decl'd per sh B ■	*1.28*
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	1.87	*2.15*	*2.45*	Cap'l Spending per sh	*3.15*
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	16.24	*17.35*	*18.35*	Book Value per sh C	*20.30*
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	29.62	*30.00*	*30.50*	Common Shs Outst'g D	*32.00*
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	17.2	*Bold figures are*		Avg Ann'l P/E Ratio	*14.0*
.80	.93	1.06	.82	.83	.80	1.10	.76	.85	.70	.74	.76	.74	.88	.64	.90	*Value Line*		Relative P/E Ratio	*.95*
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%	2.8%	*estimates*		Avg Ann'l Div'd Yield	*3.0%*

CAPITAL STRUCTURE as of 12/31/07
Total Debt $476.3 mill. **Due in 5 Yrs** $156.1 mill.
LT Debt $357.9 mill. **LT Interest** $21.0 mill.
(Total interest coverage: 4.8x)

Pension Assets-12/07 $120.4 mill. **Oblig.** $133.0 mill.

Pfd Stock none

Common Stock 29,624,492 common shs. **as of 2/23/08**

MARKET CAP: $1.0 billion (Mid Cap)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009		11-13
450.2	392.5	515.9	837.3	505.1	696.8	819.1	921.0	931.4	956.4	*1030*	*1100*	Revenues ($mill)	*1250*
13.8	22.0	24.7	26.8	29.4	34.6	43.0	48.6	72.0	61.9	*67.5*	*75.0*	Net Profit ($mill)	*95.0*
46.2%	42.8%	43.1%	42.2%	41.4%	40.6%	40.9%	41.5%	41.3%	*40.7%*	*40.0%*	*40.0%*	Income Tax Rate	*40.0%*
3.1%	5.6%	4.8%	3.2%	5.8%	5.0%	5.2%	5.3%	7.7%	6.5%	*6.6%*	*6.8%*	Net Profit Margin	*7.6%*
57.3%	53.8%	54.1%	57.0%	53.6%	50.8%	48.7%	44.9%	44.7%	42.7%	*41.5%*	*40.5%*	Long-Term Debt Ratio	*41.0%*
33.5%	37.0%	37.6%	35.9%	46.1%	49.0%	51.0%	55.1%	55.3%	57.3%	*58.5%*	*59.5%*	Common Equity Ratio	*59.0%*
401.1	405.9	443.5	516.2	512.5	608.4	675.0	710.3	801.1	839.0	*890*	*945*	Total Capital ($mill)	*1100*
504.3	533.3	562.2	607.0	666.6	748.3	799.9	877.3	920.0	948.9	*980*	*1015*	Net Plant ($mill)	*1200*
5.3%	7.4%	7.4%	6.9%	7.6%	7.3%	7.9%	8.3%	10.1%	*8.5%*	*9.0%*	*9.0%*	Return on Total Cap'l	*10.0%*
8.1%	11.7%	12.1%	12.1%	12.4%	11.5%	12.4%	12.4%	16.3%	12.9%	*13.0%*	*13.5%*	Return on Shr. Equity	*14.5%*
10.3%	14.6%	14.8%	12.8%	12.5%	11.6%	12.5%	12.4%	16.3%	12.9%	*13.0%*	*13.5%*	Return on Com Equity	*14.5%*
NMF	4.2%	4.8%	3.5%	4.7%	5.0%	5.9%	6.2%	10.2%	6.7%	*6.5%*	*7.0%*	Retained to Com Eq	*8.5%*
112%	72%	67%	76%	62%	57%	52%	50%	37%	48%	*49%*	*47%*	All Div'ds to Net Prof	*43%*

CURRENT POSITION ($MILL.)	2005	2006	12/31/07
Cash Assets	4.9	7.9	11.7
Other	352.6	363.8	316.6
Current Assets	357.5	371.7	328.3
Accts Payable	179.0	101.6	101.2
Debt Due	149.7	197.0	118.4
Other	74.4	124.2	108.7
Current Liab.	403.1	422.8	328.3
Fix. Chg. Cov.	486%	527%	476%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '05-'07 to '11-'13
Revenues	6.5%	4.5%	*3.5%*
"Cash Flow"	6.5%	8.5%	*NMF*
Earnings	9.5%	12.0%	*NMF*
Dividends	2.0%	3.5%	*5.5%*
Book Value	6.0%	13.5%	*5.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	156.2	260.1	956.4
2008	*390*	*190*	*170*	*280*	*1030*
2009	*405*	*205*	*190*	*300*	*1100*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.96	.27	.09	.39	1.71
2006	1.06	.20	.51	.69	2.46
2007	1.30	.21	d.05	.63	2.09
2008	*1.25*	*.25*	*.10*	*.65*	*2.25*
2009	*1.30*	*.30*	*.15*	*.70*	*2.45*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	--	.202	.202	.415	.82
2005	--	.213	.213	.438	.86
2006	--	.225	.225	.470	.92
2007	--	.245	.245	.515	1.01
2008					

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 335,663 customers in New Jersey's southern counties, which covers 2,500 square miles and includes Atlantic City. Gas revenue mix '07: residential, 46%; commercial, 23%; cogeneration and electric generation, 8%; industrial, 23%. Non-utility operations include: South Jersey Energy, South Jersey Resources Group, Marina Energy, and South Jersey Energy Service Plus. Has 604 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 a modest advance in revenues for 2007, although economic earnings increased roughly 14%. Utility South Jersey Gas benefited from continued growth in the customer base and lower interest costs. The company's nonutility operations also posted a solid performance. Readers are advised that our earnings-per-share figures are now based on economic earnings, a non-GAAP measure that excludes unrealized gains and losses from commodity derivative transactions. Thus, the share-net figures from 2007 onward are not directly comparable with those from previous years.

The company has solid long-term prospects. Natural gas remains the fuel of choice in the markets served by South Jersey Gas, as it enjoys a considerable price advantage over alternatives. Indeed, the vast majority of new homes built have chosen natural gas as their main heating source. Moreover, the company expects economic development in the Atlantic City area will boost housing demand in the coming years. In addition, this business ought to continue to benefit from the Conservation Incentive Program (CIP). This initiative allows South Jersey to promote energy conservation and insulate itself from the negative impact of lower customer usage. The CIP protected $7.5 million of net income during 2007, offsetting reduced customer utilization. Elsewhere, the performance of the nonutility Commodity Marketing business should continue to have an important impact on earnings. This unit maintains 10 billion cubic feet of gas storage capacity, which allows it to take advantage of volatility in natural gas pricing and lock in attractive profit margins. Looking forward, we anticipate moderate share-earnings and dividend growth in the current year. This pattern seems likely to continue in 2009, as well.

These shares are ranked to lag the broader market for the coming six to 12 months. Looking further out, we project solid bottom-line growth at South Jersey over the pull to 2011-2013. Moreover, this issue scores high marks for Price Stability and Earnings Predictability. Thus, this stock offers worthwhile total return potential for a natural gas utility.

Michael Napoli, CPA *March 14, 2008*

(A) Based on GAAP EPS through 2006, economic earnings thereafter. GAAP EPS: '07, $2.10. 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 late April. (B) Div'ds paid early Apr., Jul., Oct., and late Dec. ■ Div. reinvest. plan avail. (C) Incl. regulatory assets. In 2007: $188.7 mill., $6.37 per shr. (D) In millions, adjusted for split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	95
Earnings Predictability	85

WGL HOLDINGS NYSE-WGL

RECENT PRICE **31.83** | P/E RATIO **13.8** (Trailing: 14.9; Median: 15.0) | RELATIVE P/E RATIO **0.89** | DIV'D YLD **4.3%** | VALUE LINE

High:	31.4	30.8	29.4	31.5	30.5	29.5	28.8	31.4	34.8	33.6	35.9	34.6				
Low:	20.9	23.1	21.0	21.8	25.3	19.3	23.2	26.7	28.8	27.0	29.8	30.9				

TIMELINESS 3 Raised 5/25/07

SAFETY 1 Raised 4/2/93

TECHNICAL 3 Lowered 2/29/08

BETA .85 (1.00 = Market)

2011-13 PROJECTIONS

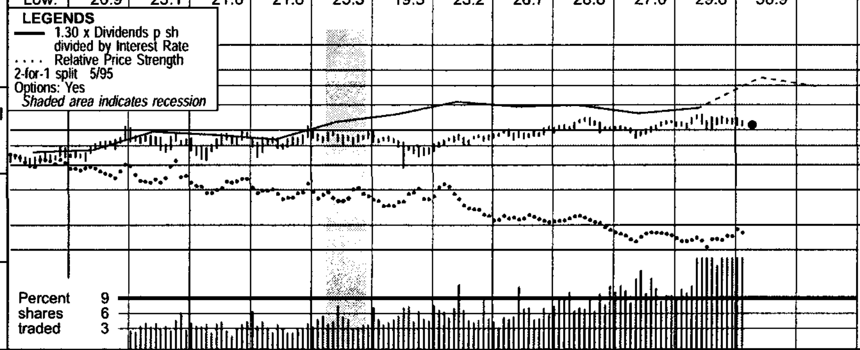
	Price	Gain	Ann'l Total Return
High	40	(+25%)	10%
Low	35	(+10%)	7%

Insider Decisions

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

Institutional Decisions

	2Q2007	3Q2007	4Q2007
to Buy	94	90	92
to Sell	81	96	94
Hld's(000)	35310	34163	35393



Target Price Range

2011	2012	2013

80 60 50 40 30 25 20 15 10 7.5

% TOT. RETURN 2/08

	THIS STOCK	VL ARITH. INDEX
1 yr.	3.2	-9.3
3 yr.	15.5	17.1
5 yr.	54.6	111.9

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
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	53.51	**54.55**	**56.05**	Revenues per sh A	**60.70**
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	3.89	**4.15**	**4.25**	"Cash Flow" per sh	**4.50**
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	2.10	**2.30**	**2.35**	Earnings per sh B	**2.50**
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	1.37	**1.40**	**1.44**	Div'ds Decl'd per sh C ■	**1.56**
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	3.33	**3.35**	**3.00**	Cap'l Spending per sh	**2.50**
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	19.83	**21.15**	**22.00**	Book Value per sh D	**24.95**
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	49.45	**49.50**	**49.60**	Common Shs Outst'g E	**50.00**
13.6	15.6	14.0	12.7	11.5	12.7	17.2	17.3	14.6	14.7	23.1	11.1	14.2	14.7	15.5	15.6	*Bold figures are*	*Value Line*	Avg Ann'l P/E Ratio	**15.0**
.82	.92	.92	.85	.72	.73	.89	.99	.95	.75	1.26	.63	.75	.78	.84	.82	*estimates*		Relative P/E Ratio	**1.00**
6.2%	5.3%	5.6%	6.1%	5.4%	5.0%	4.5%	4.8%	4.8%	4.6%	4.8%	5.0%	4.6%	4.2%	4.5%	4.2%			Avg Ann'l Div'd Yield	**4.2%**

CAPITAL STRUCTURE as of 12/31/07
Total Debt $941.0 mill. **Due in 5 Yrs** $399.5 mill.
LT Debt $593.5 mill. **LT Interest** $40.1 mill.
(LT interest earned: 6.7x; total interest coverage: 5.7x)

Pension Assets-9/07 $740.7 mill. **Oblig.** $680.3 mill.

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

Common Stock 49,464,057 shs. as of 1/31/08

MARKET CAP: $1.6 billion (Mid Cap)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009		11-13
1040.6	972.1	1031.1	1446.5	1584.8	2064.2	2089.6	2186.3	2637.9	2646.0	**2700**	**2780**	Revenues ($mill) A	**3035**
68.6	68.8	84.6	89.9	55.7	112.3	98.0	104.8	95.1	102.9	**114**	**117**	Net Profit ($mill)	**125**
35.6%	36.0%	36.1%	39.6%	34.0%	38.0%	38.2%	37.4%	39.0%	39.1%	**38.0%**	**38.0%**	Income Tax Rate	**38.0%**
6.6%	7.1%	8.2%	6.2%	3.5%	5.4%	4.7%	4.8%	3.6%	3.9%	**3.9%**	**4.0%**	Net Profit Margin	**4.2%**
40.3%	41.5%	43.1%	41.7%	45.7%	43.8%	40.9%	39.5%	38.5%	37.9%	**36.0%**	**35.0%**	Long-Term Debt Ratio	**32.0%**
57.1%	56.1%	54.8%	56.3%	52.4%	54.3%	57.2%	58.6%	61.5%	60.3%	**62.5%**	**63.5%**	Common Equity Ratio	**66.5%**
1064.8	1218.5	1299.2	1400.8	1462.5	1454.9	1443.6	1478.1	1497.8	1625.4	**1675**	**1720**	Total Capital ($mill)	**1875**
1319.5	1402.7	1460.3	1519.7	1606.8	1874.9	1915.6	1969.7	2067.9	2150.4	**2235**	**2325**	Net Plant ($mill)	**2615**
8.0%	7.1%	7.9%	7.9%	5.3%	9.1%	8.2%	8.5%	7.7%	7.6%	**8.0%**	**8.0%**	Return on Total Cap'l	**8.0%**
10.8%	9.7%	11.4%	11.0%	7.0%	13.7%	11.5%	11.7%	10.3%	10.2%	**11.0%**	**10.5%**	Return on Shr. Equity	**10.0%**
11.1%	9.9%	11.7%	11.2%	7.2%	14.0%	11.7%	12.0%	10.2%	10.4%	**11.5%**	**11.0%**	Return on Com Equity	**10.5%**
2.5%	1.8%	3.7%	3.8%	NMF	6.2%	4.1%	4.6%	3.1%	3.5%	**4.0%**	**4.0%**	Retained to Com Eq	**4.0%**
78%	82%	69%	67%	112%	56%	65%	62%	70%	66%	**61%**	**61%**	All Div'ds to Net Prof	**62%**

CURRENT POSITION ($MILL.)	2006	2007	12/31/07
Cash Assets	4.4	4.9	19.0
Other	556.9	568.8	878.3
Current Assets	561.3	573.7	897.3
Accts Payable	208.5	216.9	331.4
Debt Due	238.4	205.4	347.5
Other	113.9	134.8	237.5
Current Liab.	560.8	557.1	916.4
Fix. Chg. Cov.	465%	460%	460%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '05-'07 to '11-'13
Revenues	9.0%	12.5%	3.0%
"Cash Flow"	3.5%	5.0%	2.5%
Earnings	2.0%	5.0%	3.5%
Dividends	1.5%	1.5%	2.5%
Book Value	4.0%	3.5%	5.0%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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	325.7	2646.0
2008	751.6	**1140**	**458.4**	**350**	**2700**
2009	**770**	**1160**	**480**	**370**	**2780**

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2005	.88	1.63	d.17	d.23	2.11
2006	.93	1.17	d.01	d.15	1.94
2007	.92	1.27	.22	d.31	2.10
2008	.95	**1.30**	**.20**	**d.15**	**2.30**
2009	**.97**	**1.33**	**.25**	**d.20**	**2.35**

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	.34	1.36
2008	.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 (1,046,201 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 8.2% of common stock; Off./dir. less than 1% (1/08 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 has been experiencing progress with its rate cases. The company recently received approval for a rate hike in the District of Columbia (DOC). The incremental cash flow from the rate hike, which was not expected to be approved until March, added approximately $0.05 per share to the bottom line in the first quarter (ended December 31st). Furthermore, the earlier-than-expected rate increase has prompted us to raise our annual estimate by 5%, to $2.30 per share.

The company's earnings will likely get a 2%-3% lift for the March interim. WGL's gas and light utility division has been experiencing higher usage volumes and system charges as a result of 12,310 new customers. And it is expected to add about 5,200 more accounts by the end of fiscal 2008. Furthermore, the asset management business likely continued to enjoy strong off-system sales as excess reserves are released in order to meet the heightened demand during the colder winter months. These results ought to be partially offset by increased operation and maintenance costs.

We look for the share net to advance approximately 10% this year. Lifts in the top-line volumes ought to stem from the heightened rates in the DOC, additional customer growth, and expansion of the company's asset management program. Meanwhile, gas sales at the Washington Gas Energy Services unit have been down as a result of warmer-than-normal weather patterns. However, this unit's margins have been widening on a per-therm basis, offsetting the lower volumes and boosting the bottom line.

In 2009, the bottom-line increase ought to moderate. The majority of benefits from efficiency initiatives and the effects of the recent DOC rate hike will have cycled through by next year. Therefore, we look for earnings advances to slow to a low single-digit rate.

These neutrally ranked shares may appeal to income-oriented accounts. The equity offers a solid dividend yield. Meanwhile, the stock garners our Highest Safety rank (1), and our best mark for Price Stability (100), indicating suitability for conservative accounts with an eye on capital preservation.

Bryan Fong *March 14, 2008*

(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 April.
(C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available.
(D) Includes deferred charges and intangibles. '07: $322.2 million, $6.51/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 B

ZACKS
INVESTMENT RESEARCH
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Zacks.com Quotes and Research

ATLANTA GAS LIGHT (NYSE)				Scottrade
ATG	34.46	-0.09	(-0.26%)	Vol. 197,003	13:25 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.

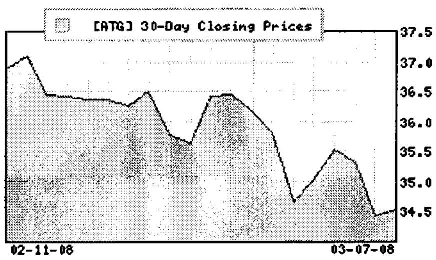
General Information

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	12/31/07
Next EPS Date	05/07/2008

Price and Volume Information

Zacks Rank	
Yesterday's Close	34.55
52 Week High	44.67
52 Week Low	34.44
Beta	0.46
20 Day Moving Average	437,597.56
Target Price Consensus	41.95



% Price Change		% Price Change Relative to S&P 500	
4 Week	-6.42	4 Week	-3.68
12 Week	-4.69	12 Week	8.18
YTD	-8.21	YTD	4.21

Share Information		Dividend Information	
Shares Outstanding (millions)	76.44	Dividend Yield	4.86%
		Annual Dividend	$1.68
Market Capitalization (millions)	2,640.97	Payout Ratio	0.60
Short Ratio	1.89	Change in Payout Ratio	0.04
Last Split Date	12/04/1995	Last Dividend Payout / Amount	02/13/2008 / $0.42

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	1.34	Current (1=Strong Buy, 5=Strong Sell)	2.00
Current Year EPS Consensus Estimate	2.82	30 Days Ago	2.00
Estimated Long-Term EPS Growth Rate	4.80	60 Days Ago	2.00
Next EPS Report Date	05/07/2008	90 Days Ago	1.88

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	12.26	vs. Previous Year	43.33%	vs. Previous Year	-3.11%
Trailing 12 Months:	12.66	vs. Previous Quarter	405.88%	vs. Previous Quarter:	85.64%
PEG Ratio	2.58				
Price Ratios		**ROE**		**ROA**	
Price/Book	1.59	12/31/07	12.72	12/31/07	3.57

Price/Cash Flow	7.45	09/30/07	11.67	09/30/07	3.27
Price / Sales	1.06	06/30/07	13.15	06/30/07	3.66
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/07	1.10	12/31/07	0.77	12/31/07	8.46
09/30/07	1.04	09/30/07	0.56	09/30/07	7.63
06/30/07	1.08	06/30/07	0.62	06/30/07	8.33
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/07	13.55	12/31/07	13.55	12/31/07	21.69
09/30/07	12.28	09/30/07	12.28	09/30/07	20.89
06/30/07	13.41	06/30/07	13.41	06/30/07	21.49
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
12/31/07	2.49	12/31/07	1.01	12/31/07	50.89
09/30/07	2.50	09/30/07	0.95	09/30/07	49.47
06/30/07	2.59	06/30/07	0.92	06/30/07	48.65

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Zacks.com Quotes and Research

ATMOS ENERGY CP (NYSE)

Scottrade

ATO	25.81	▲0.03	(0.12%)	Vol. 347,800	12:58 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.

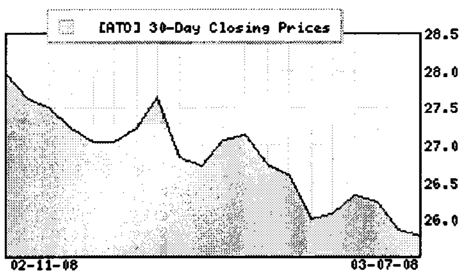
General Information

ATMOS ENERGY CP
Three Lincoln Centre, 5430 Lbj Freeway
Suite 1800
Dallas, TX 75240
Phone: 972 934-9227
Fax: 972 855-3040
Web: www.atmosenergy.com
Email: InvestorRelations@atmosenergy.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	September
Last Reported Quarter	12/31/07
Next EPS Date	05/07/2008

Price and Volume Information

Zacks Rank	2
Yesterday's Close	25.78
52 Week High	33.47
52 Week Low	23.87
Beta	0.76
20 Day Moving Average	491,138.56
Target Price Consensus	30.29



% Price Change

4 Week	-6.29
12 Week	-4.09
YTD	-8.06

% Price Change Relative to S&P 500

4 Week	-3.54
12 Week	8.85
YTD	4.38

Share Information

Shares Outstanding (millions)	89.96
Market Capitalization (millions)	2,319.12
Short Ratio	6.61
Last Split Date	05/17/1994

Dividend Information

Dividend Yield	5.04%
Annual Dividend	$1.30
Payout Ratio	0.71
Change in Payout Ratio	0.05
Last Dividend Payout / Amount	02/21/2008 / $0.32

EPS Information

Current Quarter EPS Consensus Estimate	1.38
Current Year EPS Consensus Estimate	1.99
Estimated Long-Term EPS Growth Rate	4.60
Next EPS Report Date	05/07/2008

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.11
30 Days Ago	2.11
60 Days Ago	2.00
90 Days Ago	2.00

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	12.95	vs. Previous Year	-15.46%	vs. Previous Year	3.42%
Trailing 12 Months:	14.09	vs. Previous Quarter	2,150.00%	vs. Previous Quarter:	65.41%
PEG Ratio	2.82				

Price Ratios		ROE		ROA	
Price/Book	1.14	12/31/07	8.14	12/31/07	2.67
Price/Cash Flow	6.18	09/30/07	8.64	09/30/07	2.81
Price / Sales	0.39	06/30/07	10.30	06/30/07	3.24
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/07	1.14	12/31/07	0.72	12/31/07	2.74
09/30/07	1.16	09/30/07	0.60	09/30/07	2.89
06/30/07	1.22	06/30/07	0.80	06/30/07	3.32
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/07	4.22	12/31/07	4.22	12/31/07	22.62
09/30/07	4.45	09/30/07	4.45	09/30/07	22.05
06/30/07	5.05	06/30/07	5.05	06/30/07	22.39
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
12/31/07	9.87	12/31/07	1.05	12/31/07	51.11
09/30/07	9.98	09/30/07	1.08	09/30/07	51.96
06/30/07	10.11	06/30/07	1.07	06/30/07	51.68

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LACLEDE GROUP INC (NYSE)

Scottrade

LG	34.30	▲0.35	(1.03%)	Vol. 59,200	12:59 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

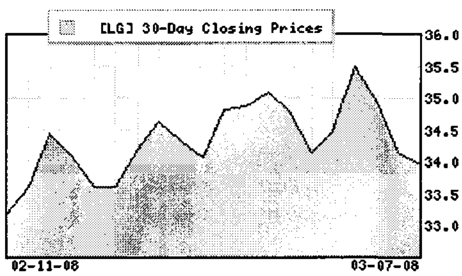
LACLEDE GRP INC
720 Olive Street
St. Louis, MO 63101
Phone: 314-342-0500
Fax: -
Web: www.thelacledegroup.com
Email: mkullman@lacledegas.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	September
Last Reported Quarter	12/31/07
Next EPS Date	04/25/2008

Price and Volume Information

Zacks Rank	
Yesterday's Close	33.95
52 Week High	35.72
52 Week Low	28.84
Beta	0.79
20 Day Moving Average	148,388.95
Target Price Consensus	N/A



% Price Change		% Price Change Relative to S&P 500	
4 Week	2.35	4 Week	5.35
12 Week	0.83	12 Week	14.44
YTD	-0.85	YTD	12.57

Share Information		Dividend Information	
Shares Outstanding (millions)	21.79	Dividend Yield	4.42%
		Annual Dividend	$1.50
Market Capitalization (millions)	739.74	Payout Ratio	0.63
Short Ratio	11.60	Change in Payout Ratio	-0.07
Last Split Date	03/08/1994	Last Dividend Payout / Amount	03/07/2008 / $0.38

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.94	Current (1=Strong Buy, 5=Strong Sell)	3.00
Current Year EPS Consensus Estimate	2.28	30 Days Ago	3.00
Estimated Long-Term EPS Growth Rate	-	60 Days Ago	3.00
Next EPS Report Date	04/25/2008	90 Days Ago	3.00

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	14.89	vs. Previous Year	8.99%	vs. Previous Year	0.33%
Trailing 12 Months:	14.15	vs. Previous Quarter	3,133.33%	vs. Previous Quarter:	67.46%
PEG Ratio	-				

Price Ratios		ROE		ROA	
Price/Book	1.67	12/31/07	11.91	12/31/07	3.20

Price/Cash Flow	8.34	09/30/07	11.64	09/30/07	3.12
Price / Sales	0.37	06/30/07	11.48	06/30/07	3.07
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/07	1.02	12/31/07	0.73	12/31/07	2.55
09/30/07	0.99	09/30/07	0.64	09/30/07	2.46
06/30/07	1.09	06/30/07	0.84	06/30/07	2.46
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/07	3.84	12/31/07	3.84	12/31/07	20.32
09/30/07	3.70	09/30/07	3.70	09/30/07	19.80
06/30/07	3.73	06/30/07	3.73	06/30/07	20.13
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
12/31/07	13.60	12/31/07	0.81	12/31/07	44.63
09/30/07	12.85	09/30/07	0.83	09/30/07	45.32
06/30/07	12.81	06/30/07	0.82	06/30/07	45.02

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Zacks.com Quotes and Research

NICOR INC (NYSE)				Scottrade	
GAS	33.11	▲0.10	(0.30%)	Vol. 341,691	13:00 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

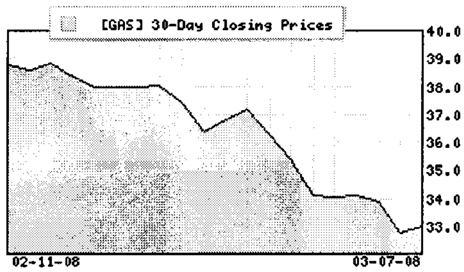
NICOR INC
1844 Ferry Road
Naperville, IL 60563-9600
Phone: 630 305-9500
Fax: 630 983-9328
Web: www.nicor.com
Email: None

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	December
Last Reported Quarter	12/31/07
Next EPS Date	04/25/2008

Price and Volume Information

Zacks Rank	
Yesterday's Close	33.01
52 Week High	53.66
52 Week Low	32.74
Beta	0.91
20 Day Moving Average	865,557.50
Target Price Consensus	43.33



% Price Change		% Price Change Relative to S&P 500	
4 Week	-15.27	4 Week	-12.79
12 Week	-22.35	12 Week	-11.87
YTD	-22.05	YTD	-11.51

Share Information		Dividend Information	
Shares Outstanding (millions)	45.13	Dividend Yield	5.63%
		Annual Dividend	$1.86
Market Capitalization (millions)	1,489.91	Payout Ratio	0.65
Short Ratio	8.36	Change in Payout Ratio	-0.11
Last Split Date	04/27/1993	Last Dividend Payout / Amount	12/27/2007 / $0.47

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.71	Current (1=Strong Buy, 5=Strong Sell)	3.20
Current Year EPS Consensus Estimate	2.64	30 Days Ago	2.80
Estimated Long-Term EPS Growth Rate	4.00	60 Days Ago	2.75
Next EPS Report Date	04/25/2008	90 Days Ago	2.75

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	12.48	vs. Previous Year	-5.43%	vs. Previous Year	9.70%
Trailing 12 Months:	11.50	vs. Previous Quarter	281.25%	vs. Previous Quarter:	151.78%
PEG Ratio	3.12				

Price Ratios		ROE		ROA	
Price/Book	1.58	12/31/07	14.12	12/31/07	3.21

Price/Cash Flow	4.73	09/30/07	14.71	09/30/07	3.31
Price / Sales	0.47	06/30/07	14.81	06/30/07	3.29
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/07	0.80	12/31/07	0.68	12/31/07	4.09
09/30/07	0.73	09/30/07	0.48	09/30/07	4.29
06/30/07	0.79	06/30/07	0.74	06/30/07	4.24
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/07	5.80	12/31/07	5.80	12/31/07	20.95
09/30/07	6.05	09/30/07	6.05	09/30/07	20.15
06/30/07	6.35	06/30/07	6.35	06/30/07	20.35
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
12/31/07	22.95	12/31/07	0.45	12/31/07	30.89
09/30/07	18.26	09/30/07	0.47	09/30/07	31.73
06/30/07	19.79	06/30/07	0.54	06/30/07	35.18

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NORTHWEST NAT GAS (NYSE)

Scottrade

NWN	42.23	▲0.22	(0.52%)	Vol. 119,600	13:02 ET

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

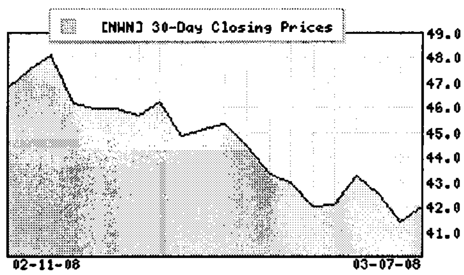
NORTHWEST NAT G
220 N.W. Second Avenue
Portland, OR 97209
Phone: 503 226-4211
Fax: 503 273-4824
Web: www.nwnatural.com
Email: Bob.Hess@nwnatural.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	December
Last Reported Quarter	12/31/07
Next EPS Date	04/24/2008

Price and Volume Information

Zacks Rank	
Yesterday's Close	42.01
52 Week High	52.85
52 Week Low	40.98
Beta	0.77
20 Day Moving Average	317,889.84
Target Price Consensus	52.25



% Price Change		% Price Change Relative to S&P 500	
4 Week	-11.56	4 Week	-8.96
12 Week	-10.94	12 Week	1.08
YTD	-13.67	YTD	-1.99

Share Information		Dividend Information	
Shares Outstanding (millions)	26.41	Dividend Yield	3.57%
		Annual Dividend	$1.50
Market Capitalization (millions)	1,109.40	Payout Ratio	0.54
Short Ratio	11.06	Change in Payout Ratio	-0.11
Last Split Date	09/09/1996	Last Dividend Payout / Amount	01/29/2008 / $0.38

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	1.69	Current (1=Strong Buy, 5=Strong Sell)	2.25
Current Year EPS Consensus Estimate	2.60	30 Days Ago	2.25
Estimated Long-Term EPS Growth Rate	5.30	60 Days Ago	2.43
Next EPS Report Date	04/24/2008	90 Days Ago	2.43

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	16.15	vs. Previous Year	2.75%	vs. Previous Year	-1.57%
Trailing 12 Months:	15.22	vs. Previous Quarter	609.09%	vs. Previous Quarter:	166.90%
PEG Ratio	3.08				

Price Ratios	ROE	ROA

Price/Book	1.87	12/31/07	12.24	12/31/07	3.93
Price/Cash Flow	7.78	09/30/07	12.35	09/30/07	3.92
Price / Sales	1.07	06/30/07	11.69	06/30/07	3.77
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/07	0.71	12/31/07	0.50	12/31/07	7.21
09/30/07	0.69	09/30/07	0.39	09/30/07	7.21
06/30/07	0.76	06/30/07	0.47	06/30/07	6.91
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/07	11.47	12/31/07	11.47	12/31/07	22.48
09/30/07	11.43	09/30/07	11.43	09/30/07	22.01
06/30/07	10.96	06/30/07	10.96	06/30/07	22.61
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
12/31/07	9.07	12/31/07	0.86	12/31/07	46.26
09/30/07	9.62	09/30/07	0.88	09/30/07	46.67
06/30/07	9.10	06/30/07	0.85	06/30/07	45.86

ZACKS
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Proven Ratings, Research & Recommendations

Zacks.com Quotes and Research

PIEDMONT NAT GAS CO (NYSE)

Scottrade

PNY	25.96	▲1.59	(6.52%)	Vol. 568,900	14:05 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

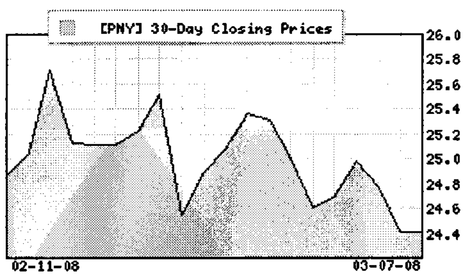
PIEDMONT NAT GA
4720 Piedmont Row Drive
Charlotte, NC 28210
Phone: 704 364-3120
Fax: 704 364-1395
Web: www.piedmontng.com
Email: margaret.griffith@piedmontng.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	October
Last Reported Quarter	01/31/08
Next EPS Date	03/11/2008

Price and Volume Information

Zacks Rank	
Yesterday's Close	24.37
52 Week High	27.98
52 Week Low	22.00
Beta	0.60
20 Day Moving Average	351,083.91
Target Price Consensus	28.33



% Price Change		% Price Change Relative to S&P 500	
4 Week	-1.97	4 Week	3.09
12 Week	-5.83	12 Week	6.92
YTD	-6.84	YTD	5.94

Share Information		Dividend Information	
Shares Outstanding (millions)	73.28	Dividend Yield	4.10%
		Annual Dividend	$1.00
Market Capitalization (millions)	1,785.76	Payout Ratio	0.00
Short Ratio	18.46	Change in Payout Ratio	0.00
Last Split Date	11/01/2004	Last Dividend Payout / Amount	12/20/2007 / $0.25

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.97	Current (1=Strong Buy, 5=Strong Sell)	2.50
Current Year EPS Consensus Estimate	1.50	30 Days Ago	2.50
Estimated Long-Term EPS Growth Rate	5.50	60 Days Ago	2.80
Next EPS Report Date	03/11/2008	90 Days Ago	2.80

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	16.23	vs. Previous Year	-37.50%	vs. Previous Year	-1.48%
Trailing 12 Months:	17.41	vs. Previous Quarter	8.33%	vs. Previous Quarter:	23.88%
PEG Ratio	2.95				

Price Ratios		ROE		ROA	
Price/Book	2.06	01/31/08	-	01/31/08	-
Price/Cash Flow	9.13	10/31/07	11.55	10/31/07	3.76
Price / Sales	-	07/31/07	11.77	07/31/07	3.86
Current Ratio		**Quick Ratio**		**Operating Margin**	
01/31/08	-	01/31/08	-	01/31/08	-
10/31/07	1.03	10/31/07	0.67	10/31/07	6.10
07/31/07	1.23	07/31/07	0.81	07/31/07	6.21
Net Margin		**Pre-Tax Margin**		**Book Value**	
01/31/08	-	01/31/08	-	01/31/08	-
10/31/07	9.93	10/31/07	9.93	10/31/07	11.86
07/31/07	10.69	07/31/07	10.69	07/31/07	12.18
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
01/31/08	-	01/31/08	-	01/31/08	-
10/31/07	8.44	10/31/07	0.94	10/31/07	48.43
07/31/07	8.46	07/31/07	0.92	07/31/07	47.81

ZACKS INVESTMENT RESEARCH
Proven Ratings, Research & Recommendations
Zacks.com Quotes and Research

SOUTH JERSEY IND (NYSE)				Scottrade
SJI	32.59	0.25	(0.77%)	Vol. 277,700	14:10 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.

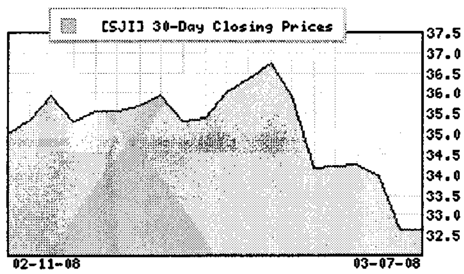
General Information

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	12/31/07
Next EPS Date	05/06/2008

Price and Volume Information

Zacks Rank	
Yesterday's Close	32.34
52 Week High	41.27
52 Week Low	31.20
Beta	0.71
20 Day Moving Average	178,990.50
Target Price Consensus	41.67



% Price Change		**% Price Change Relative to S&P 500**	
4 Week	-7.65	4 Week	-2.88
12 Week	-7.23	12 Week	5.34
YTD	-10.39	YTD	2.61

Share Information		**Dividend Information**	
Shares Outstanding (millions)	29.62	Dividend Yield	3.34%
		Annual Dividend	$1.08
Market Capitalization (millions)	958.04	Payout Ratio	0.63
Short Ratio	15.35	Change in Payout Ratio	0.09
Last Split Date	07/01/2005	Last Dividend Payout / Amount	03/06/2008 / $0.27

EPS Information		**Consensus Recommendations**	
Current Quarter EPS Consensus Estimate	0.91	Current (1=Strong Buy, 5=Strong Sell)	1.67
Current Year EPS Consensus Estimate	2.17	30 Days Ago	1.67
Estimated Long-Term EPS Growth Rate	7.50	60 Days Ago	2.00
Next EPS Report Date	05/06/2008	90 Days Ago	1.80

Fundamental Ratios

P/E		**EPS Growth**		**Sales Growth**	
Current FY Estimate:	14.93	vs. Previous Year	-8.70%	vs. Previous Year	3.88%
Trailing 12 Months:	18.91	vs. Previous Quarter	1,360.00%	vs. Previous Quarter:	66.46%
PEG Ratio	1.99				

Price Ratios		**ROE**		**ROA**	

Price/Book	1.99	12/31/07	10.82	12/31/07	3.38
Price/Cash Flow	10.10	09/30/07	11.31	09/30/07	3.44
Price / Sales	1.00	06/30/07	12.44	06/30/07	3.71
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/07	1.00	12/31/07	0.61	12/31/07	5.30
09/30/07	0.94	09/30/07	0.47	09/30/07	5.52
06/30/07	0.97	06/30/07	0.54	06/30/07	6.09
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/07	10.96	12/31/07	10.96	12/31/07	16.27
09/30/07	6.32	09/30/07	6.32	09/30/07	16.00
06/30/07	7.70	06/30/07	7.70	06/30/07	16.05
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
12/31/07	5.72	12/31/07	0.74	12/31/07	42.69
09/30/07	3.19	09/30/07	0.76	09/30/07	43.14
06/30/07	3.09	06/30/07	0.76	06/30/07	43.22

ZACKS INVESTMENT RESEARCH
Proven Ratings, Research & Recommendations
Zacks.com Quotes and Research

WGL HOLDINGS INC (NYSE)					Scottrade
WGL	31.15	▲0.37	(1.20%)	Vol. 644,700	13:07 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.

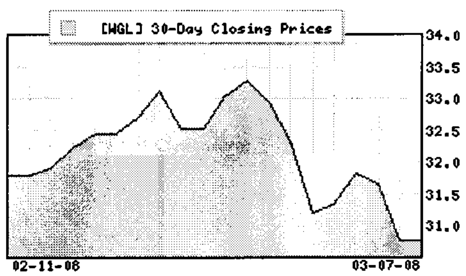
General Information

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	12/31/07
Next EPS Date	04/24/2008

Price and Volume Information

Zacks Rank	
Yesterday's Close	30.78
52 Week High	35.91
52 Week Low	29.79
Beta	0.73
20 Day Moving Average	615,432.81
Target Price Consensus	35.25



% Price Change		**% Price Change Relative to S&P 500**	
4 Week	-4.44	4 Week	-1.64
12 Week	-4.44	12 Week	8.46
YTD	-6.04	YTD	6.67

Share Information		**Dividend Information**	
Shares Outstanding (millions)	49.46	Dividend Yield	4.45%
		Annual Dividend	$1.37
Market Capitalization (millions)	1,522.50	Payout Ratio	0.64
Short Ratio	6.93	Change in Payout Ratio	-0.05
Last Split Date	05/02/1995	Last Dividend Payout / Amount	01/08/2008 / $0.34

EPS Information		**Consensus Recommendations**	
Current Quarter EPS Consensus Estimate	1.41	Current (1=Strong Buy, 5=Strong Sell)	2.20
Current Year EPS Consensus Estimate	2.35	30 Days Ago	2.60
Estimated Long-Term EPS Growth Rate	4.00	60 Days Ago	2.50
Next EPS Report Date	04/24/2008	90 Days Ago	2.50

Fundamental Ratios

P/E		**EPS Growth**		**Sales Growth**	
Current FY Estimate:	13.09	vs. Previous Year	4.35%	vs. Previous Year	2.55%
Trailing 12 Months:	14.38	vs. Previous Quarter	409.68%	vs. Previous Quarter:	130.78%
PEG Ratio	3.27				

Price Ratios	**ROE**	**ROA**

Price/Book	1.50	12/31/07	10.53	12/31/07	3.41
Price/Cash Flow	7.55	09/30/07	10.41	09/30/07	3.42
Price / Sales	0.57	06/30/07	11.26	06/30/07	3.72
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/07	0.88	12/31/07	-	12/31/07	3.96
09/30/07	1.03	09/30/07	0.47	09/30/07	3.89
06/30/07	1.15	06/30/07	0.72	06/30/07	4.15
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/07	6.81	12/31/07	6.81	12/31/07	20.49
09/30/07	6.73	09/30/07	6.73	09/30/07	19.89
06/30/07	7.27	06/30/07	7.27	06/30/07	20.50
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
12/31/07	9.33	12/31/07	0.59	12/31/07	36.30
09/30/07	8.69	09/30/07	0.63	09/30/07	37.92
06/30/07	12.06	06/30/07	0.60	06/30/07	36.86

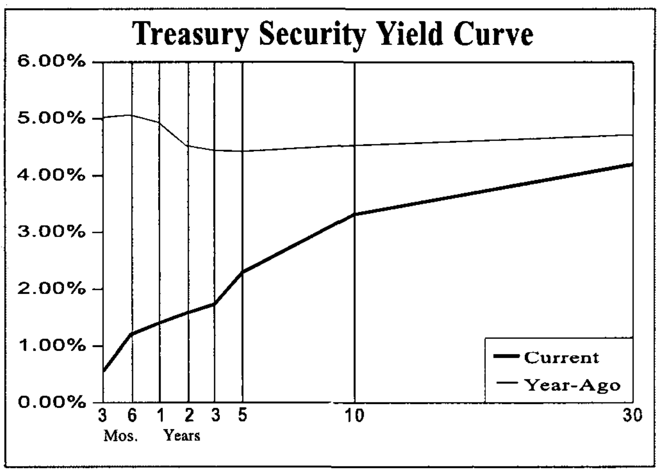
ATTACHMENT C

Selected Yields

TAXABLE

	Recent (3/19/08)	3 Months Ago (12/19/07)	Year Ago (3/21/07)
Market Rates			
Discount Rate	2.50	4.75	6.25
Federal Funds	2.25	4.25	5.25
Prime Rate	5.25	7.25	8.25
30-day CP (A1/P1)	2.65	5.59	5.24
3-month LIBOR	2.60	4.91	5.35
Bank CDs			
6-month	2.15	2.82	3.26
1-year	2.16	3.45	3.87
5-year	3.12	3.74	3.92
U.S. Treasury Securities			
3-month	0.56	2.89	5.03
6-month	1.20	3.31	5.07
1-year	1.40	3.31	4.94
5-year	2.30	3.43	4.43
10-year	3.33	4.03	4.54
10-year (inflation-protected)	0.90	1.71	2.12
30-year	4.21	4.45	4.72
30-year Zero	4.35	4.47	4.68

	Recent (3/19/08)	3 Months Ago (12/19/07)	Year Ago (3/21/07)
Mortgage-Backed Securities			
GNMA 6.5%	4.70	5.42	5.53
FHLMC 6.5% (Gold)	4.96	5.62	5.60
FNMA 6.5%	4.62	5.41	5.50
FNMA ARM	5.07	5.46	5.60
Corporate Bonds			
Financial (10-year) A	5.89	6.01	5.40
Industrial (25/30-year) A	5.87	5.99	5.68
Utility (25/30-year) A	5.96	6.14	5.86
Utility (25/30-year) Baa/BBB	6.14	6.24	6.01
Foreign Bonds (10-Year)			
Canada	3.45	3.99	4.08
Germany	3.76	4.28	3.93
Japan	1.28	1.49	1.57
United Kingdom	4.31	4.68	4.83
Preferred Stocks			
Utility A	6.34	6.33	6.08
Financial A	7.91	8.18	6.44
Financial Adjustable A	5.47	5.47	5.47



TAX-EXEMPT

	Recent (3/19/08)	3 Months Ago (12/19/07)	Year Ago (3/21/07)
Bond Buyer Indexes			
20-Bond Index (GOs)	4.94	4.46	4.13
25-Bond Index (Revs)	5.15	4.79	4.38
General Obligation Bonds (GOs)			
1-year Aaa	1.80	2.85	3.54
1-year A	1.90	2.90	3.64
5-year Aaa	2.87	3.19	3.51
5-year A	3.17	3.49	3.80
10-year Aaa	3.73	3.62	3.65
10-year A	4.02	3.91	3.95
25/30-year Aaa	4.92	4.33	4.00
25/30-year A	5.05	4.44	4.30
Revenue Bonds (Revs) (25/30-Year)			
Education AA	5.10	4.50	4.33
Electric AA	5.10	4.50	4.30
Housing AA	5.40	4.80	4.55
Hospital AA	5.50	4.75	4.57
Toll Road Aaa	5.10	4.60	4.40

Federal Reserve Data

BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	3/12/08	2/27/08	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1413	1799	-386	1655	1640	1883
Borrowed Reserves	231	198	33	1634	1181	736
Net Free/Borrowed Reserves	1182	1601	-419	21	459	1147

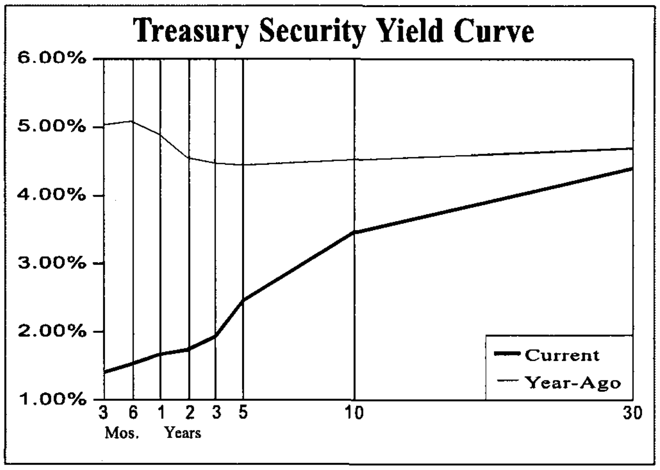
MONEY SUPPLY

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

	Recent Levels			Growth Rates Over the Last...		
	3/3/08	2/25/08	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1391.8	1367.8	24.0	6.1%	-0.4%	1.6%
M2 (M1+savings+small time deposits)	7644.7	7630.3	14.4	12.2%	8.3%	7.3%

Selected Yields

	Recent (3/12/08)	3 Months Ago (12/12/07)	Year Ago (3/14/07)
TAXABLE			
Market Rates			
Discount Rate	3.50	4.75	6.25
Federal Funds	3.00	4.25	5.25
Prime Rate	6.00	7.25	8.25
30-day CP (A1/P1)	2.84	5.10	5.25
3-month LIBOR	2.85	5.06	5.35
Bank CDs			
6-month	2.17	2.82	3.20
1-year	2.17	3.45	3.80
5-year	3.16	3.74	3.91
U.S. Treasury Securities			
3-month	1.41	2.86	5.04
6-month	1.53	3.22	5.09
1-year	1.67	3.09	4.90
5-year	2.46	3.47	4.45
10-year	3.46	4.09	4.53
10-year (inflation-protected)	0.84	1.78	2.17
30-year	4.41	4.54	4.70
30-year Zero	4.57	4.58	4.66



	Recent (3/12/08)	3 Months Ago (12/12/07)	Year Ago (3/14/07)
Mortgage-Backed Securities			
GNMA 6.5%	5.02	5.54	5.59
FHLMC 6.5% (Gold)	5.04	5.67	5.66
FNMA 6.5%	4.94	5.53	5.57
FNMA ARM	5.07	5.46	5.60
Corporate Bonds			
Financial (10-year) A	6.05	6.26	5.40
Industrial (25/30-year) A	6.07	6.15	5.65
Utility (25/30-year) A	6.08	6.25	5.85
Utility (25/30-year) Baa/BBB	6.27	6.35	5.99
Foreign Bonds (10-Year)			
Canada	3.53	4.03	4.02
Germany	3.77	4.31	3.88
Japan	1.35	1.52	1.58
United Kingdom	4.42	4.80	4.74
Preferred Stocks			
Utility A	6.61	6.35	6.03
Financial A	7.83	7.80	6.42
Financial Adjustable A	5.46	5.46	5.46
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.92	4.38	4.08
25-Bond Index (Revs)	5.11	4.74	4.39
General Obligation Bonds (GOs)			
1-year Aaa	2.05	2.90	3.54
1-year A	2.20	3.00	3.64
5-year Aaa	2.83	3.19	3.51
5-year A	2.93	3.29	3.60
10-year Aaa	3.66	3.63	3.66
10-year A	3.86	3.93	4.18
25/30-year Aaa	4.85	4.37	4.00
25/30-year A	5.04	4.57	4.30
Revenue Bonds (Revs) (25/30-Year)			
Education AA	5.05	4.65	4.30
Electric AA	5.10	4.70	4.30
Housing AA	5.35	4.80	4.50
Hospital AA	5.40	4.85	4.50
Toll Road Aaa	5.10	4.70	4.30

Federal Reserve Data

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

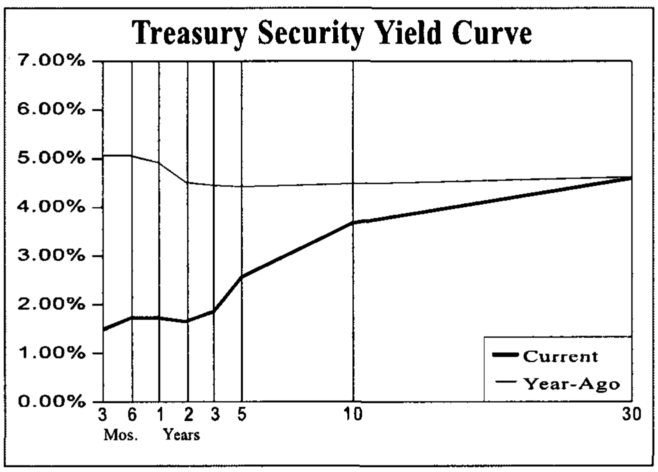
	Recent Levels			Average Levels Over the Last...		
	2/27/08	2/13/08	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1800	1660	140	1714	1615	1896
Borrowed Reserves	198	102	96	1630	1276	729
Net Free/Borrowed Reserves	1602	1558	44	84	339	1167

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

	Recent Levels			Growth Rates Over the Last...		
	2/25/08	2/18/08	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1368.0	1360.7	7.3	2.4%	-0.3%	0.2%
M2 (M1+savings+small time deposits)	7630.3	7597.2	33.1	10.7%	7.2%	7.0%

Selected Yields

	Recent (3/05/08)	3 Months Ago (12/05/07)	Year Ago (3/07/07)
TAXABLE			
Market Rates			
Discount Rate	3.50	5.00	6.25
Federal Funds	3.00	4.50	5.25
Prime Rate	6.00	7.50	8.25
30-day CP (A1/P1)	2.97	5.23	5.24
3-month LIBOR	3.00	5.15	5.34
Bank CDs			
6-month	2.16	2.82	3.28
1-year	2.16	3.45	3.89
5-year	3.16	3.80	3.93
U.S. Treasury Securities			
3-month	1.49	3.05	5.08
6-month	1.72	3.24	5.07
1-year	1.72	3.11	4.92
5-year	2.57	3.32	4.43
10-year	3.67	3.96	4.49
10-year (inflation-protected)	1.02	1.70	2.16
30-year	4.60	4.44	4.63
30-year Zero	4.78	4.49	4.57
Mortgage-Backed Securities			
GNMA 6.5%	4.80	5.25	5.55
FHLMC 6.5% (Gold)	5.36	5.42	5.64
FNMA 6.5%	5.02	5.25	5.56
FNMA ARM	5.05	5.44	5.60
Corporate Bonds			
Financial (10-year) A	5.96	5.92	5.31
Industrial (25/30-year) A	6.35	5.96	5.60
Utility (25/30-year) A	6.26	6.07	5.59
Utility (25/30-year) Baa/BBB	6.39	6.22	5.86
Foreign Bonds (10-Year)			
Canada	3.64	3.93	3.99
Germany	3.86	4.03	3.92
Japan	1.38	1.50	1.63
United Kingdom	4.48	4.49	4.77
Preferred Stocks			
Utility A	6.26	6.25	6.01
Financial A	7.60	7.73	6.46
Financial Adjustable A	5.53	5.53	5.53



	Recent (3/05/08)	3 Months Ago (12/05/07)	Year Ago (3/07/07)
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	5.11	4.39	4.10
25-Bond Index (Revs)	5.22	4.77	4.41
General Obligation Bonds (GOs)			
1-year Aaa	2.25	3.00	3.53
1-year A	2.35	3.04	3.63
5-year Aaa	3.30	3.18	3.49
5-year A	3.60	3.48	3.78
10-year Aaa	4.11	3.57	3.64
10-year A	4.40	3.86	3.94
25/30-year Aaa	5.10	4.29	3.96
25/30-year A	5.23	4.40	4.25
Revenue Bonds (Revs) (25/30-Year)			
Education AA	5.30	4.45	4.30
Electric AA	5.30	4.45	4.25
Housing AA	5.60	4.70	4.50
Hospital AA	5.70	4.65	4.50
Toll Road Aaa	5.30	4.65	4.36

Federal Reserve Data

BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	2/27/08	2/13/08	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1807	1661	146	1715	1615	1897
Borrowed Reserves	198	102	96	1630	1276	729
Net Free/Borrowed Reserves	1609	1559	50	85	339	1168

MONEY SUPPLY

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

	Recent Levels			Growth Rates Over the Last...		
	2/18/08	2/11/08	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1360.8	1357.5	3.3	1.1%	0.1%	-0.2%
M2 (M1+savings+small time deposits)	7597.0	7584.4	12.6	10.7%	7.6%	6.9%

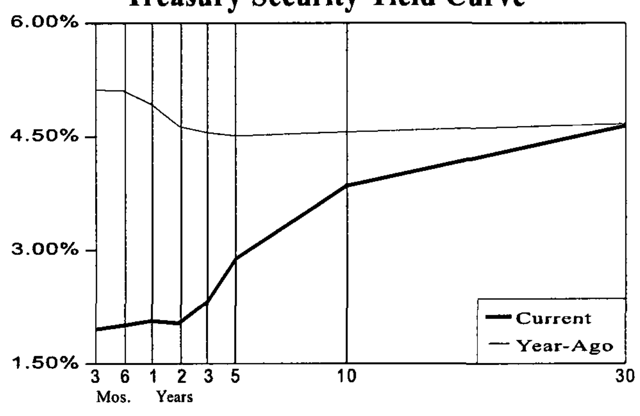
Selected Yields

TAXABLE

	Recent (2/27/08)	3 Months Ago (11/28/07)	Year Ago (2/28/07)
Market Rates			
Discount Rate	3.50	5.00	6.25
Federal Funds	3.00	4.50	5.25
Prime Rate	6.00	7.50	8.25
30-day CP (A1/P1)	3.21	4.65	5.23
3-month LIBOR	3.09	5.08	5.35
Bank CDs			
6-month	2.19	2.82	3.28
1-year	2.17	3.54	3.88
5-year	3.06	3.88	3.92
U.S. Treasury Securities			
3-month	1.96	3.03	5.12
6-month	2.01	3.36	5.11
1-year	2.07	3.26	4.93
5-year	2.89	3.50	4.52
10-year	3.85	4.04	4.57
10-year (inflation-protected)	1.30	1.70	2.19
30-year	4.65	4.42	4.68
30-year Zero	4.78	4.45	4.61

	Recent (2/27/08)	3 Months Ago (11/28/07)	Year Ago (2/28/07)
Mortgage-Backed Securities			
GNMA 6.5%	5.04	5.39	5.63
FHLMC 6.5% (Gold)	5.21	5.61	5.73
FNMA 6.5%	5.12	5.41	5.63
FNMA ARM	5.19	5.87	5.60
Corporate Bonds			
Financial (10-year) A	5.81	5.94	5.38
Industrial (25/30-year) A	6.41	5.87	5.62
Utility (25/30-year) A	6.20	6.03	5.65
Utility (25/30-year) Baa/BBB	6.48	6.11	5.89
Foreign Bonds (10-Year)			
Canada	3.82	4.06	4.03
Germany	4.09	4.11	3.96
Japan	1.48	1.49	1.64
United Kingdom	4.70	4.68	4.80
Preferred Stocks			
Utility A	6.10	6.31	5.99
Financial A	7.12	7.84	6.44
Financial Adjustable A	5.53	5.53	5.53

Treasury Security Yield Curve



TAX-EXEMPT

	Recent (2/27/08)	3 Months Ago (11/28/07)	Year Ago (2/28/07)
Bond Buyer Indexes			
20-Bond Index (GOs)	4.66	4.45	4.19
25-Bond Index (Revs)	4.94	4.80	4.48
General Obligation Bonds (GOs)			
1-year Aaa	2.20	3.25	3.56
1-year A	2.35	3.35	3.66
5-year Aaa	3.13	3.27	3.55
5-year A	3.23	3.37	3.64
10-year Aaa	3.92	3.64	3.67
10-year A	4.12	3.94	4.20
25/30-year Aaa	4.94	4.38	3.97
25/30-year A	5.14	4.58	4.28
Revenue Bonds (Revs) (25/30-Year)			
Education AA	5.15	4.65	4.39
Electric AA	5.20	4.75	4.38
Housing AA	5.45	4.85	4.44
Hospital AA	5.50	4.85	4.45
Toll Road Aaa	5.20	4.75	4.39

Federal Reserve Data

BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	2/13/08	1/30/08	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1661	1446	215	1670	2152	1875
Borrowed Reserves	102	390	-288	1676	1281	723
Net Free/Borrowed Reserves	1559	1056	503	-7	872	1153

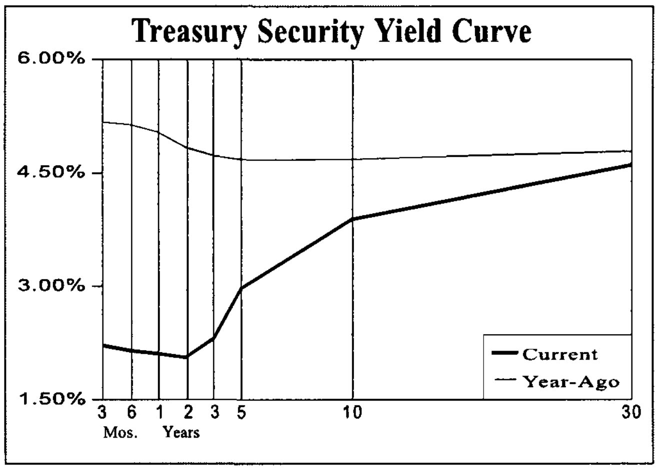
MONEY SUPPLY

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

	Recent Levels			Growth Rates Over the Last...		
	2/11/08	2/4/08	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1358.2	1382.5	-24.3	-2.0%	-0.2%	-0.7%
M2 (M1+savings+small time deposits)	7585.5	7569.2	16.3	11.0%	8.2%	6.8%

Selected Yields

	Recent (2/20/08)	3 Months Ago (11/20/07)	Year Ago (2/21/07)
TAXABLE			
Market Rates			
Discount Rate	3.50	5.00	6.25
Federal Funds	3.00	4.50	5.25
Prime Rate	6.00	7.50	8.25
30-day CP (A1/P1)	3.05	4.59	5.23
3-month LIBOR	3.08	5.00	5.36
Bank CDs			
6-month	2.20	2.83	3.27
1-year	2.19	3.54	3.88
5-year	2.82	3.89	3.92
U.S. Treasury Securities			
3-month	2.22	3.28	5.17
6-month	2.15	3.42	5.14
1-year	2.11	3.43	5.04
5-year	2.98	3.55	4.68
10-year	3.89	4.10	4.69
10-year (inflation-protected)	1.41	1.70	2.33
30-year	4.61	4.50	4.79
30-year Zero	4.76	4.53	4.71
Mortgage-Backed Securities			
GNMA 6.5%	5.10	5.50	5.67
FHLMC 6.5% (Gold)	5.31	5.77	5.75
FNMA 6.5%	5.09	5.56	5.67
FNMA ARM	5.19	5.88	5.61
Corporate Bonds			
Financial (10-year) A	5.82	6.01	5.51
Industrial (25/30-year) A	6.29	5.96	5.72
Utility (25/30-year) A	6.15	6.04	5.74
Utility (25/30-year) Baa/BBB	6.33	6.14	5.97
Foreign Bonds (10-Year)			
Canada	3.93	4.07	4.10
Germany	4.03	4.06	4.05
Japan	1.43	1.47	1.70
United Kingdom	4.69	4.62	4.89
Preferred Stocks			
Utility A	6.08	6.62	6.16
Financial A	7.00	7.97	6.44
Financial Adjustable A	5.52	5.52	5.52
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.47	4.53	4.17
25-Bond Index (Revs)	4.82	4.85	4.51
General Obligation Bonds (GOs)			
1-year Aaa	1.70	3.30	3.58
1-year A	1.80	3.34	3.68
5-year Aaa	2.80	3.34	3.61
5-year A	3.10	3.64	3.90
10-year Aaa	3.55	3.71	3.73
10-year A	3.84	4.00	3.15
25/30-year Aaa	4.64	4.47	4.06
25/30-year A	4.77	4.62	4.38
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.80	4.67	4.40
Electric AA	4.80	4.67	4.35
Housing AA	5.10	4.90	4.60
Hospital AA	5.15	4.85	4.60
Toll Road Aaa	4.80	4.67	4.48



Federal Reserve Data

BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	2/13/08	1/30/08	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1663	1459	204	1671	2153	1876
Borrowed Reserves	102	390	-288	1676	1281	723
Net Free/Borrowed Reserves	1561	1069	492	-5	872	1153

MONEY SUPPLY

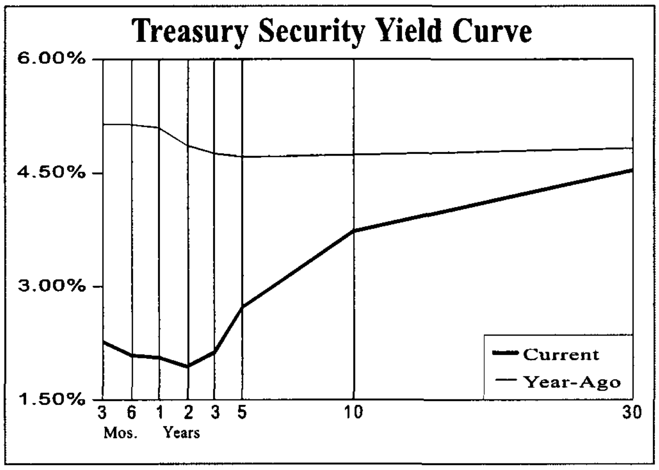
(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	2/4/08	1/28/08	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1382.7	1362.6	20.1	2.3%	2.5%	0.5%
M2 (M1+savings+small time deposits)	7569.4	7535.6	33.8	10.0%	8.2%	6.6%

Selected Yields

	Recent (2/13/08)	3 Months Ago (11/14/07)	Year Ago (2/14/07)
TAXABLE			
Market Rates			
Discount Rate	3.50	5.00	6.25
Federal Funds	3.00	4.50	5.25
Prime Rate	6.00	7.50	8.25
30-day CP (A1/P1)	3.00	4.56	5.23
3-month LIBOR	3.07	4.88	5.36
Bank CDs			
6-month	2.15	2.83	3.27
1-year	2.34	3.54	3.86
5-year	2.85	3.89	3.91
U.S. Treasury Securities			
3-month	2.26	3.39	5.15
6-month	2.09	3.68	5.14
1-year	2.06	3.68	5.10
5-year	2.73	3.82	4.72
10-year	3.73	4.25	4.74
10-year (inflation-protected)	1.34	1.86	2.39
30-year	4.54	4.60	4.83
30-year Zero	4.65	4.62	4.76

	Recent (2/13/08)	3 Months Ago (11/14/07)	Year Ago (2/14/07)
Mortgage-Backed Securities			
GNMA 6.5%	4.46	5.53	5.72
FHLMC 6.5% (Gold)	5.10	5.73	5.82
FNMA 6.5%	4.71	5.51	5.74
FNMA ARM	5.18	5.90	5.62
Corporate Bonds			
Financial (10-year) A	5.78	5.95	5.52
Industrial (25/30-year) A	6.29	5.98	5.77
Utility (25/30-year) A	6.20	6.09	5.77
Utility (25/30-year) Baa/BBB	6.35	6.18	6.02
Foreign Bonds (10-Year)			
Canada	3.87	4.21	4.15
Germany	3.96	4.15	4.10
Japan	1.43	1.53	1.74
United Kingdom	4.62	4.74	4.95
Preferred Stocks			
Utility A	6.13	6.43	6.14
Financial A	7.00	7.58	6.43
Financial Adjustable A	5.51	5.51	5.51



	Recent (2/13/08)	3 Months Ago (11/14/07)	Year Ago (2/14/07)
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.33	4.54	4.21
25-Bond Index (Revs)	4.72	4.85	4.53
General Obligation Bonds (GOs)			
1-year Aaa	1.05	3.30	3.60
1-year A	1.15	3.40	3.70
5-year Aaa	2.67	3.44	3.63
5-year A	2.77	3.74	3.72
10-year Aaa	3.40	3.83	3.78
10-year A	3.60	4.13	4.30
25/30-year Aaa	4.36	4.55	4.08
25/30-year A	4.56	4.75	4.39
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.60	4.75	4.49
Electric AA	4.65	4.85	4.48
Housing AA	4.80	4.95	4.54
Hospital AA	4.85	4.95	4.55
Toll Road Aaa	4.65	4.85	4.49

Federal Reserve Data

BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	1/30/08	**1/16/08**	**Change**	**12 Wks.**	**26 Wks.**	**52 Wks.**
Excess Reserves	1458	1712	-254	1700	2144	1861
Borrowed Reserves	390	1377	-987	1699	1291	729
Net Free/Borrowed Reserves	1068	335	733	1	854	1132

MONEY SUPPLY

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

	Recent Levels			Growth Rates Over the Last...		
	1/28/08	**1/21/08**	**Change**	**3 Mos.**	**6 Mos.**	**12 Mos.**
M1 (Currency+demand deposits)	1362.3	1372.1	-9.8	-2.1%	-1.0%	-1.0%
M2 (M1+savings+small time deposits)	7529.2	7491.6	37.6	6.8%	6.9%	6.0%

SOUTHWEST GAS CORPORATION
DOCKET NO. G-01551A-07-0504
TABLE OF CONTENTS TO SCHEDULES WAR

SOUTHWEST GAS CORPORATION
TEST YEAR ENDED APRIL 30, 2007
COST OF CAPITAL SUMMARY

WEIGHTED COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST	(C) WEIGHTED COST
1	LONG-TERM DEBT	51.00%	7.96%	4.06%
2	PREFERRED EQUITY	4.00%	8.20%	0.33%
3	COMMON EQUITY	45.00%	9.88%	4.44%
4	TOTAL CAPITALIZATION	100.00%		
5	**WEIGHTED COST OF CAPITAL**			8.83%

REFERENCES:
COLUMN (A): COMPANY SCHEDULE D-1
COLUMN (B): TESTIMONY, WAR
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C) LINE 5: SUM OF COLUMN (C) LINES 1 THRU 3

SOUTHWEST GAS CORPORATION
TEST YEAR ENDED APRIL 30, 2007
COST OF CAPITAL SUMMARY

DOCKET NO. G-01551A-07-0504
SCHEDULE WAR - 1
PAGE 2 OF 4

WEIGHTED COST OF DEBT

LINE NO.	DESCRIPTION	(A) NET PROCEEDS	(B) CAPITAL RATIO	(C) COST	(D) WEIGHTED COST
1	TOTAL DEBENTURES AND MTN'S (FIXED RATE)	$ 590,463,378	91.74%	8.11%	7.44%
2	TERM FACILITY (VARIABLE RATE)	53,169,199	8.26%	6.27%	0.52%
3	TOTAL CAPITALIZATION	$ 643,632,577	100.00%		
4	**WEIGHTED COST OF DEBT**				7.96%

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

SOUTHWEST GAS CORPORATION
TEST YEAR ENDED APRIL 30, 2007
COST OF CAPITAL SUMMARY

WEIGHTED COST OF DEBT

LINE NO.	(A) DESCRIPTION	(B) PRINCIPPAL AMOUNT INTEREST	(C) UNAMORTIZED DEBT EXPENSE AND DISCOUNT	(D) NET PROCEEDS	(E) EFFECTIVE INTEREST RATE	(F) COST OF DEBT
	DEBENTURES					
1	8.0% DEBENTURE, DUE 2026	$ 75,000,000	$ 6,089,371	$ 68,910,630	8.89%	$ 6,126,155
2	8.375 NOTE, DUE 2011	200,000,000	1,485,867	198,514,134	8.61%	17,091,670
3	7.625 NOTE, DUE 2012	200,000,000	1,380,294	198,619,706	7.79%	15,472,475
4	TOTAL DEBENTURES	$ 475,000,000	$ 8,955,531	$ 466,044,469	8.30%	$ 38,690,300
	MEDIUM TERM NOTES					
5	7.59% MTN, DUE 2017	$ 25,000,000	$ 147,215	$ 24,852,785	7.68%	$ 1,908,694
6	7.59% MTN, DUE 2017	25,000,000	175,679	24,824,321	7.86%	1,951,192
7	7.59% MTN, DUE 2017	25,000,000	204,455	24,795,545	8.00%	1,983,644
8	7.59% MTN, DUE 2017	17,500,000	7,731	17,492,269	7.00%	1,224,459
9	7.59% MTN, DUE 2017	7,500,000	3,458	7,496,542	6.88%	515,762
10	7.59% MTN, DUE 2017	25,000,000	42,553	24,957,447	6.40%	1,597,277
11	TOTAL MEDIUM TERM NOTES	$ 125,000,000	$ 581,091	$ 124,418,909	7.38%	$ 9,181,028
12	**TOTAL DEBENTURES AND MTN'S**	**$ 600,000,000**	**$ 9,536,622**	**$ 590,463,378**	**8.11%**	**$ 47,871,328**
13	**TERM FACILITY**			**$ 53,169,199**	**6.27%**	**$ 3,332,516**

REFERENCES:
COLUMN (A) LINES 1 THRU 12: COMPANY SCHEDULE D-2, PAGE 2
COLUMN (B) LINES 1 THRU 12: COMPANY SCHEDULE D-2, PAGE 2
COLUMN (C) LINES 1 THRU 12: COMPANY SCHEDULE D-2, PAGE 2
COLUMN (D) LINES 1 THRU 12: COLUMN (B) - COLUMN (C)
COLUMN (D) LINE 13: COMPANY SCHEDULE D-2, PAGE 3
COLUMN (E) LINES 1 THRU 13: COLUMN (F) / COLUMN (D)
COLUMN (F) LINES 1 THRU 12: COMPANY SCHEDULE D-2, PAGE 2
COLUMN (F) LINE 13: COMPANY SCHEDULE D-2, PAGE 3

SOUTHWEST GAS CORPORATION
TEST YEAR ENDED APRIL 30, 2007
COST OF CAPITAL SUMMARY

COST OF COMMON EQUITY CALCULATION

LINE NO.			
	DCF METHODOLOGY		
1	DCF - CONSTANT GROWTH MODEL ESTIMATE	9.73%	SCHEDULE WAR-2, COLUMN (C), LINE 9
	CAPM METHODOLOGY		
2	CAPM - GEOMETRIC MEAN ESTIMATE	9.20%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 9
3	CAPM - ARITHMETIC MEAN ESTIMATE	10.83%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 9
4	AVERAGE OF CAPM ESTIMATES	10.02%	(LINE 2 + LINE 3) / 2
5	**AVERAGE OF DCF AND CAPM ESTIMATES**	9.88%	(LINE 1 + LINE 4) / 2

SOUTHWEST GAS CORPORATION
TEST YEAR ENDED APRIL 30, 2007
DCF COST OF EQUITY CAPITAL

DOCKET NO. G-01551A-07-0504
SCHEDULE WAR - 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) DIVIDEND YIELD	+	(B) GROWTH RATE (g)	=	(C) DCF COST OF EQUITY CAPITAL
1	ATG	AGL RESOURCES, INC.	4.67%	+	5.92%	=	10.59%
2	ATO	ATMOS ENERGY CORP.	4.83%	+	4.48%	=	9.31%
3	LG	LACLEDE GROUP, INC.	4.36%	+	5.25%	=	9.61%
4	GAS	NICOR, INC.	5.08%	+	5.09%	=	10.18%
5	NWN	NORTHWEST NATURAL GAS COMPANY	3.35%	+	4.73%	=	8.09%
6	PNY	PIEDMONT NATURAL GAS COMPANY	3.97%	+	3.51%	=	7.47%
7	SJI	SOUTH JERSEY INDUSTIES, INC.	5.92%	+	8.65%	=	14.58%
8	WGL	WGL HOLDINGS, INC.	4.23%	+	3.80%	=	8.03%
9	**AVERAGE**						9.73%

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

SOUTHWEST GAS CORPORATION
TEST YEAR ENDED APRIL 30, 2007
DIVIDEND YIELD CALCULATION

DOCKET NO. G-01551A-07-0504
SCHEDULE WAR - 3

LINE NO.	STOCK SYMBOL	COMPANY	(A) ESTIMATED DIVIDEND (PER SHARE)	/	(B) AVERAGE STOCK PRICE (PER SHARE)	=	(C) DIVIDEND YIELD
1	ATG	AGL RESOURCES, INC.	$1.68	/	$35.97	=	4.67%
2	ATO	ATMOS ENERGY CORP.	1.30	/	26.91	=	4.83%
3	LG	LACLEDE GROUP, INC.	1.50	/	34.39	=	4.36%
4	GAS	NICOR, INC.	1.86	/	36.60	=	5.08%
5	NWN	NORTHWEST NATURAL GAS COMPANY	1.50	/	44.74	=	3.35%
6	PNY	PIEDMONT NATURAL GAS COMPANY	1.00	/	25.21	=	3.97%
7	SJI	SOUTH JERSEY INDUSTIES, INC.	2.06	/	34.78	=	5.92%
8	WGL	WGL HOLDINGS, INC.	1.36	/	32.15	=	4.23%
9	**AVERAGE**						4.55%

REFERENCES:
COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 03/14/2008
COLUMN (B): EIGHT WEEK AVERAGE OF CLOSING PRICES FROM 01/28/2008 TO 03/20/2008 STOCK QUOTES OBTAINED THROUGH BIG CHARTS WEB SITE - HISTORICAL QUOTES (www.bigcharts.com).
COLUMN (C): COLUMN (A) / COLUMN (B)

SOUTHWEST GAS CORPORATION
TEST YEAR ENDED APRIL 30, 2007
DIVIDEND GROWTH RATE CALCULATION

LINE NO.	STOCK SYMBOL	COMPANY	(A) INTERNAL GROWTH (br)	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	ATG	AGL RESOURCES, INC.	5.75%	+	0.17%	=	5.92%
2	ATO	ATMOS ENERGY CORP.	4.00%	+	0.48%	=	4.48%
3	LG	LACLEDE GROUP, INC.	4.25%	+	1.00%	=	5.25%
4	GAS	NICOR, INC.	5.00%	+	0.09%	=	5.09%
5	NWN	NORTHWEST NATURAL GAS COMPANY	4.70%	+	0.03%	=	4.73%
6	PNY	PIEDMONT NATURAL GAS COMPANY	3.50%	+	0.01%	=	3.51%
7	SJI	SOUTH JERSEY INDUSTIES, INC.	7.90%	+	0.75%	=	8.65%
8	WGL	WGL HOLDINGS, INC.	3.75%	+	0.05%	=	3.80%
9	**AVERAGE**						5.18%

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

SOUTHWEST GAS CORPORATION
TEST YEAR ENDED APRIL 30, 2007
DIVIDEND GROWTH RATE CALCULATION

LINE NO.	STOCK SYMBOL	COMPANY	(A) SHARE GROWTH	x	(B) { [((M / B) + 1) / 2] - 1 }	=	(C) EXTERNAL GROWTH (sv)
1	ATG	AGL RESOURCES, INC.	0.55%	x	{ [((1.61) + 1) / 2] - 1 }	=	0.17%
2	ATO	ATMOS ENERGY CORP.	5.25%	x	{ [((1.18) + 1) / 2] - 1 }	=	0.48%
3	LG	LACLEDE GROUP, INC.	3.00%	x	{ [((1.67) + 1) / 2] - 1 }	=	1.00%
4	GAS	NICOR, INC.	0.25%	x	{ [((1.76) + 1) / 2] - 1 }	=	0.09%
5	NWN	NORTHWEST NATURAL GAS COMPANY	0.07%	x	{ [((1.95) + 1) / 2] - 1 }	=	0.03%
6	PNY	PIEDMONT NATURAL GAS COMPANY	0.01%	x	{ [((2.02) + 1) / 2] - 1 }	=	0.01%
7	SJI	SOUTH JERSEY INDUSTIES, INC.	1.50%	x	{ [((2.00) + 1) / 2] - 1 }	=	0.75%
8	WGL	WGL HOLDINGS, INC.	0.20%	x	{ [((1.52) + 1) / 2] - 1 }	=	0.05%
9	**NATURAL GAS LDC AVERAGE**						0.32%

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 03/14/2008
COLUMN (C): COLUMN (A) x COLUMN (B)

SOUTHWEST GAS CORPORATION
TEST YEAR ENDED APRIL 30, 2007
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	ATG	AGL RESOURCES, INC.	2003	0.4663		14.00%		6.53%	14.66	64.50	
2			2004	0.4956		11.00%		5.45%	18.06	76.70	
3			2005	0.4758		12.90%		6.14%	19.29	77.70	
4			2006	0.4559		13.20%		6.02%	20.71	77.70	
5			2007	0.3971		12.70%		5.04%	21.74	76.40	
6			GROWTH 2003 - 2007					5.84%	10.50%		4.32%
7			2008	0.4000		12.50%		5.00%		76.00	-0.52%
8			2009	0.4069		13.00%		5.29%		76.00	-0.26%
9			2011-13	0.4250		14.50%		6.16%	1.50%	80.00	0.93%
10											
11	ATO	ATMOS ENERGY CORP.	2003	0.2982		9.30%		2.77%	16.66	51.48	
12			2004	0.2278		7.60%		1.73%	18.05	62.80	
13			2005	0.2791		8.50%		2.37%	19.90	80.54	
14			2006	0.3700		9.80%		3.63%	20.16	81.74	
15			2007	0.3402		8.70%		2.96%	22.01	89.33	
16			GROWTH 2003 - 2007					2.69%	9.00%		14.77%
17			2008	0.3500		9.00%		3.15%		94.00	5.23%
18			2009	0.3714		9.50%		3.53%		99.00	5.27%
19			2011-13	0.4286		9.50%		4.07%	3.50%	115.00	5.18%
20											
21	LG	LACLEDE GROUP, INC.	2003	0.2637		11.60%		3.06%	15.65	19.11	
22			2004	0.2582		10.10%		2.61%	16.96	20.98	
23			2005	0.2789		10.90%		3.04%	17.31	21.17	
24			2006	0.4093		12.50%		5.12%	18.85	21.36	
25			2007	0.3723		11.60%		4.32%	19.79	21.65	
26			GROWTH 2003 - 2007					3.63%	4.50%		3.17%
27			2008	0.3660		11.50%		4.21%		22.00	1.62%
28			2009	0.3489		11.00%		3.84%		22.50	1.94%
29			2011-13	0.3889		11.00%		4.28%	5.00%	25.50	3.33%
30											
31	GAS	NICOR, INC.	2003	0.1185		12.30%		1.46%	17.13	44.04	
32			2004	0.1622		12.30%		2.12%	16.99	44.10	
33			2005	0.1806		12.30%		2.26%	18.36	44.18	
34			2006	0.3519		12.30%		5.17%	19.43	44.90	
35			2007	0.3212		12.30%		4.34%	20.40	45.20	
36			GROWTH 2003 - 2007					3.07%	2.50%		0.65%
37			2008	0.1733		12.30%		1.91%		45.00	-0.44%
38			2009	0.2692		12.30%		3.23%		45.00	-0.22%
39			2011-13	0.4154		12.30%		5.61%	4.00%	46.00	0.35%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 03/14/2008
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

SOUTHWEST GAS CORPORATION
TEST YEAR ENDED APRIL 30, 2007
DIVIDEND GROWTH COMPONENTS

DOCKET NO. G-01551A-07-0504
SCHEDULE WAR - 5
PAGE 2 OF 2

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	NWN	NORTHWEST NATURAL GAS COMPANY	2003	0.2784		9.00%		2.51%	19.52	25.94	
2			2004	0.3011		8.90%		2.68%	20.64	27.55	
3			2005	0.3744		9.90%		3.71%	21.28	27.58	
4			2006	0.4085		10.90%		4.45%	21.97	27.28	
5			2007	0.4783		12.50%		5.98%	22.52	26.41	
6			GROWTH 2003 - 2007					3.86%	3.50%		0.45%
7			2008	0.4154		11.00%		4.57%		26.00	-1.55%
8			2009	0.4182		11.00%		4.60%		26.00	-0.78%
9			2011-13	0.4388		11.00%		4.83%	3.50%	28.00	1.18%
10											
11	PNY	PIEDMONT NATURAL GAS COMPANY	2003	0.2613		11.80%		3.08%	9.36	67.31	
12			2004	0.3307		11.10%		3.67%	11.15	76.67	
13			2005	0.3106		11.50%		3.57%	11.53	76.70	
14			2006	0.2578		11.00%		2.84%	11.83	74.61	
15			2007	0.2929		11.90%		3.49%	11.99	73.23	
16			GROWTH 2003 - 2007					3.33%	6.50%		2.13%
17			2008	0.3067		12.00%		3.68%		73.00	-0.31%
18			2009	0.3032		12.00%		3.64%		72.75	-0.33%
19			2011-13	0.3143		12.50%		3.93%	3.50%	72.00	-0.34%
20											
21	SJI	SOUTH JERSEY INDUSTIES, INC.	2003	0.4307		11.60%		5.00%	11.26	26.46	
22			2004	0.4810		12.50%		6.01%	12.41	27.76	
23			2005	0.4971		12.40%		6.16%	13.50	28.98	
24			2006	0.6260		16.30%		10.20%	15.11	29.33	
25			2007	0.5167		12.90%		6.67%	16.24	29.62	
26			GROWTH 2003 - 2007					6.81%	13.50%		2.86%
27			2008	0.5111		13.00%		6.64%		30.00	1.28%
28			2009	0.5265		13.50%		7.11%		30.50	1.47%
29			2011-13	0.5733		14.50%		8.31%	5.00%	32.00	1.56%
30											
31	WGL	WGL HOLDINGS, INC.	2003	0.4435		14.00%		6.21%	16.25	48.63	
32			2004	0.3434		14.00%		4.81%	16.95	48.67	
33			2005	0.3744		12.00%		4.49%	17.80	48.65	
34			2006	0.3093		10.20%		3.15%	18.28	48.89	
35			2007	0.3476		10.40%		3.62%	19.83	49.45	
36			GROWTH 2003 - 2007					4.46%	3.50%		0.42%
37			2008	0.3913		11.50%		4.50%		49.50	0.10%
38			2009	0.3872		11.00%		4.26%		49.60	0.15%
39			2011-13	0.3760		10.50%		3.95%	5.00%	50.00	0.22%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 03/14/2008
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

SOUTHWEST GAS CORPORATION
TEST YEAR ENDED APRIL 30, 2007
GROWTH RATE COMPARISON

DOCKET NO. G-01551A-07-0504
SCHEDULE WAR - 6

NATURAL GAS LDC SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED EPS	DPS	BVPS	(D) VALUE LINE HISTORIC EPS	DPS	BVPS	(E) VALUE LINE & ZACKS AVGS.	(F) 5 - YEAR COMPOUND HISTORY EPS	DPS	BVPS
1	ATG	5.92%	4.80%	3.50%	4.00%	1.50%	15.00%	4.00%	10.50%	6.19%	6.94%	10.25%	10.35%
2	ATO	4.48%	4.60%	4.50%	2.00%	3.50%	7.50%	1.50%	9.00%	4.66%	3.21%	1.63%	7.21%
3	LG	5.25%	-	3.50%	2.50%	5.00%	9.50%	1.00%	4.50%	4.33%	6.14%	1.99%	6.04%
4	GAS	5.09%	4.00%	4.00%	0.50%	4.00%	-3.00%	2.50%	2.50%	2.07%	6.75%	0.00%	4.46%
5	NWN	4.73%	5.30%	7.00%	5.50%	3.50%	3.50%	1.50%	3.50%	4.26%	11.90%	3.19%	3.64%
6	PNY	3.51%	5.50%	5.00%	4.00%	3.50%	6.00%	4.50%	6.50%	5.00%	5.97%	4.82%	6.39%
7	SJI	8.65%	7.50%	NMF	5.50%	5.00%	12.00%	3.50%	13.50%	7.83%	11.14%	6.67%	9.59%
8	WGL	3.80%	4.00%	3.50%	2.50%	5.00%	5.00%	1.50%	3.50%	3.57%	-2.25%	1.71%	5.10%
9				4.43%	3.31%	3.88%	6.94%	2.50%	6.69%		6.23%	3.78%	6.60%
10	AVERAGES	5.18%	5.10%		3.87%			5.38%		4.74%		5.54%	

REFERENCES:
COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 03/14/2008
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 03/14/2008
COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1 THRU 8
COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 03/14/2008

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	k	=	r_f	+ [	(A) ß	x (	r_m	-	r_f	)]	=	(B) EXPECTED RETURN
1	ATG	k	=	1.65%	+ [	0.85	x (	10.40%	-	1.65%	)]	=	9.09%
2	ATO	k	=	1.65%	+ [	0.85	x (	10.40%	-	1.65%	)]	=	9.09%
3	LG	k	=	1.65%	+ [	0.90	x (	10.40%	-	1.65%	)]	=	9.52%
4	GAS	k	=	1.65%	+ [	1.00	x (	10.40%	-	1.65%	)]	=	10.40%
5	NWN	k	=	1.65%	+ [	0.80	x (	10.40%	-	1.65%	)]	=	8.65%
6	PNY	k	=	1.65%	+ [	0.85	x (	10.40%	-	1.65%	)]	=	9.09%
7	SJI	k	=	1.65%	+ [	0.80	x (	10.40%	-	1.65%	)]	=	8.65%
8	WGL	k	=	1.65%	+ [	0.85	x (	10.40%	-	1.65%	)]	=	9.09%
9	**AVERAGE**					0.86							9.20%

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

$$k = r_f + [\, ß\, (r_m - r_f)\,]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
ß = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) A 6-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 02/22/2008 THROUGH 03/28/2008 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.

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	k	=	r_f	+ [	(A) ß	x (	r_m	-	r_f	)]	=	(B) EXPECTED RETURN
1	ATG	k	=	1.65%	+ [	0.85	x (	12.30%	-	1.65%	)]	=	10.70%
2	ATO	k	=	1.65%	+ [	0.85	x (	12.30%	-	1.65%	)]	=	10.70%
3	LG	k	=	1.65%	+ [	0.90	x (	12.30%	-	1.65%	)]	=	11.23%
4	GAS	k	=	1.65%	+ [	1.00	x (	12.30%	-	1.65%	)]	=	12.30%
5	NWN	k	=	1.65%	+ [	0.80	x (	12.30%	-	1.65%	)]	=	10.17%
6	PNY	k	=	1.65%	+ [	0.85	x (	12.30%	-	1.65%	)]	=	10.70%
7	SJI	k	=	1.65%	+ [	0.80	x (	12.30%	-	1.65%	)]	=	10.17%
8	WGL	k	=	1.65%	+ [	0.85	x (	12.30%	-	1.65%	)]	=	10.70%
9	**AVERAGE**					0.86							10.83%

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

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

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
ß = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) A 6-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 02/22/2008 THROUGH 03/28/2008 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.

SOUTHWEST GAS CORPORATION
TEST YEAR ENDED APRIL 30, 2007
ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. G-01551A-07-0504
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%	7.50%	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%	4.21%	4.25%	4.25%	8.31%	8.63%
6	1995	2.83%	2.50%	8.83%	5.21%	5.83%	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%	3.40%	5.95%	7.59%	8.02%
13	2002	2.40%	1.60%	4.67%	1.17%	1.67%	1.61%	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%	2.34%	1.35%	1.37%	5.03%	5.77%	6.20%
16	2005	3.40%	3.20%	6.16%	4.19%	3.22%	3.15%	4.57%	5.38%	5.78%
17	2006	2.50%	3.30%	7.97%	5.96%	4.97%	4.73%	4.91%	5.94%	6.30%
18	2007	4.10%	2.20%	8.05%	5.86%	5.02%	4.36%	4.84%	6.07%	6.24%
19	CURRENT	4.00%	0.60%	5.25%	2.50%	2.25%	0.56%	4.72%	5.96%	6.14%

REFERENCES:
COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS WEB SITE
COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
COLUMN (C) THROUGH (F): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 03/28/2008
COLUMN (G) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 03/28/2008
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

SOUTHWEST GAS CORPORATION
TEST YEAR ENDED APRIL 30, 2007
CAPITAL STRUCTURES OF SAMPLE COMPANIES

DOCKET NO. G-01551A-07-0504
SCHEDULE WAR - 9

AVERAGE CAPITAL STRUCTURES OF SAMPLE NATURAL GAS COMPANIES

LINE NO.		ATG	PCT.	ATO	PCT.	LG	PCT.	GAS	PCT.
1									
2									
3	DEBT	$ 1,622.0	50.2%	$ 1,965.7	48.0%	$ 355.5	45.3%	$ 497.5	36.3%
4									
5	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.6	0.1%	0.6	0.0%
6									
7	COMMON EQUITY	1,609.0	49.8%	2,126.3	52.0%	428.3	54.6%	872.6	63.7%
8									
9	TOTALS	$ 3,231.0	100.0%	$ 4,092.0	100.0%	$ 784.4	100.0%	$ 1,370.7	100.0%
10									
11									
12		NWN	PCT.	PNY	PCT.	SJI	PCT.	WGL	PCT.
13									
14	DEBT	$ 517.0	46.3%	$ 824.8	48.4%	$ 358.0	44.7%	$ 616.4	37.9%
15									
16	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.0	0.0%	28.2	1.7%
17									
18	COMMON EQUITY	599.5	53.7%	878.3	51.6%	443.0	55.3%	980.7	60.3%
19									
20	TOTALS	$ 1,116.5	100.0%	$ 1,703.1	100.0%	$ 801.1	100.0%	$1,625.3	100.0%
21									
22									
23		NATURAL GAS LDC		SOUTHWEST GAS CORP.					
24		AVERAGE	PCT.	AVERAGE	PCT.				
25									
26	DEBT	$ 844.6	45.9%	$ 1,191.5	52.7%				
27									
28	PREFERRED STOCK	3.7	0.2%	100.0	4.4%				
29									
30	COMMON EQUITY	992.2	53.9%	970.3	42.9%				
31									
32	TOTALS	$ 1,840.5	100.0%	$ 2,261.8	100.0%				

REFERENCE:
MOST RECENT ANNUAL REPORTS OR SEC 10-K FILINGS

SOUTHWEST GAS CORPORATION

DOCKET NO. G-01551A-07-0504

DIRECT TESTIMONY

OF

RODNEY L. MOORE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

March 28, 2008

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INTRODUCTION

Q. Please state your name, position, employer and address.

A. Rodney L. Moore, Public Utilities Analyst V
Residential Utility Consumer Office
1110 West Washington Street, Suite 220
Phoenix, Arizona 85007.

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

A. Appendix 1, which is attached to this testimony, describes my educational background and includes a list of the rate case and regulatory matters in which I have participated.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present RUCO's recommendations regarding Southwest Gas Corporation's ("Company" or "SWG") application for a determination of the current fair value of its utility plant and property and for increases in its rates and charges based thereon for gas service. The test year utilized by the Company in connection with the preparation of this application is the 12-month period that ended April 30, 2007.

BACKGROUND

Q. Please describe your work effort on this project.

A. I obtained and reviewed data and performed analytical procedures necessary to understand the Company's filing as it relates to operating income, rate base, the Company's overall revenue requirement and rate design. My recommendations are based on these analyses. Procedures performed include the in-house formulation and analysis of seven sets of data requests, the review and analysis of Company responses to Commission Staff data requests, conversations with Company personnel and the review of prior ACC dockets related to SWG.

The Commission in Decision No. 68487, dated February 23, 2006, approved the Company's present rates and charges for utility service. The test year used in that proceeding was the 12-month period ending August 31, 2004.

Q. What areas will you address in your testimony?

A. I will address issues related to rate base, operating income and revenue requirements. RUCO's witness William A. Rigsby will provide an analysis of the cost of capital as presented on Schedule RLM-19. RUCO's witness Marylee Diaz Cortez will address rate design in her testimony to be filed April 11, 2008. I will sponsor the rate design exhibits that will be filed with the testimony of Ms. Diaz Cortez.

Q. Please identify the exhibits you are sponsoring.

A. I am sponsoring Schedules numbered RLM-1 through RLM-19.

SUMMARY OF ADJUSTMENTS

Q. Please summarize the adjustments to rate base, operating income and revenue requirements addressed in your testimony.

A. My testimony addresses the following issues:

Rate Base

Fair Value Rate Base – This adjustment states the fair value rate base by giving equal weighting (50/50 split) to RUCO's adjusted original cost rate base and RUCO's calculation of the reconstruction cost new depreciated rate base.

Construction Completed Not Classified - This adjustment includes the value of retired plant associated with the completed construction not classified recommended for rate base treatment.

Annualized Intangible Assets - This adjustment removes those assets, which will be fully amortized shortly after the end of the test year and includes those intangible assets that entered service shortly after the end of the test year.

Retired Plant Associated With the Sale of the "TEP Bypass" - This adjustment includes the value of retired plant associated with Tucson Electric Power Company's cancellation of gas transportation service through the "TEP Bypass", SWG's corresponding normalization of test-year revenue and the Company's acknowledgement of the upcoming sale of these assets.

Accumulated Deferred Income Taxes Associated With Incentive Compensation and the Supplemental Executive Retirement Plan - This is a companion adjustment to recognize the deferred tax implications on RUCO's operating income adjustments to the Company's incentive compensation program and the supplemental executive retirement plan discussed below.

Allowance For Working Capital – This adjustment is the difference in the level of expense recommendations calculated by the Company and RUCO.

Operating Income

Labor and Labor Loading Annualization Expense – This adjustment reduces test-year operating expenses to reflect RUCO's recommended level of annualized payroll and payroll taxes.

Injuries and Damages Expense – This adjustment reflects RUCO's determination of an average annual level of expense.

Paiute Allocation Annualization Expense – This is a conforming adjustment corresponding to the Company's acknowledgment of omissions in the original filing expenses.

Depreciation and Amortization Annualization Expense - This adjustment reflects depreciation and amortization expenses calculated on RUCO's recommended gross plant in service.

Property Tax Expense - This adjustment reflects the appropriate level of property tax expense given RUCO's recommended level of net plant in service.

Unnecessary and/or Inappropriate Expenses – RUCO expanded the scope of the Company's proposed adjustment to miscellaneous expense adjustments and removed inappropriate expenditures not necessary in the provisioning of gas service.

Management Incentive Program - This adjustment reflects RUCO's determination to split the cost on a 50/50 basis for expenses associated with employee incentive compensation.

Supplemental Executive Retirement Plan – This adjustment reflects RUCO's determination to remove the cost of the supplemental executive retirement plan.

Employee Recognition - This adjustment reflects RUCO's determination to remove the costs of gifts and awards associated with employee recognition.

Uncollectible Expense – This adjustment reduces test-year operating expenses to reflect RUCO's recommended level of normalized uncollectible expense.

Income Tax Expense – This adjustment reflects income tax expenses calculated on RUCO's recommended revenues and expenses.

Rate Design

Q. Please explain your contribution to RUCO's recommended rate designs.

A. I was responsible for producing an accurate set of bill determinants (i.e. test-year customer bill counts and therms consumed). After reviewing the Company's workpapers, I accepted SWG's bill determinants adjusted for weather normalization and customer annualization. I will be filing Schedule RLM-18 on April 11, 2008 as part of RUCO's rate design recommendations. An in-depth discussion of RUCO's proposed rate design will be contained in the testimony of RUCO witness Marylee Diaz Cortez, also to be filed on April 11, 2008.

REVENUE REQUIREMENTS

Q. Please summarize the results of RUCO's analysis of the Company's filing and state RUCO's recommended revenue requirement.

A. As outlined in Schedule RLM-1, RUCO is recommending that the increase in the Company's revenue requirement not exceed:

SWG	RUCO	DIFFERENCE
$50,219,828	$31,296,285	($18,923,543)

My recommended revenue requirement percentage increase versus the Company's proposal is as follows:

SWG	RUCO	DIFFERENCE
12.58 %	7.84 %	-4.74 %

RUCO's recommended increase in Fair Value Rate Base ("FVRB") based on the equal weighting of a 50/50 split between Original Cost Rate Base ("OCRB") and Reconstruction Cost New Depreciated Rate Base ("RCND") is summarized on Schedule RLM-1:

SWG	RUCO	DIFFERENCE
$1,469,135,558	$1,463,643,611	($5,491,947)

The detail supporting RUCO's recommended rate base is presented on Schedules RLM-2, RLM-3, RLM-4, RLM-5 and RLM-6.

RUCO's recommended required operating income is shown on Schedule RLM-1 as:

SWG	RUCO	DIFFERENCE
$103,457,659	$96,226,345	($7,231,314)

Schedule RLM-1 presents the calculation of RUCO's recommended revenue requirement.

RATE BASE

Fair Value Rate Base

Q. Please explain the basis for your determination of the fair value rate base ("FVRB").

A. RUCO's determination of the FVRB consists of three elements. First, as shown on RLM-2, the value of the OCRB was restated to reflect RUCO's adjustment to the various rate base determinants. Second, as shown on

RLM-3, the value of the RCND was computed. Third, as shown of RLM-1, the FVRB was computed on an equal weighted basis (50/50 split) between RUCO's OCRB and RCND.

Q. Please elaborate on the first element of RUCO's FVRB determination.

A. The first element consists of adjustments to the OCRB. As shown on RLM-4, RUCO made three adjustments to the OCRB, each of which is discussed in detail below.

Q. Please elaborate on the second element of RUCO's FVRB determination.

A. The second element is the computation of the RCND. RUCO's RCND was computed by multiplying RUCO's OCRB by the percentage difference between the Company's OCRB and its RCND as filed.

Q. Please elaborate on the third element of RUCO's FVRB determination.

A. The third element is the computation of the FVRB. RUCO computed the FVRB by calculating a 50/50 split between RUCO's OCRB and its RCND.

This adjustment to fair value rate base decreased the test-year rate base by $5,491,947.

Rate Base Adjustment No. 1 – Completed Construction Not Classified

Q. Please explain your adjustment to completed construction not classified ("CCNC").

A. In response to RUCO data request 2.1, the Company acknowledged there were corresponding plant retirements associated with the CCNC identified in its Adjustment No. 17.

Therefore, my adjustment recognizes these plant retirements, because it is necessary to match the test-year plant additions not classified with the test-year retirements not classified.

Thus the adjustment reduces the gross plant in service by the value of the retirements ($66,377); however, the adjustment also reduces the accumulated depreciation by an equal amount, which offsets any effect on the rate base.

As shown on Schedule RLM-4 page 1, columns (D) and (E) and supporting Schedule RLM-5, my adjustment decreases the adjusted rate base by $0. However, this adjustment has an effect on the test-year depreciation expense, which is discussed later in my testimony on operating income.

Rate Base Adjustment No. 2 – Annualized Intangible Assets

Q. Please explain the Company's proposed adjustment to annualize its test-year intangible plant balances.

A. The Company's adjustment reflects construction expenditures made before the end of the test year. However, the actual recording of this construction activity into the plant accounts was made after the end of the test year due to delays in entering the required information into the Company's computer system.

Q. Do you agree with this adjustment?

A. No, not entirely. In response to Staff data requests 6.59 and 11.4, the Company acknowledged it had over-estimated costs of certain intangible plant additions in its original filing. My adjustment decreases the Company's proposed estimates of intangible plant additions with the actual plant additions.

These additional plant assets were system allocable miscellaneous intangible items primarily related to computer software. RUCO accepts the Company's recommendation to assign a three-year service life on these intangible plant assets, which will be discussed later in my testimony regarding operating income.

Thus the adjustment consists of determining the difference between the estimated and actual costs, and adjusting SWG's rate base to reflect the actual intangible plant additions.

As shown on Schedule RLM-4 page 2, column (E) and supporting Schedule RLM-10, page 3, column (B), my adjustment decreases the adjusted rate base by $79,231.

Rate Base Adjustment No. 3 – Retired Plant Associated With the Sale of the "TEP Bypass"

Q. Please explain your adjustment to retire plant associated with Tucson Electric Power Company's ("TEP") cancellation of gas service provided through the "TEP bypass".

A. In the testimony of Company witness Mr. Cattanach, he states SWG annualized the test-year bills and volumes to reflect TEP's cancellation of gas service pursuant to the "TEP bypass". Moreover, in response to RUCO data request 7.2, the Company acknowledged there was an upcoming sale of the meters and pipes that service TEP planned for March 31, 2008 to transfer ownership to TEP. Because SWG annualized the end of test-year revenues based on end of test-year customer levels; it is also appropriate to annualize rate base items, such as plant in service and accumulated depreciation to reflect this adjusted customer level.

Therefore, my adjustment recognizes the plant that will be retired as a result of the "TEP bypass". This adjustment is necessary to match the test-year plant balances with the test-year customer level.

Thus, this adjustment reduces the gross plant in service by the value of the retirements ($210,619); however, the adjustment also reduces the accumulated depreciation by an equal amount, which offsets any effect on the rate base.

As shown on Schedule RLM-4 page 1, columns (G) and (H), my adjustment decreases the adjusted rate base by $0. This adjustment however has an effect on the test-year depreciation expense, which is discussed later in my testimony on operating income.

<u>Rate Base Adjustment No. 4 – Accumulated Deferred Income Taxes Associated With Management Incentive Program and the Supplemental Executive Retirement Plan</u>

Q. Please explain your adjustment to accumulated deferred income tax ("ADIT").

A. In response to Staff data request 11.11, the Company identified the ADIT associated with the management incentive program ("MIP") and the supplemental executive retirement plan ("SERP").

Q. Have you removed the entire ADIT balance related to MIP and SERP from rate base?

A. No. Since these two expenses have only been excluded from rates since SWG's last rate case, I have only removed the ADIT that has accrued since rates last went into effect through the end of the current test year. In this manner I have properly matched the MIP and SERP expense disallowances with the applicable ADIT accruals.

Furthermore, as shown on Schedule RLM-4, page 3, I have limited my ADIT adjustment related to MIP to 50 percent, since this was the portion of MIP expenses that was disallowed in SWG's prior rate order.

This is a companion adjustment to the MIP and SERP adjustments discussed below.

As shown on Schedule RLM-2, column (B), line 8, and supporting Schedule RLM-4, page 3, my adjustment decreases the adjusted rate base by $880,989.

<u>Rate Base Adjustment No. 5 – Allowance For Working Capital</u>

Q. What level of working capital is the Company requesting?

A. The Company is requesting a total working capital allowance of $5,681,932. This is comprised of cash working capital of ($10,379,937), materials and supplies of $12,389,898, and prepayments of $3,671,971.

Q. What is the basis of the Company's cash working capital request?

A. The Company's cash working capital request is based on the results of a lead/lag study.

Q. Please explain cash working capital and how a lead/lag study is used to measure cash working capital.

A. Cash working capital is the amount of cash needed by the Company to pay for goods and services in advance of the receipt of the associated revenues. The most accurate way to determine the necessary cash working capital requirement is through a lead/lag study. A lead/lag study measures the time between when service is rendered to customers and when the associated cash revenues are collected from customers (revenue lead/lag). The lead/lag study also measures the time between when goods and services are consumed in the production of utility service and when the utility makes payment for those goods and services (expense lead/lag). If the average lag in the receipt of revenues exceeds the average lag in payment of expenses, the utility has a positive cash working capital requirement. If the lead/lag study reveals that the average lag in the receipt of revenues is less than the average lag in the payment of expenses, the utility has a negative cash working capital requirement. In the first situation, stockholders must provide cash working capital to span the timing difference. In the latter situation, customers are supplying the cash working capital necessary to pay expenses through their earlier payment of utility bills. The first situation requires an addition to rate base, the latter situation requires a rate base reduction.

Q. Does the Company's cash working capital calculation reflect an accurate and appropriate level of cash working capital?

A. No. The Company has made several errors in its calculation of cash working capital.

Q. Please discuss these errors.

A. The Company-proposed interest lag of 84.65 days is incorrect because it fails to include the interest expense related to its tax-deductible preferred stock and fails to include the interest expense related to its customer deposits. I have corrected both of these errors and recomputed an interest expense lag of 83.80 days.

Q. Did you review the Company's other calculations of revenue and expense lags?

A. Yes.

Q. Do you agree with all of the revenue and expense lags calculated by the Company?

A. No. In addition to the interest lag, I believe the 7.5-day expense lag calculated by the Company for Other O&M Expenses is understated.

Q. How did the Company calculate the Other O&M Expense lag?

A. The Company examined each test-year expense voucher that exceeded $10,000 and for each of these vouchers computed the lead/lag days between the service period and the date of payment. The resultant 7.5-day lag is the average of each of the individual test-year O&M expense lags.

Q. Why do you believe the Other O&M Expenses lag is understated?

A. In response to a data request, the Company provided samples of the vouchers it had included in its calculation of the Other O&M Expense lag. My examination of these vouchers revealed that a number of the vouchers included in the Other O&M Expense lag calculation were misclassified as expenses, when in fact these expenditures were Prepayments.

The inclusion of these prepayments as expenses in the lead/lag calculation has the effect of understating the true expense lag.

Q. What types of expenditures had the Company misclassified as expenses?

A. A number of large expenditures that the Company included in O&M expense were payments for annual maintenance contracts, annual rental payments, and extended warranties.

Under Generally Accepted Accounting Principles companies are required to record expenditures that provide future benefit as Prepayments and to amortize the expenditures over the period in which they provide benefit.

Q. What adjustment have you made?

A. I have removed those vouchers that represent Prepayments from the Company's calculation of the Other O&M Expense lag. I also removed two invoices for unnecessary expenses ($17,200 as a sponsor for a golf tournament and $19,548 for an advertisement in "Restauranteur of Arizona").

Q. Have you made any other adjustments to the Other O&M Expense lag?

A. Yes. In response to RUCO data request 6.1, the Company indicated that it had made some errors in the compilation of the lag days for three invoices. As shown on Schedule RLM-6, page 4, column (B), I have corrected those errors.

Removal of the vouchers and correcting the lag days results in an adjusted Other O&M Expense lag of 17.72 days.

Q. Are any other corrections and/or adjustments necessary to the Company's lead/lag calculations?

A. Yes. As shown on Schedule RLM-6, page 2, column (B), I have adjusted the expense levels included in the lead/lag study to reflect RUCO's proposed level of expenses. This adjustment is necessary to synchronize the lead/lag study with RUCO's pro-forma operating expenses.

Q. Did you review the other components the Company included in its working capital request?

A. Yes. I reviewed the Materials and Supplies and Prepayment balances the Company included in its working capital request.

Q. Are any adjustments necessary to these components?

A. Yes. The 13-month average Prepayment balance should be adjusted. As just discussed above, the Company had misclassified several test-year expenditures as O&M expenses, when in fact these expenditures were Prepayments. I have removed these expenditures from the O&M expenses included in the lead/lag study and I made a corresponding adjustment to include these amounts in the test year Prepayments balance (except for the two invoices deemed unnecessary - $17,200 as a sponsor for a golf tournament and $19,548 for an advertisement in "Restauranteur of Arizona").

As shown on Schedule RLM-6, page 5, I have transferred these expenditures into the applicable month of the Prepayments account. I have also reflected the effect on the Prepayment balance in each ensuing month of the amortization of the prepayment.

This adjustment increases the 13-month average Prepayment balance by $4,013,462.

Q. Please summarize your adjustment to working capital?

A. RUCO recommends that the Company's cash working capital request be adjusted to correct certain errors the Company made in its lead/lag study, to reclassify certain test-year expenditures from O&M expense to Prepayments, remove unnecessary expenditures and to synchronize with RUCO's operating expense adjustments.

As shown on Schedule RLM-6, page 1, a decrease in the Company's working capital request of $4,507,854 is necessary.

OPERATING INCOME

Operating Income Summary

Q. Is RUCO recommending any changes to the Company's proposed operating expenses?

A. Yes. As shown on Schedule RLM-8, pages 1 through 2, columns (B) through (Q), I analyzed the Company's sixteen adjustments to its historical test-year operating income and made several adjustments to the operating income as filed by the Company. My review, analysis and adjustments are explained below.

SWG Operating Income Adjustment No. 1 – Labor and Labor Loading Annualization Expense

Q. Please explain your adjustment to labor and labor loading expenses.

A. RUCO does not generally vary from the strict implementation of the Historical Test-Year principle to avoid mismatches in the ratemaking elements. Therefore, I disallowed the Company's proposed wage increases to be effective in June 2008.

Q. Please explain your computation associated with your adjustment.

A. After an analysis of the Company's workpapers, I accepted SWG's values and methodology utilized to annualize the labor and labor loading, which included annualization of the test-year payroll plus a 3 percent post test-year payroll increase. However, to adhere to the Historical Test-Year principle I made one adjustment to the Company's formula. I adjusted the Company's proposed wage increase to be effective in June 2008 to zero; no other adjustments to the Company's calculation of the annualization of the labor and labor loading expense were made.

Q. Why is RUCO disallowing the June 2008 wage increase?

A. The inclusion of the June 2008 wage increase has the effect of triple-counting the increases in the salary and wage accounts - once for annualization of the test-year salaries, a second time for the post test-year 2007 three percent increase, and a third time for the 2008 increase. The Company's annualization adjustment to reflect estimated levels that will be in effect in June 2008 creates a mismatch between rate base, revenues and expenses at the end of the test year. If the Commission were to authorize rate recovery of the June 2008 payroll increases, the Company would be creating biased rates by picking and choosing which rate base, expense and revenue items it will reflect on an actual, projected or annualized basis. The Company's logic that the June 2008 wage increases should be allowed because they will be known and measurable prior to the hearing in this proceeding could be extended to all other operating income elements, since the Company will have recorded data through May 2008 by the time the hearing commences; yet SWG did not request post test year treatment of any other rate base, expense, or revenue items.

Q. Please explain the rationale of RUCO's recommendation to include the within grade movement and general wage increase effective May 2007 and June 2007 respectively, in the context of RUCO's strict adherence to the Historical Test-Year principle.

A. RUCO carefully analyzed the timeliness of the labor cost increases effective May 2007 and June 2007. Since the increases occurred within days of the end of the test year, RUCO will accept as reasonable the allowance of such annual adjustments for ratemaking treatment. This is reasonable because these annual increases do not accurately coincide with the staggered test year used in this case. Had SWG choose a test year ending two months later these wage increases would have automatically been included in operating expenses.

As shown on Schedule RLM-8, column (B) and supporting Schedule RLM-9, my adjustment decreases adjusted test-year expenses by $2,613,490.

<u>Operating Income Adjustment No. 2 – Injury and Damages Expenses</u>

Q. Please explain your adjustment to injury and damages expenses.

A. This is a conforming adjustment corresponding to the Company's responses to RUCO Data Request 2.5 and Staff Data Request 1.53, which recognized a failure to acknowledge $283,664 in expenses in the Company's original filing.

Therefore, as shown on Schedule RLM-8, column (C), this adjustment increased test-year expenses by $283,664.

Operating Income Adjustment No. 3 – Pauite Allocation Annualization Expense

Q. Please explain your adjustment to the Pauite allocation expense.

A. This is a conforming adjustment corresponding to the Company's responses to RUCO Data Request 2.5 and Staff Data Request 1.85, which acknowledged a failure to remove an aggregate $17,702 in expenses in the Company's original filing.

Therefore, as shown on Schedule RLM-8, column (D), this adjustment decreased test-year expenses by $17,702.

Operating Income Adjustment No. 4 – Depreciation and Amortization Annualization Expense

Q. Please explain your adjustment to depreciation and amortization expenses.

A. The adjustment is primarily attributable to RUCO's rate base adjustments. RUCO agrees with the set of depreciation rates that SWG is proposing to implement on a going-forward basis and to amortize the intangible plant included in the annualization adjustment over a three-year period.

As shown on Schedule RLM-8, column (E) and supporting Schedule RLM-10, pages 1 through 3, my adjustment decreases adjusted test-year expenses by $58,204.

Operating Income Adjustment No. 5 – Property Tax Expense

Q. Do you agree with SWG's methodology for computing gas utility property taxes?

A. Yes. I have used the same methodology to compute RUCO's recommended level of property taxes. The difference in the amount I calculated versus the Company is solely a result of our respective levels of recommended net plant in service.

As shown on Schedule RLM-8, column (F) and supporting Schedule RLM-11, RUCO and the Company, at the time of this filing, are in agreement on the level of test-year net plant in service; therefore, the adjustment increases adjusted test-year expenses by $0.

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

Q. Please explain your analysis of the various operating expense accounts that result in your removal of inappropriate or unnecessary costs for the provisioning of gas service.

A. After review of all the journal entries in various FERC accounts and the Company's response to RUCO Data Request 5.1, I determined there were numerous expenditures that were questionable, inappropriate, extravagant and/or unnecessary.

Therefore, as summarized on Schedule RLM-12, I have made an adjustment to remove test-year expenses related to payments to chambers of commerce, non-profit organizations, donations, club memberships, gifts, awards, extravagant corporate events, advertising and for various meals, lodging and refreshments, which are not necessary in the provisioning of gas service. The back-up documentation denoting each individual expense removed is recorded in Revised Exhibit A: FERC Account Code 880, pages 1 to 18, FERC Account 921, pages 1 to 14, FERC Account 923, page 1, and FERC Account 930, page 1.

RUCO provided SWG with a copy of the original Exhibit A in a data request to the Company. SWG concurred with RUCO in certain transactions and withdrew its request for recovery. The Company also responded with comments as to the appropriateness and necessity of each expense. After analyzing the Company's response, RUCO removed $312,932 from the $517,302 test-year expenses submitted on the original Exhibit A.

However, of the questionable invoices originally submitted by RUCO on Exhibit A there still remain expenditures that are questionable, inappropriate, extravagant and/or unnecessary and that the Company deems as appropriate charges for recovery from customers in rates. Such "appropriate charges" include:

1. Massages for $2,160;
2. Gift certificates to theaters, restaurants and shopping malls for $18,230;
3. Water, ice, coffee, beverages and refreshments for Company offices for $66,422;
4. Breakfast, lunch and dinners for meetings for $71,358;
5. Management off-site meetings at the Crowne Plaza Hotel, J W Marriott Starr Pass Resort and Spa, Orange Tree Golf Resort for $8,835; and
6. One Board of Directors' Meeting at the Southern Highlands Golf Course (Company adjusted) for $5,365. (SWG agreed to remove $3,107.51 itemized as beverages).

As shown on Schedule RLM-8, column (G) and supporting Schedule RLM-12, this adjustment decreased test-year expenses by $204,370.

Operating Income Adjustment No. 7 – Management Incentive Program

Q. Please provide an explanation for RUCO's adjustment to the management incentive program ("MIP") expenses.

A. After reviewing the Commission's position on MIP expense as authorized in the recent UNS Gas rate case (Decision No. 70011, dated November 27, 2007); RUCO recommends a 50/50 sharing as a reasonable balancing of the interests between ratepayers and shareholders. The MIP is comprised of elements that relate to the Company's financial performance and cost containment goals, matters that primarily benefit shareholders; plus elements based on meeting customer service goals, which offers opportunity for the Company's customers to benefit from improved performance.

Therefore, I split the MIP expense level on a 50/50 basis.

As shown on Schedule RLM-8, column (H) and supporting Schedule RLM-13, this adjustment decreased test-year expenses by $1,905,048.

Operating Income Adjustment No. 8 – Supplemental Executive Retirement Plan

Q. Please explain the basis for the adjustment you made to Supplemental Executive Retirement Plan ("SERP") expenses.

A. The SERP is a retirement plan that is provided to a small select group of high-ranking officers of the Company. The high-ranking officers who are covered under the SERP receive these benefits in addition to the regular retirement plan.

Q. Should ratepayers be required to pay the cost of supplemental benefits for the high-ranking officers of the Company?

A. No. The cost of supplemental benefits for high-ranking officers is not a necessary cost of providing electric service. These individuals are already fairly compensated for their work and are provided with a wide array of benefits including a medical plan, dental plan, life insurance, long term disability, paid absence time, and a retirement plan. If the Company feels it is necessary to provide additional perks to a select group of employees it should do so at its own expense.

Q. In recent ACC Decisions did the Commissioners determine whether SERP expenses were recoverable?

A. Yes. Recently, the Commission agreed with RUCO that SERP expenses should not be the burden of ratepayers. In Southwest Gas' latest rate case, (Decision No. 68487, dated February 23, 2006) the Commission agreed with RUCO that SERP should be excluded from operating expenses. In Arizona Public Service's most recent rate case, (Decision No. 69663, dated June 28, 2007), the Commission voted to disallow SERP. Moreover, the Commission voted to disallow SERP in the UNS Gas rate case (Decision No. 70011, dated November 27,2007). There is no reason to depart from this precedent; therefore, RUCO recommends the removal of the test-year cost of the SERP from operating expenses.

As shown on Schedule RLM-8, column (I) and supporting Schedule RLM-14, this adjustment decreased test-year expenses by $1,940,914.

<u>Operating Income Adjustment No. 9 – Employee Recognition</u>

Q. Please explain the basis for your adjustment to operating expenses for the removal of costs associated with employee recognition.

A. As previously explained in Operating Expense Adjustment No. 6, RUCO believes it is inappropriate to burden ratepayers with expenses related to payments to chambers of commerce, non-profit organizations, donations, club memberships, gifts, awards, extravagant corporate events, advertising and for various meals, lodging and refreshments, which are not necessary in the provisioning of gas service.

Therefore, in the Company's responses to RUCO data request 2.4 and Staff Data Request 1.42, SWG acknowledged $54,174 was recorded in the test-year general ledger for employee recognition, this amount included expenses for such things as gift certificates to theaters, restaurants and shopping malls, etc.. The Company's response also states that no portion of the $54,174 has been removed in any other adjustment.

As shown on Schedule RLM-8, column (J), this adjustment decreased test-year expenses by $54,174.

<u>Operating Income Adjustment No. 10 – Uncollectible Expense</u>

Q. Please explain the basis for your adjustment to operating expenses for the decrease in the uncollectible expense.

A. Through discovery I reviewed and analyzed three years of expenses recorded in FERC account 904 – uncollectible accounts from 2004 through 2006.

My analysis indicated this expense was sufficiently volatile to recommend a test year adjustment to acknowledge the wide variation in annual costs and to provide recovery of a normalized level of uncollectibles.

My adjustment to the test year uncollectible expense in the instant case consisted of two elements. First, I calculated the annual three-year average of the ratio of the yearly uncollectible expense to that year's revenue for 2004 through 2006. Second, I multiplied this computed average ratio by RUCO's adjusted test-year revenue.

As shown on Schedule RLM-8, column (K) and supporting Schedule RLM-15, this adjustment decreased test-year expenses by $752,652.

<u>Operating Income Adjustment No. 11 – Gain On The Sale Of Property</u>

Q. Please explain your adjustment to operating expenses for the equity realized from the Company's sale of property.

A. In its response to Staff data request 9.1, the Company acknowledged it is appropriate to share the gain on the disposition of assets with the ratepayers on a 50/50 basis. Therefore, my adjustment reflects a 50 percent share of the net proceeds realized from the sale of land and structures identified through discovery.

Historically, the Commission has determined similar adjustments should be amortized over a multi-year period; so to be consistent with the Commission's decision and other adjustments in this case, the gain has been amortized over a three-year period.

As shown on Schedule RLM-8, column (L) and supporting Schedule RLM-16, this adjustment decreased test-year expenses by $69,699.

<u>Operating Income Adjustment No. 12 – Income Tax Expense</u> – This adjustment reflects income tax expenses calculated on RUCO's recommended revenues and expenses.

As shown on Schedule RLM-8, column (Q) and supporting Schedule RLM-17, this adjustment increased test-year expenses by $3,118,244.

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE

Q. Please explain your contribution to RUCO's recommended rate designs.

A. I was responsible for producing an accurate set of bill determinants (i.e. test-year customer bill counts and therms consumed). I am in agreement with the bill determinants normalized by the Company. My recommended bill determinants are an integral part of the rate design presented on Schedule RLM-19, pages 1 through 4, to be filed on April 11, 2008.

Ms. Marylee Diaz Cortez will discuss RUCO's proposed rate design and structure in her testimony.

Q. Have you prepared a Schedule presenting proof of your recommended revenue?

A. Yes, I have. Proof that my recommended rate design will produce the recommended required revenue as illustrated, is presented also on Schedule RLM-19.

COST OF CAPITAL

Q. Is RUCO proposing any adjustments to the Company proposed cost of capital?

A. Yes, as shown on RLM-18, this adjustment decreases the Company's cost of common equity and therefore its weighted cost of capital by 62 basis points from 9.45 to 8.83 percent to reflect current market conditions. This adjustment is fully explained in the testimony of RUCO witness William A. Rigsby.

Q. Does this conclude your direct testimony?

A. Yes, it does.

APPENDIX 1

Qualifications of Rodney Lane Moore

EDUCATION: Athabasca University
Bachelor's Degree in Business Administration - 1993

EXPERIENCE: Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona 85007
May 2001 - Present

My duties include review and analysis of financial records and other documents of regulated utilities for accuracy, completeness, and reasonableness. I am also responsible for the preparation of work papers and Schedules resulting in testimony and/or reports regarding utility applications for increase in rates, financings, and other matters. Extensive use of Microsoft Excel and Word, spreadsheet modeling and financial statement analysis.

Auditor
Arizona Corporation Commission
Phoenix, Arizona 85007
October 1999 - May 2001

My duties include review and analysis of financial records and other documents of regulated utilities for accuracy, completeness, and reasonableness. I am also responsible for the preparation of work papers and Schedules resulting in testimony and/or reports regarding utility applications for increase in rates, financings, and other matters. Extensive use of Microsoft Excel and Word, spreadsheet modeling and financial statement analysis.

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

Utility Company	Docket No.
Rio Verde Utilities, Inc	WS-02156A-00-0321
Black Mountain Gas Company	G-03703A-01-0283
Green Valley Water Company	W-02025A-01-0559
New River Utility Company	W-01737A-01-0662

Utility Company	Docket No.
Dragoon Water Company	W-01917A-01-0851
Roosevelt Lake Resort, Inc.	W-01958A-02-0283
Southwest Gas Company	G-01551A-02-0425
Arizona-American Water Company	W-01303A-02-0867 et al.
Rio Rico Utilities, Inc.	WS-02676A-03-0434
Qwest Corporation	T-01051B-03-0454
Chaparral City Water Company	W-02113A-04-0616
Southwest Gas Company	G-01551A-04-0876
Arizona-American Water Company	W-01303A-05-0405
Far West Water and Sewer Company	WS-03478A-05-0801
Gold Canyon Sewer Company	SW-02519A-06-0015
Arizona-American Water Company	WS-01303A-06-0403
UNS Gas, Inc.	G-04204A-06-0463 et al.
UNS Electric, Inc.	E-04204A-06-0783
Tucson Electric Power Company	E-01933A-07-0402

Southwest Gas Corporation
Docket No. G-01551A-07-0504
Test Year Ended April 30, 2007

TABLE OF CONTENTS TO RUCO SCHEDULES

Southwest Gas Corporation
Docket No. G-01551A-07-0504
Test Year Ended April 30, 2007

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY RCND	(C) COMPANY FAIR VALUE	(D) RUCO ORIGINAL COST	(E) RUCO RCND	(F) RUCO FAIR VALUE
1	Adjusted Rate Base	$ 1,094,790,046	$ 1,843,481,069	$ 1,469,135,558	$ 1,089,321,967	$ 1,837,965,254	$ 1,463,643,611
2	Adjusted Operating Income (Loss)	$ 73,180,098	$ 73,180,098	$ 73,180,098	$ 77,394,464	$ 77,394,464	$ 77,394,464
3	Current Rate Of Return (Line 2 / Line 1)	6.68%	3.97%	4.98%	7.10%	4.21%	5.29%
4	Required Operating Income (Line 5 X Line 1)	$ 103,457,659	$ 103,457,659	$ 103,457,659	$ 96,226,345	$ 96,226,345	$ 96,226,345
5	Required Rate Of Return	9.45%	5.61%	7.04%	8.83%	5.24%	6.57%
6	Operating Income Deficiency (Line 4 - Line 2)	$ 30,277,561	$ 30,277,561	$ 30,277,561	$ 18,831,882	$ 18,831,882	$ 18,831,882
7	Gross Revenue Conversion Factor (Schedule RLM-1, Page 2)	1.6586	1.6586	1.6586	1.6619	1.6619	1.6619
8	Increase In Gross Revenue Requirement (Line 7 X Line 6)	$ 50,219,828	$ 50,219,828	$ 50,219,828	$ 31,296,285	$ 31,296,285	$ 31,296,285
9	Adjusted Test Year Revenue	$ 399,234,678	$ 399,234,678	$ 399,234,678	$ 399,234,678	$ 399,234,678	$ 399,234,678
10	Proposed Annual Revenue Requirement (Line 8 + Line 9)	$ 449,454,506	$ 449,454,506	$ 449,454,506	$ 430,530,964	$ 430,530,964	$ 430,530,964
11	Required Percentage Increase In Revenue (Line 8 / Line 9)	12.58%	12.58%	12.58%	7.84%	7.84%	7.84%
12	Rate Of Return On Common Equity	11.25%	11.25%	11.25%	9.88%	9.88%	9.88%

References:
Columns (A) Thru (C): Company Schedule A-1, C-1 And D-1
Columns (D) Thru (F): Schedules RLM-2, RLM-5, RLM-6 And RLM-18

Southwest Gas Corporation
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Test Year Ended April 30, 2007

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	REFERENCE	(A)
	CALCULATION OF GROSS REVENUE CONVERSION FACTOR:		
1	Revenue		1.0000
2	Less: Uncollectibles	Adjusted 3-Yr Average Uncollectible Expense (See RLM-15)	0.0022
3	Subtotal	Line 1 - Line 2	0.9978
4	Less: Combined Federal And State Tax Rate	Line 14	39.60%
5	Subtotal	Line 3 - Line 4	0.6017
6	**Revenue Conversion Factor**	Line 1 / Line 5	1.6619
	CALCULATION OF EFFECTIVE TAX RATE:		
7	Arizona Taxable Income		1.0000
8	Arizona State Income Tax Rate		0.0697
9	Federal Taxable Income	Line 7 - Line 8	0.9303
10	Applicable Federal Income Tax Rate	Tax Table	35.17%
11	Effective Federal Income Tax Rate	Line 9 X Line 10	0.3272
12	Subtotal	Line 8 + Line 11	0.3969
13	Revenue Less Uncollectibles	Line 3	0.9978
14	Combined Federal And State Income Tax Rate	Line 12 X Line 13	39.60%

Southwest Gas Corporation
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Test Year Ended April 30, 2007

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY FILED AS OCRB	(B) RUCO OCRB ADJUSTMENTS	REF.	(C) RUCO ADJUSTED AS OCRB
1	Gas Plant In Service	$ 2,053,847,890	$ (356,233)	(1)	$ 2,053,491,657
	Less:				
2	Accumulated Depreciation And Amortization	752,275,563	(276,996)	(1)	751,998,567
3	Net Gas Plant In Service (Line 1 - Line 2)	$ 1,301,572,327	$ (79,237)		$ 1,301,493,090
	Additions:				
4	Allowance For Working Capital (RLM-6, Page 1)	$ 5,681,932	$ (4,507,854)	(2)	$ 1,174,078
5	Total Additions (Line 4)	$ 5,681,932	$ (4,507,854)		$ 1,174,078
	Deductions:				
6	Customer Advances In Aid Of Construction	$ (37,910,017)	$ -		$ (37,910,017)
7	Customer Deposits	(31,921,898)	-		(31,921,898)
8	Deferred Income Taxes	(142,632,297)	(880,989)	(3)	(143,513,286)
9	Total Deductions (Sum Of Lines 6, 7 & 8)	$ (212,464,212)	$ (880,989)		$ (213,345,201)
10	TOTAL ORIGINAL COST RATE BASE (Sum Of Lines 3, 5 & 9)	$ 1,094,790,047	$ (5,468,080)		$ 1,089,321,967

References:
Column (A): Company Schedule B-1
Column (B): References:
(1) Schedule RLM-4, Page 1
(2) Schedule RLM-6, Page 1
(3) Schedule RLM-3, Page 3
Column (C): Column (A) + Column (B)

Southwest Gas Corporation
Docket No. G-01551A-07-0504
Test Year Ended April 30, 2007

RATE BASE - RECONSTRUCTED COST NEW DEPRECIATED

LINE NO.	DESCRIPTION	(A) COMPANY FILED AS RCND	(B) RUCO RCND ADJUSTMENTS	(C) RUCO ADJUSTED AS RCND
1	Gas Plant In Service	$ 3,224,193,614	$ (559,226)	$ 3,223,634,388
	Less:			
2	Accumulated Depreciation And Amortization	1,173,930,265	(432,254)	1,173,498,011
3	Net Gas Plant In Service (Line 1 - Line 2)	$ 2,050,263,349	$ (126,972)	$ 2,050,136,377
	Additions:			
4	Allowance For Working Capital	$ 5,681,932	$ (4,507,854)	$ 1,174,078
5	Total Additions (Line 4)	$ 5,681,932	$ (4,507,854)	$ 1,174,078
	Deductions:			
6	Customer Advances In Aid Of Construction	$ (37,910,017)	$ -	$ (37,910,017)
7	Customer Deposits	(31,921,898)	-	(31,921,898)
8	Deferred Income Taxes	(142,632,297)	(880,989)	(143,513,286)
9	Total Deductions (Sum Lines 6, 7 & 8)	$ (212,464,212)	$ (880,989)	$ (213,345,201)
10	TOTAL RCND RATE BASE	$ 1,843,481,069	$ (5,515,815)	$ 1,837,965,254

References:
Column (A): Company Schedule B-1
Column (B): Column (C) - Column (A)
Column (C): OCRB (RLM-2, Column (C)) X Same Ratio As The Company's RCND Is To Its OCRB (144.84%)

Southwest Gas Corporation
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Test Year Ended April 30, 2007

EXPLANATION OF TEST-YEAR RATE BASE ADJUSTMENT NO. 1
"DIRECT" TEST-YEAR PLANT SCHEDULES
YEAR ENDED APRIL 30, 2007

			(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
				COMPANY TEST YEAR AS FILED		ADJUSTMENT NO. 1		ADJ. NO. 2	ADJUSTMENT NO. 3			RUCO AS ADJUSTED	
						RETIREMENTS CCNC		SYS. ALLOC.	RETIREMENTS "TEP BYPASS"				
LINE NO.	ACCT NO.	ACCOUNT NAME	DEP RATE	TOTAL PLANT VALUE	ACCUMULATED DEPRECIATION	PLANT	ACC. DEP.	ONLY	PLANT	ACC.DEP	TOTAL PLANT VALUE	ACCUMULATED DEPRECIATION	NET PLANT VALUE
		Intangible Plant:											
1	301.0	Organization	Amor'd	$ 42,653	$ -	$ -	$ -	$ -	$ -	$ -	$ 42,653	$ -	$ 42,653
2	302.0	Franchises & Consents	Amor'd	1,877,392	663,783	-	-	-	-	-	1,877,392	663,783	1,213,609
3	303.0	Miscellaneous Intangible	Amor'd	1,957,665	1,950,332	-	-	-	-	-	1,957,665	1,950,332	7,333
4		Total Intangible Plant		$ 3,877,710	$ 2,614,115	$ -	$ -	$ -	$ -	$ -	$ 3,877,710	$ 2,614,115	$ 1,263,595
		Distribution Plant:											
5	374.1	Land & Land Rights	N/A	$ 1,084,811	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,084,811	$ -	$ 1,084,811
6	374.2	Rights Of Way	2.17%	1,064,064	324,955	-	-	-	-	-	1,064,064	324,955	739,109
7	375.0	Structures	0.39%	110,557	64,023	-	-	-	-	-	110,557	64,023	46,534
8	376.0	Mains	3.82%	984,805,304	355,501,160	(22,897)	(22,897)	-	(28,526)	(28,526)	984,753,881	355,449,737	629,304,144
9	378.0	Measuring & Regulating Station	4.12%	32,754,093	3,128,320	(41,047)	(41,047)	-	-	-	32,713,046	3,087,273	29,625,773
10	380.0	Services	5.30%	605,265,994	284,242,868	(1,288)	(1,288)	-	-	-	605,264,706	284,241,580	321,023,126
11	381.0	Meters	1.98%	226,663,229	30,494,483	-	-	-	-	-	226,663,229	30,494,483	196,168,746
12	385.0	Industrial Measuring & Reg. Station	4.31%	7,567,081	3,321,866	(1,145)	(1,145)	-	(182,093)	(182,093)	7,383,843	3,138,628	4,245,215
13	387.0	Other Equipment	5.26%	462,730	560,209	-	-	-	-	-	462,730	560,209	(97,479)
14		Total Distribution Plant		$ 1,859,777,863	$ 677,637,884	$ (66,377)	$ (66,377)	$ -	$ (210,619)	$ (210,619)	$ 1,859,500,867	$ 677,360,888	$ 1,182,139,979
		General Plant:											
15	389.0	Land & Land Rights	N/A	$ 8,418,416	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,418,416	$ -	$ 8,418,416
16	390.1	Structures	1.84%	26,092,410	7,802,105	-	-	-	-	-	26,092,410	7,802,105	18,290,305
17	390.2	Structures - Leasehold Improv'ts	Amor'd	986,219	717,875	-	-	-	-	-	986,219	717,875	268,344
18	391.0	Office Furniture And Equipment	2.73%	5,655,651	920,003	-	-	-	-	-	5,655,651	920,003	4,735,648
19	391.1	Computer Equipment	14.87%	8,563,368	(861,384)	-	-	-	-	-	8,563,368	(861,384)	9,424,752
20	392.1	Transportation Equipment	7.65%	31,153,543	3,183,715	-	-	-	-	-	31,153,543	3,183,715	27,969,828
21	393.0	Stores Equipment	2.08%	542,520	26,553	-	-	-	-	-	542,520	26,553	515,967
22	394.0	Tools, Shop And Garage Equip.	2.17%	5,225,024	(3,434,620)	-	-	-	-	-	5,225,024	(3,434,620)	8,659,644
23	395.0	Laboratory Equipment	3.93%	279,065	(272,649)	-	-	-	-	-	279,065	(272,649)	551,714
24	396.0	Power Operated Equipment	3.88%	4,309,295	892,513	-	-	-	-	-	4,309,295	892,513	3,416,782
25	397.0	Communication Equipment	8.88%	2,658,259	2,623,207	-	-	-	-	-	2,658,259	2,623,207	35,052
26	397.2	Telemetering Equipment	6.19%	789,376	229,416	-	-	-	-	-	789,376	229,416	559,960
27	398.0	Miscellaneous Equipment	4.53%	892,348	18,215	-	-	-	-	-	892,348	18,215	874,133
28		Total General Plant		$ 95,565,494	$ 11,844,949	$ -	$ -	$ -	$ -	$ -	$ 95,565,494	$ 11,844,949	$ 83,720,545
				$ 1	$ (1)						$ 1	$ (1)	$ 2
29		TOTAL DIRECT PLANT		$ 1,959,221,068	$ 692,096,947	$ (66,377)	$ (66,377)	$ -	$ (210,619)	$ (210,619)	$ 1,958,944,072	$ 691,819,951	$ 1,267,124,121
30		Allocated Plant (See RLM-4, Page 2, Line 31)		94,626,822	60,178,616	-	-	(79,237)	-	-	94,547,585	60,178,616	34,368,969
31		TOTAL PLANT		$ 2,053,847,890	$ 752,275,563	$ (66,377)	$ (66,377)	$ (79,237)	$ (210,619)	$ (210,619)	$ 2,053,491,657	$ 751,998,567	$ 1,301,493,090
32		Direct Plant As Per Company		$ 1,959,221,068	$ 692,096,947	$ -	$ -	$ -	$ -	$ -	$ 1,959,221,068	$ 692,096,947	1,267,124,121
		Common Plant As Per Company		94,626,822	60,178,616	-	-	-	-	-	94,626,822	60,178,616	34,448,206
33		Difference		$ -	$ -	$ (66,377)	$ (66,377)	$ (79,237)	$ (210,619)	$ (210,619)	$ (356,233)	$ (276,996)	$ (79,237)

References:
Columns (A) (B) (C): Company Workpapers
Column (D): Retirements Assoicated With CCNC (See RLM-5)
Column (E): Accumulated Depreciation Associated CCNC (See Testimony, RLM)
Columns (F): System Allocable Adjustment Only (See RLM-4, Page 2)
Column (G): Retirements Associated With The Sale Of The TEP Bypass (See Testimony, RLM)
Column (H): Accumulated Depreciation Associated With The Sale Of The TEP Bypass (See Testimony, RLM)
Column (I): Sum Of Cols. (B), (D) & (G)
Column (J): Sum Of Cols. (C), (E) & (H)
Column (K): Column (I) - Column (J)

Southwest Gas Corporation
Docket No. G-01551A-07-0504
Test Year Ended April 30, 2007

EXPLANATION OF TEST-YEAR RATE BASE ADJUSTMENT NO. 2
"SYSTEM ALLOCABLE" TEST-YEAR PLANT SCHEDULES
YEAR ENDED APRIL 30, 2007

			(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
				COMPANY TEST YEAR AS FILED		ADJ. NO. 1	ADJ. NO. 2		RUCO AS ADJUSTED	
LINE NO.	ACCT NO.	ACCOUNT NAME	DEP RATE	TOTAL PLANT VALUE	ACCUMULATED DEPRECIATION	DIRECT ADJM'T ONLY	INTANGIBLES RLM-10, PG 3,	TOTAL PLANT VALUE	ACCUMULATED DEPRECIATION	NET PLANT VALUE
		Intangible Plant:								
1	301.0	Organization	0.00%	$ 61,816	$ -	$ -	$ -	$ 61,816	$ -	$ 61,816
2	302.0	Franchises & Consents	Amor'd	-	-	-	-	-	-	-
3	303.0	Miscellaneous Intangible	Amor'd	113,344,261	80,931,738	-	(139,748)	113,204,513	80,931,738	32,272,775
4		Total Intangible Plant		$ 113,406,077	$ 80,931,738	$ -	$ (139,748)	$ 113,266,329	$ 80,931,738	$ 32,334,591
		Distribution Plant:								
5	374.1	Land & Land Rights	N/A	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6	374.2	Rights Of Way	N/A	-	-	-	-	-	-	-
7	375.0	Structures	N/A	-	-	-	-	-	-	-
8	376.0	Mains	N/A	-	-	-	-	-	-	-
9	378.0	Measuring & Regulating Station	N/A	-	-	-	-	-	-	-
10	380.0	Services	N/A	-	-	-	-	-	-	-
11	381.0	Meters	N/A	-	-	-	-	-	-	-
12	385.0	Indiustrial Measuring & Reg. Station	N/A	-	-	-	-	-	-	-
13	387.0	Other Equipment	N/A	-	-	-	-	-	-	-
14		Total Distribution Plant		$ -	$ -	$ -	$ -	$ -	$ -	$ -
		General Plant:								
15	389.0	Land & Land Rights	0.00%	$ 391,307	$ -	$ -	$ -	$ 391,307	$ -	$ 391,307
16	390.1	Structures	2.50%	13,961,544	3,733,837	-	-	13,961,544	3,733,837	10,227,707
17	390.2	Structures - Leasehold Improv'ts	Amor'd	4,232,644	3,118,764	-	-	4,232,644	3,118,764	1,113,880
18	391.0	Office Furniture And Equipment	8.16%	9,441,847	1,264,958	-	-	9,441,847	1,264,958	8,176,889
19	391.1	Computer Equipment	16.15%	14,791,422	12,836,794	-	-	14,791,422	12,836,794	1,954,628
20	392.1	Trans. Equip. - Light Vehicles	7.20%	3,495,826	646,045	-	-	3,495,826	646,045	2,849,781
21	393.0	Trans. Equip. - Heavy Vehicles	7.20%	86,303	(37,694)	-	-	86,303	(37,694)	123,997
22	394.0	Stores Equipment	16.03%	24,106	5,299	-	-	24,106	5,299	18,807
23	395.0	Tools, Shop And Garage Equip.	11.16%	232,096	(24,943)	-	-	232,096	(24,943)	257,039
24	396.0	Laboratory Equipment	4.77%	281,078	75,601	-	-	281,078	75,601	205,477
25	397.0	Communication Equipment	8.51%	5,376,875	3,611,659	-	-	5,376,875	3,611,659	1,765,216
26	397.2	Telemetering Equipment	40.23%	286,958	27,661	-	-	286,958	27,661	259,297
27	398.0	Miscellaneous Equipment	11.09%	882,254	(54,592)	-	-	882,254	(54,592)	936,846
28		Total General Plant		$ 53,484,260	$ 25,203,389	$ -	$ -	$ 53,484,260	$ 25,203,389	$ 28,280,871
29		TOTAL ALLOCABLE PLANT		$ 166,890,337	$ 106,135,127	$ -	$ (139,748)	$ 166,750,589	$ 106,135,127	$ 60,615,462
30		Allocation Factor		56.70%	56.70%	56.70%	56.70%	56.70%	56.70%	56.70%
				1	(1)			1	(1)	
31		TOTAL ALLOCATE PLANT		$ 94,626,822	$ 60,178,616	$ -	$ (79,237)	$ 94,547,585	$ 60,178,616	$ 34,368,967

References:

Columns (A) (B) (C): Company Workpapers
Column (D): Direct Plant Adjustment Only (See RLM-4, Page1)
Columns (E): Company Response To Staff Data Request 11.4 (See RLM-10, Page 3, Column (B))

Column (F): Sum Of Cols. (B) & (D)
Column (G): Sum Of Cols. (C) & (D)
Column (H): Column (F) - Column (G)

Southwest Gas Corporation
Docket No. G-01551A-07-0504
Test Year Ended April 30, 2007

EXPLANATION OF TEST-YEAR RATE BASE ADJUSTMENT NO. 4
ACCUMULATED DEFERRED INCOME TAX (ADIT) ASSOCIATED WITH MIP AND SERP

LINE NO	DESCRIPTION	(A) ADIT ASSOCIATED WITH MIP ACCT 20701371	(B) ADIT ASSOCIATED WITH MIP ACCT 24201371	(C) ADIT ASSOCIATED WITH SERP ACCT 24201387	REFERENCE
	Deferred Income Tax Asset (Liability)				
1	April 30, 2007	$ 406,289	$ 1,775,833	$ 7,804,183	Co. Response To Staff DR 11-11
2	April 30, 2006	631,459	497,556	7,449,748	Co. Response To Staff DR 11-11
3	Test-Year ADIT	$ 225,170	$ (1,278,277)	$ (354,435)	Sum Lines 1 And 2
4	Total ADIT Assoicated With MIP		$ (1,053,107)		Sum Columns (A) & (B), Line 3
5	RUCO Adjustment To Split MIP 50% - Ratepayers & Shareholders		50.00%		See RLM Testimony & RLM-13
6	RUCO Adjusted MIP		$ (526,554)		Line 4 X Line 5
7	RUCO Adjusted SERP			$ (354,435)	Line 3, Column (C)
8	Total Adjustment To Test-Year ADIT			$ (880,989)	Sum Line 6 And 7
9	RUCO Adjustment (See RLM-2, Column (B), Line 8)			$ (880,989)	Line 8

Southwest Gas Corporation
Docket No. G-01551A-07-0504
Test Year Ended April 30, 2007

EXPLANATION OF SWG TEST-YEAR RATE BASE ADJUSTMENT NO. 1 - CONT'D
COMPLETED CONSTRUCTION NOT CLASSIFIED

LINE NO.	ACCT. NO.	DESCRIPTION	(A) CONST. WK ORDER	(B) RETIRE'T WK ORDER	(C) IN-SER. DATE	(D) ACTUAL CONST. COST	(E) ACTUAL RETIRE'T COST
		ARIZONA DIRECT					
		Intangible Plant					
1	303	Miscellaneous Intangible				$ -	$ -
2		Total Intangible				$ -	$ -
		Distribution					
3	374	Land and Land Rights				$ 733,126	$ -
		Mains					
4	376	Franchise Replacements				$ 527,574	$ -
5	376	Regular Replacement				190,569	-
6	376	Pressure Reinforcement				121,747	-
7	376	Cathodic Protection				171,752	-
8	376	High Pressure Dist.				518,422	-
9		Total Acct 376				$ 1,530,064	$ (22,897)
10	378	Regulator Station				$ 325,675	$ (41,047)
11	380	Services				-	(1,288)
12	385	Regulator Station-Lrg				117,130	(1,145)
13		Total Distribution Plant				$ 2,705,995	$ (66,377)
		General					
14	390.1	Structures and Improve.				$ 27,443	$ -
15	391	Office Furniture & Equip.				215,492	-
16	392	Transportation Equip.				27,184	-
17	391.1	Computer Equipment				-	-
18		Total General Plant				$ 270,120	$ -
19		SUBTOTAL ARIZONA DIRECT CCNC PLANT				$ 2,976,115	$ (66,377)
		SYSTEM ALLOCATE PLANT					
		Intangible Plant					
20	303	Miscellaneous Intangible				$ 1,696,000	$ -
21		Total Intangible				$ 1,696,000	$ -
		General					
22	390.1	Structures and Improve.				$ 265,254	$ -
23	391	Office Furniture & Equip.				28,258	-
24	392	Transportation Equip.				-	-
25	391.1	Computer Equipment				432,587	-
26		Total General Plant				$ 726,099	$ -
27		SUBTOTAL SYSTEM ALLOCATE CCNC PLANT				$ 2,422,099	$ -
28		Allocation Factor (Arizona 4-Factor)				56.70%	56.70%
29		SUBTOTAL AMOUNT ALLOCATED TO ARIZONA CCNC PLANT				$ 1,373,330	$ -
30		TOTAL CCNC PLANT				$ 4,349,445	$ (66,377)
31		RUCO RECOMMENDED TOTAL CCNC PLANT				$ 4,349,445	$ (66,377)
32		Company As Filed				4,349,445	-
33		RUCO ADJUSTMENT TO ARIZONA DIRECT CCNC				$ -	$ (66,377)

Reference
Columns (A) (B): Company Response To RUCO Date Request No. 1.17 And 2.1

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EXPLANATION OF TEST-YEAR RATE BASE ADJUSTMENT NO. 5
SUMMARY OF THE ALLOWANCE FOR WORKING CAPITAL

LINE NO.	DESCRIPTION	REFERENCE		(A) AMOUNT
1	Cash Working Capital Per SWG	SWG SCH. B-5, Page 1	$	(10,379,937)
2	Cash Working Capital Per RUCO	RLM-6, Page 2, Line 14		(15,229,282)
3	Adjustment	Line 2 - Line 1	$	(4,849,345)
4	Materials And Supplies Per SWG	SWG SCH. B-5, Page 1	$	12,389,898
5	Materials And Supplies Per RUCO	SWG SCH. B-5, Page 1		12,389,898
6	Adjustment	Line 5 - Line 4	$	-
7	Prepayments Per SWG	SWG SCH. B-5, Page 1	$	3,671,971
8	Prepayments Per RUCO	RLM-6, Page 5, Line 15		4,013,462
9	Adjustment	Line 8 - Line 7	$	341,491
10	Total Adjustment	Sum Lines 3, 6, & 9	$	(4,507,854)

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EXPLANATION OF TEST-YEAR RATE BASE ADJUSTMENT NO. 5 - CONT"D
ALLOWANCE FOR WORKING CAPITAL
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
1	Cost Of Gas	$ 540,064,385	$ -	$ 540,064,385	42.30	$ 22,842,405,297
2	Labor Cost	117,038,570	(6,513,626)	110,524,944	12.33	1,363,305,727
3	Provision For Uncollectible Accts	2,977,729	(752,652)	2,225,077	120.00	267,009,303
4	Other O & M	54,826,860	(8,127)	54,818,733	17.72	971,137,425
	Total O & M Expenses	$ 714,907,544	$ (7,274,405)	$ 707,633,139	35.96	$ 25,443,857,753
5	Interest	$ 48,035,008	1,675,397	$ 49,710,405	82.73	$ 4,112,541,775
6	Taxes Other Than Income Taxes	33,124,880	-	33,124,880	185.34	6,139,365,177
7	Income Taxes	21,699,571	9,975,295	31,674,866	37.00	1,171,970,019
8	Revenue Taxes	97,747,450	3,201,610	100,949,060	51.75	5,224,113,855
9	Total Operating Expenses	$ 915,514,453	$ 4,376,287	$ 923,092,350	45.60	$ 42,091,848,579
10	Revenue Lag				39.53	Co. Workpapers
11					(6.07)	Line 10 - Line 9
12	Number Of Days In Test Period	365	Test Year			
13	Average Daily Operating Expenses	$ 2,508,259	Col. (A) Line 9 / Line 12			
14	Net Difference Rev - Exp Lag	(6.07)	Col. (D) Line 11			
15	Cash Working Capital	$ (15,229,282)	Col. (A), Line 13 X Line 14			

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EXPLANATION OF TEST-YEAR RATE BASE ADJUSTMENT NO. 5 - CONT"D
ALLOWANCE FOR WORKING CAPITAL
CALCULATION OF PREFERRED EQUITY LAG

LINE NO.	MID-POINT OF SERVICE PERIOD	(A) PAYMENT DATE	(B) PERCENT PAYMENT	(C) (LEAD)/LAG DAYS	(D) DOLLARS DAYS
1	7/1/2006	3/31/2006	25.00%	(92)	(23.00)
2	7/1/2006	6/30/2006	25.00%	(1)	(0.25)
3	7/1/2006	9/30/2006	25.00%	91	22.75
4	7/1/2006	12/31/2006	25.00%	183	45.75
5	Totals		100.00%		45.25
6	Preferred Equity Lag			45.25	

EXPLANATION OF TEST-YEAR RATE BASE ADJUSTMENT NO. 5 - CONT"D
ALLOWANCE FOR WORKING CAPITAL
CALCULATION OF OTHER O & M LAG

LINE NO.	MONTH	(A) COST	(B) LAG DAYS	(C) DOLLAR DAYS
1	May 2006	$ 2,596,715	0.22	$ 566,253
2	June	2,611,117	35.16	91,799,499
3	July	2,546,481	18.55	47,227,421
4	August	2,460,510	36.74	90,404,740
5	September	2,021,521	35.60	71,973,470
6	October	3,018,228	52.99	159,935,937
7	November	2,733,777	45.29	123,820,351
8	December	3,394,550	(6.46)	(21,943,520)
9	January 2007	5,019,712	(2.82)	(14,168,034)
10	February	5,258,382	9.77	51,397,591
11	March	4,466,924	29.44	131,524,579
12	April	2,608,462	(17.75)	(46,306,652)
13	Total	$ 38,736,380	17.72	$ 686,231,635

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EXPLANATION OF TEST-YEAR RATE BASE ADJUSTMENT NO. 5 - CONT"D
ALLOWANCE FOR WORKING CAPITAL
CALCULATION OF ADJUSTED PREPAYMENTS

LINE NO.	MONTH	(A) BALANCE	(B) DEBITS	(C) CREDITS	(D) ADJUSTED BALANCE
1	April 2006	$ 5,367,019	$ -	$ -	$ 5,367,019
2	May	4,571,452	18,221	-	4,589,673
3	June	3,756,402	-	1,518	3,773,104
4	July	5,219,958	22,000	1,518	5,257,142
5	August	9,299,535	195,806	3,352	9,529,173
6	September	8,623,454	15,186	19,669	8,848,609
7	October	7,836,438	66,720	20,934	8,107,379
8	November	6,430,014	128,656	26,494	6,803,117
9	December	9,144,710	163,132	37,216	9,643,729
10	January 2007	8,343,687	112,506	50,810	8,904,402
11	February	7,723,320	126,085	60,186	8,349,935
12	March	6,044,664	76,149	70,693	6,676,735
13	April	5,600,962	13,396	77,038	6,169,390
14	Total	$ 87,961,615			$ 92,019,406
15	13 Month Average	$ 6,766,278		56.70%	$ 4,013,462

References:
Column (A): Company Schedule B-5, Page 4
Column (B): Company Schedule B-5, Workpaper Sheets 30 - 59
Column (C): Column (B) Prior Months Accurals / 12 Months
Column (D): Column (D) Prior Month + Column (B) Current Month - Column (C) Current Month + Column (A) Current Month - Column (A) Prior Month

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Schedule RLM-7

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJTMENTS	(C) RUCO TEST YEAR AS ADJUSTED	(D) RUCO PROPOSED CHANGES	(E) RUCO AS RECOMMENDED
1	Revenues	$ 399,234,678	$ -	$ 399,234,678	$ 31,296,285	$ 430,530,964
2	Gas Cost	-	-	-	-	-
3	TOTAL MARGIN	$ 399,234,678	$ -	$ 399,234,678	$ 31,296,285	$ 430,530,964
	EXPENSES:					
4	Other Gas Supply	$ 701,601	$ (25,254)	$ 676,347	$ -	$ 676,347
5	Distribution	89,528,455	(2,467,490)	87,060,965	-	87,060,965
6	Customer Accounts	38,730,909	(1,811,510)	36,919,399	-	36,919,399
7	Customer Information	1,126,796	(20,117)	1,106,679	-	1,106,679
8	Sales	-	-	-	-	-
	Administrative & General					
9	Direct	4,009,539	(290,519)	3,719,020	-	3,719,020
10	System Allocable	52,937,155	(2,659,515)	50,277,640	-	50,277,640
	Depreciation & Amortization					
11	Direct	80,956,247	(11,621)	80,944,625	-	80,944,625
12	System Allocable	6,646,938	(46,583)	6,600,356	-	6,600,356
13	Regulatory Amortizations	284,528	-	284,528	-	284,528
14	Other Taxes	33,124,880	-	33,124,880	-	33,124,880
15	Interest On Cust. Deposits	1,915,314	-	1,915,314	-	1,915,314
16	Income Taxes	16,092,218	3,118,244	19,210,462	12,464,404	31,674,866
17	TOTAL EXPENSES	$ 326,054,578	$ (4,214,365)	$ 321,840,214	$ 12,464,404	$ 334,304,618
		$ (2)				
18	NET INCOME (LOSS)	$ 73,180,098		$ 77,394,464		$ 96,226,345

References:

Column (A): Company Schedule C-1
Column (B): Testimony, RLM And Schedule RLM-8
Column (C): Column (A) + Column (B)
Column (D): Testimony, RLM And Schedule RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

Southwest Gas Corporation
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SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTED

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ. NO. 1 LABOR AND LABOR LOAD SCH. RLM-9	(C) ADJ. NO. 2 INJURIES AND DAMAGES TSTM'Y-RLM	(D) ADJ. NO. 3 PAIUTE ANNUALZ'N TSTM'Y-RLM	(E) ADJ. NO. 4 ANNUALIZED DEP/AMORT SCH. RLM-10	(F) ADJ. NO. 5 ANNUALIZED PROP'TY TAX SCH. RLM-11	(G) ADJ. NO. 6 UNNECESS EXPENSES SCH. RLM-12	(H) ADJ. NO. 7 MIP SCH. RLM-13	(I) ADJ. NO. 8 SERP SCH. RLM-14
1	Revenues	$ 399,234,678	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Gas Cost	-	-	-	-	-	-	-	-	-
3	TOTAL MARGIN	$ 399,234,678	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	EXPENSES:									
4	Other Gas Supply	$ 701,601	$ (15,070)	$ -	$ -	$ -	$ -	$ -	$ -	$ (10,184)
5	Distribution	89,528,455	(1,364,268)	-	-	-	-	(110,809)	-	(949,044)
6	Customer Accounts	38,730,909	(619,707)	-	-	-	-	-	-	(428,347)
7	Customer Information	1,126,796	(11,910)	-	-	-	-	-	-	(8,206)
8	Sales	-	-	-	-	-	-	-	-	-
	Administrative & General		-	-	-	-	-	-	-	-
9	Direct	4,009,539	(21,716)	-	-	-	-	-	(145,002)	(54,102)
10	System Allocable	52,937,155	(580,819)	283,644	(17,702)	-	-	(93,561)	(1,760,046)	(491,031)
	Depreciation & Amortization		-	-	-	-	-	-	-	-
11	Direct	80,956,247	-	-	-	(11,621)	-	-	-	-
12	System Allocable	6,646,938	-	-	-	(46,583)	-	-	-	-
13	Regulatory Amortizations	284,528	-	-	-	-	-	-	-	-
14	Other Taxes	33,124,880	-	-	-	-	-	-	-	-
15	Interest On Cust. Deposits	1,915,314	-	-	-	-	-	-	-	-
16	Income Taxes	16,092,218	-	-	-	-	-	-	-	-
17	TOTAL EXPENSES	$ 326,054,579	$ (2,613,490)	$ 283,644	$ (17,702)	$ (58,204)	$ -	$ (204,370)	$ (1,905,048)	$ (1,940,914)
18	NET INCOME (LOSS)	$ 73,180,099								

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SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTED

LINE NO.	DESCRIPTION	(J) ADJ. NO. 9 EMPLOYEE RECOGNITION TSTM'Y-RLM	(K) ADJ. NO. 10 UNCOLL'TIBLE EXPENSE SCH. RLM-15	(L) ADJ. NO. 11 GAIN ON SALE - PROPERTY SCH. RLM-16	(M) INTENT'LY LEFT BLANK	(N) INTENT'LY LEFT BLANK	(O) INTENT'LY LEFT BLANK	(P) INTENT'LY LEFT BLANK	(Q) ADJ. NO. 12 INCOME TAX SCH. RLM-17	(R) RUCO AS ADJUSTED
1	Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 399,234,678
2	Gas Cost	-	-	-	-	-	-	-	-	-
3	TOTAL MARGIN	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 399,234,678
	EXPENSES:									
4	Other Gas Supply	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 676,347
5	Distribution	(43,370)	-	-	-	-	-	-	-	87,060,965
6	Customer Accounts	(10,804)	(752,652)	-	-	-	-	-	-	36,919,399
7	Customer Information	-	-	-	-	-	-	-	-	1,106,679
8	Sales	-	-	-	-	-	-	-	-	-
									-	-
	Administrative & General	-	-	-	-	-	-	-	-	-
9	Direct	-	-	(69,699)	-	-	-	-	-	3,719,020
10	System Allocable	-	-	-	-	-	-	-	-	50,277,640
					-	-	-	-	-	-
	Depreciation & Amortization	-	-	-	-	-	-	-	-	-
11	Direct	-	-	-	-	-	-	-	-	80,944,625
12	System Allocable	-	-	-	-	-	-	-	-	6,600,356
13	Regulatory Amortizations	-	-	-	-	-	-	-	-	284,528
					-	-	-	-	-	-
14	Other Taxes	-	-	-	-	-	-	-	-	33,124,880
15	Interest On Cust. Deposits	-	-	-	-	-	-	-	-	1,915,314
16	Income Taxes	-	-	-	-	-	-	-	3,118,244	19,210,462
17	TOTAL EXPENSES	$ (54,174)	$ (752,652)	$ (69,699)	$ -	$ -	$ -	$ -	$ 3,118,244	$ 321,840,214
18	NET INCOME (LOSS)									$ 77,394,464

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
LABOR AND LABOR LOADING ADJUSTMENT

LINE NO.	DESCRIPTION	(A) COMPANY LABOR & LABOR LOADING ADJUSTMENT	(B) RUCO LABOR & LABOR LOADING AS ADJUSTED	(C) RUCO LABOR & LABOR LOADING ADJUSTMENT
1	Other Gas Supply	$ 16,522	$ 1,452	$ (15,070)
2	Distribution	1,539,648	175,380	(1,364,268)
3	Customer Accounts	694,914	75,208	(619,707)
4	Customer Information	13,313	1,402	(11,910)
5	Sales	-	-	-
	Administrative & General			
6	Direct	24,518	2,803	(21,716)
7	System Allocable	578,837	(1,982)	(580,819)
8	TOTAL	$ 2,867,752	$ 254,262	$ (2,613,490)
9	RUCO ADJUSTMENT TO LABOR AND LABOR LOADING (See RLM-7, Page 1, Col (B))			$ (2,613,490)

References:
Column (A): Company WP's C-2, Column (d)
Column (B): See RUCO WP's Labor & Loading Adj. # 1 (Deficiency / C-2 Adjustments / Column (d))
Column (C): Column (B) - Column (A)

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4
DIRECT PLANT TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.		(A) TOTAL PLANT VALUE	(B) CO. PROPOSED DEPRECIATION RATE	(C) TEST YEAR DEPREC'N EXPENSE
		Intangible Plant:			
1	301	Organization	$ 42,653	Amortized	$ -
2	302	Franchises & Consents	1,877,392	Amortized	61,015
3	303	Miscellaneous Intangible	1,957,665	Amortized	12,594
4		Total Intangible Plant	$ 3,877,710		$ 73,609
		Distribution Plant:			
5	374.1	Land & Land Rights	$ 1,084,811	NA	$ -
6	374.2	Rights Of Way	1,064,064	2.17%	23,051
7	375	Structures	110,557	0.39%	431
8	376	Mains	984,753,881	3.82%	37,617,598
9	378	Measuring & Regulating Station	32,713,046	4.12%	1,347,777
10	380	Services	605,264,706	5.30%	32,079,029
11	381	Meters	226,663,229	1.98%	4,487,932
12	385	Industrial Measuring & Regulating Station	7,383,843	4.31%	318,244
13	387	Other Equipment	462,730	5.26%	24,340
14		Total Distribution Plant	$ 1,859,500,867		$ 75,898,402
		General Plant:			
15	389	Land & Land Rights	$ 8,418,416	NA	$ -
16	390.1	Structures	26,092,410	1.84%	480,100
17	390.2	Structures - Leasehold Improvments	986,219	Amortized	53,321
18	391	Office Furniture And Equipment	5,655,651	2.73%	154,399
19	391.1	Computer Equipment	8,563,368	14.87%	1,273,373
20	392.1	Transportation Equipment	31,153,543	7.65%	2,383,246
21	393	Stores Equipment	542,520	2.08%	11,284
22	394	Tools, Shop And Garage Equipment	5,225,024	2.17%	113,383
23	395	Laboratory Equipment	279,065	3.93%	10,967
24	396	Power Operated Equipment	4,309,295	3.88%	167,201
25	397	Communication Equipment	2,658,259	8.88%	236,053
26	397.2	Telemetering Equipment	789,376	6.19%	48,862
27	398	Miscellaneous Equipment	892,348	4.53%	40,423
28		Total General Plant	$ 95,565,494		$ 4,972,614
29		Total Direct Plant, Depreciation And Amortization	$ 1,958,944,071		$ 80,817,695
30		Total Amortization - Limited Term Gas Plant			126,930
31		Total Depreciation and Amortization			$ 80,944,625
32		Company As Filed	1,959,221,067		80,956,247
33		Difference	(276,996)		$ (11,621)
34	RUCO ADJUSTMENT TO TEST YEAR DIRECT DEPRECIATION EXPENSE (See RLM-8, Page 1, Column (E))				$ (11,621)

References:
- Column (A): RLM-4, Page 1, Column (M)
- Column (B): Company Workpapers
- Column (C): Column (A) X Column (B)

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4 - CONT'D
SYSTEM ALLOCABLE PLANT TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.		(A) TOTAL PLANT VALUE	(B) CO. PROPOSED DEPRECIATION RATE	(C) TEST YEAR DEPREC'N EXPENSE
		Intangible Plant:			
1	301.0	Organization	$ 61,816	0.00%	$ -
2	302.0	Franchises & Consents	-	Amortized	-
3	303.0	Miscellaneous Intangible	113,204,513	Amortized	# 7,058,485
4		Total Intangible Plant	$ 113,266,329		$ 7,058,485
		Distribution Plant:			
5	374.1	Land & Land Rights	$ -	0.00%	$ -
6	374.2	Rights Of Way	-	0.00%	-
7	375.0	Structures	-	0.00%	-
8	376.0	Mains	-	0.00%	-
9	378.0	Measuring & Regulating Station	-	0.00%	-
10	380.0	Services	-	0.00%	-
11	381.0	Meters	-	0.00%	-
12	385.0	Industrial Measuring & Regulating Station	-	0.00%	-
13	387.0	Other Equipment	-	0.00%	-
14		Total Distribution Plant	$ -		$ -
		General Plant:			
15	389.0	Land & Land Rights	$ 391,307	0.00%	$ -
16	390.1	Structures	13,961,544	2.50%	348,983
17	390.2	Structures - Leasehold Improvments	4,232,644	Amortized	184,348
18	391.0	Office Furniture And Equipment	9,441,847	8.16%	770,455
19	391.1	Computer Equipment	14,791,422	16.15%	2,388,755
20	392.1	Transportation Equipment	3,495,826	7.20%	251,699
21	393.0	Stores Equipment	86,303	7.20%	6,214
22	394.0	Tools, Shop And Garage Equipment	24,106	16.03%	3,864
23	395.0	Laboratory Equipment	232,096	11.16%	25,902
24	396.0	Power Operated Equipment	281,078	4.77%	13,407
25	397.0	Communication Equipment	5,376,875	8.51%	457,594
26	397.2	Telemetering Equipment	286,958	40.23%	115,443
27	398.0	Miscellaneous Equipment	882,254	11.09%	97,845
28		Total General Plant	$ 53,484,260		$ 4,664,510
29		Total System Allocable Plant, Depreciation And Amortization	$ 166,750,589		$ 4,480,162
30		Total Amortization - Limited Term Gas Plant (See RLM-10, Page 3 For Clarification)			7,160,677
31		Total Depreciation and Amortization			$ 11,640,839
32		Company As Filed	$ 166,890,337		$ 11,722,995
33		Difference	$ (139,748)		$ (82,156)
34		Allocation Factor	56.70%		56.70%
35		TOTALS	$ (79,237)		$ (46,583)
36		RUCO ADJUSTMENT TO TEST YEAR SYSTEM ALLOCATED DEPRECIATION (See RLM-8, Page 1, Column (E))			$ (46,583)

References:
Column (A): RLM-4, Page 2, Column (M)
Column (B): Company Workpapers
Column (C): Column (A) X Column (B) Plus Further Clarification RLM-10, Page 3

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4 - CONT'D
ANNUALIZATION SYSTEM ALLOCABLE PLANT DEPRECIATION AND AMORTIZATION

LINE NO.	DESCRIPTION	(A) ESTIMATED CWIP INTANGIBLES	(B) ADJMT TO INTANGIBLES	(C) ACTUAL PIS INTANGIBLES	(D) ANNUALIZED PROVISION	(E) REFERENCE
	Projects in CWIP Which Closed Before 12/31/07 (Per Co. Response To STF 11.4)					
1	Autocad Map 3D 2007	$ 180,000	$ (51,871)	$ 128,129	$ 42,710	
2	Pi Data Access	24,000	1,900	25,900	8,633	
3	Receivables Software	105,000	(28,916)	76,084	25,361	
4	Load Balancer	38,000	(219)	37,781	12,594	
5	MacKinney VS/Cobol License	10,500	(10,500)	-	-	
6	Citrix Presentation License	83,000	(372)	82,628	27,543	
7	San Lefthand Network Expan	15,500	(11)	15,489	5,163	
8	EMRS/LMR Software Module	430,000	(430,000)	-	-	
9	EMRS Software	350,000	(350,000)	-	-	
10	Oracle UPK Licenses	250,000	(60,602)	189,398	63,133	
11	Oracle PUI Licenses	210,000	(37,600)	172,400	57,467	
	Revised List Of Projects in CWIP Which Closed Before 12/31/07 (Per Co. Supplement Response To STF 6.49)					
12	Comm Vault Licenses	-	10,419	10,419	3,473	
13	ACD Reporting License	-	20,678	20,678	6,893	
14	Powerbroker License	-	10,926	10,926	3,642	
15	Tivoli Workload Scheduler	-	110,638	110,638	36,879	
16	Powerbroker License	-	11,960	11,960	3,987	
17	Trident OS/EM Licenses	-	55,300	55,300	18,433	
18	MAPX GIS Software	-	35,030	35,030	11,677	
19	Oracle Internet Licenses	-	49,177	49,177	16,392	
20	HP Licenses	-	54,728	54,728	18,243	
21	Ops Mgr Server Licenses	-	61,285	61,285	20,428	
22	WMS Test Project	-	301,580	301,580	100,527	
23	TOTALS	$ 1,696,000	$ (246,470)	$ 1,449,530	$ 483,177	Sum Of Lines 1 Thru 22
24	RUCO System Allocable Adjustment		$ (246,470)			Line 23, Column (B)
25	Arizona 4-Factor		56.70%			Co. W/P Dep-Amort Adjmt
26	RUCO Allocated Arizona Rate Base Adjustment		$ (139,748)			Line 24 X Line 25
27	RUCO RB Adjmt No. 2 (See RLM-4, Pg 2, Col (E))		$ (139,748)			Line 26
28	RUCO Adjusted Amort. CWIP Transferred To PIS				$ 483,177	Line 23, Column (D)
29	Recorded Amort. Intangible Plant				6,493,152	Co. W/P Dep-Amort Adjmt
30	Recorded Amort. Leasehold Improvements				184,348	Co. W/P Dep-Amort Adjmt
31	RUCO Adjusted Dep/Amort Expense				$ 7,160,677	Sum Of Lines 28 Thru 30
32	Recorded Dep/Amort Expense				7,560,997	Co. W/P Dep-Amort Adjmt
33	RUCO Adjusted Total System Allocable Amortization				(400,320)	Line 31 - Line 32
34	Recorded Total System Alocable Depreciation				186,182	Co. W/P Dep-Amort Adjmt
35	RUCO Adjusted Total System Allocable Dep/Amort				(214,138)	Line 33 + Line 34
36	Arizona 4-Factor				56.70%	Co. W/P Dep-Amort Adjmt
37	RUCO Adjusted System Allocated Dep/Amort				(121,416)	Line 35 X Line 36
38	Company Adjusted System Allocated Dep/Amort				(74,834)	Co. Adjmt No. 14
39	Difference In Adjusted System Allocated Dep/Amort				(46,582)	Line 37 - Line 38
40	RUCO Adjustment (See RLM-8, Pages 1 & 2, Column (M))				(46,582)	Line 39

References:

Column (A): Company Workpapers "Dep-Amort Adjustment"
Column (B): Column (C) - Column (A)
Column (C): Company Response To Staff Data Request 11.4 And Response To Staff Dr 6.49
Column (D): Column (C) Amortized Over Three Years

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
PROPERTY TAX COMPUTATION

LINE NO.	DESCRIPTION	(A)	(B)
	Calculation Of The Company's Full Cash Value:		
1	Net Plant In Service		$ 1,267,124,121
	ADD:		
2	Materials And Supplies (RLM-6, Page 1, Line 5)	$ 12,389,898	
3	Total (Line 2)		$ 12,389,898
	SUBTRACT:		
4	Original Cost New Balance Of Transportation Equipment (Company Workpapers)	$ 27,969,828	
5	Land Rights (Company Workpapers)	$ 1,823,920	
6	Total (Line 2)		$ (29,793,748)
7	COMPANY'S FULL CASH VALUE (Sum Of Lines 1, 3, & 6)		$ 1,249,720,271
	Calculation Of The Company's Tax Liability:		
	MULTIPLY: Company Full Cash Value By Valuation Assessment Ratio And Then By Property Tax Rates:		
8	Assessment Ratio (Per House Bill 2779)	23.0%	
9	Assessed Value (Line 7 X Line 8)	$ 287,435,662	
	Property Tax Rates:		
10	Primary Tax Rate (2004 Tax Notice - Co.'s Data Response - "Property Tax")	11.52%	
11	Secondary Tax Rate (2004 Tax Notice - Co.'s Data Response - "Property Tax")	0.00%	
12	Estimated Tax Rate Liability (Line 10 + Line 11)	11.52%	
13	COMPANY'S TAX LIABILITY - Based On Full Cash Value (Line 12 X Line 13)		$ 33,112,588
14	Test Year Adjusted Property Tax Expense Per Company's Filing (Co. Sch. C-2, Adj No. 15))	$ 33,112,588	
15	Increase (Decrease) In Property Tax Expense (Line 13 - Line 14)	$ -	
16	RUCO ADJUSTMENT TO PROPERTY TAX EXPENSE (See RLM-8, Page 1, Column (F))		$ -

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 6
MISCELLANEOUS ADJUSTMENTS

		(A)	(B)	(C)	(D)
		RUCO ADJUSTMENTS			
LINE NO	DESCRIPTION	ALLOCABLE TOTAL	ALLOC'N FACTOR	ARIZONA TOTAL	RUCO AS ADJUSTED
	Arizona Direct Accounts				
1	880 - Other Expenses	(110,809)	100.00%	(110,809)	
2	Sub Total Arizona Direct Accounts	$ (110,809)			$ (110,809)
	System Allocable Accounts To Arizona				
3	921 - Office Supplies And Expenses	$ (148,689)	56.70%	$ (84,306)	
4	930 - Miscellaneous General Expenses	(16,322)	56.70%	(9,254)	
5	Sub Total Administrative And General Expenses	$ (165,010)		$ (93,561)	
6	Sub Total System Allocable Accounts To Arizona	$ (165,010)			$ (93,561)
7	TOTAL				(204,370)
8	RUCO ADJUSTMENT TO MISCELLANEOUS ADJUSTMENTS (See RLM-8, Page 1, Column (G))				$ (204,370)

References:
Column (A): Workpapers Exhibit A (880) Pages 1 To 18, (921) Pages 1 To 14, (923) Page 1, And (930) Page 1
Column (B): Company Workpapers
Column (C): Column (A) X Column (B)
Column (D): Sums Of Column (C)

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
MANAGEMENT INCENTIVE PROGRAM

LINE NO	DESCRIPTION	(A) ALLOCABLE TOTAL	(B) ALLOC'N FACTOR	(C) ARIZONA TOTAL	(D) RUCO AS ADJUSTED
	Arizona Direct Accounts				
1	Exempt Special Incentive	-	100.00%	-	
2	Service Planning Quality Incentive Award	290,004	100.00%	290,004	
3	Sub Total Arizona Direct Accounts	$ 290,004		$ 290,004	
4	Allocation Factor At A 50/50 Split			-50.00%	
					$ (145,002)
	System Allocable Accounts To Arizona				
5	Management Incdentive Plan	$ 5,919,502	56.70%	$ 3,356,358	
6	Exempt Special Incentive	151,250	56.70%	85,759	
7	Service Planning Quality Incentive Award	137,522	56.70%	77,975	
8	Sub Total Administrative And General Expenses	$ 6,208,274		$ 3,520,091	
9	Allocation Factor At A 50/50 Split			-50.00%	
10	Sub Total System Allocable Accounts To Arizona	$ 6,208,274			$ (1,760,046)
11	TOTAL				(1,905,048)
12	RUCO ADJUSTMENT TO MISCELLANEOUS ADJUSTMENTS (See RLM-8, Page 1, Column (H))				$ (1,905,048)

References:
Column (A): Company Response To Staff Data Request 1.78
Column (B): Company Workpapers
Column (C): Column (A) X Column (B)
Column (D): Sums Of Column (C)

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 8
SUPPLEMENTAL EMPLOYEE RETIREMENT PLAN

LINE NO	DESCRIPTION	(A) COMPANY AS FILED	(B)	(C)	(D) RUCO ADJUSTMENT
	ALLOCATIONS:	WP C-2, Adj #3, Sh 8, L 11			Distributed Total RUCO DR 14-1.a
1	Arizona	$ 1,395,781			$ (1,395,781)
2	Corporate Direct	54,102			(54,102)
3	Other Jurisdictions	1,041,113			-
4	System Allocable	866,016			(866,016)
5	Total (Sum Of Lines 1, 2, 3 & 4)	$ 3,357,012			$ (2,694,668)
	FUNCTIONALIZATION:	DISTRIBUTION PRECENTAGE See NOTE A	DISTRIBUTION Of Col (D), Line 1	ALLOCATION FACTOR	RUCO ADJUSTMENT RLM-8, Pg 2, Col (H)
6	Other Gas Supply	0.73%	$ (10,184)	100.00%	$ (10,184)
7	Distribution	67.99%	(949,044)	100.00%	(949,044)
8	Customer Accounts	30.69%	(428,347)	100.00%	(428,347)
9	Customer Information	0.59%	(8,206)	100.00%	(8,206)
10	SUBTOTAL Sum Of Lines 6 Thru 9)	100.00%	(1,395,781)		$ (1,395,781)
	Administrative & General		DISTRIBUTION Of Col (D), L 2 & L4		
11	Direct		(54,102)	100.00%	(54,102)
12	System Allocable		(866,016)	56.70%	(491,031)
13	TOTAL (Sum Of Lines 10, 12 & 13) (See RLM-8, Pg 2, Col (H))				$ (1,940,914)

NOTE A

To Determine The Distribution Ratio Of Arizona Direct SERP
By Allocating Expenses At The Same Percentage As Labor Loading In SWG's Adjustment No. 3

LINE NO		SWG ADJ'MT NO.3 SWG SCH. C-2	DISTRIBUTION PRECENTAGE
	Operating Expenses		
14	Other Gas Supply	$ 16,522	0.73%
15	Distribution	1,539,648	67.99%
16	Customer Accounts	694,914	30.69%
17	Customer Information	13,313	0.59%
18	SUBTOTAL	$ 2,264,397	100.00%
	Administrative & General		
19	Direct	$ 24,518	
20	System Allocable	578,837	
21	SUBTOTAL	$ 603,355	
22	TOTAL	$ 2,867,752	

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OPERATING INCOME ADJUSTMENT NO. 10
NORMALIZATION OF THE UNCOLLECTIBLE EXPENSE

LINE NO.	DESCRIPTION	(A) UNCOLLECTIBLES COMPANY DATA RUCO D.R. 1.12	(B) OPERT'G REVENUES COMPANY DATA E-2 & 2004 A. R.	(C) RATIO OF UNCL'TIBLES TO REV COLUMN (A) / (B)	(D) RUCO ADJUSTMENT
1	2004 Year-End	1,355,278	$ 693,070,359	0.00196	
2	2005 Year-End	1,447,967	748,627,816	0.00193	
3	2006 Year-End	2,538,849	895,549,006	0.00283	
4	Three Year Ratio Total (Sum Of Lines 1 Thru 3)			0.00672	
5	RUCO Adjusted Ratio Uncollectible Expense To Revenue - 3-Yr Average (Ln 4 / 3 Yrs)			0.00224	
6	RUCO Adjusted TY Rev. (Sch. RLM-7, Col. (C), Ln 1 + Gas Costs Of $593,424,664)			$ 992,659,342	
7	RUCO Adjusted Uncollectible Expense (Ln 5 X Ln 6)			$ 2,225,077	
8	Company Recorded Uncollectible Expense (Per Co. W. P.'s)			$ 2,977,729	
9	Difference (Ln 7 - Ln 8)				$ (752,652)
10	RUCO Adjustment (Line 9) (See RLM-8, Pages 1 & 2, Column (K))				$ (752,652)

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 11
GAIN ON SALE OF PROPERTY

LINE NO	DESCRIPTION		(A) RUCO AS ADJUSTED
1	Gain On Sale Of Property (Per Co. Response To Staff Data Request 1.96)	$	418,196
2	Sharing Percentage Between Ratepayers And Shareholders		50.00%
3	Ratepayers Portion Of The Gain (Line 1 X Line 2)	$	209,098
4	Amortization Period		3 Years
5	Decrease In Test-Year Operating Expenses (Line 3 / Line 4)	$	(69,699)
6	RUCO Adjustment (Line 5) (See RLM-8, Pages 1 & 2, Column (L)	$	(69,699)

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EXPLANATION OF OPERATING INCOME ADJUSTMENT
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
	FEDERAL INCOME TAXES:		
1	Operating Income Before Taxes	Schedule RLM-6, Column (C), Line 18 + Line 16	$ 96,604,926
	LESS:		
2	Arizona State Tax	Line 11	(3,401,069)
3	Interest Expense	Note (A) Line 21	(47,795,091)
4	Federal Taxable Income	Sum Of Lines 1, 2 & 3	$ 45,408,766
5	Federal Tax Rate	Schedule RLM-1, Page 2, Column (A), Line 10	35.17%
6	Federal Income Tax Expense	Line 4 X line 5	$ 15,972,492
	STATE INCOME TAXES:		
7	Operating Income Before Taxes	Line 1	$ 96,604,926
	LESS:		
8	Interest Expense	Note (A) Line 21	(47,795,091)
9	State Taxable Income	Line 7 + Line 8	$ 48,809,835
10	State Tax Rate	Tax Rate	6.9680%
11	State Income Tax Expense	Line 9 X Line 10	$ 3,401,069
	TOTAL INCOME TAX EXPENSE:		
12	Federal Income Tax Expense	Line 6	$ 15,972,492
13	State Income Tax Expense	Line 11	3,401,069
14	*South Georgia Amortization*	Company Schedule C-1, Sheet 17, Column (C), Line 8 + Line 18	365,253
15	Investment Tax Credit	Company Schedule C-1, Sheet 17, Column (C), Line 19	(528,352)
16	Total Income Tax Expense Per RUCO	Sum Of Lines 12, 13, 14 & 15	$ 19,210,462
17	Total Income Tax Expense Per Company Filing (Schedule C-1)		16,092,218
18	RUCO ADJUSTMENT TO INCOME TAX EXPENSE (See RLM 7, Page 2, Column (Q))	Line 16 - Line 17	$ 3,118,244

NOTE (A):
Interest Synchronization:

LINE NO.	DESCRIPTION	AMOUNT
19	Adjusted Rate Base (Schedule RLM-2, Column (C), Line 10)	$ 1,089,321,967
20	Weighted Cost Of Debt (Schedule RLM-18, Column (F), Line 1 + Line 2)	4.39%
21	Interest Expense (Line 19 X Line 20)	$ 47,795,091

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COST OF CAPITAL

		(A)	(B)	(C)
LINE NO.	DESCRIPTION	CAPITAL RATIO	COST	WEIGHTED COST
1	Long-term Debt	51.00%	7.96%	4.06%
2	Preferred Stock	4.00%	8.20%	0.33%
3	Common Equity	45.00%	9.88%	4.45%
4	TOTAL CAPITAL	100.00%		
5	WEIGHTED COST OF CAPITAL			8.83%

References:
Column (A): Company Schedule D-1
Column (B): Testimony, WAR
Column (C): Column (A) X Column (B)
Column (C) Line 5: Sum Of Column (C) Lines 1 Thru 3