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BEFORE THE ARIZONA CORPORATION COMMISSION

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8 IN THE MATTER OF THE APPLICATION OF
9 JOHNSON UTILITIES, LLC FOR AN
10 INCREASE IN ITS WATER AND
11 WASTEWATER RATES FOR CUSTOMERS
12 WITHIN PINAL COUNTY, ARIZONA.

Docket No. WS-02987A-08-0180

NOTICE OF FILING

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

16
17 RESPECTFULLY SUBMITTED this 4th day of February, 2009.

18
19 Arizona Corporation Commission

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Daniel W. Pozefsky
Chief Counsel

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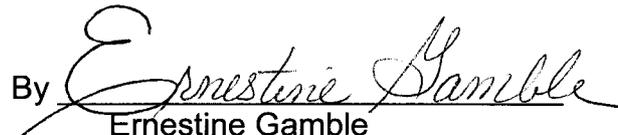
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JOHNSON UTILITIES, L.L.C.

DOCKET NO. WS-02987A-08-0180

DIRECT TESTIMONY

OF

RODNEY L. MOORE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

FEBRUARY 4, 2009

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1 **INTRODUCTION**

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

3 A. Rodney L. Moore, Public Utilities Analyst V

4 Residential Utility Consumer Office ("RUCO")

5 1110 West Washington Street, Suite 220

6 Phoenix, Arizona 85007.

7

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

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

13

14 Q. Please state the purpose of your testimony.

15 A. The purpose of my testimony is to present RUCO's recommendations
16 regarding Johnson Utilities, LLC ("Johnson Utilities" or "Company")
17 application for an increase in its water and wastewater rates. The test-
18 year utilized by the Company in connection with the preparation of this
19 application is the 12-month period that ended December 31, 2007.

20

21

22

23

1 **BACKGROUND**

2 Q. Please describe your work effort on this project.

3 A. I obtained and reviewed data and performed analytical procedures
4 necessary to understand the Company's filing as it relates to the rate
5 base, operating income and revenue requirements. My recommendations
6 are based on these analyses. Procedures performed include the in-house
7 formulation and analysis of two sets of data requests, and the review and
8 analysis of Company responses to Commission Staff data requests and
9 other intervenors.

10

11 Q. When were the Company's present rates and charges established?

12 A. The Company's present rates and charges were established by the
13 Commission in Decision No. 60223, dated May 27, 1997. This Decision
14 approved the Company's CC&N with the present rates and charges for
15 utility services.

16

17 Q. What areas will you address in your testimony?

18 A. I will address issues related to revenue requirement, rate base, operating
19 income and rate design. RUCO's witness William A. Rigsby will provide
20 an analysis of the cost of capital as presented on Schedule RLM-13.

21

22

23

1 Q. Please identify the exhibits you are sponsoring.

2 A. I am sponsoring a separate set of Schedules numbered RLM-1 through
3 RLM-15 for the Company's Water and Wastewater Districts.

4

5 **SUMMARY OF ADJUSTMENTS**

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

8 A. My testimony addresses the following issues:

9 **Rate Base**

10 (Water District Only) Accumulated Depreciation – This adjustment
11 recalculates accumulated depreciation to correct the Company's
12 computation error in determining the accumulated depreciation.

13 Accumulated Amortization For Contributions In Aid Of Construction
14 ("CIAC") – This adjustment reverses and restates the Company's
15 adjustment that increases the accumulated amortization on CIAC
16 balances associated with hook-up fees.

17 Contributions In Aid Of Construction ("CIAC") – This adjustment reverses
18 and restates the Company's adjustment that decreases the CIAC
19 balances associated with hook-up fees.

20 Materials and Supplies - This adjustment restates the allowance for
21 materials and supplies to reflect RUCO's recommended operating and
22 maintenance expenses.

23

1 **Operating Income**

2 Test-Year Depreciation Expense – This adjustment increases test-year
3 operating expenses to reflect computations based on RUCO's
4 recommended gross plant in service.

5 Property Tax Expense - This adjustment reflects the property tax expense
6 based on RUCO's calculation of adjusted and proposed operating
7 revenues.

8 (Wastewater District Only) Revenue Annualization –This is a conforming
9 adjustment to increase the revenue as filed and is based on the
10 Company's response to a Staff data request.

11 Rate Case Expense – This adjustment is based on RUCO's determination
12 of the fair and reasonable cost to Johnson Utilities ratepayers for this
13 application process.

14 (Water District Only) Central Arizona Groundwater Replenishment District
15 ("CAGRD") Tax – This adjustment reverses the Company's proposal to
16 collect this expense through a surcharge on the customers' monthly
17 statement.

18 Unnecessary Operating Expenses – These adjustments remove
19 unnecessary operating expenses not required for the provisioning of water
20 and/or wastewater service.

21 (Water District Only) Power Expense Normalization –This is a conforming
22 adjustment to increase purchased power expense on a going-forward
23 basis.

1 The adjustment is based on the Company's response to a Staff data
2 request.

3 Income Tax Expense - This adjustment excludes income taxes as a
4 normal operating expense because the Company is a limited liability
5 company and thus a pass-through tax entity.

6
7 **Rate Design and Proof of Recommended Revenue**

8 I am recommending a rate design that is generally consistent with the
9 Company's present rate design, but reflects RUCO's recommended
10 revenue requirement and provides proof the design will produce the
11 appropriate revenue requirement.

12
13 **REVENUE REQUIREMENTS**

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

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

| <u>COMPANY'S WATER DISTRICT</u> | <u>RUCO</u> | <u>DIFFERENCE</u> |
|--------------------------------------|--------------|-------------------|
| \$10,939,419 | \$11,219,234 | \$279,815 |
| <u>COMPANY'S WASTEWATER DISTRICT</u> | <u>RUCO</u> | <u>DIFFERENCE</u> |
| \$13,528,467 | \$11,962,300 | (\$1,566,167) |

1 RUCO's recommended increase in Fair Value Rate Base ("FVRB") is
2 based on the Original Cost Rate Base ("OCRB") and is summarized on
3 Schedule RLM-1:

| <u>COMPANY'S WATER DISTRICT</u> | <u>RUCO</u> | <u>DIFFERENCE</u> |
|--------------------------------------|--------------|-------------------|
| \$6,607,841 | \$285,272 | (\$6,322,569) |
| <u>COMPANY'S WASTEWATER DISTRICT</u> | <u>RUCO</u> | <u>DIFFERENCE</u> |
| \$19,149,173 | \$19,457,670 | \$308,497 |

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

| <u>COMPANY'S WATER DISTRICT</u> | <u>RUCO</u> | <u>DIFFERENCE</u> |
|--------------------------------------|-------------|-------------------|
| \$689,198 | \$23,347 | (\$665,851) |
| <u>COMPANY'S WASTEWATER DISTRICT</u> | <u>RUCO</u> | <u>DIFFERENCE</u> |
| \$1,997,259 | \$1,592,460 | (\$404,799) |

15 RUCO's recommended revenue requirement percentage increase versus
16 the Company's proposal is as follows:

| <u>COMPANY'S WATER DISTRICT</u> | <u>RUCO</u> | <u>DIFFERENCE</u> |
|--------------------------------------|-------------|-------------------|
| -16.96 % | -14.83 % | -2.13 % |
| <u>COMPANY'S WASTEWATER DISTRICT</u> | <u>RUCO</u> | <u>DIFFERENCE</u> |
| 19.84 % | 5.15 % | -14.69 % |

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

1 **RATE BASE**

2 Rate Base Adjustment Summary

3 Q. Is RUCO recommending any changes to the Company's proposed rate
4 base?

5 A. Yes. As exhibited on Schedule RLM-3, columns (A) through (G), I
6 analyzed the Company's adjustment to its historical test-year OCRB and
7 made a total of six adjustments to the Water and Wastewater Districts'
8 rate base as filed by the Company. These adjustments comprise two
9 unique adjustments for the Water District, two adjustments common to
10 both Districts and one unique adjustment for the Wastewater District.

11
12 Q. Does RUCO accept Johnson Utilities' request to use the Company's
13 OCRB as the FVRB?

14 A. Yes. RUCO accepts the Company's request that the OCRB be used as
15 the FVRB.

16
17 Q. Please describe your rate base adjustments.

18 A. My review, analysis and adjustments are explained below.
19
20
21
22
23

1 Water District Only - Rate Base Adjustment No. 1 – Accumulated
2 Depreciation

3 Q. Please explain the basis for your adjustment to the Water District's
4 accumulated depreciation.

5 A. My plant-in-service analysis for both districts from 1997 to 2007 mirrored
6 the Company's filing except for two entries in the Water District.

7
8 As shown on the Water District's Schedule RLM-3, column (B), and with
9 supporting Schedule RLM-4, pages 1 through 11, this adjustment
10 decreases adjusted test-year rate base by:

11 \$4,584.

12
13 Wastewater District Only - Rate Base Adjustment No. 1 – Post Test-Year
14 Plant

15 Q. Please explain the basis for your adjustment to the Wastewater District's
16 post test-year plant.

17 A. This adjustment conforms to the Company's response to Staff's data
18 request JMM 4-6. The Company provided information as to the used and
19 usefulness of the post test-year plant and the actual costs incurred.

20
21 As shown on the Wastewater District's Schedule RLM-3, column (B), this
22 adjustment increases adjusted test-year rate base by:

23 \$689,382.

1 Rate Base Adjustment No. 2 – Accumulated Amortization of Contributions

2 In aid Of Construction (“CIAC”)

3 Q. Please explain the basis for your adjustment to the accumulated
4 amortization of CIAC.

5 A. This adjustment is a companion to the following Rate Base Adjustment
6 No. 3 and is common to both districts filed in this case. The Company
7 proposed, in this adjustment, to remove the accumulated amortization
8 associated with unexpended CIAC. The Company also proposes, in the
9 following adjustment, to decrease the CIAC balance because it contends
10 there is no plant-in-service amount in rate base to offset the cash balance
11 on unexpended CIAC.

12
13 Q. Is this practice normal?

14 A. No. Typically, contributions are booked as CIAC when they are received
15 and are treated as a deduction to rate base. Under RUCO’s
16 recommendations, the Company is being afforded the same rate base
17 treatment for CIAC that every other utility in Arizona is afforded.

18
19 As shown on Schedules RLM-3, column (C), I increased the rate base to
20 reflect the inclusion of accumulated amortization associated with
21 unexpended CIAC for each District:

22 \$558,824 for the Water District, and

23 \$16,505 for the Wastewater District.

1 Q. Are there any exceptions to the accounting treatment for CIAC that you
2 have described?

3 A. Only when a utility obtains an accounting order that allows it to delay the
4 recognition of CIAC until plant associated with it goes into service. The
5 Commission approved such an accounting order for Arizona-American
6 Water Company in Decision No. 69914, dated September 27, 2007.

7

8 Rate Base Adjustment No. 3 – Unexpended Contributions In aid Of
9 Construction (“CIAC”)

10 Q. Please explain the basis for your adjustment to the CIAC balance.

11 B. As mentioned, this adjustment is a companion to the above Rate Base
12 Adjustment No. 2 and is common to both districts filed in this case. The
13 Company proposed, in this adjustment, to remove the amount of
14 unexpended CIAC from rate base because it contends there is no plant-in-
15 service amount in rate base to offset the cash balance on unexpended
16 CIAC.

17

18 As shown on Schedules RLM-3, column (D), I decreased the rate base to
19 reflect the inclusion of unexpended CIAC for each District:

20 \$6,931,078 for the Water District, and

21 \$397,390 for the Wastewater District.

22

23

1 Water District Only - Rate Base Adjustment No. 4 – Allowance For
2 Materials and Supplies

3 Q. Please explain the basis for your adjustment to the allowance for working
4 capital.

5 A. I restated the allowance for materials and supplies to reflect RUCO's
6 adjusted test-year level of operations and maintenance expenditures.

7
8 As shown on the Water District's Schedule RLM-3, column (E), with
9 supporting documentation on Schedule RLM-6, this adjustment increases
10 the adjusted test-year rate base by:
11 \$54,269.

12
13 **OPERATING INCOME**

14 Operating Income Adjustment Summary

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

17 A. Yes. As shown on Schedule RLM-8, columns (A) through (I), I analyzed
18 the Company's adjustments to its historical test-year operating income
19 and made eight adjustments to the operating income as filed below.

20
21
22
23

1 Operating Income Adjustment No. 1 – Test-Year Depreciation Expense

2 Q. Please explain your adjustment to the test-year depreciation expense.

3 A. As shown on Schedule RLM-9, this adjustment reflects RUCO's end of
4 test-year gross plant in service and calculates the depreciation expense
5 based on depreciation rates proposed by the Company and accepted by
6 RUCO. I made no adjustment to Water District's depreciation expense.
7 The Wastewater District's adjustment is driven by the inclusion of the post
8 test-year plant adjustment proposed by the Company in its response to
9 Staff data request JMM4-6 and accepted by RUCO.

10
11 As shown on Schedule RLM-8, column (B), with supporting documentation
12 on Schedule RLM-9 this adjustment increases the Wastewater District's
13 adjusted test-year operating expenses by:
14 \$13,788.

15
16 Operating Income Adjustment No. 2 – Property Tax Computation

17 RUCO has not made an adjustment to the methodology used by Johnson
18 Utilities in calculating the property tax expenses as filed by the Company
19 in the instant rate application. However, RUCO still advocates that the
20 use of proposed revenues to determine an appropriate level of property
21 tax expense to be recovered through rates distorts the methodology
22 employed by the Arizona Department of Revenue and overstates the
23 expense level.

1 RUCO is in the process of gathering information to produce a clear and
2 concise report, which will provide the Commission with overwhelming
3 evidence that will make it clear why the current practice of using proposed
4 revenues to determine a utility's level of property tax is inappropriate.

5
6 Q. Has RUCO made an adjustment to the Company-proposed level of
7 property tax expense?

8 A. Yes. RUCO has made adjustments to the property tax expense based on
9 its calculation of adjusted and proposed operating revenues.

10
11 As shown on Schedule RLM-8, column (C), with supporting
12 documentation on Schedule RLM-10 this adjustment changes the
13 adjusted test-year operating expenses by:
14 (\$67) for the Water District, and
15 \$2,813 for the Wastewater District.

16
17 Wastewater District Only - Operating Income Adjustment No. 3 – Revenue
18 Adjustment

19 Q. Please explain your adjustment to the Wastewater District's test-year
20 revenue.

21 A. This is a conforming adjustment to reflect the Company's response to
22 Staff data request JMM 10-2.

23

1 This adjustment corrects an oversight where the Company had failed to
2 charge for the effluent a golf course was receiving.

3
4 As shown on Schedule RLM-8, column (D), this adjustment increases the
5 Wastewater District's adjusted test-year operating revenues by:
6 \$65,351.

7
8 Operating Income Adjustment No. 4 – Amortization of Rate Case
9 Expenses

10 Q. Please explain the adjustment to the rate case expense.

11 A. RUCO believes the \$200,000 (\$100,000 for each District) proposed by the
12 Company is a fair and reasonable financial burden to the ratepayers to
13 prepare and process this rate application. However, given the Company's
14 propensity of not filing timely rate applications, RUCO recommends an
15 amortization period of five years.

16
17 As shown on Schedule RLM-8, column (E), with supporting documentation
18 on Schedule RLM-11 this adjustment decreases each Districts adjusted
19 test-year expenses by:
20 (\$13,333).

1 Water District Only - Operating Income Adjustment No. 5 – Central
2 Arizona Groundwater Replenishment District (“CAGRDR”) Tax Expense

3 Q. Does RUCO agree with the Company’s proposal to recover CAGRDR fees
4 through a commodity-based surcharge?

5 A. No. RUCO disagrees with the Company’s proposal to recover the
6 CAGRDR fees through a commodity-based surcharge.

7
8 Q. Why has RUCO taken this position on the CAGRDR issue?

9 A. The Commission has already reviewed and denied a similar request by
10 the Company. In Decision 64598, dated March 4, 2002, the Commission
11 determined that the CAGRDR tax cannot be treated as a pass-through tax,
12 because it is not a “privilege, sales or use tax” since the CAGRDR taxes are
13 not based on sales revenue.

14
15 Q. Has RUCO made an adjustment to reverse the Company’s proposal to
16 recover CAGRDR fees through a separate surcharge?

17 A. Yes. As shown on Schedule RLM-8, column (F), this adjustment
18 increases the Water Districts adjusted test-year expenses by:
19 \$1,295,895.

20
21 RUCO’s adjustment has the effect of decreasing the Company-proposed
22 rate cut for water customers. However, it must be pointed out that under
23 the Company’s proposal, the CAGRDR fees would have been recovered as

1 a surcharge that would be in addition to Johnson Utilities' regular monthly
2 rates.

3
4 Operating Income Adjustment No. 6 – Unnecessary Expenses

5 Q. Please explain the adjustment to remove unnecessary expense.

6 A After an analysis of the Company's responses to Staff data requests JMM
7 1-32, I determined these expenditures are not required for the provisioning
8 of either water or wastewater service.

9 This adjustment removes test-year expenses related to payments for
10 memberships, food and beverages, gifts and lobbying, which are not
11 necessary in the provisioning of public utility services.

12
13 As shown on Schedule RLM-8, column (G), with supporting
14 documentation on Schedule RLM-12 this adjustment decreased each
15 District's test-year expenses by:

16 \$31,112 for the Water District, and

17 \$924 for the Wastewater District.
18
19
20
21
22
23

1 Water District Only - Operating Income Adjustment No. 7 – Normalization
2 of Purchased Power

3 Q. Please explain your adjustment to the Water District's test-year purchased
4 power expense.

5 A. This is a conforming adjustment to reflect the Company's response to
6 Staff data request JMM 8-3. This adjustment reflects a known and
7 measurable contractual agreement between the Company and Pinal
8 County for purchased power on a going-forward basis.

9 As shown on Schedule RLM-8, column (H), this adjustment increases the
10 Water District's adjusted test-year operating expenses by:
11 \$13,251.

12
13 RUCO Operating Income Adjustment No. 8 – Income Taxes

14 Q. What is the purpose of RUCO Adjustment No. 8?

15 A. The adjustment removes income tax expenses as a qualified test-year
16 operating expense.

17
18 Q. Please explain your adjustment that removes income taxes as an
19 operating expense.

20 A. Johnson Utilities was organized as a Limited Liability Company ("LLC") as
21 opposed to a C-Corporation that pays income taxes prior to the
22 distribution of any profits (i.e. dividends) to its shareholders. Under the
23 existing tax law, an LLC's earnings or losses are assigned to individual

1 shareholders on a pro rata basis. The shareholders are then required to
2 report these earnings or losses on their individual income tax returns.
3 Consequently, the Company's earnings or losses are then combined with
4 the earnings and losses of each of Johnson Utilities' shareholders. Since
5 Johnson Utilities itself does not pay income taxes, RUCO excluded
6 income taxes as a normal operating expense of the Company.

7
8 As shown on Schedule RLM-8, column (I), this adjustment decreases
9 each District's adjusted test-year expenses by:
10 (\$1,185,679) for the Water District, and
11 (\$330,522) for the Wastewater District.

12
13 **COST OF CAPITAL**

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

16 A. Yes, it is. This adjustment decreases the Company's weighted average
17 cost of capital by 225 basis points from 10.43 to 8.18 percent to reflect
18 current market conditions.

19
20 This adjustment is fully explained in the testimony of RUCO witness
21 William A. Rigsby.

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

2 Q. Have you prepared a Schedule presenting your recommended rate
3 designs?

4 A. Yes, as shown on Schedule RLM-14, I am recommending a rate design
5 that is consistent with RUCO's recommended revenue allocations and
6 requirement.

7
8 Q. Please describe your recommended rate designs for the Company's water
9 and wastewater operations.

10 A. The Water District's rate design provides for a 14.83 percent decrease
11 equally across all classes of service, which is an increase of 2.13 percent
12 over the Company's requested 16.96 percent decrease. However, if you
13 impute the Company's proposed CAGR tax surcharge, the Company's
14 request decrease is reduced to 12.03 percent; which is 2.80 percent
15 higher than RUCO's overall proposal.

16
17 The Wastewater District's rate design provides for a 5.15 percent increase
18 equally across all classes of service, which is a decrease of 14.69 percent
19 over the Company's requested 19.84 percent increase.

20
21
22
23

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

3 A. Yes, I have. Proof that my recommended rate designs will produce the
4 recommended required revenue as illustrated, is presented also on
5 Schedule RLM-14.

6

7 **TYPICAL RESIDENTIAL BILL ANALYSIS**

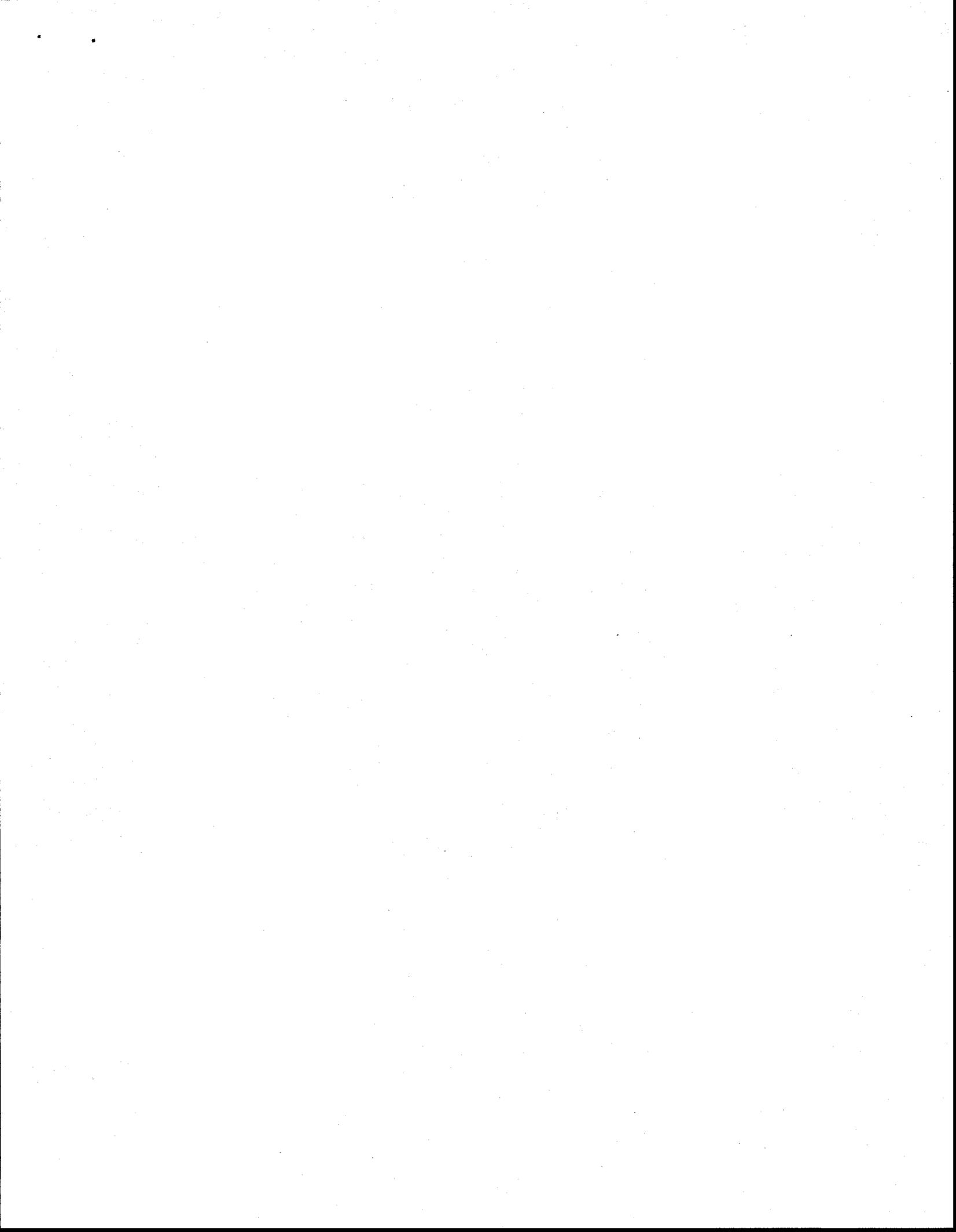
8 A. Has RUCO prepared a Schedule representing the financial impact of
9 RUCO's recommended rate design on the typical residential customer?

10 A. Yes. A typical bill analysis for residential customers with various levels of
11 usage is presented on Schedule RLM-15.

12

13 Q. Does this conclude your direct testimony?

14 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

| <u>Utility Company</u> | <u>Docket No.</u> |
|----------------------------|-------------------|
| 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 Company | G-01551A-07-0504 |
| Arizona-American Water Company | W-01303A-08-0227 et al. |

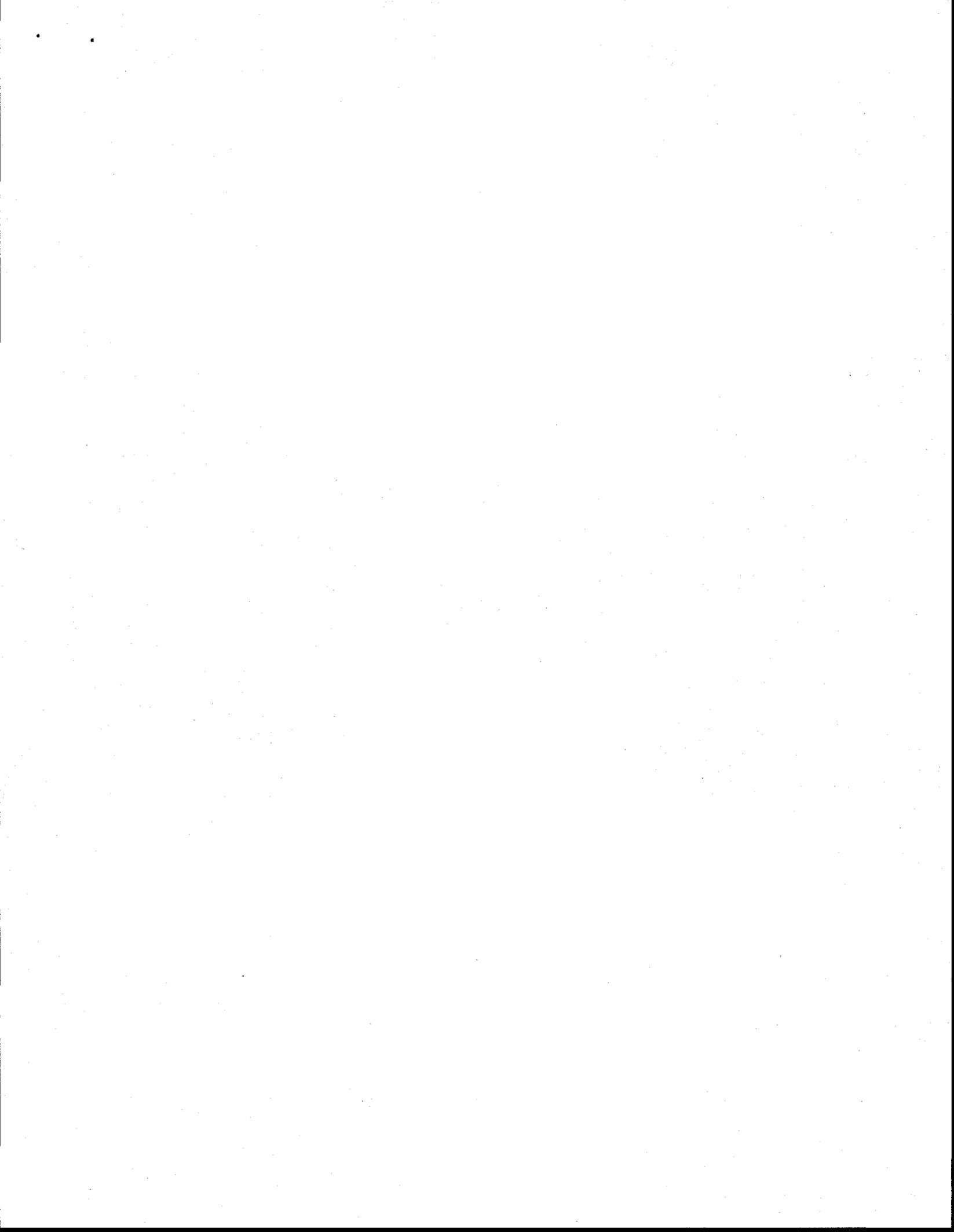


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| RLM-2 | 1 | RATE BASE |
| RLM-3 | 1 | SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS |
| RLM-4 | 1 TO 11 | RATE BASE ADJUSTMENT NO. 1 - (WATER ONLY) - ADJUSTMENT TO ACCUMULATED DEPRECIATION |
| TESTIMONY | | RATE BASE ADJUSTMENT NO. 2 - REINSTATE ACC. AMORT. ON CIAC ASSOCIATED WITH HOOK UP FEES |
| TESTIMONY | | RATE BASE ADJUSTMENT NO. 3 - REINSTATE CIAC ASSOCIATED WITH HOOK UP FEES |
| RLM-5 | | NOT INCLUDED IN THIS FILING - NO ADJUSTMENT FOR POST TEST-YEAR PLANT |
| RLM-6 | 1 | RATE BASE ADJUSTMENT NO. 4 - (WATER ONLY) - MATERIALS AND SUPPLIES |
| RLM-7 | 1 | OPERATING INCOME |
| RLM-8 | 1 | SUMMARY OF OPERATING INCOME ADJUSTMENTS |
| RLM-9 | 1 | OPERATING INCOME ADJUSTMENT NO. 1 - TEST YEAR DEPRECIATION EXPENSE |
| RLM-10 | 1 | OPERATING INCOME ADJUSTMENT NO. 2 - PROPERTY TAX COMPUTATION |
| | | OPERATING INCOME ADJUSTMENT NO. 3 - (WASTEWATER ONLY) - INTENTIONALLY LEFT BLANK |
| RLM-11 | 1 | OPERATING INCOME ADJUSTMENT NO. 4 - RATE CASE EXPENSE |
| TESTIMONY | | OPERATING INCOME ADJUSTMENT NO. 5 - CAGR TAX EXPENSE |
| RLM-12 | 1 | OPERATING INCOME ADJUSTMENT NO. 6 - UNNECESSARY EXPENSES |
| TESTIMONY | | OPERATING INCOME ADJUSTMENT NO. 7 - ANNUALIZE POWER EXPENSES |
| TESTIMONY | | OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE |
| RLM-13 | 1 | COST OF CAPITAL |
| RLM-14 | 1 TO 3 | RATE DESIGN AND PROOF OF RECOMMENDED REVENUE |
| RLM-15 | 1 | TYPICAL RESIDENTIAL BILL ANALYSIS |

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | (A) COMPANY OCRB/FVRB COST | (B) RUCO OCRB/FVRB COST |
|----------|---|-------------------------------------|----------------------------------|
| 1 | Original Cost Rate Base | \$ 6,607,841 | \$ 285,272 |
| 2 | Adjusted Operating Income (Loss) | \$ 2,118,161 | \$ 1,977,012 |
| 3 | Current Rate Of Return (L2 / L1) | 32.06% | 693.03% |
| 4 | Required Operating Income (L5 X L1) | \$ 689,198 | \$ 23,347 |
| 5 | Required Rate Of Return On Fair Value Rate Base | 10.43% | 8.18% |
| 6 | Operating Income Deficiency (L4 - L2) | \$ (1,428,963) | \$ (1,953,664) |
| 7 | Gross Revenue Conversion Factor (RLM-1, Page 2) | 1.5630 | 1.0000 |
| 8 | Increase In Gross Revenue Requirement (L7 X L6) | \$ (2,233,480) | \$ (1,953,664) |
| 9 | Adjusted Test Year Revenue | \$ 13,172,899 | \$ 13,172,899 |
| 10 | Proposed Annual Revenue (L8 + L9) | \$ 10,939,419 | \$ 11,219,234 |
| 11 | Required Percentage Increase In Revenue (L8 / L9) | -16.96% | -14.83% |
| 12 | Rate Of Return On Common Equity | 10.50% | 8.31% |

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-2, RLM-7, And RLM-13

RATE BASE - ORIGINAL COST

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) RUCO OCRB/FVRB ADJUSTMENTS | (C) RUCO ADJ'TED OCRB/FVRB |
|----------|---|---|---|-------------------------------------|
| 1 | Gross Utility Plant In Service | \$ 79,591,151 | \$ - | \$ 79,591,151 |
| 2 | Accumulated Depreciation | (6,199,124) | (4,584) | (6,203,708) |
| 3 | Net Utility Plant In Service (Sum L1 & L2) | <u>\$ 73,392,027</u> | <u>\$ (4,584)</u> | <u>\$ 73,387,443</u> |
| 4 | Advances In Aid Of Const. | \$ (37,840,520) | \$ - | \$ (37,840,520) |
| 5 | Contribution In Aid Of Const. | \$ (23,146,285) | \$ (6,931,078) | \$ (30,077,363) |
| 6 | Accumulated Amortization Of CIAC | - | 558,824 | 558,824 |
| 7 | NET CIAC (L5 + L6) | <u>\$ (23,146,285)</u> | <u>\$ (6,372,254)</u> | <u>\$ (29,518,539)</u> |
| 8 | Customer Meter Deposits | \$ (6,779,771) | \$ - | \$ (6,779,771) |
| 9 | Deferred Income Taxes And Credits | \$ - | \$ - | \$ - |
| 10 | Investment Tax Credits | \$ - | \$ - | \$ - |
| 11 | Shared Gain On Well | \$ - | \$ - | \$ - |
| 12 | Prepayments | \$ - | \$ - | \$ - |
| 13 | Materials And Supplies | \$ 348,852 | \$ 54,269 | \$ 403,121 |
| 14 | Deferred Assets | \$ 633,537 | \$ - | \$ 633,537 |
| 15 | Allowance For Working Capital | \$ - | \$ - | \$ - |
| 16 | Rounding | \$ 1 | \$ - | \$ 1 |
| 17 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | <u>\$ 6,607,841</u> | <u>\$ (6,322,569)</u> | <u>\$ 285,272</u> |

References:

- Column (A): Company Schedule B-1
- Column (B): Schedule RLM-3
- Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) ADJMT NO. 1 ACCUMULT'D DEPRECT'N | (C) ADJMT NO. 2 ACC AMORT ON (HUF) CIAC | (D) ADJMT NO. 3 REINSTATE (HUF) CIAC | (E) ADJMT NO. 4 MATERIALS & SUPPLIES | (F) ADJMT NO. 5 LEFT BLANK | (G) ADJMT NO. 6 LEFT BLANK | (H) RUCO ADJ'TED OCRB/FVRB |
|----------|---|-----------------------------------|---|--|---|---|-------------------------------|-------------------------------|-------------------------------|
| 1 | Gross Utility Plant In Service | \$ 79,591,151 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 79,591,151 |
| 2 | Accumulated Depreciation | (6,199,124) | (4,584) | - | - | - | - | - | (6,203,708) |
| 3 | Net Utility Plant In Service (Sum L1 & L3) | \$ 73,392,027 | \$ (4,584) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 73,387,443 |
| 4 | Advances In Aid Of Const. | \$ (37,840,520) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (37,840,520) |
| 5 | Contribution In Aid Of Const. | \$ (25,004,821) | \$ - | \$ - | \$ (6,931,078) | \$ - | \$ - | \$ - | \$ (31,935,899) |
| 6 | Accumulated Amortization Of CIAC | 1,898,537 | - | 558,824 | - | - | - | - | 2,417,361 |
| 7 | NET CIAC (L5 + L6) | \$ (23,146,284) | \$ - | \$ 558,824 | \$ (6,931,078) | \$ - | \$ - | \$ - | \$ (29,518,538) |
| 8 | Customer Meter Deposits | \$ (6,779,771) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (6,779,771) |
| 9 | Deferred Income Taxes And Credits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 10 | Investment Tax Credits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 11 | Shared Gain On Well | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 12 | Prepayments | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 13 | Materials And Supplies | \$ 348,852 | \$ - | \$ - | \$ - | \$ 54,269 | \$ - | \$ - | \$ 403,121 |
| 14 | Deferred Assets | \$ 633,537 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 633,537 |
| 15 | Allowance For Working Capital | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 16 | Rounding | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 17 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | \$ 6,607,841 | \$ (4,584) | \$ 558,824 | \$ (6,931,078) | \$ 54,269 | \$ - | \$ - | \$ 285,272 |

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-4, Pages 1 Thru 11, And Testimony, RLM)
- Column (C): Adjustment No. 2 - Reverse Company's Adjustment To Remove The CIAC's Accumulated Amortization Associated With Unexpended Hook-Up Fees (See Testimony, RLM)
- Column (D): Adjustment No. 3 - Reverse Company's Adjustment To Remove The CIAC Associated With Unexpended Hook-Up Fees (See Testimony, RLM)
- Column (E): Adjustment No. 4 - Adjust Material And Supplies (See RLM-6 And Testimony, RLM)
- Column (F): Adjustment No. 5 - Intentionally Left Blank
- Column (G): Adjustment No. 6 - Intentionally Left Blank
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

TEST YEAR PLANT SCHEDULES
 PRIOR TEST YEAR ENDED DECEMBER 31, 1997

| LINE NO. | ACCT NO. | DESCRIPTION | (A) DEPRECIATION RATES | (B) PLANT ADDITIONS | (C) PLANT ADJUSTMENTS | (D) PLANT RETIREMENTS | (E) TOTAL PLANT VALUE | (F) ACCUMULATED DEPRECIATION |
|----------|----------|---|---------------------------|------------------------|--------------------------|--------------------------|--------------------------|---------------------------------|
| 1 | 301 | Organization Costs | 0.0000% | \$ - | \$ - | \$ - | \$ - | \$ - |
| 2 | 302 | Franchises | 0.0000% | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | 0.0000% | - | - | - | - | - |
| 4 | 304 | Structures And Improvements | 2.5000% | - | - | - | - | - |
| 5 | 305 | Collecting And Impounding Reservoirs | 2.5000% | - | - | - | - | - |
| 6 | 306 | Lake, River And Other Intakes | 2.5000% | - | - | - | - | - |
| 7 | 307 | Wells And Springs | 2.5000% | - | - | - | - | - |
| 8 | 308 | Infiltration Galleries And Tunnels | 2.5000% | - | - | - | - | - |
| 9 | 309 | Supply Mains | 2.5000% | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | 2.5000% | - | - | - | - | - |
| 11 | 311 | Electric Pumping Equipment | 2.5000% | - | - | - | - | - |
| 12 | 320 | Water Treatment Plant | 2.5000% | - | - | - | - | - |
| 13 | 330 | Distribution Reservoirs And Standpipes | 2.5000% | - | - | - | - | - |
| 14 | 331 | Transmission And Distribution Lines | 2.5000% | - | - | - | - | - |
| 15 | 333 | Services | 2.5000% | - | - | - | - | - |
| 16 | 334 | Meters And Meter Installations | 2.5000% | - | - | - | - | - |
| 17 | 335 | Hydrants | 2.5000% | - | - | - | - | - |
| 18 | 336 | Backflow Prevention Devices | 2.5000% | - | - | - | - | - |
| 19 | 339 | Other Plant And Miscellaneous Equipment | 2.5000% | - | - | - | - | - |
| 20 | 340 | Office Furniture And Equipment | 2.5000% | - | - | - | - | - |
| 21 | 341 | Transportation Equipment | 2.5000% | - | - | - | - | - |
| 22 | 342 | Stores Equipment | 2.5000% | - | - | - | - | - |
| 23 | 343 | Tools And Equipment | 2.5000% | - | - | - | - | - |
| 24 | 344 | Laboratory Equipment | 2.5000% | - | - | - | - | - |
| 25 | 345 | Power Operated Equipment | 2.5000% | - | - | - | - | - |
| 26 | 346 | Communication Equipment | 2.5000% | - | - | - | - | - |
| 27 | 347 | Miscellaneous Equipment | 2.5000% | - | - | - | - | - |
| 28 | 348 | Other Tangible Plant | 2.5000% | - | - | - | - | - |
| 29 | | TOTAL WATER PLANT | | \$ - | \$ - | \$ - | \$ - | \$ - |
| 30 | | Company As Filed | | - | - | - | - | - |
| 31 | | Difference | | \$ - | \$ - | \$ - | \$ - | \$ - |

References:
 Column (A): Approved Depreciation Rate From Original CC&N In Decision No. 60223 Dated May 27, 1997
 Columns (B) (C) (D) (E) & (F): Approved Plant Value In Prior Decision No. 60223

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 1998

| LINE NO. | ACCT NO. | ACCOUNT NAME | (A) PLANT ADDITIONS | (B) PLANT ADJUSTMENTS | (C) NET PLANT ADDITIONS | (D) PLANT RETIREMENTS | (E) TOTAL PLANT VALUE | (F) DEPRECIATION EXPENSE | (G) ACCUMULATED DEPRECIATION | (H) NET PLANT VALUE |
|----------|----------|---|---------------------------|-----------------------------|-------------------------------|-----------------------------|-----------------------------|--------------------------------|------------------------------------|---------------------------|
| | | | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| 1 | 301 | Organization Costs | - | - | - | - | - | - | - | - |
| 2 | 302 | Franchises | - | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | - | - | - | - | - | - | - | - |
| 4 | 304 | Structures And Improvements | - | - | - | - | - | - | - | - |
| 5 | 305 | Collecting And Impounding Reservoirs | - | - | - | - | - | - | - | - |
| 6 | 306 | Lake, River And Other Intakes | - | - | - | - | - | - | - | - |
| 7 | 307 | Wells And Springs | 115,000 | - | 115,000 | - | 115,000 | (1,438) | (1,438) | 113,563 |
| 8 | 308 | Infiltration Galleries And Tunnels | - | - | - | - | - | - | - | - |
| 9 | 309 | Supply Mains | - | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | - | - | - | - | - | - | - | - |
| 11 | 311 | Electric Pumping Equipment | 43,750 | - | 43,750 | - | 43,750 | (547) | (547) | 43,203 |
| 12 | 320 | Water Treatment Plant | - | - | - | - | - | - | - | - |
| 13 | 330 | Distribution Reservoirs And Standpipes | - | - | - | - | - | - | - | - |
| 14 | 331 | Transmission And Distribution Lines | 282,692 | - | 282,692 | - | 282,692 | (3,534) | (3,534) | 279,158 |
| 15 | 333 | Services | - | - | - | - | - | - | - | - |
| 16 | 334 | Meters And Meter Installations | - | - | - | - | - | - | - | - |
| 17 | 335 | Hydrants | - | - | - | - | - | - | - | - |
| 18 | 336 | Backflow Prevention Devices | - | - | - | - | - | - | - | - |
| 19 | 339 | Other Plant And Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 20 | 340 | Office Furniture And Equipment | - | - | - | - | - | - | - | - |
| 21 | 341 | Transportation Equipment | - | - | - | - | - | - | - | - |
| 22 | 342 | Stores Equipment | - | - | - | - | - | - | - | - |
| 23 | 343 | Tools And Equipment | - | - | - | - | - | - | - | - |
| 24 | 344 | Laboratory Equipment | - | - | - | - | - | - | - | - |
| 25 | 345 | Power Operated Equipment | - | - | - | - | - | - | - | - |
| 26 | 346 | Communication Equipment | - | - | - | - | - | - | - | - |
| 27 | 347 | Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 28 | 348 | Other Tangible Plant | - | - | - | - | - | - | - | - |
| 29 | | TOTAL WATER PLANT | \$ 441,442 | \$ - | \$ 441,442 | \$ - | \$ 441,442 | \$ (5,518) | \$ (5,518) | \$ 435,924 |
| 30 | | Company As Filed | 441,442 | - | 441,442 | - | 441,442 | (5,518) | (5,518) | 435,924 |
| 31 | | Difference | - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

References:

- Columns (A) (B) (C) (D): Company Schedules B-2
- Column (E): Schedule RLM-4, Page 1, Column (C) + Column (D)
- Column (F): [(Col. (C) + Col. (D)) X RLM-4, Page 1, Col. (A) X 1/2 yr. conv.] + [RLM-4, Page 1, Col. (E) + Col. (D)] X RLM-4, Page 1, Col. (A)]
- Column (G): Schedule RLM-4, Page 1, Column (F) + Column (D) + Column (F)
- Column (H): Column (E) + Column (G)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 1999

| LINE NO. | ACCT NO. | ACCOUNT NAME | (A) PLANT ADDITIONS \$ | (B) PLANT ADJUSTMENTS \$ | (C) NET PLANT ADDITIONS \$ | (D) PLANT RETIREMENTS \$ | (E) TOTAL PLANT VALUE \$ | (F) DEPRECIATION EXPENSE \$ | (G) ACCUMULATED DEPRECIATION \$ | (H) NET PLANT VALUE \$ |
|----------|----------|---|---------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|--|---------------------------------|
| 1 | 301 | Organization Costs | - | - | - | - | - | - | - | - |
| 2 | 302 | Franchises | - | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | 244,400 | - | 244,400 | - | 244,400 | - | - | 244,400 |
| 4 | 304 | Structures And Improvements | 102,374 | - | 102,374 | - | 102,374 | (1,280) | (1,280) | 101,094 |
| 5 | 305 | Collecting And Impounding Reservoirs | - | - | - | - | - | - | - | - |
| 6 | 306 | Lake, River And Other Intakes | - | - | - | - | - | - | - | - |
| 7 | 307 | Wells And Springs | 209,355 | - | 209,355 | - | 324,355 | (5,492) | (6,929) | 317,426 |
| 8 | 308 | Infiltration Galleries And Tunnels | - | - | - | - | - | - | - | - |
| 9 | 309 | Supply Mains | - | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | - | - | - | - | - | - | - | - |
| 11 | 311 | Electric Pumping Equipment | 331,299 | - | 331,299 | - | 375,049 | (5,235) | (5,782) | 369,267 |
| 12 | 320 | Water Treatment Plant | - | - | - | - | - | - | - | - |
| 13 | 330 | Distribution Reservoirs And Standpipes | - | - | - | - | - | - | - | - |
| 14 | 331 | Transmission And Distribution Lines | 2,537,047 | - | 2,537,047 | - | 2,819,799 | (38,780) | (42,314) | 2,777,425 |
| 15 | 333 | Services | 155,100 | - | 155,100 | - | 155,100 | (1,939) | (1,939) | 153,161 |
| 16 | 334 | Meters And Meter Installations | 32,941 | - | 32,941 | - | 32,941 | (412) | (412) | 32,529 |
| 17 | 335 | Hydrants | 60,225 | - | 60,225 | - | 60,225 | (753) | (753) | 59,472 |
| 18 | 336 | Backflow Prevention Devices | - | - | - | - | - | - | - | - |
| 19 | 339 | Other Plant And Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 20 | 340 | Office Furniture And Equipment | - | - | - | - | - | - | - | - |
| 21 | 341 | Transportation Equipment | - | - | - | - | - | - | - | - |
| 22 | 342 | Stores Equipment | - | - | - | - | - | - | - | - |
| 23 | 343 | Tools And Equipment | 16,230 | - | 16,230 | - | 16,230 | (203) | (203) | 16,027 |
| 24 | 344 | Laboratory Equipment | - | - | - | - | - | - | - | - |
| 25 | 345 | Power Operated Equipment | - | - | - | - | - | - | - | - |
| 26 | 346 | Communication Equipment | - | - | - | - | - | - | - | - |
| 27 | 347 | Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 28 | 348 | Other Tangible Plant | - | - | - | - | - | - | - | - |
| 29 | | TOTAL WATER PLANT | \$ 3,688,971 | \$ - | \$ 3,688,971 | \$ - | \$ 4,130,413 | \$ (54,093) | \$ (59,611) | \$ 4,070,802 |
| 30 | | Company As Filed | 3,688,971 | - | 3,688,971 | - | 4,130,413 | (54,093) | (59,611) | 4,070,802 |
| 31 | | Difference | - | - | - | - | - | - | - | - |

References:

- Columns (A) (B) (C) (D): Company Schedules B-2
- Column (E): Schedule RLM-4, Page 2, Column (C) + Column (C) + Column (D)
- Column (F): ((Col. (C) + Col. (D)) X RLM-4, Page 1, Col. (A) X 1/2 yr. conv.) + [RLM-4, Page 2, Col. (E) + Col. (D)] X RLM-4, Page 1, Col. (A)
- Column (G): Schedule RLM-4, Page 2, Column (G) + Column (D) + Column (F)
- Column (H): Column (E) + Column (G)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2000

| LINE NO. | ACCT NO. | ACCOUNT NAME | (A) PLANT ADDITIONS \$ | (B) PLANT ADJUSTMENTS \$ | (C) NET PLANT ADDITIONS \$ | (D) PLANT RETIREMENTS \$ | (E) TOTAL PLANT VALUE \$ | (F) DEPRECIATION EXPENSE \$ | (G) ACCUMULATED DEPRECIATION \$ | (H) NET PLANT VALUE \$ |
|----------|----------|---|---------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|--|---------------------------------|
| 1 | 301 | Organization Costs | - | - | - | - | - | - | - | - |
| 2 | 302 | Franchises | - | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | 27,137 | - | 27,137 | - | 271,537 | - | - | 271,537 |
| 4 | 304 | Structures And Improvements | 53,356 | - | 53,356 | - | 155,730 | (3,226) | (4,506) | 151,224 |
| 5 | 305 | Collecting And Impounding Reservoirs | - | - | - | - | - | - | - | - |
| 6 | 306 | Lake, River And Other Intakes | - | - | - | - | - | - | - | - |
| 7 | 307 | Wells And Springs | 32,979 | - | 32,979 | - | 357,334 | (8,521) | (15,451) | 341,883 |
| 8 | 308 | Infiltration Galleries And Tunnels | - | - | - | - | - | - | - | - |
| 9 | 309 | Supply Mains | - | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | - | - | - | - | - | - | - | - |
| 11 | 311 | Electric Pumping Equipment | - | (74,250) | (74,250) | - | 300,799 | (8,448) | (14,230) | 286,569 |
| 12 | 320 | Water Treatment Plant | - | - | - | - | - | - | - | - |
| 13 | 330 | Distribution Reservoirs And Standpipes | - | - | - | - | - | - | - | - |
| 14 | 331 | Transmission And Distribution Lines | 1,396,832 | - | 1,396,832 | - | 4,216,571 | (87,954) | (130,268) | 4,086,303 |
| 15 | 333 | Services | 317,900 | - | 317,900 | - | 473,000 | (7,851) | (9,790) | 463,210 |
| 16 | 334 | Meters And Meter Installations | 16,046 | - | 16,046 | - | 48,987 | (1,024) | (1,436) | 47,551 |
| 17 | 335 | Hydrants | 221,462 | - | 221,462 | - | 281,687 | (4,274) | (5,027) | 276,660 |
| 18 | 336 | Backflow Prevention Devices | - | - | - | - | - | - | - | - |
| 19 | 339 | Other Plant And Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 20 | 340 | Office Furniture And Equipment | 1,355 | - | 1,355 | - | 1,355 | (17) | (17) | 1,338 |
| 21 | 341 | Transportation Equipment | 36,142 | - | 36,142 | - | 36,142 | (452) | (452) | 35,690 |
| 22 | 342 | Stores Equipment | - | - | - | - | - | - | - | - |
| 23 | 343 | Tools And Equipment | - | - | - | - | 16,230 | (406) | (609) | 15,621 |
| 24 | 344 | Laboratory Equipment | - | - | - | - | - | - | - | - |
| 25 | 345 | Power Operated Equipment | - | - | - | - | - | - | - | - |
| 26 | 346 | Communication Equipment | - | - | - | - | - | - | - | - |
| 27 | 347 | Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 28 | 348 | Other Tangible Plant | - | - | - | - | - | - | - | - |
| 29 | | TOTAL WATER PLANT | \$ 2,103,209 | \$ (74,250) | \$ 2,028,959 | \$ - | \$ 6,159,372 | \$ (122,173) | \$ (181,784) | \$ 5,977,588 |
| 30 | | Company As Filed | 2,103,209 | (74,250) | 2,028,959 | - | 6,159,372 | (122,173) | (181,784) | 5,977,588 |
| 31 | | Difference | - | - | - | - | - | - | - | - |

References:

- Columns (A) (B) (C) (D): Company Schedules B-2
- Column (E): Schedule RLM-4, Page 3, Column (C) + Column (G) + Column (D)
- Column (F): [(Col. (C) + Col. (D)) X RLM-4, Page 1, Col. (A) X 1/2 yr. conv.] + [RLM-4, Page 3, Col. (E) + Col. (D)] X RLM-4, Page 1, Col. (A)]
- Column (G): Schedule RLM-4, Page 3, Column (G) + Column (D) + Column (F)
- Column (H): Column (E) + Column (G)

TEST YEAR PLANT SCHEDULES - CONT'D
 YEAR ENDED DECEMBER 31, 2007

| LINE NO. | ACCT NO. | ACCOUNT NAME | (A) PLANT ADDITIONS | (B) PLANT ADJUSTMENTS | (C) NET PLANT ADDITIONS | (D) PLANT RETIREMENTS | (E) TOTAL PLANT VALUE | (F) DEPRECIATION EXPENSE | (G) ACCUMULATED DEPRECIATION | (H) NET PLANT VALUE |
|----------|----------|---|---------------------------|-----------------------------|-------------------------------|-----------------------------|-----------------------------|--------------------------------|------------------------------------|---------------------------|
| | | | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| 1 | 301 | Organization Costs | - | - | - | - | - | - | - | - |
| 2 | 302 | Franchises | - | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | - | - | - | - | 271,537 | - | - | 271,537 |
| 4 | 304 | Structures And Improvements | 15,461 | - | 15,461 | - | 171,191 | (4,087) | (8,592) | 162,599 |
| 5 | 305 | Collecting And Impounding Reservoirs | - | - | - | - | - | - | - | - |
| 6 | 306 | Lake, River And Other Intakes | - | - | - | - | - | - | - | - |
| 7 | 307 | Wells And Springs | 273,474 | (157,300) | 116,174 | - | 473,508 | (10,386) | (25,836) | 447,672 |
| 8 | 308 | Infiltration Galleries And Tunnels | - | - | - | - | - | - | - | - |
| 9 | 309 | Supply Mains | - | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | - | - | - | - | - | - | - | - |
| 11 | 311 | Electric Pumping Equipment | 102,124 | - | 102,124 | - | 402,923 | (8,797) | (23,026) | 379,897 |
| 12 | 320 | Water Treatment Plant | - | - | - | - | - | - | - | - |
| 13 | 330 | Distribution Reservoirs And Standpipes | 90,972 | 157,300 | 248,272 | - | 248,272 | (3,103) | (3,103) | 245,169 |
| 14 | 331 | Transmission And Distribution Lines | 240,418 | - | 240,418 | - | 4,456,989 | (108,420) | (238,687) | 4,218,302 |
| 15 | 333 | Services | - | - | - | - | 473,000 | (11,825) | (21,615) | 451,385 |
| 16 | 334 | Meters And Meter Installations | 21,024 | - | 21,024 | - | 70,011 | (1,487) | (2,923) | 67,088 |
| 17 | 335 | Hydrants | - | - | - | - | 281,687 | (7,042) | (12,069) | 269,618 |
| 18 | 336 | Backflow Prevention Devices | - | - | - | - | - | - | - | - |
| 19 | 339 | Other Plant And Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 20 | 340 | Office Furniture And Equipment | - | (1,355) | (1,355) | - | - | (17) | (34) | (34) |
| 21 | 341 | Transportation Equipment | - | (36,142) | (36,142) | - | - | (452) | (904) | (904) |
| 22 | 342 | Stores Equipment | - | (16,230) | (16,230) | - | - | - | - | - |
| 23 | 343 | Tools And Equipment | - | - | - | - | - | (203) | (812) | (812) |
| 24 | 344 | Laboratory Equipment | - | - | - | - | - | - | - | - |
| 25 | 345 | Power Operated Equipment | - | - | - | - | - | - | - | - |
| 26 | 346 | Communication Equipment | - | - | - | - | - | - | - | - |
| 27 | 347 | Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 28 | 348 | Other Tangible Plant | - | - | - | - | - | - | - | - |
| 29 | | TOTAL WATER PLANT | \$ 743,473 | \$ (53,727) | \$ 689,746 | \$ - | \$ 6,849,118 | \$ (155,818) | \$ (337,602) | \$ 6,511,516 |
| 30 | | Company As Filed | 743,473 | (53,727) | 689,746 | - | 6,849,118 | (154,069) | (335,853) | 6,513,265 |
| 31 | | Difference | - | - | - | - | - | (1,749) | (1,749) | (1,749) |

References:

- Columns (A) (B) (C) (D): Company Schedules B-2
- Column (E): Schedule RLM-4, Page 4, Column (C) + Column (C) + Column (C) + Column (D)
- Column (F): [(Col. (C) + Col. (D)) X RLM-4, Page 1, Col. (A) X 1/2 yr. conv.] + [RLM-4, Page 4, Col. (E) + Col. (D)] X RLM-4, Page 1, Col. (A)]
- Column (G): Schedule RLM-4, Page 4, Column (G) + Column (D) + Column (F)
- Column (H): Column (E) + Column (G)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2002

| LINE NO. | ACCT NO. | ACCOUNT NAME | (A) PLANT ADDITIONS | (B) PLANT ADJUSTMENTS | (C) NET PLANT ADDITIONS | (D) PLANT RETIREMENTS | (E) TOTAL PLANT VALUE | (F) DEPRECIATION EXPENSE | (G) ACCUMULATED DEPRECIATION | (H) NET PLANT VALUE |
|----------|----------|---|---------------------------|-----------------------------|-------------------------------|-----------------------------|-----------------------------|--------------------------------|------------------------------------|---------------------------|
| 1 | 301 | Organization Costs | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 2 | 302 | Franchises | - | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | - | - | - | - | 271,537 | - | - | 271,537 |
| 4 | 304 | Structures And Improvements | - | - | - | - | 171,191 | (4,280) | (12,872) | 158,319 |
| 5 | 305 | Collecting And Impounding Reservoirs | - | - | - | - | - | - | - | - |
| 6 | 306 | Lake, River And Other Intakes | - | - | - | - | - | - | - | - |
| 7 | 307 | Wells And Springs | - | - | - | - | 473,508 | (11,838) | (37,674) | 435,834 |
| 8 | 308 | Infiltration Galleries And Tunnels | - | - | - | - | - | - | - | - |
| 9 | 309 | Supply Mains | - | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | 22,050 | - | 22,050 | - | 424,973 | (10,349) | (33,375) | 391,598 |
| 11 | 311 | Electric Pumping Equipment | - | - | - | - | - | - | - | - |
| 12 | 320 | Water Treatment Plant | - | - | - | - | - | - | - | - |
| 13 | 330 | Distribution Reservoirs And Standpipes | - | - | - | - | 248,272 | (6,207) | (9,310) | 238,962 |
| 14 | 331 | Transmission And Distribution Lines | 5,764,948 | 457,745 | 6,222,693 | - | 10,679,682 | (189,208) | (427,896) | 10,251,786 |
| 15 | 333 | Services | - | - | - | - | 473,000 | (11,825) | (33,440) | 439,560 |
| 16 | 334 | Meters And Meter Installations | 178,075 | - | 178,075 | - | 248,086 | (3,976) | (6,900) | 241,186 |
| 17 | 335 | Hydrants | 157,282 | - | 157,282 | - | 438,969 | (9,008) | (21,077) | 417,892 |
| 18 | 336 | Backflow Prevention Devices | - | - | - | - | - | - | - | - |
| 19 | 339 | Other Plant And Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 20 | 340 | Office Furniture And Equipment | - | - | - | - | - | - | (34) | (34) |
| 21 | 341 | Transportation Equipment | - | - | - | - | - | - | (904) | (904) |
| 22 | 342 | Stores Equipment | - | - | - | - | - | - | - | - |
| 23 | 343 | Tools And Equipment | - | - | - | - | - | - | (812) | (812) |
| 24 | 344 | Laboratory Equipment | - | - | - | - | - | - | - | - |
| 25 | 345 | Power Operated Equipment | - | - | - | - | - | - | - | - |
| 26 | 346 | Communication Equipment | - | - | - | - | - | - | - | - |
| 27 | 347 | Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 28 | 348 | Other Tangible Plant | - | - | - | - | - | - | - | - |
| 29 | | TOTAL WATER PLANT | \$ 6,122,355 | \$ 457,745 | \$ 6,580,100 | \$ - | \$ 13,429,218 | \$ (246,691) | \$ (584,293) | \$ 12,844,925 |
| 30 | | Company As Filed | 6,122,355 | 457,745 | 6,580,100 | - | 13,429,218 | (246,691) | (582,544) | 12,846,674 |
| 31 | | Difference | - | - | - | - | - | - | (1,749) | (1,749) |

References:

- Columns (A) (B) (C) (D): Company Schedules B-2
- Column (E): Schedule RLM-4, Page 5, Column (C) + Column (D)
- Column (F): [(Col. (C) + Col. (D)) X RLM-4, Page 1, Col. (A) X 1/2 yr. conv.] + [RLM-4, Page 5, Col. (E) + Col. (D)] X RLM-4, Page 1, Col. (A)]
- Column (G): Schedule RLM-4, Page 5, Column (G) + Column (D) + Column (F)
- Column (H): Column (E) + Column (G)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2003

| LINE NO. | ACCT NO. | ACCOUNT NAME | (A) PLANT ADDITIONS \$ | (B) PLANT ADJUSTMENTS \$ | (C) NET PLANT ADDITIONS \$ | (D) PLANT RETIREMENTS \$ | (E) TOTAL PLANT VALUE | (F) DEPRECIATION EXPENSE | (G) ACCUMULATED DEPRECIATION | (H) NET PLANT VALUE \$ |
|----------|----------|---|---------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-----------------------------|--------------------------------|------------------------------------|---------------------------------|
| 1 | 301 | Organization Costs | - | - | - | - | - | - | - | - |
| 2 | 302 | Franchises | - | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | - | - | - | - | 271,537 | - | - | 271,537 |
| 4 | 304 | Structures And Improvements | - | - | - | - | 171,191 | (4,280) | (17,152) | 154,039 |
| 5 | 305 | Collecting And Impounding Reservoirs | - | - | - | - | - | - | - | - |
| 6 | 306 | Lake, River And Other Intakes | - | - | - | - | - | - | - | - |
| 7 | 307 | Wells And Springs | 319,090 | - | 319,090 | - | 792,598 | (15,826) | (53,500) | 739,098 |
| 8 | 308 | Infiltration Galleries And Tunnels | - | - | - | - | - | - | - | - |
| 9 | 309 | Supply Mains | - | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | - | - | - | - | - | - | - | - |
| 11 | 311 | Electric Pumping Equipment | - | - | - | - | 424,973 | (10,624) | (44,000) | 380,973 |
| 12 | 320 | Water Treatment Plant | 5,455 | - | 5,455 | - | 5,455 | (66) | (68) | 5,387 |
| 13 | 330 | Distribution Reservoirs And Standpipes | - | - | - | - | 248,272 | (6,207) | (15,517) | 232,755 |
| 14 | 331 | Transmission And Distribution Lines | 6,623,922 | 1,498,885 | 8,122,807 | - | 18,802,489 | (368,527) | (796,423) | 18,006,066 |
| 15 | 333 | Services | - | - | - | - | 473,000 | (11,825) | (45,265) | 427,735 |
| 16 | 334 | Meters And Meter Installations | 1,173,247 | - | 1,173,247 | - | 1,421,333 | (20,866) | (27,767) | 1,393,566 |
| 17 | 335 | Hydrants | 459,546 | - | 459,546 | - | 898,515 | (16,719) | (37,796) | 860,719 |
| 18 | 336 | Backflow Prevention Devices | - | - | - | - | - | - | - | - |
| 19 | 339 | Other Plant And Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 20 | 340 | Office Furniture And Equipment | - | - | - | - | - | - | (34) | (34) |
| 21 | 341 | Transportation Equipment | 34,226 | - | 34,226 | - | 34,226 | (428) | (1,331) | 32,895 |
| 22 | 342 | Stores Equipment | - | - | - | - | - | - | - | - |
| 23 | 343 | Tools And Equipment | - | - | - | - | - | - | (812) | (812) |
| 24 | 344 | Laboratory Equipment | - | - | - | - | - | - | - | - |
| 25 | 345 | Power Operated Equipment | - | - | - | - | - | - | - | - |
| 26 | 346 | Communication Equipment | - | - | - | - | - | - | - | - |
| 27 | 347 | Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 28 | 348 | Other Tangible Plant | - | - | - | - | - | - | - | - |
| 29 | | TOTAL WATER PLANT | \$ 8,615,486 | \$ 1,498,885 | \$ 10,114,371 | \$ - | \$ 23,543,589 | \$ (455,372) | \$ (1,039,664) | \$ 22,503,925 |
| 30 | | Company As Filed | \$ 8,615,486 | \$ 1,498,885 | \$ 10,114,371 | \$ - | \$ 23,543,589 | \$ (455,372) | \$ (1,037,916) | \$ 22,505,673 |
| 31 | | Difference | - | - | - | - | - | - | \$ (1,748) | \$ (1,748) |

References:

- Columns (A) (B) (C) (D): Company Schedules B-2
- Column (E): Schedule RLM-4, Page 6, Column (C) + Column (C) + Column (D)
- Column (F): [(Col. (C) + Col. (D)) X RLM-4, Page 1, Col. (A) X 1/2 yr. conv.] + [RLM-4, Page 6, Col. (E) + Col. (D)] X RLM-4, Page 1, Col. (A)
- Column (G): Schedule RLM-4, Page 6, Column (G) + Column (D) + Column (F)
- Column (H): Column (E) + Column (G)

TEST YEAR PLANT SCHEDULES - CONT'D
 YEAR ENDED DECEMBER 31, 2004

| LINE NO. | ACCT NO. | ACCOUNT NAME | (A) PLANT ADDITIONS \$ | (B) PLANT ADJUSTMENTS \$ | (C) NET PLANT ADDITIONS \$ | (D) PLANT RETIREMENTS \$ | (E) TOTAL PLANT VALUE \$ | (F) DEPRECIATION EXPENSE \$ | (G) ACCUMULATED DEPRECIATION \$ | (H) NET PLANT VALUE \$ |
|----------|----------|---|---------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|--|---------------------------------|
| 1 | 301 | Organization Costs | - | - | - | - | - | - | - | - |
| 2 | 302 | Franchises | - | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | 901 | - | 901 | - | 272,438 | - | - | 272,438 |
| 4 | 304 | Structures And Improvements | 458,157 | - | 458,157 | - | 629,348 | (10,007) | (27,159) | 602,189 |
| 5 | 305 | Collecting And Impounding Reservoirs | - | - | - | - | - | - | - | - |
| 6 | 306 | Lake, River And Other Intakes | - | - | - | - | - | - | - | - |
| 7 | 307 | Wells And Springs | 80,000 | - | 80,000 | - | 872,598 | (20,815) | (74,315) | 798,283 |
| 8 | 308 | Infiltration Galleries And Tunnels | - | - | - | - | - | - | - | - |
| 9 | 309 | Supply Mains | - | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | - | - | - | - | - | - | - | - |
| 11 | 311 | Electric Pumping Equipment | - | - | - | - | 424,973 | (10,624) | (54,624) | 370,349 |
| 12 | 320 | Water Treatment Plant | 16,401 | - | 16,401 | - | 21,856 | (341) | (410) | 21,446 |
| 13 | 330 | Distribution Reservoirs And Standpipes | - | - | - | - | 248,272 | (6,207) | (21,724) | 226,548 |
| 14 | 331 | Transmission And Distribution Lines | 136,085 | - | 8,900,756 | - | 27,703,245 | (581,322) | (1,377,745) | 26,325,500 |
| 15 | 333 | Services | - | - | - | - | 473,000 | (11,825) | (57,090) | 415,910 |
| 16 | 334 | Meters And Meter Installations | 1,108,316 | - | 1,108,316 | - | 2,529,649 | (49,387) | (77,155) | 2,452,494 |
| 17 | 335 | Hydrants | - | - | - | - | 898,515 | (22,463) | (60,259) | 838,256 |
| 18 | 336 | Backflow Prevention Devices | - | - | - | - | - | - | - | - |
| 19 | 339 | Other Plant And Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 20 | 340 | Office Furniture And Equipment | - | - | - | - | - | - | (34) | (34) |
| 21 | 341 | Transportation Equipment | 44,945 | - | 44,945 | - | 79,171 | (1,417) | (2,749) | 76,422 |
| 22 | 342 | Stores Equipment | - | - | - | - | - | - | - | - |
| 23 | 343 | Tools And Equipment | - | - | - | - | - | - | (812) | (812) |
| 24 | 344 | Laboratory Equipment | - | - | - | - | - | - | - | - |
| 25 | 345 | Power Operated Equipment | - | - | - | - | - | - | - | - |
| 26 | 346 | Communication Equipment | - | - | - | - | - | - | - | - |
| 27 | 347 | Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 28 | 348 | Other Tangible Plant | - | - | - | - | - | - | - | - |
| 29 | | TOTAL WATER PLANT | \$ 1,844,805 | \$ 8,764,671 | \$ 10,609,476 | \$ - | \$ 34,153,065 | \$ (714,408) | \$ (1,754,073) | \$ 32,398,992 |
| 30 | | Company As Filed | 1,844,805 | 8,764,671 | 10,609,476 | - | 34,153,065 | (714,408) | (1,752,324) | 32,400,741 |
| 31 | | Difference | - | - | - | - | - | - | (1,749) | (1,749) |

References:

- Columns (A) (B) (C) (D): Company Schedules B-2
- Column (E): Schedule RLM-4, Page 7, Column (C) + Column (C) + Column (D)
- Column (F): [(Col. (C) + Col. (D)) X RLM-4, Page 1, Col. (A) X 1/2 yr. conv.] + [RLM-4, Page 7, Col. (E) + Col. (D)] X RLM-4, Page 1, Col. (A)
- Column (G): Schedule RLM-4, Page 7, Column (G) + Column (D) + Column (F)
- Column (H): Column (E) + Column (G)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2005

| LINE NO. | ACCT NO. | ACCOUNT NAME | (A) PLANT ADDITIONS | (B) PLANT ADJUSTMENTS | (C) NET PLANT ADDITIONS | (D) PLANT RETIREMENTS | (E) TOTAL PLANT VALUE | (F) DEPRECIATION EXPENSE | (G) ACCUMULATED DEPRECIATION | (H) NET PLANT VALUE |
|----------|----------|---|---------------------------|-----------------------------|-------------------------------|-----------------------------|-----------------------------|--------------------------------|------------------------------------|---------------------------|
| 1 | 301 | Organization Costs | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 2 | 302 | Franchises | - | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | - | - | - | - | 272,438 | - | - | 272,438 |
| 4 | 304 | Structures And Improvements | - | - | - | - | 629,348 | (15,734) | (42,892) | 586,456 |
| 5 | 305 | Collecting And Impounding Reservoirs | - | - | - | - | - | - | - | - |
| 6 | 306 | Lake, River And Other Intakes | - | - | - | - | - | - | - | - |
| 7 | 307 | Wells And Springs | 452,618 | 454,498 | 907,116 | - | 1,779,714 | (33,154) | (107,469) | 1,672,245 |
| 8 | 308 | Infiltration Galleries And Tunnels | - | - | - | - | - | - | - | - |
| 9 | 309 | Supply Mains | - | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | - | - | - | - | - | - | - | - |
| 11 | 311 | Electric Pumping Equipment | - | - | - | - | 424,973 | (10,624) | (65,248) | 359,725 |
| 12 | 320 | Water Treatment Plant | - | - | - | - | 21,856 | (546) | (956) | 20,900 |
| 13 | 330 | Distribution Reservoirs And Standpipes | - | - | - | - | 248,272 | (6,207) | (27,931) | 220,341 |
| 14 | 331 | Transmission And Distribution Lines | 8,337,862 | 2,023,385 | 10,361,247 | - | 38,064,492 | (922,097) | (2,199,841) | 35,864,651 |
| 15 | 333 | Services | - | - | - | - | 473,000 | (11,825) | (68,915) | 404,085 |
| 16 | 334 | Meters And Meter Installations | 1,602,159 | - | 1,602,159 | - | 4,131,808 | (83,268) | (160,423) | 3,971,385 |
| 17 | 335 | Hydrants | 969,120 | - | 969,120 | - | 1,867,635 | (34,577) | (94,835) | 1,772,800 |
| 18 | 336 | Backflow Prevention Devices | - | - | - | - | - | - | - | - |
| 19 | 339 | Other Plant And Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 20 | 340 | Office Furniture And Equipment | - | - | - | - | - | - | (34) | (34) |
| 21 | 341 | Transportation Equipment | - | (79,171) | (79,171) | - | - | (990) | (3,738) | (3,738) |
| 22 | 342 | Stores Equipment | - | - | - | - | - | - | (812) | (812) |
| 23 | 343 | Tools And Equipment | - | - | - | - | - | - | - | - |
| 24 | 344 | Laboratory Equipment | - | - | - | - | - | - | - | - |
| 25 | 345 | Power Operated Equipment | - | - | - | - | - | - | - | - |
| 26 | 346 | Communication Equipment | - | - | - | - | - | - | - | - |
| 27 | 347 | Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 28 | 348 | Other Tangible Plant | - | - | - | - | - | - | - | - |
| 29 | | TOTAL WATER PLANT | \$ 11,361,759 | \$ 2,398,712 | \$ 13,760,471 | \$ - | \$ 47,913,536 | \$ (1,019,022) | \$ (2,773,095) | \$ 45,140,442 |
| 30 | | Company As Filed | 11,361,759 | 2,398,712 | 13,760,471 | - | 47,913,536 | (1,016,187) | (2,768,511) | 45,145,025 |
| 31 | | Difference | - | \$ - | \$ - | \$ - | \$ - | \$ (2,835) | \$ (4,584) | \$ (4,584) |

References:

- Columns (A) (B) (C) (D): Company Schedules B-2
- Column (E): Schedule RLM-4, Page 8, Column (C) + Column (D)
- Column (F): [(Col. (C) + Col. (D)) X RLM-4, Page 1, Col. (A) X 1/2 yr. conv.] + [RLM-4, Page 8, Col. (E) + Col. (D)] X RLM-4, Page 1, Col. (A)]
- Column (G): Schedule RLM-4, Page 8, Column (G) + Column (D) + Column (F)
- Column (H): Column (E) + Column (G)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2006

| LINE NO. | ACCT NO. | ACCOUNT NAME | (A) PLANT ADDITIONS | (B) PLANT ADJUSTMENTS | (C) NET PLANT ADDITIONS | (D) PLANT RETIREMENTS | (E) TOTAL PLANT VALUE | (F) DEPRECIATION EXPENSE | (G) ACCUMULATED DEPRECIATION | (H) NET PLANT VALUE |
|----------|----------|---|---------------------------|-----------------------------|-------------------------------|-----------------------------|-----------------------------|--------------------------------|------------------------------------|---------------------------|
| 1 | 301 | Organization Costs | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 2 | 302 | Franchises | - | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | - | - | - | - | 272,438 | - | - | 272,438 |
| 4 | 304 | Structures And Improvements | 4,258,830 | 2,390,824 | 6,649,654 | - | 7,279,002 | (98,854) | (141,747) | 7,137,255 |
| 5 | 305 | Collecting And Impounding Reservoirs | - | - | - | - | - | - | - | - |
| 6 | 306 | Lake, River And Other Intakes | - | - | - | - | - | - | - | - |
| 7 | 307 | Wells And Springs | 2,554,632 | 628,261 | 3,182,893 | - | 4,962,607 | (84,279) | (191,748) | 4,770,859 |
| 8 | 308 | Infiltration Galleries And Tunnels | - | - | - | - | - | - | - | - |
| 9 | 309 | Supply Mains | - | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | - | - | - | - | - | - | - | - |
| 11 | 311 | Electric Pumping Equipment | 86,801 | - | 86,801 | - | 511,774 | (11,709) | (76,958) | 434,817 |
| 12 | 320 | Water Treatment Plant | - | - | - | - | 21,856 | (546) | (1,502) | 20,354 |
| 13 | 330 | Distribution Reservoirs And Standpipes | - | - | - | - | 248,272 | (6,207) | (34,137) | 214,135 |
| 14 | 331 | Transmission And Distribution Lines | 12,220,856 | 1,341,833 | 13,562,689 | - | 51,627,181 | (1,121,146) | (3,320,987) | 48,306,194 |
| 15 | 333 | Services | - | - | - | - | 473,000 | (11,825) | (80,740) | 392,260 |
| 16 | 334 | Meters And Meter Installations | 1,074,809 | - | 1,074,809 | - | 5,206,617 | (116,730) | (277,153) | 4,929,464 |
| 17 | 335 | Hydrants | 1,546,683 | - | 1,546,683 | - | 3,414,318 | (66,024) | (160,860) | 3,253,458 |
| 18 | 336 | Backflow Prevention Devices | - | - | - | - | - | - | - | - |
| 19 | 339 | Other Plant And Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 20 | 340 | Office Furniture And Equipment | - | - | - | - | - | - | (34) | (34) |
| 21 | 341 | Transportation Equipment | - | - | - | - | - | - | (3,738) | (3,738) |
| 22 | 342 | Stores Equipment | - | - | - | - | - | - | - | - |
| 23 | 343 | Tools And Equipment | - | - | - | - | - | - | (812) | (812) |
| 24 | 344 | Laboratory Equipment | - | - | - | - | - | - | - | - |
| 25 | 345 | Power Operated Equipment | - | - | - | - | - | - | - | - |
| 26 | 346 | Communication Equipment | - | - | - | - | - | - | - | - |
| 27 | 347 | Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 28 | 348 | Other Tangible Plant | - | - | - | - | - | - | - | - |
| 29 | | TOTAL WATER PLANT | \$ 21,742,611 | \$ 4,360,918 | \$ 26,103,529 | \$ - | \$ 74,017,065 | \$ (1,517,322) | \$ (4,290,416) | \$ 69,726,649 |
| 30 | | Company As Filed | 21,742,611 | 4,360,918 | 26,103,529 | - | 74,017,065 | (1,517,322) | (4,285,832) | 69,731,233 |
| 31 | | Difference | - | - | - | - | - | - | (4,584) | (4,584) |

References:

- Columns (A) (B) (C) (D): Company Schedules B-2
- Column (E): Schedule RLM-4, Page 9, Column (C) + Column (D)
- Column (F): ((Col. (C) + Col. (D)) X RLM-4, Page 1, Col. (A) X 1/2 yr. conv.) + [RLM-4, Page 9, Col. (E) + Col. (D)] X RLM-4, Page 1, Col. (A)
- Column (G): Schedule RLM-4, Page 9, Column (G) + Column (D) + Column (F)
- Column (H): Column (E) + Column (G)

TEST YEAR PLANT SCHEDULES - CONT'D
TEST-YEAR ENDED DECEMBER 31, 2007

| LINE NO. | ACCT NO. | ACCOUNT NAME | (A) PLANT ADDITIONS \$ | (B) PLANT ADJUSTMENTS \$ | (C) NET PLANT ADDITIONS \$ | (D) PLANT RETIREMENTS \$ | (E) TOTAL PLANT VALUE \$ | (F) DEPRECIATION EXPENSE \$ | (G) ACCUMULATED DEPRECIATION \$ | (H) NET PLANT VALUE \$ |
|----------|----------|---|---------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|--|---------------------------------|
| 1 | 301 | Organization Costs | - | - | - | - | - | - | - | - |
| 2 | 302 | Franchises | - | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | - | - | - | - | 272,438 | - | - | 272,438 |
| 4 | 304 | Structures And Improvements | 2,203,163 | - | 2,203,163 | - | 9,482,165 | (209,515) | (351,261) | 9,130,904 |
| 5 | 305 | Collecting And Impounding Reservoirs | - | - | - | - | - | - | - | - |
| 6 | 306 | Lake, River And Other Intakes | - | - | - | - | - | - | - | - |
| 7 | 307 | Wells And Springs | 263,423 | - | 263,423 | - | 5,226,030 | (127,358) | (319,106) | 4,906,924 |
| 8 | 308 | Infiltration Galleries And Tunnels | - | - | - | - | - | - | - | - |
| 9 | 309 | Supply Mains | - | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | - | - | - | - | - | - | - | - |
| 11 | 311 | Electric Pumping Equipment | 268,357 | (16,019) | 252,338 | - | 764,112 | (15,949) | (92,906) | 671,206 |
| 12 | 320 | Water Treatment Plant | - | - | - | - | 21,856 | (546) | (2,049) | 19,807 |
| 13 | 330 | Distribution Reservoirs And Standpipes | - | - | - | - | 248,272 | (6,207) | (40,344) | 207,928 |
| 14 | 331 | Transmission And Distribution Lines | 1,805,404 | - | 1,805,404 | - | 53,432,585 | (1,313,247) | (4,634,234) | 48,798,351 |
| 15 | 333 | Services | 54,473 | - | 54,473 | - | 527,473 | (12,506) | (93,246) | 434,227 |
| 16 | 334 | Meters And Meter Installations | 861,887 | - | 861,887 | - | 6,068,504 | (140,939) | (418,092) | 5,650,412 |
| 17 | 335 | Hydrants | 133,400 | - | 133,400 | - | 3,547,718 | (87,025) | (247,885) | 3,299,833 |
| 18 | 336 | Backflow Prevention Devices | - | - | - | - | - | - | - | - |
| 19 | 339 | Other Plant And Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 20 | 340 | Office Furniture And Equipment | - | - | - | - | - | - | (34) | (34) |
| 21 | 341 | Transportation Equipment | - | - | - | - | - | - | (3,738) | (3,738) |
| 22 | 342 | Stores Equipment | - | - | - | - | - | - | - | - |
| 23 | 343 | Tools And Equipment | - | - | - | - | - | - | (812) | (812) |
| 24 | 344 | Laboratory Equipment | - | - | - | - | - | - | - | - |
| 25 | 345 | Power Operated Equipment | - | - | - | - | - | - | - | - |
| 26 | 346 | Communication Equipment | - | - | - | - | - | - | - | - |
| 27 | 347 | Miscellaneous Equipment | - | - | - | - | - | - | - | - |
| 28 | 348 | Other Tangible Plant | - | - | - | - | - | - | - | - |
| 29 | | TOTAL WATER PLANT | \$ 5,590,107 | \$ (16,019) | \$ 5,574,088 | \$ - | \$ 79,591,153 | \$ (1,913,292) | \$ (6,203,708) | \$ 73,387,445 |
| 30 | | Company As Filed | 5,590,107 | (16,019) | 5,574,088 | - | 79,591,153 | (1,913,292) | (6,199,124) | 73,392,029 |
| 31 | | Difference | - | - | - | - | - | - | (4,584) | (4,584) |

References:

- Columns (A) (B) (C) (D): Company Schedules B-2
- Column (E): Schedule RLM-4, Page 10, Column (C) + Column (C) + Column (D)
- Column (F): [(Col. (C) + Col. (D)) X RLM-4, Page 1, Col. (A) X 1/2 yr. conv.] + [RLM-4, Page 10, Col. (E) + Col. (D)] X RLM-4, Page 1, Col. (A)]
- Column (G): Schedule RLM-4, Page 10, Column (G) + Column (D) + Column (F)
- Column (H): Column (E) + Column (G)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 4
MATERIALS AND SUPPLIES**

| LINE NO. | DESCRIPTION | (A) AMOUNT | (B) REFERENCE |
|-------------|--|------------------|----------------------|
| 1 | Cash Working Capital (1/8 O&M Expenses) As Per Company | \$ 794,916 | Company Schedule C-1 |
| 2 | Cash Working Capital (1/8 O&M Expenses) As Per RUCO | 794,638 | RUCO Schedule RLM-7 |
| 3 | Adjustment | \$ (278) | Line 2 - Line 1 |
| 4 | Pumping Power (1/24 Of Pumping Power) As Per Company | \$ 34,538 | Company Schedule C-1 |
| 5 | Pumping Power (1/24 Of Pumping Power) As Per RUCO | 35,090 | RUCO Schedule RLM-7 |
| 6 | Adjustment | \$ 552 | Line 5 - Line 4 |
| 7 | Purchased Water (1/24 Of Purchased Water) As Per Company | \$ 13,956 | Company Schedule C-1 |
| 8 | Purchased Water (1/24 Of Purchased Water) As Per RUCO | 67,951 | RUCO Schedule RLM-7 |
| 9 | Adjustment | \$ 53,994 | Line 8 - Line 7 |
| 10 | TOTAL ADJUSTMENT (See RLM-2, Column (G)) | <u>\$ 54,269</u> | Sum Lines 3, 6 & 9 |

OPERATING INCOME

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED | (B) RUCO TEST YEAR ADJ'MTS | (C) RUCO TEST YEAR AS ADJ'TED | (D) RUCO PROP'D CHANGES | (E) RUCO AS RECOMM'D |
|----------------------------|-----------------------------------|-------------------------------|-------------------------------------|--|----------------------------------|-------------------------------|
| Revenues: | | | | | | |
| 1 | Metered Water Revenues | \$ 12,843,604 | \$ - | \$ 12,843,604 | \$ (1,953,664) | \$ 10,889,940 |
| 2 | Unmetered Water Revenues | - | - | - | - | - |
| 3 | Other Water Revenues | 329,295 | - | 329,295 | - | 329,295 |
| 4 | TOTAL OPERATING REVENUE | \$ 13,172,899 | \$ - | \$ 13,172,899 | \$ (1,953,664) | \$ 11,219,234 |
| Operating Expenses: | | | | | | |
| 5 | Salaries And Wages | \$ - | \$ - | \$ - | \$ - | \$ - |
| 6 | Purchased Water | 334,948 | 1,295,865 | 1,630,813 | - | 1,630,813 |
| 7 | Purchased Power | 828,900 | 13,251 | 842,151 | - | 842,151 |
| 8 | Chemicals | 16,189 | - | 16,189 | - | 16,189 |
| 9 | Repairs And Maintenance | 14,333 | - | 14,333 | - | 14,333 |
| 10 | Office Supplies And Expenses | 1,119 | - | 1,119 | - | 1,119 |
| 11 | Outside Services | 5,877,591 | 30,032 | 5,907,623 | - | 5,907,623 |
| 12 | Water Testing | 55,007 | - | 55,007 | - | 55,007 |
| 13 | Rents | 53,444 | - | 53,444 | - | 53,444 |
| 14 | Transportation Expenses | - | - | - | - | - |
| 15 | Insurance - General Liability | 21,565 | - | 21,565 | - | 21,565 |
| 16 | Insurance - Health And Life | - | - | - | - | - |
| 17 | Regulatory Comm. Exp. - Rate Case | 33,333 | (13,333) | 20,000 | - | 20,000 |
| 18 | Miscellaneous Expense | 286,747 | 1,080 | 287,827 | - | 287,827 |
| 19 | Depreciation Expense | 1,548,515 | - | 1,548,515 | - | 1,548,515 |
| 20 | Taxes Other Than Income | - | - | - | - | - |
| 21 | Property Taxes | 797,368 | (67) | 797,302 | - | 797,302 |
| 22 | Income Tax | 1,185,679 | (1,185,679) | - | - | - |
| 23 | Rounding | - | - | - | - | - |
| 24 | TOTAL OPERATING EXPENSES | \$ 11,054,738 | \$ 141,149 | \$ 11,195,887 | \$ - | \$ 11,195,887 |
| 25 | OPERATING INCOME (LOSS) | \$ 2,118,161 | \$ (141,149) | \$ 1,977,012 | \$ (1,953,664) | \$ 23,347 |

References:

- Column (A): Company Schedule C-1
- Column (B): RLM-8, Columns (B) Thru (I)
- Column (C): Column (A) + Column (B)
- Column (D): RLM-1
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED | (B) ADJMT NO.1 DEPRECIATN & AMORTIZN | (C) ADJMT NO.2 PROPERTY TAX | (D) ADJMT NO.3 LEFT BLANK | (E) ADJMT NO.4 RATE CASE EXPENSE | (F) ADJMT NO.5 CAGR D TAX EXPENSE | (G) ADJMT NO.6 UNNECESSY EXPENSES | (H) ADJMT NO.7 ANNUALZD POWER EXP. | (I) ADJMT NO.8 INCOME TAX | (J) RUCO AS ADJTD |
|---------------------|-----------------------------------|-------------------------|---|--------------------------------|------------------------------|-------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|------------------------------|----------------------|
| Revenues: | | | | | | | | | | | |
| 1 | Metered Water Revenues | \$ 12,843,604 | - | - | - | \$ - | - | - | - | - | \$ 12,843,604 |
| 2 | Unmetered Water Revenues | - | - | - | - | - | - | - | - | - | - |
| 3 | Other Water Revenues | 329,295 | - | - | - | - | - | - | - | - | 329,295 |
| 4 | TOTAL OPERATING REV. | \$ 13,172,899 | - | - | - | \$ - | - | - | - | - | \$ 13,172,899 |
| Operating Expenses: | | | | | | | | | | | |
| 5 | Salaries And Wages | \$ - | - | - | - | \$ - | - | - | - | - | \$ - |
| 6 | Purchased Water | 334,948 | - | - | - | \$ - | 1,295,865 | - | - | - | 1,630,813 |
| 7 | Purchased Power | 828,900 | - | - | - | - | - | - | 13,251 | - | 842,151 |
| 8 | Chemicals | 16,189 | - | - | - | - | - | - | - | - | 16,189 |
| 9 | Repairs And Maintenance | 14,333 | - | - | - | - | - | - | - | - | 14,333 |
| 10 | Office Supplies And Expenses | 1,119 | - | - | - | - | - | - | - | - | 1,119 |
| 11 | Outside Services | 5,877,591 | - | - | - | - | 30,032 | - | - | - | 5,907,623 |
| 12 | Water Testing | 55,007 | - | - | - | - | - | - | - | - | 55,007 |
| 13 | Rents | 53,444 | - | - | - | - | - | - | - | - | 53,444 |
| 14 | Transportation Expenses | - | - | - | - | - | - | - | - | - | - |
| 15 | Insurance - General Liability | - | - | - | - | - | - | - | - | - | - |
| 16 | Insurance - Health And Life | 21,565 | - | - | - | - | - | - | - | - | 21,565 |
| 17 | Regulatory Comm. Exp. - Rate Case | 33,333 | - | - | - | (13,333) | - | - | - | - | - |
| 18 | Miscellaneous Expense | 286,747 | - | - | - | - | - | - | - | - | 287,827 |
| 19 | Depreciation Expense | 1,548,515 | - | - | - | - | 1,080 | - | - | - | 1,548,515 |
| 20 | Taxes Other Than Income | 797,368 | - | - | - | - | - | - | - | - | - |
| 21 | Property Taxes | 1,185,679 | - | (67) | - | - | - | - | - | (1,185,679) | - |
| 22 | Income Tax | - | - | - | - | - | - | - | - | - | - |
| 23 | Rounding | - | - | - | - | - | - | - | - | - | - |
| 24 | TOTAL OPERATING EXP. | \$ 11,054,738 | - | (67) | \$ - | \$ (13,333) | \$ 1,295,865 | \$ 31,112 | \$ 13,251 | \$ (1,185,679) | \$ 11,195,887 |
| 25 | OPERATING INC. (LOSS) | \$ 2,118,161 | - | - | - | - | - | - | - | - | \$ 1,977,012 |

ADJUSTMENTS:
1 Depreciation And Amortization Expense
2 Property Tax Computation
3 Intentionally Left Blank
4 Rate Case Expense
5 CAGR D Tax Expense
6 Unnecessary Expenses
7 Annualize Power Expenses
8 Income Tax

REFERENCE:
Testimony, RLM And Schedule RLM-9
Testimony, RLM And Schedule RLM-10
Testimony, RLM And Schedule RLM-11
Testimony, RLM And Schedule RLM-12
Testimony, RLM
Testimony, RLM

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
TEST YEAR DEPRECIATION EXPENSE

| LINE NO. | ACCOUNT NO. | ACCOUNT NAME | (A) TOTAL PLANT VALUE | (B) COMPANY PROPOSED DEP. RATES | (C) TEST YEAR DEPRECIATION EXPENSE |
|----------|-------------|--|--------------------------|------------------------------------|---------------------------------------|
| 1 | 301 | Organization Costs | \$ - | 0.00% | \$ - |
| 2 | 302 | Franchises | - | 0.00% | - |
| 3 | 303 | Land and Land Rights | 272,438 | 0.00% | - |
| 4 | 304 | Structures And Improvements | 9,482,165 | 3.33% | 315,756 |
| 5 | 305 | Collecting And Impounding Reservoirs | - | 2.50% | - |
| 6 | 306 | Lake, River And Other Intakes | - | 2.50% | - |
| 7 | 307 | Wells And Springs | 5,226,030 | 3.33% | 174,027 |
| 8 | 308 | Infiltration Galleries And Tunnels | - | 6.67% | - |
| 9 | 309 | Supply Mains | - | 2.00% | - |
| 10 | 310 | Power Generation Equipment | - | 5.00% | - |
| 11 | 311 | Electric Pumping Equipment | 764,112 | 12.50% | 95,514 |
| 12 | 320 | Water Treatment Plant | 21,856 | 20.00% | 4,371 |
| 13 | 330 | Distribution Reservoirs And Standpipes | 248,272 | 2.22% | 5,512 |
| 14 | 331 | Transmission And Distribution Lines | 53,432,585 | 2.00% | 1,068,652 |
| 15 | 333 | Services | 527,473 | 3.33% | 17,565 |
| 16 | 334 | Meters And Meter Installations | 6,068,504 | 8.33% | 505,506 |
| 17 | 335 | Hydrants | 3,547,718 | 2.00% | 70,954 |
| 18 | 336 | Backflow Prevention Devices | - | 6.67% | - |
| 19 | 339 | Other Plant And Miscellaneous Equipment | - | 6.67% | - |
| 20 | 340 | Office Furniture And Equipment | - | 6.67% | - |
| 21 | 341 | Transportation Equipment | - | 20.00% | - |
| 22 | 342 | Stores Equipment | - | 4.00% | - |
| 23 | 343 | Tools And Equipment | - | 5.00% | - |
| 24 | 344 | Laboratory Equipment | - | 10.00% | - |
| 25 | 345 | Power Operated Equipment | - | 5.00% | - |
| 26 | 346 | Communication Equipment | - | 10.00% | - |
| 27 | 347 | Miscellaneous Equipment | - | 10.00% | - |
| 28 | 348 | Other Tangible Plant | - | 10.00% | - |
| 29 | | TEST YEAR GROSS PLANT AND DEPRECIATION EXPENSE | <u>\$ 79,591,153</u> | | <u>\$ 2,257,857</u> |
| 48 | | AMORTIZATION OF CONTRIBUTIONS | (25,004,821) | 2.8368% | (709,341) |
| 50 | | Rounding | | | (1) |
| 51 | | TOTAL DEPRECIATION EXPENSE | | | <u>\$ 1,548,515</u> |
| 52 | | Company As Filed | | | 1,548,515 |
| 53 | | Difference | | | \$ - |
| 54 | | RUCO Adjustment (See RLM-8, Column (B)) | | | \$ - |

References:

- Column (A): RLM-4, Page 11, Column (E)
- Column (B): Company Workpapers
- Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
PROPERTY TAX COMPUTATION**

| LINE NO. | DESCRIPTION | REFERENCE | (A) | (B) |
|--|--|---------------------------|-------------------|----------------------|
| Calculation Of The Company's Full Cash Value: | | | | |
| Annual Operating Revenues: | | | | |
| 1 | Adjusted Revenues In Year Ended December 2007 | Sch. RLM-6, Col (C), Ln 4 | \$ 13,172,899 | |
| 2 | Adjusted Revenues In Year Ended December 2007 | Sch. RLM-6, Col (C), Ln 4 | 13,172,899 | |
| 3 | Proposed Revenues | Sch. RLM-6, Col (D), Ln 4 | <u>10,940,980</u> | |
| 4 | Total Three Year Operating Revenues | Sum Of Lines 1, 2 & 3 | \$ 37,286,778 | |
| 5 | Average Annual Operating Revenues | Line 4 / 3 | <u>12,428,926</u> | |
| 6 | Two Times Three Year Average Operating Revenues | Line 5 X 2 | | \$ 24,857,852 |
| ADD: | | | | |
| 10% Of Construction Work In Progress ("CWIP"): | | | | |
| 7 | Test Year CWIP | Company Workpapers | \$ - | |
| 8 | 10% Of CWIP | Line 7 X 10% | | \$ - |
| SUBTRACT: | | | | |
| Transportation At Book Value: | | | | |
| 9 | Original Cost Of Transportation Equipment | Company Workpapers | \$ - | |
| 10 | Acc. Dep. Of Transportation Equipment | Company Workpapers | <u>-</u> | |
| 11 | Book Value Of Transportation Equipment | Line 9 + Line 10 | | \$ - |
| 12 | Company's Full Cash Value ("FCV") | Sum Of Lines 6, 8 & 11 | | <u>\$ 24,857,852</u> |
| Calculation Of The Company's Tax Liability: | | | | |
| MULTIPLY: | | | | |
| FCV X Valuation Assessment Ratio X Property Tax Rates: | | | | |
| 13 | Assessment Ratio | House Bill 2779 | 23.0% | |
| 14 | Assessed Value | Line 12 X Line 13 | \$ 5,717,306 | |
| Property Tax Rates: | | | | |
| 15 | Primary Tax Rate | Company Workpapers | 13.93% | |
| 16 | Secondary Tax Rate | Company Workpapers | <u>0.00%</u> | |
| 17 | Estimated Tax Rate Liability | Line 15 + Line 16 | 13.93% | |
| | Property Tax | | | \$ 796,215 |
| | Tax On Parcel | | | 1,184 |
| 18 | Company's Total Tax Liability - Based On Full Cash Value | Line 14 X Line 17 | | <u>\$ 797,399</u> |
| 19 | Test Year Adjusted Property Tax Expense As Filed | Co. Sch. C-1 | | 797,466 |
| 20 | Decrease In Property Tax Expense | Line 18 - Line 19 | | \$ (67) |
| 21 | RUCO Adjustment (See RLM-8, Column (C)) | Line 20 | | <u>\$ (67)</u> |

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4
RATE CASE EXPENSE**

| LINE NO. | DESCRIPTION | (A) COMPANY ESTIMATE | (B) RUCO ADJUSTMENT | (C) RUCO AS ADJUSTED |
|----------|--|----------------------------|---------------------------|----------------------------|
| 1 | Rate Case Expense Total | \$ 200,000 | \$ - | \$ 200,000 |
| 2 | Allocation Factor | | | 50.0% |
| 3 | Water District (Line 1 X Line 2) | | | \$ 100,000 |
| 4 | Amortization Period - 5 Years | | | 5 |
| 5 | RUCO Adjusted Rate Case Expense (Line 3 / 5 Years) | | | \$ 20,000 |
| 6 | Company Rate Case Expenses As Filed (Company Sch. C-2) | | | \$ 33,333 |
| 7 | RUCO Pro Forma Rate Case Expense (Lines 5 - 6) | | | \$ (13,333) |
| 8 | RUCO Adjustment (Line 7) (See RLM-8, Column (E)) | | | \$ (13,333) |

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 6
UNNECESSARY EXPENSES**

| LINE NO. | DESCRIPTION | REFERENCE | (A) RUCO AS ADJUSTED |
|--------------------------------|--|-------------------------------|----------------------------|
| SPLIT ACCOUNT | | | |
| 1 | Miscellaneous - Sponsorships | Co. Response To Staff DR 1-32 | \$ 1,850 |
| 2 | Allocation Factor | Co. Workpapers | 53.88% |
| 3 | Water District - Miscellaneous | Lines 1 X 2 | <u>\$ 997</u> |
| WATER DISTRICT SPECIFIC | | | |
| 4 | Outside Services - Lobbying Expenses | Co. Response To Staff DR 1-32 | \$ 30,032 |
| 5 | Miscellaneous - Food & Beverages | Co. Response To Staff DR 1-32 | \$ 83 |
| 6 | RUCO Test-Year Disallowance Of Unnecessary Expense | Sum Of Lines 3, 4 & 5 | <u>\$ 31,112</u> |
| 7 | Outside Services Expense | Line 4 | \$ 30,032 |
| 8 | Miscellaneous Expense | Sum Of Lines 3 & 5 | \$ 1,080 |
| 9 | RUCO Adjustment (See RLM-8, Column (G)) | Sum Of Lines 7 & 8 | <u><u>\$ 31,112</u></u> |

COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) CAPITAL RATIO | (B) COST | (C) WEIGHTED COST RATE |
|----------|----------------------------------|----------------------|-------------|---------------------------|
| 1 | Long-Term Debt | 40.00% | 8.00% | 3.20% |
| 2 | Common Equity | <u>60.00%</u> | 8.31% | <u>4.98%</u> |
| 3 | Total Capitalization | <u>100.00%</u> | | |
| 4 | WEIGHTED AVERAGE COST OF CAPITAL | | | <u>8.18%</u> |

References:

Columns (A) Thru (C): Testimony, WAR

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

| LINE NO. | DESCRIPTION | (A) | (B) | (C) | (D) | (E) | (F) |
|----------|-------------------------------------|---|-------------------|--------------------------------|------------------------------|-----------------------------|---------------------|
| | | TEST YEAR DETERMIN'TS Gallons In Thousands | ANN'ZED ADJUSTMTS | TEST YEAR ADJUSTED DETERMIN'TS | PRESENT CHARGES & USAGE FEES | TEST YEAR ADJUSTED REVENUES | TOTAL REVENUES |
| 1 | RESIDENTIAL CUSTOMERS | | | | | | |
| | 3/4" Meter | 15,212 | 1,132 | 16,344 | \$ 23.06 | \$ 4,522,796 | \$ 4,522,796 |
| | Commodity Usage | | | | | | |
| 2 | First Tier - First 4,000 Gals. | 157,703 | 54,312 | 212,015 | \$ 1.5240 | \$ 323,121 | |
| 3 | Second Tier - Next 6,000 Gals. | 575,393 | 35,724 | 611,117 | \$ 1.9859 | \$ 1,213,605 | |
| 4 | Third Tier - Over 10,000 Gals. | 668,195 | - | 668,195 | \$ 2.5503 | \$ 1,704,128 | |
| 5 | 1" Meter | 260 | 5 | 265 | \$ 38.43 | \$ 122,381 | \$ 3,240,854 |
| | Commodity Usage | | | | | | \$ 122,381 |
| 6 | First Tier - First 25,000 Gals. | 20,673 | 667 | 21,340 | \$ 1.9859 | \$ 42,378 | |
| 7 | Second Tier - Over 25,000 Gals. | 22,591 | - | 22,591 | \$ 2.5503 | \$ 57,615 | |
| 8 | 2" Meter | 1 | (0) | 1 | \$ 122.99 | \$ 1,024 | \$ 99,993 |
| | Commodity Usage | | | | | | \$ 1,024 |
| 9 | First Tier - First 80,000 Gals. | 79 | - | 79 | \$ 1.9859 | \$ 157 | |
| 10 | Second Tier - Over 80,000 Gals. | 3,762 | (406) | 3,356 | \$ 2.5503 | \$ 8,559 | |
| 11 | 3" Meter | 0 | (0) | - | \$ 245.98 | \$ - | \$ 8,716 |
| | Commodity Usage | | | | | | \$ - |
| 12 | First Tier - First 160,000 Gals. | - | - | - | \$ 1.9859 | \$ - | |
| 13 | Second Tier - Over 160,000 Gals. | - | - | - | \$ 2.5503 | \$ - | |
| 14 | Total Residential Customers | <u>15,473</u> | <u>1,137</u> | <u>16,610</u> | | | |
| 15 | Total Residential Usage | <u>1,448,397</u> | <u>90,296</u> | <u>1,538,693</u> | | | |
| 16 | TOTAL RESIDENTIAL CUSTOMERS REVENUE | | | | | | <u>\$ 7,995,764</u> |
| | COMMERCIAL CUSTOMERS | | | | | | |
| 17 | 3/4" Meter | 4 | 0 | 5 | \$ 23.06 | \$ 1,294 | \$ 1,294 |
| | Commodity Usage | | | | | | |
| 18 | First Tier - First 10,000 Gals. | 86 | (74) | 12 | \$ 1.9859 | \$ 24 | |
| 19 | Second Tier - Over 10,000 Gals. | 607 | - | 607 | \$ 2.5503 | \$ 1,548 | |
| 20 | 1" Meter | 6 | 1 | 7 | \$ 38.43 | \$ 3,025 | \$ 1,572 |
| | Commodity Usage | | | | | | \$ 3,025 |
| 21 | First Tier - First 25,000 Gals. | 409 | 63 | 472 | \$ 1.9859 | \$ 937 | |
| 22 | Second Tier - Over 25,000 Gals. | 2,192 | 213 | 2,405 | \$ 2.5503 | \$ 6,135 | |
| 23 | 1-1/2" Meter | 18 | (2) | 17 | \$ 76.87 | \$ 15,259 | \$ 7,072 |
| | Commodity Usage | | | | | | \$ 15,259 |
| 24 | First Tier - First 50,000 Gals. | 1,605 | (63) | 1,542 | \$ 1.9859 | \$ 3,062 | |
| 25 | Second Tier - Over 50,000 Gals. | 5,515 | (429) | 5,086 | \$ 2.5503 | \$ 12,971 | |
| 26 | 2" Meter | 26 | 5 | 31 | \$ 122.99 | \$ 46,133 | \$ 16,033 |
| | Commodity Usage | | | | | | \$ 46,133 |
| 27 | First Tier - First 80,000 Gals. | 3,499 | 420 | 3,919 | \$ 1.9859 | \$ 7,783 | |
| 28 | Second Tier - Over 80,000 Gals. | 43,206 | 6,673 | 49,879 | \$ 2.5503 | \$ 127,208 | |
| 29 | 3" Meter | 2 | - | 2 | \$ 245.98 | \$ 5,924 | \$ 134,991 |
| | Commodity Usage | | | | | | \$ 5,924 |
| 30 | First Tier - First 160,000 Gals. | - | - | - | \$ 1.9859 | \$ - | |
| 31 | Second Tier - Over 160,000 Gals. | 6,359 | - | 6,359 | \$ 2.5503 | \$ 16,217 | |
| 32 | 4" Meter | 2 | - | 2 | \$ 384.35 | \$ 8,660 | \$ 16,217 |
| | Commodity Usage | | | | | | \$ 8,660 |
| 33 | First Tier - First 250,000 Gals. | 360 | - | 360 | \$ 1.9859 | \$ 714 | |
| 34 | Second Tier - Over 250,000 Gals. | 2,649 | - | 2,649 | \$ 2.5503 | \$ 6,755 | |
| 35 | Total Commercial Customers | <u>59</u> | <u>4</u> | <u>63</u> | | | |
| 36 | Total Commercial Usage | <u>66,486</u> | <u>6,804</u> | <u>73,290</u> | | | |
| 37 | TOTAL COMMERCIAL CUSTOMERS REVENUE | | | | | | <u>\$ 263,648</u> |

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

| LINE NO. | DESCRIPTION | (A) | (B) | (C) | (D) | (E) | (F) |
|-----------------------------------|--|--|--------------------|--------------------------------|------------------------------|-----------------------------|---------------------|
| | | TEST YEAR DETERMINANTS Gallons In Thousands | ANN'ZED ADJUSTM'TS | TEST YEAR ADJUSTED DETERMIN'TS | PRESENT CHARGES & USAGE FEES | TEST YEAR ADJUSTED REVENUES | TOTAL REVENUES |
| PUBLIC AUTHORITY CUSTOMERS | | | | | | | |
| 38 | 3/4" Meter | - | - | - | \$ 23.06 | \$ - | \$ - |
| | Commodity Usage | | | | | | |
| 39 | First Tier - First 10,000 Gals. | - | - | - | \$ 1.9859 | \$ - | |
| 40 | Second Tier - Over 10,000 Gals. | - | - | - | \$ 2.5503 | \$ - | |
| 41 | 1" Meter | - | - | - | \$ 38.43 | \$ - | \$ - |
| | Commodity Usage | | | | | | |
| 42 | First Tier - First 10,000 Gals. | - | - | - | \$ 1.9859 | \$ - | |
| 43 | Second Tier - Over 10,000 Gals. | - | - | - | \$ 2.5503 | \$ - | |
| 44 | 1-1/2" Meter | - | - | - | \$ 76.87 | \$ - | \$ - |
| | Commodity Usage | | | | | | |
| 45 | First Tier - First 50,000 Gals. | - | - | - | \$ 1.9859 | \$ - | |
| 46 | Second Tier - Over 50,000 Gals. | - | - | - | \$ 2.5503 | \$ - | |
| 47 | 2" Meter | 8 | 1 | 9 | \$ 122.99 | \$ 12,898 | \$ 12,898 |
| | Commodity Usage | | | | | | |
| 48 | First Tier - First 80,000 Gals. | 1,869 | - | 1,869 | \$ 1.9859 | \$ 3,712 | |
| 49 | Second Tier - Over 80,000 Gals. | 1,636 | 201 | 1,837 | \$ 2.5503 | \$ 4,684 | \$ 8,396 |
| 50 | 3" Meter | 1 | - | 1 | \$ 245.98 | \$ 2,861 | \$ 2,861 |
| | Commodity Usage | | | | | | |
| 51 | First Tier - First 160,000 Gals. | 265 | - | 265 | \$ 1.9859 | \$ 526 | |
| 52 | Second Tier - Over 160,000 Gals. | 922 | - | 922 | \$ 2.5503 | \$ 2,351 | \$ 2,878 |
| 53 | 4" Meter | 1 | - | 1 | \$ 384.35 | \$ 4,237 | \$ 4,237 |
| | Commodity Usage | | | | | | |
| 54 | First Tier - First 250,000 Gals. | 1,110 | - | 1,110 | \$ 1.9859 | \$ 2,204 | |
| 55 | Second Tier - Over 250,000 Gals. | 1,420 | - | 1,420 | \$ 2.5503 | \$ 3,621 | \$ 5,826 |
| 56 | Total Public Authority Customers | <u>10</u> | <u>1</u> | <u>11</u> | | | |
| 57 | Total Public Authority Usage | <u>7,222</u> | <u>201</u> | <u>7,423</u> | | | |
| 58 | TOTAL PUBLIC AUTHORITY CUSTOMERS REVENUE | | | | | | <u>\$ 37,095</u> |
| IRRIGATION CUSTOMERS | | | | | | | |
| 59 | 3/4" Meter | 41 | 1 | 42 | \$ 23.06 | \$ 11,549 | \$ 11,549 |
| | Commodity Usage | | | | | | |
| 60 | First Tier - First 10,000 Gals. | 940 | (96) | 844 | \$ 1.9859 | \$ 1,676 | |
| 61 | Second Tier - Over 10,000 Gals. | 9,595 | - | 9,595 | \$ 2.5503 | \$ 24,471 | \$ 26,147 |
| 62 | 1" Meter | 50 | 4 | 55 | \$ 38.43 | \$ 25,203 | \$ 25,203 |
| | Commodity Usage | | | | | | |
| 63 | First Tier - First 25,000 Gals. | 3,087 | 266 | 3,353 | \$ 1.9859 | \$ 6,659 | |
| 64 | Second Tier - Over 25,000 Gals. | 36,814 | 696 | 37,510 | \$ 2.5503 | \$ 95,662 | \$ 102,321 |
| 65 | 1-1/2" Meter | 83 | 9 | 92 | \$ 76.87 | \$ 84,882 | \$ 84,882 |
| | Commodity Usage | | | | | | |
| 66 | First Tier - First 50,000 Gals. | 8,071 | 784 | 8,855 | \$ 1.9859 | \$ 17,585 | |
| 67 | Second Tier - Over 50,000 Gals. | 151,856 | 8,871 | 160,727 | \$ 2.5503 | \$ 409,908 | \$ 427,493 |
| 68 | 2" Meter | 77 | 8 | 85 | \$ 122.99 | \$ 125,000 | \$ 125,000 |
| | Commodity Usage | | | | | | |
| 69 | First Tier - First 80,000 Gals. | 8,681 | 658 | 9,339 | \$ 1.9859 | \$ 18,546 | |
| 70 | Second Tier - Over 80,000 Gals. | 381,324 | 24,772 | 406,096 | \$ 2.5503 | \$ 1,035,684 | \$ 1,054,230 |
| 71 | 3" Meter | 0 | 1 | 2 | \$ 245.98 | \$ 4,613 | \$ 4,613 |
| | Commodity Usage | | | | | | |
| 72 | First Tier - First 160,000 Gals. | - | - | - | \$ 1.9859 | \$ - | |
| 73 | Second Tier - Over 160,000 Gals. | - | - | - | \$ 2.5503 | \$ - | |
| 74 | 4" Meter | 2 | - | 2 | \$ 384.35 | \$ 8,094 | \$ 8,094 |
| | Commodity Usage | | | | | | |
| 75 | First Tier - First 250,000 Gals. | 2,113 | - | 2,113 | \$ 1.9859 | \$ 4,196 | |
| 76 | Second Tier - Over 250,000 Gals. | 7,919 | - | 7,919 | \$ 2.5503 | \$ 20,196 | \$ 24,392 |
| 77 | 6" Meter | 1 | - | 1 | \$ 768.70 | \$ 9,225 | \$ 9,225 |
| | Commodity Usage | | | | | | |
| 78 | First Tier - First 500,000 Gals. | 1,653 | - | 1,653 | \$ 1.9859 | \$ 3,283 | |
| 79 | Second Tier - Over 500,000 Gals. | - | - | - | \$ 2.5503 | \$ - | |
| 80 | Total Irrigation Customers | <u>254</u> | <u>24</u> | <u>277</u> | | | |
| 81 | Total Irrigation Usage | <u>612,053</u> | <u>35,951</u> | <u>648,003</u> | | | |
| 82 | TOTAL IRRIGATION CUSTOMERS REVENUE | | | | | | <u>\$ 1,906,433</u> |

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

| LINE NO. | DESCRIPTION | (A) | (B) | (C) | (D) | (E) | (F) |
|----------|---|--|-------------------|--------------------------------|------------------------------|-----------------------------|----------------|
| | | TEST YEAR DETERMINANTS Gallons In Thousands | ANNZED ADJUSTM'TS | TEST YEAR ADJUSTED DETERMIN'TS | PRESENT CHARGES & USAGE FEES | TEST YEAR ADJUSTED REVENUES | TOTAL REVENUES |
| 83 | CONSTRUCTION CUSTOMERS | | | | | | |
| | 3/4" Meter | - | - | - | \$ 23.06 | \$ - | \$ - |
| 84 | Commodity Usage | - | - | - | \$ 2.5503 | \$ - | \$ - |
| 86 | 1" Meter | - | - | - | \$ 38.43 | \$ - | \$ - |
| 87 | Commodity Usage | - | - | - | \$ 2.5503 | \$ - | \$ - |
| 89 | 1-1/2" Meter | - | - | - | \$ 76.87 | \$ - | \$ - |
| 90 | Commodity Usage | - | - | - | \$ 2.5503 | \$ - | \$ - |
| 92 | 2" Meter | - | - | - | \$ 122.99 | \$ - | \$ - |
| 93 | Commodity Usage | - | - | - | \$ 2.5503 | \$ - | \$ - |
| 95 | 3" Meter | 13 | - | 13 | \$ 245.98 | \$ 39,356 | \$ 39,356 |
| 96 | Commodity Usage | 39,930 | - | 39,930 | \$ 2.5503 | \$ 101,835 | \$ 101,835 |
| 98 | 4" Meter | - | - | - | \$ 384.35 | \$ - | \$ - |
| 99 | Commodity Usage | - | - | - | \$ 2.5503 | \$ - | \$ - |
| 101 | 6" Meter | 12 | - | 12 | \$ 768.70 | \$ 115,304 | \$ 115,304 |
| 102 | Commodity Usage | 154,448 | - | 154,448 | \$ 2.5503 | \$ 393,895 | \$ 393,895 |
| 104 | Total Construction Customers | <u>26</u> | <u>-</u> | <u>26</u> | | | |
| 105 | Total Construction Usage | <u>194,378</u> | <u>-</u> | <u>194,378</u> | | | |
| 106 | TOTALCONSTRUCTION CUSTOMERS REVENUE | | | | | <u>\$ 650,391</u> | |
| | CAP CUSTOMERS | | | | | | |
| 107 | 6" Meter | 1 | - | 1 | \$ 923.67 | \$ 6,918 | \$ 6,918 |
| 108 | Commodity Usage | 32,016 | - | 32,016 | \$ 0.83 | \$ 26,503 | \$ 26,503 |
| 109 | Total CAP Customers | <u>1</u> | <u>-</u> | <u>1</u> | | | |
| 110 | Total CAP Usage | <u>32,016</u> | <u>-</u> | <u>32,016</u> | | | |
| 111 | TOTAL CAP CUSTOMERS REVENUE | | | | | <u>\$ 33,421</u> | |
| 112 | TOTAL COMPANY CUSTOMER COUNT | <u>15,796</u> | <u>1,165</u> | <u>16,961</u> | | | |
| 113 | TOTAL COMPANY COMMODITY USAGE | <u>1,748,499</u> | <u>97,300</u> | <u>1,845,799</u> | | | |
| 114 | TOTAL RUCO PROPOSED REVENUE PER BILL COUNT | | | | | <u>\$ 10,886,753</u> | |
| 115 | Unreconciled Difference vs. Billed Revenues | | | | | 3,186 | |
| 116 | Other Revenues | | | | | 329,295 | |
| 117 | TOTAL REVENUE | | | | | <u>\$ 11,219,234</u> | |
| 118 | PROPOSED REVENUE PER RUCO | | | | | <u>\$ 11,219,234</u> | |
| 119 | Difference | | | | | (0) | |
| 120 | Percentage Difference | | | | | 0.00% | |

TYPICAL RESIDENTIAL BILL ANALYSIS

| LINE NO. | DESCRIPTION | (A) PRESENT | (B) | (C) COMPANY PROPOSED | (D) | (E) RUCO PROPOSED | (F) |
|---|--------------------------------|--------------------------------|--|----------------------------|--------------------------------|------------------------------|--------------------------------|
| REVENUE ALLOCATION | | | | | | | |
| 1 | RESIDENTIAL | \$ 8,986,698 | 74.13% | \$ 7,790,904 | 73.44% | \$ 7,995,764 | 73.44% |
| 2 | OTHER | \$ 3,135,896 | 25.87% | \$ 2,817,595 | 26.56% | \$ 2,890,989 | 26.56% |
| 3 | TOTAL | \$ 12,122,594 | 100.00% | \$ 10,608,499 | 100.00% | \$ 10,886,753 | 100.00% |
| ALLOCATION RATIOS | | | | | | | |
| 4 | FIX REVENUE | 6,438,743 | 53.11% | \$ 5,044,004 | 47.55% | \$ 5,176,636 | 47.55% |
| 5 | VARIABLE REVENUE | 5,683,851 | 46.89% | \$ 5,564,495 | 52.45% | \$ 5,710,117 | 52.45% |
| 6 | TOTAL | 12,122,594 | 100.00% | \$ 10,608,499 | 100.00% | \$ 10,886,753 | 100.00% |
| RESIDENTIAL (5/8" X 3/4") RATE DESIGN | | | | | | | |
| | | PRESENT | | COMPANY PROPOSED | | RUCO PROPOSED | |
| 7 | BASIC MONTHLY CHARGE | \$ 27.00 | | \$ 22.47 | | \$ 23.06 | |
| | | COMMODITY CHARGE | | | | | |
| | | PRESENT | PROPOSED | | | | |
| 8 | First Tier - First 7,000 Gals. | First Tier - First 4,000 Gals. | \$ 2.2500 | \$ 1.4850 | | \$ 1.5240 | |
| 9 | Second Tier - Over 7,000 Gals. | Second Tier - Next 6,000 Gals. | \$ 2.5000 | \$ 1.9350 | | \$ 1.9859 | |
| 10 | | Third Tier - Over 10,000 Gals. | N/A | \$ 2.4850 | | \$ 2.5503 | |
| RESIDENTIAL BILL COMPARISONS | | | | | | | |
| COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL | | | | | | | |
| | | | % OF AVERAGE MONTH USAGE OF 6,931 Gal. | PRESENT MONTHLY WATER COST | RUCO PROP'D MONTHLY WATER COST | RUCO PROP'D MONTHLY INCREASE | RUCO PROP'D MONTHLY % INCREASE |
| 11 | | 1,733 | 25.00% | \$ 30.90 | \$ 25.70 | \$ (5.20) | -16.82% |
| 12 | | 3,466 | 50.00% | \$ 34.80 | \$ 28.34 | \$ (6.45) | -18.55% |
| 13 | | 6,931 | 100.00% | \$ 42.59 | \$ 34.98 | \$ (7.62) | -17.88% |
| 14 | | 10,397 | 150.00% | \$ 51.24 | \$ 42.08 | \$ (9.16) | -17.87% |
| 15 | | 13,862 | 200.00% | \$ 59.91 | \$ 50.92 | \$ (8.98) | -15.00% |



TABLE OF CONTENTS TO RLM SCHEDULES

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| RLM-2 | 1 | RATE BASE |
| RLM-3 | 1 | SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS |
| RLM-4 | | (WATER ONLY) - NOT INCLUDED IN THIS FILING - NO ADJUSTMENT TO TEST-YEAR PLANT |
| RLM-5 | 1 | RATE BASE ADJUSTMENT NO. 1 - (WASTEWATER ONLY) - POST TEST-YEAR PLANT |
| TESTIMONY | | RATE BASE ADJUSTMENT NO. 2 - REINSTATE ACC. AMORT. ON CIAC ASSOCIATED WITH HOOK UP FEES |
| TESTIMONY | | RATE BASE ADJUSTMENT NO. 3 - REINSTATE CIAC ASSOCIATED WITH HOOK UP FEES |
| RLM-6 | | (WATER ONLY) - NOT INCLUDED IN THIS FILING - NO ADJUSTMENT FOR ALLOWANCE FOR WORKING CAPITAL |
| RLM-7 | 1 | OPERATING INCOME |
| RLM-8 | 1 | SUMMARY OF OPERATING INCOME ADJUSTMENTS |
| RLM-9 | 1 | OPERATING INCOME ADJUSTMENT NO. 1 - TEST YEAR DEPRECIATION EXPENSE |
| RLM-10 | 1 | OPERATING INCOME ADJUSTMENT NO. 2 - PROPERTY TAX COMPUTATION |
| TESTIMONY | | OPERATING INCOME ADJUSTMENT NO. 3 - REVENUE ADJUSTMENT |
| RLM-11 | 1 | OPERATING INCOME ADJUSTMENT NO. 4 RATE CASE EXPENSE |
| | | OPERATING INCOME ADJUSTMENT NO. 5 - (WATER ONLY) - INTENTIONALLY LEFT BLANK |
| RLM-12 | 1 | OPERATING INCOME ADJUSTMENT NO. 6 - UNNECESSARY EXPENSES |
| | | OPERATING INCOME ADJUSTMENT NO. 7 - (WATER ONLY) - INTENTIONALLY LEFT BLANK |
| TESTIMONY | | OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE |
| RLM-13 | 1 | COST OF CAPITAL |
| RLM-14 | 1 | RATE DESIGN AND PROOF OF RECOMMENDED REVENUE |
| RLM-15 | 1 | TYPICAL RESIDENTIAL BILL ANALYSIS |

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | (A) COMPANY OCRB/FVRB COST | (B) RUCO OCRB/FVRB COST |
|----------|---|-------------------------------------|----------------------------------|
| 1 | Original Cost Rate Base | \$ 19,149,173 | \$ 19,457,670 |
| 2 | Adjusted Operating Income (Loss) | \$ 592,491 | \$ 984,174 |
| 3 | Current Rate Of Return (L2 / L1) | 3.09% | 5.06% |
| 4 | Required Operating Income (L5 X L1) | \$ 1,997,259 | \$ 1,592,460 |
| 5 | Required Rate Of Return On Fair Value Rate Base | 10.43% | 8.18% |
| 6 | Operating Income Deficiency (L4 - L2) | \$ 1,404,768 | \$ 608,286 |
| 7 | Gross Revenue Conversion Factor (RLM-1, Page 2) | 1.5944 | 1.0000 |
| 8 | Increase In Gross Revenue Requirement (L7 X L6) | \$ 2,239,804 | \$ 608,286 |
| 9 | Adjusted Test Year Revenue | \$ 11,288,663 | \$ 11,354,014 |
| 10 | Proposed Annual Revenue (L8 + L9) | \$ 13,528,467 | \$ 11,962,300 |
| 11 | Required Percentage Increase In Revenue (L8 / L9) | 19.84% | 5.36% |
| 12 | Rate Of Return On Common Equity | 10.50% | 8.31% |

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-2, RLM-7, And RLM-13

RATE BASE - ORIGINAL COST

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) RUCO OCRB/FVRB ADJUSTMENTS | (C) RUCO ADJ'TED OCRB/FVRB |
|----------|---|---|---|-------------------------------------|
| 1 | Gross Utility Plant In Service | \$ 126,534,592 | \$ 689,382 | \$ 127,223,974 |
| 2 | Accumulated Depreciation | (7,923,684) | - | (7,923,684) |
| 3 | Net Utility Plant In Service (Sum L1 & L2) | <u>\$ 118,610,908</u> | <u>\$ 689,382</u> | <u>\$ 119,300,290</u> |
| 4 | Advances In Aid Of Const. | \$ (54,440,657) | \$ - | \$ (54,440,657) |
| 5 | Contribution In Aid Of Const. | \$ (46,007,904) | \$ (397,390) | \$ (46,405,294) |
| 6 | Accumulated Amortization Of CIAC | - | 16,505 | 16,505 |
| 7 | NET CIAC (L5 + L6) | <u>\$ (46,007,904)</u> | <u>\$ (380,885)</u> | <u>\$ (46,388,789)</u> |
| 8 | Customer Meter Deposits | \$ - | \$ - | \$ - |
| 9 | Deferred Income Taxes And Credits | \$ - | \$ - | \$ - |
| 10 | Investment Tax Credits | \$ - | \$ - | \$ - |
| 11 | Shared Gain On Well | \$ - | \$ - | \$ - |
| 12 | Prepayments | \$ - | \$ - | \$ - |
| 13 | Materials And Supplies | \$ - | \$ - | \$ - |
| 14 | Deferred Assets | \$ 986,826 | \$ - | \$ 986,826 |
| 15 | Allowance For Working Capital | \$ - | \$ - | \$ - |
| 16 | Rounding | \$ - | \$ - | \$ - |
| 17 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | <u>\$ 19,149,173</u> | <u>\$ 308,497</u> | <u>\$ 19,457,670</u> |

References:

- Column (A): Company Schedule B-1
- Column (B): Schedule RLM-3
- Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB | (B) ADJMT NO. 1 POST TEST YEAR PLANT | (C) ADJMT NO. 2 ACC AMORT ON (HUF) CIAC | (D) ADJMT NO. 3 REINSTATE (HUF) CIAC | (E) ADJMT NO. 4 LEFT BLANK | (F) ADJMT NO. 5 LEFT BLANK | (G) ADJMT NO. 6 LEFT BLANK | (H) RUCO ADJUSTED OCRB/FVRB |
|----------|---|------------------------------|---|--|---|-------------------------------|-------------------------------|-------------------------------|--------------------------------|
| 1 | Gross Utility Plant In Service | \$ 126,534,592 | \$ 689,382 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 127,223,974 |
| 2 | Accumulated Depreciation | (7,923,684) | - | - | - | - | - | - | (7,923,684) |
| 3 | Net Utility Plant In Service (Sum L1 & L3) | <u>\$ 118,610,908</u> | <u>\$ 689,382</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 119,300,290</u> |
| 4 | Advances In Aid Of Const. | \$ (54,440,657) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (54,440,657) |
| 5 | Contribution In Aid Of Const. | \$ (48,915,085) | \$ - | \$ (397,390) | \$ - | \$ - | \$ - | \$ - | \$ (49,312,475) |
| 6 | Accumulated Amortization Of CIAC | 2,907,181 | - | 16,505 | - | - | - | - | 2,923,687 |
| 7 | NET CIAC (L5 + L6) | <u>\$ (46,007,903)</u> | <u>\$ -</u> | <u>\$ 16,505</u> | <u>\$ (397,390)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (46,388,788)</u> |
| 8 | Customer Meter Deposits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 9 | Deferred Income Taxes And Credits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 10 | Investment Tax Credits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 11 | Shared Gain On Well | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 12 | Prepayments | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 13 | Materials And Supplies | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 14 | Deferred Assets | \$ 986,826 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 986,826 |
| 15 | Allowance For Working Capital | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 16 | Rounding | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (1) |
| 17 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | <u>\$ 19,149,174</u> | <u>\$ 689,382</u> | <u>\$ 16,505</u> | <u>\$ (397,390)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 19,457,670</u> |

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-5 And Testimony, RLM)
- Column (C): Adjustment No. 2 - Reverse Company's Adjustment To Remove The CIAC's Accumulated Amortization Associated With Unexpended Hook-Up Fees (See Testimony, RLM)
- Column (D): Adjustment No. 3 - Reverse Company's Adjustment To Remove The CIAC Associated With Unexpended Hook-Up Fees (See Testimony, RLM)
- Column (E): Adjustment No. 4 - Intentionally Left Blank
- Column (F): Adjustment No. 5 - Intentionally Left Blank
- Column (G): Adjustment No. 6 - Intentionally Left Blank
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 1
POST TEST-YEAR PLANT**

| LINE NO. | ACCT NO. | ACCOUNT NAME | (A) TEST-YEAR PLANT | (B) POST TY ADJUSTM'TS | (C) POST TY ADDITIONS | (D) PLANT RETIRM'TS | (E) POST TY PLANT VALUE |
|----------|----------|---|---------------------------|------------------------------|-----------------------------|---------------------------|-------------------------------|
| 1 | 351 | Organization | \$ - | \$ - | \$ - | \$ - | \$ - |
| 2 | 352 | Franchises | - | - | - | - | - |
| 3 | 353 | Land and Land Rights | 4,122,800 | - | - | - | 4,122,800 |
| 4 | 354 | Structures And Improvements | 453,663 | - | - | - | 453,663 |
| 5 | 355 | Power Generation Equipment | - | - | - | - | - |
| 6 | 360 | Collection Sewers - Force | 20,136,241 | - | 689,382 | - | 20,825,623 |
| 7 | 361 | Collection Sewers - Gravity | 24,287,592 | - | - | - | 24,287,592 |
| 8 | 362 | Special Collecting Structures | - | - | - | - | - |
| 9 | 363 | Services To Customers | - | - | - | - | - |
| 10 | 364 | Flow Measuring Devices | - | - | - | - | - |
| 11 | 365 | Flow Measuring Installations | - | - | - | - | - |
| 12 | 370 | Receiving Wells | - | - | - | - | - |
| 13 | 371 | Pumping Equipment | 7,613,724 | - | - | - | 7,613,724 |
| 14 | 375 | Reuse T & D | 958,645 | - | - | - | 958,645 |
| 15 | 380 | Treatment And Disposal Equipment | - | - | - | - | - |
| 16 | 381 | Plant Sewers | 66,277,037 | - | - | - | 66,277,037 |
| 17 | 382 | Outfall Sewer Lines | - | - | - | - | - |
| 18 | 389 | Other Plant And Miscellaneous Equipment | - | - | - | - | - |
| 19 | 390 | Office Furniture And Equipment | - | - | - | - | - |
| 20 | 391 | Transportation Equipment | - | - | - | - | - |
| 21 | 393 | Tools, Shop And Garage Equipment | - | - | - | - | - |
| 22 | 394 | Laboratory Equipment | - | - | - | - | - |
| 23 | 395 | Power Operated Equipment | - | - | - | - | - |
| 24 | 398 | Other Tangible Plant | - | - | - | - | - |
| 25 | | TOTAL WASTEWATER PLANT | <u>\$ 123,849,702</u> | <u>\$ -</u> | <u>\$ 689,382</u> | <u>\$ -</u> | <u>\$ 124,539,084</u> |
| 26 | | Company As Filed | <u>123,849,702</u> | | | | <u>123,849,702</u> |
| 27 | | Difference | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 689,382</u> | <u>\$ -</u> | <u>\$ 689,382</u> |

References:

- Column (A): Company Schedules B-2 And Its Response To Staff Data Request 4-6
- Column (B): No Adjustments
- Column (C): Company Response To Staff Data Request 4-6
- Column (D): No Adjustments
- Column (E): Sum Of Columns (A) Thru (D)

OPERATING INCOME

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED | (B) RUCO TEST YEAR ADJMT'S | (C) RUCO TEST YEAR AS ADJ'TED | (D) RUCO PROP'D CHANGES | (E) RUCO AS RECOMM'D |
|----------------------------|-----------------------------------|-------------------------------|-------------------------------------|--|----------------------------------|-------------------------------|
| Revenues: | | | | | | |
| 1 | Flate Rate Revenues | \$ 10,786,457 | \$ 65,351 | \$ 10,851,808 | \$ 608,286 | \$ 11,460,094 |
| 2 | Misc. Service Revenues | - | - | - | - | - |
| 3 | Other Wastewater Revenues | 502,206 | - | 502,206 | - | 502,206 |
| 4 | TOTAL OPERATING REVENUE | \$ 11,288,663 | \$ 65,351 | \$ 11,354,014 | \$ 608,286 | \$ 11,962,300 |
| Operating Expenses: | | | | | | |
| 5 | Salaries And Wages | \$ - | \$ - | \$ - | \$ - | \$ - |
| 6 | Purchased Wastewater Treatment | - | - | - | - | - |
| 7 | Sludge Removal Expense | 286,429 | - | 286,429 | - | 286,429 |
| 8 | Purchased Power | 688,557 | - | 688,557 | - | 688,557 |
| 9 | Fuel For Power Production | - | - | - | - | - |
| 10 | Chemicals | 147,196 | - | 147,196 | - | 147,196 |
| 11 | Materials And Supplies | 32,762 | - | 32,762 | - | 32,762 |
| 12 | Contractual Services | 4,826,240 | - | 4,826,240 | - | 4,826,240 |
| 13 | Repairs And Maintenance | 116,474 | - | 116,474 | - | 116,474 |
| 14 | Rents | 48,151 | - | 48,151 | - | 48,151 |
| 15 | Transportation Expenses | - | - | - | - | - |
| 16 | Insurance | 21,039 | - | 21,039 | - | 21,039 |
| 18 | Regulatory Comm. Exp. - Rate Case | 33,333 | (13,333) | 20,000 | - | 20,000 |
| 19 | Miscellaneous Expense | 231,593 | 924 | 232,517 | - | 232,517 |
| 20 | Depreciation Expense | 3,142,068 | 13,788 | 3,155,856 | - | 3,155,856 |
| 21 | Taxes Other Than Income | 6,525 | - | 6,525 | - | 6,525 |
| 22 | Property Taxes | 785,281 | 2,813 | 788,094 | - | 788,094 |
| 23 | Income Tax | 330,522 | (330,522) | - | - | - |
| 24 | Rounding | 2 | - | - | - | - |
| 25 | TOTAL OPERATING EXPENSES | \$ 10,696,172 | \$ (326,330) | \$ 10,369,840 | \$ - | \$ 10,369,840 |
| 26 | OPERATING INCOME (LOSS) | \$ 592,491 | \$ 391,681 | \$ 984,174 | \$ 608,286 | \$ 1,592,460 |

References:

- Column (A): Company Schedule C-1
- Column (B): RLM-8, Columns (B) Thru (I)
- Column (C): Column (A) + Column (B)
- Column (D): RLM-1
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS
 TEST YEAR AS FILED AND ADJUSTMENTS

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED | (B) ADJMT NO. 1 DERECIATN & AMORTIZN | (C) ADJMT NO. 2 PROPERTY TAX | (D) ADJMT NO. 3 REVENUE ADJUSTMENT | (E) ADJMT NO. 4 RATE CASE EXPENSE | (F) ADJMT NO. 5 LEFT BLANK | (G) ADJMT NO. 6 UNNECESSY EXPENSE | (H) ADJMT NO. 7 LEFT BLANK | (I) ADJMT NO. 8 INCOME TAX | (J) RUCO AS ADJTD |
|----------|---|-------------------------|--|------------------------------------|--|---|----------------------------------|---|----------------------------------|----------------------------------|----------------------|
| 1 | Revenues: Fate Rate Revenues | \$ 10,786,457 | - | - | \$ 65,351 | - | - | - | - | - | \$ 10,851,808 |
| 2 | Misc. Service Revenues | 502,206 | - | - | - | - | - | - | - | - | 502,206 |
| 3 | Other Wastewater Revenues | 11,288,663 | - | - | 65,351 | - | - | - | - | - | 11,354,014 |
| 4 | TOTAL OPERATING REV. | | | | | | | | | | |
| 5 | Operating Expenses: Salaries And Wages | \$ - | - | - | - | - | - | - | - | - | \$ - |
| 6 | Purchased Wastewater Treatment | - | - | - | - | - | - | - | - | - | - |
| 7 | Sludge Removal Expense | 286,429 | - | - | - | - | - | - | - | - | 286,429 |
| 8 | Purchased Power | 688,557 | - | - | - | - | - | - | - | - | 688,557 |
| 9 | Fuel For Power Production | - | - | - | - | - | - | - | - | - | - |
| 10 | Chemicals | 147,196 | - | - | - | - | - | - | - | - | 147,196 |
| 11 | Materials And Supplies | 32,762 | - | - | - | - | - | - | - | - | 32,762 |
| 12 | Contractual Services | 4,826,240 | - | - | - | - | - | - | - | - | 4,826,240 |
| 13 | Repairs And Maintenance | 116,474 | - | - | - | - | - | - | - | - | 116,474 |
| 14 | Rents | 48,151 | - | - | - | - | - | - | - | - | 48,151 |
| 15 | Transportation Expenses | - | - | - | - | - | - | - | - | - | - |
| 16 | Insurance | 21,039 | - | - | - | - | - | - | - | - | 21,039 |
| 18 | Regulatory Comm. Exp. - Rate Case | 33,333 | - | - | - | (13,333) | - | - | - | - | 20,000 |
| 19 | Miscellaneous Expense | 231,593 | - | - | - | - | - | 924 | - | - | 232,517 |
| 20 | Depreciation Expense | 3,142,068 | 13,788 | - | - | - | - | - | - | - | 3,155,856 |
| 21 | Taxes Other Than Income | 6,525 | - | - | - | - | - | - | - | - | 6,525 |
| 22 | Property Taxes | 785,281 | - | 2,813 | - | - | - | - | - | - | 788,094 |
| 23 | Income Tax | 330,522 | - | - | - | - | - | - | - | (330,522) | - |
| 24 | Rounding | 2 | - | - | - | - | - | - | - | - | - |
| 25 | TOTAL OPERATING EXP. | \$ 10,696,172 | \$ 13,788 | \$ 2,813 | \$ - | \$ (13,333) | \$ - | \$ 924 | \$ - | \$ (330,522) | \$ 10,369,840 |
| 26 | OPERATING INC. (LOSS) | \$ 592,491 | | | | | | | | | \$ 924,174 |

ADJUSTMENTS:

- 1 Depreciation And Amortization Expense
- 2 Property Tax Computation
- 3 Revenue Adjustment
- 4 Rate Case Expense
- 5 Intentionally Left Blank
- 6 Unnecessary Expenses
- 7 Intentionally Left Blank
- 8 Income Tax

REFERENCE:

- Testimony, RLM And Schedule RLM-9
- Testimony, RLM And Schedule RLM-10
- Testimony, RLM
- Testimony, RLM And Schedule RLM-11
- Testimony, RLM And Schedule RLM-12
- Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
TEST YEAR DEPRECIATION EXPENSE**

| LINE NO. | ACCOUNT NO. | ACCOUNT NAME | (A) TOTAL PLANT VALUE | (B) COMPANY PROPOSED DEP. RATES | (C) TEST YEAR DEPRECIATION EXPENSE |
|----------|-------------|--|--------------------------|------------------------------------|---------------------------------------|
| 1 | 351 | Organization | \$ - | 0.00% | \$ - |
| 2 | 352 | Franchises | - | 0.00% | - |
| 3 | 353 | Land and Land Rights | 4,122,800 | 0.00% | - |
| 4 | 354 | Structures And Improvements | 453,663 | 3.33% | 15,107 |
| 5 | 355 | Power Generation Equipment | - | 5.00% | - |
| 6 | 360 | Collection Sewers - Force | 20,825,623 | 2.00% | 416,512 |
| 7 | 361 | Collection Sewers - Gravity | 24,287,592 | 2.00% | 485,752 |
| 8 | 362 | Special Collecting Structures | - | 2.00% | - |
| 9 | 363 | Services To Customers | - | 2.00% | - |
| 10 | 364 | Flow Measuring Devices | - | 10.00% | - |
| 11 | 365 | Flow Measuring Installations | - | 10.00% | - |
| 12 | 370 | Receiving Wells | - | 3.33% | - |
| 13 | 371 | Pumping Equipment | 7,613,724 | 12.50% | 951,716 |
| 14 | 375 | Reuse T & D | 958,645 | 2.50% | 23,966 |
| 15 | 380 | Treatment And Disposal Equipment | - | 5.00% | - |
| 16 | 381 | Plant Sewers | 66,277,037 | 5.00% | 3,313,852 |
| 17 | 382 | Outfall Sewer Lines | - | 3.33% | - |
| 18 | 389 | Other Plant And Miscellaneous Equipment | - | 6.67% | - |
| 19 | 390 | Office Furniture And Equipment | - | 20.00% | - |
| 20 | 391 | Transportation Equipment | - | 20.00% | - |
| 21 | 393 | Tools, Shop And Garage Equipment | - | 5.00% | - |
| 22 | 394 | Laboratory Equipment | - | 10.00% | - |
| 23 | 395 | Power Operated Equipment | - | 5.00% | - |
| 24 | 398 | Other Tangible Plant | - | 10.00% | - |
| 25 | | TOTAL TEST-YEAR GROSS PLANT AND DEPRECIATION EXPENSE | <u>\$ 124,539,084</u> | | <u>\$ 5,206,905</u> |
| 26 | | AMORTIZATION OF CONTRIBUTIONS | | | (2,051,049) |
| 27 | | Rounding | | | - |
| 28 | | TOTAL DEPRECIATION EXPENSE | | | <u>\$ 3,155,856</u> |
| 29 | | Company As Filed | | | 3,142,068 |
| 30 | | Difference | | | <u>\$ 13,788</u> |
| 31 | | RUCO Adjustment (See RLM-8, Column (B)) | | | <u>\$ 13,788</u> |

References:

- Column (A): RLM-5, Column (E)
- Column (B): Company Workpapers
- Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
PROPERTY TAX COMPUTATION**

| LINE NO. | DESCRIPTION | REFERENCE | (A) | (B) |
|--|--|---------------------------|---------------|---------------|
| Calculation Of The Company's Full Cash Value: | | | | |
| Annual Operating Revenues: | | | | |
| 1 | Adjusted Revenues In Year Ended December 2007 | Sch. RLM-6, Col (C), Ln 4 | \$ 11,354,014 | |
| 2 | Adjusted Revenues In Year Ended December 2007 | Sch. RLM-6, Col (C), Ln 4 | 11,354,014 | |
| 3 | Proposed Revenues | Sch. RLM-6, Col (D), Ln 4 | 13,528,467 | |
| 4 | Total Three Year Operating Revenues | Sum Of Lines 1, 2 & 3 | \$ 36,236,495 | |
| 5 | Average Annual Operating Revenues | Line 4 / 3 | 12,078,832 | |
| 6 | Two Times Three Year Average Operating Revenues | Line 5 X 2 | | \$ 24,157,663 |
| ADD: | | | | |
| 10% Of Construction Work In Progress ("CWIP"): | | | | |
| 7 | Test Year CWIP | Company Workpapers | \$ - | |
| 8 | 10% Of CWIP | Line 7 X 10% | | \$ - |
| SUBTRACT: | | | | |
| Transportation At Book Value: | | | | |
| 9 | Original Cost Of Transportation Equipment | Company Workpapers | \$ - | |
| 10 | Acc. Dep. Of Transportation Equipment | Company Workpapers | - | |
| 11 | Book Value Of Transportation Equipment | Line 9 + Line 10 | | \$ - |
| 12 | Company's Full Cash Value ("FCV") | Sum Of Lines 6, 8 & 11 | | \$ 24,157,663 |
| Calculation Of The Company's Tax Liability: | | | | |
| MULTIPLY: | | | | |
| FCV X Valuation Assessment Ratio X Property Tax Rates: | | | | |
| 13 | Assessment Ratio | House Bill 2779 | 23.0% | |
| 14 | Assessed Value | Line 12 X Line 13 | \$ 5,556,263 | |
| Property Tax Rates: | | | | |
| 15 | Primary Tax Rate | Company Workpapers | 14.04% | |
| 16 | Secondary Tax Rate | Company Workpapers | 0.00% | |
| 17 | Estimated Tax Rate Liability | Line 15 + Line 16 | 14.04% | |
| | Property Tax | | | \$ 779,986 |
| | Tax On Parcel | | | 8,108 |
| 18 | Company's Total Tax Liability - Based On Full Cash Value | Line 14 X Line 17 | | \$ 788,094 |
| 19 | Test Year Adjusted Property Tax Expense As Filed | Co. Sch. C-1 | | 785,281 |
| 20 | Decrease In Property Tax Expense | Line 18 - Line 19 | | \$ 2,813 |
| 21 | RUCO Adjustment (See RLM-8, Column (C)) | Line 20 | | \$ 2,813 |

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4
RATE CASE EXPENSE**

| LINE NO. | DESCRIPTION | (A) COMPANY ESTIMATE | (B) RUCO ADJUSTMENT | (C) RUCO AS ADJUSTED |
|----------|---|----------------------------|---------------------------|----------------------------|
| 1 | Rate Case Expense Total | \$ 200,000 | \$ - | \$ 200,000 |
| 2 | Allocation Factor (See NOTE Below) | | | 50.00% |
| 3 | Wastewater District (Line 1 X Line 2) | | | \$ 100,000 |
| 4 | Amortization Period - 5 Years | | | 5 |
| 5 | RUCO Adjusted Rate Case Expense For Instant Case (Line 3 / 5 Years) | | | \$ 20,000 |
| 6 | Company Rate Case Expenses As Filed (Company Sch. C-2) | | | \$ 33,333 |
| 7 | RUCO Pro Forma Rate Case Expense (Lines 5 - 6) | | | \$ (13,333) |
| 8 | RUCO Adjustment (Line 7) (See RLM-8, Column (E)) | | | \$ (13,333) |

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 6
 UNNECESSARY EXPENSES**

| LINE NO. | DESCRIPTION | REFERENCE | (A) RUCO AS ADJUSTED |
|-------------------------------------|--|-------------------------------|----------------------------|
| SPLIT ACCOUNT | | | |
| 1 | Miscellaneous - Sponsorships | Co. Response To Staff DR 1-32 | \$ 1,850 |
| 2 | Allocation Factor | Co. Workpapers | 46.12% |
| 3 | Wastewater District - Miscellaneous | Lines 1 X 2 | <u>\$ 853</u> |
| WASTEWATER DISTRICT SPECIFIC | | | |
| 4 | Miscellaneous - Food & Beverages | Co. Response To Staff DR 1-33 | \$ 71 |
| 5 | RUCO Test-Year Disallowance Of Unnecessary Expense | Sum Of Lines 3 & 4 | <u>\$ 924</u> |
| 6 | RUCO Adjustment (See RLM-8, Column (G)) | Line 5 | <u><u>\$ 924</u></u> |

COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) CAPITAL RATIO | (B) COST | (C) WEIGHTED COST RATE |
|----------|----------------------------------|----------------------|-------------|---------------------------|
| 1 | Long -Term Debt | 40.00% | 8.00% | 3.20% |
| 2 | Common Equity | <u>60.00%</u> | 8.31% | <u>4.98%</u> |
| 3 | Total Capitalization | <u>100.00%</u> | | |
| 4 | WEIGHTED AVERAGE COST OF CAPITAL | | | <u>8.18%</u> |

References:

Columns (A) Thru (C): Testimony, WAR

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

| LINE NO. | DESCRIPTION | (A) TEST YEAR DETERMINTS | (B) ANN'ZED ADJUSTM'TS | (C) TEST YEAR ADJUSTED DETERMINTS | PRESENT CHARGES & USAGE FEES | (E) TEST YEAR ADJUSTED REVENUES | (F) TOTAL REVENUES |
|-----------------------------------|---|--------------------------------|------------------------------|--|------------------------------------|--|--------------------------|
| RESIDENTIAL CUSTOMERS | | | | | | | |
| 1 | 3/4" Meter | 21,448 | 1,476 | 22,924 | \$ 40.92 | \$ 11,257,068 | \$ 11,257,068 |
| 2 | 1" Meter | 77 | 6 | 83 | \$ 52.09 | \$ 51,883 | \$ 51,883 |
| 3 | 2" Meter | 0 | 0 | 0 | \$ 107.89 | \$ - | \$ - |
| 4 | 3" Meter | 0 | 1 | 1 | \$ 409.26 | \$ 4,911 | \$ 4,911 |
| 5 | Total Residential Customers | <u>21,525</u> | <u>1,483</u> | <u>23,008</u> | | | |
| 6 | TOTAL RESIDENTIAL CUSTOMERS REVENUE | | | | | | <u>\$ 11,313,862</u> |
| COMMERCIAL CUSTOMERS | | | | | | | |
| 7 | 3/4" Meter | 5 | 1 | 5 | \$ 40.92 | \$ 2,455 | \$ 2,455 |
| 8 | 1" Meter | 5 | 1 | 6 | \$ 52.09 | \$ 3,751 | \$ 3,751 |
| 9 | 1-1/2" Meter | 30 | -4 | 26 | \$ 66.97 | \$ 20,895 | \$ 20,895 |
| 10 | 2" Meter | 25 | 5 | 30 | \$ 107.89 | \$ 38,842 | \$ 38,842 |
| 11 | 3" Meter | 1 | 0 | 1 | \$ 409.26 | \$ 4,911 | \$ 4,911 |
| 12 | 4" Meter | 2 | 0 | 2 | \$ 781.31 | \$ 18,751 | \$ 18,751 |
| 13 | Total Commercial Customers | <u>68</u> | <u>2</u> | <u>70</u> | | | |
| 14 | TOTAL COMMERCIAL CUSTOMERS REVENUE | | | | | | <u>\$ 89,605</u> |
| PUBLIC AUTHORITY CUSTOMERS | | | | | | | |
| 15 | 3/4" Meter | 1 | 0 | 1 | \$ 40.92 | \$ 491 | \$ 491 |
| 16 | 1" Meter | 0 | 0 | 0 | \$ 52.09 | \$ - | \$ - |
| 17 | 1-1/2" Meter | 0 | 0 | 0 | \$ 66.97 | \$ - | \$ - |
| 18 | 2" Meter | 7 | 0 | 7 | \$ 107.89 | \$ 9,495 | \$ 9,495 |
| 19 | 3" Meter | 1 | 0 | 1 | \$ 409.26 | \$ 4,911 | \$ 4,911 |
| 20 | 4" Meter | 1 | 0 | 1 | \$ 781.31 | \$ 9,376 | \$ 9,376 |
| 21 | Total Public Authority Customers | <u>10</u> | <u>0</u> | <u>10</u> | | | |
| 22 | TOTAL PUBLIC AUTHORITY CUSTOMERS REVENUE | | | | | | <u>\$ 24,273</u> |
| EFFLUENT CUSTOMERS | | | | | | | |
| 23 | 6" Meter | 0 | 0 | 0 | \$ - | \$ - | \$ - |
| 24 | Commodity Usage | 53,489 | 0 | 53,489 | \$ 0.62 | \$ 33,163 | \$ 33,163 |
| 25 | Total Effluent Customers | <u>0</u> | <u>0</u> | <u>0</u> | | | |
| 26 | Total Effluent Usage | <u>53,489</u> | <u>0</u> | <u>53,489</u> | | | |
| 27 | TOTAL COMPANY CUSTOMER COUNT | <u>21,603</u> | <u>1,485</u> | <u>23,088</u> | | | |
| 28 | TOTAL COMPANY EFFLUENT SALES | <u>53,489</u> | <u>0</u> | <u>53,489</u> | | | |
| 29 | TOTAL EFFLUENT CUSTOMERS REVENUE | | | | | | <u>\$ 33,163</u> |
| 30 | TOTAL RUCO PROPOSED REVENUE PER BILL COUNT | | | | | | <u>\$ 11,460,902</u> |
| 31 | Unreconciled Difference vs. Billed Revenues | | | | | | (809) |
| 32 | Other Revenues | | | | | | 502,206 |
| 33 | TOTAL REVENUE | | | | | | <u>\$ 11,962,300</u> |
| 34 | PROPOSED REVENUE PER RUCO | | | | | | <u>\$ 11,962,300</u> |
| 35 | Difference | | | | | | \$ (0) |
| 36 | Percentage Difference | | | | | | 0.00% |

TYPICAL RESIDENTIAL BILL ANALYSIS

| LINE NO. | DESCRIPTION | (A) PRESENT | (B) % | (C) COMPANY PROPOSED | (D) % | (E) RUCO PROPOSED | (F) % |
|--|-----------------------------|----------------------------|----------------|-----------------------------------|----------------|---------------------------------------|----------------|
| REVENUE ALLOCATION | | | | | | | |
| 1 | RESIDENTIAL | \$ 9,955,813 | 98.65% | \$ 12,864,422 | 98.75% | \$ 11,313,862 | 98.72% |
| 2 | OTHER | 136,707 | 1.35% | 162,648 | 1.25% | 147,041 | 1.28% |
| 3 | TOTAL | <u>\$ 10,092,520</u> | <u>100.00%</u> | <u>\$ 13,027,070</u> | <u>100.00%</u> | <u>\$ 11,460,902</u> | <u>100.00%</u> |
| ALLOCATION RATIOS | | | | | | | |
| 4 | FIX REVENUE | \$ 10,059,357 | 99.67% | \$ 12,993,907 | 99.75% | \$ 11,427,739 | 99.71% |
| 5 | VARIABLE REVENUE | 33,163 | 0.33% | 33,163 | 0.25% | 33,163 | 0.29% |
| 6 | TOTAL | <u>\$ 10,092,520</u> | <u>100.00%</u> | <u>\$ 13,027,070</u> | <u>100.00%</u> | <u>\$ 11,460,902</u> | <u>100.00%</u> |
| RESIDENTIAL (5/8" X 3/4") RATE DESIGN | | | | | | | |
| | | <u>PRESENT</u> | | <u>COMPANY PROPOSED</u> | | <u>RUCO PROPOSED</u> | |
| 7 | BASIC MONTHLY CHARGE | \$ 38.50 | | \$ 46.53 | | \$ 40.92 | |
| COMMODITY CHARGE | | | | | | | |
| | | <u>PRESENT</u> | | <u>PROPOSED</u> | | | |
| 8 | Flat Rate | \$ - | | \$ - | | \$ - | |
| 9 | Effluent - Per 1,00 Gallons | \$ 0.62 | | \$ 0.62 | | \$ 0.62 | |
| RESIDENTIAL BILL COMPARISONS | | | | | | | |
| | | <u>MONTHLY CONSUMPTION</u> | | <u>PRESENT MONTHLY WATER COST</u> | | <u>RUCO PROP'D MONTHLY WATER COST</u> | |
| | | | | <u>INCREASE</u> | | <u>% INCREASE</u> | |
| 10 | Flat Rate | | | \$ 38.50 | \$ 40.92 | \$ 2.42 | 6.29% |

JOHNSON UTILITIES, L.L.C.

DOCKET NO. WS-02987A-08-0180

**DIRECT TESTIMONY
ON COST OF CAPITAL**

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

FEBRUARY 4, 2009

| | | |
|----|---|----|
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1 **INTRODUCTION**

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

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

6
7 Q. Please describe your qualifications in the field of utilities regulation and
8 your educational background.

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

22

23

1 Q. What is the purpose of your testimony?

2 A. The purpose of my testimony is to present recommendations that are
3 based on my analysis of Johnson Utilities Utilities, L.L.C.'s ("Johnson
4 Utilities Utilities" or "Company") application for a permanent rate increase
5 ("Application") for the Company's Water and Wastewater operations in
6 Pinal County, Arizona. Johnson Utilities Utilities filed the Application with
7 the ACC on March 31, 2008. The Company has chosen the operating
8 period ended December 31, 2007 for the test year ("Test Year") in this
9 proceeding.

10

11 Q. Briefly describe Johnson Utilities' operations in Arizona.

12 A. Johnson Utilities is organized as a limited liability company which was
13 organized under the laws of Arizona. According to the Company's
14 Application, Johnson Utilities provided water service to approximately
15 17,190 customers (of which roughly 97.0 percent were residential
16 ratepayers) and wastewater service to approximately 21,603 (of which
17 roughly 97.0 percent were residential ratepayers) customers during the
18 Test Year.

19

20 Q. Please explain your role in RUCO's analysis of Johnson Utilities's
21 Application.

22 A. I reviewed Johnson Utilities' Application and performed a cost of capital
23 analysis to determine a fair rate of return on the Company's invested

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

8
9 Q. Were you also responsible for conducting an analysis on the Company's
10 proposed revenue level, rate base and rate design?

11 A. No. RUCO witness Rodney L. Moore handled those aspects of the
12 Company's Application.

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

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

16
17 Q. Please identify the exhibits that you are sponsoring.

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

19
20 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

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

22 A. My cost of capital testimony is organized into seven sections. First, the
23 introduction I have just presented and second, the summary of my

1 testimony that I am about to give. Third, I will present the findings of my
2 cost of equity capital analysis, which utilized both the discounted cash flow
3 (“DCF”) method, and the capital asset pricing model (“CAPM”). These are
4 the two methods that RUCO and ACC Staff have consistently used for
5 calculating the cost of equity capital in rate case proceedings in the past,
6 and are the methodologies that the ACC has given the most weight to in
7 setting allowed rates of returns for utilities that operate in the Arizona
8 jurisdiction. In this third section I will also provide a brief overview of the
9 current economic climate that Johnson Utilities is operating in. Fourth, I
10 will discuss my recommended cost of long-term debt. Fifth, I will compare
11 my recommended capital structure with the Company-proposed capital
12 structure. Sixth, I will explain my weighted cost of capital recommendation
13 and seventh, I will comment on Johnson Utilities' cost of capital testimony.
14 Schedules WAR-1 through WAR-9 will provide support for my cost of
15 capital analysis.

16
17 Q. Please summarize the recommendations and adjustments that you will
18 address in your testimony.

19 A. Based on the results of my analysis of Johnson Utilities, I am making the
20 following recommendations:

21
22 Cost of Equity Capital – I am recommending an 8.31 percent cost of equity
23 capital to be applied to the Company's fair value rate base (“FVRB”). This

1 8.31 percent figure is based on the results that I obtained in my cost of
2 equity analysis, which employed both the DCF and CAPM methodologies.

3
4 Cost of Long-Term Debt – I am recommending an 8.00 percent cost of
5 long-term debt. This is based on my review of the costs associated with
6 Johnson Utilities' only loan agreement.

7
8 Capital Structure – I am recommending that a hypothetical capital
9 structure, comprised of 40.00 percent long-term debt and 60.00 percent
10 common equity, be adopted by the Commission.

11
12 Weighted Average Cost of Capital – Based on the results of my
13 recommended capital structure, cost of common equity, and long-term
14 debt analyses, I am recommending an 8.18 percent weighted average
15 cost of capital for Johnson Utilities. This figure represents the weighted
16 cost of my recommended costs of long-term debt and common equity.

17
18 Q. Why do you believe that your recommended 8.18 percent cost of capital is
19 an appropriate rate of return for Johnson Utilities to earn on its invested
20 capital?

21 A. The 8.18 percent cost of capital figure that I have recommended meets
22 the criteria established in the landmark Supreme Court cases of Bluefield
23 Water Works & Improvement Co. v. Public Service Commission of West

1 Virginia (262 U.S. 679, 1923) and Federal Power Commission v. Hope
2 Natural Gas Company (320 U.S. 391, 1944). Simply stated, these two
3 cases affirmed that a public utility that is efficiently and economically
4 managed is entitled to a return on investment that instills confidence in its
5 financial soundness, allows the utility to attract capital, and also allows the
6 utility to perform its duty to provide service to ratepayers. The rate of
7 return adopted for the utility should also be comparable to a return that
8 investors would expect to receive from investments with similar risk.

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

15
16 Q. Do the Bluefield and Hope decisions indicate that a rate of return sufficient
17 to cover all operating and capital costs is guaranteed?

18 A. No. Neither case *guarantees* a rate of return on utility investment. What
19 the Bluefield and Hope decisions *do allow*, is for a utility to be provided
20 with the *opportunity* to earn a reasonable rate of return on its investment.
21 That is to say that a utility, such as Johnson Utilities, is provided with the
22 opportunity to earn an appropriate rate of return if the Company's

1 management exercises good judgment and manages its assets and
2 resources in a manner that is both prudent and economically efficient.

3

4 **COST OF EQUITY CAPITAL**

5 Q. What is your final recommended cost of equity capital for Johnson
6 Utilities?

7 A. I am recommending a cost of equity of 8.31 percent. My recommended
8 8.31 percent cost of equity figure represents the 8.31 percent mean
9 average of the results of my DCF and CAPM analyses, which utilized both
10 a sample of publicly traded water providers and a sample of publicly
11 traded natural gas local distribution companies ("LDC"). This calculation is
12 exhibited on page 2 of my Schedule WAR-1.

13

14 **Discounted Cash Flow (DCF) Method**

15 Q. Please explain the DCF method that you used to estimate Johnson
16 Utilities' cost of equity capital.

17 A. The DCF method employs a stock valuation model known as the constant
18 growth valuation model, that bears the name of Dr. Myron J. Gordon (i.e.
19 the Gordon model), the professor of finance who was responsible for its
20 development. Simply stated, the DCF model is based on the premise that
21 the current price of a given share of common stock is determined by the
22 present value of all of the future cash flows that will be generated by that
23 share of common stock. The rate that is used to discount these cash

1 flows back to their present value is often referred to as the investor's cost
2 of capital (i.e. the cost at which an investor is willing to forego other
3 investments in favor of the one that he or she has chosen).

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

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

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

16 $\frac{D_1}{P_0}$ = the dividend yield of a given share of stock calculated

17 by dividing the expected dividend by the current market

18 price of the given share of stock, and

19 g = the expected rate of future dividend growth
20

1 This formula is the basis for the standard growth valuation model that I
2 used to determine Johnson Utilities' cost of equity capital.

3
4 Q. In determining the rate of future dividend growth for Johnson Utilities, what
5 assumptions did you make?

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

19
20
21
22 ...

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

4 A. RUCO consultant Stephen Hill illustrated this relationship in a Citizens
5 Utilities Company 1993 rate case by using a hypothetical utility.¹

6 Table I

| | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> | <u>Year 5</u> | <u>Growth</u> |
|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 7 Book Value | \$10.00 | \$10.40 | \$10.82 | \$11.25 | \$11.70 | 4.00% |
| 8 Equity Return | 10% | 10% | 10% | 10% | 10% | N/A |
| 9 Earnings/Sh. | \$1.00 | \$1.04 | \$1.082 | \$1.125 | \$1.170 | 4.00% |
| 10 Payout Ratio | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | N/A |
| 11 Dividend/Sh | \$0.60 | \$0.624 | \$0.649 | \$0.675 | \$0.702 | 4.00% |

13

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

¹ Citizens Utilities Company, Arizona Gas Division, Docket No. E-1032-93-111, Prepared Testimony, dated December 10, 1993, p. 25.

1 presents the results of this continuing scenario over the remaining five-
2 year period.

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

11
12 Q. If earnings and dividends both grow at the same rate as book value,
13 shouldn't that rate be the sole factor in determining the DCF growth rate?

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

18 Table II

| | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> | <u>Year 5</u> | <u>Growth</u> |
|------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 19 Book Value | \$10.00 | \$10.40 | \$10.82 | \$11.47 | \$12.158 | 5.00% |
| 20 Equity Return | 10% | 10% | 15% | 15% | 15% | 10.67% |
| 21 Earnings/Sh | \$1.00 | \$1.04 | \$1.623 | \$1.720 | \$1.824 | 16.20% |
| 22 Payout Ratio | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | N/A |
| 23 Dividend/Sh | \$0.60 | \$0.624 | \$0.974 | \$1.032 | \$1.094 | 16.20% |

1 In the example displayed in Table II, a sustainable growth rate of four
2 percent² exists in Year 1 and Year 2 (as in the prior example). In Year 3,
3 Year 4 and Year 5, however, the sustainable growth rate increases to six
4 percent.³ If the hypothetical utility in Mr. Hill's illustration were expected to
5 earn a fifteen-percent return on common equity on a continuing basis,
6 then a six percent long-term rate of growth would be reasonable.
7 However, the compound growth rate for earnings and dividends, displayed
8 in the last column, is 16.20 percent. If this rate was to be used in the
9 DCF model, the utility's return on common equity would be expected to
10 increase by fifty percent every five years, [(15 percent ÷ 10 percent) – 1].
11 This is clearly an unrealistic expectation.

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

18
19
20 ...
21

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

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

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

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

10

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

13 A. Rational investors will put their available funds into investments that will
14 either meet or exceed their given cost of capital (i.e. the return earned on
15 their investment). In the case of a utility, the book value of a company's
16 stock usually mirrors the equity portion of its rate base (the utility's earning
17 base). Because regulators allow utilities the opportunity to earn a
18 reasonable rate of return on rate base, an investor would take into
19 consideration the effect that a change in book value would have on the
20 rate of return that he or she would expect the utility to earn. If an investor
21 believes that a utility's book value (i.e. the utility's earning base) will
22 increase, then he or she would expect the return on the utility's common
23 stock to increase. If this positive trend in book value continues over an

1 extended period of time, an investor would have a reasonable expectation
2 for sustained long-term growth.

3
4 Q. Please provide an example of how external financing affects a utility's
5 book value of equity.

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

19
20
21
22 ...
23

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

3 A. In his book, *The Cost of Capital to a Public Utility*,⁴ Dr. Gordon (the
4 individual responsible for the development of the DCF or constant growth
5 model) identified a growth rate that includes both expected internal and
6 external financing components. The mathematical expression for Dr.
7 Gordon's growth rate is as follows:

8
9
$$g = (br) + (sv)$$

- 10 where: g = DCF expected growth rate,
11 b = the earnings retention ratio,
12 r = the return on common equity,
13 s = the fraction of new common stock sold that
14 accrues to a current shareholder, and
15 v = funds raised from the sale of stock as a fraction
16 of existing equity.

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

- 18 where: BV = book value per share of common stock, and
19 MP = the market price per share of common stock.

20
21 ...
22

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

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

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

7
8 Q. Please explain why your calculation of external growth on page 2 of
9 Schedule WAR-4, is the current market-to-book ratio averaged with 1.0 in
10 the equation $[(M \div B) + 1] \div 2$.

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

17
18 Q. Has the Commission ever adopted a cost of capital estimate that included
19 this assumption?

20 A. Yes. In a prior Southwest Gas Corporation rate case⁵, the Commission
21 adopted the recommendations of ACC Staff's cost of capital witness,
22 Stephen Hill, who I noted earlier in my testimony. In that case, Mr. Hill

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

1 used the same methods that I have used in arriving at the inputs for the
2 DCF model. His final recommendation for Southwest Gas Corporation
3 was largely based on the results of his DCF analysis, which incorporated
4 the same valid market-to-book ratio assumption that I have used
5 consistently in the DCF model as a cost of capital witness for RUCO.

6
7 Q. How did you develop your dividend growth rate estimate?

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

12
13 Q. Why did you use a proxy group methodology as opposed to a direct
14 analysis of Johnson Utilities?

15 A. One of the problems in performing this type of analysis is that the utility
16 applying for a rate increase is not always a publicly traded company, as is
17 the case with Johnson Utilities itself. Consequently it was necessary to
18 create a proxy by analyzing publicly traded water companies and LDC's
19 with similar risk characteristics.

20
21 Q. Are there any other advantages to the use of a proxy?

22 A. Yes. As I noted earlier, the U.S. Supreme Court ruled in the Hope
23 decision that a utility is entitled to earn a rate of return that is

1 commensurate with the returns on investments of other firms with
2 comparable risk. The proxy technique that I have used derives that rate of
3 return. One other advantage to using a sample of companies is that it
4 reduces the possible impact that any undetected biases, anomalies, or
5 measurement errors may have on the DCF growth estimate.

6
7 Q. Didn't you state earlier that Johnson Utilities is seeking rates for both its
8 water and wastewater operations in Arizona?

9 A. Yes, I did.

10
11 Q. Why did you analyze only publicly traded water utilities and LDC's as
12 opposed to firms that provide wastewater service?

13 A. The use of water utilities and LDC's was necessitated by the fact that
14 there is a lack of financial and market information available on stand-alone
15 wastewater utilities. This in itself is not a problem, given the fact that both
16 water and wastewater utilities share similar risk characteristics. Both
17 types of utilities provide a basic service for which there are no substitutes
18 and are also subject to strict federal and state regulations.

19
20 Q. What criteria did you use in selecting the companies that make up your
21 water company proxy for Johnson Utilities?

22 A. The three water companies used in the proxy are publicly traded on the
23 New York Stock Exchange ("NYSE"). All three water companies are

1 followed by The Value Line Investment Survey ("Value Line") and are the
2 same companies that comprise Value Line's large capitalization Water
3 Utility Industry segment of the U.S. economy (Attachment A contains
4 Value Line's January 23, 2009 update of the water utility industry and
5 evaluations of the water companies used in my proxy).

6
7 Q. Are these the same water utilities that you have used in prior rate case
8 proceedings?

9 A. Yes. However, in prior proceedings I have also included a fourth water
10 provider known as Southwest Water Company which is traded over the
11 counter through the National Association of Securities Dealers Automated
12 Quotation System ("NASDAQ").

13
14 Q. Why did you exclude Southwest Water Company from your sample in this
15 proceeding?

16 A. Value Line has suspended its long-term projections on Southwest Water
17 Company as a result of accounting errors that were recently discovered by
18 Southwest Water Company's management. The lack of projected data
19 made Southwest Water Company unsuitable for my sample group of
20 water providers.

21
22 ...

23

1 Q. Please describe the companies that comprise your water company proxy
2 group.

3 A. My water company proxy group includes American States Water Co.
4 (stock ticker symbol "AWR"), California Water Service Group ("CWT") and
5 Aqua America, Inc. ("WTR"). Each of these water companies face the
6 same types of risk that Johnson Utilities faces. For the sake of brevity, I
7 will refer to each of these companies by their appropriate stock ticker
8 symbols henceforth.

9
10 Q. Briefly describe the areas served by the companies in your water
11 company sample proxy.

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

23

1 Q. Are these the same water companies that Johnson Utilities used in its
2 application?

3 A. Johnson Utilities' cost of equity witness, Mr. Thomas Bourassa, used the
4 same water companies included in my proxy. Mr. Bourassa also used
5 three other water companies in his cost of capital analysis⁶ which are
6 included in Value Line's Small and Mid Cap Edition.

7
8 Q. Why did you exclude the water companies that are followed in Value
9 Line's Small and Mid Cap Edition?

10 A. Value Line does not provide the same type of forward-looking information
11 (i.e. long-term estimates on return on common equity and share growth)
12 on small and mid-cap companies that it provides on the three water
13 companies that I used in my proxy. Consequently, as in the case of
14 Southwest Water Company, these water providers are not as suitable as
15 the ones that I have used in my analysis.

16
17 Q. What criteria did you use in selecting the natural gas LDC's included in
18 your proxy for Johnson Utilities?

19 A. As are the water companies that I just described, each of the natural gas
20 LDC's used in the proxy are publicly traded on a major stock exchange (all
21 ten trade on the NYSE) and are followed by Value Line. Each of the ten
22 LDC's in my sample are tracked in Value Line's natural gas Utility industry

⁶ Connecticut Water Service, Inc., Middlesex Water Company and SJW Corp.

1 segment. All of the companies in the proxy are engaged in the provision
2 of regulated natural gas distribution services. Attachment B of my
3 testimony contains Value Line's most recent evaluation of the natural gas
4 proxy group that I used for my cost of common equity analysis.

5
6 Q. What companies are included your natural gas proxy?

7 A. The ten natural gas LDC's included in my proxy (and their NYSE ticker
8 symbols) are AGL Resources, Inc. ("ATG"), Atmos Energy Corp. ("ATO"),
9 Laclede Group, Inc. ("LG"), New Jersey Resources Corporation ("NJR"),
10 Nicor, Inc. ("GAS"), Northwest Natural Gas Co. ("NWN"), Piedmont
11 Natural Gas Company ("PNY"), South Jersey Industries, Inc. ("SJI")
12 Southwest Gas Corporation ("SWX"), which is the dominant natural gas
13 provider in Arizona, and WGL Holdings, Inc. ("WGL"). These are the
14 same ten LDC's that I analyzed in the most recent UNS Gas, Inc.
15 proceeding.⁷

16
17 Q. Briefly describe the regions of the U.S. served by the ten natural gas
18 LDC's that make up your sample proxy.

19 A. The ten LDC's listed above provide natural gas service to customers in the
20 Middle Atlantic region (i.e. NJI which serves portions of northern New
21 Jersey, SJI which serves southern New Jersey and WGL which serves the
22 Washington D.C. metro area), the Southeast and South Central portions

⁷ Docket No. G-04204A-06-0463

1 of the U.S. (i.e. ATG which serves Virginia, southern Tennessee and the
2 Atlanta, Georgia area and PNY which serves customers in North Carolina,
3 South Carolina and Tennessee), the South, deep South and Midwest (i.e.
4 ATO which serves customers in Kentucky, Mississippi, Louisiana, Texas,
5 Colorado and Kansas, GAS which provides service to northern and
6 western Illinois, and LG which serves the St. Louis area), and the Pacific
7 Northwest (i.e. NWN which serves Washington state and Oregon).
8 Portions of Arizona, Nevada and California are served by SWX.

9
10 Q. Did the Company's witness also perform a similar analysis using natural
11 gas LDC's?

12 A. No, he did not.

13
14 Q. Please explain your DCF growth rate calculations for the sample
15 companies used in your proxy.

16 A. Schedule WAR-5 provides retention ratios, returns on book equity, internal
17 growth rates, book values per share, numbers of shares outstanding, and
18 the compounded share growth for each of the utilities included in the
19 sample for the historical observation period 2003 to 2007 for both the
20 water and LDC industries. Schedule WAR-5 also includes Value Line's
21 projected 2008, 2009 and 2011-13 values for the retention ratio, equity
22 return, book value per share growth rate, and number of shares
23 outstanding for both the water utilities and the LDC's.

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

3 A. In explaining my analysis, I will use AWR as an example. The first
4 dividend growth component that I evaluated was the internal growth rate.
5 I used the "b x r" formula (described on pages 10 and 11) to multiply
6 AWR's earned return on common equity by its earnings retention ratio for
7 each year in the 2003 to 2007 observation period to derive the utility's
8 annual internal growth rates. I used the mean average of this five-year
9 period as a benchmark against which I compared the projected growth
10 rate trends provided by Value Line. Because an investor is more likely to
11 be influenced by recent growth trends, as opposed to historical averages,
12 the five-year mean noted earlier was used only as a benchmark figure. As
13 shown on Schedule WAR-5, Page 1, AWR's average internal growth rate
14 of 2.51% over the 2003 to 2007 time frame reflects an upward trend that
15 began during the 2004 operating period. AWR rebounded from non-
16 meaningful negative growth in 2003 to 1.01% in 2004. Internal growth
17 climbed from 1.01% in 2004 to 3.79% during 2007. Value Line is
18 predicting that growth will fall from 3.79% in 2007, to 4.12% during 2008.
19 Internal growth is expected to increase to 6.30% during the 2011-13 time
20 frame. After weighing Value Line's lower estimates on internal growth,
21 and no change in projected earnings, dividends and book value, I believe
22 that a 5.75% rate of growth is reasonable for AWR (Schedule WAR-4,
23 Page 1 of 2).

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

3 A. Schedule WAR-5 demonstrates that the pattern of shares outstanding for
4 AWR increased from 15.21 million to 17.23 million from 2003 to 2007.
5 Value Line is predicting that this level will increase from 18.25 million in
6 2008 to 21.00 million by the end of 2013. Based on this data, I believe
7 that a 4.75 percent growth in shares is not unreasonable for AWR. My
8 final dividend growth rate estimate for AWR is 7.48 percent (5.75 percent
9 internal + 1.73 percent external) and is shown on Page 1 of Schedule
10 WAR-4.

11
12 Q. What is your average dividend growth rate estimate using the DCF model
13 for the sample water utilities?

14 A. Based on the DCF model, my average dividend growth rate estimate is
15 6.51 percent as displayed on page 1 of Schedule WAR-4.

16
17 Q. Did you use the same approach to determine an average dividend growth
18 rate for the proxy comprised of natural gas LDC's?

19 A. Yes.

20

21

22 ...

23

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

3 A. Based on the DCF model, my average dividend growth rate estimate is
4 6.29 percent, which is also displayed on page 1 of Schedule WAR-4.

5
6 Q. How does your average dividend growth rate estimates on water
7 companies compare to the growth rate data published by Value Line and
8 other analysts?

9 A. Schedule WAR-6 compares my sustainable growth estimates with the
10 five-year projections of analysts at both Zacks Investment Research, Inc.
11 ("Zacks") (Attachment C) and Value Line. In the case of the water
12 companies, my 6.51 percent estimate falls between Zacks' average long-
13 term EPS projection of 9.47 percent and Value Line's growth projection of
14 5.03 percent (which is an average of EPS, DPS and BVPS). My 6.51
15 percent estimate is also 93 basis points higher than the 5.58 percent
16 average of Value Line's historical and projected data (and the consensus
17 opinions published by Zacks) but is 48 basis points lower than Value Lines
18 5-year compound historical average of EPS, DPS and BVPS. The
19 estimates of analysts at Value Line indicate that investors are expecting
20 somewhat lower increased performance from water utilities in the future.
21 On balance, I would say my 6.51 percent estimate is a good
22 representation of the growth projections that are available to the investing
23 public.

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

4 A. In regard to the natural gas LDC's, my 6.29 percent estimate also falls
5 between the average 9.02 percent long-term consensus projections
6 published by Zacks, and the 4.80 percent Value Line projected estimate
7 (which is an average of EPS, DPS and BVPS). As can also be seen on
8 Schedule WAR-6, the 6.29 percent estimate that I have calculated is 73
9 basis points higher than the 5.56 percent average of the 5-year historic
10 EPS, DPS and BVPS means of Value Line and 55 basis points higher
11 than the 5.74 percent five-year compound historical average of Value Line
12 data (on EPS, DPS and BVPS). In fact, my 6.29 percent estimate is 54
13 basis points higher than the combined 5.75 percent Value Line and Zacks
14 averages displayed in Schedule WAR-6. The estimates of both Value
15 Line's and Zacks' analysts indicate that investors are expecting increased
16 performance from natural gas distribution companies in the future. In the
17 case of the LDC's I would say that my 6.29 percent estimate, which is
18 lower than Zack's projections but higher than Value Line's forecasts, is a
19 fair representation of the growth projections presented by securities
20 analysts at this point in time.

21

22 ...

23

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

2 A. For both the water companies and the natural gas LDC's I used the
3 estimated annual dividends, for the next twelve-month period, that
4 appeared in Value Line's January 23, 2009 Ratings and Reports water
5 services industry update and Value Line's December 12, 2008 Ratings
6 and Reports natural gas utility update. I then divided those figures by the
7 eight-week average price per share of the appropriate utility's common
8 stock. The eight-week average price is based on the daily closing stock
9 prices for each of the companies in my proxies for the period December 1,
10 2008 to January 23, 2009.

11

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

15 A. As shown on page 2 of Schedule WAR-2, the cost of equity capital derived
16 from my DCF analysis is 9.39 percent for the water utilities and 10.72
17 percent for the natural gas LDC's.

18

19

20

21

22

23

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

2 Q. Please explain the theory behind CAPM and why you decided to use it as
3 an equity capital valuation method in this proceeding.

4 A. CAPM is a mathematical tool that was developed during the early 1960's
5 by William F. Sharpe⁸, the Timken Professor Emeritus of Finance at
6 Stanford University, who shared the 1990 Nobel Prize in Economics for
7 research that eventually resulted in the CAPM model. CAPM is used to
8 analyze the relationships between rates of return on various assets and
9 risk as measured by beta.⁹ In this regard, CAPM can help an investor to
10 determine how much risk is associated with a given investment so that he
11 or she can decide if that investment meets their individual preferences.
12 Finance theory has always held that as the risk associated with a given
13 investment increases, so should the expected rate of return on that
14 investment and vice versa. According to CAPM theory, risk can be
15 classified into two specific forms: nonsystematic or diversifiable risk, and
16 systematic or non-diversifiable risk. While nonsystematic risk can be
17 virtually eliminated through diversification (i.e. by including stocks of
18 various companies in various industries in a portfolio of securities),
19 systematic risk, on the other hand, cannot be eliminated by diversification.

⁸ William F. Sharpe, "A Simplified Model of Portfolio Analysis," Management Science, Vol. 9, No. 2 (January 1963), pp. 277-93.

⁹ 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.

1 Thus, systematic risk is the only risk of importance to investors. Simply
2 stated, the underlying theory behind CAPM states that the expected return
3 on a given investment is the sum of a risk-free rate of return plus a market
4 risk premium that is proportional to the systematic (non-diversifiable risk)
5 associated with that investment. In mathematical terms, the formula is as
6 follows:

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

7
8 where: k = the expected return of a given security,
9 r_f = risk-free rate of return,
10 β = beta coefficient, a statistical measurement of a
11 security's systematic risk,
12 r_m = average market return (e.g. S&P 500), and
13 r_m - r_f = market risk premium.
14
15

16 Q. What types of financial instruments are generally used as a proxy for the
17 risk-free rate of return in the CAPM model?

18 A. Generally speaking, the yields of U.S. Treasury instruments are used by
19 analysts as a proxy for the risk-free rate of return component.
20
21

22 ...
23

1 Q. Please explain why U.S. Treasury instruments are regarded as a suitable
2 proxy for the risk-free rate of return?

3 A. As citizens and investors, we would like to believe that U.S. Treasury
4 securities (which are backed by the full faith and credit of the United
5 States Government) pose no threat of default no matter what their maturity
6 dates are. However, a comparison of various Treasury instruments will
7 reveal that those with longer maturity dates do have slightly higher yields.
8 Treasury yields are comprised of two separate components,¹⁰ a real rate
9 of interest (believed to be approximately 2.00 percent) and an inflationary
10 expectation. When the real rate of interest is subtracted from the total
11 treasury yield, all that remains is the inflationary expectation. Because
12 increased inflation represents a potential capital loss, or risk, to investors,
13 a higher inflationary expectation by itself represents a degree of risk to an
14 investor. Another way of looking at this is from an opportunity cost
15 standpoint. When an investor locks up funds in long-term T-Bonds,
16 compensation must be provided for future investment opportunities
17 foregone. This is often described as maturity or interest rate risk and it
18 can affect an investor adversely if market rates increase before the
19 instrument matures (a rise in interest rates would decrease the value of
20 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 real 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.

1 testimony, this compensation translates into higher rates of returns to the
2 investor.

3

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

6 A. I used an eight-week average of the yield on a 5-year U.S. Treasury
7 instrument. The yields were published in Value Line's Selection and
8 Opinion publication dated December 5, 2008 through January 23, 2009
9 (Attachment E). This resulted in a risk-free (r_f) rate of return of 1.60
10 percent.

11

12 Q. Why did you use the yield on a 5-year year U.S. Treasury instrument as
13 opposed to a short-term T-Bill?

14 A. While a shorter term instrument, such as a 91-day T-Bill, presents the
15 lowest possible total risk to an investor, a good argument can be made
16 that the yield on an instrument that matches the investment period of the
17 asset being analyzed in the CAPM model should be used as the risk-free
18 rate of return. Since utilities in Arizona generally file for rates every three
19 to five years, the yield on a 5-year U.S. Treasury Instrument closely
20 matches the investment period or, in the case of regulated utilities, the
21 period that new rates will be in effect.

22

23 ...

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

3 A. I used both a geometric and an arithmetic mean of the historical total
4 returns on the S&P 500 index from 1926 to 2007 as the proxy for the
5 market rate of return (r_m). For the risk-free portion of the risk premium
6 component (r_f), I used the geometric mean of the total returns of long-term
7 government bonds for the same eighty-one year period. The market risk
8 premium ($r_m - r_f$) that results by using these inputs is 5.10 percent (10.40%
9 - 5.30% = 5.10%). The market risk premium that results by using the
10 arithmetic mean calculation is 6.80 percent (12.30% - 5.50% = 6.80%).
11

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

14 A. The beta coefficients (β), for the individual utilities used in both my
15 proxies, were calculated by Value Line and were current as of January 23,
16 2009 for the water companies and December 12, 2008 for the natural gas
17 LDC's. Value Line calculates its betas by using a regression analysis
18 between weekly percentage changes in the market price of the security
19 being analyzed and weekly percentage changes in the NYSE Composite
20 Index over a five-year period. The betas are then adjusted by Value Line
21 for their long-term tendency to converge toward 1.00. The beta
22 coefficients for the service providers included in my water company
23 sample ranged from 0.90 to 1.05 with an average beta of 0.97. The beta

1 coefficients for the LDC's included in my natural gas sample ranged from
2 0.60 to 0.75 with an average beta of 0.70.

3

4 Q. What are the results of your CAPM analysis?

5 A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation
6 using a geometric mean to calculate the risk premium results in an
7 average expected return of 6.53 percent for the water companies and 5.17
8 percent for the natural gas LDC's. My calculation using an arithmetic
9 mean results in an average expected return of 8.17 percent for the water
10 companies and 6.36 percent for the natural gas LDC's.

11

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

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

16

| 17 | <u>METHOD</u> | <u>RESULTS</u> |
|----|--------------------------|----------------|
| 18 | DCF (Water Sample) | 9.39% |
| 19 | DCF (Natural Gas Sample) | 10.72% |
| 20 | CAPM (Water Sample) | 6.53% – 8.17% |
| 21 | CAPM (Natural Gas) | 5.17% – 6.36% |

22 Based on these results, my best estimate of an appropriate range for a
23 cost of common equity for Johnson Utilities is 5.17 percent to 10.72

1 percent. My final recommended cost of common equity figure is 8.31
2 percent.

3

4 Q How did you arrive at your final recommended 8.31 percent cost of
5 common equity?

6 A. My recommended 8.31 percent cost of common equity is the mean
7 average of my DCF and CAPM results. The calculation of my 8.31 percent
8 cost of common equity can be seen on Schedule WAR-1, Page 2 of 2.

9

10 Q. Did you make any direct adjustment to your recommended cost of
11 common equity that takes into consideration the higher level of equity
12 contained in Johnson Utilities' capital structure?

13 A. No, I did not. However, I am recommending a hypothetical capital
14 structure that puts the Company's capital structure roughly in line with the
15 capital structures of the utilities included in my sample.

16

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

19 A. The 10.50 percent cost of equity capital proposed by the Company is 219
20 basis points higher than the 8.31 percent OCRB cost of equity capital that
21 I am recommending.

22

23 ...

1 **Current Economic Environment**

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

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

12
13 Q. Please discuss your analysis of the current economic environment.

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

18 In 1991, as measured by the most recently revised annual change in
19 gross domestic product ("GDP"), the U.S. economy experienced a rate of
20 growth of negative 0.20 percent. This decline in GDP marked the
21 beginning of a mild recession that ended sometime before the end of the
22 first half of 1992. Reacting to this situation, the Federal Reserve Board

1 ("Federal Reserve" or "Fed"), then chaired by noted economist Alan
2 Greenspan, lowered its benchmark federal funds rate¹¹ in an effort to
3 further loosen monetary constraints - an action that resulted in lower
4 interest rates.

5
6 During this same period, the nation's major money center banks followed
7 the Federal Reserve's lead and began lowering their interest rates as well.
8 By the end of the fourth quarter of 1993, the prime rate (the rate charged
9 by banks to their best customers) had dropped to 6.00 percent from a
10 1990 level of 10.01 percent. In addition, the Federal Reserve's discount
11 rate on loans to its member banks had fallen to 3.00 percent and short-
12 term interest rates had declined to levels that had not been seen since
13 1972.

14
15 Although GDP increased in 1992 and 1993, the Federal Reserve took
16 steps to increase interest rates beginning in February of 1994, in order to
17 keep inflation under control. By the end of 1995, the Federal discount rate
18 had risen to 5.21 percent. Once again, the banking community followed
19 the Federal Reserve's moves. The Fed's strategy, during this period, was
20 to engineer a "soft landing." That is to say that the Federal Reserve

¹¹ 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.

1 wanted to foster a situation in which economic growth would be stabilized
2 without incurring either a prolonged recession or runaway inflation.

3

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

5 A. Yes. The Fed's strategy of decreasing interest rates to stimulate the
6 economy worked. The annual change in GDP began an upward trend in
7 1992. A change of 4.50 percent and 4.20 percent were recorded at the
8 end of 1997 and 1998 respectively. Based on daily reports that were
9 presented in the mainstream print and broadcast media during most of
10 1999, there appeared to be little doubt among both economists and the
11 public at large that the U.S. was experiencing a period of robust economic
12 growth highlighted by low rates of unemployment and inflation. Investors,
13 who believed that technology stocks and Internet company start-ups (with
14 little or no history of earnings) had high growth potential, purchased these
15 types of issues with enthusiasm. These types of investors, who exhibited
16 what former Chairman Greenspan described as "irrational exuberance,"
17 pushed stock prices and market indexes to all time highs from 1997 to
18 2000.

19

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

21 A. The U.S. economy entered into a recession near the end of the first
22 quarter of 2001. The bullish trend, which had characterized the last half of
23 the 1990's, had already run its course sometime during the third quarter of

1 2000. Economic data released since the beginning of 2001 had already
2 been disappointing during the months preceding the September 11, 2001
3 terrorist attacks on the World Trade Center and the Pentagon. Slower
4 growth figures, rising layoffs in the high technology manufacturing sector,
5 and falling equity prices (due to lower earnings expectations) prompted
6 the Fed to begin cutting interest rates as it had done in the early 1990's.
7 The now infamous terrorist attacks on New York City and Washington
8 D.C. marked a defining point in this economic slump and prompted the
9 Federal Reserve to continue its rate cutting actions through December
10 2001. Prior to the 9/11 attacks, commentators, reporting in both the
11 mainstream financial press and various economic publications including
12 Value Line, believed that the Federal Reserve was cutting rates in the
13 hope of avoiding a recession.

14
15 Despite several intervals during 2002 and 2003 in which the Federal Open
16 Market Committee ("FOMC") decided not to change interest rates – moves
17 which indicated that the worst may be over and that the recession might
18 have bottomed out during the last quarter of 2001 – a lackluster economy
19 persisted. The continuing economic malaise and even fears of possible
20 deflation prompted the FOMC to make a thirteenth rate cut on June 25,
21 2003. The quarter point cut reduced the federal funds rate to 1.00
22 percent, the lowest level in forty-five years.

23

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

5
6 During the latter part of 2003, the FOMC went on record as saying that it
7 intended to leave interest rates low "for a considerable period." After its
8 two-day meeting that ended on January 28, 2004, the FOMC announced
9 "that with inflation 'quite low' and plenty of excess capacity in the
10 economy, policy-makers 'can be patient in removing its policy
11 accommodation."¹²

12
13 Q. What actions has the Federal Reserve taken in terms of interest rates
14 since the beginning of 2001?

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

21 The FOMC's January 31, 2006 meeting marked the final appearance of
22 Alan Greenspan, who had presided over the rate setting body for a total of

¹² Wolk, Martin, "Fed holds interest rates steady," MSNBC, January 28, 2004.

1 eighteen years. On that same day, Greenspan's successor, Ben
2 Bernanke, the former chairman of the President's Council of Economic
3 Advisers and a former Fed governor under Greenspan from 2002 to 2005,
4 was confirmed by the U.S. Senate to be the new Federal Reserve chief.

5 As expected by Fed watchers, Chairman Bernanke picked up where his
6 predecessor left off and increased the federal funds rate by 25 basis
7 points during each of the next three FOMC meetings for a total of
8 seventeen consecutive rate increases since June 2004, and raising the
9 federal funds rate to a level of 5.25 percent. The Fed's rate increase
10 campaign finally came to a halt at the FOMC meeting held on August 8,
11 2006, when the FOMC decided not to raise rates.

12
13 Q. What was the reaction in the financial community to the Fed's decision not
14 to raise interest rates?

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

18
19 Q. How did analysts view the Fed's actions between January 2001 and
20 August 2006?

21 A. According to an article that appeared in the December 2, 2004 edition of
22 The Wall Street Journal, the FOMC's decision to begin raising rates two
23 years ago was viewed as a move to increase rates from emergency lows

1 in order to avoid creating an inflation problem in the future as opposed to
2 slowing down the strengthening economy.¹³ In other words, the Fed was
3 trying to head off inflation *before* it became a problem. During the period
4 following the August 8, 2006 FOMC meeting, the Fed's decisions not to
5 raise rates were viewed as a gamble that a slower U.S. economy would
6 help to cap growing inflationary pressures.¹⁴

7
8 Q. Was the Fed attempting to engineer another "soft landing", as it did in the
9 mid-nineties, by holding interest rates steady?

10 A. Yes, however, as pointed out in an August 2006 article in The Wall Street
11 Journal by E.S. Browning, soft landings – like the one that the Fed
12 managed to pull off during the 1994-95 time frame, in which a recession or
13 a bear market were avoided – rarely happen¹⁵. Since it began increasing
14 the federal funds rate in June 2004, the Fed had assured investors that it
15 would increase rates at a "measured" pace. Many analysts and
16 economists interpreted this language to mean that former Chairman
17 Greenspan would be cautious in increasing interest rates too quickly in
18 order to avoid what is considered to be one of the Fed's few blunders
19 during Greenspan's tenure – a series of increases in 1994 that caught the

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

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

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

1 financial markets by surprise after a long period of low rates. The rapid
2 rise in rates contributed to the bankruptcy of Orange County, California
3 and the Mexican peso crisis¹⁶. According to Mr. Browning, at the time that
4 his article was published, the hope was that Chairman Bernanke would
5 succeed in slowing the economy "just enough to prevent serious inflation,
6 but not enough to choke off growth." In other words, "a 'Goldilocks
7 economy,' in which growth is not too hot and not too cold."
8

9 Q. Was the Fed's attempt to engineer a soft landing successful during the
10 period that followed the August 8, 2006 FOMC meeting?

11 A. It would appear so. Articles published in the mainstream financial press
12 were generally upbeat on the economy during that period. An example of
13 this is an article written by Nell Henderson that appeared in the January
14 30, 2007 edition of The Washington Post. According to Ms. Henderson, "a
15 year into [Fed Chairman] Bernanke's tenure, the [economic] picture has
16 turned considerably brighter. Inflation is falling; unemployment is low;
17 wages are rising; and the economy, despite continued problems in
18 housing, is growing at a brisk clip."¹⁷

19
20 ...
21

¹⁶ Associated Press (AP), "Fed begins debating interest rates" USA Today, June 29, 2004.

¹⁷ Henderson, Nell, "Bullish on Bernanke" The Washington Post, January 30, 2007.

1 Q. What has been the state of the economy over the past two years?

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

8 On August 7, 2007, the FOMC decided not to increase or decrease the
9 federal funds rate for the ninth straight time and left its target rate
10 unchanged at 5.25 percent.¹⁸ At the time of the Fed's decision, analysts
11 speculated that a rate cut over the next several months was unlikely given
12 the Fed's concern that inflation would fail to moderate. However, during
13 this same period, evidence of an even slower economy and a possible
14 recession was beginning to surface. Within days of the Fed's decision to
15 stand pat on rates, a borrowing crises rooted in a deterioration of the
16 market for subprime mortgages and securities linked to them, forced the
17 Fed to inject \$24 billion in funds (raised through open market operations)
18 into the credit markets.¹⁹ By Friday, August 17, 2007, after a turbulent
19 week on Wall Street, the Fed made the decision to lower its discount rate
20 (i.e. the rate charged on direct loans to banks) by 50 basis points, from

¹⁸ Ip, Greg, "Markets Gyrate As Fed Straddles Inflation, Growth" The Wall Street Journal, August 8, 2007

¹⁹ Ip, Greg, "Fed Enters Market To Tamp Down Rate" The Wall Street Journal, August 9, 2007

1 6.25 percent to 5.75 percent, and took steps to encourage banks to
2 borrow from the Fed's discount window in order to provide liquidity to
3 lenders. According to an article that appeared in the August 18, 2007
4 edition of The Wall Street Journal,²⁰ the Fed had used all of its tools to
5 restore normalcy to the financial markets. If the markets failed to settle
6 down, the Fed's only weapon left was to cut the Federal Funds rate –
7 possibly before the next FOMC meeting scheduled on September 18,
8 2007.

9
10 Q. Did the Fed cut rates as a result of the subprime mortgage borrowing
11 crises?

12 A. Yes. At its regularly scheduled meeting on September 18, 2007, the
13 FOMC surprised the investment community and cut both the federal funds
14 rate and the discount rate by 50 basis points (25 basis points more than
15 what was anticipated). This brought the federal funds rate down to a level
16 of 4.75 percent. The Fed's action was seen as an effort to curb the
17 aforementioned slowdown in the economy. Over the course of the next
18 four months, the FOMC reduced the Federal funds rate by a total 175
19 basis points to a level of 3.00 percent – mainly as a result of concerns that
20 the economy was slipping into a recession. This included a 75 basis point
21 reduction that occurred one week prior to the FOMC's meeting on January
22 29, 2008.

²⁰ Ip, Greg, Robin Sidel and Randall Smith, "Fed Offers Banks Loans Amid Crises" The Wall Street Journal, August 9, 2007

1 Q. What actions has the Fed taken in regard to interest rates over the past
2 year?

3 A. The Fed made two more rate cuts which included a 75 basis point
4 reduction in the federal funds rate on March 18, 2008 and an additional 25
5 basis point reduction on April 30, 2008. The Fed's decision to cut rates
6 was based on its belief that the slowing economy was a greater concern
7 than the current rate of inflation (which the majority of FOMC members
8 believed would moderate during the economic slowdown).²¹ As a result of
9 the Fed's actions, the federal funds rate was reduced to a level of 2.00
10 percent. From April 30, 2008 through September 16, 2008, the Fed took
11 no further action on its key interest rate. However, the days before and
12 after the Fed's September 16, 2008 meeting saw longstanding Wall Street
13 firms such as Lehman Brothers, Merrill Lynch and AIG failing as a result of
14 their subprime holdings. By the end of the week, the Bush administration
15 had announced plans to deal with the deteriorating financial condition
16 which had now become a worldwide crisis. The administrations actions
17 included Treasury Secretary Henry Paulson's request to Congress for
18 \$700 billion to buy distressed assets as part of a plan to halt what has
19 been described as the worst financial crisis since the 1930's²². Amidst this
20 turmoil, the Fed made the decision to cut the federal funds rate by another

²¹ Ip, Greg, "Credit Worries Ease as Fed Cuts, Hints at More Relief" The Wall Street Journal, March 19, 2008

²² Soloman, Deborah, Michael R. Crittenden and Damian Paletta, "U.S. Bailout Plan Calms Markets, But Struggle Looms Over Details" The Wall Street Journal, September 20, 2008

1 50 basis points in a coordinated move with foreign central banks on
2 October 8, 2008. This was followed by another 50 basis point cut during
3 the regular FOMC meeting on October 29, 2008. At the time of this
4 writing, the federal funds target rate now stands at 0.25 percent, the result
5 of a 75 basis point cut announced on December 16, 2008. After a two-day
6 FOMC meeting on January 28, 2009, the Fed elected not to make any
7 changes in the federal funds rate, stating that rate would remain low "for
8 some time."²³ Presently, the Fed's discount rate is at 0.50 percent, a level
9 not seen since 1940s.²⁴ Based on data released during the early part of
10 December 2008, the U.S. is now officially in a recession which began in
11 December of 2007.

12
13 Q. Putting this all into perspective, how have the Fed's actions since 2000
14 affected benchmark rates?

15 A. U.S. Treasury instruments are for the most part still at historically low
16 levels. The Fed's actions have also had the overall effect of reducing the
17 cost of many types of business and consumer loans. As can be seen in
18 Schedule WAR-8, the previously mentioned federal discount rate (the rate
19 charged to the Fed's member banks), has fallen to 0.50 percent from 5.86
20 percent in 2007.

²³ Hilsenrath, Jon and Liz Rappaport, "Fed Weighs Idea of Buying Treasuries as Focus Shifts" The Wall Street Journal, January 29, 2009

²⁴ Hilsenrath, Jon, "Fed Cuts Rates Near Zero to Battle Slump" The Wall Street Journal, December 17, 2008

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

2 A. As of January 23, 2009, the leading interest rates have all dropped from
3 the levels that existed a year ago (Attachment E, Value Line Selection &
4 Opinion page 3737). The prime rate has fallen from 7.25 percent a year
5 ago to 3.25 percent. The benchmark federal funds rate, just discussed,
6 has decreased from 4.25 percent, in January 2008, to a level of 0.25
7 percent (as a result of the December 16, 2008 rate cut discussed above).
8 The yields on all of the non-inflation protected maturities of U.S. Treasury
9 instruments exhibited in my Attachment E have also decreased over the
10 past year. A previous trend, described by former Chairman Greenspan as
11 a "conundrum"²⁵, in which long-term rates fell as short-term rates
12 increased, thus creating a somewhat inverted yield curve that existed as
13 late as June 2007, is completely reversed and a more traditional yield
14 curve (one where yields increase as maturity dates lengthen) presently
15 exists (Attachment E). The 5-year Treasury yield, used in my CAPM
16 analysis, has fallen from 3.01 percent, in January 2008, to 1.35 percent as
17 of January 14, 2009. The 1-Year Treasury constant maturity rate also
18 decreased from 2.87 percent over the past year to 0.41 percent. These
19 current yields are considerably lower than corresponding yields that
20 existed during the early nineties and at the beginning of the current
21 decade (as can be seen on Schedule WAR-8).

22

²⁵ Wolk, Martin, "Greenspan wrestling with rate 'conundrum'," MSNBC, June 8, 2005

1 Q. What is the current outlook for the economy?

2 A. Value Line's analysts have been decidedly pessimistic in their outlook on
3 the economy as of late and had this to say in their Economic and Stock
4 Market Commentary that appeared in the December 12, 2008 edition of
5 Value Line's Selection and Opinion publication:

6 **The economic picture continues to darken**, with data recently showing
7 additional slippage in manufacturing activity (to a 26-year low), a sharp
8 decline in construction spending, and another setback in
9 nonmanufacturing. Add to this, expectations for a weak holiday
10 shopping season and for new turmoil in the housing and automobile
11 industries and it is not hard to make a case that the current quarter could
12 see a drop in the U.S. gross domestic product of 3% to 5%.

13
14 Value Line's analysts went on to state:

15 **We face several difficult quarters up ahead.** Our sense is that the first
16 and second quarters of 2009 will see declines in business activity of 2%
17 to 3%, as the broad contraction in the economy drones on for a possible
18 six to nine months more. At this point, none of the consumer and
19 industrial markets that we view as critical to a sustained revival in
20 economic activity (such as the housing, retail, auto, and manufacturing
21 sectors) appears to be even close to bottoming out.

22
23 Q. What is Value Line's outlook for credit availability and interest rates?

24 A. In the Selection and Opinion publication noted above, Value Line's
25 analysts had this to say:

26 **Challenges will await the Obama Administration and the Federal**
27 **Reserve.** Those challenges are likely to center around the need for
28 greater credit availability, more lending by the banks, the adoption of a
29 program to revive the auto industry, the passage of an effective stimulus
30 plan, and, possibly, further in interest rate cuts. How well these issues
31 are addressed will go a long way toward determining the severity of the
32 recession, which the National Bureau of Economic Research now claims
33 has been under way since December of 2007.

34
35 Value Line's analysts continued to state:

36 **It is likely to be late next year before we see a durable economic**
37
38 **comeback start to take hold.** Once that recovery does unfold, it is likely

1 to be led, ironically, by the housing market, which was the first area of
2 the economy to falter and could be the first to revive thanks to falling
3 home prices and lower mortgage rates.
4

5 In its January 23, Selection and Opinion publication, Value Lines
6 Analysts were somewhat more optimistic and stated the following:

7 We continue to have hopes for a second-half recovery. Our forecast
8 reflects expectations that the various rescue packages already in place
9 and the massive efforts that are expected to follow should give the
10 flagging economy enough of a lift by midyear for GDP to perhaps start to
11 increase modestly by the third quarter of this year. That possible
12 recovery is likely to be tepid and uneven in its early stages.
13

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

16 A. Value Line analyst Nils C. Van Liew took note of the environment of low
17 interest rates that existed in the early part of 2007. In Value Line's Electric
18 Utility (East) Industry update dated March 2, 2007, Mr. Van Liew had this
19 to say:

20 **Low Interest Rates.** Several factors are, no doubt, driving the electric
21 utilities' strong share-price performance. Perhaps most important is a
22 benign interest-rate environment. Utilities frequently tap the credit
23 markets to fund their operations. (Low interest rates mean they can cost
24 effectively build new power plants and maintain existing ones.) "Cheap
25 money" also tends to drive economic expansion, thereby increasing
26 electricity demand. That said, interest rates should remain relatively low,
27 though the likelihood that the Federal Reserve eases (monetary) policy is
28 small, given persistent inflation concerns.
29

30 While Mr. Van Liew's views appeared in Value Line's Electric Utility
31 Industry update, I believe his comments hold true for all regulated utilities
32 including the water and natural gas distribution segments. Given the fact
33 that interest rates are even lower now than they were at the time of Mr.

1 Van Liew's writing, and A-rated utility bond rates are currently lower than
2 their 2007 averages (Schedule WAR 8), I believe that his views are still
3 valid.

4
5 Q. Has the subprime mortgage crises had an impact on borrowing?

6 A. Yes. The situation has had a strong impact on liquidity for both banks and
7 the capital markets. Hopefully the actions of both the U.S. Treasury and
8 the Fed will succeed in eliminating the credit crunch that presently exists
9 and restore the credit markets to their pre-subprime status.

10

11 Q. How are water utilities faring in the current economic environment?

12 A. Although there are some concerns regarding long-term infrastructure
13 requirements, water utilities appear to be doing well according to Value
14 Line analyst Andre J. Costanza. In the October 24, 2008 quarterly update
15 on the water utility industry Mr. Costanza stated the following:

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The Water Utility Industry has held up relatively well over the past few months. Although the broad market has been sent into a tailspin by growing economic uncertainties and a tightening credit market, water utility stocks have given little, if any, ground, and have thus jumped into the middle of the pack of The Value Line Investment Survey for Timeliness. Companies here are enjoying an increasingly favorable regulatory environment, but the primary reason for the share-price strength boils down to their perceived safety. Indeed, because of the steady stream of income these stocks generate and the necessity for water itself, the group provides shelter for investors looking to get out of the treacherous economic waters that have been pulling many under without having to take too conservative a stance. With no end to the volatility in sight, these stocks are likely to continue outpacing the broad market averages over the coming six to 12 months.

1 Mr. Costanza reiterated his sentiments on the water utility industry
2 in the most recent Value Line update published on January 23,
3 2009:

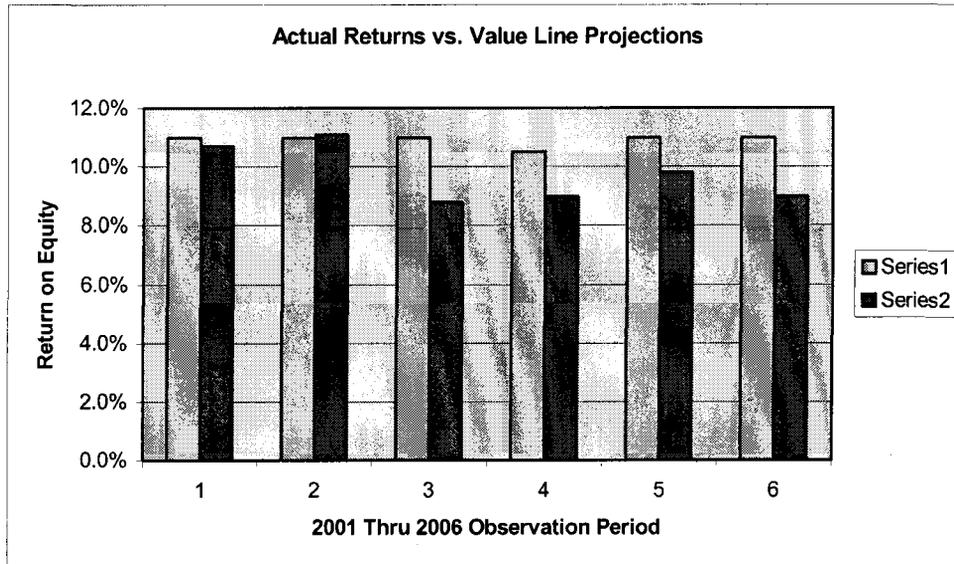
4 Not much has changed in the Water Utility Industry since our October
5 report. Stocks here have held their ground for the most part, whereas the
6 broader market continued to struggle with ongoing economic uncertainty.
7 Although an improving regulatory environment has played a hand, the
8 industry is really benefiting from the its perceived safety, stemming from
9 the necessity of water itself as well as the steady stream of income that
10 the stocks here generate. The group as a whole ranks near the top of the
11 Value Line Investment Survey for Timeliness and should continue to do
12 well over the next six to 12 months, as investors look for a place to ride
13 out the economic turbulence that is likely to persist.
14

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

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

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

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

19

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21

As can be seen above, with the exception of the 2002 operating period, Value Line's analyst's projections on water utility ROE's from one year out were 30 to 200 basis points higher than the actual returns booked by the

1 water utilities. This is why I rarely rely on projections at face value, and
2 only use Value Line's and Zacks' analyst's projections as guides in
3 developing my growth estimates for the DCF model. According to the
4 most recent Value Line update for the water utility industry, average
5 returns on common equity for the industry are expected to range from 6.00
6 percent in 2008 to 7.50 percent through the end of 2013.

7
8 Q. After weighing the economic information that you've just discussed, do you
9 believe that the 8.31 percent cost of equity capital that you have estimated
10 is reasonable for Johnson Utilities?

11 A. I believe that my recommended 8.31 percent cost of equity will provide
12 Johnson Utilities with a reasonable rate of return on the Company's
13 invested capital when economic data on interest rates (that are low by
14 historical standards), the current slowdown in growth in new housing
15 construction, and the Fed's ability to keep inflation in check are all taken
16 into consideration. As I noted earlier, the Hope decision determined that a
17 utility is entitled to earn a rate of return that is commensurate with the
18 returns it would make on other investments with comparable risk. I
19 believe that my cost of equity analysis, which is an average of the results
20 of both the DCF and CAPM models, has produced such a return.

21
22
23

1 **COST OF DEBT**

2 Q. Have you reviewed Johnson Utilities' testimony on the Company-proposed
3 cost of long-term debt?

4 A. Yes.

5

6 Q. How did Johnson Utilities calculate the Company-proposed cost of long-
7 term debt?

8 A. The Company-proposed 8.00 percent cost of long-term debt represents
9 the interest rate associated with a promissory note²⁶ for \$772,000
10 (Attachment F). The loan agreement was entered into by Johnson Utilities
11 and the Company's Managing Member, George Johnson December 31,
12 1999. Under the terms of the loan agreement Johnson Utilities is required
13 to make only quarterly interest payments of 8.00 percent per annum over
14 the ten year life of the loan and to make a balloon payment of the principal
15 amount, plus any accrued interest, on December 31, 2009.

16

17 Q. have you accepted the Company-proposed 8.00 percent cost of long-term
18 debt?

19 A. Yes.

20

21

22

²⁶ Obtained through ACC Staff data request JMM 1-54.

1 **CAPITAL STRUCTURE**

2 Q. Have you reviewed Johnson Utilities' testimony regarding the Company's
3 proposed capital structure?

4 A. Yes.

5
6 Q. Please describe the Company's proposed capital structure.

7 A. The Company is proposing a Test Year capital structure comprised of 2.79
8 percent long-term debt and 97.21 percent common equity.

9
10 Q. Is Johnson Utilities' capital structure in line with industry averages?

11 A. No. Johnson Utilities' capital structure is much heavier in equity than the
12 capital structures of the water companies included in my cost of capital
13 analysis (Schedule WAR-9). The capital structures for those utilities
14 averaged 50.2 percent for debt and 49.8 percent for equity (49.7 percent
15 common equity + 0.1 percent preferred equity).

16 The same is true when Johnson Utilities' capital structure is compared to
17 the LDC's in my sample. The capital structures for those utilities averaged
18 45.7 percent for debt and 54.3 percent for equity (53.6 percent common
19 equity + 0.7 percent preferred equity).

20

21

22 ...

23

1 Q. In terms of risk, how does Johnson Utilities' capital structure compare to
2 the water utilities in your sample?

3 A. The water utilities in my sample would be considered as having a higher
4 level of financial risk (i.e. the risk associated with debt repayment)
5 because of their higher levels of debt and lower levels of common equity.
6 The additional financial risk is due to debt leverage which is embedded in
7 the cost of equities derived for those companies through the DCF
8 analysis. Thus, the cost of equity derived in my DCF analysis is
9 applicable to companies that are more leveraged and, theoretically
10 speaking, riskier than a utility with a lower level of debt similar to Johnson
11 Utilities'. In the case of a publicly traded company, such as those included
12 in my proxy, a company with Johnson Utilities' level of debt would be
13 perceived as having a lower level of financial risk and would therefore also
14 have a lower expected return on common equity.

15

16 Q. What capital structure are you proposing for Johnson Utilities?

17 A. I am recommending a capital structure which is comprised of 40.00
18 percent long-term debt and 60.00 percent common equity.

19

20 Q. Have you made an adjustment to your cost of common equity estimate
21 based on the aforementioned perception of lower financial risk?

22 A. No. The higher level of equity in my recommended hypothetical capital
23 structure will compensate the Company's shareholders for any perceived

1 higher levels of company-specific business risk that they believe Johnson
2 Utilities faces by providing a higher weighted cost of common equity.

3
4 **WEIGHTED COST OF CAPITAL**

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

7 A. The Company has proposed a weighted cost of capital of 10.43 percent.
8 This figure is the result of a weighted average of Johnson Utilities'
9 proposed 8.00 percent cost of long-term debt and 10.50 percent cost of
10 common equity capital. The Company-proposed 10.43 percent weighted
11 cost of capital is 225 basis points higher than the 8.18 percent weighted
12 cost of capital that I am recommending.

13
14 **COMMENTS ON JOHNSON UTILITIES' COST OF EQUITY CAPITAL**

15 **TESTIMONY**

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

18 A. The Company's cost of capital witness, Mr. Bourassa is recommending a
19 cost of common equity of 10.50 percent. His 10.50 percent cost of equity
20 capital is 2.19 basis points higher than the 8.31 percent cost of equity
21 capital that I have calculated.

22 ...

1 Q. What methods did Mr. Bourassa use to arrive at his cost of common
2 equity for Johnson Utilities?

3 A. Mr. Bourassa used both the DCF and CAPM methods. His DCF analysis
4 relies on two constant growth versions of the DCF model that are similar
5 to the model that I have used. His first constant growth model relies only
6 on earnings growth estimates for the "g" component of the model while his
7 second constant growth model relies on sustainable growth estimates for
8 the "g" component. Mr. Bourassa also uses a two-stage growth version
9 of the DCF model. The results of his DCF analysis range from 9.20
10 percent to 11.30 percent. His CAPM analysis uses the same model that I
11 have used but he obtains two different results: one obtained by using an
12 historical risk premium and the other by using a current market risk
13 premium. His CAPM analysis produces results of 10.80 percent using an
14 historical risk premium and 13.40 percent using a current market risk
15 premium. His overall CAPM results range from 10.00 percent to 12.30
16 percent.

17

18 **DCF Comparison**

19 Q. What are the main reasons for the difference in the results that you
20 obtained from your DCF analysis and the results that Mr. Bourassa
21 obtained from his DCF analysis using the constant growth model?

22 A. Mr. Bourassa conducted his analysis in the first quarter of 2008 and
23 consequently much of the data that he used in his analysis is now dated.

1 This can be seen in a price comparison of three of the water company
2 stocks that we both used in our samples: The difference between the
3 average closing stock prices used in my DCF model and spot prices used
4 by Mr. Bourassa in his DCF models are as follows:

| | <u>Rigsby</u> | <u>Bourassa</u> | <u>Difference</u> |
|-------|---------------|-----------------|-------------------|
| 7 AWR | \$31.77 | \$33.15 | - \$1.38 |
| 8 CWT | \$42.48 | \$35.77 | \$6.71 |
| 9 WTR | \$19.85 | \$19.81 | \$0.04 |

10
11 Q. What is the main difference between your constant growth DCF results
12 and Mr. Bourassa's first constant growth model which relied strictly on
13 earnings growth?

14 A. In respect to Mr. Bourassa's first constant growth model, which relied
15 strictly on earnings growth, there is a 17 basis point difference between
16 the average dividend yields of the three water utilities that our samples
17 have in common; his 3.05 to my 2.88. However, there is a 116 basis point
18 difference between his 7.67 percent average growth estimate ("g") for the
19 three common utilities (i.e. AWR, CWT, and WTR) as opposed to my 6.51
20 percent estimate which also takes into account other growth estimates on
21 dividends and book value. Subsequently Mr. Bourassa's DCF estimate,
22 relying only on earnings growth, is 10.74 percent as opposed to my
23 estimate of 9.39 percent which takes into account more recent data on

1 stock prices and growth projections for earnings, dividends and book
2 value on the three water utilities our samples have in common.

3

4 Q. Please explain the main difference between your constant growth DCF
5 results and Mr. Bourassa's second constant growth model which relied on
6 sustainable growth?

7 A. The same 17 basis point difference between our estimated dividend yields
8 exists in Mr. Bourassa's sustainable growth version of the constant growth
9 model. However, his estimate for the "g" component is seriously flawed.
10 As I noted earlier in my testimony, Value Line does not provide long-term
11 projections on earnings, dividends and book value on the other three
12 water utilities used by Mr. Bourassa in his sample. Consequently, Mr.
13 Bourassa uses an unrealistic 5.97 percent average of his growth
14 estimates for AWR, CWT and WTR for the other three water utilities
15 included in his sample as opposed to using actual accounting information
16 that is specific to those water utilities. This has the effect of increasing his
17 DCF model's median average estimate by 30 basis points.

18

19 Q. Did you conduct a two-stage DCF analysis like the one conducted by Mr.
20 Bourassa?

21 A. No. Primarily because the growth rate component that I estimated for my
22 single-stage model already takes into consideration both the near-term
23 and long-term growth rate projections that Mr. Bourassa averaged in his

1 multi-stage model. This being the case, I saw no need to conduct a
2 separate DCF analysis.

3
4 **CAPM Comparison**

5 Q. What are the main differences between your CAPM results and Mr.
6 Bourassa's CAPM results?

7 A. The main differences between our CAPM results is attributable to the
8 selection of U.S. Treasury instruments used as inputs for the risk-free rate
9 of return and the time period that has expired since Mr. Bourassa filed his
10 direct testimony. As I explained in my testimony on the economy, the
11 interest rates on U.S. Treasury instruments have fallen over the past year
12 as a result of the Fed's rate cutting actions (Attachment E). In addition,
13 Mr. Bourassa tends to rely on longer term maturities greater than five
14 years that are unrealistic proxies when one takes into account that utilities
15 generally file for new rates every three to five years.

16
17 Q. Have you updated Mr. Bourassa's CAPM inputs?

18 A. Yes. Based on data for the week ended January 23, 2009 (obtained in a
19 Federal Reserve Statistical Release dated February 2, 2009), the average
20 yield of the 5, 7 and 10-year U.S. treasury instruments, that Mr. Bourassa
21 used as the risk free rate in his historical market risk premium CAPM
22 model, was 2.04 percent as opposed to the average yield of 3.40 percent
23 that he relied on. The yield on the 30-year rate was 3.17 percent as

1 opposed to the 4.70 percent rate that Mr. Bourassa used in his current
2 market risk premium CAPM model.

3

4 Q. How did Mr. Bourassa arrive at his final 10.50 percent cost of common
5 equity for Johnson Utilities?

6 A. Mr. Bourassa's final estimate of 10.50 percent is based upon his review of
7 the results of his various DCF and CAPM models, along with
8 consideration of other factors relevant to Johnson Utilities. He states that
9 he believes that the 10.50 percent figure is a conservative estimate due to
10 Johnson Utilities' smaller size and higher operational/business risks are
11 taken into consideration.

12

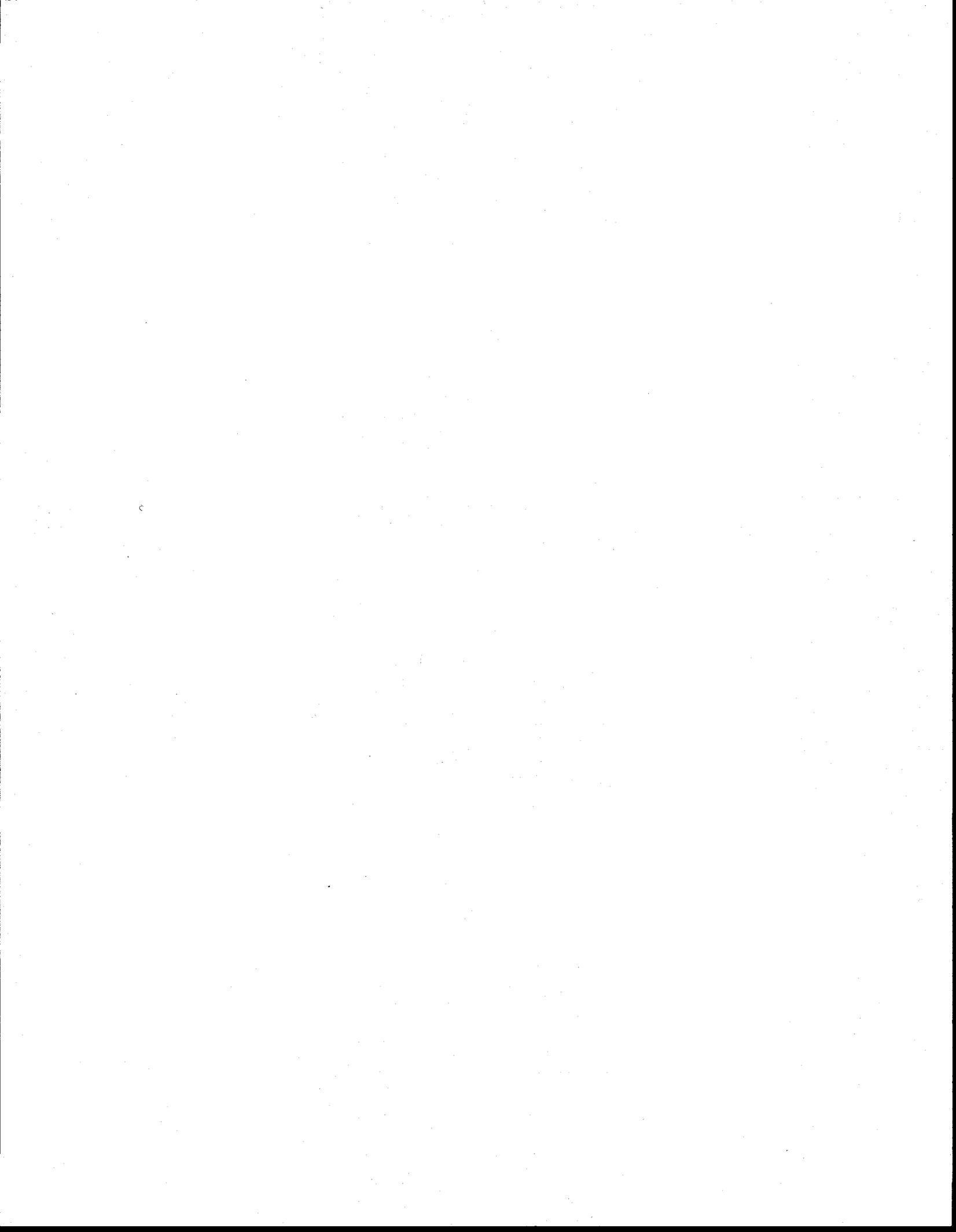
13 Q. Does your silence on any of the issues, matters or findings addressed in
14 the testimony of Mr. Bourassa or any other witness for Johnson Utilities
15 constitute your acceptance of their positions on such issues, matters or
16 findings?

17 A. No, it does not.

18

19 Q. Does this conclude your testimony on Johnson Utilities?

20 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

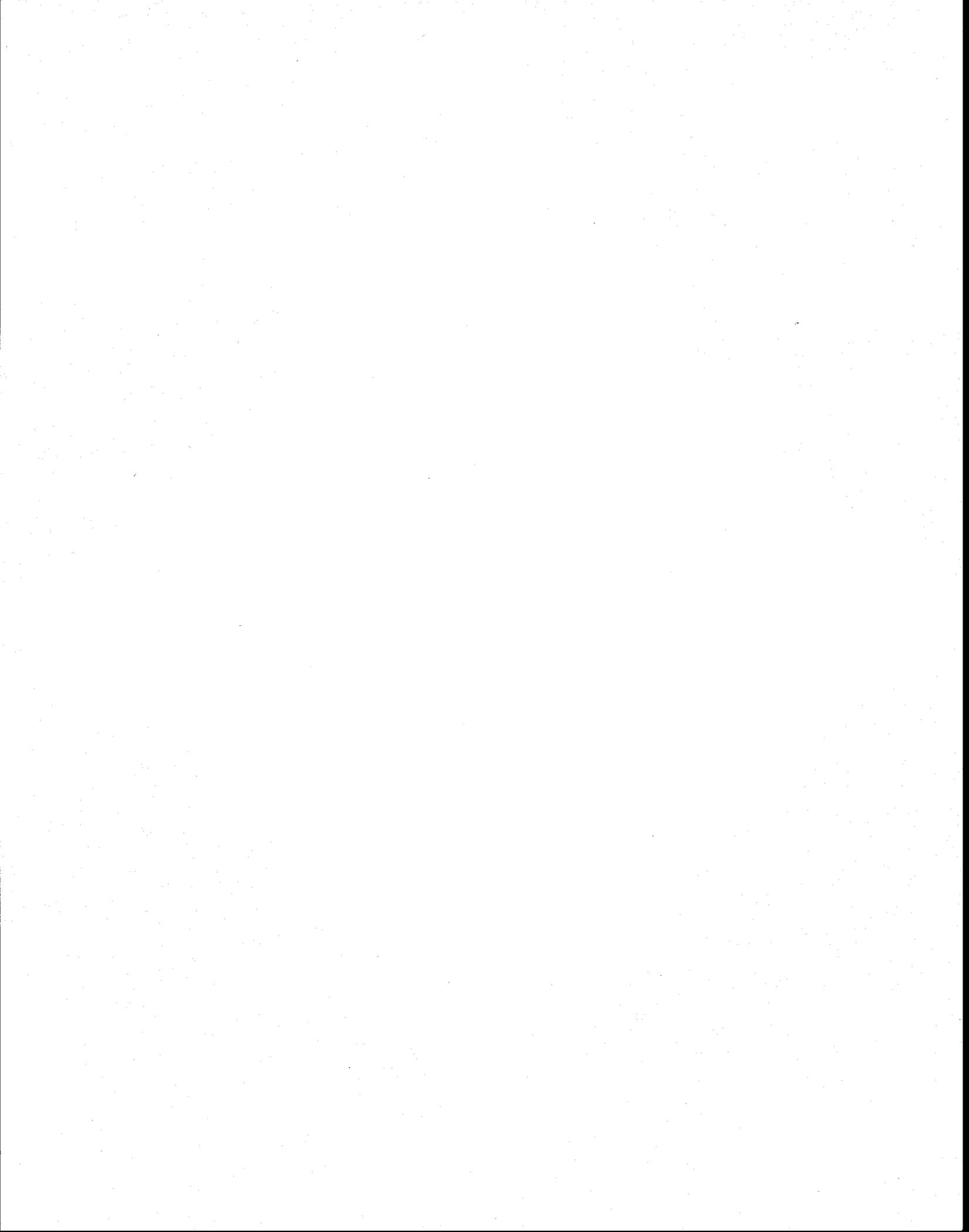
| <u>Utility Company</u> | <u>Docket No.</u> | <u>Type of Proceeding</u> |
|--|--------------------------|----------------------------------|
| ICR Water Users Association | U-2824-94-389 | Original CC&N |
| Rincon Water Company | U-1723-95-122 | Rate Increase |
| Ash Fork Development Association, Inc. | 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 |

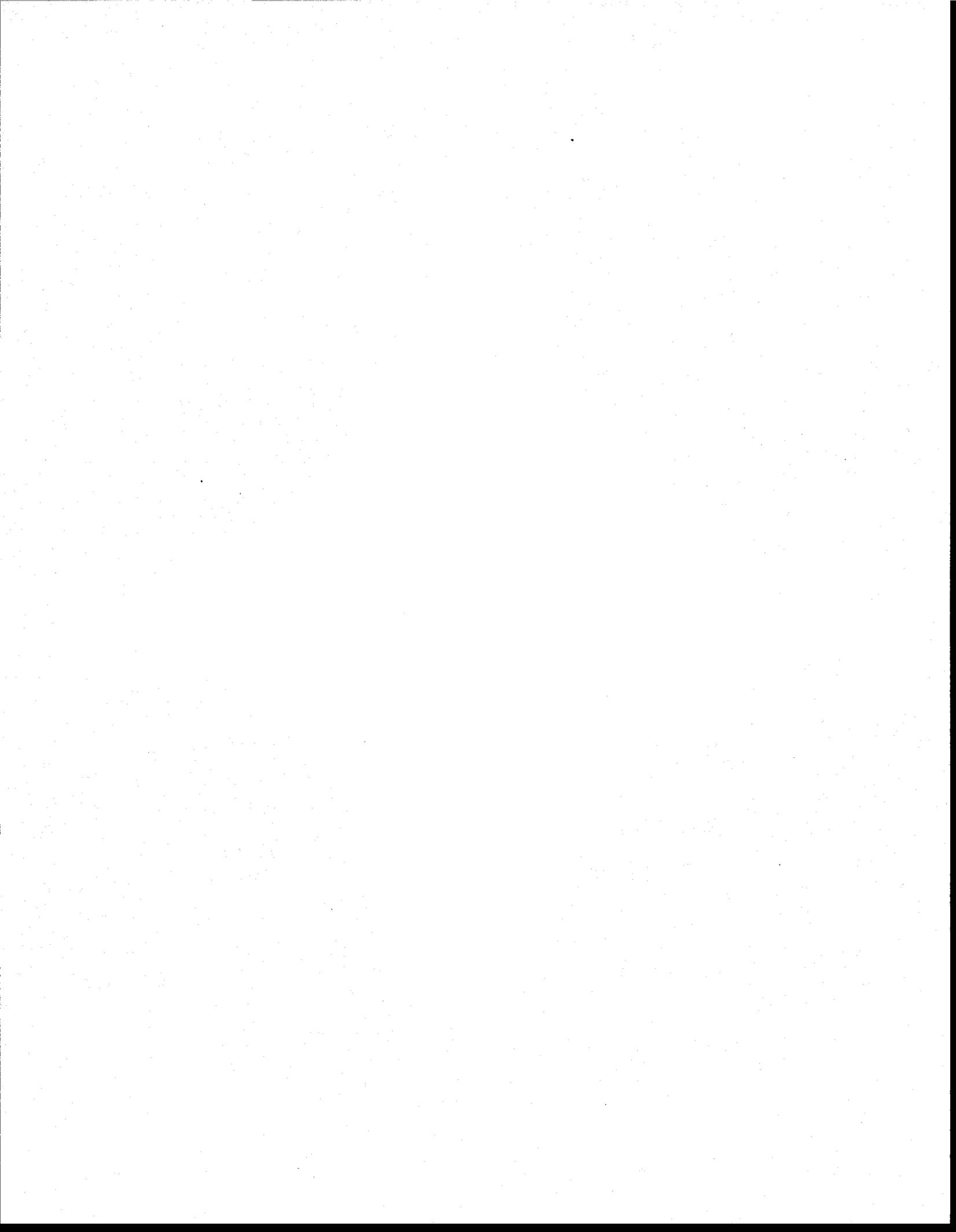
RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

| <u>Utility Company</u> | <u>Docket No.</u> | <u>Type of Proceeding</u> |
|----------------------------------|--------------------------|----------------------------------|
| Arizona-American Water Company | W-01303A-02-0867 et al. | Rate Increase |
| Arizona Public Service Company | E-01345A-03-0437 | Rate Increase |
| Rio Rico Utilities, Inc. | WS-02676A-03-0434 | Rate Increase |
| Qwest Corporation | T-01051B-03-0454 | Renewed Price Cap |
| Chaparral City Water Company | W-02113A-04-0616 | Rate Increase |
| Arizona Water Company | W-01445A-04-0650 | Rate Increase |
| Tucson Electric Power | E-01933A-04-0408 | Rate Review |
| Southwest Gas Corporation | G-01551A-04-0876 | Rate Increase |
| Arizona-American Water Company | W-01303A-05-0405 | Rate Increase |
| Black Mountain Sewer Corporation | SW-02361A-05-0657 | Rate Increase |
| Far West Water & Sewer Company | WS-03478A-05-0801 | Rate Increase |
| Gold Canyon Sewer Company | SW-02519A-06-0015 | Rate Increase |
| Arizona Public Service Company | E-01345A-05-0816 | Rate Increase |
| Arizona-American Water Company | W-01303A-06-0014 | Rate Increase |
| Arizona-American Water Company | W-01303A-05-0718 | Transaction Approval |
| Arizona-American Water Company | W-01303A-05-0405 | ACRM Filing |
| UNS Gas, Inc. | G-04204A-06-0463 | Rate Increase |
| Arizona-American Water Company | W-01303A-07-0209 | Rate Increase |
| Tucson Electric Power | E-01933A-07-0402 | Rate Increase |
| Southwest Gas Corporation | G-01551A-07-0504 | Rate Increase |
| Chaparral City Water Company | W-02113A-07-0551 | Rate Increase |
| Arizona-American Water Company | W-01303A-08-0227 et al. | Rate Increase |





ATTACHMENT A

Not much has changed in the Water Utility Industry since our October report. Stocks here have held their ground for the most part, whereas the broader market continued to struggle with ongoing economic uncertainty. Although an improving regulatory environment has played a hand, the industry is really benefiting from the its perceived safety, stemming from the necessity of water itself as well as the steady stream of income that the stocks here generate. The group as a whole ranks near the top of the *Value Line Investment Survey* for Timeliness and should continue to do well over the next six to 12 months, as investors look for a place to ride out the economic turbulence that is likely to persist.

The industry's long-term outlook is a completely different story, however. The aforementioned regulatory changes (see below for further details) undoubtedly boosts earnings growth potential, but the capital intensive nature of the water utility business, coupled with many entities' inadequate financial reserves, will offset most of these gains. Although the dividends add some appeal, none of the stocks in this group stand out for 3- to 5-year total return potential.

Favorable Market Environment

The economy's nosedive has been extremely harsh on most, with precipitous share-price declines becoming somewhat commonplace. However, Water Utility stocks have not been as hard hit, with their lower risk profiles enticing many seeking some shelter. This trend is likely to continue, as there is no recovery in sight just yet.

Improving Regulation

State run regulatory authorities were put in place to help maintain a balance of power between customers and providers and ensure fair business practices were followed. However, such has not always been the case, with the commissions typically backing the public during disputes. That said, regulators appear to have turned over a new leaf, handing down more timely and favorable general rate cases of late. The trend is most noticeable in the Golden State, where the California Public Utilities Commission has been delivering corporate friendly decisions on general rate cases. More recently, it has enacted mechanisms set forth in the

INDUSTRY TIMELINESS: 7 (of 99)

Water Action Plan that are aimed at limiting outside influences (such as weather) on usage rates. This ought to help providers generate smoother earnings results.

Downside

Not all is rosy here, however. Infrastructure costs in the United States are high and expected to increase even further going forward as many waterways are outdated and in need of maintenance and or a complete overhaul. Meanwhile, the threat of bioterrorism has prompted the EPA to up its requirements in recent years, leading us to believe that infrastructure repairs will require hundreds of millions of dollars in maintenance during the coming decade. Unfortunately, most of the companies in the sector are strapped for cash and do not have the finances to fund the necessary improvements. They are forced to seek outside financing, thus diluting shareholder gains, or close up shop.

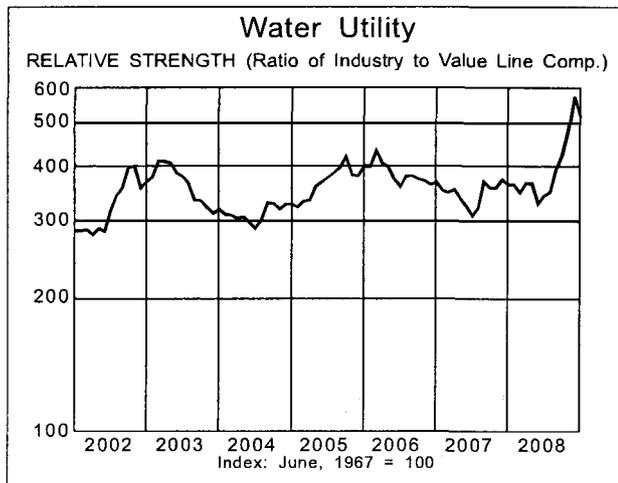
Conclusion

Now more than ever we believe that initiating a position in the Water Utility industry may be prudent. Although the 3- to 5-year prospects of these stocks pale in comparison to the *Value Line* median, projections for many outside the industry are counting on an economic recovery. However, there is no turnaround in sight and a timeline for such a scenario continues to elude Wall Street. That said, water utility stocks are likely to continue to do well regardless of the economic backdrop because water is and will always be a necessity. Even still, it is important to remember that the individual reports of each stock should be carefully reviewed before making a financial commitment. On that note, however, we believe that *California Water Services* is an interesting candidate, given its Above Average (2) ranking for Timeliness. *American Water Works* continues to intrigue us, too, but its short trading history makes it a speculative play. Meanwhile, *Aqua America's* M&A strategy gives it the most upside in our opinion, despite adding more risk.

Andre J. Costanza

| Composite Statistics: Water Utility Industry | | | | | | | |
|--|--------|---------|---------|-------|-------|------------------------|-------|
| 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | | 11-13 |
| 1173.6 | 1256.9 | 3454.1 | 3100.0 | 3925 | 4300 | Revenues (\$mill) | 5275 |
| 127.1 | 148.2 | d5.8 | d278.0 | 360 | 450 | Net Profit (\$mill) | 600 |
| 39.1% | 40.5% | NMF | NMF | 38.0% | 40.0% | Income Tax Rate | 38.5% |
| 1.0% | 1.1% | 3.7% | NMF | 5.0% | 5.0% | AFUDC % to Net Profit | 5.0% |
| 49.1% | 50.4% | 54.0% | 50.1% | 52.0% | 48.0% | Long-Term Debt Ratio | 50.0% |
| 50.7% | 49.5% | 45.9% | 49.9% | 48.0% | 52.0% | Common Equity Ratio | 50.0% |
| 2782.1 | 3049.9 | 12110.2 | 10790.6 | 12950 | 13600 | Total Capital (\$mill) | 16225 |
| 3836.9 | 4200.7 | 13308.3 | 11522.4 | 15180 | 16125 | Net Plant (\$mill) | 18350 |
| 6.0% | 6.3% | 1.6% | NMF | 5.0% | 5.5% | Return on Total Cap'l | 6.0% |
| 9.0% | 9.8% | NMF | NMF | 6.0% | 7.0% | Return on Shr. Equity | 7.5% |
| 9.0% | 9.8% | NMF | NMF | 6.0% | 7.0% | Return on Com Equity | 7.5% |
| 3.1% | 3.7% | NMF | NMF | 3.0% | 3.0% | Retained to Com Eq | 3.5% |
| 66% | 62% | NMF | NMF | 51% | 57% | All Div'ds to Net Prof | 56% |
| 25.4 | 29.4 | NMF | NMF | | | Avg Ann'l P/E Ratio | 18.0 |
| .79 | 1.57 | NMF | NMF | | | Relative P/E Ratio | 1.20 |
| 6.1% | 5.2% | 2.0% | 2.6% | | | Avg Ann'l Div'd Yield | 2.4% |

Bold figures are Value Line estimates



CALIFORNIA WATER

NYSE-CWT

RECENT PRICE **42.26**

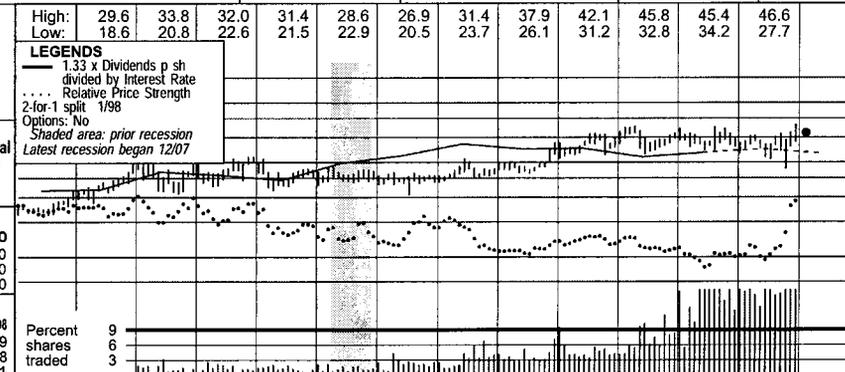
P/E RATIO **19.7** (Trailing: 21.8 Median: 22.0)

RELATIVE P/E RATIO **1.68**

DIV'D YLD **2.8%**

VALUE LINE

TIMELINESS 2 Raised 11/7/08
SAFETY 3 Lowered 7/27/07
TECHNICAL 2 Raised 11/28/08
BETA 1.05 (1.00 = Market)



| Target Price | Range |
|--------------|-------|
| 2011 | 2012 |
| 2013 | |
| 80 | |
| 60 | |
| 50 | |
| 40 | |
| 30 | |
| 25 | |
| 20 | |
| 15 | |
| 10 | |
| 7.5 | |

2011-13 PROJECTIONS

| Price | Gain | Ann'l Total Return |
|---------|--------|--------------------|
| High 70 | (+65%) | 16% |
| Low 45 | (+5%) | 5% |

Insider Decisions

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

Institutional Decisions

| | 1Q2008 | 2Q2008 | 3Q2008 |
|------------|--------|--------|--------|
| to Buy | 60 | 65 | 49 |
| to Sell | 40 | 45 | 58 |
| Hld's(000) | 10255 | 9849 | 9891 |

Percent shares traded: 9, 6, 3

| 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | © VALUE LINE PUB., INC. | 11-13 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|----------------------------------|-------|
| 12.29 | 13.34 | 12.59 | 13.17 | 14.48 | 15.48 | 14.76 | 15.96 | 16.16 | 16.26 | 17.33 | 16.37 | 17.18 | 17.44 | 16.20 | 17.76 | 19.20 | 20.25 | Revenues per sh | 22.15 |
| 1.92 | 2.25 | 2.02 | 2.07 | 2.50 | 2.92 | 2.60 | 2.75 | 2.52 | 2.20 | 2.65 | 2.51 | 2.83 | 3.03 | 2.71 | 3.12 | 3.65 | 4.00 | "Cash Flow" per sh | 4.65 |
| 1.09 | 1.35 | 1.22 | 1.17 | 1.51 | 1.83 | 1.45 | 1.53 | 1.31 | .94 | 1.25 | 1.21 | 1.46 | 1.47 | 1.34 | 1.50 | 1.99 | 2.15 | Earnings per sh ^A | 2.65 |
| .93 | .96 | .99 | 1.02 | 1.04 | 1.06 | 1.07 | 1.09 | 1.10 | 1.12 | 1.12 | 1.12 | 1.13 | 1.14 | 1.15 | 1.16 | 1.17 | 1.18 | Div'd Decl'd per sh ^B | 1.30 |
| 3.09 | 2.53 | 2.26 | 2.17 | 2.83 | 2.61 | 2.74 | 3.44 | 2.45 | 4.09 | 5.82 | 4.39 | 3.73 | 4.01 | 4.28 | 3.68 | 4.25 | 4.35 | Cap'l Spending per sh | 4.80 |
| 10.51 | 10.90 | 11.56 | 11.72 | 12.22 | 13.00 | 13.38 | 13.43 | 12.90 | 12.95 | 13.12 | 14.44 | 15.66 | 15.79 | 18.15 | 18.50 | 18.90 | 19.60 | Book Value per sh ^C | 21.05 |
| 11.38 | 11.38 | 12.49 | 12.54 | 12.62 | 12.62 | 12.62 | 12.94 | 15.15 | 15.18 | 15.18 | 16.93 | 18.37 | 18.39 | 20.66 | 20.67 | 21.00 | 21.50 | Common Shs Outst'g ^D | 23.00 |
| 14.1 | 13.6 | 14.1 | 13.7 | 11.9 | 12.6 | 17.8 | 17.8 | 19.6 | 27.1 | 19.8 | 22.1 | 20.1 | 24.9 | 29.2 | 26.1 | 18.9 | 18.9 | Avg Ann'l P/E Ratio | 22.0 |
| .86 | .80 | .92 | .92 | .75 | .73 | .93 | 1.01 | 1.27 | 1.39 | 1.08 | 1.26 | 1.06 | 1.33 | 1.58 | 1.37 | 1.19 | 1.19 | Relative P/E Ratio | 1.45 |
| 6.1% | 5.2% | 5.8% | 6.4% | 5.8% | 4.6% | 4.2% | 4.0% | 4.3% | 4.4% | 4.5% | 4.2% | 3.9% | 3.1% | 2.9% | 3.0% | 3.1% | 3.1% | Avg Ann'l Div'd Yield | 2.3% |
| CAPITAL STRUCTURE as of 9/30/08 | | | | | | | | | | | | | | | | | | | |
| Total Debt \$331.4 mill. Due in 5 Yrs \$65.0 mill. | | | | | | | | | | | | | | | | | | | |
| LT Debt \$288.7 mill. LT Interest \$21.0 mill. | | | | | | | | | | | | | | | | | | | |
| (LT interest earned: 4.2x; total int. cov.: 3.9x) | | | | | | | | | | | | | | | | | | | |
| Pension Assets-12/07 \$85.3 mill. | | | | | | | | | | | | | | | | | | | |
| Oblig. \$105.8 mill. | | | | | | | | | | | | | | | | | | | |
| Prd Stock None | | | | | | | | | | | | | | | | | | | |
| Common Stock 20,716,702 shs. | | | | | | | | | | | | | | | | | | | |
| as of 11/1/08 | | | | | | | | | | | | | | | | | | | |
| MARKET CAP: \$875 million (Small Cap) | | | | | | | | | | | | | | | | | | | |
| CURRENT POSITION | | | | | | | | | | | | | | | | | | | |
| 2006 2007 9/30/08 | | | | | | | | | | | | | | | | | | | |
| (\$MILL.) | | | | | | | | | | | | | | | | | | | |
| Cash Assets 60.3 6.7 9.4 | | | | | | | | | | | | | | | | | | | |
| Other 49.3 53.3 74.3 | | | | | | | | | | | | | | | | | | | |
| Current Assets 109.6 60.0 83.7 | | | | | | | | | | | | | | | | | | | |
| Accts Payable 33.1 36.7 45.6 | | | | | | | | | | | | | | | | | | | |
| Debt Due 1.8 2.7 42.7 | | | | | | | | | | | | | | | | | | | |
| Other 35.3 30.3 57.7 | | | | | | | | | | | | | | | | | | | |
| Current Liab. 70.2 69.7 146.0 | | | | | | | | | | | | | | | | | | | |
| Fix. Chg. Cov. 317% 365% 400% | | | | | | | | | | | | | | | | | | | |

ANNUAL RATES Past 10 Yrs. Past 5 Yrs. Est'd '05-'07 to '11-'13

| | | | |
|-------------|-------|------|-------|
| Revenues | 2.0% | 0.5% | 4.5% |
| "Cash Flow" | 1.5% | 4.0% | 8.0% |
| Earnings | -0.5% | 4.5% | 11.0% |
| Dividends | 1.0% | 0.5% | 2.0% |
| Book Value | 3.5% | 6.0% | 3.0% |

QUARTERLY REVENUES (\$ mill.)

| Cal-endar | Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|-----------|--------|--------|--------|--------|-----------|
| 2005 | 60.3 | 81.5 | 101.1 | 77.8 | 320.7 |
| 2006 | 65.2 | 81.1 | 107.8 | 80.6 | 334.7 |
| 2007 | 71.6 | 95.8 | 113.8 | 85.9 | 367.1 |
| 2008 | 72.9 | 105.6 | 131.7 | 92.8 | 403 |
| 2009 | 80.0 | 115 | 140 | 100 | 435 |

EARNINGS PER SHARE ^A

| Cal-endar | Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|-----------|--------|--------|--------|--------|-----------|
| 2005 | .03 | .41 | .71 | .32 | 1.47 |
| 2006 | .04 | .31 | .68 | .31 | 1.34 |
| 2007 | .07 | .37 | .67 | .39 | 1.50 |
| 2008 | .01 | .48 | 1.06 | .44 | 1.99 |
| 2009 | .10 | .55 | 1.00 | .50 | 2.15 |

QUARTERLY DIVIDENDS PAID ^B

| Cal-endar | Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|-----------|--------|--------|--------|--------|-----------|
| 2005 | .285 | .285 | .285 | .285 | 1.14 |
| 2006 | .2875 | .2875 | .2875 | .2875 | 1.15 |
| 2007 | .290 | .290 | .290 | .290 | 1.16 |
| 2008 | .293 | .293 | .293 | .293 | 1.17 |

BUSINESS: California Water Service Group provides regulated and nonregulated water service to roughly 463,600 customers in 83 communities in California, Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired National Utility Company (5/04); Rio Grande Corp. (11/00).

Ongoing improvements on the regulatory front continue to be a windfall for California Water Service Group. The water utility provider reported earnings of \$1.06 in the third quarter, 58% better than last year. Revenues increased 16%, to \$131.7 million, thanks to favorable decisions regarding General Rate Cases (GRC) by the California Public Utilities Commission (CPUC). Notably, the company recently received a \$47 million annual revenue increase retroactive to July 1st for its 2007 GRC. Meanwhile, the CPUC also implemented a water revenue adjustment mechanism, a modified cost-balancing account, and tiered rates. The new mechanisms ought to better enable California to recover incurred costs and generate more consistent revenues. **We expect growth rates to remain solid, albeit slow a bit.** Although the aforementioned regulatory changes, along with the recent purchase of Hawaii-based Waikoloa Water and Wastewater Systems, augur well for the top line, the company must still contend with burgeoning infrastructure maintenance expenses (see below). In all, we look for earnings growth to

Revenue breakdown, '07: residential, 69%; business, 18%; public authorities, 5%; industrial, 5%; other, 3%. '07 reported depreciation rate: 2.2%. Has roughly 890 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson (4/08 Proxy). Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwatergroup.com.

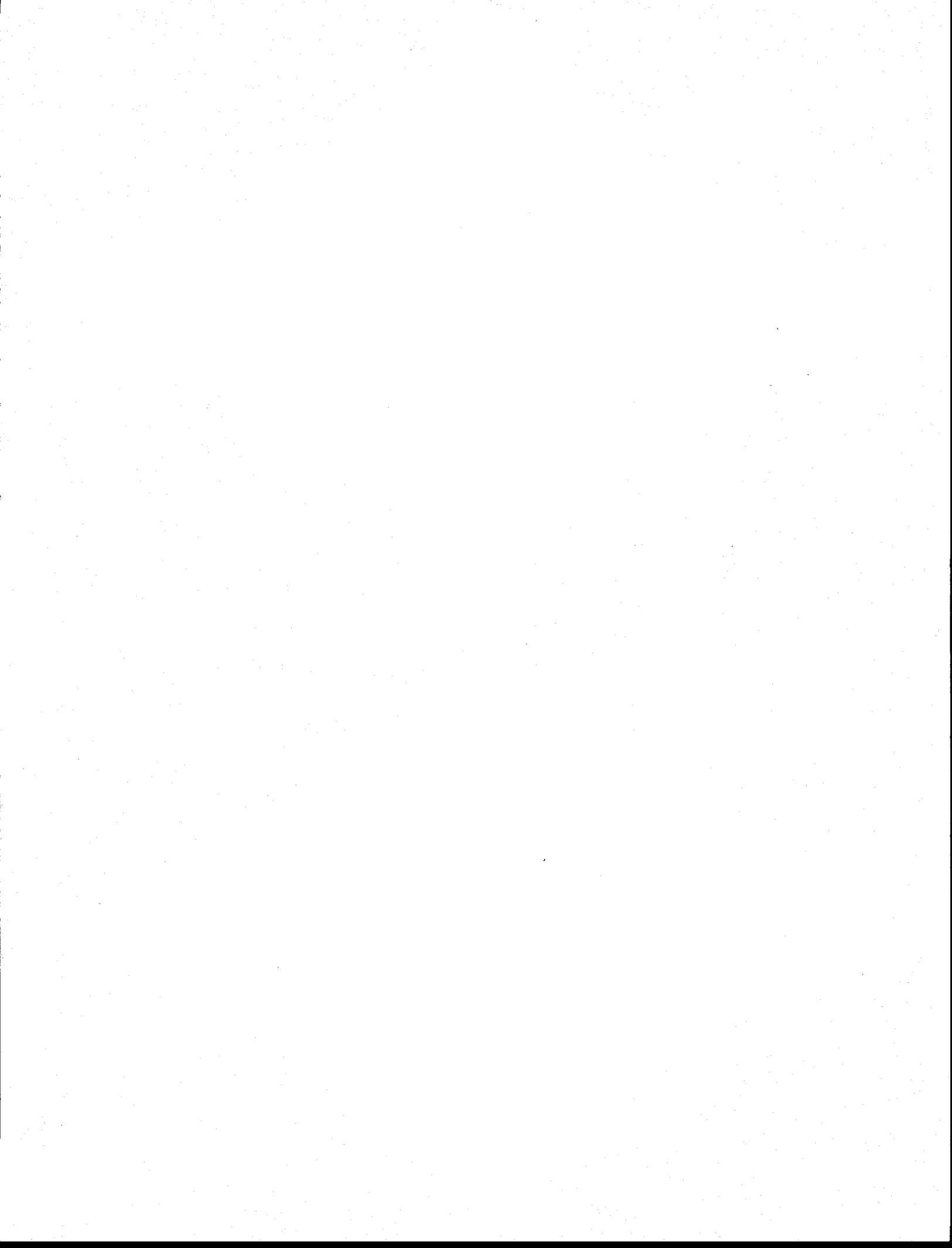
dip back into the high single digits in 2009. Share net is pegged to advance 13% in the fourth quarter. **These shares have picked up considerable steam since our October report.** They've swelled roughly 34% in an otherwise sinking market. The issue is now ranked 2 (Above Average) for Timeliness and is expected to continue outperforming the broad market over the next six to 12 months, given the economic uncertainty we envision persisting and the industry's historically safe billing. **That said, these shares do not hold much in the way of 3- to 5-year appreciation potential.** Water distribution is a very capital-intensive business, with aging infrastructures and increasingly stringent EPA requirements likely to necessitate even higher capital spending budgets going forward. Indeed, CWT is light on cash and will have to look to outside financiers to foot the bill, thus diluting shareholder gains. The stock is testing its all-time high and is already trading within our 2011-2013 Target Price Range. We think there will be a better entry point. *Andre J. Costanza* January 23, 2009

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; '02, 8¢. Next earnings report due early Feb.

(B) Dividends historically paid in mid-Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available.

(C) Incl. deferred charges. In '07: \$69.7 mill., \$3.37/sh.
(D) In millions, adjusted for split.

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



ATTACHMENT B

The Natural Gas Utility Industry has moved to the top quartile of our industry spectrum for Timeliness since our September review. However, this group has been facing a challenging operating environment due to a tough regulatory climate, frustrating weather conditions, and weakness in the economy. These utilities have remained resilient, though, and have continued to post solid results. Thus, investor sentiment has improved for these good-quality businesses, despite of the turmoil in the world's financial markets.

Macroeconomic Climate

Much has happened since our last report. The global economy has weakened considerably in recent months. Accordingly, the domestic economy has moved into a recession. The weak real estate market and the credit crunch have been among the factors behind the slow-down. Natural Gas Utilities have not been immune to these problems. To be sure, weakness in the housing market has weighed on demand in this industry. Furthermore, consumers are becoming more cost-conscious, which has led to more energy conservation. As a result, usage continues to decline across the industry. What's more, as consumers continue to face this tough economic environment, bill collection will likely become increasingly difficult in the year ahead. Despite these pressures, this sector has become a more attractive choice relative to the rest of the market. Indeed, members in this group tend to offer fairly predictable results, solid balance sheets, and attractive yields.

Regulation

The most important factor for natural gas utilities remains the regulatory environment. This is determined by state commissions that dictate the return on equity these companies can achieve. On point, many of the players in this industry have rate cases pending. The decisions on these cases will be a key factor driving this sector's performance in the near term. If a company receives an unfavorable ruling, it can end up with a tight budget that can hurt profitability. In fact, a few of these utilities appear to be operating with insufficient relief. On the other hand, a positive decision can provide a boost to earnings. Therefore, regulators try to strike a balance between shareholder and consumer interests

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when evaluating rate cases. All told, investors should keep an eye out for these decisions, which will likely continue to impact this industry's performance going forward.

Weather

The majority of this sector's annual profits will be derived over the next few months during the peak heating seasons. Thus far, earnings have been mostly unimpressive for this group this year. Therefore, the coming months will be key for companies trying to post gains in 2008.

Investors should watch for unseasonably warm or cold weather because these patterns can create volatility for this group. Many enterprises contend with this risk by using weather-adjusted rate mechanisms. This strategy hedges the risk of weather abnormalities, enabling utilities to maintain their steady operating performance.

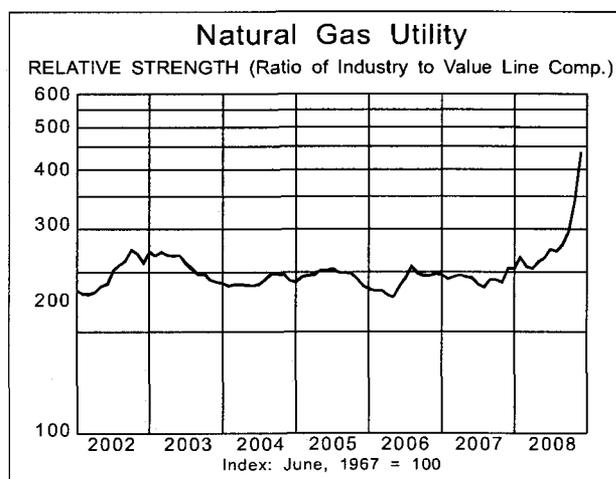
Conclusion

The majority of the stocks in this industry are ranked 3 (Average) for Timeliness. However, *Atmos Energy*, *Laclede Group*, *UGI Corporation*, and *New Jersey Resources* are ranked Above Average for relative price performance. Investors should note that this group has moved to the top quartile of our industry spectrum for Timeliness since our September report. Given these businesses predictable cash flows and solid balance sheets, utilities tend to be more defensive plays when there is volatility in the global economy. However, we recommend interested investors look for companies with a favorable regulatory environment.

The main appeal of this sector is its above-average dividend yield. The average yield for this industry is about 4.4%, which is above the *Value Line* median of 3.5%. Most notably, *AGL Resources*, *Atmos Energy*, *NiSource*, and *Nicor* all offer yields that top the industry norm. Thus, conservative income-oriented accounts may find these stocks of interest.

Richard Gallagher

| Composite Statistics: Natural Gas Utility | | | | | | | | | | |
|---|--------|--------|--------|---------------------------------------|-------|------------------------|-------|--|--|--|
| 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | | 11-13 | | | |
| 21683 | 28176 | 30783 | 30588 | 32000 | 34000 | Revenues (\$mill) | 40500 | | | |
| 908.1 | 1087.3 | 1218.7 | 1250.4 | 1325 | 1400 | Net Profit (\$mill) | 1650 | | | |
| 36.4% | 36.7% | 35.4% | 33.5% | 36.0% | 36.0% | Income Tax Rate | 36.0% | | | |
| 4.2% | 3.9% | 4.0% | 4.1% | 4.1% | 4.1% | Net Profit Margin | 4.1% | | | |
| 50.9% | 51.3% | 51.5% | 49.5% | 51.0% | 51.0% | Long-Term Debt Ratio | 52.0% | | | |
| 48.9% | 48.6% | 48.4% | 50.4% | 48.0% | 48.0% | Common Equity Ratio | 46.0% | | | |
| 16806 | 18933 | 20687 | 21592 | 22500 | 24000 | Total Capital (\$mill) | 27500 | | | |
| 18979 | 21340 | 22849 | 23904 | 25250 | 26500 | Net Plant (\$mill) | 40000 | | | |
| 6.9% | 7.5% | 7.5% | 7.4% | 6.0% | 6.0% | Return on Total Cap'l | 6.0% | | | |
| 11.0% | 11.8% | 12.2% | 11.5% | 11.0% | 11.5% | Return on Shr. Equity | 12.0% | | | |
| 11.0% | 11.8% | 12.2% | 11.5% | 11.0% | 11.5% | Return on Com Equity | 12.0% | | | |
| 4.3% | 4.9% | 5.4% | 4.9% | 5.3% | 5.5% | Retained to Com Eq | 6.0% | | | |
| 61% | 59% | 55% | 57% | 60% | 60% | All Div'ds to Net Prof | 60% | | | |
| 15.5 | 15.9 | 14.7 | 16.1 | Bold figures are Value Line estimates | | Avg Ann'l P/E Ratio | 13.0 | | | |
| .82 | .85 | .79 | .85 | | | Relative P/E Ratio | .85 | | | |
| 3.9% | 3.7% | 3.8% | 3.6% | | | Avg Ann'l Div'd Yield | 4.6% | | | |
| 359% | 371% | 381% | 397% | 375% | 375% | Fixed Charge Coverage | 400% | | | |



AGL RESOURCES NYSE-ATG

RECENT PRICE **28.54** P/E RATIO **10.2** (Trailing: 11.0 Median: 14.0) RELATIVE P/E RATIO **1.00** DIV'D YLD **6.0%** VALUE LINE

TIMELINESS 3 Raised 11/7/08
SAFETY 2 New 7/27/90
TECHNICAL 3 Raised 12/21/07
BETA .75 (1.00 = Market)

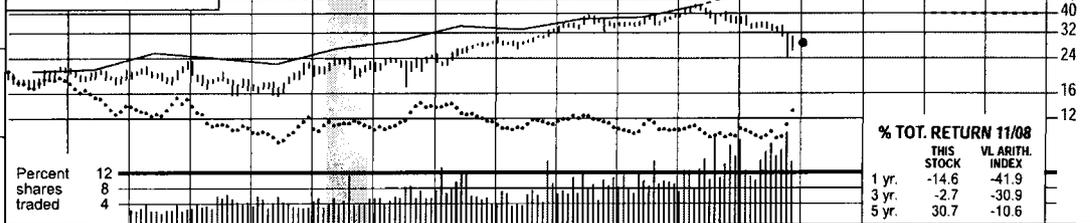
High: 21.6 23.4 23.4 23.2 24.5 25.0 29.3 33.7 39.3 40.1 44.7 39.1
 Low: 17.8 17.7 15.6 15.5 19.0 17.3 21.9 26.5 32.0 34.4 35.2 24.0

LEGENDS
 — 1.25 x Dividends p sh divided by Interest Rate
 Relative Price Strength
 2-for-1 split 12/95
 Options: Yes
 Shaded area: prior recession
 Latest recession began 12/07

2011-13 PROJECTIONS
 Price Gain Ann'l Total
 High 55 (+95%) 21%
 Low 40 (+40%) 13%

Insider Decisions
 J F M A M J J A S
 to Buy 0 0 0 0 0 0 0 0 0
 Options 3 2 1 0 3 0 0 1 0
 to Sell 0 1 0 0 2 0 0 1 0

Institutional Decisions
 1Q2008 2Q2008 3Q2008
 to Buy 105 131 92
 to Sell 127 106 130
 Hld's(000) 47696 46762 48796



| 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 | 35.40 | 35.90 | 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 | 4.64 | 4.70 | 4.80 | "Cash Flow" per sh | 5.40 |
| 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 | 2.70 | 2.80 | Earnings per sh ^{A B} | 3.15 |
| 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 | 4.20 | 4.35 | Cap'l Spending per sh | 5.00 |
| 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 | 22.60 | 22.75 | Book Value per sh ^D | 23.15 |
| 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 | 77.00 | 78.00 | 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 | 14.7 | 14.7 | 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 | .78 | .78 | .78 | 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% | 4.1% | 4.1% | Avg Ann'l Div'd Yield | 3.9% |

CAPITAL STRUCTURE as of 9/30/08
 Total Debt \$2444.0 mill. Due in 5 Yrs \$1088 mill.
 LT Debt \$1675.0 mill. LT Interest \$85.0 mill.
 (Total interest coverage: 3.8x)

Leases, Uncapitalized Annual rentals \$26.0 mill.

Pension Assets-12/07 \$383.0 mill. Oblig. \$427.0 mill.

Pfd Stock None
 Common Stock 76,780,439 shs. as of 10/22/08

MARKET CAP: \$2.2 billion (Mid Cap)

CURRENT POSITION 2006 2007 9/30/08

| | 2006 | 2007 | 9/30/08 |
|----------------|--------|--------|---------|
| Cash Assets | 20.0 | 21.0 | 11.0 |
| Other | 1802.0 | 1790.0 | 1929.0 |
| Current Assets | 1822.0 | 1811.0 | 1940.0 |
| Accts Payable | 213.0 | 172.0 | 181.0 |
| Debt Due | 539.0 | 580.0 | 769.0 |
| Other | 875.0 | 893.0 | 872.0 |
| Current Liab. | 1627.0 | 1645.0 | 1822.0 |
| Fix. Chg. Cov. | 397% | 391% | 390% |

| | | | | | | | | | | | | | | | | | | | |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|--------|--------|-------|-------|--------|--------|--------------------------------|-------|
| 1338.6 | 1068.6 | 607.4 | 1049.3 | 868.9 | 983.7 | 1832.0 | 2718.0 | 2621.0 | 2494.0 | 2725 | 2800 | 2621.0 | 2494.0 | 2725 | 2800 | 2621.0 | 2494.0 | Revenues (\$mill) ^A | 3300 |
| 80.6 | 52.1 | 71.1 | 82.3 | 103.0 | 132.4 | 153.0 | 193.0 | 212.0 | 210.5 | 210 | 220 | 210.5 | 210 | 210 | 220 | 210 | 220 | Net Profit (\$mill) | 250 |
| 32.5% | 33.1% | 34.3% | 40.7% | 36.0% | 35.9% | 37.0% | 37.7% | 37.8% | 37.6% | 39.0% | 38.0% | 39.0% | 38.0% | 37.8% | 37.6% | 39.0% | 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% | 7.7% | 7.9% | 8.1% | 8.4% | 8.1% | 8.4% | 7.7% | 7.9% | Net Profit Margin | 7.6% |
| 47.5% | 45.3% | 45.9% | 61.3% | 58.3% | 50.3% | 54.0% | 51.9% | 50.2% | 50.2% | 49.0% | 48.0% | 49.0% | 48.0% | 49.0% | 48.0% | 49.0% | 48.0% | Long-Term Debt Ratio | 45.5% |
| 47.1% | 49.2% | 48.3% | 38.7% | 41.7% | 49.7% | 46.0% | 48.1% | 49.8% | 49.8% | 51.0% | 52.0% | 49.8% | 49.8% | 51.0% | 52.0% | 51.0% | 52.0% | Common Equity Ratio | 54.5% |
| 1388.4 | 1345.8 | 1286.2 | 1736.3 | 1704.3 | 1901.4 | 3008.0 | 3114.0 | 3231.0 | 3335.0 | 3415 | 3425 | 3231.0 | 3335.0 | 3415 | 3425 | 3231.0 | 3335.0 | Total Capital (\$mill) | 3400 |
| 1534.0 | 1598.9 | 1637.5 | 2058.9 | 2194.2 | 2352.4 | 3178.0 | 3271.0 | 3436.0 | 3566.0 | 3750 | 3850 | 3436.0 | 3566.0 | 3750 | 3850 | 3436.0 | 3566.0 | Net Plant (\$mill) | 4200 |
| 7.6% | 5.7% | 7.4% | 6.5% | 8.1% | 8.9% | 6.3% | 7.9% | 8.0% | 7.7% | 7.5% | 7.5% | 8.0% | 7.7% | 7.5% | 7.5% | 7.5% | 7.5% | 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% | 12.0% | 12.5% | 13.2% | 12.7% | 12.0% | 12.5% | 12.0% | 12.5% | Return on Shr. Equity | 13.5% |
| 12.3% | 7.9% | 11.5% | 12.3% | 14.5% | 14.0% | 11.0% | 12.9% | 13.2% | 12.7% | 12.0% | 12.5% | 13.2% | 12.7% | 12.0% | 12.5% | 12.0% | 12.5% | Return on Com Equity | 13.5% |
| 4.4% | NMF | 3.2% | 4.2% | 7.0% | 6.6% | 5.6% | 6.2% | 6.3% | 5.3% | 4.5% | 5.0% | 6.3% | 5.3% | 4.5% | 5.0% | 4.5% | 5.0% | Retained to Com Eq | 5.5% |
| 64% | 101% | 72% | 65% | 52% | 53% | 49% | 52% | 52% | 58% | 62% | 61% | 52% | 58% | 62% | 61% | 61% | 61% | All Div'ds to Net Prof | 59% |

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 Utilpro, 3/01. Acquired Compass Energy Services, 10/07. Officers/directors own less than 1.0% of common (3/08 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.

Shares of AGL Resources have held up relatively well since our September review, despite considerable weakness in the broader market. The company reported healthy performance in the third quarter. Revenues and share earnings advanced considerably in the recent interim. This was primarily due to strength in the Wholesale Services business, which reported much higher operating income for the period. Elsewhere, performance at the Distribution Operations was helped by greater pipeline replacement revenues for Atlanta Gas Light. However, the utility operations continued to be dampened by weakness in the housing market, and customer growth has slowed significantly in recent times. Despite the challenging economic environment, healthy performance should continue at the company's core businesses. Thus, we anticipate solid results at AGL Resources going forward.

The company continues to progress with its capital projects. The Hampton Roads Crossing Project remains on schedule and within budget. This initiative will connect two pipeline systems crossing the Hampton Roads harbor, and provide for an ample supply of natural gas to the region. The project will likely be completed late in 2009, and ought to earn solid returns for the company. Elsewhere, construction continues on the Spindletop salt dome in Beaumont, Texas. This underground natural gas storage facility will offer up to 12 billion cubic feet (bcf) of gas capacity in two caverns. The project should meet a growing demand for natural gas storage in the region. Meantime, AGL is moving forward with the Magnolia Pipeline Project. This \$48 million initiative will provide transportation of regasified liquid natural gas from Elba Island to Atlanta Gas Light in the Macon and Atlanta areas.

Overall, this stock offers attractive total return potential for a utility. We anticipate steady bottom-line growth from 2009 onward, assuming capital projects pay off. Moreover, AGL earns high marks for Safety, Price Stability, and Earnings Predictability. Income investors may find this neutrally-ranked issue's healthy dividend yield appealing. Earnings need to pick up for dividend growth to remain above average, though.

Michael Napoli, CPA December 12, 2008

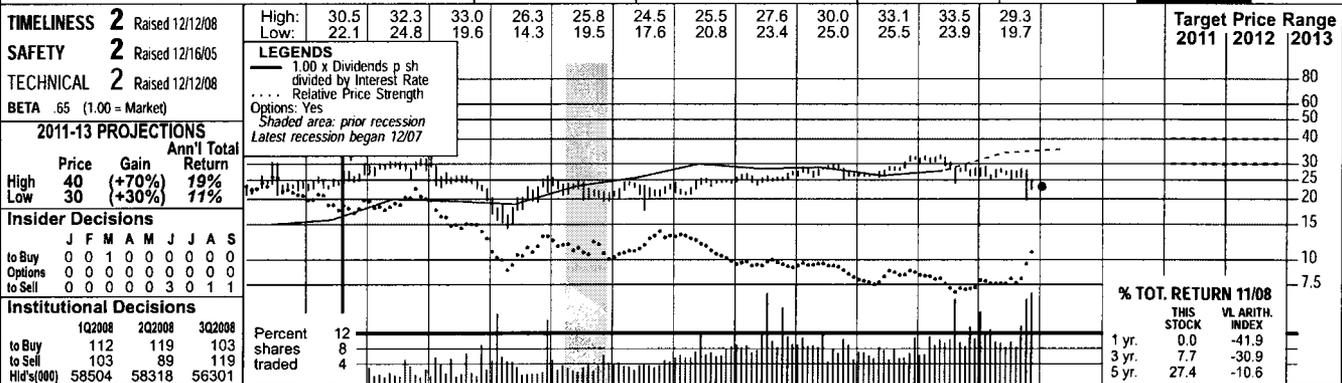
(A) Fiscal year ends December 31st. Ended September 30th prior to 2002.
 (B) Diluted earnings per share. Excl. nonrecurring gains (losses): '95, (\$0.83); '99, \$0.39; '00, \$0.13; '01, \$0.13; '03, (\$0.07); '08, (\$0.45).
 (C) Dividends historically paid early March, June, Sept., and Dec. ■ Div'd reinvest.
 (D) Includes intangibles. At 9/30/08: \$418 million, \$5.44/share.
 (E) In millions, adjusted for stock split.

plan available. (D) Includes intangibles. At 9/30/08: \$418 million, \$5.44/share. (E) In millions, adjusted for stock split.

| Company's Financial Strength | B++ |
|------------------------------|-----|
| Stock's Price Stability | 100 |
| Price Growth Persistence | 80 |
| Earnings Predictability | 85 |

ATMOS ENERGY CORP. NYSE-ATO

RECENT PRICE **23.24** P/E RATIO **10.8** (Trailing: 11.6 Median: 16.0) RELATIVE P/E RATIO **1.06** DIV'D YLD **5.7%** VALUE LINE



TIMELINESS 2 Raised 12/12/08
SAFETY 2 Raised 12/16/05
TECHNICAL 2 Raised 12/12/08
BETA .65 (1.00 = Market)

2011-13 PROJECTIONS
 Price High 40 Low 30 Gain (+70%) Return 19%
 Ann'l Total Return 11%

Insider Decisions
 J F M A M J J A S
 to Buy 0 0 1 0 0 0 0 0 0
 Options 0 0 0 0 0 0 0 0 0
 to Sell 0 0 0 0 0 3 0 1 1

Institutional Decisions
 1Q2008 2Q2008 3Q2008
 to Buy 112 119 103
 to Sell 103 89 119
 Hld's(000) 58504 58318 56301

Percent shares traded 12
 8
 4

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

CAPITAL STRUCTURE as of 6/30/08
 Total Debt \$2234.0 mill. Due in 5 Yrs \$920.0 mill.
 LT Debt \$2119.7 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 90,627,522 shs.
 as of 7/31/08
MARKET CAP: \$2.1 billion (Mid Cap)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | © VALUE LINE PUB., INC. 11-13 |
|-----------------------------------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------------------------------|
| Revenue per sh ^A | 27.90 | 22.09 | 26.61 | 35.36 | 22.82 | 54.39 | 46.50 | 61.75 | 75.27 | 66.03 | 79.35 | 86.95 | 93.05 |
| "Cash Flow" per sh | 3.38 | 2.62 | 3.01 | 3.03 | 3.39 | 3.23 | 2.91 | 3.90 | 4.26 | 4.14 | 4.20 | 4.40 | 4.65 |
| Earnings per sh ^{A,B} | 1.84 | .81 | 1.03 | 1.47 | 1.45 | 1.71 | 1.58 | 1.72 | 2.00 | 1.94 | 2.00 | 2.10 | 2.45 |
| Div'ds Decl'd per sh ^C | 1.06 | 1.10 | 1.14 | 1.16 | 1.18 | 1.20 | 1.22 | 1.24 | 1.26 | 1.28 | 1.30 | 1.32 | 1.40 |
| Cap'l Spending per sh | 4.44 | 3.53 | 2.36 | 2.77 | 3.17 | 3.10 | 3.03 | 4.14 | 5.20 | 4.39 | 5.20 | 5.65 | 6.30 |
| Book Value per sh | 12.21 | 12.09 | 12.28 | 14.31 | 13.75 | 16.66 | 18.05 | 19.90 | 20.16 | 22.01 | 23.65 | 24.10 | 25.55 |
| Common Shs Outst'g ^D | 30.40 | 31.25 | 31.95 | 40.79 | 41.68 | 51.48 | 62.80 | 80.54 | 81.74 | 89.33 | 91.00 | 92.00 | 115.00 |
| Avg Ann'l P/E Ratio | 15.4 | 33.0 | 18.9 | 15.6 | 15.2 | 13.4 | 15.9 | 16.1 | 13.5 | 15.9 | 13.6 | | 14.5 |
| Relative P/E Ratio | .80 | 1.88 | 1.23 | .80 | .83 | .76 | .84 | .86 | .73 | .83 | .80 | | .95 |
| Avg Ann'l Div'd Yield | 3.7% | 4.1% | 5.9% | 5.1% | 5.4% | 5.2% | 4.9% | 4.5% | 4.7% | 4.2% | 4.8% | | 4.0% |
| Revenues (\$mill) ^A | 848.2 | 690.2 | 850.2 | 1442.3 | 950.8 | 2799.9 | 2920.0 | 4973.3 | 6152.4 | 5898.4 | 7221.3 | 8000 | 10700 |
| Net Profit (\$mill) | 55.3 | 25.0 | 32.2 | 56.1 | 59.7 | 79.5 | 86.2 | 135.8 | 162.3 | 170.5 | 180.3 | 195 | 280 |
| Income Tax Rate | 36.5% | 35.0% | 36.1% | 37.3% | 37.1% | 37.1% | 37.4% | 37.7% | 37.6% | 35.8% | 38.4% | 38.5% | 40.0% |
| Net Profit Margin | 6.5% | 3.6% | 3.8% | 3.9% | 6.3% | 2.8% | 3.0% | 2.7% | 2.6% | 2.9% | 2.5% | 2.4% | 2.6% |
| Long-Term Debt Ratio | 51.8% | 50.0% | 48.1% | 54.3% | 53.9% | 50.2% | 43.2% | 57.7% | 57.0% | 52.0% | 51.0% | 51.0% | 51.0% |
| Common Equity Ratio | 48.2% | 50.0% | 51.9% | 45.7% | 46.1% | 49.8% | 56.8% | 42.3% | 43.0% | 48.0% | 49.0% | 49.0% | 49.0% |
| Total Capital (\$mill) | 769.7 | 755.1 | 755.7 | 1276.3 | 1243.7 | 1721.4 | 1994.8 | 3785.5 | 3828.5 | 4092.1 | 4170 | 4450 | 6000 |
| Net Plant (\$mill) | 917.9 | 965.8 | 982.3 | 1335.4 | 1300.3 | 1516.0 | 1722.5 | 3374.4 | 3629.2 | 3836.8 | 4135 | 4350 | 5800 |
| Return on Total Cap'l | 9.0% | 5.1% | 6.5% | 5.9% | 6.8% | 6.2% | 5.8% | 5.3% | 6.1% | 5.9% | 6.0% | 6.0% | 6.0% |
| Return on Shr. Equity | 14.9% | 6.6% | 8.2% | 9.6% | 10.4% | 9.3% | 7.6% | 8.5% | 9.8% | 8.7% | 9.0% | 9.0% | 9.5% |
| Return on Com Equity | 14.9% | 6.6% | 8.2% | 9.6% | 10.4% | 9.3% | 7.6% | 8.5% | 9.8% | 8.7% | 9.0% | 9.0% | 9.5% |
| Retained to Com Eq | 6.3% | NMF | NMF | 2.1% | 1.9% | 2.8% | 1.7% | 2.3% | 3.6% | 3.0% | 3.0% | 3.5% | 4.0% |
| All Div'ds to Net Prof | 58% | NMF | 112% | 79% | 82% | 70% | 77% | 73% | 63% | 65% | 66% | 62% | 58% |

CURRENT POSITION (\$MILL)

| | 2006 | 2007 | 6/30/08 |
|----------------|--------|--------|---------|
| Cash Assets | 75.8 | 60.7 | 46.5 |
| Other | 1041.7 | 1008.2 | 1350.5 |
| Current Assets | 1117.5 | 1068.9 | 1397.0 |
| Accts Payable | 345.1 | 355.3 | 582.4 |
| Debt Due | 385.6 | 154.4 | 114.3 |
| Other | 388.5 | 410.0 | 472.1 |
| Current Liab. | 1119.2 | 919.7 | 1168.8 |
| Fix. Chg. Cov. | 408% | 405% | 410% |

ANNUAL RATES

| | Past 10 Yrs. | Past 5 Yrs. | Est'd '05-'07 to '11-'13 |
|--------------------|--------------|-------------|--------------------------|
| of change (per sh) | | | |
| Revenues | 8.5% | 19.0% | 5.5% |
| "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% |

QUARTERLY REVENUES (\$ mill.)^A

| Fiscal Year Ends | 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 | 2484.0 | 1639.1 | 1440.7 | 7221.3 |
| 2009 | 1855 | 2925 | 1735 | 1485 | 8000 |

EARNINGS PER SHARE^{A,B,E}

| Fiscal Year Ends | 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 | 1.24 | d.07 | .02 | 2.00 |
| 2009 | .90 | 1.30 | d.06 | d.04 | 2.10 |

QUARTERLY DIVIDENDS PAID^C

| Calendar | 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 | .325 | .325 | .33 | |

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's core natural gas utility stands to perform decently in fiscal 2009 (began on October 1st). That division should benefit from a rise in throughput, plus more aggressive collection efforts, which should keep bad debt expense under control. Note that revenues from pending rate cases are excluded from our presentation.

We are constructive about the other operations, as well. The regulated transmission and storage segment ought to be boosted by healthy transportation volumes from production in the Barnett Shale region of Texas. Moreover, respectable results seem achievable for the nonregulated marketing segment. But that unit's record showing in fiscal 2006 (when it was able to capture highly favorable arbitrage spreads created by natural gas volatility) probably won't be repeated.

Consolidated share net may rise around 5%, to \$2.10, this fiscal year. One threat to this estimate is higher interest expense. The company has normally used short-term commercial paper to finance natural gas purchases. But Atmos had to access a line of credit when the

commercial paper market froze. Efficiency gains may provide an offset, though. We expect a similar rate of bottom-line growth (to \$2.20 a share) in fiscal 2010.

Steady, albeit unspectacular, annual earnings gains appear to be in store over the 2011-2013 horizon. The utility is one of the country's leading natural gas-only distributors, serving some 3.2 million customers across 12 states. Furthermore, the unregulated segments (contributing between 15% and 35% to net income annually on a historical basis) seem to possess healthy overall prospects. Finally, management should continue to implement its successful strategy of purchasing less-efficient utilities and shoring up their profitability via expense-reduction efforts, rate relief, and aggressive marketing.

These good-quality shares offer a healthy dose of current dividend income, which is adequately covered by earnings. Continued moderate increases in the distribution seem likely, too.

Total return prospects look decent, on a risk-adjusted basis. Also, the stock is ranked 2 (Above Average) for Timeliness.

Frederick L. Harris, III December 12, 2008

(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '99, d23g; '00, 12g; '03, d17g; '06, d18g; '07, d2g. Next egs. rpt. due early Feb. (C) Dividends historically paid in early March, June, Sept., and Dec. = Div. reinvestment plan. Direct stock purchase plan avail. (D) In millions. (E) Qtrs may not add due to change in shrs outstanding. (F) ATCO completed United Cities merger 7/97.

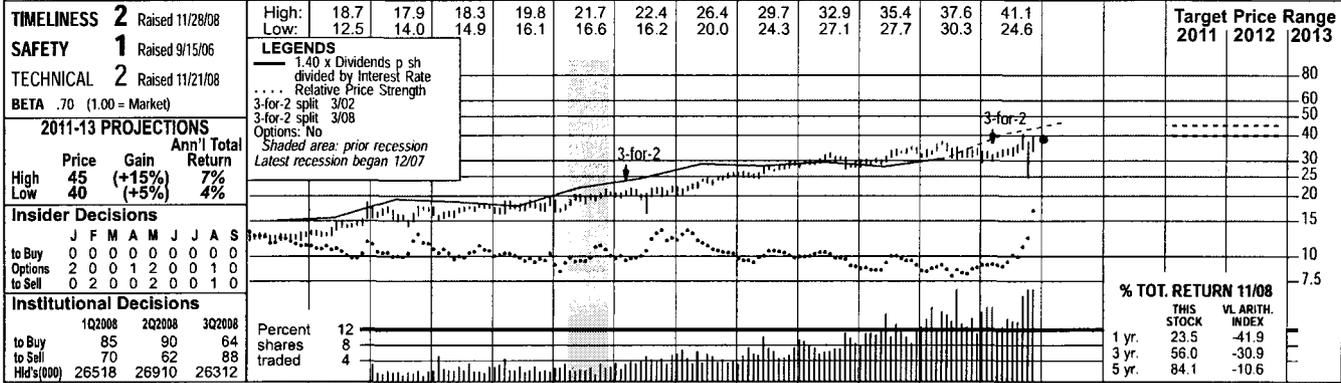
Company's Financial Strength B+
Stock's Price Stability 100
Price Growth Persistence 40
Earnings Predictability 80

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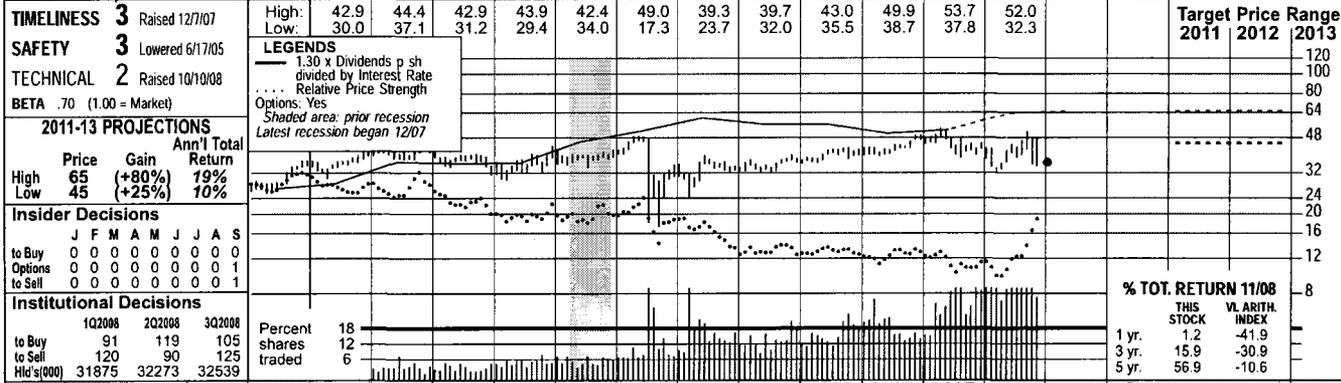
NEW JERSEY RES. NYSE-NJR

RECENT PRICE **38.42** P/E RATIO **12.2** (Trailing: 14.2 Median: 15.0) RELATIVE P/E RATIO **1.20** DIV'D YLD **3.2%** VALUE LINE



| 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 11-13 | |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|----------------------------------|-------|
| 11.25 | 12.02 | 12.81 | 11.36 | 13.48 | 17.31 | 17.73 | 22.65 | 29.42 | 51.22 | 44.11 | 62.29 | 60.89 | 76.19 | 79.63 | 72.62 | 91.12 | 92.45 | Revenues per sh ^A | 97.60 |
| 1.30 | 1.42 | 1.54 | 1.42 | 1.48 | 1.63 | 1.74 | 1.86 | 1.99 | 2.12 | 2.14 | 2.38 | 2.50 | 2.62 | 2.73 | 2.44 | 3.64 | 3.70 | "Cash Flow" per sh | 3.90 |
| .73 | .76 | .84 | .86 | .92 | .99 | 1.04 | 1.11 | 1.20 | 1.30 | 1.39 | 1.59 | 1.70 | 1.77 | 1.87 | 1.55 | 2.70 | 2.80 | Earnings per sh ^B | 3.00 |
| .68 | .68 | .68 | .68 | .69 | .71 | .73 | .75 | .76 | .78 | .80 | .83 | .87 | .91 | .96 | 1.01 | 1.11 | 1.24 | Div's Decl'd per sh ^C | 1.36 |
| 1.33 | 1.54 | 1.40 | 1.18 | 1.19 | 1.15 | 1.07 | 1.21 | 1.23 | 1.10 | 1.02 | 1.14 | 1.45 | 1.28 | 1.28 | 1.46 | 1.73 | 1.75 | Cap'l Spending per sh | 1.80 |
| 6.29 | 6.54 | 6.43 | 6.47 | 6.73 | 6.92 | 7.26 | 7.57 | 8.29 | 8.80 | 8.71 | 10.26 | 11.25 | 10.60 | 15.00 | 15.50 | 17.36 | 19.35 | Book Value per sh ^D | 25.75 |
| 36.64 | 37.84 | 38.93 | 40.03 | 40.69 | 40.23 | 40.07 | 39.92 | 39.59 | 40.00 | 41.50 | 40.85 | 41.61 | 41.32 | 41.44 | 41.61 | 41.88 | 42.50 | Common Shs Outst'g ^E | 44.00 |
| 12.4 | 15.1 | 13.0 | 11.7 | 13.6 | 13.5 | 15.3 | 15.2 | 14.7 | 14.2 | 14.7 | 14.0 | 15.3 | 16.8 | 16.1 | 21.6 | 12.3 | | Avg Ann'l P/E Ratio | 14.0 |
| .75 | .89 | .85 | .78 | .85 | .78 | .80 | .87 | .96 | .73 | .80 | .80 | .81 | .89 | .87 | 1.13 | .73 | | Relative P/E Ratio | .95 |
| 7.5% | 5.8% | 6.2% | 6.7% | 5.6% | 5.3% | 4.6% | 4.5% | 4.4% | 4.2% | 3.9% | 3.7% | 3.3% | 3.1% | 3.2% | 3.0% | 3.3% | | Avg Ann'l Div'd Yield | 3.4% |

| CAPITAL STRUCTURE as of 9/30/08 | | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2037 | 2038 | 2039 | 2040 | 2041 | 2042 | 2043 | 2044 | 2045 | 2046 | 2047 | 2048 | 2049 | 2050 | 2051 | 2052 | 2053 | 2054 | 2055 | 2056 | 2057 | 2058 | 2059 | 2060 | 2061 | 2062 | 2063 | 2064 | 2065 | 2066 | 2067 | 2068 | 2069 | 2070 | 2071 | 2072 | 2073 | 2074 | 2075 | 2076 | 2077 | 2078 | 2079 | 2080 | 2081 | 2082 | 2083 | 2084 | 2085 | 2086 | 2087 | 2088 | 2089 | 2090 | 2091 | 2092 | 2093 | 2094 | 2095 | 2096 | 2097 | 2098 | 2099 | 2100 | 2101 | 2102 | 2103 | 2104 | 2105 | 2106 | 2107 | 2108 | 2109 | 2110 | 2111 | 2112 | 2113 | 2114 | 2115 | 2116 | 2117 | 2118 | 2119 | 2120 | 2121 | 2122 | 2123 | 2124 | 2125 | 2126 | 2127 | 2128 | 2129 | 2130 | 2131 | 2132 | 2133 | 2134 | 2135 | 2136 | 2137 | 2138 | 2139 | 2140 | 2141 | 2142 | 2143 | 2144 | 2145 | 2146 | 2147 | 2148 | 2149 | 2150 | 2151 | 2152 | 2153 | 2154 | 2155 | 2156 | 2157 | 2158 | 2159 | 2160 | 2161 | 2162 | 2163 | 2164 | 2165 | 2166 | 2167 | 2168 | 2169 | 2170 | 2171 | 2172 | 2173 | 2174 | 2175 | 2176 | 2177 | 2178 | 2179 | 2180 | 2181 | 2182 | 2183 | 2184 | 2185 | 2186 | 2187 | 2188 | 2189 | 2190 | 2191 | 2192 | 2193 | 2194 | 2195 | 2196 | 2197 | 2198 | 2199 | 2200 | 2201 | 2202 | 2203 | 2204 | 2205 | 2206 | 2207 | 2208 | 2209 | 2210 | 2211 | 2212 | 2213 | 2214 | 2215 | 2216 | 2217 | 2218 | 2219 | 2220 | 2221 | 2222 | 2223 | 2224 | 2225 | 2226 | 2227 | 2228 | 2229 | 2230 | 2231 | 2232 | 2233 | 2234 | 2235 | 2236 | 2237 | 2238 | 2239 | 2240 | 2241 | 2242 | 2243 | 2244 | 2245 | 2246 | 2247 | 2248 | 2249 | 2250 | 2251 | 2252 | 2253 | 2254 | 2255 | 2256 | 2257 | 2258 | 2259 | 2260 | 2261 | 2262 | 2263 | 2264 | 2265 | 2266 | 2267 | 2268 | 2269 | 2270 | 2271 | 2272 | 2273 | 2274 | 2275 | 2276 | 2277 | 2278 | 2279 | 2280 | 2281 | 2282 | 2283 | 2284 | 2285 | 2286 | 2287 | 2288 | 2289 | 2290 | 2291 | 2292 | 2293 | 2294 | 2295 | 2296 | 2297 | 2298 | 2299 | 2300 | 2301 | 2302 | 2303 | 2304 | 2305 | 2306 | 2307 | 2308 | 2309 | 2310 | 2311 | 2312 | 2313 | 2314 | 2315 | 2316 | 2317 | 2318 | 2319 | 2320 | 2321 | 2322 | 2323 | 2324 | 2325 | 2326 | 2327 | 2328 | 2329 | 2330 | 2331 | 2332 | 2333 | 2334 | 2335 | 2336 | 2337 | 2338 | 2339 | 2340 | 2341 | 2342 | 2343 | 2344 | 2345 | 2346 | 2347 | 2348 | 2349 | 2350 | 2351 | 2352 | 2353 | 2354 | 2355 | 2356 | 2357 | 2358 | 2359 | 2360 | 2361 | 2362 | 2363 | 2364 | 2365 | 2366 | 2367 | 2368 | 2369 | 2370 | 2371 | 2372 | 2373 | 2374 | 2375 | 2376 | 2377 | 2378 | 2379 | 2380 | 2381 | 2382 | 2383 | 2384 | 2385 | 2386 | 2387 | 2388 | 2389 | 2390 | 2391 | 2392 | 2393 | 2394 | 2395 | 2396 | 2397 | 2398 | 2399 | 2400 | 2401 | 2402 | 2403 | 2404 | 2405 | 2406 | 2407 | 2408 | 2409 | 2410 | 2411 | 2412 | 2413 | 2414 | 2415 | 2416 | 2417 | 2418 | 2419 | 2420 | 2421 | 2422 | 2423 | 2424 | 2425 | 2426 | 2427 | 2428 | 2429 | 2430 | 2431 | 2432 | 2433 | 2434 | 2435 | 2436 | 2437 | 2438 | 2439 | 2440 | 2441 | 2442 | 2443 | 2444 | 2445 | 2446 | 2447 | 2448 | 2449 | 2450 | 2451 | 2452 | 2453 | 2454 | 2455 | 2456 | 2457 | 2458 | 2459 | 2460 | 2461 | 2462 | 2463 | 2464 | 2465 | 2466 | 2467 | 2468 | 2469 | 2470 | 2471 | 2472 | 2473 | 2474 | 2475 | 2476 | 2477 | 2478 | 2479 | 2480 | 2481 | 2482 | 2483 | 2484 | 2485 | 2486 | 2487 | 2488 | 2489 | 2490 | 2491 | 2492 | 2493 | 2494 | 2495 | 2496 | 2497 | 2498 | 2499 | 2500 | 2501 | 2502 | 2503 | 2504 | 2505 | 2506 | 2507 | 2508 | 2509 | 2510 | 2511 | 2512 | 2513 | 2514 | 2515 | 2516 | 2517 | 2518 | 2519 | 2520 | 2521 | 2522 | 2523 | 2524 | 2525 | 2526 | 2527 | 2528 | 2529 | 2530 | 2531 | 2532 | 2533 | 2534 | 2535 | 2536 | 2537 | 2538 | 2539 | 2540 | 2541 | 2542 | 2543 | 2544 | 2545 | 2546 | 2547 | 2548 | 2549 | 2550 | 2551 | 2552 | 2553 | 2554 | 2555 | 2556 | 2557 | 2558 | 2559 | 2560 | 2561 | 2562 | 2563 | 2564 | 2565 | 2566 | 2567 | 2568 | 2569 | 2570 | 2571 | 2572 | 2573 | 2574 | 2575 | 2576 | 2577 | 2578 | 2579 | 2580 | 2581 | 2582 | 2583 | 2584 | 2585 | 2586 | 2587 | 2588 | 2589 | 2590 | 2591 | 2592 | 2593 | 2594 | 2595 | 2596 | 2597 | 2598 | 2599 | 2600 | 2601 | 2602 | 2603 | 2604 | 2605 | 2606 | 2607 | 2608 | 2609 | 2610 | 2611 | 2612 | 2613 | 2614 | 2615 | 2616 | 2617 | 2618 | 2619 | 2620 | 2621 | 2622 | 2623 | 2624 | 2625 | 2626 | 2627 | 2628 | 2629 | 2630 | 2631 | 2632 | 2633 | 2634 | 2635 | 2636 | 2637 | 2638 | 2639 | 2640 | 2641 | 2642 | 2643 | 2644 | 2645 | 2646 | 2647 | 2648 | 2649 | 2650 | 2651 | 2652 | 2653 | 2654 | 2655 | 2656 | 2657 | 2658 | 2659 | 2660 | 2661 | 2662 | 2663 | 2664 | 2665 | 2666 | 2667 | 2668 | 2669 | 2670 | 2671 | 2672 | 2673 | 2674 | 2675 | 2676 | 2677 | 2678 | 2679 | 2680 | 2681 | 2682 | 2683 | 2684 | 2685 | 2686 | 2687 | 2688 | 2689 | 2690 | 2691 | 2692 | 2693 | 2694 | 2695 | 2696 | 2697 | 2698 | 2699 | 2700 | 2701 | 2702 | 2703 | 2704 | 2705 | 2706 | 2707 | 2708 | 2709 | 2710 | 2711 | 2712 | 2713 | 2714 | 2715 | 2716 | 2717 | 2718 | 2719 | 2720 | 2721 | 2722 | 2723 | 2724 | 2725 | 2726 | 2727 | 2728 | 2729 | 2730 | 2731 | 2732 | 2733 | 2734 | 2735 | 2736 | 2737 | 2738 | 2739 | 2740 | 2741 | 2742 | 2743 | 2744 | 2745 | 2746 | 2747 | 2748 | 2749 | 2750 | 2751 | 2752 | 2753 | 2754 | 2755 | 2756 | 2757 | 2758 | 2759 | 2760 | 2761 | 2762 | 2763 | 2764 | 2765 | 2766 | 2767 | 2768 | 2769 | 2770 | 2771 | 2772 | 2773 | 2774 | 2775 | 2776 | 2777 | 2778 | 2779 | 2780 | 2781 | 2782 | 2783 | 2784 | 2785 | 2786 | 2787 | 2788 | 2789 | 2790 | 2791 | 2792 | 2793 | 2794 | 2795 | 2796 | 2797 | 2798 | 2799 | 2800 | 2801 | 2802 | 2803 | 2804 | 2805 | 2806 | 2807 | 2808 | 2809 | 2810 | 2811 | 2812 | 2813 | 2814 | 2815 | 2816 | 2817 | 2818 | 2819 | 2820 | 2821 | 2822 | 2823 | 2824 | 2825 | 2826 | 2827 | 2828 | 2829 | 2830 | 2831 | 2832 | 2833 | 2834 | 2835 | 2836 | 2837 | 2838 | 2839 | 2840 | 2841 | 2842 | 2843 | 2844 | 2845 | 2846 | 2847 | 2848 | 2849 | 2850 | 2851 | 2852 | 2853 | 2854 | 2855 | 2856 | 2857 | 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|
|---|---------------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|--------------------------------|-------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|--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| Total Debt | \$693.4 mill. | 710.3 | 904.3 | 1164.5 | 2048.4 | 1830.8 | 2544.4 | 2533.6 | 3148.3 | 3299.6 | 3021.8 | 3816.2 | 3930 | 4295 | Revenues (\$mill) ^A | 4295 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| LT Debt | \$455.1 mill. | 43.3 | 44.9 | 47.9 | 52.3 | 56.8 | 65.4 | 71.6 | 74.4 | 78.5 | 65.3 | 113.9 | 120 | 130 | Net Profit (\$mill) | 130 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Incl. \$8.8 mill. capitalized leases. | | 30.4% | 36.2% | 37.8% | 38.0% | 38.7% | 39.4% | 39.1% | 39.1% | 38.9% | 38.8% | 37.8% | 39.0% | 40.0% | Income Tax Rate | 40.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (LT interest earned: 4.8x; total interest coverage: 4.8x) | | 6.1% | 5.0% | 4.1% | 2.6% | 3.1% | 2.6% | 2.8% | 2.4% | 2.4% | 2.2% | 3.0% | 3.1% | 3.0% | Net Profit Margin | 3.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pension Assets-9/08 \$80.6 mill. | | 51.2% | 48.7% | 47.0% | 50.1% | 50.6% | 38.1% | 40.3% | 42.0% | 34.8% | 37.3% | 38.5% | 38.0% | 32.5% | Long-Term Debt Ratio | 32.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pfd Stock None | | 45.6% | 51.2% | 52.9% | 49.9% | 49.4% | 61.9% | 59.7% | 58.0% | 65.2% | 62.7% | 61.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |



| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | © VALUE LINE PUB., INC. 11-13 | |
|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------------------------------|--------|
| Price | 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 | 69.20 | 83.35 | 86.65 | Revenues per sh | 100.00 |
| Gain | 1.94 | 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 | 6.96 | 6.60 | 7.15 | "Cash Flow" per sh | 8.85 |
| Low | 4.12 | 1.97 | 2.07 | 1.96 | 2.42 | 2.55 | 2.31 | 2.57 | 2.94 | 3.01 | 2.88 | 2.11 | 2.22 | 2.29 | 2.87 | 2.98 | 2.25 | 2.50 | Earnings per sh A | 3.45 |
| High | 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 | 1.86 | Div'ds Decl'd per sh B | 1.86 |
| Return | 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 | 3.77 | 4.20 | 4.35 | Cap'l Spending per sh | 4.80 |
| Ann'l Total | 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 | 20.58 | 20.75 | 21.35 | Book Value per sh | 25.40 |
| Price | 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 | 45.90 | 45.00 | 45.00 | Common Shs Outst'g C | 45.00 |
| Gain | 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 | 15.0 | 15.0 | 15.0 | Avg Ann'l P/E Ratio | 16.0 |
| Low | .70 | .83 | .82 | .88 | .78 | .82 | .92 | .83 | .77 | .66 | .72 | .90 | .84 | .92 | .81 | .80 | .80 | .80 | Relative P/E Ratio | 1.05 |
| High | 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% | 4.2% | 4.2% | Avg Ann'l Div'd Yield | 3.2% |

CAPITAL STRUCTURE as of 9/30/08

| | | | | | | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|------------------------|-------|
| Total Debt \$937.0 mill. Due in 5 Yrs \$544.0 mill. | 1465.1 | 1615.2 | 2298.1 | 2544.1 | 1897.4 | 2662.7 | 2739.7 | 3357.8 | 2960.0 | 3176.3 | 3750 | 3900 | Revenues (\$mill) | 4500 |
| LT Debt \$448.0 mill. LT Interest \$30.0 mill. (Total interest coverage: 5.9x) | 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) | 155 |
| | 34.4% | 34.7% | 34.8% | 33.5% | 31.0% | 35.2% | 31.8% | 28.3% | 26.3% | 26.6% | 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% | 2.7% | 3.0% | Net Profit Margin | 3.5% |
| Pension Assets-12/07 \$478.7 mill. Oblig. \$263.2 mill. | 42.1% | 35.5% | 32.7% | 37.8% | 35.1% | 39.6% | 39.8% | 37.4% | 36.3% | 30.9% | 33.0% | 32.0% | Long-Term Debt Ratio | 27.0% |
| | 57.4% | 64.0% | 66.7% | 61.7% | 64.5% | 60.3% | 60.1% | 62.5% | 63.7% | 69.0% | 67.0% | 68.0% | Common Equity Ratio | 73.0% |
| Pfd Stock \$6 mill. Pfd Div'd None | 1322.6 | 1230.1 | 1061.2 | 1180.1 | 1128.9 | 1251.5 | 1246.0 | 1297.7 | 1370.7 | 1368.0 | 1400 | 1400 | Total Capital (\$mill) | 1575 |
| | 1731.8 | 1735.2 | 1729.6 | 1768.6 | 1796.8 | 2484.2 | 2549.8 | 2659.1 | 2714.1 | 2757.3 | 2850 | 2950 | Net Plant (\$mill) | 3265 |
| | 9.9% | 10.9% | 13.7% | 12.3% | 12.2% | 8.3% | 8.8% | 9.4% | 10.9% | 11.2% | 8.5% | 9.5% | Return on Total Cap'l | 11.0% |
| | 14.5% | 15.4% | 19.1% | 18.6% | 17.5% | 12.3% | 13.1% | 12.5% | 14.7% | 14.3% | 11.0% | 11.5% | Return on Shr. Equity | 13.5% |
| | 14.6% | 15.4% | 19.2% | 18.7% | 17.5% | 12.3% | 13.1% | 12.5% | 14.7% | 14.3% | 11.5% | 11.5% | Return on Com Equity | 13.5% |
| Common Stock 45,191,267 shares as of 10/27/08 | 5.4% | 6.2% | 8.5% | 7.9% | 6.5% | 1.5% | 2.1% | 2.3% | 5.2% | 5.4% | 2.0% | 3.0% | Retained to Com Eq | 6.5% |
| MARKET CAP: \$1.6 billion (Mid Cap) | 63% | 60% | 56% | 58% | 63% | 88% | 84% | 81% | 65% | 62% | 83% | 75% | All Div'ds to Net Prof | 54% |

ANNUAL RATES Past 10 Yrs. Past 5 Yrs. Est'd '05-'07 to '11-'13

| | | | |
|-------------|------|-------|------|
| Revenues | 7.0% | 7.0% | 6.0% |
| "Cash Flow" | 3.5% | 1.5% | 5.0% |
| Earnings | 1.5% | -1.5% | 4.0% |
| Dividends | 3.5% | 1.0% | Nil |
| Book Value | 3.0% | 4.0% | 4.5% |

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 oil and gas E&P, 6/93. Has about 3,900 employees. Officers/directors own about 2.2% of common stock (3/08 proxy). Chairman and Chief Executive Officer: Russ Strobel. Incorporated: Illinois. Address: 1844 Ferry Road, Naperville, Illinois 60563. Telephone: 630-305-9500. Internet: www.nicor.com.

Quarterly Revenues (\$mill.)

| Calendar | 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 | 1595.7 | 693.8 | 440.3 | 1014.2 | 3750 |
| 2009 | 1650 | 715 | 435 | 1100 | 3900 |

Nicor's performance has been unimpressive lately. Most notably, earnings of \$0.03 a share fell well short of our \$0.20-a-share estimate. Weakness in the gas distribution business was the primary reason for the disappointing performance. The company has faced various challenges over the course of 2008 including high gas prices, rising costs, and tough market conditions in its shipping business.

Management reiterated its outlook for the year. Despite the shortfall in the September interim, Nicor expects earnings to be between \$2.20 and \$2.40 a share for 2008. This view does not include the potential for volatility in natural gas markets and assumes normal weather for the remainder of the year.

We look for earnings to be on the low end of the company's guidance. Given the weak third-quarter showing, we estimate share net will be \$2.25. Nicor will probably continue to face a challenging operating environment, which should pressure results in the December period.

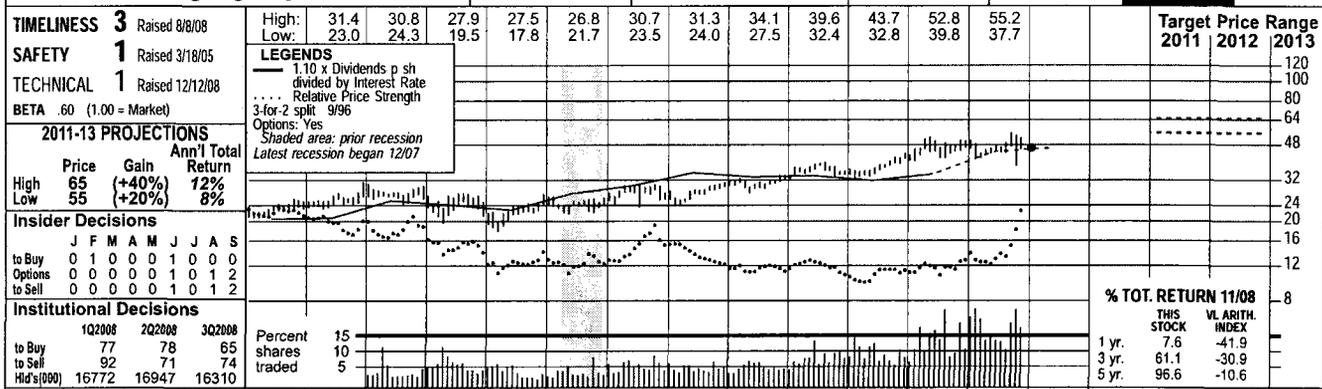
Nicor is still focused on obtaining rate relief. The company filed a case and is awaiting a decision from the Illinois Commerce Commission (ICC). Nicor initially wanted to increase its rate base by \$140.3 million in order to recoup rising costs in its market. This case reflected an 11.05% return on equity on a \$1.5 billion base. In response to a direct testimony by the ICC, the company filed rebuttal testimony in late September, which revised its proposed rate to \$141.6 million and increased its cost of equity to 11.15%. All told, the process is expected to continue into the middle of 2009, and the outcome should be a key factor in GAS' performance over the coming years. Thus, we recommend investors continue to keep a close eye on these proceedings over the coming months.

This stock is ranked 3 (Average) for year-ahead performance. However, risk-averse investors may find these stable shares appealing, given the volatility in the world's financial markets. Nicor's yield is above the industry average, which may interest income-oriented accounts. Still, the company will probably continue to be pressured by a tough operating environment in the foreseeable future. Therefore, most investors should look elsewhere.

| | |
|-------------------------------------|-----|
| Company's Financial Strength | A |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 35 |
| Earnings Predictability | 75 |

N.W. NAT'L GAS NYSE: NWN

RECENT PRICE **46.38** P/E RATIO **17.4** (Trailing: 18.0 Median: 16.0) RELATIVE P/E RATIO **1.71** DIV'D YLD **3.4%** VALUE LINE



| 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 | 39.13 | 40.55 | 43.95 | Revenues per sh | 50.00 |
| 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 | 5.75 | "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 | 2.55 | 2.80 | 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 | 5.45 | 9.00 | 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 | 22.01 | 22.52 | 23.65 | 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 | 27.24 | 26.41 | 26.50 | 26.50 | 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 | 16.7 | 16.7 | 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 | .88 | .88 | 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% | 3.1% | 3.1% | Avg Ann'l Div'd Yield | 3.1% |
| CAPITAL STRUCTURE as of 9/30/08 | | | | | | | | | | | | | | | | | | | |
| Total Debt \$686.8 mill. Due in 5 Yrs \$259.8 mill. | | | | | | | | | | | | | | | | | | | |
| LT Debt \$512.0 mill. LT Interest \$37.0 mill. | | | | | | | | | | | | | | | | | | | |
| (Total interest coverage: 4.0x) | | | | | | | | | | | | | | | | | | | |
| Pension Assets-12/07 \$241 mill. | | | | | | | | | | | | | | | | | | | |
| Oblig. \$260 mill. | | | | | | | | | | | | | | | | | | | |
| Pfd Stock None | | | | | | | | | | | | | | | | | | | |
| Common Stock 26,470,688 shs. as of 10/31/08 | | | | | | | | | | | | | | | | | | | |
| MARKET CAP \$1.2 billion (Mid Cap) | | | | | | | | | | | | | | | | | | | |
| CURRENT POSITION | | | | | | | | | | | | | | | | | | | |
| (\$MILL.) | | | | | | | | | | | | | | | | | | | |
| Cash Assets 5.8 6.1 4.1 | | | | | | | | | | | | | | | | | | | |
| Other 303.0 268.8 279.7 | | | | | | | | | | | | | | | | | | | |
| Current Assets 308.8 274.9 283.8 | | | | | | | | | | | | | | | | | | | |
| Accts Payable 113.6 119.7 53.5 | | | | | | | | | | | | | | | | | | | |
| Debt Due 129.6 148.1 174.8 | | | | | | | | | | | | | | | | | | | |
| Other 98.3 122.1 184.0 | | | | | | | | | | | | | | | | | | | |
| Current Liab. 341.5 389.9 412.3 | | | | | | | | | | | | | | | | | | | |
| Fx. Chg. Cov. 349% 408% NMF | | | | | | | | | | | | | | | | | | | |
| ANNUAL RATES | | | | | | | | | | | | | | | | | | | |
| of change (per sh) | | | | | | | | | | | | | | | | | | | |
| Revenues 8.5% 8.5% 6.5% | | | | | | | | | | | | | | | | | | | |
| "Cash Flow" 3.0% 5.5% 5.0% | | | | | | | | | | | | | | | | | | | |
| Earnings 3.0% 6.5% 7.0% | | | | | | | | | | | | | | | | | | | |
| Dividends 1.5% 2.0% 5.5% | | | | | | | | | | | | | | | | | | | |
| Book Value 3.5% 3.5% 3.5% | | | | | | | | | | | | | | | | | | | |
| QUARTERLY REVENUES (\$ mill.) | | | | | | | | | | | | | | | | | | | |
| 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 387.7 191.3 109.7 311.3 1000 | | | | | | | | | | | | | | | | | | | |
| 2009 380 190 120 335 1025 | | | | | | | | | | | | | | | | | | | |
| EARNINGS PER SHARE A | | | | | | | | | | | | | | | | | | | |
| 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 1.63 .08 d.38 1.22 2.55 | | | | | | | | | | | | | | | | | | | |
| 2009 1.70 .13 d.30 1.27 2.80 | | | | | | | | | | | | | | | | | | | |
| QUARTERLY DIVIDENDS PAID B | | | | | | | | | | | | | | | | | | | |
| 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 .375 .375 .395 | | | | | | | | | | | | | | | | | | | |

BUSINESS: Northwest Natural Gas Co. distributes natural gas to 90 communities, 657,000 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 1,130. Barclays Global owns 6.5% of shares; off/dir., 1.3% (4/08 proxy). CEO Mark S. Dodson; CEO-elect: Gregg S. Kantor, Inc.: Oregon. Address: 220 NW 2nd Ave., Portland, OR 97209. Tel.: 503-226-4211. Internet: www.nwnatural.com.

Northwest Natural's third-quarter results reflected mostly unusual items. In the 2007 period, the company received a state tax refund, and in the 2008 quarter, it lost money from its gas cost-sharing mechanism in Oregon; the two items added up to about \$0.12 a share of the higher year-to-year loss. (Gas utilities usually book losses in the summer quarter.) Meanwhile, customer growth, at 2.4% from September 30, 2007, was below the recent 3% pace, but still above the national average. **Lower costs should lead to a good fourth-quarter earnings gain.** Despite the higher-than-expected third-quarter loss, Northwest reaffirmed its 2008 earnings-per-share guidance of \$2.48-\$2.63. In the final frame of 2007, Northwest spent about \$3 million over its normal operating expenses, partly in connection with redoing some business practices. The absence of those costs, plus continued customer growth, should produce a good earnings boost. **We look for normal earnings growth in 2009, excluding the effects of gas cost-sharing.** In the first nine months of 2008, Northwest lost about \$0.17 a share from its gas cost-sharing in Oregon. The state has modified the cost-sharing procedure, so that the company now chooses to receive either 20% or 10% of the difference between actual gas costs and the prices built into rates, with the balance going to its customers. For the next year, starting in November 2008, Northwest has chosen to retain 20% of that difference, believing that it will earn a small profit from the cost-sharing arrangement. **Several projects should contribute considerably to earnings by the end of our 3- to 5-year horizon.** Gill Ranch, a gas storage project near Fresno, CA, should receive approval from that state next year and open by 2011. The Palomar pipeline, a joint venture with TransCanada, would connect Portland to a second source of gas. Northwest's investment in the two projects would total about \$525 million if both halves of Palomar are built. The two investments would add significantly to our out-year earnings forecast. **These top-quality shares, steady in recent troubled times, should appeal to conservative investors.** *Sigourney b. Romaine December 12, 2008*

| | | |
|---|--|--------------------------------|
| (A) Diluted earnings per share. Excludes non-recurring items: '98, \$0.15; '00, \$0.11; '06, (\$0.06). Next earnings report due early February. | (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 70 |
| | | Earnings Predictability 80 |

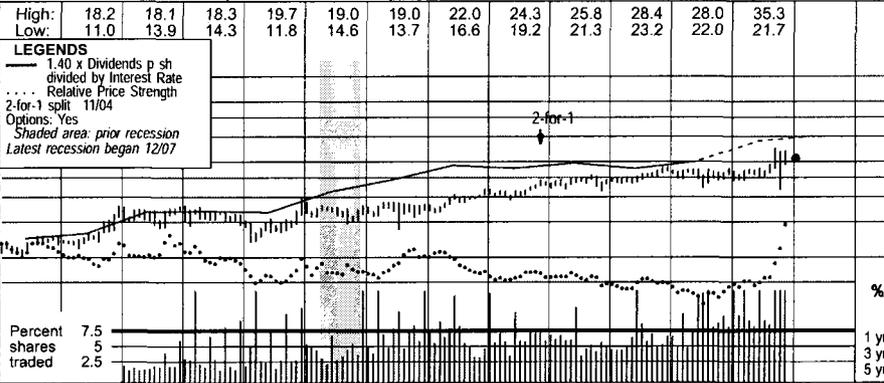
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PIEDMONT NAT'L. GAS NYSE-PNY

RECENT PRICE **31.23** P/E RATIO **19.8** (Trailing: 19.9 Median: 17.0) RELATIVE P/E RATIO **1.94** DIV'D YLD **3.3%** VALUE LINE

TIMELINESS 3 Raised 6/15/07
SAFETY 2 New 7/27/90
TECHNICAL 1 Raised 12/5/08
BETA .70 (1.00 = Market)



| Target Price Range | 2011 | 2012 | 2013 |
|--------------------|------|------|------|
| 80 | | | |
| 60 | | | |
| 50 | | | |
| 40 | | | |
| 30 | | | |
| 25 | | | |
| 20 | | | |
| 15 | | | |
| 10 | | | |
| 7.5 | | | |

2011-13 PROJECTIONS
 Price High 40 Low 30
 Gain (+30%)
 Ann'l Total Return 10%
 Options (-5%) 3%

Insider Decisions
 J F M A M J J A S
 to Buy 0 0 0 0 0 0 0 0 0
 Options 0 0 0 0 0 0 0 0 0
 to Sell 0 0 2 0 0 0 0 0 0

Institutional Decisions
 1Q2008 2Q2008 3Q2008
 to Buy 78 97 82
 to Sell 85 77 96
 Held's(000) 36778 36688 35228
 Percent shares 7.5
 traded 2.5

| 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Revenues per sh ^A | 2009 | 32.05 | | | | | | | | | | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|-------|--|--|--|--|--|--|
| 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 | 28.30 | 29.10 | "Cash Flow" per sh | 2.85 | 3.30 | | | | | | | | | | | | | | | | | |
| 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 | 2.80 | 2.85 | Earnings per sh ^B | 1.60 | 2.05 | | | | | | | | | | | | | | | | | |
| .70 | .73 | .68 | .73 | .84 | .93 | .98 | .93 | 1.01 | 1.01 | .95 | 1.11 | 1.27 | 1.32 | 1.27 | 1.40 | 1.55 | 1.60 | Div'ds Decl'd per sh ^C | 1.07 | 1.19 | | | | | | | | | | | | | | | | | |
| .46 | .48 | .51 | .54 | .57 | .61 | .64 | .68 | .72 | .76 | .80 | .82 | .85 | .91 | .95 | .99 | 1.03 | 1.07 | Cap'l Spending per sh | 3.40 | 2.25 | | | | | | | | | | | | | | | | | |
| 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 | 1.95 | 3.40 | Book Value per sh ^D | 13.15 | 15.45 | | | | | | | | | | | | | | | | | |
| 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 | 12.60 | 13.15 | Common Shs Outstg ^E | 73.50 | 73.00 | | | | | | | | | | | | | | | | | |
| 51.59 | 52.30 | 53.15 | 57.67 | 60.39 | 60.39 | 61.48 | 62.59 | 63.83 | 64.93 | 66.18 | 67.31 | 76.67 | 76.70 | 74.61 | 73.23 | 73.50 | 73.50 | Avg Ann'l P/E Ratio | 18.0 | 18.0 | | | | | | | | | | | | | | | | | |
| 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 | 18.7 | 18.7 | Relative P/E Ratio | 1.07 | 1.50 | | | | | | | | | | | | | | | | | |
| .75 | .91 | 1.03 | .92 | .87 | .78 | .85 | 1.01 | .93 | .86 | 1.01 | .95 | .88 | .95 | 1.04 | .98 | .98 | .98 | Avg Ann'l Div'd Yield | 3.1% | 3.1% | | | | | | | | | | | | | | | | | |
| 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% | 3.9% | 3.8% | <i>Bold figures are Value Line estimates</i> | | | | | | | | | | | | | | | | | | | |
| CAPITAL STRUCTURE as of 7/31/08 | | | | | | | | | | | | | | | | | | | 765.3 | 686.5 | 830.4 | 1107.9 | 832.0 | 1220.8 | 1529.7 | 1761.1 | 1924.7 | 1711.3 | 2080 | 2140 | 2340 | | | | | | |
| Total Debt \$994.0 mill. Due in 5 Yrs \$150.0 mill. | | | | | | | | | | | | | | | | | | | 60.3 | 58.2 | 64.0 | 65.5 | 62.2 | 74.4 | 95.2 | 101.3 | 97.2 | 104.4 | 114 | 118 | 150 | | | | | | |
| LT Debt \$824.5 mill. LT Interest \$55.7 mill. | | | | | | | | | | | | | | | | | | | 39.2% | 39.7% | 34.7% | 34.6% | 33.1% | 34.8% | 35.1% | 33.7% | 34.2% | 33.0% | 35.0% | 35.0% | 35.0% | | | | | | |
| (LT interest earned: 4.0x; total interest coverage: 4.0x) | | | | | | | | | | | | | | | | | | | 7.9% | 8.5% | 7.7% | 5.9% | 7.5% | 6.1% | 6.2% | 5.8% | 5.0% | 6.1% | 5.5% | 5.5% | 6.4% | | | | | | |
| Pension Assets-10/07 \$225.0 mill. Oblig. \$188.7 mill. | | | | | | | | | | | | | | | | | | | 44.7% | 46.2% | 46.1% | 47.6% | 43.9% | 42.2% | 43.6% | 41.4% | 48.3% | 48.4% | 47.5% | 50.0% | 47.0% | | | | | | |
| Pfd Stock None | | | | | | | | | | | | | | | | | | | 55.3% | 53.8% | 53.9% | 52.4% | 56.1% | 57.8% | 56.4% | 58.6% | 51.7% | 51.8% | 52.5% | 50.0% | 53.0% | | | | | | |
| Common Stock 73,278,668 shs. as of 9/2/08 | | | | | | | | | | | | | | | | | | | 829.3 | 914.7 | 978.4 | 1069.4 | 1051.6 | 1090.2 | 1514.9 | 1509.2 | 1707.9 | 1703.3 | 1765 | 1930 | 2125 | | | | | | |
| MARKET CAP: \$2.3 billion (Mid Cap) | | | | | | | | | | | | | | | | | | | 990.6 | 1047.0 | 1072.0 | 1114.7 | 1158.5 | 1812.3 | 1849.8 | 1939.1 | 2075.3 | 2141.5 | 2200 | 2250 | 2400 | | | | | | |
| CURRENT POSITION (SMILL.) | | | | | | | | | | | | | | | | | | | 9.2% | 8.1% | 8.3% | 7.9% | 7.8% | 8.6% | 7.8% | 8.2% | 7.2% | 7.8% | 8.0% | 7.5% | 8.5% | | | | | | |
| Cash Assets 8.9 7.5 4.9 | | | | | | | | | | | | | | | | | | | 13.2% | 11.8% | 12.1% | 11.7% | 10.6% | 11.8% | 11.1% | 11.5% | 11.0% | 11.9% | 12.5% | 12.5% | 13.5% | | | | | | |
| Other 467.1 427.8 429.9 | | | | | | | | | | | | | | | | | | | 4.7% | 3.3% | 3.5% | 3.0% | 1.7% | 3.1% | 3.7% | 3.6% | 2.8% | 3.5% | 4.0% | 4.0% | 5.5% | | | | | | |
| Current Assets 476.0 435.3 434.8 | | | | | | | | | | | | | | | | | | | 65% | 72% | 71% | 75% | 83% | 74% | 66% | 68% | 74% | 70% | 66% | 67% | 58% | | | | | | |
| Accts Payable 80.3 97.2 151.8 | | | | | | | | | | | | | | | | | | | 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.piedmonting.com. | | | | | | | | | | | | | | | | | | |
| Debt Due 170.0 195.0 169.5 | | | | | | | | | | | | | | | | | | | Piedmont Natural Gas likely posted a larger share loss for the October interim. Its top-line volumes have been growing steadily due to its residential and commercial businesses. Moreover, marketing activities are beginning to bear fruit for its wholesale division. But weaker performance at the sideline Hardy Storage and Southstar Energy Service units ought to detract from other income, resulting in the aforementioned decline in share net. However, due to stronger profitability earlier this year, PNY's 2008 tally likely advanced almost 11%. | | | | | | | | | | | | | | | | | | |
| Other 150.1 132.3 114.2 | | | | | | | | | | | | | | | | | | | Due to the tough operating environment, the top and bottom lines may well advance only 3% in fiscal 2009 (began November 1st). Winter heating costs are expected to remain flat this year. However, some uncertainty stems from the 2008-2009 winter weather. Meanwhile, operating margins should continue to benefit from higher volumes and decreased operating expenses. Thus, profitability ought to improve marginally. Furthermore, New rate cases and capital projects augur well for the company's prospects. Piedmont recently received approval for a rate increase in North Carolina. This allowed the company to raise its annual rates by \$15.7 million, effective November 1st. Meanwhile, the Robeson liquid natural gas storage project, located in NC, is moving along nicely. This facility should allow for extra capacity and profits during peak winter months. | | | | | | | | | | | | | | | | | | |
| Current Liab. 400.4 424.5 435.5 | | | | | | | | | | | | | | | | | | | Hardy Storage and Southstar Energy Services contributions to PNY have moderated a bit. This stems from higher operating expenses at Hardy Storage and from the effects of warmer weather on Southstar Energy. Meanwhile, Southstar has been impacted by rising commodity prices and reduced opportunities from the management of storage and transportation assets. Still, the Hardy Storage facility only came on line in April, 2007. There is room to expand, and operations can be tightened up, providing upside. In all, These neutrally ranked shares may offer modest conservative appeal. They have been more volatile than usual since our September review. However, presently, they are trading almost 13% higher and offer good dividend growth potential. | | | | | | | | | | | | | | | | | | |
| Fix. Chg. Cov. 261% 225% 220% | | | | | | | | | | | | | | | | | | | Bryan Fong December 12, 2008 | | | | | | | | | | | | | | | | | | |

ANNUAL RATES Past 10 Yrs. Past 5 Yrs. Est'd '05-'07 of change (per sh)
 Revenues 8.0% 11.0% 5.0%
 "Cash Flow" 5.5% 7.0% 4.5%
 Earnings 5.0% 6.0% 7.5%
 Dividends 5.0% 4.5% 4.0%
 Book Value 6.0% 6.5% 4.5%

| Fiscal Year Ends | 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 | 282.2 | 1924.7 |
| 2007 | 677.2 | 531.5 | 224.4 | 278.2 | 1711.3 |
| 2008 | 788.5 | 634.2 | 354.7 | 302.6 | 2080 |
| 2009 | 815 | 655 | 360 | 310 | 2140 |

| Fiscal Year Ends | 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 | 1.12 | .66 | d.10 | d.13 | 1.55 |
| 2009 | 1.13 | .68 | d.10 | d.11 | 1.60 |

| Cal-endar | 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 |
| 2008 | .25 | .26 | .26 | .26 | |

QUARTERLY REVENUES (\$ mill.)^A
QUARTERLY DIVIDENDS PAID^C

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

Full Fiscal Year
Company's Financial Strength B++
Price's Price Stability 100
Price Growth Persistence 60
Earnings Predictability 85

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++
Price's Price Stability 100
Price Growth Persistence 60
Earnings Predictability 85

(A) Fiscal year ends October 31st.
 (B) Diluted earnings. Excl. extraordinary item: '00, 8¢. Excl. nonrecurring charge: '97, 2¢. Next earnings report due early Feb.
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SOUTHWEST GAS

NYSE-SWX

RECENT PRICE **24.79**

P/E RATIO **13.6** (Trailing: 14.1 Median: 18.0)

RELATIVE P/E RATIO **1.33**

DIV'D YLD **3.8%**

VALUE LINE

Target Price Range 2011 2012 2013

TIMELINESS 3 Raised 5/23/08
SAFETY 3 Lowered 1/14/91
TECHNICAL 2 Raised 12/12/08
BETA .75 (1.00 = Market)

High: 20.3 26.9 29.5 23.0 24.7 25.3 23.6 26.2 28.1 39.4 39.9 33.3
 Low: 16.1 17.3 20.4 16.9 18.6 18.1 19.3 21.5 23.5 26.0 26.5 21.1

LEGENDS
 200x Dividends p sh divided by Interest Rate
 ... Relative Price Strength
 Options: Yes
 Shaded area: prior recession
 Latest recession began 12/07

2011-13 PROJECTIONS

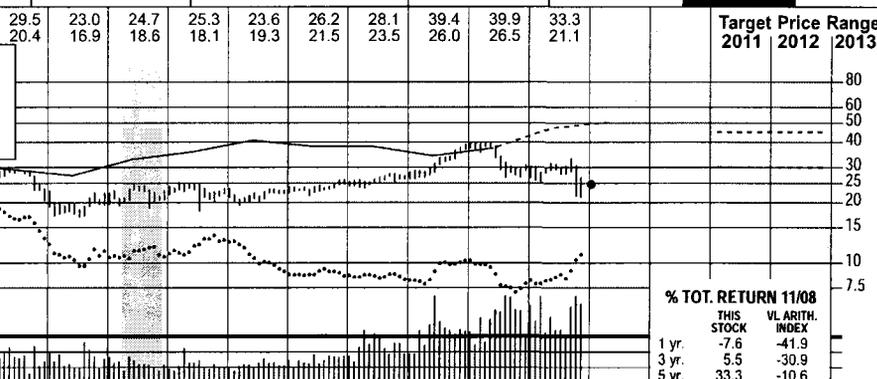
| | Price | Gain | Ann'l Total Return |
|------|-------|--------|--------------------|
| High | 45 | (+80%) | 18% |
| Low | 30 | (+20%) | 8% |

Insider Decisions

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

Institutional Decisions

| | 1Q2008 | 2Q2008 | 3Q2008 |
|-----------|--------|--------|--------|
| to Buy | 80 | 85 | 69 |
| to Sell | 88 | 65 | 74 |
| Hlds(000) | 34496 | 34150 | 33669 |



| 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | © VALUE LINE PUB., INC | 11-13 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----------------------------------|-------|
| 25.93 | 25.68 | 28.16 | 23.03 | 24.09 | 26.73 | 30.17 | 30.24 | 32.61 | 42.98 | 39.68 | 35.96 | 40.14 | 43.59 | 48.47 | 50.27 | 48.85 | 50.00 | Revenues per sh ^A | 58.35 |
| 3.34 | 3.24 | 5.09 | 2.65 | 3.00 | 3.85 | 4.48 | 4.45 | 4.57 | 4.79 | 5.07 | 5.11 | 5.57 | 5.20 | 5.97 | 6.21 | 6.00 | 6.45 | "Cash Flow" per sh | 7.00 |
| .81 | .63 | 1.22 | .10 | .25 | .77 | 1.65 | 1.27 | 1.21 | 1.15 | 1.16 | 1.13 | 1.66 | 1.25 | 1.98 | 1.95 | 1.75 | 2.00 | Earnings per sh ^{A B} | 2.50 |
| .70 | .74 | .80 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .86 | .90 | .94 | Div'ds Decl'd per sh ^C | 1.06 |
| 5.02 | 5.43 | 6.64 | 6.79 | 8.19 | 6.19 | 6.40 | 7.41 | 7.04 | 8.17 | 8.50 | 7.03 | 8.23 | 7.49 | 8.27 | 7.96 | 6.80 | 7.50 | Cap'l Spending per sh | 9.90 |
| 15.99 | 15.96 | 16.38 | 14.55 | 14.20 | 14.09 | 15.67 | 16.31 | 16.82 | 17.27 | 17.91 | 18.42 | 19.18 | 19.10 | 21.58 | 22.98 | 23.30 | 24.45 | Book Value per sh | 26.55 |
| 20.60 | 21.00 | 21.28 | 24.47 | 26.73 | 27.39 | 30.41 | 30.99 | 31.71 | 32.49 | 33.29 | 34.23 | 36.79 | 39.33 | 41.77 | 42.81 | 44.00 | 45.00 | Common Shs Outst'g ^D | 46.00 |
| 16.6 | 26.5 | 14.0 | NMF | 69.3 | 24.1 | 13.2 | 21.1 | 16.0 | 19.0 | 19.9 | 19.2 | 14.3 | 20.6 | 15.9 | 18.4 | 18.4 | 18.4 | Avg Ann'l P/E Ratio | 15.0 |
| 1.01 | 1.57 | .92 | NMF | 4.34 | 1.39 | .69 | 1.20 | 1.04 | .97 | 1.09 | 1.09 | .76 | 1.10 | .86 | .98 | .86 | .98 | Relative P/E Ratio | 1.00 |
| 5.2% | 4.4% | 4.7% | 4.4% | 4.7% | 4.4% | 3.8% | 3.1% | 4.2% | 3.8% | 3.6% | 3.1% | 3.5% | 3.2% | 2.6% | 2.4% | 2.4% | 2.4% | Avg Ann'l Div'd Yield | 2.8% |

CAPITAL STRUCTURE as of 9/30/08

Total Debt \$1325.6 mill. Due in 5 Yrs \$615.0 mill.
 LT Debt \$1313.1 mill. LT Interest \$90.0 mill.
 (Total interest coverage: 2.3x)
 Leases, Uncapitalized Annual rentals \$7.0 mill.
 Pension Assets-12/07 \$441.7 mill.
 Oblig. \$546.4 mill.

Pfd Stock None

Common Stock 43,914,407 shs. as of 10/31/08

MARKET CAP: \$1.1 billion (Mid Cap)

| 2006 | 2007 | 9/30/08 |
|--------|--------|---------|
| 917.3 | 936.9 | 1034.1 |
| 47.5 | 39.3 | 38.3 |
| 43.4% | 35.5% | 26.2% |
| 5.2% | 4.2% | 3.7% |
| 60.2% | 60.3% | 60.2% |
| 35.3% | 35.5% | 35.8% |
| 1349.3 | 1424.7 | 1489.9 |
| 1459.4 | 1581.1 | 1686.1 |
| 5.8% | 4.8% | 4.6% |
| 8.9% | 7.0% | 6.5% |
| 10.0% | 7.8% | 7.2% |
| 5.0% | 2.8% | 2.4% |
| 50% | 64% | 67% |

BUSINESS: Southwest Gas Corporation is a regulated gas distributor serving approximately 1.8 million customers in sections of Arizona, Nevada, and California. Comprised of two business segments: natural gas operations and construction services. 2007 margin mix: residential and small commercial, 86%; large commercial and industrial, 5%; transportation, 9%. Total throughput: 2.4 billion

CURRENT POSITION (\$MILL.)

| | 2006 | 2007 | 9/30/08 |
|----------------|-------|-------|---------|
| Cash Assets | 18.8 | 32.0 | 13.2 |
| Other | 482.8 | 470.5 | 257.2 |
| Current Assets | 501.6 | 502.5 | 270.4 |
| Accts Payable | 265.7 | 220.7 | 79.7 |
| Debt Due | 27.5 | 47.1 | 12.5 |
| Other | 202.9 | 260.1 | 266.8 |
| Current Liab. | 496.1 | 527.9 | 359.0 |
| Fix. Chg. Cov. | 220% | 229% | 230% |

ANNUAL RATES

| | Past 10 Yrs. | Past 5 Yrs. | Est'd '05-'07 |
|-------------|--------------|-------------|---------------|
| Revenues | 6.0% | 4.5% | 3.5% |
| "Cash Flow" | 4.5% | 4.0% | 3.0% |
| Earnings | 12.0% | 6.0% | 6.5% |
| Dividends | - | - | 4.0% |
| Book Value | 3.0% | 3.5% | 4.0% |

seeking a \$9.1 million increase in operating revenues in California. These requests appear reasonable, although it is unclear what pressures the rate boards may face, if any. We expect decisions on these cases by yearend. The company's focus on procuring rate relief and improving rate design is important, as SWX depends upon such approved revenue increases to help it cope with higher expenses and to provide for smoother earnings.

QUARTERLY REVENUES (\$mill.)

| Cal-endar | Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|-----------|--------|--------|--------|--------|-----------|
| 2005 | 542.9 | 361.1 | 313.3 | 497.0 | 1714.3 |
| 2006 | 676.9 | 430.9 | 351.8 | 565.1 | 2024.7 |
| 2007 | 793.7 | 426.6 | 371.5 | 560.3 | 2152.1 |
| 2008 | 813.6 | 447.3 | 374.4 | 514.7 | 2150 |
| 2009 | 800 | 475 | 415 | 560 | 2250 |

Southwest Gas reported an unimpressive performance for the third quarter. The top line advanced slightly in the recent interim. Operating costs increased at a faster pace, though. Moreover, the company reported a negative return on long-term investments. Overall, Southwest posted a much greater share loss for the period. Customer growth has moderated in recent periods. A slowdown in the new construction market and an increasing inventory of vacant homes in the Southwest hurt performance. Third-quarter losses are common, considering the seasonal nature of the business. Still, the company is operating in a challenging environment, which ought to continue to stymie growth in the near term. We anticipate flat revenues and lower earnings per share at Southwest Gas for full-year 2008. Share earnings may rebound in 2009, assuming success at controlling costs.

Investors should be aware of several caveats. Warmer-than-normal temperatures during the winter months can hurt profitability at Southwest Gas. Moreover, the company will likely incur higher operating costs as it continues to expand. Furthermore, insufficient, or lagging, rate relief could also hurt profits.

EARNINGS PER SHARE ^B

| Cal-endar | Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|-----------|--------|--------|--------|--------|-----------|
| 2005 | .88 | d.07 | d.43 | .87 | 1.25 |
| 2006 | 1.11 | .02 | d.26 | 1.11 | 1.98 |
| 2007 | 1.17 | d.01 | d.22 | 1.00 | 1.95 |
| 2008 | 1.14 | d.06 | d.38 | 1.05 | 1.75 |
| 2009 | 1.15 | Nil | d.25 | 1.10 | 2.00 |

The company has two important rate case proceedings nearing conclusion. It is seeking a rate increase of \$50.2 million in Arizona, and has included proposed rate design changes to address weather-related volatility. Elsewhere, Southwest is

Shares of Southwest Gas, once favored for their growth, are out of sorts now. Nevertheless, we anticipate higher share earnings at the company by early next decade. At the current quotation, this issue features good total return potential for a utility, considering its healthy dividend yield.

QUARTERLY DIVIDENDS PAID ^C

| Cal-endar | Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|-----------|--------|--------|--------|--------|-----------|
| 2004 | .205 | .205 | .205 | .205 | .82 |
| 2005 | .205 | .205 | .205 | .205 | .82 |
| 2006 | .205 | .205 | .205 | .205 | .82 |
| 2007 | .205 | .215 | .215 | .215 | .85 |
| 2008 | .215 | .225 | .225 | .225 | .85 |

early March, June, September, December. ■ Div'd reinvest. plan avail. (D) In millions.

Company's Financial Strength B
Stock's Price Stability 100
Price Growth Persistence 55
Earnings Predictability 65

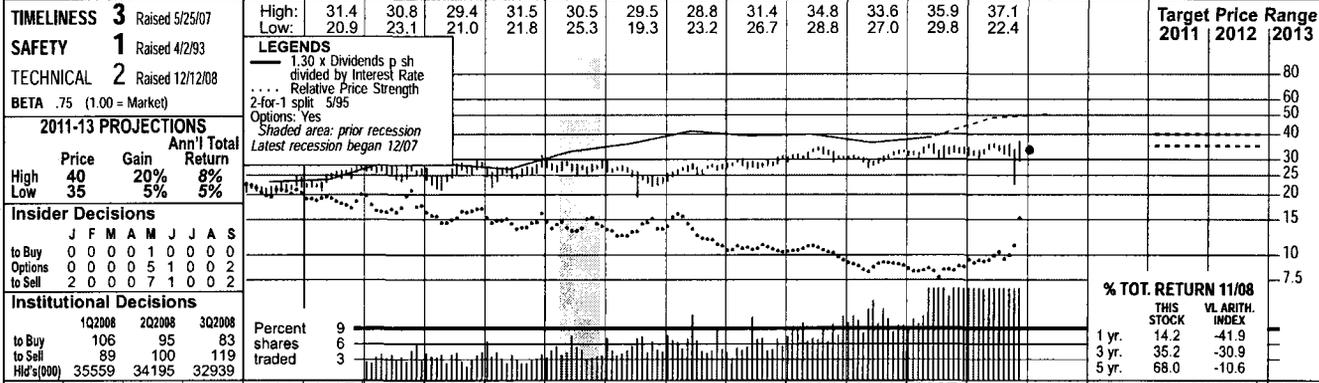
(A) Incl. income for PrMerit Bank on the equity basis through 1994. (B) Based on avg. shares outstanding thru '96, then diluted. Excl. nonrec. gains (losses): '93, '86; '97, '16; '02, '10; '05, '11; '06, 7¢. Incl. asset writedown: '93, 44¢. Excl. loss from disc. ops.: '95, 75¢. Totals may not sum due to rounding. Next egs. report due late February. (C) Dividends historically paid

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WGL HOLDINGS NYSE-WGL

RECENT PRICE **33.52** P/E RATIO **14.1** (Trailing: 8.3 Median: 15.0) RELATIVE P/E RATIO **1.38** DIV'D YLD **4.3%** VALUE LINE



| 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 | 52.98 | 53.35 | Revenues per sh ^A | 54.60 |
| 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 | 4.17 | 4.30 | "Cash Flow" per sh | 4.55 |
| 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 | 2.33 | 2.40 | Earnings per sh ^B | 2.55 |
| 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 | 1.42 | 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 | 3.33 | 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 | 21.06 | 22.00 | Book Value per sh ^D | 25.00 |
| 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 | 49.61 | 49.65 | 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 | 14.3 | | 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 | .85 | | 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% | 4.3% | | | Avg Ann'l Div'd Yield | 4.2% |
| CAPITAL STRUCTURE as of 9/30/08 | | | | 1040.6 | 972.1 | 1031.1 | 1446.5 | 1584.8 | 2064.2 | 2089.6 | 2186.3 | 2637.9 | 2646.0 | 2628.2 | 2650 | Revenues (\$mill) ^A | | 2730 | |
| Total Debt \$950.7 mill. Due in 5 Yrs \$399.5 mill. | | | | 68.6 | 68.8 | 84.6 | 89.9 | 55.7 | 112.3 | 98.0 | 104.8 | 95.1 | 102.9 | 116.3 | 120 | Net Profit (\$mill) | | 130 | |
| LT Debt \$603.7 mill. LT Interest \$40.1 mill. | | | | 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% | |
| (LT interest earned: 6.7%; total interest coverage: 5.7x) | | | | 6.6% | 7.1% | 8.2% | 6.2% | 3.5% | 5.4% | 4.7% | 4.8% | 3.6% | 3.9% | 4.4% | 4.5% | Net Profit Margin | | 4.8% | |
| Pension Assets-9/08 \$588.2 mill. | | | | 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% | |
| Oblig. \$590.5 mill. | | | | 57.1% | 56.1% | 54.8% | 56.3% | 52.4% | 54.3% | 57.2% | 58.6% | 61.5% | 60.3% | 62.3% | 63.5% | Common Equity Ratio | | 66.5% | |
| Preferred Stock \$28.2 mill. Pfd. Div'd \$1.3 mill. | | | | 1064.8 | 1218.5 | 1299.2 | 1400.8 | 1462.5 | 1454.9 | 1443.6 | 1478.1 | 1497.8 | 1625.4 | 1677.2 | 1720 | Total Capital (\$mill) | | 1880 | |
| Common Stock 49,971,614 shs. as of 10/31/08 | | | | 1319.5 | 1402.7 | 1460.3 | 1519.7 | 1606.8 | 1874.9 | 1915.6 | 1969.7 | 2067.9 | 2150.4 | 2208.3 | 2325 | Net Plant (\$mill) | | 2615 | |
| MARKET CAP: \$1.7 billion (Mid Cap) | | | | 8.0% | 7.1% | 7.9% | 7.9% | 5.3% | 9.1% | 8.2% | 8.5% | 7.7% | 7.6% | 8.1% | 8.0% | Return on Total Cap'l | | 8.0% | |
| CURRENT POSITION | | | | 10.8% | 9.7% | 11.4% | 11.0% | 7.0% | 13.7% | 11.5% | 11.7% | 10.3% | 10.2% | 11.1% | 11.0% | Return on Shr. Equity | | 10.0% | |
| 2006 | | | | 11.1% | 9.9% | 11.7% | 11.2% | 7.2% | 14.0% | 11.7% | 12.0% | 10.2% | 10.4% | 11.6% | 11.5% | Return on Com Equity | | 10.5% | |
| 2007 | | | | 2.5% | 1.8% | 3.7% | 3.8% | NMF | 6.2% | 4.1% | 4.6% | 3.1% | 3.5% | 4.3% | 4.5% | Retained to Com Eq | | 4.0% | |
| 9/30/08 | | | | 78% | 82% | 69% | 67% | 112% | 56% | 65% | 62% | 70% | 66% | 61% | 60% | All Div'ds to Net Prof | | 61% | |

| | 2006 | 2007 | 9/30/08 |
|-----------------------|-------|-------|---------|
| CASH ASSETS | 4.4 | 4.9 | 6.2 |
| Cash | 556.9 | 568.8 | 736.1 |
| Other | 561.3 | 573.7 | 742.3 |
| CURRENT ASSETS | 208.5 | 216.9 | 243.1 |
| Accts Payable | 238.4 | 205.4 | 347.0 |
| Debt Due | 113.9 | 134.8 | 158.4 |
| Other | 560.8 | 557.1 | 748.5 |
| CURRENT LIAB. | 465% | 460% | 460% |
| Fix. Chg. Cov. | | | |

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 residential 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 prod-

vides energy related products in the D.C. metro area; Wash. Gas Energy Sys. designs/installs comm'l heating, ventilating, and air cond. systems. American Century Inv. own 8.2% of common stock; Off. Dir. less than 1% (1/08 proxy). Chrmn. & CEO: J.H. DeGraffenreid, Inc.: D.C. and VA. Addr.: 1100 H St., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.

| ANNUAL RATES | Past 10 Yrs. | Past 5 Yrs. | Est'd '05-'07 of change (per sh) | to '11-'13 |
|--------------|--------------|-------------|----------------------------------|------------|
| Revenues | 9.0% | 12.5% | 1.0% | |
| "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% | |

WGL Holdings performed well in fiscal 2008 (ended September 30th). New rates, higher consumption, and customer growth contributed to the annual top-line increase of almost 18%. Meanwhile, the initiation of regulatory mechanisms like the weather normalization adjustment (WMA) minimized usage volatility. And margins widened due to the successful expansion of the "asset optimization" program. The retail energy segment did not fare as well. This reflects lower margins from electric sales, partially offset by slightly higher margins for natural gas sales. Weakness here stemmed from milder weather and the loss of certain government and large commercial accounts. However, on balance, WGL's earnings per share advanced 11%. Next up,

fiscal 2009, lower energy prices have allowed it to resume those efforts. It may take some time for these programs to pick up steam, consequently, WGL will likely experience growth in electricity sales, but natural gas volumes will probably continue to decline, as the last of the lost government accounts roll off its books. However, **The company should still register a modest 3% earnings increase for fiscal 2009.** The utility segment should benefit from an estimated 9,500 new accounts, as well as higher contributions from its expanded asset management strategy. Meanwhile, the retail energy business may get a boost from stronger gross margins on natural gas sales. Also, rate case approvals and capital projects augur well for WGL's prospects. However, a likely decline in usage compared to last year's unusually high levels could be an offset.

| Fiscal Year Ends | 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 | 1020.0 | 464.7 | 391.9 | 2628.2 |
| 2009 | 760 | 1050 | 480 | 360 | 2650 |

We look for December-period results to be little changed compared to last year. Aggregate electric and gas customer accounts declined in the most recent quarter, due to the extended run-up in natural gas and electric prices from February through June. That caused WGL to halt its mass market customer acquisition efforts. However, as the company begins

These neutrally ranked shares may appeal to conservative income-oriented accounts. Indeed, this is evident in their good dividend yield, strong Safety rank (1), solid financial strength (A), and top mark for Price Stability (100).
 Bryan Fong
 December 12, 2008

| Fiscal Year Ends | 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 | .96 | 1.66 | .06 | d.22 | 2.33 |
| 2009 | .97 | 1.50 | .13 | d.20 | 2.40 |

| Cal-endar | 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 | .36 | .36 | .36 | |

(A) Fiscal years end Sept. 30th. (B) Based on diluted shares. Excludes non-recurring losses: '01, (13¢); '02, (34¢); '07, (4¢) discontinued operations; '06, (15¢). Qlty eggs. (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.

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

To subscribe call 1-800-833-0046.



ATTACHMENT C

**AMERICAN STS WTR CO (NYSE)**

Scotttrade

| | | | | | |
|-----|-------|---------|----------|-------------|----------|
| AWR | 31.93 | ▼ -0.63 | (-1.93%) | Vol. 23,407 | 11:35 ET |
|-----|-------|---------|----------|-------------|----------|

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

General Information

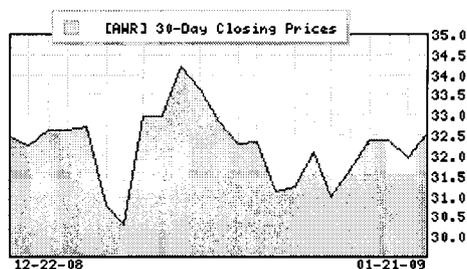
AMER STATES WTR
630 East Foothill Boulevard
San Dimas, CA 91773-1212
Phone: 909 394-3600
Fax: 909 394-0711
Web: www.gswater.com
Email: investorinfo@aswater.com

Industry: UTIL-WATER
Sector: SPLY
Utilities

Fiscal Year End: December
Last Reported Quarter: 12/31/08
Next EPS Date: 03/05/2009

Price and Volume Information

Zacks Rank 
Yesterday's Close: 32.56
52 Week High: 42.00
52 Week Low: 27.00
Beta: 0.59
20 Day Moving Average: 149,381.09
Target Price Consensus: 38.67

**% Price Change**

4 Week: 0.99
12 Week: 8.32
YTD: -1.27

% Price Change Relative to S&P 500

4 Week: 3.75
12 Week: 21.24
YTD: 4.25

Share Information

Shares Outstanding (millions): 17.29
Market Capitalization (millions): 562.93
Short Ratio: 3.35
Last Split Date: 06/10/2002

Dividend Information

Dividend Yield: 3.07%
Annual Dividend: \$1.00
Payout Ratio: 0.00
Change in Payout Ratio: 0.00
Last Dividend Payout / Amount: 11/07/2008 / \$0.25

EPS Information

Current Quarter EPS Consensus Estimate: 0.41
Current Year EPS Consensus Estimate: 1.54
Estimated Long-Term EPS Growth Rate: 12.00
Next EPS Report Date: 03/05/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 1.50
30 Days Ago: 1.50
60 Days Ago: 2.00
90 Days Ago: 2.00

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|-------------------------------|-----------------------------|
| Current FY Estimate: 18.37 | vs. Previous Year: -11.36% | vs. Previous Year: 12.42% |
| Trailing 12 Months: 20.61 | vs. Previous Quarter: -27.78% | vs. Previous Quarter: 6.16% |
| PEG Ratio: 1.53 | | |
| Price Ratios | ROE | ROA |
| Price/Book: 1.81 | 12/31/08 | 12/31/08 |

| | | | | | |
|---------------------------|-------|-----------------------|-------|-------------------------|-------|
| Price/Cash Flow | 10.10 | 09/30/08 | 8.97 | 09/30/08 | 2.77 |
| Price / Sales | - | 06/30/08 | 9.33 | 06/30/08 | 2.90 |
| Current Ratio | | Quick Ratio | | Operating Margin | |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 0.57 | 09/30/08 | 0.55 | 09/30/08 | 8.91 |
| 06/30/08 | 0.59 | 06/30/08 | 0.57 | 06/30/08 | 9.47 |
| Net Margin | | Pre-Tax Margin | | Book Value | |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 14.27 | 09/30/08 | 14.27 | 09/30/08 | 18.02 |
| 06/30/08 | 16.35 | 06/30/08 | 16.35 | 06/30/08 | 17.93 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Captial | |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 59.72 | 09/30/08 | 0.86 | 09/30/08 | 46.19 |
| 06/30/08 | 59.45 | 06/30/08 | 0.86 | 06/30/08 | 46.35 |

**CALIFORNIA WTR SVC GROUP** (NYSE)

Scottrade

CWT 41.44 ▼-0.94 (-2.22%) Vol. 121,991

11:40 ET

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

General Information

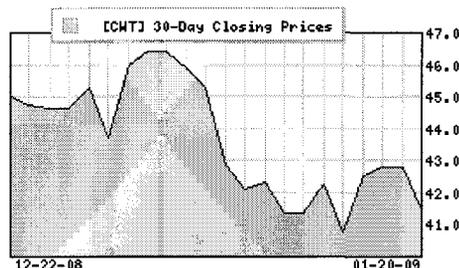
CALIF WATER SVC
1720 North First Street
San Jose, CA 95112
Phone: 408 367-8200
Fax: 408 437-9185
Web: www.calwatergroup.com
Email: klichtenbergl@calwater.com

Industry: UTIL-WATER
Sector: SPLY
Utilities

Fiscal Year End: December
Last Reported Quarter: 12/31/08
Next EPS Date: 02/25/2009

Price and Volume Information

Zacks Rank 
Yesterday's Close: 42.38
52 Week High: 48.28
52 Week Low: 27.68
Beta: 0.63
20 Day Moving Average: 289,643.44
Target Price Consensus: 44

**% Price Change**

4 Week: -5.27
12 Week: 30.68
YTD: -8.72

% Price Change Relative to S&P 500

4 Week: -2.69
12 Week: 46.28
YTD: -2.06

Share Information

Shares Outstanding (millions): 20.72
Market Capitalization (millions): 877.99
Short Ratio: 2.22
Last Split Date: 01/26/1998

Dividend Information

Dividend Yield: 2.76%
Annual Dividend: \$1.17
Payout Ratio: 0.00
Change in Payout Ratio: 0.00
Last Dividend Payout / Amount: 10/30/2008 / \$0.29

EPS Information

Current Quarter EPS Consensus Estimate: 0.39
Current Year EPS Consensus Estimate: 1.92
Estimated Long-Term EPS Growth Rate: 8.40
Next EPS Report Date: 02/25/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.86
30 Days Ago: 2.00
60 Days Ago: 2.00
90 Days Ago: 1.67

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|-------------------------------|------------------------------|
| Current FY Estimate: 20.61 | vs. Previous Year: 58.21% | vs. Previous Year: 15.68% |
| Trailing 12 Months: 22.78 | vs. Previous Quarter: 120.83% | vs. Previous Quarter: 24.74% |
| PEG Ratio: 2.45 | | |

| Price Ratios | | ROE | | ROA | |
|---------------------------|-------|-----------------------|------|-------------------------|-------|
| Price/Book | 2.19 | 12/31/08 | - | 12/31/08 | - |
| Price/Cash Flow | 15.39 | 09/30/08 | 9.99 | 09/30/08 | 3.14 |
| Price / Sales | - | 06/30/08 | 7.95 | 06/30/08 | 2.53 |
| Current Ratio | | Quick Ratio | | Operating Margin | |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 0.57 | 09/30/08 | 0.54 | 09/30/08 | 9.81 |
| 06/30/08 | 0.61 | 06/30/08 | 0.57 | 06/30/08 | 8.05 |
| Net Margin | | Pre-Tax Margin | | Book Value | |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | - | 09/30/08 | - | 09/30/08 | 19.37 |
| 06/30/08 | - | 06/30/08 | - | 06/30/08 | 18.60 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Captial | |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | - | 09/30/08 | 0.72 | 09/30/08 | 41.83 |
| 06/30/08 | - | 06/30/08 | 0.75 | 06/30/08 | 42.57 |

**AQUA AMERICA INC (NYSE)**

Scottrade

| | | | | | |
|-----|-------|---------|----------|--------------|----------|
| WTR | 19.26 | ▼ -0.38 | (-1.93%) | Vol. 318,219 | 11:40 ET |
|-----|-------|---------|----------|--------------|----------|

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

General Information

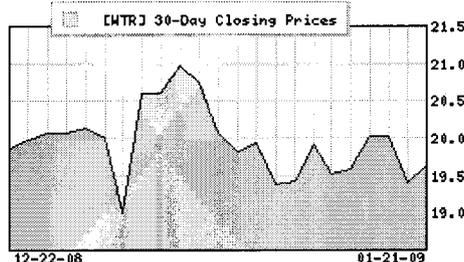
AQUA AMER INC
762 W Lancaster Avenue
Bryn Mawr, PA 19010-3489
Phone: 610 527-8000
Fax: 610-645-1061
Web: www.suburbanwater.com
Email: ir.aquaamerica.com

Industry: UTIL-WATER
Sector: SPLY
Utilities

Fiscal Year End: December
Last Reported Quarter: 12/31/08
Next EPS Date: 02/25/2009

Price and Volume Information

Zacks Rank 
Yesterday's Close: 19.64
52 Week High: 22.00
52 Week Low: 12.20
Beta: 0.20
20 Day Moving Average: 768,482.19
Target Price Consensus: 21.92

**% Price Change**

4 Week: -1.65
12 Week: 18.03
YTD: -4.61

% Price Change Relative to S&P 500

4 Week: 1.03
12 Week: 32.11
YTD: 3.31

Share Information

Shares Outstanding (millions): 134.86
Market Capitalization (millions): 2,648.65
Short Ratio: 7.22
Last Split Date: 12/02/2005

Dividend Information

Dividend Yield: 2.75%
Annual Dividend: \$0.54
Payout Ratio: 0.00
Change in Payout Ratio: 0.00
Last Dividend Payout / Amount: 11/13/2008 / \$0.14

EPS Information

Current Quarter EPS Consensus Estimate: 0.20
Current Year EPS Consensus Estimate: 0.74
Estimated Long-Term EPS Growth Rate: 8.00
Next EPS Report Date: 02/25/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.22
30 Days Ago: 2.22
60 Days Ago: 1.78
90 Days Ago: 1.78

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|------------------------------|------------------------------|
| Current FY Estimate: 23.24 | vs. Previous Year: 18.18% | vs. Previous Year: 7.01% |
| Trailing 12 Months: 26.90 | vs. Previous Quarter: 52.94% | vs. Previous Quarter: 17.48% |
| PEG Ratio: 2.91 | | |

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

| | | | | | |
|---------------------------|-------|-----------------------|-------|-------------------------|-------|
| Price/Book | 2.58 | 12/31/08 | - | 12/31/08 | - |
| Price/Cash Flow | 14.30 | 09/30/08 | 9.70 | 09/30/08 | 2.96 |
| Price / Sales | - | 06/30/08 | 9.26 | 06/30/08 | 2.84 |
| Current Ratio | | Quick Ratio | | Operating Margin | |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 0.59 | 09/30/08 | 0.54 | 09/30/08 | 15.77 |
| 06/30/08 | 0.73 | 06/30/08 | 0.67 | 06/30/08 | 15.10 |
| Net Margin | | Pre-Tax Margin | | Book Value | |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 25.94 | 09/30/08 | 25.94 | 09/30/08 | 7.62 |
| 06/30/08 | 24.80 | 06/30/08 | 24.80 | 06/30/08 | 7.65 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Captial | |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 0.00 | 09/30/08 | 1.18 | 09/30/08 | 54.14 |
| 06/30/08 | 0.00 | 06/30/08 | 1.19 | 06/30/08 | 54.30 |

**AGL RES INC (NYSE)**

Scottrade

| | | | | | |
|-----|-------|--------|----------|--------------|----------|
| ATG | 30.47 | ▼-0.69 | (-2.21%) | Vol. 119,455 | 12:04 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

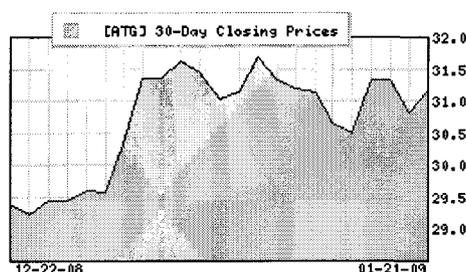
AGL RESOURCES
 Ten Peachtree Place NE
 Atlanta, GA 30309
 Phone: 404 584-4000
 Fax: 404 584-3945
 Web: www.aglresources.com
 Email: scave@aglresources.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Reported Quarter: 12/31/08
 Next EPS Date: 02/05/2009

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 31.16
 52 Week High: 39.13
 52 Week Low: 24.02
 Beta: 0.32
 20 Day Moving Average: 353,985.56
 Target Price Consensus: 36.17

**% Price Change**

| | |
|---------|-------|
| 4 Week | 6.60 |
| 12 Week | 13.52 |
| YTD | -0.61 |

% Price Change Relative to S&P 500

| | |
|---------|-------|
| 4 Week | 9.51 |
| 12 Week | 27.06 |
| YTD | 6.15 |

Share Information

| | |
|----------------------------------|------------|
| Shares Outstanding (millions) | 76.78 |
| Market Capitalization (millions) | 2,392.46 |
| Short Ratio | 2.98 |
| Last Split Date | 12/04/1995 |

Dividend Information

| | |
|-------------------------------|---------------------|
| Dividend Yield | 5.39% |
| Annual Dividend | \$1.68 |
| Payout Ratio | 0.00 |
| Change in Payout Ratio | 0.00 |
| Last Dividend Payout / Amount | 11/12/2008 / \$0.42 |

EPS Information

| | |
|--|------------|
| Current Quarter EPS Consensus Estimate | 0.97 |
| Current Year EPS Consensus Estimate | 2.79 |
| Estimated Long-Term EPS Growth Rate | 4.30 |
| Next EPS Report Date | 02/05/2009 |

Consensus Recommendations

| | |
|---------------------------------------|------|
| Current (1=Strong Buy, 5=Strong Sell) | 2.17 |
| 30 Days Ago | 2.00 |
| 60 Days Ago | 2.14 |
| 90 Days Ago | 2.14 |

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|-----------------------------|------------------------------|
| Current FY Estimate: 11.22 | vs. Previous Year 64.71% | vs. Previous Year 46.07% |
| Trailing 12 Months: 11.98 | vs. Previous Quarter -6.67% | vs. Previous Quarter: 21.40% |
| PEG Ratio: 2.64 | | |
| Price Ratios | ROE | ROA |
| Price/Book: 1.39 | 12/31/08 | 12/31/08 |

| | | | | | |
|---------------------------|-------|-----------------------|-------|-------------------------|-------|
| Price/Cash Flow | 6.72 | 09/30/08 | 11.74 | 09/30/08 | 3.13 |
| Price / Sales | - | 06/30/08 | 11.42 | 06/30/08 | 3.08 |
| Current Ratio | | Quick Ratio | | Operating Margin | |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 1.06 | 09/30/08 | 0.62 | 09/30/08 | 7.44 |
| 06/30/08 | 1.03 | 06/30/08 | 0.67 | 06/30/08 | 7.61 |
| Net Margin | | Pre-Tax Margin | | Book Value | |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 12.43 | 09/30/08 | 12.43 | 09/30/08 | 22.49 |
| 06/30/08 | 9.96 | 06/30/08 | 9.96 | 06/30/08 | 22.03 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Capital | |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 2.60 | 09/30/08 | 0.97 | 09/30/08 | 49.71 |
| 06/30/08 | 2.60 | 06/30/08 | 0.97 | 06/30/08 | 49.78 |

**ATMOS ENERGY CORP** (NYSE)

Scottrade

ATO 23.48

▼ -0.65

(-2.69%)

Vol. 176,045

12:07 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.comEmail: InvestorRelations@atmosenergy.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: September

Last Reported Quarter: 12/31/08

Next EPS Date: 02/03/2009

Price and Volume Information**Zacks Rank**

Yesterday's Close: 24.13

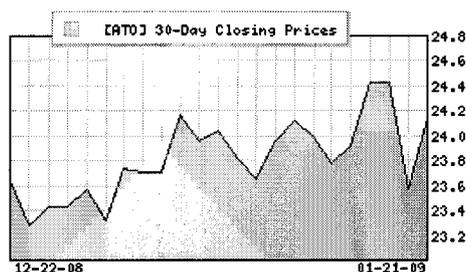
52 Week High: 29.29

52 Week Low: 19.68

Beta: 0.53

20 Day Moving Average: 390,904.50

Target Price Consensus: 29.33

**% Price Change**

4 Week: 3.65

12 Week: 4.82

YTD: 1.81

% Price Change Relative to S&P 500

4 Week: 6.48

12 Week: 17.33

YTD: 9.52

Share Information

Shares Outstanding (millions): 91.56

Market Capitalization (millions): 2,209.27

Short Ratio: 0.82

Last Split Date: 05/17/1994

Dividend Information

Dividend Yield: 5.47%

Annual Dividend: \$1.32

Payout Ratio: 0.00

Change in Payout Ratio: 0.00

Last Dividend Payout / Amount: 11/21/2008 / \$0.33

EPS Information

Current Quarter EPS Consensus Estimate: 0.80

Current Year EPS Consensus Estimate: 2.09

Estimated Long-Term EPS Growth Rate: 5.50

Next EPS Report Date: 02/03/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.50

30 Days Ago: 2.50

60 Days Ago: 2.40

90 Days Ago: 2.40

Fundamental Ratios**P/E**

Current FY Estimate: 11.57

Trailing 12 Months: 12.00

PEG Ratio: 2.10

EPS Growth

vs. Previous Year: 150.00%

vs. Previous Quarter: 128.57%

Sales Growth

vs. Previous Year: 43.77%

vs. Previous Quarter: -12.11%

| Price Ratios | ROE | ROA | |
|---------------------------|-----------------------|-------------------------|-------|
| Price/Book | 1.07 12/31/08 | - 12/31/08 | - |
| Price/Cash Flow | 5.74 09/30/08 | 8.67 09/30/08 | 2.82 |
| Price / Sales | - 06/30/08 | 8.50 06/30/08 | 2.79 |
| Current Ratio | Quick Ratio | Operating Margin | |
| 12/31/08 | - 12/31/08 | - 12/31/08 | - |
| 09/30/08 | 1.06 09/30/08 | 0.59 09/30/08 | 2.50 |
| 06/30/08 | 1.20 06/30/08 | 0.71 06/30/08 | 2.58 |
| Net Margin | Pre-Tax Margin | Book Value | |
| 12/31/08 | - 12/31/08 | - 12/31/08 | - |
| 09/30/08 | 4.05 09/30/08 | 4.05 09/30/08 | 22.65 |
| 06/30/08 | 3.92 06/30/08 | 3.92 06/30/08 | 23.34 |
| Inventory Turnover | Debt-to-Equity | Debt to Captial | |
| 12/31/08 | - 12/31/08 | - 12/31/08 | - |
| 09/30/08 | 11.06 09/30/08 | 1.03 09/30/08 | 50.81 |
| 06/30/08 | 10.64 06/30/08 | 1.01 06/30/08 | 50.17 |

**LACLEDE GROUP INC (NYSE)**

Scottrade

| | | | | | |
|----|-------|--------|----------|--------------|----------|
| LG | 41.88 | ▼-0.51 | (-1.20%) | Vol. 185,863 | 13:57 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

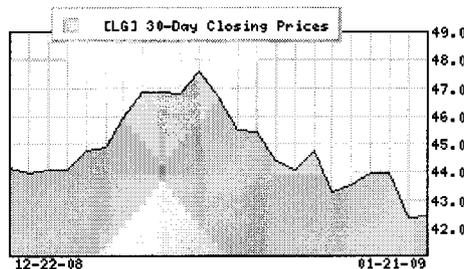
LACLEDE GRP INC
720 Olive Street
St. Louis, MO 63101
Phone: 314-342-0500
Fax: 314-421-1979
Web: www.thelacledegroupp.com
Email: mkullman@lacledegas.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: September
Last Reported Quarter: 12/31/08
Next EPS Date: 01/22/2009

Price and Volume Information

Zacks Rank 
Yesterday's Close: 42.39
52 Week High: 55.81
52 Week Low: 32.50
Beta: 0.11
20 Day Moving Average: 221,322.80
Target Price Consensus: N/A

**% Price Change**

4 Week: -3.59
12 Week: -12.38
YTD: -9.50

% Price Change Relative to S&P 500

4 Week: -0.96
12 Week: -1.93
YTD: -0.33

Share Information

Shares Outstanding (millions): 22.13
Market Capitalization (millions): 937.92
Short Ratio: 5.20
Last Split Date: 03/08/1994

Dividend Information

Dividend Yield: 3.63%
Annual Dividend: \$1.54
Payout Ratio: 0.00
Change in Payout Ratio: 0.00
Last Dividend Payout / Amount: 12/09/2008 / \$0.38

EPS Information

Current Quarter EPS Consensus Estimate: 1.02
Current Year EPS Consensus Estimate: 2.37
Estimated Long-Term EPS Growth Rate: 10.00
Next EPS Report Date: 01/22/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 3.67
30 Days Ago: 3.67
60 Days Ago: 3.67
90 Days Ago: 3.67

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|--------------------------------|-------------------------------|
| Current FY Estimate: 17.89 | vs. Previous Year: -566.67% | vs. Previous Year: 39.76% |
| Trailing 12 Months: 16.06 | vs. Previous Quarter: -133.33% | vs. Previous Quarter: -10.62% |
| PEG Ratio: 1.79 | | |
| Price Ratios | ROE | ROA |
| Price/Book: 1.91 | 12/31/08 | 12/31/08 |

| | | | | | |
|---------------------------|-------|-----------------------|-------|-------------------------|-------|
| Price/Cash Flow | 9.86 | 09/30/08 | 12.04 | 09/30/08 | 3.35 |
| Price / Sales | - | 06/30/08 | 13.24 | 06/30/08 | 3.65 |
| Current Ratio | | Quick Ratio | | Operating Margin | |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 1.17 | 09/30/08 | 0.69 | 09/30/08 | 2.53 |
| 06/30/08 | 1.32 | 06/30/08 | 0.98 | 06/30/08 | 2.86 |
| Net Margin | | Pre-Tax Margin | | Book Value | |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 3.79 | 09/30/08 | 3.79 | 09/30/08 | 22.14 |
| 06/30/08 | 4.21 | 06/30/08 | 4.21 | 06/30/08 | 22.13 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Captial | |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 5.73 | 09/30/08 | 0.80 | 09/30/08 | 44.42 |
| 06/30/08 | 14.15 | 06/30/08 | 0.64 | 06/30/08 | 39.01 |

**NEW JERSEY RES (NYSE)**

Scottrade

| | | | | | |
|-----|-------|--------|---------|--------------|----------|
| NJR | 38.20 | ▲ 0.45 | (1.19%) | Vol. 251,043 | 13:59 ET |
|-----|-------|--------|---------|--------------|----------|

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

General Information

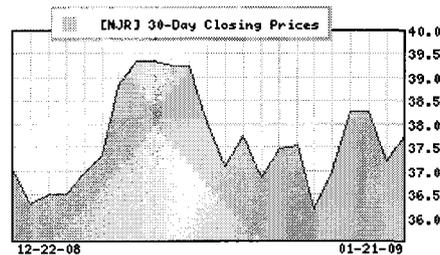
NJ RESOURCES
1415 Wyckoff Road
Wall, NJ 07719
Phone: 732-938-1489
Fax: 732 938-3154
Web: www.njresources.com
Email: investcont@njresources.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: September
Last Reported Quarter: 12/31/08
Next EPS Date: 02/04/2009

Price and Volume Information

| | |
|------------------------|------------|
| Zacks Rank | |
| Yesterday's Close | 37.75 |
| 52 Week High | 41.13 |
| 52 Week Low | 21.90 |
| Beta | 0.15 |
| 20 Day Moving Average | 343,188.75 |
| Target Price Consensus | 39.5 |

**% Price Change**

| | |
|---------|-------|
| 4 Week | 3.99 |
| 12 Week | 11.52 |
| YTD | -4.07 |

% Price Change Relative to S&P 500

| | |
|---------|-------|
| 4 Week | 6.83 |
| 12 Week | 24.83 |
| YTD | 3.33 |

Share Information

| | |
|----------------------------------|------------|
| Shares Outstanding (millions) | 42.12 |
| Market Capitalization (millions) | 1,590.07 |
| Short Ratio | 4.51 |
| Last Split Date | 03/04/2008 |

Dividend Information

| | |
|-------------------------------|---------------------|
| Dividend Yield | 3.28% |
| Annual Dividend | \$1.24 |
| Payout Ratio | 0.00 |
| Change in Payout Ratio | 0.00 |
| Last Dividend Payout / Amount | 12/11/2008 / \$0.31 |

EPS Information

| | |
|--|------------|
| Current Quarter EPS Consensus Estimate | 0.85 |
| Current Year EPS Consensus Estimate | 2.35 |
| Estimated Long-Term EPS Growth Rate | 7.70 |
| Next EPS Report Date | 02/04/2009 |

Consensus Recommendations

| | |
|---------------------------------------|------|
| Current (1=Strong Buy, 5=Strong Sell) | 1.67 |
| 30 Days Ago | 1.67 |
| 60 Days Ago | 2.33 |
| 90 Days Ago | 2.33 |

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|----------------------|------------------------------|
| Current FY Estimate: 16.08 | vs. Previous Year | -6.36% |
| Trailing 12 Months: 16.88 | vs. Previous Quarter | -290.00% |
| PEG Ratio: 2.10 | | 38.43% vs. Previous Year |
| | | -17.33% vs. Previous Quarter |

| Price Ratios | ROE | ROA | |
|---------------------------|-----------------------|-------------------------|-------|
| Price/Book | 2.18 12/31/08 | - 12/31/08 | - |
| Price/Cash Flow | 11.91 09/30/08 | 13.77 09/30/08 | 3.74 |
| Price / Sales | - 06/30/08 | 14.36 06/30/08 | 3.94 |
| Current Ratio | Quick Ratio | Operating Margin | |
| 12/31/08 | - 12/31/08 | - 12/31/08 | - |
| 09/30/08 | 1.24 09/30/08 | 0.70 09/30/08 | 2.46 |
| 06/30/08 | 1.15 06/30/08 | 0.79 06/30/08 | 2.65 |
| Net Margin | Pre-Tax Margin | Book Value | |
| 12/31/08 | - 12/31/08 | - 12/31/08 | - |
| 09/30/08 | 4.72 09/30/08 | 4.72 09/30/08 | 17.29 |
| 06/30/08 | -0.40 06/30/08 | -0.40 06/30/08 | 15.69 |
| Inventory Turnover | Debt-to-Equity | Debt to Capital | |
| 12/31/08 | - 12/31/08 | - 12/31/08 | - |
| 09/30/08 | 8.77 09/30/08 | 0.63 09/30/08 | 38.50 |
| 06/30/08 | 8.90 06/30/08 | 0.73 06/30/08 | 42.27 |



| | | | | | |
|-------------------------|-------|---------|----------|--------------|------------------|
| NICOR INC (NYSE) | | | | | Scottrade |
| GAS | 33.28 | ▼ -0.03 | (-0.09%) | Vol. 349,679 | 14:00 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

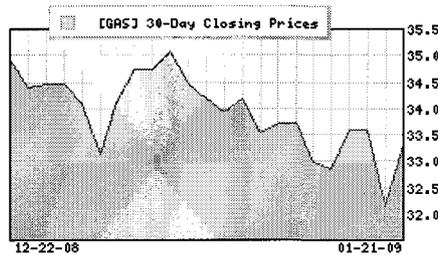
NICOR INC
 1844 Ferry Road
 Naperville, IL 60563-9600
 Phone: 630-305-9500
 Fax: 630-983-9328
 Web: www.nicor.com
 Email: None

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Reported Quarter: 12/31/08
 Next EPS Date: 02/13/2009

Price and Volume Information

| | |
|------------------------|------------|
| Zacks Rank | |
| Yesterday's Close | 33.31 |
| 52 Week High | 51.99 |
| 52 Week Low | 31.95 |
| Beta | 0.37 |
| 20 Day Moving Average | 547,233.25 |
| Target Price Consensus | 44 |



% Price Change

| | |
|---------|--------|
| 4 Week | -3.11 |
| 12 Week | -22.91 |
| YTD | -4.12 |

% Price Change Relative to S&P 500

| | |
|---------|--------|
| 4 Week | -0.47 |
| 12 Week | -13.71 |
| YTD | 2.76 |

Share Information

| | |
|----------------------------------|------------|
| Shares Outstanding (millions) | 45.19 |
| Market Capitalization (millions) | 1,505.31 |
| Short Ratio | 5.75 |
| Last Split Date | 04/27/1993 |

Dividend Information

| | |
|-------------------------------|---------------------|
| Dividend Yield | 5.58% |
| Annual Dividend | \$1.86 |
| Payout Ratio | 0.00 |
| Change in Payout Ratio | 0.00 |
| Last Dividend Payout / Amount | 12/29/2008 / \$0.47 |

EPS Information

| | |
|--|------------|
| Current Quarter EPS Consensus Estimate | 0.68 |
| Current Year EPS Consensus Estimate | 2.26 |
| Estimated Long-Term EPS Growth Rate | 6.50 |
| Next EPS Report Date | 02/13/2009 |

Consensus Recommendations

| | |
|---------------------------------------|------|
| Current (1=Strong Buy, 5=Strong Sell) | 3.40 |
| 30 Days Ago | 3.40 |
| 60 Days Ago | 3.40 |
| 90 Days Ago | 3.40 |

Fundamental Ratios

| P/E | EPS Growth | | Sales Growth | | |
|----------------------|------------|----------------------|--------------|-----------------------|---------|
| Current FY Estimate: | 13.09 | vs. Previous Year | -90.63% | vs. Previous Year | 20.56% |
| Trailing 12 Months: | 11.90 | vs. Previous Quarter | -95.31% | vs. Previous Quarter: | -37.08% |
| PEG Ratio | 2.01 | | | | |
| Price Ratios | ROE | | ROA | | |
| Price/Book | 1.58 | 12/31/08 | - | 12/31/08 | - |

| | | | | | |
|---------------------------|-------|----------|-----------------------|----------|-------------------------|
| Price/Cash Flow | 4.77 | 09/30/08 | 13.19 | 09/30/08 | 2.87 |
| Price / Sales | - | 06/30/08 | 14.73 | 06/30/08 | 3.25 |
| Current Ratio | | | Quick Ratio | | Operating Margin |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 0.76 | 09/30/08 | 0.56 | 09/30/08 | 3.48 |
| 06/30/08 | 0.80 | 06/30/08 | 0.75 | 06/30/08 | 3.92 |
| Net Margin | | | Pre-Tax Margin | | Book Value |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 4.80 | 09/30/08 | 4.80 | 09/30/08 | 21.15 |
| 06/30/08 | 5.27 | 06/30/08 | 5.27 | 06/30/08 | 21.81 |
| Inventory Turnover | | | Debt-to-Equity | | Debt to Captial |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 23.38 | 09/30/08 | 0.47 | 09/30/08 | 31.92 |
| 06/30/08 | 24.11 | 06/30/08 | 0.38 | 06/30/08 | 27.46 |



| | | | | | |
|------------------------------------|-------|--------|----------|-------------|------------------|
| NORTHWEST NAT GAS CO (NYSE) | | | | | Scottrade |
| NWN | 42.08 | ▼-0.19 | (-0.45%) | Vol. 87,654 | 14:01 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

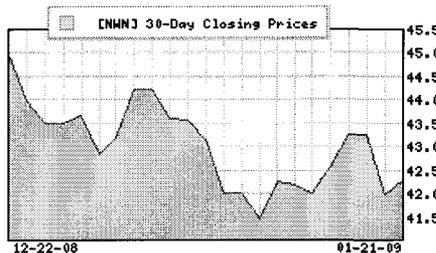
NORTHWEST NAT G
 220 NW Second Avenue
 Portland, OR 97209
 Phone: 503 226-4211
 Fax: 503 273-4824
 Web: www.nwnatural.com
 Email: Bob.Hess@nwnatural.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Reported Quarter: 12/31/08
 Next EPS Date: 02/12/2009

Price and Volume Information

Zacks Rank: 
 Yesterday's Close: 42.27
 52 Week High: 78.55
 52 Week Low: 36.61
 Beta: 0.35
 20 Day Moving Average: 164,591.00
 Target Price Consensus: 52.25



% Price Change

4 Week: -3.84
 12 Week: -14.59
 YTD: -4.43

% Price Change Relative to S&P 500

4 Week: -1.22
 12 Week: -4.40
 YTD: 3.90

Share Information

Shares Outstanding (millions): 26.43
 Market Capitalization (millions): 1,117.41
 Short Ratio: 6.03
 Last Split Date: 09/09/1996

Dividend Information

Dividend Yield: 3.74%
 Annual Dividend: \$1.58
 Payout Ratio: 0.00
 Change in Payout Ratio: 0.00
 Last Dividend Payout / Amount: 10/29/2008 / \$0.40

EPS Information

Current Quarter EPS Consensus Estimate: 1.21
 Current Year EPS Consensus Estimate: 2.53
 Estimated Long-Term EPS Growth Rate: 6.80
 Next EPS Report Date: 02/12/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.00
 30 Days Ago: 2.00
 60 Days Ago: 1.50
 90 Days Ago: 1.80

Fundamental Ratios

P/E

Current FY Estimate: 15.57
 Trailing 12 Months: 16.98
 PEG Ratio: 2.31

EPS Growth

vs. Previous Year: -72.73%
 vs. Previous Quarter: -416.67%

Sales Growth

vs. Previous Year: -11.71%
 vs. Previous Quarter: -42.64%

Price Ratios

ROE

ROA

| | | | | | |
|---------------------------|-------|----------|-----------------------|----------|-------------------------|
| Price/Book | 1.85 | 12/31/08 | - | 12/31/08 | - |
| Price/Cash Flow | 7.83 | 09/30/08 | 10.77 | 09/30/08 | 3.29 |
| Price / Sales | - | 06/30/08 | 11.55 | 06/30/08 | 3.56 |
| Current Ratio | | | Quick Ratio | | Operating Margin |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 0.69 | 09/30/08 | 0.44 | 09/30/08 | 6.47 |
| 06/30/08 | 0.65 | 06/30/08 | 0.49 | 06/30/08 | 6.79 |
| Net Margin | | | Pre-Tax Margin | | Book Value |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 10.30 | 09/30/08 | 10.30 | 09/30/08 | 22.88 |
| 06/30/08 | 10.81 | 06/30/08 | 10.81 | 06/30/08 | 23.64 |
| Inventory Turnover | | | Debt-to-Equity | | Debt to Captial |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 9.67 | 09/30/08 | 0.85 | 09/30/08 | 45.84 |
| 06/30/08 | 10.39 | 06/30/08 | 0.82 | 06/30/08 | 45.05 |



| | | | | | |
|------------------------------------|-------|--------|---------|------------------|----------|
| PIEDMONT NAT GAS INC (NYSE) | | | | Scottrade | |
| PNY | 25.86 | ± 0.12 | (0.47%) | Vol. 309,938 | 14:01 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

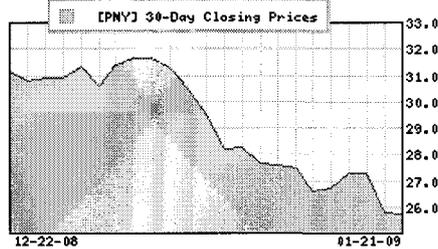
PIEDMONT NAT GA
 4720 Piedmont Row Drive
 Charlotte, NC 28210
 Phone: 704 364-3120
 Fax: 704-365-3849
 Web: www.piedmontng.com
 Email: investorrelations@piedmontng.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: October
 Last Reported Quarter: 10/31/08
 Next EPS Date: 03/10/2009

Price and Volume Information

| | |
|------------------------|------------|
| Zacks Rank | |
| Yesterday's Close | 25.74 |
| 52 Week High | 35.29 |
| 52 Week Low | 20.52 |
| Beta | 0.05 |
| 20 Day Moving Average | 443,612.56 |
| Target Price Consensus | 31.67 |



% Price Change

| | |
|---------|--------|
| 4 Week | -16.40 |
| 12 Week | -19.59 |
| YTD | -18.72 |

% Price Change Relative to S&P 500

| | |
|---------|--------|
| 4 Week | -14.12 |
| 12 Week | -9.99 |
| YTD | -8.55 |

Share Information

| | |
|----------------------------------|------------|
| Shares Outstanding (millions) | 73.35 |
| Market Capitalization (millions) | 1,888.13 |
| Short Ratio | 6.78 |
| Last Split Date | 11/01/2004 |

Dividend Information

| | |
|-------------------------------|---------------------|
| Dividend Yield | 4.04% |
| Annual Dividend | \$1.04 |
| Payout Ratio | 0.00 |
| Change in Payout Ratio | 0.00 |
| Last Dividend Payout / Amount | 12/23/2008 / \$0.26 |

EPS Information

| | |
|--|------------|
| Current Quarter EPS Consensus Estimate | 1.12 |
| Current Year EPS Consensus Estimate | 1.62 |
| Estimated Long-Term EPS Growth Rate | 25.90 |
| Next EPS Report Date | 03/10/2009 |

Consensus Recommendations

| | |
|---------------------------------------|------|
| Current (1=Strong Buy, 5=Strong Sell) | 2.67 |
| 30 Days Ago | 2.67 |
| 60 Days Ago | 2.60 |
| 90 Days Ago | 2.60 |

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|-------------------------------|-------------------------------|
| Current FY Estimate: 15.86 | vs. Previous Year 16.67% | vs. Previous Year 12.13% |
| Trailing 12 Months: 16.39 | vs. Previous Quarter -115.15% | vs. Previous Quarter: -12.11% |
| PEG Ratio 0.61 | | |

| | | | | | |
|---------------------------|-------|-----------------------|--|-------------------------|----------|
| Price Ratios | | ROE | | ROA | |
| Price/Book | 2.13 | 10/31/08 | | 11.95 | 10/31/08 |
| Price/Cash Flow | 9.08 | 07/31/08 | | 12.52 | 07/31/08 |
| Price / Sales | 0.90 | 04/30/08 | | 12.43 | 04/30/08 |
| | | | | | 3.67 |
| | | | | | 3.93 |
| | | | | | 3.94 |
| Current Ratio | | Quick Ratio | | Operating Margin | |
| 10/31/08 | 0.88 | 10/31/08 | | 0.59 | 10/31/08 |
| 07/31/08 | 1.00 | 07/31/08 | | 0.60 | 07/31/08 |
| 04/30/08 | 1.19 | 04/30/08 | | 0.86 | 04/30/08 |
| | | | | | 5.27 |
| | | | | | 5.59 |
| | | | | | 5.89 |
| Net Margin | | Pre-Tax Margin | | Book Value | |
| 10/31/08 | 8.78 | 10/31/08 | | 8.78 | 10/31/08 |
| 07/31/08 | 7.23 | 07/31/08 | | 7.23 | 07/31/08 |
| 04/30/08 | 8.04 | 04/30/08 | | 8.04 | 04/30/08 |
| | | | | | 12.11 |
| | | | | | 12.56 |
| | | | | | 12.96 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Captial | |
| 10/31/08 | 9.83 | 10/31/08 | | 0.90 | 10/31/08 |
| 07/31/08 | 10.43 | 07/31/08 | | 0.89 | 07/31/08 |
| 04/30/08 | 10.03 | 04/30/08 | | 0.87 | 04/30/08 |
| | | | | | 47.24 |
| | | | | | 47.21 |
| | | | | | 46.44 |



| | | | | | |
|-------------------------------------|--------------|---------------|-----------------|---------------------|-----------------|
| SOUTH JERSEY INDS INC (NYSE) | | | | Scottrade | |
| SJI | 36.81 | ▼-0.02 | (-0.05%) | Vol. 100,708 | 14:03 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

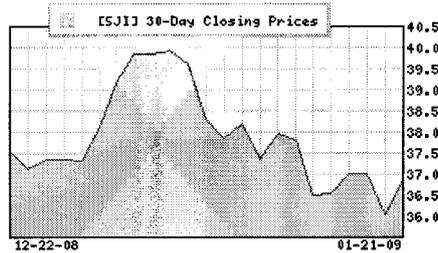
SOUTH JERSEY IN
 1 South Jersey Plaza
 Folsom, NJ 08037
 Phone: 609 561-9000
 Fax: 609 561-8225
 Web: www.sjindustries.com
 Email: investorrelations@sjindustries.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Reported Quarter: 12/31/08
 Next EPS Date: 02/19/2009

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 36.83
 52 Week High: 40.78
 52 Week Low: 25.19
 Beta: 0.30
 20 Day Moving Average: 238,659.00
 Target Price Consensus: 41.5



% Price Change

4 Week: -0.75
 12 Week: 14.02
 YTD: -7.58

% Price Change Relative to S&P 500

4 Week: 1.95
 12 Week: 27.63
 YTD: -1.35

Share Information

Shares Outstanding (millions): 29.73
 Market Capitalization (millions): 1,094.92
 Short Ratio: 4.91
 Last Split Date: 07/01/2005

Dividend Information

Dividend Yield: 3.23%
 Annual Dividend: \$1.19
 Payout Ratio: 0.00
 Change in Payout Ratio: 0.00
 Last Dividend Payout / Amount: 12/08/2008 / \$0.30

EPS Information

Current Quarter EPS Consensus Estimate: 0.66
 Current Year EPS Consensus Estimate: 2.30
 Estimated Long-Term EPS Growth Rate: 8.00
 Next EPS Report Date: 02/19/2009

Consensus Recommendations

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

Fundamental Ratios

| | | |
|----------------------------|-------------------------------|------------------------------|
| P/E | EPS Growth | Sales Growth |
| Current FY Estimate: 15.33 | vs. Previous Year: 180.00% | vs. Previous Year: 34.68% |
| Trailing 12 Months: 16.37 | vs. Previous Quarter: -84.62% | vs. Previous Quarter: 54.90% |
| PEG Ratio: 1.92 | | |

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

| | | | | | |
|---------------------------|-------|----------|-----------------------|----------|-------------------------|
| Price/Book | 2.13 | 12/31/08 | - | 12/31/08 | - |
| Price/Cash Flow | 11.51 | 09/30/08 | 13.53 | 09/30/08 | 4.25 |
| Price / Sales | - | 06/30/08 | 13.31 | 06/30/08 | 4.16 |
| Current Ratio | | | Quick Ratio | | Operating Margin |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 0.94 | 09/30/08 | 0.45 | 09/30/08 | 6.99 |
| 06/30/08 | 0.92 | 06/30/08 | 0.61 | 06/30/08 | 7.13 |
| Net Margin | | | Pre-Tax Margin | | Book Value |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 12.52 | 09/30/08 | 12.52 | 09/30/08 | 17.32 |
| 06/30/08 | 6.62 | 06/30/08 | 6.62 | 06/30/08 | 16.13 |
| Inventory Turnover | | | Debt-to-Equity | | Debt to Captial |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 6.50 | 09/30/08 | 0.69 | 09/30/08 | 41.08 |
| 06/30/08 | 7.05 | 06/30/08 | 0.69 | 06/30/08 | 41.06 |



| | | | | | |
|----------------------------------|-------|--------|----------|------------------|----------|
| SOUTHWEST GAS CORP (NYSE) | | | | Scottrade | |
| SWX | 24.66 | ▼-0.19 | (-0.76%) | Vol. 119,277 | 14:03 ET |

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

General Information

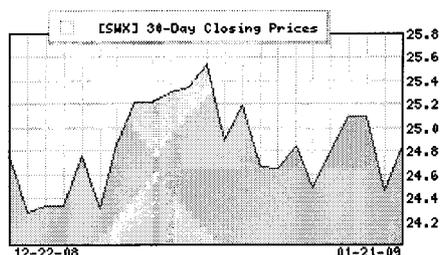
SOUTHWEST GAS
 5241 Spring Mountain Road
 P.O. Box 98510
 Las Vegas, NV 89193-8510
 Phone: 702 876-7237
 Fax: 702-876-7037
 Web: www.swgas.com
 Email: None

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Reported Quarter: 12/31/08
 Next EPS Date: 02/25/2009

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 24.85
 52 Week High: 33.29
 52 Week Low: 21.11
 Beta: 0.67
 20 Day Moving Average: 209,097.75
 Target Price Consensus: 33.88

**% Price Change**

4 Week: 2.35
 12 Week: -1.82
 YTD: -1.47

% Price Change Relative to S&P 500

4 Week: 5.14
 12 Week: 9.90
 YTD: 5.70

Share Information

Shares Outstanding (millions): 43.91
 Market Capitalization (millions): 1,091.26
 Short Ratio: 3.06
 Last Split Date: N/A

Dividend Information

Dividend Yield: 3.62%
 Annual Dividend: \$0.90
 Payout Ratio: 0.00
 Change in Payout Ratio: 0.00
 Last Dividend Payout / Amount: 11/13/2008 / \$0.22

EPS Information

Current Quarter EPS Consensus Estimate: 1.06
 Current Year EPS Consensus Estimate: 1.92
 Estimated Long-Term EPS Growth Rate: 8.00
 Next EPS Report Date: 02/25/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.60
 30 Days Ago: 2.60
 60 Days Ago: 2.60
 90 Days Ago: 2.50

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|--------------------------------|-------------------------------|
| Current FY Estimate: 11.48 | vs. Previous Year: -72.73% | vs. Previous Year: 0.78% |
| Trailing 12 Months: 14.62 | vs. Previous Quarter: -533.33% | vs. Previous Quarter: -16.29% |
| PEG Ratio: 1.43 | | |

Price Ratios

Price/Book: 1.07

ROE

12/31/08

ROA

- 12/31/08

| | | | | | |
|---------------------------|------|----------|-----------------------|----------|-------------------------|
| Price/Cash Flow | 3.99 | 09/30/08 | 7.18 | 09/30/08 | 2.04 |
| Price / Sales | - | 06/30/08 | 8.05 | 06/30/08 | 2.27 |
| Current Ratio | | | Quick Ratio | | Operating Margin |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 0.75 | 09/30/08 | 0.75 | 09/30/08 | 3.32 |
| 06/30/08 | 0.70 | 06/30/08 | 0.70 | 06/30/08 | 3.66 |
| Net Margin | | | Pre-Tax Margin | | Book Value |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 5.37 | 09/30/08 | 5.37 | 09/30/08 | 23.22 |
| 06/30/08 | 5.80 | 06/30/08 | 5.80 | 06/30/08 | 23.80 |
| Inventory Turnover | | | Debt-to-Equity | | Debt to Captial |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | - | 09/30/08 | 1.30 | 09/30/08 | 56.50 |
| 06/30/08 | - | 06/30/08 | 1.23 | 06/30/08 | 55.19 |



| | | | | | |
|-----------------------------|-------|--------|----------|------------------|----------|
| WGL HLDGS INC (NYSE) | | | | Scottrade | |
| WGL | 31.68 | ▼-0.07 | (-0.22%) | Vol. 397,995 | 14:04 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

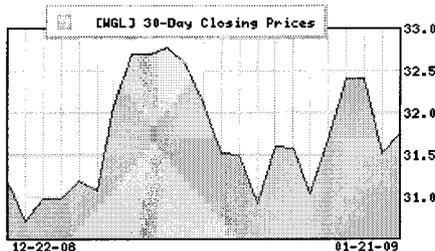
WGL HLDGS INC
 101 Constitution Avenue NW
 Washington, DC 20080
 Phone: 703 750-2000
 Fax: 703 750-4828
 Web: www.wglholdings.com
 Email: madams@washgas.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: September
 Last Reported Quarter: 12/31/08
 Next EPS Date: 02/09/2009

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 31.75
 52 Week High: 37.08
 52 Week Low: 22.40
 Beta: 0.23
 20 Day Moving Average: 437,843.69
 Target Price Consensus: 33



% Price Change

4 Week: 3.39
 12 Week: 5.55
 YTD: -2.88

% Price Change Relative to S&P 500

4 Week: 6.21
 12 Week: 18.15
 YTD: 5.34

Share Information

Shares Outstanding (millions): 49.97
 Market Capitalization (millions): 1,586.61
 Short Ratio: 4.15
 Last Split Date: 05/02/1995

Dividend Information

Dividend Yield: 4.47%
 Annual Dividend: \$1.42
 Payout Ratio: 0.00
 Change in Payout Ratio: 0.00
 Last Dividend Payout / Amount: 01/07/2009 / \$0.35

EPS Information

Current Quarter EPS Consensus Estimate: 0.97
 Current Year EPS Consensus Estimate: 2.34
 Estimated Long-Term EPS Growth Rate: 7.50
 Next EPS Report Date: 02/09/2009

Consensus Recommendations

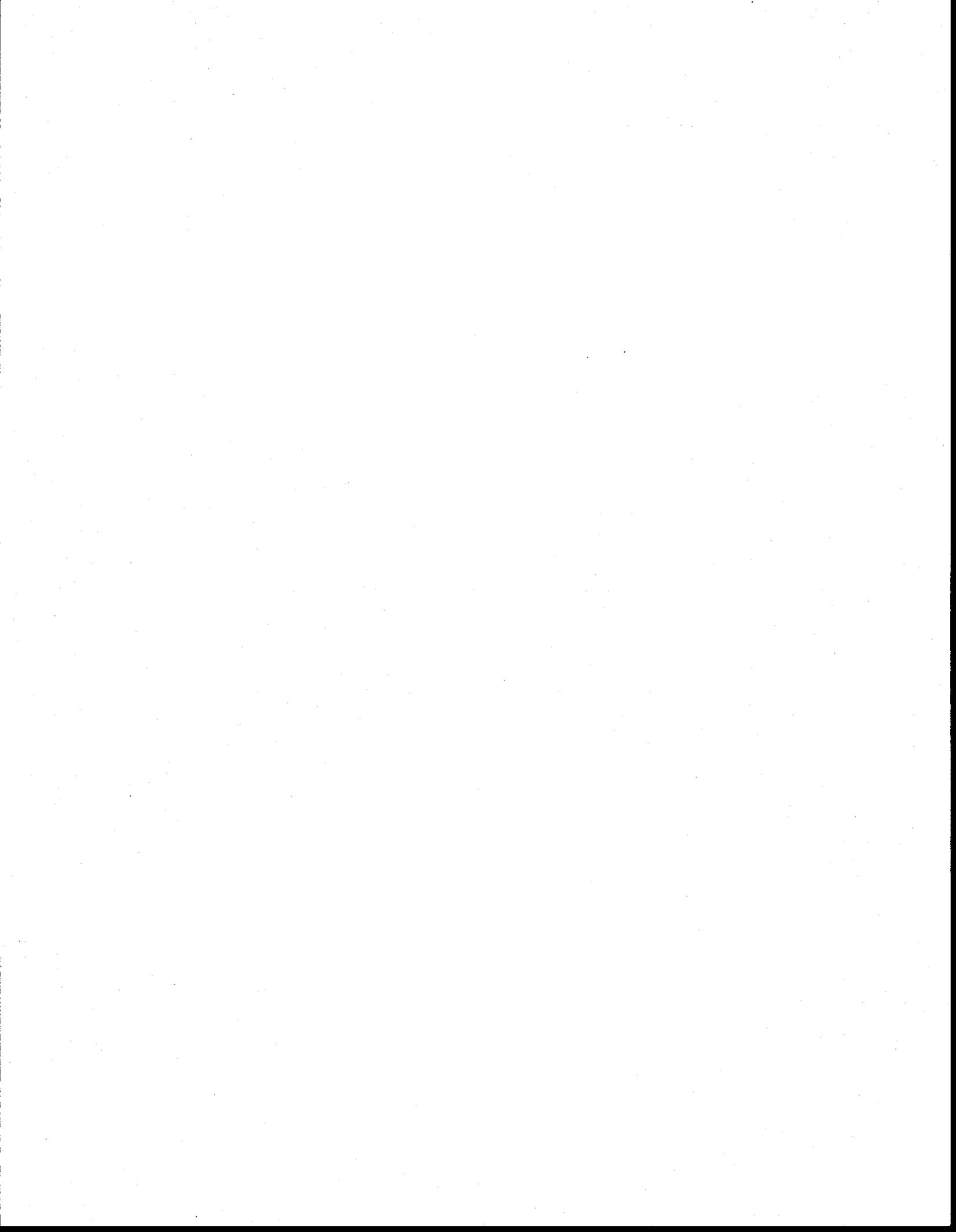
Current (1=Strong Buy, 5=Strong Sell): 2.75
 30 Days Ago: 2.75
 60 Days Ago: 2.50
 90 Days Ago: 2.25

Fundamental Ratios

| | | |
|----------------------------|--------------------------------|-------------------------------|
| P/E | EPS Growth | Sales Growth |
| Current FY Estimate: 13.59 | vs. Previous Year: 29.03% | vs. Previous Year: -50.38% |
| Trailing 12 Months: 12.91 | vs. Previous Quarter: -466.67% | vs. Previous Quarter: -65.22% |
| PEG Ratio: 1.81 | | |

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

| | | | | | |
|---------------------------|------|----------|-----------------------|----------|-------------------------|
| Price/Book | 1.51 | 12/31/08 | - | 12/31/08 | - |
| Price/Cash Flow | 7.37 | 09/30/08 | 11.60 | 09/30/08 | 3.72 |
| Price / Sales | - | 06/30/08 | 11.37 | 06/30/08 | 3.64 |
| Current Ratio | | | Quick Ratio | | Operating Margin |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 0.99 | 09/30/08 | 0.42 | 09/30/08 | 5.09 |
| 06/30/08 | 1.15 | 06/30/08 | 0.71 | 06/30/08 | 4.60 |
| Net Margin | | | Pre-Tax Margin | | Book Value |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 7.08 | 09/30/08 | 7.08 | 09/30/08 | 20.99 |
| 06/30/08 | 7.32 | 06/30/08 | 7.32 | 06/30/08 | 21.72 |
| Inventory Turnover | | | Debt-to-Equity | | Debt to Capital |
| 12/31/08 | - | 12/31/08 | - | 12/31/08 | - |
| 09/30/08 | 7.07 | 09/30/08 | 0.58 | 09/30/08 | 35.95 |
| 06/30/08 | 7.63 | 06/30/08 | 0.56 | 06/30/08 | 35.26 |



ATTACHMENT D

Infrastructure costs in the Water Utility Industry will continue to rise over the long term. Larger companies will acquire smaller ones in an effort to achieve economies of scale.

Foreign companies had been buying a number of U.S. water utilities, but that trend appears to be waning.

Water utility stocks are ranked to underperform the market over the coming 12 months; however, conservative investors can find attractive risk-adjusted choices here.

The Need For Consolidation

Long-term trends in the Water Utility Industry indicate that infrastructure costs will steadily rise. Many of the facilities and pipes that now purify and transport drinking water were built about 100 years ago. Ongoing upgrading and replacement are necessary for these old systems to remain in compliance with rules laid out by the Environmental Protection Agency (EPA). The cost of fixing and upgrading these systems is significantly higher than in the past (even adjusting for inflation) because more-expensive materials need to be used for modern construction. Moreover, transportation costs are much higher and should continue to rise, as nearby sources of water are depleted and farther-away bodies of water must be used. Water is quite difficult and expensive to move because it is heavy and cannot be compressed. Also adding to industry costs is the ongoing issuance of guidelines from the EPA that typically require water utilities to comply with more-stringent water-purity standards. Industry sources estimate that about \$140 billion will be needed over the next 20 years to fund necessary water-system infrastructure improvements.

Small and mid-sized water companies usually welcome large-scale suitors. Smaller utilities generally lack the funds needed for long-term structural improvements, and might risk being out of compliance with local and federal laws at some point down the road. In an effort to prevent this unpleasant scenario from happening, many of these smaller companies welcome larger utilities that have the capital resources to remain in compliance with the law. The larger company gains greater geographic diversity from its acquisitions, which helps lessen its susceptibility to weather fluctuations that might cause volatility in earnings. Acquirers also benefit from economies of scale in which costs are

INDUSTRY TIMELINESS: 81 (of 92)

generally reduced. Too, the regulatory-intensive nature of the Water Utility Industry means that some specific local governments might be more uncooperative with the utilities than other comparable local officials. A larger territory lessens the impact of a particularly onerous regulatory atmosphere.

Acquisition Update

Foreign companies have purchased a large number of domestic water utilities over the past year. These global water companies are attracted to this country's relatively safe political climate and its trend towards the privatization of municipal water and wastewater systems. Currently, there is concern among investors that the large premiums paid for U.S. takeover targets, which approached three times book value, will become more infrequent. British utilities are having regulatory difficulties at home that stand to weaken their designs on the U.S. market. Consequently, there appear to be fewer bidders in the market.

SDWA Regulations

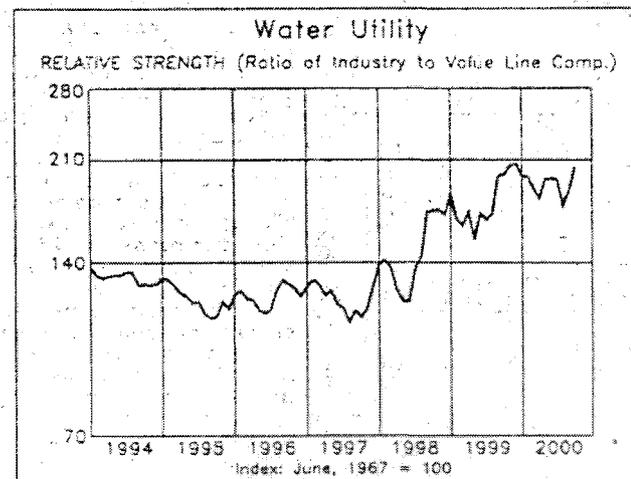
The Safe Drinking Water Act (SDWA) of 1974 (amended in 1996) authorized the EPA to work with state and local governments to test for five potential impurities in drinking water every five years. The EPA mandates what levels of a certain contaminant is acceptable per a specified amount of water. Water utilities typically spend about 15% to 50% of their annual capital outlays in efforts to comply with SDWA guidelines. These companies must also stay in compliance with the Clean Water Act, and numerous state and local laws. At present, the EPA is considering lowering the allowable level of arsenic in drinking water from 50 parts per billion (ppb) to 5 ppb. This measure would be controversial because it would be lower than the standard of the World Health Organization (10 ppb) and would potentially cost domestic water companies billions of dollars.

Investment Advice

Most of the water utility stocks that are covered in this review are not timely for the coming six to 12 months. Nonetheless, favorable Safety ranks among the group make some of these issues appealing for risk-averse investors seeking decent dividend yields.

Joseph Espaillet

| Composite Statistics: Water Utility Industry | | | | | | | 03-05 |
|--|--------|--------|--------|---------------------------------------|-------|----------------------------------|-------|
| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | | |
| 1793.9 | 1924.7 | 1954.2 | 2422.6 | 2550 | 2750 | Revenues (\$mill) | 3500 |
| 214.4 | 2.92 | 285.6 | 295.3 | 315 | 335 | Net Profit (\$mill) | 415 |
| 39.2% | 37.9% | 37.0% | 38.2% | 39.0% | 39.0% | Income Tax Rate | 39.0% |
| 7.0% | 6.3% | 7.5% | 8.7% | 8.0% | 8.0% | AFUDC % to Net Profit | 8.0% |
| 55.7% | 56.8% | 58.9% | 55.2% | 53.0% | 52.0% | Long-Term Debt Ratio | 50.0% |
| 40.0% | 39.6% | 39.7% | 42.0% | 45.0% | 46.0% | Common Equity Ratio | 48.0% |
| 5271.8 | 5703.3 | 6188.5 | 7223.7 | 7300 | 7900 | Total Capital (\$mill) | 9300 |
| 8377.2 | 8785.5 | 7361.9 | 8961.3 | 8700 | 9300 | Net Plant (\$mill) | 9700 |
| 6.0% | 6.2% | 8.2% | 6.0% | 6.5% | 7.0% | Return on Total Cap ¹ | 7.5% |
| 9.2% | 9.7% | 10.0% | 9.3% | 10.5% | 10.5% | Return on Shr. Equity | 11.5% |
| 9.7% | 10.2% | 10.4% | 9.5% | 11.0% | 11.0% | Return on Com Equity | 12.0% |
| 3.0% | 3.6% | 3.9% | 3.2% | 3.5% | 3.5% | Retained to Com Eq | 4.5% |
| 68% | 66% | 64% | 67% | 70% | 70% | All Div'ds to Net Prof | 60% |
| 14.5 | 15.8 | 18.3 | 20.2 | Bold figures are Value Line estimates | | Avg Ann'l P/E Ratio | 13.0 |
| .91 | .91 | .96 | 1.16 | | | Relative P/E Ratio | .85 |
| 4.6% | 4.1% | 3.4% | 3.3% | | | Avg Ann'l Div'd Yield | 5.0% |



The events of September 11th have altered many priorities in the Water Utility Industry.

Long-term trends in the industry indicate that the cost of maintaining and upgrading water/wastewater systems will rise. The industry is consolidating, with larger companies acquiring smaller operators to achieve economies of scale.

Water Utility stocks are ranked to underperform the year-ahead market, though some of these issues offer conservative investors appealing risk-adjusted, total-return potential.

Security Issues

In response to the events of September 11th, the need to secure water systems against terrorism has become a top priority for regulators and water utilities alike, pushing many other legislative issues to the side. The FBI has stated that water companies should be on alert for potential threats in the months ahead. Many water companies are already heeding this warning, and incurring additional costs in the process that may limit near-term bottom-line growth. Also, the industry and regulators are working together to provide approximately \$5 billion in federal funds for immediate infrastructure improvements as part of the pending economic stimulus legislation.

Industry Consolidation

Infrastructure costs in the Water Utility Industry will likely rise dramatically over the next 20 years. These companies have to maintain and upgrade their systems continually in order to remain in compliance with increasingly stringent rules issued by the Environmental Protection Agency (EPA) and local regulators. Many of the facilities and pipes that now treat and transport drinking water were built about a century ago. The costs of replacing those systems are significantly higher these days, even adjusting for inflation. Adding to the cost is the fact that nearby bodies of water tend to get depleted and expensive to use, so more-distant sources of water must be brought in to keep up with increasing demand for purified water. Water is difficult and costly to transport, since it is heavy and incompressible. All in all, industry sources estimate that over \$140 billion will be needed to upgrade the nation's water-distribution system over the next 20 years:

The costs of staying in compliance with drinking water laws are especially onerous for smaller regional opera-

INDUSTRY TIMELINESS: 85 (of 97)

tors, since they have a limited base of customers over which to spread these costs. Small and mid-sized utilities generally welcome takeover offers from larger acquirers because of their superior capital resources. The acquiring utility attempts to achieve economies of scale through the transactions. Also, it gains greater geographic diversity, and that can reduce its susceptibility to unfavorable weather patterns and potentially burdensome local regulators.

Large-scale foreign acquirers have been very interested in purchasing domestic water utilities over the past few years, and the latest evidence is the generous takeover offer RWE AG made for *American Water Works*, the nation's largest public water company. RWE, a Germany-based firm, stands to gain cost synergies in the deal, along with geographic diversity in a politically stable country. Foreign utilities have been fascinated with the risk-adjusted earnings potential of U.S. water companies, and they are likely to continue their buying spree over the next few years. As such, the number of investor-owned water providers with large territories is steadily dwindling. This development gives additional hope to those U.S. water utilities and investors looking for substantial buyout offers.

SDWA Regulations

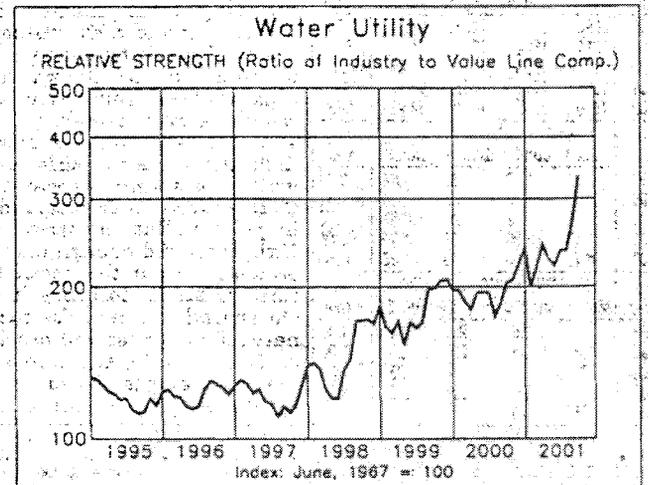
The Safe Drinking Water Act (SDWA) of 1974 (amended in 1996) authorizes the EPA to work with state and local governments to test for five potential impurities in drinking water every five years. The EPA mandates what levels of a certain contaminant is acceptable per a specified amount of water. Water utilities usually spend a significant portion of their annual capital budgets on efforts to stay in compliance with SDWA guidelines. These companies must also comply with the Clean Water Act, and numerous state and local laws.

Investment Advice

The Water Utility stocks in this review are not timely for investment over the next six to 12 months. Nonetheless, a few of these issues possess favorable Safety ranks and solid dividend-growth prospects that may appeal to conservative investors.

Joseph Espallat

| Composite Statistics: Water Utility Industry | | | | | | | |
|--|--------|--------|--------|-------|-------|------------------------|-------|
| 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | | 04-06 |
| 1439.5 | 1503.1 | 1898.0 | 2054.3 | 2210 | 2315 | Revenues (\$mill) | 2885 |
| 183.2 | 192.9 | 232.3 | 254.2 | 270 | 295 | Net Profit (\$mill) | 410 |
| 38.4% | 38.1% | 39.7% | 40.1% | 40.0% | 40.0% | Income Tax Rate | 40.0% |
| 6.4% | 7.9% | 9.6% | 5.5% | 6.5% | 6.5% | AFUDC % to Net Profit | 7.5% |
| 57.3% | 58.0% | 56.2% | 54.9% | 54.5% | 54.0% | Long-Term Debt Ratio | 53.0% |
| 40.0% | 39.7% | 41.9% | 44.0% | 44.3% | 45.0% | Common Equity Ratio | 46.0% |
| 4113.2 | 4524.6 | 5566.3 | 5954.5 | 6055 | 6335 | Total Capital (\$mill) | 7495 |
| 5089.2 | 5544.7 | 7039.7 | 7545.4 | 7975 | 8425 | Net Plant (\$mill) | 9935 |
| 8.5% | 6.3% | 6.2% | 6.6% | 6.0% | 6.0% | Return on Total Cap'l | 6.5% |
| 10.4% | 10.2% | 9.6% | 9.8% | 9.8% | 10.5% | Return on Shr. Equity | 11.5% |
| 10.9% | 10.5% | 9.8% | 9.3% | 10.5% | 11.0% | Return on Com Equity | 11.5% |
| 4.7% | 4.4% | 4.1% | 4.0% | 4.5% | 4.5% | Retained to Com Eq | 5.0% |
| 57% | 59% | 59% | 61% | 60% | 59% | All Div's to Net Prof | 52% |
| 15.2 | 19.4 | 19.2 | 16.3 | | | Avg Ann'l P/E Ratio | 13.5 |
| .88 | 1.01 | 1.09 | 1.08 | | | Relative P/E Ratio | .90 |
| 3.7% | 3.0% | 3.0% | 3.7% | | | Avg Ann'l Div'd Yield | 3.0% |



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Infrastructure costs in the Water Utility Industry will rise considerably over the coming 20 years. Consequently, larger companies are buying smaller ones in an attempt to achieve economies of scale.

Water utility stocks are ranked to perform in the middle of the pack over the coming 12 months. Nonetheless, conservative investors can find above-average Safety ranks and attractive dividends in the group.

Industry Consolidation

Infrastructure costs in the water utility industry will likely soar over the next two decades. These companies must constantly repair and upgrade their existing water/wastewater systems in order to comply with increasingly strict rules issued by the Environmental Protection Agency (EPA) and local regulators. Many of the facilities and pipes that transport water were constructed over 100 years ago. The costs of replacing these systems is considerably higher now than it was in the past, even adjusting for inflation. Too, the ongoing depletion of nearby sources of water forces many water utilities to obtain water from more-distant, more-expensive sources. Water is difficult and costly to transport because it is heavy and incompressible. Nonetheless, utilities must continue to keep pace with rising demand for drinking water from growing residential and industrial customers. Recent estimates are that it will cost hundreds of billions of dollars to replace and upgrade failing water infrastructures over the next 20 years. This amounts to more than the entire current assets of the water industry in America. Much of these costs will likely be financed by federal spending and higher water rates. Nevertheless, water utilities are going to have to ante up much higher capital investments over the coming years.

The costs of staying in compliance with drinking water laws are especially onerous for smaller regional companies because they have fewer customers over which to spread their costs. Small and mid-sized water utilities tend to welcome takeover offers from larger, better-capitalized companies so that they can utilize the bigger firm's superior resources. For instance, the EPA's new rules on the allowable levels of arsenic in drinking water (10 parts per billion by January, 2006) is compelling some smaller utilities to merge with larger ones in an effort to remain in compliance with the new standards. By purchasing these smaller entities, large utilities seek

INDUSTRY TIMELINESS: 54 (of 98)

to achieve economies of scale. Also, a bigger company gains greater geographic diversity that can reduce its susceptibility to unfavorable weather patterns and potentially burdensome local regulators. For example, the regulatory climate in California has been extra costly for utilities in the past couple of years, so companies, such as *California Water*, have been actively looking for acquisition targets outside of the state. On a positive note, the passage of a new law in California will allow water utilities to charge higher rates to customers (subject to refund) if regulators do not render decisions on rate cases within established processing periods. This ought to improve revenues for three out of four companies in this review.

Recent Challenges

The events of September 11, 2001 have introduced a whole new set of challenges for the industry. Companies have been spending a lot of time, energy, and money on making sure that their water systems are reasonably secure from potential terrorist attacks. Utilities have turned to local and federal regulators for reimbursement and additional funding, but the amount and timing of future funds is uncertain. Also, insurance costs have soared in the past year, as insurers are now more reluctant to cover companies, like water utilities, that can potentially have catastrophic losses.

SDWA Regulations

The Safe Drinking Water Act (SDWA) of 1974 (amended in 1996) authorizes the EPA to work with state and local governments to test for potential impurities in drinking water. The EPA mandates what particular level of a certain contaminant is acceptable for a specified amount of water. Water utilities routinely spend large portions of their annual capital expenditures on efforts to remain in compliance with SDWA guidelines. These companies must also comply with the 1972 Clean Water Act, and numerous other state and local laws, another costly endeavor.

Decent Grounds For Conservative Investors

The water-utility stocks in this review are unlikely to outperform the year-ahead market. Nonetheless, they offer above-average Safety ranks, attractive dividend yields, and decent risk-adjusted total-return potential.

Joseph Espallat

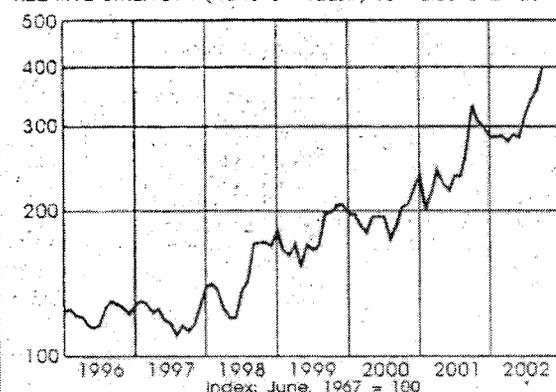
Composite Statistics: Water Utility Industry

| 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 05-07 |
|--------|--------|--------|--------|-------|-------|-------|
| 1503.1 | 1898.0 | 2054.9 | 2190.5 | 2495 | 2710 | 3360 |
| 192.9 | 202.8 | 249.7 | 261.8 | 275 | 315 | 465 |
| 39.1% | 39.7% | 40.1% | 39.5% | 41.5% | 40.0% | 40.0% |
| 7.9% | 9.6% | 5.5% | 3.4% | 2.0% | 2.0% | 2.0% |
| 58.0% | 56.2% | 54.9% | 56.7% | 57.0% | 56.0% | 52.5% |
| 38.6% | 41.9% | 44.0% | 42.4% | 42.0% | 43.0% | 47.0% |
| 4524.8 | 5566.3 | 5654.6 | 6198.1 | 7005 | 7085 | 8780 |
| 5544.7 | 7039.7 | 7545.4 | 7991.2 | 9210 | 9940 | 12085 |
| 6.3% | 6.2% | 6.6% | 6.3% | 6.0% | 6.5% | 7.0% |
| 10.2% | 9.6% | 9.9% | 9.8% | 10.0% | 10.5% | 11.5% |
| 10.5% | 9.8% | 9.9% | 9.9% | 10.0% | 10.5% | 11.5% |
| 4.4% | 4.1% | 4.0% | 3.9% | 3.0% | 4.5% | 6.0% |
| 59% | 59% | 60% | 61% | 61% | 58% | 47% |
| 19.4 | 19.2 | 16.9 | 20.9 | | | 13.5 |
| 1.01 | 1.09 | 1.06 | 1.07 | | | .90 |
| 3.0% | 3.0% | 3.7% | 2.9% | | | 3.0% |

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Water Utility

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



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The Water Utility Industry's consolidation continues to gain momentum, as industry leaders look for opportunities to buy out smaller companies that are struggling to keep up with escalating infrastructure costs and heightened regulatory requirements.

Water Utility stocks are unlikely to outperform the broad market for the year ahead. With that said, however, some of these issues offer conservative investors attractive risk-adjusted, total-return potential.

Government Regulations

In order to keep water supplies safe, national purification standards have been established that the water industry is required to meet. Amended in 1996, the Safe Drinking Water Act (SDWA) of 1974 authorizes the Environmental Protection Agency (EPA) to work with state and local governments to periodically test for impurities in drinking water and regulate the levels of contaminants that are acceptable per a specified amount of water. These standards take into account the health effects of chemicals, measurement capabilities, and technical feasibility. One of the most significant contaminants that the industry screens for is arsenic, a naturally occurring substance. However, the EPA is in the process of lowering the tolerated amount of arsenic to 10 parts per billion from 20 parts currently. The change is expected to be in effect by January, 2006. Large chunks of water utilities' annual capital budgets are already spent on infrastructure maintenance and improvements in order to stay in compliance with the SDWA, the Clean Water Act, and numerous state and local laws. This percentage is likely to climb even higher, as fears of terrorism have prompted officials to further tighten regulation requirements.

Rising Infrastructure Costs

Along with the necessity to remain in compliance with increasingly strict water purity standards, water companies are also being pressured to continually upgrade aging facilities. Many of the water/wastewater systems that are presently in use were built over 100 years ago and are growing outdated. The costs associated with replacing these systems are dramatically higher now than when they initially were put in place. The EPA and other industry sources indicate that hundreds of billions

INDUSTRY TIMELINESS: 97 (of 98)

of dollars over the next 20 years will be needed to repair the nation's entire water system. The Water Infrastructure Network believes that there will be a \$12 billion annual shortfall for wastewater infrastructure over that period, and long-term help from the federal government is needed to solve the problem. Water companies will most likely foot the majority of the bill, though, as budget deficits at state and local levels will limit funds dedicated to the industry.

Industry Consolidation

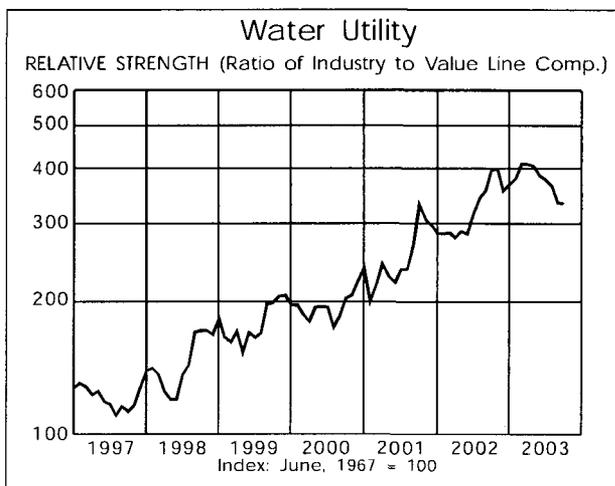
With the costs of meeting safe drinking water guidelines on the rise, many smaller companies lack the funds to commit to long-term structural improvements. As such, these smaller water companies have been increasingly willing to accept takeover offers from larger suitors with significantly greater capital resources. The larger utilities benefit from economies of scale, which enables them to reduce overhead. In addition, the acquisitions usually enhance geographic diversity, reducing a company's vulnerability to weather fluctuations. Then, too, a multistate territory helps to alleviate a company's exposure to especially onerous regulatory atmospheres. Large foreign utilities have been particularly active in recent years, swallowing up domestic water companies in an effort to gain exposure to the United States' steady population growth.

Investment Advice

None of the stocks under review are timely at this juncture, as poor weather conditions have resulted in inconsistent earnings patterns. Although *Philadelphia Suburban*, *California Water Services Group*, and *American States Water* all have below-average total-return potential out to 2006-2008, income-oriented investors might find one of these stocks attractive, given their favorable risk profile. Income-bearing stocks have gained some additional popularity of late, because of the recent federal tax bill that reduced the top rate investors pay on dividend income to 15%. As usual, though, we recommend that potential investors carefully review individual reports before making any new commitments.

Andre J. Costanza

| Composite Statistics: Water Utility Industry | | | | | | | |
|--|--------|--------|--------|---------------------------------------|-------|------------------------|-------|
| 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | | 06-08 |
| 637.2 | 704.3 | 751.8 | 794.4 | 845 | 950 | Revenues (\$mill) | 1185 |
| 72.4 | 90.9 | 95.4 | 106.6 | 105 | 130 | Net Profit (\$mill) | 190 |
| 40.0% | 41.2% | 40.2% | 38.8% | 39.0% | 39.5% | Income Tax Rate | 40.0% |
| -- | -- | -- | -- | Nil | .5% | AFUDC % to Net Profit | .5% |
| 51.1% | 50.3% | 52.4% | 53.9% | 53.0% | 51.5% | Long-Term Debt Ratio | 51.0% |
| 48.3% | 49.3% | 47.2% | 45.9% | 46.5% | 48.5% | Common Equity Ratio | 49.0% |
| 1444.7 | 1661.0 | 1840.7 | 1973.6 | 2250 | 2425 | Total Capital (\$mill) | 3050 |
| 2100.3 | 2342.5 | 2532.3 | 2751.1 | 3025 | 3225 | Net Plant (\$mill) | 3950 |
| 7.4% | 7.0% | 6.8% | 7.0% | 6.5% | 7.0% | Return on Total Cap'l | 7.5% |
| 11.5% | 10.7% | 10.6% | 11.2% | 10.0% | 10.5% | Return on Shr. Equity | 12.0% |
| 11.5% | 10.8% | 10.7% | 11.2% | 10.0% | 11.0% | Return on Com Equity | 12.0% |
| 3.8% | 3.6% | 3.3% | 3.9% | 3.0% | 4.0% | Retained to Com Eq | 5.5% |
| 68% | 67% | 69% | 66% | 75% | 65% | All Div'ds to Net Prof | 54% |
| 19.5 | 18.6 | 22.6 | 21.5 | Bold figures are Value Line estimates | | Avg Ann'l P/E Ratio | 13.5 |
| 1.11 | 1.21 | 1.16 | 1.17 | | | Relative P/E Ratio | .90 |
| 3.5% | 3.6% | 3.1% | 3.1% | | | Avg Ann'l Div'd Yield | 3.0% |



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INDUSTRY TIMELINESS: 94 (of 98)

The Water Utility industry continues to rank near the bottom of the *Value Line* investment universe. Infrastructure costs will limit earnings for at least the near future, as the high expenses associated with maintaining and improving the country's water-distribution systems continue to rise.

However, it appears that relief is on the way for some companies. Favorable regulatory rate case rulings have been handed down across the country and look as though they might become the norm.

Meanwhile, consolidation remains the name of the game. Although many of the industry's smaller players lack the capital requirements to meet growing government regulations, larger companies are using the consolidation as way to boost profitability via growing its customer base.

Infrastructure Costs

Infrastructure costs continue to climb higher as water utility companies, with little help from strapped government branches, are forced to deal with maintaining and upgrading existing facilities. Costs are becoming an even greater concern as time passes because a number of the functioning systems currently in place are over 100 years old and in need of significant repair. That said, we believe that it will take hundreds of billions of dollars to renovate existing pipelines over the next few decades. To make matters worse, the costs of staying in compliance with regulatory laws are growing even more difficult, due to fears of terrorist activities against the country's drinking supplies. Although the Safe Drinking Water Act (SDWA) of 1974 remains the authority for the safety and purity of drinking water, recent amendments are making compliance even more demanding. In 1996, an amendment authorized the Environmental Protection Agency (EPA) to step up local compliance levels. And, governing law-makers now insist that the EPA work with local and state governments to test for impurities in drinking water and to regulate the levels of contaminants that are acceptable.

A Buying Opportunity

The growing regulations and costs associated with staying in compliance with government standards re-

lated to the quality and purification of drinking water is forcing many of the smaller water companies to look to larger suitors. Bigger companies with the market scale to withstand the current onslaught of costs are clearly taking advantage of this situation. Indeed, these firms are growing their businesses at relatively low costs as well as diversifying their operations into less regulated and more-rapidly developing areas of the U.S. *Aqua America* is a perfect example, making nearly 20 acquisitions since the close of last year. *Aqua* recently purchased a number of Pennsylvania-based companies in order to help drive top-line growth. We anticipate that the current consolidation theme will persist, as we expect restructuring costs to continue to rise.

Regulatory Assistance

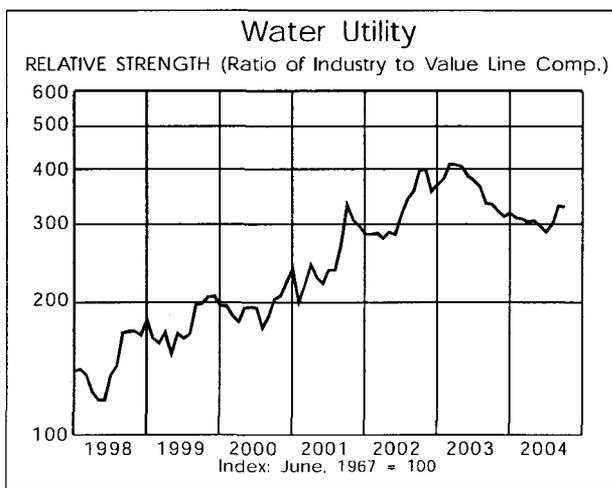
Although water utility company's have been forced to deal with lethargic case rulings in the past couple of years, some governing bodies are picking up the pace. In California, for example, the California Public Utilities Commission (CPUC) has handed down a number of favorable rate-relief rulings in recent months, and more are expected. With the California electric crisis seemingly in the rearview mirror, the current administration seems intent on delivering more timely assessments. *American States Water Company* and *California Water Service Group* have both seen profits benefit from recent case rulings over the past quarter.

Investment Advice

Most investors will want to take a pass on the stocks covered in the next few pages, as they offer uninspiring returns out to decade's end. In addition, not one of the stocks in this edition is ranked to outperform the market in the next six to 12 months. Nonetheless, income-oriented investors may like the industry's solid dividend yields. *California Water* may have some added appeal for the risk-averse, given its above average Safety rank. Still, we advise that potential investors carefully review the individual reports in the ensuing pages before making a commitment to any of the stocks mentioned above.

Andre J. Costanza

| Composite Statistics: Water Utility Industry | | | | | | | |
|--|--------|--------|--------|---------------------------------------|-------|------------------------|-------|
| 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | | 07-09 |
| 704.3 | 751.8 | 794.4 | 857.0 | 990 | 1075 | Revenues (\$mill) | 1345 |
| 90.9 | 95.4 | 106.6 | 98.6 | 130 | 150 | Net Profit (\$mill) | 205 |
| 41.2% | 40.2% | 38.8% | 40.0% | 40.0% | 40.0% | Income Tax Rate | 40.0% |
| - | -- | -- | -- | Nil | Nil | AFUDC % to Net Profit | Nil |
| 50.3% | 52.4% | 53.9% | 51.2% | 51.0% | 51.0% | Long-Term Debt Ratio | 50.0% |
| 49.3% | 47.2% | 45.9% | 48.6% | 49.0% | 49.0% | Common Equity Ratio | 50.0% |
| 1661.0 | 1840.7 | 1973.6 | 2296.4 | 2615 | 2870 | Total Capital (\$mill) | 3550 |
| 2342.5 | 2532.2 | 2751.1 | 3186.1 | 3400 | 3605 | Net Plant (\$mill) | 4150 |
| 7.0% | 6.8% | 7.0% | 5.9% | 6.5% | 7.0% | Return on Total Cap'l | 7.0% |
| 10.7% | 10.6% | 11.2% | 8.8% | 9.5% | 9.5% | Return on Shr. Equity | 10.0% |
| 10.8% | 10.7% | 11.2% | 8.8% | 9.5% | 9.5% | Return on Com Equity | 10.0% |
| 3.6% | 3.3% | 3.8% | 2.5% | 3.5% | 4.0% | Retained to Com Eq | 4.5% |
| 67% | 69% | 66% | 72% | 62% | 58% | All Div'ds to Net Prof | 52% |
| 18.6 | 22.6 | 21.5 | 26.0 | Bold figures are Value Line estimates | | Avg Ann'l P/E Ratio | 18.0 |
| 1.21 | 1.16 | 1.17 | 1.49 | | | Relative P/E Ratio | 1.29 |
| 3.6% | 3.1% | 3.1% | 2.8% | | | Avg Ann'l Div'd Yield | 3.5% |



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INDUSTRY TIMELINESS: 93 (of 98)

After showing some brief signs of a turnaround last year, the Water Utility Industry appears to have reverted back to its old ways. Feeling the effects of uncooperating weather conditions and high infrastructure costs, the stocks in this industry have had trouble meeting earnings expectations and, as a result, have sorely underperformed the broader market in recent months. In fact, none of the water utility stocks that are covered in the next few pages are ranked better than 3 (Average) for Timeliness, based on our momentum based ranking system. As a whole, the industry ranks near the bottom of the Value Line investment universe.

And the future does not look much brighter. Although a more favorable regulatory landscape and normalized weather conditions ought to provide a better landscape, we are concerned that rapidly growing infrastructure costs will continue to undermine this group's earnings out to late decade.

Easing Tensions

Although designed to keep a balance of power between consumers and providers, regulatory authorities, have long been a thorn in the side of water utility companies. Rate relief case decisions had often been unfavorable and untimely, with some rulings being pushed off for as long as two years. But, it finally looks as though things are taking a turn for the better, especially in the state of California. The California Public Utilities Commission (CPUC), which is responsible for ruling on general rate case requests in the Golden State, has been handing down more-favorable and timely decisions in recent months, thanks, in part, to the efforts of Governor Schwarzenegger. He has replaced members thought to be antagonists of rate relief with more-business-friendly members, and additional moves may be in the works. The recent changes makes for a favorable backdrop for water utility companies operating in California, such as *American States Water Co.* and *California Water Service Group.*

Costs

But, while regulators are easing their stance on rate case decisions, this does not look to be the case for infrastructure demands. Many of the current infrastruc-

tures are upwards of 100 years old and are in severe need of maintenance and, in some cases, massive renovations and rebuilding. And, given the geopolitical volatility worldwide and the heightened threat of bioterrorism on U.S. water pipelines and reservoirs, these costs are likely to continue to only rise, as companies strive to comply with EPA water purification standards. Infrastructure repair costs are expected to climb in the hundreds of millions of dollars over the next two decades, putting many smaller water companies at a distinct disadvantage. With a dearth of resources to fund these improvements, many such companies are being forced to sell. But, given the current landscape, larger companies with the flexibility and capital to deal with the higher costs are utilizing the weakness to add additional legs of growth to their businesses. *Aqua America*, the largest water utility in our survey, for example, has made more than 90 acquisitions in the past five years, doubling its revenue base during that time. The company does not seem to be slowing its aggressive spending ways and has the highest return on equity of any of the stocks that we cover here.

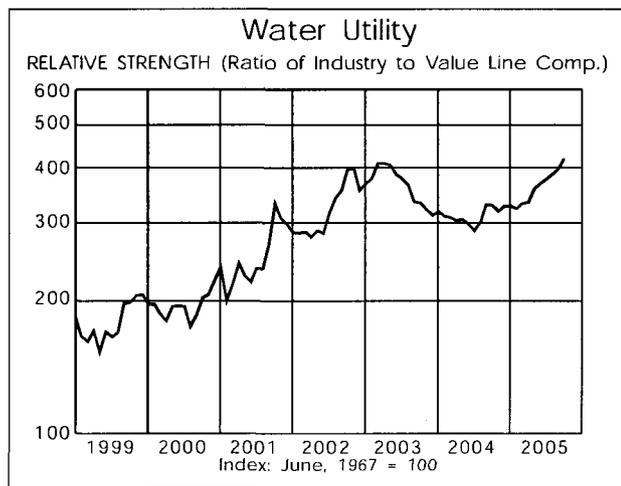
Investment Advice

Most investors will probably want to take a pass on the stocks in this industry. Typically market laggards, not one of the issues covered in the next few pages stands out for near-term or long-term capital gains potential. The limited financial resources of most of these companies, along with the capital-intensive nature of the industry, will probably limit any substantial growth out to late decade.

Those seeking to add an income component to their portfolio may find an attractive option here, though. Each of the stocks in this industry carries an above-average dividend yield, with *American States Water* and *California Water* offering the highest percentages. *California Water* offers some additional appeal, as it has a 2 (Above Average) Safety rank. As is always the case, we recommend that all potential investors take a more in depth look at the individual reports on the following pages before considering making any future financial commitments.

Andre J. Costanza

| Composite Statistics: Water Utility Industry | | | | | | | |
|--|--------|--------|--------|---------------------------------------|-------|------------------------|-------|
| 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | | 08-10 |
| 751.8 | 794.4 | 857.0 | 985.6 | 1250 | 1350 | Revenues (\$mill) | 1725 |
| 95.4 | 106.6 | 98.6 | 122.4 | 155 | 170 | Net Profit (\$mill) | 235 |
| 40.2% | 38.8% | 40.0% | 39.4% | 39.5% | 39.5% | Income Tax Rate | 39.5% |
| -- | -- | -- | -- | Nil | Nil | AFUDC % to Net Profit | Nil |
| 52.4% | 53.9% | 51.2% | 50.0% | 52.0% | 51.0% | Long-Term Debt Ratio | 48.0% |
| 47.2% | 45.9% | 48.6% | 50.0% | 48.0% | 49.0% | Common Equity Ratio | 52.0% |
| 1840.7 | 1973.6 | 2296.4 | 2543.6 | 3000 | 3400 | Total Capital (\$mill) | 4100 |
| 2532.2 | 2751.1 | 3186.1 | 3532.5 | 4050 | 4250 | Net Plant (\$mill) | 5000 |
| 6.8% | 7.0% | 5.9% | 6.7% | 7.0% | 7.5% | Return on Total Cap'l | 7.0% |
| 10.6% | 11.2% | 8.8% | 10.7% | 11.0% | 11.0% | Return on Shr. Equity | 11.5% |
| 10.7% | 11.2% | 8.8% | 10.7% | 11.0% | 11.0% | Return on Com Equity | 11.5% |
| 3.3% | 3.8% | 2.5% | 4.6% | 5.0% | 5.0% | Retained to Com Eq | 3.0% |
| 69% | 66% | 72% | 57% | 60% | 55% | All Div'ds to Net Prof | 45% |
| 22.6 | 21.5 | 26.0 | 25.5 | Bold figures are Value Line estimates | | Avg Ann'l P/E Ratio | 18.0 |
| 1.16 | 1.17 | 1.48 | 1.36 | | | Relative P/E Ratio | 1.20 |
| 3.1% | 3.1% | 2.8% | 2.2% | | | Avg Ann'l Div'd Yield | 3.4% |



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INDUSTRY TIMELINESS: 96 (of 97)

Despite better regulatory backing, most of the water utility companies covered in the next few pages have continued to struggle in recent months. Unseasonably wet weather conditions and escalating infrastructure costs remain at the heart of the problem, pressuring margins and limiting bottom-line growth. As a result, these perennial market laggards continue to rank at the bottom of the *Value Line* investment universe for Timeliness. Although we suspect that more-normal weather conditions will eventually resume, the growing need for infrastructure renovations remains a major concern going forward. Higher spending poses a threat to the industry's long-term prospects, especially given the capital constraints that most companies are facing. As a result, none of the issues in this industry hold worthwhile 3- to 5-year appreciation potential at this time. Meanwhile, dividend yields have lost some appeal, as well.

Regulatory Landscape

Regulatory authorities, designed to keep a balance of power between consumers and providers, have long been a nemesis to water utility companies. Rate case decisions have been unfavorable and untimely, sometimes taking as long as two years to complete. However, the tide appears to have turned more recently, particularly in California, where a few of the utilities in this *Survey* generate a fair portion of their revenues. The California Public Utilities Commission, for example, behind the efforts of Governor Schwarzenegger, has been handing down more-favorable and timely decisions. He has replaced members thought to be adversaries of rate relief with more-lenient constituents. The changes provide a healthy backdrop for utility companies that request a step-up in rates each year.

Drowning In Expenses

Although regulators appear to be more business-friendly with case decisions, they are becoming increasingly more stringent with infrastructure demands. Many of the current infrastructures are more than 100 years old, and in need of serious upkeep and even complete renovation in some cases. Meanwhile, the Environmental Protection Agency (EPA) continues to increase its water purification standards, given the

geopolitical volatility worldwide and the threat of bi-terrorist actions on U.S. water systems. In all, infrastructure repair costs are expected to climb into the hundreds of millions of dollars over the next two decades. However, these increasing costs will make it very difficult for water utility companies to maintain the earnings momentum that we expect the improved regulatory landscape to produce this year out to late decade.

Opportunity???

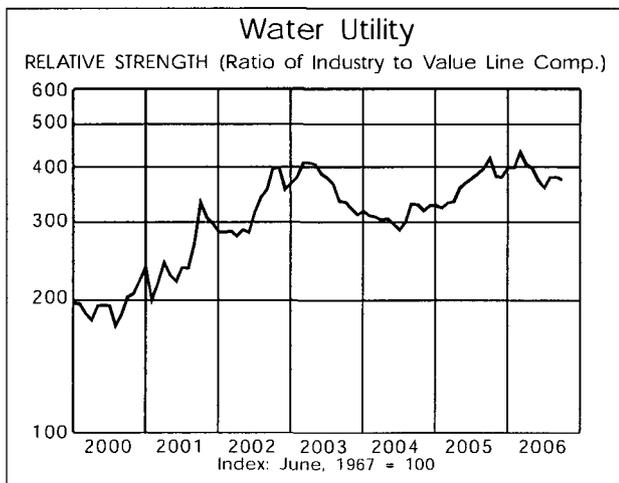
With limited resources to fund rising capital expenditures, many smaller companies in this industry are being forced to shop their businesses, presenting an opportunity for larger suitors with the resources to foot the bill. No company exemplifies this better than *Aqua America*, the largest water utility in our *Survey*. It has made well over 100 acquisitions in the past five years, using the aforementioned weakness of smaller players to improve their operations and increase their presence. It has drastically increased its customer base and clearly improved its longer-term prospects, and therefore holds the best 3- to 5-year appreciation potential of all the stocks in this industry. We expect that the consolidation trend will continue as water standards continue to climb.

Investment Advice

This is not an industry that most investors will want to emphasize. Not one of the stocks here stand out for Timeliness or 3- to 5-year appreciation potential. Making matters worse, higher interest rates have increased the income-producing appeal of alternative investments, making the yields found in this industry modestly attractive at best. Thus, most will want to avoid this untimely industry for now. However, *California Water* is ranked 2 for Safety. This, along with its historically steady stream of income, may appeal to more-conservative investors. As always, though, we recommend that investors study the individual reports of each company in the next few pages before making any financial commitments.

Andre J. Costanza

| Composite Statistics: Water Utility Industry | | | | | | | |
|--|--------|--------|--------|--|-------------|------------------------|-------|
| 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | | 09-11 |
| 925.2 | 1030.0 | 1173.6 | 1256.9 | 1350 | 1485 | Revenues (\$mill) | 2025 |
| 107.8 | 112.6 | 105.7 | 148.3 | 150 | 185 | Net Profit (\$mill) | 265 |
| 38.6% | 39.7% | 39.1% | 40.5% | 39.0% | 39.0% | Income Tax Rate | 39.0% |
| 2% | 1.9% | 1.0% | 1.1% | 1.0% | 1.0% | AFUDC % to Net Profit | 1.0% |
| 54.1% | 51.0% | 49.1% | 50.4% | 50.0% | 50.0% | Long-Term Debt Ratio | 50.0% |
| 45.7% | 48.8% | 50.7% | 49.5% | 50.0% | 50.0% | Common Equity Ratio | 50.0% |
| 2116.4 | 2449.1 | 2785.6 | 3057.5 | 3300 | 3600 | Total Capital (\$mill) | 4565 |
| 2995.1 | 3405.6 | 3836.9 | 4194.7 | 4475 | 4750 | Net Plant (\$mill) | 5650 |
| 6.9% | 5.9% | 6.0% | 6.3% | 7.5% | 8.0% | Return on Total Cap'l | 9.0% |
| 11.1% | 8.8% | 9.0% | 9.8% | 9.5% | 10.5% | Return on Shr. Equity | 11.5% |
| 11.1% | 8.8% | 9.0% | 9.8% | 9.5% | 10.5% | Return on Com Equity | 11.5% |
| 4.0% | 2.7% | 3.1% | 3.7% | 4.0% | 4.5% | Retained to Com Eq | 5.0% |
| 64% | 70% | 66% | 62% | 60% | 55% | All Div'ds to Net Prof | 55% |
| 21.6 | 25.6 | 25.4 | 29.4 | <i>Bold figures are Value Line estimates</i> | | Avg Ann'l P/E Ratio | 18.0 |
| 1.18 | 1.46 | 1.34 | 1.57 | | | Relative P/E Ratio | 1.20 |
| 3.0% | 2.7% | 2.6% | 2.1% | | | Avg Ann'l Div'd Yield | 2.5% |



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INDUSTRY TIMELINESS: 96 (of 96)

Many of the stock's in the Water Utility industry have continued to benefit from more favorable regulatory backing since our October review. Nevertheless, as usual, the industry, as a whole, ranks at the very bottom of the *Value Line* investment universe for Timeliness. Elevated well and waterway maintenance costs are responsible for most of the blame and will likely continue to dampen profits for years to come. Indeed, the growing need for infrastructure renovations poses a significant threat to the industry's long-term prospects, especially given the capital constraints that most companies are facing. As a result, many investors are going to want to steer clear of the issues in this industry.

Regulatory Winds at its Back

Regulatory authorities, designed to keep a balance of power between utility providers and consumers, have been extremely tough on utility companies in years past. However, current administrations have taken a much more business-friendly approach in recent months in handing down timely and generally favorable rulings. This has not been more glaringly evident than in California, where the California Public Utilities Commission's board has undergone a major facelift with adversaries being replaced with business supporters. Recent rulings set a good tone for utility providers doing business in the Golden State, which typically request a step-up in rates every year. This augurs particularly well for *California Water Service Group* and *American States Water*, which both derive a significant amount of business from California.

But Choppy Waters Lie Ahead

Even still, the same cannot be said for infrastructure costs. Although regulators are softening their stance on rate case decisions, infrastructure demands are growing more stringent. Many of the current infrastructures are more than 100 years old and in need of serious upkeep, or even complete replacement in some cases. Water companies are being forced to pony up significant cash in order to get their systems up to par. Making matters worse, the Environmental Protection Agency (EPA) continues to increase its water purification standards, given the geopolitical volatility worldwide and the threat of bio-terrorist actions on U.S. water systems. In all, infra-

structure repair costs are expected to climb into the hundreds of millions of dollars over the next two decades. These extra costs will make it very difficult for most water utility companies to sustain the earnings momentum that we think the improved regulatory landscape will produce this year.

Many of the smaller companies in the industry do not have the resources to meet the capital expenditures that they are being saddled with. Some are deciding to merge with larger, more financially sound enterprises. As a result, some of the biggest water utility companies are growing bigger, faster than ever. *Aqua America*, for example, has made well over 100 acquisitions in the past five years (28 coming in 2006), based on the aforementioned weakness of smaller players, improved operations and increased their lines. This has drastically increased its customer base and clearly improved its long-term prospects. We expect *Aqua* to continue growing its business via acquisitions as rising water standards spark further consolidation.

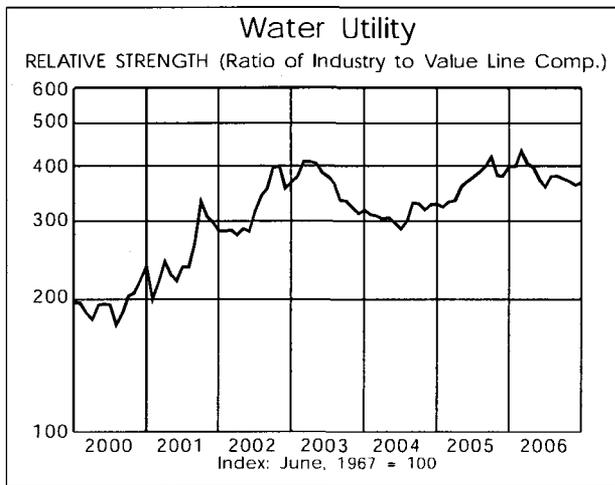
Investment Advice

Most investors will want to steer clear of the stocks in the Water Utility Industry. Each of the issues in the coming pages hold below average appreciation potential, whether it be for the coming six to 12 months or out to 2009-2011. In fact, each is ranked either 4 or 5 for Timeliness. The growing infrastructure costs and capital constraints mentioned above are likely to continue pressuring bottom lines of water utility companies for years to come.

Meanwhile, most look to have lost their income appeal as well. Higher interest rates have increased the income-producing appeal of alternative investments, making the yields found in this industry modestly attractive at best. That said, more conservative investors looking for a steady stream of income may want to take a peek at *California Water*, which is ranked 2 (Above Average) for Safety. Its yield is still above the *Value Line* average. Nevertheless, we advise all potential investors to carefully look over the individual reports of each company in the next few pages before making any decisions.

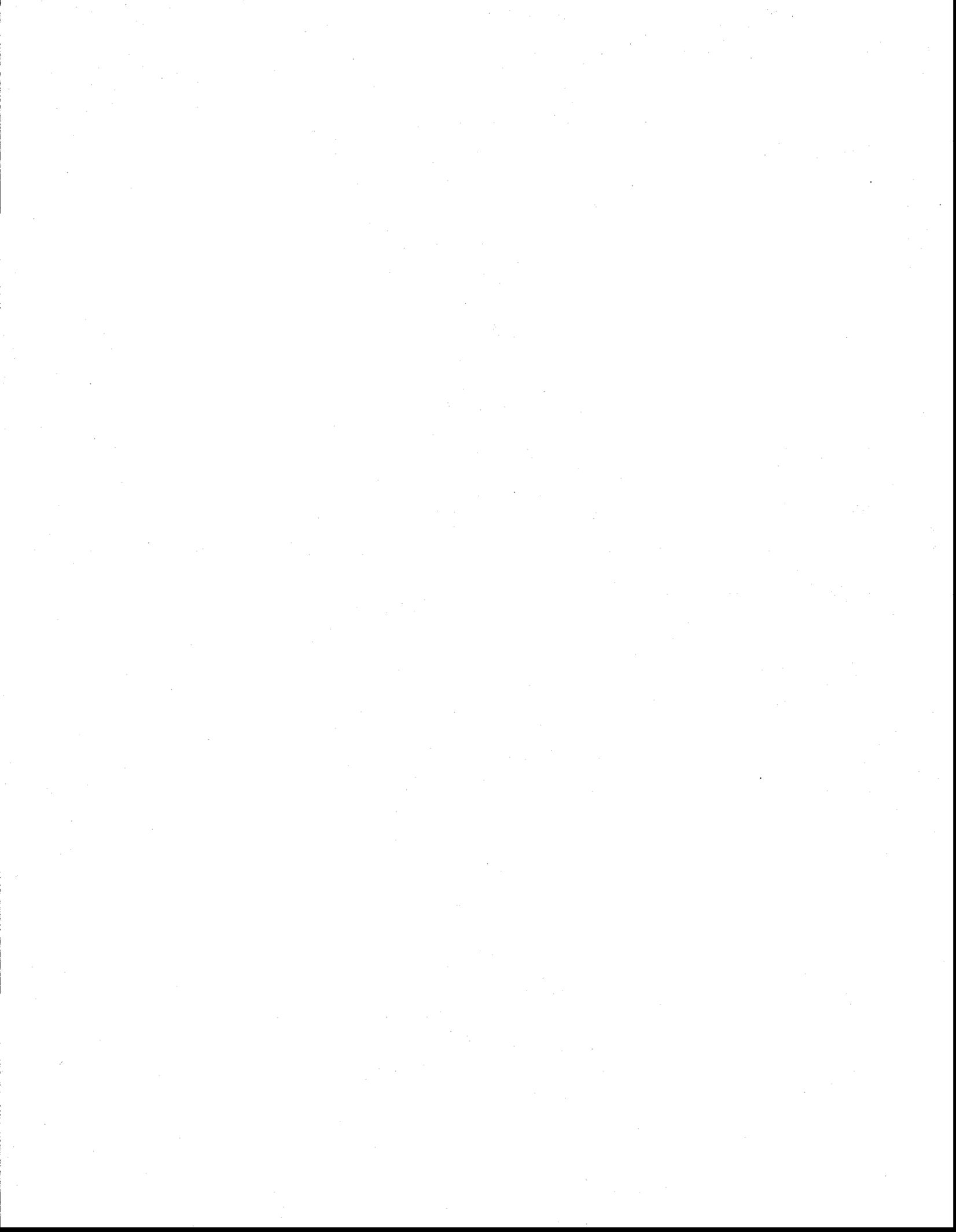
Andre J. Costanza

| Composite Statistics: Water Utility Industry | | | | | | | |
|--|--------|--------|--------|---------------------------------------|-------|------------------------|-------|
| 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | | 09-11 |
| 925.2 | 1030.0 | 1173.6 | 1256.9 | 1350 | 1450 | Revenues (\$mill) | 1825 |
| 107.8 | 112.6 | 105.7 | 148.3 | 155 | 180 | Net Profit (\$mill) | 240 |
| 38.6% | 39.7% | 39.1% | 40.5% | 39.0% | 39.0% | Income Tax Rate | 39.0% |
| .2% | 1.9% | 1.0% | 1.1% | 1.0% | 1.0% | AFUDC % to Net Profit | 1.0% |
| 54.1% | 51.0% | 49.1% | 50.4% | 50.0% | 50.0% | Long-Term Debt Ratio | 50.0% |
| 45.7% | 48.8% | 50.7% | 49.5% | 50.0% | 50.0% | Common Equity Ratio | 50.0% |
| 2116.4 | 2449.1 | 2785.6 | 3057.5 | 3360 | 3650 | Total Capital (\$mill) | 4500 |
| 2995.1 | 3405.6 | 3836.9 | 4194.7 | 5350 | 5750 | Net Plant (\$mill) | 6800 |
| 6.9% | 5.9% | 6.0% | 6.3% | 7.0% | 8.0% | Return on Total Cap'l | 9.0% |
| 11.1% | 8.8% | 9.0% | 9.8% | 9.0% | 10.0% | Return on Shr. Equity | 10.5% |
| 11.1% | 8.8% | 9.0% | 9.8% | 9.0% | 10.0% | Return on Com Equity | 10.5% |
| 4.0% | 2.7% | 3.1% | 3.7% | 3.0% | 3.5% | Retained to Com Eq | 2.5% |
| 64% | 70% | 66% | 62% | 68% | 65% | All Div'ds to Net Prof | 62% |
| 21.6 | 25.6 | 25.4 | 29.4 | Bold figures are Value Line estimates | | Avg Ann'l P/E Ratio | 18.0 |
| 1.18 | 1.46 | 1.34 | 1.57 | | | Relative P/E Ratio | 1.20 |
| 3.0% | 2.7% | 2.6% | 2.1% | | | Avg Ann'l Div'd Yield | 2.5% |



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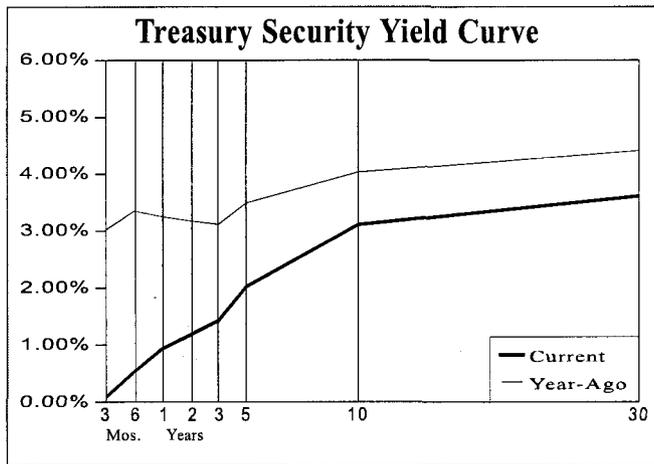
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ATTACHMENT E

Selected Yields

| | Recent (11/25/08) | 3 Months Ago (8/27/08) | Year Ago (11/28/07) | | Recent (11/25/08) | 3 Months Ago (8/27/08) | Year Ago (11/28/07) |
|---------------------------------|----------------------|------------------------------|---------------------------|-----------------------------------|----------------------|------------------------------|---------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | Mortgage-Backed Securities | | | |
| Discount Rate | 1.25 | 2.25 | 5.00 | GNMA 6.5% | 5.66 | 5.62 | 5.39 |
| Federal Funds | 1.00 | 2.00 | 4.50 | FHLMC 6.5% (Gold) | 5.46 | 5.66 | 5.61 |
| Prime Rate | 4.00 | 5.00 | 7.50 | FNMA 6.5% | 5.33 | 5.56 | 5.41 |
| 30-day CP (A1/P1) | 1.95 | 2.84 | 4.65 | FNMA ARM | 3.90 | 4.02 | 5.87 |
| 3-month LIBOR | 2.20 | 2.81 | 5.08 | Corporate Bonds | | | |
| Bank CDs | | | | Financial (10-year) A | 8.59 | 6.60 | 5.94 |
| 6-month | 1.59 | 1.60 | 2.82 | Industrial (25/30-year) A | 7.17 | 6.18 | 5.87 |
| 1-year | 1.95 | 2.26 | 3.54 | Utility (25/30-year) A | 7.20 | 6.15 | 6.03 |
| 5-year | 3.32 | 4.15 | 3.88 | Utility (25/30-year) Baa/BBB | 7.95 | 6.57 | 6.11 |
| U.S. Treasury Securities | | | | Foreign Bonds (10-Year) | | | |
| 3-month | 0.10 | 1.67 | 3.03 | Canada | 3.40 | 3.53 | 4.06 |
| 6-month | 0.54 | 1.94 | 3.36 | Germany | 3.35 | 4.17 | 4.11 |
| 1-year | 0.94 | 2.15 | 3.26 | Japan | 1.41 | 1.45 | 1.49 |
| 5-year | 2.03 | 3.01 | 3.50 | United Kingdom | 3.87 | 4.51 | 4.68 |
| 10-year | 3.11 | 3.76 | 4.04 | Preferred Stocks | | | |
| 10-year (inflation-protected) | 3.64 | 1.51 | 1.70 | Utility A | 7.06 | 6.16 | 6.31 |
| 30-year | 3.62 | 4.38 | 4.42 | Financial A | 8.58 | 7.08 | 7.84 |
| 30-year Zero | 3.52 | 4.44 | 4.45 | Financial Adjustable A | 5.52 | 5.53 | 5.53 |



| TAX-EXEMPT | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 5.13 | 4.64 | 4.45 | | | | |
| 25-Bond Index (Revs) | 5.98 | 5.15 | 4.80 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 1.05 | 1.56 | 3.25 | | | | |
| 1-year A | 1.15 | 1.66 | 3.35 | | | | |
| 5-year Aaa | 2.92 | 2.79 | 3.27 | | | | |
| 5-year A | 2.97 | 2.89 | 3.37 | | | | |
| 10-year Aaa | 4.00 | 3.60 | 3.64 | | | | |
| 10-year A | 4.20 | 3.80 | 3.94 | | | | |
| 25/30-year Aaa | 5.36 | 4.71 | 4.38 | | | | |
| 25/30-year A | 5.74 | 4.95 | 4.58 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 5.55 | 5.05 | 4.65 | | | | |
| Electric AA | 5.50 | 5.10 | 4.75 | | | | |
| Housing AA | 6.15 | 5.25 | 4.85 | | | | |
| Hospital AA | 6.20 | 5.30 | 4.85 | | | | |
| Toll Road Aaa | 5.55 | 5.10 | 4.75 | | | | |

Federal Reserve Data

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

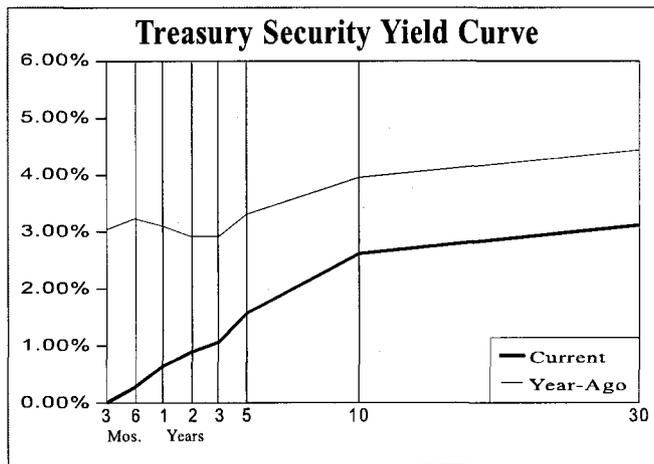
| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 11/19/08 | 11/5/08 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 604726 | 363637 | 241089 | 208454 | 105291 | 55539 |
| Borrowed Reserves | 725177 | 675272 | 49905 | 462868 | 314996 | 194280 |
| Net Free/Borrowed Reserves | -120451 | -311635 | 191184 | -254414 | -209705 | -138741 |

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

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|---------|--------|-------------------------------|--------|---------|
| | 11/10/08 | 11/3/08 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1510.6 | 1531.7 | -21.1 | 35.9% | 22.8% | 10.6% |
| M2 (M1+savings+small time deposits) | 7907.1 | 7877.5 | 29.6 | 12.2% | 7.3% | 7.5% |

Selected Yields

| | Recent | 3 Months Ago | Year Ago | | Recent | 3 Months Ago | Year Ago |
|---------------------------------|------------|--------------|------------|-----------------------------------|------------|--------------|------------|
| | (12/03/08) | (9/03/08) | (12/05/07) | | (12/03/08) | (9/03/08) | (12/05/07) |
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 1.25 | 2.25 | 5.00 | Mortgage-Backed Securities | 5.66 | 5.60 | 5.25 |
| Federal Funds | 1.00 | 2.00 | 4.50 | GNMA 6.5% | 5.46 | 5.67 | 5.42 |
| Prime Rate | 4.00 | 5.00 | 7.50 | FHLMC 6.5% (Gold) | 5.26 | 5.48 | 5.25 |
| 30-day CP (A1/P1) | 1.50 | 2.88 | 5.23 | FNMA 6.5% | 4.24 | 3.89 | 5.44 |
| 3-month LIBOR | 2.20 | 2.81 | 5.15 | Corporate Bonds | | | |
| Bank CDs | | | | | | | |
| 6-month | 1.57 | 1.60 | 2.82 | Financial (10-year) A | 8.09 | 6.69 | 5.92 |
| 1-year | 1.95 | 2.26 | 3.45 | Industrial (25/30-year) A | 6.70 | 6.11 | 5.96 |
| 5-year | 3.32 | 4.15 | 3.80 | Utility (25/30-year) A | 6.83 | 6.13 | 6.07 |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 0.01 | 1.68 | 3.05 | Utility (25/30-year) Baa/BBB | 7.58 | 6.54 | 6.22 |
| 6-month | 0.28 | 1.90 | 3.24 | Foreign Bonds (10-Year) | | | |
| 1-year | 0.64 | 2.07 | 3.11 | Canada | 3.16 | 3.48 | 3.93 |
| 5-year | 1.58 | 2.95 | 3.32 | Germany | 3.04 | 4.14 | 4.03 |
| 10-year | 2.62 | 3.70 | 3.96 | Japan | 1.39 | 1.47 | 1.50 |
| 10-year (inflation-protected) | 2.91 | 1.64 | 1.70 | United Kingdom | 3.43 | 4.50 | 4.49 |
| 30-year | 3.12 | 4.32 | 4.44 | Preferred Stocks | | | |
| 30-year Zero | 3.02 | 4.37 | 4.49 | Utility A | 6.75 | 6.16 | 6.25 |
| | | | | Financial A | 7.75 | 6.97 | 7.73 |
| | | | | Financial Adjustable A | 5.53 | 5.53 | 5.53 |



| TAX-EXEMPT | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 5.39 | 4.68 | 4.39 | | | | |
| 25-Bond Index (Revs) | 6.06 | 5.17 | 4.77 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 1.05 | 1.58 | 3.00 | | | | |
| 1-year A | 1.15 | 1.68 | 3.04 | | | | |
| 5-year Aaa | 2.95 | 2.74 | 3.18 | | | | |
| 5-year A | 3.05 | 2.84 | 3.48 | | | | |
| 10-year Aaa | 4.09 | 3.55 | 3.57 | | | | |
| 10-year A | 4.29 | 3.75 | 3.86 | | | | |
| 25/30-year Aaa | 5.48 | 4.69 | 4.29 | | | | |
| 25/30-year A | 5.88 | 5.07 | 4.40 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 6.05 | 4.85 | 4.45 | | | | |
| Electric AA | 6.10 | 4.80 | 4.45 | | | | |
| Housing AA | 6.25 | 5.15 | 4.70 | | | | |
| Hospital AA | 6.20 | 5.25 | 4.65 | | | | |
| Toll Road Aaa | 6.15 | 4.80 | 4.65 | | | | |

Federal Reserve Data

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

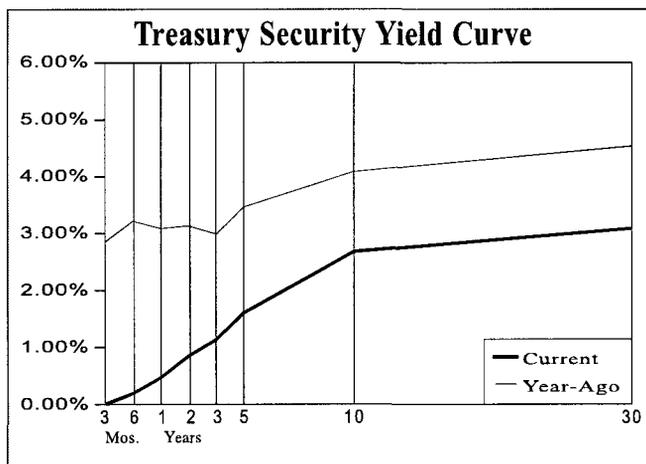
| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 11/19/08 | 11/5/08 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 604737 | 363643 | 241094 | 208456 | 105292 | 55540 |
| Borrowed Reserves | 725177 | 675272 | 49905 | 462868 | 314996 | 194280 |
| Net Free/Borrowed Reserves | -120440 | -311629 | 191189 | -254412 | -209704 | -138740 |

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

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|----------|--------|-------------------------------|--------|---------|
| | 11/17/08 | 11/10/08 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1507.5 | 1510.5 | -3.0 | 41.2% | 23.2% | 11.0% |
| M2 (M1+savings+small time deposits) | 7929.4 | 7906.9 | 22.5 | 14.1% | 7.5% | 7.6% |

Selected Yields

| | Recent | 3 Months Ago | Year Ago | | Recent | 3 Months Ago | Year Ago |
|-----------------------------------|------------|--------------|------------|--|------------|--------------|------------|
| | (12/03/08) | (9/10/08) | (12/12/07) | | (12/03/08) | (9/10/08) | (12/12/07) |
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 1.25 | 2.25 | 4.75 | | | | |
| Federal Funds | 1.00 | 2.00 | 4.25 | | | | |
| Prime Rate | 4.00 | 5.00 | 7.25 | | | | |
| 30-day CP (A1/P1) | 0.86 | 3.00 | 5.10 | | | | |
| 3-month LIBOR | 2.10 | 2.82 | 5.06 | | | | |
| Bank CDs | | | | | | | |
| 6-month | 1.57 | 1.60 | 2.82 | | | | |
| 1-year | 1.95 | 2.26 | 3.45 | | | | |
| 5-year | 3.32 | 4.15 | 3.74 | | | | |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 0.01 | 1.64 | 2.86 | | | | |
| 6-month | 0.20 | 1.86 | 3.22 | | | | |
| 1-year | 0.47 | 2.04 | 3.09 | | | | |
| 5-year | 1.61 | 2.90 | 3.47 | | | | |
| 10-year | 2.68 | 3.63 | 4.09 | | | | |
| 10-year (inflation-protected) | 3.11 | 1.61 | 1.78 | | | | |
| 30-year | 3.09 | 4.23 | 4.54 | | | | |
| 30-year Zero | 2.90 | 4.27 | 4.58 | | | | |
| Mortgage-Backed Securities | | | | | | | |
| GNMA 6.5% | 5.17 | 5.31 | 5.54 | | | | |
| FHLMC 6.5% (Gold) | 4.92 | 5.36 | 5.67 | | | | |
| FNMA 6.5% | 4.75 | 5.20 | 5.53 | | | | |
| FNMA ARM | 4.24 | 3.86 | 5.46 | | | | |
| Corporate Bonds | | | | | | | |
| Financial (10-year) A | 8.29 | 6.51 | 6.26 | | | | |
| Industrial (25/30-year) A | 6.63 | 6.08 | 6.15 | | | | |
| Utility (25/30-year) A | 6.79 | 6.04 | 6.25 | | | | |
| Utility (25/30-year) Baa/BBB | 7.55 | 6.49 | 6.35 | | | | |
| Foreign Bonds (10-Year) | | | | | | | |
| Canada | 3.09 | 3.46 | 4.03 | | | | |
| Germany | 3.21 | 4.07 | 4.31 | | | | |
| Japan | 1.42 | 1.52 | 1.52 | | | | |
| United Kingdom | 3.57 | 4.46 | 4.80 | | | | |
| Preferred Stocks | | | | | | | |
| Utility A | 6.47 | 6.12 | 6.35 | | | | |
| Financial A | 7.38 | 7.33 | 7.80 | | | | |
| Financial Adjustable A | 5.46 | 5.46 | 5.46 | | | | |



| TAX-EXEMPT | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 5.58 | 4.62 | 4.38 | | | | |
| 25-Bond Index (Revs) | 6.17 | 5.15 | 4.74 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 0.95 | 1.58 | 2.90 | | | | |
| 1-year A | 1.05 | 1.68 | 3.00 | | | | |
| 5-year Aaa | 2.95 | 2.69 | 3.19 | | | | |
| 5-year A | 3.00 | 2.79 | 3.29 | | | | |
| 10-year Aaa | 4.20 | 3.48 | 3.63 | | | | |
| 10-year A | 4.40 | 3.68 | 3.93 | | | | |
| 25/30-year Aaa | 5.79 | 4.53 | 4.37 | | | | |
| 25/30-year A | 6.17 | 4.77 | 4.57 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 6.00 | 4.87 | 4.65 | | | | |
| Electric AA | 5.95 | 4.92 | 4.70 | | | | |
| Housing AA | 6.75 | 5.13 | 4.80 | | | | |
| Hospital AA | 6.65 | 5.15 | 4.85 | | | | |
| Toll Road Aaa | 6.10 | 4.95 | 4.70 | | | | |

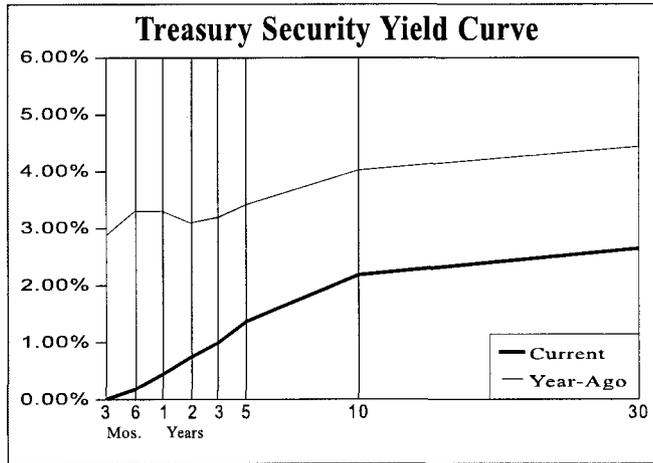
Federal Reserve Data

| BANK RESERVES | | | | | | | |
|--|---------------|----------|--------|---------------------------------|---------|---------|--|
| <i>(Two-Week Period; in Millions, Not Seasonally Adjusted)</i> | | | | | | | |
| | Recent Levels | | | Average Levels Over the Last... | | | |
| | 12/3/08 | 11/19/08 | Change | 12 Wks. | 26 Wks. | 52 Wks. | |
| Excess Reserves | 589707 | 604746 | -15039 | 292410 | 147272 | 77325 | |
| Borrowed Reserves | 675885 | 725177 | -49292 | 535410 | 352243 | 219293 | |
| Net Free/Borrowed Reserves | -86178 | -120431 | 34253 | -243000 | -204971 | -141968 | |

| MONEY SUPPLY | | | | | | | |
|--|---------------|----------|--------|-------------------------------|--------|---------|--|
| <i>(One-Week Period; in Billions, Seasonally Adjusted)</i> | | | | | | | |
| | Recent Levels | | | Growth Rates Over the Last... | | | |
| | 11/24/08 | 11/17/08 | Change | 3 Mos. | 6 Mos. | 12 Mos. | |
| M1 (Currency+demand deposits) | 1531.5 | 1507.5 | 24.0 | 48.0% | 25.0% | 12.5% | |
| M2 (M1+savings+small time deposits) | 7945.7 | 7929.4 | 16.3 | 15.0% | 7.6% | 7.4% | |

Selected Yields

| | Recent | 3 Months Ago | Year Ago | | Recent | 3 Months Ago | Year Ago |
|---------------------------------|------------|--------------|------------|-----------------------------------|------------|--------------|------------|
| | (12/10/08) | (9/17/08) | (12/19/07) | | (12/10/08) | (9/17/08) | (12/19/07) |
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.50 | 2.25 | 4.75 | Mortgage-Backed Securities | 4.40 | 5.43 | 5.42 |
| Federal Funds | 0.00-0.25 | 2.00 | 4.25 | GNMA 6.5% | 4.40 | 5.33 | 5.62 |
| Prime Rate | 3.25 | 5.00 | 7.25 | FHLMC 6.5% (Gold) | 4.04 | 5.24 | 5.41 |
| 30-day CP (A1/P1) | 0.27 | 2.50 | 5.59 | FNMA 6.5% | 4.23 | 3.86 | 5.46 |
| 3-month LIBOR | 1.58 | 3.06 | 4.91 | FNMA ARM | | | |
| Bank CDs | | | | | | | |
| 6-month | 1.46 | 1.61 | 2.82 | Corporate Bonds | | | |
| 1-year | 1.89 | 2.26 | 3.45 | Financial (10-year) A | 7.50 | 6.79 | 6.01 |
| 5-year | 2.96 | 4.10 | 3.74 | Industrial (25/30-year) A | 6.18 | 6.08 | 5.99 |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 0.01 | 0.04 | 2.89 | Utility (25/30-year) A | 6.26 | 5.94 | 6.14 |
| 6-month | 0.18 | 0.81 | 3.31 | Utility (25/30-year) Baa/BBB | 7.09 | 6.51 | 6.24 |
| 1-year | 0.45 | 1.44 | 3.31 | Foreign Bonds (10-Year) | | | |
| 5-year | 1.37 | 2.52 | 3.43 | Canada | 2.87 | 3.44 | 3.99 |
| 10-year | 2.19 | 3.41 | 4.03 | Germany | 2.99 | 4.02 | 4.28 |
| 10-year (inflation-protected) | 2.39 | 1.74 | 1.71 | Japan | 1.30 | 1.50 | 1.49 |
| 30-year | 2.65 | 4.07 | 4.45 | United Kingdom | 3.23 | 4.41 | 4.68 |
| 30-year Zero | 2.69 | 4.11 | 4.47 | Preferred Stocks | | | |
| | | | | Utility A | 6.50 | 6.56 | 6.33 |
| | | | | Financial A | 8.23 | 8.77 | 8.18 |
| | | | | Financial Adjustable A | 5.47 | 5.47 | 5.47 |



TAX-EXEMPT

| | Recent | 3 Months Ago | Year Ago |
|--|--------|--------------|----------|
| Bond Buyer Indexes | | | |
| 20-Bond Index (GOs) | 5.85 | 4.54 | 4.46 |
| 25-Bond Index (Revs) | 6.39 | 5.09 | 4.79 |
| General Obligation Bonds (GOs) | | | |
| 1-year Aaa | 0.95 | 1.73 | 2.85 |
| 1-year A | 1.05 | 1.83 | 2.90 |
| 5-year Aaa | 2.86 | 2.79 | 3.19 |
| 5-year A | 2.96 | 2.84 | 3.49 |
| 10-year Aaa | 4.03 | 3.59 | 3.62 |
| 10-year A | 4.23 | 3.79 | 3.91 |
| 25/30-year Aaa | 5.51 | 4.94 | 4.33 |
| 25/30-year A | 5.91 | 5.32 | 4.44 |
| Revenue Bonds (Revs) (25/30-Year) | | | |
| Education AA | 6.10 | 5.05 | 4.50 |
| Electric AA | 6.15 | 5.00 | 4.50 |
| Housing AA | 6.30 | 5.40 | 4.80 |
| Hospital AA | 6.25 | 5.45 | 4.75 |
| Toll Road Aaa | 6.20 | 5.00 | 4.60 |

Federal Reserve Data

BANK RESERVES

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

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|----------|--------|---------------------------------|---------|---------|
| | 12/3/08 | 11/19/08 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 589711 | 604749 | -15038 | 292411 | 147273 | 77325 |
| Borrowed Reserves | 675885 | 725177 | -49292 | 535410 | 352243 | 219293 |
| Net Free/Borrowed Reserves | -86174 | -120428 | 34254 | -243000 | -204971 | -141968 |

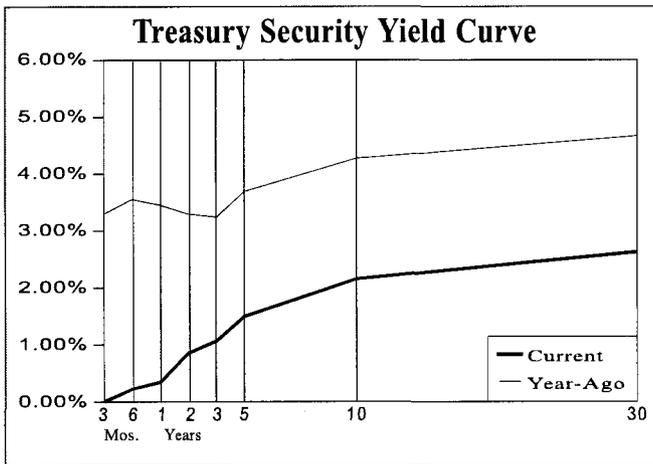
MONEY SUPPLY

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

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|----------|--------|-------------------------------|--------|---------|
| | 12/1/08 | 11/24/08 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1539.1 | 1531.7 | 7.4 | 44.7% | 22.9% | 12.1% |
| M2 (M1+savings+small time deposits) | 7985.9 | 7948.9 | 37.0 | 17.6% | 9.0% | 8.1% |

Selected Yields

| | Recent | 3 Months | Year | | Recent | 3 Months | Year |
|---------------------------------|------------|------------------|-------------------|--------------------------------|------------|------------------|-------------------|
| | (12/23/08) | Ago (9/24/08) | Ago (12/26/07) | | (12/23/08) | Ago (9/24/08) | Ago (12/26/07) |
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.50 | 2.25 | 4.75 | GNMA 6.5% | 4.43 | 5.56 | 5.52 |
| Federal Funds | 0.00-0.25 | 2.00 | 4.25 | FHLMC 6.5% (Gold) | 4.38 | 5.43 | 5.70 |
| Prime Rate | 3.25 | 5.00 | 7.25 | FNMA 6.5% | 4.16 | 5.34 | 5.52 |
| 30-day CP (A1/P1) | 0.10 | 2.85 | 4.90 | FNMA ARM | 4.23 | 3.86 | 5.47 |
| 3-month LIBOR | 1.47 | 3.48 | 4.83 | Corporate Bonds | | | |
| Bank CDs | | | | Financial (10-year) A | 7.08 | 7.14 | 6.27 |
| 6-month | 1.17 | 1.61 | 2.82 | Industrial (25/30-year) A | 6.02 | 6.53 | 6.22 |
| 1-year | 1.56 | 2.14 | 3.44 | Utility (25/30-year) A | 5.90 | 6.50 | 6.28 |
| 5-year | 2.72 | 3.77 | 3.73 | Utility (25/30-year) Baa/BBB | 7.07 | 6.74 | 6.42 |
| U.S. Treasury Securities | | | | Foreign Bonds (10-Year) | | | |
| 3-month | 0.01 | 0.46 | 3.31 | Canada | 2.80 | 3.66 | 4.09 |
| 6-month | 0.23 | 1.43 | 3.56 | Germany | 2.95 | 4.16 | 4.31 |
| 1-year | 0.35 | 1.89 | 3.46 | Japan | 1.22 | 1.49 | 1.57 |
| 5-year | 1.50 | 2.91 | 3.70 | United Kingdom | 3.12 | 4.57 | 4.60 |
| 10-year | 2.16 | 3.81 | 4.28 | Preferred Stocks | | | |
| 10-year (inflation-protected) | 2.36 | 1.99 | 1.90 | Utility A | 6.25 | 6.85 | 6.19 |
| 30-year | 2.63 | 4.41 | 4.67 | Financial A | 11.45 | 8.04 | 8.15 |
| 30-year Zero | 2.67 | 4.39 | 4.70 | Financial Adjustable A | 5.47 | 5.47 | 5.47 |



| TAX-EXEMPT | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 5.46 | 5.03 | 4.39 | | | | |
| 25-Bond Index (Revs) | 6.22 | 5.44 | 4.76 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 0.85 | 2.15 | 2.90 | | | | |
| 1-year A | 0.95 | 2.25 | 3.00 | | | | |
| 5-year Aaa | 2.57 | 3.10 | 3.22 | | | | |
| 5-year A | 2.87 | 3.20 | 3.32 | | | | |
| 10-year Aaa | 3.70 | 4.02 | 3.65 | | | | |
| 10-year A | 4.20 | 4.22 | 3.95 | | | | |
| 25/30-year Aaa | 5.17 | 5.13 | 4.35 | | | | |
| 25/30-year A | 6.15 | 5.45 | 4.55 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 6.15 | 5.55 | 4.65 | | | | |
| Electric AA | 6.20 | 5.60 | 4.70 | | | | |
| Housing AA | 6.50 | 5.90 | 4.80 | | | | |
| Hospital AA | 6.55 | 5.95 | 4.85 | | | | |
| Toll Road Aaa | 6.25 | 5.65 | 4.70 | | | | |

Federal Reserve Data

BANK RESERVES

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

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 12/17/08 | 12/3/08 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 774432 | 589720 | 184712 | 402723 | 202422 | 105940 |
| Borrowed Reserves | 674517 | 675885 | -1368 | 607558 | 387830 | 244268 |
| Net Free/Borrowed Reserves | 99915 | -86165 | 186080 | -204836 | -185409 | -138328 |

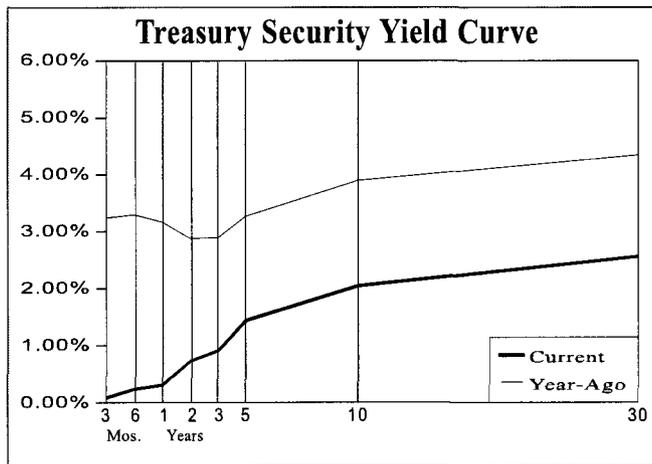
MONEY SUPPLY

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

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|---------|--------|-------------------------------|--------|---------|
| | 12/8/08 | 12/1/08 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1585.5 | 1538.6 | 46.9 | 64.1% | 31.3% | 15.7% |
| M2 (M1+savings+small time deposits) | 8062.4 | 7988.5 | 73.9 | 22.2% | 11.2% | 9.0% |

Selected Yields

| | Recent (12/30/08) | 3 Months Ago (10/01/08) | Year Ago (1/02/08) | | Recent (12/30/08) | 3 Months Ago (10/01/08) | Year Ago (1/02/08) |
|---------------------------------|----------------------|-------------------------------|--------------------------|-----------------------------------|----------------------|-------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | Mortgage-Backed Securities | | | |
| Discount Rate | 0.50 | 2.25 | 4.75 | GNMA 6.5% | 4.11 | 5.64 | 5.36 |
| Federal Funds | 0.00-0.25 | 2.00 | 4.25 | FHLMC 6.5% (Gold) | 4.03 | 5.63 | 5.44 |
| Prime Rate | 3.25 | 5.00 | 7.25 | FNMA 6.5% | 3.89 | 5.54 | 5.37 |
| 30-day CP (A1/P1) | 0.06 | 3.05 | 4.40 | FNMA ARM | 4.22 | 3.88 | 5.38 |
| 3-month LIBOR | 1.44 | 4.15 | 4.68 | Corporate Bonds | | | |
| Bank CDs | | | | Financial (10-year) A | 7.08 | 7.25 | 5.86 |
| 6-month | 1.16 | 1.61 | 2.81 | Industrial (25/30-year) A | 5.90 | 6.52 | 5.92 |
| 1-year | 1.43 | 2.14 | 3.43 | Utility (25/30-year) A | 5.85 | 6.46 | 5.94 |
| 5-year | 2.51 | 3.77 | 3.73 | Utility (25/30-year) Baa/BBB | 6.58 | 6.61 | 6.11 |
| U.S. Treasury Securities | | | | Foreign Bonds (10-Year) | | | |
| 3-month | 0.09 | 0.80 | 3.25 | Canada | 2.66 | 3.71 | 3.91 |
| 6-month | 0.24 | 1.45 | 3.30 | Germany | 2.95 | 4.00 | 4.21 |
| 1-year | 0.31 | 1.66 | 3.17 | Japan | 1.17 | 1.51 | 1.51 |
| 5-year | 1.44 | 2.86 | 3.28 | United Kingdom | 3.09 | 4.43 | 4.44 |
| 10-year | 2.05 | 3.74 | 3.90 | Preferred Stocks | | | |
| 10-year (inflation-protected) | 2.33 | 2.25 | 1.56 | Utility A | 6.00 | 6.53 | 6.31 |
| 30-year | 2.56 | 4.22 | 4.35 | Financial A | 7.89 | 7.78 | 8.12 |
| 30-year Zero | 2.42 | 4.22 | 4.38 | Financial Adjustable A | 5.48 | 5.48 | 5.48 |



| TAX-EXEMPT | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 5.46 | 5.23 | 4.44 | | | | |
| 25-Bond Index (Revs) | 6.22 | 5.56 | 4.80 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 0.85 | 2.10 | 2.88 | | | | |
| 1-year A | 0.95 | 2.20 | 2.92 | | | | |
| 5-year Aaa | 2.57 | 3.32 | 3.19 | | | | |
| 5-year A | 2.87 | 3.37 | 3.49 | | | | |
| 10-year Aaa | 3.70 | 4.23 | 3.61 | | | | |
| 10-year A | 4.20 | 4.43 | 3.90 | | | | |
| 25/30-year Aaa | 5.17 | 5.29 | 4.26 | | | | |
| 25/30-year A | 6.15 | 5.67 | 4.37 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 6.15 | 5.45 | 4.40 | | | | |
| Electric AA | 6.20 | 5.40 | 4.40 | | | | |
| Housing AA | 6.50 | 5.90 | 4.65 | | | | |
| Hospital AA | 6.55 | 5.95 | 4.65 | | | | |
| Toll Road Aaa | 6.25 | 5.40 | 4.50 | | | | |

Federal Reserve Data

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

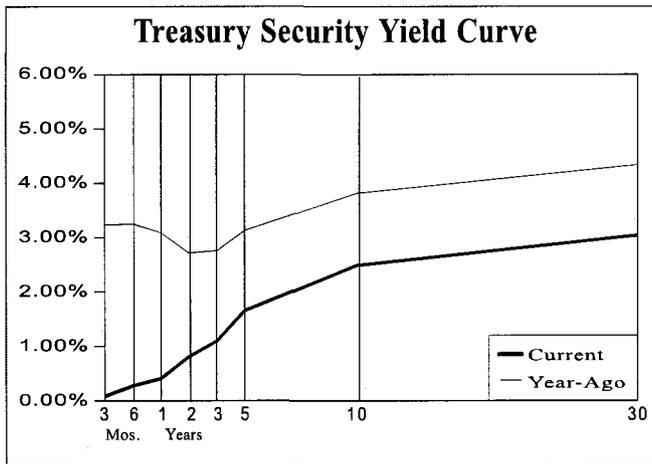
| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 12/17/08 | 12/3/08 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 774437 | 589715 | 184722 | 402723 | 202422 | 105940 |
| Borrowed Reserves | 674517 | 675885 | -1368 | 607558 | 387830 | 244268 |
| Net Free/Borrowed Reserves | 99920 | -86170 | 186090 | -204836 | -185409 | -138328 |

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

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|---------|--------|-------------------------------|--------|---------|
| | 12/15/08 | 12/8/08 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1606.9 | 1583.2 | 23.7 | 69.4% | 35.0% | 17.9% |
| M2 (M1+savings+small time deposits) | 8104.2 | 8060.1 | 44.1 | 23.9% | 12.3% | 9.5% |

Selected Yields

| | Recent (1/07/09) | 3 Months Ago (10/08/08) | Year Ago (1/09/08) | | Recent (1/07/09) | 3 Months Ago (10/08/08) | Year Ago (1/09/08) |
|-----------------------------------|---------------------|-------------------------------|--------------------------|--|---------------------|-------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.50 | 1.75 | 4.75 | | | | |
| Federal Funds | 0.00-0.25 | 1.50 | 4.25 | | | | |
| Prime Rate | 3.25 | 4.50 | 7.25 | | | | |
| 30-day CP (A1/P1) | 0.65 | 4.55 | 4.28 | | | | |
| 3-month LIBOR | 1.40 | 4.52 | 4.44 | | | | |
| Bank CDs | | | | | | | |
| 6-month | 1.10 | 1.73 | 2.77 | | | | |
| 1-year | 1.41 | 2.27 | 3.38 | | | | |
| 5-year | 2.38 | 3.48 | 3.73 | | | | |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 0.09 | 0.61 | 3.23 | | | | |
| 6-month | 0.28 | 1.05 | 3.25 | | | | |
| 1-year | 0.41 | 1.26 | 3.09 | | | | |
| 5-year | 1.66 | 2.63 | 3.13 | | | | |
| 10-year | 2.49 | 3.64 | 3.82 | | | | |
| 10-year (inflation-protected) | 2.44 | 2.66 | 1.53 | | | | |
| 30-year | 3.04 | 4.05 | 4.34 | | | | |
| 30-year Zero | 2.87 | 3.97 | 4.39 | | | | |
| Mortgage-Backed Securities | | | | | | | |
| GNMA 6.5% | 4.30 | 5.82 | 5.04 | | | | |
| FHLMC 6.5% (Gold) | 3.95 | 5.70 | 5.28 | | | | |
| FNMA 6.5% | 3.75 | 5.62 | 5.18 | | | | |
| FNMA ARM | 4.26 | 3.84 | 5.36 | | | | |
| Corporate Bonds | | | | | | | |
| Financial (10-year) A | 7.56 | 7.34 | 5.79 | | | | |
| Industrial (25/30-year) A | 6.26 | 6.66 | 5.98 | | | | |
| Utility (25/30-year) A | 6.07 | 6.58 | 5.99 | | | | |
| Utility (25/30-year) Baa/BBB | 6.72 | 6.93 | 6.17 | | | | |
| Foreign Bonds (10-Year) | | | | | | | |
| Canada | 2.93 | 3.59 | 3.87 | | | | |
| Germany | 3.20 | 3.80 | 4.09 | | | | |
| Japan | 1.26 | 1.39 | 1.48 | | | | |
| United Kingdom | 3.29 | 4.30 | 4.40 | | | | |
| Preferred Stocks | | | | | | | |
| Utility A | 6.11 | 6.99 | 6.00 | | | | |
| Financial A | 7.28 | 8.54 | 7.61 | | | | |
| Financial Adjustable A | 5.48 | 5.48 | 5.48 | | | | |



| TAX-EXEMPT | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 5.24 | 5.36 | 4.32 | | | | |
| 25-Bond Index (Revs) | 6.00 | 5.69 | 4.72 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 0.85 | 2.18 | 2.70 | | | | |
| 1-year A | 0.95 | 2.25 | 2.80 | | | | |
| 5-year Aaa | 2.48 | 3.34 | 2.97 | | | | |
| 5-year A | 2.77 | 3.44 | 3.07 | | | | |
| 10-year Aaa | 3.53 | 4.31 | 3.43 | | | | |
| 10-year A | 4.03 | 4.51 | 3.73 | | | | |
| 25/30-year Aaa | 5.04 | 5.35 | 4.14 | | | | |
| 25/30-year A | 6.04 | 5.70 | 4.34 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 6.10 | 5.80 | 4.45 | | | | |
| Electric AA | 6.25 | 5.90 | 4.50 | | | | |
| Housing AA | 6.55 | 6.00 | 4.60 | | | | |
| Hospital AA | 6.50 | 6.10 | 4.65 | | | | |
| Toll Road Aaa | 6.25 | 5.95 | 4.50 | | | | |

Federal Reserve Data

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

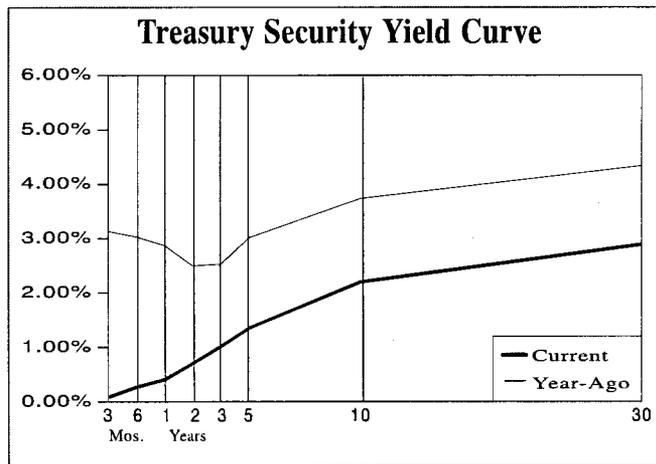
| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|----------|--------|---------------------------------|---------|---------|
| | 12/31/08 | 12/17/08 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 798453 | 774439 | 24014 | 506964 | 259327 | 135468 |
| Borrowed Reserves | 627832 | 674517 | -46685 | 658983 | 420394 | 267237 |
| Net Free/Borrowed Reserves | 170621 | 99922 | 70699 | -152019 | -161066 | -131769 |

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

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|----------|--------|-------------------------------|--------|---------|
| | 12/22/08 | 12/15/08 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1591.5 | 1606.8 | -15.3 | 34.1% | 32.9% | 16.5% |
| M2 (M1+savings+small time deposits) | 8117.8 | 8104.2 | 13.6 | 13.6% | 12.6% | 9.6% |

Selected Yields

| | Recent (1/14/09) | 3 Months Ago (10/15/08) | Year Ago (1/16/08) | | Recent (1/14/09) | 3 Months Ago (10/15/08) | Year Ago (1/16/08) |
|---------------------------------|---------------------|-------------------------------|--------------------------|-----------------------------------|---------------------|-------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.50 | 1.75 | 4.75 | Mortgage-Backed Securities | | | |
| Federal Funds | 0.00-0.25 | 1.50 | 4.25 | GNMA 6.5% | 3.93 | 6.06 | 4.69 |
| Prime Rate | 3.25 | 4.50 | 7.25 | FHLMC 6.5% (Gold) | 3.25 | 5.96 | 5.10 |
| 30-day CP (A1/P1) | 0.49 | 4.47 | 3.99 | FNMA 6.5% | 3.30 | 5.91 | 4.75 |
| 3-month LIBOR | 1.08 | 4.55 | 3.95 | FNMA ARM | 4.26 | 3.87 | 5.34 |
| Bank CDs | | | | | | | |
| 6-month | 1.03 | 1.73 | 2.80 | Corporate Bonds | | | |
| 1-year | 1.34 | 2.27 | 3.22 | Financial (10-year) A | 7.15 | 8.19 | 5.79 |
| 5-year | 2.38 | 3.48 | 3.58 | Industrial (25/30-year) A | 5.84 | 7.03 | 6.03 |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 0.09 | 0.21 | 3.13 | Utility (25/30-year) A | 5.88 | 6.67 | 6.07 |
| 6-month | 0.27 | 0.88 | 3.03 | Utility (25/30-year) Baa/BBB | 6.60 | 7.03 | 6.22 |
| 1-year | 0.41 | 1.07 | 2.87 | Foreign Bonds (10-Year) | | | |
| 5-year | 1.35 | 2.82 | 3.01 | Canada | 2.56 | 3.76 | 3.82 |
| 10-year | 2.20 | 3.95 | 3.74 | Germany | 2.93 | 4.12 | 3.98 |
| 10-year (inflation-protected) | 1.73 | 3.07 | 1.45 | Japan | 1.27 | 1.59 | 1.39 |
| 30-year | 2.89 | 4.19 | 4.34 | United Kingdom | 3.12 | 4.71 | 4.38 |
| 30-year Zero | 2.75 | 4.04 | 4.42 | Preferred Stocks | | | |
| | | | | Utility A | 6.05 | 6.57 | 5.96 |
| | | | | Financial A | 7.76 | 7.33 | 7.39 |
| | | | | Financial Adjustable A | 5.49 | 5.49 | 5.49 |



TAX-EXEMPT

| | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 5.02 | 5.47 | 4.21 | | | | |
| 25-Bond Index (Revs) | 5.90 | 5.97 | 4.66 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 0.48 | 2.15 | 2.60 | | | | |
| 1-year A | 0.58 | 2.25 | 2.65 | | | | |
| 5-year Aaa | 1.76 | 3.70 | 2.88 | | | | |
| 5-year A | 2.06 | 3.75 | 3.18 | | | | |
| 10-year Aaa | 2.82 | 4.86 | 3.36 | | | | |
| 10-year A | 3.32 | 5.06 | 3.65 | | | | |
| 25/30-year Aaa | 4.75 | 5.99 | 4.12 | | | | |
| 25/30-year A | 5.75 | 6.37 | 4.25 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 5.75 | 6.17 | 4.25 | | | | |
| Electric AA | 5.80 | 6.12 | 4.25 | | | | |
| Housing AA | 6.10 | 6.60 | 4.50 | | | | |
| Hospital AA | 6.15 | 6.65 | 4.55 | | | | |
| Toll Road Aaa | 5.85 | 6.15 | 4.30 | | | | |

Federal Reserve Data

BANK RESERVES

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

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|----------|--------|---------------------------------|---------|---------|
| | 12/31/08 | 12/17/08 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 798469 | 774439 | 24030 | 506967 | 259328 | 135469 |
| Borrowed Reserves | 627832 | 674517 | -46685 | 658983 | 420394 | 267237 |
| Net Free/Borrowed Reserves | 170637 | 99922 | 70715 | -152016 | -161065 | -131768 |

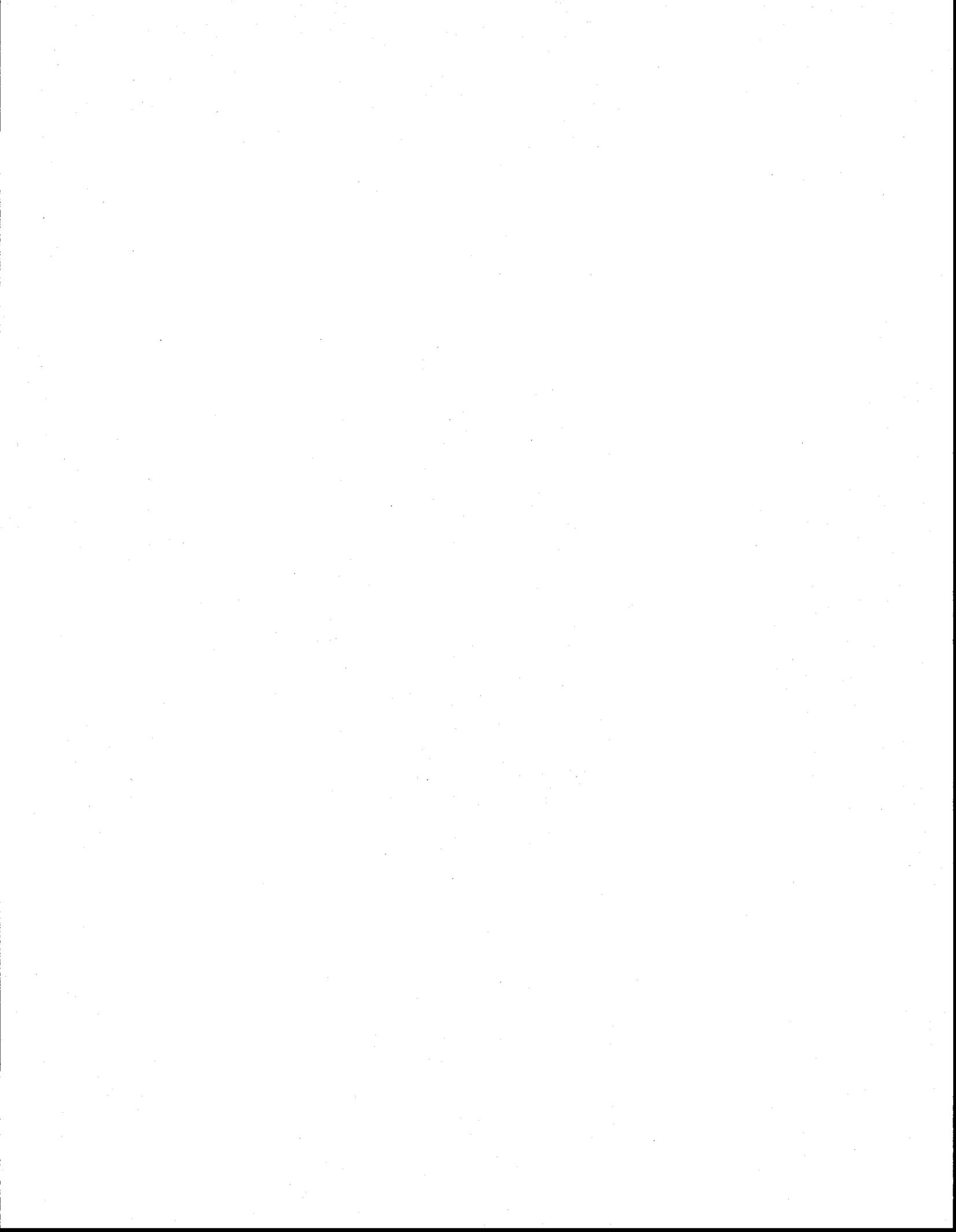
MONEY SUPPLY

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

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|----------|--------|-------------------------------|--------|---------|
| | 12/29/08 | 12/22/08 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1605.6 | 1591.6 | 14.0 | 27.8% | 31.6% | 17.7% |
| M2 (M1+savings+small time deposits) | 8123.5 | 8118.2 | 5.3 | 14.1% | 13.5% | 9.5% |

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ATTACHMENT F

JMIM 1-54

PROMISSORY NOTE

\$772,000.00

Phoenix, Arizona
December 31, 1999

FOR VALUE RECEIVED, the undersigned promises to pay to the order of GEORGE AND JANA JOHNSON, or to such other persons or places as may be designated from time to time by notice to the undersigned, the sum of Seven Hundred Seventy-Two Thousand and 00/100 Dollars (\$772,000.00), together with interest on the unpaid principal balance of said indebtedness at the rate eight percent (8%) per annum (computed on a 365 day year) from the date hereof, payable in lawful money of the United States of America, as follows:

(a) Quarterly payments of interest only commencing on March 31, 2000 and each quarter thereafter for a ten (10) year period, and

(b) The full principal amount, plus any accrued interest thereon, on December 31, 2009, if not paid in full before such date.

The undersigned shall have the right from time to time to prepay the whole or any part of the principal sum hereof together with accrued interest to the date of prepayment.

The whole of the principal sum and interest shall become immediately due and payable at the option of the holder, without notice to the undersigned, upon default in the payment of any principal hereof or interest hereon. The undersigned shall pay all costs and reasonable attorneys' fees incurred by the holder hereof in collecting or enforcing payment hereof. The whole of the principal sum and accrued interest, together with costs and attorneys' fees shall bear interest at the rate of eighteen percent (18%) per annum, from and after maturity, whether or not resulting from acceleration. The payment and acceptance of any sums at any time, or the failure to exercise any rights herein given the holder, shall not constitute a waiver of holder's rights in the event of any subsequent default.

Should any installment of principal or interest become ten (10) days late, a late charge of 5% of such installment shall be paid to the holder by the maker.

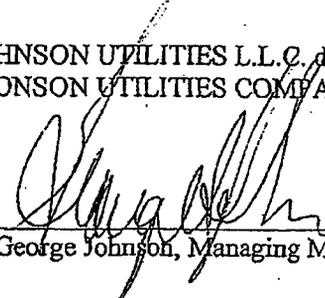
As to this note and any deed of trust or any other instruments securing the indebtedness, the undersigned, any endorsers and any guarantors severally waive all applicable exemption rights, whether under the state constitution, homestead laws or otherwise, and also severally waive valuation and appraisal, presentment, protest and demand, notice of protest, demand and dishonor and nonpayment of this note, and expressly agree that the maturity of this note, or any payment hereunder, may be extended from time to time without in any way affecting the liability of the undersigned or said endorsers and guarantors.

Should this note be signed by more than one maker, the singular shall include the plural and all the obligations herein contained shall be the joint and several obligations of each signer hereof.

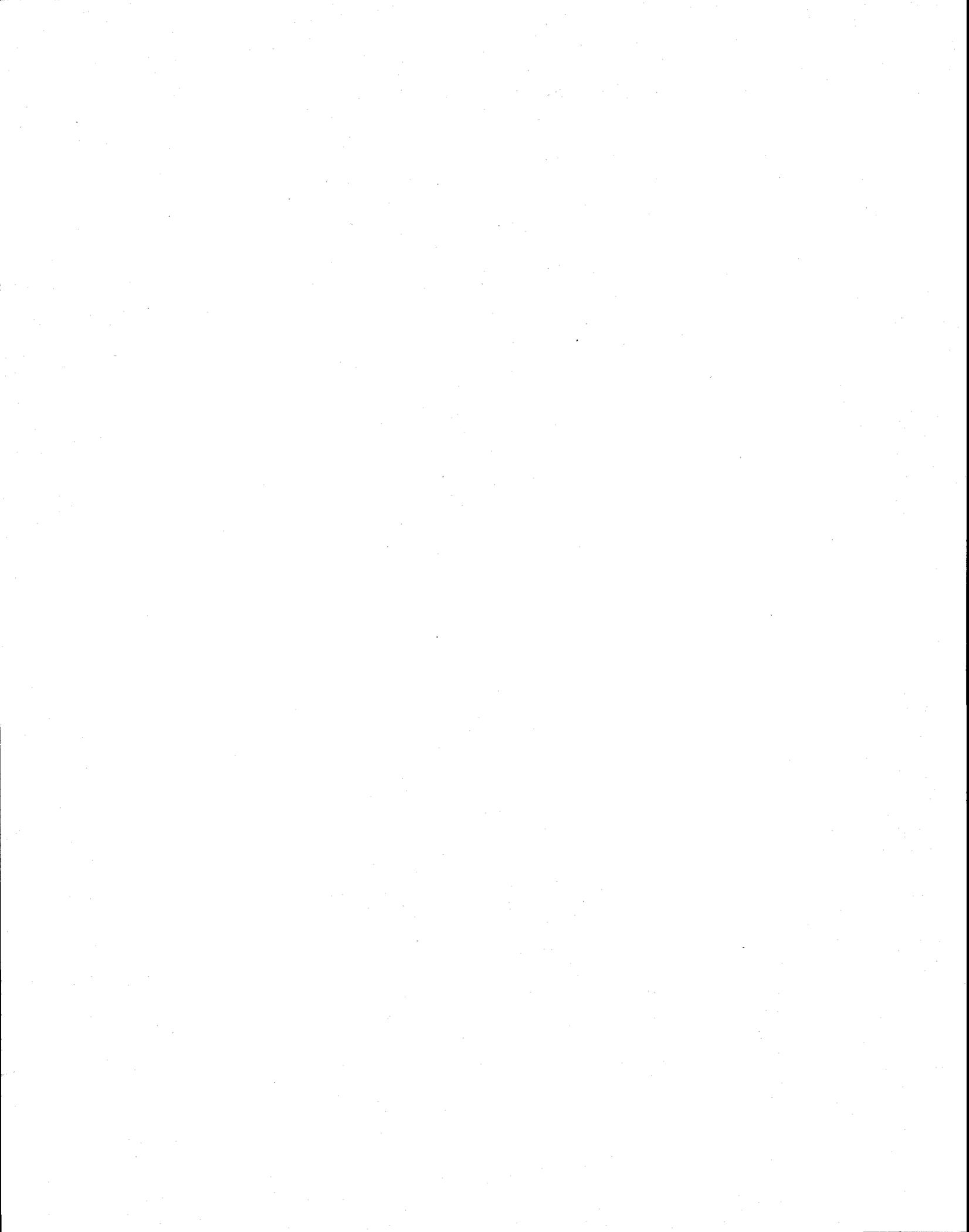
This note is to be construed according to the laws of the State of Arizona.

No provision of this note or any instrument securing this note shall be deemed to require the payment or permit the collection of interest in excess of the maximum permitted by law over the term of this note. If any excess of interest in such respect is herein provided for, or shall be adjudicated to be so provided for herein, for whatever reason, the interest required to be paid hereunder shall be automatically reduced to the maximum legally enforceable and any excess paid over such maximum enforceable amount shall be automatically credited against any other indebtedness of the undersigned to the holder hereof, and thereafter, any remaining amount refunded to the undersigned in cash.

JOHNSON UTILITIES L.L.C. dba
JOHNSON UTILITIES COMPANY

By 

George Johnson, Managing Member



JOHNSON UTILITIES, L.L.C.
WATER AND WASTEWATER DIVISIONS
DOCKET NO. WS-02987A-08-0180

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WEIGHTED COST OF CAPITAL - WATER DIVISION

| LINE NO. | DESCRIPTION | (A) CAPITAL RATIO | (B) COST | (C) WEIGHTED COST |
|----------|---|----------------------|-------------|----------------------|
| 1 | LONG-TERM DEBT | 40.00% | 8.00% | 3.20% |
| 2 | COMMON EQUITY | 60.00% | 8.31% | 4.98% |
| 3 | TOTAL CAPITALIZATION | 100.00% | | |
| 4 | WEIGHTED AVERAGE COST OF CAPITAL | | | 8.18% |

WEIGHTED COST OF CAPITAL - WASTEWATER DIVISION

| LINE NO. | DESCRIPTION | (A) CAPITAL RATIO | (B) COST | (C) WEIGHTED COST |
|----------|---|----------------------|-------------|----------------------|
| 1 | LONG-TERM DEBT | 40.00% | 8.00% | 3.20% |
| 2 | COMMON EQUITY | 60.00% | 8.31% | 4.98% |
| 3 | TOTAL CAPITALIZATION | 100.00% | | |
| 4 | WEIGHTED AVERAGE COST OF CAPITAL | | | 8.18% |

REFERENCES:

COLUMN (A): TESTIMONY, WAR
 COLUMN (B): TESTIMONY, WAR - SCHEDULE WAR-1, PAGE 2
 COLUMN (C): COLUMN (A) x COLUMN (B)

COST OF COMMON EQUITY CALCULATION

| | | | | |
|----------|---|---------------|--|--|
| LINE NO. | | | | |
| 1 | <u>DCF METHODOLOGY</u> | | | |
| 2 | DCF - WATER COMPANY SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE | 9.39% | SCHEDULE WAR-2, COLUMN (C), LINE 5 | |
| 3 | DCF - NATURAL GAS LDC SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE | 10.72% | SCHEDULE WAR-2, COLUMN (C), LINE 13 | |
| 4 | AVERAGE OF DCF ESTIMATES | 10.05% | (LINE 2 + LINE 3) ÷ 2 | |
| 5 | <u>CAPM METHODOLOGY</u> | | | |
| 6 | CAPM - WATER COMPANY GEOMETRIC MEAN ESTIMATE | 6.53% | SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 5 | |
| 7 | CAPM - NATURAL GAS LDC GEOMETRIC MEAN ESTIMATE | 5.17% | SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 13 | |
| 8 | CAPM - WATER COMPANY ARITHMETIC MEAN ESTIMATE | 8.17% | SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 5 | |
| 9 | CAPM - NATURAL GAS LDC ARITHMETIC MEAN ESTIMATE | 6.36% | SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 13 | |
| 10 | AVERAGE OF CAPM ESTIMATES | 6.56% | (SUM OF LINES 6 THRU 9) ÷ 4 | |
| 11 | AVERAGE OF DCF AND CAPM ESTIMATES | 8.31% | (LINE 4 + LINE 10) ÷ 2 | |

JOHNSON UTILITIES, L.L.C.
 WATER AND WASTEWATER DIVISIONS
 TEST YEAR ENDED DECEMBER 31, 2007
 DCF COST OF EQUITY CAPITAL

DOCKET NO. WS-02987A-08-0180
 SCHEDULE WAR - 2

| LINE NO. | STOCK SYMBOL | COMPANY | (A) DIVIDEND YIELD | + | (B) GROWTH RATE (g) | = | (C) DCF COST OF EQUITY CAPITAL |
|----------|--------------|----------------------------------|--------------------------|---|---------------------------|---|--------------------------------------|
| 1 | AWR | AMERICAN STATES WATER CO. | 3.15% | + | 7.48% | = | 10.62% |
| 2 | CWT | CALIFORNIA WATER SERVICE GROUP | 2.76% | + | 7.25% | = | 10.01% |
| 3 | WTR | AQUA AMERICA, INC. | 2.72% | + | 4.81% | = | 7.53% |
| 4 | | WATER COMPANY AVERAGE | | | | | 9.39% |
| 6 | ATG | AGL RESOURCES, INC. | 5.60% | + | 5.41% | = | 11.01% |
| 7 | ATO | ATMOS ENERGY CORP. | 5.60% | + | 8.99% | = | 14.59% |
| 8 | LG | LACLEDE GROUP, INC. | 3.38% | + | 6.09% | = | 9.47% |
| 9 | NJR | NEW JERSEY RESOURCES CORPORATION | 2.97% | + | 6.84% | = | 9.81% |
| 10 | GAS | NICOR, INC. | 5.37% | + | 6.02% | = | 11.40% |
| 11 | NWN | NORTHWEST NATURAL GAS CO. | 3.61% | + | 5.17% | = | 8.79% |
| 12 | PNY | PIEDMONT NATURAL GAS COMPANY | 3.50% | + | 5.01% | = | 8.51% |
| 13 | SJI | SOUTH JERSEY INDUSTRIES, INC. | 6.13% | + | 10.00% | = | 16.12% |
| 14 | SWX | SOUTHWEST GAS CORPORATION | 3.66% | + | 5.32% | = | 8.98% |
| 15 | WGL | WGL HOLDINGS, INC. | 4.50% | + | 4.05% | = | 8.55% |
| 16 | | NATURAL GAS LDC AVERAGE | | | | | 10.72% |

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

JOHNSON UTILITIES, L.L.C.
WATER AND WASTEWATER DIVISIONS
TEST YEAR ENDED DECEMBER 31, 2007
DIVIDEND YIELD CALCULATION

DOCKET NO. WS-02987A-08-0180
SCHEDULE WAR - 3

| LINE NO. | STOCK SYMBOL | COMPANY | (A) ESTIMATED DIVIDEND (PER SHARE) | (B) AVERAGE STOCK PRICE (PER SHARE) | (C) DIVIDEND YIELD |
|----------|--------------|----------------------------------|---|--|--------------------------|
| 1 | AWR | AMERICAN STATES WATER CO. | \$1.00 | \$31.77 | 3.15% |
| 2 | CWT | CALIFORNIA WATER SERVICE GROUP | 1.17 | 42.48 | 2.76% |
| 3 | WTR | AQUA AMERICA, INC. | 0.54 | 19.85 | 2.72% |
| 4 | | WATER COMPANY AVERAGE | | | 2.88% |
| 6 | ATG | AGL RESOURCES, INC. | \$1.68 | \$30.00 | 5.60% |
| 7 | ATO | ATMOS ENERGY CORP. | 1.32 | 23.55 | 5.60% |
| 8 | LG | LACLEDE GROUP, INC. | 1.54 | 45.57 | 3.38% |
| 9 | NJR | NEW JERSEY RESOURCES CORPORATION | 1.12 | 37.67 | 2.97% |
| 10 | GAS | NICOR, INC. | 1.86 | 34.61 | 5.37% |
| 11 | NWN | NORTHWEST NATURAL GAS CO. | 1.58 | 43.74 | 3.61% |
| 12 | PNY | PIEDMONT NATURAL GAS COMPANY | 1.04 | 29.70 | 3.50% |
| 13 | SJI | SOUTH JERSEY INDUSTRIES, INC. | 2.27 | 37.08 | 6.13% |
| 14 | SWX | SOUTHWEST GAS CORPORATION | 0.90 | 24.59 | 3.66% |
| 15 | WGL | WGL HOLDINGS, INC. | 1.44 | 31.98 | 4.50% |
| 16 | | NATURAL GAS LDC AVERAGE | | | 4.43% |

REFERENCES:
COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/23/2009 (WATER COMPANIES) AND 12/12/2008 (NATURAL GAS LDC'S).
COLUMN (B): EIGHT WEEK AVERAGE OF CLOSING PRICES FROM 12/01/2008 TO 01/23/2009
STOCK QUOTES OBTAINED THROUGH BIG CHARTS WEB SITE - HISTORICAL QUOTES (www.bigcharts.com).
COLUMN (C): COLUMN (A) + COLUMN (B)

JOHNSON UTILITIES, L.L.C.
 WATER AND WASTEWATER DIVISIONS
 TEST YEAR ENDED DECEMBER 31, 2007
 DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. WS-02987A-08-0180
 SCHEDULE WAR - 4, PAGE 1 OF 2

| LINE NO. | STOCK SYMBOL | COMPANY | (A) INTERNAL GROWTH (br) | + | (B) EXTERNAL GROWTH (sv) | = | (C) DIVIDEND GROWTH (g) |
|----------|--------------------------------|----------------------------------|-----------------------------|---|-----------------------------|---|----------------------------|
| 1 | AWR | AMERICAN STATES WATER CO. | 5.75% | + | 1.73% | = | 7.48% |
| 2 | CWT | CALIFORNIA WATER SERVICE GROUP | 6.00% | + | 1.25% | = | 7.25% |
| 3 | WTR | AQUA AMERICA, INC. | 4.00% | + | 0.81% | = | 4.81% |
| 4 | WATER COMPANY AVERAGE | | | | | | 6.51% |
| 6 | ATG | AGL RESOURCES, INC. | 5.25% | + | 0.16% | = | 5.41% |
| 7 | ATO | ATMOS ENERGY CORP. | 4.00% | + | 4.99% | = | 8.99% |
| 8 | LG | LACLEDE GROUP, INC. | 4.50% | + | 1.59% | = | 6.09% |
| 9 | NJR | NEW JERSEY RESOURCES CORPORATION | 6.25% | + | 0.59% | = | 6.84% |
| 10 | GAS | NICOR, INC. | 6.00% | + | 0.02% | = | 6.02% |
| 11 | NWN | NORTHWEST NATURAL GAS CO. | 4.75% | + | 0.42% | = | 5.17% |
| 12 | PNY | PIEDMONT NATURAL GAS COMPANY | 5.00% | + | 0.01% | = | 5.01% |
| 13 | SJI | SOUTH JERSEY INDUSTRIES, INC. | 9.00% | + | 1.00% | = | 10.00% |
| 14 | SWX | SOUTHWEST GAS CORPORATION | 5.25% | + | 0.07% | = | 5.32% |
| 15 | WGL | WGL HOLDINGS, INC. | 4.00% | + | 0.05% | = | 4.05% |
| 16 | NATURAL GAS LDC AVERAGE | | | | | | 6.29% |

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

JOHNSON UTILITIES, L.L.C.
 WATER AND WASTEWATER DIVISIONS
 TEST YEAR ENDED DECEMBER 31, 2007
 DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. WS-02987A-08-0180
 SCHEDULE WAR - 4, PAGE 2 OF 2

| LINE NO. | STOCK SYMBOL | COMPANY | (A) SHARE GROWTH | (B) $x \{ [((M + B) + 1) + 2] - 1 \}$ | (C) EXTERNAL GROWTH (sv) |
|----------|--------------------------------|----------------------------------|---------------------|--|-----------------------------|
| 1 | AWR | AMERICAN STATES WATER CO. | 4.75% | $x \{ [((1.73) + 1) + 2] - 1 \}$ | = 1.73% |
| 2 | CWT | CALIFORNIA WATER SERVICE GROUP | 2.00% | $x \{ [((2.25) + 1) + 2] - 1 \}$ | = 1.25% |
| 3 | WTR | AQUA AMERICA, INC. | 1.00% | $x \{ [((2.61) + 1) + 2] - 1 \}$ | = 0.81% |
| 4 | WATER COMPANY AVERAGE | | | | 1.26% |
| 6 | ATG | AGL RESOURCES, INC. | 1.00% | $x \{ [((1.33) + 1) + 2] - 1 \}$ | = 0.16% |
| 7 | ATO | ATMOS ENERGY CORP. | 5.00% | $x \{ [((1.00) + 1) + 2] - 0 \}$ | = 4.99% |
| 8 | LG | LACLEDE GROUP, INC. | 3.00% | $x \{ [((2.06) + 1) + 2] - 1 \}$ | = 1.59% |
| 9 | NJR | NEW JERSEY RESOURCES CORPORATION | 1.00% | $x \{ [((2.17) + 1) + 2] - 1 \}$ | = 0.59% |
| 10 | GAS | NICOR, INC. | 0.07% | $x \{ [((1.67) + 1) + 2] - 1 \}$ | = 0.02% |
| 11 | NWN | NORTHWEST NATURAL GAS CO. | 1.00% | $x \{ [((1.85) + 1) + 2] - 1 \}$ | = 0.42% |
| 12 | PNY | PIEDMONT NATURAL GAS COMPANY | 0.01% | $x \{ [((2.36) + 1) + 2] - 1 \}$ | = 0.01% |
| 13 | SJI | SOUTH JERSEY INDUSTRIES, INC. | 1.75% | $x \{ [((2.14) + 1) + 2] - 1 \}$ | = 1.00% |
| 14 | SWX | SOUTHWEST GAS CORPORATION | 2.50% | $x \{ [((1.06) + 1) + 2] - 1 \}$ | = 0.07% |
| 15 | WGL | WGL HOLDINGS, INC. | 0.20% | $x \{ [((1.52) + 1) + 2] - 1 \}$ | = 0.05% |
| 16 | NATURAL GAS LDC AVERAGE | | | | 0.89% |

REFERENCES:
 COLUMN (A): TESTIMONY, WAR
 COLUMN (B): VALUE LINE INVESTMENT SURVEY
 - RATINGS & REPORTS DATED 01/23/2009 (WATER COMPANIES) AND 12/12/2008 (NATURAL GAS LDC's)
 COLUMN (C): COLUMN (A) x COLUMN (B)

JOHNSON UTILITIES, L.L.C.
WATER AND WASTEWATER DIVISIONS
TEST YEAR ENDED DECEMBER 31, 2007
DIVIDEND GROWTH COMPONENTS

DOCKET NO. WS-02987A-08-0180
SCHEDULE WAR - 5, PAGE 1 OF 4

| LINE NO. | STOCK SYMBOL | WATER COMPANY NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | (B) RETURN ON BOOK EQUITY (r) | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE (\$/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|----------|--------------|--------------------------------|----------------------|-------------------------|-------------------------------|-------------------------|---------------------------|------------------------------|------------------|
| 1 | AWR | AMERICAN STATES WATER CO. | 2003 | -0.1282 | 5.60% | NMF | 13.97 | 15.21 | |
| 2 | | | 2004 | 0.1524 | 6.60% | 1.01% | 16.75 | 16.75 | |
| 3 | | | 2005 | 0.3182 | 8.50% | 2.70% | 16.80 | 16.80 | |
| 4 | | | 2006 | 0.3158 | 8.10% | 2.56% | 16.64 | 17.05 | |
| 5 | | | 2007 | 0.4074 | 9.30% | 3.79% | 17.53 | 17.23 | |
| 6 | | | [GROWTH 2003 - 2007] | | | 2.51% | 4.50% | | 3.17% |
| 7 | | | 2008 | 0.3197 | 8.00% | 2.56% | | 18.25 | 5.92% |
| 8 | | | 2009 | 0.3829 | 9.00% | 3.45% | | 19.00 | 5.01% |
| 9 | | | 2011-13 | 0.5040 | 12.50% | 6.30% | 2.50% | 21.00 | 4.04% |
| 10 | | | | | | | | | |
| 11 | CWT | CALIFORNIA WATER SERVICE GROUP | 2003 | 0.0744 | 7.90% | 0.59% | 14.44 | 16.93 | |
| 12 | | | 2004 | 0.2260 | 9.00% | 2.03% | 15.66 | 18.37 | |
| 13 | | | 2005 | 0.2245 | 9.30% | 2.09% | 15.79 | 18.39 | |
| 14 | | | 2006 | 0.1418 | 6.80% | 0.96% | 18.15 | 20.66 | |
| 15 | | | 2007 | 0.2267 | 8.10% | 1.84% | 18.50 | 20.67 | |
| 16 | | | [GROWTH 2003 - 2007] | | | 1.50% | 6.00% | | 5.12% |
| 17 | | | 2008 | 0.4121 | 10.00% | 4.12% | | 21.00 | 1.60% |
| 18 | | | 2009 | 0.4512 | 11.00% | 4.96% | | 21.50 | 1.99% |
| 19 | | | 2011-13 | 0.5094 | 12.50% | 6.37% | 3.00% | 23.00 | 2.16% |
| 20 | | | | | | | | | |
| 21 | WTR | AQUA AMERICA, INC. | 2003 | 0.3860 | 10.20% | 3.94% | 5.34 | 123.45 | |
| 22 | | | 2004 | 0.4219 | 10.70% | 4.51% | 5.89 | 127.18 | |
| 23 | | | 2005 | 0.4366 | 11.20% | 4.89% | 6.30 | 128.97 | |
| 24 | | | 2006 | 0.3714 | 10.00% | 3.71% | 6.96 | 132.33 | |
| 25 | | | 2007 | 0.3239 | 9.70% | 3.14% | 7.32 | 133.40 | |
| 26 | | | [GROWTH 2003 - 2007] | | | 4.04% | 10.50% | | 1.96% |
| 27 | | | 2008 | 0.3377 | 10.00% | 3.38% | | 135.25 | 1.39% |
| 28 | | | 2009 | 0.3647 | 11.00% | 4.01% | | 136.00 | 0.97% |
| 29 | | | 2011-13 | 0.4000 | 11.00% | 4.40% | 5.00% | 139.00 | 0.83% |

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 01/23/2009
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2003 - 2007

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

JOHNSON UTILITIES, L.L.C.
 WATER AND WASTEWATER DIVISIONS
 TEST YEAR ENDED DECEMBER 31, 2007
 DIVIDEND GROWTH COMPONENTS

DOCKET NO. WS-02987A-08-0180
 SCHEDULE WAR - 5, PAGE 2 OF 4

| LINE NO. | STOCK SYMBOL | NATURAL GAS LDC NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | (B) RETURN ON BOOK EQUITY (r) = | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE (\$/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|----------|--------------|----------------------------------|----------------------|-------------------------|---------------------------------|-------------------------|---------------------------|------------------------------|------------------|
| 1 | 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 | 0.3778 | 12.00% | 4.53% | | 77.00 | 0.79% |
| 8 | | | 2009 | 0.3857 | 12.50% | 4.82% | | 78.00 | 1.04% |
| 9 | | | 2011-13 | 0.4159 | 13.50% | 5.61% | 2.00% | 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% | | 91.00 | 1.87% |
| 18 | | | 2009 | 0.3714 | 9.00% | 3.34% | | 92.00 | 1.48% |
| 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 | 0.4356 | 12.00% | 5.23% | | 22.00 | 1.62% |
| 28 | | | 2009 | 0.3880 | 11.50% | 4.46% | | 22.50 | 1.94% |
| 29 | | | 2011-13 | 0.4211 | 11.50% | 4.84% | 5.50% | 25.50 | 3.33% |
| 30 | | | | | | | | | |
| 31 | NJR | NEW JERSEY RESOURCES CORPORATION | 2003 | 0.4780 | 15.60% | 7.46% | 10.26 | 40.85 | |
| 32 | | | 2004 | 0.4882 | 15.30% | 7.47% | 11.25 | 41.61 | |
| 33 | | | 2005 | 0.4859 | 17.00% | 8.26% | 10.60 | 41.32 | |
| 34 | | | 2006 | 0.4866 | 12.60% | 6.13% | 15.00 | 41.44 | |
| 35 | | | 2007 | 0.3484 | 10.10% | 3.52% | 15.50 | 41.61 | |
| 36 | | | [GROWTH 2003 - 2007] | | | 6.57% | 10.00% | | 0.46% |
| 37 | | | 2008 | 0.5889 | 15.70% | 9.25% | | 41.88 | 0.65% |
| 38 | | | 2009 | 0.5571 | 14.50% | 8.08% | | 42.50 | 1.06% |
| 39 | | | 2011-13 | 0.5467 | 11.50% | 6.29% | 11.00% | 44.00 | 1.12% |

REFERENCES:
 COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 12/12/2008
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (D): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2003 - 2007
 COLUMN (E): VALUE LINE INVESTMENT SURVEY
 COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

JOHNSON UTILITIES, L.L.C.
WATER AND WASTEWATER DIVISIONS
TEST YEAR ENDED DECEMBER 31, 2007
DIVIDEND GROWTH COMPONENTS

DOCKET NO. WS-02987A-08-0180
SCHEDULE WAR - 5, PAGE 3 OF 4

| LINE NO. | STOCK SYMBOL | NATURAL GAS LDC NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | (B) RETURN ON BOOK EQUITY (t) = | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE (\$/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|----------|--------------|-------------------------------|---------------------|-------------------------|---------------------------------|-------------------------|---------------------------|------------------------------|------------------|
| 1 | GAS | NICOR, INC. | 2003 | 0.1185 | 12.30% | 1.46% | 17.13 | 44.04 | |
| 2 | | | 2004 | 0.1622 | 13.10% | 2.12% | 16.99 | 44.10 | |
| 3 | | | 2005 | 0.1878 | 12.50% | 2.35% | 18.36 | 44.18 | |
| 4 | | | 2006 | 0.3519 | 14.70% | 5.17% | 19.43 | 44.90 | |
| 5 | | | 2007 | 0.3758 | 14.30% | 5.37% | 20.58 | 45.90 | |
| 6 | | | [GROWTH 2003 - 2007 | | | 3.30% | 4.00% | | 1.04% |
| 7 | | | 2008 | 0.1733 | 11.50% | 1.99% | | 45.00 | -1.96% |
| 8 | | | 2009 | 0.2560 | 11.50% | 2.94% | | 45.00 | -0.99% |
| 9 | | | 2011-13 | 0.4609 | 13.50% | 6.22% | 4.50% | 45.00 | -0.40% |
| 10 | | | | | | | | | |
| 11 | NWN | NORTHWEST NATURAL GAS CO. | 2003 | 0.2784 | 9.00% | 2.51% | 19.52 | 25.94 | |
| 12 | | | 2004 | 0.3011 | 8.90% | 2.68% | 20.64 | 27.55 | |
| 13 | | | 2005 | 0.3744 | 9.90% | 3.71% | 21.28 | 27.58 | |
| 14 | | | 2006 | 0.4085 | 10.90% | 4.45% | 22.01 | 27.24 | |
| 15 | | | 2007 | 0.4783 | 12.50% | 5.98% | 22.52 | 26.41 | |
| 16 | | | [GROWTH 2003 - 2007 | | | 3.86% | 3.50% | | 0.45% |
| 17 | | | 2008 | 0.4039 | 11.50% | 4.65% | | 26.50 | 0.34% |
| 18 | | | 2009 | 0.4286 | 11.50% | 4.93% | | 26.50 | 0.17% |
| 19 | | | 2011-13 | 0.4388 | 11.00% | 4.83% | 3.50% | 28.00 | 1.18% |
| 20 | | | | | | | | | |
| 21 | PNY | PIEDMONT NATURAL GAS COMPANY | 2003 | 0.2613 | 11.80% | 3.08% | 9.36 | 67.31 | |
| 22 | | | 2004 | 0.3307 | 11.10% | 3.67% | 11.15 | 76.67 | |
| 23 | | | 2005 | 0.3106 | 11.50% | 3.57% | 11.53 | 76.70 | |
| 24 | | | 2006 | 0.2520 | 11.00% | 2.77% | 11.83 | 74.61 | |
| 25 | | | 2007 | 0.2929 | 11.90% | 3.49% | 11.99 | 73.23 | |
| 26 | | | [GROWTH 2003 - 2007 | | | 3.32% | 6.50% | | 2.13% |
| 27 | | | 2008 | 0.3355 | 12.50% | 4.19% | | 73.50 | 0.37% |
| 28 | | | 2009 | 0.3313 | 12.50% | 4.14% | | 73.50 | 0.18% |
| 29 | | | 2011-13 | 0.4195 | 13.50% | 5.66% | 4.50% | 73.00 | -0.06% |
| 30 | | | | | | | | | |
| 31 | SJI | SOUTH JERSEY INDUSTRIES, INC. | 2003 | 0.4307 | 11.60% | 5.00% | 11.26 | 26.46 | |
| 32 | | | 2004 | 0.4810 | 12.50% | 6.01% | 12.41 | 27.76 | |
| 33 | | | 2005 | 0.4971 | 12.40% | 6.16% | 13.50 | 28.98 | |
| 34 | | | 2006 | 0.6260 | 16.30% | 10.20% | 15.11 | 29.33 | |
| 35 | | | 2007 | 0.5167 | 12.80% | 6.61% | 16.25 | 29.61 | |
| 36 | | | [GROWTH 2003 - 2007 | | | 6.80% | 12.50% | | 2.85% |
| 37 | | | 2008 | 0.5174 | 13.50% | 6.98% | | 30.00 | 1.32% |
| 38 | | | 2009 | 0.5200 | 14.50% | 7.54% | | 31.00 | 2.32% |
| 39 | | | 2011-13 | 0.5667 | 16.00% | 9.07% | 4.50% | 32.00 | 1.56% |

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 12/12/2008
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (D): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2003 - 2007
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

JOHNSON UTILITIES, L.L.C.
WATER AND WASTEWATER DIVISIONS
TEST YEAR ENDED DECEMBER 31, 2007
DIVIDEND GROWTH COMPONENTS

DOCKET NO. WS-02987A-08-0180
SCHEDULE WAR - 5, PAGE 4 OF 4

| LINE NO. | STOCK SYMBOL | NATURAL GAS LDC NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | (B) RETURN ON BOOK EQUITY (r) = | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE (\$/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|----------|--------------|---------------------------|---------------------|----------------------------|------------------------------------|----------------------------|------------------------------|---------------------------------|---------------------|
| 1 | SWX | SOUTHWEST GAS CORPORATION | 2003 | 0.2743 | 6.10% | 1.67% | 18.42 | 34.23 | |
| 2 | | | 2004 | 0.5060 | 8.30% | 4.20% | 19.18 | 36.79 | |
| 3 | | | 2005 | 0.3440 | 6.40% | 2.20% | 19.10 | 39.33 | |
| 4 | | | 2006 | 0.5859 | 8.90% | 5.21% | 21.58 | 41.77 | |
| 5 | | | 2007 | 0.5590 | 8.50% | 4.75% | 22.98 | 42.81 | |
| 6 | | | [GROWTH 2003 - 2007 | | | | 3.50% | | 5.75% |
| 7 | | | 2008 | 0.4857 | 7.50% | 3.64% | | 44.00 | 2.78% |
| 8 | | | 2009 | 0.5300 | 8.00% | 4.24% | | 45.00 | 2.53% |
| 9 | | | 2011-13 | 0.5760 | 9.50% | 5.47% | 4.00% | 48.00 | 2.31% |
| 10 | | | | | | | | | |
| 11 | WGL | WGL HOLDINGS, INC. | 2003 | 0.4435 | 14.00% | 6.21% | 16.25 | 48.63 | |
| 12 | | | 2004 | 0.3434 | 14.00% | 4.81% | 16.95 | 48.67 | |
| 13 | | | 2005 | 0.3744 | 12.00% | 4.49% | 17.80 | 48.65 | |
| 14 | | | 2006 | 0.3093 | 10.20% | 3.15% | 18.28 | 48.89 | |
| 15 | | | 2007 | 0.3476 | 10.40% | 3.62% | 19.83 | 49.45 | |
| 16 | | | [GROWTH 2003 - 2007 | | | | 3.50% | | 0.42% |
| 17 | | | 2008 | 0.3906 | 11.60% | 4.53% | | 49.61 | 0.32% |
| 18 | | | 2009 | 0.4000 | 11.50% | 4.60% | | 49.65 | 0.20% |
| 19 | | | 2011-13 | 0.3882 | 10.50% | 4.08% | 5.00% | 50.00 | 0.22% |

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
RATINGS & REPORTS DATED 12/12/2008

COLUMN (C): COLUMN (A) x COLUMN (B)

COLUMN (D): LINES 6 & 16, SIMPLE AVERAGE GROWTH, 2003 - 2007

COLUMN (D): VALUE LINE INVESTMENT SURVEY

COLUMN (D): LINES 6 & 16, COMPOUND GROWTH RATE

COLUMN (E): VALUE LINE INVESTMENT SURVEY

COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

JOHNSON UTILITIES, L.L.C.
WATER AND WASTEWATER DIVISIONS
TEST YEAR ENDED DECEMBER 31, 2007
GROWTH RATE COMPARISON

WATER COMPANY SAMPLE:

| LINE NO. | STOCK SYMBOL | (A) | | (B) | | (C) | | (D) | | (E) | | (F) | |
|----------|--------------|-----------|-------------|-----------|-----------|--------------------------|-------|-------------------------|--------|--------------------------|--------|-------|-------------------------------|
| | | ZACKS EPS | (bt) + (sv) | ZACKS EPS | ZACKS EPS | VALUE LINE PROJECTED DPS | BVPS | VALUE LINE HISTORIC DPS | BVPS | VALUE LINE & ZACKS AVGS. | EPS | BVPS | 5 - YEAR COMPOUND HISTORY DPS |
| 1 | AWR | 7.48% | 12.00% | 11.00% | 5.00% | 2.50% | 1.50% | 1.50% | 4.50% | 5.43% | 20.05% | 2.20% | 5.84% |
| 2 | CWT | 7.25% | 8.40% | 4.75% | 2.00% | 3.50% | 4.50% | 0.50% | 6.00% | 4.24% | 5.52% | 0.88% | 6.39% |
| 3 | WTR | 4.81% | 8.00% | 6.00% | 5.50% | 5.00% | 7.00% | 7.50% | 10.50% | 7.07% | 5.64% | 8.22% | 8.20% |
| 4 | | | | 7.25% | 4.17% | 3.67% | 4.33% | 3.17% | 7.00% | | 10.40% | 3.77% | 6.81% |
| 5 | AVERAGES | 6.51% | 9.47% | 5.03% | | | 4.83% | | | 5.58% | | 6.99% | |

NATURAL GAS LDC SAMPLE:

| LINE NO. | STOCK SYMBOL | (A) | | (B) | | (C) | | (D) | | (E) | | (F) | |
|----------|--------------|-----------|-------------|-----------|-----------|--------------------------|--------|-------------------------|--------|--------------------------|--------|--------|-------------------------------|
| | | ZACKS EPS | (bt) + (sv) | ZACKS EPS | ZACKS EPS | VALUE LINE PROJECTED DPS | BVPS | VALUE LINE HISTORIC DPS | BVPS | VALUE LINE & ZACKS AVGS. | EPS | BVPS | 5 - YEAR COMPOUND HISTORY DPS |
| 1 | ATG | 5.41% | 4.30% | 3.00% | 4.00% | 2.00% | 15.00% | 4.00% | 10.50% | 6.11% | 6.94% | 10.25% | 10.35% |
| 2 | ATO | 8.99% | 5.50% | 4.50% | 2.00% | 3.50% | 7.50% | 1.50% | 9.00% | 4.79% | 3.21% | 1.63% | 7.21% |
| 3 | LG | 6.09% | 10.00% | 4.50% | 2.50% | 5.50% | 9.50% | 1.00% | 4.50% | 5.36% | 6.14% | 1.99% | 6.04% |
| 4 | NJR | 6.84% | 7.70% | 9.50% | 6.00% | 11.00% | 6.00% | 4.00% | 10.00% | 7.74% | -0.63% | 5.03% | 10.87% |
| 5 | GAS | 6.02% | 6.50% | 4.00% | - | 4.50% | -1.50% | 1.00% | 4.00% | 3.08% | 9.01% | 0.00% | 4.69% |
| 6 | NWN | 5.17% | 6.80% | 7.00% | 5.50% | 3.50% | 6.50% | 2.00% | 3.50% | 4.97% | 11.90% | 3.19% | 3.64% |
| 7 | PNY | 5.01% | 25.90% | 7.50% | 4.00% | 4.50% | 6.00% | 4.50% | 6.50% | 8.41% | 5.97% | 4.82% | 6.39% |
| 8 | SJI | 10.00% | 8.00% | 6.00% | 5.50% | 4.50% | 12.50% | 4.50% | 12.50% | 7.64% | 11.14% | 6.67% | 9.60% |
| 9 | SWX | 5.32% | 8.00% | 6.50% | 4.00% | 4.00% | 6.00% | - | 3.50% | 5.33% | 14.61% | 1.20% | 5.69% |
| 10 | WGL | 4.05% | 7.50% | 3.50% | 2.50% | 5.00% | 5.00% | 1.50% | 3.50% | 4.07% | -2.25% | 1.71% | 5.10% |
| 11 | | | | 5.60% | 4.00% | 4.80% | 7.25% | 2.67% | 6.75% | | 6.60% | 3.65% | 6.96% |
| 12 | AVERAGES | 6.28% | 9.02% | 4.80% | | | 5.56% | | | 5.75% | | 5.74% | |

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 01/23/2008 (WATER COMPANIES) AND 12/12/2008 (NATURAL GAS LDC'S)
- COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/23/2009 (WATER COMPANIES) AND 12/12/2008 (NATURAL GAS LDC'S)
- COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1 THRU 3 (WATER) AND 1 THRU 10 (NATURAL GAS)
- COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/23/2009 (WATER COMPANIES) AND 12/12/2008 (NATURAL GAS LDC'S)

BASED ON A GEOMETRIC MEAN:

| LINE NO. | STOCK SYMBOL | (A) | | | | (B) |
|----------|--------------------------------|--------------|------------|---------------|------------------|-----------------|
| | | k | $= r_f$ | $+ [\beta$ | $x (r_m - r_f)]$ | EXPECTED RETURN |
| 1 | AWR | $k = 1.60\%$ | $+ [0.95$ | $x (10.40\%$ | $- 5.30\%)] =$ | 6.45% |
| 2 | CWT | $k = 1.60\%$ | $+ [1.05$ | $x (10.40\%$ | $- 5.30\%)] =$ | 6.96% |
| 3 | WTR | $k = 1.60\%$ | $+ [0.90$ | $x (10.40\%$ | $- 5.30\%)] =$ | 6.19% |
| 4 | WATER COMPANY AVERAGE | | | 0.97 | | 6.53% |
| 6 | ATG | $k = 1.60\%$ | $+ [0.75$ | $x (10.40\%$ | $- 5.30\%)] =$ | 5.43% |
| 7 | ATO | $k = 1.60\%$ | $+ [0.65$ | $x (10.40\%$ | $- 5.30\%)] =$ | 4.92% |
| 8 | LG | $k = 1.60\%$ | $+ [0.65$ | $x (10.40\%$ | $- 5.30\%)] =$ | 4.92% |
| 9 | NJR | $k = 1.60\%$ | $+ [0.70$ | $x (10.40\%$ | $- 5.30\%)] =$ | 5.17% |
| 10 | GAS | $k = 1.60\%$ | $+ [0.70$ | $x (10.40\%$ | $- 5.30\%)] =$ | 5.17% |
| 11 | NWN | $k = 1.60\%$ | $+ [0.60$ | $x (10.40\%$ | $- 5.30\%)] =$ | 4.66% |
| 12 | PNY | $k = 1.60\%$ | $+ [0.70$ | $x (10.40\%$ | $- 5.30\%)] =$ | 5.17% |
| 13 | SJI | $k = 1.60\%$ | $+ [0.75$ | $x (10.40\%$ | $- 5.30\%)] =$ | 5.43% |
| 14 | SWX | $k = 1.60\%$ | $+ [0.75$ | $x (10.40\%$ | $- 5.30\%)] =$ | 5.43% |
| 15 | WGL | $k = 1.60\%$ | $+ [0.75$ | $x (10.40\%$ | $- 5.30\%)] =$ | 5.43% |
| 16 | NATURAL GAS LDC AVERAGE | | | 0.70 | | 5.17% |

REFERENCES:

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

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

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

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

NOTES

(a) AN 8-WEEK AVERAGE OF THE 5-YEAR U.S. TREASURY CONSTANT MATURITY RATE (r_f) THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S SELECTION & OPINION PUBLICATION DATED 12/05/2008 THROUGH 01/23/2009 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE BETA COEFFICIENTS (β) WERE OBTAINED FROM THE VALUE LINE INVESTMENT SURVEY DATED 01/23/2009 (WATER COMPANIES) AND 12/12/2008 (NATURAL GAS LDCs).

(c) THE MARKET RISK PREMIUM ($r_m - r_f$) IS THE GEOMETRIC MEAN FOR TOTAL S&P 500 AND INTERMEDIATE U.S. TREASURY RETURNS OVER THE 1926-2007 PERIOD. DATA OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS AND INFLATION: 2008 YEARBOOK

BASED ON AN ARITHMETIC MEAN:

| LINE NO. | STOCK SYMBOL | (A) | | | (B) |
|----------|-------------------------|---|--|-----------------|-----|
| | | $k = r_f + [\beta \times (r_m - r_f)] =$ | | EXPECTED RETURN | |
| 1 | AWR | $k = 1.60\% + [0.95 \times (12.30\% - 5.50\%)] =$ | | 8.06% | |
| 2 | CWT | $k = 1.60\% + [1.05 \times (12.30\% - 5.50\%)] =$ | | 8.74% | |
| 3 | WTR | $k = 1.60\% + [0.90 \times (12.30\% - 5.50\%)] =$ | | 7.72% | |
| 4 | WATER COMPANY AVERAGE | 0.97 | | 8.17% | |
| 6 | ATG | $k = 1.60\% + [0.75 \times (12.30\% - 5.50\%)] =$ | | 6.70% | |
| 7 | ATD | $k = 1.60\% + [0.65 \times (12.30\% - 5.50\%)] =$ | | 6.02% | |
| 8 | LG | $k = 1.60\% + [0.65 \times (12.30\% - 5.50\%)] =$ | | 6.02% | |
| 9 | NJR | $k = 1.60\% + [0.70 \times (12.30\% - 5.50\%)] =$ | | 6.36% | |
| 10 | GAS | $k = 1.60\% + [0.70 \times (12.30\% - 5.50\%)] =$ | | 6.36% | |
| 11 | NWN | $k = 1.60\% + [0.60 \times (12.30\% - 5.50\%)] =$ | | 5.68% | |
| 12 | PNY | $k = 1.60\% + [0.70 \times (12.30\% - 5.50\%)] =$ | | 6.36% | |
| 13 | SJI | $k = 1.60\% + [0.75 \times (12.30\% - 5.50\%)] =$ | | 6.70% | |
| 14 | SWX | $k = 1.60\% + [0.75 \times (12.30\% - 5.50\%)] =$ | | 6.70% | |
| 15 | WGL | $k = 1.60\% + [0.75 \times (12.30\% - 5.50\%)] =$ | | 6.70% | |
| 16 | NATURAL GAS LDC AVERAGE | 0.70 | | 6.36% | |

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

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

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

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

NOTES

- (a) AN 8-WEEK AVERAGE OF THE 5-YEAR U.S. TREASURY CONSTANT MATURITY RATE (r_f) THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S SELECTION & OPINION PUBLICATION DATED 12/05/2008 THROUGH 01/23/2009 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE BETA COEFFICIENTS (β) WERE OBTAINED FROM THE VALUE LINE INVESTMENT SURVEY DATED 01/23/2009 (WATER COMPANIES) AND 12/12/2008 (NATURAL GAS LDCs).
- (c) THE MARKET RISK PREMIUM (r_m - r_f) IS THE ARITHMETIC MEAN FOR TOTAL S&P 500 AND INTERMEDIATE U.S. TREASURY RETURNS OVER THE 1928 - 2007 PERIOD. DATA OBTAINED FROM MORNINGSSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2008 YEARBOOK.

JOHNSON UTILITIES, L.L.C.
 WATER AND WASTEWATER DIVISIONS
 TEST YEAR ENDED DECEMBER 31, 2007
 ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. WS-02987A-08-0180
 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 | 5.39% | 1.90% | 10.01% | 6.98% | 8.10% | 7.50% | 7.49% | 9.86% | 10.06% |
| 2 | 1991 | 4.25% | -0.20% | 8.46% | 5.45% | 5.69% | 5.38% | 5.38% | 9.36% | 9.55% |
| 3 | 1992 | 3.03% | 3.30% | 6.25% | 3.25% | 3.52% | 3.43% | 3.43% | 8.69% | 8.86% |
| 4 | 1993 | 2.96% | 2.70% | 6.00% | 3.00% | 3.02% | 3.00% | 3.00% | 7.59% | 7.91% |
| 5 | 1994 | 2.61% | 4.00% | 7.14% | 3.60% | 4.21% | 4.25% | 4.25% | 8.31% | 8.63% |
| 6 | 1995 | 2.81% | 2.50% | 8.83% | 5.21% | 5.83% | 5.49% | 5.49% | 7.89% | 8.29% |
| 7 | 1996 | 2.93% | 3.70% | 8.27% | 5.02% | 5.30% | 5.01% | 5.01% | 7.75% | 8.17% |
| 8 | 1997 | 2.34% | 4.50% | 8.44% | 5.00% | 5.46% | 5.06% | 5.06% | 7.60% | 8.12% |
| 9 | 1998 | 1.55% | 4.20% | 8.35% | 4.92% | 5.35% | 4.78% | 4.78% | 7.04% | 7.27% |
| 10 | 1999 | 2.19% | 4.50% | 7.99% | 4.62% | 4.97% | 4.64% | 4.64% | 7.62% | 7.88% |
| 11 | 2000 | 3.38% | 3.70% | 9.23% | 5.73% | 6.24% | 5.82% | 5.82% | 8.24% | 8.36% |
| 12 | 2001 | 2.83% | 0.80% | 6.92% | 3.41% | 3.88% | 3.40% | 5.95% | 7.59% | 8.02% |
| 13 | 2002 | 1.59% | 1.60% | 4.67% | 1.17% | 1.67% | 1.61% | 5.38% | 7.41% | 7.98% |
| 14 | 2003 | 2.27% | 2.50% | 4.12% | 2.03% | 1.13% | 1.01% | 4.92% | 6.18% | 6.64% |
| 15 | 2004 | 2.68% | 3.60% | 4.34% | 2.34% | 1.35% | 1.37% | 5.03% | 5.77% | 6.20% |
| 16 | 2005 | 3.39% | 2.90% | 6.16% | 4.19% | 3.22% | 3.15% | 4.57% | 5.38% | 5.78% |
| 17 | 2006 | 3.24% | 2.80% | 7.97% | 5.96% | 4.97% | 4.73% | 4.91% | 5.94% | 6.30% |
| 18 | 2007 | 2.85% | 2.00% | 8.05% | 5.86% | 5.02% | 4.36% | 4.84% | 6.07% | 6.24% |
| 19 | 2008 | 3.58% | 1.30% | 5.09% | 2.39% | 1.92% | 1.37% | 4.28% | 6.34% | 6.64% |
| 20 | CURRENT | 0.09% | -3.80% | 3.25% | 0.50% | 0.00% - 0.25% | 0.01% | 2.63% | 5.90% | 7.07% |

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 (D): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 01/23/2009
 COLUMN (F) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 01/23/2009
 COLUMN (H) THROUGH (I): 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

AVERAGE CAPITAL STRUCTURES OF SAMPLE WATER COMPANIES

| LINE NO. | AWR | PCT. | CWT | PCT. | SWWC | PCT. | WTR | PCT. | WATER COMPANY AVERAGE | PCT. |
|----------|----------|-------|----------|-------|----------|-------|------------|-------|-----------------------|-------|
| 1 | \$ 267.2 | 46.9% | \$ 289.2 | 42.6% | \$ 66.8 | 29.6% | \$ 1,215.0 | 55.4% | \$ 459.6 | 50.2% |
| 2 | | | | | | | | | | |
| 3 | 0.0 | 0.0% | 3.5 | 0.5% | 0.5 | 0.2% | 0.0 | 0.0% | 1.0 | 0.1% |
| 4 | | | | | | | | | | |
| 5 | 302.1 | 53.1% | 385.7 | 56.9% | 158.7 | 70.2% | 976.3 | 44.6% | 455.7 | 49.7% |
| 6 | | | | | | | | | | |
| 7 | \$ 569.3 | 100% | \$ 678.4 | 100% | \$ 226.0 | 100% | \$ 2,191.3 | 100% | \$ 916.2 | 100% |

AVERAGE CAPITAL STRUCTURES OF SAMPLE NATURAL GAS COMPANIES

| LINE NO. | ATG | PCT. | ATO | PCT. | LG | PCT. | NJR | PCT. | GAS | PCT. |
|----------|------------|-------|------------|-------|------------|-------|------------|-------|------------|-------|
| 1 | \$ 1,674.0 | 50.2% | \$ 1,602.4 | 42.3% | \$ 355.5 | 45.3% | \$ 383.1 | 37.3% | \$ 502.2 | 34.7% |
| 2 | | | | | | | | | | |
| 3 | 0.0 | 0.0% | 0.0 | 0.0% | 0.6 | 0.1% | 0.0 | 0.0% | 0.6 | 0.0% |
| 4 | | | | | | | | | | |
| 5 | 1,661.0 | 49.8% | 2,183.1 | 57.7% | 428.4 | 54.6% | 644.8 | 62.7% | 945.2 | 65.3% |
| 6 | | | | | | | | | | |
| 7 | \$ 3,335.0 | 100% | \$ 3,785.5 | 100% | \$ 784.5 | 100% | \$ 1,027.9 | 100% | \$ 1,448.0 | 100% |
| 8 | | | | | | | | | | |
| 9 | | | | | | | | | | |
| 10 | | | | | | | | | | |
| 11 | | | | | | | | | | |
| 12 | | | | | | | | | | |
| 13 | | | | | | | | | | |
| 14 | \$ 517.0 | 46.5% | \$ 1,020.4 | 53.7% | \$ 358.0 | 42.7% | \$ 1,275.1 | 54.1% | \$ 637.3 | 38.7% |
| 15 | | | | | | | | | | |
| 16 | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | 0.0% | 100.0 | 4.2% | 28.2 | 1.7% |
| 17 | | | | | | | | | | |
| 18 | 594.8 | 53.5% | 878.4 | 46.3% | 481.0 | 57.3% | 983.7 | 41.7% | 980.8 | 59.6% |
| 19 | | | | | | | | | | |
| 20 | \$ 1,111.8 | 100% | \$ 1,898.8 | 100% | \$ 839.0 | 100% | \$ 2,358.8 | 100% | \$ 1,646.3 | 100% |
| 21 | | | | | | | | | | |
| 22 | | | | | | | | | | |
| 23 | | | | | | | | | | |
| 24 | | | | | | | | | | |
| 25 | | | | | | | | | | |
| 26 | \$ 832.5 | 45.7% | | | \$ 646.0 | 47.2% | | | | |
| 27 | | | | | | | | | | |
| 28 | 12.9 | 0.7% | | | 6.5 | 0.5% | | | | |
| 29 | | | | | | | | | | |
| 30 | 978.1 | 53.6% | | | 716.9 | 52.4% | | | | |
| 31 | | | | | | | | | | |
| 32 | \$ 1,823.6 | 100% | | | \$ 1,369.4 | 100% | | | | |

NATURAL GAS LDC AVERAGE

| | NATURAL GAS LDC AVERAGE | PCT. | WATER & LDC AVERAGE | PCT. |
|-----------------|-------------------------|-------|---------------------|-------|
| DEBT | \$ 832.5 | 45.7% | \$ 646.0 | 47.2% |
| PREFERRED STOCK | 12.9 | 0.7% | 6.5 | 0.5% |
| COMMON EQUITY | 978.1 | 53.6% | 716.9 | 52.4% |
| TOTALS | \$ 1,823.6 | 100% | \$ 1,369.4 | 100% |

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