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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONER

IN THE MATTER OF THE APPLICATION OF BLACK MOUNTAIN SEWER CORPORATION, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	Docket No. SW-02361A-08-0609

Arizona Corporation Commission
DOCKETED
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NOTICE OF FILING
DIRECT TESTIMONY

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

RESPECTFULLY SUBMITTED this 18th day of September, 2009.

for
Michelle L. Wood
Counsel

AN ORIGINAL AND THIRTEEN COPIES of the foregoing filed this 18th day of September 2009 with:

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Arizona Corporation Commission
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Phoenix, Arizona 85007

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BLACK MOUNTAIN SEWER CORPORATION

DOCKET NO. SW-02361A-08-0609

DIRECT TESTIMONY
ON COST OF CAPITAL

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

SEPTEMBER 18, 2009

TABLE OF CONTENTS

INTRODUCTION

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

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

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

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

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present recommendations that are based on my analysis of Black Mountain Sewer Corporation's ("BMSC" or the "Company") application for a permanent rate increase ("Application). BMSC filed the Application with the Arizona Corporation Commission ("ACC" or "Commission") on December 19, 2008. The Company has chosen the operating period ended June 30, 2008 for the test year ("Test Year") in this proceeding.

Q. Briefly describe BMSC.

A. BMSC is a wholly owned subsidiary of Algonquin Water Resources of America, which is a wholly owned subsidiary of the Algonquin Power Income Fund ("Algonquin Fund" or "Parent"), a mutual fund, or trust, which is listed on the Toronto Stock Exchange (ticker symbol APF.UN). Prior to being acquired by the Algonquin Fund, the Company was owned by Boulders Joint Venture and operated under the name of Boulders Carefree Sewer. In addition to BMSC, the Algonquin Fund also owns and operates six other ACC regulated utilities: Gold Canyon Sewer Company, located east of Apache Junction; Litchfield Park Services Company, situated on the west side of the Phoenix metropolitan area; Rio Rico Utilities, Inc., located just north of Nogales on the border between Arizona and Mexico; Bella Vista Water Company, Northern Sunrise Water Company and Southern Sunrise Water Company located in or near Sierra

Vista. The Algonquin Fund also owns Algonquin Water Services, which directly oversees the daily operations of the aforementioned Arizona public service companies.

Q. Briefly explain what is a mutual fund?

A. A mutual fund is a type of investment vehicle that generally provides investors with the opportunity to place their funds into a professionally managed portfolio of financial instruments such as stocks or bonds. In the case of a stock mutual fund, the fund's manager will buy and sell on the basis of how well a stock meets the fund's investment criteria, such as providing a specific level of dividend income and/or achieving projected levels of capital appreciation. Unlike the price of a stock or bond, the value of a mutual fund is expressed as its net asset value ("NAV"). Fund managers generally realize a profit from management fees, which are normally collected as a fixed percentage, typically between 0.5 percent and 2.00 percent a year, of the fund's NAV. Management fees are normally deducted from shareholder's assets on an annual basis. Closed-ended funds have a fixed number of shares that are bought and sold on securities exchanges in the same manner as individual stocks and bonds. Open-ended funds, on the other hand, offer new shares and redeem existing shares on a continual basis.

Q. How is the Algonquin Fund structured?

A. The Algonquin Fund is an open-ended fund with an investment portfolio comprised of utilities involved in the production of electricity and the provision of water and wastewater services. These individual utilities make up the Algonquin Fund's Hydroelectric, Cogeneration, Alternative Fuels and Infrastructure Divisions. Instead of a collection of stocks or bonds, the fund is comprised of utilities that are bought, held and sold in the hope of achieving desired returns on investment. In this respect, the Algonquin fund is no different than a utility holding company whose shares are publicly traded in the financial markets. Shares of the funds are referred to as units and shareholders are referred to as unitholders. As I explained above, the Algonquin Fund's managers derive their income from management fees. A copy of the Algonquin Fund's annual report for 2004 can be viewed in Attachment E.

Q, Is this form of ownership common for utilities operating in Arizona?

A. No, most investor owned utilities operating in Arizona are either closely held corporate entities, are owned by a utility holding company or, as in the case of many water and wastewater utilities, are owned by a firm that is engaged in land development.

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

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

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

A. No. Those aspects of the case will be addressed in the direct testimony of RUCO witness Rodney L. Moore.

Q. What areas will you address in your testimony?

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

Q. Please identify the exhibits that you are sponsoring.

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

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

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

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

...

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

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

Cost of Equity Capital – I am recommending an 8.22 percent cost of equity capital. This 8.22 percent figure is based on the results that I obtained in my cost of equity analysis, which employed both the DCF and CAPM methodologies. My 8.22 percent cost of equity capital is 458 basis points lower than the 12.80 percent cost of equity capital being proposed by the Company.

Capital Structure – I am recommending that the Company-proposed capital structure, which is comprised of approximately 100 percent common equity be rejected by the ACC and that my recommended hypothetical capital structure, which is comprised of 60 percent common equity and 40 percent debt, be adopted by the Commission.

Cost of Debt – I am recommending that the Commission adopt a hypothetical cost of debt of 6.26 percent, which is the average weighted cost of debt of eight publicly traded water companies that are followed by securities analysts with The Value Line Investment Survey.

Weighted Average Cost of Capital – Based on the results of my recommended hypothetical capital structure, I am recommending a 7.43 percent cost of capital for BMSC, which is the weighted cost of my recommended costs of common equity and hypothetical debt. My recommended weighted average cost of capital is 537 basis points lower than the 12.80 percent weighted average cost of capital being proposed by the Company.

Q. Why do you believe that your recommended 7.43 percent weighted average cost of capital is an appropriate rate of return for BMSC to earn on its invested capital?

A. The 7.43 percent weighted average cost of capital figure that I am recommending meets the criteria established in the landmark Supreme Court cases of Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia (262 U.S. 679, 1923) and Federal Power Commission v. Hope Natural Gas Company (320 U.S. 391, 1944). Simply stated, these two cases affirmed that a public utility that is efficiently and economically managed is entitled to a return on investment that instills confidence in its financial soundness, allows the utility to attract capital, and also allows the utility to perform its duty to provide service to ratepayers. The rate of return adopted for the utility should also be comparable to a return that investors would expect to receive from investments with similar risk.

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

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

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

COST OF EQUITY CAPITAL

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

A. I am recommending a cost of equity of 8.22 percent. My recommended 8.22 percent cost of equity figure is the mean average of the results of my DCF and CAPM analyses, which utilized both a sample of publicly traded water providers and a sample of publicly traded natural gas local distribution companies ("LDC"). This calculation is exhibited on page 3 of my Schedule WAR-1.

Discounted Cash Flow (DCF) Method

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

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

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

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

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

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

g = the expected rate of future dividend growth

This formula is the basis for the standard growth valuation model that I used to determine BMSC's cost of equity capital.

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

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

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

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

Table I

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

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

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

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

...

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

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

Table II

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

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

[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%

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

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

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

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

...

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

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

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

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

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

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

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

where: g = DCF expected growth rate,

b = the earnings retention ratio,

r = the return on common equity,

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

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

	v	=	funds raised from the sale of stock as a fraction of existing equity.
and	v	=	1 - [(BV) ÷ (MP)]
where:	BV	=	book value per share of common stock, and
	MP	=	the market price per share of common stock.

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

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

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

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

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

A. Yes. In a prior Southwest Gas Corporation rate case[5], the Commission adopted the recommendations of ACC Staff's cost of capital witness, Stephen Hill, who I noted earlier in my testimony. In that case, Mr. Hill used the same methods that I have used in arriving at the inputs for the DCF model. His final recommendation for Southwest Gas Corporation was largely based on the results of his DCF analysis, which incorporated the same valid market-to-book *ratio* assumption that I have used consistently in the DCF model as a cost of capital witness for RUCO.

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

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

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

A. One of the problems in performing this type of analysis is that the utility applying for a rate increase is not always a publicly traded company, as is the case with BMSC itself. Consequently it was necessary to create a

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

proxy by analyzing publicly traded water companies and LDC's with similar risk characteristics.

Q. In determining your dividend growth rate estimates, both you and the Company's witness analyzed the data on publicly traded water utilities. Why did you and the Company witness analyze only publicly traded water utilities as opposed to firms that provide wastewater service?

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

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

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

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

A. The three water companies used in the proxy are publicly traded on the New York Stock Exchange ("NYSE"). All three water companies are followed by The Value Line Investment Survey ("Value Line") and are the same companies that comprise Value Line's large capitalization Water Utility Industry segment of the U.S. economy (Attachment A contains Value Line's July 24, 2009 update of the water utility industry and evaluations of the water companies used in my proxy).

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

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

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

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

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

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

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

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

Pennsylvania, Ohio, New Jersey, Illinois, Maine, North Carolina, Texas, Florida and Kentucky.

Q. Are these the same water companies that BMSC used in its application?

A. BMSC's cost of equity witness, Mr. Thomas J. Bourassa, used the same water companies included in my proxy. Mr. Bourassa also used three other water companies in his cost of capital analysis[6] which are included in Value Line's Small and Mid Cap Edition.

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

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

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

A. As are the water companies that I just described, each of the natural gas LDC's used in the proxy are publicly traded on a major stock exchange (all

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

ten trade on the NYSE) and are followed by Value Line. Each of the ten LDC's in my sample are tracked in Value Line's natural gas Utility industry segment. All of the companies in the proxy are engaged in the provision of regulated natural gas distribution services. Attachment B of my testimony contains Value Line's most recent evaluation of the natural gas proxy group that I used for my cost of common equity analysis.

Q. What companies are included your natural gas proxy?

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

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

A. The ten LDC's listed above provide natural gas service to customers in the Middle Atlantic region (i.e. NJI which serves portions of northern New

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

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

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

A. No, he did not.

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

A. Schedule WAR-5 provides retention ratios, returns on book equity, internal growth rates, book values per share, numbers of shares outstanding, and the compounded share growth for each of the utilities included in the sample for the historical observation period 2004 to 2008 for both the water and LDC industries. Schedule WAR-5 also includes Value Line's projected 2009, 2010 and 2012-14 values for the retention ratio, equity return, book value per share growth rate, and number of shares outstanding for both the water utilities and the LDC's.

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

A. In explaining my analysis, I will use AWR as an example. The first dividend growth component that I evaluated was the internal growth rate. I used the "b x r" formula (described on pages 12 and 13) to multiply AWR's earned return on common equity by its earnings retention ratio for each year in the 2004 to 2008 observation period to derive the utility's annual internal growth rates. I used the mean average of this five-year period as a benchmark against which I compared the projected growth rate trends provided by Value Line. Because an investor is more likely to be influenced by recent growth trends, as opposed to historical averages, the five-year mean noted earlier was used only as a benchmark figure. As shown on Schedule WAR-5, Page 1, AWR's average internal growth rate of 2.62 percent over the 2004 to 2008 time frame reflects an up and down pattern of growth that ranged from a low of 1.01 percent in 2004 to a high of 3.79 percent during 2007. Value Line is predicting that growth will increase steadily from 3.05 percent in 2008, to 6.09 percent by the end of the 2012-14 time frame. After weighing Value Line's projections for internal growth, stable outlook for earnings per share, no change in growth for dividends per share and a lower estimate for book value per share growth, I believe that a 6.15% rate of internal growth is reasonable for AWR. (Schedule WAR-4, Page 1 of 2).

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

A. Schedule WAR-5 demonstrates that the pattern of shares outstanding for AWR increased from 16.75 million to 17.30 million from 2004 to 2008. Value Line is predicting that this level will increase from 18.50 million in 2009 to 20.00 million by the end of 2014. Based on this data, I believe that a 4.75 percent growth in shares is not unreasonable for AWR (Page 2 of Schedule WAR-4). My final dividend growth rate estimate for AWR is 8.18 percent (6.15 percent internal + 2.03 percent external) and is shown on Page 1 of Schedule WAR-4.

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

A. My average DCF dividend growth rate estimate for my water company sample is 6.79 percent as displayed on page 1 of Schedule WAR-4.

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

A. Yes.

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

A. My average DCF dividend growth rate estimate is 6.45 percent, which is also displayed on page 1 of Schedule WAR-4.

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

A. Schedule WAR-6 compares my sustainable growth estimates with the five-year projections of analysts at both Zacks Investment Research, Inc. ("Zacks") (Attachment C) and Value Line. In the case of the water companies, my 6.79 percent estimate falls between Zacks' average long-term EPS projection of 7.57 percent and Value Line's growth projection of 5.58 percent (which is an average of EPS, DPS and BVPS). My 6.79 percent estimate is 94 basis points higher than the 5.85 percent average of Value Line's historical and projected data averaged with the consensus opinions published by Zacks. My 6.79 percent growth estimate is also 123 basis points higher than Value Line's 5.56 percent 5-year compound historical average of EPS, DPS and BVPS. The estimates of analysts at Value Line indicate that investors are expecting somewhat lower performance from the water utility industry in the future given their 6.50 percent to 7.00 percent book return on common equity over the 2009 to 2014 period. On balance, I would say my 6.79 percent estimate is a good representation of the growth projections that are available to the investing public.

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

A. In regard to the natural gas LDC's, my 6.45 percent estimate is higher than the average 5.68 percent long-term EPS consensus projections published by Zacks, and the 4.38 percent Value Line projected estimate (which is an average of EPS, DPS and BVPS). As can also be seen on Schedule WAR-6, the 6.45 percent estimate that I have calculated is 68 basis points higher than the 5.77 percent average of the 5-year historic EPS, DPS and BVPS means of Value Line and 109 basis points higher than the 5.36 percent five-year compound historical average of Value Line data (on EPS, DPS and BVPS). In fact, my 6.45 percent estimate is 131 basis points higher than the combined 5.14 percent Value Line and Zacks averages displayed in Schedule WAR-6. In the case of the LDC's I would say that my 6.45 percent estimate, which is higher than both Zack's and Value Line's forecasts, is a fairly optimistic representation of the growth projections presented by securities analysts at this point in time.

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

A. For both the water companies and the natural gas LDC's I used the estimated annual dividends, for the next twelve-month period, that appeared in Value Line's July 24, 2009 Ratings and Reports water utility industry update and Value Line's September 11, 2009 Ratings and Reports natural gas utility update. I then divided those figures by the eight-week average closing price per share of the appropriate utility's common stock. The eight-week average price is based on the daily adjusted closing stock prices for each of the companies in my proxies for the period July 13, 2009 to September 4, 2009.

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

A. As shown on Schedule WAR-2, the cost of equity capital derived from my DCF analysis is 9.84 percent for the water utilities and 10.73 percent for the natural gas LDC's.

Capital Asset Pricing Model (CAPM) Method

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

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

[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.

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

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

where:

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

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

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

…

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

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

[10] As a general rule of thumb, there are three components that make up a given interest rate or rate of return on a security: the 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.

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

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

A. I used an eight-week average of the yield on a 5-year U.S. Treasury instrument. The yields were published in Value Line's Selection and Opinion publication dated July 17, 2009 through September 11, 2009 (Attachment D). This resulted in a risk-free (r_f) rate of return of 2.51 percent.

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

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

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

A. I used both a geometric and an arithmetic mean of the historical total returns on the S&P 500 index from 1926 to 2008 as the proxy for the market rate of return (r_m). For the risk-free portion of the risk premium component (r_f), I used the geometric mean of the total returns of intermediate-term government bonds for the same eighty-two year period. The market risk premium (r_m - r_f) that results by using the geometric mean of these inputs is 4.20 percent (9.60% - 5.40% = 4.20%). The market risk premium that results by using the arithmetic mean calculation is 6.10 percent (11.70% - 5.60% = 6.10%).

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

A. The beta coefficients (ß), for the individual utilities used in both my proxies, were calculated by Value Line and were current as of July 24, 2009 for the water companies and September 11, 2009 for the natural gas LDC's. Value Line calculates its betas by using a regression analysis between weekly percentage changes in the market price of the security being analyzed and weekly percentage changes in the NYSE Composite Index over a five-year period. The betas are then adjusted by Value Line for their long-term tendency to converge toward 1.00. The beta coefficients for the service providers included in my water company sample ranged from 0.65 to 0.80 with an average beta of 0.75. The beta coefficients for the LDC's included in my natural gas sample ranged from 0.60 to 0.75 with an average beta of 0.67.

Q. What are the results of your CAPM analysis?

A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation using a geometric mean to calculate the risk premium results in an average expected return of 5.66 percent for the water companies and 5.30 percent for the natural gas LDC's. My calculation using an arithmetic mean results in an average expected return of 7.08 percent for the water companies and 6.56 percent for the natural gas LDC's.

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

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

<u>**METHOD**</u>	<u>**RESULTS**</u>
DCF (Water Sample)	9.84%
DCF (Natural Gas Sample)	10.73%
CAPM (Water Sample)	5.66% – 7.08%
CAPM (Natural Gas)	5.30% – 6.56%

Based on these results, my best estimate of an appropriate range for a cost of common equity for BMSC is 5.30 percent to 10.73 percent. My final recommended cost of common equity figure is 8.22 percent.

Q How did you arrive at your final recommended 8.22 percent cost of common equity?

A. My recommended 8.22 percent cost of common equity is the mean average of my DCF and CAPM results. The calculation of my 8.22 percent cost of common equity can be seen on Schedule WAR-1, Page 2 of 2.

Q. How does the Company's capital structure compare with the capital structures of the water and gas utilities that comprise your samples?

A. The Company's capital structure, comprised of 100 percent equity capital is clearly out of line with the water and gas utilities in my samples. For this reason I am recommending that the Commission adopt a hypothetical capital structure – which I will discuss later in my testimony – that is more in line with industry averages.

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

A. No. There was no need to make a direct adjustment since my recommended hypothetical capital structure takes the Company's high level of equity into consideration.

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

A. The 12.80 percent cost of equity capital proposed by the Company is 458 basis points higher than the 8.22 percent OCRB cost of equity capital that I am recommending.

Current Economic Environment

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

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

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

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

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

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

[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.

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

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

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

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

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

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

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

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

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

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

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

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

As expected by Fed watchers, Chairman Bernanke picked up where his predecessor left off and increased the federal funds rate by 25 basis points during each of the next three FOMC meetings for a total of seventeen consecutive rate increases since June 2004, and raising the federal funds rate to a level of 5.25 percent. The Fed's rate increase

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

campaign finally came to a halt at the FOMC meeting held on August 8, 2006, when the FOMC decided not to raise rates.

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

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

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

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

[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.

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

A. Yes, however, as pointed out in an August 2006 article in The Wall Street Journal by E.S. Browning, soft landings – like the one that the Fed managed to pull off during the 1994-95 time frame, in which a recession or a bear market were avoided – rarely happen[15]. Since it began increasing the federal funds rate in June 2004, the Fed had assured investors that it would increase rates at a "measured" pace. Many analysts and economists interpreted this language to mean that former Chairman Greenspan would be cautious in increasing interest rates too quickly in order to avoid what is considered to be one of the Fed's few blunders during Greenspan's tenure – a series of increases in 1994 that caught the financial markets by surprise after a long period of low rates. The rapid rise in rates contributed to the bankruptcy of Orange County, California and the Mexican peso crisis[16]. According to Mr. Browning, at the time that his article was published, the hope was that Chairman Bernanke would succeed in slowing the economy "just enough to prevent serious inflation, but not enough to choke off growth." In other words, "a 'Goldilocks economy,' in which growth is not too hot and not too cold."

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

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

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

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

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

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

On August 7, 2007, the FOMC decided not to increase or decrease the federal funds rate for the ninth straight time and left its target rate

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

unchanged at 5.25 percent.[18] At the time of the Fed's decision, analysts speculated that a rate cut over the next several months was unlikely given the Fed's concern that inflation would fail to moderate. However, during this same period, evidence of an even slower economy and a possible recession was beginning to surface. Within days of the Fed's decision to stand pat on rates, a borrowing crisis rooted in a deterioration of the market for subprime mortgages and securities linked to them, forced the Fed to inject $24 billion in funds (raised through open market operations) into the credit markets.[19] By Friday, August 17, 2007, after a turbulent week on Wall Street, the Fed made the decision to lower its discount rate (i.e. the rate charged on direct loans to banks) by 50 basis points, from 6.25 percent to 5.75 percent, and took steps to encourage banks to borrow from the Fed's discount window in order to provide liquidity to lenders. According to an article that appeared in the August 18, 2007 edition of The Wall Street Journal,[20] the Fed had used all of its tools to restore normalcy to the financial markets. If the markets failed to settle down, the Fed's only weapon left was to cut the Federal Funds rate – possibly before the next FOMC meeting scheduled on September 18, 2007.

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[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

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

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

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

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

A. The Fed made two more rate cuts which included a 75 basis point reduction in the federal funds rate on March 18, 2008 and an additional 25 basis point reduction on April 30, 2008. The Fed's decision to cut rates was based on its belief that the slowing economy was a greater concern than the current rate of inflation (which the majority of FOMC members believed would moderate during the economic slowdown).[21] As a result of the Fed's actions, the federal funds rate was reduced to a level of 2.00 percent. From April 30, 2008 through September 16, 2008, the Fed took no further action on its key interest rate. However, the days before and after the Fed's September 16, 2008 meeting saw longstanding Wall Street firms such as Lehman Brothers, Merrill Lynch and AIG failing as a result of their subprime holdings. By the end of the week, the Bush administration had announced plans to deal with the deteriorating financial condition which had now become a worldwide crisis. The administrations actions included former Treasury Secretary Henry Paulson's request to Congress for $700 billion to buy distressed assets as part of a plan to halt what has been described as the worst financial crisis since the 1930's[22]. Amidst this turmoil, the Fed made the decision to cut the federal funds rate by another 50 basis points in a coordinated move with foreign central banks on October 8, 2008. This was followed by another 50 basis point cut during the regular FOMC meeting on October 29, 2008. At the time of this writing, the federal funds target rate now stands at 0.25 percent, the result of a 75 basis point cut announced on December 16, 2008. After FOMC meetings in January, March April, June and August of 2009, the Fed elected not to make any changes in the federal funds rate, stating in

[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

January that the rate would remain low "for some time."[23] Presently, the Fed's discount rate is at 0.50 percent, a level not seen since the 1940s.[24] Based on data released during the early part of December 2008, the U.S. has officially been in a recession since December of 2007.

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

A. U.S. Treasury instruments are for the most part still at historically low levels. As can be seen on the first page of Attachment D, the previously mentioned federal discount rate (the rate charged to the Fed's member banks), has fallen to 0.50 percent from 2.25 percent in 2008.

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

A. As of May 20, 2009, the leading interest rates have all dropped from the levels that existed a year ago (Attachment D, Value Line Selection & Opinion page 3325). The prime rate has fallen from 5.00 percent a year ago to 3.25 percent. The benchmark federal funds rate, just discussed, has decreased from 2.00 percent, in September 2008, to a level of 0.00 - 0.25 percent (as a result of the December 16, 2008 rate cut discussed above). The yields on all of the non-inflation protected maturities of U.S.

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23 Hilsenrath, Jon and Liz Rappaport, "Fed Weighs Idea of Buying Treasurys 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

Treasury instruments exhibited in my Attachment C have also decreased over the past year. A previous trend, described by former Chairman Greenspan as a "conundrum"[25], in which long-term rates fell as short-term rates increased, thus creating a somewhat inverted yield curve that existed as late as June 2007, is completely reversed and a more traditional yield curve (one where yields increase as maturity dates lengthen) presently exists (Attachment D). The 5-year Treasury yield, used in my CAPM analysis, has fallen from 2.95 percent, in September 2008, to 2.27 percent as of September 2, 2009. The 30-Year Treasury constant maturity rate also decreased from 4.32 percent over the past year to 4.12 percent. These current yields are considerably lower than corresponding yields that existed during the early nineties and at the beginning of the current decade (as can be seen on Schedule WAR-8).

Q. What is the current outlook for the economy?

A. Value Line's analysts have become increasingly optimistic in their outlook on the economy as of late and had this to say in the September 11, 2009 edition of Value Line's Selection and Opinion publication:

> **There is more good news than bad news as we peer out over the economic landscape**, with much of the better news coming, ironically, from the still-troubled housing sector. There, sales of both new homes and existing residences have bounced off multiyear lows, helped, in part, by growing demand for foreclosed units. We are also seeing spotty gains in pricing, although much of the news on that front remains bleak. Further, consumer confidence and spending are recovering, as are factory orders, manufacturing, and automotive sales (although in this last

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

> case the better news is explained by the success of the now-ended "cash for clunkers" program). Overall, there are enough good things going on for us to sense that the country is now transitioning itself from recession to recovery.

Value Line's analysts went on to state

> **That said, we think the evolving recovery will be highly selective in its formative stages**, with pockets of weakness being found all along the consumer and industrial fronts, as the country attempts to battle back from the worst recession in more than half a century. Such spottiness may keep the economy's prospective growth in the tepid 2%-3% range through 2010.

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

A. Although there are some concerns regarding long-term infrastructure requirements, water utilities appear to be doing well according to Value Line analyst Andre J. Costanza. In the April 24, 2009 quarterly update on the water utility industry Mr. Costanza stated the following:

> 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.

Mr. Costanza continued to have a positive assessment of the water utility industry in the most recent Value Line update published on July 24, 2009:

> Water Utility providers have fared pretty well of late, with increasingly favorable regulatory backing boosting revenues and driving strong bottom line advances in the first quarter. Additional improvements are likely to evolve on the regulatory front and should enable most in this space to maintain their recent earnings momentum throughout the remainder of the year.

Q. After weighing the economic information that you've just discussed, do you believe that the 8.22 percent cost of equity capital that you have estimated is reasonable for BMSC?

A. I believe that my recommended 8.22 percent cost of equity will provide BMSC with a reasonable rate of return on the Company's invested capital when economic data on interest rates (that are low by historical standards), the current situation in new housing construction, and the Fed's ability to keep inflation in check are all taken into consideration. As I noted earlier, the Hope decision determined that a utility is entitled to earn a rate of return that is commensurate with the returns it would make on other investments with comparable risk. I believe that my cost of equity analysis, which is an average of the results of both the DCF and CAPM models, has produced such a return.

CAPITAL STRUCTURE AND COST OF DEBT

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

A. Yes, I have.

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

A. The Company is proposing a capital structure comprised of 100 percent common equity.

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

A. No. BMSC's capital structure is comprised entirely of equity as opposed to the capital structures of the other water companies included in my cost of capital analysis (Schedule WAR-9). The capital structures for those utilities averaged 50.4 percent for debt and 49.6 percent for equity.

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

A. The water utilities in my sample, from which I derived an estimated cost of common equity of 8.22 percent versus the Company-proposed 12.80 percent, would be considered as having a higher level of financial risk (i.e. the risk associated with debt repayment) because of their higher levels of debt. The additional financial risk due to debt leverage is embedded in the cost of equities derived for those companies through the DCF analysis. Thus, the cost of equity derived in my DCF analysis is applicable to companies that are more leveraged and, theoretically speaking, riskier than a utility such as BMSC, which has no debt in its capital structure. In the case of a publicly traded company, like those included in my proxy, a company with BMSC's level of equity would be perceived as having extremely low to no financial risk and would therefore also have a lower expected return on common equity. Because of this, I believe a hypothetical capital structure that produces a lower weighted cost of common equity is warranted for BMSC.

Q. What capital structure are you recommending for BMSC?

A. I am recommending a hypothetical capital structure comprised of 60 percent equity and 40 percent debt.

Q. Has the Commission addressed the issue of capital structures comprised of 100 percent common equity in prior cases?

A. Yes. This issue was addressed in a prior Gold Canyon Sewer Company ("Gold Canyon") case in which the Commission adopted both a hypothetical capital structure and a hypothetical cost of debt in order to remedy a capital structure comprised of 100 percent common equity (Gold Canyon is also owned by the Algonquin Fund). In Decision No. 70662, dated December 23, 2008, the Commission stated the following:

> We agree with RUCO's hypothetical structure of 40 percent debt and 60 percent equity. A capital structure comprised of 100 percent equity would be viewed as having little to no financial risk. The proposed capital structure adopted by the Commission will bring the Company's capital structure and weighted cost of capital in line with the industry average and it will result in lower rates for the customers of the system. We therefore adopt a hypothetical capital structure of 40 percent debt and 60 percent equity.

Q. Why are you recommending a higher 60 percent level of equity for BMSC, in your hypothetical capital structure, than the average 49.6 percent level of equity of your sample companies?

A. My hypothetical capital structure takes into account any perceived additional business risk that BMSC may face and for that reason I believe a higher level of equity is reasonable.

Q. What are you recommending as a hypothetical cost of debt?

A. I am recommending a hypothetical cost of debt of 6.27 percent.

Q. How did you determine your hypothetical cost of debt?

A. As can be viewed on page 2 of Schedule WAR-1, my recommended 6.27 percent hypothetical cost of debt is an average of the weighted costs of long-term debt of seven publicly traded water utilities followed by Value Line analysts. Three of these water utilities are the same ones that I described earlier and were used in my DCF and CAPM analyses. Three of the remaining four (Connecticut Water Service, Inc., Middlesex Water Company, and SJW Corp.) are ones that I noted earlier in my testimony that were included in the Company's proxy. The seventh water utility, York Water Company, is also followed in Value Line's Small & Mid-Cap Edition.

Q. Why do you believe your recommended 6.27 percent hypothetical cost of debt is reasonable given the recent turbulence in the financial markets?

A. My recommended 6.27 percent hypothetical cost of debt is 13 basis points higher than the current yield of 6.14 percent on Baa/BBB-rated utility bonds that was reported in the September 11, 2009 Value line Selection and Opinion publication (Attachment D). In addition to this, Arizona Water Company, the second largest water provider in the state, privately placed $35 million in bonds at a stated rate of 6.67 percent on the first day of September 2008 during a period when the yield on Baa/BBB-rated utility bonds averaged 6.63 percent. Given BMSC's parent company's ability to access capital, it is reasonable to believe that Algonquin Fund can obtain debt at a cost in the A-rated to Baa/BBB-rated range of 5.45 percent to 6.14 percent exhibited on the first page of my Attachment D. For the reasons stated above, I believe for the reasons stated above, I believe my recommended 6.26 percent hypothetical cost of debt is reasonable and there is no need for additional basis points.

Q. How does your recommended 6.26 percent hypothetical cost of debt compare to the weighted costs of debt of other Arizona water providers?

A. In its most recent rate case before the Commission, Arizona-American Water Company, the largest investor owned water utility in the state, had a weighted cost of debt of approximately 5.50 percent. Arizona Water Company's weighted cost of debt as of the last quarter of 2008 was 6.83 percent. The midpoint of these two figures is 6.17 percent which is 9 basis points lower than my recommended 6.26 percent hypothetical cost of debt.

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

A. As explained earlier, BMSC has proposed a weighted average cost of capital of 12.80 percent which reflects the total absence of debt financing in the Company-proposed capital structure. The Company-proposed 12.80 percent weighted average cost of capital is 537 basis points higher than the 7.43 percent weighted cost that I am recommending.

Q. Please summarize why you believe that the Commission should adopt your recommended 7.43 percent weighted average cost of capital that is the result of your recommended hypothetical capital structure and hypothetical cost of debt.

A. I believe that the approach that I have taken in this case provides the Company with a rate of return that meets the standards established in the Hope and Bluefield cases while also providing lower rates to BMSC's customers. My recommended capital structure of 60 percent equity and 40 percent debt is more favorable to the Company than the average capital structure of the water utilities in my sample. Ratepayers also benefit from my recommended weighted average cost of capital which is lower than what would have been obtained from a capital structure comprised of 100 percent common equity. In short, I believe that my analysis has produced a rate of return that is just and reasonable and should be adopted by the Commission.

COMMENTS ON BMSC'S COST OF EQUITY CAPITAL

TESTIMONY

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

A. The Company's cost of capital witness, Mr. Bourassa is recommending a cost of common equity of 12.80 percent. His 12.80 percent cost of equity capital is 458 basis points higher than the 8.22 percent cost of equity capital that I have calculated.

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

A. Mr. Bourassa used both the DCF and CAPM methods. His DCF analysis relies on two constant growth versions of the DCF model that are similar to the model that I have used. His first constant growth model relies only on earnings growth estimates for the "g" component of the model while his second constant growth model relies on sustainable growth estimates for the "g" component. Mr. Bourassa also uses a two-stage growth version of the DCF model. The results of his DCF analyses range from 8.60 percent to 14.90 percent. Mr. Bourassa's CAPM analysis uses the same model that I have used but he obtains two different results: one obtained by using an historical risk premium and the other by using a current market risk premium. His CAPM analysis produces results of 9.90 percent using an historical risk premium and 19.40 percent using a current market risk premium. His average CAPM result is 14.70 percent.

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

A. Mr. Bourassa conducted his analysis in November of 2008 and consequently much of the data that he used in his analysis is now dated. This can be seen in a price comparison of three of the water company stocks that we both used in our samples: The difference between the average adjusted closing stock prices used in my DCF model and spot prices used by Mr. Bourassa in his DCF models are as follows:

	Rigsby	Bourassa	Difference
AWR	\$34.88	\$31.32	\$3.56
CWT	\$37.32	\$40.47	- \$3.15
WTR	\$17.38	\$20.57	- \$3.19

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

A. In respect to Mr. Bourassa's first constant growth model, which relied strictly on earnings growth, there is only a 2 basis point difference between the average dividend yields of the three water utilities that our samples have in common; his 3.03 percent to my 3.05 percent. However, there is a 160 basis point difference between his 8.39 percent average growth estimate ("g") for the three common utilities (i.e. AWR, CWT, and WTR) as opposed to my 6.79 percent estimate which also takes into account other growth estimates on dividends and book value. Subsequently Mr. Bourassa's DCF estimate, relying only on earnings growth, is 9.03 percent as opposed to my estimate of 6.79 percent which takes into account more recent data on stock prices and growth projections for earnings, dividends and book value on the three water utilities our samples have in common.

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

A. The same 2 basis point difference between our estimated dividend yields exists in Mr. Bourassa's sustainable growth version of the constant growth model. However, his estimate for the "g" component is seriously flawed. As I noted earlier in my testimony, Value Line does not provide long-term projections on earnings, dividends and book value on the other three water utilities used by Mr. Bourassa in his sample. Consequently, Mr. Bourassa uses an unfounded 7.26 percent averaging derived from his growth estimates for AWR, CWT and WTR and applied it to the other three water utilities. This has the effect of increasing his DCF model's median average estimate by 20 basis points.

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

A. No. Primarily because the growth rate component that I estimated for my single-stage model already takes into consideration both the near-term and long-term growth rate projections that Mr. Bourassa averaged in his multi-stage model. This being the case, I saw no need to conduct a separate DCF analysis.

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

A. The differences between our CAPM results is attributable to the selection of U.S. Treasury instruments used as inputs for the risk-free rate of return and the time period that has expired since Mr. Bourassa filed his direct testimony. Mr. Bourassa's average beta of 0.98 has also fallen since his testimony was filed, and his market risk premiums of 7.5 percent to 16.0 percent are simply not realistic when compared with the market risk premiums, ranging from 4.20 percent to 6.10 percent, that I obtained from Morningstar's 2009 SBBI Yearbook.

Q. Please explain the differences in your risk free rates of return.

A. I relied on a 5-year treasury rate whereas Mr. Bourassa relied on an average of 5, 7, and 10-year Treasury rates in his historical risk premium CAPM Analysis, and a 30-year Treasury rate in his current market risk premium CAPM analysis. Consequently his risk free rate of return is higher due to the inclusion of longer-term Treasury yields. Mr. Bourassa's reliance on maturities that are greater than five years is unfounded when one takes into account that utilities generally file for new rates every three to five years.

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

A. Yes. Based on data for the week ended September 11, 2009 (obtained in a Federal Reserve Statistical Release dated September 14, 2009), the average yield of the 5, 7 and 10-year U.S. treasury instruments, that Mr. Bourassa used as the risk free rate in his historical market risk premium CAPM model, was 2.92 percent as opposed to the average yield of 2.60 percent that he relied on. The yield on the 30-year rate was 4.25 percent as opposed to the 3.70 percent rate that Mr. Bourassa used in his current market risk premium CAPM model. Although his selected Treasury yields increased since November of 2008, the average beta used in his CAPM analyses has dropped from an average of 0.98 to an average of 0.82. Holding his higher market risk premium inputs constant produces an historical market risk premium result of 9.07 percent as opposed to his

9.90 percent, and a current market risk premium result of 17.37 percent as opposed to his 19.40 percent. However, as I stated earlier, Mr. Bourassa's market risk premium inputs are clearly excessive and should not be given any weight.

Q. What would Mr. Bourassa's CAPM models produce if you substituted a 5.15 percent average of your market risk premiums?

A. Mr. Bourassa's historical market risk premium model would produce an expected return of 7.15 percent and his current market risk premium model would produce an expected return of 8.48 percent.

Q. How did Mr. Bourassa arrive at his final 12.80 percent cost of common equity for BMSC?

A. Mr. Bourassa's final estimate of 12.80 percent is based upon his review of the results of his various DCF and CAPM models, along with consideration of other factors relevant to BMSC. He states that he believes that the 12.80 percent figure reflects BMSC's smaller size and financial risk are taken into consideration.

...

Q. Is there any merit in the rationale used by Mr. Bourassa in regards to size and financial risk?

A. No. As I stated earlier in my testimony, BMSC is a wholly owned subsidiary of Algonquin Power Income Fund, a large publicly traded mutual fund that has direct access to the capital markets. In addition to this, to the best of my knowledge, the Commission has never granted a higher cost of common equity based on company size.

Q. Does BMSC have any financial risk?

A. No. As a result of BMSC's prior Commission Decision, the inter-company debt related to BMSC's treatment capacity lease agreements are being fully recovered on a dollar for dollar basis as an operating expense. This is the reason that Mr. Bourassa removed it from BMSC's capital structure. Given these facts, Mr. Bourassa's rationale has no merit.

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

A. No, it does not.

Q. Does this conclude your testimony on BMSC?

A. Yes, it does.

BLACK MOUNTAIN SEWER CORPORATION
TEST YEAR ENDED JUNE 30, 2008
CAPITAL STRUCTURES OF SAMPLE COMPANIES

DOCKET NO. SW-02361A-08-0609
SCHEDULE WAR - 9

AVERAGE CAPITAL STRUCTURES OF SAMPLE WATER COMPANIES

LINE NO.		AWR	PCT.	CWT	PCT.	WTR	PCT.	WATER COMPANY AVERAGE	PCT.
1	DEBT	$ 266.5	46.2%	$ 287.5	41.6%	$ 1,248.1	54.1%	$ 450.5	50.4%
2									
3	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
4									
5	COMMON EQUITY	310.5	53.8%	402.9	58.4%	1,058.4	45.9%	443.0	49.6%
6									
7	TOTALS	$ 577.0	100%	$ 690.4	100%	$ 2,306.5	100%	$ 893.5	100%

AVERAGE CAPITAL STRUCTURES OF SAMPLE NATURAL GAS COMPANIES

LINE NO.		AGL	PCT.	ATO	PCT.	LG	PCT.	NJR	PCT.	GAS	PCT.
1											
2											
3	DEBT	$ 1,675.0	50.3%	$ 2,119.8	50.8%	$ 389.2	44.4%	$ 455.1	38.5%	$ 448.0	31.5%
4											
5	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.5	0.1%	0.0	0.0%	0.6	0.0%
6											
7	COMMON EQUITY	1,652.0	49.7%	2,052.5	49.2%	486.5	55.5%	727.0	61.5%	973.1	68.4%
8											
9	TOTALS	$ 3,327.0	100%	$ 4,172.3	100%	$ 876.2	100%	$ 1,182.1	100%	$ 1,421.7	100%
10											
11											
12		NWN	PCT.	PNY	PCT.	SJI	PCT.	SWX	PCT.	WGL	PCT.
13											
14	DEBT	$ 512.0	44.9%	$ 794.3	47.2%	$ 332.8	39.2%	$ 1,185.5	51.0%	$ 603.7	38.5%
15											
16	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.0	0.0%	100.0	4.3%	28.2	1.8%
17											
18	COMMON EQUITY	628.4	55.1%	887.2	52.8%	515.3	60.8%	1,037.8	44.7%	935.1	59.7%
19											
20	TOTALS	$ 1,140.4	100%	$ 1,681.5	100%	$ 848.1	100%	$ 2,323.3	100%	$1,567.0	100%
21											
22											
23		NATURAL GAS LDC				WATER & LDC					
24		AVERAGE	PCT.			AVERAGE	PCT.				
25											
26	DEBT	$ 851.5	45.9%			$ 651.0	47.4%				
27											
28	PREFERRED STOCK	12.9	0.7%			6.5	0.5%				
29											
30	COMMON EQUITY	989.5	53.4%			716.2	52.1%				
31											
32	TOTALS	$ 1,854.0	100%			$ 1,373.7	100%				

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

Qualifications of William A. Rigsby, CRRA

EDUCATION:

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

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

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

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

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

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

EXPERIENCE:

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

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

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

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

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

Utility Company	Docket No.	Type of Proceeding
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval
Arizona-American Water Company	W-01303A-05-0405	ACRM Filing
UNS Gas, Inc.	G-04204A-06-0463	Rate Increase
Arizona-American Water Company	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
Far West Water & Sewer Company	WS-03478A-08-0608	Interim Rate Increase
Johnson Utilities, LLC	WS-02987A-08-0180	Rate Increase
UNS Gas, Inc.	G-04204A-08-0571	Rate Increase
Arizona Water Company	W-01445A-08-0440	Rate Increase

ATTACHMENT A

Water Utility providers have fared pretty well of late, with increasingly favorable regulatory backing boosting revenues and driving strong bottom-line advances in the first quarter. Additional improvements are likely to evolve on the regulatory front and should enable most in this space to maintain their recent earnings momentum throughout the remainder of the year.

Nevertheless, these stocks, although up, have lost some of their luster since our April report. Indeed, the group, as a whole, has fallen from the upper echelon of the *Value Line Investment* universe for Timeliness, as the broader market showed some glimpses of rallying, and now sports an average rank.

But it still may be an area of interest for investors. Despite the recent spurts of price momentum, the market remains extremely volatile overall. The tough macroeconomic environment creates a difficult backdrop, which ought to favor industries that are perceived as relative safe havens, a trait typically exemplified by water utilities' historically steady dividend growth.

Financing issues raise some concerns, longer-term, however, and limit the group's 3- to 5-year appeal. *In fact, not a single stock in this industry* stands out for 3- to 5-year appreciation potential, as rising infrastructure costs threaten to erase the bulk of future profit advances.

A Swimmingly Refreshing Backdrop

There is no way around it, water is a necessity of life. As a result, water providers are vital as well, especially since reports show that the world's fresh water supply is limited and likely to dry up sooner than many were originally anticipating.

Meanwhile, many once protagonistic state regulatory commissions have changed their stances and have become more business friendly in recent times. This is extremely important as these regulatory authorities, which were put in place to help maintain a balance of power between customers and providers and to ensure fair business practices, are responsible for reviewing and ruling on general rate requests made by utilities to help recover costs. Decisions have been more timely and favorable of late and should only get better now that some states have enacted additional mechanisms that reduce outside influences (such as weather) on usage

INDUSTRY TIMELINESS: 45 (of 99)

rates. Such initiatives are likely to enable companies to better recover unforeseen expenses, and thus deliver steadier financial results.

Oceans of Costs

Nevertheless, the water utilities is an increasingly capital intensive industry. Many infrastructures are outdated and will require heavy investment in order to make the necessary repairs. Greater EPA requirements only make things more difficult, as infrastructure costs are estimated at hundreds of millions of dollars over the next decade.

Cash is at a premium in this space, however, with most companies sporting highly leveraged balance sheets and nominal cash reserves. That said, debt and stock issuances have become, and are likely to remain, commonplace as providers struggle to foot the bill. Unfortunately, the increased costs associated with such financial undertakings, i.e. steeper interest rates and higher share counts, are likely to dilute share earnings growth as well as shareholder gains. Those able to raise capital may well benefit from the plethora of acquisition targets that have emerged.

Conclusion

Although the stocks in this group do not stand out either for the coming six to 12 months or the 3- to 5-year pull, investors with a cautious bent may want to have a closer look. Water utilities will probably be a far more stable place to be if the market remains volatile, a fair bet given the glum economic indicators that have continued to come out. The current dividend yield of *California Water Services* is particularly interesting as is the future growth prospects of *Aqua America*, whose aggressive M&A strategy may well prove current projections modest. *American Water Works* is another interesting candidate, although its short trading history and parent company's control issues should scare off the risk averse. That said, as always, we advise investors to carefully review the pages of the individual stocks before making any financial commitments.

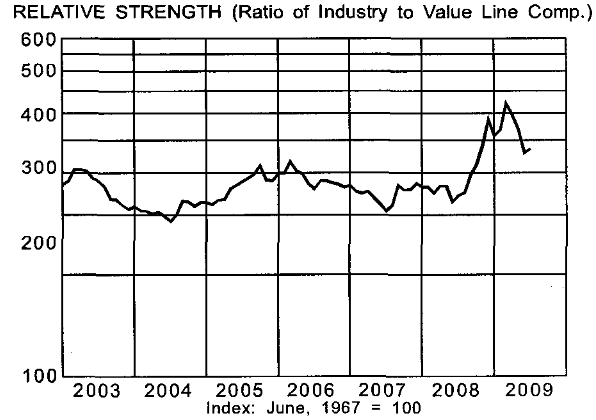
Andre J. Costanza

Composite Statistics: Water Utility Industry

2005	2006	2007	2008	2009	2010		12-14
1256.9	3454.1	3702.5	***3915***	***4250***	***4500***	Revenues ($mill)	***5425***
148.2	d5.8	d183.0	***420***	***435***	***475***	Net Profit ($mill)	***650***
40.5%	NMF	NMF	***37.0%***	***38.0%***	***39.0%***	Income Tax Rate	***40.0%***
1.1%	NMF	NMF	***8.0%***	***10.0%***	***10.0%***	AFUDC % to Net Profit	***10.0%***
50.4%	54.0%	51.0%	***55.0%***	***53.0%***	***50.0%***	Long-Term Debt Ratio	***50.0%***
49.5%	45.9%	49.0%	***45.0%***	***47.0%***	***50.0%***	Common Equity Ratio	***50.0%***
3053.8	12113.9	12985.9	***13875***	***14600***	***15875***	Total Capital ($mill)	***18250***
4200.7	13308.3	14315.2	***15350***	***16100***	***16850***	Net Plant ($mill)	***19000***
6.3%	1.6%	.2%	***4.0%***	***4.0%***	***4.0%***	Return on Total Cap'l	***5.0%***
9.8%	NMF	NMF	***6.5%***	***6.5%***	***6.0%***	Return on Shr. Equity	***7.0%***
9.8%	NMF	NMF	***6.5%***	***6.5%***	***6.0%***	Return on Com Equity	***7.0%***
3.7%	NMF	NMF	***3.0%***	***3.5%***	***3.5%***	Retained to Com Eq	***4.0%***
62%	NMF	NMF	***65%***	***65%***	***62%***	All Div'ds to Net Prof	***60%***
29.4	NMF	NMF		*Bold figures are*	*Value Line*	Avg Ann'l P/E Ratio	***20.0***
1.57	NMF	NMF			*estimates*	Relative P/E Ratio	***1.35***
2.1%	2.0%	2.3%				Avg Ann'l Div'd Yield	***2.3%***

Water Utility

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



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AMER. STATES WATER NYSE-AWR

RECENT PRICE	35.93	P/E RATIO	21.1 (Trailing: 24.0 / Median: 22.0)	RELATIVE P/E RATIO	1.40	DIV'D YLD	2.8%	VALUE LINE

TIMELINESS **3** Lowered 6/5/09
SAFETY **3** New 2/4/00
TECHNICAL **3** Raised 7/10/09
BETA .80 (1.00 = Market)

High:	19.5	26.5	25.3	26.4	29.0	29.0	26.8	34.6	43.8	46.1	42.0	38.8
Low:	14.1	14.8	16.7	19.0	20.3	21.6	20.8	24.3	30.3	33.6	27.0	29.8

Target Price Range
2012 | 2013 | 2014

2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	65	(+80%)	18%
Low	45	(+25%)	9%

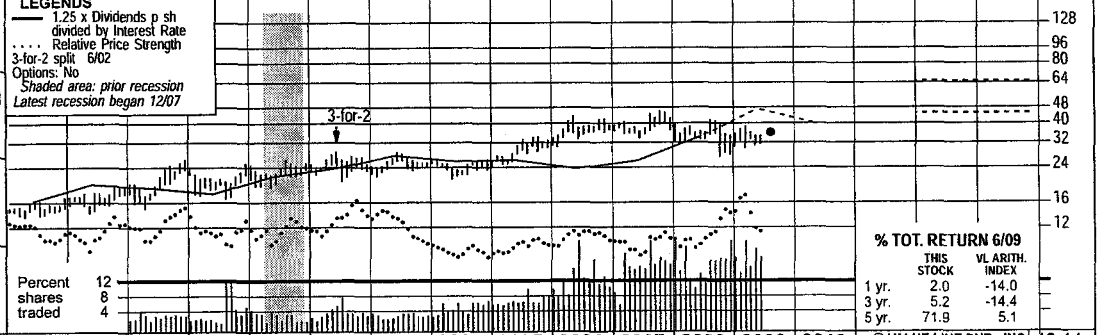
Insider Decisions

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

Institutional Decisions

	3Q2008	4Q2008	1Q2009
to Buy	48	64	55
to Sell	54	52	66
Hld's(000)	9411	8980	9283

LEGENDS
— 1.25 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 6/02
Options: No
Shaded area: prior recession
Latest recession began 12/07



% TOT. RETURN 6/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	2.0	-14.0
3 yr.	5.2	-14.4
5 yr.	71.9	5.1

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
9.27	10.43	11.03	11.37	11.44	11.02	12.91	12.17	13.06	13.78	13.98	13.61	14.06	15.76	17.49	18.42	*18.65*	*19.20*	Revenues per sh	*21.75*
1.67	1.68	1.75	1.75	1.85	2.04	2.26	2.20	2.53	2.54	2.08	2.23	2.64	2.89	3.31	3.37	*3.50*	*3.75*	"Cash Flow" per sh	*4.65*
1.11	.95	1.03	1.13	1.04	1.08	1.19	1.28	1.35	1.34	.78	1.05	1.32	1.33	1.62	1.55	*1.70*	*1.90*	Earnings per sh A	*2.60*
.79	.80	.81	.82	.83	.84	.85	.86	.87	.87	.88	.89	.90	.91	.96	1.00	*1.04*	*1.10*	Div'd Decl'd per sh B■	*1.28*
1.90	2.43	2.19	2.40	2.58	3.11	4.30	3.03	3.18	2.68	3.76	5.03	4.24	3.91	2.89	4.45	*4.25*	*4.30*	Cap'l Spending per sh	*4.50*
9.95	10.07	10.29	11.01	11.24	11.48	11.82	12.74	13.22	14.05	13.97	15.01	15.72	16.64	17.53	17.95	*18.80*	*18.95*	Book Value per sh	*22.00*
11.71	11.77	11.77	13.33	13.44	13.44	13.44	15.12	15.12	15.18	15.21	16.75	16.80	17.05	17.23	17.30	*18.50*	*18.75*	Common Shs Outst'g C	*20.00*
13.4	12.8	11.6	12.6	14.5	15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	24.0	22.6	*Bold figures are*	*Value Line*	Avg Ann'l P/E Ratio	*21.0*
.79	.84	.78	.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.27	1.37	*estimates*		Relative P/E Ratio	*1.40*
5.3%	6.6%	6.7%	5.8%	5.5%	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.5%	2.5%	2.9%			Avg Ann'l Div'd Yield	*2.2%*

CAPITAL STRUCTURE as of 3/31/09
Total Debt $361.5 mill. **Due in 5 Yrs** $33.0 mill.
LT Debt $306.5 mill. **LT Interest** $21.0 mill.
(LT interest earned: 3.6x: total interest coverage: 3.4x) (50% of Cap'l)

Leases, Uncapitalized: Annual rentals $2.9 mill.
Pension Assets-12/08 $54.2 mill.
Oblig. $94.5 mill.
Pfd Stock None.

Common Stock 17,326,742 shs.
MARKET CAP: $625 million (Small Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
173.4	184.0	197.5	209.2	212.7	228.0	236.2	268.6	301.4	318.7	*345*	*360*	Revenues ($mill)	*435*
16.1	18.0	20.4	20.3	11.9	16.5	22.5	23.1	28.0	26.8	*32.0*	*36.0*	Net Profit ($mill)	*53.0*
46.0%	45.7%	43.0%	38.9%	43.5%	37.4%	47.0%	40.5%	42.6%	37.8%	*35.0%*	*37.5%*	Income Tax Rate	*40.0%*
--	--	--	--	--	--	--	12.2%	8.5%	6.9%	*5.0%*	*5.0%*	AFUDC % to Net Profit	*5.0%*
51.0%	47.5%	54.9%	52.0%	52.0%	47.7%	50.4%	48.6%	46.9%	46.2%	*46.5%*	*47.5%*	Long-Term Debt Ratio	*46.5%*
48.4%	51.9%	44.7%	48.0%	48.0%	52.3%	49.6%	51.4%	53.1%	53.8%	*53.5%*	*52.5%*	Common Equity Ratio	*53.5%*
328.2	371.1	447.6	444.4	442.3	480.4	532.5	551.6	569.4	577.0	*650*	*680*	Total Capital ($mill)	*825*
449.6	509.1	539.8	563.3	602.3	664.2	713.2	750.6	776.4	825.3	*870*	*915*	Net Plant ($mill)	*1025*
6.6%	6.4%	6.1%	6.5%	4.6%	5.2%	5.4%	6.0%	6.7%	6.4%	*6.5%*	*7.5%*	Return on Total Cap'l	*8.5%*
10.0%	9.2%	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	9.3%	8.6%	*9.0%*	*10.0%*	Return on Shr. Equity	*12.0%*
10.1%	9.3%	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	9.3%	8.6%	*9.0%*	*10.0%*	Return on Com Equity	*12.0%*
2.9%	3.0%	3.6%	3.3%	NMF	1.0%	2.8%	2.7%	3.9%	3.1%	*3.5%*	*4.5%*	Retained to Com Eq	*6.0%*
72%	68%	65%	65%	113%	84%	67%	67%	58%	64%	*60%*	*57%*	All Div'ds to Net Prof	*48%*

CURRENT POSITION ($MILL.)	2007	2008	3/31/09
Cash Assets	1.7	7.3	24.9
Receivables	16.1	14.3	13.6
Inventory (Avg Cst)	1.6	2.1	1.9
Other	43.7	66.9	66.9
Current Assets	63.1	90.6	107.3
Accts Payable	29.1	36.6	36.0
Debt Due	37.8	75.3	55.0
Other	27.4	25.5	40.3
Current Liab.	94.3	137.4	131.3
Fix. Chg. Cov.	314%	293%	

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	4.5%	5.0%	*4.0%*
"Cash Flow"	5.5%	6.0%	*6.5%*
Earnings	3.5%	5.5%	*9.5%*
Dividends	1.5%	2.0%	*5.0%*
Book Value	4.5%	5.0%	*4.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2006	64.3	63.0	75.0	66.3	268.6
2007	72.3	79.3	75.8	74.0	301.4
2008	68.9	80.3	85.3	84.2	318.7
2009	79.6	*86.4*	*90.0*	*89.0*	*345*
2010	*82.0*	*89.0*	*95.0*	*94.0*	*360*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2006	.35	.36	.32	.30	1.33
2007	.40	.42	.44	.35	1.62
2008	.30	.53	.26	.43	1.55
2009	.28	*.46*	*.50*	*.46*	*1.70*
2010	*.30*	*.50*	*.65*	*.45*	*1.90*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.225	.225	.225	.225	.90
2006	.225	.225	.225	.235	.91
2007	.235	.235	.235	.250	.96
2008	.250	.250	.250	.250	1.00
2009	.250	.250			

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to more than 250,000 customers in 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to nearly 23,250 customers in the city of Big Bear Lake and in areas of San Bernardino County. Acquired Chaparral City Water of Arizona (10/00). Has roughly 675 employees. Officers & directors own 2.5% of common stock (4/09 Proxy). Chairman: Lloyd Ross. President & CEO: Floyd Wicks. Inc: CA. Addr.: 630 East Foothill Boulevard, San Dimas, CA 91773. Tele.: 909-394-3600. Internet: www.aswater.com.

American States Water has received some favorable backing from California's regulatory board. The water utility provider posted a 15% top-line gain in the first quarter, benefiting from the California Public Utilities Commission's (CPUC) November decision to implement the water revenue adjustment mechanism, modified cost balancing accounting methodology, and tiered rates laid out in the Water Action Plan. The use of these mechanisms is expected to produce smoother and more predictable growth, while stabilizing costs via removing outside influences, such as weather, on demand.

Nevertheless, the benefits were not enough. The water utility provider reported earnings of $0.28 a share, a couple of pennies off last year's mark. Despite the top-line improvement and a tax benefit, which added roughly $0.08 to the bottom line, the company was unable to offset higher operating costs specifically those associated with the expansion of its nonregulated business. Construction projects at Fort Bliss and military bases in Virginia cost American $0.05 a share.

We've trimmed our full-year earnings estimate by a dime, to $1.70 a share . . . Operating costs are expected to continue mounting in the months ahead, as aging infrastructure requires heavier investment in order to meet increasingly stringent FDA codes.

. . . and our 2010 figure by a nickel, to $1.90. With infrastructures growing older, higher expenses are not a passing fad. The cash-strapped company will have to seek help to make many of the needed improvements, opening up its bottom line to dilution, whether by higher share counts or increased interest rate costs. American recently made a stock offering of 1.15 million shares, netting nearly $35 million. Even still, similar financing activity will probably be required based on our forecasts.

These shares do not stand out for appreciation potential. Infrastructure costs limit their six- to 12- month allure as well as their 3- to 5-year appeal. **Nevertheless, the stock may well interest risk-averse investors looking to add a steady stream of income to their portfolios.**

Andre J. Costanza *July 24, 2009*

(A) Primary earnings. Excludes nonrecurring gains/(losses): '04, 14¢; '05, 25¢; '06, 6¢; '08, (27¢). Next earnings report due early Aug. May not add due to rounding.
(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for splits.

Company's Financial Strength	B++
Stock's Price Stability	80
Price Growth Persistence	75
Earnings Predictability	65

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CALIFORNIA WATER NYSE-CWT

RECENT PRICE 36.27 | P/E RATIO 17.3 (Trailing: 18.0 / Median: 22.0) | RELATIVE P/E RATIO 1.15 | DIV'D YLD 3.3% | VALUE LINE

TIMELINESS 3 Lowered 7/3/09

SAFETY 3 Lowered 7/27/07

TECHNICAL 4 Raised 7/10/09

BETA .80 (1.00 = Market)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
High:		33.8	32.0	31.4	28.6	26.9	31.4	37.9	42.1	45.8	45.4	46.6	48.3				
Low:		20.8	22.6	21.5	22.9	20.5	23.7	26.1	31.2	32.8	34.2	27.7	33.5				

Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

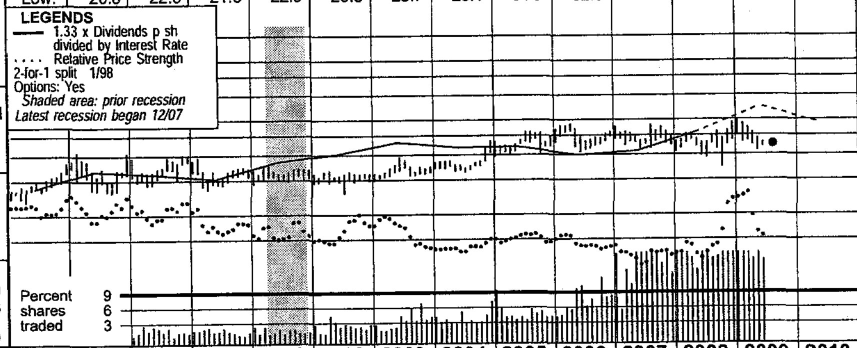
	Price	Gain	Ann'l Total Return
High	65	(+80%)	18%
Low	45	(+25%)	9%

Insider Decisions

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

Institutional Decisions

	3Q2008	4Q2008	1Q2009
to Buy	49	107	83
to Sell	58	46	81
Hld's(000)	9891	9799	10000



% TOT. RETURN 6/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	15.9	-14.0
3 yr.	12.2	-14.4
5 yr.	55.3	5.1

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
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	19.80	*21.45*	*22.10*	Revenues per sh	*24.45*
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	3.72	*4.15*	*4.35*	"Cash Flow" per sh	*4.65*
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	1.90	*2.10*	*2.20*	Earnings per sh A	*2.65*
.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*	*1.19*	Div'd Decl'd per sh B ■	*1.34*
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	4.82	*4.75*	*4.80*	Cap'l Spending per sh	*5.00*
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	19.44	*19.95*	*20.60*	Book Value per sh C	*22.20*
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	20.72	*21.00*	*21.25*	Common Shs Outst'g D	*22.50*
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	19.8	*Bold figures are*	*Value Line*	Avg Ann'l P/E Ratio	*21.0*
.80	.92	.92	.75	.73	.93	1.01	1.27	1.39	1.08	1.26	1.06	1.33	1.58	1.39	1.20	*estimates*		Relative P/E Ratio	*1.40*
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%			Avg Ann'l Div'd Yield	*2.4%*

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
206.4	244.8	246.8	263.2	277.1	315.6	320.7	334.7	367.1	410.3	*450*	*470*	Revenues ($mill) E	*550*
19.9	20.0	14.4	19.1	19.4	26.0	27.2	25.6	31.2	39.8	*45.0*	*47.0*	Net Profit ($mill)	*60.0*
37.9%	42.3%	39.4%	39.7%	39.9%	39.6%	42.4%	37.4%	39.9%	37.7%	*37.5%*	*38.0%*	Income Tax Rate	*39.0%*
--	--	--	--	10.3%	3.2%	3.3%	10.6%	8.3%	8.6%	*8.5%*	*8.5%*	AFUDC % to Net Profit	*8.5%*
46.9%	48.9%	50.3%	55.3%	50.2%	48.6%	48.3%	43.5%	42.9%	41.6%	*48.0%*	*47.5%*	Long-Term Debt Ratio	*45.0%*
52.0%	50.2%	48.8%	44.0%	49.1%	50.8%	51.1%	55.9%	56.6%	58.4%	*52.0%*	*52.5%*	Common Equity Ratio	*55.0%*
333.8	388.8	402.7	453.1	498.4	565.9	568.1	670.1	674.9	690.4	*805*	*835*	Total Capital ($mill)	*950*
515.4	582.0	624.3	697.0	759.5	800.3	862.7	941.5	1010.2	1112.4	*1175*	*1235*	Net Plant ($mill)	*1425*
7.8%	6.8%	5.3%	5.9%	5.6%	6.1%	6.3%	5.2%	5.9%	7.1%	*7.0%*	*7.0%*	Return on Total Cap'l	*8.0%*
11.2%	10.0%	7.2%	9.4%	7.8%	8.9%	9.3%	6.8%	8.1%	9.9%	*10.5%*	*10.5%*	Return on Shr. Equity	*12.0%*
11.4%	10.1%	7.2%	9.5%	7.9%	9.0%	9.3%	6.8%	8.1%	9.9%	*10.5%*	*10.5%*	Return on Com Equity	*12.0%*
3.5%	1.8%	NMF	1.0%	.7%	2.1%	2.1%	1.0%	1.8%	3.8%	*5.0%*	*5.0%*	Retained to Com Eq	*6.0%*
70%	82%	119%	90%	91%	77%	78%	86%	77%	61%	*55%*	*54%*	All Div'ds to Net Prof	*50%*

CAPITAL STRUCTURE as of 3/31/09
Total Debt $342.1 mill. **Due in 5 Yrs** $80.0 mill.
LT Debt $287.2 mill. **LT Interest** $21.0 mill.

(LT interest earned: 4.6x; total int. cov.: 4.4x)

Pension Assets-12/08 $66.9 mill.
Oblig. $192.9 mill.

Pfd Stock None

Common Stock 20,744,952 shs. as of 5/1/09

MARKET CAP: $750 million (Small Cap)

CURRENT POSITION ($MILL.)	2007	2008	3/31/09
Cash Assets	6.7	13.9	5.3
Other	53.3	65.9	67.0
Current Assets	60.0	79.8	72.3
Accts Payable	36.7	41.8	38.0
Debt Due	2.7	42.8	54.9
Other	30.3	35.8	37.2
Current Liab.	69.7	123.2	130.1
Fix. Chg. Cov.	333%	398%	482%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	2.0%	1.5%	5.5%
"Cash Flow"	2.0%	5.5%	6.5%
Earnings	--	7.0%	9.0%
Dividends	1.0%	0.5%	2.5%
Book Value	4.0%	6.5%	3.0%

Cal-endar	QUARTERLY REVENUES ($ mill.)E Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	100.1	410.3
2009	86.7	*115.3*	*140*	*108*	*450*
2010	*90.0*	*120*	*145*	*115*	*470*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.04	.31	.68	.31	1.34
2007	.07	.37	.67	.39	1.50
2008	.01	.48	1.06	.35	1.90
2009	.12	*.54*	*1.05*	*.39*	*2.10*
2010	*.13*	*.56*	*1.09*	*.42*	*2.20*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ 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
2009	.295	.295			

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 Rio Grande Corp; West Hawaii Utilities (9/08). Revenue breakdown, '08: residential, 69%; business, 18%; public authorities, 5%; industrial, 5%; other, 3%. '08 reported depreciation rate: 2.4%. Has roughly 929 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson (4/09 Proxy). Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwatergroup.com.*

Recent changes on the regulatory front are already benefiting California Water Service Group. Late last year, the California Public Utilities Commission (CPUC), which oversees the actions of utilities in the Golden State to ensure fair business practices, implemented some guidelines proposed in the Water Action Plan that essentially create a more business-friendly landscape. The board established a water revenue adjustment mechanism (WRAM), implemented a modified cost-balancing account (MCBA) methodology, and introduced tiered rates. These moves ought to streamline the review process of general rate cases and remove many unexpected costs of doing business due to outside factors, such as weather, beyond the companies' control such. In its first full quarter with such initiatives in place, CWT posted earnings of $0.12 a share, far better than the penny earned last year. Revenues rose roughly 19% to $86.6 million, with 83% of the increase coming from rate increases.

Growth is likely to slow in the months ahead, however. Despite the more favorable regulatory climate, operating expenses are likely to continue escalating as deteriorating infrastructures and increasingly stringent EPA requirements result in higher maintenance costs. Meanwhile, the debt-riddled company is light on cash, and will probably need to look to outside financiers to make some of the necessary improvements. Thus, the increased interest expense and higher share count are likely to thwart earnings growth heading forward.

The stock has lost some appeal since our April review. It has slipped a notch for Timeliness and is now pegged to mirror the broad market for the coming six to 12 months. Its longer-term lure, meanwhile, remains below average, as the aforementioned financing costs are likely to limit shareholder gains out to 2012-2014.

It may pique the interest of conservative investors with a penchant for income, though. The company has a long-standing history of delivering steady dividend growth, which is an attractive attribute in times of economic volatility. WRAM and MCBA ought to make for more predictable earnings growth too.

Andre J. Costanza *July 24, 2009*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; '02, 8¢. Next earnings report due early Aug.
(B) Dividends historically paid in mid-Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available.
(C) Incl. deferred charges. In '08: $3.9 mill., $.19/sh.
(D) In millions, adjusted for split.
(E) Excludes non-reg. rev.

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

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AQUA AMERICA NYSE-WTR

RECENT PRICE	17.47	P/E RATIO	20.6 (Trailing: 23.9 Median: 25.0)	RELATIVE P/E RATIO	1.36	DIV'D YLD	3.1%	VALUE LINE

TIMELINESS 3 Lowered 6/26/09
SAFETY 3 Lowered 8/1/03
TECHNICAL 4 Raised 7/10/09
BETA .65 (1.00 = Market)

High:	11.5	11.5	12.0	14.8	15.0	16.8	18.5	29.2	29.8	26.6	22.0	21.5
Low:	7.2	7.6	6.3	9.4	9.6	11.8	14.2	17.5	20.1	18.9	12.2	16.1

Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

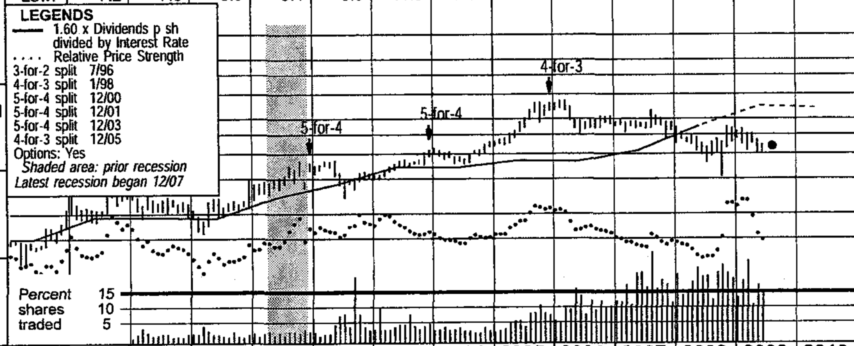
	Price	Gain	Ann'l Total Return
High	40	(+130%)	26%
Low	25	(+45%)	13%

Insider Decisions

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

Institutional Decisions

	3Q2008	4Q2008	1Q2009
to Buy	103	131	130
to Sell	108	131	134
Hld's(000)	62150	60996	63551



% TOT. RETURN 6/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	15.3	-14.0
3 yr.	-15.5	-14.4
5 yr.	32.7	5.1

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
1.70	1.82	1.84	1.86	2.02	2.09	2.41	2.46	2.70	2.85	2.97	3.48	3.85	4.03	4.52	4.63	***5.00***	***5.30***	Revenues per sh	***6.50***
.42	.42	.47	.50	.56	.61	.72	.76	.86	.94	.96	1.09	1.21	1.26	1.37	1.42	***1.55***	***1.65***	"Cash Flow" per sh	***2.10***
.24	.26	.29	.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	.70	.71	.73	***.85***	***.90***	Earnings per sh A	***1.25***
.21	.21	.22	.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	.44	.48	.51	***.54***	***.56***	Div'd Decl'd per sh B■	***.65***
.47	.46	.52	.48	.58	.82	.90	1.16	1.09	1.20	1.32	1.54	1.84	2.05	1.79	1.98	***2.10***	***2.20***	Cap'l Spending per sh	***2.75***
2.29	2.41	2.46	2.69	2.84	3.21	3.42	3.85	4.15	4.36	5.34	5.89	6.30	6.96	7.32	7.82	***8.05***	***8.35***	Book Value per sh	***10.60***
59.40	59.77	63.74	65.75	67.47	72.20	106.80	111.82	113.97	113.19	123.45	127.18	128.97	132.33	133.40	135.37	***136.00***	***136.50***	Common Shs Outst'g C	***138.00***
14.4	13.5	12.0	15.6	17.8	22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	34.7	32.0	24.9	*Bold figures are*		Avg Ann'l P/E Ratio	***25.0***
.85	.89	.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.87	1.70	1.50	*Value Line*		Relative P/E Ratio	***1.65***
5.9%	6.0%	6.2%	4.9%	3.9%	2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.8%	2.1%	2.8%	*estimates*		Avg Ann'l Div'd Yield	***2.0%***

CAPITAL STRUCTURE as of 3/31/09
Total Debt $1338.1 mill. **Due in 5 Yrs** $243.9 mill.
LT Debt $1226.2 mill. **LT Interest** $65.0 mill.
(LT interest earned: 3.4x; total interest coverage: 3.4x) (54% of Cap'l)

Pension Assets-12/08 $112.2 mill. **Oblig.** $204.7 mill.

Pfd Stock None

Common Stock 135,649,486 shares as of 4/24/09

MARKET CAP: $2.4 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
257.3	275.5	307.3	322.0	367.2	442.0	496.8	533.5	602.5	627.0	***680***	***725***	Revenues ($mill)	***900***
45.0	50.7	58.5	62.7	67.3	80.0	91.2	92.0	95.0	97.9	***115***	***125***	Net Profit ($mill)	***170***
38.4%	38.9%	39.3%	38.5%	39.3%	39.4%	38.4%	39.6%	38.9%	39.7%	***39.0%***	***39.0%***	Income Tax Rate	***39.0%***
--	--	--	--	--	--	--	--	2.9%	3.1%	***3.5%***	***3.2%***	AFUDC % to Net Profit	***2.5%***
52.9%	52.0%	52.2%	54.2%	51.4%	50.0%	52.0%	51.6%	55.4%	54.1%	***54.0%***	***54.0%***	Long-Term Debt Ratio	***49.0%***
46.7%	47.8%	47.7%	45.8%	48.6%	50.0%	48.0%	48.4%	44.6%	45.9%	***46.0%***	***46.0%***	Common Equity Ratio	***51.0%***
782.7	901.1	990.4	1076.2	1355.7	1497.3	1690.4	1904.4	2191.4	2306.6	***2385***	***2470***	Total Capital ($mill)	***2865***
1135.4	1251.4	1368.1	1490.8	1824.3	2069.8	2280.0	2506.0	2792.8	2997.4	***3150***	***3300***	Net Plant ($mill)	***3600***
7.6%	7.4%	7.8%	7.6%	6.4%	6.7%	6.9%	6.4%	5.9%	5.7%	***6.5%***	***6.5%***	Return on Total Cap'l	***6.5%***
12.2%	11.7%	12.3%	12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	***10.5%***	***11.0%***	Return on Shr. Equity	***11.5%***
12.3%	11.7%	12.4%	12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	***10.5%***	***11.0%***	Return on Com Equity	***11.5%***
4.3%	4.7%	5.1%	5.2%	4.2%	4.6%	4.9%	3.7%	3.2%	2.8%	***4.0%***	***4.5%***	Retained to Com Eq D	***5.5%***
65%	60%	59%	59%	59%	57%	56%	63%	67%	70%	***64%***	***61%***	All Div'ds to Net Prof	***53%***

CURRENT POSITION ($MILL.)	2007	2008	3/31/09
Cash Assets	14.5	14.9	16.7
Receivables	82.9	84.5	77.3
Inventory (AvgCst)	8.8	9.8	9.4
Other	9.3	11.8	11.3
Current Assets	115.5	121.0	114.7
Accts Payable	45.8	50.0	27.2
Debt Due	80.8	87.9	111.9
Other	56.6	55.3	52.9
Current Liab.	183.2	193.2	192.0
Fix. Chg. Cov.	323%	329%	325%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	8.0%	9.0%	6.5%
"Cash Flow"	9.5%	8.0%	7.5%
Earnings	7.5%	5.5%	10.0%
Dividends	7.0%	8.0%	4.5%
Book Value	9.5%	10.0%	6.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	117.9	131.7	147.0	136.9	533.5
2007	137.3	150.6	165.5	149.1	602.5
2008	139.3	151.0	177.1	159.6	627.0
2009	154.5	***167***	***185***	***173.5***	***680***
2010	***168***	***181***	***195***	***181***	***725***

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.13	.17	.21	.19	.70
2007	.13	.17	.22	.19	.71
2008	.11	.17	.26	.19	.73
2009	.14	***.20***	***.28***	***.23***	***.85***
2010	***.15***	***.22***	***.30***	***.23***	***.90***

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.098	.098	.098	.107	.40
2006	.107	.107	.115	.115	.44
2007	.115	.115	.125	.125	.48
2008	.125	.125	.125	.135	.51
2009	.135	.135			

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '08: residential, 60%; commercial, 14%; industrial & other, 26%. Officers and directors own 1.3% of the common stock (4/09 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

Aqua America has posted good results thus far in 2009. That can be attributed partly to the completion of key rate cases over the past year. An expanded customer base, made possible by acquisitions, has also helped the water provider (although the slowdown in the housing industry and the sale of two operations in 2008 have provided a bit of an offset). At this juncture, share net stands to climb around 16%, to $0.85, this year. Further expansion in operating margins ought to enable the bottom line to advance another 6%, to $0.90 a share, in 2010.

The company remains an active participant in the ongoing consolidation within the water-service industry. The cost and technical expertise required for compliance with quality standards for drinking water have risen to the point where a number of the many small water suppliers in the United States have been struggling financially. This has resulted in a buyer's market whereby a well-capitalized company, like Aqua America, can enlarge its customer base at relatively low cost. The latest additions to its portfolio include Clarendon Water Company, serving 1,200 residents in Warren County, Pennsylvania; the water and wastewater assets of W.P. Water Company and W.P. Sanitary Company, which serve roughly 550 customers, combined, in Wyoming County and Luzerne County, Pennsylvania; and the Kratzerville Municipal Authority water system, serving roughly 400 residents in Snyder County, Pennsylvania. Even excluding future acquisitions (because of the many uncertainties associated with that strategy), we think Aqua America is capable of registering healthy, annual bottom-line gains over the 2012-2014 horizon.

The stock's risk-adjusted, total return possibilities are decent, reflecting the steady (albeit unspectacular) dividend growth we envision for the company going forward. Note, also, the high Price Stability rating and lower-than-market Beta coefficient. Conservative investors may want to take a look here.

But for the coming six to 12 months, these shares are ranked to perform only in line with the broader market averages.

Frederick L. Harris, III *July 24, 2009*

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

Company's Financial Strength	B+
Stock's Price Stability	95
Price Growth Persistence	75
Earnings Predictability	100

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ATTACHMENT B

The Natural Gas Utility Industry has lost some ground since our June review. This group now ranks in the middle of our industry spectrum for Timeliness. The economy has shown signs of life in recent months, which has led most investors to look to more-risky plays as opposed to stable picks like natural gas utilities. However, investors should note that these equities typically offer attractive dividend yields that are backed by steady cash flows.

Economic Environment

No doubt, this sector has been pressured by the dour economic climate. The weakness in the housing market has particularly weighed on results for natural gas utilities. Usage has moderated as customers have curbed their consumption in an effort to rein in expenses. What's more, customer growth has been a concern in recent months. These businesses have also been having a tougher time collecting bills of late, which can also hurt results. Therefore, we suggest interested investors watch these trends in the months ahead as they will probably influence this group's performance.

Regulation

Rate cases are a key theme for companies in this sector. These businesses are regulated by state commissions that determine the return on equity these utilities can achieve. As a result, the performance of these equities remains tied to the current rates these companies have in place. Numerous utilities, at any given time, often have cases pending where they seek better rates from these commissions. Positive or negative news regarding a rate case can have a notable impact on a stock's performance in this industry. Notably, the falling natural gas prices in recent months has helped companies seeking rate relief. Indeed, lower prices favor customers, which makes a new rate for these utilities more palatable. Still, regulatory bodies try to strike a balance between customer and shareholder interests when evaluating a rate case. Interested investors should keep a close eye on stocks that have cases pending when reading the following pages.

Business Strategy

Weather is another element to consider when evaluating this industry's performance. Warmer or colder-than-expected weather can lead to volatile results. Thus, most of these utilities use weather-adjusted rate mechanisms to hedge against this risk. As such, we suggest conservative investors look for stocks that utilize this strategy. Many companies have also been increasingly investing in nonregulated businesses. These ventures are free from the regulatory bodies, and as a result, come with greater risk and reward tradeoff. On point, the utilities with nonregulated operations have generally been feeling the effects of the lower energy prices more so than these competitors without such operations. Also, of note, these nonregulated businesses provide another avenue for these utilities to diversify their income. All told, we expect these ventures to continue to be an important opportunity for this sector over the long term. Another strategy in this industry is conservation. Some governments have been offering these utilities incentives to participate in energy conservation programs. This approach allows these companies to adjust to market conditions without sacrificing profitability.

INDUSTRY TIMELINESS: 46 (of 98)

Conclusion

As a group, natural gas utilities will likely remain under pressure in the months ahead due to unfavorable gas prices. As a result, this industry is ranked near the midpoint of our Timeliness spectrum. Still, risk-averse investors may want to consider this group if the economic recovery stalls. Natural gas utilities tend to be a solid defensive play when the stock market is faltering. However, this sector's long-term prospects are uninspiring. Therefore, we recommend patient investors look elsewhere.

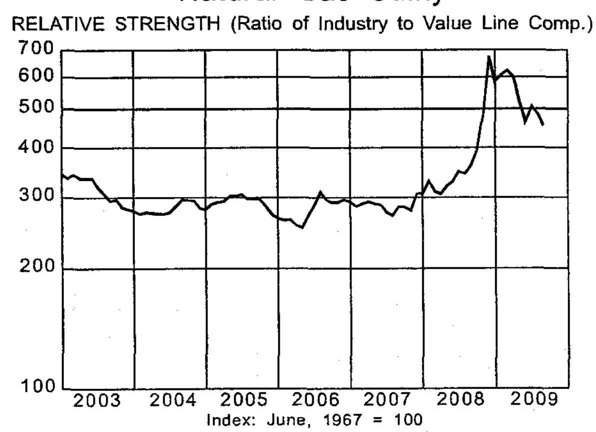
All told, investors should study these reports carefully and limit their investments to equities that appear well positioned to weather the difficult operating environment. Additionally, these utilities offer dividend yields that are above the *Value Line* median. Therefore, income-oriented accounts may find stocks with yields that are above the industry average (4.3%) of interest.

Richard Gallagher

Composite Statistics: Natural Gas Utility

2005	2006	2007	2008	2009	2010		12-14
36075	38273	38528	44207	***45500***	***47000***	Revenues ($mill)	***52750***
1386.0	1553.3	1562.4	1694.2	***1775***	***1850***	Net Profit ($mill)	***2150***
36.0%	35.3%	33.9%	35.7%	***36.0%***	***36.0%***	Income Tax Rate	***36.0%***
3.8%	4.0%	4.1%	3.8%	***3.9%***	***3.9%***	Net Profit Margin	***4.1%***
51.3%	51.2%	50.4%	50.6%	***51.0%***	***51.0%***	Long-Term Debt Ratio	***52.0%***
48.4%	48.7%	49.5%	49.4%	***48.0%***	***48.0%***	Common Equity Ratio	***46.0%***
29218	30847	32263	32729	***33250***	***34750***	Total Capital ($mill)	***40000***
30894	32543	33936	35342	***36750***	***38500***	Net Plant ($mill)	***46250***
6.5%	6.6%	6.5%	6.8%	***6.5%***	***6.5%***	Return on Total Cap'l	***7.0%***
9.7%	10.2%	9.8%	10.5%	***10.0%***	***10.5%***	Return on Shr. Equity	***11.0%***
9.8%	10.2%	9.8%	10.5%	***10.0%***	***10.5%***	Return on Com Equity	***11.0%***
3.5%	4.0%	3.7%	4.3%	***4.0%***	***4.5%***	Retained to Com Eq	***5.0%***
65%	61%	62%	59%	***60%***	***62%***	All Div'ds to Net Prof	***65%***
17.1	15.6	16.6	13.9	***Bold figures are Value Line estimates***		Avg Ann'l P/E Ratio	***13.0***
.91	.84	.88	.83			Relative P/E Ratio	***.85***
3.8%	3.9%	3.7%	4.2%			Avg Ann'l Div'd Yield	***4.6%***
315%	327%	336%	358%	***375%***	***375%***	Fixed Charge Coverage	***400%***

Natural Gas Utility



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AGL RESOURCES NYSE-AGL

RECENT PRICE	33.35	P/E RATIO	13.1 (Trailing: 10.9, Median: 14.0)	RELATIVE P/E RATIO	0.81	DIV'D YLD	5.2%	VALUE LINE

TIMELINESS	3	Lowered 6/12/09
SAFETY	2	New 7/27/90
TECHNICAL	5	Lowered 9/11/09

BETA .75 (1.00 = Market)

2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+65%)	*17%*
Low	40	(+20%)	*10%*

Insider Decisions

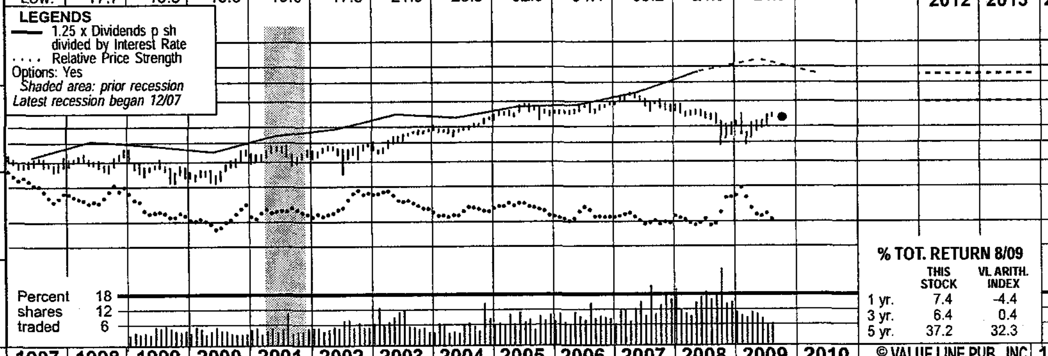
	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	2	1	0	2	0	0	1	0
to Sell	0	3	1	0	1	0	0	2	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	107	110	124
to Sell	111	107	96
Hld's(000)	46113	45714	45662

High:	23.4	23.4	23.2	24.5	25.0	29.3	33.7	39.3	40.1	44.7	39.1	35.0
Low:	17.7	15.6	15.5	19.0	17.3	21.9	26.5	32.0	34.4	35.2	24.0	24.0

Target Price Range
2012 | 2013 | 2014



% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	7.4	-4.4
3 yr.	6.4	0.4
5 yr.	37.2	32.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
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	36.41	*32.20*	*34.50*	Revenues per sh A	*38.80*
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	4.65	4.68	*4.70*	*4.95*	"Cash Flow" per sh	*5.40*
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	2.71	*2.70*	*2.90*	Earnings per sh A B	*3.30*
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*	*1.76*	Div'ds Decl'd per sh C■	*1.88*
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	4.84	*5.15*	*5.30*	Cap'l Spending per sh	*5.60*
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	21.48	*23.10*	*23.40*	Book Value per sh D	*23.55*
49.72	50.86	55.02	55.70	56.60	57.30	57.10	54.00	55.10	56.70	64.50	76.70	77.70	77.70	76.40	76.90	*78.00*	*79.00*	Common Shs Outst'g E	*85.00*
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	12.3	*Bold figures are*		Avg Ann'l P/E Ratio	*15.0*
1.06	.99	.84	.86	.85	.72	1.22	.88	.75	.68	.71	.69	.76	.73	.78	.74	*Value Line*		Relative P/E Ratio	*1.00*
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%	5.0%	*estimates*		Avg Ann'l Div'd Yield	*3.8%*

CAPITAL STRUCTURE as of 6/30/09
Total Debt $2093.0 mill. **Due in 5 Yrs** $962.0 mill.
LT Debt $1675.0 mill. **LT Interest** $90.0 mill.
(Total interest coverage: 3.9x)

Leases, Uncapitalized Annual rentals $30.0 mill.
Pension Assets-12/08 $242.0 mill.
Oblig. $442.0 mill.

Pfd Stock None

Common Stock 77,278,942 shs.
as of 7/24/09
MARKET CAP: $2.6 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
1068.6	607.4	1049.3	868.9	983.7	1832.0	2718.0	2621.0	2494.0	2800.0	*2510*	*2725*	Revenues ($mill) A	*3300*
52.1	71.1	82.3	103.0	132.4	153.0	193.0	212.0	211.0	207.6	*155*	*160*	Net Profit ($mill)	*180*
33.1%	34.3%	40.7%	36.0%	35.9%	37.0%	37.7%	37.8%	37.6%	40.5%	*35.0%*	*38.0%*	Income Tax Rate	*38.0%*
4.9%	11.7%	7.8%	11.9%	13.5%	8.4%	7.1%	8.1%	8.5%	7.4%	*8.4%*	*8.4%*	Net Profit Margin	*8.5%*
45.3%	45.9%	61.3%	58.3%	50.3%	54.0%	51.9%	50.2%	50.2%	50.3%	*48.0%*	*45.0%*	Long-Term Debt Ratio	*43.0%*
49.2%	48.3%	38.7%	41.7%	49.7%	46.0%	48.1%	49.8%	49.8%	49.7%	*52.0%*	*55.0%*	Common Equity Ratio	*57.0%*
1345.8	1286.2	1736.3	1704.3	1901.4	3008.0	3114.0	3231.0	3335.0	3327.0	*3475*	*3350*	Total Capital ($mill)	*3500*
1598.9	1637.5	2058.9	2194.2	2352.4	3178.0	3271.0	3436.0	3566.0	3816.0	*4000*	*4150*	Net Plant ($mill)	*4400*
5.7%	7.4%	6.5%	8.1%	8.9%	6.3%	7.9%	8.0%	7.7%	7.4%	*7.5%*	*8.0%*	Return on Total Cap'l	*9.0%*
7.1%	10.2%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	12.7%	12.6%	*11.5%*	*12.5%*	Return on Shr. Equity	*14.0%*
7.9%	11.5%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	12.7%	12.6%	*11.5%*	*12.5%*	Return on Com Equity	*14.0%*
NMF	3.2%	4.2%	7.0%	6.6%	5.6%	6.2%	6.3%	5.3%	5.1%	*4.0%*	*5.0%*	Retained to Com Eq	*6.0%*
101%	72%	65%	52%	53%	49%	52%	52%	58%	60%	*64%*	*60%*	All Div'ds to Net Prof	*57%*

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	21.0	16.0	12.0
Other	1790.0	2026.0	1304.0
Current Assets	1811.0	2042.0	1316.0
Accts Payable	172.0	202.0	167.0
Debt Due	580.0	866.0	418.0
Other	893.0	915.0	696.0
Current Liab.	1645.0	1983.0	1281.0
Fix. Chg. Cov.	391%	416%	527%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	4.0%	15.5%	*2.0%*
"Cash Flow"	6.0%	6.5%	*2.5%*
Earnings	7.0%	8.5%	*3.5%*
Dividends	4.0%	8.0%	*2.5%*
Book Value	7.0%	10.0%	*1.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	1044	436	434	707	2621
2007	973	467	369	685	2494
2008	1012	444	539	805	2800
2009	995	377	*440*	*698*	*2510*
2010	*1020*	*450*	*480*	*775*	*2725*

Cal-endar	EARNINGS PER SHARE B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	1.41	.25	.46	.60	2.72
2007	1.29	.40	.17	.86	2.72
2008	1.16	.30	.28	.97	2.71
2009	1.55	.26	*.20*	*.69*	*2.70*
2010	*1.40*	*.30*	*.30*	*.90*	*2.90*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.31	.31	.31	.37	1.30
2006	.37	.37	.37	.37	1.48
2007	.41	.41	.41	.41	1.64
2008	.42	.42	.42	.42	1.68
2009	.43	.43	.43		

BUSINESS: AGL Resources Inc. is a public utility holding company. Its distribution subsidiaries include Atlanta Gas Light, Chattanooga Gas, Elizabethtown 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. Deregulated subsidiaries: Georgia Natural Gas markets natural gas at retail. Sold Utilipro, 3/01. Acquired Compass Energy Services, 10/07. Franklin Resources owns 7.7% of common stock; off./dir., less than 1.0% (3/09 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.

We do not expect 2009 to be a banner year for AGL Resources. The company reported healthy results in the first quarter. However, performance was less favorable in the recent interim. The Wholesale services business posted an operating loss of $11 million, while the Retail Energy Operations and Energy Investments units reported lower earnings. On the bright side, the Distribution Operations business posted moderate growth in operating earnings. This was primarily due to higher fees to marketers in Georgia for the storage of natural gas inventory and greater pipeline replacement revenues at Atlanta Gas Light. Overall, revenues and share earnings declined in the June period. Looking forward, comparisons will likely also prove unfavorable for the second half of the year. Thus, we anticipate lower revenues and relatively flat share earnings for full-year 2009.

Subsidiary Atlanta Gas Light has announced a system infrastructure investment project. This $400 million program will be completed over a 10-year period. Infrastructure improvements include upgrading the utility's distribution system and its liquefied natural gas facilities. This project will improve system reliability, increase operational flexibility, and allow Atlanta Gas Light to meet its forecasted growth objectives.

Elizabethtown Gas has modified its rate case filing. It had originally requested a $25 million rate hike, but has since lowered this amount to $17 million. The proposed increase would become effective at the beginning of 2010. Meanwhile, Atlanta Gas Light has requested to postpone a rate case filing, which had originally been scheduled for November 1st of this year. However, it does plan to file sometime after that (June 1, 2010 at the latest). Virginia Natural Gas and Chattanooga Gas also intend to file rate cases in 2010.

We anticipate higher revenues and share earnings at the company by 2012-2014, on better operating conditions. Moreover, AGL has a healthy dividend yield and earns high marks for Safety, Price Stability, and Earnings Predictability. From the present quotation, **this issue features decent risk-adjusted total return potential.**

Michael Napoli, CPA *September 11, 2009*

(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, $0.13. Next earnings report due late October. (C) Dividends historically paid early March, June, Sept., and Dec. ■ Div'd reinvest. plan available. (D) Includes intangibles. In 2008: $418 million, $5.44/share.
(E) In millions.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	75
Earnings Predictability	90

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ATMOS ENERGY CORP. NYSE-ATO

RECENT PRICE	27.06	P/E RATIO	12.1 (Trailing: 11.9; Median: 16.0)	RELATIVE P/E RATIO	0.75	DIV'D YLD	5.0%	VALUE LINE

TIMELINESS 3 Lowered 9/11/09

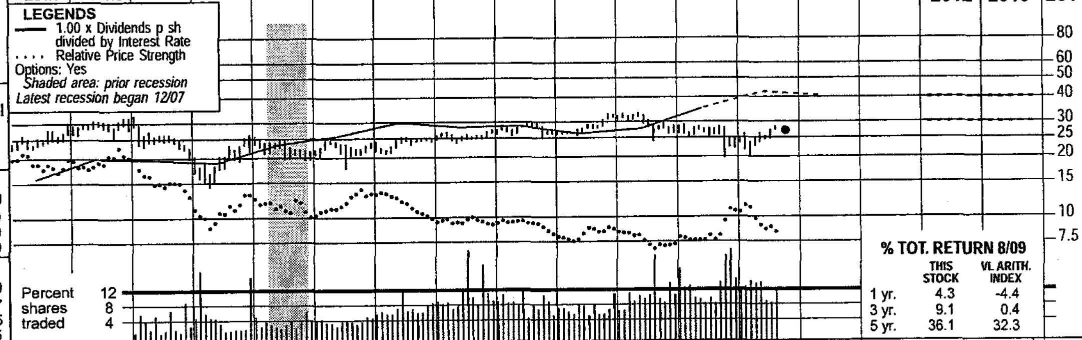
SAFETY 2 Raised 12/16/05

TECHNICAL 4 Lowered 9/4/09

BETA .65 (1.00 = Market)

															Target Price Range		
															2012	2013	2014
High:	32.3	33.0	26.3	25.8	24.5	25.5	27.6	30.0	33.1	33.5	29.3	28.6					
Low:	24.8	19.6	14.3	19.5	17.6	20.8	23.4	25.0	25.5	23.9	19.7	20.1					

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



2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+50%)	14%
Low	30	(+10%)	7%

Insider Decisions

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

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	141	108	107
to Sell	103	122	115
Hld's(000)	53678	53874	54285

% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	4.3	-4.4
3 yr.	9.1	0.4
5 yr.	36.1	32.3

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.

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
22.09	26.61	35.36	22.82	54.39	46.50	61.75	75.27	66.03	79.52	*54.25*	*68.45*	Revenues per sh A	*86.35*
2.62	3.01	3.03	3.39	3.23	2.91	3.90	4.26	4.14	4.19	*4.40*	*4.55*	"Cash Flow" per sh	*4.80*
.81	1.03	1.47	1.45	1.71	1.58	1.72	2.00	1.94	2.00	*2.10*	*2.20*	Earnings per sh A B	*2.50*
1.10	1.14	1.16	1.18	1.20	1.22	1.24	1.26	1.28	1.30	*1.32*	*1.34*	Div'ds Decl'd per sh C■	*1.40*
3.53	2.36	2.77	3.17	3.10	3.03	4.14	5.20	4.39	5.20	*5.50*	*5.75*	Cap'l Spending per sh	*6.60*
12.09	12.28	14.31	13.75	16.66	18.05	19.90	20.16	22.01	22.60	*24.10*	*24.40*	Book Value per sh	*26.90*
31.25	31.95	40.79	41.68	51.48	62.80	80.54	81.74	89.33	90.81	*92.50*	*93.50*	Common Shs Outst'g D	*110.00*
33.0	18.9	15.6	15.2	13.4	15.9	16.1	13.5	15.9	13.6	Bold figures are	Value Line	Avg Ann'l P/E Ratio	*14.0*
1.88	1.23	.80	.83	.76	.84	.86	.73	.84	.84	estimates		Relative P/E Ratio	*.95*
4.1%	5.9%	5.1%	5.4%	5.2%	4.9%	4.5%	4.7%	4.2%	4.8%			Avg Ann'l Div'd Yield	*4.0%*
690.2	850.2	1442.3	950.8	2799.9	2920.0	4973.3	6152.4	5898.4	7221.3	*5020*	*6400*	Revenues ($mill) A	*9500*
25.0	32.2	56.1	59.7	79.5	86.2	135.8	162.3	170.5	180.3	*195*	*205*	Net Profit ($mill)	*275*
35.0%	36.1%	37.3%	37.1%	37.1%	37.4%	37.7%	37.6%	35.8%	38.4%	*35.0%*	*37.0%*	Income Tax Rate	*40.5%*
3.6%	3.8%	3.9%	6.3%	2.8%	3.0%	2.7%	2.6%	2.9%	2.5%	*3.9%*	*3.2%*	Net Profit Margin	*3.0%*
50.0%	48.1%	54.3%	53.9%	50.2%	43.2%	57.7%	57.0%	52.0%	50.8%	*50.0%*	*50.5%*	Long-Term Debt Ratio	*49.0%*
50.0%	51.9%	45.7%	46.1%	49.8%	56.8%	42.3%	43.0%	48.0%	49.2%	*50.0%*	*49.5%*	Common Equity Ratio	*51.0%*
755.1	755.7	1276.3	1243.7	1721.4	1994.8	3785.5	3828.5	4092.1	4172.3	*4430*	*4580*	Total Capital ($mill)	*5800*
965.8	982.3	1335.4	1300.3	1516.0	1722.5	3374.4	3629.2	3836.8	4136.9	*4365*	*4575*	Net Plant ($mill)	*5850*
5.1%	6.5%	5.9%	6.8%	6.2%	5.8%	5.3%	6.1%	5.9%	5.9%	*6.0%*	*6.0%*	Return on Total Cap'l	*6.0%*
6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	*9.0%*	*9.0%*	Return on Shr. Equity	*9.5%*
6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	*9.0%*	*9.0%*	Return on Com Equity	*9.5%*
NMF	NMF	2.1%	1.9%	2.8%	1.7%	2.3%	3.6%	3.0%	3.1%	*3.5%*	*3.5%*	Retained to Com Eq	*4.0%*
NMF	112%	79%	82%	70%	77%	73%	63%	65%	65%	*63%*	*61%*	All Div'ds to Net Prof	*56%*

CAPITAL STRUCTURE as of 6/30/09
Total Debt $2169.5 mill. **Due in 5 Yrs** $1360.0 mill.
LT Debt $2169.4 mill. **LT Interest** $115.0 mill.
(LT interest earned: 2.9x; total interest coverage: 2.8x)
Leases, Uncapitalized Annual rentals $18.4 mill.
Pfd Stock None
Pension Assets-9/08 $341.4 mill. **Oblig.** $337.6 mill.
Common Stock 92,272,478 shs. **as of 7/31/09**
MARKET CAP: $2.5 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	60.7	46.7	125.7
Other	1008.2	1238.4	670.3
Current Assets	1068.9	1285.1	796.0
Accts Payable	355.3	395.4	222.0
Debt Due	154.4	351.3	.1
Other	410.0	460.4	422.2
Current Liab.	919.7	1207.1	644.3
Fix. Chg. Cov.	405%	450%	446%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	9.5%	14.5%	*3.0%*
"Cash Flow"	3.5%	5.5%	*2.5%*
Earnings	2.5%	5.0%	*4.0%*
Dividends	2.5%	1.5%	*1.5%*
Book Value	6.5%	7.5%	*4.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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	1716.3	1821.4	780.8	*701.5*	*5020*
2010	*1465*	*2435*	*1345*	*1155*	*6400*

Fiscal Year Ends	EARNINGS PER SHARE A B E Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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	.83	1.29	.02	*d.04*	*2.10*
2010	*.90*	*1.35*	*d.04*	*d.01*	*2.20*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	1.31
2009	.33	.33	.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 2008 gas volumes: 293 MMcf. Breakdown: 56%, residential; 32%, commercial; 7%, industrial; and 5% other. 2008 depreciation rate 3.5%. Has around 4,560 employees. Officers and directors own approximately 1.9% of common stock (12/08 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 has generated healthy earnings of late. That is largely because of an increase in rates, primarily for the Mid-Tex, Louisiana, and West Texas divisions. But throughput is being constrained some by diminished consumption from residential and commercial customers (reflecting difficult economic conditions).

The pipeline and storage, and regulated transmission and storage units are performing nicely, as well. The former segment is enjoying expanded margins arising from gains from the settlement of financial positions associated with storage and trading activities. Meanwhile, results for the regulated transmission and storage operation are being boosted by higher transportation fees on through-system deliveries, due to favorable market conditions.

It appears that consolidated share net will advance around 5%, to $2.10, in fiscal 2009 (which ends September 30th). Assuming further expansion in operating margins, the bottom line may increase at a similar rate, to $2.20 a share, the following fiscal year.

Finances are in order. An acquisition caused a mid-decade rise in the debt ratio. But the company has whittled that figure back to normal, if at the cost of some dilution from stock issuances. A reduced level of uncollectible accounts, owing to lower gas prices, is another plus these days.

We believe that more steady, though unexciting, profit growth is in store for the company over the next 3 to 5 years. The utility is one of the country's biggest natural gas-only distributors, currently serving customers across 12 states. What is more, the unregulated segments, especially pipelines, possess healthy overall prospects. Excluding future acquisitions, annual share-net gains may be in the mid-single-digit range over 2012-2014.

On a risk-adjusted basis, these good-quality shares offer decent total return potential. The dividend yield is appealing, compared to others in the *Value Line* Natural Gas Utility universe. Future hikes in the payout, though likely to be gradual, as in previous years, should be well covered by earnings. Meanwhile, the stock is ranked 3 (Average) for Timeliness.

Frederick L. Harris, III September 11, 2009

(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '99, d23¢; '00, 12¢; '03, d17¢; '06, d18¢; '07, d2¢; Q2 '09, 12¢. Next egs. rpt. due early Nov. (C) Dividends historically paid in early March, June, Sept., and Dec. ■ Div. reinvestment plan. Direct stock purchase plan avail. (D) In millions. (E) Qtrs may not add due to change in shrs outstanding.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	85

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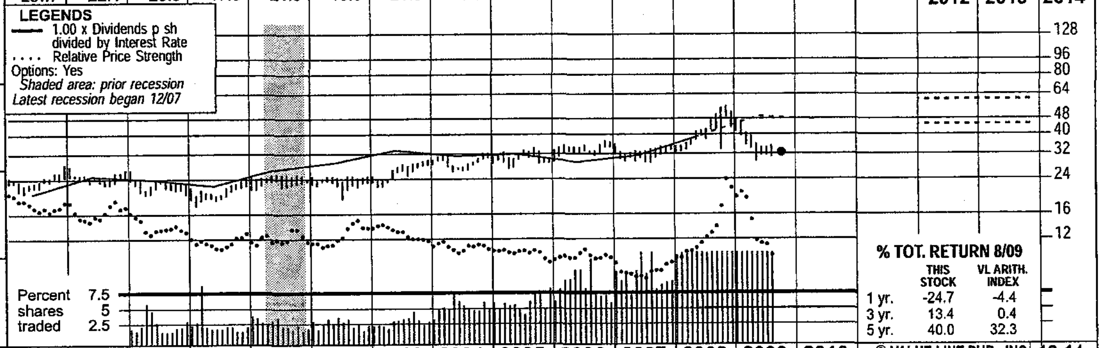
LACLEDE GROUP NYSE-LG

RECENT PRICE 32.61 | P/E RATIO 13.8 (Trailing: 10.9 / Median: 15.0) | RELATIVE P/E RATIO 0.86 | DIV'D YLD 4.8% | VALUE LINE

TIMELINESS 3 Lowered 5/22/09
SAFETY 2 Raised 6/20/03
TECHNICAL 5 Lowered 9/4/09
BETA .60 (1.00 = Market)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
High:	27.9	27.0	24.8	25.5	25.0	30.0	32.5	34.3	37.5	36.0	55.8	48.3	
Low:	22.4	20.0	17.5	21.3	19.0	21.8	26.0	26.9	29.1	28.8	31.9	29.3	

Target Price Range 2012 | 2013 | 2014



2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+85%)	19%
Low	45	(+40%)	12%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	2	1
Options	0	6	0	0	0	0	0	0	0
to Sell	0	6	0	0	0	0	0	1	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	73	70	71
to Sell	86	81	81
Hld's(000)	11494	11043	10569

% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-24.7	-4.4
3 yr.	13.4	0.4
5 yr.	40.0	32.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
32.33	33.43	24.79	31.03	34.33	31.04	26.04	29.99	53.08	39.84	54.95	59.59	75.43	93.51	93.40	100.44	*88.90*	*91.30*	Revenues per sh	*111.55*
2.81	2.65	2.55	3.29	3.32	3.02	2.56	2.68	3.00	2.56	3.15	2.79	2.98	3.81	3.87	4.22	*4.90*	*4.50*	"Cash Flow" per sh	*5.40*
1.61	1.42	1.27	1.87	1.84	1.58	1.47	1.37	1.61	1.18	1.82	1.82	1.90	2.37	2.31	2.64	*2.95*	*2.60*	Earnings per sh A B	*3.00*
1.22	1.22	1.24	1.26	1.30	1.32	1.34	1.34	1.34	1.34	1.34	1.35	1.37	1.40	1.45	1.49	*1.53*	*1.57*	Div'ds Decl'd per sh C■	*1.70*
2.62	2.50	2.63	2.35	2.44	2.68	2.58	2.77	2.51	2.80	2.67	2.45	2.84	2.97	2.72	2.57	*2.55*	*2.60*	Cap'l Spending per sh	*3.40*
12.19	12.44	13.05	13.72	14.26	14.57	14.96	14.99	15.26	15.07	15.65	16.96	17.31	18.85	19.79	22.12	*23.65*	*23.55*	Book Value per sh D	*28.05*
15.59	15.67	17.42	17.56	17.56	17.63	18.88	18.88	18.88	18.96	19.11	20.98	21.17	21.36	21.65	21.99	*22.50*	*23.00*	Common Shs Outst'g E	*26.00*
13.5	16.4	15.5	11.9	12.5	15.5	15.8	14.9	14.5	20.0	13.6	15.7	16.2	13.6	14.2	14.3	*Bold figures are*	*Value Line*	Avg Ann'l P/E Ratio	*17.5*
.80	1.08	1.04	.75	.72	.81	.90	.97	.74	1.09	.78	.83	.86	.73	.75	.89	*estimates*		Relative P/E Ratio	*1.15*
5.6%	5.3%	6.3%	5.6%	5.6%	5.4%	5.8%	6.6%	5.7%	5.7%	5.4%	4.7%	4.4%	4.3%	4.4%	3.9%			Avg Ann'l Div'd Yield	*3.2%*
						491.6	566.1	1002.1	755.2	1050.3	1250.3	1597.0	1997.6	2021.6	2209.0	*2000*	*2100*	Revenues ($mill) A	*2900*
						26.9	26.0	30.5	22.4	34.6	36.1	40.1	50.5	49.8	57.6	*65.0*	*60.0*	Net Profit ($mill)	*80.0*
						35.5%	35.2%	32.7%	35.4%	35.0%	34.8%	34.1%	32.5%	33.4%	31.3%	*35.5%*	*35.0%*	Income Tax Rate	*35.0%*
						5.5%	4.6%	3.0%	3.0%	3.3%	2.9%	2.5%	2.5%	2.5%	2.6%	*3.3%*	*2.9%*	Net Profit Margin	*2.8%*
						41.8%	45.2%	49.5%	47.5%	50.4%	51.6%	48.1%	49.5%	45.3%	44.4%	*42.5%*	*45.0%*	Long-Term Debt Ratio	*47.0%*
						57.8%	54.5%	50.2%	52.3%	49.4%	48.3%	51.8%	50.4%	54.6%	55.5%	*57.5%*	*55.0%*	Common Equity Ratio	*53.0%*
						488.6	519.2	574.1	546.6	605.0	737.4	707.9	798.9	784.5	876.1	*925*	*985*	Total Capital ($mill)	*1375*
						519.4	575.4	602.5	594.4	621.2	646.9	679.5	763.8	793.8	823.2	*865*	*915*	Net Plant ($mill)	*1250*
						7.1%	6.7%	6.9%	6.0%	7.4%	6.6%	7.6%	8.4%	8.5%	8.1%	*8.5%*	*7.5%*	Return on Total Cap'l	*7.0%*
						9.5%	9.1%	10.5%	7.8%	11.5%	10.1%	10.9%	12.5%	11.6%	11.8%	*12.0%*	*11.0%*	Return on Shr. Equity	*11.0%*
						9.5%	9.1%	10.5%	7.8%	11.6%	10.1%	10.9%	12.5%	11.6%	11.8%	*12.0%*	*11.0%*	Return on Com Equity	*11.0%*
						1.0%	.2%	1.8%	NMF	3.1%	2.7%	3.1%	5.1%	4.3%	5.2%	*6.0%*	*4.5%*	Retained to Com Eq	*5.0%*
						89%	98%	83%	113%	74%	73%	72%	59%	63%	56%	*53%*	*60%*	All Div'ds to Net Prof	*55%*

CAPITAL STRUCTURE as of 6/30/09
Total Debt $522.2 mill. **Due in 5 Yrs** $90.0 mill.
LT Debt $389.2 mill. **LT Interest** $25.0 mill.
(Total interest coverage: 3.0x)

Leases, Uncapitalized Annual rentals $.9 mill.
Pension Assets-9/08 $248.3 mill. **Oblig.** $308.7 mill.

Pfd Stock None
Common Stock 22,167,303 shs. as of 7/31/09

MARKET CAP: $725 million (Small Cap)

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	52.7	14.9	89.1
Other	414.6	547.0	283.6
Current Assets	467.3	561.9	372.7
Accts Payable	106.8	159.6	79.3
Debt Due	251.6	216.1	133.0
Other	115.3	103.5	87.8
Current Liab.	473.7	479.2	300.1
Fix. Chg. Cov.	282%	377%	370%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	11.5%	14.0%	2.5%
"Cash Flow"	2.0%	6.5%	5.5%
Earnings	3.5%	9.5%	3.5%
Dividends	1.0%	1.5%	2.5%
Book Value	3.5%	5.5%	5.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.)A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	689.2	708.8	330.6	269.0	1997.6
2007	539.6	700.8	457.9	323.3	2021.6
2008	504.0	747.7	505.5	451.8	2209.0
2009	674.3	659.1	309.9	*356.7*	*2000*
2010	*530*	*570*	*520*	*480*	*2100*

Fiscal Year Ends	EARNINGS PER SHARE A B F Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	1.23	1.05	.13	d.04	2.37
2007	.89	.97	.43	.03	2.31
2008	.99	1.39	.41	d.14	2.64
2009	1.42	1.40	.31	*d.18*	*2.95*
2010	*1.03*	*1.21*	*.38*	*d.02*	*2.60*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.34	.345	.345	.345	1.38
2006	.345	.355	.355	.355	1.41
2007	.365	.365	.365	.365	1.46
2008	.375	.375	.375	.375	1.50
2009	.385	.385	.385		

BUSINESS: Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri, including the city of St. Louis, St. Louis County, and parts of 10 other counties. Has roughly 630,000 customers. Purchased SM&P Utility Resources, 1/02; divested, 3/08. Therms sold and transported in fiscal 2008: 1.08 mill. Revenue mix for regulated operations: residential, 62%; commercial and industrial, 24%; transportation, 1%; other, 13%. Has around 1,807 employees. Officers and directors own approximately 7.2% *of common shares* (1/09 proxy). Chairman, Chief Executive Officer, and President: Douglas H. Yaeger. Incorporated: Missouri. Address: 720 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.thelacledegroup.com.

It appears that Laclede Group will generate record earnings in fiscal 2009, which ends on September 30th. The non-regulated gas marketing unit, Laclede Energy Resources, is enjoying a healthy rise in volumes. That has been brought about by significantly increased pipeline capacity and expanded margins on sales of natural gas (reflecting a drop in natural gas prices). *Unfortunately, the utility,* Laclede Gas, has not performed up to par of late, stemming partly from a rise in operational expenses. Furthermore, last year's results included certain previously unrecognized tax benefits (which amounted to about $0.07 a share). Nevertheless, consolidated share net may well advance about 12%, to $2.95 a share, in fiscal 2009.

But fiscal 2010 may be a down year, when measured against the strong profits we anticipate for this year. Moreover, the benefit of sharply lower natural gas prices may not be repeatable.

The company's 3- to 5-year prospects look unspectacular. Annual customer growth for the natural gas distribution unit has been only around 1% for some time, and it appears that trend will continue. This is because the service territory, based in eastern Missouri, is in a mature phase. Laclede Energy Resources has promising expansion possibilities, given its proximity to existing and planned pipelines, as well as opportunities from shale development. But that segment has contributed just a small portion to total profits on a historical basis. A major acquisition could help to offset this, but it appears that such plans are not on management's agenda at this juncture. Consequently, annual earnings-per-share growth could range only between 4% and 5% out to 2012-2014.

Income-oriented accounts may find the dividend yield modestly appealing. Further increases in the payout will probably be gradual, however. That is largely because of Laclede Gas' unexciting expansion prospects.

Total return potential over the 3- to 5-year horizon looks unexciting, based on the stock's current quotation and assuming minimal growth in the distribution.

Frederick L. Harris, III September 11, 2009

(A) Fiscal year ends Sept. 30th.
(B) Based on average shares outstanding thru. '97, then diluted. Excludes nonrecurring loss: '06, 7¢. Excludes gain from discontinued operations: '08, 94¢. Next earnings report due late Oct. (C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available. (D) Incl. deferred charges. In '08: $340.4 mill., $15.48/sh.
(E) In millions.
(F) Qtly. egs. may not sum due to rounding or change in shares outstanding.

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

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NEW JERSEY RES. NYSE-NJR

RECENT PRICE **36.60** | P/E RATIO **14.2** (Trailing: 17.3 Median: 15.0) | RELATIVE P/E RATIO **0.88** | DIV'D YLD **3.4%** | VALUE LINE

TIMELINESS **3** Lowered 5/22/09
SAFETY **1** Raised 9/15/06
TECHNICAL **5** Lowered 9/11/09
BETA .65 (1.00 = Market)

	High:	Low:
1998	17.9	14.0
1999	18.3	14.9
2000	19.8	16.1
2001	21.7	16.6
2002	22.4	16.2
2003	26.4	20.0
2004	29.7	24.3
2005	32.9	27.1
2006	35.4	27.7
2007	37.6	30.3
2008	41.1	24.6
2009	42.4	30.0

Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

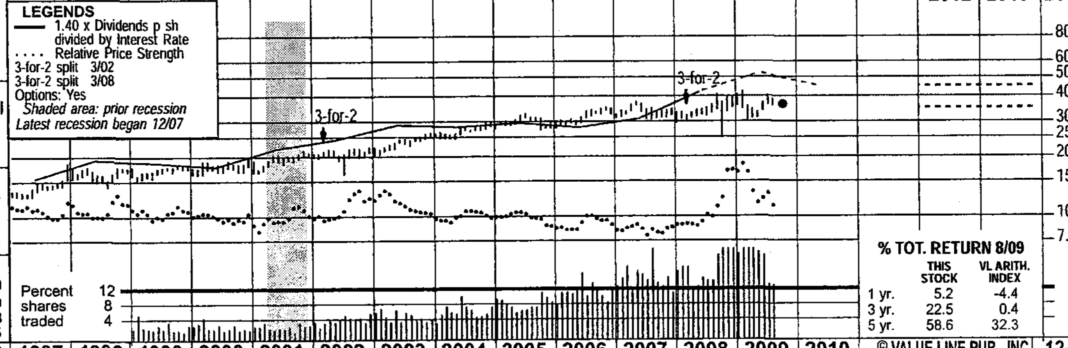
	Price	Gain	Ann'l Total Return
High	45	(+25%)	8%
Low	35	(-5%)	2%

Insider Decisions

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

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	93	87	89
to Sell	73	88	88
Hld's(000)	24319	23324	24695



% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	5.2	-4.4
3 yr.	22.5	0.4
5 yr.	58.6	32.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
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	90.74	*65.90*	*81.40*	Revenues per sh A	*85.00*
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	3.62	*3.35*	*3.60*	"Cash Flow" per sh	*3.70*
.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	*2.45*	*2.70*	Earnings per sh B	*2.80*
.68	.68	.68	.69	.71	.73	.75	.76	.78	.80	.83	.87	.91	.96	1.01	1.11	*1.24*	*1.28*	Div'ds Decl'd per sh C ■	*1.40*
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	1.72	*1.75*	*1.75*	Cap'l Spending per sh	*1.80*
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	17.28	*18.80*	*20.75*	Book Value per sh D	*27.45*
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	42.06	*42.50*	*43.00*	Common Shs Outst'g E	*45.00*
15.1	13.0	11.8	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	*Bold figures are*		Avg Ann'l P/E Ratio	*14.0*
.89	.85	.79	.85	.78	.80	.87	.96	.73	.80	.80	.81	.89	.87	1.15	.77	*Value Line*		Relative P/E Ratio	*.95*
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%	*estimates*		Avg Ann'l Div'd Yield	*3.6%*

CAPITAL STRUCTURE as of 6/30/09
Total Debt $512.3 mill. Due in 5 Yrs $175.6 mill.
LT Debt $457.7 mill. LT Interest $16.9 mill.
Incl. $8.8 mill. capitalized leases.
(LT interest earned: 4.8x; total interest coverage: 4.8x)
Pension Assets-9/08 $80.6 mill. Oblig. $102.4 mill.

Pfd Stock None

Common Stock 42,014,773 shs.
as of 8/4/09
MARKET CAP: $1.5 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
904.3	1164.5	2048.4	1830.8	2544.4	2533.6	3148.3	3299.6	3021.8	3816.2	*2800*	*3500*	Revenues ($mill) A	*3825*
44.9	47.9	52.3	56.8	65.4	71.6	74.4	78.5	65.3	113.9	*80.0*	*105*	Net Profit ($mill)	*125*
36.2%	37.8%	38.0%	38.7%	39.4%	39.1%	39.1%	38.9%	38.8%	37.8%	*39.0%*	*39.0%*	Income Tax Rate	*40.0%*
5.0%	4.1%	2.6%	3.1%	2.6%	2.8%	2.4%	2.4%	2.2%	3.0%	*3.7%*	*3.3%*	Net Profit Margin	*3.3%*
48.7%	47.0%	50.1%	50.6%	38.1%	40.3%	42.0%	34.8%	37.3%	38.5%	*38.5%*	*37.0%*	Long-Term Debt Ratio	*32.0%*
51.2%	52.9%	49.9%	49.4%	61.9%	59.7%	58.0%	65.2%	62.7%	61.5%	*61.5%*	*63.0%*	Common Equity Ratio	*68.0%*
590.4	620.1	706.2	732.4	676.8	783.8	755.3	954.0	1028.0	1182.1	*1300*	*1415*	Total Capital ($mill)	*1815*
705.4	730.6	743.9	756.4	852.6	880.4	905.1	934.9	970.9	1017.3	*1040*	*1060*	Net Plant ($mill)	*1125*
9.0%	9.0%	8.5%	8.7%	10.7%	10.1%	11.2%	9.6%	7.7%	10.7%	*9.0%*	*9.0%*	Return on Total Cap'l	*8.0%*
14.8%	14.6%	14.8%	15.7%	15.6%	15.3%	17.0%	12.6%	10.1%	15.7%	*13.0%*	*13.0%*	Return on Shr. Equity	*10.0%*
14.8%	14.6%	14.9%	15.7%	15.6%	15.3%	17.0%	12.6%	10.1%	15.7%	*13.0%*	*13.0%*	Return on Com Equity	*10.0%*
5.0%	5.4%	6.1%	6.9%	7.7%	7.8%	8.5%	6.3%	3.6%	9.5%	*6.5%*	*7.0%*	Retained to Com Eq	*5.0%*
67%	63%	59%	56%	51%	49%	50%	50%	64%	40%	*50%*	*47%*	All Div'ds to Net Prof	*50*

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	5.1	42.6	77.0
Other	794.8	1067.1	636.5
Current Assets	799.9	1109.7	713.5
Accts Payable	64.4	61.7	49.2
Debt Due	260.8	238.3	54.6
Other	378.1	594.0	475.9
Current Liab.	703.3	894.0	579.7
Fix. Chg. Cov.	461%	450%	450%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	17.5%	9.0%	*1.0%*
"Cash Flow"	6.0%	6.0%	*4.0%*
Earnings	7.5%	7.5%	*5.5%*
Dividends	4.0%	5.0%	*5.5%*
Book Value	8.5%	11.5%	*9.5%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	1164	1064	536.1	535.5	3299.6
2007	737.4	1029	662.2	593.2	3021.8
2008	811.1	1178	1000	827.1	3816.2
2009	801.3	937.5	441.1	*620.1*	*2800*
2010	*845*	*985*	*790*	*880*	*3500*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	.82	1.43	d.09	d.29	1.87
2007	.70	.19	.60	.06	1.55F
2008	1.31	1.86	d.10	d.39	2.70
2009	.77	1.71	.03	*d.06*	*2.45*
2010	*.85*	*1.75*	*d.05*	*.15*	*2.70*

Cal-endar	QUARTERLY DIVIDENDS PAID C E ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.227	.227	.227	.227	.91
2006	.24	.24	.24	.24	.96
2007	.253	.253	.253	.253	1.01
2008	.267	.28	.28	.28	1.11
2009	.31	.31	.31		

BUSINESS: New Jersey Resources Corp. is a holding company providing retail/wholesale energy svcs. to customers in New Jersey, and in states from the Gulf Coast to New England, and Canada. New Jersey Natural Gas had about 484,000 customers at 9/30/08 in Monmouth and Ocean Counties, and other N.J. Counties. Fiscal 2008 volume: 99.6 bill. cu. ft. (59% firm, 6% interruptible industrial and electric utility, 35% off-system and capacity release). N.J. Natural Energy subsidiary provides unregulated retail/wholesale natural gas and related energy svcs. 2008 dep. rate: 2.9%. Has 854 empls. Off./dir. own about 1.7% of common (12/09 Proxy). Chrmn., CEO, & Pres. : Laurence M. Downes. Inc.: NJ Addr.: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 732-938-1480. Web: www.njresources.com.

New Jersey Resources' bottom line has been improving despite weaker top-line results. All of the company's operating segments registered lower volumes during the June period. The NJR Energy Services unit, which typically contributes the lion's share of revenues, was hit the hardest on both a dollar-value and percentage basis. Meantime, the Natural Gas Distribution and Retail segments also registered declines well into the double digits. The bulk of that downturn can be attributed to the lower commodity prices compared to last year, and conservation efforts, as consumers continue to real in spending. Still, the customer base continues to widen. The New Jersey Natural Gas division has added almost 4,200 new customer accounts thus far in 2009 and completed more than 450 natural gas heat conversions. All told, the company registered higher-than-expected earnings for the June interim. But,

We do look for September's share net to fall into negative territory. The anticipated loss during the fiscal fourth quarter is related to the seasonal nature of the natural gas business. Nonetheless, economic headwinds have prompted us to trim a nickel off our 2009 earnings estimate to $2.45 a share. This would represent a decline of about 9%. However, we view this largely as a technicality, due to last year's difficult comparison and the fact that NJR continues to improve the fundamentals of its business through the expansion of its mid-stream assets and an ever-widening customer base.

Capital projects and infrastructure programs augur well for longer-term prospects. The Steckman Ridge storage facility has begun accumulating natural gas inventories in preparation for the coming winter. That facility is expected to start making meaningful earnings contributions next year. And the other programs should provide needed jobs, while simultaneously boosting the safety and reliability of the distribution system.

These high-quality shares may appeal to income-oriented accounts. They don't stand out for appreciation potential for the pull to 2012-2014, compared to most utilities. The main appeal here comes from solid dividend growth prospects.

Bryan J. Fong *September 11, 2009*

(A) Fiscal year ends Sept. 30th.
(B) Diluted earnings. Qtly egs may not sum to total due to change in shares outstanding. Next earnings report due late Oct.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) Includes regulatory assets in 2008: $340.7 million, $8.09/share.
(E) In millions, adjusted for splits.
(F) Restated.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	65
Earnings Predictability	45

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NICOR, INC. NYSE-GAS

RECENT PRICE **35.65** | P/E RATIO **13.5** (Trailing: 14.0 Median: 15.0) | RELATIVE P/E RATIO **0.84** | DIV'D YLD **5.2%** | **VALUE LINE**

TIMELINESS 3 Raised 12/7/07

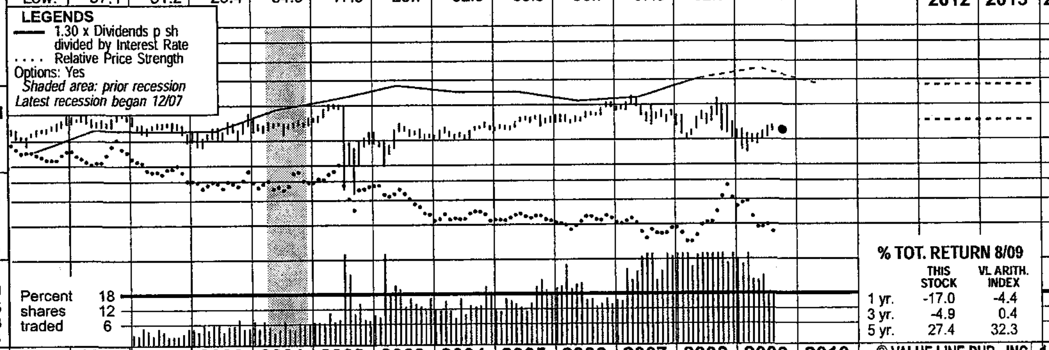
SAFETY 3 Lowered 6/17/05

TECHNICAL 4 Lowered 9/4/09

BETA .70 (1.00 = Market)

High:	44.4	42.9	43.9	42.4	49.0	39.3	39.7	43.0	49.9	53.7	52.0	38.1
Low:	37.1	31.2	29.4	34.0	17.3	23.7	32.0	35.5	38.7	37.8	32.3	27.5

Target Price Range
2012 | 2013 | 2014



2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+70%)	17%
Low	40	(+10%)	7%

Insider Decisions

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

	4Q2008	1Q2009	2Q2009
to Buy	114	92	105
to Sell	126	126	103
Hld's(000)	27287	25772	25968

% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-17.0	-4.4
3 yr.	-4.9	0.4
5 yr.	27.4	32.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
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	83.68	*70.90*	*72.90*	Revenues per sh	*93.30*
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	6.85	*6.05*	*6.70*	"Cash Flow" per sh	*7.85*
1.97	2.07	1.96	2.42	2.55	2.31	2.57	2.94	3.01	2.88	2.11	2.22	2.27	2.87	2.99	2.63	*2.55*	*2.85*	Earnings per sh A	*3.25*
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*	*1.86*	Div'ds Decl'd per sh B■	*1.86*
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	5.54	*5.95*	*6.35*	Cap'l Spending per sh	*6.80*
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	21.55	*22.10*	*23.10*	Book Value per sh	*26.80*
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	45.13	*45.50*	*45.50*	Common Shs Outst'g C	*45.50*
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	15.1	*Bold figures are*		Avg Ann'l P/E Ratio	*16.0*
.83	.82	.88	.78	.82	.92	.83	.77	.66	.72	.90	.84	.92	.81	.80	.93	*Value Line*		Relative P/E Ratio	*1.05*
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%	4.7%	*estimates*		Avg Ann'l Div'd Yield	*3.9%*
						1615.2	2298.1	2544.1	1897.4	2662.7	2739.7	3357.8	2960.0	3176.3	3776.6	*3225*	*3500*	Revenues ($mill)	*4200*
						121.9	136.4	136.3	128.0	93.1	98.1	101.1	128.3	135.2	119.5	*115*	*130*	Net Profit ($mill)	*150*
						34.7%	34.8%	33.5%	31.0%	35.2%	31.8%	28.3%	26.3%	26.6%	27.0%	*27.0%*	*27.0%*	Income Tax Rate	*27.0%*
						7.5%	5.9%	5.4%	6.7%	3.5%	3.6%	3.0%	4.3%	4.3%	3.2%	*3.6%*	*3.7%*	Net Profit Margin	*3.5%*
						35.5%	32.7%	37.8%	35.1%	39.6%	39.8%	37.4%	36.3%	30.9%	31.5%	*33%*	*30%*	Long-Term Debt Ratio	*26%*
						64.0%	66.7%	61.7%	64.5%	60.3%	60.1%	62.5%	63.7%	69.0%	68.4%	*67%*	*70%*	Common Equity Ratio	*74%*
						1230.1	1061.2	1180.1	1128.9	1251.5	1246.0	1297.7	1370.7	1368.0	1421.1	*1500*	*1500*	Total Capital ($mill)	*1650*
						1735.2	1729.6	1768.6	1796.8	2484.2	2549.8	2659.1	2714.1	2757.3	2858.6	*3000*	*3150*	Net Plant ($mill)	*3600*
						10.9%	13.7%	12.3%	12.2%	8.3%	8.8%	9.4%	10.9%	11.2%	9.7%	*9.0%*	*10.0%*	Return on Total Cap'l	*10.0%*
						15.4%	19.1%	18.6%	17.5%	12.3%	13.1%	12.5%	14.7%	14.3%	12.3%	*11.5%*	*12.5%*	Return on Shr. Equity	*12.0%*
						15.4%	19.2%	18.7%	17.5%	12.3%	13.1%	12.5%	14.7%	14.3%	12.3%	*11.5%*	*12.5%*	Return on Com Equity	*12.0%*
						6.2%	8.5%	7.9%	6.5%	1.5%	2.1%	2.3%	5.2%	5.4%	3.6%	*3.0%*	*4.5%*	Retained to Com Eq	*5.5%*
						60%	56%	58%	63%	88%	84%	81%	65%	62%	71%	*70%*	*65%*	All Div'ds to Net Prof	*57%*

CAPITAL STRUCTURE as of 6/30/09
Total Debt $725.7 mill. **Due in 5 Yrs** $914.9 mill.
LT Debt $498.7 mill. **LT Interest** $5.0 mill.
(Total interest coverage: 5.1x)

Pension Assets-12/08 $306.6 mill. **Oblig.** $270.2 mill.

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

Common Stock 45,221,593 shares as of 7/24/09
MARKET CAP: $1.6 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	91.9	95.5	116.3
Other	931.9	1243.4	627.0
Current Assets	1023.8	1338.9	743.3
Accts Payable	564.5	411.3	266.1
Debt Due	350.0	789.9	227.0
Other	227.9	466.8	482.9
Current Liab.	1142.4	1668.0	976.0
Fix. Chg. Cov.	543%	461%	449%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	7.0%	6.5%	*4.0%*
"Cash Flow"	3.0%	3.0%	*2.0%*
Earnings	1.5%	1.0%	*2.5%*
Dividends	3.0%	0.5%	*Nil*
Book Value	3.0%	4.0%	*4.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	699.8	440.3	1040.8	3776.6
2009	1110.8	447.6	*375*	*1291.6*	*3225*
2010	*1150*	*625*	*425*	*1300*	*3500*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.99	.19	.39	1.30	2.87
2007	1.04	.40	.32	1.22	2.98
2008	.91	.64	.03	1.05	2.63
2009	.96	.50	*.05*	*1.04*	*2.55*
2010	*1.05*	*.50*	*.30*	*1.00*	*2.85*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.465	.465	.465	.465	1.86
2006	.465	.465	.465	.465	1.86
2007	.465	.465	.465	.465	1.86
2008	.465	.465	.465	.465	1.86
2009	.465	.465	.465		

BUSINESS: Nicor Inc. is a holding company with gas distribution as its primary business. Serves over 2.2 million customers in northern and western Illinois. 2008 gas delivered: 498.1 Bcf, incl. 222.6 Bcf from transportation. 2008 gas sales (275.5 bcf): residential, 93%; commercial, 6%; industrial, 1%. 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 (3/09 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.

Nicor posted mixed results in the second quarter. Both the top and bottom lines fell short of 2008's results due to the challenging macroeconomic environment and lower energy prices. Furthermore, sales of $447.6 million missed our estimate in June ($600 million). However, earnings of $0.50 a share topped our number, thanks to new rates in the natural gas distribution business (discussed below), which offset unfavorable pricing and a weak showing in the shipping operations.

We have lowered our bottom-line estimate for 2009 by a dime, to $2.55 a share. Management reaffirmed its share-net guidance range of $2.54 to $2.74. However, we have pared our target to the low end of management's range, given the tough market conditions for natural gas producers. Most notably, lower usage, coupled with unfavorable pricing, will probably continue to pressure these utilities over the coming months. Therefore, we look for the top line to decline 15% to $3.2 million.

The company requested a rehearing on its rate case. Nicor was approved for a $69 million increase in base revenues at the end of the March period. However, the company is awaiting a decision from the Illinois Commerce Commission regarding a rehearing. Nicor is seeking greater relief than what was approved.

This equity offers a yield that is above average for a natural gas utility. Nicor continues to pay a hearty dividend despite the challenging operating environment. What's more, we think the payout is safe, thanks to the company's strong balance sheet. Thus, income-oriented investors may find this equity's attractive yield (5.2%) of interest.

Shares of Nicor are ranked to mirror the broader market averages over the next six to 12 months, as near-term prospects appear to be limited. Moreover, at the current quotation, this issue has below-average total return potential over the 3- to 5-year pull. Therefore, we recommend most investors look elsewhere. However, risk-averse investors should note this equity is well positioned to weather any volatility (Beta: 70) over the coming years, given its strong finances and stable business (Financial Strength: A).

Richard Gallagher *September 11, 2009*

(A) Based on primary earnings thru. '96, then diluted. Excl. nonrecurring gains/(loss): '97, 6¢; '98, 11¢; '99, 5¢; '00, ($1.96); '01, 16¢; '03, (27¢); '04, (52¢); '05, 80¢; '06, (17¢); '07 (13¢). Excl. items from discontinued ops.: '93, 4¢; '96, 30¢. Next egs. report due early November.
(B) Dividends historically paid mid February, May, August, November. ■ Dividend reinvestment plan available. (C) In millions.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	45
Earnings Predictability	80

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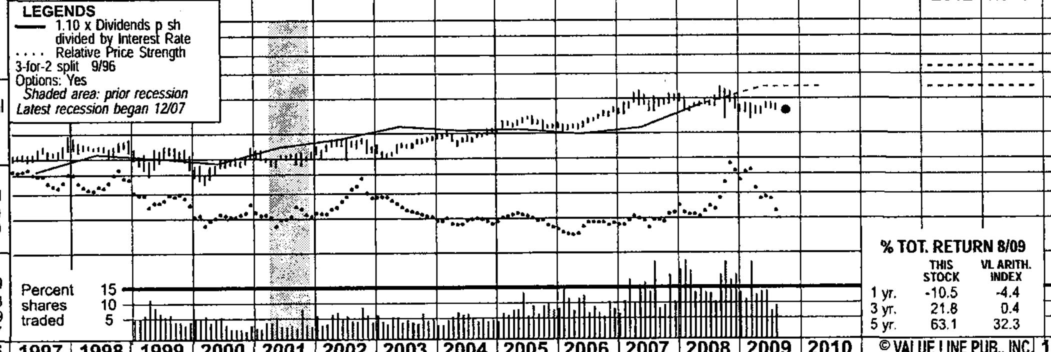
N.W. NAT'L GAS NYSE-NWN

RECENT PRICE 41.94 | P/E RATIO 14.7 (Trailing: 15.5, Median: 16.0) | RELATIVE P/E RATIO 0.91 | DIV'D YLD 4.0% | VALUE LINE

TIMELINESS **3** Lowered 7/24/09
SAFETY **1** Raised 3/18/05
TECHNICAL **4** Lowered 9/4/09
BETA .60 (1.00 = Market)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
High:	30.8	27.9	27.5	26.8	30.7	31.3	34.1	39.6	43.7	52.8	55.2	46.1
Low:	24.3	19.5	17.8	21.7	23.5	24.0	27.5	32.4	32.8	39.8	37.7	37.7

LEGENDS
— 1.10 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 9/96
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



Target Price Range

2012	2013	2014

2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	70	(+65%)	*16%*
Low	55	(+30%)	*10%*

Insider Decisions

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

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	82	67	78
to Sell	83	93	69
Hld's(000)	*14907*	*15126*	*15387*

% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-10.5	-4.4
3 yr.	21.8	0.4
5 yr.	63.1	32.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
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	39.16	*39.60*	*41.50*	Revenues per sh	*48.20*
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	5.31	*5.60*	*5.85*	"Cash Flow" per sh	*6.75*
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	2.57	*2.85*	*2.85*	Earnings per sh A	*3.45*
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*	*1.68*	Div'ds Decl'd per sh B■	*2.00*
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	3.92	*4.50*	*4.50*	Cap'l Spending per sh	*4.50*
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	23.71	*24.90*	*26.10*	Book Value per sh	*30.50*
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*	*26.50*	Common Shs Outst'g C	*28.00*
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	18.1	*Bold figures are*		Avg Ann'l P/E Ratio	*18.0*
.76	.85	.86	.73	.83	1.39	.83	.81	.66	.94	.90	.88	.91	.86	.89	1.11	*Value Line*		Relative P/E Ratio	*1.20*
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%	3.3%	*estimates*		Avg Ann'l Div'd Yield	*3.2%*

CAPITAL STRUCTURE as of 6/30/09
Total Debt $677.6 mill. **Due in 5 Yrs** $173.8 mill.
LT Debt $587.0 mill. **LT Interest** $37.0 mill.

(Total interest coverage: 4.0x)

Pension Assets-12/08 $163 mill.
Oblig. $281 mill.
Pfd Stock None

Common Stock 26,513,188 shares as of 7/31/09
MARKET CAP $1.1 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
455.8	532.1	650.3	641.4	611.3	707.6	910.5	1013.2	1033.2	1037.9	*1025*	*1125*	Revenues ($mill)	*1350*
44.9	47.8	50.2	43.8	46.0	50.6	58.1	65.2	74.5	68.5	*75.5*	*75.5*	Net Profit ($mill)	*96.5*
35.4%	35.9%	35.4%	34.9%	33.7%	34.4%	36.0%	36.3%	37.2%	36.9%	*37.0%*	*37.0%*	Income Tax Rate	*37.0%*
9.9%	9.0%	7.7%	6.8%	7.5%	7.1%	6.4%	6.4%	7.2%	6.6%	*7.3%*	*6.7%*	Net Profit Margin	*7.2%*
46.0%	45.1%	43.0%	47.6%	49.7%	46.0%	47.0%	46.3%	46.3%	44.9%	*47%*	*47%*	Long-Term Debt Ratio	*47%*
49.9%	50.9%	53.2%	51.5%	50.3%	54.0%	53.0%	53.7%	53.7%	55.1%	*53%*	*53%*	Common Equity Ratio	*53%*
861.5	887.8	880.5	937.3	1006.6	1052.5	1108.4	1116.5	1106.8	1140.4	*1180*	*1225*	Total Capital ($mill)	*1400*
895.9	934.0	965.0	995.6	1205.9	1318.4	1373.4	1425.1	1495.9	1549.1	*1600*	*1660*	Net Plant ($mill)	*1900*
6.8%	6.7%	6.9%	5.9%	5.7%	5.9%	6.5%	7.1%	8.5%	7.7%	*8.0%*	*8.0%*	Return on Total Cap'l	*8.0%*
9.7%	9.8%	10.0%	8.9%	9.1%	8.9%	9.9%	10.9%	12.5%	10.9%	*11.0%*	*11.0%*	Return on Shr. Equity	*11.0%*
9.9%	10.0%	10.2%	8.5%	9.0%	8.9%	9.9%	10.9%	12.5%	10.9%	*11.0%*	*11.0%*	Return on Com Equity	*11.0%*
2.8%	3.1%	3.5%	1.9%	2.6%	2.7%	3.7%	4.5%	6.0%	4.5%	*4.5%*	*4.5%*	Retained to Com Eq	*4.5%*
74%	70%	67%	79%	72%	69%	63%	59%	52%	59%	*56%*	*59%*	All Div'ds to Net Prof	*58%*

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	6.1	6.9	31.1
Other	268.8	474.1	241.3
Current Assets	274.9	481.0	272.4
Accts Payable	119.7	94.4	50.1
Debt Due	148.1	248.0	90.6
Other	122.1	208.9	148.8
Current Liab.	389.9	551.3	289.5
Fx. Chg. Cov.	408%	393%	NMF

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	9.0%	9.0%	*4.0%*
"Cash Flow"	3.5%	6.5%	*4.5%*
Earnings	5.0%	8.0%	*5.0%*
Dividends	2.0%	3.0%	*5.5%*
Book Value	3.5%	3.5%	*5.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	349.2	1037.9
2009	437.4	149.4	*100*	*338.2*	*1025*
2010	*420*	*215*	*125*	*365*	*1125*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	1.48	.07	d.35	1.15	2.35
2007	1.77	.10	d.22	1.11	2.76
2008	1.62	.08	d.38	1.25	2.57
2009	1.72	.12	*d.31*	*1.32*	*2.85*
2010	*1.72*	*.11*	*d.33*	*1.35*	*2.85*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	1.52
2009	.395	.395	.395		

BUSINESS: Northwest Natural Gas Co. distributes natural gas to 90 communities, 662,000 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 1,106. Barclays Global owns 6.6% of shares; officers and directors, 1.4% (4/09 proxy). CEO: Gregg S. Kantor. Inc.: Oregon. Address: 220 NW 2nd Ave., Portland, OR 97209. Telephone: 503-226-4211. Internet: www.nwnatural.com.

Northwest Natural's normal-looking first-half results contained some unusual elements. The company shares in either 20% or 10% of the difference between forecast natural gas costs and the actual outlays in Oregon. In this year's first half, very low gas prices led to an $11 million profit from the cost-sharing mechanism, versus a $6 million loss in the prior-year period. The profit, however, was partially offset by considerably higher operating and maintenance expenses, due partly to higher pension expense related to the decline in the stock market and bonuses due to the earnings gain. Meanwhile, the recession cost Northwest 3,000 customers in the June period, dropping its year-to-year customer increase to 0.8%.

Thus, we look for little earnings change through 2010. With natural gas prices likely to rise at least a bit next year, Northwest has opted to share in 10% of the difference between forecast and actual gas costs, likely reducing commodity cost effects. As gas prices are down, however, the company expects that residential rates will drop 15%-20% next year, raising the incentive to convert to gas heat. Moreover, the company plans to pare 50 to 100 jobs, adding to the 175 it eliminated in the last two years.

Northwest should benefit from a new union contract. Under the new five-year agreement, union members (about 60% of the workforce) received a 2.3% raise but will get just 1% more per year for years two through five, plus up to 2% for inflation. The company gains extra flexibility, and new hires will not be eligible for the defined benefit pension plan.

New projects could significantly boost earnings by the end of our time horizon. Northwest owns 75% of the Gill Ranch, CA gas storage project and will invest about $160 million in the project; it should contribute to the bottom line by 2011. The proposed Palomar pipeline would bring a second source of gas to the Portland area; its eastern section could come on line by 2013. NWN's investment would be around $200 million, plus an equal sum if the western half is built.

These top-quality shares offer decent total-return potential, suitable for conservative accounts.

Sigourney B. Romaine September 11, 2009

(A) Diluted earnings per share. Excludes nonrecurring items: '98, $0.15; '00, $0.11; '06, ($0.06); '08, ($0.03); 1Q '09, 6¢. Next earnings report due early November.
(B) Dividends historically paid in mid-February, May, August, and 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	90

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PIEDMONT NAT'L. GAS NYSE-PNY

RECENT PRICE 24.24 | P/E RATIO 14.8 (Trailing: 15.6; Median: 18.0) | RELATIVE P/E RATIO 0.92 | DIV'D YLD 4.5% | VALUE LINE

TIMELINESS 3 Raised 6/15/07
SAFETY 2 New 7/27/90
TECHNICAL 4 Raised 7/17/09
BETA .65 (1.00 = Market)

High:	18.1	18.3	19.7	19.0	19.0	22.0	24.3	25.8	28.4	28.0	35.3	32.0
Low:	13.9	14.3	11.8	14.6	13.7	16.6	19.2	21.3	23.2	22.0	21.7	20.7

Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

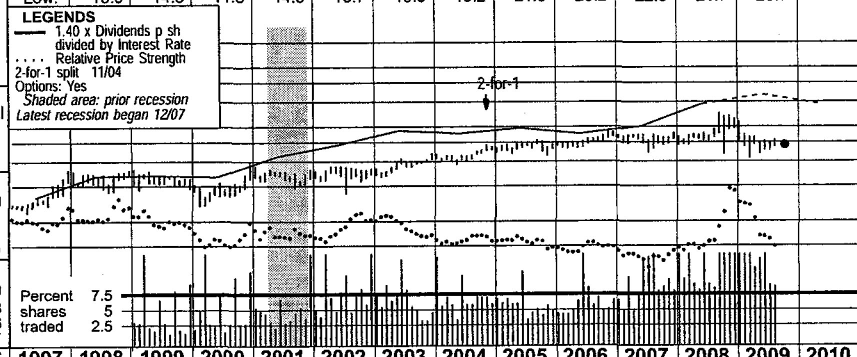
	Price	Gain	Ann'l Total Return
High	40	(+65%)	17%
Low	30	(+25%)	10%

Insider Decisions

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

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	112	75	78
to Sell	93	123	96
Hld's(000)	33160	34611	33567



% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-13.5	-4.4
3 yr.	3.2	0.4
5 yr.	34.0	32.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
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	28.52	**26.45**	**27.25**	Revenues per sh A	**30.00**
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	2.77	**2.85**	**2.95**	"Cash Flow" per sh	**3.15**
.73	.68	.73	.84	.93	.98	.93	1.01	1.01	.95	1.11	1.27	1.32	1.27	1.40	1.49	**1.60**	**1.70**	Earnings per sh B	**1.90**
.48	.51	.54	.57	.61	.64	.68	.72	.76	.80	.82	.85	.91	.95	.99	1.03	**1.07**	**1.11**	Div'ds Decl'd per sh C ■	**1.23**
1.58	1.95	1.72	1.64	1.52	1.48	1.58	1.65	1.29	1.21	1.16	1.85	2.50	2.74	1.85	2.47	**2.40**	**2.10**	Cap'l Spending per sh	**2.25**
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	12.11	**12.70**	**13.25**	Book Value per sh D	**15.05**
52.30	53.15	57.67	59.10	60.39	61.48	62.59	63.83	64.93	66.18	67.31	76.67	76.70	74.61	73.23	73.26	**73.50**	**73.50**	Common Shs Outst'g E	**73.00**
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	18.2	*Bold figures are*		Avg Ann'l P/E Ratio	**18.0**
.91	1.03	.92	.87	.78	.85	1.01	.93	.86	1.01	.95	.88	.95	1.04	.99	1.15	*Value Line*		Relative P/E Ratio	**1.50**
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%	3.8%	*estimates*		Avg Ann'l Div'd Yield	**3.6%**
						686.5	830.4	1107.9	832.0	1220.8	1529.7	1761.1	1924.7	1711.3	2089.1	**1945**	**2005**	Revenues ($mill) A	**2190**
						58.2	64.0	65.5	62.2	74.4	95.2	101.3	97.2	104.4	110.0	**115**	**125**	Net Profit ($mill)	**140**
						39.7%	34.7%	34.6%	33.1%	34.8%	35.1%	33.7%	34.2%	33.0%	36.4%	**35.0%**	**35.0%**	Income Tax Rate	**35.0%**
						8.5%	7.7%	5.9%	7.5%	6.1%	6.2%	5.8%	5.0%	6.1%	5.3%	**6.1%**	**6.3%**	Net Profit Margin	**6.4%**
						46.2%	46.1%	47.6%	43.9%	42.2%	43.6%	41.4%	48.3%	48.4%	47.2%	**47.5%**	**48.0%**	Long-Term Debt Ratio	**47.0%**
						53.8%	53.9%	52.4%	56.1%	57.8%	56.4%	58.6%	51.7%	51.6%	52.8%	**52.5%**	**52.0%**	Common Equity Ratio	**53.0%**
						914.7	978.4	1069.4	1051.6	1090.2	1514.9	1509.2	1707.9	1703.3	1681.5	**1775**	**1875**	Total Capital ($mill)	**2075**
						1047.0	1072.0	1114.7	1158.5	1812.3	1849.8	1939.1	2075.3	2141.5	2240.8	**2250**	**2300**	Net Plant ($mill)	**2450**
						8.1%	8.3%	7.9%	7.8%	8.6%	7.8%	8.2%	7.2%	7.8%	8.2%	**8.0%**	**8.0%**	Return on Total Cap'l	**8.0%**
						11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	11.9%	12.4%	**12.5%**	**13.0%**	Return on Shr. Equity	**12.5%**
						11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	11.9%	12.4%	**12.5%**	**13.0%**	Return on Com Equity	**12.5%**
						3.3%	3.5%	3.0%	1.7%	3.1%	3.7%	3.6%	2.8%	3.5%	3.9%	**4.0%**	**4.5%**	Retained to Com Eq	**4.5%**
						72%	71%	75%	83%	74%	66%	68%	74%	70%	69%	**67%**	**65%**	All Div'ds to Net Prof	**65%**

CAPITAL STRUCTURE as of 4/30/09
Total Debt $1029.0 mill. **Due in 5 Yrs** $150.0 mill.
LT Debt $793.5 mill. **LT Interest** $55.5 mill.
(LT interest earned: 4.0x; total interest coverage: 3.7x)

Pension Assets-10/08 $150.3 mill. **Oblig.** $143.5 mill.

Pfd Stock None

Common Stock 72,959,779 shs. as of 6/2/09
MARKET CAP: $1.8 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	4/30/09
Cash Assets	7.5	7.0	20.7
Other	427.8	593.8	528.0
Current Assets	435.3	600.8	548.7
Accts Payable	143.6	132.3	94.0
Debt Due	195.0	436.5	235.5
Other	75.9	112.7	182.3
Current Liab.	424.5	681.5	511.8
Fix. Chg. Cov.	309%	341%	350%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	7.5%	10.0%	2.5%
"Cash Flow"	5.0%	7.0%	3.0%
Earnings	4.5%	6.5%	5.5%
Dividends	5.0%	4.5%	3.5%
Book Value	5.5%	6.0%	4.0%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
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	311.7	2089.1
2009	779.6	455.4	**372**	**338**	**1945**
2010	**790**	**470**	**390**	**355**	**2005**

Fiscal Year Ends	EARNINGS PER SHARE A B Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
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.18	1.49
2009	1.10	.73	**d.10**	**d.13**	**1.60**
2010	**1.12**	**.75**	**d.08**	**d.09**	**1.70**

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.215	.23	.23	.23	.91
2006	.23	.24	.24	.24	.95
2007	.24	.25	.25	.25	.99
2008	.25	.26	.26	.26	1.03
2009	.26	.27	.27		

BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 935,724 customers in North Carolina, South Carolina, and Tennessee. 2008 revenue mix: residential (39%), commercial (24%), industrial (12%), other (25%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 73.5% of revenues. '08 deprec. rate: 3.2%. Estimated plant age: 8.7 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 1,833 employees. Officers & directors own about 1.1% of common stock (1/09 proxy). Chairman, CEO, & President: Thomas E. Skains. Inc.: NC. Address: 4720 Piedmont Row Drive, Charlotte, NC 28210. Telephone: 704-364-3120. Internet: www.piedmontng.com.

Piedmont Natural Gas has posted a mixed bag of financial results thus far in 2009. Quarterly sales in the first half declined, year over year, as the weakened economy continued to weigh on both residential and commercial new construction activities. As a result, PNY's regulated utility segment has been experiencing declining customer growth compounded by rising conservation practices at existing accounts. Nonetheless, margins have been widening, thanks largely to lower natural gas costs, which have more than offset the rise in operating expenses. These trends resulted in a 10.6% hike in the April-period bottom line.

Meantime, slumping demand has put the brakes on many of the company's capital projects. Management has opted to defer its pipeline infrastructure enhancement plans that were scheduled to serve the new gas-fired power generation markets of North Carolina. Moreover, construction of the liquid natural gas storage facility in Robeson County, NC has also been put off. Current customer growth projections in that region indicate this facility may not be necessary for a few more years. As a result, PNY is holding off on construction until 2012, with a potential in-service date of 2015. These moves ought to help the company conserve cash at a time when rising accounts receivable and higher delinquencies are a distinct possibility.

Still, we have raised our earnings estimates for this year and next by a nickel. The main culprit for the disappointing 2009 revenues can be attributed to the slumping commodity prices. This trend masks Piedmont's continued customer growth, a figure that should register at about 1%-1.5% this year. Meantime, lower gas costs should continue to offset the *margin* tightening associated with diminished volumes. Consequently, annual earnings gains should persist.

These neutrally ranked shares have some appeal as an income vehicle. Recovery potential for the pull to 2012-2014 is about average for a utility. But the recent dividend hike, and relative stability provided by an ever-increasing customer base, shines a positive light on this good-quality stock.

Bryan J. Fong *September 11, 2009*

(A) Fiscal year ends October 31st.
(B) Diluted earnings. Excl. extraordinary item: '00, 8¢. Excl. nonrecurring charge: '97, 2¢. Next earnings report due early Nov. Quarters may not add to total due to change in shares outstanding.
(C) Dividends historically paid mid-January, April, July, October.
■ Div'd reinvest. plan available; 5% discount.
(D) Includes deferred charges. In 2008: $16.3 million, 22¢/share.
(E) In millions, adjusted for stock split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	90

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SOUTH JERSEY INDS. NYSE-SJI

RECENT PRICE 34.29 | P/E RATIO 14.3 (Trailing: 14.8; Median: 14.0) | RELATIVE P/E RATIO 0.89 | DIV'D YLD 3.6% | VALUE LINE

High:	15.4	15.4	15.1	17.0	18.3	20.3	26.5	32.4	34.3	41.3	40.6	40.8	
Low:	11.0	10.8	12.3	13.8	14.1	15.3	19.7	24.9	25.6	31.2	25.2	32.0	

Target Price Range 2012 | 2013 | 2014

TIMELINESS 3 Lowered 8/14/09
SAFETY 2 Lowered 1/4/91
TECHNICAL 5 Lowered 9/11/09
BETA .65 (1.00 = Market)

LEGENDS
— 1.40 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 7/05
Options: Yes
Shaded area: prior recession
Latest recession began 12/07

2012-14 PROJECTIONS

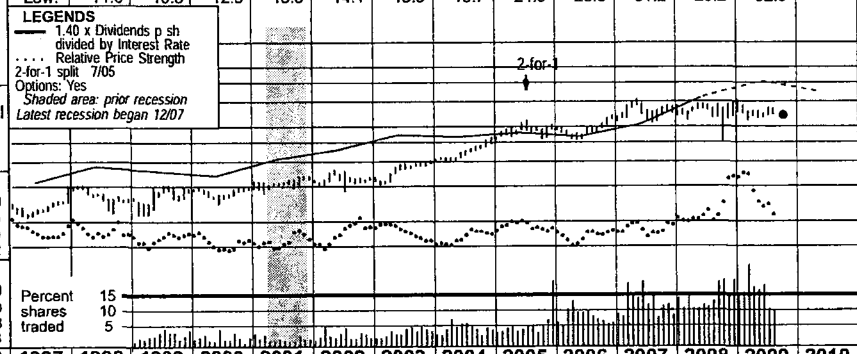
	Price	Gain	Ann'l Total Return
High	50	(+45%)	13%
Low	35	(Nil)	5%

Insider Decisions

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

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	75	73	70
to Sell	69	70	78
Hld's(000)	16545	16545	15858



% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	0.4	-4.4
3 yr.	31.1	0.4
5 yr.	79.3	32.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
17.03	17.45	16.50	16.52	16.18	20.89	17.60	22.43	35.30	20.69	26.34	29.51	31.78	31.76	32.30	32.36	*30.85*	*31.60*	Revenues per sh	*36.35*
1.54	1.35	1.65	1.54	1.60	1.44	1.84	1.95	1.90	2.12	2.24	2.44	2.51	3.51	3.20	3.48	*3.35*	*3.60*	"Cash Flow" per sh	*4.20*
.78	.61	.83	.85	.86	.64	1.01	1.08	1.15	1.22	1.37	1.58	1.71	2.46	2.09	2.27	*2.40*	*2.65*	Earnings per sh A	*3.10*
.72	.72	.72	.72	.72	.72	.72	.73	.74	.75	.78	.82	.86	.92	1.01	1.11	*1.20*	*1.28*	Div'ds Decl'd per sh B ■	*1.50*
1.87	1.93	2.08	2.01	2.30	3.06	2.19	2.21	2.82	3.47	2.36	2.67	3.21	2.51	1.88	2.08	*2.35*	*2.40*	Cap'l Spending per sh	*2.90*
7.17	7.23	7.34	8.03	6.43	6.23	6.74	7.25	7.81	9.67	11.26	12.41	13.50	15.11	16.25	17.33	*18.65*	*19.35*	Book Value per sh C	*22.75*
19.61	21.43	21.44	21.51	21.54	21.56	22.30	23.00	23.72	24.41	26.46	27.76	28.98	29.33	29.61	29.73	*30.00*	*31.00*	Common Shs Outst'g D	*33.00*
15.8	16.1	12.2	13.3	13.8	21.2	13.3	13.0	13.6	13.5	13.3	14.1	16.6	11.9	17.2	15.9	*Bold figures are*	*Value Line*	Avg Ann'l P/E Ratio	*14.0*
.93	1.06	.82	.83	.80	1.10	.76	.85	.70	.74	.76	.74	.88	.64	.91	.95	*estimates*		Relative P/E Ratio	*.95*
5.9%	7.4%	7.2%	6.4%	6.1%	5.3%	5.4%	5.2%	4.7%	4.6%	4.3%	3.7%	3.0%	3.2%	2.8%	3.1%			Avg Ann'l Div'd Yield	*3.5%*

CAPITAL STRUCTURE as of 6/30/09
Total Debt $496.4 mill. **Due in 5 Yrs** $228.8 mill.
LT Debt $332.7 mill. **LT Interest** $16.0 mill.
(Total interest coverage: 8.4x)

Pension Assets-12/08 $88.3 mill. **Oblig.** $142.7 mill.

Pfd Stock none

Common Stock 29,796,232 common shs. as of 8/3/09

MARKET CAP: $1.0 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
392.5	515.9	837.3	505.1	696.8	819.1	921.0	931.4	956.4	962.0	*925*	*980*	Revenues ($mill)	*1200*
22.0	24.7	26.8	29.4	34.6	43.0	48.6	72.0	61.8	67.7	*70.0*	*80.0*	Net Profit ($mill)	*100*
42.8%	43.1%	42.2%	41.4%	40.6%	40.9%	41.5%	41.3%	41.9%	47.7%	*38.0%*	*40.0%*	Income Tax Rate	*40.0%*
5.6%	4.8%	3.2%	5.8%	5.0%	5.2%	5.3%	7.7%	6.5%	7.0%	*7.6%*	*8.2%*	Net Profit Margin	*8.3%*
53.8%	54.1%	57.0%	53.6%	50.8%	48.7%	44.9%	44.7%	42.7%	39.2%	*38.5%*	*40.0%*	Long-Term Debt Ratio	*38.0%*
37.0%	37.6%	35.9%	46.1%	49.0%	51.0%	55.1%	55.3%	57.3%	60.8%	*61.5%*	*60.0%*	Common Equity Ratio	*62.0%*
405.9	443.5	516.2	512.5	608.4	675.0	710.3	801.1	839.0	848.0	*910*	*1000*	Total Capital ($mill)	*1210*
533.3	562.2	607.0	666.6	748.3	799.9	877.3	920.0	948.9	982.6	*1030*	*1075*	Net Plant ($mill)	*1250*
7.4%	7.4%	6.9%	7.6%	7.3%	7.9%	8.3%	10.1%	8.6%	8.5%	*8.5%*	*9.0%*	Return on Total Cap'l	*9.0%*
11.7%	12.1%	12.1%	12.4%	11.5%	12.4%	12.4%	16.3%	12.8%	13.1%	*12.5%*	*13.5%*	Return on Shr. Equity	*13.5%*
14.6%	14.8%	12.8%	12.5%	11.6%	12.5%	12.4%	16.3%	12.8%	13.1%	*12.5%*	*13.5%*	Return on Com Equity	*13.5%*
4.2%	4.8%	3.5%	4.7%	5.0%	5.9%	6.2%	10.2%	6.7%	6.7%	*6.0%*	*6.5%*	Retained to Com Eq	*6.5%*
72%	67%	76%	62%	57%	52%	50%	37%	48%	49%	*51%*	*50%*	All Div'ds to Net Prof	*50%*

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	11.7	5.8	6.0
Other	316.6	429.3	351.4
Current Assets	328.3	435.1	357.4
Accts Payable	101.2	120.2	87.9
Debt Due	118.4	237.6	163.7
Other	108.7	142.1	135.7
Current Liab.	328.3	499.9	387.3
Fix. Chg. Cov.	476%	598%	834%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	6.0%	3.0%	2.0%
"Cash Flow"	8.5%	10.0%	3.5%
Earnings	11.5%	13.0%	5.5%
Dividends	3.5%	6.0%	7.0%
Book Value	9.0%	11.0%	6.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	372.6	153.8	154.7	250.3	931.4
2007	368.4	171.7	156.2	260.1	956.4
2008	348.1	135.8	210.4	267.7	962.0
2009	362.2	134.5	*150*	*278.3*	*925*
2010	*365*	*160*	*170*	*285*	*980*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	1.06	.20	.51	.69	2.46
2007	1.30	.21	d.05	.63	2.09
2008	1.32	.26	.04	.67	2.27
2009	1.46	.15	*.05*	*.74*	*2.40*
2010	*1.45*	*.25*	*.10*	*.85*	*2.65*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	--	.213	.213	.438	.86
2006	--	.225	.225	.470	.92
2007	--	.245	.245	.515	1.01
2008	--	.270	.270	.568	1.11
2009	--	.298	.298		

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 340,136 customers in New Jersey's southern counties, which covers about 2,500 square miles and includes Atlantic City. Gas revenue mix '08: residential, 46%; commercial, 23%; cogeneration and electric generation, 6%; industrial, 25%. Non-utility operations include: South Jersey Energy, South Jersey Resources Group, Marina Energy, and South Jersey Energy Service Plus. Has 602 employees. Off./dir. control 1.0% of com. shares; Barclays, 7.5%; Keeley Asset Management, 5.6% (3/09 proxy). Chrmn. & CEO: Edward Graham. Incorp.: NJ. Address: 1 South Jersey Plaza, Folsom, NJ 08037. Tel.: 609-561-9000. Internet: www.sjindustries.com.

South Jersey Industries posted a flat top-line comparison and lower share earnings for the second quarter. Earnings declined moderately at subsidiary South Jersey Gas in the recent interim. Lower interest payments were more than offset by higher pension expense and an increase in other operating costs at this business. Meanwhile, significantly cooler temperatures during the period resulted in lower air conditioning demand and reduced earnings at the on-site energy production business, Marina Energy. The Asset Management and Marketing business also posted an earnings decline for the quarter.

The company has attractive prospects for the coming years. Customer growth at South Jersey Gas has continued at a steady clip, despite weakness in the broader economy. Natural gas remains the fuel of choice in the markets served by the utility, and SJG continues to see significant interest in conversions from other fuel sources to natural gas. Its recent gas main extension project, along with aggressive marketing efforts, should benefit the utility going forward. We anticipate solid results from the nonutility operations, as well.

South Jersey Gas has filed with the New Jersey Board of Public Utilities to reduce rates by 20.2%. The approval of the Basic Gas Supply Service (BGSS) petition would allow customers to realize significant savings, and provide an incentive for homeowners to switch from oil to natural gas. The BGSS clause allows South Jersey to pass along increases and decreases in gas costs directly to consumers. The company's ability to secure lower-priced gas has allowed it to provide customers with the lower rates.

Shares of South Jersey Industries have slipped one notch in Timeliness, and are now neutrally ranked for year-ahead performance. Looking further out, we anticipate higher revenues and share earnings at the company by 2012-2014. Moreover, SJI scores high marks for Safety, Price Stability, and Earnings Predictability. But from the present quotation, this issue has below-average, though reasonably well-defined, total return potential for the coming years.

Michael Napoli, CPA *September 11, 2009*

(A) Based on GAAP EPS through 2006, economic earnings thereafter. GAAP EPS: '07, $2.10; '08, $2.58. Excl. nonrecur. gain (loss): '01, $0.13; '08, $0.31. Excl gain (losses) from discont. ops.: '99, ($0.02); '00, ($0.04); '01, ($0.02); '02, ($0.04); '03, ($0.09); '05, ($0.02); '06, ($0.02); '07, $0.01. Earnings may not sum due to rounding. Next egs. report due in November. (B) Div'ds paid early Apr., Jul., Oct., and late Dec. ■ Div. reinvest. plan avail. (C) Incl. regulatory assets. In 2008: $270.4 mill., $9.10 per shr. (D) In millions, adj. for split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	90
Earnings Predictability	80

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SOUTHWEST GAS NYSE-SWX

RECENT PRICE 23.98 | P/E RATIO 13.5 (Trailing: 16.3 Median: 19.0) | RELATIVE P/E RATIO 0.84 | DIV'D YLD 4.1% | VALUE LINE

TIMELINESS 3 Raised 5/23/08
SAFETY 3 Lowered 1/4/91
TECHNICAL 4 Lowered 7/24/09
BETA .75 (1.00 = Market)

High:	26.9	29.5	23.0	24.7	25.3	23.6	26.2	28.1	39.4	39.9	33.3	26.4		
Low:	17.3	20.4	16.9	18.6	18.1	19.3	21.5	23.5	26.0	26.5	21.1	17.1		

Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

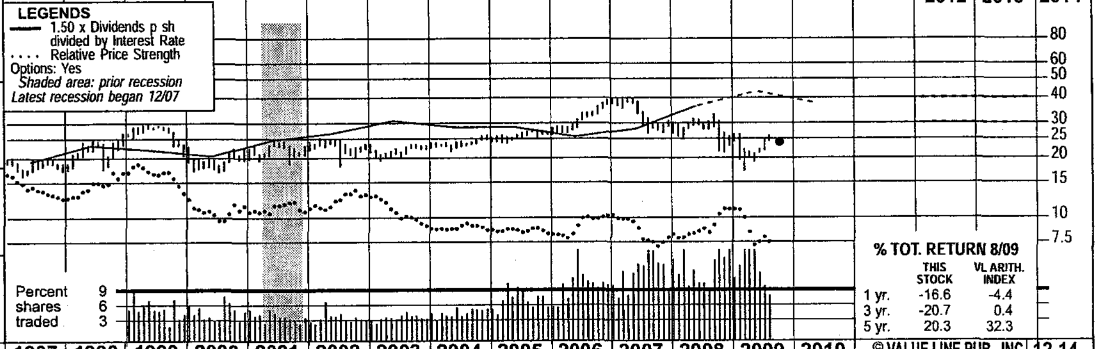
	Price	Gain	Ann'l Total Return
High	40	(+65%)	17%
Low	30	(+25%)	10%

Insider Decisions

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

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	83	83	86
to Sell	75	71	71
Hld's(000)	32362	32859	32802



% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-16.6	-4.4
3 yr.	-20.7	0.4
5 yr.	20.3	32.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
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	50.28	48.53	*39.55*	*41.50*	Revenues per sh	*52.00*
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	5.76	*5.95*	*6.15*	"Cash Flow" per sh	*7.30*
.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	1.39	*1.75*	*1.90*	Earnings per sh A	*2.30*
.74	.80	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.86	.90	*.95*	*1.00*	Div'ds Decl'd per sh B■†	*1.15*
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	6.79	*5.50*	*5.95*	Cap'l Spending per sh	*7.20*
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	23.49	*25.25*	*26.05*	Book Value per sh	*28.00*
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	44.19	*45.50*	*47.00*	Common Shs Outst'g C	*50.00*
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	17.3	20.3	*Bold figures are*		Avg Ann'l P/E Ratio	*15.0*
1.57	.92	NMF	4.34	1.39	.69	1.20	1.04	.97	1.09	1.09	.76	1.10	.86	.92	1.22	*Value Line*		Relative P/E Ratio	*1.00*
4.4%	4.7%	5.4%	4.7%	4.4%	3.8%	3.1%	4.2%	3.8%	3.6%	3.8%	3.5%	3.2%	2.6%	2.6%	3.2%	*estimates*		Avg Ann'l Div'd Yield	*3.3%*
						936.9	1034.1	1396.7	1320.9	1231.0	1477.1	1714.3	2024.7	2152.1	2144.7	*1800*	*1950*	Revenues ($mill)	*2600*
						39.3	38.3	37.2	38.6	38.5	58.9	48.1	80.5	83.2	61.0	*80.0*	*90.0*	Net Profit ($mill)	*115*
						35.5%	26.2%	34.5%	32.8%	30.5%	34.8%	29.7%	37.3%	36.5%	40.1%	*38.0%*	*38.0%*	Income Tax Rate	*36.0%*
						4.2%	3.7%	2.7%	2.9%	3.1%	4.0%	2.8%	4.0%	3.9%	2.8%	*4.4%*	*4.6%*	Net Profit Margin	*4.4%*
						60.3%	60.2%	56.2%	62.5%	66.0%	64.2%	63.8%	60.6%	58.1%	55.3%	*51.0%*	*50.5%*	Long-Term Debt Ratio	*49.0%*
						35.5%	35.8%	39.6%	34.1%	34.0%	35.8%	36.2%	39.4%	41.9%	44.7%	*49.0%*	*49.5%*	Common Equity Ratio	*51.0%*
						1424.7	1489.9	1417.6	1748.3	1851.6	1968.6	2076.0	2287.8	2349.7	2323.3	*2350*	*2475*	Total Capital ($mill)	*2750*
						1581.1	1686.1	1825.6	1979.5	2175.7	2336.0	2489.1	2668.1	2845.3	2983.3	*3050*	*3150*	Net Plant ($mill)	*3600*
						4.8%	4.6%	5.1%	4.3%	4.2%	5.0%	4.3%	5.5%	5.5%	4.5%	*5.0%*	*5.5%*	Return on Total Cap'l	*6.0%*
						7.0%	6.5%	6.0%	5.9%	6.1%	8.3%	6.4%	8.9%	8.5%	5.9%	*7.0%*	*7.5%*	Return on Shr. Equity	*8.0%*
						7.8%	7.2%	6.6%	6.5%	6.1%	8.3%	6.4%	8.9%	8.5%	5.9%	*7.0%*	*7.5%*	Return on Com Equity	*8.0%*
						2.8%	2.4%	1.9%	1.9%	1.7%	4.3%	2.2%	5.2%	4.8%	2.1%	*3.0%*	*3.5%*	Retained to Com Eq	*4.0%*
						64%	67%	71%	70%	72%	49%	65%	42%	44%	63%	*54%*	*52%*	All Div'ds to Net Prof	*50%*

CAPITAL STRUCTURE as of 6/30/09

Total Debt $1228.0 mill. **Due in 5 Yrs** $566.1 mill.
LT Debt $1222.9 mill. **LT Interest** $85.0 mill.
(Total interest coverage: 2.2x)
Leases, Uncapitalized Annual rentals $6.0 mill.
Pension Assets-12/08 $342.9 mill. **Oblig.** $558.9 mill.

Pfd Stock None

Common Stock 44,822,466 shs. as of 7/30/09

MARKET CAP: $1.1 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	32.0	26.4	26.8
Other	470.5	411.7	232.5
Current Assets	502.5	438.1	259.3
Accts Payable	220.7	191.4	68.0
Debt Due	47.1	62.8	5.1
Other	260.1	255.7	303.0
Current Liab.	527.9	509.9	376.1
Fix. Chg. Cov.	229%	224%	233%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	6.0%	4.5%	*1.0%*
"Cash Flow"	4.5%	3.5%	*3.5%*
Earnings	7.0%	9.0%	*4.5%*
Dividends	0.5%	1.0%	*5.0%*
Book Value	4.5%	5.0%	*3.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	509.4	2144.7
2009	689.9	387.6	*275*	*447.5*	*1800*
2010	*730*	*410*	*310*	*500*	*1950*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	1.11	.02	d.26	1.11	1.98
2007	1.17	d.01	d.22	1.01	1.95
2008	1.14	d.06	d.38	.71	1.39
2009	1.12	d.01	*d.35*	*.99*	*1.75*
2010	*1.15*	*Nil*	*d.30*	*1.05*	*1.90*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.205	.205	.205	.205	.82
2006	.205	.205	.205	.205	.82
2007	.205	.215	.215	.215	.85
2008	.215	.225	.225	.225	.89
2009	.225	.238	.238		

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. 2008 margin mix: residential and small commercial, 86%; large commercial and industrial, 5%; transportation, 9%. Total throughput: 2.4 billion therms. Sold PriMerit Bank, 7/96. Has 4,732 employees. Off. & Dir. own 2.0% of common stock; T. Rowe Price Associates, Inc., 7.0%; Barclays Global Investors, 6.8%; GAMCO Investors, Inc., 6.4% (3/09 Proxy). Chairman: James J. Kropid. CEO: Jeffrey W. Shaw. Inc.: CA. Address: 5241 Spring Mountain Road, Las Vegas, Nevada 89146. Telephone: 702-876-7237. Internet: www.swgas.com.

Southwest Gas reported unfavorable top-line performance for the second quarter. The recent recession stymied customer growth and resulted in lower usage. On the bright side, rate relief in Arizona and California (discussed below) supported results. Consequently, the company's share loss of $0.01 compared favorably with the prior-year tally. Losses are common during the second and third quarters, owing to the seasonal nature of the business. Looking forward, we expect lower revenue and a normal-sized share loss for the third quarter. Earnings comparisons ought to improve in the fourth quarter, assuming a better operating environment and greater cost control. Overall, we anticipate lower revenue and higher share earnings for Southwest in full-year 2009. Bottom-line growth may well continue next year.

The company is awaiting a rate case decision from the state of Nevada. Southwest is seeking a $30.5 million rate increase to compensate it for higher operating costs in that state. The request asks that the new rates take effect at the beginning of November. The company is also seeking an improvement in rate design. Specifically, SWX wants to implement a decoupled rate structure that would allow it more freedom in pursuing customer conservation opportunities. This follows recent prior rate case settlements in California and Arizona.

Investors should be mindful of several caveats. Warmer-than-normal temperatures during the winter months can hurt performance at Southwest Gas. In addition, the company will probably incur greater operating costs as it continues to expand, and profitability may suffer if rate relief cannot keep up with rising expenses.

The pace of customer growth should pick up in the future. That's assuming economic conditions in Southwest's service areas improve in the coming years. As a result, we anticipate higher revenues and share earnings at the company by 2012-2014. Moreover, income-oriented investors may find the stock's prospects for dividend growth attractive. But from the present quotation, this neutrally ranked equity features about-average total return potential for a utility.

Michael Napoli, CPA *September 11, 2009*

(A) Based on avg. shares outstand. thru. '96, then diluted. Excl. nonrec. gains (losses): '93, 8¢; '97, 16¢; '02, (10¢); '05, (11¢); '06, 7¢. Incl. asset writedown: '93, 44¢. Excl. loss from disc. ops.: '95, 75¢. Totals may not sum due to rounding. Next egs. report due early November. (B) Dividends historically paid early March, June, September, December. ■† Div'd reinvestment and stock purchase plan avail. (C) In millions.

Company's Financial Strength	B
Stock's Price Stability	100
Price Growth Persistence	65
Earnings Predictability	70

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WGL HOLDINGS NYSE-WGL

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
33.30	13.2	(Trailing: 13.1 / Median: 15.0)	0.82	4.4%	VALUE LINE

TIMELINESS **3** Lowered 6/5/09

SAFETY **1** Raised 4/2/93

TECHNICAL **5** Lowered 9/11/09

BETA .65 (1.00 = Market)

High:	30.8	29.4	31.5	30.5	29.5	28.8	31.4	34.8	33.6	35.9	37.1	35.5
Low:	23.1	21.0	21.8	25.3	19.3	23.2	26.7	28.8	27.0	29.8	22.4	28.6

Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

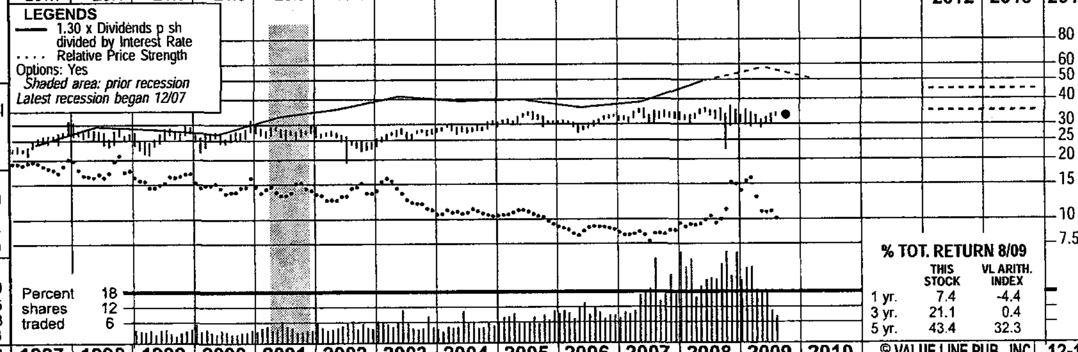
	Price	Gain	Ann'l Total Return
High	45	(+35%)	12%
Low	35	(+5%)	6%

Insider Decisions

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

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	94	97	85
to Sell	95	96	98
Hld's(000)	31580	30919	31333



% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	7.4	-4.4
3 yr.	21.1	0.4
5 yr.	43.4	32.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
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	52.65	**53.20**	**54.25**	Revenues per sh A	**57.60**
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	3.89	3.89	4.34	**4.40**	**4.45**	"Cash Flow" per sh	**4.70**
1.31	1.42	1.45	1.85	1.85	1.54	1.47	1.79	1.88	1.14	2.30	1.98	2.13	1.94	2.10	2.44	**2.50**	**2.55**	Earnings per sh B	**2.70**
1.09	1.11	1.12	1.14	1.17	1.20	1.22	1.24	1.26	1.27	1.28	1.30	1.32	1.35	1.37	1.41	**1.47**	**1.51**	Div'ds Decl'd per sh C ■	**1.63**
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	2.70	**3.00**	**3.00**	Cap'l Spending per sh	**2.50**
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	18.86	19.83	20.99	**22.00**	**23.05**	Book Value per sh D	**26.20**
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	49.92	**50.00**	**50.00**	Common Shs Outst'g E	**50.00**
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	13.7	*Bold figures are*		Avg Ann'l P/E Ratio	**15.0**
.92	.92	.85	.72	.73	.89	.99	.95	.75	1.26	.63	.75	.78	.84	.82	.85	*Value Line*		Relative P/E Ratio	**1.00**
5.3%	5.6%	6.1%	5.4%	5.0%	4.5%	4.8%	4.8%	4.6%	4.8%	5.0%	4.6%	4.2%	4.5%	4.2%	4.2%	*estimates*		Avg Ann'l Div'd Yield	**4.0%**

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
972.1	1031.1	1446.5	1584.8	2064.2	2089.6	2186.3	2637.9	2646.0	2628.2	**2660**	**2715**	Revenues ($mill) A	**2880**
68.8	84.6	89.9	55.7	112.3	98.0	104.8	96.0	102.9	122.9	**125**	**130**	Net Profit ($mill)	**135**
36.0%	36.1%	39.6%	34.0%	38.0%	38.2%	37.4%	39.0%	39.1%	37.1%	**37.0%**	**37.0%**	Income Tax Rate	**38.0%**
7.1%	8.2%	6.2%	3.5%	5.4%	4.7%	4.8%	3.6%	3.9%	4.7%	**4.7%**	**4.8%**	Net Profit Margin	**4.7%**
41.5%	43.1%	41.7%	45.7%	43.8%	40.9%	39.5%	37.8%	37.9%	35.9%	**36.5%**	**35.5%**	Long-Term Debt Ratio	**34.0%**
56.1%	54.8%	56.3%	52.4%	54.3%	57.2%	58.6%	60.4%	60.3%	62.4%	**62.0%**	**63.0%**	Common Equity Ratio	**64.5%**
1218.5	1299.2	1400.8	1462.5	1454.9	1443.6	1478.1	1526.1	1625.4	1679.5	**1780**	**1830**	Total Capital ($mill)	**2040**
1402.7	1460.3	1519.7	1606.8	1874.9	1915.6	1969.7	2067.9	2150.4	2208.3	**2325**	**2420**	Net Plant ($mill)	**2720**
7.1%	7.9%	7.9%	5.3%	9.1%	8.2%	8.5%	7.6%	7.6%	8.5%	**8.0%**	**8.0%**	Return on Total Cap'l	**8.0%**
9.7%	11.4%	11.0%	7.0%	13.7%	11.5%	11.7%	10.1%	10.2%	11.4%	**11.5%**	**11.0%**	Return on Shr. Equity	**10.5%**
9.9%	11.7%	11.2%	7.2%	14.0%	11.7%	12.0%	10.3%	10.4%	11.6%	**12.0%**	**11.5%**	Return on Com Equity	**11.0%**
1.8%	3.7%	3.8%	NMF	6.2%	4.1%	4.6%	3.2%	3.5%	5.0%	**4.5%**	**4.5%**	Retained to Com Eq	**4.0%**
82%	69%	67%	112%	56%	65%	62%	69%	66%	57%	**59%**	**59%**	All Div'ds to Net Prof	**60%**

CAPITAL STRUCTURE as of 6/30/09
Total Debt $728.7 mill. **Due in 5 Yrs** $264.5 mill.
LT Debt $624.1 mill. **LT Interest** $37.4 mill.
(LT interest earned: 5.9x; total interest coverage: 5.2x)
Pension Assets-9/08 $588.2 mill. **Oblig.** $590.5 mill.
Preferred Stock $28.2 mill. **Pfd. Div'd** $1.3 mill.

Common Stock 50,141,229 shs. as of 7/31/09

MARKET CAP: $1.7 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	4.9	6.2	41.6
Other	568.8	736.1	553.2
Current Assets	573.7	742.3	594.8
Accts Payable	216.9	243.1	202.8
Debt Due	205.4	347.0	104.6
Other	134.8	158.4	202.1
Current Liab.	557.1	748.5	509.5
Fix. Chg. Cov.	432%	490%	500%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	8.5%	9.0%	*1.5%*
"Cash Flow"	3.5%	4.0%	*2.5%*
Earnings	2.0%	4.0%	*4.0%*
Dividends	1.5%	1.5%	*3.0%*
Book Value	4.0%	4.5%	*4.5%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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	821.5	1040.9	427.0	*370.6*	*2660*
2010	*830*	*1050*	*445*	*390*	*2715*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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.24	2.44
2009	1.03	1.65	.11	*d.29*	*2.50*
2010	*1.04*	*1.66*	*.12*	*d.27*	*2.55*

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	1.42
2009	.36	.37	.37		

BUSINESS: WGL Holdings, Inc. is the parent of Washington Gas Light, a natural gas distributor in Washington, D.C. and adjacent areas of VA and MD to resident'l and comm'l users (1,053,032 meters). Hampshire Gas, a federally regulated sub., operates an underground gas-storage facility in WV. Non-regulated subs.: Wash. Gas Energy Svcs. sells and delivers natural gas and provides energy related products in the D.C. metro area; Wash. Gas Energy Sys. designs/installs comm'l heating, ventilating, and air cond. systems. American Century Inv. own 7.1% of common stock; Off./dir. less than 1% (1/09 proxy). Chrmn. & CEO: J.H. DeGraffenreidt. Inc.: D.C. and VA. Addr.: 1100 H St., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.

WGL Holdings posted a mixed bag of financial results for the off-peak June period. Top-line volumes fell approximately 8% over that time frame. This stemmed from weakness at the regulated utility segment, which has been dealing with lower natural gas consumption and some equipment cost issues. On a brighter note, the retail energy marketing division got a boost to its revenues and earnings contributions from higher natural gas and electricity margins. On the efficiency front, management has been performing well. Operating expenses declined 90 basis points versus the year-ago period. This stemmed from lower labor and benefits expenses. All told, the bottom line advanced nicely.

We look for the company to register a mid-single-digit earnings hike this year. The decent gains experienced earlier in 2009 will probably be offset by a larger share deficit in the fiscal fourth quarter. Despite the widening margins and solid performance from the retail energy and design build segments, demand at the mainstay regulated utility business may be soft. Also, the September period is historically and seasonally slow for WGL. Nonetheless, considering all that happened in the past year, the company appears to be in solid shape.

The LNG peaking facility is going to take longer than expected to be completed and put into service. That project will be used to support customer growth and maintain the pressure requirements of the distribution system in Chillum, MD. It was planned to be in service by the 2012-2013 winter heating season, but due to regulatory and legal issues, the following year is more likely.

These top-quality shares may appeal to income-oriented accounts, as they offer an attractive dividend yield. Typically, too, they proved much less volatile than the broader market during the recent turmoil. This partly stems from WGL's large government business in the DC metro area, which has been less affected by the economic downturn. These benefits are evident in the equity's top-notch Safety rank, and high mark for Price Stability. But appreciation potential is subpar for the pull to 2012-2014.

Bryan J. Fong *September 11, 2009*

(A) Fiscal years end Sept. 30th.
(B) Based on diluted shares. Excludes nonrecurring losses: '01, (13¢); '02, (34¢); '07, (4¢) discontinued operations: '06, (15¢). Qtly egs. may not sum to total, due to change in shares outstanding. Next earnings report due late Oct.
(C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available.
(D) Includes deferred charges and intangibles. '08: $291.3 million, $5.81/sh.
(E) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	80

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ATTACHMENT C

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AMERICAN STS WTR CO (NYSE)

Scottrade

AWR	32.67	-0.35	(-1.06%)	Vol. 33,483	11:38 ET

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

General Information

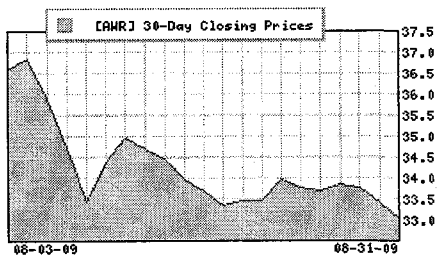
AMER STATES WTR
630 East Foothill Boulevard
San Dimas, CA 91773-1212
Phone: 909 394-3600
Fax: 909 394-0711
Web: www.gswater.com
Email: investorinfo@aswater.com

Industry	UTIL-WATER SPLY
Sector:	Utilities

Fiscal Year End	December
Last Reported Quarter	06/30/09
Next EPS Date	11/05/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	33.02
52 Week High	41.20
52 Week Low	27.00
Beta	0.34
20 Day Moving Average	81,454.70
Target Price Consensus	39.5



% Price Change		% Price Change Relative to S&P 500	
4 Week	-9.71	4 Week	-11.30
12 Week	-2.91	12 Week	-10.66
YTD	0.12	YTD	-11.07

Share Information		Dividend Information	
Shares Outstanding (millions)	18.33	Dividend Yield	3.03%
		Annual Dividend	$1.00
Market Capitalization (millions)	605.19	Payout Ratio	0.58
Short Ratio	7.03	Change in Payout Ratio	0.00
Last Split Date	06/10/2002	Last Dividend Payout / Amount	08/07/2009 / $0.25

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.51	Current (1=Strong Buy, 5=Strong Sell)	2.33
Current Year EPS Consensus Estimate	1.72	30 Days Ago	2.33
Estimated Long-Term EPS Growth Rate	7.00	60 Days Ago	1.67
Next EPS Report Date	11/05/2009	90 Days Ago	1.67

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	19.17	vs. Previous Year	18.52%	vs. Previous Year	16.49%
Trailing 12 Months:	19.31	vs. Previous Quarter	128.57%	vs. Previous Quarter:	17.52%
PEG Ratio	2.74				

Price Ratios		ROE		ROA	
Price/Book	1.71	06/30/09	9.40	06/30/09	2.83

Price/Cash Flow	8.77	03/31/09	9.02	03/31/09	2.68
Price / Sales	1.77	12/31/08	9.20	12/31/08	2.80
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/09	1.10	06/30/09	1.08	06/30/09	8.83
03/31/09	0.82	03/31/09	0.80	03/31/09	8.51
12/31/08	0.66	12/31/08	0.64	12/31/08	8.91
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/09	10.59	06/30/09	10.59	06/30/09	19.31
03/31/09	9.75	03/31/09	9.75	03/31/09	18.01
12/31/08	11.10	12/31/08	11.10	12/31/08	17.96
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
06/30/09	51.08	06/30/09	0.87	06/30/09	46.39
03/31/09	52.72	03/31/09	0.98	03/31/09	49.56
12/31/08	54.08	12/31/08	0.86	12/31/08	46.19

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CALIFORNIA WTR SVC GROUP (NYSE)

Scottrade

CWT	36.93	-0.29	(-0.78%)	Vol. 30,121	11:41 ET

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

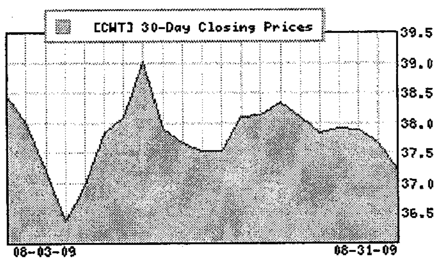
General Information

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

Industry	UTIL-WATER SPLY
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	06/30/09
Next EPS Date	10/28/2009

Price and Volume Information

Zacks Rank	2
Yesterday's Close	37.22
52 Week High	48.28
52 Week Low	27.68
Beta	0.47
20 Day Moving Average	106,020.45
Target Price Consensus	47



% Price Change

4 Week	-3.20
12 Week	2.96
YTD	-19.84

% Price Change Relative to S&P 500

4 Week	-4.91
12 Week	-5.26
YTD	-28.80

Share Information

Shares Outstanding (millions)	20.75
Market Capitalization (millions)	772.13
Short Ratio	4.26
Last Split Date	01/26/1998

Dividend Information

Dividend Yield	3.17%
Annual Dividend	$1.18
Payout Ratio	0.56
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	08/06/2009 / $0.29

EPS Information

Current Quarter EPS Consensus Estimate	1.05
Current Year EPS Consensus Estimate	2.10
Estimated Long-Term EPS Growth Rate	8.20
Next EPS Report Date	10/28/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.00
30 Days Ago	2.00
60 Days Ago	1.83
90 Days Ago	1.83

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	17.75	vs. Previous Year	20.83%	vs. Previous Year	10.50%
Trailing 12 Months:	17.64	vs. Previous Quarter	383.33%	vs. Previous Quarter:	34.70%
PEG Ratio	2.17				

Price Ratios		ROE		ROA	
Price/Book	1.90	06/30/09	10.94	06/30/09	3.12
Price/Cash Flow	9.64	03/31/09	10.58	03/31/09	3.14
Price / Sales	1.77	12/31/08	10.14	12/31/08	3.10
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/09	1.23	06/30/09	1.18	06/30/09	10.12
03/31/09	0.56	03/31/09	0.52	03/31/09	9.92
12/31/08	0.65	12/31/08	0.61	12/31/08	9.70
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/09	16.26	06/30/09	16.26	06/30/09	19.56
03/31/09	15.95	03/31/09	15.95	03/31/09	19.28
12/31/08	15.67	12/31/08	15.67	12/31/08	19.45
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
06/30/09	38.87	06/30/09	0.95	06/30/09	48.59
03/31/09	36.94	03/31/09	0.72	03/31/09	41.82
12/31/08	34.10	12/31/08	0.71	12/31/08	41.64

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AQUA AMERICA INC (NYSE)				Scottrade	
WTR	16.70	-0.15	(-0.89%)	Vol. 272,563	12:03 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.

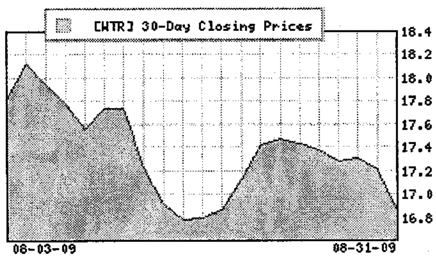
General Information

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 SPLY
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	06/30/09
Next EPS Date	11/04/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	16.85
52 Week High	22.00
52 Week Low	12.20
Beta	0.14
20 Day Moving Average	813,841.13
Target Price Consensus	22.14



% Price Change		% Price Change Relative to S&P 500	
4 Week	-5.44	4 Week	-7.11
12 Week	1.51	12 Week	-6.60
YTD	-18.16	YTD	-26.63

Share Information		Dividend Information	
Shares Outstanding (millions)	135.65	Dividend Yield	3.20%
		Annual Dividend	$0.54
Market Capitalization (millions)	2,285.69	Payout Ratio	0.69
Short Ratio	14.51	Change in Payout Ratio	0.00
Last Split Date	12/02/2005	Last Dividend Payout / Amount	08/13/2009 / $0.14

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.28	Current (1=Strong Buy, 5=Strong Sell)	1.80
Current Year EPS Consensus Estimate	0.83	30 Days Ago	1.89
Estimated Long-Term EPS Growth Rate	7.50	60 Days Ago	2.11
Next EPS Report Date	11/04/2009	90 Days Ago	2.11

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	20.36	vs. Previous Year	11.76%	vs. Previous Year	11.00%
Trailing 12 Months:	21.60	vs. Previous Quarter	35.71%	vs. Previous Quarter:	8.32%
PEG Ratio	2.71				

Price Ratios	ROE	ROA

Price/Book	2.12	06/30/09	9.95	06/30/09	3.04
Price/Cash Flow	11.82	03/31/09	9.77	03/31/09	2.99
Price / Sales	3.47	12/31/08	9.58	12/31/08	2.93
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/09	0.60	06/30/09	0.55	06/30/09	15.97
03/31/09	0.60	03/31/09	0.55	03/31/09	15.87
12/31/08	0.63	12/31/08	0.58	12/31/08	15.62
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/09	26.47	06/30/09	26.47	06/30/09	7.94
03/31/09	26.37	03/31/09	26.37	03/31/09	7.86
12/31/08	25.92	12/31/08	25.92	12/31/08	7.85
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
06/30/09	39.75	06/30/09	1.14	06/30/09	53.25
03/31/09	31.95	03/31/09	1.15	03/31/09	53.52
12/31/08	24.96	12/31/08	1.18	12/31/08	54.15

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AGL RESOURCES INC (NYSE)

Scottrade

AGL	33.14	-0.27	(-0.81%)	Vol. 149,426	14:17 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.

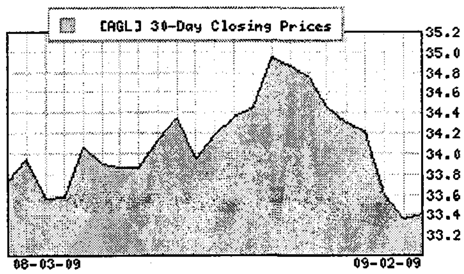
General Information

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	06/30/09
Next EPS Date	10/22/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	33.41
52 Week High	35.01
52 Week Low	24.02
Beta	0.40
20 Day Moving Average	276,238.81
Target Price Consensus	35



% Price Change		% Price Change Relative to S&P 500	
4 Week	-0.45	4 Week	0.35
12 Week	7.77	12 Week	1.75
YTD	6.57	YTD	-4.18

Share Information		Dividend Information	
Shares Outstanding (millions)	77.28	Dividend Yield	5.15%
		Annual Dividend	$1.72
Market Capitalization (millions)	2,581.89	Payout Ratio	0.56
Short Ratio	3.03	Change in Payout Ratio	0.00
Last Split Date	12/04/1995	Last Dividend Payout / Amount	08/12/2009 / $0.43

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.21	Current (1=Strong Buy, 5=Strong Sell)	2.20
Current Year EPS Consensus Estimate	2.70	30 Days Ago	2.20
Estimated Long-Term EPS Growth Rate	5.30	60 Days Ago	2.20
Next EPS Report Date	10/22/2009	90 Days Ago	2.20

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	12.37	vs. Previous Year	-13.33%	vs. Previous Year	-15.09%
Trailing 12 Months:	10.92	vs. Previous Quarter	-83.23%	vs. Previous Quarter:	-62.11%
PEG Ratio	2.36				

Price Ratios		ROE		ROA	
Price/Book	1.47	06/30/09	13.60	06/30/09	3.68
Price/Cash Flow		03/31/09		03/31/09	

	7.14		13.92		3.66
Price / Sales	0.95	12/31/08	12.23	12/31/08	3.20
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/09	1.03	06/30/09	0.61	06/30/09	8.63
03/31/09	1.06	03/31/09	0.80	03/31/09	8.53
12/31/08	1.03	12/31/08	0.70	12/31/08	7.41
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/09	17.12	06/30/09	17.12	06/30/09	22.79
03/31/09	14.84	03/31/09	14.84	03/31/09	22.87
12/31/08	12.46	12/31/08	12.46	12/31/08	21.52
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
06/30/09	3.70	06/30/09	0.95	06/30/09	48.78
03/31/09	3.45	03/31/09	0.95	03/31/09	48.72
12/31/08	3.35	12/31/08	1.01	12/31/08	50.82

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ATMOS ENERGY CORP (NYSE)

Scottrade

ATO	27.01	-0.07	(-0.26%)	Vol. 303,496	14:18 ET

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

General Information

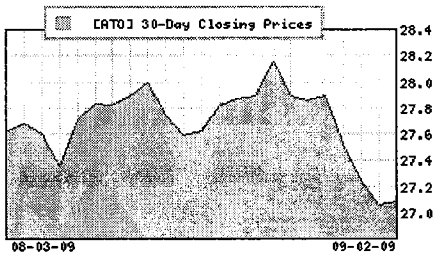
ATMOS ENERGY CP
Three Lincoln Centre 5430 Lbj Freeway
Suite 1800
Dallas, TX 75240
Phone: 972-934-9227
Fax: 972-855-3040
Web: www.atmosenergy.com
Email: InvestorRelations@atmosenergy.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	September
Last Reported Quarter	06/30/09
Next EPS Date	11/10/2009

Price and Volume Information

Zacks Rank	2
Yesterday's Close	27.08
52 Week High	28.66
52 Week Low	19.68
Beta	0.51
20 Day Moving Average	545,155.56
Target Price Consensus	28.92



% Price Change

4 Week	-1.88
12 Week	9.99
YTD	14.26

% Price Change Relative to S&P 500

4 Week	-1.10
12 Week	3.84
YTD	1.97

Share Information

Shares Outstanding (millions)	92.27
Market Capitalization (millions)	2,498.73
Short Ratio	4.00
Last Split Date	05/17/1994

Dividend Information

Dividend Yield	4.87%
Annual Dividend	$1.32
Payout Ratio	0.62
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	08/21/2009 / $0.33

EPS Information

Current Quarter EPS Consensus Estimate	-0.10
Current Year EPS Consensus Estimate	2.10
Estimated Long-Term EPS Growth Rate	5.00
Next EPS Report Date	11/10/2009

Consensus Recommendations

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

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	12.90	vs. Previous Year	14.29%	vs. Previous Year	-52.37%
Trailing 12 Months:	12.77	vs. Previous Quarter	-104.51%	vs. Previous Quarter:	-57.13%
PEG Ratio	2.58				

Price Ratios		ROE		ROA	
Price/Book	1.14	06/30/09	9.14	06/30/09	2.99
Price/Cash Flow	6.45	03/31/09	9.16	03/31/09	2.93
Price / Sales	0.43	12/31/08	8.73	12/31/08	2.81
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/09	1.24	06/30/09	0.74	06/30/09	3.37
03/31/09	1.15	03/31/09	0.90	03/31/09	2.91
12/31/08	0.83	12/31/08	0.55	12/31/08	2.51
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/09	5.55	06/30/09	5.55	06/30/09	23.82
03/31/09	4.61	03/31/09	4.61	03/31/09	23.70
12/31/08	4.05	12/31/08	4.05	12/31/08	22.70
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
06/30/09	11.62	06/30/09	0.99	06/30/09	49.75
03/31/09	11.66	03/31/09	1.00	03/31/09	49.89
12/31/08	12.20	12/31/08	0.83	12/31/08	45.28

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LACLEDE GROUP INC (NYSE)

Scottrade

LG	32.72	0.11	(0.34%)	Vol. 96,090	14:17 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.

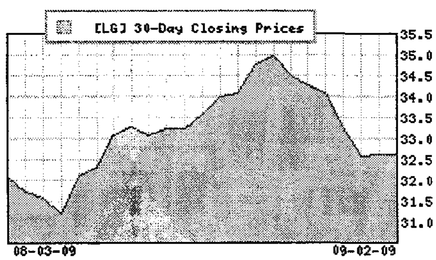
General Information

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

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	September
Last Reported Quarter	06/30/09
Next EPS Date	10/22/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	32.61
52 Week High	55.81
52 Week Low	29.26
Beta	0.02
20 Day Moving Average	163,758.84
Target Price Consensus	35



% Price Change		% Price Change Relative to S&P 500	
4 Week	3.29	4 Week	4.12
12 Week	-2.37	12 Week	-7.82
YTD	-30.38	YTD	-37.67

Share Information		Dividend Information	
Shares Outstanding (millions)	22.17	Dividend Yield	4.72%
		Annual Dividend	$1.54
Market Capitalization (millions)	722.87	Payout Ratio	0.52
Short Ratio	2.21	Change in Payout Ratio	0.00
Last Split Date	03/08/1994	Last Dividend Payout / Amount	06/09/2009 / $0.38

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	-0.18	Current (1=Strong Buy, 5=Strong Sell)	3.25
Current Year EPS Consensus Estimate	2.89	30 Days Ago	3.25
Estimated Long-Term EPS Growth Rate	3.00	60 Days Ago	2.75
Next EPS Report Date	10/22/2009	90 Days Ago	3.25

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	11.28	vs. Previous Year	-26.19%	vs. Previous Year	-38.68%
Trailing 12 Months:	10.91	vs. Previous Quarter	-77.86%	vs. Previous Quarter:	-52.97%
PEG Ratio	3.76				
Price Ratios		**ROE**		**ROA**	
Price/Book	1.36	06/30/09	12.78	06/30/09	3.71

Price/Cash Flow	7.59	03/31/09	13.53	03/31/09	3.89
Price / Sales	0.35	12/31/08	13.74	12/31/08	3.89
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/09	1.24	06/30/09	0.98	06/30/09	3.14
03/31/09	1.17	03/31/09	0.99	03/31/09	2.97
12/31/08	1.14	12/31/08	0.74	12/31/08	2.83
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/09	4.81	06/30/09	4.81	06/30/09	23.97
03/31/09	4.46	03/31/09	4.46	03/31/09	24.11
12/31/08	4.20	12/31/08	4.20	12/31/08	22.98
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
06/30/09	10.99	06/30/09	0.73	06/30/09	42.30
03/31/09	11.65	03/31/09	0.73	03/31/09	42.17
12/31/08	12.60	12/31/08	0.77	12/31/08	43.33

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NEW JERSEY RES (NYSE)

Scottrade

NJR 35.86 ▼-0.42 (-1.16%) Vol. 105,745 14:19 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

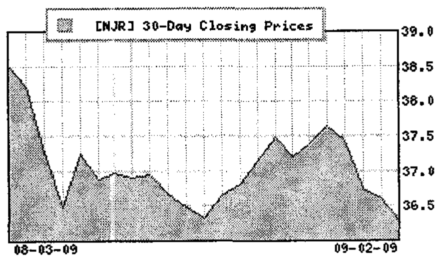
NJ RESOURCES
1415 Wyckoff Road
Wall, NJ 07719
Phone: 732-938-1489
Fax: 732 938-3154
Web: www.njresources.com
Email: investcont@njresources.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	September
Last Reported Quarter	06/30/09
Next EPS Date	11/05/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	36.28
52 Week High	42.37
52 Week Low	21.90
Beta	0.14
20 Day Moving Average	262,662.94
Target Price Consensus	42



% Price Change

4 Week	-2.68
12 Week	2.54
YTD	-7.80

% Price Change Relative to S&P 500

4 Week	-1.90
12 Week	-3.19
YTD	-16.52

Share Information

Shares Outstanding (millions)	42.01
Market Capitalization (millions)	1,524.30
Short Ratio	7.77
Last Split Date	03/04/2008

Dividend Information

Dividend Yield	3.42%
Annual Dividend	$1.24
Payout Ratio	0.59
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	06/11/2009 / $0.31

EPS Information

Current Quarter EPS Consensus Estimate	-0.12
Current Year EPS Consensus Estimate	2.39
Estimated Long-Term EPS Growth Rate	6.00
Next EPS Report Date	11/05/2009

Consensus Recommendations

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

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	15.19	vs. Previous Year	130.00%	vs. Previous Year	-55.91%
Trailing 12 Months:	17.28	vs. Previous Quarter	-98.24%	vs. Previous Quarter:	-52.96%
PEG Ratio	2.53				

Price Ratios		ROE		ROA	
Price/Book	2.12	06/30/09	12.20	06/30/09	3.58
Price/Cash Flow	11.45	03/31/09	11.73	03/31/09	3.25
Price / Sales	0.51	12/31/08	12.89	12/31/08	3.48
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/09	1.23	06/30/09	0.88	06/30/09	2.98
03/31/09	1.17	03/31/09	1.07	03/31/09	2.37
12/31/08	1.17	12/31/08	0.76	12/31/08	2.36
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/09	5.66	06/30/09	5.66	06/30/09	17.11
03/31/09	5.26	03/31/09	5.26	03/31/09	17.90
12/31/08	3.89	12/31/08	3.89	12/31/08	17.49
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
06/30/09	9.78	06/30/09	0.63	06/30/09	38.82
03/31/09	10.09	03/31/09	0.61	03/31/09	37.74
12/31/08	9.51	12/31/08	0.63	12/31/08	38.48

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NICOR INC (NYSE)					Scottrade
GAS	35.37	-0.25	(-0.70%)	Vol. 131,355	14:20 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

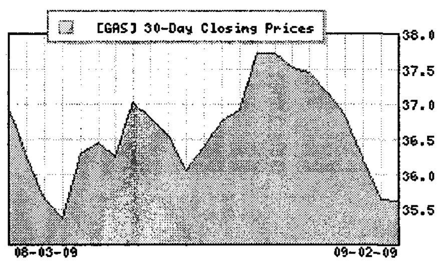
NICOR INC
1844 Ferry Road
Naperville, IL 60563-9600
Phone: 630-305-9500
Fax: 630-983-9328
Web: www.nicor.com
Email: None

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	December
Last Reported Quarter	06/30/09
Next EPS Date	11/09/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	35.62
52 Week High	51.99
52 Week Low	27.50
Beta	0.34
20 Day Moving Average	362,085.25
Target Price Consensus	40.5



% Price Change		% Price Change Relative to S&P 500	
4 Week	-0.08	4 Week	0.72
12 Week	3.52	12 Week	-2.27
YTD	2.53	YTD	-6.91

Share Information		Dividend Information	
Shares Outstanding (millions)	45.22	Dividend Yield	5.22%
		Annual Dividend	$1.86
Market Capitalization (millions)	1,610.81	Payout Ratio	0.73
Short Ratio	4.93	Change in Payout Ratio	0.00
Last Split Date	04/27/1993	Last Dividend Payout / Amount	06/26/2009 / $0.47

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.17	Current (1=Strong Buy, 5=Strong Sell)	3.00
Current Year EPS Consensus Estimate	2.58	30 Days Ago	3.00
Estimated Long-Term EPS Growth Rate	4.20	60 Days Ago	3.00
Next EPS Report Date	11/09/2009	90 Days Ago	3.00

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	13.80	vs. Previous Year	-21.87%	vs. Previous Year	-36.04%
Trailing 12 Months:	14.02	vs. Previous Quarter	-47.92%	vs. Previous Quarter:	-59.70%
PEG Ratio	3.30				
Price Ratios		**ROE**		**ROA**	
Price/Book	1.60	06/30/09	11.78	06/30/09	2.59

Price/Cash Flow	5.20	03/31/09	12.46	03/31/09	2.67
Price / Sales	0.53	12/31/08	12.31	12/31/08	2.62
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/09	0.76	06/30/09	0.73	06/30/09	3.81
03/31/09	0.78	03/31/09	0.77	03/31/09	3.70
12/31/08	0.80	12/31/08	0.68	12/31/08	3.16
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/09	5.46	06/30/09	5.46	06/30/09	22.25
03/31/09	5.21	03/31/09	5.21	03/31/09	22.16
12/31/08	4.34	12/31/08	4.34	12/31/08	21.53
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
06/30/09	14.05	06/30/09	0.50	06/30/09	33.12
03/31/09	15.05	03/31/09	0.45	03/31/09	30.91
12/31/08	18.16	12/31/08	0.46	12/31/08	31.52

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NORTHWEST NAT GAS CO (NYSE)

Scottrade

NWN 41.61 -0.40 (-0.95%) Vol. 41,965 14:21 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.

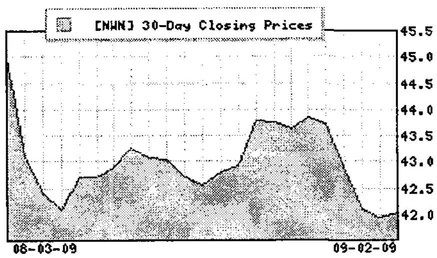
General Information

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	06/30/09
Next EPS Date	11/10/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	42.01
52 Week High	55.44
52 Week Low	36.61
Beta	0.26
20 Day Moving Average	121,510.20
Target Price Consensus	51.25



% Price Change

4 Week	-0.92
12 Week	-5.74
YTD	-5.02

% Price Change Relative to S&P 500

4 Week	-0.13
12 Week	-11.01
YTD	-14.91

Share Information

Shares Outstanding (millions)	26.51
Market Capitalization (millions)	1,113.81
Short Ratio	12.58
Last Split Date	09/09/1996

Dividend Information

Dividend Yield	3.76%
Annual Dividend	$1.58
Payout Ratio	0.57
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	07/29/2009 / $0.40

EPS Information

Current Quarter EPS Consensus Estimate	-0.36
Current Year EPS Consensus Estimate	2.70
Estimated Long-Term EPS Growth Rate	6.00
Next EPS Report Date	11/10/2009

Consensus Recommendations

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

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	15.55	vs. Previous Year	0.00%	vs. Previous Year	-22.06%
Trailing 12 Months:	15.11	vs. Previous Quarter	-93.30%	vs. Previous Quarter:	-65.92%
PEG Ratio	2.59				

Price Ratios	ROE	ROA

Price/Book	1.69	06/30/09	11.51	06/30/09	3.26
Price/Cash Flow	7.84	03/31/09	11.69	03/31/09	3.37
Price / Sales	1.07	12/31/08	11.18	12/31/08	3.31
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/09	0.94	06/30/09	0.67	06/30/09	7.03
03/31/09	1.03	03/31/09	0.80	03/31/09	6.78
12/31/08	0.87	12/31/08	0.70	12/31/08	6.70
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/09	11.19	06/30/09	11.19	06/30/09	24.80
03/31/09	10.81	03/31/09	10.81	03/31/09	25.05
12/31/08	10.62	12/31/08	10.62	12/31/08	23.77
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
06/30/09	8.96	06/30/09	0.89	06/30/09	47.18
03/31/09	10.10	03/31/09	0.88	03/31/09	46.93
12/31/08	11.16	12/31/08	0.81	12/31/08	44.90

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PIEDMONT NAT GAS INC (NYSE)

Scottrade

PNY	24.04	-0.13	(-0.54%)	Vol. 126,182	14:21 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.

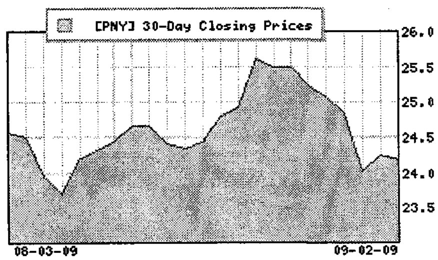
General Information

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	07/31/09
Next EPS Date	09/09/2009

Price and Volume Information

Zacks Rank	2
Yesterday's Close	24.17
52 Week High	35.29
52 Week Low	20.52
Beta	0.18
20 Day Moving Average	303,086.50
Target Price Consensus	27.5



% Price Change		% Price Change Relative to S&P 500	
4 Week	0.96	4 Week	1.77
12 Week	-2.34	12 Week	-7.80
YTD	-23.68	YTD	-31.12

Share Information		Dividend Information	
Shares Outstanding (millions)	72.96	Dividend Yield	4.47%
		Annual Dividend	$1.08
Market Capitalization (millions)	1,763.44	Payout Ratio	0.00
Short Ratio	8.74	Change in Payout Ratio	0.00
Last Split Date	11/01/2004	Last Dividend Payout / Amount	06/23/2009 / $0.27

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	-0.11	Current (1=Strong Buy, 5=Strong Sell)	2.33
Current Year EPS Consensus Estimate	1.55	30 Days Ago	2.33
Estimated Long-Term EPS Growth Rate	6.70	60 Days Ago	2.67
Next EPS Report Date	09/09/2009	90 Days Ago	2.67

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	15.55	vs. Previous Year	10.61%	vs. Previous Year	-28.19%
Trailing 12 Months:	15.39	vs. Previous Quarter	-33.64%	vs. Previous Quarter:	-41.58%
PEG Ratio	2.33				

Price Ratios		ROE		ROA	
Price/Book	1.83	07/31/09	-	07/31/09	-
Price/Cash Flow	8.55	04/30/09	12.17	04/30/09	3.66
Price / Sales	-	01/31/09	11.70	01/31/09	3.55
Current Ratio		**Quick Ratio**		**Operating Margin**	
07/31/09	-	07/31/09	-	07/31/09	-
04/30/09	1.07	04/30/09	0.88	04/30/09	5.97
01/31/09	0.99	01/31/09	0.76	01/31/09	5.22
Net Margin		**Pre-Tax Margin**		**Book Value**	
07/31/09	-	07/31/09	-	07/31/09	-
04/30/09	10.09	04/30/09	10.09	04/30/09	13.20
01/31/09	8.66	01/31/09	8.66	01/31/09	12.98
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
07/31/09	-	07/31/09	-	07/31/09	-
04/30/09	10.05	04/30/09	0.82	04/30/09	45.00
01/31/09	10.50	01/31/09	0.83	01/31/09	45.46

ZACKS INVESTMENT RESEARCH
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SOUTH JERSEY INDS INC (NYSE)

Scottrade

SJI	33.48	-0.37	(-1.09%)	Vol. 106,123	14:27 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.

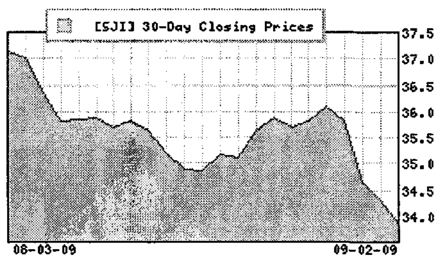
General Information

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	06/30/09
Next EPS Date	11/05/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	33.85
52 Week High	40.78
52 Week Low	25.19
Beta	0.22
20 Day Moving Average	161,225.75
Target Price Consensus	45.25



% Price Change		% Price Change Relative to S&P 500	
4 Week	-6.85	4 Week	-6.11
12 Week	0.92	12 Week	-4.72
YTD	-15.06	YTD	-21.09

Share Information		Dividend Information	
Shares Outstanding (millions)	29.80	Dividend Yield	3.52%
		Annual Dividend	$1.19
Market Capitalization (millions)	1,008.59	Payout Ratio	0.51
Short Ratio	6.57	Change in Payout Ratio	0.00
Last Split Date	07/01/2005	Last Dividend Payout / Amount	06/08/2009 / $0.30

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.06	Current (1=Strong Buy, 5=Strong Sell)	1.75
Current Year EPS Consensus Estimate	2.40	30 Days Ago	2.40
Estimated Long-Term EPS Growth Rate	9.60	60 Days Ago	2.50
Next EPS Report Date	11/05/2009	90 Days Ago	2.50

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	14.12	vs. Previous Year	-42.31%	vs. Previous Year	-1.00%
Trailing 12 Months:	14.59	vs. Previous Quarter	-89.73%	vs. Previous Quarter:	-62.87%
PEG Ratio	1.47				

Price Ratios	ROE	ROA

Price/Book	1.87	06/30/09	13.17	06/30/09	4.06
Price/Cash Flow	9.74	03/31/09	14.14	03/31/09	4.30
Price / Sales	1.03	12/31/08	13.56	12/31/08	4.16
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/09	0.92	06/30/09	0.64	06/30/09	7.13
03/31/09	0.93	03/31/09	0.74	03/31/09	7.43
12/31/08	0.87	12/31/08	0.52	12/31/08	7.07
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/09	17.54	06/30/09	17.54	06/30/09	18.11
03/31/09	14.51	03/31/09	14.51	03/31/09	18.20
12/31/08	13.40	12/31/08	13.40	12/31/08	17.33
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
06/30/09	5.74	06/30/09	0.62	06/30/09	38.14
03/31/09	5.73	03/31/09	0.61	03/31/09	38.07
12/31/08	6.46	12/31/08	0.65	12/31/08	39.33

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SOUTHWEST GAS CORP (NYSE)

Scottrade

SWX	23.80	▼-0.29	(-1.20%)	Vol. 70,287	14:21 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.

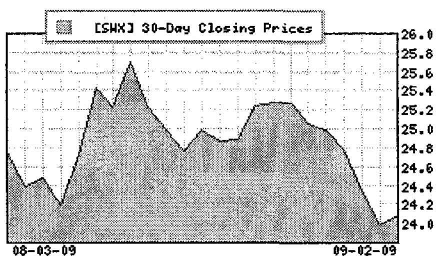
General Information

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	06/30/09
Next EPS Date	11/04/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	24.09
52 Week High	33.29
52 Week Low	17.08
Beta	0.69
20 Day Moving Average	169,355.05
Target Price Consensus	28.4



% Price Change		% Price Change Relative to S&P 500	
4 Week	-1.59	4 Week	-0.80
12 Week	11.99	12 Week	5.73
YTD	-4.48	YTD	-13.75

Share Information		Dividend Information	
Shares Outstanding (millions)	44.82	Dividend Yield	3.94%
		Annual Dividend	$0.95
Market Capitalization (millions)	1,079.76	Payout Ratio	0.65
Short Ratio	5.09	Change in Payout Ratio	0.00
Last Split Date	N/A	Last Dividend Payout / Amount	08/13/2009 / $0.24

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	-0.37	Current (1=Strong Buy, 5=Strong Sell)	2.60
Current Year EPS Consensus Estimate	1.78	30 Days Ago	2.60
Estimated Long-Term EPS Growth Rate	6.00	60 Days Ago	2.60
Next EPS Report Date	11/04/2009	90 Days Ago	2.60

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	13.53	vs. Previous Year	116.67%	vs. Previous Year	-13.34%
Trailing 12 Months:	16.50	vs. Previous Quarter	-99.11%	vs. Previous Quarter:	-43.81%
PEG Ratio	2.26				
Price Ratios		**ROE**		**ROA**	
Price/Book	1.00	06/30/09	5.70	06/30/09	1.63

Price/Cash Flow	4.08	03/31/09	5.45	03/31/09	1.56
Price / Sales	0.55	12/31/08	5.93	12/31/08	1.69
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/09	0.69	06/30/09	0.69	06/30/09	3.07
03/31/09	0.82	03/31/09	0.82	03/31/09	2.81
12/31/08	0.86	12/31/08	0.86	12/31/08	2.84
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/09	5.35	06/30/09	5.35	06/30/09	24.16
03/31/09	5.09	03/31/09	5.09	03/31/09	24.40
12/31/08	4.75	12/31/08	4.75	12/31/08	23.63
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
06/30/09	-	06/30/09	1.04	06/30/09	50.97
03/31/09	-	03/31/09	1.05	03/31/09	51.33
12/31/08	-	12/31/08	1.24	12/31/08	55.33

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WGL HLDGS INC (NYSE)					Scottrade
WGL	32.81	▼-0.47	(-1.41%)	Vol. 97,741	14:23 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.

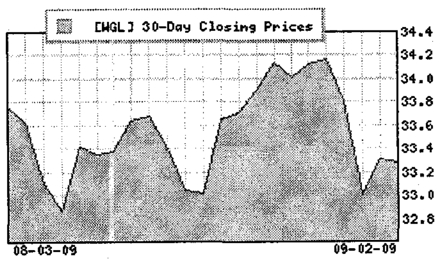
General Information

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	06/30/09
Next EPS Date	11/05/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	33.28
52 Week High	37.08
52 Week Low	22.40
Beta	0.21
20 Day Moving Average	231,966.09
Target Price Consensus	34.67



% Price Change		% Price Change Relative to S&P 500	
4 Week	0.54	4 Week	1.35
12 Week	6.43	12 Week	0.48
YTD	1.80	YTD	-9.23

Share Information		Dividend Information	
Shares Outstanding (millions)	50.14	Dividend Yield	4.42%
		Annual Dividend	$1.47
Market Capitalization (millions)	1,668.69	Payout Ratio	0.57
Short Ratio	10.56	Change in Payout Ratio	0.00
Last Split Date	05/02/1995	Last Dividend Payout / Amount	07/08/2009 / $0.37

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	-0.31	Current (1=Strong Buy, 5=Strong Sell)	2.50
Current Year EPS Consensus Estimate	2.48	30 Days Ago	2.50
Estimated Long-Term EPS Growth Rate	5.00	60 Days Ago	2.50
Next EPS Report Date	11/05/2009	90 Days Ago	2.50

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	13.40	vs. Previous Year	83.33%	vs. Previous Year	-8.09%
Trailing 12 Months:	12.95	vs. Previous Quarter	-93.33%	vs. Previous Quarter:	-58.97%
PEG Ratio	2.68				

Price Ratios	ROE	ROA

Price/Book	1.47	06/30/09	11.67	06/30/09	3.84
Price/Cash Flow	7.72	03/31/09	11.60	03/31/09	3.75
Price / Sales	0.68	12/31/08	11.76	12/31/08	3.79
Current Ratio		**Quick Ratio**		**Operating Margin**	
06/30/09	1.17	06/30/09	0.82	06/30/09	5.26
03/31/09	1.20	03/31/09	1.04	03/31/09	5.08
12/31/08	1.06	12/31/08	0.70	12/31/08	5.11
Net Margin		**Pre-Tax Margin**		**Book Value**	
06/30/09	7.81	06/30/09	7.81	06/30/09	22.56
03/31/09	7.58	03/31/09	7.58	03/31/09	22.89
12/31/08	8.04	12/31/08	8.04	12/31/08	21.79
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
06/30/09	9.10	06/30/09	0.55	06/30/09	34.99
03/31/09	8.22	03/31/09	0.57	03/31/09	35.81
12/31/08	7.91	12/31/08	0.60	12/31/08	37.05

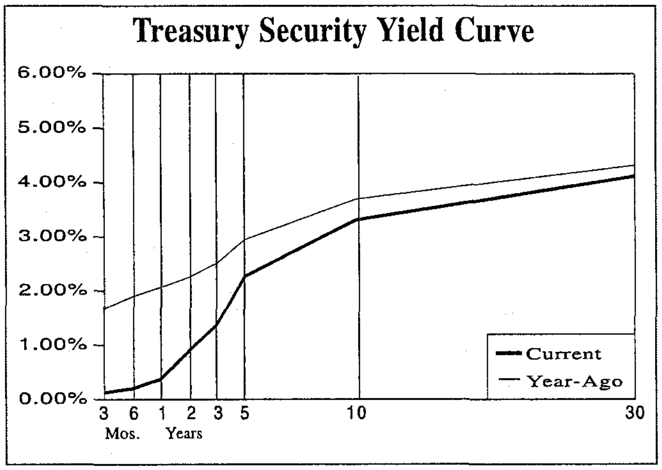
ATTACHMENT D

Selected Yields

TAXABLE

	Recent (9/02/09)	3 Months Ago (6/3/09)	Year Ago (9/03/08)
Market Rates			
Discount Rate	0.50	0.50	2.25
Federal Funds	0.00-0.25	0.00-0.25	2.00
Prime Rate	3.25	3.25	5.00
30-day CP (A1/P1)	0.23	0.28	2.88
3-month LIBOR	0.33	0.64	2.81
Bank CDs			
6-month	0.42	0.70	1.60
1-year	0.72	0.92	2.26
5-year	2.25	1.92	4.15
U.S. Treasury Securities			
3-month	0.13	0.12	1.68
6-month	0.21	0.25	1.90
1-year	0.38	0.44	2.07
5-year	2.27	2.42	2.95
10-year	3.31	3.54	3.70
10-year (inflation-protected)	1.74	1.63	1.64
30-year	4.12	4.45	4.32
30-year Zero	4.22	4.53	4.37

	Recent (9/02/09)	3 Months Ago (6/3/09)	Year Ago (9/03/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.92	3.37	5.60
FHLMC 6.5% (Gold)	3.07	2.89	5.67
FNMA 6.5%	2.85	2.78	5.48
FNMA ARM	2.62	2.53	3.89
Corporate Bonds			
Financial (10-year) A	5.79	6.82	6.69
Industrial (25/30-year) A	5.43	6.35	6.11
Utility (25/30-year) A	5.45	6.17	6.13
Utility (25/30-year) Baa/BBB	6.14	7.83	6.54
Foreign Bonds (10-Year)			
Canada	3.33	3.36	3.48
Germany	3.23	3.57	4.14
Japan	1.32	1.55	1.47
United Kingdom	3.55	3.79	4.50
Preferred Stocks			
Utility A	6.37	6.10	6.16
Financial A	5.94	8.35	6.97
Financial Adjustable A	5.53	5.53	5.53



Treasury Security Yield Curve

TAX-EXEMPT

	Recent (9/02/09)	3 Months Ago (6/3/09)	Year Ago (9/03/08)
Bond Buyer Indexes			
20-Bond Index (GOs)	4.53	4.61	4.68
25-Bond Index (Revs)	5.99	5.53	5.17
General Obligation Bonds (GOs)			
1-year Aaa	0.40	0.40	1.58
1-year A	0.90	1.13	1.68
5-year Aaa	1.80	2.02	2.74
5-year A	2.24	3.45	2.84
10-year Aaa	2.93	3.01	3.55
10-year A	3.30	4.55	3.75
25/30-year Aaa	4.36	4.64	4.69
25/30-year A	4.82	6.16	5.07
Revenue Bonds (Revs) (25/30-Year)			
Education AA	5.30	6.20	4.85
Electric AA	5.40	6.25	4.80
Housing AA	5.55	6.55	5.15
Hospital AA	5.60	6.50	5.25
Toll Road Aaa	5.35	6.30	4.80

Federal Reserve Data

BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	8/26/09	8/12/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	794546	708501	86045	756262	762985	613020
Borrowed Reserves	327647	340534	-12887	394750	486512	508084
Net Free/Borrowed Reserves	466899	367967	98932	361512	276473	104936

MONEY SUPPLY

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

	Recent Levels			Growth Rates Over the Last...		
	8/17/09	8/10/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1658.2	1663.6	-5.4	17.9%	13.1%	19.9%
M2 (M1+savings+small time deposits)	8312.4	8318.3	-5.9	-1.5%	1.1%	8.1%

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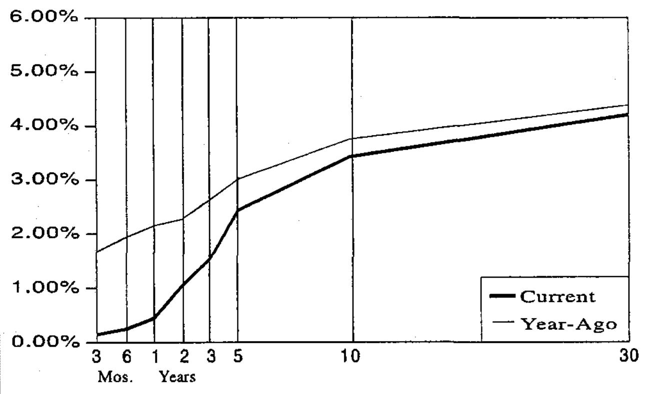
Selected Yields

	Recent (8/26/09)	3 Months Ago (5/27/09)	Year Ago (8/27/08)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	2.25
Federal Funds	0.00-0.25	0.00-0.25	2.00
Prime Rate	3.25	3.25	5.00
30-day CP (A1/P1)	0.24	0.31	2.84
3-month LIBOR	0.37	0.67	2.81
Bank CDs			
6-month	0.48	0.69	1.60
1-year	0.72	0.92	2.26
5-year	2.25	1.92	4.15
U.S. Treasury Securities			
3-month	0.15	0.16	1.67
6-month	0.25	0.29	1.94
1-year	0.45	0.47	2.15
5-year	2.44	2.44	3.01
10-year	3.43	3.74	3.76
10-year (inflation-protected)	1.70	1.81	1.51
30-year	4.20	4.63	4.38
30-year Zero	4.29	4.74	4.44

	Recent (8/26/09)	3 Months Ago (5/27/09)	Year Ago (8/27/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.95	3.34	5.62
FHLMC 6.5% (Gold)	2.95	2.61	5.66
FNMA 6.5%	2.73	2.28	5.56
FNMA ARM	2.75	2.78	4.02
Corporate Bonds			
Financial (10-year) A	6.13	7.00	6.60
Industrial (25/30-year) A	5.52	6.61	6.18
Utility (25/30-year) A	5.53	6.44	6.15
Utility (25/30-year) Baa/BBB	6.17	8.01	6.57
Foreign Bonds (10-Year)			
Canada	3.40	3.57	3.53
Germany	3.24	3.63	4.17
Japan	1.32	1.48	1.45
United Kingdom	3.55	3.75	4.51
Preferred Stocks			
Utility A	6.34	6.08	6.16
Financial A	5.99	8.28	7.08
Financial Adjustable A	5.52	5.53	5.53
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.58	4.44	4.64
25-Bond Index (Revs)	5.62	5.42	5.15
General Obligation Bonds (GOs)			
1-year Aaa	0.40	0.42	1.56
1-year A	1.10	1.15	1.66
5-year Aaa	1.81	1.87	2.79
5-year A	3.21	3.29	2.89
10-year Aaa	2.96	2.84	3.60
10-year A	4.48	4.40	3.80
25/30-year Aaa	4.54	4.41	4.71
25/30-year A	6.05	5.89	4.95
Revenue Bonds (Revs) (25/30-Year)			
Education AA	5.80	5.94	5.05
Electric AA	5.85	6.04	5.10
Housing AA	6.35	6.34	5.25
Hospital AA	6.35	6.29	5.30
Toll Road Aaa	5.80	6.09	5.10

Treasury Security Yield Curve



Federal Reserve Data

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

	Recent Levels			Average Levels Over the Last...		
	8/12/09	7/29/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	708499	728888	-20389	768051	749904	583661
Borrowed Reserves	340534	347217	-6683	427197	503204	502158
Net Free/Borrowed Reserves	367965	381671	-13706	340854	246700	81504

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

	Recent Levels			Growth Rates Over the Last...		
	8/10/09	8/3/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1663.8	1677.2	-13.4	17.9%	12.1%	18.7%
M2 (M1+savings+small time deposits)	8318.3	8323.9	-5.6	-0.7%	1.6%	7.9%

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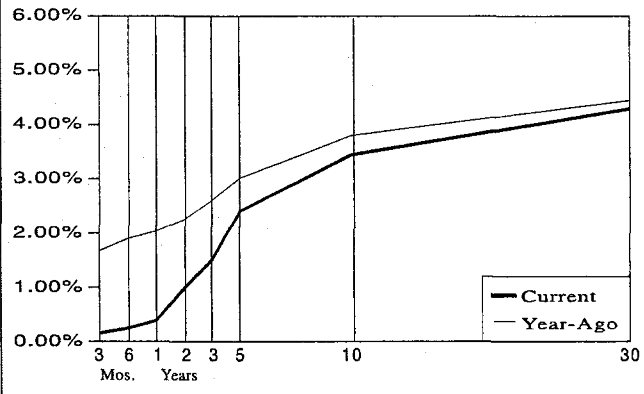
Selected Yields

	Recent (8/19/09)	3 Months Ago (5/20/09)	Year Ago (8/20/08)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	2.25
Federal Funds	0.00-0.25	0.00-0.25	2.00
Prime Rate	3.25	3.25	5.00
30-day CP (A1/P1)	0.23	0.26	2.77
3-month LIBOR	0.42	0.72	2.81
Bank CDs			
6-month	0.48	0.72	1.63
1-year	0.72	0.97	2.26
5-year	1.90	1.92	4.16
U.S. Treasury Securities			
3-month	0.16	0.17	1.68
6-month	0.25	0.27	1.90
1-year	0.39	0.42	2.04
5-year	2.41	2.03	3.01
10-year	3.45	3.19	3.80
10-year (inflation-protected)	1.69	1.51	1.54
30-year	4.29	4.14	4.45
30-year Zero	4.42	4.26	4.51

	Recent (8/19/09)	3 Months Ago (5/20/09)	Year Ago (8/20/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.85	3.02	5.63
FHLMC 6.5% (Gold)	2.95	2.27	5.69
FNMA 6.5%	2.73	2.03	5.58
FNMA ARM	2.75	2.78	4.02
Corporate Bonds			
Financial (10-year) A	6.23	6.66	6.46
Industrial (25/30-year) A	5.60	6.21	6.22
Utility (25/30-year) A	5.64	6.01	6.17
Utility (25/30-year) Baa/BBB	6.23	7.59	6.65
Foreign Bonds (10-Year)			
Canada	3.40	3.14	3.58
Germany	3.25	3.43	4.12
Japan	1.35	1.43	1.45
United Kingdom	3.59	3.58	4.56
Preferred Stocks			
Utility A	6.02	6.09	6.18
Financial A	7.10	8.37	7.26
Financial Adjustable A	5.52	5.52	5.52

Treasury Security Yield Curve



	Recent (8/19/09)	3 Months Ago (5/20/09)	Year Ago (8/20/08)
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.65	4.61	4.67
25-Bond Index (Revs)	5.66	5.53	5.17
General Obligation Bonds (GOs)			
1-year Aaa	0.40	0.43	1.56
1-year A	0.90	1.16	1.66
5-year Aaa	1.73	1.82	2.80
5-year A	2.17	3.25	2.90
10-year Aaa	2.94	2.81	3.58
10-year A	3.30	4.35	3.78
25/30-year Aaa	4.54	4.40	4.66
25/30-year A	5.00	5.92	5.04
Revenue Bonds (Revs) (25/30-Year)			
Education AA	5.50	5.97	4.80
Electric AA	5.60	6.02	4.75
Housing AA	5.75	6.32	5.10
Hospital AA	5.85	6.27	5.20
Toll Road Aaa	5.55	6.07	4.75

Federal Reserve Data

BANK RESERVES
(Two-Week Period; in Millions, Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	8/12/09	7/29/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	708500	728855	-20355	768047	749902	583660
Borrowed Reserves	340534	347217	-6683	427197	503204	502158
Net Free/Borrowed Reserves	367966	381638	-13672	340849	246697	81502

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

	Recent Levels			Growth Rates Over the Last...		
	8/3/09	7/27/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1677.5	1647.6	29.9	17.9%	14.1%	18.8%
M2 (M1+savings+small time deposits)	8323.6	8365.6	-42.0	0.1%	2.0%	7.9%

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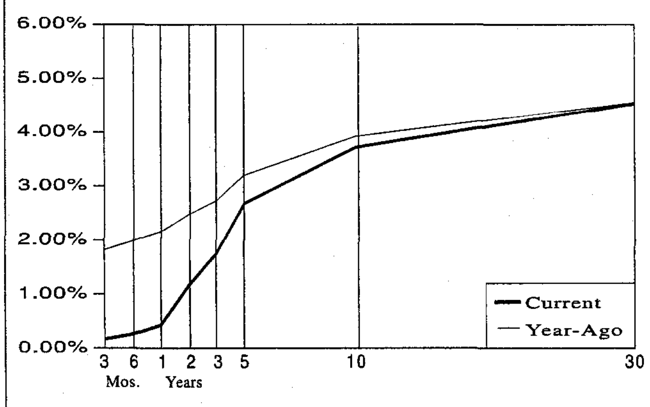
Selected Yields

TAXABLE	Recent (8/12/09)	3 Months Ago (5/13/09)	Year Ago (8/13/08)
Market Rates			
Discount Rate	0.50	0.50	2.25
Federal Funds	0.00-0.25	0.00-0.25	2.00
Prime Rate	3.25	3.25	5.00
30-day CP (A1/P1)	0.25	0.32	2.74
3-month LIBOR	0.45	0.88	2.80
Bank CDs			
6-month	0.50	0.73	1.60
1-year	0.73	0.98	2.26
5-year	1.90	1.93	4.16
U.S. Treasury Securities			
3-month	0.17	0.17	1.83
6-month	0.26	0.28	1.99
1-year	0.43	0.50	2.16
5-year	2.68	1.98	3.20
10-year	3.72	3.12	3.93
10-year (inflation-protected)	1.83	1.64	1.68
30-year	4.54	4.10	4.56
30-year Zero	4.65	4.18	4.61

	Recent (8/12/09)	3 Months Ago (5/13/09)	Year Ago (8/13/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.83	3.09	5.84
FHLMC 6.5% (Gold)	3.19	2.38	5.87
FNMA 6.5%	2.91	2.20	5.79
FNMA ARM	2.75	2.78	4.02
Corporate Bonds			
Financial (10-year) A	6.45	6.94	6.20
Industrial (25/30-year) A	5.85	6.19	6.29
Utility (25/30-year) A	5.79	6.01	6.27
Utility (25/30-year) Baa/BBB	6.62	7.57	6.75
Foreign Bonds (10-Year)			
Canada	3.52	3.10	3.61
Germany	3.46	3.34	4.21
Japan	1.43	1.46	1.46
United Kingdom	3.79	3.52	4.60
Preferred Stocks			
Utility A	5.66	6.35	6.27
Financial A	6.06	8.65	7.37
Financial Adjustable A	5.51	5.51	5.51
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.65	4.63	4.75
25-Bond Index (Revs)	5.68	5.57	5.23
General Obligation Bonds (GOs)			
1-year Aaa	0.40	0.43	1.56
1-year A	1.10	1.16	1.66
5-year Aaa	1.69	1.82	2.90
5-year A	3.09	3.24	3.00
10-year Aaa	2.98	2.86	3.68
10-year A	4.50	4.41	3.88
25/30-year Aaa	4.66	4.43	4.75
25/30-year A	6.17	5.91	5.10
Revenue Bonds (Revs) (25/30-Year)			
Education AA	5.90	5.96	5.00
Electric AA	5.95	6.06	5.05
Housing AA	6.45	6.36	5.20
Hospital AA	6.45	6.31	5.20
Toll Road Aaa	5.90	6.11	5.10

Treasury Security Yield Curve



Federal Reserve Data

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

	Recent Levels			Average Levels Over the Last...		
	7/29/09	7/15/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	728856	743860	-15004	777896	755940	557494
Borrowed Reserves	347217	387829	-40612	451108	519244	495733
Net Free/Borrowed Reserves	381639	356031	25608	326788	236696	61761

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

	Recent Levels			Growth Rates Over the Last...		
	7/27/09	7/20/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1647.6	1644.8	2.8	19.0%	13.0%	16.9%
M2 (M1+savings+small time deposits)	8365.7	8341.1	24.6	3.1%	2.3%	8.1%

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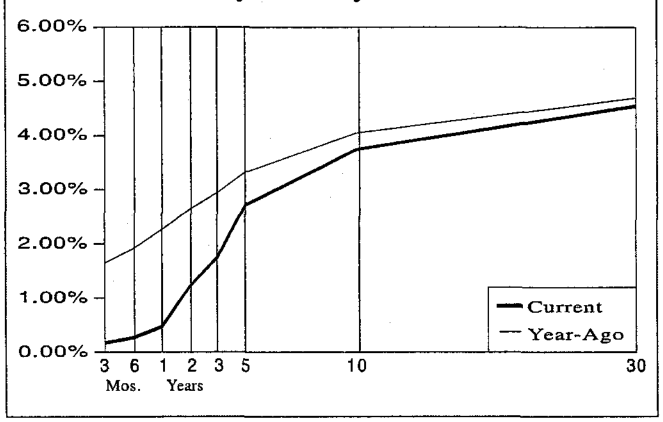
Selected Yields

	Recent (8/05/09)	3 Months Ago (5/06/09)	Year Ago (8/06/08)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	2.25
Federal Funds	0.00-0.25	0.00-0.25	2.00
Prime Rate	3.25	3.25	5.00
30-day CP (A1/P1)	0.28	0.40	2.79
3-month LIBOR	0.47	0.97	2.80
Bank CDs			
6-month	0.50	0.79	1.59
1-year	0.73	0.98	2.26
5-year	1.90	1.93	4.16
U.S. Treasury Securities			
3-month	0.18	0.18	1.65
6-month	0.27	0.31	1.91
1-year	0.47	0.50	2.26
5-year	2.72	2.05	3.32
10-year	3.75	3.16	4.05
10-year (inflation-protected)	1.82	1.69	1.73
30-year	4.55	4.10	4.70
30-year Zero	4.65	4.14	4.75

	Recent (8/05/09)	3 Months Ago (5/06/09)	Year Ago (8/06/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.74	3.37	5.85
FHLMC 6.5% (Gold)	3.13	2.91	5.89
FNMA 6.5%	2.91	2.71	5.79
FNMA ARM	2.75	2.78	4.03
Corporate Bonds			
Financial (10-year) A	6.85	7.19	6.34
Industrial (25/30-year) A	5.96	6.31	6.42
Utility (25/30-year) A	5.70	6.10	6.37
Utility (25/30-year) Baa/BBB	6.70	7.54	6.86
Foreign Bonds (10-Year)			
Canada	3.58	3.07	3.70
Germany	3.34	3.24	4.34
Japan	1.44	1.41	1.53
United Kingdom	3.83	3.61	4.75
Preferred Stocks			
Utility A	6.04	6.00	6.26
Financial A	7.47	8.19	6.94
Financial Adjustable A	5.51	5.51	5.51

Treasury Security Yield Curve



	Recent (8/05/09)	3 Months Ago (5/06/09)	Year Ago (8/06/08)
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.69	4.70	4.77
25-Bond Index (Revs)	5.66	5.57	5.23
General Obligation Bonds (GOs)			
1-year Aaa	0.42	0.43	1.52
1-year A	0.92	1.16	1.62
5-year Aaa	1.72	1.84	3.08
5-year A	2.16	3.25	3.18
10-year Aaa	2.99	2.91	3.82
10-year A	3.35	4.45	4.02
25/30-year Aaa	4.69	4.53	4.78
25/30-year A	5.15	6.05	5.13
Revenue Bonds (Revs) (25/30-Year)			
Education AA	5.65	6.10	4.90
Electric AA	5.75	6.15	4.85
Housing AA	5.90	6.45	5.15
Hospital AA	6.00	6.40	5.25
Toll Road Aaa	5.70	6.20	4.85

Federal Reserve Data

BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	7/29/09	7/15/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	728843	743861	-15018	777895	755939	557494
Borrowed Reserves	347217	387829	-40612	451108	519244	495733
Net Free/Borrowed Reserves	381626	356032	25594	326786	236695	61760

MONEY SUPPLY

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

	Recent Levels			Growth Rates Over the Last...		
	7/20/09	7/13/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1644.8	1657.6	-12.8	23.5%	12.5%	16.7%
M2 (M1+savings+small time deposits)	8342.7	8333.8	8.9	4.0%	2.2%	7.8%

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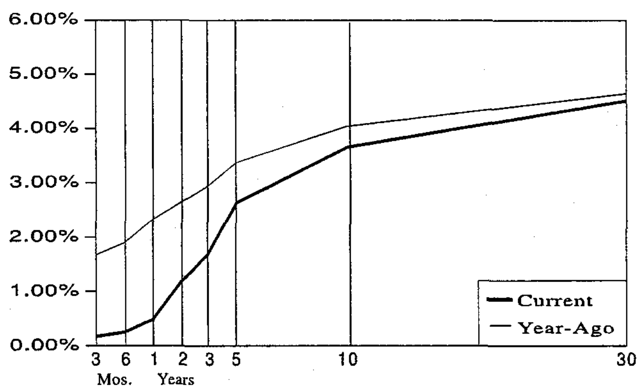
Selected Yields

	Recent (7/29/09)	3 Months Ago (4/29/09)	Year Ago (7/30/08)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	2.25
Federal Funds	0.00-0.25	0.00-0.25	2.00
Prime Rate	3.25	3.25	5.00
30-day CP (A1/P1)	0.27	0.40	2.72
3-month LIBOR	0.49	1.03	2.80
Bank CDs			
6-month	0.56	0.79	1.59
1-year	0.83	0.98	2.11
5-year	1.90	1.93	4.16
U.S. Treasury Securities			
3-month	0.18	0.09	1.68
6-month	0.25	0.28	1.89
1-year	0.48	0.46	2.32
5-year	2.63	2.03	3.37
10-year	3.66	3.11	4.04
10-year (inflation-protected)	1.84	1.57	1.63
30-year	4.51	4.03	4.65
30-year Zero	4.61	4.05	4.69

	Recent (7/29/09)	3 Months Ago (4/29/09)	Year Ago (7/30/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.70	3.30	5.53
FHLMC 6.5% (Gold)	2.82	2.61	5.68
FNMA 6.5%	2.64	2.45	5.53
FNMA ARM	2.98	3.15	4.12
Corporate Bonds			
Financial (10-year) A	6.95	7.84	6.38
Industrial (25/30-year) A	6.02	6.41	6.32
Utility (25/30-year) A	5.79	6.33	6.31
Utility (25/30-year) Baa/BBB	7.14	7.58	6.78
Foreign Bonds (10-Year)			
Canada	3.53	3.08	3.82
Germany	3.42	3.13	4.42
Japan	1.38	1.42	1.53
United Kingdom	3.97	3.46	4.85
Preferred Stocks			
Utility A	5.71	7.53	6.12
Financial A	6.30	8.96	7.06
Financial Adjustable A	5.50	5.50	5.50

Treasury Security Yield Curve



	Recent (7/29/09)	3 Months Ago (4/29/09)	Year Ago (7/30/08)
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.69	4.57	4.77
25-Bond Index (Revs)	5.67	5.49	5.23
General Obligation Bonds (GOs)			
1-year Aaa	0.42	0.54	1.52
1-year A	1.12	1.04	1.62
5-year Aaa	1.77	1.80	3.08
5-year A	3.17	2.23	3.18
10-year Aaa	3.03	3.19	3.82
10-year A	4.55	3.55	4.02
25/30-year Aaa	4.72	4.67	4.78
25/30-year A	6.23	5.11	5.13
Revenue Bonds (Revs) (25/30-Year)			
Education AA	6.10	5.80	4.90
Electric AA	6.15	5.90	4.85
Housing AA	6.55	6.20	5.15
Hospital AA	6.50	6.15	5.25
Toll Road Aaa	6.10	5.95	4.85

Federal Reserve Data

BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	7/15/09	**7/1/09**	**Change**	**12 Wks.**	**26 Wks.**	**52 Wks.**
Excess Reserves	743862	687737	56125	796972	764128	530566
Borrowed Reserves	387829	404097	-16268	482271	534612	488935
Net Free/Borrowed Reserves	356033	283640	72393	314701	229517	41631

MONEY SUPPLY

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

	Recent Levels			Growth Rates Over the Last...		
	7/13/09	**7/6/09**	**Change**	**3 Mos.**	**6 Mos.**	**12 Mos.**
M1 (Currency+demand deposits)	1657.7	1653.8	3.9	22.0%	7.0%	17.7%
M2 (M1+savings+small time deposits)	8333.7	8348.7	-15.0	3.4%	2.9%	8.0%

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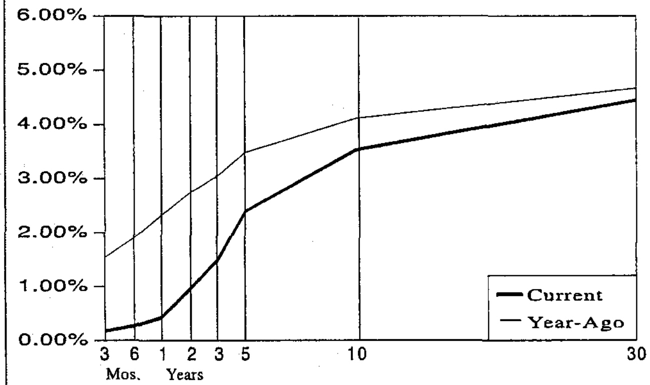
Selected Yields

	Recent (7/22/09)	3 Months Ago (4/22/09)	Year Ago (7/23/08)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	2.25
Federal Funds	0.00-0.25	0.00-0.25	2.00
Prime Rate	3.25	3.25	5.00
30-day CP (A1/P1)	0.31	0.37	2.69
3-month LIBOR	0.50	1.10	2.80
Bank CDs			
6-month	0.56	0.80	1.59
1-year	0.83	0.99	2.10
5-year	1.90	1.93	4.14
U.S. Treasury Securities			
3-month	0.18	0.13	1.55
6-month	0.27	0.32	1.89
1-year	0.43	0.48	2.33
5-year	2.40	1.89	3.49
10-year	3.54	2.94	4.12
10-year (inflation-protected)	1.74	1.59	1.67
30-year	4.45	3.80	4.67
30-year Zero	4.56	3.79	4.70

	Recent (7/22/09)	3 Months Ago (4/22/09)	Year Ago (7/23/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.61	3.32	5.81
FHLMC 6.5% (Gold)	2.80	2.72	5.92
FNMA 6.5%	2.62	2.58	5.85
FNMA ARM	2.98	3.15	4.15
Corporate Bonds			
Financial (10-year) A	6.58	7.71	6.40
Industrial (25/30-year) A	5.98	6.31	6.36
Utility (25/30-year) A	5.81	6.19	6.35
Utility (25/30-year) Baa/BBB	6.97	7.41	6.65
Foreign Bonds (10-Year)			
Canada	3.45	2.94	3.86
Germany	3.38	3.21	4.66
Japan	1.39	1.44	1.65
United Kingdom	3.84	3.45	5.05
Preferred Stocks			
Utility A	5.97	6.31	6.24
Financial A	7.46	8.98	6.99
Financial Adjustable A	5.50	5.50	5.50

Treasury Security Yield Curve



	Recent (7/22/09)	3 Months Ago (4/22/09)	Year Ago (7/23/08)
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.68	4.78	4.65
25-Bond Index (Revs)	5.66	5.63	5.11
General Obligation Bonds (GOs)			
1-year Aaa	0.42	0.43	1.52
1-year A	0.92	1.16	1.54
5-year Aaa	1.78	1.73	3.10
5-year A	2.22	3.15	3.20
10-year Aaa	2.99	2.88	3.84
10-year A	3.35	4.43	4.04
25/30-year Aaa	4.64	4.44	4.88
25/30-year A	5.10	5.95	4.98
Revenue Bonds (Revs) (25/30-Year)			
Education AA	5.60	6.00	5.13
Electric AA	5.70	6.10	5.15
Housing AA	5.85	6.40	5.20
Hospital AA	5.95	6.35	5.25
Toll Road Aaa	5.65	6.15	5.15

Federal Reserve Data

BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	7/15/09	7/1/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	743853	687735	56118	796971	764128	530566
Borrowed Reserves	387829	404097	-16268	482271	534612	488935
Net Free/Borrowed Reserves	356024	283638	72386	314699	229516	41631

MONEY SUPPLY

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

	Recent Levels			Growth Rates Over the Last...		
	7/6/09	6/29/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1654.0	1652.9	1.1	2.1%	1.9%	18.3%
M2 (M1+savings+small time deposits)	8348.7	8348.8	-0.1	4.2%	3.5%	8.4%

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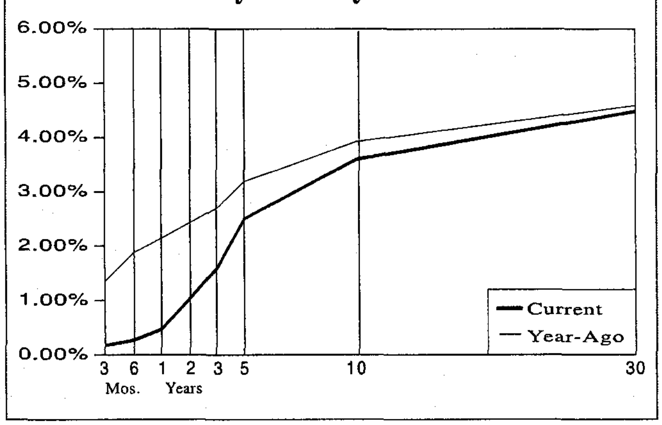
Selected Yields

	Recent (7/15/09)	3 Months Ago (4/15/09)	Year Ago (7/16/08)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	2.25
Federal Funds	0.00-0.25	0.00-0.25	2.00
Prime Rate	3.25	3.25	5.00
30-day CP (A1/P1)	0.33	0.38	2.67
3-month LIBOR	0.51	1.11	2.79
Bank CDs			
6-month	0.58	0.81	1.59
1-year	0.85	1.02	2.11
5-year	1.92	2.01	3.94
U.S. Treasury Securities			
3-month	0.18	0.14	1.35
6-month	0.27	0.33	1.87
1-year	0.47	0.51	2.14
5-year	2.51	1.70	3.19
10-year	3.60	2.76	3.93
10-year (inflation-protected)	1.85	1.43	1.32
30-year	4.49	3.66	4.59
30-year Zero	4.60	3.66	4.62

	Recent (7/15/09)	3 Months Ago (4/15/09)	Year Ago (7/16/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.41	3.39	5.60
FHLMC 6.5% (Gold)	2.75	2.67	5.48
FNMA 6.5%	2.59	2.62	5.43
FNMA ARM	2.98	3.15	4.09
Corporate Bonds			
Financial (10-year) A	6.62	7.61	6.20
Industrial (25/30-year) A	6.12	6.25	6.27
Utility (25/30-year) A	5.97	6.17	6.35
Utility (25/30-year) Baa/BBB	7.19	7.59	6.56
Foreign Bonds (10-Year)			
Canada	3.49	2.94	3.74
Germany	3.37	3.14	4.39
Japan	1.34	1.44	1.58
United Kingdom	3.80	3.26	4.87
Preferred Stocks			
Utility A	5.95	6.36	6.41
Financial A	7.67	7.55	7.93
Financial Adjustable A	5.49	5.49	5.49

Treasury Security Yield Curve



	Recent (7/15/09)	3 Months Ago (4/15/09)	Year Ago (7/16/08)
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.71	4.92	4.56
25-Bond Index (Revs)	5.70	5.74	5.04
General Obligation Bonds (GOs)			
1-year Aaa	0.40	0.43	1.50
1-year A	1.10	0.53	1.60
5-year Aaa	2.07	1.91	3.20
5-year A	3.47	2.13	3.30
10-year Aaa	2.98	3.09	3.80
10-year A	4.50	3.62	4.00
25/30-year Aaa	4.59	4.71	4.64
25/30-year A	6.10	5.75	4.99
Revenue Bonds (Revs) (25/30-Year)			
Education AA	5.95	5.70	4.75
Electric AA	6.00	5.80	4.65
Housing AA	6.40	6.10	5.00
Hospital AA	6.35	6.15	5.10
Toll Road Aaa	5.95	5.85	4.65

Federal Reserve Data

BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	7/1/09	6/17/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	687741	791807	-104066	805677	768029	503131
Borrowed Reserves	404097	458240	-54143	512001	551755	480824
Net Free/Borrowed Reserves	283644	333567	-49923	293676	216274	22307

MONEY SUPPLY

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

	Recent Levels			Growth Rates Over the Last...		
	6/29/09	6/22/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1652.9	1669.1	-16.2	27.5%	7.4%	18.9%
M2 (M1+savings+small time deposits)	8349.2	8385.4	-36.2	1.0%	3.8%	8.7%

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BLACK MOUNTAIN SEWER CORPORATION
DOCKET NO. SW-02361A-08-0609
TABLE OF CONTENTS TO SCHEDULES WAR

WEIGHTED AVERAGE COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST RATE	(C) WEIGHTED COST RATE
1	Long-Term Debt	40.00%	6.26%	2.50%
2	Common Equity	60.00%	8.22%	4.93%
3	Total Capitalization	100.00%		
4	**WEIGHTED AVERAGE COST OF CAPITAL**			7.43%

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): TESTIMONY, WAR - SCHEDULE WAR-1, PAGE 2
COLUMN (C): COLUMN (A) x COLUMN (B)

SAMPLE COMPANIES APPROXIMATE WEIGHTED COSTS OF DEBT

LINE NO.	STOCK SYMBOL	COMPANY	WEIGHTED COSTS		
1	AWR	AMERICAN STATES WATER CO.	7.13%		
2	CWT	CALIFORNIA WATER SERVICE GROUP	6.43%		
3	WTR	AQUA AMERICA, INC.	6.03%		
4	CTWS	CONNECTICUT WATER SERVICES, INC.	4.95%		
5	MSEX	MIDDLESEX WATER COMPANY	5.52%		
6	SJW	SJW CORP.	6.81%		
7	YORW	YORK WATER COMPANY	6.92%		
8	AVERAGE OF APPROXIMATE WEIGHTED COSTS OF DEBT (a)			6.26%	AVERAGE OF LINES 1 THRU 8
9	**RUCO RECOMMENDED COST OF DEBT**			6.26%	

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

NOTE:
(a) COSTS ARE APPROXIMATE AND DO NOT INCLUDE THE FOLLOWING:
DEBT ISSUES THAT DID NOT HAVE STATED YIELDS; AND
DEBT ISSUES WITH ZERO RATES OF INTEREST.
IN THE CASE OF ISSUES WITH VARIABLE RATES OF INTEREST THE HIGH END OF THE VARIABLE RANGE WAS USED.

BLACK MOUNTAIN SEWER CORPORATION
TEST YEAR ENDED JUNE 30, 2008
COST OF CAPITAL SUMMARY

COST OF COMMON EQUITY CALCULATION

DOCKET NO. SW-02361A-08-0609
SCHEDULE WAR - 1, PAGE 3 OF 3

LINE NO.			
1	**DCF METHODOLOGY**		
2	DCF - WATER COMPANY SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	9.84%	SCHEDULE WAR-2, COLUMN (C), LINE 4
3	DCF - NATURAL GAS LDC SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	10.73%	SCHEDULE WAR-2, COLUMN (C), LINE 15
4	**AVERAGE OF DCF ESTIMATES**	**10.28%**	(LINE 2 + LINE 3) / 2
5	**CAPM METHODOLOGY**		
6	CAPM - WATER COMPANY GEOMETRIC MEAN ESTIMATE	5.66%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 4
7	CAPM - NATURAL GAS LDC GEOMETRIC MEAN ESTIMATE	5.30%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 15
8	CAPM - WATER COMPANY ARITHMETIC MEAN ESTIMATE	7.08%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 4
9	CAPM - NATURAL GAS LDC ARITHMETIC MEAN ESTIMATE	6.56%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 15
10	**AVERAGE OF CAPM ESTIMATES**	**6.15%**	(SUM OF LINES 6 THRU 9) / 4
11	**AVERAGE OF DCF AND CAPM ESTIMATES**	8.22%	(LINE 4 + LINE 10) / 2

BLACK MOUNTAIN SEWER CORPORATION
TEST YEAR ENDED JUNE 30, 2008
DCF COST OF EQUITY CAPITAL

DOCKET NO. SW-02361A-08-0609
SCHEDULE WAR - 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) DIVIDEND YIELD	+	(B) GROWTH RATE (g)	=	(C) DCF COST OF EQUITY CAPITAL
1	AWR	AMERICAN STATES WATER CO.	2.87%	+	8.18%	=	11.05%
2	CWT	CALIFORNIA WATER SERVICE GROUP	3.16%	+	6.65%	=	9.82%
3	WTR	AQUA AMERICA, INC.	3.11%	+	5.54%	=	8.65%
4	**WATER COMPANY AVERAGE**						**9.84%**
5	AGL	AGL RESOURCES, INC.	5.16%	+	5.89%	=	11.04%
6	ATO	ATMOS ENERGY CORP.	4.91%	+	11.58%	=	16.49%
7	LG	LACLEDE GROUP, INC.	4.65%	+	5.15%	=	9.80%
8	NJR	NEW JERSEY RESOURCES CORPORATION	3.30%	+	5.73%	=	9.02%
9	GAS	NICOR, INC.	5.15%	+	5.18%	=	10.33%
10	NWN	NORTHWEST NATURAL GAS CO.	3.65%	+	4.97%	=	8.62%
11	PNY	PIEDMONT NATURAL GAS COMPANY	4.26%	+	4.75%	=	9.02%
12	SJI	SOUTH JERSEY INDUSTIES, INC.	3.35%	+	7.91%	=	11.26%
13	SWX	SOUTHWEST GAS CORPORATION	3.95%	+	8.94%	=	12.89%
14	WGL	WGL HOLDINGS, INC.	4.48%	+	4.38%	=	8.85%
15	**NATURAL GAS LDC AVERAGE**						**10.73%**

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

BLACK MOUNTAIN SEWER CORPORATION
TEST YEAR ENDED JUNE 30, 2008
DIVIDEND YIELD CALCULATION

DOCKET NO. SW-02361A-08-0609
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	/	$34.88	=	2.87%
2	CWT	CALIFORNIA WATER SERVICE GROUP	1.18	/	37.32	=	3.16%
3	WTR	AQUA AMERICA, INC.	0.54	/	17.38	=	3.11%
4	**WATER COMPANY AVERAGE**						3.05%
5	AGL	AGL RESOURCES, INC.	$1.72	/	$33.36	=	5.16%
6	ATO	ATMOS ENERGY CORP.	1.32	/	26.91	=	4.91%
7	LG	LACLEDE GROUP, INC.	1.54	/	33.10	=	4.65%
8	NJR	NEW JERSEY RESOURCES CORPORATION	1.24	/	37.63	=	3.30%
9	GAS	NICOR, INC.	1.86	/	36.13	=	5.15%
10	NWN	NORTHWEST NATURAL GAS CO.	1.58	/	43.27	=	3.65%
11	PNY	PIEDMONT NATURAL GAS COMPANY	1.04	/	24.40	=	4.26%
12	SJI	SOUTH JERSEY INDUSTIES, INC.	1.19	/	35.63	=	3.35%
13	SWX	SOUTHWEST GAS CORPORATION	0.95	/	24.11	=	3.95%
14	WGL	WGL HOLDINGS, INC.	1.48	/	33.06	=	4.48%
15	**NATURAL GAS LDC AVERAGE**						4.28%

REFERENCES:
COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 07/24/2009 (WATER COMPANIES) AND 09/11/2009 (NATURAL GAS LDC's).
COLUMN (B): EIGHT WEEK AVERAGE OF CLOSING PRICES FROM 07/13/2009 TO 09/04/2009 STOCK QUOTES OBTAINED THROUGH BIG CHARTS WEB SITE - HISTORICAL QUOTES (www.bigcharts.com).
COLUMN (C): COLUMN (A) / COLUMN (B)

BLACK MOUNTAIN SEWER CORPORATION
TEST YEAR ENDED JUNE 30, 2008
DIVIDEND GROWTH RATE CALCULATION

LINE NO.	STOCK SYMBOL	COMPANY	(A) INTERNAL GROWTH (br)	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	AWR	AMERICAN STATES WATER CO.	6.15%	+	2.03%	=	8.18%
2	CWT	CALIFORNIA WATER SERVICE GROUP	6.00%	+	0.65%	=	6.65%
3	WTR	AQUA AMERICA, INC.	5.25%	+	0.29%	=	5.54%
4	**WATER COMPANY AVERAGE**						**6.79%**
5	AGL	AGL RESOURCES, INC.	5.50%	+	0.39%	=	5.89%
6	ATO	ATMOS ENERGY CORP.	4.10%	+	7.48%	=	11.58%
7	LG	LACLEDE GROUP, INC.	4.50%	+	0.65%	=	5.15%
8	NJR	NEW JERSEY RESOURCES CORPORATION	5.10%	+	0.63%	=	5.73%
9	GAS	NICOR, INC.	5.10%	+	0.08%	=	5.18%
10	NWN	NORTHWEST NATURAL GAS CO.	4.60%	+	0.37%	=	4.97%
11	PNY	PIEDMONT NATURAL GAS COMPANY	4.75%	+	0.00%	=	4.75%
12	SJI	SOUTH JERSEY INDUSTIES, INC.	7.00%	+	0.91%	=	7.91%
13	SWX	SOUTHWEST GAS CORPORATION	4.00%	+	4.94%	=	8.94%
14	WGL	WGL HOLDINGS, INC.	4.35%	+	0.03%	=	4.38%
15	**NATURAL GAS LDC AVERAGE**						**6.45%**

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

BLACK MOUNTAIN SEWER CORPORATION
TEST YEAR ENDED JUNE 30, 2008
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. SW-02361A-08-0609
SCHEDULE WAR - 4, PAGE 2 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) SHARE GROWTH	x	(B) { [((M ÷ B) + 1) / 2] - 1 }	=	(C) EXTERNAL GROWTH (sv)
1	AWR	AMERICAN STATES WATER CO.	4.75%	x	{ [((1.86) + 1) / 2] - 1 }	=	2.03%
2	CWT	CALIFORNIA WATER SERVICE GROUP	1.50%	x	{ [((1.87) + 1) / 2] - 1 }	=	0.65%
3	WTR	AQUA AMERICA, INC.	0.50%	x	{ [((2.16) + 1) / 2] - 1 }	=	0.29%
4	**WATER COMPANY AVERAGE**						**0.99%**
5	AGL	AGL RESOURCES, INC.	1.75%	x	{ [((1.44) + 1) / 2] - 1 }	=	0.39%
6	ATO	ATMOS ENERGY CORP.	3.75%	x	{ [((0.99) + 1) / 2] + 1 }	=	7.48%
7	LG	LACLEDE GROUP, INC.	3.25%	x	{ [((1.40) + 1) / 2] - 1 }	=	0.65%
8	NJR	NEW JERSEY RESOURCES CORPORATION	1.25%	x	{ [((2.00) + 1) / 2] - 1 }	=	0.63%
9	GAS	NICOR, INC.	0.25%	x	{ [((1.63) + 1) / 2] - 1 }	=	0.08%
10	NWN	NORTHWEST NATURAL GAS CO.	1.00%	x	{ [((1.74) + 1) / 2] - 1 }	=	0.37%
11	PNY	PIEDMONT NATURAL GAS COMPANY	0.01%	x	{ [((1.92) + 1) / 2] - 1 }	=	0.00%
12	SJI	SOUTH JERSEY INDUSTIES, INC.	2.00%	x	{ [((1.91) + 1) / 2] - 1 }	=	0.91%
13	SWX	SOUTHWEST GAS CORPORATION	2.50%	x	{ [((0.95) + 1) / 2] + 1 }	=	4.94%
14	WGL	WGL HOLDINGS, INC.	0.10%	x	{ [((1.50) + 1) / 2] - 1 }	=	0.03%
15	**NATURAL GAS LDC AVERAGE**						**1.55%**

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 07/24/2009 (WATER COMPANIES) AND 09/11/2009 (NATURAL GAS LDC's)
COLUMN (C): COLUMN (A) x COLUMN (B)

BLACK MOUNTAIN SEWER CORPORATION
TEST YEAR ENDED JUNE 30, 2008
DIVIDEND GROWTH COMPONENTS

LINE NO.	STOCK SYMBOL	WATER COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	AWR	AMERICAN STATES WATER CO.	2004	0.1524		6.60%		1.01%	15.01	16.75	
2			2005	0.3182		8.50%		2.70%	15.72	16.80	
3			2006	0.3158		8.10%		2.56%	16.64	17.05	
4			2007	0.4074		9.30%		3.79%	17.53	17.23	
5			2008	0.3548		8.60%		3.05%	17.95	17.30	
6			GROWTH 2004 - 2008					2.62%	5.00%		0.81%
7			2009	0.3882		9.00%		3.49%		18.50	6.94%
8			2010	0.4211		10.00%		4.21%		18.75	4.11%
9			2012-14	0.5077		12.00%		6.09%	4.00%	20.00	2.94%
10											
11	CWT	CALIFORNIA WATER SERVICE GROUP	2004	0.2260		9.00%		2.03%	15.66	18.37	
12			2005	0.2245		9.30%		2.09%	15.79	18.39	
13			2006	0.1418		6.80%		0.96%	18.15	20.66	
14			2007	0.2267		8.10%		1.84%	18.50	20.67	
15			2008	0.3842		9.90%		3.80%	19.44	20.72	
16			GROWTH 2004 - 2008					2.15%	6.50%		3.06%
17			2009	0.4381		10.50%		4.60%		21.00	1.35%
18			2010	0.4591		10.50%		4.82%		21.25	1.27%
19			2012-14	0.4943		12.00%		5.93%	3.00%	22.50	1.66%
20											
21	WTR	AQUA AMERICA, INC.	2004	0.4219		10.70%		4.51%	5.89	127.18	
22			2005	0.4366		11.20%		4.89%	6.30	128.97	
23			2006	0.3714		10.00%		3.71%	6.96	132.33	
24			2007	0.3239		9.70%		3.14%	7.32	133.40	
25			2008	0.3014		9.30%		2.80%	7.82	135.37	
26			GROWTH 2004 - 2008					3.81%	10.00%		1.57%
27			2009	0.3647		10.50%		3.83%		136.00	0.47%
28			2010	0.3778		11.00%		4.16%		136.50	0.42%
29			2012-14	0.4800		11.50%		5.52%	6.50%	138.00	0.39%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 07/24/2009
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2004 - 2008

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

BLACK MOUNTAIN SEWER CORPORATION
TEST YEAR ENDED JUNE 30, 2008
DIVIDEND GROWTH COMPONENTS

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	AGL	AGL RESOURCES, INC.	2004	0.4956		11.00%		5.45%	18.06	76.70	
2			2005	0.4758		12.90%		6.14%	19.29	77.70	
3			2006	0.4559		13.20%		6.02%	20.71	77.70	
4			2007	0.3971		12.70%		5.04%	21.74	76.40	
5			2008	0.3801		12.60%		4.79%	21.48	76.90	
6			GROWTH 2004 - 2008					5.49%	10.00%		0.07%
7			2009	0.3630		11.50%		4.17%		78.00	1.43%
8			2010	0.3931		12.50%		4.91%		79.00	1.36%
9			2012-14	0.4303		14.00%		6.02%	1.50%	85.00	2.02%
10											
11	ATO	ATMOS ENERGY CORP.	2004	0.2278		7.60%		1.73%	18.05	62.80	
12			2005	0.2791		8.50%		2.37%	19.90	80.54	
13			2006	0.3700		9.80%		3.63%	20.16	81.74	
14			2007	0.3402		8.70%		2.96%	22.01	89.33	
15			2008	0.3500		8.80%		3.08%	22.60	90.81	
16			GROWTH 2004 - 2008					2.75%	7.50%		9.66%
17			2009	0.3714		9.00%		3.34%		92.50	1.86%
18			2010	0.3909		9.00%		3.52%		93.50	1.47%
19			2012-14	0.4400		9.50%		4.18%	4.00%	110.00	3.91%
20											
21	LG	LACLEDE GROUP, INC.	2004	0.2582		10.10%		2.61%	16.96	20.98	
22			2005	0.2789		10.90%		3.04%	17.31	21.17	
23			2006	0.4093		12.50%		5.12%	18.85	21.36	
24			2007	0.3723		11.60%		4.32%	19.79	21.65	
25			2008	0.4356		11.80%		5.14%	22.12	21.99	
26			GROWTH 2004 - 2008					4.04%	5.50%		1.18%
27			2009	0.4814		12.00%		5.78%		22.50	2.32%
28			2010	0.3962		11.00%		4.36%		23.00	2.27%
29			2012-14	0.4333		11.00%		4.77%	5.50%	26.00	3.41%
30											
31	NJR	NEW JERSEY RESOURCES CORPORATION	2004	0.4882		15.30%		7.47%	11.25	41.61	
32			2005	0.4859		17.00%		8.26%	10.60	41.32	
33			2006	0.4866		12.60%		6.13%	15.00	41.44	
34			2007	0.3484		10.10%		3.52%	15.50	41.61	
35			2008	0.5889		15.70%		9.25%	17.28	42.06	
36			GROWTH 2004 - 2008					6.93%	11.50%		0.27%
37			2009	0.4939		13.00%		6.42%		42.50	1.05%
38			2010	0.5259		13.00%		6.84%		43.00	1.11%
39			2012-14	0.5000		10.00%		5.00%	9.50%	45.00	1.36%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 09/11/2009
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2004 - 2008

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16, 26 & 36, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	GAS	NICOR, INC.	2004	0.1622		13.10%		2.12%	16.99	44.10	
2			2005	0.1806		12.50%		2.26%	18.36	44.18	
3			2006	0.3519		14.70%		5.17%	19.43	44.90	
4			2007	0.3779		14.30%		5.40%	20.58	45.90	
5			2008	0.2928		12.30%		3.60%	21.55	45.13	
6			GROWTH 2004 - 2008					3.71%	4.00%		0.58%
7			2009	0.2706		11.50%		3.11%		45.50	0.82%
8			2010	0.3474		12.50%		4.34%		45.50	0.41%
9			2012-14	0.4277		12.00%		5.13%	4.50%	45.50	0.16%
10											
11	NWN	NORTHWEST NATURAL GAS CO.	2004	0.3011		8.90%		2.68%	20.64	27.55	
12			2005	0.3744		9.90%		3.71%	21.28	27.58	
13			2006	0.4085		10.90%		4.45%	22.01	27.24	
14			2007	0.4783		12.50%		5.98%	22.52	26.41	
15			2008	0.4086		10.90%		4.45%	23.71	26.50	
16			GROWTH 2004 - 2008					4.25%	3.50%		-0.97%
17			2009	0.4386		11.00%		4.82%		26.50	0.00%
18			2010	0.4105		11.00%		4.52%		26.50	0.00%
19			2012-14	0.4203		11.00%		4.62%	5.00%	28.00	1.11%
20											
21	PNY	PIEDMONT NATURAL GAS COMPANY	2004	0.3307		11.10%		3.67%	11.15	76.67	
22			2005	0.3106		11.50%		3.57%	11.53	76.70	
23			2006	0.2520		11.00%		2.77%	11.83	74.61	
24			2007	0.2929		11.90%		3.49%	11.99	73.23	
25			2008	0.3087		12.40%		3.83%	12.11	73.26	
26			GROWTH 2004 - 2008					3.47%	6.00%		-1.13%
27			2009	0.3313		12.50%		4.14%		73.50	0.33%
28			2010	0.3471		13.00%		4.51%		73.50	0.16%
29			2012-14	0.3526		12.50%		4.41%	4.00%	73.00	-0.07%
30											
31	SJI	SOUTH JERSEY INDUSTIES, INC.	2004	0.4810		12.50%		6.01%	12.41	27.76	
32			2005	0.4971		12.40%		6.16%	13.50	28.98	
33			2006	0.6260		16.30%		10.20%	15.11	29.33	
34			2007	0.5167		12.80%		6.61%	16.25	29.61	
35			2008	0.5110		13.10%		6.69%	17.33	29.73	
36			GROWTH 2004 - 2008					7.14%	11.00%		1.73%
37			2009	0.5000		12.50%		6.25%		30.00	0.91%
38			2010	0.5170		13.50%		6.98%		31.00	2.11%
39			2012-14	0.5161		13.50%		6.97%	6.00%	33.00	2.11%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 09/11/2009
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2004 - 2008

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16, 26 & 36, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

BLACK MOUNTAIN SEWER CORPORATION
TEST YEAR ENDED JUNE 30, 2008
DIVIDEND GROWTH COMPONENTS

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	SWX	SOUTHWEST GAS CORPORATION	2004	0.5060		8.30%		4.20%	19.18	36.79	
2			2005	0.3440		6.40%		2.20%	19.10	39.33	
3			2006	0.5859		8.90%		5.21%	21.58	41.77	
4			2007	0.5590		8.50%		4.75%	22.98	42.81	
5			2008	0.3525		5.90%		2.08%	23.49	44.19	
6			GROWTH 2004 - 2008					3.69%	5.00%		4.69%
7			2009	0.4571		7.00%		3.20%		45.50	2.96%
8			2010	0.4737		7.50%		3.55%		47.00	3.13%
9			2012-14	0.5000		8.00%		4.00%	3.50%	50.00	2.50%
10											
11	WGL	WGL HOLDINGS, INC.	2004	0.3434		11.70%		4.02%	16.95	48.67	
12			2005	0.3803		11.70%		4.45%	17.80	48.65	
13			2006	0.3041		10.30%		3.13%	18.86	48.89	
14			2007	0.3476		10.40%		3.62%	19.83	49.45	
15			2008	0.4221		11.60%		4.90%	20.99	49.92	
16			GROWTH 2004 - 2008					4.02%	4.50%		0.64%
17			2009	0.4120		12.00%		4.94%		50.00	0.16%
18			2010	0.4078		11.50%		4.69%		50.00	0.08%
19			2012-14	0.3963		11.00%		4.36%	4.50%	50.00	0.03%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 09/11/2009
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6 & 16, SIMPLE AVERAGE GROWTH, 2004 - 2008

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

BLACK MOUNTAIN SEWER CORPORATION
TEST YEAR ENDED JUNE 30, 2008
GROWTH RATE COMPARISON

DOCKET NO. SW-02361A-08-0609
SCHEDULE WAR - 6

WATER COMPANY SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED EPS	(C) VALUE LINE PROJECTED DPS	(C) VALUE LINE PROJECTED BVPS	(D) VALUE LINE HISTORIC EPS	(D) VALUE LINE HISTORIC DPS	(D) VALUE LINE HISTORIC BVPS	(E) VALUE LINE & ZACKS AVGS.	(F) 5 - YEAR COMPOUND HISTORY EPS	(F) 5 - YEAR COMPOUND HISTORY DPS	(F) 5 - YEAR COMPOUND HISTORY BVPS
1	AWR	8.18%	7.00%	9.50%	5.00%	4.00%	5.50%	2.00%	5.00%	5.43%	10.23%	2.96%	4.57%
2	CWT	6.65%	8.20%	4.75%	2.50%	3.50%	7.00%	0.50%	6.50%	4.71%	6.81%	0.87%	5.55%
3	WTR	5.54%	7.50%	10.00%	4.50%	6.50%	5.50%	8.00%	10.00%	7.43%	3.34%	8.35%	7.34%
4				8.08%	4.00%	4.67%	6.00%	3.50%	7.17%		6.79%	4.06%	5.82%
5	AVERAGES	6.79%	7.57%		5.58%			5.56%		5.85%		5.56%	

NATURAL GAS LDC SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED EPS	(C) VALUE LINE PROJECTED DPS	(C) VALUE LINE PROJECTED BVPS	(D) VALUE LINE HISTORIC EPS	(D) VALUE LINE HISTORIC DPS	(D) VALUE LINE HISTORIC BVPS	(E) VALUE LINE & ZACKS AVGS.	(F) 5 - YEAR COMPOUND HISTORY EPS	(F) 5 - YEAR COMPOUND HISTORY DPS	(F) 5 - YEAR COMPOUND HISTORY BVPS
1	AGL	5.89%	5.30%	3.50%	2.50%	1.50%	8.50%	8.00%	10.00%	5.61%	4.41%	9.94%	4.43%
2	ATO	11.58%	5.00%	4.00%	1.50%	4.00%	5.00%	1.50%	7.50%	4.07%	6.07%	1.60%	5.78%
3	LG	5.15%	3.00%	3.50%	2.50%	5.50%	9.50%	1.50%	5.50%	4.43%	9.74%	2.50%	6.87%
4	NJR	5.73%	6.00%	5.50%	5.50%	9.50%	7.50%	5.00%	11.50%	7.21%	12.26%	6.28%	11.33%
5	GAS	5.18%	4.20%	2.50%	-	4.50%	1.00%	0.50%	4.00%	2.78%	4.33%	0.00%	6.12%
6	NWN	4.97%	6.00%	5.00%	5.50%	5.00%	8.00%	3.00%	3.50%	5.14%	8.42%	3.99%	3.53%
7	PNY	4.75%	6.70%	5.50%	3.50%	4.00%	6.50%	4.50%	6.00%	5.24%	4.07%	4.92%	2.09%
8	SJI	7.91%	9.60%	5.50%	7.00%	6.00%	13.00%	6.00%	11.00%	8.30%	9.48%	7.86%	8.71%
9	SWX	8.94%	6.00%	4.50%	5.00%	3.50%	9.00%	1.00%	5.00%	4.86%	-4.34%	2.35%	5.20%
10	WGL	4.38%	5.00%	4.00%	3.00%	4.50%	4.00%	1.50%	4.50%	3.79%	5.36%	2.05%	5.49%
11				4.35%	4.00%	4.80%	7.20%	3.25%	5.98%	0.00%	5.98%	4.15%	5.95%
12	AVERAGES	6.45%	5.68%		4.38%			5.77%		5.14%		5.36%	

REFERENCES:
COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 07/24/2009 (WATER COMPANIES) AND 09/11/2009 (NATURAL GAS LDC's)
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 07/24/2009 (WATER COMPANIES) AND 09/11/2009 (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 07/24/2009 (WATER COMPANIES) AND 09/11/2009 (NATURAL GAS LDC's)

BLACK MOUNTAIN SEWER CORPORATION
TEST YEAR ENDED JUNE 30, 2008
CAPM COST OF EQUITY CAPITAL

DOCKET NO. SW-02361A-08-0609
SCHEDULE WAR - 7, PAGE 1 OF 2

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	k	=	r_f	+ [	(A) ß	x (	r_m	-	r_f	)]	=	(B) EXPECTED RETURN
1	AWR	k	=	2.51%	+ [	0.80	x (	9.60%	-	5.40%	)]	=	5.87%
2	CWT	k	=	2.51%	+ [	0.80	x (	9.60%	-	5.40%	)]	=	5.87%
3	WTR	k	=	2.51%	+ [	0.65	x (	9.60%	-	5.40%	)]	=	5.24%
4	**WATER COMPANY AVERAGE**					0.75							5.66%
5	AGL	k	=	2.51%	+ [	0.75	x (	9.60%	-	5.40%	)]	=	5.66%
6	ATO	k	=	2.51%	+ [	0.65	x (	9.60%	-	5.40%	)]	=	5.24%
7	LG	k	=	2.51%	+ [	0.60	x (	9.60%	-	5.40%	)]	=	5.03%
8	NJR	k	=	2.51%	+ [	0.65	x (	9.60%	-	5.40%	)]	=	5.24%
9	GAS	k	=	2.51%	+ [	0.70	x (	9.60%	-	5.40%	)]	=	5.45%
10	NWN	k	=	2.51%	+ [	0.60	x (	9.60%	-	5.40%	)]	=	5.03%
11	PNY	k	=	2.51%	+ [	0.65	x (	9.60%	-	5.40%	)]	=	5.24%
12	SJI	k	=	2.51%	+ [	0.65	x (	9.60%	-	5.40%	)]	=	5.24%
13	SWX	k	=	2.51%	+ [	0.75	x (	9.60%	-	5.40%	)]	=	5.66%
14	WGL	k	=	2.51%	+ [	0.65	x (	9.60%	-	5.40%	)]	=	5.24%
15	**NATURAL GAS LDC AVERAGE**					0.67							5.30%

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

$$k = r_f + [ß (r_m - r_f)]$$

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

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

NOTES

(a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEYS "SELECTION & OPINIONS" PUBLICATION FROM 07/24/2009 THROUGH 09/11/2009 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE RISK PREMIUM (RM - RF) USED THE GEOMETRIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2008 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURIES DURING THE SAME PEI THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2009 YEARBOOK.

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	k	=	r_f	+ [	(A) ß	x (	r_m	-	r_f	)]	=	(B) EXPECTED RETURN
1	AWR	k	=	2.51%	+ [	0.80	x (	11.70%	-	5.60%	)]	=	7.39%
2	CWT	k	=	2.51%	+ [	0.80	x (	11.70%	-	5.60%	)]	=	7.39%
3	WTR	k	=	2.51%	+ [	0.65	x (	11.70%	-	5.60%	)]	=	6.47%
4	WATER COMPANY AVERAGE					0.75							7.08%
5	AGL	k	=	2.51%	+ [	0.75	x (	11.70%	-	5.60%	)]	=	7.08%
6	ATO	k	=	2.51%	+ [	0.65	x (	11.70%	-	5.60%	)]	=	6.47%
7	LG	k	=	2.51%	+ [	0.60	x (	11.70%	-	5.60%	)]	=	6.17%
8	NJR	k	=	2.51%	+ [	0.65	x (	11.70%	-	5.60%	)]	=	6.47%
9	GAS	k	=	2.51%	+ [	0.70	x (	11.70%	-	5.60%	)]	=	6.78%
10	NWN	k	=	2.51%	+ [	0.60	x (	11.70%	-	5.60%	)]	=	6.17%
11	PNY	k	=	2.51%	+ [	0.65	x (	11.70%	-	5.60%	)]	=	6.47%
12	SJI	k	=	2.51%	+ [	0.65	x (	11.70%	-	5.60%	)]	=	6.47%
13	SWX	k	=	2.51%	+ [	0.75	x (	11.70%	-	5.60%	)]	=	7.08%
14	WGL	k	=	2.51%	+ [	0.65	x (	11.70%	-	5.60%	)]	=	6.47%
15	NATURAL GAS LDC AVERAGE					0.67							6.56%

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

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

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

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

NOTES

(a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEYS "SELECTION & OPINIONS" PUBLICATION FROM 07/24/2009 THROUGH 09/11/2009 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE RISK PREMIUM (RM - RF) USED THE ARITHMETIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2008 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURIES DURING THE SAME THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2009 YEARBOOK

BLACK MOUNTAIN SEWER CORPORATION
TEST YEAR ENDED JUNE 30, 2008
ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. SW-02361A-08-0609
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	-1.40%	-1.00%	3.25%	0.50%	0.00% - 0.25%	0.13%	4.12%	5.45%	6.14%

REFERENCES:
COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS WEB SITE
COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
COLUMN (C) THROUGH (D): CURRENT, THE VALUE LINE INVESTMENT SURVEY , DATED 09/11/2009
COLUMN (F) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY , DATED 09/11/2009
COLUMN (H) THROUGH (I): 1990 - 2000, MOODY'S PUBLIC UTILITY REPORTS
COLUMN (H) THROUGH (I): 2001, MERGENT 2002 PUBLIC UTILITY MANUAL

BLACK MOUNTAIN SEWER CORPORATION
TEST YEAR ENDED JUNE 30, 2008
CAPITAL STRUCTURES OF SAMPLE COMPANIES

DOCKET NO. SW-02361A-08-0609
SCHEDULE WAR - 9

AVERAGE CAPITAL STRUCTURES OF SAMPLE WATER COMPANIES

LINE NO.		AWR	PCT.	CWT	PCT.	WTR	PCT.	WATER COMPANY AVERAGE	PCT.
1	DEBT	$ 266.5	46.2%	$ 287.5	41.6%	$ 1,248.1	54.1%	$ 450.5	50.4%
2									
3	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
4									
5	COMMON EQUITY	310.5	53.8%	402.9	58.4%	1,058.4	45.9%	443.0	49.6%
6									
7	TOTALS	$ 577.0	100%	$ 690.4	100%	$ 2,306.5	100%	$ 893.5	100%

AVERAGE CAPITAL STRUCTURES OF SAMPLE NATURAL GAS COMPANIES

LINE NO.											
1		AGL	PCT.	ATO	PCT.	LG	PCT.	NJR	PCT.	GAS	PCT.
2											
3	DEBT	$ 1,675.0	50.3%	$ 2,119.8	50.8%	$ 389.2	44.4%	$ 455.1	38.5%	$ 448.0	31.5%
4											
5	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.5	0.1%	0.0	0.0%	0.6	0.0%
6											
7	COMMON EQUITY	1,652.0	49.7%	2,052.5	49.2%	486.5	55.5%	727.0	61.5%	973.1	68.4%
8											
9	TOTALS	$ 3,327.0	100%	$ 4,172.3	100%	$ 876.2	100%	$ 1,182.1	100%	$ 1,421.7	100%
10											
11											
12		NWN	PCT.	PNY	PCT.	SJI	PCT.	SWX	PCT.	WGL	PCT.
13											
14	DEBT	$ 512.0	44.9%	$ 794.3	47.2%	$ 332.8	39.2%	$ 1,185.5	51.0%	$ 603.7	38.5%
15											
16	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.0	0.0%	100.0	4.3%	28.2	1.8%
17											
18	COMMON EQUITY	628.4	55.1%	887.2	52.8%	515.3	60.8%	1,037.8	44.7%	935.1	59.7%
19											
20	TOTALS	$ 1,140.4	100%	$ 1,681.5	100%	$ 848.1	100%	$ 2,323.3	100%	$1,567.0	100%
21											
22											
23		NATURAL GAS LDC				WATER & LDC					
24		AVERAGE	PCT.			AVERAGE	PCT.				
25											
26	DEBT	$ 851.5	45.9%			$ 651.0	47.4%				
27											
28	PREFERRED STOCK	12.9	0.7%			6.5	0.5%				
29											
30	COMMON EQUITY	989.5	53.4%			716.2	52.1%				
31											
32	TOTALS	$ 1,854.0	100%			$ 1,373.7	100%				

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

BLACK MOUNTAIN SEWER CORPORATION

DOCKET NO. SW-02361A-08-0609

DIRECT TESTIMONY

OF

RODNEY L. MOORE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

SEPTEMBER 18, 2009

TABLE OF CONTENTS

INTRODUCTION

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

A. My name is Rodney L. Moore. I am a Public Utilities Analyst V with the Residential Utility Consumer Office ("RUCO"), located at 1110 West Washington Street, Suite 220, Phoenix, Arizona 85007.

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

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

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present RUCO's recommendations regarding Black Mountain Sewer Corporation's ("BMSC" or "Company") application for an increase in its wastewater rates. The test year utilized by the Company in connection with the preparation of this application is the 12-month period that ended June 30, 2008 ("Test Year").

BACKGROUND

Q. Please describe your work effort on this project.

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

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

A. The Company's present rates and charges were established by the Commission in Decision No. 69164, dated December 5, 2006.

Q. What areas will you address in your testimony?

A. I will address issues related to revenue requirement, rate base, operating income and rate design. RUCO's witness William A. Rigsby will provide an analysis of the cost of capital as presented on Schedule RLM-15.

Q. Please identify the exhibits you are sponsoring.

A. I am sponsoring a separate set of Schedules numbered RLM-1 through RLM-16.

SUMMARY OF ADJUSTMENTS

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

A. My testimony addresses the following issues:

Rate Base

Gross Plant-In-Service and Accumulated Depreciation – This is a conforming adjustment to reflect the Company's responses to Staff data requests.

Advances In Aid Of Construction ("AIAC") – This also is a conforming adjustment to reflect the Company's responses to Staff data requests.

Operating Income

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

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

City of Scottsdale Wastewater Treatment Expense – This adjustment corrects a Company calculation error by inserting the appropriate rate into the formula.

Unnecessary and/or Non-Recurring Operating Expenses – These adjustments remove unnecessary operating expenses not required for the provisioning of wastewater service and/or remove test year expenses deemed atypical and non-recurring.

Normalization of Rent Expense –This is a conforming adjustment to increase rent expense based on the Company's response to Staff data request "MEM 1.55".

Normalization of Taxes Other Than Income – This is a conforming adjustment to decrease taxes other than income based on the Company's response to Staff data request "MEM 1.58".

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

Rate Design and Proof of Recommended Revenue

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

REVENUE REQUIREMENTS

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

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

BMSC	RUCO	DIFFERENCE
$2,493,933	$2,069,774	($424,159)

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

BMSC	RUCO	DIFFERENCE
$3,723,245	$3,745,364	$22,119

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

BMSC	RUCO	DIFFERENCE
$476,575	$278,281	($198,294)

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

BMSC	RUCO	DIFFERENCE
57.83 %	30.98 %	-26.85 %

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

RATE BASE

Rate Base Adjustment Summary

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

A. Yes. My adjustments to rate base are exhibited on Schedule RLM-3, columns A through G. Based on my analysis I made two adjustments to the rate base as filed by the Company.

Q. Does RUCO accept BMSC's request to use the Company's OCRB as the FVRB?

A. Yes. RUCO accepts the Company's request that the OCRB be used as the fair value rate base ("FVRB").

Q. Please describe your rate base adjustments.

A. My review, analysis and adjustments are explained below.

Rate Base Adjustment No. 1 – Gross Plant-In-Service and Accumulated Depreciation

Q. Please explain the basis for your adjustment to the gross plant-in-service and the accumulated depreciation.

A. My plant-in-service analysis from the prior rate case to the end of the Test Year mirrored the Company's filing; however, the Company acknowledged in its responses to Staff data requests DH 2.4, DH 2.5, DH 2.7 and DH 2.17 there were plant additions and retirements omitted from the original filing. RUCO reviewed BMSC's responses and made several appropriate adjustments.

Q. Please explain your adjustments to gross plant-in-service and accumulated depreciation.

A. First, the Company had failed to record the replacement of a sewer lift station. This lift station was constructed under a line extension agreement ("LXA") and financed by advances in aid of construction ("AIAC"). Because the Company was unable to provide documentation to substantiate the actual costs I recorded the estimated values provided by BMSC. The estimated value recorded was $276,985.

Second, the Company had failed to record the retirement of the replaced sewer lift station. Because the Company was unable to provide documentation to substantiate the original costs I recorded the values calculated by BMSC using the Handy Whitman index for structures. The calculated retirement value recorded was ($13,208).

Third, the Company had failed to record the transfer of an odor control unit from Litchfield Park Sewer Company ("LPSCO"), an affiliated Company. The value transferred from LPSCO to BMSC was $38,625.

Next, I calculated the associated accumulated depreciation for replacement/retirement of the sewer lift station using authorized depreciation rates and the half-year convention. The accumulated depreciation recorded for the replacement of the lift station was $4,392 and ($13,208) for the retired lift station, amounting to a total decrease of $8,816.

Finally, the associated accumulated depreciation for the transferred odor control unit was obtained through the Company's response to RUCO data request 2.01 in the amount of $11,148.

Q. Please explain the total effect of your Adjustment No. 1 on the rate base.

A. As shown on Schedule RLM-3, column (B), and with supporting Schedule RLM-4, these adjustments increase adjusted test year rate base by $299,104.

Rate Base Adjustment No. 2 – Advances In Aid Of Construction ("AIAC")

Q. Please explain the basis for your adjustment to AIAC.

A. This is a companion adjustment to the sewer lift station replacement discussed above. Since a developer paid for all the costs associated with the installation of the new lift station, these costs were appropriately recorded in the AIAC account, but were not reflected in the Company's application.

As shown on Schedule RLM-3, column (C), this adjustment decreased adjusted test year rate base by $276,985.

OPERATING INCOME

Operating Income Adjustment Summary

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

A. Yes. Based on my analysis of the Company's adjustments to its historical test year operating income, I have made nine adjustments to the Company-proposed level of operating income. The adjustments are exhibited on Schedule RLM-7, columns A through K.

Operating Income Adjustment No. 1 – Test Year Depreciation Expense

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

A. As shown on Schedule RLM-8, adjustment No. 1 reflects RUCO's end of test year gross plant-in-service and calculates the depreciation expense based on depreciation rates proposed by the Company and accepted by RUCO.

As shown on Schedule RLM-7, column (B), with supporting documentation on Schedule RLM-8, this adjustment increased the adjusted test year operating expenses by $10,715.

Operating Income Adjustment No. 2 – Property Tax Computation

Q. Did RUCO use the same methodology used by BMSC to calculate property tax expenses?

A. Yes.

Q. Did RUCO make an adjustment to the Company-proposed level of property tax expense?

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

As shown on Schedule RLM-7, column (C), with supporting documentation on Schedule RLM-9 this adjustment decreased the adjusted test year operating expenses by $2,203.

Operating Income Adjustments Nos. 3 & 4 – City of Scottsdale Wastewater Treatment Expense

Q. Please explain your adjustment to the test year revenue.

A. This adjustment recalculated the Company's expected charges from the City of Scottsdale for the treatment of BMSC wastewater to accurately reflect the new rate schedule ($2.53 per thousand gallons). The Company had used an incorrect rate ($2.59 per thousand gallons) when computing this expense.

First, I made an adjustment to reflect RUCO's recalculation of the test year charges from the City of Scottsdale for treatment of the test year wastewater gallons.

As shown on Schedule RLM-10 this adjustment decreased the adjusted test year operating revenues by $7,528.

Secondly, I made an adjustment to reflect RUCO's recalculation of the charges expected from the City of Scottsdale for treatment of the additional annualized wastewater gallons on a going-forward basis.

RUCO's computation used the correct rate of a $2.53 base plus the environmental surcharge and city sales tax to determine the proper level of this expense.

As shown on Schedule RLM-11 this adjustment decreased adjusted test year expenses by $24.

Therefore, in total and as shown on Schedule RLM-7, column (D), with supporting documentation on Schedules RLM-11 and RLM-12, this adjustment decreased test year expenses by $7,551.

<u>Operating Income Adjustment No. 5 – Unnecessary and/or Non-Recurring</u>

Q. Please explain your adjustments based on information obtained from the Company's response to Staff data requests MEM 1.46 and MEM 1.55.

A After an analysis of the Company's responses to Staff data requests MEM 1.46 and MEM 1.55, I determined there were test year expenditures not required for the provision of wastewater service or were abnormal and atypical for considerations as a reasonable recurring test year expense. Therefore, I disallowed their inclusion as acceptable test year operating expenses.

My adjustment removed unnecessary expenditures for charitable donations and bottled water. I also removed costs associated with an easement boundary dispute and costs to clean up a sewer spill, which are incidents that are unlikely to occur on a regular basis.

As shown on Schedule RLM-7, column (E), with supporting documentation on Schedule RLM-12, this adjustment decreased test year expenses by $834.

Operating Income Adjustment No. 6 – Normalization of Rent Expense

Q. Please explain your adjustment to the test year rent expense.

A. This is a conforming adjustment to reflect the Company's response to Staff data request MEM 1.55. The adjustment addresses an incorrect charge for annual rent for the operations office in Carefree. The instant filing inadvertently included only six months rent. Thus an additional six months rent was allowed for inclusion as a fair, reasonable and recurring test year expense. My adjustment normalized the level of rent expense that will be incurred by the Company on a going-forward basis.

As shown on Schedule RLM-7, column (F), this adjustment increased the adjusted test year expenses by $3,072 X 6 = $18,432.

Operating Income Adjustment No. 7 – Normalization of Taxes Other Than Income

Q. Please explain your adjustment to test year taxes other than income expense.

A. This is a conforming adjustment to reflect the Company's response to Staff data request MEM 1.58. This adjustment reflects an over accrual of $1,780 related to fees assessed in 2006 and corrected in 2007. RUCO agreed with the Company that this expense should be $0 and excluded from test year operating expenses.

As shown on Schedule RLM-7, column (G), this adjustment increased the adjusted test year expenses by $1,780.

Operating Income Adjustment No. 8 – Normalization of Chemical Expenses

Q. Please explain your adjustment to normalize chemical expenses.

A. This is a conforming adjustment to reflect the Company's response to RUCO data request 2.03. The adjustment recalculated the test year level of chemical expenses to include the sale tax omitted in the Company's original filing. RUCO also made an additional adjustment to reflect the known and measurable post test year increase in the "cost per gallon" charge identified by the Company in the response.

As shown on Schedule RLM-7, column (H), with supporting documentation on Schedule RLM-13, this adjustment increased the adjusted test year expenses by $3,185.

RUCO Operating Income Adjustment No. 9 – Income Taxes

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

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

Q. Does RUCO's recommended level of income tax expense reflect an interest deduction using a synchronized interest calculation?

A. Yes.

As shown on Schedules RLM-7, column (K) and supporting Schedule RLM-14, this adjustment decreased the adjusted test year expenses by $81,261.

COST OF CAPITAL

Q. Has RUCO conducted a cost of capital analysis for BMSC?

A. Yes. RUCO witness William A. Rigsby has filed testimony on the cost of capital issues associated with the case. His recommended capital structure and weighted average cost of capital is exhibited on Schedule RLM-15.

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE

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

A. Yes, as shown on Schedule RLM-16, I am recommending a rate design that is consistent with RUCO's recommended revenue allocations and requirement.

Q. Please describe your recommended rate designs for the Company's wastewater operation.

A. RUCO recommends a $58.88 flat rate residential monthly charge, which is a $13.24 or 29 percent increase over the present rate of $45.64.

RUCO also recommends a $0.23608 per gallon per day commodity usage rate for commercial customers, which is a $0.0531 or 29 percent increase over the present rate of $0.18298.

The rate design provides for a 23 percent increase equally across the residential and standard commercial classes of service, which is a decrease of 33 percent over the Company's requested 56 percent increase.

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

A. Yes, I have. Proof that my recommended rate designs will produce the recommended required revenue as illustrated, is presented also on Schedule RLM-16.

Q. Does this conclude your direct testimony?

A. Yes, it does.

APPENDIX 1

Qualifications of Rodney Lane Moore

EDUCATION:	Athabasca University Bachelor's Degree in Business Administration - 1993
EXPERIENCE:	Public Utilities Analyst V Residential Utility Consumer Office Phoenix, Arizona 85007 May 2001 - Present

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

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

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

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

Utility Company	Docket No.
Dragoon Water Company	W-01917A-01-0851
Roosevelt Lake Resort, Inc.	W-01958A-02-0283
Southwest Gas Company	G-01551A-02-0425
Arizona-American Water Company	W-01303A-02-0867 et al.
Rio Rico Utilities, Inc.	WS-02676A-03-0434
Qwest Corporation	T-01051B-03-0454
Chaparral City Water Company	W-02113A-04-0616
Southwest Gas Company	G-01551A-04-0876
Arizona-American Water Company	W-01303A-05-0405
Far West Water and Sewer Company	WS-03478A-05-0801
Gold Canyon Sewer Company	SW-02519A-06-0015
Arizona-American Water Company	WS-01303A-06-0403
UNS Gas, Inc.	G-04204A-06-0463 et al.
UNS Electric, Inc.	E-04204A-06-0783
Tucson Electric Power Company	E-01933A-07-0402
Southwest Gas Company	G-01551A-07-0504
Arizona-American Water Company	W-01303A-08-0227 et al.
Arizona Water Company	W-01445A-08-0440

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

TABLE OF CONTENTS TO RLM SCHEDULES

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST		(B) RUCO OCRB/FVRB COST	
1	Fair Value Rate Base	$	3,723,245	$	3,745,364
2	Adjusted Operating Income (Loss)	$	(84,485)	$	(27,286)
3	Current Rate Of Return (L2 / L1)		-2.27%		-0.73%
4	Required Operating Income (L5 X L1)	$	476,575	$	278,281
5	Required Rate Of Return On Fair Value Rate Base		12.80%		7.43%
6	Operating Income Deficiency (L4 - L2)	$	561,060	$	305,567
7	Gross Revenue Conversion Factor (RLM-1, Pg 2)		1.6286		1.6023
8	Increase In Gross Revenue Requirement (L7 X L6)	$	913,763	$	489,604
9	Adjusted Test Year Revenue	$	1,580,170	$	1,580,170
10	Proposed Annual Revenue (L8 + L9)	$	2,493,933	$	2,069,774
11	Required Percentage Increase In Revenue (L8 / L9)		57.83%		30.98%
12	Rate Of Return On Common Equity		12.80%		8.22%

References:

Column (A): Company Schedules A-1 and C-1

Column (B): RUCO Schedule RLM-2, RLM-6, And RLM-15

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

REVENUE REQUIREMENT - CONT'D
GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	CALCULATION OF GROSS REVENUE CONVERSION FACTOR:				
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	(0.3759)			
3	Subtotal (L1 + L2)	0.6241			
4	**Revenue Conversion Factor** (L1 / L3)	**1.6023**			
	CALCULATION OF EFFECTIVE TAX RATE:				
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	32.9144%			
9	Effective Federal Income Tax Rate (L7 X L8)	30.6209%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	37.5889%			
11	Required Operating Income (Sch. RLM-1, Col. (B), L4)	$ 278,281			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Col. (B), L2)	(27,286)			
13	Required Increase In Operating Income (L11 - L12)		$ 305,567		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	$ 111,209			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(72,828)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		$ 184,037		
17	Total Required Increase In Revenue (L13 + L16)		$ 489,604		
				RUCO Recommended	
	CALCULATION OF INCOME TAX:				
18	Revenue (Sch. RLM-1, Col. (B), L10)			$ 2,069,774	
19	Operating Expense Excluding Income Tax (RLM-5, Col. (E), L25 - L24)			(1,680,284)	
20	Synchronized Interest (Col. (C), L37)			(93,634)	
21	Arizona Taxable Income (L18 + L19 + L20)			$ 295,855	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				$ 20,615
24	Fed. Taxable Income (L21 - L23)			$ 275,240	
25	Fed. Tax On 1st Inc. Bracket ($1 - $50,000) @ 15%			$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket ($50,001 - $75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket ($75,001 - $100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket ($100,001 - $335,000) @ 39%			68,344	
29	Fed. Tax On 5th Inc. Bracket ($335,001 - $10M) @ 34%			-	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				$ 90,594
31	Combined Federal And State Income Tax (L23 + L30)				$ 111,209
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L24)				$ (72,828)
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L24)				$ 184,037
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				32.91%
	CALCULATION OF INTEREST SYNCHRONIZATION:				
35	Rate Base (Sch. RLM-2, Col. (H), L15)			$ 3,745,364	
36	Weighted Avg. Cost Of Debt (Sch. RLM-15, Col. (F), L1)			2.50%	
37	Synchronized Interest (L35 X L36)			$ 93,634	

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION		(A) COMPANY AS FILED OCRB/FVRB		(B) RUCO ADJUSTMENTS		(C) RUCO AS ADJUSTED OCRB/FVRB
1	Gross Utility Plant In Service	$	11,357,735	$	302,402	$	11,660,137
2	Accumulated Depreciation		(5,625,025)		(3,298)		(5,628,323)
3	Net Utility Plant In Service (L1 + L2)	$	5,732,710	$	299,104	$	6,031,814
4	Advances In Aid Of Const.	$	(1,457,009)	$	(276,985)	$	(1,733,994)
5	Contribution In Aid Of Const.	$	(5,232,139)	$	-	$	(5,232,139)
6	Accumulated Amortization Of CIAC		4,214,384		-		4,214,384
7	NET CIAC (L5 + L6)	$	(1,017,755)	$	-	$	(1,017,755)
8	Customer Meter Deposits	$	(94,290)	$	-	$	(94,290)
9	Deferred Income Taxes & Credits	$	170,554	$	-	$	170,554
10	Unamortized Finance Charges	$	-	$	-	$	-
11	Deferred Regulatory Assets	$	389,035	$	-	$	389,035
12	Allowance For Working Capital	$	-	$	-	$	-
13	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 Thru 12)	$	3,723,245	$	22,119	$	3,745,364

References:
Column (A): Company Schedule B-2, Page 1 And Workpapers Schedule E-1
Column (B): RLM-3, Columns (B) Thru (G)
Column (C): Column (A) + Column (B)

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) ADJ # 1 GROSS PLT & ACC DEP	(C) ADJ # 2 AIAC	(D) INTENT'NLY LEFT BLANK	(E) INTENT'NLY LEFT BLANK	(F) INTENT'NLY LEFT BLANK	(G) INTENT'NLY LEFT BLANK	(H) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	$ 11,357,735	$ 302,402	$ -	$ -	$ -	$ -	$ -	$ 11,660,137
2	Accumulated Depreciation	(5,625,025)	(3,298)	-	-	-	-	-	(5,628,323)
3	Net Utility Plant In Service (L1 + L2)	$ 5,732,710	$ 299,104	$ -	$ -	$ -	$ -	$ -	$ 6,031,814
4	Advances In Aid Of Const.	$ (1,457,009)	$ -	$ (276,985)	$ -	$ -	$ -	$ -	$ (1,733,994)
5	Contribution In Aid Of Const.	$ (5,232,139)	$ -	$ -	$ -	$ -	$ -	$ -	$ (5,232,139)
6	Accumulated Amortization Of CIAC	4,214,384	-	-	-	-	-	-	4,214,384
7	NET CIAC (L5 + L6)	$ (1,017,755)	$ -	$ -	$ -	$ -	$ -	$ -	$ (1,017,755)
8	Customer Meter Deposits	$ (94,290)	$ -	$ -	$ -	$ -	$ -	$ -	$ (94,290)
9	Deferred Income Taxes & Credits	$ 170,554	$ -	$ -	$ -	$ -	$ -	$ -	$ 170,554
10	Unamortized Finance Charges	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
11	Deferred Regulatory Assets	$ 389,035	$ -	$ -	$ -	$ -	$ -	$ -	$ 389,035
12	Allowance For Working Capital	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
13	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 Thru 12	$ 3,723,245	$ 299,104	$ (276,985)	$ -	$ -	$ -	$ -	$ 3,745,364

References:

Column (A): Company Schedule B-2, Page 1 And Workpapers Schedule E-1
Column (B): Adjustment No. 1 - RUCO Adjustment To GPIS And Acc. Dep. (See Testimony and Schedule RLM-4)
Column (C): Adjustment No. 2 - RUCO Adjustment To AIAC (See Testimony)
Column (D): *Intentionally Left Blank*
Column (E): Intentionally Left Blank
Column (F): Intentionally Left Blank
Column (G): Intentionally Left Blank
Column (H): Sum Of Columns (A), (B), (C), (D), (E) & (F)

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

TEST YEAR PLANT SCHEDULE
YEAR ENDED JUNE 30, 2008

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) COMPANY T/Y PLANT AS FILED	(B) RUCO TEST-YEAR ADJUSTMENTS PLANT ADDITIONS	(C) PLANT RETIRMENTS	(D) DEPRECIATION EXPENSE	(E) TOTAL PLANT VALUE	(F) ACCUMULATED DEPRECIATION	(G) NET PLANT VALUE
1	351	Organization	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	352	Franchises	-	-	-	-	-	-	-
3	353	Land and Land Rights	461,300	-	-	-	461,300	-	461,300
4	354	Structures And Improvements	2,557,920	-	-	-	2,557,920	(1,067,642)	1,490,278
5	355	Power Generation Equipment	-	-	-	-	-	-	-
6	360	Collection Sewers - Force	706,291	-	-	-	706,291	(217,363)	488,928
7	361	Collection Sewers - Gravity	4,284,949	-	-	-	4,284,949	(2,869,293)	1,415,656
8	362	Special Collecting Structures	-	-	-	-	-	-	-
9	363	Services To Customers	198,723	-	-	-	198,723	(145,843)	52,880
10	364	Flow Measuring Devices	31,512	-	-	-	31,512	(32,828)	(1,316)
11	365	Flow Measuring Installations	179,622	-	-	-	179,622	(57,602)	122,020
12	370	Receiving Wells	690,628	276,985	(13,208)	(4,392)	954,405	(274,222)	680,183
13	371	Effluent Pumping Equipment	654,845	-	-	-	654,845	(437,967)	216,878
14	380	Treatment And Disposal Equip	143,578	38,625	-	(966)	182,203	(16,004)	166,199
15	381	Plant Sewers	123,289	-	-	-	123,289	(105,593)	17,696
16	382	Outfall Sewer Lines	-	-	-	-	-	-	-
17	389	Other Plant And Misc Equip	939,433	-	-	-	939,433	(263,481)	675,952
18	390	Office Furniture And Equipment	224,588	-	-	-	224,588	(75,701)	148,887
19	391	Transportation Equipment	107,367	-	-	-	107,367	(60,947)	46,420
20	393	Tools, Shop And Garage Equip	5,755	-	-	-	5,755	(203)	5,552
21	394	Laboratory Equipment	7,488	-	-	-	7,488	(2,624)	4,864
22	395	Power Operated Equipment	-	-	-	-	-	-	-
23	396	Communication Equipment	40,451	-	-	-	40,451	(1,011)	39,440
24	398	Other Tangible Plant	-	-	-	-	-	-	-
			(4)				(4)	2	
25	TOTAL WASTEWATER PLANT		$ 11,357,735	$ 315,610	$ (13,208)	$ (5,358)	$ 11,660,137	$ (5,628,323)	$ 6,031,816
26	Company As Filed						$ 11,357,735	$ (5,625,025)	
27	Difference						$ 302,402	$ (3,298)	
28	RUCO Adjustment (Line 27) (See RLM-3, Column (B))						$ 302,402	$ (3,298)	

References:
Column (A): RUCO Workpapers "WP RLM-4(5)"
Columns (B) (C): Testimony, RLM
Column (D): [(Col. (A) + Col. (B) + Col. (C)) X WP RLM-4, Page 1, Col. (A) X 1/2 yr. conv.]
Column (E): Column (A) + Column (B) + Column (C)
Column (F): WP RLM-4, Page 5, Col. (E) + (Col. (C) + Col. (D) - $11,148.46 (See Testimony, Pg 9)
Column (G): (Column (E) + Column (F)

RUCO MADE NO POST TEST-YEAR PLANT ADJUSTMENTS

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJM'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Flat Rate Revenues	$ 1,557,337	$ -	$ 1,557,337	$ 485,943	$ 2,043,280
2	Misc. Service Revenues	15,917	-	15,917	3,661	19,578
3	Other WW Revenues	6,916	-	6,916	-	6,916
4	TOTAL OPERATING REVENUE	$ 1,580,170	$ -	$ 1,580,170	$ 489,603	$ 2,069,773
	Operating Expenses:					
5	Salaries And Wages	$ -	-	$ -	$ -	$ -
6	Purchased WW Treatment	335,255	(7,551)	327,704	-	327,704
7	Sludge Removal Expense	706	-	706	-	706
8	Purchased Power	54,690	-	54,690	-	54,690
9	Fuel For Power Production	928	-	928	-	928
10	Chemicals	37,489	3,185	40,674	-	40,674
11	Materials And Supplies	11,224	-	11,224	-	11,224
12	Contractual Services	9,362	(4,723)	4,639	-	4,639
13	Contractual Services - Testing	16,955	-	16,955	-	16,955
14	Contractual Services - Other	553,043	3,942	556,984	-	556,984
15	Equipment Rentals	1,863	-	1,863	-	1,863
16	Rents	19,830	18,432	38,262	-	38,262
17	Transportation Expenses	34,445	-	34,445	-	34,445
18	Insurance - General Liability	18,704	-	18,704	-	18,704
19	Insurance - Other	990	-	990	-	990
20	Regulatory Comm. Expense	60,000	-	60,000	-	60,000
21	Miscellaneous Expense	20,845	(52)	20,793	-	20,793
22	Bad Debt Expense	11,962	-	11,962	-	11,962
23	Scottsdale Cap. (Oper'g Lease)	164,522	-	164,522	-	164,522
24	Amort. Scottsdale Cap.	48,629	-	48,629	-	48,629
25	Depreciation Expense	224,818	10,715	235,533	-	235,533
26	Taxes Other Than Income	(1,780)	1,780	-	-	-
27	Property Taxes	32,414	(2,338)	30,077	-	30,077
28	Income Tax	7,760	(80,588)	(72,828)	184,037	111,209
29	TOTAL OPERATING EXPENSES	$ 1,664,655	$ (57,198)	$ 1,607,456	$ 184,037	$ 1,791,493
30	OPERATING INCOME (LOSS)	$ (84,485)		$ (27,286)		$ 278,280

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (K)
Column (C): Column (A) + Column (B)
Column (D): Revenue From RLM-1, Column (B), Line 8 And Income Tax From RLM-1, Column (B), Line 8 - Line 6
Column (E): Column (C) + Column (D)

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ # 1 DEP. EXPENSE	(C) ADJ # 2 PROPERTY TAX	(D) ADJ # 3 & 4 SC'SDALE TREATM'T	(E) ADJ # 5 UNNES'RY EXPENSES	(F) ADJ # 6 NORM'LIZE RENT	(G) ADJ # 7 NORM'LIZE OTH'R TAX	(H) ADJ # 8 NORM'LIZE CHEMICAL	(I) INTENT'LY LEFT BLANK	(J) INTENT'LY LEFT BLANK	(K) ADJ # 9 INCOME TAX	(L) RUCO AS ADJT'D
	Revenues:												
1	Flat Rate Revenues	$ 1,557,337	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,557,337
2	Misc. Service Revenues	15,917	-	-	-	-	-	-	-	-	-	-	15,917
3	Other WW Revenues	6,916	-	-	-	-	-	-	-	-	-	-	6,916
4	TOTAL OPR'G REV.	$ 1,580,170	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,580,170
	Operating Expenses:												
5	Salaries And Wages	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6	Purchased WW Treatment	335,255	-	-	(7,551)	-	-	-	-	-	-	-	327,704
7	Sludge Removal Expense	706	-	-	-	-	-	-	-	-	-	-	706
8	Purchased Power	54,690	-	-	-	-	-	-	-	-	-	-	54,690
9	Fuel For Power Production	928	-	-	-	-	-	-	-	-	-	-	928
10	Chemicals	37,489	-	-	-	-	-	-	3,185	-	-	-	40,674
11	Materials And Supplies	11,224	-	-	-	-	-	-	-	-	-	-	11,224
12	Contractual Services	9,362	-	-	-	(4,723)	-	-	-	-	-	-	4,639
13	Contractual Services - Testing	16,955	-	-	-	-	-	-	-	-	-	-	16,955
14	Contractual Services - Other	553,043	-	-	-	3,942	-	-	-	-	-	-	556,984
15	Equipment Rentals	1,863	-	-	-	-	-	-	-	-	-	-	1,863
16	Rents	19,830	-	-	-	-	18,432	-	-	-	-	-	38,262
17	Transportation Expenses	34,445	-	-	-	-	-	-	-	-	-	-	34,445
18	Insurance - General Liability	18,704	-	-	-	-	-	-	-	-	-	-	18,704
19	Insurance - Other	990	-	-	-	-	-	-	-	-	-	-	990
20	Regulatory Comm. Expense	60,000	-	-	-	-	-	-	-	-	-	-	60,000
21	Miscellaneous Expense	20,845	-	-	-	(52)	-	-	-	-	-	-	20,793
22	Bad Debt Expense	11,962	-	-	-	-	-	-	-	-	-	-	11,962
23	Scottsdale Cap. (Oper'g Lease)	164,522	-	-	-	-	-	-	-	-	-	-	164,522
24	Amort. Scottsdale Cap.	48,629	-	-	-	-	-	-	-	-	-	-	48,629
25	Depreciation Expense	224,818	10,715	-	-	-	-	-	-	-	-	-	235,533
26	Taxes Other Than Income	(1,780)	-	-	-	-	-	1,780	-	-	-	-	-
27	Property Taxes	32,414	-	(2,338)	-	-	-	-	-	-	-	-	30,077
28	Income Tax	7,760	-	-	-	-	-	-	-	-	-	(80,588)	(72,828)
29	TOTAL OPR'G EXP.	$ 1,664,655	$ 10,715	$ (2,338)	$ (7,551)	$ (834)	$ 18,432	$ 1,780	$ 3,185	$ -	$ -	$ (80,588)	$ 1,607,456
30	OPR'G INC. (LOSS)	$ (84,485)											$ (27,286)

References:

Column (A): Company Schedule C-1
Column (B): Testimony, RLM And Schedule RLM-8
Column (C): Testimony, RLM And Schedule RLM-9
Column (D): Testimony, RLM And Schedule RLM-10
Column (E): Testimony, RLM And Schedule RLM-11
Column (F): Testimony, RLM And Schedule RLM-12
Column (G): Testimony, RLM
Column (H): Testimony, RLM
Column (I): Testimony, RLM And Schedule RLM-13
Column (J): Intentionally Left Blank
Column (K: Testimony, RLM And Schedule RLM-14
Column (L): Sum Of Columns (A) Thru (K)

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

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

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) APR'D DEP. RATE	(C) TEST YEAR DEPREC'N EXPENSE
1	351	Organization	$ -	0.00%	$ -
2	352	Franchises	-	0.00%	-
3	353	Land and Land Rights	461,300	0.00%	-
4	354	Structures And Improvements	2,557,920	3.33%	85,179
5	355	Power Generation Equipment	-	5.00%	-
6	360	Collection Sewers - Force	706,291	2.00%	14,126
7	361	Collection Sewers - Gravity	4,284,949	2.00%	85,699
8	362	Special Collecting Structures	-	2.00%	-
9	363	Services To Customers	198,723	2.00%	3,974
10	364	Flow Measuring Devices	31,512	10.00%	3,151
11	365	Flow Measuring Installations	179,622	10.00%	17,962
12	370	Receiving Wells	954,405	3.33%	31,782
13	371	Effluent Pumping Equipment	654,845	12.50%	81,856
14	380	Treatment And Disposal Equip	182,203	5.00%	9,110
15	381	Plant Sewers	123,289	5.00%	6,164
16	382	Outfall Sewer Lines	-	3.33%	-
17	389	Other Plant And Misc Equip	939,433	6.67%	62,660
18	390	Office Furniture And Equipment	224,588	6.67%	14,980
19	391	Transportation Equipment	107,367	20.00%	21,473
20	393	Tools, Shop And Garage Equip	5,755	5.00%	288
21	394	Laboratory Equipment	7,488	10.00%	749
22	395	Power Operated Equipment	-	5.00%	-
23	396	Communication Equipment	40,451	10.00%	4,045
24	398	Other Tangible Plant	-	10.00%	-
25		TOTALS	$ 11,660,141		(1) $ 443,198
		Less:			
26		Amortizations Of CIAC (RLM-2, Col. (C), Line 5)	$ (5,232,139)	3.9690%	(207,665)
27		TOTAL DEPRECIATION EXPENSE (Line 25 + Line 26)			$ 235,533
28		Test Year Depreciation Expense As Filed (Co. Sch. C-1)			224,818
29		Decrease Of Depreciation Expense (Line 27 - Line 28)			$ 10,715
30		RUCO Adjustment (Line 29) (See RLM-7, Column (B), Line 25)			$ 10,715

References:

Column (A): RLM-4, Column (E)
Column (B): Company Schedule C-2, Page 2
Column (C): Column (A) X Column (B)

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

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	$ 1,580,170	
2	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	1,580,170	
3	Proposed Revenues	Sch. RLM-6, Col (E), Ln 4	2,069,773	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	$ 5,230,113	
5	Average Annual Operating Revenues	Line 4 / 3	1,743,371	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		$ 3,486,742
	ADD:			
	10% Of Construction Work In Progress ("CWIP"):			
7	Test Year CWIP	Co. Sch. E-1	$ 142,018	
8	10% Of CWIP	Line 7 X 10%		$ 14,202
	SUBTRACT:			
	Transportation At Book Value:			
9	Original Cost Of Transportation Equipment	RLM-4, Col. (B), Ln 19	$ 107,367	
10	Acc. Dep. Of Transportation Equipment	RLM-4, Col. (C), Ln 19	(60,947)	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		$ (46,420)
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		$ 3,454,524
	Calculation Of The Company's Tax Liability:			
	MULTIPLY:			
	FCV X Valuation Assessment Ratio X Property Tax Rates:			
13	Assessment Ratio	House Bill 2779	21.0%	
14	Assessed Value	Line 12 X Line 13	$ 725,450	
	Property Tax Rates:			
15	Primary Tax Rate - 2005 Tax Notice	RUCO Data Req. 1.12	4.1459%	
16	Secondary Tax Rate - 2005 Tax Notice	RUCO Data Req. 1.12	0.0000%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	4.15%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		$ 30,076
19	Test Year Adjusted Property Tax Expense As Filing	Co. Sch. C-1, Line 25		32,414
20	Decrease In Property Tax Expense	Line 18 - Line 19		$ (2,338)
21	RUCO Adjustment (See RLM-7, Column (C), Line 27)	Line 20		$ (2,338)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3
PURCHASED WASTEWATER TREATMENT FROM THE CITY OF SCOTTSDALE

LINE NO.	DESCRIPTION	(A) SEWAGE FLOW (Gallon)	(B) COST PER 1,000 GAL.	(C) RAW BILLING	(D) ENVIRO TAX 18.953%	(E) SUBJECT TO SALES TAX	(F) SALES TAX 1.65%	(G) SCOTTSDALE BILLING
	COMPANY CALCULATION							
1	Co.'s Computation Of Test-Year Billings (Co. Sch C-2, Pg 7)	103,757,173		$ 240,741	$ 45,628	$ 286,368	$ 4,725	$ 291,093
2	Company's Computation Under New Rate (Co. Sch C-2, Pg 7)	103,757,173	$ 2.59	$ 268,731	$ 50,933	$ 319,664	$ 5,274	$ 324,938
3	Company's Adjustment Number 6 (Line 2 - Line 1)							$ 33,845
	RUCO CALCULATION							
4	RUCO's Computation Under Actual New Rate Per Co. WP's	103,757,173	$ 2.53	$ 262,506	$ 49,753	$ 312,258	$ 5,152	$ 317,411
5	Actual Increase In Purchased Wastewater Treatment (Line 4 - Line 1)							$ 26,317
6	Difference Between Calculations Using Actual new Rate (Line 5 - Line 3)							$ (7,528)
7	RUCO Adjustment (Line 6) (See RLM-7, Column (D), Line 6)							$ (7,528)

References:
- Column (A): Company Workpapers
- Column (B): Correction To New Rate (Company filed Rate Incorrect As $2.59 / Actual Rate Is $2.53 Per Response To RUCO DR 2.02)
- Column (C): Column (A) X Column (B)
- Column (D): Column (C) X 18.953% Evironment Tax
- Column (E): Column (C) + Column (D)
- Column (F): Column (E) X 1.65% Sales Tax
- Column (G): Column (E) + Column (F)

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4
ANNUALIZATION PURCHASED WASTEWATER TREATMENT

LINE NO.	DESCRIPTION	REFERENCE	(A) AMOUNT
1	Adjusted Year Purchased Wastewater Treatment (Scottsdale)	RLM-10, Column (G), Line 4	$ 317,411
2	Gallons Treated By Scottsdale (In 1000's)	RLM-10, Column (A), Line 1	103,757
3	Cost Per 1,000 gallons (Per Co. Response To Staff DR MEM 5.2)	Line 1 / Line 2	$ 3.06
4	Additional Wasterwater Gallons (In 1,000's) From Rev. Annualization	Company's Workpapers	451
5	Percent Diverted To Scottsdale	Company's Workpapers	70.94%
6	Additonal Gallons Treated By Scottsdale (In 1,000's)	Line 4 X Line 5	320
7	Increase (Decrease) In Purchased Wastewater Treatment	Line 3 X Line 6	$ 979
8	Company's Calculation Of Annualized Purchased WW Treatment	Company Schedule C-2, Page 8	$ 1,002
9	Difference	Line 8 - Line 7	$ (24)
10	RUCO Adjustment (See RLM-7, Column (E), Line 6)	Line 9	$ (24)

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
DISALLOWANCE OF UNNECESSARY AND/OR NON-RECURRING OPERATING EXPENSES

LINE NO.	DESCRIPTION	REFERENCE	(B) TOTAL
	Disallowed Contractual Services Expenses	Co. Response To Staff D. R. MEM 1.55	
1	Legal & Survey Costs To Clarify BMSC Easement Dispute		$ (4,723)
	Disallowed Contractual Services Expenses - Other	Co. Response To Staff D. R. MEM 1.55	
2	Clean-Up Costs For A Sewer Spill		(39,870)
3	Sparkletts (13 Journal Entries) (Bottled Water)		(908)
	Increased Contractual Services Expenses - Other		
4	Transfer Costs From LPSCO - Aerotek Environmental	Co. Response To Staff D. R. CSB 10.5	42,200
	Increased Contractual Services Expenses - Other		
5	Revised Central Office Fixed Overhead Costs	Co. Responses To D. R. CSB 10.8 & 10.14	2,519
	Disallowed Miscellaneous Expenses	Co. Response To Staff D. R.t MEM 1.46	
6	Charitable Donations Allocated To BMSC		(52)
7	RUCO Adjustment To Unnecessary/Non-Recurring Expenses	Sum Of Lines 1 Thru 17	$ (834)
8	RUCO Adjustment (See RLM-7, Column (F))	Line 18	$ (834)

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

Schedule RLM-13

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 8
NORMALIZATION OF CHEMICAL EXPENSES

LINE NO.	DESCRIPTION	REFERENCE	(A) AMOUNT	(B)
	CALCULATION OF TEST-YEAR CHEMICAL EXPENSES			
1	Thoigard Used From July To November 2007	Company Worpapers		$ 8,169
2	Sodium Hydroxide (Ordor Control Chemical)			
3	Gallons Used During Test Year (7 Months)	Company Response To RUCO DR 2.03	6,997	
4	Cost Per Gallons	Company Response To RUCO DR 2.03	$ 1.65	
5	Sub-Total Of Sodium Hydroxide	Line 2 X Line 3	$ 11,545.05	
6	Delivery costs (14 deliveries at $45 per)	Company Response To RUCO DR 2.03	630.00	
7	Sales Tax Of 8.5%	Sum Of Lines 5 & 6 X 8.5%	1,040.70	
8	Total Cost Of Sodium Hydroxide	Sum Of Lines 5, 6 & 7		13,216
9	Total Cost Of Test-Year Chemical Expenses	Sum Of Lines 1 & 8		$ 21,385
	NORMALIZATION OF TEST-YEAR CHEMICAL EXPENSES			
	Sodium Hydroxide			
10	Projected Gallons Used During A Full Test Year	Line 3 / 7 Months X 12 Months	11,995	
11	Cost Per Gallons Effective January 2009	Company Response To RUCO DR 2.03	$ 2.05	
12	Sub-Total Of Sodium Hydroxide		$ 24,589.46	
13	Delivery costs (24 deliveries at $32 per)	Company Response To RUCO DR 2.03	768.00	
14	Sales Tax Of 8.5%	Sum Of Lines 12 & 13 X 8.5%	2,155.38	
15	Total Normalization Of Test-Year Chemical Exp	Sum Of Lines 12,13 & 14		$ 27,513
16	Calculated Additional Costs To Chemcial Exp	Line 15 - Line 9		$ 6,128
17	Company Adjustment	Schedule C-2, Adjusmtent 8		$ 2,943
18	Difference	Line 16 - Line 17		$ 3,185
19	RUCO Adjustment (See RLM-7, Column (I))	Line 18		$ 3,185

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 9
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE		(B) AMOUNT
	FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-5, Column (C), L26 + L24	$	(100,114)
	LESS:			
2	Arizona State Tax	Line 11		13,500
3	Interest Expense	Note (A) Line 20		(93,634)
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	$	(180,248)
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34		32.91%
6	Federal Income Tax Expense	Line 4 X line 5	$	(59,328)
	STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	$	(100,114)
	LESS:			
8	Interest Expense	Note (A) Line 20		(93,634)
9	State Taxable Income	Line 7 - Line 8	$	(193,748)
10	State Tax Rate	Tax Rate		6.97%
11	State Income Tax Expense	Line 9 X Line 10	$	(13,500)
	TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	$	(59,328)
13	State Income Tax Expense	Line 11		(13,500)
14	Total Income Tax Expense Per RUCO	Line12 + Line 13	$	(72,828)
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)			7,760
16	Total Income Tax Adjustment	Line 14 - Line 15	$	(80,588)
17	RUCO Adjustment (See Sch. RLM-7, Column (I), L28)	Line16	$	(80,588)
	NOTE (A):			
	Interest Synchronization:			
18	Adjusted Rate Base (Sch. RLM-2, Col. (E), L15)	$	3,745,364	
19	Weighted Cost Of Debt (Sch. RLM-15, Col. (F), L1)		2.50%	
20	Interest Expense (L17 X L18)	$	93,634	

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST RATE
1	Long-Term Debt				40.00%	6.26%	2.50%
2	Stockholder's Equity				60.00%	8.22%	4.93%
3	TOTAL CAPITAL				100.00%		
4	COST OF CAPITAL						7.43%

References:
Column (A): Intentionally Left Blank
Column (B): Intentionally Left Blank
Column (C): Intentionally Left Blank
Column (D): Hypothetical Capital Structure
Column (E): Testimony, WAR
Column (F): Column (D) X Column (E)

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

LINE NO.	CUSTOMER CLASSIFICATION	(A) BILL DETERMINENTS		(B) MONTHLY RATES & CHARGES		(C) REVENUE
	Residential					
1	Customers	1,972	$	58.88	$	1,393,338
	Commercial (Standard Rate)					
2	Customers	125	$	-	$	-
3	Commodity Usage (Per Thousand Gallons)	2,069,505	$	0.23608		488,559
4	Sub-Total				$	488,559
	Commercial (Special Rate)					
5	Boulders Resort	1	$	6,927.63	$	83,131.57
6	Desert Forest	1	$	1,652.53	$	19,830.33
7	El Pedegral	1	$	3,726.92	$	44,723.06
8	Boulders Club	1	$	283.29	$	3,399.48
9	Spanish Village	1	$	1,176.84	$	14,122.03
10	Sub-Total				$	165,206.47
11	Effluent Sales (Per Thousand Gallons)	42,513	$	0.46051	$	19,578
12	TOTAL REVENUE PER BILL DETERMINENTS				$	2,066,682
13	Flat Rate Revenues				$	2,047,104
14	Miscellaneous Service Revenues					19,578
15	Other Wastewater Revenues					6,916
16	Reconcillation With Book Value					(3,824)
17	TOTAL PROPOSED REVENUE				$	2,069,773
18	RUCO RECOMMENDED REVENUE REQUIREMENT				$	2,069,774
19	DIFFERENCE				$	(0)