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To: Arizona Corporation Commission, Utilities Division, Consumer Services

K.K. Mayes, Chairman

G.Pierce, Commissioner

S.D.Kennedy, Commissioner

P. Newman, Commissioner

B. Stump, Commissioner

Hon. Teena Wolfe

Re: Docket No. W-01303A-09-0343 & No. SW-01303A-09-0343

I am filing an opinion as a resident of Anthem, AZ and a consumer of Arizona-American Water residing at 2407 W. Hazelhurst Ct., Anthem, AZ. 85086.

My comments are in two parts, the first pertaining to the weighted cost of capital in presented in testimony by Mr. Manrique and Mr. Rigsby. With supporting references' attached. Utilizing testimony in evidence, I proposed certain data points be eliminated resulting in an more appropriate lower cost of capital.

Second, I commented on the financial stability of Arizona's parent company American Water Works referencing their 2009 Annual Report. This highlights the stability of the company's financial strength.

Sincerely,

Stephen P. Puhr

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2010 APR 28 P 3:50
AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED
APR 28 2010
DOCKETED BY

Stephen P. Puhr, resident of Anthem, AZ., 2407 W. Hazelhurst Ct., 623-249-7049,

Docket No. W-01303A-09-0343 & No. SW-01303A-09-0343

I would like to address the weighted cost of capital calculation in the direct testimony of Mr. Juan C. Manrique, ACC staff.

In the Direct testimony of Mr. Juan C. Manrique, page 42, table 3, (line 13-14). The combined short and long term debt has a cost of 4.91%. Which appears to be derived from the schedule presented by the Arizona American Water, Test year ended December 31, 2008, Exhibit schedule D-2, page 1, Witness Mr. Broderick. The 4.91% is derived from capital weighting of the cost of long term debt of 5.47% and short term debt, commercial paper, of 3.41%. The annual report for Arizona-American Water's parent filed on 3/1/2010, page 118, and reports that December 31, 2009, the company's short term debt weighted average interest cost was 0.39%. Further, according to www.federalreserve.gov/release/cp, on April 21, 2010, the cost of A2/P2 commercial paper, A2/P2 is the rating of American Water Works the parent of Arizona-American Water company, with maturities from 1 day to 60 days averaged 0.33%, with a high of 0.35 for 1 day to the low of 0.29 for 30 days. Hence, Mr. Manrique's average weighted cost of capital needs to utilize the commercial paper rate of 0.33% instead of the 3.41%, from Mr. Manriques Direct testimony, page 14, and line 25. **The replacement would be the difference between (3.41% less 0.33%) multiplied the weighted short term debt of 16.6% to equal 0.51% reduction from the ACC staff's recommendation in Arizona-American Waters required rate of return (ROR) 7.20%. Staffs new recommendation should be 7.20%- 0.51%= 6.69%.**

Now I would like to address Mr. Manrique's testimony as it relates to the formulation of the Beta estimate for Arizona American Water.

While a bigger sample size is preferred to a smaller one when establishing a valid proxy, it is more important to have companies with comparable attributes that drive risks and returns. Morningstar recognizes the importance of comparing stocks and stock mutual funds as large cap (capitalization), mid-cap and small cap and also as growth, value or a blend. An historical study that looked at stocks' standard deviations of returns (risk) from 1926 through 2001, and found small capitalizations standard deviations of returns (risk) was 33.2% compared to large capitalization stocks of 20.2%. This validates the need to compare or utilize the same market capitalization when building a proxy. All utilities are value stocks so they all qualify on that characteristic. Since, Arizona-American Water's parent company is not a small capitalization stock it would be inappropriate to compare it to a group of small capitalization stocks. Hence, the following stocks are recognized as small capitalization stocks by Value Line and should be removed from the sample; American States Water, California Water, Connecticut Water, Middlesex Water and SJW Corp. These stocks were utilized by Mr. Manrique in testimony, schedule JCM-7. Mr. Rigsby's testimony, schedule WAR -7, list the beta's of his proxy stocks, again one must eliminate the small cap stocks. **The result we have a proxy made up of three stocks Aqua America (AWR), Atmos Energy Corp. (ATO) and AGL Resources (AGL), with betas, respectively of .65 for AWR, .75 for AGL and .65 for ATO. The average of these stocks' beta is .683 and this is the most appropriate proxy beta for Arizona American Water.**

Per Mr. Manrique's testimony in schedule JCM-3, historical CAPM and current CAPM used two different risk free assets. In the historical CAPM, an average of 5 yr., 7 yr., & 10yr. treasury rates was adopted as the risk free asset and for the current CAPM the 30 yr. treasury rate was used as the risk free asset. This use of different maturity risk free assets is not appropriate because the different maturities have different amounts of interest rate risk. The longer the maturity, in general terms, the more interest rate risk. An analysis of historic CAPM and current CAPM should use the same risk free asset, especially as it pertains to maturity.

Second, which risk free asset is appropriate? Mr. Manrique's testimony on page 36, line 2, states, "The risk free rate is the rate of return of an investment with zero risk." I agree but for purest, zero risk may be substituted for near zero risk. The risk free asset should be a treasury security since it is has a near zero probability of default. As noted in Mr. Rigsby's testimony, page 34, line 18 & 19, the 91 day T-bill presents the lowest possible risk to an investor. Investors who buy treasury bonds that mature in 5 years, 10 years, and 30 years face interest rate risk, all else being equal, the longer the treasury maturity the greater the risk. **The 91 day t-bill is considered the safest since it has the lowest amount of bankruptcy risk and interest rate risk, I recommend it be used as the risk free asset. The current 91 day bill rate reported by Value Line was 0.16% on 4/7/2010.**

Back to Mr. Manrique's testimony, schedule JCM-3. The use of the historical CAPM in the calculation of the final cost of equity is not relevant to today's investment environment where readily verifiable investment data is available. I would eliminate that formula from the calculation of cost of equity.

Second, the uses of 10.2% return on the stock market in his historic model and then use a 12.7% for the current expectations defies the markets current expectations. That is I am unaware of any professional publication or professional stock market strategist, that has the opinion that future rates of return on the stock market are going to be higher than the last 94 year average (1926-2008), let alone they will be 20% higher. Presenting the arithmetic mean for the stock market returns is a point that is debated and may be a valid starting point, but build on it that premise, I believe in a better place to start.

Surrebuttal testimony from William Rigsby, pages 14 and 15 illustrates that the geometric mean better describes actual results than the arithmetic mean; I find his argument compelling and recommend adopting the geometric mean approach. It reflects reality.

In a July 2009 article, Roger Ibbotson, "Are Bonds Going to Outperform Stocks Over the Long Run? Not Likely." Two data points, first, the S&P 500 returns, geometrically compounded, from January 1926 to March 2009 was 9.44% (page 1). Mr. Ibbotson suggests that earnings growth could approach historic long term growth rate of 5%. Investors' expectations could be 5% plus dividends then at 1.92%, today at 1.84% for the S&P 500. Hence, using a discount cash flow approach, reasonable expectations for the stock market would be 5% + 1.84%= 6.84%. See attachment, Newsweek, 4/19/2010, "The Shape of Things to Come", the articles talk to three economic/finance professor of high regard, Nouriel Roubini, Jeremy Siegel, Laura Tyson and Mohamed El-Erian, CEO of PIMCO(the largest fixed income manager in the world). There is only one who believes a return to average GDP is visible, while the rest see a below average growth rate for some time. Laura Tyson would expect GDP to grow at a 3.5% over five years at best. I bring these up not for precision but directionally, below average GDP growth and hence return on equities is the norm. So the testimony of Mr. Manrique on expected returns for the stock market for the CAPM is, in his historical CAPM = 10.2% and current CAPM = 12.7%. Mr. Rigsby's expected stock market returns (Rm) in his CAPM model, testimony, schedule WAR-7, pages 1 & 2, uses historic stock market returns, geometric of 9.6% and arithmetic 11.7%. **Given the general and expert**

outlook for subpar to average growth for the foreseeable future, of the given testimony, the estimate for the expected return for the stock market is 9.6% and it should utilized in the CAPM model.

Current CAPM would be:

CAPM, K= Rf + B (Rm- Rf)

= .16% + .683 (9.6%-.16%)

= 6.61%

As of 4/1/2010, Value line 30 year U.S. treasury YTM of 4.74% and Morningstar reported on 4/28/2010 that American Water Works' bond maturing in 27 years has a yield to maturity of 6.08%. Back to the Ibbotson article above, page 1, long term treasury bonds have outperformed stocks for the following periods; 1 yr., 5 yr., 10 yr., 20 yr., and 40 yr. ending March 2009. So, the expected return of equity which appears to have a narrow premium over its stock is reasonable especially given the evidence above.

Mr. Manrique used two DCF methods, one constant growth and the other is multi-stage (a two stage was used). I do not see any analytical benefit to use a two stage model, the industry is very mature and returns are regulated, providing a consistent visible growth profile. Looking at Aqua America's retention growth over the past eleven years shows a slight bump higher for four years and slow decline the next seven years, 4.3%, 4.7%, 5.1%, 5.2%, 4.2%, 4.6%, 4.9%, 3.7%, 3.2%, 2.8%, 3.5%.= average 4.2%. Mr. Manrique's table of the results calculating the expected dividend growth is found in his testimony, schedule JCM-8. A ten year period ending in 2008 was used to derive historical EPS (earnings per share) growth of 3.3% and DPS (dividend per share) growth rate of 3.1%. With the current economic outlook expected to be below average for years or at best similar to the last ten years that ended 2008, the table's EPS and sustainable growth projections of 9.7% and 9.1% look unreasonable. These estimates are approximately 3x the growth rates of the ten year period that ended 2008. Schedule JCM-8 should eliminate the 9% growth estimates as outliners and use the remaining four data points that result in a growth estimate of 3.93% to be utilized in the DCF model.

DCF constant growth (dividend yield from Mr. Manrique's schedule JCM-3)

DCF = 3.50% + 3.93%

= 3.50% + 3.93% = 7.43%

Current CAPM would be:

CAPM K= Rf + B (Rm- Rf)

= .16% + .683 (9.6%-.16%)

= 6.61%

Final Cost of Equity Estimate = CAPM + DCF / 2= 6.61% + 7.43%/ 2= <u>7.02%</u>

ACC staff capital recommendation	Staff's Estimates	SPP Estimates	Difference
Long Tm Debt = 44.6%	@5.47%=2.44%	@5.47%=2.44%	0%
Short Tm Debt = 16.6%	@3.41%=0.57%	@.033%=0.06%	.51%
Total Cm Equity = 38.9%	@10.7%=4.17%	@7.02%=2.73%	1.46%
Overall Rate of Return	=7.2%	=5.23%	=-1.97%

Stephen Puhr, CIMA

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INVESTMENT MANAGEMENT

Top-performing Investment Management Professional with twenty-six years of increasingly responsible experience in the financial services industry. Significant experience applying modern portfolio theory, relationship management, attribution analysis, investment manager analysis and global custody search. Strategic assessment of assets allocations and manager selection included the following asset classes: international equity and fixed income, domestic equity (large, mid & small caps), domestic fixed income classes, alternative investments, real estate and other tangible assets.

PROFESSIONAL EXPERIENCE

Consultant, Phoenix, AZ **2003-2009**

Executive Directive/Portfolio Manager

- Provided strategic assessment for a Native American Community Development & Financial Institution.
- Utilized Ibbotson software to establish asset allocations and investment policy statements for Tribal endowments. Conducted global custody search and investment manager search for over $500 million in assets. Established Treasury policies and procedures that improved the management of the Tribe's liquidity and investments. Maintained relationships with financial institutions. Advised the Tribes on private equity investments.
- Designed the investment plans for high net worth clients. Implemented investment plans along modern portfolio theory from asset allocation to manager selection. Equity research utilized qualitative and quantitative analytical techniques that produced discounted cash flow price targets.

WELLS FARGO BANK, Santa Rosa, CA **2000 – 2003**

Vice President/Regional Investment Manager

As Regional Investment Manager, lead the implementation strategies that increased Investment Management, Trust, and Private Banking sales and profits. Devised and implemented asset allocation and manager selections that met client risk and return parameters for high and ultra high net worth clients.

- Consistently placed among the Top 10 of more than 200 portfolio managers in portfolio returns.
- Successful relationship management of over 100 clients limited attrition to below 1%.
- Utilized Ibbotson analytic's to enhanced returns and dampen volatility through diversification.
- One of twenty portfolio managers to be trained as a Certified Investment Management Analyst (CIMA) to address the ultra high net worth clients market. CIMA covered manager search and due diligence, performance measurement and monitoring, designing investment policies and asset allocation strategies.
- Lead the six person Financial Services equity research team. Co-manager of Value Portfolio.

BRAVURA FINANCIAL SERVICES, INC., Midland, MI **1995 – 2000**

Portfolio Manager

Managed equity portfolio for **The Dow Chemical Company pension**, returns for $140 million in assets exceeded benchmark.

- Delivered relative risk/return ratings on the following sectors; financial services, consumer staples, utilities, communication services and transportation for Dow's internal portfolio managers.
- Provided attribution analysis on equity managers responsible for $6 billion of The Dow Chemical Company pension assets.

MUNDER CAPITAL MANAGEMENT, Birmingham, MI **1992 – 1995**

Portfolio Manager

Recommended and managed investments for key corporate and individual clients for firm with more than $35 billion under management. Responsible for financial equities as a member of the Investment Committee.

- Utilized modern portfolio theory and asset allocation in traditional classes in portfolio construction.
- Personally managed corporate and individual relationships, utilizing Barra Analytic's for performance attribution analysis.
- Stockval and Baseline complemented qualitative analysis to uncover superior risk adjusted returns of sectors and stocks.

RONEY & COMPANY, Detroit, MI **1987 – 1992**

Financial Services Analyst

Served as the expert financial services equity analyst for 40+ regional financial institutions. Opinions and reports appeared in *Wall Street Transcripts, American Banker and Barron's*.

- Called the recovery in bank stocks in 1990, yielding a 70.8% return vs. 42.6% for the bank index.
- Outperformed bank index in 20 of 21 recommendations, returning 36.5% vs. 25.6% for bank index.

LEARNING CREDENTIALS

MASTER OF BUSINESS ADMINISTRATION: Finance/Corporate Strategy
University of Michigan — Ann Arbor, MI

BACHELOR OF BUSINESS ADMINISTRATION: Finance
Marquette University — Milwaukee, WI

CERTIFICATES & LICENSES

Certified Investment Management Analyst (CIMA)
Series 7, 63, & 65
Chartered Financial Analyst Candidate Level 1

ASSOCIATIONS

CFA Institute
Leadership Redondo Beach 2006

Q. What is Staff's ROE estimate for Arizona-American?

A. Staff determined an ROE estimate of 9.9 percent for the Company based on cost of equity estimates for the sample companies ranging from 9.7 percent for the DCF to 10.0 percent for the CAPM. Staff recommends adoption of an 80 basis point upward financial risk adjustment of the ROE to 10.7 percent.

VIII. RATE OF RETURN RECOMMENDATION

Q. What overall rate of return did Staff determine for Arizona-American?

A. Staff determined a 7.2 percent ROR for the Company, as shown in Schedule JCM-1 and the following table:

Table 3

	Weight	Cost	Weighted Cost
Short-Term and Long-term Debt	61.14%	4.91%	3.0%
Common Equity	38.86%	10.7%	4.2%
Overall ROR			7.2%

IX. STAFF RESPONSE TO COMPANY'S COST OF CAPITAL WITNESS DR. BENTE VILLADSEN

Q. Please summarize Dr. Villadsen's analyses and recommendations.

A. Dr. Villadsen recommends a 12.25 percent ROE based on analyses for single and multi-stage DCF models, the CAPM, and the empirical capital asset pricing model ("ECAPM") for a sample of water companies and a sample of gas companies. Dr. Villadsen estimates the cost of equity for the sample companies using these analyses. Then, she estimates an after-tax weighted average cost of capital ("ATWACC") for each company in the water and gas samples using each entity's market value capital structure. Lastly, she separately

Arizona American Water Company - Anthem Water
Test Year Ended December 31, 2008
Cost of Long Term Debt
Test Year - Arizona American Water Actual

Exhibit
Schedule D-2
Page 1
Witness: Broderick

Line No.	Long-Term Debt	End of Test Year: Amount Outstanding	End of Test Year: Annual Cost	End of Test Year: Interest Rate	End of Projected Year: Amount Outstanding	End of Projected Year: Annual Cost	End of Projected Year: Interest Rate
1	Sept '12 PILR - Monterey	$ 32,726	$ 2,049	6.260%	$ 32,726	$ 2,049	6.260%
2	Aug '13 PILR - Montex/Lincoln	19,220	1,107	5.761%	19,220	1,107	5.761%
3	Aug '15 PILR - Rosalee	38,347	2,753	7.180%	38,347	2,753	7.180%
4	Aug '15 PILR - T.O. Development	32,847	2,358	7.179%	32,847	2,358	7.179%
5	Sept '28 L-T Note - Maricopa	10,635,000	340,320	3.200%	10,635,000	340,320	3.200%
6	Dec '13 L-T Promissory Note	24,700,000	1,331,330	5.390%	24,700,000	1,331,330	5.390%
7	Dec '16 L-T Promissory Note	11,200,000	618,240	5.520%	11,200,000	618,240	5.520%
8	Dec '18 L-T Promissory Note	123,100,000	6,918,220	5.620%	123,100,000	6,918,220	5.620%
9	Oct '37 L-T Promissory Note (1)	10,000,000	650,000	6.500%	10,000,000	650,000	6.500%
10	Oct '37 L-T Promissory Note	6,450,000	425,249	6.593%	6,450,000	425,249	6.593%
11	Phoenix Agreement (2)	2,000,000	-	0.000%	2,000,000	-	0.000%
12							
13							
14	Totals 47.5%	$ 188,208,140	10,291,626	5.468%	$ 188,208,140	10,291,626	5.468%
15							
16							
17	Common Equity						
18	Common Stock	$ 522,880			$ 522,880		
19	Paid in Capital	164,468,286			164,468,286		
20	Retained Earnings	(30,233,571)			(30,233,571)		
21	Equity Infusion (4)	20,192,000			20,192,000		
22	39.1	$ 154,949,595		12.25%	$ 154,949,595		12.25%
23							
24							
25							
26	Short-Term Debt						
27	Commercial Paper	$ 52,584,000	$ 1,793,114	3.41%	$ 52,584,000	$ 1,793,114	3.410%
28							
29							
30	Totals 13.2	$ 52,584,000	$ 1,793,114	3.41%	$ 52,584,000	$ 1,793,114	3.410%
31							
32		$ 395,741					

33 (1) The actual rate for this note is 6.593%, but the ACC authorized ceiling is 6.5%.
34 (2) A $1 M payment due September 12, 2009 (the 3rd anniversary of the 2nd payment) has reduced this remaining debt to $2 M.
35 (3) Excluded Tolleson obligation for ratemaking purposes as per ACC Decision No. 69440.
36 (4) Data Source: 08 Audited Financials

43 Supporting Schedules:
44 E-1
45 \Schedules\2008 Anthem Water Sch. A-F.xls\

Recap Schedules:
D-1

the other lenders to assume the default lender's commitment or replace such defaulting lender by designating an assignee willing to assume the commitment, however the remaining lenders have no obligation to assume a defaulting lender's commitment and we can provide no assurances that we will replace a defaulting lender.

At December 31, AWCC had the following sub-limits and available capacity under the credit facility.

	2009	2008
Letter of credit sublimit	$150,000	$150,000
Letter of credit available capacity	101,754	106,097

At December 31, 2009, the Company had $50,579 of outstanding letters of credit, $48,246 of which was issued under the revolving credit facility noted above.

The following table presents the short-term borrowing activity for AWCC for the years ended December 31, 2009 and 2008:

	2009	2008
Average borrowings	$347,413	$291,821
Maximum borrowings outstanding	708,691	570,429
Weighted average interest rates, computed on a daily basis	0.82%	3.51%
Weighted average interest rates, at December 31	0.39%	0.75%

Interest rates on advances under the credit facility are based on either prime or the London Interbank Offering Rate ("LIBOR") plus an applicable margin based upon credit ratings of the Company, as well as total outstanding amounts under the agreement at the time of the borrowing. The maximum LIBOR margin is 55 basis points.

The credit facility requires the Company to maintain a ratio of consolidated debt to consolidated capitalization of not more than 0.70 to 1.00. The ratio at December 31, 2009 was 0.58 to 1.00.

None of the Company's borrowings are subject to default or prepayment as a result of a downgrading of securities, although such a downgrading could increase fees and interest charges under the Company's credit facilities.

As part of the normal course of business, the Company routinely enters contracts for the purchase and sale of water, energy, fuels and other services. These contracts either contain express provisions or otherwise permit the Company and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if the Company is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on its net position with a counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed provisions that specify the collateral that must be provided, the obligation to supply the collateral requested will be a function of the facts and circumstances of the Company's situation at the time of the demand. If the Company can reasonably claim that it is willing and financially able to perform its obligations, it may be possible to successfully argue that no collateral should be posted or that only an amount equal to two or three months of future payments should be sufficient. The Company does not expect to post any collateral which will have a material adverse impact on the Company's results of operations, financial position or cash flows.

AWCC has entered into a one year $10,000 committed revolving line of credit with PNC Bank, N.A. This line of credit will terminate on December 31, 2010 unless extended and is used primarily for short-term working capital needs. Interest rates on advances under this line of credit are based on either the prime rate of the financial institution or the applicable LIBOR rate for the term selected plus 175 basis points.

Data as of April 21, 2010

Commercial Paper Rates and Outstanding

Derived from data supplied by The Depository Trust & Clearing Corporation

Posted April 22, 2010

Discount rates

Term	AA nonfinancial	A2/P2 nonfinancial	AA financial	AA asset-backed
1-day	0.19	0.35	0.20	0.25
7-day	0.19	0.33	0.23	0.33
15-day	0.20	0.33	0.20	0.25
30-day	0.20	0.29	0.23	0.27
60-day	0.22	0.34	0.29	0.26
90-day	n.a.	n.a.	0.30	0.31

Trade data insufficient to support calculation of the 90-day AA nonfinancial and 90-day A2/P2 nonfinancial rates for April 21, 2010.

dtcc.com

Ave .328

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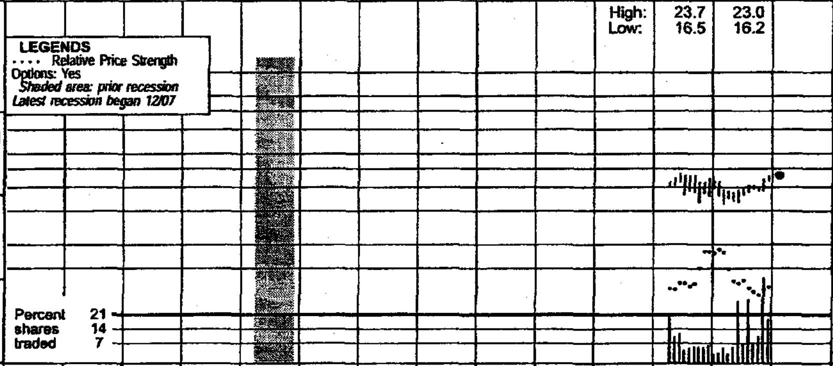
AMERICAN WATER NYSE-AWK

RECENT PRICE	23.12	P/E RATIO	17.5 (Trailing: 18.3; Median: NMF)	RELATIVE P/E RATIO	1.01	DIV'D YLD	3.6%	VALUE LINE

TIMELINESS – [E]
SAFETY 3 New 7/25/08
TECHNICAL – [E]
BETA NMF (1.00 = Market)

	2008	2009
High:	23.7	23.0
Low:	16.5	16.2

Target Price Range 2012 | 2013 | 2014



2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+75%)	17%
Low	25	(+10%)	6%

Insider Decisions

	F	M	A	M	J	J	A	S	O
to Buy	0	0	0	0	3	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	100	137	152
to Sell	69	66	72
Hld's(000)	56342	82903	119774

% TOT. RETURN 12/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	11.9	60.8
3 yr.	—	1.9
5 yr.	—	25.9

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
--	--	--	--	--	--	--	--	--	--	--	--	--	13.08	13.84	14.61	13.85	13.85	Revenues per sh	15.10
--	--	--	--	--	--	--	--	--	--	--	--	--	.65	d.47	2.87	2.90	2.95	"Cash Flow" per sh	3.25
--	--	--	--	--	--	--	--	--	--	--	--	--	d.97	d2.14	1.10	1.28	1.40	Earnings per sh [A]	1.60
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	.40	.82	.86	Div'd Decl'd per sh [B]	.96
--	--	--	--	--	--	--	--	--	--	--	--	--	4.31	4.74	6.31	4.50	4.35	Cap'l Spending per sh	4.30
--	--	--	--	--	--	--	--	--	--	--	--	--	23.86	28.39	25.64	24.30	22.95	Book Value per sh [D]	24.25
--	--	--	--	--	--	--	--	--	--	--	--	--	160.00	160.00	160.00	175.00	190.00	Common Shs Outst'g [C]	215.00
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	18.9	15.3		Avg Ann'l P/E Ratio	20.0
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	1.15	1.00		Relative P/E Ratio	1.35
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	1.9%	4.2%		Avg Ann'l Div'd Yield	3.0%

CAPITAL STRUCTURE as of 9/30/09
Total Debt $5328.6 mill. Due in 5 Yrs $765.0 mill.
LT Debt $5197.7 mill. LT Interest $295.0 mill.
(Total interest coverage: 2.9x) (56% of Cap'l)

Leases, Uncapitalized: Annual rentals $36.2 mill.
Pension Assets-12/08 $513.3 mill
Oblig. $1016.9 mill.
Pfd Stock $28.6 mill. Pfd Div'd $.23 mill.

Common Stock 174,600,300 shs.
as of 11/6/09

MARKET CAP: $4.0 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
--	--	--	--	--	--	--	2093.1	2214.2	2336.9	2445	2635	Revenues ($mill)	3250
--	--	--	--	--	--	--	d155.8	d342.3	187.2	215	255	Net Profit ($mill)	325
--	--	--	--	--	--	--	--	35.0%	37.4%	39.0%	39.5%	Income Tax Rate	40.0%
--	--	--	--	--	--	--	--	12.5%	11.0%	10.0%	10.0%	AFUDC % to Net Profit	15.0%
--	--	--	--	--	--	--	56.1%	50.9%	53.1%	56.0%	54.5%	Long-Term Debt Ratio	52.0%
--	--	--	--	--	--	--	43.9%	49.1%	46.9%	43.5%	45.0%	Common Equity Ratio	48.0%
--	--	--	--	--	--	--	8692.8	9245.7	8750.2	9325	9650	Total Capital ($mill)	10875
--	--	--	--	--	--	--	8720.6	9318.0	9991.8	10500	11050	Net Plant ($mill)	12600
--	--	--	--	--	--	--	NMF	NMF	3.7%	4.0%	4.5%	Return on Total Cap'l	4.5%
--	--	--	--	--	--	--	NMF	NMF	4.6%	5.0%	6.0%	Return on Shr. Equity	6.0%
--	--	--	--	--	--	--	NMF	NMF	4.6%	5.0%	6.0%	Return on Com Equity	6.0%
--	--	--	--	--	--	--	NMF	NMF	3.0%	1.5%	2.0%	Retained to Com Eq	2.0%
--	--	--	--	--	--	--	--	--	34%	67%	67%	All Div'ds to Net Prof	64%

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	13.5	9.5	7.8
Other	416.9	408.2	508.6
Current Assets	430.4	417.7	516.4
Accts Payable	168.9	149.8	119.3
Debt Due	316.8	654.8	130.9
Other	288.8	300.2	350.4
Current Liab.	774.5	1104.8	600.6
Fix. Chg. Cov.	228%	198%	225%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	--	--	1.0%
"Cash Flow"	--	--	21.0%
Earnings	--	--	NMF
Dividends	--	--	39.0%
Book Value	--	--	-1.5%

Calendar	QUARTERLY REVENUES ($ mill.) [A] Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2006	483.0	524.7	592.7	492.7	2093.1
2007	468.6	558.7	633.1	553.8	2214.2
2008	506.8	589.4	672.2	568.5	2336.9
2009	550.2	612.7	680.0	602.1	2445
2010	580	655	730	670	2635

Calendar	EARNINGS PER SHARE [A] Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2006	.02	.15	.27	d1.42	d.97
2007	.02	.31	d1.00	d1.47	d2.14
2008	.04	.28	.55	.23	1.10
2009	.19	.32	.52	.25	1.28
2010	.20	.35	.56	.29	1.40

Calendar	QUARTERLY DIVIDENDS PAID [B] Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	--	--	--	--	--
2007	--	--	--	--	--
2008	--	--	.20	.20	.40
2009	.20	.20	.21	.21	.82
2010					

BUSINESS: American Water Works Company, Inc. is the largest investor-owned water and wastewater utility in the U.S., providing services to over 15 million people in 32 states and Canada. Its non-regulated business assists municipalities and military bases with the maintenance and upkeep as well. Regulated operations made up almost 90% of 2008 revenues. New Jersey is its biggest market accounting for nearly 20% of revenues. Has roughly 7,300 employees. Depreciation rate, 2.1% in '08. RWE AG owns roughly 49% of common stock outstanding. Capital World Investors, 8%. Off. & dir. own less than 1%. President & CEO; Donald L. Correl. Chairman; George Mackenzie Jr. Address: 1025 Laurel Oak Road, Vorhees, NJ 08043. Telephone: 856-346-8200. Internet: www.amwater.com.

American Water Works finally appears to be on its own. After numerous equity offerings, majority owner RWE AG has fully divested its stake in the water provider. It had owned nearly 50% of shares outstanding as of the beginning of 2009 and slightly south of 25% as of our October report. Following the final sale, the remaining board members appointed by RWE announced their resignations.

Some concerns have been lifted . . . RWE's exit from the business removes a significant concern regarding its true intentions. Meanwhile, we believe the company will now have a better posture with state regulators, something it was sorely lacking with RWE in the fold. Rulings have improved considerably since RWE began shedding its interest, but there is still room to improve. This augurs well for American, given there is still $200-plus million in rate cases outstanding.

. . . but the stock still remains somewhat speculative. It has only been trading for about three years and has not yet been assigned a Timeliness rank or other trading indicators due to its short history. These marks help to give investors a better understanding of past trends and therefore provide insight when assessing future trading habits. Predicting share-price growth prospects is a bit risky absent these measures.

Plus, the company's finances appear to be a bit lacking. Many water infrastructures have seen better days and are in need of significant repair. Maintenance expenses are expected to climb, erasing much of the benefits from the improving regulatory environment that we anticipate. Meanwhile, increased capital investments require a great deal of financing that AWK cannot meet on its own. The costs of funding the improvements will dilute gains and the issue's appeal as a growth vehicle.

That said, the stock's dividend yield cannot be ignored. It is well above average and worthwhile even when compared to others in the utility sector. We suspect that increases will remain a priority, regardless of the infrastructure requirements. Thus, the issue may well interest the risk-tolerant seeking total return with a bias for a steady dose of income.

Andre J. Costanza *January 22, 2010*

(A) Diluted earnings. Excludes nonrecurring gains (losses): '08, ($4.62); '09, ($2.77). Discontinued operations: '06, (4¢).
Next earnings report due late Feb. Quarterly earnings may not sum due to rounding.
(B) Dividends to be paid in January, April, July, and October.
(C) In millions.
(D) Includes intangibles. In 2008: $1.699 billion, $10.62/share.
(E) The stock has not been trading long enough to generate a Timeliness rank.

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

AQUA AMERICA NYSE-WTR

RECENT PRICE 17.57 | P/E RATIO 20.9 (Trailing: 23.7; Median: 25.0) | RELATIVE P/E RATIO 1.21 | DIV'D YLD 3.4% | VALUE LINE

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
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	15.4

Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+70%)	14%
Low	20	(+15%)	3%

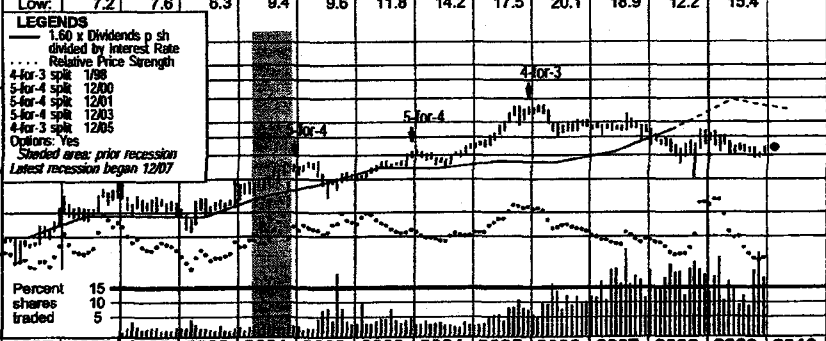
Insider Decisions

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

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	130	117	88
to Sell	134	136	118
Hld's(000)	63551	61341	60196

LEGENDS
— 1.60 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
4-for-3 split 1/98
5-for-4 split 12/00
5-for-4 split 12/01
5-for-4 split 12/03
4-for-3 split 12/05
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



% TOT. RETURN 12/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-12.2	60.8
3 yr.	-16.7	1.9
5 yr.	6.4	25.9

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	4.95	5.35	Revenues per sh	6.45
.42	.42	.47	.50	.56	.61	.72	.76	.86	.94	.96	1.09	1.21	1.26	1.37	1.42	1.70	1.85	"Cash Flow" per sh	2.40
.24	.26	.29	.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	.70	.71	.73	.80	.90	Earnings per sh A	1.25
.21	.21	.22	.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	.44	.48	.51	.55	.59	Div'd Decl'd per sh B■	.70
.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	1.90	1.95	Cap'l Spending per sh	2.15
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	7.90	8.35	Book Value per sh	10.35
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	136.30	137.00	Common Shs Outst'g C	139.00
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	22.2		Avg Ann'l P/E Ratio	21.0
.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	1.48		Relative P/E Ratio	1.40
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%	3.0%		Avg Ann'l Div'd Yield	2.0%

CAPITAL STRUCTURE as of 9/30/09
Total Debt $1320.2 mill. Due in 5 Yrs $245.0 mill.
LT Debt $1265.4 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 136,270,613 shares as of 10/20/09

MARKET CAP: $2.4 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
257.3	275.5	307.3	322.0	367.2	442.0	496.8	533.5	602.5	627.0	675	735	Revenues ($mill)	900
45.0	50.7	58.5	62.7	67.3	80.0	91.2	92.0	95.0	97.9	109	123	Net Profit ($mill)	175
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%	3.0%	2.6%	AFUDC % to Net Profit	2.0%
52.9%	52.0%	52.2%	54.2%	51.4%	50.0%	52.0%	51.6%	55.4%	54.1%	54.0%	53.0%	Long-Term Debt Ratio	48.0%
46.7%	47.8%	47.7%	45.8%	48.6%	50.0%	48.0%	48.4%	44.6%	45.9%	46.0%	47.0%	Common Equity Ratio	52.0%
782.7	901.1	990.4	1076.2	1355.7	1497.3	1690.4	1904.4	2191.4	2306.6	2276	2345	Total Capital ($mill)	2765
1135.4	1251.4	1368.1	1490.8	1824.3	2069.8	2280.0	2506.0	2792.8	2997.4	3150	3300	Net Plant ($mill)	3500
7.6%	7.4%	7.8%	7.6%	6.4%	6.7%	6.9%	6.4%	5.9%	5.7%	6.0%	6.5%	Return on Total Cap'l	7.5%
12.2%	11.7%	12.3%	12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	10.0%	10.5%	Return on Shr. Equity	12.0%
12.3%	11.7%	12.4%	12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	10.0%	10.5%	Return on Com Equity	12.0%
4.3%	4.7%	5.1%	5.2%	4.2%	4.6%	4.9%	3.7%	3.2%	2.8%	3.5%	3.0%	Retained to Com Eq D	5.0%
65%	60%	59%	59%	59%	57%	56%	63%	67%	70%	66%	69%	All Div'ds to Net Prof	57%

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	14.5	14.9	18.0
Receivables	82.9	84.5	86.1
Inventory (AvgCst)	8.8	9.8	10.3
Other	9.3	11.8	10.5
Current Assets	115.5	121.0	124.9
Accts Payable	45.8	50.0	26.3
Debt Due	80.8	87.9	54.8
Other	56.6	55.3	149.0
Current Liab.	183.2	193.2	230.1
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%	10.0%
Earnings	7.5%	5.5%	10.0%
Dividends	7.0%	8.0%	6.5%
Book Value	9.5%	10.0%	6.0%

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	167.3	180.8	172.4	675
2010	165	185	195	190	735

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	.19	.25	.22	.80
2010	.15	.22	.28	.25	.90

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.107	.107	.115	.115	.44
2007	.115	.115	.125	.125	.48
2008	.125	.125	.125	.135	.51
2009	.135	.135	.135	.145	.55
2010					

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.

During the September interim, Aqua America lost some ground on a year-over-year basis. Although revenues were up slightly from the prior year, earnings dropped a penny, as unfavorable weather conditions and higher operating costs hurt profits during the third quarter. Looking ahead, though,
the company probably ended the year on a good note. A number of rate-relief cases were set to be decided in the fourth quarter which, if approved, should provide a slight last-minute boost to the top and bottom lines. Also, management has been actively working to reduce operating costs, and the benefits of these efforts should help widen margins. For the year, we expect a total increase in revenues and earnings of $48 million and $0.07 a share, respectively, but it should be noted that last year included a gain from the sale of its underperforming Woodhaven system.
Aqua America should continue to expand its reach through acquisitions and rate-relief cases over the next few years. The company has acquired a wastewater treatment plant in Lumpkin County, Georgia, and this new subsidiary (Aqua Georgia Inc.) may be bolstered by further purchases in this region. Also, WTR expanded its Aqua Pennsylvania division in December, purchasing the assets of Athens Township Authority, and subsequently signed a 20-year contract to provide water services. Additionally, the $75 million in rate cases filed in 2009 should, if judged in Aqua's favor, boost revenues and earnings over the next few years.
These shares are a neutral choice for the coming six to 12 month period, but hold some appeal for the long haul. One attractive trait is the steady dividend yield, which was raised 7.4% during the fourth quarter of 2008. The company has historically raised its payout every year, and this will most likely continue over the coming 3- to 5-year stretch. Also, the top- and bottom-line gains we project over the 2012-2014 horizon give this equity good recovery potential. Conservative investors should also take note of the high scores for Stock Price Stability and Earnings Predictability, as well as the below-the-market average Beta coefficient.

John D. Burke *January 22, 2010*

(A) Diluted shares. 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 February.
(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	70
Earnings Predictability	100

SOUTHWEST WATER NDQ-SWWC

RECENT PRICE **6.26** | P/E RATIO **28.5** (Trailing: 34.8 / Median: 29.0) | RELATIVE P/E RATIO **1.65** | DIV'D YLD **3.2%** | VALUE LINE

TIMELINESS **3** Raised 11/27/09
SAFETY **4** New 10/23/09
TECHNICAL **3** Raised 1/1/10
BETA 1.10 (1.00 = Market)

2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	13	110%	20%
Low	8	30%	6%

Insider Decisions

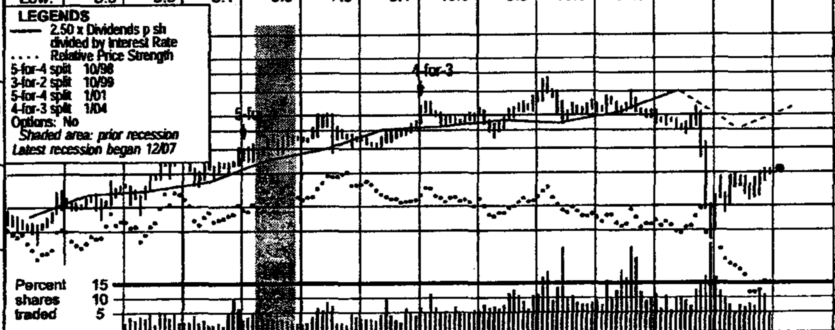
	F	M	A	M	J	J	A	S	O
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	39	42	42
to Sell	38	39	31
Hld's(000)	11007	11107	10401

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
High:	5.6	9.2	8.3	10.2	12.4	11.2	14.3	15.2	19.1	16.4	13.4	6.3
Low:	3.5	3.6	5.1	6.9	7.6	8.1	10.3	9.0	10.8	11.5	2.7	3.1

LEGENDS
—— 2.50 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
5-for-4 split 10/98
3-for-2 split 10/99
5-for-4 split 1/01
4-for-3 split 1/04
Options: No
Shaded area: prior recession
Latest recession began 12/07



Target Price Range
2012 | 2013 | 2014

% TOT. RETURN 12/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	87.6	60.8
3 yr.	-54.6	1.9
5 yr.	-52.0	25.9

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
4.03	4.20	4.84	5.31	5.61	5.63	6.16	7.49	8.15	9.12	10.70	9.23	9.10	9.42	8.96	8.87	8.70	8.80	Revenues per sh	10.55
.38	.38	.44	.46	.53	.59	.65	.76	.87	.86	.91	.67	.78	.85	.69	.66	.35	.50	"Cash Flow" per sh	1.00
.08	.09	.12	.15	.21	.25	.31	.38	.42	.39	.44	.23	.34	.40	.31	.04	.16	.30	Earnings per sh A	.50
.14	.08	.08	.09	.09	.10	.11	.13	.14	.15	.16	.18	.20	.21	.23	.24	.13	.20	Div'd Decl'd per sh B	.20
.60	.72	.84	.95	.74	.79	.53	.55	1.06	1.78	1.14	1.26	1.66	1.87	1.70	1.35	.70	.75	Cap'l Spending per sh	1.90
2.31	2.31	2.45	2.40	2.52	2.70	3.05	3.44	3.84	4.27	4.90	6.17	6.49	6.98	6.54	4.55	4.50	4.55	Book Value per sh D	5.10
11.97	12.13	11.74	12.45	12.65	12.83	13.12	13.99	14.17	14.35	16.17	20.36	22.33	23.80	24.27	24.90	25.00	25.50	Common Shs Outst'g C	26.50
35.8	22.3	14.6	16.5	16.9	17.2	19.6	17.0	19.8	24.8	21.2	NMF	35.5	34.8	42.1	NMF	32.0		Avg Ann'l P/E Ratio	20.0
2.11	1.46	.98	1.03	.97	.89	1.12	1.11	1.01	1.35	1.21	NMF	1.89	1.88	2.23	NMF	2.14		Relative P/E Ratio	1.65
4.7%	4.2%	4.7%	3.4%	2.7%	2.3%	1.8%	2.0%	1.7%	1.5%	1.7%	1.5%	1.6%	1.5%	1.8%	2.4%	2.5%		Avg Ann'l Div'd Yield	2.0%

CAPITAL STRUCTURE as of 9/30/09
Total Debt $155.7 mill. Due in 5 Yrs $153.5 mill.
LT Debt $153.5 mill. LT Interest $7.0 mill.
(Total interest coverage: 2.7x) (48% of Cap'l)

Leases, Uncapitalized: Annual rentals $5.5 mill.
Pension Liability None

Pfd Stock $.458 mill. Pfd Div'd $.020 mill.
Common Stock 24,875,369 shs.
as of 10/31/09

MARKET CAP: $150 million (Small Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
80.9	104.7	115.5	130.8	173.0	188.0	203.2	224.2	217.3	220.9	218	225	Revenues ($mill)	280
4.2	5.4	6.2	8.0	7.2	4.5	7.3	9.3	5.1	1.0	4.0	7.5	Net Profit ($mill)	13.0
39.0%	37.0%	36.0%	34.9%	35.9%	36.1%	36.0%	35.0%	56.0%	NMF	NMF	NMF	Income Tax Rate	NMF
--	--	14.4%	3.2%	--	11.0%	9.5%	--	12.5%	10.0%	13.0%	13.5%	AFUDC % to Net Profit	12.0%
45.2%	48.8%	51.4%	56.7%	47.9%	47.9%	44.7%	43.6%	47.7%	62.6%	61.5%	60.0%	Long-Term Debt Ratio	59.5%
54.1%	50.7%	48.2%	42.9%	51.8%	52.0%	55.1%	56.3%	52.1%	37.2%	38.5%	40.0%	Common Equity Ratio	40.5%
73.9	95.0	113.0	142.8	152.8	242.0	262.9	295.2	304.5	304.4	295	285	Total Capital ($mill)	300
113.7	157.8	171.1	203.9	219.5	302.6	344.8	389.6	417.9	429.3	420	440	Net Plant ($mill)	500
7.6%	7.6%	7.6%	5.8%	6.2%	3.1%	4.1%	4.5%	2.9%	1.8%	2.5%	4.0%	Return on Total Cap'l	5.5%
10.3%	11.1%	11.4%	9.7%	9.0%	3.6%	5.0%	5.6%	3.2%	.9%	3.5%	6.5%	Return on Shr. Equity	10.0%
10.4%	11.1%	11.4%	9.7%	9.1%	3.6%	5.0%	5.6%	3.2%	.8%	3.5%	6.5%	Return on Com Equity	10.0%
7.0%	7.8%	7.8%	6.3%	5.8%	.8%	2.1%	2.6%	NMF	NMF	NMF	2.5%	Retained to Com Eq	6.0%
33%	31%	32%	36%	36%	78%	58%	54%	112%	NMF	NMF	66%	All Div'ds to Net Prof	40%

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	2.9	1.1	1.6
Receivables	26.0	29.7	34.0
Inventory (Avg Cst)	--	--	--
Other	32.7	26.9	25.4
Current Assets	61.6	57.7	61.0
Accts Payable	14.9	16.1	15.0
Debt Due	1.9	2.2	2.2
Other	29.4	28.4	18.5
Current Liab.	46.2	46.7	35.7

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	5.0%	-0.5%	2.5%
"Cash Flow"	3.5%	-3.5%	9.5%
Earnings	2.0%	-10.0%	12.0%
Dividends	9.5%	8.5%	-2.0%
Book Value	9.0%	7.0%	-2.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2006	50.8	55.4	60.1	57.9	224.2
2007	48.1	55.0	57.4	56.8	217.3
2008	49.6	56.9	60.4	54.0	220.9
2009	50.1	52.4	59.0	56.5	218
2010	52.0	55.0	60.0	58.0	225

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2006	.03	.08	.16	.13	.40
2007	.03	.09	.09	.11	.31E
2008	d.04	.03	d.02	.07	.04
2009	.03	.03	.05	.05	.16
2010	.06	.06	.08	.10	.30

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.052	.052	.052	.058	.21
2007	.058	.058	.058	.058	.23
2008	.06	.06	.06	.06	.24
2009	.025	.025	.025	.05	.13
2010	.05				

BUSINESS: SouthWest Water Company provides a broad range of services including water production, treatment and distribution; wastewater collection and treatment; utility billing and collection; and utility infrastructure. It operates four groups, Utility, 32% of 2008 revenues; Texas Utility, 16%; O&M Services, 18%; Texas MUD Services, 34%. Utility and Texas Utility own and manage rate-regulated public water utilities in California, Alabama, Oklahoma, and Texas. O&M and Texas MUD Services maintain projects on a contract and fee basis. Officers and directors own 4.2% of common shares (4/09 proxy). CEO/Chrmn: Mark Swatek. Inc.: DE. Addr.: One Wilshire Building, 624 S. Grand Ave. Ste. 2900, Los Angeles, CA 90017. Tel.: 213-929-1800. Internet: www.swwc.com.

SouthWest Water Company probably finished 2009 on a good note . . . Although share-profit comparisons likely dropped, year over year, revenues for the fourth quarter probably showed a slight increase. As SouthWest begins to recover from the weakened economy, we expect good quarter-to-quarter earnings gains, excluding charges associated from the delayed quarterly filings in 2008 (due to accounting errors). Severe droughts in California and Texas, two key SWWC markets, reduced water demand in the 12-month period ending in June, 2009. Moreover, the resulting dry soil increased repair costs during the latter half of 2009. Looking ahead,

. . . In 2010, the top and bottom lines should continue to recover in line with the overall economy. The company will likely be bolstered from the recently approved rate increase for its California utilities segment. Also, SouthWest plans to focus on reducing operating costs through consolidating office support functions, as well as by divesting underperforming businesses.

The board voted to increase the dividend payout. For its November payment, management doubled the amount paid during the prior three quarters. Though we do not expect the dividend rate to fully recover from the reduction in early 2008, this increase may be sustainable over the coming 3 to 5 years. However, even with a much reduced capital spending budget, free cash flow appears to fall short of preferred and common dividend expense.

These neutrally ranked shares are best suited for risk tolerant investors. Note, however, that the above-average price recovery potential is offset by the degree of risk attached to these shares. This risk is shown by the Low (C++) rank for Financial Strength, as well as the below-par scores for Stock Price Stability and Earnings Predictability. Business prospects are clouded due to uncertainties related to weather conditions and the housing market.

John D. Burke *January 22, 2010*

CASH POSITION	5-Year Av'g	9/30/09
Current Assets to Current Liabilities:	125%	170%
Cash & Equiv's to Current Liabilities:	10%	4%
Working Capital to Sales:	5%	12%

(A) Diluted earnings. Excludes nonrecurring gains (losses): '00, (3¢); '01, (5¢); '02, 1¢; '05, (23¢); '07, (54¢); '08, ($1.35); 1Q '09 (24¢); 2Q '09, (54¢). Next earnings report late February.
(B) Dividends historically paid in late January, April, July, and October.
(C) In millions, adjusted for splits.
(D) Includes intangibles. In 2008: $19.3 million, $0.83/share.
(E) Earnings may not add due to rounding.

Company's Financial Strength	C++
Stock's Price Stability	45
Price Growth Persistence	35
Earnings Predictability	45

CALIFORNIA WATER NYSE-CWT

RECENT PRICE	36.83	P/E RATIO	18.4 (Trailing: 18.5 Median: 22.0)	RELATIVE P/E RATIO	1.06	DIV'D YLD	3.2%	VALUE LINE

TIMELINESS 4 Lowered 11/6/09

SAFETY 3 Lowered 7/27/07

TECHNICAL 3 Lowered 12/25/09

BETA .75 (1.00 = Market)

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

2012-14 PROJECTIONS

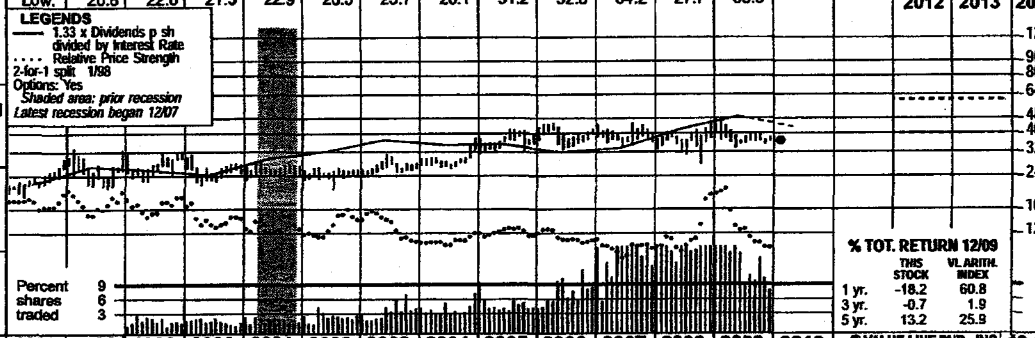
	Price	Gain	Ann'l Total Return
High	60	(+65%)	15%
Low	40	(+10%)	5%

Insider Decisions

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

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	83	76	56
to Sell	81	85	75
Hld's(000)	10000	10018	9635



Target Price Range

2012	2013	2014

% TOT. RETURN 12/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-18.2	60.8
3 yr.	-0.7	1.9
5 yr.	13.2	25.8

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	21.35	22.10	Revenues per sh	23.90
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	4.05	4.25	"Cash Flow" per sh	4.80
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	1.99	2.10	Earnings per sh A	2.60
.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 ■	1.25
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	5.20	5.25	Cap'l Spending per sh	5.25
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	20.00	19.75	Book Value per sh C	21.30
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	23.00
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	19.3		Avg Ann'l P/E Ratio	19.0
.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	1.26		Relative P/E Ratio	1.25
5.2%	5.8%	6.4%	5.8%	4.6%	4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	2.9%	3.0%	3.1%	3.1%		Avg Ann'l Div'd Yield	2.5%

CAPITAL STRUCTURE as of 9/30/09
Total Debt $397.9 mill. Due in 5 Yrs $40.0 mill.
LT Debt $373.5 mill. LT Interest $25.0 mill.

(LT interest earned: 7.8x; total int. cov.: 6.6x)

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

Pfd Stock None

Common Stock 20,744,952 shs.
as of 11/2/09

MARKET CAP: $775 million (Small Cap)

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	448	470	Revenues ($mill) E	550
19.9	20.0	14.4	19.1	19.4	26.0	27.2	25.6	31.2	39.8	42.0	45.0	Net Profit ($mill)	60.0
37.9%	42.3%	39.4%	39.7%	39.9%	39.6%	42.4%	37.4%	39.9%	37.7%	40.0%	39.0%	Income Tax Rate	39.0%
--	--	--	--	10.3%	3.2%	3.3%	10.6%	8.3%	8.6%	8.5%	10.0%	AFUDC % to Net Profit	10.0%
46.9%	48.9%	50.3%	55.3%	50.2%	48.6%	48.3%	43.5%	42.9%	41.6%	47.0%	46.5%	Long-Term Debt Ratio	48.5%
52.0%	50.2%	48.8%	44.0%	49.1%	50.8%	51.1%	55.9%	56.6%	58.4%	53.0%	53.5%	Common Equity Ratio	51.5%
333.8	388.8	402.7	453.1	498.4	565.9	568.1	670.1	674.9	690.4	795	805	Total Capital ($mill)	950
515.4	582.0	624.3	697.0	759.5	800.3	862.7	941.5	1010.2	1112.4	1175	1240	Net Plant ($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%	10.0%	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%	10.0%	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%	4.0%	5.0%	Retained to Com Eq	6.5%
70%	82%	119%	90%	91%	77%	78%	86%	77%	61%	59%	56%	All Div'ds to Net Prof	48%

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	6.7	13.9	47.6
Other	53.3	65.9	92.8
Current Assets	60.0	79.8	140.4
Accts Payable	36.7	45.1	54.4
Debt Due	2.7	42.8	24.4
Other	30.3	35.3	52.0
Current Liab.	69.7	123.2	130.8
Fix. Chg. Cov.	333%	398%	430%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	2.0%	1.5%	5.0%
"Cash Flow"	2.0%	5.5%	7.0%
Earnings	--	7.0%	8.5%
Dividends	1.0%	0.5%	1.5%
Book Value	4.0%	6.5%	2.0%

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	116.7	139.2	105.4	448
2010	91.0	122	146	111	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	.58	.94	.35	1.99
2010	.11	.60	1.00	.39	2.10

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.2875	.2875	.2875	.2875	1.15
2007	.290	.290	.290	.290	1.16
2008	.293	.293	.293	.293	1.17
2009	.295	.295	.295	.295	1.18
2010					

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.

Improvements on the regulatory front augur well for California Water Service Group's top line. Indeed, earlier rate increases handed down by the California Public Utilities Commission (CPUC) enabled the water utility to post record-high revenues of $139.2 million in the third quarter, a 6% improvement from the year before. We look for similar growth in the fourth quarter and for full-year 2010. Meanwhile, the company filed its 2009 general rate case during the period, seeking $71 million in 2011 with increases of nearly $25 million in 2012 and 2013. It was CWT's first consolidated request, covering all 24 districts, and a ruling may well take 18 months to be made. We expect a relatively favorable outcome given the CPUC's more recent disposition.

However, operating costs appear to be on the rise, too. Despite the top-line benefits mentioned above, share earnings fell 11% in the September period and came in a dime below our estimate. Operating expenses swelled 10%, as aging infrastructures required greater maintenance, and the increased demand drove up distribution costs. We suspect that these trends persisted in the fourth quarter and will only intensify going forward. As a result, we've tempered our expectations, estimating that CWT barely broke even in the final quarter of 2009 and that earnings growth will not be anything to write home about for full-year 2010.

The stock has fallen a notch for Timeliness and is now ranked 4 (Below Average). Recent share-price declines, coupled with the tough outlook, make this an unattractive selection for the coming six to 12 months.

Its 3- to 5-year appeal is better, but still lacking in our opinion. CWT does not have the finances on hand to meet the rising infrastructure costs that are likely to amount over the next couple of years. The share and/or debt offerings that will be required to help improve the balance sheet will come at a price, with the higher share count and interest rate expenses limiting potential shareholder gains. Although the dividend yield looks healthy at first blush, those seeking an income vehicle have better options available, particularly on a risk-adjusted basis.

Andre J. Costanza *January 22, 2010*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; '02, 8¢. Next earnings report due early February.
(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	75
Earnings Predictability	80

TIMELINESS	3	Lowered 6/5/09
SAFETY	3	New 2/4/00
TECHNICAL	3	Raised 12/4/09

BETA .80 (1.00 = Market)

2012-14 PROJECTIONS	Price	Gain	Ann'l Total Return
High	60	(+75%)	17%
Low	40	(+15%)	6%

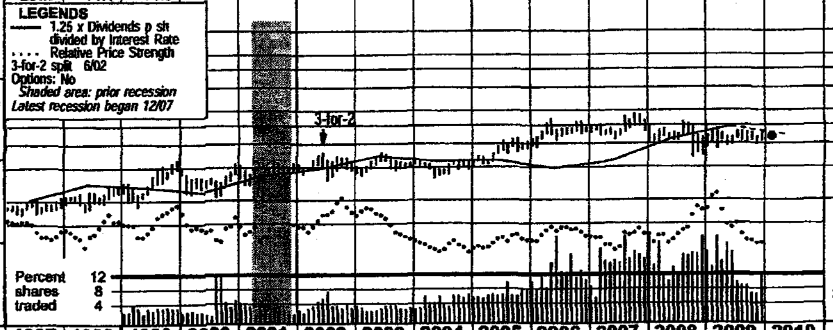
Insider Decisions

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

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	55	66	54
to Sell	66	53	53
Hld's(000)	9283	10578	10647

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

128, 96, 80, 64, 48, 40, 32, 24, 16, 12

% TOT. RETURN 12/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	10.5	60.8
3 yr.	-0.5	1.9
5 yr.	56.5	25.9

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	19.60	20.55	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	3.65	3.90	"Cash Flow" per sh	4.60
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	1.85	2.00	Earnings per sh A	2.60
.79	.80	.81	.82	.83	.84	.85	.86	.87	.87	.88	.89	.90	.91	.96	1.00	1.01	1.05	Div'd Decl'd per sh B■	1.22
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	4.05	4.25	Cap'l Spending per sh	5.00
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	19.60	20.00	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	18.60	19.00	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	18.54		Avg Ann'l P/E Ratio	19.0
.79	.84	.78	.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.27	1.37	1.22		Relative P/E Ratio	1.25
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%	2.9%		Avg Ann'l Div'd Yield	2.4%

CAPITAL STRUCTURE as of 9/30/09
Total Debt $327.5 mill. Due in 5 Yrs $25.0 mill.
LT Debt $306.3 mill. LT Interest $23.5 mill.
(LT interest earned: 3.8x: total interest coverage: 3.5x) (46% 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 18,512,032 shs.
as of 11/3/09
MARKET CAP: $650 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	365	390	Revenues ($mill)	450
16.1	18.0	20.4	20.3	11.9	16.5	22.5	23.1	28.0	26.8	35.0	39.0	Net Profit ($mill)	52.0
46.0%	45.7%	43.0%	38.9%	43.5%	37.4%	47.0%	40.5%	42.6%	37.8%	38.5%	38.5%	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%	46.0%	44.5%	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%	54.0%	55.5%	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	675	705	Total Capital ($mill)	825
449.6	509.1	539.8	563.3	602.3	664.2	713.2	750.6	776.4	825.3	870	920	Net Plant ($mill)	1025
6.6%	6.4%	6.1%	6.5%	4.6%	5.2%	5.4%	6.0%	6.7%	6.4%	7.0%	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%	9.5%	10.5%	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%	9.5%	10.5%	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%	4.5%	5.0%	Retained to Com Eq	6.5%
72%	68%	65%	65%	113%	84%	67%	67%	58%	64%	54%	53%	All Div'ds to Net Prof	47%

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	1.7	7.3	7.4
Other	61.4	83.3	92.3
Current Assets	63.1	90.6	99.7
Accts Payable	29.1	36.6	37.4
Debt Due	37.8	75.3	21.2
Other	27.4	25.5	40.4
Current Liab.	94.3	137.4	99.0
Fix. Chg. Cov.	314%	293%	352%

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%	4.5%
Book Value	4.5%	5.0%	4.0%

Calendar	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	93.6	101.8	90.0	365
2010	85.0	100	108	97.0	390

Calendar	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	.64	.52	.41	1.85
2010	.30	.65	.58	.47	2.00

Calendar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.225	.225	.225	.235	.91
2007	.235	.235	.235	.250	.96
2008	.250	.250	.250	.250	1.00
2009	.250	.250	.250	.260	1.01
2010					

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 posted impressive third-quarter growth. Indeed, the water utility reported earnings of $0.52 a share, as revenues advanced 17%, to a record $101 million.

Expectations should be tempered a bit, however. Last year's third-quarter figures were relatively weak. The December-period comparisons are far more formidable. Plus, although the top line is likely to continue being the beneficiary of favorable general rate case rulings from the California Public Utilities Commission, operating expenses look to be on the rise, as evidenced by the most recent double-digit increase. Already decaying infrastructures are only growing older and requiring more investment. Much in that vein, we anticipate that the company had trouble meeting last year's share-net total in the fourth quarter, despite a healthy high single-digit top-line advance. For many of the same reasons, bottom-line growth for full-year 2010, though healthy, will likely pale in comparison to the levels witnessed in 2009.

The company's balance sheet is not exactly seductive. In order to meet the growing infrastructure requirements mentioned above, the cash-strapped entity will have to continue to seek outside financing, with debt and share offerings likely becoming commonplace. The higher interest rate and share count associated with these transactions will limit the benefits of the expansion of the nonregulated business.

These shares are not too intriguing at this juncture. Share-price momentum has tapered off in the months following our October review and is likely to remain relatively stagnant over the coming six to 12 months as the emergence from the recession continues to gain steam and investors regain confidence and take a more aggressive stance. The longer-term picture is not much better, with burgeoning financing costs curbing 3- to 5-year shareholder gains. Although risk-averse investors may be intrigued by the issue's income component (in a much anticipated move the board recently raised the quarterly dividend by 4% to $0.26 a share), it should be noted that there are a number of better income sources, particularly in the utility genre, to choose from.

Andre J. Costanza *January 22, 2010*

(A) Primary earnings. Excludes nonrecurring gains/(losses): '04, 14¢; '05, 25¢; '06, 6¢; '08, (27¢). Next earnings report due late February. 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 split.

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

MIDDLESEX WATER NDQ–MSEX

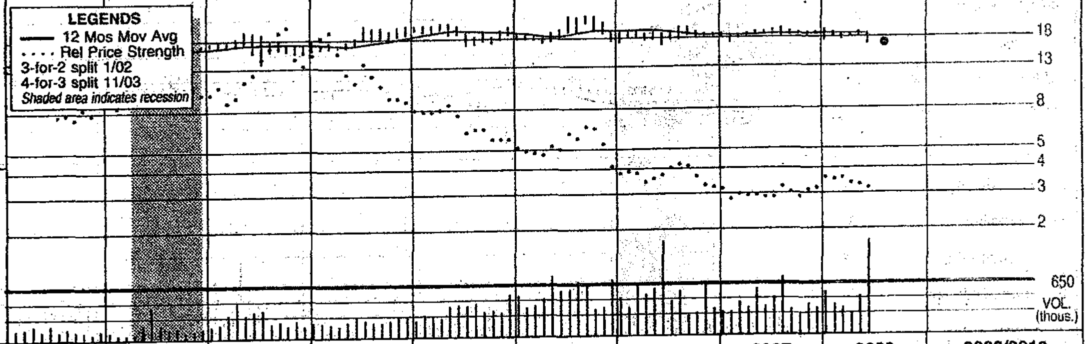
RECENT PRICE	TRAILING P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
16.79	18.9	1.22	4.2%	4695

	2000	2001	2002	2003	2004	2005	2006	2007	2008	
High	16.97	18.73	20.04	21.23	21.81	23.47	20.50	20.24	19.83	High
Low	12.50	14.69	13.73	15.77	16.65	17.07	16.50	16.93	16.58	Low

RANKS

PERFORMANCE	3	Average
Technical	3	Average
SAFETY	3	Average
BETA .90		(1.00 = Market)

Financial Strength	B+
Price Stability	85
Price Growth Persistence	45
Earnings Predictability	85



© VALUE LINE PUBLISHING, INC.	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009/2010
SALES PER SH	5.39	5.87	5.98	6.12	6.25	6.44	6.16	6.50	--	
"CASH FLOW" PER SH	.99	1.18	1.20	1.15	1.28	1.33	1.33	1.49	--	
EARNINGS PER SH	.51	.66	.73	.61	.73	.71	.82	.87	***.94*** [A,B]	***.99*** [C]***/NA***
DIV'DS DECL'D PER SH	.61	.62	.63	.65	.66	.67	.68	.69	--	
CAP'L SPENDING PER SH	1.32	1.25	1.59	1.87	2.54	2.18	2.31	1.66	--	
BOOK VALUE PER SH	6.98	7.11	7.39	7.60	8.38	8.60	9.82	10.05	--	
COMMON SHS OUTST'G (MILL)	10.11	10.17	10.36	10.48	11.36	11.58	13.17	13.25	--	
AVG ANN'L P/E RATIO	28.7	24.6	23.5	30.0	26.4	27.4	22.7	21.6	***17.9***	***17.0/NA***
RELATIVE P/E RATIO	1.87	1.26	1.28	1.71	1.39	1.45	1.23	1.14	--	
AVG ANN'L DIV'D YIELD	4.2%	3.8%	3.7%	3.5%	3.4%	3.5%	3.7%	3.7%	--	
SALES ($MILL)	54.5	59.6	61.9	64.1	71.0	74.6	81.1	86.1	--	
OPERATING MARGIN	32.2%	47.2%	47.1%	44.0%	44.4%	44.4%	47.4%	47.0%	--	
DEPRECIATION ($MILL)	4.9	5.3	5.0	5.6	6.4	7.2	7.8	8.2	--	
NET PROFIT ($MILL)	5.3	7.0	7.8	6.6	8.4	8.5	10.0	11.8	--	
INCOME TAX RATE	33.1%	34.8%	33.3%	32.8%	31.1%	27.6%	33.4%	32.6%	--	
NET PROFIT MARGIN	9.7%	11.7%	12.5%	10.3%	11.9%	11.4%	12.4%	13.8%	--	
WORKING CAP'L ($MILL)	d2.7	d.9	d9.3	d13.3	d11.8	d4.5	2.8	d9.6	--	
LONG-TERM DEBT ($MILL)	81.1	88.1	87.5	97.4	115.3	128.2	130.7	131.6	--	
SHR. EQUITY ($MILL)	74.7	76.4	80.6	83.7	99.2	103.6	133.3	137.1	--	
RETURN ON TOTAL CAP'L	4.9%	5.6%	6.0%	5.0%	5.1%	5.0%	5.1%	5.6%	--	
RETURN ON SHR. EQUITY	7.1%	9.1%	9.6%	7.9%	8.5%	8.2%	7.5%	8.6%	--	
RETAINED TO COM EQ	NMF	.5%	1.3%	NMF	.9%	.5%	1.2%	1.8%	--	
ALL DIV'DS TO NET PROF	121%	94%	87%	106%	90%	94%	84%	79%	--	

Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.

[A] No. of analysts changing earn. est. in last 12 days: 0 up, 0 down, consensus 5-year earnings growth 8.0% per year. [B] Based upon 2 analysts' estimates. [C] Based upon 2 analysts' estimates.

ANNUAL RATES

of change (per share)	5 Yrs.	1 Yr.
Sales	2.0%	5.5%
"Cash Flow"	4.0%	12.0%
Earnings	5.0%	6.0%
Dividends	2.0%	1.5%
Book Value	6.0%	2.5%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/06	18.2	21.0	22.6	19.3	81.1
12/31/07	19.0	21.8	24.1	21.2	86.1
12/31/08	20.9				
12/31/09					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/05	.12	.16	.26	.17	.71
12/31/06	.15	.25	.28	.14	.82
12/31/07	.13	.24	.31	.19	.87
12/31/08	.15	***.28***	***.34***	***.19***	
12/31/09					

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2005	.168	.168	.168	.17	.67
2006	.17	.17	.17	.173	.68
2007	.173	.173	.173	.175	.69
2008	.175	.175			

INSTITUTIONAL DECISIONS

	3Q'07	4Q'07	1Q'08
to Buy	19	25	32
to Sell	15	12	11
Hld's(000)	3334	3093	4313

ASSETS ($mill.)	2006	2007	3/31/08
Cash Assets	5.8	2.0	1.5
Receivables	12.6	12.8	12.5
Inventory (Avg cost)	1.3	1.2	1.3
Other	1.2	1.4	.9
Current Assets	20.9	17.4	16.2
Property, Plant & Equip, at cost	376.8	398.6	--
Accum Depreciation	59.7	64.7	--
Net Property	317.1	333.9	345.2
Other	32.3	41.4	35.4
Total Assets	370.3	392.7	396.8
LIABILITIES ($mill.)			
Accts Payable	5.5	6.5	4.5
Debt Due	2.5	9.0	11.8
Other	10.1	11.5	12.9
Current Liab	18.1	27.0	29.2

LONG-TERM DEBT AND EQUITY as of 3/31/08

Total Debt $143.2 mill. Due in 5 Yrs. NA
LT Debt $131.4 mill.
Including Cap. Leases NA
(49% of Cap'l)

Leases, Uncapitalized Annual rentals NA

Pension Liability $13.3 mill. in '07 vs. $16.4 mill. in '06

Pfd Stock $4.0 mill. Pfd Div'd Paid $.2 mill. (1% of Cap'l)

Common Stock 13,262,000 shares
(50% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey and Delaware, as well as a regulated wastewater utility in New Jersey. It offers contract operations services and a service line maintenance program through its nonregulated subsidiary, Utility Service Affiliates, Inc. The company's water utility system treats, stores, and distributes water for residential, commercial, industrial, and fire prevention purposes. Under a special contract, it also provides water treatment and pumping services to the Township of East Brunswick. Middlesex Water's other New Jersey subsidiaries offer water and wastewater services to residents in Southampton Township. The company's Delaware subsidiaries, Tidewater Utilities, Inc., Southern Shores Water Company, LLC, and Tidewater Environmental Services, Inc., offer water services to retail customers in New Castle, Kent, and Sussex counties. In July, the company was added to the Russell 3000 Index. Has 254 employees. Chairman: J. Richard Tompkins. Inc.: NJ. Address: 1500 Ronson Road, P.O. BOX 1500, Iselin, NJ 08830. Tel.: (732) 634-1500. Internet: http://www.middlesexwater.com. *D.T.*

July 25, 2008

TOTAL SHAREHOLDER RETURN
Dividends plus appreciation as of 6/30/2008

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
-7.80%	-10.82%	-10.40%	-5.67%	5.72%

Lot $16.79 a share
≈ $223 mill. = small cap

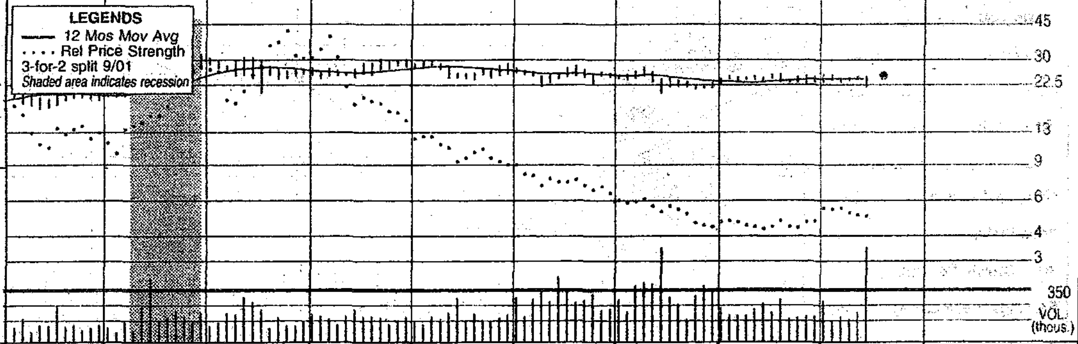
CONN. WATER SERVICES NDQ–CTWS

RECENT PRICE	TRAILING P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
25.03	23.4	1.51	3.5%	4694

RANKS	2000	2001	2002	2003	2004	2005	2006	2007	2008	
High	23.50	32.21	31.09	30.41	29.76	28.17	27.71	25.61	25.71	High
Low	17.00	19.50	20.35	24.00	23.83	21.91	20.29	22.40	21.82	Low

PERFORMANCE 3 Average
Technical 3 Average
SAFETY 2 Above Average
BETA .85 (1.00 = Market)

Financial Strength B++
Price Stability 90
Price Growth Persistence 40
Earnings Predictability 80



© VALUE LINE PUBLISHING, INC.	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009/2010
SALES PER SH	5.70	5.93	5.77	5.91	6.04	5.81	5.68	7.05	--	
"CASH FLOW" PER SH	1.73	1.78	1.78	1.89	1.91	1.62	1.52	1.90	--	
EARNINGS PER SH	1.09	1.13	1.12	1.15	1.16	.88	.81	1.05	***1.20*** A,B	***1.25*** C/***NA***
DIV'DS DECL'D PER SH	.79	.80	.81	.83	.84	.85	.86	.87	--	
CAP'L SPENDING PER SH	1.43	1.86	1.98	1.49	1.58	1.96	1.96	2.24	--	
BOOK VALUE PER SH	8.92	9.25	10.06	10.46	10.94	11.52	11.60	11.95	--	
COMMON SHS OUTST'G (MILL)	7.28	7.65	7.94	7.97	8.04	8.17	8.27	8.38	--	
AVG ANN'L P/E RATIO	18.2	21.5	24.3	23.5	22.9	28.6	29.0	23.0	***20.9***	***20.0/NA***
RELATIVE P/E RATIO	1.18	1.10	1.33	1.34	1.21	1.51	1.57	1.22	--	
AVG ANN'L DIV'D YIELD	4.0%	3.3%	3.0%	3.0%	3.1%	3.4%	3.6%	3.6%	--	
SALES ($MILL)	41.5	45.4	45.8	47.1	48.5	47.5	46.9	59.0	--	***Bold figures***
OPERATING MARGIN	48.8%	56.1%	57.7%	52.1%	51.0%	48.3%	43.7%	40.8%	--	***are consensus***
DEPRECIATION ($MILL)	4.7	5.0	5.4	5.9	6.0	6.1	5.9	7.2	--	***earnings***
NET PROFIT ($MILL)	8.0	8.7	8.8	9.2	9.4	7.2	6.7	8.8	--	***estimates***
INCOME TAX RATE	35.7%	36.1%	33.8%	17.9%	22.9%	--	23.5%	32.4%	--	***and, using the***
NET PROFIT MARGIN	19.2%	19.1%	19.2%	19.5%	19.4%	15.1%	14.3%	14.9%	--	***recent prices,***
WORKING CAP'L ($MILL)	.3	d3.3	d5.1	d3.9	d.7	13.0	1.2	8.1	--	***P/E ratios.***
LONG-TERM DEBT ($MILL)	64.7	64.0	64.8	64.8	66.4	77.4	77.3	92.3	--	
SHR. EQUITY ($MILL)	65.7	71.6	80.7	84.2	88.7	94.9	96.7	100.9	--	
RETURN ON TOTAL CAP'L	7.6%	7.9%	7.4%	7.5%	7.0%	5.0%	4.9%	5.5%	--	
RETURN ON SHR. EQUITY	12.1%	12.1%	10.9%	10.9%	10.6%	7.5%	6.9%	8.7%	--	
RETAINED TO COM EQ	3.2%	3.6%	3.1%	3.2%	3.1%	.3%	NMF	1.6%	--	
ALL DIV'DS TO NET PROF	74%	71%	72%	71%	71%	95%	105%	82%	--	

A No. of analysts changing earn. est. in last 12 days: 0 up, 0 down, consensus 5-year earnings growth not available. B Based upon 2 analysts' estimates. C Based upon 2 analysts' estimates.

ANNUAL RATES of change (per share)	5 Yrs.	1 Yr.
Sales	1.5%	24.0%
"Cash Flow"	-1.0%	25.0%
Earnings	-4.0%	29.5%
Dividends	1.5%	2.0%
Book Value	4.5%	3.0%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/06	10.5	11.4	13.3	11.7	46.9
12/31/07	13.2	14.4	17.0	14.4	59.0
12/31/08	13.6				
12/31/09					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/05	.24	.15	.41	.08	.88
12/31/06	.21	.12	.45	.03	.81
12/31/07	.18	.22	.46	.19	1.05
12/31/08	.20	***.27***	***.50***	***.23***	
12/31/09					

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2005	.21	.21	.213	.213	.85
2006	.213	.213	.215	.215	.86
2007	.215	.215	.218	.218	.87
2008	.218	.218			

INSTITUTIONAL DECISIONS	3Q'07	4Q'07	1Q'08
to Buy	20	26	25
to Sell	9	7	7
Hld's(000)	1828	2040	2133

ASSETS ($mill.)	2006	2007	3/31/08
Cash Assets	1.4	8.6	.2
Receivables	9.5	11.1	9.9
Inventory (Avg cost)	.9	1.0	1.0
Other	2.4	2.3	12.6
Current Assets	14.2	23.0	23.7
Property, Plant & Equip, at cost	370.5	392.5	--
Accum Depreciation	102.4	108.2	--
Net Property	268.1	284.3	290.9
Other	32.9	53.5	54.2
Total Assets	315.2	360.8	368.8
LIABILITIES ($mill.)			
Accts Payable	6.0	6.0	4.8
Debt Due	5.3	6.5	12.7
Other	1.7	2.4	2.1
Current Liab	13.0	14.9	19.6

LONG-TERM DEBT AND EQUITY as of 3/31/08

Total Debt $105.0 mill. Due in 5 Yrs. NA
LT Debt $92.3 mill.
Including Cap. Leases NA
(48% of Cap'l)
Leases, Uncapitalized Annual rentals NA

Pension Liability None in '07 vs. None in '06

Pfd Stock $.8 mill. Pfd Div'd Paid NMF

Common Stock 8,410,911 shares
(52% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: Connecticut Water Service, Inc. primarily operates as a water utility company in Connecticut. It operates through three segments: Water Activities, Real Estate Transactions, and Services and Rentals. The Water Activities segment supplies public drinking water to its customers. The Real Estate Transactions segment engages in the sale of its limited excess real estate holdings. The Services and Rentals segment provides contracted services to water and wastewater utilities and other clients, as well as leases certain of its properties to third parties. This segment's services include contract operations of water and wastewater facilities; Linebacker, its service line protection plan for public drinking water customers; and provision of bulk deliveries of emergency drinking water to businesses and residences via tanker truck. In July, the company was added to the Russell 3000 Index. Has 206 employees. Chairman, C.E.O. & President: Eric W. Thornburg. Inc.: CT. Address: 93 West Main Street, Clinton, CT 06413. Tel.: (860) 669-8630. Internet: http://www.ctwater.com.

D.T.

July 25, 2008

TOTAL SHAREHOLDER RETURN
Dividends plus appreciation as of 6/30/2008

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
-4.52%	-3.28%	-4.69%	-0.32%	3.84%

L at $25.03 a share
~$210 mill. = small cap

SJW CORP. NYSE–SJW

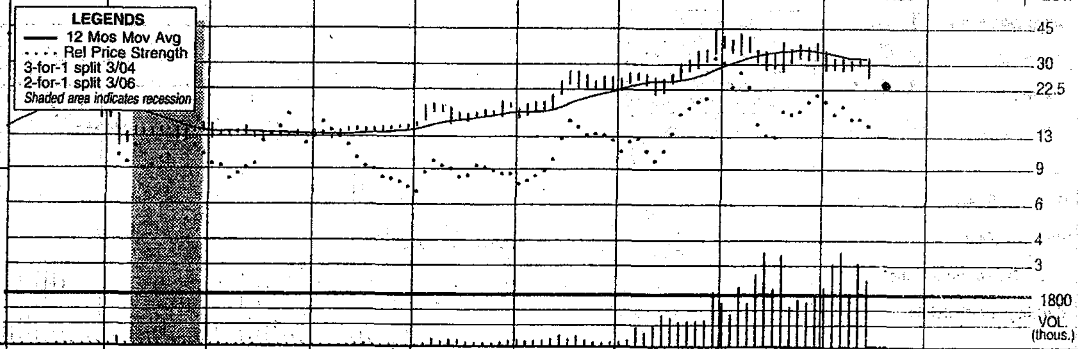
RECENT PRICE	TRAILING P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD.	VALUE LINE
23.65	22.1	1.43	2.7%	4697

	2000	2001	2002	2003	2004	2005	2006	2007	2008	
High	20.33	17.83	15.07	14.95	19.64	27.80	45.33	43.00	35.11	High
Low	15.83	11.58	12.67	12.57	14.60	16.07	21.16	27.65	23.59	Low

RANKS

PERFORMANCE	3	Average
Technical	3	Average
SAFETY	3	Average
BETA 1.15		(1.00 = Market)

Financial Strength	B+
Price Stability	55
Price Growth Persistence	80
Earnings Predictability	85



© VALUE LINE PUBLISHING, INC.	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009/2010
SALES PER SH	6.74	7.45	7.97	8.20	9.14	9.86	10.35	11.25	--	
"CASH FLOW" PER SH	1.23	1.49	1.55	1.75	1.89	2.21	2.38	2.30	--	
EARNINGS PER SH	.58	.77	.78	.91	.87	1.12	1.19	1.04	***1.22***[A,B]	***NA/NA***
DIV'DS DECL'D PER SH	.41	.43	.46	.49	.51	.53	.57	.61	--	
CAP'L SPENDING PER SH	1.89	2.63	2.06	3.41	2.31	2.83	3.87	6.62	--	
BOOK VALUE PER SH	7.90	8.17	8.40	9.11	10.11	10.72	12.48	12.90	--	
COMMON SHS OUTST'G (MILL)	18.27	18.27	18.27	18.27	18.27	18.27	18.28	18.36	--	
AVG ANN'L P/E RATIO	33.1	18.5	17.3	15.4	19.6	19.7	23.5	33.4	***19.4***	***NA/NA***
RELATIVE P/E RATIO	2.15	.95	.94	.88	1.04	1.04	1.27	1.77	--	
AVG ANN'L DIV'D YIELD	2.1%	3.0%	3.4%	3.5%	3.0%	2.4%	2.0%	1.7%	--	
SALES ($MILL)	123.2	136.1	145.7	149.7	166.9	180.1	189.2	206.6	--	*Bold figures*
OPERATING MARGIN	30.2%	64.4%	63.7%	56.0%	56.4%	55.9%	57.0%	41.8%	--	*are consensus*
DEPRECIATION ($MILL)	11.9	13.2	14.0	15.2	18.5	19.7	21.3	22.9	--	*earnings*
NET PROFIT ($MILL)	10.7	14.0	14.2	16.7	16.0	20.7	22.2	19.3	--	*estimates*
INCOME TAX RATE	41.0%	34.5%	40.4%	36.2%	42.1%	41.6%	40.8%	39.4%	--	*and, using the*
NET PROFIT MARGIN	8.7%	10.3%	9.8%	11.2%	9.6%	11.5%	11.7%	9.4%	--	*recent prices,*
WORKING CAP'L ($MILL)	d11.4	d3.8	d4.9	12.0	13.0	10.8	22.2	d1.4	--	*P/E ratios.*
LONG-TERM DEBT ($MILL)	90.0	110.0	110.0	139.6	143.6	145.3	163.6	216.3	--	
SHR. EQUITY ($MILL)	144.3	149.4	153.5	166.4	184.7	195.9	228.2	236.9	--	
RETURN ON TOTAL CAP'L	5.9%	6.7%	6.9%	6.9%	6.5%	7.6%	7.0%	5.7%	--	
RETURN ON SHR. EQUITY	7.4%	9.4%	9.3%	10.0%	8.7%	10.6%	9.7%	8.2%	--	
RETAINED TO COM EQ	2.2%	4.1%	3.8%	4.7%	3.6%	5.6%	5.2%	3.5%	--	
ALL DIV'DS TO NET PROF	70%	56%	59%	53%	58%	47%	46%	57%	--	

[A]*No. of analysts changing earn. est. in last 12 days: 0 up, 0 down, consensus 5-year earnings growth 10.0% per year.* [B]*Based upon one analyst's estimate.*

ANNUAL RATES

of change (per share)	5 Yrs.	1 Yr.
Sales	7.5%	8.5%
"Cash Flow"	10.0%	-3.5%
Earnings	9.5%	-12.5%
Dividends	5.5%	7.0%
Book Value	8.0%	3.5%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/06	33.7	47.9	63.1	44.5	189.2
12/31/07	39.0	55.1	64.9	47.6	206.6
12/31/08	41.3				
12/31/09					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/05	.15	.31	.53	.13	1.12
12/31/06	.14	.35	.48	.22	1.19
12/31/07	.12	.29	.43	.20	1.04
12/31/08	.15	***.37***	***.47***	***.26***	
12/31/09					

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2005	.134	.134	.134	.134	.54
2006	.141	.141	.141	.141	.56
2007	.151	.151	.151	.151	.60
2008	.161	.161			

INSTITUTIONAL DECISIONS

	3Q'07	4Q'07	1Q'08
to Buy	32	43	47
to Sell	28	27	25
Hld's(000)	8664	8717	8807

ASSETS ($mill.)	2006	2007	3/31/08
Cash Assets	3.8	2.4	1.7
Receivables	20.9	23.0	22.3
Inventory	.9	.8	.8
Other	33.9	5.4	2.8
Current Assets	59.5	31.6	27.6
Property, Plant & Equip, at cost	776.2	904.3	--
Accum Depreciation	234.5	258.8	--
Net Property	541.7	645.5	655.1
Other	104.7	90.2	91.6
Total Assets	705.9	767.3	774.3
LIABILITIES ($mill.)			
Accts Payable	7.3	9.3	6.7
Debt Due	16.0	5.6	10.7
Other	13.9	18.1	16.8
Current Liab	37.2	33.0	34.2

LONG-TERM DEBT AND EQUITY as of 3/31/08

Total Debt *$227.9 mill.* **Due in 5 Yrs.** NA
LT Debt $217.2 mill.
Including Cap. Leases NA
(48% of Cap'l)
Leases, Uncapitalized Annual rentals NA

Pension Liability $23.4 mill. in '07 vs. $26.3 mill. in '06

Pfd Stock None **Pfd Div'd Paid** None

Common Stock 18,382,246 shares
(52% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: SJW Corp., through its subsidiaries, engages in the production, purchase, storage, purification, distribution, and retail sale of water. The company offers nonregulated water-related services, including water system operations, cash remittances, and maintenance contract services. SJW also owns undeveloped land; a 70% limited partnership interest in 444 West Santa Clara Street, L.P.; and operates commercial buildings in Arizona, California, Connecticut, Florida, Tennessee, and Texas. As of December 31, 2007, SJW provided water service to approximately 225,000 connections that served a population of approximately one million people in the San Jose area. In July, David A. Green was named chief financial officer. Has 364 employees. Chairman: Charles J. Toeniskoetter. Inc.: CA. Address: 374 W. Santa Clara Street, San Jose, CA 95113. Tel.: (408) 279-7800. Internet: http://www.sjwater.com.

D.T.

July 25, 2008

TOTAL SHAREHOLDER RETURN

Dividends plus appreciation as of 6/30/2008

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.

L at $23.65
≈ $435 mill = small cap

ATMOS ENERGY CORP. NYSE-ATO

RECENT PRICE	P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD
27.53	13.5 (Trailing: 14.0 Median: 16.0)	0.82	4.9%

VALUE LINE

TIMELINESS **3** Lowered 9/11/09
SAFETY **2** Raised 12/16/05
TECHNICAL **3** Raised 10/16/09
BETA .65 (1.00 = Market)

High:	32.3	33.0	26.3	25.8	24.5	25.5	27.6	30.0	33.1	33.5	29.3	29.5
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

Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

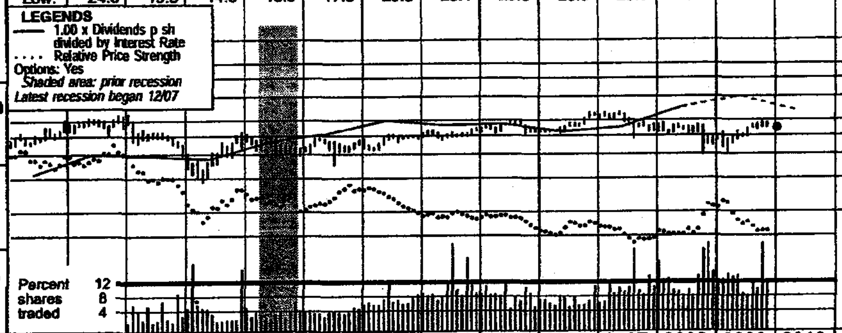
	Price	Gain	Ann'l Total Return
High	40	(+45%)	13%
Low	30	(+10%)	6%

Insider Decisions

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

Institutional Decisions

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



% TOT. RETURN 11/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	15.7	60.4
3 yr.	-3.4	-4.1
5 yr.	28.3	22.3

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	53.70	68.45	Revenues per sh A	77.25
2.62	3.01	3.03	3.39	3.23	2.91	3.90	4.26	4.14	4.19	4.30	4.60	"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	1.97	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	5.65	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	23.55	24.25	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	12.5		Avg Ann'l P/E Ratio	14.0
1.88	1.23	.80	.83	.76	.84	.86	.73	.84	.84	.86		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%	5.3%		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	4969.1	6400	Revenues ($mill) A	8500
25.0	32.2	56.1	59.7	79.5	86.2	135.8	162.3	170.5	180.3	179.7	205	Net Profit ($mill)	275
35.0%	36.1%	37.3%	37.1%	37.1%	37.4%	37.7%	37.6%	35.8%	38.4%	34.4%	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%	3.6%	3.2%	Net Profit Margin	3.2%
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	4345	4580	Total Capital ($mill)	5800
965.8	982.3	1335.4	1300.3	1516.0	1722.5	3374.4	3629.2	3836.8	4136.9	4440	4750	Net Plant ($mill)	5750
5.1%	6.5%	5.9%	6.8%	6.2%	5.8%	5.3%	6.1%	5.9%	5.9%	5.5%	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%	8.5%	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%	8.5%	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%	2.5%	3.5%	Retained to Com Eq	4.0%
NMF	112%	79%	82%	70%	77%	73%	63%	65%	65%	68%	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%	1.0%
"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	650.6	4969.1
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.17	1.97
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	.335	

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 should generate healthy results in fiscal 2010, which began on October 1st. The natural gas utility stands to benefit from a rise in throughput, reflecting a pickup in consumption from residential, commercial, and industrial customers (assuming a better economic environment). Weather-normalized rates across much of the service territory are a big plus. Meanwhile, margins for the pipeline and storage segment may be boosted by gains from the settlement of financial positions associated with storage and trading activities. Finally, the regulated transmission and storage operation should enjoy higher transportation fees on through-system deliveries, if market conditions are generally favorable.

We believe that consolidated share net will increase more than 10%, to $2.20, this fiscal year. Assuming additional expansion in operating margins, the bottom line may reach $2.30 a share in fiscal 2011.

There are several rate cases pending. One of them is in Kentucky, where the company is seeking an increase in annual operating income of $9.5 million. Requests have also been filed in Georgia ($3.8 million) and Virginia ($1.7 million). Our presentation will include those amounts upon approval.

Steady, though unspectacular, earnings growth seems likely for the company out to 2012-2014. The utility is one of the country's biggest natural gas-only distributors, currently serving more than three million customers across 12 states. What is more, the unregulated segments, especially pipelines, possess healthy overall prospects. These factors ought to enable annual share-net gains to be in the mid-single-digit range over the 3- to 5-year horizon. It should be noted that future business combinations could render our projections conservative.

This good-quality stock offers a generous amount of current dividend income. Further increases in the payout, though moderate, seem likely. Earnings coverage should remain adequate.

Total return possibilities are decent, on a risk-adjusted basis. Meanwhile, these shares are ranked 3 (Average) for Timeliness.

Frederick L. Harris, III   December 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 Feb. (C) Dividends historically paid in early March, June, Sept., and Dec. ■ Div. reinvestment plan. Direct stock purchase plan avail. (D) In millions. (E) Qtrs may not add due to change in shrs outstanding.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	90

AGL RESOURCES NYSE-AGL

RECENT PRICE	35.38	P/E RATIO	13.2 (Trailing: 12.0 / Median: 14.0)	RELATIVE P/E RATIO	0.80	DIV'D YLD	5.0%	VALUE LINE

TIMELINESS 4 Lowered 11/13/09

SAFETY 2 New 7/27/90

TECHNICAL 3 Raised 10/9/09

BETA .75 (1.00 = Market)

High:	23.4	23.4	23.2	24.5	25.0	29.3	33.7	39.3	40.1	44.7	39.1	37.5
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

2012-14 PROJECTIONS

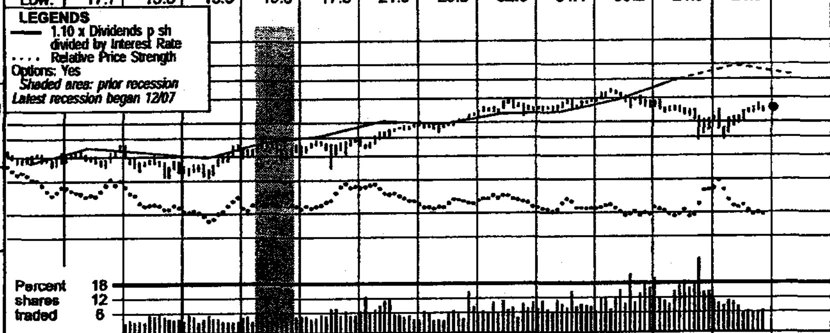
	Price	Gain	Ann'l Total Return
High	55	(+55%)	15%
Low	40	(+15%)	8%

Insider Decisions

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

Institutional Decisions

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



% TOT. RETURN 11/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	20.9	60.4
3 yr.	3.9	-4.1
5 yr.	30.0	22.3

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	29.70	31.85	Revenues per sh A	38.75
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	4.80	5.05	"Cash Flow" per sh	5.70
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	2.75	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	5.65
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	22.45	22.95	Book Value per sh D	25.00
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	77.50	78.50	Common Shs Outst'g E	80.00
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 Value Line estimates		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			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%			Avg Ann'l Div'd Yield	3.8%

CAPITAL STRUCTURE as of 9/30/09
Total Debt $2285.0 mill. Due in 5 Yrs $853.0 mill.
LT Debt $1975.0 mill. LT Interest $90.0 mill.
(Total interest coverage: 4.5x)

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

Pfd Stock None

Common Stock 77,398,732 shs.
as of 10/22/09
MARKET CAP: $2.7 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	2300	2500	Revenues ($mill) A	3100
52.1	71.1	82.3	103.0	132.4	153.0	193.0	212.0	211.0	207.6	212	225	Net Profit ($mill)	265
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%	9.2%	9.0%	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%	53.5%	52.5%	Long-Term Debt Ratio	51.0%
49.2%	48.3%	38.7%	41.7%	49.7%	46.0%	48.1%	49.8%	49.8%	49.7%	46.5%	47.5%	Common Equity Ratio	49.0%
1345.8	1286.2	1736.3	1704.3	1901.4	3008.0	3114.0	3231.0	3335.0	3327.0	3740	3800	Total Capital ($mill)	4100
1598.9	1637.5	2058.9	2194.2	2352.4	3178.0	3271.0	3436.0	3566.0	3816.0	4060	4150	Net Plant ($mill)	4400
5.7%	7.4%	6.5%	8.1%	8.9%	6.3%	7.9%	8.0%	7.7%	7.4%	7.0%	7.5%	Return on Total Cap'l	7.5%
7.1%	10.2%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	12.7%	12.6%	12.0%	12.5%	Return on Shr. Equity	13.0%
7.9%	11.5%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	12.7%	12.6%	12.0%	12.5%	Return on Com Equity	13.0%
NMF	3.2%	4.2%	7.0%	6.6%	5.6%	6.2%	6.3%	5.3%	5.1%	4.5%	5.0%	Retained to Com Eq	5.5%
101%	72%	65%	52%	53%	49%	52%	52%	58%	60%	63%	61%	All Div'ds to Net Prof	57%

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	21.0	16.0	21.0
Other	1790.0	2026.0	1297.0
Current Assets	1811.0	2042.0	1318.0
Accts Payable	172.0	202.0	155.0
Debt Due	580.0	866.0	310.0
Other	893.0	915.0	579.0
Current Liab.	1645.0	1983.0	1044.0
Fix. Chg. Cov.	391%	416%	463%

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%	3.5%
Earnings	7.0%	8.5%	3.5%
Dividends	4.0%	8.0%	2.5%
Book Value	7.0%	10.0%	2.5%

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	307	621	2300
2010	950	400	425	725	2500

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	.16	.78	2.75
2010	1.45	.30	.25	.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	.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.

AGL Resources reported lower revenues and share earnings for the third quarter. The natural gas distribution business experienced higher pension, depreciation, and payroll and benefits costs. This was partially offset by higher fees charged to marketers and greater pipeline replacement revenues at Atlanta Gas Light. Meanwhile, the company's retail energy and wholesale services businesses posted modest operating losses for the period. Elsewhere, energy investments contributed operating earnings of $3 million, flat with the prior-year period. An increase in revenue at AGL Networks was offset by higher outside services expenses at Jefferson Island Storage & Hub and an increase in depreciation at Golden Triangle Storage. Looking forward, we anticipate an unfavorable comparison for the fourth quarter, as well. Even so, the bottom line may well inch higher for full-year 2009, thanks to strong results in the first quarter.

Chattanooga Gas Company has filed a rate case with the Tennessee Regulatory Authority. The company is seeking an increase of $2.6 million, citing higher operating expenses and the need for greater capital expenditures as reasons for the request. It has also proposed an energy-efficiency program, based on a proven rate design model known as decoupling. This would help customers save money, promoting conservation and energy efficiency.

The company has completed its Magnolia Pipeline Project. This pipeline connects AGL's Georgia service territory to liquefied natural gas (LNG) imports arriving at the Elba Island terminal near Savannah. The project should position AGL to meet future increases in natural gas demand when the economy recovers.

These shares are ranked to lag the broader market for the coming six to 12 months. However, the stock may interest patient, income-oriented investors. This issue offers worthwhile risk-adjusted total return potential, considering its healthy dividend yield. Growth in the payout is likely to rise in conjunction with earnings, too. Moreover, AGL earns superior scores for Safety, Price Stability, and Earnings Predictability.

Michael Napoli, CPA *December 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 in February. (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

Arizona - American Water Company Cost of Capital Calculation
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 1/6/2010	Book Value	Mkt To Book	*Value Line* Beta β	Raw Beta β *raw*
American States Water	AWR	**35.19**	17.85	2.0	**0.80**	0.67
California Water	CWT	**35.62**	20.30	1.8	**0.75**	0.60
Aqua America	WTR	**17.56**	8.31	2.1	**0.65**	0.45
Connecticut Water	CTWS	**23.55**	12.71	1.9	**0.85**	0.75
Middlesex Water	MSEX	**16.98**	11.03	1.5	**0.80**	0.67
SJW Corp	SJW	**22.51**	14.93	1.5	**0.95**	0.90
Average				**1.8**	**0.80**	**0.67**

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]: (-0.35 + [F]) / 0.67

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2008
CAPM COST OF EQUITY CAPITAL

DOCKET NO. W-01303A-09-0343
DOCKET NO. SW-01303A-09-0343
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	=	2.43%	+ [	0.80	x (	9.60%	-	5.40%	)] =	5.79%
2	CWT	k	=	2.43%	+ [	0.75	x (	9.60%	-	5.40%	)] =	5.58%
3	SWWC	k	=	2.43%	+ [	1.10	x (	9.60%	-	5.40%	)] =	7.05%
4	WTR	k	=	2.43%	+ [	0.65	x (	9.60%	-	5.40%	)] =	5.16%
5	WATER COMPANY AVERAGE					0.83						5.90%
6	AGL	k	=	2.43%	+ [	0.75	x (	9.60%	-	5.40%	)] =	5.58%
7	ATO	k	=	2.43%	+ [	0.65	x (	9.60%	-	5.40%	)] =	5.16%
8	LG	k	=	2.43%	+ [	0.60	x (	9.60%	-	5.40%	)] =	4.95%
9	NJR	k	=	2.43%	+ [	0.65	x (	9.60%	-	5.40%	)] =	5.16%
10	GAS	k	=	2.43%	+ [	0.75	x (	9.60%	-	5.40%	)] =	5.58%
11	NWN	k	=	2.43%	+ [	0.60	x (	9.60%	-	5.40%	)] =	4.95%
12	PNY	k	=	2.43%	+ [	0.65	x (	9.60%	-	5.40%	)] =	5.16%
13	SJI	k	=	2.43%	+ [	0.65	x (	9.60%	-	5.40%	)] =	5.16%
14	SWX	k	=	2.43%	+ [	0.75	x (	9.60%	-	5.40%	)] =	5.58%
15	WGL	k	=	2.43%	+ [	0.65	x (	9.60%	-	5.40%	)] =	5.16%
16	NATURAL GAS LDC AVERAGE					0.67						5.24%

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

$k = r_f + [\, ß\, (r_m - r_f)\,]$

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

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

NOTES

(a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 12/18/2009 THROUGH 02/05/2010 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.

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2008
CAPM COST OF EQUITY CAPITAL

DOCKET NO. W-01303A-09-0343
DOCKET NO. SW-01303A-09-0343
SCHEDULE WAR - 7, PAGE 2 OF 2

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	=	2.43%	+ [	0.80	x (	11.70%	-	5.60%	)] =	7.31%
2	CWT	k	=	2.43%	+ [	0.75	x (	11.70%	-	5.60%	)] =	7.01%
3	SWWC	k	=	2.43%	+ [	1.10	x (	11.70%	-	5.60%	)] =	9.14%
4	WTR	k	=	2.43%	+ [	0.65	x (	11.70%	-	5.60%	)] =	6.40%
5	WATER COMPANY AVERAGE					0.83						7.46%
6	AGL	k	=	2.43%	+ [	0.75	x (	11.70%	-	5.60%	)] =	7.01%
7	ATO	k	=	2.43%	+ [	0.65	x (	11.70%	-	5.60%	)] =	6.40%
8	LG	k	=	2.43%	+ [	0.60	x (	11.70%	-	5.60%	)] =	6.09%
9	NJR	k	=	2.43%	+ [	0.65	x (	11.70%	-	5.60%	)] =	6.40%
10	GAS	k	=	2.43%	+ [	0.75	x (	11.70%	-	5.60%	)] =	7.01%
11	NWN	k	=	2.43%	+ [	0.60	x (	11.70%	-	5.60%	)] =	6.09%
12	PNY	k	=	2.43%	+ [	0.65	x (	11.70%	-	5.60%	)] =	6.40%
13	SJI	k	=	2.43%	+ [	0.65	x (	11.70%	-	5.60%	)] =	6.40%
14	SWX	k	=	2.43%	+ [	0.75	x (	11.70%	-	5.60%	)] =	7.01%
15	WGL	k	=	2.43%	+ [	0.65	x (	11.70%	-	5.60%	)] =	6.40%
16	NATURAL GAS LDC AVERAGE					0.67						6.52%

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

$k = r_f + [ß(r_m - r_f)]$

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

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

NOTES

(a) 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 12/18/2009 THROUGH 02/05/2010 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 PER THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2009 YEARBOOK.

These investigators computed geometric and arithmetic mean rates of return and computed nine series derived from the basic series. Four of these series were net returns reflecting different premiums: (1) a *risk premium,* which I&S defined as the difference in the rate of return that investors receive from investing in large-company common stocks rather than in risk-free U.S. Treasury bills; (2) a *small-stock premium,* which they defined as the return on small-capitalization stocks minus the return on large-company stocks; (3) a *horizon premium,* which they defined as the difference in the rate of return received from investing in long-term government bonds rather than short-term U.S. Treasury bills; and (4) a *default premium,* which they defined as the difference between the rates of return on long-term risky corporate bonds and long-term risk-free government bonds. I&S also computed the real inflation-adjusted rates of return for the six major classes of assets (not including inflation).

A summary of the rates of return, risk premiums, and standard deviations for the basic and derived series appears in Exhibit 3.11. As discussed in Chapter 1, the geometric means of the rates of return are always lower than the arithmetic means of the rates of return, and the difference between these two mean values increases with the standard deviation of returns.

During the period from 1926 to 2001, large-company common stocks returned 10.7 percent a year, compounded annually. To compare this to other investments, the results show that common stock experienced a risk premium of 6.6 percent and inflation-adjusted real returns of 7.4 percent per year. In contrast to all common stocks, the small-capitalization stocks (which are represented by the smallest 20 percent of stocks listed on the NYSE measured by market value) experienced a geometric mean return of 12.5 percent, which was a premium compared to all common stocks of 1.6 percent.

EXHIBIT 3.11 *BASIC AND DERIVED SERIES: HISTORICAL HIGHLIGHTS (1926–2001)*

Series	Annual Geometric Mean Rate of Return	Arithmetic Mean of Annual Returns	Standard Deviation of Annual Returns
Large-company stocks	10.7%	12.7%	20.2%
Small-capitalization stocks	12.5	17.3	33.2
Long-term corporate bonds	5.8	6.1	8.6
Long-term government bonds	5.3	5.7	9.4
Intermediate-term government bonds	5.3	5.5	5.7
U.S. Treasury bills	3.8	3.9	3.2
Consumer price index	3.1	3.1	4.4
Equity risk premium	6.6	8.6	19.9
Small-stock premium	1.6	3.3	18.4
Default premium	0.4	0.5	3.1
Horizon premium	1.4	1.8	8.5
Large-company stock—inflation adjusted	7.4	9.4	20.2
Small-capitalization stock—inflation adjusted	8.7	13.3	32.1
Long-term corporate bonds—inflation adjusted	2.6	3.1	9.8
Long-term government bonds—inflation adjusted	2.2	2.7	10.5
Intermediate-term government bonds—inflation adjusted	2.2	2.4	6.9
U.S. Treasury bills—inflation adjusted	0.7	0.8	4.1

Source: *Stocks, Bonds, Bills, and Inflation® 2002 Yearbook,* © Ibbotson Associates, Inc. Based on copyrighted works by Ibbotson and Sinquefield. All rights reserved. Used with permission.

Arizona - American Water Company Cost of Capital Calculation
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]		[C]		[D]		[E]
DCF Method			D_1/P_0[1]	+	g[2]	=	k
Constant Growth DCF Estimate			3.5%	+	5.8%	=	9.3%
Multi-Stage DCF Estimate						=	10.0%
Average of DCF Estimates							**9.7%**
CAPM Method	Rf	+	β[5]	x	(Rp)	=	k
Historical Market Risk Premium[3]	3.3%	+	0.80	x	6.9% [6]	=	8.8%
Current Market Risk Premium[4]	4.7%	+	0.80	x	8.0% [7]	=	11.1%
Average of CAPM Estimates							**10.0%**
					Average		**9.9%**
					Financial risk adjustment		0.8%
					Total		**10.7%**

1 MSN Money and Value Line

2 Schedule JCM-8

3 Risk-free rate (Rf) for 5, 7, and 10 year Treasury rates from the U.S. Treasury Department at www.ustreas.gov

4 Risk-free rate (Rf) for 30 Year Treasury bond rate from the U.S. Treasury Department at www.ustreas.gov

5 Value Line

6 Historical Market Risk Premium (Rp) calculated from Ibbotson Associates SBBI 2009 Yearbook data

7 Testimony

Q. What is the risk free rate?

A. The risk free rate is the rate of return of an investment with zero risk. * Interest rate, inflation risk, long term

Q. What does Staff use as surrogates to represent estimations of the risk-free rates of interest in its historical and current market risk premium CAPM methods?

A. Staff uses separate parameters as surrogates for the estimations of the risk-free rates of interest for the historical market risk premium CAPM cost of equity estimation and the current market risk premium CAPM cost of equity estimation. Staff uses the average of three (five-, seven-, and ten-year) intermediate-term U.S. Treasury securities' spot rates in its historical market risk premium CAPM cost of equity estimation, and the 30-year U.S. Treasury bond spot rate in its current market risk premium CAPM cost of equity estimation. Rates on U.S. Treasuries are largely verifiable and readily available.

Q. What does beta measure?

A. Beta measures the volatility, or systematic risk, of a security relative to the market. Since systematic risk cannot be diversified away, it is the only risk that is relevant when estimating a security's required return. Using a baseline market beta of 1.0, a security with a beta less than 1.0 will be less volatile than the market. A security with a beta greater than 1.0 will be more volatile than the market.

Q. How did Staff estimate Arizona-American's beta?

A. Staff used the average of the *Value Line* betas for the sample water utilities as a proxy for Arizona-American's beta. Schedule JCM-7 shows the *Value Line* betas for each of the sample water utilities. The 0.80 average beta for the sample water utilities is Staff's estimated beta for Arizona-American. A security with a 0.80 beta has less volatility than the market.

foregone. This is often described as maturity or interest rate risk and it can affect an investor adversely if market rates increase before the instrument matures (a rise in interest rates would decrease the value of the debt instrument). As discussed earlier in the DCF portion of my testimony, this compensation translates into higher rates of returns to the investor.

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 yields on a 5-year U.S. Treasury instrument which were published in Value Line's Selection and Opinion publication from December 12, 2009 through February 5, 2010. (Attachment E). This resulted in a risk-free (r_f) rate of return of 2.43 percent.

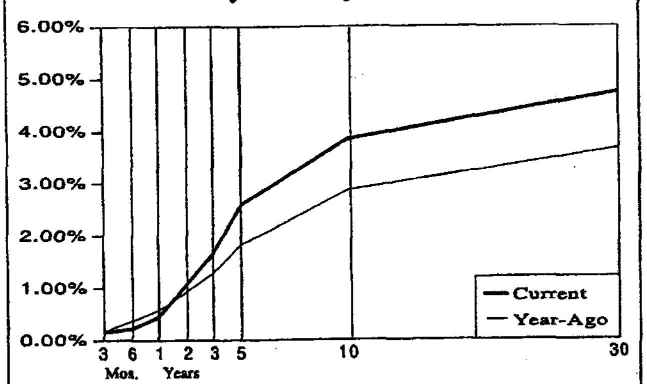
Q. Why did you use the yield on a 5-year year U.S. Treasury instrument as opposed to a short-term T-Bill?

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

Selected Yields

	Recent (4/07/10)	3 Months Ago (1/06/10)	Year Ago (4/08/09)
TAXABLE			
Market Rates			
Discount Rate	0.75	0.50	0.50
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.18	0.14	0.33
3-month LIBOR	0.30	0.25	1.14
Bank CDs			
6-month	0.25	0.29	0.83
1-year	0.44	0.54	1.04
5-year	1.99	2.02	2.05
U.S. Treasury Securities			
3-month	0.16	0.05	0.18
6-month	0.23	0.14	0.37
1-year	0.45	0.36	0.58
5-year	2.60	2.59	1.83
10-year	3.85	3.82	2.86
10-year (inflation-protected)	1.52	1.37	1.53
30-year	4.74	4.69	3.67
30-year Zero	5.00	4.88	3.67
Mortgage-Backed Securities			
GNMA 6.5%	2.66	3.70	3.40
FHLMC 6.5% (Gold)	1.96	2.72	2.79
FNMA 6.5%	2.25	2.81	2.79
FNMA ARM	2.76	3.24	3.15
Corporate Bonds			
Financial (10-year) A	5.24	5.60	7.85
Industrial (25/30-year) A	5.76	5.83	6.27
Utility (25/30-year) A	5.91	5.86	6.20
Utility (25/30-year) Baa/BBB	6.35	6.50	7.63
Foreign Bonds (10-Year)			
Canada	3.63	3.62	2.90
Germany	3.12	3.38	3.21
Japan	1.41	1.34	1.46
United Kingdom	4.06	4.05	3.35
Preferred Stocks			
Utility A	6.00	5.94	6.35
Financial A	6.63	6.80	7.80
Financial Adjustable A	5.48	5.48	5.48
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.44	4.25	4.95
25-Bond Index (Revs)	4.94	4.95	5.75
General Obligation Bonds (GOs)			
1-year Aaa	0.38	0.28	0.47
1-year A	1.18	1.25	1.20
5-year Aaa	1.86	1.68	2.03
5-year A	2.81	2.79	3.45
10-year Aaa	3.31	3.29	3.20
10-year A	4.29	4.20	4.75
25/30-year Aaa	4.46	4.47	4.77
25/30-year A	5.51	5.41	6.25
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.78	4.83	6.30
Electric AA	4.79	4.74	6.40
Housing AA	5.73	5.76	6.70
Hospital AA	5.19	5.04	6.65
Toll Road Aaa	4.78	4.80	6.45

Treasury Security Yield Curve



Federal Reserve Data

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

	Recent Levels 3/24/10	3/10/10	Change	Average Levels Over the Last... 12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1103635	1163154	-59519	1100918	1055784	925591
Borrowed Reserves	88326	101275	-12949	124739	184163	314469
Net Free/Borrowed Reserves	1015309	1061879	-46570	976179	871620	611121

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

	Recent Levels 3/22/10	3/15/10	Change	Growth Rates Over the Last... 3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1716.1	1708.2	7.9	4.9%	7.3%	9.9%
M2 (M1+savings+small time deposits)	8480.1	8490.1	-10.0	-2.4%	0.4%	0.9%

Ex 13

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

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

(year 1 return + year 2 return) ÷ number of periods =

(20.0% + -20.0%) ÷ 2 =

(0.0%) ÷ 2 = <u>0.0%</u>

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

$(\text{year 2 value} \div \text{original value})^{1/\text{number of periods}} - 1 =$

$$(\$96 \div \$100)^{1/2} - 1 =$$

$$(0.96)^{1/2} - 1 =$$

$$(0.9798) - 1 =$$

$$-0.0202 = \underline{-2.02\%}$$

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

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

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

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

Are Bonds Going to Outperform Stocks Over the Long Run? Not Likely.

Roger Ibbotson, Ph.D.

Founder and Advisor,
Ibbotson Associates,
a Morningstar Company

Chairman and Chief Investment Officer,
Zebra Capital

Professor,
Yale School of Management

Peng Chen, Ph.D., CFA®

President,
Ibbotson Associates,
a Morningstar Company

Given the poor performance of stocks over the past year and the past decade, there has been ample discussion about the relative performance of stocks versus bonds. Some even argue that investors should allocate entirely to bonds, not only because bonds are the safer investments, but because they believe bonds will outperform stocks over the long run. In other words, if bonds can deliver higher returns with less risk, why bother with stocks?

Table 1 shows the performance of the S&P 500 and Intermediate-Term and Long-Term Government Bonds over various time periods. Not only have the average annual stock returns been poor over the last 10 years, but relative to bonds, stock returns look mediocre over the last 20, 30, and even 40 years.

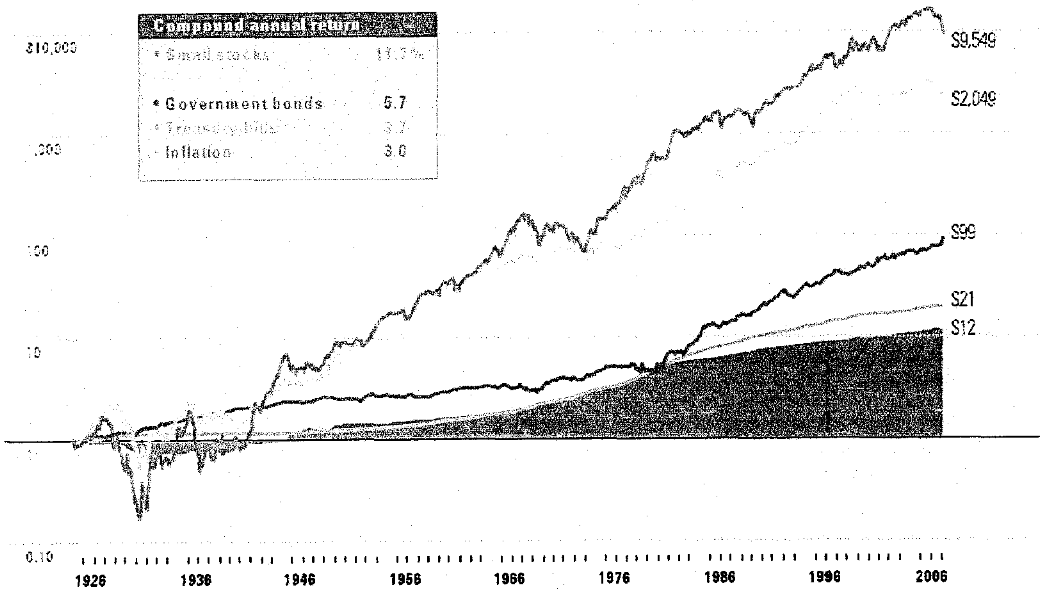
Table 1: Compound Annualized Total Returns (%) Ending March 2009

	S&P 500	IA SBBI Inter-Term Government Bond	IIA SBBI Long-Term Government Bond
1 year: Starting April 2008	-38.09	6.24	14.32
5 year: Starting April 2004	-4.77	5.17	7.79
10 year: Starting April 1999	-3.00	6.31	8.20
20 year: Starting April 1989	7.42	7.39	9.61
30 year: Starting April 1979	10.30	8.57	9.93
40 year: Starting April 1969	8.70	8.03	8.79
Jan 1926 – March 2009	9.44	5.40	5.60

Source: Ibbotson

By looking at the returns over the last 40 years, the argument that bonds might outperform stocks looks to be valid. But, one should view this with skepticism. First, note that over the 20-, 30-, and 40-year periods, stocks actually performed quite well, even if some bond categories did better. Over the very long term, it is no longer a contest. Chart 1 (on the next page) gives the results of the capital market returns over the last 83 years. During this longer period, stocks easily beat bonds.

Chart 1: Ibbotson SBBI Chart: Stocks, Bonds, Bills and Inflation 1926-2008[1]



Source: Ibbotson

Table 2 looks at a longer history of U.S. stocks. The returns on the stock market have been consistently high over almost two centuries. The returns over the last 40 years are roughly comparable to the more distant returns.

Table 2: Annualized Compounded Total Returns %[2]

	Large Company Stocks
January 1825–December 1925	7.3
January 1926–March 2009	9.4
January 1825–December 2008	8.3

Source: Ibbotson

Long-term history provides two major insights:

1. Stocks have outperformed bonds.
2. Stock returns are far more volatile than bond returns, thus more risky. Given the additional amount of risk, it is not surprising that stocks don't outperform bonds every period—even over extended periods of time.

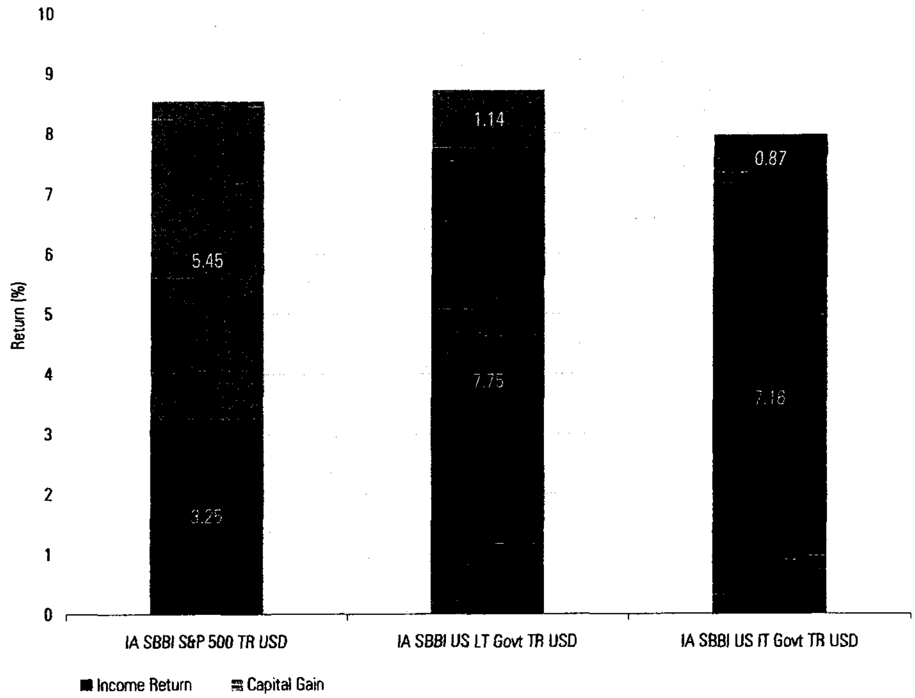
[1] Past performance is no guarantee of future results. Hypothetical value of $1 invested at the beginning of 1926. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

[2] Stock returns from 1825-1925 are from the article authored by William N. Goetzmann, Roger Ibbotson, and Liang Peng, "A New Historical Database for the NYSE 1815 to 1925: Performance and Predictability," *Journal of Financial Markets,* December 2000.

Stocks vs. Bonds in the Future

How likely are stocks to outperform bonds going forward? To try to figure out the future, let us look in more detail at what happened during the last 40 years.

Chart 2: Historical Returns Decomposition Over the Past 40 Years (April 1969-March 2009)



Source: Ibbotson

Despite the substantial decline in yields over the last 40 years, Chart 2 shows the bulk of the bond returns come from the income return portion, or yield. On average, the bond income return from coupon payments was more than 7%. Capital gains caused by the yield decline made up the additional return.

Today, yields are much lower. Table 3 presents the current bond yield information. As of the end of the first quarter of 2009, the Long-Term Government Bond yield was 3.55% and the Intermediate-Term Government Bond yield was only 1.68%. For bonds to continue to enjoy the same amount of capital gains over the next 40 years, a rough estimation would put the yield into negative territory, especially for Intermediate-Term Government Bonds. This is simply impossible, because it implies that investors would be willing to lend their money to a borrower and pay the borrower an interest rate. Over the last 40 years, bond investors have enjoyed abundant returns because of a high-yield environment followed by a steady decline in yields.

Table 3: Bond Yield %

	April 1969	March 2009	Change
IA SBBI US LT Government Yield USD	5.93	3.55	Declined 2.38
IA SBBI US IT Government Yield USD	6.36	1.68	Declined 4.68

Source: Ibbotson

To analyze which asset class is more likely to outperform going forward, let's take a deeper look at the historical data and the current market environment. We analyze each component of returns going forward for stocks and bonds as follows:

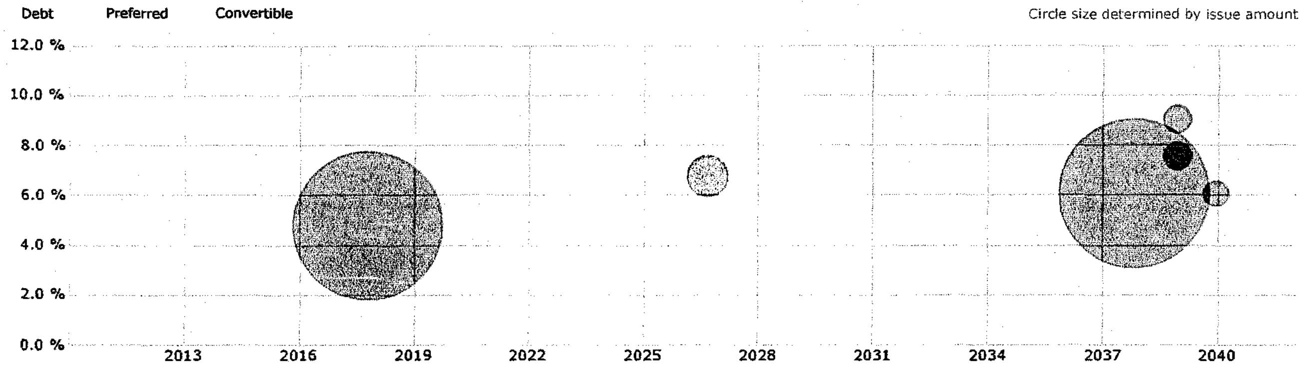
Bond returns = current yield + capital gain
Stock return = current yield + earning growth + P/E changes

First, given the current low-yield environment, it would be almost impossible for bonds to generate the same amount of capital gains as they did in the past. In fact, a reasonable estimate might be that there will be no more capital gains going forward, since yields may be at least as likely to rise as to fall[3]. If there were no future fall in yields, all of the return would have to come from the coupon return. That means the total returns for bond investments would likely be between 2 to 3%.

For stocks, the dividend yield in 2008 for the S&P 500 was 1.92%. If stocks produce more than 2% in capital gains per year on average, they will likely beat bonds. Stocks capital gains can be decomposed into nominal earnings growth and changes in the P/E ratio[4]. Historically, U.S. long-term nominal earnings growth has been roughly 5%, which is comparable to the nominal GDP growth. If we assume the market valuation level (operating P/E of S&P 500) stays at the same level over the next 40 years, then we would have an equity return of around 7%. Even if we forecasted a decline in the valuation level, the 10 year average P/E level would need to fall from just about 20 to below five to get equity returns around 3%.

[3] Some would even argue that bond yield would likely increase over time, thus produce capital losses for bonds over time.
[4] We can decompose stock capital gains into earnings growth and P/E changes. For detailed information on the formula, please refer to Roger G. Ibbotson, and Peng Chen. "Long-Run Stock Returns: Participating in the Real Economy." *Financial Analysts Journal*, 59 (January/February 2003), pp. 88-98.

Yield to Maturity



Name	Maturity Date	Amount $(Mil)	Credit Quality	Price	Coupon %	Coupon Type (Fixed/Floating)	Callable	Rule 144A	Yield to Maturity %
Amer Wtr Cap 144A 6.593%	10/15/2037	750.0	Middle	---	6.593	Fixed	Yes	Yes	---
Amer Wtr Cap 6.593%	10/15/2037	750.0	Middle	106.8	6.593	Fixed	Yes	No	6.08
Amer Wtr Cap 6.085%	10/15/2017	750.0	Middle	108.0	6.085	Fixed	Yes	No	4.79
Amer Wtr Cap 144A 6.085%	10/15/2017	750.0	Middle	---	6.085	Fixed	Yes	Yes	---
Pennsylvania Amer Wtr 144A 7.8%	09/01/2026	150.0	High	110.4	7.800	Fixed	No	Yes	6.77
Pennsylvania Amer Wtr 144A 7.8%	09/01/2026	150.0	High	---	7.800	Fixed	No	Yes	---
Amer Wtr Cap 10%	12/01/2038	75.0	Middle	109.8	10.000	Fixed	Yes	No	9.05
Amer Wtr Cap 8.25%	12/01/2038	75.0	Middle	108.0	8.250	Fixed	Yes	No	7.57
Amer Wtr Cap 6%	12/01/2039	60.0	Middle	99.0	6.000	Fixed	Yes	No	6.07
Pennsylvania Amer Wtr 7.08%	11/01/2017	---	Middle	---	7.080	Fixed	---	No	

Arizona - American Water Company Cost of Capital Calculation
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
Description	g
DPS Growth - Historical[1]	3.1%
DPS Growth - Projected[1]	4.1%
EPS Growth - Historical[1]	3.3%
EPS Growth - Projected[1]	~~9.7%~~ X
Sustainable Growth - Historical[2]	5.2%
Sustainable Growth - Projected[2]	~~9.1%~~ X
Average	~~5.8%~~ 3.93%

1 Schedule JCM-5

2 Schedule JCM-6

Q. How does Arizona-American's capital structure compare to capital structures of publicly traded water utilities?

A. Schedule JCM-4 shows the capital structures of six publicly traded water companies ("sample water companies") as of June 2009. The average capital structure for the sample water utilities is comprised of approximately 50.2 percent debt and 49.8 percent equity.

Staff's Capital Structure

Q. What is Staff's recommended capital structure for Arizona-American?

A. Staff recommends a capital structure composed of 61.14 percent debt and 38.86 percent equity.

Q. Why does Staff's recommended capital structure differ from the Company's proposed capital structure?

A. Staff used updated information that represents preliminary December 31, 2009, amounts provided by the Company in response to Staff Data Request 13.1. The table below shows the updated capital structure provided to and adopted by Staff.

ARIZONA AMERICAN WATER COMPANY CAPITAL STRUCTURE

	Amount outstanding as of 12/31/2009	Percentage of Capital Structure
Long-Term Debt	$177,530,205	44.55%
Short-Term Debt	$66,094,877	16.59%
Total Debt	$243,625,082	61.14%
Total Common Equity	$154,855,430	38.86%
Total Capitalization	$398,480,512	100.00%

Stephen P. Puhr, resident of Anthem, AZ., 2407 W. Hazelhurst Ct., 623-249-7049

Docket No. W-01303A-09-0343 & No. SW-01303A-09-0343

I would like to comment on the financial health of Arizona-American Water's parent company, American Water Works.

I will attach some supporting documents from American Water Works 2009 Annual Report.

Arizona-American Water's parent has a strong cash flow and relative to their interest payments, (cash flow/interest payments), it has improved over the past three years. In the year ending 2007, CF/Int.Pay=1.67x, improving to 2.0x for the year ending 2009. (pages, 90 & 91, 2009 Annual Report)

Page 73, of the 2009 Annual Report, reports the annual dividend was increased in 2009 by 5% in the third quarter, a sign of financial confidence in its future.

Page 72, of the 2009 Annual Report, reports on November 20, 2009, Moody's affirmed AWW Sr. unsecured debt at Baa2 and the rating outlook is stable. On December 21, 2009, S&P affirmed AWW Sr. unsecured debt at BBB+ and the rating outlook is stable. Both ratings are considered Investment Grade or medium risk with three rating level of ratings above and below. The stable outlook is key; if they felt the company could be harmed by unfavorable rate decisions then they could and should have noted the outlook is on watch depending on rate cases.

Page 73, of the 2009 Annual Report,

"At this time, the Company does not believe recent market disruptions will impact its long-term ability to obtain financing. The Company expects to have access to liquidity in the capital markets on favorable terms before the maturity dates of its current credit facilities and the Company does not expect a significant number of its lenders to default on their commitments thereunder. In addition, the Company can delay major capital investments or pursue financing from other sources to preserve liquidity, if necessary. **The Company believes it can rely upon cash flows from operations to meet its obligations and fund its minimum required capital investments for an extended period of time."**

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Operations
(In thousands, except per share data)

	Years Ended December 31, 2009	2008	2007
Operating revenues	$2,440,703	$2,336,928	$2,214,215
Operating expenses			
Operation and maintenance	1,324,355	1,303,798	1,246,479
Depreciation and amortization	294,240	271,261	267,335
General taxes	199,262	199,139	183,253
Gain on sales of assets	(763)	(374)	(7,326)
Impairment charge	450,000	750,000	509,345
Total operating expenses, net	2,267,094	2,523,824	2,199,086
Operating income (loss)	173,609	(186,896)	15,129
Other income (deductions)			
* Interest, net	(296,545)	(285,155)	(283,165)
Allowance for other funds used during construction	11,486	14,497	7,759
Allowance for borrowed funds used during construction	7,224	8,171	3,449
Amortization of debt expense	(6,647)	(5,895)	(4,867)
Other, net	(792)	4,684	6,176
Total other income (deductions)	(285,274)	(263,698)	(270,648)
Loss from continuing operations before income taxes	(111,665)	(450,594)	(255,519)
Provision for income taxes	121,418	111,827	86,756
Loss from continuing operations	(233,083)	(562,421)	(342,275)
Loss from discontinued operations, net of tax	—	—	(551)
Net loss	$ (233,083)	$ (562,421)	$ (342,826)
Basic earnings per common share:			
Loss from continuing operations	$ (1.39)	$ (3.52)	$ (2.14)
Loss from discontinued operations, net of tax	$ —	$ —	$ (0.00)
Net loss	$ (1.39)	$ (3.52)	$ (2.14)
Diluted earnings per common share:			
Loss from continuing operations	$ (1.39)	$ (3.52)	$ (2.14)
Loss from discontinued operations, net of tax	$ —	$ —	$ (0.00)
Net loss	$ (1.39)	$ (3.52)	$ (2.14)
Average common shares outstanding during the period:			
Basic	168,164	159,967	160,000
Diluted	168,164	159,967	160,000
Dividends per common share	$ 0.82	$ 0.40	$ —

The accompanying notes are an integral part of these consolidated financial statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Cash Flows
(In thousands, except per share data)

	Years Ended December 31, 2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$(233,083)	$ (562,421)	$ (342,826)
Adjustments			
Depreciation and amortization	294,240	271,261	267,335
Impairment charge	450,000	750,000	509,345
Amortization of removal costs net of salvage	40,919	41,515	38,442
Provision for deferred income taxes	140,821	95,643	41,918
Amortization of deferred investment tax credits	(1,433)	(1,338)	(1,510)
Provision for losses on utility accounts receivable	21,781	17,267	17,553
Allowance for other funds used during construction	(11,486)	(14,497)	(7,759)
Gain on sale of assets	(763)	(374)	(7,326)
Gain on early extinguishment of debt	—	—	(13,113)
Pension and non-pension post retirement benefits	106,901	51,571	49,693
Other, net	(24,154)	3,072	(13,565)
Changes in assets and liabilities			
Receivables and unbilled utility revenues	(18,751)	(20,702)	(35,097)
Taxes receivable, including income taxes	(17,920)	23,111	(23,111)
Other current assets	(6,737)	(11,194)	(1,171)
Pension and non-pension post retirement benefit contributions	(127,446)	(105,053)	(81,245)
Accounts payable	52	2,978	6,860
Taxes accrued, including income taxes	(13,321)	13,460	42,430
Interest accrued	6,499	2,790	16,092
Other current liabilities	(9,963)	(4,920)	10,767
Net cash provided by operating activities	596,156	552,169	473,712
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(785,265)	(1,008,806)	(750,810)
Acquisitions	(18,144)	(12,512)	(15,877)
Proceeds from sale of assets and securities	1,237	12,604	16,346
Proceeds from sale of discontinued operations	—	—	9,660
Removal costs from property, plant and equipment retirements, net	(29,900)	(24,793)	(9,852)
Net funds released	129,711	2,457	5,829
Other	(1,250)	(2,617)	(1,874)
Net cash used in investing activities	(703,611)	(1,033,667)	(746,578)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	542,926	279,941	3,869,109
Repayment of long-term debt	(178,131)	(241,500)	(2,350,725)
Proceeds from issuance of common stock (net of expenses of $7,824)	242,301	—	—
Net (repayments) borrowings under short-term debt agreements	(352,005)	258,684	(541,623)
Proceeds from employee stock plan issuances	2,089	836	—
Advances and contributions for construction, net of refunds of $27,481 in 2009, $57,580 in 2008 and $36,963 in 2007	21,211	3,078	35,846
Change in cash overdraft position	(7,508)	(188)	42,198
Capital contributions	—	245,000	967,092
Debt issuance costs	(13,165)	(4,008)	(14,916)
Redemption of preferred stocks	(218)	(229)	(1,750,388)
Dividends paid	(137,331)	(64,055)	—
Net cash provided by financing activities	120,169	477,559	256,593
Net increase (decrease) in cash and cash equivalents	12,714	(3,939)	(16,273)
Cash and cash equivalents at beginning of period	9,542	13,481	29,754
Cash and cash equivalents at end of period	$ 22,256	$ 9,542	$ 13,481
Cash paid during the year for:			
Interest, net of capitalized amount	$ 303,958	$ 294,508	$ 295,707
Income taxes, net of refunds of $2,754 in 2009, $40,400 in 2008 and $16,111 in 2007	$ 11,205	$ (22,161)	$ 17,823
Non-cash investing activity			
Capital expenditures acquired on account but unpaid as of year-end	$ 59,219	$ 72,657	$ 94,930
Non-cash financing activity			
Advances and contributions	$ 77,094	$ 83,041	$ 101,226
Long-term debt (See Note 11)	$ 179,931	$ —	$ —
Capital contribution (See Note 11)	$ —	$ —	$ 100,000

The accompanying notes are an integral part of these consolidated financial statements.

Dividends

Our board of directors has adopted a dividend policy to distribute to our stockholders a portion of our net cash provided by operating activities as regular quarterly dividends, rather than retaining that cash for other purposes. Generally, our policy is to distribute 50% to 70% of our net income annually. We expect that dividends will be paid every March, June, September and December of each fiscal year to holders of record approximately 15 days prior to the distribution date. Since the dividends on our common stock will not be cumulative, only declared dividends will be paid.

During 2009 and 2008, we paid $137.3 million and $64.1 million in dividends, respectively. For 2009, we paid a dividend of $0.21 per share on December 1, 2009 and September 1, 2009 and $0.20 per share on June 1, 2009 and March 2, 2009. For 2008, we paid a dividend of $0.20 per share on September 2, 2008 and December 1, 2008. There were no common dividend payments made for 2007.

Subject to applicable law and the discretion of our board of directors, we will pay cash dividends of approximately $0.21 per share per quarter in 2010, to be paid approximately 60 days after the end of each fiscal quarter. The quarterly and annual average aggregate dividend amounts for the four quarters would be $36.7 million, and $146.7 million annually. The aggregate dividend amounts are based upon 174.7 million shares outstanding as of February 25, 2010. Under Delaware law, our board of directors may declare dividends only to the extent of our "surplus" (which is defined as total assets at fair market value *minus* total liabilities, *minus* statutory capital) or, if there is no surplus, out of our net profits for the then current and/or immediately preceding fiscal year. Although we believe we will have sufficient net profits or surplus to pay dividends at the anticipated levels during the next four quarters, our board of directors will seek periodically to assure itself of this before actually declaring any dividends. In future periods, our board of directors may seek opinions from outside valuation firms to the effect that our solvency or assets are sufficient to allow payment of dividends, and such opinions may not be forthcoming. If we sought and were not able to obtain such an opinion, we likely would not be able to pay dividends.

On January 29, 2010, our board of directors declared a quarterly cash dividend payment of $0.21 per share payable on March 1, 2010 to all shareholders of record as of February 18, 2010.

Current Credit Market Position

The Company believes it has sufficient liquidity should there be a disruption of the capital and credit markets. The Company funds liquidity needs for capital investment, working capital and other financial commitments through cash flows from operations, public and private debt offerings, commercial paper markets and credit facilities with $850.0 million in aggregate total commitments from a diversified group of banks. As of February 24, 2010, we had $801.8 million available to fulfill our short-term liquidity needs, to issue letters of credit and back our $58.9 million outstanding commercial paper. As of February 24, 2010, the Company can issue additional commercial paper of $641.1 million which is backed by the credit facilities. The 2008 market disruptions caused the Company to redeem its tax exempt bonds in variable rate structures and remarket as fixed rate securities. The Company closely monitors the financial condition of the financial institutions associated with its credit facilities.

At this time, the Company does not believe recent market disruptions will impact its long-term ability to obtain financing. The Company expects to have access to liquidity in the capital markets on favorable terms before the maturity dates of its current credit facilities and the Company does not expect a significant number of its lenders to default on their commitments thereunder. In addition, the Company can delay major capital investments or pursue financing from other sources to preserve liquidity, if necessary. The Company believes it can rely upon cash flows from operations to meet its obligations and fund its minimum required capital investments for an extended period of time.

Security Ratings

Our access to the capital markets, including the commercial paper market, and respective financing costs in those markets depend on the securities ratings of the entity that is accessing the capital markets. We primarily access the capital markets, including the commercial paper market, through AWCC. However, we do issue debt at our regulated subsidiaries, primarily in the form of tax exempt securities, to lower our overall cost of debt. The following table shows the Company's securities ratings as of December 31, 2009:

Securities	Moody's Investors Service	Standard & Poor's Ratings Service
Senior unsecured debt	Baa2	BBB+
Commercial paper	P2	A2

On December 21, 2009 , Standard & Poor's Ratings Services, which we refer to as S&P, affirmed its "BBB+" corporate credit rating on AWCC and American Water and affirmed AWCC's "A2" short-term rating. S&P's rating outlook for both American Water and AWCC is stable.

On November 20, 2009, Moody's Investors Service, which we refer to as Moody's, affirmed its "Baa2" corporate credit rating on AWCC and American Water and affirmed AWCC's "P2" short-term rating. The rating outlook for both American Water and AWCC is stable.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating. Security ratings are highly dependent upon our ability to generate cash flows in an amount sufficient to service our debt and meet our investment plans. We can provide no assurances that our ability to generate cash flow is sufficient to maintain our existing ratings. None of our borrowings are subject to default or prepayment as a result of the downgrading of these security ratings, although such a downgrading could increase fees and interest charges under our credit facilities.

As part of the normal course of business, we routinely enter into contracts for the purchase and sale of water, energy, fuels and other services. These contracts either contain express provisions or otherwise permit us and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if we are downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on the Company's net position with a counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed provisions that specify the collateral that must be provided, the obligation to supply the collateral requested will be a function of the facts and circumstances of the Company's situation at the time of the demand. If we can reasonably claim that we are willing and financially able to perform our obligations, it may be possible to argue successfully that no collateral should be posted or that only an amount equal to two or three months of future payments should be sufficient. We do not expect to post any collateral which will have a material adverse impact on the Company's results of operation, financial position or cash flows.