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# BEFORE THE ARIZONA CORPORATION COMMISSION

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| IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY, AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS WESTERN GROUP AND FOR CERTAIN RELATED APPROVALS. | Docket No. W-01445A-10-0517 |

Arizona Corporation Commission
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## NOTICE OF FILING

The RESIDENTIAL UTILITY CONSUMER OFFICE ("RUCO") hereby provides notice of filing the Amended Direct Testimony of William A. Rigsby, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 29th day of February, 2012

Michelle L. Wood
Counsel

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ARIZONA WATER COMPANY

DOCKET NO. W-01445A-10-0517

AMENDED

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

FEBRUARY 29, 2012

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## EXECUTIVE SUMMARY

Based on the Residential Utility Consumer Office's ("RUCO") analysis of Arizona Water Company's amended application for a permanent rate increase, filed on May 9, 2011, RUCO recommends that the Arizona Corporation Commission reject Arizona Water Company's requests for a Distribution System Improvement Charge, the consolidation of the White Tank System with the Pinal Valley System, the consolidation of Arizona Water Company's Central Arizona Project tariff, and its rate design method that addresses declining usage. RUCO recommends approval of Arizona Water Company's request for continuation of its Arsenic Cost Recovery Mechanism. RUCO neither agrees with nor disagrees with Arizona Water Company's off-site facilities fee tariff, but reiterates the reasons it has given in other rate case proceedings as to why it believes that delaying the recognition of CIAC as a deduction to rate base is not in the best interest of ratepayers.

## INTRODUCTION

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

A. My Name is William A. Rigsby. I am the Chief of Accounting and Rates for the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

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

A. I have been involved with utility regulation in Arizona since 1994. During that period of time I have worked as a utilities rate analyst for both the Arizona Corporation Commission ("ACC" or "Commission") and for RUCO. I hold a Bachelor of Science degree in the field of finance from Arizona State University and a Master of Business Administration degree, with an emphasis in accounting, from the University of Phoenix. Appendix 1, which is attached to my direct testimony on the cost of capital issues in this case, further describes my educational background and also includes a list of the rate cases and regulatory matters that I have been involved with.

**Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to present RUCO's positions on a number of requests contained in Arizona Water Company's ("AWC" or "Company") request for a permanent increase in rates. AWC filed an amended application (Application) with the Arizona Corporation Commission ("ACC" or "Commission") on May 9, 2011 using a test year ending on December 31, 2010 ("Test Year").

## SUMMARY OF TESTIMONY AND RECOMMENDATIONS

**Q. Please summarize the specific issues that will you address in your direct testimony.**

A. My direct testimony will address AWC's request for a Distribution System Improvement Charge ("DSIC"), the continuation of an Arsenic Cost Recovery Mechanism ("ACRM"), consolidation of AWC's White Tank System with its Pinal Valley System, consolidation of the Company's Central Arizona Project ("CAP") Hook-Up Fees, a rate design that addresses declining usage, and the Company's request for an Off-Site Facilities Fee that delays recognition of contributions-in-aid-of-construction ("CIAC") as a deduction from rate base until plant funded by the hook-up fees is placed into service.

**Q. Please provide a brief summary of RUCO's recommendations.**

A. RUCO recommends that the Commission reject AWC's requests for a DSIC, the consolidation of the White Tank System with the Pinal Valley System, the consolidation of the Company's CAP tariff, and the Company's rate design method that addresses declining usage.

RUCO recommends that the Commission approve AWC's request for continuation of the Company's ACRM.

RUCO neither agrees with nor disagrees with AWC's off-site facilities fee tariff, but reiterates the reasons it has given in other rate case proceedings as to why it believes that delaying the recognition of CIAC as a deduction to rate base is not in the best interest of ratepayers.

**DISTRIBUTION SYSTEM IMPROVEMENT CHARGE**

**Q. Have you reviewed the direct testimony of AWC witnesses William M. Garfield and Joseph D. Harris that addresses AWC's request for a DSIC surcharge?**

A. Yes.

**Q. Briefly explain AWC's DSIC surcharge request.**

A. According to Mr. Harris' testimony, AWC is seeking Commission approval of a surcharge mechanism that would recover the fixed costs associated with DSIC-eligible utility plant additions net of retirements placed into service between general rate cases. The DSIC would be phased in each year and capped at 7.50 percent of the annual amount billed to customers.

...

**Q. What is RUCO's recommendation regarding the Company-proposed DSIC?**

A. RUCO recommends that the Commission reject the Company-proposed DSIC for three reasons. First, AWC is seeking recovery of routine plant improvements that would normally be recovered in a general rate case proceeding. Second, the DSIC is a one-sided mechanism. While it allows accelerated cost recovery for new plant, it fails to consider reduced operations and maintenance expense ("O&M") savings attributable to the new plant. Third, there is no federal or state requirement mandating the types of routine plant additions that AWC seeks recovery for through the Company-proposed DSIC. Therefore, there is no need for the Commission to adopt a special surcharge for such additions.

**Q. In regard to RUCO's first reason for rejecting the Company-proposed DSIC, are the types of infrastructure improvements that would be recovered through the DSIC extraordinary in nature?**

A. No. The types of infrastructure improvements for which the Company seeks cost recovery for through a DSIC mechanism are routine in nature. These are plant improvements that any regulated utility would normally make as existing assets reach the end of their useful lives. There is nothing extraordinary about these types of plant additions. The normal regulatory procedures allow cost recovery for these types of plant additions after a determination of prudency and that the additions meet the used and useful standard during a general rate case proceeding when all of the various ratemaking elements are taken into consideration.

**Q. Why is it important to consider all of the ratemaking elements when setting new rates?**

A. Because the addition of new plant that replaces aging plant can have an impact on operating expenses which are recovered by a utility on a dollar-for-dollar basis in new rates. For example, new additions may be responsible for lower purchased pumping power costs as a result of improved system efficiency and lower employee wage expense as a result of less time spent on repairing aging plant items after normal hours. Under the Company-proposed DSIC, AWC would enjoy the benefit of receiving a return on and a return of its investment in new plant through a surcharge established between general rate case proceedings. Unfortunately, ratepayers receive no benefit from any cost savings that are related to the plant additions that they will be paying for through the DSIC. Any cost savings resulting from new plant additions recovered through the Company-proposed DSIC would be pocketed by AWC between general rate case proceedings.

...

**Q. Has RUCO recommended that the Commission reject mechanisms, such as the Company-proposed DSIC, in prior cases?**

A. Yes. RUCO has consistently opposed the use of cost recovery mechanisms that do not allow for the type of thorough analysis that takes place in a general rate case proceeding. Quite simply, what the Company is proposing here is nothing more than a surcharge that is similar to a Step One Arsenic Cost Recovery Mechanism ("ACRM") which the Commission has approved in the past to allow Arizona water providers to recover the costs associated with meeting more stringent arsenic level standards imposed by the federal government. The fact that water providers had to comply with new federal regulations was an extraordinary circumstance that required an extraordinary ratemaking mechanism. In this case, AWC cites excessive water loss, which is something that the Company should keep in check as a matter of routine cost management. The Company's failure to perform ordinary maintenance is not a reason for the institution of a DSIC.

**Q. In regard to RUCO's third reason for rejecting the Company-proposed DSIC, are there any federal or state regulations that require the Commission to approve a mechanism that is similar to the ACRM?**

A. No. Unlike the circumstances surrounding plant that was required for reducing the level of arsenic in drinking water, there are no federal or state requirements that warrant an ACRM-like mechanism for the recovery of aging plant. RUCO believes that adjustor mechanisms are extraordinary rate recovery devices that are permitted for certain narrow circumstances. In RUCO's view, the routine replacement of aging infrastructure, that would be recovered through the Company-proposed DSIC, does not qualify as an extraordinary circumstance that requires a mechanism such as the ACRM which was specifically designed to address a one-time event that impacted dozens of Arizona water companies simultaneously.

**Q. Does the National Association of State Consumer Advocates ("NASUCA") endorse mechanisms similar to the DSIC?**

A. No. NASUCA issued a resolution in 1999 (Attachment A) that opposes the adoption and implementation of mechanisms such as the Company-proposed DSIC. The resolution lists a number of sound reasons why such mechanisms should be rejected by state utility commissions.

**Q. Can you cite any research that illuminates the deficiencies in the Company-proposed DSIC surcharge?**

A. Yes. Ken Costello, a Principal with the National Regulatory Research Institute ("NRRI"), published a survey report on cost trackers (similar to the Company-proposed DSIC) in September 2009. In his report, Mr. Costello noted the following:

> "Cost trackers can, in various ways, result in higher utility costs. First, they undercut the positive effects of regulatory

lag on a utility's costs. "Regulatory lag" refers to the time gap between when a utility undergoes a change in cost or sales levels and when the utility can reflect these changes in new rates. Economic theory predicts that the longer the regulatory lag, the more a utility has to control its costs; when a utility incurs costs, the longer it has to wait to recover those costs, the lower its earnings are in the interim. The utility, consequently, would have an incentive to minimize additional costs. Commissions rely on regulatory lag as an important tool for motivating utilities to act efficiently. As economist and regulator Alfred Kahn once remarked:

> "Freezing rates for the period of the lag imposes penalties for inefficiency, excessive conservatism, and wrong guesses, and offers rewards to their opposites; companies can for a time keep the higher profits they reap from a superior performance and have to suffer the losses for a poor one."

Rational utility management, as a general rule, would exert minimal effort in controlling costs if it has no effect on the utility's profits. This condition occurs when a utility is able to pass through (with little or no regulatory scrutiny) higher costs to customers with minimal consequences for sales. Cost containment constitutes a real cost to management. Without any expected benefits, management would exert minimum effort on cost containment. The difficult problem for the regulator is to detect when management is lax. Regulators should concern themselves with this problem; lax management translates into a higher cost of service and, if undetected, higher rates to the utilities customers. Regulators should closely monitor and scrutinize costs, such as those subject to cost trackers, that utilities have little incentive to control."[1]

**Q. Can you cite other cases or testimony that supports RUCO's position on this issue?**

A. Yes. In April of 2009, Sonny Popowsky, the Consumer Advocate for the Commonwealth of Pennsylvania, offered testimony before the

[1] Costello, Ken, "How Should Regulators View Cost Trackers?" Washington, DC: National Regulatory Research Institute, Pages 4-5 [footnotes excluded]

Pennsylvania House Consumer Affairs Committee regarding a House Bill that would have approved a mechanism similar to the Company-proposed DSIC for natural gas utilities (Attachment B). In his testimony, to support his argument against the adoption of the natural gas mechanism, Mr. Popowski cited the following quote that was rendered by Commonwealth Court Judge Leavitt in her opinion on a Collection System Improvement Charge, being sought by Pennsylvania-American Water Company:

> "The surcharge is quite different from a base rate. In Pennsylvania, as in most jurisdictions, rates for public utilities are set using what is known as the test year concept, which requires taking a snapshot of the utility's revenues, expenses and capital costs during a one-year period. The object of using a test year is to reflect typical conditions. Test year expenses may be adjusted or normalized where atypical or non-recurring. Under the test year concept, revenues, expenses and capital costs are to be simultaneously reviewed for the same period of time so that a utility may prove its new rates are "just and reasonable."

Mr. Popowski went on to state the following:

> "Unlike a traditional base rate case, in which all costs and all revenues are considered simultaneously, a DSIC is a one-way street that can only increase rates between rate cases, even if a utility's other costs are going down or its revenues are going up. In setting utility rates, it is important to look at all the utility's costs and revenues, not just a single utility cost item that may be added between rate cases."

**Q. Has the Commission rejected such mechanisms in prior cases?**

A. Yes, in a prior Arizona-American Water Company rate case proceeding, the Commission adopted the recommendations of ACC Staff and RUCO and rejected a similar cost recovery mechanism identified as an

Infrastructure Improvement Surcharge ("IIS"). Decision No. 72047 stated the following:

> "The Company admits the surcharge would cover routine investments in such items as meters, mains, hydrants, tanks and booster stations, and while the Company proposed a cap on the increase between rates, the Company has not quantified the amount of the proposed surcharge. We agree with RUCO and Staff that the recovery of expenditures for plant additions and improvements does not warrant the extraordinary ratemaking device of an adjuster mechanism, and will therefore not grant the request for institution of an IIS."

**Q. Do the customer bill impacts estimated by AWC justify the adoption of the DSIC?**

A. No. While an argument could be made that the Company-proposed DSIC would result in gradual rate increases that would be more palatable to both ACC Commissioners and to ratepayers, if the Commission were to adopt the Company-proposed DSIC, ratepayers could be looking at two rate increases per year every year between general rate cases. Municipal systems don't even impose such frequent rate hikes on their water and wastewater customers. This steady stream of rate increases is certainly a departure from the Commission's prior preference for rate stability between general rate cases. While it is possible that the adoption of the Company-proposed DSIC may mitigate rate shock in future general rate cases, the Commission would have to weigh this with the fact that this steady stream of rate increases will benefit the Company more than AWC ratepayers given the fact that the surcharge amounts will not reflect any dollar-for-dollar cost reductions in operating expenses that are associated with the new plant.

Because ACC Staff, and intervenors, such as RUCO, will not have the opportunity to look closely at the plant additions being placed into service between rate cases, the possibility exists that imprudent expenditures would not be discovered until a general rate case proceeding. By then ratepayers could have been overcharged for imprudent plant expenditures for a number of years. Furthermore, ratepayers who leave the affected systems will not even see any savings from new rates, established in a general rate case proceeding, that reflect lower operating costs or the disallowance of imprudent plant expenditures. For the reasons that I've given above, I believe that the Commission should reject the Company-proposed DSIC.

**Q. Is there any way to mitigate the problems with the DSIC that you discussed above?**

A. Possibly. In July 2011, David D. Dismukes, Ph.D. (who recently testified for ACC Staff in the recent Southwest Gas Corporation rate case proceeding), filed testimony[2] on a mechanism similar to the Company-proposed DSIC in a proceeding in Maryland. As an alternative to an accelerated natural gas pipe replacement plan that was being proposed in

[2] Dismukes, David E., Ph.D., Direct Testimony on Behalf of the Maryland Office of People's Counsel, Case no. 9267, filed july 27, 2011.

that proceeding, Mr. Dismukes recommended an Operations & Maintenance ("O&M") expense offset that would apply a specified dollar credit to every mile of replaced pipe. A similar credit could be applied to every foot of replacement line that AWC would recover through the Company-proposed DSIC. Mr. Dismukes recommendation makes good sense from the standpoint that O&M expense would drop as aging infrastructure is replaced. In this case, an O&M credit would have the effect of lowering the increased pro-forma level of O&M expense that it is being proposed by AWC in this case which would be embedded in base rates. The adoption of an O&M credit, that would be applied to customer bills at the same time that potential DSIC surcharges go into effect, would produce fairer rates in RUCO's view.

**Q. Has RUCO made any downward adjustment to the Company-proposed increase in O&M expense?**

A. Despite concerns that RUCO has with AWC's proposed increase in O&M expense, RUCO has not made any adjustment. But if the Commission were to adopt the Company-proposed DSIC with no type of O&M credit, RUCO believes that a downward adjustment should be made.

**ARSENIC COST RECOVERY MECHNISM**

**Q. Is AWC requesting a continuance of the ACRM for the Company's Western Group?**

A. Yes.

**Q. Does RUCO oppose AWC's request for a continuance of the ACRM for the Company's Western Group?**

A. No. RUCO recommends that the Commission adopt AWC's request for a continuance of the Western Group's ACRM.

**WHITE TANKS CONSOLIDATION**

**Q. Is AWC proposing consolidation of the White Tank System and Pinal Valley Systems in this proceeding?**

A. Yes.

**Q. Does RUCO support the proposed consolidation?**

A. No. RUCO recommends that the Commission reject the Company's request to consolidate the White Tank System with the Pinal Valley System.

**Q. Why does RUCO oppose the Company-proposed consolidation?**

A. RUCO is concerned with the amount of cross subsidization that would occur as a result of the consolidation and the distorted price signals that would result from it. RUCO further believes that White Tank System rates should be more reflective of AWC's cost of service.

**Q. Why is RUCO is concerned with the amount of cross subsidization that would occur?**

A. The consolidation would result in a total shift of $590,109 in required revenue from White Tank System customers to Pinal Valley System Customers. Although Company witness Mr. Harris argues that the rate increase to Pinal Valley System Customers would be minimal, one has to question the wisdom of why Pinal Valley System customers should subsidize White Tank System customers whose average monthly consumption is 5,587 gallons higher. In RUCO's view the Company-proposed consolidation would send the wrong price signal to White Tank System Customers who consume an average of 13,906 gallons per month as opposed to Pinal Valley System Customers who consume an average of 8,319 gallons per month and whose service territory lies in a different Active Management Area. The Company's rate design increases the present 5/8 x 3/4-inch user's average monthly bill from $52.16 to $52.30 for an increase of only $0.16. At the 9,000 gallon median level of usage, a White Tank System customer would see his or her monthly bill drop $0.32 from $40.02 to $39.70. On the other hand, Pinal Valley System 5/8 x 3/4-inch customers in Casa Grande and Coolidge with average usage of will see their bills increase an average of $9.33 and $8.31 at the 6,100 gallon median level of usage.

**Q. Is RUCO's position on this issue consistent with its prior positions on rate consolidation?**

A. Yes. RUCO has looked at rate consolidation on a case by case basis in the past. Furthermore, RUCO has consistently taken the position that the Commission should set rates on a cost of service basis in order to avoid cross-subsidization. The Commission should approve rate consolidation only if there are public policy reasons that outweigh adherence to traditional cost of service principles.

In a recent case involving deconsolidation of Arizona-American water Company's Anthem/Agua Fria Wastewater District, RUCO took the position that ratepayers were paying rates that reflected the costs of operating two separate wastewater systems that were not interconnected and provided service to customers living in two different communities that were miles apart from one another. In that case, RUCO also believed that Anthem ratepayers were heavily subsidizing Agua Fria customers under the existing consolidated arrangement. RUCO argued in that case that had the two districts not been consolidated, the rates for the two separate districts would have more closely reflected the actual cost of service and ratepayers would have had a much better idea of what they could expect to pay for wastewater services when they bought homes or relocated in their respective service areas. While hindsight is always 20/20, RUCO believes that this particular case provides a good example of why newer communities, which are not interconnected or not close enough for interconnection to be practical, should not be consolidated when the only reason for consolidation is to keep rates artificially low. RUCO believes that the Company-proposed consolidation of the White Tanks and Pinal Valley Systems bear similarities to the Anthem/Agua Fria situation.

**Q. Does RUCO's unconsolidated rate design reflect the cost of service to White Tank System customers?**

A. Yes. RUCO's rate design generates rates that will produce the level of revenue needed to cover AWC's cost of service for an unconsolidated White Tank System.

**CAP HOOK-UP FEES**

**Q. What is AWC proposing in regard to the Company's existing CAP Hook-Up Fees?**

A. AWC is proposing that the Commission approve trued-up CAP Hook-Up Fees which were originally authorized in Decision No. 68302, dated November 14, 2005. RUCO supported the adoption of the CAP Hook-Up Fees in that proceeding. The Company is also requesting that the existing CAP Hook-Up Fees for the White Tank and Pinal Valley Systems be consolidated based on the Company-proposed consolidation of those two systems.

**Q. What is RUCO recommending on AWC's request to consolidate the Company's trued-up CAP Hook-Up Fees?**

A. Consistent with RUCO's position on the Company-proposed Consolidation of the White Tank and Pinal Valley Systems, RUCO recommends that the Commission reject AWC's request to consolidate the Company's trued-up CAP Hook-Up Fees.

**DECLINING USAGE RATE DESIGN**

**Q. Have you reviewed the testimony of Company witness Joel M. Reiker on declining usage?**

A. Yes.

**Q. Briefly summarize Mr. Reiker's testimony on declining usage.**

A. Mr. Reiker makes the argument that AWC's Western Group is experiencing declining usage attributable to the Commission's policy of requiring three-tier increasing block rate designs.

...

**Q. What is the Company proposing to mitigate declining usage which the Company attributes to the Commission's policy of requiring three-tier increasing block rate designs?**

A. The Company is proposing that it recover 50 percent of the Western Group's overall revenue requirement through a fixed basic service charge and that it collect forecasted shortfalls of revenue through a rate design in which the rates are calculated with usage-adjusted billing determinants.

**Q. What is RUCO's position on AWC's rate design method that relies on usage-adjusted billing determinants?**

A. RUCO is not convinced the level of declining usage per customer will continue into the future and whether declining usage results from conservation efforts. Nor is RUCO convinced that any projected or forecasted declining usage will result in AWC's inability to earn its authorized return from such customers. The potential for ongoing conservation will be mitigated and usage levels stabilized over time; thus, minimizing the declining usage that impacts the Company's revenues.

**Q. Has RUCO adopted the Company-proposed rate design method for dealing with declining usage?**

A. No. RUCO does not believe it is appropriate to embed in today's rates an adjustment designed to recover forecasted lost revenue based on the possibility that residential usage will decline in the future.

**Q. Does RUCO have an alternative recommendation for a declining usage adjustment?**

A. Yes. RUCO would analyze additional evidence, if timely submitted by the Company, which demonstrates known and measurable residential declining use subsequent to the test year. This is the same position that RUCO is taking in an Arizona-American Water Company rate case that is now before the Commission.

**OFF SITE FACILITIES FEE**

**Q. What is RUCO position on AWC's request for an Off-Site Facilities Fee that delays recognition of contributions-in-aid-of-construction ("CIAC") until plant funded by hook-up fees is placed into service?**

A. RUCO neither agrees with nor disagrees with AWC's off-site facilities fee tariff that delays the recognition CIAC as a deduction to rate base until the plant funded by hook-up fees is placed into service. However RUCO continues to stand by its position, which RUCO has taken in other rate case proceedings, that delaying the recognition of CIAC as a deduction to rate base is not in the best interest of ratepayers for a number of reasons.

**Q. Does your silence on any of the issues, matters or findings addressed in the testimony of the Company's witnesses constitute your acceptance of their positions on such issues, matters or findings?**

A. No, it does not.

**Q. Does this conclude your direct testimony on AWC's filing?**

A. Yes, it does.

# ATTACHMENT A

Home > Resolutions > Water Company Infrastructure Costs

National Association of State Utility Consumer Advocates
R E S O L U T I O N

Discouraging State Regulatory Commissions from Adopting Automatic Adjustment Charges for Water Company Infrastructure Costs

WHEREAS, certain regulated water companies have recently proposed mechanisms for automatically increasing water rates, prior to regulatory review, based upon isolated items of expense related to infrastructure projects; and
WHEREAS, the National Association of State Utility Consumer Advocates (NASUCA) believes that public interest is still best served by rate of return regulation of investor-owned water companies and that such automatic adjustment mechanisms contradict several sound rate of return ratemaking principles, including the matching principle, because increases to items of rate base are recognized far outside of the test year from which all other rate base, as well as revenues, expenses, and cost of capital items that are used when calculating rates, allowing 'piecemeal ratemaking' and preventing the recognition of any simultaneous offsetting reductions in other items; and

WHEREAS, automatic adjustment mechanisms also circumvent regulatory review of increases to rate base for prudence and reasonableness; and

WHEREAS, automatic adjustment mechanisms further create bad public policy by eliminating the built-in regulatory incentive to control costs between rate cases and, generates incentives to increase spending in order to avoid reduction of the surcharge which occurs if the water company's authorized return is reached; and

WHEREAS, when an automatic adjustment clause is adopted, rate stability is reduced and proper price signals are distorted by frequent rate increases, and no convincing evidence has been shown to support the claim that the frequency of rate case proceedings is reduced by such clauses; and

WHEREAS, special incentives are not needed in order ensure adequate water quality, pressure, and a proper reduction of service interruptions; and

WHEREAS, automatic adjustment mechanisms can inappropriately reward water companies that have imprudently fallen behind in infrastructure improvements; and

WHEREAS, it is inappropriate to tilt the regulatory balance against consumers and shift business risk away from water companies simply for the purpose of creating an incentive for these companies to fulfill their basic obligation to provide safe and adequate service;

THEREFORE, BE IT RESOLVED, that NASUCA strongly recommends state legislatures and state public utility commissions avoid the implementation of automatic adjustments charges for water company infrastructure costs; and

BE IT FURTHER RESOLVED, that NASUCA authorizes its Executive Committee to develop specific positions and to take appropriate actions consistent with the terms of this resolution. The Executive Committee shall notify the membership of any action taken pursuant to this resolution.

Approved by NASUCA:

June, 1999, Baltimore, Maryland

Submitted By:

NASUCA Ad Hoc Water Committee

Christine Maloni Hoover, PA, Chair
Wes Blakley, IN
Robert Brabston, NJ
John Coffman, MO
Brian Gallagher, DE
Donald Rogers, MD
Dale Stransky, NV
James Warden, Jr., NY

# ATTACHMENT B

# BEFORE THE PENNSYLVANIA HOUSE CONSUMER AFFAIRS COMMITTEE

**Testimony of**

**SONNY POPOWSKY**
**CONSUMER ADVOCATE**

**Regarding**

**House Bill 744**
**Natural Gas Distribution System Improvement Charge**

**Harrisburg, PA**
**April 23, 2009**

**Office of Consumer Advocate**
**555 Walnut Street**
**Forum Place, 5th Floor**
**Harrisburg, PA 17101-1923**
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**Chairman Preston, Chairman Godshall**
**and Members of the House Consumer Affairs Committee**

My name is Sonny Popowsky. I have served as the Consumer Advocate of Pennsylvania since 1990, and I have worked at the Office of Consumer Advocate since 1979. Thank you for this opportunity to present testimony to this Committee regarding House Bill 744, which would allow natural gas utilities in Pennsylvania to increase their rates automatically to reflect the capital costs of distribution plant that is added to service between base rate cases. As currently drafted, House Bill 744 would allow automatic increases in rates to reflect the value of new plant additions, but would not reflect reductions in the value of existing distribution plant resulting from depreciation and retirements during the same period. As such, the proposed distribution system improvement charge (DSIC) contained in HB 744 is one-sided and unfair to consumers. In addition, HB 744 contains no limit on the overall level of rate increases that can be obtained by natural gas utilities through these automatic adjustment clauses, which means that rates can be increased indefinitely without a Commission review of the utility's overall base rates. If the General Assembly chooses to proceed with HB 744, then I would respectfully submit that the legislation must be amended in order to correct these flaws.

As you know, the model used to support the proposed natural gas distribution system improvement charge is found in a Public Utility Code provision that was added for water companies in 1996 to allow water utilities to increase rates between base rate cases in order to cover the costs of new distribution improvements. At that time, many water utilities were filing base rate cases almost annually to cover the cost of new infrastructure required to meet state and federal safe drinking water laws.

In contrast, until 2008, several of our major natural gas utilities had not filed base rate cases in decades. Prior to 2008, the last base rate increase for PECO Gas was in 1988, twenty years earlier. The last base rate case filed by Columbia before 2008 was in 1995 and the last Equitable case prior to 2008 was in 1997. To this day, UGI and Dominion (Peoples) have not filed a base rate case since 1995. I am not aware of any evidence that these utilities have been unable to maintain safe natural gas service and make necessary infrastructure improvements during those many years in which their base rates remained unchanged. When Pennsylvania natural gas utilities have been able to provide service to customers without increasing their base rates for 10, 15 or 20 years, why would we pass a law that allows them to raise those rates automatically every three months?

This is not a hypothetical question. In November 2007, PECO Gas issued a press release announcing that it had just completed $12.3 million in upgrades to its suburban Philadelphia natural gas facilities, including the replacement of 58,000 feet of cast iron and bare steel mains. And, PECO Gas did all this without raising its base rates and without a DSIC. In the press release announcing the system improvements that PECO issued on November 6, 2007, the Company stated:

> During the past 20 years, PECO has made significant upgrades to its natural gas delivery system and expanded capacity, serving about 7,000 new customers each year – all without an increase in the company's delivery and service charges since 1988. By saving customers money through the use of new technologies, increasing sales, operational mergers and other efficiencies PECO charges remain among the lowest in Pennsylvania.

That is how ratemaking is supposed to work. Between base rate cases, a utility makes needed investments that increase costs, but the utility may also add customers who provide more revenues, or it may operate more efficiently to reduce costs in other areas. Most importantly, the level of investment in its existing infrastructure goes down in value due to depreciation and retirements. In a base rate case, both the increases and decreases are taken into account.

In a base rate case, all of the utility's costs and revenues are looked at together in order to determine whether the company needs to increase its base rates. In contrast, a distribution system improvement charge simply takes out of context one cost element – the cost of new pipes – and raises the utility's overall rates to reflect that additional cost, without considering any offsetting changes.

It is true that improvements to our natural gas infrastructure cost money, and utilities that make prudent investments that are used to serve the public are permitted an opportunity to recover a return of and earn a fair return on those investments. That does not mean, however, that we need to remove the protections of the Public Utility Code in order to make it easier for utilities to increase their rates between rate cases, without hearings and without any meaningful ability for customers to oppose such increases.

Traditionally, utilities in Pennsylvania and across the Nation have recovered the cost of infrastructure improvements through base rate cases, in which all of the utilities' investments, expenses, and revenues are examined at the same point in time. As I mentioned earlier, in 1996, the General Assembly created an exception to this process for water utilities at a time when water companies contended that they were subject to very substantial new infrastructure requirements. The investments recovered through these surcharges, which are permitted to increase every three months, are subject to Commission audit to ensure that they are correctly calculated and accounted for, but they are not reviewed by the Commission to determine whether the investments are needed or are prudently incurred before their costs are placed in rates. That is why these provisions are called "automatic adjustment" clauses in both the existing Section 1307 of the Public Utility Code and in the proposed House Bill 744. Initially, the DSIC surcharges for water utilities were limited by the PUC to no more than 5% of the utility's revenues, but in 2007, the Commission approved – over the objection of my Office, the Office of Small Business Advocate, the Office of Trial Staff, and the Company's large industrial customers -- an increase in the DSIC surcharge of Pennsylvania American Water Company (PAWC) from 5% to 7.5%. Indeed, it appears from the Commission's Order in that case, that the Commission believes it has the discretion to allow the surcharge to increase to 10% or even higher if it chooses to do so.

As you may be aware, PAWC also sought to implement a surcharge for its wastewater (sewer) division called a Collection System Improvement Charge (or CSIC). The PUC approved that surcharge and my Office successfully appealed on the ground that the automatic capital recovery surcharges permitted under the Public Utility Code are limited to water utilities. The Commonwealth Court agreed with my Office that the CSIC was not permitted under the Public Utility Code, but the Court also discussed the policy objections to a clause that allows a utility to recover capital expenditures through an automatic surcharge mechanism. As stated by Judge Leavitt in her Opinion for the Commonwealth Court:

> Utility's Wastewater Charge will entail regulatory oversight that amounts to no more than a mathematical exercise. The after-the-fact audit will require Utility to show only that it did, in actuality, spend the funds for the intended purpose and not, for example, that a new pumping station was needed and was operating effectively.....
>
> .... the "cursory" review undertaken for a surcharge is not a substitute for the review undertaken in a base rate case to determine whether a rate is just and reasonable.

Popowsky v. PA PUC, 869 A.2d 1144, 1156 (Comm. Ct. 2005).

More important than the lack of prior substantive Commission review, in my opinion, is the fact that a surcharge for capital expenditures is contrary to the general concept of just and reasonable rates because it allows recovery of a single cost increase, while ignoring all of the other changes, both positive and negative, that occur between base rate cases. Again, to quote from Judge Leavitt's opinion for the Commonwealth Court in the PAWC CSIC case:

> The surcharge is quite different from a base rate. In Pennsylvania, as in most jurisdictions, rates for public utilities are set using what is known as the test year concept, which requires taking a snapshot of the utility's revenues, expenses and capital costs during a one-year period. The object of using a test year is to reflect typical conditions. Test year expenses may be adjusted or normalized where atypical or non-recurring. Under the test year concept, revenues, expenses and capital costs are to be simultaneously reviewed for the same period of time so that a utility may prove its new rates are "just and reasonable."

869 A.2d at 1152.

Unlike a traditional base rate case, in which all costs and all revenues are considered simultaneously, a DSIC is a one-way street that can only increase rates between rate cases, even if a utility's other costs are going down or its revenues are going up. In setting utility rates, it is important to look at all the utility's costs and revenues, not just a single utility cost item that may be added between rate cases.

While I strongly oppose the enactment of a DSIC, I would respectfully urge the General Assembly to consider a number of amendments to House Bill 744 in the event that the General Assembly chooses to go forward with this legislation.

First, I would suggest that the DSIC should only reflect the net increase in distribution plant between rate cases; that is, the cost of new capital additions in the relevant categories, minus the depreciation and retirements from the same categories of plant during the same time period. In that way, if a natural gas utility is truly making substantial new capital additions that exceed the normal reductions in plant value that occur between rate cases, then the company can charge the customers a positive DSIC. Second, there should be a percentage cap on the total level of DSIC rate increases, and that cap should be based on the utility's distribution revenues, not on total revenues, which include highly volatile natural gas commodity costs that are not related in any way to the distribution system improvements. I would suggest that the cap be set at 5%, which is where the PUC initially set the cap for the water DSIC's, but which the Commission subsequently allowed Pennsylvania American Water Company to increase to 7.5%. Third, I would propose that any natural gas DSIC be preceded by a full base rate case in which the company's total costs and revenues would be examined by the PUC before any automatic increases are permitted. In that way, a utility that has not filed a base rate case in 15 years could not simply walk in to the Commission and start increasing its rates every three months without any prior examination of whether its current rates are just and reasonable.

In order to assist the members of this Committee I have attached three amendments to this testimony that I believe would address these issues. As always, I would be pleased to work with the members and staff of this Committee to develop legislation that I hope would best serve Pennsylvania's utility consumers.

Thank you again for permitting me to testify at this hearing. I would be happy to answer any questions you may have at this time.

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AMENDMENTS TO HOUSE BILL NO. 744

Printer's No. 830

Amend Section 2, page 2, line 25, by inserting after "of"

the net change in

Amend Section 2, page 2, line 30, by inserting after "proceedings"

, minus any decreases in net distribution plant resulting from depreciation and retirements of the same categories of existing distribution plant during the same period.

Amend Section 2, page 3, by inserting between lines 4 and 5

(3) The revenue collected in any year pursuant to an automatic rate adjustment mechanism established pursuant to this subsection shall not exceed five percent of the amount a natural gas distribution company billed its customers for distribution service in the previous calendar year.

Amend Section 2, page 3, line 4, by inserting after "mechanism"

The commission shall include as part of that regulation or order a requirement that a natural gas distribution company shall not initially establish an automatic rate adjustment mechanism pursuant to this subsection unless the commission has established the natural gas distribution company's rates in a general rate case as set out in section 1308(d) (relating to voluntary changes in rates), filed after the effective date of this subsection.

111172

ARIZONA WATER COMPANY

DOCKET NO. W-01445A-10-0517

AMENDED

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY

ON

COST OF CAPITAL

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

FEBRUARY 29, 2012

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## EXECUTIVE SUMMARY

Based on the Residential Utility Consumer Office's ("RUCO") analysis of Arizona Water Company's amended application for a permanent rate increase, filed with the Arizona Corporation Commission ("ACC" or "Commission") on May 9, 2011, RUCO recommends the following:

**Cost of Equity** – RUCO recommends that the Commission adopt a 9.50 percent cost of equity. This 9.50 percent figure falls just above the high side of the range of results obtained in RUCO's cost of equity analysis, and is 260 basis points lower than the 12.10 percent cost of equity capital proposed by Arizona Water Company in its application for a permanent rate increase.

**Cost of Debt** – RUCO recommends that the Commission adopt Arizona Water Company's proposed 6.82 percent cost of Long-term debt.

**Capital Structure** – RUCO recommends that the Commission adopt Arizona Water Company's proposed capital structure comprised of 50.97 percent equity and 49.03 percent long-term debt.

**Weighted Average Cost of Capital** – RUCO recommends that the Commission adopt RUCO's recommended 8.19 percent weighted average cost of capital ("WACC") which is the weighted cost of RUCO's recommended costs of common equity and long-term debt, and is 132 basis points lower than the 9.51 percent WACC being proposed by Arizona Water Company.

## INTRODUCTION

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

A. My Name is William A. Rigsby. I am the Chief of Accounting and Rates for the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

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

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

**Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to present recommendations that are based on my analysis of Arizona Water Company's ("AWC" or "Company") amended application for a permanent rate increase ("Application") for the Company's Western Group water systems that was filed with the Arizona Corporation Commission on May 9, 2011. AWC has chosen the operating period ended December 31, 2010 for the test year ("Test Year") in this proceeding. The Company has elected not to conduct a reconstruction cost new less depreciation study ("RCND") for the purpose of establishing a fair value rate base, and to use its original cost rate base as its fair value rate base for the purpose of establishing a fair value rate of return on its invested capital.

**Q. Briefly describe AWC and the Company's Western Group.**

A. AWC is a closely held public service company that provides water service to a number of communities in Arizona through three separate geographical operating groups. The Company's Western Group is made up of AWC's Pinal Valley System; which includes Casa Grande, Stanfield and Coolidge, the Company's White Tank System which is located near Buckeye; and AWC's Ajo System. In this proceeding, the Company is seeking to consolidate the White Tank System with AWC's Pinal Valley System.

**Q. Is this your first case involving AWC?**

A. No. I have been involved with a number of AWC proceedings dating back to 2001.

**Q. What areas will you address in your direct testimony?**

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

**Q. Will RUCO also offer direct testimony on the rate base, operating income and rate design issues in this proceeding?**

A. Yes. The rate base and operating income issues associated with the case will be addressed by RUCO witness Timothy J. Coley. RUCO witness Rodney L. Moore will sponsor RUCO's rate design

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

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

**Q. Please identify the exhibits that you are sponsoring.**

A. I am sponsoring Exhibit 1, Attachments A through D and Schedules WAR-1 through WAR-9.

## SUMMARY OF TESTIMONY AND RECOMMENDATIONS

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

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

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

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

**Cost of Equity** – I am recommending that the Commission adopt a 9.50 percent cost of equity. This 9.50 percent figure falls just above the high side of the range of results obtained in my cost of equity analysis, and is 260 basis points lower than the 12.10 percent cost of equity capital proposed by AWC in its application for a permanent rate increase.

**Cost of Debt** – I am recommending that the Commission adopt the Company-proposed 6.82 percent cost of Long-term debt.

**Capital Structure** – I am recommending that the Commission adopt the Company-proposed capital structure comprised of 50.97 percent equity and 49.03 percent long-term debt.

**Weighted Average Cost of Capital** – I am recommending that the Commission adopt my recommended 8.19 percent weighted average cost of capital ("WACC") which is the weighted cost of my recommended costs of common equity and long-term debt, and is 132 basis points lower than the 9.51 percent WACC being proposed by Arizona Water Company.

**Q. Why do you believe that your recommended 8.19 percent WACC is an appropriate rate of return for the Company to earn on its invested capital?**

A. The 8.19 percent WACC figure that I am recommending meets the criteria established in the landmark Supreme Court cases of Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia (262 U.S. 679, 1923) and Federal Power Commission v. Hope Natural Gas Company (320 U.S. 391, 1944). Simply stated, these two cases affirmed that a public utility that is efficiently and economically managed is entitled to a return on investment that instills confidence in its financial soundness, allows the utility to attract capital, and also allows the utility to perform its duty to provide service to ratepayers. The rate of return adopted for the utility should also be comparable to a return that investors would expect to receive from investments with similar risk.

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

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

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

## COST OF EQUITY CAPITAL

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

A. I am recommending a cost of equity of 9.50 percent. My recommended 9.50 percent cost of equity figure falls just above the high side of the range of results derived from my DCF and CAPM analyses, which utilized a sample of publicly traded water providers and a sample of natural gas local distribution companies ("LDCs"). The results of my DCF and CAPM analyses are summarized on page 3 of my Schedule WAR-1.

**Discounted Cash Flow (DCF) Method**

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

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

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

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

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

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

$g$ = the expected rate of future dividend growth

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

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

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

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

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

Table I

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

Table I of Mr. Hill's illustration presents data for a five-year period on his hypothetical utility. In Year 1, the utility had a common equity or book value of $10.00 per share, an investor-expected equity return of ten

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

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

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

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

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

Table II

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

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

---

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

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

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

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

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

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

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

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

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

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

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

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

| | | | |
|---|---|---|---|
| where: | g | = | DCF expected growth rate, |
| | b | = | the earnings retention ratio, |
| | r | = | the return on common equity, |
| | s | = | the fraction of new common stock sold that accrues to a current shareholder, and |
| | v | = | funds raised from the sale of stock as a fraction of existing equity. |
| and | v | = | $1 - [(BV) \div (MP)]$ |
| where: | BV | = | book value per share of common stock, and |
| | MP | = | the market price per share of common stock. |

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

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

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

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

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

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

A. Yes. In a prior Southwest Gas Corporation rate case[5], the Commission adopted the recommendations of ACC Staff's cost of capital witness, Stephen Hill, who I noted earlier in my testimony. In that case, Mr. Hill

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

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

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

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

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

A. One of the problems in performing this type of analysis is that the utility applying for a rate increase is not always a publicly traded company as in this case where AWC is publicly-traded on a stock exchange. Because of this situation, I used the aforementioned proxy that includes four publicly-traded water companies and nine LDCs.

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

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

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

A. The four water companies used in the proxy are publicly traded on the New York Stock Exchange ("NYSE"). All four water companies are followed by The Value Line Investment Survey ("Value Line") and are the same companies that comprise Value Line's large capitalization Water Utility Industry segment of the U.S. economy (Attachment A contains Value Line's October 21, 2011 update of the water utility industry and evaluations of the water companies used in my proxy).

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

A. Yes.

...

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

A. My water company proxy group includes American States Water Company (stock ticker symbol "AWR"), California Water Service Group ("CWT"), SJW Corporation (NYSE symbol SJW), a San Jose, California-based water provider which, prior to April of 2011, was included in Value Line's Small and Mid-Cap Edition, and Aqua America, Inc. ("WTR"). Each of these water companies face the same types of risk that AWC faces. For the sake of brevity, I will refer to each of these companies by their appropriate stock ticker symbols henceforth.

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

A. AWR serves communities located in Los Angeles, Orange and San Bernardino counties in California. CWT provides service to customers in seventy-five communities in California, New Mexico and Washington. CWT's principal service areas are located in the San Francisco Bay area, the Sacramento, Salinas and San Joaquin Valleys and parts of Los Angeles. SJW serves approximately 226,000 customers in the San Jose area and approximately 8,700 customers in a region located between Austin and San Antonio, Texas. WTR is a holding company for a large number of water and wastewater utilities operating in nine different states including Pennsylvania, Ohio, New Jersey, Illinois, Maine, North Carolina, Texas, Florida and Kentucky.

**Q. What criteria did you use in selecting the natural gas LDCs included in your proxy for the Company?**

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

**Q. What companies are included your natural gas proxy?**

A. The nine natural gas LDCs included in my proxy (and their NYSE ticker symbols) are AGL Resources, Inc. ("AGL"), Atmos Energy Corp. ("ATO"), Laclede Group, Inc. ("LG"), New Jersey Resources Corporation ("NJR"), Northwest Natural Gas Co. ("NWN"), Piedmont Natural Gas Company ("PNY"), South Jersey Industries, Inc. ("SJI") Southwest Gas Corporation ("SWX"), which is the dominant natural gas provider in Arizona, and WGL Holdings, Inc. ("WGL").

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

A. Yes, I have used these same LDCs in prior cases including the most recent UNS Gas, Inc. proceeding.[6]

**Q. Briefly describe the regions of the U.S. served by the nine natural gas LDCs that make up your sample proxy.**

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

...

[6] Docket No. G-04204A-10-0158

**Q. Are these the same water and natural gas companies that AWC used in its application?**

A. AWC's cost of equity witness, Dr. Thomas Zepp, used all of the same water companies included in my proxy but did not rely on a sample of LDCs as I did. Dr. Zepp also used three other water companies in his cost of capital analysis which I excluded from mine.

**Q. Which water companies did you exclude from your sample?**

A. I excluded American Water Works Company, Inc., Connecticut Water Service, Inc. and Middlesex Water Company.

**Q. Why did you exclude those three water companies?**

A. I excluded American Water Works Company, Inc., because Value Line does not have five full years of historical data on it. As I will explain later in my testimony, I rely on a five-year average of historical growth as a benchmark figure on which to make my future growth estimates. In regard to Connecticut Water Service, Inc. and Middlesex Water Company, both water companies are followed in Value Line's Small and Mid-Cap edition which does not provide the same type of forward-looking information (i.e. long-term estimates on return on common equity and share growth) that it provides on the four water companies that I used in my proxy.

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

A. Schedule WAR-5 provides retention ratios, returns on book equity, internal growth rates, book values per share, numbers of shares outstanding, and the compounded share growth for each of the utilities included in the sample for the historical observation period 2006 to 2010. Schedule WAR-5 also includes Value Line's projected 2011, 2012 and 2014-16 values for the retention ratio, equity return, book value per share growth rate, and number of shares outstanding for the both the water utilities and the LDCs included in my analysis.

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

A. In explaining my analysis, I will use AWR as an example. The first dividend growth component that I evaluated was the internal growth rate. I used the "b x r" formula (described earlier on pages 11 and 12 of my direct testimony) to multiply AWR's earned return on common equity by its earnings retention ratio for each year in the 2006 to 2010 observation period to derive the utility's annual internal growth rates. I used the mean average of this five-year period as a benchmark against which I compared the projected growth rate trends provided by Value Line. Because an investor is more likely to be influenced by recent growth trends, as opposed to historical averages, the five-year mean noted earlier was used only as a benchmark figure. As shown on Schedule WAR-5, Page 1, AWR's average internal growth rate of 3.67% over the 2006 to 2010 time frame reflects an up and down pattern of growth that ranged from a low of 2.56% in 2006 to a high of 5.85% during 2010. Value Line is predicting a pattern of increasing growth for the future and expects internal growth will fall to 5.00% in 2011 before climbing to 5.86% by the end of the 2014-16 time frame. After weighing Value Line's projections on earnings and dividend growth, I believe that a 6.00% rate of internal sustainable growth is reasonable for AWR (Schedule WAR-4, Page 1 of 2).

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

A. Schedule WAR-5 demonstrates that the number of shares outstanding for AWR increased from 17.05 million to 18.63 million from 2006 to 2010. Value Line is predicting that this level will increase from 19.00 million in 2011 to 20.00 million by the end of 2016. Based on this data, I believe that a 2.50 percent growth in shares is not unreasonable for AWR (Page 2 of Schedule WAR-4). My final dividend growth rate estimate for AWR is 6.85 percent (6.00 percent internal growth + 0.85 percent external growth) and is shown on Page 1 of Schedule WAR-4.

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

A. My average DCF dividend growth rate estimate for my water company sample is 5.87 percent as displayed on page 1 of Schedule WAR-4.

**Q. Did you use the same approach to determine an average dividend growth rate for your proxy of natural gas LDCs?**

A. Yes.

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

A. My average DCF dividend growth rate estimate is 5.78 percent, which is also displayed on page 1 of Schedule WAR-4.

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

A. Schedule WAR-6 compares my growth estimates with the five-year projections of analysts at both Zacks Investment Research, Inc. ("Zacks") (Attachment C) and Value Line. In the case of the water companies, my 5.87 percent growth estimate falls between Zacks' average long-term EPS projection of 10.10 percent for the water companies in my sample and Value Line's growth projection of 4.92 percent (which is an average of

EPS, DPS and BVPS). My 5.87 percent estimate is 70 basis points higher than the 5.17 percent average of Value Line's historical growth results and 32 basis points higher than the 5.55 percent average of the growth data published by Value Line and Zacks. My 5.87 percent growth estimate is also 150 basis points higher than Value Line's 4.37 percent 5-year compound historical average of EPS, DPS and BVPS. The estimates of analysts at Value Line indicate that investors are expecting somewhat higher performance from the water utility industry in the future given Value Line's projected 8.50 percent to 9.50 percent return on book common equity for the water utility industry over the 2011 to 2016 period (Attachment A). On balance, I would say my 5.87 percent estimate is a good representation of the growth projections that are available to the investing public.

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

A. As can be seen on Schedule WAR-6, my 5.78 percent growth estimate for the natural gas LDCs is 116 to 126 basis points higher than the average 4.52 percent Value Line projected estimate (which is an average of EPS, DPS and BVPS), and the 4.62 percent average of long-term EPS consensus projection published by Zacks. The 5.78 percent estimate that I have calculated is 22 basis points higher than the 5.56 percent average of the 5-year historic EPS, DPS and BVPS means of Value Line and is also 80 basis points higher than the combined 4.98 percent Value Line and Zacks averages displayed in Schedule WAR-6. In fact, my 5.78 percent growth estimate exceeds Value Line's 4.29 percent 5-year compound historical average of EPS, DPS and BVPS by 149 basis points. In the case of the LDCs I would say that my 5.78 percent estimate is more optimistic than the growth projections for natural gas LDCs being presented by securities analysts at this point in time.

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

A. For both the water companies and the natural gas LDCs I used the estimated annual dividends, for the next twelve-month period, that appeared in Value Line's October 21, 2011 Ratings and Reports water utility industry update and Value Line's September 9, 2011 Ratings and Reports natural gas utility update. I then divided those figures by the eight-week average daily adjusted closing price per share of the appropriate utility's common stock. The eight-week observation period ran from September 26, 2011 to November 18, 2011. The average dividend yields were 3.13 percent and 3.62 percent for the water companies and natural gas LDCs respectively.

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

A. As shown on page 3 of Schedule WAR-2, the cost of equity capital derived from my DCF analysis is 9.00 percent for the water utilities and 9.40 percent for the natural gas LDCs.

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

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

A. CAPM is a mathematical tool that was developed during the early 1960's by William F. Sharpe[7], the Timken Professor Emeritus of Finance at Stanford University, who shared the 1990 Nobel Prize in Economics for research that eventually resulted in the CAPM model. CAPM is used to analyze the relationships between rates of return on various assets and risk as measured by beta.[8] In this regard, CAPM can help an investor to determine how much risk is associated with a given investment so that he or she can decide if that investment meets their individual preferences. Finance theory has always held that as the risk associated with a given

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

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

investment increases, so should the expected rate of return on that investment and vice versa. According to CAPM theory, risk can be classified into two specific forms: nonsystematic or diversifiable risk, and systematic or non-diversifiable risk. While nonsystematic risk can be virtually eliminated through diversification (i.e. by including stocks of various companies in various industries in a portfolio of securities), systematic risk, on the other hand, cannot be eliminated by diversification. Thus, systematic risk is the only risk of importance to investors. Simply stated, the underlying theory behind CAPM is that the expected return on a given investment is the sum of a risk-free rate of return plus a market risk premium that is proportional to the systematic (non-diversifiable risk) associated with that investment. In mathematical terms, the formula is as follows:

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

where:

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

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

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

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

A. As citizens and investors, we would like to believe that U.S. Treasury securities (which are backed by the full faith and credit of the United States Government) pose no threat of default no matter what their maturity dates are. However, a comparison of various Treasury instruments (Attachment D) will reveal that those with longer maturity dates do have slightly higher yields. Treasury yields are comprised of two separate components,[9] a real rate of interest (believed to be approximately 2.00 percent) and an inflationary expectation. When the real rate of interest is subtracted from the total treasury yield, all that remains is the inflationary expectation. Because increased inflation represents a potential capital loss, or risk, to investors, a higher inflationary expectation by itself represents a degree of risk to an investor. Another way of looking at this is from an opportunity cost standpoint. When an investor locks up funds in long-term T-Bonds, compensation must be provided for future investment

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

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

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

A. I used an eight-week average of the yield on a 5-year U.S. Treasury instrument. The yields were published in Value Line's Selection and Opinion publication dated September 30, 2011 through November 18, 2011 (Attachment D). This resulted in a risk-free ($r_f$) rate of return of 0.97 percent.

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

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

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

A. I used both a geometric and an arithmetic mean of the historical total returns on the S&P 500 index from 1926 to 2010 as the proxy for the market rate of return ($r_m$). For the risk-free portion of the risk premium component ($r_f$), I used the geometric mean of the total returns of intermediate-term government bonds for the same eighty-four year period. The market risk premium ($r_m - r_f$) that results by using the geometric mean of these inputs is 4.50 percent (9.90% - 5.40% = 4.50%). The market risk premium that results by using the arithmetic mean calculation is 6.40 percent (11.90% - 5.50% = 6.40%).

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

A. The beta coefficients (ß), for the individual utilities used in both my proxies, were calculated by Value Line and were current as of October 21, 2011 for the water companies and September 9, 2011 for the natural gas LDCs. Value Line calculates its betas by using a regression analysis between weekly percentage changes in the market price of the security being analyzed and weekly percentage changes in the NYSE Composite

Index over a five-year period. The betas are then adjusted by Value Line for their long-term tendency to converge toward 1.00. The beta coefficients for the service providers included in my water company sample ranged from 0.65 to 0.90 with an average beta of 0.75. The beta coefficients for the LDCs included in my natural gas sample ranged from 0.60 to 0.75 with an average beta of 0.67.

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

A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation using a geometric mean to calculate the risk premium results in an average expected return of 4.34 percent for the water companies and 3.97 percent for the natural gas LDCs. My calculation using an arithmetic mean results in an average expected return of 5.77 percent for the water companies and 5.23 percent for the natural gas LDCs.

**Q. What would be the expected return if a longer term 30-year U.S. Treasury bond were used as the risk free asset in the CAPM model?**

A. If a 3.18 percent eight-week average of 30-year U.S. Treasury bond yields were used in my CAPM model it would produce expected returns of 6.29 percent using a geometric mean, and 7.49 percent using an arithmetic mean for my water company sample with its higher average beta of 0.75.. As I will discuss later in my testimony, the yields of long-term U.S.

Treasury instruments are currently falling as a result of recent actions being undertaken by the U.S. Federal Reserve.

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

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

| METHOD | RESULTS |
|---|---|
| DCF (Water Sample) | 9.00% |
| DCF (Natural Gas Sample) | 9.40% |
| CAPM (Water Sample) | 4.34% – 5.77% |
| CAPM (Natural Gas) | 3.97% – 5.23% |

My final recommended cost of common equity figure is 9.50 percent which is just above the high end of my range of estimates.

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

A. The 12.10 percent cost of equity capital reflected in the Company's Application is 260 basis points higher than the 9.50 percent cost of equity capital that I am recommending.

**Q How did you arrive at your final recommended 9.50 percent cost of common equity?**

A. My recommended 9.50 percent cost of common equity falls just above the high side of the range of estimates obtained from my DCF and CAPM analyses. As I will discuss in more detail in the next section of my testimony, my final estimate takes into consideration current interest rates (as the cost of equity moves in the same direction as interest rates), the current state of the national economy – which could be sliding back into recession. My final estimate also takes into consideration the U.S. Federal Reserve's recent decision not to raise interest rates anytime over the next two years. I also took into consideration information on Arizona's economy and current rate of unemployment in making my final cost of equity estimate.

**Current Economic Environment**

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

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

**Q. Please describe your analysis of the current economic environment.**

A. My analysis begins with a review of the economic events that have occurred between 1990 and the present in order to provide a background on how we got to where we are now. It also describes how the Board of Governors of the Federal Reserve System ("Federal Reserve" or "Fed") and its Federal Open Market Committee ("FOMC") used its interest rate-setting authority to stimulate the economy by cutting interest rates during recessionary periods and by raising interest rates to control inflation during times of robust economic growth. Schedule WAR-8 displays various economic indicators and other data that I will refer to during this portion of my testimony.

In 1991, as measured by the most recently revised annual change in gross domestic product ("GDP"), the U.S. economy experienced a rate of growth of negative 0.20 percent. This decline in GDP marked the beginning of a mild recession that ended sometime before the end of the first half of 1992. Reacting to this situation, the Federal Reserve, then chaired by noted economist Alan Greenspan, lowered its benchmark federal funds rate[10] in an effort to further loosen monetary constraints - an action that resulted in lower interest rates.

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

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

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

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

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

**Q. How did the U.S. economy fare between 2001 and 2007?**

A. The U.S. economy entered into a recession near the end of the first quarter of 2001. The bullish trend, which had characterized the last half of the 1990's, had already run its course sometime during the third quarter of 2000. Disappointing economic data releases, since the beginning of

2001, preceded the September 11, 2001 terrorist attacks on the World Trade Center and the Pentagon which are now regarded as a defining point during this economic slump. From January 2001 to June 2003 the Federal Reserve cut interest rates a total of thirteen times in order to stimulate growth. During this period, the federal funds rate fell from 6.50 percent to 1.00 percent. The FOMC reversed this trend on June 29, 2004 and raised the federal funds rate 25 basis points to 1.25 percent. From June 29, 2004 to January 31, 2006, the FOMC raised the federal funds rate thirteen more times to a level of 4.50 percent during a period in which the economic picture turned considerably brighter as both Inflation and unemployment fell, wages increased and the overall economy, despite continued problems in housing, grew briskly.[11]

The FOMC's January 31, 2006 meeting marked the final appearance of Alan Greenspan, who had presided over the rate setting body for a total of eighteen years. On that same day, Greenspan's successor, Ben Bernanke, the former chairman of the President's Council of Economic Advisers, and a former Fed governor under Greenspan from 2002 to 2005, was confirmed by the U.S. Senate to be the new Federal Reserve chief. As expected by Fed watchers, Chairman Bernanke picked up where his predecessor left off and increased the federal funds rate by 25 basis points during each of the next three FOMC meetings for a total of

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

seventeen consecutive rate increases since June 2004, and raising the federal funds rate to a level of 5.25 percent. The Fed's rate increase campaign finally came to a halt at the FOMC meeting held on August 8, 2006, when the FOMC decided not to raise rates. Once again, the Fed managed to engineer a soft landing.

**Q. What has been the state of the economy since 2007?**

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

On August 7, 2007, the beginning of what is now being referred to as the Great Recession; the FOMC decided not to increase or decrease the federal funds rate for the ninth straight time and left its target rate unchanged at 5.25 percent.[12] At the time of the Fed's decision, analysts speculated that a rate cut over the next several months was unlikely given the Fed's concern that inflation would fail to moderate. However, during this same period, evidence of an even slower economy and a possible

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

recession was beginning to surface. Within days of the Fed's decision to stand pat on rates, a borrowing crisis rooted in a deterioration of the market for subprime mortgages, and securities linked to them, forced the Fed to inject $24 billion in funds (raised through its open market operations) into the credit markets.[13] By Friday, August 17, 2007, after a turbulent week on Wall Street, the Fed made the decision to lower its discount rate (i.e. the rate charged on direct loans to banks) by 50 basis points, from 6.25 percent to 5.75 percent, and took steps to encourage banks to borrow from the Fed's discount window in order to provide liquidity to lenders. According to an article that appeared in the August 18, 2007 edition of The Wall Street Journal,[14] the Fed had used all of its tools to restore normalcy to the financial markets. If the markets failed to settle down, the Fed's only weapon left was to cut the Federal Funds rate – possibly before the next FOMC meeting scheduled on September 18, 2007.

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

A. Yes. At its regularly scheduled meeting on September 18, 2007, the FOMC surprised the investment community and cut both the federal funds rate and the discount rate by 50 basis points (25 basis points more than

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

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

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

**Q. What actions has the Fed taken in regard to interest rates since the beginning of 2008?**

A. The Fed made two more rate cuts which included a 75 basis point reduction in the federal funds rate on March 18, 2008 and an additional 25 basis point reduction on April 30, 2008. The Fed's decision to cut rates was based on its belief that the slowing economy was a greater concern than the current rate of inflation (which the majority of FOMC members believed would moderate during the economic slowdown).[15] As a result of the Fed's actions, the federal funds rate was reduced to a level of 2.00 percent. From April 30, 2008 through September 16, 2008, the Fed took no further action on its key interest rate. However, the days before and after the Fed's September 16, 2008 meeting saw longstanding Wall Street

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

firms such as Lehman Brothers, Merrill Lynch and AIG failing as a result of their subprime holdings. By the end of the week, the Bush administration had announced plans to deal with the deteriorating financial condition which had now become a worldwide crisis. The administrations actions included former Treasury Secretary Henry Paulson's request to Congress for $700 billion to buy distressed assets as part of a plan to halt what has been described as the worst financial crisis since the 1930's[16]. Amidst this turmoil, the Fed made the decision to cut the federal funds rate by another 50 basis points in a coordinated move with foreign central banks on October 8, 2008. This was followed by another 50 basis point cut during the regular FOMC meeting on October 29, 2008. At the time of this writing, the federal funds target rate now stands at 0.25 percent, the result of a 75 basis point cut announced on December 16, 2008.

**Q. What is the current rate of inflation in the U.S.?**

A. As can be seen on Schedule WAR-8, the current rate of inflation, as measured by the consumer price index, is at 3.90 percent according to information provided by the U.S. Department of Labor's Bureau of Labor Statistics.[17]

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

[17] http://www.bls.gov/news.release/cpi.nr0.htm

**Q. Has the Fed raised interest rates in anticipation of higher inflation?**

A. No. The FOMC has not raised interest rates to date. The Fed's plan to buy $600 billion of U.S. government bonds over an eight month period, known as quantitative easing stage two or QE2,[18] was completed during the summer of 2011. The attempt to drive down long-term interest rates and encourage more borrowing and growth by increasing the money supply has yet to stimulate the economy and fears of a double dip recession persist. At its August 9, 2011 meeting, the FOMC announced that it intended to keep interest rates at their current levels for at least the next two years warning that the economy would remain weak for some time but that the Fed is prepared to take further steps to shore it up.[19]

**Q. Has the Fed taken any recent action, such as QE2, to stimulate the economy?**

Yes. At the close of the FOMC's September meeting the Fed announced its decision to implement a plan that resembles a 1961 Federal Reserve program known as "Operation Twist".[20] Under this plan, the Fed will sell $400 billion in Treasury securities that mature within three years. The proceeds from these sales will then be reinvested into securities that

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[18] Hilsenrath, Jon, "Fed Fires $600 Billion Stimulus Shot" The Wall Street Journal, November 4, 2010

[19] Reddy, Sudeep and Jonathan Cheng "Markets Sink Then Soar After Fed Speaks" The Wall Street Journal, August 10, 2011

[20] Hilsenrath, Jon and Luca Di Leo "Fed Launches New Stimulus" The Wall Street Journal, September 22, 2011

mature in six to 30 years. This action would significantly alter the balance of the Fed's holdings toward long-term securities. In addition to selling off its shorter term Treasury holdings, the Fed will take the proceeds from its maturing mortgage-backed securities and reinvest them in other mortgage backed securities. For the past year, the Fed has been reinvesting that money into Treasury bonds, shrinking its mortgage portfolio. The overall goal of the Fed's plan is to reduce long-term interest rates in the hope of boosting investment and spending and provide a shot in the arm to the beleaguered housing sector of the economy. During its most recent FOMC meeting held on November 1, 2011, the Fed decided not to make any changes to existing interest rates.

**Q. Has there been any noticeable drop in long-term rates since the Fed announced its plan to purchase longer term Treasury instruments?**

A. Yes. The yield on the 30-year Treasury bond has from fallen from 3.07 percent to 3.03 percent since the early part of October 2011.

**Q. Putting this all into perspective, how have the Fed's actions since 2000 affected the yields on Treasury Instruments and benchmark interest rates?**

A. As can be seen on Schedule WAR-8, current Treasury yields are considerably lower than corresponding yields that existed during the year 2000 and U.S. Treasury instruments, are for the most part, still at historically low levels. As can be seen on the first page of Attachment D, the previously mentioned federal discount rate (the rate charged to the Fed's member banks), has remained steady at 0.75 percent since November of 2010.

As of November 4, 2011, leading interest rates that include the 3-month, 6-month and 1-year treasury yields have dropped from their November 2010 levels. Longer term yields including the 5-year, 10-year and 30-year have all fallen from levels that existed a year ago. The same is true for the 30-year Zero rate. The prime rate has remained constant at 3.25 percent over the past year, as has the benchmark federal funds rate discussed above. A previous trend, described by former Chairman Greenspan as a "conundrum"[21], in which long-term rates fell as short-term rates increased, thus creating a somewhat inverted yield curve that existed as late as June 2007, is completely reversed and a more traditional yield curve (one where yields increase as maturity dates lengthen) presently exists. The 5-year Treasury yield, used in my CAPM analysis, has decreased 33 basis points from 1.20 percent, in November 2010, to 0.87 percent as of November 9, 2011.

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

**Q. What are the current yields on utility bonds?**

A. Referring again to Attachment D, as of November 9, 2011, 25/30-year A-rated utility bonds were yielding 4.14 percent (135 basis points lower than a year ago) and 25/30-year Baa/BBB-rated utility bonds were yielding 4.83 percent (down 105 basis points from a year earlier).

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

A. The current outlook on the economy is that a slide into recession appears to be unlikely but an outlook for slower growth persists with continued elevated levels of unemployment. Value line's analysts offered this perspective in the November 18, 2011 edition of Value Line's <u>Selection and Opinion</u> publication:

> **"The listless employment outlook underscores the tenuous nature of the maturing economic recovery.** It has been more than two years since we bid adieu to what was likely the worst recession of the postwar era. Unfortunately, throughout this long recuperative stretch, the U.S. has battled low job growth and historically high unemployment. Worse, data for October did little to improve things, as just 80,000 jobs were added in the month, which was well below both the 125,000 average monthly gain tallied over the past year, and the 200,000, or so, new positions we sense are needed to notably pare the bloated 9.0% jobless rate."

Value Line's analysts went on to say:

> **"There's little to spark excitement elsewhere.** Clearly, it is more than the slow pace of job creation that is restraining growth. There's also the unending ills in housing, the uneven pattern in non-manufacturing (i.e., the services sector, which is a big part of GDP), and the slow pace of personal income growth."

**Q. How are water utilities such as AWC faring in the current economic environment?**

A. While, as always, there are concerns regarding long-term infrastructure requirements, Value Line analyst Andre J. Costanza stated in his October 22, 2011 quarterly water industry update (Attachment A) that water utilities are being viewed as safe havens during the current period of economic uncertainty – even though they are regarded as less than stellar investments. Mr. Costanza went on to state the following:

> "The Water Utility Industry looks to be back in vogue. Although the broader market averages have been extremely volatile, giving back significant ground since our July report, the stocks in this group have held up relatively well. Wall Street has, as is typical in times of economic uncertainty, poured money into these issues, opting for their perceived safety and steady dividends.
>
> With the U.S. economy filled with uncertainty, the group is likely to remain in the upper echelon of The Value Line Investment community in terms of relative price performance for the coming six to 12 months. Indeed, fears of a new recession will probably continue to hang over the stock market, painting a favorable picture for water providers. There are a few stocks that are ranked favorably for Timeliness. That said, most of the issues in this space lose their allure looking further out. Growing earnings will be a tough task for just about all of the utilities in this group due to the rising costs of doing business associated with delivering water to the people. Although current dividend yields may pique the interest of those seeking to add an income producer to their fold, there are better options elsewhere."

**Q. How has Arizona fared in terms of the overall economy and home foreclosures?**

A. Arizona was one of the states hit hardest during the Great Recession and has lagged during the current recovery.[22] During the period between 2006

[22] Beard, Betty, "Recession hit Arizona hardest" The Arizona Republic, March 6, 2011

and 2009, statewide construction spending fell by 40.00 percent. According to information provided by Irvine, California-based RealtyTrac on November 9, 2011, Arizona still ranks third in the nation behind Nevada and California. According to RealtyTrac, Arizona had the nation's third highest state foreclosure rate in October 2011; recording one in every 259 housing units with a foreclosure filing during the month. Total foreclosure activity in Arizona increased nearly 18 percent from the previous month, but was still down 36 percent from October 2010.[23]

**Q. What is the current unemployment situation in Arizona during this period of economic recovery?**

A. According to information published on November 22, 2011, and displayed on the website of the Arizona Department of Administration's Office of Employment and Population Statistics,[24] the seasonally adjusted unemployment rate for Arizona dropped one tenth of a percentage point from 9.1% in September 2011, to 9.0% in October 2011. At the time that this information was compiled, Arizona's rate of unemployment mirrored the U.S. unemployment rate which also dropped to 9.0 percent. In

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[23] RealtyTrack Staff, "U.S. Foreclosure Activity Hits 7-Month High in October," RealtyTrack, November 9, 2011.

[24] Arizona Department of Administration's Office of Employment and Population Statistics http://www.workforce.az.gov/

October 2010 the U. S. rate was 9.7% and Arizona's rate was 9.8%[25] as can be seen below:

**Arizona, U.S. Economic Indicators**
**Unemployment Rate (Seasonally Adj.)**

| | Oct '11 | Sep '11 | Oct '10 |
|---|---|---|---|
| United States | 9.0% | 9.1% | 9.7% |
| Arizona | 9.0% | 9.1% | 9.8% |
| Arizona unadjusted rate | 8.9% | 8.9% | 9.7% |

According to the November 22, 2011 Arizona Department of Administration's Office of Employment and Population Statistics report, the October 2011 rates of unemployment by county as follows:

**County Unemployment Rates - October 2011**

| | |
|---|---|
| Apache | 15.0% |
| Cochise | 8.1% |
| Coconino | 7.3% |
| Gila | 10.1% |
| Graham | 10.4% |
| Greenlee | 7.3% |
| La Paz | 9.5% |
| Maricopa | 7.9% |
| Mohave | 10.1% |
| Navajo | 14.3% |
| Pima | 7.9% |
| Pinal | 10.6% |
| Santa Cruz | 18.2% |
| Yavapai | 9.5% |
| Yuma | 26.3% |

AWC's Western Group systems provide service to ratepayers in Maricopa, Pinal and Pima Counties.

[25] U.S. Bureau of Labor Statistics Economic News Release dated June 3, 2011 http://www.bls.gov/news.release/empsit.nr0.htm

**Q. After weighing the economic information that you've just discussed, do you believe that the 10.00 percent cost of equity capital that you have estimated is reasonable for the Company?**

A. I believe that my recommended 9.50 percent cost of equity capital, which is 467 basis points higher than the current 4.83 percent yield on a Baa/BBB-rated utility bond, will provide AWC with a reasonable rate of return on invested capital when data on interest rates (that are low by historical standards), the current state of the economy, current rates of unemployment (both nationally, in Arizona, and in the counties served by AWC), and the Fed's decision to keep interest rates at their current levels over the next two years are all taken into consideration. As I noted earlier, the Hope decision determined that a utility is entitled to earn a rate of return that is commensurate with the returns it would make on other investments with comparable risk. I believe that my cost of equity analysis, which is on the high side of the range of results I obtained from both the DCF and CAPM models, has produced such a return.

**COST OF DEBT**

**Q. Have you reviewed AWC's testimony on the Company-proposed cost of long-term debt?**

A. Yes.

**Q. What cost of long-term debt are you recommending for AWC?**

A. I am recommending that the Commission adopt the Company proposed cost of debt of 6.82 percent.

**CAPITAL STRUCTURE**

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

A. Yes.

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

A. The Company is proposing a capital structure comprised of 49.03 percent long-term debt and 50.97 percent common equity.

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

A. For the most part, yes. As can be seen in Schedule WAR-9, AWC's capital structure is heavier in equity than the capital structures of the water utilities in my sample and would be perceived by investors as having lower financial risk. The capital structures for my sample water utilities averaged 53.80 percent for debt and 46.20 percent for equity. AWC is not as heavy in equity as the capital structures of the LDCs in my sample. The capital structures for those utilities averaged 43.90 percent for debt and 56.10 percent for equity (55.4 percent common equity + 0.7 percent preferred equity).

**Q. What capital structure are you recommending for AWC?**

A. I am recommending that the Commission adopt the Company-proposed capital structure comprised of 49.03 percent long-term debt and 50.97 percent common equity.

## WEIGHTED COST OF CAPITAL

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

A. The Company has proposed a weighted average cost of capital of 9.51 percent. This figure is the result of a weighted average of AWC's proposed 6.82 percent cost of long-term debt and 12.10 percent cost of common equity capital. The Company-proposed 9.51 percent weighted cost of capital is 132 basis points higher than the 8.19 percent weighted cost of capital that I am recommending.

## COMMENTS ON AWC'S COST OF EQUITY CAPITAL TESTIMONY

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

A. The Company's cost of capital witness, Dr. Zepp, is recommending a cost of common equity of 12.10 percent. His 12.10 percent cost of equity capital is 260 basis points higher than the 9.50 percent cost of equity capital that I am recommending.

**Q. Briefly summarize Dr. Zepp's direct testimony.**

A. The first portion of Dr. Zepp's testimony describes the risks that he believes AWC faces and why the Company requires an additional premium of at least 50 basis points because of business risk that is higher than that faced by the companies in his sample. The remainder of his testimony presents the results of his DCF and CAPM analyses.

**Q. What methods did Dr. Zepp use to arrive at his cost of common equity for AWC?**

A. Dr. Zepp used both the DCF and CAPM methods. His DCF analysis relies on two estimates for the growth component ("g") of the constant model that I also used in my analysis. Dr. Zepp's DCF results range from 11.60 percent to 12.90 percent compared with my DCF estimates that range from 9.00 percent to 9.40 percent. In regard to the CAPM, Dr. Zepp also uses the same Sharpe/Litner version of the CAPM model that I have used. His CAPM analysis uses two different market risk premium inputs and his results range from 10.90 percent to 12.80 percent compared with my CAPM estimates that range from 3.97 percent to 5.77 percent.

**DCF Comparison**

**Q. Please compare the results that you obtained from your DCF analysis and the results that Dr. Zepp obtained from his DCF analysis using the constant growth model?**

A. Dr. Zepp's average dividend yields of 3.60 percent and 3.67 percent, based on three and six months of observed stock price movements respectively, are somewhat higher the average 3.13 percent result I obtained from my water company sample and the 3.62 percent average dividend yield obtained from my sample of LDC's. The main reason for the difference in our DCF results are the growth estimates that Dr. Zepp used in his DCF model. His first growth estimate of 8.43 percent, which he labels as "conceptually correct" produces a cost of equity estimate of 12.30 percent when his 8.43 percent growth estimate is added to an expected three month dividend yield of 3.91 percent and an estimate of 12.40 percent when his 8.43 percent growth estimate is added to an expected six month dividend yield of 3.98 percent. His second growth estimate of 7.69 percent which is based on ACC Staff's past approach for calculating DCF growth components, produced cost of equity estimates of 11.60 percent when the 7.69 percent growth estimate is added to an expected three month dividend yield of 3.88 percent and to an expected six month dividend yield of 3.95 percent.

**Q. Do you agree with Dr. Zepp's estimates of growth?**

A. No. I believe that the main reason for the difference in our earnings estimates is that Dr. Zepp is relying only on earnings per share forecasts as opposed to taking estimates of future growth in earnings, dividends and book value per share into consideration as I have in developing my DCF growth estimates (current Value Line estimates of EPS, DPS and BVPS for the companies included in my water and gas samples can be seen on my Schedule WAR-6). Reliance on analysts' earnings per share estimates alone would tend to produce the higher results obtained by Dr. Zepp.

**CAPM Comparison**

**Q. What is the difference between the risk-free instrument that Dr. Zepp used in his CAPM model and the one that you used?**

A. Dr. Zepp used forecasted yields on long-term U.S. Treasury instruments as the input for the risk-free rate of return component in the CAPM model. Dr Zepp's average forecasted long-term yield of 5.03 percent is 406 basis points higher than 0.97 percent average yield of the 5-year treasury instrument that I relied on.

...

**Q. What are your concerns with Dr. Zepp's use of forecasted yields on long-term U.S. Treasury instruments for a risk-free rate of return?**

A. Besides the fact that Dr. Zepp relied on forecasts as opposed to actual current yields (that result from prices for Treasury instruments that factor in investors' future expectations) I believe that long-term treasury instruments are not as suitable as intermediate-term instruments. As I stated earlier in my testimony, utilities in Arizona typically file for rates every three to five years. Because of this, I believe that the yield on a 5-year U.S. Treasury Instrument is a better proxy for a risk-free rate of return. That aside, analysts forecasts of interest rates generally tend to be overly optimistic. Dr. Zepp's 5.03 percent risk-free rate is an average of analysts' estimates of long-term Treasury rates for 2011, 2012 and 2013 which were made in June of 2010. The estimates are not reasonable at this point in time given the Federal Reserve's intent to keep interest rates at their current levels for at least the next two years. In addition to this fact, long-term rates appear to be falling as a result of the Fed's current plan to reduce long-term interest rates which I discussed earlier in my testimony.

...

**Q. How did Dr. Zepp's average beta used in his CAPM model compare with the average beta that you used in yours?**

A. Dr Zepp's average beta for the water companies in his sample averaged 0.76 which is close to the average 0.75 beta for water companies that I used in my CAPM analysis.

**Q. How does Dr. Zepp's market risk premium compare with the market risk premium that you used in your CAPM analysis?**

A. Dr. Zepp relied on a 6.70 percent market risk premium published by Morningstar which is close to the 6.40 percent market risk premium (based on an arithmetic mean) that I relied on. He also relied on a higher market risk premium of 9.40 percent. His 9.40 percent market risk premium was calculated on a narrower range of observed data from 1984 through 2010 as opposed to the broader range that I relied on which included total returns over the period between 1926 and 2007. I believe that the time period that I relied on is more appropriate since it encompasses a greater number of events that have impacted the U.S. economy such as the Great Depression, a number of recessions with varying degrees of severity, the U.S. involvement in five major armed conflicts, which includes World War II, and periods of domestic political and social strife).

**Q. How did Dr. Zepp arrive at his final 12.10 percent cost of common equity for AWC?**

A. Dr. Zepp's final estimate of 12.10 percent is based upon an average of the results of his various DCF and CAPM models. In arriving at final cost of equity figure for AWC, he adds an additional 50 basis points, to take into account the additional risks that Dr. Zepp believes AWC faces.

**Q. Do you agree with Dr. Zepp's assertion that AWC needs a 50 basis point adjustment for business risk?**

A. No. Each of the Companies used in my water sample are essentially a collection of water systems such as the ones that make up AWC. These systems face the same type of risks faced by AWC and investors' tolerance for those types of risk are reflected in the cost of equity capital derivied from my analysis. I believe that my 9.50 percent cost of equity, which is higher than the DCF results of my sample water companies with less equity in their average capital structure would compensate investors and therefore riskier than AWC, would mitigate any perceived business risk that is unique to AWC.

...

**Q. Does your silence on any of the issues, matters or findings addressed in the testimony of Dr. Zepp or any other witness for AWC constitute your acceptance of their positions on such issues, matters or findings?**

A. No, it does not.

**Q. Does this conclude your testimony on AWC?**

A. Yes, it does.

Appendix 1

# Qualifications of William A. Rigsby, CRRA

| | |
|---|---|
| **EDUCATION:** | University of Phoenix<br>Master of Business Administration, Emphasis in Accounting, 1993 |
| | Arizona State University<br>College of Business<br>Bachelor of Science, Finance, 1990 |
| | Mesa Community College<br>Associate of Applied Science, Banking and Finance, 1986 |
| | Society of Utility and Regulatory Financial Analysts<br>38th Annual Financial Forum and CRRA Examination<br>Georgetown University Conference Center, Washington D.C.<br>Awarded the Certified Rate of Return Analyst designation after successfully completing SURFA's CRRA examination. |
| | Michigan State University<br>Institute of Public Utilities<br>N.A.R.U.C. Annual Regulatory Studies Program, 1997 &1999 |
| | Florida State University<br>Center for Professional Development & Public Service<br>N.A.R.U.C. Annual Western Utility Rate School, 1996 |
| **EXPERIENCE:** | Public Utilities Analyst V<br>Residential Utility Consumer Office<br>Phoenix, Arizona<br>April 2001 – Present |
| | Senior Rate Analyst<br>Accounting & Rates - Financial Analysis Unit<br>Arizona Corporation Commission, Utilities Division<br>Phoenix, Arizona<br>July 1999 – April 2001 |
| | Senior Rate Analyst<br>Residential Utility Consumer Office<br>Phoenix, Arizona<br>December 1997 – July 1999 |
| | Utilities Auditor II and III<br>Accounting & Rates – Revenue Requirements Analysis Unit<br>Arizona Corporation Commission, Utilities Division<br>Phoenix, Arizona<br>October 1994 – November 1997 |
| | Tax Examiner Technician I / Revenue Auditor II<br>Arizona Department of Revenue<br>Transaction Privilege / Corporate Income Tax Audit Units<br>Phoenix, Arizona<br>July 1991 – October 1994 |

Appendix 1

## RESUME OF RATE CASE AND REGULATORY PARTICIPATION

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

## RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

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

Appendix 1

## RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

| Utility Company | Docket No. | Type of Proceeding |
|---|---|---|
| Arizona-American Water Company | W-01303A-02-0867 et al. | Rate Increase |
| Arizona Public Service Company | E-01345A-03-0437 | Rate Increase |
| Rio Rico Utilities, Inc. | WS-02676A-03-0434 | Rate Increase |
| Qwest Corporation | T-01051B-03-0454 | Renewed Price Cap |
| Chaparral City Water Company | W-02113A-04-0616 | Rate Increase |
| Arizona Water Company | W-01445A-04-0650 | Rate Increase |
| Tucson Electric Power | E-01933A-04-0408 | Rate Review |
| Southwest Gas Corporation | G-01551A-04-0876 | Rate Increase |
| Arizona-American Water Company | W-01303A-05-0405 | Rate Increase |
| Black Mountain Sewer Corporation | SW-02361A-05-0657 | Rate Increase |
| Far West Water & Sewer Company | WS-03478A-05-0801 | Rate Increase |
| Gold Canyon Sewer Company | SW-02519A-06-0015 | Rate Increase |
| Arizona Public Service Company | E-01345A-05-0816 | Rate Increase |
| Arizona-American Water Company | W-01303A-05-0718 | Transaction Approval |
| Arizona-American Water Company | W-01303A-05-0405 | ACRM Filing |
| Arizona-American Water Company | W-01303A-06-0014 | Rate Increase |
| UNS Gas, Inc. | G-04204A-06-0463 | Rate Increase |
| Arizona-American Water Company | WS-01303A-06-0491 | Rate Increase |
| UNS Electric, Inc. | E-04204A-06-0783 | Rate Increase |
| Arizona-American Water Company | W-01303A-07-0209 | Rate Increase |
| Tucson Electric Power | E-01933A-07-0402 | Rate Increase |
| Southwest Gas Corporation | G-01551A-07-0504 | Rate Increase |
| Chaparral City Water Company | W-02113A-07-0551 | Rate Increase |
| Arizona Public Service Company | E-01345A-08-0172 | Rate Increase |
| Johnson Utilities, LLC | WS-02987A-08-0180 | Rate Increase |
| Arizona-American Water Company | W-01303A-08-0227 et al. | Rate Increase |

## RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

| Utility Company | Docket No. | Type of Proceeding |
|---|---|---|
| UNS Gas, Inc. | G-04204A-08-0571 | Rate Increase |
| Arizona Water Company | W-01445A-08-0440 | Rate Increase |
| Far West Water & Sewer Company | WS-03478A-08-0608 | Interim Rate Increase |
| Black Mountain Sewer Corporation | SW-02361A-08-0609 | Rate Increase |
| Global Utilities | SW-02445A-09-0077 et al. | Rate Increase |
| Litchfield Park Service Company | SW-01428A-09-0104 et al. | Rate Increase |
| UNS Electric, Inc. | E-04204A-09-0206 | Rate Increase |
| Rio Rico Utilities, Inc. | WS-02676A-08-09-0257 | Rate Increase |
| Arizona-American Water Company | W-01303A-09-0343 | Rate Increase |
| Bella Vista Water Company | W-02465A-09-0411 et al. | Rate Increase |
| Chaparral City Water Company | W-02113A-10-0309 | Reorganization |
| Qwest Communications International | T-04190A-10-0194 et al. | Merger |
| Qwest Communications International | T-04190A-10-0194 et al. | Merger |
| CenturyLink, Inc. | T-04190A-10-0194 et al. | Merger |
| Southwest Gas Corporation | G-01551A-10-0458 | Rate Increase |
| Arizona-American Water Company | W-01303A-10-0448 | Rate Increase |
| Arizona-American Water Company | W-01303A-11-0101 | Reorganization |
| Bermuda Water Company, Inc. | W-01812A-10-0521 | Rate Increase |
| UNS Gas, Inc. | G-04204A-11-0158 | Rate Increase |
| Arizona Public Service Company | E-01345A-11-0224 | Rate Increase |

# ATTACHMENT A

# WATER UTILITY INDUSTRY



**INDUSTRY TIMELINESS: 8 (of 98)**

**The Water Utility Industry looks to be back in vogue. Although the broader market averages have been extremely volatile, giving back significant ground since our July report, the stocks in this group have held up relatively well. Wall Street has, as is typical in times of economic uncertainty, poured money into these issues, opting for their perceived safety and steady dividends.**

**With the U.S. economy filled with uncertainty, the group is likely to remain in the upper echelon of *The Value Line Investment* community in terms of relative price performance for the coming six to 12 months. Indeed, fears of a new recession will probably continue to hang over the stock market, painting a favorable picture for water providers. There are a few stocks that are ranked favorably for Timeliness. That said, most of the issues in this space lose their allure looking further out. Growing earnings will be a tough task for just about all of the utilities in this group due to the rising costs of doing business associated with delivering water to the people. Although current dividend yields may pique the interest of those seeking to add an income producer to their fold, there are better options elsewhere.**

### Undeniable Demand

Without question, water is a necessity; so, too, is the need for water providers. The safe and timely delivery of water to millions of people every day is important. A growing population only creates a more favorable backdrop looking ahead.

But with great power comes great responsibility. Recognizing the importance and difficulties of maintaining water quality, the government holds utilities up to high standards. Aside from the EPA, operators have to answer to state regulatory boards, which are also responsible for, among other things, keeping the balance of power between providers and customers. They are asked to, among other things, review and rule on general rate case requests submitted by providers looking to recover costs incurred during distribution. Their decisions have become critical, as the costs of water production have swelled. Although they have long sided with consumers, regulators appear to have taken on a more business-friendly attitude of late.

### Insatiable Burdens

But while providers are looking to build new pipelines in order to expand their footprints and their customer bases, they are also juggling maintaining aging infrastructures. Indeed, most systems are old and in need of significant repairs, if not complete overhauls. These costs have escalated into the hundreds of millions of dollars and are expected to remain on an upward trajectory. Although more favorable regulatory backing helps support some of the burden, the expenses related to doing business present a bit of a problem in terms of earnings growth rates looking ahead.

### Tight Finances

Another thing that stands out when examining the companies in this space is their balance sheets. Most utilities are strapped for cash and are debt ridden. Outside financing has become commonplace for many, and that is not likely to change, given the dynamics of the industry. Even if it does, the lack of financial flexibility of most here precludes them from taking advantage of fragmentation within the sector and from throwing their hats in the acquisition ring.

### Conclusion

Interest in the Water Utility Industry has definitely picked up in recent months and will likely continue to do so if signs of another recession do not relinquish. *American States Water* and *American Water Works* are both riding the wave of this intrigue, and are each now ranked 1 (Highest) for Timeliness.

However, those looking to dip their toe in the Water Utility group, ought to note that relative price appreciation potential is not something this industry is known for. In fact, growth potential typically lags that of the average stock in our *Survey*, due to the capital-intensive nature of the field.

Dividend growth on the other hand has been synonymous with those operating here. That said, prospective investors should keep in mind the industry's capital restraints and potentially lower yields going further out. Either way, there are better streams of income to be had in the Electric Utility Industry. As always, we advise investors to take a more in-depth look at the stocks before making a commitment.

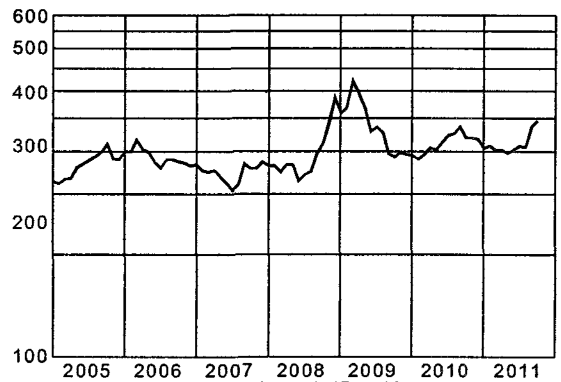
*Andre J. Costanza*

**Composite Statistics: Water Utility Industry**

| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | | 14-16 |
|---|---|---|---|---|---|---|---|
| 3777.9 | 4004.3 | 4228.9 | 4614.5 | *4850* | *5150* | Revenues ($mill) | *6075* |
| d157.5 | d369.0 | d33.5 | 499.3 | *575* | *625* | Net Profit ($mill) | *775* |
| NMF | NMF | NMF | 40.0% | *39.0%* | *39.0%* | Income Tax Rate | *39.0%* |
| NMF | 1.5% | 1.1% | 1.0% | *1.0%* | *2.0%* | AFUDC % to Net Profit | *7.0%* |
| 50.9% | 52.1% | 55.1% | 55.3% | *55.0%* | *53.0%* | Long-Term Debt Ratio | *52.0%* |
| 49.1% | 47.9% | 44.9% | 54.7% | *45.0%* | *47.0%* | Common Equity Ratio | *48.0%* |
| 13134.6 | 12795.2 | 14011.9 | 14720.8 | *15075* | *15400* | Total Capital ($mill) | *16450* |
| 14542.8 | 15611.0 | 15910.8 | 17869.0 | *18550* | *18950* | Net Plant ($mill) | *21700* |
| .4% | 4.5% | 4.4% | 4.9% | *5.5%* | *6.0%* | Return on Total Cap'l | *8.0%* |
| NMF | 6.1% | 6.5% | 7.7% | *8.5%* | *9.0%* | Return on Shr. Equity | *9.5%* |
| NMF | 6.1% | 6.5% | 7.7% | *8.5%* | *9.0%* | Return on Com Equity | *9.5%* |
| NMF | 3.0% | 2.1% | 3.1% | *3.5%* | *4.0%* | Retained to Com Eq | *4.5%* |
| NMF | 51% | 68% | 60% | *56%* | *55%* | All Div'ds to Net Prof | *53%* |
| NMF | 20.7 | 19.3 | 17.3 | *Bold figures are Value Line estimates* | | Avg Ann'l P/E Ratio | *21.0* |
| NMF | 1.25 | 1.29 | 1.10 | | | Relative P/E Ratio | *1.40* |
| 2.3% | 2.5% | 3.5% | 3.4% | | | Avg Ann'l Div'd Yield | *2.6%* |

**Water Utility**

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




Index: June, 1967 = 100

# AMER. STATES WATER NYSE-AWR

RECENT PRICE **34.49** | P/E RATIO **16.0** (Trailing: 14.9 / Median: 22.0) | RELATIVE P/E RATIO **1.17** | DIV'D YLD **3.2%** | VALUE LINE

**TIMELINESS 1** Raised 9/16/11
**SAFETY 3** New 2/4/00
**TECHNICAL 3** Lowered 10/21/11
**BETA** .75 (1.00 = Market)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 25.3 | 26.4 | 29.0 | 29.0 | 26.8 | 34.6 | 43.8 | 46.1 | 42.0 | 38.8 | 39.6 | 36.4 |
| Low: | 16.7 | 19.0 | 20.3 | 21.6 | 20.8 | 24.3 | 30.3 | 33.6 | 27.0 | 29.8 | 31.2 | 30.5 |

**2014-16 PROJECTIONS**

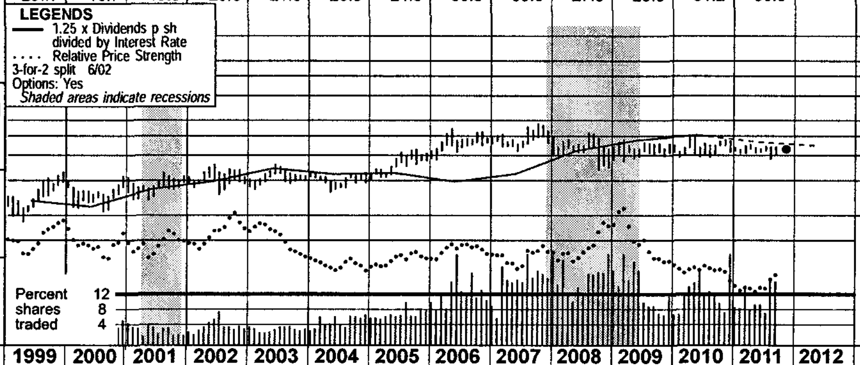
| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 55 | (+60%) | 15% |
| Low | 40 | (+15%) | 7% |

**Insider Decisions**

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

**Institutional Decisions**

| | 4Q2010 | 1Q2011 | 2Q2011 |
|---|---|---|---|
| to Buy | 59 | 51 | 48 |
| to Sell | 51 | 48 | 55 |
| Hld's(000) | 11086 | 11214 | 11377 |




**Target Price Range**
2014 | 2015 | 2016

**% TOT. RETURN 9/11**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | -2.2 | -4.8 |
| 3 yr. | -3.6 | 25.0 |
| 5 yr. | 2.2 | 16.6 |

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 19.48 | 21.41 | *22.10* | *22.85* | Revenues per sh | *26.25* |
| 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 | 3.40 | 4.23 | *4.20* | *4.40* | "Cash Flow" per sh | *4.75* |
| 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 | 1.62 | 2.22 | *2.10* | *2.20* | Earnings per sh A | *2.50* |
| .81 | .82 | .83 | .84 | .85 | .86 | .87 | .87 | .88 | .89 | .90 | .91 | .96 | 1.00 | 1.01 | 1.04 | *1.10* | *1.16* | Div'd Decl'd per sh B■ | *1.28* |
| 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 | 4.18 | 4.24 | *4.00* | *4.15* | Cap'l Spending per sh | *4.75* |
| 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 | 19.39 | 20.26 | *20.55* | *20.80* | Book Value per sh | *20.00* |
| 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 | 18.53 | 18.63 | *19.00* | *19.25* | Common Shs Outst'g C | *20.00* |
| 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 | 21.2 | 15.7 | *Bold figures are* | | Avg Ann'l P/E Ratio | *19.0* |
| .78 | .79 | .84 | .81 | .97 | 1.03 | .86 | 1.00 | 1.82 | 1.23 | 1.17 | 1.50 | 1.27 | 1.36 | 1.41 | 1.01 | *Value Line* | | Relative P/E Ratio | *1.25* |
| 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% | 3.0% | *estimates* | | Avg Ann'l Div'd Yield | *2.7%* |

**CAPITAL STRUCTURE as of 6/30/11**
Total Debt $352.8 mill. Due in 5 Yrs $288.5 mill.
LT Debt $340.4 mill. LT Interest $27.6 mill.
(LT interest earned: 4.2x: total interest coverage: 4.0x) (46% of Cap'l)

Leases, Uncapitalized: Annual rentals $3.3 mill.

Pension Assets-12/10 $90.2 mill. Oblig. $118.8 mill.

Pfd Stock None.

Common Stock 18,684,812 shs. as of 8/5/11

MARKET CAP: $650 million (Small Cap)

| 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 197.5 | 209.2 | 212.7 | 228.0 | 236.2 | 268.6 | 301.4 | 318.7 | 361.0 | 398.9 | *420* | *440* | Revenues ($mill) | *525* |
| 20.4 | 20.3 | 11.9 | 16.5 | 22.5 | 23.1 | 28.0 | 26.8 | 29.5 | 41.4 | *40.0* | *43.0* | Net Profit ($mill) | *50.0* |
| 43.0% | 38.9% | 43.5% | 37.4% | 47.0% | 40.5% | 42.6% | 37.8% | 38.9% | 43.2% | *43.0%* | *42.0%* | Income Tax Rate | *40.0%* |
| -- | -- | -- | -- | -- | 12.2% | 8.5% | 6.9% | 3.2% | 5.8% | *5.0%* | *5.0%* | AFUDC % to Net Profit | *5.0%* |
| 54.9% | 52.0% | 52.0% | 47.7% | 50.4% | 48.6% | 46.9% | 46.2% | 45.9% | 44.3% | *46.0%* | *46.5%* | Long-Term Debt Ratio | *47.0%* |
| 44.7% | 48.0% | 48.0% | 52.3% | 49.6% | 51.4% | 53.1% | 53.8% | 54.1% | 55.7% | *54.0%* | *53.5%* | Common Equity Ratio | *53.0%* |
| 447.6 | 444.4 | 442.3 | 480.4 | 532.5 | 551.6 | 569.4 | 577.0 | 665.0 | 677.4 | *690* | *705* | Total Capital ($mill) | *750* |
| 539.8 | 563.3 | 602.3 | 664.2 | 713.2 | 750.6 | 776.4 | 825.3 | 866.4 | 855.0 | *890* | *930* | Net Plant ($mill) | *1060* |
| 6.1% | 6.5% | 4.6% | 5.2% | 5.4% | 6.0% | 6.7% | 6.4% | 5.9% | 7.6% | *7.0%* | *7.5%* | Return on Total Cap'l | *8.0%* |
| 10.1% | 9.5% | 5.6% | 6.6% | 8.5% | 8.1% | 9.3% | 8.6% | 8.2% | 11.0% | *10.5%* | *11.0%* | Return on Shr. Equity | *12.0%* |
| 10.1% | 9.5% | 5.6% | 6.6% | 8.5% | 8.1% | 9.3% | 8.6% | 8.2% | 11.0% | *10.5%* | *10.0%* | Return on Com Equity | *12.0%* |
| 3.6% | 3.3% | NMF | 1.0% | 2.8% | 2.7% | 3.9% | 3.1% | 3.2% | 5.8% | *5.0%* | *5.5%* | Retained to Com Eq | *6.0%* |
| 65% | 65% | 113% | 84% | 67% | 67% | 58% | 64% | 61% | 47% | *52%* | *52%* | All Div'ds to Net Prof | *51%* |

| CURRENT POSITION ($MILL.) | 2009 | 2010 | 6/30/11 |
|---|---|---|---|
| Cash Assets | 1.7 | 4.2 | 11.3 |
| Other | 94.3 | 200.8 | 160.9 |
| Current Assets | 96.0 | 205.0 | 172.2 |
| Accts Payable | 33.9 | 36.2 | 58.0 |
| Debt Due | 18.1 | 61.4 | 12.4 |
| Other | 47.7 | 81.2 | 54.2 |
| Current Liab. | 99.7 | 178.8 | 124.6 |
| Fix. Chg. Cov. | 352% | 441% | 400% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 to '14-'16 |
|---|---|---|---|
| Revenues | 5.0% | 7.5% | 4.5% |
| "Cash Flow" | 5.5% | 9.5% | 4.5% |
| Earnings | 4.5% | 11.5% | 5.5% |
| Dividends | 2.0% | 2.5% | 4.0% |
| Book Value | 5.0% | 5.0% | 2.0% |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun. 30 | Sep. 30 | Dec. 31 | Full Year |
|---|---|---|---|---|---|
| 2008 | 68.9 | 80.3 | 85.3 | 84.2 | 318.7 |
| 2009 | 79.6 | 93.6 | 101.5 | 86.3 | 361.0 |
| 2010 | 88.4 | 95.5 | 111.3 | 103.7 | 398.9 |
| 2011 | 94.3 | 109.8 | *118.9* | *97.0* | *420* |
| 2012 | *98.0* | *115* | *125* | *102* | *440* |

| Cal-endar | EARNINGS PER SHARE A Mar.31 | Jun. 30 | Sep. 30 | Dec. 31 | Full Year |
|---|---|---|---|---|---|
| 2008 | .30 | .53 | .26 | .43 | 1.55 |
| 2009 | .28 | .64 | .52 | .18 | 1.62 |
| 2010 | .45 | .47 | .62 | .71 | 2.25 |
| 2011 | .37 | .68 | *.70* | *.35* | *2.10* |
| 2012 | *.42* | *.62* | *.76* | *.40* | *2.20* |

| Cal-endar | QUARTERLY DIVIDENDS PAID B■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2007 | .235 | .235 | .235 | .250 | .96 |
| 2008 | .250 | .250 | .250 | .250 | 1.00 |
| 2009 | .250 | .250 | .250 | .260 | 1.01 |
| 2010 | .260 | .260 | .260 | .260 | 1.04 |
| 2011 | .260 | .280 | .280 | | |

**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. Sold Chaparral City Water of Arizona (6/11). Has 703 employees. Officers & directors own 2.9% of common stock (4/11 Proxy). Chairman: Lloyd Ross. President & CEO: Robert J. Sprowls. Inc: CA. Addr: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel: 909-394-3600. Internet: www.aswater.com.

**American States Water does not appear to be missing the Chaparral City Water Co so far.** The water utility far surpassed expectations in the June period, the first quarter without this subsidiary in tow. Indeed, the water utility posted earnings of $0.68 a share, 45% better than the year before, on 14% revenue growth. The removal of the expenses associated with this business provided a boost, outweighing any revenue loss suffered in the sale. Rate increases, meanwhile, continue to play a role, as did business generated from the military ventures.

**The nonregulated arm is becoming a bigger piece of the puzzle.** Management has been aggressively targeting military bases of late, recognizing the benefits of making inroads in less sanctioned areas. This business is expected make more of a contribution when contract modifications are finalized. We would expect expansion here to be a catalyst.

**But the company largely remains heavily regulated, and therefore lacks significant earnings potential in our opinion.** Although the regulatory environment is improving, the guidelines set by those outside the company are stringent and capital-intensive. The costs of maintaining and distributing water is high, as old, dilapidated, systems, in some cases, require attention. The investments are costly, and will only continue to eat away at profit margins.

**The stock is ranked 1 (Highest) for Timeliness.** AWR will likely continue to do relatively well while the broader market remains in flux as we expect for the coming six to 12 months.

**That said, it loses significant luster when we look further out and account for a better economic climate.** The costs associated with doing business will probably always hang over the company, and while the income component is nice, there are more-appealing dividend-paying stocks out there. Clouding matters slightly more is American's balance sheet. Although a recent debt offering helped replenish the cash coffers a bit, additional financing activity will undoubtedly be needed looking ahead. As a result, we think that the current payout ratio may be scaled back somewhat in the years ahead.

*Andre J. Costanza* *October 21, 2011*

(A) Primary earnings. Excludes nonrecurring gains/(losses): '04, 14¢; '05, 25¢; '06, 6¢; '08, (27¢); '10, (44¢) '11, 20¢. Next earnings report due early November. Quarterly egs. 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 | 85 |
| Price Growth Persistence | 60 |
| Earnings Predictability | 85 |

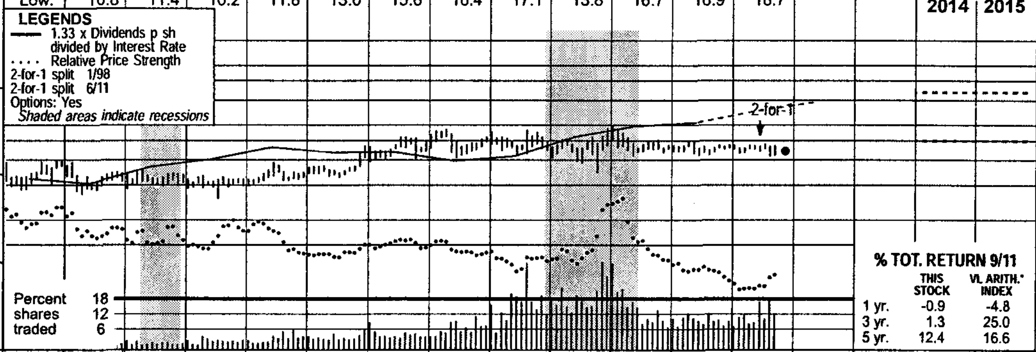
# CALIFORNIA WATER NYSE-CWT

RECENT PRICE 17.84 | P/E RATIO 15.9 (Trailing: 19.4 Median: 22.0) | RELATIVE P/E RATIO 1.16 | DIV'D YLD 3.5% | VALUE LINE

**TIMELINESS** 3 Raised 7/22/11
**SAFETY** 3 Lowered 7/27/07
**TECHNICAL** 3 Lowered 10/7/11
**BETA** .70 (1.00 = Market)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: 15.7 / 14.3 | 13.4 | 15.7 | 19.0 | 21.1 | 22.9 | 22.7 | 23.3 | 24.1 | 19.8 | 19.4 | | |
| Low: 10.8 / 11.4 | 10.2 | 11.8 | 13.0 | 15.6 | 16.4 | 17.1 | 13.8 | 16.7 | 16.9 | 16.7 | | |

Target Price Range: 2014 | 2015 | 2016




**2014-16 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 35 | (+95%) | 20% |
| Low | 20 | (+10%) | 6% |

**Insider Decisions**

| | N | D | J | F | M | A | M | J | J |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 19 | 0 | 0 | 0 | 0 |
| Options | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| to Sell | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

**Institutional Decisions**

| | 4Q2010 | 1Q2011 | 2Q2011 |
|---|---|---|---|
| to Buy | 62 | 56 | 60 |
| to Sell | 48 | 49 | 48 |
| Hld's(000) | 20250 | 21158 | 21479 |

Percent shares traded: 18, 12, 6

**% TOT. RETURN 9/11**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | -0.9 | -4.8 |
| 3 yr. | 1.3 | 25.0 |
| 5 yr. | 12.4 | 16.6 |

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 6.58 | 7.24 | 7.74 | 7.38 | 7.98 | 8.08 | 8.13 | 8.67 | 8.18 | 8.59 | 8.72 | 8.10 | 8.88 | 9.90 | 10.82 | 11.05 | 11.80 | 12.05 | Revenues per sh | 14.00 |
| 1.04 | 1.25 | 1.46 | 1.30 | 1.37 | 1.26 | 1.10 | 1.32 | 1.26 | 1.42 | 1.52 | 1.36 | 1.56 | 1.86 | 1.93 | 1.93 | 2.25 | 2.45 | "Cash Flow" per sh | 2.60 |
| .58 | .75 | .92 | .73 | .77 | .66 | .47 | .63 | .61 | .73 | .74 | .67 | .75 | .95 | .98 | .91 | 1.10 | 1.20 | Earnings per sh A | 1.35 |
| .51 | .52 | .53 | .54 | .54 | .55 | .56 | .56 | .56 | .57 | .57 | .58 | .58 | .59 | .59 | .60 | .62 | .64 | Div'd Decl'd per sh B ■ | .70 |
| 1.09 | 1.41 | 1.30 | 1.37 | 1.72 | 1.23 | 2.04 | 2.91 | 2.19 | 1.87 | 2.01 | 2.14 | 1.84 | 2.41 | 2.66 | 2.97 | 2.50 | 2.75 | Cap'l Spending per sh | 3.15 |
| 5.86 | 6.11 | 6.50 | 6.69 | 6.71 | 6.45 | 6.48 | 6.56 | 7.22 | 7.83 | 7.90 | 9.07 | 9.25 | 9.72 | 10.13 | 10.45 | 10.75 | 10.90 | Book Value per sh C | 11.95 |
| 25.08 | 25.24 | 25.24 | 25.24 | 25.87 | 30.29 | 30.36 | 30.36 | 33.86 | 36.73 | 36.78 | 41.31 | 41.33 | 41.45 | 41.53 | 41.67 | 42.75 | 44.00 | Common Shs Outst'g D | 46.50 |
| 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 | 19.7 | 20.3 | Bold figures are | Value Line | Avg Ann'l P/E Ratio | 20.5 |
| .92 | .75 | .73 | .93 | 1.01 | 1.27 | 1.39 | 1.08 | 1.26 | 1.06 | 1.33 | 1.58 | 1.39 | 1.19 | 1.31 | 1.30 | estimates | | Relative P/E Ratio | 1.35 |
| 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% | 3.2% | | | Avg Ann'l Div'd Yield | 2.8% |

**CAPITAL STRUCTURE as of 6/30/11**
Total Debt $513.1 mill. Due in 5 Yrs $51.7 mill.
LT Debt $478.0 mill. LT Interest $32.0 mill.
(LT interest earned: 3.6x; total int. cov.: 3.3x)
(52% of Cap'l)

Pension Assets-12/10 $139.0 mill.
Oblig. $269.9 mill.

Pfd Stock None

Common Stock 41,752,032 shs.

MARKET CAP: $750 million (Small Cap)

| 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 246.8 | 263.2 | 277.1 | 315.6 | 320.7 | 334.7 | 367.1 | 410.3 | 449.4 | 460.4 | 505 | 530 | Revenues ($mill) E | 650 |
| 14.4 | 19.1 | 19.4 | 26.0 | 27.2 | 25.6 | 31.2 | 39.8 | 40.6 | 37.7 | 47.0 | 52.0 | Net Profit ($mill) | 63.0 |
| 39.4% | 39.7% | 39.9% | 39.6% | 42.4% | 37.4% | 39.9% | 37.7% | 40.3% | 39.5% | 35.0% | 36.5% | Income Tax Rate | 39.0% |
| -- | -- | 10.3% | 3.2% | 3.3% | 10.6% | 8.3% | 8.6% | 7.6% | 4.2% | 10.0% | 10.0% | AFUDC % to Net Profit | 10.0% |
| 50.3% | 55.3% | 50.2% | 48.6% | 48.3% | 43.5% | 42.9% | 41.6% | 47.1% | 52.4% | 51.5% | 51.0% | Long-Term Debt Ratio | 51.0% |
| 48.8% | 44.0% | 49.1% | 50.8% | 51.1% | 55.9% | 56.6% | 58.4% | 52.9% | 47.6% | 48.5% | 49.0% | Common Equity Ratio | 49.0% |
| 402.7 | 453.1 | 498.4 | 565.9 | 568.1 | 670.1 | 674.9 | 690.4 | 794.9 | 914.7 | 945 | 980 | Total Capital ($mill) | 1125 |
| 624.3 | 697.0 | 759.5 | 800.3 | 862.7 | 941.5 | 1010.2 | 1112.4 | 1198.1 | 1294.3 | 1350 | 1410 | Net Plant ($mill) | 1625 |
| 5.3% | 5.9% | 5.6% | 6.1% | 6.3% | 5.2% | 5.9% | 7.1% | 6.5% | 5.5% | 6.5% | 7.0% | Return on Total Cap'l | 7.5% |
| 7.2% | 9.4% | 7.8% | 8.9% | 9.3% | 6.8% | 8.1% | 9.9% | 9.6% | 8.6% | 10.0% | 10.5% | Return on Shr. Equity | 11.0% |
| 7.2% | 9.5% | 7.9% | 9.0% | 9.3% | 6.8% | 8.1% | 9.9% | 9.6% | 8.6% | 10.0% | 10.5% | Return on Com Equity | 11.0% |
| NMF | 1.0% | .7% | 2.1% | 2.1% | 1.0% | 1.8% | 3.8% | 3.8% | 3.0% | 4.5% | 5.0% | Retained to Com Eq | 5.5% |
| 119% | 90% | 91% | 77% | 78% | 86% | 77% | 61% | 60% | 66% | 55% | 54% | All Div'ds to Net Prof | 52% |

**CURRENT POSITION ($MILL.)**

| | 2009 | 2010 | 6/30/11 |
|---|---|---|---|
| Cash Assets | 9.9 | 42.3 | 32.9 |
| Other | 82.3 | 83.9 | 98.7 |
| Current Assets | 92.2 | 126.2 | 131.6 |
| Accts Payable | 43.7 | 39.5 | 51.6 |
| Debt Due | 25.0 | 26.1 | 35.1 |
| Other | 41.7 | 41.7 | 44.9 |
| Current Liab. | 110.4 | 107.3 | 131.6 |
| Fix. Chg. Cov. | 430% | 390% | 300% |

**ANNUAL RATES**

| of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 to '14-'16 |
|---|---|---|---|
| Revenues | 3.0% | 4.5% | 5.0% |
| "Cash Flow" | 4.0% | 6.5% | 5.5% |
| Earnings | 3.0% | 6.5% | 6.0% |
| Dividends | 1.0% | 1.0% | 3.0% |
| Book Value | 4.5% | 5.5% | 3.0% |

| Cal-endar | QUARTERLY REVENUES ($ mill.)E Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | 72.9 | 105.6 | 131.7 | 100.1 | 410.3 |
| 2009 | 86.6 | 116.7 | 139.2 | 106.9 | 449.4 |
| 2010 | 90.3 | 118.3 | 146.3 | 105.5 | 460.4 |
| 2011 | 98.1 | 131.4 | 160.5 | 115 | 505 |
| 2012 | 103 | 135 | 170 | 122 | 530 |

| Cal-endar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | .01 | .24 | .53 | .17 | .95 |
| 2009 | .06 | .29 | .47 | .16 | .98 |
| 2010 | .05 | .25 | .49 | .12 | .91 |
| 2011 | .05 | .29 | .59 | .17 | 1.10 |
| 2012 | .07 | .32 | .62 | .19 | 1.20 |

| Cal-endar | QUARTERLY DIVIDENDS PAID B ■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2007 | .145 | .145 | .145 | .145 | .58 |
| 2008 | .147 | .147 | .147 | .147 | .59 |
| 2009 | .148 | .148 | .148 | .148 | .59 |
| 2010 | .149 | .149 | .149 | .149 | .60 |
| 2011 | .154 | .154 | .154 | | |

**BUSINESS:** California Water Service Group provides regulated and nonregulated water service to roughly 470,200 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, '10: residential, 72%; business, 20%; public authorities, 4%; industrial, 4%. '10 reported depreciation rate: 2.3%. Has roughly 1,127 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson (4/11 Proxy). Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwatergroup.com.

**We look for California Water Service Group to gain further momentum in the second half of the year.** Rate increases continued to flow in the second quarter, enabling the water provider to post better-than-expected results in the interim, suggesting that additional increases may be in the pipeline. As a result, we've raised our estimates for the back half of the year, and look for healthy top- and bottom-line growth.

**There could be some more good news on the horizon, too.** CWT recently filed its cost of capital application in an attempt to increase its return on equity a full percentage point, to 11.25%. The regulatory process is unpredictable, but the recent climate appears to have warmed for utilities, particularly in the Golden State. If a favorable decision is handed down by year-end, as expected, this would likely force us to bump up our current 2012 estimates.

**Now may be a good time for many seeking to avoid getting caught up in the recent market volatility to consider initiating a position here.** Water utility stocks are generally less susceptible to wild price swings than the broad market, and CWT is no different as seen by its relative stability since our July review. The current yield is another selling point.

**But the stock loses some appeal, looking further out.** CWT, and most utilities for that matter, typically trail the market averages when times are good, and we do expect the market to recover by 2014-2016. Meanwhile, the cost of running and maintaining a water utility services plant, and all the pipelines and wells that go with it, is a very expensive undertaking. Federal and state requirements are extremely stringent, and systems are growing older by the day. Many require significant upkeep and, in some cases, complete overhauls. These costs are not likely to subside anytime soon, creating some problems for CWT on the cost side of ledger. Indeed, these expenses, along with any necessary capital requirements, will likely temper earnings advances out to mid-decade and thereafter. While the dividend is certainly a plus, CWT still lacks relative total-return potential, and there are better income vehicles on the market, especially in the Electric Utility industry.

*Andre J. Costanza* *October 21, 2011*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (4¢); '01, 2¢; '02, 4¢. Next earnings report due late Oct.
(B) Dividends historically paid in early Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available.
(C) Incl. deferred charges. In '10: $2.2 mill., $0.05/sh.
(D) In millions, adjusted for splits.
(E) Excludes non-reg. rev.

| | |
|---|---|
| Company's Financial Strength | B+ |
| Stock's Price Stability | 90 |
| Price Growth Persistence | 60 |
| Earnings Predictability | 85 |

# SJW CORP. NYSE-SJW

| RECENT PRICE | P/E RATIO | RELATIVE P/E RATIO | DIV'D YLD |
|---|---|---|---|
| 23.38 | 22.9 (Trailing: 26.9; Median: 22.0) | 1.67 | 3.0% |

**VALUE LINE**

| | |
|---|---|
| TIMELINESS | 3 Raised 8/12/11 |
| SAFETY | 3 New 4/22/11 |
| TECHNICAL | 3 Lowered 9/30/11 |
| BETA .90 (1.00 = Market) | |

**2014-16 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 40 | (+70%) | 17% |
| Low | 30 | (+30%) | 9% |

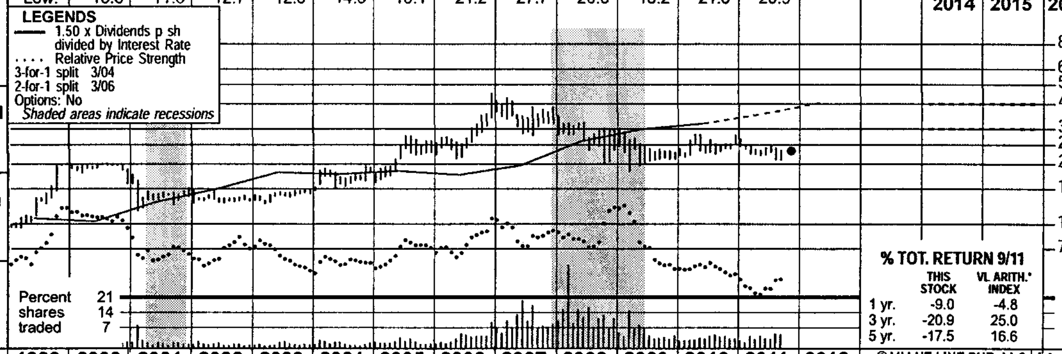
**Insider Decisions**

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

**Institutional Decisions**

| | 4Q2010 | 1Q2011 | 2Q2011 |
|---|---|---|---|
| to Buy | 34 | 26 | 31 |
| to Sell | 26 | 34 | 28 |
| Hld's(000) | 8640 | 8648 | 8839 |

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 20.3 | 17.8 | 15.1 | 15.0 | 19.6 | 27.8 | 45.3 | 43.0 | 35.1 | 30.4 | 28.2 | 26.8 |
| Low: | 15.8 | 11.6 | 12.7 | 12.6 | 14.6 | 16.1 | 21.2 | 27.7 | 20.0 | 18.2 | 21.6 | 20.9 |




**Target Price Range** 2014 | 2015 | 2016

**% TOT. RETURN 9/11**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | -9.0 | -4.8 |
| 3 yr. | -20.9 | 25.0 |
| 5 yr. | -17.5 | 16.6 |

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 4.99 | 5.39 | 5.79 | 5.58 | 6.40 | 6.74 | 7.45 | 7.97 | 8.20 | 9.14 | 9.86 | 10.35 | 11.25 | 12.12 | 11.68 | 11.62 | *12.65* | *12.50* | Revenues per sh | *13.35* |
| .98 | 1.43 | 1.27 | 1.26 | 1.43 | 1.23 | 1.49 | 1.55 | 1.75 | 1.89 | 2.21 | 2.38 | 2.30 | 2.44 | 2.21 | 2.37 | *2.60* | *2.70* | "Cash Flow" per sh | *3.00* |
| .59 | .96 | .80 | .76 | .87 | .58 | .77 | .78 | .91 | .87 | 1.12 | 1.19 | 1.04 | 1.08 | .81 | .84 | *1.00* | *1.10* | Earnings per sh A | *1.40* |
| .35 | .37 | .38 | .39 | .40 | .41 | .43 | .46 | .49 | .51 | .53 | .57 | .61 | .65 | .66 | .68 | *.69* | *.74* | Div'd Decl'd per sh B■ | *.82* |
| .96 | 1.06 | 1.27 | 1.81 | 1.77 | 1.89 | 2.63 | 2.06 | 3.41 | 2.31 | 2.83 | 3.87 | 6.62 | 3.79 | 3.17 | 5.65 | *3.80* | *3.75* | Cap'l Spending per sh | *4.45* |
| 5.58 | 6.31 | 7.02 | 7.53 | 7.88 | 7.90 | 8.17 | 8.40 | 9.11 | 10.11 | 10.72 | 12.48 | 12.90 | 13.99 | 13.66 | 13.75 | *13.70* | *14.25* | Book Value per sh | *16.20* |
| 19.50 | 19.02 | 19.02 | 19.01 | 18.27 | 18.27 | 18.27 | 18.27 | 18.27 | 18.27 | 18.27 | 18.28 | 18.36 | 18.18 | 18.50 | 18.55 | *18.60* | *20.00* | Common Shs Outst'g C | *22.50* |
| 9.9 | 6.8 | 11.2 | 13.1 | 15.5 | 33.1 | 18.5 | 17.3 | 15.4 | 19.6 | 19.7 | 23.5 | 33.4 | 26.2 | 28.7 | 29.5 | *Bold figures are* | | Avg Ann'l P/E Ratio | *25.0* |
| .66 | .43 | .65 | .68 | .88 | 2.15 | .95 | .94 | .88 | 1.04 | 1.05 | 1.27 | 1.77 | 1.58 | 1.91 | 1.89 | *Value Line* | | Relative P/E Ratio | *1.65* |
| 6.0% | 5.7% | 4.3% | 3.9% | 3.0% | 2.1% | 3.0% | 3.4% | 3.5% | 3.0% | 2.4% | 2.0% | 1.7% | 2.3% | 2.8% | 2.8% | *estimates* | | Avg Ann'l Div'd Yield | *2.5%* |
| | | | | | | 136.1 | 145.7 | 149.7 | 166.9 | 180.1 | 189.2 | 206.6 | 220.3 | 216.1 | 215.6 | *235* | *250* | Revenues ($mill) | *300* |
| | | | | | | 14.0 | 14.2 | 16.7 | 16.0 | 20.7 | 22.2 | 19.3 | 20.2 | 15.2 | 15.6 | *18.5* | *22.0* | Net Profit ($mill) | *30.0* |
| | | | | | | 34.5% | 40.4% | 36.2% | 42.1% | 41.6% | 40.8% | 39.4% | 39.5% | 40.4% | 39.7% | *40.0%* | *40.0%* | Income Tax Rate | *39.0%* |
| | | | | | | 4.4% | 4.2% | 1.6% | 2.1% | 1.6% | 2.1% | 2.7% | 2.3% | 2.0% | 3.6% | *5.0%* | *5.0%* | AFUDC % to Net Profit | *5.0%* |
| | | | | | | 42.4% | 41.7% | 45.6% | 43.7% | 42.6% | 41.8% | 47.7% | 46.0% | 49.4% | 53.7% | *57.5%* | *55.0%* | Long-Term Debt Ratio | *48.5%* |
| | | | | | | 57.6% | 58.3% | 54.4% | 56.3% | 57.4% | 58.2% | 52.3% | 54.0% | 50.6% | 46.3% | *42.5%* | *45.0%* | Common Equity Ratio | *51.5%* |
| | | | | | | 259.4 | 263.5 | 306.0 | 328.3 | 341.2 | 391.8 | 453.2 | 470.9 | 499.6 | 550.7 | *600* | *635* | Total Capital ($mill) | *755* |
| | | | | | | 367.8 | 390.8 | 428.5 | 456.8 | 484.8 | 541.7 | 645.5 | 684.2 | 718.5 | 785.5 | *815* | *860* | Net Plant ($mill) | *1000* |
| | | | | | | 6.7% | 6.9% | 6.9% | 6.5% | 7.6% | 7.0% | 5.7% | 5.8% | 4.4% | 4.2% | *4.5%* | *5.0%* | Return on Total Cap'l | *5.5%* |
| | | | | | | 9.4% | 9.3% | 10.0% | 8.7% | 10.6% | 9.7% | 8.2% | 8.0% | 6.0% | 6.1% | *7.5%* | *7.5%* | Return on Shr. Equity | *8.0%* |
| | | | | | | 9.4% | 9.3% | 10.0% | 8.7% | 10.6% | 9.7% | 8.2% | 8.0% | 6.0% | 6.1% | *7.5%* | *7.5%* | Return on Com Equity | *8.0%* |
| | | | | | | 4.1% | 3.8% | 4.7% | 3.6% | 5.6% | 5.2% | 3.5% | 3.3% | 1.2% | 1.2% | *2.0%* | *2.5%* | Retained to Com Eq | *3.0%* |
| | | | | | | 56% | 59% | 53% | 58% | 47% | 46% | 57% | 59% | 80% | 81% | *69%* | *67%* | All Div'ds to Net Prof | *62%* |

**CAPITAL STRUCTURE as of 6/30/11**
**Total Debt** $352.7 mill. **Due in 5 Yrs** $64.3 mill.
**LT Debt** $344.8 mill. **LT Interest** $17.0 mill.
(LT interest earned: 3.2x: total interest coverage: 3.0x) (57% of Cap'l)

**Leases, Uncapitalized:** Annual rentals $4.2 mill.

**Pension Assets-12/10** $10.8 mill. **Oblig.** $58.8 mill.

**Pfd Stock** None.

**Common Stock** 18,577,630 shs. as of 7/21/11

**MARKET CAP: $425 million (Small Cap)**

| CURRENT POSITION ($MILL.) | 2009 | 2010 | 6/30/11 |
|---|---|---|---|
| Cash Assets | 1.4 | 1.7 | 45.4 |
| Other | 26.6 | 36.3 | 38.4 |
| Current Assets | 28.0 | 38.0 | 83.8 |
| Accts Payable | 6.6 | 5.5 | 9.8 |
| Debt Due | 6.9 | 5.1 | 7.9 |
| Other | 18.5 | 18.6 | 21.7 |
| Current Liab. | 32.0 | 29.2 | 39.4 |
| Fix. Chg. Cov. | 352% | 400% | 250% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 to '14-'16 |
|---|---|---|---|
| Revenues | 6.5% | 5.5% | 2.0% |
| "Cash Flow" | 6.0% | 3.5% | 4.0% |
| Earnings | 2.0% | -1.5% | 7.5% |
| Dividends | 5.0% | 5.5% | 3.5% |
| Book Value | 6.0% | 6.5% | 2.5% |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun. 30 | Sep. 30 | Dec. 31 | Full Year |
|---|---|---|---|---|---|
| 2008 | 41.3 | 60.0 | 69.5 | 49.5 | 220.3 |
| 2009 | 40.0 | 58.2 | 69.3 | 48.6 | 216.1 |
| 2010 | 40.4 | 54.1 | 70.3 | 50.8 | 215.6 |
| 2011 | 43.7 | 59.0 | *77.3* | *55.0* | *235* |
| 2012 | *47.0* | *63.0* | *82.0* | *58.0* | *250* |

| Cal-endar | EARNINGS PER SHARE A Mar.31 | Jun. 30 | Sep. 30 | Dec. 31 | Full Year |
|---|---|---|---|---|---|
| 2008 | .15 | .34 | .44 | .15 | 1.08 |
| 2009 | .01 | .23 | .43 | .14 | .81 |
| 2010 | .05 | .24 | .44 | .11 | .84 |
| 2011 | .03 | .29 | *.54* | *.14* | *1.00* |
| 2012 | *.05* | *.32* | *.57* | *.16* | *1.10* |

| Cal-endar | QUARTERLY DIVIDENDS PAID B■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2007 | .15 | .15 | .15 | .15 | .60 |
| 2008 | .16 | .16 | .16 | .16 | .64 |
| 2009 | .165 | .165 | .165 | .165 | .66 |
| 2010 | .17 | .17 | .17 | .17 | .68 |
| 2011 | .173 | .173 | .173 | | |

**BUSINESS:** SJW Corporation engages in the production, purchase, storage, purification, distribution, and retail sale of water. It provides water service to approximately 226,000 connections that serve a population of approximately one million people in the San Jose area and 8,700 connections that serve approximately 36,000 residents in a service area in the region between San Antonio and Austin, Texas. The company offers nonregulated water-related services, including water system operations, cash remittances, and maintenance contract services. SJW also owns and operates commercial real estate investments. Has 375 employees. Chairman: Charles J. Toeniskoetter. Inc.: CA. Address: 110 W. Taylor Street, San Jose, CA 95110. Tel.: (408) 279-7800. Int:www.sjwater.com.

**Rate increases are really helping SJW Corp . . .** Indeed, the water utility got earnings growth back on track in the second quarter, thanks largely to a double-digit top-line gain.

**. . . and are likely to continue making a splash going forward, too.** We've increased our second-half and 2012 estimates to account for the added benefits of recent regulatory help. Our estimates may well prove light if favorable rulings, which we are not anticipating at this time, continue rolling in.

**However, operating costs are also likely to continue to mount.** Water distribution is held to many rigorous state and federal standards. Meanwhile, the majority of pipelines and wastewater systems are old and require serious attention. As a result, operating costs are expected to remain on an upward trajectory, thus limiting any of the aforementioned rate case improvements. SJW, in the meantime, is not exactly flush with cash, despite a recent debt offering. We suspect that similar share and/or debt offerings will be required in order to foot the bill, thereby further diluting future gains.

**The stock has been doing relatively well lately.** It has held its ground for the most part since our July review, despite the volatility that has wreaked havoc on many outside the water utility industry.

**But it still does not stand out in any capacity in our opinion.** Although the water utility space is appealing at this time, investors have better growth and income-producing vehicles to choose from. It is an average selection in both regards, and also lacks 3- to 5-year appreciation potential, due to the capital constraints that it is under and the costs of doing business that are likely to continue to swell. Financial limitations are also precluding the company from going out and making a splash in the acquisition market. The industry is highly fragmented, and there exists great opportunity to further build out the business model via expansion into new territories. A highly leveraged balance sheet and a dearth of cash on hand, however, make such an undertaking highly unlikely, and, worse yet, raise some concerns over the sustainability of the dividend if something doesn't give.

*Andre J. Costanza* *October 21, 2011*

(A) Diluted earnings. Excludes nonrecurring losses : '03, $1.97; '04, $3.78; '05, $1.09; '06, $16.36; '08, $1.22; '10, 46¢. Next earnings report due late Oct. Quarterly egs. 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.

| | |
|---|---|
| Company's Financial Strength | B+ |
| Stock's Price Stability | 70 |
| Price Growth Persistence | 75 |
| Earnings Predictability | 85 |

# AQUA AMERICA NYSE-WTR

| RECENT PRICE | P/E RATIO | (Trailing / Median) | RELATIVE P/E RATIO | DIV'D YLD | |
|---|---|---|---|---|---|
| 21.30 | 20.1 | (Trailing: 22.2 / Median: 25.0) | 1.47 | 3.1% | VALUE LINE |

**TIMELINESS** 3 Lowered 1/21/11

**SAFETY** 3 Lowered 8/1/03

**TECHNICAL** 3 Raised 6/10/11

**BETA** .65 (1.00 = Market)

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 12.0 | 14.8 | 15.0 | 16.8 | 18.5 | 29.2 | 29.8 | 26.6 | 22.0 | 21.5 | 23.0 | 23.8 | | | | | |
| Low: | 6.3 | 9.4 | 9.6 | 11.8 | 14.2 | 17.5 | 20.1 | 18.9 | 12.2 | 15.4 | 16.5 | 19.3 | | | | | |

**2014-16 PROJECTIONS**

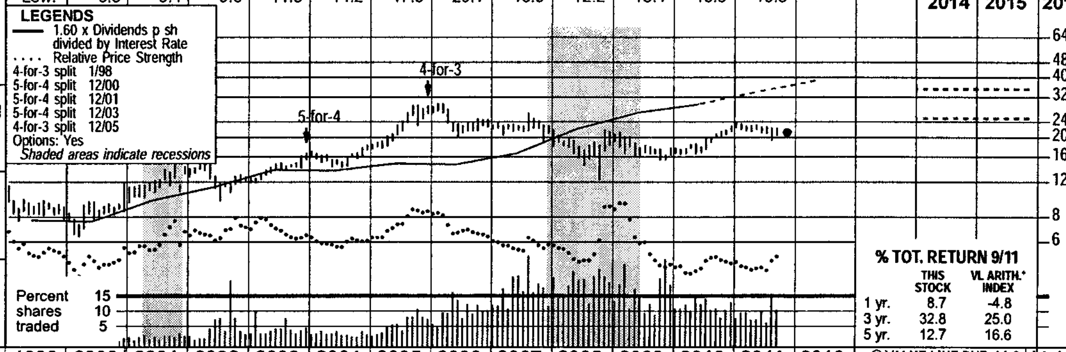
| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 35 | (+65%) | *16%* |
| Low | 25 | (+15%) | *8%* |

**Insider Decisions**

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

**Institutional Decisions**

| | 4Q2010 | 1Q2011 | 2Q2011 |
|---|---|---|---|
| to Buy | 101 | 81 | 106 |
| to Sell | 94 | 112 | 104 |
| Hld's(000) | 55463 | 55308 | 55457 |




**Target Price Range**
2014 | 2015 | 2016

**% TOT. RETURN 9/11**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 8.7 | -4.8 |
| 3 yr. | 32.8 | 25.0 |
| 5 yr. | 12.7 | 16.6 |

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 4.91 | 5.26 | *5.55* | *5.85* | Revenues per sh | *6.80* |
| .47 | .50 | .56 | .61 | .72 | .76 | .86 | .94 | .96 | 1.09 | 1.21 | 1.26 | 1.37 | 1.42 | 1.61 | 1.78 | *1.95* | *2.05* | "Cash Flow" per sh | *2.40* |
| .29 | .30 | .34 | .40 | .42 | .47 | .51 | .54 | .57 | .64 | .71 | .70 | .71 | .73 | .77 | .90 | *1.05* | *1.10* | Earnings per sh A | *1.40* |
| .22 | .23 | .24 | .26 | .27 | .28 | .30 | .32 | .35 | .37 | .40 | .44 | .48 | .51 | .55 | .59 | *.62* | *.66* | Div'd Decl'd per sh B■ | *.78* |
| .52 | .48 | .58 | .82 | .90 | 1.16 | 1.09 | 1.20 | 1.32 | 1.54 | 1.84 | 2.05 | 1.79 | 1.98 | 2.08 | 2.37 | *2.30* | *2.35* | Cap'l Spending per sh | *2.50* |
| 2.46 | 2.69 | 2.84 | 3.21 | 3.42 | 3.85 | 4.15 | 4.36 | 5.34 | 5.89 | 6.30 | 6.96 | 7.32 | 7.82 | 8.12 | 8.51 | *8.95* | *9.40* | Book Value per sh | *11.05* |
| 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 | 136.49 | 137.97 | *138.90* | *139.90* | Common Shs Outst'g C | *142.90* |
| 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 | 23.1 | 21.1 | *Bold figures are* | *Value Line* | Avg Ann'l P/E Ratio | *21.0* |
| .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 | 1.54 | 1.36 | | *estimates* | Relative P/E Ratio | *1.40* |
| 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% | 3.1% | 3.1% | | | Avg Ann'l Div'd Yield | *2.7%* |

**CAPITAL STRUCTURE as of 6/30/11**
**Total Debt** $1559.0 mill. **Due in 5 Yrs** $310 mill.
**LT Debt** $1468.5 mill. **LT Interest** $66.1 mill.
(LT interest earned: 4.5x; total interest coverage: 4.5x) (55% of Cap'l)

**Pension Assets-12/10** $159.2 mill. **Oblig.** $234.9 mill.

**Pfd Stock** None

**Common Stock** 138,405,123 shares as of 7/22/11

**MARKET CAP: $3.0 billion (Mid Cap)**

| 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 307.3 | 322.0 | 367.2 | 442.0 | 496.8 | 533.5 | 602.5 | 627.0 | 670.5 | 726.1 | *765* | *810* | Revenues ($mill) | *960* |
| 58.5 | 62.7 | 67.3 | 80.0 | 91.2 | 92.0 | 95.0 | 97.9 | 104.4 | 124.0 | *145* | *155* | Net Profit ($mill) | *200* |
| 39.3% | 38.5% | 39.3% | 39.4% | 38.4% | 39.6% | 38.9% | 39.7% | 39.4% | 39.2% | *40.0%* | *40.0%* | Income Tax Rate | *40.0%* |
| -- | -- | -- | -- | -- | -- | -- | -- | 2.9% | 3.1% | *3.0%* | *3.0%* | AFUDC % to Net Profit | *2.0%* |
| 52.2% | 54.2% | 51.4% | 50.0% | 52.0% | 51.6% | 55.4% | 54.1% | 55.6% | 56.6% | *54.0%* | *52.0%* | Long-Term Debt Ratio | *47.0%* |
| 47.7% | 45.8% | 48.6% | 50.0% | 48.0% | 48.4% | 44.6% | 45.9% | 44.4% | 43.4% | *46.0%* | *48.0%* | Common Equity Ratio | *53.0%* |
| 990.4 | 1076.2 | 1355.7 | 1497.3 | 1690.4 | 1904.4 | 2191.4 | 2306.6 | 2495.5 | 2706.2 | *2715* | *2760* | Total Capital ($mill) | *2950* |
| 1368.1 | 1490.8 | 1824.3 | 2069.8 | 2280.0 | 2506.0 | 2792.8 | 2997.4 | 3227.3 | 3469.3 | *3630* | *3795* | Net Plant ($mill) | *4320* |
| 7.8% | 7.6% | 6.4% | 6.7% | 6.9% | 6.4% | 5.9% | 5.7% | 5.6% | 5.9% | *6.5%* | *7.0%* | Return on Total Cap'l | *8.0%* |
| 12.3% | 12.7% | 10.2% | 10.7% | 11.2% | 10.0% | 9.7% | 9.3% | 9.4% | 10.6% | *11.5%* | *11.5%* | Return on Shr. Equity | *12.5%* |
| 12.4% | 12.7% | 10.2% | 10.7% | 11.2% | 10.0% | 9.7% | 9.3% | 9.4% | 10.6% | *11.5%* | *11.5%* | Return on Com Equity | *12.5%* |
| 5.1% | 5.2% | 4.2% | 4.6% | 4.9% | 3.7% | 3.2% | 2.8% | 2.7% | 3.7% | *5.0%* | *4.5%* | Retained to Com Eq | *5.5%* |
| 59% | 59% | 59% | 57% | 56% | 63% | 67% | 70% | 72% | 65% | *59%* | *60%* | All Div'ds to Net Prof | *56%* |

| CURRENT POSITION ($MILL.) | 2009 | 2010 | 6/30/11 |
|---|---|---|---|
| Cash Assets | 21.9 | 5.9 | 6.9 |
| Receivables | 78.7 | 85.9 | 93.6 |
| Inventory (AvgCst) | 9.5 | 9.2 | 12.0 |
| Other | 11.5 | 44.4 | 65.5 |
| Current Assets | 121.6 | 145.4 | 178.0 |
| Accts Payable | 57.9 | 45.3 | 42.7 |
| Debt Due | 87.0 | 28.5 | 90.5 |
| Other | 56.1 | 149.9 | 173.7 |
| Current Liab. | 201.0 | 223.7 | 306.9 |
| Fix. Chg. Cov. | 346% | 290% | 340% |

**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 '10: residential, 59.5%; commercial, 14.5%; industrial & other, 26.0%. Officers and directors own 2.0% of the common stock (4/11 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.

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 to '14-'16 |
|---|---|---|---|
| Revenues | 8.0% | 7.5% | *6.5%* |
| "Cash Flow" | 8.5% | 8.0% | *8.0%* |
| Earnings | 6.5% | 4.5% | *10.5%* |
| Dividends | 7.5% | 8.0% | *5.5%* |
| Book Value | 9.0% | 7.0% | *6.0%* |

| Calendar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | 139.3 | 151.0 | 177.1 | 159.6 | 627.0 |
| 2009 | 154.5 | 167.3 | 180.8 | 167.9 | 670.5 |
| 2010 | 160.5 | 178.5 | 207.8 | 179.3 | 726.1 |
| 2011 | 171.3 | 188.2 | *220* | *185.5* | *765* |
| 2012 | *180* | *200* | *230* | *200* | *810* |

| Calendar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | .11 | .17 | .26 | .19 | .73 |
| 2009 | .14 | .19 | .25 | .19 | .77 |
| 2010 | .16 | .22 | .32 | .20 | .90 |
| 2011 | .19 | .25 | *.32* | *.29* | *1.05* |
| 2012 | *.20* | *.25* | *.37* | *.28* | *1.10* |

| Calendar | QUARTERLY DIVIDENDS PAID B■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2007 | .115 | .115 | .125 | .125 | .48 |
| 2008 | .125 | .125 | .125 | .135 | .51 |
| 2009 | .135 | .135 | .135 | .145 | .55 |
| 2010 | .145 | .145 | .145 | .155 | .59 |
| 2011 | .155 | .155 | .155 | | |

**Aqua America should end 2011 on a strong note.** Favorable rate rulings, along with stronger-than-expected consumer demand, are slated to be the key drivers of top- and bottom-line growth.

**The company entered into a joint venture with MLP Penn Virginia Resource Partners,** to construct and operate a fresh water pipeline. The project will be supplying water to natural gas producers in the Lycoming County, PA, area of the Marcellus Shale. The joint venture has been named PVR Water Services, with a $12 million initial stake from each partner. Range Resources has been contracted as the first customer. The pipeline is anticipated to be operational by the beginning of 2012, though no solid end date has been given. We believe that this project is one of many steps the company is taking to establish itself as a major beneficiary of the Marcellus Shale project. As a result, there should be a significant boost to revenues and earnings as the company's customer base expands.

**Rate rulings are still on the agenda.** The company received several favorable rate rulings last year, and is currently planning on filing cases in seven more jurisdictions by the yearend. Given Aqua America's track record, these rulings will likely contribute to revenue and earnings from 2012 onward.

**Aqua America is getting out of some markets.** Management's plan to exit several difficult operating environments is progressing smoothly. To this end, it sold its Maine operations (consisting of 11 water systems) to Connecticut Water, for $53.5 million, in the second quarter. The company also announced another deal with American Water Works (it swapped its Missouri properties in the first quarter for American Water's Texas operations.) Also, Aqua America will be swapping its New York properties to American Water in exchange for the latter's Ohio facilities. Both deals are slated to expand its customer base in fast-growing sectors, while getting Aqua America out from its underperforming areas. The deals should be done by the end of this year or 2012's first quarter.

**This equity has an above industry average yield,** for income investors.

*Sahana Zutshi* *October 21, 2011*

(A) Diluted egs. 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 late October.

(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 | 100 |
| Price Growth Persistence | 70 |
| Earnings Predictability | 100 |

# ATTACHMENT B

**INDUSTRY TIMELINESS: 68 (of 98)**

**Stocks within *Value Line's* Natural Gas Utility Industry have not been immune to the wild swings the market has been experiencing this year. In fact, investors have been quite concerned about the health of the global economy, arising from such factors as the sovereign debt crisis in Europe and lingering economic uncertainty in the United States. But the stock prices in this sector have held up better than those in a number of other industries, as the healthy levels of dividend income have acted like an anchor, so to speak.**

### The Economic Picture

Conditions in the United States remain a challenge, partially reflecting softness in the housing market. A persistently high unemployment rate (which is hovering around 9% at present) does not help the situation, either. Indeed, GDP growth was only 1% in the second quarter, and it appears that this modest pace of expansion will persist for some time. Consequently, consumers have kept tight control over their spending habits, spurring energy conservation efforts. Of course, all these trends bode ill for the revenues of the companies in *Value Line's* Natural Gas Utility Industry.

### A Key Merger

*AGL Resources*, serving more than 2.3 million customers across several states, including Georgia, Virginia, and Tennessee, plans to acquire *Nicor Inc.* (with more than 2.2 million customers in Illinois). Under the terms of the deal, valued at $2.4 billion, *AGL* would pay $21.20 in cash and .8382 of a share of *AGL* stock for each *Nicor* share. Pending certain approvals, the transaction is expected to close during the second half of 2011. This looks like a good move, as it would create the biggest natural gas distributor in the United States. Another plus is that the two companies' nonregulated units are somewhat complementary. Lastly, we anticipate decent cost savings down the road.

### Hurricane Irene

In late August, the powerful storm ravaged the East Coast of the United States, leaving millions of people without power. (Current estimates state that the total damage could range between $5 billion and $7 billion.) But the impact on already low natural gas prices was minimal, partly due to the fact that demand during that time of the year is not great because of seasonably warm temperatures. At this juncture, it appears that companies in the group with exposure to the East Coast, such as *New Jersey Resources* and *Piedmont Natural Gas*, held up reasonably well.

### Effect of Low Gas Prices on the Industry

Contrary to what some believe, a low gas price environment is generally good for regulated utility operations. That's partly because it may lead to reduced prices for customers, which could lessen bad-debt expense. Furthermore, there is an increased possibility that homeowners will switch from alternative fuel sources, such as oil or propane, to natural gas. Even so, the companies in our category also have nonregulated operations, including energy marketing and trading, which tend to underperform when gas prices are slumping.

### Dividends

The main attraction of utility stocks is their generous amount of dividend income. At the time of this writing, the average yield for the group was about 3.7%, substantially higher than the *Value Line* median of 2.3%. Standouts include *AGL Resources, NiSource Inc., Laclede Group*, and *Atmos Energy*. Indeed, when the market is turbulent, as has been the case of late, healthy dividend yields provide some much-needed stability to the stocks in this category.

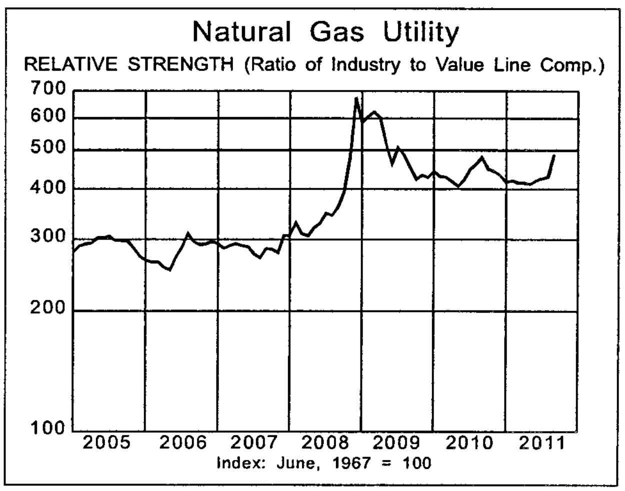
### Conclusion

The Natural Gas Utility Industry is presently ranked in the bottom half, in terms of Timeliness. Nevertheless, the shares are best suited for income-conscious investors with a conservative bent (given that a number of these issues are favorably ranked for Safety and earn high marks for Price Stability). It is important to mention, however, that companies with larger nonregulated operations may offer a higher potential for returns, but profits could be more volatile than companies with a greater emphasis on the more stable utility segment. All told, our readers are advised to consider the individual reports before making a commitment.

*Frederick L. Harris, III*

**Composite Statistics: Natural Gas Utility**

| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | | 14-16 |
|---|---|---|---|---|---|---|---|
| 38528 | 44207 | 34909 | 34089 | **36250** | **42500** | Revenues ($mill) | **50250** |
| 1562.4 | 1694.2 | 1677.6 | 1769.4 | **2250** | **2130** | Net Profit ($mill) | **2415** |
| 33.9% | 35.7% | 33.8% | 34.0% | **36.0%** | **36.0%** | Income Tax Rate | **36.0%** |
| 4.1% | 3.8% | 4.8% | 5.2% | **6.2%** | **5.0%** | Net Profit Margin | **4.8%** |
| 50.4% | 50.6% | 49.9% | 46.7% | **52.0%** | **51.0%** | Long-Term Debt Ratio | **54.0%** |
| 49.5% | 49.4% | 50.1% | 53.3% | **48.0%** | **49.0%** | Common Equity Ratio | **46.0%** |
| 32263 | 32729 | 33974 | 33144 | **33250** | **35500** | Total Capital ($mill) | **43000** |
| 33936 | 35342 | 37292 | 39294 | **40250** | **42250** | Net Plant ($mill) | **50500** |
| 6.5% | 6.8% | 6.5% | 6.9% | **6.5%** | **6.0%** | Return on Total Cap'l | **5.5%** |
| 9.8% | 10.5% | 10.0% | 10.0% | **10.0%** | **10.0%** | Return on Shr. Equity | **10.5%** |
| 9.8% | 10.5% | 10.0% | 10.0% | **10.0%** | **10.0%** | Return on Com Equity | **10.5%** |
| 3.7% | 4.3% | 3.8% | 4.0% | **4.0%** | **3.5%** | Retained to Com Eq | **4.5%** |
| 62% | 59% | 61% | 61% | **61%** | **60%** | All Div'ds to Net Prof | **61%** |
| 16.6 | 13.9 | 12.8 | 14.0 | ***Bold figures are Value Line estimates*** | | Avg Ann'l P/E Ratio | **13.0** |
| .88 | .83 | .85 | .90 | | | Relative P/E Ratio | **.85** |
| 3.7% | 4.2% | 4.8% | 4.3% | | | Avg Ann'l Div'd Yield | **4.6%** |
| 336% | 358% | 381% | 402% | **400%** | **375%** | Fixed Charge Coverage | **400%** |



# AGL RESOURCES NYSE-AGL

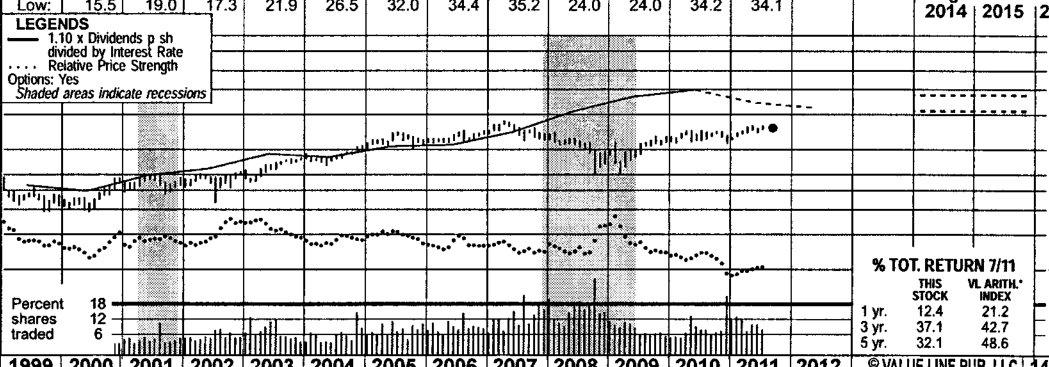
RECENT PRICE **41.17** | P/E RATIO **13.2** (Trailing: 14.1; Median: 13.0) | RELATIVE P/E RATIO **0.95** | DIV'D YLD **4.4%** | VALUE LINE

| | | |
|---|---|---|
| TIMELINESS | 3 | Raised 3/11/11 |
| SAFETY | 1 | Raised 9/9/11 |
| TECHNICAL | 3 | Lowered 9/9/11 |

BETA .75 (1.00 = Market)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 23.2 | 24.5 | 25.0 | 29.3 | 33.7 | 39.3 | 40.1 | 44.7 | 39.1 | 37.5 | 40.1 | 42.4 | |
| Low: | 15.5 | 19.0 | 17.3 | 21.9 | 26.5 | 32.0 | 34.4 | 35.2 | 24.0 | 24.0 | 34.2 | 34.1 | |

Target Price Range 2014 | 2015 | 2016




**2014-16 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 60 | (+45%) | 13% |
| Low | 50 | (+20%) | 5% |

**Insider Decisions**

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

**Institutional Decisions**

| | 4Q2010 | 1Q2011 | 2Q2011 |
|---|---|---|---|
| to Buy | 134 | 103 | 109 |
| to Sell | 95 | 129 | 104 |
| Hld's(000) | 48498 | 48137 | 50316 |

**% TOT. RETURN 7/11**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 12.4 | 21.2 |
| 3 yr. | 37.1 | 42.7 |
| 5 yr. | 32.1 | 48.6 |

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 29.88 | 30.42 | **31.45** | **32.90** | Revenues per sh A | **38.50** |
| 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 | 4.90 | 5.05 | **5.20** | **5.45** | "Cash Flow" per sh | **6.05** |
| 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 | 2.88 | 3.00 | **3.10** | **3.30** | Earnings per sh A B | **3.75** |
| 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 | **1.80** | **1.84** | Div'ds Decl'd per sh C■ | **1.96** |
| 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 | 6.14 | 6.54 | **4.95** | **5.30** | Cap'l Spending per sh | **6.85** |
| 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 | 22.95 | 23.24 | **24.90** | **26.40** | Book Value per sh D | **31.60** |
| 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 | 77.54 | 78.00 | **78.50** | **79.00** | Common Shs Outst'g E | **80.50** |
| 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 | 11.2 | 12.9 | *Bold figures are* | | Avg Ann'l P/E Ratio | **15.0** |
| .84 | .86 | .85 | .72 | 1.22 | .88 | .75 | .68 | .71 | .69 | .76 | .73 | .78 | .74 | .75 | .79 | *Value Line* | | Relative P/E Ratio | **1.00** |
| 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% | 5.4% | 4.7% | *estimates* | | Avg Ann'l Div'd Yield | **3.5%** |

**CAPITAL STRUCTURE as of 6/30/11**
Total Debt $2308.0 mill. Due in 5 Yrs $600.0 mill.
LT Debt $2164.0 mill. LT Interest $140.5 mill.
(Total interest coverage: 6.5x)

Leases, Uncapitalized Annual rentals $95.0 mill.
Pension Assets-12/10 $344.0 mill. Oblig. $531.0 mill.

Pfd Stock None

Common Stock 78,461,591 shs. as of 7/29/11

MARKET CAP: $3.2 billion (Mid Cap)

| 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1049.3 | 868.9 | 983.7 | 1832.0 | 2718.0 | 2621.0 | 2494.0 | 2800.0 | 2317.0 | 2373.0 | **2470** | **2600** | Revenues ($mill) A | **3100** |
| 82.3 | 103.0 | 132.4 | 153.0 | 193.0 | 212.0 | 211.0 | 207.6 | 222.0 | 234.0 | **245** | **260** | Net Profit ($mill) | **300** |
| 40.7% | 36.0% | 35.9% | 37.0% | 37.7% | 37.8% | 37.6% | 40.5% | 35.2% | 35.9% | **40.0%** | **40.0%** | Income Tax Rate | **40.0%** |
| 7.8% | 11.9% | 13.5% | 8.4% | 7.1% | 8.1% | 8.5% | 7.4% | 9.6% | 9.9% | **9.9%** | **10.0%** | Net Profit Margin | **9.7%** |
| 61.3% | 58.3% | 50.3% | 54.0% | 51.9% | 50.2% | 50.2% | 50.3% | 52.6% | 48.0% | **53.0%** | **50.0%** | Long-Term Debt Ratio | **41.0%** |
| 38.7% | 41.7% | 49.7% | 46.0% | 48.1% | 49.8% | 49.8% | 49.7% | 47.4% | 52.0% | **47.0%** | **50.0%** | Common Equity Ratio | **59.0%** |
| 1736.3 | 1704.3 | 1901.4 | 3008.0 | 3114.0 | 3231.0 | 3335.0 | 3327.0 | 3754.0 | 3486.0 | **4155** | **4190** | Total Capital ($mill) | **4340** |
| 2058.9 | 2194.2 | 2352.4 | 3178.0 | 3271.0 | 3436.0 | 3566.0 | 3816.0 | 4146.0 | 4405.0 | **4485** | **4565** | Net Plant ($mill) | **4860** |
| 6.5% | 8.1% | 8.9% | 6.3% | 7.9% | 8.0% | 7.7% | 7.4% | 6.9% | 7.6% | **7.0%** | **7.5%** | Return on Total Cap'l | **8.0%** |
| 12.3% | 14.5% | 14.0% | 11.0% | 12.9% | 13.2% | 12.7% | 12.6% | 12.5% | 12.9% | **12.5%** | **12.5%** | Return on Shr. Equity | **12.0%** |
| 12.3% | 14.5% | 14.0% | 11.0% | 12.9% | 13.2% | 12.7% | 12.6% | 12.5% | 12.9% | **12.5%** | **12.5%** | Return on Com Equity | **12.0%** |
| 4.2% | 7.0% | 6.6% | 5.6% | 6.2% | 6.3% | 5.3% | 5.1% | 5.3% | 5.6% | **5.5%** | **5.5%** | Retained to Com Eq | **5.5%** |
| 65% | 52% | 53% | 49% | 52% | 52% | 58% | 60% | 57% | 57% | **58%** | **56%** | All Div'ds to Net Prof | **52%** |

| CURRENT POSITION ($MILL.) | 2009 | 2010 | 6/30/11 |
|---|---|---|---|
| Cash Assets | 26 | 24 | 21 |
| Other | 1974 | 2138 | 1582 |
| Current Assets | 2000 | 2162 | 1603 |
| Accts Payable | 237 | 184 | 138 |
| Debt Due | 602 | 1032 | 144 |
| Other | 933 | 1212 | 1117 |
| Current Liab. | 1772 | 2428 | 1399 |
| Fix. Chg. Cov. | 472% | 475% | 644% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 to '14-'16 |
|---|---|---|---|
| Revenues | 6.0% | 5.5% | 3.0% |
| "Cash Flow" | 6.5% | 6.0% | 4.0% |
| Earnings | 9.0% | 4.5% | 5.0% |
| Dividends | 5.0% | 7.5% | 3.0% |
| Book Value | 7.0% | 5.5% | 6.0% |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | 1012 | 444 | 539 | 805 | 2800 |
| 2009 | 995 | 377 | 307 | 638 | 2317 |
| 2010 | 1003 | 359 | 346 | 665 | 2373 |
| 2011 | 878 | 375 | **405** | **812** | **2470** |
| 2012 | **1180** | **370** | **350** | **700** | **2600** |

| Cal-endar | EARNINGS PER SHARE B Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | 1.16 | .30 | .28 | .97 | 2.71 |
| 2009 | 1.55 | .26 | .16 | .91 | 2.88 |
| 2010 | 1.73 | .17 | .29 | .81 | 3.00 |
| 2011 | 1.59 | .23 | **.27** | **1.01** | **3.10** |
| 2012 | **1.60** | **.40** | **.45** | **.85** | **3.30** |

| Cal-endar | QUARTERLY DIVIDENDS PAID C■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2007 | .41 | .41 | .41 | .41 | 1.64 |
| 2008 | .42 | .42 | .42 | .42 | 1.68 |
| 2009 | .43 | .43 | .43 | .43 | 1.72 |
| 2010 | .44 | .44 | .44 | .44 | 1.76 |
| 2011 | .45 | .45 | .45 | | |

**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 2.3 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. BlackRock Inc. owns 7.9% of common stock; off./dir., less than 1.0% (3/11 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 is on track to perform well this year.** Favorable rate rulings, along with several new projects, should result in healthy top and bottom lines. However, acquisition costs related to Nicor have caused us to lower our estimates to $3.10 for the year.

**Nicor remains a key item on the agenda.** With the exception of the Illinois Commerce Commission, the company has obtained all major approvals needed to close the transaction. The merger remains on track to close by yearend, though AGL Resources is pushing for expedited approval by October 1st. Nicor, an energy and shipping company with over $2 billion in market cap, and a major presence in the Midwest, Chicago, and the Caribbean and Bahamas regions, offers various expansion opportunities for AGL.

**The company is also looking at other avenues for expansion.** Management is focusing on various opportunities in the transportation segment. Due to an excess of contracts expiring around the nation, Sequent (AGL's transportation business), has been securing clients in various regions, aiding in a rapid expansion in this segment. Another sector of growth is the Product Services Group that is currently working with shale producers. It has managed to secure production contracts thus far with the Marcellus, Eagle Ford, and Haynesville regions. Given the focus on shale gas right now, this sector has considerable long-term growth potential.

**Expansion projects and rate cases are also factors to consider.** Several rulings have gone well for the company, with an increase of over $4 million in revenue from Atlanta Gas Light, an important subsidiary. AGL Resources has also developed a program to aid in expansion and efficiencies across its businesses, though few details are currently known. Finally, the Golden Triangle and Jefferson Island projects, AGL's recent major endeavors, are operating on schedule, with various expansions in the works for the future.

**Income investors might find this neutrally ranked issue interesting.** AGL Resources has a higher-than-industry average dividend yield. Furthermore, given its strong balance sheet, further increases in the dividend payout are likely.

*Sahana Zutshi* *September 9, 2011*

(A) Fiscal year ends December 31st. Ended September 30th prior to 2002.
(B) Diluted earnings per share. Excl. nonrecurring gains (losses): '95, ($0.83); '99, $0.39; '00, $0.13; '01, $0.13; '03, ($0.07); '08, $0.13. Next earnings report due late October.
(C) Dividends historically paid early March, June, Sept., and Dec. ■ Div'd reinvest. plan available.
(D) Includes intangibles. In 2010: $418 million, $5.35/share.
(E) In millions.

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

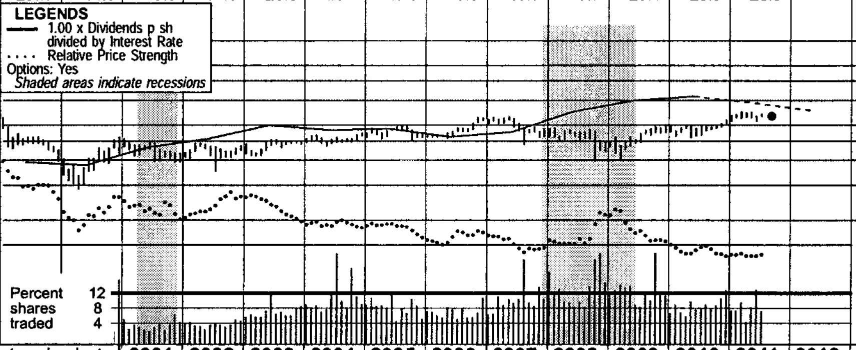
# ATMOS ENERGY CORP. NYSE-ATO

| RECENT PRICE | 33.41 | P/E RATIO | 14.2 (Trailing: 15.0 / Median: 14.0) | RELATIVE P/E RATIO | 1.02 | DIV'D YLD | 4.1% | VALUE LINE |
|---|---|---|---|---|---|---|---|---|

**TIMELINESS** 3 Raised 2/25/11
**SAFETY** 2 Raised 12/16/05
**TECHNICAL** 3 Lowered 8/26/11
**BETA** .70 (1.00 = Market)

| High: | 26.3 | 25.8 | 24.5 | 25.5 | 27.6 | 30.0 | 33.1 | 33.5 | 29.3 | 30.3 | 32.0 | 35.3 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Low: | 14.3 | 19.5 | 17.6 | 20.8 | 23.4 | 25.0 | 25.5 | 23.9 | 19.7 | 20.1 | 25.9 | 28.5 |

**Target Price Range**
2014 | 2015 | 2016




80
60
50
40
30
25
20
15
10
7.5

**2014-16 PROJECTIONS**

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

**Insider Decisions**

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

**Institutional Decisions**

| | 4Q2010 | 1Q2011 | 2Q2011 |
|---|---|---|---|
| to Buy | 102 | 97 | 112 |
| to Sell | 100 | 107 | 105 |
| Hld's(000) | 51197 | 50750 | 50093 |

**% TOT. RETURN 7/11**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 20.4 | 21.2 |
| 3 yr. | 46.0 | 42.7 |
| 5 yr. | 46.7 | 48.6 |

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.

| 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 35.36 | 22.82 | 54.39 | 46.50 | 61.75 | 75.27 | 66.03 | 79.52 | 53.69 | 53.12 | *48.45* | *50.55* | Revenues per sh A | *64.75* |
| 3.03 | 3.39 | 3.23 | 2.91 | 3.90 | 4.26 | 4.14 | 4.19 | 4.29 | 4.64 | *4.80* | *5.05* | "Cash Flow" per sh | *5.55* |
| 1.47 | 1.45 | 1.71 | 1.58 | 1.72 | 2.00 | 1.94 | 2.00 | 1.97 | 2.16 | *2.25* | *2.40* | Earnings per sh A B | *2.70* |
| 1.16 | 1.18 | 1.20 | 1.22 | 1.24 | 1.26 | 1.28 | 1.30 | 1.32 | 1.34 | *1.36* | *1.38* | Div'ds Decl'd per sh C ■ | *1.45* |
| 2.77 | 3.17 | 3.10 | 3.03 | 4.14 | 5.20 | 4.39 | 5.20 | 5.51 | 6.02 | *6.40* | *6.60* | Cap'l Spending per sh | *7.65* |
| 14.31 | 13.75 | 16.66 | 18.05 | 19.90 | 20.16 | 22.01 | 22.60 | 23.52 | 24.16 | *26.15* | *28.65* | Book Value per sh | *30.10* |
| 40.79 | 41.68 | 51.48 | 62.80 | 80.54 | 81.74 | 89.33 | 90.81 | 92.55 | 90.16 | *90.50* | *92.00* | Common Shs Outst'g D | *105.00* |
| 15.6 | 15.2 | 13.4 | 15.9 | 16.1 | 13.5 | 15.9 | 13.6 | 12.5 | 13.2 | *Bold figures are* | *Value Line* | Avg Ann'l P/E Ratio | *13.0* |
| .80 | .83 | .76 | .84 | .86 | .73 | .84 | .82 | .83 | .84 | *estimates* | | Relative P/E Ratio | *.85* |
| 5.1% | 5.4% | 5.2% | 4.9% | 4.5% | 4.7% | 4.2% | 4.8% | 5.3% | 4.7% | | | Avg Ann'l Div'd Yield | *4.1%* |
| 1442.3 | 950.8 | 2799.9 | 2920.0 | 4973.3 | 6152.4 | 5898.4 | 7221.3 | 4969.1 | 4789.7 | *4385* | *4650* | Revenues ($mill) A | *6800* |
| 56.1 | 59.7 | 79.5 | 86.2 | 135.8 | 162.3 | 170.5 | 180.3 | 179.7 | 201.2 | *205* | *220* | Net Profit ($mill) | *285* |
| 37.3% | 37.1% | 37.1% | 37.4% | 37.7% | 37.6% | 35.8% | 38.4% | 34.4% | 38.5% | *37.0%* | *38.5%* | Income Tax Rate | *40.5%* |
| 3.9% | 6.3% | 2.8% | 3.0% | 2.7% | 2.6% | 2.9% | 2.5% | 3.6% | 4.2% | *4.7%* | *4.7%* | Net Profit Margin | *4.2%* |
| 54.3% | 53.9% | 50.2% | 43.2% | 57.7% | 57.0% | 52.0% | 50.8% | 49.9% | 45.4% | *49.0%* | *47.0%* | Long-Term Debt Ratio | *49.0%* |
| 45.7% | 46.1% | 49.8% | 56.8% | 42.3% | 43.0% | 48.0% | 49.2% | 50.1% | 54.6% | *51.0%* | *53.0%* | Common Equity Ratio | *51.0%* |
| 1276.3 | 1243.7 | 1721.4 | 1994.8 | 3785.5 | 3828.5 | 4092.1 | 4172.3 | 4346.2 | 3987.9 | *4640* | *4975* | Total Capital ($mill) | *6200* |
| 1335.4 | 1300.3 | 1516.0 | 1722.5 | 3374.4 | 3629.2 | 3836.8 | 4136.9 | 4439.1 | 4793.1 | *5100* | *5400* | Net Plant ($mill) | *6400* |
| 5.9% | 6.8% | 6.2% | 5.8% | 5.3% | 6.1% | 5.9% | 5.9% | 5.9% | 6.9% | *6.0%* | *6.0%* | Return on Total Cap'l | *6.0%* |
| 9.6% | 10.4% | 9.3% | 7.6% | 8.5% | 9.8% | 8.7% | 8.8% | 8.3% | 9.2% | *8.5%* | *8.5%* | Return on Shr. Equity | *9.0%* |
| 9.6% | 10.4% | 9.3% | 7.6% | 8.5% | 9.8% | 8.7% | 8.8% | 8.3% | 9.2% | *8.5%* | *8.5%* | Return on Com Equity | *9.0%* |
| 2.1% | 1.9% | 2.8% | 1.7% | 2.3% | 3.6% | 3.0% | 3.1% | 2.7% | 3.5% | *3.5%* | *3.5%* | Retained to Com Eq | *4.0%* |
| 79% | 82% | 70% | 77% | 73% | 63% | 65% | 65% | 68% | 62% | *60%* | *58%* | All Div'ds to Net Prof | *53%* |

**CAPITAL STRUCTURE as of 6/30/11**
**Total Debt** $2208.5 mill. **Due in 5 Yrs** $1240.0 mill.
**LT Debt** $2206.1 mill. **LT Interest** $110.0 mill.
(LT interest earned: 3.2x; total interest coverage: 3.1x)
**Leases, Uncapitalized** Annual rentals $18.2 mill.
**Pfd Stock** None
**Pension Assets-9/10** $301.7 mill. **Oblig.** $407.5 mill.
**Common Stock** 90,285,306 shs. as of 7/29/11
**MARKET CAP: $3.0 billion (Mid Cap)**

| CURRENT POSITION ($MILL.) | 2009 | 2010 | 6/30/11 |
|---|---|---|---|
| Cash Assets | 111.2 | 132.0 | 117.4 |
| Other | 717.7 | 743.2 | 872.3 |
| Current Assets | 828.9 | 875.2 | 989.7 |
| Accts Payable | 207.4 | 266.2 | 312.2 |
| Debt Due | 72.7 | 486.2 | 2.4 |
| Other | 457.3 | 413.7 | 333.7 |
| Current Liab. | 737.4 | 1166.1 | 648.3 |
| Fix. Chg. Cov. | 416% | 440% | 435% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 to '14-'16 |
|---|---|---|---|
| Revenues | 9.5% | 3.0% | *1.0%* |
| "Cash Flow" | 4.0% | 5.5% | *4.0%* |
| Earnings | 5.0% | 4.0% | *5.0%* |
| Dividends | 2.0% | 1.5% | *2.0%* |
| Book Value | 6.5% | 5.0% | *4.5%* |

| Fiscal Year Ends | QUARTERLY REVENUES ($ mill.) A Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2008 | 1657.5 | 2484.0 | 1639.1 | 1440.7 | 7221.3 |
| 2009 | 1716.3 | 1821.4 | 780.8 | 650.6 | 4969.1 |
| 2010 | 1292.9 | 1940.3 | 770.2 | 786.3 | 4789.7 |
| 2011 | F | F | 843.6 | *826.6* | *4385* |
| 2012 | *1255* | *1740* | *850* | *805* | *4650* |

| Fiscal Year Ends | EARNINGS PER SHARE A B E Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2008 | .82 | 1.24 | d.07 | .02 | 2.00 |
| 2009 | .83 | 1.29 | .02 | d.17 | 1.97 |
| 2010 | 1.00 | 1.17 | d.03 | .02 | 2.16 |
| 2011 | .81 | 1.40 | .04 | *Nil* | *2.25* |
| 2012 | *.97* | *1.35* | *.06* | *.02* | *2.40* |

| Cal-endar | QUARTERLY DIVIDENDS PAID C ■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2007 | .32 | .32 | .32 | .325 | 1.29 |
| 2008 | .325 | .325 | .325 | .33 | 1.31 |
| 2009 | .33 | .33 | .33 | .335 | 1.33 |
| 2010 | .335 | .335 | .335 | .34 | 1.35 |
| 2011 | .34 | .34 | .34 | | |

**BUSINESS:** Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to over three 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 2010 gas volumes: 323 MMcf. Breakdown: 59%, residential; 32%, commercial; 6%, industrial; and 3% other. 2010 depreciation rate 3.3%. Has around 4,915 employees. Officers and directors own 1.4% of common stock (12/10 Proxy). President and Chief Executive Officer: Kim R. Cocklin. Inc.: Texas. Address: Three Lincoln Centre, Suite 1800, 5430 LBJ Freeway, Dallas, Texas 75240. Telephone: 972-934-9227. Internet: www.atmosenergy.com.

**Atmos Energy's share net for fiscal 2011 (ends September 30th) should run ahead of last year's tally.** The natural gas distribution segment, accounting for the lion's share of net income, is being boosted by higher rates in such states as Texas, Louisiana, and Kentucky. But results here continue to be held back, to a certain degree, by a drop in throughput, reflecting warmer temperatures. Meanwhile, the regulated transmission and storage unit is enjoying revenues from filings under the Texas Gas Reliability Infrastructure Program, as well as new rates from the recent Atmos Pipeline-Texas case. But diminished per-unit transportation margins are providing somewhat of an offset here. Since it appears that the company will have a respectable performance during the fourth quarter, full fiscal year share net may advance in the mid-single-digit range, to $2.25. Further expansion of operating margins ought to enable the bottom line to increase at a similar rate, to $2.40 a share, the following year.

**Steady, though unexciting, results seem to be in store for the company over the 2014-2016 horizon.** The utility ranks as one of the country's biggest natural gas-only distributors. Also, the unregulated units, especially pipelines, possess healthy overall growth prospects. Lastly, we look for management to eventually resume its successful strategy of purchasing less efficient utilities and shoring up their profitability via expense-reduction initiatives, rate relief, and aggressive marketing efforts. (The last major deal occurred in October, 2004, when Atmos Energy bought TXU Gas Company.) But given our exclusion of future acquisitions, because of numerous uncertainties, annual share-net growth could be in the mid-single-digit range over the 3- to 5-year time frame.

**The main attraction is the equity's dividend yield, which compares favorably to the average gas utility stock covered by *Value Line*.** Additional increases in the distribution, though moderate, seem likely. Earnings coverage ought to remain around the 55% to 60% range, which is reasonable. These shares' 2 (Above Average) ranking for Safety is another plus.

*Frederick L. Harris, III* *September 9, 2011*

(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '03, d17¢; '06, d18¢; '07, d2¢; '09, 12¢; '10, 5¢; Q2 '11, 5¢; Q3, (6¢). Excludes discontinued operations: '11, 9¢. Next egs. rpt. due early Oct. (C) Dividends historically paid in early March, June, Sept., and Dec. ■ Div. reinvestment plan. Direct stock purchase plan avail. (D) In millions. (E) Qtrs may not add due to change in shrs outstanding. (F) To be restated for discontinued operations.

| | |
|---|---|
| Company's Financial Strength | B+ |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 45 |
| Earnings Predictability | 90 |

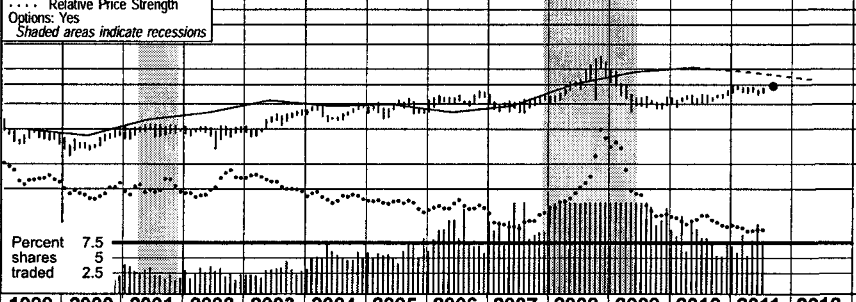
# LACLEDE GROUP NYSE-LG

| RECENT PRICE | P/E RATIO | RELATIVE P/E RATIO | DIV'D YLD | |
|---|---|---|---|---|
| 39.47 | 13.3 (Trailing: 13.5; Median: 14.0) | 0.96 | 4.2% | VALUE LINE |

**TIMELINESS** 2 Raised 8/12/11
**SAFETY** 2 Raised 6/20/03
**TECHNICAL** 3 Lowered 8/5/11
**BETA** .60 (1.00 = Market)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 24.8 | 25.5 | 25.0 | 30.0 | 32.5 | 34.3 | 37.5 | 36.0 | 55.8 | 48.3 | 37.8 | 40.0 |
| Low: | 17.5 | 21.3 | 19.0 | 21.8 | 26.0 | 26.9 | 29.1 | 28.8 | 31.9 | 29.3 | 30.8 | 32.9 |

**LEGENDS**
— 1.00 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
*Shaded areas indicate recessions*



**Target Price Range**

| 2014 | 2015 | 2016 |
|---|---|---|
| | | |

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

**2014-16 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 55 | (+40%) | 12% |
| Low | 40 | (Nil) | 5% |

**Insider Decisions**

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

**Institutional Decisions**

| | 4Q2010 | 1Q2011 | 2Q2011 |
|---|---|---|---|
| to Buy | 49 | 52 | 62 |
| to Sell | 62 | 58 | 57 |
| Hld's(000) | 10026 | 10275 | 10630 |

Percent shares traded 7.5 / 5 / 2.5

**% TOT. RETURN 7/11**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 11.5 | 21.2 |
| 3 yr. | 0.1 | 42.7 |
| 5 yr. | 39.5 | 48.6 |

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 24.79 | 31.03 | 34.33 | 31.04 | 26.04 | 29.99 | 53.08 | 39.84 | 54.95 | 59.59 | 75.43 | 93.51 | 93.40 | 100.44 | 85.49 | 77.83 | *71.80* | *71.95* | Revenues per sh | *86.55* |
| 2.55 | 3.29 | 3.32 | 3.02 | 2.56 | 2.68 | 3.00 | 2.56 | 3.15 | 2.79 | 2.98 | 3.81 | 3.87 | 4.22 | 4.56 | 4.11 | *4.65* | *4.40* | "Cash Flow" per sh | *5.20* |
| 1.27 | 1.87 | 1.84 | 1.58 | 1.47 | 1.37 | 1.61 | 1.18 | 1.82 | 1.82 | 1.90 | 2.37 | 2.31 | 2.64 | 2.92 | 2.43 | *2.90* | *2.55* | Earnings per sh A B | *3.05* |
| 1.24 | 1.26 | 1.30 | 1.32 | 1.34 | 1.34 | 1.34 | 1.34 | 1.34 | 1.35 | 1.37 | 1.40 | 1.45 | 1.49 | 1.53 | 1.57 | *1.61* | *1.65* | Div'ds Decl'd per sh C■ | *1.80* |
| 2.63 | 2.35 | 2.44 | 2.68 | 2.58 | 2.77 | 2.51 | 2.80 | 2.67 | 2.45 | 2.84 | 2.97 | 2.72 | 2.57 | 2.36 | 2.56 | *2.70* | *2.80* | Cap'l Spending per sh | *3.15* |
| 13.05 | 13.72 | 14.26 | 14.57 | 14.96 | 14.99 | 15.26 | 15.07 | 15.65 | 16.96 | 17.31 | 18.85 | 19.79 | 22.12 | 23.32 | 24.02 | *26.00* | *26.60* | Book Value per sh D | *31.15* |
| 17.42 | 17.56 | 17.56 | 17.63 | 18.88 | 18.88 | 18.88 | 18.96 | 19.11 | 20.98 | 21.17 | 21.36 | 21.65 | 21.99 | 22.17 | 22.29 | *22.50* | *23.00* | Common Shs Outst'g E | *26.00* |
| 15.5 | 11.9 | 12.5 | 15.5 | 15.8 | 14.9 | 14.5 | 20.0 | 13.6 | 15.7 | 16.2 | 13.6 | 14.2 | 14.3 | 13.4 | 13.7 | *Bold figures are* | | Avg Ann'l P/E Ratio | *15.5* |
| 1.04 | .75 | .72 | .81 | .90 | .97 | .74 | 1.09 | .78 | .83 | .86 | .73 | .75 | .86 | .89 | .87 | *Value Line* | | Relative P/E Ratio | *1.05* |
| 6.3% | 5.6% | 5.6% | 5.4% | 5.8% | 6.6% | 5.7% | 5.7% | 5.4% | 4.7% | 4.4% | 4.3% | 4.4% | 3.9% | 3.9% | 4.7% | *estimates* | | Avg Ann'l Div'd Yield | *3.8%* |

| 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1002.1 | 755.2 | 1050.3 | 1250.3 | 1597.0 | 1997.6 | 2021.6 | 2209.0 | 1895.2 | 1735.0 | *1615* | *1655* | Revenues ($mill) A | *2250* |
| 30.5 | 22.4 | 34.6 | 36.1 | 40.1 | 50.5 | 49.8 | 57.6 | 64.3 | 54.0 | *65.0* | *58.5* | Net Profit ($mill) | *80.0* |
| 32.7% | 35.4% | 35.0% | 34.8% | 34.1% | 32.5% | 33.4% | 31.3% | 33.6% | 33.4% | *33.0%* | *33.0%* | Income Tax Rate | *35.0%* |
| 3.0% | 3.0% | 3.3% | 2.9% | 2.5% | 2.5% | 2.5% | 2.6% | 3.4% | 3.1% | *4.0%* | *3.5%* | Net Profit Margin | *3.5%* |
| 49.5% | 47.5% | 50.4% | 51.6% | 48.1% | 49.5% | 45.3% | 44.4% | 42.9% | 40.5% | *40.0%* | *40.0%* | Long-Term Debt Ratio | *40.0%* |
| 50.2% | 52.3% | 49.4% | 48.3% | 51.8% | 50.4% | 54.6% | 55.5% | 57.1% | 59.5% | *60.0%* | *60.0%* | Common Equity Ratio | *60.0%* |
| 574.1 | 546.6 | 605.0 | 737.4 | 707.9 | 798.9 | 784.5 | 876.1 | 906.3 | 899.9 | *975* | *1020* | Total Capital ($mill) | *1350* |
| 602.5 | 594.4 | 621.2 | 646.9 | 679.5 | 763.8 | 793.8 | 823.2 | 855.9 | 884.1 | *920* | *965* | Net Plant ($mill) | *1300* |
| 6.9% | 6.0% | 7.4% | 6.6% | 7.6% | 8.4% | 8.5% | 8.1% | 8.7% | 7.4% | *8.0%* | *7.0%* | Return on Total Cap'l | *7.0%* |
| 10.5% | 7.8% | 11.5% | 10.1% | 10.9% | 12.5% | 11.6% | 11.8% | 12.4% | 10.1% | *11.0%* | *9.5%* | Return on Shr. Equity | *10.0%* |
| 10.5% | 7.8% | 11.6% | 10.1% | 10.9% | 12.5% | 11.6% | 11.8% | 12.4% | 10.1% | *11.0%* | *9.5%* | Return on Com Equity | *10.0%* |
| 1.8% | NMF | 3.1% | 2.7% | 3.1% | 5.1% | 4.3% | 5.2% | 5.9% | 3.6% | *5.0%* | *3.5%* | Retained to Com Eq | *4.0%* |
| 83% | 113% | 74% | 73% | 72% | 59% | 63% | 56% | 53% | 64% | *56%* | *65%* | All Div'ds to Net Prof | *58%* |

**CAPITAL STRUCTURE as of 6/30/11**
**Total Debt** $364.3 mill. **Due in 5 Yrs** $155.0 mill.
**LT Debt** $364.3 mill. **LT Interest** $20.0 mill.
(Total interest coverage: 4.0x)

**Leases, Uncapitalized** Annual rentals $.9 mill.
**Pension Assets-9/10** $240.9 mill. **Oblig.** $398.4 mill.

**Pfd Stock** None
**Common Stock** 22,429,189 shs. **as of 7/28/11**

**MARKET CAP: $875 million (Small Cap)**

| CURRENT POSITION ($MILL.) | 2009 | 2010 | 6/30/11 |
|---|---|---|---|
| Cash Assets | 74.6 | 86.9 | 60.9 |
| Other | 294.2 | 327.3 | 283.7 |
| Current Assets | 368.8 | 414.2 | 344.6 |
| Accts Payable | 72.8 | 95.6 | 101.8 |
| Debt Due | 129.8 | 154.6 | -- |
| Other | 96.5 | 83.7 | 83.7 |
| Current Liab. | 299.1 | 333.9 | 185.5 |
| Fix. Chg. Cov. | 420% | 391% | 395% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 to '14-'16 |
|---|---|---|---|
| Revenues | 11.5% | 7.0% | *Nil* |
| "Cash Flow" | 4.5% | 7.5% | *3.5%* |
| Earnings | 6.0% | 7.5% | *2.5%* |
| Dividends | 1.5% | 2.5% | *2.5%* |
| Book Value | 4.5% | 7.0% | *5.0%* |

| Fiscal Year Ends | QUARTERLY REVENUES ($ mill.) A Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2008 | 504.0 | 747.7 | 505.5 | 451.8 | 2209.0 |
| 2009 | 674.3 | 659.1 | 309.9 | 251.9 | 1895.2 |
| 2010 | 491.2 | 635.3 | 324.5 | 284.0 | 1735.0 |
| 2011 | 444.2 | 543.8 | 344.3 | *282.7* | *1615* |
| 2012 | *455* | *610* | *338* | *252* | *1655* |

| Fiscal Year Ends | EARNINGS PER SHARE A B F Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2008 | .99 | 1.39 | .41 | d.14 | 2.64 |
| 2009 | 1.42 | 1.40 | .31 | d.22 | 2.92 |
| 2010 | 1.03 | 1.26 | .21 | d.07 | 2.43 |
| 2011 | 1.05 | 1.25 | .69 | *d.09* | *2.90* |
| 2012 | *1.05* | *1.31* | *.30* | *d.11* | *2.55* |

| Cal-endar | QUARTERLY DIVIDENDS PAID C■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2007 | .365 | .365 | .365 | .365 | 1.46 |
| 2008 | .375 | .375 | .375 | .375 | 1.50 |
| 2009 | .385 | .385 | .385 | .385 | 1.54 |
| 2010 | .395 | .395 | .395 | .395 | 1.58 |
| 2011 | .405 | .405 | .405 | | |

**BUSINESS:** Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri, including the city of St. Louis, St. Louis County, and parts of 10 other counties. Has roughly 630,000 customers. Purchased SM&P Utility Resources, 1/02; divested, 3/08. Therms sold and transported in fiscal 2010: .97 mill. Revenue mix for regulated operations: residential, 68%; commercial and industrial, 24%; transportation, 2%; other, 6%. Has around 1,700 employees. Officers and directors own approximately 8% of common shares (1/11 proxy). Chairman and CEO: Douglas H. Yaeger; President: Suzanne Sitherwood. Inc.: Missouri. Address: 720 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.thelacledegroup.com.

**After two quarters of lackluster share-net comparisons, Laclede Group shined in the third period** (ended June 30th). The utility, Laclede Gas, benefited nicely from a rate hike that took effect on September 1, 2010. Furthermore, results were boosted by the April sale of 320,000 barrels of propane from inventory that was no longer required to serve utility customers. But Laclede Energy Resources suffered from lower margins, due to narrower regional price differentials (given the less-than-optimal economic environment).

**It now seems that the bottom line will reach $2.90 a share for the full year,** which would be near a record. But fiscal 2012 share net may drop, perhaps to $2.55, due to the tough comparison.

**Finances are healthy.** At the end of the third quarter, cash was almost $61 million. Too, long-term debt was a manageable 38.5% of total capital with no short-term commitments. Moreover, the company was able to enter into new revolving loan agreements with five-year terms for the holding company ($50 million, plus another $25 million if approved by lenders) and Laclede Gas ($300 million, with another $100 million depending on lender approval). That was quite an achievement, given that conditions in the lending industry remain less than optimal.

**We think unspectacular results are in store for the company out to 2014-2016.** Annual growth in the customer base for Laclede Gas will probably remain sluggish, given the mature service area. Laclede Energy Resources appears to have promising potential, but it tends to contribute just a small portion to total profits. Consequently, annual share-net advances may only be in the mid-single-digit range over the 3- to 5-year horizon. A major acquisition could brighten things, although it seems that management has no such plans in the works right now.

**The main attraction is the dividend yield, which is above the average for all natural gas utility stocks tracked by *Value Line*.** Even so, future increases in the payout may be modest, given the utility's unexciting long-term prospects. Meanwhile, the good-quality stock is ranked 2 (Above Average) for Timeliness.

*Frederick L. Harris, III September 9, 2011*

(A) Fiscal year ends Sept. 30th.
(B) Based on average shares outstanding thru. '97, then diluted. Excludes nonrecurring loss: '06, 7¢. Excludes gain from discontinued operations: '08, 94¢. Next earnings report due late Oct.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) Incl. deferred charges. In '10: $487.1 mill., $21.85/sh.
(E) In millions.
(F) Qtly. egs. may not sum due to rounding or change in shares outstanding.

| | |
|---|---|
| Company's Financial Strength | B++ |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 50 |
| Earnings Predictability | 80 |

# NEW JERSEY RES. NYSE-NJR

RECENT PRICE **47.14** | P/E RATIO **17.3** (Trailing: 18.6; Median: 15.0) | RELATIVE P/E RATIO **1.24** | DIV'D YLD **3.1%** | **VALUE LINE**

**TIMELINESS** 4 Lowered 3/11/11
**SAFETY** 1 Raised 9/15/06
**TECHNICAL** 2 Raised 8/19/11
**BETA** .65 (1.00 = Market)

**2014-16 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 50 | (+15%) | 7% |
| Low | 40 | (-5%) | 2% |

**Insider Decisions**

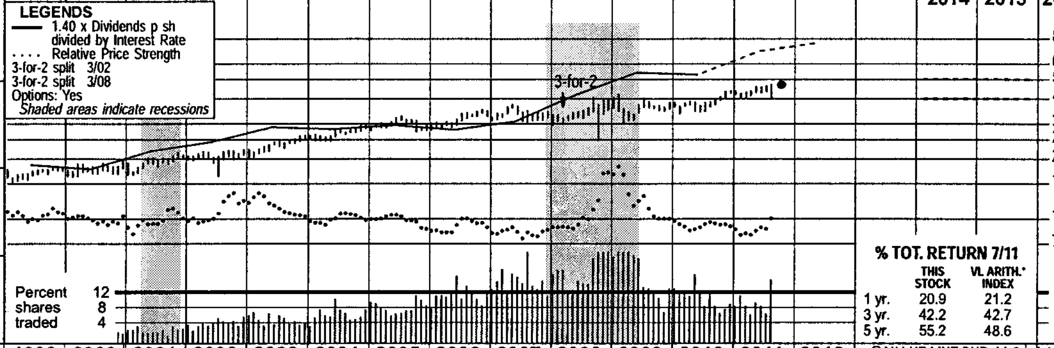
| | O | N | D | J | F | M | A | M | J |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| to Sell | 0 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 0 |

**Institutional Decisions**

| | 4Q2010 | 1Q2011 | 2Q2011 |
|---|---|---|---|
| to Buy | 65 | 67 | 58 |
| to Sell | 56 | 57 | 67 |
| Hld's(000) | 24033 | 23545 | 23841 |

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 19.8 | 21.7 | 22.4 | 26.4 | 29.7 | 32.9 | 35.4 | 37.6 | 41.1 | 42.4 | 44.1 | 47.3 |
| Low: | 16.1 | 16.6 | 16.2 | 20.0 | 24.3 | 27.1 | 27.7 | 30.3 | 24.6 | 30.0 | 33.5 | 39.6 |

**Target Price Range** 2014 | 2015 | 2016




**% TOT. RETURN 7/11**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 20.9 | 21.2 |
| 3 yr. | 42.2 | 42.7 |
| 5 yr. | 55.2 | 48.6 |

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 11.36 | 13.48 | 17.31 | 17.73 | 22.65 | 29.42 | 51.22 | 44.11 | 62.29 | 60.89 | 76.19 | 79.63 | 72.62 | 90.74 | 62.34 | 63.81 | *70.10* | *74.00* | Revenues per sh A | *80.90* |
| 1.42 | 1.48 | 1.63 | 1.74 | 1.86 | 1.99 | 2.12 | 2.14 | 2.38 | 2.50 | 2.62 | 2.73 | 2.44 | 3.62 | 3.16 | 3.28 | *3.55* | *3.80* | "Cash Flow" per sh | *4.25* |
| .86 | .92 | .99 | 1.04 | 1.11 | 1.20 | 1.30 | 1.39 | 1.59 | 1.70 | 1.77 | 1.87 | 1.55 | 2.70 | 2.40 | 2.46 | *2.60* | *2.85* | Earnings per sh B | *3.20* |
| .68 | .69 | .71 | .73 | .75 | .76 | .78 | .80 | .83 | .87 | .91 | .96 | 1.01 | 1.11 | 1.24 | 1.36 | *1.44* | *1.48* | Div'ds Decl'd per sh C■ | *1.60* |
| 1.18 | 1.19 | 1.15 | 1.07 | 1.21 | 1.23 | 1.10 | 1.02 | 1.14 | 1.45 | 1.28 | 1.28 | 1.46 | 1.72 | 1.81 | 2.09 | *1.95* | *2.00* | Cap'l Spending per sh | *2.00* |
| 6.47 | 6.73 | 6.92 | 7.26 | 7.57 | 8.29 | 8.80 | 8.71 | 10.26 | 11.25 | 10.60 | 15.00 | 15.50 | 17.28 | 16.59 | 17.53 | *18.75* | *19.45* | Book Value per sh D | *24.15* |
| 40.03 | 40.69 | 40.23 | 40.07 | 39.92 | 39.59 | 40.00 | 41.50 | 40.85 | 41.61 | 41.32 | 41.44 | 41.61 | 42.06 | 41.59 | 41.36 | *41.00* | *40.00* | Common Shs Outst'g E | *40.00* |
| 11.8 | 13.6 | 13.5 | 15.3 | 15.2 | 14.7 | 14.2 | 14.7 | 14.0 | 15.3 | 16.8 | 16.1 | 21.6 | 12.3 | 14.9 | 15.0 | *Bold figures are* | *Value Line* | Avg Ann'l P/E Ratio | *14.0* |
| .79 | .85 | .78 | .80 | .87 | .96 | .73 | .80 | .80 | .81 | .89 | .87 | 1.15 | .74 | .99 | .96 | *estimates* | | Relative P/E Ratio | *.95* |
| 6.7% | 5.6% | 5.3% | 4.6% | 4.5% | 4.4% | 4.2% | 3.9% | 3.7% | 3.3% | 3.1% | 3.2% | 3.0% | 3.3% | 3.5% | 3.7% | | | Avg Ann'l Div'd Yield | *3.6%* |

**CAPITAL STRUCTURE as of 6/30/11**
**Total Debt** $578.4 mill. **Due in 5 Yrs** $544.5 mill.
**LT Debt** $428.2 mill. **LT Interest** $11.7 mill.
Incl. $14.6 mill. capitalized leases.
(LT interest earned: 7.5x; total interest coverage: 7.5x)
**Pension Assets-9/10** $150.5 mill. **Oblig.** $244.5 mill.

**Pfd Stock** None

**Common Stock** 41,436,473 shs. as of 8/2/11
**MARKET CAP: $2.0 billion (Mid Cap)**

| 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2048.4 | 1830.8 | 2544.4 | 2533.6 | 3148.3 | 3299.6 | 3021.8 | 3816.2 | 2592.5 | 2639.3 | *2875* | *2960* | Revenues ($mill) A | *3235* |
| 52.3 | 56.8 | 65.4 | 71.6 | 74.4 | 78.5 | 65.3 | 113.9 | 101.0 | 102.4 | *110* | *115* | Net Profit ($mill) | *130* |
| 38.0% | 38.7% | 39.4% | 39.1% | 39.1% | 38.9% | 38.8% | 37.8% | 27.1% | 37.6% | *35.0%* | *35.0%* | Income Tax Rate | *35.0%* |
| 2.6% | 3.1% | 2.6% | 2.8% | 2.4% | 2.4% | 2.2% | 3.0% | 3.9% | 3.9% | *4.0%* | *4.0%* | Net Profit Margin | *4.0%* |
| 50.1% | 50.6% | 38.1% | 40.3% | 42.0% | 34.8% | 37.3% | 38.5% | 39.8% | 37.2% | *37.0%* | *39.0%* | Long-Term Debt Ratio | *34.0%* |
| 49.9% | 49.4% | 61.9% | 59.7% | 58.0% | 65.2% | 62.7% | 61.5% | 60.2% | 62.8% | *63.0%* | *61.0%* | Common Equity Ratio | *66.0%* |
| 706.2 | 732.4 | 676.8 | 783.8 | 755.3 | 954.0 | 1028.0 | 1182.1 | 1144.8 | 1154.4 | *1220* | *1275* | Total Capital ($mill) | *1465* |
| 743.9 | 756.4 | 852.6 | 880.4 | 905.1 | 934.9 | 970.9 | 1017.3 | 1064.4 | 1135.7 | *1160* | *1180* | Net Plant ($mill) | *1255* |
| 8.5% | 8.7% | 10.7% | 10.1% | 11.2% | 9.6% | 7.7% | 10.7% | 9.7% | 9.8% | *10.0%* | *10.0%* | Return on Total Cap'l | *9.5%* |
| 14.8% | 15.7% | 15.6% | 15.3% | 17.0% | 12.6% | 10.1% | 15.7% | 14.6% | 14.1% | *14.0%* | *15.0%* | Return on Shr. Equity | *13.5%* |
| 14.9% | 15.7% | 15.6% | 15.3% | 17.0% | 12.6% | 10.1% | 15.7% | 14.6% | 14.1% | *14.0%* | *15.0%* | Return on Com Equity | *13.5%* |
| 6.1% | 6.9% | 7.7% | 7.8% | 8.5% | 6.3% | 3.6% | 9.5% | 7.2% | 6.8% | *6.5%* | *7.5%* | Retained to Com Eq | *7.0%* |
| 59% | 56% | 51% | 49% | 50% | 50% | 64% | 40% | 50% | 52% | *55%* | *51%* | All Div'ds to Net Prof | *50%* |

| CURRENT POSITION ($MILL.) | 2009 | 2010 | 6/30/11 |
|---|---|---|---|
| Cash Assets | 36.2 | .9 | 60.8 |
| Other | 648.0 | 784.1 | 680.9 |
| Current Assets | 684.2 | 785.0 | 741.7 |
| Accts Payable | 44.4 | 47.3 | 59.5 |
| Debt Due | 149.9 | 178.9 | 150.2 |
| Other | 361.9 | 479.6 | 421.4 |
| Current Liab. | 556.2 | 705.8 | 631.1 |
| Fix. Chg. Cov. | 711% | 700% | 700% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 to '14-'16 |
|---|---|---|---|
| Revenues | 12.0% | 1.5% | *2.0%* |
| "Cash Flow" | 6.0% | 6.0% | *4.0%* |
| Earnings | 8.5% | 8.5% | *4.0%* |
| Dividends | 5.0% | 7.5% | *4.5%* |
| Book Value | 8.5% | 10.0% | *6.0%* |

| Fiscal Year Ends | QUARTERLY REVENUES ($ mill.) A Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2008 | 811.1 | 1178 | 1000 | 827.1 | 3816.2 |
| 2009 | 801.3 | 937.5 | 441.1 | 412.6 | 2592.5 |
| 2010 | 609.6 | 918.4 | 479.8 | 631.5 | 2639.3 |
| 2011 | 713.2 | 977.0 | 648.2 | *536.6* | *2875* |
| 2012 | *735* | *995* | *670* | *560* | *2960* |

| Fiscal Year Ends | EARNINGS PER SHARE A B Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2008 | 1.31 | 1.86 | d.10 | d.39 | 2.70 |
| 2009 | .77 | 1.71 | .03 | d.12 | 2.40 |
| 2010 | .66 | 1.55 | .28 | d.03 | 2.46 |
| 2011 | .71 | 1.62 | .23 | *.04* | *2.60* |
| 2012 | *.77* | *1.68* | *.30* | *.10* | *2.85* |

| Cal-endar | QUARTERLY DIVIDENDS PAID C E■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2007 | .253 | .253 | .253 | .253 | 1.01 |
| 2008 | .267 | .28 | .28 | .28 | 1.11 |
| 2009 | .31 | .31 | .31 | .31 | 1.24 |
| 2010 | .34 | .34 | .34 | .34 | 1.36 |
| 2011 | .36 | .36 | .36 | | |

**BUSINESS:** New Jersey Resources Corp. is a holding company providing retail/wholesale energy svcs. to customers in New Jersey, and in states from the Gulf Coast to New England, and Canada. New Jersey Natural Gas had about 490,310 customers at 9/30/10 in Monmouth and Ocean Counties, and other N.J. Counties. Fiscal 2010 volume: 150 bill. cu. ft. (5% interruptible, 39% residential and commercial and electric utility, 56% incentive programs). N.J. Natural Energy subsidiary provides unregulated retail/wholesale natural gas and related energy svcs. 2010 dep. rate: 2.2%. Has 887 empls. Off./dir. own about 1.5% of common (12/10 Proxy). Chrmn., CEO & Pres.: Laurence M. Downes. Inc.: NJ Addr.: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 732-938-1480. Web: www.njresources.com.

**New Jersey Resources is on pace to log a solid bottom-line advance this year.** The top line should continue to get a boost from higher contributions at the NJNG regulated utility division. That segment added another 1,540 customers during the June period, bringing this year's tally to 4,610 additional accounts. On the downside, lower results from the NJR Energy Services unit have been impacting profits. This prompted us to trim a nickel off our 2011 earnings estimate, which now sits at $2.60 a share.

**The accelerated infrastructure projects (AIPs) are developing nicely, and a rate case has been filed.** All of the 14 projects that comprise AIP-phase I are expected to be completed by the end of this summer. Meanwhile, AIP-phase II is made up of another nine projects to help ensure the safety, integrity, and reliability of NJR's system. Combined, those projects represent investments of about $70 million and $60 million for the two phases, respectively. What's more, on June 1st, NJNG filed to recover $4.7 million of capital expenditures associated with AIP I and II. Assuming that rate request is granted, we would expect others to follow. Meanwhile, multiple "green" projects, like solar facilities and compressed natural gas refueling stations, could supplement longer-term profits.

**The overall financial position is in good shape.** Cash reserves declined roughly 20% when compared to the linked quarter, but that financial cushion is still up significantly from the end of last year, to about $60 million. Meanwhile, the long-term debt burden has remained relatively constant, and at a manageable level.

**Shares of New Jersey Resources have performed well since our June review,** when compared to the broader market declines. In fact, NJR has advanced about 2.5% during that time frame, owing to the stock's high mark for Price Stability, top Safety rank, and below-market Beta. This compares to a 4% decline in the S&P 500 over the same period. **Too, the equity may appeal to conservative income-seeking accounts,** thanks to its decent dividend yield. But capital appreciation potential for the pull to 2014-2016 is below average.

*Bryan J. Fong* *September 9, 2011*

(A) Fiscal year ends Sept. 30th.
(B) Diluted earnings. Qtly egs may not sum to total due to change in shares outstanding. Next earnings report due late Oct.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) Includes regulatory assets in 2010: $454.6 million, $10.99/share.
(E) In millions, adjusted for splits.

| | |
|---|---|
| Company's Financial Strength | A |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 55 |
| Earnings Predictability | 50 |

# N.W. NAT'L GAS NYSE-NWN

| RECENT PRICE | 45.18 | P/E RATIO | 16.3 (Trailing: 18.5 / Median: 17.0) | RELATIVE P/E RATIO | 1.17 | DIV'D YLD | 3.9% | VALUE LINE |
|---|---|---|---|---|---|---|---|---|

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 27.5 | 26.8 | 30.7 | 31.3 | 34.1 | 39.6 | 43.7 | 52.8 | 55.2 | 46.5 | 50.9 | 48.7 |
| Low: | 17.8 | 21.7 | 23.5 | 24.0 | 27.5 | 32.4 | 32.8 | 39.8 | 37.7 | 37.7 | 41.1 | 39.6 |

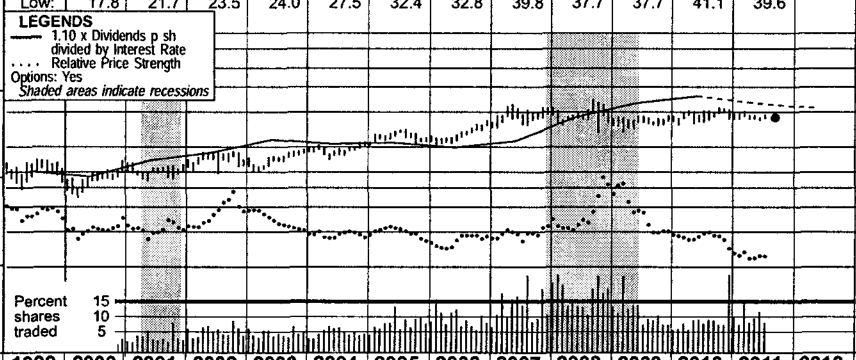
**TIMELINESS** 4 Lowered 5/13/11

**SAFETY** 1 Raised 3/18/05

**TECHNICAL** 2 Raised 8/5/11

**BETA** .60 (1.00 = Market)

**LEGENDS**
- —— 1.10 x Dividends p sh divided by Interest Rate
- .... Relative Price Strength
- Options: Yes
- *Shaded areas indicate recessions*



**Target Price Range** 2014 | 2015 | 2016: 120, 100, 80, 64, 48, 32, 24, 20, 16, 12, 8

### 2014-16 PROJECTIONS

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 65 | (+45%) | 13% |
| Low | 50 | (+10%) | 6% |

### Insider Decisions

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

### Institutional Decisions

| | 4Q2010 | 1Q2011 | 2Q2011 |
|---|---|---|---|
| to Buy | 74 | 53 | 54 |
| to Sell | 56 | 73 | 65 |
| Hld's(000) | 15297 | 15073 | 15895 |

Percent shares traded 15 10 5

**% TOT. RETURN 7/11**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | -2.3 | 21.2 |
| 3 yr. | 10.0 | 42.7 |
| 5 yr. | 40.0 | 48.6 |

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 16.02 | 16.86 | 15.82 | 16.77 | 18.17 | 21.09 | 25.78 | 25.07 | 23.57 | 25.69 | 33.01 | 37.20 | 39.13 | 39.16 | 38.17 | 30.45 | **32.15** | **33.00** | Revenues per sh | **48.25** |
| 3.41 | 3.86 | 3.72 | 3.24 | 3.72 | 3.68 | 3.86 | 3.65 | 3.85 | 3.92 | 4.34 | 4.76 | 5.41 | 5.31 | 5.20 | 5.15 | **5.55** | **5.90** | "Cash Flow" per sh | **7.10** |
| 1.61 | 1.97 | 1.76 | 1.02 | 1.70 | 1.79 | 1.88 | 1.62 | 1.76 | 1.86 | 2.11 | 2.35 | 2.76 | 2.57 | 2.83 | 2.73 | **2.55** | **2.70** | Earnings per sh A | **3.40** |
| 1.18 | 1.20 | 1.21 | 1.22 | 1.23 | 1.24 | 1.25 | 1.26 | 1.27 | 1.30 | 1.32 | 1.39 | 1.44 | 1.52 | 1.60 | 1.68 | **1.74** | **1.78** | Div'ds Decl'd per sh B ■ | **1.90** |
| 3.02 | 3.70 | 5.07 | 4.02 | 4.78 | 3.46 | 3.23 | 3.11 | 4.90 | 5.52 | 3.48 | 3.56 | 4.48 | 3.92 | 5.09 | 9.30 | **4.50** | **5.20** | Cap'l Spending per sh | **9.65** |
| 14.55 | 15.37 | 16.02 | 16.59 | 17.12 | 17.93 | 18.56 | 18.88 | 19.52 | 20.64 | 21.28 | 22.01 | 22.52 | 23.71 | 24.88 | 25.95 | **27.35** | **28.80** | Book Value per sh D | **34.50** |
| 22.24 | 22.56 | 22.86 | 24.85 | 25.09 | 25.23 | 25.23 | 25.59 | 25.94 | 27.55 | 27.58 | 27.24 | 26.41 | 26.50 | 26.53 | 26.67 | **26.75** | **26.80** | Common Shs Outst'g C | **26.95** |
| 12.9 | 11.7 | 14.4 | 26.7 | 14.5 | 12.4 | 12.9 | 17.2 | 15.8 | 16.7 | 17.0 | 15.9 | 16.7 | 18.1 | 15.2 | 17.9 | *Bold figures are* | | Avg Ann'l P/E Ratio | **17.0** |
| .86 | .73 | .83 | 1.39 | .83 | .81 | .66 | .94 | .90 | .88 | .91 | .86 | .89 | 1.09 | 1.01 | 1.10 | *Value Line* | | Relative P/E Ratio | **1.15** |
| 5.7% | 5.2% | 4.8% | 4.5% | 5.0% | 5.6% | 5.1% | 4.5% | 4.6% | 4.2% | 3.7% | 3.7% | 3.1% | 3.3% | 3.7% | 3.8% | *estimates* | | Avg Ann'l Div'd Yield | **3.3%** |

**CAPITAL STRUCTURE as of 6/30/11**
**Total Debt** $737.1 mill. **Due in 5 Yrs** $200 mill.
**LT Debt** $551.7 mill. **LT Interest** $38.5 mill.

(Total interest coverage: 7.0x)

**Pension Assets-12/10** $219 mill. **Oblig.** $337.3 mill.

**Pfd Stock** None

**Common Stock** 26,674,187 shares

**MARKET CAP $1.2 billion (Mid Cap)**

| 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 650.3 | 641.4 | 611.3 | 707.6 | 910.5 | 1013.2 | 1033.2 | 1037.9 | 1012.7 | 812.1 | **860** | **885** | Revenues ($mill) | **1300** |
| 50.2 | 43.8 | 46.0 | 50.6 | 58.1 | 65.2 | 74.5 | 68.5 | 75.1 | 72.7 | **70.0** | **75.0** | Net Profit ($mill) | **90.0** |
| 35.4% | 34.9% | 33.7% | 34.4% | 36.0% | 36.3% | 37.2% | 36.9% | 38.3% | 31.4% | **30.0%** | **30.0%** | Income Tax Rate | **30.0%** |
| 7.7% | 6.8% | 7.5% | 7.1% | 6.4% | 6.4% | 7.2% | 6.6% | 7.4% | 8.9% | **8.0%** | **8.2%** | Net Profit Margin | **7.1%** |
| 43.0% | 47.6% | 49.7% | 46.0% | 47.0% | 46.3% | 46.3% | 44.9% | 47.7% | 46.5% | **42%** | **40%** | Long-Term Debt Ratio | **33%** |
| 53.2% | 51.5% | 50.3% | 54.0% | 53.0% | 53.7% | 53.7% | 55.1% | 52.3% | 53.5% | **58%** | **60%** | Common Equity Ratio | **67%** |
| 880.5 | 937.3 | 1006.6 | 1052.5 | 1108.4 | 1116.5 | 1106.8 | 1140.4 | 1261.8 | 1294.8 | **1270** | **1300** | Total Capital ($mill) | **1380** |
| 965.0 | 995.6 | 1205.9 | 1318.4 | 1373.4 | 1425.1 | 1495.9 | 1549.1 | 1670.1 | 1854.2 | **1945** | **2050** | Net Plant ($mill) | **2545** |
| 6.9% | 5.9% | 5.7% | 5.9% | 6.5% | 7.1% | 8.5% | 7.7% | 7.3% | 5.6% | **7.0%** | **7.0%** | Return on Total Cap'l | **8.0%** |
| 10.0% | 8.9% | 9.1% | 8.9% | 9.9% | 10.9% | 12.5% | 10.9% | 11.4% | 10.5% | **9.5%** | **9.5%** | Return on Shr. Equity | **10.0%** |
| 10.2% | 8.5% | 9.0% | 8.9% | 9.9% | 10.9% | 12.5% | 10.9% | 11.4% | 10.5% | **9.5%** | **9.5%** | Return on Com Equity | **10.0%** |
| 3.5% | 1.9% | 2.6% | 2.7% | 3.7% | 4.5% | 6.0% | 4.5% | 5.0% | 4.0% | **3.0%** | **3.0%** | Retained to Com Eq | **4.5%** |
| 67% | 79% | 72% | 69% | 63% | 59% | 52% | 59% | 56% | 61% | **68%** | **66%** | All Div'ds to Net Prof | **56%** |

| CURRENT POSITION ($MILL.) | 2009 | 2010 | 6/30/11 |
|---|---|---|---|
| Cash Assets | 8.4 | 3.5 | 3.7 |
| Other | 319.8 | 326.8 | 224.2 |
| Current Assets | 328.2 | 330.3 | 227.9 |
| Accts Payable | 123.7 | 93.2 | 54.1 |
| Debt Due | 137.0 | 267.4 | 185.4 |
| Other | 131.9 | 107.6 | 141.3 |
| Current Liab. | 392.6 | 468.2 | 380.8 |
| Fx. Chg. Cov. | 395% | 495% | 484% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 to '14-'16 |
|---|---|---|---|
| Revenues | 8.5% | 9.5% | 5.5% |
| "Cash Flow" | 4.0% | 7.0% | 5.5% |
| Earnings | 6.0% | 9.5% | 4.5% |
| Dividends | 2.0% | 3.5% | 2.5% |
| Book Value | 3.5% | 4.0% | 6.0% |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | 387.7 | 191.3 | 109.7 | 349.2 | 1037.9 |
| 2009 | 437.4 | 149.1 | 116.9 | 309.3 | 1012.7 |
| 2010 | 286.5 | 162.4 | 95.1 | 268.1 | 812.1 |
| 2011 | 323.1 | 161.2 | **100** | **275.7** | **860** |
| 2012 | **320** | **170** | **150** | **245** | **885** |

| Cal-endar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | 1.62 | .08 | d.38 | 1.25 | 2.57 |
| 2009 | 1.78 | .12 | d.25 | 1.18 | 2.83 |
| 2010 | 1.64 | .26 | d.28 | 1.11 | 2.73 |
| 2011 | 1.53 | .08 | **d.30** | **1.24** | **2.55** |
| 2012 | **1.75** | **.15** | **d.45** | **1.25** | **2.70** |

| Cal-endar | QUARTERLY DIVIDENDS PAID B ■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2007 | .355 | .355 | .355 | .375 | 1.44 |
| 2008 | .375 | .375 | .375 | .395 | 1.52 |
| 2009 | .395 | .395 | .395 | .415 | 1.60 |
| 2010 | .415 | .415 | .415 | .435 | 1.68 |
| 2011 | .435 | .435 | .435 | | |

**BUSINESS:** Northwest Natural Gas Co. distributes natural gas to 90 communities, 668,000 customers, in Oregon (90% of customers) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.5 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system. Owns local underground storage. Rev. breakdown: residential, 57%; commercial, 26%; industrial, gas transportation, and other, 17%. Employs 1,061. BlackRock Inc. owns 7.9% of shares; officers and directors, 1.5% (4/11 proxy). CEO: Gregg S. Kantor. Inc.: Oregon. Address: 220 NW 2nd Ave., Portland, OR 97209. Telephone: 503-226-4211. Internet: www.nwnatural.com.

**Northwest Natural Gas is plodding along.** Senate Bill 967, signed into law on May 24th, caused the company to take a one-time charge of over $4 million. This was less than expected, prompting us to upgrade our 2011 earnings estimate to $2.55 for the year. However, a less vigorous regional economy has caused us to downgrade our 2012 earnings estimate to $2.70.

**The Oregon rate case remains a major focus.** The company announced its decision to file this case, its first since 2003, in the first quarter of this year. It has since scheduled prefiling workshops, starting in September, with regulatory staff members. A ruling is scheduled for after December, 2011. Any major changes are likely to affect revenue in late 2012 or early 2013. Since this is the first rate case in eight years, a favorable outcome is likely.

**New major projects are likely to provide a boost to the top and bottom lines over the next few years.** The joint venture with Encana (to develop gas reserves in order to increase Northwest's supply over the next 30 years), was approved by regulators at the end of April. Drilling began in May, and thus far continues on schedule, with no obstacles so far. On another note, the new Gill Ranch storage facility in California is now fully operational, and is contracted for over 70% of available capacity thus far. An expansion to ensure the facility reaches design capacity of about 15 billion cubic feet is on schedule, as well. The facility is set to considerably expand Northwest's customer base in the California market. Finally regarding the Palomar project, the company is preparing to file a new application with the Federal Energy Regulatory Commission by yearend. The project eliminates several hindrances that plagued the old application, and Northwest plans to begin talks with potential shippers by the beginning of 2012. As the Palomar project was a drag on earnings, this resolution augurs well for the bottom line in the future.

**The untimely stock's yield is right at the industry average.** Dividend growth promises to be steady, and the shares offer 3- to 5-year total return potential that is slightly above the norm for the natural gas utility group.

*Sahana Zutshi* *September 9, 2011*

(A) Diluted earnings per share. Excludes nonrecurring items: '98, $0.15; '00, $0.11; '06, ($0.06); '08, ($0.03); '09, 6¢. Next earnings report due late October.
(B) Dividends historically paid in mid-February, May, August, and November.
■ Dividend reinvestment plan available.
(C) In millions.
(D) Includes Intangibles. In 2010: $348.9 million. $13.08/share.

| | |
|---|---|
| Company's Financial Strength | A |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 60 |
| Earnings Predictability | 95 |

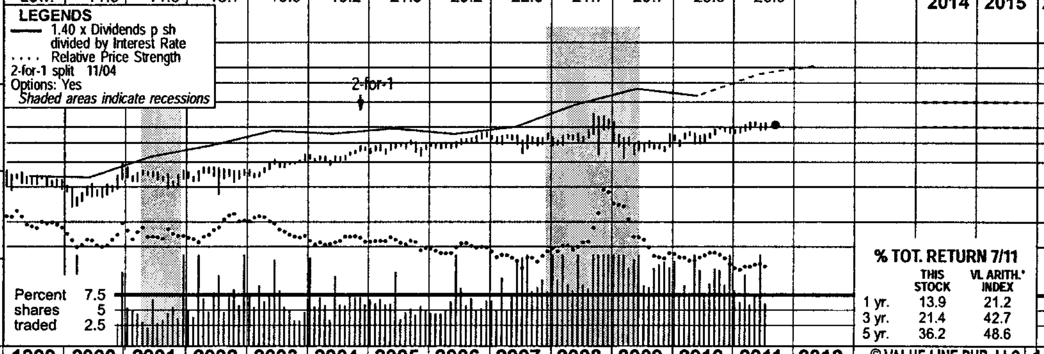
# PIEDMONT NAT'L. GAS NYSE-PNY

| RECENT PRICE | 30.80 | P/E RATIO | 18.8 (Trailing: 19.7; Median: 17.0) | RELATIVE P/E RATIO | 1.35 | DIV'D YLD | 3.8% | VALUE LINE |
|---|---|---|---|---|---|---|---|---|

**TIMELINESS** 3 Raised 5/20/11
**SAFETY** 2 New 7/27/90
**TECHNICAL** 2 Raised 8/5/11
**BETA** .65 (1.00 = Market)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 19.7 | 19.0 | 19.0 | 22.0 | 24.3 | 25.8 | 28.4 | 28.0 | 35.3 | 32.0 | 30.1 | 32.0 | |
| Low: | 11.8 | 14.6 | 13.7 | 16.6 | 19.2 | 21.3 | 23.2 | 22.0 | 21.7 | 20.7 | 23.9 | 25.9 | |

Target Price Range 2014 | 2015 | 2016




**2014-16 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 40 | (+30%) | 10% |
| Low | 30 | (-5%) | 3% |

**Insider Decisions**

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

**Institutional Decisions**

| | 4Q2010 | 1Q2011 | 2Q2011 |
|---|---|---|---|
| to Buy | 99 | 74 | 70 |
| to Sell | 75 | 89 | 82 |
| Hld's(000) | 31677 | 31082 | 31155 |

**% TOT. RETURN 7/11**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 13.9 | 21.2 |
| 3 yr. | 21.4 | 42.7 |
| 5 yr. | 36.2 | 48.6 |

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 8.76 | 11.59 | 12.84 | 12.45 | 10.97 | 13.01 | 17.06 | 12.57 | 18.14 | 19.95 | 22.96 | 25.80 | 23.37 | 28.52 | 22.36 | 21.48 | *20.55* | *22.55* | Revenues per sh A | *25.95* |
| 1.25 | 1.49 | 1.62 | 1.72 | 1.70 | 1.77 | 1.81 | 1.81 | 2.04 | 2.31 | 2.43 | 2.51 | 2.64 | 2.77 | 3.01 | 2.91 | *3.00* | *3.15* | "Cash Flow" per sh | *3.45* |
| .73 | .84 | .93 | .98 | .93 | 1.01 | 1.01 | .95 | 1.11 | 1.27 | 1.32 | 1.28 | 1.40 | 1.49 | 1.67 | 1.55 | *1.60* | *1.70* | Earnings per sh AB | *1.90* |
| .54 | .57 | .61 | .64 | .68 | .72 | .76 | .80 | .82 | .85 | .91 | .95 | .99 | 1.03 | 1.07 | 1.11 | *1.15* | *1.19* | Div'ds Decl'd per sh C■ | *1.31* |
| 1.72 | 1.64 | 1.52 | 1.48 | 1.58 | 1.65 | 1.29 | 1.21 | 1.16 | 1.85 | 2.50 | 2.74 | 1.85 | 2.47 | 1.76 | 2.75 | *4.40* | *2.80* | Cap'l Spending per sh | *2.95* |
| 6.16 | 6.53 | 6.95 | 7.45 | 7.86 | 8.26 | 8.63 | 8.91 | 9.36 | 11.15 | 11.53 | 11.83 | 11.99 | 12.11 | 12.67 | 13.35 | *13.70* | *14.05* | Book Value per sh D | *15.00* |
| 57.67 | 59.10 | 60.39 | 61.48 | 62.59 | 63.83 | 64.93 | 66.18 | 67.31 | 76.67 | 76.70 | 74.61 | 73.23 | 73.26 | 73.27 | 72.28 | *71.50* | *71.00* | Common Shs Outst'g E | *68.00* |
| 13.8 | 13.9 | 13.6 | 16.3 | 17.7 | 14.3 | 16.7 | 18.4 | 16.7 | 16.6 | 17.9 | 19.2 | 18.7 | 18.2 | 15.4 | 17.1 | *Bold figures are* | | Avg Ann'l P/E Ratio | *18.0* |
| .92 | .87 | .78 | .85 | 1.01 | .93 | .86 | 1.01 | .95 | .88 | .95 | 1.04 | .99 | 1.10 | 1.03 | 1.08 | *Value Line* | | Relative P/E Ratio | *1.20* |
| 5.4% | 4.9% | 4.8% | 4.0% | 4.1% | 5.0% | 4.5% | 4.6% | 4.4% | 4.1% | 3.8% | 3.9% | 3.8% | 3.8% | 4.1% | 4.2% | *estimates* | | Avg Ann'l Div'd Yield | *3.7%* |

**CAPITAL STRUCTURE as of 4/30/11**
**Total Debt $835.3 mill. Due in 5 Yrs $160.0 mill.**
**LT Debt $475.0 mill. LT Interest $50.2 mill.**
(LT interest earned: 4.1x; total interest coverage: 3.5x)

**Pension Assets-10/10 $228.3 mill.** Oblig. $211.0 mill.
**Pfd Stock** None

**Common Stock** 71,977,343 shs.
**as of 5/31/11**
**MARKET CAP: $2.2 billion (Mid Cap)**

| 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1107.9 | 832.0 | 1220.8 | 1529.7 | 1761.1 | 1924.6 | 1711.3 | 2089.1 | 1638.1 | 1552.3 | *1470* | *1600* | Revenues ($mill) A | *1765* |
| 65.5 | 62.2 | 74.4 | 95.2 | 101.3 | 97.2 | 104.4 | 110.0 | 122.8 | 111.8 | *115* | *120* | Net Profit ($mill) | *130* |
| 34.6% | 33.1% | 34.8% | 35.1% | 33.7% | 34.2% | 33.0% | 36.3% | 28.5% | 23.4% | *30.0%* | *30.0%* | Income Tax Rate | *30.0%* |
| 5.9% | 7.5% | 6.1% | 6.2% | 5.8% | 5.0% | 6.1% | 5.3% | 7.5% | 7.2% | *7.8%* | *7.6%* | Net Profit Margin | *7.3%* |
| 47.6% | 43.9% | 42.2% | 43.6% | 41.4% | 48.3% | 48.4% | 47.2% | 44.1% | 41.0% | *32.5%* | *33.5%* | Long-Term Debt Ratio | *33.0%* |
| 52.4% | 56.1% | 57.8% | 56.4% | 58.6% | 51.7% | 51.6% | 52.8% | 55.9% | 59.0% | *67.5%* | *66.5%* | Common Equity Ratio | *67.0%* |
| 1069.4 | 1051.6 | 1090.2 | 1514.9 | 1509.2 | 1707.9 | 1703.3 | 1681.5 | 1660.5 | 1636.9 | *1450* | *1500* | Total Capital ($mill) | *1520* |
| 1114.7 | 1158.5 | 1812.3 | 1849.8 | 1939.1 | 2075.3 | 2141.5 | 2240.8 | 2304.4 | 2437.7 | *2450* | *2500* | Net Plant ($mill) | *2650* |
| 7.9% | 7.8% | 8.6% | 7.8% | 8.2% | 7.2% | 7.8% | 8.2% | 9.1% | 8.4% | *9.0%* | *9.5%* | Return on Total Cap'l | *9.5%* |
| 11.7% | 10.6% | 11.8% | 11.1% | 11.5% | 11.0% | 11.9% | 12.4% | 13.2% | 11.6% | *12.0%* | *12.0%* | Return on Shr. Equity | *12.5%* |
| 11.7% | 10.6% | 11.8% | 11.1% | 11.5% | 11.0% | 11.9% | 12.4% | 13.2% | 11.6% | *12.0%* | *12.0%* | Return on Com Equity | *12.5%* |
| 3.0% | 1.7% | 3.1% | 3.7% | 3.6% | 2.8% | 3.5% | 3.9% | 4.8% | 3.3% | *3.5%* | *3.5%* | Retained to Com Eq | *4.0%* |
| 75% | 83% | 74% | 66% | 68% | 74% | 70% | 69% | 64% | 72% | *72%* | *70%* | All Div'ds to Net Prof | *70%* |

| CURRENT POSITION ($MILL.) | 2009 | 2010 | 4/30/11 |
|---|---|---|---|
| Cash Assets | 7.6 | 5.6 | 9.3 |
| Other | 505.6 | 322.2 | 241.6 |
| Current Assets | 513.2 | 327.8 | 250.9 |
| Accts Payable | 115.4 | 115.7 | 96.3 |
| Debt Due | 366.0 | 302.0 | 360.3 |
| Other | 118.8 | 80.9 | 99.0 |
| Current Liab. | 600.2 | 498.6 | 555.6 |
| Fix. Chg. Cov. | 316% | 323% | 325% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 to '14-'16 |
|---|---|---|---|
| Revenues | 7.0% | 3.5% | *1.0%* |
| "Cash Flow" | 5.5% | 5.0% | *3.0%* |
| Earnings | 5.0% | 5.0% | *3.0%* |
| Dividends | 4.5% | 4.5% | *3.5%* |
| Book Value | 5.0% | 3.5% | *3.0%* |

| Fiscal Year Ends | QUARTERLY REVENUES ($ mill.) A Jan.31 | Apr.30 | Jul.31 | Oct.31 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2008 | 788.5 | 634.2 | 354.7 | 311.7 | 2089.1 |
| 2009 | 779.6 | 455.4 | 180.3 | 222.8 | 1638.1 |
| 2010 | 673.7 | 472.9 | 211.6 | 194.1 | 1552.3 |
| 2011 | 652.1 | 392.6 | *220* | *205.3* | *1470* |
| 2012 | *685* | *425* | *250* | *240* | *1600* |

| Fiscal Year Ends | EARNINGS PER SHARE A B Jan.31 | Apr.30 | Jul.31 | Oct.31 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2008 | 1.12 | .66 | d.10 | d.18 | 1.49 |
| 2009 | 1.10 | .73 | d.10 | d.06 | 1.67 |
| 2010 | 1.14 | .65 | d.13 | d.13 | 1.55 |
| 2011 | 1.16 | .66 | *d.10* | *d.12* | *1.60* |
| 2012 | *1.17* | *.69* | *d.06* | *d.10* | *1.70* |

| Cal-endar | QUARTERLY DIVIDENDS PAID C■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2007 | .24 | .25 | .25 | .25 | .99 |
| 2008 | .25 | .26 | .26 | .26 | 1.03 |
| 2009 | .26 | .27 | .27 | .27 | 1.07 |
| 2010 | .27 | .28 | .28 | .28 | 1.11 |
| 2011 | .28 | .29 | .29 | | |

**BUSINESS:** Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 960,801 customers in North Carolina, South Carolina, and Tennessee. 2010 revenue mix: residential (48%), commercial (28%), industrial (7%), other (17%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 64.4% of revenues. '10 deprec. rate: 3.2%. Estimated plant age: 9.3 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 1,788 employees. Off./dir. own about 1.5% of common stock, State Street; 6.4% (1/11 proxy). Chrmn., CEO, & Pres.: Thomas E. Skains. Inc.: NC. Addr.: 4720 Piedmont Row Drive, Charlotte, NC 28210. Telephone: 704-364-3120. Internet: www.piedmontng.com.

**Piedmont Natural Gas is on pace to log a low to mid-single-digit earnings advance this year.** The top line will likely be down in 2011 largely due to weakness in the residential new construction markets, lower natural gas pricing, and customer conservation. Nonetheless, Piedmont added roughly 2,140 new customers in the April period, bringing 2011's tally of accounts to 5,000. Meanwhile, on the profitability front, utility margins have been widening, which should contribute to this year's bottom-line advance.

**Multiple capital projects are in the works.** Piedmont has five separate contracts to provide gas-fired power generation sites to Progress Energy and Duke Energy in North Carolina. PNY had to allocate more funds to cover the costs associated with those facilities as commodity prices continue to rise. Still, the company expects to earn a reasonable rate of return on those investments, and maintains that they are on schedule.

**The balance sheet is in good shape and improving.** Indeed, cash reserves have advanced roughly 65% since the beginning of the year. That financial cushion did decline when compared to the previous quarter, but still sits at almost $9.5 million. Meanwhile, Piedmont has reduced its long-term debt load by about 30%, to $475 million. This should help to lower interest expenses in the years to come.

**We expect an increase in earnings growth momentum next year.** This ought to be supported by an ever-widening number of customer accounts due to residential conversions as well as commercial additions. However, it may take some time before the company's service area begins to experience improvements for its new construction market.

**These shares have logged a 2% price correction since our June review.** This is likely a reflection of the broader market trends over that time frame. Indeed, the S&P 500 has suffered a 4% decline. The more moderate move in Piedmont is largely indicative of the equity's below-market Beta (.65) and top mark for Price Stability (100 out of 100).

**Still, they may appeal to investors with an eye on income generation,** thanks to a solid dividend yield.

*Bryan J. Fong* *September 9, 2011*

(A) Fiscal year ends October 31st.
(B) Diluted earnings. Excl. extraordinary item: '00, 8¢. Excl. nonrecurring gains (losses): '97, (2¢); '10, 41¢. Next earnings report due early Nov. Quarters may not add to total due to change in shares outstanding.
(C) Dividends historically paid mid-January, April, July, October.
■ Div'd reinvest. plan available; 5% discount.
(D) Includes deferred charges. In 2010: $14.8 million, 21¢/share.
(E) In millions, adjusted for stock split.

| Company's Financial Strength | B++ |
|---|---|
| Stock's Price Stability | 100 |
| Price Growth Persistence | 55 |
| Earnings Predictability | 95 |

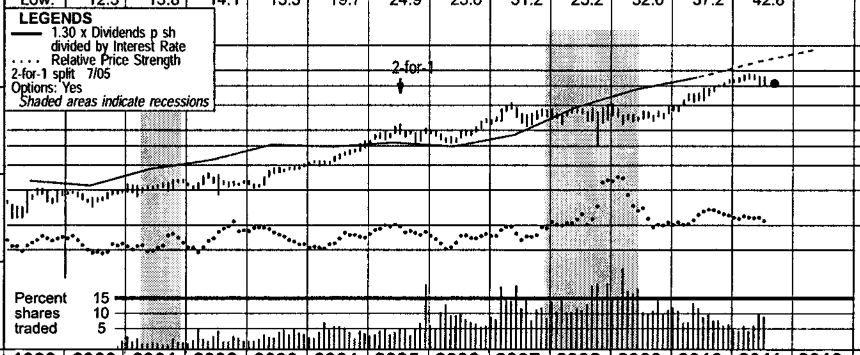
# SOUTH JERSEY INDS. NYSE-SJI

| RECENT PRICE | 51.52 | P/E RATIO | 16.5 (Trailing: 18.4 Median: 15.0) | RELATIVE P/E RATIO | 1.19 | DIV'D YLD | 3.0% | VALUE LINE |
|---|---|---|---|---|---|---|---|---|

**TIMELINESS** 4 Lowered 8/19/11
**SAFETY** 2 Lowered 1/4/91
**TECHNICAL** 3 Lowered 9/2/11
**BETA** .65 (1.00 = Market)

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 15.1 | 17.0 | 18.3 | 20.3 | 26.5 | 32.4 | 34.3 | 41.3 | 40.6 | 40.8 | 54.2 | 58.0 |
| Low: | 12.3 | 13.8 | 14.1 | 15.3 | 19.7 | 24.9 | 25.6 | 31.2 | 25.2 | 32.0 | 37.2 | 42.8 |

Target Price Range
2014 | 2015 | 2016




**2014-16 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 65 | (+25%) | 9% |
| Low | 50 | (-5%) | 3% |

**Insider Decisions**

| | O | N | D | J | F | M | A | M | J |
|---|---|---|---|---|---|---|---|---|---|
| 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 | 1 | 0 | 0 | 5 | 0 | 3 | 1 |

**Institutional Decisions**

| | 4Q2010 | 1Q2011 | 2Q2011 |
|---|---|---|---|
| to Buy | 61 | 58 | 64 |
| to Sell | 72 | 68 | 73 |
| Hld's(000) | 17983 | 17863 | 17547 |

**% TOT. RETURN 7/11**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 11.1 | 21.2 |
| 3 yr. | 48.8 | 42.7 |
| 5 yr. | 98.5 | 48.6 |

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 16.50 | 16.52 | 16.18 | 20.89 | 17.60 | 22.43 | 35.30 | 20.69 | 26.34 | 29.51 | 31.78 | 31.76 | 32.30 | 32.36 | 28.37 | 30.97 | 31.30 | 33.15 | Revenues per sh | 39.70 |
| 1.65 | 1.54 | 1.60 | 1.44 | 1.84 | 1.95 | 1.90 | 2.12 | 2.24 | 2.44 | 2.51 | 3.51 | 3.20 | 3.48 | 3.72 | 4.21 | 4.35 | 4.80 | "Cash Flow" per sh | 6.05 |
| .83 | .85 | .86 | .64 | 1.01 | 1.08 | 1.15 | 1.22 | 1.37 | 1.58 | 1.71 | 2.46 | 2.09 | 2.27 | 2.38 | 2.70 | 3.05 | 3.35 | Earnings per sh A | 4.10 |
| .72 | .72 | .72 | .72 | .72 | .73 | .74 | .75 | .78 | .82 | .86 | .92 | 1.01 | 1.11 | 1.22 | 1.36 | 1.48 | 1.60 | Div'ds Decl'd per sh B ■ | 2.00 |
| 2.08 | 2.01 | 2.30 | 3.06 | 2.19 | 2.21 | 2.82 | 3.47 | 2.36 | 2.67 | 3.21 | 2.51 | 1.88 | 2.08 | 3.67 | 5.59 | 4.50 | 5.30 | Cap'l Spending per sh | 7.35 |
| 7.34 | 8.03 | 6.43 | 6.23 | 6.74 | 7.25 | 7.81 | 9.67 | 11.26 | 12.41 | 13.50 | 15.11 | 16.25 | 17.33 | 18.24 | 19.08 | 20.95 | 21.90 | Book Value per sh C | 26.45 |
| 21.44 | 21.51 | 21.54 | 21.56 | 22.30 | 23.00 | 23.72 | 24.41 | 26.46 | 27.76 | 28.98 | 29.33 | 29.61 | 29.73 | 29.80 | 29.87 | 31.00 | 32.00 | Common Shs Outst'g D | 34.00 |
| 12.2 | 13.3 | 13.8 | 21.2 | 13.3 | 13.0 | 13.6 | 13.5 | 13.3 | 14.1 | 16.6 | 11.9 | 17.2 | 15.9 | 15.0 | 16.8 | Bold figures are | | Avg Ann'l P/E Ratio | 14.0 |
| .82 | .83 | .80 | 1.10 | .76 | .85 | .70 | .74 | .76 | .74 | .88 | .64 | .91 | .96 | 1.00 | 1.08 | Value Line | | Relative P/E Ratio | .95 |
| 7.2% | 6.4% | 6.1% | 5.3% | 5.4% | 5.2% | 4.7% | 4.6% | 4.3% | 3.7% | 3.0% | 3.2% | 2.8% | 3.1% | 3.4% | 3.0% | estimates | | Avg Ann'l Div'd Yield | 3.5% |
| | | | | | | 837.3 | 505.1 | 696.8 | 819.1 | 921.0 | 931.4 | 956.4 | 962.0 | 845.4 | 925.1 | 970 | 1060 | Revenues ($mill) | 1350 |
| | | | | | | 26.8 | 29.4 | 34.6 | 43.0 | 48.6 | 72.0 | 61.8 | 67.7 | 71.3 | 81.0 | 95.0 | 105 | Net Profit ($mill) | 140 |
| | | | | | | 42.2% | 41.4% | 40.6% | 40.9% | 41.5% | 41.3% | 41.9% | 47.7% | 23.0% | 15.2% | 30.0% | 30.0% | Income Tax Rate | 30.0% |
| | | | | | | 3.2% | 5.8% | 5.0% | 5.2% | 5.3% | 7.7% | 6.5% | 7.0% | 8.4% | 8.8% | 9.8% | 9.9% | Net Profit Margin | 10.4% |
| | | | | | | 57.0% | 53.6% | 50.8% | 48.7% | 44.9% | 44.7% | 42.7% | 39.2% | 36.5% | 37.4% | 39.5% | 39.0% | Long-Term Debt Ratio | 38.0% |
| | | | | | | 35.9% | 46.1% | 49.0% | 51.0% | 55.1% | 55.3% | 57.3% | 60.8% | 63.5% | 62.6% | 60.5% | 61.0% | Common Equity Ratio | 62.0% |
| | | | | | | 516.2 | 512.5 | 608.4 | 675.0 | 710.3 | 801.1 | 839.0 | 848.0 | 856.4 | 910.1 | 1075 | 1150 | Total Capital ($mill) | 1450 |
| | | | | | | 607.0 | 666.6 | 748.3 | 799.9 | 877.3 | 920.0 | 948.9 | 982.6 | 1073.1 | 1193.3 | 1300 | 1400 | Net Plant ($mill) | 1700 |
| | | | | | | 6.9% | 7.6% | 7.3% | 7.9% | 8.3% | 10.1% | 8.6% | 8.9% | 9.0% | 9.5% | 10.0% | 10.0% | Return on Total Cap'l | 10.5% |
| | | | | | | 12.1% | 12.4% | 11.5% | 12.4% | 12.4% | 16.3% | 12.8% | 13.1% | 13.1% | 14.2% | 14.5% | 15.0% | Return on Shr. Equity | 15.5% |
| | | | | | | 12.8% | 12.5% | 11.6% | 12.5% | 12.4% | 16.3% | 12.8% | 13.1% | 13.1% | 14.2% | 14.5% | 15.0% | Return on Com Equity | 15.5% |
| | | | | | | 3.5% | 4.7% | 5.0% | 5.9% | 6.2% | 10.2% | 6.7% | 6.7% | 6.4% | 7.1% | 7.5% | 7.5% | Retained to Com Eq | 8.0% |
| | | | | | | 76% | 62% | 57% | 52% | 50% | 37% | 48% | 49% | 51% | 50% | 48% | 49% | All Div'ds to Net Prof | 49% |

**CAPITAL STRUCTURE as of 6/30/11**
**Total Debt** $646.4 mill. **Due in 5 Yrs** $285.0 mill.
**LT Debt** $426.4 mill. **LT Interest** $24.0 mill.
(Total interest coverage: 6.0x)

**Pension Assets-12/10** $120.6 mill. **Oblig.** $167.5 mill.
**Pfd Stock** None

**Common Stock** 30,034,646 common shs. as of 8/1/11

**MARKET CAP: $1.5 billion (Mid Cap)**

| CURRENT POSITION ($MILL.) | 2009 | 2010 | 6/30/11 |
|---|---|---|---|
| Cash Assets | 3.8 | 2.4 | .8 |
| Other | 364.6 | 421.4 | 359.2 |
| Current Assets | 368.4 | 423.8 | 360.0 |
| Accts Payable | 123.9 | 165.2 | 160.0 |
| Debt Due | 231.7 | 362.1 | 220.0 |
| Other | 123.2 | 113.2 | 92.7 |
| Current Liab. | 478.8 | 640.5 | 472.7 |
| Fix. Chg. Cov. | 585% | 532% | 545% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 to '14-'16 |
|---|---|---|---|
| Revenues | 4.0% | 1.0% | 4.5% |
| "Cash Flow" | 8.0% | 9.5% | 8.0% |
| Earnings | 10.5% | 9.5% | 9.0% |
| Dividends | 5.5% | 8.5% | 8.5% |
| Book Value | 10.5% | 8.0% | 6.5% |

| Calendar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | 348.1 | 135.8 | 210.4 | 267.7 | 962.0 |
| 2009 | 362.2 | 134.5 | 127.1 | 221.6 | 845.4 |
| 2010 | 329.3 | 151.6 | 160.7 | 283.5 | 925.1 |
| 2011 | 331.9 | 160.5 | 175 | 302.6 | 970 |
| 2012 | 380 | 180 | 185 | 315 | 1060 |

| Calendar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | 1.32 | .26 | .04 | .67 | 2.27 |
| 2009 | 1.46 | .15 | d.06 | .83 | 2.38 |
| 2010 | 1.49 | .24 | .10 | .87 | 2.70 |
| 2011 | 1.63 | .20 | .15 | 1.07 | 3.05 |
| 2012 | 1.70 | .30 | .20 | 1.15 | 3.35 |

| Calendar | QUARTERLY DIVIDENDS PAID B ■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2007 | -- | .245 | .245 | .515 | 1.01 |
| 2008 | -- | .270 | .270 | .568 | 1.11 |
| 2009 | -- | .298 | .298 | .628 | 1.22 |
| 2010 | -- | .330 | .330 | .695 | 1.36 |
| 2011 | -- | .365 | .365 | | |

**BUSINESS:** South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 347,725 customers in New Jersey's southern counties, which covers about 2,500 square miles and includes Atlantic City. Gas revenue mix '10: residential, 44%; commercial, 21%; cogeneration and electric generation, 12%; industrial, 23%. Non-utility operations include: South Jersey Energy, South Jersey Resources Group, Marina Energy, and South Jersey Energy Service Plus. Has 650 employees. Off./dir. control 1.0% of common shares; Black Rock Inc., 8.3% (4/11 proxy). Chrmn. & CEO: Edward Graham. Inc.: NJ. Address: 1 South Jersey Plaza, Folsom, NJ 08037. Telephone: 609-561-9000. Internet: www.sjindustries.com.

**Shares of South Jersey Industries have fallen in price over the past three months,** in conjunction with weakness in the broader equity markets. The company posted mixed results for the second quarter. The top line advanced at a moderate clip, as South Jersey reported nice growth in both its utility and nonutility businesses. However, operating expenses, interest charges, and income taxes also increased, and share net of $0.20 fell short of the prior-year tally.

**The company expects strong performance for the third and fourth quarters,** and has reaffirmed its guidance of 9% to 15% bottom-line growth for full-year 2011. Utility South Jersey Gas should further benefit from the impact of the 2010 base rate case and utility capital investment programs. The nonutility side should benefit from a number of profitable projects, including passive Marcellus Shale drilling.

**Prospects for South Jersey Gas appear favorable.** SJG should continue to experience modest customer growth going forward. Natural gas remains the fuel of choice within the utility's service territory. This business should continue to benefit from customer interest in converting from other fuel sources to natural gas.

**South Jersey has agreed to divest certain properties in the Marcellus Shale for roughly $9 million.** The deal involves the company's interests in the gathering system held through its 30% ownership in Potato Creek, LLC. South Jersey will continue to earn royalties on all gas production under the existing lease agreement. This move will reposition its investment to focus on acquiring passive royalty interests throughout the Marcellus.

**These shares have declined a notch in Timeliness to 4 (Below Average).** Looking further out, we anticipate higher revenues and share earnings by 2014-2016. Moreover, these good-quality shares earn high marks for Price Stability and Earnings Predictability, and the company has an Above Average Safety rank, too. However, this, and the stock's good dividend growth prospects, appears to be reflected in the current quotation. This equity has unimpressive, though fairly well-defined, total return potential for the coming years.

*Michael Napoli, CFA* *September 9, 2011*

(A) Based on GAAP egs. through 2006, economic egs. thereafter. GAAP EPS: '07, $2.10; '08, $2.58; '09, $1.94; '10, $2.22. Excl. nonrecur. gain (loss): '01, $0.13; '08, $0.31; '09, ($0.44); '10, ($0.47). Excl gain (losses) from discont. ops.: '01, ($0.02); '02, ($0.04); '03, ($0.09); '05, ($0.02); '06, ($0.02); '07, $0.01. Egs. may not sum due to rounding. Next egs. report due in November. (B) Div'ds paid early April, July, Oct., and late Dec. ■ Div. reinvest. plan avail. (C) Incl. reg. assets. In 2010: $248.4 mill., $8.32 per shr. (D) In mill., adj. for split.

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

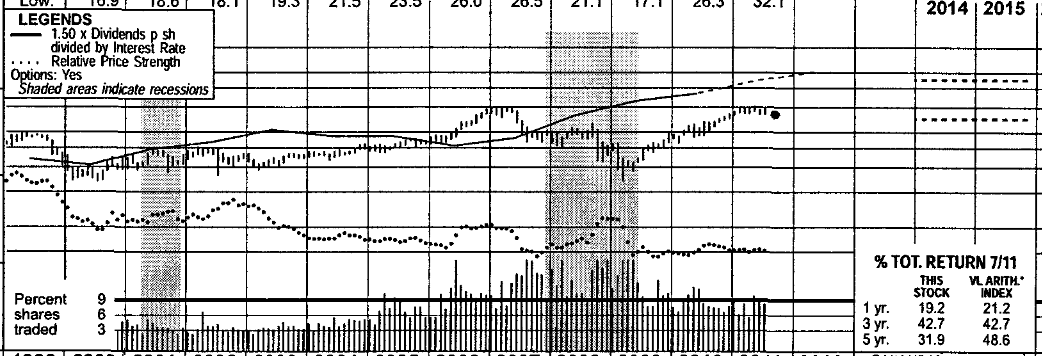
# SOUTHWEST GAS NYSE-SWX

| RECENT PRICE | 36.83 | P/E RATIO | 14.9 (Trailing: 15.1 / Median: 18.0) | RELATIVE P/E RATIO | 1.07 | DIV'D YLD | 2.9% | VALUE LINE |
|---|---|---|---|---|---|---|---|---|

TIMELINESS 3 Lowered 8/20/10
SAFETY 3 Lowered 1/4/91
TECHNICAL 3 Raised 5/27/11
BETA .75 (1.00 = Market)

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 23.0 | 24.7 | 25.3 | 23.6 | 26.2 | 28.1 | 39.4 | 39.9 | 33.3 | 29.5 | 37.3 | 40.6 |
| Low: | 16.9 | 18.6 | 18.1 | 19.3 | 21.5 | 23.5 | 26.0 | 26.5 | 21.1 | 17.1 | 26.3 | 32.1 |

Target Price Range
2014 | 2015 | 2016




**2014-16 PROJECTIONS**

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

**Insider Decisions**

| | O | N | D | J | F | M | A | M | J |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 1 | 0 | 0 | 2 | 0 | 0 | 1 |
| Options | 0 | 2 | 3 | 2 | 0 | 7 | 1 | 2 | 0 |
| to Sell | 0 | 3 | 3 | 2 | 0 | 9 | 2 | 2 | 2 |

**Institutional Decisions**

| | 4Q2010 | 1Q2011 | 2Q2011 |
|---|---|---|---|
| to Buy | 61 | 60 | 76 |
| to Sell | 75 | 80 | 80 |
| Hld's(000) | 32710 | 33193 | 33317 |

**% TOT. RETURN 7/11**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 19.2 | 21.2 |
| 3 yr. | 42.7 | 42.7 |
| 5 yr. | 31.9 | 48.6 |

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 23.03 | 24.09 | 26.73 | 30.17 | 30.24 | 32.61 | 42.98 | 39.68 | 35.96 | 40.14 | 43.59 | 48.47 | 50.28 | 48.53 | 42.00 | 40.14 | *38.30* | *38.75* | Revenues per sh | *49.00* |
| 2.65 | 3.00 | 3.85 | 4.48 | 4.45 | 4.57 | 4.79 | 5.07 | 5.11 | 5.57 | 5.20 | 5.97 | 6.21 | 5.76 | 6.16 | 6.45 | *6.65* | *7.00* | "Cash Flow" per sh | *7.90* |
| .10 | .25 | .77 | 1.65 | 1.27 | 1.21 | 1.15 | 1.16 | 1.13 | 1.66 | 1.25 | 1.98 | 1.95 | 1.39 | 1.94 | 2.27 | *2.40* | *2.60* | Earnings per sh A | *3.10* |
| .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .86 | .90 | .95 | 1.00 | *1.06* | *1.10* | Div'ds Decl'd per sh B■† | *1.25* |
| 6.79 | 8.19 | 6.19 | 6.40 | 7.41 | 7.04 | 8.17 | 8.50 | 7.03 | 8.23 | 7.49 | 8.27 | 7.96 | 6.79 | 4.81 | 4.72 | *5.40* | *5.65* | Cap'l Spending per sh | *6.50* |
| 14.55 | 14.20 | 14.09 | 15.67 | 16.31 | 16.82 | 17.27 | 17.91 | 18.42 | 19.18 | 19.10 | 21.58 | 22.98 | 23.49 | 24.44 | 25.59 | *26.90* | *27.60* | Book Value per sh | *32.00* |
| 24.47 | 26.73 | 27.39 | 30.41 | 30.99 | 31.71 | 32.49 | 33.29 | 34.23 | 36.79 | 39.33 | 41.77 | 42.81 | 44.19 | 45.09 | 45.60 | *46.50* | *48.00* | Common Shs Outst'g C | *50.00* |
| NMF | NMF | 24.1 | 13.2 | 21.1 | 16.0 | 19.0 | 19.9 | 19.2 | 14.3 | 20.6 | 15.9 | 17.3 | 20.3 | 12.2 | 14.0 | *Bold figures are* | | Avg Ann'l P/E Ratio | *15.0* |
| NMF | NMF | 1.39 | .69 | 1.20 | 1.04 | .97 | 1.09 | 1.09 | .76 | 1.10 | .86 | .92 | 1.22 | .81 | .89 | *Value Line* | | Relative P/E Ratio | *1.00* |
| 5.4% | 4.7% | 4.4% | 3.8% | 3.1% | 4.2% | 3.8% | 3.6% | 3.8% | 3.5% | 3.2% | 2.6% | 2.6% | 3.2% | 4.0% | 3.2% | *estimates* | | Avg Ann'l Div'd Yield | *2.7%* |

**CAPITAL STRUCTURE as of 6/30/11**
Total Debt $1141.6 mill. Due in 5 Yrs $200.0 mill.
LT Debt $941.6 mill. LT Interest $70.0 mill.
(Total interest coverage: 3.3x) (44% of Cap'l)
Leases, Uncapitalized Annual rentals $5.0 mill.
Pension Assets-12/10 $505.6 mill. Oblig. $708.9 mill.
Pfd Stock None

Common Stock 45,879,314 shs. as of 7/29/11

MARKET CAP: $1.7 billion (Mid Cap)

| 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1396.7 | 1320.9 | 1231.0 | 1477.1 | 1714.3 | 2024.7 | 2152.1 | 2144.7 | 1893.8 | 1830.4 | *1780* | *1860* | Revenues ($mill) | *2450* |
| 37.2 | 38.6 | 38.5 | 58.9 | 48.1 | 80.5 | 83.2 | 61.0 | 87.5 | 104.0 | *115* | *125* | Net Profit ($mill) | *155* |
| 34.5% | 32.8% | 30.5% | 34.8% | 29.7% | 37.3% | 36.5% | 40.1% | 34.0% | 34.7% | *36.0%* | *35.0%* | Income Tax Rate | *35.0%* |
| 2.7% | 2.9% | 3.1% | 4.0% | 2.8% | 4.0% | 3.9% | 2.8% | 4.6% | 5.7% | *6.5%* | *6.7%* | Net Profit Margin | *6.3%* |
| 56.2% | 62.5% | 66.0% | 64.2% | 63.8% | 60.6% | 58.1% | 55.3% | 53.5% | 49.1% | *44.5%* | *46.5%* | Long-Term Debt Ratio | *46.5%* |
| 39.6% | 34.1% | 34.0% | 35.8% | 36.2% | 39.4% | 41.9% | 44.7% | 46.5% | 50.9% | *55.5%* | *53.5%* | Common Equity Ratio | *53.5%* |
| 1417.6 | 1748.3 | 1851.6 | 1968.6 | 2076.0 | 2287.8 | 2349.7 | 2323.3 | 2371.4 | 2292.0 | *2250* | *2475* | Total Capital ($mill) | *3000* |
| 1825.6 | 1979.5 | 2175.7 | 2336.0 | 2489.1 | 2668.1 | 2845.3 | 2983.3 | 3034.5 | 3072.4 | *3125* | *3200* | Net Plant ($mill) | *3500* |
| 5.1% | 4.3% | 4.2% | 5.0% | 4.3% | 5.5% | 5.5% | 4.5% | 5.4% | 6.2% | *6.5%* | *6.5%* | Return on Total Cap'l | *7.0%* |
| 6.0% | 5.9% | 6.1% | 8.3% | 6.4% | 8.9% | 8.5% | 5.9% | 7.9% | 8.9% | *9.0%* | *9.5%* | Return on Shr. Equity | *9.5%* |
| 6.6% | 6.5% | 6.1% | 8.3% | 6.4% | 8.9% | 8.5% | 5.9% | 7.9% | 8.9% | *9.0%* | *9.5%* | Return on Com Equity | *9.5%* |
| 1.9% | 1.9% | 1.7% | 4.3% | 2.2% | 5.2% | 4.8% | 2.1% | 4.1% | 5.0% | *5.5%* | *5.5%* | Retained to Com Eq | *6.0%* |
| 71% | 70% | 72% | 49% | 65% | 42% | 44% | 63% | 48% | 44% | *43%* | *42%* | All Div'ds to Net Prof | *40%* |

| CURRENT POSITION ($MILL.) | 2009 | 2010 | 6/30/11 |
|---|---|---|---|
| Cash Assets | 65.3 | 116.1 | 86.0 |
| Other | 352.3 | 329.8 | 240.1 |
| Current Assets | 417.6 | 445.9 | 326.1 |
| Accts Payable | 158.9 | 165.5 | 95.5 |
| Debt Due | 1.3 | 75.1 | 200.0 |
| Other | 314.0 | 356.4 | 331.1 |
| Current Liab. | 474.2 | 597.0 | 626.6 |
| Fix. Chg. Cov. | 251% | 299% | 316% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 to '14-'16 |
|---|---|---|---|
| Revenues | 5.0% | 4.0% | 2.0% |
| "Cash Flow" | 3.5% | 3.0% | 4.5% |
| Earnings | 3.5% | 6.0% | 9.0% |
| Dividends | 1.0% | 2.0% | 4.5% |
| Book Value | 4.5% | 5.0% | 4.5% |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | 813.6 | 447.3 | 374.4 | 509.4 | 2144.7 |
| 2009 | 689.9 | 387.6 | 317.5 | 498.8 | 1893.8 |
| 2010 | 668.8 | 385.8 | 307.7 | 468.1 | 1830.4 |
| 2011 | 628.4 | 388.5 | *300* | *463.1* | *1780* |
| 2012 | *650* | *390* | *320* | *500* | *1860* |

| Cal-endar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | 1.14 | d.06 | d.38 | .71 | 1.39 |
| 2009 | 1.12 | d.01 | d.18 | 1.01 | 1.94 |
| 2010 | 1.42 | d.02 | d.11 | .98 | 2.27 |
| 2011 | 1.48 | .09 | *d.12* | *.95* | *2.40* |
| 2012 | *1.55* | *.10* | *d.05* | *1.00* | *2.60* |

| Cal-endar | QUARTERLY DIVIDENDS PAID B■† Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2007 | .205 | .215 | .215 | .215 | .85 |
| 2008 | .215 | .225 | .225 | .225 | .89 |
| 2009 | .225 | .238 | .238 | .238 | .94 |
| 2010 | .238 | .250 | .250 | .250 | .99 |
| 2011 | .250 | .265 | .265 | | |

**BUSINESS:** Southwest Gas Corporation is a regulated gas distributor serving approximately 1.8 million customers in sections of Arizona, Nevada, and California. Comprised of two business segments: natural gas operations and construction services. 2010 margin mix: residential and small commercial, 86%; large commercial and industrial, 4%; transportation, 10%. Total throughput: 2.2 billion therms. Sold PriMerit Bank, 7/96. Has 4,802 employees. Off. & Dir. own 1.7% of common stock; BlackRock Inc., 8.6%; T. Rowe Price Associates, Inc., 7.2%; GAMCO Investors, Inc., 7.0% (3/11 Proxy). Chairman: James J. Kropid. CEO: Jeffrey W. Shaw. Inc.: CA. Address: 5241 Spring Mountain Road, Las Vegas, Nevada 89193. Telephone: 702-876-7237. Internet: www.swgas.com.

**Southwest Gas posted solid results for the second quarter.** The top line advanced modestly, as growth in construction revenues more than offset a decline in the utility operations. Interest expense declined, and share net of $0.09 compared favorably with the results of the prior-year period. Nevertheless, the stock has decreased somewhat in value since our June review, in conjunction with weakness in the broader equity markets.

**Comparisons may prove slightly less favorable for the remainder of the year.** The natural gas utility operations will probably continue to experience softness in demand, though this should be partly offset by modest growth in the customer base and rate relief in California. The construction services subsidiary should also support results. This business ought to further benefit from an increase in maintenance and replacement work. Overall, we expect lower revenue but higher earnings per share for full-year 2011 on better margins. Bottom-line improvement will probably continue in 2012.

**Rate relief should continue to boost margins.** The company has filed a general rate case in Arizona, requesting a revenue increase of $73.2 million (roughly 9.3%). Southwest is also seeking a decoupled rate structure and programs promoting energy efficiency. A decision on this matter is expected by early 2012. The company's focus on procuring rate relief is important, as it depends on such approved revenue increases to help it cope with rising operating costs and to provide compensation for investments in infrastructure.

**The stock is not without risk.** The company ought to incur greater operating expenses as it continues to expand in the coming years. Utility performance could be hurt by unfavorable temperature variations or lagging rate relief.

**This equity is neutrally ranked for Timeliness.** We expect solid growth in revenues and share earnings for the company over the pull to 2014-2016. From the present quotation, this stock has unimpressive appreciation potential for the coming years. Moreover, Southwest's dividend yield is below average for a utility. Investors can probably find more-suitable choices elsewhere.

*Michael Napoli, CFA* *September 9, 2011*

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

| | |
|---|---|
| Company's Financial Strength | B |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 65 |
| Earnings Predictability | 75 |

# WGL HOLDINGS NYSE-WGL

| RECENT PRICE | 40.84 | P/E RATIO | 17.5 (Trailing: 18.3 / Median: 15.0) | RELATIVE P/E RATIO | 1.26 | DIV'D YLD | 3.8% | VALUE LINE |
|---|---|---|---|---|---|---|---|---|

TIMELINESS **3** Raised 9/9/11

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

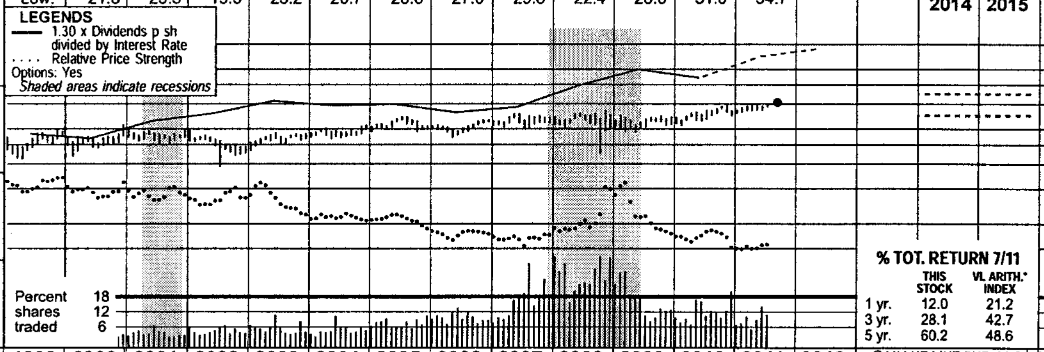
TECHNICAL **3** Lowered 9/9/11

BETA .65 (1.00 = Market)

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 31.5 | 30.5 | 29.5 | 28.8 | 31.4 | 34.8 | 33.6 | 35.9 | 37.1 | 35.5 | 40.0 | 41.0 |
| Low: | 21.8 | 25.3 | 19.3 | 23.2 | 26.7 | 28.8 | 27.0 | 29.8 | 22.4 | 28.6 | 31.0 | 34.7 |

**Target Price Range**
2014 | 2015 | 2016

LEGENDS
— 1.30 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded areas indicate recessions



**2014-16 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 45 | (+10%) | 6% |
| Low | 35 | (-15%) | 1% |

**Insider Decisions**

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

**Institutional Decisions**

| | 4Q2010 | 1Q2011 | 2Q2011 |
|---|---|---|---|
| to Buy | 87 | 83 | 86 |
| to Sell | 75 | 83 | 72 |
| Hld's(000) | 31020 | 31550 | 29975 |

Percent shares traded 18 12 6

**% TOT. RETURN 7/11**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 12.0 | 21.2 |
| 3 yr. | 28.1 | 42.7 |
| 5 yr. | 60.2 | 48.6 |

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 19.30 | 22.19 | 24.16 | 23.74 | 20.92 | 22.19 | 29.80 | 32.63 | 42.45 | 42.93 | 44.94 | 53.96 | 53.51 | 52.65 | 53.98 | 53.60 | *54.60* | *56.85* | Revenues per sh A | *59.20* |
| 2.51 | 2.93 | 3.02 | 2.79 | 2.74 | 3.20 | 3.24 | 2.63 | 4.00 | 3.87 | 3.97 | 3.84 | 3.89 | 4.34 | 4.44 | 4.11 | *4.05* | *4.30* | "Cash Flow" per sh | *4.55* |
| 1.45 | 1.85 | 1.85 | 1.54 | 1.47 | 1.79 | 1.88 | 1.14 | 2.30 | 1.98 | 2.13 | 1.94 | 2.09 | 2.44 | 2.53 | 2.27 | *2.20* | *2.35* | Earnings per sh B | *2.65* |
| 1.12 | 1.14 | 1.17 | 1.20 | 1.22 | 1.24 | 1.26 | 1.27 | 1.28 | 1.30 | 1.32 | 1.35 | 1.37 | 1.41 | 1.47 | 1.50 | *1.55* | *1.59* | Div'ds Decl'd per sh C■ | *1.71* |
| 2.63 | 2.85 | 3.20 | 3.62 | 3.42 | 2.67 | 2.68 | 3.34 | 2.65 | 2.33 | 2.32 | 3.27 | 3.33 | 2.70 | 2.77 | 2.57 | *2.45* | *2.45* | Cap'l Spending per sh | *2.40* |
| 11.95 | 12.79 | 13.48 | 13.86 | 14.72 | 15.31 | 16.24 | 15.78 | 16.25 | 16.95 | 17.80 | 18.86 | 19.83 | 20.99 | 21.89 | 22.82 | *23.65* | *24.35* | Book Value per sh D | *26.85* |
| 42.93 | 43.70 | 43.70 | 43.84 | 46.47 | 46.47 | 48.54 | 48.56 | 48.63 | 48.67 | 48.65 | 48.89 | 49.45 | 49.92 | 50.14 | 50.54 | *51.00* | *51.00* | Common Shs Outst'g E | *52.00* |
| 12.7 | 11.5 | 12.7 | 17.2 | 17.3 | 14.6 | 14.7 | 23.1 | 11.1 | 14.2 | 14.7 | 15.5 | 15.6 | 13.7 | 12.6 | 15.1 | *Bold figures are* | | Avg Ann'l P/E Ratio | *15.0* |
| .85 | .72 | .73 | .89 | .99 | .95 | .75 | 1.26 | .63 | .75 | .78 | .84 | .83 | .82 | .84 | .95 | *Value Line* | | Relative P/E Ratio | *1.00* |
| 6.1% | 5.4% | 5.0% | 4.5% | 4.8% | 4.8% | 4.6% | 4.8% | 5.0% | 4.6% | 4.2% | 4.5% | 4.2% | 4.2% | 4.6% | 4.4% | *estimates* | | Avg Ann'l Div'd Yield | *4.3%* |

**CAPITAL STRUCTURE as of 6/30/11**
**Total Debt** $677.4 mill. **Due in 5 Yrs** $194.2 mill.
**LT Debt** $587.2 mill. **LT Interest** $39.4 mill.
(LT interest earned: 6.2x; total interest coverage: 5.7x)
**Pension Assets-9/10** $1,215.8 mill.
**Oblig.** $678.1 mill.
**Preferred Stock** $28.2 mill. **Pfd. Div'd** $1.3 mill.

**Common Stock** 51,300,641 shs.
**as of 7/29/11**

**MARKET CAP: $2.1 billion (Mid Cap)**

| 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | | 14-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1446.5 | 1584.8 | 2064.2 | 2089.6 | 2186.3 | 2637.9 | 2646.0 | 2628.2 | 2706.9 | 2708.9 | *2785* | *2900* | Revenues ($mill) A | *3075* |
| 89.9 | 55.7 | 112.3 | 98.0 | 104.8 | 96.0 | 102.9 | 122.9 | 128.7 | 115.0 | *110* | *120* | Net Profit ($mill) | *140* |
| 39.6% | 34.0% | 38.0% | 38.2% | 37.4% | 39.0% | 39.1% | 37.1% | 39.1% | 38.7% | *39.0%* | *39.0%* | Income Tax Rate | *39.0%* |
| 6.2% | 3.5% | 5.4% | 4.7% | 4.8% | 3.6% | 3.9% | 4.7% | 4.8% | 4.2% | *4.3%* | *4.3%* | Net Profit Margin | *4.5%* |
| 41.7% | 45.7% | 43.8% | 40.9% | 39.5% | 37.8% | 37.9% | 35.9% | 33.3% | 33.4% | *32.0%* | *31.5%* | Long-Term Debt Ratio | *29.5%* |
| 56.3% | 52.4% | 54.3% | 57.2% | 58.6% | 60.4% | 60.3% | 62.4% | 65.0% | 65.0% | *68.0%* | *68.5%* | Common Equity Ratio | *69.5%* |
| 1400.8 | 1462.5 | 1454.9 | 1443.6 | 1478.1 | 1526.1 | 1625.4 | 1679.5 | 1687.7 | 1774.4 | *1815* | *1855* | Total Capital ($mill) | *2050* |
| 1519.7 | 1606.8 | 1874.9 | 1915.6 | 1969.7 | 2067.9 | 2150.4 | 2208.3 | 2269.1 | 2346.2 | *2425* | *2510* | Net Plant ($mill) | *2775* |
| 7.9% | 5.3% | 9.1% | 8.2% | 8.5% | 7.6% | 7.6% | 8.5% | 8.8% | 7.6% | *7.5%* | *7.5%* | Return on Total Cap'l | *7.5%* |
| 11.0% | 7.0% | 13.7% | 11.5% | 11.7% | 10.1% | 10.2% | 11.4% | 11.4% | 9.7% | *9.5%* | *9.5%* | Return on Shr. Equity | *10.0%* |
| 11.2% | 7.2% | 14.0% | 11.7% | 12.0% | 10.3% | 10.4% | 11.6% | 11.6% | 9.9% | *9.5%* | *9.5%* | Return on Com Equity | *10.0%* |
| 3.8% | NMF | 6.2% | 4.1% | 4.6% | 3.2% | 3.5% | 5.0% | 5.0% | 3.3% | *2.5%* | *3.0%* | Retained to Com Eq | *3.5%* |
| 67% | 112% | 56% | 65% | 62% | 69% | 66% | 57% | 57% | 67% | *70%* | *67%* | All Div'ds to Net Prof | *64%* |

| CURRENT POSITION ($MILL.) | 2009 | 2010 | 6/30/11 |
|---|---|---|---|
| Cash Assets | 7.9 | 8.9 | 139.0 |
| Other | 675.6 | 708.4 | 683.9 |
| Current Assets | 683.5 | 717.3 | 822.9 |
| Accts Payable | 213.5 | 225.4 | 282.2 |
| Debt Due | 266.5 | 130.5 | 90.2 |
| Other | 154.6 | 188.2 | 203.1 |
| Current Liab. | 634.6 | 544.1 | 575.5 |
| Fix. Chg. Cov. | 533% | 536% | 535% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 to '14-'16 |
|---|---|---|---|
| Revenues | 9.0% | 4.0% | *1.5%* |
| "Cash Flow" | 4.0% | 1.5% | *1.0%* |
| Earnings | 4.0% | 2.5% | *1.5%* |
| Dividends | 2.0% | 2.5% | *2.5%* |
| Book Value | 4.0% | 5.0% | *3.5%* |

| Fiscal Year Ends | QUARTERLY REVENUES ($ mill.) A Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2008 | 751.6 | 1020.0 | 464.7 | 391.9 | 2628.2 |
| 2009 | 826.2 | 1040.9 | 427.0 | 412.8 | 2706.9 |
| 2010 | 727.4 | 1056.6 | 459.7 | 465.2 | 2708.9 |
| 2011 | 795.9 | 1017.2 | 490.3 | *481.6* | *2785* |
| 2012 | *825* | *1045* | *510* | *520* | *2900* |

| Fiscal Year Ends | EARNINGS PER SHARE A B Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2008 | .96 | 1.66 | .06 | d.24 | 2.44 |
| 2009 | 1.03 | 1.65 | .11 | d.25 | 2.53 |
| 2010 | 1.01 | 1.64 | d.07 | d.29 | 2.27 |
| 2011 | 1.02 | 1.53 | d.03 | *d.32* | *2.20* |
| 2012 | *1.08* | *1.61* | *d.04* | *d.30* | *2.35* |

| Cal-endar | QUARTERLY DIVIDENDS PAID C■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2007 | .34 | .34 | .34 | .34 | 1.36 |
| 2008 | .34 | .36 | .36 | .36 | 1.42 |
| 2009 | .36 | .37 | .37 | .37 | 1.47 |
| 2010 | .37 | .378 | .378 | .378 | 1.50 |
| 2011 | .378 | .39 | .39 | | |

**BUSINESS:** WGL Holdings, Inc. is the parent of Washington Gas Light, a natural gas distributor in Washington, D.C. and adjacent areas of VA and MD to resident'l and comm'l users (1,073,722 meters). Hampshire Gas, a federally regulated sub., operates an underground gas-storage facility in WV. Non-regulated subs.: Wash. Gas Energy Svcs. sells and delivers natural gas and provides energy related products in the D.C. metro area; Wash. Gas Energy Sys. designs/installs comm'l heating, ventilating, and air cond. systems. Black Rock Inc. owns 9.2% of common stock; Off./dir. less than 1% (1/11 proxy). Chrmn. & CEO: Terry D. McCallister. Inc.: D.C. and VA. Addr.: 101 Const. Ave., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.

**WGL Holdings appears to be performing better in the second half of the year.** An additional 10,200 average active customer meters have been helping to boost the top line of late. At the same time, higher natural gas margins are improving profitability. And the design-build energy segment, which was facing delays related to some government contracts, appears to be getting things rolling in that area. Consequently, we have raised our 2011 earnings estimate by a dime, to $2.20 a share.

**The overall financial position is in good shape.** Cash reserves did decline when compared to the prior quarter, but that financial cushion is still up about 15-fold this year, to almost $140 million, which should be more than adequate for the time being. Meanwhile, both the long-term and total debt loads have been reduced about 1% and 6% this year, which should help to reduce interest expenses.

**Meanwhile, pending rate case increases augur well for prospects.** The recently approved rate case in Maryland should boost annual revenues by about $30 million. It is slated to go into effect this November. Meanwhile, the company is awaiting approval on another rate hike in Virginia. That increase is anticipated to kick in during the first quarter of 2012.

**Delays in one of the capital projects provide a bit of uncertainty.** County officials recently changed the zoning on the site for the Prince George County liquid natural gas peaking facility. That project was expected to cost roughly $155 million. However, the recent change will obviously impact progress. WGL has challenged the zoning change in Federal court and remains optimistic on the outcome. If for some reason the company is unsuccessful in getting the rezoning overturned, it does have alternative options on the table.

**All told, these shares may appeal to income-seeking investors,** thanks to an above-average dividend yield. Meanwhile, conservative accounts can take comfort in the stock's top Safety rank and high mark for Price Stability. But the equity is trading within our Target Price Range, thus limiting capital appreciation potential, and it is ranked to just mirror the broader market averages in the coming year.

*Bryan J. Fong* *September 9, 2011*

(A) Fiscal years end Sept. 30th.
(B) Based on diluted shares. Excludes nonrecurring losses: '01, (13¢); '02, (34¢); '07, (4¢); '08, (14¢) discontinued operations: '06, (15¢). Qtly egs. may not sum to total, due to change in shares outstanding. Next earnings report due late Oct. (C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available.
(D) Includes deferred charges and intangibles. '10: $580.4 million, $11.48/sh.
(E) In millions, adjusted for stock split.

| | |
|---|---|
| Company's Financial Strength | A |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 45 |
| Earnings Predictability | 95 |

# ATTACHMENT C

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

**AMERICAN STS WTR CO (NYSE)** **ZACKS RANK: 3 - HOLD**

AWR 36.19 ▲0.39 (1.09%) Vol. 75,526 16:03 ET

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

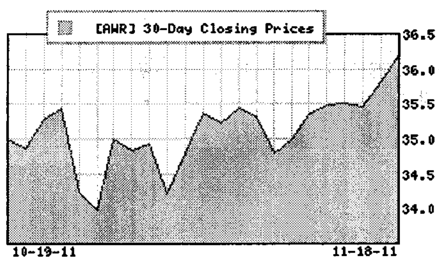
### General Information

AMER STATES WTR
630 E FOOTHILL BLVD
SAN DIMAS, CA 91773-9016
Phone: 9093943600
Fax: 909-394-0711
Web: http://www.aswater.com
Email: investorinfo@aswater.com

| | |
|---|---|
| Industry | UTIL-WATER SPLY |
| Sector: | Utilities |
| Fiscal Year End | December |
| Last Completed Quarter | 09/30/11 |
| Next EPS Date | 03/09/2012 |

### Price and Volume Information

| | |
|---|---|
| Zacks Rank | |
| Yesterday's Close | 35.80 |
| 52 Week High | 38.10 |
| 52 Week Low | 30.53 |
| Beta | 0.33 |
| 20 Day Moving Average | 146,124.16 |
| Target Price Consensus | 42 |




| % Price Change | | % Price Change Relative to S&P 500 | |
|---|---|---|---|
| 4 Week | 3.82 | 4 Week | 3.79 |
| 12 Week | 6.13 | 12 Week | 1.21 |
| YTD | 4.99 | YTD | 2.05 |

| Share Information | | Dividend Information | |
|---|---|---|---|
| Shares Outstanding (millions) | 18.68 | Dividend Yield | 3.09% |
| | | Annual Dividend | $1.12 |
| Market Capitalization (millions) | 676.21 | Payout Ratio | 0.50 |
| Short Ratio | 5.59 | Change in Payout Ratio | -0.11 |
| Last Split Date | 06/10/2002 | Last Dividend Payout / Amount | 11/08/2011 / $0.28 |

| EPS Information | | Consensus Recommendations | |
|---|---|---|---|
| Current Quarter EPS Consensus Estimate | 0.38 | Current (1=Strong Buy, 5=Strong Sell) | 2.25 |
| Current Year EPS Consensus Estimate | 2.19 | 30 Days Ago | 2.25 |
| Estimated Long-Term EPS Growth Rate | 12.00 | 60 Days Ago | 2.25 |
| Next EPS Report Date | 03/09/2012 | 90 Days Ago | 2.25 |

### Fundamental Ratios

| P/E | | EPS Growth | | Sales Growth | |
|---|---|---|---|---|---|
| Current FY Estimate: | 16.51 | vs. Previous Year | 33.87% | vs. Previous Year | 7.72% |
| Trailing 12 Months: | 16.08 | vs. Previous Quarter | 22.06% | vs. Previous Quarter: | 9.17% |
| PEG Ratio | 1.38 | | | | |

| Price Ratios | ROE | ROA |
|---|---|---|
| Price/Book | 09/30/11 | 09/30/11 |

| | | | | | |
|---|---|---|---|---|---|
| | 1.67 | | 10.86 | | 3.53 |
| Price/Cash Flow | 8.87 | 06/30/11 | 10.05 | 06/30/11 | 3.20 |
| Price / Sales | 1.58 | 03/31/11 | 9.22 | 03/31/11 | 2.91 |
| **Current Ratio** | | **Quick Ratio** | | **Operating Margin** | |
| 09/30/11 | 1.38 | 09/30/11 | 1.35 | 09/30/11 | 9.88 |
| 06/30/11 | 1.38 | 06/30/11 | 1.36 | 06/30/11 | 9.13 |
| 03/31/11 | 1.04 | 03/31/11 | 1.03 | 03/31/11 | 8.55 |
| **Net Margin** | | **Pre-Tax Margin** | | **Book Value** | |
| 09/30/11 | 17.27 | 09/30/11 | 17.27 | 09/30/11 | 21.68 |
| 06/30/11 | 14.11 | 06/30/11 | 14.11 | 06/30/11 | 21.05 |
| 03/31/11 | 12.94 | 03/31/11 | 12.94 | 03/31/11 | 20.42 |
| **Inventory Turnover** | | **Debt-to-Equity** | | **Debt to Capital** | |
| 09/30/11 | 40.72 | 09/30/11 | 0.84 | 09/30/11 | 45.66 |
| 06/30/11 | 43.56 | 06/30/11 | 0.87 | 06/30/11 | 46.43 |
| 03/31/11 | 44.32 | 03/31/11 | 0.79 | 03/31/11 | 44.04 |

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## CALIFORNIA WTR SVC GROUP (NYSE)

ZACKS RANK: 4 - SELL

CWT 18.64 ▲0.01 (0.05%) Vol. 176,966 16:05 ET

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

### General Information

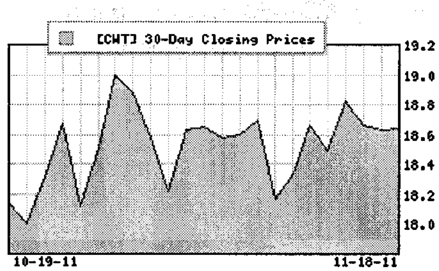
CALIF WATER SVC
1720 N FIRST ST C/O CALIFORNIA WATER SERVICE CO
SAN JOSE, CA 95112
Phone: 4083678200
Fax: 831-427-9185
Web: http://www.calwatergroup.com
Email: None

| | |
|---|---|
| Industry | UTIL-WATER SPLY |
| Sector: | Utilities |

| | |
|---|---|
| Fiscal Year End | December |
| Last Completed Quarter | 09/30/11 |
| Next EPS Date | 02/22/2012 |

### Price and Volume Information

| | |
|---|---|
| Zacks Rank | |
| Yesterday's Close | 18.63 |
| 52 Week High | 19.37 |
| 52 Week Low | 16.65 |
| Beta | 0.29 |
| 20 Day Moving Average | 284,882.06 |
| Target Price Consensus | 21 |




| % Price Change | | % Price Change Relative to S&P 500 | |
|---|---|---|---|
| 4 Week | 3.56 | 4 Week | 3.53 |
| 12 Week | 3.10 | 12 Week | -1.68 |
| YTD | 0.03 | YTD | -0.36 |

| Share Information | | Dividend Information | |
|---|---|---|---|
| Shares Outstanding (millions) | 41.75 | Dividend Yield | 3.30% |
| | | Annual Dividend | $0.62 |
| Market Capitalization (millions) | 778.26 | Payout Ratio | 0.66 |
| Short Ratio | 5.21 | Change in Payout Ratio | -0.04 |
| Last Split Date | 06/13/2011 | Last Dividend Payout / Amount | 11/03/2011 / $0.15 |

| EPS Information | | Consensus Recommendations | |
|---|---|---|---|
| Current Quarter EPS Consensus Estimate | 0.17 | Current (1=Strong Buy, 5=Strong Sell) | 1.89 |
| Current Year EPS Consensus Estimate | 1.02 | 30 Days Ago | 2.11 |
| Estimated Long-Term EPS Growth Rate | 10.00 | 60 Days Ago | 2.11 |
| Next EPS Report Date | 02/22/2012 | 90 Days Ago | 2.11 |

### Fundamental Ratios

| P/E | | EPS Growth | | Sales Growth | |
|---|---|---|---|---|---|
| Current FY Estimate: | 18.34 | vs. Previous Year | 2.04% | vs. Previous Year | 15.65% |
| Trailing 12 Months: | 20.04 | vs. Previous Quarter | 72.41% | vs. Previous Quarter: | 28.81% |
| PEG Ratio | 1.83 | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **Price Ratios** | | **ROE** | | **ROA** | |
| Price/Book | 1.71 | 09/30/11 | 8.88 | 09/30/11 | 2.25 |
| Price/Cash Flow | 9.26 | 06/30/11 | 8.84 | 06/30/11 | 2.27 |
| Price / Sales | 1.54 | 03/31/11 | 8.52 | 03/31/11 | 2.21 |
| **Current Ratio** | | **Quick Ratio** | | **Operating Margin** | |
| 09/30/11 | 0.97 | 09/30/11 | 0.93 | 09/30/11 | 7.74 |
| 06/30/11 | 1.00 | 06/30/11 | 0.95 | 06/30/11 | 8.00 |
| 03/31/11 | 1.10 | 03/31/11 | 1.05 | 03/31/11 | 7.85 |
| **Net Margin** | | **Pre-Tax Margin** | | **Book Value** | |
| 09/30/11 | 13.44 | 09/30/11 | 13.44 | 09/30/11 | 10.88 |
| 06/30/11 | 13.33 | 06/30/11 | 13.33 | 06/30/11 | 10.50 |
| 03/31/11 | 12.96 | 03/31/11 | 12.96 | 03/31/11 | 10.37 |
| **Inventory Turnover** | | **Debt-to-Equity** | | **Debt to Capital** | |
| 09/30/11 | 33.41 | 09/30/11 | 1.05 | 09/30/11 | 51.26 |
| 06/30/11 | 31.64 | 06/30/11 | 1.09 | 06/30/11 | 52.17 |
| 03/31/11 | 31.44 | 03/31/11 | 1.11 | 03/31/11 | 52.57 |

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## SJW CORP (NYSE)

**ZACKS RANK: 4 - SELL**

SJW 24.01 ↑0.20 (0.84%) Vol. 18,119 16:04 ET

SJW CORP. is a holding company which operates through its wholly-ownedsubsidiaries, San Jose Water Co., SJW Land Co., and Western Precision, Inc.San Jose Water Co., is a public utility in the business of providing waterservice to a population of approximately 928,000 people. Their servicearea encompasses about 134 sq. miles in the metropolitan San Juan area.SJW Land Co. operates parking facilities located adjacent to the theirheadquarters and the San Jose area.

### General Information

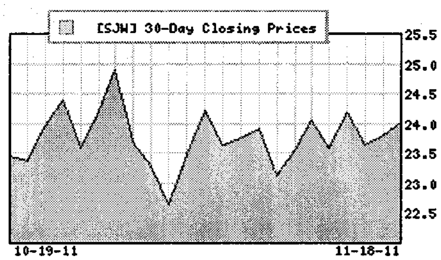
SJW CORP
110 W. TAYLOR STREET
SAN JOSE, CA 95110
Phone: 4082797800
Fax: 408-279-7917
Web: http://www.sjwater.com/
Email: boardofdirectors@sjwater.com

| | |
|---|---|
| Industry | UTIL-WATER SPLY |
| Sector: | Utilities |

| | |
|---|---|
| Fiscal Year End | December |
| Last Completed Quarter | 09/30/11 |
| Next EPS Date | 02/21/2012 |

### Price and Volume Information

| | |
|---|---|
| Zacks Rank | |
| Yesterday's Close | 23.81 |
| 52 Week High | 28.00 |
| 52 Week Low | 20.87 |
| Beta | 0.62 |
| 20 Day Moving Average | 43,358.20 |
| Target Price Consensus | 27 |




| % Price Change | | % Price Change Relative to S&P 500 | |
|---|---|---|---|
| 4 Week | 2.69 | 4 Week | 2.67 |
| 12 Week | 8.20 | 12 Week | 3.18 |
| YTD | -9.29 | YTD | -9.63 |

| Share Information | | Dividend Information | |
|---|---|---|---|
| Shares Outstanding (millions) | 18.58 | Dividend Yield | 2.87% |
| | | Annual Dividend | $0.69 |
| Market Capitalization (millions) | 446.06 | Payout Ratio | 0.80 |
| Short Ratio | 10.42 | Change in Payout Ratio | 0.12 |
| Last Split Date | 03/17/2006 | Last Dividend Payout / Amount | 11/03/2011 / $0.17 |

| EPS Information | | Consensus Recommendations | |
|---|---|---|---|
| Current Quarter EPS Consensus Estimate | 0.12 | Current (1=Strong Buy, 5=Strong Sell) | 2.33 |
| Current Year EPS Consensus Estimate | 0.88 | 30 Days Ago | 2.33 |
| Estimated Long-Term EPS Growth Rate | - | 60 Days Ago | 2.00 |
| Next EPS Report Date | 02/21/2012 | 90 Days Ago | 2.00 |

### Fundamental Ratios

| P/E | | EPS Growth | | Sales Growth | |
|---|---|---|---|---|---|
| Current FY Estimate: | 27.39 | vs. Previous Year | 0.00% | vs. Previous Year | 5.07% |
| Trailing 12 Months: | 27.92 | vs. Previous Quarter | 51.72% | vs. Previous Quarter: | 25.26% |
| PEG Ratio | - | | | | |

| Price Ratios | | ROE | | ROA | |
|---|---|---|---|---|---|
| Price/Book | 1.71 | 09/30/11 | 6.34 | 09/30/11 | 1.66 |
| Price/Cash Flow | 10.14 | 06/30/11 | 6.33 | 06/30/11 | 1.68 |
| Price / Sales | 1.96 | 03/31/11 | 5.98 | 03/31/11 | 1.61 |
| **Current Ratio** | | **Quick Ratio** | | **Operating Margin** | |
| 09/30/11 | 2.31 | 09/30/11 | 2.28 | 09/30/11 | 7.13 |
| 06/30/11 | 2.13 | 06/30/11 | 2.10 | 06/30/11 | 7.22 |
| 03/31/11 | 0.95 | 03/31/11 | 0.93 | 03/31/11 | 6.95 |
| **Net Margin** | | **Pre-Tax Margin** | | **Book Value** | |
| 09/30/11 | 13.13 | 09/30/11 | 13.13 | 09/30/11 | 14.01 |
| 06/30/11 | 15.37 | 06/30/11 | 15.37 | 06/30/11 | 13.73 |
| 03/31/11 | 14.96 | 03/31/11 | 14.96 | 03/31/11 | 13.61 |
| **Inventory Turnover** | | **Debt-to-Equity** | | **Debt to Capital** | |
| 09/30/11 | 94.49 | 09/30/11 | 1.32 | 09/30/11 | 56.96 |
| 06/30/11 | 92.40 | 06/30/11 | 1.35 | 06/30/11 | 57.47 |
| 03/31/11 | 91.51 | 03/31/11 | 1.17 | 03/31/11 | 53.86 |

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| **AQUA AMERICA INC** (NYSE) | | | | | | **ZACKS RANK: 3 - HOLD** |
|---|---|---|---|---|---|---|
| WTR | 21.69 | ▾-0.01 | (-0.05%) | Vol. 358,043 | 16:02 ET | |

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

## General Information

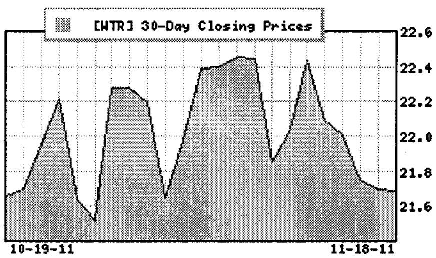
AQUA AMER INC
762 LANCASTER AVE
BRYN MAWR, PA 19010
Phone: 2155278000
Fax: 610-645-1061
Web: http://www.aquaamerica.com
Email: None

| | |
|---|---|
| Industry | UTIL-WATER SPLY |
| Sector: | Utilities |

| | |
|---|---|
| Fiscal Year End | December |
| Last Completed Quarter | 09/30/11 |
| Next EPS Date | 02/22/2012 |

## Price and Volume Information

| | |
|---|---|
| Zacks Rank | |
| Yesterday's Close | 21.70 |
| 52 Week High | 23.79 |
| 52 Week Low | 19.28 |
| Beta | 0.20 |
| 20 Day Moving Average | 622,348.88 |
| Target Price Consensus | 24.57 |




| **% Price Change** | | **% Price Change Relative to S&P 500** | |
|---|---|---|---|
| 4 Week | -0.05 | 4 Week | -0.07 |
| 12 Week | 1.97 | 12 Week | -2.75 |
| YTD | -3.51 | YTD | -0.71 |

| **Share Information** | | **Dividend Information** | |
|---|---|---|---|
| Shares Outstanding (millions) | 138.40 | Dividend Yield | 3.04% |
| | | Annual Dividend | $0.66 |
| Market Capitalization (millions) | 3,002.00 | Payout Ratio | 0.65 |
| Short Ratio | 6.06 | Change in Payout Ratio | -0.04 |
| Last Split Date | 12/02/2005 | Last Dividend Payout / Amount | 08/15/2011 / $0.16 |

| **EPS Information** | | **Consensus Recommendations** | |
|---|---|---|---|
| Current Quarter EPS Consensus Estimate | 0.24 | Current (1=Strong Buy, 5=Strong Sell) | 1.92 |
| Current Year EPS Consensus Estimate | 1.01 | 30 Days Ago | 1.92 |
| Estimated Long-Term EPS Growth Rate | 8.30 | 60 Days Ago | 1.92 |
| Next EPS Report Date | 02/22/2012 | 90 Days Ago | 1.83 |

## Fundamental Ratios

| **P/E** | | **EPS Growth** | | **Sales Growth** | |
|---|---|---|---|---|---|
| Current FY Estimate: | 21.55 | vs. Previous Year | -6.25% | vs. Previous Year | -5.04% |
| Trailing 12 Months: | 22.83 | vs. Previous Quarter | 20.00% | vs. Previous Quarter: | 4.83% |
| PEG Ratio | 2.60 | | | | |
| **Price Ratios** | | **ROE** | | **ROA** | |

| | | | | | |
|---|---|---|---|---|---|
| Price/Book | 2.48 | 09/30/11 | 10.94 | 09/30/11 | 3.16 |
| Price/Cash Flow | 12.17 | 06/30/11 | 11.25 | 06/30/11 | 3.26 |
| Price / Sales | 4.08 | 03/31/11 | 11.08 | 03/31/11 | 3.22 |
| **Current Ratio** | | **Quick Ratio** | | **Operating Margin** | |
| 09/30/11 | 0.78 | 09/30/11 | 0.76 | 09/30/11 | 17.81 |
| 06/30/11 | 0.58 | 06/30/11 | 0.54 | 06/30/11 | 17.78 |
| 03/31/11 | 0.75 | 03/31/11 | 0.70 | 03/31/11 | 17.44 |
| **Net Margin** | | **Pre-Tax Margin** | | **Book Value** | |
| 09/30/11 | 30.33 | 09/30/11 | 30.33 | 09/30/11 | 8.76 |
| 06/30/11 | 29.35 | 06/30/11 | 29.35 | 06/30/11 | 8.77 |
| 03/31/11 | 28.70 | 03/31/11 | 28.70 | 03/31/11 | 8.64 |
| **Inventory Turnover** | | **Debt-to-Equity** | | **Debt to Capital** | |
| 09/30/11 | 25.92 | 09/30/11 | 1.16 | 09/30/11 | 53.63 |
| 06/30/11 | 26.82 | 06/30/11 | 1.21 | 06/30/11 | 54.78 |
| 03/31/11 | 27.97 | 03/31/11 | 1.28 | 03/31/11 | 56.20 |

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## AGL RESOURCES INC (NYSE)

**ZACKS RANK: 4 - SELL**

AGL 41.01 ▲0.10 (0.24%) Vol. 317,142 16:02 ET

AGL Resources principal business is the distribution of natural gas to customers in central, northwest, northeast and southeast Georgia and the Chattanooga, Tennessee area through its natural gas distribution subsidiary. AGL's major service area is the ten county metropolitan Atlanta area.

### General Information

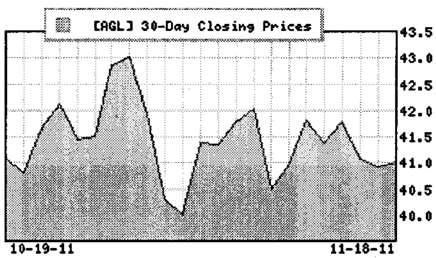
AGL RESOURCES
TEN PEACHTREE PLACE
ATLANTA, GA 30309
Phone: 4045844000
Fax: 404-584-3945
Web: http://www.aglresources.com
Email: sstashak@aglresources.com

| | |
|---|---|
| Industry | UTIL-GAS DISTR |
| Sector: | Utilities |

| | |
|---|---|
| Fiscal Year End | December |
| Last Completed Quarter | 09/30/11 |
| Next EPS Date | 02/08/2012 |

### Price and Volume Information

| | |
|---|---|
| Zacks Rank | |
| Yesterday's Close | 40.91 |
| 52 Week High | 43.69 |
| 52 Week Low | 34.08 |
| Beta | 0.44 |
| 20 Day Moving Average | 490,210.19 |
| Target Price Consensus | 41.6 |




| % Price Change | | % Price Change Relative to S&P 500 | |
|---|---|---|---|
| 4 Week | 0.51 | 4 Week | 0.49 |
| 12 Week | 2.91 | 12 Week | -1.86 |
| YTD | 14.39 | YTD | 16.05 |

| Share Information | | Dividend Information | |
|---|---|---|---|
| Shares Outstanding (millions) | 78.46 | Dividend Yield | 4.39% |
| | | Annual Dividend | $1.80 |
| Market Capitalization (millions) | 3,217.73 | Payout Ratio | 0.63 |
| Short Ratio | 6.84 | Change in Payout Ratio | 0.03 |
| Last Split Date | 12/04/1995 | Last Dividend Payout / Amount | 08/17/2011 / $0.45 |

| EPS Information | | Consensus Recommendations | |
|---|---|---|---|
| Current Quarter EPS Consensus Estimate | 0.91 | Current (1=Strong Buy, 5=Strong Sell) | 2.57 |
| Current Year EPS Consensus Estimate | 2.91 | 30 Days Ago | 2.57 |
| Estimated Long-Term EPS Growth Rate | 4.30 | 60 Days Ago | 2.57 |
| Next EPS Report Date | 02/08/2012 | 90 Days Ago | 2.57 |

### Fundamental Ratios

| P/E | | EPS Growth | | Sales Growth | |
|---|---|---|---|---|---|
| Current FY Estimate: | 14.07 | vs. Previous Year | -93.10% | vs. Previous Year | -14.74% |
| Trailing 12 Months: | 14.44 | vs. Previous Quarter | -93.94% | vs. Previous Quarter: | -21.33% |
| PEG Ratio | 3.25 | | | | |

| Price Ratios | | ROE | | ROA | |
|---|---|---|---|---|---|
| Price/Book | 1.71 | 09/30/11 | 11.78 | 09/30/11 | 3.05 |

| | | | | | |
|---|---|---|---|---|---|
| Price/Cash Flow | 8.05 | 06/30/11 | 12.98 | 06/30/11 | 3.39 |
| Price / Sales | 1.45 | 03/31/11 | 12.49 | 03/31/11 | 3.28 |
| **Current Ratio** | | **Quick Ratio** | | **Operating Margin** | |
| 09/30/11 | 1.58 | 09/30/11 | 1.02 | 09/30/11 | 10.05 |
| 06/30/11 | 1.15 | 06/30/11 | 0.76 | 06/30/11 | 10.72 |
| 03/31/11 | 1.21 | 03/31/11 | 0.93 | 03/31/11 | 10.27 |
| **Net Margin** | | **Pre-Tax Margin** | | **Book Value** | |
| 09/30/11 | 15.41 | 09/30/11 | 15.41 | 09/30/11 | 23.97 |
| 06/30/11 | 16.83 | 06/30/11 | 16.83 | 06/30/11 | 24.46 |
| 03/31/11 | 16.59 | 03/31/11 | 16.59 | 03/31/11 | 24.62 |
| **Inventory Turnover** | | **Debt-to-Equity** | | **Debt to Capital** | |
| 09/30/11 | 2.83 | 09/30/11 | 1.43 | 09/30/11 | 58.82 |
| 06/30/11 | 2.82 | 06/30/11 | 1.13 | 06/30/11 | 53.06 |
| 03/31/11 | 2.80 | 03/31/11 | 1.13 | 03/31/11 | 53.09 |

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## ATMOS ENERGY CORP (NYSE)

**ZACKS RANK: 3 - HOLD**

ATO 34.95 ▲0.06 (0.17%) Vol. 431,613 16:01 ET

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

### General Information

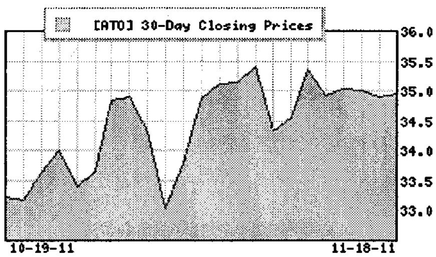
ATMOS ENERGY CP
1800 THREE LINCOLN CTR 5430 LBJ
FREEWAY
DALLAS, TX 75240
Phone: 9729349227
Fax: 972-855-3040
Web: http://www.njresources.com
Email: None

| | |
|---|---|
| Industry | UTIL-GAS DISTR |
| Sector: | Utilities |

| | |
|---|---|
| Fiscal Year End | September |
| Last Completed Quarter | 09/30/11 |
| Next EPS Date | 02/07/2012 |

### Price and Volume Information

| | |
|---|---|
| Zacks Rank | |
| Yesterday's Close | 34.89 |
| 52 Week High | 35.55 |
| 52 Week Low | 28.51 |
| Beta | 0.51 |
| 20 Day Moving Average | 368,330.91 |
| Target Price Consensus | 34.5 |




| % Price Change | | % Price Change Relative to S&P 500 | |
|---|---|---|---|
| 4 Week | 5.40 | 4 Week | 5.38 |
| 12 Week | 7.77 | 12 Week | 2.77 |
| YTD | 12.02 | YTD | 12.74 |

| Share Information | | Dividend Information | |
|---|---|---|---|
| Shares Outstanding (millions) | 90.29 | Dividend Yield | 3.89% |
| | | Annual Dividend | $1.36 |
| Market Capitalization (millions) | 3,155.46 | Payout Ratio | 0.60 |
| Short Ratio | 3.83 | Change in Payout Ratio | -0.02 |
| Last Split Date | 05/17/1994 | Last Dividend Payout / Amount | 08/23/2011 / $0.34 |

| EPS Information | | Consensus Recommendations | |
|---|---|---|---|
| Current Quarter EPS Consensus Estimate | 0.83 | Current (1=Strong Buy, 5=Strong Sell) | 2.86 |
| Current Year EPS Consensus Estimate | 2.40 | 30 Days Ago | 2.86 |
| Estimated Long-Term EPS Growth Rate | 4.30 | 60 Days Ago | 2.86 |
| Next EPS Report Date | 02/07/2012 | 90 Days Ago | 2.83 |

### Fundamental Ratios

| P/E | | EPS Growth | | Sales Growth | |
|---|---|---|---|---|---|
| Current FY Estimate: | 14.56 | vs. Previous Year | -% | vs. Previous Year | 10.81% |
| Trailing 12 Months: | 15.53 | vs. Previous Quarter | 20.00% | vs. Previous Quarter: | -47.84% |
| PEG Ratio | 3.36 | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **Price Ratios** | | **ROE** | | **ROA** | |
| Price/Book | 1.40 | 09/30/11 | 8.88 | 09/30/11 | 2.88 |
| Price/Cash Flow | 7.36 | 06/30/11 | 8.70 | 06/30/11 | 2.85 |
| Price / Sales | - | 03/31/11 | 8.87 | 03/31/11 | 2.94 |
| **Current Ratio** | | **Quick Ratio** | | **Operating Margin** | |
| 09/30/11 | 1.17 | 09/30/11 | 0.83 | 09/30/11 | - |
| 06/30/11 | 1.53 | 06/30/11 | 1.13 | 06/30/11 | 4.52 |
| 03/31/11 | 0.91 | 03/31/11 | 0.70 | 03/31/11 | 4.68 |
| **Net Margin** | | **Pre-Tax Margin** | | **Book Value** | |
| 09/30/11 | 23.55 | 09/30/11 | 23.55 | 09/30/11 | 24.98 |
| 06/30/11 | 7.42 | 06/30/11 | 7.42 | 06/30/11 | 25.86 |
| 03/31/11 | 7.50 | 03/31/11 | 7.50 | 03/31/11 | 26.19 |
| **Inventory Turnover** | | **Debt-to-Equity** | | **Debt to Capital** | |
| 09/30/11 | 1.61 | 09/30/11 | 0.98 | 09/30/11 | 49.45 |
| 06/30/11 | 12.31 | 06/30/11 | 0.94 | 06/30/11 | 48.57 |
| 03/31/11 | 12.01 | 03/31/11 | 0.76 | 03/31/11 | 43.22 |

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## LACLEDE GROUP INC (NYSE)

**ZACKS RANK: 2 - BUY**

LG 40.61 ▲0.43 (1.07%) Vol. 90,513 16:01 ET

The Laclede Group, Inc. is a public utility engaged in the retail distribution and transportation of natural gas. The Company, which is subject to the jurisdiction of the Missouri Public Service Commission, serves the City of St. Louis, St. Louis County, the City of St. Charles, St. Charles County, the town of Arnold, and parts of Franklin, Jefferson, St. Francois, Ste. Genevieve, Iron, Madison and Butler Counties, all in Missouri.

### General Information

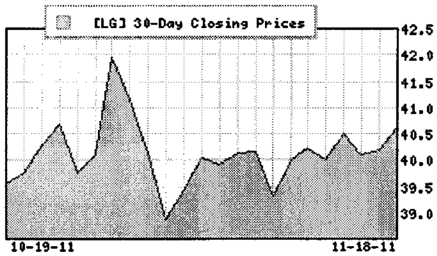
LACLEDE GRP INC
720 OLIVE ST
ST LOUIS, MO 63101
Phone: 3143420500
Fax: 314-421-1979
Web: http://www.thelacledegroup.com
Email: investorservices@lacledegas.com

| | |
|---|---|
| Industry | UTIL-GAS DISTR |
| Sector: | Utilities |

| | |
|---|---|
| Fiscal Year End | September |
| Last Completed Quarter | 09/30/11 |
| Next EPS Date | 01/26/2012 |

### Price and Volume Information

| | |
|---|---|
| Zacks Rank | 2 |
| Yesterday's Close | 40.18 |
| 52 Week High | 42.81 |
| 52 Week Low | 32.90 |
| Beta | 0.06 |
| 20 Day Moving Average | 118,145.80 |
| Target Price Consensus | 44 |




| % Price Change | | % Price Change Relative to S&P 500 | |
|---|---|---|---|
| 4 Week | 2.16 | 4 Week | 2.14 |
| 12 Week | 7.78 | 12 Week | 2.78 |
| YTD | 11.14 | YTD | 9.53 |

| Share Information | | Dividend Information | |
|---|---|---|---|
| Shares Outstanding (millions) | 22.43 | Dividend Yield | 3.99% |
| | | Annual Dividend | $1.62 |
| Market Capitalization (millions) | 910.84 | Payout Ratio | 0.58 |
| Short Ratio | 7.40 | Change in Payout Ratio | -0.03 |
| Last Split Date | 03/08/1994 | Last Dividend Payout / Amount | 09/08/2011 / $0.41 |

| EPS Information | | Consensus Recommendations | |
|---|---|---|---|
| Current Quarter EPS Consensus Estimate | 1.08 | Current (1=Strong Buy, 5=Strong Sell) | 3.00 |
| Current Year EPS Consensus Estimate | 2.63 | 30 Days Ago | 3.00 |
| Estimated Long-Term EPS Growth Rate | 3.00 | 60 Days Ago | 3.00 |
| Next EPS Report Date | 01/26/2012 | 90 Days Ago | 3.00 |

### Fundamental Ratios

| P/E | | EPS Growth | | Sales Growth | |
|---|---|---|---|---|---|
| Current FY Estimate: | 15.46 | vs. Previous Year | -133.33% | vs. Previous Year | -4.57% |
| Trailing 12 Months: | 14.56 | vs. Previous Quarter | -121.54% | vs. Previous Quarter: | -21.27% |
| PEG Ratio | 5.15 | | | | |

| Price Ratios | | ROE | | ROA | |
|---|---|---|---|---|---|
| Price/Book | 1.57 | 09/30/11 | 11.00 | 09/30/11 | 3.51 |

| | | | | | |
|---|---|---|---|---|---|
| Price/Cash Flow | 8.96 | 06/30/11 | 11.46 | 06/30/11 | 3.57 |
| Price / Sales | 0.57 | 03/31/11 | 9.80 | 03/31/11 | 3.00 |
| **Current Ratio** | | **Quick Ratio** | | **Operating Margin** | |
| 09/30/11 | - | 09/30/11 | - | 09/30/11 | 3.88 |
| 06/30/11 | 1.86 | 06/30/11 | 1.48 | 06/30/11 | 3.96 |
| 03/31/11 | 1.86 | 03/31/11 | 1.53 | 03/31/11 | 3.38 |
| **Net Margin** | | **Pre-Tax Margin** | | **Book Value** | |
| 09/30/11 | 5.80 | 09/30/11 | 5.80 | 09/30/11 | - |
| 06/30/11 | 5.91 | 06/30/11 | 5.91 | 06/30/11 | 25.86 |
| 03/31/11 | 5.12 | 03/31/11 | 5.12 | 03/31/11 | 25.43 |
| **Inventory Turnover** | | **Debt-to-Equity** | | **Debt to Capital** | |
| 09/30/11 | 14.05 | 09/30/11 | - | 09/30/11 | - |
| 06/30/11 | 12.61 | 06/30/11 | 0.63 | 06/30/11 | 38.60 |
| 03/31/11 | 12.55 | 03/31/11 | 0.64 | 03/31/11 | 39.03 |

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## NEW JERSEY RES (NYSE)

**ZACKS RANK: 4 - SELL**

NJR 47.48 ▲0.21 (0.44%) Vol. 106,517 16:00 ET

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

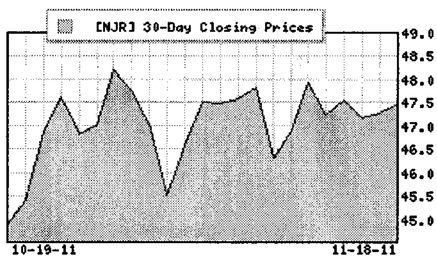
### General Information

NJ RESOURCES
1415 WYCKOFF RD PO BOX 1468
WALL, NJ 07719
Phone: 9089381494
Fax: 732-938-2134
Web: http://www.njresources.com
Email: dpuma@njresources.com

| | |
|---|---|
| Industry | UTIL-GAS DISTR |
| Sector: | Utilities |
| Fiscal Year End | September |
| Last Completed Quarter | 09/30/11 |
| Next EPS Date | 11/23/2011 |

### Price and Volume Information

| | |
|---|---|
| Zacks Rank | |
| Yesterday's Close | 47.27 |
| 52 Week High | 48.47 |
| 52 Week Low | 39.60 |
| Beta | 0.25 |
| 20 Day Moving Average | 201,208.25 |
| Target Price Consensus | 46.6 |




| % Price Change | | % Price Change Relative to S&P 500 | |
|---|---|---|---|
| 4 Week | 4.58 | 4 Week | 4.56 |
| 12 Week | 5.04 | 12 Week | 0.17 |
| YTD | 10.14 | YTD | 10.63 |

| Share Information | | Dividend Information | |
|---|---|---|---|
| Shares Outstanding (millions) | 41.44 | Dividend Yield | 3.03% |
| | | Annual Dividend | $1.44 |
| Market Capitalization (millions) | 1,967.38 | Payout Ratio | 0.00 |
| Short Ratio | 9.94 | Change in Payout Ratio | 0.00 |
| Last Split Date | 03/04/2008 | Last Dividend Payout / Amount | 09/13/2011 / $0.36 |

| EPS Information | | Consensus Recommendations | |
|---|---|---|---|
| Current Quarter EPS Consensus Estimate | 0.04 | Current (1=Strong Buy, 5=Strong Sell) | 2.86 |
| Current Year EPS Consensus Estimate | 2.63 | 30 Days Ago | 2.83 |
| Estimated Long-Term EPS Growth Rate | 4.50 | 60 Days Ago | 2.83 |
| Next EPS Report Date | 11/23/2011 | 90 Days Ago | 2.83 |

### Fundamental Ratios

| P/E | | EPS Growth | | Sales Growth | |
|---|---|---|---|---|---|
| Current FY Estimate: | 16.87 | vs. Previous Year | -17.86% | vs. Previous Year | 35.07% |
| Trailing 12 Months: | 18.92 | vs. Previous Quarter | -85.71% | vs. Previous Quarter: | -33.66% |
| PEG Ratio | 3.75 | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **Price Ratios** | | **ROE** | | **ROA** | |
| Price/Book | 2.47 | 09/30/11 | - | 09/30/11 | - |
| Price/Cash Flow | 14.50 | 06/30/11 | 13.74 | 06/30/11 | 4.04 |
| Price / Sales | - | 03/31/11 | 14.25 | 03/31/11 | 4.17 |
| **Current Ratio** | | **Quick Ratio** | | **Operating Margin** | |
| 09/30/11 | - | 09/30/11 | - | 09/30/11 | - |
| 06/30/11 | 1.18 | 06/30/11 | 0.77 | 06/30/11 | 3.52 |
| 03/31/11 | 1.21 | 03/31/11 | 0.87 | 03/31/11 | 3.80 |
| **Net Margin** | | **Pre-Tax Margin** | | **Book Value** | |
| 09/30/11 | - | 09/30/11 | - | 09/30/11 | - |
| 06/30/11 | 4.85 | 06/30/11 | 4.85 | 06/30/11 | 19.25 |
| 03/31/11 | 3.49 | 03/31/11 | 3.49 | 03/31/11 | 18.95 |
| **Inventory Turnover** | | **Debt-to-Equity** | | **Debt to Capital** | |
| 09/30/11 | - | 09/30/11 | - | 09/30/11 | - |
| 06/30/11 | 9.08 | 06/30/11 | 0.54 | 06/30/11 | 34.97 |
| 03/31/11 | 8.46 | 03/31/11 | 0.55 | 03/31/11 | 35.39 |

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## NORTHWEST NAT GAS CO (NYSE)

**ZACKS RANK: 3 - HOLD**

NWN 46.95 ▲0.22 (0.47%) Vol. 80,974 16:02 ET

NW Natural is principally engaged in the distribution of natural gas.The Oregon Public Utility Commission (OPUC) has allocated to NW Natural as its exclusive service area a major portion of western Oregon, including the Portland metropolitan area, most of the fertile Willamette Valley and the coastal area from Astoria to Coos Bay. NW Natural also holds certificates from the Washington Utilities and Transportation Commission (WUTC) granting it exclusive rights to serve portions of three Washington counties bordering the Columbia River.

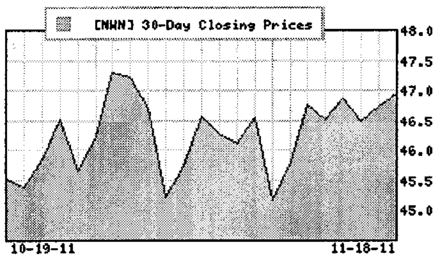
### General Information

NORTHWEST NAT G
220 NW SECOND AVE
PORTLAND, OR -
Phone: 5032264211
Fax: 503-273-4824
Web: www.nwnatural.com
Email: Bob.Hess@nwnatural.com

| | |
|---|---|
| Industry | UTIL-GAS DISTR |
| Sector: | Utilities |
| Fiscal Year End | December |
| Last Completed Quarter | 09/30/11 |
| Next EPS Date | 02/24/2012 |

### Price and Volume Information

| | |
|---|---|
| Zacks Rank | |
| Yesterday's Close | 46.73 |
| 52 Week High | 49.61 |
| 52 Week Low | 39.63 |
| Beta | 0.32 |
| 20 Day Moving Average | 109,055.45 |
| Target Price Consensus | 47.25 |




| % Price Change | | % Price Change Relative to S&P 500 | |
|---|---|---|---|
| 4 Week | 3.41 | 4 Week | 3.39 |
| 12 Week | 6.29 | 12 Week | 1.36 |
| YTD | 1.03 | YTD | 0.13 |

| Share Information | | Dividend Information | |
|---|---|---|---|
| Shares Outstanding (millions) | 26.67 | Dividend Yield | 3.79% |
| | | Annual Dividend | $1.78 |
| Market Capitalization (millions) | 1,252.34 | Payout Ratio | 0.67 |
| Short Ratio | 20.62 | Change in Payout Ratio | 0.08 |
| Last Split Date | 09/09/1996 | Last Dividend Payout / Amount | 10/27/2011 / $0.44 |

| EPS Information | | Consensus Recommendations | |
|---|---|---|---|
| Current Quarter EPS Consensus Estimate | 1.06 | Current (1=Strong Buy, 5=Strong Sell) | 2.11 |
| Current Year EPS Consensus Estimate | 2.49 | 30 Days Ago | 2.11 |
| Estimated Long-Term EPS Growth Rate | 4.30 | 60 Days Ago | 2.11 |
| Next EPS Report Date | 02/24/2012 | 90 Days Ago | 2.11 |

### Fundamental Ratios

| P/E | | EPS Growth | | Sales Growth | |
|---|---|---|---|---|---|
| Current FY Estimate: | 18.88 | vs. Previous Year | -10.71% | vs. Previous Year | -1.85% |
| Trailing 12 Months: | 18.20 | vs. Previous Quarter | -224.00% | vs. Previous Quarter: | -42.11% |
| PEG Ratio | 4.39 | | | | |

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

| | | | | | |
|---|---|---|---|---|---|
| Price/Book | 1.80 | 09/30/11 | 9.71 | 09/30/11 | 2.67 |
| Price/Cash Flow | 9.08 | 06/30/11 | 9.91 | 06/30/11 | 2.73 |
| Price / Sales | 1.48 | 03/31/11 | 10.04 | 03/31/11 | 2.78 |
| **Current Ratio** | | **Quick Ratio** | | **Operating Margin** | |
| 09/30/11 | 0.62 | 09/30/11 | 0.41 | 09/30/11 | 8.12 |
| 06/30/11 | 0.60 | 06/30/11 | 0.41 | 06/30/11 | 8.20 |
| 03/31/11 | 0.66 | 03/31/11 | 0.54 | 03/31/11 | 8.23 |
| **Net Margin** | | **Pre-Tax Margin** | | **Book Value** | |
| 09/30/11 | 12.77 | 09/30/11 | 12.77 | 09/30/11 | 26.11 |
| 06/30/11 | 12.91 | 06/30/11 | 12.91 | 06/30/11 | 26.79 |
| 03/31/11 | 13.80 | 03/31/11 | 13.80 | 03/31/11 | 27.12 |
| **Inventory Turnover** | | **Debt-to-Equity** | | **Debt to Capital** | |
| 09/30/11 | 8.07 | 09/30/11 | 0.86 | 09/30/11 | 46.35 |
| 06/30/11 | 7.93 | 06/30/11 | 0.77 | 06/30/11 | 43.57 |
| 03/31/11 | 7.69 | 03/31/11 | 0.76 | 03/31/11 | 43.27 |

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**PIEDMONT NAT GAS INC** (NYSE) — ZACKS RANK: 5 - STRONG SELL

PNY 31.76 ▲0.29 (0.92%) Vol. 196,613 16:01 ET

Piedmont Natural Gas Co, Inc., is an energy and services company engaged in the transportation and sale of natural gas and the sale of propane to residential, commercial and industrial customers in North Carolina, South Carolina and Tennessee. The Company is the second-largest natural gas utility in the southeast. The Company and its non-utility subsidiaries and divisions are also engaged in acquiring, marketing and arranging for the transportation and storage of natural gas for large-volume purchasers, and in the sale of propane to customers in the Company's three-state service area.

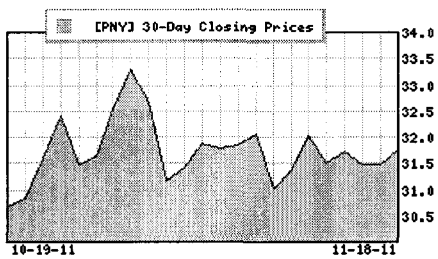
### General Information

PIEDMONT NAT GA
4720 PIEDMONT ROW DR
CHARLOTTE, NC 28233
Phone: 7043643120
Fax: 704-365-3849
Web: http://www.piedmontng.com
Email: investorrelations@piedmontng.com

| | |
|---|---|
| Industry | UTIL-GAS DISTR |
| Sector: | Utilities |
| Fiscal Year End | October |
| Last Completed Quarter | 07/31/11 |
| Next EPS Date | 12/22/2011 |

### Price and Volume Information

| | |
|---|---|
| Zacks Rank | |
| Yesterday's Close | 31.47 |
| 52 Week High | 33.60 |
| 52 Week Low | 25.86 |
| Beta | 0.32 |
| 20 Day Moving Average | 354,652.41 |
| Target Price Consensus | 30.17 |




| % Price Change | | % Price Change Relative to S&P 500 | |
|---|---|---|---|
| 4 Week | 3.05 | 4 Week | 3.03 |
| 12 Week | 6.94 | 12 Week | 1.98 |
| YTD | 13.59 | YTD | 13.99 |

| Share Information | | Dividend Information | |
|---|---|---|---|
| Shares Outstanding (millions) | 72.17 | Dividend Yield | 3.65% |
| | | Annual Dividend | $1.16 |
| Market Capitalization (millions) | 2,292.15 | Payout Ratio | 0.00 |
| Short Ratio | 9.39 | Change in Payout Ratio | 0.00 |
| Last Split Date | 11/01/2004 | Last Dividend Payout / Amount | 09/21/2011 / $0.29 |

| EPS Information | | Consensus Recommendations | |
|---|---|---|---|
| Current Quarter EPS Consensus Estimate | -0.13 | Current (1=Strong Buy, 5=Strong Sell) | 2.88 |
| Current Year EPS Consensus Estimate | 1.57 | 30 Days Ago | 2.88 |
| Estimated Long-Term EPS Growth Rate | 4.70 | 60 Days Ago | 2.88 |
| Next EPS Report Date | 12/22/2011 | 90 Days Ago | 2.86 |

### Fundamental Ratios

| P/E | | EPS Growth | | Sales Growth | |
|---|---|---|---|---|---|
| Current FY Estimate: | 19.21 | vs. Previous Year | 7.69% | vs. Previous Year | -6.77% |
| Trailing 12 Months: | 20.10 | vs. Previous Quarter | -118.18% | vs. Previous Quarter: | -49.75% |
| PEG Ratio | 4.12 | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **Price Ratios** | | **ROE** | | **ROA** | |
| Price/Book | 2.24 | 10/31/11 | - | 10/31/11 | - |
| Price/Cash Flow | 10.70 | 07/31/11 | 11.26 | 07/31/11 | 3.62 |
| Price / Sales | - | 04/30/11 | 11.28 | 04/30/11 | 3.66 |
| **Current Ratio** | | **Quick Ratio** | | **Operating Margin** | |
| 10/31/11 | - | 10/31/11 | - | 10/31/11 | - |
| 07/31/11 | 0.73 | 07/31/11 | 0.54 | 07/31/11 | 7.94 |
| 04/30/11 | 0.45 | 04/30/11 | 0.30 | 04/30/11 | 7.81 |
| **Net Margin** | | **Pre-Tax Margin** | | **Book Value** | |
| 10/31/11 | - | 10/31/11 | - | 10/31/11 | - |
| 07/31/11 | 12.87 | 07/31/11 | 12.87 | 07/31/11 | 14.20 |
| 04/30/11 | 12.69 | 04/30/11 | 12.69 | 04/30/11 | 14.59 |
| **Inventory Turnover** | | **Debt-to-Equity** | | **Debt to Capital** | |
| 10/31/11 | - | 10/31/11 | - | 10/31/11 | - |
| 07/31/11 | 11.25 | 07/31/11 | 0.66 | 07/31/11 | 39.77 |
| 04/30/11 | 11.17 | 04/30/11 | 0.45 | 04/30/11 | 31.21 |

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## SOUTH JERSEY INDS INC (NYSE)

**ZACKS RANK: 4 - SELL**

SJI 54.77 ▲0.20 (0.37%) Vol. 109,498 16:02 ET

South Jersey Inds Inc. is engaged in the business of operating, through subsidiaries, various business enterprises. The company's most significant subsidiary is South Jersey Gas Company (SJG). SJG is a public utility company engaged in the purchase, transmission and sale of natural gas for residential, commercial and industrial use. SJG also makes off-system sales of natural gas on a wholesale basis to various customers on the interstate pipeline system and transports natural gas.

### General Information

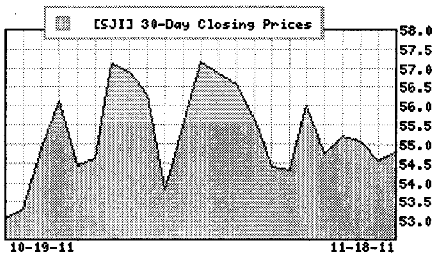
SOUTH JERSEY IN
1 SOUTH JERSEY PLAZA. ROUTE 54
FOLSOM, NJ 08037
Phone: 609-561-9000
Fax: 609-561-8225
Web: http://www.sjindustries.com
Email: None

| | |
|---|---|
| Industry | UTIL-GAS DISTR |
| Sector: | Utilities |

| | |
|---|---|
| Fiscal Year End | December |
| Last Completed Quarter | 09/30/11 |
| Next EPS Date | 03/05/2012 |

### Price and Volume Information

| | |
|---|---|
| Zacks Rank | |
| Yesterday's Close | 54.57 |
| 52 Week High | 58.03 |
| 52 Week Low | 42.85 |
| Beta | 0.37 |
| 20 Day Moving Average | 120,960.60 |
| Target Price Consensus | 60.25 |




| % Price Change | | % Price Change Relative to S&P 500 | |
|---|---|---|---|
| 4 Week | 2.72 | 4 Week | 2.70 |
| 12 Week | 11.46 | 12 Week | 6.29 |
| YTD | 3.69 | YTD | 5.52 |

| Share Information | | Dividend Information | |
|---|---|---|---|
| Shares Outstanding (millions) | 30.03 | Dividend Yield | 2.67% |
| | | Annual Dividend | $1.46 |
| Market Capitalization (millions) | 1,645.02 | Payout Ratio | 0.54 |
| Short Ratio | 10.41 | Change in Payout Ratio | 0.01 |
| Last Split Date | 07/01/2005 | Last Dividend Payout / Amount | 09/07/2011 / $0.37 |

| EPS Information | | Consensus Recommendations | |
|---|---|---|---|
| Current Quarter EPS Consensus Estimate | 1.06 | Current (1=Strong Buy, 5=Strong Sell) | 1.33 |
| Current Year EPS Consensus Estimate | 2.91 | 30 Days Ago | 1.29 |
| Estimated Long-Term EPS Growth Rate | 6.00 | 60 Days Ago | 1.29 |
| Next EPS Report Date | 03/05/2012 | 90 Days Ago | 1.40 |

### Fundamental Ratios

| P/E | | EPS Growth | | Sales Growth | |
|---|---|---|---|---|---|
| Current FY Estimate: | 18.83 | vs. Previous Year | -90.00% | vs. Previous Year | -14.34% |
| Trailing 12 Months: | 20.21 | vs. Previous Quarter | -95.00% | vs. Previous Quarter: | -14.24% |
| PEG Ratio | 3.14 | | | | |
| **Price Ratios** | | **ROE** | | **ROA** | |

| | | | | | |
|---|---|---|---|---|---|
| Price/Book | 2.76 | 09/30/11 | 13.66 | 09/30/11 | 3.95 |
| Price/Cash Flow | 13.02 | 06/30/11 | 14.33 | 06/30/11 | 4.15 |
| Price / Sales | 1.80 | 03/31/11 | 14.89 | 03/31/11 | 4.34 |
| **Current Ratio** | | **Quick Ratio** | | **Operating Margin** | |
| 09/30/11 | 0.65 | 09/30/11 | 0.50 | 09/30/11 | 8.91 |
| 06/30/11 | 0.76 | 06/30/11 | 0.64 | 06/30/11 | 8.96 |
| 03/31/11 | 0.76 | 03/31/11 | 0.70 | 03/31/11 | 9.19 |
| **Net Margin** | | **Pre-Tax Margin** | | **Book Value** | |
| 09/30/11 | 12.28 | 09/30/11 | 12.28 | 09/30/11 | 19.83 |
| 06/30/11 | 12.59 | 06/30/11 | 12.59 | 06/30/11 | 20.24 |
| 03/31/11 | 12.73 | 03/31/11 | 12.73 | 03/31/11 | 20.42 |
| **Inventory Turnover** | | **Debt-to-Equity** | | **Debt to Capital** | |
| 09/30/11 | 12.75 | 09/30/11 | 0.71 | 09/30/11 | 41.60 |
| 06/30/11 | 11.60 | 06/30/11 | 0.70 | 06/30/11 | 41.29 |
| 03/31/11 | 10.02 | 03/31/11 | 0.66 | 03/31/11 | 39.68 |

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| **SOUTHWEST GAS CORP** (NYSE) | | | | | | **ZACKS RANK: 3 - HOLD** |
|---|---|---|---|---|---|---|
| SWX | 39.03 | ▲0.21 | (0.54%) | Vol. 134,125 | 16:02 ET | |

SOUTHWEST GAS CORP. is principally engaged in the business of purchasing,transporting, and distributing natural gas in portions of Arizona, Nevada,and California. The Company also engaged in financial services activities,through PriMerit Bank, Federal Savings Bank (PriMerit or the Bank), a wholly owned subsidiary.

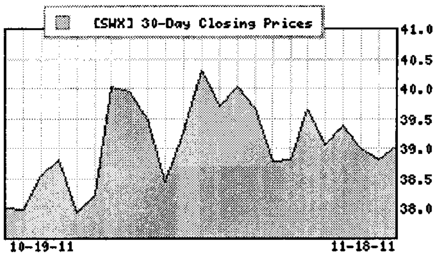
## General Information

SOUTHWEST GAS
5241 SPRING MOUNTAIN . PO BOX 98510RD
LAS VEGAS, NV 89193-8510
Phone: 7028767237
Fax: 702-876-7037
Web: http://www.swgas.com
Email: None

| | |
|---|---|
| Industry | UTIL-GAS DISTR |
| Sector: | Utilities |
| Fiscal Year End | December |
| Last Completed Quarter | 09/30/11 |
| Next EPS Date | 03/05/2012 |

## Price and Volume Information

| | |
|---|---|
| Zacks Rank | |
| Yesterday's Close | 38.82 |
| 52 Week High | 40.59 |
| 52 Week Low | 32.12 |
| Beta | 0.73 |
| 20 Day Moving Average | 237,258.45 |
| Target Price Consensus | 36.5 |




| % Price Change | | % Price Change Relative to S&P 500 | |
|---|---|---|---|
| 4 Week | 2.76 | 4 Week | 2.74 |
| 12 Week | 10.72 | 12 Week | 5.59 |
| YTD | 6.44 | YTD | 7.60 |

| Share Information | | Dividend Information | |
|---|---|---|---|
| Shares Outstanding (millions) | 45.88 | Dividend Yield | 2.72% |
| | | Annual Dividend | $1.06 |
| Market Capitalization (millions) | 1,790.66 | Payout Ratio | 0.46 |
| Short Ratio | 5.01 | Change in Payout Ratio | 0.00 |
| Last Split Date | N/A | Last Dividend Payout / Amount | 11/10/2011 / $0.26 |

| EPS Information | | Consensus Recommendations | |
|---|---|---|---|
| Current Quarter EPS Consensus Estimate | 0.91 | Current (1=Strong Buy, 5=Strong Sell) | 2.86 |
| Current Year EPS Consensus Estimate | 2.24 | 30 Days Ago | 2.86 |
| Estimated Long-Term EPS Growth Rate | 5.30 | 60 Days Ago | 2.86 |
| Next EPS Report Date | 03/05/2012 | 90 Days Ago | 3.14 |

## Fundamental Ratios

| P/E | | EPS Growth | | Sales Growth | |
|---|---|---|---|---|---|
| Current FY Estimate: | 17.41 | vs. Previous Year | -281.82% | vs. Previous Year | 14.60% |
| Trailing 12 Months: | 17.04 | vs. Previous Quarter | -766.67% | vs. Previous Quarter: | -9.24% |
| PEG Ratio | 3.32 | | | | |
| **Price Ratios** | | **ROE** | | **ROA** | |
| Price/Book | 1.51 | 09/30/11 | 8.82 | 09/30/11 | 2.69 |

| | | | | | |
|---|---|---|---|---|---|
| Price/Cash Flow | 6.72 | 06/30/11 | 10.11 | 06/30/11 | 3.07 |
| Price / Sales | 0.97 | 03/31/11 | 10.09 | 03/31/11 | 3.04 |
| **Current Ratio** | | **Quick Ratio** | | **Operating Margin** | |
| 09/30/11 | 0.42 | 09/30/11 | 0.42 | 09/30/11 | 5.77 |
| 06/30/11 | 0.52 | 06/30/11 | 0.52 | 06/30/11 | 6.68 |
| 03/31/11 | 0.82 | 03/31/11 | 0.82 | 03/31/11 | 6.56 |
| **Net Margin** | | **Pre-Tax Margin** | | **Book Value** | |
| 09/30/11 | 8.62 | 09/30/11 | 8.62 | 09/30/11 | 25.88 |
| 06/30/11 | 9.49 | 06/30/11 | 9.49 | 06/30/11 | 26.66 |
| 03/31/11 | 9.24 | 03/31/11 | 9.24 | 03/31/11 | 26.87 |
| **Inventory Turnover** | | **Debt-to-Equity** | | **Debt to Capital** | |
| 09/30/11 | - | 09/30/11 | 0.79 | 09/30/11 | 44.10 |
| 06/30/11 | - | 06/30/11 | 0.77 | 06/30/11 | 43.51 |
| 03/31/11 | - | 03/31/11 | 0.91 | 03/31/11 | 47.70 |

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

## WGL HLDGS INC (NYSE)

ZACKS RANK: 4 - SELL

WGL 42.02 ▲0.05 (0.12%) Vol. 343,265 16:02 ET

WASHINGTON GAS LIGHT CO is a public utility that delivers and sells natural gas to metropolitan Washington, D.C. and adjoining areas in Maryland and Virginia. A distribution subsidiary serves portions of Virginia and West Virginia. The Company has four wholly-owned active subsidiaries that include: Shenandoah Gas Company (Shenandoah) is engaged in the delivery and sale of natural gas at retail in the Shenandoah Valley, including Winchester, Middletown, Strasburg, Stephens City and New Market, Virginia, and Martinsburg, West Virginia.

### General Information

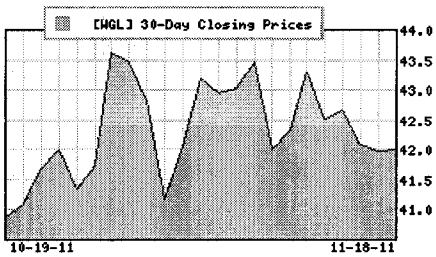
WGL HLDGS INC
101 CONSTITUTION AVE N.W.
WASHINGTON, DC 20080
Phone: 2026246011
Fax: 703-750-4828
Web: http://www.wglholdings.com
Email: robertdennis@washgas.com

| | |
|---|---|
| Industry | UTIL-GAS DISTR |
| Sector: | Utilities |

| | |
|---|---|
| Fiscal Year End | September |
| Last Completed Quarter | 09/30/11 |
| Next EPS Date | 11/18/2011 |

### Price and Volume Information

| | |
|---|---|
| Zacks Rank | |
| Yesterday's Close | 41.97 |
| 52 Week High | 43.88 |
| 52 Week Low | 34.69 |
| Beta | 0.29 |
| 20 Day Moving Average | 282,617.31 |
| Target Price Consensus | 39.67 |




| % Price Change | | % Price Change Relative to S&P 500 | |
|---|---|---|---|
| 4 Week | 2.29 | 4 Week | 2.27 |
| 12 Week | 6.03 | 12 Week | 1.11 |
| YTD | 17.47 | YTD | 20.48 |

| Share Information | | Dividend Information | |
|---|---|---|---|
| Shares Outstanding (millions) | 51.30 | Dividend Yield | 3.69% |
| | | Annual Dividend | $1.55 |
| Market Capitalization (millions) | 2,155.67 | Payout Ratio | 0.00 |
| Short Ratio | 7.57 | Change in Payout Ratio | 0.00 |
| Last Split Date | 05/02/1995 | Last Dividend Payout / Amount | 10/05/2011 / $0.39 |

| EPS Information | | Consensus Recommendations | |
|---|---|---|---|
| Current Quarter EPS Consensus Estimate | -0.34 | Current (1=Strong Buy, 5=Strong Sell) | 2.44 |
| Current Year EPS Consensus Estimate | 2.16 | 30 Days Ago | 2.38 |
| Estimated Long-Term EPS Growth Rate | 5.20 | 60 Days Ago | 2.38 |
| Next EPS Report Date | 11/18/2011 | 90 Days Ago | 2.43 |

### Fundamental Ratios

| P/E | | EPS Growth | | Sales Growth | |
|---|---|---|---|---|---|
| Current FY Estimate: | 17.17 | vs. Previous Year | 57.14% | vs. Previous Year | 6.66% |
| Trailing 12 Months: | 18.84 | vs. Previous Quarter | -101.96% | vs. Previous Quarter: | -51.80% |
| PEG Ratio | 3.32 | | | | |

| Price Ratios | ROE | ROA |
|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Price/Book | 1.72 | 09/30/11 | - | 09/30/11 | - |
| Price/Cash Flow | 10.01 | 06/30/11 | 9.39 | 06/30/11 | 2.98 |
| Price / Sales | - | 03/31/11 | 9.35 | 03/31/11 | 3.01 |
| **Current Ratio** | | **Quick Ratio** | | **Operating Margin** | |
| 09/30/11 | - | 09/30/11 | - | 09/30/11 | - |
| 06/30/11 | 1.43 | 06/30/11 | 1.03 | 06/30/11 | 4.13 |
| 03/31/11 | 1.51 | 03/31/11 | 1.33 | 03/31/11 | 4.11 |
| **Net Margin** | | **Pre-Tax Margin** | | **Book Value** | |
| 09/30/11 | - | 09/30/11 | - | 09/30/11 | - |
| 06/30/11 | 7.39 | 06/30/11 | 7.39 | 06/30/11 | 24.44 |
| 03/31/11 | 7.91 | 03/31/11 | 7.91 | 03/31/11 | 24.73 |
| **Inventory Turnover** | | **Debt-to-Equity** | | **Debt to Capital** | |
| 09/30/11 | - | 09/30/11 | - | 09/30/11 | - |
| 06/30/11 | 10.89 | 06/30/11 | 0.47 | 06/30/11 | 31.44 |
| 03/31/11 | 11.39 | 03/31/11 | 0.49 | 03/31/11 | 32.24 |

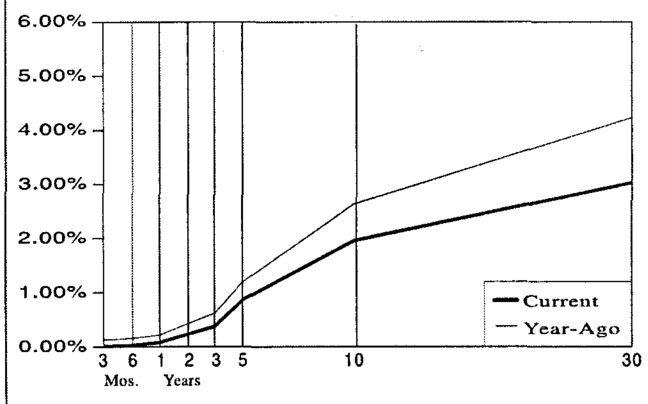
# ATTACHMENT D

# Selected Yields

| | Recent (11/09/11) | 3 Months Ago (8/10/11) | Year Ago (11/10/10) |
|---|---|---|---|
| **TAXABLE** | | | |
| **Market Rates** | | | |
| Discount Rate | 0.75 | 0.75 | 0.75 |
| 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) | 0.49 | 0.31 | 0.22 |
| 3-month LIBOR | 0.45 | 0.28 | 0.29 |
| **Bank CDs** | | | |
| 6-month | 0.17 | 0.26 | 0.32 |
| 1-year | 0.21 | 0.43 | 0.52 |
| 5-year | 1.14 | 1.54 | 1.55 |
| **U.S. Treasury Securities** | | | |
| 3-month | 0.01 | 0.01 | 0.13 |
| 6-month | 0.03 | 0.06 | 0.16 |
| 1-year | 0.08 | 0.09 | 0.22 |
| 5-year | 0.87 | 0.92 | 1.20 |
| 10-year | 1.96 | 2.11 | 2.63 |
| 10-year (inflation-protected) | -0.05 | -0.24 | 0.48 |
| 30-year | 3.03 | 3.52 | 4.23 |
| 30-year Zero | 3.25 | 3.91 | 4.69 |

| | Recent (11/09/11) | 3 Months Ago (8/10/11) | Year Ago (11/10/10) |
|---|---|---|---|
| **Mortgage-Backed Securities** | | | |
| GNMA 5.5% | 1.37 | 1.22 | 1.19 |
| FHLMC 5.5% (Gold) | 2.35 | 1.84 | 1.72 |
| FNMA 5.5% | 2.03 | 1.74 | 1.67 |
| FNMA ARM | 2.43 | 2.49 | 2.81 |
| **Corporate Bonds** | | | |
| Financial (10-year) A | 4.09 | 3.73 | 3.96 |
| Industrial (25/30-year) A | 4.23 | 4.66 | 5.28 |
| Utility (25/30-year) A | 4.14 | 4.59 | 5.49 |
| Utility (25/30-year) Baa/BBB | 4.83 | 5.23 | 5.88 |
| **Foreign Bonds (10-Year)** | | | |
| Canada | 2.09 | 2.33 | 2.97 |
| Germany | 1.72 | 2.19 | 2.44 |
| Japan | 0.98 | 1.04 | 1.00 |
| United Kingdom | 2.18 | 2.48 | 3.16 |
| **Preferred Stocks** | | | |
| Utility A | 5.82 | 5.83 | 5.79 |
| Financial A | 5.70 | 6.95 | 6.06 |
| Financial Adjustable A | 5.51 | 5.51 | 5.51 |
| **TAX-EXEMPT** | | | |
| **Bond Buyer Indexes** | | | |
| 20-Bond Index (GOs) | 4.02 | 4.19 | 4.02 |
| 25-Bond Index (Revs) | 5.05 | 5.21 | 4.71 |
| **General Obligation Bonds (GOs)** | | | |
| 1-year Aaa | 0.25 | 0.18 | 0.35 |
| 1-year A | 1.06 | 0.98 | 1.19 |
| 5-year Aaa | 1.27 | 1.06 | 1.26 |
| 5-year A | 2.33 | 2.03 | 2.33 |
| 10-year Aaa | 2.51 | 2.55 | 2.71 |
| 10-year A | 3.52 | 4.06 | 3.91 |
| 25/30-year Aaa | 4.01 | 4.05 | 4.25 |
| 25/30-year A | 5.35 | 5.68 | 5.44 |
| **Revenue Bonds (Revs) (25/30-Year)** | | | |
| Education AA | 4.56 | 4.70 | 4.66 |
| Electric AA | 4.90 | 5.07 | 4.68 |
| Housing AA | 5.58 | 5.71 | 5.51 |
| Hospital AA | 4.92 | 5.04 | 4.86 |
| Toll Road Aaa | 4.55 | 4.77 | 4.66 |

**Treasury Security Yield Curve**




# Federal Reserve Data

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

| | Recent Levels | | | Average Levels Over the Last... | | |
|---|---|---|---|---|---|---|
| | **11/2/11** | **10/19/11** | **Change** | **12 Wks.** | **26 Wks.** | **52 Wks.** |
| Excess Reserves | 1515871 | 1571895 | -56024 | 1560866 | 1559243 | 1358832 |
| Borrowed Reserves | 10995 | 11317 | -322 | 11545 | 12775 | 22311 |
| Net Free/Borrowed Reserves | 1504876 | 1560578 | -55702 | 1549321 | 1546469 | 1336522 |

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

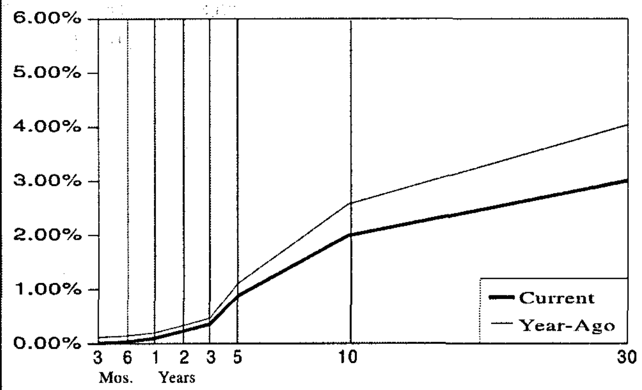
| | Recent Levels | | | Ann'l Growth Rates Over the Last... | | |
|---|---|---|---|---|---|---|
| | **10/24/11** | **10/17/11** | **Change** | **3 Mos.** | **6 Mos.** | **12 Mos.** |
| M1 (Currency+demand deposits) | 2125.4 | 2150.7 | -25.3 | 28.4% | 23.4% | 18.9% |
| M2 (M1+savings+small time deposits) | 9592.4 | 9628.3 | -35.9 | 13.1% | 14.2% | 9.6% |

# Selected Yields

| | Recent (11/02/11) | 3 Months Ago (8/03/11) | Year Ago (11/03/10) |
|---|---|---|---|
| **TAXABLE** | | | |
| **Market Rates** | | | |
| Discount Rate | 0.75 | 0.75 | 0.75 |
| 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) | 0.51 | 0.28 | 0.23 |
| 3-month LIBOR | 0.43 | 0.27 | 0.29 |
| **Bank CDs** | | | |
| 6-month | 0.17 | 0.26 | 0.32 |
| 1-year | 0.21 | 0.44 | 0.53 |
| 5-year | 1.14 | 1.62 | 1.57 |
| **U.S. Treasury Securities** | | | |
| 3-month | 0.01 | 0.01 | 0.12 |
| 6-month | 0.04 | 0.08 | 0.15 |
| 1-year | 0.10 | 0.14 | 0.20 |
| 5-year | 0.88 | 1.26 | 1.11 |
| 10-year | 1.99 | 2.62 | 2.57 |
| 10-year (inflation-protected) | -0.10 | 0.28 | 0.42 |
| 30-year | 3.01 | 3.90 | 4.04 |
| 30-year Zero | 3.22 | 4.27 | 4.43 |

| | Recent (11/02/11) | 3 Months Ago (8/03/11) | Year Ago (11/03/10) |
|---|---|---|---|
| **Mortgage-Backed Securities** | | | |
| GNMA 5.5% | 1.62 | 1.82 | 1.23 |
| FHLMC 5.5% (Gold) | 2.34 | 2.43 | 1.51 |
| FNMA 5.5% | 2.10 | 2.36 | 1.27 |
| FNMA ARM | 2.43 | 2.49 | 2.81 |
| **Corporate Bonds** | | | |
| Financial (10-year) A | 4.15 | 4.09 | 3.99 |
| Industrial (25/30-year) A | 4.18 | 4.93 | 5.28 |
| Utility (25/30-year) A | 4.12 | 4.87 | 5.35 |
| Utility (25/30-year) Baa/BBB | 4.76 | 5.43 | 5.79 |
| **Foreign Bonds (10-Year)** | | | |
| Canada | 2.17 | 2.67 | 2.87 |
| Germany | 1.83 | 2.40 | 2.42 |
| Japan | 1.00 | 1.02 | 0.95 |
| United Kingdom | 2.29 | 2.74 | 3.15 |
| **Preferred Stocks** | | | |
| Utility A | 5.82 | 6.05 | 5.77 |
| Financial A | 6.57 | 6.33 | 6.48 |
| Financial Adjustable A | 5.50 | 5.50 | 5.50 |
| **TAX-EXEMPT** | | | |
| **Bond Buyer Indexes** | | | |
| 20-Bond Index (GOs) | 4.12 | 4.47 | 3.96 |
| 25-Bond Index (Revs) | 5.10 | 5.62 | 4.67 |
| **General Obligation Bonds (GOs)** | | | |
| 1-year Aaa | 0.24 | 0.21 | 0.32 |
| 1-year A | 1.05 | 0.96 | 1.13 |
| 5-year Aaa | 1.28 | 1.20 | 1.31 |
| 5-year A | 2.35 | 2.18 | 2.26 |
| 10-year Aaa | 2.57 | 2.87 | 2.71 |
| 10-year A | 3.56 | 4.18 | 3.86 |
| 25/30-year Aaa | 4.03 | 4.28 | 4.23 |
| 25/30-year A | 5.37 | 5.77 | 5.41 |
| **Revenue Bonds (Revs) (25/30-Year)** | | | |
| Education AA | 4.55 | 4.83 | 4.63 |
| Electric AA | 4.90 | 5.16 | 4.65 |
| Housing AA | 5.59 | 5.80 | 5.50 |
| Hospital AA | 4.94 | 5.08 | 4.84 |
| Toll Road Aaa | 4.55 | 4.90 | 4.64 |

**Treasury Security Yield Curve**




# Federal Reserve Data

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

| | Recent Levels | | | Average Levels Over the Last... | | |
|---|---|---|---|---|---|---|
| | 10/19/11 | 10/5/11 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1571895 | 1541640 | 30255 | 1573995 | 1556283 | 1339026 |
| Borrowed Reserves | 11317 | 11429 | -112 | 11732 | 13270 | 23713 |
| Net Free/Borrowed Reserves | 1560578 | 1530211 | 30367 | 1562263 | 1543014 | 1315313 |

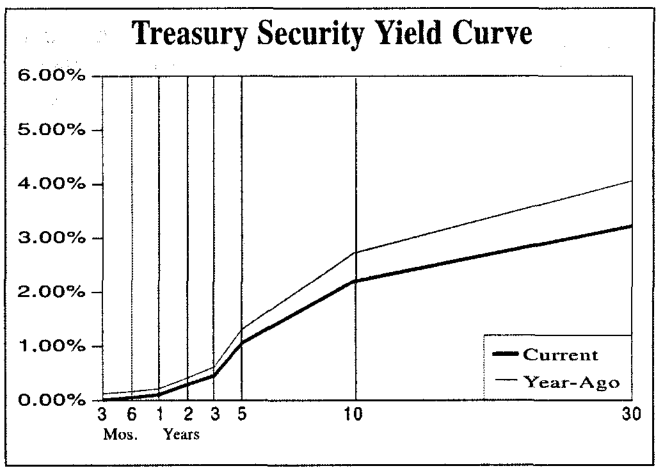
**MONEY SUPPLY**
*(One-Week Period; in Billions, Seasonally Adjusted)*

| | Recent Levels | | | Ann'l Growth Rates Over the Last... | | |
|---|---|---|---|---|---|---|
| | 10/17/11 | 10/10/11 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 2150.9 | 2157.9 | -7.0 | 40.8% | 30.1% | 21.0% |
| M2 (M1+savings+small time deposits) | 9628.7 | 9622.4 | 6.3 | 16.0% | 15.7% | 10.2% |

# Selected Yields

| | Recent (10/26/11) | 3 Months Ago (7/27/11) | Year Ago (10/27/10) |
|---|---|---|---|
| **TAXABLE** | | | |
| **Market Rates** | | | |
| Discount Rate | 0.75 | 0.75 | 0.75 |
| 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) | 0.49 | 0.22 | 0.23 |
| 3-month LIBOR | 0.42 | 0.25 | 0.29 |
| **Bank CDs** | | | |
| 6-month | 0.17 | 0.26 | 0.32 |
| 1-year | 0.21 | 0.44 | 0.54 |
| 5-year | 1.14 | 1.62 | 1.61 |
| **U.S. Treasury Securities** | | | |
| 3-month | 0.01 | 0.08 | 0.13 |
| 6-month | 0.06 | 0.12 | 0.17 |
| 1-year | 0.11 | 0.20 | 0.22 |
| 5-year | 1.06 | 1.52 | 1.31 |
| 10-year | 2.20 | 2.98 | 2.72 |
| 10-year (inflation-protected) | 0.12 | 0.46 | 0.56 |
| 30-year | 3.22 | 4.29 | 4.06 |
| 30-year Zero | 3.43 | 4.69 | 4.40 |

| | Recent (10/26/11) | 3 Months Ago (7/27/11) | Year Ago (10/27/10) |
|---|---|---|---|
| **Mortgage-Backed Securities** | | | |
| GNMA 5.5% | 1.76 | 2.04 | 1.22 |
| FHLMC 5.5% (Gold) | 2.39 | 2.68 | 1.69 |
| FNMA 5.5% | 2.19 | 2.58 | 1.53 |
| FNMA ARM | 2.47 | 2.51 | 2.86 |
| **Corporate Bonds** | | | |
| Financial (10-year) A | 4.41 | 4.42 | 4.22 |
| Industrial (25/30-year) A | 4.49 | 5.30 | 5.28 |
| Utility (25/30-year) A | 4.41 | 5.28 | 5.31 |
| Utility (25/30-year) Baa/BBB | 5.05 | 5.82 | 5.86 |
| **Foreign Bonds (10-Year)** | | | |
| Canada | 2.38 | 2.88 | 2.89 |
| Germany | 2.04 | 2.65 | 2.57 |
| Japan | 1.00 | 1.09 | 0.96 |
| United Kingdom | 2.47 | 2.98 | 3.15 |
| **Preferred Stocks** | | | |
| Utility A | 5.21 | 5.14 | 5.79 |
| Financial A | 6.49 | 6.07 | 6.05 |
| Financial Adjustable A | 5.50 | 5.50 | 5.50 |
| **TAX-EXEMPT** | | | |
| **Bond Buyer Indexes** | | | |
| 20-Bond Index (GOs) | 4.08 | 4.46 | 3.84 |
| 25-Bond Index (Revs) | 5.07 | 5.32 | 4.60 |
| **General Obligation Bonds (GOs)** | | | |
| 1-year Aaa | 0.29 | 0.21 | 0.34 |
| 1-year A | 1.00 | 1.01 | 1.13 |
| 5-year Aaa | 1.41 | 1.27 | 1.28 |
| 5-year A | 2.42 | 2.27 | 2.24 |
| 10-year Aaa | 2.69 | 2.92 | 2.64 |
| 10-year A | 3.60 | 4.23 | 3.77 |
| 25/30-year Aaa | 4.10 | 4.34 | 4.21 |
| 25/30-year A | 5.42 | 5.83 | 5.41 |
| **Revenue Bonds (Revs) (25/30-Year)** | | | |
| Education AA | 4.56 | 4.87 | 4.63 |
| Electric AA | 4.94 | 5.19 | 4.65 |
| Housing AA | 5.66 | 5.84 | 5.52 |
| Hospital AA | 4.97 | 5.12 | 4.80 |
| Toll Road Aaa | 4.57 | 4.92 | 4.62 |




# Federal Reserve Data

**BANK RESERVES**

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

| | Recent Levels | | | Average Levels Over the Last... | | |
|---|---|---|---|---|---|---|
| | **10/19/11** | **10/5/11** | **Change** | **12 Wks.** | **26 Wks.** | **52 Wks.** |
| Excess Reserves | 1572296 | 1541887 | 30409 | 1574153 | 1556363 | 1339067 |
| Borrowed Reserves | 11317 | 11429 | -112 | 11732 | 13270 | 23713 |
| Net Free/Borrowed Reserves | 1560979 | 1530458 | 30521 | 1562421 | 1543093 | 1315354 |

**MONEY SUPPLY**

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

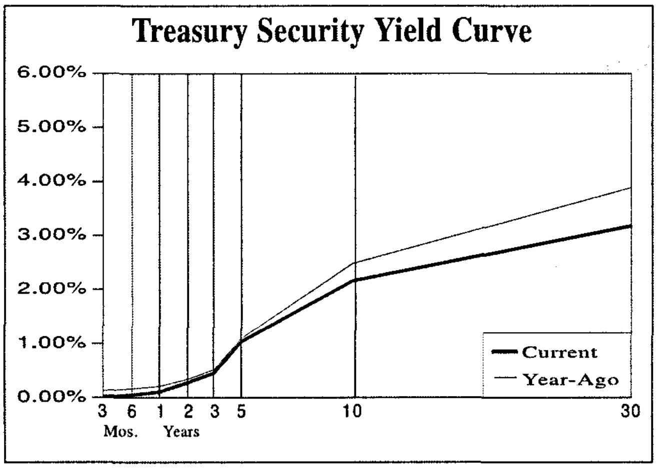
| | Recent Levels | | | Ann'l Growth Rates Over the Last... | | |
|---|---|---|---|---|---|---|
| | **10/10/11** | **10/3/11** | **Change** | **3 Mos.** | **6 Mos.** | **12 Mos.** |
| M1 (Currency+demand deposits) | 2152.4 | 2192.5 | -40.1 | 41.1% | 30.9% | 20.1% |
| M2 (M1+savings+small time deposits) | 9621.4 | 9604.8 | 16.6 | 17.3% | 15.8% | 10.2% |

# Selected Yields

**TAXABLE**

| | Recent (10/19/11) | 3 Months Ago (7/20/11) | Year Ago (10/20/10) |
|---|---|---|---|
| **Market Rates** | | | |
| Discount Rate | 0.75 | 0.75 | 0.75 |
| 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) | 0.44 | 0.21 | 0.23 |
| 3-month LIBOR | 0.41 | 0.25 | 0.29 |
| **Bank CDs** | | | |
| 6-month | 0.17 | 0.26 | 0.32 |
| 1-year | 0.21 | 0.45 | 0.54 |
| 5-year | 1.14 | 1.62 | 1.61 |
| **U.S. Treasury Securities** | | | |
| 3-month | 0.02 | 0.02 | 0.13 |
| 6-month | 0.05 | 0.07 | 0.17 |
| 1-year | 0.11 | 0.16 | 0.21 |
| 5-year | 1.04 | 1.47 | 1.10 |
| 10-year | 2.16 | 2.93 | 2.48 |
| 10-year (inflation-protected) | 0.20 | 0.54 | 0.42 |
| 30-year | 3.18 | 4.25 | 3.89 |
| 30-year Zero | 3.38 | 4.65 | 4.25 |

| | Recent (10/19/11) | 3 Months Ago (7/20/11) | Year Ago (10/20/10) |
|---|---|---|---|
| **Mortgage-Backed Securities** | | | |
| GNMA 5.5% | 1.84 | 2.06 | 1.29 |
| FHLMC 5.5% (Gold) | 2.36 | 2.64 | 1.68 |
| FNMA 5.5% | 2.17 | 2.55 | 1.52 |
| FNMA ARM | 2.47 | 2.51 | 2.86 |
| **Corporate Bonds** | | | |
| Financial (10-year) A | 4.33 | 4.45 | 4.09 |
| Industrial (25/30-year) A | 4.53 | 5.32 | 5.14 |
| Utility (25/30-year) A | 4.40 | 5.27 | 5.22 |
| Utility (25/30-year) Baa/BBB | 4.92 | 5.78 | 5.72 |
| **Foreign Bonds (10-Year)** | | | |
| Canada | 2.33 | 2.95 | 2.75 |
| Germany | 2.06 | 2.77 | 2.44 |
| Japan | 1.02 | 1.09 | 0.90 |
| United Kingdom | 2.47 | 3.07 | 2.99 |
| **Preferred Stocks** | | | |
| Utility A | 5.25 | 5.12 | 5.79 |
| Financial A | 6.69 | 6.07 | 6.59 |
| Financial Adjustable A | 5.49 | 5.49 | 5.49 |




**TAX-EXEMPT**

| | Recent (10/19/11) | 3 Months Ago (7/20/11) | Year Ago (10/20/10) |
|---|---|---|---|
| **Bond Buyer Indexes** | | | |
| 20-Bond Index (GOs) | 4.17 | 4.51 | 3.82 |
| 25-Bond Index (Revs) | 5.06 | 5.30 | 4.57 |
| **General Obligation Bonds (GOs)** | | | |
| 1-year Aaa | 0.25 | 0.20 | 0.33 |
| 1-year A | 1.08 | 1.04 | 1.11 |
| 5-year Aaa | 1.39 | 1.27 | 1.25 |
| 5-year A | 2.40 | 2.34 | 2.22 |
| 10-year Aaa | 2.69 | 2.91 | 2.56 |
| 10-year A | 3.67 | 4.24 | 3.66 |
| 25/30-year Aaa | 4.09 | 4.34 | 4.17 |
| 25/30-year A | 5.45 | 5.85 | 5.41 |
| **Revenue Bonds (Revs) (25/30-Year)** | | | |
| Education AA | 4.56 | 4.87 | 4.63 |
| Electric AA | 4.94 | 5.19 | 4.65 |
| Housing AA | 5.64 | 5.80 | 5.53 |
| Hospital AA | 4.97 | 5.12 | 4.82 |
| Toll Road Aaa | 4.57 | 4.92 | 4.62 |

# Federal Reserve Data

## BANK RESERVES

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

| | Recent Levels | | | Average Levels Over the Last... | | |
|---|---|---|---|---|---|---|
| | 10/5/11 | 9/21/11 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1541886 | 1548766 | -6880 | 1583023 | 1546301 | 1316519 |
| Borrowed Reserves | 11429 | 11614 | -185 | 11920 | 13833 | 25141 |
| Net Free/Borrowed Reserves | 1530457 | 1537152 | -6695 | 1571103 | 1532469 | 1291378 |

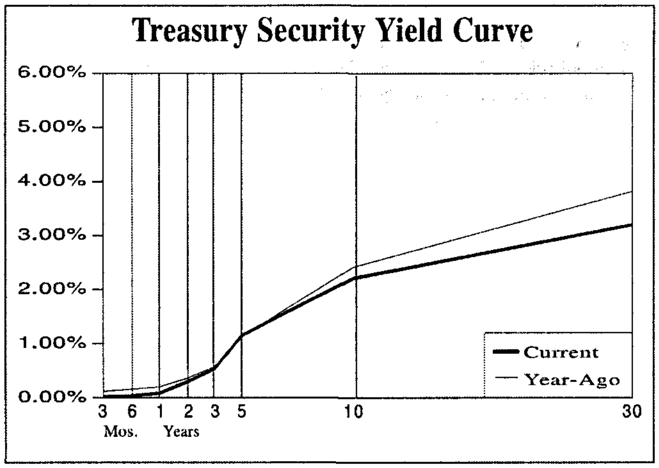
## MONEY SUPPLY

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

| | Recent Levels | | | Ann'l Growth Rates Over the Last... | | |
|---|---|---|---|---|---|---|
| | 10/3/11 | 9/26/11 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 2182.8 | 2134.4 | 48.4 | 43.1% | 31.8% | 22.6% |
| M2 (M1+savings+small time deposits) | 9617.9 | 9601.7 | 16.2 | 16.8% | 15.8% | 10.3% |

# Selected Yields

| | Recent (10/12/11) | 3 Months Ago (7/13/11) | Year Ago (10/13/10) |
|---|---|---|---|
| **TAXABLE** | | | |
| **Market Rates** | | | |
| Discount Rate | 0.75 | 0.75 | 0.75 |
| 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) | 0.38 | 0.23 | 0.24 |
| 3-month LIBOR | 0.40 | 0.25 | 0.29 |
| **Bank CDs** | | | |
| 6-month | 0.17 | 0.26 | 0.32 |
| 1-year | 0.21 | 0.44 | 0.56 |
| 5-year | 1.14 | 1.61 | 1.66 |
| **U.S. Treasury Securities** | | | |
| 3-month | 0.02 | 0.03 | 0.12 |
| 6-month | 0.04 | 0.05 | 0.16 |
| 1-year | 0.08 | 0.15 | 0.20 |
| 5-year | 1.15 | 1.44 | 1.12 |
| 10-year | 2.21 | 2.88 | 2.42 |
| 10-year (inflation-protected) | 0.23 | 0.52 | 0.36 |
| 30-year | 3.20 | 4.17 | 3.82 |
| 30-year Zero | 3.39 | 4.55 | 4.16 |




| | Recent (10/12/11) | 3 Months Ago (7/13/11) | Year Ago (10/13/10) |
|---|---|---|---|
| **Mortgage-Backed Securities** | | | |
| GNMA 5.5% | 1.89 | 2.11 | 1.27 |
| FHLMC 5.5% (Gold) | 2.32 | 2.66 | 1.74 |
| FNMA 5.5% | 2.17 | 2.56 | 1.58 |
| FNMA ARM | 2.47 | 2.51 | 2.86 |
| **Corporate Bonds** | | | |
| Financial (10-year) A | 4.37 | 4.37 | 3.96 |
| Industrial (25/30-year) A | 4.59 | 5.26 | 5.01 |
| Utility (25/30-year) A | 4.53 | 5.20 | 5.02 |
| Utility (25/30-year) Baa/BBB | 4.99 | 5.75 | 5.56 |
| **Foreign Bonds (10-Year)** | | | |
| Canada | 2.35 | 2.93 | 2.73 |
| Germany | 2.19 | 2.75 | 2.28 |
| Japan | 1.00 | 1.11 | 0.88 |
| United Kingdom | 2.64 | 3.12 | 2.88 |
| **Preferred Stocks** | | | |
| Utility A | 5.57 | 5.22 | 5.76 |
| Financial A | 6.81 | 6.03 | 6.38 |
| Financial Adjustable A | 5.49 | 5.49 | 5.49 |
| **TAX-EXEMPT** | | | |
| **Bond Buyer Indexes** | | | |
| 20-Bond Index (GOs) | 4.14 | 4.65 | 3.84 |
| 25-Bond Index (Revs) | 5.04 | 5.36 | 4.58 |
| **General Obligation Bonds (GOs)** | | | |
| 1-year Aaa | 0.26 | 0.20 | 0.34 |
| 1-year A | 1.11 | 1.04 | 1.14 |
| 5-year Aaa | 1.41 | 1.32 | 1.28 |
| 5-year A | 2.43 | 2.40 | 2.22 |
| 10-year Aaa | 2.63 | 2.90 | 2.58 |
| 10-year A | 3.75 | 4.20 | 3.71 |
| 25/30-year Aaa | 4.12 | 4.34 | 4.15 |
| 25/30-year A | 5.50 | 5.85 | 5.40 |
| **Revenue Bonds (Revs) (25/30-Year)** | | | |
| Education AA | 4.59 | 4.87 | 4.61 |
| Electric AA | 4.97 | 5.19 | 4.63 |
| Housing AA | 5.63 | 5.84 | 5.50 |
| Hospital AA | 5.00 | 5.13 | 4.81 |
| Toll Road Aaa | 4.60 | 4.93 | 4.60 |

# Federal Reserve Data

**BANK RESERVES**

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

| | Recent Levels | | | Average Levels Over the Last... | | |
|---|---|---|---|---|---|---|
| | **10/5/11** | **9/21/11** | **Change** | **12 Wks.** | **26 Wks.** | **52 Wks.** |
| Excess Reserves | 1541919 | 1548799 | -6880 | 1583036 | 1546308 | 1316523 |
| Borrowed Reserves | 11429 | 11614 | -185 | 11920 | 13833 | 25141 |
| Net Free/Borrowed Reserves | 1530490 | 1537185 | -6695 | 1571116 | 1532476 | 1291381 |

**MONEY SUPPLY**

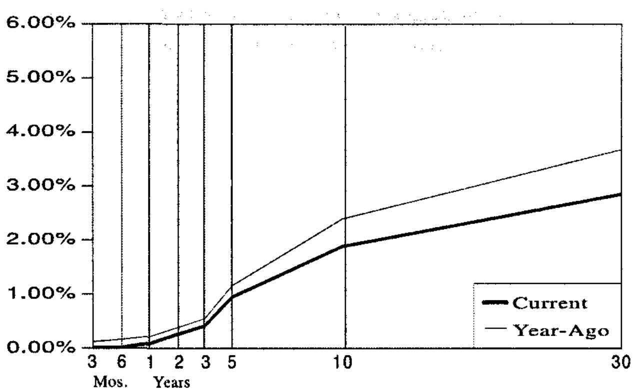
*(One-Week Period; in Billions, Seasonally Adjusted)*

| | Recent Levels | | | Ann'l Growth Rates Over the Last... | | |
|---|---|---|---|---|---|---|
| | **9/26/11** | **9/19/11** | **Change** | **3 Mos.** | **6 Mos.** | **12 Mos.** |
| M1 (Currency+demand deposits) | 2136.9 | 2105.7 | 31.2 | 44.4% | 26.2% | 20.6% |
| M2 (M1+savings+small time deposits) | 9603.6 | 9569.8 | 33.8 | 20.6% | 16.1% | 10.1% |

# Selected Yields

| | Recent (10/05/11) | 3 Months Ago (7/06/11) | Year Ago (10/06/10) |
|---|---|---|---|
| **TAXABLE** | | | |
| **Market Rates** | | | |
| Discount Rate | 0.75 | 0.75 | 0.75 |
| 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) | 0.41 | 0.18 | 0.27 |
| 3-month LIBOR | 0.38 | 0.25 | 0.29 |
| **Bank CDs** | | | |
| 6-month | 0.17 | 0.26 | 0.33 |
| 1-year | 0.21 | 0.44 | 0.57 |
| 5-year | 1.18 | 1.63 | 1.68 |
| **U.S. Treasury Securities** | | | |
| 3-month | 0.01 | 0.01 | 0.12 |
| 6-month | 0.02 | 0.05 | 0.17 |
| 1-year | 0.09 | 0.17 | 0.22 |
| 5-year | 0.95 | 1.66 | 1.16 |
| 10-year | 1.89 | 3.11 | 2.40 |
| 10-year (inflation-protected) | 0.08 | 0.68 | 0.46 |
| 30-year | 2.85 | 4.36 | 3.68 |
| 30-year Zero | 3.03 | 4.75 | 3.98 |

## Treasury Security Yield Curve




| | Recent (10/05/11) | 3 Months Ago (7/06/11) | Year Ago (10/06/10) |
|---|---|---|---|
| **Mortgage-Backed Securities** | | | |
| GNMA 5.5% | 1.54 | 2.32 | 1.65 |
| FHLMC 5.5% (Gold) | 2.23 | 2.91 | 2.16 |
| FNMA 5.5% | 2.13 | 2.81 | 2.02 |
| FNMA ARM | 2.47 | 2.51 | 2.86 |
| **Corporate Bonds** | | | |
| Financial (10-year) A | 3.88 | 4.55 | 3.93 |
| Industrial (25/30-year) A | 4.29 | 5.44 | 4.92 |
| Utility (25/30-year) A | 4.21 | 5.40 | 4.91 |
| Utility (25/30-year) Baa/BBB | 4.65 | 5.93 | 5.45 |
| **Foreign Bonds (10-Year)** | | | |
| Canada | 2.14 | 3.04 | 2.74 |
| Germany | 1.84 | 2.93 | 2.22 |
| Japan | 0.97 | 1.18 | 0.85 |
| United Kingdom | 2.36 | 3.25 | 2.90 |
| **Preferred Stocks** | | | |
| Utility A | 5.29 | 5.17 | 6.08 |
| Financial A | 6.51 | 6.03 | 6.43 |
| Financial Adjustable A | 5.48 | 5.48 | 5.48 |
| **TAX-EXEMPT** | | | |
| **Bond Buyer Indexes** | | | |
| 20-Bond Index (GOs) | 3.93 | 4.59 | 3.84 |
| 25-Bond Index (Revs) | 5.01 | 5.34 | 4.59 |
| **General Obligation Bonds (GOs)** | | | |
| 1-year Aaa | 0.20 | 0.23 | 0.32 |
| 1-year A | 0.97 | 1.02 | 1.12 |
| 5-year Aaa | 1.13 | 1.33 | 1.33 |
| 5-year A | 2.18 | 2.45 | 2.28 |
| 10-year Aaa | 2.36 | 2.75 | 2.61 |
| 10-year A | 3.47 | 4.20 | 3.77 |
| 25/30-year Aaa | 3.88 | 4.39 | 4.16 |
| 25/30-year A | 5.53 | 5.86 | 5.41 |
| **Revenue Bonds (Revs) (25/30-Year)** | | | |
| Education AA | 4.56 | 4.89 | 4.62 |
| Electric AA | 4.92 | 5.21 | 4.63 |
| Housing AA | 5.55 | 5.85 | 5.52 |
| Hospital AA | 4.92 | 5.25 | 4.81 |
| Toll Road Aaa | 4.58 | 4.99 | 4.61 |

# Federal Reserve Data

### BANK RESERVES

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

| | Recent Levels | | | Average Levels Over the Last... | | |
|---|---|---|---|---|---|---|
| | **9/21/11** | **9/7/11** | **Change** | **12 Wks.** | **26 Wks.** | **52 Wks.** |
| Excess Reserves | 1548799 | 1568587 | -19788 | 1586683 | 1533774 | 1295559 |
| Borrowed Reserves | 11614 | 11685 | -71 | 12154 | 14440 | 26668 |
| Net Free/Borrowed Reserves | 1537185 | 1556902 | -19717 | 1574529 | 1519335 | 1268891 |

### MONEY SUPPLY

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

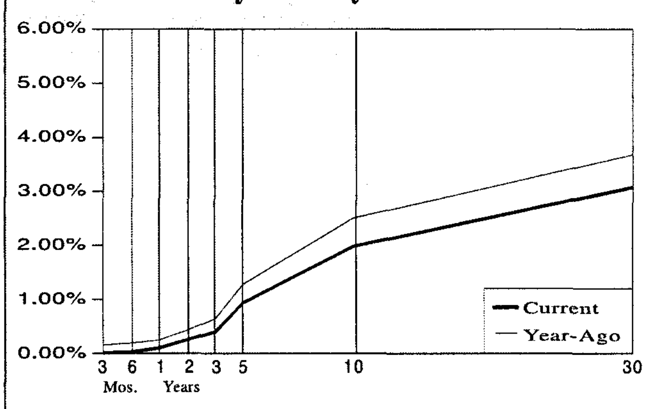
| | Recent Levels | | | Ann'l Growth Rates Over the Last... | | |
|---|---|---|---|---|---|---|
| | **9/19/11** | **9/12/11** | **Change** | **3 Mos.** | **6 Mos.** | **12 Mos.** |
| M1 (Currency+demand deposits) | 2105.7 | 2106.1 | -0.4 | 38.8% | 24.1% | 19.2% |
| M2 (M1+savings+small time deposits) | 9569.8 | 9583.9 | -14.1 | 23.0% | 15.2% | 10.1% |

# Selected Yields

| | Recent (9/28/11) | 3 Months Ago (6/29/11) | Year Ago (9/29/10) |
|---|---|---|---|
| **TAXABLE** | | | |
| **Market Rates** | | | |
| Discount Rate | 0.75 | 0.75 | 0.75 |
| 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) | 0.42 | 0.17 | 0.22 |
| 3-month LIBOR | 0.37 | 0.25 | 0.29 |
| **Bank CDs** | | | |
| 6-month | 0.17 | 0.26 | 0.33 |
| 1-year | 0.21 | 0.44 | 0.57 |
| 5-year | 1.26 | 1.64 | 1.68 |
| **U.S. Treasury Securities** | | | |
| 3-month | 0.01 | 0.02 | 0.16 |
| 6-month | 0.03 | 0.10 | 0.19 |
| 1-year | 0.10 | 0.19 | 0.25 |
| 5-year | 0.94 | 1.69 | 1.28 |
| 10-year | 1.98 | 3.11 | 2.50 |
| 10-year (inflation-protected) | 0.11 | 0.67 | 0.69 |
| 30-year | 3.07 | 4.38 | 3.68 |
| 30-year Zero | 3.28 | 4.76 | 3.96 |

| | Recent (9/28/11) | 3 Months Ago (6/29/11) | Year Ago (9/29/10) |
|---|---|---|---|
| **Mortgage-Backed Securities** | | | |
| GNMA 5.5% | 1.62 | 2.02 | 2.01 |
| FHLMC 5.5% (Gold) | 2.08 | 2.63 | 2.33 |
| FNMA 5.5% | 1.97 | 2.50 | 2.14 |
| FNMA ARM | 2.50 | 2.51 | 2.90 |
| **Corporate Bonds** | | | |
| Financial (10-year) A | 3.87 | 4.58 | 4.01 |
| Industrial (25/30-year) A | 4.50 | 5.47 | 4.89 |
| Utility (25/30-year) A | 4.34 | 5.42 | 4.94 |
| Utility (25/30-year) Baa/BBB | 4.98 | 5.92 | 5.46 |
| **Foreign Bonds (10-Year)** | | | |
| Canada | 2.20 | 3.09 | 2.74 |
| Germany | 2.01 | 2.98 | 2.24 |
| Japan | 1.00 | 1.13 | 0.93 |
| United Kingdom | 2.55 | 3.33 | 2.91 |
| **Preferred Stocks** | | | |
| Utility A | 5.24 | 5.13 | 6.08 |
| Financial A | 6.45 | 6.02 | 6.50 |
| Financial Adjustable A | 5.48 | 5.48 | 5.48 |
| **TAX-EXEMPT** | | | |
| **Bond Buyer Indexes** | | | |
| 20-Bond Index (GOs) | 3.85 | 4.46 | 3.83 |
| 25-Bond Index (Revs) | 4.96 | 5.31 | 4.58 |
| **General Obligation Bonds (GOs)** | | | |
| 1-year Aaa | 0.24 | 0.24 | 0.34 |
| 1-year A | 0.99 | 1.04 | 1.15 |
| 5-year Aaa | 1.04 | 1.25 | 1.22 |
| 5-year A | 2.05 | 2.41 | 2.20 |
| 10-year Aaa | 2.15 | 2.63 | 2.51 |
| 10-year A | 3.42 | 4.11 | 3.65 |
| 25/30-year Aaa | 3.87 | 4.36 | 4.11 |
| 25/30-year A | 5.53 | 5.86 | 5.40 |
| **Revenue Bonds (Revs) (25/30-Year)** | | | |
| Education AA | 4.56 | 4.87 | 4.61 |
| Electric AA | 4.92 | 5.17 | 4.62 |
| Housing AA | 5.55 | 5.79 | 5.49 |
| Hospital AA | 4.90 | 5.25 | 4.81 |
| Toll Road Aaa | 4.58 | 4.97 | 4.60 |

**Treasury Security Yield Curve**




# Federal Reserve Data

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

| | Recent Levels | | | Average Levels Over the Last... | | |
|---|---|---|---|---|---|---|
| | 9/21/11 | 9/7/11 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1548803 | 1568589 | -19786 | 1586684 | 1533775 | 1295560 |
| Borrowed Reserves | 11614 | 11685 | -71 | 12154 | 14440 | 26668 |
| Net Free/Borrowed Reserves | 1537189 | 1556904 | -19715 | 1574530 | 1519335 | 1268892 |

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

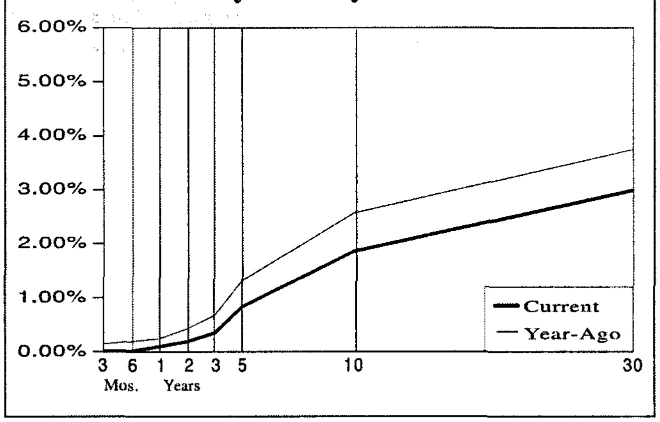
| | Recent Levels | | | Ann'l Growth Rates Over the Last... | | |
|---|---|---|---|---|---|---|
| | 9/12/11 | 9/5/11 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 2106.6 | 2136.3 | -29.7 | 42.0% | 27.6% | 18.9% |
| M2 (M1+savings+small time deposits) | 9583.6 | 9591.1 | -7.5 | 25.4% | 15.7% | 10.3% |

# Selected Yields

| | Recent (9/21/11) | 3 Months Ago (6/22/11) | Year Ago (9/22/10) |
|---|---|---|---|
| **TAXABLE** | | | |
| **Market Rates** | | | |
| Discount Rate | 0.75 | 0.75 | 0.75 |
| 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) | 0.42 | 0.18 | 0.24 |
| 3-month LIBOR | 0.36 | 0.25 | 0.29 |
| **Bank CDs** | | | |
| 6-month | 0.17 | 0.26 | 0.34 |
| 1-year | 0.21 | 0.44 | 0.60 |
| 5-year | 1.26 | 1.64 | 1.71 |
| **U.S. Treasury Securities** | | | |
| 3-month | 0.01 | 0.01 | 0.15 |
| 6-month | 0.02 | 0.08 | 0.19 |
| 1-year | 0.10 | 0.15 | 0.25 |
| 5-year | 0.84 | 1.54 | 1.32 |
| 10-year | 1.86 | 2.98 | 2.56 |
| 10-year (inflation-protected) | 0.00 | 0.75 | 0.65 |
| 30-year | 2.99 | 4.22 | 3.75 |
| 30-year Zero | 3.25 | 4.60 | 4.02 |

| | Recent (9/21/11) | 3 Months Ago (6/22/11) | Year Ago (9/22/10) |
|---|---|---|---|
| **Mortgage-Backed Securities** | | | |
| GNMA 5.5% | 1.14 | 2.05 | 1.99 |
| FHLMC 5.5% (Gold) | 1.93 | 2.55 | 2.39 |
| FNMA 5.5% | 1.85 | 2.43 | 2.27 |
| FNMA ARM | 2.50 | 2.51 | 2.90 |
| **Corporate Bonds** | | | |
| Financial (10-year) A | 3.59 | 4.42 | 4.11 |
| Industrial (25/30-year) A | 4.31 | 5.31 | 5.02 |
| Utility (25/30-year) A | 4.23 | 5.29 | 5.04 |
| Utility (25/30-year) Baa/BBB | 4.86 | 5.79 | 5.56 |
| **Foreign Bonds (10-Year)** | | | |
| Canada | 2.12 | 2.97 | 2.86 |
| Germany | 1.77 | 2.94 | 2.35 |
| Japan | 0.99 | 1.12 | 1.03 |
| United Kingdom | 2.41 | 3.19 | 2.97 |
| **Preferred Stocks** | | | |
| Utility A | 5.23 | 5.27 | 6.08 |
| Financial A | 6.38 | 6.10 | 6.47 |
| Financial Adjustable A | 5.47 | 5.47 | 5.47 |

### Treasury Security Yield Curve




| | Recent (9/21/11) | 3 Months Ago (6/22/11) | Year Ago (9/22/10) |
|---|---|---|---|
| **TAX-EXEMPT** | | | |
| **Bond Buyer Indexes** | | | |
| 20-Bond Index (GOs) | 4.07 | 4.49 | 3.89 |
| 25-Bond Index (Revs) | 5.11 | 5.32 | 4.63 |
| **General Obligation Bonds (GOs)** | | | |
| 1-year Aaa | 0.21 | 0.28 | 0.34 |
| 1-year A | 0.99 | 1.08 | 1.15 |
| 5-year Aaa | 1.00 | 1.37 | 1.24 |
| 5-year A | 1.99 | 2.40 | 2.24 |
| 10-year Aaa | 2.21 | 2.63 | 2.56 |
| 10-year A | 3.56 | 4.08 | 3.70 |
| 25/30-year Aaa | 3.89 | 4.37 | 4.11 |
| 25/30-year A | 5.63 | 5.89 | 5.40 |
| **Revenue Bonds (Revs) (25/30-Year)** | | | |
| Education AA | 4.62 | 4.87 | 4.61 |
| Electric AA | 4.97 | 5.19 | 4.62 |
| Housing AA | 5.60 | 5.79 | 5.44 |
| Hospital AA | 4.97 | 5.28 | 4.82 |
| Toll Road Aaa | 4.69 | 4.97 | 4.60 |

# Federal Reserve Data

### BANK RESERVES

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

| | Recent Levels | | | Average Levels Over the Last... | | |
|---|---|---|---|---|---|---|
| | **9/7/11** | **8/24/11** | **Change** | **12 Wks.** | **26 Wks.** | **52 Wks.** |
| Excess Reserves | 1568590 | 1577802 | -9212 | 1595396 | 1515698 | 1275488 |
| Borrowed Reserves | 11685 | 11833 | -148 | 12407 | 15069 | 28273 |
| Net Free/Borrowed Reserves | 1556905 | 1565969 | -9064 | 1582989 | 1500629 | 1247215 |

### MONEY SUPPLY

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

| | Recent Levels | | | Ann'l Growth Rates Over the Last... | | |
|---|---|---|---|---|---|---|
| | **9/5/11** | **8/29/11** | **Change** | **3 Mos.** | **6 Mos.** | **12 Mos.** |
| M1 (Currency+demand deposits) | 2136.6 | 2124.1 | 12.5 | 48.8% | 30.8% | 21.9% |
| M2 (M1+savings+small time deposits) | 9591.4 | 9570.1 | 21.3 | 26.4% | 15.3% | 10.5% |

**ARIZONA WATER COMPANY**
**DOCKET NO. W-01445A-10-0517**
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ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2010
COST OF CAPITAL SUMMARY

DOCKET NO. W-01445A-10-0517
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PAGE 1 OF 3

## WEIGHTED AVERAGE COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) CAPITALIZATION PER COMPANY | (B) RUCO ADJUSTMENTS | (C) RUCO ADJUSTED CAPITALIZATION | (D) CAPITAL RATIO | (E) COST | (F) WEIGHTED COST |
|---|---|---|---|---|---|---|---|
| 1 | *Long-Term Debt* | $ 75,000,000 | $ - | $ 75,000,000 | 49.03% | 6.82% | 3.35% |
| 2 | Common Equity | 77,975,335 | - | 77,975,335 | 50.97% | 9.50% | 4.84% |
| 3 | Total Capitalization | $ 152,975,335 | $ - | $ 152,975,335 | 100.00% | | |
| 4 | **WEIGHTED AVERAGE COST OF CAPITAL** | | | | | | 8.19% |

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): LINE 1; SCHEDULE WAR-1, PAGE 2, LINE 2; TESTIMONY WAR
COLUMN (C): COLUMN (A) x COLUMN (B), LINE 4; LINE 1 + LINE 2

## COST OF LONG-TERM DEBT

| LINE NO. | LONG-TERM DEBT ISSUANCES | (A) AMOUNT OUTSTANDING | (B) ANNUAL COST | (C) INTEREST RATE |
|---|---|---|---|---|
| 1 | SERIES K BONDS, DUE APRIL 1, 2031 | $ 5,703,000 | $ 458,846 | 8.05% |
| 2 | SERIES L BONDS, DUE AUGUST 1, 2036 | 9,505,000 | 599,062 | 6.30% |
| 3 | SERIES M BONDS, DUE AUGUST 1, 2038 | 13,307,000 | 888,189 | 6.67% |
| 4 | TOTALS | $ 28,515,000 | $ 1,946,097 | 6.82% |

REFERENCES:
COLUMN (A): COMPANY SCHEDULE D-2, PAGE 2
COLUMN (B): COMPANY SCHEDULE D-2, PAGE 2
COLUMN (C): COLUMN (B) / COLUMN (A)

## COST OF COMMON EQUITY CALCULATION

| LINE NO. | | | |
|---|---|---|---|
| 1 | **DCF METHODOLOGY** | | |
| 2 | DCF - WATER COMPANY SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE | 9.00% | SCHEDULE WAR-2, COLUMN (C), LINE 5 |
| 3 | DCF - NATURAL GAS LDC SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE | 9.40% | SCHEDULE WAR-2, COLUMN (C), LINE 13 |
| 4 | **AVERAGE OF DCF ESTIMATES** | **9.20%** | ( LINE 2 + LINE 3 ) ÷ 2 |
| 5 | **CAPM METHODOLOGY** | | |
| 6 | CAPM - WATER COMPANY GEOMETRIC MEAN ESTIMATE | 4.34% | SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 5 |
| 7 | CAPM - NATURAL GAS LDC GEOMETRIC MEAN ESTIMATE | 3.97% | SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 13 |
| 8 | CAPM - WATER COMPANY ARITHMETIC MEAN ESTIMATE | 5.77% | SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 5 |
| 9 | CAPM - NATURAL GAS LDC ARITHMETIC MEAN ESTIMATE | 5.23% | SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 13 |
| 10 | **AVERAGE OF CAPM ESTIMATES** | **4.83%** | ( SUM OF LINES 6 THRU 9 ) ÷ 4 |
| 11 | **AVERAGE OF DCF AND CAPM ESTIMATES** | **7.02%** | ( SUM OF LINES 4 AND 10 ) ÷ 2 |
| 12 | **FINAL COST OF COMMON EQUITY ESTIMATE** | **9.50%** | TESTIMONY WAR |

**ARIZONA WATER COMPANY**
**TEST YEAR ENDED DECEMBER 31, 2010**
**DCF COST OF EQUITY CAPITAL**

**DOCKET NO. W-01445A-10-0517**
**SCHEDULE WAR - 2**

| LINE NO. | STOCK SYMBOL | COMPANY | (A) DIVIDEND YIELD | + | (B) GROWTH RATE (g) | = | (C) DCF COST OF EQUITY CAPITAL |
|---|---|---|---|---|---|---|---|
| 1 | AWR | AMERICAN STATES WATER CO. | 3.25% | + | 6.85% | = | 10.10% |
| 2 | CWT | CALIFORNIA WATER SERVICE GROUP | 3.41% | + | 6.02% | = | 9.42% |
| 3 | SJW | SJW CORPORATION | 2.98% | + | 4.64% | = | 7.62% |
| 4 | WTR | AQUA AMERICA, INC. | 2.88% | + | 5.99% | = | 8.87% |
| 5 | **WATER COMPANY AVERAGE** | | | | | | **9.00%** |
| 6 | AGL | AGL RESOURCES, INC. | 4.39% | + | 5.91% | = | 10.30% |
| 7 | ATO | ATMOS ENERGY CORP. | 4.06% | + | 4.62% | = | 8.68% |
| 8 | LG | LACLEDE GROUP, INC. | 4.08% | + | 5.29% | = | 9.37% |
| 9 | NJR | NEW JERSEY RESOURCES CORPORATION | 3.16% | + | 7.01% | = | 10.16% |
| 10 | NWN | NORTHWEST NATURAL GAS CO. | 3.83% | + | 4.48% | = | 8.32% |
| 11 | PNY | PIEDMONT NATURAL GAS COMPANY | 3.78% | + | 4.01% | = | 7.79% |
| 12 | SJI | SOUTH JERSEY INDUSTRIES, INC. | 2.73% | + | 10.69% | = | 13.42% |
| 13 | SWX | SOUTHWEST GAS CORPORATION | 2.78% | + | 6.22% | = | 9.00% |
| 14 | WGL | WGL HOLDINGS, INC. | 3.79% | + | 3.81% | = | 7.60% |
| 15 | **NATURAL GAS LDC AVERAGE** | | | | | | **9.40%** |

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

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2010
DIVIDEND YIELD CALCULATION

DOCKET NO. W-01445A-10-0517
SCHEDULE WAR - 3

| LINE NO. | STOCK SYMBOL | COMPANY | (A) ESTIMATED DIVIDEND (PER SHARE) | / | (B) AVERAGE STOCK PRICE (PER SHARE) | = | (C) DIVIDEND YIELD |
|---|---|---|---|---|---|---|---|
| 1 | AWR | AMERICAN STATES WATER CO. | $1.12 | / | $34.48 | = | 3.25% |
| 2 | CWT | CALIFORNIA WATER SERVICE GROUP | $0.62 | / | $18.08 | = | 3.41% |
| 3 | SJW | SJW CORPORATION | $0.69 | / | $23.23 | | 2.98% |
| 4 | WTR | AQUA AMERICA, INC. | $0.62 | / | $21.56 | = | 2.88% |
| 5 | **WATER COMPANY AVERAGE** | | | | | | 3.13% |
| 6 | AGL | AGL RESOURCES, INC. | $1.80 | / | $41.04 | = | 4.39% |
| 7 | ATO | ATMOS ENERGY CORP. | $1.36 | / | $33.50 | = | 4.06% |
| 8 | LG | LACLEDE GROUP, INC. | $1.62 | / | $39.69 | = | 4.08% |
| 9 | NJR | NEW JERSEY RESOURCES CORPORATION | $1.44 | / | $45.62 | = | 3.16% |
| 10 | NWN | NORTHWEST NATURAL GAS CO. | $1.74 | / | $45.38 | = | 3.83% |
| 11 | PNY | PIEDMONT NATURAL GAS COMPANY | $1.16 | / | $30.69 | = | 3.78% |
| 12 | SJI | SOUTH JERSEY INDUSTRIES, INC. | $1.46 | / | $53.41 | = | 2.73% |
| 13 | SWX | SOUTHWEST GAS CORPORATION | $1.06 | / | $38.09 | = | 2.78% |
| 14 | WGL | WGL HOLDINGS, INC. | $1.56 | / | $41.18 | = | 3.79% |
| 15 | **NATURAL GAS LDC AVERAGE** | | | | | | 3.62% |

REFERENCES:
COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 10/21/2011 (WATER COMPANIES) AND 09/09/2011 (NATURAL GAS LDC's).
COLUMN (B): EIGHT WEEK AVERAGE OF ADJUSTED CLOSING PRICES FROM 09/26/2011 TO 11/18/2011 STOCK QUOTES OBTAINED THROUGH YAHOO! FINANCE WEB SITE - HISTORICAL QUOTES (http://finance.yahoo.com).
COLUMN (C): COLUMN (A) DIVIDED BY COLUMN (B)

NOTE:
CLOSING STOCK PRICES ARE ADJUSTED FOR DIVIDENDS AND STOCK SPLITS.

**ARIZONA WATER COMPANY**
**TEST YEAR ENDED DECEMBER 31, 2010**
**DIVIDEND GROWTH RATE CALCULATION**



| LINE NO. | STOCK SYMBOL | COMPANY | (A) INTERNAL GROWTH ( br ) | + | (B) EXTERNAL GROWTH (sv) | = | (C) DIVIDEND GROWTH (g) |
|---|---|---|---|---|---|---|---|
| 1 | AWR | AMERICAN STATES WATER CO. | 6.00% | + | 0.85% | = | 6.85% |
| 2 | CWT | CALIFORNIA WATER SERVICE GROUP | 5.25% | + | 0.77% | = | 6.02% |
| 3 | SJW | SJW CORPORATION | 3.25% | + | 1.39% | = | 4.64% |
| 4 | WTR | AQUA AMERICA, INC. | 5.50% | + | 0.49% | = | 5.99% |
| 5 | **WATER COMPANY AVERAGE** | | | | | | **5.87%** |
| 6 | AGL | AGL RESOURCES, INC. | 5.70% | + | 0.21% | = | 5.91% |
| 7 | ATO | ATMOS ENERGY CORP. | 4.20% | + | 0.42% | = | 4.62% |
| 8 | LG | LACLEDE GROUP, INC. | 4.50% | + | 0.79% | = | 5.29% |
| 9 | NJR | NEW JERSEY RESOURCES CORPORATION | 7.00% | + | 0.01% | = | 7.01% |
| 10 | NWN | NORTHWEST NATURAL GAS CO. | 4.40% | + | 0.08% | = | 4.48% |
| 11 | PNY | PIEDMONT NATURAL GAS COMPANY | 4.00% | + | 0.01% | = | 4.01% |
| 12 | SJI | SOUTH JERSEY INDUSTRIES, INC. | 7.90% | + | 2.79% | = | 10.69% |
| 13 | SWX | SOUTHWEST GAS CORPORATION | 5.70% | + | 0.52% | = | 6.22% |
| 14 | WGL | WGL HOLDINGS, INC. | 3.50% | + | 0.31% | = | 3.81% |
| 15 | **NATURAL GAS LDC AVERAGE** | | | | | | **5.78%** |

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

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2010
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-01445A-10-0517
SCHEDULE WAR - 4
PAGE 2 OF 2

| LINE NO. | STOCK SYMBOL | COMPANY | (A) SHARE GROWTH | x | (B) { [ ( ( M + B ) + 1 ) / 2 ] - 1 } | = | (C) EXTERNAL GROWTH ( sv ) |
|---|---|---|---|---|---|---|---|
| 1 | AWR | AMERICAN STATES WATER CO. | 2.50% | x | { [ ( ( 1.68 ) + 1 ) / 2 ] - 1 } | = | 0.85% |
| 2 | CWT | CALIFORNIA WATER SERVICE GROUP | 2.25% | x | { [ ( ( 1.68 ) + 1 ) / 2 ] - 1 } | = | 0.77% |
| 3 | SJW | SJW CORPORATION | 4.00% | x | { [ ( ( 1.70 ) + 1 ) / 2 ] - 1 } | = | 1.39% |
| 4 | WTR | AQUA AMERICA, INC. | 0.70% | x | { [ ( ( 2.41 ) + 1 ) / 2 ] - 1 } | = | 0.49% |
| 5 | **WATER COMPANY AVERAGE** | | | | | | 0.87% |
| 6 | AGL | AGL RESOURCES, INC. | 0.65% | x | { [ ( ( 1.65 ) + 1 ) / 2 ] - 1 } | = | 0.21% |
| 7 | ATO | ATMOS ENERGY CORP. | 3.00% | x | { [ ( ( 1.28 ) + 1 ) / 2 ] - 1 } | = | 0.42% |
| 8 | LG | LACLEDE GROUP, INC. | 3.00% | x | { [ ( ( 1.53 ) + 1 ) / 2 ] - 1 } | = | 0.79% |
| 9 | NJR | NEW JERSEY RESOURCES CORPORATION | 0.01% | x | { [ ( ( 2.43 ) + 1 ) / 2 ] - 1 } | = | 0.01% |
| 10 | NWN | NORTHWEST NATURAL GAS CO. | 0.25% | x | { [ ( ( 1.66 ) + 1 ) / 2 ] - 1 } | = | 0.08% |
| 11 | PNY | PIEDMONT NATURAL GAS COMPANY | 0.01% | x | { [ ( ( 2.24 ) + 1 ) / 2 ] - 1 } | = | 0.01% |
| 12 | SJI | SOUTH JERSEY INDUSTRIES, INC. | 3.60% | x | { [ ( ( 2.55 ) + 1 ) / 2 ] - 1 } | = | 2.79% |
| 13 | SWX | SOUTHWEST GAS CORPORATION | 2.50% | x | { [ ( ( 1.42 ) + 1 ) / 2 ] - 1 } | = | 0.52% |
| 14 | WGL | WGL HOLDINGS, INC. | 0.85% | x | { [ ( ( 1.74 ) + 1 ) / 2 ] - 1 } | = | 0.31% |
| 15 | **NATURAL GAS LDC AVERAGE** | | | | | | 0.57% |

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 10/21/2011 (WATER COMPANIES) AND 09/09/2011 (NATURAL GAS LDC's)
COLUMN (C): COLUMN (A) x COLUMN (B)

**ARIZONA WATER COMPANY**
**TEST YEAR ENDED DECEMBER 31, 2010**
**DIVIDEND GROWTH COMPONENTS**



| LINE NO. | STOCK SYMBOL | WATER COMPANY NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | x | (B) RETURN ON BOOK EQUITY (r) | = | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE ($/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | AWR | AMERICAN STATES WATER CO. | 2006 | 0.3158 | | 8.10% | | 2.56% | 16.64 | 17.05 | |
| 2 | | | 2007 | 0.4074 | | 9.30% | | 3.79% | 17.53 | 17.23 | |
| 3 | | | 2008 | 0.3548 | | 8.60% | | 3.05% | 17.95 | 17.30 | |
| 4 | | | 2009 | 0.3765 | | 8.20% | | 3.09% | 19.39 | 18.53 | |
| 5 | | | 2010 | 0.5315 | | 11.00% | | 5.85% | 20.26 | 18.63 | |
| 6 | | | GROWTH 2006 - 2010 | | | | | 3.67% | 5.00% | | 2.24% |
| 7 | | | 2011 | 0.4762 | | 10.50% | | 5.00% | | 19.00 | 1.99% |
| 8 | | | 2012 | 0.4727 | | 10.00% | | 4.73% | | 19.25 | 1.65% |
| 9 | | | 2014-16 | 0.4880 | | 12.00% | | 5.86% | 2.00% | 20.00 | 1.43% |
| 10 | | | | | | | | | | | |
| 11 | CWT | CALIFORNIA WATER SERVICE GROUP | 2006 | 0.1343 | | 6.80% | | 0.91% | 9.07 | 41.31 | |
| 12 | | | 2007 | 0.2267 | | 8.10% | | 1.84% | 9.25 | 41.33 | |
| 13 | | | 2008 | 0.3789 | | 9.90% | | 3.75% | 9.72 | 41.45 | |
| 14 | | | 2009 | 0.3980 | | 9.60% | | 3.82% | 10.13 | 41.53 | |
| 15 | | | 2010 | 0.3407 | | 8.60% | | 2.93% | 10.45 | 41.67 | |
| 16 | | | GROWTH 2006 - 2010 | | | | | 2.65% | 5.50% | | 0.22% |
| 17 | | | 2011 | 0.4364 | | 10.00% | | 4.36% | | 42.75 | 2.59% |
| 18 | | | 2012 | 0.4667 | | 10.50% | | 4.90% | | 44.00 | 2.76% |
| 19 | | | 2014-16 | 0.4815 | | 11.00% | | 5.30% | 3.00% | 46.50 | 2.22% |
| 20 | | | | | | | | | | | |
| 21 | SJW | SJW CORPORATION | 2006 | 0.5210 | | 9.70% | | 5.05% | 12.48 | 18.28 | |
| 22 | | | 2007 | 0.4135 | | 8.20% | | 3.39% | 12.90 | 18.36 | |
| 23 | | | 2008 | 0.3981 | | 8.00% | | 3.19% | 13.99 | 18.18 | |
| 24 | | | 2009 | 0.1852 | | 6.00% | | 1.11% | 13.66 | 18.50 | |
| 25 | | | 2010 | 0.1905 | | 6.10% | | 1.16% | 13.75 | 18.55 | |
| 26 | | | GROWTH 2006 - 2010 | | | | | 2.78% | 6.50% | | 0.37% |
| 27 | | | 2011 | 0.3100 | | 7.50% | | 2.33% | | 18.60 | 0.27% |
| 28 | | | 2012 | 0.3273 | | 7.50% | | 2.45% | | 20.00 | 3.83% |
| 29 | | | 2014-16 | 0.4143 | | 8.00% | | 3.31% | 2.50% | 22.50 | 3.94% |
| 30 | | | | | | | | | | | |
| 31 | WTR | AQUA AMERICA, INC. | 2006 | 0.3714 | | 10.00% | | 3.71% | 6.96 | 132.33 | |
| 32 | | | 2007 | 0.3239 | | 9.70% | | 3.14% | 7.32 | 133.40 | |
| 33 | | | 2008 | 0.3014 | | 9.30% | | 2.80% | 7.82 | 135.37 | |
| 34 | | | 2009 | 0.2857 | | 9.40% | | 2.69% | 8.12 | 136.49 | |
| 35 | | | 2010 | 0.3444 | | 10.60% | | 3.65% | 8.51 | 137.97 | |
| 36 | | | GROWTH 2006 - 2010 | | | | | 3.20% | 7.00% | | 1.05% |
| 37 | | | 2011 | 0.4095 | | 11.50% | | 4.71% | | 138.90 | 0.67% |
| 38 | | | 2012 | 0.4000 | | 11.50% | | 4.60% | | 139.90 | 0.70% |
| 39 | | | 2014-16 | 0.4429 | | 12.50% | | 5.54% | 6.00% | 142.90 | 0.70% |

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 10/21/2011
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2006 - 2010

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16, 26 & 36, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

| LINE NO. | STOCK SYMBOL | NATURAL GAS LDC NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | x | (B) RETURN ON BOOK EQUITY (r) | = | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE ($/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | AGL | AGL RESOURCES, INC. | 2006 | 0.4559 | | 13.20% | | 6.02% | 20.71 | 77.70 | |
| 2 | | | 2007 | 0.3971 | | 12.70% | | 5.04% | 21.74 | 76.40 | |
| 3 | | | 2008 | 0.3801 | | 12.60% | | 4.79% | 21.48 | 76.90 | |
| 4 | | | 2009 | 0.4028 | | 12.50% | | 5.03% | 22.95 | 77.54 | |
| 5 | | | 2010 | 0.4133 | | 12.90% | | 5.33% | 23.24 | 78.00 | |
| 6 | | | GROWTH 2006 - 2010 | | | | | 5.24% | 5.50% | | 0.10% |
| 7 | | | 2011 | 0.4194 | | 12.50% | | 5.24% | | 78.50 | 0.64% |
| 8 | | | 2012 | 0.4424 | | 12.50% | | 5.53% | | 79.00 | 0.64% |
| 9 | | | 2014-16 | 0.4773 | | 12.00% | | 5.73% | 6.00% | 80.50 | 0.63% |
| 10 | | | | | | | | | | | |
| 11 | ATO | ATMOS ENERGY CORP. | 2006 | 0.3700 | | 9.80% | | 3.63% | 20.16 | 81.74 | |
| 12 | | | 2007 | 0.3402 | | 8.70% | | 2.96% | 22.01 | 89.33 | |
| 13 | | | 2008 | 0.3500 | | 8.80% | | 3.08% | 22.60 | 90.81 | |
| 14 | | | 2009 | 0.3299 | | 8.30% | | 2.74% | 23.52 | 92.55 | |
| 15 | | | 2010 | 0.3796 | | 9.20% | | 3.49% | 24.16 | 90.16 | |
| 16 | | | GROWTH 2006 - 2010 | | | | | 3.18% | 5.00% | | 2.48% |
| 17 | | | 2011 | 0.3956 | | 8.50% | | 3.36% | | 90.50 | 0.38% |
| 18 | | | 2012 | 0.4250 | | 8.50% | | 3.61% | | 92.00 | 1.02% |
| 19 | | | 2014-16 | 0.4630 | | 9.00% | | 4.17% | 4.50% | 105.00 | 3.09% |
| 20 | | | | | | | | | | | |
| 21 | LG | LACLEDE GROUP, INC. | 2006 | 0.4093 | | 12.50% | | 5.12% | 18.85 | 21.36 | |
| 22 | | | 2007 | 0.3723 | | 11.60% | | 4.32% | 19.79 | 21.65 | |
| 23 | | | 2008 | 0.4356 | | 11.80% | | 5.14% | 22.12 | 21.99 | |
| 24 | | | 2009 | 0.4760 | | 12.40% | | 5.90% | 23.32 | 22.17 | |
| 25 | | | 2010 | 0.3539 | | 10.10% | | 3.57% | 24.02 | 22.29 | |
| 26 | | | GROWTH 2006 - 2010 | | | | | 4.81% | 7.00% | | 1.07% |
| 27 | | | 2011 | 0.4448 | | 11.00% | | 4.89% | | 22.50 | 0.94% |
| 28 | | | 2012 | 0.3529 | | 9.50% | | 3.35% | | 23.00 | 1.58% |
| 29 | | | 2014-16 | 0.4098 | | 10.00% | | 4.10% | 5.00% | 26.00 | 3.13% |
| 30 | | | | | | | | | | | |
| 31 | NJR | NEW JERSEY RESOURCES CORPORATION | 2006 | 0.4866 | | 12.60% | | 6.13% | 15.00 | 41.44 | |
| 32 | | | 2007 | 0.3484 | | 10.10% | | 3.52% | 15.50 | 41.61 | |
| 33 | | | 2008 | 0.5889 | | 15.70% | | 9.25% | 17.28 | 42.06 | |
| 34 | | | 2009 | 0.4833 | | 14.60% | | 7.06% | 16.59 | 41.59 | |
| 35 | | | 2010 | 0.4472 | | 14.10% | | 6.30% | 17.53 | 41.36 | |
| 36 | | | GROWTH 2006 - 2010 | | | | | 6.45% | 10.00% | | -0.05% |
| 37 | | | 2011 | 0.4462 | | 14.00% | | 6.25% | | 41.00 | -0.87% |
| 38 | | | 2012 | 0.4807 | | 15.00% | | 7.21% | | 40.00 | -1.66% |
| 39 | | | 2014-16 | 0.5000 | | 13.50% | | 6.75% | 6.00% | 40.00 | -0.67% |

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 09/09/2011
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2006 - 2010

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16, 26 & 36, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

**ARIZONA WATER COMPANY**
**TEST YEAR ENDED DECEMBER 31, 2010**
**DIVIDEND GROWTH COMPONENTS**



| LINE NO. | STOCK SYMBOL | NATURAL GAS LDC NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | x | (B) RETURN ON BOOK EQUITY (r) | = | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE ($/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | NWN | NORTHWEST NATURAL GAS CO. | 2006 | 0.4085 | | 10.90% | | 4.45% | 22.01 | 27.24 | |
| 2 | | | 2007 | 0.4783 | | 12.50% | | 5.98% | 22.52 | 26.41 | |
| 3 | | | 2008 | 0.4086 | | 10.90% | | 4.45% | 23.71 | 26.50 | |
| 4 | | | 2009 | 0.4346 | | 11.40% | | 4.95% | 24.88 | 26.53 | |
| 5 | | | 2010 | 0.3846 | | 10.50% | | 4.04% | 25.95 | 26.67 | |
| 6 | | | GROWTH 2006 - 2010 | | | | | 4.78% | 4.00% | | -0.53% |
| 7 | | | 2011 | 0.3176 | | 9.50% | | 3.02% | | 26.75 | 0.30% |
| 8 | | | 2012 | 0.3407 | | 9.50% | | 3.24% | | 26.80 | 0.24% |
| 9 | | | 2014-16 | 0.4412 | | 10.00% | | 4.41% | 6.00% | 26.95 | 0.21% |
| 10 | | | | | | | | | | | |
| 11 | PNY | PIEDMONT NATURAL GAS COMPANY | 2006 | 0.2578 | | 11.00% | | 2.84% | 11.83 | 74.61 | |
| 12 | | | 2007 | 0.2929 | | 11.90% | | 3.49% | 11.99 | 73.23 | |
| 13 | | | 2008 | 0.3087 | | 12.40% | | 3.83% | 12.11 | 73.26 | |
| 14 | | | 2009 | 0.3593 | | 13.20% | | 4.74% | 12.67 | 73.27 | |
| 15 | | | 2010 | 0.2839 | | 11.60% | | 3.29% | 13.35 | 72.28 | |
| 16 | | | GROWTH 2006 - 2010 | | | | | 3.64% | 3.50% | | -0.79% |
| 17 | | | 2011 | 0.2813 | | 12.00% | | 3.38% | | 71.50 | -1.08% |
| 18 | | | 2012 | 0.3000 | | 12.00% | | 3.60% | | 71.00 | -0.89% |
| 19 | | | 2014-16 | 0.3105 | | 12.50% | | 3.88% | 3.00% | 68.00 | -1.21% |
| 20 | | | | | | | | | | | |
| 21 | SJI | SOUTH JERSEY INDUSTRIES, INC. | 2006 | 0.6260 | | 16.30% | | 10.20% | 15.11 | 29.33 | |
| 22 | | | 2007 | 0.5167 | | 12.80% | | 6.61% | 16.25 | 29.61 | |
| 23 | | | 2008 | 0.5110 | | 13.10% | | 6.69% | 17.33 | 29.73 | |
| 24 | | | 2009 | 0.4874 | | 13.10% | | 6.38% | 18.24 | 29.80 | |
| 25 | | | 2010 | 0.4963 | | 14.20% | | 7.05% | 19.08 | 29.87 | |
| 26 | | | GROWTH 2006 - 2010 | | | | | 7.39% | 8.00% | | 0.46% |
| 27 | | | 2011 | 0.5148 | | 14.50% | | 7.46% | | 31.00 | 3.78% |
| 28 | | | 2012 | 0.5224 | | 15.00% | | 7.84% | | 32.00 | 3.50% |
| 29 | | | 2014-16 | 0.5122 | | 15.50% | | 7.94% | 6.50% | 34.00 | 2.62% |
| 30 | | | | | | | | | | | |
| 31 | SWX | SOUTHWEST GAS CORPORATION | 2006 | 0.5859 | | 8.90% | | 5.21% | 21.58 | 41.77 | |
| 32 | | | 2007 | 0.5590 | | 8.50% | | 4.75% | 22.98 | 42.81 | |
| 33 | | | 2008 | 0.3525 | | 5.90% | | 2.08% | 23.49 | 44.19 | |
| 34 | | | 2009 | 0.5103 | | 7.90% | | 4.03% | 24.44 | 45.09 | |
| 35 | | | 2010 | 0.5595 | | 8.90% | | 4.98% | 25.59 | 45.60 | |
| 36 | | | GROWTH 2006 - 2010 | | | | | 4.21% | 5.00% | | 2.22% |
| 37 | | | 2011 | 0.5583 | | 9.00% | | 5.03% | | 46.50 | 1.97% |
| 38 | | | 2012 | 0.5769 | | 9.50% | | 5.48% | | 48.00 | 2.60% |
| 39 | | | 2014-16 | 0.5968 | | 9.50% | | 5.67% | 4.50% | 50.00 | 1.86% |

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 09/09/2011
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2006 - 2010

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16, 26 & 36, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2010
DIVIDEND GROWTH COMPONENTS

DOCKET NO. W-01445A-10-0517
SCHEDULE WAR - 5
PAGE 4 OF 4

| LINE NO. | STOCK SYMBOL | NATURAL GAS LDC NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | x | (B) RETURN ON BOOK EQUITY (r) | = | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE ($/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | WGL | WGL HOLDINGS, INC. | 2006 | 0.3041 | | 10.30% | | 3.13% | 18.86 | 48.89 | |
| 2 | | | 2007 | 0.3445 | | 10.30% | | 3.55% | 19.83 | 49.45 | |
| 3 | | | 2008 | 0.4221 | | 11.60% | | 4.90% | 20.99 | 49.92 | |
| 4 | | | 2009 | 0.4190 | | 11.60% | | 4.86% | 21.89 | 50.14 | |
| 5 | | | 2010 | 0.3392 | | 9.90% | | 3.36% | 22.82 | 50.54 | |
| 6 | | | GROWTH 2006 - 2010 | | | | | 3.96% | 5.00% | | 0.83% |
| 7 | | | 2011 | 0.2955 | | 9.50% | | 2.81% | | 51.00 | 0.91% |
| 8 | | | 2012 | 0.3234 | | 9.50% | | 3.07% | | 51.00 | 0.45% |
| 9 | | | 2014-16 | 0.3547 | | 10.00% | | 3.55% | 3.50% | 52.00 | 0.57% |

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 09/09/2011
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINE 6, SIMPLE AVERAGE GROWTH, 2006 - 2010

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINE 6, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2010
GROWTH RATE COMPARISON

DOCKET NO. W-01445A-10-0517
SCHEDULE WAR - 6

**WATER COMPANY SAMPLE:**

| LINE NO. | STOCK SYMBOL | (A) (br) + (sv) | (B) ZACKS EPS | (C) VALUE LINE PROJECTED EPS | DPS | BVPS | (D) VALUE LINE HISTORIC EPS | DPS | BVPS | (E) VALUE LINE & ZACKS AVGS. | (F) 5 - YEAR COMPOUND HISTORY EPS | DPS | BVPS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | AWR | 6.85% | 12.00% | 5.50% | 4.00% | 2.00% | 11.50% | 2.50% | 5.00% | 6.07% | 13.66% | 3.39% | 5.04% |
| 2 | CWT | 6.02% | 10.00% | 6.00% | 3.00% | 3.00% | 6.50% | 1.00% | 5.50% | 5.00% | 7.95% | 0.85% | 3.60% |
| 3 | SJW | 4.64% | - | 7.50% | 3.50% | 2.50% | -1.50% | 5.50% | 6.50% | 4.00% | -8.34% | 4.51% | 2.45% |
| 4 | WTR | 5.99% | 8.30% | 10.50% | 5.50% | 6.00% | 4.50% | 8.00% | 7.00% | 7.11% | 6.48% | 7.61% | 5.16% |
| 5 | | | | 7.38% | 4.00% | 3.38% | 5.25% | 4.25% | 6.00% | | 4.94% | 4.09% | 4.06% |
| 6 | AVERAGES | 5.87% | 10.10% | | 4.92% | | | 5.17% | | 5.55% | | 4.37% | |

**NATURAL GAS LDC SAMPLE:**

| LINE NO. | STOCK SYMBOL | (A) (br) + (sv) | (B) ZACKS EPS | (C) VALUE LINE PROJECTED EPS | DPS | BVPS | (D) VALUE LINE HISTORIC EPS | DPS | BVPS | (E) VALUE LINE & ZACKS AVGS. | (F) 5 - YEAR COMPOUND HISTORY EPS | DPS | BVPS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | AGL | 5.91% | 4.30% | 5.00% | 3.00% | 6.00% | 4.50% | 7.50% | 5.50% | 5.11% | 2.48% | 4.43% | 2.92% |
| 2 | ATO | 4.62% | 4.30% | 5.00% | 2.00% | 4.50% | 4.00% | 1.50% | 5.00% | 3.76% | 1.94% | 1.55% | 4.63% |
| 3 | LG | 5.29% | 3.00% | 2.50% | 2.50% | 5.00% | 7.50% | 2.50% | 7.00% | 4.29% | 0.63% | 2.91% | 6.25% |
| 4 | NJR | 7.01% | 4.50% | 4.00% | 4.50% | 6.00% | 8.50% | 7.50% | 10.00% | 6.43% | 7.10% | 9.10% | 3.97% |
| 5 | NWN | 4.48% | 4.30% | 4.50% | 2.50% | 6.00% | 9.50% | 3.50% | 4.00% | 4.90% | 3.82% | 4.85% | 4.20% |
| 6 | PNY | 4.01% | 4.70% | 3.00% | 3.50% | 3.00% | 5.00% | 4.50% | 3.50% | 3.89% | 4.90% | 3.97% | 3.07% |
| 7 | SJI | 10.69% | 6.00% | 9.00% | 8.50% | 6.50% | 9.50% | 8.50% | 8.00% | 8.00% | 2.35% | 10.27% | 6.01% |
| 8 | SWX | 6.22% | 5.30% | 9.00% | 4.50% | 4.50% | 6.00% | 2.00% | 5.00% | 5.19% | 3.48% | 5.09% | 4.35% |
| 9 | WGL | 3.81% | 5.20% | 1.50% | 2.50% | 3.50% | 2.50% | 2.50% | 5.00% | 3.24% | 4.01% | 2.67% | 4.88% |
| 10 | | | | 4.83% | 3.72% | 5.00% | 6.33% | 4.44% | 5.89% | | 3.41% | 4.98% | 4.48% |
| 11 | AVERAGES | 5.78% | 4.62% | | 4.52% | | | 5.56% | | 4.98% | | 4.29% | |

REFERENCES:
COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 10/21/2011 (WATER COMPANIES) AND 09/09/2011 (NATURAL GAS LDC's)
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 10/21/2011 (WATER COMPANIES) AND 09/09/2011 (NATURAL GAS LDC's)
COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1 THRU 3 (WATER) AND 1 THRU 9 (NATURAL GAS)
COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 10/21/2011 (WATER COMPANIES) AND 09/09/2011 (NATURAL GAS LDC's)

**ARIZONA WATER COMPANY**
**TEST YEAR ENDED DECEMBER 31, 2010**
**CAPM COST OF EQUITY CAPITAL**

**DOCKET NO. W-01445A-10-0517**
**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 | = | 0.97% | + [ | 0.75 | x ( | 9.90% | - | 5.40% | ) ] | = | 4.34% |
| 2 | CWT | k | = | 0.97% | + [ | 0.70 | x ( | 9.90% | - | 5.40% | ) ] | = | 4.12% |
| 3 | SJW | k | = | 0.97% | + [ | 0.90 | x ( | 9.90% | - | 5.40% | ) ] | = | 5.02% |
| 4 | WTR | k | = | 0.97% | + [ | 0.65 | x ( | 9.90% | - | 5.40% | ) ] | = | 3.89% |
| 5 | **WATER COMPANY AVERAGE** | | | | | 0.75 | | | | | | | 4.34% |
| 6 | AGL | k | = | 0.97% | + [ | 0.75 | x ( | 9.90% | - | 5.40% | ) ] | = | 4.34% |
| 7 | ATO | k | = | 0.97% | + [ | 0.70 | x ( | 9.90% | - | 5.40% | ) ] | = | 4.12% |
| 8 | LG | k | = | 0.97% | + [ | 0.60 | x ( | 9.90% | - | 5.40% | ) ] | = | 3.67% |
| 9 | NJR | k | = | 0.97% | + [ | 0.65 | x ( | 9.90% | - | 5.40% | ) ] | = | 3.89% |
| 10 | NWN | k | = | 0.97% | + [ | 0.60 | x ( | 9.90% | - | 5.40% | ) ] | = | 3.67% |
| 11 | PNY | k | = | 0.97% | + [ | 0.65 | x ( | 9.90% | - | 5.40% | ) ] | = | 3.89% |
| 12 | SJI | k | = | 0.97% | + [ | 0.65 | x ( | 9.90% | - | 5.40% | ) ] | = | 3.89% |
| 13 | SWX | k | = | 0.97% | + [ | 0.75 | x ( | 9.90% | - | 5.40% | ) ] | = | 4.34% |
| 14 | WGL | k | = | 0.97% | + [ | 0.65 | x ( | 9.90% | - | 5.40% | ) ] | = | 3.89% |
| 15 | **NATURAL GAS LDC AVERAGE** | | | | | 0.67 | | | | | | | 3.97% |

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 09/26/2011 THROUGH 11/18/2011 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 - 2010 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURIES DURING THE SAME PER THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2011 YEARBOOK.

BASED ON AN ARITHMETIC MEAN:

| LINE NO. | STOCK SYMBOL | k | = | $r_f$ | + [ | (A) ß | x ( | $r_m$ | - | $r_f$ | ) ] = | (B) EXPECTED RETURN |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | AWR | k | = | 0.97% | + [ | 0.75 | x ( | 11.90% | - | 5.50% | ) ] = | 5.77% |
| 2 | CWT | k | = | 0.97% | + [ | 0.70 | x ( | 11.90% | - | 5.50% | ) ] = | 5.45% |
| 3 | SJW | k | = | 0.97% | + [ | 0.90 | x ( | 11.90% | - | 5.50% | ) ] = | 6.73% |
| 4 | WTR | k | = | 0.97% | + [ | 0.65 | x ( | 11.90% | - | 5.50% | ) ] = | 5.13% |
| 5 | WATER COMPANY AVERAGE | | | | | 0.75 | | | | | | 5.77% |
| 6 | AGL | k | = | 0.97% | + [ | 0.75 | x ( | 11.90% | - | 5.50% | ) ] = | 5.77% |
| 7 | ATO | k | = | 0.97% | + [ | 0.70 | x ( | 11.90% | - | 5.50% | ) ] = | 5.45% |
| 8 | LG | k | = | 0.97% | + [ | 0.60 | x ( | 11.90% | - | 5.50% | ) ] = | 4.81% |
| 9 | NJR | k | = | 0.97% | + [ | 0.65 | x ( | 11.90% | - | 5.50% | ) ] = | 5.13% |
| 10 | NWN | k | = | 0.97% | + [ | 0.60 | x ( | 11.90% | - | 5.50% | ) ] = | 4.81% |
| 11 | PNY | k | = | 0.97% | + [ | 0.65 | x ( | 11.90% | - | 5.50% | ) ] = | 5.13% |
| 12 | SJI | k | = | 0.97% | + [ | 0.65 | x ( | 11.90% | - | 5.50% | ) ] = | 5.13% |
| 13 | SWX | k | = | 0.97% | + [ | 0.75 | x ( | 11.90% | - | 5.50% | ) ] = | 5.77% |
| 14 | WGL | k | = | 0.97% | + [ | 0.65 | x ( | 11.90% | - | 5.50% | ) ] = | 5.13% |
| 15 | NATURAL GAS LDC AVERAGE | | | | | 0.67 | | | | | | 5.23% |

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 09/26/2011 THROUGH 11/18/2011 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 - 2010 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURIES DURING THE SA
THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2011 YEARBO

**ARIZONA WATER COMPANY**
**TEST YEAR ENDED DECEMBER 31, 2010**
**ECONOMIC INDICATORS - 1990 TO PRESENT**

**DOCKET NO. E-01345A-11-0224**
**SCHEDULE WAR - 8**

| LINE NO. | YEAR | (A) CHANGE IN CPI | (B) CHANGE IN GDP (1996 $) | (C) PRIME RATE | (D) FED. DISC. RATE | (E) FED. FUNDS RATE | (F) 91-DAY T-BILLS | (G) 30-YR T-BONDS | (H) A-RATED UTIL. BOND YIELD | (I) Baa-RATED UTIL. BOND YIELD |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 1990 | 5.39% | 1.90% | 10.01% | 6.98% | 8.10% | 7.50% | 7.49% | 9.86% | 10.06% |
| 2 | 1991 | 4.25% | -0.20% | 8.46% | 5.45% | 5.69% | 5.38% | 5.38% | 9.36% | 9.55% |
| 3 | 1992 | 3.03% | 3.30% | 6.25% | 3.25% | 3.52% | 3.43% | 3.43% | 8.69% | 8.86% |
| 4 | 1993 | 2.96% | 2.70% | 6.00% | 3.00% | 3.02% | 3.00% | 3.00% | 7.59% | 7.91% |
| 5 | 1994 | 2.61% | 4.00% | 7.14% | 3.60% | 4.21% | 4.25% | 4.25% | 8.31% | 8.63% |
| 6 | 1995 | 2.81% | 2.50% | 8.83% | 5.21% | 5.83% | 5.49% | 5.49% | 7.89% | 8.29% |
| 7 | 1996 | 2.93% | 3.70% | 8.27% | 5.02% | 5.30% | 5.01% | 5.01% | 7.75% | 8.17% |
| 8 | 1997 | 2.34% | 4.50% | 8.44% | 5.00% | 5.46% | 5.06% | 5.06% | 7.60% | 8.12% |
| 9 | 1998 | 1.55% | 4.20% | 8.35% | 4.92% | 5.35% | 4.78% | 4.78% | 7.04% | 7.27% |
| 10 | 1999 | 2.19% | 4.50% | 7.99% | 4.62% | 4.97% | 4.64% | 4.64% | 7.62% | 7.88% |
| 11 | 2000 | 3.38% | 3.70% | 9.23% | 5.73% | 6.24% | 5.82% | 5.82% | 8.24% | 8.36% |
| 12 | 2001 | 2.83% | 0.80% | 6.92% | 3.41% | 3.88% | 3.40% | 5.95% | 7.59% | 8.02% |
| 13 | 2002 | 1.59% | 1.60% | 4.67% | 1.17% | 1.67% | 1.61% | 5.38% | 7.41% | 7.98% |
| 14 | 2003 | 2.27% | 2.50% | 4.12% | 2.03% | 1.13% | 1.01% | 4.92% | 6.18% | 6.64% |
| 15 | 2004 | 2.68% | 3.60% | 4.34% | 2.34% | 1.35% | 1.37% | 5.03% | 5.77% | 6.20% |
| 16 | 2005 | 3.39% | 2.90% | 6.16% | 4.19% | 3.22% | 3.15% | 4.57% | 5.38% | 5.78% |
| 17 | 2006 | 3.24% | 2.80% | 7.97% | 5.96% | 4.97% | 4.73% | 4.91% | 5.94% | 6.30% |
| 18 | 2007 | 2.85% | 2.90% | 8.05% | 5.86% | 5.02% | 4.36% | 4.84% | 6.07% | 6.24% |
| 19 | 2008 | 3.84% | -6.80% | 5.09% | 2.39% | 1.92% | 1.37% | 4.28% | 6.34% | 6.64% |
| 20 | 2009 | -0.36% | 5.00% | 3.25% | 0.50% | 0.00% - 0.25% | 0.15% | 4.08% | 5.84% | 6.87% |
| 21 | 2010 | 1.64% | 2.80% | 3.25% | 0.72% | 0.00% - 0.25% | 0.13% | 4.25% | 5.50% | 5.98% |
| 22 | CURRENT | 3.50% | 2.00% | 3.25% | 0.75% | 0.00% - 0.25% | 0.01% | 3.03% | 4.14% | 4.83% |

<u>REFERENCES:</u>
COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS WEB SITE
COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
COLUMN (C) THROUGH (D): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 11/18/2011
COLUMN (F) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 11/18/2011

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2010
ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. W-01445A-10-0517
SCHEDULE WAR - 9

## AVERAGE CAPITAL STRUCTURES OF SAMPLE WATER COMPANIES

| LINE NO. | | AWR | PCT. | CWT | PCT. | SJW | PCT. | WTR | PCT. | WATER COMPANY AVERAGE | PCT. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | DEBT | $ 299.8 | 44.3% | $ 479.2 | 52.4% | $ 295.7 | 53.7% | $ 1,532.0 | 56.6% | $ 651.7 | 53.8% |
| 2 | | | | | | | | | | | |
| 3 | PREFERRED STOCK | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | 0.0% | - | 0.0% |
| 4 | | | | | | | | | | | |
| 5 | COMMON EQUITY | 377.5 | 55.7% | 435.5 | 47.6% | 255.0 | 46.3% | 1,174.3 | 43.4% | 560.6 | 46.2% |
| 6 | | | | | | | | | | | |
| 7 | TOTALS | $ 677.4 | 100% | $ 914.7 | 100% | $ 550.7 | 100% | $ 2,706.2 | 100% | $ 1,212.3 | 100% |

## AVERAGE CAPITAL STRUCTURES OF SAMPLE NATURAL GAS COMPANIES

| LINE NO. | | AGL | PCT. | ATO | PCT. | LG | PCT. | NJR | PCT. | NWN | PCT. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2 | | | | | | | | | | | |
| 3 | DEBT | $ 1,673.0 | 47.7% | $ 1,809.6 | 45.4% | $ 364.3 | 47.0% | $ 428.9 | 37.2% | $ 591.7 | 46.1% |
| 4 | | | | | | | | | | | |
| 5 | PREFERRED STOCK | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | 0.0% |
| 6 | | | | | | | | | | | |
| 7 | COMMON EQUITY | 1,836.0 | 52.3% | 2,178.3 | 54.6% | 411.3 | 53.0% | 725.5 | 62.8% | 693.1 | 53.9% |
| 8 | | | | | | | | | | | |
| 9 | TOTALS | $ 3,509.0 | 100% | $ 3,987.9 | 100% | $ 775.6 | 100% | $ 1,154.4 | 100% | $ 1,284.8 | 100% |
| 10 | | | | | | | | | | | |
| 11 | | | | | | | | | | | |
| 12 | | | | | | | | | | | |
| 13 | | PNY | PCT. | SJI | PCT. | SWX | PCT. | WGL | PCT. | NATURAL GAS LDC AVERAGE | PCT. |
| 14 | | | | | | | | | | | |
| 15 | DEBT | $ 671.9 | 41.0% | $ 340.0 | 37.4% | $ 1,169.4 | 49.3% | $ 592.9 | 33.4% | $ 849.1 | 43.9% |
| 16 | | | | | | | | | | | |
| 17 | PREFERRED STOCK | 0.0 | 0.0% | 0.0 | 0.0% | 100.0 | 4.2% | 28.2 | 1.6% | $ 14.2 | 0.7% |
| 18 | | | | | | | | | | | |
| 19 | COMMON EQUITY | 964.9 | 59.0% | 570.1 | 62.6% | 1,102.1 | 46.5% | 1,153.4 | 65.0% | 1,070.5 | 55.4% |
| 20 | | | | | | | | | | | |
| 21 | TOTALS | $ 1,636.9 | 100% | $ 910.1 | 100% | $ 2,371.4 | 100% | $1,774.4 | 100% | $ 1,933.8 | 100% |
| 22 | | | | | | | | | | | |
| 23 | | | | | | | | | | | |
| 24 | | WATER & LDC | | | | | | | | | |
| 25 | | AVERAGE | PCT. | | | | | | | | |
| 26 | | | | | | | | | | | |
| 27 | DEBT | $ 750.4 | 47.7% | | | | | | | | |
| 28 | | | | | | | | | | | |
| 29 | PREFERRED STOCK | 7.1 | 0.5% | | | | | | | | |
| 30 | | | | | | | | | | | |
| 31 | COMMON EQUITY | 815.6 | 51.8% | | | | | | | | |
| 32 | | | | | | | | | | | |
| 33 | TOTALS | $ 1,573.0 | 100% | | | | | | | | |

REFERENCE: