

ORIGINAL



0000142167

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

2013 FEB -8 A 9:52

ARIZONA CORP COMMISSION
DOCKET CONTROL

- 1
- 2 BOB STUMP
CHAIRMAN
- 3 GARY PIERCE
COMMISSIONER
- 4 BRENDA BURNS
COMMISSIONER
- 5 ROBERT BURNS
COMMISSIONER
- 6 SUSAN BITTER SMITH
COMMISSIONER
- 7

Docket No. WS-03478A-12-0307

8 IN THE MATTER OF THE APPLICATION OF
 9 FAR WEST WATER & SEWER, INC., AN
 10 ARIZONA CORPORATION, FOR A
 11 DETERMINATION OF THE CURRENT FAIR
 VALUE OF ITS UTILITY PLANT AND
 PROPERTY AND FOR INCREASES IN ITS
 WASTEWATER RATES AND CHARGES
 BASED THEREON FOR UTILITY SERVICE.

NOTICE OF FILING

12

13

14 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing

15 the Direct Testimony of Thomas H. Fish, Royce A. Duffett, William A. Rigsby and Timothy

16 J. Coley in the above-referenced matter.

17 RESPECTFULLY SUBMITTED this 8th day of February, 2013.

18
19 Arizona Corporation Commission

20 DOCKETED

21 FEB 08 2013

22 DOCKETED BY 



23 Michelle L. Wood
24 Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 8th day
3 of February, 2013 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, Arizona 85007

6 COPIES of the foregoing hand delivered/
7 mailed this 8th day of February, 2013 to:

8 Lyn Farmer
9 Chief Administrative Law Judge
10 Hearing Division
11 Arizona Corporation Commission
12 1200 West Washington
13 Phoenix, Arizona 85007

11 Janice Alward, Chief Counsel
12 Legal Division
13 Arizona Corporation Commission
14 1200 West Washington
15 Phoenix, Arizona 85007

14 Steven Olea, Director
15 Utilities Division
16 Arizona Corporation Commission
17 1200 West Washington
18 Phoenix, Arizona 85007

17 Jeffrey W. Crockett
18 Brownstein Hyatt Farber Schreck LLP
19 One E. Washington St., Suite 2400
20 Phoenix, Arizona 85004

19 Craig A. Marks
20 Craig A. Marks, PLC
21 10645 N. Tatum Blvd., Suite 200-676
22 Phoenix, Arizona 85028

22 Robert C. Gilkey
23 Barbara S. Gilkey
24 14784 E. 49th Street
Yuma, AZ 85367

Robert Rist
9593 E. 34th Place
Yuma, AZ 85365

Rodney Taylor
Kim Taylor
11440 E. 26th Lane
Yuma, AZ 85367

Seth Davis
Barbara Davis
2006 S. Arboleda Dr.
Merced, CA 95341

Jerry S. Durden
12789 E. 46th St.
Yuma, AZ 85367

By Cheryl Fraulob
Cheryl Fraulob

FAR WEST WATER & SEWER, INC.

DOCKET NO. WS-03478A-12-0307

DIRECT TESTIMONY

OF

THOMAS H. FISH, Ph.D.

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

FEBRUARY 8, 2013

1
2
3
4
5
6
7
8

TABLE OF CONTENTS

EXECUTIVE SUMMARY i

INTRODUCTION 1

BACKGROUND OF THE FAR WEST WATER AND SEWER SYSTEM 3

 TABLE 1 – Far West Wastewater Design Capacities..... 4

USED AND USEFUL 11

 TABLE 2 - Analysis Summary 15

EXECUTIVE SUMMARY

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32

On July 6, 2012 Far West Water & Sewer, Inc. ("FWWS") filed for a rate increase for its wastewater rates. According to its application the Company claimed that it had invested in major upgrades to its wastewater facilities and required a rate increase to recover its additional costs of providing service.

The Company claimed that its rate base had increased significantly. The Company also claimed that in 2009 (Decision No. 71447) the Commission found its wastewater division to be insolvent. Further, the Company claims that its financial condition has not improved since then.

In this case, Far West requests a rate increase of \$3,866,046, or 173.52% in order for it to earn a rate of return on its original cost rate base of 7.40%. A residential customer's monthly bill would increase by \$40.90 to \$62.65 per month, an increase of 188.05%.

My testimony describes and presents evaluations, observations and recommendations regarding whether the Company's wastewater treatment plant investment is used and useful. My analysis is geared towards determining whether FWWS's request to place the original cost of its treatment plant upgrade in rate base is in the ratepayer's best interest.

As a result of my review and evaluation of the information available in this proceeding I have determined that no more than 69.9% of the investment in wastewater treatment should be considered to be beneficial to current Far West customers and the balance could be beneficial to future Far West wastewater customers.

As a result of my analysis I determined that Far West overstated its depreciable utility plant in service (UPIS) by \$10,936,720 which results in an overstatement of the revenue requirement by \$1,329,304.¹

¹ Adjustment is based on RUCO's rate of return and Gross Conversion Factor.

1 **INTRODUCTION**

2 **Q. Please describe your professional experience.**

3 A. I have provided expert witness and consulting services in Economics,
4 Finance, Utility Regulation, Industrial Organization, and related areas in
5 administrative and judicial litigation proceedings for over thirty years. I
6 have also taught graduate and undergraduate college classes in
7 Economics, Finance, Quantitative Methods, Financial Accounting,
8 Managerial Accounting, Cost Accounting, Management and related
9 classes.

10

11 **Q. Please provide a summary of the Far West application.**

12 A. On July 6, 2012 Far West Water & Sewer, Inc. ("the Company", "Far
13 West", or "FWWS") filed an Application for a rate increase for its
14 wastewater rates. Far West provides wastewater service in
15 unincorporated areas of Yuma County, Arizona. FWWS stated that it had
16 invested in major upgrades to its wastewater facilities, as required by a
17 Consent Judgment with the Arizona Department of Environmental Quality.
18 The Company claims that it does not have sufficient resources to pay all of
19 its bills as they become due and obligations to multiple parties are
20 overdue because of its investment in new plant.

21 Far West currently charges residential customers a flat monthly charge of
22 \$21.75 for wastewater service. It is requesting a \$40.90 per month

1 increase (188.05%). The total rate increase requested is \$3,866,046, or
2 173.52%.

3 Far West is a Class A utility providing water and wastewater to
4 approximately 15,500 water customers and 7,067 residential, 44
5 commercial wastewater customers and four recreational vehicle parks
6 containing 713 spaces. Most of the Company's wastewater customers are
7 also Far West's water customers.

8

9 **Q. What is the nature of your testimony in this proceeding?**

10 A. My testimony describes and presents evaluations, observations and
11 recommendations regarding whether the plant, as constructed, is currently
12 used and useful. My analysis is geared towards determining whether Far
13 West's request to place the original cost of its wastewater treatment plants
14 in rate base is in the ratepayer's best interest.

15 Ariadair Economics Group was directed by RUCO to analyse and report
16 on all adjustments to rate base related to the wastewater processing plant
17 upgrades, whether the plant is used and useful including an analysis of
18 excess capacity, if any.

19

20 **Q. What were the major components of your evaluation?**

21 A. My colleague, Mr. Royce Duffett, P.E., and I visited the Far West office
22 and treatment plants in Yuma and interviewed Far West employees. In
23 addition, I reviewed, analysed and evaluated the Company's application in

1 this matter, the history of the Far West wastewater system, the Company's
2 work papers, and its responses to data requests submitted by RUCO and
3 other participants in the proceeding. I also reviewed the engineering
4 report submitted in Docket 08-0454 as well as the 12/31/2011 Annual
5 Water & Sewer Report submitted by the Company to the Commission.

6

7 **Q. Was this testimony prepared by you or under your supervision?**

8 A. Yes.

9

10 **BACKGROUND OF THE FAR WEST WATER AND SEWER SYSTEM**

11 **Q. Would you describe the background of the Far West Water and**
12 **Sewer system?**

13 A. Yes. On December 19, 2008, Far West Water & Sewer Company filed an
14 emergency application, WS-03478A-08-0608, for the immediate
15 implementation of interim rates for sewer service. Those rates would be
16 effective until a decision had been issued on the Company's application
17 for permanent rate increase. The Company had filed an application
18 for permanent rates on August 29, 2008, in Docket No. WS-03478A-08-
19 0454. By Procedural Order dated December 10, 2008, the permanent
20 rate case was set for hearing to commence on July 29, 2009. Following
21 the filing of the emergency rate application, by Procedural Order dated
22 January 23, 2009, the proceedings in the permanent rate case were
23 suspended pending the conclusion of the emergency case.

1 The shareholders of Far West are sisters Paula Capestro and Sandy
2 Braden. Mr. Andrew Capestro is married to Paula Capestro and oversaw
3 the Company during its sewer renovation project.

4
5 **TABLE 1 – Far West Wastewater Design Capacities**

Plant	2011 Design Capacity
Marwood	340,000
Section 14	1,300,000
MDS – Villa Royale	10,000
MDS – Del Oro	495,000
MDS – Del Rey	37,500
Seasons	150,000
Palm Shadows	0
TOTAL	2,332,500

6
7 **Q. Did the Arizona Department of Environmental Quality (ADEQ)**
8 **investigate Far West’s sewer operation?**

9 **A.** Yes. After customer complaints about odors and effluent quality, the
10 ADEQ investigated the Company’s sewer operations. On March 10, 2006,
11 ADEQ entered into a Consent Order with Far West with respect to the Del
12 Oro treatment facility. In that Consent Order, Far West was required to
13 make short, medium and long-term measures to address operational,
14 maintenance, capacity and permitting deficiencies associated with the Del
15 Oro plant.

16
17
18

1 **Q. Did Far West hire an engineering firm?**

2 A. Yes. In April 2006, after the Del Oro Consent Order, Far West stated that
3 it hired Coriolis, an engineering firm, to perform a comprehensive review
4 of the entire utility, water and sewer, including addressing the issues of
5 the wastewater plants. Before Coriolis could prepare a comprehensive
6 engineering study, however, Far West claims, that the Company had to
7 address the issues surrounding the Del Oro treatment plant. With the
8 assistance of Coriolis, Far West was able to locate a temporary treatment
9 facility. Far West was able to have the temporary plant installed and
10 operational before the deadline in the ADEQ Consent Order. Far West
11 then turned its attention to the system wide odor problem which resulted in
12 the Company injecting dioxide chemicals throughout the system and
13 installing carbon filters.

14 According to Far West, Coriolis found that the Company had many more
15 issues besides the Del Oro Treatment Plant. After addressing the
16 deficiencies at the Del Oro Plant and the odor problems, the Company
17 stated that it then proceeded to address longer-term goals of designing as
18 system that which would allow the Company to maneuver itself into a
19 more manageable position. The Company claims it did not have proper
20 plant inventories or maps of its systems and had a hard time locating
21 facilities for repair and maintenance and keeping track of customers so
22 Coriolis recommended that Far West engage in a mapping project and
23 purchase new billing software.

1 **Q. What else did Coriolis determine?**

2 A. According to Far West, Coriolis determined that all of Far West's
3 wastewater plants, except the Marwood plant, required major
4 modifications. The engineers determined that Far West had too many
5 treatment plants for the size of its service area. Far West claimed that
6 the hodgepodge of treatment plants was the result of the rapid
7 development, with individual developers building the plant capacity that
8 they needed for their individual developments and then contributing the
9 plant to Far West. In addition, the treatment systems were not working
10 properly and could not easily be made to work properly. Problems with
11 the wastewater treatment plants included inadequate aeration in the
12 tanks, and inadequate mechanisms for handling sludge and removing
13 effluent. As a result, Far West's treatment plants were not meeting the
14 applicable nitrogen requirements and were sometimes exceeding turbidity
15 and fecal coliform limits.

16
17 **Q. Did Coriolis design a sewer renovation project?**

18 A. Yes. Coriolis designed a sewer renovation project which involves
19 expanding the Section 14 plant, from a capacity of 150,000 gpd to 1.3
20 million gpd, closing the Palm Shadows plant and diverting the flows that
21 had been going to Palm Shadows to Section 14 for treatment. The Palm
22 Shadows plant would be decommissioned and converted to a lift station.
23 The Del Oro plant would be expanded from a capacity of 300,000 gpd to

1 495,000 gpd. Then, the Villa Del Rey and Villa Royale flows would be
2 diverted to the new Del Oro plant, and the Villa Del Rey and Villa Royale
3 plants would be closed. The temporary plant currently installed at Del Oro
4 would be moved to the Seasons plant, which would expand that capacity
5 from 70,000 gpd to 150,000 gpd. In addition, some of the flows currently
6 treated at Marwood plant would also be diverted to the Section 14 Plant.

7

8 **Q. How did Far West propose to finance the plant improvements?**

9 A. In July 2006, the Company obtained the first of two bridge anticipation
10 notes ("BANs"). The first BAN, was in the amount of \$11.1 million, and
11 was secured by the pledge of the shareholders' stock in Far West. The
12 purpose of the first BAN was to allow Far West to begin funding the
13 costs of the system-wide improvements, including design and engineering
14 costs.

15 On October 25, 2006, Far West entered into a second Consent Order with
16 ADEQ, which order superseded the first. The new Consent Order
17 required Far West to Apply for new or amended aquifer protection
18 permits ("APPs") for the Del Oro, Seasons and Section 14 plants, as well
19 as closure permits for the Villa Royale, Villa Del Rey and Palm Shadows
20 plants. The Company was required to submit APP applications relating to
21 these projects within 30 to 90 days. The Company met the deadlines for
22 these submissions.

1 On December 31, 2006, Far West closed on a second BAN for \$17.7
2 million which was secured by a pledge of the shareholders' stock. The
3 purpose of the second BAN was to pay off the first BAN and provide
4 additional funds to cover the costs of the on-going water and sewer
5 system renovation. Far West stated that Coriolis' goal was to complete its
6 work for Far West by February 2007. Far West's shareholders used the
7 BANs to continue the procurement process and begin construction. Far
8 West determined that it would order plant prior to receiving ADEQ
9 approval of the APPs. The Company believed that they could start
10 ordering equipment as long as it did not book the plant until after it
11 received the APP approvals from ADEQ.

12

13 **Q. What did ADEQ direct Far West to do in the Second Consent Order?**

14 **A.** In the Second Consent Order, ADEQ directed Far West to cease all
15 construction-related activities, including procuring equipment until the
16 APPs were issued. Far West stated that it tried to convince ADEQ to
17 allow it to proceed at its own risk with construction activities, but ADEQ
18 would not agree. All construction and most procurement activities stopped
19 until ADEQ issued the APPs. Far West stated that it took ADEQ 18
20 months to issue all of the permits.

21

22 During the period ADEQ had the APPs under review, Far West states that
23 it undertook activities that did not require ADEQ permits, such as

1 preparing sites for the renovation projects and preparing a long-range
2 engineering study. Far West stated that it also sought permanent
3 financing for the system improvements. The Company obtained a
4 commitment for the issuance of Industrial Development Authority ("IDA")
5 bonds through the Yuma County IDA in the amount of \$32.5 million. The
6 projects included in the request included "acquisition, construction and
7 installation of improvements to Far West's wastewater treatment plants
8 and drinking water treatment system."

9
10 **Q. Did the IDA financing require Commission approval?**

11 **A.** Yes. The IDA financing required Commission approval and on July 26,
12 2007, Far West filed a Financing Application with the Commission.
13 Far West concluded that under its existing rates it might not be able to
14 support a Financing Application with the Commission for the entire \$32.5
15 million, and thus, reduced its IDA funding request to a little more than
16 \$25 million. The \$25 million was intended to allow Far West to pay off an
17 existing WIFA loan in the amount of \$4.45 million, pay off the second BAN
18 and construct the sewer system upgrades once ADEQ approved the
19 APPS. Far West's Financing Application sought authority to issue
20 evidence of indebtedness in an amount not to exceed \$25,215,000 for
21 the purpose of constructing sewer system infrastructure improvement
22 needed to ensure safe and reliable utility service and comply with the two
23 Consent Orders between the Company and the ADEQ and for repayment

1 and consolidation of certain existing debt, which was incurred by the
2 Company on a short-term basis for similar purposes. On October 30,
3 2007, in Decision No. 69950, the Commission authorized Far West to
4 obtain the IDA financing.

5

6 **Q. Were all of the IDA funds used for Far West's wastewater system?**

7 **A.** No. In making its Financing Application with the Commission the
8 Company stated that a portion of the IDA funds would be used to repay
9 and consolidate the outstanding debt, which debt had been used in part
10 for water treatment improvements. Far West stated that by the time the
11 IDA funds were taken down, the Company had already spent nearly \$1
12 million to improve its water system, and had committed to spend roughly
13 \$1.8 million on water system related improvements. Far West stated that
14 it inadvertently omitted requesting authority to finance improvements to
15 the water system.

16 Far West closed on the IDA bonds on or about December 13, 2007. The
17 Company incurred approximately \$1.3 million in costs and fees to obtain
18 the IDA bonds, which were paid from the bond proceeds. After paying off
19 the \$4.45 million WIFA loan, and the second BAN in the amount of \$17.7
20 million, \$8.5 million remained from the IDA bond proceeds to fund the
21 construction project.

22

23

1 **Q. Was Far West able to complete the project with the \$8.5 million**
2 **available?**

3 A. No. By mid-2007, the effluent ponds at the Palm Shadows plant had
4 ceased to percolate, and the Company began to incur the costs of
5 hauling effluent from the Palm Shadows treatment plant to the City of
6 Yuma facilities. Far West utilized its affiliate, H&S Developers, a real
7 estate company, owned by the principles of Far West, to deliver the
8 effluent from the Palm Shadows plant to the City of Yuma for disposal at a
9 monthly cost of approximately \$45,000, including the costs paid to the
10 City. Far West states that by using H&S Developers, it was able to reduce
11 its costs of hauling the effluent. In addition Far West identified cost
12 overruns dealing with membranes and vadose wells of about \$4.5 million.

13
14 **USED AND USEFUL**

15 **Q. From a regulatory perspective what does the term “used and useful”**
16 **mean?**

17 A. The concept matches the customers of a utility's plant with the owner's
18 recovery of the cost of the plant. For example, if 100 per cent of a plant
19 is being used by the current customers of the plant then those customers
20 are the beneficiaries and they are obligated to pay the utility for its cost of
21 providing the plant. However, if only 50 percent of a plant is being used
22 by current customers, then those customers are only obligated to pay for
23 the 50% of the plant they are using and future customers should be

1 obligated to pay for the remainder of the plant when they use it in the
2 future.

3 In summary, the concept considers what portion of the plant or
4 improvement is actually being used and is therefore subject to rate base
5 consideration. If a plant is not in use, or used by current customers, then
6 it should not be considered for rate base treatment because current
7 ratepayers should not have to pay for a plant that benefits future
8 ratepayers. This simply follows the regulatory adage that cost causers
9 should be cost payers. That is, current customers should pay only for the
10 costs they cause and future customers should, in their turn, pay for costs
11 they cause. This proper concept of used and useful does not exclude
12 recovery of investment by utilities, it simply allows for the recovery of
13 those costs to be from the customers that benefit from the investment.

14

15 **Q. Has the Commission determined if Far West's Wastewater treatment**
16 **facilities are used and useful or prudent?**

17 A. No.

18

19 **Q. If the Commission determines that building and operating the**
20 **wastewater treatment plant was prudent does this mean that the**
21 **White Tanks plant is automatically used and useful?**

22 A. No. The concepts of prudence and of used and useful are different so the
23 determination of used and useful and the determination of prudent must

1 also be determined separately and on the merits of the situation being
2 considered. Otherwise it would be very easy to force a violation of the
3 matching principle. That is, suppose a utility prudently built a wastewater
4 processing plant with a capacity to treat 5 MGD and had access to only 1
5 MGD of peak day wastewater to treat. Under the notion that a prudent
6 investment must, by definition, be used and useful, the current customers
7 of the plant who only used 1/5 of the capacity of the plant would be forced
8 to pay for the entire plant. This would force a mismatch because future
9 customers are getting a free ride on the shoulders of existing customers.
10 This would also create a powerful incentive for utilities to overbuild and
11 gold-plate their investments to the detriment of customers. It makes
12 economic sense, and, in my opinion, is in the public interest, for the
13 Commission to make a determination of prudence and a separate
14 determination of used and useful after carefully considering all the facts of
15 each case as it has done in the past.

16

17 **Q. In your opinion, what would be the result of allowing a prudence**
18 **determination to automatically determine whether an investment is**
19 **used and useful?**

20 **A. In my opinion adoption of such a policy could tie the hands of the**
21 **Commission in evaluating applications to include new plant and equipment**
22 **in rate base. That type of policy could also be expected to induce utilities**

1 to over-invest and could result in misallocation of resources, causing
2 unnecessary economic harm to ratepayers.

3

4 **Q. Are there different ways of viewing the concept of used and useful?**

5 A. Yes. An engineering perspective recognizes the “lumpiness” of capital
6 investment and looks to a planning horizon of up to five years to
7 measure used and useful. An accounting perspective generally takes
8 a more current view of investment but generally recognizes that future
9 customers can be expected to utilize currently unused portion of the plant
10 and allows for depreciation expense to be deferred matching the current
11 unused portion of the plant with the future users of the plant.

12

13 **Q. Did you conduct an analysis to determine if the Far West wastewater
14 treatment plant is used and useful?**

15 A. Yes. The following table summarizes my analysis. The relevant data,
16 data from the application forms and Mr. Duffett’s testimony are the bases
17 for my analysis. There are two components used in the analysis. These
18 are rated capacity and demand capacity. Demand capacity is determined
19 by using an engineering standard and by actual flow data provided by the
20 Company. See Direct Testimony of Royce Duffett. The two are compared
21 to the rated capacity and then averaged to determine the impact on
22 depreciable UPIS and the revenue requirement. The impact on

1 depreciable UPIS and the revenue requirement are calculated based on
 2 RUCO's cost of equity and gross conversion factor.

3

4 **TABLE 2 - Analysis Summary**

Engineering Data	Data from Application
Depreciable Utility Plant in Service ("UPIS")	\$ 36,334,619
Rated Capacity	2,332,500
No. Services	7,824
GPD @ 240	1,877,760
Plus 10% (reserve)	2,065,536
Over Investment	11.4%
Adjustment to Depreciable UPIS	\$ 4,142,147
Actual Flow Data	
Depreciable Utility Plant in Service ("UPIS")	\$ 36,334,619
Rated Capacity	2,332,500
GPD @ peak usage	1,195,000
Over Investment	48.8%
Adjustment to Depreciable UPIS	\$ 7,731,294
Total Over Investment	30.1%
Total Adjustment to Depreciable UPIS	\$ 10,936,720
Revenue Impact	
Rate of Return @ 7.30%	\$ 798,381
Gross Revenue Conversion Factor @ 1.6605	\$ 1,329,304

5

6 **Q. Did Mr. Duffett determine what part of the Far West processing plant**
 7 **is used and useful?**

8 **A. Yes. Mr. Duffett determined that 30.1% of the plant was not used and**
 9 **useful.**

1 **Q. Does that conclude your testimony?**

2 **A. Yes.**

Curriculum Vita

Thomas H. Fish, PhD

Tfish@ariadaireconomics.com

ADDRESS/PHONE

1020 Fredericksburg Rd.
Excelsior Springs, MO 64024
(816) 630-0628
email: tfish@ariadaireconomics.com

EDUCATION

University of Arkansas Ph.D., Major: Economics. Minors: Marketing/Management, Finance, and Quantitative Methods.

Central Missouri State University, Warrensburg: MA, Economics

University of Missouri - Kansas City, Kansas City BA, Economics

EXPERIENCE

Administrative proceedings – participated in over 80 proceedings involving economics, statistics, accounting, finance, market structure and industrial organization issues in telecommunications, electric, and oil and natural gas distribution industries.

Managerial experience – Over 20 years experience in managing private businesses. Experience in personnel, economics, market research, finance, accounting, and operations management. Managed technical departments in several firms and was group manager in many major projects.

Judicial proceedings – participated in over 70 proceedings involving antitrust, contract damages, insurance defense, economic loss, market structure and performance, and other related economics/statistics/finance issues.

Other engagements – participated in over 75 private industry and governmental engagements involving economics, market structure, statistics, finance, and operational issues.

Teaching Experience –Through July, 2003 Professor of Business and Economics at William Jewell College. Duties included teaching classes in Economics, Finance, Quantitative Methods, and Management.

Taught classes at Webster University, Avila College, and Longview Metropolitan College on an adjunct basis between 1984 and 1997. Taught graduate and undergraduate classes in the areas of Management, Marketing, Financial Accounting, Finance, Statistics, Quantitative Methods, and Economics.

Experience

1981-1986 Regulatory Consulting and Expert Witness Services. Ariadair Economics Group. Concentration on Regulatory Consulting and Expert Witness Services for Regulatory Commissions and Consumer Advocates.

1986-1987 Directory, Economics Department, LMSL Consultants, Overland Park, Kansas. Concentration on Regulatory Consulting and Expert Witness Services for Regulatory Commissions and Consumer Advocates.

1987-Present Judicial and administrative litigation consultant and expert witness, Ariadair Economics Group. Regulatory consulting and the regulatory experience led to a large number of utility antitrust and related litigation engagements in addition to regulatory Commission and Consumer Advocate regulatory engagements. During the period 1981 -2000 taught on an adjunct basis at local colleges including Avila University and Webster University. During the period 1981-1999 had Consumer Advocate clients in Arizona, Nevada, Illinois, Ohio, Pennsylvania and Maine. Also during this period had Commission clients in Nebraska, Oklahoma, Tennessee, Pennsylvania, Missouri, and South Dakota,

2001-2006 Professor of Business and Economics at William Jewell College, Liberty, Mo. During this period also had several judicial litigation engagements involving asset valuation and economic loss..

PUBLICATIONS

"An Analysis of Valuation of Community Bank Stocks." Quarterly Community Bank Journal, April, 1983.

"An Analysis of Trends in Prices of Community Bank Control Sales." Quarterly Community Bank Journal, July, 1983.

"An Analysis of Publicly Traded Multi-Bank Holding Company Market Performance After Acquisition of Community Banks." Quarterly Community Bank Journal, October, 1983.

"Derivation of a Valuation Index for Community Bank Control Sales." Quarterly Community Bank Journal, January, 1984.

RESEARCH

Professional Presentation

"An Econometric Model of Missouri." Presented at the Missouri Valley Economic Association, 1974.

Consulting Research

Economic Impact of Various Utility Rate Structures on State and Regional Economies.

Demographic Analysis of Economic Regions.

Determination of Market Characteristics and Parameters for Jet Aircraft Manufacturing Firms.

Determination of Optimal Refinancing and Capital Structuring and Corresponding Cost of Capital and Return for Acquisitions and Mergers.

An Econometric Analysis of NECPA Pricing Policies.

An Econometric Analysis of the Effect of the Proposed 15% Severance Tax (Senate Bill #892) on the Economy of the State of Kansas.

Curtailment of Demand Econometric Model for Cincinnati Bell Telephone Company's Service Area.

Development of Control Procedures for Large Construction Projects.

Development of Automatic Bill of Materials Systems of Manufacturing Processes.

Development of Planning and Forecasting Models.

Utilization of Economic Analysis in Business Decision-Making Situations (Seminar).

A Long-Term Forecast of Relative Costs of Alternative Energy Sources.

Analysis of the Validity of Sampling Procedures for Determination of the Growth Component of the DCF Model.

Analysis of the Relative Risk of Customer Classes of Electric Companies.

Development of EDP Models for Determining Optimal Price, Financing Strategy, and Expected Return for Corporate Acquisitions and Mergers.

Analysis of Asset Valuation in Bankruptcy Cases.

Preparation of Bank Charter Applications and Supporting Economic/Demographic Analyses.

COLLEGES COURSE TAUGHT

Management

Bank Management
Financial Management
Global Issues in Business
Human Resource Management
International Business Management
Introduction to Business
Introduction to Management
Marketing Research
Organization and Management
Organizational Behavior
Small Business Management
Strategic Management
Telecommunications Management

Finance

Financial Management
Intermediate Finance
International Finance
Portfolio Selection
Principles of Finance
Readings in Finance
Seminar in Finance I
Seminar in Finance II

Quantitative Methods

Business Math
Econometrics I
Econometrics II
Quantitative Analysis I
Quantitative Analysis II
Statistics I
Statistics II

Computer Information Systems/Information Technology

Computer Applications in Business
IT Systems Analysis and Design
Systems Analysis and Design I

Systems Analysis and Design II

Economics

Advanced Microeconomics
Business Cycles and Forecasting
Current Issues in Economics
Econometrics I
Econometrics II
Fiscal Policy
Industrial Organization
Intermediate Macroeconomics
Intermediate Microeconomics
International Economics
Macroeconomics
Managerial Economics
Microeconomics
Money and Banking
Principles of Econ I
Principles of Econ II
Readings in Economics

Financial Accounting

Cost Accounting
Federal Income Tax
Financial Accounting I
Financial Accounting II
Intermediate Financial Accounting
Managerial Accounting

FAR WEST WATER & SEWER, INC.

DOCKET NO. WS-03478A-12-0307

DIRECT TESTIMONY
OF
ROYCE A. DUFFETT, P.E.

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

FEBRUARY 8, 2013

1

TABLE OF CONTENTS

2 INTRODUCTION..... 1

3 FAR WEST WASTE WATER TREATMENT PLANTS 2

4 USED AND USEFUL – WASTE WATER TREATMENT PLANTS 6

1 **INTRODUCTION**

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

3 A. My name is Royce A. Duffett. I am an Engineer with Ariadair Economics
4 Group. My business address is 414 S. Thompson Ave., Excelsior springs,
5 MO 64024. I am also owner of RAD Construction and Engineering, a
6 Design/Build company, at 411 W. Lexington, Richmond, MO 64085.

7
8 **Q. What does Ariadair Economics Group do?**

9 A. Ariadair Economics Group provides expert witness and consulting
10 services in administrative and judicial litigation proceedings.

11
12 **Q. Please describe your educational background.**

13 A. I hold a B.S. degree in Civil Engineering from University of Missouri –
14 Columbia. I am a registered Professional Engineer in the State of
15 Missouri. My number is: 2002016645.

16
17 **Q. Please describe your professional experience.**

18 A. I was responsible for cost analysis and safety issues for utility asset
19 relocation. I have extensive experience with Design/Build construction
20 projects including utility assets/safety considerations. I have extensive
21 experience in the adherence of contracted work to the Missouri
22 Department of Transportation: plans, specifications, special provisions and
23 contracts, construction and supervision of contractors to the State of

1 Missouri for roads, bridges and other transportation areas. I wrote and
2 approved change orders for contract changes and was responsible for
3 over \$25M in contracts per year. I am the owner of one of the few
4 design/build engineering construction companies in Missouri. I am
5 responsible for the design of water main and sewer main extensions
6 including approval from the Missouri Department of Natural Resources as
7 it regulates water pressure, pipe sizing and demand requirements. My
8 company handles all aspects of construction from design of the project to
9 site preparation, utility line installation to completion of finished buildings.

10

11 **Q. What is the nature of your testimony in this proceeding?**

12 A. We were directed by the Residential Utility Consumer Office to examine
13 the engineering issues related to the Company's \$23 million upgrade of
14 the water and wastewater treatment plant. We are to analyze and report
15 on all adjustments to rate base related to the \$23 million upgrades to the
16 water and wastewater treatment plant, whether the plant is used and
17 useful including an analysis of excess capacity, if any.

18

19 **FAR WEST WASTE WATER TREATMENT PLANTS**

20 **Q. What is the Far West waste water treatment plant?**

21 A. The Far West wastewater treatment plant consists of seven individually
22 operating package-type plants (According to the annual Far West Water
23 and Sewer Report to the AzCC, Page 32). In August 2011, the Palm

1 Shadows Plant was closed and its flow sent by new force main to the
2 Section 14 Plant bringing the total to six individually operating plants.

3

4 **Q. What did your analysis and evaluation consist of?**

5 A. I visited the Far West office and treatment plants in its service territory in
6 Yuma Arizona and interviewed Far West employees. I analyzed and
7 reviewed the Company's application in this matter, the history of the
8 system, the Company's work papers and its responses to data requests. I
9 also reviewed the engineering report submitted by Lee on August 29,
10 2008 in Docket No. 08-0454 as well as the annual Water and Sewer
11 reports submitted by the Company to the AzCC.

12

13 **Q. Would you explain the design capacity of the sewer treatment plant?**

14 A. Arizona Department of Environmental Quality defines "Design capacity" as
15 the volume of a containment feature at a discharging facility that
16 accommodates all permitted flows and meets all Aquifer Protection Permit
17 conditions, including allowances for appropriate peaking and safety factors
18 to ensure sustained, reliable operation. What that means is the amount of
19 wastewater that a plant can treat usually calculated in gallons per day
20 (GPD). Far West currently has six treatment plants with a total design
21 capacity of 2,332,500 GPD.

22

23

1 **Q. How is the design capacity determined for a given wastewater plant?**

2 A. In the absence of historical data, standard engineering practices and
3 ADEQ design requirements use an average value of 240 gallons per
4 household per day for design of sewer treatment.

5

6 **Q. How many water customers does Far West have?**

7 A. Far West currently has 7067 residential customers, 44 commercial
8 customers and 4 RV parks with 713 spaces. This makes a total of 7824
9 customers.

10

11 **Q. Using the standard, what would Far West's design capacity be to
12 cover the standard 240 GPD?**

13 A. Using Far West's reported customer base of 7824 and multiplying it by the
14 240 GPD standard, the design capacity of the Far West's facilities should
15 be 1,877,760 GPD to meet expected average flows. Daily averages will
16 be different based on certain events that take place in the community. For
17 example, you would expect that weekend usage be higher than weekday
18 usage because more people are at home on weekends doing laundry,
19 using the bathroom, etc. more than they would during a workday when no
20 one is at home. The 1,877,760 GPD represents what their demand would
21 be expected to be. In addition, a factor would be taken for future use.
22 10% was added to the base to accommodate future use so the plant

1 would not need to be expanded every year. This results in a design
2 capacity of 2,065,536 GPD.

3

4 **Q. What is the rated capacity of Far West's Facilities?**

5 A. Far West currently has six treatment plants with a total design capacity of
6 2,332,500 GPD or 11.4% above the design capacity to accommodate
7 7824 customers under ADEQ's 240 GPD household standard.

8

9 **Q. Does the Company have historical data to provide it with actual flows
10 at its plants for the years they have been in service?**

11 A. Yes

12

13 **Q. What were Far West's actual average and peak flows in the test year?**

14 A. In July, 2012, the Company filed its annual report for 2011 which included
15 a report of its average and peak flows by system and month. An excerpt of
16 that report is attached as exhibit A. According to the Company's annual
17 reports, Far West average flow in 2011 was 754,704 GPD or 32.4% of its
18 current rated capacity.

19

20 **Q. Should the plant also be designed to accommodate peak usage?**

21 A. Yes. As I previously stated, a plant needs to be able to accommodate the
22 peak usage, not just an average usage. According to the Company in
23 2011, its system wide peak demand was 1,195,000 GPD.

1 **Q. What is the difference between Far West's demand and its rated**
2 **capacity?**

3 A. 1,195,000 GPD represents the peak usage of Far West's plants for one
4 day whereas the Company's rated capacity is 2,332,500 GPD.

5

6 **Q. Why is there such a difference in demand versus design capacity?**

7 A. Overinvestment. Dividing the existing peak usage by the current design
8 capacity, $(1,195,000/2,332,500)$ this represents a value of 48.8%
9 overinvestment in the plant. Or in other words, the plant has 1,137,500
10 GPD in available capacity for future use (see used and useful). If you
11 were designing a plant with no knowledge of the area or historical data of
12 the usage you would use the above 240 gallons per day plus 10% and
13 arrive at a required design capacity of 2,065,536 GPD. This value
14 represents an 11.4% excess design capacity in the plants.

15

16 **USED AND USEFUL – WASTE WATER TREATMENT PLANTS**

17 **Q. What is the concept of "used and useful"?**

18 A. The concept matches the customers of a utility plant with the owner's
19 recovery of the cost of the plant. For example, if 100% of a plant is being
20 used by the current customers then those customers are the beneficiaries
21 and they should be obligated to pay the utility for its cost of providing the
22 plant. However, if only 50% of a plant is being used by current customers,
23 then those customers are only obligated to pay for 50% of the plant they

1 are using and future customers should be obligated to pay for the
2 remainder of the plant when they use it in the future. If a new plant is
3 sized for future use, ratepayers should not have to pay for the project at
4 the present time when it is not needed. If the need materializes in the
5 future, the company will benefit by having one set of customers pay for the
6 upgrade while another provides excess revenue. If future use doesn't
7 materialize then customers would be paying for inaccurate planning on the
8 part of the company.

9
10 **Q. What is your determination of used and useful?**

11 **A.** I have averaged my determinations of excess capacity above and
12 determined that 30.1% of the Company's plant in service is not used and
13 useful ($48.8\% + 11.4\% = 60.2\% / 2 = 30.1\%$)

14

Royce Duffett, P.E. Resume
radengineer@sbcglobal.net

EDUCATION

1991-1994 B.S., Civil Engineering, University of Missouri

Special Courses: Numerous special courses dealing with safety, project management and planning, construction contract administration, and related issues.

REGISTRATIONS: Registered Professional Engineer in Missouri, No. 2002016645

POSITIONS

1994 – 2000 Construction Inspector Missouri Department of Transportation – Kansas City, MO.

2000 – 2005 Resident Engineer, Missouri Department of Transportation.

2005 – Present RAD Construction & Engineering, Owner.

2009 – Present Ariadair Economics Group, Engineer.

EXPERIENCE

Summary: Responsible for cost analysis and safety issues for utility asset relocation. Design/Build construction projects including utility assets/safety considerations. Extensive experience in the adherence of contracted work to the Missouri Department of Transportation: Plans, specifications, special provisions and contracts. Construction and supervision of contractors to the State of Missouri for roads, bridges and other transportation areas. Wrote and approved change orders for contract changes. Responsible for over \$25M in contracts per year. Owns and operates one of the only design/build companies in Missouri.

EXHIBIT A

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY

WS-03478A
Far West Water & Sewer, Inc.
13157 E. 44th Street
Yuma, AZ. 85367

RECEIVED

JUL 06 2012

AZ CORP COMM
Director - Utilities

ANNUAL REPORT
Water & Sewer

FOR YEAR ENDING

12	31	2011
----	----	------

FOR COMMISSION USE

ANN 04	11
--------	----

7-9-12

Far West Water & Sewer, Inc.
Wastewater Division
Inventory Number 44-004
2011 Total Monthly Sewage Flows (MG)
Attachment J

WWTP	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
Marwood	9.172	8.555	8.937	6.515	4.862	3.756	3.863	3.972	4.608	5.592	7.553	8.595
Section 14	2.646	2.660	4.061	3.034	2.189	1.773	1.765	1.849	4.455	10.207	11.732	11.634
Del Oro	5.620	5.102	5.546	5.172	0.202	4.617	4.745	4.927	4.807	5.056	4.447	5.505
Del Rey	0.503	0.477	0.481	0.421	0.378	0.338	0.358	0.405	0.710	0.993	1.317	1.644
Royale	0.131	0.127	0.127	0.112	0.085	0.071	0.067	0.076	0.065	0.082	0.099	0.108
Seasons	2.173	1.946	2.302	1.873	1.692	1.604	1.569	1.688	1.653	1.783	2.078	2.21
Palm Shadows	7.799	7.344	7.732	6.093	5.600	4.131	5.031	5.204	5.056	0.000	0.000	0
TOTAL	28.044	26.211	29.186	23.220	15.008	16.290	17.398	18.121	21.354	23.713	27.226	29.696

Far West Water & Sewer, Inc.
Wastewater Division
Inventory Number 44-004
2011 Sewage Flow (MG) on Peak Day
Attachment K

WWTP	January	February	March	April	May	June	July	August	September	October	November	December
Marwood	0.355	0.362	0.325	0.279	0.228	0.147	0.239	0.165	0.192	0.266	0.304	0.341
Section 14	0.122	0.095	0.173	0.098	0.089	0.073	0.067	0.17	0.252	0.456	0.511	0.481
Del Oro	0.249	0.244	0.209	0.22	0.202	0.195	0.171	0.191	0.218	0.218	0.225	0.217
Del Rey	0.027	0.024	0.023	0.021	0.019	0.016	0.017	0.018	0.038	0.058	0.064	0.068
Royale	0.007	0.009	0.006	0.011	0.004	0.004	0.004	0.004	0.005	0.004	0.005	0.005
Seasons	0.1	0.088	0.095	0.085	0.065	0.063	0.069	0.085	0.065	0.073	0.086	0.087
Palm Shadows	0.302	0.353	0.302	0.238	0.265	0.177	0.199	0.129	0.218	0.000		
Total	1.162	1.175	1.133	0.952	0.872	0.675	0.766	0.762	0.988	1.075	1.195	1.199

FAR WEST WATER & SEWER, INC.

DOCKET NO. WS-03478A-12-0307

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY

ON

COST OF CAPITAL

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

FEBRUARY 8, 2013

1 **INTRODUCTION**

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

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

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

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

22

23

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

2 A. The purpose of my testimony is to present cost of capital
3 recommendations that are based on my analysis of Far West Water &
4 Sewer, Inc.'s ("Far West" or "Company") application for a permanent rate
5 increase for the Company's Sewer Division. Far West's rate application
6 was filed with the Commission on July 6, 2012. The Company has chosen
7 the operating period ending December 31, 2011 for the test year ("Test
8 Year") in this proceeding. Far West has elected not to conduct a
9 reconstruction cost new less depreciation study ("RCND") for the purpose
10 of establishing a fair value rate base, and to use the Company's Sewer
11 Division's original cost rate base as the fair value rate base for the
12 purpose of establishing a fair value rate of return on its invested capital.

13
14 **Q. Briefly describe Far West.**

15 A. Far West provides water and wastewater services in an unincorporated
16 portion of Yuma County, which is located along Interstate 8 in the Foothills
17 area just east of the City of Yuma. The Company is a closely held Arizona
18 C Corporation.¹ Far West's Sewer Division was classified as a Class A
19 utility in the sufficiency letter issued on August 2, 2012 by ACC Staff.
20 According to the Company's Application, the Company provided

¹ Decision No. 60437, dated September 29, 1997, authorized the transfer of assets and the Certificate of Convenience and Necessity ("CC&N") from the water division of H&S Developers to a separately operated division of H&S Developers doing business as Far West Water Company and Far West Sewer Company. Decision No. 60799, dated April 8, 1998, authorized the transfer of assets, and the CC&N held by H&S Developers, Inc. dba Far West Water Company and Far West Sewer Company to Far West.

1 wastewater service to approximately 7,824 customers, of which 7,067
2 were residential ratepayers, during the Test Year.

3

4 **Q. Is this your first case involving Far West?**

5 A. No. I testified on behalf of RUCO in Far West's last two rate case
6 proceedings before the Commission.²

7

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

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

10

11 **Q. Will RUCO also offer direct testimony on the rate base, operating
12 income and rate design aspects of this proceeding?**

13 A. Yes. RUCO witness Timothy J. Coley will provide direct testimony on rate
14 base, operating income and rate design.

15

16 **Q. Please explain your role in RUCO's analysis of Far West's
17 Application.**

18 A. I reviewed Far West's Application and performed a cost of capital analysis
19 to determine a fair rate of return on the Company's invested capital. In
20 addition to my recommended capital structure, my direct testimony will
21 present my recommended cost of common equity (the Company has no
22 preferred stock) and my recommended cost of long-term and short-term

² Docket No.'s WS-03478A-05-0801 and WS-03478A-08-0608

1 debt. The recommendations contained in this testimony are based on
2 information obtained from Company responses to data requests, Far
3 West's Application, and from market-based research that I conducted
4 during my analysis.

5
6 **Q. Please identify the exhibits that you are sponsoring.**

7 A. I am sponsoring Exhibit 1, Attachments A through D and Schedules WAR-
8 1 through WAR-9.

9
10 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

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

12 A. My cost of capital testimony is organized into seven sections. First, the
13 introduction I have just presented and second, a summary of my testimony
14 and recommendations that I am about to give. Third, I will present the
15 findings of my cost of equity capital analysis, which utilized both the
16 discounted cash flow ("DCF") method, and the capital asset pricing model
17 ("CAPM"). These are the two methods that RUCO and ACC Staff have
18 consistently used for calculating the cost of equity capital in rate case
19 proceedings in the past, and are the methodologies that the ACC has
20 given the most weight to in setting allowed rates of return for utilities that
21 operate in the Arizona jurisdiction. In this third section I will also provide a
22 brief overview of the current economic climate within which the Company
23 is operating. The fourth section of my testimony is devoted to a

1 discussion of my recommended capital structure for the Company. In the
2 fifth section of my direct testimony I will discuss my recommended cost of
3 long-term and short-term debt for Far West. Sixth, I will discuss my
4 recommended weighted average cost of capital. In the seventh and final
5 section, I will comment on the Company's cost of capital testimony.
6 Exhibit 1, Attachments A through D and Schedules WAR-1 through WAR-
7 9 will provide support for my cost of capital analysis.

8

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

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

13

14 **Cost of Equity** – I am recommending that the Commission adopt a 9.25
15 percent cost of equity. This 9.25 percent figure is 49 basis points more
16 than the 8.76 percent high side of the range of results obtained in my cost
17 of equity analysis, and is 75 basis points lower than the 10.00 percent cost
18 of equity capital proposed by Far West.

19

20 **Capital Structure** – I am recommending that the Commission adopt Far
21 West's end of test year adjusted capital structure comprised of 79.55
22 percent long-term debt, 6.46 percent short-term debt and 13.98 percent
23 common equity.

1 **Cost of Debt** – I am recommending that the Commission adopt the
2 Company-proposed 6.90 percent cost of long-term debt and 8.07 percent
3 cost of short-term debt which are 254 and 371 basis point higher than the
4 current yield on a Baa/BBB-rated utility bond (Attachment D).

5
6 **Weighted Average Cost of Capital** – I am recommending that the
7 Commission adopt my recommended 7.30 percent weighted average cost
8 of capital (“WACC”) which is the weighted cost of my recommended costs
9 of long-term debt, short-term debt and common equity which is 10.9 basis
10 points lower than the 7.409 percent WACC being proposed by Far West.

11
12 **Q. Why do you believe that your recommended 7.30 percent WACC is**
13 **an appropriate rate of return for Far West to earn on its invested**
14 **capital?**

15 **A.** The 7.30 percent WACC figure that I am recommending meets the criteria
16 established in the landmark Supreme Court cases of Bluefield Water
17 Works & Improvement Co. v. Public Service Commission of West Virginia
18 (262 U.S. 679, 1923) and Federal Power Commission v. Hope Natural
19 Gas Company (320 U.S. 391, 1944). Simply stated, these two cases
20 affirmed that a public utility that is efficiently and economically managed is
21 entitled to a return on investment that instills confidence in its financial
22 soundness, allows the utility to attract capital, and also allows the utility to
23 perform its duty to provide service to ratepayers. The rate of return

1 adopted for the utility should also be comparable to a return that investors
2 would expect to receive from investments with similar risk.

3
4 The Hope decision allows for the rate of return to cover both the operating
5 expenses and the “capital costs of the business” which includes interest
6 on debt and dividend payment to shareholders. This is predicated on the
7 belief that, in the long run, a company that cannot meet its debt obligations
8 and provide its shareholders with an adequate rate of return will not
9 continue to supply adequate public utility service to ratepayers.

10
11 **Q. Do the Bluefield and Hope decisions indicate that a rate of return**
12 **sufficient to cover all operating and capital costs is guaranteed?**

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

1 **COST OF EQUITY CAPITAL**

2 **Q. What is your final recommended cost of equity capital for FAR**
3 **WEST?**

4 **A.** I am recommending a cost of equity of 9.25 percent. My recommended
5 9.25 percent cost of equity figure is 49 basis points more than the 8.76
6 percent high side of the range of results derived from my DCF and CAPM
7 analyses, which utilized a sample of publicly traded water providers and a
8 sample of natural gas local distribution companies ("LDCs"). The results
9 of my DCF and CAPM analyses are summarized on page 2 of my
10 Schedule WAR-1.

11
12 **Discounted Cash Flow (DCF) Method**

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

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

1 of capital (i.e. the cost at which an investor is willing to forego other
2 investments in favor of the one that he or she has chosen).

3
4 Another way of looking at the investor's cost of capital is to consider it from
5 the standpoint of a company that is offering its shares of stock to the
6 investing public. In order to raise capital, through the sale of common
7 stock, a company must provide a required rate of return on its stock that
8 will attract investors to commit funds to that particular investment. In this
9 respect, the terms "cost of capital" and "investor's required return" are one
10 in the same. For common stock, this required return is a function of the
11 dividend that is paid on the stock. The investor's required rate of return
12 can be expressed as the percentage of the dividend that is paid on the
13 stock (dividend yield) plus an expected rate of future dividend growth.
14 This is illustrated in mathematical terms by the following formula:

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

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

17 $\frac{D_1}{P_0}$ = the dividend yield of a given share of stock calculated

18 by dividing the expected dividend by the current market

19 price of the given share of stock, and

20 g = the expected rate of future dividend growth

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

3

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

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

19

20

21

22 ...

23

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

4 **A. RUCO consultant Stephen Hill illustrated this relationship in a Citizens**
5 **Utilities Company 1993 rate case by using a hypothetical utility.³**

6 Table I

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Growth</u>
7 Book Value	\$10.00	\$10.40	\$10.82	\$11.25	\$11.70	4.00%
8 Equity Return	10%	10%	10%	10%	10%	N/A
9 Earnings/Sh.	\$1.00	\$1.04	\$1.082	\$1.125	\$1.170	4.00%
10 Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
11 Dividend/Sh	\$0.60	\$0.624	\$0.649	\$0.675	\$0.702	4.00%
12						

13
14 Table I of Mr. Hill's illustration presents data for a five-year period on his
15 hypothetical utility. In Year 1, the utility had a common equity or book
16 value of \$10.00 per share, an investor-expected equity return of ten
17 percent, and a dividend payout ratio of sixty percent. This results in
18 earnings per share of \$1.00 (\$10.00 book value x 10 percent equity return)
19 and a dividend of \$0.60 (\$1.00 earnings/sh. x 0.60 payout ratio) during
20 Year 1. Because forty percent (1 - 0.60 payout ratio) of the utility's
21 earnings are retained as opposed to being paid out to investors, book
22 value increases to \$10.40 in Year 2 of Mr. Hill's illustration. Table I

³ Citizens Utilities Company, Arizona Gas Division, Docket No. E-1032-93-111, Prepared Testimony, dated December 10, 1993, p. 25.

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

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

12

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

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

20

21

22

23

24

Table II

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Growth</u>
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 percent⁴ 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.⁵ 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.

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

⁴ [(Year 2 Earnings/Sh – Year 1 Earnings/Sh) ÷ Year 1 Earnings/Sh] = [(\$1.04 - \$1.00) ÷ \$1.00] = [\$0.04 ÷ \$1.00] = 4.00%

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

1 more in dividends than it earns. While it is not uncommon for a utility in
2 the real world to have a dividend payout ratio that exceeds one hundred
3 percent on occasion, it would be unrealistic to expect the practice to
4 continue over a sustained long-term period of time.

5
6 **Q. Other than the retention of internally generated funds, as illustrated**
7 **in Mr. Hill's hypothetical example, are there any other sources of new**
8 **equity capital that can influence an investor's growth expectations**
9 **for a given company?**

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

15
16 **Q. How does external equity financing influence the growth**
17 **expectations held by investors?**

18 A. Rational investors will put their available funds into investments that will
19 either meet or exceed their given cost of capital (i.e. the return earned on
20 their investment). In the case of a utility, the book value of a company's
21 stock usually mirrors the equity portion of its rate base (the utility's earning
22 base). Because regulators allow utilities the opportunity to earn a
23 reasonable rate of return on rate base, an investor would take into

1 consideration the effect that a change in book value would have on the
2 rate of return that he or she would expect the utility to earn. If an investor
3 believes that a utility's book value (i.e. the utility's earning base) will
4 increase, then he or she would expect the return on the utility's common
5 stock to increase. If this positive trend in book value continues over an
6 extended period of time, an investor would have a reasonable expectation
7 for sustained long-term growth.

8

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

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

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

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

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

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

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

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

19
20
21
22

⁶ Gordon, M.J., *The Cost of Capital to a Public Utility*, East Lansing, MI: Michigan State University, 1974, pp. 30-33.

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

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

7

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

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

17

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

20 A. Yes. In a prior Southwest Gas Corporation rate case⁷, the Commission
21 adopted the recommendations of ACC Staff's cost of capital witness,
22 Stephen Hill, who I noted earlier in my testimony. In that case, Mr. Hill

⁷ Decision No. 68487, Dated February 23, 2006 (Docket No. G-01551A-04-0876)

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

6
7 **Q. Can you cite a more recent case in which the Commission adopted a**
8 **cost of capital estimate that included this assumption?**

9 **A. Yes. The Commission adopted a RUCO recommended cost of common**
10 **equity which relied on the same assumption in a 2009 Global Water rate**
11 **case proceeding.⁸ Decision No. 71878, dated September 14, 2010 stated**
12 **the following:**

13 "We find that the evidence presented by RUCO as a basis for its
14 cost of equity recommendation constitutes substantial evidence in
15 support of its cost of equity recommendation. We further find that
16 the evidence presented by the Company as a basis for its cost of
17 equity recommendation contrary to RUCO's assertion, constitutes
18 evidence that is no less substantial in support of its
19 recommendation and of Staff's acceptance thereof. The
20 methodologies on which each of the parties relied in making their
21 cost of equity recommendations are clearly set forth in the hearing
22 exhibits. Based on a consideration of all the evidence presented
23 in this proceeding, we find a cost of common equity of 9.0 percent
24 to be reasonable in this case. This level of return on equity
25 reasonably and fairly balances the needs of Applicants and their
26 ratepayers, is reflective of current market conditions, and results in
27 the setting of just and reasonable rates."
28

29 ...

30

⁸ Docket Number W-02445A-09-0077.

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

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

6

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

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

14

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

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

23

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

3 A. The six water companies used in the proxy are publicly traded on the both
4 the New York Stock Exchange ("NYSE") and the NASDAQ.⁹ All of the
5 water companies are followed by The Value Line Investment Survey
6 ("Value Line") and are the same companies that comprise Value Line's
7 large capitalization Water Utility Industry segment of the U.S. economy
8 (Attachment A contains Value Line's January 18, 2013 update of the water
9 utility industry and evaluations of the water companies used in my proxy).

10

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

13 A. I have used five of the six water utilities in prior rate case proceedings. In
14 this case I am including American Water Works Company, Inc., (NYSE
15 stock ticker symbol "AWK") the largest investor-owned water and
16 wastewater utility in the U.S. American Water Works Company, Inc. has
17 been followed by Value Line since July of 2008 after the New Jersey-
18 based water provider was spun off from its German parent, RWE, AG and
19 became a publicly traded entity. Value Line now has four years of
20 operating numbers available on American Water Works Company, Inc.
21 and so I've decided to include it in my sample of water utilities.

⁹ "NASDAQ" originally stood for "National Association of Securities Dealers Automated Quotations". Today it is the second-largest stock exchange in the world, after the New York Stock Exchange ("NYSE").

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

3 A. My water company proxy group also includes American States Water
4 Company (stock ticker symbol "AWR"), California Water Service Group
5 ("CWT"), Middlesex Water Company (stock ticker symbol "MSEX", which
6 is traded on the NASDAQ), SJW Corporation ("SJW"), and Aqua America,
7 Inc. ("WTR"). Each of these water companies face the same types of risk
8 that Far West faces. For the sake of brevity, I will refer to each of the
9 companies in my samples by their appropriate stock ticker symbols
10 henceforth.

11
12 **Q. Briefly describe the areas served by the companies in your water**
13 **company sample proxy.**

14 A. AWK operates in over 30 U.S. states and Canada. AWR serves
15 communities located in Los Angeles, Orange and San Bernardino
16 counties in California. CWT provides service to customers in seventy-five
17 communities in California, New Mexico and Washington. CWT's principal
18 service areas are located in the San Francisco Bay area, the Sacramento,
19 Salinas and San Joaquin Valleys and parts of Los Angeles. As described
20 earlier in my testimony, MSEX serves customers in New Jersey, Delaware
21 and Pennsylvania. SJW serves approximately 226,000 customers in the
22 San Jose area and approximately 8,700 customers in a region located
23 between Austin and San Antonio, Texas. WTR is a holding company for a

1 large number of water and wastewater utilities operating in nine different
2 states including Pennsylvania, Ohio, New Jersey, Illinois, Maine, North
3 Carolina, Texas, Florida and Kentucky.

4

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

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

15

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

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

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

3 A. Yes, I have used these same LDCs in prior cases including two of the
4 most recent water company proceedings that I have testified in before the
5 Commission.¹⁰

6
7 **Q. Briefly describe the regions of the U.S. served by the nine natural**
8 **gas LDCs that make up your sample proxy.**

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

20
21 ...

22

¹⁰ Arizona Water Company Eastern Group Rate Case, Docket No. W-01445A-11-0310 and Pima Utility Company Docket Numbers W-02199A-11-0329 and SW-02199A-11-0330.

1 **Q. Are these the same water and natural gas companies that Far West**
2 **used in its application?**

3 A. Far West's consultant, Ray Jones, did not perform a cost of capital
4 analysis. Mr. Jones relied on prior Commission decisions to develop the
5 Company-proposed cost of common equity.¹¹

6
7 **Q. Please explain your DCF growth rate calculations for the sample**
8 **companies used in your proxy.**

9 A. Schedule WAR-5 provides retention ratios, returns on book equity, internal
10 growth rates, book values per share, numbers of shares outstanding, and
11 the compounded share growth for each of the utilities included in the
12 sample for the historical observation period 2007 to 2011 for both the
13 water companies and for the LDCs. Schedule WAR-5 also includes Value
14 Line's projected 2012, 2013 and 2015-17 values for the retention ratio,
15 equity return, book value per share growth rate, and number of shares
16 outstanding for the both the water utilities and the LDCs in my sample.

17
18 **Q. Please describe how you used the information displayed in Schedule**
19 **WAR-5 to estimate each comparable utility's dividend growth rate.**

20 A. In explaining my analysis, I will use WTR as an example. The first
21 dividend growth component that I evaluated was the internal growth rate.
22 I used the "b x r" formula (described earlier on pages 11 and 12 of my

¹¹ Company response to RUCO's data request 1.21

1 direct testimony) to multiply WTR's earned return on common equity by its
2 earnings retention ratio for each year in the 2007 to 2011 observation
3 period to derive the utility's annual internal growth rates. I used the mean
4 average of this five-year period as a benchmark against which I compared
5 the projected growth rate trends provided by Value Line. Because an
6 investor is more likely to be influenced by recent growth trends, as
7 opposed to historical averages, the five-year mean noted earlier was used
8 only as a benchmark figure. As shown on Schedule WAR-5, Page 2,
9 WTR had sustainable internal growth that averaged 3.36 percent during
10 the 2007 to 2011 observation period. The company experienced a decline
11 in growth from 3.14 percent in 2007, to 2.69 percent in 2009. Internal
12 growth climbed to 3.65 percent during the final year of the observation
13 period. Value Line's analysts expect this pattern to continue for the most
14 part in the coming years. Internal growth is expected to climb steadily to
15 5.09 percent by the end of 2017. After weighing Value Line's earnings
16 and book value estimates, I believe that internal growth of 5.10 percent is
17 reasonable for WTR. (Schedule WAR-4, Page 1 of 2).

18
19 **Q. Please continue with the external growth rate component portion of**
20 **your analysis.**

21 **A.** Schedule WAR-5 demonstrates that the number of shares outstanding for
22 WTR increased from 133.40 million in 2007, to 138.87 million in 2011.
23 Value Line is forecasting higher future share growth. According to Value

1 Line's analysts, outstanding shares should increase from 140.90 million in
2 2012 to 143.90 million by the end of the 2015-17 time period. Based on
3 Value Line's slightly higher expectations, I believe that a 0.75% rate of
4 share growth is appropriate (Page 2 of Schedule WAR-4). My final
5 dividend growth rate estimate for WTR is 5.76 percent (5.10 percent
6 internal growth + 0.66 percent external growth) and is shown on Page 1 of
7 Schedule WAR-4.

8
9 **Q. What is your average DCF dividend growth rate estimate for your**
10 **sample of water utilities?**

11 **A.** My average DCF dividend growth rate estimate for my water company
12 sample is 4.89 percent as displayed on page 1 of Schedule WAR-4.

13
14 **Q. Did you use the same approach to determine an average dividend**
15 **growth rate for your proxy of natural gas LDCs?**

16 **A.** Yes.

17
18 **Q. What is your average DCF dividend growth rate estimate for the**
19 **sample natural gas utilities?**

20 **A.** My average DCF dividend growth rate estimate for my natural gas sample
21 is 4.90 percent, which is also displayed on page 1 of Schedule WAR-4.

22
23

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

4 A. Schedule WAR-6 compares my growth estimates with the five-year
5 projections of analysts at both Zacks Investment Research, Inc. ("Zacks")
6 (Attachment C) and Value Line. In the case of the water companies, my
7 4.89 percent growth estimate falls below Zacks' average long-term EPS
8 projection of 6.60 percent for the water companies in my sample and
9 Value Line's growth projection of 4.92 percent (which is an average of
10 EPS, DPS and BVPS). My 4.89 percent estimate is 39 basis points higher
11 than the 4.50 percent average of Value Line's historical growth results and
12 10 basis points lower than the 4.99 percent average of the growth data
13 published by Value Line and Zacks. My 4.89 percent growth estimate is
14 also 142 basis points higher than Value Line's 3.47 percent 5-year
15 compound historical average of EPS, DPS and BVPS. On balance, I
16 would say my 4.89 percent growth estimate, derived from Value Line data,
17 is not out of line with the growth projections that are available to the
18 investing public.

19

20

21

22 ...

23

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

4 A. As can be seen on Schedule WAR-6, my 4.90 percent growth estimate for
5 the natural gas LDCs is 20 to 48 basis points higher than the average
6 4.42 percent average of long-term EPS consensus projection published by
7 Zacks, and the 4.70 percent Value Line projected estimate (which is an
8 average of EPS, DPS and BVPS). The 4.90 percent estimate that I have
9 calculated is 25 basis points lower than the 5.15 percent average of the 5-
10 year historic EPS, DPS and BVPS means of Value Line and is also 5
11 basis points higher than the combined 4.85 percent Value Line and Zacks
12 averages displayed in Schedule WAR-6. In fact, my 4.90 percent growth
13 estimate exceeds Value Line's 4.48 percent 5-year compound historical
14 average of EPS, DPS and BVPS by 42 basis points. In the case of the
15 LDCs I would say that my 4.90 percent estimate is more optimistic than
16 the growth projections for natural gas LDCs being presented by securities
17 analysts at this point in time.

18
19 **Q. How did you calculate the dividend yields displayed in Schedule**
20 **WAR-3?**

21 A. For both the water companies and the natural gas LDCs I used the
22 estimated annual dividends, for the next twelve-month period, that
23 appeared in Value Line's January 18, 2013 Ratings and Reports water

1 utility industry update and Value Line's December 7, 2012 Ratings and
2 Reports natural gas utility update. I then divided those figures by the
3 eight-week average daily adjusted closing price per share of the
4 appropriate utility's common stock. The eight-week observation period ran
5 from November 26, 2012 to January 18, 2013. The average dividend
6 yields were 3.09 percent and 3.87 percent for the water companies and
7 natural gas LDCs, respectively.

8
9 **Q. Based on the results of your DCF analysis, what is your cost of**
10 **equity capital estimate for the water and natural gas utilities included**
11 **in your sample?**

12 **A.** As shown on Schedule WAR-2, the cost of equity capital derived from my
13 DCF analysis is 7.98 percent for the water utilities and 8.76 percent for the
14 natural gas LDCs which is 362 to 440 basis points higher than the current
15 4.36 percent yield on a safer Baa/BBB-rated utility bond (Attachment D).

16
17 **Capital Asset Pricing Model (CAPM) Method**

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

20 **A.** CAPM is a mathematical tool that was developed during the early 1960's
21 by William F. Sharpe¹², the Timken Professor Emeritus of Finance at

¹² William F. Sharpe, "A Simplified Model of Portfolio Analysis," Management Science, Vol. 9, No. 2 (January 1963), pp. 277-93.

1 Stanford University, who shared the 1990 Nobel Prize in Economics for
2 research that eventually resulted in the CAPM model. CAPM is used to
3 analyze the relationships between rates of return on various assets and
4 risk as measured by beta.¹³ In this regard, CAPM can help an investor to
5 determine how much risk is associated with a given investment so that he
6 or she can decide if that investment meets their individual preferences.
7 Finance theory has always held that as the risk associated with a given
8 investment increases, so should the expected rate of return on that
9 investment and vice versa. According to CAPM theory, risk can be
10 classified into two specific forms: nonsystematic or diversifiable risk, and
11 systematic or non-diversifiable risk. While nonsystematic risk can be
12 virtually eliminated through diversification (i.e. by including stocks of
13 various companies in various industries in a portfolio of securities),
14 systematic risk, on the other hand, cannot be eliminated by diversification.
15 Thus, systematic risk is the only risk of importance to investors. Simply
16 stated, the underlying theory behind CAPM is that the expected return on
17 a given investment is the sum of a risk-free rate of return plus a market
18 risk premium that is proportional to the systematic (non-diversifiable risk)
19 associated with that investment. In mathematical terms, the formula is as
20 follows:

¹³ Beta is defined as an index of volatility, or risk, in the return of an asset relative to the return of a market portfolio of assets. It is a measure of systematic or non-diversifiable risk. The returns on a stock with a beta of 1.0 will mirror the returns of the overall stock market. The returns on stocks with betas greater than 1.0 are more volatile or riskier than those of the overall stock market; and if a stock's beta is less than 1.0, its returns are less volatile or riskier than the overall stock market.

1 $k = r_f + [\beta (r_m - r_f)]$
2 where: k = the expected return of a given security,
3 r_f = risk-free rate of return,
4 β = beta coefficient, a statistical measurement of a
5 security's systematic risk,
6 r_m = average market return (e.g. S&P 500), and
7 $r_m - r_f$ = market risk premium.
8

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

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

13
14 **Q. Please explain why U.S. Treasury instruments are regarded as a**
15 **suitable proxy for the risk-free rate of return?**

16 A. As citizens and investors, we would like to believe that U.S. Treasury
17 securities (which are backed by the full faith and credit of the United
18 States Government) pose no threat of default no matter what their maturity
19 dates are. However, a comparison of various Treasury instruments
20 (Attachment D) will reveal that those with longer maturity dates do have
21 slightly higher yields. Treasury yields are comprised of two separate

1 components,¹⁴ a real rate of interest (believed to be approximately 2.00
2 percent) and an inflationary expectation. When the real rate of interest is
3 subtracted from the total treasury yield, all that remains is the inflationary
4 expectation. Because increased inflation represents a potential capital
5 loss, or risk, to investors, a higher inflationary expectation by itself
6 represents a degree of risk to an investor. Another way of looking at this
7 is from an opportunity cost standpoint. When an investor locks up funds in
8 long-term T-Bonds, compensation must be provided for future investment
9 opportunities foregone. This is often described as maturity or interest rate
10 risk and it can affect an investor adversely if market rates increase before
11 the instrument matures (a rise in interest rates would decrease the value
12 of the debt instrument). As discussed earlier in the DCF portion of my
13 testimony, this compensation translates into higher rates of returns to the
14 investor.

15
16 **Q. What types of financial instruments are generally used as a proxy for**
17 **the risk-free rate of return in the CAPM model?**

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

¹⁴ As a general rule of thumb, there are three components that make up a given interest rate or rate of return on a security: the real rate of interest, an inflationary expectation, and a risk premium. The approximate risk premium of a given security can be determined by simply subtracting a 91-day T-Bill rate from the yield on the security.

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

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

¹⁵ As a general rule of thumb, there are three components that make up a given interest rate or rate of return on a security: the real rate of interest, an inflationary expectation, and a risk premium. The approximate risk premium of a given security can be determined by simply subtracting a 91-day T-Bill rate from the yield on the security.

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

3

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

6 A. I used an eight-week average of the yield on a 30-year U.S. Treasury
7 instrument. The yields were published in Value Line's Selection and
8 Opinion publication dated November 30, 2012 through January 13, 2013
9 (Attachment D). This resulted in a risk-free (r_f) rate of return of 2.92
10 percent.

11

12 **Q. Why did you use the yield on a 30-year year U.S. Treasury instrument**
13 **as opposed to a short-term T-Bill?**

14 A. While a shorter term instrument, such as a 91-day T-Bill, presents the
15 lowest possible total risk to an investor, a good argument can be made
16 that the yield on an instrument that matches the investment period of the
17 asset being analyzed in the CAPM model should be used as the risk-free
18 rate of return. Since utilities in Arizona generally file for rates every three
19 to five years, the yield on a 5-year U.S. Treasury Instrument more closely
20 matches the investment period or, in the case of regulated utilities, the
21 period that new rates will be in effect. In prior rate cases I have relied on
22 the yields of the 5-year Treasury instrument, however for the sake of
23 argument in this case, I have used the higher yield of the longer term 30-

1 year Treasury bond. As I will discuss later in my testimony, the yields of
2 long-term U.S. Treasury instruments are currently falling as a result of
3 recent actions being undertaken by the U.S. Federal Reserve to stimulate
4 the U.S. economy.

5
6 **Q. How did you calculate the market risk premium used in your CAPM**
7 **analysis?**

8 A. I used both a geometric and an arithmetic mean of the historical total
9 returns on the S&P 500 index from 1926 to 2011 as the proxy for the
10 market rate of return (r_m). For the risk-free portion of the risk premium
11 component (r_f), I used the geometric mean of the total returns of long-term
12 government bonds for the same eighty-four year period. The market risk
13 premium ($r_m - r_f$) that results by using the geometric mean of these inputs
14 is 4.10 percent ($9.80\% - 5.70\% = \underline{4.10\%}$). The market risk premium that
15 results by using the arithmetic mean calculation is 5.70 percent ($11.80\% -$
16 $6.10\% = \underline{5.70\%}$).

17
18 **Q. How did you select the beta coefficients that were used in your**
19 **CAPM analysis?**

20 A. The beta coefficients (β), for the individual utilities used in both my
21 proxies, were calculated by Value Line and were current as of January 13,
22 2013 for the water companies and December 7, 2012 for the natural gas
23 LDCs. Value Line calculates its betas by using a regression analysis

1 between weekly percentage changes in the market price of the security
2 being analyzed and weekly percentage changes in the NYSE Composite
3 Index over a five-year period. The betas are then adjusted by Value Line
4 for their long-term tendency to converge toward 1.00. The beta
5 coefficients for the service providers included in my water company
6 sample ranged from 0.60 to 0.85 with an average beta of 0.69. The beta
7 coefficients for the LDCs included in my natural gas sample ranged from
8 0.55 to 0.75 with an average beta of 0.66.

9
10 **Q. What are the results of your CAPM analysis?**

11 A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation
12 using a geometric mean to calculate the risk premium results in an
13 average expected return of 5.76 percent for the water companies and 5.61
14 percent for the natural gas LDCs. My calculation using an arithmetic
15 mean results in an average expected return of 6.87 percent for the water
16 companies and 6.66 percent for the natural gas LDCs.

17
18 **Q. Please summarize the results derived under each of the**
19 **methodologies presented in your testimony.**

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

	<u>METHOD</u>	<u>RESULTS</u>
1		
2	DCF (Water Sample)	7.98%
3	DCF (Natural Gas Sample)	8.76%
4	CAPM (Water Sample)	5.76% – 6.87%
5	CAPM (Natural Gas)	5.61% – 6.66%
6		

7 Based on these results, my best estimate of an unadjusted range for a
8 cost of common equity for the Company is 5.61 percent to 8.76 percent.
9 My final recommended cost of common equity figure is 9.25 percent which
10 is 49 basis points above the high end of the range of estimates shown
11 above (Schedule WAR-1, Page 3) and 489 basis points higher than the
12 current 4.36 percent yield on a safer Baa/BBB-rated utility bond. My final
13 estimate also falls within the range of projected returns on book common
14 equity that Value Line is projecting for both the water and natural gas
15 utility industries (Attachment A & B).

16
17 As I will discuss in more detail in the next section of my testimony, my final
18 estimate also takes into consideration current interest rates (as the cost of
19 equity moves in the same direction as interest rates) and the current state
20 of the national economy. My final estimate also takes into consideration
21 the U.S. Federal Reserve's recent decisions not to raise interest rates as
22 long as the level of unemployment remains above 6.50 percent and on
23 inflation holding to within a half percentage point of the Fed's 2.00 percent

1 target.¹⁶ I also took into consideration information on Arizona's economy
2 and current rate of unemployment in making my final cost of equity
3 estimate.

4

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

7 A. The 10.00 percent cost of equity capital reflected in the Company's
8 Application is 75 basis points higher than the 9.25 percent cost of equity
9 capital that I am recommending.

10

11 **Current Economic Environment**

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

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

¹⁶ U.S. Federal Reserve press release dated January 30, 2013:
<http://www.federalreserve.gov/newsevents/press/monetary/20130130a.htm>

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

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

12
13 In 1991, as measured by the most recently revised annual change in
14 gross domestic product ("GDP"), the U.S. economy experienced a rate of
15 growth of negative 0.20 percent. This decline in GDP marked the
16 beginning of a mild recession that ended sometime before the end of the
17 first half of 1992. Reacting to this situation, the Federal Reserve, then
18 chaired by noted economist Alan Greenspan, lowered its benchmark
19 federal funds rate¹⁷ in an effort to further loosen monetary constraints - an
20 action that resulted in lower interest rates.

21

¹⁷ This is the interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is the most sensitive indicator of the direction of interest rates, since it is set daily by the market, unlike the prime rate and the discount rate, which are periodically changed by banks and by the Federal Reserve Board, respectively.

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

9
10 Although GDP increased in 1992 and 1993, the Federal Reserve took
11 steps to increase interest rates beginning in February of 1994, in order to
12 keep inflation under control. By the end of 1995, the Federal discount rate
13 had risen to 5.21 percent. Once again, the banking community followed
14 the Federal Reserve's moves. The Fed's strategy, during this period, was
15 to engineer a "soft landing." That is to say that the Federal Reserve
16 wanted to foster a situation in which economic growth would be stabilized
17 without incurring either a prolonged recession or runaway inflation.

18
19 **Q. Did the Federal Reserve achieve its goals during this period?**

20 **A.** Yes. The Fed's strategy of decreasing interest rates to stimulate the
21 economy worked. The annual change in GDP began an upward trend in
22 1992. A change of 4.50 percent and 4.20 percent were recorded at the
23 end of 1997 and 1998, respectively. Based on daily reports that were

1 presented in the mainstream print and broadcast media during most of
2 1999, there appeared to be little doubt among both economists and the
3 public at large that the U.S. was experiencing a period of robust economic
4 growth highlighted by low rates of unemployment and inflation. Investors,
5 who believed that technology stocks and Internet company start-ups (with
6 little or no history of earnings) had high growth potential, purchased these
7 types of issues with enthusiasm. These types of investors, who exhibited
8 what former Chairman Greenspan described as "irrational exuberance,"
9 pushed stock prices and market indexes to all time highs from 1997 to
10 2000. Over the next ten years, the FOMC continued to stimulate the
11 economy and keep inflation in check by raising and lowering the federal
12 funds rate.

13
14 **Q. How did the U.S. economy fare between 2001 and 2007?**

15 **A.** The U.S. economy entered into a recession near the end of the first
16 quarter of 2001. The bullish trend, which had characterized the last half of
17 the 1990's, had already run its course sometime during the third quarter of
18 2000. Disappointing economic data releases, since the beginning of
19 2001, preceded the September 11, 2001 terrorist attacks on the World
20 Trade Center and the Pentagon which are now regarded as a defining
21 point during this economic slump. From January 2001 to June 2003 the
22 Federal Reserve cut interest rates a total of thirteen times in order to
23 stimulate growth. During this period, the federal funds rate fell from 6.50

1 percent to 1.00 percent. The FOMC reversed this trend on June 29, 2004
2 and raised the federal funds rate 25 basis points to 1.25 percent. From
3 June 29, 2004 to January 31, 2006, the FOMC raised the federal funds
4 rate thirteen more times to a level of 4.50 percent during a period in which
5 the economic picture turned considerably brighter as both Inflation and
6 unemployment fell, wages increased and the overall economy, despite
7 continued problems in housing, grew briskly.¹⁸

8
9 The FOMC's January 31, 2006 meeting marked the final appearance of
10 Alan Greenspan, who had presided over the rate setting body for a total of
11 eighteen years. On that same day, Greenspan's successor, Ben
12 Bernanke, the former chairman of the President's Council of Economic
13 Advisers, and a former Fed governor under Greenspan from 2002 to
14 2005, was confirmed by the U.S. Senate to be the new Federal Reserve
15 chief. As expected by Fed watchers, Chairman Bernanke picked up
16 where his predecessor left off and increased the federal funds rate by 25
17 basis points during each of the next three FOMC meetings for a total of
18 seventeen consecutive rate increases since June 2004, and raising the
19 federal funds rate to a level of 5.25 percent. The Fed's rate increase
20 campaign finally came to a halt at the FOMC meeting held on August 8,
21 2006, when the FOMC decided not to raise rates. Once again, the Fed
22 managed to engineer a soft landing.

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

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

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

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

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

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

1 discount rate (i.e. the rate charged on direct loans to banks) by 50 basis
2 points, from 6.25 percent to 5.75 percent, and took steps to encourage
3 banks to borrow from the Fed's discount window in order to provide
4 liquidity to lenders. According to an article that appeared in the August 18,
5 2007 edition of The Wall Street Journal,²¹ the Fed had used all of its tools
6 to restore normalcy to the financial markets. If the markets failed to settle
7 down, the Fed's only weapon left was to cut the Federal Funds rate –
8 possibly before the next FOMC meeting scheduled on September 18,
9 2007.

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

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

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

1 reduction that occurred one week prior to the FOMC's meeting on January
2 29, 2008.

3
4 **Q. What actions has the Fed taken in regard to interest rates since the**
5 **beginning of 2008?**

6 **A.** The Fed made two more rate cuts which included a 75 basis point
7 reduction in the federal funds rate on March 18, 2008 and an additional 25
8 basis point reduction on April 30, 2008. The Fed's decision to cut rates
9 was based on its belief that the slowing economy was a greater concern
10 than the current rate of inflation (which the majority of FOMC members
11 believed would moderate during the economic slowdown).²² As a result of
12 the Fed's actions, the federal funds rate was reduced to a level of 2.00
13 percent. From April 30, 2008 through September 16, 2008, the Fed took
14 no further action on its key interest rate. However, the days before and
15 after the Fed's September 16, 2008 meeting saw longstanding Wall Street
16 firms such as Lehman Brothers, Merrill Lynch and AIG failing as a result of
17 their subprime holdings. By the end of the week, the Bush administration
18 had announced plans to deal with the deteriorating financial condition
19 which had now become a worldwide crisis. The administrations actions
20 included former Treasury Secretary Henry Paulson's request to Congress
21 for \$700 billion to buy distressed assets as part of a plan to halt what has

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

1 been described as the worst financial crisis since the 1930's²³. Amidst this
2 turmoil, the Fed made the decision to cut the federal funds rate by another
3 50 basis points in a coordinated move with foreign central banks on
4 October 8, 2008. This was followed by another 50 basis point cut during
5 the regular FOMC meeting on October 29, 2008. At the time of this
6 writing, the federal funds target rate now stands at 0.25 percent, the result
7 of a 75 basis point cut announced on December 16, 2008.

8
9 **Q. Has the Fed taken any further action to stimulate the economy?**

10 Yes. At the close of the FOMC's September 2011 meeting the Fed
11 announced its decision to implement a plan that resembles a 1961
12 Federal Reserve program known as "Operation Twist".²⁴ Under this plan,
13 the Fed would sell \$400 billion in Treasury securities that mature within
14 three years. The proceeds from these sales would then be reinvested into
15 securities that mature in six to 30 years. This action would significantly
16 alter the balance of the Fed's holdings toward long-term securities. In
17 addition to selling off its shorter term Treasury holdings, the proceeds from
18 the Fed's maturing mortgage-backed securities would be reinvested in
19 other mortgage backed securities. Since 2010, the Fed had been
20 reinvesting that money into Treasury bonds, shrinking its mortgage

²³ 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.

²⁴ Hilsenrath, Jon and Luca Di Leo "Fed Launches New Stimulus" The Wall Street Journal, September 22, 2011.

1 portfolio. The overall goal of the Fed's plan was to reduce long-term
2 interest rates in the hope of boosting investment and spending and
3 provide a shot in the arm to the beleaguered housing sector of the
4 economy.

5
6 **Q. Has there been any noticeable drop in long-term rates since the Fed
7 announced its plan to purchase longer term Treasury instruments?**

8 A. Yes. As can be seen on Schedule WAR-8, the yields on 30-year Treasury
9 bonds have from fallen from an average of 4.08 percent during 2009 to the
10 current yield of 3.10 percent.

11
12 **Q. What is the current rate of inflation in the U.S.?**

13 A. As can also be seen on Schedule WAR-8, the current rate of inflation, as
14 measured by the consumer price index, is currently at 1.70 percent
15 according to information provided by the U.S. Department of Labor's
16 Bureau of Labor Statistics.²⁵

17
18 **Q. Has the Fed raised interest rates in anticipation of higher inflation?**

19 A. No. The FOMC has not raised interest rates to date. The Fed's plan to
20 buy \$600 billion of U.S. government bonds over an eight month period,

²⁵ <http://www.bls.gov/news.release/cpi.nr0.htm>

1 known as quantitative easing stage two or QE2,²⁶ was completed during
2 the summer of 2011. The attempt to drive down long-term interest rates
3 and encourage more borrowing and growth by increasing the money
4 supply has yet to stimulate the economy and fears of a possible slide into
5 recession persist.

6
7 At its January 30th and 31st 2013 meeting, the FOMC decided to keep
8 purchasing \$85 billion a month of mortgage-backed and Treasury
9 securities and signaled no intention, for now, to stop.²⁷ The rate-setting
10 body also reaffirmed its commitment to keep short-term rates near zero
11 until unemployment drops to 6.5% from the current 7.8%. However, that
12 depends on inflation holding to within a half percentage point of the Fed's
13 2.00 percent target. The FOMC further stated that it had decided to keep
14 the target range for the federal funds rate at 0.00 to 0.25 percent. After
15 its meeting the Fed stated that "Growth in economic activity paused in
16 recent months." According to the Wall Street Journal, a separate
17 government report issued on January 30, 2013 showed the economy
18 contracted at a 0.1% annual rate in the fourth quarter. Fed officials
19 attributed the stall to "weather-related disruptions and other transitory
20 factors." Though they foresee a pickup to "moderate" growth, officials said
21 they saw continued "downside risks to the economic outlook."

²⁶ Hilsenrath, Jon, "Fed Fires \$600 Billion Stimulus Shot" The Wall Street Journal, November 4, 2010.

²⁷ Hilsenrath, Jon and Victoria McGrane, "No Surprise as Fed Keeps Rate Stance" The Wall Street Journal, January 30, 2013.

1 **Q. Putting this all into perspective, how have the Fed's actions since**
2 **2000 affected the yields on Treasury Instruments and benchmark**
3 **interest rates?**

4 A. As can be seen on Schedule WAR-8, current Treasury yields are
5 considerably lower than corresponding yields that existed during the year
6 2000 and U.S. Treasury instruments, are for the most part, still at
7 historically low levels. As can be seen on the first page of Attachment D,
8 the previously mentioned federal discount rate (the rate charged to the
9 Fed's member banks), has remained steady at 0.75 percent since
10 November of 2011.

11
12 As of January 9, 2013, leading interest rates that include the 3-month, 6-
13 month and 1-year treasury yields have only increased 3 to 4 basis points
14 from their January 2012 levels. Longer term yields including the 5-year,
15 10-year and 30-year have either fallen, remained flat or increased
16 modestly from levels that existed a year ago. The same is true for the 30-
17 year Zero rate. The prime rate has remained constant at 3.25 percent
18 over the past year, as has the benchmark federal funds rate discussed
19 above. A previous trend, described by former Chairman Greenspan as a
20 "conundrum"²⁸, in which long-term rates fell as short-term rates increased,
21 thus creating a somewhat inverted yield curve that existed as late as June

²⁸ Wolk, Martin, "Greenspan wrestling with rate 'conundrum'," MSNBC, June 8, 2005.

1 2007, is completely reversed and a more traditional yield curve (one
2 where yields increase as maturity dates lengthen) presently exists.
3

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

5 A. Referring again to Attachment D, as of January 9, 2013, 25/30-year A-
6 rated utility bonds were yielding 4.00 percent (17 basis points lower than a
7 year ago) and 25/30-year Baa/BBB-rated utility bonds were yielding 4.36
8 percent (down 54 basis points from a year earlier).
9

10 **Q. How has the current environment of low interest rates**
11 **impacted the returns on utilities in general?**

12 A. In the November 2, 2012 Value Line quarterly update on the Electric Utility
13 (West) Industry, Value Line analyst Paul E. Debbas, CFA had this to say
14 on the effects of interest rates on utilities:

15 "Since 2008, interest rates have been low as a result of
16 Federal Reserve policy. This has had various effects on
17 utilities (and their stocks). Some of these effects are
18 positive, some negative. The most noticeable effect on
19 utilities is reflected in their stock prices. With interest rates
20 on savings accounts, money market funds, and other
21 income vehicles minuscule, many investors have chosen
22 to turn to income stocks. Utilities are known for paying
23 healthy dividends. Indeed, at 4.1%, this industry's average
24 yield is well above the median yield of all dividend-paying
25 equities under our coverage. Low interest rates also
26 reduce utilities' borrowing costs—something that is
27 important in such a capital-intensive sector. Interest
28 savings from refinancing debt will eventually be passed on
29 to customers once the utility receives a rate order.
30 However, for debt held at the parent level or at a non-utility
31 subsidiary, the company retains any interest reductions.
32 Low interest rates also have some negative aspects for
33 this industry. Allowed returns on equity have been

1 trending down due to declining interest rates. Also, low
2 interest rates increase a company's pension obligations
3 because they are discounted at a lower rate. This can be
4 reflected in higher pension expense. Finally, Hawaiian
5 Electric Industries is unique in this group due to its
6 ownership of American Savings Bank. Low interest rates
7 are squeezing the interest-rate spreads for thrifts."
8

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

10 **A.** The current outlook on the economy takes into consideration the recent
11 resolution of the so called fiscal cliff situation (which involved the
12 scheduled expiration of Bush Administration-era tax cuts and scheduled
13 federal spending cuts) between the Executive Branch and Congress.
14 Value line's analysts offered this perspective on the economy in the
15 January 18, 2013 edition of Value Line's Selection and Opinion
16 publication:

17 **"Meanwhile, the business outlook is mixed as we move**
18 **into the early weeks of 2013.** To wit, job growth is
19 steady, but uninspiring, with 155,000 positions created in
20 December. That was in line with November (161,000) and
21 the average monthly gain in 2012 (153,000). Also, the
22 jobless rate remains very elevated (at 7.8%) and
23 manufacturing is just inching ahead. But non-
24 manufacturing is perking up and housing is in high gear."
25

26 Value Line's analysts went on to say:

27 **" We probably will be in a holding pattern in the first**
28 **quarter, with growth likely not veering far from the 1.5%**
29 **GDP gain we think was inked in the final quarter of 2012.**
30 **At that time, lackluster retail activity and a possible decline**
31 **in inventories likely held back growth. Now, further**
32 **uncertainty in the Capitol and the end of the payroll tax cut**
33 **(i.e., withholdings for social security deductions will**
34 **increase) could limit GDP growth in the early part of 2013."**
35

36

1 Value Line's analysts further stated:

2 "Prospects look better thereafter, when, hopefully, a
3 fuller budget deal and a resolution of the debt-ceiling crisis
4 will be secured. Assuming that the housing recovery
5 builds further and the employment picture brightens slowly,
6 growth could average 2%, or so, for the final nine months
7 of 2013. Thereafter, growth could kick into somewhat
8 higher gear during 2014."
9

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

11 **A.** While, as always, there are concerns regarding long-term infrastructure
12 requirements, it appears that water utilities continue to be viewed as safe
13 havens during the current period of economic uncertainty. In his January
14 18, 2013 quarterly water industry update (Attachment A) Value Line
15 analyst Andre J. Costanza stated the following:

16 "The Water Utility Industry has remained a hotbed of
17 investor activity, with Wall Street continuing to pour money
18 into the sector since our October review. As a result, the
19 group now sits in the upper echelons of the Value Line
20 Investment Survey for Timeliness, ranking 4th out of the 98
21 industries we analyze. It was ranked 28th three months
22 ago and 54th back in July.
23

24 Sentiment has been steadily improving, with the industry
25 continuing to see interest from investors with concerns
26 about the broader-based economy. Although the highly
27 anticipated fiscal cliff appears to have been averted for
28 now, global economies have been slow to improve, and in
29 some cases, appear years away from turning the corner.
30 Water utility stocks have historically done well during times
31 of economic uncertainty, with their dividends providing
32 some shelter.
33

34 The recent spike in attention is warranted by company-
35 specific fundamentals, too, though. Nearly every water
36 provider in our Survey posted record earnings in the
37 September quarter. (Note that none of the companies had
38 released December-period results as of the writing of this
39 report.
40

1 That said, industry conditions are likely to stiffen going
2 forward. Although the regulatory environment ought to
3 remain favorable, and be a big help with costs, providers
4 will be left holding sizable tabs, nonetheless.
5 Unfortunately, most operating in this space lack the cash
6 balances to meet the capital requirements that loom.”
7
8
9

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

12 **A. Arizona was one of the states hit hardest during the Great Recession and**
13 **has lagged during the current recovery.²⁹ During the period between 2006**
14 **and 2009, statewide construction spending fell by 40.00 percent.**
15 **According to Irvine, California-based RealtyTrac's year-end report**
16 **released on January 16, 2013, Arizona's 2.69 percent home foreclosure**
17 **rate dropped to the No. 3 spot in the nation last year after three**
18 **consecutive years of holding strong at No. 2.³⁰ RealtyTrac ranked**
19 **Arizona third in the nation behind Florida and Nevada in terms of home**
20 **foreclosures.³¹**

21
22
23 ...
24

²⁹ Beard, Betty, "Recession hit Arizona hardest" The Arizona Republic, March 6, 2011.

³⁰ Hansen, Kristena: "RealtyTrac - Arizona's home foreclosure rate improves (slightly)," Phoenix Business Journal, January 16, 2013.

³¹ <http://www.realtytrac.com/content/foreclosure-market-report/2012-year-end-foreclosure-market-report-7547>

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

3 A. According to information published on January 31, 2013, and displayed on
4 the website of the Arizona Department of Administration's Office of
5 Employment and Population Statistics,³² the seasonally adjusted 7.90
6 percent unemployment rate for Arizona mirrored the current U.S. rate of
7 unemployment. The December 2012 rate of unemployment for Yuma
8 County, where Far West is located, was 29.00 percent.

9
10 **Q. After weighing the economic information that you've just discussed,**
11 **do you believe that the 9.25 percent cost of equity capital that you**
12 **have estimated is reasonable for the Company?**

13 A. I believe that my recommended 9.25 percent cost of equity capital, which
14 is 489 basis points higher than the current 4.36 percent yield on a
15 Baa/BBB-rated utility bond, will provide Far West with a reasonable rate of
16 return on invested capital when data on interest rates (that are low by
17 historical standards), the current state of the economy, current rates of
18 unemployment (both nationally, in Arizona, and in the county where Far
19 West is located), and the Fed's decision to keep interest rates at their
20 current levels are all taken into consideration. As I noted earlier, the Hope
21 decision determined that a utility is entitled to earn a rate of return that is

³² Arizona Department of Administration's Office of Employment and Population Statistics
<http://www.workforce.az.gov/>

1 commensurate with the returns it would make on other investments with
2 comparable risk. I believe that my cost of equity analysis, which is 49
3 basis points more than the high end of the range of results I obtained from
4 both the DCF and CAPM models, has produced such a return.

5
6 **CAPITAL STRUCTURE**

7 **Q. Have you reviewed Far West's testimony regarding the Company's**
8 **proposed capital structure?**

9 **A. Yes.**

10
11 **Q. Please describe the Company's proposed capital structure.**

12 **A. The Company is proposing a test year adjusted capital structure**
13 **comprised of 79.55 percent long-term debt, 6.46 percent short-term debt**
14 **and 13.98 percent common equity.**

15
16 **Q. What capital structure are you recommending for Far West?**

17 **A. I am recommending that the Commission adopt the Company-proposed**
18 **capital structure. The inclusion of short-term debt is not unreasonable in**
19 **my opinion and actually benefits ratepayers from the standpoint that it**
20 **results in a lower weighted average cost of capital. In addition to this, the**
21 **inclusion of the short-term debt produces a higher deduction to income tax**
22 **expense which also results in lower rates to Far West's ratepayers.**

23

1 **Q. Is Far West's capital structure in line with industry averages?**

2 A. No. As can be seen in Schedule WAR-9, Far West's capital structure is
3 far heavier in debt than the capital structures of the water utilities in my
4 sample which had an average of 54.10 percent debt and 45.70 percent
5 common equity. Far West's capital structure would be perceived by
6 investors as having much higher financial risk. The same is true in the
7 case of my LDC sample which had an average of 49.60 percent debt and
8 50.30 percent common equity.

9

10 **Q. Have you made an upward adjustment to your recommended cost of**
11 **equity that reflects the fact that Far West's capital structure is**
12 **heavier in debt than the capital structures of your sample utilities?**

13 A. Yes. As I stated earlier in my testimony, I have made a 49 basis point
14 upward adjustment to the 8.76 percent high side of my DCF results that
15 takes into consideration the higher level of financial risk (i.e. the risk of not
16 being able to service existing debt) that would be perceived by investors.

17

18 **COST OF DEBT**

19 **Q. Have you reviewed Far West's testimony on the Company-proposed**
20 **costs of long-term and short-term debt?**

21 A. Yes.

22

1 **Q. What is Far West proposing in regard to the costs of long-term and**
2 **short term-debt?**

3 A. Far West is proposing that the Commission adopt a 6.90 percent cost of
4 long-term debt and an 8.07 percent cost of short-term debt.

5

6 **Q. What are your recommended costs of long-term and short-term debt**
7 **in this proceeding?**

8 A. I am recommending that the Commission adopt the Company-proposed
9 costs of long-term and short-debt. My rationale for this decision is that the
10 Company-proposed long-term cost of debt is the actual 6.90 percent cost
11 of the Industrial Development Authority bonds that Far West obtained to
12 finance the plant improvements that the Company is seeking recovery on
13 in this proceeding. In regard to the cost of short-term debt, I believe that
14 the 8.07 percent cost is not unreasonable when Far West's highly
15 leveraged capital structure, comprised of 86.45 percent debt, is taken into
16 consideration.

17

18 **WEIGHTED AVERAGE COST OF CAPITAL**

19 **Q. What is your recommended weighted average cost of capital for Far**
20 **West?**

21 A. I am recommending that the Commission adopt my recommended 7.30
22 percent weighted average cost of capital ("WACC") which is the weighted

1 cost of my recommended costs of long-term debt, short-term debt, and
2 common equity.

3
4 **Q. How does the Company's proposed WACC cost of capital compare**
5 **with your recommendation?**

6 A. The Company has proposed a WACC of 7.409 percent. This figure is the
7 result of a weighted average of Far West's proposed cost of long-term
8 debt, short-term debt and common equity. The Company-proposed 7.409
9 percent weighted cost of capital is 10.9 basis points higher than the 7.30
10 percent weighted cost of capital that I am recommending.

11
12 **COMMENTS ON THE COMPANY-PROPOSED COST OF EQUITY CAPITAL**

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

15 A. The Company's consultant, Mr. Jones, is recommending a cost of
16 common equity of 10.00 percent. His 10.00 percent cost of equity capital
17 is 75 basis points higher than the 9.25 percent cost of equity capital that I
18 am recommending.

19
20 **Q. What methods did Mr. Jones use to arrive at his proposed cost of**
21 **common equity for the Company?**

22 A. As I stated earlier in my testimony, Mr. Jones did not conduct a cost of
23 capital analysis using sample companies or the valuation models (i.e. DCF

1 or CAPM) that I employed in my analysis. Mr. Jones based his 10.00
2 percent recommendation on prior Commission orders which do not reflect
3 any analysis of current market conditions.

4

5 **Q. Does your silence on any of the issues, matters or findings**
6 **addressed in the testimony of Mr. Jones or any other witness for Far**
7 **West constitute your acceptance of their positions on such issues,**
8 **matters or findings?**

9 **A. No, it does not.**

10

11 **Q. Does this conclude your testimony on Far West?**

12 **A. Yes.**

Qualifications of William A. Rigsby, CRRA

EDUCATION:

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

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

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

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

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

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

EXPERIENCE:

Chief of Accounting and Rates
Residential Utility Consumer Office
October 2011 – Present

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

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

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

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

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

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

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
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-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
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
Arizona-American Water Company	W-01303A-09-0343	Deconsolidation
Goodman Water Company	W-02500A-10-0382	Rate Increase
Arizona Water Company	W-01445A-10-0517	Rate Increase
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
Arizona Water Company	W-01445A-11-0310	Rate Increase
Pima Utility Company	W-02199A-11-0329 et al.	Rate Increase
Tucson Electric Power Company	E-01933A-12-0291	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-12-0196	Rate Increase

ATTACHMENT A

The Water Utility Industry has remained a hotbed of investor activity, with Wall Street continuing to pour money into the sector since our October review. As a result, the group now sits in the upper echelons of the *Value Line Investment Survey* for Timeliness, ranking 4th out of the 98 industries we analyze. It was ranked 28th three months ago and 54th back in July.

Sentiment has been steadily improving, with the industry continuing to see interest from investors with concerns about the broader-based economy. Although the highly anticipated fiscal cliff appears to have been averted for now, global economies have been slow to improve, and in some cases, appear years away from turning the corner. Water utility stocks have historically done well during times of economic uncertainty, with their dividends providing some shelter.

The recent spike in attention is warranted by company-specific fundamentals, too, though. Nearly every water provider in our *Survey* posted record earnings in the September quarter. (Note that none of the companies had released December-period results as of the writing of this report.)

That said, industry conditions are likely to stiffen going forward. Although the regulatory environment ought to remain favorable, and be a big help with costs, providers will be left holding sizable tabs, nonetheless. Unfortunately, most operating in this space lack the cash balances to meet the capital requirements that loom.

Industry Basics

One of, if not the, biggest essentials to sustaining just about any life form, water demand is undeniable. As a result, demand will probably continue to grow along with the population, with the only other major determinant being weather conditions. Given water's necessity, each individual state has a regulatory body in place that is responsible for the safe and timely delivery of water as well as for maintaining a balance of power between providers and customers. Recently, regulators have become far more business-friendly, handing down more favorable rulings on general rate cases and allowing providers to recoup some of the growing costs of operating a utility. State regulators review and rule on general rate case requests submitted by providers looking to recover costs incurred during distribution, and therefore are vital to each company's future. Every provider has a lot riding on the cases under review.

Swimming In Expenses

Despite the improved regulatory environment, water providers are still left holding the bill for most of the infrastructure improvements that need to be made. And that can be substantial amounts of cash in this space, given the age and conditions of many of these infrastructures. However, the majority of those operating here lack the finances to fund the improvements on their own, and are forced to look to outside financiers in order to meet the capital requirements. Although external financing has become commonplace, the increased shares and or debt taken on in order to finance the upgrades are eating away at profits and diluting shareholder gains.

The extravagant costs have spurred significant M&A

INDUSTRY TIMELINESS: 4 (of 98)

activity, with those not willing or capable of raising the necessary capital shopping themselves, looking for larger, better equipped suitors. More capable players, such as *Aqua America* have been taking advantage of this trend, using the spike in activity to grow their businesses and expand their footprints.

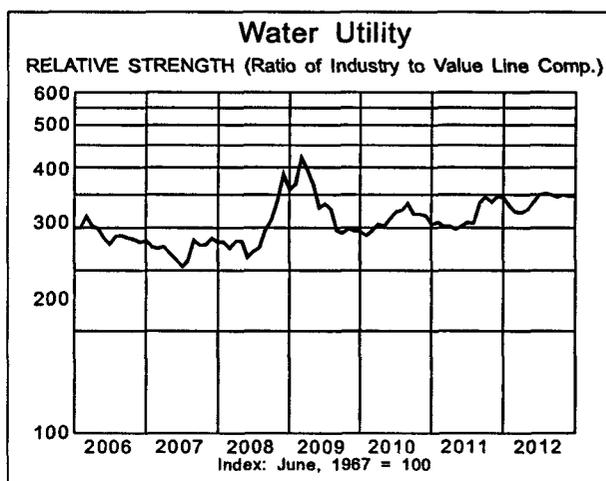
Conclusion

There remains a couple of timely plays in this group. Momentum investors will probably be interested in *American States Water*, *SJW Corp.*, and *Aqua America*, all of which rank 2 (Above Average) thanks to recent earnings power. *American* and *Aqua*, meanwhile, also score favorably (2: Above Average) for Safety, adding to their appeal on a risk-adjusted basis.

That said, not a single issue holds worthwhile price appreciation potential out to mid-decade. The capital-intensive nature of this business, coupled with financial constraints, spell trouble for the future gains of those in this space. Indeed, maintenance costs alone are expected to cost operators hundreds of millions of dollars each year.

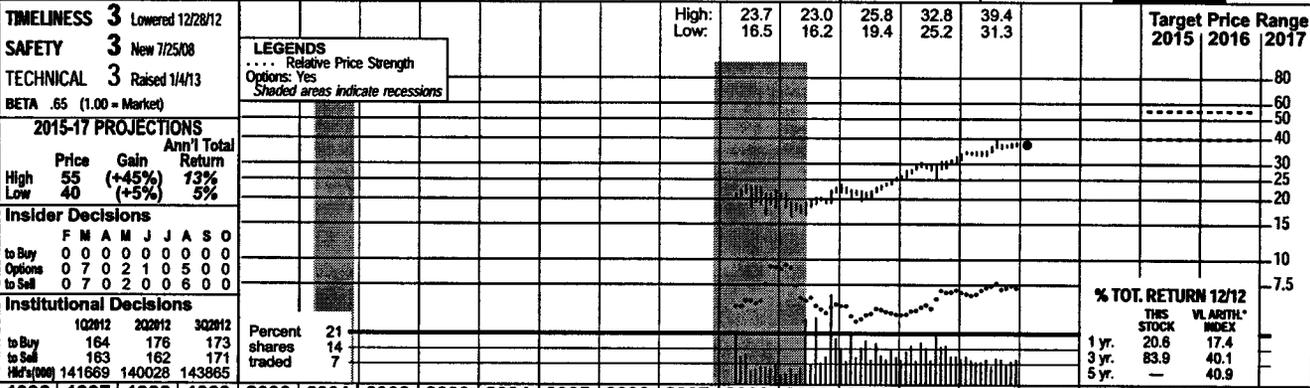
Even still, the industry's main draw has long been its income component. All of the stocks here offer above average dividend yields and appear to be worthy of consideration for those looking to add a steady income producer to their portfolios at first blush. However, deeper evaluation gives us some pause regarding the sustainability of these yields long term with our concerns about the rising costs of doing business and inadequate finances threatening to offset any benefits from regulatory improvements. As such, we believe that there are better income vehicles elsewhere, particularly in the Electric Utility Industry. Nevertheless, as always, we advise potential investors to carefully review the individual reports of each stock in the group, with a keen eye on company finances and future cash flow. Both will be very telling heading forward, especially if regulators take a more consumer friendly approach. Investors ought to note that *Connecticut Water Service*, is making its inaugural appearance in our *Survey*.

Andre J. Costanza



AMERICAN WATER NYSE-AWK

RECENT PRICE **37.33** P/E RATIO **16.4** (Trailing: 17.9 Median: NMF) RELATIVE P/E RATIO **1.04** DIV'D YLD **2.7%** VALUE LINE



1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC 15-17
--	--	--	--	--	--	--	--	--	--	13.08	13.84	14.61	13.98	15.49	15.18	16.40	16.55	Revenues per sh
--	--	--	--	--	--	--	--	--	--	.65	d.47	2.87	2.89	3.56	3.74	4.30	4.40	"Cash Flow" per sh
--	--	--	--	--	--	--	--	--	--	d.97	d2.14	1.10	1.25	1.53	1.72	2.20	2.25	Earnings per sh ^A
--	--	--	--	--	--	--	--	--	--	--	--	.40	.82	.86	.91	.96	1.04	Div'd Decl'd per sh ^B
--	--	--	--	--	--	--	--	--	--	4.31	4.74	6.31	4.50	4.38	5.27	5.10	5.30	Cap'l Spending per sh
--	--	--	--	--	--	--	--	--	--	23.86	28.39	25.64	22.91	23.59	24.14	25.20	25.60	Book Value per sh ^D
--	--	--	--	--	--	--	--	--	--	160.00	160.00	160.00	174.63	175.00	175.66	177.00	180.00	Common Shs Outst'g ^C
--	--	--	--	--	--	--	--	--	--	--	--	18.9	15.6	14.6	16.7	16.0	--	Avg Ann'l P/E Ratio
--	--	--	--	--	--	--	--	--	--	--	--	1.14	1.04	.93	1.05	1.01	--	Relative P/E Ratio
--	--	--	--	--	--	--	--	--	--	--	--	1.9%	4.2%	3.8%	3.1%	2.7%	--	Avg Ann'l Div'd Yield

CAPITAL STRUCTURE as of 9/30/12
 Total Debt \$5535.9 mill. Due in 5 Yrs \$229.5 mill.
 LT Debt \$5203.1 mill. LT Interest \$306.5 mill.
 (Total interest coverage: 4.3x) (54% of Cap'l)

Leases, Uncapitalized: Annual rentals \$21.5 mill.
Pension Assets-12/11 \$981.1 mill
 Oblig. \$1402.0 mill.
Pfd Stock \$19.3 mill. Pfd Div'd \$7 mill

Common Stock 176,756,790 shs. as of 11/1/12

MARKET CAP: \$6.6 billion (Large Cap)

CURRENT POSITION

	2010	2011	9/30/12
Cash Assets	13.1	14.2	18.5
Other	521.2	1383.5	622.0
Current Assets	534.3	1397.7	642.5
Accts Payable	199.2	243.7	202.3
Debt Due	44.8	543.9	332.8
Other	530.5	701.5	480.8
Current Liab.	774.5	1489.1	1005.9
Fix. Chg. Cov.	237%	256%	300%

ANNUAL RATES

	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11 to '15-'17
Revenues	--	--	4.0%
"Cash Flow"	--	--	6.0%
Earnings	--	--	9.0%
Dividends	--	--	6.5%
Book Value	--	--	2.5%

QUARTERLY REVENUES (\$ mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	550.2	612.7	680.0	597.8	2440.7
2010	588.1	671.2	786.9	664.5	2710.7
2011	596.7	668.8	760.9	639.8	2666.2
2012	618.6	745.6	831.8	704	2900
2013	650	750	850	725	2975

EARNINGS PER SHARE ^A

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.19	.32	.52	.21	1.25
2010	.18	.42	.71	.23	1.53
2011	.23	.42	.73	.34	1.72
2012	.28	.66	.87	.39	2.20
2013	.34	.68	.84	.39	2.25

QUARTERLY DIVIDENDS PAID ^B

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.20	.20	.21	.21	.82
2010	.21	.21	.22	.22	.86
2011	.22	.23	.23	.23	.91
2012	.23	.23	.25	.25	.96
2013					

BUSINESS: American Water Works Company, Inc. is the largest investor-owned water and wastewater utility in the U.S., providing services to over 15 million people in over 30 states and Canada. Its nonregulated business assists municipalities and military bases with the maintenance and upkeep as well. Regulated operations made up 88.9% of 2011 revenues. New Jersey is its biggest market

American Water Works probably closed out a successful 2012 campaign in impressive fashion. The water provider posted strong top- and bottom-line growth through the first nine months, as earlier portfolio optimization proved a benefit. Indeed, the company was able to add exposure to flourishing systems, while removing positions in less profitable areas. Perhaps just as important, however, was management's ability to control costs while doing so. We suspect that the company posted 15% share-net growth, on a 10% revenue gain in the fourth quarter. **Earnings growth will probably be far more difficult to come by this year, however.** Although we believe that the top line will continue to benefit from favorable regulatory rulings and the improved portfolio mix, it is hard to imagine that the cost base will not rise going forward. Indeed, the company is slated to make a number of infrastructure upgrades to aging systems. Thus, we look for costs to begin to mount, thereby cutting into margins, despite efforts to keep expenses under wraps. **Financing is likely to become a con-**

cern again. Aside from the benefits mentioned above, the portfolio optimization effort gave American Water some financial flexibility last year. However, most of that cash probably has been burned through by now, and cash on hand is minimal, so the company will have to seek outside financing in order to fund the aforementioned upgrades. But any debt and/or share offerings will dilute earnings. **This stock is not overly appealing at this time.** It is no longer timely, and the capital-intensive nature of the business threatens to stymie earnings growth for the foreseeable future. The balance sheet is highly leveraged and is likely to only get worse as the company is expected to spend some \$900 million per annum to make infrastructure repairs. Operational cash flow will not be sufficient to make the changes, requiring American Water to float additional debt and shares, despite what we believe will be favorable regulatory backing. Overall, although the stock's income component is above average, there are better, more sustainable options to choose from, in our opinion.

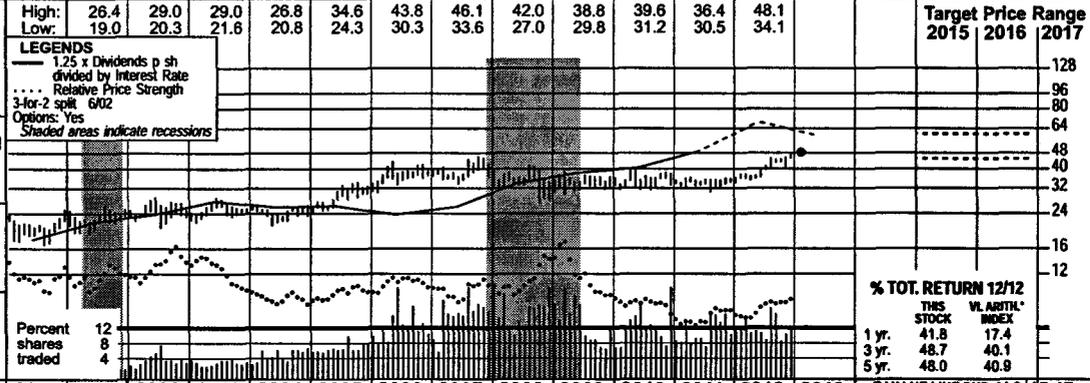
Andre J. Costanza January 18, 2013

(A) Diluted earnings. Excludes nonrecurring losses: '08, \$4.62; '09, \$2.63; '11, \$0.07. Discontinued operations: '06, (4¢); '11, 3¢; '12, (10¢).	Next earnings report due late Feb. Quarterly earnings may not sum due to rounding.	(C) In millions.	Company's Financial Strength	B
(B) Dividends paid in March, June, September, and December. # Div. reinvestment available.	(D) Includes intangibles. In 2011: \$1.195 billion, \$9.80/share.		Stock's Price Stability	95
			Price Growth Persistence	85
			Earnings Predictability	20

AMER. STATES WATER NYSE-AWR

RECENT PRICE **48.57** P/E RATIO **18.8** (Trailing: 18.3 Median: 22.0) RELATIVE P/E RATIO **1.19** DIVD YLD **2.9%** VALUE LINE

TIMELINESS 2 Raised 11/23/12
SAFETY 2 Raised 7/20/12
TECHNICAL 3 Raised 1/4/13
BETA .70 (1.00 = Market)
2015-17 PROJECTIONS



Insider Decisions
 F M A M J J A S O
 to Buy 0 0 0 0 0 0 0 0 0 0
 Options 2 2 0 4 2 0 16 0 0 0
 to Sell 2 2 0 4 2 0 17 0 0 0

Institutional Decisions
 1Q2012 2Q2012 3Q2012
 to Buy 69 83 79
 to Sell 63 50 65
 Net (000) 11810 11968 11747

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	VALUE LINE PUB. LLC	15-17
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	22.24	23.95	24.50	Revenues per sh	27.80
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	4.26	4.60	4.85	"Cash Flow" per sh	5.50
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	2.24	2.65	2.70	Earnings per sh A	2.80
.82	.83	.84	.85	.86	.87	.87	.88	.89	.90	.91	.96	1.00	1.01	1.04	1.10	1.27	1.45	Div'd Decl'd per sh B=C	1.60
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	4.26	4.20	4.40	Cap'l Spending per sh	5.10
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	21.68	22.80	23.15	Book Value per sh	23.80
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	18.85	19.00	19.20	Common Shs Outs'd g C	19.60
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	15.7	15.3		Avg Ann'l P/E Ratio	19.0
.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.27	1.36	1.41	1.00	1.01	.96		Relative P/E Ratio	1.25
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%	3.0%	3.1%		Avg Ann'l Div'd Yield	3.0%

CAPITAL STRUCTURE as of 9/30/12
 Total Debt \$344.4 mill. Due in 5 Yrs \$280.0 mill.
 LT Debt \$344.2 mill. LT Interest \$24.0 mill.
 (LT interest earned: 5.5x total interest coverage: 5.2x)
 (43% of Cap'l)

Leases, Uncapitalized: Annual rentals \$3.3 mill.

Pension Assets-12/11 \$92.9 mill.
 Oblig. \$146.1 mill.

Pfd Stock None.

Common Stock 19,216,427 shs.
 as of 11/2/12
MARKET CAP: \$925 million (Small Cap)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	15-17
209.2	212.7	228.0	236.2	268.6	301.4	318.7	361.0	398.9	419.3	455	470	Revenues (\$mill)	545	
20.3	11.9	16.5	22.5	23.1	28.0	26.8	29.5	41.4	42.0	50.0	55.0	Net Profit (\$mill)	55.0	
38.9%	43.5%	37.4%	47.0%	40.5%	42.6%	37.8%	38.9%	43.2%	41.7%	42.5%	42.0%	Income Tax Rate	40.0%	
--	--	--	--	12.2%	8.5%	6.9%	3.2%	5.8%	5.8%	5.0%	5.0%	AFUDC % to Net Profit	5.0%	
52.0%	52.0%	47.7%	50.4%	48.6%	46.9%	46.2%	45.9%	44.3%	45.4%	43.0%	43.0%	Long-Term Debt Ratio	42.0%	
48.0%	48.0%	52.3%	49.6%	51.4%	53.1%	53.8%	54.1%	55.7%	54.6%	57.0%	57.0%	Common Equity Ratio	58.0%	
444.4	442.3	480.4	532.5	551.6	569.4	577.0	665.0	677.4	749.1	760	780	Total Capital (\$mill)	805	
563.3	602.3	664.2	713.2	750.6	776.4	825.3	866.4	855.0	896.5	935	980	Net Plant (\$mill)	1080	
6.5%	4.6%	5.2%	5.4%	6.0%	6.7%	6.4%	5.9%	7.6%	6.0%	6.0%	6.0%	Return on Total Cap'l	7.0%	
9.5%	5.6%	6.6%	8.5%	8.1%	9.3%	8.6%	8.2%	11.0%	10.3%	10.5%	11.0%	Return on Shr. Equity	12.0%	
9.5%	5.6%	6.6%	8.5%	8.1%	9.3%	8.6%	8.2%	11.0%	10.3%	10.5%	11.0%	Return on Com Equity	12.0%	
3.3%	NMF	1.0%	2.8%	2.7%	3.9%	3.1%	3.2%	5.8%	5.2%	5.0%	5.0%	Retained to Com Eq	5.0%	
65%	113%	84%	67%	67%	58%	64%	61%	47%	49%	48%	50%	All Div'ds to Net Prof	57%	

CURRENT POSITION 2010 2011 9/30/12 (\$MILL)

Cash Assets	4.2	1.3	43.1
Other	200.8	164.3	144.0
Current Assets	205.0	165.6	187.1
Accts Payable	36.2	37.9	52.1
Debt Due	61.3	3	2
Other	81.3	66.2	56.9
Current Liab.	178.8	104.4	109.2
Fix. Chg. Cov.	428%	401%	390%

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 (4/12 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.

ANNUAL RATES Past 10 Yrs. Past 5 Yrs. Est'd '09-'11 of change (per sh) to '15-'17

Revenues	5.0%	7.5%	4.5%
"Cash Flow"	5.5%	9.5%	5.5%
Earnings	4.5%	11.5%	5.5%
Dividends	2.0%	2.5%	7.5%
Book Value	5.0%	5.0%	2.5%

QUARTERLY REVENUES (\$ mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	119.9	95.3	419.3
2012	106.6	114.3	133.5	100.6	455
2013	105	120	135	110	470

EARNINGS PER SHARE A

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.28	.64	.52	.18	1.62
2010	.45	.47	.62	.68	2.22
2011	.37	.68	.83	.36	2.24
2012	.53	.79	.97	.36	2.65
2013	.50	.75	1.00	.45	2.70

QUARTERLY DIVIDENDS PAID B=C

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.250	.250	.250	.260	1.01
2010	.260	.260	.260	.260	1.04
2011	.260	.280	.280	.280	1.10
2012	.280	.280	.355	.355	1.27
2013					

American States Water's bottom-line momentum will likely slow a bit in 2013. We believe that share net grew 18% in 2012, largely due to the Contracted Services unit in its American States Utility Services (ASUS) subsidiary. ASUS continues to generate higher-than-expected construction margins on the Fort Bragg military base in North Carolina and on bases in Virginia. This subsidiary provides the most upside, as it takes on projects that are lighter on the regulatory front. The 50-year privatization contract with the U.S. government on Fort Bragg offers a decent amount of business going forward. Though optimism is strong, the reliability of future awards provides a greater concern. We expect difficult comps, and fewer projects will slow growth in this segment. Therefore, this expected softness in Contracted Services, coupled with flatish water and electric growth, have tempered our optimism for 2013.

Management's focus on bidding opportunities should bolster longer-term growth. We expect work on military bases will drive a majority of the company's bidding activity. One new venture that should get started in 2013 is the \$18 million Patriot Project. The project includes construction of water and sewer infrastructure on a Fort Bragg addition. As mentioned, new work should be lumpy and provide some uncertainty for longer-term profitability. However, the newly initiated dividend from ASUS to AWR should ease some of investors' concerns.

The balance sheet continues to show improvement. AWR generated \$43 million of free cash flow in the first nine months of 2012. This compares to the \$1 million cash burn experienced for the same time frame in 2011. The company's cash position has strengthened to \$43 million from \$1 million reported at the start of 2012.

The Timeliness rank of this issue is 2 (Above Average). These shares should appeal to dividend-oriented accounts, as the stock offers an above-average yield when compared to the Value Line median and its peers. However, we advise longer-term investors to look elsewhere, due to the below-average capital appreciation potential.

Michael Collins January 18, 2013

(A) Primary earnings. Excludes nonrecurring gains/losses: '04, 14¢; '05, 25¢; '06, 6¢; '08, (27¢); '10, (45¢); '11, 20¢. Next earnings report due early March. Quarterly eggs. may not add due to rounding.
 (B) Dividends historically paid in early March, June, September, and December. Div'd reinvestment plan available.

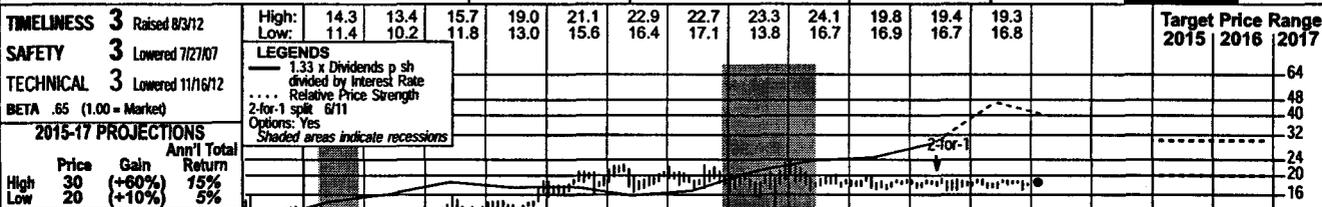
(C) In millions, adjusted for split.

Company's Financial Strength

Stock's Price Stability	90
Price Growth Persistence	65
Earnings Predictability	90

CALIFORNIA WATER NYSE-CWT

RECENT PRICE **18.58** P/E RATIO **18.6** (Trailing: 19.8) RELATIVE P/E RATIO **1.18** DIVD YLD **3.4%** VALUE LINE



Year	2015	2016	2017
Target Price	2015	2016	2017
% TOT. RETURN 12/12	1 yr. 4.1	3 yr. 10.3	5 yr. 16.8

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	15-17
Revenues per sh	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	12.00	13.05	13.05	14.20
"Cash Flow" per sh	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	2.07	2.30	2.35	2.65
Earnings per sh ^A	.75	.92	.73	.77	.66	.47	.63	.61	.73	.74	.67	.75	.95	.98	.91	.86	.97	1.05	1.30
Div'd Decl'd per sh ^B	.52	.53	.54	.54	.55	.56	.56	.56	.57	.57	.58	.58	.59	.59	.60	.62	.63	.64	.72
Cap'l Spending per sh	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	2.83	3.00	3.20	3.05
Book Value per sh ^C	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	10.76	11.35	11.60	12.75
Common Shs Outst'g ^D	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	41.82	42.25	44.00	47.00
Avg Ann'l P/E Ratio	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	21.3	18.8	17.4	19.0
Relative P/E Ratio	.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	1.29	1.34	1.18	1.18	1.25
Avg Ann'l Div'd Yield	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%	3.4%	3.5%	3.5%	2.9%

Year	2010	2011	2012	2013	15-17
Revenues (\$mill) ^E	263.2	277.1	315.6	320.7	334.7
Net Profit (\$mill)	19.1	19.4	26.0	27.2	25.6
Income Tax Rate	39.7%	39.9%	39.6%	42.4%	37.4%
AFUDC % to Net Profit	--	10.3%	3.2%	3.3%	10.6%
Long-Term Debt Ratio	55.3%	50.2%	48.6%	48.3%	43.5%
Common Equity Ratio	44.0%	49.1%	50.8%	51.1%	55.9%
Total Capital (\$mill)	453.1	498.4	565.9	568.1	670.1
Net Plant (\$mill)	697.0	759.5	800.3	862.7	941.5
Return on Total Cap'l	5.9%	5.6%	6.1%	6.3%	5.2%
Return on Shr. Equity	9.4%	7.8%	8.9%	9.3%	6.8%
Return on Com Equity	9.5%	7.9%	9.0%	9.3%	6.8%
Retained to Com Eq	1.0%	.7%	2.1%	2.1%	1.0%
All Div'ds to Net Prof	90%	91%	77%	78%	86%

Year	2010	2011	9/30/12
Cash Assets	42.3	27.2	17.0
Other	83.9	86.7	133.1
Current Assets	126.2	113.9	150.1
Accts Payable	39.5	48.9	58.8
Debt Due	26.1	53.7	67.4
Other	41.7	49.3	64.0
Current Liab.	107.3	151.9	190.2
Fix. Chg. Cov.	304%	278%	285%

Year	2010	2011	2012	2013
Revenues	3.5%	6.0%	4.0%	4.0%
"Cash Flow"	4.5%	6.5%	5.0%	5.0%
Earnings	4.0%	5.0%	6.0%	6.0%
Dividends	1.0%	1.0%	3.0%	3.0%
Book Value	5.0%	5.0%	3.5%	3.5%

Year	2009	2010	2011	2012	2013
Q1	86.6	116.7	139.2	106.9	449.4
Q2	90.3	118.3	146.3	105.5	460.4
Q3	98.1	131.4	169.3	103.0	501.8
Q4	116.7	143.6	178.1	111.6	550
Annual	120	150	187	118	575

Year	2009	2010	2011	2012	2013
Q1	.06	.29	.47	.16	.98
Q2	.05	.25	.49	.12	.91
Q3	.03	.29	.50	.04	.86
Q4	.03	.31	.56	.07	.97
Annual	.04	.33	.58	.10	1.05

Year	2009	2010	2011	2012	2013
Q1	.148	.148	.148	.148	.59
Q2	.149	.149	.149	.149	.60
Q3	.154	.154	.154	.154	.62
Q4	.1575	.1575	.1575	.1575	.63

BUSINESS: California Water Service Group provides regulated and nonregulated water service to roughly 471,900 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: '11: residential, 73%; business, 18%; public authorities, 5%; industrial, 4%. '11 reported depreciation rate: 2.7%. Has roughly 1,132 employees. President, Chairman, and 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 suspect that earnings power is drying up at California Water Service Group. The water utility managed to post better-than-expected growth in the September period, thanks to decent top-line growth and management's ability to keep costs in check. However, it is highly unlikely that operating costs are not already on the rise. Most of the company's water-systems and pipelines are old and in need of significant repair, or complete overhauls. Thus, infrastructure repair and maintenance costs are expected to be problematic, pinching margins for the foreseeable future. Although fourth-quarter results may look favorable at first, it is important to remember that the prior year's figures were historically weak. **The company's finances are a big concern going forward.** Although regulatory backing has been much improved in recent years, and is expected to remain business friendly, California Water will need to shoulder a fair share of the load. That said, it is not financially capable of doing so on its own. The cash coffers are relatively bare, and cash flow generation is not likely to be sufficient enough to cover

the outlays we envision over the next few years. The company will have to continue to look to outsiders to provide financing, but the necessary stock and debt offerings will also dilute gains. As a result, we look for minimal annual share-net growth this year and henceforth. **This issue is not for growth-minded investors.** It is likely to provide below average annual price returns out to mid-decade, due to the increasing costs of doing business that face the industry. **We warn income-oriented parties to be cautious here, too.** Although CWT's yield is tops in the Water Utilities space, the company also has the highest payout ratio in the group. This is a concern given the capital restrictions we anticipate in the years ahead and the company's weak balance sheet. We would not be surprised if the current yield slides a bit, especially if the industry landscape takes a turn for the worse and management is forced to take action. Either way, investors with a bent for income have better, more sustainable, options to choose from elsewhere. *Andre J. Costanza* *January 18, 2013*

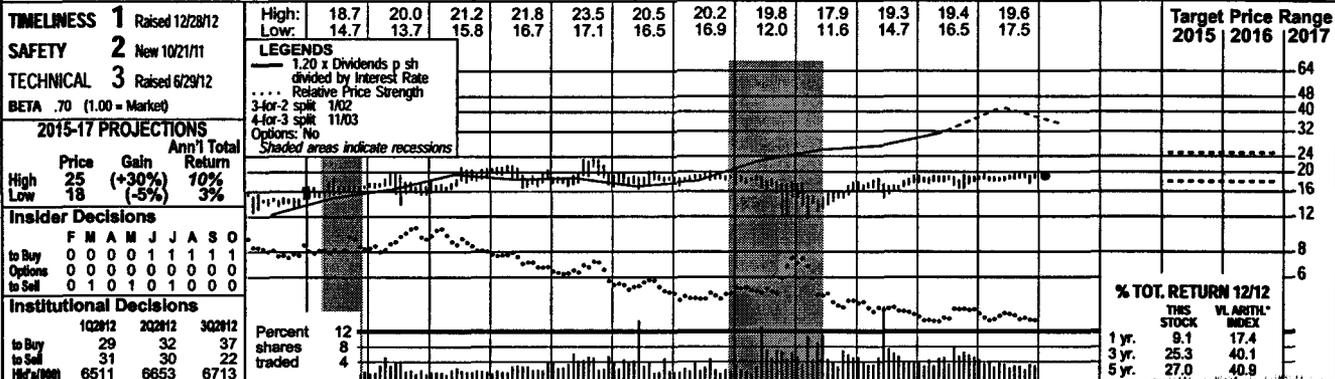
(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (4¢); '01, 2¢; '02, 4¢; '11, 4¢. Next earnings report due mid-February. (B) Dividends historically paid in late Feb., May, Aug., and Nov. = Div'd reinvestment plan available. (C) Incl. deferred charges. In '11: \$2.2 mill., \$0.05/sh. (D) In millions, adjusted for splits. (E) Excludes non-reg. rev.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	55
Earnings Predictability	90

© 2013, Value Line Publishing LLC. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product. To subscribe call 1-800-833-0046.

MIDDLESEX WATER NDQ-MSEX

RECENT PRICE **19.19** P/E RATIO **19.0** (Trailing: 22.8 Median: 22.0) RELATIVE P/E RATIO **1.20** DIVD YLD **3.9%** VALUE LINE



1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	VALUE LINE	2015	2016	2017
4.52	4.72	4.39	5.35	5.39	5.87	5.98	6.12	6.25	6.44	6.16	6.50	6.79	6.75	6.60	6.50	6.90	7.10	Revenues per sh			64
.94	1.02	1.02	1.19	.99	1.18	1.20	1.15	1.28	1.33	1.33	1.49	1.53	1.40	1.55	1.52	1.50	1.75	"Cash Flow" per sh			48
.60	.67	.71	.76	.51	.66	.73	.61	.73	.71	.82	.87	.89	.72	.96	.84	.90	1.00	Earnings per sh ^A			40
.55	.57	.58	.60	.61	.62	.63	.65	.66	.67	.68	.69	.70	.71	.72	.73	.74	.75	Div'd Decl'd per sh ^{B=C}			32
.73	1.20	2.68	2.33	1.32	1.25	1.59	1.87	2.54	2.18	2.31	1.66	2.12	1.49	1.90	1.50	1.90	2.15	Cap'l Spending per sh			24
5.85	6.00	6.80	6.95	6.98	7.11	7.39	7.60	8.02	8.26	9.52	10.05	10.03	10.33	11.13	11.27	11.80	12.55	Book Value per sh			20
8.41	8.54	9.82	10.00	10.11	10.17	10.36	10.48	11.36	11.58	13.17	13.25	13.40	13.52	15.57	15.70	16.00	16.25	Common Shs Outst'g ^C			16
14.4	13.4	15.2	17.6	28.7	24.6	23.5	30.0	26.4	27.4	22.7	21.6	19.8	21.0	17.8	21.9	20.8		Avg Ann'l P/E Ratio			12
.90	.77	.79	1.00	1.87	1.26	1.28	1.71	1.39	1.46	1.23	1.15	1.19	1.40	1.13	1.32	1.31		Relative P/E Ratio			8
6.4%	6.3%	5.4%	4.4%	4.2%	3.8%	3.7%	3.5%	3.4%	3.5%	3.7%	3.7%	4.0%	4.7%	4.2%	4.2%	4.8%		Avg Ann'l Div'd Yield			6

CAPITAL STRUCTURE as of 9/30/12
 Total Debt \$137.5 mil. Due in 5 Yrs \$25.0 mil.
 LT Debt \$132.4 mil. LT Interest \$6.0 mil.
 (LT interest coverage: 5.0x)

(42% of Cap'l)

Pension Assets-12/11 \$32.2 mil.
 Oblig. \$56.2 mil.
 Pfd Stock \$3.4 mil. Pfd Div'd: \$2 mil.

Common Stock 15,754,856 shs.
 as of 10/26/12

MARKET CAP: \$300 million (Small Cap)

CURRENT POSITION	2010	2011	9/30/12
Cash Assets	2.5	3.1	1.8
Other	20.3	19.8	23.9
Current Assets	22.8	22.9	25.7
Accts Payable	6.4	5.7	4.2
Debt Due	4.4	4.6	5.1
Other	29.9	36.4	40.6
Current Liab.	40.7	46.7	49.9
Fix. Chg. Cov.	400%	380%	300%

ANNUAL RATES	Past 10 Yrs	Past 5 Yrs	Est'd '09-'11 to '15-'17
Revenues	3.0%	1.5%	4.0%
"Cash Flow"	3.5%	3.5%	7.0%
Earnings	2.5%	4.5%	7.0%
Dividends	2.0%	1.5%	1.5%
Book Value	4.5%	5.5%	3.5%

Cal-endar	QUARTERLY REVENUES (\$ mil.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2009	20.6	23.1	25.5	22.0	91.2
2010	21.6	26.5	29.6	25.0	102.7
2011	24.0	26.1	28.7	23.3	102.1
2012	23.5	27.4	32.3	26.8	110
2013	28.0	28.0	32.0	27.0	115

Cal-endar	EARNINGS PER SHARE ^A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2009	.10	.21	.29	.12	.72
2010	.11	.31	.37	.17	.96
2011	.17	.23	.32	.12	.84
2012	.11	.23	.38	.18	.90
2013	.20	.25	.35	.20	1.00

Cal-endar	QUARTERLY DIVIDENDS PAID ^{B=C}				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2009	.178	.178	.178	.180	.71
2010	.180	.180	.180	.183	.72
2011	.183	.183	.183	.185	.73
2012	.185	.185	.185	.1875	.74
2013					

BUSINESS: Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey, Delaware, and Pennsylvania. It also operates water and wastewater systems under contract on behalf of municipal and private clients in NJ and DE. Its Middlesex System provides water services to 60,000 retail customers, primarily in Middlesex County, New Jersey. In 2011, the Middlesex System accounted for 64% of total revenues. At 12/31/11, the company had 289 employees. Incorporated: NJ. President, CEO, and Chairman: Dennis W. Doll. Officers/directors own 3.39% of the common stock; BlackRock, 6.2%; The Vanguard Group, 5.4% (4/12 proxy). Address: 1500 Ronson Road, Iselin, NJ 08830. Tel.: 732-634-1500. Internet: www.middlesexwater.com.

Middlesex Water should be able to grow the bottom line in 2013. In fact, we believe share earnings could likely rise 10%-12%. We think recent rate increases, debt refinancing, and a recovering New Jersey housing market will drive decent share-net gains. The most notable rate increase in 2012 was an \$8.1 million increase for New Jersey customers in its Middlesex system. (The company had requested a rate increase of \$11.3 million per year.) Additionally, the Tidewater business in Delaware saw a \$3.9 million upgrade to its base water rates.

Hurricane Sandy and a lackluster job market are a concern. The company mostly escaped the devastation of the hurricane. The one notable disturbance was the loss of power at an intake station in New Brunswick, New Jersey. However, the storm's impact will likely hurt an already weak job market in the state. MSEX continues to face reductions in demand from a number of its largest commercial and industrial customers. However, we do expect the housing market to boost customers and water usage in the coming years.

Capital investment will likely help longer-term growth. The company expects to invest \$34 million over the next two years. The vast majority of these investments are targeted toward its Distribution systems. We believe the focus on water distribution infrastructure is crucial to help offset the weakening demand from commercial and industrial customers.

The company has increased its quarterly dividend. The 1.3% hike was expected when considering MSEX's payout history.

We have adjusted our top- and bottom-line estimates for 2013. We have slightly raised our revenue and share-net projections to \$115 million and \$1.00, respectively.

The issue has a Timeliness rank of 1 (Highest). The income-minded investor may also find these shares appealing, as the dividend yield is above the Value Line median and most of its peers. However, a rich valuation and the stock's below-average 3- to 5-year capital appreciation potential suggest that long-term investors should stay on the sidelines.

Michael Collins January 18, 2013

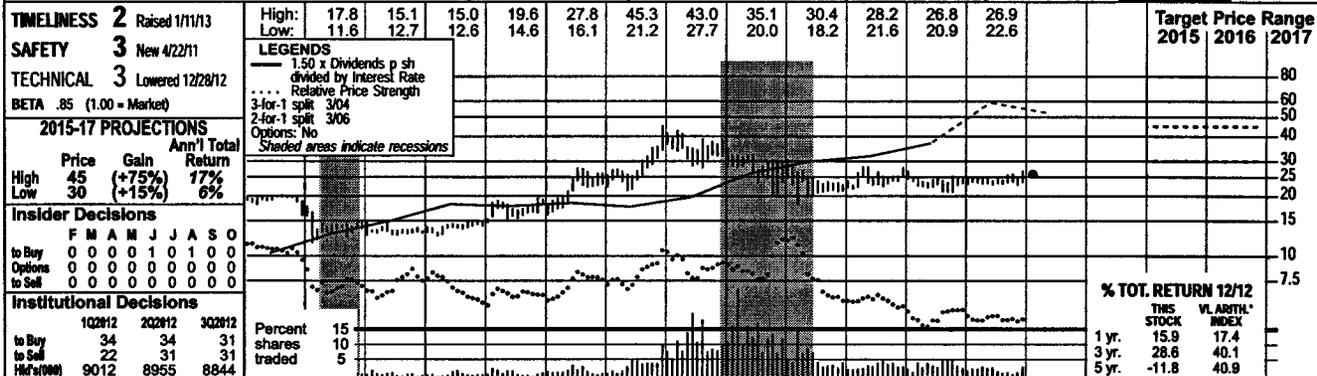
(A) Diluted earnings. Next earnings report due early March.
 (B) Dividends historically paid in mid-Feb., May, Aug., and November. Div'd reinvestment plan available.
 (C) In millions, adjusted for splits.
 (D) Intangible assets in 2011: \$8.2 million, \$0.55 a share.
 © 2013, Value Line Publishing LLC. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.

Company's Financial Strength B+
Stock's Price Stability 95
Price Growth Persistence 35
Earnings Predictability 85

To subscribe call 1-800-833-0046.

SJW CORP. NYSE-SJW

RECENT PRICE **25.97** P/E RATIO **22.8** (Trailing: 21.3 Median: 23.0) RELATIVE P/E RATIO **1.44** DIV'D YLD **2.7%** VALUE LINE



1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC 15-17	
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	12.86	14.15	13.75	Revenues per sh	15.00
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	2.38	2.80	2.85	2.95	Cash Flow ^W per sh	3.20
.96	.80	.76	.87	.58	.77	.78	.91	.87	1.12	1.19	1.04	1.08	.81	.84	1.11	1.05	1.20	Earnings per sh ^A	1.45
.37	.38	.39	.40	.41	.43	.46	.49	.51	.53	.57	.61	.65	.66	.68	.69	.71	.73	Div'd Decl'd per sh ^B	.80
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	3.75	4.80	4.73	Cap'l Spending per sh	4.10
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	14.20	15.45	16.25	Book Value per sh	17.95
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	18.59	18.75	20.00	Common Shs Outst'g ^C	22.00
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	29.1	21.2	22.9		Avg Ann'l P/E Ratio	25.0
.43	.65	.68	.88	2.15	.95	.94	.88	1.04	1.05	1.27	1.77	1.58	1.91	1.85	1.34	1.44		Relative P/E Ratio	1.65
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%	2.9%	3.0%		Avg Ann'l Div'd Yield	2.1%

CAPITAL STRUCTURE as of 9/30/12
 Total Debt \$341.2 mill. Due in 5 Yrs \$5.2 mill.
 LT Debt \$335.8 mill. LT Interest \$18.7 mill.
 (Total interest coverage: 4.6x) (55% of Cap'l)

Leases, Uncapitalized: Annual rentals \$4.5 mill.

Pension Assets-12/11 \$62.8 mill.
Oblig. \$123.9 mill.

Pfd Stock None.

Common Stock 18,653,633 shs.
as of 10/19/12
MARKET CAP: \$475 million (Small Cap)

CURRENT POSITION	2010	2011	9/30/12
Cash Assets	1.7	26.7	6.7
Other	36.3	42.2	55.4
Current Assets	38.0	68.9	62.1
Accts Payable	5.5	7.4	17.6
Debt Due	5.1	.8	5.4
Other	18.6	20.1	27.9
Current Liab.	29.2	28.3	50.9
Fix. Chg. Cov.	262%	276%	250%

ANNUAL RATES of change (per sh)	Past 10 Yrs	Past 5 Yrs	Est'd '09-'11 to '15-'17
Revenues	6.0%	4.5%	3.5%
"Cash Flow"	6.0%	2.5%	4.5%
Earnings	2.0%	-3.0%	8.0%
Dividends	5.0%	5.0%	3.0%
Book Value	5.5%	4.5%	4.5%

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
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	73.9	62.4	239.0
2012	51.2	65.6	82.4	65.8	265
2013	54.0	69.0	84.0	68.0	275

Cal-endar	EARNINGS PER SHARE ^A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2009	.01	.23	.43	.14	.81
2010	.05	.24	.44	.11	.84
2011	.03	.29	.44	.35	1.11
2012	.06	.28	.53	.18	1.05
2013	.10	.33	.55	.22	1.20

Cal-endar	QUARTERLY DIVIDENDS PAID ^B				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2009	.165	.165	.165	.165	.66
2010	.17	.17	.17	.17	.68
2011	.173	.173	.173	.173	.69
2012	.1775	.1775	.1775	.1775	.71

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. Intwww.sjwater.com.

SJW will probably report a steep earnings decline in the fourth quarter. The water utility's 2011 December-period results benefited greatly from the recognition of a Mandatory Conservation Revenue Adjustment Account (MCRAM), the likes of which are not expected to have been recovered again in 2012. We suspect that share net fell nearly 50% absent this \$0.18-per-share contribution. Meanwhile, rising operating costs are expected to have offset any top-line momentum gained from good weather. **Growth is likely to get a boost in 2013.** We expect a favorable ruling to be handed down shortly on the company's 2013-2015 general rate case. If we are correct, the contribution will result in double-digit earnings growth. **That said, the momentum is expected to be short-lived.** Infrastructure improvements are expected to total hundreds of millions of dollars over the next few years. SJW, however, is cash-poor and has an already highly leveraged balance sheet. Improved regulatory backing will help, but cash flows from operations are likely to pale in comparison to the company's obli-

gations. It will have to issue more stock and/or debt in order to make the changes, but such financing will dilute gains for the foreseeable future. As a result, we look for earnings growth to fall off considerably in 2014, and to remain muted thereafter. **This issue is favorably ranked for Timeliness as a result of its recent earnings power.** Still, potential investors are advised to be careful. SJW does not stand out for price appreciation potential over the coming 3 to 5 years because of the company's financial limitations. Indeed, the financing needed to make infrastructure improvements will erase a fair share of the regulatory benefits we envision. True, the dividend is above the *Value Line* average, but it is far less impressive when compared to other utilities. Thus, there are much better choices for investors seeking an income producer. Meanwhile, we caution that annual dividend increases may slow if operating conditions worsen or regulatory backing sours. Nevertheless, SJW is one of the better total return vehicles offered in this space for those looking to gain exposure to water utilities.

Andre J. Costanza January 18, 2013

(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 February. Quarterly eggs. 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 stock splits.

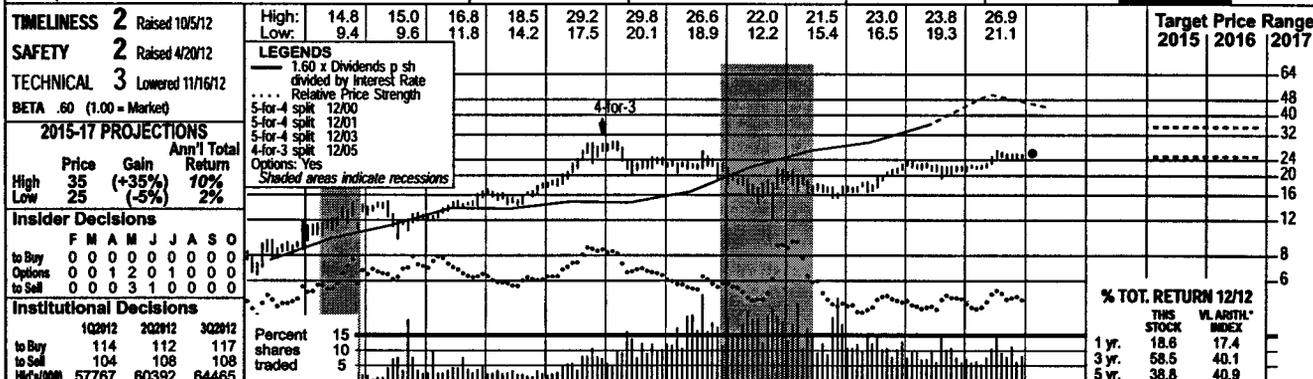
Company's Financial Strength	B+
Stock's Price Stability	80
Price Growth Persistence	60
Earnings Predictability	80

© 2013, Value Line Publishing LLC. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.

To subscribe call 1-800-833-0046.

AQUA AMERICA NYSE-WTR

RECENT PRICE **26.01** P/E RATIO **24.5** (Trailing: 23.4 Median: 25.0) RELATIVE P/E RATIO **1.55** DIVD YLD **2.7%** VALUE LINE



Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Value Line Pub. LLC	15-17
Price	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	5.13	5.55	5.80	5.80	6.60
Dividend	.50	.56	.61	.72	.76	.86	.94	.96	1.09	1.21	1.26	1.37	1.42	1.61	1.78	1.84	1.90	2.05	2.05	2.30
Earnings	.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	.70	.71	.73	.77	.90	1.03	1.05	1.15	1.15	1.35
Div'd Decl'd	.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	.44	.48	.51	.55	.59	.62	.67	.71	.71	.80
Cap'l Spending	.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	2.38	2.40	2.65	2.65	2.70
Book Value	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	9.01	9.25	9.75	9.75	10.85
Common Shs Outst'g	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	138.87	140.90	141.90	141.90	143.90
Avg Ann'l P/E Ratio	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	21.1	22.8	22.8	22.8	21.0
Relative P/E Ratio	.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	1.34	1.36	1.43	1.43	1.43	1.40
Avg Ann'l Div'd Yield	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%	3.1%	2.8%	2.8%	2.8%	2.8%

CAPITAL STRUCTURE as of 9/30/12
 Total Debt \$1658.4 mill. Due in 5 Yrs \$300 mill.
 LT Debt \$1519.7 mill. LT interest \$65.0 mill.
 (LT interest earned: 5.3x; total interest coverage: 4.4x)
 Pension Assets-12/11 \$148.9 mill. Oblig. \$237.1 mill.
 Pfd Stock None
 Common Stock 139,941,476 shares as of 10/24/12
 MARKET CAP: \$3.6 billion (Mid Cap)

Item	2010	2011	9/30/12
Cash Assets	5.9	8.2	6.1
Receivables	85.9	81.1	103.8
Inventory (AvgCst)	9.2	11.2	12.2
Other	44.4	220.0	108.9
Current Assets	145.4	320.5	231.0
Accts Payable	45.3	68.3	45.1
Debt Due	28.5	80.4	138.7
Other	149.9	277.0	131.3
Current Liab.	223.7	425.7	315.1
Fix. Chg. Cov.	290%	367%	328%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11 to '15-'17
Revenues	8.0%	7.5%	4.5%
"Cash Flow"	8.5%	8.0%	5.0%
Earnings	6.5%	4.5%	7.0%
Dividends	7.5%	8.0%	5.0%
Book Value	9.0%	7.0%	4.0%

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2009	154.5	167.3	180.8	167.9	670.5
2010	160.5	178.5	207.8	179.3	726.1
2011	163.6	178.3	197.3	172.7	712.0
2012	170.2	198.2	214.6	202	785
2013	180	210	215	220	825

Cal-endar	EARNINGS PER SHARE ^				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2009	.14	.19	.25	.19	.77
2010	.16	.22	.32	.20	.90
2011	.22	.27	.30	.25	1.03
2012	.20	.30	.36	.19	1.05
2013	.22	.29	.39	.25	1.15

Cal-endar	QUARTERLY DIVIDENDS PAID ^				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2009	.135	.135	.135	.145	.55
2010	.145	.145	.145	.155	.59
2011	.155	.155	.155	.165	.63
2012	.165	.165	.165	.175	.67
2013					

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 water truck trips over the rural roads of Pennsylvania. With the recent uptick in natural gas prices, drilling activity should start picking up for oil & gas operators. WTR may also start looking to penetrate the Utica market, as well.

Aqua America will likely grow at a decent clip in 2013. Indeed, we expect the shale-water pipeline business, the retooling of its portfolio, and cost controls to drive a 9% year-over-year rise in the bottom line. Additionally, we are looking for an acceleration of infrastructure investments over the next two years. Management estimates that capital spending should increase 8%-10% from the 2012 figure. The majority of investments will be focused on pipe replacement projects to improve its distribution networks and upgrade plants. These investments are necessary, considering that the housing market appears to be rebounding. On the cost side, the construction of four solar farms and the conversion of their truck fleet to natural gas should help margins. We have raised our 2013 share-net estimate. We have increased our 2013 top-and bottom-line estimates to \$825 million and \$1.15 a share, respectively.

The Marcellus water pipeline venture should boost longer-term profitability. Phase II of the project was most likely completed at the end of 2012. The pipeline has already eliminated the need for 15,000

others. Water supply revenues '11: residential, 59.5%; commercial, 14.5%; industrial & other, 26.0%. Officers and directors own 1.5% of the common stock (4/12 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.

The company's portfolio restructuring efforts should continue into 2013. There has been no update on Aqua America's \$95 million offer to sell its Florida operations to the Florida Governmental Utility Authority. The leaner portfolio plan will consolidate its operations to 8 markets, with Ohio and Texas offering the most promise, due to lighter regulations and improving demographics. A dividend hike provides a welcoming sign. However, further increases are unlikely in the near term, as management shifts its focus on M&A and capital investments.

The stock is set to outperform the broader market averages in the near term. The issue should have some appeal to income-oriented accounts, due to its above-average dividend yield when compared to the Value Line median.

Michael Collins January 18, 2013

(A) Diluted eps. 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 February.
 (B) Dividends historically paid in early March, June, Sept. & Dec. Div'd. reinvestment plan available (5% discount).
 (C) In millions, adjusted for stock splits.
 © 2013, Value Line Publishing LLC. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.
 Company's Financial Strength B++
 Stock's Price Stability 100
 Price Growth Persistence 65
 Earnings Predictability 100
 To subscribe call 1-800-833-0046.

ATTACHMENT B

INDUSTRY TIMELINESS: 27 (of 98)

Equities in the Natural Gas Utility Industry have been under some pressure over the past few months. This can be attributed partly to weakness in the general market. Indeed, there are worries about the possibility of the so-called fiscal cliff taking effect by the end of 2012, unless President Obama and the bitterly divided Congress act in time. (That event would be marked by an estimated \$600 billion in automatic tax hikes and spending cuts.) Furthermore, there is investor uncertainty over the outcome of the sovereign debt crisis in Europe and concerns about the strength of the Chinese economy. But even under those circumstances, the equities in our Industry have tended to hold up relatively well. Indeed, their healthy levels of dividend income have provided a measure of much-needed stability.

The United States Economy

The economy perked up some in the third quarter, with Gross Domestic Product (GDP) increasing an estimated 2.7%, relative to 1.3% during the June interim and 2.0% in the first three months of 2012. Contributing factors included restocking by businesses and export growth outpacing a rise in imports. What's more, there was a turnaround in federal government expenditures, driven by higher defense outlays, as well as a strengthening housing market (reflecting a boost in residential construction).

Nevertheless, the pace of the economic recovery continues to be sluggish, attributable partially to the persistently high unemployment rate, hovering a little below 8% at present. Too, it appears that Hurricane Sandy, discussed in further detail below, will cost thousands of jobs, some of which will take some time to restore. Also, the fiscal cliff, if not resolved in time, has the potential to seriously damage the economy. Finally, the lingering European debt crisis has further complicated matters. In this difficult operating environment, customers have been focusing on energy conservation, which, of course, acts as a restraint on the revenues of the companies included in the Natural Gas Utility Industry.

Hurricane Sandy

In late October, the powerful storm ravaged the eastern coast of the United States, particularly New Jersey and New York, leaving millions of people without power. As a result, we have scaled back our fourth-quarter GDP growth target by about 0.5%, to between 1.2% and 1.5%. True, a portion of this shortfall will be made up in 2013, as rebuilding initiatives take hold, but some might never be recaptured. (Current estimates state that the total damage from the storm could be more than \$50 billion.)

Natural gas distribution pipelines are located mostly underground, providing a good measure of protection against adverse weather conditions. Even so, these assets can be damaged by uprooted trees and shifted foundations. In addition, fallen tree limbs and other debris can crush gas meters and associated piping near homes and other buildings. Still, it appears that companies in the group held up reasonably well during Hurricane Sandy.

Rate Cases

Rate cases are a very important issue for natural gas utilities. Federal authorities establish wholesale service tariffs, and state regulators determine retail distribution rates. Adequate returns on common equity are necessary to keep these businesses viable. Higher rates are sought to pay for the cost of expansion, storm damage and/or to cover the expenses of maintaining reliable service. To promote good relationships with customers and regulators, managements endeavor to keep operating and service costs as low as possible. At times, however, political pressure can compel authorities to limit rates of return, to the detriment of utility companies. But mostly, regulators attempt to strike an equitable balance between the interests of shareholders and customers.

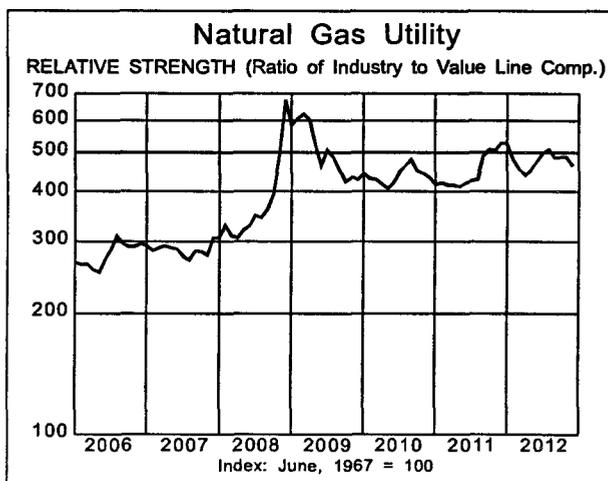
Dividends

The primary attraction of utility equities is their generous levels of dividend income. At the time of this writing, the average yield for the 11 companies in our group was around 4.0%, considerably higher than the *Value Line* median of 2.3%. Standouts include *AGL Resources*, *Northwest Natural Gas*, *Laclede Group*, and *WGL Holdings*. When the financial markets are turbulent, which seems to be more common these days, healthy dividend yields tend to act as an anchor, so to speak, in this category.

Conclusion

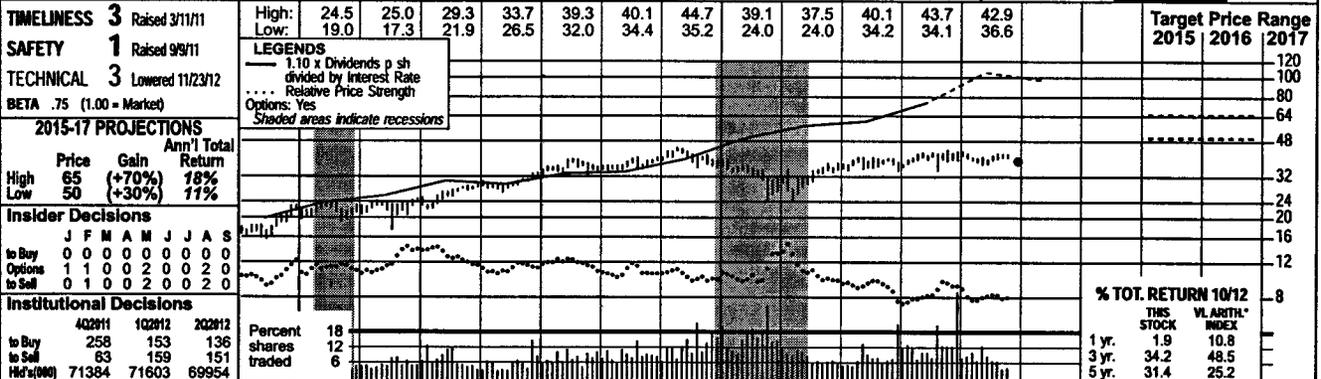
Stocks in the Natural Gas Utility Industry are most appropriate for income-oriented investors with a conservative bent (given that a number of these issues are ranked favorably for Safety and earn high marks for Price Stability). It should be noted, however, that companies with larger nonregulated operations may offer a higher potential for returns, though profits could be more volatile than for companies with a greater emphasis on the more stable utility segment. As always, our readers are advised to carefully examine the following reports before making a commitment.

Frederick L. Harris, III



AGL RESOURCES NYSE-GAS

RECENT PRICE **38.41** P/E RATIO **11.0** (Trailing: 20.3 Median: 13.0) RELATIVE P/E RATIO **0.74** DIV'D YLD **4.8%** VALUE LINE



1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	VALUE LINE PUB. LLC	15-17
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	20.00	34.95	37.15	Revenues per sh ^A	44.30
2.49	2.42	2.65	2.86	2.86	3.31	3.39	3.47	3.29	4.20	4.50	4.65	4.68	4.90	5.05	3.05	6.00	6.15	"Cash Flow" per sh	7.35
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	2.12	2.70	3.20	Earnings per sh ^{A,B}	3.80
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	1.90	1.74	1.84	Div'ds Decl'd per sh ^{C,F}	1.96
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	3.42	4.75	5.15	Cap'l Spending per sh	6.45
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	28.54	30.90	31.65	Book Value per sh ^D	33.30
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	117.00	117.00	117.00	Common Shs Outst'g ^E	117.0
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	12.5	12.6	12.6	12.6	Avg Ann'l P/E Ratio	15.0
.86	.85	.72	1.22	.88	.75	.68	.71	.69	.76	.73	.78	.74	.75	.80	.82	.82	.82	Relative P/E Ratio	1.00
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%	4.8%	4.8%	4.8%	Avg Ann'l Div'd Yield	3.5%

CAPITAL STRUCTURE as of 9/30/12
 Total Debt \$4604 mill. Due in 5 Yrs \$100 mill.
 LT Debt \$3330 mill. LT Interest \$200 mill.
 (Total interest coverage: 6.5x)

Leases, Uncapitalized Annual rentals \$95.0 mill.
Pension Assets-12/11 \$754.0 mill.
Oblig. \$968.0 mill.

Pfd Stock None

Common Stock 117,782,207 shs.
 as of 10/23/12

MARKET CAP: \$4.5 billion (Mid Cap)

2010	2011	9/30/12
868.9	983.7	1832.0
103.0	132.4	153.0
36.0%	35.9%	37.0%
11.9%	13.5%	8.4%
58.3%	50.3%	54.0%
41.7%	49.7%	46.0%
1704.3	1901.4	3008.0
2194.2	2352.4	3178.0
8.1%	8.9%	6.3%
14.5%	14.0%	11.0%
14.5%	14.0%	11.0%
7.0%	6.6%	5.6%
52%	53%	49%

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. Acquired Nicor in 2011. The utilities have more than 2.3 million customers in Georgia, Virginia, Tennessee, New Jersey, and Florida. Engaged in nonregulated natural gas marketing and other allied services. Deregulated subsidiaries: Georgia Natural Gas markets natural gas at retail. Sold Ullippro, 3/01. Acquired Compass Energy Services, 10/07. BlackRock Inc. owns 6.8% of common stock; off/dir., less than 1.0% (3/12 Proxy). Pres. & CEO: John W. Somersholder II. Inc.: GA. Addr.: Ten Peachtree Place N.E., Atlanta, GA 30309. Telephone: 404-584-4000. Internet: www.aglresources.com.

CURRENT POSITION

2010	2011	9/30/12
24	69	91
2138	2677	2044
2162	2746	2135
184	294	292
1032	1338	1274
1212	1452	1198
2428	3984	2764
501%	325%	385%

AGL Resources reported mixed results in the third quarter. Revenues increased to \$614 million (up 108% year over year); earnings were \$0.08 a share compared to last year's \$0.04-a-share loss. Still, earnings were lower than expected, and were hurt by a \$16 million hedging loss. Revenues are expected to grow strongly in the fourth quarter, aided by the Nicor acquisition. Revenues and earnings, however, could be adversely affected if a warmer-than-usual winter occurs.

ly inked an agreement that permits it to install five new compressed natural gas fueling stations throughout Georgia. The Nicor acquisition continues to be integrated, and costs savings are slowly being realized. Fourth-quarter earnings should be helped by these cost-savings initiatives.

ANNUAL RATES of change (per sh)

Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11 to '15-'17
6.0%	5.5%	9.0%
6.5%	6.0%	9.0%
9.0%	4.5%	6.0%
5.0%	7.5%	7.5%
7.0%	5.5%	5.0%

Hurricane Sandy may have a small negative effect on profits in the fourth quarter. AGL's subsidiary, Elizabethtown Gas, is located in central New Jersey, which took the brunt of the storm. Damages and losses due to wind and flooding were incurred, and revenue was lost due to customers losing power. The Virginia Natural Gas Company, another subsidiary that was projected to be in the storm's path, remained largely unaffected. The damage from the storm could have lingering effects on the top and bottom line in the fourth quarter.

We have lowered our Target Price Range from \$55-\$70 to \$50-\$65. Pressures from high supply in the natural gas market will hurt distributors and temper revenue and earnings gains, countering growth in new customers and projects. This issue has retreated some since last report, increasing the dividend yield to 4.8% for new investors. We expect the payout to expand in 2013, as earnings continue to grow.

QUARTERLY REVENUES (\$ mill.) ^A

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	995	377	307	638	2317
2010	1003	359	346	665	2373
2011	878	375	295	790	2338
2012	1404	686	614	1396	4100
2013	1780	690	585	1295	4350

AGL's subsidiaries continue to strive for growth. Atlanta Gas Light Co. recently inked an agreement that permits it to install five new compressed natural gas fueling stations throughout Georgia. The Nicor acquisition continues to be integrated, and costs savings are slowly being realized. Fourth-quarter earnings should be helped by these cost-savings initiatives.

These shares' Timeliness rank is 3 (Average). AGL Resources will likely perform in line with the broader market over the next six to 12 months. However, those who seek dividend income should consider this issue due to its high yields, the likelihood of increased payouts and the Highest Safety rank of 1.

EARNINGS PER SHARE ^{A,B}

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	1.55	.26	.16	.91	2.88
2010	1.73	.17	.29	.81	3.00
2011	1.59	.23	d.04	.37	2.12
2012	1.12	.28	.08	1.22	2.70
2013	1.95	.25	.15	.85	3.20

AGL's subsidiaries continue to strive for growth. Atlanta Gas Light Co. recently inked an agreement that permits it to install five new compressed natural gas fueling stations throughout Georgia. The Nicor acquisition continues to be integrated, and costs savings are slowly being realized. Fourth-quarter earnings should be helped by these cost-savings initiatives.

John E. Seibert III December 7, 2012

(A) Fiscal year ends December 31st. Ended September 30th prior to 2002. (B) Diluted earnings per share. Excl. nonrecurring gains (losses): '99, \$0.39; '00, \$0.13; '01, \$0.13; '03, (\$0.07); '08, \$0.13. Next earnings report due late January. (C) Dividends historically paid early March, June, Sept., and Dec. = Div'd reinvest. plan available. (D) Includes intangibles. In 2011: \$1918 million, \$16.40/share. (E) In millions. (F) Excluding special dividends from the Nicor merger.

Company's Financial Strength A
Stock's Price Stability 100
Price Growth Persistence 60
Earnings Predictability 75

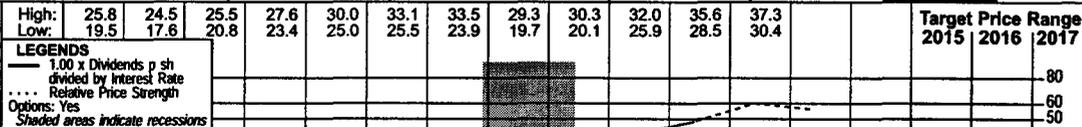
© 2012, Value Line Publishing LLC. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.

To subscribe call 1-800-833-0046.

ATMOS ENERGY CORP. NYSE:ATO

RECENT PRICE **34.78** P/E RATIO **15.0** (Trailing: 15.1; Median: 14.1) RELATIVE P/E RATIO **1.01** DVD YLD **4.1%** VALUE LINE

TIMELINESS 2 Raised 8/17/12
SAFETY 2 Raised 12/16/05
TECHNICAL 3 Lowered 11/23/12
BETA .70 (1.00 = Market)



2015-17 PROJECTIONS

Price	Gain	Return
High 40	(+15%)	7%
Low 30	(-15%)	1%

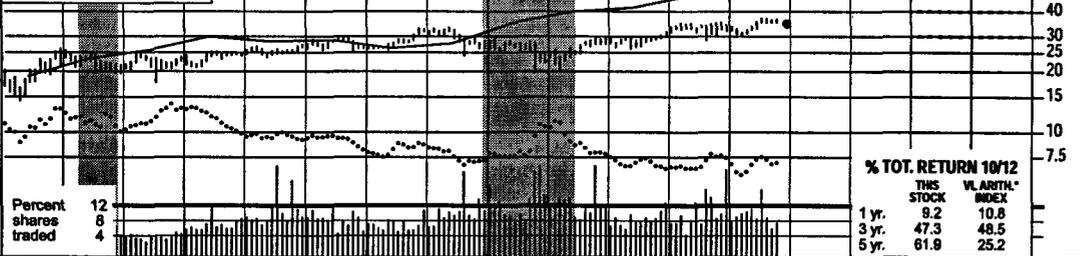
Insider Decisions

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

Institutional Decisions

	4Q2011	1Q2012	2Q2012
To Buy	132	127	112
To Sell	103	117	131
Net Buy	48646	50572	51653

Percent shares traded: 12, 8, 4



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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	VALUE LINE PUB. LLC	15-17
22.82	54.39	46.50	61.75	75.27	66.03	79.52	53.69	53.12	48.15	38.20	41.75	41.75	Revenues per sh ^A	63.10
3.39	3.23	2.91	3.90	4.26	4.14	4.19	4.29	4.64	4.72	4.75	5.10	5.10	"Cash Flow" per sh	5.65
1.45	1.71	1.58	1.72	2.00	1.94	2.00	1.97	2.16	2.26	2.10	2.35	2.35	Earnings per sh ^{A,B}	2.70
1.18	1.20	1.22	1.24	1.26	1.28	1.30	1.32	1.34	1.36	1.38	1.40	1.40	Div'ds Decl'd per sh ^C	1.48
3.17	3.10	3.03	4.14	5.20	4.39	5.20	5.51	6.02	6.90	8.15	8.50	8.50	Cap'l Spending per sh	8.80
13.75	16.66	18.05	19.90	20.16	22.01	22.60	23.52	24.16	24.98	26.20	29.00	29.00	Book Value per sh	34.65
41.68	51.48	62.80	80.54	81.74	89.33	90.81	92.55	90.16	90.30	90.00	91.00	91.00	Common Shs Outst'g ^D	103.00
15.2	13.4	15.9	16.1	13.5	15.9	13.6	12.5	13.2	14.4	15.9	15.9	15.9	Avg Ann'l P/E Ratio	13.0
.83	.76	.84	.86	.73	.84	.82	.83	.84	.90	1.01	1.01	1.01	Relative P/E Ratio	.85
5.4%	5.2%	4.9%	4.5%	4.7%	4.2%	4.8%	5.3%	4.7%	4.2%	4.1%	4.1%	4.1%	Avg Ann'l Div'd Yield	4.2%
950.8	2799.9	2920.0	4973.3	6152.4	5898.4	7221.3	4969.1	4789.7	4347.6	3438.5	3800	3800	Revenues (\$mill) ^A	6500
59.7	79.5	86.2	135.8	162.3	170.5	180.3	179.7	201.2	199.3	192.2	215	215	Net Profit (\$mill)	280
37.1%	37.1%	37.4%	37.7%	37.6%	35.8%	38.4%	34.4%	38.5%	36.4%	33.8%	35.0%	35.0%	Income Tax Rate	38.5%
6.3%	2.8%	3.0%	2.7%	2.6%	2.9%	2.5%	3.6%	4.2%	4.6%	5.6%	5.7%	5.7%	Net Profit Margin	4.3%
53.9%	50.2%	43.2%	57.7%	57.0%	52.0%	50.8%	49.9%	45.4%	49.4%	45.5%	45.0%	45.0%	Long-Term Debt Ratio	49.0%
46.1%	49.8%	56.8%	42.3%	43.0%	48.0%	49.2%	50.1%	54.6%	50.6%	54.5%	55.0%	55.0%	Common Equity Ratio	51.0%
1243.7	1721.4	1994.8	3785.5	3828.5	4092.1	4172.3	4346.2	3987.9	4461.5	4315	4800	4800	Total Capital (\$mill)	7000
1300.3	1516.0	1722.5	3374.4	3629.2	3836.8	4136.9	4439.1	4793.1	5147.9	5475	5800	5800	Net Plant (\$mill)	6700
6.8%	6.2%	5.8%	5.3%	6.1%	5.9%	5.9%	5.9%	6.9%	6.1%	6.0%	6.0%	6.0%	Return on Total Cap'l	5.5%
10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	8.3%	9.2%	8.8%	8.0%	8.0%	8.0%	Return on Shr. Equity	8.0%
10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	8.3%	9.2%	8.8%	8.0%	8.0%	8.0%	Return on Com Equity	8.0%
1.9%	2.8%	1.7%	2.3%	3.6%	3.0%	3.1%	2.7%	3.5%	3.3%	3.0%	3.5%	3.5%	Retained to Com Eq	3.5%
82%	70%	77%	73%	63%	65%	65%	68%	62%	62%	65%	59%	59%	All Div'ds to Net Prof	54%

CAPITAL STRUCTURE as of 6/30/12
 Total Debt \$2419.9 mill. Due in 5 Yrs \$660.0 mill.
 LT Debt \$1956.3 mill. LT Interest \$110.0 mill.
 (LT interest earned: 3.1x; total interest coverage: 3.1x)
 Leases, Uncapitalized Annual rentals \$17.7 mill.
 Pfd Stock None
 Pension Assets-9/11 \$280.2 mill.
 Oblig. \$429.4 mill.
 Common Stock 90,173,217 shs.
 as of 8/3/12
MARKET CAP: \$3.1 billion (Mid Cap)

CURRENT POSITION (\$MILL)

	2010	2011	6/30/12
Cash Assets	132.0	131.4	27.7
Other	743.2	879.6	748.0
Current Assets	875.2	1011.0	775.7
Accts Payable	268.2	291.2	178.2
Debt Due	486.2	208.8	463.6
Other	413.7	367.6	468.4
Current Liab.	1166.1	867.6	1110.2
Fix. Chg. Cov.	440%	432%	430%

ANNUAL RATES

	Past 10 Yrs.	Past 5 Yrs.	Past 2 Yrs.	'09-'11
of change (per sh)				
Revenues	6.5%	-3.5%	3.5%	3.5%
"Cash Flow"	4.5%	4.5%	3.5%	3.5%
Earnings	7.0%	4.0%	4.0%	4.0%
Dividends	1.5%	1.5%	1.5%	1.5%
Book Value	6.5%	4.5%	6.0%	6.0%

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 2011 gas volumes: 281.5 MMcf. Breakdown: 57%, residential; 32%, commercial; 7%, industrial; and 4% other. 2011 depreciation rate 3.3%. Has around 4,750 employees. Officers and directors own 1.5% of common stock (12/11 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.

We believe that Atmos Energy will stage an earnings turnaround in the new fiscal year, which began on October 1st. The core natural gas distribution segment stands to benefit from a rise in throughput, if weather conditions cooperate (leading to a boost in consumption levels). Moreover, the other operations, including the natural gas marketing business and pipeline unit, ought to perform reasonably well, overall. As a result, we expect consolidated share net to climb about 12%, to \$2.35, in fiscal 2013. Assuming additional expansion of operating margins, the bottom line could well advance roughly 5% or so, to \$2.45 a share, the following year.

Steady, although unspectacular, results appear to be in store for the company over the 2015-2017 time frame. The utility ranks as one of the country's biggest natural gas-only distributors, boasting roughly three million customers across nine states. Furthermore, the other businesses, especially pipelines, possess healthy overall expansion prospects. Finally, we believe that the company will eventually resume its successful strategy of purchasing less efficient utilities and shoring up their profitability through expense-reduction efforts, rate relief, and aggressive marketing initiatives. (The last major transaction occurred in October, 2004, when Atmos Energy bought TXU Gas Company.) But given our exclusion of future acquisitions, because of size and timing issues, annual earnings-per-share growth may be in the mid-single-digit range over the coming three to five years.

The stock offers an appealing dividend yield, which is higher than the average of all gas utility equities tracked by Value Line. Our 2015-2017 projections indicate that further, albeit moderate, increases in the distribution are likely to take place. The payout ratio ought to remain within a manageable range (i.e., 50% to 60%). What's more, these shares currently hold a 2 (Above Average) rank for both Safety and Timeliness, as well as an excellent score for Price Stability. All things considered, a variety of investors might wish to take a look here.

Frederick L. Harris, III December 7, 2012

QUARTERLY REVENUES (\$mill) ^A

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2009	1716.3	1821.4	780.8	650.6	4969.1
2010	1292.9	1940.3	770.2	786.3	4789.7
2011	1333.3	1581.5	843.6	789.2	4347.6
2012	1084.0	1225.5	576.4	552.6	3438.5
2013	1095	1300	725	680	3800

EARNINGS PER SHARE ^{A,B,E}

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2009	.83	1.29	.02	d.17	1.97
2010	1.00	1.17	d.03	.02	2.16
2011	.81	1.40	.04	.01	2.26
2012	.68	1.12	.31	--	2.10
2013	.74	1.36	.22	.03	2.35

QUARTERLY DIVIDENDS PAID ^C

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	.345	1.37
2012	.345	.345	.345	.35	

(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '03, d17; '06, d18; '07, d2; '09, 12; '10, 5; '11, (1). Excludes discontinued operations: '11, 10; '12, 27. (C) Dividends historically paid in early March, June, Sept., and Dec. = Div. reinvestment plan. Direct stock purchase plan avail. (D) In millions. (E) Qtrs may not add due to change in shrs outstanding.

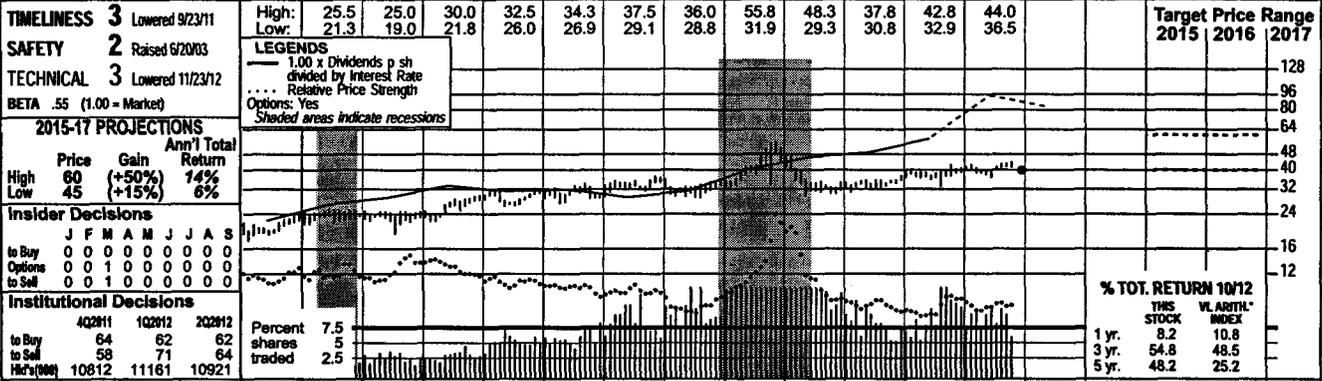
Company's Financial Strength B++
Stock's Price Stability 100
Price Growth Persistence 90
Earnings Predictability 50

© 2012 Value Line Publishing LLC. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.

To subscribe call 1-800-833-0046.

LACLEDE GROUP NYSE:LG

RECENT PRICE **39.89** P/E RATIO **13.7** (Trailing: 14.3) RELATIVE P/E RATIO **0.92** DIV YLD **4.3%** VALUE LINE



TIMELINESS 3 Lowered 9/23/11
SAFETY 2 Raised 6/20/03
TECHNICAL 3 Lowered 11/23/12
BETA .55 (1.00 = Market)

2015-17 PROJECTIONS

High	Price	Gain	Return
60	60	(+50%)	14%
Low	45	(+15%)	6%

Insider Decisions

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

Institutional Decisions

	4Q2011	1Q2012	2Q2012	Percent shares traded
to Buy	64	62	62	7.5
to Sell	58	71	64	2.5
Net Buy	10812	11161	10921	

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	VALUE LINE PUB. LLC	15-17
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	71.48	49.76	50.40	Revenues per sh ^A	52.00
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	4.62	4.58	4.65	"Cash Flow" per sh	5.20
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	2.86	2.79	2.85	Earnings per sh ^{A,B}	3.30
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	1.66	1.74	Div'ds Decl'd per sh ^C	1.84
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	3.02	4.71	2.85	Cap'l Spending per sh	3.00
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	25.56	26.80	28.35	Book Value per sh ^D	33.00
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	22.43	22.62	23.0	Common Shs Outst'g ^E	23.5
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	13.0	14.5	14.5	Avg Ann'l P/E Ratio	15.5
.75	.72	.81	.90	.97	.74	1.09	.78	.83	.86	.73	.75	.86	.89	.87	.81	.97	.97	Relative P/E Ratio	1.05
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%	4.3%	4.1%	4.1%	Avg Ann'l Div'd Yield	3.8%

CAPITAL STRUCTURE as of 9/30/12
 Total Debt \$364.4 mill. Due in 5 Yrs \$50.0 mill.
 LT Debt \$339.4 mill. LT Interest \$25.0 mill.
 (Total interest coverage: 4.6x)

Leases, Uncapitalized Annual rentals \$9 mill.
 Pension Assets-9/11 \$248.0 mill.
 Oblig. \$384.2 mill.

Pfd Stock None
 Common Stock 22,262,000 shs.
 as of 9/30/12

MARKET CAP: \$900 million (Small Cap)

CURRENT POSITION

	2010	2011	9/30/12
Cash Assets	86.9	43.3	27.5
Other	327.3	325.8	315.5
Current Assets	414.2	369.1	343.0
Accts Payable	95.6	96.6	89.5
Debt Due	154.6	46.0	25.0
Other	83.7	89.3	137.6
Current Liab.	333.9	231.9	252.1
Fix. Chg. Cov.	391%	463%	242%

ANNUAL RATES of change (per sh)

	Past 10 Yrs.	Past 5 Yrs.	Past 1 Yr. '09-'11
Revenues	8.0%	5%	-6.5%
"Cash Flow"	5.0%	7.0%	2.5%
Earnings	6.5%	6.0%	3.0%
Dividends	1.5%	2.5%	2.5%
Book Value	5.0%	6.5%	4.5%

QUARTERLY REVENUES (\$ mill.)^A

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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	271.0	1603.3
2012	410.9	358.2	186.9	169.5	1125.5
2013	365	400	210	175	1150

EARNINGS PER SHARE ^{A,B,F}

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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.13	2.86
2012	1.12	1.32	.38	d.03	2.79
2013	1.20	1.35	.40	d.10	2.85

QUARTERLY DIVIDENDS PAID ^C

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	.405	1.62
2012	.415	.415	.415	.415	

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 628,000 customers. Purchased SM&P Utility Resources, 1/02; divested, 3/08. Utility themes sold and transported in fiscal 2012: 1.0 bill. Revenue mix for regulated operations: residen-

Laclede Group's fourth-quarter results were better than expected (Years end September). Revenues decreased to \$169.5 million, due to lower commodities costs, which were passed through to natural gas customers. Losses were narrowed to \$0.03 a share compared to last year's deficit of \$0.13. Margin expansion (5.6% in 2012 versus 4.0% in 2011) played a major factor in this year's earnings decreasing only slightly, even though there was a large decline in sales.

Increases in infrastructure replacement spending are a key component of Laclede's growth strategy. Over half of the \$115 million spent on infrastructure is eligible to be recovered through the Infrastructure System Replacement Surcharge (ISRS), which charges customers for infrastructure replacement and improvement. This program leads to higher fixed revenues with greater margins, which allows for more consistent financial results.

Laclede is investing in emerging technologies in its non-regulated division, such as compressed natural gas (CNG) for vehicles. This segment advanced 37%

over fiscal 2011. Commercial vehicle fleets, like the one at AT&T, are increasingly using CNG as an economical fuel source. As this trend plays out, Laclede's earnings will increasingly come from the nonregulated gas division, which should grow margins further.

Laclede raised its quarterly dividend to \$0.425 a share, increasing the payout by 2.4% per year. The share price has come down since our last report bringing the yield up to 4.3%. This is well covered by earnings. Dividend growth has the potential to be quite noticeable over the next few years. This is the 10th year in a row that Laclede has raised its dividend, and this trend is likely to persist.

Laclede has a Timeliness rank of 3 (Average). This issue is likely to track the broader averages over the next six to 12 months. Its Above-Average Safety rank and growing dividend may appeal to income investors. This dividend also has the potential to be one of the strongest in the natural gas distribution field, thanks to the company's stronger-than-average cash flow potential.

John E. Seibert III December 7, 2012

(A) Fiscal year ends Sept. 30th.
 (B) Based on average shares outstanding thru '07, then diluted. Excludes nonrecurring loss: '06, '74. Excludes gain from discontinued operations.
 (C) '08, '94. Next earnings report due late January. (D) Dividends historically paid in early January, April, July, and October. (E) Dividend reinvestment plan available. (F) Incl. deferred charges. In '11: \$429.9 mill., \$19.17/sh. (E) In millions. (F) Qty. egs. may not sum due to rounding or change in shares outstanding.

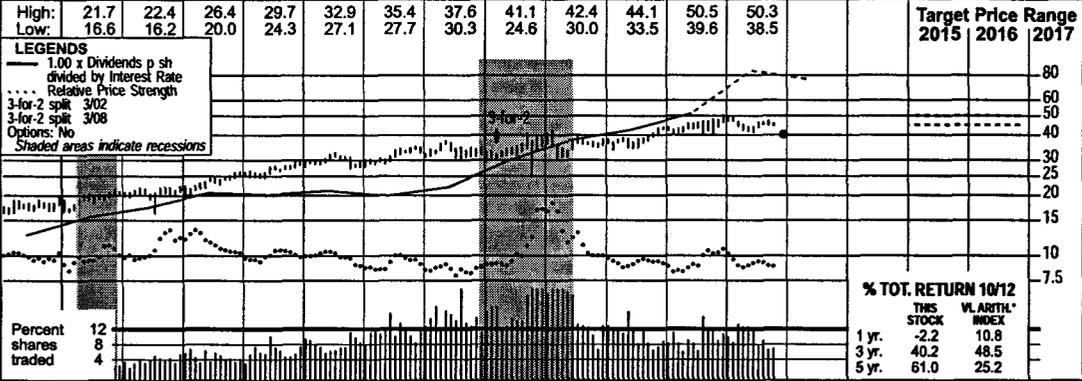
Company's Financial Strength B++
Stock's Price Stability 100
Price Growth Persistence 50
Earnings Predictability 80

To subscribe call 1-800-833-0046.

NEW JERSEY RES. NYSE-NJR

RECENT PRICE **40.33** P/E RATIO **14.1** (Trailing: 13.4; Median: 15.0) RELATIVE P/E RATIO **0.95** DIV YLD **4.0%** VALUE LINE

TIMELINESS 3 Raised 9/14/12
SAFETY 1 Raised 9/15/06
TECHNICAL 3 Lowered 11/30/12
BETA .65 (1.00 = Market)
2015-17 PROJECTIONS
 Ann'l Total
 Price Gain Return
 High 50 (+25%) 9%
 Low 45 (+10%) 7%



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

Institutional Decisions
 4Q2011 1Q2012 2Q2012
 to Buy 66 75 68
 to Sell 65 71 80
 Mid's (000) 24285 24119 23904
 Percent shares traded 12 8 4

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC	15-17
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	64.10	72.60	54.16	70.00	Revenues per sh ^A	76.50
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	3.26	3.40	3.74	3.85	"Cash Flow" per sh ^B	4.45
.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	2.58	2.71	2.90	Earnings per sh ^B	3.40
.69	.71	.73	.75	.76	.78	.80	.83	.87	.91	.96	1.01	1.11	1.24	1.36	1.44	1.52	1.60	Div'ds Decl'd per sh ^C	1.68
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	2.10	2.26	2.00	2.00	Cap'l Spending per sh	2.00
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	17.62	18.73	18.15	19.10	Book Value per sh ^D	24.20
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	41.17	41.45	41.53	40.00	Common Shs Outst'g ^E	40.00
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	16.8	16.8	16.8	Avg Ann'l P/E Ratio	14.0
.85	.78	.80	.87	.96	.73	.80	.80	.81	.89	.87	1.15	.74	.99	.95	1.05	1.08	1.08	Relative P/E Ratio	.95
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%	3.3%	3.3%	3.3%	Avg Ann'l Div'd Yield	3.5%

CAPITAL STRUCTURE as of 9/30/12
 Total Debt \$812.8 mill. Due in 5 Yrs \$214.3 mill.
 LT Debt \$525.2 mill. LT Interest \$19.6 mill.
 Incl. \$65.8 mill. capitalized leases.
 (LT interest earned: 7.5%; total interest coverage: 7.5x)
 Pension Assets-9/12 \$207.8 mill.
 Pfd Stock None
 Common Stock 41,689,123 shs. as of 11/23/12
 MARKET CAP: \$1.7 billion (Mid Cap)

1830.8	2544.4	2533.6	3148.3	3299.6	3021.8	3816.2	2592.5	2639.3	3009.2	2248.9	2800	Revenues (\$mill) ^A	3060
56.8	65.4	71.6	74.4	78.5	65.3	113.9	101.0	101.8	106.5	112	120	Net Profit (\$mill)	140
38.7%	39.4%	39.1%	39.1%	38.9%	38.8%	37.8%	27.1%	41.4%	30.2%	35.0%	35.0%	Income Tax Rate	35.0%
3.1%	2.6%	2.8%	2.4%	2.4%	2.2%	3.0%	3.9%	3.9%	3.5%	5.0%	4.3%	Net Profit Margin	4.5%
50.6%	38.1%	40.3%	42.0%	34.8%	37.3%	38.5%	39.8%	37.2%	35.5%	39.2%	39.5%	Long-Term Debt Ratio	34.0%
49.4%	61.9%	59.7%	58.0%	65.2%	62.7%	61.5%	60.2%	62.8%	64.5%	60.8%	60.5%	Common Equity Ratio	66.0%
732.4	676.8	783.8	755.3	954.0	1028.0	1182.1	1144.8	1154.4	1203.1	1339.0	1265	Total Capital (\$mill)	1470
756.4	852.6	880.4	905.1	934.9	970.9	1017.3	1064.4	1135.7	1295.9	1484.9	1350	Net Plant (\$mill)	1430
8.7%	10.7%	10.1%	11.2%	9.6%	7.7%	10.7%	9.7%	9.7%	9.7%	9.5%	10.5%	Return on Total Cap'l	10.0%
15.7%	15.6%	15.3%	17.0%	12.6%	10.1%	15.7%	14.6%	14.0%	13.7%	14.0%	16.0%	Return on Shr. Equity	14.0%
15.7%	15.6%	15.3%	17.0%	12.6%	10.1%	15.7%	14.6%	14.0%	13.7%	14.0%	16.0%	Return on Com Equity	14.0%
6.9%	7.7%	7.8%	8.5%	6.3%	3.6%	9.5%	7.2%	6.7%	6.2%	6.0%	7.5%	Retained to Com Eq	7.5%
56%	51%	49%	50%	50%	64%	40%	50%	52%	55%	56%	53%	All Div'ds to Net Prof	49%

CURRENT POSITION (\$MILL.)
 Cash Assets .9 7.4 4.5
 Other 784.1 725.0 642.8
 Current Assets 785.0 732.4 647.3
 Accts Payable 47.3 66.0 265.8
 Debt Due 178.9 166.9 287.6
 Other 479.6 470.5 99.7
 Current Liab. 705.8 703.4 653.1
 Fix. Chg. Cov. 700% 700% 700%

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 494,964 customers at 9/30/11 in Monmouth and Ocean Counties, and other N.J. Counties. Fiscal 2011 volume: 178 bill. cu. ft. (5% interruptible, 35% residential and commercial and electric utility, 60% incentive programs). N.J. Natural Energy subsidiary provides unregulated retail/wholesale natural gas and related energy svcs. 2011 dep. rate: 2.2%. Has 891 emp. Off./dir. own about 1.1% of common (12/11 Proxy). Chrmn., CEO & Pres.: Laurence M. Downes, Inc.: NJ Addr.: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 732-938-1480. Web: www.njresources.com.

ANNUAL RATES Past Past Est'd '09-'11
 of change (per sh) 10 Yrs. 5 Yrs. to '15-'17
 Revenues 7.0% -1.5% 2.5%
 "Cash Flow" 5.0% 4.5% 5.0%
 Earnings 7.5% 7.0% 5.5%
 Dividends 6.0% 8.0% 4.0%
 Book Value 8.0% 7.5% 5.5%

New Jersey Resources posted a mixed bag of financial results for fiscal 2012 (ended September 30th). Indeed, the top line declined approximately 25% on a year-over-year basis. This reflected diminished volumes at both the utility and nonutility divisions. However, this was not alarming, being largely due to lower year-to-year comparable natural gas prices. Overall, management was successful at trimming unnecessary expenses, thereby boosting profitability for the year. And, on balance, NJR logged a modest 5% earnings advance, to \$2.71 a share. However, this was slightly lower than we had previously anticipated. Consequently, **We have reduced our top- and bottom-line estimates for 2013 accordingly.** Helped by low natural gas prices, New Jersey Resources has been quite successful at growing the number of customer accounts at the New Jersey Natural Gas regulated utility division. That unit comprises the bulk of the company's business mix, and is expected to add 6,000 to 7,000 new customers this year alone. Elsewhere, the NJR Clean Energy Ventures segment has multiple capital projects for alternative en-

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
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	648.1	670.9	3009.2
2012	642.4	612.9	425.1	568.5	2248.9
2013	790	765	575	670	2800

ergy investments in its pipeline. On the downside, the NJR Energy services unit will likely continue to experience difficulties this year, as historically low natural gas prices and reduced volatility weigh on the wholesale market's profitability. Meanwhile, cost-cutting efforts that helped to boost the bottom line in 2012, will not be as effective with sustained top-line weakness this year. Thus, we have reduced our earnings estimate by \$0.25, to \$2.90 a share, for fiscal 2013. **The board recently approved a quarterly dividend increase of about 5%, to \$0.40 a share.** This payout came on the heels of the regularly scheduled fourth-quarter dividend, due to concerns that the tax rate on dividends may rise next year. **These neutrally ranked shares are trading down roughly 13% in price since our September review.** The bulk of this move likely stemmed from concerns for how the effects of Hurricane Sandy may weigh on the company's operations, as well as general concerns over higher taxes on dividends and capital gains.

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2009	.77	1.71	.03	d.12	2.40
2010	.66	1.55	.28	d.03	2.46
2011	.71	1.62	.23	.02	2.58
2012	1.09	1.79	.10	d.27	2.71
2013	1.15	1.84	.15	d.24	2.90

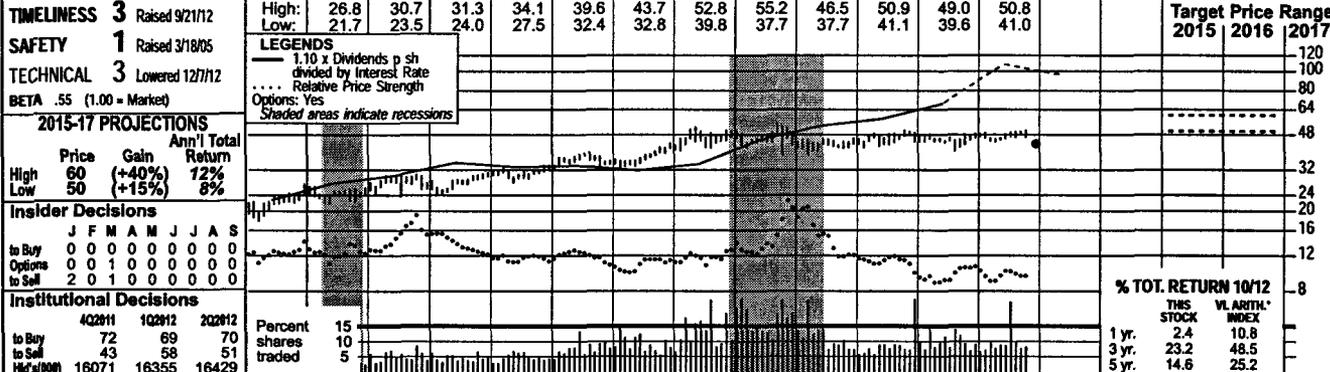
QUARTERLY DIVIDENDS PAID
 Cal-endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year
 2009 .31 .31 .31 .31 1.24
 2010 .34 .34 .34 .34 1.36
 2011 .36 .36 .36 .36 1.44
 2012 .38 .38 .38 .38 1.52
 2013 .40

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

To subscribe call 1-800-833-0046.

N.W. NAT'L GAS NYSE: NWN

RECENT PRICE **43.28** P/E RATIO **18.5** (Trailing: 18.4 Median: 17.0) RELATIVE P/E RATIO **1.15** DIVD YLD **4.2%** VALUE LINE



1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	VALUE LINE PUB. LLC	15-17
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	30.56	31.72	29.25	29.10	Revenues per sh	30.55
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	5.18	5.00	4.50	4.60	"Cash Flow" per sh	4.95
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	2.39	2.25	2.45	Earnings per sh ^A	3.15
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	1.75	1.79	1.83	Div'ds Decl'd per sh ^B	1.96
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	9.35	3.76	6.60	7.00	Cap'l Spending per sh	8.10
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	26.08	26.70	26.95	27.35	Book Value per sh ^D	27.75
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	26.58	26.76	27.00	27.50	Common Shs Outst'g ^C	28.00
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	17.0	19.0	19.0	19.0	Avg Ann'l P/E Ratio	17.0
.73	.83	1.39	.83	.81	.66	.94	.90	.88	.91	.86	.89	1.09	1.01	1.08	1.20	1.20	1.20	Relative P/E Ratio	1.15
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%	3.6%	3.9%	3.9%	3.9%	Avg Ann'l Div'd Yield	3.3%

CAPITAL STRUCTURE as of 9/30/12
 Total Debt \$817.5 mill. Due in 5 Yrs \$200 mill.
 LT Debt \$641.7 mill. LT Interest \$45.0 mill.

(Total interest coverage: 3.4x)

Pension Assets-12/11 \$216 mill. **Oblig.** \$391.1 mill.

Pfd Stock None

Common Stock 26,902,000 shares

MARKET CAP \$1.2 billion (Mid Cap)

CURRENT POSITION (\$MILL)

	2010	2011	9/30/12
Cash Assets	3.5	5.8	5.7
Other	326.8	342.9	192.2
Current Assets	330.3	348.7	197.9
Accts Payable	93.2	86.3	61.3
Debt Due	267.4	181.6	175.8
Other	107.6	146.6	108.3
Current Liab.	468.2	414.5	345.4
Fix. Chg. Cov.	366%	334%	344%

BUSINESS: Northwest Natural Gas Co. distributes natural gas to 90 communities, 681,000 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.

Owens local underground storage. Rev. breakdown: residential, 57%; commercial, 26%; industrial, gas transportation, and other, 17%. Employs 1,061. BlackRock Inc. owns 7.8% of shares; officers and directors, 1.7% (4/12 proxy). CEO: Gregg S. Kantor. Inc.: Oregon. Address: 220 NW 2nd Ave., Portland, OR 97209. Telephone: 503-226-4211. Internet: www.nwnatural.com.

ANNUAL RATES

of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11	'12-'17
Revenues	4.5%	1.0%	1.0%	-1.5%
"Cash Flow"	3.0%	3.5%	3.5%	-0.5%
Earnings	4.0%	4.5%	4.5%	3.0%
Dividends	3.0%	4.5%	4.5%	2.5%
Book Value	4.0%	4.0%	4.0%	1.0%

QUARTERLY REVENUES (\$ mill.)

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	93.3	271.2	848.8
2012	317.5	106.6	89.8	276.1	790
2013	315	140	90	255	800

EARNINGS PER SHARE ^A

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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.31	1.09	2.39
2012	1.51	.05	d.39	1.08	2.25
2013	1.50	.15	d.25	1.05	2.45

QUARTERLY DIVIDENDS PAID ^B

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	.445	1.75
2012	.445	.445	.445	.455	

Northwest Natural Gas Co.'s third-quarter results were mixed. Revenues decreased to \$89.8 million, down 4% year over year. Losses narrowed to \$0.29 a share compared to last year's \$0.31. Margins expanded while sales declined. Increases in natural gas storage income (up 8%) likely will have a small but positive effect on profits and sales.

NW Natural received mixed results from a base rate case filed in Oregon. The Oregon Public Utility Commission (PUC) allowed the company to collect higher fixed charges, increasing revenues by \$8.7 million. The PUC also lowered rates that NW Natural charges for natural gas. Although margins should decline as a result of this rate decrease, total volume should increase over the next few years, somewhat limiting the downside effect. As a result, we have lowered our earnings estimate for 2012 to \$2.25 a share from \$2.45. The higher fixed charges could lower earnings variability. Pension cost base-rate decisions were deferred by the PUC, but the outcome will have an effect on future profitability.

NW Natural is focused on increasing

its industrial customer base. By filing to lower the base rate by 14%, the company would entice more businesses to switch to natural gas for their processes. This would potentially grow and diversify the customer base while increasing revenues. The company is also on track with its joint venture with Encana in the Jonah field, which should produce 8%-10% of the annual natural gas requirements. Both these initiatives are crucial to long-term growth.

NW Natural has raised its annual dividend to \$1.82 a share. This is the 57th consecutive year that the company has increased its dividend and this trend is likely to continue. The stock retreat since our last report and the dividend increase have caused the yield to expand, but it is still below average for gas utilities.

NW Natural has a Timeliness rank of 3 (Average). Although this issue has below market average appreciation potential, conservative investors with an income objective should consider this issue because it has a high and growing yield and Highest Safety rank (1); however, this issue is not for performance-minded investors.

John E. Seibert III December 7, 2012

(A) Diluted earnings per share. Excludes non-recurring items: '98, \$0.15; '00, \$0.11; '06, \$(0.06); '08, \$(0.03); '09, 6¢; Next earnings report due late January.
 (B) Dividends historically paid in mid-February, May, August, and November.
 (C) In millions.
 (D) Includes intangibles. In 2011: \$371.4 million, \$13.88/share.

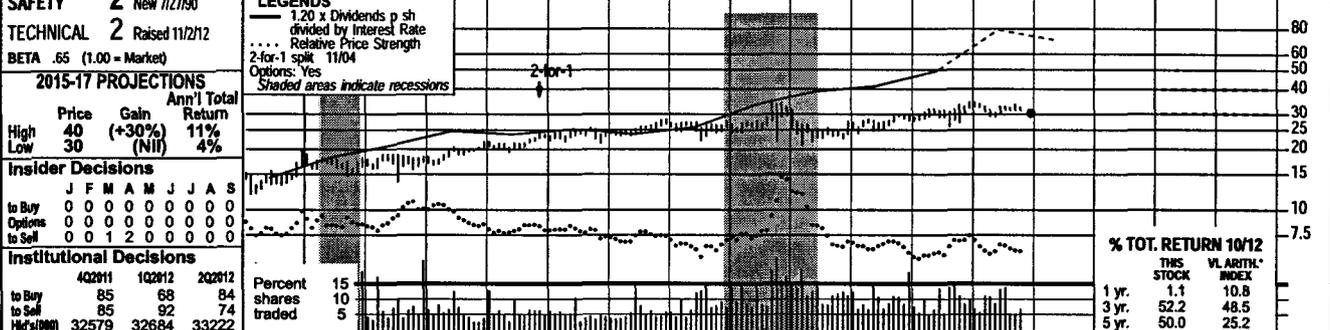
Company's Financial Strength A
Stock's Price Stability 100
Price Growth Persistence 65
Earnings Predictability 90

© 2012, Value Line Publishing LLC. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.

To subscribe call 1-800-833-0046.

PIEDMONT NAT'L. GAS NYSE-PNY RECENT PRICE **30.34** P/E RATIO **17.8** (Trailing: 19.4 Median: 18.0) RELATIVE P/E RATIO **1.20** DIVD YLD **4.0%** VALUE LINE

TIMELINESS 3 Raised 6/22/12	High: 19.0	19.0	22.0	24.3	25.8	28.4	28.0	35.3	32.0	30.1	34.7	34.6	Target Price	Range	
SAFETY 2 New 7/27/90	Low: 14.6	13.7	16.6	19.2	21.3	23.2	22.0	21.7	20.7	23.9	25.9	28.5	2015	2016	2017
TECHNICAL 2 Raised 11/2/12	LEGENDS														
BETA .65 (1.00 = Market)	1.20 x Dividends p sh divided by Interest Rate Relative Price Strength 2-for-1 split 11/04 Options: Yes Shaded areas indicate recessions														



2015-17 PROJECTIONS		Ann'l Total		Percent					
High	Price	Gain	Return	shares	traded				
Low	40	(+30%)	11%	15	5				
	30	(Nil)	4%						
Insider Decisions									
	J	F	M	A	M	J	J	A	S
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	1	2	0	0	0	0	0
Institutional Decisions									
	4Q2011	1Q2012	2Q2012						
to Buy	85	68	84						
to Sell	85	92	74						
Mts(000)	32579	32684	33222						

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	VALUE LINE PUB. LLC	15-17
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	19.83	15.75	17.85	Revenues per sh ^A	20.10
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	2.99	3.05	3.20	"Cash Flow" per sh	3.45
.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	1.57	1.60	1.70	Earnings per sh ^{AB}	1.85
.57	.61	.64	.68	.72	.76	.80	.82	.85	.91	.95	.99	1.03	1.07	1.11	1.15	1.19	1.23	Div'ds Decl'd per sh ^C	1.35
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	3.37	7.75	7.85	Cap'l Spending per sh	8.10
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	13.79	13.85	14.00	Book Value per sh ^D	14.60
59.70	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	72.32	71.00	70.00	Common Shs Outst'g ^E	68.00
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	18.9	19.9	19.9	Avg Ann'l P/E Ratio	18.0
.87	.78	.85	1.01	.93	.86	1.01	.95	.88	.95	1.04	.99	1.10	1.03	1.09	1.19	1.28	1.28	Relative P/E Ratio	1.20
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%	3.9%	3.7%	3.7%	Avg Ann'l Div'd Yield	3.9%

CAPITAL STRUCTURE as of 7/31/12

Total Debt \$1175.0 mill. Due in 5 Yrs \$175.0 mill.
 LT Debt \$975.0 mill. LT Interest \$46.1 mill.
 (LT interest earned: 4.1x; total interest coverage: 3.4x)

Pension Assets-10/11 \$259.5 mill.
Oblig. \$236.6 mill.

Pfd Stock None

Common Stock 72,076,431 shs.
 as of 9/4/12

MARKET CAP: \$2.2 billion (Mid Cap)

CURRENT POSITION

	2010	2011	7/31/12
Cash Assets	5.6	6.8	5.7
Other	322.2	279.2	283.4
Current Assets	327.8	286.0	289.1
Accts Payable	115.7	129.7	117.9
Debt Due	302.0	331.0	200.0
Other	80.9	72.9	80.4
Current Liab.	498.6	534.1	398.3
Fix. Chg. Cov.	323%	323%	325%

ANNUAL RATES

of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11 to '15-'17
Revenues	4.5%	-1.5%	-1.0%
"Cash Flow"	5.5%	4.0%	2.5%
Earnings	5.0%	4.5%	2.5%
Dividends	4.5%	4.0%	3.5%
Book Value	5.0%	3.0%	1.5%

QUARTERLY REVENUES (\$ mill.)^A

Fiscal Year Ends	Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2009	779.6	455.4	180.3	222.8	1638.1
2010	673.7	472.9	211.6	194.1	1552.3
2011	652.0	392.6	197.3	192.0	1433.9
2012	471.8	308.4	161.1	178.7	1120
2013	505	340	195	210	1250

EARNINGS PER SHARE^{AB}

Fiscal Year Ends	Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
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.12	d.13	1.57
2012	1.05	.70	d.06	d.09	1.60
2013	1.18	.70	d.09	d.09	1.70

QUARTERLY DIVIDENDS PAID^C

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	.29	1.15
2012	.29	.30	.30	.30	

BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 968,188 customers in North Carolina, South Carolina, and Tennessee. 2011 revenue mix: residential (46%), commercial (27%), industrial (7%), other (20%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 60.0% of revenues. '11 deprec. rate: 3.2%. Estimated plant age: 10

Piedmont Natural Gas likely posted a mixed bag of financial results for fiscal 2012 (ended October 31st). Indeed, we expect a year-to-year top-line decline of approximately 22%. This is largely a reflection of lower pass-through costs for natural gas. Meanwhile, on the profitability front, the company has been successful in trimming its cost of goods sold for the bulk of the year, and we expect that trend continued in the fourth quarter and for the year, as a whole. Customer additions were another boon to the bottom line. At the end of the third quarter, Piedmont had added more than 8,700 accounts to its system. Elsewhere, gains ought to have stemmed from a rise in income from equity-method investments, as higher contributions come in from the energy services and pipeline divisions. Combined, we think PNY's 2012 share-net figure ticked about 2% higher, to \$1.60.

Capital projects augur well for prospects down the road. At this point, Piedmont finished the first four power generation delivery projects for Duke Energy. The fifth project, related to the Sutton Facility, is well under way, and has a

targeted in-service date of June, 2013. These developments equate to an investment of \$500 million, and they are boosting throughput on the Cardinal Pipeline. **We look for steady top- and bottom-line advances in fiscal 2013.** This ought to be supported by continued customer additions, a wider geographic footprint due to capital expenditures, and a diligent eye on efficiency initiatives. And a recently announced 24% equity stake in Constitution Pipeline Company, LLC., a natural gas pipeline project slated to be in service in 2015 adds to the PNY's prospects. **However, the financial position has deteriorated a bit over the course of the year.** Cash reserves declined 16%, through the end of the third quarter (the last period for which financial information was available), to just under \$6 million. And the company has taken on about 45% more long-term debt over this time frame. **These neutrally ranked shares have remained relatively steady since our September review.** And PNY's yield is on par with the Value Line average for the utility group.

Bryan J. Fong
 December 7, 2012

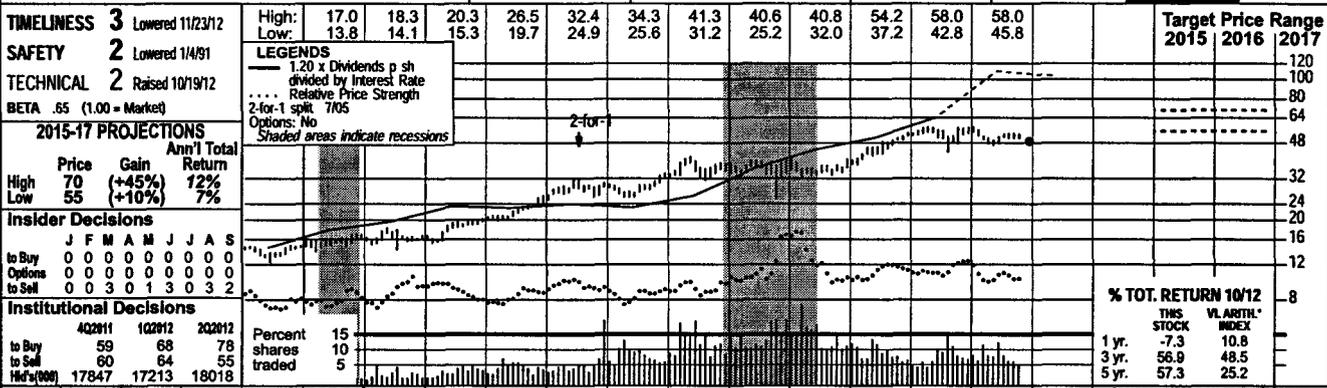
Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	95
Earnings Predictability	55

To subscribe call 1-800-833-0046.

(A) Fiscal year ends October 31st. (B) Diluted earnings. Excl. extraordinary item: '00, '84. Excl. nonrecurring gains (losses): '97, ('24); '10, 41¢. Next earnings report due mid April, July, October. (C) Dividends historically paid early-January, April, July, October. (D) Div'd reinvest. plan available; 5% discount. (E) Includes deferred charges. In 2011: \$527.6 million, \$7.29/share. (F) In millions, adjusted for stock split. © 2012, Value Line Publishing LLC. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.

SOUTH JERSEY INDS. NYSE-SJI

RECENT PRICE **48.96** P/E RATIO **15.2** (Trailing: 15.7; Median: 15.6) RELATIVE P/E RATIO **1.03** DIV'D YLD **3.6%** VALUE LINE



1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	VALUE LINE PUB. LLC	15-17
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	27.42	23.00	26.45	Revenues per sh	33.35
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	4.46	4.60	4.75	"Cash Flow" per sh	6.25
.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	2.89	3.15	3.35	Earnings per sh ^A	4.50
.72	.72	.72	.72	.73	.74	.75	.78	.82	.86	.92	1.01	1.11	1.22	1.36	1.50	1.65	1.82	Div'ds Decl'd per sh ^B	2.30
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	6.39	6.20	6.45	Cap'l Spending per sh	7.20
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	20.66	23.00	24.60	Book Value per sh ^C	27.80
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	30.21	31.50	32.50	Common Shs Outst'g ^D	36.00
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	18.4	18.4	18.4	Avg Ann'l P/E Ratio	14.0
.83	.80	1.10	.76	.85	.70	.74	.76	.74	.88	.64	.91	.96	1.00	1.07	1.16	1.16	1.16	Relative P/E Ratio	.95
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%	2.8%	2.8%	2.8%	Avg Ann'l Div'd Yield	3.7%

CAPITAL STRUCTURE as of 9/30/12		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2013	2013	2013	2013
Total Debt	\$906.8 mill.	505.1	696.8	819.1	921.0	931.4	956.4	962.0	845.4	925.1	828.6	725	860	860	860	860	860	Revenues (\$mill)	1200
LT Debt	\$566.4 mill.	29.4	34.6	43.0	48.6	72.0	61.8	67.7	71.3	81.0	87.0	100	105	105	105	105	105	Net Profit (\$mill)	160
(Total interest coverage: 6.3x)		41.4%	40.6%	40.9%	41.5%	41.3%	41.9%	47.7%	23.0%	15.2%	22.4%	20.0%	25.0%	20.0%	22.4%	20.0%	25.0%	Income Tax Rate	30.0%
Pension Assets-12/11	\$116.7 mill.	5.8%	5.0%	5.2%	5.3%	7.7%	6.5%	7.0%	8.4%	8.8%	10.5%	13.8%	12.2%	13.8%	12.2%	13.8%	12.2%	Net Profit Margin	13.3%
Oblig. \$195.0 mill.		53.6%	50.8%	48.7%	44.9%	44.7%	42.7%	39.2%	36.5%	37.4%	40.5%	44.0%	43.0%	44.0%	43.0%	44.0%	43.0%	Long-Term Debt Ratio	43.0%
Pfd Stock None		46.1%	49.0%	51.0%	55.1%	55.3%	57.3%	60.8%	63.5%	62.6%	59.5%	56.0%	57.0%	56.0%	57.0%	56.0%	57.0%	Common Equity Ratio	57.0%
Common Stock	31,262,570 common shs. as of 11/1/12	512.5	608.4	675.0	710.3	801.1	839.0	848.0	856.4	910.1	1048.3	1300	1400	1300	1400	1300	1400	Total Capital (\$mill)	1750
MARKET CAP: \$1.5 billion (Mid Cap)		666.6	748.3	799.9	877.3	920.0	948.9	982.6	1073.1	1193.3	1352.4	1480	1600	1352.4	1480	1352.4	1480	Net Plant (\$mill)	1900
CURRENT POSITION	2010 2011 9/30/12	7.6%	7.3%	7.9%	8.3%	10.1%	8.6%	8.9%	9.0%	9.5%	8.9%	8.5%	8.0%	9.5%	8.9%	8.5%	8.0%	Return on Total Cap'l	9.5%
Cash Assets	2.4	7.5	4.2	41.4%	40.6%	40.9%	41.5%	41.3%	41.9%	47.7%	23.0%	15.2%	22.4%	20.0%	22.4%	20.0%	25.0%	Return on Shr. Equity	16.0%
Other	421.4	333.1	319.6	5.8%	5.0%	5.2%	5.3%	7.7%	6.5%	7.0%	8.4%	8.8%	10.5%	13.8%	12.2%	13.8%	12.2%	Return on Com Equity	16.0%
Current Assets	423.8	340.6	323.8	46.1%	49.0%	51.0%	55.1%	55.3%	57.3%	60.8%	63.5%	62.6%	59.5%	56.0%	57.0%	56.0%	57.0%	Retained to Com Eq	7.5%
Accts Payable	165.2	153.7	111.1	512.5	608.4	675.0	710.3	801.1	839.0	848.0	856.4	910.1	1048.3	1300	1400	1300	1400	All Div'ds to Net Prof	52%
Debt Due	362.1	323.6	340.4	666.6	748.3	799.9	877.3	920.0	948.9	982.6	1073.1	1193.3	1352.4	1480	1600	1352.4	1480		
Other	113.2	110.7	101.3	7.6%	7.3%	7.9%	8.3%	10.1%	8.6%	8.9%	9.0%	9.5%	8.9%	8.5%	8.0%	9.5%	8.9%		
Current Liab.	640.5	588.0	552.8	12.4%	11.5%	12.4%	12.4%	16.3%	12.8%	13.1%	13.1%	14.2%	13.9%	14.0%	13.0%	14.0%	13.0%		
Fix. Chg. Cov.	532%	505%	570%	12.5%	11.6%	12.5%	12.4%	16.3%	12.8%	13.1%	13.1%	14.2%	13.9%	14.0%	13.0%	14.0%	13.0%		
				4.7%	5.0%	5.9%	6.2%	10.2%	6.7%	6.7%	6.4%	7.1%	6.7%	6.5%	5.5%	5.5%	5.5%		
				62%	57%	52%	50%	37%	48%	49%	51%	50%	52%	52%	56%	56%	56%		

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11	'09-'11
Revenues	1.5%	-1.5%	2.5%	2.5%
"Cash Flow"	8.0%	8.0%	7.0%	7.0%
Earnings	9.5%	7.0%	9.0%	9.0%
Dividends	6.5%	9.5%	9.0%	9.0%
Book Value	10.5%	7.0%	6.0%	6.0%

Cal-endar	QUARTERLY REVENUES (\$ mill.)	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2009	362.2 134.5 127.1 221.6	845.4
2010	329.3 151.6 160.7 283.5	925.1
2011	331.9 160.5 137.6 198.6	828.6
2012	274.8 121.9 112.0 216.3	725
2013	305 150 150 255	860

Cal-endar	EARNINGS PER SHARE ^A	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2009	1.46 .15 .06 .83	2.38
2010	1.49 .24 .10 .87	2.70
2011	1.63 .20 .01 1.05	2.89
2012	1.65 .28 .13 1.09	3.15
2013	1.70 .30 .15 1.20	3.35

Cal-endar	QUARTERLY DIVIDENDS PAID ^B	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2008	-- .270 .270 .568	1.11
2009	-- .298 .298 .628	1.22
2010	-- .330 .330 .695	1.36
2011	-- .365 .365 .768	1.50
2012	-- .403 .403 .845	

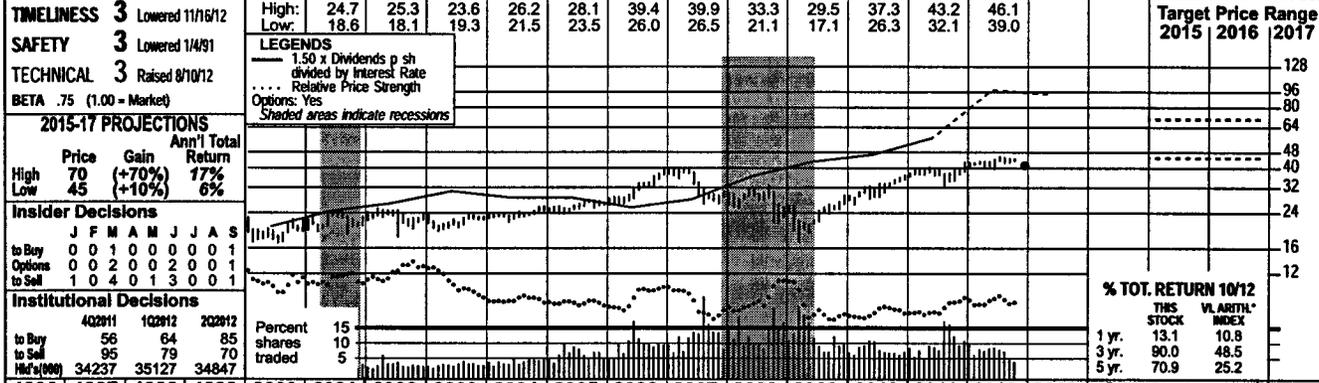
Shares of South Jersey Industries have pulled back somewhat over the past two months. Revenue declined for the third quarter, but that was largely due to a lower natural gas pricing environment. The mainstay utility segment reported a moderate top-line decline, and the nonutility businesses posted considerably lower revenues. But operating costs also declined, and the bottom-line picture was much brighter. Share net came in at \$0.13, well above the prior-year tally. **The company appears to have made it through Hurricane Sandy in good shape.** Flooding and high winds from the super storm dealt a significant blow to New Jersey residents. But service disruption at the utility was minimal, and SJI's nonutility energy projects experienced mostly superficial damage. **We look for moderate earnings growth going forward.** We expect healthy results from most of SJI's businesses. Utility South Jersey Gas ought to benefit from modest customer growth going forward. Natural gas remains the fuel of choice within its service territory, and the utility should continue to benefit

from customer interest in converting from other sources of fuel. In addition, spending on infrastructure projects under the Capital Investment Recovery Tracker program ought to improve service and allow the utility to earn a good return on these investments. On the nonutility side, healthy demand for renewable and natural gas-fired energy projects should benefit the Retail Energy line. Efforts to reposition the marketing unit may also bear fruit. **The board of directors has increased the dividend by roughly 10%.** The quarterly dividend is now \$0.4425 per share, beginning with the December payout. The company cited strong recent performance and myriad growth opportunities as reasons for the hike. Dividend increases will likely continue in the coming years. **These shares are neutrally ranked for Timeliness.** We anticipate higher revenues and earnings for the company by 2015-2017. Moreover, South Jersey earns good marks for Safety, Price Stability, and Earnings Predictability. This equity offers decent, and fairly well-defined, total return potential for the coming years. *Michael Napoli, CFA December 7, 2012*

(A) Based on GAAP egs. through 2006, economic egs. thereafter. GAAP EPS: '07, \$2.10; '08, \$2.58; '09, \$1.94; '10, \$2.22; '11, \$2.97. Excl. nonrecur. gain (loss): '01, \$0.13; '08, \$0.31; '09, (\$0.44); '10, (\$0.47); '11, \$0.08. Excl gain (losses) from discount ops: '01, (\$0.02); '02, (\$0.04); '03, (\$0.09); '05, (\$0.02); '06, (\$0.02); '07, \$0.01. Next egs. report due in February. (B) Div'ds paid early April, July, Oct., and late Dec. = Div. reinvest. plan avail. (C) Incl. reg. assets. In 2011: \$315.2 mill., \$10.43 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 **To subscribe call 1-800-833-0046.**

SOUTHWEST GAS NYSE-SWX

RECENT PRICE **41.30** P/E RATIO **13.8** (Trailing: 15.2 Median: 17.0) RELATIVE P/E RATIO **0.93** DIV'D YLD **3.1%** VALUE LINE



1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC 15-17	
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	40.18	41.07	42.25	43.10	Revenues per sh	52.00
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	6.46	6.81	7.40	7.75	"Cash Flow" per sh	9.40
.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	2.43	2.72	2.85	Earnings per sh ^A	3.75
.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.86	.90	.95	1.00	1.06	1.18	1.30	Div'ds Decl'd per sh ^{B†}	1.60
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	4.73	8.29	7.85	8.50	Cap'l Spending per sh	9.60
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	25.62	26.66	27.95	30.85	Book Value per sh	36.00
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	45.56	45.96	46.50	47.00	Common Shs Outst'g ^C	50.00
69.3	24.1	13.2	21.1	16.0	19.0	19.9	19.2	14.3	20.6	15.9	17.3	20.3	12.2	14.0	15.7	15.7	15.7	Avg Ann'l P/E Ratio	15.0
4.34	1.39	.69	1.20	1.04	.97	1.09	1.09	.76	1.10	.86	.92	1.22	.81	.89	.89	.89	.89	Relative P/E Ratio	1.00
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%	2.8%	2.8%	2.8%	Avg Ann'l Div'd Yield	2.8%

CAPITAL STRUCTURE as of 9/30/12
 Total Debt \$1261.1 mill. Due in 5 Yrs \$343.0 mill.
 LT Debt \$1256.0 mill. LT Interest \$70.0 mill.
 (Total interest coverage: 3.8x) (50% of Cap'l)
 Leases, Uncapitalized Annual rentals \$6.0 mill.
 Pension Assets-12/11 \$551.8 mill.
 Oblig. \$832.8 mill.

Pfd Stock None

Common Stock 46,140,788 shs.
 as of 10/26/12

MARKET CAP: \$1.9 billion (Mid Cap)

CURRENT POSITION	2010	2011	9/30/12
Cash Assets	116.1	21.9	22.1
Other	329.8	439.7	327.7
Current Assets	445.9	461.6	349.8
Accts Payable	165.5	186.8	90.6
Debt Due	75.1	322.6	5.1
Other	358.4	358.2	369.5
Current Liab.	597.0	847.6	465.2
Fix. Chg. Cov.	299%	359%	375%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11 to '15-'17
Revenues	1.5%	-1.5%	4.0%
"Cash Flow"	3.5%	3.0%	6.5%
Earnings	6.0%	6.5%	9.0%
Dividends	2.0%	4.0%	8.0%
Book Value	4.5%	5.0%	6.0%

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
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	352.6	517.7	1887.2
2012	657.6	409.8	371.8	525.8	1965
2013	670	420	390	545	2025

Cal-endar	EARNINGS PER SHARE ^A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
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.34	1.19	2.43
2012	1.70	d.08	d.09	1.19	2.72
2013	1.80	.10	d.30	1.25	2.85

Cal-endar	QUARTERLY DIVIDENDS PAID ^{B†}				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2008	.215	.225	.225	.225	.89
2009	.225	.238	.238	.238	.94
2010	.238	.250	.250	.250	.99
2011	.250	.265	.265	.265	1.05
2012	.265	.295	.295	.295	

BUSINESS: Southwest Gas Corporation is a regulated gas distributor serving approximately 1.9 million customers in sections of Arizona, Nevada, and California. Comprised of two business segments: natural gas operations and construction services. 2011 margin mix: residential and small commercial, 86%; large commercial and industrial, 4%; transportation, 10%. Total throughput: 2.1 billion

Southwest Gas reported improved results for the third quarter. Revenues increased at a moderate clip, and the company posted a much lower share loss for the interim, partly because Southwest experienced healthy growth in the construction business. Utility revenues were roughly flat, compared with the prior-year period, but were supported by higher rates in Arizona. Efforts to control operating costs benefited the bottom line. We anticipate healthy results for the fourth quarter, and greater revenues and share net for full-year 2012.

The Public Utilities Commission of Nevada has approved a \$7 million annualized rate increase. The new rates became effective in November. However, the rate hike is much lower than the \$27 million increase the company had been seeking. Including other aspects of the decision, Southwest estimates an annual operating income benefit of around \$11.4 million. The company also identified several items it may request to have formally reconsidered by the commission. Southwest's focus on this matter is to be expected, as it depends on approved reve-

nuenues increases to help it cope with higher costs and as compensation for infrastructure investment.

Performance may well continue to improve in 2013. The utility business should benefit from modest customer growth and recently granted rate relief. Meantime, the construction services subsidiary should continue to experience healthy demand, given the need to replace aging infrastructure.

The stock is not without risk. The company will probably incur greater operating expenses as it continues to expand. Moreover, lagging rate relief or unfavorable temperature variations could hurt the performance of the utility business.

This stock is now neutrally ranked for Timeliness. But the shares have some positive characteristics. Namely, Southwest Gas earns good marks for Price Stability and Earnings Predictability. Dividend growth ought to continue, as well, though the yield will probably remain below the industry average. Even so, this stock has decent total return potential for the coming years.

Michael Napoli, CFA December 7, 2012

(A) Based on avg. shares outstand. thru '96, then diluted. Excl. nonrec. gains (losses): '97, 16¢; '02, (10¢); '05, (11¢); '06, 7¢. Next eggs. report due late February. (B) Dividends histor-

cally 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	90
Earnings Predictability	75

ATTACHMENT C

Subscribe Free Trial Sign In

Get Quote or Search Keyword

Sub



Do you own the RIGHT STOCKS? **ANALYZE ANY STOCK FREE!** **BUY** **SELL** **HOLD**

Home Stocks Funds Earnings Screening Finance Portfolio Education Video Services

QUOTES

- Overview Quote
- Real Time Quotes
- Option Chain
- Options Greek Montage

NEWS

- Zacks Commentary
- Company News

ESTIMATES

- Detailed Estimates

CHART

- Comparative
- Interactive Chart
- Price and Consensus
- 12 month EPS
- Price & EPS Surprise
- Broker Recommendations
- Fundamental Charts

RESEARCH

- Full Company Report
- Zacks Equity Research
- Earnings Announcements
- Brokerage Reports
- Comparison to Industry
- Insiders
- Brokerage Recommendations
- Annual Report

FINANCIALS

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

AdChoices

Top 12 Stocks to Buy Now

www.TopStock.. Panel of nation's leading analysts just announced their favorite picks



Profit from the Pros

Get profitable stock picks and timely market advice in Zacks.com's Free Daily Newsletter! Free Registration

American Water Works Co Inc: (NYSE: AWK)

ZACKS RANK: 2-BUY

\$38.45 0.54 (1.42%) **VOLUME 220,752** JAN 22 11:56 AM ET

Full Company Report

Get Full Company Report for:

AMER WATER is the largest investor-owned U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs nearly seven thousand dedicated professionals who provide drinking water, wastewater and other related services to approximately 15.6 million people in 32 states and Ontario, Canada.

GENERAL INFORMATION

AMER WATER WORK
1025 LAUREL OAK ROAD
VOORHEES, NJ 08043
Phone: 856-346-8200
Fax: 856-346-8360
Web: <http://www.amwater.com>
Email: NA

Industry	UTIL-WATER SPLY
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/2012
Next EPS Date	03/04/2013

ALL-IN-ONE TRADE TICKET
optionsXPRESS
*Charles Schwab

- Trade in any asset class
- Organize your strategies
- Execute your trades

ALL FROM ONE SCREEN

OPEN AN ACCOUNT

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	37.91
52 Week High	39.38
52 Week Low	32.21
Beta	0.31
20 Day Moving Average	716,080.25
Target Price Consensus	42.15

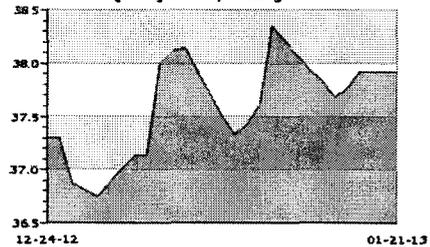
% Price Change

4 Week	1.66
12 Week	3.41
YTD	2.10

Share Information

Shares Outstanding (millions)	176.76
Market Capitalization (millions)	6,700.86
Short Ratio	1.43
Last Split Date	NA

[AWK] 30-Day Closing Prices



% Price Change Relative to S&P 500

4 Week	-2.40
12 Week	-1.74
YTD	-2.01

Dividend Information

Dividend Yield	2.64%
Annual Dividend	\$1.00
Payout Ratio	0.47
Change in Payout Ratio	NA
Last Dividend Payout / Amount	12/18/2012 / \$0.50

EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.40
--	------

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	1.31
---------------------------------------	------

[View the Archive](#)

Current Year EPS Consensus Estimate	Subscribe	219e	30 Days Ago	Get Quote or Search Keyword	1.31
Estimated Long-Term EPS Growth Rate		8.50	60 Days Ago		1.29
Next EPS Report Date		03/04/2013	90 Days Ago		1.29

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	17.14	vs. Previous Year	21.13%	vs. Previous Year	8.53%
Trailing 12 Months	17.63	vs. Previous Quarter	30.30%	vs. Previous Quarter	11.58%
PEG Ratio	2.02				
Price Ratios		ROE		ROA	
Price/Book	1.50	12-31-12	NA	12-31-12	NA
Price/Cash Flow	10.10	09-30-12	8.86	09-30-12	2.64
Price / Sales	2.36	06-30-12	8.28	06-30-12	2.44
Current Ratio		Quick Ratio		Operating Margin	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	0.64	09-30-12	0.61	09-30-12	13.48
06-30-12	0.60	06-30-12	0.56	06-30-12	12.75
Net Margin		Pre-Tax Margin		Book Value	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	12.96	09-30-12	22.53	09-30-12	25.21
06-30-12	12.67	06-30-12	21.33	06-30-12	24.52
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	42.95	09-30-12	1.17	09-30-12	53.91
06-30-12	42.97	06-30-12	1.21	06-30-12	54.69

The 9 Best Stocks to Own Now

These stock picks come from a handful of the nation's best advisors – whose recommendations have led to extraordinary profits over the years in stocks, bonds, commodities and precious metals like gold and silver. Don't pay \$99 for the names of these stocks. [Get them here for free](#)

Quick Links

Services

- Premium Services
- Zacks Rank
- Personal Finance
- Commentary
- Education

My Account

- Manage Account
- Update Profile
- Subscriptions
- Preferences
- Login/Password Help
- Upgrade to Premium

Resources

- Help
- FAQs
- Disclosure
- Privacy Policy
- Performance
- Site Map

Client Support

- Contact Us
- Share Feedback
- About Zacks
- Careers
- Advertise
- Media

Follow Us

- Facebook
- Twitter
- Linkedin
- RSS
- You Tube

Zacks Research is Reported On:



Zacks Investment Research is an A+ Rated BBB Accredited Business.



Copyright 2013 Zacks Investment Research

At the center of everything we do is a strong commitment to independent research and sharing its profitable discoveries with investors. This dedication to giving investors a trading advantage led to the creation of our proven Zacks Rank stock-rating system. Since 1986 it has nearly tripled the S&P 500 with an average gain of +26% per year. These returns cover a period from 1986-2011 and were examined and attested by Baker Tilly, an independent accounting firm.

Visit performance for information about the performance numbers displayed above.

NYSE and AMEX data is at least 20 minutes delayed. NASDAQ data is at least 15 minutes delayed.

Subscribe Free Trial Sign In

Get Quote or Search Keyword

Sub



Do you own the RIGHT STOCKS? **ANALYZE ANY STOCK FREE!**

Home Stocks Funds Earnings Screening Finance Portfolio Education Video Services

QUOTES

- Overview Quote
- Real Time Quotes
- Option Chain
- Options Greek Montage

NEWS

- Zacks Commentary
- Company News

ESTIMATES

- Detailed Estimates

CHART

- Comparative
- Interactive Chart
- Price and Consensus
- 12 month EPS
- Price & EPS Surprise
- Broker Recommendations
- Fundamental Charts

RESEARCH

- Full Company Report
- Zacks Equity Research
- Earnings Announcements
- Brokerage Reports
- Comparison to Industry
- Insiders
- Brokerage Recommendations
- Annual Report

FINANCIALS

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

Zacks Community
 Peopleandpicks.com
 Community Rating

How do you rate AWR?

Find out what the Zacks Community thinks of AWR at PeopleAndPicks.com

American Sts Wtr Co: (NYSE: AWR)

ZACKS RANK: 3-HOLD

\$51.16 0.41 (0.81%) **VOLUME 23,119** **JAN 22 11:56 AM ET**

Full Company Report

Get Full Company Report for:

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

GENERAL INFORMATION

AMER STATES WTR
 630 E FOOTHILL BLVD
 SAN DIMAS, CA 91773-9016
 Phone: 9093943600
 Fax: 909-394-1382
 Web: http://www.aswater.com
 Email: investorinfo@aswater.com

Industry	UTIL-WATER SPLY
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/2012
Next EPS Date	03/11/2013

Do you own the RIGHT STOCKS? **ANALYZE ANY STOCK FREE!**

PRICE AND VOLUME INFORMATION

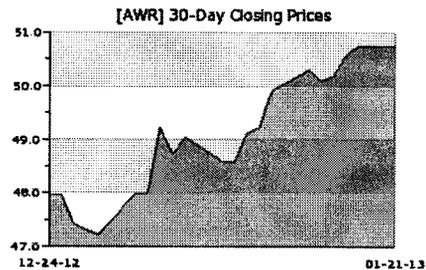
Zacks Rank	
Yesterday's Close	50.75
52 Week High	51.20
52 Week Low	34.90
Beta	0.34
20 Day Moving Average	76,924.05
Target Price Consensus	44.00

% Price Change

4 Week	5.80
12 Week	15.50
YTD	5.77

Share Information

Shares Outstanding (millions)	19.22
Market Capitalization (millions)	975.21
Short Ratio	6.81
Last Split Date	06/10/02



% Price Change Relative to S&P 500

4 Week	1.57
12 Week	8.74
YTD	1.52

Dividend Information

Dividend Yield	2.80%
Annual Dividend	\$1.42
Payout Ratio	0.54
Change in Payout Ratio	NA
Last Dividend Payout / Amount	11/07/2012 / \$0.35

EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.37
--	------

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	3.00
---------------------------------------	------

AdChoices

Top 12 Stocks to Buy Now

www.TopStock.com
Panel of nation's leading analysts just announced their favorite picks



Profit from the Pros

Get profitable stock picks and timely market advice in Zacks.com's Free Daily Newsletter!

Free Registration
View the Archive

Current Year EPS Consensus Estimate	Subscribe	2886	30 Days Ago	3.00
Estimated Long-Term EPS Growth Rate		6.00	60 Days Ago	2.71
Next EPS Report Date		03/11/2013	90 Days Ago	2.71

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	18.74	vs. Previous Year	16.87%	vs. Previous Year	11.36%
Trailing 12 Months	19.22	vs. Previous Quarter	22.78%	vs. Previous Quarter	16.81%
PEG Ratio	3.12				
Price Ratios		ROE		ROA	
Price/Book	2.14	12-31-12	NA	12-31-12	NA
Price/Cash Flow	11.83	09-30-12	11.90	09-30-12	4.02
Price / Sales	2.17	06-30-12	11.48	06-30-12	3.85
Current Ratio		Quick Ratio		Operating Margin	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	1.71	09-30-12	1.65	09-30-12	11.24
06-30-12	1.77	06-30-12	1.72	06-30-12	10.80
Net Margin		Pre-Tax Margin		Book Value	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	11.24	09-30-12	18.89	09-30-12	23.72
06-30-12	10.89	06-30-12	18.37	06-30-12	22.64
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	21.38	09-30-12	0.77	09-30-12	43.40
06-30-12	25.88	06-30-12	0.80	06-30-12	44.44

The 9 Best Stocks to Own Now

These stock picks come from a handful of the nation's best advisors -- whose recommendations have led to extraordinary profits over the years in stocks, bonds, commodities and precious metals like gold and silver. Don't pay \$99 for the names of these stocks. **Get them here for free**

Quick Links

Services

- Premium Services
- Zacks Rank
- Personal Finance
- Commentary
- Education

My Account

- Manage Account
- Update Profile
- Subscriptions
- Preferences
- Login/Password Help
- Upgrade to Premium

Resources

- Help
- FAQs
- Disclosure
- Privacy Policy
- Performance
- Site Map

Client Support

- Contact Us
- Share Feedback
- About Zacks
- Careers
- Advertise
- Media

Follow Us

- Facebook
- Twitter
- LinkedIn
- RSS
- You Tube

Zacks Research is Reported On:



Zacks Investment Research is an A+ Rated BBB Accredited Business.



Copyright 2013 Zacks Investment Research

At the center of everything we do is a strong commitment to independent research and sharing its profitable discoveries with investors. This dedication to giving investors a trading advantage led to the creation of our proven Zacks Rank stock-rating system. Since 1986 it has nearly tripled the S&P 500 with an average gain of +26% per year. These returns cover a period from 1986-2011 and were examined and attested by Baker Tilly, an independent accounting firm.

Visit performance for information about the performance numbers displayed above.

NYSE and AMEX data is at least 20 minutes delayed. NASDAQ data is at least 15 minutes delayed.

Subscribe Free Trial Sign In

Sub



Do you own the RIGHT STOCKS? **ANALYZE ANY STOCK FREE**

Home Stocks Funds Earnings Screening Finance Portfolio Education Video Services

- QUOTES
 - Overview Quote
 - Real Time Quotes
 - Option Chain
 - Options Greek Montage
- NEWS
 - Zacks Commentary
 - Company News
- ESTIMATES
 - Detailed Estimates
- CHART
 - Comparative
 - Interactive Chart
 - Price and Consensus
 - 12 month EPS
 - Price & EPS Surprise
 - Broker Recommendations
 - Fundamental Charts
- RESEARCH
 - Full Company Report
 - Zacks Equity Research
 - Earnings Announcements
 - Brokerage Reports
 - Comparison to Industry
 - Insiders
 - Brokerage Recommendations
 - Annual Report
- FINANCIALS
 - Financial Overview
 - Income Statements
 - Balance Sheet
 - Cash flow Statements

Zacks Community
 Peopleandpicks.com
 Community Rating

How do you rate CWT?

Find out what the Zacks Community thinks of CWT at PeopleAndPicks.com

California Wtr Svc Group: (NYSE: CWT) ZACKS RANK: 1-STRONG BUY
\$19.30 0.14 (0.73%) **VOLUME 130,256** **JAN 22 11:58 AM ET**

Full Company Report Get Full Company Report for:

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

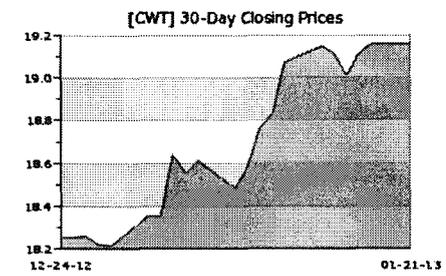
CALIF WATER SVC
 1720 N FIRST ST C/O CALIFORNIA WATER SERVICE CO
 SAN JOSE, CA 95112
 Phone: 408-367-8200
 Fax: 831-427-9185
 Web: <http://www.calwatergroup.com>
 Email: NA

Industry	UTIL-WATER SPLY
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/2012
Next EPS Date	03/06/2013

THIS LITTLE SHOP IS PUTTING CHINA OUT OF BUSINESS...
 Click here to see what's inside
BROUGHT TO YOU BY THE MOTLEY FOOL

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	19.16
52 Week High	19.49
52 Week Low	16.84
Beta	0.27
20 Day Moving Average	149,734.09
Target Price Consensus	20.00



% Price Change

4 Week	4.99
12 Week	3.96
YTD	4.41

% Price Change Relative to S&P 500

4 Week	0.80
12 Week	-1.22
YTD	0.21

Share Information

Shares Outstanding (millions)	41.90
Market Capitalization (millions)	802.90
Short Ratio	7.24
Last Split Date	06/13/11

Dividend Information

Dividend Yield	3.29%
Annual Dividend	\$0.63
Payout Ratio	0.59
Change in Payout Ratio	NA
Last Dividend Payout / Amount	11/07/2012 / \$0.16

EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.09
--	------

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	2.38
---------------------------------------	------

AdChoices 

Top 12 Stocks to Buy Now

www.TopStock...
Panel of nation's leading analysts just announced their favorite picks



Profit from the Pros

Get profitable stock picks and timely market advice in Zacks.com's Free Daily Newsletter!

Free Registration
View the Archive

Current Year EPS Consensus Estimate	Subscribe	03/06/2013	Get Quote or Search Keyword	2.38
Estimated Long-Term EPS Growth Rate	5.00	60 Days Ago		2.57
Next EPS Report Date	03/06/2013	90 Days Ago		2.38

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	18.60	vs. Previous Year	42.00%	vs. Previous Year	5.25%
Trailing 12 Months	18.08	vs. Previous Quarter	129.03%	vs. Previous Quarter	24.08%
PEG Ratio	3.72				
Price Ratios		ROE		ROA	
Price/Book	1.69	12-31-12	NA	12-31-12	NA
Price/Cash Flow	9.16	09-30-12	9.84	09-30-12	2.35
Price / Sales	1.48	06-30-12	7.99	06-30-12	1.93
Current Ratio		Quick Ratio		Operating Margin	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	0.79	09-30-12	0.76	09-30-12	8.27
06-30-12	0.64	06-30-12	0.61	06-30-12	6.75
Net Margin		Pre-Tax Margin		Book Value	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	8.44	09-30-12	13.11	09-30-12	11.33
06-30-12	6.92	06-30-12	11.36	06-30-12	10.77
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	39.18	09-30-12	1.01	09-30-12	50.24
06-30-12	38.78	06-30-12	1.06	06-30-12	51.53

#1 Stock to Buy Right Now

www.DailyTradeAlert.com

Here's a recommendation that several top analysts agree on



AdChoices 

Quick Links

Services

- Premium Services
- Zacks Rank
- Personal Finance
- Commentary
- Education

My Account

- Manage Account
- Update Profile
- Subscriptions
- Preferences
- Login/Password Help
- Upgrade to Premium

Resources

- Help
- FAQs
- Disclosure
- Privacy Policy
- Performance
- Site Map

Client Support

- Contact Us
- Share Feedback
- About Zacks
- Careers
- Advertise
- Media

Follow Us

- Facebook
- Twitter
- Linkedin
- RSS
- You Tube

Zacks Research is Reported On:



Zacks Investment Research is an A+ Rated BBB Accredited Business.



Copyright 2013 Zacks Investment Research

At the center of everything we do is a strong commitment to independent research and sharing its profitable discoveries with investors. This dedication to giving investors a trading advantage led to the creation of our proven Zacks Rank stock-rating system. Since 1986 it has nearly tripled the S&P 500 with an average gain of +26% per year. These returns cover a period from 1986-2011 and were examined and attested by Baker Tilly, an independent accounting firm.

Visit performance for information about the performance numbers displayed above.

NYSE and AMEX data is at least 20 minutes delayed. NASDAQ data is at least 15 minutes delayed.

Subscribe Free Trial Sign In Sub



AN EASY-TO-USE OPTIONS PLATFORM BUILT FOR YOU
optionsXPRESS
Options

Home Stocks Funds Earnings Screening Finance Portfolio Education Video Services

- QUOTES
 - Overview Quote
 - Real Time Quotes
 - Option Chain
 - Options Greek Montage
- NEWS
 - Zacks Commentary
 - Company News
- ESTIMATES
 - Detailed Estimates
- CHART
 - Comparative
 - Interactive Chart
 - Price and Consensus
 - 12 month EPS
 - Price & EPS Surprise
 - Broker Recommendations
 - Fundamental Charts
- RESEARCH
 - Full Company Report
 - Zacks Equity Research
 - Earnings Announcements
 - Brokerage Reports
 - Comparison to Industry
 - Insiders
 - Brokerage Recommendations
 - Annual Report
- FINANCIALS
 - Financial Overview
 - Income Statements
 - Balance Sheet
 - Cash flow Statements

Middlesex Water Co: (NASD: MSEX) ZACKS RANK: 3-HOLD
\$19.37 0.09 (0.46%) **VOLUME 8,015** **JAN 22 11:57 AM ET**

Full Company Report Get Full Company Report for:

Middlesex Water Company treats, stores and distributes water for residential, commercial, industrial and fire prevention purposes.

GENERAL INFORMATION

MIDDLESEX WATER
 1500 RONSON RD P O BOX 1500
 ISELIN, NJ 08830
 Phone: 7326341500
 Fax: 732-638-7515
 Web: <http://www.middlesexwater.com>
 Email: bsohler@middlesexwater.com

Industry	UTIL-WATER SPLY
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/2012
Next EPS Date	03/07/2013

SCHWAB TRADING SPECIALISTS
 ARE AVAILABLE 24/7:

talk strategy and decision support
 get the most out of StreetSmart Edge™

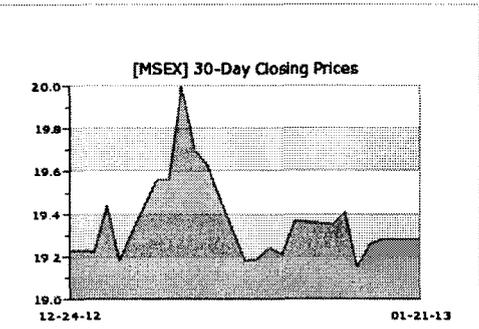
8.95 PLUS UP TO 1% IN
 OR COMMISSION FREE TRADES
 LEARN MORE

OPEN AN ACCOUNT

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	19.28
52 Week High	20.06
52 Week Low	17.48
Beta	0.48
20 Day Moving Average	27,488.60
Target Price Consensus	20.50

% Price Change	
4 Week	0.26
12 Week	0.42
YTD	-1.43



% Price Change Relative to S&P 500

4 Week	-3.74
12 Week	-4.59
YTD	-5.40

Share Information

Shares Outstanding (millions)	15.76
Market Capitalization (millions)	303.76
Short Ratio	15.41
Last Split Date	11/17/03

Dividend Information

Dividend Yield	3.89%
Annual Dividend	\$0.75
Payout Ratio	0.88
Change in Payout Ratio	NA
Last Dividend Payout / Amount	11/13/2012 / \$0.19

EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.19
Current Year EPS Consensus Estimate	0.92

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	2.33
30 Days Ago	2.33

AdChoices

Top 12 Stocks to Buy Now
www.TopStock.com
 Panel of nation's leading analysts just announced their favorite picks

Profit from the Pros

Get profitable stock picks and timely market advice in Zacks.com's Free Daily Newsletter!

Free Registration

[View the Archive](#)

Estimated Long-Term EPS Growth Rate [Subscribe](#) [File](#) [Tri](#) [80 Days Ago](#) [Get Quote or Search Keyword](#) **2.33**
 Next EPS Report Date **03/07/2013** [90 Days Ago](#) **2.33** [Sub](#)

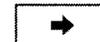
FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	17.96	vs. Previous Year	18.75%	vs. Previous Year	12.84%
Trailing 12 Months	22.95	vs. Previous Quarter	65.22%	vs. Previous Quarter	18.07%
PEG Ratio	NA				
Price Ratios		ROE		ROA	
Price/Book	1.67	12-31-12	NA	12-31-12	NA
Price/Cash Flow	12.63	09-30-12	7.67	09-30-12	2.52
Price / Sales	2.85	06-30-12	7.18	06-30-12	2.39
Current Ratio		Quick Ratio		Operating Margin	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	0.51	09-30-12	0.48	09-30-12	12.82
06-30-12	0.48	06-30-12	0.44	06-30-12	12.36
Net Margin		Pre-Tax Margin		Book Value	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	12.87	09-30-12	19.38	09-30-12	11.53
06-30-12	12.36	06-30-12	18.66	06-30-12	11.31
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	31.22	09-30-12	0.73	09-30-12	41.75
06-30-12	28.62	06-30-12	0.76	06-30-12	42.72

12% Yield Stocks to Buy

www.GlobalDividends.com

These stocks yield 12%, yet most US investors don't know they exist.



[AdChoices](#)

Quick Links

Services

- [Premium Services](#)
- [Zacks Rank](#)
- [Personal Finance](#)
- [Commentary](#)
- [Education](#)

My Account

- [Manage Account](#)
- [Update Profile](#)
- [Subscriptions](#)
- [Preferences](#)
- [Login/Password Help](#)
- [Upgrade to Premium](#)

Resources

- [Help](#)
- [FAQs](#)
- [Disclosure](#)
- [Privacy Policy](#)
- [Performance](#)
- [Site Map](#)

Client Support

- [Contact Us](#)
- [Share Feedback](#)
- [About Zacks](#)
- [Careers](#)
- [Advertise](#)
- [Media](#)

Follow Us

- [Facebook](#)
- [Twitter](#)
- [LinkedIn](#)
- [RSS](#)
- [You Tube](#)

Zacks Research is Reported On:



Zacks Investment Research is an A+ Rated BBB Accredited Business.



Copyright 2013 Zacks Investment Research

At the center of everything we do is a strong commitment to independent research and sharing its profitable discoveries with investors. This dedication to giving investors a trading advantage led to the creation of our proven Zacks Rank stock-rating system. Since 1986 it has nearly tripled the S&P 500 with an average gain of +26% per year. These returns cover a period from 1986-2011 and were examined and attested by Baker Tilly, an independent accounting firm.

Visit [performance](#) for information about the performance numbers displayed above.

NYSE and AMEX data is at least 20 minutes delayed. NASDAQ data is at least 15 minutes delayed.

Subscribe Free Trial Sign In

Sub



Do you own the RIGHT STOCKS? **ANALYZE ANY STOCK FREE**

Home Stocks Funds Earnings Screening Finance Portfolio Education Video Services

QUOTES

- Overview Quote
- Real Time Quotes
- Option Chain
- Options Greek Montage

NEWS

- Zacks Commentary
- Company News

ESTIMATES

- Detailed Estimates

CHART

- Comparative
- Interactive Chart
- Price and Consensus
- 12 month EPS
- Price & EPS Surprise
- Broker Recommendations
- Fundamental Charts

RESEARCH

- Full Company Report
- Zacks Equity Research
- Earnings Announcements
- Brokerage Reports
- Comparison to Industry
- Insiders
- Brokerage Recommendations
- Annual Report

FINANCIALS

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

AdChoices

Top 12 Stocks to Buy Now

www.TopStock..
Panel of nation's leading analysts just announced their favorite picks



Profit from the Pros

Get profitable stock picks and timely market advice in Zacks.com's Free Daily Newsletter!
Free Registration

Sjw Corp: (NYSE: SJW)

\$26.24 0.34 (1.31%) **VOLUME 12,469** **JAN 22 11:57 AM ET**

ZACKS RANK: 4-SELL

Full Company Report

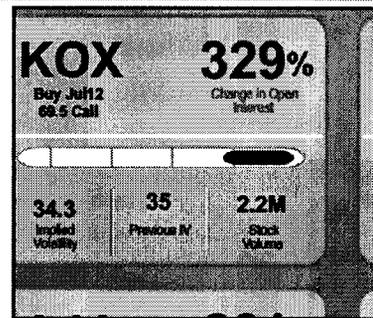
Get Full Company Report for:

SJW CORP. is a holding company which operates through its wholly-owned subsidiaries, San Jose Water Co., SJW Land Co., and Western Precision, Inc. San Jose Water Co., is a public utility in the business of providing water service to a population of approximately 928,000 people. Their service area encompasses about 134 sq. miles in the metropolitan San Juan area. SJW Land Co. operates parking facilities located adjacent to the their headquarters and the San Jose area.

GENERAL INFORMATION

SJW CORP
110 W. TAYLOR STREET
SAN JOSE, CA 95110
Phone: 4082797800
Fax: 4082797917
Web: <http://www.sjwater.com/>
Email: boardofdirectors@sjwater.com

Industry	UTIL-WATER SPLY
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/2012
Next EPS Date	02/19/2013



PRICE AND VOLUME INFORMATION

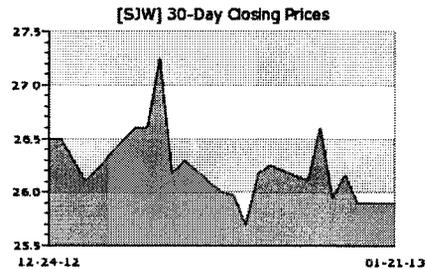
Zacks Rank	
Yesterday's Close	25.90
52 Week High	27.60
52 Week Low	22.56
Beta	0.61
20 Day Moving Average	23,450.85
Target Price Consensus	27.25

% Price Change

4 Week	-2.23
12 Week	7.69
YTD	-2.63

Share Information

Shares Outstanding (millions)	18.65
Market Capitalization (millions)	483.14
Short Ratio	14.25
Last Split Date	03/17/06



% Price Change Relative to S&P 500

4 Week	-6.13
12 Week	2.33
YTD	-6.55

Dividend Information

Dividend Yield	2.74%
Annual Dividend	\$0.71
Payout Ratio	0.68
Change in Payout Ratio	NA
Last Dividend Payout / Amount	11/01/2012 / \$0.18

EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.18
--	------

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	1.50
---------------------------------------	------

[View the Archive](#)

Current Year EPS Consensus Estimate	Subscribe	1.50	30 Days Ago	1.50
Estimated Long-Term EPS Growth Rate	NA		60 Days Ago	1.50
Next EPS Report Date	02/19/2013		90 Days Ago	1.50

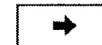
FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	19.36	vs. Previous Year	20.45%	vs. Previous Year	11.45%
Trailing 12 Months	24.90	vs. Previous Quarter	89.29%	vs. Previous Quarter	25.62%
PEG Ratio	NA				
Price Ratios		ROE		ROA	
Price/Book	1.78	12-31-12	NA	12-31-12	NA
Price/Cash Flow	9.59	09-30-12	7.40	09-30-12	1.87
Price / Sales	1.85	06-30-12	6.77	06-30-12	1.71
Current Ratio		Quick Ratio		Operating Margin	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	1.22	09-30-12	1.20	09-30-12	7.52
06-30-12	1.27	06-30-12	1.25	06-30-12	7.03
Net Margin		Pre-Tax Margin		Book Value	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	8.80	09-30-12	14.98	09-30-12	14.58
06-30-12	8.35	06-30-12	14.15	06-30-12	14.20
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	116.20	09-30-12	1.24	09-30-12	55.28
06-30-12	112.74	06-30-12	1.27	06-30-12	55.96

12% Yield Stocks to Buy

www.GlobalDividends.com

These stocks yield 12%, yet most US investors don't know they exist.



AdChoices

Quick Links

Services

- Premium Services
- Zacks Rank
- Personal Finance
- Commentary
- Education

My Account

- Manage Account
- Update Profile
- Subscriptions
- Preferences
- Login/Password Help
- Upgrade to Premium

Resources

- Help
- FAQs
- Disclosure
- Privacy Policy
- Performance
- Site Map

Client Support

- Contact Us
- Share Feedback
- About Zacks
- Careers
- Advertise
- Media

Follow Us

- Facebook
- Twitter
- LinkedIn
- RSS
- You Tube

Zacks Research Is Reported On:



Zacks Investment Research is an A+ Rated BBB Accredited Business.



Copyright 2013 Zacks Investment Research

At the center of everything we do is a strong commitment to independent research and sharing its profitable discoveries with investors. This dedication to giving investors a trading advantage led to the creation of our proven Zacks Rank stock-rating system. Since 1986 it has nearly tripled the S&P 500 with an average gain of +26% per year. These returns cover a period from 1986-2011 and were examined and attested by Baker Tilly, an independent accounting firm.

Visit [performance](#) for information about the performance numbers displayed above.

NYSE and AMEX data is at least 20 minutes delayed. NASDAQ data is at least 15 minutes delayed.

Subscribe Free Trial Sign In

Get Quote or Search Keyword

Sub



Home Stocks Funds Earnings Screening Finance Portfolio Education Video Services

- QUOTES
 - Overview Quote
 - Real Time Quotes
 - Option Chain
 - Options Greek Montage
- NEWS
 - Zacks Commentary
 - Company News
- ESTIMATES
 - Detailed Estimates
- CHART
 - Comparative
 - Interactive Chart
 - Price and Consensus
 - 12 month EPS
 - Price & EPS Surprise
 - Broker Recommendations
 - Fundamental Charts
- RESEARCH
 - Full Company Report
 - Zacks Equity Research
 - Earnings Announcements
 - Brokerage Reports
 - Comparison to Industry
 - Insiders
 - Brokerage Recommendations
 - Annual Report
- FINANCIALS
 - Financial Overview
 - Income Statements
 - Balance Sheet
 - Cash flow Statements

Zacks Community
 Peopleandpicks.com
 Community Rating

How do you rate WTR?

Find out what the Zacks Community thinks of WTR at PeopleAndPicks.com

Aqua America Inc: (NYSE: WTR) ZACKS RANK: 1-STRONG BUY
\$27.06 **0.19 (0.71%)** **VOLUME 220,096** **JAN 22 12:02 PM ET**

Full Company Report Get Full Company Report for:

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

GENERAL INFORMATION

AQUA AMER INC
 762 W. LANCASTER AVE
 BRYN MAWR, PA 19010-3489
 Phone: 2155278000
 Fax: 610-645-1061
 Web: <http://www.aquaamerica.com>
 Email: NA

Industry	UTIL-WATER SPLY
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/2012
Next EPS Date	03/04/2013

Do you own the RIGHT STOCKS?

ANALYZE ANY STOCK FREE!

PRICE AND VOLUME INFORMATION

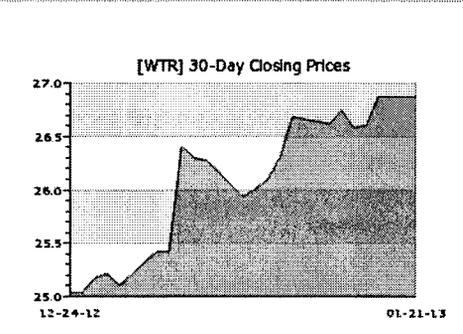
Zacks Rank	
Yesterday's Close	26.87
52 Week High	27.08
52 Week Low	21.43
Beta	0.19
20 Day Moving Average	643,485.13
Target Price Consensus	26.86

% Price Change

4 Week	7.31
12 Week	6.42
YTD	5.70

Share Information

Shares Outstanding (millions)	139.94
Market Capitalization (millions)	3,760.22
Short Ratio	7.99
Last Split Date	12/02/05



% Price Change Relative to S&P 500

4 Week	3.02
12 Week	1.11
YTD	1.45

Dividend Information

Dividend Yield	2.61%
Annual Dividend	\$0.70
Payout Ratio	0.62
Change in Payout Ratio	NA
Last Dividend Payout / Amount	11/14/2012 / \$0.17

EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.24
--	------

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	2.46
---------------------------------------	------

AdChoices 

Top 12 Stocks to Buy Now

www.TopStock...
Panel of nation's leading analysts just announced their favorite picks



Profit from the Pros

Get profitable stock picks and timely market advice in Zacks.com's Free Daily Newsletter!

Free Registration
View the Archive

Current Year EPS Consensus Estimate	Subscribe	1600e	30 Days Ago	Get Quote or Search Keyword	2.48
Estimated Long-Term EPS Growth Rate		6.90	60 Days Ago		2.46
Next EPS Report Date		03/04/2013	90 Days Ago		2.54

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	22.52	vs. Previous Year	20.00%	vs. Previous Year	8.74%
Trailing 12 Months	25.35	vs. Previous Quarter	20.00%	vs. Previous Quarter	8.25%
PEG Ratio	3.28				
Price Ratios		ROE		ROA	
Price/Book	2.86	12-31-12	NA	12-31-12	NA
Price/Cash Flow	15.39	09-30-12	11.59	09-30-12	3.39
Price / Sales	4.98	06-30-12	11.17	06-30-12	3.25
Current Ratio		Quick Ratio		Operating Margin	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	0.73	09-30-12	0.69	09-30-12	19.71
06-30-12	0.69	06-30-12	0.64	06-30-12	19.07
Net Margin		Pre-Tax Margin		Book Value	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	21.70	09-30-12	32.65	09-30-12	9.41
06-30-12	20.92	06-30-12	31.56	06-30-12	9.37
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	24.36	09-30-12	1.16	09-30-12	53.61
06-30-12	24.24	06-30-12	1.20	06-30-12	54.65

#1 Stock to Buy Right Now

www.DailyTradeAlert.com

Here's a recommendation that several top analysts agree on



AdChoices 

Quick Links

Services

- Premium Services
- Zacks Rank
- Personal Finance
- Commentary
- Education

My Account

- Manage Account
- Update Profile
- Subscriptions
- Preferences
- Login/Password Help
- Upgrade to Premium

Resources

- Help
- FAQs
- Disclosure
- Privacy Policy
- Performance
- Site Map

Client Support

- Contact Us
- Share Feedback
- About Zacks
- Careers
- Advertise
- Media

Follow Us

- Facebook
- Twitter
- Linkedin
- RSS
- You Tube

Zacks Research Is Reported On:



Zacks Investment Research is an A+ Rated BBB Accredited Business.



Copyright 2013 Zacks Investment Research

At the center of everything we do is a strong commitment to independent research and sharing its profitable discoveries with investors. This dedication to giving investors a trading advantage led to the creation of our proven Zacks Rank stock-rating system. Since 1986 it has nearly tripled the S&P 500 with an average gain of +26% per year. These returns cover a period from 1986-2011 and were examined and attested by Baker Tilly, an independent accounting firm.

Visit performance for information about the performance numbers displayed above.

NYSE and AMEX data is at least 20 minutes delayed. NASDAQ data is at least 15 minutes delayed.

Subscribe Free Trial Sign In

Get Quote or Search Keyword

Sub



AN EASY-TO-USE OPTIONS PLATFORM BUILT

optionsXpress
*charismatic

Home Stocks Funds Earnings Screening Finance Portfolio Education Video Services

QUOTES

- Overview Quote
- Real Time Quotes
- Option Chain
- Options Greek Montage

NEWS

- Zacks Commentary
- Company News

ESTIMATES

- Detailed Estimates

CHART

- Comparative
- Interactive Chart
- Price and Consensus
- 12 month EPS
- Price & EPS Surprise
- Broker Recommendations
- Fundamental Charts

RESEARCH

- Full Company Report
- Zacks Equity Research
- Earnings Announcements
- Brokerage Reports
- Comparison to Industry
- Insiders
- Brokerage Recommendations
- Annual Report

FINANCIALS

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

Zacks Community
Peopleandpicks.com
Community Rating

How do you rate GAS?

BUY SELL

Find out what the Zacks Community thinks of GAS at PeopleAndPicks.com

AgI Resources Inc: (NYSE: GAS)

ZACKS RANK: 3-HOLD

\$41.34 0.18 (0.44%) VOLUME 128,324 JAN 22 12:02 PM ET

Full Company Report

Get Full Company Report for: Enter Symbol GO

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: 404-584-3714
Web: http://www.aglresources.com
Email: sstashak@aglresources.com

Industry	UTIL-GAS DISTR
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/2012
Next EPS Date	02/06/2013

SAY GOODBYE TO "MADE-IN-CHINA"

And say hello to the technology that's launching a 21st century industrial revolution right here in America.
Business Insider calls it "the next trillion dollar industry." *The Economist* compares its impact to the steam engine and the printing press. And technology experts — like the guys who brought you the BMW 3-series, the F-35 fighter jet, and Amazon.com — think it could be "bigger than the internet."
A new investment video reveals the impossible (but real) technology that could make you impossibly rich. Watch it now, before the sleepies on Wall Street wile up and start looking for their piece of the action.
Say hello to the future. Click here...
BROUGHT TO YOU BY THE MOTLEY FOOL

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	41.16
52 Week High	42.34
52 Week Low	36.59
Beta	0.41
20 Day Moving Average	357,076.41
Target Price Consensus	41.40

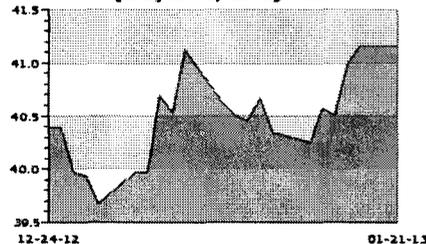
% Price Change

4 Week	1.91
12 Week	2.18
YTD	2.98

Share Information

Shares Outstanding (millions)	117.78
Market Capitalization (millions)	4,947.91
Short Ratio	2.92
Last Split Date	12/04/95

[GAS] 30-Day Closing Prices



% Price Change Relative to S&P 500

4 Week	-2.16
12 Week	-2.91
YTD	-1.17

Dividend Information

Dividend Yield	4.47%
Annual Dividend	\$1.84
Payout Ratio	0.76
Change in Payout Ratio	NA
Last Dividend Payout / Amount	11/14/2012 / \$0.46

EPS INFORMATION

Current Quarter EPS Consensus Estimate	1.07
--	------

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	2.57
---------------------------------------	------

AdChoices

#1 Stock to Buy Right Now
www.DailyTrade...

Here's a recommendation that several top analysts agree on



Profit from the Pros

Get profitable stock picks and timely market advice in Zacks.com's Free Daily Newsletter!

Free Registration
View the Archive

Current Year EPS Consensus Estimate	Subscribe	2.57	30 Days Ago	2.57
Estimated Long-Term EPS Growth Rate	4.40		60 Days Ago	2.57
Next EPS Report Date	02/06/2013		90 Days Ago	2.57

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	13.73	vs. Previous Year	350.00%	vs. Previous Year	108.14%
Trailing 12 Months	17.01	vs. Previous Quarter	-70.00%	vs. Previous Quarter	-10.50%
PEG Ratio	3.12				
Price Ratios		ROE		ROA	
Price/Book	1.42	12-31-12	NA	12-31-12	NA
Price/Cash Flow	7.74	09-30-12	7.63	09-30-12	1.82
Price / Sales	1.38	06-30-12	8.31	06-30-12	2.09
Current Ratio		Quick Ratio		Operating Margin	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	0.77	09-30-12	0.49	09-30-12	7.42
06-30-12	0.76	06-30-12	0.54	06-30-12	7.90
Net Margin		Pre-Tax Margin		Book Value	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	5.90	09-30-12	10.48	09-30-12	28.92
06-30-12	6.11	06-30-12	10.87	06-30-12	29.23
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	3.76	09-30-12	0.98	09-30-12	49.49
06-30-12	3.63	06-30-12	0.97	06-30-12	49.30



Quick Links

Services

- Premium Services
- Zacks Rank
- Personal Finance
- Commentary
- Education

My Account

- Manage Account
- Update Profile
- Subscriptions
- Preferences
- Login/Password Help
- Upgrade to Premium

Resources

- Help
- FAQs
- Disclosure
- Privacy Policy
- Performance
- Site Map

Client Support

- Contact Us
- Share Feedback
- About Zacks
- Careers
- Advertise
- Media

Follow Us

- Facebook
- Twitter
- LinkedIn
- RSS
- You Tube

Zacks Research is Reported On:



Zacks Investment Research is an A+ Rated BBB Accredited Business.



Copyright 2013 Zacks Investment Research

At the center of everything we do is a strong commitment to independent research and sharing its profitable discoveries with investors. This dedication to giving investors a trading advantage led to the creation of our proven Zacks Rank stock-rating system. Since 1986 it has nearly tripled the S&P 500 with an average gain of +26% per year. These returns cover a period from 1986-2011 and were examined and attested by Baker Tilly, an independent accounting firm.

Visit performance for information about the performance numbers displayed above.

NYSE and AMEX data is at least 20 minutes delayed. NASDAQ data is at least 15 minutes delayed.

Subscribe Free Trial Sign In

Sub



Home Stocks Funds Earnings Screening Finance Portfolio Education Video Services

- QUOTES
 - Overview Quote
 - Real Time Quotes
 - Option Chain
 - Options Greek Montage
- NEWS
 - Zacks Commentary
 - Company News
- ESTIMATES
 - Detailed Estimates
- CHART
 - Comparative
 - Interactive Chart
 - Price and Consensus
 - 12 month EPS
 - Price & EPS Surprise
 - Broker Recommendations
 - Fundamental Charts
- RESEARCH
 - Full Company Report
 - Zacks Equity Research
 - Earnings Announcements
 - Brokerage Reports
 - Comparison to Industry
 - Insiders
 - Brokerage Recommendations
 - Annual Report
- FINANCIALS
 - Financial Overview
 - Income Statements
 - Balance Sheet
 - Cash flow Statements

Atmos Energy Corp: (NYSE: ATO) ZACKS RANK: 4-SELL

\$37.51 **0.53 (1.43%)** **VOLUME 209,986** **JAN 22 12:03 PM ET**

Full Company Report Get Full Company Report for:

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.atmosenergy.com>
 Email: NA

Industry	UTIL-GAS DISTR
Sector	Utilities
Fiscal Year End	September
Last Reported Quarter	12/31/2012
Next EPS Date	02/06/2013

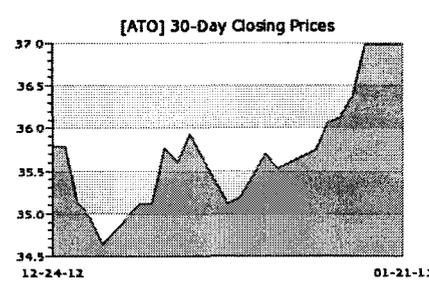
Do you own the RIGHT STOCKS?

ANALYZE ANY STOCK FREE!

BUY SELL HOLD

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	36.98
52 Week High	37.57
52 Week Low	30.39
Beta	0.45
20 Day Moving Average	364,562.41
Target Price Consensus	36.80



% Price Change

4 Week	3.35
12 Week	3.30
YTD	5.30

% Price Change Relative to S&P 500

4 Week	-0.77
12 Week	-1.85
YTD	1.06

Share Information

Shares Outstanding (millions)	90.46
Market Capitalization (millions)	3,345.28
Short Ratio	3.60
Last Split Date	05/17/94

Dividend Information

Dividend Yield	3.79%
Annual Dividend	\$1.40
Payout Ratio	0.59
Change in Payout Ratio	NA
Last Dividend Payout / Amount	11/21/2012 / \$0.35

Zacks Community
 Peopleandpicks.com

Community Rating

How do you rate ATO?

Find out what the Zacks Community thinks of ATO at PeopleAndPicks.com

AdChoices 

Top 12 Stocks to Buy Now

www.TopStock...
Panel of nation's leading analysts just announced their favorite picks



Profit from the Pros

Get profitable stock picks and timely market advice in Zacks.com's Free Daily Newsletter!

Free Registration
View the Archive

EPS INFORMATION

Subscribe Free Trial

CONSENSUS RECOMMENDATIONS

Sub

Current Quarter EPS Consensus Estimate	0.78
Current Year EPS Consensus Estimate	2.43
Estimated Long-Term EPS Growth Rate	6.00
Next EPS Report Date	02/06/2013

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

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	15.23	vs. Previous Year	133.33%	vs. Previous Year	-30.22%
Trailing 12 Months	15.74	vs. Previous Quarter	-56.25%	vs. Previous Quarter	-13.28%
PEG Ratio	2.54				
Price Ratios		ROE		ROA	
Price/Book	1.41	12-31-12	NA	12-31-12	NA
Price/Cash Flow	7.13	09-30-12	9.15	09-30-12	2.86
Price / Sales	0.97	06-30-12	8.97	06-30-12	2.80
Current Ratio		Quick Ratio		Operating Margin	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	0.65	09-30-12	0.45	09-30-12	6.22
06-30-12	0.70	06-30-12	0.48	06-30-12	5.66
Net Margin		Pre-Tax Margin		Book Value	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	6.30	09-30-12	8.45	09-30-12	26.16
06-30-12	5.76	06-30-12	8.52	06-30-12	26.16
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	9.85	09-30-12	0.83	09-30-12	45.33
06-30-12	10.35	06-30-12	0.83	06-30-12	45.38

Dividend Top Dogs 2013

www.dividendsandincomedaily.com

These Top 10 Dividend Payers Will Smash the Competition to Pieces!



AdChoices 

Quick Links

Services

- Premium Services
- Zacks Rank
- Personal Finance
- Commentary
- Education

My Account

- Manage Account
- Update Profile
- Subscriptions
- Preferences
- Login/Password Help
- Upgrade to Premium

Resources

- Help
- FAQs
- Disclosure
- Privacy Policy
- Performance
- Site Map

Client Support

- Contact Us
- Share Feedback
- About Zacks
- Careers
- Advertise
- Media

Follow Us

- Facebook
- Twitter
- Linkedin
- RSS
- You Tube

Zacks Research is Reported On:



Zacks Investment Research is an A+ Rated BBB Accredited Business.



Copyright 2013 Zacks Investment Research

At the center of everything we do is a strong commitment to independent research and sharing its profitable discoveries with investors. This dedication to giving investors a trading advantage led to the creation of our proven Zacks Rank stock-rating system. Since 1986 it has nearly tripled the S&P 500 with an average gain of +26% per year. These returns cover a period from 1986-2011 and were examined and attested by Baker Tilly, an independent accounting firm.

Visit performance for information about the performance numbers displayed above.

NYSE and AMEX data is at least 20 minutes delayed. NASDAQ data is at least 15 minutes delayed. [Subscribe](#) [Free Trial](#) [Sign In](#)

Sub

Subscribe Free Trial Sign In

Get Quote or Search Keyword

Sub



ANALYZE ANY STOCK
FREE!

DO YOU OWN THE
RIGHT
STOCKS?



Home Stocks Funds Earnings Screening Finance Portfolio Education Video Services

QUOTES

- Overview Quote
- Real Time Quotes
- Option Chain
- Options Greek Montage

NEWS

- Zacks Commentary
- Company News

ESTIMATES

- Detailed Estimates

CHART

- Comparative
- Interactive Chart
- Price and Consensus
- 12 month EPS
- Price & EPS Surprise
- Broker Recommendations
- Fundamental Charts

RESEARCH

- Full Company Report
- Zacks Equity Research
- Earnings Announcements
- Brokerage Reports
- Comparison to Industry
- Insiders
- Brokerage Recommendations
- Annual Report

FINANCIALS

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

Zacks Community
Peopleandpicks.com
Community Rating

How do you rate LG?

BUY SELL

Find out what the Zacks Community thinks of LG at PeopleAndPicks.com

Laclede Group Inc: (NYSE: LG)

ZACKS RANK: 3-HOLD

\$39.22 0.22 (0.56%) VOLUME 16,672 JAN 22 11:57 AM ET

Full Company Report

Get Full Company Report for: Enter Symbol

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: 3144211979
Web: <http://www.thelacledegroup.com>
Email: mkullman@lacledegas.com

Industry	UTIL-GAS DISTR
Sector	Utilities
Fiscal Year End	September
Last Reported Quarter	12/31/2012
Next EPS Date	02/05/2013

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	39.00
52 Week High	44.04
52 Week Low	36.53
Beta	0.06
20 Day Moving Average	107,995.35
Target Price Consensus	42.50

% Price Change

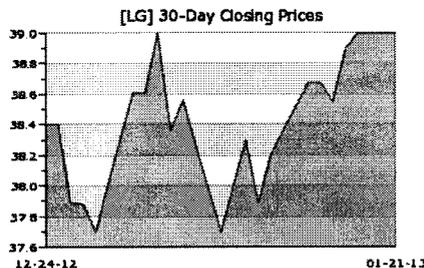
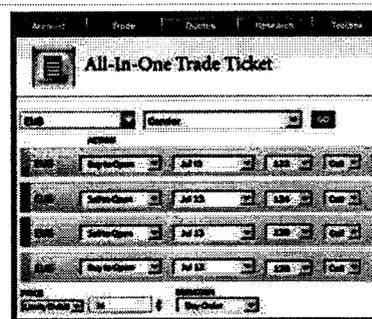
4 Week	1.56
12 Week	-6.45
YTD	1.01

Share Information

Shares Outstanding (millions)	22.53
Market Capitalization (millions)	878.55
Short Ratio	11.31
Last Split Date	03/08/94

EPS INFORMATION

Current Quarter EPS Consensus Estimate	1.09
--	------



% Price Change Relative to S&P 500

4 Week	-2.49
12 Week	-11.11
YTD	-3.05

Dividend Information

Dividend Yield	4.36%
Annual Dividend	\$1.70
Payout Ratio	0.59
Change in Payout Ratio	NA
Last Dividend Payout / Amount	12/07/2012 / \$0.43

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	3.00
---------------------------------------	------

AdChoices >

Top 12 Stocks to Buy Now

www.TopStock...
Panel of nation's leading analysts just announced their favorite picks



Profit from the Pros

Get profitable stock picks and timely market advice in Zacks.com's Free Daily Newsletter!

Free Registration
View the Archive

Current Year EPS Consensus Estimate	Subscribe	277	30 Days Ago	3.00
Estimated Long-Term EPS Growth Rate		3.00	60 Days Ago	3.00
Next EPS Report Date	02/05/2013		90 Days Ago	3.00

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	13.99	vs. Previous Year	114.29%	vs. Previous Year	-37.45%
Trailing 12 Months	13.93	vs. Previous Quarter	-95.00%	vs. Previous Quarter	-9.26%
PEG Ratio	4.66				
Price Ratios		ROE		ROA	
Price/Book	1.46	12-31-12	NA	12-31-12	NA
Price/Cash Flow	8.44	09-30-12	10.36	09-30-12	3.45
Price / Sales	0.78	06-30-12	9.89	06-30-12	3.30
Current Ratio		Quick Ratio		Operating Margin	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	1.36	09-30-12	0.94	09-30-12	5.57
06-30-12	1.46	06-30-12	1.07	06-30-12	4.81
Net Margin		Pre-Tax Margin		Book Value	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	5.57	09-30-12	7.90	09-30-12	26.73
06-30-12	4.93	06-30-12	7.09	06-30-12	27.18
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	8.28	09-30-12	0.56	09-30-12	36.07
06-30-12	8.85	06-30-12	0.56	06-30-12	35.71

The 9 Best Stocks to Own Now

These stock picks come from a handful of the nation's best advisors – whose recommendations have led to extraordinary profits over the years in stocks, bonds, commodities and precious metals like gold and silver. Don't pay \$99 for the names of these stocks. [Get them here for free](#)

Quick Links

Services

- Premium Services
- Zacks Rank
- Personal Finance
- Commentary
- Education

My Account

- Manage Account
- Update Profile
- Subscriptions
- Preferences
- Login/Password Help
- Upgrade to Premium

Resources

- Help
- FAQs
- Disclosure
- Privacy Policy
- Performance
- Site Map

Client Support

- Contact Us
- Share Feedback
- About Zacks
- Careers
- Advertise
- Media

Follow Us

- Facebook
- Twitter
- LinkedIn
- RSS
- You Tube

Zacks Research is Reported On:



Zacks Investment Research is an A+ Rated BBB Accredited Business.



Copyright 2013 Zacks Investment Research

At the center of everything we do is a strong commitment to independent research and sharing its profitable discoveries with investors. This dedication to giving investors a trading advantage led to the creation of our proven Zacks Rank stock-rating system. Since 1986 it has nearly tripled the S&P 500 with an average gain of +26% per year. These returns cover a period from 1986-2011 and were examined and attested by Baker Tilly, an independent accounting firm.

Visit performance for information about the performance numbers displayed above.

NYSE and AMEX data is at least 20 minutes delayed. NASDAQ data is at least 15 minutes delayed.

Subscribe Free Trial Sign In

Sub



ANALYZE ANY STOCK FREE! DO YOU OWN THE RIGHT STOCKS? **CLICK HERE!**

Home Stocks Funds Earnings Screening Finance Portfolio Education Video Services

- QUOTES
 - Overview Quote
 - Real Time Quotes
 - Option Chain
 - Options Greek Montage
- NEWS
 - Zacks Commentary
 - Company News
- ESTIMATES
 - Detailed Estimates
- CHART
 - Comparative
 - Interactive Chart
 - Price and Consensus
 - 12 month EPS
 - Price & EPS Surprise
 - Broker Recommendations
 - Fundamental Charts
- RESEARCH
 - Full Company Report
 - Zacks Equity Research
 - Earnings Announcements
 - Brokerage Reports
 - Comparison to Industry
 - Insiders
 - Brokerage Recommendations
 - Annual Report
- FINANCIALS
 - Financial Overview
 - Income Statements
 - Balance Sheet
 - Cash flow Statements

New Jersey Resources Corp: (NYSE: NJR) ZACKS RANK: 5-STRONG SELL

\$41.23 0.14 (0.34%) **VOLUME 44,111** JAN 22 12:02 PM ET

Full Company Report Get Full Company Report for:

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.

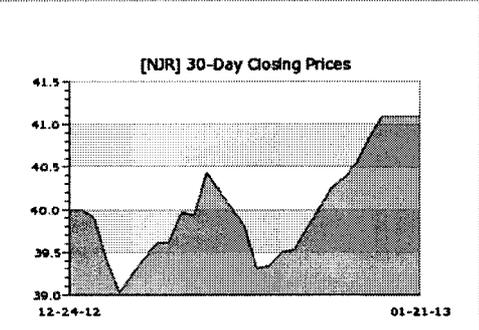
GENERAL INFORMATION

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 Reported Quarter	12/31/2012
Next EPS Date	02/05/2013

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	41.09
52 Week High	49.66
52 Week Low	38.51
Beta	0.23
20 Day Moving Average	207,356.66
Target Price Consensus	43.60



% Price Change

4 Week	2.72
12 Week	-7.87
YTD	3.71

% Price Change Relative to S&P 500

4 Week	-1.38
12 Week	-12.46
YTD	-0.46

Share Information

Shares Outstanding (millions)	41.69
Market Capitalization (millions)	1,713.00
Short Ratio	9.42
Last Split Date	03/04/08

Dividend Information

Dividend Yield	3.89%
Annual Dividend	\$1.80
Payout Ratio	0.59
Change in Payout Ratio	NA
Last Dividend Payout / Amount	12/12/2012 / \$0.40

Zacks Community
 Peopleandpicks.com
 Community Rating

How do you rate NJR?

Find out what the Zacks Community thinks of NJR at PeopleAndPicks.com

AdChoices ▶

Top 12 Stocks to Buy Now
 www.TopStock.com
 Panel of nation's leading analysts just announced their favorite picks

➔

Profit from the Pros
 Get profitable stock picks and timely market advice in Zacks.com's Free Daily Newsletter!
 Free Registration
 View the Archive

Subscribe Free Trial

EPS INFORMATION

Current Quarter EPS Consensus Estimate	1.00
Current Year EPS Consensus Estimate	2.47
Estimated Long-Term EPS Growth Rate	4.00
Next EPS Report Date	02/05/2013

FUNDAMENTAL RATIOS

P/E	EPS Growth	Sales Growth
Current FY Estimate 16.65	vs. Previous Year -1,450.00%	vs. Previous Year -15.27%
Trailing 12 Months 15.16	vs. Previous Quarter -370.00%	vs. Previous Quarter 33.72%
PEG Ratio 4.16		

Price Ratios	ROE	ROA
Price/Book 2.10	12-31-12 NA	12-31-12 NA
Price/Cash Flow 11.09	09-30-12 13.49	09-30-12 4.10
Price / Sales 0.76	06-30-12 15.08	06-30-12 4.58

Current Ratio	Quick Ratio	Operating Margin
12-31-12 NA	12-31-12 NA	12-31-12 NA
09-30-12 0.99	09-30-12 0.57	09-30-12 5.00
06-30-12 0.99	06-30-12 0.65	06-30-12 5.28

Net Margin	Pre-Tax Margin	Book Value
12-31-12 NA	12-31-12 NA	12-31-12 NA
09-30-12 4.13	09-30-12 4.00	09-30-12 19.57
06-30-12 4.00	06-30-12 3.76	06-30-12 20.12

Inventory Turnover	Debt-to-Equity	Debt to Capital
12-31-12 NA	12-31-12 NA	12-31-12 NA
09-30-12 8.22	09-30-12 0.65	09-30-12 39.22
06-30-12 8.41	06-30-12 0.51	06-30-12 33.86

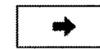
CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	3.14
30 Days Ago	3.14
60 Days Ago	3.14
90 Days Ago	3.14

Hold These Stocks Forever

www.GlobalDividends.com

The 3 best stocks for a lifetime of rich cash dividends.



AdChoices ▶

Quick Links

Services

- Premium Services
- Zacks Rank
- Personal Finance
- Commentary
- Education

My Account

- Manage Account
- Update Profile
- Subscriptions
- Preferences
- Login/Password Help
- Upgrade to Premium

Resources

- Help
- FAQs
- Disclosure
- Privacy Policy
- Performance
- Site Map

Client Support

- Contact Us
- Share Feedback
- About Zacks
- Careers
- Advertise
- Media

Follow Us

- Facebook
- Twitter
- Linkedin
- RSS
- You Tube

Zacks Research is Reported On:



Zacks Investment Research is an A+ Rated BBB Accredited Business.



Copyright 2013 Zacks Investment Research

At the center of everything we do is a strong commitment to independent research and sharing its profitable discoveries with investors. This dedication to giving investors a trading advantage led to the creation of our proven Zacks Rank stock-rating system. Since 1986 it has nearly tripled the S&P 500 with an average gain of +26% per year. These returns cover a period from 1986-2011 and were examined and attested by Baker Tilly, an independent accounting firm.

Visit performance for information about the performance numbers displayed above.

NYSE and AMEX data is at least 20 minutes delayed. NASDAQ data is at least 15 minutes delayed. [Subscribe](#) [Free Trial](#) [Sign In](#)

Sub

Subscribe Free Trial Sign In

Get Quote or Search Keyword

Sub



BUT HAVEN'T BEEN ABLE TO FIND AN APPROACH THAT SUITS YOU,

Home Stocks Funds Earnings Screening Finance Portfolio Education Video Services

QUOTES

- Overview Quote
- Real Time Quotes
- Option Chain
- Options Greek Montage

NEWS

- Zacks Commentary
- Company News

ESTIMATES

- Detailed Estimates

CHART

- Comparative
- Interactive Chart
- Price and Consensus
- 12 month EPS
- Price & EPS Surprise
- Broker Recommendations
- Fundamental Charts

RESEARCH

- Full Company Report
- Zacks Equity Research
- Earnings Announcements
- Brokerage Reports
- Comparison to Industry
- Insiders
- Brokerage Recommendations
- Annual Report

FINANCIALS

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

AdChoices

#1 Stock to Buy Right Now

www.DailyTrade...

Here's a recommendation that several top analysts agree on



Profit from the Pros

Get profitable stock picks and timely market advice in Zacks.com's Free Daily Newsletter!

Free Registration

Northwest Natural Gas: (NYSE: NWN)

ZACKS RANK: 3-HOLD

\$44.43 0.50 (1.14%) **VOLUME 39,207** **JAN 22 12:03 PM ET**

Full Company Report

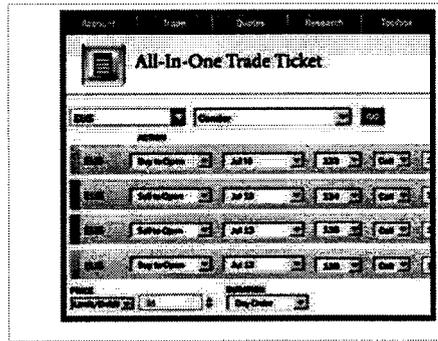
Get Full Company Report for:

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
 ONE PACIFIC SQUARE 220 NW SECOND AVE
 PORTLAND, OR 97209
 Phone: 5032264211
 Fax: 503-273-4824
 Web: <http://www.nwnatural.com>
 Email: bob.hess@nwnatural.com

Industry	UTIL-GAS DISTR
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/2012
Next EPS Date	03/01/2013



PRICE AND VOLUME INFORMATION

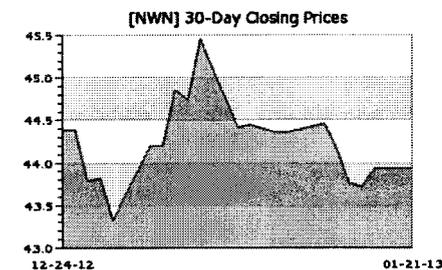
Zacks Rank	
Yesterday's Close	43.93
52 Week High	50.80
52 Week Low	41.01
Beta	0.26
20 Day Moving Average	96,291.35
Target Price Consensus	45.25

% Price Change

4 Week	-1.04
12 Week	-8.06
YTD	-0.61

Share Information

Shares Outstanding (millions)	26.87
Market Capitalization (millions)	1,180.57
Short Ratio	15.00
Last Split Date	09/09/96



% Price Change Relative to S&P 500

4 Week	-4.99
12 Week	-12.64
YTD	-4.61

Dividend Information

Dividend Yield	4.14%
Annual Dividend	\$1.82
Payout Ratio	0.75
Change in Payout Ratio	NA
Last Dividend Payout / Amount	10/29/2012 / \$0.46

[View the Archive](#)

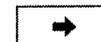
EPS INFORMATION		Subscribe	Free Trial	CONSENSUS RECOMMENDATIONS	
Current Quarter EPS Consensus Estimate	1.10			Current (1=Strong Buy, 5=Strong Sell)	3.13
Current Year EPS Consensus Estimate	2.37			30 Days Ago	3.13
Estimated Long-Term EPS Growth Rate	4.20			60 Days Ago	3.13
Next EPS Report Date	03/01/2013			90 Days Ago	2.88

FUNDAMENTAL RATIOS					
P/E		EPS Growth		Sales Growth	
Current FY Estimate	17.52	vs. Previous Year	6.45%	vs. Previous Year	-3.81%
Trailing 12 Months	18.61	vs. Previous Quarter	-680.00%	vs. Previous Quarter	-15.78%
PEG Ratio	4.21				
Price Ratios		ROE		ROA	
Price/Book	1.64	12-31-12	NA	12-31-12	NA
Price/Cash Flow	8.48	09-30-12	8.70	09-30-12	2.35
Price / Sales	1.50	06-30-12	8.70	06-30-12	2.36
Current Ratio		Quick Ratio		Operating Margin	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	0.57	09-30-12	0.36	09-30-12	8.08
06-30-12	0.71	06-30-12	0.45	06-30-12	7.98
Net Margin		Pre-Tax Margin		Book Value	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	7.73	09-30-12	13.55	09-30-12	26.74
06-30-12	7.98	06-30-12	13.43	06-30-12	27.52
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	7.45	09-30-12	0.89	09-30-12	47.21
06-30-12	7.25	06-30-12	0.87	06-30-12	46.53

Top 10 Stocks for 2013

www.StreetAuthority.com

These 10 stocks are set to crush the S&P 500 in the coming year.



AdChoices

Quick Links

Services

- Premium Services
- Zacks Rank
- Personal Finance
- Commentary
- Education

My Account

- Manage Account
- Update Profile
- Subscriptions
- Preferences
- Login/Password Help
- Upgrade to Premium

Resources

- Help
- FAQs
- Disclosure
- Privacy Policy
- Performance
- Site Map

Client Support

- Contact Us
- Share Feedback
- About Zacks
- Careers
- Advertise
- Media

Follow Us

- Facebook
- Twitter
- Linkedin
- RSS
- You Tube

Zacks Research is Reported On:



Zacks Investment Research
Is an A+ Rated BBB
Accredited Business.



Copyright 2013 Zacks Investment Research

At the center of everything we do is a strong commitment to independent research and sharing its profitable discoveries with investors. This dedication to giving investors a trading advantage led to the creation of our proven Zacks Rank stock-rating system. Since 1986 it has nearly tripled the S&P 500 with an average gain of +26% per year. These returns cover a period from 1986-2011 and were examined and attested by Baker Tilly, an independent accounting firm.

Visit [performance](#) for information about the performance numbers displayed above.

NYSE and AMEX data is at least 20 minutes delayed. NASDAQ data is at least 15 minutes delayed.

[Subscribe](#)

[Free Trial](#)

[Sign In](#)

Subscribe Free Trial Sign In

Sub



Do you own the RIGHT STOCKS? **ANALYZE ANY STOCK FREE**

Home Stocks Funds Earnings Screening Finance Portfolio Education Video Services

- QUOTES
 - Overview Quote
 - Real Time Quotes
 - Option Chain
 - Options Greek Montage
- NEWS
 - Zacks Commentary
 - Company News
- ESTIMATES
 - Detailed Estimates
- CHART
 - Comparative
 - Interactive Chart
 - Price and Consensus
 - 12 month EPS
 - Price & EPS Surprise
 - Broker Recommendations
 - Fundamental Charts
- RESEARCH
 - Full Company Report
 - Zacks Equity Research
 - Earnings Announcements
 - Brokerage Reports
 - Comparison to Industry
 - Insiders
 - Brokerage Recommendations
 - Annual Report
- FINANCIALS
 - Financial Overview
 - Income Statements
 - Balance Sheet
 - Cash flow Statements

Piedmont Natural Gas Co Inc: (NYSE: PNY) ZACKS RANK: 3-HOLD
\$32.60 **-0.10 (-0.31%)** **VOLUME 130,839** **JAN 22 12:06 PM ET**

Full Company Report Get Full Company Report for:

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

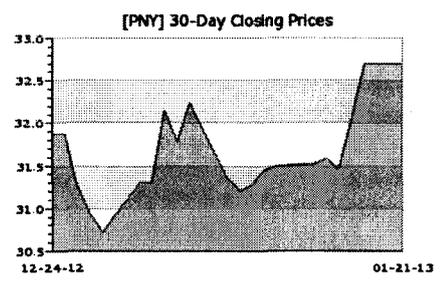
PIEDMONT NAT GA
 4720 PIEDMONT ROW DR
 CHARLOTTE, NC 28233
 Phone: 7043643120
 Fax: 704-365-3849
 Web: <http://www.piedmontng.com>
 Email: investorrelations@piedmontng.com

Industry	UTIL-GAS DISTR
Sector	Utilities
Fiscal Year End	October
Last Reported Quarter	10/31/2012
Next EPS Date	03/08/2013

Do you own the RIGHT STOCKS? **ANALYZE ANY STOCK FREE**

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	32.70
52 Week High	34.00
52 Week Low	28.51
Beta	0.30
20 Day Moving Average	333,477.69
Target Price Consensus	31.80



% Price Change

4 Week	2.57
12 Week	3.58
YTD	4.44

% Price Change Relative to S&P 500

4 Week	-1.52
12 Week	-1.58
YTD	0.24

Share Information

Shares Outstanding (millions)	72.28
Market Capitalization (millions)	2,363.43
Short Ratio	15.69
Last Split Date	11/01/04

Dividend Information

Dividend Yield	3.67%
Annual Dividend	\$1.20
Payout Ratio	0.72
Change in Payout Ratio	0.01
Last Dividend Payout / Amount	12/20/2012 / \$0.30

Zacks Community
 Peopleandpicks.com
 Community Rating

How do you rate PNY?

Find out what the Zacks Community thinks of PNY at PeopleAndPicks.com

AdChoices ▶

Top 12 Stocks to Buy Now

www.TopStock...
Panel of nation's leading analysts just announced their favorite picks



Profit from the Pros

Get profitable stock picks and timely market advice in Zacks.com's Free Daily Newsletter!

Free Registration
View the Archive

EPS INFORMATION

Subscribe Free Trial

Current Quarter EPS Consensus Estimate	1.15
Current Year EPS Consensus Estimate	1.74
Estimated Long-Term EPS Growth Rate	3.70
Next EPS Report Date	03/08/2013

CONSENSUS RECOMMENDATIONS

Sub

Current (1=Strong Buy, 5=Strong Sell)	3.00
30 Days Ago	3.14
60 Days Ago	3.14
90 Days Ago	3.29

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	18.81	vs. Previous Year	76.92%	vs. Previous Year	-5.53%
Trailing 12 Months	19.70	vs. Previous Quarter	50.00%	vs. Previous Quarter	12.58%
PEG Ratio	5.04				
Price Ratios		ROE		ROA	
Price/Book	2.29	10-31-12	11.51	10-31-12	3.37
Price/Cash Flow	10.30	07-31-12	10.85	07-31-12	3.28
Price / Sales	2.10	04-30-12	10.51	04-30-12	3.24
Current Ratio		Quick Ratio		Operating Margin	
10-31-12	0.52	10-31-12	0.39	10-31-12	10.67
07-31-12	0.73	07-31-12	0.54	07-31-12	9.90
04-30-12	0.99	04-30-12	0.72	04-30-12	9.25
Net Margin		Pre-Tax Margin		Book Value	
10-31-12	10.67	10-31-12	17.64	10-31-12	14.25
07-31-12	9.90	07-31-12	16.29	07-31-12	14.53
04-30-12	9.25	04-30-12	15.12	04-30-12	14.65
Inventory Turnover		Debt-to-Equity		Debt to Capital	
10-31-12	9.65	10-31-12	0.95	10-31-12	48.70
07-31-12	9.31	07-31-12	0.93	07-31-12	48.27
04-30-12	9.15	04-30-12	0.92	04-30-12	47.80

The 9 Best Stocks to Own Now

These stock picks come from a handful of the nation's best advisors – whose recommendations have led to extraordinary profits over the years in stocks, bonds, commodities and precious metals like gold and silver. Don't pay \$99 for the names of these stocks. **Get them here for free**

Quick Links

Services

- Premium Services
- Zacks Rank
- Personal Finance
- Commentary
- Education

My Account

- Manage Account
- Update Profile
- Subscriptions
- Preferences
- Login/Password Help
- Upgrade to Premium

Resources

- Help
- FAQs
- Disclosure
- Privacy Policy
- Performance
- Site Map

Client Support

- Contact Us
- Share Feedback
- About Zacks
- Careers
- Advertise
- Media

Follow Us

- Facebook
- Twitter
- LinkedIn
- RSS
- You Tube

Zacks Research is Reported On:



Zacks Investment Research is an A+ Rated BBB Accredited Business.



Copyright 2013 Zacks Investment Research

At the center of everything we do is a strong commitment to independent research and sharing its profitable discoveries with investors. This dedication to giving investors a trading advantage led to the creation of our proven Zacks Rank stock-rating system. Since 1986 it has nearly tripled the S&P 500 with an average gain of +26% per year. These returns cover a period from 1986-2011 and were examined and attested by Baker Tilly, an independent accounting firm.

Visit performance for information about the performance numbers displayed above.

NYSE and AMEX data is at least 20 minutes delayed. NASDAQ data is at least 15 minutes delayed. [Subscribe](#) [Free Trial](#) [Sign In](#)

Sub

Subscribe Free Trial Sign In

Get Quote or Search Keyword

Sub



STEVE JOBS' FINAL BETRAYAL

You may already know that in the final year of his life, Jobs revealed a stunning betrayal — and told his biographer, "I will spend my last dying breath... and every penny of Apple's \$40 billion in the bank to right this wrong." What was it that made Jobs so irate — and why could it make a few in-the-know investors some major profits over the coming months and years? [Click here to find out — before it's too late](#)

BROUGHT TO YOU BY THE MOTLEY FOOL

Home Stocks Funds Earnings Screening Finance Portfolio Education Video Services

QUOTES

- Overview Quote
- Real Time Quotes
- Option Chain
- Options Greek Montage

NEWS

- Zacks Commentary
- Company News

ESTIMATES

- Detailed Estimates

CHART

- Comparative
- Interactive Chart
- Price and Consensus
- 12 month EPS
- Price & EPS Surprise
- Broker Recommendations
- Fundamental Charts

RESEARCH

- Full Company Report
- Zacks Equity Research
- Earnings Announcements
- Brokerage Reports
- Comparison to Industry
- Insiders
- Brokerage Recommendations
- Annual Report

FINANCIALS

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

AdChoices

#1 Stock to Buy Right Now

www.DailyTrade...

Here's a recommendation that several top analysts agree on



Profit from the Pros

Get profitable stock picks and timely market advice in Zacks.com's Free Daily Newsletter!

Free Registration

South Jersey Industries Inc: (NYSE: SJI)

ZACKS RANK: 3-HOLD

\$53.28 0.44 (0.83%) **VOLUME 17,657** JAN 22 12:03 PM ET

Full Company Report

Get Full Company Report for:

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: NA

Industry	UTIL-GAS DISTR
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/2012
Next EPS Date	03/05/2013

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	52.84
52 Week High	56.15
52 Week Low	45.81
Beta	0.31
20 Day Moving Average	118,145.05
Target Price Consensus	61.00

% Price Change

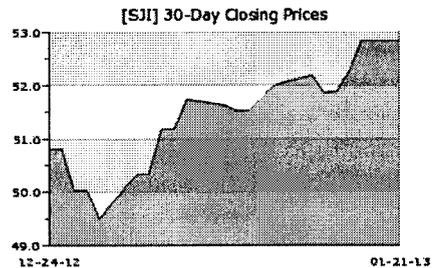
4 Week	4.00
12 Week	3.65
YTD	4.99

Share Information

Shares Outstanding (millions)	31.26
Market Capitalization (millions)	1,651.94
Short Ratio	8.85
Last Split Date	07/01/05

EPS INFORMATION

Current Quarter EPS Consensus Estimate	1.06
--	------



% Price Change Relative to S&P 500

4 Week	-0.16
12 Week	-1.52
YTD	0.76

Dividend Information

Dividend Yield	3.35%
Annual Dividend	\$1.77
Payout Ratio	0.52
Change in Payout Ratio	NA
Last Dividend Payout / Amount	12/06/2012 / \$0.44

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	1.50
---------------------------------------	------

[View the Archive](#)

Current Year EPS Consensus Estimate	Subscribe	3.16	30 Days Ago	1.50
Estimated Long-Term EPS Growth Rate		6.00	60 Days Ago	1.50
Next EPS Report Date	03/05/2013		90 Days Ago	1.50

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	15.74	vs. Previous Year	1,200.00%	vs. Previous Year	-18.63%
Trailing 12 Months	16.99	vs. Previous Quarter	-53.57%	vs. Previous Quarter	-8.15%
PEG Ratio	2.62				
Price Ratios		ROE		ROA	
Price/Book	2.34	12-31-12	NA	12-31-12	NA
Price/Cash Flow	11.82	09-30-12	14.21	09-30-12	4.09
Price / Sales	2.34	06-30-12	14.20	06-30-12	4.08
Current Ratio		Quick Ratio		Operating Margin	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	0.59	09-30-12	0.47	09-30-12	13.36
06-30-12	0.57	06-30-12	0.47	06-30-12	12.40
Net Margin		Pre-Tax Margin		Book Value	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	14.61	09-30-12	16.58	09-30-12	22.54
06-30-12	13.12	06-30-12	14.75	06-30-12	22.13
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	9.00	09-30-12	0.81	09-30-12	44.87
06-30-12	9.06	06-30-12	0.80	06-30-12	44.59

29%

more revenue

Get the facts

Constant Contact

Quick Links

Services

- [Premium Services](#)
- [Zacks Rank](#)
- [Personal Finance](#)
- [Commentary](#)
- [Education](#)

My Account

- [Manage Account](#)
- [Update Profile](#)
- [Subscriptions](#)
- [Preferences](#)
- [Login/Password Help](#)
- [Upgrade to Premium](#)

Resources

- [Help](#)
- [FAQs](#)
- [Disclosure](#)
- [Privacy Policy](#)
- [Performance](#)
- [Site Map](#)

Client Support

- [Contact Us](#)
- [Share Feedback](#)
- [About Zacks](#)
- [Careers](#)
- [Advertise](#)
- [Media](#)

Follow Us

- [Facebook](#)
- [Twitter](#)
- [Linkedin](#)
- [RSS](#)
- [You Tube](#)

Zacks Research is Reported On:



Zacks Investment Research is an A+ Rated BBB Accredited Business.



Copyright 2013 Zacks Investment Research

At the center of everything we do is a strong commitment to independent research and sharing its profitable discoveries with investors. This dedication to giving investors a trading advantage led to the creation of our proven Zacks Rank stock-rating system. Since 1986 it has nearly tripled the S&P 500 with an average gain of +26% per year. These returns cover a period from 1986-2011 and were examined and attested by Baker Tilly, an independent accounting firm.

Visit performance for information about the performance numbers displayed above.

NYSE and AMEX data is at least 20 minutes delayed. NASDAQ data is at least 15 minutes delayed.

Subscribe Free Trial Sign In

Get Quote or Search Keyword

Sub



STEVE JOBS' FINAL BETRAYAL

You may already know that in the final year of his life, Jobs revealed a stunning betrayal — and told his biographer, "I will spend my last dying breath... and every penny of Apple's \$40 billion in the bank to right this wrong." What was it that made Jobs so irate — and why could it make a few in-the-know investors some major profits over the coming months and years? [Click here to find out — before it's too late](#)

BROUGHT TO YOU BY THE MOTLEY FOOL

Home Stocks Funds Earnings Screening Finance Portfolio Education Video Services

- QUOTES
 - Overview Quote
 - Real Time Quotes
 - Option Chain
 - Options Greek Montage
- NEWS
 - Zacks Commentary
 - Company News
- ESTIMATES
 - Detailed Estimates
- CHART
 - Comparative
 - Interactive Chart
 - Price and Consensus
 - 12 month EPS
 - Price & EPS Surprise
 - Broker Recommendations
 - Fundamental Charts
- RESEARCH
 - Full Company Report
 - Zacks Equity Research
 - Earnings Announcements
 - Brokerage Reports
 - Comparison to Industry
 - Insiders
 - Brokerage Recommendations
 - Annual Report
- FINANCIALS
 - Financial Overview
 - Income Statements
 - Balance Sheet
 - Cash flow Statements

Southwest Gas Corp: (NYSE: SWX) ZACKS RANK: 4-SELL

\$43.73 0.05 (0.11%) **VOLUME 24,096** JAN 22 12:06 PM ET

Full Company Report Get Full Company Report for:

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.

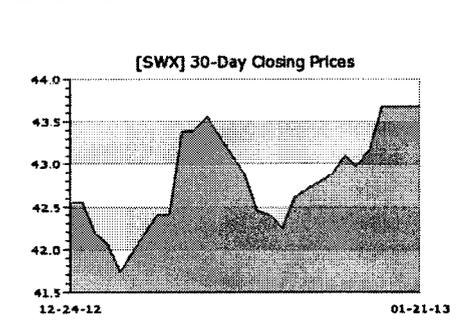
GENERAL INFORMATION

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: NA

Industry	UTIL-GAS DISTR
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/2012
Next EPS Date	03/05/2013

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	43.68
52 Week High	46.08
52 Week Low	39.01
Beta	0.69
20 Day Moving Average	118,390.55
Target Price Consensus	46.00



% Price Change

4 Week	2.66
12 Week	-0.34
YTD	2.99

% Price Change Relative to S&P 500

4 Week	-1.44
12 Week	-5.31
YTD	-1.15

Share Information

Shares Outstanding (millions)	46.14
Market Capitalization (millions)	2,015.44
Short Ratio	6.27
Last Split Date	NA

Dividend Information

Dividend Yield	2.70%
Annual Dividend	\$1.18
Payout Ratio	0.40
Change in Payout Ratio	NA
Last Dividend Payout / Amount	11/13/2012 / \$0.29

AdChoices

#1 Stock to Buy Right Now
www.DailyTrade...
 Here's a recommendation that several top analysts agree on

Profit from the Pros

Get profitable stock picks and timely market advice in Zacks.com's Free **Daily Newsletter!**

[Free Registration](#)

EPS INFORMATION

Current Quarter EPS Consensus Estimate	1.23
--	------

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	2.38
---------------------------------------	------

[View the Archive](#)

Current Year EPS Consensus Estimate	Subscribe	257	90 Days Ago	Get Quote or Search Keyword	2.38
Estimated Long-Term EPS Growth Rate		5.00	60 Days Ago		2.36
Next EPS Report Date		03/05/2013	90 Days Ago		2.38

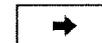
FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	15.41	vs. Previous Year	80.00%	vs. Previous Year	5.45%
Trailing 12 Months	14.81	vs. Previous Quarter	-140.00%	vs. Previous Quarter	-9.27%
PEG Ratio	3.10				
Price Ratios		ROE		ROA	
Price/Book	1.59	12-31-12	NA	12-31-12	NA
Price/Cash Flow	7.08	09-30-12	10.82	09-30-12	3.18
Price / Sales	1.03	06-30-12	10.43	06-30-12	3.08
Current Ratio		Quick Ratio		Operating Margin	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	0.75	09-30-12	0.75	09-30-12	7.00
06-30-12	0.76	06-30-12	0.76	06-30-12	6.71
Net Margin		Pre-Tax Margin		Book Value	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	6.45	09-30-12	9.99	09-30-12	27.42
06-30-12	5.93	06-30-12	9.28	06-30-12	27.77
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	NA	09-30-12	0.99	09-30-12	49.82
06-30-12	NA	06-30-12	0.94	06-30-12	48.44

Dividend Top Dogs 2013

www.dividendsandincomedaily.com

These Top 10 Dividend Payers Will Smash the Competition to Pieces!



AdChoices

Quick Links

Services

- Premium Services
- Zacks Rank
- Personal Finance
- Commentary
- Education

My Account

- Manage Account
- Update Profile
- Subscriptions
- Preferences
- Login/Password Help
- Upgrade to Premium

Resources

- Help
- FAQs
- Disclosure
- Privacy Policy
- Performance
- Site Map

Client Support

- Contact Us
- Share Feedback
- About Zacks
- Careers
- Advertise
- Media

Follow Us

- Facebook
- Twitter
- Linkedin
- RSS
- You Tube

Zacks Research is Reported On:



Zacks Investment Research is an A+ Rated BBB Accredited Business.



Copyright 2013 Zacks Investment Research

At the center of everything we do is a strong commitment to independent research and sharing its profitable discoveries with investors. This dedication to giving investors a trading advantage led to the creation of our proven Zacks Rank stock-rating system. Since 1986 it has nearly tripled the S&P 500 with an average gain of +26% per year. These returns cover a period from 1986-2011 and were examined and attested by Baker Tilly, an independent accounting firm.

Visit performance for information about the performance numbers displayed above.

NYSE and AMEX data is at least 20 minutes delayed. NASDAQ data is at least 15 minutes delayed.

Subscribe Free Trial Sign In

Get Quote or Search Keyword

Sub



Do you own the RIGHT STOCKS? **ANALYZE ANY STOCK FREE!** **BUY** **SELL** **HOLD** **VectorVest**

Home Stocks Funds Earnings Screening Finance Portfolio Education Video Services

QUOTES

- Overview Quote
- Real Time Quotes
- Option Chain
- Options Greek Montage

NEWS

- Zacks Commentary
- Company News

ESTIMATES

- Detailed Estimates

CHART

- Comparative
- Interactive Chart
- Price and Consensus
- 12 month EPS
- Price & EPS Surprise
- Broker Recommendations
- Fundamental Charts

RESEARCH

- Full Company Report
- Zacks Equity Research
- Earnings Announcements
- Brokerage Reports
- Comparison to Industry
- Insiders
- Brokerage Recommendations
- Annual Report

FINANCIALS

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

AdChoices

1st Time Gold Buyer?

USGoldBureau.c...
Avoid The Costly
Rookie Mistakes.
Request a Free
Gold Investor's Kit!



Profit from the Pros

Get profitable stock picks
and timely market advice
in Zacks.com's **Free
Daily Newsletter!**
Free Registration

Wgl Holdings Inc: (NYSE: WGL)

ZACKS RANK: 3-HOLD

\$40.96 0.42 (1.04%) VOLUME 131,439 JAN 22 12:08 PM ET

Full Company Report

Get Full Company Report for: **GO**

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: douglas.bonawitz@washgas.com

Industry	UTIL-GAS DISTR
Sector	Utilities
Fiscal Year End	September
Last Reported Quarter	12/31/2012
Next EPS Date	02/01/2013

Do you own the RIGHT STOCKS? **ANALYZE ANY STOCK FREE!** **BUY** **SELL** **HOLD** **VectorVest**

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	40.54
52 Week High	43.80
52 Week Low	35.96
Beta	0.21
20 Day Moving Average	292,326.00
Target Price Consensus	40.83

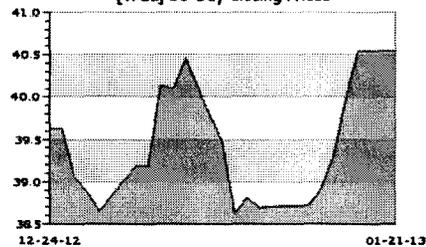
% Price Change

4 Week	2.32
12 Week	2.63
YTD	3.44

Share Information

Shares Outstanding (millions)	51.51
Market Capitalization (millions)	2,092.39
Short Ratio	9.21
Last Split Date	05/02/95

[WGL] 30-Day Closing Prices



% Price Change Relative to S&P 500

4 Week	-1.76
12 Week	-2.48
YTD	-0.72

Dividend Information

Dividend Yield	3.95%
Annual Dividend	\$1.60
Payout Ratio	0.59
Change in Payout Ratio	NA
Last Dividend Payout / Amount	01/08/2013 / \$0.40

[View the Archive](#)

EPS INFORMATION

[Subscribe](#) [Free Trial](#)

CONSENSUS RECOMMENDATIONS

Sub

Current Quarter EPS Consensus Estimate	1.04
Current Year EPS Consensus Estimate	2.43
Estimated Long-Term EPS Growth Rate	5.30
Next EPS Report Date	02/01/2013

Current (1=Strong Buy, 5=Strong Sell)	2.43
30 Days Ago	2.43
60 Days Ago	2.43
90 Days Ago	2.57

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	16.65	vs. Previous Year	61.54%	vs. Previous Year	-6.32%
Trailing 12 Months	15.07	vs. Previous Quarter	-225.00%	vs. Previous Quarter	-4.23%
PEG Ratio	3.17				
Price Ratios		ROE		ROA	
Price/Book	1.65	12-31-12	NA	12-31-12	NA
Price/Cash Flow	8.84	09-30-12	11.02	09-30-12	3.49
Price / Sales	0.86	06-30-12	10.49	06-30-12	3.34
Current Ratio		Quick Ratio		Operating Margin	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	1.10	09-30-12	0.69	09-30-12	5.73
06-30-12	1.35	06-30-12	0.89	06-30-12	5.32
Net Margin		Pre-Tax Margin		Book Value	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	5.82	09-30-12	9.67	09-30-12	24.62
06-30-12	4.19	06-30-12	7.63	06-30-12	24.87
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12-31-12	NA	12-31-12	NA	12-31-12	NA
09-30-12	7.09	09-30-12	0.46	09-30-12	31.23
06-30-12	7.29	06-30-12	0.46	06-30-12	30.98

Top 10 Stocks for 2013

www.StreetAuthority.com

These 10 stocks are set to crush the S&P 500 in the coming year.



[AdChoices](#)

Quick Links

Services

- Premium Services
- Zacks Rank
- Personal Finance
- Commentary
- Education

My Account

- Manage Account
- Update Profile
- Subscriptions
- Preferences
- Login/Password Help
- Upgrade to Premium

Resources

- Help
- FAQs
- Disclosure
- Privacy Policy
- Performance
- Site Map

Client Support

- Contact Us
- Share Feedback
- About Zacks
- Careers
- Advertise
- Media

Follow Us

- Facebook
- Twitter
- Linkedin
- RSS
- You Tube

Zacks Research is Reported On:



Zacks Investment Research is an A+ Rated BBB Accredited Business.



Copyright 2013 Zacks Investment Research

At the center of everything we do is a strong commitment to independent research and sharing its profitable discoveries with investors. This dedication to giving investors a trading advantage led to the creation of our proven Zacks Rank stock-rating system. Since 1986 it has nearly tripled the S&P 500 with an average gain of +26% per year. These returns cover a period from 1986-2011 and were examined and attested by Baker Tilly, an independent accounting firm.

Visit [performance](#) for information about the performance numbers displayed above.

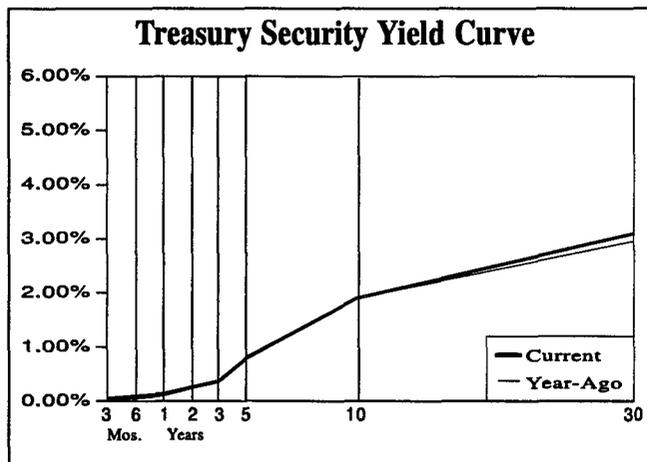
NYSE and AMEX data is at least 20 minutes delayed. NASDAQ data is at least 15 minutes delayed. [Subscribe](#) [Free Trial](#) [Sign In](#)

[Sub](#)

ATTACHMENT D

Selected Yields

	Recent (1/09/13)	3 Months Ago (10/10/12)	Year Ago (1/11/12)		Recent (1/09/13)	3 Months Ago (10/10/12)	Year Ago (1/11/12)
TAXABLE							
Market Rates				Mortgage-Backed Securities			
Discount Rate	0.75	0.75	0.75	GNMA 5.5%	1.78	0.78	0.91
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	FHLMC 5.5% (Gold)	2.16	1.84	1.91
Prime Rate	3.25	3.25	3.25	FNMA 5.5%	1.87	1.52	1.74
30-day CP (A1/P1)	0.23	0.26	0.25	FNMA ARM	2.16	2.22	2.35
3-month LIBOR	0.31	0.34	0.58	Corporate Bonds			
Bank CDs				Financial (10-year) A	3.11	3.03	4.12
6-month	0.10	0.13	0.22	Industrial (25/30-year) A	3.99	3.80	4.22
1-year	0.13	0.16	0.34	Utility (25/30-year) A	4.00	3.84	4.17
5-year	0.70	0.86	1.17	Utility (25/30-year) Baa/BBB	4.36	4.15	4.90
U.S. Treasury Securities				Foreign Bonds (10-Year)			
3-month	0.05	0.09	0.02	Canada	1.91	1.79	1.94
6-month	0.09	0.15	0.05	Germany	1.48	1.49	1.81
1-year	0.13	0.17	0.10	Japan	0.83	0.77	0.97
5-year	0.79	0.66	0.82	United Kingdom	2.02	1.77	2.01
10-year	1.90	1.70	1.90	Preferred Stocks			
10-year (inflation-protected)	-0.71	-0.83	-0.16	Utility A	5.50	5.09	4.94
30-year	3.10	2.90	2.96	Financial BBB	6.13	6.04	6.27
30-year Zero	3.30	3.11	3.15	Financial Adjustable A	5.48	5.49	5.49



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.68	3.61	3.83				
25-Bond Index (Revs)	4.30	4.28	4.93				
General Obligation Bonds (GOs)							
1-year Aaa	0.21	0.20	0.17				
1-year A	0.80	0.83	1.00				
5-year Aaa	0.87	0.67	0.89				
5-year A	1.83	1.66	1.98				
10-year Aaa	1.96	1.87	1.99				
10-year A	2.90	2.99	3.03				
25/30-year Aaa	3.15	3.29	3.70				
25/30-year A	4.85	4.79	5.12				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.25	4.23	4.49				
Electric AA	4.35	4.31	4.63				
Housing AA	4.66	4.68	5.10				
Hospital AA	4.50	4.41	4.72				
Toll Road Aaa	4.39	4.23	4.53				

Source: Bloomberg Finance L.P.

Federal Reserve Data

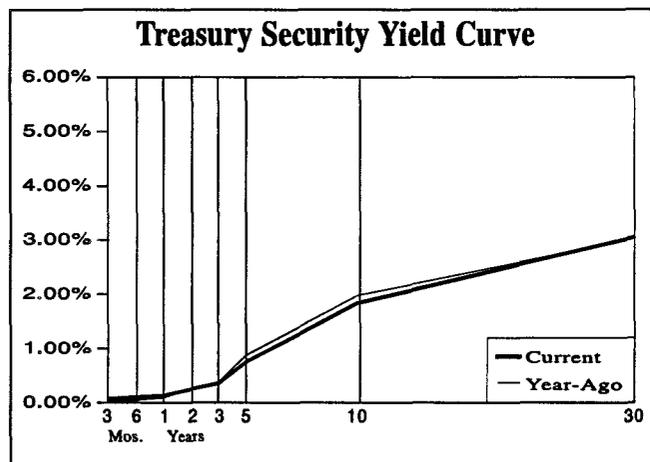
BANK RESERVES						
<i>(Two-Week Period; in Millions, Not Seasonally Adjusted)</i>						
	Recent Levels			Average Levels Over the Last...		
	12/26/12	12/12/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1452680	1463862	-11182	1428705	1445624	1473060
Borrowed Reserves	740	947	-207	1194	2432	4834
Net Free/Borrowed Reserves	1451940	1462915	-10975	1427511	1443193	1468226

MONEY SUPPLY						
<i>(One-Week Period; in Billions, Seasonally Adjusted)</i>						
	Recent Levels			Ann'l Growth Rates Over the Last...		
	12/24/12	12/17/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2459.6	2435.5	24.1	12.0%	19.4%	13.5%
M2 (M1+savings+small time deposits)	10431.5	10393.0	38.5	12.8%	10.3%	8.5%

Source: United States Federal Reserve Bank

Selected Yields

	Recent (1/02/12)	3 Months Ago (10/03/12)	Year Ago (1/04/12)		Recent (1/02/12)	3 Months Ago (10/03/12)	Year Ago (1/04/12)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75	Mortgage-Backed Securities			
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	GNMA 5.5%	1.75	0.77	0.99
Prime Rate	3.25	3.25	3.25	FHLMC 5.5% (Gold)	2.12	2.00	2.03
30-day CP (A1/P1)	0.25	0.28	0.25	FNMA 5.5%	1.81	1.69	1.86
3-month LIBOR	0.31	0.35	0.58	FNMA ARM	2.16	2.22	2.35
Bank CDs							
6-month	0.10	0.13	0.22	Corporate Bonds			
1-year	0.13	0.16	0.34	Financial (10-year) A	3.10	3.00	4.25
5-year	0.70	0.86	1.16	Industrial (25/30-year) A	3.99	3.78	4.33
U.S. Treasury Securities							
3-month	0.07	0.09	0.01	Utility (25/30-year) A	4.03	3.84	4.22
6-month	0.11	0.13	0.05	Utility (25/30-year) Baa/BBB	4.35	4.16	4.95
1-year	0.14	0.16	0.10	Foreign Bonds (10-Year)			
5-year	0.76	0.62	0.88	Canada	1.87	1.74	1.99
10-year	1.84	1.57	1.98	Germany	1.44	1.47	1.92
10-year (inflation-protected)	-0.69	-0.90	-0.14	Japan	0.79	0.77	0.99
30-year	3.05	2.68	3.03	United Kingdom	1.99	1.72	2.05
30-year Zero	3.29	3.08	3.13	Preferred Stocks			
				Utility A	5.64	5.14	5.11
				Financial BBB	6.01	5.98	6.38
				Financial Adjustable A	5.48	5.48	5.48



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.58	3.67	3.88				
25-Bond Index (Revs)	4.28	4.31	4.97				
General Obligation Bonds (GOs)							
1-year Aaa	0.21	0.19	0.22				
1-year A	0.83	0.82	1.07				
5-year Aaa	0.90	0.69	0.92				
5-year A	1.83	1.62	2.06				
10-year Aaa	1.97	1.90	2.07				
10-year A	2.87	3.01	3.12				
25/30-year Aaa	3.16	3.30	3.80				
25/30-year A	4.85	4.73	5.20				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.23	4.22	4.53				
Electric AA	4.33	4.30	4.70				
Housing AA	4.64	4.67	5.26				
Hospital AA	4.50	4.42	4.72				
Toll Road Aaa	4.42	4.23	4.53				

Source: Bloomberg Finance L.P.

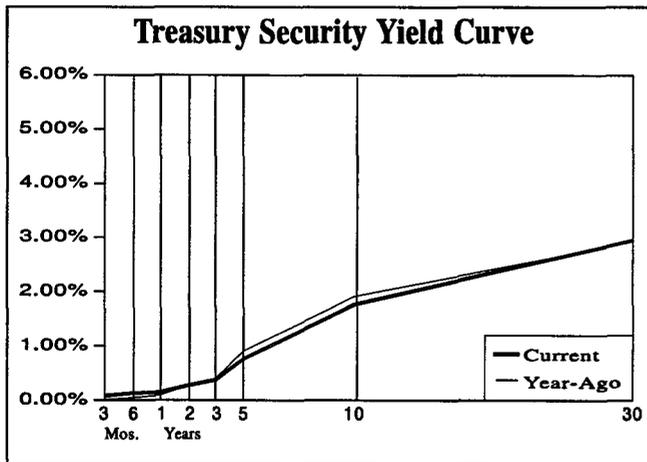
Federal Reserve Data

BANK RESERVES							
<i>(Two-Week Period; in Millions, Not Seasonally Adjusted)</i>							
	Recent Levels			Average Levels Over the Last...			
	12/26/12	12/12/12	Change	12 Wks.	26 Wks.	52 Wks.	
Excess Reserves	1452681	1463862	-11181	1428705	1445624	1473060	
Borrowed Reserves	740	947	-207	1194	2432	4834	
Net Free/Borrowed Reserves	1451941	1462915	-10974	1427511	1443193	1468226	
MONEY SUPPLY							
<i>(One-Week Period; in Billions, Seasonally Adjusted)</i>							
	Recent Levels			Ann'l Growth Rates Over the Last...			
	12/17/12	12/10/12	Change	3 Mos.	6 Mos.	12 Mos.	
M1 (Currency+demand deposits)	2435.5	2429.1	6.4	9.0%	17.2%	12.3%	
M2 (M1+savings+small time deposits)	10391.3	10355.0	36.3	11.1%	9.7%	8.2%	

Source: United States Federal Reserve Bank

Selected Yields

	Recent (12/26/12)	3 Months Ago (9/26/12)	Year Ago (12/28/11)		Recent (12/26/12)	3 Months Ago (9/26/12)	Year Ago (12/28/11)
TAXABLE							
Market Rates				Mortgage-Backed Securities			
Discount Rate	0.75	0.75	0.75	GNMA 5.5%	1.79	0.65	1.12
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	FHLMC 5.5% (Gold)	2.16	1.93	2.12
Prime Rate	3.25	3.25	3.25	FNMA 5.5%	1.82	1.64	1.99
30-day CP (A1/P1)	0.24	0.26	0.19	FNMA ARM	2.17	2.25	2.37
3-month LIBOR	0.31	0.36	0.58	Corporate Bonds			
Bank CDs				Financial (10-year) A	3.06	2.98	4.17
6-month	0.10	0.13	0.22	Industrial (25/30-year) A	3.86	3.68	4.26
1-year	0.13	0.17	0.34	Utility (25/30-year) A	3.92	3.82	4.14
5-year	0.70	0.86	1.15	Utility (25/30-year) Baa/BBB	4.24	4.16	4.78
U.S. Treasury Securities				Foreign Bonds (10-Year)			
3-month	0.08	0.09	0.01	Canada	1.82	1.75	1.96
6-month	0.13	0.13	0.05	Germany	1.37	1.46	1.89
1-year	0.15	0.17	0.10	Japan	0.79	0.78	1.00
5-year	0.77	0.64	0.91	United Kingdom	1.89	1.69	2.01
10-year	1.77	1.63	1.92	Preferred Stocks			
10-year (inflation-protected)	-0.78	-0.81	-0.11	Utility A	5.54	5.08	5.37
30-year	2.95	2.81	2.92	Financial BBB	6.20	5.93	6.71
30-year Zero	3.16	2.99	3.02	Financial Adjustable A	5.47	5.47	5.48



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.64	3.72	3.92				
25-Bond Index (Revs)	4.26	4.37	5.01				
General Obligation Bonds (GOs)							
1-year Aaa	0.21	0.20	0.22				
1-year A	0.81	0.78	1.06				
5-year Aaa	0.90	0.76	0.97				
5-year A	1.81	1.74	2.07				
10-year Aaa	1.99	1.98	2.12				
10-year A	2.85	3.10	3.23				
25/30-year Aaa	3.16	3.34	3.86				
25/30-year A	4.83	4.81	5.24				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.23	4.25	4.56				
Electric AA	4.37	4.36	4.73				
Housing AA	4.64	4.70	5.29				
Hospital AA	4.49	4.45	4.87				
Toll Road Aaa	4.41	4.30	4.54				

Source: Bloomberg Finance L.P.

Federal Reserve Data

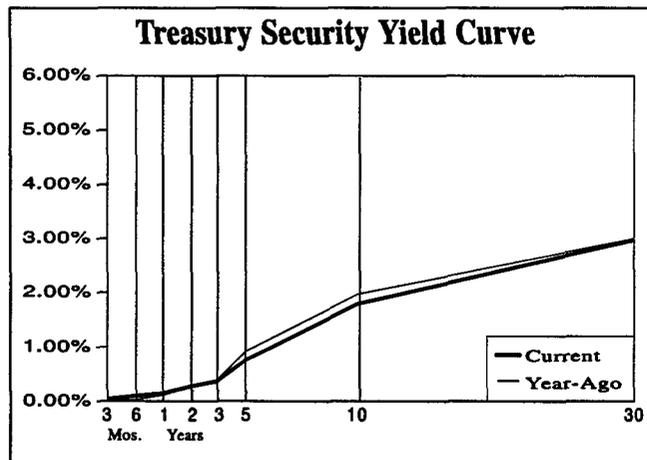
BANK RESERVES						
<i>(Two-Week Period; in Millions, Not Seasonally Adjusted)</i>						
	Recent Levels			Average Levels Over the Last...		
	12/12/12	11/28/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1463863	1427749	36114	1424705	1448342	1475871
Borrowed Reserves	947	990	-43	1375	2768	5171
Net Free/Borrowed Reserves	1462916	1426759	36157	1423330	1445573	1470700

MONEY SUPPLY						
<i>(One-Week Period; in Billions, Seasonally Adjusted)</i>						
	Recent Levels			Ann'l Growth Rates Over the Last...		
	12/10/12	12/3/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2429.1	2406.2	22.9	10.1%	16.5%	11.9%
M2 (M1+savings+small time deposits)	10355.5	10300.7	54.8	10.2%	8.6%	7.9%

Source: United States Federal Reserve Bank

Selected Yields

	Recent (12/19/12)	3 Months Ago (9/19/12)	Year Ago (12/21/11)		Recent (12/19/12)	3 Months Ago (9/19/12)	Year Ago (12/21/11)
TAXABLE							
Market Rates				Mortgage-Backed Securities			
Discount Rate	0.75	0.75	0.75	GNMA 5.5%	1.77	0.76	1.05
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	FHLMC 5.5% (Gold)	2.13	1.92	2.12
Prime Rate	3.25	3.25	3.25	FNMA 5.5%	1.84	1.62	1.95
30-day CP (A1/P1)	0.22	0.27	0.29	FNMA ARM	2.17	2.25	2.37
3-month LIBOR	0.31	0.38	0.57	Corporate Bonds			
Bank CDs				Financial (10-year) A	3.08	3.16	4.11
6-month	0.10	0.13	0.22	Industrial (25/30-year) A	3.93	3.84	4.21
1-year	0.13	0.17	0.34	Utility (25/30-year) A	3.99	3.95	4.12
5-year	0.70	0.86	1.15	Utility (25/30-year) Baa/BBB	4.33	4.33	4.77
U.S. Treasury Securities				Foreign Bonds (10-Year)			
3-month	0.05	0.10	0.01	Canada	1.85	1.89	1.96
6-month	0.10	0.13	0.03	Germany	1.43	1.62	1.93
1-year	0.15	0.18	0.11	Japan	0.77	0.82	0.98
5-year	0.76	0.67	0.92	United Kingdom	1.96	1.84	2.07
10-year	1.79	1.74	1.97	Preferred Stocks			
10-year (inflation-protected)	-0.73	-0.77	-0.12	Utility A	5.57	5.22	5.36
30-year	2.97	2.93	3.00	Financial BBB	5.96	5.94	6.55
30-year Zero	3.23	3.19	3.10	Financial Adjustable A	5.47	5.47	5.47



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.44	3.79	3.92				
25-Bond Index (Revs)	4.12	4.42	5.01				
General Obligation Bonds (GOs)							
1-year Aaa	0.21	0.20	0.21				
1-year A	0.81	0.82	1.03				
5-year Aaa	0.87	0.83	0.97				
5-year A	1.76	1.85	2.07				
10-year Aaa	1.95	2.08	2.15				
10-year A	2.80	3.24	3.25				
25/30-year Aaa	3.16	3.39	3.86				
25/30-year A	4.81	4.85	5.24				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.21	4.30	4.56				
Electric AA	4.35	4.46	4.74				
Housing AA	4.62	4.79	5.34				
Hospital AA	4.42	4.50	4.87				
Toll Road Aaa	4.41	4.32	4.54				

Source: Bloomberg Finance L.P.

Federal Reserve Data

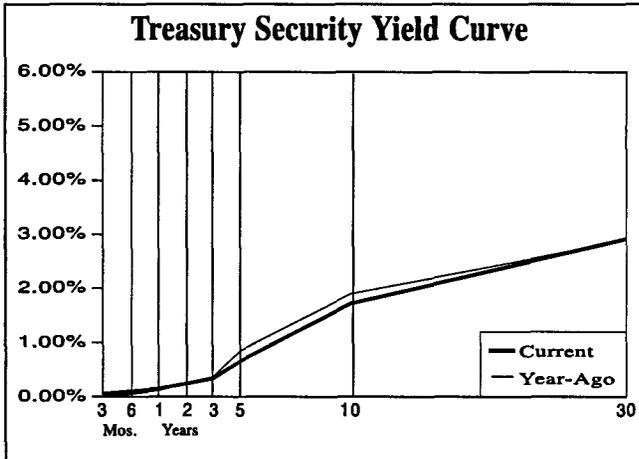
BANK RESERVES							
<i>(Two-Week Period; in Millions, Not Seasonally Adjusted)</i>							
	Recent Levels			Average Levels Over the Last...			
	12/12/12	11/28/12	Change	12 Wks.	26 Wks.	52 Wks.	
Excess Reserves	1463911	1427749	36162	1424712	1448345	1475872	
Borrowed Reserves	947	990	-43	1375	2768	5171	
Net Free/Borrowed Reserves	1462964	1426759	36205	1423337	1445577	1470701	

MONEY SUPPLY							
<i>(One-Week Period; in Billions, Seasonally Adjusted)</i>							
	Recent Levels			Ann'l Growth Rates Over the Last...			
	12/3/12	11/26/12	Change	3 Mos.	6 Mos.	12 Mos.	
M1 (Currency+demand deposits)	2406.1	2391.2	14.9	9.2%	14.4%	11.1%	
M2 (M1+savings+small time deposits)	10300.3	10264.1	36.2	9.3%	8.7%	7.6%	

Source: United States Federal Reserve Bank

Selected Yields

	Recent (12/12/12)	3 Months Ago (9/12/12)	Year Ago (12/14/11)		Recent (12/12/12)	3 Months Ago (9/12/12)	Year Ago (12/14/11)
TAXABLE							
Market Rates				Mortgage-Backed Securities			
Discount Rate	0.75	0.75	0.75	GNMA 5.5%	1.75	0.81	1.03
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	FHLMC 5.5% (Gold)	2.05	1.94	2.16
Prime Rate	3.25	3.25	3.25	FNMA 5.5%	1.75	1.70	2.05
30-day CP (A1/P1)	0.26	0.27	0.28	FNMA ARM	2.17	2.25	2.37
3-month LIBOR	0.31	0.39	0.56	Corporate Bonds			
Bank CDs				Financial (10-year) A	2.99	3.19	4.23
6-month	0.10	0.13	0.22	Industrial (25/30-year) A	3.84	3.83	4.37
1-year	0.16	0.18	0.35	Utility (25/30-year) A	3.90	3.97	4.23
5-year	0.74	0.94	1.17	Utility (25/30-year) Baa/BBB	4.21	4.33	4.87
U.S. Treasury Securities				Foreign Bonds (10-Year)			
3-month	0.06	0.09	0.01	Canada	1.76	1.90	1.96
6-month	0.10	0.12	0.05	Germany	1.34	1.62	1.92
1-year	0.15	0.16	0.11	Japan	0.70	0.81	1.00
5-year	0.66	0.65	0.85	United Kingdom	1.82	1.83	2.09
10-year	1.72	1.73	1.90	Preferred Stocks			
10-year (inflation-protected)	-0.84	-0.63	-0.08	Utility A	5.04	5.22	5.23
30-year	2.92	2.90	2.90	Financial BBB	5.96	6.10	6.87
30-year Zero	3.13	3.14	3.00	Financial Adjustable A	5.46	5.46	5.46



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.27	3.73	3.93				
25-Bond Index (Revs)	4.06	4.43	5.03				
General Obligation Bonds (GOs)							
1-year Aaa	0.21	0.18	0.20				
1-year A	0.79	0.84	1.11				
5-year Aaa	0.73	0.78	1.00				
5-year A	1.66	1.81	2.04				
10-year Aaa	1.78	1.99	2.20				
10-year A	2.70	3.14	3.34				
25/30-year Aaa	3.06	3.34	3.89				
25/30-year A	4.69	4.79	5.26				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.18	4.25	4.58				
Electric AA	4.32	4.41	4.80				
Housing AA	4.59	4.74	5.43				
Hospital AA	4.31	4.46	4.88				
Toll Road Aaa	4.27	4.28	4.54				

Source: Bloomberg Finance L.P.

Federal Reserve Data

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

	Recent Levels			Average Levels Over the Last...		
	11/28/12	11/14/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1427749	1438778	-11029	1422842	1448196	1475758
Borrowed Reserves	990	1128	-138	1599	3123	5507
Net Free/Borrowed Reserves	1426759	1437650	-10891	1421243	1445073	1470251

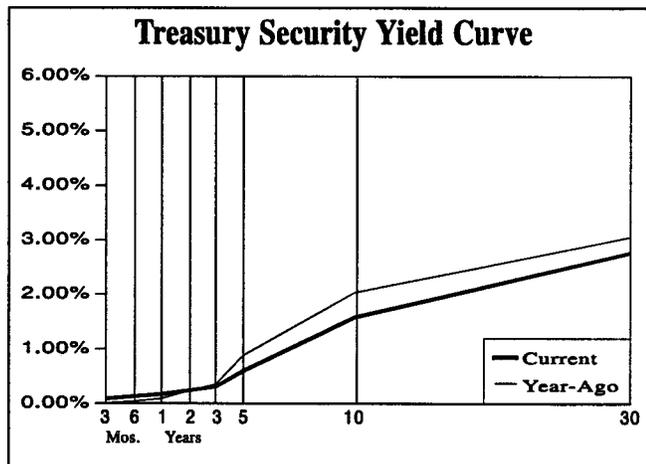
MONEY SUPPLY (One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	11/26/12	11/19/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2391.2	2407.2	-16.0	12.9%	13.6%	11.1%
M2 (M1+savings+small time deposits)	10263.9	10250.1	13.8	8.5%	7.7%	7.2%

Source: United States Federal Reserve Bank

Selected Yields

	Recent (12/05/12)	3 Months Ago (9/05/12)	Year Ago (12/07/11)		Recent (12/05/12)	3 Months Ago (9/05/12)	Year Ago (12/07/11)
TAXABLE							
Market Rates				Mortgage-Backed Securities			
Discount Rate	0.75	0.75	0.75	GNMA 5.5%	1.65	0.75	1.21
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	FHLMC 5.5% (Gold)	2.03	1.89	2.30
Prime Rate	3.25	3.25	3.25	FNMA 5.5%	1.73	1.66	2.01
30-day CP (A1/P1)	0.22	0.29	0.52	FNMA ARM	2.17	2.25	2.37
3-month LIBOR	0.31	0.41	0.54	Corporate Bonds			
Bank CDs				Financial (10-year) A	2.91	3.05	4.32
6-month	0.11	0.13	0.22	Industrial (25/30-year) A	3.74	3.69	4.39
1-year	0.16	0.18	0.35	Utility (25/30-year) A	3.80	3.77	4.25
5-year	0.76	0.94	1.17	Utility (25/30-year) Baa/BBB	4.10	4.15	4.92
U.S. Treasury Securities				Foreign Bonds (10-Year)			
3-month	0.09	0.10	0.01	Canada	1.69	1.76	2.06
6-month	0.13	0.13	0.04	Germany	1.35	1.48	2.10
1-year	0.17	0.17	0.09	Japan	0.70	0.78	1.05
5-year	0.60	0.65	0.89	United Kingdom	1.78	1.64	2.24
10-year	1.58	1.65	2.03	Preferred Stocks			
10-year (inflation-protected)	-0.90	-0.70	-0.05	Utility A	4.98	5.24	5.07
30-year	2.77	2.76	3.06	Financial BBB	5.96	6.09	6.78
30-year Zero	3.00	2.91	3.16	Financial Adjustable A	5.53	5.53	5.53



TAX-EXEMPT

	Recent (12/05/12)	3 Months Ago (9/05/12)	Year Ago (12/07/11)
Bond Buyer Indexes			
20-Bond Index (GOs)	3.29	3.72	4.12
25-Bond Index (Revs)	4.08	4.45	5.09
General Obligation Bonds (GOs)			
1-year Aaa	0.20	0.18	0.21
1-year A	0.76	0.86	1.10
5-year Aaa	0.69	0.77	1.12
5-year A	1.63	1.82	2.20
10-year Aaa	1.73	1.94	2.37
10-year A	2.75	3.08	3.37
25/30-year Aaa	3.08	3.34	3.93
25/30-year A	4.66	4.79	5.28
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.13	4.21	4.61
Electric AA	4.24	4.44	4.83
Housing AA	4.54	4.74	5.53
Hospital AA	4.30	4.46	4.90
Toll Road Aaa	4.22	4.27	4.56

Source: Bloomberg Finance L.P.

Federal Reserve Data

BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	11/28/12	11/14/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1427758	1438778	-11020	1422843	1448196	1475758
Borrowed Reserves	990	1128	-138	1599	3123	5507
Net Free/Borrowed Reserves	1426768	1437650	-10882	1421244	1445074	1470251

MONEY SUPPLY

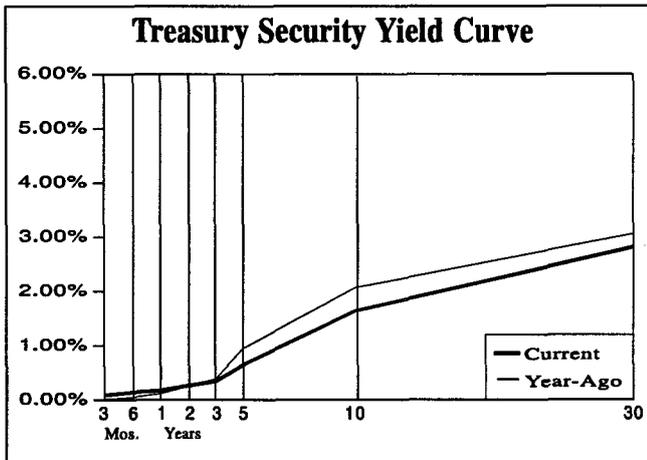
(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	11/19/12	11/12/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2407.1	2409.9	-2.8	17.1%	14.7%	12.1%
M2 (M1+savings+small time deposits)	10250.2	10269.5	-19.3	9.2%	7.3%	7.1%

Source: United States Federal Reserve Bank

Selected Yields

	Recent (11/28/12)	3 Months Ago (8/29/12)	Year Ago (11/30/11)		Recent (11/28/12)	3 Months Ago (8/29/12)	Year Ago (11/30/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75	Mortgage-Backed Securities			
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	GNMA 5.5%	1.70	1.00	1.35
Prime Rate	3.25	3.25	3.25	FHLMC 5.5% (Gold)	2.08	1.99	2.31
30-day CP (A1/P1)	0.23	0.30	0.60	FNMA 5.5%	1.71	1.80	2.09
3-month LIBOR	0.31	0.42	0.53	FNMA ARM	2.19	2.27	2.37
Bank CDs							
6-month	0.11	0.13	0.17	Corporate Bonds			
1-year	0.16	0.18	0.21	Financial (10-year) A	2.98	3.03	4.58
5-year	0.76	0.94	1.14	Industrial (25/30-year) A	3.75	3.76	4.42
U.S. Treasury Securities							
3-month	0.09	0.10	0.01	Utility (25/30-year) A	3.77	3.82	4.26
6-month	0.14	0.14	0.05	Utility (25/30-year) Baa/BBB	4.13	4.26	4.94
1-year	0.17	0.18	0.11	Foreign Bonds (10-Year)			
5-year	0.65	0.68	0.95	Canada	1.72	1.80	2.15
10-year	1.64	1.68	2.07	Germany	1.37	1.38	2.28
10-year (inflation-protected)	-0.80	-0.66	-0.01	Japan	0.72	0.80	1.07
30-year	2.81	2.74	3.06	United Kingdom	1.77	1.50	2.31
30-year Zero	3.03	2.97	3.20	Preferred Stocks			
				Utility A	5.17	5.37	5.05
				Financial BBB	6.11	6.08	6.32
				Financial Adjustable A	5.53	5.53	5.53



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.37	3.76	4.07				
25-Bond Index (Revs)	4.14	4.49	5.06				
General Obligation Bonds (GOs)							
1-year Aaa	0.18	0.18	0.24				
1-year A	0.77	0.88	1.10				
5-year Aaa	0.69	0.77	1.20				
5-year A	1.64	1.82	2.30				
10-year Aaa	1.75	2.02	2.45				
10-year A	2.78	3.09	3.50				
25/30-year Aaa	3.12	3.35	3.99				
25/30-year A	4.68	4.79	5.36				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.14	4.22	4.62				
Electric AA	4.25	4.45	4.84				
Housing AA	4.55	4.75	5.54				
Hospital AA	4.30	4.46	4.92				
Toll Road Aaa	4.22	4.27	4.57				

Source: Bloomberg Finance L.P.

Federal Reserve Data

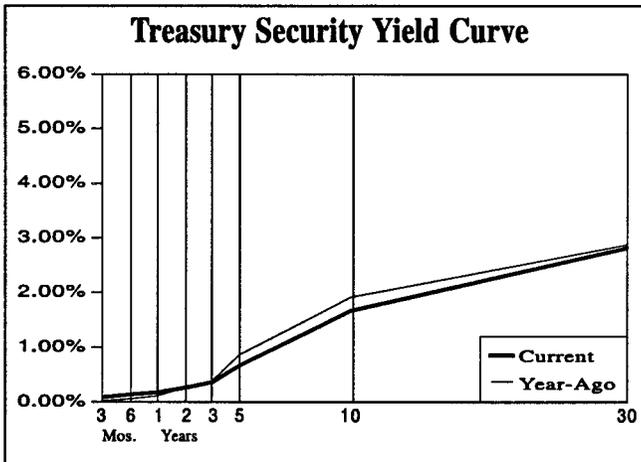
BANK RESERVES						
<i>(Two-Week Period; in Millions, Not Seasonally Adjusted)</i>						
	Recent Levels			Average Levels Over the Last...		
	11/14/12	10/31/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1438778	1422939	15839	1430430	1449838	1479637
Borrowed Reserves	1128	1363	-235	1961	3513	5862
Net Free/Borrowed Reserves	1437650	1421576	16074	1428469	1446325	1473775

MONEY SUPPLY						
<i>(One-Week Period; in Billions, Seasonally Adjusted)</i>						
	Recent Levels			Ann'l Growth Rates Over the Last...		
	11/12/12	11/5/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2409.9	2421.1	-11.2	17.3%	14.6%	12.8%
M2 (M1+savings+small time deposits)	10269.5	10293.2	-23.7	8.9%	7.9%	7.2%

Source: United States Federal Reserve Bank

Selected Yields

	Recent (11/20/12)	3 Months Ago (8/22/12)	Year Ago (11/22/11)		Recent (11/20/12)	3 Months Ago (8/22/12)	Year Ago (11/22/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75	Mortgage-Backed Securities			
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	GNMA 5.5%	1.73	0.96	1.25
Prime Rate	3.25	3.25	3.25	FHLMC 5.5% (Gold)	2.09	2.12	2.33
30-day CP (A1/P1)	0.22	0.31	0.44	FNMA 5.5%	1.73	1.94	2.05
3-month LIBOR	0.31	0.43	0.50	FNMA ARM	2.19	2.27	2.43
Bank CDs							
6-month	0.11	0.17	0.17	Corporate Bonds			
1-year	0.16	0.21	0.21	Financial (10-year) A	2.91	3.09	4.45
5-year	0.76	0.96	1.14	Industrial (25/30-year) A	3.78	3.82	4.20
U.S. Treasury Securities							
3-month	0.09	0.10	0.02	Utility (25/30-year) A	3.78	3.85	4.06
6-month	0.14	0.13	0.06	Utility (25/30-year) Baa/BBB	4.13	4.28	4.74
1-year	0.18	0.18	0.11	Foreign Bonds (10-Year)			
5-year	0.67	0.70	0.87	Canada	1.76	1.84	2.08
10-year	1.67	1.70	1.92	Germany	1.42	1.46	1.92
10-year (inflation-protected)	-0.76	-0.58	0.01	Japan	0.74	0.83	0.97
30-year	2.82	2.82	2.88	United Kingdom	1.85	1.63	2.17
30-year Zero	3.04	3.00	3.05	Preferred Stocks			
				Utility A	5.12	5.32	5.84
				Financial BBB	6.09	6.08	6.31
				Financial Adjustable A	5.52	5.52	5.52



TAX-EXEMPT

	Recent (11/20/12)	3 Months Ago (8/22/12)	Year Ago (11/22/11)
Bond Buyer Indexes			
20-Bond Index (GOs)	3.41	3.80	4.09
25-Bond Index (Revs)	4.17	4.52	5.09
General Obligation Bonds (GOs)			
1-year Aaa	0.17	0.20	0.24
1-year A	0.78	0.88	1.06
5-year Aaa	0.67	0.79	1.22
5-year A	1.65	1.85	2.33
10-year Aaa	1.76	2.06	2.48
10-year A	2.80	3.19	3.53
25/30-year Aaa	3.13	3.36	3.97
25/30-year A	4.70	4.79	5.34
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.18	4.27	4.60
Electric AA	4.27	4.55	4.82
Housing AA	4.64	4.73	5.53
Hospital AA	4.30	4.48	4.92
Toll Road Aaa	4.22	4.31	4.58

Source: Bloomberg Finance L.P.

Federal Reserve Data

BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	11/14/12	10/31/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1438804	1422943	15861	1430434	1449840	1479638
Borrowed Reserves	1128	1363	-235	1961	3513	5862
Net Free/Borrowed Reserves	1437676	1421580	16096	1428473	1446327	1473776

MONEY SUPPLY

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

	Recent Levels			Ann'l Growth Rates Over the Last...		
	11/5/12	10/29/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2420.9	2419.4	1.5	20.3%	15.9%	13.6%
M2 (M1+savings+small time deposits)	10291.9	10255.5	36.4	12.1%	8.5%	7.6%

Source: United States Federal Reserve Bank

FAR WEST WATER & SEWER, INC.

DOCKET NO. WS-03478A-12-0307

TABLE OF CONTENTS TO SCHEDULES WAR

<u>SCHEDULE #</u>	
WAR - 1	COST OF CAPITAL SUMMARY
WAR - 2	DCF COST OF EQUITY CAPITAL
WAR - 3	DIVIDEND YIELD CALCULATION
WAR - 4	DIVIDEND GROWTH RATE CALCULATION
WAR - 5	DIVIDEND GROWTH COMPONENTS
WAR - 6	GROWTH RATE COMPARISON
WAR - 7	CAPM COST OF EQUITY CAPITAL
WAR - 8	ECONOMIC INDICATORS - 1990 TO PRESENT
WAR - 9	ECONOMIC INDICATORS - 1990 TO PRESENT

WEIGHTED AVERAGE COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) RUCO ADJUSTMENT	(C) RUCO ADJUSTED	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	LONG-TERM DEBT	\$ 21,323,943	\$ -	\$ 21,323,943	79.55%	6.90%	5.49%
2	SHORT-TERM DEBT	1,732,342	-	1,732,342	6.46%	8.07%	0.52%
3	COMMON EQUITY	3,748,573	-	3,748,573	13.98%	9.25%	1.29%
4	TOTAL CAPITALIZATION	\$ 26,804,858	\$ -	\$ 26,804,858	100.00%		

5 WEIGHTED AVERAGE COST OF CAPITAL

7.30%

REFERENCES:

- COLUMN (A): COMPANY SCHEDULE D-1, PAGE 1
- COLUMN (B): TESTIMONY WAR
- COLUMN (C): COLUMN (A) + COLUMN (B)
- COLUMN (D): LINES 1 THROUGH 3 / LINE 4
- COLUMN (E): LINES 1 AND 2, SCHEDULE WAR 1, PAGE 2 OF 3, LINE 3; TESTIMONY, WAR
- COLUMN (F): LINES 1 THRU 3; COLUMN (D) X COLUMN (E)

WEIGHTED AVERAGE COST OF LONG-TERM DEBT

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) RUCO ADJUSTMENT	(C) RUCO ADJUSTED	(D) ANNUAL INTEREST	(E) CAPITAL RATIO	(F) COST	(G) WEIGHTED COST
1	IDA SERIES 2007A - TERM 1	\$ 2,173,211	\$ -	\$ 2,173,211	\$ 198,575	10.19%	6.50%	0.68%
2	IDA SERIES 2007A - TERM 2	17,208,285	-	17,208,285	1,360,425	80.70%	6.38%	5.14%
3	ZENONLIBERATION CAPITAL	1,942,448	-	1,942,448	201,705	9.11%	12.00%	1.09%
4	Common Equity	-	-	-	-	0.00%	0.00%	0.00%
5	TOTAL CAPITALIZATION/INTEREST	\$ 21,323,944	\$ -	\$ 21,323,944	\$ 1,760,705	100.00%		

6 WEIGHTED AVERAGE COST OF LONG-TERM DEBT

6.90%

WEIGHTED AVERAGE COST OF SHORT-TERM DEBT

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) RUCO ADJUSTMENT	(C) RUCO ADJUSTED	(D) ANNUAL INTEREST	(E) CAPITAL RATIO	(F) COST	(G) WEIGHTED COST
1	HARDKNOCKS LTD.	\$ 75,000	-	\$ 75,000	\$ -	4.33%	0.00%	0.00%
2	SCOTT SPENCER	175,000	-	175,000	28,640	10.10%	12.00%	1.21%
3	HARRY ELLIOT	301,248	-	301,248	-	17.39%	0.00%	0.00%
4	GALLAGER & KENNEDY	36,837	-	36,837	-	2.13%	12.00%	0.26%
5	SCHECHERT TRUST	1,144,257	-	1,144,257	147,269	66.05%	10.00%	6.61%
6	TOTAL CAPITALIZATION/INTEREST	\$ 1,732,342	\$ -	\$ 1,732,342	\$ 175,908	100.00%		

7 WEIGHTED AVERAGE COST OF SHORT-TERM DEBT

8.07%

REFERENCES:
 COMPANY SCHEDULE D-2

COST OF COMMON EQUITY CALCULATION

LINE NO.				
1	<u>DCF METHODOLOGY</u>			
2	DCF - WATER COMPANY SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	7.98%	SCHEDULE WAR-2, COLUMN (C), LINE 5	
3	DCF - NATURAL GAS LDC SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	<u>8.76%</u>	SCHEDULE WAR-2, COLUMN (C), LINE 13	
4	AVERAGE OF DCF ESTIMATES	8.37%	(LINE 2 + LINE 3) + 2	
5	<u>CAPM METHODOLOGY</u>			
6	CAPM - WATER COMPANY GEOMETRIC MEAN ESTIMATE	5.76%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 5	
7	CAPM - NATURAL GAS LDC GEOMETRIC MEAN ESTIMATE	5.61%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 13	
8	CAPM - WATER COMPANY ARITHMETIC MEAN ESTIMATE	6.87%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 5	
9	CAPM - NATURAL GAS LDC ARITHMETIC MEAN ESTIMATE	<u>6.66%</u>	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 13	
10	AVERAGE OF CAPM ESTIMATES	6.22%	(SUM OF LINES 6 THRU 9) + 4	
11	AVERAGE OF DCF AND CAPM ESTIMATES	7.30%	(SUM OF LINES 4 AND 10) + 2	
12	FINAL COST OF COMMON EQUITY ESTIMATE	9.25%	TESTIMONY WAR	

FAR WEST WATER & SEWER, INC.
DOCKET NO. WS-03478A-12-0307
DCF COST OF EQUITY CAPITAL

DOCKET NO. WS-03478A-12-0307
SCHEDULE WAR - 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) DIVIDEND YIELD	(B) GROWTH RATE (g)	(C) DCF COST OF EQUITY CAPITAL
1	AWK	AMERICAN WATER WORKS COMPANY, INC.	2.66%	+ 4.84%	= 7.51%
2	AWR	AMERICAN STATES WATER CO.	2.98%	+ 5.64%	= 8.63%
3	CWT	CALIFORNIA WATER SERVICE GROUP	3.44%	+ 5.30%	= 8.74%
4	MSEX	MIDDLESEX WATER COMPANY	3.93%	+ 3.59%	= 7.52%
5	SJW	SJW CORPORATION	2.80%	+ 4.19%	= 6.99%
6	WTR	AQUA AMERICA, INC.	2.74%	+ 5.76%	= 8.50%
7		WATER COMPANY AVERAGE			7.98%
8	GAS	AGL RESOURCES, INC.	4.60%	+ 2.00%	= 6.61%
9	ATO	ATMOS ENERGY CORP.	3.94%	+ 3.97%	= 7.90%
10	LG	LACLEDE GROUP, INC.	4.25%	+ 4.13%	= 8.39%
11	NJR	NEW JERSEY RESOURCES CORPORATION	3.98%	+ 7.01%	= 10.99%
12	NWN	NORTHWEST NATURAL GAS CO.	4.13%	+ 4.29%	= 8.41%
13	PNY	PIEDMONT NATURAL GAS COMPANY	3.83%	+ 3.01%	= 6.83%
14	SJI	SOUTH JERSEY INDUSTRIES, INC.	3.18%	+ 9.61%	= 12.79%
15	SWX	SOUTHWEST GAS CORPORATION	2.78%	+ 6.39%	= 9.17%
16	WGL	WGL HOLDINGS, INC.	4.12%	+ 3.67%	= 7.79%
17		NATURAL GAS LDC AVERAGE			8.76%

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

FAR WEST WATER & SEWER, INC.
 TEST YEAR ENDED DECEMBER 31, 2011
 DIVIDEND YIELD CALCULATION

DOCKET NO. WS-03478A-12-0307
 SCHEDULE WAR - 3

LINE NO.	STOCK SYMBOL	COMPANY	(A) ESTIMATED DIVIDEND (PER SHARE) /	(B) AVERAGE STOCK PRICE (PER SHARE) =	(C) DIVIDEND YIELD
1	AWK	AMERICAN WATER WORKS COMPANY, INC.	\$1.00 /	\$37.56 =	2.66%
2	AWR	AMERICAN STATES WATER CO.	1.42 /	47.58 =	2.98%
3	CWT	CALIFORNIA WATER SERVICE GROUP	0.63 /	18.34 =	3.44%
4	MSEX	MIDDLESEX WATER COMPANY	0.75 /	19.07 =	3.93%
5	SJW	SJW CORPORATION	0.71 /	25.35 =	2.80%
6	WTR	AQUA AMERICA, INC.	0.70 /	25.55 =	2.74%
7		WATER COMPANY AVERAGE			3.09%
8	GAS	AGL RESOURCES, INC.	\$1.84 /	\$39.97 =	4.60%
9	ATO	ATMOS ENERGY CORP.	1.40 /	35.57 =	3.94%
10	LG	LACLEDE GROUP, INC.	1.66 /	39.01 =	4.26%
11	NJR	NEW JERSEY RESOURCES CORPORATION	1.60 /	40.16 =	3.98%
12	NWN	NORTHWEST NATURAL GAS CO.	1.82 /	44.09 =	4.13%
13	PNY	PIEDMONT NATURAL GAS COMPANY	1.20 /	31.35 =	3.83%
14	SJI	SOUTH JERSEY INDUSTRIES, INC.	1.61 /	50.67 =	3.18%
15	SWX	SOUTHWEST GAS CORPORATION	1.18 /	42.42 =	2.78%
16	WGL	WGL HOLDINGS, INC.	1.60 /	38.83 =	4.12%
17		NATURAL GAS LDC AVERAGE			3.87%

REFERENCES:

COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/18/2012 (WATER COMPANIES) AND 12/07/2012 (NATURAL GAS LDC's).
 COLUMN (B): EIGHT WEEK AVERAGE OF ADJUSTED CLOSING PRICES FROM 11/26/2012 TO 01/19/2013
 COLUMN (C): STOCK QUOTES OBTAINED THROUGH YAHOO! FINANCE WEB SITE - HISTORICAL QUOTES (<http://finance.yahoo.com>).
 COLUMN (A) DIVIDED BY COLUMN (B)

NOTE:

CLOSING STOCK PRICES ARE ADJUSTED FOR DIVIDENDS AND STOCK SPLITS.

LINE NO.	STOCK SYMBOL	COMPANY	(A) INTERNAL GROWTH (br)	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	AWK	AMERICAN WATER WORKS COMPANY, INC.	4.50%	+	0.34%	=	4.84%
2	AWR	AMERICAN STATES WATER CO.	5.10%	+	0.54%	=	5.64%
3	CWT	CALIFORNIA WATER SERVICE GROUP	4.50%	+	0.80%	=	5.30%
4	MSEX	MIDDLESEX WATER COMPANY	3.00%	+	0.59%	=	3.59%
5	SJW	SJW CORPORATION	3.00%	+	1.19%	=	4.19%
6	WTR	AQUA AMERICA, INC.	5.10%	+	0.66%	=	5.76%
7		WATER COMPANY AVERAGE					4.89%
8	GAS	AGL RESOURCES, INC.	2.00%	+	0.00%	=	2.00%
9	ATO	ATMOS ENERGY CORP.	3.50%	+	0.47%	=	3.97%
10	LG	LACLEDE GROUP, INC.	3.90%	+	0.23%	=	4.13%
11	NJR	NEW JERSEY RESOURCES CORPORATION	7.00%	+	0.01%	=	7.01%
12	NWN	NORTHWEST NATURAL GAS CO.	4.00%	+	0.29%	=	4.29%
13	PNY	PIEDMONT NATURAL GAS COMPANY	3.00%	+	0.01%	=	3.01%
14	SJI	SOUTH JERSEY INDUSTRIES, INC.	7.50%	+	2.11%	=	9.61%
15	SWX	SOUTHWEST GAS CORPORATION	6.00%	+	0.39%	=	6.39%
16	WGL	WGL HOLDINGS, INC.	3.50%	+	0.17%	=	3.67%
17		NATURAL GAS LDC AVERAGE					4.90%

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

LINE NO.	STOCK SYMBOL	COMPANY	(A) SHARE GROWTH	(B) $\{ [((M + B) + 1) / 2] - 1 \}$	(C) EXTERNAL GROWTH (sv)
1	AWK	AMERICAN WATER WORKS COMPANY, INC.	1.40%	$\{ [((1.49) + 1) / 2] - 1 \}$	= 0.34%
2	AWR	AMERICAN STATES WATER CO.	1.00%	$\{ [((2.09) + 1) / 2] - 1 \}$	= 0.54%
3	CWT	CALIFORNIA WATER SERVICE GROUP	2.60%	$\{ [((1.62) + 1) / 2] - 1 \}$	= 0.80%
4	MSEX	MIDDLESEX WATER COMPANY	1.90%	$\{ [((1.62) + 1) / 2] - 1 \}$	= 0.59%
5	SJW	SJW CORPORATION	3.70%	$\{ [((1.64) + 1) / 2] - 1 \}$	= 1.19%
6	WTR	AQUA AMERICA, INC.	0.75%	$\{ [((2.76) + 1) / 2] - 1 \}$	= 0.66%
7		WATER COMPANY AVERAGE			0.69%
8	GAS	AGL RESOURCES, INC.	0.01%	$\{ [((1.29) + 1) / 2] - 1 \}$	= 0.00%
9	ATO	ATMOS ENERGY CORP.	2.60%	$\{ [((1.36) + 1) / 2] - 1 \}$	= 0.47%
10	LG	LACLEDE GROUP, INC.	1.00%	$\{ [((1.47) + 1) / 2] - 1 \}$	= 0.23%
11	NJR	NEW JERSEY RESOURCES CORPORATION	0.01%	$\{ [((2.21) + 1) / 2] - 1 \}$	= 0.01%
12	NWN	NORTHWEST NATURAL GAS CO.	0.90%	$\{ [((1.64) + 1) / 2] - 1 \}$	= 0.29%
13	PNY	PIEDMONT NATURAL GAS COMPANY	0.01%	$\{ [((2.26) + 1) / 2] - 1 \}$	= 0.01%
14	SJI	SOUTH JERSEY INDUSTRIES, INC.	3.50%	$\{ [((2.20) + 1) / 2] - 1 \}$	= 2.11%
15	SWX	SOUTHWEST GAS CORPORATION	1.50%	$\{ [((1.52) + 1) / 2] - 1 \}$	= 0.39%
16	WGL	WGL HOLDINGS, INC.	0.60%	$\{ [((1.57) + 1) / 2] - 1 \}$	= 0.17%
17		NATURAL GAS LDC AVERAGE			0.41%

REFERENCES:
 COLUMN (A): TESTIMONY, WAR
 COLUMN (B): VALUE LINE INVESTMENT SURVEY
 - RATINGS & REPORTS DATED 01/18/2013 (WATER COMPANIES) AND 12/07/2012 (NATURAL GAS LDCs)
 COLUMN (C): COLUMN (A) x COLUMN (B)

LINE NO.	STOCK SYMBOL	WATER COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (c)	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	AWK	AMERICAN WATER WORKS COMPANY, INC.	2007	-	NMF	-	28.39	160.00	
2			2008	0.6364	4.60%	2.93%	25.64	160.00	
3			2009	0.3440	5.20%	1.79%	22.91	174.63	
4			2010	0.4379	6.50%	2.85%	23.59	175.00	
5			2011	0.4709	7.20%	3.39%	24.14	175.66	
6			GROWTH 2007 - 2011			2.74%			2.36%
7			2012	0.5826	8.50%	4.95%		177.00	0.78%
8			2013	0.5378	8.50%	4.57%		180.00	1.23%
9			2015-17	0.5000	9.00%	4.50%	2.50%	188.00	1.37%
10									
11	AWR	AMERICAN STATES WATER CO.	2007	0.4074	9.30%	3.79%	17.53	17.23	
12			2008	0.3548	8.60%	3.05%	17.95	17.30	
13			2009	0.3765	8.20%	3.09%	19.39	18.53	
14			2010	0.5315	11.00%	5.85%	20.26	18.63	
15			2011	0.5089	10.30%	5.24%	21.68	18.85	
16			GROWTH 2007 - 2011			4.20%	5.00%		2.27%
17			2012	0.5208	10.50%	5.47%		19.00	0.80%
18			2013	0.4630	11.00%	5.09%		19.20	0.92%
19			2015-17	0.4286	12.00%	5.14%	2.50%	19.60	0.78%
20									
21	CWT	CALIFORNIA WATER SERVICE GROUP	2007	0.2267	8.10%	1.84%	9.25	41.33	
22			2008	0.3789	9.90%	3.75%	9.72	41.45	
23			2009	0.3980	9.60%	3.82%	10.13	41.53	
24			2010	0.3407	8.60%	2.93%	10.45	41.67	
25			2011	0.2791	8.00%	2.23%	10.76	41.82	
26			GROWTH 2007 - 2011			2.91%	5.00%		0.30%
27			2012	0.3505	8.50%	2.98%		42.25	1.03%
28			2013	0.3905	9.00%	3.51%		44.00	2.57%
29			2015-17	0.4462	10.50%	4.68%	3.50%	47.00	2.36%
30									
31	MSEX	MIDDLESEX WATER COMPANY	2007	0.2069	8.70%	1.80%	10.05	13.25	
32			2008	0.2135	8.90%	1.90%	10.03	13.40	
33			2009	0.0139	7.00%	0.10%	10.33	13.52	
34			2010	0.2500	8.20%	2.05%	11.13	15.57	
35			2011	0.1310	7.60%	1.00%	11.27	15.70	
36			GROWTH 2007 - 2011			1.37%	5.50%		4.33%
37			2012	0.1778	7.50%	1.33%		16.00	1.91%
38			2013	0.2500	8.00%	2.00%		16.25	1.74%
39			2015-17	0.3600	9.00%	3.24%	3.50%	17.25	1.90%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
 RATINGS & REPORTS DATED 01/18/2013
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (D): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2007 - 2011

COLUMN (D): VALUE LINE INVESTMENT SURVEY
 COLUMN (E): LINES 6, 16, 26 & 36, COMPOUND GROWTH RATE
 COLUMN (F): 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)	(B) RETURN ON BOOK EQUITY (c) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	SJW	SJW CORPORATION	2007	0.4135	8.20%	3.39%	12.90	18.36	
2			2008	0.3981	8.00%	3.19%	13.99	18.18	
3			2009	0.1852	6.00%	1.11%	13.66	18.50	
4			2010	0.1905	6.20%	1.18%	13.75	18.55	
5			2011	0.3784	7.90%	2.99%	14.20	18.59	
6			GROWTH 2007 - 2011			2.37%	4.50%		0.31%
7			2012	0.3238	7.00%	2.27%		18.75	0.86%
8			2013	0.3917	7.50%	2.94%		20.00	3.72%
9			2015-17	0.4483	7.00%	3.14%	3.50%	22.00	3.43%
10									
11	WTR	AQUA AMERICA, INC.	2007	0.3239	9.70%	3.14%	7.32	133.40	
12			2008	0.3014	9.30%	2.80%	7.82	135.37	
13			2009	0.2857	9.40%	2.69%	8.12	136.49	
14			2010	0.3444	10.60%	3.65%	8.51	137.97	
15			2011	0.3981	11.40%	4.54%	9.01	138.87	
16			GROWTH 2007 - 2011			3.36%	7.00%		1.01%
17			2012	0.3619	11.00%	3.98%		140.90	1.46%
18			2013	0.3826	11.50%	4.40%		141.90	1.09%
19			2015-17	0.4074	12.50%	5.09%	4.00%	143.90	0.71%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/18/2013
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (E): LINES 6, & 16, SIMPLE AVERAGE GROWTH, 2007 - 2011

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

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (c) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	GAS	AGL RESOURCES, INC.	2007	0.3971	12.70%	5.04%	21.74	76.40	
2			2008	0.3801	12.60%	4.79%	21.48	76.90	
3			2009	0.4028	12.50%	5.03%	22.95	77.54	
4			2010	0.4133	12.90%	5.33%	23.24	78.00	
5			2011	0.1038	5.20%	0.54%	28.54	117.00	
6			GROWTH 2007 - 2011			4.15%	5.50%		11.24%
7			2012	0.3556	3.00%	1.07%		117.00	0.00%
8			2013	0.4250	4.50%	1.91%		117.00	0.00%
9			2015-17	0.4842	5.50%	2.66%	5.00%	117.00	0.00%
10									
11	ATO	ATMOS ENERGY CORP.	2007	0.3402	8.70%	2.96%	22.01	89.33	
12			2008	0.3500	8.80%	3.08%	22.60	90.81	
13			2009	0.3299	8.30%	2.74%	23.52	92.55	
14			2010	0.3796	9.20%	3.49%	24.16	90.16	
15			2011	0.3982	8.80%	3.50%	24.98	90.30	
16			GROWTH 2007 - 2011			3.16%	4.50%		0.27%
17			2012	0.3429	8.00%	2.74%		90.00	-0.33%
18			2013	0.4043	8.00%	3.23%		91.00	0.39%
19			2015-17	0.4519	8.00%	3.61%	6.00%	103.00	2.67%
20									
21	LG	LACLEDE GROUP, INC.	2007	0.3723	11.60%	4.32%	19.79	21.65	
22			2008	0.4356	11.80%	5.14%	22.12	21.99	
23			2009	0.4760	12.40%	5.90%	23.32	22.17	
24			2010	0.3539	10.10%	3.57%	24.02	22.29	
25			2011	0.4371	11.10%	4.85%	25.56	22.43	
26			GROWTH 2007 - 2011			4.76%	6.50%		0.89%
27			2012	0.4050	10.60%	4.29%		22.62	0.85%
28			2013	0.3895	9.50%	3.70%		23.00	1.26%
29			2015-17	0.4424	10.00%	4.42%	4.50%	23.50	0.94%
30									
31	NJR	NEW JERSEY RESOURCES CORPORATION	2007	0.3484	10.10%	3.52%	15.50	41.61	
32			2008	0.5889	15.70%	9.25%	17.28	42.06	
33			2009	0.4833	14.60%	7.06%	16.59	41.59	
34			2010	0.4472	14.00%	6.26%	17.62	41.17	
35			2011	0.4419	13.70%	6.05%	18.73	41.45	
36			GROWTH 2007 - 2011			6.43%	7.50%		-0.10%
37			2012	0.4381	14.00%	6.15%		41.53	0.19%
38			2013	0.4483	16.00%	7.17%		40.00	-1.76%
39			2015-17	0.5059	14.00%	7.08%	5.50%	40.00	-0.71%

REFERENCES:
 COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 12/07/2012
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2007 - 2011
 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)	(B) RETURN ON BOOK EQUITY (c) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	NWN	NORTHWEST NATURAL GAS CO.	2007	0.4783	12.50%	5.98%	22.52	26.41	
2			2008	0.4086	10.90%	4.45%	23.71	26.50	
3			2009	0.4346	11.40%	4.95%	24.88	26.53	
4			2010	0.3846	10.50%	4.04%	26.08	26.58	
5			2011	0.2678	8.90%	2.38%	26.70	26.76	
6			GROWTH 2007 - 2011			4.36%	4.00%		0.33%
7			2012	0.2044	8.50%	1.74%		27.00	0.90%
8			2013	0.2531	9.00%	2.28%		27.50	1.37%
9			2015-17	0.3778	11.50%	4.34%	1.00%	28.00	0.91%
10									
11	PNY	PIEDMONT NATURAL GAS COMPANY	2007	0.2929	11.90%	3.49%	11.99	73.23	
12			2008	0.3087	12.40%	3.83%	12.11	73.26	
13			2009	0.3593	13.20%	4.74%	12.67	73.27	
14			2010	0.2839	11.60%	3.29%	13.35	72.28	
15			2011	0.2675	11.40%	3.05%	13.79	72.32	
16			GROWTH 2007 - 2011			3.68%	3.00%		-0.31%
17			2012	0.2563	11.50%	2.95%		71.00	-1.83%
18			2013	0.2765	12.00%	3.32%		70.00	-1.62%
19			2015-17	0.2703	12.50%	3.38%	1.50%	68.00	-1.22%
20									
21	SJ	SOUTH JERSEY INDUSTRIES, INC.	2007	0.5167	12.80%	6.61%	16.25	29.81	
22			2008	0.5110	13.10%	6.69%	17.33	29.73	
23			2009	0.4874	13.10%	6.38%	18.24	29.80	
24			2010	0.4963	14.20%	7.05%	19.08	29.87	
25			2011	0.4810	13.90%	6.69%	20.66	30.21	
26			GROWTH 2007 - 2011			6.69%	7.00%		0.50%
27			2012	0.4762	14.00%	6.67%		31.50	4.27%
28			2013	0.4567	13.00%	5.94%		32.50	3.72%
29			2015-17	0.4889	16.00%	7.82%	6.00%	36.00	3.57%
30									
31	SWX	SOUTHWEST GAS CORPORATION	2007	0.5590	8.50%	4.75%	22.98	42.81	
32			2008	0.3525	5.90%	2.08%	23.49	44.19	
33			2009	0.5103	7.90%	4.03%	24.44	45.09	
34			2010	0.5595	8.90%	4.98%	25.62	45.56	
35			2011	0.5638	9.20%	5.19%	26.66	45.96	
36			GROWTH 2007 - 2011			4.21%	5.00%		1.79%
37			2012	0.5662	9.50%	5.38%		46.50	1.17%
38			2013	0.5439	9.50%	5.17%		47.00	1.13%
39			2015-17	0.5733	10.50%	6.02%	6.00%	50.00	1.70%

REFERENCES:
 COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 12/07/2012
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (D): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2007 - 2011
 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)	(B) RETURN ON BOOK EQUITY (c) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	WGL	WGL HOLDINGS, INC.	2007	0.3445	10.40%	3.58%	19.83	49.45	
2			2008	0.4221	10.40%	4.39%	20.99	49.92	
3			2009	0.4190	11.60%	4.86%	21.89	50.14	
4			2010	0.3392	9.90%	3.36%	22.82	50.54	
5			2011	0.3111	9.50%	2.96%	23.49	51.20	
6			GROWTH 2007 - 2011			3.83%	5.00%		0.87%
7			2012	0.4067	11.00%	4.47%		51.50	0.59%
8			2013	0.3480	10.00%	3.48%		51.75	0.54%
9			2015-17	0.3636	9.50%	3.45%	4.00%	52.00	0.31%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 12/07/2012
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (D): LINE 6, SIMPLE AVERAGE GROWTH, 2007 - 2011

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

FAR WEST WATER & SEWER, INC.
TEST YEAR ENDED DECEMBER 31, 2011
GROWTH RATE COMPARISON

WATER COMPANY SAMPLE:

LINE NO.	STOCK SYMBOL	(A)		(B)		(C)		(D)		(E)		(F)	
		(br) + (sv)	ZACKS	EPS	EPS	DPS	BVPS	EPS	DPS	EPS	DPS	EPS	DPS
1	AWK	4.84%	8.50%	9.00%	2.50%	6.50%	2.50%	-	-	-	6.83%	-	-
2	AWR	5.64%	6.00%	5.50%	2.50%	7.50%	2.50%	11.50%	2.50%	5.00%	5.79%	8.44%	3.46%
3	CWT	5.30%	5.00%	6.00%	3.50%	3.00%	3.50%	5.00%	1.00%	5.00%	4.07%	3.48%	1.68%
4	MSEX	3.59%	-	7.00%	3.50%	1.50%	3.50%	4.50%	1.50%	5.50%	3.92%	-0.87%	1.42%
5	SJW	4.19%	-	8.00%	3.00%	3.00%	3.50%	-3.00%	5.00%	4.50%	3.50%	1.84%	3.13%
6	WTR	5.76%	6.90%	7.00%	4.00%	5.00%	4.00%	4.50%	8.00%	7.00%	6.08%	9.75%	6.61%
7				7.08%	3.25%	4.42%	4.50%	4.50%	3.60%	5.40%		4.49%	3.26%
8	AVERAGES	4.89%	6.60%		4.92%		4.50%		4.50%		4.98%		3.47%

NATURAL GAS LDC SAMPLE:

LINE NO.	STOCK SYMBOL	(A)		(B)		(C)		(D)		(E)		(F)	
		(br) + (sv)	ZACKS	EPS	EPS	DPS	BVPS	EPS	DPS	EPS	DPS	EPS	DPS
1	GAS	2.00%	4.30%	9.00%	5.00%	6.50%	5.00%	4.50%	7.50%	5.50%	6.04%	-6.04%	3.75%
2	ATO	3.97%	3.00%	4.00%	6.00%	1.50%	6.00%	4.00%	1.50%	4.50%	3.69%	3.89%	1.53%
3	LG	4.13%	3.00%	3.00%	4.50%	2.50%	4.50%	6.00%	2.50%	6.50%	4.00%	5.48%	2.65%
4	NJR	7.01%	4.00%	5.50%	5.50%	4.00%	5.50%	7.00%	8.00%	7.50%	5.93%	13.59%	9.27%
5	NWN	4.29%	4.20%	3.00%	1.00%	2.50%	1.00%	4.50%	4.50%	4.00%	3.39%	-3.53%	5.00%
6	PNY	3.01%	3.70%	2.50%	1.50%	3.50%	1.50%	4.50%	4.00%	3.00%	3.24%	2.91%	3.82%
7	SJI	9.61%	6.00%	9.00%	6.00%	9.00%	6.00%	7.00%	9.50%	7.00%	7.64%	8.44%	10.39%
8	SWX	6.39%	5.00%	9.00%	6.00%	8.00%	6.00%	6.50%	4.00%	5.00%	6.21%	5.68%	5.37%
9	WGL	3.67%	5.30%	2.50%	4.00%	2.50%	4.00%	3.00%	2.50%	5.00%	3.54%	1.86%	3.13%
10				5.28%	4.39%	4.44%	5.22%	5.22%	4.89%	5.33%		3.58%	4.89%
11	AVERAGES	4.90%	4.42%		4.70%		5.15%		5.15%		4.85%		4.48%

REFERENCES:

- COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
- COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
- COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/18/2013 (WATER COMPANIES) AND 12/07/2012 (NATURAL GAS LDC'S)
- COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/18/2013 (WATER COMPANIES) AND 12/07/2012 (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 01/18/2013 (WATER COMPANIES) AND 12/07/2012 (NATURAL GAS LDC'S)

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	(A)			(B)
		$k = r_f + [\beta \times (r_m - r_f)] =$		EXPECTED RETURN	
1	AWK	$k = 2.92\% + [0.65 \times (9.80\% - 5.70\%)] =$		5.59%	
2	AWR	$k = 2.92\% + [0.70 \times (9.80\% - 5.70\%)] =$		5.79%	
3	CWT	$k = 2.92\% + [0.65 \times (9.80\% - 5.70\%)] =$		5.59%	
4	MSEX	$k = 2.92\% + [0.70 \times (9.80\% - 5.70\%)] =$		5.79%	
5	SJW	$k = 2.92\% + [0.85 \times (9.80\% - 5.70\%)] =$		6.41%	
6	WTR	$k = 2.92\% + [0.60 \times (9.80\% - 5.70\%)] =$		5.38%	
7	WATER COMPANY AVERAGE	0.69		5.76%	
8	GAS	$k = 2.92\% + [0.75 \times (9.80\% - 5.70\%)] =$		6.00%	
9	ATO	$k = 2.92\% + [0.70 \times (9.80\% - 5.70\%)] =$		5.79%	
10	LG	$k = 2.92\% + [0.55 \times (9.80\% - 5.70\%)] =$		5.18%	
11	NJR	$k = 2.92\% + [0.65 \times (9.80\% - 5.70\%)] =$		5.59%	
12	NWN	$k = 2.92\% + [0.55 \times (9.80\% - 5.70\%)] =$		5.18%	
13	PNY	$k = 2.92\% + [0.65 \times (9.80\% - 5.70\%)] =$		5.59%	
14	SJI	$k = 2.92\% + [0.65 \times (9.80\% - 5.70\%)] =$		5.59%	
15	SWX	$k = 2.92\% + [0.75 \times (9.80\% - 5.70\%)] =$		6.00%	
16	WGL	$k = 2.92\% + [0.65 \times (9.80\% - 5.70\%)] =$		5.59%	
17	NATURAL GAS LDC AVERAGE	0.66		5.61%	

REFERENCES:

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

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

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

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

NOTES

- (a) AN 8-WEEK AVERAGE OF THE YIELD ON A 30-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 1/15/2012 THROUGH 01/18/2013 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 - 2011 PERIOD MINUS TOTAL RETURNS ON LONG-TERM TREASURIES. DURING THE SAME PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2012 YEARBOOK.

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	(A)	(B) EXPECTED RETURN
1	AWK	$k = r_f + [\beta \times (r_m - r_f)] = 2.92\% + [0.65 \times (11.80\% - 6.10\%)] =$	6.63%
2	AWR	$k = 2.92\% + [0.70 \times (11.80\% - 6.10\%)] =$	6.91%
3	CWT	$k = 2.92\% + [0.65 \times (11.80\% - 6.10\%)] =$	6.63%
4	MSEX	$k = 2.92\% + [0.70 \times (11.80\% - 6.10\%)] =$	6.91%
5	SJW	$k = 2.92\% + [0.85 \times (11.80\% - 6.10\%)] =$	7.77%
6	WTR	$k = 2.92\% + [0.60 \times (11.80\% - 6.10\%)] =$	6.34%
7	WATER COMPANY AVERAGE	0.69	6.87%
8	GAS	$k = 2.92\% + [0.75 \times (11.80\% - 6.10\%)] =$	7.20%
9	ATO	$k = 2.92\% + [0.70 \times (11.80\% - 6.10\%)] =$	6.91%
10	LG	$k = 2.92\% + [0.55 \times (11.80\% - 6.10\%)] =$	6.06%
11	NJR	$k = 2.92\% + [0.65 \times (11.80\% - 6.10\%)] =$	6.63%
12	NWN	$k = 2.92\% + [0.55 \times (11.80\% - 6.10\%)] =$	6.06%
13	PNY	$k = 2.92\% + [0.65 \times (11.80\% - 6.10\%)] =$	6.63%
14	SJI	$k = 2.92\% + [0.65 \times (11.80\% - 6.10\%)] =$	6.63%
15	SWX	$k = 2.92\% + [0.75 \times (11.80\% - 6.10\%)] =$	7.20%
16	WGL	$k = 2.92\% + [0.65 \times (11.80\% - 6.10\%)] =$	6.63%
17	NATURAL GAS LDC AVERAGE	0.68	6.66%

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

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

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

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

NOTES

- (a) AN 8-WEEK AVERAGE OF THE YIELD ON A 30-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEYS' "SELECTION & OPINIONS" PUBLICATION FROM 11/30/2012 THROUGH 01/18/2013 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 - 2011 PERIOD MINUS TOTAL RETURNS ON LONG-TERM TREASURIES DURING THE SAME PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2012 YEARBOOK.

FAR WEST WATER & SEWER, INC.
 DOCKET NO. WS-03478A-12-0307
 ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. WS-03478A-12-0307
 SCHEDULE WAR - 8

LINE NO.	YEAR	(A) CHANGE IN CPI	(B) CHANGE IN GDP (1986 \$)	(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%	8.28%
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%	4.87%	4.64%	4.64%	7.62%	7.88%
11	2000	3.98%	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%	3.40%	7.59%	8.02%
13	2002	1.59%	1.60%	4.67%	1.17%	1.67%	1.61%	1.61%	7.41%	7.98%
14	2003	2.27%	2.50%	4.12%	2.03%	1.13%	1.01%	1.01%	6.18%	6.64%
15	2004	2.68%	3.60%	4.34%	2.34%	1.35%	1.37%	1.37%	5.77%	6.20%
16	2005	3.39%	2.80%	6.16%	4.19%	3.22%	3.15%	3.15%	5.38%	5.78%
17	2006	3.24%	2.80%	7.97%	5.96%	4.87%	4.73%	4.81%	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%	5.08%	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	2011	3.00%	1.70%	3.25%	0.75%	0.00% - 0.25%	0.05%	3.83%	5.06%	5.58%
23	2012	1.70%	2.20%	3.25%	0.75%	0.00% - 0.25%	0.08%	2.92%	3.99%	4.42%
24	CURRENT	1.70%	2.20%	3.25%	0.75%	0.00% - 0.25%	0.05%	3.10%	4.00%	4.36%

REFERENCES:

COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
 COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS
 COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
 COLUMN (C) THROUGH (D): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 01/18/2013
 COLUMN (F) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 01/18/2013
 COLUMN (H) THROUGH (I): 1990 - 2000, MOODY'S PUBLIC UTILITY REPORTS
 COLUMN (H) THROUGH (I): 2001, MERGENT 2002 PUBLIC UTILITY MANUAL
 COLUMN (H) THROUGH (I): 2003 MERGENT NEWS REPORTS

AVERAGE CAPITAL STRUCTURES OF SAMPLE WATER COMPANIES (000's)

LINE NO.	AWK	PCT.	AWR	PCT.	CWT	PCT.	SJW	PCT.	MSEX	PCT.
1	\$ 5,339.9	55.6%	\$ 340.6	45.5%	\$ 479.2	52.4%	\$ 343.8	56.6%	\$ 132.2	42.3%
2										
3	25.7	0.3%	0.0	0.0%	0.0	0.0%	0.0	0.0%	3.3	1.1%
4										
5	4,235.8	44.1%	408.6	54.5%	435.5	47.8%	264.0	43.4%	177.0	56.6%
6										
7	\$ 9,601.4	100%	\$ 749.2	100%	\$ 914.7	100%	\$ 607.8	100%	\$ 312.5	100%
8										
9										
10										
11										
12	\$ 1,395.4	52.7%	\$ 1,338.5	54.1%						
13										
14	0.0	0.0%	4.8	0.2%						
15										
16	1,251.8	47.3%	1,128.8	45.7%						
17										
18	\$ 2,647.2	100%	\$ 2,472.1	100%						

WATER COMPANY

WTR	PCT.	AVERAGE	PCT.
\$ 1,395.4	52.7%	\$ 1,338.5	54.1%
0.0	0.0%	4.8	0.2%
1,251.8	47.3%	1,128.8	45.7%
\$ 2,647.2	100%	\$ 2,472.1	100%

AVERAGE CAPITAL STRUCTURES OF SAMPLE NATURAL GAS COMPANIES (000's)

LINE NO.	AGL	PCT.	ATO	PCT.	LG	PCT.	NJR	PCT.	NWN	PCT.
1	\$ 3,561.0	51.6%	\$ 1,956.3	45.3%	\$ 339.4	40.9%	\$ 525.1	39.2%	\$ 641.7	47.3%
2										
3	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
4										
5	3,339.0	48.4%	2,359.2	54.7%	491.3	59.1%	813.9	60.8%	714.5	52.7%
6										
7	\$ 6,900.0	100%	\$ 4,315.5	100%	\$ 830.7	100%	\$ 1,339.0	100%	\$ 1,356.2	100%
8										
9										
10										
11										
12										
13	\$ 675.0	40.4%	\$ 424.2	40.5%	\$ 930.8	43.2%	\$ 589.2	31.2%	\$ 1,071.4	44.8%
14										
15	0.0	0.0%	0.0	0.0%	0.0	0.0%	28.2	1.5%	3.1	0.1%
16										
17	996.9	59.6%	624.1	59.5%	1,225.0	56.8%	1,269.5	67.3%	1,314.8	55.0%
18										
19	\$ 1,671.9	100%	\$ 1,048.3	100%	\$ 2,155.8	100%	\$ 1,886.9	100%	\$ 2,389.4	100%
20										
21										
22										
23										
24	\$ 1,205.0	49.6%								
25										
26	1.6	0.1%								
27										
28	1,221.8	50.3%								
29										
30	\$ 2,428.3	100%								
31										

WATER & LDC

AVERAGE	PCT.
\$ 1,205.0	49.6%
1.6	0.1%
1,221.8	50.3%
\$ 2,428.3	100%

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

FAR WEST WATER & SEWER, INC.

DOCKET NO. WS-03478A-12-0307

DIRECT TESTIMONY

OF

TIMOTHY J. COLEY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

FEBRUARY 8, 2013

TABLE OF CONTENTS

1

2 EXECUTIVE SUMMARY..... i

3 INTRODUCTION..... 1

4 BACKGROUND 2

5 SUMMARY OF REVENUE REQUIREMENT 3

6 SUMMARY OF RATE BASE ADJUSTMENTS 4

7 Rate Base Adjustment #1(a) – Excess Plant Capacity 4

8 Rate Base Adjustment #1(b) – Remove Accumulated Depreciation Related to

9 the Excess Plant Capacity 4

10 Rate Base Adjustment #1(c) – Remove AIAC and Net CIAC Related to Excess

11 Plant Capacity 5

12 Rate Base Adjustment #2 – Intentionally Left Blank 5

13 Rate Base Adjustment #3 – Intentionally Left Blank 5

14 Rate Base Adjustment #4 – Working Capital 5

15

16 SUMMARY OF OPERATING INCOME ADJUSTMENTS 6

17 Operating Income Adjustment #1 – Depreciation Expense 6

18 Operating Income Adjustment #2 – Property Tax Expense 6

19 Operating Income Adjustment #3 – 3-Year Normalization of Repairs and

20 Maintenance Expense 7

21 Operating Income Adjustment #4 – Salaries & Wage Expense – Officers and

22 Directors 7

23 Operating Income Adjustment #5 – Salaries & Wage Expense 7

24 Operating Income Adjustment #6 – Merit Pay Expense 8

25 Operating Income Adjustment #7 – 3-Year Normalization of Bad Debt Expense

26 8

27 Operating Income Adjustment #8 – Intentionally Left Blank 8

28 Operating Income Adjustment #9 – Intentionally Left Blank 8

29 Operating Income Adjustment #10 – Intentionally Left Blank 8

30 Operating Income Adjustment #11 – Income Tax Expense 9

31

32 RATE BASE ADJUSTMENTS..... 9

33 Rate Base Adjustment #1(a) – Excess Plant Capacity 9

34 Rate Base Adjustment #1(b) – Remove Accumulated Depreciation Related to

35 the Excess Plant Capacity 11

1	Rate Base Adjustment #1(c) – Remove AIAC and Net CIAC Related to Excess	
2	Plant Capacity	11
3	Rate Base Adjustment #2 – Intentionally Left Blank.....	13
4	Rate Base Adjustment #3 – Intentionally Left Blank.....	13
5	Rate Base Adjustment #4 – Working Capital.....	13
6		
7	OPERATING INCOME ADJUSTMENTS	19
8	Operating Income Adjustment #1 – Depreciation Expense	19
9	Operating Income Adjustment #2 – Property Tax Expense.....	19
10	Operating Income Adjustment #3 – Repairs & Maintenance Expense	20
11	Operating Income Adjustment #4 – Salaries & Wage Expense – Officers and	
12	Directors	21
13	Operating Income Adjustment #5 – Salaries & Wage Expense.....	22
14	Operating Income Adjustment #6 – Salary & Wage Exp. – Merit Pay	23
15	Operating Income Adjustment #7 – Bad Debt Expense	25
16	Operating Income Adjustment #8 – Intentionally Left Blank	26
17	Operating Income Adjustment #9 – Intentionally Left Blank	26
18	Operating Income Adjustment #10 – Intentionally Left Blank	26
19	Operating Income Adjustment #11 – Income Tax Expense.....	27
20		
21	OTHER ISSUES	28
22		

EXECUTIVE SUMMARY

Far West Water & Sewer, Inc. (“Far West” or “Company”) is a Class A public service Water and Sewer Corporation organized as a C corporation under Title 8 and Chapter 1 of the Internal Revenue Code. The Company serves approximately 15,500 water customers and 7,824 wastewater customers in portions of Yuma County, Arizona.

Far West filed a general rate Application for the Company’s Sewer Division with the Arizona Corporation Commission (“ACC” or “Commission”) on July 6, 2012 using a test year that ended on December 31, 2011 (“Test Year”).

For Far West Sewer Division, the Company is requesting a gross revenue increase of \$3,866,046 or a 173.52 percent increase over Test Year adjusted revenue of \$2,227,982.

RUCO is recommending a \$2,658,963 or 119.34 percent increase over the Sewer Division’s Test Year adjusted revenue of \$2,227,982.

The Company is seeking a 7.409 percent rate of return on a \$22,800,578 Sewer Division fair value rate base for an operating income of \$1,689,390. RUCO recommends a 7.30 percent rate of return on a \$16,399,350 fair value rate base for an operating income of \$1,197,153.

RUCO’s adjusted Test Year rate base and operating income recommendations for Far West’s Sewer Division reflects four rate base adjustments totaling \$6,401,228 that reduced the Company-proposed rate base from \$22,800,578 to \$16,399,350; and eight adjusted Test Year operating income adjustments totaling \$783,648 that increased the Company’s Test Year adjusted operating income from a negative \$1,187,812 to a negative \$404,164.

RUCO’s recommended operating income is comprised of four adjustments to flat rate revenue, bad debt expense, property tax expense, and income tax expense totaling \$1,601,317 that increased RUCO’s recommended operating income from an adjusted Test Year amount of a negative \$404,164 to a positive \$1,197,153.

RUCO consultants Thomas H. Fish, Ph.D and Royce A. Duffet P.E., of Ariadair Economics Group will provide direct testimony on Far West’s Sewer rate Application regarding excess capacity.

RUCO’s Chief of Accounting and Rates, William A. Rigsby, will provide direct testimony on RUCO’s recommended cost of capital.

1 **INTRODUCTION**

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

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

6

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

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

12

13 **Q. Please state the purpose of your testimony.**

14 A. The purpose of my testimony is to present RUCO’s recommendations
15 regarding Far West Water & Sewer, Inc. (“Far West” or “Company”)
16 Sewer Division’s rate Application for a determination of the current fair
17 value of its utility plant and property and for a permanent increase in its
18 rates and charges based thereon for utility service. The Test Year
19 utilized by the Company in connection with the preparation of this
20 Application is the 12-month period that ended December 31, 2011 (“Test
21 Year”).

22

23

1 **BACKGROUND**

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

3 A. I reviewed prior Commission decisions on Far West, obtained and
4 reviewed data responses and performed analytical procedures on the
5 Company's standard filing schedules in order to understand the
6 Company's Application as it relates to rate base, operating income, and
7 required revenue. My recommendations are based on these analyses.
8 Procedures performed included the in-house formulation and analysis of
9 five sets of data requests. I also reviewed and analyzed the Company's
10 responses to Commission Staff's data requests, and coordinated my
11 work with RUCO's consultants at Ariadair Economics Group.

12
13 RUCO's participation in this proceeding is the cumulative effort of four
14 RUCO witnesses; myself (Timothy J. Coley), William A. Rigsby, and
15 Thomas H. Fish, Ph.D. and Royce A. Duffet P.E. of Ariadair Economics
16 Group. I was responsible for the working capital component of rate base
17 and all operating income components that determine RUCO's required
18 revenue recommendations. RUCO's Chief of Accounting and Rates, Mr.
19 Rigsby, will present separate testimony on RUCO's cost of capital
20 recommendation. Dr. Fish and Mr. Duffet will also provide separate
21 testimony on RUCO's recommended excess capacity adjustments
22 pertaining to plant, accumulated depreciation, advances in aid of

1 construction (“AIAC”), net contributions in aid of construction (“CIAC”),
2 and depreciation expense on a going forward basis.

3

4 **Q. Will RUCO sponsor its rate design testimony in this proceeding?**

5 A. Yes. RUCO’s rate design testimony will be filed under separate cover on
6 February 19, 2013.

7

8 **Q. Please identify the schedules and exhibits that you are sponsoring.**

9 A. I am sponsoring required revenue schedules numbered TJC-1 through
10 TJC-16.

11

12 **SUMMARY OF REVENUE REQUIREMENT**

13 **Q. Please summarize RUCO’s overall revenue requirement**
14 **recommendations.**

15 A. As can be seen on my Schedule TJC-1, a comparison between
16 the Company’s and RUCO’s recommended rate bases, operating income
17 levels, and revenue increases are presented, respectively, below:

18	<u>Far West</u>	<u>RUCO</u>	<u>Far West</u>	<u>RUCO</u>
19	<u>Rate Base</u>	<u>Rate Base</u>	<u>Operating Income</u>	<u>Operating Income</u>
20				
21	\$ 22,800,578	\$ 16,399,350	\$ 1,689,390	\$ 1,197,153
22	<u>Far West Revenue</u>	<u>RUCO Revenue</u>	<u>Far West Revenue</u>	<u>RUCO Revenue</u>
23	<u>\$’s Increase</u>	<u>\$’s Increase</u>	<u>% Increase</u>	<u>% Increase</u>
24				
25	\$ 3,866,046	\$ 2,658,963	173.52%	119.34%

26

27

1 **SUMMARY OF RATE BASE ADJUSTMENTS**

2 **Q. Please summarize RUCO's recommended rate base adjustments.**

3 A. RUCO's testimony addresses the following rate base adjustments:

4

5 Rate Base Adjustment #1(a) – Excess Plant Capacity

6 This adjustment quantifies RUCO's consultants' excess plant capacity
7 determination. The adjustment reduces gross depreciable plant
8 requested by the Company in this proceeding by \$10,936,720 or 30.1
9 percent. The rationale for the adjustment is fully explained in the
10 testimonies of Dr. Fish and Mr. Duffet.

11

12 Rate Base Adjustment #1(b) – Remove Accumulated Depreciation

13 Related to Excess Plant Capacity

14 This is a corresponding adjustment to the excess plant capacity in
15 adjustment 1(a) above and removes the same 30.1 percent of
16 accumulated depreciation related to excess plant capacity. The
17 adjustment reduces accumulated depreciation by \$1,488,666. The
18 rationale for the adjustment is also fully explained in the testimonies of
19 Dr. Fish and Mr. Duffet.

20

21

22

1 Rate Base Adjustment #1(c) – Remove AIAC and Net CIAC Related to
2 Excess Plant Capacity

3 This is a corresponding adjustment to the excess plant capacity in
4 adjustment 1(a) earlier and removes the same 30.1 percent of AIAC,
5 CIAC, and amortization of CIAC related to excess plant capacity. The
6 adjustment reduces the AIAC balance as filed by the Company in the
7 amount of \$3,255,306. The adjustment also reduces the CIAC balance
8 as filed by the Company in the amount of \$519,783 and reduces the
9 amortization balance of CIAC by \$273,736. The rationale for the
10 adjustment is also explained in the testimonies of Dr. Fish and Mr. Duffet.

11
12 Rate Base Adjustment #2 – Intentionally Left Blank

13
14 Rate Base Adjustment #3 – Intentionally Left Blank

15
16 Rate Base Adjustment #4 – Working Capital

17 This adjustment reduces the cash working capital component of working
18 capital in the amount of \$454,526 primarily by excluding all non-cash
19 expense items, including all cash expense items, and adjusting the
20 revenue lag days in the lead/lag study as provided in the Company's rate
21 Application.

1 **SUMMARY OF OPERATING INCOME ADJUSTMENTS**

2 **Q. Please summarize RUCO's recommended operating income**
3 **adjustments.**

4 **A. RUCO's testimony addresses the following operating income**
5 **adjustments:**

6

7 Operating Income Adjustment #1 – Depreciation Expense

8 This adjustment is a companion adjustment to RUCO's rate base
9 adjustments 1(a), 1(b), and 1(c) described earlier. The adjustment
10 removes the same 30.1 percent of depreciable account balances related
11 to the excess plant capacity adjustment and depreciates those plant
12 balances at the Company's proposed depreciation rates. The adjustment
13 reduces the Company's requested depreciation expense of \$1,497,193
14 by \$451,872 to \$1,045,320 on an annual going forward basis.

15

16 Operating Income Adjustment #2 – Property Tax Expense

17 RUCO did not make a recommended adjusted test year property tax
18 expense adjustment. However, RUCO does recommend a going forward
19 adjustment to increase property tax expense by \$36,715, which is
20 \$16,667 less than the Company's proposed increase of \$53,382. This
21 adjustment calculates property tax expense based on a modified Arizona
22 Department of Revenue ("ADOR") formula that has been adopted by the
23 Commission in a number of prior rate cases. The reason for this

1 adjustment is entirely due to the different proposed levels of the required
2 increase to the gross revenue requirement between RUCO and the
3 Company.

4
5 Operating Income Adjustment #3 – 3-Year Normalization of Repairs and
6 Maintenance Expense

7 This adjustment normalizes the repairs and maintenance expense over a
8 3-year period for a more normal expense level on a going forward basis.
9 The adjustment reduces the expense by \$47,095.

10
11 Operating Income Adjustment #4 – Salaries & Wage Expense – Officers
12 and Directors

13 This adjustment, which is related to one of the two officers and directors
14 of the Company, decreases the salaries and wages expense account by
15 \$54,800. An accompanying adjustment is required to reduce the payroll
16 tax expense in the amount of \$4,192.

17
18 Operating Income Adjustment #5 – Salaries & Wage Expense

19 This adjustment reflects the difference between the amount of salaries
20 and wage expense shown on the Company's payroll allocation to NARUC
21 Account 601 and the general ledger amount, as shown in response to
22 Staff DR JA – 3.34. The adjustment decreases the Company-proposed
23 level of salary and wage expense by \$1,362.

1 Operating Income Adjustment #6 – Merit Pay Expense

2 This adjustment allocates 50 percent of the merit pay expense to the
3 shareholders to be shared 50/50 between ratepayers and shareholders.
4 The adjustment decreases the Company's adjusted Test Year expense
5 by \$6,620. An accompanying adjustment is also required to reduce the
6 payroll tax expense in the amount of \$506.

7

8 Operating Income Adjustment #7 – 3-Year Normalization of Bad Debt
9 Expense

10 This adjustment recognizes the fact that the Company's Test Year
11 expense for bad debt reflects two years of the expense. To smooth the
12 level of the expense out, it is necessary to normalize the expense over a
13 three year period. The adjustment decreases the Company's adjusted
14 Test Year expense as filed by \$20,450.

15

16 Operating Income Adjustment #8 – Intentionally Left Blank

17

18 Operating Income Adjustment #9 – Intentionally Left Blank

19

20 Operating Income Adjustment #10 – Intentionally Left Blank

21

22

23

1 Operating Income Adjustment #11 – Income Tax Expense

2 This adjustment reflects RUCO's level of income taxes on its
3 recommended adjusted Test Year operating income before income taxes.

4 The adjustment reduces the expense by \$196,750 from a negative
5 \$676,904 to a negative \$873,655.

6

7 **RATE BASE ADJUSTMENTS**

8 **Q. Please address and explain the rate base adjustments made by**
9 **RUCO in this proceeding.**

10 A. RUCO made four adjustments to the Company-proposed level of rate
11 base, which are explained on the succeeding pages and in the
12 testimonies of Dr. Fish and Mr. Duffet.

13

14 Rate Base Adjustment #1(a) – Excess Plant Capacity

15 **Q. Please explain RUCO's excess plant capacity adjustment.**

16 A. Dr. Fish and Mr. Duffet explain the methodologies utilized in determining
17 the excess capacity adjustment in their respective testimonies. I have
18 included Schedule TJC-4(a) in my revenue requirement schedules that
19 reflect the results of their excess capacity analysis and findings.

20

21

22 ...

23

1 **Q. What does your Schedule TJC-4(a) reflect regarding Dr. Fish and Mr.**
2 **Duffet’s recommendations regarding excess plant capacity?**

3 A. Dr. Fish and Mr. Duffet’s review and evaluation determined that 30.1
4 percent of the investment in wastewater treatment should be considered
5 excess plant capacity to current Far West customers and the 30.1
6 percent of excess capacity balance “could be beneficial to future Far
7 West wastewater customers.” RUCO Schedule TJC-4(a) reflects that
8 30.1 percent should be removed from depreciable utility plant in service
9 as an excess capacity adjustment.

10

11 **Q. What adjustment does RUCO recommend to remove the excess**
12 **capacity from rate base that was determined by Dr. Fish and Mr.**
13 **Duffet’s review and evaluation?**

14 A. As reflected in RUCO Schedule TJC-4(a) in column [E] on line 32,
15 RUCO’s excess capacity adjustment removes 30.1 percent from the
16 Company’s depreciable plant balance of \$36,334,619¹, which results in a
17 deduction to rate base in the amount of \$10,936,720. This adjustment is
18 shown on RUCO Schedules TJC-2 and TJC-3 with the details on
19 Schedule TJC-4(a).

20

21

¹ Far West’s rate Application as filed reflects gross utility plant in service of \$37,751,132 less non-depreciable franchise costs of \$3,076 and land and land rights of \$1,413,437 that equals \$36,334,619 of depreciable plant as filed.

1 Rate Base Adjustment #1(b) – Remove Accumulated Depreciation
2 Related to the Excess Plant Capacity

3 **Q. Please explain RUCO’s rate base adjustment #1(b).**

4 A. The adjustment removes the same 30.1 percent referenced in adjustment
5 1(a) above from the Company’s accumulated depreciation balance as
6 filed, which was determined to be excess capacity. RUCO Schedule
7 TJC-4(b) reflects the recommended adjustment. The adjustment reflects
8 the findings presented by Dr. Fish and Mr. Duffet.

9
10 **Q. What adjustment to accumulated depreciation is necessary to**
11 **reflect the excess capacity factor of 30.1 percent?**

12 A. The Company’s rate Application as filed shows an accumulated
13 depreciation balance of \$4,945,733. The application of the 30.1 excess
14 capacity factor produces an adjustment that decreases the accumulated
15 depreciation balance by \$1,488,666. This adjustment is shown on RUCO
16 Schedules TJC-2 and TJC-3 with the details on Schedule TJC-4(b).

17
18 Rate Base Adjustment #1(c) – Remove AIAC and Net CIAC Related to
19 Excess Plant Capacity

20 **Q. Please explain RUCO’s rate base adjustment #1(c).**

21 The adjustment removes the same 30.1 percent referenced in
22 adjustments above from the Company’s AIAC, CIAC, and amortization of
23 CIAC balances as filed by the Company, which increases rate base and

1 was determined to be related to the excess plant capacity. RUCO
2 Schedule TJC-4(c) reflects the recommended adjustment. The
3 adjustment reflects the findings presented by Dr. Fish and Mr. Duffet.

4

5 **Q. What adjustment to the Company's AIAC, CIAC, and amortization of**
6 **CIAC balances as filed by Far West are necessary to reflect the**
7 **excess capacity factor of 30.1 percent?**

8 A. The Company's rate Application as filed shows an AIAC balance of
9 \$10,814,970. The application of the 30.1 excess capacity factor
10 produces an adjustment that decreases the AIAC balance by \$3,255,306
11 to \$7,559,664. This adjustment is shown on RUCO Schedules TJC-2
12 and TJC-3 with the details on Schedule TJC-4(c).

13

14 For the Company's CIAC and amortization of CIAC balances, Far West's
15 CIAC and amortization of CIAC balances as filed by the Company shows
16 balances of \$1,726,854 and \$909,423, respectively for a net CIAC
17 balance of \$817,431. The application of the 30.1 excess capacity factor
18 produces an adjustment that decreases the CIAC balance by \$519,783 to
19 \$7,559,664. The application of the 30.1 excess capacity factor produces
20 an adjustment that decreases the CIAC amortization balance by
21 \$273,736 to \$635,687 for a net CIAC balance of \$571,384. These
22 adjustments are shown on RUCO Schedules TJC-2 and TJC-3 with the
23 details on Schedule TJC-4(c).

1 Rate Base Adjustment #2 – Intentionally Left Blank

2

3 Rate Base Adjustment #3 – Intentionally Left Blank

4

5 Rate Base Adjustment #4 – Working Capital

6 **Q. Did the Company include and request a working capital component**
7 **in rate base?**

8 A. Yes. The Company included a working capital component in rate base
9 that increases the rate base by \$1,653,938. Far West's working capital
10 request is comprised of four separate elements.

11

12 **Q. What are the four elements that make up the Company's working**
13 **capital component of rate base that increases it by \$1,653,938?**

14 A. The first element is the cash working capital. The second element is
15 comprised of materials and supplies. The third element is for working
16 funds and special deposits, which is primarily to satisfy the covenant
17 required by the Industrial Development Authority bonds to maintain a
18 particular bank balance at all times. Finally, the fourth element is for
19 prepayments.

20

21 **Q. Please explain the concept of working capital.**

22 A. Cash working capital is often defined as the net cash outlay that a utility
23 must furnish to provide service before payment for that service is

1 received from the customers.² A company's cash working capital
2 requirement represents the amount of cash the company must have on
3 hand to cover any differences in the time period between when revenues
4 are received and expenses must be paid. However, it is common for a
5 Class A utility company to receive payments from the customers before
6 the Company's obligations become due to its vendors and employees in
7 order for the company to provide water service to its customers. When a
8 company receives payment from its customers prior to making payments
9 for its obligations to creditors, a negative cash working capital would
10 exist. Thus, a reduction to rate base is necessary. The most accurate
11 way to measure the cash working capital requirement element of working
12 capital is via a lead/lag study. The lead/lag study measures the actual
13 lead and lag days attributable to the individual revenues and expenses.

14

15 **Q. Did the Company include a lead/lag study for calculating its cash**
16 **working capital element in the working capital requirements?**

17 A. Yes.

18

19 **Q. Does RUCO agree with the Company's cash working capital request**
20 **for \$73,359?**

21 A. No.

22

² See *Accounting for Public Utilities* at Section 5.04.

1 **Q. Did RUCO make any adjustments to the Company's lead/lag study?**

2 A. Yes. However, RUCO developed and utilized its own lead/lag study in
3 determining its required cash working capital adjustments.
4

5 **Q. Does RUCO agree with the Company's revenue lag days?**

6 A. No. The Company calculates 9 billing lag days for the meter readers to
7 read the meter and to prepare the bill for mailing to the customer. In Far
8 West – Sewer Division's case, there is no need for a meter read because
9 the sewer rates are based on flat monthly charges with no need for a
10 meter reader in the first place. RUCO eliminated the 9 additional billing
11 lag days related to the meter reader. The Company can mail the bill on
12 the last day of the service period. This billing practice could start to
13 mitigate some of this Company's terrible cash flow problems. RUCO
14 would also suggest the Company also consider a billing policy change for
15 its future sewer division customers to prepay the monthly service charge
16 upon establishing service. This is not an unheard billing practice in the
17 industry.
18

19 **Q. Does RUCO agree with the Company's expense lead/lag days?**

20 A. Yes, with the exception of income taxes. The Company uses zero days
21 for the income tax expense lead/lag days. Far West receives income tax
22 expense in rates from ratepayers regardless of whether or not the
23 Company pays the Internal Revenue Service on an annual basis. It

1 would be inherently unfair to ratepayers not to include the proper lead/lag
2 days associated with income tax expense. By the Company's own
3 admission, and shown on its lead/lag study schedule, the Company
4 reflects positive income tax expense at its proposed level of increase to
5 revenues due to this rate case. RUCO's recommended level of revenue
6 increase also projects positive income tax expense. Therefore, the
7 Commission should accept such a recommendation because rates are
8 being set on a going forward basis, with positive income tax expense,
9 and not on some historical basis, where negative income tax may have
10 been the case at that time.

11

12 **Q. What other element of expenses did RUCO adjust in its lead/lag**
13 **study?**

14 A. RUCO also made operating expense adjustments that are reflected in
15 RUCO's recommended lead/lag expense levels on Schedules TJC-5,
16 page 2. These expense adjustments are also shown on Schedules TJC-
17 6, with the detail shown on Schedules TJC-7.

18

19 **Q. Did RUCO make any other adjustments to elements in the lead/lag**
20 **study?**

21 A. Yes.

22

23 ...

1 **Q. Please describe the other adjustments RUCO made to the**
2 **Company's lead/lag study elements.**

3 A. RUCO removed the Company's inclusion of non-cash operating
4 expenses such as depreciation expense and bad debt expense. The lag
5 days for both of these non-cash expenses are zero because those
6 accounts do not involve cash in the current year.

7

8 RUCO also included other cash expenses excluded in the Company's
9 lead/lag study such as interest expense with the corresponding lead/lag
10 days associated with this contractual cash expense as calculated in
11 RUCO's work papers.

12

13 **Q. What is RUCO's rationale for including the interest expense in the**
14 **lead/lag study?**

15 A. There are expressed contractual arrangements associated with Far
16 West's debt issuances that obligate the Company to make fixed interest
17 payments on certain dates. In this respect, interest on debt more closely
18 resembles Far West's other cash operating expenses. Thus, the
19 payment lead for the Company's interest expense should be separately
20 recognized in the lead/lag calculation as the Commission has recognized
21 in numerous cases. Typically, long-term debt interest is paid semi-
22 annually, creating a 91.25-day expense lead. In this case, RUCO used

1 the actual payment dates for interest payments on Far West's debt. The
2 lead/lag days for interest expense resulted in 89.42 days.

3

4 **Q. Did the Company utilize the 89.42 lead/lag days in calculating its**
5 **interest expense for cash working capital?**

6 A. No. The Company excluded interest expense altogether in its lead/lag
7 study, which the Commission has rejected in a number of cases.

8

9 **Q. What adjustment is RUCO recommending to the Company's cash**
10 **working capital requirement?**

11 A. The Company calculated a positive \$73,359 cash working capital
12 requirement. The following adjustment is necessary when taking all of
13 RUCO's recommendations that were mentioned earlier into
14 consideration. RUCO's cash working capital calculation results in a
15 negative \$381,166, which results in an adjustment of (\$454,526). This
16 adjustment is shown on RUCO Schedules TJC-2 and TJC-3 with the
17 details on Schedule TJC-5 on pages 1-2.

18

19 **Q. Does RUCO recommend any adjustments to the other elements (i.e.**
20 **prepayments and special deposits etc.) of working capital?**

21 A. No.

22

23

1 **OPERATING INCOME ADJUSTMENTS**

2 **Q. Please address and explain the operating income adjustments that**
3 **RUCO is recommending in this proceeding.**

4 A. RUCO recommends eight operating income adjustments to Far West's
5 operating income elements as summarized earlier in this testimony. The
6 cumulative review, analysis, and adjustments made by RUCO are
7 explained on the succeeding pages.

8

9 Operating Income Adjustment #1 – Depreciation Expense

10 **Q. Please explain RUCO's depreciation expense adjustment.**

11 A. RUCO's depreciation expense adjustment is solely due to RUCO's
12 consultants' excess capacity adjustment to plant in the amount of
13 \$10,936,720, which was discussed in RUCO's earlier rate base
14 adjustment number 1(a). The adjustment reduces the Test Year
15 depreciation expense by \$451,872. This adjustment is shown on RUCO
16 Schedules TJC-6 and TJC-7 with the details on Schedule TJC-8.

17

18 Operating Income Adjustment #2 – Property Tax Expense

19 **Q. Has RUCO made an adjustment to the Company-adjusted Test Year**
20 **level of property tax expense?**

21 A. No. However, RUCO's proposed level of property tax expense differs
22 from what the Company proposed. The reason for the difference
23 between RUCO and Far West for proposed-level property tax expense is

1 solely due to the different recommended levels of gross revenue increase
2 for this rate case.

3

4 **Q. What level of proposed property tax expense does RUCO**
5 **recommend compared to the Company?**

6 A. RUCO recommends a proposed level of property tax expense in the
7 amount of \$36,715 on its required increase in gross revenue of
8 \$2,658,963 compared to the Company's proposed property tax expense
9 of \$53,382 on a requested increase in gross revenue of \$3,866,046. The
10 proposed level of property tax expense going forward is shown on RUCO
11 Schedules TJC-6 with the details on Schedule TJC-9.

12

13 Operating Income Adjustment #3 – Repairs & Maintenance Expense

14 **Q. Please explain RUCO's adjustment to repairs and maintenance**
15 **expense.**

16 A. Compared to the previous two year historical period, the Test Year
17 expense for repairs and maintenance appeared abnormally high on a
18 going forward basis considering the \$25 Million of newly constructed
19 treatment plant over the past few years. RUCO normalized the expense
20 over a three-year period of 2009-2011 to obtain a more normalized level
21 of expense on a going forward basis.

22

23 ...

1 **Q. What adjustment is necessary to account for RUCO’s three-year**
2 **normalization for the repairs and maintenance expense?**

3 A. The adjustment to account for the three-year normalization of the
4 expense reduces the Company’s adjusted test year expense by \$47,095
5 from \$181,981 to \$134,887. This adjustment is shown on RUCO
6 Schedules TJC-6 and TJC-7 with the details on Schedule TJC-10.

7

8 Operating Income Adjustment #4 – Salaries & Wage Expense – Officers
9 and Directors

10 **Q. Please explain RUCO’s adjustment to salaries and wage expense for**
11 **officers and directors.**

12 A. In its application the Company asserted Far West Water & Sewer paid
13 each of its two officers/directors \$68,500 each for a total of \$137,000
14 based on full time employment. The Company allocated the salary
15 equally between its water and sewer divisions. In discovery, in response
16 to Staff DR GWB 6.3, the Company admitted that one of the two
17 officers/directors of Far West estimated she “works 250 hours per year
18 performing Far West executive duties” or stated differently 125 hours for
19 each division. Because the Company’s application was based on each
20 officer/director working 1,040 hours for the sewer division. This seems to
21 be exorbitant for a Company in such financial distress. The payroll
22 register lists 1,040 hours being allocated to the sewer division for each
23 officer and director. The 125 estimated hours devoted to the sewer

1 division as stated in response to Staff DR GWB 6.3 requires a fair, just,
2 and reasonable adjustment considering the facts.

3

4 **Q. What adjustment does RUCO find to be fair, just, and reasonable for**
5 **both the shareholders and ratepayers in this instance?**

6 A. Since 125 estimated hours worked for Far West Sewer represents
7 approximately 12 percent of the 1,040 hours reflected in the payroll
8 register, RUCO believes that a 20 percent allowance of the allocated
9 salary of \$68,500 is a fair, just, and reasonable adjustment. The
10 adjustment removes \$54,800 from the test year expense.

11

12 An accompanying adjustment to payroll tax expense is necessary to
13 complete this adjustment. RUCO removed \$4,192 from the taxes other
14 than income expense account to complete the adjustment. This
15 adjustment is shown on RUCO Schedules TJC-6 and TJC-7 with the
16 details on Schedule TJC-11.

17

18 Operating Income Adjustment #5 – Salaries & Wage Expense

19 **Q. Please explain RUCO's second adjustment to salaries and wage**
20 **expense.**

21 A. During the discovery phase in this case, the Company responded to Staff
22 DR JA 3.34 and provided a payroll register showing the total salaries and
23 wage expense for the test year being \$1,362 less than what was shown

1 in the general ledger and as filed in the rate Application. RUCO's
2 adjustment simply removes the \$1,362 of what appears to be an
3 overstatement for salaries and wage expense as filed. This adjustment is
4 shown on RUCO Schedules TJC-6 and TJC-7 with the details on
5 Schedule TJC-12.

6

7 Operating Income Adjustment #6 – Salary & Wage Exp. – Merit Pay

8 **Q. Please explain RUCO's third adjustment to salaries and wage**
9 **expense.**

10 A. During the discovery phase in this case, the Company responded to Staff
11 DR JA 3.35 and provided a payroll type schedule showing total salaries
12 and wage expense increased 44.7 percent from 2010 to 2011. Some of
13 the 44.7 percent increase was due to merit increases for eight employees
14 in 2010 and five employees in 2011. If any of those employees were still
15 with the Company at the end of the Test Year but were not promoted to a
16 higher paying position, RUCO removed 50 percent of the merit pay
17 increases and shifted that cost to the shareholders in order to not be
18 entirely borne by the ratepayers. This adjustment provides a fair and
19 reasonable balancing of the interests between the ratepayers and
20 shareholders.

21

22

23 ...

1 **Q. Please explain why a 50 percent allocation to shareholders is**
2 **appropriate in this case for a merit compensation program.**

3 A. Generally, achievement/incentive/merit pay programs can provide
4 benefits to both shareholders and ratepayers. The shareholders stand to
5 gain from potential cost savings while the ratepayers may benefit through
6 superior customer service for example. The adjustment essentially
7 provides an equal sharing of such costs and the potential benefits that
8 may be derived from the program(s). This provides an appropriate
9 balance between the shareholders and ratepayers for the benefits
10 achieved. The shareholders stand to benefit as much as the ratepayer
11 does. Therefore, an equal sharing of the costs is appropriate. There is
12 no certainty that the same level of costs will reoccur on a going forward
13 basis as the new rates will have some of the burden placed equally on
14 both the shareholders and ratepayers.

15
16 **Q. Has the Commission in the past ordered an equal sharing between**
17 **the shareholders and ratepayers of such costs?**

18 A. Yes. In numerous Commission decisions,³ the Commission has ordered
19 a 50/50 sharing of incentive pay programs and provides for a fair and
20 reasonable balancing of the interests between the ratepayers and
21 shareholders.

³ See Decision No. 70011 at 27, Decision No. 70360 at 21, Decision No. 68487 at 18, Decision No. 70665 at 16, and Decision No. 71623 at 31.

1 **Q. What adjustments is RUCO recommending in order to share these**
2 **costs in a manner that balances the interests between ratepayers**
3 **and shareholders?**

4 A. RUCO recommends allocating 50 percent of the merit pay costs to the
5 shareholders. RUCO recommends the removal of \$6,620 of 2010 and
6 2011 Test Year merit pay increases.

7

8 An accompanying adjustment for the payroll tax expense is necessary to
9 complete this adjustment. RUCO recommends the removal of \$506 from
10 the taxes other than income account. These adjustments are shown on
11 RUCO Schedules TJC-6 and TJC-7 with the details on Schedule TJC-13.

12

13 Operating Income Adjustment #7 – Bad Debt Expense

14 **Q. Please explain RUCO's adjustment to bad debt expense.**

15 A. The Company lists bad debt expense of \$33,490 for the 2011 Test Year.
16 In response to Staff DR GWB 5.8, the Company admitted that the bad
17 debt expense booked for 2011 was a combination of bad debt expense
18 from both 2010 and 2011 or two-years of bad debt expense. The
19 Company explains that they were implementing new software in 2010
20 and did not compile bad debt expense. In response to the same data
21 request, the Company also admitted bad debt expense for 2009 was
22 \$5,630. RUCO normalized the expense for 2009-2011 and determined

1 that the normalized bad debt expense is \$13,039.88. Accordingly, RUCO
2 made a downward adjustment to address this issue.

3

4 **Q. What downward adjustment is necessary to recognize the Test Year**
5 **bad debt expense included two-years of the expense and to**
6 **normalize the expense over a three-year period of 2009 through**
7 **2011?**

8 **A.** It was necessary to reduce the test year bad debt expense as filed by Far
9 West by \$20,450 to recognize the Test Year bad debt expense included
10 two-years of the expense and to normalize the expense over a three-year
11 period of 2009 through 2011. This adjustment is shown on RUCO
12 Schedules TJC-6 and TJC-7 with the details on Schedule TJC-14

13

14 Operating Income Adjustment #8 – Intentionally Left Blank

15

16 Operating Income Adjustment #9 – Intentionally Left Blank

17

18 Operating Income Adjustment #10 – Intentionally Left Blank

19

20

21

22

23

1 Operating Income Adjustment #11 – Income Tax Expense

2 **Q. Have you calculated income tax expense based on both RUCO's**
3 **recommended adjusted Test Year operating income and on the**
4 **operating income that includes RUCO's recommended revenue**
5 **increase on a going forward basis?**

6 **A. Yes. These adjustments for RUCO's adjusted operating income and the**
7 **recommended operating income that includes RUCO's recommended**
8 **revenue increase are shown on Schedules TJC-6 with the details shown**
9 **on TJC-1 on page 2.**

10

11 **Q. Have you included an interest synchronization calculation in your**
12 **computation of income tax expense?**

13 **A. Yes. The interest synchronization calculation, which computes an**
14 **interest expense deduction for income tax expense, can be viewed in the**
15 **same schedules noted above. The interest synchronization calculation is**
16 **the adjusted rate base multiplied by the weighted cost of debt. The**
17 **income tax gross up revenue conversion factor includes an element for**
18 **the increase in property taxes due to RUCO's recommended level of**
19 **increased revenues. The synchronized interest calculation is shown on**
20 **TJC-1 on page 2.**

21

22

23

1 **OTHER ISSUES**

2 **Q. Please summarize any other issues RUCO has pertaining to the**
3 **Company's Application.**

4 A. It is worth noting that Far West's response to Staff DR GWB 5.8
5 pertaining to the bad debt expense will change the uncollectible factor in
6 the gross revenue conversion calculation. This should be revised in its
7 rebuttal filing to .58 percent rather than 1.1519 percent.

8
9 RUCO reserves the right to modify its position for any reason, including
10 the production of any additional evidence, which would warrant RUCO's
11 reconsideration of its current position.

12
13 **Q. Does your silence on any of the issues, matters or findings**
14 **addressed in the testimony of any of the witnesses for Far West**
15 **constitute your acceptance of their positions on such issues,**
16 **matters, or findings?**

17 A. No, it does not.

18
19 **Q. Does this conclude your direct testimony on Far West Water &**
20 **Sewer, Inc.?**

21 A. Yes, it does.

APPENDIX 1

Qualifications of Timothy J. Coley

WORK HISTORY

July 2000 – Present: **RESIDENTIAL UTILITY CONSUMER OFFICE**, Phoenix, Arizona
Public Utilities Analyst V. The Residential Utility Consumer Office (RUCO) is a consumer advocate group providing residential consumers a voice in utility regulation and backed by a professional staff with legal and financial expertise. Responsibilities include: audited, reviewed and analyzed public utility companies various filings; prepared written testimony, schedules, financial statements, and spreadsheet models and analyses. Testified and stand cross-examination before the Arizona Corporation Commission.

January 2000 - April 2000: **JACKSON HEWITT TAX SERVICE**, Phoenix, Arizona
Tax Preparer. Interviewed clients, determined tax situation, and explained how the tax laws benefited them in their specific situation. Ensured that each customer received every deduction that they were entitled. Prepared individual and business income tax returns, which best utilized each specific situation that minimized their tax obligations.

May 1998 - November 1999: **BENEFITS CONSULTING**, Cypress, Texas
Consultant Assistant. The consulting firm specialized in alleged medical claim charges brought against the government of Harris County in Houston, Texas. Assisted in the review, examination, and analysis of the attested charges. Determined if the purported medical claim charges were prudent, customary, and reasonable for the alleged sustained injuries. The firm analyzed cases for both the County's Risk Department and Attorneys Office.

January 1992 - April 1998: **PHOENIX SERVICES**, Villa Rica, Georgia
Owner. Provided landscaping services primarily in a high growth gated community where the Property Owners' Association approved mandated ordinances to be strictly adhered and abided by. Coordinated and supervised all aspects of projects from inception to completion, from master planning to site design to installation.

May 1989 - October 1991: **GEORGIA PUBLIC SERVICE COMMISSION**, Atlanta, GA
Senior Auditor. The Public Service Commission (PSC) was responsible for regulating many intrastate telecommunications, electric, and gas utility industries operating in Georgia. It was the PSC's job to ensure that consumers received adequate and reliable service at reasonable rates. It must also assure the utility companies and investors an opportunity to earn a fair rate of return on prudent investments. The Commission participated significantly in Georgia's economic health and growth. I was promoted to the PSC's Electric/Gas Division where I examined, verified, and analyzed various financial documents, accounting records, reports, ledgers, and statements. In addition, I was assigned to automate the PSC's Electric Division where I utilized a computer application process that I had developed earlier while with the (PSC) Telecommunication Division. I was later ascribed to work in conjunction with the Engineering Department and established a procedure to track and compare costs of operation and maintenance (O&M) expenses of nuclear electric generating plants. This effort determined a comparative price per kilowatt-hour produced that influenced the awareness for the company to control the O&M costs, which benefited the consumer through lower prices.

- Developed computer application system that streamlined audit procedures by 30 – 40%.
- Various other schedules were implemented to track, maintain, and control costs.

GEORGIA PUBLIC SERVICE COMMISSION (continued)

November 1986 - April 1989: **Georgia Public Service Commission, Atlanta, Georgia Auditor.** Regulated telecommunications and also oversaw the deregulation process that was currently under way in that industry. Examined and analyzed accounting records to determine financial status of companies and prepared financial reports concerning audit findings. Reviewed data including payroll, time sheets, purchase vouchers, cash receipt ledgers, financial reports, and disbursements. Verified statewide telephone company transaction classifications and documentation.

- Developed computer application utilizing Lotus to completely automate and streamline the entire telecommunication audit process. The results saved 25% in field audit time and produced a product of professional appearance.
- Created, coordinated, and implemented "Operational Project Training" automated procedure-training program. Trained and supervised staff of five auditors.
- Computerized "Desk Audit Analysis" program that identified 11 independent telephone companies in the state of over-earning and resulted in \$4.1M annual savings to the Georgia ratepayers affected.

October 1985 - October 1986: **Georgia Public Service Commission, Atlanta, Georgia Junior Auditor.** Assisted in planning and performing telecommunication audit engagements. Examined financial records, internal management control, correspondence, bills, and records of services delivered in order to verify or recommend compliance with company specifications contained in contracts, agreements, regulations, and/or laws.

- As a special project, I was assigned to analyze the results of a survey designed to evaluate "Interest in Organizing a Multi-State Nuclear Management Review Group" by the Director of Utilities. Wrote the draft and findings for the speech that was presented to all participatory commissions.

PROFESSIONAL MEMBERSHIPS

- Elected Member of the National Honor Society for Public Affairs and Administration.
- Active Member of Delta Sigma Pi - Professional Business Fraternity.

SPECIAL TRAINING AND CERTIFICATES

- The Graduate School of Business Administration - Michigan State University; completed the Annual Regulatory Studies Program of the National Association of Regulatory Utility Commissioners.
- Completed Graduate Exit Paper on "Deregulation of the Electric Industry".
- Attended Eastern Utility Rate School in 2000 and 2005.

EDUCATION

- Currently enrolled at Arizona State University - West in the Post Baccalaureate Graduate Certificate Program in Accountancy with two courses remaining.
- Master of Public Administration, State University of West Georgia, 1997, GPA 3.5.
- BS Business Management & Administration, Minor in Economics, Sorrel School of Business, Troy State University, 1985.
- AA Business Administration, Miles Community College, 1981.

RESUME OF PUBLIC UTILITY RATE CASES & AUDITS PARTICIPATION

Residential Utility Consumer Office For Years 2000 To Present

Arizona-American Water Company – Docket No. WS-01303A-05-0405

Arizona Public Service Co. – Docket No. E-01345A-03-0437

Tucson Electric Power Company – Docket No. E-01933A-04-0408

UniSource Merger – Docket No. E-04230A-03-0933

Arizona-American Water Company – Docket No. WS-01303A-02-0867

Arizona Water Company (Eastern Group) – Docket No. W01445A-02-0619

Litchfield Park Service Company – Docket Nos. W-01427A-01-0487 &
SW-01428A-01-0487

Arizona Water Company (Northern Group) – Docket No. W-01445A-00-0962

Rio Verde Utilities, Inc. – Docket Nos. W-02156A-00-0321 &
SW-02156A-00-0323

Arizona-American Water Company (Paradise Valley) –
Docket Nos. W-01303A-05-0405 &
W-01303A-05-0910

Arizona-American Water Company (Mohave District) –
Docket No. WS-01303A-06-0014

Arizona-American Water Company (Sun City & Sun Cit West Wastewater) –
Docket No. WS-01303A-06-0491

Arizona-American Water Company - Docket No. W-01303A-07-0209

Chaparral City Water Company – Docket No. W-02113A-07-0551

Arizona-American Water Company - Docket No. W-01303A-08-0227

Residential Utility Consumer Office For Years 2000 To Present (cont'd)

Arizona Water Company - Docket No. W-01445A-08-0440

Far West Water & Sewer Company - WS-03478A-08-0608

Rio Rico Utilities, Inc. - WS-02676A-08-09-0257

Bella Vista Water Company – Docket No. W-02465A-09-0411

Goodman Water Company – Docket No. W-02500A-10-0382

Arizona Water Company – Western Group – Docket No. W-01445A-10-0517

Pima Utility Company – Docket No. W-02199A-11-0329 et al.

Rio Rico Utilities, Inc. – WS-02676A-12-0196

Georgia Public Service Commission For Years 1985 – 1991

Atlanta Gas Light Company

Georgia Power Company

Atlanta Gas Light Company (Management Audit)

Georgia Power Company

Trenton Telephone Company

Fairmount Telephone Company

Ellijay Telephone Company

GTE, Inc.

ALL-TEL Telephone Company

Citizens Utilities Co.

Ball Ground Telephone Company

Lanett Telephone Company

Brantley Telephone Company

Blue Ridge Telephone Company

Waverly Hall Telephone Company

St. Marys Telephone Company

Darien Telephone Company

Statesboro Telephone Company

Statesboro Telephone Co-op

Wilkes Telephone Company

TABLE OF CONTENTS TO TJC SCHEDULES

SCH. NO.	PAGE NO.	TITLE
TJC-1	1 & 2	REVENUE REQUIREMENT AND GROSS REVENUE CONVERSION COMPONENT FACTOR
TJC-2	1	RATE BASE
TJC-3	1	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
TJC-4(a)	1	RATE BASE ADJUSTMENT NO. 1(a) - RUCO RECOMMENDED EXCESS PLANT CAPACITY ADJUSTMENT
TJC-4(b)	1	RATE BASE ADJUSTMENT NO. 1(b) - RUCO RECOMMENDED EXCESS CAPACITY ACCUMULATED DEPRECIATION ADJUSTMENT
TJC-4(c)	1	RATE BASE ADJUSTMENT NO. 1(c) - RUCO RECOMMENDED EXCESS CAPACITY AIAC & CIAC ADJUSTMENT
		RATE BASE ADJUSTMENT NO. 2 - INTENTIONALLY LEFT BLANK
		RATE BASE ADJUSTMENT NO. 3 - INTENTIONALLY LEFT BLANK
TJC-5	1 & 2	RATE BASE ADJUSTMENT NO. 4 - WORKING CAPITAL
TJC-6	1	OPERATING INCOME SUMMARY
TJC-7	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
TJC-8	1	OPERATING INCOME ADJUSTMENT NO. 1 - DEPRECIATION EXPENSE ADJUSTMENT
TJC-9	1	OPERATING INCOME ADJUSTMENT NO. 2 - PROPERTY TAX EXPENSE ADJUSTMENT
TJC-10	1	OPERATING INCOME ADJUSTMENT NO. 3 - REPAIRS & MAINTENANCE EXPENSE ADJUSTMENT
TJC-11	1	OPERATING INCOME ADJUSTMENT NO. 4 - SALARIES & WAGE EXPENSE - OFFICERS & DIRECTORS ADJUSTMENT
TJC-12	1	OPERATING INCOME ADJUSTMENT NO. 5 - SALARIES & WAGE EXPENSE ADJUSTMENT
TJC-13	1	OPERATING INCOME ADJUSTMENT NO. 6 - MERIT PAY EXPENSE ADJUSTMENT
TJC-14	1	OPERATING INCOME ADJUSTMENT NO. 7 - BAD DEBT EXPENSE ADJUSTMENT
		OPERATING INCOME ADJUSTMENT NO. 8 - INTENTIONALLY LEFT BLANK
		OPERATING INCOME ADJUSTMENT NO. 9 - INTENTIONALLY LEFT BLANK
		OPERATING INCOME ADJUSTMENT NO. 10 - INTENTIONALLY LEFT BLANK
TJC-15	1	OPERATING INCOME ADJUSTMENT NO. 11 - INCOME TAX EXPENSE ADJUSTMENT
TJC-16	1	COST OF CAPITAL - WAR TESTIMONY

LINE NO.	DESCRIPTION	[A] COMPANY OCRB/FVRB COST	[B] RUCO OCRB/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base	\$ 22,800,578	\$ 16,399,350
2	Adjusted Operating Income (Loss)	\$ (1,187,812)	\$ (404,164)
3	Current Rate of Return (L2 / L1)	-5.21%	-2.46%
4	Required Operating Income (L5 X L1)	\$ 1,689,390	\$ 1,197,153
5	Required Rate of Return on Fair Value Rate Base	7.409%	7.300%
6	Operating Income Deficiency (L4 - L2)	\$ 2,877,202	\$ 1,601,317
7	Gross Revenue Conversion Factor (TJC-1, Page 2)	1.3437	1.6605
8	Required Increase in Gross Revenue Requirement (L7 X L6)	\$ 3,866,046	\$ 2,658,963
9	Adjusted Test Year Revenue	\$ 2,227,982	\$ 2,227,982
10	Proposed Annual Revenue (L8 + L9)	\$ 6,094,028	\$ 4,886,944
11	Required Percentage Increase in Revenue (L8 / L9)	173.52%	119.34%
12	Rate of Return on Common Equity	10.00%	9.25%

References:

Column [A]: Company Schedules A-1 and C-1

Column [B]: RUCO Schedule TJC-2, TJC-6, and TJC-16

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]
<i>Calculation of Gross Revenue Conversion Factor:</i>					
1	Revenue	100.0000%			
2	Uncollectible Factor	0.3595%			
3	Revenues (L1 - L2)	99.6405%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.4171%			
5	Subtotal (L3 - L4)	60.2234%			
6	Revenue Conversion Factor (L1 / L5)	1.660485			
<i>Calculation of Uncollectible Factor:</i>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	38.5689%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4311%			
10	Uncollectible Rate	0.00585			
11	Uncollectible Factor (L9 * L10)	0.3595%			
<i>Calculation of Effective Tax Rate:</i>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Col. [C], L53)	33.9677%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.6009%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.5689%		
<i>Calculation of Effective Property Tax Factor</i>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (Col. [B], L17)	38.5689%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4311%			
21	Property Tax Factor (Sch. TJC-9, Col. [B], L24)	1.3808%			
22	Effective Property Tax Factor (L20 x L21)		0.8482%		
23	Combined Federal and State Income Tax and Property Tax Rate (Col. [B], L17 + L22)			39.4171%	
24	Required Operating Income (Sch. TJC-1, Col. [B] Line 4)	\$ 1,197,153			
25	Adjusted Test Year Operating Income (Loss) (Sch. TJC-1, Col. [B], L2)	(404,164)			
26	Required Increase in Operating Income (L24 - L25)		\$ 1,601,317		
27	Income Taxes on Recommended Revenue (Col. [C], L52)	\$ 131,714			
28	Income Taxes on Test Year Revenue (Col. [A], L52)	(873,655)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		1,005,369		
30	Recommended Revenue Requirement (Sch. TJC-1, Col. [B], Line 10)	\$ 4,886,944			
31	Uncollectible Rate (L10)	0.5853%			
32	Uncollectible Expense on Recommended Revenue (L30 x L31)	\$ 28,602			
33	Adjusted Test Year Uncollectible Expense (Sch. TJC-6, Col. [C], L32)	\$ 13,040			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		15,562		
35	Property Tax with Recommended Revenue (Sch. TJC-9, Col. [B], L19)	\$ 132,443			
36	Property Tax on Test Year Revenue (Sch. TJC-9, Col. [B], L20)	95,728			
37	Increase in Property Tax Due to Increase in Revenue (L35 - 36)		36,715		
38	Total Required Increase in Revenue (Col. [B], L26 + L29 + L34 + L37)		\$ 2,658,963		
<i>Calculation of Income Tax:</i>					
39	Revenue (Sch. TJC-1, Col. [B], Line 9 & Sch. TJC-1, Col. [B], L10)	\$ 2,227,982	\$ 2,658,963	\$ 4,886,944	
40	Operating Expenses Excluding Income Taxes	\$ 3,505,801		\$ 3,558,078	
41	Synchronized Interest (Col. [C], L57)	\$ 985,601		\$ 985,601	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (2,263,420)		\$ 343,266	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ (157,715)		\$ 23,919	
45	Federal Taxable Income (L42 - L44)	\$ (2,105,705)		\$ 319,347	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (7,500)		\$ 7,500	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ (6,250)		\$ 6,250	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ (8,500)		\$ 8,500	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ (91,650)		\$ 85,545	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ (602,040)		\$ -	
51	Total Federal Income Tax	\$ (715,940)		\$ 107,795	
52	Combined Federal and State Income Tax (L44 + L51)	\$ (873,655)		\$ 131,714	
53	Applicable Federal Income Tax Rate [Col. [C], L46 - Col. [A], L46] / [Col. [C], L40 - Col. [A], L40]			33.9677%	
54	<i>Synchronized Interest Calculation</i>				
55	Rate Base			\$ 16,399,350	
56	x Weighted Average Cost of Debt			6.01%	
57	Synchronized Interest			\$ 985,601	

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED OCRB/FVRB	[B] RUCO OCRB/FVRB ADJUSTMENTS	[C] RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant in Service	\$ 37,751,132	\$ (10,936,720)	\$ 26,814,412
2				
3	Less:			
4	Accumulated Depreciation	(4,945,733)	1,488,666	(3,457,068)
5				
6	Net Utility Plant in Service (L1 less L4)	\$ 32,805,399	\$ (9,448,055)	\$ 23,357,344
7				
8	Advances in Aid of Construction	(10,814,970)	3,255,306	(7,559,664)
9				
10	Contributions in Aid of Construction (CIAC)	(1,726,854)	519,783	(1,207,071)
11	Accumulated Amortization of CIAC	909,423	(273,736)	635,687
12	Net CIAC (L10 less L11)	\$ (817,431)	\$ 246,047	\$ (571,384)
13				
14	Customer Deposits	(26,359)	-	(26,359)
15	Accumulated Deferred Income Taxes (ADIT)	-	-	-
16				
17	Add:			
18	Allowance for Working Capital	\$ 1,653,938	\$ (454,526)	\$ 1,199,412
19				
20	Net Regulatory Asset / (Liability)	-	-	-
21				
22				
23	TOTAL RATE BASE (Sum L's 9, 10, 13, & 14 Thru 18)	\$ 22,800,578	\$ (6,401,228)	\$ 16,399,350

References:

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

RATE BASE ADJUSTMENT NO. 1(a)
RUCO RECOMMENDED USED AND USEFUL PLANT IN SERVICE

LINE NO.	NARUC ACCT NO.	DESCRIPTION	[A] Company Actual Test Year Plant Booked 12/31/2011	[B] Company Book Adjustments	[C] Company Adjusted Plant in Service As Filed	[D] RUCO Excess Capacity Percentage Adjustment	[E] RUCO Excess Capacity Adjustment	[F] RUCO Recommended Plant in Service Balances
1	351	Organization Cost	\$ -	\$ -	\$ -	30.1%	\$ -	\$ -
2	352	Franchise Cost	3,076	-	3,076	30.1%	-	3,076
3	353	Land and Land Rights	1,560,847	(147,410)	1,413,437	30.1%	-	1,413,437
4	354	Structures & Improvements	2,633,622	(156,140)	2,477,482	30.1%	745,722	1,731,760
5	355	Power Generating Equipment	68,993	-	68,993	30.1%	20,767	48,226
6	360	Collection Sewers - Force	3,705,476	(201,148)	3,504,328	30.1%	1,054,803	2,449,525
7	361	Collection Sewers - Gravity	8,749,140	(21,563)	8,727,577	30.1%	2,627,001	6,100,576
8	362	Special Collecting Structures	-	-	-	30.1%	-	-
9	363	Sevices to Customers	173,621	-	173,621	30.1%	52,260	121,361
10	364	Flow Measuring Devices	32,468	-	32,468	30.1%	9,773	22,695
11	365	Flow Measuring Installations	16,683	-	16,683	30.1%	5,022	11,662
12	366	Reuse Services	-	-	-	30.1%	-	-
13	367	Reuse Meters and Meter Installations	2,310	-	2,310	30.1%	695	1,615
14	370	Receiving Wells	92,784	(18,557)	74,227	30.1%	22,342	51,885
15	371	Pumping Equipment	1,496,705	(101,067)	1,395,638	30.1%	420,087	975,551
16	374	Reuse Distribution Reservoirs	-	-	-	30.1%	-	-
17	375	Reuse Transmission and Dist. Sys.	-	-	-	30.1%	-	-
18	380	Treatment and Disposal Equipment	21,650,302	(3,964,890)	17,685,412	30.1%	5,323,309	12,362,103
19	381	Plant Sewers	736,542	(112,871)	623,671	30.1%	187,725	435,946
20	382	Outfall Sewer Lines	2,256	(451)	1,805	30.1%	543	1,261
21	389	Other Plant and Misc. Equipment	418,687	(24,546)	394,141	30.1%	118,637	275,505
22	390	Office Furniture & Equipment	257,292	(2,720)	254,572	30.1%	76,626	177,946
23	390.1	Computers & Software	30,027	(18,070)	11,956	30.1%	3,418	7,938
24	391	Transportation Equipment	271,810	-	271,810	30.1%	81,815	189,995
25	392	Stores Equipment	-	-	-	30.1%	-	-
26	393	Tools, Shop & Garage Equipment	27,069	-	27,069	30.1%	8,148	18,921
27	394	Laboratory Equipment	33,710	(16,292)	17,418	30.1%	5,243	12,175
28	395	Power Operated Equipment	181,667	-	181,667	30.1%	54,862	126,885
29	396	Communications Equipment	17,191	-	17,191	30.1%	5,174	12,016
30	397	Miscellaneous Equipment	204,504	(68,153)	136,351	30.1%	41,042	95,309
31	398	Other Tangible Plant	238,828	-	238,828	30.1%	71,887	166,941
32		Totals	\$ 42,605,811	\$ (4,854,479)	\$ 37,751,332		\$ 10,936,720	\$ 26,814,412
33		Company As Filed						37,751,332
34		RUCO Adjustment - Increase / (Decrease) in Plant						\$ (10,936,720)

References:

Column [A]: Per Company Schedule B-2, page 2 on Line 37 - Actual End of Test Year Booked Plant Balances
Column [B]: Per Company Schedule B-2, page 2 on Line 42 - Increase / (Decrease) in Plant in Service
Column [C]: Per Company Schedule B-2, page 2 on Line 37 - Adjusted End of Test Year Plant Balances
Column [D]: Per RUCO Witness Thomas Fish Testimony
Column [E]: Column [C] X [D] with the Exception of Non-Depreciable Accounts 351, 352, and 353
Column [F]: Column [C] - [E] - RUCO Recommended Plant Balances

RATE BASE ADJUSTMENT NO. 1(b)
RUCO RECOMMENDED ACCUMULATED DEPRECIATION

LINE NO.	NARUC ACCT NO.	DESCRIPTION	[A] Company Actual Test Year Accum. Depr. 12/31/2011	[B] Company Book Adjustments	[C] Company Accumulated Depreciation As Filed	[D] RUCO Excess Capacity Percentage Adjustment	[E] RUCO Excess Capacity Adjustment	[F] RUCO Recommended Accum. Depr. Balances
1	351	Organization Cost	\$ -	\$ -	\$ -	30.1%	\$ -	\$ -
2	352	Franchise Cost	-	-	-	30.1%	-	-
3	353	Land and Land Rights	-	-	-	30.1%	-	-
4	354	Structures & Improvements	138,113	(86,844)	51,270	30.1%	15,432	35,837
5	355	Power Generating Equipment	1,725	-	1,725	30.1%	519	1,206
6	360	Collection Sewers - Force	181,585	(27,458)	154,128	30.1%	46,392	107,734
7	361	Collection Sewers - Gravity	1,723,051	(10,564)	1,712,487	30.1%	515,459	1,197,028
8	362	Special Collecting Structures	-	-	-	30.1%	-	-
9	363	Services to Customers	8,395	(3,697)	4,698	30.1%	1,414	3,284
10	364	Flow Measuring Devices	29,677	2,591	32,468	30.1%	9,773	22,695
11	365	Flow Measuring Installations	13,766	2,918	16,683	30.1%	5,022	11,662
12	366	Reuse Services	-	-	-	30.1%	-	-
13	367	Reuse Meters and Meter Installations	96	-	96	30.1%	29	67
14	370	Receiving Wells	1,546	(309)	1,237	30.1%	372	865
15	371	Pumping Equipment	397,823	44,393	442,217	30.1%	133,107	309,109
16	374	Reuse Distribution Reservoirs	-	-	-	30.1%	-	-
17	375	Reuse Transmission and Dist. Sys.	-	-	-	30.1%	-	-
18	380	Treatment and Disposal Equipment	3,825,791	(1,741,708)	2,084,083	30.1%	627,309	1,456,774
19	381	Plant Sewers	27,488	(8,302)	19,186	30.1%	5,775	13,411
20	382	Outfall Sewer Lines	38	(8)	30	30.1%	9	21
21	389	Other Plant and Misc. Equipment	45,316	(30,304)	15,012	30.1%	4,519	10,493
22	390	Office Furniture & Equipment	31,463	(4,279)	27,184	30.1%	8,182	19,001
23	390.1	Computers & Software	25,306	(21,597)	3,709	30.1%	1,117	2,593
24	391	Transportation Equipment	125,372	68,655	194,028	30.1%	58,402	135,625
25	392	Stores Equipment	-	-	-	30.1%	-	-
26	393	Tools, Shop & Garage Equipment	3,124	-	3,124	30.1%	940	2,184
27	394	Laboratory Equipment	21,263	(20,469)	793	30.1%	239	554
28	395	Power Operated Equipment	23,457	-	23,457	30.1%	7,061	16,397
29	396	Communications Equipment	1,182	-	1,182	30.1%	356	826
30	397	Miscellaneous Equipment	137,179	(87,714)	49,465	30.1%	14,889	34,576
31	398	Other Tangible Plant	107,473	-	107,473	30.1%	32,349	75,123
32		Totals	\$ 6,870,429	\$ (1,924,898)	\$ 4,945,733		\$ 1,488,666	\$ 3,457,067
33		Company As Filed						4,945,733
34		RUCO Adjustment - (Increase) / Decrease in Accumulated Depreciation					\$ 1,488,666	

References:

Column [A]: Per Company Schedule B-2, page 3 on Line 37 - Actual End of Test Year Booked Accumulated Depreciation Balances
Column [B]: Per Company Schedule B-2, page 3 on Line 42 - Increase / (Decrease) in Accumulated Depreciation
Column [C]: Per Company Schedule B-2, page 3 on Line 37 - Adjusted End of Test Year Accumulated Depreciation Balances
Column [D]: Per RUCO Witness Thomas Fish Testimony
Column [E]: Column [C] X [D] with the Exception of Non-Depreciable Accounts 351, 352, and 353
Column [F]: Column [C] - [E] - RUCO Recommended Accumulated Depreciation Balances

**RATE BASE ADJUSTMENT NO. 1(c)
REMOVE 30.1% OF AIAC AND NET CIAC FOR EXCESS CAPACITY FACTOR**

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1		
2	Advances in Aid of Construction (AIAC) As Filed by Company	\$ (10,814,970)
3	Excess Capacity Factor	<u>30.1%</u>
4		
5	RUCO Adjustment	<u>\$ 3,255,306</u>
6		
7		
8		
9	Contributions in Aid of Construction (CIAC) As Filed by Company	\$ (1,726,854)
10	Excess Capacity Factor	<u>30.1%</u>
11		
12	RUCO Adjustment	<u>\$ 519,783</u>
13		
14		
15	Accumulated Amortization of CIAC As Filed by Company	\$ 909,423
16	Excess Capacity Factor	<u>30.1%</u>
17		
18	RUCO Adjustment	<u>\$ (273,736)</u>
19		
20		
21		
22	Total RUCO Adjustment	\$ 3,501,353

**RATE BASE ADJUSTMENT NO. 5
ALLOWANCE FOR WORKING CAPITAL**

		[A]	
LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	Working Cash Requirement Per Company	\$ 73,359	Company Schedule B-5, PG. 1
2	Working Cash Requirement Per RUCO	(381,166)	RUCO Schedule TJC-5, Page 2
3	Adjustment	\$ (454,526)	Line 2 - Line 1
4	Material and Supplies Inventories Per Company	\$ 18,440	Company Schedule B-5, PG. 1
5	Material and Supplies Inventories Per RUCO	18,440	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Working Funds and Special Deposits Per Company	\$ 1,548,498	Company Schedule B-5, PG. 1
8	Working Funds and Special Deposits Per RUCO	1,548,498	Company Schedule B-5, PG. 1
9	Adjustment	\$ -	Line 8 - Line 7
10	Prepayments Per Company	\$ 13,641	Company Schedule B-5, PG. 1
11	Prepayments Per RUCO	13,641	Company Schedule B-5, PG. 1
12	Adjustment	\$ -	Line 11 - Line 10
13	TOTAL ADJUSTMENT (See TJC-2, Column [K])	\$ (454,526)	Sum of Lines 3, 6, 9 & 12

LINE NO.	DESCRIPTION	(A) EXPENSES PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED EXPENSES	(D) RUCO (LEAD)/LAG DAYS	(E) RUCO \$ DAYS
1	Salaries and Wages	\$ 939,071	\$ (62,782)	876,289 *	12.00	\$ 10,515,467
2	Group Insurance	27,421	-	27,421 *	(2.33)	(63,984)
3	Sludge Removal	55,247	-	55,247 *	239.85	13,251,037
4	Purchased Power	342,364	-	342,364 *	21.50	7,360,891
5	Chemicals	219,910	-	219,910 *	63.96	14,066,515
6	Repairs and Maintenance	181,981	(47,095)	134,887 *	66.63	8,987,241
7	Contractual Services	258,836	-	258,836 *	67.22	17,398,010
8	Rent - Buildings	20,669	-	20,669 *	(18.53)	(382,990)
9	Rent - Equipment	45,758	-	45,758 *	25.49	1,166,479
10	Transportation Expense	129,723	-	129,723 *	(11.76)	(1,525,984)
11	Insurance	62,877	-	62,877 *	20.66	1,299,259
12	Depreciation & Amortization	1,497,193	(1,497,193)	- *	-	-
13	Other Operating Expenses	122,581	(91,602)	30,979 *	15.50	480,177
14	Taxes Other Than Income	76,451	(4,699)	71,752 *	15.95	1,144,309
15	Property Taxes	149,110	(16,667)	132,443 *	729.60	96,630,691
16	Federal Income Tax	164,261	(56,465)	107,795 *	37.50	4,042,323
17	State Income Tax	36,185	(12,266)	23,919 *	62.65	1,498,510
	Subtotal	4,329,638	(1,788,768)	2,540,869 *		175,867,952
18	Interest Expense	-	\$ 1,418,754	1,418,754 *	89.42	126,864,455
19	Scherchert Interest Expense	-	90,179	90,179 *	8.00	721,326
18	TOTAL OPERATING EXPENSES	\$ 4,329,638	\$ (279,835)	\$ 4,049,803 *		\$ 303,453,732
19	EXPENSE LAG				74.93	
20	REVENUE LAG				40.58	
21	NET LAG				(34.35)	
22	CASH WORKING CAPITAL	\$ (381,166)				

NOTE
 * RUCO RECOMMENDED LEVEL OF CASH WORKING CAPITAL EXPENSES

OPERATING INCOME SUMMARY

LINE NO.	NARUC ACCOUNT NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] RUCO TEST YEAR ADJM'TS	[C] RUCO TEST YEAR AS ADJ'TED	[D] RUCO PROP'D CHANGES	[E] RUCO AS RECOMM'D
1		Revenues:					
2	413	Income Utility Plant Leased to Others	\$ -	\$ -	\$ -	\$ -	\$ -
3	521	Flat Rate Revenue	2,053,159	-	2,053,159	2,658,963	4,712,121
4	536	Other Sewer Revenues	43,064	-	43,064	-	43,064
5	541	Metered Reuse Revenue	131,759	-	131,759	-	131,759
6		Total Sewer Revenues	<u>\$ 2,227,982</u>	<u>\$ -</u>	<u>\$ 2,227,982</u>	<u>\$ 2,658,963</u>	<u>\$ 4,886,944</u>
7		Operating Expenses:					
8	701	Salaries and Wages	\$ 802,071	\$ (6,620)	\$ 795,451	\$ -	\$ 795,451
9	703	Salaries and Wages - Officers and Directors	137,000	(56,162)	80,838	-	80,838
10	704	Employee Pension and Benefits	27,421	-	27,421	-	27,421
11	710	Purchased Sewer Treatment	-	-	-	-	-
12	711	Sludge Removal Expense	55,247	-	55,247	-	55,247
13	715	Purchased Power	342,364	-	342,364	-	342,364
14	718	Chemicals	219,910	-	219,910	-	219,910
15	720	Repairs and Maintenance	181,981	(47,095)	134,887	-	134,887
16	731	Contractual Services - Engineering	-	-	-	-	-
17	732	Contractual Services - Accounting	7,230	-	7,230	-	7,230
18	733	Contractual Services - Legal	43,865	-	43,865	-	43,865
19	734	Contractual Services - Management Fees	-	-	-	-	-
20	735	Contractual Services - Testing	147,025	-	147,025	-	147,025
21	736	Contractual Services - Other	60,716	-	60,716	-	60,716
22	741	Rent - Buildings	20,669	-	20,669	-	20,669
23	742	Rent - Equipment	45,758	-	45,758	-	45,758
24	750	Transportation Expense	129,723	-	129,723	-	129,723
25	756	Insurance - Vehicle	12,610	-	12,610	-	12,610
26	757	Insurance - General Liability	33,142	-	33,142	-	33,142
27	758	Insurance - Workman's Compensation	17,125	-	17,125	-	17,125
28	759	Insurance - Other	-	-	-	-	-
29	760	Advertising Expense	476	-	476	-	476
30	766	Regulatory Commission Expense - Rate Case	75,000	-	75,000	-	75,000
31	767	Regulatory Expense - Other	-	-	-	-	-
32	770	Bad Debt Expense	33,490	(20,450)	13,040	15,562	28,602
33	775	Miscellaneous Expense	30,503	-	30,503	-	30,503
34	403	Depreciation Expense	1,497,193	(451,872)	1,045,320	-	1,045,320
35	408	Taxes Other Than Income	76,451	(4,699)	71,752	-	71,752
36	408.11	Property Taxes	95,728	0	95,728	36,715	132,443
37	409	Income Tax	(676,904)	(196,750)	(873,655)	1,005,369	131,714
38		Total Operating Expenses	<u>\$ 3,415,794</u>	<u>\$ (783,648)</u>	<u>\$ 2,632,146</u>	<u>\$ 1,057,646</u>	<u>\$ 3,689,792</u>
39		Operating Income	<u>\$ (1,187,812)</u>	<u>\$ 783,648</u>	<u>\$ (404,164)</u>	<u>\$ 1,601,317</u>	<u>\$ 1,197,153</u>

References:

- Column [A]: Company Schedule C-1
- Column [B]: TJC-7, Columns [B] Thru [L]
- Column [C]: Column [A] + Column [B]
- Column [D]: TJC-1, pages 1 Thru 2
- Column [E]: Column [C] + Column [D]

SUMMARY OF OPERATING INCOME ADJUSTMENTS
 TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	MARUC ACCOUNT NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJUSTMENT NO. 1 DEPRECIATION EXPENSE	[C] ADJUSTMENT NO. 2 PROPERTY TAX EXPENSE	[D] ADJUSTMENT NO. 3 REPAIRS & MAINT. EXPENSE	[E] ADJUSTMENT NO. 4 SALARIES & WAGE EXPENSE	[F] ADJUSTMENT NO. 5 SALARIES & WAGE EXPENSE	[G] ADJUSTMENT NO. 6 MERIT PAY EXPENSE	[H] ADJUSTMENT NO. 7 BAD DEBT EXPENSE	[I] ADJUSTMENT NO. 8 INTENTIONALLY LEFT BLANK	[J] ADJUSTMENT NO. 9 INTENTIONALLY LEFT BLANK	[K] ADJUSTMENT NO. 10 INTENTIONALLY LEFT BLANK	[L] ADJUSTMENT NO. 11 INCOME TAXES	[M] RUCO AS ADJTD.
1		Revenues:													
2	413	Income Utility Plant Leased to Others													
3	521	Flat Rate Revenue	2,093,199												2,093,199
4	536	Other Sewer Revenue	43,064												43,064
5	541	Miscellaneous Revenue	37,829												37,829
6		Total Sewer Revenues	2,227,892												2,227,892
7		Operating Expenses:													
8	701	Salaries and Wages	802,071				(6,820)								795,251
9	703	Salaries and Wages - Officers and Directors	137,000				(1,362)								135,638
10	704	Employee Pension and Benefits	27,421												27,421
11	710	Purchased Sewer Treatment	55,947												55,947
12	711	Waste Water Power	342,281												342,281
13	715	Chemicals	219,810												219,810
14	718	Electricity	181,881			(47,095)									134,786
15	720	Repairs and Maintenance													7,230
16	731	Contractual Services - Engineering	7,230												7,230
17	732	Contractual Services - Accounting	43,865												43,865
18	734	Contractual Services - Legal													147,025
19	739	Contractual Services - Management Fees													30,469
20	736	Contractual Services - Testing													45,758
21	741	Contractual Services - Other	30,469												128,723
22	741	Rest - Buildings													12,610
23	742	Rest - Equipment													33,142
24	750	Transportation Expenses													17,125
25	759	Insurance - Vehicle	12,610												76
26	757	Insurance - General Liability	33,142												76,000
27	758	Insurance - Workmen's Compensation	17,125												33,490
28	799	Insurance - Other													30,503
29	800	Advertising Expenses													1,467,183
30	780	Resolving Expenses - Rate Case	76												76,451
31	767	Regulatory Expenses - Other	76,000												85,728
32	770	Bad Debt Expense													(673,951)
33	775	Miscellaneous Expense	33,490												75,000
34	403	Depreciation Expense	1,467,183												13,040
35	408	Taxes Other Than Income	76,451												30,503
36	408,11	Property Taxes	85,728												1,045,320
37	409	Income Tax	(673,951)				(4,192)								71,782
38		Total Operating Expenses	\$ 3,415,794	\$ (451,872)	\$ 0	\$ (47,095)	\$ (68,802)	\$ (1,362)	\$ (7,177)	\$ (20,490)	\$ -	\$ -	\$ -	\$ (198,750)	\$ 2,632,148
39		Operating Income	(1,187,812)	451,872	0	47,095	58,982	1,362	7,177	20,490	-	-	-	188,750	(424,164)

REFERENCE:
 TJC Testimony and Schedule TJC-6, TJC-7 and TJC-8 on Pages 1 of 1
 TJC Testimony and Schedule TJC-8, TJC-7 and TJC-10 on Pages 1 of 1
 TJC Testimony and Schedule TJC-8, TJC-7 and TJC-10 on Pages 1 of 1
 TJC Testimony and Schedule TJC-8, TJC-7 and TJC-11 on Pages 1 of 1
 TJC Testimony and Schedule TJC-8, TJC-7 and TJC-12 on Pages 1 of 1
 TJC Testimony and Schedule TJC-8, TJC-7 and TJC-13 on Pages 1 of 1
 TJC Testimony and Schedule TJC-8, TJC-7 and TJC-14 on Pages 1 of 1
 Not Used
 Not Used
 Not Used
 TJC Testimony and Schedule TJC-1 on Page 2 & 2, TJC-8, TJC-7 and TJC-15 on Pages 1 of 1

DESCRIPTION:
 Depreciation Expense
 Property Tax Expense
 Regulatory Expense
 Salaries & Wages Expense
 Salaries & Wages Expense - Officers and Directors
 Salaries & Wages Expense
 Merit Pay Expense
 Bad Debt Expense
 Intentionally Left Blank
 Intentionally Left Blank
 Intentionally Left Blank
 Income Tax Expense

OPERATING INCOME ADJUSTMENT NO. 1
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	NARUC ACCOUNT NO.	ACCOUNT NAME	(A) RUCO TOTAL DEPRECIABLE PLANT	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	351	Organization Cost	\$ -	0.00%	\$ -
2	352	Franchise Cost	3,076	0.00%	-
3	353	Land and Land Rights	1,413,437	0.00%	-
4	354	Structures & Improvements	1,731,760	3.33%	57,668
5	355	Power Generating Equipment	48,226	5.00%	2,411
6	360	Collection Sewers - Force	2,449,525	2.00%	48,991
7	361	Collection Sewers - Gravity	6,100,576	2.00%	122,012
8	362	Special Collecting Structures	-	2.00%	-
9	363	Sevices to Customers	121,361	2.00%	2,427
10	364	Flow Measuring Devices	22,695	10.00%	2,270
11	365	Flow Measuring Installations	11,662	10.00%	1,166
12	366	Reuse Services	-	2.00%	-
13	367	Reuse Meters and Meter Installations	1,615	8.33%	135
14	370	Receiving Wells	51,885	3.33%	1,728
15	371	Pumping Equipment	975,551	12.50%	121,944
16	374	Reuse Distribution Reservoirs	-	2.50%	-
17	375	Reuse Transmission and Dist. Sys.	-	2.50%	-
18	380	Treatment and Disposal Equipment	12,362,103	5.00%	618,105
19	381	Plant Sewers	435,946	5.00%	21,797
20	382	Outfall Sewer Lines	1,261	3.33%	42
21	389	Other Plant and Misc. Equipment	275,505	6.67%	18,376
22	390	Office Furniture & Equipment	177,946	6.67%	11,869
23	390.1	Computers & Software	7,938	20.00%	1,588
24	391	Transportation Equipment	189,995	20.00%	37,999
25	392	Stores Equipment	-	4.00%	-
26	393	Tools, Shop & Garage Equipment	18,921	5.00%	946
27	394	Laboratory Equipment	12,175	10.00%	-
28	395	Power Operated Equipment	126,985	5.00%	6,349
29	396	Communications Equipment	12,016	10.00%	1,202
30	397	Miscellaneous Equipment	95,309	10.00%	9,531
31	398	Other Tangible Plant	166,941	10.00%	16,694
32		TEST YEAR GROSS PLANT AND DEPRECIATION EXPENSE	<u>\$ 26,814,412</u>		<u>\$ 1,105,248</u>
33		Less: AMORTIZATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	(1,207,071)	4.9648%	(59,928)
34		RUCO TOTAL DEPRECIATION EXPENSE			<u>\$ 1,045,320</u>
35		Company As Filed			1,497,193
36		Difference			<u>\$ (451,872)</u>
37		RUCO Adjustment (See TJC-6, Column (C) Line 34)			<u>\$ (451,872)</u>

**RUCO OPERATING INCOME ADJUSTMENT NO. 2
PROPERTY TAXES**

LINE NO.	Property Tax Calculation	[A]	[B]
		RUCO AS ADJUSTED	RUCO RECOMMENDED
1	RUCO Adjusted Test Year Revenues	\$ 2,227,982	\$ 2,227,982
2	Multiplied by 2	2	2
3	Subtotal (Line 1 X Line 2)	\$ 4,455,963	\$ 4,455,963
4a	RUCO Adjusted Test Year Revenues	2,227,982	
4b	RUCO Recommended Revenue, Per Schedule TJC-6		4,886,944
5	Subtotal (Line 3 + Line 4a)	\$ 6,683,945	\$ 9,342,908
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 2,227,982	\$ 3,114,303
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 X Line 8)	\$ 4,455,963	\$ 6,228,605
10	Plus: 10% of CWIP Per Company Schedule E	243,735	243,735
11	Less: Net Book Value of Licensed Vehicles	77,783	77,783
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 4,621,916	\$ 6,394,558
13	Assessment Ratio	20.0%	20.0%
14	Assessed Value (Line 12 * Line 13)	\$ 924,383	\$ 1,278,912
15	Composite Property Tax Rate (Per RUCO Effective Property Tax Calculation Analysis W/P)	10.3559%	10.3559%
16	RUCO Adjusted Test Year Property Tax Expense (Line 14 * Line 15)	\$ 95,728	
17	Company Adjusted Test Year Property Tax (Per Company C-1 Schedule)	95,728	
18	RUCO Test Year Adjustment (Line 16-Line 17)	\$ 0	
19	Property Tax - RUCO Recommended Revenue (Line 14 * Line 15)		\$ 132,443
20	RUCO Test Year Adjusted Property Tax Expense (Line 16)		95,728
21	Increase/(Decrease) to Property Tax Expense		\$ 36,715
22	Increase/(Decrease) to Property Tax Expense		\$ 36,715
23	Increase in Revenue Requirement		2,658,963
24	Increase/(Decrease) to Property Tax per Dollar Increase in Revenue (Line 22 / Line 23)		0.013808

**OPERATING INCOME ADJUSTMENT NO. 3
NORMALIZE REPAIRS & MAINTENANCE EXPENSE**

<u>Line</u> <u>No.</u>	<u>Description</u>	<u>Amount</u>
1		
2	2009 Repairs & Maintenance Expense - Schedule E	\$ 122,341
3	2010 Repairs & Maintenance Expense - Schedule E	100,337
4	2011 Repairs & Maintenance Expense - Schedule C-1	<u>181,981</u>
5		
6	Total Repairs & Maintenance Expense 2009 - 2011	\$ 404,659
7		
8	Divide by 3 Year Normalization Period	<u>3</u>
9		
10	3 Year Normalization of Repairs & Maintenance Expense	\$ 134,886
11		
12	Company Repairs & Maintenance Expense As Filed	181,981
13		
14		
15	Total RUCO Adjustment	\$ (47,095)
16		

**OPERATING INCOME ADJUSTMENT NO. 4
SALARIES AND WAGES - OFFICERS & DIRECTORS**

Line No.	Description	[A] Salaries In Test Year	[B] Estimated Hours Worked	[C] Hours Allocated to FW Sewer	[D] RUCO Allocation Adjustment Factor	[E] RUCO Recommended Amount
1						
2	Paula Capestro	\$ 68,500	2,075	1	1,038 100%	\$ 68,500
3						
4	Sandra Braden	<u>68,500</u>	250	1	125 20%	<u>13,700</u>
5						
6	Totals	\$ 137,000				\$ 82,200
7						
8	Company Requested Test Year Amount As Filed					<u>137,000</u>
9						
10	Total RUCO Adjustment					\$ (54,800)
11						
12						
13						
14	Total Taxes Other Than Income As Filed by Company					\$ 76,451
15						
16	Total Taxes Other Than Income As Adjusted by RUCO					<u>72,259</u>
17						
18	RUCO Taxes Other Than Income Adjustment					\$ (4,192)
19						

Notes:
Company Response to Staff DR GWB 6.3

**OPERATING INCOME ADJUSTMENT NO. 5
 SALARIES AND WAGES**

<u>Line No.</u>	<u>Description</u>	G/L Balance For Test Year Ended	Per Response to Staff DR JA-3.34	RUCO Adjustment
1				
2	Salaries and Wages	\$ 683,996	\$ 682,634	\$ (1,362)
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17	<u>References:</u>			
18	Per Company Response to Staff DR JA - 3.34			
19				

**OPERATING INCOME ADJUSTMENT NO. 6
50/50 SHARING OF MERIT PAY INCREASE**

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1		
2	Total Salaries & Wages As Filed by Company	\$ 802,071
3		
4	Total Salaries & Wages As Adjusted by RUCO 795,451
5		
6	RUCO Salaries & Wages Adjustment (6,620)
7		
8		
9		
10		
11		
12	Total Taxes Other Than Income As Filed by Company	\$ 76,451
13		
14	Total Taxes Other Than Income As Adjusted by RUCO 75,944
15		
16	RUCO Taxes Other Than Income Adjustment (506)
17		
18		
19	<u>References:</u>	
20	Company Responses to RUCO DR 1 and Staff DR JA - 3.35	

**OPERATING INCOME ADJUSTMENT NO. 7
NORMALIZE BAD DEBT EXPENSE**

<u>Line</u> <u>No.</u>	<u>Description</u>	<u>Amount</u>
1		
2	2009 Bad Debt Expense - Schedule E	\$ 5,630
3	2010 Bad Debt Expense - Schedule E -
4	2011 Bad Debt Expense - Schedule C-1 33,490
5		<hr/>
6	Total Bad Debt Expense 2009 - 2011	\$ 39,120
7		
8	Divide by 3 Year Normalization Period 3
9		<hr/>
10	3 Year Normalization of Repairs & Maintenance Expense	\$ 13,040
11		
12	Company Repairs & Maintenance Expense As Filed 33,490
13		
14		
15	Total RUCO Adjustment	\$ (20,450)
16		

**OPERATING INCOME ADJUSTMENT NO. 8
ADJUSTED TEST YEAR INCOME TAX EXPENSE**

<u>Line</u> <u>No.</u>	<u>Description</u>	<u>Amount</u>
1		
2	Total Adjusted Test Year Income Tax Expense As Filed by Company	\$ (676,904)
3		
4	Total Adjusted Test Year Income Tax Expense Per RUCO	<u>(873,655)</u>
5		
6	RUCO Adjusted Test Year Income Tax Expense Adjustment	(196,750)
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		

WEIGHTED AVERAGE COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) RUCO ADJUSTMENT	(C) RUCO ADJUSTED	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	LONG-TERM DEBT	\$ 21,323,943	\$ -	\$ 21,323,943	79.55%	6.90%	5.49%
2	SHORT-TERM DEBT	1,732,342	-	1,732,342	6.46%	8.07%	0.52%
3	COMMON EQUITY	<u>3,748,573</u>	<u>-</u>	<u>3,748,573</u>	<u>13.98%</u>	<u>9.25%</u>	<u>1.29%</u>
4	TOTAL CAPITALIZATION	<u>\$ 26,804,858</u>	<u>\$ -</u>	<u>\$ 26,804,858</u>	<u>100.00%</u>		
5	WEIGHTED AVERAGE COST OF CAPITAL						7.30%

REFERENCES:
TESTIMONY WAR