

**SOUTHWEST GAS CORPORATION**

**DOCKET NO. G-01551A-07-0504**

**DIRECT TESTIMONY**

**OF**

**WILLIAM A. RIGSBY, CRRA**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**March 28, 2008**

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1 **INTRODUCTION**

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

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

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

9 A. I have been involved with utility regulation in Arizona since 1994. During  
10 this 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 this testimony, further describes my educational background  
20 and also includes a list of the rate cases and regulatory matters that I have  
21 been involved with.

22  
23 ...

1 Q. What is the purpose of your testimony?

2 A. The purpose of my testimony is to present recommendations that are  
3 based on my analysis of Southwest Gas Corporation's ("SWG" or  
4 "Company") application for a permanent rate increase ("Application").  
5 SWG filed the Application with the ACC on August 31, 2007. The  
6 Company has chosen the one-year operating period ended April 30, 2007  
7 for the test year in this proceeding.

8  
9 Q. Briefly describe SWG.

10 A. SWG is a local distribution company ("LDC") based in Las Vegas, NV, and  
11 is publicly-traded on the New York Stock Exchange ("NYSE"). The  
12 Company is the dominant provider of natural gas distribution services in  
13 the state of Arizona. SWG also provides natural gas in the states of  
14 California and Nevada. The Company's last rate increase was approved  
15 in Decision No. 68487, dated February 23, 2006. In that case, SWG was  
16 granted a rate of return of 8.40 percent with a cost of equity capital of 9.50  
17 percent.

18  
19 Q. Please explain your role in RUCO's analysis of SWG's Application.

20 A. I reviewed SWG's Application and performed a cost of capital analysis to  
21 determine a fair rate of return on the Company's invested capital. In  
22 addition to my recommended capital structure, my direct testimony will  
23 present my recommended costs of common equity, cost of preferred

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

5

6 Q. Is this your first case involving SWG?

7 A. No. I testified on cost of capital issues for RUCO during SWG's prior rate  
8 case proceeding during 2005.

9

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

12 A. No. RUCO witnesses Marylee Diaz Cortez, CPA, RUCO's Chief of  
13 Accounting and Rates, and Rodney L. Moore will provide testimony on  
14 those issues.

15

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

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

18

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

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

21

22

23

1 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

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

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

20

21

22 ...

23

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

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

5  
6 Cost of Equity Capital – I am recommending a 9.88 percent cost of equity  
7 capital. This 9.88 percent figure is based on the results that I obtained in  
8 my cost of equity analysis, which employed both the DCF and CAPM  
9 methodologies.

10

11 Cost of Debt – I am recommending a 7.96 percent cost of debt. This is  
12 based on my review of the costs associated with SWG’s various debt  
13 instruments.

14

15 Cost of Preferred Equity – I am recommending that the Commission adopt  
16 an 8.20 percent cost of preferred equity. This figure represents the  
17 effective cost of SWG’s \$100 million issue of trust originated preferred  
18 securities (“TOPrS”).

19

20 Capital Structure – I am recommending that the Commission adopt the  
21 Company-proposed target capital structure of 51.0 percent debt, 4.0  
22 percent preferred equity and 45.0 percent common equity.

1           Cost of Capital – Based on the results of my recommended capital  
2 structure, cost of common equity, and debt analyses, I am recommending  
3 an 8.83 percent cost of capital for SWG. This figure represents the  
4 weighted cost of my recommended costs of common equity, preferred  
5 equity and debt.

6

7 Q. Why do you believe that your recommended 8.83 percent cost of capital is  
8 an appropriate rate of return for SWG to earn on its invested capital?

9 A. The 8.83 percent cost of capital figure that I have recommended meets  
10 the criteria established in the landmark Supreme Court cases of Bluefield  
11 Water Works & Improvement Co. v. Public Service Commission of West  
12 Virginia (262 U.S. 679, 1923) and Federal Power Commission v. Hope  
13 Natural Gas Company (320 U.S. 391, 1944). Simply stated, these two  
14 cases affirmed that a public utility that is efficiently and economically  
15 managed is entitled to a return on investment that instills confidence in its  
16 financial soundness, allows the utility to attract capital, and also allows the  
17 utility to perform its duty to provide service to ratepayers. The rate of  
18 return adopted for the utility should also be comparable to a return that  
19 investors would expect to receive from investments with similar risk.

20 The Hope decision allows for the rate of return to cover both the operating  
21 expenses and the “capital costs of the business” which includes interest  
22 on debt and dividend payment to shareholders. This is predicated on the  
23 belief that, in the long run, a company that cannot meet its debt obligations

1 and provide its shareholders with an adequate rate of return will not  
2 continue to supply adequate public utility service to ratepayers.

3

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

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

13

14 **COST OF EQUITY CAPITAL**

15 Q. What is your recommended cost of equity capital for SWG?

16 A. Based on the results of my DCF and CAPM analyses, which ranged from  
17 9.20 percent to 10.83 percent, I am recommending a 9.88 percent cost of  
18 equity capital for SWG. My recommended 9.88 percent figure represents  
19 a mean average of the results of my DCF and CAPM analyses, which  
20 utilized a sample of publicly-traded natural gas local distribution  
21 companies ("LDC").

22

23

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

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

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

14 Another way of looking at the investor's cost of capital is to consider it from  
15 the standpoint of a company that is offering its shares of stock to the  
16 investing public. In order to raise capital, through the sale of common  
17 stock, a company must provide a required rate of return on its stock that  
18 will attract investors to commit funds to that particular investment. In this  
19 respect, the terms "cost of capital" and "investor's required return" are one  
20 in the same. For common stock, this required return is a function of the  
21 dividend that is paid on the stock. The investor's required rate of return  
22 can be expressed as the percentage of the dividend that is paid on the

1 stock (dividend yield) plus an expected rate of future dividend growth.

2 This is illustrated in mathematical terms by the following formula:

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

3

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

4

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

5

by dividing the expected dividend by the current market

6

price of the given share of stock, and

7

$g$  = the expected rate of future dividend growth

8

9 This formula is the basis for the standard growth valuation model that I

10 used to determine SWG's cost of equity capital. It is similar to one of the

11 models used by the Company.

12

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

15 A. There are two primary assumptions regarding dividend growth that must  
16 be made when using the DCF method. First, dividends will grow by a  
17 constant rate into perpetuity, and second, the dividend payout ratio will  
18 remain at a constant rate. Both of these assumptions are predicated on  
19 the traditional DCF model's basic underlying assumption that a company's  
20 earnings, dividends, book value and share growth all increase at the same

1 constant rate of growth into infinity. Given these assumptions, if the  
2 dividend payout ratio remains constant, so does the earnings retention  
3 ratio (the percentage of earnings that are retained by the company as  
4 opposed to being paid out in dividends). This being the case, a  
5 company's dividend growth can be measured by multiplying its retention  
6 ratio (1 - dividend payout ratio) by its book return on equity. This can be  
7 stated as  $g = b \times r$ .

8  
9 Q. Would you please provide an example that will illustrate the relationship  
10 that earnings, the dividend payout ratio and book value have with dividend  
11 growth?

12 A. RUCO consultant Stephen Hill illustrated this relationship in a Citizens  
13 Utilities Company 1993 rate case by using a hypothetical utility.<sup>1</sup>

14  
15 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>
16 Book Value	\$10.00	\$10.40	\$10.82	\$11.25	\$11.70	4.00%
17 Equity Return	10%	10%	10%	10%	10%	N/A
18 Earnings/Sh.	\$1.00	\$1.04	\$1.082	\$1.125	\$1.170	4.00%
19 Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
20 Dividend/Sh	\$0.60	\$0.624	\$0.649	\$0.675	\$0.702	4.00%
21						
22						

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

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

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

20

21

22 ...

23

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

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

7  
8 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>
9 Book Value	\$10.00	\$10.40	\$10.82	\$11.47	\$12.158	5.00%
10 Equity Return	10%	10%	15%	15%	15%	10.67%
11 Earnings/Sh	\$1.00	\$1.04	\$1.623	\$1.720	\$1.824	16.20%
12 Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
13 Dividend/Sh	\$0.60	\$0.624	\$0.974	\$1.032	\$1.094	16.20%
14						
15						

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

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

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

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

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

11

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

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

21

22 ...

23

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

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

16  
17 Q. Please provide an example of how external financing affects a utility's  
18 book value of equity.

19 A. As I explained earlier, one way that a utility can increase its equity is by  
20 selling new shares of common stock on the open market. If these new  
21 shares are purchased at prices that are higher than those shares sold  
22 previously, the utility's book value per share will increase in value. This  
23 would increase both the earnings base of the utility and the earnings

1 expectations of investors. However, if new shares sold at a price below  
2 the pre-sale book value per share, the after-sale book value per share  
3 declines in value. If this downward trend continues over time, investors  
4 might view this as a decline in the utility's sustainable growth rate and will  
5 have lower expectations regarding growth. Using this same logic, if a new  
6 stock issue sells at a price per share that is the same as the pre-sale book  
7 value per share, there would be no impact on either the utility's earnings  
8 base or investor expectations.

9

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

12 A. In his book, *The Cost of Capital to a Public Utility*,<sup>4</sup> Dr. Gordon identified a  
13 growth rate that includes both expected internal and external financing  
14 components. The mathematical expression for Dr. Gordon's growth rate is  
15 as follows:

16

17 
$$g = ( br ) + ( sv )$$

18 where: g = DCF expected growth rate,  
19 b = the earnings retention ratio,  
20 r = the return on common equity,  
21 s = the fraction of new common stock sold that  
22 accrues to a current shareholder, and

---

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



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

3 A. Yes. In the prior SWG rate case<sup>5</sup>, the Commission adopted the  
4 recommendations of ACC Staff's cost of capital witness, Stephen Hill, who  
5 I noted earlier in my testimony. In that case, Mr. Hill used the same  
6 methods that I have used in arriving at the inputs for the DCF model. His  
7 final recommendation for SWG was largely based on the results of his  
8 DCF analysis, which incorporated the same valid market-to-book ratio  
9 assumption that I have used consistently in the DCF model as a cost of  
10 capital witness for RUCO.

11

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

13 A. I analyzed data on a natural gas proxy group consisting of eight natural  
14 gas local distribution companies ("LDC").

15

16 Q. Why did you use this methodology as opposed to a direct analysis of  
17 SWG?

18 A. One of the problems in performing this type of analysis is that the utility  
19 applying for a rate increase is not always a publicly-traded company.  
20 Although SWG is publicly-traded on the NYSE, SWG's Arizona operations  
21 are not. Because of this situation, I used the aforementioned proxy that  
22 includes eight publicly-traded natural gas providers that have similar risk

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<sup>5</sup> Decision No. 68487, dated February 23, 2006 (Docket No. G-01551A-04-0876)

1 characteristics to SWG in order to derive a cost of common equity for the  
2 Company.

3

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

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

12

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

15 A. Each of the natural gas LDC's used in the proxy are publicly-traded on a  
16 major stock exchange (all ten trade on the NYSE) and are followed by The  
17 Value Line Investment Survey ("Value Line"). Each of the eight LDC's are  
18 tracked in Value Line's Natural Gas Utility industry segment. All of the  
19 companies in the proxy are engaged in the provision of regulated natural  
20 gas distribution services. Attachment A of my testimony contains Value  
21 Line's most recent evaluation of the natural gas proxy group that I used for  
22 my cost of common equity analysis.

23

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

2 A. The eight natural gas LDC's included in my proxy (and their NYSE ticker  
3 symbols) are AGL Resources, Inc. ("ATG"), Atmos Energy Corp. ("ATO"),  
4 Laclede Group, Inc. ("LG"), Nicor, Inc. ("GAS"), Northwest Natural Gas Co.  
5 ("NWN"), Piedmont Natural Gas Company ("PNY"), South Jersey  
6 Industries, Inc. ("SJI"), and WGL Holdings, Inc. ("WGL").

7

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

10 A. The eight LDC's listed above provide natural gas service to customers in  
11 the Middle Atlantic region (i.e. SJI which serves southern New Jersey and  
12 WGL which serves the Washington D.C. metro area), the Southeast and  
13 South Central portions of the U.S. (i.e. ATG which serves Virginia,  
14 southern Tennessee and the Atlanta, Georgia area and PNY which serves  
15 customers in North Carolina, South Carolina and Tennessee), the South,  
16 deep South and Midwest (i.e. ATO which serves customers in Kentucky,  
17 Mississippi, Louisiana, Texas, Colorado and Kansas, GAS which provides  
18 service to northern and western Illinois, and LG which serves the St. Louis  
19 area), and the Pacific Northwest (i.e. NWN which serves Washington state  
20 and Oregon).

21

22 ...

23

1 Q. Did the Company's witness also perform a similar analysis using the  
2 natural gas LDC's included in your proxy?

3 A. Yes. The Company's cost of capital witness, Mr. Frank Hanley, CRR, A,  
4 used the same eight LDC's that I have included in my proxy.

5

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

8 A. Schedule WAR-5 provides retention ratios, returns on book equity, internal  
9 growth rates, book values per share, numbers of shares outstanding, and  
10 the compounded share growth for each of the utilities included in the  
11 sample for the historical observation period 2003 to 2007. Schedule  
12 WAR-5 also includes Value Line's projected 2008, 2009 and 2011-13  
13 values for the retention ratio, equity return, book value per share growth  
14 rate, and number of shares outstanding for the LDC's that make up my  
15 proxy.

16

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

19 A. In explaining my analysis, I will use AGL Resources, Inc., NYSE symbol  
20 ATG, as an example. The first dividend growth component that I  
21 evaluated was the internal growth rate. I used the "b x r" formula (page  
22 10) to multiply ATG's earned return on common equity by its earnings  
23 retention ratio for each year 2003 through 2007 to derive the utility's

1 annual internal growth rates. I used the mean average of this five-year  
2 period as a benchmark against which I compared the 2008 internal growth  
3 rate and projected growth rate trends provided by Value Line. Because an  
4 investor is more likely to be influenced by recent growth trends, as  
5 opposed to historical averages, the five-year mean noted earlier was used  
6 only as a benchmark figure. As shown on Schedule WAR-5, ATG's  
7 sustainable internal growth rates experienced an up and down pattern  
8 during the 5-year observation period. This resulted in a 5.84% average  
9 over the 2003 to 2007 time frame. Value Line's analysts are forecasting a  
10 steady pattern of growth through 2013 ranging from 5.00% in 2008 to  
11 6.16% by the end of 2013. Value Line has made no changes to its prior 5-  
12 year earnings projection of 5.50% but has revised its projections for  
13 dividend growth and book value downward from 5.50% and 2.50% to  
14 4.00% and 1.50% respectively. Based on these estimates I believe a  
15 5.75% rate of growth is reasonable for ATG (Schedule WAR-6).

16  
17 Q. Please continue with the external growth rate component portion of your  
18 analysis.

19 A. Schedule WAR-5 illustrates that ATG's average share growth was 4.32%  
20 over the current 2003 – 2007 observation period. Value Line expects  
21 negative growth during the 2008 and 2009 operating periods. After  
22 remaining stagnant at 76.00 million shares for the aforementioned periods,  
23 outstanding shares are expected to increase to 80.00 million during the

1           2011-13 period. Taking this data into consideration, I am standing on my  
2           prior estimate of a 0.55 rate of growth for ATG. My final dividend growth  
3           rate estimate for ATG is 5.92 percent (5.75 percent internal + 0.17 percent  
4           external) and is shown on Page 1 of Schedule WAR-4.

5

6 Q.       What is your average dividend growth rate estimate using the DCF model  
7           for the LDC's in your sample?

8 A.       Based on the DCF model, my average dividend growth rate estimate is  
9           5.18 percent as displayed on page 1 of Schedule WAR-4.

10

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

13 A.       Schedule WAR-6 compares my sustainable growth estimates with the  
14           five-year projections of both Zacks (Attachment B) and Value Line. My  
15           5.18 percent estimate is 131 basis points higher than the average  
16           projected rate of growth published by Value Line (which is an average of  
17           projected EPS, DPS and BVPS), and 8 basis points higher than the 5.10  
18           percent average of projected 5-year EPS of analyst consensus opinions  
19           published by Zacks Investment Research, Inc. ("Zacks"). My 5.18 percent  
20           estimate is also 44 basis points higher than the 4.74 percent average of  
21           Value Line's and Zacks' projected and historical figures on EPS, DPS and  
22           BVPS. This indicates that investors are expecting increased performance  
23           from LDC's in the future. Based on this comparison, I would still say my

1           5.18 percent estimate is a fair representation of the growth projections that  
2           are available to the investing public.

3

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

5   A.   I used the estimated annual dividends, for the next twelve-month period,  
6           that appeared in Value Line's March 14, 2008 Ratings and Reports natural  
7           gas utility industry update. I then divided those figures by the eight-week  
8           average price per share of the appropriate utility's common stock. The  
9           eight-week average price is based on the daily closing stock prices for  
10          each of the companies in my proxies for the period January 28, 2008 to  
11          March 20, 2008.

12

13   Q.   Why did you rely on an eight-week observation period for the closing stock  
14          prices as opposed to a spot price at a given point in time?

15   A.   The eight-week average tends to smooth out random events that may  
16          influence a stocks price on any one particular trading day. For this reason  
17          I typically rely on an eight-week mean average of closing stock prices as  
18          opposed to a spot price.

19

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

22   A.   As shown in Schedule WAR-2, the cost of equity capital derived from my  
23          DCF analysis is 9.73 percent for the LDC's included in my sample.

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

2 Q. Please explain the theory behind the capital asset pricing model (“CAPM”)  
3 and why you decided to use it as an equity capital valuation method in this  
4 proceeding.

5 A. CAPM is a mathematical tool that was developed during the early 1960’s  
6 by William F. Sharpe<sup>6</sup>, the Timken Professor Emeritus of Finance at  
7 Stanford University, who shared the 1990 Nobel Prize in Economics for  
8 research that eventually resulted in the CAPM model<sup>7</sup>. CAPM is used to  
9 analyze the relationships between rates of return on various assets and  
10 risk as measured by beta.<sup>8</sup> In this regard, CAPM can help an investor to  
11 determine how much risk is associated with a given investment so that he  
12 or she can decide if that investment meets their individual preferences.  
13 Finance theory has always held that as the risk associated with a given  
14 investment increases, so should the expected rate of return on that  
15 investment and vice versa. According to CAPM theory, risk can be  
16 classified into two specific forms: nonsystematic or diversifiable risk, and  
17 systematic or non-diversifiable risk. While nonsystematic risk can be  
18 virtually eliminated through diversification (i.e. by including stocks of

---

<sup>6</sup> William F. Sharpe, “A Simplified Model of Portfolio Analysis,” Management Science, Vol. 9, No. 2 (January 1963), pp. 277-93.

<sup>7</sup> Dr. Sharpe shared the 1990 Nobel Prize in Economics with Harry M. Markowitz of City University of New York, and the late Merton H. Miller of the University of Chicago.

<sup>8</sup> 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 various companies in various industries in a portfolio of securities),  
2 systematic risk, on the other hand, cannot be eliminated by diversification.  
3 Thus, systematic risk is the only risk of importance to investors. Simply  
4 stated, the underlying theory behind CAPM states that the expected return  
5 on a given investment is the sum of a risk-free rate of return plus a market  
6 risk premium that is proportional to the systematic (non-diversifiable risk)  
7 associated with that investment. In mathematical terms, the formula is as  
8 follows:

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

9  
10 where: k = cost of capital of a given security,  
11 r<sub>f</sub> = risk-free rate of return,  
12 β = beta coefficient, a statistical measurement of a  
13 security's systematic risk,  
14 r<sub>m</sub> = average market return (e.g. S&P 500), and  
15 r<sub>m</sub> - r<sub>f</sub> = market risk premium.  
16

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

19 A. I used a six-week average of the yields on a 91-day Treasury Bill ("T-  
20 Bill").<sup>9</sup> The yields can be viewed in Attachment C of my testimony. This  
21 six-week average resulted in a risk-free (r<sub>f</sub>) rate of return of 1.65 percent.

---

<sup>9</sup> A six-week average was computed for the current rate using 91-day T-Bill yield quotes listed in Value Line's Selection and Opinion newsletter from February 22, 2008 to March 28, 2008.

1 Q. Why did you use the short-term T-Bill rate as opposed to the yield on an  
2 intermediate 5-year Treasury note or a long-term 30-year Treasury bond?

3 A. This is because a 91-day T-Bill presents the lowest possible total risk to  
4 an investor. As citizens and investors, we would like to believe that U.S.  
5 Treasury securities (which are backed by the full faith and credit of the  
6 United States Government) pose no threat of default no matter what their  
7 maturity dates are. However, a comparison of various Treasury  
8 instruments will generally reveal that those with longer maturity dates do  
9 have slightly higher yields. Treasury yields are comprised of two separate  
10 components,<sup>10</sup> a true rate of interest (believed to be approximately 2.00  
11 percent) and an inflationary expectation. When the true rate of interest is  
12 subtracted from the total treasury yield, all that remains is the inflationary  
13 expectation. Because increased inflation represents a potential capital  
14 loss, or risk, to investors, a higher inflationary expectation by itself  
15 represents a degree of risk to an investor. Another way of looking at this  
16 is from an opportunity cost standpoint. When an investor locks up funds in  
17 long-term T-Bonds, compensation must be provided for future investment  
18 opportunities foregone. This is often described as maturity or interest rate  
19 risk and it can affect an investor adversely if market rates increase before  
20 the instrument matures (a rise in interest rates would decrease the value  
21 of the debt instrument). As discussed earlier in the DCF portion of my

---

<sup>10</sup> 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 true 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. Since a 91-day T-Bill presents the lowest possible total risk to an  
3 investor, it more closely meets the definition of a risk-free rate of return  
4 and is the more appropriate instrument to use in a CAPM analysis.

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 returns on  
9 the S&P 500 index<sup>11</sup> from 1926 to 2006 as the proxy for the market rate of  
10 return ( $r_m$ ). The risk premium ( $r_m - r_f$ ) that results by using the geometric  
11 mean calculation for  $r_m$  is equal to 8.75 percent (10.40% - 1.65% =  
12 8.75%). The risk premium that results by using the arithmetic mean  
13 calculation for  $r_m$  is 10.65 percent (12.30% - 1.65% = 10.65%).

14

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

17 A. The beta coefficients ( $\beta$ ), for the individual utilities used in my proxy, were  
18 calculated by Value Line and were current as of March 14, 2008 for the  
19 natural gas LDC's that comprise my sample. Value Line calculates its  
20 betas by using a regression analysis between weekly percentage changes  
21 in the market price of the security being analyzed and weekly percentage  
22 changes in the NYSE Composite Index over a five-year period. The betas

---

<sup>11</sup> The historical return information on the S&P 500 index was obtained from Morningstar's SBBI 2007 Yearbook (previously published by Ibbotson Associates).

1 are then adjusted by Value Line for their long-term tendency to converge  
2 toward 1.00. The beta coefficients for the natural gas service providers  
3 included in my sample ranged from 0.80 to 1.00 with an average beta of  
4 0.86.

5

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

7 A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation  
8 using a geometric mean for  $r_m$  results in an average expected return of  
9 9.20 percent. My calculation using an arithmetic mean results in an  
10 average expected return of 10.83 percent.

11

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

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

16

<u>METHOD</u>	<u>RESULTS</u>
DCF	9.73%
CAPM	9.20% – 10.83%

20

21 Based on these results, my best estimate of an appropriate range for a  
22 cost of common equity for SWG is 9.20 percent to 10.83 percent. My final  
23 recommendation for SWG is 9.88 percent.

24

1 Q How did you arrive at your recommended 9.88 percent cost of common  
2 equity?

3 A. My recommended 9.88 percent cost of common equity is the mean  
4 average of my DCF and CAPM results. The calculation can be seen on  
5 Page 4 of Schedule WAR-1.

6

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

9 A. The 11.25 percent cost of equity capital proposed by the Company is 137  
10 basis points higher than the 9.88 percent cost of equity capital that I am  
11 recommending.

12

13 **Current Economic Environment**

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

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

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

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

6 In 1991, as measured by the most recently revised annual change in  
7 gross domestic product ("GDP"), the U.S. economy experienced a rate of  
8 growth of negative 0.20 percent. This decline in GDP marked the  
9 beginning of a mild recession that ended sometime before the end of the  
10 first half of 1992. Reacting to this situation, the Federal Reserve Board  
11 ("Federal Reserve" or "Fed"), then chaired by noted economist Alan  
12 Greenspan, lowered its benchmark federal funds rate<sup>12</sup> in an effort to  
13 further loosen monetary constraints - an action that resulted in lower  
14 interest rates.

15 During this same period, the nation's major money center banks followed  
16 the Federal Reserve's lead and began lowering their interest rates as well.  
17 By the end of the fourth quarter of 1993, the prime rate (the rate charged  
18 by banks to their best customers) had dropped to 6.00 percent from a  
19 1990 level of 10.01 percent. In addition, the Federal Reserve's discount  
20 rate on loans to its member banks had fallen to 3.00 percent and short-

---

<sup>12</sup> 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 term interest rates had declined to levels that had not been seen since  
2 1972.

3  
4 Although GDP increased in 1992 and 1993, the Federal Reserve took  
5 steps to increase interest rates beginning in February of 1994, in order to  
6 keep inflation under control. By the end of 1995, the Federal discount rate  
7 had risen to 5.21 percent. Once again, the banking community followed  
8 the Federal Reserve's moves. The Fed's strategy, during this period, was  
9 to engineer a "soft landing." That is to say that the Federal Reserve  
10 wanted to foster a situation in which economic growth would be stabilized  
11 without incurring either a prolonged recession or runaway inflation.

12

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

14 A. Yes. The Fed's strategy of decreasing interest rates to stimulate the  
15 economy worked. The annual change in GDP began an upward trend in  
16 1992. A change of 4.50 percent and 4.20 percent were recorded at the  
17 end of 1997 and 1998 respectively. Based on daily reports that were  
18 presented in the mainstream print and broadcast media during most of  
19 1999, there appeared to be little doubt among both economists and the  
20 public at large that the U.S. was experiencing a period of robust economic  
21 growth highlighted by low rates of unemployment and inflation. Investors,  
22 who believed that technology stocks and Internet company start-ups (with  
23 little or no history of earnings) had high growth potential, purchased these

1 types of issues with enthusiasm. These types of investors, who exhibited  
2 what former Chairman Greenspan described as “irrational exuberance,”  
3 pushed stock prices and market indexes to all time highs from 1997 to  
4 2000.

5

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

7 A. The U.S. economy entered into a recession near the end of the first  
8 quarter of 2001. The bullish trend, which had characterized the last half of  
9 the 1990’s, had already run its course sometime during the third quarter of  
10 2000. Economic data released since the beginning of 2001 had already  
11 been disappointing during the months preceding the September 11, 2001  
12 terrorist attacks on the World Trade Center and the Pentagon. Slower  
13 growth figures, rising layoffs in the high technology manufacturing sector,  
14 and falling equity prices (due to lower earnings expectations) prompted  
15 the Fed to begin cutting interest rates as it had done in the early 1990’s.  
16 The now infamous terrorist attacks on New York City and Washington  
17 D.C. marked a defining point in this economic slump and prompted the  
18 Federal Reserve to continue its rate cutting actions through December  
19 2001. Prior to the 9/11 attacks, commentators, reporting in both the  
20 mainstream financial press and various economic publications including  
21 Value Line, believed that the Federal Reserve was cutting rates in the  
22 hope of avoiding a recession.

1           Despite several intervals during 2002 and 2003 in which the Federal Open  
2           Market Committee (“FOMC”) decided not to change interest rates – moves  
3           which indicated that the worst may be over and that the recession might  
4           have bottomed out during the last quarter of 2001 – a lackluster economy  
5           persisted. The continuing economic malaise and even fears of possible  
6           deflation prompted the FOMC to make a thirteenth rate cut on June 25,  
7           2003. The quarter point cut reduced the federal funds rate to 1.00  
8           percent, the lowest level in 45 years.

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

13          During the latter part of 2003, the FOMC went on record as saying that it  
14          intended to leave interest rates low “for a considerable period.” After its  
15          two-day meeting that ended on January 28, 2004, the FOMC announced  
16          “that with inflation ‘quite low’ and plenty of excess capacity in the  
17          economy, policy-makers ‘can be patient in removing its policy  
18          accommodation.<sup>13</sup>”

19  
20          ...

21  
22

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<sup>13</sup> Wolk, Martin, “Fed holds interest rates steady,” MSNBC, January 28, 2004.

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

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

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 2005,  
14 was confirmed by the U.S. Senate to be the new Federal Reserve chief.

15 As expected by Fed watchers, Chairman Bernanke picked up where his  
16 predecessor left off and increased the federal funds rate by 25 basis  
17 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.

22

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

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

6

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

9 A. According to an article that appeared in the December 2, 2004 edition of  
10 The Wall Street Journal, the FOMC's decision to begin raising rates two  
11 years ago was viewed as a move to increase rates from emergency lows  
12 in order to avoid creating an inflation problem in the future as opposed to  
13 slowing down the strengthening economy.<sup>14</sup> In other words, the Fed was  
14 trying to head off inflation *before* it became a problem. During the period  
15 following the August 8, 2006 FOMC meeting, the Fed's decisions not to  
16 raise rates were viewed as a gamble that a slower U.S. economy would  
17 help to cap growing inflationary pressures.<sup>15</sup>

18

19 ...

20

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<sup>14</sup> McKinnon, John D. and Greg IP, "Fed Raises Rates by a Quarter Point," The Wall Street Journal, September 22, 2004.

<sup>15</sup> Ip, Greg, "Fed Holds Interest Rates Steady As Slowdown Outweighs Inflation," The Wall Street Journal Online Edition, August 8, 2006.

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

3 A. Yes, however, as pointed out in an August 2006 article in The Wall Street  
4 Journal by E.S. Browning, soft landings – like the one that the Fed  
5 managed to pull off during the 1994-95 time frame, in which a recession or  
6 a bear market were avoided – rarely happen<sup>16</sup>. Since it began increasing  
7 the federal funds rate in June 2004, the Fed had assured investors that it  
8 would increase rates at a “measured” pace. Many analysts and  
9 economists interpreted this language to mean that former Chairman  
10 Greenspan would be cautious in increasing interest rates too quickly in  
11 order to avoid what is considered to be one of the Fed’s few blunders  
12 during Greenspan’s tenure – a series of increases in 1994 that caught the  
13 financial markets by surprise after a long period of low rates. The rapid  
14 rise in rates contributed to the bankruptcy of Orange County, California  
15 and the Mexican peso crisis<sup>17</sup>. According to Mr. Browning, at the time that  
16 his article was published, the hope was that Chairman Bernanke would  
17 succeed in slowing the economy “just enough to prevent serious inflation,  
18 but not enough to choke off growth.” In other words, “a ‘Goldilocks  
19 economy,’ in which growth is not too hot and not too cold.”

20

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<sup>16</sup> Browning, E.S, “Not Too Fast, Not Too Slow...,” The Wall Street Journal Online Edition, August 21, 2006.

<sup>17</sup> Associated Press (AP), “Fed begins debating interest rates” USA Today, June 29, 2004.

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

3 A. It would appear so. Articles published in the mainstream financial press  
4 were generally upbeat on the economy during that period. An example of  
5 this is an article written by Nell Henderson that appeared in the January  
6 30, 2007 edition of The Washington Post. According to Ms. Henderson, "a  
7 year into [Fed Chairman] Bernanke's tenure, the [economic] picture has  
8 turned considerably brighter. Inflation is falling; unemployment is low;  
9 wages are rising; and the economy, despite continued problems in  
10 housing, is growing at a brisk clip."<sup>18</sup>

11  
12 Q. What has been the state of the economy over the past year?

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

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

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<sup>18</sup> Henderson, Nell, "Bullish on Bernanke" The Washington Post, January 30, 2007.

1 unchanged at 5.25 percent.<sup>19</sup> At the time of the Fed's decision, analysts  
2 speculated that a rate cut over the next several months was unlikely given  
3 the Fed's concern that inflation would fail to moderate. However, during  
4 this same period, evidence of an even slower economy and a possible  
5 recession was beginning to surface. Within days of the Fed's decision to  
6 stand pat on rates, a borrowing crises rooted in a deterioration of the  
7 market for U.S. subprime mortgages and securities linked to them, forced  
8 the Fed to inject \$24 billion in funds (raised through open market  
9 operations) into the credit markets.<sup>20</sup> By Friday, August 17, 2007, after a  
10 turbulent week on Wall Street, the Fed made the decision to lower its  
11 discount rate (i.e. the rate charged on direct loans to banks) by 50 basis  
12 points, from 6.25 percent to 5.75 percent, and took steps to encourage  
13 banks to borrow from the Fed's discount window in order to provide  
14 liquidity to lenders. According to an article that appeared in the August 18,  
15 2007 edition of The Wall Street Journal,<sup>21</sup> the Fed had used all of its tools  
16 to restore normalcy to the financial markets. If the markets failed to settle  
17 down, the Fed's only weapon left was to cut the Federal Funds rate –  
18 possibly before the next FOMC meeting scheduled on September 18,  
19 2007.

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<sup>19</sup> Ip, Greg, "Markets Gyrate As Fed Straddles Inflation, Growth" The Wall Street Journal, August 8, 2007

<sup>20</sup> Ip, Greg, "Fed Enters Market To Tamp Down Rate" The Wall Street Journal, August 9, 2007

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

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

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

14  
15 Q. What recent actions have the Fed taken in regard to interest rates?

16 A. As of this writing, the Fed has continued to cut rates and announced a 75  
17 basis point reduction in the federal funds rate on March 18, 2008. The  
18 Fed's decision to cut rates was based on its belief that, at this point in  
19 time, the slowing economy is a greater concern than the current rate of  
20 inflation (which the majority of FOMC members believe will moderate

1           during the present economic slowdown).<sup>22</sup> As a result of the Fed's rate  
2           cutting action, the federal funds rate now stands at 2.25 percent.

3

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

6   A.    Despite the increases (prior to June 2006) by the FOMC, interest rates  
7           and yields on U.S. Treasury instruments are for the most part still at  
8           historically low levels. The Fed's actions have also had the overall effect  
9           of reducing the cost of many types of business and consumer loans. As  
10          can be seen in Schedule WAR-8, the previously mentioned federal  
11          discount rate (the rate charged to the Fed's member banks), has fallen to  
12          2.50 percent from 5.73 percent in 2000.

13

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

15   A.    As of March 28, 2008, the leading interest rates have all dropped from the  
16          levels that existed a year ago (Attachment C). The prime rate has fallen  
17          from 8.25 percent a year ago to 5.25 percent. The benchmark federal  
18          funds rate, just discussed, has decreased from 5.25 percent, in March  
19          2007, to a level of 2.25 percent (as a result of the March 18, rate cut  
20          discussed above). The yields on several maturities of U.S. Treasury  
21          instruments have also decreased over the past year. A previous trend,

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

1 described by former Chairman Greenspan as a “conundrum”<sup>23</sup>, in which  
2 long-term rates fell as short-term rates increased, thus creating a  
3 somewhat inverted yield curve that existed as late as June 2007, appears  
4 to have ended and a more traditional yield curve (one where yields  
5 increase as maturity dates lengthen) presently exists (Attachment C). The  
6 91-day T-bill rate, used in my CAPM analysis, has fallen from 5.03  
7 percent, in March 2007, to 0.56 percent as of March 19, 2008. The 1-Year  
8 Treasury constant maturity rate also decreased from 4.94 percent over the  
9 past year to 1.40 percent. Again, for the most part, these current yields  
10 are considerably lower than corresponding yields that existed during the  
11 early nineties and at the beginning of the current decade (as can be seen  
12 on Schedule WAR-8).

13  
14 Q. What is the current outlook for interest rates, inflation, and the economy?

15 A. As a result of the FOMC’s March 18, 2008 rate cutting action, the federal  
16 funds rate of 2.25 percent is already below The Wall Street Journal’s  
17 February 2008 Economic Forecasting Survey’s prediction that the rate  
18 would drop to 2.64 percent by December 2008. The change in the  
19 consumer price index, a key measure of inflation, is also expected to fall  
20 from the December 2007 level of 4.10 percent to 2.30 percent by  
21 December 2008.

---

<sup>23</sup> Wolk, Martin, “Greenspan wrestling with rate 'conundrum',” MSNBC, June 8, 2005.

1 Value Line's analysts have been decidedly pessimistic in their outlook on  
2 the economy recently and had this to say in their Economic and Stock  
3 Market Commentary that appeared in the March 28, 2008 edition of Value  
4 Line's Selection and Opinion publication:

5 **The evidence that we are in a recession continues to build.** Such  
6 indicators include declining nonfarm payrolls, sluggish manufacturing  
7 and nonmanufacturing data, a falloff in March retail sales, and additional  
8 softness in industrial production.  
9

10 **The economic problems, which began with the housing market, are**  
11 **spreading and could well spread further in the months to come.** Not  
12 only are housing's woes intensifying and weakness evolving in other key  
13 markets, but businesses are unlikely to increase their spending on plant  
14 and equipment given the slowdown on the consumer front. We also think  
15 nonresidential construction, which gave a boost to the economy in 2007,  
16 will ease this year due to the recent tightening in credit conditions. The  
17 spreading construction slump, in the meantime, is likely to increase the  
18 unemployment rolls still further.  
19

20 Despite their less than favorable outlook on the economy, Value  
21 Line's analysts believe that the Federal Reserve is on the right  
22 track as also stated in the March 28, 2008 edition of Value Line's  
23 Selection and Opinion publication:

24 **Effective action by the Federal Reserve should lessen the severity**  
25 **of an economic setback.** The Fed has not only been reducing interest  
26 rates aggressively, taking the federal funds rate (the overnight lending  
27 rate between banks) down from 5.25% to 2.25% since last September,  
28 but it has extended its lending program to provide liquidity to cash-  
29 strapped companies. We think other innovative moves to alleviate the  
30 strains caused by the tightening in the credit markets will be taken by the  
31 Fed in the weeks to come to lessen the severity of any economic  
32 downturn and to hopefully boost flagging investor confidence.  
33

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

36 A. Value Line analyst Nils C. Van Liew took note of the environment of low  
37 interest rates that existed in the early part of 2007. In Value Line's Electric

1 Utility (East) Industry update dated March 2, 2007, Mr. Van Liew had this  
2 to say:

3 **Low Interest Rates.** Several factors are, no doubt, driving the electric  
4 utilities' strong share-price performance. Perhaps most important is a  
5 benign interest-rate environment. Utilities frequently tap the credit  
6 markets to fund their operations. (Low interest rates mean they can cost  
7 effectively build new power plants and maintain existing ones.) "Cheap  
8 money" also tends to drive economic expansion, thereby increasing  
9 electricity demand. That said, interest rates should remain relatively low,  
10 though the likelihood that the Federal Reserve eases (monetary) policy is  
11 small, given persistent inflation concerns.  
12

13 While Mr. Van Liew's views appeared in Value Line's Electric Utility  
14 Industry update, I believe his comments hold true for all regulated utilities  
15 including the natural gas distribution segment. Given the fact that interest  
16 rates are even lower now than they were at the time of Mr. Van Liew's  
17 writing, and utility bond rates are currently lower than their 2007 averages  
18 (Schedule WAR 8), I believe that his views are still valid. In fact, my  
19 opinions are supported by Gabe Moreen, an analyst for Merrill Lynch, who  
20 had this to say in his February 21, 2008 report<sup>24</sup> on SWG:

21 **Falling interest rates bode well for utilities** The Fed's recent interest  
22 rate cuts buoyed our natural gas utility index stocks, which had  
23 underperformed during recent credit market turmoil. The liquidity  
24 squeeze elevated concerns over higher capital costs for this capital-  
25 intensive industry, but credit market concerns do not fundamentally  
26 threaten the sector, in our view. Most gas utilities in our index have  
27 investment grade credit and, were the cost of debt to rise, could recover  
28 higher capital costs via rate cases. The interest rate cut also boosted  
29 gas utility stocks as 10-year Treasury prices rose and yields fell. 10-year  
30 Treasury yields provide a common benchmark for utility valuation; like  
31 Treasury bills, utility stocks typically offer steady income and are often  
32 valued by yield differential above Treasury bills. The dividend yield-  
33 Treasury yield differential has recently shrunk to 85 [basis points], just  
34 shy of the long-term average 86 [basis point] differential. Treasury yields  
35 are relatively low at 3.9%, and we expect this low differential to help  
36 sustain gas utility stocks at their high valuations in the near term. For

---

<sup>24</sup> Provided in the Company's response to ACC Staff data request STF-2-8 dated March 6, 2008.

1 Merrill Lynch's current interest rate outlook, please see The Market  
2 Economist, 15 February 2008.  
3

4 Q. How does the average dividend yield of your sample LDC stocks compare  
5 to the average dividend yield for all of the LDC stocks followed by Value  
6 Line?

7 A. As can be seen in Schedule WAR-3, my sample LDC's have an average  
8 dividend yield of 4.55 percent which falls between Value Line's 3.60  
9 percent 2006 average dividend yield for the natural gas industry and their  
10 2011-13 projection of 4.60 percent (Attachment A).  
11

12 Q. How has the slowdown in housing construction impacted SWG?

13 A. It would appear the housing slowdown discussed above is actually having  
14 a positive effect on SWG. This was reflected in several security analysts'  
15 reports that the Company provided in response to ACC Staff data request  
16 STF-2-8. Analysts for North American Equity Research, a subsidiary of  
17 J.P. Morgan Chase, had this to say:

18 **Slowing Customer Growth; Reduced Equity Issuance Need**  
19 Southwest Gas highlighted a decline in its customer growth rate to below  
20 3% in 2007, a decline attributable to problems in the housing market.  
21 Specifically, unoccupied homes and associated inactive meters  
22 accounted for a significant portion of the year-over-year decline. The  
23 large inventory of existing homes is expected to place downward  
24 pressure on new construction. As such, for the next two years the  
25 company anticipates growth in the range of 1.5-3% until the housing  
26 market returns to more normal levels. A more normalized growth rate  
27 reduces capital expenditures, mitigates cost creep associated with  
28 serving the growing demand and thereby should reduce the impact of  
29 regulatory lag caused in part by rate making in AZ which utilizes a  
30 historical test-year. On a related issue, we note that Southwest Gas has  
31 placed meters in approximately 20,000-30,000 homes that are currently  
32 vacant. The company highlighted that once these houses are occupied  
33 and gas meters turned on, Southwest Gas will begin bringing on new  
34 customers at no cost. As the capital for these meters are already

1 included in the company's AZ rate case, these new customer additions  
2 would be incremental to earnings. Along with the decline in the  
3 company's customer growth forecast, Southwest Gas has revised its  
4 2008-2010 capital expenditure forecast as disclosed in the 2007 10K.  
5 SWX forecasts capex of \$850 million with \$70-80 million equity financed.  
6 That is a reduction from the prior three-year outlook of \$880 million and  
7 \$100-125 million of equity financing. The reduction in their equity  
8 financing needs equates to about 2.8% of outstanding shares and is a  
9 positive development for shareholders.  
10

11 Analysts at Citigroup Global Markets, Inc. had this to say:

12 **What's Wrong?** - We believe the housing downturn in AZ, NV and CA  
13 has led some to believe that SWX will be negatively impacted by lower  
14 customer growth (6% previously down to 3% on the high-end). We think  
15 differently. First, we had always assumed that customer growth would  
16 trend back to normal levels. Second, during times of high customer  
17 growth, SWX struggled to earn its cost of capital because of historical  
18 test years in its rate cases (EVA negative). We estimate a one to two  
19 year lull in housing growth will enable SWX to push ROR above its costs  
20 of capital creating positive EVA.  
21

22 Based on the above analysts' outlooks, it is reasonable to say that  
23 the slowdown in the housing sector is actually having a positive  
24 effect on SWG, given the fact that the Company will not have to  
25 devote higher levels of internally generated funds on capital  
26 expenditures, thus providing SWG with the opportunity to build on  
27 its existing equity position and possibly increase dividends.  
28

29 Q. After weighing the economic information that you've just discussed, do you  
30 believe that the 9.88 percent cost of equity capital that you have estimated  
31 is reasonable for SWG?

32 A. I believe that my recommended 9.88 percent cost of equity will provide  
33 SWG with a reasonable rate of return on the Company's invested capital  
34 when economic data on interest rates (that are low by historical

1 standards), the current lull in growth in new housing construction, and the  
2 Fed's ability to keep inflation in check are all taken into consideration. As I  
3 noted earlier, the Hope decision determined that a utility is entitled to earn  
4 a rate of return that is commensurate with the returns it would make on  
5 other investments with comparable risk. I believe that my cost of equity  
6 analysis, which is an average of the results of both the DCF and CAPM  
7 models, has produced such a return.

8

9 **COST OF DEBT**

10 Q. Have you reviewed SWG's testimony on the Company-proposed cost of  
11 debt?

12 A. Yes. I have reviewed the testimony provided by SWG witness Theodore  
13 K. Wood who presents the Company's capital structure, cost of debt and  
14 cost of preferred equity proposals.

15

16 Q. Briefly explain how SWG calculated the Company-proposed cost of debt.

17 A. The Company-proposed cost of debt is the weighted cost of the SWG's  
18 fixed rate and variable rate debt instruments excluding industrial  
19 development revenue bonds ("IDRB") that were issued to finance specific  
20 assets located in Clark County, Nevada and the City of Big Bear,  
21 California.

22

23

1 Q. Have you adopted the Company-proposed cost of debt?

2 A. Yes. The weighted cost of the Company's debt was also used in RUCO  
3 witness Rodney L. Moore's synchronized interest calculation which  
4 produced the interest deduction reflected in RUCO's recommended level  
5 of income tax expense.

6

7 **COST OF PREFERRED EQUITY**

8 Q. Have you reviewed SWG's testimony on the Company-proposed cost of  
9 preferred equity?

10 A. Yes. SWG witness Wood presented testimony on the Company-proposed  
11 8.20 percent embedded cost of preferred equity, which reflects the  
12 effective cost of the Company's \$100 million in trust originated preferred  
13 securities ("TOPrS").

14

15 Q. Have you accepted the Company-proposed 8.20 percent cost of preferred  
16 equity?

17 A. Yes I have.

18

19 Q. Is the weighted cost of SWG's preferred equity also reflected in RUCO's  
20 recommended level of income tax expense?

21 A. Yes it is. Ordinarily this type of regulatory accounting treatment would not  
22 be considered for the dividends of preferred equity instruments. However,  
23 as explained on pages 34 and 35 of SWG witness Theodore K. Wood, the

1 dividends of the TOPrS are tax-deductible as a result of the trust structure  
2 used by the Company to issue the securities. Given the tax-deductible  
3 nature of the dividends, it is only logical that their weighted cost be  
4 included in the synchronized interest calculation that produces an  
5 appropriate interest expense deduction that is used to compute a final  
6 recommended level of income tax expense.

7

8 **CAPITAL STRUCTURE**

9 Q. Have you reviewed SWG's testimony regarding the Company's proposed  
10 capital structure?

11 A. Yes.

12

13 Q. What was SWG's actual capital structure during the test year?

14 A. According to the direct testimony of SWG witness Wood (pages 10 and  
15 11), the Company's actual capital structure during the test year was  
16 comprised of 52.70 percent debt, 4.40 percent preferred equity, and 42.90  
17 percent common equity.

18

19

20

21

22 ...

23

1 Q. How does the Company's actual capital structure compare to the average  
2 capital structure of the eight LDC's in your cost of equity capital proxy  
3 group?

4 A. As can be seen in Schedule WAR-9, the average capital structure of the  
5 eight LDC's included in my sample was comprised of 45.90 percent debt,  
6 0.20 percent preferred equity, and 53.90 percent common equity. My  
7 analysis shows that the equity positions of the LDC's in my sample have  
8 increased slightly since SWG's cost of capital consultant, Mr. Hanley,  
9 conducted his analysis (as seen on page 11 of Mr. Wood's direct  
10 testimony).

11

12 Q. Is SWG's capital structure in line with industry averages?

13 A. No. As I explained above, SWG's actual capital structure is heavier in  
14 debt and preferred equity than the natural gas utilities included in my  
15 sample (Schedule WAR-9). Thus, the cost of equity derived in my DCF  
16 analysis is applicable to companies that are not as leveraged and,  
17 theoretically speaking not as risky than a utility with a level of debt similar  
18 to SWG's. In the case of a publicly-traded company, such as those  
19 included in my proxy, a company with SWG's level of debt would be  
20 perceived as having a higher level of financial risk and would therefore  
21 also have a higher expected return on common equity.

22

23 ...

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

2 A. The Company is proposing a target capital structure comprised of 51.00  
3 percent debt, 4.00 percent preferred equity, and 45.00 percent common  
4 equity.

5  
6 Q. What capital structure are you recommending for SWG?

7 A. I am recommending the same capital structure being proposed by SWG.  
8

9 Q. Have you made an adjustment to your cost of equity estimate based on  
10 the perception of higher financial risk that you explained earlier?

11 A. No, I have not. The target (i.e. hypothetical) capital structure that I am  
12 recommending will provide SWG with additional operating income and  
13 cash flows that will offset any perceived financial risk.

14  
15 Q. Please explain.

16 A. The higher level of equity in my recommended capital structure will  
17 provide the Company with a higher overall weighted cost of equity (i.e.  
18 8.83 percent as opposed to 8.80 percent) and will likewise provide SWG  
19 with a higher level of operating income. The higher level of equity in the  
20 target capital structure also results in a lower weighted cost of debt which  
21 in turn produces a lower synchronized interest deduction. This has the  
22 overall effect of providing SWG with a higher level of income tax expense.  
23 This higher level of income tax expense results in additional cash flow to

1 SWG because the Company's actual income tax liability will be lower (as a  
2 result of the higher actual interest expense deduction that the Company is  
3 entitled to). For these reasons I have made the decision not to make any  
4 adjustment to my recommended cost of equity which was based on the  
5 results of my DCF and CAPM analyses. In summary, I believe that my  
6 recommended target capital structure will provide SWG with a return on  
7 invested capital that will compensate the Company's shareholders for any  
8 perceived financial risk that they may face.

9

10 **WEIGHTED COST OF CAPITAL**

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

13 A. The Company has proposed a weighted cost of capital of 9.45 percent.  
14 This composite figure is the result of a weighted average of SWG's  
15 proposed 7.96 percent cost of debt, 8.20 percent cost of preferred equity,  
16 and 11.25 percent cost of equity capital. The Company-proposed 9.45  
17 percent weighted cost of capital is 62 basis points higher than the 8.83  
18 percent weighted cost of capital that I am recommending.

19

20

21

22

23

1 **COMMENTS ON SOUTHWEST GAS CORPORATION'S COST OF EQUITY**

2 **CAPITAL TESTIMONY**

3 Q. Please describe SWG's cost of equity capital testimony.

4 A. As noted earlier in my testimony, SWG's cost of capital testimony was  
5 prepared by the Company's cost of equity consultant Mr. Frank J. Hanley,  
6 CRRA. Mr. Hanley's testimony presents the results of his cost of common  
7 equity analysis, which used the DCF, CAPM, risk premium, and  
8 comparable earnings methodologies. Mr. Hanley believes that the  
9 Company is entitled to an 11.25 percent cost of common equity based on  
10 the results of his cost of capital analysis.

11

12 Q. Please compare the way you conducted your DCF analysis with the way  
13 that Mr. Hanley conducted his.

14 A. Mr. Hanley conducted a DCF analysis using a similar single-stage  
15 constant growth model as I did. As I explained earlier in my testimony, Mr.  
16 Hanley also conducted his analysis using a proxy group comprised of the  
17 same eight natural gas utilities that were included in my sample. In  
18 addition to the aforementioned proxy group, Mr. Hanley also treated SWG  
19 as a stand-alone company in his analysis.

20

21

22 ...

23

1 Q. How did Mr. Hanley determine the dividend yield component in his DCF  
2 model?

3 A. For the  $P_0$  portion of the DCF formula, Mr. Hanley averaged spot prices  
4 that occurred on June 25, 2007 with average high and low prices that  
5 occurred during the months of May 2007 and April 2007 to arrive at initial  
6 average dividend yields of 3.94 percent, 3.67 percent, and 3.67 percent  
7 respectively for his proxy group of eight LDC's. After obtaining his initial  
8 dividend yields, he averages the results to arrive at an unadjusted average  
9 dividend yield of 3.76 percent. Mr. Hanley then adds a dividend growth  
10 component, which averages 0.08 percent for his sample LDC's, to arrive  
11 at a final adjusted average dividend yield of 3.84 percent. His final  
12 adjusted dividend yield is 71 basis points lower than the average 4.55  
13 percent dividend yield that I obtained using an average of closing stock  
14 prices during a more recent 8-week period (Schedule WAR-3).

15  
16 Q. How did Mr. Hanley obtain his final growth (i.e. g) estimate in his DCF  
17 analysis?

18 A. Mr. Hanley averaged the long-term (i.e. 2010-12) June 15, 2007 earnings  
19 per share projections of Value Line analysts and the June 23, 2007 five-  
20 year earnings per share projections of Thompson FN/First Call analysts to  
21 arrive at an average DCF growth rate of 4.51 percent for his proxy group  
22 of eight LDC's. His final average DCF growth estimate result of 4.51

1           percent is 67 basis points lower than my growth rate estimate of 5.18  
2           percent.

3

4   Q.    What is the average DCF result for the average dividend yields and  
5           growth estimates that were obtained by Mr. Hanley?

6   A.    Mr. Hanley's final average DCF cost of equity estimate, using the inputs  
7           that I have just described, is 8.35 percent or 138 basis points lower than  
8           my DCF estimate of 9.73 percent. Mr. Hanley's final DCF estimate of 9.92  
9           percent is 19 basis points higher than my final DCF estimate of 9.73  
10          percent.

11

12   Q.    How did Mr. Hanley obtain his final DCF cost of equity estimate of 9.92  
13          percent when the average of his LDC sample produced an estimate of  
14          8.35 percent?

15   A.    To arrive at his final DCF cost estimates, Mr. Hanley ignored any results  
16          that were lower than 9.60 percent, which he states was the lowest rate  
17          awarded to a gas distribution utility during the twelve month period ended  
18          March 31, 2007. This methodology had the effect of eliminating the  
19          results of six of the eight LDC's in his proxy group.

20

21

22   ...

23

1 Q. Do you agree with Mr. Hanley's method which eliminates any results  
2 under 9.60 percent?

3 A. No, I do not. Even though my final DCF estimate falls above the 9.60  
4 percent threshold established by Mr. Hanley I still don't agree with his  
5 methodology. By setting his 9.60 percent threshold, Mr. Hanley is in effect  
6 refusing to consider the fact that the market has priced the returns of  
7 LDC's at a lower level than what regulators have adopted and that the  
8 investment community is willing to accept lower rates of returns.

9

10 Q. Please compare the results of your CAPM analysis with the results of Mr.  
11 Hanley's CAPM analysis.

12 A. Mr. Hanley performed two CAPM analyses, one using the traditional  
13 CAPM model which I used (i.e. the Sharpe/Lintner version expressed as  $k$   
14  $= r_f + [ \beta ( r_m - r_f ) ]$ ) and a second using the empirical ("ECAPM") version of  
15 the model which assumes that the risk-free rate of return used in the  
16 traditional model is understated. Typically the ECAPM uses unadjusted  
17 betas that are lower than the adjusted Value Line betas that I used in my  
18 CAPM analysis (a point on which Mr. Hanley and I disagree).

19

20 Q. Why didn't you use the ECAPM version in your CAPM analysis?

21 A. I did not use this version mainly because the ECAPM has been given little  
22 to no weight by the ACC in prior Commission proceedings (most notably in

1 a number of Arizona-American Water Company filings where the model  
2 was employed by a Boston consulting firm known as the Brattle Group).

3

4 Q. What were the differences between your CAPM analysis and Mr. Hanley's  
5 CAPM analysis?

6 A. Mr. Hanley performed his analysis using the same proxy that he used in  
7 his DCF analyses and also treated SWG as a stand-alone entity. His  
8 CAPM analysis produced an average expected return, or  $k$ , of 10.35  
9 percent for his group of eight LDC's. As in his DCF analysis, Mr. Hanley  
10 simply rejected any results lower than 9.60 percent. Thus, his final CAPM  
11 estimate of 10.49 percent is higher than the aforementioned average of all  
12 eight of the LDC's used in both of our samples. His final CAPM estimate  
13 of 10.49 percent is 129 basis points higher than my 9.20 percent CAPM  
14 analysis result using a geometric mean, and 34 basis points lower than my  
15 10.83 percent CAPM analysis result using an arithmetic mean. His stand-  
16 alone result for SWG is 10.17 percent. Mr. Hanley's ECAPM analysis  
17 produced an average expected return of 10.51 percent for his group of  
18 eight LDC's (the results for all eight of his sample companies exceeded  
19 his 9.60 percent threshold). His final ECAPM estimate of 10.51 percent  
20 results is 131 basis points higher than my 9.20 percent CAPM analysis  
21 result using a geometric mean, and 31 basis points lower than my 10.83  
22 percent CAPM analysis result using an arithmetic mean. His ECAPM  
23 result for SWG as a stand-alone entity is 10.38 percent.

1 Q. What beta coefficient ( $\beta$ ) did you use in your CAPM model and what beta  
2 coefficient did Mr. Hanley's use in his CAPM analysis?

3 A. I used a beta coefficient of 0.86, which is an average of Value Line's  
4 adjusted betas for the eight LDC's included in my proxy. Mr. Hanley used  
5 an average beta coefficient of 0.88 for his group of eight LDC's. The lower  
6 average beta used in my analysis reflects the fact that the betas for  
7 several of the LDC's used in our samples have fallen (indicating lower  
8 risk) since Mr. Hanley conducted his analysis. Technically, Mr. Hanley's  
9 ECAPM model overstates the expected return because of his use of an  
10 adjusted beta in a model that contains an upward adjustment for the risk-  
11 free rate of return.

12

13 Q. Please compare the risk free rate of return ( $r_f$ ) proxies used in both your  
14 and Mr. Hanley CAPM analyses.

15 A. As I explained earlier in my testimony (page 25), I used a six-week  
16 average on a 91-day T-Bill rate. This resulted in a risk-free rate of return  
17 of 1.65 percent. Mr. Hanley on the other hand, used an average of  
18 economist's projections, reported in Blue Chip Financial Forecasts dated  
19 July 1, 2007, on the yields of 30-year U.S. Treasury Notes for the six  
20 quarters ending with the final calendar quarter of 2008. This resulted in a  
21 higher risk-free rate of return of 5.33 percent. The difference between the  
22 two average yields is 368 basis points.

23

1 Q. What is the difference between your market risk premium and the market  
2 risk premium used by Mr. Hanley?

3 A. Mr. Hanley derived his 5.69 percent market risk premium figure by  
4 averaging Value Line and Morningstar data. The 5.69 percent market risk  
5 premium used by Mr. Hanley is 306 basis points lower than my 8.75  
6 percent market risk premium, using a geometric mean, and is 496 basis  
7 points lower than my 10.65 percent market risk premium, using an  
8 arithmetic mean.

9

10 Q. Did you conduct a risk premium study or a comparable earnings analysis  
11 similar to the ones performed by Mr. Hanley?

12 A. No I did not. The risk premium methodology is basically an offshoot of the  
13 CAPM and the comparable earnings method, though used by most  
14 analysts to some degree, has been largely replaced by forward-looking  
15 methods such as DCF and CAPM.

16

17 Q. How does Mr. Hanley arrive at his 11.25 percent cost of common equity  
18 figure after presenting the results of his DCF, risk premium, CAPM and  
19 comparable earnings analyses?

20 A. Mr. Hanley arrived at his recommended 11.25 percent cost of common  
21 equity by weighing the results of all four of his models. This resulted in a  
22 cost rate of 11.00 percent for his proxy group of eight LDC's. After this he  
23 makes an upward adjustment of 31 basis points as a result of SWG's

1 credit ratings. His final 11.25 percent cost of common equity for SWG is  
2 conditioned on the Commission's adoption of the 45.00 percent level of  
3 equity, in the Company-proposed capital structure, and the Company's  
4 proposed tariff tools.

5

6 Q. Has Mr. Hanley given any consideration to the risk mitigation inherent in  
7 SWG's decoupling proposal in his cost of equity analysis?

8 A. No. Mr. Hanley's testimony concentrates on why his recommended 11.25  
9 percent cost of common equity is appropriate for SWG given the various  
10 characteristics of the LDC's in his sample which includes their credit  
11 ratings and the fact that six of the eight have some form of decoupling or  
12 weather normalization in some of the jurisdictions they serve. However,  
13 Mr. Hanley's testimony does not address the fact that the implementation  
14 of a decoupling mechanism, which would essentially provide SWG with a  
15 guaranteed return on the Company's invested capital, does in itself merit a  
16 lower cost of common equity that reflects the elimination of the risk of not  
17 being able to earn an authorized rate of return.

18

19 Q. Does your silence on any of the issues, matters or findings addressed in  
20 the testimony of Mr. Hanley constitute your acceptance of his positions on  
21 such issues, matters or findings?

22 A. No, it does not.

23

1 Q. Does this conclude your testimony on SWG?

2 A. Yes, it does.

**Qualifications of William A. Rigsby, CRRA**

**EDUCATION:**

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

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

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

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

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

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

**EXPERIENCE:**

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

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

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

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

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

**RESUME OF RATE CASE AND REGULATORY PARTICIPATION**

<b><u>Utility Company</u></b>	<b><u>Docket No.</u></b>	<b><u>Type of Proceeding</u></b>
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.)**

<b><u>Utility Company</u></b>	<b><u>Docket No.</u></b>	<b><u>Type of Proceeding</u></b>
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/ACRM
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/ACRM

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

<b><u>Utility Company</u></b>	<b><u>Docket No.</u></b>	<b><u>Type of Proceeding</u></b>
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/ACRM
Tucson Electric Power Company	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/ACRM
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval
UNS Gas, Inc.	G-04204A-06-0463	Rate Increase
Arizona-American Water Company	WS-01303A-06-0403	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 Company	E-01933A-07-0402	Rate Increase

# **ATTACHMENT A**

The Natural Gas Utility Industry ranks in the bottom half of our industry spectrum for Timeliness. However, many firms are developing opportunities to bolster growth for the years ahead. Moreover, companies in this sector tend to be stable businesses that offer attractive dividend yields, which may add appeal to many issues, given the current lackluster economic environment. Still, limited near-term earnings prospects and a tough regulatory environment continue to weigh on firms here.

**Economic Environment**

The domestic economy appears to be moving closer to a possible recession. Investor sentiment has soured over the past year, as turmoil in the credit markets and a weak housing market have been a drag on the broader economy. The weakness in the housing market has hurt companies in this industry, as customer growth has slowed for many Natural Gas Utilities. Oil prices have risen, which has helped offset some of this pressure, as natural gas has become an increasingly popular choice for consumers to meet their energy needs. Given the current turmoil in the world's financial markets, good quality businesses such as these may come increasingly into favor. These equities offer fairly predictable results, solid balance sheets, and above-average yields. Thus, conservative accounts may want to consider some of the stocks in this industry if they are trying to reduce risk in their portfolios.

**Regulation**

Rate cases are a key theme for the companies in this industry. These firms are regulated by state commissions that dictate the return on equity these companies can achieve. As a result, these utilities tend to register flat bottom-line results from year to year. Notably, numerous firms are in the process of applying for new rates or have cases pending. Therefore, when reading the following pages, investors should pay special attention to this factor as it will likely remain key for these firms going forward. This should be increasingly important if the tough real estate market continues to hinder demand for natural gas. When considering new cases, regulators try to strike a balance between consumer and shareholder interests. Given the recent challenges of this industry, the management of these firms are eagerly

**INDUSTRY TIMELINESS: 70 (of 97)**

hoping for relief from these commissions in order to boost results.

**Business Structure**

Companies in this sector have sought various ways to drive profits. One such way has been developing or adding unregulated businesses to their operations. These ventures are not limited by state commissions and possess the potential to drive share-net beyond their typical levels. Currently, this strategy only makes up a small portion of this industry's results. However, it may become an increasingly important long-term opportunity. Another way firms have been trying to boost performance is by improving cost controls. Firms have also been looking to evolve their business model in an effort to create more sustainable growth. Companies have developed new ventures such as the ones mentioned above, while others have added bolt-on acquisitions to improve their position in this mature market. As a result, we believe that there will probably continue to be consolidation in this industry for the foreseeable future. All told, these strategies have been necessary for companies to continue to grow their business.

**Weather**

Weather is another factor that firms have to contend with in the Natural Gas Utility industry. Unseasonably warm or cold weather can create increased volatility. As a result, the predictable growth these firms enjoy can be disrupted. Some of these utilities hedge their risk through weather-adjusted rate mechanisms. This can minimize volatility if these weather abnormalities occur. Therefore, investors interested in firms with more stable performance should look for companies that use these strategies.

**Investment Consideration**

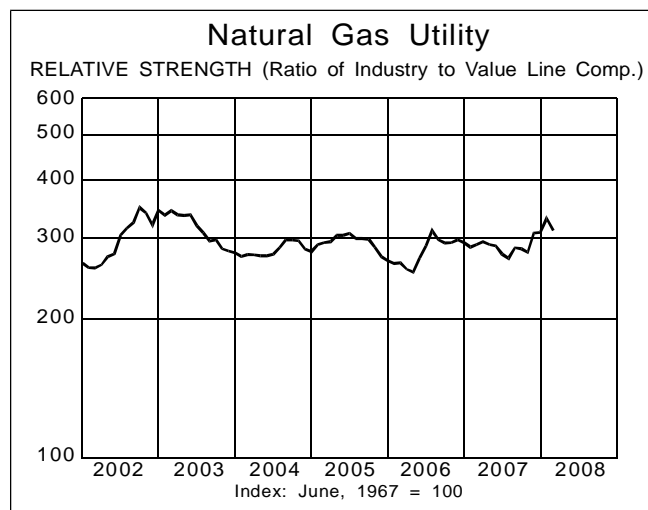
The majority of the stocks in this industry have subpar prospects over the 3- to 5-year pull. Additionally, the lion's share of the equities in this industry are ranked average or lower for Timeliness. Therefore, we believe performance-minded investors should look elsewhere. However, conservative income-oriented accounts may be attracted by these companies' above-average yields.

*Richard Gallagher*

Composite Statistics: Natural Gas Utility

2004	2005	2006	2007	2008	2009		11-13
33220	41399	41401	44500	46500	49500	Revenues (\$mill)	61500
1517.2	1788.8	1823.0	2050	2150	2350	Net Profit (\$mill)	3000
35.7%	35.8%	36.1%	36.0%	36.0%	36.0%	Income Tax Rate	36.0%
4.6%	4.3%	4.4%	4.6%	4.6%	4.7%	Net Profit Margin	4.9%
53.2%	50.7%	52.0%	51.0%	51.0%	51.0%	Long-Term Debt Ratio	52.0%
45.7%	48.3%	47.0%	48.0%	48.0%	48.0%	Common Equity Ratio	46.0%
31268	33911	35357	36750	38000	39750	Total Capital (\$mill)	44000
32053	35030	35944	39000	41000	43000	Net Plant (\$mill)	47500
6.4%	6.9%	6.7%	7.0%	7.0%	7.5%	Return on Total Cap'l	8.0%
10.4%	10.7%	10.7%	11.5%	11.5%	12.0%	Return on Shr. Equity	12.5%
10.5%	10.8%	11.0%	11.5%	11.5%	12.0%	Return on Com Equity	12.5%
4.0%	4.4%	4.6%	5.2%	5.3%	5.5%	Retained to Com Eq	6.0%
63%	59%	59%	60%	60%	60%	All Div'ds to Net Prof	60%
15.6	16.2	15.8				Avg Ann'l P/E Ratio	13.0
.82	.87	.90				Relative P/E Ratio	.85
4.0%	3.6%	3.6%				Avg Ann'l Div'd Yield	4.6%
308%	331%	315%	325%	325%	330%	Fixed Charge Coverage	330%

*Bold figures are Value Line estimates*

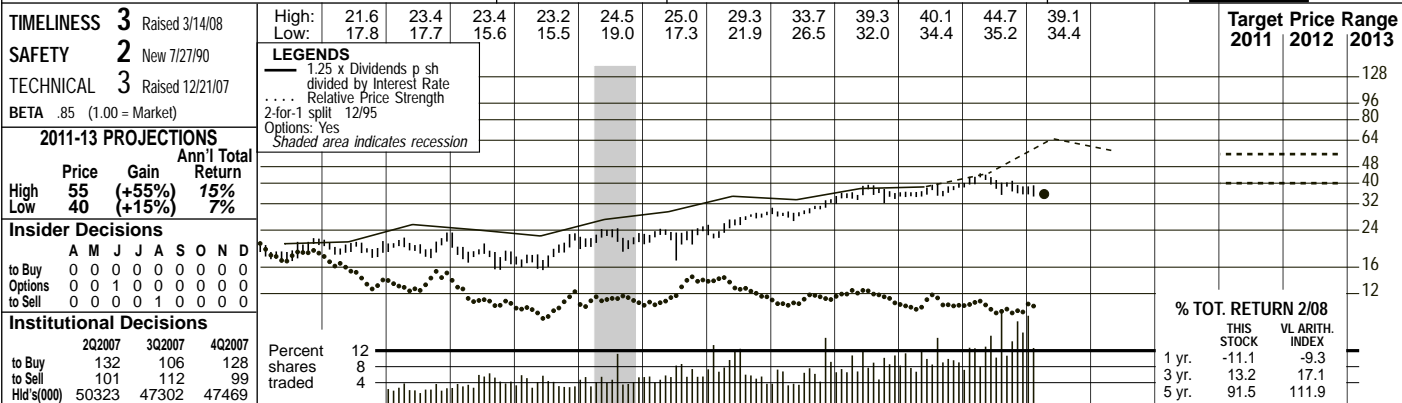


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# AGL RESOURCES NYSE-ATG

RECENT PRICE **35.54** P/E RATIO **12.4** (Trailing: 13.0 Median: 14.0) RELATIVE P/E RATIO **0.80** DIV'D YLD **4.7%** VALUE LINE



**TIMELINESS** 3 Raised 3/14/08  
**SAFETY** 2 New 7/27/90  
**TECHNICAL** 3 Raised 12/21/07  
**BETA** .85 (1.00 = Market)

**2011-13 PROJECTIONS**  
 Price Gain Ann'l Total  
 High 55 (+55%) 15%  
 Low 40 (+15%) 7%

**Insider Decisions**  
 A M J J A S O N D  
 to Buy 0 0 0 0 0 0 0 0 0 0  
 Options 0 0 1 0 0 0 0 0 0 0  
 to Sell 0 0 0 0 1 0 0 0 0 0

**Institutional Decisions**  
 2Q2007 3Q2007 4Q2007  
 to Buy 132 106 128  
 to Sell 101 112 99  
 Hld's(000) 50323 47302 47469

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
High	21.6	23.4	23.4	23.2	24.5	25.0	29.3	33.7	39.3	40.1
Low	17.8	17.7	15.6	15.5	19.0	17.3	21.9	26.5	32.0	34.4

Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Value Line Pub, Inc.	11-13
Revenues per sh <sup>A</sup>	20.43	22.73	23.59	19.32	21.91	22.75	23.36	18.71	11.25	19.04	15.32	15.25	23.89	34.98	33.73	32.64	34.55	36.20	Revenues per sh <sup>A</sup>	41.25
"Cash Flow" per sh	2.31	2.25	2.24	2.33	2.49	2.42	2.65	2.29	2.86	3.31	3.39	3.47	3.29	4.20	4.50	4.77	4.95	5.15	"Cash Flow" per sh	5.65
Earnings per sh <sup>A,B</sup>	1.13	1.08	1.17	1.33	1.37	1.37	1.41	.91	1.29	1.50	1.82	2.08	2.28	2.48	2.72	2.72	2.80	2.90	Earnings per sh <sup>A,B</sup>	3.20
Div'ds Decl'd per sh <sup>C</sup>	1.03	1.04	1.04	1.04	1.06	1.08	1.08	1.08	1.08	1.08	1.08	1.11	1.15	1.30	1.48	1.64	1.68	1.72	Div'ds Decl'd per sh <sup>C</sup>	1.84
Cap'l Spending per sh	2.74	2.49	2.37	2.17	2.37	2.59	2.05	2.51	2.92	2.83	3.30	2.46	3.44	3.44	3.26	3.39	3.50	3.60	Cap'l Spending per sh	3.65
Book Value per sh <sup>D</sup>	9.70	9.90	10.19	10.12	10.56	10.99	11.42	11.59	11.50	12.19	12.52	14.66	18.06	19.29	20.71	21.74	22.35	23.05	Book Value per sh <sup>D</sup>	22.50
Common Shs Outst'g <sup>E</sup>	48.69	49.72	50.86	55.02	55.70	56.60	57.30	57.10	54.00	55.10	56.70	64.50	76.70	77.70	77.70	76.40	76.00	76.00	Common Shs Outst'g <sup>E</sup>	80.00
Avg Ann'l P/E Ratio	15.5	17.9	15.1	12.6	13.8	14.7	13.9	21.4	13.6	14.6	12.5	12.5	13.1	14.3	13.5	14.7	14.7	14.7	Avg Ann'l P/E Ratio	15.0
Relative P/E Ratio	.94	1.06	.99	.84	.86	.85	.72	1.22	.88	.75	.68	.71	.69	.76	.73	.77	.77	.77	Relative P/E Ratio	1.00
Avg Ann'l Div'd Yield	5.9%	5.4%	5.9%	6.2%	5.6%	5.4%	5.5%	5.5%	6.2%	4.9%	4.7%	4.3%	3.9%	3.7%	4.0%	4.1%	4.1%	4.1%	Avg Ann'l Div'd Yield	3.8%

**CAPITAL STRUCTURE as of 12/31/07**  
 Total Debt \$2254.0 mill. Due in 5 Yrs \$897.0 mill.  
 LT Debt \$1674.0 mill. LT Interest \$95.0 mill.

(Total interest coverage: 3.7x)  
 Leases, Uncapitalized Annual rentals \$26.0 mill.

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

**Pfd Stock** None  
**Common Stock** 76,439,305 shs. as of 1/31/08

**MARKET CAP: \$2.7 billion (Mid Cap)**

Year	2005	2006	2007	2008	2009
Revenues (\$mill) <sup>A</sup>	1338.6	1068.6	607.4	1049.3	868.9
Net Profit (\$mill)	80.6	52.1	71.1	82.3	103.0
Income Tax Rate	32.5%	33.1%	34.3%	40.7%	36.0%
Net Profit Margin	6.0%	4.9%	11.7%	7.8%	11.9%
Long-Term Debt Ratio	47.5%	45.3%	45.9%	61.3%	58.3%
Common Equity Ratio	47.1%	49.2%	48.3%	38.7%	41.7%
Total Capital (\$mill)	1388.4	1345.8	1286.2	1736.3	1704.3
Net Plant (\$mill)	1534.0	1598.9	1637.5	2058.9	2194.2
Return on Total Cap'l	7.6%	5.7%	7.4%	6.5%	8.1%
Return on Shr. Equity	11.1%	7.1%	10.2%	12.3%	14.5%
Return on Com Equity	12.3%	7.9%	11.5%	12.3%	14.5%
Retained to Com Eq	4.4%	NMF	3.2%	4.2%	7.0%
All Div'ds to Net Prof	64%	101%	72%	65%	52%

Cal-endar	2005	2006	2007	2008	2009
Cash Assets	30.0	20.0	21.0		
Other	2002.0	1802.0	1790.0		
Current Assets	2032.0	1822.0	1811.0		
Accts Payable	264.0	213.0	172.0		
Debt Due	522.0	539.0	580.0		
Other	1153.0	875.0	893.0		
Current Liab.	1939.0	1627.0	1645.0		
Fix. Chg. Cov.	442%	397%	391%		

**AGL Resources reported solid performance for the fourth quarter.** Revenues declined slightly in the recent interim. However, the company enjoyed lower operating costs, and the bottom-line improved considerably. But share earnings for 2007 as a whole only matched the prior year's figure, owing to unfavorable comparisons in the first and third quarters. Operating earnings were lower at the company's Wholesale Services business, resulting from a significant decrease in commercial activity due to lower volatility in the natural gas market during the year. Performance was supported by solid earnings growth in the company's Distribution Operations, and a strong bottom-line advance in its Retail Energy Operations. The Distribution business benefited from modest customer growth and higher base rates at Chattanooga Gas. The Retail Energy line experienced higher average customer usage, a greater customer base, and increased late payment fees.

propane. Deregulated subsidiaries: Georgia Natural Gas markets natural gas at retail. Sold Utilipro, 3/01. Acquired Compass Energy Services, 10/07. Off/dir. own less than 1.0% of common; Barclays Global Investors, 5.0% (3/07 Proxy). Pres. & CEO: John W. Somershalder II. Inc.: GA. Addr.: Ten Peachtree Place N.E., Atlanta, GA 30309. Telephone: 404-584-4000. Internet: www.aglresources.com.

Cal-endar	2005	2006	2007	2008	2009
Revenues	3.5%	13.5%	3.5%		
"Cash Flow"	5.5%	7.0%	4.0%		
Earnings	7.0%	15.0%	3.5%		
Dividends	2.5%	4.0%	4.0%		
Book Value	6.5%	10.5%	1.5%		

**AGL Resources reported solid performance for the fourth quarter.** Revenues declined slightly in the recent interim. However, the company enjoyed lower operating costs, and the bottom-line improved considerably. But share earnings for 2007 as a whole only matched the prior year's figure, owing to unfavorable comparisons in the first and third quarters. Operating earnings were lower at the company's Wholesale Services business, resulting from a significant decrease in commercial activity due to lower volatility in the natural gas market during the year. Performance was supported by solid earnings growth in the company's Distribution Operations, and a strong bottom-line advance in its Retail Energy Operations. The Distribution business benefited from modest customer growth and higher base rates at Chattanooga Gas. The Retail Energy line experienced higher average customer usage, a greater customer base, and increased late payment fees.

**Earnings growth ought to resume in 2008.** The company has initiated share-net guidance of \$2.75 to \$2.85 for the current year. Our estimate lies at the midpoint of

this range. This assumes normal weather patterns and average volatility for gas prices in 2008. Earnings per share stand a good chance of advancing at about the same deliberate pace in 2009, as well.

**The board of directors recently approved a modest dividend increase.** The quarterly dividend will now increase to \$0.42, beginning with the March payout. This represents slower growth than in the past few years, which makes sense, considering the company's flat earning comparison for 2007 and its lower cash balance in recent times. Nevertheless, this level of dividend growth will probably continue going forward.

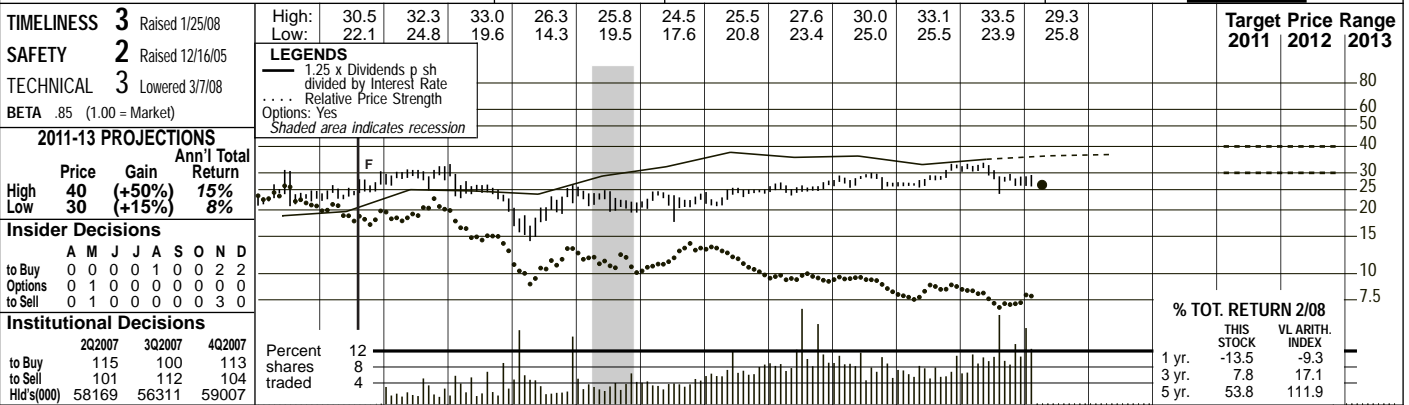
**These shares have improved a notch in Timeliness, and are now ranked 3 (Average).** That said, this issue earns good marks for Safety and Price Stability, and we project steady earnings growth at AGL Resources over the pull to 2011-2013. Income-seeking investors may also find this stock attractive, considering its healthy dividend yield. Overall, these shares offer worthwhile total return potential for the coming years.

*Michael Napoli, CPA* March 14, 2008

(A) Fiscal year ends December 31st. Ended September 30th prior to 2002.  
 (B) Diluted earnings per share. Excl. non-recurring gains (losses): '95, (\$0.83); '99, \$0.39; '00, \$0.13; '01, \$0.13; '03, (\$0.07). Next earnings report due late April/early May.  
 (C) Dividends historically paid early March, June, Sept., and Dec. ■ Div'd reinvest. plan available.  
 (D) Includes intangibles. In 2007: \$420 million, \$5.50/share.  
 (E) In millions, adjusted for stock split.

# ATMOS ENERGY CORP. NYSE-ATO

RECENT PRICE **26.34** P/E RATIO **13.2** (Trailing: 14.5 Median: 16.0) RELATIVE P/E RATIO **0.85** DIV'D YLD **5.0%** VALUE LINE



Year	Price	Gain	Ann'l Total Return
High	40	(+50%)	15%
Low	30	(+15%)	8%

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

Year	2Q2007	3Q2007	4Q2007
to Buy	115	100	113
to Sell	101	112	104
Hld's(000)	58169	56311	59007

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
Revenues per sh <sup>A</sup>	27.90	22.09	26.61	35.36	22.82	54.39	46.50	61.75	75.27	66.03	65.30	64.65		76.50
"Cash Flow" per sh	3.38	2.62	3.01	3.03	3.39	3.23	2.91	3.90	4.26	4.14	4.25	4.35		4.65
Earnings per sh <sup>A B</sup>	1.84	.81	1.03	1.47	1.45	1.71	1.58	1.72	2.00	1.94	2.00	2.10		2.45
Div'ds Decl'd per sh <sup>C</sup>	1.06	1.10	1.14	1.16	1.18	1.20	1.22	1.24	1.26	1.28	1.30	1.32		1.40
Cap'l Spending per sh	4.44	3.53	2.36	2.77	3.17	3.10	3.03	4.14	5.20	4.39	4.85	5.00		6.20
Book Value per sh	12.21	12.09	12.28	14.31	13.75	16.66	18.05	19.90	20.16	22.01	22.75	22.50		25.15
Common Shs Outst'g <sup>D</sup>	30.40	31.25	31.95	40.79	41.68	51.48	62.80	80.54	81.74	89.33	94.00	99.00		115.00
Avg Ann'l P/E Ratio	15.4	33.0	18.9	15.6	15.2	13.4	15.9	16.1	13.5	15.9	Bold figures are Value Line estimates			14.5
Relative P/E Ratio	.80	1.88	1.23	.80	.83	.76	.84	.86	.73	.83				.95
Avg Ann'l Div'd Yield	3.7%	4.1%	5.9%	5.1%	5.4%	5.2%	4.9%	4.5%	4.7%	4.2%				4.0%
Revenues (\$mill) <sup>A</sup>	848.2	690.2	850.2	1442.3	950.8	2799.9	2920.0	4973.3	6152.4	5898.4	6140	6400		8800
Net Profit (\$mill)	55.3	25.0	32.2	56.1	59.7	79.5	86.2	135.8	162.3	170.5	190	210		280
Income Tax Rate	36.5%	35.0%	36.1%	37.3%	37.1%	37.1%	37.4%	37.7%	37.6%	35.8%	36.0%	36.0%		38.0%
Net Profit Margin	6.5%	3.6%	3.8%	3.9%	6.3%	2.8%	3.0%	2.7%	2.6%	2.9%	3.1%	3.3%		3.2%
Long-Term Debt Ratio	51.8%	50.0%	48.1%	54.3%	53.9%	50.2%	43.2%	57.7%	57.0%	52.0%	51.0%	52.0%		51.0%
Common Equity Ratio	48.2%	50.0%	51.9%	45.7%	46.1%	49.8%	56.8%	42.3%	43.0%	48.0%	49.0%	48.0%		49.0%
Total Capital (\$mill)	769.7	755.1	755.7	1276.3	1243.7	1721.4	1994.8	3785.5	3828.5	4092.1	4360	4640		5900
Net Plant (\$mill)	917.9	965.8	982.3	1335.4	1300.3	1516.0	1722.5	3374.4	3629.2	3836.8	4040	4250		5450
Return on Total Cap'l	9.0%	5.1%	6.5%	5.9%	6.8%	6.2%	5.8%	5.3%	6.1%	5.9%	6.0%	6.0%		6.5%
Return on Shr. Equity	14.9%	6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	9.0%	9.5%		9.5%
Return on Com Equity	14.9%	6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	9.0%	9.5%		9.5%
Retained to Com Eq	6.3%	NMF	NMF	2.1%	1.9%	2.8%	1.7%	2.3%	3.6%	3.0%	3.0%	3.5%		4.0%
All Div'ds to Net Prof	58%	NMF	112%	79%	82%	70%	77%	73%	63%	65%	64%	62%		58%

**CAPITAL STRUCTURE as of 12/31/07**  
**Total Debt** \$2330.8 mill. **Due in 5 Yrs** \$920.0 mill.  
**LT Debt** \$2124.9 mill. **LT Interest** \$125.0 mill.  
 (LT interest earned: 2.9x; total interest coverage: 2.8x)  
**Leases, Uncapitalized** Annual rentals \$16.9 mill.  
**Pfd Stock** None  
**Pension Assets-9/07** \$389.1 mill.  
**Oblig.** \$335.6 mill.  
**Common Stock** 89,957,651 shs.  
**as of 1/30/08**  
**MARKET CAP: \$2.4 billion (Mid Cap)**

**CURRENT POSITION** 2006 2007 12/31/07 (\$MILL.)  
 Cash Assets 75.8 60.7 51.9  
 Other 1041.7 1008.2 1468.1  
 Current Assets 1117.5 1068.9 1520.0  
 Accts Payable 345.1 355.3 739.8  
 Debt Due 385.6 154.4 205.9  
 Other 388.5 410.0 389.9  
 Current Liab. 1119.2 919.7 1335.6  
 Fix. Chg. Cov. 408% 405% 400%

Fiscal Year Ends	QUARTERLY REVENUES (\$ mill.) <sup>A</sup>				Full Fiscal Year
	Dec.31	Mar.31	Jun.30	Sep.30	
2005	1371.0	1687.8	909.9	1004.6	4973.3
2006	2283.8	2033.8	863.2	971.6	6152.4
2007	1602.6	2075.6	1218.2	1002.0	5898.4
2008	1657.5	2135	1280	1067.5	6140
2009	1600	1600	1600	1600	6400

Fiscal Year Ends	EARNINGS PER SHARE <sup>A B E</sup>				Full Fiscal Year
	Dec.31	Mar.31	Jun.30	Sep.30	
2005	.79	1.11	.06	d.21	1.72
2006	.88	1.10	d.22	.25	2.00
2007	.97	1.20	d.15	d.05	1.94
2008	.82	1.30	d.07	d.05	2.00
2009	.90	1.30	d.06	d.04	2.10

Calendar	QUARTERLY DIVIDENDS PAID <sup>C</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2004	.305	.305	.305	.31	1.23
2005	.31	.31	.31	.315	1.25
2006	.315	.315	.315	.32	1.27
2007	.32	.32	.32	.325	1.29
2008	.325				

**ANNUAL RATES** Past Est'd '05-'07 of change (per sh) 10 Yrs. 5 Yrs. to '11-'13  
 Revenues 8.5% 19.0% 2.0%  
 "Cash Flow" 4.0% 5.5% 2.0%  
 Earnings 3.5% 7.5% 4.5%  
 Dividends 2.5% 1.5% 2.0%  
 Book Value 7.0% 9.0% 3.5%

**Business:** Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to 3.2 million customers via six regulated natural gas utility operations: Louisiana Division, West Texas Division, Mid-Tex Division, Mississippi Division, Colorado-Kansas Division, and Kentucky/Mid-States Division. Combined 2007 gas volumes: 297 MMcf. Breakdown: 56%, residential; 32%, commercial; 8%, industrial; and 4% other. 2007 depreciation rate 3.7%. Has around 4,470 employees. Officers and directors own approximately 1.8% of common stock (12/07 Proxy). Chairman and Chief Executive Officer: Robert W. Best. Incorporated: Texas. Address: P.O. Box 650205, Dallas, Texas 75265. Telephone: 972-934-9227. Internet: www.atmosenergy.com.

**Atmos Energy began fiscal 2008 (ends September 30th) on a sour note.** That was attributable primarily to the nonregulated marketing segment, which experienced a drop in margins because of less volatility in natural gas prices. We look for this trend to continue, barring major storm activity. **But one bright spot was the utility unit,** thanks to higher rates in Texas, Louisiana, Tennessee, and Kentucky. It should also be mentioned that mechanisms reducing exposure to possible adverse weather patterns during the 2007-2008 winter heating season are in place for virtually all operations. **Nonetheless, we think share net will advance only 3%, to \$2.00, this fiscal year.** The bottom line stands to increase at a somewhat stronger 5% pace, to \$2.10 a share, in fiscal 2009, assuming additional expansion in operating margins. Please note that our estimates exclude amounts from pending rate cases in Texas, where Atmos is seeking a \$52 million increase in annual revenues, and Kansas (where a \$5 million boost in annual revenues is being sought).

**We envision steady, albeit unspectacular, earnings gains out to 2011-2013.** With the utility unit currently serving customers across 12 states, Atmos does not depend on the business climate in any one region of the country. Moreover, the nonregulated segments, particularly pipelines, possess healthy overall prospects. Lastly, management will undoubtedly stick to its winning strategy of purchasing less-efficient utilities and shoring up their profitability via expense-reduction initiatives, rate relief, and aggressive marketing efforts. (Future business combinations are not factored into our presentation, however.) In the present configuration, annual share-net growth may be in the mid-single-digit range over the 3- to 5-year horizon. **The good-quality stock offers an attractive dividend,** which is well covered by the company's earnings. Further moderate increases in the distribution seem plausible. **Risk-adjusted total return possibilities are decent, too.** But the shares are ranked only 3 (Average) for Timeliness. *Frederick L. Harris, III March 14, 2008*

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	25
Earnings Predictability	80

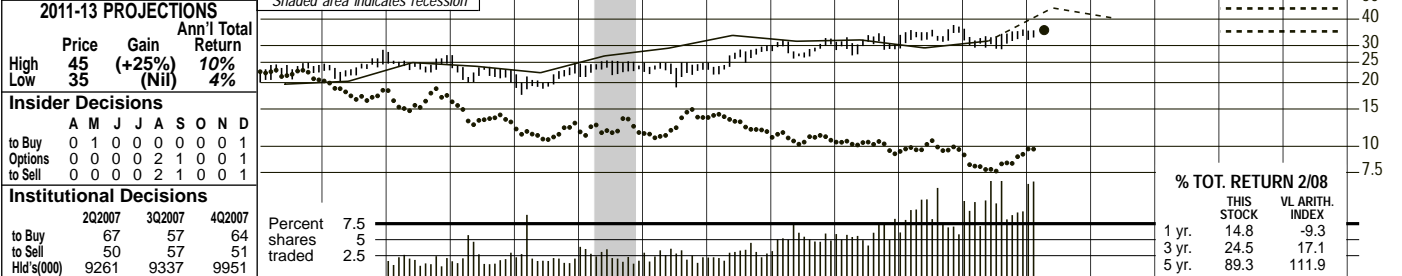
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(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '99, d23c; '00, 12c; '03, d17c; '06, d18c; '07, d2c. Next egs. rpt. due early May. (C) Dividends historically paid in early March, June, Sept., and Dec. (D) Div. reinvestment plan. Direct stock purchase plan avail. (E) Qtrs may not add due to change in shrs outstanding. (F) ATO completed United Cities merger 7/97. © 2008, Value Line Publishing, Inc. 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.

# LACLEDE GROUP NYSE-LG

RECENT PRICE **35.50** P/E RATIO **15.1** (Trailing: 14.8 Median: 15.0) RELATIVE P/E RATIO **0.97** DIV'D YLD **4.3%** **VALUE LINE**

TIMELINESS <b>3</b> Raised 9/14/07	High: 28.6 27.9 27.0 24.8 25.5 25.0 30.0 32.5 34.3 37.5 36.0 35.5	Target Price Range 2011 2012 2013
SAFETY <b>2</b> Raised 6/20/03	Low: 20.3 22.4 20.0 17.5 21.3 19.0 21.8 26.0 26.9 29.1 28.8 31.9	
TECHNICAL <b>3</b> Lowered 2/29/08	LEGENDS 1.00 x Dividends p sh divided by Interest Rate Relative Price Strength Options: No Shaded area indicates recession	
BETA .90 (1.00 = Market)		



2011-13 PROJECTIONS	Price	Gain	Ann'l Total Return	Historical Data (1992-2009)												© VALUE LINE PUB., INC. 11-13							
High	45	(+25%)	10%	26.83	32.33	33.43	24.79	31.03	34.33	31.04	26.04	29.99	53.08	39.84	54.95	59.59	75.43	93.51	93.40	<b>92.75</b>	<b>91.55</b>	Revenues per sh	107.85
Low	35	(Nil)	4%	2.32	2.81	2.65	3.29	3.32	3.02	2.56	2.68	3.00	2.56	3.15	2.79	2.98	3.81	3.87	<b>4.10</b>	<b>4.30</b>	"Cash Flow" per sh	5.10	
Insider Decisions				1.17	1.61	1.42	1.27	1.87	1.84	1.58	1.47	1.37	1.61	1.18	1.82	1.82	1.90	2.37	2.31	<b>2.35</b>	<b>2.35</b>	Earnings per sh A B	2.70
Institutional Decisions				1.20	1.22	1.22	1.24	1.26	1.30	1.32	1.34	1.34	1.34	1.34	1.34	1.35	1.37	1.40	1.45	<b>1.49</b>	<b>1.53</b>	Div'ds Decl'd per sh C	1.65
				2.87	2.62	2.50	2.63	2.35	2.44	2.68	2.58	2.77	2.51	2.80	2.67	2.45	2.84	2.97	2.72	<b>2.85</b>	<b>2.95</b>	Cap'l Spending per sh	3.70
				11.79	12.19	12.44	13.05	13.72	14.26	14.57	14.96	14.99	15.26	15.07	15.65	16.96	17.31	18.85	19.79	<b>20.65</b>	<b>21.15</b>	Book Value per sh D	24.95
				15.59	15.59	15.67	17.42	17.56	17.56	17.63	18.88	18.88	18.88	18.96	19.11	20.98	21.17	21.36	21.65	<b>22.00</b>	<b>22.50</b>	Common Shs Outst'g E	25.50
				15.8	13.5	16.4	15.5	11.9	12.5	15.5	15.8	14.9	14.5	20.0	13.6	15.7	16.2	13.6	14.2	<b>15.0</b>	<b>15.0</b>	Avg Ann'l P/E Ratio	15.0
				.96	.80	1.08	1.04	.75	.72	.81	.90	.97	.74	1.09	.78	.83	.86	.73	.75	<b>1.00</b>	<b>1.00</b>	Relative P/E Ratio	1.00
				6.5%	5.6%	5.3%	6.3%	5.6%	5.6%	5.4%	5.8%	6.6%	5.7%	5.7%	5.4%	4.7%	4.4%	4.3%	4.4%	<b>4.3%</b>	<b>4.4%</b>	Avg Ann'l Div'd Yield	4.1%

CAPITAL STRUCTURE as of 12/31/07	2006	2007	12/31/07	Historical Data (1992-2009)												© VALUE LINE PUB., INC. 11-13		
Total Debt \$650.1 mill. Due in 5 Yrs \$275.0 mill.	547.2	491.6	566.1	1002.1	755.2	1050.3	1250.3	1597.0	1997.6	2021.6	<b>2040</b>	<b>2060</b>	Revenues (\$mill) A	2750				
LT Debt \$355.5 mill. LT Interest \$20.0 mill.	27.9	26.9	26.0	30.5	22.4	34.6	36.1	40.1	50.5	49.8	<b>51.5</b>	<b>53.0</b>	Net Profit (\$mill)	70.0				
(Total interest coverage: 3.0x)	35.6%	35.5%	35.2%	32.7%	35.4%	35.0%	34.8%	34.1%	32.5%	33.4%	<b>33.5%</b>	<b>34.0%</b>	Income Tax Rate	36.0%				
Leases, Uncapitalized Annual rentals \$9 mill.	5.1%	5.5%	4.6%	3.0%	3.0%	3.3%	2.9%	2.5%	2.5%	2.5%	<b>2.5%</b>	<b>2.6%</b>	Net Profit Margin	2.5%				
Pension Assets-9/07 \$260.3 mill.	40.9%	41.8%	45.2%	49.5%	47.5%	50.4%	51.6%	48.1%	49.5%	45.3%	<b>45.0%</b>	<b>45.0%</b>	Long-Term Debt Ratio	47.0%				
Oblig. \$293.3 mill.	58.6%	57.8%	54.5%	50.2%	52.3%	49.4%	48.3%	51.8%	50.4%	54.6%	<b>55.0%</b>	<b>55.0%</b>	Common Equity Ratio	53.0%				
Pfd Stock \$6 mill. Pfd Div'd \$0.4 mill.	438.0	488.6	519.2	574.1	546.6	605.0	737.4	707.9	798.9	784.5	<b>825</b>	<b>865</b>	Total Capital (\$mill)	1200				
Common Stock 21,788,966 shs. as of 1/31/08	490.6	519.4	575.4	602.5	594.4	621.2	646.9	679.5	763.8	793.8	<b>820</b>	<b>850</b>	Net Plant (\$mill)	1150				
MARKET CAP: \$775 million (Small Cap)	8.1%	7.1%	6.7%	6.9%	6.0%	7.4%	6.6%	7.6%	8.4%	8.5%	<b>7.5%</b>	<b>7.5%</b>	Return on Total Cap'l	7.0%				
CURRENT POSITION	10.8%	9.5%	9.1%	10.5%	7.8%	11.5%	10.1%	10.9%	12.5%	11.6%	<b>11.5%</b>	<b>11.0%</b>	Return on Shr. Equity	11.0%				
(SMILL.)	10.8%	9.5%	9.1%	10.5%	7.8%	11.6%	10.1%	10.9%	12.5%	11.6%	<b>11.5%</b>	<b>11.0%</b>	Return on Com Equity	11.0%				
Cash Assets	1.8%	1.0%	.2%	1.8%	NMF	3.1%	2.7%	3.1%	5.1%	4.3%	<b>4.0%</b>	<b>4.0%</b>	Retained to Com Eq	4.5%				
Other	83%	89%	98%	83%	113%	74%	73%	72%	59%	63%	<b>64%</b>	<b>65%</b>	All Div'ds to Net Prof	60%				
Current Assets	<p><b>BUSINESS:</b> 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 632,000 customers. Purchased SM&amp;P for approximately \$43 million (1/02). Therms sold and transported in fiscal 2007: 1.12 mill. Revenue mix for regulated operations: residential, 60%; commercial and industrial, 24%; transportation, 1%; other, 15%. Has around 3,845 employees. Officers and directors own approximately 7.0% of common shares (1/08 proxy). Chairman, Chief Executive Officer, and President: Douglas H. Yaeger. Incorporated: Missouri. Address: 720 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.thelacledegroup.com.</p>																	

**Laclede Group began fiscal 2008 (which ends September 30th) on a decent note.** That can be attributed largely to Laclede Energy Resources, which enjoyed higher per-unit gas sales prices and increased volumes (held back a bit by a rise in operating expenses). Furthermore, results for Laclede Gas, the core subsidiary, benefited from a general rate hike that became effective on August 1st of last year, that, among other things, provides greater earnings stability and recovery of its distribution costs. But partial offsets here included a decline in margins within the service area (reflecting an unusually late start to the winter heating season) and increased maintenance costs. At this juncture, we look for earnings per share to advance at a moderate rate, to \$2.35, this fiscal year. The bottom line may be relatively flat in fiscal 2009, given the utility operation's limited growth prospects.

ANNUAL RATES	Past 10 Yrs	Past 5 Yrs	Est'd '05-'07 to '11-'13
Revenues (per sh)	11.5%	16.5%	3.5%
"Cash Flow"	1.5%	5.5%	6.5%
Earnings	3.0%	9.5%	3.5%
Dividends	1.0%	1.0%	2.5%
Book Value	3.0%	4.5%	5.0%

Fiscal Year Ends	QUARTERLY REVENUES (\$ mill.) <sup>A</sup>				Full Fiscal Year
	Dec.31	Mar.31	Jun.30	Sep.30	
2005	442.5	576.5	311.3	266.7	1597.0
2006	689.2	708.8	330.6	269.0	1997.6
2007	539.6	700.8	457.9	323.3	2021.6
2008	541.4	<b>708</b>	<b>447</b>	<b>343.6</b>	<b>2040</b>
2009	<b>515</b>	<b>515</b>	<b>515</b>	<b>515</b>	<b>2060</b>

Fiscal Year Ends	EARNINGS PER SHARE <sup>A B F</sup>				Full Fiscal Year
	Dec.31	Mar.31	Jun.30	Sep.30	
2005	.79	1.06	.29	d.24	1.90
2006	1.23	1.05	.13	d.04	2.37
2007	.89	.97	.43	.03	2.31
2008	.97	<b>.97</b>	<b>.36</b>	<b>.05</b>	<b>2.35</b>
2009	<b>.96</b>	<b>1.01</b>	<b>.33</b>	<b>.05</b>	<b>2.35</b>

Cal-endar	QUARTERLY DIVIDENDS PAID <sup>C</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2004	.335	.34	.34	.34	1.36
2005	.34	.345	.345	.345	1.38
2006	.345	.355	.355	.355	1.41
2007	.365	.365	.365	.365	1.46
2008	.375				

**Management intends to sell SM&P Utility Resources, the unregulated unit specializing in locating and marking services for underground facilities, to Stripe Acquisition.** A portion of the \$85 million in proceeds (nearly double what Laclede paid for SM&P in 2002) would be used to bolster the balance sheet. We think SM&P was not central to present corporate strategy, as it accounted for just around 6% of fiscal 2007 share net. (Our presentation will exclude the divestiture when it is completed shortly, pending customary closing conditions.)

**Unexciting results appear to be in store for the company over the next three to five years.** The market in which the natural gas division operates has encountered sluggish customer growth for some time because it is in a mature phase. Too, we don't see any major acquisitions on the horizon. Consequently, annual share-net gains may be between 4% and 5% out to 2011-2013.

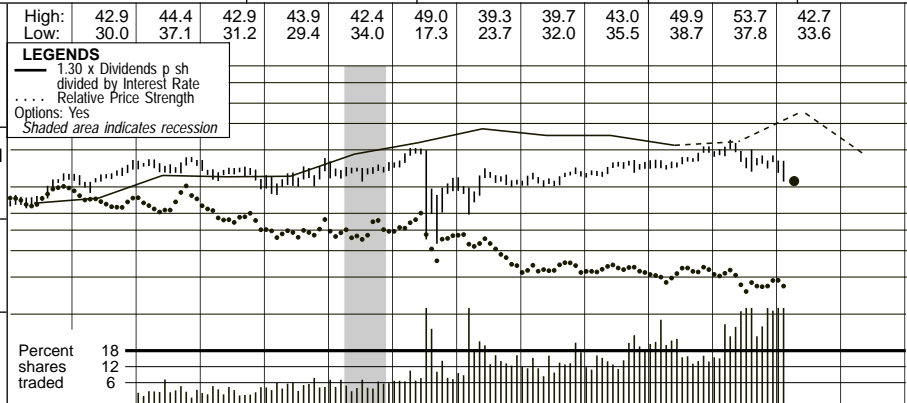
**Total return potential is limited.** That's because Laclede shares are currently trading within our 3- to 5-year Target Price Range, and we assume moderate hikes in the dividend (just increased 2.7%). What's more, the equity is ranked to perform only in line with the broader market averages.

*Frederick L. Harris, III March 14, 2008*

# NICOR, INC. NYSE-GAS

RECENT PRICE **34.12** P/E RATIO **13.7** (Trailing: 11.9; Median: 15.0) RELATIVE P/E RATIO **0.88** DIV'D YLD **5.5%** VALUE LINE

**TIMELINESS** 3 Raised 12/7/07  
**SAFETY** 3 Lowered 6/17/05  
**TECHNICAL** 3 Lowered 2/15/08  
**BETA** 1.00 (1.00 = Market)



**2011-13 PROJECTIONS**

Price	Gain	Ann'l Total Return
High 60	(+75%)	19%
Low 40	(+15%)	9%

**Insider Decisions**

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

**Institutional Decisions**

	2Q2007	3Q2007	4Q2007
to Buy	119	93	96
to Sell	111	123	111
Hlds(000)	37018	36014	32986

High: 42.9, 44.4, 42.9, 43.9, 42.4, 49.0, 39.3, 39.7, 43.0, 49.9, 53.7, 42.7  
 Low: 30.0, 37.1, 31.2, 29.4, 34.0, 17.3, 23.7, 32.0, 35.5, 38.7, 37.8, 33.6

Target Price Range  
 2011 2012 2013

120  
100  
80  
64  
48  
32  
24  
16  
12  
8

% TOT. RETURN 2/08  
 THIS STOCK VL ARITH. INDEX  
 1 yr. -23.5 -9.3  
 3 yr. 4.3 17.1  
 5 yr. 44.1 111.9

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
28.90	31.02	31.23	29.42	37.39	41.33	30.84	34.45	50.52	57.30	43.11	60.46	62.12	76.00	65.92	70.27	<b>74.45</b>	<b>77.80</b>	Revenues per sh	<b>80.45</b>
4.14	3.80	4.11	4.19	4.97	5.29	5.21	5.59	6.16	6.41	6.03	5.37	6.00	6.19	6.82	<b>6.95</b>	<b>6.70</b>	<b>7.25</b>	"Cash Flow" per sh	<b>8.00</b>
1.92	1.97	2.07	1.96	2.42	2.55	2.31	2.57	2.94	3.01	2.88	2.11	2.22	2.27	2.87	2.74	<b>2.25</b>	<b>2.60</b>	Earnings per sh <sup>A</sup>	<b>3.25</b>
1.18	1.22	1.25	1.28	1.32	1.40	1.48	1.54	1.66	1.76	1.84	1.86	1.86	1.86	1.86	1.86	<b>1.86</b>	<b>1.90</b>	Div'ds Decl'd per sh <sup>B</sup>	<b>1.90</b>
3.12	2.62	3.34	3.12	2.42	2.34	2.87	3.28	3.48	4.18	4.37	4.12	4.32	4.57	4.17	<b>4.45</b>	<b>4.55</b>	<b>4.65</b>	Cap'l Spending per sh	<b>4.65</b>
12.76	13.05	13.26	13.67	14.74	15.43	15.97	16.80	15.56	16.39	16.55	17.13	16.99	18.36	19.43	<b>20.40</b>	<b>20.80</b>	<b>21.50</b>	Book Value per sh	<b>24.25</b>
55.77	53.96	51.54	50.30	49.49	48.22	47.51	46.89	45.49	44.40	44.01	44.04	44.10	44.18	44.90	45.20	<b>45.00</b>	<b>45.00</b>	Common Shs Outst'g <sup>C</sup>	<b>46.00</b>
11.6	14.1	12.5	13.1	12.5	14.2	17.6	14.6	11.9	12.8	13.1	15.8	15.9	17.3	15.0	16.3	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	16.0
.70	.83	.82	.88	.78	.82	.92	.83	.77	.66	.72	.90	.84	.92	.81	.86			Relative P/E Ratio	1.05
5.3%	4.4%	4.8%	5.0%	4.4%	3.9%	3.6%	4.1%	4.7%	4.6%	4.9%	5.6%	5.3%	4.7%	4.3%	4.2%			Avg Ann'l Div'd Yield	4.5%

**CAPITAL STRUCTURE as of 12/31/07**  
 Total Debt \$867.4 mill. Due in 5 Yrs \$422.7 mill.  
 LT Debt \$423.3 mill. LT Interest \$32.0 mill.  
 (Total interest coverage: 4.6x)

**Pension Assets-12/06** \$478.7 mill. **Oblig.** \$262.2 mill.

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

**Common Stock** 45,135,079 shares as of 10/26/07  
**MARKET CAP:** \$1.5 billion (Mid Cap)

1465.1	1615.2	2298.1	2544.1	1897.4	2662.7	2739.7	3357.8	2960.0	3176.3	<b>3350</b>	<b>3500</b>	Revenues (\$mill)	<b>3700</b>
111.1	121.9	136.4	136.3	128.0	93.1	98.1	101.1	128.3	135.2	<b>100</b>	<b>115</b>	Net Profit (\$mill)	<b>150</b>
34.4%	34.7%	34.8%	33.5%	31.0%	35.2%	31.8%	28.3%	26.3%	<b>30.0%</b>	<b>31.0%</b>	<b>31.5%</b>	Income Tax Rate	<b>33.0%</b>
7.6%	7.5%	5.9%	5.4%	6.7%	3.5%	3.6%	3.0%	4.3%	4.3%	<b>3.0%</b>	<b>3.3%</b>	Net Profit Margin	<b>4.0%</b>
42.1%	35.5%	32.7%	37.8%	35.1%	39.6%	39.8%	37.4%	36.3%	<b>30.0%</b>	<b>27.0%</b>	<b>24.0%</b>	Long-Term Debt Ratio	<b>21.0%</b>
57.4%	64.0%	66.7%	61.7%	64.5%	60.3%	60.1%	62.5%	63.7%	<b>70.0%</b>	<b>73.0%</b>	<b>76.0%</b>	Common Equity Ratio	<b>79.0%</b>
1322.6	1230.1	1061.2	1180.1	1128.9	1251.5	1246.0	1297.7	1370.7	<b>1315</b>	<b>1285</b>	<b>1250</b>	Total Capital (\$mill)	<b>1400</b>
1731.8	1735.2	1729.6	1768.6	1796.8	2484.2	2549.8	2659.1	2714.1	<b>2850</b>	<b>3000</b>	<b>3050</b>	Net Plant (\$mill)	<b>3400</b>
9.9%	10.9%	13.7%	12.3%	12.2%	8.3%	8.8%	9.4%	10.9%	<b>11.0%</b>	<b>9.5%</b>	<b>11.0%</b>	Return on Total Cap'l	<b>12.0%</b>
14.5%	15.4%	19.1%	18.6%	17.5%	12.3%	13.1%	12.5%	14.7%	<b>13.5%</b>	<b>11.0%</b>	<b>12.0%</b>	Return on Shr. Equity	<b>13.5%</b>
14.6%	15.4%	19.2%	18.7%	17.5%	12.3%	13.1%	12.5%	14.7%	<b>13.5%</b>	<b>11.0%</b>	<b>12.0%</b>	Return on Com Equity	<b>13.5%</b>
5.4%	6.2%	8.5%	7.9%	6.5%	1.5%	2.1%	2.3%	5.2%	<b>4.5%</b>	<b>2.0%</b>	<b>3.5%</b>	Retained to Com Eq	<b>5.5%</b>
63%	60%	56%	58%	63%	88%	84%	81%	65%	<b>67%</b>	<b>82%</b>	<b>73%</b>	All Div'ds to Net Prof	<b>58%</b>

**CURRENT POSITION**

	2005	2006	12/31/07
Cash Assets	126.9	67.6	91.1
Other	1218.8	843.1	932.7
Current Assets	1345.7	910.7	1023.8
Accts Payable	658.2	564.5	662.7
Debt Due	636.0	350.0	444.0
Other	328.7	227.9	169.7
Current Liab.	1622.9	1142.4	1276.4
Fix. Chg. Cov.	367%	543%	544%

**BUSINESS:** Nicor Inc. is a holding company with gas distribution as its primary business. Serves over 2.2 million customers in northern and western Illinois. 2007 gas delivered: 468.3 Bcf, incl. 212.1 Bcf from transportation. 2007 gas sales (256.2 bcf): residential, 79%; commercial, 19%; industrial, 2%. Principal supplying pipelines: Natural Gas Pipeline, Horizon Pipeline, and TGPC. Current operations include Tropical Shipping subsidiary and several energy related ventures. Divested inland barging, 7/86; contract drilling, 9/86; oil and gas E&P, 6/93. Has about 3,900 employees. Off/dir. own about 1.7% of common stock (3/07 proxy). Chairman and CEO: Russ Strobel, Inc. Illinois Address: 1844 Ferry Road, Naperville, Illinois 60563. Telephone: 630-305-9500. Internet: www.nicor.com.

**ANNUAL RATES**

	Past 10 Yrs	Past 5 Yrs	Est'd '04-'06 to '11-'13
of change (per sh)	7.5%	7.5%	2.5%
Revenues	3.5%	1.0%	3.5%
"Cash Flow"	1.5%	-3.0%	4.0%
Earnings	4.0%	2.5%	.5%
Dividends	3.0%	2.5%	4.0%
Book Value			

**Nicor posted disappointing results in 2007.** Earnings were down in all four quarters year over year, due to higher costs and a decline in utility earnings. Additionally, the gas distribution segment struggled, which also hurt profitability. However, the company managed to post an increase on the top line as a result of a solid performance in the shipping business.

Until Nicor gains rate relief, these shares may not show any special strength. **We are introducing our 2009 estimates.** The company should post earnings of roughly \$2.60 a share on sales of about \$3.5 billion. Management's focus on cost controls should help GAS rebound.

**QUARTERLY REVENUES (\$ mill.)**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	1179.9	484.4	336.0	1357.5	3357.8
2006	1319.4	451.3	351.1	838.2	2960.0
2007	1334.7	556.9	365.2	919.5	3176.3
2008	<b>1350</b>	<b>575</b>	<b>375</b>	<b>1050</b>	<b>3350</b>
2009	<b>1400</b>	<b>600</b>	<b>400</b>	<b>1100</b>	<b>3500</b>

**Management revised its guidance for 2008.** Indeed, Nicor now expects the bottom line to be between \$2.20 and \$2.40 a share. The new outlook is notably lower than our \$2.90 earnings estimate from our last report. Upon news of the revised guidance, GAS shares declined slightly. In response, we have dropped our share-net estimate to \$2.25 for 2008.

**This stock offers an above-average dividend yield.** Nicor offers a yield that is double the Value Line median despite not raising its payout in recent years. What's more, we believe the board will increase the distribution in the coming years once the regulatory environment improves.

**EARNINGS PER SHARE<sup>A</sup>**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.98	.35	d.06	1.02	2.29
2006	.94	.41	.39	1.29	3.03
2007	.93	.40	.32	1.09	2.74
2008	<b>.82</b>	<b>.33</b>	<b>.25</b>	<b>.85</b>	<b>2.25</b>
2009	<b>.90</b>	<b>.35</b>	<b>.30</b>	<b>1.05</b>	<b>2.60</b>

**The company may seek rate relief.** Management is evaluating the need for a filing with the Illinois Commerce Commission. The process usually takes about a year, and a positive ruling would help Nicor meet its allowed return. The company would also likely seek a rate mechanism that decouples gas revenues from gas sales, which would further help results.

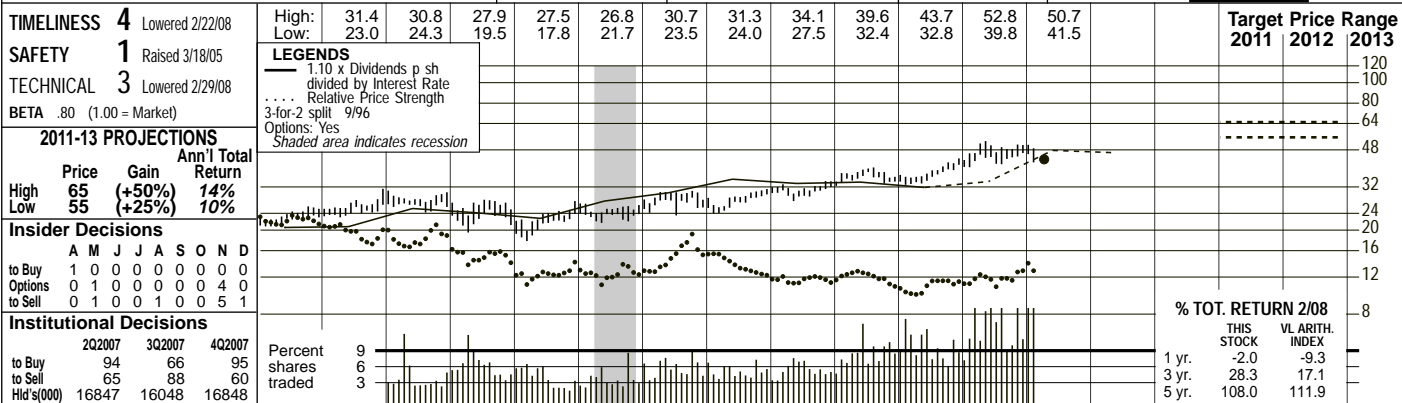
**This issue has below-average capital appreciation potential over the 3- to 5-year pull.** However, if the company receives rate relief and continues to improve its cost controls, the long-term picture should improve. Moreover, Nicor's other energy-related ventures may also help drive growth over this time frame.

**QUARTERLY DIVIDENDS PAID<sup>B</sup>**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.465	.465	.465	.465	1.86
2005	.465	.465	.465	.465	1.86
2006	.465	.465	.465	.465	1.86
2007	.465	.465	.465	.465	1.86
2008	.465	.465	.465	.465	1.86

**These shares are ranked to mirror the market in the year ahead.** Despite the company's solid balance sheet and diversified business, this issue has limited appeal at this time.  
 Richard Gallagher  
 March 14, 2008

(A) Based on primary earnings thru '96, then diluted. Excl. nonrecurring gains/(loss): '97, 6¢; '98, 11¢; '99, 5¢; '00, (\$1.96); '01, 16¢; '03, (27¢); '04, (52¢); '05, 80¢; '06, (17¢); '07 (13¢). Excl. items from discontinued ops.: '93, 4¢; '96, 30¢. Next egs. report due late April.  
 (B) Dividends historically paid mid February, May, August, November. ■ Dividend reinvestment plan available. (C) In millions.  
 Company's Financial Strength A  
 Stock's Price Stability 90  
 Price Growth Persistence 25  
 Earnings Predictability 75



Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
Price	14.10	18.15	18.30	16.02	16.86	15.82	16.77	18.17	21.09	25.78	25.07	23.57	25.69	33.01	37.20	39.12	<b>41.35</b>	<b>42.90</b>	Revenues per sh	<b>48.20</b>
Gain	3.25	3.74	3.50	3.41	3.86	3.72	3.24	3.72	3.68	3.86	3.65	3.85	3.92	4.34	4.76	5.41	<b>5.40</b>	<b>5.70</b>	"Cash Flow" per sh	<b>6.60</b>
Return	.74	1.74	1.63	1.61	1.97	1.76	1.02	1.70	1.79	1.88	1.62	1.76	1.86	2.11	2.35	2.76	<b>2.60</b>	<b>2.75</b>	Earnings per sh <sup>A</sup>	<b>3.35</b>
Options	1.15	1.17	1.17	1.18	1.20	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.30	1.32	1.39	1.44	<b>1.52</b>	<b>1.60</b>	Div's Decl'd per sh <sup>B=C</sup>	<b>1.88</b>
to Buy	3.73	3.61	4.23	3.02	3.70	5.07	4.02	4.78	3.46	3.23	3.11	4.90	5.52	3.48	3.56	4.48	<b>4.60</b>	<b>6.80</b>	Cap'l Spending per sh	<b>4.50</b>
to Sell	12.41	13.08	13.63	14.55	15.37	16.02	16.59	17.12	17.93	18.56	18.88	19.52	20.64	21.28	21.97	22.52	<b>23.00</b>	<b>23.75</b>	Book Value per sh	<b>26.50</b>
Hld's(000)	16847	16048	16048	16848															Common Shs Outst'g <sup>C</sup>	<b>28.00</b>
to Buy	27.0	12.9	13.0	12.9	11.7	14.4	26.7	14.5	12.4	12.9	17.2	15.8	16.7	17.0	15.9	16.7	<b>16.7</b>	<b>16.7</b>	Avg Ann'l P/E Ratio	<b>18.0</b>
to Sell	1.64	.76	.85	.86	.73	.83	1.39	.83	.81	.66	.94	.90	.88	.91	.86	.88	<b>.86</b>	<b>.88</b>	Relative P/E Ratio	<b>1.20</b>
Hld's(000)	5.7%	5.2%	5.5%	5.7%	5.2%	4.8%	4.5%	5.0%	5.6%	5.1%	4.5%	4.6%	4.2%	3.7%	3.7%	3.1%	<b>3.7%</b>	<b>3.1%</b>	Avg Ann'l Div'd Yield	<b>3.1%</b>

Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
Revenues	416.7	455.8	532.1	650.3	641.4	611.3	707.6	910.5	1013.2	1033.2	<b>1075</b>	<b>1115</b>	Revenues (\$mill)	<b>1350</b>						
Net Profit	27.3	44.9	47.8	50.2	43.8	46.0	50.6	58.1	65.2	74.5	<b>68.0</b>	<b>71.5</b>	Net Profit (\$mill)	<b>94.0</b>						
Income Tax Rate	31.0%	35.4%	35.9%	35.4%	34.9%	33.7%	34.4%	36.0%	36.3%	37.2%	<b>37.0%</b>	<b>37.0%</b>	Income Tax Rate	<b>37.0%</b>						
Net Profit Margin	6.6%	9.9%	9.0%	7.7%	6.8%	7.5%	7.1%	6.4%	6.4%	7.2%	<b>6.1%</b>	<b>6.4%</b>	Net Profit Margin	<b>6.9%</b>						
Long-Term Debt Ratio	45.0%	46.0%	45.1%	43.0%	47.6%	49.7%	46.0%	47.0%	46.3%	46.3%	<b>46.5%</b>	<b>46.5%</b>	Long-Term Debt Ratio	<b>47.0%</b>						
Common Equity Ratio	50.6%	49.9%	50.9%	53.2%	51.5%	50.3%	54.0%	53.0%	53.7%	53.7%	<b>53.5%</b>	<b>53.5%</b>	Common Equity Ratio	<b>53.0%</b>						
Total Capital (\$mill)	815.6	861.5	887.8	880.5	937.3	1006.6	1052.5	1108.4	1116.5	1106.8	<b>1150</b>	<b>1200</b>	Total Capital (\$mill)	<b>1500</b>						
Net Plant (\$mill)	894.7	895.9	934.0	965.0	995.6	1205.9	1318.4	1373.4	1425.1	1495.9	<b>1550</b>	<b>1650</b>	Net Plant (\$mill)	<b>2000</b>						
Return on Total Cap'l	5.0%	6.8%	6.7%	6.9%	5.9%	5.7%	5.9%	6.5%	7.1%	<b>8.5%</b>	<b>7.0%</b>	<b>7.0%</b>	Return on Total Cap'l	<b>7.0%</b>						
Return on Shr. Equity	6.1%	9.7%	9.8%	10.0%	8.9%	9.1%	8.9%	9.9%	10.9%	12.5%	<b>11.0%</b>	<b>11.0%</b>	Return on Shr. Equity	<b>11.0%</b>						
Return on Com Equity	6.0%	9.9%	10.0%	10.2%	8.5%	9.0%	8.9%	9.9%	10.9%	12.5%	<b>11.0%</b>	<b>11.0%</b>	Return on Com Equity	<b>11.0%</b>						
Retained to Com Eq	NMF	2.8%	3.1%	3.5%	1.9%	2.6%	2.7%	3.7%	4.5%	6.0%	<b>5.0%</b>	<b>5.0%</b>	Retained to Com Eq	<b>5.0%</b>						
All Div's to Net Prof	118%	74%	70%	67%	79%	72%	69%	63%	59%	52%	<b>58%</b>	<b>56%</b>	All Div's to Net Prof	<b>56%</b>						

**CAPITAL STRUCTURE as of 12/31/07**  
 Total Debt \$660.1 mill. Due in 5 Yrs \$179.7 mill.  
 LT Debt \$512.0 mill. LT Interest \$31.0 mill.  
 (Total interest coverage: 3.5x)  
**Pension Assets-12/06** \$236 mill.  
 Oblig. \$269 mill.  
 Pfd Stock None  
**Common Stock** 26,407,000 shs.  
**MARKET CAP** \$1.1 billion (Mid Cap)

**CURRENT POSITION** 2005 2006 12/31/07 (\$MILL.)  
 Cash Assets 7.1 5.8 6.1  
 Other 316.6 303.0 268.8  
 Current Assets 323.7 308.8 274.9  
 Accts Payable 135.3 113.6 119.7  
 Debt Due 134.7 129.6 148.1  
 Other 56.6 98.3 122.1  
 Current Liab. 326.6 341.5 389.9  
 Fx. Chg. Cov. 340% 349% NMF

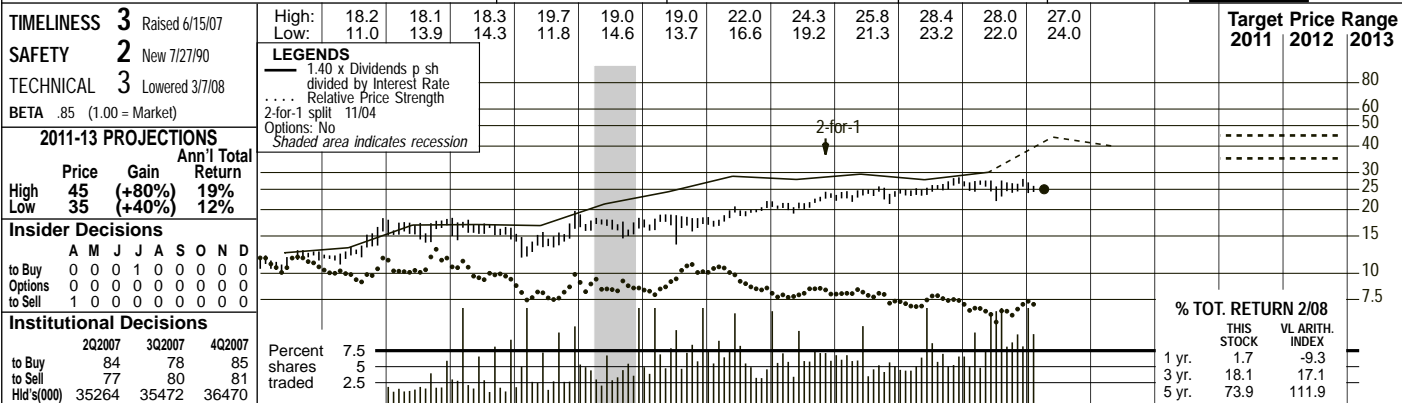
**ANNUAL RATES** Past 10 Yrs. Past 5 Yrs. Est'd '04-'06 to '11-'13  
 Revenues 6.5% 8.0% 6.5%  
 "Cash Flow" 2.0% 3.0% 5.0%  
 Earnings 2.0% 3.5% 7.0%  
 Dividends 1.0% 1.5% 5.5%  
 Book Value 4.0% 3.5% 3.5%

Cal-endar	QUARTERLY REVENUES (\$ mill.)	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2005	308.7 153.7 106.7 341.4	910.5
2006	390.4 171.0 114.9 336.9	1013.2
2007	394.1 183.2 124.2 331.7	1033.2
2008	<b>405 190 125 355</b>	<b>1075</b>
2009	<b>415 200 130 370</b>	<b>1115</b>

Cal-endar	EARNINGS PER SHARE <sup>A</sup>	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2005	1.44 .04 d.31 .94	2.11
2006	1.48 .07 d.35 1.15	2.35
2007	1.77 .10 d.22 1.11	2.76
2008	<b>1.60 .10 d.30 1.20</b>	<b>2.60</b>
2009	<b>1.70 .10 d.30 1.25</b>	<b>2.75</b>

Cal-endar	QUARTERLY DIVIDENDS PAID <sup>B=C</sup>	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2004	.325 .325 .325 .325	1.30
2005	.325 .325 .325 .345	1.32
2006	.345 .345 .345 .355	1.39
2007	.355 .355 .355 .375	1.44
2008	.375	

**Business:** Northwest Natural Gas Co. distributes natural gas to 90 communities, 652,000 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.  
**Northwest Natural benefited from unusually high gas cost savings in 2007.** The company retains one-third of the difference between forecasted and actual gas costs in Oregon, passing on two-thirds to its customers. Last year, it earned a record \$0.27 a share through skillful gas buying, mostly in the first and third quarters. While Northwest has usually made a small profit on gas purchasing, it has shared a loss on the activity about a quarter of the time. Ignoring the commodity profits and some other unusual items, NWN would have earned about \$2.45 a share in 2007, a respectable but not extraordinary performance.  
**We look for a roughly 6% earnings gain, from normalized 2007 results, this year.** Northwest's customer growth, at over 3% per year for many years, slowed to 2.4% in 2007. Customer growth will likely continue to ease in 2008 as the Portland area suffers a bit from the widespread housing problems but should remain above the national average. The company is increasing its marketing efforts directed at persuading people to switch to gas heat, and that should bear fruit this year. Operating costs, which rose just 1% on a normalized basis last year, will likely grow slower than revenues.  
**Another mild earnings gain is likely in 2009.** By then, customer growth will probably be heading back toward the recent 3% average. Northwest will have completed its work reorganization program, including outsourcing some functions and centralizing others. And the company could start to benefit from enhanced automated meter-reading capacity.  
**Continued customer growth and two large projects should help boost earnings toward the end of our time horizon.** Portland's high-density zoning has been expanded many times over the last 30 years, making it profitable to lay gas mains. An expansion to the southeast of the city should add substantially to customer growth over the next 10 years. And by 2011, NWN will probably invest around \$300 million in a gas storage project in California and a new pipeline in Oregon.  
**These top-quality shares, though untimely, have worthwhile risk-adjusted total-return potential.**  
*Sigourney B. Romaine March 14, 2008*



Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Value Line Pub, Inc.	11-13
Price	8.91	10.57	10.82	8.76	11.59	12.84	12.45	10.97	13.01	17.06	12.57	18.14	19.95	22.96	25.80	23.37	24.20	24.95	Revenues per sh <sup>A</sup>	27.55
Gain	1.07	1.14	1.13	1.25	1.49	1.62	1.72	1.70	1.77	1.81	2.04	2.31	2.43	2.64	2.51	2.64	2.75	2.80	"Cash Flow" per sh	3.00
Return	.70	.73	.68	.73	.84	.93	.98	.93	1.01	1.01	.95	1.11	1.27	1.32	1.28	1.40	1.50	1.55	Earnings per sh <sup>B</sup>	1.75
Div'd	.46	.48	.51	.54	.57	.61	.64	.68	.72	.76	.80	.82	.85	.91	.95	.99	1.04	1.08	Div'ds Decl'd per sh <sup>C</sup>	1.20
Cap'l Spndg	1.41	1.58	1.95	1.72	1.64	1.52	1.48	1.58	1.65	1.29	1.21	1.16	1.85	2.50	2.74	1.85	2.00	2.05	Cap'l Spending per sh	2.30
Book Value	5.13	5.45	5.68	6.16	6.53	6.95	7.45	7.86	8.26	8.63	8.91	9.36	11.15	11.53	11.83	11.99	12.45	12.85	Book Value per sh <sup>D</sup>	14.30
Common Shs	51.59	52.30	53.15	57.67	59.10	60.39	61.48	62.59	63.83	64.93	66.18	67.31	76.67	76.70	74.61	73.23	73.00	72.75	Common Shs Outst <sup>E</sup>	72.00
P/E Ratio	12.3	15.4	15.7	13.8	13.9	13.6	16.3	17.7	14.3	16.7	18.4	16.7	16.6	17.9	19.2	18.7	18.0	18.0	Avg Ann'l P/E Ratio	22.0
Relative P/E	.75	.91	1.03	.92	.87	.78	.85	1.01	.93	.86	1.01	.95	.88	.95	1.04	.98	1.04	1.04	Relative P/E Ratio	1.50
Div'd Yield	5.3%	4.3%	4.8%	5.4%	4.9%	4.8%	4.0%	4.1%	5.0%	4.5%	4.6%	4.4%	4.1%	3.8%	3.9%	3.8%	3.5%	3.5%	Avg Ann'l Div'd Yield	3.1%

Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Value Line Pub, Inc.	11-13
Total Debt	765.3	686.5	830.4	1107.9	832.0	1220.8	1529.7	1761.1	1924.6	1711.3	1765	1815	Revenues (\$mill) <sup>A</sup>	1985						
LT Debt	60.3	58.2	64.0	65.5	62.2	74.4	95.2	101.3	97.2	104.4	110	115	Net Profit (\$mill)	125						
LT Interest	39.2%	39.7%	34.7%	34.6%	33.1%	34.8%	35.1%	33.7%	34.2%	33.0%	35.0%	35.0%	Income Tax Rate	35.0%						
Interest Coverage	7.9%	8.5%	7.7%	5.9%	7.5%	6.1%	6.2%	5.8%	5.0%	6.1%	6.2%	6.2%	Net Profit Margin	6.4%						
Pension Assets	44.7%	46.2%	46.1%	47.6%	43.9%	42.2%	43.6%	41.4%	48.3%	48.4%	48.1%	47.8%	Long-Term Debt Ratio	46.7%						
Assets	55.3%	53.8%	53.9%	52.4%	56.1%	57.8%	56.4%	58.6%	51.7%	51.6%	51.9%	52.2%	Common Equity Ratio	53.3%						
Assets	829.3	914.7	978.4	1069.4	1051.6	1090.2	1514.9	1509.2	1707.9	1703.3	1750	1790	Total Capital (\$mill)	1930						
Assets	990.6	1047.0	1072.0	1114.7	1158.5	1812.3	1849.8	1939.1	2075.3	2141.5	2200	2250	Net Plant (\$mill)	2400						
Assets	9.2%	8.1%	8.3%	7.9%	7.8%	8.6%	7.8%	8.2%	7.2%	7.8%	7.5%	7.8%	Return on Total Cap'l	8.0%						
Assets	13.2%	11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	11.9%	12.0%	12.0%	Return on Shr. Equity	12.5%						
Assets	13.2%	11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	11.9%	12.0%	12.0%	Return on Com Equity	12.5%						
Assets	4.7%	3.3%	3.5%	3.0%	1.7%	3.1%	3.7%	3.6%	2.8%	3.5%	3.5%	3.5%	Retained to Com Eq	4.0%						
Assets	65%	72%	71%	75%	83%	74%	66%	68%	74%	70%	69%	70%	All Div'ds to Net Prof	68%						

Item	2005	2006	10/31/07
Cash Assets	7.1	8.9	7.5
Other	497.8	467.1	427.8
Current Assets	504.9	476.0	435.3
Accts Payable	182.8	80.3	97.2
Debt Due	193.5	170.0	195.0
Other	152.3	150.1	132.3
Current Liab.	528.6	400.4	424.5
Fix. Chg. Cov.	271%	261%	225%

Item	Past 10 Yrs	Past 5 Yrs	Est'd '05-'07 to '11-'13
Revenues	8.0%	11.0%	2.5%
"Cash Flow"	5.5%	7.0%	3.0%
Earnings	5.0%	6.0%	5.0%
Dividends	5.0%	4.5%	4.0%
Book Value	6.0%	6.5%	3.5%

Fiscal Year Ends	Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2005	680.6	508.0	232.9	339.6	1761.1
2006	921.4	483.2	237.9	282.1	1924.7
2007	677.2	531.5	224.4	278.2	1711.3
2008	685	540	240	300	1765
2009	697	553	250	315	1815

Fiscal Year Ends	Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2005	.93	.52	d.06	d.07	1.32
2006	.94	.57	d.16	d.08	1.27
2007	.94	.69	d.12	d.11	1.40
2008	.95	.70	d.10	d.05	1.50
2009	1.00	.75	d.13	d.07	1.55

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.208	.215	.215	.215	.85
2005	.215	.23	.23	.23	.91
2006	.23	.24	.24	.24	.95
2007	.24	.25	.25	.25	.99
2009	.25				

**Piedmont Natural Gas likely posted relatively unchanged earnings for the first quarter (ended January 31st).** The company was scheduled to report earnings for its January interim after this report went to press. We have ratcheted down our top-line estimate for 2008, though, we look for some progress this year. During the first quarter, Piedmont's revenues likely advanced in the low single-digit range. The reduced expectations stem from slower growth in the residential construction market. Subsequently, in an effort to increase volumes, PNY has been working on converting users of other types of energy to natural gas. Meanwhile, the fourth quarter of 2007 experienced warmer-than-normal weather. But that interim is not subject to the weather normalization clause (WNC) for its Tennessee and South Carolina service areas. The WNC protects the bottom line against decreased usage. The adjustment should help during the January interim, though. Overall, we look for a nominal advance in share net for the first quarter. **The company ought to experience better volume comparisons as the year**

progresses. And its revenues ought to advance approximately 3% this year and next. Efforts to gain customers from the conversion markets should help this cause. Furthermore, the company intends to file a general rate case in North Carolina, its largest service area. Meanwhile, its non-utility business ought to pick up steam as the Hardy Storage joint venture (JV) contributes to both top and bottom lines for the whole of 2008. And, we expect solid performance to persist from its South Star Energy JV. **All told, we look for the bottom line to advance 7% and 3% for this year and next, respectively.** This ought to stem from continued investments in its natural gas infrastructure. Further streamlining and consolidation of business processes and operations should help maintain margins, as well. **The equity offers a solid dividend yield and decent total return potential to 2011-2013.** Meanwhile, these shares are ranked to perform in line with the broader market averages for the year ahead. *Bryan Fong* *March 14, 2008*

(A) Fiscal year ends October 31st. (B) Diluted earnings. Excl. extraordinary item: '00, 8c. Excl. nonrecurring charge: '97, 2c. Next earnings report due early May. (C) Dividends historically paid mid-January, April, July, October. (D) Includes deferred charges. In 2007: \$23.9 million, 33c/share. (E) In millions, adjusted for stock split. (F) Quarters may not add to total due to change in shares outstanding. **Company's Financial Strength B++** **Stock's Price Stability 100** **Price Growth Persistence 55** **Earnings Predictability 80**

# SOUTH JERSEY INDS. NYSE-SJI

**RECENT PRICE** **34.23** **P/E RATIO** **15.3** (Trailing: 17.5; Median: 14.0) **RELATIVE P/E RATIO** **0.99** **DIV'D YLD** **3.2%** **VALUE LINE**

**TIMELINESS** 4 Lowered 9/14/07  
**SAFETY** 2 Lowered 1/4/91  
**TECHNICAL** 2 Raised 3/14/08  
**BETA** .80 (1.00 = Market)

**2011-13 PROJECTIONS**

High	Price	Gain	Ann'l Total Return
50	50	(+45%)	12%
35		(Nil)	4%

**Insider Decisions**

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

**Institutional Decisions**

	2Q2007	3Q2007	4Q2007
to Buy	69	67	66
to Sell	64	58	59
Hlds(000)	16955	16787	16995

**LEGENDS**  
 1.35 x Dividends p sh divided by Interest Rate  
 Relative Price Strength  
 2-for-1 split 7/05  
 Options: No  
 Shaded area indicates recession

**Percent shares traded**

**% TOT. RETURN 2/08**

THIS STOCK	VL	ARITH. INDEX
1 yr.	1.6	-9.3
3 yr.	33.8	17.1
5 yr.	153.5	111.9

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
16.67	17.03	17.45	16.50	16.52	16.18	20.89	17.60	22.43	35.30	20.69	26.34	29.51	31.78	31.76	32.29	<b>34.35</b>	<b>36.05</b>	Revenues per sh	<b>39.05</b>
1.56	1.54	1.35	1.65	1.54	1.60	1.44	1.84	1.95	1.90	2.12	2.24	2.44	2.51	3.51	3.03	<b>3.20</b>	<b>3.50</b>	"Cash Flow" per sh	<b>4.05</b>
.81	.78	.61	.83	.85	.86	.64	1.01	1.08	1.15	1.22	1.37	1.58	1.71	2.46	2.09	<b>2.25</b>	<b>2.45</b>	Earnings per sh <sup>A</sup>	<b>3.00</b>
.71	.72	.72	.72	.72	.72	.72	.72	.73	.74	.75	.78	.82	.86	.92	1.01	<b>1.10</b>	<b>1.16</b>	Div'ds Decl'd per sh <sup>B</sup>	<b>1.28</b>
1.69	1.87	1.93	2.08	2.01	2.30	3.06	2.19	2.21	2.82	3.47	2.36	2.67	3.21	2.51	1.87	<b>2.15</b>	<b>2.45</b>	Cap'l Spending per sh	<b>3.15</b>
6.95	7.17	7.23	7.34	8.03	6.43	6.23	6.74	7.25	7.81	9.67	11.26	12.41	13.50	15.11	16.24	<b>17.35</b>	<b>18.35</b>	Book Value per sh <sup>C</sup>	<b>20.30</b>
19.00	19.61	21.43	21.44	21.51	21.54	21.56	22.30	23.00	23.72	24.41	26.46	27.76	28.98	29.33	29.62	<b>30.00</b>	<b>30.50</b>	Common Shs Outst'g <sup>D</sup>	<b>32.00</b>
13.2	15.8	16.1	12.2	13.3	13.8	21.2	13.3	13.0	13.6	13.5	13.3	14.1	16.6	11.9	17.2	<b>Bold figures are Value Line estimates</b>		Avg Ann'l P/E Ratio	<b>14.0</b>
.80	.93	1.06	.82	.83	.80	1.10	.76	.85	.70	.74	.76	.74	.88	.64	.90			Relative P/E Ratio	<b>.95</b>
6.6%	5.9%	7.4%	7.2%	6.4%	6.1%	5.3%	5.4%	5.2%	4.7%	4.6%	4.3%	3.7%	3.0%	3.2%	2.8%			Avg Ann'l Div'd Yield	<b>3.0%</b>

CAPITAL STRUCTURE as of 12/31/07																			
Total Debt \$476.3 mill. Due in 5 Yrs \$156.1 mill.																	Revenues (\$mill)		1250
LT Debt \$357.9 mill. LT Interest \$21.0 mill.																	Net Profit (\$mill)		95.0
(Total interest coverage: 4.8x)																	Income Tax Rate		40.0%
																	Net Profit Margin		7.6%
																	Long-Term Debt Ratio		41.0%
																	Common Equity Ratio		59.0%
																	Total Capital (\$mill)		1100
																	Net Plant (\$mill)		1200
Pension Assets-12/07 \$120.4 mill. Oblig. \$133.0 mill.																	Return on Total Cap'l		10.0%
Pfd Stock none																	Return on Shr. Equity		14.5%
Common Stock 29,624,492 common shs. as of 2/23/08																	Return on Com Equity		14.5%
MARKET CAP: \$1.0 billion (Mid Cap)																	Retained to Com Eq		8.5%
CURRENT POSITION																	All Div'ds to Net Prof		43%
(SMILL.)																			
Cash Assets 4.9																			
Other 352.6																			
Current Assets 357.5																			
Accts Payable 179.0																			
Debt Due 149.7																			
Other 74.4																			
Current Liab. 403.1																			
Fix. Chg. Cov. 486%																			

**BUSINESS:** South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 335,663 customers in New Jersey's southern counties, which covers 2,500 square miles and includes Atlantic City. Gas revenue mix '07: residential, 46%; commercial, 23%; cogeneration and electric generation, 8%; industrial, 23%. Non-utility operations include: South Jersey Energy, South Jersey Resources Group, Marina Energy, and South Jersey Energy Service Plus. Has 604 employees. Off./dir. cntrl. 1.2% of com. shares; Dimensional Fund Advisors, 8.3%; Barclays, 6.0% (3/07 proxy). Chmn. & CEO: Edward Graham. Incorp.: NJ. Address: 1 South Jersey Plaza, Folsom, NJ 08037. Tel.: 609-561-9000. Internet: www.sjindustries.com.

**South Jersey Industries reported a modest advance in revenues for 2007, although economic earnings increased roughly 14%. Utility South Jersey Gas benefited from continued growth in the customer base and lower interest costs. The company's nonutility operations also posted a solid performance. Readers are advised that our earnings-per-share figures are now based on economic earnings, a non-GAAP measure that excludes unrealized gains and losses from commodity derivative transactions. Thus, the share-net figures from 2007 onward are not directly comparable with those from previous years.**

**The company has solid long-term prospects.** Natural gas remains the fuel of choice in the markets served by South Jersey Gas, as it enjoys a considerable price advantage over alternatives. Indeed, the vast majority of new homes built have chosen natural gas as their main heating source. Moreover, the company expects economic development in the Atlantic City area will boost housing demand in the coming years. In addition, this business ought to continue to benefit from the Conservation Incentive Program (CIP). This initiative allows South Jersey to promote energy conservation and insulate itself from the negative impact of lower customer usage. The CIP protected \$7.5 million of net income during 2007, offsetting reduced customer utilization. Elsewhere, the performance of the nonutility Commodity Marketing business should continue to have an important impact on earnings. This unit maintains 10 billion cubic feet of gas storage capacity, which allows it to take advantage of volatility in natural gas pricing and lock in attractive profit margins. Looking forward, we anticipate moderate share-earnings and dividend growth in the current year. This pattern seems likely to continue in 2009, as well.

**These shares are ranked to lag the broader market for the coming six to 12 months.** Looking further out, we project solid bottom-line growth at South Jersey over the pull to 2011-2013. Moreover, this issue scores high marks for Price Stability and Earnings Predictability. Thus, this stock offers worthwhile total return potential for a natural gas utility.

*Michael Napoli, CPA* March 14, 2008

(A) Based on GAAP EPS through 2006, economic earnings thereafter. GAAP EPS: '07, \$2.10. Excl. nonrecurr. gain: '01, \$0.13. Excl. gain (losses) from discount. ops.: '96, \$1.14; '97, (\$0.24); '98, (\$0.26); '99, (\$0.02); '00, (\$0.04); '01, (\$0.02); '02, (\$0.04); '03, (\$0.09); '05, (\$0.02); '06, (\$0.02). Next egs. report due late April. (B) Div's paid early Apr., Jul., Oct., and late Dec. (C) Div. reinvest. plan avail. regulatory assets. In 2007: \$188.7 mill., \$6.37 per shr. (D) In millions, adjusted for split.	Company's Financial Strength <b>B++</b> Stock's Price Stability <b>100</b> Price Growth Persistence <b>95</b> Earnings Predictability <b>85</b>
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TIMELINESS <b>3</b> Raised 5/25/07	High: 31.4 30.8 29.4 31.5 30.5 29.5 28.8 31.4 34.8 33.6 35.9 34.6	Target Price Range 2011 2012 2013
SAFETY <b>1</b> Raised 4/2/93	Low: 20.9 23.1 21.0 21.8 25.3 19.3 23.2 26.7 28.8 27.0 29.8 30.9	
TECHNICAL <b>3</b> Lowered 2/29/08	LEGENDS 1.30 x Dividends p sh divided by Interest Rate Relative Price Strength 2-for-1 split 5/95 Options: Yes Shaded area indicates recession	
BETA .85 (1.00 = Market)		
<b>2011-13 PROJECTIONS</b>		
Price Gain Ann'l Total Return		
High <b>40</b> <b>(+25%)</b> <b>10%</b>		
Low <b>35</b> <b>(+10%)</b> <b>7%</b>		
<b>Insider Decisions</b>		
A M J J A S O N D		
to Buy 0 0 0 0 0 0 0 0 0 0		
Options 0 1 0 0 0 0 3 0 0		
to Sell 0 1 0 0 0 0 3 0 1		
<b>Institutional Decisions</b>		
2Q2007 3Q2007 4Q2007		
to Buy 94 90 92		
to Sell 81 96 94		
Hlds(000) 35310 34163 35393		
Percent shares traded	9 6 3	
% TOT. RETURN 2/08 THIS STOCK VL ARITH. INDEX		
1 yr. 3.2 -9.3		
3 yr. 15.5 17.1		
5 yr. 54.6 111.9		

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
18.37	21.55	21.69	19.30	22.19	24.16	23.74	20.92	22.19	29.80	32.63	42.45	42.93	44.94	53.96	53.51	<b>54.55</b>	<b>56.05</b>	Revenues per sh <sup>A</sup>	60.70
2.17	2.25	2.43	2.51	2.93	3.02	2.79	2.74	3.20	3.24	2.63	4.00	3.87	3.93	3.89	4.15	<b>4.25</b>	<b>4.25</b>	"Cash Flow" per sh	4.50
1.27	1.31	1.42	1.45	1.85	1.85	1.54	1.47	1.79	1.88	1.14	2.30	1.98	2.11	1.94	2.10	<b>2.30</b>	<b>2.35</b>	Earnings per sh <sup>B</sup>	2.50
1.07	1.09	1.11	1.12	1.14	1.17	1.20	1.22	1.24	1.26	1.27	1.28	1.30	1.32	1.34	1.37	<b>1.40</b>	<b>1.44</b>	Div'ds Decl'd per sh <sup>C</sup>	1.56
2.17	2.43	2.84	2.63	2.85	3.20	3.62	3.42	2.67	2.68	3.34	2.65	2.33	2.32	3.27	3.33	<b>3.35</b>	<b>3.00</b>	Cap'l Spending per sh	2.50
10.66	11.04	11.51	11.95	12.79	13.48	13.86	14.72	15.31	16.24	15.78	16.25	16.95	17.80	18.28	19.83	<b>21.15</b>	<b>22.00</b>	Book Value per sh <sup>D</sup>	24.95
40.62	41.50	42.19	42.93	43.70	43.70	43.84	46.47	46.47	48.54	48.56	48.63	48.67	48.65	48.89	49.45	<b>49.50</b>	<b>49.60</b>	Common Shs Outst'g <sup>E</sup>	50.00
13.6	15.6	14.0	12.7	11.5	12.7	17.2	17.3	14.6	14.7	23.1	11.1	14.2	14.7	15.5	15.6	<b>Bold figures are Value Line estimates</b>		Avg Ann'l P/E Ratio	15.0
.82	.92	.92	.85	.72	.73	.89	.99	.95	.75	1.26	.63	.75	.78	.84	.82			Relative P/E Ratio	1.00
6.2%	5.3%	5.6%	6.1%	5.4%	5.0%	4.5%	4.8%	4.8%	4.6%	4.8%	5.0%	4.6%	4.2%	4.5%	4.2%			Avg Ann'l Div'd Yield	4.2%

<b>CAPITAL STRUCTURE as of 12/31/07</b>		1040.6	972.1	1031.1	1446.5	1584.8	2064.2	2089.6	2186.3	2637.9	2646.0	<b>2700</b>	<b>2780</b>	Revenues (\$mill) <sup>A</sup>	3035		
Total Debt \$941.0 mill. Due in 5 Yrs \$399.5 mill.		68.6	68.8	84.6	89.9	55.7	112.3	98.0	104.8	95.1	102.9	<b>114</b>	<b>117</b>	Net Profit (\$mill)	125		
LT Debt \$593.5 mill. LT Interest \$40.1 mill. (LT interest earned: 6.7x; total interest coverage: 5.7x)		35.6%	36.0%	36.1%	39.6%	34.0%	38.0%	38.2%	37.4%	39.0%	39.1%	<b>38.0%</b>	<b>38.0%</b>	Income Tax Rate	38.0%		
Pension Assets-9/07 \$740.7 mill. Oblig. \$680.3 mill.		6.6%	7.1%	8.2%	6.2%	3.5%	5.4%	4.7%	4.8%	3.6%	3.9%	<b>3.9%</b>	<b>4.0%</b>	Net Profit Margin	4.2%		
Preferred Stock \$28.2 mill. Pfd. Div'd \$1.3 mill.		40.3%	41.5%	43.1%	41.7%	45.7%	43.8%	40.9%	39.5%	38.5%	37.9%	<b>36.0%</b>	<b>35.0%</b>	Long-Term Debt Ratio	32.0%		
Common Stock 49,464,057 shs. as of 1/31/08		57.1%	56.1%	54.8%	56.3%	52.4%	54.3%	57.2%	58.6%	61.5%	60.3%	<b>62.5%</b>	<b>63.5%</b>	Common Equity Ratio	66.5%		
MARKET CAP: \$1.6 billion (Mid Cap)		1064.8	1218.5	1299.2	1400.8	1462.5	1454.9	1443.6	1478.1	1497.8	1625.4	<b>1675</b>	<b>1720</b>	Total Capital (\$mill)	1875		
CURRENT POSITION (SMILL.)		1319.5	1402.7	1460.3	1519.7	1606.8	1874.9	1915.6	1969.7	2067.9	2150.4	<b>2235</b>	<b>2325</b>	Net Plant (\$mill)	2615		
Cash Assets 4.4		8.0%	7.1%	7.9%	7.9%	5.3%	9.1%	8.2%	8.5%	7.7%	7.6%	<b>8.0%</b>	<b>8.0%</b>	Return on Total Cap'l	8.0%		
Other 556.9		10.8%	9.7%	11.4%	11.0%	7.0%	13.7%	11.5%	11.7%	10.3%	10.2%	<b>11.0%</b>	<b>10.5%</b>	Return on Shr. Equity	10.0%		
Current Assets 561.3		11.1%	9.9%	11.7%	11.2%	7.2%	14.0%	11.7%	12.0%	10.2%	10.4%	<b>11.5%</b>	<b>11.0%</b>	Return on Com Equity	10.5%		
Accts Payable 208.5		2.5%	1.8%	3.7%	3.8%	NMF	6.2%	4.1%	4.6%	3.1%	3.5%	<b>4.0%</b>	<b>4.0%</b>	Retained to Com Eq	4.0%		
Debt Due 238.4		78%	82%	69%	67%	112%	56%	65%	62%	70%	66%	<b>61%</b>	<b>61%</b>	All Div'ds to Net Prof	62%		
Other 113.9		<b>BUSINESS:</b> WGL Holdings, Inc. is the parent of Washington Gas Light, a natural gas distributor in Washington, D.C. and adjacent areas of VA and MD to resident'l and comm'l users (1,046,201 meters). Hampshire Gas, a federally regulated sub., operates an underground gas-storage facility in WV. Non-regulated subs.: Wash. Gas Energy Svcs. sells and delivers natural gas and provides energy related products in the D.C. metro area; Wash. Gas Energy Sys. designs/installs comm'l heating, ventilating, and air cond. systems. American Century Inv. own 8.2% of common stock; Off./dir. less than 1% (1/08 proxy). Chmn. & CEO: J.H. DeGraffenreid, Inc.: D.C. and VA. Addr.: 1100 H St., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wgholdings.com.															

**WGL Holdings has been experiencing progress with its rate cases.** The company recently received approval for a rate hike in the District of Columbia (DOC). The incremental cash flow from the rate hike, which was not expected to be approved until March, added approximately \$0.05 per share to the bottom line in the first quarter (ended December 31st). Furthermore, the earlier-than-expected rate increase has prompted us to raise our annual estimate by 5%, to \$2.30 per share.

**The company's earnings will likely get a 2%-3% lift for the March interim.** WGL's gas and light utility division has been experiencing higher usage volumes and system charges as a result of 12,310 new customers. And it is expected to add about 5,200 more accounts by the end of fiscal 2008. Furthermore, the asset management business likely continued to enjoy strong off-system sales as excess reserves are released in order to meet the heightened demand during the colder winter months. These results ought to be partially offset by increased operation and maintenance costs.

**We look for the share net to advance approximately 10% this year.** Lifts in the top-line volumes ought to stem from the heightened rates in the DOC, additional customer growth, and expansion of the company's asset management program. Meanwhile, gas sales at the Washington Gas Energy Services unit have been down as a result of warmer-than-normal weather patterns. However, this unit's margins have been widening on a per-therm basis, offsetting the lower volumes and boosting the bottom line.

**In 2009, the bottom-line increase ought to moderate.** The majority of benefits from efficiency initiatives and the effects of the recent DOC rate hike will have cycled through by next year. Therefore, we look for earnings advances to slow to a low single-digit rate.

**These neutrally ranked shares may appeal to income-oriented accounts.** The equity offers a solid dividend yield. Meanwhile, the stock garners our Highest Safety rank (1), and our best mark for Price Stability (100), indicating suitability for conservative accounts with an eye on capital preservation.

*Bryan Fong*  
March 14, 2008

(A) Fiscal years end Sept. 30th.	(B) Based on diluted shares. Excludes non-recurring losses: '01, (13c); '02, (34c); '07, (4c) discontinued operations; '06, (15c). Next earnings report due late April. (C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available.	(D) Includes deferred charges and intangibles. '07: \$322.2 million, \$6.51/sh.	(E) In millions, adjusted for stock split.	Company's Financial Strength <b>A</b>	Stock's Price Stability <b>100</b>	Price Growth Persistence <b>50</b>	Earnings Predictability <b>65</b>
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# **ATTACHMENT B**



Proven Ratings, Research & Recommendations

Zacks.com Quotes and Research

## ATLANTA GAS LIGHT (NYSE)

Scottrade

ATG 34.46 ▼-0.09 (-0.26%) Vol. 197,003 13:25 ET

AGL Resources principal business is the distribution of natural gas to customers in central, northwest, northeast and southeast Georgia and the Chattanooga, Tennessee area through its natural gas distribution subsidiary. AGL's major service area is the ten county metropolitan Atlanta area.


### General Information

AGL RESOURCES  
Ten Peachtree Place NE  
Atlanta, GA 30309  
Phone: 404 584-4000  
Fax: 404 584-3945  
Web: [www.aglresources.com](http://www.aglresources.com)  
Email: [scave@aglresources.com](mailto:scave@aglresources.com)

Industry UTIL-GAS DISTR  
Sector: Utilities

Fiscal Year End December  
Last Reported Quarter 12/31/07  
Next EPS Date 05/07/2008

### Price and Volume Information

Zacks Rank   
Yesterday's Close 34.55  
52 Week High 44.67  
52 Week Low 34.44  
Beta 0.46  
20 Day Moving Average 437,597.56  
Target Price Consensus 41.95



### % Price Change

4 Week -6.42  
12 Week -4.69  
YTD -8.21

### % Price Change Relative to S&P 500

4 Week -3.68  
12 Week 8.18  
YTD 4.21

### Share Information

Shares Outstanding (millions) 76.44  
Market Capitalization (millions) 2,640.97  
Short Ratio 1.89  
Last Split Date 12/04/1995

### Dividend Information

Dividend Yield 4.86%  
Annual Dividend \$1.68  
Payout Ratio 0.60  
Change in Payout Ratio 0.04  
Last Dividend Payout / Amount 02/13/2008 / \$0.42

### EPS Information

Current Quarter EPS Consensus Estimate 1.34  
Current Year EPS Consensus Estimate 2.82  
Estimated Long-Term EPS Growth Rate 4.80  
Next EPS Report Date 05/07/2008

### Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) 2.00  
30 Days Ago 2.00  
60 Days Ago 2.00  
90 Days Ago 1.88

### Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 12.26	vs. Previous Year 43.33%	vs. Previous Year -3.11%
Trailing 12 Months: 12.66	vs. Previous Quarter 405.88%	vs. Previous Quarter: 85.64%
PEG Ratio 2.58		
Price Ratios	ROE	ROA
Price/Book 1.59	12/31/07	12.72 12/31/07 3.57

Price/Cash Flow	7.45	09/30/07	11.67	09/30/07	3.27
Price / Sales	1.06	06/30/07	13.15	06/30/07	3.66
<b>Current Ratio</b>			<b>Quick Ratio</b>		<b>Operating Margin</b>
12/31/07	1.10	12/31/07	0.77	12/31/07	8.46
09/30/07	1.04	09/30/07	0.56	09/30/07	7.63
06/30/07	1.08	06/30/07	0.62	06/30/07	8.33
<b>Net Margin</b>			<b>Pre-Tax Margin</b>		<b>Book Value</b>
12/31/07	13.55	12/31/07	13.55	12/31/07	21.69
09/30/07	12.28	09/30/07	12.28	09/30/07	20.89
06/30/07	13.41	06/30/07	13.41	06/30/07	21.49
<b>Inventory Turnover</b>			<b>Debt-to-Equity</b>		<b>Debt to Capital</b>
12/31/07	2.49	12/31/07	1.01	12/31/07	50.89
09/30/07	2.50	09/30/07	0.95	09/30/07	49.47
06/30/07	2.59	06/30/07	0.92	06/30/07	48.65



Proven Ratings, Research &amp; Recommendations

Zacks.com Quotes and Research

**ATMOS ENERGY CP (NYSE)**

Scottrade

ATO 25.81 ▲0.03 (0.12%) Vol. 347,800

12:58 ET

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

**General Information****ATMOS ENERGY CP**

Three Lincoln Centre, 5430 Lbj Freeway

Suite 1800

Dallas, TX 75240

Phone: 972 934-9227

Fax: 972 855-3040

Web: [www.atmosenergy.com](http://www.atmosenergy.com)Email: [InvestorRelations@atmosenergy.com](mailto:InvestorRelations@atmosenergy.com)

Industry: UTIL-GAS DISTR  
Sector: Utilities

Fiscal Year End: September

Last Reported Quarter: 12/31/07

Next EPS Date: 05/07/2008

**Price and Volume Information**

Zacks Rank



Yesterday's Close: 25.78

52 Week High: 33.47

52 Week Low: 23.87

Beta: 0.76

20 Day Moving Average: 491,138.56

Target Price Consensus: 30.29

**% Price Change**

4 Week: -6.29

12 Week: -4.09

YTD: -8.06

**% Price Change Relative to S&P 500**

4 Week: -3.54

12 Week: 8.85

YTD: 4.38

**Share Information**

Shares Outstanding (millions): 89.96

Market Capitalization (millions): 2,319.12

Short Ratio: 6.61

Last Split Date: 05/17/1994

**Dividend Information**

Dividend Yield: 5.04%

Annual Dividend: \$1.30

Payout Ratio: 0.71

Change in Payout Ratio: 0.05

Last Dividend Payout / Amount: 02/21/2008 / \$0.32

**EPS Information**

Current Quarter EPS Consensus Estimate: 1.38

Current Year EPS Consensus Estimate: 1.99

Estimated Long-Term EPS Growth Rate: 4.60

Next EPS Report Date: 05/07/2008

**Consensus Recommendations**

Current (1=Strong Buy, 5=Strong Sell): 2.11

30 Days Ago: 2.11

60 Days Ago: 2.00

90 Days Ago: 2.00

**Fundamental Ratios****P/E**

Current FY Estimate: 12.95

Trailing 12 Months: 14.09

PEG Ratio: 2.82

**EPS Growth**

vs. Previous Year

vs. Previous Quarter

**Sales Growth**

vs. Previous Year

vs. Previous Quarter:

-15.46%

2,150.00%

3.42%

65.41%

<b>Price Ratios</b>		<b>ROE</b>		<b>ROA</b>	
Price/Book	1.14	12/31/07		8.14	12/31/07
Price/Cash Flow	6.18	09/30/07		8.64	09/30/07
Price / Sales	0.39	06/30/07		10.30	06/30/07
<b>Current Ratio</b>		<b>Quick Ratio</b>		<b>Operating Margin</b>	
12/31/07	1.14	12/31/07		0.72	12/31/07
09/30/07	1.16	09/30/07		0.60	09/30/07
06/30/07	1.22	06/30/07		0.80	06/30/07
<b>Net Margin</b>		<b>Pre-Tax Margin</b>		<b>Book Value</b>	
12/31/07	4.22	12/31/07		4.22	12/31/07
09/30/07	4.45	09/30/07		4.45	09/30/07
06/30/07	5.05	06/30/07		5.05	06/30/07
<b>Inventory Turnover</b>		<b>Debt-to-Equity</b>		<b>Debt to Capital</b>	
12/31/07	9.87	12/31/07		1.05	12/31/07
09/30/07	9.98	09/30/07		1.08	09/30/07
06/30/07	10.11	06/30/07		1.07	06/30/07



Proven Ratings, Research & Recommendations

Zacks.com Quotes and Research

## LACLEDE GROUP INC (NYSE)

Scottrade

LG 34.30

▲0.35

(1.03%)

Vol. 59,200

12:59 ET

The Laclede Group, Inc. is a public utility engaged in the retail distribution and transportation of natural gas. The Company, which is subject to the jurisdiction of the Missouri Public Service Commission, serves the City of St. Louis, St. Louis County, the City of St. Charles, St. Charles County, the town of Arnold, and parts of Franklin, Jefferson, St. Francois, Ste. Genevieve, Iron, Madison and Butler Counties, all in Missouri.

### General Information

LACLEDE GRP INC

720 Olive Street

St. Louis, MO 63101

Phone: 314-342-0500

Fax: -


Web: [www.thelacledegroup.com](http://www.thelacledegroup.com)

Email: [mkullman@lacledegas.com](mailto:mkullman@lacledegas.com)

Industry: UTIL-GAS DISTR  
Sector: Utilities

Fiscal Year End: September  
Last Reported Quarter: 12/31/07  
Next EPS Date: 04/25/2008

### Price and Volume Information

Zacks Rank   
Yesterday's Close: 33.95  
52 Week High: 35.72  
52 Week Low: 28.84  
Beta: 0.79  
20 Day Moving Average: 148,388.95  
Target Price Consensus: N/A



#### % Price Change

4 Week: 2.35  
12 Week: 0.83  
YTD: -0.85

#### % Price Change Relative to S&P 500

4 Week: 5.35  
12 Week: 14.44  
YTD: 12.57

#### Share Information

Shares Outstanding (millions): 21.79  
Market Capitalization (millions): 739.74  
Short Ratio: 11.60  
Last Split Date: 03/08/1994

#### Dividend Information

Dividend Yield: 4.42%  
Annual Dividend: \$1.50  
Payout Ratio: 0.63  
Change in Payout Ratio: -0.07  
Last Dividend Payout / Amount: 03/07/2008 / \$0.38

#### EPS Information

Current Quarter EPS Consensus Estimate: 0.94  
Current Year EPS Consensus Estimate: 2.28  
Estimated Long-Term EPS Growth Rate: -  
Next EPS Report Date: 04/25/2008

#### Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 3.00  
30 Days Ago: 3.00  
60 Days Ago: 3.00  
90 Days Ago: 3.00

### Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 14.89	vs. Previous Year: 8.99%	vs. Previous Year: 0.33%
Trailing 12 Months: 14.15	vs. Previous Quarter: 3,133.33%	vs. Previous Quarter: 67.46%
PEG Ratio: -		
Price Ratios	ROE	ROA
Price/Book: 1.67	12/31/07: 11.91	12/31/07: 3.20

Price/Cash Flow	8.34	09/30/07	11.64	09/30/07	3.12
Price / Sales	0.37	06/30/07	11.48	06/30/07	3.07
<b>Current Ratio</b>			<b>Quick Ratio</b>		<b>Operating Margin</b>
12/31/07	1.02	12/31/07	0.73	12/31/07	2.55
09/30/07	0.99	09/30/07	0.64	09/30/07	2.46
06/30/07	1.09	06/30/07	0.84	06/30/07	2.46
<b>Net Margin</b>			<b>Pre-Tax Margin</b>		<b>Book Value</b>
12/31/07	3.84	12/31/07	3.84	12/31/07	20.32
09/30/07	3.70	09/30/07	3.70	09/30/07	19.80
06/30/07	3.73	06/30/07	3.73	06/30/07	20.13
<b>Inventory Turnover</b>			<b>Debt-to-Equity</b>		<b>Debt to Capital</b>
12/31/07	13.60	12/31/07	0.81	12/31/07	44.63
09/30/07	12.85	09/30/07	0.83	09/30/07	45.32
06/30/07	12.81	06/30/07	0.82	06/30/07	45.02



Proven Ratings, Research &amp; Recommendations

Zacks.com Quotes and Research

**NICOR INC (NYSE)**

Scottrade

<b>GAS</b>	33.11	▲0.10	(0.30%)	Vol. 341,691	13:00 ET
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Nicor Inc. is a holding company and is a member of the Standard & Poor's 500 Index. Its primary business is Nicor Gas, one of the nation's largest natural gas distribution companies. Nicor owns Tropical Shipping, a containerized shipping business serving the Caribbean region and the Bahamas. In addition, the company owns and has an equity interest in several energy-related businesses.


**General Information**

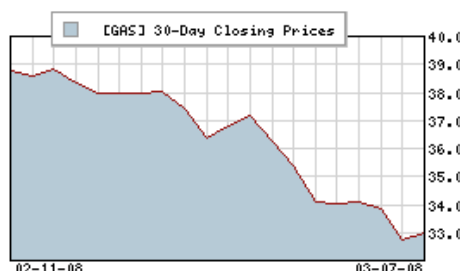
NICOR INC  
1844 Ferry Road  
Naperville, IL 60563-9600  
Phone: 630 305-9500  
Fax: 630 983-9328  
Web: [www.nicor.com](http://www.nicor.com)  
Email: None

Industry: UTIL-GAS DISTR  
Sector: Utilities

Fiscal Year End: December  
Last Reported Quarter: 12/31/07  
Next EPS Date: 04/25/2008

**Price and Volume Information**

Zacks Rank   
Yesterday's Close: 33.01  
52 Week High: 53.66  
52 Week Low: 32.74  
Beta: 0.91  
20 Day Moving Average: 865,557.50  
Target Price Consensus: 43.33

**% Price Change**

4 Week: -15.27  
12 Week: -22.35  
YTD: -22.05

**% Price Change Relative to S&P 500**

4 Week: -12.79  
12 Week: -11.87  
YTD: -11.51

**Share Information**

Shares Outstanding (millions): 45.13  
Market Capitalization (millions): 1,489.91  
Short Ratio: 8.36  
Last Split Date: 04/27/1993

**Dividend Information**

Dividend Yield: 5.63%  
Annual Dividend: \$1.86  
Payout Ratio: 0.65  
Change in Payout Ratio: -0.11  
Last Dividend Payout / Amount: 12/27/2007 / \$0.47

**EPS Information**

Current Quarter EPS Consensus Estimate: 0.71  
Current Year EPS Consensus Estimate: 2.64  
Estimated Long-Term EPS Growth Rate: 4.00  
Next EPS Report Date: 04/25/2008

**Consensus Recommendations**

Current (1=Strong Buy, 5=Strong Sell): 3.20  
30 Days Ago: 2.80  
60 Days Ago: 2.75  
90 Days Ago: 2.75

**Fundamental Ratios**

P/E	EPS Growth	Sales Growth
Current FY Estimate: 12.48	vs. Previous Year: -5.43%	vs. Previous Year: 9.70%
Trailing 12 Months: 11.50	vs. Previous Quarter: 281.25%	vs. Previous Quarter: 151.78%
PEG Ratio: 3.12		
Price Ratios	ROE	ROA
Price/Book: 1.58	12/31/07: 14.12	12/31/07: 3.21

Price/Cash Flow	4.73	09/30/07	14.71	09/30/07	3.31
Price / Sales	0.47	06/30/07	14.81	06/30/07	3.29
<b>Current Ratio</b>			<b>Quick Ratio</b>		<b>Operating Margin</b>
12/31/07	0.80	12/31/07	0.68	12/31/07	4.09
09/30/07	0.73	09/30/07	0.48	09/30/07	4.29
06/30/07	0.79	06/30/07	0.74	06/30/07	4.24
<b>Net Margin</b>			<b>Pre-Tax Margin</b>		<b>Book Value</b>
12/31/07	5.80	12/31/07	5.80	12/31/07	20.95
09/30/07	6.05	09/30/07	6.05	09/30/07	20.15
06/30/07	6.35	06/30/07	6.35	06/30/07	20.35
<b>Inventory Turnover</b>			<b>Debt-to-Equity</b>		<b>Debt to Capital</b>
12/31/07	22.95	12/31/07	0.45	12/31/07	30.89
09/30/07	18.26	09/30/07	0.47	09/30/07	31.73
06/30/07	19.79	06/30/07	0.54	06/30/07	35.18



Proven Ratings, Research &amp; Recommendations

Zacks.com Quotes and Research

**NORTHWEST NAT GAS (NYSE)**

Scottrade

NWN 42.23 ▲0.22 (0.52%) Vol. 119,600

13:02 ET

NW Natural is principally engaged in the distribution of natural gas. The Oregon Public Utility Commission (OPUC) has allocated to NW Natural as its exclusive service area a major portion of western Oregon, including the Portland metropolitan area, most of the fertile Willamette Valley and the coastal area from Astoria to Coos Bay. NW Natural also holds certificates from the Washington Utilities and Transportation Commission (WUTC) granting it exclusive rights to serve portions of three Washington counties bordering the Columbia River.


**General Information**

NORTHWEST NAT G  
220 N.W. Second Avenue  
Portland, OR 97209  
Phone: 503 226-4211  
Fax: 503 273-4824  
Web: [www.nwnatural.com](http://www.nwnatural.com)  
Email: [Bob.Hess@nwnatural.com](mailto:Bob.Hess@nwnatural.com)

Industry: UTIL-GAS DISTR  
Sector: Utilities

Fiscal Year End: December  
Last Reported Quarter: 12/31/07  
Next EPS Date: 04/24/2008

**Price and Volume Information**

Zacks Rank   
Yesterday's Close: 42.01  
52 Week High: 52.85  
52 Week Low: 40.98  
Beta: 0.77  
20 Day Moving Average: 317,889.84  
Target Price Consensus: 52.25

**% Price Change**

4 Week: -11.56  
12 Week: -10.94  
YTD: -13.67

**% Price Change Relative to S&P 500**

4 Week: -8.96  
12 Week: 1.08  
YTD: -1.99

**Share Information**

Shares Outstanding (millions): 26.41  
Market Capitalization (millions): 1,109.40  
Short Ratio: 11.06  
Last Split Date: 09/09/1996

**Dividend Information**

Dividend Yield: 3.57%  
Annual Dividend: \$1.50  
Payout Ratio: 0.54  
Change in Payout Ratio: -0.11  
Last Dividend Payout / Amount: 01/29/2008 / \$0.38

**EPS Information**

Current Quarter EPS Consensus Estimate: 1.69  
Current Year EPS Consensus Estimate: 2.60  
Estimated Long-Term EPS Growth Rate: 5.30  
Next EPS Report Date: 04/24/2008

**Consensus Recommendations**

Current (1=Strong Buy, 5=Strong Sell): 2.25  
30 Days Ago: 2.25  
60 Days Ago: 2.43  
90 Days Ago: 2.43

**Fundamental Ratios**

P/E	EPS Growth	Sales Growth
Current FY Estimate: 16.15	vs. Previous Year	2.75% vs. Previous Year
Trailing 12 Months: 15.22	vs. Previous Quarter	609.09% vs. Previous Quarter: 166.90%
PEG Ratio: 3.08		

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

Price/Book	1.87	12/31/07	12.24	12/31/07	3.93
Price/Cash Flow	7.78	09/30/07	12.35	09/30/07	3.92
Price / Sales	1.07	06/30/07	11.69	06/30/07	3.77
<b>Current Ratio</b>			<b>Quick Ratio</b>		<b>Operating Margin</b>
12/31/07	0.71	12/31/07	0.50	12/31/07	7.21
09/30/07	0.69	09/30/07	0.39	09/30/07	7.21
06/30/07	0.76	06/30/07	0.47	06/30/07	6.91
<b>Net Margin</b>			<b>Pre-Tax Margin</b>		<b>Book Value</b>
12/31/07	11.47	12/31/07	11.47	12/31/07	22.48
09/30/07	11.43	09/30/07	11.43	09/30/07	22.01
06/30/07	10.96	06/30/07	10.96	06/30/07	22.61
<b>Inventory Turnover</b>			<b>Debt-to-Equity</b>		<b>Debt to Capital</b>
12/31/07	9.07	12/31/07	0.86	12/31/07	46.26
09/30/07	9.62	09/30/07	0.88	09/30/07	46.67
06/30/07	9.10	06/30/07	0.85	06/30/07	45.86



Proven Ratings, Research & Recommendations

Zacks.com Quotes and Research

## PIEDMONT NAT GAS CO (NYSE)

Scottrade

PNY 25.96 ▲1.59 (6.52%) Vol. 568,900

14:05 ET

Piedmont Natural Gas Co, Inc., is an energy and services company engaged in the transportation and sale of natural gas and the sale of propane to residential, commercial and industrial customers in North Carolina, South Carolina and Tennessee. The Company is the second-largest natural gas utility in the southeast. The Company and its non-utility subsidiaries and divisions are also engaged in acquiring, marketing and arranging for the transportation and storage of natural gas for large-volume purchasers, and in the sale of propane to customers in the Company's three-state service area.


### General Information

PIEDMONT NAT GA  
4720 Piedmont Row Drive  
Charlotte, NC 28210  
Phone: 704 364-3120  
Fax: 704 364-1395  
Web: [www.piedmontng.com](http://www.piedmontng.com)  
Email: [margaret.griffith@piedmontng.com](mailto:margaret.griffith@piedmontng.com)

Industry: UTIL-GAS DISTR  
Sector: Utilities

Fiscal Year End: October  
Last Reported Quarter: 01/31/08  
Next EPS Date: 03/11/2008

### Price and Volume Information

Zacks Rank   
Yesterday's Close: 24.37  
52 Week High: 27.98  
52 Week Low: 22.00  
Beta: 0.60  
20 Day Moving Average: 351,083.91  
Target Price Consensus: 28.33



#### % Price Change

4 Week: -1.97  
12 Week: -5.83  
YTD: -6.84

#### % Price Change Relative to S&P 500

4 Week: 3.09  
12 Week: 6.92  
YTD: 5.94

#### Share Information

Shares Outstanding (millions): 73.28  
Market Capitalization (millions): 1,785.76  
Short Ratio: 18.46  
Last Split Date: 11/01/2004

#### Dividend Information

Dividend Yield: 4.10%  
Annual Dividend: \$1.00  
Payout Ratio: 0.00  
Change in Payout Ratio: 0.00  
Last Dividend Payout / Amount: 12/20/2007 / \$0.25

#### EPS Information

Current Quarter EPS Consensus Estimate: 0.97  
Current Year EPS Consensus Estimate: 1.50  
Estimated Long-Term EPS Growth Rate: 5.50  
Next EPS Report Date: 03/11/2008

#### Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.50  
30 Days Ago: 2.50  
60 Days Ago: 2.80  
90 Days Ago: 2.80

### Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 16.23	vs. Previous Year: -37.50%	vs. Previous Year: -1.48%
Trailing 12 Months: 17.41	vs. Previous Quarter: 8.33%	vs. Previous Quarter: 23.88%
PEG Ratio: 2.95		

<b>Price Ratios</b>		<b>ROE</b>		<b>ROA</b>		
Price/Book	2.06	01/31/08		-	01/31/08	-
Price/Cash Flow	9.13	10/31/07		11.55	10/31/07	3.76
Price / Sales	-	07/31/07		11.77	07/31/07	3.86
<b>Current Ratio</b>		<b>Quick Ratio</b>		<b>Operating Margin</b>		
01/31/08	-	01/31/08		-	01/31/08	-
10/31/07	1.03	10/31/07		0.67	10/31/07	6.10
07/31/07	1.23	07/31/07		0.81	07/31/07	6.21
<b>Net Margin</b>		<b>Pre-Tax Margin</b>		<b>Book Value</b>		
01/31/08	-	01/31/08		-	01/31/08	-
10/31/07	9.93	10/31/07		9.93	10/31/07	11.86
07/31/07	10.69	07/31/07		10.69	07/31/07	12.18
<b>Inventory Turnover</b>		<b>Debt-to-Equity</b>		<b>Debt to Capital</b>		
01/31/08	-	01/31/08		-	01/31/08	-
10/31/07	8.44	10/31/07		0.94	10/31/07	48.43
07/31/07	8.46	07/31/07		0.92	07/31/07	47.81



Proven Ratings, Research & Recommendations

Zacks.com Quotes and Research

## SOUTH JERSEY IND (NYSE)

Scottrade

SJI 32.59 ▲0.25 (0.77%) Vol. 277,700

14:10 ET

South Jersey Inds Inc. is engaged in the business of operating, through subsidiaries, various business enterprises. The company's most significant subsidiary is South Jersey Gas Company (SJG). SJG is a public utility company engaged in the purchase, transmission and sale of natural gas for residential, commercial and industrial use. SJG also makes off-system sales of natural gas on a wholesale basis to various customers on the interstate pipeline system and transports natural gas.

### General Information

#### SOUTH JERSEY IN

1 South Jersey Plaza

Folsom, NJ 08037

Phone: 609 561-9000

Fax: 609 561-8225


Web: [www.sjindustries.com](http://www.sjindustries.com)

Email: [investorrelations@sjindustries.com](mailto:investorrelations@sjindustries.com)

Industry: UTIL-GAS DISTR  
Sector: Utilities

Fiscal Year End: December  
Last Reported Quarter: 12/31/07  
Next EPS Date: 05/06/2008

### Price and Volume Information

Zacks Rank   
Yesterday's Close: 32.34  
52 Week High: 41.27  
52 Week Low: 31.20  
Beta: 0.71  
20 Day Moving Average: 178,990.50  
Target Price Consensus: 41.67



#### % Price Change

4 Week: -7.65  
12 Week: -7.23  
YTD: -10.39

#### % Price Change Relative to S&P 500

4 Week: -2.88  
12 Week: 5.34  
YTD: 2.61

#### Share Information

Shares Outstanding (millions): 29.62  
Market Capitalization (millions): 958.04  
Short Ratio: 15.35  
Last Split Date: 07/01/2005

#### Dividend Information

Dividend Yield: 3.34%  
Annual Dividend: \$1.08  
Payout Ratio: 0.63  
Change in Payout Ratio: 0.09  
Last Dividend Payout / Amount: 03/06/2008 / \$0.27

#### EPS Information

Current Quarter EPS Consensus Estimate: 0.91  
Current Year EPS Consensus Estimate: 2.17  
Estimated Long-Term EPS Growth Rate: 7.50  
Next EPS Report Date: 05/06/2008

#### Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 1.67  
30 Days Ago: 1.67  
60 Days Ago: 2.00  
90 Days Ago: 1.80

### Fundamental Ratios

#### P/E

Current FY Estimate: 14.93  
Trailing 12 Months: 18.91  
PEG Ratio: 1.99

#### EPS Growth

vs. Previous Year: -8.70%  
vs. Previous Quarter: 1,360.00%

#### Sales Growth

vs. Previous Year: 3.88%  
vs. Previous Quarter: 66.46%

#### Price Ratios

#### ROE

#### ROA

Price/Book	1.99	12/31/07	10.82	12/31/07	3.38
Price/Cash Flow	10.10	09/30/07	11.31	09/30/07	3.44
Price / Sales	1.00	06/30/07	12.44	06/30/07	3.71
<b>Current Ratio</b>			<b>Quick Ratio</b>		<b>Operating Margin</b>
12/31/07	1.00	12/31/07	0.61	12/31/07	5.30
09/30/07	0.94	09/30/07	0.47	09/30/07	5.52
06/30/07	0.97	06/30/07	0.54	06/30/07	6.09
<b>Net Margin</b>			<b>Pre-Tax Margin</b>		<b>Book Value</b>
12/31/07	10.96	12/31/07	10.96	12/31/07	16.27
09/30/07	6.32	09/30/07	6.32	09/30/07	16.00
06/30/07	7.70	06/30/07	7.70	06/30/07	16.05
<b>Inventory Turnover</b>			<b>Debt-to-Equity</b>		<b>Debt to Capital</b>
12/31/07	5.72	12/31/07	0.74	12/31/07	42.69
09/30/07	3.19	09/30/07	0.76	09/30/07	43.14
06/30/07	3.09	06/30/07	0.76	06/30/07	43.22



Proven Ratings, Research &amp; Recommendations

Zacks.com Quotes and Research

**WGL HOLDINGS INC (NYSE)**

Scottrade

WGL 31.15 ▲0.37 (1.20%) Vol. 644,700

13:07 ET

WASHINGTON GAS LIGHT CO is a public utility that delivers and sells natural gas to metropolitan Washington, D.C. and adjoining areas in Maryland and Virginia. A distribution subsidiary serves portions of Virginia and West Virginia. The Company has four wholly-owned active subsidiaries that include: Shenandoah Gas Company (Shenandoah) is engaged in the delivery and sale of natural gas at retail in the Shenandoah Valley, including Winchester, Middletown, Strasburg, Stephens City and New Market, Virginia, and Martinsburg, West Virginia.


**General Information**

WGL HLDGS INC  
101 Constitution Ave, N.W  
Washington, DC 20080  
Phone: 703 750-2000  
Fax: 703 750-4828  
Web: [www.wglholdings.com](http://www.wglholdings.com)  
Email: [madams@washgas.com](mailto:madams@washgas.com)

Industry: UTIL-GAS DISTR  
Sector: Utilities

Fiscal Year End: September  
Last Reported Quarter: 12/31/07  
Next EPS Date: 04/24/2008

**Price and Volume Information**

Zacks Rank   
Yesterday's Close: 30.78  
52 Week High: 35.91  
52 Week Low: 29.79  
Beta: 0.73  
20 Day Moving Average: 615,432.81  
Target Price Consensus: 35.25

**% Price Change**

4 Week: -4.44  
12 Week: -4.44  
YTD: -6.04

**% Price Change Relative to S&P 500**

4 Week: -1.64  
12 Week: 8.46  
YTD: 6.67

**Share Information**

Shares Outstanding (millions): 49.46  
Market Capitalization (millions): 1,522.50  
Short Ratio: 6.93  
Last Split Date: 05/02/1995

**Dividend Information**

Dividend Yield: 4.45%  
Annual Dividend: \$1.37  
Payout Ratio: 0.64  
Change in Payout Ratio: -0.05  
Last Dividend Payout / Amount: 01/08/2008 / \$0.34

**EPS Information**

Current Quarter EPS Consensus Estimate: 1.41  
Current Year EPS Consensus Estimate: 2.35  
Estimated Long-Term EPS Growth Rate: 4.00  
Next EPS Report Date: 04/24/2008

**Consensus Recommendations**

Current (1=Strong Buy, 5=Strong Sell): 2.20  
30 Days Ago: 2.60  
60 Days Ago: 2.50  
90 Days Ago: 2.50

**Fundamental Ratios**

P/E	EPS Growth	Sales Growth
Current FY Estimate: 13.09	vs. Previous Year: 4.35%	vs. Previous Year: 2.55%
Trailing 12 Months: 14.38	vs. Previous Quarter: 409.68%	vs. Previous Quarter: 130.78%
PEG Ratio: 3.27		

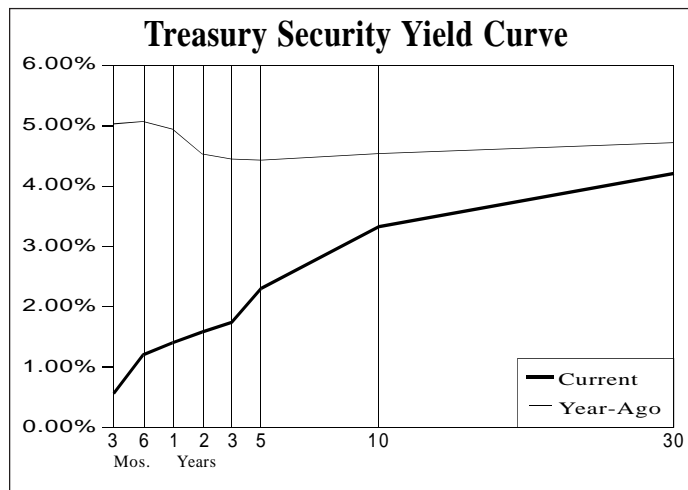
**Price Ratios****ROE****ROA**

Price/Book	1.50	12/31/07	10.53	12/31/07	3.41
Price/Cash Flow	7.55	09/30/07	10.41	09/30/07	3.42
Price / Sales	0.57	06/30/07	11.26	06/30/07	3.72
<b>Current Ratio</b>			<b>Quick Ratio</b>		<b>Operating Margin</b>
12/31/07	0.88	12/31/07	-	12/31/07	3.96
09/30/07	1.03	09/30/07	0.47	09/30/07	3.89
06/30/07	1.15	06/30/07	0.72	06/30/07	4.15
<b>Net Margin</b>			<b>Pre-Tax Margin</b>		<b>Book Value</b>
12/31/07	6.81	12/31/07	6.81	12/31/07	20.49
09/30/07	6.73	09/30/07	6.73	09/30/07	19.89
06/30/07	7.27	06/30/07	7.27	06/30/07	20.50
<b>Inventory Turnover</b>			<b>Debt-to-Equity</b>		<b>Debt to Capital</b>
12/31/07	9.33	12/31/07	0.59	12/31/07	36.30
09/30/07	8.69	09/30/07	0.63	09/30/07	37.92
06/30/07	12.06	06/30/07	0.60	06/30/07	36.86

# **ATTACHMENT C**

# Selected Yields

	Recent (3/19/08)	3 Months Ago (12/19/07)	Year Ago (3/21/07)		Recent (3/19/08)	3 Months Ago (12/19/07)	Year Ago (3/21/07)
<b>TAXABLE</b>							
<b>Market Rates</b>							
Discount Rate	2.50	4.75	6.25				
Federal Funds	2.25	4.25	5.25				
Prime Rate	5.25	7.25	8.25				
30-day CP (A1/P1)	2.65	5.59	5.24				
3-month LIBOR	2.60	4.91	5.35				
<b>Bank CDs</b>							
6-month	2.15	2.82	3.26				
1-year	2.16	3.45	3.87				
5-year	3.12	3.74	3.92				
<b>U.S. Treasury Securities</b>							
3-month	0.56	2.89	5.03				
6-month	1.20	3.31	5.07				
1-year	1.40	3.31	4.94				
5-year	2.30	3.43	4.43				
10-year	3.33	4.03	4.54				
10-year (inflation-protected)	0.90	1.71	2.12				
30-year	4.21	4.45	4.72				
30-year Zero	4.35	4.47	4.68				
<b>Mortgage-Backed Securities</b>							
GNMA 6.5%	4.70	5.42	5.53				
FHLMC 6.5% (Gold)	4.96	5.62	5.60				
FNMA 6.5%	4.62	5.41	5.50				
FNMA ARM	5.07	5.46	5.60				
<b>Corporate Bonds</b>							
Financial (10-year) A	5.89	6.01	5.40				
Industrial (25/30-year) A	5.87	5.99	5.68				
Utility (25/30-year) A	5.96	6.14	5.86				
Utility (25/30-year) Baa/BBB	6.14	6.24	6.01				
<b>Foreign Bonds (10-Year)</b>							
Canada	3.45	3.99	4.08				
Germany	3.76	4.28	3.93				
Japan	1.28	1.49	1.57				
United Kingdom	4.31	4.68	4.83				
<b>Preferred Stocks</b>							
Utility A	6.34	6.33	6.08				
Financial A	7.91	8.18	6.44				
Financial Adjustable A	5.47	5.47	5.47				



<b>TAX-EXEMPT</b>							
<b>Bond Buyer Indexes</b>							
20-Bond Index (GOs)	4.94	4.46	4.13				
25-Bond Index (Revs)	5.15	4.79	4.38				
<b>General Obligation Bonds (GOs)</b>							
1-year Aaa	1.80	2.85	3.54				
1-year A	1.90	2.90	3.64				
5-year Aaa	2.87	3.19	3.51				
5-year A	3.17	3.49	3.80				
10-year Aaa	3.73	3.62	3.65				
10-year A	4.02	3.91	3.95				
25/30-year Aaa	4.92	4.33	4.00				
25/30-year A	5.05	4.44	4.30				
<b>Revenue Bonds (Revs) (25/30-Year)</b>							
Education AA	5.10	4.50	4.33				
Electric AA	5.10	4.50	4.30				
Housing AA	5.40	4.80	4.55				
Hospital AA	5.50	4.75	4.57				
Toll Road Aaa	5.10	4.60	4.40				

# Federal Reserve Data

## BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	3/12/08	2/27/08	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1413	1799	-386	1655	1640	1883
Borrowed Reserves	231	198	33	1634	1181	736
Net Free/Borrowed Reserves	1182	1601	-419	21	459	1147

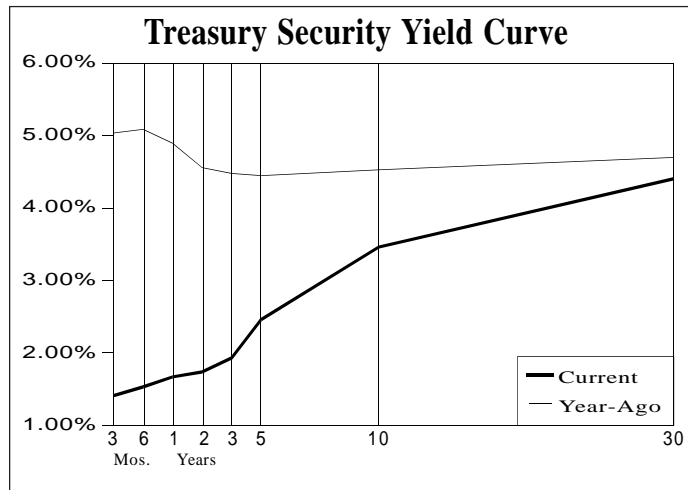
## MONEY SUPPLY

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

	Recent Levels			Growth Rates Over the Last...		
	3/3/08	2/25/08	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1391.8	1367.8	24.0	6.1%	-0.4%	1.6%
M2 (M1+savings+small time deposits)	7644.7	7630.3	14.4	12.2%	8.3%	7.3%

# Selected Yields

	Recent (3/12/08)	3 Months Ago (12/12/07)	Year Ago (3/14/07)		Recent (3/12/08)	3 Months Ago (12/12/07)	Year Ago (3/14/07)
<b>TAXABLE</b>							
<b>Market Rates</b>							
Discount Rate	3.50	4.75	6.25				
Federal Funds	3.00	4.25	5.25				
Prime Rate	6.00	7.25	8.25				
30-day CP (A1/P1)	2.84	5.10	5.25				
3-month LIBOR	2.85	5.06	5.35				
<b>Bank CDs</b>							
6-month	2.17	2.82	3.20				
1-year	2.17	3.45	3.80				
5-year	3.16	3.74	3.91				
<b>U.S. Treasury Securities</b>							
3-month	1.41	2.86	5.04				
6-month	1.53	3.22	5.09				
1-year	1.67	3.09	4.90				
5-year	2.46	3.47	4.45				
10-year	3.46	4.09	4.53				
10-year (inflation-protected)	0.84	1.78	2.17				
30-year	4.41	4.54	4.70				
30-year Zero	4.57	4.58	4.66				
<b>Mortgage-Backed Securities</b>							
GNMA 6.5%	5.02	5.54	5.59				
FHLMC 6.5% (Gold)	5.04	5.67	5.66				
FNMA 6.5%	4.94	5.53	5.57				
FNMA ARM	5.07	5.46	5.60				
<b>Corporate Bonds</b>							
Financial (10-year) A	6.05	6.26	5.40				
Industrial (25/30-year) A	6.07	6.15	5.65				
Utility (25/30-year) A	6.08	6.25	5.85				
Utility (25/30-year) Baa/BBB	6.27	6.35	5.99				
<b>Foreign Bonds (10-Year)</b>							
Canada	3.53	4.03	4.02				
Germany	3.77	4.31	3.88				
Japan	1.35	1.52	1.58				
United Kingdom	4.42	4.80	4.74				
<b>Preferred Stocks</b>							
Utility A	6.61	6.35	6.03				
Financial A	7.83	7.80	6.42				
Financial Adjustable A	5.46	5.46	5.46				



<b>TAX-EXEMPT</b>							
<b>Bond Buyer Indexes</b>							
20-Bond Index (GOs)	4.92	4.38	4.08				
25-Bond Index (Revs)	5.11	4.74	4.39				
<b>General Obligation Bonds (GOs)</b>							
1-year Aaa	2.05	2.90	3.54				
1-year A	2.20	3.00	3.64				
5-year Aaa	2.83	3.19	3.51				
5-year A	2.93	3.29	3.60				
10-year Aaa	3.66	3.63	3.66				
10-year A	3.86	3.93	4.18				
25/30-year Aaa	4.85	4.37	4.00				
25/30-year A	5.04	4.57	4.30				
<b>Revenue Bonds (Revs) (25/30-Year)</b>							
Education AA	5.05	4.65	4.30				
Electric AA	5.10	4.70	4.30				
Housing AA	5.35	4.80	4.50				
Hospital AA	5.40	4.85	4.50				
Toll Road Aaa	5.10	4.70	4.30				

## Federal Reserve Data

### BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	2/27/08	2/13/08	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1800	1660	140	1714	1615	1896
Borrowed Reserves	198	102	96	1630	1276	729
Net Free/Borrowed Reserves	1602	1558	44	84	339	1167

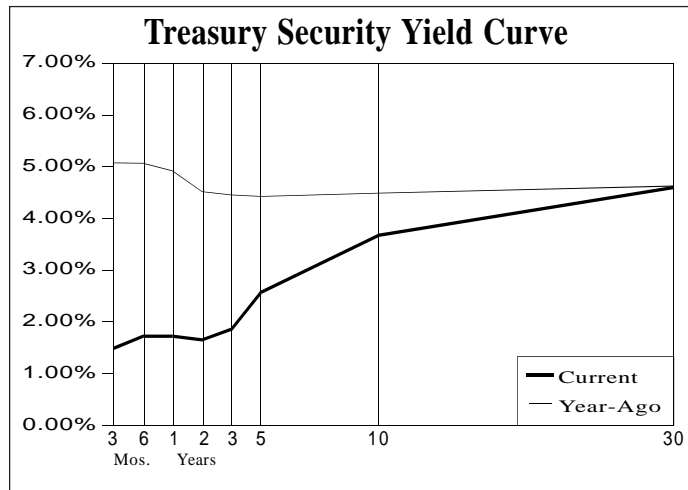
### MONEY SUPPLY

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

	Recent Levels			Growth Rates Over the Last...		
	2/25/08	2/18/08	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1368.0	1360.7	7.3	2.4%	-0.3%	0.2%
M2 (M1+savings+small time deposits)	7630.3	7597.2	33.1	10.7%	7.2%	7.0%

# Selected Yields

	Recent (3/05/08)	3 Months Ago (12/05/07)	Year Ago (3/07/07)		Recent (3/05/08)	3 Months Ago (12/05/07)	Year Ago (3/07/07)
<b>TAXABLE</b>							
<b>Market Rates</b>							
Discount Rate	3.50	5.00	6.25				
Federal Funds	3.00	4.50	5.25				
Prime Rate	6.00	7.50	8.25				
30-day CP (A1/P1)	2.97	5.23	5.24				
3-month LIBOR	3.00	5.15	5.34				
<b>Bank CDs</b>							
6-month	2.16	2.82	3.28				
1-year	2.16	3.45	3.89				
5-year	3.16	3.80	3.93				
<b>U.S. Treasury Securities</b>							
3-month	1.49	3.05	5.08				
6-month	1.72	3.24	5.07				
1-year	1.72	3.11	4.92				
5-year	2.57	3.32	4.43				
10-year	3.67	3.96	4.49				
10-year (inflation-protected)	1.02	1.70	2.16				
30-year	4.60	4.44	4.63				
30-year Zero	4.78	4.49	4.57				
<b>Mortgage-Backed Securities</b>							
GNMA 6.5%	4.80	5.25	5.55				
FHLMC 6.5% (Gold)	5.36	5.42	5.64				
FNMA 6.5%	5.02	5.25	5.56				
FNMA ARM	5.05	5.44	5.60				
<b>Corporate Bonds</b>							
Financial (10-year) A	5.96	5.92	5.31				
Industrial (25/30-year) A	6.35	5.96	5.60				
Utility (25/30-year) A	6.26	6.07	5.59				
Utility (25/30-year) Baa/BBB	6.39	6.22	5.86				
<b>Foreign Bonds (10-Year)</b>							
Canada	3.64	3.93	3.99				
Germany	3.86	4.03	3.92				
Japan	1.38	1.50	1.63				
United Kingdom	4.48	4.49	4.77				
<b>Preferred Stocks</b>							
Utility A	6.26	6.25	6.01				
Financial A	7.60	7.73	6.46				
Financial Adjustable A	5.53	5.53	5.53				



<b>TAX-EXEMPT</b>							
<b>Bond Buyer Indexes</b>							
20-Bond Index (GOs)	5.11	4.39	4.10				
25-Bond Index (Revs)	5.22	4.77	4.41				
<b>General Obligation Bonds (GOs)</b>							
1-year Aaa	2.25	3.00	3.53				
1-year A	2.35	3.04	3.63				
5-year Aaa	3.30	3.18	3.49				
5-year A	3.60	3.48	3.78				
10-year Aaa	4.11	3.57	3.64				
10-year A	4.40	3.86	3.94				
25/30-year Aaa	5.10	4.29	3.96				
25/30-year A	5.23	4.40	4.25				
<b>Revenue Bonds (Revs) (25/30-Year)</b>							
Education AA	5.30	4.45	4.30				
Electric AA	5.30	4.45	4.25				
Housing AA	5.60	4.70	4.50				
Hospital AA	5.70	4.65	4.50				
Toll Road Aaa	5.30	4.65	4.36				

## Federal Reserve Data

### BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	2/27/08	2/13/08	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1807	1661	146	1715	1615	1897
Borrowed Reserves	198	102	96	1630	1276	729
Net Free/Borrowed Reserves	1609	1559	50	85	339	1168

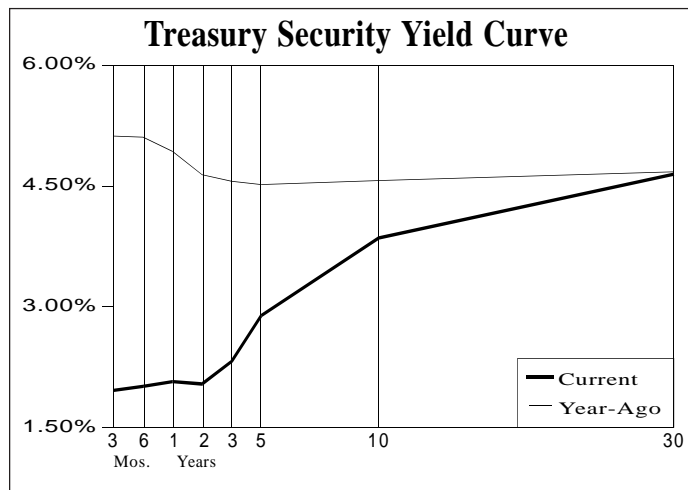
### MONEY SUPPLY

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

	Recent Levels			Growth Rates Over the Last...		
	2/18/08	2/11/08	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1360.8	1357.5	3.3	1.1%	0.1%	-0.2%
M2 (M1+savings+small time deposits)	7597.0	7584.4	12.6	10.7%	7.6%	6.9%

# Selected Yields

	Recent (2/27/08)	3 Months Ago (11/28/07)	Year Ago (2/28/07)		Recent (2/27/08)	3 Months Ago (11/28/07)	Year Ago (2/28/07)
<b>TAXABLE</b>							
<b>Market Rates</b>							
Discount Rate	3.50	5.00	6.25				
Federal Funds	3.00	4.50	5.25				
Prime Rate	6.00	7.50	8.25				
30-day CP (A1/P1)	3.21	4.65	5.23				
3-month LIBOR	3.09	5.08	5.35				
<b>Bank CDs</b>							
6-month	2.19	2.82	3.28				
1-year	2.17	3.54	3.88				
5-year	3.06	3.88	3.92				
<b>U.S. Treasury Securities</b>							
3-month	1.96	3.03	5.12				
6-month	2.01	3.36	5.11				
1-year	2.07	3.26	4.93				
5-year	2.89	3.50	4.52				
10-year	3.85	4.04	4.57				
10-year (inflation-protected)	1.30	1.70	2.19				
30-year	4.65	4.42	4.68				
30-year Zero	4.78	4.45	4.61				
<b>Mortgage-Backed Securities</b>							
GNMA 6.5%	5.04	5.39	5.63				
FHLMC 6.5% (Gold)	5.21	5.61	5.73				
FNMA 6.5%	5.12	5.41	5.63				
FNMA ARM	5.19	5.87	5.60				
<b>Corporate Bonds</b>							
Financial (10-year) A	5.81	5.94	5.38				
Industrial (25/30-year) A	6.41	5.87	5.62				
Utility (25/30-year) A	6.20	6.03	5.65				
Utility (25/30-year) Baa/BBB	6.48	6.11	5.89				
<b>Foreign Bonds (10-Year)</b>							
Canada	3.82	4.06	4.03				
Germany	4.09	4.11	3.96				
Japan	1.48	1.49	1.64				
United Kingdom	4.70	4.68	4.80				
<b>Preferred Stocks</b>							
Utility A	6.10	6.31	5.99				
Financial A	7.12	7.84	6.44				
Financial Adjustable A	5.53	5.53	5.53				



<b>TAX-EXEMPT</b>							
<b>Bond Buyer Indexes</b>							
20-Bond Index (GOs)	4.66	4.45	4.19				
25-Bond Index (Revs)	4.94	4.80	4.48				
<b>General Obligation Bonds (GOs)</b>							
1-year Aaa	2.20	3.25	3.56				
1-year A	2.35	3.35	3.66				
5-year Aaa	3.13	3.27	3.55				
5-year A	3.23	3.37	3.64				
10-year Aaa	3.92	3.64	3.67				
10-year A	4.12	3.94	4.20				
25/30-year Aaa	4.94	4.38	3.97				
25/30-year A	5.14	4.58	4.28				
<b>Revenue Bonds (Revs) (25/30-Year)</b>							
Education AA	5.15	4.65	4.39				
Electric AA	5.20	4.75	4.38				
Housing AA	5.45	4.85	4.44				
Hospital AA	5.50	4.85	4.45				
Toll Road Aaa	5.20	4.75	4.39				

# Federal Reserve Data

## BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	2/13/08	1/30/08	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1661	1446	215	1670	2152	1875
Borrowed Reserves	102	390	-288	1676	1281	723
Net Free/Borrowed Reserves	1559	1056	503	-7	872	1153

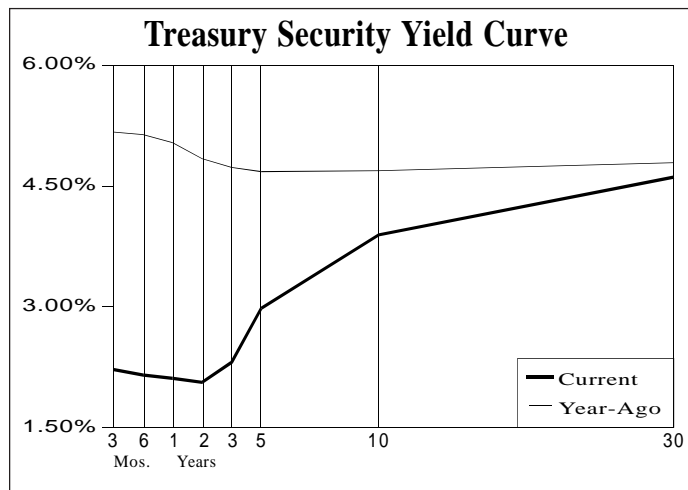
## MONEY SUPPLY

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

	Recent Levels			Growth Rates Over the Last...		
	2/11/08	2/4/08	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1358.2	1382.5	-24.3	-2.0%	-0.2%	-0.7%
M2 (M1+savings+small time deposits)	7585.5	7569.2	16.3	11.0%	8.2%	6.8%

# Selected Yields

	Recent (2/20/08)	3 Months Ago (11/20/07)	Year Ago (2/21/07)		Recent (2/20/08)	3 Months Ago (11/20/07)	Year Ago (2/21/07)
<b>TAXABLE</b>							
<b>Market Rates</b>							
Discount Rate	3.50	5.00	6.25				
Federal Funds	3.00	4.50	5.25				
Prime Rate	6.00	7.50	8.25				
30-day CP (A1/P1)	3.05	4.59	5.23				
3-month LIBOR	3.08	5.00	5.36				
<b>Bank CDs</b>							
6-month	2.20	2.83	3.27				
1-year	2.19	3.54	3.88				
5-year	2.82	3.89	3.92				
<b>U.S. Treasury Securities</b>							
3-month	2.22	3.28	5.17				
6-month	2.15	3.42	5.14				
1-year	2.11	3.43	5.04				
5-year	2.98	3.55	4.68				
10-year	3.89	4.10	4.69				
10-year (inflation-protected)	1.41	1.70	2.33				
30-year	4.61	4.50	4.79				
30-year Zero	4.76	4.53	4.71				
<b>Mortgage-Backed Securities</b>							
GNMA 6.5%	5.10	5.50	5.67				
FHLMC 6.5% (Gold)	5.31	5.77	5.75				
FNMA 6.5%	5.09	5.56	5.67				
FNMA ARM	5.19	5.88	5.61				
<b>Corporate Bonds</b>							
Financial (10-year) A	5.82	6.01	5.51				
Industrial (25/30-year) A	6.29	5.96	5.72				
Utility (25/30-year) A	6.15	6.04	5.74				
Utility (25/30-year) Baa/BBB	6.33	6.14	5.97				
<b>Foreign Bonds (10-Year)</b>							
Canada	3.93	4.07	4.10				
Germany	4.03	4.06	4.05				
Japan	1.43	1.47	1.70				
United Kingdom	4.69	4.62	4.89				
<b>Preferred Stocks</b>							
Utility A	6.08	6.62	6.16				
Financial A	7.00	7.97	6.44				
Financial Adjustable A	5.52	5.52	5.52				



<b>TAX-EXEMPT</b>							
<b>Bond Buyer Indexes</b>							
20-Bond Index (GOs)	4.47	4.53	4.17				
25-Bond Index (Revs)	4.82	4.85	4.51				
<b>General Obligation Bonds (GOs)</b>							
1-year Aaa	1.70	3.30	3.58				
1-year A	1.80	3.34	3.68				
5-year Aaa	2.80	3.34	3.61				
5-year A	3.10	3.64	3.90				
10-year Aaa	3.55	3.71	3.73				
10-year A	3.84	4.00	3.15				
25/30-year Aaa	4.64	4.47	4.06				
25/30-year A	4.77	4.62	4.38				
<b>Revenue Bonds (Revs) (25/30-Year)</b>							
Education AA	4.80	4.67	4.40				
Electric AA	4.80	4.67	4.35				
Housing AA	5.10	4.90	4.60				
Hospital AA	5.15	4.85	4.60				
Toll Road Aaa	4.80	4.67	4.48				

## Federal Reserve Data

### BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	2/13/08	1/30/08	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1663	1459	204	1671	2153	1876
Borrowed Reserves	102	390	-288	1676	1281	723
Net Free/Borrowed Reserves	1561	1069	492	-5	872	1153

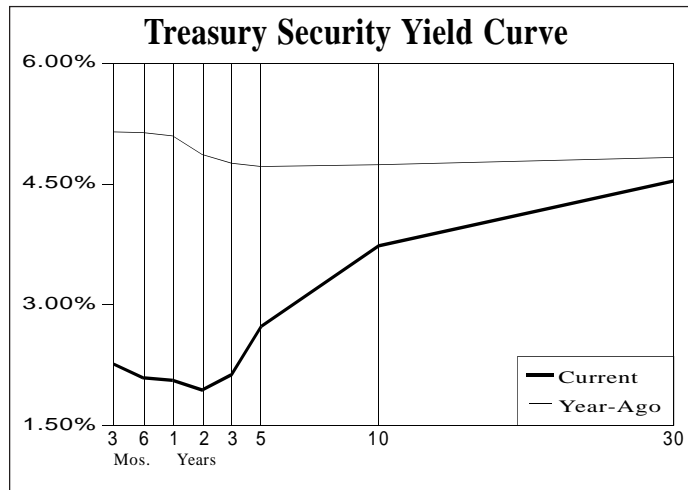
### MONEY SUPPLY

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

	Recent Levels			Growth Rates Over the Last...		
	2/4/08	1/28/08	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1382.7	1362.6	20.1	2.3%	2.5%	0.5%
M2 (M1+savings+small time deposits)	7569.4	7535.6	33.8	10.0%	8.2%	6.6%

# Selected Yields

	Recent (2/13/08)	3 Months Ago (11/14/07)	Year Ago (2/14/07)		Recent (2/13/08)	3 Months Ago (11/14/07)	Year Ago (2/14/07)
<b>TAXABLE</b>							
<b>Market Rates</b>							
Discount Rate	3.50	5.00	6.25				
Federal Funds	3.00	4.50	5.25				
Prime Rate	6.00	7.50	8.25				
30-day CP (A1/P1)	3.00	4.56	5.23				
3-month LIBOR	3.07	4.88	5.36				
<b>Bank CDs</b>							
6-month	2.15	2.83	3.27				
1-year	2.34	3.54	3.86				
5-year	2.85	3.89	3.91				
<b>U.S. Treasury Securities</b>							
3-month	2.26	3.39	5.15				
6-month	2.09	3.68	5.14				
1-year	2.06	3.68	5.10				
5-year	2.73	3.82	4.72				
10-year	3.73	4.25	4.74				
10-year (inflation-protected)	1.34	1.86	2.39				
30-year	4.54	4.60	4.83				
30-year Zero	4.65	4.62	4.76				
<b>Mortgage-Backed Securities</b>							
GNMA 6.5%	4.46	5.53	5.72				
FHLMC 6.5% (Gold)	5.10	5.73	5.82				
FNMA 6.5%	4.71	5.51	5.74				
FNMA ARM	5.18	5.90	5.62				
<b>Corporate Bonds</b>							
Financial (10-year) A	5.78	5.95	5.52				
Industrial (25/30-year) A	6.29	5.98	5.77				
Utility (25/30-year) A	6.20	6.09	5.77				
Utility (25/30-year) Baa/BBB	6.35	6.18	6.02				
<b>Foreign Bonds (10-Year)</b>							
Canada	3.87	4.21	4.15				
Germany	3.96	4.15	4.10				
Japan	1.43	1.53	1.74				
United Kingdom	4.62	4.74	4.95				
<b>Preferred Stocks</b>							
Utility A	6.13	6.43	6.14				
Financial A	7.00	7.58	6.43				
Financial Adjustable A	5.51	5.51	5.51				



<b>TAX-EXEMPT</b>							
<b>Bond Buyer Indexes</b>							
20-Bond Index (GOs)	4.33	4.54	4.21				
25-Bond Index (Revs)	4.72	4.85	4.53				
<b>General Obligation Bonds (GOs)</b>							
1-year Aaa	1.05	3.30	3.60				
1-year A	1.15	3.40	3.70				
5-year Aaa	2.67	3.44	3.63				
5-year A	2.77	3.74	3.72				
10-year Aaa	3.40	3.83	3.78				
10-year A	3.60	4.13	4.30				
25/30-year Aaa	4.36	4.55	4.08				
25/30-year A	4.56	4.75	4.39				
<b>Revenue Bonds (Revs) (25/30-Year)</b>							
Education AA	4.60	4.75	4.49				
Electric AA	4.65	4.85	4.48				
Housing AA	4.80	4.95	4.54				
Hospital AA	4.85	4.95	4.55				
Toll Road Aaa	4.65	4.85	4.49				

# Federal Reserve Data

## BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	1/30/08	1/16/08	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1458	1712	-254	1700	2144	1861
Borrowed Reserves	390	1377	-987	1699	1291	729
Net Free/Borrowed Reserves	1068	335	733	1	854	1132

## MONEY SUPPLY

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

	Recent Levels			Growth Rates Over the Last...		
	1/28/08	1/21/08	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1362.3	1372.1	-9.8	-2.1%	-1.0%	-1.0%
M2 (M1+savings+small time deposits)	7529.2	7491.6	37.6	6.8%	6.9%	6.0%

**SOUTHWEST GAS CORPORATION**  
**DOCKET NO. G-01551A-07-0504**  
**TABLE OF CONTENTS TO SCHEDULES WAR**

**SCHEDULE #**

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	CAPITAL STRUCTURES OF SAMPLE COMPANIES

**SOUTHWEST GAS CORPORATION  
TEST YEAR ENDED APRIL 30, 2007  
COST OF CAPITAL SUMMARY**

**DOCKET NO. G-01551A-07-0504  
SCHEDULE WAR - 1  
PAGE 1 OF 4**

**WEIGHTED COST OF CAPITAL**

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST	(C) WEIGHTED COST
1	LONG-TERM DEBT	51.00%	7.96%	4.06%
2	PREFERRED EQUITY	4.00%	8.20%	0.33%
3	COMMON EQUITY	<u>45.00%</u>	9.88%	<u>4.44%</u>
4	TOTAL CAPITALIZATION	<u><u>100.00%</u></u>		
5	<b>WEIGHTED COST OF CAPITAL</b>			<b>8.83%</b>

REFERENCES:

- COLUMN (A): COMPANY SCHEDULE D-1
- COLUMN (B): TESTIMONY, WAR
- COLUMN (C): COLUMN (A) x COLUMN (B)
- COLUMN (C) LINE 5: SUM OF COLUMN (C) LINES 1 THRU 3

**SOUTHWEST GAS CORPORATION  
TEST YEAR ENDED APRIL 30, 2007  
COST OF CAPITAL SUMMARY**

**DOCKET NO. G-01551A-07-0504  
SCHEDULE WAR - 1  
PAGE 2 OF 4**

**WEIGHTED COST OF DEBT**

LINE NO.	DESCRIPTION	(A) NET PROCEEDS	(B) CAPITAL RATIO	(C) COST	(D) WEIGHTED COST
1	TOTAL DEBENTURES AND MTN'S (FIXED RATE)	\$ 590,463,378	91.74%	8.11%	7.44%
2	TERM FACILITY (VARIABLE RATE)	53,169,199	8.26%	6.27%	0.52%
3	TOTAL CAPITALIZATION	<u>\$ 643,632,577</u>	<u>100.00%</u>		
4	<b>WEIGHTED COST OF DEBT</b>				<b>7.96%</b>

REFERENCES:

- COLUMN (A): COMPANY SCHEDULE D-2
- COLUMN (B): COLUMN (A), LINES 1 AND 2 / COLUMN (A), LINE 3
- COLUMN (C): SCHEDULE WAR-1, PAGE 3
- COLUMN (D): COLUMN (B) x COLUMN (C)

**SOUTHWEST GAS CORPORATION  
TEST YEAR ENDED APRIL 30, 2007  
COST OF CAPITAL SUMMARY**

**DOCKET NO. G-01551A-07-0504  
SCHEDULE WAR - 1  
PAGE 3 OF 4**

**WEIGHTED COST OF DEBT**

LINE NO.	(A) DESCRIPTION	(B) PRINCIPAL AMOUNT INTEREST	(C) UNAMORTIZED DEBT EXPENSE AND DISCOUNT	(D) NET PROCEEDS	(E) EFFECTIVE INTEREST RATE	(F) COST OF DEBT
<u>DEBENTURES</u>						
1	8.0% DEBENTURE, DUE 2026	\$ 75,000,000	\$ 6,089,371	\$ 68,910,630	8.89%	\$ 6,126,155
2	8.375 NOTE, DUE 2011	200,000,000	1,485,867	198,514,134	8.61%	17,091,670
3	7.625 NOTE, DUE 2012	200,000,000	1,380,294	198,619,706	7.79%	15,472,475
4	<b>TOTAL DEBENTURES</b>	<b>\$ 475,000,000</b>	<b>\$ 8,955,531</b>	<b>\$ 466,044,469</b>	<b>8.30%</b>	<b>\$ 38,690,300</b>
<u>MEDIUM TERM NOTES</u>						
5	7.59% MTN, DUE 2017	\$ 25,000,000	\$ 147,215	\$ 24,852,785	7.68%	\$ 1,908,694
6	7.59% MTN, DUE 2017	25,000,000	175,679	24,824,321	7.86%	1,951,192
7	7.59% MTN, DUE 2017	25,000,000	204,455	24,795,545	8.00%	1,983,644
8	7.59% MTN, DUE 2017	17,500,000	7,731	17,492,269	7.00%	1,224,459
9	7.59% MTN, DUE 2017	7,500,000	3,458	7,496,542	6.88%	515,762
10	7.59% MTN, DUE 2017	25,000,000	42,553	24,957,447	6.40%	1,597,277
11	<b>TOTAL MEDIUM TERM NOTES</b>	<b>\$ 125,000,000</b>	<b>\$ 581,091</b>	<b>\$ 124,418,909</b>	<b>7.38%</b>	<b>\$ 9,181,028</b>
12	<b>TOTAL DEBENTURES AND MTN'S</b>	<b>\$ 600,000,000</b>	<b>\$ 9,536,622</b>	<b>\$ 590,463,378</b>	<b>8.11%</b>	<b>\$ 47,871,328</b>
13	<b>TERM FACILITY</b>			<b>\$ 53,169,199</b>	<b>6.27%</b>	<b>\$ 3,332,516</b>

REFERENCES:

COLUMN (A) LINES 1 THRU 12: COMPANY SCHEDULE D-2, PAGE 2  
 COLUMN (B) LINES 1 THRU 12: COMPANY SCHEDULE D-2, PAGE 2  
 COLUMN (C) LINES 1 THRU 12: COMPANY SCHEDULE D-2, PAGE 2  
 COLUMN (D) LINES 1 THRU 12: COLUMN (B) - COLUMN (C)  
 COLUMN (D) LINE 13: COMPANY SCHEDULE D-2, PAGE 3  
 COLUMN (E) LINES 1 THRU 13: COLUMN (F) / COLUMN (D)  
 COLUMN (F) LINES 1 THRU 12: COMPANY SCHEDULE D-2, PAGE 2  
 COLUMN (F) LINE 13: COMPANY SCHEDULE D-2, PAGE 3

**COST OF COMMON EQUITY CALCULATION**

LINE  
NO.

**DCF METHODOLOGY**

1 DCF - CONSTANT GROWTH MODEL ESTIMATE 9.73% SCHEDULE WAR-2, COLUMN (C), LINE 9

**CAPM METHODOLOGY**

2 CAPM - GEOMETRIC MEAN ESTIMATE 9.20% SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 9

3 CAPM - ARITHMETIC MEAN ESTIMATE 10.83% SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 9

4 AVERAGE OF CAPM ESTIMATES 10.02% (LINE 2 + LINE 3) / 2

5 **AVERAGE OF DCF AND CAPM ESTIMATES** 9.88% (LINE 1 + LINE 4) / 2

**SOUTHWEST GAS CORPORATION  
TEST YEAR ENDED APRIL 30, 2007  
DCF COST OF EQUITY CAPITAL**

**DOCKET NO. G-01551A-07-0504  
SCHEDULE WAR - 2**

<u>LINE NO.</u>	<u>STOCK SYMBOL</u>	<u>COMPANY</u>	<u>(A) DIVIDEND YIELD</u>	+	<u>(B) GROWTH RATE (g)</u>	=	<u>(C) DCF COST OF EQUITY CAPITAL</u>
1	ATG	AGL RESOURCES, INC.	4.67%	+	5.92%	=	10.59%
2	ATO	ATMOS ENERGY CORP.	4.83%	+	4.48%	=	9.31%
3	LG	LACLEDE GROUP, INC.	4.36%	+	5.25%	=	9.61%
4	GAS	NICOR, INC.	5.08%	+	5.09%	=	10.18%
5	NWN	NORTHWEST NATURAL GAS COMPANY	3.35%	+	4.73%	=	8.09%
6	PNY	PIEDMONT NATURAL GAS COMPANY	3.97%	+	3.51%	=	7.47%
7	SJI	SOUTH JERSEY INDUSTIES, INC.	5.92%	+	8.65%	=	14.58%
8	WGL	WGL HOLDINGS, INC.	4.23%	+	3.80%	=	8.03%
9	<b>AVERAGE</b>						<b>9.73%</b>

REFERENCES:

COLUMN (A): SCHEDULE WAR - 3, COLUMN C  
COLUMN (B): SCHEDULE WAR - 4, PAGE 1, COLUMN C  
COLUMN (C): COLUMN (A) + COLUMN (B)

**SOUTHWEST GAS CORPORATION  
TEST YEAR ENDED APRIL 30, 2007  
DIVIDEND YIELD CALCULATION**

**DOCKET NO. G-01551A-07-0504  
SCHEDULE WAR - 3**

LINE NO.	STOCK SYMBOL	COMPANY	(A) ESTIMATED DIVIDEND (PER SHARE)	/	(B) AVERAGE STOCK PRICE (PER SHARE)	=	(C) DIVIDEND YIELD
1	ATG	AGL RESOURCES, INC.	\$1.68	/	\$35.97	=	4.67%
2	ATO	ATMOS ENERGY CORP.	1.30	/	26.91	=	4.83%
3	LG	LACLEDE GROUP, INC.	1.50	/	34.39	=	4.36%
4	GAS	NICOR, INC.	1.86	/	36.60	=	5.08%
5	NWN	NORTHWEST NATURAL GAS COMPANY	1.50	/	44.74	=	3.35%
6	PNY	PIEDMONT NATURAL GAS COMPANY	1.00	/	25.21	=	3.97%
7	SJI	SOUTH JERSEY INDUSTIES, INC.	2.06	/	34.78	=	5.92%
8	WGL	WGL HOLDINGS, INC.	1.36	/	32.15	=	4.23%
9	<b>AVERAGE</b>						<b>4.55%</b>

**REFERENCES:**

COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 03/14/2008

COLUMN (B): EIGHT WEEK AVERAGE OF CLOSING PRICES FROM 01/28/2008 TO 03/20/2008

STOCK QUOTES OBTAINED THROUGH BIG CHARTS WEB SITE - HISTORICAL QUOTES (www.bigcharts.com).

COLUMN (C): COLUMN (A) / COLUMN (B)

**SOUTHWEST GAS CORPORATION  
TEST YEAR ENDED APRIL 30, 2007  
DIVIDEND GROWTH RATE CALCULATION**

**DOCKET NO. G-01551A-07-0504  
SCHEDULE WAR - 4  
PAGE 1 OF 2**

LINE NO.	STOCK SYMBOL	COMPANY	(A) INTERNAL GROWTH ( br )	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	ATG	AGL RESOURCES, INC.	5.75%	+	0.17%	=	5.92%
2	ATO	ATMOS ENERGY CORP.	4.00%	+	0.48%	=	4.48%
3	LG	LACLEDE GROUP, INC.	4.25%	+	1.00%	=	5.25%
4	GAS	NICOR, INC.	5.00%	+	0.09%	=	5.09%
5	NWN	NORTHWEST NATURAL GAS COMPANY	4.70%	+	0.03%	=	4.73%
6	PNY	PIEDMONT NATURAL GAS COMPANY	3.50%	+	0.01%	=	3.51%
7	SJI	SOUTH JERSEY INDUSTIES, INC.	7.90%	+	0.75%	=	8.65%
8	WGL	WGL HOLDINGS, INC.	3.75%	+	0.05%	=	3.80%
9	<b>AVERAGE</b>						<b>5.18%</b>

REFERENCES:

COLUMN (A): TESTIMONY, WAR  
COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C  
COLUMN (C): COLUMN (A) + COLUMN (B)

**SOUTHWEST GAS CORPORATION  
 TEST YEAR ENDED APRIL 30, 2007  
 DIVIDEND GROWTH RATE CALCULATION**

**DOCKET NO. G-01551A-07-0504  
 SCHEDULE WAR - 4  
 PAGE 2 OF 2**

LINE NO.	STOCK SYMBOL	COMPANY	(A)	(B)	(C)
			SHARE GROWTH	$x \{ [ ( ( M/B ) + 1 ) / 2 ] - 1 \}$	EXTERNAL GROWTH (sv)
1	ATG	AGL RESOURCES, INC.	0.55%	$x \{ [ ( ( 1.61 ) + 1 ) / 2 ] - 1 \}$	0.17%
2	ATO	ATMOS ENERGY CORP.	5.25%	$x \{ [ ( ( 1.18 ) + 1 ) / 2 ] - 1 \}$	0.48%
3	LG	LACLEDE GROUP, INC.	3.00%	$x \{ [ ( ( 1.67 ) + 1 ) / 2 ] - 1 \}$	1.00%
4	GAS	NICOR, INC.	0.25%	$x \{ [ ( ( 1.76 ) + 1 ) / 2 ] - 1 \}$	0.09%
5	NWN	NORTHWEST NATURAL GAS COMPANY	0.07%	$x \{ [ ( ( 1.95 ) + 1 ) / 2 ] - 1 \}$	0.03%
6	PNY	PIEDMONT NATURAL GAS COMPANY	0.01%	$x \{ [ ( ( 2.02 ) + 1 ) / 2 ] - 1 \}$	0.01%
7	SJI	SOUTH JERSEY INDUSTIES, INC.	1.50%	$x \{ [ ( ( 2.00 ) + 1 ) / 2 ] - 1 \}$	0.75%
8	WGL	WGL HOLDINGS, INC.	0.20%	$x \{ [ ( ( 1.52 ) + 1 ) / 2 ] - 1 \}$	0.05%
9	<b>NATURAL GAS LDC AVERAGE</b>				<b>0.32%</b>

REFERENCES:

COLUMN (A): TESTIMONY, WAR  
 COLUMN (B): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 03/14/2008  
 COLUMN (C): COLUMN (A) x COLUMN (B)

**SOUTHWEST GAS CORPORATION  
TEST YEAR ENDED APRIL 30, 2007  
DIVIDEND GROWTH COMPONENTS**

**DOCKET NO. G-01551A-07-0504  
SCHEDULE WAR - 5  
PAGE 1 OF 2**

LINE NO.	STOCK SYMBOL	WATER COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	ATG	AGL RESOURCES, INC.	2003	0.4663		14.00%		6.53%	14.66	64.50	
2			2004	0.4956		11.00%		5.45%	18.06	76.70	
3			2005	0.4758		12.90%		6.14%	19.29	77.70	
4			2006	0.4559		13.20%		6.02%	20.71	77.70	
5			2007	0.3971		12.70%		5.04%	21.74	76.40	
6			GROWTH 2003 - 2007					5.84%	10.50%		4.32%
7			2008	0.4000		12.50%		5.00%		76.00	-0.52%
8			2009	0.4069		13.00%		5.29%		76.00	-0.26%
9			2011-13	0.4250		14.50%		6.16%	1.50%	80.00	0.93%
10											
11	ATO	ATMOS ENERGY CORP.	2003	0.2982		9.30%		2.77%	16.66	51.48	
12			2004	0.2278		7.60%		1.73%	18.05	62.80	
13			2005	0.2791		8.50%		2.37%	19.90	80.54	
14			2006	0.3700		9.80%		3.63%	20.16	81.74	
15			2007	0.3402		8.70%		2.96%	22.01	89.33	
16			GROWTH 2003 - 2007					2.69%	9.00%		14.77%
17			2008	0.3500		9.00%		3.15%		94.00	5.23%
18			2009	0.3714		9.50%		3.53%		99.00	5.27%
19			2011-13	0.4286		9.50%		4.07%	3.50%	115.00	5.18%
20											
21	LG	LACLEDE GROUP, INC.	2003	0.2637		11.60%		3.06%	15.65	19.11	
22			2004	0.2582		10.10%		2.61%	16.96	20.98	
23			2005	0.2789		10.90%		3.04%	17.31	21.17	
24			2006	0.4093		12.50%		5.12%	18.85	21.36	
25			2007	0.3723		11.60%		4.32%	19.79	21.65	
26			GROWTH 2003 - 2007					3.63%	4.50%		3.17%
27			2008	0.3660		11.50%		4.21%		22.00	1.62%
28			2009	0.3489		11.00%		3.84%		22.50	1.94%
29			2011-13	0.3889		11.00%		4.28%	5.00%	25.50	3.33%
30											
31	GAS	NICOR, INC.	2003	0.1185		12.30%		1.46%	17.13	44.04	
32			2004	0.1622		12.30%		2.12%	16.99	44.10	
33			2005	0.1806		12.30%		2.26%	18.36	44.18	
34			2006	0.3519		12.30%		5.17%	19.43	44.90	
35			2007	0.3212		12.30%		4.34%	20.40	45.20	
36			GROWTH 2003 - 2007					3.07%	2.50%		0.65%
37			2008	0.1733		12.30%		1.91%		45.00	-0.44%
38			2009	0.2692		12.30%		3.23%		45.00	-0.22%
39			2011-13	0.4154		12.30%		5.61%	4.00%	46.00	0.35%

**REFERENCES:**

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY  
- RATINGS & REPORTS DATED 03/14/2008  
COLUMN (C): COLUMN (A) x COLUMN (B)  
COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2002 - 2006

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

**SOUTHWEST GAS CORPORATION  
TEST YEAR ENDED APRIL 30, 2007  
DIVIDEND GROWTH COMPONENTS**

**DOCKET NO. G-01551A-07-0504  
SCHEDULE WAR - 5  
PAGE 2 OF 2**

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) 8.50% BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH	
1	NWN	NORTHWEST NATURAL GAS COMPANY	2003	0.2784		9.00%		2.51%	19.52	25.94		
2			2004	0.3011		8.90%		2.68%	20.64	27.55		
3			2005	0.3744		9.90%		3.71%	21.28	27.58		
4			2006	0.4085		10.90%		4.45%	21.97	27.28		
5			2007	0.4783		12.50%		5.98%	22.52	26.41		
6			GROWTH 2003 - 2007						3.86%	3.50%		0.45%
7			2008	0.4154		11.00%		4.57%		26.00	-1.55%	
8			2009	0.4182		11.00%		4.60%		26.00	-0.78%	
9			2011-13	0.4388		11.00%		4.83%	3.50%	28.00	1.18%	
10	PNY	PIEDMONT NATURAL GAS COMPANY	2003	0.2613		11.80%		3.08%	9.36	67.31		
12			2004	0.3307		11.10%		3.67%	11.15	76.67		
13			2005	0.3106		11.50%		3.57%	11.53	76.70		
14			2006	0.2578		11.00%		2.84%	11.83	74.61		
15			2007	0.2929		11.90%		3.49%	11.99	73.23		
16			GROWTH 2003 - 2007						3.33%	6.50%		2.13%
17			2008	0.3067		12.00%		3.68%		73.00	-0.31%	
18			2009	0.3032		12.00%		3.64%		72.75	-0.33%	
19			2011-13	0.3143		12.50%		3.93%	3.50%	72.00	-0.34%	
20	SJI	SOUTH JERSEY INDUSTRIES, INC.	2003	0.4307		11.60%		5.00%	11.26	26.46		
22			2004	0.4810		12.50%		6.01%	12.41	27.76		
23			2005	0.4971		12.40%		6.16%	13.50	28.98		
24			2006	0.6260		16.30%		10.20%	15.11	29.33		
25			2007	0.5167		12.90%		6.67%	16.24	29.62		
26			GROWTH 2003 - 2007						6.81%	13.50%		2.86%
27			2008	0.5111		13.00%		6.64%		30.00	1.28%	
28			2009	0.5265		13.50%		7.11%		30.50	1.47%	
29			2011-13	0.5733		14.50%		8.31%	5.00%	32.00	1.56%	
30	WGL	WGL HOLDINGS, INC.	2003	0.4435		14.00%		6.21%	16.25	48.63		
32			2004	0.3434		14.00%		4.81%	16.95	48.67		
33			2005	0.3744		12.00%		4.49%	17.80	48.65		
34			2006	0.3093		10.20%		3.15%	18.28	48.89		
35			2007	0.3476		10.40%		3.62%	19.83	49.45		
36			GROWTH 2003 - 2007						4.46%	3.50%		0.42%
37			2008	0.3913		11.50%		4.50%		49.50	0.10%	
38			2009	0.3872		11.00%		4.26%		49.60	0.15%	
39			2011-13	0.3760		10.50%		3.95%	5.00%	50.00	0.22%	

**REFERENCES:**

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY  
- RATINGS & REPORTS DATED 03/14/2008  
COLUMN (C): COLUMN (A) x COLUMN (B)  
COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2002 - 2006

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

**SOUTHWEST GAS CORPORATION  
TEST YEAR ENDED APRIL 30, 2007  
GROWTH RATE COMPARISON**

**DOCKET NO. G-01551A-07-0504  
SCHEDULE WAR - 6**

**NATURAL GAS LDC SAMPLE:**

LINE NO.	STOCK SYMBOL	(A)	(B)	(C)			(D)			(E)	(F)		
		( br ) + ( sv )	ZACKS EPS	EPS	VALUE LINE PROJECTED DPS	BVPS	EPS	VALUE LINE HISTORIC DPS	BVPS	VALUE LINE & ZACKS AVGS.	EPS	5 - YEAR COMPOUND HISTORY DPS	BVPS
1	ATG	5.92%	4.80%	3.50%	4.00%	1.50%	15.00%	4.00%	10.50%	6.19%	6.94%	10.25%	10.35%
2	ATO	4.48%	4.60%	4.50%	2.00%	3.50%	7.50%	1.50%	9.00%	4.66%	3.21%	1.63%	7.21%
3	LG	5.25%	-	3.50%	2.50%	5.00%	9.50%	1.00%	4.50%	4.33%	6.14%	1.99%	6.04%
4	GAS	5.09%	4.00%	4.00%	0.50%	4.00%	-3.00%	2.50%	2.50%	2.07%	6.75%	0.00%	4.46%
5	NWN	4.73%	5.30%	7.00%	5.50%	3.50%	3.50%	1.50%	3.50%	4.26%	11.90%	3.19%	3.64%
6	PNY	3.51%	5.50%	5.00%	4.00%	3.50%	6.00%	4.50%	6.50%	5.00%	5.97%	4.82%	6.39%
7	SJI	8.65%	7.50%	NMF	5.50%	5.00%	12.00%	3.50%	13.50%	7.83%	11.14%	6.67%	9.59%
8	WGL	3.80%	4.00%	3.50%	2.50%	5.00%	5.00%	1.50%	3.50%	3.57%	-2.25%	1.71%	5.10%
9				4.43%	3.31%	3.88%	6.94%	2.50%	6.69%		6.23%	3.78%	6.60%
10	AVERAGES	5.18%	5.10%		3.87%			5.38%		4.74%		5.54%	

**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 03/14/2008

COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 03/14/2008

COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1 THRU 8

COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 03/14/2008

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	(A)						=	(B)
		k	=	r <sub>f</sub>	+ [ β	x ( r <sub>m</sub> - r <sub>f</sub> ) ]	=		EXPECTED RETURN
1	ATG	k	=	1.65%	+ [ 0.85	x ( 10.40%	- 1.65%	) ] =	9.09%
2	ATO	k	=	1.65%	+ [ 0.85	x ( 10.40%	- 1.65%	) ] =	9.09%
3	LG	k	=	1.65%	+ [ 0.90	x ( 10.40%	- 1.65%	) ] =	9.52%
4	GAS	k	=	1.65%	+ [ 1.00	x ( 10.40%	- 1.65%	) ] =	10.40%
5	NWN	k	=	1.65%	+ [ 0.80	x ( 10.40%	- 1.65%	) ] =	8.65%
6	PNY	k	=	1.65%	+ [ 0.85	x ( 10.40%	- 1.65%	) ] =	9.09%
7	SJI	k	=	1.65%	+ [ 0.80	x ( 10.40%	- 1.65%	) ] =	8.65%
8	WGL	k	=	1.65%	+ [ 0.85	x ( 10.40%	- 1.65%	) ] =	9.09%
9	<b>AVERAGE</b>				<b>0.86</b>				<b>9.20%</b>

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<sub>f</sub> = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)  
 β = THE BETA COEFFICIENT OF A GIVEN SECURITY  
 r<sub>m</sub> = PROXY FOR THE MARKET RATE OF RETURN (b)

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

NOTES

- (a) A 6-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 02/22/2008 THROUGH 03/28/2008 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE MARKET RATE PROXY USED WAS THE GEOMETRIC MEAN FOR S&P 500 RETURNS OVER THE 1926 - 2006 PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR, INC.'S STOCKS, BONDS, BILLS AND INFLATION: 2007 YEARBOOK.

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	(A)						(B) EXPECTED RETURN
		k	=	r <sub>f</sub>	+ [ β	x ( r <sub>m</sub> - r <sub>f</sub> ) ]	=	
1	ATG	k	=	1.65%	+ [ 0.85	x ( 12.30% - 1.65% ) ]	=	10.70%
2	ATO	k	=	1.65%	+ [ 0.85	x ( 12.30% - 1.65% ) ]	=	10.70%
3	LG	k	=	1.65%	+ [ 0.90	x ( 12.30% - 1.65% ) ]	=	11.23%
4	GAS	k	=	1.65%	+ [ 1.00	x ( 12.30% - 1.65% ) ]	=	12.30%
5	NWN	k	=	1.65%	+ [ 0.80	x ( 12.30% - 1.65% ) ]	=	10.17%
6	PNY	k	=	1.65%	+ [ 0.85	x ( 12.30% - 1.65% ) ]	=	10.70%
7	SJI	k	=	1.65%	+ [ 0.80	x ( 12.30% - 1.65% ) ]	=	10.17%
8	WGL	k	=	1.65%	+ [ 0.85	x ( 12.30% - 1.65% ) ]	=	10.70%
9	<b>AVERAGE</b>				<b>0.86</b>			<b>10.83%</b>

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<sub>f</sub> = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)  
 β = THE BETA COEFFICIENT OF A GIVEN SECURITY  
 r<sub>m</sub> = PROXY FOR THE MARKET RATE OF RETURN (b)

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

NOTES

- (a) A 6-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 02/22/2008 THROUGH 03/28/2008 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE MARKET RATE PROXY USED WAS THE ARITHMETIC MEAN FOR S&P 500 RETURNS OVER THE 1926 - 2006 PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR, INC.'S STOCKS, BONDS, BILLS AND INFLATION: 2007 YEARBOOK.

**SOUTHWEST GAS CORPORATION  
TEST YEAR ENDED APRIL 30, 2007  
ECONOMIC INDICATORS - 1990 TO PRESENT**

**DOCKET NO. G-01551A-07-0504  
SCHEDULE WAR - 8**

LINE NO.	YEAR	(A) CHANGE IN CPI	(B) CHANGE IN GDP (1996 \$)	(C) PRIME RATE	(D) FED. DISC. RATE	(E) FED. FUNDS RATE	(F) 91-DAY T-BILLS	(G) 30-YR T-BONDS	(H) A-RATED UTIL. BOND YIELD	(I) Baa-RATED UTIL. BOND YIELD
1	1990	5.40%	1.90%	10.01%	6.98%	8.10%	7.50%	7.49%	9.86%	10.06%
2	1991	4.21%	-0.20%	8.46%	5.45%	5.69%	5.38%	5.38%	9.36%	9.55%
3	1992	3.01%	3.30%	6.25%	3.25%	3.52%	3.43%	3.43%	8.69%	8.86%
4	1993	2.99%	2.70%	6.00%	3.00%	3.02%	3.00%	3.00%	7.59%	7.91%
5	1994	2.56%	4.00%	7.14%	3.60%	4.21%	4.25%	4.25%	8.31%	8.63%
6	1995	2.83%	2.50%	8.83%	5.21%	5.83%	5.49%	5.49%	7.89%	8.29%
7	1996	2.95%	3.70%	8.27%	5.02%	5.30%	5.01%	5.01%	7.75%	8.17%
8	1997	1.70%	4.50%	8.44%	5.00%	5.46%	5.06%	5.06%	7.60%	8.12%
9	1998	1.60%	4.20%	8.35%	4.92%	5.35%	4.78%	4.78%	7.04%	7.27%
10	1999	2.70%	4.50%	7.99%	4.62%	4.97%	4.64%	4.64%	7.62%	7.88%
11	2000	3.40%	3.70%	9.23%	5.73%	6.24%	5.82%	5.82%	8.24%	8.36%
12	2001	1.60%	0.80%	6.92%	3.41%	3.88%	3.40%	5.95%	7.59%	8.02%
13	2002	2.40%	1.60%	4.67%	1.17%	1.67%	1.61%	5.38%	7.41%	7.98%
14	2003	1.90%	2.50%	4.12%	2.03%	1.13%	1.01%	4.92%	6.18%	6.64%
15	2004	3.30%	3.90%	4.34%	2.34%	1.35%	1.37%	5.03%	5.77%	6.20%
16	2005	3.40%	3.20%	6.16%	4.19%	3.22%	3.15%	4.57%	5.38%	5.78%
17	2006	2.50%	3.30%	7.97%	5.96%	4.97%	4.73%	4.91%	5.94%	6.30%
18	2007	4.10%	2.20%	8.05%	5.86%	5.02%	4.36%	4.84%	6.07%	6.24%
19	CURRENT	4.00%	0.60%	5.25%	2.50%	2.25%	0.56%	4.72%	5.96%	6.14%

**REFERENCES:**

COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE  
 COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS WEB SITE  
 COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE  
 COLUMN (C) THROUGH (F): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 03/28/2008  
 COLUMN (G) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 03/28/2008  
 COLUMN (H) THROUGH (J): 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 NATURAL GAS COMPANIES

LINE NO.		ATG	PCT.	ATO	PCT.	LG	PCT.	GAS	PCT.
1									
2									
3	DEBT	\$ 1,622.0	50.2%	\$ 1,965.7	48.0%	\$ 355.5	45.3%	\$ 497.5	36.3%
4									
5	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.6	0.1%	0.6	0.0%
6									
7	COMMON EQUITY	1,609.0	49.8%	2,126.3	52.0%	428.3	54.6%	872.6	63.7%
8									
9	TOTALS	\$ 3,231.0	100.0%	\$ 4,092.0	100.0%	\$ 784.4	100.0%	\$ 1,370.7	100.0%
10									
11									
12		NWN	PCT.	PNY	PCT.	SJI	PCT.	WGL	PCT.
13									
14	DEBT	\$ 517.0	46.3%	\$ 824.8	48.4%	\$ 358.0	44.7%	\$ 616.4	37.9%
15									
16	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.0	0.0%	28.2	1.7%
17									
18	COMMON EQUITY	599.5	53.7%	878.3	51.6%	443.0	55.3%	980.7	60.3%
19									
20	TOTALS	\$ 1,116.5	100.0%	\$ 1,703.1	100.0%	\$ 801.1	100.0%	\$1,625.3	100.0%
21									
22									
23		NATURAL GAS LDC		SOUTHWEST GAS CORP.					
24		AVERAGE	PCT.	AVERAGE	PCT.				
25									
26	DEBT	\$ 844.6	45.9%	\$ 1,191.5	52.7%				
27									
28	PREFERRED STOCK	3.7	0.2%	100.0	4.4%				
29									
30	COMMON EQUITY	992.2	53.9%	970.3	42.9%				
31									
32	TOTALS	\$ 1,840.5	100.0%	\$ 2,261.8	100.0%				

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