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Witness: David Murray
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

DAVID MURRAY

FILED
JUL 13 2004
Missouri Public Service Commission

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

Jefferson City, Missouri
June 2004

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's Tariffs to Implement a General Rate Increase for Natural Gas Service	)))	Case No. GR-2004-0209

AFFIDAVIT OF DAVID MURRAY

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

David Murray, being of lawful age, on his oath states: that he has participated in the preparation of the following surrebuttal testimony in question and answer form, consisting of 51 pages to be presented in the above case; that the answers in the following surrebuttal testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

David Murray

David Murray

Subscribed and sworn to before me this 12th day of June 2004.

Toni M. Charlton

TONI M. CHARLTON NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

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DAVID MURRAY

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Q. Please state your name.

A. My name is David Murray.

Q. Are you the same David Murray who filed direct and rebuttal testimony in this proceeding for the Staff of the Missouri Public Service Commission (Staff)?

A. Yes, I am.

Q. In your direct testimony, did you recommend a fair and reasonable rate of return for the Missouri jurisdictional natural gas utility rate base for Southern Union Company's (Southern Union) Missouri Gas Energy (MGE) division?

A. Yes, I did.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of Mr. John C. Dunn, Dr. Roger A. Morin, Mr. John J. Gillen and Mr. Travis Allen. Mr. Dunn sponsored rate-of-return direct and rebuttal testimony on behalf of Southern Union. Dr. Morin sponsored rate-of-return rebuttal testimony on behalf of Southern Union. His testimony dealt with a general critique of my direct testimony in this proceeding. Mr. Gillen sponsored capital structure rebuttal testimony on behalf of Southern Union concerning my calculation of a "stand-alone" Southern Union capital structure in my direct testimony. Staff witness Mark L. Oligschlaeger of the Auditing

Department will sponsor rebuttal testimony concerning the technical aspects of Mr. Gillen's rebuttal testimony. I will address Mr. Gillen's conceptual argument that no equity is attributable to Panhandle and how that is not possible from the perspective of an investor. I will not have a specific section in my testimony addressing Mr. Gillen's testimony and will address his position when discussing Mr. Dunn's position on the appropriate capital structure. Mr. Travis Allen sponsored rate-of-return direct and rebuttal testimony on behalf of the Office of the Public Counsel (OPC).

Response to Dr. Morin's Rebuttal Testimony

Q. Dr. Morin criticizes your heavy reliance on the Discounted Cash Flow (DCF) model in your analysis. Did you use any other models to check the reasonableness of your DCF recommendation?

A. Yes. I used the Capital Asset Pricing Model (CAPM) and the Risk Premium model to test the reasonableness of my DCF recommendation.

Q. What models did Mr. Dunn use in his analysis to arrive at his recommendation in this case?

A. Mr. Dunn relied on the DCF model to make his recommendation in this case.

Q. Did Mr. Dunn use any other models in his analysis in this case?

A. No. Mr. Dunn only used the DCF model. Mr. Dunn did not use any other models to test the reasonableness of his recommendation.

Q. Do you believe Dr. Morin would have made downward adjustments to Mr. Dunn's recommended cost of common equity?

A. Yes. On page 48, lines 14 through 22, of his deposition, Dr. Morin indicated that he would make downward adjustments to a proxy group's estimated cost of common equity if the proxy group contains companies that have riskier, non-regulated operations. I addressed the riskier aspects of Mr. Dunn's comparable companies on page 18, line 5 through page 21, line 5 of my rebuttal testimony. However, Mr. Dunn did not make any downward adjustments to consider this.

Q. If the implication of Dr. Morin's criticism of your heavy reliance on the DCF is that this renders your results as not being credible, then what are the implications of this criticism on Mr. Dunn's testimony?

A. It would render his recommendation as not being credible as well.

Q. Do you believe that Mr. Dunn's analysis should be dismissed because of his sole reliance on the DCF model?

A. No. However, as discussed in my rebuttal testimony, I have concerns with how Mr. Dunn determined the inputs for his DCF recommendation. Therefore, it is not the use of the DCF model that makes Mr. Dunn's recommendation unreasonable, but rather the inputs that Mr. Dunn used that make his recommendation unreasonable. I will also provide some "real world" observations that support the reasonableness of my recommendation versus Mr. Dunn's.

Q. On page 6, lines 2 through 4, Dr. Morin criticizes your recommendation because it is "outside the zone of currently allowed rates of return for natural gas utilities in the United States and for his own sample of companies." How do you respond to this criticism?

A. Dr. Morin is aware that allowed rates of return are not necessarily synonymous with the cost of capital to a utility. For reasons that may be specific to each case in which allowed rates of return are reported, it is possible that an allowed rate of return was set at some level that is above the cost of capital. I have recommended what I believe is the current cost of common equity for MGE in this proceeding based on the current capital and economic environment.

Q. Dr. Morin listed allowed returns on equity (ROEs) for your comparable companies on page 10 and 11 of his rebuttal testimony. Do you think that this list of ROEs should have been qualified by Dr. Morin?

A. Yes. The Commission's Financial Analysis Department subscribes to C.A. Turner Utility Reports. I have reviewed the May 2004 survey that Dr. Morin referenced to determine the allowed ROEs for these companies. Dr. Morin should have qualified his list with a statement that only one of the allowed ROEs had an indicated Commission Order date. The date of the order is important because it would provide context as to the capital and economic environment at the time of the order. The only allowed ROE with an indicated order date was New Jersey Resources' allowed ROE on January 1994, which is hardly relevant to today's low cost of capital environment. All of the other allowed ROEs do not indicate the date of the order (see attached Schedule 1). Dr. Morin's use of allowed ROEs without the order does not provide full context for the Commission. The Commission should make its decision in this case based on the facts provided to it about the current low cost of capital environment. Mr. Dunn freely admitted as much in his deposition. Quite frankly, we are in such a low cost of capital environment that without understanding the context of current interest rate levels as they relate to history, may cause some to be a little uneasy about recommending lower costs of capital that actually reflect this environment.

Q. Did Dr. Morin indicate during his deposition that each Commission should have a "mind of its own" when recommending a reasonable rate of return for the utility it regulates?

A. Yes. Dr. Morin indicated the following in his deposition:

> I think every Commission should have a mind of its own. We have a potential circularity problem if we focus strictly on what other commissions are doing. The authorized ROE is but one piece of the big giant puzzle here. If we were just to look at what other commissioners were doing, we'd be looking at sort of multiple mirror images of one another and nothing would ever change. So I think you have to go a little bit beyond that and look at the capital market data as well as authorized return.

Q. Did Dr. Morin appear to understand the context of the current lower level of interest rates in testimony given during his deposition on June 11, 2004?

A. I believe he understood that they are at historically low levels because he indicated on page 28, lines 1 through 2, that he did not think that long-term treasury yields were ever at 5 to 5½ percent prior to 1994.

Q. What were the yields on long-term treasuries in 1994?

A. Average monthly thirty-year U.S. Treasury Bonds yielded between 6.29 percent to 8.08 in 1994 (see Schedule 5-2 attached to my direct testimony).

Q. Have long-term treasury yields ever been below the levels they are at right now?

A. Yes. It has been a while, but based on the 20-year U.S. Treasury yields, they were below their current level before 1966.

Q. On page 11 through 13 of his rebuttal testimony, Dr. Morin argues for an adjustment to the recommended cost of common equity for flotation costs due to the issuance of common stock. Does Dr. Morin provide support that the issuances of common stock that Southern Union has made and will make in the future are a result of MGE's capital needs?

A. No. Dr. Morin's flotation cost adjustment argument is a standard argument that he makes in every case for investor-owned utilities, as verified in his deposition at page 30, lines 10 through 13. The reason that Southern Union has had to issue and will continue to issue common stock is because of its leveraged situation resulting from the acquisition of Panhandle Eastern Pipe Line Company, LLC (Panhandle).

Q. Did Dr. Morin admit during his deposition on page 31, line 13 through 16, that the Panhandle acquisition affected Southern Union's capital structure?

A. Yes.

Q. Dr. Morin indicates that you used a spot dividend yield in your dividend yield estimation. Is Dr. Morin correct in his assessment of how you determined the dividend yield in your analysis?

A. No. A review of Schedule 18 shows that I averaged the expected dividend for 2003 and 2004 to determine an appropriate dividend yield to use in my cost of common equity recommendation. This dividend yield includes the 2004 projected dividend. Even if I applied a growth rate factor to a spot dividend yield, I would not agree that a 6 percent growth in the dividend would be reasonable to expect for my comparable companies.

Q. Does Dr. Morin contradict anything in his textbook, Regulatory Finance: Utilities' Cost of Capital, 1994, when he indicates on page 14, line 4 through 6 of his rebuttal testimony that "the appropriate dividend to use in the plain vanilla annual DCF model is the prospective dividend one year from now, rather than the current dividend yield...?"

A. Yes. On page 139 of his textbook, Dr. Morin states that "...it is the dividend that an investor who purchases the stock today expects a company to pay during the next 12 months that should be used..." This is important to note this because I criticized Mr. Dunn for adjusting a dividend that had already been adjusted to take into consideration the dividend that is expected to be received over the next 12 months.

Q. Did Dr. Morin confirm in his deposition that Value Line's dividend yield already contemplates the estimated cash dividends to be paid over the next 12 months?

A. Yes. On page 43, lines 21 through 25 he confirms that this is the case.

Q. Is this the dividend yield that Mr. Dunn made a further adjustment to in order to estimate next year's dividend in his direct testimony?

A. Yes.

Q. Dr. Morin indicates that you should have used the quarterly DCF model. What DCF model did Mr. Dunn use in his analysis?

A. Mr. Dunn used the annual DCF model just as I did. However, his results are already adjusted upward because of the high growth rate he recommends and because of all of his upward adjustments. It is not the form of the model that concerns Dr. Morin, it is the results achieved from the application of the model. As Dr. Morin knows, it is the end result that is judged as reasonable and neither Dr. Morin nor Mr. Dunn provided anything that gives insight as to what investors are requiring on their investments.

Q. Dr. Morin criticized your use of four months of stock prices in order to determine your recommended dividend yield because it is "stale" and "violates the efficient market hypothesis." How do you respond?

A. *It is interesting to note that the original intent of the* DCF model (sometimes referred to as the "dividend growth model" in college finance textbooks) was to determine a reasonable price to pay for a stock at a specific point in time. It appears that, based on the original intent of the DCF model, the use of a spot price is appropriate. When setting rates for a utility, which may be applied over an extended period, it would appear to be appropriate to determine the cost of common equity based on a company's stock prices over some longer period. This lends support to my use of four months of stock prices, instead of determining the cost of common equity based on the current price of the security at the time of estimating the cost of common equity. The current price of the security may reflect either a temporary decreased or increased cost of common equity. Furthermore, statistically speaking, it is better to have a larger sample size when calculating an average.

Q. On page 18, line 10 through page 19, line 5, of his rebuttal testimony, Dr. Morin explains why you shouldn't have considered negative growth rates in estimating your projected growth rates. Do you agree that you shouldn't consider negative growth rates?

A. No. Dr. Morin states that negative growth rates should be excluded from any DCF analysis. While I agree that investors will not expect energy utilities to grow at a negative growth rate forever, I do not agree that investors, and hence rate-of-return witnesses, should not take such growth rates into consideration. To do otherwise would be irresponsible. An investor should not pretend negative growth rates have not occurred and will not occur again. An investor should take into consideration these negative growth rates when estimating a reasonable sustainable growth rate for that investment. If a rate-of-return witness disregards negative growth rates, then that witness will recommend a higher dividend yield without considering that the reason for that higher dividend yield is because of lower growth rate expectations. The exclusion of negative growth rates results in a recommendation that not only has a higher growth rate, but a higher dividend yield because previous growth rates did not meet expectations so investors drove the price of the stock down.

It should be noted that I also included higher growth rates as well as lower growth rates in my averages in order to fully evaluate all of the growth rates. Dr. Morin's logic that investors do not expect energy utilities to grow at a negative growth rate forever also applies to the higher growth rates in my averages. However, because I included the negative growth rates, I also included the higher growth rates.

Q. How do you respond to Dr. Morin's allegation on page 19, lines 10 through 11 that you used historical growth rates ending in 2002 with the intent of achieving certain results?

A. This is an incorrect allegation. In order for a growth rate to be classified as an historical growth rate, it would have to have an ending point that has actually occurred. At the time I filed my testimony on April 15, 2004, the Financial Analysis Department had not received the April 2004 Value Line CD-ROM that contained a majority of the actual 2003 dividends per share (DPS), earnings per share (EPS) and book value per share (BVPS) information. The only information that was available to our Department at the time of the study was the estimated 2003 information. In order for the growth rates that I calculated to be considered historical, they would have to have actually occurred. I have attached an email from Value Line as Schedule 2 that indicates the exact date Value Line sent the April CD-ROM to our Department that contained actual rather than estimated information for 2003. As shown on the attached email, the April Value Line CD was mailed on April 20, 2004, which was after Staff's filing date of April 15, 2004. Also attached are the Value Line tear sheets, Schedules 3-1 through 3-8, from the March 2004 Value Line CD, which shows that a majority of the 2003 information from this CD was estimated information, which is in bold font. The Value Line tear sheets, Schedules 4-1 through 4-8, from the April 2004 Value Line CD are also attached to show that a majority of the information on this CD was actual information.

Q. Did this issue come up in your deposition on May 4, 2004 as well?

A. Yes. On page 91, line 9 through 22 of my deposition, the following exchange occurred between Mr. Eric D. Herschmann and myself:

> Q. ValueLine cut you off in April of 2004?
>
> A. ValueLine never cut us off. It was the information we had when we were doing the study.
>
> Q. You have access to ValueLine whenever you want, right?
>
> A. Yes.
>
> Q. You could have access to ValueLine whenever you want, right?
>
> A. Yes, we do.

Q. And if ValueLine had come out with more recent numbers prior to your submitting and preparing your testimony, you still didn't make the effort to use those calculations, right?

A. No.

Q. Which Value Line CD did you have available at the time you performed your study?

A. The March 2004 CD.

Q. Mr. Allen was able to obtain the actual 2003 data for his study. Are you aware of how he was able to do so since he relied on Value Line as well?

A. Yes. Mr. Allen was able to obtain actual 2003 data by updating the data through Value Line's website. I was not aware that this data could be updated through Value Line's website. I relied on the most recent CD that was sent to our Department, which as shown on Schedule 2, wasn't sent until April 20, 2004.

Q. Even if you had calculated historical growth rates with actual 2003 data, would this change your recommendation?

A. No. The upper end of my recommended growth rate range falls within the range of projected growth rates indicated in columns (2), (3) and (4) on Schedule 16 attached to my direct testimony. The projected growth rates indicated in columns (2) and (3), 4.81 percent and 4.75 percent, are consistent with the average Thomson Financial expected growth rates of 4.90 percent indicated on page 43 of Mr. Dunn's direct testimony. Therefore, I had already decided to give more weight to the projected growth rates than the historical growth rates in my analysis and still believe this is appropriate.

Q. What are the date of the references that you utilized for your projected growth rates?

A. All of my projected growth rates are from sources published either in late 2003 or early 2004.

Q. Why do you believe it is important to specify what data you reviewed to calculate the historical growth rates?

A. Because in the *Memorandum of Law of Missouri Gas Energy, A Division of Southern Union Company, In Support of Its Motion To Exclude Certain Testimony And Opinions of David Murray* filed on May 18, 2004 there is an assertion that the techniques used in my analysis are "driven by the result-oriented desire to keep MGE's rate of return as low as possible." The memorandum discusses my calculation of historical growth based on 2002 actual historical data as one such example. Dr. Morin reiterates the same accusation on page 19, lines 10 through 11 of his rebuttal testimony.

Q. Do you agree with Dr. Morin's position that dividend growth is an inappropriate proxy to use for estimating future growth for purposes of the DCF model?

A. No. I agree that using dividend growth as the only proxy for future growth would be inappropriate, but I do not agree that the use of dividend growth along with book value growth and earnings growth is inappropriate. Many times historical dividend growth and future dividend growth can be used as a "check" on the reasonableness of earnings growth projections. If a company's management does not believe that some of the earnings forecasts for its company are sustainable, then they will not recommend that the dividends be grown at the same rate as earnings. This provides some insight as to the long-term sustainable growth rate of the company. Dividends also can give some indication as to whether the earnings of the company are "real." This has been an issue recently where many companies have either, fraudulently or through accounting manipulations, inflated earnings. Therefore, dividends are still pertinent to investors in estimating the future growth of the company. This is especially true for traditional regulated utilities, in which dividends are one of the main investor attractions to such companies.

Q. Did Dr. Morin analyze the recent historical dividend payout ratios of your comparable companies, which would have been more relevant then just making general comments about the "energy utility" industry, which could include a wide array of companies?

A. No. In his deposition on June 10, 2004, page 28, line 17 through page 27, line 16, Dr. Morin explains how he came to the conclusion that the dividend payout is decreasing for my comparable companies. He did not look at the specific payout ratio trends for my comparable companies. He relied on EPS and DPS growth rates to arrive at his conclusion. My review of the payout ratios of my comparable companies showed that the payout ratios have increased for some of the companies, decreased for some of the companies and increased and decreased for some of the companies. Companies in the broad "energy utility" industry could include companies that have reduced their dividends to pursue non-regulated businesses. I believe if a witness is using companies that are experiencing this trend, then the companies chosen may not be appropriate to estimate the cost of common equity for a regulated natural gas distribution utility.

Q. On page 23, lines 7 through 10 of his rebuttal testimony, Dr. Morin claims that "[h]istorical growth rates have little relevance as proxies for future long-term growth. They are downward-biased by the sluggish earnings performance in the last five years, due to the structural transformation of the energy utility industry from a regulated monopoly to a competitive environment." Does the five-year historical EPS growth rate that Mr. Dunn relied on for his recommended growth rate of 6 to 7 percent confirm this statement?

A. No. When referring to his calculated 5-year historical EPS growth rate of 7.18 percent, Mr. Dunn states the following: "[t]he data for the five year term is distinctly different from the ten year data. The earnings growth rate has increased significantly." Mr. Dunn appears to rely on this 5-year historical growth rate for the upper end of his recommended growth rate range along with Value Line's projected EPS growth rate of 6.93 percent.

Q. Did Dr. Morin indicate anything in his deposition about Value Line's forecasts that raise some concern about Mr. Dunn's heavy reliance on these growth rate projections?

A. Yes. Dr. Morin indicated the following:

> Value Line is rather robust in their forecast of earnings growth for LDCs, for gas LDCs as compared to the consensus forecast of analysts that you find perhaps in Thompson or First Call or Yahoo Finance or any of the websites.

Q. How do you respond to Dr. Morin's proposal on page 27, lines 8 through 9, that historical growth rates and dividend forecasts should be dismissed?

A. Much the same way I do to just blindly dismissing negative growth rates. All of these growth proxies can be useful if critically analyzed by the analyst. I would not indicate that Mr. Dunn should just blindly dismiss the 7.18 percent 5-year historical EPS figure that he calculated on Schedule JCD-4. However, I think that he would want to critically analyze this growth rate to determine if the growth rate is reasonable when considering all of the other growth proxies that he reviewed. To rely on proxies that only support the highest growth rates possible is not how prudent investors would evaluate a potential investment.

Q. Dr. Morin indicates that you have a fundamental problem with your risk premium model estimates because your cost of common equity developed from your DCF model does not match investors' expected return on equity used in your risk premium analysis. How do you respond to this criticism?

A. I believe Dr. Morin's criticism shows why Staff does not give much weight to the risk premium model when recommending a return on equity for a Missouri utility. The DCF model estimates the cost of common equity to the company. The cost of common equity is the investors' required rate of return, which may or may not be equivalent to the expected return on common equity of the investor. If an investor continues to expect a return on equity that is higher than the cost of common equity, then this may mean that the utility is in an overearnings situation. I have explained this before by using Staff's 2002 earnings complaint against AmerenUE as an example. Investors in AmerenUE may have expected that AmerenUE would continue to earn a certain return on common equity over AmerenUE's cost of common equity, but it wasn't until the Commission recognized AmerenUE's lower cost of common equity that investors' expected returns on common equity were ratcheted down. The same analogy can apply to the use of the Risk Premium model. This is why Staff only uses this model to check the reasonableness of its DCF results.

Q. What are the consequences of Dr. Morin's comment on page 29, lines 18 through 19, about the return on common equity being set equivalent to the expected return on common equity?

A. Dr. Morin's proposition is that commissions' allowed returns should be driven by what investors have come to expect and not based on the capital and economic environment which reflects a lower cost of capital. This would be as circular as recommending a cost of common equity based on past allowed returns in other jurisdictions. If a situation like this were to hold true in the real world, then investors would continue to expect the high returns on their investments that they received in the late 1990s and early 2000. As all real world investors know, this is not how investing works. It would only be natural that investors should expect that eventually regulatory commissions are going to start to recognize the lower cost of capital in the returns they allow their utilities.

Q. Dr. Morin indicates that the risk-free rate you used in your study is "stale." When did you prepare the study that is the subject of this criticism?

A. The study that I performed to recommend a cost of common equity was completed some time during March 2004. The only average monthly risk-free rate that I had available at the time of the study was February 2004. Because rates can fluctuate up or down from month-to-month, it is only appropriate for the analyst to choose some ending point in order to arrive at his recommendation. Just as the company witnesses had the advantage of knowing what happened to interest rates since the direct testimony was filed by Staff, I had the advantage of knowing what had happened to interest rates since Mr. Dunn filed direct testimony because he filed testimony five months before I did. However, in my rebuttal of Mr. Dunn, I tried to be mindful of this.

Q. On page 32, line 19 through page 33, line 15 of his rebuttal testimony, Dr. Morin indicates that you used the wrong historical risk premium because you used the total return for long-term government bonds rather than just the income return on the government bonds. Is an investor in government bonds only going to receive a return based on the coupon of the bond, which is the income from the interest rate stated on the bond?

A. Only if the investor holds the bond until maturity and bought the bond at par value. Otherwise investors will receive a total return, which is based on changes in the price of the bond and reinvestment returns. Therefore, it is appropriate to measure the market risk premium by comparing total returns on stocks versus total returns on risk-free treasuries because this is what investors will expect to receive.

Q. Dr. Morin indicates that Ibbotson Associates recommends the use of the income return rather than the total return because the "income component of total bond return (i.e. coupon rate) is a far better estimate of expected return than the total return (i.e. coupon rate + capital gain), as realized capital gains/losses are largely unanticipated by investors." Is this your understanding as to why Ibbotson Associates recommends the use of the income return rather than the total return?

A. No. My understanding of Ibbotson Associates' justification for the use of the income return rather than the total return is that they consider this to be the true "riskless portion of the return."

Q. Dr. Morin criticizes your CAPM analysis that uses a short-term historical period because "historical risk premiums are only reflective of prospective risk premiums if measured over long periods." Do you agree with this statement?

A. Yes. I did not give the short-term risk premium CAPM results any weight in arriving at my recommended cost of common equity. I stated that the long-term risk premium CAPM results supported the upper end of my DCF analysis and, therefore, I gave this CAPM result more weight in my analysis. However, as I indicated in my direct testimony, the results from the short-term risk premium CAPM should not be ignored because it provides insight as to what has actually occurred in the equity markets and treasury bond markets. This short-term risk premium CAPM shows that stock market returns from 1993 through 2002 were actually lower than the returns on long-term U.S. Treasury bonds.

Q. Does Dr. Morin's criticisms about the use of the short-term risk premium period for the application of the CAPM contradict some of his other criticisms of your analysis?

A. Yes. Dr. Morin indicated that I should have used a current stock price rather than a four-month average of stock prices in my application of the DCF model because it reflects the most current investors expectations. As Dr. Morin pointed out in his criticism of my use of a short-term risk premium period in my application of the CAPM, investors expected returns over a longer period of time are going to be different than over a shorter period of time. This is exactly why it is important to look at an average of stock prices over some longer period of time so the rate of return witness can estimated investors' required rates of return over some longer period.

Q. Does Dr. Morin's criticism of your analysis of a short-term risk premium CAPM contradict any other part of his criticisms of your analysis?

A. Yes. Beginning on page 35 of his rebuttal testimony, Dr. Morin discusses his thirteenth criticism of my analysis. Dr. Morin claims that instead of looking at a longer period (nine years) to determine the risk premium investors require to invest in

Moody's Baa-rated utility bonds versus Moody's A-rated utility bonds, he believes I should have used the current spread between these ratings for my risk premium adjustment. If Dr. Morin believes it is appropriate to look at a longer period to evaluate the risk premium required when executing the CAPM, then one would believe that he would have the same position when measuring the risk premium investors require to invest in Moody's Baa-rated bonds rather than Moody's A-rated bonds.

Q. Dr. Morin indicates that the historical market risk premium that you used is not current based on the up-to-date 2004 edition of the Ibbotson Yearbook. Is this an accurate statement?

A. Yes. At the time Staff produced its study it only had a copy of the 2003 edition of the Ibbotson Yearbook. The 2004 Yearbook is currently on order from Ibbotson.

Q. When did Ibbotson start sending the new edition of the Yearbook out to entities and individuals that ordered it?

A. It would have been sent sometime towards the end of March.

Q. When were you completing the study on the cost of capital for MGE?

A. It would have been toward the end of March to early April in order to have time for review by assigned attorneys and case coordinators.

Q. If you had received the 2004 Yearbook when you did your analysis, would this have changed your recommendation?

A. No. I was comfortable with my DCF recommendation that included historical growth rates and recent projected growth rates from various analysts. I decided to give more weight to the projected growth rates in my recommendation as can be derived from the fact that the upper end of my recommendation falls above the higher end of a couple of the average projected growth rates indicated on Schedule 16 attached to my direct testimony. It is clear that I did not give the historical growth rates as much weight because the lower end of my projected growth rate range is over a 100 basis points higher than the average historical growth rates that I calculated in column (1).

Q. On page 34, line 22 through page 18, line 18 of his rebuttal testimony, Dr. Morin claims that you should have used the empirical CAPM. Do all financial texts suggest that it is appropriate to used the empirical CAPM?

A. No. The textbook by Aswath Damodaran, INVESTMENT VALUATION: Tools and Techniques for Determining the Value of *Any* Asset, 1996, which is a textbook used in the curriculum for students seeking the Chartered Financial Analyst (CFA) designation, does not recommend any adjustment to beta for the CAPM. This textbook follows the traditional execution of the CAPM throughout the text. Many individuals that are pursuing their CFA designation may either work in the investment field or intend to work in the investment field. Consequently, CFAs that are or will be making real world investment decisions have been taught the traditional CAPM.

Q. In his fourteenth criticism of your analysis starting on page 36 of his rebuttal testimony, Dr. Morin maintains that you didn't allow an adjustment to consider the riskier capital structure that you attribute to MGE. Is this correct?

A. No. I explained my upward adjustment of 32 basis points that I made to my recommendation in my direct testimony. This upward adjustment of 32 basis points takes into consideration the entire risk differential, both financial and business risk, between MGE and the proxy group that I used. The upward adjustment of 32 basis points was based on the credit rating difference between Southern Union (BBB) and the proxy group (A). When evaluating the creditworthiness of a company, credit rating agencies perform a comprehensive evaluation of all of the risks to the company, which includes the financial risk and the business risk. The financial risk is the component of risk that is a function of the capital structure of the company. Therefore, by relying on a third party that performs this comprehensive analysis, I believe that I have adequately considered the increased risk due to my recommended capital structure.

Q. Do you have any evidence that supports the reasonableness of your recommended cost of common equity as it relates to the required risk premium because of Southern Union's leverage capital structure?

A. Yes. I have been tracking the yield on Southern Union's preferred stock, which is listed in the *Wall Street Journal,* since I filed direct testimony in this case. Southern Union issued this preferred stock in October 2003 at a coupon of 7.55 percent. Because of the attractiveness of this coupon, investors have bid the price up of the $25 stated par value preferred stock. This results in a lower required yield to investors that purchase Southern Union's preferred stock at the higher price. Since I have been tracking the yield on Southern Union's preferred stock, it has ranged between 7.1 percent to 7.3 percent.

Q. Why is it important to consider the required yield on Southern Union's preferred stock?

A. Because investors in Southern Union's preferred stock are subordinate to Southern Union's debt holders. Southern Union's preferred stock holders do not receive dividends on their preferred stock investment until the interest has been paid on Southern

Union's debt. This is of course if the Board of Directors declares such a dividend to be paid. The preferred stock holders would also be "next in line" to Southern Union's debt holders if Southern Union were to ever file for bankruptcy.

Consequently, the yield on Southern Union's preferred stock indicates the risk premium that the preferred stock investors are requiring because of Southern Union's leveraged capital structure. While I do not know precisely how much additional risk premium Southern Union common stock holders will require over the required yield on Southern Union's preferred stock, I do believe that my recommended cost of common equity of 8.52 percent to 9.52 percent is much closer to this required risk premium than Mr. Dunn's recommended cost of common equity of 12 percent. The midpoint of my recommendation represents approximately a 180 basis point risk premium over the required yield on Southern Union's preferred stock, whereas Mr. Dunn's recommended cost of common equity represents approximately a 480 basis point risk premium. As I will explain in more detail later in my surrebuttal testimony, when considering the fact that well known academicians and investors believe that the equity risk premium that the market requires over the Ten-Year U.S. Treasury is only 300 basis points, I believe this provides a tremendous amount of insight as to the reasonableness of my recommendation even in light of the leveraged capital structure that I am recommending for MGE.

Q. Did Dr. Morin consider the current yield on Southern Union's preferred stock when considering the reasonableness of your recommendation in this case?

A. No. He indicated he did not know the currently yield on Southern Union's preferred stock in his deposition, on page 35, line 3.

Q. Do you think it is important to consider this type of information when determining the reasonableness of a recommended cost of common equity?

A. Yes. As Dr. Morin recognized during his deposition when he stated that the End Result Doctrine of the *Hope* case indicates that the "methodology is really sort of immaterial if the end result is reasonable to both the consumer and the investor." I believe the current yield on Southern Union's preferred stock provides insight as to the reasonableness of my recommendation in this case.

Response to Mr. Dunn's Rebuttal Testimony

Q. On page 6, line 20 through 21, Mr. Dunn refers to your recommended common equity ratio as an "artificially" low equity ratio. Is your recommended common equity ratio in this case artificial?

A. No. My recommended common equity ratio in this proceeding is the equity ratio that investors and credit rating agencies analyze when evaluating Southern Union's operations. Credit rating agencies and investors do not evaluate the contrived equity ratio that Mr. Dunn is recommending in this case. Although Staff witness Mark L. Oligschlaeger is addressing the technical accounting aspects of Mr. Gillen's rebuttal testimony in this case, there is one key sentence in Mr. Gillen's rebuttal testimony that demonstrates the fact that a certain amount of common equity is associated with the Panhandle operations. On page 7, line 10 through 12 of his rebuttal testimony, Mr. Gillen states that Southern Union's stand-alone equity represents all of Southern Union's shareholder value, which includes Panhandle, because he indicates that Panhandle's stand-alone equity was eliminated when Southern Union acquired Panhandle. Therefore, it is only logical to conclude that a certain amount of that equity should be assigned to the Panhandle operations, regardless if Southern Union's witnesses believe that the process that I employed on page 21, line 18 through page 22, line 9 of my direct testimony is not the proper amount of equity to exclude. Mr. Dunn's capital structure recommendation is based on the premise that when an investor purchases a share of Southern Union common stock, this only represents an ownership interest in Southern Union's natural gas distribution operations. Mr. Gillen's statement about the fact that a share of Southern Union represents a share in all of its operations completely discredits Mr. Dunn's capital structure recommendation. In fact, I believe that Mr. Dunn's failure to specify in his direct testimony the type of Panhandle capital that he excluded from his recommended capital structure illustrates Mr. Dunn's own realization of the weakness of his position.

Q. Why do you believe Mr. Dunn chose to use the process he did to arrive at his recommend capital structure for MGE?

A. Because in the last case, Case No. GR-2001-292, Mr. Dunn recommended a hypothetical capital structure for MGE. In that case Staff demonstrated in its rebuttal testimony how such a capital structure recommendation indirectly resulted in a higher cost of capital recommendation because of Southern Union's increased leverage due to its acquisition of the New England properties. Staff deemed this to be in violation of Condition 6 placed on Southern Union in its applications to acquire these properties in Case Nos. GM-2000-500, GM-2000-502, GM-2000-503 and GF-2000-504. The condition was as follows:

> Southern Union will not seek an increase in Cost of Capital for MGE as a result of this transaction. Any increases in the Cost of Capital Southern Union seeks for MGE will be supported by documented proof: that the increases are a result of factors not

> associated with this transaction; that the increases are not a result of changes in business, market, economic, or other conditions for MGE caused by this transaction; or that the increases are not a result of changes in the risk profile of MGE caused by this transaction. Southern Union will ensure that the rates for MGE ratepayers will not increase as a result of this transaction.

This same condition, with some modifications, was placed on Southern Union in the Stipulation and Agreement filed in the Panhandle acquisition case, Case No. GM-2003-0238, as well. The exact condition was as follows:

> Southern Union will not recommend an increase or claim Staff should make an adjustment to increase the cost of capital for MGE as a result of the Transaction. Any increases in cost of capital Southern Union seeks for MGE will be supported by documented proof: (1) that the increases are a result of factors not associated with the Transaction; (2) that the increases are not a result of changes in business, market, economic or other conditions for MGE caused by the Transaction; or (3) that the increases are not a result of changes in the risk profile of MGE caused by the Transaction. Southern Union will ensure that the retail distribution rates for MGE ratepayers will not increase as a result of the Transaction.

Q. What was Mr. Dunn's justification for proposing a hypothetical capital structure in the last rate case, Case No. GR-2001-292?

A. In his direct testimony in that case on page 17, line 28, through page 18, line 11, Mr. Dunn provided the following justification for using a hypothetical capital structure:

> Q. Why is the Southern Union consolidated capital structure inappropriate for use in determining the revenue requirement for MGE?
>
> A. A consolidated capital structure is only the summation of the financing of all of the individual division and subsidiary activities of a company, plus or minus accounting eliminations. With a diversified company such as Southern Union, the consolidated capital structure bears no particular relationship to any one of the individual lines of business.

> Southern Union operates several natural gas distribution divisions. It also has investments in the non-utility business. It is these investments which diversify the capital arrangements of the company and combined with the appropriateness of adequate divisional accounting require the implementation of a division capital structure system. These non-utility investments are relatively recent commitments of the company in terms of their significance.

Q. What is Mr. Dunn's assessment of Southern Union's operations in this case?

A. On page 18, lines 1 through 14 of his rebuttal testimony, Mr. Dunn provides the following description of Southern Union:

> Southern Union is a complicated company with different capital demands by different divisions and subsidiaries. It is comprised of two major business activities. The first is the distribution business, which in turn is comprised of a series of divisions operating in different states and jurisdictions. The second major business of Southern Union, the Panhandle Eastern pipeline operation, is entirely different. The Panhandle Eastern operations have different risks and, consequently, different capital mix requirements. The consolidated capital structure approach assumes that those responsible for financial decisions at Southern Union do not use contemporary financial theories and do not approach the matter seriously, a view which is beyond a doubt inappropriate and incorrect.

Therefore, it appears that Mr. Dunn now recognizes that the main business segment of Southern Union before its acquisition of Panhandle was natural gas distribution.

Q. Mr. Dunn claims that the Panhandle operation is "entirely different" than Southern Union's natural gas distribution operations. Does this contradict Southern Union's position regarding tax treatment of the sale of its Texas natural gas distribution operations to fund its purchase of the Panhandle operations?

A. Yes. In its 2003 Annual Report, Southern Union indicated that it structured the "...Panhandle Energy acquisition and the sale of its Texas operations to qualify as a like-kind exchange under Section 1031 of the Internal Revenue Code of 1986." The Internal Revenue Service defines properties of like-kind as: "[p]roperties are of like-kind, if they are of the same nature or character, even if they differ in grade or quality." Therefore, for purposes of justifying the use of different capital structures for ratemaking, Southern Union argues that its operations should be considered different, but for purposes of tax treatment, it argues the operations should be considered the same.

Q. How does S&P currently view the business position of Southern Union on a consolidated basis and Panhandle on a stand-alone basis?

A. In a recent research report issued by S&P on June 2, 2004, "New Business Profile Scores Assigned for U.S. Utility and Power Companies; Financial Guidelines Revised," S&P assigned a business profile of a "3" to both Southern Union on a consolidated basis and to Panhandle on a stand-alone basis. This essentially indicates that S&P now views the Panhandle operations and Southern Union's natural gas distribution divisions as having equivalent business risk. Before S&P's release of the research report on June 2, 2004, S&P had assigned a business position of a "4" to Southern Union. Before Southern Union had acquired Panhandle they were assigned a business position of "3," implying that the acquisition of Panhandle caused additional business risk for Southern Union on a consolidated basis.

Q. What is the implication of S&P's assignment of a business profile of "3" to both Southern Union on a consolidated basis and Panhandle on a stand-alone basis?

A. The implication is that the use of the consolidated capital structure for cost of capital purposes is appropriate. S&P's business profile assignment indicates that they don't view Southern Union's natural gas distribution divisions and Panhandle as being "entirely different." In fact the implication of each operation being assigned the same business profile is that the benchmark capital structures that S&P would compare Southern Union and Panhandle to would be the same.

Q. What was the implication of S&P's previous decision to raise the business profile of Southern Union to a "4" from a "3" after it acquired Panhandle?

A. Financial theory indicates that the higher the business risk of the operation, the less financial risk, i.e. increased leverage, the operation can endure. This is why S&P requires more stringent financial ratios for companies that have a higher business profile. Therefore, based on S&P's previous position on the business profile of Southern Union and Panhandle, if Southern Union had been adhering to financial theory regarding the assignment of capital, then Southern Union would have been allocating a larger percentage of it consolidated common equity balance to the Panhandle operations. However, because S&P now views each operation as having similar business risk, the use of the consolidated capital structure is even more appropriate. This refutes Mr. Dunn's claim that this is a "complicated" company.

Q. Did Mr. Dunn indicate anything in his deposition on May 6, 2004 that validates the use of the consolidated capital structure if the business risks of all of the company's operations are fairly similar?

A. Yes. On page 21, beginning on lines 6, Mr. Dunn indicates the following:

> In a simple day, companies many years ago were relatively simple, single lines of business and have maybe a tiny little subsidiary.

> Water company has a water testing subsidiary, no problem. Or even somebody like American Waterworks, which has a number of water company subsidiaries, consolidated might work simply because they're comprised of 15 companies that are virtually identical and all probably capitalized at least similarly. The same for AT&T when it was the dominant telephone company.

Q. Has Mr. Dunn been consistent before with his position described above?

A. Yes. When Mr. Dunn represented the Platte County Intervenors in Case No. WR-95-205, *In the matter of Missouri-American Water Company's tariff revisions designed to increase rates for water service provided to customers in the Missouri service area of the company* and Case No. SR-95-206, *In the matter of Missouri-American Water Company's tariff revisions designed to increase rates for sewer service provided to customers in the Missouri service area of the company*, Mr. Dunn recommended American Water's consolidated capital structure because he maintained that the subsidiary capital structure contained "phantom equity."

Q. Is Mr. Dunn being consistent with this position now?

A. No. Because S&P now views Southern Union's pipeline operations and distribution operations as being equivalent in business risk, it would seem that if Mr. Dunn were to be consistent with his view expressed in his deposition and with the position he took in a previous case with this Commission, he would recommend the consolidated capital structure.

Q. Considering all of the discussion about what Southern Union's capital structure would be without the Panhandle operations, what do you conclude about recommending a capital structure other than the consolidated capital structure when recommending a rate of return for a utility that is a division of an operating company?

A. The only capital structure that is truly known, measurable and identifiable is the consolidated capital structure. This is the only capital structure, other than a hypothetical capital structure, that the Commission should consider. If a hypothetical capital structure were to be considered by the Commission, then the Commission would have to consider adjustments to the various costs of capital that are applied to the hypothetical capital structure. For example, because Southern Union has always been an aggressively leveraged company, if one were to use some type of hypothetical capital structure for one of its natural gas distribution utilities, then one would need to adjust the cost of debt and common equity downward.

Q. Do you consider Mr. Dunn's proposed capital structure in this case as a hypothetical one?

A. Yes, because this capital structure bears no relationship to the capital structure that credit rating agencies evaluate to determine the creditworthiness of Southern Union. It also bears no relationship as to how MGE is actually capitalized.

Q. Do you agree with Mr. Dunn that there was an attempt to insulate MGE from the Panhandle operations when it applied for approval to acquire Panhandle?

A. Yes. I agree there was an attempt to insulate MGE from the Panhandle operations, but I do not believe that this attempt was successful.

Q. What evidence did you rely on to conclude that MGE is not insulated from the Panhandle operations?

A. As I stated previously, S&P is applying an equal credit rating on senior debt to Southern Union and its Panhandle subsidiary.

Q. Would it have been possible for the Panhandle debt to be refinanced at such attractive interest rates if Mr. Dunn's assertion that Panhandle doesn't have any equity to support it were true?

A. No. If Panhandle had only debt and no equity to support its operations, I don't believe creditors would have viewed Panhandle as a good credit risk.

Q. Mr. Dunn claims that you didn't make an adjustment for the lower common equity ratio that you recommended for MGE versus the average common equity ratios for your comparable companies. Is this correct?

A. No. I addressed this when I responded to Dr. Morin's rebuttal testimony about the same criticism. I made an upward adjustment of 32 basis points to consider the credit rating differential between my comparable companies and Southern Union. Southern Union's credit rating already contemplates the financial risk, i.e. a lower common equity ratio, when assigning a credit rating to Southern Union.

Q. On page 13 of his rebuttal testimony, Mr. Dunn refers to S&P's Utility Group Financial Target benchmark ratios for companies with business profile of a "4" to test the reasonableness of your recommended capital structure in this case. Is it reasonable for Mr. Dunn to use a business profile of a "4" to test the reasonableness?

A. No. I have already discussed that S&P has assigned a business profile of a "3" to all of Southern Union's operations as of June 2, 2004. In fairness to Mr. Dunn, this did not occur until after he wrote his rebuttal testimony. However, he should not have been reviewing the benchmarks for companies with a business risk profile of "4" because, previously, S&P had increased Southern Union's business profile to a "4" because of the Panhandle acquisition. Before the Panhandle acquisition when Southern

Union only had natural gas distribution operations, Southern Union was assigned a business profile of a "3."

Q. What is the current total debt to total capital benchmark for a company with a business position of a "3"?

A. It is from 55 to 65 percent total debt to total capital.

Q. Does your recommended capital structure fall within this benchmark?

A. No.

Q. How many times in the last ten years has Southern Union's capital structure fallen within this guideline when TOPrS is included as debt (see attached Schedule 5)?

A. Four times.

Q. What was S&P's previous benchmark for a company with a business profile of "3" before it changed the targets on June 2, 2004?

A. It was from 53 to 61 percent total debt to total capital.

Q. How many times in the last ten years has Southern Union's capital structure fallen within the old guideline when TOPrS is included as debt?

A. Once.

Q. Why did you include TOPrS as debt in your calculation of total debt to total capital?

A. Because that is how S&P treats TOPrS. Please see the attached email labeled as Schedule 6.

Q. What do you conclude from your analysis of Southern Union's capital structures over the last ten years?

A. S&P has decided that Southern Union's capital structure, although it doesn't meet the benchmark, is appropriate for a BBB-rating when evaluated with other factors.

Q. Are the financial benchmarks mentioned by Mr. Dunn intended to be rigid guidelines to use to determine if a capital structure is appropriate for a given credit rating?

A. No. The S&P financial benchmarks indicated in Mr. Dunn's testimony are designed for purposes of assisting utilities, utility affiliates, and the investment community in assessing the relative financial strength of issuers. By no means are these benchmarks concrete numbers. As I have already discussed, Southern Union has only met the old benchmark one year in the last ten.

Q. On page 15, lines 20 through 26 of his rebuttal testimony, Mr. Dunn indicates that the proceeds from Southern Union's planned common equity offering will not be used to invest in Panhandle Eastern. Even if this is true, isn't the reason that Southern Union has such a leveraged capital structure at this time is because of its acquisition of Panhandle?

A. Yes. Although the proceeds from this issuance of common equity may not be used to invest in Panhandle, it is the effects of the Panhandle acquisition that has put Southern Union in a situation which requires it to issue additional common equity in order to improve its capital structure. Consequently, although the proceeds from this specific issuance may not be directly used to invest in Panhandle, it is the Panhandle acquisition that has caused the need for this issuance.

Q. On page 41, lines 8 through 15 of his rebuttal testimony, Mr. Dunn explains how the issuance of this additional common equity will benefit MGE customers when he argues for an adjustment for flotation costs. Are you convinced by his explanation?

A. No. Mr. Dunn indicates that the customers of MGE will benefit because "the bond rating of Southern Union will be preserved and because lower bond ratings lead to higher costs of debt, a savings will be realized." Based on all of the information I have reviewed, which includes Southern Union's 2003 Annual Report, and based on admissions from Mr. Dunn during his deposition, the reason Southern Union is having to issue additional common equity to preserve its bond rating is because of the leverage caused by the Panhandle acquisition. Of course, if Mr. Dunn's position on Southern Union's capital structure and the insulation of its natural gas distribution operations were true, then Southern Union wouldn't have to issue additional common equity because of the Panhandle debt assumed by Southern Union.

Mr. Dunn indicates that MGE customers will benefit from this offering because the "proceeds of the sale represent new capital available to Southern Union, some of which **may** by used to add facilities to MGE's infrastructure to provide services to customers." (emphasis added). As I indicated in my rebuttal testimony, Mr. Dunn has not provided any documented proof that any of these proceeds are because of MGE's capital needs.

Q. On page 17 of his rebuttal testimony, Mr. Dunn shows the capital structure that Mr. Gillen provided in his rebuttal testimony that removed the "impact of Panhandle

Eastern from the consolidated capital structure..." What impact of Panhandle Eastern was removed from the consolidated capital structure?

A. The only type of capital that was removed from the consolidated capital structure was the debt that supports Panhandle Eastern. Mr. Dunn indicated in his deposition testimony on page 29, line 13, "[t]he equity is essentially nonexistent." He indicates on page 29, lines 20 through 21 of his deposition that "...the Panhandle equity is in the ground somewhere." Mr. Dunn apparently believes this is justification for his position that no equity should be excluded from Southern Union's capital structure to eliminate the capital that supports Panhandle because the equity is "nonexistent."

Q. If Mr. Dunn's position is that there is no Southern Union equity that supports the Panhandle operations that should be excluded from his recommended capital structure, then does this contradict one of his data request responses?

A. Yes. Staff Data Request No. 0345 asked the following question of Mr. Dunn:

> On page 22, lines 19 through 22 of his rebuttal testimony Mr. Dunn indicates that Panhandle Eastern has a mix of capital that "stands behind" it. What are the various ratios, in percentage terms, for each type of capital in the mix that supports Panhandle Eastern?

Mr. Dunn's response was "[n]o such study was performed." I find it hard to reconcile that Mr. Dunn indicates in his direct testimony and his deposition that there is no Panhandle equity, but then he indicates that there is a "mix of capital" that supports all of Southern Union's operations, but he did not perform a study to determine what that mix was for Panhandle.

Q. On page 19 through 21 of his rebuttal testimony, Mr. Dunn cites from a couple of sources to support his contention that the consolidated capital structure is inappropriate. Are there any sources that you are familiar with that give some guidance as to when one might recommend the consolidated capital structure?

A. Yes. In David C. Parcell's book The Cost of Capital – A Practitioner's Guide the following guidance is given to help determine if a consolidated capital structure is appropriate or if a subsidiary capital structure is appropriate:

> Subsidiary vs Consolidated Capital Structure
>
> Many utilities are subsidiaries of other companies, which can be holding companies, other utilities, or diversified companies. When a utility is a subsidiary of another firm, the question frequently arises as to whether the proper ratemaking capital structure is represented by the utility or its parent.
>
> Among the considerations which help determine whether the utility vs. parent capital structure is appropriate are:
>
> 1. Whether subsidiary utility obtains all of its capital from its parent, or issues its own debt and preferred stock.
> 2. Whether parent guarantees any of the securities issued by the subsidiary.
> 3. Whether subsidiary's capital structure is independent of its parent (i.e., existence of double leverage, absence of proper relationship between risk and leverage of utility and non-utility subsidiaries).
> 4. Whether parent (or consolidated enterprise) is diversified into non-utility operations.

Q. Isn't the above reference addressing whether to use a subsidiary capital structure or a consolidated capital structure rather than a capital structure for a division, such as MGE?

A. Yes. However, I believe this provides even stronger support for the use of the consolidated capital structure because divisions, unlike subsidiaries, aren't even separate legal entities that issue their own capital. This supports why Staff has applied the consolidated capital structure when recommending a rate of return for the divisions of operating companies – as Staff has done for Aquila's Missouri operating divisions in the past. The Commission adopted this approach in the Aquila case, Case No. ER-97-394, in which Mr. Stephen G. Hill was the Staff witness proposing such approach.

Q. Did Dr. Morin qualify Mr. Hill as an expert in his deposition on June 10, 2004?

A. Yes. On page 45, lines 6 through 9, Dr. Morin qualified Mr. Hill as an expert.

Q. On page 24, lines 14 through 21 of his rebuttal testimony, Mr. Dunn indicates that you included the embedded cost of long-term debt held at Panhandle in your overall embedded cost of long-term debt for no other reason than to reduce the cost of debt. Is this a proper assessment?

A. No. Although I was surprised that the embedded cost of long-term debt held at Panhandle was lower than the embedded cost of long-term debt held at Southern Union, I later discovered that Southern Union refinanced much of the debt at Panhandle shortly after it acquired the operation from CMS Energy. Right before Southern Union acquired Panhandle from CMS Energy it had a credit rating that was below investment grade. Once Panhandle became a part of Southern Union it was able to take advantage of the better credit rating assigned to Southern Union's consolidated operations and the low interest rate environment to refinance approximately $512,757,000 of debt according to Southern Union's Form 10-Q for the quarterly period ended, March 31, 2004. However, this is not why I included the Panhandle debt. I have explained in my rebuttal testimony why it is appropriate to include the Panhandle debt and costs in my recommended rate of return. This is not a matter of being "opportunistic." In fact in the last Aquila, Inc. electric and steam rate case, Case Nos. ER-2004-0034 and HR-2004-0024, I recommended a consolidated embedded cost of long-term debt of 7.633 percent for Missouri Public Service (MPS) based on all of Aquila's debt, including its subsidiaries that still existed through the update period. Whereas, Aquila's witness recommended an embedded cost of debt of 7.23 percent based on debt that Aquila assigned to the MPS division. Consequently, I am not treating MGE any differently than I treated Aquila in their rate case. This treatment is not a matter of "opportunism," it is a matter of recommending the appropriate rate of return given the circumstances of the corporate structure.

Q. On page 25, line 16 through 26 of his rebuttal testimony, Mr. Dunn indicates a situation in which you indicated that you would recommend the capital structure of the utility for ratemaking purposes if the company raised its own long-term debt. Does this situation apply in this circumstance?

A. No. MGE is not a subsidiary and, therefore, cannot issue its own debt.

Q. Starting on page 26, line 10, Mr. Dunn presents his argument for excluding short-term debt from the capital structure. How do you respond?

A. Short-term debt in excess of construction work in progress (CWIP) is a source of capital that has been used by Southern Union consistently for at least the 18 months leading up to the update period in this case. The average level of short-term debt in excess of CWIP for the twelve months leading up to the updated period can be seen in Travis Allen's Schedule TA-4 attached to his direct testimony. This source of capital has a cost and this cost should be reflected in the weighted-average-cost-of-capital recommendation for purposes of this case. If Southern Union is able to realize a lower cost of capital by its consistent use of lower-cost, short-term debt that is in excess of CWIP, then this lower cost of capital should be reflected in the rate-of-return recommendation through its inclusion in the recommended capital structure.

Q. What has happened to the level of short-term interest rates that may make the use of more short-term debt appealing?

A. The interest rates on short-term debt have come down considerably. This is evident from the 1.89 percent average cost of short-term debt that Southern Union incurred for the 12 months ending December 31, 2003. This compares to the average cost of short-term debt of 7.31 percent incurred for the 12 months ending December 31, 2000, in MGE's last rate case, Case No. GR-2001-292

Q. Starting on page 27 of his rebuttal testimony, Mr. Dunn criticizes your analysis as being "contrived and mechanical." Do you have any authoritative support for your review of the growth rates of historical dividends per share, historical book values per share, historical earnings per share and projected earnings per share to recommend a proxy growth rate to use in your DCF recommendation?

A. Yes. The authoritative support is as follows:

In The Cost of Capital – A Practitioner's Guide, by David C. Parcell, pages 8-18 through 8-20 indicate the following:

> *Financial Indicators of Growth*
>
> There are a wide variety of acceptable methods for using historical growth to estimate future growth in the DCF model (Gordon, Gordon and Gould, 1989 50). The three most commonly-used financial indicators of growth are dividends per share (DPS), earnings per share (EPS), and book value per share (BVPS) (Howe & Rasmussen, 1982, 1333). Actually, DPS, EPS and BVPS can be defined in terms of each other, as DPS = EPS - ΔBVPS (Patterson,

1971). Viewed this way, any of the three terms is dependent upon the others and each can be viewed as the investors' perceived growth rate.

Dividends Per Share

Past growth of DPS is the most direct link between historic dividend growth and projected dividend growth. However, in the long-run, dividends can grow at a rate no greater than that of earnings. If the dividends out-paced earnings for an extended period of time the company would deplete its equity capital. In the short-run, the two growth rates can diverge without causing financial harm to the company. The average of these growth rates may provide a better forecast of the long-run dividend growth rate than any of the individual forecasts, because in the long-run the dividend growth rate should equal the growth rate of the earnings since it is primarily earnings that are used to support the dividends.

Earnings Per Share

An investor's expectations concerning a company's cash flows include both dividends plus the eventual proceeds from the sale of the stock. Earnings provide the source of both the dividends paid to stockholders and the retained earnings, which increase the book value and ultimately the market price of the stock. As a result, EPS is often used as a substitute for DPS.

Book Value Per Share

The growth of BVPS is used as a proxy for DPS growth since BVPS growth principally reflects (in the absence of large stock sales at prices well above or below book value) the retention (i.e., not paying out all of earnings as dividends) of earnings. The purpose of earnings retention is to enhance the level of future EPS and DPS. In addition, a company's EPS is equal to the BVPS times return on equity (ROE). As a result, any factor that causes the BVPS to increase (decrease) will tend to cause the EPS to increase (decrease).

Relationship Among Growth Rates

Even though the DCF model assumes that EPS, DPS, BVPS and the market price all grow at the same rate, it is generally recognized that in practice this does not normally occur. However, what is important to recognize in using the simplified version of the DCF model is that the analyst has no basis to forecast different future rates of growth for each of these items.

Therefore, it is appropriate for the rate of return witness to evaluate a variety of possible indicators of future growth.

Q. Is it important to consider historical growth rates as well as analysts projected growth rates?

A. Yes. In Mr. Parcell's book, <u>The Cost of Capital - A Practitioner's Guide</u>, it is indicated that "investors, as a group, do not utilize a single growth estimate when they price a utility's stock. Thus rate of return analysts should consider multiple growth estimates in order to better capture the growth embodied in a utility's stock price." It is important to note that Mr. Parcell emphasizes that analysts should consider multiple growth estimates. This applies to projected as well as historical growth rates. Additionally, Mr. Parcell states: "Analysts should recognize that individual investors have different expectations regarding growth and therefore no single indicator captures the growth expectations of all investors." Therefore, it is important to not only give weight to multiple projected growth rates, but to also give weight to historical growth rates because that is in fact what investors as a group will do.

Q. Do you have authoritative support for averaging the five and ten year historical growth rates that are indicated in column (1) of Schedule 16 attached to your direct testimony?

A. Yes in Dr. Roger A. Morin's book, <u>Regulatory Finance Utilities' Cost of Capital</u>, 1994 the following is indicated:

> Historical growth rates are customarily computed over the last 5 and 10 years. An average of the 5-year and 10-year growth rates is a reasonable compromise between the conflicting requirements of representativity and statistical adequacy.

Q. In considering Mr. Dunn's criticism that you "processed a series of numbers through a set of schedules, with no apparent comprehension of the meaning of the numbers or the implications of the data," are you aware of any sources that provide some context to test the reasonableness of your recommendation in this case?

A. The experts include Warren Buffett, Jeremy Siegel and Cliff Asness. Warren Buffett is CEO of Berkshire Hathaway and is probably the most respected investor in the United States. On December 20, 2001, in an interview on CNBC, Mr. Warren Buffett indicated that "returns in the stock market should come in around an average 7-8 percent over the next ten years." He also said that he's "not finding" undervalued companies in this market, indicating that he remains watchful of valuation levels for stocks. As recently as the release of Berkshire Hathaway's 2003 Annual Report, Mr. Buffett stated that he still wasn't finding attractively-priced stocks, meaning that he believes that the price of stocks in general are higher translating into a lower cost of common equity for the market.

The other two, Cliff Asness, University of Chicago Ph.D., who writes influential studies in academic journals while running the $5 billion hedge fund AQR Capital Management, and Jeremy Siegel of The Wharton School of the University of Pennsylvania, whose book, *Stocks for the Long Run*, helped mold academic thinking on how equities perform over long periods, were featured in a recent June 16, 2003 article in *Fortune* magazine, "Can Stocks Defy Gravity? That's what Wall Street wants you to believe. Don't buy it. The best minds say the market will rise, but it won't soar." Although these are the two main academicians featured in the article, Kenneth French of Dartmouth also urges caution when investing in today's market. Kenneth French and

Eugene Fama have published many influential stock market studies in the past two decades.

All of the influential individuals featured in this article have come to the conclusion that the equity risk premium, which is the additional return that investors demand over risk-free government securities, is now lower. As a result of the lower equity risk premium, they predict that the stock market as a whole can only provide 6 percent to 8 percent returns for the foreseeable future. Jeremy Siegel, when speaking about total market returns, specifically states: "Better-than-average earnings, if they happen, could get us perhaps 8%. But 10% assumes earnings growth that is just too big." It is obvious that well-respected investors and academicians are not predicting very high returns for the near future because of current stock valuation levels. This translates into a low cost of common equity environment.

Comparing my recommended cost of common equity of 8.52 percent to 9.52 percent to the predictions of anywhere from 6 to 10 percent for the entire market by these well respected individuals offers a barometer to the reasonableness of my recommendation in this case. In light of the fact that regulated utilities are less risky than the market, and therefore investors would normally require less return than the market, my recommendation is generous considering the current stock market environment.

Q. Does Dr. Morin believe that Jeremy Siegel and Warren Buffett are influential individuals in the world of investing?

A. Yes. Dr. Morin indicated the following:

> I certainly would consider Mr. Siegel very I influential more from an academic perspective, but I would consider Mr. Buffet as well influential in strategy and marketing and finding under-values or assets.

Q. Did Dr. Morin indicate that required returns in the broader market had an influence on required returns for utilities in his deposition?

A. Yes. Dr. Morin indicated the following:

> Yes. Of course. Investors are always making comparisons between prospective returns from utility stocks versus returns from industrial stocks comparable in risk. And if they're not comparable in risk, they will make the required risk adjustment using something like beta, for example.

Q. Have you observed any information specific to the Company's securities that provides insight to the reasonableness of your recommendation?

A. Yes. As I discussed on page 14, line 3 through 10 of my rebuttal testimony, Southern Union recently issued traditional, non-cumulative preferred securities to refinance the Trust Originated Preferred Securities (TOPrS). I also discussed that, holding all else equal, the traditional preferred securities are riskier because preferred dividends are not guaranteed and are non-cumulative, whereas the preferred dividends were backed by the coupon on the debt that was issued by Southern Union to pay the dividends on the TOPrS. The stated coupon on the TOPrS issued back in 1995 was 9.48 percent. The stated dividend rate on the non-cumulative preferred stock was 7.55 percent when it was issued and as of June 8, 2004 was trading at a yield of 7.10 percent. The spread between the current yield on Southern Union's non-cumulative preferred stock and the stated coupon rate on the TOPrS that was issued in 1995 is 238 basis points. It is logical to conclude that because, holding all else equal, TOPrS carries less risk than traditional, non-cumulative preferred stock, that if Southern Union had issued TOPrS again that the yield would have been lower than the stated dividend rate for the traditional preferred stock recently issued. This would translate into a lower cost of capital of more than the 238 basis point spread between the stated coupon on TOPrS and the current yield on Southern Union's current non-cumulative preferred stock.

Q. What was Staff's recommend cost of common equity for MGE in Case No. GR-96-285, which was shortly after Southern Union issued TOPrS?

A. 11.80 percent applied to a common equity ratio of 32.74 percent.

Q. What was Southern Union's witness', Dr. Bruce H. Fairchild, recommended cost of common equity in that case?

A. 12.25 percent applied to a common equity ratio of 29.88 percent.

Q. What is Staff's recommended cost of common equity in this case?

A. 9.02 percent applied to a common equity ratio of 25.91 percent.

Q. How much of a decrease in cost of common equity is reflected in Staff's recommendation in this case versus Staff's recommendation in the 1996 MGE rate case?

A. 278 basis points.

Q. What is Southern Union's recommended cost of common equity in this case?

A. Mr. Dunn's recommended cost of common equity is 12.00 percent applied to a common equity ratio of 43.34 percent.

Q. How much of a decrease in cost of common equity is reflected in Southern Union's recommendation in this case versus Southern Union's recommendation in the 1996 MGE rate case?

A. 25 basis points.

Q. What was the yield on BBB utility bonds in May 1995, which is the month that Southern Union issued its TOPrS?

A. It was 8.30 percent.

Q. What was the yield on BBB utility bonds for the most recent month available in the Mergent Bond Record?

A. It was 6.46 percent as of April 2004.

Q. What is the difference in these yields?

A. 184 basis points.

Q. What conclusion do you draw from the information above?

A. Staff's recommendation clearly is consistent with the current low cost of capital environment. Southern Union's recommendation has barely changed to reflect the low cost of capital environment. In addition to not recognizing the lower cost of capital available to MGE, Mr. Dunn wants to pretend that Southern Union has stand-alone common equity ratio of 43.34 percent.

Q. What capital structure did Dr. Bruce H. Fairchild use in his recommended rate of return in Case No. GR-96-285?

A. He based his capital structure recommendation on the actual consolidated capital structure of Southern Union at the time.

Q. What was Dr. Fairchild's rationale for using the actual consolidated capital structure?

A. Dr. Fairchild cited the following reasons for his use of Southern Union's actual capital structure to determine MGE's cost of capital:

- These ratios reflect the mix of capital currently employed to finance MGE's investment in assets used to provide gas service in Missouri;

- Although this capital structure deviates from industry standards for local gas distribution companies (LDCs), it is consistent with Southern Union's entrepreneurial spirit, acquisition orientation, and earnings retention practices; and
- While Southern Union's higher debt ratio, and lower common equity ratio, impart additional financial risks, these are offset by the greater use of cheaper debt and preferred stock capital, and less use of significantly more expensive common equity capital.

Although not verbatim, Mr. Fairchild states essentially the same reasons for the use of Southern Union's capital structure in Case No. GR-98-140. It should be noted that Mr. Fairchild felt that Southern Union was more risky than his comparable group because of the bond rating of Southern Union compared to the comparable group. Therefore, in both cases he recommended an additional 60 basis points be added to his cost of common equity recommendation to take this risk into consideration. In Case No. GR-98-140 the Commission determined that Southern Union's capital structure did not merit a risk premium adjustment because "MGE's risk level decreased in April 1998 when its ratings improved to BBB+. Further, management determines the capital structure." Based on that determination, the Commission adopted Staff's midpoint of 10.93 percent in the last MGE rate case.

Q. Did Dr. Morin qualify Dr. Fairchild as an expert in his deposition on page 46, line 24 through page 47, line 1?

A. Yes.

Q. However, didn't you recommend an adjustment to your cost of common equity to consider the bond rating differential between Southern Union and your comparable group?

A. Yes. I believe it was the appropriate thing to do in this case.

Q. Mr. Dunn indicates that you disregarded your CAPM and Risk Premium analysis. Did Mr. Dunn use any other models other than the DCF model in his recommendation?

A. No.

Q. Beginning on page 35, line 13 of his rebuttal testimony, Mr. Dunn indicates that you used the wrong form of the DCF Model. Do you agree?

A. No, while I indicated in my direct testimony that I used the continuous growth form of the DCF model, this is not how I executed the model. I executed the model based on the assumption of annual compounding of the dividend and on the constant growth of that dividend. This model is consistent with the model contained in the textbook used in the Investments class that I took while attending the University of Missouri, Columbia in which I graduated with a B.S.B.A. with an emphasis in Finance and Banking, and Real Estate with a GPA of 3.5. The textbook was the Essentials of Investments, Bodie, Zvi; Kane, Alex; Marcus, Alan J. (1992). This form of the DCF model is also consistent with the annual compounding model shown in Mr. Dunn's Schedule JCD-2, which is the same model that Mr. Dunn used.

Q. Beginning on page 42, line 4 of his rebuttal testimony, Mr. Dunn criticizes your criteria as not being true risk criteria. How do you respond?

A. The most important aspect of any comparable company analysis to evaluate the cost of capital is to select companies whose operations are as confined to the subject company's operations as much as possible. This is exactly why this type of analysis is often referred to as a "pure play" analysis. As I demonstrated in my rebuttal testimony, Mr. Dunn has a few comparable companies in his proxy group that don't meet this criterion. In order to select companies that have comparable business risks to the natural gas distribution business, it is essential to pick companies that are predominately in the natural gas distribution business.

Q. Starting on page 43, line 10 of his rebuttal testimony, Mr. Dunn compares certain DCF cost of common equity results produced by Staff and OPC. How do you respond?

A. This is the one area where I agree with Mr. Dunn that these are "mechanical" calculations. The results for each individual company indicated in column (5) of Schedule 18 attached to my direct testimony are not intended to be refined estimates of the cost of common equity for my final estimated cost of common equity. As shown in my final estimated cost of common equity for my proxy group of 8.20 percent to 9.20 percent with a midpoint of 8.70 percent, I did not recommend the average of 8.35 percent indicated at the bottom of column (5). After reviewing all of the growth rates, I determined that some additional weight should be given to the projected growth rates indicated on Schedule 16 of my direct testimony. It is not the individual DCF results that should be compared to test the reasonableness of Staff's and OPC's recommendation, it is the overall recommendation that should be compared and this validates Staff's recommendation in this case.

Response to Mr. Allen's Rebuttal Testimony

Q. Do you agree with Mr. Allen's position that because the debt held at Panhandle is non-recourse it should not be included in the recommended embedded cost of long-term debt for MGE?

A. No. Whether debt is recourse or not does not drive the availability of funds for general corporate use. A corporation can assign certain debt issuances to its divisions and claim that this is the proper embedded cost of long-term debt to apply to those divisions and at the same time refinance other debt issuances within the corporation. The refinancing of other debt will drive the cost of capital down for the company, but because a division has specific debt issuances assigned to it at some higher historical embedded cost, it would not recognize the lower cost of debt that the company has achieved. This is the reason why all of Southern Union's debt should be considered in the embedded cost of long-term debt recommendation.

Q. How do you respond to Mr. Allen's criticism about your approach to determining the short-term debt balance to include in the capital structure?

A. I believe that the fact that our short-term debt balances are fairly similar shows that, in this case, both approaches are representative of Southern Union's recent utilization of short-term debt.

Summary and Conclusions

Q. Please summarize the conclusions of your surrebuttal testimony.

A. My conclusions regarding the capital structure, embedded cost of long-term debt and cost of common equity are listed below:

1. The use of the capital structure proposed by MGE is inappropriate. Although he eliminated debt held at Panhandle, Mr. Dunn did not subtract any equity that is associated with Panhandle from his capital structure. Regardless, it is more appropriate to use the consolidated capital structure of Southern Union. OPC used this capital structure with some minor differences from Staff. However, the calculation of the cost of capital for MGE should be based on Southern Union's actual consolidated capital structure as of December 31, 2003, as shown on my revised Schedule 9 attached to my rebuttal testimony;
2. Mr. Allen's use of the consolidated capital structure without the inclusion of the costs of debt associated with this capital structure is inappropriate and inconsistent with Commission precedent. My embedded cost of long-term debt which reflects all of Southern Union's debt is the appropriate cost of debt to use in the recommended rate of return;
3. My cost of common equity stated in revised Schedule 25 attached to my rebuttal testimony, which is 8.52 percent to 9.52 percent, would produce a fair and reasonable rate of return of 6.70 percent to 6.96 percent for the Missouri jurisdictional natural gas utility rate base for MGE.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

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MAY 2004

C.A. TURNER UTILITY REPORTS

THE INVESTOR'S EDGE

ELECTRIC COMPANIES

NATURAL GAS COMPANIES

TELEPHONE COMPANIES

WATER COMPANIES

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Schedule 1-1

NATURAL GAS DISTRIBUTION & INTEGRATED NAT. GAS COMPANIES

COMPANY	OPER REV $ MILL (1)	% GAS REV	NET PLANT $ MILL	NET PLANT PER $ REV (1)	S&P BOND RATING	MOODY'S BOND RATING	COMMON EQUITY RATIO (3)	% RETURN ON BOOK VALUE COMMON EQUITY (4)	% RETURN ON BOOK VALUE TOTAL CAPITAL	REGULATION ALLOWED ROE	REGULATION ORDER DATE
AGL Resources Inc. (NYSE-ATG)	[redacted]	95	[redacted]	2.39	[redacted]	A3	[redacted]	16.4	[redacted]	10.99	[redacted]
Atmos Energy Corporation (NYSE-ATO)	[redacted]	52	[redacted]	0.49	[redacted]	A3	[redacted]	9.8	[redacted]	12.10	[redacted]
Cascade Natural Gas Corporation (NYSE-CGC)	[redacted]	100	[redacted]	1.04	[redacted]	Baa1	[redacted]	8.7	[redacted]	11.75	[redacted]
Chesapeake Utilities Corporation (NYSE-CPK)	[redacted]	64	[redacted]	0.98	[redacted]	NR	[redacted]	14.4	[redacted]	-	[redacted]
Delta Natural Gas Company (NDQ-DGAS)	[redacted]	64	[redacted]	1.57	[redacted]	NR	[redacted]	9.4	[redacted]	-	[redacted]
El Paso Corporation (NYSE-EP)	[redacted]	26	[redacted]	2.30	[redacted]	B1	[redacted]	NM	[redacted]		[redacted]
Energen Corporation (NYSE-EGN)	[redacted]	62	[redacted]	1.70	[redacted]	A1	[redacted]	17.2	[redacted]	13.40	[redacted]
Energy West Incorporated (NDQ-EWST)	[redacted]	51	[redacted]	0.50	[redacted]	NR	[redacted]	3.4	[redacted]	12.63	[redacted]
EnergySouth, Inc. (NDQ-ENSI)	[redacted]	98	[redacted]	1.82	[redacted]	NR	[redacted]	14.2	[redacted]	13.60	[redacted]
Equitable Resources, Inc. (NYSE-EQT)	[redacted]	38	[redacted]	1.69	[redacted]	A2	[redacted]	19.9	[redacted]	11.00	[redacted]
KeySpan Corp. (NYSE-KSE)	[redacted]	60	[redacted]	1.29	[redacted]	A2	[redacted]	12.7	[redacted]	10.20	[redacted]
Kinder Morgan, Inc. (NYSE-KMI)	[redacted]	32	[redacted]	5.52	[redacted]	Baa2	[redacted]	15.2	[redacted]	-	[redacted]
Laclede Group, Inc. (NYSE-LG)	[redacted]	74	[redacted]	0.57	[redacted]	A3	[redacted]	11.9	[redacted]	-	[redacted]
National Fuel Gas Company (NYSE-NFG)	[redacted]	57	[redacted]	1.45	[redacted]	A3	[redacted]	17.2	[redacted]	11.50	[redacted]
New Jersey Resources Corp. (NYSE-NJR)	[redacted]	31	[redacted]	0.38	[redacted]	Aa3	[redacted]	16.1	[redacted]	11.50	[redacted]
NICOR Inc. (NYSE-GAS)	[redacted]	88	[redacted]	0.93	[redacted]	Aa3	[redacted]	14.8	[redacted]	-	[redacted]
Northwest Natural Gas Co. (NYSE-NWN)	[redacted]	98	[redacted]	1.98	[redacted]	A2	[redacted]	9.2	[redacted]	10.20	[redacted]
NUI Corporation (NYSE-NUI)	[redacted]	86	[redacted]	0.95	[redacted]	Ba3	[redacted]	7.2	[redacted]	10.60	[redacted]
ONEOK, Inc. (NYSE-OKE)	[redacted]	56	[redacted]	1.25	[redacted]	Baa1	[redacted]	14.7	[redacted]	-	[redacted]
Peoples Energy Corporation (NYSE-PGL)	[redacted]	70	[redacted]	0.86	[redacted]	Aa3	[redacted]	12.4	[redacted]	11.20	[redacted]
Piedmont Natural Gas Co., Inc. (NYSE-PNY)	[redacted]	77	[redacted]	1.35	[redacted]	A3	[redacted]	12.0	[redacted]	11.30	[redacted]
Questar Corporation (NYSE-STR)	[redacted]	46	[redacted]	1.89	[redacted]	A2	[redacted]	14.9	[redacted]	11.20	[redacted]
RGC Resources, Inc. (NDQ-RGCO)	[redacted]	72	[redacted]	0.54	[redacted]	NR	[redacted]	14.0	[redacted]	9.85	[redacted]
SEMCO Energy, Inc. (NYSE-SEN)	[redacted]	83	[redacted]	1.04	[redacted]	Ba2	[redacted]	NM	[redacted]	11.98	[redacted]
South Jersey Industries, Inc. (NYSE-SJI)	[redacted]	70	[redacted]	1.07	[redacted]	Baa1	[redacted]	12.9	[redacted]	11.25	[redacted]
Southern Union Company (NYSE-SUG)	[redacted]	67	[redacted]	2.15	[redacted]	Baa3	[redacted]	6.9	[redacted]	11.09	[redacted]
Southwest Gas Corporation (NYSE-SWX)	[redacted]	84	[redacted]	1.77	[redacted]	Baa2	[redacted]	6.3	[redacted]	10.69	[redacted]
Southwestern Energy Company (NYSE-SWN)	[redacted]	80	[redacted]	2.33	[redacted]	Ba2	[redacted]	19.2	[redacted]	11.30	[redacted]
UGI Corporation (NYSE-UGI)	[redacted]	18	[redacted]	0.43	[redacted]	A3	[redacted]	18.1	[redacted]	-	[redacted]
WGL Holdings, Inc. (NYSE-WGL)	[redacted]	63	[redacted]	0.91	[redacted]	A2	[redacted]	12.2	[redacted]	10.95	[redacted]
Williams Companies, Inc. (NYSE-WMB)	[redacted]	7	[redacted]	0.69	[redacted]	B1	[redacted]	NM	[redacted]		[redacted]
AVERAGE	[redacted]		[redacted]		[redacted]		[redacted]	12.9	[redacted]	11.38	[redacted]

Murray, David

From:	CUSTOMER SERVICE [VLCR@VALUELINE.COM]
Sent:	Friday, May 21, 2004 4:05 PM
To:	david.murray@psc.mo.gov
Subject:	RE: Account #160270

Dear Subscriber,

April CD was mailed April 20,2004 May CD was mailed May 17, 2004.

Sincerely,
Zohara Persaud
Client Relations Department

-----Original Message-----
From: david.murray@psc.mo.gov [mailto:david.murray@psc.mo.gov]
Sent: Friday, May 21, 2004 12:02 PM
To: vlcr@valueline.com
Subject: Account #160270

I had asked a customer service representative to send me an email indicating the dates that the April and May 2004 Value Line Investment Analyzer CDs were sent to us. I believe she indicated that the dates that Value Line sent these were April 9 for the April CD and May 7 for the May CD. Can you please confirm this? Thank you in advance for your response.

AGL RESOURCES NYSE-ATG

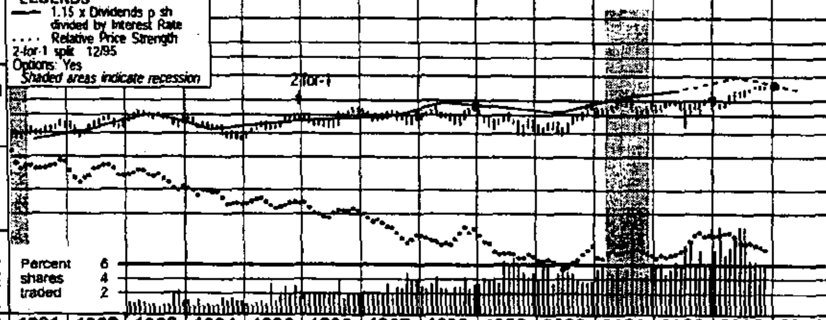
RECENT PRICE 28.80 | P/E RATIO 14.2 (Trailing: 13.8 Median: 14.0) | RELATIVE P/E RATIO 0.77 | DIV'D YLD 3.9% | VALUE LINE

TIMELINESS 4 Lowered 12/19/03
SAFETY 2 New 7/27/90
TECHNICAL 3 Lowered 4/4/03
BETA .75 (1.00 = Market)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
High:	19.5	21.3	19.4	20.0	22.0	21.6	23.4	23.4	23.2	24.5	25.0	29.0
Low:	15.1	17.0	14.6	14.9	17.1	17.8	17.7	15.6	15.5	19.0	17.3	21.9

Target Price Range
2006 | 2007 | 2008

LEGENDS
— 1.15 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 12/95
Options: Yes
Shaded areas indicate recession



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+40%)	11%
Low	30	(+5%)	5%

Insider Decisions

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

Institutional Decisions

	1Q2003	2Q2003	3Q2003
to Buy	103	95	72
to Sell	50	77	97
Hld's(000)	34881	35689	34745

% TOT. RETURN 11/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	23.0	34.9
3 yr.	45.0	40.0
5 yr.	80.5	65.3

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
26.24	22.97	21.63	22.58	20.26	20.43	22.73	23.59	19.32	21.91	22.75	23.36	18.71	11.25	19.04	15.32	*15.10*	*15.90*	Revenues per sh A	*18.45*
1.84	1.90	1.93	2.04	2.07	2.31	2.25	2.24	2.33	2.49	2.42	2.65	2.29	2.86	3.31	3.39	*3.45*	*3.65*	"Cash Flow" per sh	*4.05*
1.02	1.13	.95	1.01	1.04	1.13	1.08	1.17	1.33	1.37	1.37	1.41	.91	1.29	1.50	1.82	*2.00*	*2.10*	Earnings per sh A B	*2.25*
.80	.88	.94	.98	1.02	1.03	1.04	1.04	1.04	1.06	1.08	1.08	1.08	1.08	1.08	1.08	*1.11*	*1.12*	Div'ds Decl'd per sh C ■	*1.12*
3.59	2.86	2.65	2.73	2.95	2.74	2.49	2.37	2.17	2.37	2.59	2.05	2.51	2.92	2.83	3.30	*2.65*	*2.65*	Cap'l Spending per sh	*2.60*
7.89	8.72	8.83	8.97	9.42	9.70	9.90	10.19	10.12	10.56	10.99	11.42	11.59	11.50	12.19	12.52	*14.35*	*15.65*	Book Value per sh	*19.50*
37.48	42.47	43.40	44.32	47.57	48.69	49.72	50.86	55.02	55.70	56.60	57.30	57.10	54.00	55.10	56.70	*64.50*	*64.50*	Common Shs Outst'g D	*65.00*
11.5	11.1	13.7	14.2	15.3	15.5	17.9	15.1	12.6	13.8	14.7	13.9	21.4	13.6	14.6	12.5	Bold figures are	Value Line	Avg Ann'l P/E Ratio	*15.0*
.77	.92	1.04	1.05	.98	.94	1.06	.99	.84	.86	.85	.72	1.22	.88	.75	.68	estimates		Relative P/E Ratio	*1.00*
6.8%	7.1%	7.2%	6.8%	6.4%	5.9%	5.4%	5.9%	6.2%	5.6%	5.4%	5.5%	5.5%	6.2%	4.9%	4.7%			Avg Ann'l Div'd Yield	*3.3%*

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
1130.3	1199.9	1063.0	1220.2	1287.6	1338.6	1068.6	607.4	1049.3	868.9	*975*	*1025*	Revenues ($mill) A	*1200*
57.5	63.2	74.3	75.6	76.6	80.6	52.1	71.1	82.3	103.0	*125*	*135*	Net Profit ($mill)	*150*
32.9%	35.2%	36.9%	38.6%	37.9%	32.5%	33.1%	34.3%	40.7%	36.0%	*36.0%*	*36.0%*	Income Tax Rate	*36.0%*
5.1%	5.3%	7.0%	6.2%	5.9%	6.0%	4.9%	11.7%	7.8%	11.9%	*12.9%*	*13.1%*	Net Profit Margin	*12.3%*
40.5%	49.0%	47.4%	46.2%	48.7%	47.5%	45.3%	45.9%	61.3%	58.3%	*53.0%*	*51.0%*	Long-Term Debt Ratio	*51.0%*
53.1%	45.8%	47.6%	48.9%	45.9%	47.1%	49.2%	48.3%	38.7%	41.7%	*47.0%*	*49.0%*	Common Equity Ratio	*49.0%*
925.7	1131.5	1170.3	1201.3	1356.4	1388.4	1345.8	1286.2	1736.3	1704.3	*1975*	*1960*	Total Capital ($mill)	*2265*
1281.3	1297.4	1350.3	1415.4	1496.6	1534.0	1598.9	1637.5	2058.9	2194.2	*2400*	*2600*	Net Plant ($mill)	*2900*
8.6%	7.5%	8.2%	8.0%	7.3%	7.6%	5.7%	7.4%	6.5%	8.1%	*6.5%*	*6.5%*	Return on Total Cap'l	*6.0%*
10.4%	11.0%	12.1%	11.7%	11.0%	11.1%	7.1%	10.2%	12.3%	14.5%	*13.5%*	*13.5%*	Return on Shr. Equity	*11.5%*
10.8%	11.3%	12.5%	12.1%	11.3%	12.3%	7.9%	11.5%	12.3%	14.5%	*13.5%*	*13.5%*	Return on Com Equity	*11.5%*
.4%	3.0%	4.6%	3.8%	3.2%	4.4%	NMF	3.2%	4.2%	7.0%	*6.0%*	*6.0%*	Retained to Com Eq	*6.0%*
96%	75%	66%	71%	74%	64%	101%	72%	65%	52%	*57%*	*54%*	All Div'ds to Net Prof	*49%*

CAPITAL STRUCTURE as of 9/30/03
Total Debt 1257.4 mill. **Due in 5 Yrs** 504.1 mill.
LT Debt $1130.2 mill. LT Interest $65.0 mill.
(Inc. $228.3 million in trust-preferred securities)
(Total interest coverage: 2.9x)
Leases, Uncapitalized Annual rentals $29.1 mill.
Pension Assets-12/02 $207.8 mill. **Oblig.** $290 mill.
Pfd Stock None

Common Stock 64,266,376 shs.
MARKET CAP: $1.9 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2001	2002	9/30/03
Cash Assets	2.8	8.4	1.0
Other	214.6	578.0	550.2
Current Assets	217.4	586.4	551.2
Accts Payable	82.4	91.1	298.5
Debt Due	348.4	418.6	127.2
Other	155.8	506.1	290.3
Current Liab.	586.6	1015.8	716.0
Fix. Chg. Cov.	241%	242%	245%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	-3.0%	-6.5%	3.5%
"Cash Flow"	4.0%	5.5%	4.0%
Earnings	4.0%	2.5%	6.5%
Dividends	.5%	.5%	.5%
Book Value	2.5%	2.5%	8.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A				Full Fiscal Year
	Dec.31	Mar.31	Jun.30	Sep.30	
2000	182.3	160.1	131.8	133.2	607.4
2001	294.8	350.6	175.7	228.2	1049.3
	Mar.31	Jun.30	Sep.30	Dec.31	
2002	269.3	159.2	190.7	249.7	868.9
2003	351.4	186.6	166.3	*270.7*	*975*
2004	*330*	*220*	*180*	*295*	*1025*

Fiscal Year Ends	EARNINGS PER SHARE A B				Full Fiscal Year
	Dec.31	Mar.31	Jun.30	Sep.30	
2000	.30	.41	.26	.32	1.29
2001	.41	.83	.17	.09	1.50
	Mar.31	Jun.30	Sep.30	Dec.31	
2002	.89	.21	.17	.55	1.82
2003	.98	.29	.27	*.46*	*2.00*
2004	*.95*	*.35*	*.25*	*.55*	*2.10*

Cal-endar	QUARTERLY DIVIDENDS PAID C ■				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
1999	.27	.27	.27	.27	1.08
2000	.27	.27	.27	.27	1.08
2001	.27	.27	.27	.27	1.08
2002	.27	.27	.27	.27	1.08
2003	.27	.28	.28	.28	

BUSINESS: AGL Resources, Inc. is a public utility holding company. Its distribution subsidiaries are Atlanta Gas Light, Chattanooga Gas, and Virginia Natural Gas. The utilities have around 2 million customers in Georgia, primarily Atlanta, Virginia, and in southern Tennessee. Also engaged in nonregulated natural gas marketing and other, allied services. Also wholesales and retails propane. Nonregulated subsidiaries: Georgia Natural Gas Services markets natural gas at retail. Acquired Virginia Natural Gas, 10/00. Sold Utilipro, 3/01. Officers/directors own 1.5% of outstanding common shares (3/03 Proxy). President & CEO: Paula Rospot. Incorporated: Georgia. Address: 303 Peachtree St., N.E., Atlanta, GA 30308. Telephone: 404-584-9470. Internet: www.aglresources.com.

The share price of AGL Resources continues to edge higher. The stock has advanced a little over 2% since our last report in September, and is trading near record highs on a split-adjusted basis. The gains have been backed by solid earnings and a favorable operating environment. Share net of $1.54 for the first nine months of 2003 marked an increase of over 20% from the prior year. Meantime, low interest rates and the government's move to lower dividend taxes have added to the appeal of dividend-paying stocks, thus providing added lift to AGL shares.

The near-term earnings picture looks good for AGL Resources. We are leaving our full-year EPS estimates unchanged at $2.00 and $2.10 for 2003 and 2004, respectively. The company should reach our 2003 target with ease, given its earnings strength through the first nine months. Ironically, earnings before interest and taxes (EBIT) from AGL's core gas distribution operations are down slightly this year as a result of greater overhead expenses, including higher leasing costs, and increased insurance and benefit costs. Lower earnings from its gas utilities have been more than offset this year, though, by greater EBIT from nonregulated businesses. EBIT from Wholesale Services rose 356% to $21.9 million, while EBIT from the Energy Investments unit rose 47% to $26.6 million. In 2004, we expect earnings to continue to improve from nonregulated businesses as AGL further develops these relatively new segments for the company. Also, we anticipate incremental growth from AGL's utility operations, following a full year of absorbing higher overhead costs. The segment should benefit from an expanding customer base and higher gas usage per customer.

AGL Resources is exiting the retail propane business. It agreed to sell its interest in Heritage Propane Partners for $29 million in a transaction expected to close at yearend. The move is consistent with the company's goal to shed nonstrategic operations and to build its financial position.

This is a good-quality income stock. It offers a decent yield with excellent share-price stability. Investors should note that further share-price gains appear limited.

Michael P. Maloney — *December 19, 2003*

(A) Fiscal year ends December 31st. Ended September 30th prior to 2002. (B) Diluted earnings per share. Next earnings report due late Jan. Excl. nonrecurring gains (losses): '88, $0.15; '95, d$0.83; '99, $0.39; '00, $0.13; '01, $0.13. (C) Dividends historically paid early March, June, Sept, and Dec. ■ Div'd reinvest. plan available. (D) In millions, adjusted for stock split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	30
Earnings Predictability	60

CASCADE NAT'L GAS NYSE-CGC

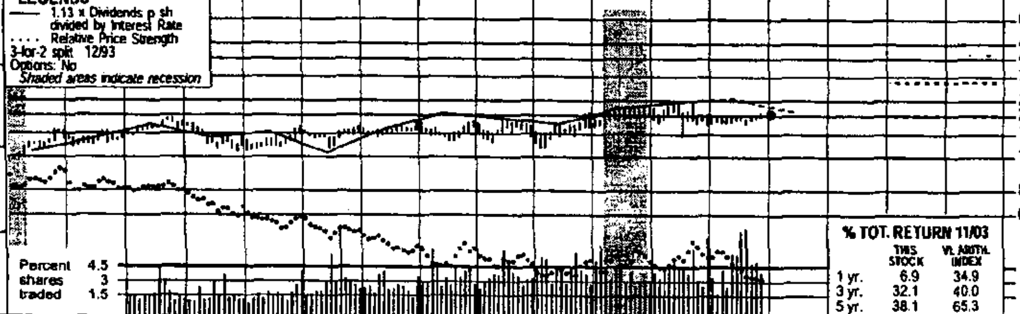
RECENT PRICE 20.35 | P/E RATIO 15.9 (Trailing: 23.1; Median: 18.0) | RELATIVE P/E RATIO 0.86 | DIV'D YLD 4.7% | VALUE LINE

TIMELINESS 5 Lowered 5/30/03
SAFETY 3 New 7/27/90
TECHNICAL 3 Raised 11/14/03
BETA .70 (1.00 = Market)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
High:	16.8	19.4	18.1	17.5	17.5	19.0	18.7	19.8	20.9	22.8	24.2	21.0	
Low:	13.6	15.5	12.8	13.0	13.4	15.3	14.6	14.4	13.4	17.4	15.5	18.0	

Target Price Range 2006 | 2007 | 2008

LEGENDS
—— 1.13 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 12/93
Options: No
Shaded areas indicate recession



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+45%)	14%
Low	20	(Nil)	5%

Insider Decisions

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

Institutional Decisions

	1Q2003	2Q2003	3Q2003
to Buy	36	47	36
to Sell	28	27	36
Hld's(000)	4894	4898	4810

Percent shares traded 4.5 / 3 / 1.5

% TOT. RETURN 11/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	6.9	34.9
3 yr.	32.1	40.0
5 yr.	38.1	65.3

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
24.07	24.51	26.87	24.45	23.27	20.03	21.88	21.59	19.98	11.84	17.85	17.17	18.89	21.90	30.40	29.06	27.21	30.65	Revenues per sh A	37.50
1.56	1.97	2.47	2.36	2.29	1.66	2.04	1.71	2.07	1.22	1.92	2.06	2.40	2.60	2.72	2.48	2.25	2.85	"Cash Flow" per sh	3.40
.64	.84	1.29	1.26	1.14	.63	1.05	.60	.80	.39	.93	.84	1.24	1.39	1.47	1.13	.87	1.35	Earnings per sh AB	1.75
.85	.85	.85	.87	.90	.93	.94	.96	.96	.72	.96	.96	.96	.96	.96	.96	.96	.96	Div'ds Decl'd per sh C■	.98
1.43	1.62	1.99	2.50	2.97	4.64	3.85	3.06	4.12	2.42	2.66	2.32	1.81	1.65	2.16	1.91	2.50	3.15	Cap'l Spending per sh	4.15
7.45	7.46	7.96	8.33	8.63	9.09	9.96	9.81	9.76	10.09	10.16	10.07	10.36	10.79	11.01	10.34	11.15	12.75	Book Value per sh D	14.65
6.36	6.43	6.49	6.56	6.63	7.61	8.57	8.91	9.14	10.79	10.97	11.05	11.05	11.05	11.05	11.05	11.13	11.10	Common Shs Outst'g E	12.00
16.0	11.7	8.6	8.9	12.2	23.7	16.6	25.7	18.2	40.0	17.6	19.4	13.7	11.7	13.4	18.2	22.0		Avg Ann'l P/E Ratio	15.0
1.07	.97	.65	.66	.78	1.44	.98	1.69	1.22	2.51	1.01	1.01	.78	.76	.69	.96	1.28		Relative P/E Ratio	1.00
8.3%	8.7%	7.7%	7.8%	6.4%	6.2%	5.4%	6.2%	6.6%	4.6%	5.9%	5.9%	5.7%	5.9%	4.9%	4.7%	5.0%		Avg Ann'l Div'd Yield	3.7%

CAPITAL STRUCTURE as of 6/30/03

Total Debt $164.9 mill. Due in 5 Yrs $45.0 mill.
LT Debt $164.9 mill. LT Interest $10.0 mill.
(LT interest earned: 2.7x; total interest coverage: 2.6x)

Pension Assets-9/02 $37.9 mill. Oblig. $56.9 mill.

Pfd Stock None

Common Stock 11,132,000 shs. as of 9/30/03

MARKET CAP: $225 million (Small Cap)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
187.5	192.4	182.7	127.7	195.8	189.7	208.6	241.9	335.8	321.0	302.8	340	Revenues ($mill) A	450
8.9	5.8	7.7	4.2	10.6	9.8	14.2	15.4	16.2	12.5	9.7	15.0	Net Profit ($mill)	20.0
37.0%	37.8%	36.8%	34.8%	37.1%	37.4%	36.5%	37.1%	35.0%	34.9%	34.2%	35.0%	Income Tax Rate	36.0%
4.7%	3.0%	4.2%	3.3%	5.4%	5.2%	6.8%	6.4%	4.8%	3.9%	3.2%	4.4%	Net Profit Margin	4.4%
48.3%	51.3%	51.4%	46.8%	50.6%	48.4%	50.9%	51.2%	50.7%	59.1%	58.0%	55.0%	Long-Term Debt Ratio	56.0%
47.3%	44.8%	45.0%	50.0%	46.5%	48.7%	46.6%	48.8%	49.3%	40.9%	42.0%	45.0%	Common Equity Ratio	44.0%
180.2	194.9	198.5	217.8	239.4	228.5	245.6	244.2	246.6	279.1	295	315	Total Capital ($mill)	400
197.4	213.9	239.1	255.7	265.2	276.6	282.3	284.8	294.2	299.6	310	320	Net Plant ($mill)	400
6.6%	4.9%	5.9%	3.4%	6.2%	6.1%	7.5%	8.1%	8.5%	6.4%	5.0%	6.5%	Return on Total Cap'l	7.0%
9.5%	6.1%	8.0%	3.6%	9.0%	8.3%	11.7%	12.9%	13.3%	10.9%	8.0%	10.5%	Return on Shr. Equity	11.5%
9.7%	5.9%	8.1%	3.5%	9.1%	8.3%	12.0%	12.9%	13.3%	10.9%	8.0%	10.5%	Return on Com Equity	11.5%
1.6%	NMF	NMF	NMF	.7%	NMF	2.7%	4.0%	4.6%	1.7%	NMF	3.0%	Retained to Com Eq	5.0%
84%	NMF	106%	NMF	93%	108%	78%	69%	65%	85%	110%	71%	All Div'ds to Net Prof	59%

CURRENT POSITION A ($MILL.)	2001	2002	6/30/03
Cash Assets	.4	3.7	18.9
Other	31.5	35.6	28.9
Current Assets	31.9	39.3	47.8
Accts Payable	13.5	12.6	12.2
Debt Due	40.0	--	--
Other	18.9	23.1	17.8
Current Liab.	72.4	35.7	30.0
Fix. Chg. Cov.	352%	235%	270%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	2.0%	10.5%	5.5%
"Cash Flow"	2.0%	8.5%	4.5%
Earnings	3.0%	13.5%	4.5%
Dividends	.5%	2.0%	.5%
Book Value	2.0%	1.5%	5.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2000	73.8	88.8	41.6	37.7	241.9
2001	105.0	124.7	64.1	42.0	335.8
2002	102.8	122.3	56.8	39.1	321.0
2003	100.5	109.3	53.8	39.2	302.8
2004	105	128	63.5	43.5	340

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2000	.69	.89	--	d.19	1.39
2001	.76	.81	.05	d.15	1.47
2002	.56	.86	d.06	d.23	1.13
2003	.60	.67	d.18	d.22	.87
2004	.65	.85	Nil	d.15	1.35

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.24	.24	.24	.24	.96
2000	.24	.24	.24	.24	.96
2001	.24	.24	.24	.24	.96
2002	.24	.24	.24	.24	.96
2003	.24	.24	.24	.24	

BUSINESS: Cascade Natural Gas Corporation distributes natural gas to over 200,000 customers in Washington and Oregon. In 2002, total throughput was 120.1 billion cu. ft. Core customers: residential, commercial, firm industrial, interruptible (67% of oper. margin, 20% of gas deliveries); non-core: industrial, transportation service (33%, 80%). Serves pulp & paper, plywood, chem. fertilizers, oil refining, & food process. inds. Main connecting pipeline: Northwest Pipeline Corp. '02 deprec. rate: 2.9%. Est'd plant age: 12 yrs. Has around 440 employees. Officers and directors own 1.4% of com. (12/02 proxy). President and Chief Executive Officer: W. Brian Matsuyama. Inc.: WA. Address: 222 Fairview Ave. North, Seattle, WA 98109. Tel.: 206-624-3900. Internet: www.cngc.com.

We believe that Cascade Natural Gas' bottom line will bounce back substantially in fiscal 2004 (ends September 30th). Demand from residential and commercial customers should recover nicely, assuming a return to normally cold winter weather patterns. Furthermore, if the supply of hydropower tapers off, consumption from electric generation customers ought to perk up. Cascade should also be helped by a program designed to decrease employee benefits costs by between $3.0 million and $3.5 million annually. At this point in time, we look for earnings per share to be around $1.35 in fiscal 2004.

The company has the potential to post solid share-net advances over the 2006-2008 period. A generally favorable economic environment in Oregon and Washington has enabled average annual customer growth to rise at a healthy mid-single-digit rate over the years, and it seems that this trend will persist. Moreover, given the environmental advantages of natural gas and assuming that prices are at reasonable levels, a portion of new customers may come from conversions from alternative fuel sources. These factors should enable the bottom line to advance roughly 10% annually over the 2006-2008 horizon.

But a considerable amount of plant and equipment spending will likely be required to keep pace with the steady growth in account hookups. For fiscal 2004, management estimates that capital expenditures will be about $35 million (roughly 25% more than the prior year). We think this figure could range between $45 million and $55 million annually over the coming 3- to 5-year period. To help finance these programs, the company should continue to make use of the capital markets, keeping pressure on the debt ratio.

The stock offers a healthy dose of current dividend income. Future increases in the payout are likely to be slow in coming, though, as cash flow is utilized to expand the gas distribution system to accommodate customer growth.

Cascade shares are ranked to underperform the market for the coming year. That's based on recent price and earnings momentum.

Frederick L. Harris, III December 19, 2003

(A) Cal. yr. thru. 12/95. Changed to 9/30 fiscal yr. in '96. (B) Primary egs. thru. '97, then diluted. Excl. nonrec. gains (losses): '91, 19¢; '93, 3¢; '96, (11¢); '98, (2¢); '99, (1¢); '01, 9¢; '02, (16¢); '03, (5¢). Next egs. rpt. due late Jan. (C) Dividends historically paid in the middle of Feb., May, Aug., Nov. ■Div'd reinvest. plan avail. (D) Incl. deferred charges. In '02: $26.8 mill., $2.43/sh. (E) In mill., adj. for stk. split.

Company's Financial Strength	B
Stock's Price Stability	90
Price Growth Persistence	40
Earnings Predictability	70

NEW JERSEY RES. NYSE-NJR

RECENT PRICE 37.68 | P/E RATIO 15.8 (Trailing: 15.8 / Median: 14.0) | RELATIVE P/E RATIO 0.85 | DIV'D YLD 3.5% | VALUE LINE

TIMELINESS 4 Lowered 11/14/03

SAFETY 2 New 7/27/90

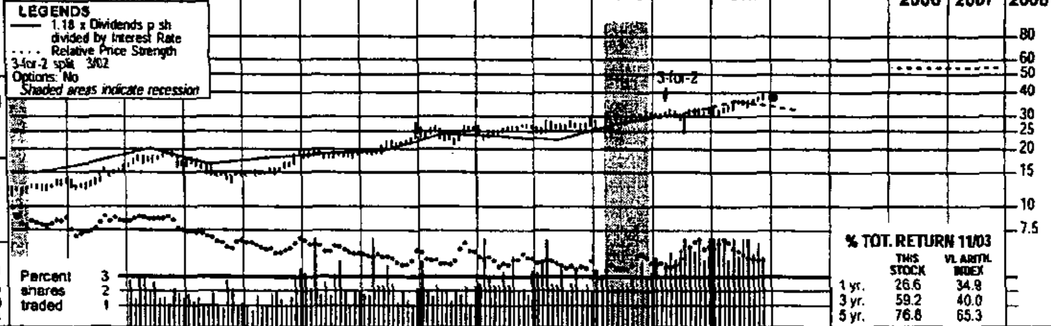
TECHNICAL 3 Raised 11/7/03

BETA .70 (1.00 = Market)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
High:	16.8	19.7	18.3	20.3	19.9	28.0	26.8	27.4	29.8	32.5	33.6	39.3
Low:	12.2	16.0	13.2	14.3	17.8	18.8	21.0	22.4	24.1	24.8	24.3	30.0

Target Price Range 2006 | 2007 | 2008

LEGENDS
— 1.18 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 3/02
Options: No
Shaded areas indicate recession



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+45%)	12%
Low	40	(+5%)	5%

Insider Decisions

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

Institutional Decisions

	1Q2003	2Q2003	3Q2003
to Buy	61	77	55
to Sell	48	40	60
Hld's(000)	12414	12408	12148

% TOT. RETURN 11/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	26.6	34.9
3 yr.	59.2	40.0
5 yr.	76.8	65.3

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
20.04	18.02	16.68	16.01	15.99	16.88	18.02	19.22	17.03	20.22	25.97	26.59	33.98	44.13	76.82	66.17	93.20	98.15	Revenues per sh A	104.00
1.80	1.75	1.64	1.54	1.58	1.95	2.14	2.31	2.13	2.22	2.45	2.60	2.79	2.99	3.18	3.21	3.55	3.65	"Cash Flow" per sh	4.60
.85	1.06	.97	.65	.55	1.09	1.15	1.26	1.29	1.37	1.48	1.55	1.66	1.79	1.95	2.09	2.38	2.45	Earnings per sh B	3.10
.80	.85	.91	.96	1.00	1.01	1.01	1.01	1.01	1.03	1.07	1.09	1.12	1.15	1.17	1.20	1.23	1.30	Div'ds Decl'd per sh C■	1.40
5.22	5.22	4.37	4.37	2.91	1.99	2.31	2.10	1.77	1.78	1.72	1.60	1.81	1.85	1.66	1.53	1.45	1.70	Cap'l Spending per sh	2.40
7.15	8.27	9.10	8.85	8.57	9.44	9.81	9.64	9.70	10.10	10.38	10.88	11.35	12.43	13.20	13.06	15.75	17.55	Book Value per sh D	24.40
13.44	16.39	19.77	20.28	20.95	24.43	25.23	25.95	26.69	27.13	26.82	26.72	26.61	26.39	26.66	27.67	27.30	26.75	Common Shs Outst'g E	25.00
14.7	11.6	13.0	24.0	22.3	12.4	15.1	13.0	11.7	13.6	13.5	15.3	15.2	14.7	14.2	14.7	14.0		Avg Ann'l P/E Ratio	15.0
.98	.96	.98	1.78	1.42	.75	.89	.85	.78	.85	.78	.80	.87	.96	.73	.78	.82		Relative P/E Ratio	1.00
6.4%	6.9%	7.2%	6.2%	8.1%	7.5%	5.8%	6.2%	6.7%	5.6%	5.3%	4.6%	4.5%	4.4%	4.2%	3.9%	3.7%		Avg Ann'l Div'd Yield	3.0%

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
454.7	498.7	454.6	548.5	696.5	710.3	904.3	1164.5	2048.4	1830.8	2544.4	2625	Revenues ($mill) A	2600
30.5	33.9	35.6	38.7	41.5	43.3	44.9	47.9	52.3	56.8	65.4	65.0	Net Profit ($mill)	75.0
29.3%	30.4%	31.0%	32.6%	33.3%	30.4%	36.2%	37.8%	38.0%	38.7%	39.4%	38.0%	Income Tax Rate	38.0%
6.7%	6.8%	7.8%	7.1%	6.0%	6.1%	5.0%	4.1%	2.6%	3.1%	2.6%	2.5%	Net Profit Margin	2.9%
53.5%	54.3%	55.7%	50.7%	49.3%	51.2%	48.7%	47.0%	50.1%	50.6%	39.0%	36.5%	Long-Term Debt Ratio	36.5%
42.6%	42.0%	41.0%	45.8%	47.1%	45.6%	51.2%	52.9%	49.9%	49.4%	61.0%	63.5%	Common Equity Ratio	63.5%
580.9	595.8	632.2	598.2	590.6	638.2	590.4	620.1	706.2	732.4	705	740	Total Capital ($mill)	960
632.6	640.4	598.1	655.2	659.4	680.0	705.4	730.6	743.9	756.4	785	785	Net Plant ($mill)	830
7.3%	7.5%	7.6%	8.1%	8.6%	8.1%	9.0%	9.0%	8.5%	8.7%	10.5%	9.5%	Return on Total Cap'l	8.5%
11.3%	12.5%	12.7%	13.1%	13.9%	13.9%	14.8%	14.6%	14.8%	15.7%	15.0%	14.0%	Return on Shr. Equity	12.5%
11.5%	12.9%	13.1%	13.5%	14.3%	14.4%	14.8%	14.6%	14.9%	15.7%	15.0%	14.0%	Return on Com Equity	12.5%
1.6%	2.6%	2.8%	3.4%	4.0%	4.4%	5.0%	5.4%	6.1%	6.9%	7.4%	6.5%	Retained to Com Eq	6.5%
87%	81%	79%	76%	73%	71%	67%	63%	59%	56%	51%	54%	All Div'ds to Net Prof	47%

CAPITAL STRUCTURE as of 6/30/03

Total Debt $380.7 mill. **Due in 5 Yrs** $125.0 mill.
LT Debt $273.7 mill. **LT Interest** $16.0 mill.
Incl. $.7 mill. capitalized leases.
(LT interest earned: 6.6x;
total interest coverage: 6.1x)
Pension Assets-9/02 $6.3 mill. **Oblig.** $27.3 mill.
Pfd Stock None

Common Stock 27,202,388 shs.
outstanding at 7/31/03
MARKET CAP: $1.0 million (Mid Cap)

CURRENT POSITION ($MILL.)	2001	2002	6/30/03
Cash Assets	4.0	1.3	2.9
Other	257.8	355.7	449.2
Current Assets	261.8	357.0	452.1
Accts Payable	38.2	39.7	33.2
Debt Due	86.3	86.8	107.0
Other	158.8	240.9	320.4
Current Liab.	283.3	367.4	460.6
Fix. Chg. Cov.	499%	507%	457%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	14.5%	24.0%	9.0%
"Cash Flow"	6.5%	6.5%	6.5%
Earnings	10.0%	7.0%	8.0%
Dividends	1.5%	2.5%	3.0%
Book Value	3.5%	5.0%	11.0%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2000	263.4	369.0	247.9	284.2	1164.5
2001	667.5	890.0	260.6	230.3	2048.4
2002	395.8	525.8	442.3	466.9	1830.8
2003	668.9	1152.7	369.7	353.1	2544.4
2004	675	1175	415	360	2625

Fiscal Year Ends	EARNINGS PER SHARE A B F Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2000	.60	1.19	.12	d.12	1.79
2001	.67	1.23	.16	d.10	1.95
2002	.73	1.29	.17	d.09	2.09
2003	.85	1.50	.16	d.13	2.38
2004	.85	1.48	.18	d.06	2.45

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.28	.28	.28	.28	1.12
2000	.287	.287	.287	.287	1.15
2001	.293	.293	.293	.293	1.17
2002	.30	.30	.30	.30	1.20
2003	.31	.31	.31	.325	

BUSINESS: New Jersey Resources Corp. is the holding company for New Jersey Natural Gas Co., a natural gas utility (about 444,000 customers at 9/30/03 in Monmouth, Ocean, and parts of other N.J. counties. Fiscal 2003 volume: 110.7 bil. cu. ft. (61% firm, 7% interruptible industrial and electric utility, 32% off-system and capacity release). New Jersey Natural Energy subsid. provides unregulated retail and wholesale natural gas and related energy services to customers in 17 states. '02 deprec. rate: 3.0%. Est'd plant age: 8 years. Has 547 utility employees, 16,300 stckhldrs. Offcrs. & dirs. own about 8% of common stock (1/03 Proxy). Chairman and CEO: Laurence M. Downes. Inc.: N.J. Addr.: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 908-938-1480. Web: www.njliving.com.

Fiscal 2003 (ended September 30th) was a banner year for New Jersey Resources. The utility posted its twelfth consecutive year of earnings gains, fueled by profitable growth at its core subsidiary, New Jersey Natural Gas (NJNG). Indeed, the company added over 11,000 new customers in 2003, maintaining its nearly 3% annual growth rate, which added over $6 million in margin. Approximately 35% of the customer additions came from residential conversions to natural gas heat from other energy sources, such as oil and electricity. Since much of the infrastructure is already in place, these conversions require lower set-up costs for the utility, and, so, are more profitable. Weather, too, was on the company's side. Temperatures for fiscal 2003 were 13% colder than normal and 35% colder than last year. Given the strength of its gas distribution business, we believe New Jersey Resources will continue to grow earnings over the next several years.

Wholesale energy services are augmenting the bottom line. NJR Energy Services, which provides bulk natural gas sales, storage, and fuel management, increased profits almost 80% in fiscal 2003, to $11.4 million. The dramatic rise reflects increased storage and capacity utilization, and greater pricing volatility. With its substantial transportation and storage assets, the company is well-positioned to capitalize on this volatility, while protecting itself through financial hedges—which have resulted in higher earnings.

Though untimely, New Jersey Resources offers the likelihood of a continually growing dividend. Recently, the company raised its quarterly dividend by 4.8%, to $0.325 a share, the ninth increase in the past eight years. Based on our estimates, NJR's dividend payout ratio will approximate 54% in fiscal 2004. Continued customer growth, coupled with contributions to returns from the company's wholesale business and off-system gas sales should allow New Jersey Resources keep its track record for steady profit growth intact. Modest share buybacks should also boost earnings per share. Moreover, cautious investors should find the stock's above-average Safety ranking and strong price stability appealing.

Edward Plank *December 19, 2003*

(A) Fiscal year ends Sept. 30th.
(B) Diluted earnings. Next earnings report due mid January.
(C) Dividends historically paid in early January, April, July, October. ■ Dividend reinvestment plan available.
(D) Includes deferred charges. At 9/30/02: $196.9 mill., $7.17/sh.
(E) In millions, adjusted for split.
(F) Earnings may not sum due to changes in shares outstanding.

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

N.W. NAT'L GAS NYSE-NWN

RECENT PRICE **30.01** | P/E RATIO **15.8** (Trailing: 18.5 / Median: 13.0) | RELATIVE P/E RATIO **0.85** | DIV'D YLD **4.3%** | VALUE LINE

TIMELINESS **4** Raised 8/8/03
SAFETY **2** New 7/27/90
TECHNICAL **3** Lowered 10/3/03
BETA .60 (1.00 = Market)

2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(Nil)	4%
Low	25	(-15%)	1%

Insider Decisions

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

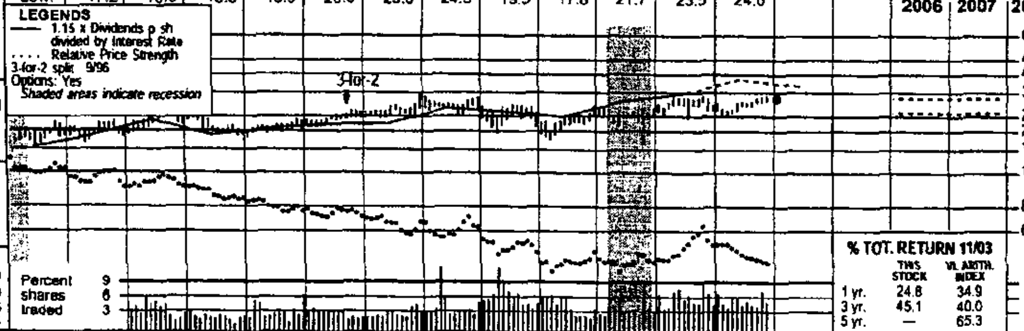
Institutional Decisions

	1Q2003	2Q2003	3Q2003
to Buy	45	54	50
to Sell	55	48	45
Hld's(000)	10395	9476	10645

High:	22.7	25.8	24.3	22.8	25.9	31.4	30.8	27.9	27.5	26.8	30.7	30.8
Low:	17.2	19.0	18.8	18.3	20.8	23.0	24.3	19.5	17.8	21.7	23.5	24.0

Target Price Range 2006 | 2007 | 2008

LEGENDS
— 1.15 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 9/96
Options: Yes
Shaded areas indicate recession



% TOT. RETURN 11/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	24.8	34.9
3 yr.	45.1	40.0
5 yr.	—	65.3

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
19.69	17.39	15.22	17.02	16.74	14.10	18.15	18.30	16.02	16.86	15.82	16.77	18.17	21.09	25.78	25.07	**22.60**	**24.25**	Revenues per sh	**29.50**
2.38	2.79	2.85	3.22	2.57	3.25	3.74	3.50	3.41	3.86	3.72	3.24	3.72	3.68	3.86	3.65	**3.80**	**4.05**	"Cash Flow" per sh	**4.50**
1.20	1.33	1.58	1.62	.67	.74	1.74	1.63	1.61	1.97	1.76	1.02	1.70	1.79	1.88	1.62	**1.75**	**1.95**	Earnings per sh A	**2.35**
1.04	1.05	1.07	1.10	1.13	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**	Div'ds Decl'd per sh B■	**1.37**
2.17	2.82	3.36	3.85	3.58	3.73	3.61	4.23	3.02	3.70	5.07	4.02	4.78	3.46	3.23	3.11	**5.00**	**3.75**	Cap'l Spending per sh	**4.00**
10.92	11.25	12.04	12.61	12.23	12.41	13.08	13.63	14.55	15.37	16.02	16.59	17.12	17.93	18.56	18.88	**19.40**	**20.20**	Book Value per sh C	**23.20**
15.69	15.96	17.14	17.41	17.68	19.46	19.77	20.13	22.24	22.56	22.86	24.85	25.09	25.23	25.23	25.59	**25.90**	**26.20**	Common Shs Outst'g D	**28.00**
11.8	10.2	9.8	10.2	28.1	27.0	12.9	13.0	12.9	11.7	14.4	26.7	14.5	12.4	12.9	17.2	*Bold figures are*	*Value Line*	Avg Ann'l P/E Ratio	**11.5**
.79	.85	.74	.76	1.79	1.64	.76	.85	.86	.73	.83	1.39	.83	.81	.66	.94	*estimates*		Relative P/E Ratio	**.75**
7.3%	7.7%	6.9%	6.7%	5.9%	5.7%	5.2%	5.5%	5.7%	5.2%	4.8%	4.5%	5.0%	5.6%	5.1%	4.5%			Avg Ann'l Div'd Yield	**4.9%**

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
358.7	368.3	356.3	380.3	361.8	416.7	455.8	532.1	650.3	641.4	**585**	**635**	Revenues ($mill)	**825**
37.7	35.5	38.1	46.8	43.1	27.3	44.9	47.8	50.2	43.8	**45.5**	**50.5**	Net Profit ($mill)	**65.0**
37.0%	36.6%	36.8%	36.9%	32.9%	31.0%	35.4%	35.9%	35.4%	34.9%	**35.0%**	**35.0%**	Income Tax Rate	**35.0%**
10.5%	9.6%	10.7%	12.3%	11.9%	6.6%	9.9%	9.0%	7.7%	6.8%	**7.8%**	**8.0%**	Net Profit Margin	**7.9%**
47.5%	47.9%	43.5%	41.4%	46.0%	45.0%	46.0%	45.1%	43.0%	47.6%	**47.5%**	**48.0%**	Long-Term Debt Ratio	**48.0%**
45.0%	45.1%	50.3%	52.8%	49.0%	50.6%	49.9%	50.9%	53.2%	51.5%	**52.5%**	**52.0%**	Common Equity Ratio	**52.0%**
575.2	607.7	643.3	657.4	748.0	815.6	861.5	887.8	880.5	937.3	**950**	**1020**	Total Capital ($mill)	**1250**
606.9	654.3	697.2	745.3	827.5	894.7	895.9	934.0	965.0	995.6	**1060**	**1100**	Net Plant ($mill)	**1325**
8.5%	7.6%	7.7%	8.9%	7.4%	5.0%	6.8%	6.7%	6.9%	5.9%	**6.5%**	**6.5%**	Return on Total Cap'l	**7.0%**
12.5%	11.2%	10.5%	12.1%	10.7%	6.1%	9.7%	9.8%	10.0%	8.9%	**9.0%**	**9.5%**	Return on Shr. Equity	**10.0%**
13.2%	11.8%	10.9%	12.7%	11.0%	6.0%	9.9%	10.0%	10.2%	8.5%	**9.0%**	**9.5%**	Return on Com Equity	**10.0%**
4.4%	3.3%	3.0%	5.0%	3.6%	NMF	2.8%	3.1%	3.5%	1.9%	**2.5%**	**3.0%**	Retained to Com Eq	**4.0%**
70%	74%	74%	63%	70%	118%	74%	70%	67%	79%	**73%**	**67%**	All Div'ds to Net Prof	**58%**

CAPITAL STRUCTURE as of 9/30/03
Total Debt $543.7 mill. **Due in 5 Yrs** $165.0 mill.
LT Debt $450.8 mill. LT Interest $32.0 mill.
Incl. $6.3 mill. 7¼% debs. due 3/1/12, each conv. into 50.25 com. shs. at $19.90.
(Total interest coverage: 2.9x)

Pension Assets-12/02 $143.2 mill. **Oblig.** $185.1 mill.

Pfd Stock None

Common Stock 25,858,818 shs.
MARKET CAP $775 million (Small Cap)

CURRENT POSITION ($MILL.)	2001	2002	9/30/03
Cash Assets	10.4	7.3	7.0
Other	199.9	186.7	124.2
Current Assets	210.3	194.0	131.2
Accts Payable	70.7	74.4	53.0
Debt Due	148.3	89.8	92.9
Other	54.6	40.8	47.1
Current Liab.	273.6	205.0	193.0
Fx. Chg. Cov.	285%	296%	275%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	4.0%	8.0%	3.5%
"Cash Flow"	2.0%	0.5%	3.0%
Earnings	5.5%	--	5.0%
Dividends	1.0%	1.0%	1.5%
Book Value	4.0%	4.0%	4.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	186.6	86.1	61.2	198.2	532.1
2001	217.3	118.2	78.4	236.4	650.3
2002	278.6	101.9	78.7	182.2	641.4
2003	206.5	117.5	69.5	191.5	585
2004	230	120	80.0	205	635

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	1.20	.07	d.22	.74	1.79
2001	.99	.17	d.22	.94	1.88
2002	1.32	d.13	d.26	.69	1.62
2003	1.01	.17	d.25	.82	1.75
2004	1.18	.15	d.23	.85	1.95

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.305	.305	.305	.31	1.23
2000	.31	.31	.31	.31	1.24
2001	.31	.31	.31	.315	1.25
2002	.315	.315	.315	.315	1.26
2003	.315	.315	.315	.325	

BUSINESS: Northwest Natural Gas Co. (doing business as NW Natural) distributes natural gas at retail to 90 communities, 540,931 customers, in Oregon (96% of revs.) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.4 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline sys. to bring gas to market. Owns local underground storage. Gas revs: resident'l & comm'l, 88%; ind., 9%; transport. and other, 3%. Employs 1,260. Has 10,359 com. shrhldrs. Insiders own about 1% of com. Chrmn: R.G. Reiten. CEO: M.S. Dodson. Inc.: OR. Addr.: 220 N.W. 2nd Ave., Portland, OR 97209. Tel.: 503-226-4211. Internet: www.nwnatural.com.

Northwest Natural seems pleased with its rate case settlement. This gas utility filed its rate application about a year ago and was able to achieve a negotiated settlement with its Oregon regulators late last summer. Management gave ground on some of the issues contained in the original application in order to realize the financial benefits in time for the current heating season. In essence, Northwest has been permitted a small revenue increase to cover higher operating costs and better recovery of expected increases in gas-supply costs. A portion of Oregon's approvals includes a revenue deferral for the company's expanded storage system and added distribution lines, all due for completion in 2004. (Oregon won't certify new infrastructure as part of the overall rate base until it is actually placed in service). Though the net effect of the latest rate order is a slightly lower allowed return on common equity to 10.20% from 10.25%, an expanding plant base should keep yearly earnings moving higher, giving the growing dividend better coverage. Of course, management will need to keep an eye on borrowing costs.

The rate order, importantly, includes a weather normalization clause. For the first time, NW Natural is permitted to adjust its tariffs upward to compensate for warmer-than-normal weather in the region during the heating season. By the same token, it will need to lower its rates to allow customers a break during a colder-than-normal winter. With weather being capricious, normalization accounting should result in a smoother upward earnings curve as the customer roster continues to grow in the Pacific Northwest's industrialized economy. Notably, the new rate design should establish a more predictable cash flow, making it easier for management to blueprint the capital budget and the next round of financing.

Reliable NW Natural shares are best held for current income. Directors, seeming to take a cue from this year's rate hike, recently upped the quarterly dividend by 3.1%, the largest increase in memory for this utility. The stock's recent price takes into account the stepped-up payout, setting the current annual yield moderately below the gas-utility average.

Gerald Holtzman *December 19, 2003*

(A) Diluted earnings per share. Excludes nonrecurring gain: '87, $0.27; '98, $0.15; '00, $0.11. Next earnings report due early February.

(B) Dividends historically paid in mid-February, mid-May, mid-August, and mid-November. In '99, extra div'd of $0.005/sh. paid Dec. 15.
■ Div'd reinvestment plan available.

(C) Includes intangibles. At 12/31/02: $5.49/sh.
(D) In millions, adjusted for stock split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	30
Earnings Predictability	65

PEOPLES ENERGY NYSE-PGL

RECENT PRICE	P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
40.74	14.6 (Trailing: 14.0 Median: 14.0)	0.79	5.2%	

TIMELINESS **5** Lowered 10/24/03

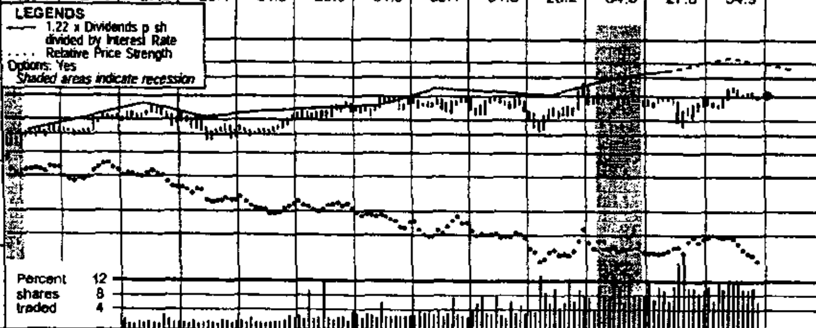
SAFETY **1** Raised 9/29/95

TECHNICAL **4** Lowered 12/19/03

BETA .75 (1.00 = Market)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
High:	31.6	35.0	32.1	32.0	37.4	39.9	40.1	40.3	46.9	44.6	40.4	45.3
Low:	24.5	27.5	23.4	24.3	29.6	31.3	32.1	31.8	26.2	34.3	27.8	34.9

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



Target Price Range 2006 | 2007 | 2008

80 60 50 40 30 25 20 15 10 7.5

2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+35%)	12%
Low	45	(+10%)	7%

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	0	0	0	0	0	0	0	0	0
Options	1	0	0	0	7	3	0	0	0
to Sell	0	1	0	0	2	0	0	0	0

Institutional Decisions

	1Q2003	2Q2003	3Q2003
to Buy	95	111	105
to Sell	79	76	81
Hld's(000)	15868	17304	17334

% TOT. RETURN 11/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	17.7	34.9
3 yr.	14.5	40.0
5 yr.	37.1	65.3

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
36.13	34.29	36.42	35.63	33.69	31.54	36.09	36.70	29.60	34.29	36.34	32.28	33.66	40.16	64.13	41.81	58.20	58.85	Revenues per sh A	71.10
3.04	3.75	3.92	3.74	3.73	3.67	3.85	3.99	3.68	4.98	4.92	4.44	4.74	5.58	5.84	5.59	5.85	6.05	"Cash Flow" per sh	7.50
1.66	2.31	2.39	2.07	2.05	2.06	2.11	2.13	1.78	2.96	2.81	2.25	2.39	2.71	3.16	2.80	2.87	2.80	Earnings per sh B	3.70
1.41	1.50	1.58	1.65	1.71	1.76	1.78	1.80	1.80	1.82	1.87	1.91	1.95	2.00	2.03	2.07	2.12	2.16	Div'ds Decl'd per sh C ■	2.24
2.83	2.66	4.15	3.15	3.10	3.40	3.77	2.50	2.75	2.45	2.55	4.05	6.45	7.02	7.52	5.66	5.05	4.30	Cap'l Spending per sh	6.25
14.27	15.09	16.20	16.61	16.95	17.72	18.02	18.39	18.38	19.49	20.43	21.03	21.66	22.02	22.76	22.74	23.05	25.15	Book Value per sh D	31.90
32.51	32.57	32.62	32.70	32.76	34.77	34.88	34.87	34.91	34.96	35.07	35.26	35.49	35.30	35.40	35.46	36.75	35.00	Common Shs Outst'g E	32.00
13.0	7.8	7.9	11.2	11.8	13.1	15.0	13.3	14.7	10.7	12.7	16.2	15.5	12.1	12.3	13.3	13.5		Avg Ann'l P/E Ratio	13.0
.87	.65	.60	.83	.75	.79	.89	.87	.98	.67	.73	.84	.88	.79	.63	.71	.79		Relative P/E Ratio	.85
6.5%	8.3%	8.4%	7.1%	7.0%	6.5%	5.6%	6.3%	6.9%	5.7%	5.2%	5.2%	5.3%	6.1%	5.2%	5.5%	5.5%		Avg Ann'l Div'd Yield	4.7%

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
1258.9	1279.5	1033.4	1198.7	1274.4	1138.1	1194.4	1417.5	2270.2	1482.5	2138.4	2060	Revenues ($mill) A	2275
74.1	74.4	62.2	103.4	98.4	79.4	84.8	96.1	111.7	99.3	103.9	100	Net Profit ($mill)	120
33.6%	30.1%	34.4%	37.6%	36.4%	36.2%	35.9%	34.1%	35.4%	34.2%	36.3%	36.0%	Income Tax Rate	36.0%
5.9%	5.8%	6.0%	8.6%	7.7%	7.0%	7.1%	6.8%	4.9%	6.7%	4.9%	4.9%	Net Profit Margin	5.3%
45.7%	49.4%	49.2%	43.6%	42.4%	41.1%	40.4%	35.1%	44.4%	40.7%	46.7%	45.5%	Long-Term Debt Ratio	39.0%
54.3%	50.6%	50.8%	56.4%	57.6%	58.9%	59.6%	64.9%	55.6%	59.3%	53.5%	54.5%	Common Equity Ratio	61.0%
1156.5	1267.5	1263.6	1208.3	1243.5	1258.0	1290.5	1196.7	1449.8	1360.3	1592.3	1620	Total Capital ($mill)	1670
1318.0	1341.9	1373.1	1381.1	1402.2	1446.7	1519.8	1645.3	1753.9	1773.9	1838.2	1975	Net Plant ($mill)	2305
8.1%	7.8%	7.0%	10.3%	9.5%	7.8%	8.0%	9.5%	9.3%	8.4%	8.1%	7.5%	Return on Total Cap'l	8.5%
11.8%	11.6%	9.7%	15.2%	13.7%	10.7%	11.0%	12.4%	13.9%	12.3%	12.3%	11.5%	Return on Shr. Equity	12.0%
11.7%	11.6%	9.7%	15.2%	13.7%	10.7%	11.0%	12.4%	13.9%	12.3%	12.3%	11.5%	Return on Com Equity	12.0%
1.9%	1.9%	NMF	5.9%	4.7%	1.7%	2.1%	3.4%	5.0%	3.3%	3.1%	3.0%	Retained to Com Eq	4.5%
84%	84%	101%	61%	66%	84%	81%	73%	64%	73%	75%	78%	All Div'ds to Net Prof	60%

CAPITAL STRUCTURE as of 6/30/03

Total Debt $896.3 mill. **Due in 5 Yrs** $610.0 mill.

LT Debt $744.3 mill. **LT Interest** $57.0 mill.
(Total interest coverage: 4.7x)

Pension Assets-9/02 $544.9 mill.
Oblig. $515.8 mill.

Pfd Stock None

Common Stock 36,666,025 shs.
(outstanding at 7/31/03)

MARKET CAP: $1.5 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2001	2002	6/30/03
Cash Assets	77.1	34.0	70.4
Other	662.5	357.9	471.9
Current Assets	739.6	391.9	542.3
Accts Payable	296.1	213.9	296.1
Debt Due	607.5	377.9	152.0
Other	149.6	178.0	237.1
Current Liab.	1053.2	769.8	685.2
Fix. Chg. Cov.	331%	259%	395%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	4.0%	8.0%	6.5%
"Cash Flow"	4.5%	4.5%	5.0%
Earnings	3.5%	3.0%	4.0%
Dividends	2.0%	2.0%	1.5%
Book Value	3.0%	3.0%	6.0%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2000	411.7	525.5	261.2	219.1	1417.5
2001	717.0	1073.8	318.5	160.9	2270.2
2002	377.5	522.8	347.1	235.1	1482.5
2003	549.2	903.8	398.1	287.3	2138.4
2004	525	880	380	275	2060

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2000	.83	1.62	.31	d.05	2.71
2001	1.03	1.76	.33	.04	3.16
2002	.87	1.55	.33	.05	2.80
2003	.87	1.77	.22	.04	F 2.87
2004	.88	1.60	.27	.05	2.80

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.48	.49	.49	.49	1.95
2000	.49	.50	.50	.50	1.99
2001	.50	.51	.51	.51	2.03
2002	.51	.52	.52	.52	2.07
2003	.53	.53	.53	.53	

BUSINESS: Peoples Energy Corporation distributes natural gas via its utility subsidiaries, Peoples Gas Light & Coke Co. (approx. 850,000 customers at 9/30/02) and North Shore Gas Co. (150,000), in Chicago and northeastern Illinois. Fiscal 2002 volume: 225 bill. cu. ft.: residential, 50%; commercial, 8%; industrial, 2%; transport, 40%. Main supplier is Natural Gas Pipeline Co. of America. Purchased gas costs and revenue taxes accounted for 54% of gas revenues in fiscal '02. 2002 depreciation rate: 3.5%. Est'd plant age: 10 years. Has 2,396 employees, 25,040 shareholders. Directors own 1% of common (1/03 Proxy). Chairman and CEO: Thomas M. Patrick. Inc.: Illinois. Address: 130 East Randolph Drive, Chicago, IL 60601. Telephone: 312-240-4000. Internet: www.pecorp.com.

Fiscal 2003 (ended September 30th) was a solid year for Peoples Energy. Weather that was 4% colder than normal, and 18.5% colder than last year, was a boon to the company's gas distribution business, adding $21 million to operating income. Gas deliveries increased 10% over the year. Unfortunately, lower pension credits and continually high bad-debt expense ($42.5 million in 2003) combined to substantially offset the weather benefits. As a result, the segment's operating income only increased marginally (about 3%) compared with 2002.

Diversified energy businesses remain the real story right now. In the aggregate, these businesses accounted for roughly $60 million (25%) of operating income in 2003. The Midstream Services group profited from better wholesale marketing opportunities, while the Retail Energy segment enjoyed higher margins and strong customer growth. Peoples' Oil and Gas segment nearly doubled its operating income. Obviously, higher commodity prices were part of the boost. But, gas production increased over 35%, to 62.7 MMcf, attributable to the company's ongoing drilling efforts, coupled with acquisitions (the Magnum Hunter properties and interests in the Corpus Christi West field).

We estimate that earnings will decline slightly in fiscal 2004. On the plus side, diversified energy businesses are expected to contribute $0.15-$0.20 a share to earnings, which assumes, based on recent drilling activity, 10%-20% production growth in the Oil and Gas segment. The minuses include an expected pension expense in the range of $11 million-$13 million (compared with a small credit in fiscal 2003) and another year of exorbitant bad-debt expense, which will both serve to again depress core utility business results. In all, we look for the company to earn $2.80 a share in fiscal 2004.

This untimely stock has an above-average current yield. Income-oriented investors should note that Peoples has always paid the dividend with a comfortable cushion and should continue to have enough room for moderate dividend growth. Too, the stock is a good holding for conservative accounts, in light of its top-notch Safety rank.

Edward Plank *December 19, 2003*

(A) Fiscal year ends Sept. 30th.
(B) Basic earnings per share. Excludes acct'g gains/(losses): '89, $0.30; '99, $0.22; '00, ($0.27). Next earnings report due late January.
(C) Dividends historically paid mid-January, April, July, October. ■ Dividend reinvestment plan available.
(D) Includes deferred charges. At 9/30/02: $33.2 mill., $0.93/sh.
(E) In millions.
(F) Earnings don't sum due to change in shares outstanding.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	40
Earnings Predictability	80

PIEDMONT NAT'L. NYSE-PNY

RECENT PRICE **41.26** | P/E RATIO **17.8** (Trailing: 20.4; Median: 15.0) | RELATIVE P/E RATIO **0.96** | DIV'D YLD **4.0%** | VALUE LINE

TIMELINESS **5** Lowered 9/12/03
SAFETY **2** New 7/27/90
TECHNICAL **4** Lowered 12/19/03
BETA .70 (1.00 = Market)

High:	20.4	26.4	23.4	24.9	25.8	36.4	36.1	36.6	39.4	38.0	38.0	41.8
Low:	15.4	18.8	18.0	18.3	20.5	22.0	27.9	28.6	23.7	29.2	27.3	33.2

Target Price Range 2006 | 2007 | 2008

2006-08 PROJECTIONS

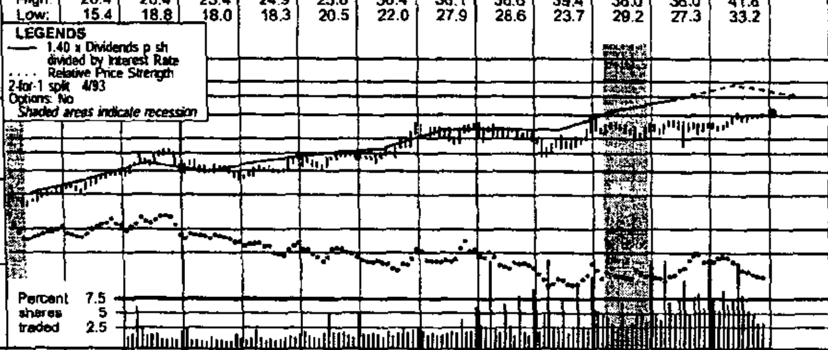
	Price	Gain	Ann'l Total Return
High	60	(+45%)	13%
Low	45	(+10%)	8%

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	7	3	1	0	0	4	1	0	7
Options	0	0	0	0	0	0	0	0	0
to Sell	3	0	2	1	0	3	3	0	0

Institutional Decisions

	1Q2003	2Q2003	3Q2003
to Buy	62	62	57
to Sell	52	61	69
Hld's(000)	9510	9448	8784



% TOT. RETURN 11/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	24.7	34.9
3 yr.	41.6	40.0
5 yr.	39.9	65.3

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
23.04	19.62	20.25	18.84	16.64	17.83	21.14	21.65	17.52	23.18	25.69	24.90	21.94	26.02	34.13	25.14	35.05	30.40	Revenues per sh A	33.40
1.74	1.75	1.92	1.94	1.56	2.15	2.28	2.26	2.51	2.98	3.25	3.44	3.39	3.54	3.62	3.62	3.90	4.10	"Cash Flow" per sh	4.65
1.10	1.19	1.21	1.22	.89	1.40	1.45	1.35	1.45	1.67	1.85	1.96	1.86	2.01	2.02	1.89	2.15	2.30	Earnings per sh B	3.05
.65	.72	.79	.83	.87	.91	.95	1.01	1.09	1.15	1.21	1.28	1.36	1.44	1.52	1.60	1.66	1.72	Div'ds Decl'd per sh C■	1.90
2.85	3.74	3.11	3.24	2.75	2.81	3.16	3.90	3.44	3.27	3.05	2.96	3.15	3.30	2.57	2.42	2.10	2.70	Cap'l Spending per sh	3.15
7.49	8.25	8.73	9.15	9.65	10.27	10.90	11.36	12.31	13.07	13.90	14.91	15.71	16.52	17.26	17.82	19.85	21.30	Book Value per sh D	22.40
17.87	20.33	20.78	21.43	24.73	25.80	26.15	26.58	28.84	29.55	30.19	30.74	31.30	31.91	32.46	33.09	33.50	38.00	Common Shs Outst'g E	40.00
10.2	9.1	10.3	11.3	16.3	12.3	15.4	15.7	13.8	13.9	13.6	16.3	17.7	14.3	16.7	18.4	17.2		Avg Ann'l P/E Ratio	16.5
.68	.76	.78	.84	1.04	.75	.91	1.03	.92	.87	.78	.85	1.01	.93	.86	.98	1.01		Relative P/E Ratio	1.10
5.8%	6.7%	6.3%	6.0%	6.0%	5.3%	4.3%	4.8%	5.4%	4.9%	4.8%	4.0%	4.1%	5.0%	4.5%	4.6%	4.5%		Avg Ann'l Div'd Yield	3.8%

CAPITAL STRUCTURE as of 7/31/03
Total Debt $507.0 mill. Due in 5 Yrs $175.0 mill.
LT Debt $460.0 mill. LT Interest $41.0 mill.
(LT interest earned: 3.3x; total interest coverage: 3.7x)

Pension Assets-10/02 $125.1 mill.
Oblig. $149.7 mill.

Pfd Stock None

Common Stock 33,564,851 shs.
as of 9/2/03
MARKET CAP: $1.4 billion (Mid Cap)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
552.8	575.4	505.2	685.1	775.5	765.3	686.5	830.4	1107.9	832.0	1175	1155	Revenues ($mill) A	1335
37.5	35.5	40.3	48.6	55.2	60.3	58.2	64.0	65.5	82.2	70.0	90.0	Net Profit ($mill)	105.0
38.4%	37.6%	38.7%	38.9%	39.1%	39.2%	39.7%	34.7%	34.6%	33.1%	35.0%	35.0%	Income Tax Rate	35.0%
6.8%	6.2%	8.0%	7.1%	7.1%	7.9%	8.5%	7.7%	5.9%	7.5%	6.1%	7.6%	Net Profit Margin	8.0%
49.4%	50.9%	50.4%	50.3%	47.6%	44.7%	46.2%	46.1%	47.6%	43.9%	41.0%	46.5%	Long-Term Debt Ratio	33.5%
50.6%	49.1%	49.6%	49.7%	52.4%	55.3%	53.8%	53.9%	52.4%	56.1%	59.0%	53.5%	Common Equity Ratio	66.5%
563.0	615.0	716.0	777.1	800.8	829.3	914.7	978.4	1069.4	1051.6	1125	1510	Total Capital ($mill)	1345
654.5	734.9	801.3	862.0	941.7	990.6	1047.0	1072.0	1114.7	1158.5	1280	1350	Net Plant ($mill)	1520
8.6%	7.7%	7.5%	8.2%	8.9%	9.2%	8.1%	8.3%	7.9%	7.8%	8.0%	7.0%	Return on Total Cap'l	9.0%
13.2%	11.6%	11.4%	12.6%	13.1%	13.2%	11.8%	12.1%	11.7%	10.6%	10.5%	11.0%	Return on Shr. Equity	11.5%
13.2%	11.6%	11.4%	12.6%	13.1%	13.2%	11.8%	12.1%	11.7%	10.6%	10.5%	11.0%	Return on Com Equity	11.5%
4.4%	2.8%	2.7%	3.9%	4.6%	4.7%	3.3%	3.5%	3.0%	1.7%	2.0%	3.0%	Retained to Com Eq	3.0%
67%	76%	76%	69%	65%	65%	72%	71%	75%	83%	79%	73%	All Div'ds to Net Prof	72%

CURRENT POSITION ($MILL.)	2001	2002	7/31/03
Cash Assets	5.6	13.1	13.5
Other	169.7	162.7	208.3
Current Assets	175.3	175.8	221.8
Accts Payable	41.1	51.1	71.2
Debt Due	34.0	93.5	47.0
Other	74.1	60.5	54.9
Current Liab.	149.2	205.1	173.1
Fix. Chg. Cov.	307%	290%	288%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	5.0%	5.0%	5.0%
"Cash Flow"	6.5%	4.5%	6.5%
Earnings	5.5%	3.5%	7.5%
Dividends	5.5%	6.0%	4.0%
Book Value	6.0%	5.5%	7.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2000	268.6	283.0	131.2	147.6	830.4
2001	467.6	408.0	121.8	110.5	1107.9
2002	288.7	293.9	127.9	121.5	832.0
2003	493.5	407.8	140.1	133.6	1175
2004	465	400	150	140	1155

Fiscal Year Ends	EARNINGS PER SHARE A B F Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2000	1.40	1.18	d.32	d.25	2.01
2001	1.56	1.23	d.37	d.40	2.02
2002	1.26	1.27	d.27	d.36	1.89
2003	1.74	.93	d.29	d.23	2.15
2004	1.55	1.25	d.25	d.25	2.30

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.325	.345	.345	.345	1.36
2000	.345	.365	.365	.365	1.44
2001	.365	.385	.385	.385	1.52
2002	.40	.40	.40	.40	1.60
2003	.415	.415	.415	.415	

BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 740,000 customers in North Carolina, South Carolina, and Tennessee. 2002 revenue mix: residential (30%), commercial (22%), industrial (45%), other (3%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 53.3% of revenues. '02 depreciation rate: 3.3%. Estimated plant age: 8.7 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 1,715 employees, 18,665 shareholders of record. CEO & President: Thomas E. Skains. Incorporated: North Carolina. Address: 1915 Rexford Road, P.O. Box 33068 Charlotte, NC 28233. Telephone: 704-364-3120. Internet: www.piedmontng.com.

Piedmont Natural Gas completed its purchase of North Carolina Natural Gas (NCNG). The company financed the $425 million acquisition with commercial paper, but plans to issue $250 million in long-term debt and $200 million in equity to realign its capital structure. The deal adds about 180,000 residential, commercial and industrial natural gas customers in eastern and southern North Carolina, and will likely contribute $0.10-$0.15 to share earnings in fiscal 2004 (began November 1st). Piedmont plans to direct about a quarter of its 2004 capital-spending budget, targeted at $102 million, toward NCNG's operations.

We look for profits to reach $2.30 a share in fiscal 2004, which is at the lower end of management's projected range of $2.25-$2.40, and about 7% higher than the $2.15 PNY probably earned in fiscal 2003. Recently approved rate cases in Tennessee for $10.3 million (PNY wanted $18 million) and $29.4 million for NCNG (the company sought $44 million) should support earnings growth going forward. And Piedmont should be able to maintain a customer growth rate of 3.0%-3.5% in 2004. But, high wholesale natural gas costs could hurt net income by as much as $0.10-$0.15 a share. Indeed, higher gas prices may lead some customers to switch to lower-cost fuels, as well as increase gas carrying costs and uncollectibles from low-income customers.

Piedmont has sold off some of its non-utility interests. In an effort to focus on it core gas distribution business and other energy ventures in the Southeast, the company divested its stake in Heritage Propane Partners for about $27 million. Similarly, the company sold its interest in the Greenbrier Pipeline project to Dominion Resources for $9.2 million. The proceeds from both sales will be used to pay down long-term debt.

This equity is presently untimely for the year ahead. Still, income-oriented investors may find favor with PNY for its good, steady dividend growth. Currently, the yield stands at 4%, about par for the LDC group. The stock's above-average Safety rank is testament to the company's stable finances and strong demographic base in the Southeast.

Edward Plank *December 19, 2003*

(A) Fiscal year ends October 31st.
(B) Diluted earnings. Excl. extraordinary item: '00, 16¢. Excl. nonrecurring charge: '97, 4¢. Next egs. report due mid February.
(C) Dividends historically paid mid-January, April, July, October.
■ Div'd reinvest. plan available; 5% discount.
(D) Incl. def'd chrgs. At 10/31/02: $3.8 mill., 11¢/sh.
(E) In millions, adj. for stock split.
(F) Qtrs. may not add to total due to change in shares outstanding.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	65
Earnings Predictability	85

SOUTH JERSEY INDS. NYSE-SJI

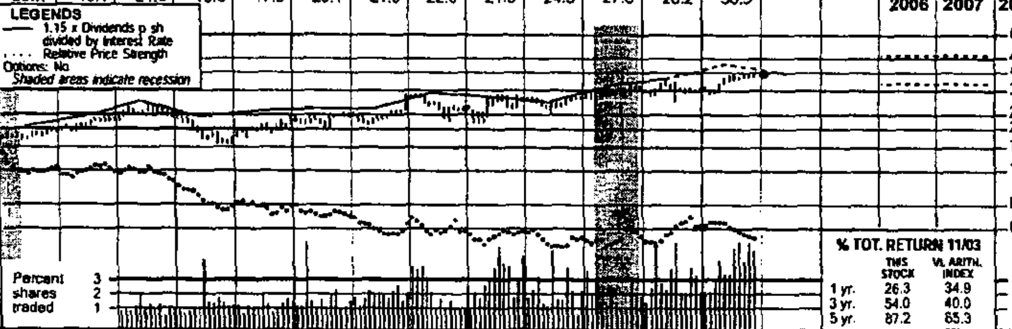
RECENT PRICE **39.51** | P/E RATIO **14.5** (Trailing: 13.8 Median: 14.0) | RELATIVE P/E RATIO **0.78** | DIV'D YLD **4.1%** | VALUE LINE

TIMELINESS **3** Raised 9/13/02
SAFETY **2** Lowered 1/4/91
TECHNICAL **4** Lowered 12/19/03
BETA .55 (1.00 = Market)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
High:	23.2	27.5	24.0	23.5	24.6	30.5	30.8	30.8	30.1	34.1	36.7	39.6
Low:	19.1	21.8	16.6	17.9	20.1	21.0	22.0	21.5	24.5	27.6	28.2	30.5

Target Price Range 2006 | 2007 | 2008

LEGENDS
— 1.15 x Dividends p sh divided by Interest Rate
···· Relative Price Strength
Options: No
Shaded areas indicate recession



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+25%)	9%
Low	35	(-10%)	1%

Insider Decisions

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

Institutional Decisions

	1Q2003	2Q2003	3Q2003
to Buy	31	40	45
to Sell	27	30	30
Hld's(000)	4477	4658	4854

% TOT. RETURN 11/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	26.3	34.9
3 yr.	54.0	40.0
5 yr.	87.2	65.3

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
32.59	29.66	30.54	28.80	30.19	33.33	34.06	34.90	33.00	33.05	32.36	41.77	35.19	44.86	70.60	41.38	51.90	55.75	Revenues per sh	62.95
2.79	3.03	3.00	2.68	2.75	3.12	3.08	2.70	3.30	3.08	3.19	2.87	3.67	3.90	3.79	4.25	4.45	4.70	"Cash Flow" per sh	5.20
1.57	1.88	1.66	1.33	1.27	1.61	1.55	1.21	1.65	1.70	1.71	1.28	2.01	2.16	2.29	2.43	2.65	2.80	Earnings per sh A	3.30
1.26	1.29	1.36	1.40	1.41	1.41	1.43	1.44	1.44	1.44	1.44	1.44	1.44	1.46	1.48	1.51	1.56	1.62	Div'ds Decl'd per sh B ■	1.77
4.25	4.41	4.55	4.21	4.34	3.39	3.74	3.86	4.16	4.02	4.61	6.11	4.37	4.42	5.64	6.94	4.60	5.00	Cap'l Spending per sh	5.20
12.42	13.24	13.49	13.58	13.53	13.90	14.33	14.46	14.67	16.08	12.86	12.45	13.48	14.50	15.62	19.34	20.20	22.40	Book Value per sh	29.35
7.84	8.47	8.48	9.03	9.24	9.50	9.80	10.72	10.72	10.76	10.77	10.78	11.15	11.50	11.86	12.21	13.00	13.00	Common Shs Outst'g C	13.50
12.7	9.3	11.9	13.6	14.5	13.2	15.8	16.1	12.2	13.3	13.8	21.2	13.3	13.0	13.6	13.5	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	13.0
.85	.77	.90	1.01	.93	.80	.93	1.06	.82	.83	.80	1.10	.76	.85	.70	.74			Relative P/E Ratio	.85
6.3%	7.4%	6.9%	7.7%	7.6%	6.6%	5.9%	7.4%	7.2%	6.4%	6.1%	5.3%	5.4%	5.2%	4.7%	4.6%			Avg Ann'l Div'd Yield	4.1%

CAPITAL STRUCTURE	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
	333.9	374.0	353.8	355.5	348.6	450.2	392.5	515.9	837.3	505.1	675	725	Revenues ($mill)	850
	15.2	12.6	17.8	18.5	18.4	13.8	22.0	24.7	26.8	29.4	35.0	37.0	Net Profit ($mill)	45.0
	31.8%	35.1%	34.4%	35.5%	36.8%	46.2%	42.8%	43.1%	42.2%	41.4%	43.0%	43.0%	Income Tax Rate	43.0%
	4.5%	3.4%	5.0%	5.2%	5.3%	3.1%	5.6%	4.8%	3.2%	5.8%	5.2%	5.1%	Net Profit Margin	5.3%
	50.2%	49.3%	51.4%	46.1%	54.6%	57.3%	53.8%	54.1%	57.0%	53.6%	52.0%	51.0%	Long-Term Debt Ratio	48.0%
	48.9%	49.9%	47.9%	53.2%	35.8%	33.5%	37.0%	37.6%	35.9%	46.1%	48.0%	49.0%	Common Equity Ratio	52.0%
	287.4	310.6	328.4	324.8	387.1	401.1	405.9	443.5	516.2	512.5	545	590	Total Capital ($mill)	755
	375.4	402.1	422.7	423.9	456.5	504.3	533.3	562.2	607.0	666.6	700	750	Net Plant ($mill)	900
	7.4%	6.1%	7.8%	7.9%	6.7%	5.3%	7.4%	7.4%	6.9%	7.6%	6.5%	6.5%	Return on Total Cap'l	6.5%
	10.6%	8.0%	11.2%	10.5%	10.5%	8.1%	11.7%	12.1%	12.1%	12.4%	13.5%	13.0%	Return on Shr. Equity	11.5%
	10.5%	8.0%	11.2%	10.6%	13.3%	10.3%	14.6%	14.8%	12.8%	12.5%	13.5%	13.0%	Return on Com Equity	11.5%
	.6%	NMF	1.4%	1.6%	2.1%	NMF	4.2%	4.8%	3.5%	4.7%	4.5%	5.5%	Retained to Com Eq	5.5%
	94%	119%	88%	85%	84%	112%	72%	67%	76%	62%	58%	57%	All Div'ds to Net Prof	53%

CAPITAL STRUCTURE as of 9/30/03
Total Debt $433.5 mill. Due in 5 Yrs $188.6 mill.
LT Debt $328.7 mill. LT Interest $17.5 mill.

(Total interest coverage: 3.4x)

Pension Assets-12/02 $63.1 mill. Oblig. $81.1 mill.
Pfd Stock $1.7 mill. Pfd Div'd $.1 mill.
16,904 Series B shs. 8% cum. ($100 par) callable 106.7
Common Stock 13,001,350 common shs. as of 11/3/03
MARKET CAP: $525 million (Small Cap)

CURRENT POSITION ($MILL.)	2001	2002	9/30/03
Cash Assets	4.0	4.3	5.1
Other	218.1	208.4	194.7
Current Assets	222.1	212.7	199.8
Accts Payable	48.2	76.7	64.3
Debt Due	162.1	177.2	104.8
Other	99.8	62.7	72.8
Current Liab.	310.1	316.6	241.9
Fix. Chg. Cov.	260%	335%	350%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	5.5%	10.0%	3.0%
"Cash Flow"	3.5%	4.5%	4.5%
Earnings	5.0%	6.5%	6.5%
Dividends	.5%	.5%	3.0%
Book Value	2.0%	2.5%	10.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	167.5	89.4	75.8	183.2	515.9
2001	342.6	218.6	107.9	168.2	837.3
2002	177.0	84.2	69.1	174.8	505.1
2003	279.8	106.2	90.1	198.9	675
2004	285	120	105	215	725

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	1.68	--	d.35	.83	2.16
2001	1.87	d.02	d.32	.76	2.29
2002	1.65	.06	d.27	.99	2.43
2003	1.86	.16	d.13	.76	2.65
2004	1.90	.20	d.15	.85	2.80

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.72	.36	.36	--	1.44
2000	.36	.365	.365	.365	1.46
2001	.365	.37	.37	.37	1.48
2002	.37	.375	.375	.375	1.50
2003	.385	.385	.385	.79D	

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 298,767 customers in New Jersey's southern counties, which cover 2,500 square miles and include Atlantic City. Principal suppliers include Transcontinental Gas Pipeline and Columbia Gas Pipeline. Gas revenue mix: resident'l, 31%; commercial and industrial, 11%; transportion, including off-system sales and gas marketing, 54%; off-system, 4%; cogeneration, power generation. Has 638 employees. Directors cntrl. 1.0% of com. shares; Dimensional Fund Advisors, 6.2% (3/03 proxy). Chrmn. & CEO: Charles Biscieglia. Incorp.: NJ. Address: 1 South Jersey Plaza, Rte. 54, Folsom, NJ 08037. Telephone: 609-561-9000. Web: www.sjindustries.com.

South Jersey Industries has demonstrated consistency in recent years. Earnings have advanced every year since 1999, accompanied by annual dividend increases since 2000. The share price has followed suit, reaching new highs in each of the last three years. A growing customer base has helped the utility business, but the real key to South Jersey's earnings drive has been the successful development and management of nonregulated operations, which seems to be a rarity in the energy industry these days.

Earnings are on pace for a record high again in 2003. We are looking for full-year share net to come in at $2.65, compared with $2.43 in 2002. During the seasonally weak September quarter, the company better than halved its losses to $0.13 a share from $0.27 a year ago. The improvement was led by nonregulated activities. Profits from wholesale energy marketing grew by $1.2 million as a result of effective storage and pipeline capacity management. Also, net income from onsite thermal power generation was $700,000 due to the commencement of SJI's first thermal power plant servicing the new Borgata Casino in Atlantic City.

The company targets a continuation of sound fundamentals. It expects utility customer growth to be near 3% for 2003, and should remain above the industry average for years to come. It also anticipates a rising contribution from nonutility areas. In total, South Jersey is aiming for a 6%-7% earnings growth rate over the long term. It also announced a policy of 3%-6% annual increases in the dividend.

South Jersey Industries is taking advantage of the low interest rates. It has issued over $100 million in long-term debt during the second half of this year that carries an average yield of 4.98%, using a good portion to retire debt with significantly higher yields. For instance, the company paid down $32 million in 6.95% mortgage bonds in mid-October.

This issue has proven itself as a good-quality income stock, though it has downside risk should earnings fall short of expectations, given this year's uptick in share price. Note, too, that it is trading within our 2006–2008 Target Price Range.

Michael P. Maloney *December 19, 2003*

(A) Based on avg. shs. Excl. nonrecur. gain (loss): '01, $0.13. Excl gain (losses) from discont. ops.: '96, $1.14; '97, ($0.24); '98, ($0.26); '99, ($0.02); '00, ($0.04); '01, ($0.02); '02, ($0.04). Excl. gain due to acct'g change: '93, $0.04; '01, $0.14. Next egs. report late Jan. (B) Dividends historically paid early Jan., Apr., Jul., and Oct. ■ Div. reinvest. plan avail. (2% disc.). (C) In mill. (D) Div. typically paid in January will be paid on December 30, 2003.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	80

WGL HOLDINGS NYSE-WGL

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD
27.00	16.5	(Trailing: 11.9, Median: 15.0)	0.89	4.7%

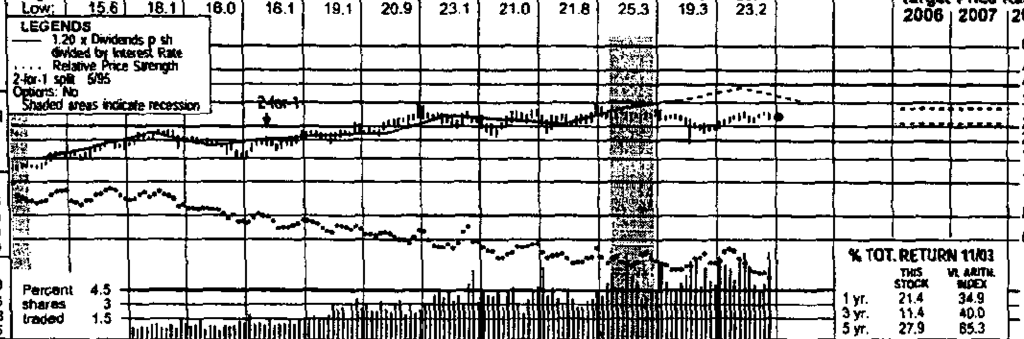
VALUE LINE

TIMELINESS 5 Lowered 11/14/03
SAFETY 1 Raised 4/2/93
TECHNICAL 4 Lowered 12/5/03
BETA .70 (1.00 = Market)

High:	19.6	22.9	21.3	22.4	25.0	31.4	30.8	29.4	31.5	30.5	29.5	28.8
Low:	15.6	18.1	16.0	16.1	19.1	20.9	23.1	21.0	21.8	25.3	19.3	23.2

Target Price Range 2006 | 2007 | 2008

LEGENDS
— 1.20 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 5/95
Options: No
Shaded areas indicate recession



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+10%)	7%
Low	25	(-5%)	3%

Insider Decisions

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

Institutional Decisions

	1Q2003	2Q2003	3Q2003
to Buy	74	78	65
to Sell	49	64	73
Hld's(000)	21895	23185	21665

Percent shares traded 4.5 3 1.5

% TOT. RETURN 11/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	21.4	34.9
3 yr.	11.4	40.0
5 yr.	27.9	85.3

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
20.17	18.17	19.52	18.75	17.50	18.37	21.55	21.69	19.30	22.19	24.16	23.74	20.92	22.19	29.80	32.63	42.45	35.00	Revenues per sh A	40.65
2.03	1.90	2.03	2.17	2.04	2.17	2.25	2.43	2.51	2.93	3.02	2.79	2.74	3.20	3.24	2.63	4.05	3.45	"Cash Flow" per sh	4.10
1.14	1.26	1.22	1.26	1.14	1.27	1.31	1.42	1.45	1.85	1.85	1.54	1.47	1.79	1.88	1.14	2.30	1.70	Earnings per sh B	2.05
.90	.94	.97	1.01	1.05	1.07	1.09	1.11	1.12	1.14	1.17	1.20	1.22	1.24	1.26	1.27	1.28	1.29	Div'ds Decl'd per sh C■	1.33
2.32	2.79	3.00	2.38	2.05	2.17	2.43	2.84	2.63	2.85	3.20	3.62	3.42	2.67	2.68	3.34	2.55	2.55	Cap'l Spending per sh	2.55
9.40	9.96	9.86	10.17	9.63	10.66	11.04	11.51	11.95	12.79	13.48	13.86	14.72	15.31	16.24	15.78	16.25	16.65	Book Value per sh D	18.40
33.91	38.42	38.70	39.23	39.89	40.62	41.50	42.19	42.93	43.70	43.70	43.84	46.47	46.47	48.54	48.56	48.60	48.60	Common Shs Outst'g E	48.60
11.0	9.6	10.6	11.7	12.8	13.6	15.6	14.0	12.7	11.5	12.7	17.2	17.3	14.6	14.7	23.1	12.4		Avg Ann'l P/E Ratio	13.0
.74	.80	.80	.87	.82	.82	.92	.92	.85	.72	.73	.89	.99	.95	.75	1.22	.69		Relative P/E Ratio	.85
7.2%	7.6%	7.5%	6.9%	7.2%	6.2%	5.3%	5.6%	6.1%	5.4%	5.0%	4.5%	4.8%	4.8%	4.6%	4.8%	4.6%		Avg Ann'l Div'd Yield	4.3%

CAPITAL STRUCTURE as of 9/30/03
Total Debt $815.5 mill. Due in 5 Yrs $368.9 mill.
LT Debt $620.7 mill. LT Interest $40.0 mill.
(Total interest coverage: 2.8x)

Pension Assets-9/02 $611.2 mill. **Oblig.** $567.1 mill.

Preferred Stock $28.2 mill. **Pfd Div'd** $1.3 mill.

Common Stock 48,600,881 shs.
as of 7/31/03

MARKET CAP: $1.3 billion (Mid Cap)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		06-08
894.3	914.9	828.7	969.8	1055.8	1040.6	972.1	1031.1	1446.5	1584.8	2062.8	1700	Revenues ($mill) A	1975
55.1	60.5	62.9	81.6	82.0	68.6	68.8	84.6	89.9	55.7	112.1	83.0	Net Profit ($mill)	100
38.6%	38.1%	37.4%	37.7%	36.9%	35.6%	36.0%	36.1%	39.6%	34.0%	43.1%	37.0%	Income Tax Rate	37.0%
6.2%	6.6%	7.6%	8.4%	7.8%	6.6%	7.1%	8.2%	6.2%	3.5%	5.4%	4.9%	Net Profit Margin	5.1%
41.7%	40.0%	37.8%	37.6%	41.1%	40.3%	41.5%	43.1%	41.7%	45.7%	42.3%	41.0%	Long-Term Debt Ratio	40.0%
54.9%	56.7%	58.9%	59.4%	56.2%	57.1%	56.1%	54.8%	56.3%	52.4%	55.6%	57.0%	Common Equity Ratio	58.0%
834.3	856.3	870.6	941.1	1049.0	1064.8	1218.5	1299.2	1400.8	1462.5	1466.2	1465	Total Capital ($mill)	1575
921.1	995.0	1056.1	1130.6	1217.1	1319.5	1402.7	1460.3	1519.7	1606.8	1700	1750	Net Plant ($mill)	1950
8.1%	8.7%	8.7%	10.1%	9.3%	8.0%	7.1%	7.9%	7.9%	5.3%	7.6%	6.0%	Return on Total Cap'l	6.5%
11.3%	11.8%	11.6%	13.9%	13.3%	10.8%	9.7%	11.4%	11.0%	7.0%	13.3%	9.5%	Return on Shr. Equity	10.5%
11.7%	12.2%	12.0%	14.4%	13.7%	11.1%	9.9%	11.7%	11.2%	7.2%	13.7%	10.0%	Return on Com Equity	11.0%
2.2%	2.6%	2.8%	5.6%	5.1%	2.5%	1.8%	3.7%	3.8%	NMF	6.0%	2.5%	Retained to Com Eq	3.5%
81%	79%	77%	62%	63%	78%	82%	69%	67%	112%	57%	75%	All Div'ds to Net Prof	65%

CURRENT POSITION ($MILL.)	2001	2002	9/30/03
Cash Assets	12.1	2.5	4.5
Other	380.4	338.3	399.9
Current Assets	392.5	340.8	404.4
Accts Payable	116.8	138.5	158.4
Debt Due	182.2	133.3	194.8
Other	61.9	65.7	48.9
Current Liab.	360.9	337.5	402.1
Fix. Chg. Cov.	381%	337%	325%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '06-'08
Revenues	4.5%	5.0%	6.5%
"Cash Flow"	3.5%	1.5%	5.0%
Earnings	3.0%	-1.5%	4.0%
Dividends	2.0%	2.0%	1.0%
Book Value	4.5%	4.5%	2.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2000	310.5	392.3	171.6	156.7	1031.1
2001	540.3	605.2	182.4	118.6	1446.5
2002	417.1	564.8	314.2	288.7	1584.8
2003	558.7	851.1	373.2	279.8	2062.8
2004	395	640	375	290	1700

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2000	.85	1.39	d.12	d.33	1.79
2001	1.08	1.33	d.15	d.38	1.88
2002	.66	1.09	d.14	d.47	1.14
2003	1.10	1.61	d.05	d.36	2.30
2004	.80	1.25	d.05	d.30	1.70

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1999	.30	.305	.305	.305	1.22
2000	.305	.31	.31	.31	1.24
2001	.31	.315	.315	.315	1.26
2002	.315	.318	.318	.318	1.27
2003	.318	.32	.32	.32	

BUSINESS: WGL Holdings, Inc. is the parent of Washington Gas Light, a natural gas distributor in Washington, D.C. and adjacent areas of VA. and MD. to resident'l and comm'l users (939,291 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. Has 2,205 employees. Off./dir. own less than 1% of the common stock (1/03 proxy). Chairman & CEO: J.H. DeGraffenreidt, Inc.: D.C. and VA. Address: 1100 H St., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.

Earnings for WGL Holdings were strong in 2003 (fiscal year ended September 30th). Share net more than doubled to $2.30, from $1.14 in 2002. The bottom line benefited from extremely cold weather in WGL's service areas last winter, prompting high customer gas usage.

Profits will likely be down significantly in 2004. We expect a sharp dropoff in the first half of the year. Our assumptions for normal weather patterns this heating season would presumably lead to a significant decline in customer demand. Additionally, results from WGL's gas services to the Washington, D.C. area will be hurt by a rate decrease imposed by regulators last April if the company's new D.C. filing for $19 million in rate relief is not granted. WGL has provided initial EPS guidance between $1.60 and $1.70 for the full year, which seems fair.

WGL Holdings has laid out its five-year objectives. It is aiming for average annual earnings growth of 5% out to 2008. The company intends to achieve this with the expectation of at least 3% yearly growth in its utility customer base, which it has sustained since 1998. WGL also looks to continue with the development of its nonregulated businesses, which contributed less than 3% to earnings in 2003. Meanwhile, it is reviewing ways to trim operating expenses, which have increased amid rising benefit and pension costs. Too, WGL intends to hold a tight lid on capital expenditures.

Future dividend increases fit into the company's plans, . . . WGL has raised the dividend in each of the last 27 years.
. . . as does building upon its already healthy financial position. In 2003, WGL's long-term debt-to-capital ratio fell to 43%, from just under 46% in the prior year. We look for gradual improvement in the years ahead.

Though untimely, this income stock should hold some appeal for conservative investors. The dividend should be well covered by profits, and the yield is competitive among WGL's gas utility peers. Moreover, these shares hold our highest ratings for Safety (1) and Stock Price Stability (100). Investors should note that the prospects for share-price appreciation are quite narrow, though.

Michael P. Maloney *December 19, 2003*

(A) Beginning 1989, fiscal years end Sept. 30th. (B) Based on diluted shares. Excludes nonrecurring losses: '01, (13¢); '02, (34¢). Next earnings report due late Jan. (C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available. (D) Includes deferred charges and intangibles. '02: $152.2 million, $3.13/sh. (E) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	55
Earnings Predictability	60

AGL RESOURCES NYSE-ATG

RECENT PRICE	28.49	P/E RATIO	13.6 (Trailing: 13.7 Median: 14.0)	RELATIVE P/E RATIO	0.72	DIV'D YLD	3.9%	VALUE LINE

TIMELINESS 4 Lowered 3/5/04

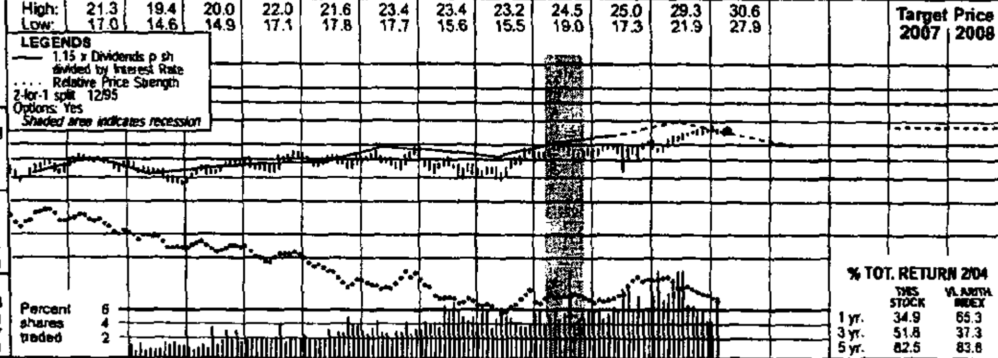
SAFETY 2 New 7/27/90

TECHNICAL 3 Lowered 4/4/03

BETA .75 (1.00 = Market)

High:	21.3	19.4	20.0	22.0	21.6	23.4	23.4	23.2	24.5	25.0	29.3	30.6
Low:	17.0	14.6	14.9	17.1	17.8	17.7	15.6	15.5	19.0	17.3	21.9	27.9

Target Price Range 2007 | 2008 | 2009



2007-09 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+40%)	12%
Low	30	(+5%)	6%

Insider Decisions

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

Institutional Decisions

	2Q2003	3Q2003	4Q2003
to Buy	95	72	101
to Sell	77	97	67
Hld's(000)	35689	34745	34511

% TOT. RETURN 2/04

	THIS STOCK	VL ARITH. INDEX
1 yr.	34.9	65.3
3 yr.	51.8	37.3
5 yr.	82.5	83.8

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	© VALUE LINE PUB., INC.	07-09
22.97	21.63	22.58	20.26	20.43	22.73	23.59	19.32	21.91	22.75	23.36	18.71	11.25	19.04	15.32	15.25	*15.75*	*16.55*	Revenues per sh A	*18.85*
1.90	1.93	2.04	2.07	2.31	2.25	2.24	2.33	2.49	2.42	2.65	2.29	2.86	3.31	3.39	3.47	*3.65*	*3.75*	"Cash Flow" per sh	*4.15*
1.13	.95	1.01	1.04	1.13	1.08	1.17	1.33	1.37	1.37	1.41	.91	1.29	1.50	1.82	2.08	*2.10*	*2.15*	Earnings per sh A B	*2.35*
.88	.94	.98	1.02	1.03	1.04	1.04	1.04	1.06	1.08	1.08	1.08	1.08	1.08	1.08	1.11	*1.12*	*1.12*	Div'ds Decl'd per sh C■	*1.12*
2.86	2.65	2.73	2.95	2.74	2.49	2.37	2.17	2.37	2.59	2.05	2.51	2.92	2.83	3.30	2.45	*2.45*	*2.45*	Cap'l Spending per sh	*2.55*
8.72	8.83	8.97	9.42	9.70	9.90	10.19	10.12	10.56	10.99	11.42	11.59	11.50	12.19	12.52	14.66	*15.55*	*16.60*	Book Value per sh	*19.85*
42.47	43.40	44.32	47.57	48.69	49.72	50.86	55.02	55.70	56.60	57.30	57.10	54.00	55.10	56.70	64.50	*65.00*	*64.00*	Common Shs Outst'g D	*65.00*
11.1	13.7	14.2	15.3	15.5	17.9	15.1	12.6	13.8	14.7	13.9	21.4	13.6	14.6	12.5	12.5	*Bold figures are*		Avg Ann'l P/E Ratio	*15.0*
.92	1.04	1.05	.98	.94	1.06	.99	.84	.86	.85	.72	1.22	.88	.75	.68	.72	*Value Line*		Relative P/E Ratio	*1.00*
7.1%	7.2%	6.8%	6.4%	5.9%	5.4%	5.9%	6.2%	5.6%	5.4%	5.5%	5.5%	6.2%	4.9%	4.7%	4.3%	*estimates*		Avg Ann'l Div'd Yield	*3.2%*

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005		07-09
1199.9	1063.0	1220.2	1287.6	1338.6	1068.6	607.4	1049.3	868.9	983.7	*1025*	*1075*	Revenues ($mill) A	*1225*
63.2	74.3	75.6	76.6	80.6	52.1	71.1	82.3	103.0	132.6	*135*	*140*	Net Profit ($mill)	*155*
35.2%	36.9%	38.6%	37.9%	32.5%	33.1%	34.3%	40.7%	36.0%	39.0%	*36.0%*	*36.0%*	Income Tax Rate	*36.0%*
5.3%	7.0%	6.2%	5.9%	6.0%	4.9%	11.7%	7.8%	11.9%	13.5%	*13.4%*	*13.0%*	Net Profit Margin	*12.5%*
49.0%	47.4%	46.2%	48.7%	47.5%	45.3%	45.9%	61.3%	58.3%	50.0%	*49.0%*	*49.0%*	Long-Term Debt Ratio	*50.0%*
45.8%	47.6%	48.9%	45.9%	47.1%	49.2%	48.3%	38.7%	41.7%	50.0%	*51.0%*	*51.0%*	Common Equity Ratio	*50.0%*
1131.5	1170.3	1201.3	1356.4	1388.4	1345.8	1286.2	1736.3	1704.3	1901.4	*1965*	*2105*	Total Capital ($mill)	*2585*
1297.4	1350.3	1415.4	1496.6	1534.0	1598.9	1637.5	2058.9	2194.2	*2400*	*2600*	*2700*	Net Plant ($mill)	*2900*
7.5%	8.2%	8.0%	7.3%	7.6%	5.7%	7.4%	6.5%	8.1%	7.2%	*7.0%*	*7.0%*	Return on Total Cap'l	*6.0%*
11.0%	12.1%	11.7%	11.0%	11.1%	7.1%	10.2%	12.3%	14.5%	14.0%	*13.5%*	*13.0%*	Return on Shr. Equity	*12.0%*
11.3%	12.5%	12.1%	11.3%	12.3%	7.9%	11.5%	12.3%	14.5%	14.0%	*13.5%*	*13.0%*	Return on Com Equity	*12.0%*
3.0%	4.6%	3.8%	3.2%	4.4%	NMF	3.2%	4.2%	7.0%	6.5%	*6.5%*	*6.5%*	Retained to Com Eq	*6.0%*
75%	68%	71%	74%	64%	101%	72%	65%	52%	54%	*53%*	*51%*	All Div'ds to Net Prof	*48%*

CAPITAL STRUCTURE as of 12/31/03
Total Debt 1033.1 mill. **Due in 5 Yrs** 77.0 mill.
LT Debt $956.1 mill. LT Interest $60.0 mill.
(Inc. $225.3 million in trust-preferred securities)
(Total interest coverage: 2.9x)
Leases, Uncapitalized Annual rentals $11.8 mill.
Pension Assets-12/03 $258.9 mill. **Oblig.** $314.6 mill.
Pfd Stock None
Common Stock 64,586,932 shs.
as of 1/20/04
MARKET CAP: $1.8 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2001	2002	12/31/03
Cash Assets	2.8	8.4	16.5
Other	214.6	578.0	730.8
Current Assets	217.4	586.4	747.3
Accts Payable	82.4	91.1	73.7
Debt Due	348.4	418.6	77.0
Other	155.8	506.1	903.7
Current Liab.	586.6	1015.8	1054.4
Fix. Chg. Cov.	241%	242%	245%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '07-'09
Revenues	-3.0%	-6.5%	3.0%
"Cash Flow"	4.0%	5.5%	4.0%
Earnings	4.0%	2.5%	6.5%
Dividends	0.5%	0.5%	.5%
Book Value	2.5%	2.5%	7.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A				Full Fiscal Year
	Dec.31	Mar.31	Jun.30	Sep.30	
2001	294.8	350.6	175.7	228.2	1049.3
	Mar.31	Jun.30	Sep.30	Dec.31	
2002	269.3	159.2	190.7	249.7	868.9
2003	352.5	186.6	166.3	278.3	983.7
2004	*330*	*220*	*180*	*295*	*1025*
2005	*340*	*235*	*195*	*305*	*1075*

Fiscal Year Ends	EARNINGS PER SHARE A B				Full Fiscal Year
	Dec.31	Mar.31	Jun.30	Sep.30	
2001	.41	.83	.17	.09	1.50
	Mar.31	Jun.30	Sep.30	Dec.31	
2002	.89	.21	.17	.55	1.82
2003	.98	.29	.27	.54	2.08
2004	*.95*	*.35*	*.25*	*.55*	*2.10*
2005	*.96*	*.36*	*.27*	*.56*	*2.15*

Cal-endar	QUARTERLY DIVIDENDS PAID C■				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2000	.27	.27	.27	.27	1.08
2001	.27	.27	.27	.27	1.08
2002	.27	.27	.27	.27	1.08
2003	.27	.28	.28	.28	1.11
2004	.28				

BUSINESS: AGL Resources, Inc. is a public utility holding company. Its distribution subsidiaries are Atlanta Gas Light, Chattanooga Gas, and Virginia Natural Gas. The utilities have around 2 million customers in Georgia, primarily Atlanta, Virginia, and in southern Tennessee. Also engaged in nonregulated natural gas marketing and other, allied services. Also wholesales and retails propane. Nonregulated subsidiaries: Georgia Natural Gas Services markets natural gas at retail. Acquired Virginia Natural Gas, 10/00. Sold Utilipro, 3/01. Officers/directors own 1.5% of outstanding common shares (3/03 Proxy). President & CEO: Paula Rospot. Incorporated: Georgia. Address: 303 Peachtree St., N.E., Atlanta, GA 30308. Telephone: 404-584-9470. Internet: www.aglresources.com.

We look for good performance from AGL Resources both this year and in 2005. The company is coming off a record earnings year in 2003 due to growth in its utility businesses and a greater contribution from nonregulated activities. AGL's Distribution segment is benefiting from higher customer usage and a rise in its customer base. Elsewhere, AGL is getting supplemental profits from its smaller Wholesale Services and Energy Investment units, which should continue to grow as the company further develops its unregulated operations. Meanwhile, AGL has been doing what it can to hold expenses in check; they have come under pressure amid an increase in leasing costs, as well as higher insurance and benefit costs. AGL trimmed annual interest expense last year by over $10 million through refinancing and debt reduction.

The company's Tennessee utility has filed for a new rate plan. Chattanooga Gas has petitioned the Tennessee Regulatory Authority for a rate increase of approximately $4.5 million, its first request for a hike in nine years. The company says that the move has become necessary in order to cover the costs of its rising customer base, and to replace over 100 miles of aging gas pipelines. We anticipate that the utility will receive part or all the relief that its seeks, which should add $0.04-$0.05 a share to AGL's bottom line. As such, we have factored this into our 2004 share-net estimate of $2.10.

AGL Resources has issued a complaint to regulators against Columbia Gas Transmission, an interstate pipeline operator owned by NiSource. It is seeking $37 million in damages due to operational failures at Columbia that caused AGL's Virginia utility to interrupt supply to customers and to unnecessarily raise gas costs to customers. Any proceeds from the action will probably not affect earnings, as the compensation would primarily go to customers.

This is a good-quality issue for income. It offers a decent yield and modest dividend growth prospects, with excellent share-price stability. Progress in AGL's operations provide support for the stock, though the price uptrend over the past year limits capital gains potential.

Michael P. Maloney *March 19, 2004*

(A) Fiscal year ends December 31st. Ended September 30th prior to 2002. (B) Diluted earnings per share. Next earnings report due late Apr. Excl. nonrecurring gains (losses): '88, $0.15; '95, d$0.83; '99, $0.39; '00, $0.13; '01, $0.13; '03, d$0.07. (C) Dividends historically paid early March, June, Sept, and Dec. ■ Div'd reinvest. plan available. (D) In millions, adjusted for stock split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	30
Earnings Predictability	65

CASCADE NAT'L GAS NYSE-CGC

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
21.68	16.1	(Trailing: 22.1 Median: 18.0)	0.85	4.4%	VALUE LINE

High:	19.4	18.1	17.5	17.5	19.0	18.7	19.8	20.9	22.8	24.2	22.0	23.0
Low:	15.5	12.8	13.0	13.4	15.3	14.6	14.4	13.4	17.4	15.5	18.0	21.0

TIMELINESS **4** Raised 1/30/04
SAFETY **3** New 7/27/90
TECHNICAL **2** Raised 2/27/04
BETA .70 (1.00 = Market)

2007-09 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+40%)	11%
Low	20	(-10%)	2%

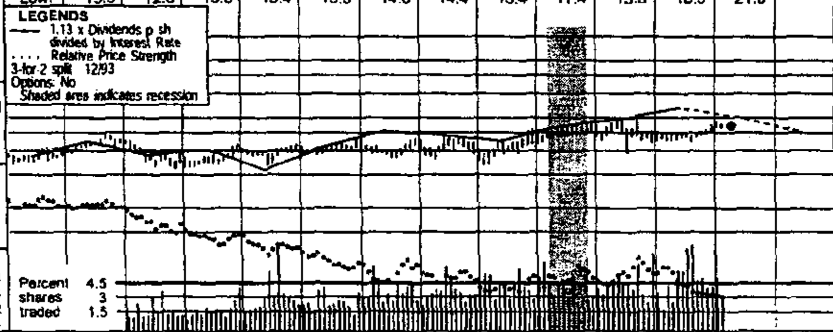
Insider Decisions

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

Institutional Decisions

	2Q2003	3Q2003	4Q2003
to Buy	47	36	45
to Sell	27	36	22
Hld's(000)	4898	4810	4234

LEGENDS
— 1.13 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 12/93
Options: No
Shaded area indicates recession



Percent shares traded 4.5 3 1.5

Target Price Range 2007 | 2008 | 2009

% TOT. RETURN 2/04

	THIS STOCK	VL ARITH. INDEX
1 yr.	17.7	65.3
3 yr.	28.9	37.3
5 yr.	70.3	83.8

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	© VALUE LINE PUB., INC.	07-09
24.51	26.87	24.45	23.27	20.03	21.88	21.59	19.98	11.84	17.85	17.17	18.89	21.90	30.40	29.06	27.20	28.55	29.90	Revenues per sh A	39.60
1.97	2.47	2.36	2.29	1.66	2.04	1.71	2.07	1.22	1.92	2.06	2.40	2.60	2.72	2.48	2.25	2.75	3.10	"Cash Flow" per sh	4.70
.84	1.29	1.26	1.14	.63	1.05	.60	.80	.39	.93	.84	1.24	1.39	1.47	1.13	.87	1.35	1.45	Earnings per sh AB	1.95
.85	.85	.87	.90	.93	.94	.96	.96	.72	.96	.96	.96	.96	.96	.96	.96	.96	.96	Div'ds Decl'd per sh C■	.98
1.62	1.99	2.50	2.97	4.64	3.85	3.06	4.12	2.42	2.66	2.32	1.81	1.65	2.16	1.91	2.56	3.15	3.60	Cap'l Spending per sh	4.60
7.46	7.96	8.33	8.63	9.09	9.96	9.81	9.76	10.09	10.16	10.07	10.36	10.79	11.01	10.34	10.11	11.15	11.60	Book Value per sh D	13.75
6.43	6.49	6.56	6.63	7.61	8.57	8.91	9.14	10.79	10.97	11.05	11.05	11.05	11.05	11.05	11.13	11.20	11.20	Common Shs Outst'g E	12.00
11.7	8.6	8.9	12.2	23.7	16.6	25.7	18.2	40.0	17.6	19.4	13.7	11.7	13.4	18.2	22.0	Bold figures are	Value Line	Avg Ann'l P/E Ratio	13.0
.97	.65	.66	.78	1.44	.98	1.69	1.22	2.51	1.01	1.01	.78	.76	.69	.99	1.25	estimates		Relative P/E Ratio	.85
8.7%	7.7%	7.8%	6.4%	6.2%	5.4%	6.2%	6.6%	4.6%	5.9%	5.9%	5.7%	5.9%	4.9%	4.7%	5.0%			Avg Ann'l Div'd Yield	3.9%

CAPITAL STRUCTURE as of 12/31/03

Total Debt $167.4 mill. Due in 5 Yrs $45.0 mill.
LT Debt $138.9 mill. LT Interest $10.0 mill.
(LT interest earned: 2.2x; total interest coverage: 2.2x)

Pension Assets-9/03 $45.7 mill. Oblig. $63.4 mill.

Pfd Stock None

Common Stock 11,189,307 shs. as of 1/30/04

MARKET CAP: $250 million (Small Cap)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005		07-09
192.4	182.7	127.7	195.8	189.7	208.6	241.9	335.8	321.0	302.8	320	335	Revenues ($mill) A	475
5.8	7.7	4.2	10.6	9.8	14.2	15.4	16.2	12.5	9.7	15.0	16.0	Net Profit ($mill)	25.0
37.8%	36.8%	34.8%	37.1%	37.4%	36.5%	37.1%	35.0%	34.9%	34.2%	35.0%	35.0%	Income Tax Rate	35.0%
3.0%	4.2%	3.3%	5.4%	5.2%	6.8%	6.4%	4.8%	3.9%	3.2%	4.7%	4.8%	Net Profit Margin	5.3%
51.3%	51.4%	46.8%	50.6%	48.4%	50.9%	51.2%	50.7%	59.1%	55.9%	54.5%	55.0%	Long-Term Debt Ratio	56.0%
44.8%	45.0%	50.0%	46.5%	48.7%	46.6%	48.8%	49.3%	40.9%	44.1%	45.5%	45.0%	Common Equity Ratio	44.0%
194.9	198.5	217.8	239.4	228.5	245.6	244.2	246.6	279.1	255.5	275	290	Total Capital ($mill)	375
213.9	239.1	255.7	265.2	276.6	282.3	284.8	294.2	299.6	312.3	330	340	Net Plant ($mill)	430
4.9%	5.9%	3.4%	6.2%	6.1%	7.5%	8.1%	8.5%	6.4%	6.0%	7.0%	7.0%	Return on Total Cap'l	8.5%
6.1%	8.0%	3.6%	9.0%	8.3%	11.7%	12.9%	13.3%	10.9%	8.6%	12.0%	12.5%	Return on Shr. Equity	15.0%
5.9%	8.1%	3.5%	9.1%	8.3%	12.0%	12.9%	13.3%	10.9%	8.6%	12.0%	12.5%	Return on Com Equity	15.0%
NMF	NMF	NMF	.7%	NMF	2.7%	4.0%	4.6%	1.7%	NMF	3.5%	4.0%	Retained to Com Eq	8.0%
NMF	106%	NMF	93%	108%	78%	69%	65%	85%	110%	72%	67%	All Div'ds to Net Prof	47%

CURRENT POSITION A ($MILL.)	2002	2003	12/31/03
Cash Assets	3.7	7.5	1.1
Other	35.6	33.1	66.1
Current Assets	39.3	40.6	67.2
Accts Payable	12.6	10.5	30.3
Debt Due	--	25.8	28.5
Other	23.1	19.7	24.5
Current Liab.	35.7	56.0	83.3
Fix. Chg. Cov.	235%	213%	210%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '01-'03 to '07-'09
Revenues	3.0%	13.0%	5.5%
"Cash Flow"	2.0%	7.5%	11.0%
Earnings	2.0%	10.0%	9.0%
Dividends	0.5%	2.0%	.5%
Book Value	1.5%	0.5%	4.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2001	105.0	124.7	64.1	42.0	335.8
2002	102.8	122.3	56.8	39.1	321.0
2003	100.5	109.3	53.8	39.2	302.8
2004	104.9	119	56.0	40.1	320
2005	105	125	61.5	43.5	335

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2001	.76	.81	.05	d.15	1.47
2002	.56	.86	d.06	d.23	1.13
2003	.60	.67	d.18	d.22	.87
2004	.71	.85	Nil	d.21	1.35
2005	.67	.87	Nil	d.09	1.45

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.24	.24	.24	.24	.96
2001	.24	.24	.24	.24	.96
2002	.24	.24	.24	.24	.96
2003	.24	.24	.24	.24	.96
2004	.24				

BUSINESS: Cascade Natural Gas Corporation distributes natural gas to over 200,000 customers in Washington and Oregon. In 2003, total throughput was 116.2 billion cu. ft. Core customers: residential, commercial, firm industrial, interruptible (64% of oper. margin, 19% of gas deliveries); non-core: industrial, transportation service (36%, 81%). Serves pulp & paper, plywood, chem. fertilizers, oil refining, & food process. inds. Main connecting pipeline: Northwest Pipeline Corp. '03 deprec. rate: 2.8%. Est'd plant age: 12 yrs. Has around 435 employees. Officers and directors own 1.6% of com. (12/03 proxy). President and Chief Executive Officer: W. Brian Matsuyama. Inc.: WA. Address: 222 Fairview Ave. North, Seattle, WA 98109. Tel.: 206-624-3900. Internet: www.cngc.com.

Cascade Natural Gas' share earnings in fiscal 2004 (ends September 30th) are running considerably ahead of last year's. Consumption by the residential and commercial segments has been higher, reflecting colder temperatures and an expanded customer base. The company is also benefiting from an initiative intended to lower employee benefits expense by between $3.0 million and $3.5 million annually. On the negative side, demand from electric-generation customers has been down of late, attributable partly to adequate hydroelectric resources. All things considered, we believe that share net will climb to $1.35 in fiscal 2004, allowing for much improved dividend coverage. Assuming further expansion in margins, earnings per share may advance to $1.45 next year.

We anticipate solid bottom-line gains for the company out to the end of this decade. Thanks to generally favorable economic conditions in the Pacific Northwest, annual account hookups increased at a healthy pace in the past, and it appears that this trend will persist. Too, a significant portion of Cascade's new customers could come from conversions from alternative fuel sources, given the environmental advantages of natural gas and assuming that prices return to historical levels. Furthermore, future results ought to be aided by a project designed to diminish the need for meter readers to manually access customer properties. Management expects this initiative (estimated to have a total cost of approximately $16 million) to be completed by the first quarter of fiscal 2005. All told, we believe that the company's bottom line will expand roughly 10% annually over the coming 3- to 5-year period.

These shares, ranked 4 (Below Average) for Timeliness, offer a healthy dividend yield. But additional increases in the distribution may be limited. That's partly because of Cascade's use of cash flows to meet the requirements of an expanding customer base. Another factor to be considered is the sensitivity of earnings to swings in service-area temperatures, arising from the absence of weather-normalization adjustment mechanisms in utility rate structures.

Frederick L. Harris, III *March 19, 2004*

(A) Cal. yr. thru. 12/95. Changed to 9/30 fiscal yr. in '96. (B) Primary egs. thru. '97, then diluted. Excl. nonrec. gains (losses): '91, 19¢; '93, 3¢; '96, (11¢); '98, (2¢); '99, (1¢); '01, 9¢; '02, (16¢); '03, (5¢). Next egs. rpt. due late April. (C) Dividends historically paid in the middle of Feb., May, Aug., Nov. ■Div'd reinvest. plan avail. (D) Incl. deferred charges. In '03: $17.5 mill., $1.58/sh. (E) In mill., adj. for stk. split.

Company's Financial Strength	B
Stock's Price Stability	90
Price Growth Persistence	40
Earnings Predictability	70

NEW JERSEY RES. NYSE-NJR

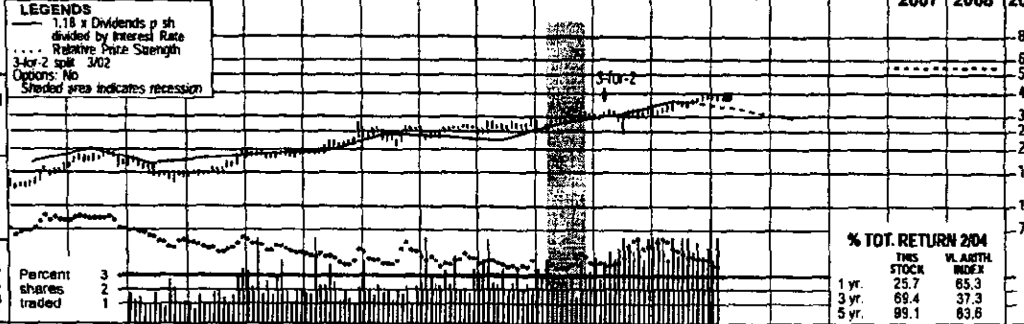
RECENT PRICE **38.11** | P/E RATIO **15.6** (Trailing: 15.9, Median: 14.0) | RELATIVE P/E RATIO **0.82** | DIV'D YLD **3.4%** | VALUE LINE

TIMELINESS **4** Lowered 11/14/03
SAFETY **2** New 7/27/90
TECHNICAL **3** Raised 1/9/04
BETA .70 (1.00 = Market)

High:	19.7	18.3	20.3	19.9	28.0	26.8	27.4	29.8	32.5	33.6	39.5	40.0
Low:	16.0	13.2	14.3	17.8	18.8	21.0	22.4	24.1	24.8	24.3	30.0	36.8

Target Price Range 2007 | 2008 | 2009

LEGENDS
— 1.18 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 3/02
Options: No
Shaded area indicates recession



2007-09 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+45%)	12%
Low	40	(+5%)	5%

Insider Decisions

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

Institutional Decisions

	2Q2003	3Q2003	4Q2003
to Buy	77	55	66
to Sell	40	60	46
Hld's(000)	12408	12148	11937

% TOT. RETURN 2/04

	THIS STOCK	VL ARITH. INDEX
1 yr.	25.7	65.3
3 yr.	69.4	37.3
5 yr.	99.1	83.6

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	© VALUE LINE PUB., INC.	07-09
18.02	16.68	16.01	15.99	16.88	18.02	19.22	17.03	20.22	25.97	26.59	33.98	44.13	76.82	66.17	93.43	*92.85*	*91.05*	Revenues per sh A	*110.00*
1.75	1.64	1.54	1.58	1.95	2.14	2.31	2.13	2.22	2.45	2.60	2.79	2.99	3.18	3.21	3.58	*3.75*	*3.85*	"Cash Flow" per sh	*4.60*
1.06	.97	.65	.55	1.09	1.15	1.26	1.29	1.37	1.48	1.55	1.66	1.79	1.95	2.09	2.38	*2.45*	*2.55*	Earnings per sh B	*2.85*
.85	.91	.96	1.00	1.01	1.01	1.01	1.01	1.03	1.07	1.09	1.12	1.15	1.17	1.20	1.24	*1.28*	*1.32*	Div'ds Decl'd per sh C■	*1.44*
5.22	4.37	4.37	2.91	1.99	2.31	2.10	1.77	1.78	1.72	1.60	1.81	1.85	1.66	1.53	1.71	*1.80*	*1.80*	Cap'l Spending per sh	*2.40*
8.27	9.10	8.85	8.57	9.44	9.81	9.64	9.70	10.10	10.38	10.88	11.35	12.43	13.20	13.06	15.38	*16.60*	*18.05*	Book Value per sh	*25.80*
16.39	19.77	20.28	20.95	24.43	25.23	25.95	26.69	27.13	26.82	26.72	26.61	26.39	26.66	27.67	27.23	*28.00*	*28.00*	Common Shs Outst'g D	*25.00*
11.6	13.0	24.0	22.3	12.4	15.1	13.0	11.7	13.6	13.5	15.3	15.2	14.7	14.2	14.7	14.0	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*16.5*
.96	.98	1.78	1.42	.75	.89	.85	.78	.85	.78	.80	.87	.96	.73	.80	.80			Relative P/E Ratio	*1.10*
6.9%	7.2%	6.2%	8.1%	7.5%	5.8%	6.2%	6.7%	5.6%	5.3%	4.6%	4.5%	4.4%	4.2%	3.9%	3.7%			Avg Ann'l Div'd Yield	*3.1%*

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005		07-09
498.7	454.6	548.5	696.5	710.3	904.3	1164.5	2048.4	1830.8	2544.4	*2600*	*2550*	Revenues ($mill) A	*2750*
33.9	35.6	38.7	41.5	43.3	44.9	47.9	52.3	56.8	65.4	*70.0*	*70.0*	Net Profit ($mill)	*70.0*
30.4%	31.0%	32.6%	33.3%	30.4%	36.2%	37.8%	38.0%	38.7%	39.4%	*38.0%*	*38.0%*	Income Tax Rate	*38.0%*
6.8%	7.8%	7.1%	6.0%	6.1%	5.0%	4.1%	2.6%	3.1%	2.6%	*2.7%*	*2.7%*	Net Profit Margin	*2.5%*
54.3%	55.7%	50.7%	49.3%	51.2%	48.7%	47.0%	50.1%	50.6%	38.1%	*37.0%*	*37.0%*	Long-Term Debt Ratio	*35.5%*
42.0%	41.0%	45.8%	47.1%	45.6%	51.2%	52.9%	49.9%	49.4%	61.9%	*63.0%*	*63.0%*	Common Equity Ratio	*64.5%*
595.8	632.2	598.2	590.6	638.2	590.4	620.1	706.2	732.4	676.8	*735*	*810*	Total Capital ($mill)	*995*
640.4	596.1	655.2	659.4	680.0	705.4	730.6	743.9	756.4	852.6	*785*	*785*	Net Plant ($mill)	*830*
7.5%	7.6%	8.1%	8.6%	8.1%	9.0%	9.0%	8.5%	8.7%	10.7%	*10.5%*	*9.5%*	Return on Total Cap'l	*7.5%*
12.5%	12.7%	13.1%	13.9%	13.9%	14.8%	14.6%	14.8%	15.7%	15.6%	*15.0%*	*14.0%*	Return on Shr. Equity	*11.0%*
12.9%	13.1%	13.5%	14.3%	14.4%	14.8%	14.6%	14.9%	15.7%	15.6%	*15.0%*	*14.0%*	Return on Com Equity	*11.0%*
2.6%	2.8%	3.4%	4.0%	4.4%	5.0%	5.4%	6.1%	6.9%	7.7%	*7.5%*	*6.5%*	Retained to Com Eq	*5.5%*
81%	79%	76%	73%	71%	67%	63%	59%	56%	51%	*51%*	*53%*	All Div'ds to Net Prof	*51%*

CAPITAL STRUCTURE as of 12/31/03

Total Debt $559.9 mill. **Due in 5 Yrs** $225.0 mill.
LT Debt $233.1 mill. **LT Interest** $16.0 mill.
Incl. $.7 mill. capitalized leases.
(LT interest earned: 8.7x;
total interest coverage: 8.7x)
Pension Assets-9/03 $6.3 mill. **Oblig.** $27.3 mill.
Pfd Stock None

Common Stock 27,450,758 shs.
outstanding at 2/2/04
MARKET CAP: $1.0 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2002	2003	12/31/03
Cash Assets	1.3	1.8	5.1
Other	355.7	447.9	684.9
Current Assets	357.0	449.7	690.0
Accts Payable	39.7	41.1	25.3
Debt Due	86.8	188.2	326.8
Other	240.9	294.3	426.1
Current Liab.	367.4	523.6	778.2
Fix. Chg. Cov.	507%	630%	867%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '01-'03 to '07-'09
Revenues	16.5%	26.5%	*9.0%*
"Cash Flow"	6.0%	6.5%	*6.5%*
Earnings	8.5%	8.0%	*8.0%*
Dividends	2.0%	2.5%	*3.0%*
Book Value	4.0%	6.0%	*11.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2001	667.5	890.0	260.6	230.3	2048.4
2002	395.8	525.8	442.3	466.9	1830.8
2003	668.9	1152.7	369.7	353.1	2544.4
2004	643.5	*1175*	*415*	*366.5*	*2600*
2005	*650*	*1155*	*380*	*365*	*2550*

Fiscal Year Ends	EARNINGS PER SHARE A B E Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2001	.67	1.23	.16	d.10	1.95
2002	.73	1.29	.17	d.09	2.09
2003	.85	1.50	.16	d.13	2.38
2004	.87	*1.47*	*.17*	*d.06*	*2.45*
2005	*.89*	*1.51*	*.20*	*d.05*	*2.55*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.287	.287	.287	.287	1.15
2001	.293	.293	.293	.293	1.17
2002	.30	.30	.30	.30	1.20
2003	.31	.31	.31	.31	1.24
2004	.325				

BUSINESS: New Jersey Resources Corp. is the holding company for New Jersey Natural Gas Co., a natural gas utility (about 444,000 customers at 9/30/03) in Monmouth, Ocean, and parts of other N.J. counties. Fiscal 2003 volume: 110.7 bill. cu. ft. (61% firm, 7% interruptible industrial and electric utility, 32% off-system and capacity release). New Jersey Natural Energy subsid. provides unregulated retail and wholesale natural gas and related energy services to customers in 17 states. '03 deprec. rate: 2.8%. Est'd plant age: 8 years. Has 551 utility employees, 16,300 stckhldrs. Offcrs. & dirs. own about 8% of common stock (1/04 Proxy). Chairman and CEO: Laurence M. Downes. Inc.: N.J. Addr.: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 908-938-1480. Web: www.njliving.com.

Solid customer growth should make for another profitable year at New Jersey Resources. The company's chief subsidiary, New Jersey Natural Gas, added roughly half a billion cubic feet of new throughput in the first quarter of fiscal 2004 (years end September 30th). We assume the utility will continue to add customers at a rate of 2.5%-3.0% annually, which should contribute over $6 million in incremental gross margin. And although weather was 2.3% warmer than normal and 10.1% warmer than last year for the period, the robust growth rate, coupled with NJNG's weather-normalization clause and lower interest expense, significantly offset the weather's negative impact. However, we think the colder temperatures recorded in January will have a positive effect on second-quarter earnings. The company's successful off-system and capacity management programs continue to bolster the bottom line, as well. All told, we look for New Jersey Resources' bottom line to inch ahead to $2.45 a share this year.

Stronger unregulated business continues to boost profits. Wholesale marketing earnings (including fuel management and bulk gas storage) at NJR Energy Services increased 36% over last year. The strong increase reflects higher gross margin from the utilization of additional storage assets. New Jersey Resources' substantial transportation and storage asset portfolio also positions it well to capitalize on volatile gas prices, while protecting itself through financial hedges. Too, the emerging market for natural gas-powered distributed generation technologies (fuel cells and microturbines) is growing into another potential source of income, though material contributions are still a ways off.

This stock's appeal lies in its consistent earnings and dividend growth. Based on our estimates, New Jersey Resources' dividend payout ratio will approximate 51% in fiscal 2004. And we think continued customer growth, improved returns from wholesale marketing ventures, and modest share buybacks will keep earnings advancing at a steady pace. Conservative investors should also note this issue's favorable Safety and Price Stability rankings.

Edward Plank *March 19, 2004*

(A) Fiscal year ends Sept. 30th.
(B) Diluted earnings. Next earnings report due mid April.
(C) Dividends historically paid in early January, April, July, October. ■ Dividend reinvestment plan available.
(D) In millions, adjusted for split.
(E) Earnings may not sum due to changes in shares outstanding.

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

N.W. NAT'L GAS NYSE-NWN	RECENT PRICE 32.00	P/E RATIO 16.6 (Trailing: 18.2; Median: 13.0)	RELATIVE P/E RATIO 0.87	DIV'D YLD 4.1%	VALUE LINE

TIMELINESS 4 Raised 8/8/03
SAFETY 2 New 7/27/90
TECHNICAL 3 Lowered 10/3/03
BETA .65 (1.00 = Market)

High:	25.8	24.3	22.8	25.9	31.4	30.8	27.9	27.5	26.8	30.7	31.3	33.0
Low:	19.0	18.8	18.3	20.8	23.0	24.3	19.5	17.8	21.7	23.5	24.0	30.0

Target Price Range 2007 | 2008 | 2009

2007-09 PROJECTIONS

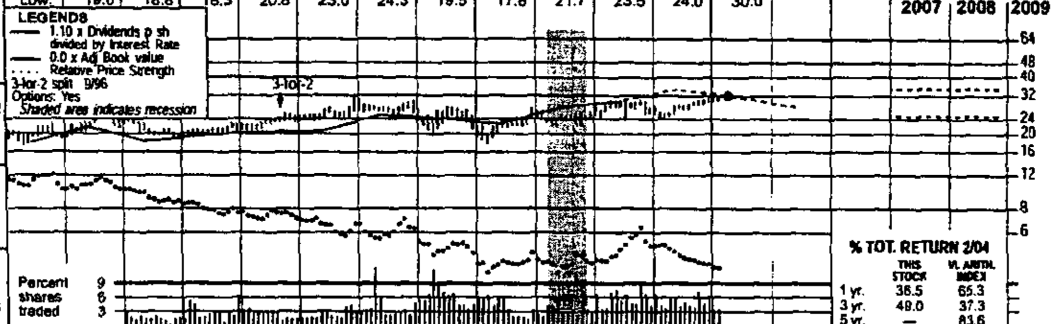
	Price	Gain	Ann'l Total Return
High	35	(+10%)	6%
Low	25	(-20%)	-1%

Insider Decisions

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

Institutional Decisions

	2Q2003	3Q2003	4Q2003
to Buy	54	50	57
to Sell	48	45	36
Hld's(000)	9478	10645	11210



% TOT. RETURN 2/04

	THIS STOCK	VL ARITH. INDEX
1 yr.	36.5	65.3
3 yr.	49.0	37.3
5 yr.	—	83.6

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	© VALUE LINE PUB., INC.	07-09
17.39	15.22	17.02	16.74	14.10	18.15	18.30	16.02	16.86	15.82	16.77	18.17	21.09	25.78	25.07	**23.55**	**24.65**	**25.50**	Revenues per sh	**30.00**
2.79	2.85	3.22	2.57	3.25	3.74	3.50	3.41	3.86	3.72	3.24	3.72	3.68	3.86	3.65	**3.85**	**4.10**	**4.25**	"Cash Flow" per sh	**4.75**
1.33	1.58	1.62	.67	.74	1.74	1.63	1.61	1.97	1.76	1.02	1.70	1.79	1.88	1.62	1.76	**1.95**	**2.05**	Earnings per sh A	**2.40**
1.05	1.07	1.10	1.13	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**	**1.33**	Div'ds Decl'd per sh B ■	**1.43**
2.82	3.36	3.85	3.58	3.73	3.61	4.23	3.02	3.70	5.07	4.02	4.78	3.46	3.23	3.11	**5.00**	**3.75**	**3.75**	Cap'l Spending per sh	**4.00**
11.25	12.04	12.61	12.23	12.41	13.08	13.63	14.55	15.37	16.02	16.59	17.12	17.93	18.56	18.88	**19.35**	**20.15**	**20.85**	Book Value per sh C	**23.20**
15.96	17.14	17.41	17.68	19.46	19.77	20.13	22.24	22.56	22.86	24.85	25.09	25.23	25.23	25.59	**25.95**	**26.35**	**26.85**	Common Shs Outst'g D	**28.00**
10.2	9.8	10.2	28.1	27.0	12.9	13.0	12.9	11.7	14.4	26.7	14.5	12.4	12.9	17.2	15.8	*Bold figures are*		Avg Ann'l P/E Ratio	**12.5**
.85	.74	.76	1.79	1.64	.76	.85	.86	.73	.83	1.39	.83	.81	.66	.94	.90	*Value Line*		Relative P/E Ratio	**.85**
7.7%	6.9%	6.7%	5.9%	5.7%	5.2%	5.5%	5.7%	5.2%	4.8%	4.5%	5.0%	5.6%	5.1%	4.5%	4.6%	*estimates*		Avg Ann'l Div'd Yield	**5.0%**

CAPITAL STRUCTURE as of 9/30/03
Total Debt $543.7 mill. Due in 5 Yrs $165.0 mill.
LT Debt $450.8 mill. LT Interest $32.0 mill.
Incl. $6.3 mill. 7¼% debs. due 3/1/12, each conv. into 50.25 com. shs. at $19.90.
(Total interest coverage: 2.9x)

Pension Assets-12/02 $143.2 mill. **Oblig.** $185.1 mill.

Pfd Stock None

Common Stock 25,858,818 shs.
MARKET CAP $825 million (Small Cap)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	© VALUE LINE PUB., INC.	07-09
368.3	356.3	380.3	361.8	416.7	455.8	532.1	650.3	641.4	611.3	**650**	**685**	Revenues ($mill)	**840**
35.5	38.1	46.8	43.1	27.3	44.9	47.8	50.2	43.8	46.0	**50.5**	**54.0**	Net Profit ($mill)	**67.0**
36.6%	36.8%	36.9%	32.9%	31.0%	35.4%	35.9%	35.4%	34.9%	34.1%	**35.0%**	**35.0%**	Income Tax Rate	**35.0%**
9.6%	10.7%	12.3%	11.9%	6.6%	9.9%	9.0%	7.7%	6.8%	7.5%	**7.8%**	**7.9%**	Net Profit Margin	**8.0%**
47.9%	43.5%	41.4%	46.0%	45.0%	46.0%	45.1%	43.0%	47.6%	**47.5%**	**48.0%**	**48.0%**	Long-Term Debt Ratio	**48.0%**
45.1%	50.3%	52.8%	49.0%	50.6%	49.9%	50.9%	53.2%	51.5%	**52.5%**	**52.0%**	**52.0%**	Common Equity Ratio	**52.0%**
607.7	643.3	657.4	748.0	815.6	861.5	887.8	880.5	937.3	**950**	**1020**	**1080**	Total Capital ($mill)	**1250**
654.3	697.2	745.3	827.5	894.7	895.9	934.0	965.0	995.6	**1060**	**1100**	**1150**	Net Plant ($mill)	**1325**
7.6%	7.7%	8.9%	7.4%	5.0%	6.8%	6.7%	6.9%	5.9%	**6.5%**	**6.5%**	**6.5%**	Return on Total Cap'l	**7.0%**
11.2%	10.5%	12.1%	10.7%	6.1%	9.7%	9.8%	10.0%	8.9%	**9.0%**	**9.5%**	**9.5%**	Return on Shr. Equity	**10.5%**
11.8%	10.9%	12.7%	11.0%	6.0%	9.9%	10.0%	10.2%	8.5%	**9.0%**	**9.5%**	**9.5%**	Return on Com Equity	**10.5%**
3.3%	3.0%	5.0%	3.6%	NMF	2.8%	3.1%	3.5%	1.9%	**2.5%**	**3.0%**	**3.5%**	Retained to Com Eq	**4.0%**
74%	74%	63%	70%	118%	74%	70%	67%	79%	**72%**	**67%**	**65%**	All Div'ds to Net Prof	**60%**

CURRENT POSITION ($MILL.)	2001	2002	9/30/03
Cash Assets	10.4	7.3	7.0
Other	199.9	186.7	124.2
Current Assets	210.3	194.0	131.2
Accts Payable	70.7	74.4	53.0
Debt Due	148.3	89.8	92.9
Other	54.6	40.8	47.1
Current Liab.	273.6	205.0	193.0
Fx. Chg. Cov.	285%	296%	275%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '07-'09
Revenues	4.0%	8.0%	3.5%
"Cash Flow"	2.0%	0.5%	3.5%
Earnings	5.5%	--	4.5%
Dividends	1.0%	1.0%	2.0%
Book Value	4.0%	4.0%	3.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	217.3	118.2	78.4	236.4	650.3
2002	278.6	101.9	78.7	182.2	641.4
2003	206.5	117.5	69.5	217.8	611.3
2004	**230**	**120**	**75.0**	**225**	**650**
2005	**240**	**125**	**80.0**	**240**	**685**

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.99	.17	d.22	.94	1.88
2002	1.32	d.13	d.26	.69	1.62
2003	1.01	.17	d.25	.83	1.76
2004	**1.18**	**.15**	**d.23**	**.85**	**1.95**
2005	**1.21**	**.17**	**d.22**	**.89**	**2.05**

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.31	.31	.31	.31	1.24
2001	.31	.31	.31	.315	1.25
2002	.315	.315	.315	.315	1.26
2003	.315	.315	.315	.325	1.27
2004	.325				

BUSINESS: Northwest Natural Gas Co. (doing business as NW Natural) distributes natural gas at retail to 90 communities, 540,931 customers, in Oregon (96% of revs.) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.4 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline sys. to bring gas to market. Owns local underground storage. Gas revs: resident'l & comm'l, 88%; ind., 9%; transport. and other, 3%. Employs 1,260. Has 10,359 com. shrhldrs. Insiders own about 1% of com. Chrmn: R.G. Reiten. CEO: M.S. Dodson. Inc.: OR. Addr.: 220 N.W. 2nd Ave., Portland, OR 97209. Tel.: 503-226-4211. Internet: www.nwnatural.com.

Good-quality Northwest Natural shares are best held for current income. The company, which thus far has chosen not to immerse itself too deeply in nonregulated commerce, is still essentially a state-supervised gas distributor. Though this utility has to compete with local power companies, it has the natural gas business in Oregon and Washington to itself. The tradeoff for this franchise is state oversight of selling prices and profits. On the whole, there should be no great risk in holding these shares, though regulation rules out the likelihood of superior relative market performance. Since Oregon, where NW Natural does 90% of its business, permits the utility to earn only 10.2% on common equity, the stock's main appeal is its dividend. With the annual payout now starting to get better earnings coverage, we expect it to have room to grow by about 2% a year through 2005. This prospect is reflected in the stock's current yield, which equals that of most other good-quality gas-utility issues.

Earnings should expand with the rate base (the utility's net plant) as NW Natural adds to its gas system to accommodate new residential and commercial construction. With the customer roster increasing by about 3% a year, regulated profits should grow by at least that rate through 2005. Too, nonutility earnings, generated largely by NW Natural's gas-storage service to interstate pipelines, may add another 3% to yearly earnings. The dividend however, may lag the earnings advance to give the payout a better safeguard.

For now, we see no 3- to 5-year appreciation potential for this untimely stock. NW Natural's newly ordered weather normalization clause eliminates the effects on earnings comparisons of year-to-year swings in mercury readings and makes cash flow more predictable. Beyond the next two years, however, NW Natural, along with most other utilities, might once again face the age-old problem of regulatory lag. Delayed revenue relief to cover rising money costs or other inflationary factors could work to slow dividend growth, with the stock perhaps losing some support to trade on a higher yield basis that matches the available returns from fixed-income securities.

Gerald Holtzman *March 19, 2004*

(A) Diluted earnings per share. Excludes nonrecurring gain: '98, $0.15; '00, $0.11. Next earnings report due late April.
(B) Dividends historically paid in mid-February, mid-May, mid-August, and mid-November. In '99, extra div'd of $0.005/sh. paid Dec. 15.
■ Div'd reinvestment plan available.
(C) Includes intangibles. At 12/31/02: $5.49/sh.
(D) In millions, adjusted for stock split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	30
Earnings Predictability	65

PEOPLES ENERGY NYSE-PGL

RECENT PRICE	45.25	P/E RATIO	16.2 (Trailing: 15.8 / Median: 13.0)	RELATIVE P/E RATIO	0.85	DIV'D YLD	4.8%	VALUE LINE

TIMELINESS 5 Lowered 10/24/03
SAFETY 1 Raised 9/29/95
TECHNICAL 3 Raised 1/30/04
BETA .75 (1.00 = Market)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
High:	35.0	32.1	32.0	37.4	39.9	40.1	40.3	46.9	44.6	40.4	45.3	46.0
Low:	27.5	23.4	24.3	29.6	31.3	32.1	31.8	26.2	34.3	27.8	34.9	41.4

Target Price Range 2007 | 2008 | 2009

2007-09 PROJECTIONS

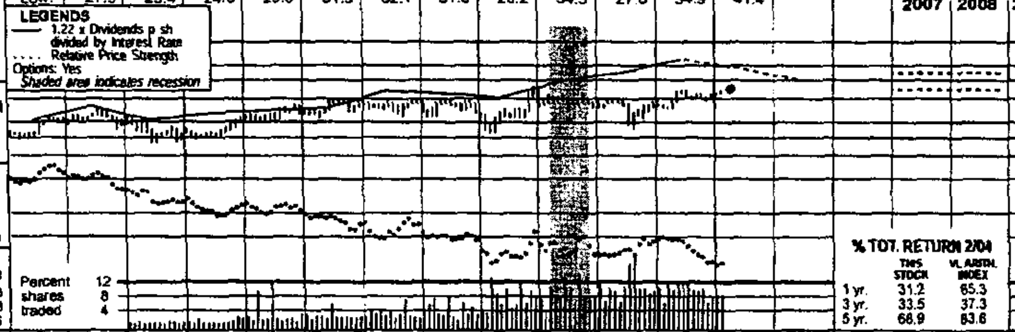
	Price	Gain	Ann'l Total Return
High	55	(+20%)	9%
Low	45	(Nil)	5%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	0	0
Options	0	7	3	0	0	0	0	0	0
to Sell	0	2	0	0	0	0	0	1	0

Institutional Decisions

	2Q2003	3Q2003	4Q2003
to Buy	111	105	103
to Sell	76	81	88
Hld's(000)	17304	17334	18936



% TOT. RETURN 2/04

	THIS STOCK	VL ARITH. INDEX
1 yr.	31.2	65.3
3 yr.	33.5	37.3
5 yr.	68.9	83.6

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	© VALUE LINE PUB., INC.	07-09
34.29	36.42	35.63	33.69	31.54	36.09	36.70	29.60	34.29	36.34	32.28	33.66	40.16	64.13	41.81	58.28	*60.15*	*60.00*	Revenues per sh A	*65.00*
3.75	3.92	3.74	3.73	3.67	3.85	3.99	3.68	4.98	4.92	4.44	4.74	5.58	5.84	5.59	5.88	*5.95*	*6.10*	"Cash Flow" per sh	*6.55*
2.31	2.39	2.07	2.05	2.06	2.11	2.13	1.78	2.96	2.81	2.25	2.39	2.71	3.16	2.80	2.87	*2.80*	*2.90*	Earnings per sh B	*3.20*
1.50	1.58	1.65	1.71	1.76	1.78	1.80	1.80	1.82	1.87	1.91	1.95	2.00	2.04	2.07	2.12	*2.16*	*2.20*	Div'ds Decl'd per sh C ■	*2.24*
2.66	4.15	3.15	3.10	3.40	3.77	2.50	2.75	2.45	2.55	4.05	6.45	7.02	7.52	5.66	5.10	*4.05*	*4.85*	Cap'l Spending per sh	*5.70*
15.09	16.20	16.61	16.95	17.72	18.02	18.39	18.38	19.49	20.43	21.03	21.66	22.02	22.76	22.74	23.11	*23.80*	*25.40*	Book Value per sh D	*29.55*
32.57	32.62	32.70	32.76	34.77	34.88	34.87	34.91	34.96	35.07	35.26	35.49	35.30	35.40	35.46	36.69	*37.00*	*36.00*	Common Shs Outst'g E	*35.00*
7.8	7.9	11.2	11.8	13.1	15.0	13.3	14.7	10.7	12.7	16.2	15.5	12.1	12.3	13.3	13.4	Bold figures are		Avg Ann'l P/E Ratio	*16.0*
.65	.60	.83	.75	.79	.89	.87	.98	.67	.73	.84	.88	.79	.63	.73	.76	Value Line		Relative P/E Ratio	*1.05*
8.3%	8.4%	7.1%	7.0%	6.5%	5.6%	6.3%	6.9%	5.7%	5.2%	5.2%	5.3%	6.1%	5.2%	5.5%	5.5%	estimates		Avg Ann'l Div'd Yield	*4.4%*

CAPITAL STRUCTURE as of 12/31/03

Total Debt $1089.2 mill. Due in 5 Yrs $208.0 mill.

LT Debt $846.3 mill. LT Interest $57.0 mill.
(Total interest coverage: 4.7x)

Pension Assets-9/02 $544.9 mill.
Oblig. $515.8 mill.

Pfd Stock None

Common Stock 37,247,852 shs.
as of 1/30/04

MARKET CAP: $1.7 billion (Mid Cap)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	© VALUE LINE PUB., INC.	07-09
1279.5	1033.4	1198.7	1274.4	1138.1	1194.4	1417.5	2270.2	1482.5	2138.4	*2225*	*2160*	Revenues ($mill) A	*2275*
74.4	62.2	103.4	98.4	79.4	84.8	96.1	111.7	99.3	103.9	*105*	*105*	Net Profit ($mill)	*110*
30.1%	34.4%	37.6%	36.4%	36.2%	35.9%	34.1%	35.4%	34.2%	36.3%	*36.0%*	*36.0%*	Income Tax Rate	*36.0%*
5.8%	6.0%	8.6%	7.7%	7.0%	7.1%	6.8%	4.9%	6.7%	4.9%	*4.7%*	*4.9%*	Net Profit Margin	*4.8%*
49.4%	49.2%	43.6%	42.4%	41.1%	40.4%	35.1%	44.4%	40.7%	46.7%	*45.5%*	*43.5%*	Long-Term Debt Ratio	*38.5%*
50.6%	50.8%	56.4%	57.6%	58.9%	59.6%	64.9%	55.6%	59.3%	53.3%	*54.5%*	*56.5%*	Common Equity Ratio	*61.5%*
1267.5	1263.6	1208.3	1243.5	1258.0	1290.5	1196.7	1449.8	1360.3	1592.3	*1620*	*1615*	Total Capital ($mill)	*1685*
1341.9	1373.1	1381.1	1402.2	1446.7	1519.8	1645.3	1753.9	1773.9	1838.2	*1895*	*1975*	Net Plant ($mill)	*2305*
7.8%	7.0%	10.3%	9.5%	7.8%	8.0%	9.5%	9.3%	8.4%	8.1%	*8.0%*	*8.0%*	Return on Total Cap'l	*7.5%*
11.6%	9.7%	15.2%	13.7%	10.7%	11.0%	12.4%	13.9%	12.3%	12.3%	*12.0%*	*11.5%*	Return on Shr. Equity	*10.5%*
11.6%	9.7%	15.2%	13.7%	10.7%	11.0%	12.4%	13.9%	12.3%	12.3%	*12.0%*	*11.5%*	Return on Com Equity	*10.5%*
1.9%	NMF	5.9%	4.7%	1.7%	2.1%	3.4%	5.0%	3.3%	3.4%	*3.0%*	*3.0%*	Retained to Com Eq	*3.0%*
84%	101%	61%	66%	84%	81%	73%	64%	73%	73%	*76%*	*75%*	All Div'ds to Net Prof	*71%*

CURRENT POSITION ($MILL.)	2002	2003	12/31/03
Cash Assets	34.0	33.0	27.3
Other	357.9	457.1	674.8
Current Assets	391.9	490.1	702.1
Accts Payable	213.9	236.6	179.3
Debt Due	377.9	207.9	242.9
Other	178.0	156.1	322.1
Current Liab.	769.8	600.6	744.3
Fix. Chg. Cov.	259%	304%	388%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '01-'03 to '07-'09
Revenues	5.0%	10.0%	*6.5%*
"Cash Flow"	4.5%	4.0%	*5.0%*
Earnings	3.5%	2.0%	*4.0%*
Dividends	1.5%	2.0%	*1.5%*
Book Value	2.5%	2.5%	*8.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2001	717.0	1073.8	318.5	160.9	2270.2
2002	377.5	522.8	347.1	235.1	1482.5
2003	549.2	903.8	398.1	287.3	2138.4
2004	604.9	*930*	*400*	*290.1*	*2225*
2005	*580*	*905*	*390*	*285*	*2160*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2001	1.03	1.76	.33	.04	3.16
2002	.87	1.55	.33	.05	2.80
2003	.87	1.77	.22	.04	F 2.87
2004	.85	*1.60*	*.30*	*.05*	*2.80*
2005	*.90*	*1.62*	*.33*	*.05*	*2.90*

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.49	.50	.50	.50	1.99
2001	.50	.51	.51	.51	2.03
2002	.51	.52	.52	.52	2.07
2003	.53	.53	.53	.53	2.12
2004	.54				

BUSINESS: Peoples Energy Corporation distributes natural gas via its utility subsidiaries, Peoples Gas Light & Coke Co. (approx. 850,000 customers at 9/30/03) and North Shore Gas Co. (150,000), in Chicago and northeastern Illinois. Fiscal 2003 volume: 248 bill. cu. ft.: residential, 52%; commercial, 18%; industrial, 10%; transport, 38%. Main supplier is Natural Gas Pipeline Co. of America. Purchased gas costs and revenue taxes accounted for 70% of gas revenues in fiscal '03. Depreciation rate: 3.5%. Est'd plant age: 10 years. Has 2,400 employees, 20,988 shareholders. Directors own 1% of common (1/04 Proxy). Chairman and CEO: Thomas M. Patrick. Inc.: Illinois. Address: 130 East Randolph Drive, Chicago, IL 60601. Telephone: 312-240-4000. Internet: www.pecorp.com.

Peoples Energy's fiscal-first quarter 2004 (ended December 31st) earnings were a case of good news and bad news. First the bad news: The company's gas distribution business suffered from weather that was 7% warmer than normal, and 10% warmer than last year, which hurt earnings by about $0.10-$0.12 a share.

The positive news is that diversified energy businesses substantially helped to offset the negative impact of weather. In the Midstream Services segment, operating income increased 38% over last year, driven by stronger wholesale marketing and asset management activities. Similarly, operating income rose 52% for the Retail Energy Services group, due to customer growth and rising efficiency. Indeed, total gas and electric customers increased 25% on successful sales and marketing campaigns. The company also did a good job of controlling costs in the quarter. Assuming normal weather for the remainder of the year, PGL's share net in fiscal 2004 will probably decline roughly 2%-3% from 2003's levels. We expect profits to inch up moderately in fiscal 2005.

Peoples' Oil and Gas division continues to capitalize on lofty commodity prices. Coupled with higher gas production volumes, the segment more than doubled its operating income in the first quarter. Indeed, production growth stemmed from the company's ongoing drilling efforts, as well as from the acquisitions made last year. Peoples also recently acquired additional oil and gas properties in the Corpus Christi area of Texas for $35 million. The properties are almost 90% natural gas and are in close proximity to the company's other existing assets. PGL currently has about 80% of its expected production for 2004 hedged at favorable prices.

Income-oriented investors may find PGL attractive for its healthy dividend yield. As anticipated, Peoples again raised its quarterly dividend one cent, to $0.54 a share. Moreover, the company remains committed to maintaining a clean balance sheet. This issue's high Safety rank (1) also makes it a good choice for conservative investors.

Edward Plank *March 19, 2004*

(A) Fiscal year ends Sept. 30th.
(B) Basic earnings per share. Excludes acct'g gains/(losses): '89, $0.30; '99, $0.22; '00, ($0.27). Next earnings report due late April.
(C) Dividends historically paid mid-January, April, July, October. ■ Dividend reinvestment plan available.
(D) Includes deferred charges. At 9/30/03: $64.9 mill., $1.77/sh.
(E) In millions.
(F) Earnings don't sum due to change in shares outstanding.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	40
Earnings Predictability	80

PIEDMONT NAT'L. NYSE-PNY

RECENT PRICE **42.49** | P/E RATIO **17.7** (Trailing: 15.9; Median: 16.0) | RELATIVE P/E RATIO **0.93** | DIV'D YLD **4.0%** | **VALUE LINE**

TIMELINESS **4** Raised 3/5/04
SAFETY **2** New 7/27/90
TECHNICAL **3** Raised 1/16/04
BETA .70 (1.00 = Market)

High:	26.4	23.4	24.9	25.8	36.4	36.1	36.6	39.4	38.0	38.0	43.9	43.8
Low:	18.8	18.0	18.3	20.5	22.0	27.9	28.6	23.7	29.2	27.3	33.2	40.4

Target Price Range

2007	2008	2009

2007-09 PROJECTIONS

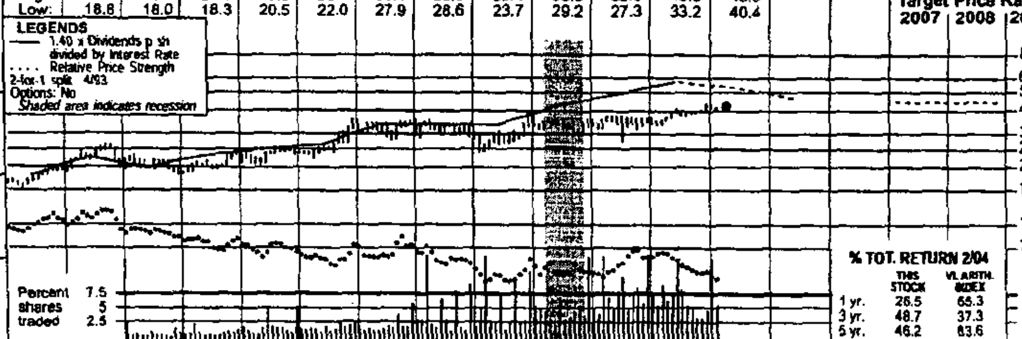
	Price	Gain	Ann'l Total Return
High	60	(+40%)	12%
Low	45	(+5%)	6%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	4	1	0	7	1	2	2
Options	0	0	0	0	0	0	0	0	0
to Sell	1	0	3	3	0	0	0	0	2

Institutional Decisions

	2Q2003	3Q2003	4Q2003
to Buy	62	57	69
to Sell	61	69	56
Hld's(000)	9448	8784	11407



% TOT. RETURN 2/04

	THIS STOCK	VL ARITH. INDEX
1 yr.	26.5	65.3
3 yr.	48.7	37.3
5 yr.	46.2	83.6

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	© VALUE LINE PUB., INC.	07-09
19.62	20.25	18.84	16.64	17.83	21.14	21.65	17.52	23.18	25.69	24.90	21.94	26.02	34.13	25.14	36.27	40.25	42.10	Revenues per sh A	33.40
1.75	1.92	1.94	1.56	2.15	2.28	2.26	2.51	2.98	3.25	3.44	3.39	3.54	3.62	3.62	4.09	4.60	4.75	"Cash Flow" per sh	4.65
1.19	1.21	1.22	.89	1.40	1.45	1.35	1.45	1.67	1.85	1.96	1.86	2.01	2.02	1.89	2.22	2.40	2.50	Earnings per sh B	3.05
.72	.79	.83	.87	.91	.95	1.01	1.09	1.15	1.21	1.28	1.36	1.44	1.52	1.60	1.66	1.72	1.78	Div'ds Decl'd per sh C■	1.90
3.74	3.11	3.24	2.75	2.81	3.16	3.90	3.44	3.27	3.05	2.96	3.15	3.30	2.57	2.42	2.32	2.65	2.75	Cap'l Spending per sh	3.15
8.25	8.73	9.15	9.65	10.27	10.90	11.36	12.31	13.07	13.90	14.91	15.71	16.52	17.26	17.82	18.73	20.15	21.45	Book Value per sh D	22.75
20.33	20.78	21.43	24.73	25.80	26.15	26.58	28.84	29.55	30.19	30.74	31.30	31.91	32.46	33.09	33.66	38.50	38.50	Common Shs Outst'g E	40.00
9.1	10.3	11.3	16.3	12.3	15.4	15.7	13.8	13.9	13.6	16.3	17.7	14.3	16.7	18.4	16.7	Bold figures are		Avg Ann'l P/E Ratio	16.5
.76	.78	.84	1.04	.75	.91	1.03	.92	.87	.78	.85	1.01	.93	.86	1.01	.96	Value Line		Relative P/E Ratio	1.10
6.7%	6.3%	6.0%	6.0%	5.3%	4.3%	4.8%	5.4%	4.9%	4.8%	4.0%	4.1%	5.0%	4.5%	4.6%	4.4%	estimates		Avg Ann'l Div'd Yield	3.8%

CAPITAL STRUCTURE as of 10/31/03
Total Debt $1017.1 mill. Due in 5 Yrs $592.1 mill.
LT Debt $460.0 mill. LT Interest $41.0 mill.
(LT interest earned: 4.1x; total interest coverage: 3.9x)

Pension Assets-10/02 $125.1 mill.
Oblig. $149.7 mill.

Pfd Stock None

Common Stock 33,760,260 shs.
as of 1/15/04
MARKET CAP: $1.4 billion (Mid Cap)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005		07-09
575.4	505.2	685.1	775.5	765.3	686.5	830.4	1107.9	832.0	1220.8	1550	1620	Revenues ($mill) A	1335
35.5	40.3	48.6	55.2	60.3	58.2	64.0	65.5	62.2	74.4	95.0	95.0	Net Profit ($mill)	105.0
37.6%	38.7%	38.9%	39.1%	39.2%	39.7%	34.7%	34.6%	33.1%	34.8%	35.0%	35.0%	Income Tax Rate	35.0%
6.2%	8.0%	7.1%	7.1%	7.9%	8.5%	7.7%	5.9%	7.5%	6.1%	6.0%	5.9%	Net Profit Margin	8.0%
50.9%	50.4%	50.3%	47.6%	44.7%	46.2%	46.1%	47.6%	43.9%	42.2%	47.5%	35.5%	Long-Term Debt Ratio	33.0%
49.1%	49.6%	49.7%	52.4%	55.3%	53.8%	53.9%	52.4%	56.1%	57.8%	52.5%	64.5%	Common Equity Ratio	67.0%
615.0	716.0	777.1	800.8	829.3	914.7	976.4	1069.4	1051.6	1090.2	1475	1275	Total Capital ($mill)	1360
734.9	801.3	862.0	941.7	990.6	1047.0	1072.0	1114.7	1158.5	1812.3	1900	2000	Net Plant ($mill)	2250
7.7%	7.5%	8.2%	8.9%	9.2%	8.1%	8.3%	7.9%	7.8%	8.6%	8.0%	9.0%	Return on Total Cap'l	9.0%
11.8%	11.4%	12.6%	13.1%	13.2%	11.8%	12.1%	11.7%	10.6%	11.8%	12.5%	11.5%	Return on Shr. Equity	11.5%
11.8%	11.4%	12.6%	13.1%	13.2%	11.8%	12.1%	11.7%	10.6%	11.8%	12.5%	11.5%	Return on Com Equity	11.5%
2.8%	2.7%	3.9%	4.6%	4.7%	3.3%	3.5%	3.0%	1.7%	3.1%	3.5%	3.0%	Retained to Com Eq	3.0%
76%	76%	69%	65%	65%	72%	71%	75%	83%	74%	70%	72%	All Div'ds to Net Prof	72%

CURRENT POSITION ($MILL.)	2001	2002	10/31/03
Cash Assets	5.6	13.1	11.2
Other	169.7	162.7	296.4
Current Assets	175.3	175.8	307.6
Accts Payable	41.1	51.1	90.9
Debt Due	34.0	93.5	557.1
Other	74.1	60.5	77.2
Current Liab.	149.2	205.1	725.2
Fix. Chg. Cov.	290%	288%	356%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '01-'03 to '07-'09
Revenues	5.5%	5.5%	5.0%
"Cash Flow"	6.5%	3.0%	6.5%
Earnings	5.0%	2.5%	7.5%
Dividends	5.5%	5.5%	4.0%
Book Value	5.5%	5.0%	7.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2001	467.6	408.0	121.8	110.5	1107.9
2002	288.7	293.9	127.9	121.5	832.0
2003	493.5	407.8	140.1	179.4	1220.8
2004	618.8	540	175	216.2	1550
2005	640	565	190	225	1620

Fiscal Year Ends	EARNINGS PER SHARE A B F Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2001	1.58	1.23	d.37	d.40	2.02
2002	1.26	1.27	d.27	d.36	1.89
2003	1.74	.93	d.29	d.15	2.22
2004	2.05	1.00	d.40	d.25	2.40
2005	2.00	1.00	d.30	d.20	2.50

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.345	.365	.365	.365	1.44
2001	.365	.385	.385	.385	1.52
2002	.40	.40	.40	.40	1.60
2003	.415	.415	.415	.415	1.66
2004	.430				

BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 940,000 customers in North Carolina, South Carolina, and Tennessee. 2003 revenue mix: residential (43%), commercial (25%), industrial (9%), other (23%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 53.3% of revenues. '03 depreciation rate: 2.6%. Estimated plant age: 8.7 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 2,155 employees, 16,433 shareholders of record. CEO & President: Thomas E. Skains. Incorporated: North Carolina. Address: 1915 Rexford Road, P.O. Box 33068 Charlotte, NC 28233. Telephone: 704-364-3120. Internet: www.piedmontng.com.

Piedmont Natural Gas began fiscal 2004 (years start November 1st) on strong footing. The January quarter reflected the first full three months with contributions from the acquisition of North Carolina Natural Gas (NCNG). Earnings topped out at a healthy $2.05 a share (excluding $0.13 of non-recurring gains from the sale of PNY's interest in Heritage Propane and the resolution of certain sharing issues between members of the SouthStar Energy venture). That was despite weather that was 3% warmer than normal and 11% warmer than last year. During the quarter, Piedmont completed permanent financing for the NCNG deal, raising about $400 million through long-term debt issuance and a common equity offering. The proceeds will be used in large part to pay down the outstanding commercial paper issued to temporarily finance the deal.

We look for an earnings advance of roughly 8% this fiscal year. Our projection assumes successful integration of NCNC, which added about 180,000 customers to PNY's base, along with a full year of higher billing rates in both of the Carolinas and Tennessee, and normal weather conditions. Too, Piedmont's customer growth rate should remain in the above average 3%-3.5% range, given the proliferation of housing starts in the company's service territories. For fiscal 2005, we estimate share earnings of $2.50.

Non-utility income continues to support the bottom line, albeit to a lesser extent. Regulated operations make up the lion's share (about 85%) of Piedmont's total income. And management intends to remain focused on being a gas utility. Still, unregulated activities, which include SouthStar Energy and the Pine Needle and Cardinal Pipeline joint ventures, are likely to consistently contribute to the bottom line going forward.

Relatively rapid dividend growth continues to be this equity's primary appeal. The company recently raised its quarterly payment by about 4%, to $0.43 a share ($1.72 annualized). Moreover, while not a performance vehicle, the stock holds a Safety rank of 2 (Above Average), which makes it a suitable holding for conservative, income-oriented accounts.

Edward Plank *March 19, 2004*

(A) Fiscal year ends October 31st.
(B) Diluted earnings. Excl. extraordinary item: '00, 16¢. Excl. nonrecurring charge: '97, 4¢. Next egs. report due mid May.
(C) Dividends historically paid mid-January, April, July, October.
■ Div'd reinvest. plan available; 5% discount.
(D) Incl. def'd chrgs. At 10/31/03: $3.8 mill., 11¢/sh.
(E) In millions, adj. for stock split.
(F) Qtrs. may not add to total due to change in shares outstanding.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	70
Earnings Predictability	85

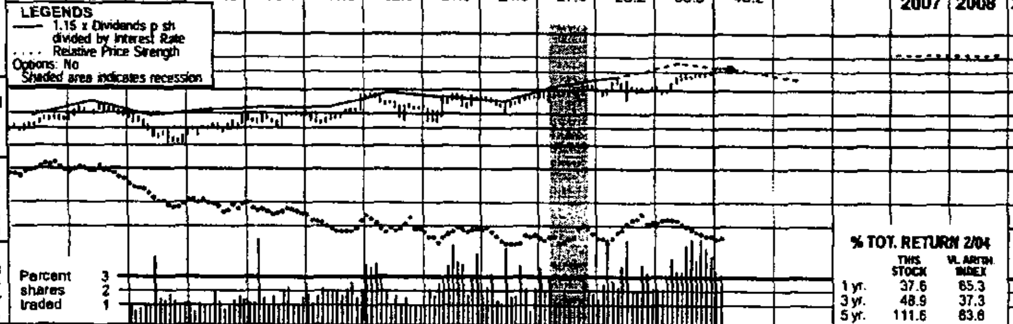
SOUTH JERSEY INDS. NYSE-SJI

RECENT PRICE 41.57 | P/E RATIO 14.5 (Trailing: 15.1, Median: 14.0) | RELATIVE P/E RATIO 0.76 | DIV'D YLD 3.9% | VALUE LINE

TIMELINESS 4 Lowered 12/26/03
SAFETY 2 Lowered 1/4/91
TECHNICAL 3 Raised 1/9/04
BETA .55 (1.00 = Market)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
High:	27.5	24.0	23.5	24.6	30.5	30.8	30.8	30.1	34.1	36.7	40.7	42.3
Low:	21.8	16.6	17.9	20.1	21.0	22.0	21.5	24.5	27.6	28.2	30.5	40.2

Target Price Range 2007 | 2008 | 2009



2007-09 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+20%)	8%
Low	40	(-5%)	3%

Insider Decisions

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

Institutional Decisions

	2Q2003	3Q2003	4Q2003
to Buy	40	45	47
to Sell	30	30	27
Hld's(000)	4658	4654	5044

% TOT. RETURN 2/04

	THIS STOCK	VL ARITH. INDEX
1 yr.	37.6	65.3
3 yr.	48.9	37.3
5 yr.	111.6	83.8

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	© VALUE LINE PUB., INC.	07-09
29.66	30.54	28.80	30.19	33.33	34.06	34.90	33.00	33.05	32.36	41.77	35.19	44.86	70.60	41.38	53.60	55.75	57.95	Revenues per sh	64.80
3.03	3.00	2.68	2.75	3.12	3.08	2.70	3.30	3.08	3.19	2.87	3.67	3.90	3.79	4.25	4.45	4.75	4.85	"Cash Flow" per sh	5.50
1.88	1.66	1.33	1.27	1.61	1.55	1.21	1.65	1.70	1.71	1.28	2.01	2.16	2.29	2.43	2.73	2.85	2.90	Earnings per sh A	3.40
1.29	1.36	1.40	1.41	1.41	1.43	1.44	1.44	1.44	1.44	1.44	1.44	1.48	1.48	1.51	1.56	1.82	1.87	Div'ds Decl'd per sh B ■	1.77
4.41	4.55	4.21	4.34	3.39	3.74	3.86	4.16	4.02	4.61	6.11	4.37	4.42	5.64	6.94	4.60	5.00	5.30	Cap'l Spending per sh	5.20
13.24	13.49	13.58	13.53	13.90	14.33	14.46	14.67	16.06	12.86	12.45	13.48	14.50	15.62	19.34	20.30	22.50	24.65	Book Value per sh	32.35
8.47	8.48	9.03	9.24	9.50	9.80	10.72	10.72	10.76	10.77	10.78	11.15	11.50	11.86	12.21	13.00	13.00	13.00	Common Shs Outst'g C	13.50
9.3	11.9	13.6	14.5	13.2	15.8	16.1	12.2	13.3	13.8	21.2	13.3	13.0	13.6	13.5	13.3	Bold figures are	Value Line	Avg Ann'l P/E Ratio	13.0
.77	.90	1.01	.93	.80	.93	1.06	.82	.83	.80	1.10	.76	.85	.70	.74	.76	estimates		Relative P/E Ratio	.85
7.4%	6.9%	7.7%	7.6%	6.6%	5.9%	7.4%	7.2%	6.4%	6.1%	5.3%	5.4%	5.2%	4.7%	4.6%	4.3%			Avg Ann'l Div'd Yield	4.0%

CAPITAL STRUCTURE as of 9/30/03
Total Debt $433.5 mill. Due in 5 Yrs $188.6 mill.
LT Debt $326.7 mill. LT Interest $17.5 mill.

(Total interest coverage: 3.4x)

Pension Assets-12/02 $63.1 mill. Oblig. $81.1 mill.
Pfd Stock $1.7 mill. Pfd Div'd $.1 mill.
16,904 Series B shs. 8% cum. ($100 par) callable 106.7
Common Stock 13,001,350 common shs. as of 11/3/03
MARKET CAP: $550 million (Small Cap)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005		07-09
374.0	353.8	355.5	348.6	450.2	392.5	515.9	837.3	505.1	596.8	725	765	Revenues ($mill)	875
12.6	17.8	18.5	18.4	13.8	22.0	24.7	26.8	29.4	36.0	38.0	38.5	Net Profit ($mill)	46.0
35.1%	34.4%	35.5%	36.8%	46.2%	42.8%	43.1%	42.2%	41.4%	41.9%	42.0%	42.0%	Income Tax Rate	42.0%
3.4%	5.0%	5.2%	5.3%	3.1%	5.6%	4.8%	3.2%	5.8%	5.2%	5.2%	5.1%	Net Profit Margin	5.3%
49.3%	51.4%	46.1%	54.6%	57.3%	53.8%	54.1%	57.0%	53.6%	51.0%	51.0%	50.0%	Long-Term Debt Ratio	46.0%
49.9%	47.9%	53.2%	35.8%	33.5%	37.0%	37.6%	35.9%	46.1%	49.0%	49.0%	50.0%	Common Equity Ratio	53.0%
310.6	328.4	324.8	387.1	401.1	405.9	443.5	516.2	512.5	545	595	645	Total Capital ($mill)	820
402.1	422.7	423.9	456.5	504.3	533.3	562.2	607.0	666.6	700	750	800	Net Plant ($mill)	950
6.1%	7.8%	7.9%	6.7%	5.3%	7.4%	7.4%	6.9%	7.6%	7.0%	6.5%	6.5%	Return on Total Cap'l	6.0%
8.0%	11.2%	10.5%	10.5%	8.1%	11.7%	12.1%	12.1%	12.4%	13.5%	13.0%	12.0%	Return on Shr. Equity	10.5%
8.0%	11.2%	10.6%	13.3%	10.3%	14.6%	14.8%	12.8%	12.5%	13.5%	13.0%	12.0%	Return on Com Equity	10.5%
NMF	1.4%	1.6%	2.1%	NMF	4.2%	4.8%	3.5%	4.7%	5.0%	6.0%	5.0%	Retained to Com Eq	5.0%
119%	88%	85%	84%	112%	72%	67%	76%	62%	56%	56%	57%	All Div'ds to Net Prof	52%

CURRENT POSITION ($MILL.)	2001	2002	9/30/03
Cash Assets	4.0	4.3	5.1
Other	218.1	208.4	194.7
Current Assets	222.1	212.7	199.8
Accts Payable	48.2	76.7	64.3
Debt Due	162.1	177.2	104.8
Other	99.8	62.7	72.8
Current Liab.	310.1	316.6	241.9
Fix. Chg. Cov.	260%	335%	360%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '00-'02 to '07-'09
Revenues	5.5%	10.0%	3.0%
"Cash Flow"	3.5%	4.5%	4.5%
Earnings	5.0%	6.5%	6.0%
Dividends	0.5%	0.5%	2.2%
Book Value	2.0%	2.5%	10.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	342.6	218.6	107.9	168.2	837.3
2002	177.0	84.2	69.1	174.8	505.1
2003	279.9	106.2	90.1	220.6	696.8
2004	285	120	105	215	725
2005	295	130	115	225	765

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	1.87	d.02	d.32	.76	2.29
2002	1.65	.06	d.27	.99	2.43
2003	1.84	.16	d.13	.86	2.73
2004	1.90	.20	d.10	.85	2.85
2005	1.85	.25	d.10	.90	2.90

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.36	.365	.365	.365	1.46
2001	.365	.37	.37	.37	1.48
2002	.37	.375	.375	.375	1.50
2003	.385	.385	.385	.405	1.56
2004	.405				

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 298,767 customers in New Jersey's southern counties, which cover 2,500 square miles and include Atlantic City. Principal suppliers include Transcontinental Gas Pipeline and Columbia Gas Pipeline. Gas revenue mix: residen'l, 31%; commercial and industrial, 11%; transportion, including off-system sales and gas marketing, 54%; off-system, 4%; cogeneration, power generation. Has 638 employees. Directors cntrl. 1.0% of com. shares; Dimensional Fund Advisors, 6.2% (3/03 proxy). Chrmn. & CEO: Charles Biscieglia. Incorp.: NJ. Address: 1 South Jersey Plaza, Rte. 54, Folsom, NJ 08037. Telephone: 609-561-9000. Web: www.sjindustries.com.

South Jersey Industries appears to be on track to achieve company-record earnings in 2004. Its share net has reached new highs in each of the last five years, as a result of a steadily growing customer base at the utility, and the development of nonregulated activities. The general population is growing in the company's service area, partially due to aggressive hotel and casino expansion in Atlantic City. South Jersey's customer base rose 2.8% in 2003, compared to its utility peer average of 1.8%, and it expects the base to increase nearly 3% again this year. Meanwhile, the company has been successful in developing its nonutility operations, which accounted for 23% of profits in 2003. We look for companywide share earnings to reach $2.85 for 2004. On the utility side, the bottom line should get a boost from a higher customer base, as well as presumably cold temperatures this winter. South Jersey's unregulated businesses will likely benefit from a full year of thermal energy operations, and greater wholesale gas volume.

Marina Energy has picked up another cogeneration facility. The thermal energy subsidiary of South Jersey, which began supplying power to the Borgata Hotel and Casino last year, has acquired a plant in Salem County for an undisclosed amount. The facility supplies energy to Mannington Mills, a residential and commercial flooring manufacturer. The move is expected to generate $1.7 million in revenues annually for the company.

A rate case is still pending. South Jersey filed for a $52.7 million hike with regulators last summer, its first request since 1997. Its claim is based on average customer growth of 2.7% over the past five years, as well as the $300 million that it has invested in pipeline infrastructure. The company anticipates completion of the case during the second half of the year.

This income stock has been performing well, as a number of the company's unregulated projects reached fruition. We estimate slower earnings growth in 2004 and 2005, however, although there is still room for dividend growth. With SJI trading near peak historical valuations, owing to low interest rates, an eventual rate upturn poses the biggest risk to the stock.

Michael P. Maloney *March 19, 2004*

(A) Based on avg. shs. Excl. nonrecur. gain (loss): '01, $0.13. Excl gain (losses) from discont. 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). Excl. gain due to acct'g change: '93, $0.04; '01, $0.14. Next egs. report late Apr. (B) Dividends historically paid early Jan., Apr., Jul., and Oct. ■ Div. reinvest. plan avail. (2% disc.). (C) In mill.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	80

WGL HOLDINGS NYSE-WGL

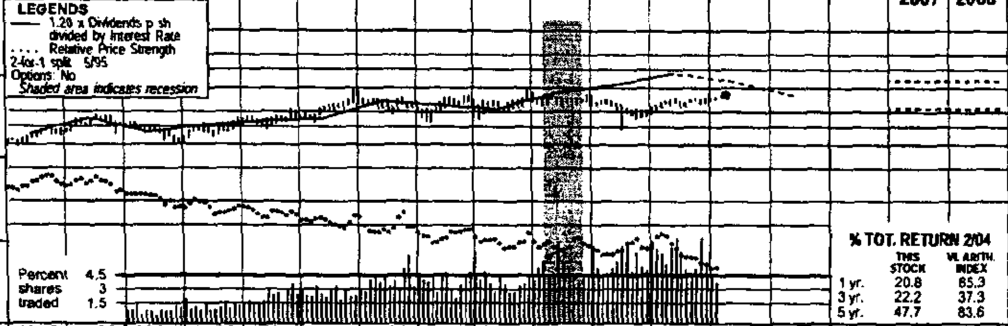
RECENT PRICE 29.40 | P/E RATIO 15.5 (Trailing: 14.6 Median: 14.0) | RELATIVE P/E RATIO 0.82 | DIV'D YLD 4.4% | VALUE LINE

TIMELINESS 5 Lowered 11/14/03
SAFETY 1 Raised 4/2/93
TECHNICAL 3 Lowered 3/19/04
BETA .70 (1.00 = Market)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
High:	22.9	21.3	22.4	25.0	31.4	30.8	29.4	31.5	30.5	29.5	28.8	30.1
Low:	18.1	16.0	16.1	19.1	20.9	23.1	21.0	21.8	25.3	19.3	23.2	27.2

Target Price Range 2007 | 2008 | 2009

LEGENDS
— 1.20 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 5/95
Options: No
Shaded area indicates recession



2007-09 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	35	(+20%)	9%
Low	25	(-15%)	1%

Insider Decisions

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

Institutional Decisions

	2Q2003	3Q2003	4Q2003
to Buy	78	65	86
to Sell	64	73	66
Hld's(000)	23185	21665	21932

% TOT. RETURN 2/04

	THIS STOCK	VL ARITH. INDEX
1 yr.	20.8	65.3
3 yr.	22.2	37.3
5 yr.	47.7	83.6

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	©VALUE LINE PUB., INC.	07-09
18.17	19.52	18.75	17.50	18.37	21.55	21.69	19.30	22.19	24.16	23.74	20.92	22.19	29.80	32.63	42.45	37.00	38.55	Revenues per sh A	41.10
1.90	2.03	2.17	2.04	2.17	2.25	2.43	2.51	2.93	3.02	2.79	2.74	3.20	3.24	2.63	4.00	3.65	3.85	"Cash Flow" per sh	4.35
1.26	1.22	1.26	1.14	1.27	1.31	1.42	1.45	1.85	1.85	1.54	1.47	1.79	1.88	1.14	2.30	1.90	2.00	Earnings per sh B	2.15
.94	.97	1.01	1.05	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	1.30	Div'ds Decl'd per sh C■	1.34
2.79	3.00	2.38	2.05	2.17	2.43	2.84	2.63	2.85	3.20	3.62	3.42	2.67	2.68	3.34	2.65	2.55	2.55	Cap'l Spending per sh	2.60
9.96	9.86	10.17	9.63	10.66	11.04	11.51	11.95	12.79	13.48	13.86	14.72	15.31	16.24	15.78	16.25	18.45	19.10	Book Value per sh D	21.25
38.42	38.70	39.23	39.89	40.62	41.50	42.19	42.93	43.70	43.70	43.84	46.47	46.47	48.54	48.56	48.63	48.65	48.65	Common Shs Outst'g E	48.65
9.8	10.6	11.7	12.8	13.6	15.6	14.0	12.7	11.5	12.7	17.2	17.3	14.6	14.7	23.1	11.1	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	14.0
.80	.80	.87	.82	.82	.92	.92	.85	.72	.73	.89	.99	.95	.75	1.26	.63			Relative P/E Ratio	.95
7.8%	7.5%	6.9%	7.2%	6.2%	5.3%	5.6%	6.1%	5.4%	5.0%	4.5%	4.8%	4.8%	4.6%	4.8%	5.0%			Avg Ann'l Div'd Yield	4.5%

CAPITAL STRUCTURE as of 12/31/03
Total Debt 838.0 mill. Due in 5 Yrs 253.1 mill.
LT Debt $637.6 mill. LT Interest $40.0 mill.
(Total interest coverage: 5.1x)

Pension Assets-9/03 $661.5 mill. Oblig. $615.9 mill.
Preferred Stock $28.2 mill. Pfd Div'd $1.3 mill.

Common Stock 48,641,924 shs. as of 1/31/04
MARKET CAP: $1.4 billion (Mid Cap)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005		07-09
914.9	828.7	969.8	1055.8	1040.6	972.1	1031.1	1446.5	1584.8	2064.2	1800	1875	Revenues ($mill) A	2000
60.5	62.9	81.6	82.0	68.6	68.8	84.6	89.9	55.7	112.3	93.0	98.0	Net Profit ($mill)	105
38.1%	37.4%	37.7%	36.9%	35.6%	36.0%	36.1%	39.6%	34.0%	38.0%	37.0%	37.0%	Income Tax Rate	37.0%
6.6%	7.6%	8.4%	7.8%	6.6%	7.1%	8.2%	6.2%	3.5%	5.4%	5.2%	5.2%	Net Profit Margin	5.3%
40.0%	37.8%	37.6%	41.1%	40.3%	41.5%	43.1%	41.7%	45.7%	43.8%	41.0%	41.0%	Long-Term Debt Ratio	39.0%
56.7%	58.9%	59.4%	56.2%	57.1%	56.1%	54.8%	56.3%	52.4%	54.3%	58.0%	58.0%	Common Equity Ratio	59.0%
856.3	870.6	941.1	1049.0	1064.8	1218.5	1299.2	1400.8	1462.5	1454.9	1605	1660	Total Capital ($mill)	1795
995.0	1056.1	1130.6	1217.1	1319.5	1402.7	1460.3	1519.7	1606.8	1874.9	1950	2050	Net Plant ($mill)	2250
8.7%	8.7%	10.1%	9.3%	8.0%	7.1%	7.9%	7.9%	5.3%	9.1%	6.0%	6.0%	Return on Total Cap'l	6.0%
11.8%	11.6%	13.9%	13.3%	10.8%	9.7%	11.4%	11.0%	7.0%	13.7%	10.0%	10.0%	Return on Shr. Equity	9.5%
12.2%	12.0%	14.4%	13.7%	11.1%	9.9%	11.7%	11.2%	7.2%	14.0%	10.0%	10.0%	Return on Com Equity	9.5%
2.6%	2.8%	5.6%	5.1%	2.5%	1.8%	3.7%	3.8%	NMF	6.2%	3.0%	3.5%	Retained to Com Eq	3.5%
79%	77%	62%	63%	78%	82%	69%	67%	112%	56%	69%	66%	All Div'ds to Net Prof	63%

CURRENT POSITION ($MILL.)	2002	2003	12/31/03
Cash Assets	2.5	4.5	9.3
Other	338.3	399.9	581.7
Current Assets	340.8	404.4	591.0
Accts Payable	138.5	158.4	218.1
Debt Due	133.3	194.8	198.4
Other	65.7	48.9	135.3
Current Liab.	337.5	402.1	551.8
Fix. Chg. Cov.	337%	487%	435%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '01-'03 to '07-'09
Revenues	6.0%	8.5%	2.5%
"Cash Flow"	4.5%	2.5%	5.0%
Earnings	3.5%	0.5%	3.5%
Dividends	2.0%	1.5%	1.0%
Book Value	4.5%	4.0%	4.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2001	540.3	605.2	182.4	118.6	1446.5
2002	417.1	564.8	314.2	288.7	1584.8
2003	558.7	851.1	373.2	279.8	2062.8
2004	375.3	725	405	294.7	1800
2005	395	755	415	310	1875

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2001	1.08	1.33	d.15	d.38	1.88
2002	.66	1.09	d.14	d.47	1.14
2003	1.10	1.61	d.05	d.36	2.30
2004	.81	1.60	d.15	d.36	1.90
2005	.85	1.55	d.10	d.30	2.00

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.305	.31	.31	.31	1.24
2001	.31	.315	.315	.315	1.26
2002	.315	.318	.318	.318	1.27
2003	.318	.32	.32	.32	1.28
2004	.32	.325			

BUSINESS: WGL Holdings, Inc. is the parent of Washington Gas Light, a natural gas distributor in Washington, D.C. and adjacent areas of VA. and MD. to resident'l and comm'l users (939,291 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. Has 2,205 employees. Off./dir. own less than 1% of the common stock (1/04 proxy). Chairman & CEO: J.H. DeGraffenreidt. Inc.: D.C. and VA. Address: 1100 H St., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.

WGL Holdings' earnings were unspectacular in the first quarter of 2004 (fiscal year ends Sept. 30th) . . . Earnings per share for the December period came in at $0.81, a considerable decline from a year earlier. The decline primarily reflects a retreat in total gas deliveries by WGL's regulated utility operations as a result of temperatures that were 16% warmer than in the first quarter of 2002.

. . . But the company has raised its guidance for the March period. WGL increased its share-net expectation to between $1.61 and $1.71, from a previous range of $1.45 to $1.55. First and foremost, part of the upward revision is the result of colder-than-anticipated weather this winter. Second, it includes the impact of a favorable rate case ruling in Virginia, whereby the company was granted a $9.9 million increase in revenues. WGL is also factoring in higher associated utility costs in Virginia; state regulators there require that profits in excess of a utility's allowed 10.5% return of equity be offset with higher bookings to depreciation expense. Finally, WGL's guidance includes a $0.12 gain on the sale of two buildings in which it had an affiliated interest. We consider this a nonrecurring item. As such, we have excluded it from our March-quarter estimate for WGL of $1.60 a share.

WGL Holdings has identified its goals. It is targeting average annual earnings growth of 5% out to 2008. The company intends to achieve this with the expectation of at least 3% yearly growth in its utility customer base, which it has sustained since 1998. WGL also looks to continue with the development of its nonregulated businesses, which contributed less than 3% to earnings in 2003, and just over 4% of earnings in the first quarter of this year. Meanwhile, it is reviewing ways to trim operating expenses, which have increased amid rising benefit and pension costs. In addition, WGL plans to exercise restraint with regards to capital spending.

These untimely shares have moved higher. The share price is up nearly 9% since our report in December, which is significant for a regulated utility. In our view, further upside is quite limited. WGL's strong finances offer conservative appeal. Still, this is a stable income stock.

Michael P. Maloney *March 19, 2004*

(A) Beginning 1989, fiscal years end Sept. 30th. (B) Based on diluted shares. Excludes nonrecurring losses: '01, (13¢); '02, (34¢). Next earnings report due late Apr.
(C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available.
(D) Includes deferred charges and intangibles.
(E) In millions, adjusted for stock split.
'02: $152.2 million, $3.13/sh.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	55
Earnings Predictability	60

Historical Capital Structures for Southern Union Company
Consolidated Basis
(Thousands of Dollars)

Capital Components	1994	1995	1996	1997	1998
Common Equity	$208,975	$225,664	$245,915	$267,462	$296,834
Preferred Stock	$0	$100,000	$100,000	$100,000	$100,000
Long-Term Debt	$479,937	$463,273	$386,009	$386,844	$408,184
Short-Term Debt	$0	$0	$0	$0	$1,600
Total	$688,912	$788,937	$731,924	$754,306	$806,618

Capital Components	1999	2000	2001	2002	2003
Common Equity	$301,058	$735,854	$721,857	$685,346	$920,418
Preferred Stock	$100,000	$100,000	$100,000	$100,000	$100,000
Long-Term Debt	$392,457	$735,967	$1,335,544	$1,190,413	$2,346,405
Short-Term Debt	$21,003	$3	$190,600	$131,800	$251,500
Total	$814,518	$1,571,824	$2,348,001	$2,107,559	$3,618,323

Notes: The amount of Long-Term Debt includes Current Maturities.

Source: Southern Union Company's Stockholders June 30 Annual Reports

SOUTHERN UNION COMPANY
CASE NO. GR-2004-0209

Historical Capital Structures for Southern Union Company
Consolidated Basis

Capital Structure	1994	1995	1996	1997	1998
Common Equity	30.33%	28.60%	33.60%	35.46%	36.80%
Preferred Stock	0.00%	12.68%	13.66%	13.26%	12.40%
Long-Term Debt	69.67%	58.72%	52.74%	51.28%	50.60%
Short-Term Debt	0.00%	0.00%	0.00%	0.00%	0.20%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Total Debt Including TOPrS	69.67%	71.40%	66.40%	64.54%	63.20%

Capital Structure	1999	2000	2001	2002	2003
Common Equity	36.96%	46.82%	30.74%	32.52%	25.44%
Preferred Stock	12.28%	6.36%	4.26%	4.74%	2.76%
Long-Term Debt	48.18%	46.82%	56.88%	56.48%	64.85%
Short-Term Debt	2.58%	0.00%	8.12%	6.25%	6.95%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Total Debt Including TOPrS	63.04%	53.18%	69.26%	67.48%	74.56%

Notes: The amount of Long-Term Debt includes Current Maturities.

Source: Southern Union Company's Stockholders June 30 Annual Reports

Schedule 5-2

Murray, David

From: Waite, Judith [judith_waite@standardandpoors.com]
Sent: Tuesday, June 08, 2004 2:15 PM
To: david.murray@psc.mo.gov
Subject: RE:

David,

We treated them basically as Paul described it. The TOPrs are in some ways subordinated to more senior debt, and provide some cushion. However, they are more like debt than equity and are treated as such.

Judith Waite

Judith Waite, Director
Corporate & Government Ratings
Standard & Poor's
(212) 438-7677
(212) 438-2154 (Fax)
judith_waite@sandp.com

-----Original Message-----
From: david.murray@psc.mo.gov [mailto:david.murray@psc.mo.gov]
Sent: Tuesday, June 08, 2004 2:25 PM
To: judith_waite@sandp.com
Subject: FW:

Judith,

I have been referred to you as to how you have treated Southern Union's TOPrS for purposes of comparing their total debt/total capital ratio when comparing their ratios to your benchmarks. Can you help me out? Thank you in advance for your response.
-----Original Message-----
From: Quinlan, Paul [mailto:Paul_Quinlan@standardandpoors.com]
Sent: Tuesday, June 08, 2004 1:04 PM
To: david.murray@psc.mo.gov
Subject: RE:

You would have to ask the analyst for Southern Union

Judith Waite
212-438-7677
judith_waite@sandp.com

-----Original Message-----
From: david.murray@psc.mo.gov [mailto:david.murray@psc.mo.gov]
Sent: Tuesday, June 08, 2004 10:03 AM
To: Quinlan, Paul

Subject: RE:

Thank you for your response. Can you tell me how Standard & Poor's treated the TOPrS that Southern Union Company had outstanding from around 1995 until the end of last year? Thank you in advance for your response.

-----Original Message-----
From: Quinlan, Paul [mailto:Paul_Quinlan@standardandpoors.com]
Sent: Tuesday, June 08, 2004 8:36 AM
To: david.murray@psc.mo.gov
Subject:

For publishing purposes, the ratios include TOPrS as debt, but in a committee, the analyst will usually present the company's financial measures with two cases, one reflecting TOPrS as debt, the other with TOPrS as equity. Pending the different terms, maturities, and the company's financing track record, the analyst will lead the committee toward one case or the other, or a mix of both. I know this is not the cut and dry answer that you may be looking for, but it gives the analyst with more analytical flexibility.

Paul Quinlan
Ratings Analyst
U.S. Utilities, Energy & Project Finance Ratings
Standard & Poor's
55 Water Street, 38th Floor
New York, NY 10041
Phone: (212) 438-1563
Fax: (212) 438-2154
Email: paul_quinlan@sandp.com

Paul,

I don't know if you could answer the question below in Ron's absence.

-----Original Message-----
From: Millhouse, Rik
Sent: Monday, June 07, 2004 5:18 PM
To: Gray, Linda
Cc: Barone, Ronald
Subject: FW: Trust Originated Preferred Securities (TOPrS) and Utility
Financial Targets

Linda:

Might you be able to pass this query on to someone in the group in

Mr. Barone's absence?

Regards,

rik millhouse
Technical Support Specialist
Credit Information Services
Standard & Poor's
55 Water Street, 34th Floor
New York, NY 10041
Phone: 212-438-7283
Fax: 212-438-7290
rik_millhouse@standardandpoors.com

-----Original Message-----
From: Millhouse, Rik
Sent: Monday, June 07, 2004 5:09 PM
To: Barone, Ronald
Subject: FW: Trust Originated Preferred Securities (TOPrS) and Utility
Financial Targets

Pardon the interruption, but might you be able to recommend an analyst who could address this RatingsDirect client's query?

Thank you in advance.

Regards,

rik millhouse
Technical Support Specialist
Credit Information Services
Standard & Poor's
55 Water Street, 34th Floor
New York, NY 10041
Phone: 212-438-7283
Fax: 212-438-7290
rik_millhouse@standardandpoors.com

-----Original Message-----
From: david.murray@psc.mo.gov [mailto:david.murray@psc.mo.gov]
Sent: Monday, June 07, 2004 1:33 PM
To: RatingsDirect
Subject: Trust Originated Preferred Securities (TOPrS) and Utility
Financial Targets

Does S&P include TOPrS in the amount of total debt when calculating
a
utility company's total debt/total capital ratio for purposes of
measuring a
company's ratio against the financial targets that S&P published on
June 18,
1999. Thanks in advance for your response.
