Missouri Gas Energy
Summary of Cost of Capital and Fair Rate of Return
Based on Hypothetical Capital Structure Ratios

Type of Capital	Ratios (1)	Cost Rate		Weighted Cost Rate
Long-Term Debt	44.09 %	6.57 %	(2)	2.90 %
Short-Term Debt	9.91	5.47	(3)	0.54
Total Debt	54.00 (5)			3.44
Common Equity	46.00	11.75	(4)	5.41
Total	100.00 %			8.85 %

Notes:

(1) A hypothetical capital structure consisting of 54.00% debt and 46.00% equity is utilized for cost of capital purposes for the following reasons:

(a) Southern Union Company's transformation from a utility to a gas transportation and energy services company. As George L. Lindemann, Southern Union's chairman, President and CEO has stated: "The sale of these assets is part of the continuing transformation of Southern Union Company from a utility to a leader in the natural gas transportation and services industry." In addition Eric D. Herschmann, senior executive vice president of Southern Union stated: "We believe this transaction [sale of New England Gas Company Rhode Island Assets], as well as our company's ongoing transformation, will further enhance value for our shareholders." (Business Wire - February 16, 2006)

(b) The sale of New England Gas Company's Rhode Island assets to National Grid PLC as noted in (1) (a) above, which was completed on August 25, 2006..

(c) The sale of PG Energy to UGI Utilities, Inc., which was completed on August 25, 2006

(d) Because the cost of common equity is expectational and Southern Union is positioning itself as a gas transportation and energy services company (see (1) (a) above), investors no longer view Southern Union as a regulated natural gas distribution utility, Southern Union's cost of common equity is not applicable to PG Energy, a regulated natural gas distribution utility.

(e) The use of the proceeds from the sales cited in (1) (b) and (1) (c) above to help fund the acquisition of Sid Richardson Energy Services.

(2) From page 1 of Schedule FJH-7 of the Exhibit accompanying Mr. Hanley's direct testimony.

(3) Estimated short-term debt cost rate is based upon the six-quarter average beginning with the first quarter of 2006 and ending with the second quarter 2007 of the 3-month LIBOR rate of 4.97% (as can be gleaned from the information shown on page 7 of Schedule FJH-13 of the Exhibit accompanying Mr. Hanley's direct testimony) plus 0.50% (50 basis points). Thus, 5.47% = 4.97% + 0.50%.

(4) Based upon informed judgment from the entire study, the principal results of which are summarized on page 2 of this Schedule.

(5) The 54.00% total debt ratio has been allocated between long-term and short-term debt based upon the midpoint of the average long-term and short-term debt ratios of the proxy group of four gas distribution companies and the proxy group of eight Value Line gas distribution companies for the five quarters ended December 31, 2005 as shown on pages 3 and 4 of Schedule FJH-6 of the Exhibit accompanying Mr. Hanley's direct testimony. The allocation is derived as follows:

Average for the five quarters ended December 31, 2005	Proxy Group of Four Gas Distribution Companies		Proxy Group of Eight Value Line Gas Distribution Companies	
	Ratios	% to Total	Ratios	% to Total
Long-Term Debt	42.36 %	82.86 %	41.26 %	80.41 %
Short-Term Debt	8.76	17.14	10.05	19.59
Total Debt	51.12 %	100.00 %	51.31 %	100.00 %

Midpoint of the Proxy Group of Four Gas Distribution Companies and the Proxy Group of Eight Value Line Gas Distribution Companies

	Ratios	% to Total
Long-Term Debt	41.81 %	81.64 %
Short-Term Debt	9.41	18.36
Total Debt	51.22 %	100.00 %

Therefore, the hypothetical long-term debt ratio of 44.09% is derived as 81.64% * 54.00% and the short-term debt ratio of 9.91% is derived as 18.36% * 54.00%.

Missouri Gas Energy
Brief Summary of Common Equity Cost Rate

Line No.		Principal Methods	Proxy Group of Four Gas Distribution Companies		Proxy Group of Eight Value Line Gas Distribution Companies	Southern Union Company
1.		Discounted Cash Flow Model (1)	9.76 %		9.81 %	13.03 %
2.		Risk Premium Model (2)	11.50		11.30	11.95
3.		Capital Asset Pricing Model (3)	11.55		11.32	12.49
4.		Comparable Earnings Analysis (4)	14.36		14.35	14.11
5.	A.	Indicated Common Equity Cost Rate before Investment Risk Adjustments	11.79 %		11.70 %	12.90 %
	B.	Adjusted Discounted Cash Flow Model (DCF) (5)	10.89		10.85	15.18
6.		Indicated Common Equity Cost Rate Before Adjustments for Unique Risk		11.31 %		14.04 %
7.	A.	Adjustments for Unique Risk Due to smaller relative size		0.30 (6)		0.50 (6)
	B.	Due to Lack of Protection from the Vagaries of Weather		0.15 (7)		- -
8.		Common Equity Cost Rate after Investment Risk Adjustment		11.76 %		14.54 %
9.		Recommendation		11.75% (8)		

See pages 4 through 6 for notes.

(FOR INFORMATIONAL PURPOSES ONLY)
Brief Summary of Common Equity Cost Rate
For the Proxy Group of Three Gas Distribution Companies (9)
and the Proxy Group of Six Value Line Gas Distribution Companies (9)

Line No.		Principal Methods	Proxy Group of Three Gas Distribution Companies (9)	Proxy Group of Six Value Line Gas Distribution Companies (9)	Southern Union Company
1.		Discounted Cash Flow Model (1)	9.69 %	9.58 %	13.03 %
2.		Risk Premium Model (2)	11.49	11.33	11.95
3.		Capital Asset Pricing Model (3)	11.65	11.34	12.49
4.		Comparable Earnings Analysis (4)	14.15	14.71	14.11
5.	A.	Indicated Common Equity Cost Rate before Investment Risk Adjustments	11.75 %	11.74 %	12.90 %
	B.	Adjusted Discounted Cash Flow Model (DCF) (5)	10.72	10.53	15.18
6.		Indicated Common Equity Cost Rate Before Adjustments for Unique Risk	11.19 %		14.04 %
7.	A.	Adjustments for Unique Risk Due to smaller relative size	0.30 (6)		0.50 (6)
	B.	Due to Lack of Protection from the Vagaries of Weather	0.19 (7)		- -
8.		Common Equity Cost Rate after Investment Risk Adjustment	11.68 %		14.54 %
9.		Recommendation	11.75%		

See pages 4 through 6 for notes.

Missouri Gas Energy
Notes to Brief Summary of Cost of Equity

Notes:

(1) From page 1 of Schedule FJH-27.

(2) From page 1 of Schedule FJH-28.

(3) From page 1 of Schedule FJH-29.

(4) From Pages 1 through 6 of Schedule FJH-30.

(5) The 10.89% (4 LDCs), 10.85% (8 LDCs) and 15.18% (Southern Union Company) adjusted DCF cost rates reflect the added financial risk attributable to the application of a market based cost of common equity to a book value common equity ratio as made by the Pennsylvania Public Utility Commission (PAPUC) in Orders re: Pennsylvania-American Water Company (R-00016339) entered January 25, 2002, re: Pennsylvania-American Water Company (R-00038304) entered January 16, 2004, and re: Aqua Pennsylvania, Inc. (formerly Pennsylvania Suburban Water Company) (R-00038805) entered August 5, 2004, in order to reflect understatement of DCF cost rates due to the divergence of market and book value common equity ratios, especially in a volatile stock market. The basis for this adjustment is shown below:

The 9.76%, 9.81% and 13.03% DCF cost rates are relative to the average market value common equity of the proxy group of four gas distribution companies, the proxy group of eight value line gas distribution companies (LDCs), and Southern Union Company, respectively. The cost of common equity for an LDC with 100% common equity must first be calculated as follows:

$$k_u = k_e - [\{(k_u - I) * (1 - t) * (MD / ME)\} - \{(k_u - I_s) * (1 - t) * (MS / ME)\} - \{(k_u - d) * (MP / ME)\}]$$

For the Proxy Group of Four Gas Distribution Companies:

$$8.74\% = 9.76\% - [\{(8.74\% - 6.29\%) * (1 - 35\%) * (28.15\% / 63.36\%)\} - \{(8.74\% - 5.23\%) * (1 - 35\%) * (8.49\% / 63.36\%)\} - \{(8.74\% - 6.22\%) * (0.0\% / 63.36)\}]$$

For the Proxy Group of Eight Value Line Gas Distribution Companies:

$$8.85\% = 9.81\% - [\{(8.85\% - 6.29\%) * (1 - 35\%) * (28.22\% / 65.18\%)\} - \{(8.85\% - 5.23\%) * (1 - 35\%) * (6.43\% / 65.18\%)\} - \{(8.85\% - 6.22\%) * (0.17\% / 65.18\%)\}]$$

For Southern Union Company:

$$10.28\% = 13.03\% - [\{(10.28\% - 6.29\%) * (1 - 35\%) * (38.72\% / 50.40\%)\} - \{(10.28\% - 5.23\%) * (1 - 35\%) * (7.03\% / 50.40\%)\} - \{(10.28\% - 6.22\%) * (3.85\% / 50.40\%)\}]$$

Where:
k_u = cost of common equity for a firm with 100% common equity.
K_e = market determined cost of common equity, i.e., DCF cost rate, 9.76% (4 LDCs.) / 9.81% (8 LDCs.) / 13.03% (Southern Union Company).
I = cost rate of long-term debt, i.e., 6.29%, the average of the July 2006 (6.37%) and August 2006 (6.20%) yields on Moody's A rated public utility debt.
I_s = cost rate of short-term debt, i.e., 5.23%, the average of the July 2006 (5.24%) and August 2006 (5.22%) commercial paper rate, from Federal Reserve Statistical Release H.15.
t = tax rate, i.e., 35%.
MD = average long-term debt ratio based upon a market-value capital structure, using the fair value of long-term debt at October 13, 2006 from pages 7 to 9 of this schedule.
MS = average short-term debt ratio based upon a market-value capital structure, using the book value of short-term debt October 13, 2006 from pages 7 to 9 of this schedule.
ME = average common equity ratio based upon a market-value capital structure at October 13, 2006.
d = cost rate of preferred stock, i.e., 6.22%, the average of the July 2006 (6.25%) and August 2006(6.19%) yields on Moody's A rated public utility preferred

Missouri Gas Energy
Notes to Brief Summary of Cost of Equity

stocks.
MP = average preferred stock ratio based upon a market-value capital structure at October 13, 2006, assuming preferred stock has a market-to-book ratio of 1.00, from pages 7 to 9 of this schedule.

From these "unlevered" costs of common equity, 8.74% (4 LDCs), 8.85% (8 LDCs) and 10.28% (Southern Union), the cost of common equity using the average book value capital structure ratios of the proxy groups can be derived as follows:

$k_u = k_e + [\{(k_u - I) * (1 - t) * (BD / BE)\} + \{(k_u - I_s) * (1 - t) * (BS / BE)\} + \{(k_u - d) * (BP / BE)\}]$

For the Proxy Group of Four Gas Distribution Companies:

*10.89% = 8.74%+-[{(8.74% - 6.29%) * (1 – 35%) * (41.52% / 45.00%)} + {(8.74% - 5.23%) * (1 – 35%) * (13.48% / 45.00)} + {(8.74% - 6.22%) * (0.0% / 45.00)}]*

For the Proxy Group of Eight Value Line Gas Distribution Companies:

*10.85% = 8.85% + [{(8.85% - 6.29%) * (1 – 35%) * (41.64% /47.43%)} + {(8.85% - 5.23%) * (1 – 35%) * (10.69% / 47.43)} + {(8.85% - 6.22%) * (0.24% / 47.43)}]*

For Southern Union Company:

*15.18% = 10.28% + [{(10.28% - 6.29%) * (1 – 35%) * (48.89% /36.50%)} + {(10.28% - 5.23%) * (1 – 35%) * (9.44% / 36.50)} + {(10.28% - 6.22%) * (5.17% / 36.50)}]*

Where:
k_u = cost of common equity for a firm with 100% common equity.
k_e = cost of common equity based upon book value capital structure ratios.
I = cost rate of debt, i.e., 6.29%, the average of the July 2006 (6.37%) and August 2006 (6.20%) yields on Moody's A rated public utility debt.
I_s = cost rate of short-term debt, i.e., 5.23%, the average of the July 2006 (5.24%) and August 2006 (5.22%) commercial paper rate, from Federal Reserve Statistical Release H.15.
t = tax rate, i.e., 35%.
BD = average debt ratio based upon the carrying value of long-term debt at October 13, 2006 from pages 7 to 9 of this schedule.
BS = average short-term debt ratio based upon a book value capital structure, using the book value of short-term debt at October 13, 2006 from pages 6 to 8 of this schedule.
d = cost rate of preferred stock, i.e., 6.22%, the average of the July 2006 (6.25%) and August 2006(6.19%) yields on Moody's A rated public utility preferred stocks.
BP = average preferred stock ratio based upon a book-value capital structure at October 13, 2006, from pages 7 to 9 of this schedule.

Had the average capital structure of Cascade Natural Gas Company and Northwest Natural Gas Company been used, the adjusted DCF for the group of four gas distribution companies would be 10.85% as shown on page 1 of Schedule FJH27. Had the average capital structure of Cascade Natural Gas Company, The Laclede Group, Northwest Natural Gas and Peoples Energy been used, the adjusted DCF for the group of eight gas distribution companies would be 10.82% as shown on page 1 of Schedule FJH-27.

As indicated in Note 9 below, Cascade Natural Gas Corporation and Peoples Energy Corporation are currently in the process of being acquired by MDU Resources and WPS Resources, respectively. Therefore, for informational purposes, the adjusted DCF cost rates to reflect the added financial risk attributable to the application of the averages excluding Cascade in the proxy group of four gas distribution companies and Cascade and Peoples in the proxy group of eight Value Line gas distribution companies have been calculated and the results shown on page 1 of Schedule FJH-27. If such companies were excluded from the proxy the adjusted DCFs would be 10.72% (3 LDCs) and 10.53% (6 LDCs). The 9.69% and 9.58% DCF

Missouri Gas Energy
Notes to Brief Summary of Cost of Equity

cost rates are relative to the average market value common equity of the 3 LDCs (after the exclusion of Cascade Natural) and the proxy group of 6 LDCs (after the exclusion of Cascade Natural and Peoples Energy), respectively. The cost of common equity for an LDC with 100% common equity has been calculated in a similar fashion to those calculated for the proxy groups of 4 LDCs and 8 LDCs, in pages 4 and 5 of this exhibit, using the following formula:

$$k_u = k_e - [\{(k_u - I) * (1 - t) * (MD / ME)\} - \{(k_u - I_s) * (1 - t) * (MS / ME)\} - \{(k_u - d) * (MP / ME)\}]$$

From these "unlevered" costs of common equity, 8.71% (3 LDCs) and 8.70% (6 LDCs), the cost of common equity using the average book value capital structure ratios of the proxy groups can be derived in a similar fashion to those calculated for the proxy groups of 4 LDCs and 8 LDCs, in pages 4 and 5 of this exhibit, using the following formula:

$$k_u = k_e + [\{(k_u - I) * (1 - t) * (BD / BE)\} + \{(k_u - I_s) * (1 - t) * (BS / BE)\} + \{(k_u - d) * (BP / BE)\}]$$

Had the average capital structure of Northwest Natural Gas Company been used, the adjusted DCF for the group of 3 LDCs would be 10.50% as shown on page 1 of Schedule FJH-27. Had the average capital structure of The Laclede Group and Northwest Natural Gas been used, the adjusted DCF for the group of 6 LDCs would be 10.40% as shown on page 1 of Schedule FJH-27.

(6) Business Risk Adjustment due to PG Energy's greater relative business risk due to its small size vis-à-vis the two proxy groups and Southern Union Company, respectively, as fully determined in Mr. Hanley's accompanying direct testimony.

(7) As explained in Mr. Hanley's direct testimony, Missouri Gas Energy does not enjoy protection from the vagaries of weather. Since the majority of the companies in both proxy groups have such clauses (see page 3 of Schedules FJH-3 and FJH-4 of the Exhibit accompanying Mr. Hanley's direct testimony. Missouri Gas Energy has greater relative risk vis-à-vis than the companies in the proxy groups, due to the greater variability of its earnings attributable to the vagaries of weather. In Mr. Hanley's judgment the added risk attributable to the lack of protection from the vagaries of weather is approximately 25 basis points. As shown on Page 3 of Schedule FJH-3 of the Exhibit accompanying Mr. Hanley's direct testimony, the equivalent of 2 companies in the proxy group of four LDCs, have WNCs in place. This equates to about 50% of the full impact or 13 basis points ((0.25% * 50%) = 0.125%, rounded to 0.13%). It can be determined in similar fashion by reference to Page 3 of Schedule FJH-4 of the Exhibit accompanying Mr. Hanley's direct testimony that the equivalent of 5 companies in the proxy group of eight Value Line LDCs enjoy protection from weather, of the full impact or 16 basis points ((0.25% * 625%) = 0.156%, rounded to 0.16%)). The average risk of both groups is equal to 15 basis points ((0.13% for the group of 4 plus 0.17% for the group of 8, divided by 2) or (0.13 + 0.16) / 2 = 0.145%, rounded to 0.15%)). Cascade Natural Gas Corporation and Peoples Energy Corporation are currently in the process of being acquired by MDU Resources and WPS Resources, respectively. For informational purposes, the averages excluding Cascade in the proxy group of 4 LDCs, and Cascade and Peoples in the proxy group of eight Value Line LDCs are being calculated and shown on page 3 of this Schedule. If such companies were excluded from the proxy groups, the average risk for both groups would be equal to 19 basis points ((0.17% for the group of 3 LDCs, after the exclusion of Cascade, plus 0.21% for the group of 6 LDCs, after the exclusion of Cascade and Peoples, divided by 2) or (0.17 + 0.21) / 2 = 0.19%)).

(8) Mr. Hanley's recommended common equity cost rate for Missouri Gas Energy is 11.75% based upon current capital market conditions.

(9) Cascade Natural Gas Corporation and Peoples Energy Corporation are currently in the process of being acquired by MDU Resources and WPS Resources, respectively. For informational purposes, the averages excluding Cascade Natural in the proxy group of four gas distribution companies, and Cascade Natural and Peoples Energy in the proxy group of eight Value Line LDCs are being shown.

Capital Structure Based upon Total Capital
for the Proxy Group of Four Gas Distribution Companies
At September 2005 (1)

	Based Upon Book Value		Based Upon Market Value of Common Equity at October 13, 2006	
	Amount Outstanding ($ mill.)	Ratios	Amount Outstanding ($ mill.)	Ratios
Cascade Natural Gas Corporation				
Long-Term Debt	$ 173.84	57.00 %	$ 188.63	37.89 %
Short-Term Debt	12.50	4.10	12.50	2.51
Total Debt	186.34	61.10	201.13	40.40
Preferred Stock	-	-	-	-
Common Equity	118.62	38.90	296.67	59.60
Total Equity	118.62	38.90	296.67	59.60
Total Capital	$ 304.96	100.00 %	$ 497.80	100.00 %
NICOR Inc.				
Long-Term Debt	$ 536.40	27.74 %	$ 525.00	17.05 %
Short-Term Debt	586.00	30.30	586.00	19.04
Total Debt	1,122.40	58.04	1,111.00	36.09
Preferred Stock	-	-	-	-
Common Equity	811.30	41.96	1,967.36	63.91
Total Equity	811.30	41.96	1,967.36	63.91
Total Capital	$ 1,933.70	100.00 %	$ 3,078.36	100.00 %
Northwest Natural Gas Company				
Long-Term Debt	$ 529.50	42.60 %	$ 579.38	31.82 %
Short-Term Debt	126.70	10.19	126.70	6.96
Total Debt	656.20	52.79	706.08	38.78
Preferred Stock	-	-	-	-
Common Equity	586.93	47.21	1,114.83	61.22
Total Equity	586.93	47.21	1,114.83	61.22
Total Capital	$ 1,243.13	100.00 %	$ 1,820.91	100.00 %
Piedmont Natural Gas Co., Inc.				
Long-Term Debt	$ 660.00	38.76 %	$ 753.27	25.85 %
Short-Term Debt	158.50	9.31	158.50	5.44
Total Debt	818.50	48.07	911.77	31.29
Preferred Stock	-	-	-	-
Common Equity	884.19	51.93	2,002.00	68.71
Total Equity	884.19	51.93	2,002.00	68.71
Total Capital	$ 1,702.69	100.00 %	$ 2,913.77	100.00 %
Proxy Group of Four Gas Distribution Companies				
Long-Term Debt		41.52 %		28.15 %
Short-Term Debt		13.48		8.49
Total Debt		55.00		36.64
Preferred Stock		-		-
Common Equity		45.00		63.36
Total Equity		45.00		63.36
Total Capital		100.00 %		100.00 %
Proxy Group of Three Gas Distribution Companies (2)				
Long-Term Debt		36.37 %		24.91 %
Short-Term Debt		16.60		10.48
Total Debt		52.97		35.39
Preferred Stock		-		-
Common Equity		47.03		64.61
Total Equity		47.03		64.61
Total Capital		100.00 %		100.00 %
Southern Union Company				
Long-Term Debt	$ 2,175.79 (3)	48.89 %	$ 2,313.06	38.72 %
Short-Term Debt	420.00	9.44	420.00	7.03
Total Debt	2,595.79	58.33	2,733.06	45.75
Preferred Stock	230.00	5.17	230.00	3.85
Common Equity	1,624.07	36.50	3,011.37	50.40
Total Equity	1,854.07	41.67	3,241.37	54.25
Total Capital	$ 4,449.86	100.00 %	$ 5,974.43	100.00 %

(1) Capital Structure based upon Total Capital as of September 2005, except NICOR Northwest Natural and Southern Union, which is December 2005, and for Piedmont Natural Gas, which is October 2005

(2) Cascade Natural Gas Corporation is currently in the process of being acquired by MDU Resources. For informational purposes, the averages excluding Cascade Natural are being shown.

(3) Book Value Long-term debt for Southern Union is based on the carrying amount published by the company in their annual Form 10K.

Source of Information:
Standard & Poor's Compustat Services, Inc., PC Plus/Research Insight Data Base
Company Annual Forms 10-K and 10-Q
DTN Trading Markets' DTNIQ/Interquote.com

Capital Structure Based upon Total Capital
for the Proxy Group of Eight Value Line Gas Distribution Companies and Southern Union Company
At September 2005 (1)

	Based Upon Book Value		Based Upon Market Value of Common Equity at October 13, 2006	
	Amount Outstanding ($ mill.)	Ratios	Amount Outstanding ($ mill.)	Ratios
Cascade Natural Gas Corporation				
Long-Term Debt	$ 173.84	57.01 %	$ 188.63	37.89 %
Short-Term Debt	12.50	4.10	12.50	2.51
Total Debt	186.34	61.11	201.13	40.40
Preferred Stock	-	-	-	-
Common Equity	118.62	38.90	296.67	59.60
Total Equity	118.62	38.90	296.67	59.60
Total Capital	$ 304.96	100.01 %	$ 497.80	100.00 %
The Laclede Group, Inc.				
Long-Term Debt	$ 380.43	46.48 %	$ 413.52	34.62 %
Short-Term Debt	70.61	8.62	70.61	5.91
Total Debt	451.04	55.10	484.13	40.53
Preferred Stock	1.01	0.12	1.01	0.09
Common Equity	366.53	44.78	709.26	59.38
Total Equity	367.53	44.90	710.27	59.47
Total Capital	$ 818.57	100.00 %	$ 1,194.40	100.00 %
New Jersey Resources Corp.				
Long-Term Debt	$ 264.80 (2)	30.20 %	$ 266.80	14.49 %
Short-Term Debt	174.10	19.85	174.10	9.45
Total Debt	438.90	50.05	440.90	23.94
Preferred Stock	-	-	-	-
Common Equity	438.05	49.95	1,400.89	76.06
Total Equity	438.05	49.95	1,400.89	76.06
Total Capital	$ 876.95	100.00 %	$ 1,841.79	100.00 %
NICOR Inc.				
Long-Term Debt	$ 536.40	27.74 %	$ 525.00	17.05 %
Short-Term Debt	586.00	30.30	586.00	19.04
Total Debt	1,122.40	58.04	1,111.00	36.09
Preferred Stock	-	-	-	-
Common Equity	811.30	41.96	1,967.36	63.91
Total Equity	811.30	41.96	1,967.36	63.91
Total Capital	$ 1,933.70	100.00 %	$ 3,078.36	100.00 %
Northwest Natural Gas Company				
Long-Term Debt	$ 529.50	42.60 %	$ 579.38	31.82 %
Short-Term Debt	126.70	10.19	126.70	6.96
Total Debt	656.20	52.79	706.08	38.78
Preferred Stock	-	-	-	-
Common Equity	586.93	47.21	1,114.83	61.22
Total Equity	586.93	47.21	1,114.83	61.22
Total Capital	$ 1,243.13	100.00 %	$ 1,820.91	100.00 %
Peoples Energy Corporation				
Long-Term Debt	$ 895.58	52.56 %	$ 912.80	36.32 %
Short-Term Debt	8.15	0.48	8.15	0.32
Total Debt	903.73	53.04	920.95	36.64
Preferred Stock	-	-	-	-
Common Equity	800.15	46.96	1,592.41	63.36
Total Equity	800.15	46.96	1,592.41	63.36
Total Capital	$ 1,703.89	100.00 %	$ 2,513.36	100.00 %

Capital Structure Based upon Total Capital
for the Proxy Group of Eight Value Line Gas Distribution Companies and Southern Union Company
At September 2005 (1)

	Based Upon Book Value		Based Upon Market Value of Common Equity at October 13, 2006	
	Amount Outstanding ($ mill)	Ratios	Amount Outstanding ($ mill)	Ratios
Piedmont Natural Gas Co., Inc.				
Long-Term Debt	$ 660.00	38.76 %	$ 753 27	25.85 %
Short-Term Debt	158.50	9.31	158.50	5.44
Total Debt	818.50	48 07	911 77	31.29
Preferred Stock	-	-	-	-
Common Equity	884.19	51.93	2,002.00	68.71
Total Equity	884.19	51.93	2,002.00	68.71
Total Capital	$ 1,702.69	100.00 %	$ 2,913.77	100.00 %
WGL Holdings, Inc.				
Long-Term Debt	$ 584.20 (2)	37.76 %	$ 626.80	27.76 %
Short-Term Debt	40.88	2.64	40.88	1.81
Total Debt	625.08	40 40	667 68	29.57
Preferred Stock	28 17	1.82	28.20	1.25
Common Equity	893.99	57.78	1,561.85	69.18
Total Equity	922.17	59.60	1,590.05	70.43
Total Capital	$ 1,547.24	100.00 %	$ 2,257.73	100.00 %
Proxy Group of Eight Gas Distribution Companies				
Long-Term Debt		41.64 %		28.22 %
Short-Term Debt		10.69		6.43
Total Debt		52.33		34.65
Preferred Stock		0.24		0.17
Common Equity		47.43		65.18
Total Equity		47.67		65.35
Total Capital		100.00 %		100.00 %
Proxy Group of Six Gas Distribution Companies (2)				
Long-Term Debt		37.26 %		25.27 %
Short-Term Debt		13.49		8.10
Total Debt		50.75		33.37
Preferred Stock		0.32		0.22
Common Equity		48.93		66.41
Total Equity		49.25		66.63
Total Capital		100.00 %		100.00 %
Southern Union Company				
Long-Term Debt	$ 2,175.79 (3)	48.89 %	$ 2,313 06	38.72 %
Short-Term Debt	420.00	9.44	420.00	7.03
Total Debt	2,595.79	58.33	2,733.06	45.75
Preferred Stock	230 00	5.17	230 00	3.85
Common Equity	1,624.07	36.50	3,011.37	50.40
Total Equity	1,854.07	41.67	3,241.37	54.25
Total Capital	$ 4,449.86	100.00 %	$ 5,974.43	100.00 %

(1) Capital Structure based upon Total Capital as of September 2005, except NICOR Northwest Natural and Southern Union, which is December 2005, and for Piedmont Natural Gas, which is October 2005.

(2) Cascade Natural Gas Corporation and Peoples Energy Corporation are currently in the process of being acquired by MDU Resources and WPS Resources, respectively. For informational purposes, the averages excluding Cascade Natural and Peoples Energy are being shown.

(3) Book Value Long-term debt for Southern Union is based on the carrying amount published by the company in their annual Form 10K.

Source of Information:
Standard & Poor's Compustat Services, Inc., PC Plus/Research Insight Data Base
Company Annual Forms 10-K and 10-Q
DTN Trading Markets' DTNIQ/Interquote com

Missouri Gas Energy
Derivation of Investment Risk Adjustment Based upon
Ibbotson Associates' Size Premia for the Decile Portfolios of the NYSE/AMEX/NASDAQ

Line No.		1 Total Capitalization (incl. Short-Term Debt) for the Year 2005 (millions)	(times larger)	2 Market Capitalization on October 13, 2006 (1) (millions)	(times larger)	3 Applicable Decile of the NYSE/AMEX/ NASDAQ	4 Applicable Size Premium	5 Spread from Applicable Size Premium (2)
1.	Missouri Gas Energy	$ 580.602 (3)						
A.	Based upon the Proxy Group of Four Gas Distribution Companies			$ 583.296		8 - 9 (4)	2.55% (5)	
	Based upon the Proxy Group of Three Gas Distribution Companies (15)			$ 554.451		8 - 9 (4)	2.55% (5)	
B.	Based upon the Proxy Group of Eight Value Line Gas Distribution Companies			$ 547.507		8 - 9 (4)	2.55% (5)	
	Based upon the Proxy Group of Six Value Line Gas Distribution Companies (15)			$ 541.632		8 - 9 (4)	2.55% (5)	
C.	Based upon Southern Union Company			$ 467.811		9 (4)	2.76% (5)	
2.	Proxy Group of Four Gas Distribution Companies	$ 1,296.120 (6)	2.2	$ 1,345.214	2.3	6 - 7 (7)	1.70% (8)	0.85%
	Proxy Group of Three Gas Distribution Companies (15)	$ 1,626.508 (6)	2.8	$ 1,487.346	2.7	6 - 7 (7)	1.70% (8)	0.85%
3.	Proxy Group of Eight Value Line Gas Distribution Companies	$ 1,279.600 (9)	2.2 x	$ 1,330.658	2.4 x	6 - 7 (10)	1.70% (11)	0.85%
	Proxy Group of Six Value Line Gas Distribution Companies (15)	$ 1,371.336 (9)	2.4 x	$ 1,459.363	2.7 x	6 - 7 (10)	1.70% (11)	0.85%
4.	Southern Union Company	$ 4,449.858 (12)	7.7	$ 3,011.366	6.4	4 (13)	1.10% (14)	1.45%

Decile	Number of Companies	Recent Total Market Capitalization (millions)	Recent Average Market (millions)
1 - Largest	169	$8,869,801.117	$52,484.030
2	182	2,025,323.685	11,128.152
3	195	1,074,448.763	5,509.994
4	206	656,297.080	3,185.908
5	207	452,329.097	2,185.165
6	238	389,595.517	1,636.956
7	299	319,642.175	1,069.037
8	352	287,783.718	817.567
9	693	268,738.291	387.790
10 - Smallest	1746	216,334.858	123.903

See page 11 for notes.

Missouri Gas Energy
Derivation of Investment Risk Adjustment Based upon
Ibbotson Associates' Size Premia for the Decile Portfolios of the NYSE

Notes:

(1) From page 12 of this Schedule.

(2) Line No. 1 – Line No. 2 and Line No. 1 – Line No. 3 of Columns 3 and 4, respectively. For example, the 0.85% in Column 5, Line No. 2 is derived as follows 0.85% = 2.55% - 1.70%.

(3) Company-provided rate base at December 31, 2005 presumed to equal total capitalization if it were a stand alone entity rather than a division.

(4) With an estimated market capitalization of $583.296 million (based upon the proxy group of four gas distribution companies), $547.507 (based upon the proxy group of Eight Value Line gas distribution companies) and $467.811 (based upon Southern Union Company), Missouri Gas Energy falls between the 8th and 9th deciles for the two proxy groups, and in the 9th decile for Southern Union, of the NYSE/AMEX/NASDAQ, which have an average market capitalization of $602.679 and $387.790, respectively, as shown in the table on the bottom half of page 10 of this Schedule. If Cascade Natural Gas Corporation and Peoples Energy Corporation were excluded as indicated in Note 15 below, the estimated market capitalization for the proxy group of three gas distribution companies and six gas distribution companies would be $554.451and $541.632, respectively, and based on both groups Missouri Gas Energy would also fall between the 8th and 9th deciles.

(5) Size premium applicable to the 8th and 9th decile of the NYSE/AMEX/NASDAQ as shown on page 24 of this Schedule.

(6) From page 1 of Schedule FJH-3 of the Exhibit accompanying Mr. Hanley's direct testimony.

(7) With an estimated market capitalization of $1,345.214 million, the proxy group of four gas distribution companies falls between the 6th and 7th deciles of the NYSE/AMEX/NASDAQ which have an average market capitalization of $1,352.997 million as can be gleaned from the information shown in the table on the bottom half of page 10 of this Schedule. If Cascade Natural Gas Corporation were excluded form the group of four gas distribution companies, as indicated in Note 15 below, the estimated market capitalization would be $1,487.346 and the group would also fall between the 6th and 7th deciles.

(8) Average size premium applicable to the 6th and 7th deciles of the NYSE/AMEX/NASDAQ as can be gleaned from the information shown on page 24 of this schedule.

(9) From page 1 of Schedule FJH-4 of the Exhibit accompanying Mr. Hanley's direct testimony.

(10) With an estimated market capitalization of $1,330.658 million, the proxy group of eight Value Line gas distribution companies falls between the 6th and 7th deciles of the NYSE/AMEX/NASDAQ which have an average market capitalization of $1,352.997 as shown in the table on the bottom half of page 10 of this Schedule. If Cascade Natural Gas Corporation and Peoples Energy Corporation were excluded form the group of eight Value Line gas distribution companies, as indicated in Note 15 below, the estimated market capitalization would be $1,459.363 and the group would also fall between the 6th and 7th deciles.

(11) Average size premium applicable to the 6th and 7th deciles of the NYSE/AMEX/NASDAQ as can be gleaned from the information shown on page 24 of this schedule.

(12) From page 1 of Schedule FJH-5 of the Exhibit accompanying Mr. Hanley's direct testimony.

(13) With an estimated market capitalization of $3,011.366 million, Southern Union Company falls in the 4th decile of the NYSE/AMEX/NASDAQ which has an average market capitalization of $3,185.908 as shown in the table on the bottom half of page 10 of this Schedule.

(14) Average size premium applicable to 4th deciles of the NYSE/AMEX/NASDAQ as can be gleaned from the information shown on page 24 of this schedule.

(15) Cascade Natural Gas Corporation and Peoples Energy Corporation are currently in the process of being acquired by MDU Resources and WPS Resources, respectively. For informational purposes, the averages excluding Cascade in the proxy group of 4 LDCs, and Cascade and Peoples in the proxy group of eight Value Line LDCs are being shown.

Source of Information: Ibbotson Associates, Stocks, Bonds, Bills and Inflation – Valuation Edition – 2006 Yearbook, Chicago, IL, 2006

Missouri Gas Energy
Market Capitalization of Missouri Gas Energy
for the Proxy Group of Four Gas Distribution Companies, the Proxy Group of Eight
Value Line Gas Distribution Companies and Southern Union Company

Company	1 Common Stock Shares Outstanding at June 30, 2006 (1) & (*) (millions)	2 Book Value per Share at September 30, 2005 (1) & (*)	3 Total Common Equity at June 30, 2006 (*) (millions)	4 Closing Stock Market Price on October 13, 2006	5 Market-to-Book Ratio at October 13, 2006 (2)	6 Market Capitalization on October 13, 2006 (3) (millions)
Missouri Gas Energy	NA (4)	NA	$ 267.077 (4)	NA		
Based upon the Proxy Group of Four Gas Distribution Companies					218.4 % (5)	$ 583.296 (6)
Based upon the Proxy Group of Three Gas Distribution Companies (11)					207.6 % (5)	$ 554.451 (6)
Based upon the Proxy Group of Eight Value Line Gas Distribution Companies					205.0 % (7)	$ 547.507 (8)
Based upon the Proxy Group of Six Value Line Gas Distribution Companies (11)					202.8 % (7)	$ 541.632 (8)
Based upon Southern Union Company					175.2 % (9)	$ 467.811 (10)
Proxy Group of Four Gas Distribution Companies						
Cascade Natural Gas Corporation	11.499	$ 11.138	$ 128 081	$ 25.800	231.6 %	$ 296.674
NICOR Inc.	44.440	18 630	827.900	44.270	237.6	1,967.359
Northwest Natural Gas Company	27.547	22.176	610.876	40.470	182.5	1,114.827
Piedmont Natural Gas Co., Inc	75.348	11.971	902.021	26.570	222.0	2,001.996
Average	39.709	$ 15.979	$ 617.220	$ 34.278	218.4 %	$ 1,345.214
Average Excluding Cascade Natural (11)	49.112	$ 17.592	$ 710.039	$ 33.773	207.8 %	$ 1,487.346
Proxy Group of Eight Value Line Gas Distribution Companies						
Cascade Natural Gas Corporation	11 499	$ 11.138	$ 128.081	$ 25 800	231.6 %	$ 296.674
The Laclede Group, Inc.	21.331	19.075	406.886	33.250	174.3	709.256
New Jersey Resources Corp.	28.074	21.211	595.471	49.900	235.3	1,400.893
NICOR Inc.	44 440	18.630	827.900	44.270	237.6	1,967.359
Northwest Natural Gas Company	27.547	22.176	610.876	40.470	182.5	1,114.827
Peoples Energy Corporation	38 427	21.620	830.796	41.440	191.7	1,592.415
Piedmont Natural Gas Co., Inc	75.348	11.971	902.021	26 570	222.0	2,001.996
WGL Holdings, Inc.	48.762	19.412	946.556	32.030	165.0	1,561.847
Average	36.929	$ 18.154	$ 656.073	$ 36.716	205.0 %	$ 1,330.658
Average Excluding Cascade Natural and Peoples Energy (11)	40.917	$ 18.746	$ 714.952	$ 37.748	202.8 %	$ 1,459.363
Southern Union Company	112.030	$ 15.346	$ 1,719.179	$ 26.880	175.2 %	$ 3,011.366

NA = Not Available

Notes:
(1) Column 3 / Column 1.
(2) Column 4 / Column 2.
(3) Column 5 * Column 3.
(4) Based upon allocating Missouri Gas Energy's rate base at December 31, 2005 of $580.601647 by Mr. Hanley's recommended hypothetical common equity ratio of 46.00%. $267 077 = $580.601647 * 46.00%.
(5) The market-to-book ratio of Missouri Gas Energy, at October 13, 2006 is assumed to be equal to the average market-to-book ratio at October 13, 2006 of the proxy group of four gas distribution companies, as well as the proxy group of three gas distribution companies (after the exclusion of Cascade Natural Gas Corporation) as indicated in Note 11 below.
(6) Missouri Gas Energy's common stock, if traded, would trade at a market-to-book ratio equal to the average market-to-book ratio at October 13, 2006 of the proxy group of four gas distribution companies, 218 4%, and Missouri Gas Energy's market capitalization at October 13, 2006 would therefore have been $583.296 million ($583.296 = $267.077 * 218 4%). If Cascade Natural Gas Corporation were excluded from the proxy group of four LDCs, Missouri Gas Energy's market capitalization at October 13, 2006 would have been $554.451 million.
(7) The market-to-book ratio of Missouri Gas Energy at October 13, 2006 is assumed to be equal to the average market-to-book ratio at October 13, 2006 of the proxy group of eight Value Line gas distribution companies, as well as the proxy group of six Value Line gas distribution companies (after the exclusion of Cascade Natural Gas Corporation and Peoples Energy Corporation) as indicated in Note 11 below.
(8) Missouri Gas Energy's common stock, if traded, would trade at a market-to-book ratio equal to the average market-to-book ratio at October 13, 2006 of the proxy group of eight Value Line gas distribution companies, 205.0%, and Missouri Gas Energy's market capitalization at October 13, 2006 would therefore have been $547.507 million ($547.507 = $267.077 * 205.0%). If Cascade Natural Gas Corporation and Peoples Energy Corporation were to be excluded from the proxy group of eight Value Line LDCs, Missouri Gas Energy's market capitalization at October 13, 2006 would therefore have been $541 632 million.
(9) The market-to-book ratio of Missouri Gas Energy, at October 13, 2006 is assumed to be equal to the average market-to-book ratio at October 13, 2006 of Southern Union Company.
(10) Missouri Gas Energy's common stock, if traded, would trade at a market-to-book ratio equal to the average market-to-book ratio at October 13, 2006 of Southern Union Company, 175 2%, and Missouri Gas Energy's market capitalization at October 13, 2006 would therefore have been $467.811 million. ($467.811 = $267 077 * 175.2%).
(11) Cascade Natural Gas Corporation and Peoples Energy Corporation are currently in the process of being acquired by MDU Resources and WPS Resources, respectively. For informational purposes, the averages excluding Cascade Natural in the proxy group of four LDCs, and Cascade Natural and Peoples Energy in the proxy group of eight Value Line LDCs are being shown
(*) As of June 30, 2006, except Piedmont Natural Gas which is at July 31, 2006

Source of Information:
Standard & Poor's Compustat Services, Inc., PC Plus/Research Insight Data Base
Company Annual Forms 10-K and 10-Q
Source of Information: DTN Trading Markets' DTNIQ/Interquote com

SBBI

Stocks, Bonds, Bills, and Inflation

Valuation Edition
2006 Yearbook

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Chapter 7

Firm Size and Return

The Firm Size Phenomenon

One of the most remarkable discoveries of modern finance is that of a relationship between firm size and return. The relationship cuts across the entire size spectrum but is most evident among smaller companies, which have higher returns on average than larger ones. Many studies have looked at the effect of firm size on return.[1] In this chapter, the returns across the entire range of firm size are examined.

Construction of the Decile Portfolios

The portfolios used in this chapter are those created by the Center for Research in Security Prices (CRSP) at the University of Chicago's Graduate School of Business. CRSP has refined the methodology of creating size-based portfolios and has applied this methodology to the entire universe of NYSE/AMEX/NASDAQ-listed securities going back to 1926.

The New York Stock Exchange universe excludes closed-end mutual funds, preferred stocks, real estate investment trusts, foreign stocks, American Depository Receipts, unit investment trusts, and Americus Trusts. All companies on the NYSE are ranked by the combined market capitalization of their eligible equity securities. The companies are then split into 10 equally populated groups, or deciles. Eligible companies traded on the American Stock Exchange (AMEX) and the Nasdaq National Market (NASDAQ) are then assigned to the appropriate deciles according to their capitalization in relation to the NYSE breakpoints. The portfolios are rebalanced, using closing prices for the last trading day of March, June, September, and December. Securities added during the quarter are assigned to the appropriate portfolio when two consecutive month-end prices are available. If the final NYSE price of a security that becomes delisted is a month-end price, then that month's return is included in the quarterly return of the security's portfolio. When a month-end NYSE price is missing, the month-end value of the security is derived from merger terms, quotations on regional exchanges, and other sources. If a month-end value still is not determined, the last available daily price is used.

Base security returns are monthly holding period returns. All distributions are added to the month-end prices, and appropriate price adjustments are made to account for stock splits and dividends. The return on a portfolio for one month is calculated as the weighted average of the returns for its individual stocks. Annual portfolio returns are calculated by compounding the monthly portfolio returns.

Size of the Deciles

Table 7-1 reveals that the top three deciles of the NYSE/AMEX/NASDAQ account for most of the total market value of its stocks. Nearly two-thirds of the market value is represented by the first decile, which currently consists of 169 stocks, while the smallest decile accounts for just over

1 Rolf W. Banz was the first to document this phenomenon. See Banz, Rolf W. "The Relationship Between Returns and Market Value of Common Stocks," *Journal of Financial Economics*, Vol. 9, 1981, pp. 3–18.

one percent of the market value. The data in the second column of Table 7-1 are averages across all 80 years. Of course, the proportion of market value represented by the various deciles varies from year to year.

Columns three and four give recent figures on the number of companies and their market capitalization, presenting a snapshot of the structure of the deciles near the end of 2005.

Table 7-1
Size-Decile Portfolios of the NYSE/AMEX/NASDAQ Size and Composition
1926 through September 30, 2005

Decile	Historical Average Percentage of Total Capitalization	Recent Number of Companies	Recent Decile Market Capitalization (in thousands)	Recent Percentage of Total Capitalization
1-largest	63.29%	169	$8,869,801,117	60.92%
2	13.97%	182	2,025,323,685	13.91%
3	7.57%	195	1,074,448,763	7.38%
4	4.74%	206	656,297,080	4.51%
5	3.24%	207	452,329,097	3.11%
6	2.37%	238	389,595,517	2.68%
7	1.73%	299	319,642,175	2.20%
8	1.28%	352	287,783,718	1.98%
9	0.99%	693	268,738,291	1.85%
10-Smallest	0.81%	1,746	216,334,858	1.49%
Mid-Cap 3-5	15.55%	608	2,183,074,940	14.99%
Low-Cap 6-8	5.39%	889	997,021,410	6.85%
Micro-Cap 9-10	1.80%	2,439	485,073,149	3.33%

Source: © 200603 CRSP® Center for Research in Security Prices. Graduate School of Business, The University of Chicago. Used with permission. All rights reserved. www.crsp.uchicago.edu.

Historical average percentage of total capitalization shows the average, over the last 80 years, of the decile market values as a percentage of the total NYSE/AMEX/NASDAQ calculated each month. Number of companies in deciles, recent market capitalization of deciles, and recent percentage of total capitalization are as of September 30, 2005.

Table 7-2 gives the current breakpoints that define the composition of the NYSE/AMEX/NASDAQ size deciles. The largest company and its market capitalization are presented for each decile. Table 7-3 shows the historical breakpoints for each of the three size groupings presented throughout this chapter. Mid-cap stocks are defined here as the aggregate of deciles 3–5. Based on the most recent data (Table 7-2), companies within this mid-cap range have market capitalizations at or below $7,187,244,000 but greater than $1,728,888,000. Low-cap stocks include deciles 6–8 and currently include all companies in the NYSE/AMEX/NASDAQ with market capitalizations at or below $1,728,888,000 but greater than $586,393,000. Micro-cap stocks include deciles 9–10 and include companies with market capitalizations at or below $586,393,000. The market capitalization of the smallest company included in the micro-capitalization group is currently $1,079,000.

Table 7-2
Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, Largest Company and Its Market Capitalization by Decile
September 30, 2005

Decile	Market Capitalization of Largest Company (in thousands)	Company Name
1-Largest	$367,495,144	General Electric Co.
2	16,016,450	Entergy Corp.
3	7,187,244	Chesapeake Energy Corp.
4	3,961,425	Ball Corp.
5	2,519,280	Celenese Corp.
6	1,728,888	AGCO Corp.
7	1,280,966	ESCO Technologies Inc.
8	872,103	West Pharmaceutical Services Inc.
9	586,393	General Cable Corp.
10-Smallest	264,981	4Kids Entertainment Inc.

Source: Center for Research in Security Prices, University of Chicago.

Presentation of the Decile Data

Summary statistics of annual returns of the 10 deciles over 1926–2005 are presented in Table 7-4. Note from this exhibit that both the average return and the total risk, or standard deviation of annual returns, tend to increase as one moves from the largest decile to the smallest. Furthermore, the serial correlations of returns are near zero for all but the smallest two deciles. Serial correlations and their significance will be discussed in detail later in this chapter.

Graph 7-1 depicts the growth of one dollar invested in each of three NYSE/AMEX/NASDAQ groups broken down into mid-cap, low-cap, and micro-cap stocks. The index value of the entire NYSE/AMEX/NASDAQ is also included. All returns presented are value-weighted based on the market capitalizations of the deciles contained in each subgroup. The sheer magnitude of the size effect in some years is noteworthy. While the largest stocks actually declined 9 percent in 1977, the smallest stocks rose more than 20 percent. A more extreme case occurred in the depression-recovery year of 1933, when the difference between the first and tenth decile returns was far more substantial, with the largest stocks rising 46 percent, and the smallest stocks rising 224 percent. This divergence in the performance of small and large company stocks is a common occurrence.

Table 7-3

Size-Decile Portfolios of the NYSE/AMEX/NASDAQ
Largest and Smallest Company by Size Group

from 1926 to1965

	Capitalization of Largest Company (in thousands)			Capitalization of Smallest Company (in thousands)		
Date (Sept 30)	Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10	Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10
1926	$61,490	$14,040	$4,305	$14,100	$4,325	$43
1927	$65,281	$14,746	$4,450	$15,311	$4,496	$72
1928	$81,998	$18,975	$5,074	$19,050	$5,119	$135
1929	$107,085	$24,328	$5,875	$24,480	$5,915	$126
1930	$67,808	$13,050	$3,219	$13,068	$3,264	$30
1931	$42,607	$8,142	$1,905	$8,222	$1,927	$15
1932	$12,431	$2,170	$473	$2,196	$477	$19
1933	$40,298	$7,210	$1,830	$7,280	$1,875	$100
1934	$38,129	$6,669	$1,669	$6,734	$1,673	$68
1935	$37,631	$6,519	$1,350	$6,549	$1,383	$38
1936	$46,920	$11,505	$2,660	$11,526	$2,668	$98
1937	$51,750	$13,601	$3,500	$13,635	$3,539	$68
1938	$36,102	$8,325	$2,125	$8,372	$2,145	$60
1939	$35,784	$7,367	$1,697	$7,389	$1,800	$75
1940	$31,050	$7,990	$1,861	$8,007	$1,872	$51
1941	$31,744	$8,316	$2,086	$8,336	$2,087	$72
1942	$26,135	$6,870	$1,779	$6,875	$1,788	$82
1943	$43,218	$11,475	$3,847	$11,480	$3,903	$395
1944	$46,621	$13,066	$4,800	$13,068	$4,812	$309
1945	$55,268	$17,325	$6,413	$17,575	$6,428	$225
1946	$79,158	$24,192	$10,013	$24,199	$10,051	$829
1947	$57,830	$17,735	$6,373	$17,872	$6,380	$747
1948	$67,238	$19,575	$7,313	$19,651	$7,329	$784
1949	$55,506	$14,549	$5,037	$14,577	$5,108	$379
1950	$65,881	$18,675	$6,176	$18,750	$6,201	$303
1951	$82,517	$22,750	$7,567	$22,860	$7,598	$668
1952	$97,936	$25,452	$8,428	$25,532	$8,480	$480
1953	$98,595	$25,374	$8,156	$25,395	$8,168	$459
1954	$125,834	$29,645	$8,484	$29,707	$8,488	$463
1955	$170,829	$41,445	$12,353	$41,681	$12,366	$553
1956	$183,434	$46,805	$13,481	$46,886	$13,524	$1,122
1957	$192,861	$47,658	$13,844	$48,509	$13,848	$925
1958	$195,083	$46,774	$13,789	$46,871	$13,816	$550
1959	$253,644	$64,221	$19,500	$64,372	$19,548	$1,804
1960	$246,202	$61,485	$19,344	$61,529	$19,385	$831
1961	$296,261	$79,058	$23,562	$79,422	$23,613	$2,455
1962	$250,433	$58,866	$18,952	$59,143	$18,968	$1,018
1963	$308,438	$71,846	$23,819	$71,971	$23,822	$296
1964	$344,033	$79,343	$25,594	$79,508	$25,595	$223
1965	$363,759	$84,479	$28,365	$84,600	$28,375	$250

Source: Center for Research in Security Prices, University of Chicago.

Table 7-3 (continued)

Size-Decile Portfolios of the NYSE/AMEX/NASDAQ
Largest and Smallest Company by Size Group

from 1966 to 2005

Date (Sept 30)	Capitalization of Largest Company (in thousands) Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10	Capitalization of Smallest Company (in thousands) Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10
1966	$399,455	$99,578	$34,884	$99,935	$34,966	$381
1967	$459,170	$117,985	$42,267	$118,329	$42,313	$381
1968	$528,326	$149,261	$60,351	$150,128	$60,397	$592
1969	$517,452	$144,770	$54,273	$145,684	$54,280	$2,119
1970	$380,246	$94,025	$29,910	$94,047	$29,916	$822
1971	$542,517	$145,340	$45,571	$145,673	$45,589	$865
1972	$545,211	$139,647	$46,728	$139,710	$46,757	$1,031
1973	$424,584	$94,809	$29,601	$95,378	$29,606	$561
1974	$344,013	$75,272	$22,475	$75,853	$22,481	$444
1975	$465,763	$96,954	$28,140	$97,266	$28,144	$540
1976	$551,071	$116,184	$31,987	$116,212	$32,002	$564
1977	$573,084	$135,804	$39,192	$137,323	$39,254	$513
1978	$572,967	$159,778	$46,621	$160,524	$46,629	$830
1979	$661,336	$174,480	$49,088	$174,517	$49,172	$948
1980	$754,562	$194,012	$48,671	$194,241	$48,953	$549
1981	$954,665	$259,028	$71,276	$261,059	$71,289	$1,446
1982	$762,028	$205,590	$54,675	$206,536	$54,883	$1,060
1983	$1,200,680	$352,698	$103,443	$352,944	$103,530	$2,025
1984	$1,068,972	$314,650	$90,419	$315,214	$90,659	$2,093
1985	$1,432,342	$367,413	$93,810	$368,249	$94,000	$760
1986	$1,857,621	$444,827	$109,956	$445,648	$109,975	$706
1987	$2,059,143	$467,430	$112,035	$468,948	$112,125	$1,277
1988	$1,957,926	$420,257	$94,268	$421,340	$94,302	$696
1989	$2,147,608	$480,975	$100,285	$483,623	$100,384	$96
1990	$2,164,185	$472,003	$93,627	$474,065	$93,750	$132
1991	$2,129,863	$457,958	$87,586	$458,853	$87,733	$278
1992	$2,428,671	$500,346	$103,352	$501,050	$103,500	$510
1993	$2,711,068	$608,520	$137,945	$608,825	$137,987	$602
1994	$2,497,073	$601,552	$149,435	$602,552	$149,532	$598
1995	$2,793,761	$653,178	$158,011	$654,019	$158,063	$89
1996	$3,150,685	$763,377	$195,188	$763,812	$195,326	$1,043
1997	$3,511,132	$818,299	$230,472	$821,028	$230,554	$480
1998	$4,216,707	$934,264	$253,329	$936,727	$253,336	$1,671
1999	$4,251,741	$875,309	$218,336	$875,582	$218,368	$1,502
2000	$4,143,902	$840,000	$192,598	$840,730	$192,721	$1,462
2001	$5,252,063	$1,114,792	$269,275	$1,115,200	$270,391	$443
2002	$5,012,705	$1,143,845	$314,042	$1,144,452	$314,174	$501
2003	$4,794,027	$1,166,799	$330,608	$1,167,040	$330,797	$332
2004	$6,241,953	$1,607,854	$505,437	$1,607,931	$506,410	$1,393
2005	$7,187,244	$1,728,868	$586,393	$1,729,364	$587,243	$1,079

Source: Center for Research in Security Prices, University of Chicago.

Table 7-4

Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, Summary Statistics of Annual Returns 1926–2005

Decile	Geometric Mean	Arithmetic Mean	Standard Deviation	Serial Correlation
1-Largest	9.5	11.3	19.17	0.09
2	10.9	13.2	21.86	0.03
3	11.3	13.8	23.66	−0.02
4	11.3	14.3	25.94	−0.02
5	11.6	14.9	26.78	−0.02
6	11.8	15.3	27.84	0.04
7	11.6	15.6	29.99	0.01
8	11.8	16.6	33.47	0.04
9	12.0	17.5	36.55	0.05
10-Smallest	14.0	21.6	45.44	0.15
Mid-Cap, 3-5	11.4	14.2	24.74	−0.02
Low-Cap, 6-8	11.7	15.7	29.52	0.03
Micro-Cap, 9-10	12.7	18.8	39.16	0.08
NYSE/AMEX/NASDAQ Total Value-Weighted Index	10.1	12.0	20.21	0.03

Source: Center for Research in Security Prices, University of Chicago.

Aspects of the Firm Size Effect

The firm size phenomenon is remarkable in several ways. First, the greater risk of small stocks does not, in the context of the capital asset pricing model (CAPM), fully account for their higher returns over the long term. In the CAPM only systematic, or beta risk, is rewarded; small company stocks have had returns in excess of those implied by their betas.

Second, the calendar annual return differences between small and large companies are serially correlated. This suggests that past annual returns may be of some value in predicting future annual returns. Such serial correlation, or autocorrelation, is practically unknown in the market for large stocks and in most other equity markets but is evident in the size premia.

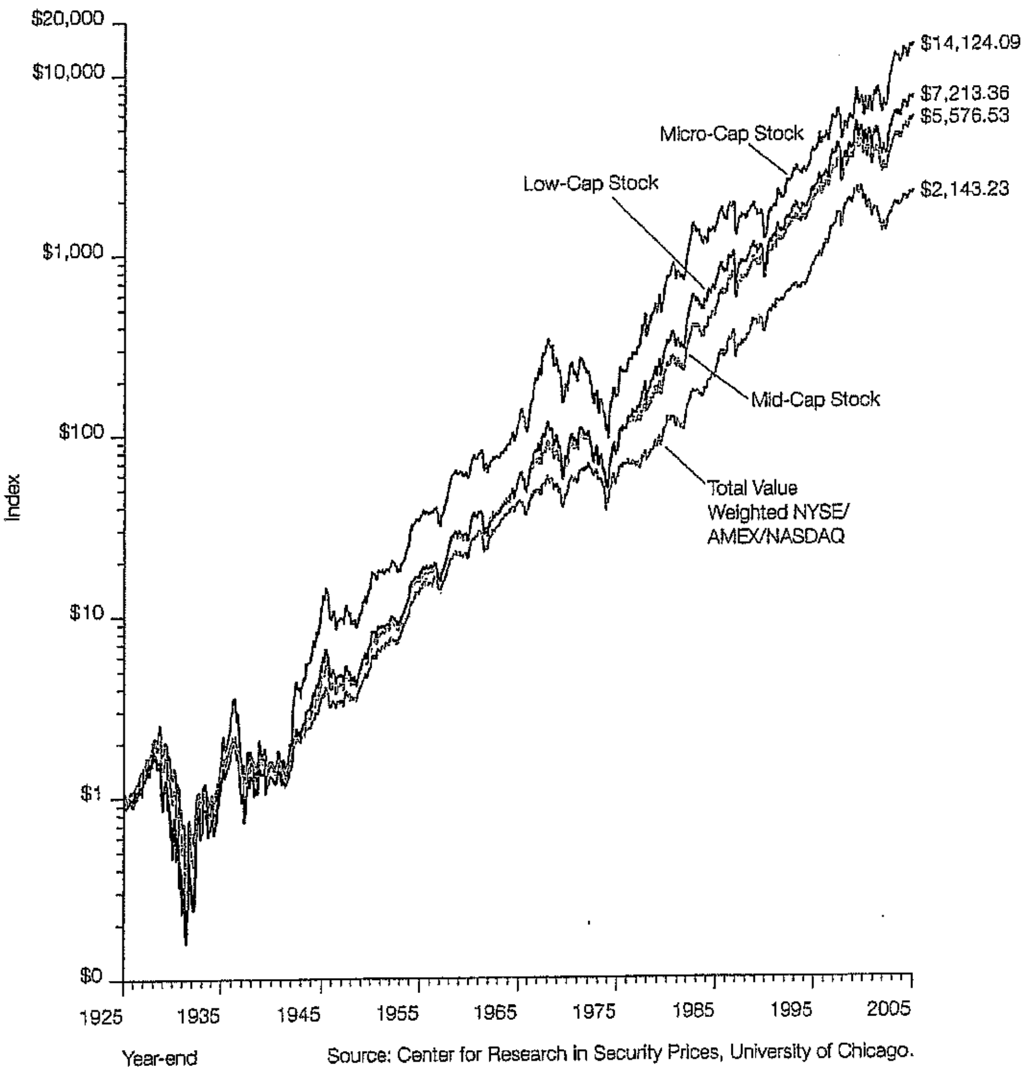
Third, the firm size effect is seasonal. For example, small company stocks outperformed large company stocks in the month of January in a large majority of the years. Such predictability is surprising and suspicious in light of modern capital market theory. These three aspects of the firm size effect—long-term returns in excess of systematic risk, serial correlation, and seasonality—will be analyzed thoroughly in the following sections.

Graph 7-1

Size-Decile Portfolios of the NYSE/AMEX/NASDAQ: Wealth Indices of Investments in Mid-, Low-, Micro- and Total Capitalization Stocks

1925–2005

Year-end 1925 = $1.00



Source: Center for Research in Security Prices, University of Chicago.

Long-Term Returns in Excess of Systematic Risk

The capital asset pricing model (CAPM) does not fully account for the higher returns of small company stocks. Table 7-5 shows the returns in excess of systematic risk over the past 80 years for each decile of the NYSE/AMEX/NASDAQ. Recall that the CAPM is expressed as follows:

$$k_s = r_f + (\beta_s \times ERP)$$

Table 7-5 uses the CAPM to estimate the return in excess of the riskless rate and compares this estimate to historical performance. According to the CAPM, the expected return on a security should consist of the riskless rate plus an additional return to compensate for the systematic risk of the security. The return in excess of the riskless rate is estimated in the context of the CAPM by multiplying the equity risk premium by β (beta). The equity risk premium is the return that compensates investors for taking on risk equal to the risk of the market as a whole (systematic risk).[2] Beta measures the extent to which a security or portfolio is exposed to systematic risk.[3] The beta of each decile indicates the degree to which the decile's return moves with that of the overall market.

A beta greater than one indicates that the security or portfolio has greater systematic risk than the market; according to the CAPM equation, investors are compensated for taking on this additional risk. Yet, Table 7-5 illustrates that the smaller deciles have had returns that are not fully explained by their higher betas. This return in excess of that predicted by CAPM increases as one moves from the largest companies in decile 1 to the smallest in decile 10. The excess return is especially pronounced for micro-cap stocks (deciles 9–10). This size-related phenomenon has prompted a revision to the CAPM, which includes a size premium. Chapter 4 presents this modified CAPM theory and its application in more detail.

This phenomenon can also be viewed graphically, as depicted in the Graph 7-2. The security market line is based on the pure CAPM without adjustment for the size premium. Based on the risk (or beta) of a security, the expected return lies on the security market line. However, the actual historic returns for the smaller deciles of the NYSE/AMEX/NASDAQ lie above the line, indicating that these deciles have had returns in excess of that which is appropriate for their systematic risk.

2 The equity risk premium is estimated by the 80-year arithmetic mean return on large company stocks, 12.30 percent, less the 80-year arithmetic mean income-return component of 20-year government bonds as the historical riskless rate, in this case 5.22 percent. (It is appropriate, however, to match the maturity, or duration, of the riskless asset with the investment horizon.) See Chapter 5 for more detail on equity risk premium estimation.

3 Historical betas were calculated using a simple regression of the monthly portfolio (decile) total returns in excess of the 30-day U.S. Treasury bill total returns versus the S&P 500 total returns in excess of the 30-day U.S. Treasury bill, January 1926–December 2005. See Chapter 6 for more detail on beta estimation.

Table 7-5

Long-Term Returns in Excess of CAPM Estimation for Decile Portfolios of the NYSE/AMEX/NASDAQ 1926–2005

Decile	Beta*	Arithmetic Mean Return	Realized Return in Excess of Riskless Rate**	Estimated Return in Excess of Riskless Rate†	Size Premium (Return in Excess of CAPM)
1-Largest	0.91	11.29%	6.07%	6.45%	-0.37%
2	1.04	13.22%	8.00%	7.33%	0.67%
3	1.10	13.84%	8.62%	7.77%	0.85%
4	1.13	14.31%	9.09%	7.98%	1.10%
5	1.16	14.91%	9.69%	8.20%	1.49%
6	1.18	15.33%	10.11%	8.38%	1.73%
7	1.23	15.62%	10.40%	8.73%	1.67%
8	1.28	16.60%	11.38%	9.05%	2.33%
9	1.34	17.48%	12.26%	9.50%	2.76%
10-Smallest	1.41	21.59%	16.37%	10.01%	6.36%
Mid-Cap, 3-5	1.12	14.15%	8.94%	7.91%	1.02%
Low-Cap, 6-8	1.22	15.66%	10.44%	8.63%	1.81%
Micro-Cap, 9-10	1.36	18.77%	13.55%	9.61%	3.95

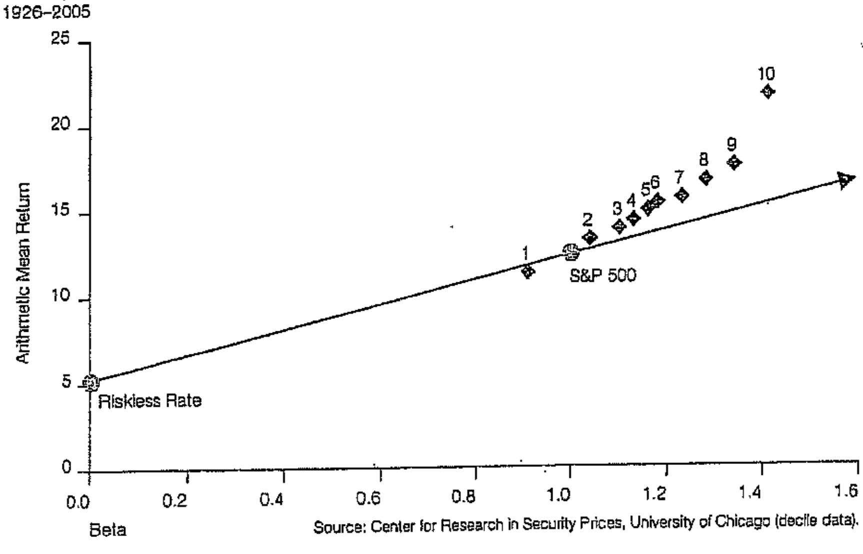
*Betas are estimated from monthly portfolio total returns in excess of the 30-day U.S. Treasury bill total return versus the S&P 500 total returns in excess of the 30-day U.S. Treasury bill, January 1926–December 2005.

**Historical riskless rate is measured by the 80-year arithmetic mean income return component of 20-year government bonds (5.22 percent).

†Calculated in the context of the CAPM by multiplying the equity risk premium by beta. The equity risk premium is estimated by the arithmetic mean total return of the S&P 500 (12.30 percent) minus the arithmetic mean income return component of 20-year government bonds (5.22 percent) from 1926–2005.

Graph 7-2

Security Market Line versus Size-Decile Portfolios of the NYSE/AMEX/NASDAQ 1926–2005



Source: Center for Research in Security Prices, University of Chicago (decile data).

Further Analysis of the 10th Decile

The size premia presented thus far do a great deal to explain the return due solely to size in publicly traded companies. However, by splitting the 10th decile into two size groupings we can get a closer look at the smallest companies. This magnification of the smallest companies will demonstrate whether the company size to size premia relationship continues to hold true.

As previously discussed, the method for determining the size groupings for size premia analysis was to take the stocks traded on the NYSE and break them up into 10 deciles, after which stocks traded on the AMEX and NASDAQ were allocated into the same size groupings. This same methodology was used to split the 10th decile into two parts: 10a and 10b, with 10b being the smaller of the two. This is equivalent to breaking the stocks down into 20 size groupings, with portfolios 19 and 20 representing 10a and 10b.

Table 7-7 shows that the pattern continues; as companies get smaller their size premium increases. There is a noticeable increase in size premium from 10a to 10b, which can also be demonstrated visually in Graph 7-3. This can be useful in valuing companies that are extremely small. Table 7-6 presents the size, composition, and breakpoints of deciles 10a and 10b. First, the recent number of companies and total decile market capitalization are presented. Then the largest company and its market capitalization are presented.

Breaking the smallest decile down lowers the significance of the results compared to results for the 10th decile taken as a whole, however. The same holds true for comparing the 10th decile with the Micro-Cap aggregation of the 9th and 10th deciles. The more stocks included in a sample the more significance can be placed on the results. While this is not as much of a factor with the recent years of data, these size premia are constructed with data back to 1926. By breaking the 10th decile down into smaller components we have cut the number of stocks included in each grouping. The change over time of the number of stocks included in the 10th decile for the NYSE/AMEX/NASDAQ is presented in Table 7-8. With fewer stocks included in the analysis early on, there is a strong possibility that just a few stocks can dominate the returns for those early years.

While the number of companies included in the 10th decile for the early years of our analysis is low, it is not too low to still draw meaningful results even when broken down into subdivisions 10a and 10b. All things considered, size premia developed for deciles 10a and 10b are significant and can be used in cost of capital analysis. These size premia should greatly enhance the development of cost of capital analysis for very small companies.

Table 7-6

Size-Decile Portfolios 10a and 10b of the NYSE/AMEX/NASDAQ, Largest Company and Its Market Capitalization
September 30, 2005

Decile	Recent Number of Companies	Recent Decile Market Capitalization (in thousands)	Market Capitalization of Largest Company (in thousands)	Company Name
10a	483	$108,194,821	$264,981	4Kids Entertainmt Inc.
10b	1,279	$102,157,012	$169,195	Quaker Chemical Corp.

Note: These numbers may not aggregate to equal decile 10 figures.
Source: Center for Research in Security Prices, University of Chicago.

Table 7-7

Long-Term Returns in Excess of CAPM Estimation for Decile Portfolios of the NYSE/AMEX/NASDAQ, with 10th Decile Split
1926–2005

	Beta*	Arithmetic Mean Return	Realized Return in Excess of Riskless Rate**	Estimated Return in Excess of Riskless Rate†	Size Premium (Return in Excess of CAPM)
1-Largest	0.91	11.29%	6.07%	6.45%	–0.37%
2	1.04	13.22%	8.00%	7.33%	0.67%
3	1.10	13.84%	8.62%	7.77%	0.85%
4	1.13	14.31%	9.09%	7.98%	1.10%
5	1.16	14.91%	9.69%	8.20%	1.49%
6	1.18	15.33%	10.11%	8.38%	1.73%
7	1.23	15.62%	10.40%	8.73%	1.67%
8	1.28	16.60%	11.38%	9.05%	2.33%
9	1.34	17.48%	12.26%	9.50%	2.76%
10a	1.43	19.71%	14.49%	10.10%	4.39%
10b-Smallest	1.39	24.87%	19.65%	9.82%	9.83%
Mid-Cap, 3-5	1.12	14.15%	8.94%	7.91%	1.02%
Low-Cap, 6-8	1.22	15.66%	10.44%	8.63%	1.81%
Micro-Cap, 9-10	1.36	18.77%	13.55%	9.61%	3.95%

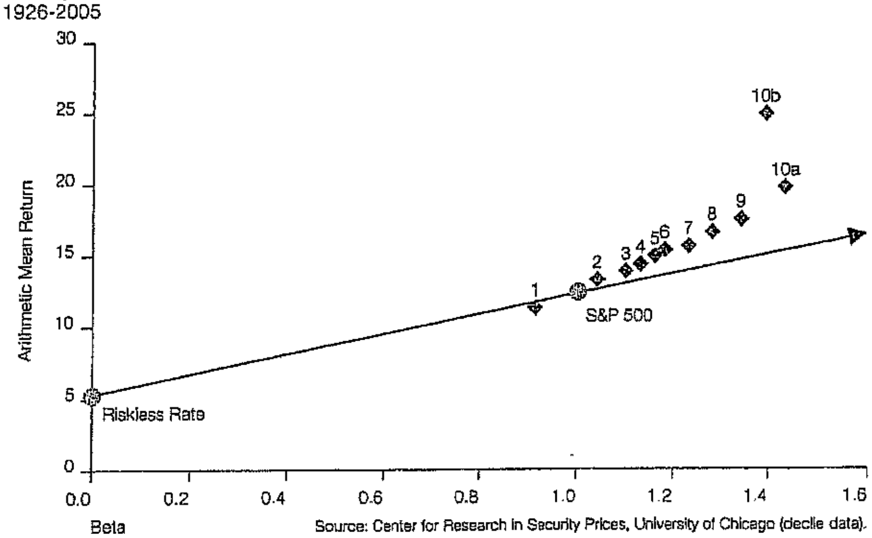
*Betas are estimated from monthly portfolio total returns in excess of the 30-day U.S. Treasury bill total return versus the S&P 500 total returns in excess of the 30-day U.S. Treasury bill, January 1926–December 2005.

**Historical riskless rate is measured by the 80-year arithmetic mean income return component of 20-year government bonds (5.22 percent).

†Calculated in the context of the CAPM by multiplying the equity risk premium by beta. The equity risk premium is estimated by the arithmetic mean total return of the S&P 500 (12.30 percent) minus the arithmetic mean income return component of 20-year government bonds (5.22 percent) from 1926–2005.

Graph 7-3

Security Market Line versus Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, with 10th Decile Split
1926-2005



Source: Center for Research in Security Prices, University of Chicago (decile data).

Table 7-8
Historical Number of Companies for NYSE/AMEX/NASDAQ Decile 10

Sept.	Number of Companies
1926	52*
1930	72
1940	78
1950	100
1960	109
1970	865
1980	685
1990	1,814
2000	1,927
2005	1,746

*The fewest number of companies was 49 in March, 1926

Source: Center for Research in Security Prices, University of Chicago.

Alternative Methods of Calculating the Size Premia

The size premia estimation method presented above makes several assumptions with respect to the market benchmark and the measurement of beta. The impact of these assumptions can best be examined by looking at some alternatives. In this section we will examine the impact on the size premia of using a different market benchmark for estimating the equity risk premia and beta. We will also examine the effect on the size premia study of using sum beta or an annual beta.[4]

Changing the Market Benchmark

In the original size premia study, the S&P 500 is used as the market benchmark in the calculation of the realized historical equity risk premium and of each size group's beta. The NYSE total value-weighted index is a common alternative market benchmark used to calculate beta. Table 7-9 uses this market benchmark in the calculation of beta. In order to isolate the size effect, we require an equity risk premium based on a large company stock benchmark. The NYSE deciles 1–2 large company index offers a mutually exclusive set of portfolios for the analysis of the smaller company groups: mid-cap deciles 3–5, low-cap deciles 6–8, and micro-cap deciles 9–10. The size premia analyses using these benchmarks are summarized in Table 7-9 and depicted graphically in Graph 7-4.

For the entire period analyzed, 1926–2005, the betas obtained using the NYSE total value-weighted index are higher than those obtained using the S&P 500. Since smaller companies had higher betas using the NYSE benchmark, one would expect the size premia to shrink. However, as was illustrated in Chapter 5, the equity risk premium calculated using the NYSE deciles 1–2 benchmark results in a value of 6.33, as opposed to 7.08 when using the S&P 500. The effect of the higher betas and lower equity risk premium cancel each other out, and the resulting size premia in Table 7-9 are slightly higher than those resulting from the original study.

4 Sum beta is the method of beta estimation described in Chapter 6 that was developed to better account for the lagged reaction of small stocks to market movements. The sum beta methodology was developed for the same reason that the size premia were developed; small company betas were too small to account for all of their excess returns.

Missouri Gas Energy
Indicated Common Equity Cost Rate through the use
of the Discounted Cash Flow Model for the Proxy Group of Four Gas Distribution Companies,
Proxy Group of Eight Value Line Gas Distribution Companies
and Southern Union Company

	1	2	3	4	5	6
	Dividend Yield (1)	Dividend Growth Component (2)	Adjusted Dividend Yield (3)	Growth Rate (4)	Indicated DCF Return Rate (5)	Recommended DCF Return Rate (6)
Proxy Group of Four Gas Distribution Companies						
Cascade Natural Gas Corporation	3.72 %	0.11 %	3.83	6.00 %	9.83 %	9.83 %
NICOR Inc.	4.27	0.07	4.34	3.50	7.84	--
Northwest Natural Gas Company	3.58	0.11	3.69	6.00	9.69	9.69
Piedmont Natural Gas Co., Inc	3.70	0.09	3.79	5.00	8.79	--
Average	3.82 %	0.10 %	3.91 %	5.13 %	9.04 %	9.76 %
DCF Results Adjusted for Financial Leverage					9.96 % (7)	10.89 % (7)
						10.85 % (8)
Average Excluding Cascade Natural (10)	3.85 %	0.09 %	3.94 %	4.83 %	8.77 %	9.69 %
DCF Results Adjusted for Financial Leverage					9.56 % (7)	10.72 % (7)
						10.50 % (8)
Proxy Group of Eight Value Line Gas Distribution Companies						
Cascade Natural Gas Corporation	3.72 %	0.11 %	3.83	6.00 %	9.83 %	9.83 %
The Laclede Group, Inc.	4.35	0.11	4.46	5.00	9.46	9.46
New Jersey Resources Corp.	2.91	0.07	2.98	4.75	7.73	--
NICOR Inc.	4.27	0.07	4.34	3.50	7.84	--
Northwest Natural Gas Company	3.58	0.11	3.69	6.00	9.69	9.69
Peoples Energy Corporation	5.23	0.13	5.36	4.90	10.26	10.26
Piedmont Natural Gas Co., Inc	3.70	0.09	3.79	5.00	8.79	--
WGL Holdings, Inc.	4.35	0.05	4.40	2.50	6.90	--
Average	4.01 %	0.09 %	4.11 %	4.71 %	8.81 %	9.81 %
DCF Results Adjusted for Financial Leverage					9.58 % (7)	10.85 % (7)
						10.82 % (9)
Average Excluding Cascade Natural and Peoples Energy (10)	3.86 %	0.08 %	3.94 %	4.46 %	8.40 %	9.58 %
DCF Results Adjusted for Financial Leverage					9.04 % (7)	10.53 % (7)
						10.40 % (9)
Southern Union Company	3.86 %	0.17 %	4.03 %	9.00 %	13.03 %	13.03 %
DCF Results Adjusted for Financial Leverage						15.18 % (7)

Notes:
(1) From page 2 of this Schedule.
(2) This reflects a growth rate component equal to one-half the average projected five-year growth rate in EPS (from page 3 of this Schedule x Line No. 1 to reflect the periodic payment of dividends (Gordon Model) as opposed to the continuous payment. Thus, for Cascade Natural Gas 3.72% x (1/2 x 6.00%) = 0.11%.
(3) Column 1 + Column 2.
(4) From page 3 of this Schedule.
(5) Column 3 + Column 4.
(6) Includes only those indicated common equity cost rates which are greater than 9.45% (the lowest rate awarded to a gas distribution utility between January 1, 2004 and December 31, 2005, from Schedule FJH-17 of the Exhibit accompanying Mr. Hanley's direct testimony) as fully explained in Mr. Hanley's direct testimony.
(7) Based upon the adjustment described in note 5 on pages 4 through 6of Schedule FJH-26 of this Exhibit.
(8) Based upon the adjustment described in note 5 on pages 4 through 6of Schedule FJH-26 of this Exhibit, using the market value and book value capital structure of Cascade Natural Gas Corp. and Northwest Natural Gas Co. at September 30, 2005 and December 2005, as shown on page 7 of Schedule FJH-26 of this Exhibit.
(9) Based upon the adjustment described in note 5 on pages 4 through 6of Schedule FJH-26 of this Exhibit, using the average market value and average book value capital structure of Cascade Natural Gas Corp., The Laclede Group, Inc. and Northwest Natural Gas Co. at September 30, 2005 for Cascade and Laclede, and at December 2005 for Northwest Natural, as can be gleaned from the information shown on pages 8 and 9 of Schedule FJH-26 of this Exhibit.
(10) Cascade Natural Gas Corporation and Peoples Energy Corporation are currently in the process of being acquired by MDU Resources and WPS Resources, respectively. For informational purposes, the averages excluding Cascade Natural in the proxy group of four LDCs, and Cascade Natural and Peoples Energy in the Proxy Group of eight Value Line LDCs are being shown.

Missouri Gas Energy
Derivation of Dividend Yield for Use in the
Discounted Cash Flow Model

	Dividend Yield			
	Spot (10/13/06) (1)	Average Based Upon Average High / Low Market Prices (2) September 2006	August 2006	Average Dividend Yield (3)
Proxy Group of Four Gas Distribution Companies				
Cascade Natural Gas Corporation	3.72 %	3.71 %	3.72 %	3.72 %
NICOR Inc.	4.20 %	4.32 %	4.29 %	4.27
Northwest Natural Gas Company	3.51 %	3.55 %	3.67 %	3.58
Piedmont Natural Gas Co., Inc.	3.61 %	3.75 %	3.75 %	3.70
Average	3.76 %	3.83 %	3.86 %	3.82 %
Average Excluding Cascade Natural (4)	3.77 %	3.87 %	3.90 %	3.85 %
Proxy Group of Eight Value Line Gas Distribution Companies				
Cascade Natural Gas Corporation	3.72 %	3.71 %	3.72 %	3.72 %
The Laclede Group, Inc.	4.27 %	4.40 %	4.38 %	4.35
New Jersey Resources Corp.	2.89 %	2.91 %	2.92 %	2.91
NICOR Inc.	4.20 %	4.32 %	4.29 %	4.27
Northwest Natural Gas Company	3.51 %	3.55 %	3.67 %	3.58
Peoples Energy Corporation	5.26 %	5.30 %	5.13 %	5.23
Piedmont Natural Gas Co., Inc.	3.61 %	3.75 %	3.75 %	3.70
WGL Holdings, Inc.	4.21 %	4.36 %	4.49 %	4.35
Average	3.96 %	4.04 %	4.04 %	4.01 %
Average Excluding Cascade Natural and Peoples Energy (4)	3.93 %	4.05 %	4.09 %	4.02 %
Southern Union Company	3.78 %	3.88 %	3.92 %	3.86 %

Notes: (1) The spot dividend yield is the current annualized dividend per share divided by the spot market price on 10/13/06. The dividend yield was calculated by using finance.yahoo.com and interquote.com and DTN Trading Market's DTNIQ/Interquote.com

(2) The average 3-month dividend yield was computed by relating the indicated annualized dividend rate and market price on the last trading day of each of the two months ended September 2006.

(3) Equal weight has been given to the spot, August 2006 and September 2006 dividend yield.

(4) Cascade Natural Gas Corporation and Peoples Energy Corporation are currently in the process of being acquired by MDU Resources and WPS Resources, respectively. For informational purposes, the averages excluding Cascade Natural in the Proxy Group of four LDCs, and Cascade Natural and Peoples Energy in the Proxy Group of eight Value Line LDCs are being shown.

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus/Research Insight Data Base
DTN Trading Markets' DTNIQ/Interquote.com
http://finance.yahoo.com

Missouri Gas Energy
Development of Projected Growth for Use in the Discounted Cash Flow Model

	1	2		3
	Value Line Projected 2009-'11 Growth Rate in EPS (1)	Thomson FN / First Call Projected Median Five-Year Growth Rate in EPS	(# est.)	Average Projected Five-Year Growth Rate in EPS (2)
Proxy Group of Four Gas Distribution Companies				
Cascade Natural Gas Corporation	9.00 %	3.00 %	[1]	6.00 %
NICOR Inc.	4.00	3.00	[3]	3.50
Northwest Natural Gas Company	7.00	5.00	[5]	6.00
Piedmont Natural Gas Co., Inc.	6.00	4.00	[2]	5.00
Average	6.50 %	3.75 %		5.13 %
Average Excluding Cascade Natural (4)	5.67 %	4.00 %		4.83 %
Proxy Group of Eight Value Line Gas Distribution Companies				
Cascade Natural Gas Corporation	9.00 %	3.00 %	[1]	6.00 %
The Laclede Group, Inc.	5.00	NA		5.00
New Jersey Resources Corp.	4.50	5.00	[4]	4.75
NICOR Inc.	4.00	3.00	[3]	3.50
Northwest Natural Gas Company	7.00	5.00	[5]	6.00
Peoples Energy Corporation	NMF	4.90	[1]	4.90
Piedmont Natural Gas Co., Inc.	6.00	4.00	[2]	5.00
WGL Holdings, Inc.	1.50	3.50	[4]	2.50
Average	5.29 %	4.06 %		4.71 %
Average Excluding Cascade Natural and Peoples Energy (4)	4.67 %	4.10 %		4.46 %
Southern Union Company	12.00 %	8.00 %	[4]	9.00 % (3)

Notes:
(1) From pages 4 through 12 of this Schedule.
(2) Average of Columns 1 and 2.
(3) Weighted in approximation to individual and institutional holdings from Schedule FJH-11 of the Exhibit accompanying Mr. Hanley's direct testimony - namely 25% to Value Line (greater reliance by individuals) and ThomsonFN/First Call (greater reliance by institutions).
(4) Cascade Natural Gas Corporation and Peoples Energy Corporation are currently in the process of being acquired by MDU Resources and WPS Resources, respectively. For informational purposes, the averages excluding Cascade Natural in the Proxy Group of four LDCs, and Cascade Natural and Peoples Energy in the Proxy Group of eight Value Line LDCs are being shown.

Source of Information: Value Line Investment Survey, (Standard Edition), September 15, 2006
ThomsonFN First Call Earnings, thomsonfn.com, updated October 14, 2006

CASCADE NAT'L GAS NYSE-CGC

RECENT PRICE 25.55 | P/E RATIO 23.2 (Trailing: 23.0 Median: 18.0) | RELATIVE P/E RATIO 1.36 | DIV'D YLD 3.8% | VALUE LINE

High: 17.5 17.5 19.0 18.7 19.6 20.9 22.8 24.2 22.0 23.0 22.8 26.3
Low: 13.0 13.4 15.3 14.6 14.4 13.4 17.4 15.5 16.0 19.1 18.0 19.0

Target Price Range 2009 | 2010 | 2011

TIMELINESS — Suspended 7/21/06
SAFETY 3 New 7/27/90
TECHNICAL — Suspended 7/21/06
BETA .55 (1.00 = Market)

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

2009-11 PROJECTIONS	Price	Gain	Ann'l Total Return
High	30	(+15%)	7%
Low	20	(-20%)	-2%

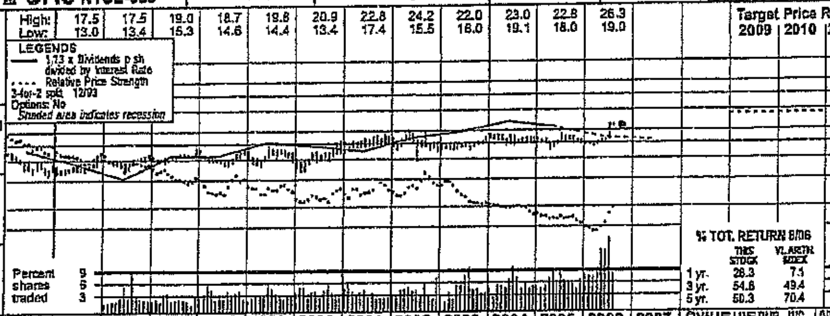
Insider Decisions

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

Institutional Decisions

	4Q2005	1Q2006	2Q2006
to Buy	38	47	53
to Sell	34	31	28
Hld's(000)	4695	4911	5297

Percent shares traded 9 6 3



% TOT. RETURN 8/06	THIS STOCK	VL ARITH. INDEX
1 yr.	28.3	7.1
3 yr.	54.8	49.4
5 yr.	60.3	70.4

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
24.45	23.27	20.03	21.88	21.69	19.98	11.84	17.85	17.17	18.89	21.90	30.40	29.06	27.20	28.23	28.61	40.45	44.80	Revenues per sh A	64.00
2.36	2.29	1.66	2.64	1.71	2.07	1.22	1.92	2.06	2.40	2.60	2.72	2.48	2.25	2.63	2.32	2.65	2.85	"Cash Flow" per sh	4.00
1.26	1.14	.63	1.05	.60	.80	.39	.93	.84	1.24	1.39	1.47	1.13	.87	1.19	.82	1.10	1.20	Earnings per sh AB	1.60
.87	.90	.93	.94	.96	.96	.72	.96	.96	.96	.96	.96	.96	.96	.96	.96	.96	.96	Div'ds Decl'd per sh C■	.98
2.50	2.97	4.64	3.85	3.08	4.12	2.42	2.66	2.32	1.81	1.65	2.18	1.91	2.56	3.50	2.63	1.90	2.20	Cap'l Spending per sh	4.10
8.33	8.63	9.09	9.96	9.61	9.76	10.09	10.16	10.07	10.36	10.79	11.01	10.34	10.11	10.52	10.39	11.65	13.30	Book Value per sh D	18.05
6.55	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	11.27	11.41	11.50	11.50	Common Shs Outst'g E	12.50
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	17.5	25.1	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	16.5
.66	.78	1.44	.98	1.69	1.22	2.51	1.01	1.01	.78	.76	.69	.99	1.25	.92	1.34			Relative P/E Ratio	1.10
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%	4.6%	4.7%			Avg Ann'l Div'd Yield	3.8%

CAPITAL STRUCTURE as of 6/30/06

Total Debt $173.3 mill. Due in 5 Yrs $20.5 mill.
LT Debt $165.3 mill. LT Interest $10.0 mill.
(LT interest earned: 2.3x; total interest coverage: 2.3x)

Pension Assets-9/05 $58.5 mill. Oblig. $71.7 mill.

Pfd Stock None

Common Stock 11,505,986 shs. as of 7/31/06

MARKET CAP: $300 million (Small Cap)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		09-11
127.7	195.8	189.7	208.6	241.9	335.8	321.0	302.8	318.1	326.5	465	516	Revenues ($mill) A	800
4.2	10.6	9.8	14.2	15.4	16.2	12.5	9.7	13.3	9.2	12.7	13.8	Net Profit ($mill)	20.0
34.8%	37.1%	37.4%	36.5%	37.1%	35.0%	34.9%	34.2%	36.2%	37.9%	37.5%	37.5%	Income Tax Rate	38.0%
3.3%	5.4%	5.2%	6.8%	6.4%	4.8%	3.9%	3.2%	4.2%	2.8%	2.7%	2.7%	Net Profit Margin	2.5%
45.8%	50.6%	48.4%	50.9%	51.2%	50.7%	59.1%	55.9%	52.1%	59.4%	56.0%	55.0%	Long-Term Debt Ratio	52.0%
50.0%	46.5%	48.7%	46.6%	48.8%	49.3%	40.9%	44.1%	47.9%	40.6%	44.0%	45.0%	Common Equity Ratio	48.0%
217.8	239.4	228.5	245.6	244.2	246.6	279.1	255.6	247.4	292.5	305	340	Total Capital ($mill)	470
255.7	265.2	276.6	282.3	284.8	294.2	299.6	312.3	334.6	342.5	350	360	Net Plant ($mill)	465
3.4%	6.2%	6.1%	7.5%	8.1%	8.5%	6.4%	6.0%	7.7%	5.0%	6.0%	5.5%	Return on Total Cap'l	6.0%
3.6%	9.0%	8.3%	11.7%	12.9%	13.3%	10.9%	8.6%	11.2%	7.8%	9.5%	9.0%	Return on Shr. Equity	9.0%
3.5%	9.1%	8.3%	12.0%	12.9%	13.3%	10.9%	8.6%	11.2%	7.8%	9.5%	9.0%	Return on Com Equity	9.0%
NMF	.7%	NMF	2.7%	4.0%	4.6%	1.7%	NMF	2.1%	NMF	1.0%	2.0%	Retained to Com Eq	3.5%
NMF	93%	108%	78%	69%	65%	85%	110%	81%	118%	87%	80%	All Div'ds to Net Prof	61%

CURRENT POSITION A ($MILL.)	2004	2005	6/30/06
Cash Assets	.5	1.1	22.4
Other	65.9	141.0	57.9
Current Assets	66.4	142.1	80.3
Accts Payable	12.9	17.8	15.2
Debt Due	47.5	12.5	8.0
Other	38.6	111.9	43.8
Current Liab.	99.0	142.2	67.0
Fix. Chg. Cov.	269%	225%	235%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	3.0%	7.5%	15.0%
"Cash Flow"	2.0%	.5%	8.0%
Earnings	1.5%	-3.5%	9.0%
Dividends	--	--	.5%
Book Value	.5%	--	10.0%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	100.5	109.3	53.8	39.2	302.8
2004	104.9	119.4	52.1	41.7	318.1
2005	104.6	117.7	56.3	47.9	326.5
2006	158.6	162.8	76.4	67.2	465
2007	161	166	100	88.0	515

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	.60	.67	d.18	d.22	.87
2004	.72	.79	d.05	d.26	1.19
2005	.59	.65	d.10	d.32	.82
2006	.70	.78	d.09	d.29	1.10
2007	.73	.75	d.08	d.20	1.20

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.24	.24	.24	.24	.96
2003	.24	.24	.24	.24	.96
2004	.24	.24	.24	.24	.96
2005	.24	.24	.24	.24	.96
2006	.24	.24	.24		

BUSINESS: Cascade Natural Gas Corporation distributes natural gas to roughly 237,000 customers in Washington and Oregon. In 2005, total throughput was 108.2 billion cu. ft. Core customers: residential, commercial, firm industrial, interruptible (71% of oper. margin, 24% of gas deliveries); non-core: industrial, transportation service (28%, 76%). Serves pulp & paper, plywood, chem. fertilizers, oil refining, and food process. Inds. Main connecting pipeline: Northwest Pipeline Corp. '05 deprec. rate: 2.9%. Est'd plant age: 12 yrs. Has around 375 employees. Officers and directors own 1.8% of com. (12/05 proxy). President and Chief Executive Officer: David W. Stevens. Inc.: WA. Address: 222 Fairview Ave. North, Seattle, WA 98109. Tel.: 206-624-3900. Internet: www.cngc.com.

Cascade Natural Gas Corporation has agreed to be acquired by MDU Resources Group, a diversified energy firm with 2005 revenues of approximately $3.5 billion. Under the terms of the $475 million transaction, which represented a 23% premium over the company's stock price before the announcement, Cascade stockholders would receive $26.50 in cash for each CGC share. Pending Cascade shareholder approval and other conditions, the deal is slated for completion by mid-2007. Note that our presentation for the company will be on a stand-alone basis until that time.

The utility ought to fit nicely with MDU's two regulated units, Montana-Dakota Utilities and Great Plains Natural Gas, which serve roughly 250,000 customers in five upper Midwest states, combined. Moreover, it appears that MDU has the resources to enable Cascade to reach even greater heights. We estimate that the purchase would be neutral to MDU's earnings in 2007 and 2008, due to integration costs. But accretion to the bottom line looks plausible in 2009 and thereafter, based partly on our assumption that cost savings come to the fore.

Meanwhile, the company's share earnings have bounced back considerably in fiscal 2006 (ends September 30th). The residential and commercial segment is enjoying an expanded customer base, as well as increased consumption (reflecting colder weather). What's more, management continues to succeed at keeping expenses under control. As such, it now appears that share net will jump about 34%, to $1.10, in fiscal 2006. Further expansion in operating margins ought to enable the bottom line to advance around 9%, to $1.20 a share, next year. (Cascade is awaiting the outcome of a rate-hike request, intended to generate additional annual revenues of $11.7 million, from the Washington Utilities and Transportation Commission.)

The Timeliness rank is suspended, since developments related to the pending merger, rather than earnings, are driving the shares' performance. The price tag seems reasonable, but the deal would have been sweeter if it had contained an option to convert CGC shares into MDU stock.

Frederick L. Harris, III September 15, 2006

(A) Cal. yr. thru. 12/95. Changed to 9/30 fiscal yr. in '96. (B) Primary eps. thru. '97, then diluted. Excl. nonrec. gains (losses): '91, 19¢; '93, 3¢; '96, (11¢); '98, (2¢); '99, (1¢); '01, 9¢; '02, (16¢); '03, (5¢); Q3 '06, 4¢. '04 eps. don't add to total due to rounding. Next egs. rpt. due late Oct. (C) Dividends historically paid in the middle of Feb., May, Aug., Nov. ■Div'd reinvest. plan avail. (D) Incl. deferred charges. In '05: $68.0 mill., $5.96/sh. (E) In mill., adj. for stk. split.

Company's Financial Strength	B+
Stock's Price Stability	80
Price Growth Persistence	50
Earnings Predictability	70

LACLEDE GROUP NYSE-LG

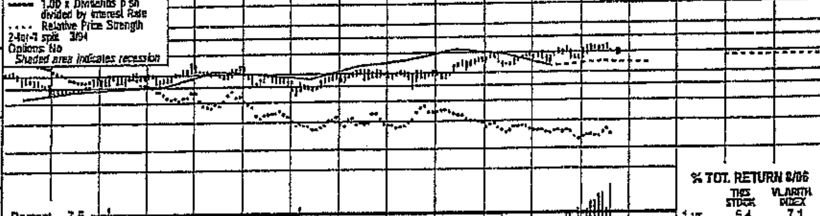
RECENT PRICE 32.13 | P/E RATIO 15.5 (Trailing: 14.8 Median: 15.0) | RELATIVE P/E RATIO 0.91 | DIV'D YLD 4.5% | VALUE LINE

TIMELINESS 4 Raised 9/8/06
SAFETY 2 Raised 6/20/03
TECHNICAL 3 Lowered 9/15/06
BETA .85 (1.00 = Market)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
High:	23.1	24.9	28.6	27.9	27.0	24.8	25.5	25.0	30.0	32.5	34.3	35.7
Low:	18.4	20.0	20.3	22.4	20.0	17.5	21.3	19.0	21.8	26.0	26.9	29.1

Target Price Range 2009 | 2010 | 2011

LEGENDS
— 1.00 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 3/94
Options: No
Shaded area indicates recession



2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+25%)	10%
Low	30	(-5%)	3%

Insider Decisions

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

Institutional Decisions

	4Q2005	1Q2006	2Q2006
to Buy	50	67	60
to Sell	37	30	47
Hld's(000)	8521	9470	10115

Percent shares traded 7.5 / 5 / 2.5

% TOT. RETURN 8/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	5.4	7.1
3 yr.	36.5	49.4
5 yr.	74.8	70.4

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
30.21	28.10	26.83	32.33	33.43	24.79	31.03	34.33	31.04	26.84	29.99	53.08	39.84	54.95	59.59	75.43	*93.50*	*98.60*	Revenues per sh	*116.65*
2.13	2.37	2.32	2.81	2.65	2.55	3.29	3.32	3.02	2.66	2.68	3.00	2.56	3.15	2.79	2.98	*3.70*	*3.85*	"Cash Flow" per sh	*4.70*
1.08	1.28	1.17	1.61	1.42	1.27	1.67	1.64	1.56	1.47	1.37	1.61	1.18	1.82	1.82	1.90	*2.15*	*2.15*	Earnings per sh A B	*2.50*
1.18	1.20	1.20	1.22	1.22	1.24	1.26	1.30	1.32	1.34	1.34	1.34	1.34	1.34	1.35	1.37	*1.40*	*1.43*	Div'ds Decl'd per sh C ■	*1.50*
1.67	2.46	2.87	2.62	2.50	2.63	2.35	2.44	2.66	2.58	2.77	2.51	2.60	2.67	2.45	2.84	*3.15*	*3.40*	Cap'l Spending per sh	*4.40*
11.75	11.83	11.79	12.19	12.44	13.05	13.72	14.26	14.57	14.96	14.99	15.26	15.07	15.65	16.96	17.31	*19.70*	*20.65*	Book Value per sh D	*25.00*
15.59	15.59	15.59	15.59	15.67	17.42	17.56	17.56	17.63	18.88	18.88	18.86	18.96	19.11	20.98	21.17	*21.50*	*21.50*	Common Shs Outst'g E	*24.00*
14.6	12.5	15.8	13.5	16.4	15.5	11.9	12.5	15.5	15.8	14.9	14.5	20.0	13.6	15.7	16.2	Bold figures are	Value Line	Avg Ann'l P/E Ratio	*14.0*
1.08	.80	.96	.80	1.08	1.04	.75	.72	.81	.90	.97	.74	1.09	.78	.83	.86	estimates		Relative P/E Ratio	*.95*
7.5%	7.5%	6.5%	5.6%	5.3%	6.3%	5.6%	5.6%	5.4%	5.8%	6.6%	5.7%	5.7%	5.4%	4.7%	4.4%			Avg Ann'l Div'd Yield	*4.3%*
						544.8	602.8	547.2	491.6	566.1	1002.1	755.2	1050.3	1250.3	1597.0	*2010*	*2120*	Revenues ($mill) A	*2800*
						32.8	32.5	27.9	26.9	26.0	30.5	22.4	34.6	36.1	40.1	*46.0*	*46.0*	Net Profit ($mill)	*60.0*
						35.9%	36.1%	35.6%	35.5%	35.2%	32.7%	35.4%	35.0%	34.8%	34.1%	*34.0%*	*34.0%*	Income Tax Rate	*35.0%*
						6.0%	5.4%	5.1%	5.5%	4.6%	3.0%	3.0%	3.3%	2.9%	2.5%	*2.3%*	*2.2%*	Net Profit Margin	*2.1%*
						42.5%	38.0%	40.9%	41.8%	45.2%	49.5%	47.5%	50.4%	51.5%	48.1%	*49.0%*	*49.0%*	Long-Term Debt Ratio	*48.0%*
						57.1%	61.6%	58.6%	57.8%	54.5%	50.2%	52.3%	49.4%	48.3%	51.8%	*51.0%*	*51.0%*	Common Equity Ratio	*52.0%*
						422.2	406.8	438.0	486.6	519.2	574.1	545.6	605.0	737.4	707.9	*830*	*870*	Total Capital ($mill)	*1200*
						452.2	467.6	490.6	519.4	575.4	602.5	594.4	621.2	646.9	679.6	*775*	*815*	Net Plant ($mill)	*1050*
						9.4%	9.7%	8.1%	7.1%	6.7%	6.9%	6.0%	7.4%	6.6%	7.7%	*7.0%*	*7.0%*	Return on Total Cap'l	*6.5%*
						13.5%	12.9%	10.8%	9.5%	9.1%	10.5%	7.8%	11.5%	10.1%	10.9%	*11.0%*	*10.5%*	Return on Shr. Equity	*9.5%*
						13.6%	12.9%	10.8%	9.5%	9.1%	10.5%	7.8%	11.6%	10.1%	10.9%	*11.0%*	*10.5%*	Return on Com Equity	*9.5%*
						4.5%	3.9%	1.8%	1.0%	.2%	1.8%	NMF	3.1%	2.7%	3.1%	*4.0%*	*3.5%*	Retained to Com Eq	*4.0%*
						67%	70%	83%	89%	98%	83%	113%	74%	73%	72%	*65%*	*67%*	All Div'ds to Net Prof	*60%*

CAPITAL STRUCTURE as of 6/30/06
Total Debt $518.8 mill. Due in 5 Yrs $175.0 mill.
LT Debt $395.4 mill. LT Interest $25.0 mill.
(Total interest coverage: 3.0x)

Leases, Uncapitalized Annual rentals $1.7 mill.
Pension Assets-9/05 $272.8 mill.
Oblig. $327.2 mill.
Pfd Stock $.8 mill. Pfd Div'd $.05 mill.
Common Stock 21,357,009 shs.
as of 7/28/06

MARKET CAP: $675 million (Small Cap)

CURRENT POSITION ($MILL.)	2004	2005	6/30/06
Cash Assets	13.9	6.0	31.9
Other	323.7	418.1	319.1
Current Assets	337.6	424.1	351.0
Accts Payable	68.4	138.4	118.2
Debt Due	96.5	110.7	123.4
Other	97.7	116.5	181.1
Current Liab.	262.6	365.6	304.5
Fix. Chg. Cov.	279%	293%	290%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	7.5%	17.0%	10.5%
"Cash Flow"	1.0%	1.5%	8.0%
Earnings	2.5%	4.5%	5.0%
Dividends	1.0%	.5%	2.0%
Book Value	3.0%	2.5%	7.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	280.1	422.2	186.6	161.4	1050.3
2004	332.6	475.0	245.1	197.6	1250.3
2005	442.5	576.5	311.3	266.7	1597.0
2006	689.2	708.8	330.5	*281.5*	*2010*
2007	*635*	*655*	*440*	*390*	*2120*

Fiscal Year Ends	EARNINGS PER SHARE A B F Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	.80	1.14	.11	d.21	1.82
2004	.87	1.12	.19	d.28	1.82
2005	.79	1.06	.29	d.24	1.90
2006	1.23	1.05	.13	*d.26*	*2.15*
2007	*1.16*	*1.05*	*.25*	*d.30*	*2.15*

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.335	.335	.335	.335	1.34
2003	.335	.335	.335	.335	1.34
2004	.335	.34	.34	.34	1.36
2005	.34	.345	.345	.345	1.38
2006	.345	.355	.355	.355	

BUSINESS: Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri, including the city of St. Louis, St. Louis County, and parts of 8 other counties. Has more than 630,000 customers. Purchased SM&P for $43 million (1/02). Therms sold and transported in fiscal 2005: 1.12 mill. Revenue mix for regulated operations: residential, 60%; commercial and industrial, 23%; transportation, 2%; other, 15%. Has around 3,815 employees. Officers and directors own approximately 6.0% of common shares (1/06 Proxy). Chairman, Chief Executive Officer, and President: Douglas H. Yaeger. Incorporated: Missouri. Address: 720 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.lacledegas.com.

Laclede Group is on track to register healthy results in fiscal 2006 (ends September 30th). Laclede Energy Resources, the non-utility gas marketing segment, is still benefiting from supply/demand imbalances resulting from last year's Gulf Coast hurricanes, plus a surge in volumes (reflecting higher interstate pipeline wholesale transactions). Furthermore, SM&P Utility Resources, the unregulated unit specializing in locating and marking services for underground facilities, is being aided by new business signups in existing markets. And we note that this subsidiary recently bought Reliant Services, which provides similar services. Given that both businesses have customers in the same geographic areas, synergies ought to generate decent cost savings going forward.

But the core natural gas unit has underperformed of late. This can be attributed partly to higher operation and maintenance expenses, as well as an increased provision for uncollectible accounts. A decline in volumes within the service territory has further eroded earnings. On the bright side, there have been benefits from a general rate hike effective since last October, and income from entities located outside the system has been rising.

On a consolidated basis, share net ought to grow about 13%, to $2.15, in fiscal 2006. Laclede's bottom line may flatten out next year because of the difficult comparison.

We believe that unexciting results are in store for the company over the 2009-2011 timeframe. The market in which the natural gas division operates has sluggish customer growth because it is in a mature stage. Moreover, it appears that major acquisitions are not likely to take place anytime soon. Consequently, annual share-net gains may only be in the mid-single-digit range, with some volatility, over the 3- to 5-year horizon.

The stock's good yield aside, total-return potential is not appealing. That is because these shares are already trading within our 2009-2011 Target Price Range, and we are assuming that future dividend increases will be moderate. Also, the Timeliness rank is 4 (Below Average).

Frederick L. Harris, III September 15, 2006

(A) Fiscal year ends Sept. 30th.
(B) Based on average shares outstanding thru. '97, then diluted. Excludes nonrecurring loss: Q2 '06, 7¢. Next earnings report due late Oct.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) Incl. deferred charges. In '05: $203.8 mill., $9.63/sh.
(E) In millions. Adjusted for stock split.
(F) Qtly. egs. may not sum due to change in shares outstanding.

Company's Financial Strength	B+
Stock's Price Stability	95
Price Growth Persistence	55
Earnings Predictability	65

NEW JERSEY RES. NYSE-NJR

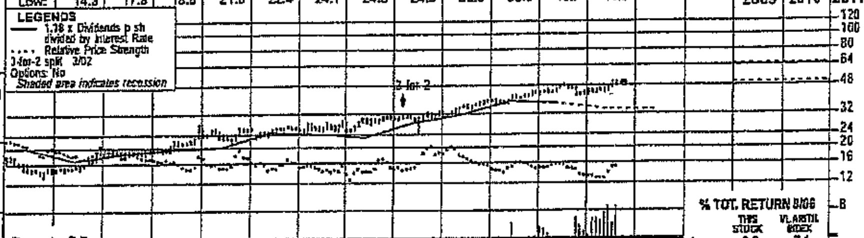
RECENT PRICE 49.55 | P/E RATIO 20.6 (Trailing: 16.2 / Median: 15.0) | RELATIVE P/E RATIO 1.21 | DIV'D YLD 2.9% | VALUE LINE

TIMELINESS 4 Raised 2/17/06
SAFETY 1 Raised 9/15/06
TECHNICAL 2 Raised 8/25/06
BETA .80 (1.00 = Market)

High:	20.3	19.9	28.0	26.8	27.4	29.8	32.5	33.6	39.5	44.6	49.3	51.4
Low:	14.3	17.8	18.8	21.0	22.4	24.1	24.8	24.3	30.0	36.5	40.7	41.5

Target Price Range 2009 | 2010 | 2011

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



2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+20%)	8%
Low	50	(Nil)	3%

Insider Decisions

	D	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	1	4	0	0	5	0	0	2	0
to Sell	1	4	0	0	4	0	0	2	0

Institutional Decisions

	4Q2005	1Q2006	2Q2006
to Buy	64	71	73
to Sell	60	52	60
Hld's(000)	13455	14778	15255

Percent shares traded 7.5 / 5 / 2.5

% TOT. RETURN 8/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	9.2	7.1
3 yr.	61.6	49.4
5 yr.	95.0	70.4

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
16.01	15.59	16.88	18.02	19.22	17.03	20.22	25.97	26.59	33.98	44.13	76.82	66.17	93.43	91.33	114.29	*117.45*	*120.60*	Revenues per sh A	*129.80*
1.54	1.58	1.95	2.14	2.31	2.13	2.22	2.45	2.60	2.79	2.98	3.18	3.21	3.58	3.75	3.92	*4.00*	*4.20*	"Cash Flow" per sh	*4.70*
.65	.55	1.09	1.15	1.26	1.29	1.37	1.46	1.55	1.66	1.79	1.95	2.09	2.38	2.55	2.65	*2.80*	*2.90*	Earnings per sh B	*3.30*
.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	1.30	1.36	*1.45*	*1.50*	Div'ds Decl'd per sh C■	*1.70*
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	2.17	1.92	*1.80*	*1.95*	Cap'l Spending per sh	*2.10*
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	16.87	15.90	*17.45*	*18.80*	Book Value per sh	*23.15*
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	27.74	27.55	*28.10*	*28.20*	Common Shs Outst'g D	*28.50*
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	15.3	16.8	*Bold figures are*	*Value Line*	Avg Ann'l P/E Ratio	*17.0*
1.78	1.42	.75	.89	.85	.78	.85	.78	.80	.87	.96	.73	.80	.80	.81	.90	*estimates*		Relative P/E Ratio	*1.15*
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%	3.3%	3.1%			Avg Ann'l Div'd Yield	*3.0%*

CAPITAL STRUCTURE as of 6/30/06
Total Debt $490.8 mill. Due in 5 Yrs $250.0 mill.
LT Debt $333.8 mill. LT Interest $22.0 mill.
Incl. $6.9 mill. capitalized leases.
(LT interest earned: 5.5x; total interest coverage: 4.8x)
Pension Assets-9/05 $82.6 mill. Oblig. $99.9 mill.
Pfd Stock None
Common Stock 28,080,314 shs. as of 8/8/06
MARKET CAP: $1.4 billion (Mid Cap)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		09-11
548.5	696.5	710.3	904.3	1164.6	2048.4	1830.8	2544.4	2533.6	3148.3	*3300*	*3400*	Revenues ($mill) A	*3700*
38.7	41.5	43.3	44.9	47.9	52.3	56.8	65.4	71.6	74.4	*80.0*	*82.0*	Net Profit ($mill)	*95.0*
32.6%	33.3%	30.4%	36.2%	37.8%	38.0%	38.7%	39.4%	39.1%	39.1%	*39.0%*	*39.0%*	Income Tax Rate	*40.0%*
7.1%	6.0%	6.1%	5.0%	4.1%	2.6%	3.1%	2.6%	2.8%	2.4%	*2.4%*	*2.4%*	Net Profit Margin	*2.5%*
50.7%	49.3%	51.2%	48.7%	47.0%	50.1%	50.5%	38.1%	40.3%	42.0%	*42.0%*	*41.0%*	Long-Term Debt Ratio	*37.0%*
45.8%	47.1%	45.6%	51.2%	52.9%	49.9%	49.4%	61.9%	59.7%	58.0%	*58.0%*	*59.0%*	Common Equity Ratio	*63.0%*
598.2	590.6	636.2	590.4	620.1	706.2	732.4	676.8	783.8	755.3	*845*	*890*	Total Capital ($mill)	*1055*
655.2	669.4	680.0	705.4	730.6	743.9	756.4	652.6	880.4	905.1	*935*	*970*	Net Plant ($mill)	*1120*
8.1%	8.6%	8.1%	9.0%	9.0%	8.5%	8.7%	10.7%	10.1%	11.2%	*10.5%*	*10.5%*	Return on Total Cap'l	*10.5%*
13.1%	13.9%	13.9%	14.8%	14.6%	14.8%	15.7%	15.6%	15.3%	17.0%	*16.0%*	*15.5%*	Return on Shr. Equity	*14.5%*
13.5%	14.3%	14.4%	14.8%	14.6%	14.9%	15.7%	15.6%	15.3%	17.0%	*16.0%*	*15.5%*	Return on Com Equity	*14.5%*
3.4%	4.0%	4.4%	5.0%	5.4%	6.1%	6.9%	7.7%	7.6%	8.5%	*8.0%*	*7.5%*	Retained to Com Eq	*7.0%*
76%	73%	71%	67%	63%	59%	56%	51%	49%	50%	*52%*	*52%*	All Div'ds to Net Prof	*52%*

CURRENT POSITION ($MILL.)	2004	2005	6/30/06
Cash Assets	5.0	25.0	4.7
Other	681.0	927.8	808.7
Current Assets	686.0	952.8	813.4
Accts Payable	42.9	54.7	38.0
Debt Due	287.4	177.4	157.0
Other	357.4	744.2	510.4
Current Liab.	687.7	976.3	705.4
Fix. Chg. Cov.	626%	660%	700%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	16.5%	23.5%	*4.5%*
"Cash Flow"	5.5%	6.0%	*4.0%*
Earnings	7.5%	8.5%	*4.5%*
Dividends	2.5%	3.0%	*4.5%*
Book Value	5.0%	7.0%	*6.5%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	668.9	1152.7	369.7	353.1	2544.4
2004	643.0	1037.7	438.5	414.4	2533.6
2005	854.0	1065.1	544.3	684.9	3148.3
2006	1164.6	1064.4	536.1	*534.9*	*3300*
2007	*1085*	*1150*	*610*	*555*	*3400*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	.85	1.50	.16	d.13	2.38
2004	.87	1.82	.06	d.20	2.55
2005	.91	1.84	.07	d.17	2.65
2006	1.23	2.14	d.14	*d.43*	*2.80*
2007	*1.13*	*1.84*	*.10*	*d.17*	*2.90*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.30	.30	.30	.30	1.20
2003	.31	.31	.31	.31	1.24
2004	.325	.325	.325	.325	1.30
2005	.34	.34	.34	.34	1.36
2006	.36	.36	.36		

BUSINESS: New Jersey Resources Corp. is the holding company for New Jersey Natural Gas Co., a natural gas utility (about 463,000 customers at 9/30/05) in Monmouth, Ocean, and parts of other N.J. counties. Fiscal 2005 volume: 124.7 bill. cu. ft. (60% firm, 8% interruptible industrial and electric utility, 42% 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. 2005 deprec. rate: 2.8%. Est'd plant age: 8 years. Has 551 utility employees, 16,300 stckhldrs. Off. & dir. own about 3% of common stock (12/05 Proxy). Chairman and CEO: Laurence M. Downes. Inc.: N.J. Address: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 732-938-1000. Internet: www.njliving.com.

New Jersey Resources results over the first nine months of fiscal 2006 (year ends September 30th) have been solid. Earnings over this timeframe increased about 14.5%, to $3.23 a share, with most of the gains being driven by an improved performance at the company's energy services subsidiary. In fact, the segment posted an earnings advance of about 90% this year due to growth in its portfolio of storage and transportation contracts. Since the unit covers many markets in the eastern half of the United States and Canada, it is able to capture additional value when prices fluctuate between regions. All told, the business now represents over 20% of corporate earnings.

The third quarter was a weak one at the company's main subsidiary, New Jersey Natural Gas (NJNG). It posted earnings of $1.7 million, well below the $3.9 million in the year-earlier period. The decrease was primarily the result of conservation by customers. The utility currently has a weather normalization plan in place to protect against temperatures that are warmer than normal, though, it is unable to protect against lower usage. Therefore, in December, NJNG proposed a plan with the New Jersey Board of Public Utilities to implement a conservation usage adjustment (CUA) plan to replace the normalization policy, which would provide protection against both temperature and usage changes. Management remains optimistic that the program will be approved and be in place by next winter's heating season. However, should regulatory approval not be granted, the company is exploring alternatives that includes filing for a rate increase. Meanwhile, the utility added about 7,870 new customers through the third quarter, and will likely grow at a rate above the industry average for the next few years thanks to the strong demographics of the region NJNG serves. About a third of new customers are conversions from other fuel sources.

Though untimely, this stock offers decent total return potential. This is largely due to expanding profits from its nonutility operations. Other pluses include the likelihood of a more consistent earnings stream through the CUA proposal, and steady dividend increases.

Evan I. Blatter *September 15, 2006*

(A) Fiscal year ends Sept. 30th.
(B) Diluted earnings. Next earnings report due late Oct.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) In millions, adjusted for split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	85
Earnings Predictability	100

NICOR, INC. NYSE-GAS

RECENT PRICE 43.05 | P/E RATIO 17.2 (Trailing: 18.6 Median: 14.0) | RELATIVE P/E RATIO 1.01 | DIV'D YLD 4.3% | VALUE LINE

TIMELINESS 3 Raised 7/7/06
SAFETY 3 Lowered 6/17/05
TECHNICAL 3 Raised 5/5/06
BETA 1.20 (1.00 = Market)

High:	28.5	37.1	42.9	44.4	42.9	43.9	42.4	49.0	39.3	39.7	43.0	44.4
Low:	21.8	25.4	30.0	37.1	31.2	29.4	34.0	17.3	23.7	32.0	35.5	38.7

Target Price Range 2009 | 2010 | 2011

2009-11 PROJECTIONS

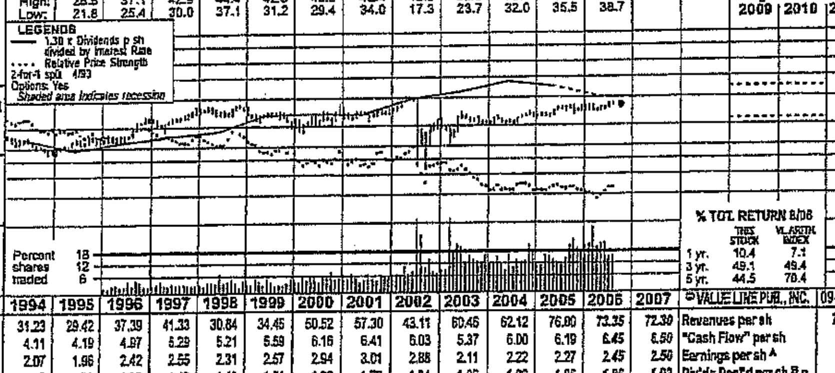
	Price	Gain	Ann'l Total Return
High	55	(+30%)	10%
Low	35	(-20%)	Nil

Insider Decisions

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

Institutional Decisions

	4Q2005	1Q2006	2Q2006
to Buy	117	112	98
to Sell	97	94	110
Hld's(000)	30986	32581	32450



% TOT. RETURN 8/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	10.4	7.1
3 yr.	49.1	49.4
5 yr.	44.5	70.4

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
26.52	26.46	28.90	31.02	31.23	29.42	37.39	41.33	30.84	34.45	50.52	57.30	43.11	60.46	62.12	76.00	73.35	72.30	Revenues per sh	71.25
3.86	3.92	4.14	3.80	4.11	4.19	4.87	5.29	5.21	5.59	6.16	6.41	6.03	5.37	6.00	6.19	6.45	6.50	"Cash Flow" per sh	6.80
1.93	1.86	1.92	1.97	2.07	1.96	2.42	2.55	2.31	2.57	2.94	3.01	2.88	2.11	2.22	2.27	2.45	2.50	Earnings per sh A	2.80
1.06	1.12	1.18	1.22	1.25	1.28	1.32	1.40	1.48	1.54	1.66	1.76	1.84	1.86	1.86	1.86	1.86	1.92	Div'ds Decl'd per sh B ■	2.02
3.00	3.65	3.12	2.62	3.34	3.12	2.42	2.34	2.67	3.28	3.48	4.18	4.37	4.12	4.32	4.57	4.50	4.50	Cap'l Spending per sh	4.50
11.67	12.28	12.76	13.05	13.26	13.67	14.74	15.43	15.97	16.80	15.66	16.39	16.65	17.13	16.99	18.35	18.90	19.40	Book Value per sh	21.60
57.93	57.30	55.77	53.96	51.54	50.30	49.49	48.22	47.51	46.89	45.49	44.40	44.01	44.04	44.10	44.18	44.50	44.60	Common Shs Outst'g C	44.90
10.7	11.5	11.6	14.1	12.5	13.1	12.5	14.2	17.6	14.6	11.9	12.6	13.1	15.8	15.9	17.3	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	16.0
.79	.73	.70	.83	.82	.88	.78	.82	.92	.83	.77	.66	.72	.90	.84	.91			Relative P/E Ratio	1.05
5.1%	5.2%	5.3%	4.4%	4.8%	5.0%	4.4%	3.9%	3.6%	4.1%	4.7%	4.6%	4.9%	5.6%	5.3%	4.7%			Avg Ann'l Div'd Yield	4.5%

CAPITAL STRUCTURE as of 6/30/06
Total Debt $520.2 mill. Due in 5 Yrs $215.0 mill.
LT Debt $470.2 mill. LT Interest $20.0 mill.
(Total interest coverage: 4.0x)

Pension Assets-12/05 $424.0 mill. Oblig. $284.4 mill.

Pfd Stock $.6 mill. Pfd Div'd $.03 mill.
(11,681 shares of 4.48% mandatorily redeemable preferred stock)
Common Stock 44,536,603 shares as of 4/28/06
MARKET CAP: $1.9 billion (Mid Cap)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		09-11
1850.7	1992.6	1465.1	1615.2	2298.1	2544.1	1897.4	2662.7	2739.7	3357.8	3265	3225	Revenues ($mill)	3200
121.2	124.3	111.1	121.9	136.4	136.3	128.0	93.1	98.1	101.1	110	110	Net Profit ($mill)	125
35.8%	35.0%	34.4%	34.7%	34.8%	33.5%	31.0%	35.2%	31.8%	28.3%	27.0%	30.0%	Income Tax Rate	32.0%
6.5%	6.2%	7.6%	7.6%	5.9%	5.4%	6.7%	3.5%	3.6%	3.0%	3.4%	3.4%	Net Profit Margin	3.9%
41.3%	42.3%	42.1%	35.5%	32.7%	37.8%	35.1%	39.6%	39.8%	37.4%	36.0%	35.0%	Long-Term Debt Ratio	32.0%
58.1%	57.2%	57.4%	64.0%	66.7%	61.7%	64.5%	60.3%	60.1%	62.5%	64.0%	65.0%	Common Equity Ratio	68.0%
1255.1	1300.6	1322.6	1230.1	1061.2	1180.1	1128.9	1251.5	1246.0	1297.7	1310	1335	Total Capital ($mill)	1430
1771.9	1735.8	1731.8	1735.2	1729.6	1768.6	1796.6	2484.2	2549.8	2659.1	2750	2850	Net Plant ($mill)	3150
11.1%	11.1%	9.9%	10.9%	13.7%	12.3%	12.2%	8.3%	8.8%	9.4%	10.0%	9.5%	Return on Total Cap'l	10.0%
16.4%	16.6%	14.5%	15.4%	19.1%	18.6%	17.5%	12.3%	13.1%	12.5%	13.0%	12.5%	Return on Shr. Equity	13.0%
16.6%	16.7%	14.6%	15.4%	19.2%	18.7%	17.5%	12.3%	13.1%	12.5%	13.0%	12.5%	Return on Com Equity	13.0%
7.6%	7.6%	5.4%	6.2%	8.5%	7.9%	6.5%	1.5%	2.1%	2.3%	3.0%	3.0%	Retained to Com Eq	3.5%
54%	55%	63%	60%	56%	58%	63%	88%	84%	81%	75%	77%	All Div'ds to Net Prof	73%

CURRENT POSITION ($MILL.)	2004	2005	6/30/06
Cash Assets	83.2	126.9	226.6
Other	937.7	1218.8	477.4
Current Assets	1020.9	1345.7	704.0
Accts Payable	502.9	858.2	433.9
Debt Due	490.2	636.0	50.0
Other	178.3	328.7	611.4
Current Liab.	1171.4	1622.9	995.3
Fix. Chg. Cov.	428%	367%	NMF

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	6.0%	11.5%	1.0%
"Cash Flow"	4.0%	0.5%	2.5%
Earnings	1.0%	-3.5%	4.0%
Dividends	4.0%	3.5%	1.5%
Book Value	2.0%	1.5%	3.0%

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	1171.3	452.8	294.8	743.8	2662.7
2004	1115.7	429.5	299.9	894.6	2739.7
2005	1179.9	484.4	336.0	1357.5	3357.8
2006	1319.4	451.3	320	1174.3	3265
2007	1250	500	350	1125	3225

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	1.11	.21	.01	.78	2.11
2004	.96	.44	d.26	1.08	2.22
2005	.98	.35	d.08	1.02	2.27
2006	.94	.41	d.05	1.15	2.45
2007	1.00	.40	d.05	1.15	2.50

Calendar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.46	.46	.46	.46	1.84
2003	.46	.465	.465	.465	1.86
2004	.465	.465	.465	.465	1.86
2005	.465	.465	.465	.465	1.86
2006	.465	.465	.465		

BUSINESS: Nicor Inc. is a holding company with gas distribution as its primary business. Serves over 2.1 million customers in northern and western Illinois. 2005 gas delivered: 470.6 Bcf, incl. 219.4 Bcf from transportation. 2005 gas sales (251.2 bcf): residential, 80%; commercial, 18%; industrial, 3%. Principal supplying pipelines: Natural Gas Pipeline, Horizon Pipeline, and TGPC. Current operations include Tropical Shipping subsidiary and several energy related ventures. Divested inland barging, 7/86; contract drilling, 9/86; oil and gas E&P, 6/93. Has about 3,700 employees. Off./dir. own about 2.8% of common stock. (3/06 proxy). Chairman and CEO: Russ Strobel. Inc.: IL. Address: 1844 Ferry Road, Naperville, IL 60563. Telephone: 630-305-9500. Internet: www.nicor.com.

Nicor's core gas distribution segment has posted mixed results. In the first six months of the year, this unit posted a modest decline in operating profits from a year ago. Excluding the cost recovery of $3.8 million related to a mercury repair and inspection program, operating earnings declined by 1%, to $70.8 million, in the period. An increase in base rates, approved by the Illinois Commerce Commission last fall, helped to boost revenues, but was partially offset by unseasonably warm weather, which reduced the demand for gas deliveries. This decrease in demand lowered net profits by roughly $7.5 million compared to management's forecast. In light of the weather-related losses, the gas distribution segment will probably weigh on the bottom line in the full year. Even so, this is considered a temporary issue, and an eventual return to normal weather conditions should benefit earnings. Too, operating and maintenance expenses have been running below management's expectations, with room for further cost reductions, barring an unforeseen spike in natural gas prices.

The company's other business segments should bolster the bottom line. Nicor's Tropical Shipping unit is generating higher revenues, due to an increase in rates. But some of those gains are likely to be mitigated, in part, by incremental payroll and transportation costs. Separately, the energy ventures segment should post better results in the second half of this year, as deferred revenue, related to its utility bill management products, are recognized.

Nicor may be able to raise its dividend following a recent legal settlement. In July, the company reached a settlement with the SEC regarding the investigation over its accounting for natural gas costs between 2000 and 2002. Under the terms of the settlement, Nicor will be subject to a $10 million fine, without admitting or denying any wrongdoing. With the legal issues in the rearview mirror, there ought to be a greater amount of cash available to shareholders. As of June 30th, there was nearly $227 million in cash on the balance sheet.

These shares may interest income-oriented accounts.

Charles W. Noh *September 15, 2006*

(A) Based on primary earnings thru. '96, then diluted. Excl. nonrecurring gains/(loss): '89, 7¢; '97, 6¢; '98, 11¢; '99, 5¢; '00, ($1.96); '01, 15¢; '03, (27¢); '04, (52¢); '05, 80¢; '06, (17¢). Excl. items from discontinued ops.: '93, 4¢; '96, 30¢. Quarterly earnings may not sum to total due to rounding. Next earnings report due early Nov. (B) Dividends historically paid early February, May, August, November. ■ Dividend reinvestment plan available. (C) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	55
Price Growth Persistence	35
Earnings Predictability	80

N.W. NAT'L GAS NYSE-NWN

RECENT PRICE 38.19 | P/E RATIO 16.7 (Trailing: 17.6 Median: 15.0) | RELATIVE P/E RATIO 0.98 | DIV'D YLD 3.6% | VALUE LINE

TIMELINESS 3 Raised 8/25/06
SAFETY 1 Raised 3/18/05
TECHNICAL 2 Raised 9/15/06
BETA .75 (1.00 = Market)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
High:		22.8	25.9	31.4	30.8	27.9	27.5	26.8	30.7	31.3	34.1	39.6	38.8				
Low:		18.3	20.8	23.0	24.3	19.5	17.8	21.7	23.5	24.0	27.5	32.4	32.8				

Target Price Range 2009 | 2010 | 2011

2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+20%)	8%
Low	40	(+5%)	5%

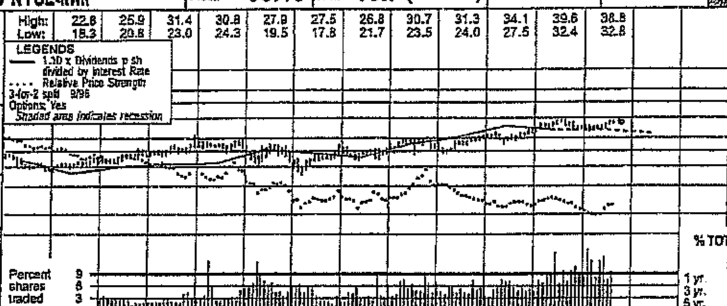
Insider Decisions

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

Institutional Decisions

	4Q2005	1Q2006	2Q2006
to Buy	59	62	77
to Sell	54	59	59
Hld's(000)	12922	13095	14328

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



Percent shares traded 9 6 3

% TOT. RETURN 8/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	8.1	7.1
3 yr.	51.4	49.4
5 yr.	67.4	70.4

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
17.02	16.74	14.10	16.15	16.30	16.02	16.86	15.62	16.77	16.17	21.09	25.78	25.07	23.57	25.69	33.01	39.65	42.25	Revenues per sh	51.80
3.22	2.57	3.25	3.74	3.50	3.41	3.86	3.72	3.24	3.72	3.68	3.66	3.65	3.85	3.92	4.34	4.60	4.75	"Cash Flow" per sh	5.10
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	1.86	2.11	2.22	2.40	Earnings per sh A	2.85
1.10	1.13	1.16	1.17	1.17	1.18	1.20	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.30	1.32	1.38	1.42	Div'ds Decl'd per sh B■	1.70
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	4.90	5.52	3.48	3.70	3.60	Cap'l Spending per sh	3.60
12.61	12.23	12.41	13.06	13.63	14.55	15.37	16.02	16.59	17.12	17.93	18.56	18.88	19.52	20.64	21.28	22.10	22.95	Book Value per sh	25.55
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	25.94	27.55	27.58	27.75	27.80	Common Shs Outst'g C	28.00
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	16.7	17.0	Bold figures are	Value Line	Avg Ann'l P/E Ratio	15.0
.76	1.79	1.64	.76	.85	.86	.73	.83	1.39	.83	.81	.66	.94	.90	.88	.91	estimates		Relative P/E Ratio	.95
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%	4.2%	3.7%			Avg Ann'l Div'd Yield	4.3%

CAPITAL STRUCTURE as of 6/30/06
Total Debt $577.3 mill. Due in 5 Yrs $204.2 mill.
LT Debt $492.0 mill. LT Interest $31.0 mill.

(Total interest coverage: 3.4x)

Pension Assets-12/05 $218.6 mill.
Oblig. $257.9 mill.
Pfd Stock None

Common Stock 27,548,346 shs.
as of 7/31/06
MARKET CAP $1.1 billion (Mid Cap)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		09-11
380.3	361.8	416.7	455.8	532.1	650.3	641.4	611.3	707.6	910.5	1025	1050	Revenues ($mill)	1450
46.8	43.1	27.3	44.9	47.6	50.2	43.8	46.0	50.6	58.1	62.0	66.5	Net Profit ($mill)	80.0
35.9%	32.9%	31.0%	35.4%	35.9%	35.4%	34.9%	33.7%	34.4%	36.0%	36.0%	36.0%	Income Tax Rate	36.0%
12.3%	11.9%	6.6%	9.9%	9.0%	7.7%	6.8%	7.5%	7.1%	6.4%	5.7%	5.7%	Net Profit Margin	5.5%
41.4%	46.0%	45.0%	46.0%	45.1%	43.0%	47.6%	49.7%	46.0%	47.0%	47.0%	47.0%	Long-Term Debt Ratio	47%
52.6%	49.0%	50.6%	49.9%	50.9%	53.2%	51.5%	50.3%	54.0%	53.0%	53.0%	53.0%	Common Equity Ratio	53%
657.4	748.9	815.6	851.5	887.8	880.5	937.3	1006.6	1052.5	1108.4	1150	1200	Total Capital ($mill)	1350
745.3	827.5	884.7	895.9	934.0	965.0	995.6	1205.9	1316.4	1373.4	1375	1400	Net Plant ($mill)	1500
8.9%	7.4%	5.0%	6.8%	6.7%	6.9%	5.9%	5.7%	5.9%	6.5%	7.0%	7.0%	Return on Total Cap'l	7.0%
12.1%	10.7%	6.1%	8.7%	9.8%	10.0%	8.9%	9.1%	8.9%	9.9%	10.0%	10.5%	Return on Shr. Equity	10.5%
12.7%	11.0%	6.6%	9.9%	10.0%	10.2%	8.5%	9.0%	8.8%	9.9%	10.0%	10.5%	Return on Com Equity	10.5%
5.0%	3.6%	NMF	2.8%	3.1%	3.5%	1.9%	2.6%	2.7%	3.7%	3.7%	3.7%	Retained to Com Eq	3.8%
63%	70%	118%	74%	70%	67%	79%	72%	69%	63%	62%	59%	All Div'ds to Net Prof	60%

CURRENT POSITION ($MILL.)	2004	2005	6/30/06
Cash Assets	5.2	7.1	6.6
Other	231.9	316.6	191.5
Current Assets	237.1	323.7	198.1
Accts Payable	102.5	135.3	76.8
Debt Due	117.5	134.7	85.3
Other	47.3	56.6	53.0
Current Liab.	267.3	326.6	215.1
Fix. Chg. Cov.	316%	340%	NMF

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	4.5%	8.0%	11.0%
"Cash Flow"	1.5%	2.5%	4.5%
Earnings	1.5%	5.0%	7.0%
Dividends	1.0%	1.0%	4.0%
Book Value	4.0%	3.5%	3.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	206.5	117.5	69.5	217.8	611.3
2004	254.5	109.7	81.4	262.0	707.6
2005	308.7	153.7	106.7	341.4	910.5
2006	390.4	171.0	130	333.6	1025
2007	375	185	140	350	1050

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	1.01	.17	d.25	.83	1.76
2004	1.24	d.03	d.30	.95	1.86
2005	1.44	.04	d.31	.94	2.11
2006	1.48	.07	d.30	.97	2.22
2007	1.55	.05	d.30	1.10	2.40

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.315	.315	.315	.315	1.26
2003	.315	.315	.315	.325	1.27
2004	.325	.325	.325	.325	1.30
2005	.325	.325	.325	.345	1.32
2006	.345	.345	.345		

BUSINESS: Northwest Natural Gas Co. distributes natural gas at retail to 90 communities, 624,000 customers, in Oregon (90% of custs.) 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 system to bring gas to market. Owns local underground storage. Rev. breakdown: residential, 53%; commercial, 27%; industrial, gas transportation, and other, 20%. Employs 1,305. Barclays owns 6.2% of shares; insiders, 1% (4/06 proxy). CEO: Mark S. Dodson. Inc.: OR. Address: 220 NW 2nd Ave., Portland, OR 97209. Tel.: 503-226-4211. Internet: www.nwnatural.com.

Northwest Natural's second-quarter earnings turned out a bit better than expected, despite weather that was 16% warmer than average and 12% warmer than last year's. The company's share of commodity cost savings added about $0.03 a share in the June period, and profits from interstate gas storage contributed an additional $0.02. Operations and maintenance expenses were up 3% but would have risen 2% without increased bad debt costs, due to higher gas prices.

We anticipate roughly normal earnings growth over the balance of the year. Northwest Natural increased its customer count by 3.3% in the 12 months ended in June, and the new accounts should boost earnings through 2006 and 2007. While the national economy is definitely slowing, Portland seems to be doing better than the nation as a whole, with little decline in new home construction. (Northwest's share of new home heating fuel is over 90%.) But the company plans to lay off 50 to 100 employees in the second half of the year, and severance costs will probably add up to around $0.04 a share in the fourth quarter.

Earnings in 2007 will likely benefit from new efficiency and cost-cutting efforts. Northwest has begun to implement a companywide plan to reduce costs by consolidating some operations, standardizing functions, and outsourcing some operations, such as new construction. The plan will take a few years to implement completely and will probably result in a workforce reduction of 200 to 250 employees, some by normal attrition.

Northwest's earnings will probably grow faster than its industry's, thanks to above-average customer growth. The area to the southeast of Portland will soon be zoned for higher density, permitting profitable installation of gas mains and significant customer growth. And the company serves less than 60% of its market at present, allowing it to pick up new customers as old oil tanks need replacing.

These neutrally ranked shares have below-average total return potential at their recent quotation. Although we like Northwest's prospects, we think investors will have an opportunity to invest at a better price.

Sigourney B. Romaine September 15, 2006

(A) Diluted earnings per share. Excludes nonrecurring gain: '98, $0.15; '00, $0.11. Next earnings report due early November.
(B) Dividends historically paid in mid-February, mid-May, mid-August, and mid-November.
■ Div'd reinvestment plan available.
(C) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	55
Earnings Predictability	75

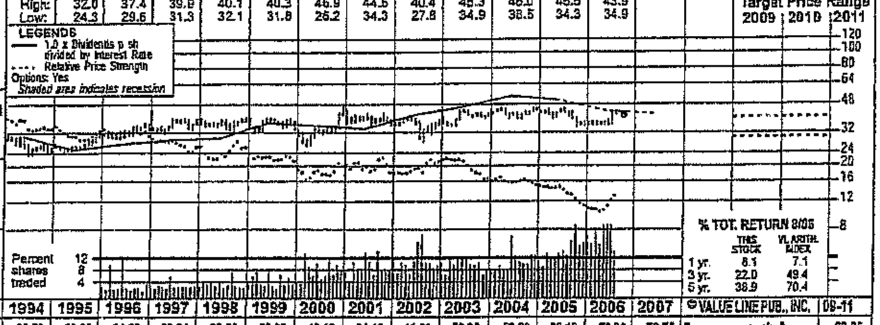
PEOPLES ENERGY NYSE-PGL

RECENT PRICE 41.41 | P/E RATIO 31.9 (Trailing: 23.9; Median: 14.0) | RELATIVE P/E RATIO 1.88 | DIV'D YLD 5.3% | VALUE LINE

TIMELINESS – [6] Susp. 7/21/06
SAFETY 2 Lowered 3/17/06
TECHNICAL – [6] Susp. 7/21/06
BETA .65 (1.00 = Market)

High:	32.0	37.4	39.8	40.1	40.3	46.9	44.6	40.4	45.3	46.0	45.5	43.9
Low:	24.3	29.6	31.3	32.1	31.8	26.2	34.3	27.8	34.9	38.5	34.3	34.9

Target Price Range 2009 | 2010 | 2011



2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(-5%)	4%
Low	30	(-30%)	-2%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	1	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

	4Q2005	1Q2006	2Q2006
to Buy	92	78	83
to Sell	82	84	88
Hld's(000)	21830	24457	25674

% TOT. RETURN 8/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	8.1	7.1
3 yr.	22.0	49.4
5 yr.	38.9	70.4

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
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	59.90	68.13	76.90	78.75	Revenues per sh A	83.35
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	5.32	5.31	4.35	4.50	"Cash Flow" per sh	5.10
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	2.88	2.18	2.26	1.25	1.50	Earnings per sh A B	2.00
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	2.18	2.18	2.18	Div'ds Decl'd per sh C ■	2.18
3.16	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	5.02	4.27	8.95	6.90	Cap'l Spending per sh	7.15
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	23.06	20.97	19.60	18.40	Book Value per sh D	16.65
32.70	32.76	34.77	34.88	34.67	34.91	34.96	35.07	35.26	35.49	35.30	35.40	35.46	36.69	37.73	38.16	39.00	40.00	Common Shs Outst'g E	42.00
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	19.1	18.9	Bold figures are		Avg Ann'l P/E Ratio	17.0
.83	.75	.79	.89	.87	.98	.67	.73	.84	.88	.79	.63	.73	.76	1.01	1.01	Value Line		Relative P/E Ratio	1.15
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%	5.2%	5.1%	estimates		Avg Ann'l Div'd Yield	6.4%
						1198.7	1274.4	1138.1	1194.4	1417.5	2270.2	1482.5	2138.4	2260.2	2599.6	3000	3150	Revenues ($mill) A	3500
						103.4	98.4	79.4	84.8	96.1	111.7	99.3	103.9	81.6	86.2	50.0	60.0	Net Profit ($mill)	85.0
						37.6%	36.4%	36.2%	35.9%	34.1%	35.4%	34.2%	36.3%	31.7%	34.2%	35.0%	35.0%	Income Tax Rate	35.0%
						8.6%	7.7%	7.0%	7.1%	6.8%	4.9%	6.7%	4.9%	3.6%	3.3%	1.6%	1.9%	Net Profit Margin	2.4%
						43.6%	42.4%	41.1%	40.4%	35.1%	44.4%	40.7%	46.7%	50.8%	52.8%	53.9%	54.8%	Long-Term Debt Ratio	56.2%
						56.4%	57.6%	58.9%	59.6%	64.9%	55.6%	59.3%	53.3%	49.2%	47.2%	46.1%	45.2%	Common Equity Ratio	43.8%
						1208.3	1243.5	1256.0	1290.5	1196.7	1449.8	1360.3	1592.3	1767.5	1695.7	1660	1625	Total Capital ($mill)	1585
						1381.1	1402.2	1446.7	1519.8	1645.3	1753.9	1773.9	1838.2	1904.2	1847.3	2150	2300	Net Plant ($mill)	2550
						10.3%	9.5%	7.8%	8.0%	9.5%	9.3%	8.4%	8.1%	6.0%	6.6%	4.5%	5.5%	Return on Total Cap'l	7.0%
						15.2%	13.7%	10.7%	11.0%	12.4%	13.9%	12.3%	12.3%	9.4%	10.8%	6.5%	8.0%	Return on Shr. Equity	12.0%
						15.2%	13.7%	10.7%	11.0%	12.4%	13.9%	12.3%	12.3%	9.4%	10.8%	6.5%	8.0%	Return on Com Equity	12.0%
						5.9%	4.7%	1.7%	2.1%	3.4%	5.0%	3.3%	3.4%	.2%	.5%	NMF	NMF	Retained to Com Eq	NMF
						61%	66%	84%	81%	73%	64%	73%	73%	97%	95%	170%	145%	All Div'ds to Net Prof	106%

CAPITAL STRUCTURE as of 6/30/06
Total Debt $1065.0 mill. Due in 5 Yrs $546.4 mill.
LT Debt $893.6 mill. LT Interest $60.0 mill.
(Total interest coverage: 1.8x)

Pension Assets-9/05 $520.4 mill. Oblig. $641.7 mill.

Pfd Stock None

Common Stock 38,471,441 shs. as of 7/31/06

MARKET CAP: $1.6 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2004	2005	6/30/06
Cash Assets	21.1	43.5	157.0
Other	531.3	855.1	715.1
Current Assets	552.4	898.6	872.1
Accts Payable	144.7	236.2	198.5
Debt Due	55.6	8.1	171.4
Other	335.8	657.4	525.9
Current Liab.	536.1	901.7	895.8
Fix. Chg. Cov.	304%	332%	176%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	6.0%	12.0%	5.0%
"Cash Flow"	3.5%	2.0%	NMF
Earnings	2.0%	--	NMF
Dividends	2.0%	2.0%	Nil
Book Value	2.0%	0.5%	NMF

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	549.2	903.8	398.1	287.3	2138.4
2004	604.9	927.0	401.1	327.2	2260.2
2005	737.4	1026.9	455.9	379.4	2599.6
2006	1052.4	1180.0	400.4	367.2	3000
2007	1100	1225	425	400	3150

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	.87	1.77	.22	.04	F 2.88
2004	.85	1.46	.15	d.27	F 2.18
2005	.77	1.37	.18	d.06	2.26
2006	.93	1.12	d.32	d.48	1.25
2007	.95	1.15	d.20	d.40	1.50

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.51	.52	.52	.52	2.07
2003	.53	.53	.53	.53	2.12
2004	.54	.54	.54	.54	2.16
2005	.54	.545	.545	.545	2.18
2006	.545	.545	.545		

BUSINESS: Peoples Energy Corporation distributes natural gas via its utility subsidiaries, Peoples Gas Light & Coke Co. (approx. 814,000 customers at 9/30/05) and North Shore Gas Co. (155,000), in Chicago and northeastern Illinois. Fiscal 2005 gas distribution revenues: $1.7 billion: residential, 77%; commercial, 13%; industrial, 2%; other, 8%. Main supplier is Natural Gas Pipeline Co. of America. Purchased gas costs and revenue taxes accounted for 77% of gas revenues in fiscal '05. Depreciation rate: 3.5%. Est'd plant age: 11 years. Has 2,182 employees. Officers and Directors own 1.5% of common (1/06 Proxy). Chrmn. and CEO: Thomas Patrick. Inc.: IL. Address: 130 E. Randolph Dr., Chicago, IL 60601. Telephone: 312-240-4000. Internet: www.peoplesenergy.com.

Shares of Peoples Energy have increased by almost 12% since our last report, following the July announcement of a definitive merger agreement with WPS Resources. The deal was unanimously approved by the boards of directors of both companies. Each common share of Peoples Energy would be converted into .825 shares of WPS Resources stock. Using the recent closing price of WPS Resources, this would result in an approximate value of $41.32 per share for Peoples Energy stock. The acquisition, which will most likely occur in the first calendar quarter of 2007, is conditional upon shareholder and regulatory approvals. Upon completion, PGL shareholders would own about 42.4% of the new company.

The combined company will have about $9.2 billion in assets. It will operate natural gas and electric utilities in Wisconsin, Illinois, Michigan and Minnesota. The new company will likely pay a quarterly dividend of approximately $0.66 per share, the same payout Peoples Energy shareholders currently receive (factoring in the exchange ratio). WPS Resources CEO Larry Weyers will take the helm of the combined company. The board of directors will comprise nine members selected by WPS Resources and seven members selected by Peoples Energy.

Meanwhile, Peoples reported subpar results for the three-month period ended June 30th. Revenues declined by 12%, compared to the prior year. Warmer weather resulted in lower deliveries for the Gas distribution segment. Higher maintenance costs and depreciation expense also hindered the bottom line. The share loss was $0.32 for the second quarter. In addition, the company has lowered its share-net guidance for fiscal year 2006. We now expect share earnings of $1.25 for this period, a decline of roughly 45% from the prior year.

With a dividend yield of 5.3%, this stock may appeal to income-oriented accounts. The current quotation of PGL already reflects the price WPS Resources will likely pay for the company. Moreover, should the deal fall through, Peoples Energy shares could decline significantly. On PGL's own, appreciation potential to late decade is subpar.

Michael F. Napoli *September 15, 2006*

(A) Fiscal year ends Sept. 30th.
(B) Diluted earnings per share. Excludes nonrecurring gains/(losses): '05, ($0.21). Next earnings report due late October.
(C) Dividends historically paid mid-January, April, July, October.
(D) Includes deferred charges. At 6/30/05: $46.1 mill., $1.19/sh.
(E) In millions. (F) Earnings don't sum due to change in shares outstanding.
(G) Suspended due to pending acquisition by WPS Resources.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	35
Earnings Predictability	80

PIEDMONT NAT'L NYSE-PNY

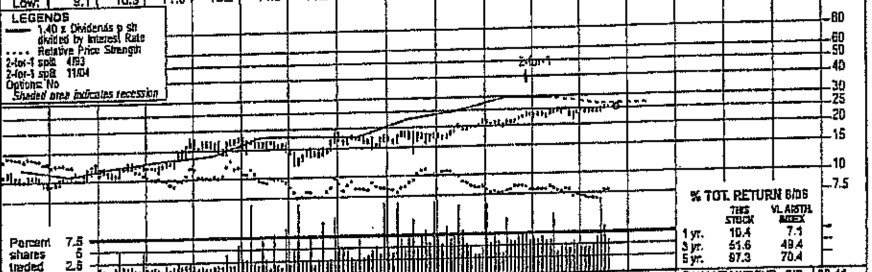
RECENT PRICE 25.29 | P/E RATIO 18.9 (Trailing: 18.2; Median: 17.5) | RELATIVE P/E RATIO 1.11 | DIV'D YLD 3.9% | VALUE LINE

TIMELINESS 4 Raised 12/23/05
SAFETY 2 New 7/27/90
TECHNICAL 2 Raised 9/8/06
BETA .80 (1.00 = Market)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
High:	12.4	12.9	18.2	18.1	18.3	19.7	19.0	19.0	22.0	24.3	25.8	26.2	
Low:	9.1	10.3	11.0	13.9	14.3	11.8	14.6	13.7	16.8	19.2	21.3	23.2	

Target Price Range 2009 | 2010 | 2011

LEGENDS
— 1.40 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 4/93
2-for-1 split 11/04
Options: No
Shaded area indicates recession



2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+60%)	15%
Low	30	(+20%)	8%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	10	24	11	10	9	9	9	9	9
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	2	0	1	1	1	0	1

Institutional Decisions

	4Q2005	1Q2006	2Q2006
to Buy	76	86	85
to Sell	77	71	81
Hld's(000)	30419	31080	32935

Percent shares traded 7.5 / 5 / 2.5

% TOT. RETURN 8/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	10.4	7.1
3 yr.	51.6	49.4
5 yr.	97.3	70.4

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	©VALUE LINE PUB., INC.	09-11
9.42	8.32	8.91	10.57	10.82	8.76	11.59	12.84	12.45	10.97	13.01	17.06	12.57	18.14	19.95	22.96	26.00	28.20	Revenues per sh A	33.10
.97	.78	1.07	1.14	1.13	1.25	1.49	1.62	1.72	1.70	1.77	1.81	1.81	2.04	2.31	2.43	2.50	2.65	"Cash Flow" per sh	3.20
.61	.44	.70	.73	.68	.73	.84	.93	.98	.93	1.01	1.01	.95	1.11	1.27	1.32	1.30	1.40	Earnings per sh B	1.75
.42	.44	.46	.48	.51	.54	.57	.61	.64	.68	.72	.76	.80	.82	.85	.91	.96	1.00	Div'ds Decl'd per sh C■	1.17
1.62	1.37	1.41	1.58	1.95	1.72	1.64	1.52	1.48	1.56	1.65	1.29	1.21	1.16	1.85	2.50	2.65	2.40	Cap'l Spending per sh	2.20
4.56	4.83	5.13	5.45	5.68	6.16	6.53	6.95	7.45	7.86	8.26	8.63	8.91	9.36	11.15	11.53	10.85	11.35	Book Value per sh D	12.75
42.67	49.46	51.59	52.30	53.15	57.67	59.10	60.39	61.48	62.59	63.83	64.93	66.18	67.31	76.67	76.70	75.00	74.50	Common Shs Outst'g E	72.50
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	16.6	17.9	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	19.0
.84	1.04	.75	.91	1.03	.92	.87	.78	.85	1.01	.93	.86	1.01	.95	.88	.95			Relative P/E Ratio	1.25
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%	4.1%	3.8%			Avg Ann'l Div'd Yield	3.5%

CAPITAL STRUCTURE as of 4/30/06
Total Debt $912.0 mill. Due in 5 Yrs $325.0 mill.
LT Debt $625.0 mill. LT Interest $40.0 mill.
(LT interest earned: 4.5x; total interest coverage: 4.5x)

Pension Assets-10/05 $199.2 mill.
Oblig. $236.6 mill.

Pfd Stock None

Common Stock 75,277,520 shs.
as of 6/2/06
MARKET CAP: $1.9 billion (Mid Cap)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		09-11
685.1	775.5	765.3	686.5	830.4	1107.9	832.0	1220.8	1529.7	1761.1	1950	2100	Revenues ($mill) A	2400
48.6	56.2	60.3	58.2	64.0	65.5	62.2	74.4	95.2	101.3	100	105	Net Profit ($mill)	130
38.9%	39.1%	39.2%	39.7%	34.7%	34.6%	33.1%	34.8%	35.1%	33.7%	35.0%	36.0%	Income Tax Rate	36.0%
7.1%	7.1%	7.9%	8.5%	7.7%	5.9%	7.5%	6.1%	6.2%	5.8%	5.1%	5.1%	Net Profit Margin	5.3%
50.3%	47.6%	44.7%	46.2%	46.1%	47.6%	43.9%	42.2%	43.6%	41.4%	43.5%	42.5%	Long-Term Debt Ratio	42.0%
49.7%	52.4%	55.3%	53.8%	53.9%	52.4%	56.1%	57.8%	56.4%	58.6%	56.5%	57.5%	Common Equity Ratio	58.0%
777.1	800.8	829.3	914.7	978.4	1069.4	1051.6	1090.2	1514.9	1509.2	1440	1470	Total Capital ($mill)	1600
852.0	941.7	990.6	1047.0	1072.0	1114.7	1158.5	1812.3	1849.8	1939.1	2040	2170	Net Plant ($mill)	2400
8.2%	8.9%	9.2%	8.1%	8.3%	7.9%	7.8%	8.6%	7.8%	8.2%	8.5%	8.5%	Return on Total Cap'l	9.0%
12.6%	13.1%	13.2%	11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	12.0%	12.5%	Return on Shr. Equity	13.0%
12.6%	13.1%	13.2%	11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	12.0%	12.5%	Return on Com Equity	13.0%
3.9%	4.6%	4.7%	3.3%	3.5%	3.0%	1.7%	3.1%	3.7%	3.6%	3.5%	4.0%	Retained to Com Eq	4.5%
69%	65%	65%	72%	71%	75%	83%	74%	66%	68%	72%	70%	All Div'ds to Net Prof	67%

CURRENT POSITION ($MILL.)	2004	2005	4/30/06
Cash Assets	5.7	7.1	20.3
Other	329.5	497.8	431.7
Current Assets	335.2	504.9	452.0
Accts Payable	99.6	182.8	73.7
Debt Due	109.5	193.5	287.0
Other	97.1	152.3	123.0
Current Liab.	306.2	528.6	483.7
Fix. Chg. Cov.	376%	400%	390%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	7.5%	11.0%	8.5%
"Cash Flow"	7.0%	5.5%	6.0%
Earnings	5.5%	6.0%	6.0%
Dividends	5.5%	5.0%	5.5%
Book Value	6.5%	6.5%	3.0%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2003	493.5	407.8	140.1	179.4	1220.8
2004	618.8	482.4	214.7	213.8	1529.7
2005	680.6	508.0	232.9	339.6	1761.1
2006	921.4	483.2	237.9	307.5	1950
2007	875	565	315	345	2100

Fiscal Year Ends	EARNINGS PER SHARE A B F Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2003	.87	.47	d.15	d.08	1.11
2004	1.03	.54	d.11	d.21	1.27
2005	.93	.52	d.06	d.07	1.32
2006	.94	.57	d.16	d.05	1.30
2007	.98	.57	d.06	d.09	1.40

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.193	.20	.20	.20	.79
2003	.20	.208	.208	.208	.82
2004	.208	.215	.215	.215	.85
2005	.215	.23	.23	.23	.91
2006	.23	.24	.24		

BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 990,000 customers in North Carolina, South Carolina, and Tennessee. 2005 revenue mix: residential (38%), commercial (24%), industrial (13%), other (24%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 71.6% of revenues. '05 deprec. 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 2,125 employees. Officers & directors own less than 1% of common stock (1/06 proxy). CEO & President: Thomas E. Skains. Inc.: NC. Addr.: 1915 Rexford Road, P.O. Box 33068 Charlotte, NC 28233. Telephone: 704-364-3120. Internet: www.piedmontng.com.

Piedmont Natural Gas posted a larger share loss than we had anticipated. The fiscal third quarter (ended July 31st) was impacted by reduced margins due to rate design changes, and costs associated with the company's corporate restructuring program. In July, Piedmont and North Carolina's Attorney General office reached a settlement on its customer utilization tracker rate mechanism, which decouples the collection of utility margin from customer volume. This plan is favorable for both customers, who will benefit by the more efficient use of natural gas, and Piedmont shareholders, who will not suffer the negative consequences of conservation by customers. As part of the agreement, the company will fund up to $1.5 million annually over the next few years toward customer conservation programs, in addition to the $500,000 it had already committed to spend. Furthermore, Piedmont's initial restructuring involved offering early retirement to management-level employees and will eventually include other positions as part of an effort to streamline business processes and improve corporate efficiencies. The company should realize about $5 million to $6 million in annual cost savings beginning in 2007.

The company's nonutility operations will likely represent a greater percentage of future profits. Over the first six months of 2006, these activities contributed earnings of $25.5 million, which is nearly 20% above the year-ago period. Even though regulated operations make up most of Piedmont's total income, unregulated operations such as Cardinal Pipeline, Pine Needle, and SouthStar Energy provide an added boost to the company's bottom line. We expect Piedmont to continue to pursue strategic investments to diversify its earnings stream over the next few years.

Though untimely, this stock is suitable for conservative income-oriented investors. Piedmont offers a respectable dividend yield at 3.9% and has an Above Average Safety rank (2). Moreover, the company should benefit as it diversifies its supply portfolio away from the Gulf Coast region through agreements with Midwestern Gas Transmission Company and Hardy Storage Company.

Evan I. Blatter *September 15, 2006*

(A) Fiscal year ends October 31st.
(B) Diluted earnings. Excl. extraordinary item: '00, 8¢. Excl. nonrecurring charge: '97, 2¢. Next earnings report due mid-Dec.
(C) Dividends historically paid mid-January, April, July, October.
■ Div'd reinvest. plan available; 5% discount.
(D) Includes deferred charges. At 10/31/05: $4.0 million, 5¢/share.
(E) In millions, adjusted for stock splits.
(F) Quarters may not add to total due to change in shares outstanding.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	75
Earnings Predictability	80

WGL HOLDINGS NYSE-WGL

RECENT PRICE 30.77 | P/E RATIO 14.4 (Trailing: 17.1 Median: 15.0) | RELATIVE P/E RATIO 0.85 | DIV'D YLD 4.5% | VALUE LINE

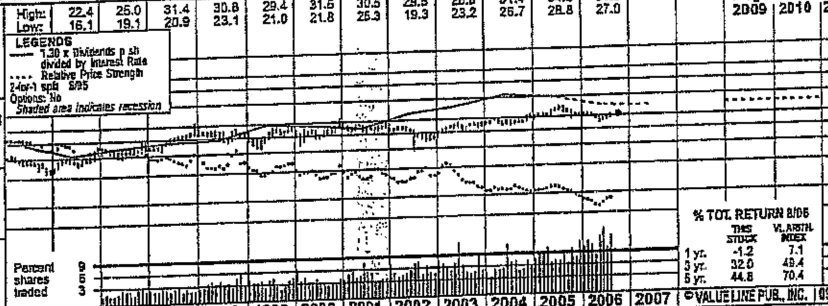
TIMELINESS 4 Raised 8/4/06
SAFETY 1 Raised 4/2/93
TECHNICAL 3 Raised 5/26/06
BETA .80 (1.00 = Market)

High:	22.4	25.0	31.4	30.8	29.4	31.6	30.5	29.5	28.8	31.4	34.8	31.5
Low:	16.1	19.1	20.9	23.1	21.0	21.8	25.3	19.3	23.2	26.7	28.8	27.0

Target Price Range 2009 | 2010 | 2011

2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	35	(+15%)	7%
Low	30	(-5%)	4%



Insider Decisions

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

Institutional Decisions

	4Q2005	1Q2006	2Q2006
to Buy	88	70	73
to Sell	67	77	78
Hld's(000)	27859	27311	29760

% TOT. RETURN 8/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	-1.2	7.1
3 yr.	32.0	49.4
5 yr.	44.8	70.4

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
18.75	17.50	18.37	21.55	21.69	19.30	22.19	24.16	23.74	20.92	22.19	29.60	32.63	42.45	42.93	44.94	53.80	55.40	Revenues per sh A	61.50
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	3.87	3.97	3.75	3.90	"Cash Flow" per sh	4.50
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	1.98	2.11	1.85	1.95	Earnings per sh B	2.35
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	1.32	1.35	1.38	Div'ds Decl'd per sh C ■	1.48
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	2.33	2.32	3.40	3.30	Cap'l Spending per sh	4.00
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	16.95	17.60	17.85	18.60	Book Value per sh D	21.15
39.23	39.89	40.62	41.50	42.19	42.93	43.70	43.70	43.84	46.47	46.47	48.64	48.56	48.63	48.67	48.65	48.70	48.70	Common Shs Outst'g E	48.80
11.7	12.8	13.6	15.6	14.8	12.7	11.5	12.7	17.2	17.3	14.6	14.7	23.1	11.1	14.2	14.7	Bold figures are	Value Line	Avg Ann'l P/E Ratio	14.0
.87	.82	.82	.92	.92	.85	.72	.73	.89	.99	.95	.75	1.26	.63	.75	.78	estimates		Relative P/E Ratio	.90
6.9%	7.2%	6.2%	5.3%	5.6%	6.1%	5.4%	5.0%	4.5%	4.8%	4.8%	4.5%	4.8%	5.0%	4.6%	4.2%			Avg Ann'l Div'd Yield	4.3%

CAPITAL STRUCTURE as of 6/30/06
Total Debt $726.8 mill. Due in 5 Yrs $520.0 mill.
LT Debt $581.8 mill. LT Interest $40.0 mill.
(LT interest earned: 4.6x; total interest coverage: 4.2x)
Pension Assets-9/05 $691.7 mill. Oblig. $691.2 mill.
Preferred Stock $28.2 mill. Pfd Div'd $1.3 mill.
Common Stock 48,773,729 shs. as of 7/31/06
MARKET CAP: $1.5 billion (Mid Cap)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		09-11
969.8	1055.8	1040.6	972.1	1031.1	1446.5	1584.8	2064.2	2089.6	2186.3	2620	2700	Revenues ($mill) A	3000
81.8	82.0	68.6	68.8	84.6	89.9	55.7	112.3	98.0	104.8	90.0	95.0	Net Profit ($mill)	115
37.7%	36.9%	35.6%	36.0%	36.1%	39.6%	34.0%	36.9%	38.2%	37.4%	38.0%	38.0%	Income Tax Rate	30.0%
8.4%	7.8%	6.6%	7.1%	8.2%	6.2%	3.5%	5.4%	4.7%	4.8%	3.5%	3.6%	Net Profit Margin	3.8%
37.6%	41.1%	40.3%	41.5%	43.1%	41.7%	45.7%	43.8%	40.9%	39.5%	39.0%	38.0%	Long-Term Debt Ratio	39.0%
59.4%	56.2%	57.1%	56.1%	54.8%	56.3%	52.4%	54.3%	57.2%	58.6%	59.0%	59.0%	Common Equity Ratio	59.0%
941.1	1049.0	1054.8	1218.5	1299.2	1400.8	1462.5	1454.9	1443.6	1478.1	1515	1575	Total Capital ($mill)	1780
1130.6	1217.1	1319.6	1402.7	1460.3	1519.7	1606.8	1674.9	1915.6	1969.7	2120	2270	Net Plant ($mill)	2550
10.1%	9.3%	8.0%	7.1%	7.9%	7.9%	5.3%	9.1%	8.2%	8.5%	6.0%	6.0%	Return on Total Cap'l	6.5%
13.9%	13.3%	10.8%	9.7%	11.4%	11.0%	7.0%	13.7%	11.5%	11.7%	10.0%	10.0%	Return on Shr. Equity	10.5%
14.4%	13.7%	11.1%	9.9%	11.7%	11.2%	7.2%	14.0%	11.7%	12.0%	10.0%	10.0%	Return on Com Equity	11.0%
5.6%	5.1%	2.5%	1.8%	3.7%	3.8%	NMF	6.2%	4.1%	4.6%	2.5%	3.0%	Retained to Com Eq	4.0%
62%	63%	78%	82%	69%	67%	112%	56%	65%	62%	74%	72%	All Div'ds to Net Prof	64%

CURRENT POSITION ($MILL.)	2004	2005	6/30/06
Cash Assets	6.6	4.8	88.1
Other	426.3	476.2	454.3
Current Assets	432.9	481.0	542.4
Accts Payable	179.0	204.9	172.4
Debt Due	156.3	91.0	145.0
Other	77.6	115.5	147.8
Current Liab.	412.9	411.4	465.2
Fix. Chg. Cov.	449%	460%	450%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	7.5%	14.5%	6.0%
"Cash Flow"	5.0%	6.5%	2.0%
Earnings	4.5%	6.0%	1.5%
Dividends	1.5%	1.5%	2.0%
Book Value	4.0%	3.0%	3.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	550.0	851.1	373.2	279.9	2054.2
2004	585.3	862.2	356.9	285.2	2089.6
2005	623.4	929.8	349.0	284.1	2186.3
2006	909.3	1070.4	346.9	293.4	2620
2007	950	1010	380	350	2700

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	1.10	1.61	d.05	d.36	2.30
2004	.81	1.62	d.08	d.37	1.98
2005	.88	1.63	d.17	d.23	2.11
2006	.91	1.16	d.01	d.21	1.85
2007	.95	1.40	d.15	d.25	1.95

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.315	.318	.318	.318	1.27
2002	.318	.32	.32	.32	1.28
2003	.32	.325	.325	.325	1.30
2004	.325	.333	.333	.333	1.32
2005	.333	.338	.338		

BUSINESS: WGL Holdings, Inc. is the parent of Washington Gas Light, a natural gas distributor in Washington, D.C. and adjacent areas of VA. and MD. to resident'l and comm'l users (1,032,198 meters). Hampshire Gas, a federally regulated sub., operates an underground gas-storage facility in WV. Non-regulated subs.: Wash. Gas Energy Svcs. sells and delivers natural gas and provides energy related products in the D.C. metro area; Wash. Gas Energy Sys. designs/installs comm'l heating, ventilating, and air cond. systems. American Century Inv. own 9.3% of common stock; Off./dir. less than 1% (1/05 proxy). Chrmn. & CEO: J.H. DeGraffenreidt. Inc.: D.C. and VA. Addr.: 1100 H St., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.

WGL Holdings posted solid results in the seasonally weak fiscal third quarter (ended June 30th). It reported a share net loss of $0.01, which excluded the results from the recently sold American Combustion Industries subsidiary, significantly ahead of last year's figure. The results were driven by lower operation and maintenance expense, utility customer growth, and improved performance at the retail energy-marketing business. In fact, income from this segment nearly doubled from the year-ago period, to $6.1 million, thanks to higher gross margins from the sale of natural gas and electricity. This should help push nonutility earnings to about $0.21 a share this year, with additional improvements likely in 2007.

WGL expects to file a pair of rate increases. One will soon be with the Virginia State Corporation Commission, and another with the Maryland Public Service Commission next spring. The primary need for the Maryland rate increase is to recover costs associated with the Prince George's County rehabilitation program. The project is scheduled to be completed in 2008 at a $144 million price tag. If this project is fully recovered through a rate increase, which is probable, WGL should realize a $0.16-a-share boost to earnings.

The company is slated to spend about $855 million on capital improvement projects out to 2010. WGL expects to begin construction on its LNG storage facility in late 2008 pending regulatory approval, two years later than previously anticipated due to zoning and other legal challenges, and scheduled to be completed by the 2011-2012 winter. However, until approval is granted WGL will explore other opportunities to meet its peak day requirements to serve its customers.

These shares are best suited for conservative investors. The dividend yield stands at 4.5%, above the industry average, while the stock's Safety rank is 1 (Highest). Long term, we look for Washington Gas to add about 25,000–30,000 new utility customers annually, thanks to the new home construction expected in its service areas over the next 20 years. The stock, which is not well ranked for performance is dependable for income. But its price range only inches up over time.

Evan I. Blatter *September 15, 2006*

(A) Fiscal years end Sept. 30th.
(B) Based on diluted shares. Excludes nonrecurring losses: '01, (13¢); '02, (34¢); discontinued operations: '06, (3¢).
Next earnings report due early Nov.
(C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available.
(D) Includes deferred charges and intangibles. '05: $150.0 million, $3.08/sh.
(E) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	70
Earnings Predictability	60

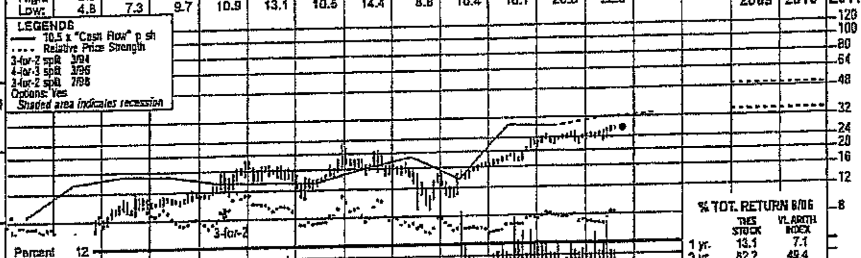
SOUTHERN UNION NYSE-SUG

RECENT PRICE 27.44 | P/E RATIO 14.2 (Trailing: 16.2 Median: 27.0) | RELATIVE P/E RATIO 0.84 | DIV'D YLD 1.5% | VALUE LINE

TIMELINESS 1 Raised 9/1/06
SAFETY 3 New 3/24/00
TECHNICAL 2 Raised 8/25/06
BETA 1.05 (1.00 = Market)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
High:	8.6	12.0	12.3	18.4	18.4	23.2	21.9	17.6	17.0	23.8	26.3	27.8
Low:	4.8	7.3	9.7	10.9	13.1	10.5	14.4	8.8	10.4	16.1	20.8	22.8

Target Price Range 2009 | 2010 | 2011



2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+80%)	18%
Low	35	(+30%)	8%

Insider Decisions

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

Institutional Decisions

	4Q2005	1Q2006	2Q2006
to Buy	117	118	107
to Sell	100	95	108
Hld's(000)	83990	82728	88439

% TOT. RETURN 8/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	13.1	7.1
3 yr.	82.2	49.4
5 yr.	44.7	70.4

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
7.42	7.44	7.22	5.66	10.12	12.89	16.51	19.04	16.99	14.73	16.88	29.77	20.30	14.75	22.22	17.95	18.85	20.10	Revenues per sh A	22.80
.24	.58	.62	.58	.82	1.30	1.43	1.43	1.29	1.27	1.26	1.54	1.79	1.29	2.77	2.71	3.05	3.20	"Cash Flow" per sh	3.60
d.14	.08	.15	.26	.26	.43	.54	.49	.31	.26	.20	.19	.56	.67	1.24	1.58	1.85	1.95	Earnings per sh A B	2.30
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	.40	.42	Div'ds Decl'd per sh D	.50
.75	.79	.70	.50	1.03	1.81	1.58	1.71	1.96	1.78	1.92	1.91	1.47	.99	2.79	2.49	1.95	1.70	Cap'l Spending per sh	1.20
5.44	5.47	5.55	5.47	5.65	3.37	3.88	7.10	7.54	7.33	14.05	11.12	10.78	11.42	12.74	14.43	15.20	16.60	Book Value per sh E	21.50
26.92	26.93	26.67	36.94	37.01	37.24	37.59	37.65	39.38	41.09	52.39	64.93	63.57	80.56	81.00	112.53	114.00	117.00	Common Shs Outst'g C	125.00
--	34.3	20.2	15.9	20.3	12.5	14.1	21.2	37.5	NMF	NMF	NMF	29.5	17.9	13.4	15.0	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	16.0
--	2.19	1.23	.94	1.33	.84	.88	1.22	1.95	NMF	NMF	NMF	1.61	1.02	.71	.80			Relative P/E Ratio	1.20
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--			Avg Ann'l Div'd Yield	1.2%
						520.4	717.0	669.3	605.2	831.7	1932.8	1290.6	1188.5	1800.0	2019.4	2150	2350	Revenues ($mill) A	2850
						20.8	19.0	12.2	10.4	11.1	12.9	38.6	43.7	114.0	195.7	230	250	Net Profit ($mill)	310
						41.8%	39.4%	39.5%	40.5%	49.0%	35.3%	29.2%	35.7%	37.7%	26.6%	35.0%	36.5%	Income Tax Rate	37.0%
						3.4%	2.7%	1.8%	1.7%	1.3%	.7%	2.8%	3.7%	6.3%	9.7%	10.7%	10.6%	Net Profit Margin	10.9%
						66.4%	64.5%	63.0%	62.0%	53.1%	66.4%	63.3%	65.0%	63.1%	52.5%	54.0%	52.0%	Long-Term Debt Ratio	48.5%
						20.0%	35.5%	37.0%	38.0%	46.9%	33.6%	36.7%	35.0%	30.2%	41.6%	40.5%	42.5%	Common Equity Ratio	47.5%
						731.3	753.6	803.2	792.0	1569.6	2151.5	1867.6	2632.1	3416.6	3903.2	4275	4550	Total Capital ($mill)	5650
						744.5	773.6	848.4	878.3	1487.2	1456.3	1456.4	3144.8	3207.5	3485.9	3525	3625	Net Plant ($mill)	4000
						5.3%	4.7%	3.7%	3.6%	2.3%	2.9%	4.3%	3.3%	4.8%	6.5%	5.5%	5.5%	Return on Total Cap'l	5.5%
						6.5%	7.1%	4.1%	3.5%	1.5%	1.8%	5.3%	4.7%	9.0%	10.6%	11.5%	11.5%	Return on Shr. Equity	10.5%
						14.3%	7.1%	4.1%	3.5%	1.5%	1.8%	5.3%	4.7%	10.2%	11.0%	12.0%	12.0%	Return on Com Equity	11.0%
						14.3%	7.1%	4.1%	3.5%	1.5%	1.8%	5.3%	4.7%	10.2%	11.0%	9.5%	8.5%	Retained to Com Eq	8.5%
						--	--	--	--	--	--	--	--	7%	9%	28%	27%	All Div'ds to Net Prof	26%

CAPITAL STRUCTURE as of 6/30/06
Total Debt $3949.9 mill. Due in 5 Yrs $1200 mill.
LT Debt $1522.7 mill. LT Interest $110 mill.
(Est'd LT interest earned: 3.3x; total interest coverage: 3.0x)
(44% of Cap'l)
Leases, Uncapitalized: Annual rentals $21.7 mill.
Pension Assets-12/05 $298.3 mill. Oblig. $415.3 mill.
Pfd. Stock $230.0 mill. Pfd. Div'd. $18.0 mill. (6% of Cap'l)
Common Stock 112,061,207 shs. as of 8/4/06
MARKET CAP: $3.1 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2004	2005	6/30/06
Cash Assets	20.0	16.9	37.2
Receivables	181.9	428.7	239.5
Inventory (Avg Cst)	200.3	295.7	216.9
Other	53.5	182.5	1413.3
Current Assets	455.7	923.8	1906.9
Accts Payable	122.3	206.5	202.4
Debt Due	121.0	546.6	2427.2
Other	270.6	470.0	552.8
Current Liab.	513.9	1223.1	3182.4

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	6.5%	3.0%	3.5%
"Cash Flow"	9.5%	12.0%	8.0%
Earnings	14.0%	35.5%	12.0%
Dividends	--	--	NMF
Book Value	10.5%	6.0%	9.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) A Sep.30	Dec.31	Mar.31	Jun.30	Full Year
2004	231.4	507.1	774.6	286.9	1800.0
	Mar.31	Jun.30	Sep.30	Dec.31	
2005	767.6	305.2	255.0	691.7	2019.4
2006	547.2	552.4	330	720.4	2150
2007	600	610	370	770	2350

Cal-endar	EARNINGS PER SHARE A B F Sep.30	Dec.31	Mar.31	Jun.30	Full Year
2004	d.05	.43	.87	d.01	1.24
	Mar.31	Jun.30	Sep.30	Dec.31	
2005	.82	.10	.13	.53	1.58
2006	.82	.21	.19	.63	1.85
2007	.90	.23	.17	.65	1.95

Cal-endar	QUARTERLY DIVIDENDS PAID D Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	--	--	--	--	--
2003	--	--	--	--	--
2004	--	--	--	--	--
2005	--	--	--	--	--
2006	--	.10	.10		

BUSINESS: Southern Union Co. ownes and operates assets in the regulated and unregulated natural gas industry and is primarily engaged in the transportation, storage, and distribution of natural gas. Serves about 950,000 residential, commercial, and industrial customers through its Missouri Gas (495,636), PG Energy (158,219), and New England Gas Company (295,176). Acq. Sid Richardson Energy Services 3/06; Panhandle Energy 6/03. Sold Rhode Island operations 2/06; PG Energy 1/06. Owns 50% interest in CCE Holdings. Has 2,868 employees. Off. & dir. own 10.9% of stock (3/06 proxy). Chairman, Pres. & CEO: George L. Linderman. Inc.: Delaware. Addr.: 417 Lackawanna Avenue, Scranton, PA 18503. Tel.: 570-614-5000. Internet: www.southernunionco.com.

Southern Union continues its transformation from primarily a utility company into a higher-growth/return natural gas company. Recently acquired midstream assets contributed earnings before interest and taxes (EBIT) of $18 million during the June period. To finance the midstream transaction Southern Union used a $1.9 billion bridge loan. The company will use the proceeds from the recent sale of its Pennsylvania and Rhode Island distribution assets to pay down the loan. As a result of the loan, Southern's interest expense more than doubled year over year to $63 million in the second quarter. But the company has entered into various hedging strategies, which should help protect overall earnings and cash flow through 2007.

The transportation and storage segment still has much room for growth. During the June quarter, the company completed the second phase of the Trunkline LNG expansion, which is expected to contribute $15 million to $20 million in annual EBIT. Southern has several additional growth projects in the works, which should support the annual double-digit earnings gains we are forecasting out to late decade. This includes the Trunkline Field Zone Expansion, which includes adding 510 million cubic feet per day to capacity to its system in Texas and Louisiana. The company expects to file the project with the Federal Energy Regulatory Commission by the end of the third quarter and, if approval is granted, the project is scheduled to be in service by late 2007. The project is expected to cost about $150 million to $160 million, and contribute $30 million to $35 million toward EBIT upon completion.

The company's distribution segment posted disappointing results, driven by warmer-than-normal temperatures. This was one of the reasons Southern filed for a rate increase that included a weather normalization plan at its Missouri Gas Energy unit. The company is optimistic that some rate relief will be granted, with new rates hopefully in place by January, 2007.

This stock is top-ranked for Timeliness. Also, total return potential is above average, due to a solid earnings outlook and the likelihood of dividend increases.

Evan I. Blatter *September 15, 2006*

(A) Fiscal year ends June 30th through 2004; December 31st beg. in 2005.
(B) Based on diluted shares. Excludes nonrecurring per-share gain (loss): '01, 69¢; '03, 50¢; '06, (11¢). Next egs. report due late Oct.
(C) In millions, adjusted for stock splits.
(D) Annual 5% common stock dividend suspended end of 2005. Initial cash dividend paid mid-April.
(E) Incl. intang. In 2005: $465.5 mill., $4.14/sh.
(F) Six months ended Dec. 31 2004: rev., $794.3 million, earnings, $0.07.

Company's Financial Strength	B+
Stock's Price Stability	65
Price Growth Persistence	90
Earnings Predictability	40

Missouri Gas Energy
Indicated Common Equity Cost Rate
Through Use of a Risk Premium Model
Using an Adjusted Total Market Approach

Line No.		Proxy Group of Four Gas Distribution Companies	Proxy Group of Eight Value Line Gas Distribution Companies	Southern Union Company
1.	Prospective Yield on Aaa Rated Corporate Bonds (1)	5.87 %	5.87 %	5.87 %
2.	Adjustment to Reflect Yield Spread Between Aaa Rated Corporate Bonds and A Rated Public Utility Bonds	0.52 (2)	0.52 (2)	0.52 (2)
3.	Adjusted Prospective Yield on A Rated Public Utility Bonds	6.39 %	6.39 %	6.39 %
4.	Adjustment to Reflect Bond Rating Difference	0.08 (3)	0.00 (4)	0.32 (5)
5.	Adjusted Prospective Bond Yield	6.47 %	6.39 %	6.71 %
6.	Equity Risk Premium (6)	5.03	4.91	5.24
7.	Risk Premium Derived Common Equity Cost Rate	11.50 %	11.30 %	11.95 %
8.	Risk Premium Derived Common Equity Cost Rate Excluding Cascade Natural and Peoples Energy (7)	11.49 %	11.33 %	

Notes: (1) Derived in Note (4) on page 5 of this Schedule.

(2) The average yield spread of A rated public utility bonds over Aaa rated corporate bonds of 0.52% from page 3 of this Schedule.

(3) One-third the average spread between Moody's A and Baa rated public utility bond yields of 24 basis points to reflect the proxy group's average Moody's bond rating of A3 as shown on page 2 of this Schedule. ((1/3 X 0.24% = 0.08%. (from page 3 of this Schedule)).

(4) No adjustment necessary as the average Moody's bond rating for the proxy group is A2.

(5) One and one-third the average the average spread between A and Baa rated public utility bond yields of 30 basis points ((1 1/3 X 0.24% = 0.32%. (from page 3 of this schedule)).

(6) From page 5 of this schedule

(7) Cascade Natural Gas Corporation and Peoples Energy Corporation are currently in the process of being acquired by MDU Resources and WPS Resources, respectively. For informational purposes, the averages excluding Cascade Natural in the proxy group of four LDCs, and Cascade and Peoples Energy in the proxy group of eight Value Line LDCs are being shown. The average Moody's bond rating for both proxy groups would be A2, if Cascade Natural for the group of four and Cascade Natural and Peoples Energy for the group of eight are excluded. Therefore, no adjustment, as indicated in Note 4 above, would be necessary for either group.

Missouri Gas Energy
Comparison of Bond Ratings and Business profile
for the Proxy Group of Four Gas Distribution Companies, the proxy group of
Eight Value Line Gas Distribution Companies and Southern Union Company

	September 2006 Moody's Bond Rating		September 2006 Standard & Poor's Bond Rating		Standard & Poor's Business Profile (2)
	Bond Rating	Numerical Weighting (1)	Bond Rating	Numerical Weighting (1)	
Proxy Group of Four Gas Distribution Companies					
Cascade Natural Gas Corporation	Baa1	8.0	BBB+	8.0	2.0
NICOR Inc. (3)	A1	5.0	AA	3.0	2.0
Northwest Natural Gas Company	A2	6.0	AA-	4.0	1.0
Piedmont Natural Gas Co., Inc.	A3	7.0	A	6.0	2.0
Average	A2 / A3	6.5	A+	5.3	1.8
Average Excluding Cascade Natural	A2	6.0	AA-	4.3	1.7
Proxy Group of Eight Value Line Gas Distribution Companies					
Cascade Natural Gas Corporation	Baa1	8.0	BBB+	8.0	2.0
The Laclede Group, Inc. (4)	A3	7.0	A	6.0	3.0
New Jersey Resources Corp. (5)	Aa3	4.0	AA-	4.0	2.0
NICOR Inc (3)	A1	5.0	AA	3.0	2.0
Northwest Natural Gas Company	A2	6.0	AA-	4.0	1.0
Peoples Energy Corporation (6)	A1	5.0	A-	7.0	3.0
Piedmont Natural Gas Co., Inc.	A3	7.0	A	6.0	2.0
WGL Holdings, Inc (7)	A2	6.0	AA-	4.0	2.0
Average	A2	6.0	A+	5.3	2.1
Average Excluding Cascade Natural and Peoples Energy (8)	A2	5.8	AA- / A+	4.5	2.0
Southern Union Company (9)	Baa3	10.0	BBB	9.0	NA

Notes:
(1) From page 3 of this schedule.
(2) From Standard & Poor's Issuer Ranking: U S Utility And Power Companies, Strongest to Weakest, October 13, 2006.
(3) Ratings and business profile are those of NICOR Gas Company.
(4) Ratings and business profile are those of Laclede Gas Co
(5) Ratings and business profile are those of New Jersey Natural Gas.
(6) Ratings and business profile are a composite of those of North Shore Gas Company and Peoples Gas Light & Coke Company.
(7) Ratings and business profile are those of Washington Gas Light Company
(8) Cascade Natural Gas Corporation and Peoples Energy Corporation are currently in the process of being acquired by MDU Resources and WPS Resources, respectively. For informational purposes, the averages excluding Cascade Natural in the proxy group of four LDCs, and Cascade Natural and Peoples Energy in the proxy group of eight Value Line LDCs are being shown.
(9) Ratings and business profile are a composite of those of Southern Union Company, Panhandle Eastern Pipe Line Company and Transwestern Pipeline Company

Source of Information: Moody's Investors Service
Standard & Poor's Global Utilities Rating Service

Moody's
Comparison of Interest Rate Trends
for the Two Months Ending August 2006 (1)

Years	Corporate Bonds	Public Utility Bonds			Spread - Corporate v. Public Utility Bonds			Spread - Public Utility Bonds	
	Aaa Rated	Aa Rated	A Rated	Baa Rated	Aa (Pub. Util.) over Aaa (Corp.)	A (Pub. Util.) over Aaa (Corp.)	Baa (Pub. Util.) over Aaa (Corp.)	A over Aa	Baa over A
July-06	5.85	6.13	6.37	6.61 %	0.28 %	0.52 %	0.76 %	0.24 %	0.24 %
August-06	5.68	5.97	6.20	6.43	0.29 %	0.52 %	0.75 %	0.23 %	0.23 %
Average Spread (2)					0.29 %	0.52 %	0.76 %	0.24 %	0.24 %

Notes: (1) All yields are distributed yields.
(2) Equal weight has been given to the July and August 2006 spread.

Source of Information: Mergent Bond Record Monthly Update, September 2006, Vol. 73, No. 9

Missouri Gas Energy
Judgment of Equity Risk Premium
for the Proxy Group of Four Gas Distribution Companies, the Proxy Group of
Eight Value Line Gas Distribution Companies and Southern Union Company

Line No.			Proxy Group of Four Gas Distribution Companies	Proxy Group of Eight Value Line Gas Distribution Companies	Southern Union Company
1.		Calculated equity risk premium based on the total market using the beta approach (1)	5.65 %	5.40 %	6.59 %
2.		Mean equity risk premium based on a study using the holding period returns of public utilities with:			
	a.	A rated bonds (2)	4.41	4.41	
	b.	Baa rated bonds (2)			3.89
3.		Average equity risk premium	5.03 %	4.91 %	5.24 %
4		Average equity risk premium Excluding Cascade Natural and Peoples Energy (3)	5.10 %	4.94 %	

Notes: (1) From page 5 of this Schedule.
(2) From page 7 of this Schedule.
(3) Cascade Natural Gas Corporation and Peoples Energy Corporation are currently in the process of being acquired by MDU Resources and WPS Resources, respectively. For informational purposes, the averages excluding Cascade Natural in the proxy group of four LDCs, and Cascade Natural and Peoples Energy in the proxy group of eight Value Line LDCs are being shown.

Missouri Gas Energy
Derivation of Equity Risk Premium Based on the Total Market Approach
for the Proxy Group of Four Gas Distribution Companies, the Proxy Group of
Eight Value Line Gas Distribution Companies and Southern Union Company

Line No.		Proxy Group of Four Gas Distribution Companies	Proxy Group of Eight Value Line Gas Distribution Companies	Southern Union Company
1.	Arithmetic mean total return rate on the Standard & Poor's 500 Composite Index - 1926-2005 (1)	12.30 %	12.30 %	12.30 %
2.	Arithmetic mean yield on Aaa and Aa Corporate Bond 1926-2005 (2)	(6.10)	(6.10)	(6.10)
3.	Historical Equity Risk Premium	6.20 %	6.20 %	6.20 %
4.	Forecasted 3-5 year Total Annual Market Return (3)	12.22 %	12.22 %	12.22 %
5.	Prospective Yield an Aaa Rated Corporate Bonds (4)	(5.87)	(5.87)	(5.87)
6.	Forecasted Equity Risk Premium	6.35 %	6.35 %	6.35 %
7.	Average of Historical and Forecasted Equity Risk Premium (5)	6.28 %	6.28 %	6.28 %
8.	Adjusted Value Line Beta (6)	0.90	0.86	1.05
9	Beta Adjusted Equity Risk Premium	5.65 %	5.40 %	6.59 %
10	Beta Adjusted Equity Risk Premium Excluding Cascade and Peoples Energy (7)	5.78 %	5.46 %	

Notes: (1) From Stocks, Bonds, Bills and Inflation - 2006 Yearbook Valuation Edition, Ibbotson Associates, Inc., Chicago, IL, 2006.

(2) From Moody's Industrial Manual and Mergent Bond Record Monthly Update.

(3) From page 4 of Schedule FJH-29 of this Exhibit.

(4) Average forecast based upon six quarterly estimates of Aaa rated corporate bonds per the consensus of nearly 50 economists reported in Blue Chip Financial Forecasts dated October 1, 2006 (see page 6 of this schedule). The estimates are detailed below.

Fourth Quarter 2006	5.70 %
First Quarter 2007	5.80
Second Quarter 2007	5.90
Third Quarter 2007	5.90
Fourth Quarter 2007	5.90
First Quarter 2008	6.00
Average	5.87 %

(5) Average of the Historical Equity Risk Premium of 6.20% from Line No. 3 and the Forecasted Equity Risk Premium of 6.35% from Line No. 6 ((6.20% + 6.35%) / 2 = 6.28%).

(6) From page 8 of this schedule.

(7) Cascade Natural Gas Corporation Peoples Energy Corporation are currently in the process of being acquired by MDU Resources and WPS Resources, respectively. For informational purposes, the averages excluding Cascade Natural in the proxy group of four LDCs, and Cascade Natural and Peoples Energy in the proxy group of eight Value Line LDCs are being shown.

Consensus Forecasts Of U.S. Interest Rates And Key Assumptions [1]

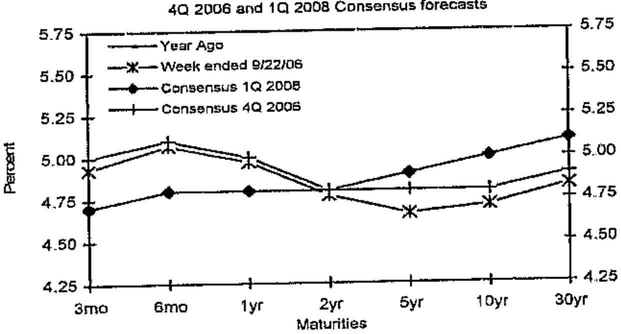
	History								Consensus Forecasts-Quarterly Avg.					
	Average For Week Ending				Average For Month			*Latest Q**	4Q	1Q	2Q	3Q	4Q	1Q
Interest Rates	Sep. 22	Sep. 15	Sep. 8	Sep. 1	Aug.	Jul.	Jun.	*3Q 2006*	2006	2007	2007	2007	2007	2008
Federal Funds Rate	5.24	5.23	5.25	5.25	5.25	5.24	4.99	*5.24*	**5.3**	**5.2**	**5.1**	**5.0**	**4.9**	**4.9**
Prime Rate	8.25	8.25	8.25	8.25	8.25	8.25	8.02	*8.25*	**8.3**	**8.2**	**8.1**	**8.0**	**7.9**	**7.9**
LIBOR, 3-mo.	5.37	5.39	5.39	5.40	5.42	5.49	5.40	*5.43*	**5.4**	**5.3**	**5.2**	**5.1**	**5.0**	**5.0**
Commercial Paper, 1-mo.	5.20	5.20	5.21	5.20	5.22	5.24	5.12	*5.22*	**5.3**	**5.3**	**5.2**	**5.0**	**5.0**	**4.9**
Treasury bill, 3-mo.	4.93	4.93	4.97	5.06	5.09	5.08	4.92	*5.04*	**5.0**	**5.0**	**4.9**	**4.8**	**4.7**	**4.7**
Treasury bill, 6-mo.	5.07	5.11	5.12	5.14	5.17	5.27	5.17	*5.18*	**5.1**	**5.1**	**5.0**	**4.9**	**4.8**	**4.8**
Treasury bill, 1 yr.	4.97	5.02	5.02	5.03	5.08	5.22	5.16	*5.10*	**5.0**	**5.0**	**4.9**	**4.9**	**4.8**	**4.8**
Treasury note, 2 yr.	4.77	4.83	4.81	4.83	4.90	5.12	5.12	*4.94*	**4.8**	**4.9**	**4.9**	**4.8**	**4.8**	**4.8**
Treasury note, 5 yr.	4.66	4.73	4.73	4.73	4.82	5.04	5.07	*4.86*	**4.8**	**4.8**	**4.9**	**4.8**	**4.8**	**4.9**
Treasury note, 10 yr.	4.71	4.79	4.79	4.76	4.88	5.09	5.11	*4.91*	**4.8**	**4.9**	**4.9**	**4.9**	**4.9**	**5.0**
Treasury note, 30 yr.	4.83	4.92	4.94	4.91	5.00	5.13	5.15	*5.01*	**4.9**	**5.0**	**5.0**	**5.0**	**5.1**	**5.1**
Corporate Aaa bond	5.49	5.58	5.59	5.57	5.68	5.85	5.89	*5.69*	**5.7**	**5.8**	**5.9**	**5.9**	**5.9**	**6.0**
Corporate Baa bond	6.40	6.49	6.52	6.50	6.59	6.76	6.78	*6.61*	**6.6**	**6.7**	**6.8**	**6.8**	**6.8**	**6.9**
State & Local bonds	4.21	4.30	4.34	4.30	4.39	4.61	4.60	*4.43*	**4.4**	**4.5**	**4.6**	**4.6**	**4.7**	**4.7**
Home mortgage rate	6.40	6.43	6.47	6.44	6.52	6.76	6.68	*6.57*	**6.4**	**6.5**	**6.5**	**6.5**	**6.6**	**6.6**

	History								Consensus Forecasts-Quarterly Avg.					
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	*3Q**	4Q	1Q	2Q	3Q	4Q	1Q
Key Assumptions	2004	2004	2005	2005	2005	2005	2006	*2006*	2006	2007	2007	2007	2007	2008
Major Currency Index	81.9	81.3	83.5	84.7	85.8	84.9	82.2	*81.7*	**81.0**	**80.2**	**79.6**	**79.6**	**79.6**	**79.5**
Real GDP	2.6	3.4	3.3	4.2	1.8	5.6	2.6	*2.3*	**2.5**	**2.6**	**2.6**	**2.9**	**3.0**	**3.1**
GDP Price Index	3.2	3.5	2.4	3.3	3.3	3.3	3.3	*2.7*	**2.3**	**2.6**	**2.4**	**2.3**	**2.2**	**2.3**
Consumer Price Index	3.6	2.3	3.8	5.5	3.3	2.2	4.9	*3.3*	**1.9**	**2.7**	**2.5**	**2.4**	**2.3**	**2.3**

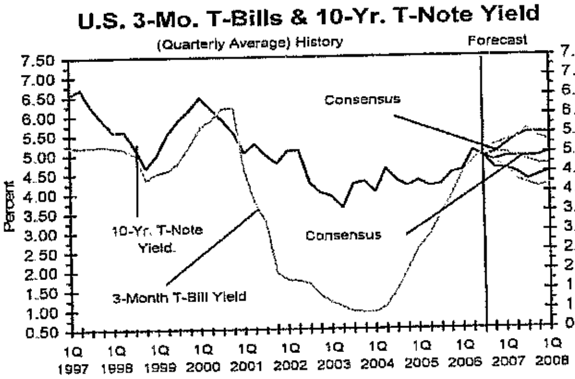
[1] Individual panel members' forecasts are on pages 4 through 9. Historical data for interest rates except LIBOR is from Federal Reserve Release (FRSR) H.15. LIBOR quotes available from *The Wall Street Journal*. Definitions reported here are same as those in FRSR H.15. Treasury yields are reported on a constant maturity basis. Historical data for the U.S. Federal Reserve Board's Major Currency Index is from FRSR H.10 and G.5. Historical data for Real GDP and GDP Chained Price Index are from the Bureau of Economic Analysis (BEA). Consumer Price Index (CPI) history is from the Department of Labor's Bureau of Labor Statistics (BLS). ***Interest rate data for 3Q 2006 based on historical data through the week ended September 22. .Data for 3Q 2006 Major Currency Index also is based on data through week ended September 22. Figures for 3Q 2006 Real GDP, GDP Chained Price Index and Consumer Price Index are consensus forecasts based on a special question asked of the panel members this month.***

U.S. Treasury Yield Curve

Week ended September 22, 2006 and Year Ago vs. 4Q 2006 and 1Q 2008 Consensus forecasts

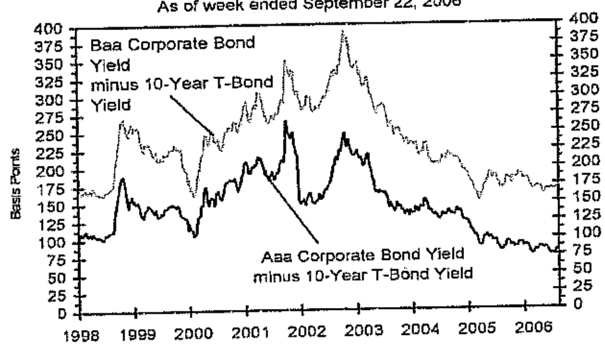


U.S. 3-Mo. T-Bills & 10-Yr. T-Note Yield



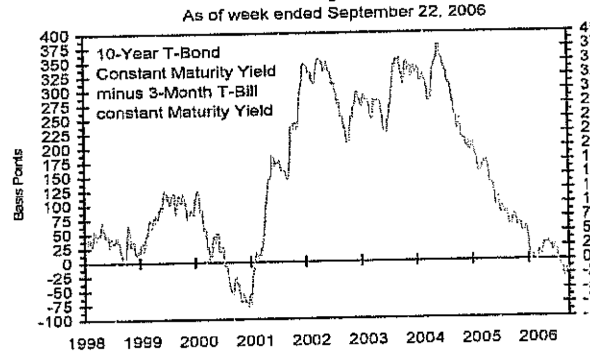
Corporate Bond Spreads

As of week ended September 22, 2006



U.S. Treasury Yield Curve

As of week ended September 22, 2006



Missouri Gas Energy
Derivation of Mean Equity Risk Premium Based on a Study
Using Holding Period Returns of Public Utilities

Line No.		Over A Rated Public Utility Bonds AUS Consultants - Utility Services Study (1) 1	Over Baa Rated Public Utility Bonds AUS Consultants - Utility Services Study (1) 1
Time Period		1928-2005	1928-2005
1.	Arithmetic Mean Holding Period Returns (2): Standard & Poor's Public Utility Index	11.02 %	11.02 %
2.	Arithmetic Mean yield on:		
	a. A-rated Public Utility Bonds	(6.61)	
	b. Baa-rated Public Utility Bonds		(7.13)
3.	Equity Risk Premium	4.41 %	3.89 %

Notes: (1) S&P Public Utility Index and Moody's Public Utility Bond Average Annual Yields, 1928-2005 (AUS Consultants - Utility Services, 2005).

(2) Holding period returns are calculated based upon income received (dividends and interest) plus the relative change in the market value of a security over a one-year holding period.

Missouri Gas Energy
Value Line Adjusted Betas
for the Proxy Group of Four Gas Distribution Companies, the Proxy Group of
Eight Value Line Gas Distribution Companies and Southern Union Company

	Value Line Adjusted Beta
Proxy Group of Four Gas Distribution Companies	
Cascade Natural Gas Corporation	0.85
NICOR Inc.	1.20
Northwest Natural Gas Company	0.75
Piedmont Natural Gas Co., Inc.	0.80
Average	0.90
Average Excluding Cascade Natural (1)	0.92
Proxy Group of Eight Value Line Gas Distribution Companies	
Cascade Natural Gas Corporation	0.85
The Laclede Group, Inc.	0.85
New Jersey Resources Corp.	0.80
NICOR Inc.	1.20
Northwest Natural Gas Company	0.75
Peoples Energy Corporation	0.85
Piedmont Natural Gas Co., Inc.	0.80
WGL Holdings, Inc.	0.80
Average	0.86
Average Excluding Cascade Natural and Peoples Energy (1)	0.87
Southern Union Company	1.05

Notes: (1) Cascade Natural Gas Corporation and Peoples Energy Corporation are currently in the process of being acquired by MDU Resources and WPS Resources, respectively. For informational purposes, the averages excluding Cascade Natural in the proxy group of four LDCs, and Cascade Natural and Peoples Energy in the proxy group of eight Value Line LDCs are being shown.

Source of Information: Value Line Investment Survey, (Standard Edition)
September 15, 2006

Missouri Gas Energy
Indicated Common Equity Cost Rate Through Use of the
Capital Asset Pricing Model for the Proxy Group of Four Gas Distribution Companies,
the Proxy Group of Eight Value Line Gas Distribution Companies
and Southern Union Company

Line No.		Proxy Group of Four Gas Distribution Companies	Proxy Group of Eight Value Line Gas Distribution Companies	Southern Union Company
1.	Capital Asset Pricing Model Derived Company Equity Cost Rate (1)	11.46 %	11.19 %	12.53 %
2.	Capital Asset Pricing Model Derived Company Equity Cost Rate (2)	11.64 %	11.44 %	12.44 %
3.	Conclusion	11.55 %	11.32 %	12.49 %
4.	Conclusion Excluding Cascade Natural and Peoples Energy (3)	11.65 %	11.34 %	

Notes: (1) Developed on page 2 of this Schedule.

(2) Developed on page 3 of this Schedule.

(3) Cascade Natural Gas Corporation and Peoples Energy Corporation are currently in the process of being acquired by MDU Resources and WPS Resources, respectively. For informational purposes, the averages excluding Cascade in the Proxy Group of 4 LDCs, and Cascade and Peoples in the Proxy Group of Eight Value Line LDCs are being shown.

Missouri Gas Energy
Indicated Common Equity Cost Rate Through Use
of the Capital Asset Pricing Model

	Value Line Adjusted Beta	Company-Specific Risk Premium Based on Market Premium of 7.15% (1)	CAPM Result Including Risk-Free Rate of 5.02% (2)	Recommended CAPM Result (3)
Traditional Capital Asset Pricing Model (4)				
Proxy Group of Four Gas Distribution Companies				
Cascade Natural Gas Corporation	0.85	6.08 %	11.10 %	11.10 %
NICOR Inc.	1.20	8.58	13.60	13.60
Northwest Natural Gas Company	0.75	5.36	10.38	10.38
Piedmont Natural Gas Co., Inc.	0.80	5.72	10.74	10.74
Average	0.90	6.44 %	11.46 %	11.46 %
Average Excluding Cascade Natural (5)	0.92	6.55 %	11.57 %	11.57 %
Proxy Group of Eight Value Line Gas Distribution Companies				
Cascade Natural Gas Corporation	0.85	6.08 %	11.10 %	11.10 %
The Laclede Group, Inc	0.85	6.08	11.10	11.10
New Jersey Resources Corp.	0.80	5.72	10.74	10.74
NICOR Inc.	1.20	8.58	13.60	13.60
Northwest Natural Gas Company	0.75	5.36	10.38	10.38
Peoples Energy Corporation	0.85	6.08	11.10	11.10
Piedmont Natural Gas Co., Inc.	0.80	5.72	10.74	10.74
WGL Holdings, Inc.	0.80	5.72	10.74	10.74
Average	0.86	6.17 %	11.19 %	11.19 %
Average Excluding Cascade Natural and Peoples Energy Corporation (5)	0.87	6.20 %	11.22 %	11.22 %
Southern Union Company	1.05	7.51 %	12.53 %	12.53 %

See page 4 for notes

Missouri Gas Energy
Indicated Common Equity Cost Rate Through Use
of the Capital Asset Pricing Model

	Value Line Adjusted Beta	Company-Specific Risk Premium Based on Market Premium of 7.15% (1)	CAPM Result Including Risk-Free Rate of 5.02% (2)	Recommended CAPM Result (3)
Empirical Capital Asset Pricing Model (6)				
Proxy Group of Four Gas Distribution Companies				
Cascade Natural Gas Corporation	0.85	6.35 %	11.37 %	11.37 %
NICOR Inc.	1.20	8.22	13.24	13.24
Northwest Natural Gas Company	0.75	5.81	10.83	10.83
Piedmont Natural Gas Co., Inc	0.80	6.08	11.10	11.10
Average	0.90	6.62 %	11.64 %	11.64 %
Average Excluding Cascade Natural (5)	0.92	6.70 %	11.72 %	11.72 %
Proxy Group of Eight Value Line Gas Distribution Companies				
Cascade Natural Gas Corporation	0.85	6.35 %	11.37 %	11.37 %
The Laclede Group, Inc.	0.85	6.35	11.37	11.37
New Jersey Resources Corp.	0.80	6.08	11.10	11.10
NICOR Inc.	1.20	8.22	13.24	13.24
Northwest Natural Gas Company	0.75	5.81	10.83	10.83
Peoples Energy Corporation	0.85	6.35	11.37	11.37
Piedmont Natural Gas Co., Inc.	0.80	6.08	11.10	11.10
WGL Holdings, Inc.	0.80	6.08	11.10	11.10
Average	0.86	6.42 %	11.44 %	11.44 %
Average Excluding Cascade Natural and Peoples Energy Corporation (5)	0.87	6.44 %	11.46 %	11.46 %
Southern Union Company	1.05	7.42 %	12.44 %	12.44 %

See page 4 for notes.

Missouri Gas Energy
Development of the Market-Required Rate of Return on Common Equity Using the
Capital Asset Pricing Model for the Proxy Group of Four Gas Distribution Companies,
the Proxy Group of Eight Value Line Gas Distribution Companies and Southern Union Company
Adjusted to Reflect a Forecasted Risk-Free Rate and Market Return

Notes:

(1) From the two previous month-end (August '06 – September '06), as well as a recently available (October 13, 2006), Value Line Summary & Index, a forecasted 3-5 year total annual market return of 12.22% can be derived by averaging the August 2006, September 2006, and spot forecasted total 3-5 year total appreciation, converting it into an annual market appreciation and adding the Value Line average forecasted annual dividend yield.

The 3-5 year average total market appreciation of 49%, produces a four-year average annual return of 10.48% $(((1.49^{0.25}) - 1)*100)$. When the average annual forecasted dividend yield of 1.74% is added, a total average market return of 12.22% (1.74% + 10.48%) is derived.

August 2006, September 2006 and spot forecasted total market return of 12.22% minus the risk-free rate of 5.02% (developed in Note 2) is 7.20% (12.22% - 5.02%). The Ibbotson Associates calculated market premium of 7.10% for the period 1926 2005 results from a total market return of 12.30% less the average income return on long-term U.S. Government Securities of 5.20% (12.30% 5.20% = 7.10%). This is then averaged with the 7.20% Value Line market premium resulting in a 7.15% market premium. The 7.15% market premium is then multiplied by the beta in column 1 of pages 2 and 3 of this schedule.

(2) Average forecast based upon six quarterly estimates of 20-year Treasury Note yields per the consensus of nearly 50 economists reported in the Blue Chip Financial Forecasts dated October 1, 2006 (see page 6 of Schedule FJH-28 of this exhibit). The estimates are detailed below:

	30-Year Treasury Note Yield
Fourth Quarter 2006	4.90%
First Quarter 2007	5.00
Second Quarter 2007	5.00
Third Quarter 2007	5.00
Fourth Quarter 2007	5.10
First Quarter 2008	5.10
Average	5.02%

(3) Includes only those indicated common equity cost rates which are greater than 9.45% for reasons fully explained in Mr. Hanley's direct testimony.

(4) The traditional Capital Asset Pricing Model (CAPM) is applied using the following formula:

$R_S = R_F + \beta (R_M - R_F)$

Where R_S = Return rate of common stock
R_F = Risk Free Rate
β = Value Line Adjusted Beta
R_M = Return on the market as a whole

(5) Cascade Natural Gas Corporation and Peoples Energy Corporation are currently in the process of being acquired by MDU Resources and WPS Resources, respectively. For informational purposes, the averages excluding Cascade in the proxy group of four gas distribution companies, and Cascade Natural and Peoples Energy in the proxy group of eight Value Line gas distribution companies are being shown.

(6) The empirical CAPM is applied using the following formula:

$R_S = R_F + .25 (R_M - R_F) + .75 \beta (R_M - R_F)$

Where R_S = Return rate of common stock
R_F = Risk-Free Rate
β = Value Line Adjusted Beta
R_M = Return on the market as a whole

Source of Information: Value Line Summary & Index (Standard Edition)
Blue Chip Financial Forecasts, October 1, 2006
Value Line Investment Survey, September 15, 2006
Stocks, Bonds, Bills and Inflation – Valuation Edition -2006 Yearbook Market Results for 1926-2005 Ibbotson Associates, Inc., Chicago, IL

Missouri Gas Energy
Comparable Earnings Analysis
for a Proxy Group of Thirty-Eight Non-Utility Companies Comparable to
the Proxy Group of Four Gas Distribution Companies (1)

Proxy Group of Thirty-Eight Non-Utility Companies Comparable to the Proxy Group of Four Gas Distribution Companies (1)	Adj. Beta	Unadj. Beta	Standard Error of the Regression	5-Year Projected Rate of Return on Net Worth, Equity or Partners' Capital (2) Percent	Student's T-Test
Albemarle Corp	0.90	0.80	3.1129	13.50 %	(0.23)
Alberto Culver	0.70	0.53	2.9772	14.00	(0.17)
Alexander & Baldwin	0.90	0.78	3.1119	13.00	(0.29)
Ashland Inc.	0.85	0.70	3.0119	6.00	(1.15)
BOK Financial	0.80	0.64	3.0444	12.00	(0.42)
Baldor Electric	0.85	0.77	2.9975	18.50	0.38
Banta Corp.	0.75	0.59	2.8763	13.00	(0.29)
Capitol Fed. Fin'l	0.70	0.51	2.9480	7.50	(0.97)
Cincinnati Financial	0.85	0.75	3.0515	8.00	(0.91)
City National Corp.	0.90	0.79	3.2484	16.50	0.14
ConocoPhillips	0.90	0.78	3.0735	8.00	(0.91)
Dentsply Int'l	0.70	0.54	3.2618	15.50	0.01
Dun & Bradstreet	0.80	0.63	3.0607	45.50 (3)	3.70
Ecolab Inc.	0.90	0.81	2.9292	24.50	1.12
First Midwest Bancorp	0.90	0.80	2.9316	20.50	0.63
Graco Inc.	0.85	0.77	3.2291	34.00 (3)	2.29
Hancock Holding	0.70	0.54	3.0665	14.50	(0.11)
Harte-Hanks	0.85	0.70	3.1520	17.00	0.20
Hillenbrand Inds.	0.80	0.63	3.3283	18.00	0.32
Hospitality Properties	0.85	0.73	3.0360	8.50	(0.85)
Iron Mountain	0.90	0.79	3.3620	10.50	(0.60)
Markel Corp.	0.80	0.67	2.9135	14.50	(0.11)
McClatchy Co.	0.75	0.61	2.9836	6.50	(1.09)
McGraw-Hill	0.80	0.63	3.0963	19.50	0.50
Media General 'A'	0.90	0.81	3.1158	7.50	(0.97)
Meredith Corp.	0.90	0.77	2.9132	20.00	0.57
New York Times	0.90	0.81	3.0126	15.00	(0.05)
Occidental Petroleum	0.90	0.78	3.3428	15.00	(0.05)
People's Bank	0.85	0.70	3.1720	13.00	(0.29)
Pfizer Inc.	0.85	0.70	3.1781	22.50	0.87
Plum Creek Timber	0.75	0.58	2.9367	15.50	0.01
RLI Corp.	0.75	0.55	3.1141	12.50	(0.36)
Toro Co.	0.85	0.75	3.2727	33.00 (3)	2.16
Trizec Properties	0.80	0.67	3.3071	8.00	(0.91)
Union Pacific	0.90	0.79	3.1224	9.50	(0.72)
Washington Federal	0.85	0.74	3.0069	15.00	(0.05)
Webster Fin'l	0.90	0.78	3.0201	9.00	(0.79)
Weis Markets	0.70	0.54	3.2441	10.50	(0.60)
Average for the Non-Utility Group	0.83	0.70	3.0938		
Average for the Proxy Group of Four Gas Distribution Companies	0.80	0.65 (4)	3.1280 (5)		
Mean (3)				13.50 %	
Conclusion (6)				14.36 %	

See pages 7 and 8 for notes

Missouri Gas Energy
Comparable Earnings Analysis
for a Proxy Group of Twenty-Three Non-Utility Companies Comparable to
the Proxy Group of Eight Value Line Gas Distribution Companies (7)

Proxy Group of Twenty-Three Non-Utility Companies Comparable to the Proxy Group of Eight Value Line Gas Distribution Companies (7)	Adj. Beta	Unadj. Beta	Standard Error of the Regression	5-Year Projected Rate of Return on Net Worth, Equity or Partners' Capital (2) Percent	Student's T-Test
Alberto Culver	0.70	0.53	2.9772	14.00 %	(0.11)
Apartment Investment	0.65	0.46	2.7732	8.50	(0.76)
Ashland Inc.	0.85	0.70	3.0119	6.00	(1.05)
BRE Properties	0.70	0.50	2.6424	9.00	(0.70)
Banta Corp.	0.75	0.59	2.8763	13.00	(0.23)
Buckeye Partners L.P.	0.70	0.47	2.7302	19.00	0.48
Capitol Fed. Fin'l	0.70	0.51	2.9480	7.50	(0.87)
Crescent Real Est.	0.80	0.68	2.8368	15.00	0.01
Duke Realty Corp.	0.70	0.53	2.5998	9.00	(0.70)
Exxon Mobil Corp.	0.80	0.65	2.5674	20.50	0.65
Federal Rlty. Inv. Trust	0.70	0.48	2.7163	17.00	0.24
Hudson City Bancorp	0.75	0.57	2.7926	10.00	(0.58)
Kimberly-Clark	0.65	0.46	2.9350	32.00	2.00
Liberty Corp.	0.75	0.60	2.6765	NA (8)	NA
Liberty Property	0.70	0.49	2.5717	12.00	(0.35)
Markel Corp.	0.80	0.67	2.9135	14.50	(0.05)
McClatchy Co.	0.75	0.61	2.9836	6.50	(0.99)
Moody's Corp.	0.80	0.64	2.8144	43.50 (9)	3.35
Old Nat'l Bancorp	0.70	0.49	2.6033	15.50	0.06
Plum Creek Timber	0.75	0.58	2.9367	15.50	0.06
Simon Property Group	0.70	0.48	2.7083	14.00	(0.11)
Washington Federal	0.85	0.74	3.0069	15.00	0.01
Washington R.E.I.T.	0.70	0.54	2.7710	12.00	(0.35)
Average for the Non-Utility Group	0.74	0.56	2.7997		
Average for the Proxy Group of Eight Value Line Gas Distribution Companies	0.78	0.61 (10)	2.7792 (11)		
Mean (8)				13.60 %	
Conclusion (6)				14.35 %	

See pages 7 and 8 for notes.

Missouri Gas Energy
Comparable Earnings Analysis
for a Proxy Group of Ninety-Eight Non-Utility Companies Comparable to
Southern Union Company (12)

Proxy Group of Ninety-Eight Non-Utility Companies Comparable Southern Union Company (12)	Adj. Beta	Unadj. Beta	Standard Error of the Regression	5-Year Projected Rate of Return on Net Worth, Equity or Partners' Capital (2) Percent	Student's T-Test
21st Century Ins. Group	0.90	0.78	4.0866	9.50 %	(1.07)
ADVO Inc.	0.90	0.79	3.8183	21.00	0.89
Abbott Labs.	0.80	0.68	3.8832	23.00	1.23
Advance Auto Parts	0.90	0.82	4.2012	20.00	0.72
Aflac Inc.	0.95	0.86	3.9019	17.50	0.29
Albany Int'l 'A'	1.05	1.06	4.2858	15.00	(0.13)
Allstate Corp.	0.95	0.85	3.8067	11.00	(0.81)
Amerada Hess	0.90	0.80	4.0188	9.50	(1.07)
Ameron Int'l	0.85	0.76	4.4690	12.50	(0.56)
Anadarko Petroleum	0.90	0.83	4.4300	11.00	(0.81)
Arch Chemicals	0.90	0.81	4.4104	11.50	(0.73)
AutoZone Inc.	0.85	0.70	4.4014	38.50 (15)	3.86
Autoliv Inc.	1.10	1.10	3.8933	15.00	(0.13)
Ball Corp.	0.90	0.79	3.9067	19.50	0.63
Bandag Inc.	0.95	0.85	3.9212	9.00	(1.15)
Bank of Hawaii	0.95	0.86	3.9299	19.00	0.55
Berkley (W.R.)	0.80	0.67	4.1772	14.00	(0.30)
Biomet	0.90	0.77	4.3919	22.00	1.06
Black & Decker	1.05	1.06	4.2481	19.00	0.55
Boeing	1.05	1.05	4.0907	21.50	0.97
Borders Group	0.95	0.87	4.5155	12.50	(0.56)
Briggs & Stratton	1.10	1.09	3.8532	17.00	0.21
Brink's (The) Co.	1.05	1.07	4.2341	12.50	(0.56)
Brown & Brown	0.90	0.78	4.1737	16.00	0.04
Burlington Coat	1.05	1.02	4.2140	NA (16)	NA
Burlington Resources	0.80	0.69	4.3635	NA (16)	NA
C.H. Robinson	0.85	0.76	4.2837	19.00	0.55
CSX Corp.	1.05	1.04	4.1493	11.00	(0.81)
Cabot Corp.	1.00	0.95	4.3746	12.50	(0.56)
Casey's Gen'l Stores	0.85	0.74	4.3342	11.50	(0.73)
Chesapeake Corp.	0.95	0.88	4.2930	7.50	(1.41)
Chicago Mercantile	1.00	0.99	4.4902	19.50	0.63
ChoicePoint Inc.	0.90	0.81	3.9443	11.00	(0.81)
Commercial Metals	0.95	0.86	4.1715	14.50	(0.22)
Cooper Tire & Rubber	1.00	0.99	4.4032	14.00	(0.30)
Countrywide Financial	1.00	0.98	4.0648	13.50	(0.39)
Cytec Inds.	1.00	0.97	4.1299	18.50	0.46
Datascope Corp.	0.95	0.85	4.3746	11.00	(0.81)
Dionex Corp.	0.85	0.70	3.9844	21.00	0.89
Downey Fin'l	0.90	0.81	4.1632	14.00	(0.30)
Eagle Materials	0.90	0.80	4.1023	23.00	1.23
Encore Acquisition	1.00	0.99	4.4182	11.50	(0.73)
Federal Signal	0.95	0.87	4.0623	13.50	(0.39)
Florida Rock	1.00	0.94	3.9042	16.00	0.04
Gallagher (Arthur J.)	0.95	0.86	4.1442	20.00	0.72
Gardner Denver	0.85	0.73	4.2431	11.50	(0.73)
Gaylord Entertainm.	0.95	0.90	4.2247	5.00	(1.83)
Glatfelter	0.85	0.76	4.2850	11.50	(0.73)
GlobalSantaFe Corp.	1.00	0.99	4.4410	10.50	(0.90)
Haemonetics Corp.	0.85	0.71	4.4929	14.00	(0.30)
Harrah's Entertain.	0.95	0.87	4.4861	13.00	(0.47)
Int'l Business Mach.	1.05	1.06	3.8409	28.50 (15)	2.16
Jack in the Box	0.90	0.78	4.4569	15.50	(0.05)
Jacobs Engineering	0.95	0.92	3.9469	15.00	(0.13)
Kellwood Co.	0.90	0.78	4.3632	9.50	(1.07)
Kelly Services 'A'	0.95	0.87	4.2955	11.00	(0.81)
Kohl's Corp.	1.05	1.04	4.1867	16.50	0.12
Lauder (Estee)	0.90	0.81	4.0447	35.00 (15)	3.27
Lincoln Elec Hldgs.	0.85	0.73	4.0259	15.00	(0.13)
Marcus Corp.	0.85	0.75	4.4413	9.50	(1.07)
Masco Corp.	1.10	1.09	4.2366	20.50	0.80
McDonald's Corp.	1.05	1.00	3.9567	18.00	0.38

Missouri Gas Energy
Comparable Earnings Analysis
for a Proxy Group of Ninety-Eight Non-Utility Companies Comparable to
Southern Union Company (12)

Proxy Group of Ninety-Eight Non-Utility Companies Comparable Southern Union Company (12)	Adj. Beta	Unadj. Beta	Standard Error of the Regression	5-Year Projected Rate of Return on Net Worth, Equity or Partners' Capital (2) Percent	Student's T-Test
Merck & Co.	0.80	0.68	4.4432	26.00	1.74
Miller (Herman)	0.95	0.92	4.1296	29.00 (15)	2.25
Murphy Oil Corp.	0.85	0.76	3.9883	9.50	(1.07)
New York Community	0.95	0.85	4.1363	12.00	(0.64)
Newell Rubbermaid	0.85	0.76	4.1959	21.00	0.89
Nordson Corp.	1.05	1.02	3.9829	13.00	(0.47)
Norfolk Southern	1.05	1.04	4.2922	13.00	(0.47)
Outback Steakhouse	0.90	0.83	4.1896	14.50	(0.22)
PMI Group	1.05	1.06	3.9777	11.00	(0.81)
Pactiv Corp.	0.90	0.81	3.8556	18.00	0.38
Payless ShoeSource	0.85	0.74	4.0567	10.50	(0.90)
Pixar	1.05	1.02	4.1578	NA (16)	NA
Polaris Inds.	1.00	0.93	3.8154	30.00	2.42
Progressive (Ohio)	1.05	1.05	4.3361	14.00	(0.30)
Quanex Corp.	1.00	0.93	4.0393	15.00	(0.13)
RPM Int'l	0.85	0.76	4.4246	15.50	(0.05)
Reinsurance Group	0.90	0.82	4.1328	12.00	(0.64)
Rohm and Haas	1.05	1.07	4.4998	15.50	(0.05)
Ruby Tuesday	0.85	0.75	4.5025	19.50	0.63
SAFECO Corp.	0.95	0.89	4.4267	11.50	(0.73)
Schulman (A.)	0.85	0.71	4.1966	7.00	(1.49)
Sigma-Aldrich	0.85	0.71	3.9318	18.50	0.46
Sovereign Bancorp	1.10	1.11	3.9183	15.00	(0.13)
St. Jude Medical	0.85	0.73	4.2191	15.50	(0.05)
Stanley Works	1.00	0.97	3.9338	16.00	0.04
Steelcase Inc 'A'	0.85	0.76	4.5001	14.00	(0.30)
Superior Inds. Int'l	1.00	0.98	3.8279	9.00	(1.15)
Sybron Dental	0.90	0.82	4.4078	NA (16)	NA
Tecumseh Products 'A'	0.80	0.68	3.8146	9.50	(1.07)
Trinity Inds.	0.95	0.89	4.2319	12.50	(0.56)
Tupperware Brands	0.85	0.74	4.3901	24.00	1.40
United Stationers	1.10	1.11	4.1798	13.00	(0.47)
Varian Medical Sys.	0.80	0.67	4.1332	23.50	1.31
Waste Management	0.90	0.82	4.2063	20.00	0.72
Wausau Paper	1.00	1.00	4.0989	21.00	0.89
Weight Watchers	0.95	0.90	3.8996	NMF (16)	NMF
Average for the Non-Utility Group	0.94	0.87	4.1720		
Southern Union Company	0.95	0.89 (13)	4.1728 (14)		
Mean (15)				15.02 %	
Conclusion (6)				14.11 %	

See pages 7 and 8 for notes.

Missouri Gas Energy
Comparable Earnings Analysis
for a Proxy Group of Thirty-Eight Non-Utility Companies Comparable to
the Proxy Group of Three Gas Distribution Companies (17)

Proxy Group of Thirty-Eight Non-Utility Companies Comparable to the Proxy Group of Three Gas Distribution Companies (17)	Adj. Beta	Unadj Beta	Standard Error of the Regression	5-Year Projected Rate of Return on Net Worth, Equity or Partners' Capital (2) Percent	Student's T-Test
3M Company	0.90	0.80	2.7583	26.00 %	1.12
Albemarle Corp.	0.90	0.80	3.1129	13.50	(0.26)
Alberto Culver	0.70	0.53	2.9772	14.00	(0.21)
Alexander & Baldwin	0.90	0.78	3.1119	13.00	(0.32)
Ashland Inc.	0.85	0.70	3.0119	6.00	(1.09)
BOK Financial	0.80	0.64	3.0444	12.00	(0.43)
Baldor Electric	0.85	0.77	2.9975	18.50	0.29
Banta Corp.	0.75	0.59	2.8763	13.00	(0.32)
Capitol Fed. Fin'l	0.70	0.51	2.9480	7.50	(0.93)
Cincinnati Financial	0.85	0.75	3.0515	8.00	(0.87)
ConocoPhillips	0.90	0.78	3.0735	8.00	(0.87)
Crescent Real Est.	0.80	0.68	2.8368	15.00	(0.10)
Dun & Bradstreet	0.80	0.63	3.0607	45.50 (18)	3.28
Ecolab Inc.	0.90	0.81	2.9292	24.50	0.96
First Midwest Bancorp	0.90	0.80	2.9316	20.50	0.51
Genuine Parts	0.90	0.81	2.7652	17.00	0.13
Graco Inc.	0.85	0.77	3.2291	34.00 (18)	2.01
Hancock Holding	0.70	0.54	3.0665	14.50	(0.15)
Harte-Hanks	0.85	0.70	3.1520	17.00	0.13
Hospitality Properties	0.85	0.73	3.0360	8.50	(0.82)
Hudson City Bancorp	0.75	0.57	2.7926	10.00	(0.65)
Markel Corp.	0.80	0.67	2.9135	14.50	(0.15)
McClatchy Co.	0.75	0.61	2.9836	6.50	(1.04)
McGraw-Hill	0.80	0.63	3.0963	19.50	0.40
Media General 'A'	0.90	0.81	3.1158	7.50	(0.93)
Meredith Corp.	0.90	0.77	2.9132	20.00	0.46
Moody's Corp.	0.80	0.64	2.8144	43.50	3.06
New York Times	0.90	0.81	3.0126	15.00	(0.10)
People's Bank	0.85	0.70	3.1720	13.00	(0.32)
Pfizer Inc.	0.85	0.70	3.1781	22.50	0.74
Plum Creek Timber	0.75	0.58	2.9367	15.50	(0.04)
RLI Corp.	0.75	0.55	3.1141	12.50	(0.37)
Union Pacific	0.90	0.79	3.1224	9.50	(0.71)
Unitrin Inc.	0.90	0.83	2.9039	11.00	(0.54)
Washington Federal	0.85	0.74	3.0069	15.00	(0.10)
Washington R.E.I.T.	0.70	0.54	2.7710	12.00	(0.43)
Webster Fin'l	0.90	0.78	3.0201	9.00	(0.76)
Weis Markets	0.70	0.54	3.2441	10.50	(0.60)
Average for the Non-Utility Group	0.83	0.69	3.0022		
Average for the Proxy Group of Three Gas Distribution Companies	0.82	0.67 (18)	2.9838 (18)		
Mean (3)				14.54 %	
Conclusion (6)				14.15 %	

See pages 7 and 8 for notes.

Missouri Gas Energy
Comparable Earnings Analysis
for a Proxy Group of Nineteen Non-Utility Companies Comparable to
the Proxy Group of Six Value Line Gas Distribution Companies (17)

Proxy Group of Nineteeen Non-Utility Companies Comparable to the Proxy Group of Six Value Line Gas Distribution Companies (17)	Adj. Beta	Unadj. Beta	Standard Error of the Regression	5-Year Projected Rate of Return on Net Worth, Equity or Partners' Capital (2) Percent	Student's T-Test
BRE Properties	0.70	0.50	2.6424	9.00 %	(0.71)
Banta Corp.	0.75	0.59	2.8763	13.00	(0.24)
Buckeye Partners L.P.	0.70	0.47	2.7302	19.00	0.48
Chevron Corp.	0.80	0.67	2.5141	17.00	0.24
Commerce Bancshs.	0.80	0.67	2.4462	13.00	(0.24)
Crescent Real Est.	0.80	0.68	2.8368	15.00	0.00
Duke Realty Corp.	0.70	0.53	2.5998	9.00	(0.71)
Equity Office P'ptys	0.70	0.48	2.5112	6.00	(1.07)
Equity Residential	0.70	0.53	2.4832	5.00	(1.19)
Exxon Mobil Corp.	0.80	0.65	2.5674	20.50	0.66
Federal Rlty. Inv. Trust	0.70	0.48	2.7163	17.00	0.24
Hudson City Bancorp	0.75	0.57	2.7926	10.00	(0.59)
Liberty Corp.	0.75	0.60	2.6765	NA (8)	NA
Liberty Property	0.70	0.49	2.5717	12.00	(0.36)
Moody's Corp.	0.80	0.64	2.8144	43.50 (18)	3.41
Old Nat'l Bancorp	0.70	0.49	2.6033	15.50	0.06
Simon Property Group	0.70	0.48	2.7083	14.00	(0.12)
United Parcel Serv.	0.80	0.68	2.4342	19.00	0.48
Washington R.E.I.T.	0.70	0.54	2.7710	12.00	(0.36)
Average for the Non-Utility Group	0.74	0.57	2.6472		
Average for the Proxy Group of Six Value Line Gas Distribution Companies	0.78	0.61 (18)	2.6675 (18)		
Mean (8)				13.29 %	
Conclusion (6)				14.71 %	

See pages 7 and 8 for notes.

Missouri Gas Energy
Comparable Earnings Analysis

Notes:

(1) The criteria for selection of the proxy group of thirty-eight non-utility companies was that the non-utility companies be domestic and have a meaningful projected 2008 – 2010 rate of return on net worth or partners' capital as reported in Value Line Investment Survey (Standard Edition). The proxy group of thirty-eight non-utility companies was selected based upon the proxy group of four gas distribution companies' unadjusted beta range of 0.49 – 0.81 and standard error of the regression range of 2.8532 – 3.4028. These ranges are based upon plus or minus two standard deviations of the unadjusted beta and standard error of the regression as detailed in Mr. Hanley's direct testimony. Plus or minus two standard deviations captures 95.5% of the distribution of unadjusted betas and standard errors of the regression.

(2) 2008-2010.

(3) The Student's T-statistic associated with this projected return exceeds 1.960 at the 95% level of confidence. Therefore, it has been excluded, as an outlier, to arrive at a proper mean projected return as fully explained in Mr. Hanley's direct testimony.

(4) The standard deviation of the proxy group of four gas distribution companies' unadjusted beta is 0.0823.

(5) The standard deviation of the proxy group of four gas distribution companies' standard error of the regression is 0.1374. The standard deviation of the standard error of the regression is calculated as follows:

Standard Deviation of the Standard Error of the Regression =

$$\frac{\text{Standard Error of the Regression}}{\sqrt{2N}}$$

Where: N = number of observations. Since Value Line betas are derived from weekly price change observations over a period of five years, N = 259

Thus, $0.1374 = \frac{3.1280}{\sqrt{518}} = \frac{3.1280}{22.7596}$

(6) Average of 5-year projected rates of return excluding those above 20% and below 9.45% for reasons fully explained in Mr. Hanley's direct testimony.

(7) The criteria for selection of the proxy group of twenty-three non-utility companies was that the non-utility companies be domestic and have a meaningful projected 2008 – 2010 rate of return on net worth or partners' capital as reported in Value Line Investment Survey (Standard Edition). The proxy group of twenty-three non-utility companies was selected based upon the proxy group of eight Value Line gas distribution companies' unadjusted beta range of 0.46 – 0.76 and standard error of the regression range of 2.5350 – 3.0234. These ranges are based upon plus or minus two standard deviations of the unadjusted beta and standard error of the regression as detailed in Mr. Hanley's direct testimony. Plus or minus two standard deviations captures 95.5% of the distribution of unadjusted betas and standard errors of the regression

(8) On February 2, 2006, Liberty Corporation was officially acquired by privately held Raycom Media, Inc. Therefore, the company is not being traded anymore, and consequently, not included in the Student's T-statistic.

(9) The Student's T-statistic associated with this projected return exceeds 2.080 at the 95% level of confidence with twenty-one (21 = 22 observations – 1) degrees of freedom. Therefore, it has been excluded, as an outlier, to arrive at a proper mean projected return as fully explained in Mr. Hanley's direct testimony.

Missouri Gas Energy
Comparable Earnings Analysis

(10) The standard deviation of the proxy group of eight Value Line gas distribution companies' unadjusted beta is 0.0732.

(11) The standard deviation of the proxy group of eight Value Line gas distribution companies' standard error of the regression is 0.1221= (2.7792 / 22.7596).

(12) The criteria for selection of the proxy group of ninety-eight non-utility companies was that the non-utility companies be domestic and have a meaningful projected 2008 – 2010 rate of return on net worth or partners' capital as reported in Value Line Investment Survey (Standard Edition). The proxy group of ninety-eight non-utility companies was selected based upon Southern Union Company's unadjusted beta range of 0.67 – 1.11 and standard error of the regression range of 3.8062 – 4.5394. These ranges are based upon plus or minus two standard deviations of the unadjusted beta and standard error of the regression as detailed in Mr. Hanley's direct testimony. Plus or minus two standard deviations captures 95.5% of the distribution of unadjusted betas and standard errors of the regression.

(13) The standard deviation of Southern Union Company's unadjusted beta is 0.1098.

(14) The standard deviation of Southern Union Company's standard error of the regression is 0.1833= (4.1728 / 22.7596).

(15) The following companies are not being traded anymore, and therefore, they are not included in the Student's T-statistic: Burlington Coat Factory was acquired by Bain Capital Partners on April 13, 2006; Burlington Resources was acquired by ConocoPhillips on March 31, 2006; Pixar was acquired by Disney on May 6, 2006; Sybron Dental was acquired by Danaher Corporation on May 19, 2006. Weight Watchers is not included in the Student's T-statistic because the company's 5-Year Projected Rate of Return on Equity is NMF.

(16) The Student's T-statistic associated with this projected return exceeds 1.96 at the 95% level of confidence with twenty-two (92 = 93 observations – 1) degrees of freedom. Therefore, it has been excluded, as an outlier, to arrive at a proper mean projected return as fully explained in Mr. Hanley direct testimony.

(17) Cascade Natural Gas Corporation and Peoples Energy Corporation are currently in the process of being acquired by MDU Resources and WPS Resources, respectively. If the Cascade were excluded from the group of 4, and Cascade and Peoples were excluded from the group of 8, the results would be as follow: The proxy group of thirty-eight non-utility companies was selected based upon the proxy group of three gas distribution companies' unadjusted beta range of 0.51 – 0.83 and standard error of the regression range of 2.7216 – 3.2460. The proxy group of nineteen non-utility companies was selected based upon the proxy group of six Value Line gas distribution companies' unadjusted beta range of 0.47 – 0.75 and standard error of the regression range of 2.4331 – 2.9019. These ranges are based upon plus or minus two standard deviations of the unadjusted beta and standard error of the regression as detailed in Mr. Hanley's direct testimony. Plus or minus two standard deviations captures 95.5% of the distribution of unadjusted betas and standard errors of the regression.

(18) For the proxy group of three LDCs the Student's T-statistic associated with this projected return exceeds 1.960 at the 95% level of confidence. Therefore, it has been excluded, as an outlier, to arrive at a proper mean projected return as fully explained in Mr. Hanley's direct testimony. For the proxy group of six Value Line LDCs the Student's T-statistic associated with this projected return exceeds 2.101 at the 95% level of confidence with seventeen (17 = 18 observations – 1) degrees of freedom. Therefore, it has been excluded, as an outlier, to arrive at a proper mean projected return as fully explained in the accompanying direct testimony. The standard deviations of the proxy group of three LDCs and six Value Line LDCs' unadjusted beta are 0.0785 and 0.0702, respectively. The standard deviations of the proxy groups of three LDCs and six Value Line LDCs' standard error of the regression are 0.1311 and 0.1172, respectively.

Source of Information: Value Line, Inc., Proprietary database, September 15, 2006
Value Line Investment Survey (Standard Edition)