Missouri Gas Energy
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to the Financial Supporting Schedules
of Frank J. Hanley


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

| Type of Capital | Ratios (1) | Cost Rate | Weighted Cost Rate |
|---|---|---|---|
| Long-Term Debt | 41.06% | 6.080% (2) | 2.496% |
| Short-Term Debt | 10.94% | 4.367% (3) | 0.478% |
| Total Debt | 52.00% | | |
| Common Equity | 48.00% | 10.500% (4) | 5.040% |
| Total | 100.00% | | 8.014% |

Based on the Actual Capital Structure of Southern Union Company at December 31, 2008

| Type of Capital | Ratios (5) | Cost Rate | Weighted Cost Rate |
|---|---|---|---|
| Long-Term Debt | 56.16% | 6.258% (5) | 3.514% |
| Short-Term Debt | 3.26% | 6.117% (6) | 0.199% |
| Preferred Equity | 1.92% | 7.758% (5) | 0.149% |
| Common Equity | 38.66% | 13.900% (4) | 5.374% |
| Total | 100.00% | | 9.236% |

(1) The 52.00% total debt ratio has been allocated between the long-term and short-term debt based upon the average long-term and short-term debt ratios of the proxy group of nine Value Line natural gas distribution companies for the five quarters ended December 31, 2008 as shown on Page 4 of Schedule FJH-5. The allocation is derived as follows:

| | Average for the Five Quarters ended December 31, 2008 | Proxy Group of Nine Value Line Natural Gas Distribution Companies | Percent of Total Debt |
|---|---|---|---|
| Long-Term Debt | | 40.84 % | 78.96 % |
| Short-Term Debt | | 10.88 % | 21.04 % |
| Total Debt | | 51.73 % | 100.00 % |

Therefore, the hypothetical long-term debt ratio of 41.06% is derived as 78.96% * 52.00%, and the short-term debt ratio of 10.94% is derived as 21.04% * 52.00%.

(2) Derived on Schedule FJH-9.
(3) Based on 300 basis points plus an 50 basis points upfront cost above the Blue Chip six-quarter projected average beginning with the third quarter of 2009 and ending with the fourth quarter of 2010 of the 3-month LIBOR rate of 0.8667% (from Page 40 of this Schedule). The fee schedule is based on a Calyon report to SUG on August 20, 2009, an excerpt from which is provided as Schedule FJH-27.
(4) Based upon informed judgment from the entire study, the principal results of which are summarized on Page 2 of this Schedule.
(5) Provided by Southern Union Company.
(6) Based on 425 basis points plus an 100 basis points upfront cost above the six-quarter projected average beginning with the third quarter of 2009 and ending with the fourth quarter of 2010 of the 3-month LIBOR rate of 0.8667% (from Page 40 of this Schedule). The fee schedule is based on a Calyon report to SUG on August 20, 2009, an excerpt of which is provided as Schedule FJH-27.

Missouri Gas Energy
Brief Summary of Common Equity Cost Rate

| No. | Principal Methods | Proxy Group of Nine Value Line Natural Gas Distribution Companies | Southern Union Company |
|---|---|---|---|
| 1. | Discounted Cash Flow Model (DCF) (1) | 9.20 % | 10.67 % |
| 2. | Risk Premium Model (RPM) (2) | 10.94 | 12.63 |
| 3. | Capital Asset Pricing Model (CAPM) (3) | 10.83 | 13.93 |
| 4. | Comparable Earnings Model (CEM) (4) | NMF | 16.50 |
| 5. | Indicated Common Equity Cost Rate before Adjustment for Business Risk | 10.32 % (5) | 13.59 % (6) |
| 6. | Business Risk Adjustment (7) | 0.19 | 0.32 |
| 7. | Indicated Common Equity Cost Rate | 10.51 % | 13.90 % |
| 8. | Recommended Common Equity Cost Rate | **10.50 %** | **13.90 %** |

Notes:
(1) From Page 21 of this Schedule.
(2) From page 34 of this Schedule.
(3) From page 49 of this Schedule.
(4) The CEM results are on Pages 52 and 53 of this Schedule. Mr. Hanley considers the 21.00% cost rate for the proxy group of nine Value Line natural gas distribution companies aberrant relative to the other cost of equity models shown on lines 1, 2, and 3 and as such it is a not meaningful figure (NMF) in this particular study.
(5) Equals the average of the three reasonable cost of common equity models. Since the range of the results is considerably less and the cost rates from the risk premium and CAPM modelas are much closer to each other than in Mr. Hanley's original analysis, he decided that it was necessary to give all models equal weight in this instance.
(6) Mid-point of the range of common equity cost rates produced by the cost of common equity models. For example, the indicated common equity cost rate for Southern Union Company, 13.59, is the mid-point of the range of its cost of common equity results which is 10.67% - 16.50%. If the results of the cost of common equity models were averaged instead of taking the midpoint, the indicated common equity cost rate would be 13.49%.
(7) Business risk adjustment to reflect Missouri Gas Energy's greater business risk due to its small size relative to the proxy group as explained in Mr. Hanley's direct testimony at pages 9-13 inclusive. Adjustments are equal to only one-fourth of the quantified differences shown on Page 3, Column 4, Lines 2 and 3 respectively.

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 Market Capitalization on September 9, 2009 (1) ( millions ) | (times larger) | 2 Applicable Decile of the NYSE/AMEX/ NASDAQ (2) | 3 Applicable Size Premium (3) | 4 Spread from Applicable Size Premium for (4) |
|---|---|---|---|---|---|---|
| 1. | Missouri Gas Energy | | | | | |
| | a. Based Upon the Proxy Group of Nine Value Line Natural Gas Distribution Companies | $ 659.811 | | 8 | 2.35% | |
| | b. Based on Southern Union Company | $ 438.533 | | 8 - 9 | 2.53% | |
| 2. | Proxy Group of Nine Value Line Natural Gas Distribution Companies | $ 1,555.729 | 2.4 x | 5 - 6 | 1.59% | 0.76% |
| 3. | Southern Union Company | $ 2,456.145 | 5.6 | 4 - 5 | 1.26% | 1.27% |

| (A) Decile | (B) Number of Companies ( millions ) | (C ) Recent Total Market Capitalization * ( millions ) | (D) Recent Average Market Capitalization ( millions ) | (E) Size Premium (Return in Excess of CAPM)* |
|---|---|---|---|---|
| 1 - Largest | 165 | $ 8,530,554.000 | $ 51,700.327 | -0.36% |
| 2 | 175 | 1,682,132.000 | $ 9,612.183 | 0.62% |
| 3 | 183 | 804,806.000 | $ 4,397.847 | 0.74% |
| 4 | 189 | 540,900.000 | $ 2,861.905 | 0.97% |
| 5 | 211 | 409,557.000 | $ 1,941.028 | 1.54% |
| 6 | 243 | 342,820.000 | $ 1,410.782 | 1.63% |
| 7 | 319 | 283,476.000 | $ 888.639 | 1.62% |
| 8 | 393 | 241,137.000 | $ 613.580 | 2.35% |
| 9 | 603 | 181,013.000 | $ 300.187 | 2.71% |
| 10 - Smallest | 1626 | 12,878.000 | $ 7.920 | 5.81% |

*From pages 7 and 11 of this Schedule

Notes:
(1) From Page 4 of this Schedule.
(2) Gleaned from Column (D) below on this page. The appropriate decile (Column (A)) corresponds to the market capitalization of the proxy group, which is found in Column 1.
(3) Corresponding risk premium to the decile is provided on Column (E) on the bottom of this page.
(4) Line No. 1a Column 3 – Line No. 2 Column 3 and Line No. 1b, Column 3 – Line No. 3 of Column 3 etc. For example, the 0.76% in Column 4, Line No. 2 is derived as follows 0.76% = 2.35% - 1.59%.

Missouri Gas Energy
Market Capitalization of Missouri Gas Energy
the Proxy Group of Nine Value Line Natural Gas Distribution Companies,
and Southern Union Company

| Company | Exchange | 1<br>Common Stock Shares Outstanding at 2008 Fiscal Year End ( millions ) | 2<br>Book Value per Share at 2008 Fiscal Year End (1) | 3<br>Total Common Equity at 2008 Fiscal Year End ( millions ) | 4<br>Closing Stock Market Price on September 9, 2009 | 5<br>Market-to-Book Ratio on September 9, 2009 (2) | 6<br>Market Capitalization on September 9, 2009 (3) ( millions ) |
|---|---|---|---|---|---|---|---|
| Missouri Gas Energy | | NA | NA | $ 402.324 (4) | NA | | |
| Based Upon the Proxy Group of Nine Value Line Natural Gas Distribution Companies | | | | | | 164.0 % (5) | $ 659.811 (6) |
| Based on Southern Union Company | | | | | | 109.0 %(7) | $ 438.533 (8) |
| Proxy Group of Nine Value Line Natural Gas Distribution Companies | | | | | | | |
| AGL Resources Inc. | NYSE | $ 76.900 | $ 21.482 | $ 1,652.000 | $ 33.820 | 157.4 % | $ 2,600.758 |
| Atmos Energy Corp. | NYSE | 90.815 | 22.601 | 2,052.492 | 27.670 | 122.4 | 2,512.842 |
| The Laclede Group, Inc. | NYSE | 21.993 | 22.119 | 486.479 | 32.910 | 148.8 | 723.805 |
| New Jersey Resources Corp. | NYSE | 43.439 | 16.735 | 726.958 | 36.320 | 217.0 | 1,577.716 |
| Northwest Natural Gas Co. | NYSE | 26.594 | 23.628 | 628.373 | 42.100 | 178.2 | 1,119.607 |
| Piedmont Natural Gas Co., Inc. | NYSE | 73.246 | 12.113 | 887.244 | 23.600 | 194.8 | 1,728.606 |
| South Jersey Industries, Inc. | NYSE | 29.729 | 17.332 | 515.254 | 33.840 | 195.2 | 1,006.019 |
| Southwest Gas Corporation | NYSE | 44.192 | 23.485 | 1,037.841 | 24.280 | 103.4 | 1,072.970 |
| WGL Holdings, Inc. | NYSE | 49.917 | 20.986 | 1,047.564 | 33.240 | 158.4 | 1,659.237 |
| Average | | 50.758 | $ 20.053 | $ 1,003.801 | $ 31.976 | 164.0 % | $ 1,555.729 |
| Southern Union Company | NYSE | 125.122 | $ 18.006 | $ 2,252.952 | $ 19.630 | 109.0 % | $ 2,456.145 |

NA = Not Available

Notes:
(1) Column 3 / Column 1.

(2) Column 4 / Column 2.

(3) Column 5 * Column 3.

(4) From MGE's 2008 Annual Report to the Public Service Commission of Missouri.

(5) The market-to-book ratio of Missouri Gas Energy on September 9, 2009 is assumed to be equal to the average market-to-book ratio at September 9, 2009 of the Proxy Group of Nine Value Line Natural Gas Distribution Companies.

(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 September 9, 2009 of the Proxy Group of Nine Value Line Natural Gas Distribution Companies, 164.0%, and Missouri Gas Energy's market capitalization on September 9, 2009 would thisefore have been $659.811 million. ($659.811 = $402.324 * 164.0%).

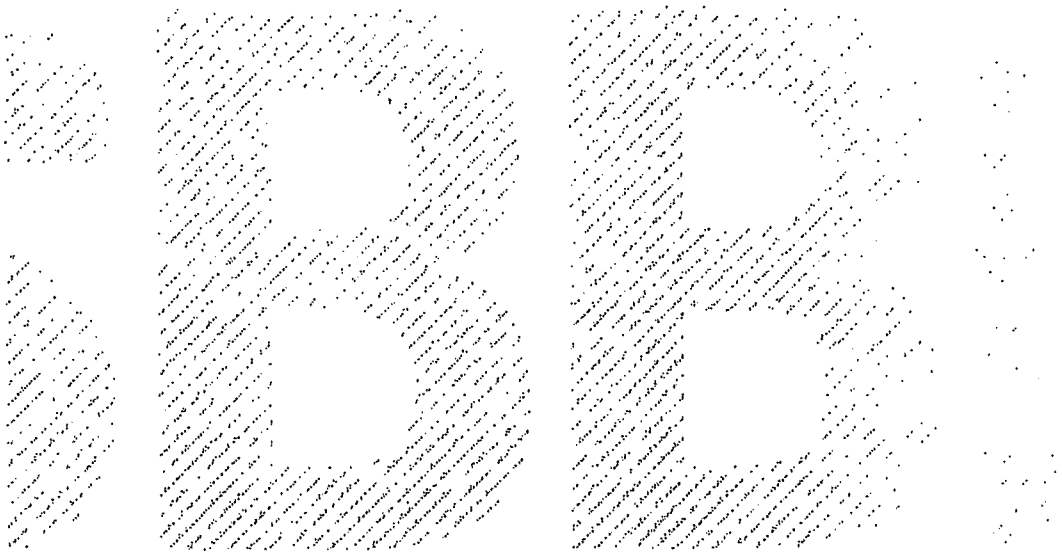
(7) The market-to-book ratio of Missouri Gas Energy on September 9, 2009 is assumed to be equal to the average market-to-book ratio at September 9, 2009 of Southern Union Company.

(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 September 9, 2009 of Southern Union Company, 109.0%, and Missouri Gas Energy's market capitalization on September 9, 2009 would thisefore have been $438.533 million. ($438.533 = $402.324 * 109.0%).

Source of Information: 2008 Annual Forms 10K
yahoo.finance.com

**Ibbotson® SBBI®**
2009 Valuation Yearbook

Market Results for
Stocks, Bonds, Bills, and Inflation
1926–2008



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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.

### Size and Liquidity

Capitalization is not necessarily the underlying cause of the higher returns for smaller companies. While smaller companies are usually less liquid, with fewer shares traded on any given day, not all companies of the same size have the same liquidity. Stocks that are more liquid have higher valuations for the same cash flows because they have a lower cost of capital and commensurately lower returns on average. Stocks that are less liquid have a higher cost of capital and higher returns on average.[2]

While it would be very useful to estimate the equity cost of capital of companies that are not publicly traded, there is not a direct measure of liquidity for these companies because there are no public trades. Thus, there is usually no share turnover, no bid/ask spreads, etc. in which to measure liquidity. Even though liquidity is not directly observable, capitalization is; thus the size premium can serve as a partial measure of the increased cost of capital of a less liquid stock.

Size premiums presented in this book are measured from publicly traded companies of various sizes and therefore do not represent the full cost of capital for non-traded companies. The valuation for a non-publicly traded company should also reflect a discount for the very fact that it is not traded. This would be an illiquidity discount and could be applied to the valuation directly, or alternatively reflected as an illiquidity premium in the cost of capital.

This chapter does not tell you how to estimate this incremental illiquidity valuation discount (or cost of capital illiquidity premium) that is not covered by the size premium. At the end of this chapter, we show some empirical results on the impact of liquidity on stock returns.

### 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.

**Table 7-1:** Size-Decile Portfolios of the NYSE/AMEX/NASDAQ Bounds, Size, and Composition

| Decile | Historical Average Percentage of Total Capitalization | Recent Number of Companies | Recent Decile Market Capitalization (in Thousands) | Recent Percentage of Total Capitalization |
|---|---|---|---|---|
| 1-Largest | 63.22 | 165 | $8,530,554 | 64.89 |
| 2 | 13.96 | 175 | 1,682,132 | 12.80 |
| 3 | 7.56 | 183 | 804,806 | 6.12 |
| 4 | 4.72 | 189 | 540,900 | 4.11 |
| 5 | 3.24 | 211 | 409,557 | 3.12 |
| 6 | 2.39 | 243 | 342,820 | 2.61 |
| 7 | 1.75 | 319 | 283,476 | 2.16 |
| 8 | 1.30 | 393 | 241,137 | 1.83 |
| 9 | 1.02 | 603 | 181,013 | 1.38 |
| 10-Smallest | 0.83 | 1626 | 128,780 | 0.98 |
| Mid-Cap 3–5 | 15.52 | 583 | 1,755,263 | 13.35 |
| Low-Cap 6–8 | 5.44 | 955 | 867,434 | 6.60 |
| Micro-Cap 9–10 | 1.85 | 2229 | 309,793 | 2.36 |

Data from 1926–2008. Source: Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2009 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

Historical average percentage of total capitalization shows the average, over the last 83 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, 2008.

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

| Decile | Recent Market Capitalization (in Thousands) | Company Name |
|---|---|---|
| 1-Largest | 465,651,938 | Exxon Mobil Corp. |
| 2 | 18,503,467 | Waste Management Inc. Del |
| 3 | 7,360,271 | Reliant Energy Inc. |
| 4 | 4,225,152 | IMS Health Inc. |
| 5 | 2,785,538 | Family Dollar Stores Inc. |
| 6 | 1,848,961 | Bally Technologies Inc. |
| 7 | 1,197,133 | Temple Inland Inc. |
| 8 | 753,448 | Kronos Worldwide Inc. |
| 9 | 453,254 | SWS Group Inc. |
| 10-Smallest | 218,533 | Beazer Homes USA Inc. |

Source: Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2009 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission. Market capitalization and name of largest company in each decile as of September 30, 2008.

### 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 165 stocks, while the smallest decile accounts for just over one percent of the market value. The data in the second column of Table 7-1 are averages across all 83 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 2008.

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 $7,360,271,000 but greater than $1,848,961,000. Low-cap stocks include deciles 6–8 and currently include all companies in the NYSE/AMEX/NASDAQ with market capitalizations at or below $1,848,961,000 but greater than $453,254,000. Micro-cap stocks include deciles 9–10 and include companies with market capitalizations at or below $453,254,000. The market capitalization of the smallest company included in the micro-capitalization group is currently $1,575,000.

### Presentation of the Decile Data

Summary statistics of annual returns of the 10 deciles over 1926–2008 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 deciles. Serial correlations and their significance will be discussed in detail later in this chapter.

**Table 7-3**
Size-Decile Portfolios of the NYSE/AMEX/NASDAQ
Largest and Smallest Company by Size Group

1926–1965

| 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 |
|---|---|---|---|---|---|---|
| 1926 | $60,103 | $13,795 | $4,213 | $13,800 | $4,263 | $43 |
| 1927 | 64,820 | 14,491 | 4,415 | 14,522 | 4,450 | 65 |
| 1928 | 80,910 | 18,761 | 5,074 | 18,788 | 5,119 | 135 |
| 1929 | 103,054 | 24,328 | 5,862 | 24,480 | 5,873 | 118 |
| 1930 | 66,750 | 12,918 | 3,359 | 13,050 | 3,369 | 30 |
| 1931 | 42,607 | 8,142 | 1,927 | 8,222 | 1,944 | 15 |
| 1932 | 12,212 | 2,208 | 468 | 2,223 | 469 | 19 |
| 1933 | 40,298 | 7,210 | 1,830 | 7,280 | 1,875 | 120 |
| 1934 | 38,019 | 6,638 | 1,673 | 6,669 | 1,691 | 69 |
| 1935 | 37,631 | 6,549 | 1,350 | 6,605 | 1,383 | 38 |
| 1936 | 46,963 | 11,505 | 2,754 | 11,526 | 2,800 | 98 |
| 1937 | 51,750 | 13,635 | 3,539 | 13,793 | 3,563 | 69 |
| 1938 | 35,019 | 8,372 | 2,195 | 8,400 | 2,200 | 60 |
| 1939 | 35,409 | 7,478 | 1,819 | 7,500 | 1,854 | 75 |
| 1940 | 29,903 | 7,990 | 1,861 | 8,007 | 1,872 | 51 |
| 1941 | 30,362 | 8,316 | 2,086 | 8,336 | 2,087 | 72 |
| 1942 | 26,037 | 6,868 | 1,770 | 6,870 | 1,779 | 82 |
| 1943 | 42,721 | 11,403 | 3,847 | 11,475 | 3,903 | 395 |
| 1944 | 46,221 | 13,066 | 4,812 | 13,068 | 4,820 | 309 |
| 1945 | 55,125 | 17,325 | 6,413 | 17,575 | 6,428 | 225 |
| 1946 | 77,784 | 24,192 | 10,149 | 24,199 | 10,168 | 829 |
| 1947 | 57,830 | 17,719 | 6,373 | 17,735 | 6,380 | 508 |
| 1948 | 67,238 | 19,632 | 7,329 | 19,651 | 7,348 | 683 |
| 1949 | 56,082 | 14,549 | 5,037 | 14,577 | 5,108 | 379 |
| 1950 | 66,143 | 18,675 | 6,225 | 18,700 | 6,243 | 303 |
| 1951 | 82,517 | 22,750 | 7,598 | 22,860 | 7,600 | 668 |
| 1952 | 95,636 | 25,405 | 8,428 | 25,452 | 8,480 | 480 |
| 1953 | 98,218 | 25,340 | 8,156 | 25,374 | 8,168 | 459 |
| 1954 | 125,834 | 29,707 | 8,488 | 29,791 | 8,502 | 463 |
| 1955 | 170,829 | 41,445 | 12,366 | 41,681 | 12,444 | 553 |
| 1956 | 183,792 | 46,805 | 13,524 | 46,886 | 13,623 | 1,122 |
| 1957 | 194,300 | 47,658 | 13,844 | 48,509 | 13,848 | 925 |
| 1958 | 195,536 | 46,774 | 13,789 | 46,871 | 13,816 | 550 |
| 1959 | 256,283 | 64,110 | 19,548 | 64,221 | 19,701 | 1,804 |
| 1960 | 252,292 | 61,485 | 19,293 | 61,529 | 19,344 | 831 |
| 1961 | 296,261 | 77,983 | 23,562 | 77,996 | 23,613 | 2,455 |
| 1962 | 250,786 | 58,785 | 18,952 | 58,866 | 18,968 | 1,018 |
| 1963 | 308,903 | 71,846 | 23,927 | 71,971 | 24,056 | 296 |
| 1964 | 349,675 | 79,508 | 25,595 | 79,937 | 25,607 | 223 |
| 1965 | 365,675 | 84,600 | 28,483 | 85,065 | 28,543 | 250 |

Source: Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2009 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

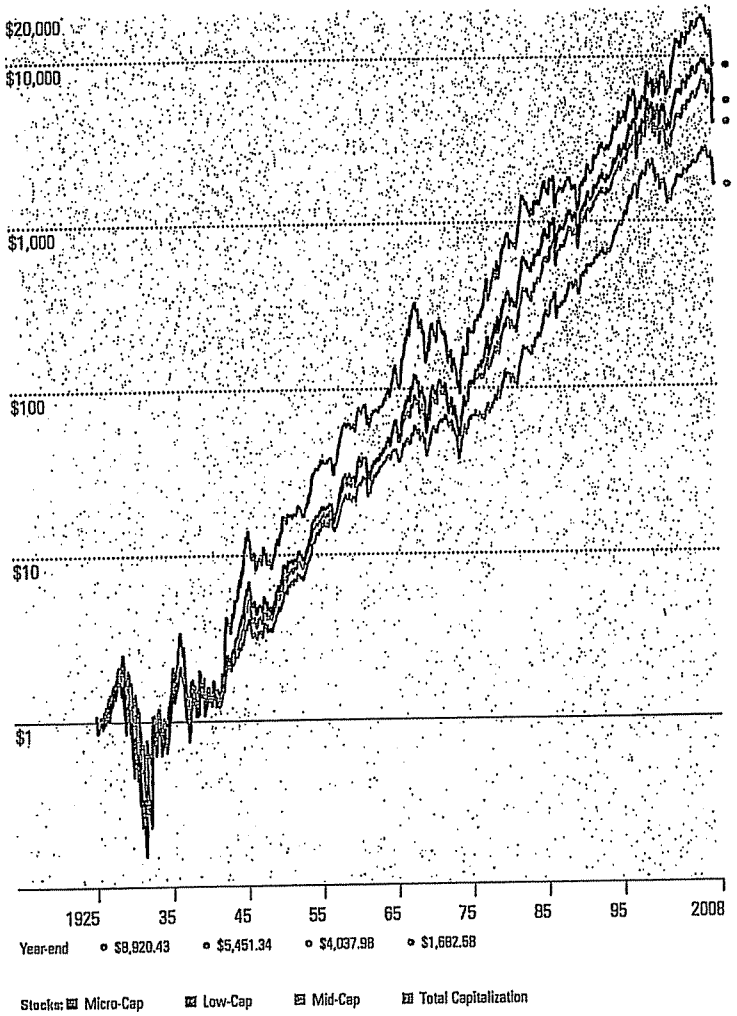
**Table 7-3** (Continued)
Size-Decile Portfolios of the NYSE/AMEX/NASDAQ
Largest and Smallest Company by Size Group

1966–2008

| Date (Sept 30) | Capitalization of Largest Company (in Thousands) | | | Capitalization of Smallest Company (in Thousands) | | |
|---|---|---|---|---|---|---|
| | Mid-Cap 3–5 | Low-Cap 6–8 | Micro-Cap 9–10 | Mid-Cap 3–5 | Low-Cap 6–8 | Micro-Cap 9–10 |
| 1966 | $403,137 | $99,960 | $34,884 | $100,107 | $34,966 | $381 |
| 1967 | 459,438 | 118,988 | 42,188 | 119,635 | 42,237 | 381 |
| 1968 | 531,306 | 150,893 | 60,543 | 151,260 | 60,719 | 592 |
| 1969 | 518,485 | 146,792 | 54,353 | 147,311 | 54,503 | 2,119 |
| 1970 | 382,884 | 94,754 | 29,916 | 94,845 | 29,932 | 822 |
| 1971 | 551,690 | 147,426 | 45,570 | 147,810 | 45,571 | 865 |
| 1972 | 557,181 | 143,835 | 46,728 | 144,263 | 46,757 | 1,031 |
| 1973 | 431,354 | 96,689 | 29,352 | 96,710 | 29,430 | 561 |
| 1974 | 356,876 | 79,878 | 23,355 | 80,280 | 23,400 | 444 |
| 1975 | 477,054 | 102,313 | 30,353 | 103,283 | 30,394 | 540 |
| 1976 | 566,296 | 121,717 | 34,864 | 121,992 | 34,901 | 564 |
| 1977 | 584,577 | 139,196 | 40,700 | 139,620 | 40,765 | 513 |
| 1978 | 580,881 | 164,093 | 47,927 | 164,455 | 48,038 | 830 |
| 1979 | 665,019 | 177,378 | 51,197 | 177,769 | 51,274 | 948 |
| 1980 | 762,195 | 199,312 | 50,496 | 199,315 | 50,544 | 549 |
| 1981 | 962,397 | 264,690 | 72,104 | 264,783 | 72,450 | 1,446 |
| 1982 | 770,517 | 210,301 | 55,336 | 210,630 | 55,423 | 1,060 |
| 1983 | 1,209,911 | 353,889 | 104,362 | 356,238 | 104,588 | 2,025 |
| 1984 | 1,075,436 | 315,965 | 91,004 | 316,103 | 91,195 | 2,093 |
| 1985 | 1,440,436 | 370,224 | 94,875 | 370,729 | 94,887 | 760 |
| 1986 | 1,857,621 | 449,015 | 110,617 | 449,462 | 110,953 | 706 |
| 1987 | 2,059,143 | 468,948 | 113,419 | 470,662 | 113,430 | 1,277 |
| 1988 | 1,957,926 | 421,340 | 94,449 | 421,675 | 94,573 | 696 |
| 1989 | 2,145,947 | 480,975 | 100,285 | 483,623 | 100,384 | 96 |
| 1990 | 2,171,217 | 474,065 | 93,750 | 474,477 | 93,790 | 132 |
| 1991 | 2,129,863 | 457,958 | 87,586 | 458,853 | 87,733 | 278 |
| 1992 | 2,428,671 | 500,327 | 103,352 | 500,346 | 103,500 | 510 |
| 1993 | 2,705,192 | 603,588 | 137,105 | 607,449 | 137,137 | 602 |
| 1994 | 2,470,244 | 596,059 | 148,104 | 597,975 | 148,216 | 598 |
| 1995 | 2,789,938 | 647,210 | 155,386 | 647,253 | 155,532 | 89 |
| 1996 | 3,142,657 | 751,316 | 193,001 | 751,680 | 193,016 | 1,043 |
| 1997 | 3,484,440 | 813,923 | 228,900 | 814,355 | 229,058 | 585 |
| 1998 | 4,216,707 | 925,688 | 252,553 | 926,215 | 253,031 | 1,671 |
| 1999 | 4,251,741 | 875,309 | 220,397 | 875,582 | 220,456 | 1,502 |
| 2000 | 4,143,902 | 840,000 | 192,083 | 840,730 | 192,439 | 1,393 |
| 2001 | 5,156,315 | 1,108,224 | 265,734 | 1,108,969 | 265,736 | 443 |
| 2002 | 4,930,326 | 1,116,525 | 308,980 | 1,124,331 | 309,245 | 501 |
| 2003 | 4,744,580 | 1,163,369 | 329,060 | 1,163,423 | 329,529 | 332 |
| 2004 | 6,241,953 | 1,607,854 | 505,437 | 1,607,931 | 506,410 | 1,393 |
| 2005 | 7,187,244 | 1,728,888 | 586,393 | 1,729,364 | 587,243 | 1,079 |
| 2006 | 7,777,183 | 1,946,588 | 626,955 | 1,947,240 | 627,017 | 2,247 |
| 2007 | 9,206,713 | 2,411,794 | 723,258 | 2,413,583 | 725,267 | 1,922 |
| 2008 | 7,360,271 | 1,848,961 | 453,254 | 1,849,950 | 453,398 | 1,575 |

Source: Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2009 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

**Graph 7-1:** Size-Decile Portfolios of the NYSE/AMEX/NASDAQ
Wealth Indices of Investments in Mid-, Low-, Micro-, and Total Capitalization Stocks
Index (Year-End 1925 = $1.00)




Data from 1925–2008.

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 218 percent. This divergence in the performance of small and large company stocks is a common occurrence.

**Table 7-4:** Size-Decile Portfolios of the NYSE/AMEX/NASDAQ
Summary Statistics of Annual Returns

| Decile | Geometric Mean | Arithmetic Mean | Standard Deviation | Serial Correlation |
|---|---|---|---|---|
| 1-Largest | 8.9 | 10.8 | 19.48 | 0.09 |
| 2 | 10.1 | 12.5 | 22.33 | 0.04 |
| 3 | 10.4 | 13.1 | 23.89 | -0.01 |
| 4 | 10.4 | 13.4 | 26.13 | 0.00 |
| 5 | 10.9 | 14.2 | 26.90 | -0.02 |
| 6 | 10.9 | 14.5 | 27.59 | 0.04 |
| 7 | 10.8 | 14.8 | 29.82 | 0.02 |
| 8 | 11.0 | 16.0 | 34.44 | 0.06 |
| 9 | 11.1 | 16.6 | 36.70 | 0.05 |
| 10-Smallest | 12.5 | 20.1 | 44.95 | 0.17 |
| Mid Cap | 10.5 | 13.4 | 24.93 | -0.01 |
| Low Cap | 10.9 | 14.9 | 29.41 | 0.04 |
| Micro | 11.6 | 17.7 | 39.16 | 0.09 |
| NYSE/AMEX/ NASDAQ Total Value Weighted Index | 9.4 | 11.4 | 20.53 | 0.04 |

Data from 1926–2008. Source: Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2009 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

Results are for quarterly re-ranking for the deciles. The small company stock summary statistics presented in earlier chapters comprise a re-ranking of the portfolios every five years prior to 1982.

### 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.

**Table 7-5:** Size-Decile Portfolios of the NYSE/AMEX/NASDAQ Long-Term Returns in Excess of CAPM

| Decile | Beta* | Arithmetic Mean Return (%) | Actual Return in Excess of Riskless Rate** (%) | CAPM Return in Excess of Riskless Rate† (%) | Size Premium (Return in Excess of CAPM) (%) |
|---|---|---|---|---|---|
| 1-Largest | 0.91 | 10.75 | 5.56 | 5.91 | -0.36 |
| 2 | 1.03 | 12.51 | 7.31 | 6.69 | 0.62 |
| 3 | 1.10 | 13.06 | 7.87 | 7.13 | 0.74 |
| 4 | 1.12 | 13.45 | 8.25 | 7.28 | 0.97 |
| 5 | 1.16 | 14.23 | 9.03 | 7.49 | 1.54 |
| 6 | 1.18 | 14.48 | 9.28 | 7.65 | 1.63 |
| 7 | 1.24 | 14.84 | 9.65 | 8.03 | 1.62 |
| 8 | 1.30 | 15.95 | 10.76 | 8.41 | 2.35 |
| 9 | 1.35 | 16.62 | 11.42 | 8.71 | 2.71 |
| 10-Smallest | 1.41 | 20.13 | 14.93 | 9.12 | 5.81 |
| Mid-Cap, 3–5 | 1.12 | 13.37 | 8.18 | 7.24 | 0.94 |
| Low-Cap, 6–8 | 1.22 | 14.86 | 9.66 | 7.92 | 1.74 |
| Micro-Cap, 9–10 | 1.36 | 17.72 | 12.52 | 8.79 | 3.74 |

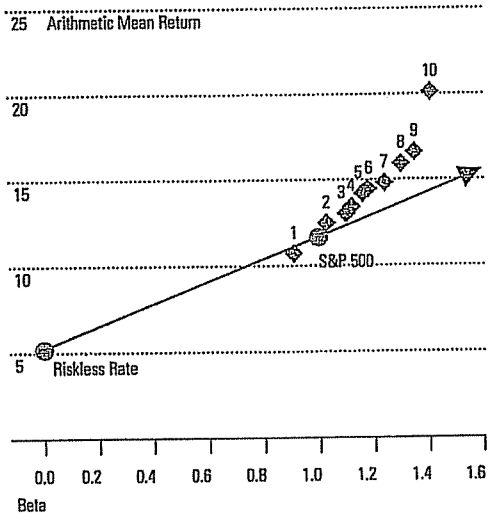
Data from 1926–2008.

*Betas are estimated from monthly returns in excess of the 30-day U.S. Treasury bill total return, January 1926–December 2008.

**Historical riskless rate measured by the 83-year arithmetic mean income return component of 20-year government bonds (5.20).

†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 (11.67 percent) minus the arithmetic mean income return component of 20-year government bonds (5.20 percent) from 1926–2008.

**Graph 7-2:** Security Market Line Versus Size-Decile Portfolios of the NYSE/AMEX/NASDAQ‡




Data from 1926–2008.

‡Source: Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2009 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

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.

### 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 83 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).[3] Beta measures the extent to which a security or portfolio is exposed to systematic risk.[4] 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.

**Table 7-6: Size-Decile Portfolios 10a and 10b of the NYSE/AMEX/NASDAQ**

| Decile | Recent Number of Companies | Recent Decile Market Capitalization (in Thousands) | Market Capitalization of Largest Company (in Thousands) | Company Name |
|---|---|---|---|---|
| 10a | 409 | $77,980,249 | $218,533,000 | Beazer Homes U.S.A. Inc. |
| 10b | 1182 | 75,412,545 | 136,500,000 | Great Northern Iron Ore |

Note: These numbers may not aggregate to equal decile 10 figures.

Source: Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2009 Center for Research in Security Prices (CRSP©), The University of Chicago Booth School of Business. Used with permission.

Market capitalization and name of largest company in each decile as of September 30, 2008.

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.

**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 7-7:** Long-Term Returns in Excess of CAPM Estimation for Decile Portfolios of the NYSE/AMEX/NASDAQ, with 10th Decile Split

| | 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 | 10.75 | 5.56 | 5.91 | -0.36 |
| 2 | 1.03 | 12.51 | 7.31 | 6.69 | 0.62 |
| 3 | 1.10 | 13.06 | 7.87 | 7.13 | 0.74 |
| 4 | 1.12 | 13.45 | 8.25 | 7.28 | 0.97 |
| 5 | 1.16 | 14.23 | 9.03 | 7.49 | 1.54 |
| 6 | 1.18 | 14.48 | 9.28 | 7.65 | 1.63 |
| 7 | 1.24 | 14.84 | 9.65 | 8.03 | 1.62 |
| 8 | 1.30 | 15.95 | 10.76 | 8.41 | 2.35 |
| 9 | 1.35 | 16.62 | 11.42 | 8.71 | 2.71 |
| 10a | 1.42 | 18.49 | 13.29 | 9.19 | 4.11 |
| 10b-Smallest | 1.38 | 23.68 | 18.48 | 8.95 | 9.53 |
| Mid-Cap, 3–5 | 1.12 | 13.37 | 8.18 | 7.24 | 0.94 |
| Low-Cap, 6–8 | 1.22 | 14.86 | 9.66 | 7.92 | 1.74 |
| Micro-Cap, 9–10 | 1.36 | 17.72 | 12.52 | 8.79 | 3.74 |

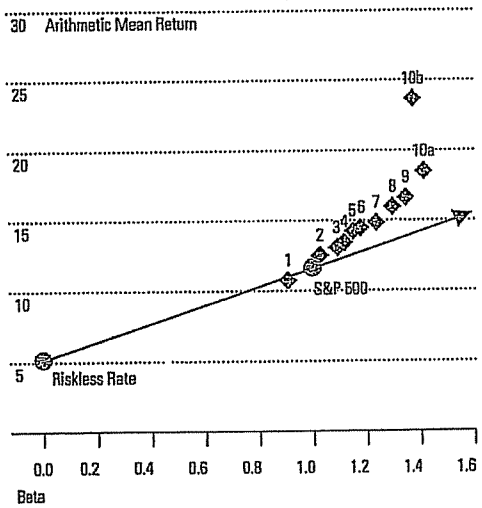
Data from 1926–2008. Source: Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2009 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

*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 2008 .

**Historical riskless rate is measured by the 83-year arithmetic mean income return component of 20-year government bonds (5.20 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 (11.67 percent) minus the arithmetic mean income return component of 20-year government bonds (5.20 percent) from 1926–2008.

**Graph 7-3:** Security Market Line versus Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, with 10th Decile Split‡




Data from 1926–2008.

‡Source: Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2009 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

**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 |
| 2006 | 1,744 |
| 2007 | 1,775 |
| 2008 | 1,626 |

Source: Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2009 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

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

### 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.[5]

### 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.

**Table 7-9:** Long-Term Returns in Excess of CAPM Estimation for Decile Portfolios of the NYSE/AMEX/NASDAQ, with NYSE Market Benchmarks

| | 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 | 0.99 | 10.75 | 5.56 | 5.72 | -0.16 |
| 2 | 1.11 | 12.51 | 7.31 | 6.45 | 0.86 |
| 3 | 1.18 | 13.06 | 7.87 | 6.81 | 1.05 |
| 4 | 1.20 | 13.45 | 8.25 | 6.97 | 1.28 |
| 5 | 1.23 | 14.23 | 9.03 | 7.14 | 1.89 |
| 6 | 1.26 | 14.48 | 9.28 | 7.28 | 2.00 |
| 7 | 1.32 | 14.84 | 9.65 | 7.63 | 2.01 |
| 8 | 1.38 | 15.95 | 10.76 | 8.00 | 2.76 |
| 9 | 1.42 | 16.62 | 11.42 | 8.25 | 3.17 |
| 10-Smallest | 1.48 | 20.13 | 14.93 | 8.60 | 6.33 |
| Mid-Cap, 3–5 | 1.19 | 13.37 | 8.18 | 6.92 | 1.26 |
| Low-Cap, 6–8 | 1.30 | 14.86 | 9.66 | 7.54 | 2.12 |
| Micro-Cap, 9–10 | 1.43 | 17.72 | 12.52 | 8.32 | 4.21 |

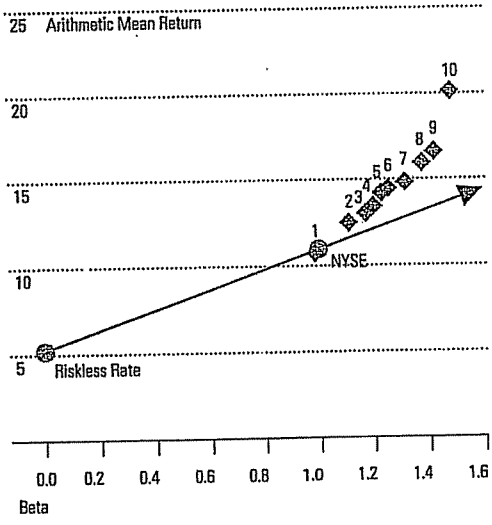
Data from 1926–2008. Source: Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2009 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

*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 2008 .

**Historical riskless rate is measured by the 83-year arithmetic mean income return component of 20-year government bonds (5.20 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 (11.67 percent) minus the arithmetic mean income return component of 20-year government bonds (5.20 percent) from 1926–2008.

**Graph 7-4:** Security Market Line versus Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, with NYSE Market Benchmarks*




Data from 1926–2008.

For the entire period analyzed, 1926–2008, 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 5.80, as opposed to 6.47 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.

### Measuring Beta with Sum Beta

The sum beta method attempts to provide a better measure of beta for small stocks by taking into account their lagged price reaction to movements in the market. [See Chapter 6.] Table 7-10 shows that using this method of beta estimation results in larger betas for the smaller size deciles of the NYSE/AMEX/NASDAQ while those of the larger size deciles remain relatively stable. From these results, it appears that the sum beta method corrects for possible errors that are made when estimating small company betas without adjusting for the lagged price reaction of small stocks. However, the sum beta, when applied to the CAPM, still does not account for all of the returns in excess of the riskless rate historically found for small stocks. Table 7-10 demonstrates that a size premium is still necessary to estimate the expected returns using sum beta in conjunction with the CAPM, though the premium is smaller than that needed when using the typical calculation of beta.

Graph 7-5 compares the 10 deciles of the NYSE/AMEX/NASDAQ to the security market line. There are two sets of decile portfolios—one set is plotted using the single variable regression method of calculating beta, as in Graph 7-2, and the second set uses the sum beta method. The portfolios plotted using sum beta more closely resemble the security market line. Again, this demonstrates that the sum beta method results in the desired effect: a higher estimate of returns for small companies. Yet the smaller portfolios still lie above the security market line, indicating that an additional premium may be required.

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May 27, 2009

**Criteria | Corporates | General:**

# Criteria Methodology: Business Risk/Financial Risk Matrix Expanded

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Business Risk/Financial Risk Framework

Updated Matrix

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Related Articles

**Criteria | Corporates | General:**

# Criteria Methodology: Business Risk/Financial Risk Matrix Expanded

*(Editor's Note: In the previous version of this article published on May 26, certain of the rating outcomes in the table 1 matrix were missated. A corrected version follows.)*

Standard & Poor's Ratings Services is refining its methodology for corporate ratings related to its business risk/financial risk matrix, which we published as part of 2008 Corporate Ratings Criteria on April 15, 2008, on RatingsDirect at www.ratingsdirect.com and Standard & Poor's Web site at www.standardandpoors.com.

This article amends and supersedes the criteria as published in Corporate Ratings Criteria, page 21, and the articles listed in the "Related Articles" section at the end of this report.

This article is part of a broad series of measures announced last year to enhance our governance, analytics, dissemination of information, and investor education initiatives. These initiatives are aimed at augmenting our independence, strengthening the rating process, and increasing our transparency to better serve the global markets.

We introduced the business risk/financial risk matrix four years ago. The relationships depicted in the matrix represent an essential element of our corporate analytical methodology.

We are now expanding the matrix, by adding one category to both business and financial risks (see table 1). As a result, the matrix allows for greater differentiation regarding companies rated lower than investment grade (i.e., 'BB' and below).

Table 1

**Business And Financial Risk Profile Matrix**

| Business Risk Profile | Financial Risk Profile | | | | | |
|---|---|---|---|---|---|---|
| | Minimal | Modest | Intermediate | Significant | Aggressive | Highly Leveraged |
| Excellent | AAA | AA | A | A- | BBB | -- |
| Strong | AA | A | A- | BBB | BB | BB- |
| Satisfactory | A- | BBB+ | BBB | BB+ | BB- | B+ |
| Fair | -- | BBB- | BB+ | BB | BB- | B |
| Weak | -- | -- | BB | BB- | B+ | B- |
| Vulnerable | -- | -- | -- | B+ | B | CCC+ |

These rating outcomes are shown for guidance purposes only. Actual rating should be within one notch of indicated rating outcomes.

The rating outcomes refer to issuer credit ratings. The ratings indicated in each cell of the matrix are the midpoints of a range of likely rating possibilities. This range would ordinarily span one notch above and below the indicated rating.

## Business Risk/Financial Risk Framework

Our corporate analytical methodology organizes the analytical process according to a common framework, and it divides the task into several categories so that all salient issues are considered. The first categories involve fundamental business analysis; the financial analysis categories follow.

Our ratings analysis starts with the assessment of the business and competitive profile of the company. Two companies with identical financial metrics can be rated very differently, to the extent that their business challenges and prospects differ. The categories underlying our business and financial risk assessments are:

Business risk
- Country risk
- Industry risk
- Competitive position
- Profitability/Peer group comparisons

Financial risk
- Accounting
- Financial governance and policies/risk tolerance
- Cash flow adequacy
- Capital structure/asset protection
- Liquidity/short-term factors

We do not have any predetermined weights for these categories. The significance of specific factors varies from situation to situation.

## Updated Matrix

We developed the matrix to make explicit the rating outcomes that are typical for various business risk/financial risk combinations. It illustrates the relationship of business and financial risk profiles to the issuer credit rating.

We tend to weight business risk slightly more than financial risk when differentiating among investment-grade ratings. Conversely, we place slightly more weight on financial risk for speculative-grade issuers (see table 1, again). There also is a subtle compounding effect when both business risk and financial risk are aligned at extremes (i.e., excellent/minimal and vulnerable/highly leveraged.)

The new, more granular version of the matrix represents a refinement--not any change in rating criteria or standards--and, consequently, holds no implications for any changes to existing ratings. However, the expanded matrix should enhance the transparency of the analytical process.

## Financial Benchmarks

Table 2

**Financial Risk Indicative Ratios (Corporates)**

| | FFO/Debt (%) | Debt/EBITDA (x) | Debt/Capital (%) |
|---|---|---|---|
| Minimal | greater than 60 | less than 1.5 | less than 25 |
| Modest | 45-60 | 1.5-2 | 25-35 |
| Intermediate | 30-45 | 2-3 | 35-45 |
| Significant | 20-30 | 3-4 | 45-50 |
| Aggressive | 12-20 | 4-5 | 50-60 |
| Highly Leveraged | less than 12 | greater than 5 | greater than 60 |

## How To Use The Matrix--And Its Limitations

The rating matrix indicative outcomes are what we typically observe--but are not meant to be precise indications or guarantees of future rating opinions. Positive and negative nuances in our analysis may lead to a notch higher or lower than the outcomes indicated in the various cells of the matrix.

In certain situations there may be specific, overarching risks that are outside the standard framework, e.g., a liquidity crisis, major litigation, or large acquisition. This often is the case regarding credits at the lowest end of the credit spectrum--i.e., the 'CCC' category and lower. These ratings, by definition, reflect some impending crisis or acute vulnerability, and the balanced approach that underlies the matrix framework just does not lend itself to such situations.

Similarly, some matrix cells are blank because the underlying combinations are highly unusual--and presumably would involve complicated factors and analysis.

The following hypothetical example illustrates how the tables can be used to better understand our rating process (see tables 1 and 2).

We believe that Company ABC has a satisfactory business risk profile, typical of a low investment-grade industrial issuer. If we believed its financial risk were intermediate, the expected rating outcome should be within one notch of 'BBB'. ABC's ratios of cash flow to debt (35%) and debt leverage (total debt to EBITDA of 2.5x) are indeed characteristic of intermediate financial risk.

It might be possible for Company ABC to be upgraded to the 'A' category by, for example, reducing its debt burden to the point that financial risk is viewed as minimal. Funds from operations (FFO) to debt of more than 60% and debt to EBITDA of only 1.5x would, in most cases, indicate minimal.

Conversely, ABC may choose to become more financially aggressive--perhaps it decides to reward shareholders by borrowing to repurchase its stock. It is possible that the company may fall into the 'BB' category if we view its financial risk as significant. FFO to debt of 20% and debt to EBITDA 4x would, in our view, typify the significant financial risk category.

Still, it is essential to realize that the financial benchmarks are guidelines, neither gospel nor guarantees. They can vary in nonstandard cases: For example, if a company's financial measures exhibit very little volatility, benchmarks may be somewhat more relaxed.

Moreover, our assessment of financial risk is not as simplistic as looking at a few ratios. It encompasses:

- a view of accounting and disclosure practices;
- a view of corporate governance, financial policies, and risk tolerance;
- the degree of capital intensity, flexibility regarding capital expenditures and other cash needs, including acquisitions and shareholder distributions; and
- various aspects of liquidity--including the risk of refinancing near-term maturities.

The matrix addresses a company's standalone credit profile, and does not take account of external influences, which would pertain in the case of government-related entities or subsidiaries that in our view may benefit or suffer from affiliation with a stronger or weaker group. The matrix refers only to local-currency ratings, rather than foreign-currency ratings, which incorporate additional transfer and convertibility risks. Finally, the matrix does not apply to project finance or corporate securitizations.

## Related Articles

Industrials' Business Risk/Financial Risk Matrix--A Fundamental Perspective On Corporate Ratings, published April 7, 2005, on RatingsDirect.

Missouri Gas Energy
Indicated Common Equity Cost Rate Through Use of the
Single Stage Discounted Cash Flow Model for the
Proxy Group of Nine Value Line Natural Gas Distribution Companies

Based upon Projected Growth in EPS

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| | Average Dividend Yield (1) | Dividend Growth Component (2) | Adjusted Dividend Yield (3) | Growth Rate (4) | Indicated Common Equity Cost Rate (5) |
| Proxy Group of Nine Value Line Natural Gas Distribution Companies | | | | | |
| AGL Resources Inc. | 5.10 % | 0.11 % | 5.21 % | 4.35 % | 9.56 % |
| Atmos Energy Corp. | 4.81 | 0.11 | 4.92 | 4.40 | 9.32 |
| The Laclede Group, Inc. | 4.67 | 0.08 | 4.75 | 3.25 | 8.00 |
| New Jersey Resources Corp. | 3.35 | 0.10 | 3.45 | 5.75 | 9.20 |
| Northwest Natural Gas Co. | 3.70 | 0.09 | 3.79 | 5.10 | 8.89 |
| Piedmont Natural Gas Co., Inc. | 4.51 | 0.13 | 4.64 | 5.90 | 10.54 |
| South Jersey Industries, Inc. | 3.43 | 0.13 | 3.56 | 7.85 | 11.41 |
| Southwest Gas Corporation | 3.92 | 0.09 | 4.01 | 4.75 | 8.76 |
| WGL Holdings, Inc. | 4.44 | 0.09 | 4.53 | 4.25 | 8.78 |
| Average | 4.21 % | 0.10 % | 4.32 % | 5.07 % | 9.38 % |
| Median | 4.44 % | 0.10 % | 4.53 % | 4.75 % | 9.20 % |
| Southern Union Company | 3.06 % | 0.11 % | 3.17 % | 7.50 % | 10.67 % |

Notes:
(1) From Page 22 of this Schedule.
(2) This reflects a growth rate component equal to one-half the conclusion of growth rate (from page 23 of this Schedule) x Column 1 to reflect the periodic payment of dividends (Gordon Model) as opposed to the continuous payment. Thus, for AGL Resources Inc., 5.10% x ( 1/2 x 4.35% ) = 0.11%.
(3) Column 1 + Column 2.
(4) From Page 23 of this Schedule.
(5) Column 3 + Column 4.

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

| | Dividend Yield | | |
|---|---|---|---|
| | Spot (9/9/2009)(1) | Average of Last 2 Months (2) | Average Dividend Yield (3) |
| Proxy Group of Nine Value Line Natural Gas Distribution Companies | | | |
| AGL Resources Inc. | 5.09 % | 5.12 % | 5.10 % |
| Atmos Energy Corp. | 4.77 | 4.85 | 4.81 |
| The Laclede Group, Inc. | 4.68 | 4.66 | 4.67 |
| New Jersey Resources Corp. | 3.41 | 3.29 | 3.35 |
| Northwest Natural Gas Co. | 3.75 | 3.65 | 3.70 |
| Piedmont Natural Gas Co., Inc. | 4.58 | 4.44 | 4.51 |
| South Jersey Industries, Inc. | 3.52 | 3.34 | 3.43 |
| Southwest Gas Corporation | 3.92 | 3.92 | 3.92 |
| WGL Holdings, Inc. | 4.43 | 4.45 | 4.44 |
| Average | 4.24 % | 4.19 % | 4.21 % |
| Median | 4.43 % | 4.44 % | 4.44 % |
| Southern Union Company | 3.06 % | 3.06 % | 3.06 % |

Notes:

(1) The spot dividend yield is the current annualized dividend per share divided by the spot market price on 9/9/2009.

(2) The average 2-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 8/31/2009.

(3) Equal weight has been given to the 2-month average and spot dividend yield. This provides recognition of current conditions, but does not place undue emphasis thereon.

Source of Information: yahoo.finance.com

Missouri Gas Energy
Historical and Projected Growth

| | 1 | 2 | | 3 |
|---|---|---|---|---|
| | Value Line Projected Growth 2012-2014 (1) | Reuters Mean Consensus Projected Five Year Growth Rate | | Average Projected Five Year Growth Rate in EPS (2) |
| | EPS | EPS | No. of Est. | |
| Proxy Group of Nine Value Line Natural Gas Distribution Companies | | | | |
| AGL Resources Inc. | 3.50 % | 5.20 % | [3] | 4.35 % |
| Atmos Energy Corp. | 4.00 | 4.80 | [6] | 4.40 |
| The Laclede Group, Inc. | 3.50 | 3.00 | [1] | 3.25 |
| New Jersey Resources Corp. | 5.50 | 6.00 | [3] | 5.75 |
| Northwest Natural Gas Co. | 5.00 | 5.20 | [3] | 5.10 |
| Piedmont Natural Gas Co., Inc. | 5.50 | 6.30 | [4] | 5.90 |
| South Jersey Industries, Inc. | 5.50 | 10.20 | [3] | 7.85 |
| Southwest Gas Corporation | 4.50 | 5.00 | [4] | 4.75 |
| WGL Holdings, Inc. | 4.00 | 4.50 | [2] | 4.25 |
| Average | 4.56 % | 5.58 % | | 5.07 % |
| Median | 4.50 % | 5.20 % | | 4.75 % |
| Southern Union Company | 5.00 % | 10.00 % | [1] | 7.50 % |

NA= Not Applicable

Notes: (1) As shown on Pages 24 through 33 of this Schedule.

(2) Average of Columns 1 and 2.

Source of Information: Value Line Investment Survey Standard Edition September 11, 2009.

Reuters Company Research September 8, 2009

# AGL RESOURCES NYSE-AGL

RECENT PRICE 33.35 | P/E RATIO 13.1 (Trailing: 10.9 Median: 14.0) | RELATIVE P/E RATIO 0.81 | DIV'D YLD 5.2% | VALUE LINE

TIMELINESS 3 Lowered 6/12/09
SAFETY 2 New 7/27/90
TECHNICAL 5 Lowered 9/11/09
BETA .75 (1.00 = Market)

2012-14 PROJECTIONS

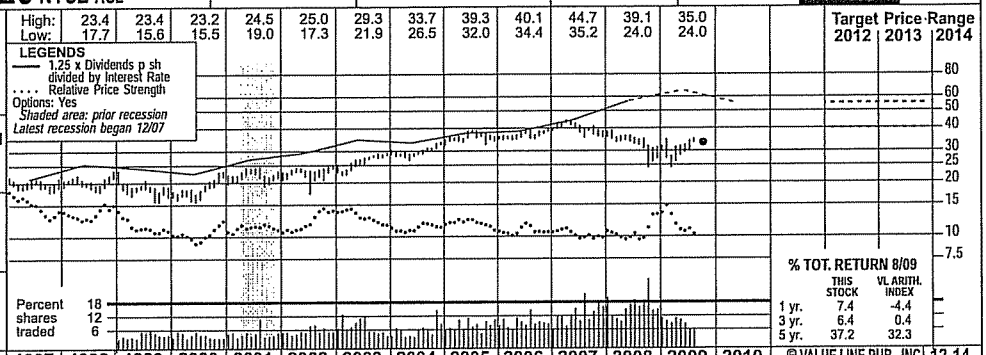
| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 55 | (+65%) | 17% |
| Low | 40 | (+20%) | 10% |

Insider Decisions

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

Institutional Decisions

| | 4Q2008 | 1Q2009 | 2Q2009 |
|---|---|---|---|
| to Buy | 107 | 110 | 124 |
| to Sell | 111 | 107 | 96 |
| Hld's(000) | 46113 | 45714 | 45662 |




| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | © VALUE LINE PUB., INC. | 12-14 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 22.73 | 23.59 | 19.32 | 21.91 | 22.75 | 23.36 | 18.71 | 11.25 | 19.04 | 15.32 | 15.25 | 23.89 | 34.98 | 33.73 | 32.64 | 36.41 | *32.20* | *34.50* | Revenues per sh [A] | *38.80* |
| | 2.25 | 2.24 | 2.33 | 2.49 | 2.42 | 2.65 | 2.29 | 2.86 | 3.31 | 3.39 | 3.47 | 3.29 | 4.20 | 4.50 | 4.65 | 4.68 | *4.70* | *4.95* | "Cash Flow" per sh | *5.40* |
| | 1.08 | 1.17 | 1.33 | 1.37 | 1.37 | 1.41 | .91 | 1.29 | 1.50 | 1.82 | 2.08 | 2.28 | 2.48 | 2.72 | 2.72 | 2.71 | *2.70* | *2.90* | Earnings per sh [A B] | *3.30* |
| | 1.04 | 1.04 | 1.04 | 1.06 | 1.08 | 1.08 | 1.08 | 1.08 | 1.08 | 1.08 | 1.11 | 1.15 | 1.30 | 1.48 | 1.64 | 1.68 | *1.72* | *1.76* | Div'ds Decl'd per sh [C ■] | *1.88* |
| | 2.49 | 2.37 | 2.17 | 2.37 | 2.59 | 2.05 | 2.51 | 2.92 | 2.83 | 3.30 | 2.46 | 3.44 | 3.44 | 3.26 | 3.39 | 4.84 | *5.15* | *5.30* | Cap'l Spending per sh | *5.60* |
| | 9.90 | 10.19 | 10.12 | 10.56 | 10.99 | 11.42 | 11.59 | 11.50 | 12.19 | 12.52 | 14.66 | 18.06 | 19.29 | 20.71 | 21.74 | 21.48 | *23.10* | *23.40* | Book Value per sh [D] | *23.55* |
| | 49.72 | 50.86 | 55.02 | 55.70 | 56.60 | 57.30 | 57.10 | 54.00 | 55.10 | 56.70 | 64.50 | 76.70 | 77.70 | 77.70 | 76.40 | 76.90 | *78.00* | *79.00* | Common Shs Outst'g [E] | *85.00* |
| | 17.9 | 15.1 | 12.6 | 13.8 | 14.7 | 13.9 | 21.4 | 13.6 | 14.6 | 12.5 | 12.5 | 13.1 | 14.3 | 13.5 | 14.7 | 12.3 | *Bold figures are Value Line estimates* | | Avg Ann'l P/E Ratio | *15.0* |
| | 1.06 | .99 | .84 | .86 | .85 | .72 | 1.22 | .88 | .75 | .68 | .71 | .69 | .76 | .73 | .78 | .74 | | | Relative P/E Ratio | *1.00* |
| | 5.4% | 5.9% | 6.2% | 5.6% | 5.4% | 5.5% | 5.5% | 6.2% | 4.9% | 4.7% | 4.3% | 3.9% | 3.7% | 4.0% | 4.1% | 5.0% | | | Avg Ann'l Div'd Yield | *3.8%* |
| | | | | | | | 1068.6 | 607.4 | 1049.3 | 868.9 | 983.7 | 1832.0 | 2718.0 | 2621.0 | 2494.0 | 2800.0 | *2510* | *2725* | Revenues ($mill) [A] | *3300* |
| | | | | | | | 52.1 | 71.1 | 82.3 | 103.0 | 132.4 | 153.0 | 193.0 | 212.0 | 211.0 | 207.6 | *155* | *160* | Net Profit ($mill) | *180* |
| | | | | | | | 33.1% | 34.3% | 40.7% | 36.0% | 35.9% | 37.0% | 37.7% | 37.8% | 37.6% | 40.5% | *35.0%* | *38.0%* | Income Tax Rate | *38.0%* |
| | | | | | | | 4.9% | 11.7% | 7.8% | 11.9% | 13.5% | 8.4% | 7.1% | 8.1% | 8.5% | 7.4% | *8.4%* | *8.4%* | Net Profit Margin | *8.5%* |
| | | | | | | | 45.3% | 45.9% | 61.3% | 58.3% | 50.3% | 54.0% | 51.9% | 50.2% | 50.2% | 50.3% | *48.0%* | *45.0%* | Long-Term Debt Ratio | *43.0%* |
| | | | | | | | 49.2% | 48.3% | 38.7% | 41.7% | 49.7% | 46.0% | 48.1% | 49.8% | 49.8% | 49.7% | *52.0%* | *55.0%* | Common Equity Ratio | *57.0%* |
| | | | | | | | 1345.8 | 1286.2 | 1736.3 | 1704.3 | 1901.4 | 3008.0 | 3114.0 | 3231.0 | 3335.0 | 3327.0 | *3475* | *3350* | Total Capital ($mill) | *3500* |
| | | | | | | | 1598.9 | 1637.5 | 2058.9 | 2194.2 | 2352.4 | 3178.0 | 3271.0 | 3436.0 | 3566.0 | 3816.0 | *4000* | *4150* | Net Plant ($mill) | *4400* |
| | | | | | | | 5.7% | 7.4% | 6.5% | 8.1% | 8.9% | 6.3% | 7.9% | 8.0% | 7.7% | 7.4% | *7.5%* | *8.0%* | Return on Total Cap'l | *9.0%* |
| | | | | | | | 7.1% | 10.2% | 12.3% | 14.5% | 14.0% | 11.0% | 12.9% | 13.2% | 12.7% | 12.6% | *11.5%* | *12.5%* | Return on Shr. Equity | *14.0%* |
| | | | | | | | 7.9% | 11.5% | 12.3% | 14.5% | 14.0% | 11.0% | 12.9% | 13.2% | 12.7% | 12.6% | *11.5%* | *12.5%* | Return on Com Equity | *14.0%* |
| | | | | | | | NMF | 3.2% | 4.2% | 7.0% | 6.6% | 5.6% | 6.2% | 6.3% | 5.3% | 5.1% | *4.0%* | *5.0%* | Retained to Com Eq | *6.0%* |
| | | | | | | | 101% | 72% | 65% | 52% | 53% | 49% | 52% | 52% | 58% | 60% | *64%* | *60%* | All Div'ds to Net Prof | *57%* |

CAPITAL STRUCTURE as of 6/30/09
Total Debt $2093.0 mill. Due in 5 Yrs $962.0 mill.
LT Debt $1675.0 mill. LT Interest $90.0 mill.
(Total interest coverage: 3.9x)

Leases, Uncapitalized Annual rentals $30.0 mill.
Pension Assets-12/08 $242.0 mill. Oblig. $442.0 mill.

Pfd Stock None

Common Stock 77,278,942 shs.
as of 7/24/09
MARKET CAP: $2.6 billion (Mid Cap)

| CURRENT POSITION ($MILL.) | 2007 | 2008 | 6/30/09 |
|---|---|---|---|
| Cash Assets | 21.0 | 16.0 | 12.0 |
| Other | 1790.0 | 2026.0 | 1304.0 |
| Current Assets | 1811.0 | 2042.0 | 1316.0 |
| Accts Payable | 172.0 | 202.0 | 167.0 |
| Debt Due | 580.0 | 866.0 | 418.0 |
| Other | 893.0 | 915.0 | 696.0 |
| Current Liab. | 1645.0 | 1983.0 | 1281.0 |
| Fix. Chg. Cov. | 391% | 416% | 527% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '06-'08 to '12-'14 |
|---|---|---|---|
| Revenues | 4.0% | 15.5% | *2.0%* |
| "Cash Flow" | 6.0% | 6.5% | *2.5%* |
| Earnings | 7.0% | 8.5% | *3.5%* |
| Dividends | 4.0% | 8.0% | *2.5%* |
| Book Value | 7.0% | 10.0% | *1.5%* |

| Calendar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2006 | 1044 | 436 | 434 | 707 | 2621 |
| 2007 | 973 | 467 | 369 | 685 | 2494 |
| 2008 | 1012 | 444 | 539 | 805 | 2800 |
| 2009 | 995 | 377 | *440* | *698* | *2510* |
| 2010 | *1020* | *450* | *480* | *775* | *2725* |

| Calendar | EARNINGS PER SHARE [B] Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2006 | 1.41 | .25 | .46 | .60 | 2.72 |
| 2007 | 1.29 | .40 | .17 | .86 | 2.72 |
| 2008 | 1.16 | .30 | .28 | .97 | 2.71 |
| 2009 | 1.55 | .26 | *.20* | *.69* | *2.70* |
| 2010 | *1.40* | *.30* | *.30* | *.90* | *2.90* |

| Calendar | QUARTERLY DIVIDENDS PAID [C ■] Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2005 | .31 | .31 | .31 | .37 | 1.30 |
| 2006 | .37 | .37 | .37 | .37 | 1.48 |
| 2007 | .41 | .41 | .41 | .41 | 1.64 |
| 2008 | .42 | .42 | .42 | .42 | 1.68 |
| 2009 | .43 | .43 | .43 | | |

BUSINESS: AGL Resources Inc. is a public utility holding company. Its distribution subsidiaries include Atlanta Gas Light, Chattanooga Gas, Elizabethtown Gas and Virginia Natural Gas. The utilities have more than 2.2 million customers in Georgia, Virginia, Tennessee, New Jersey, Florida, and Maryland. Engaged in non-regulated natural gas marketing and other allied services. Deregulated subsidiaries: Georgia Natural Gas markets natural gas at retail. Sold Utilipro, 3/01. Acquired Compass Energy Services, 10/07. Franklin Resources owns 7.7% of common stock; off./dir., less than 1.0% (3/09 Proxy). Pres. & CEO: John W. Somerhalder II. Inc.: GA. Addr.: Ten Peachtree Place N.E., Atlanta, GA 30309. Telephone: 404-584-4000. Internet: www.aglresources.com.

**We do not expect 2009 to be a banner year for AGL Resources.** The company reported healthy results in the first quarter. However, performance was less favorable in the recent interim. The Wholesale services business posted an operating loss of $11 million, while the Retail Energy Operations and Energy Investments units reported lower earnings. On the bright side, the Distribution Operations business posted moderate growth in operating earnings. This was primarily due to higher fees to marketers in Georgia for the storage of natural gas inventory and greater pipeline replacement revenues at Atlanta Gas Light. Overall, revenues and share earnings declined in the June period. Looking forward, comparisons will likely also prove unfavorable for the second half of the year. Thus, we anticipate lower revenues and relatively flat share earnings for full-year 2009.

**Subsidiary Atlanta Gas Light has announced a system infrastructure investment project.** This $400 million program will be completed over a 10-year period. Infrastructure improvements include upgrading the utility's distribution system and its liquefied natural gas facilities. This project will improve system reliability, increase operational flexibility, and allow Atlanta Gas Light to meet its forecasted growth objectives.

**Elizabethtown Gas has modified its rate case filing.** It had originally requested a $25 million rate hike, but has since lowered this amount to $17 million. The proposed increase would become effective at the beginning of 2010. Meanwhile, Atlanta Gas Light has requested to postpone a rate case filing, which had originally been scheduled for November 1st of this year. However, it does plan to file sometime after that (June 1, 2010 at the latest). Virginia Natural Gas and Chattanooga Gas also intend to file rate cases in 2010.

**We anticipate higher revenues and share earnings at the company by 2012-2014,** on better operating conditions. Moreover, AGL has a healthy dividend yield and earns high marks for Safety, Price Stability, and Earnings Predictability. From the present quotation, **this issue features decent risk-adjusted total return potential.**

*Michael Napoli, CPA* *September 11, 2009*

(A) Fiscal year ends December 31st. Ended September 30th prior to 2002.
(B) Diluted earnings per share. Excl. nonrecurring gains (losses): '95, ($0.83); '99, $0.39; '00, $0.13; '01, $0.13; '03, ($0.07); '08, $0.13. Next earnings report due late October. (C) Dividends historically paid early March, June, Sept., and Dec. ■ Div'd reinvest. plan available. (D) Includes intangibles. In 2008: $418 million, $5.44/share. (E) In millions.

| | |
|---|---|
| Company's Financial Strength | B++ |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 75 |
| Earnings Predictability | 90 |

# ATMOS ENERGY CORP. NYSE-ATO

RECENT PRICE 27.06 | P/E RATIO 12.1 (Trailing: 11.9 Median: 16.0) | RELATIVE P/E RATIO 0.75 | DIV'D YLD 5.0% | VALUE LINE

TIMELINESS 3 Lowered 9/11/09
SAFETY 2 Raised 12/16/05
TECHNICAL 4 Lowered 9/4/09
BETA .65 (1.00 = Market)

2012-14 PROJECTIONS

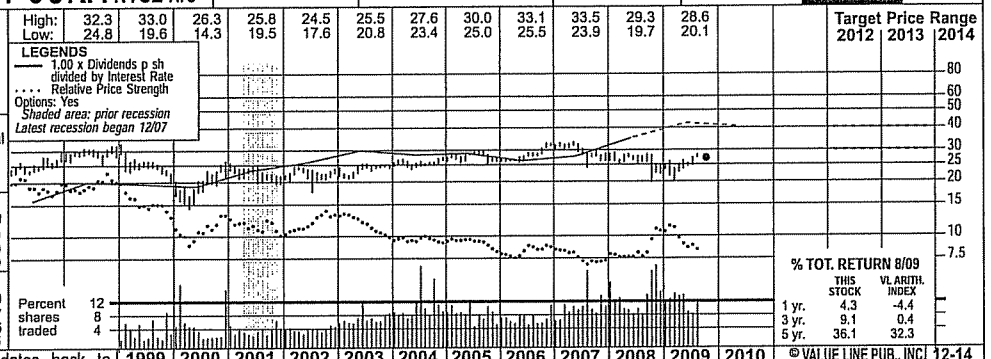
| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 40 | (+50%) | 14% |
| Low | 30 | (+10%) | 7% |

Insider Decisions

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

Institutional Decisions

| | 4Q2008 | 1Q2009 | 2Q2009 |
|---|---|---|---|
| to Buy | 141 | 108 | 107 |
| to Sell | 103 | 122 | 115 |
| Hld's(000) | 53678 | 53874 | 54285 |




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

CAPITAL STRUCTURE as of 6/30/09
Total Debt $2169.5 mill. Due in 5 Yrs $1360.0 mill.
LT Debt $2169.4 mill. LT Interest $115.0 mill.
(LT interest earned: 2.9x; total interest coverage: 2.8x)
Leases, Uncapitalized Annual rentals $18.4 mill.
Pfd Stock None
Pension Assets-9/08 $341.4 mill.
Oblig. $337.6 mill.
Common Stock 92,272,478 shs.
as of 7/31/09
MARKET CAP: $2.5 billion (Mid Cap)

| CURRENT POSITION ($MILL.) | 2007 | 2008 | 6/30/09 |
|---|---|---|---|
| Cash Assets | 60.7 | 46.7 | 125.7 |
| Other | 1008.2 | 1238.4 | 670.3 |
| Current Assets | 1068.9 | 1285.1 | 796.0 |
| Accts Payable | 355.3 | 395.4 | 222.0 |
| Debt Due | 154.4 | 351.3 | .1 |
| Other | 410.0 | 460.4 | 422.2 |
| Current Liab. | 919.7 | 1207.1 | 644.3 |
| Fix. Chg. Cov. | 405% | 450% | 446% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '06-'08 to '12-'14 |
|---|---|---|---|
| Revenues | 9.5% | 14.5% | 3.0% |
| "Cash Flow" | 3.5% | 5.5% | 2.5% |
| Earnings | 2.5% | 5.0% | 4.0% |
| Dividends | 2.5% | 1.5% | 1.5% |
| Book Value | 6.5% | 7.5% | 4.0% |

| Fiscal Year Ends | QUARTERLY REVENUES ($ mill.) A Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2006 | 2283.8 | 2033.8 | 863.2 | 971.6 | 6152.4 |
| 2007 | 1602.6 | 2075.6 | 1218.2 | 1002.0 | 5898.4 |
| 2008 | 1657.5 | 2484.0 | 1639.1 | 1440.7 | 7221.3 |
| 2009 | 1716.3 | 1821.4 | 780.8 | *701.5* | *5020* |
| 2010 | *1465* | *2435* | *1345* | *1155* | *6400* |

| Fiscal Year Ends | EARNINGS PER SHARE A B E Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2006 | .88 | 1.10 | d.22 | .25 | 2.00 |
| 2007 | .97 | 1.20 | d.15 | d.05 | 1.94 |
| 2008 | .82 | 1.24 | d.07 | .02 | 2.00 |
| 2009 | .83 | 1.29 | .02 | *d.04* | *2.10* |
| 2010 | *.90* | *1.35* | *d.04* | *d.01* | *2.20* |

| Cal-endar | QUARTERLY DIVIDENDS PAID C ■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2005 | .31 | .31 | .31 | .315 | 1.25 |
| 2006 | .315 | .315 | .315 | .32 | 1.27 |
| 2007 | .32 | .32 | .32 | .325 | 1.29 |
| 2008 | .325 | .325 | .325 | .33 | 1.31 |
| 2009 | .33 | .33 | .33 | | |

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | © VALUE LINE PUB., INC. | 12-14 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 22.09 | 26.61 | 35.36 | 22.82 | 54.39 | 46.50 | 61.75 | 75.27 | 66.03 | 79.52 | *54.25* | *68.45* | Revenues per sh A | *86.35* |
| | 2.62 | 3.01 | 3.03 | 3.39 | 3.23 | 2.91 | 3.90 | 4.26 | 4.14 | 4.19 | *4.40* | *4.55* | "Cash Flow" per sh | *4.80* |
| | .81 | 1.03 | 1.47 | 1.45 | 1.71 | 1.58 | 1.72 | 2.00 | 1.94 | 2.00 | *2.10* | *2.20* | Earnings per sh A B | *2.50* |
| | 1.10 | 1.14 | 1.16 | 1.18 | 1.20 | 1.22 | 1.24 | 1.26 | 1.28 | 1.30 | *1.32* | *1.34* | Div'ds Decl'd per sh C ■ | *1.40* |
| | 3.53 | 2.36 | 2.77 | 3.17 | 3.10 | 3.03 | 4.14 | 5.20 | 4.39 | 5.20 | *5.50* | *5.75* | Cap'l Spending per sh | *6.60* |
| | 12.09 | 12.28 | 14.31 | 13.75 | 16.66 | 18.05 | 19.90 | 20.16 | 22.01 | 22.60 | *24.10* | *24.40* | Book Value per sh | *26.90* |
| | 31.25 | 31.95 | 40.79 | 41.68 | 51.48 | 62.80 | 80.54 | 81.74 | 89.33 | 90.81 | *92.50* | *93.50* | Common Shs Outst'g D | *110.00* |
| | 33.0 | 18.9 | 15.6 | 15.2 | 13.4 | 15.9 | 16.1 | 13.5 | 15.9 | 13.6 | *Bold figures are Value Line estimates* | | Avg Ann'l P/E Ratio | *14.0* |
| | 1.88 | 1.23 | .80 | .83 | .76 | .84 | .86 | .73 | .84 | .84 | | | Relative P/E Ratio | *.95* |
| | 4.1% | 5.9% | 5.1% | 5.4% | 5.2% | 4.9% | 4.5% | 4.7% | 4.2% | 4.8% | | | Avg Ann'l Div'd Yield | *4.0%* |
| | 690.2 | 850.2 | 1442.3 | 950.8 | 2799.9 | 2920.0 | 4973.3 | 6152.4 | 5898.4 | 7221.3 | *5020* | *6400* | Revenues ($mill) A | *9500* |
| | 25.0 | 32.2 | 56.1 | 59.7 | 79.5 | 86.2 | 135.8 | 162.3 | 170.5 | 180.3 | *195* | *205* | Net Profit ($mill) | *275* |
| | 35.0% | 36.1% | 37.3% | 37.1% | 37.1% | 37.4% | 37.7% | 37.6% | 35.8% | 38.4% | *35.0%* | *37.0%* | Income Tax Rate | *40.5%* |
| | 3.6% | 3.8% | 3.9% | 6.3% | 2.8% | 3.0% | 2.7% | 2.6% | 2.9% | 2.5% | *3.9%* | *3.2%* | Net Profit Margin | *3.0%* |
| | 50.0% | 48.1% | 54.3% | 53.9% | 50.2% | 43.2% | 57.7% | 57.0% | 52.0% | 50.8% | *50.0%* | *50.5%* | Long-Term Debt Ratio | *49.0%* |
| | 50.0% | 51.9% | 45.7% | 46.1% | 49.8% | 56.8% | 42.3% | 43.0% | 48.0% | 49.2% | *50.0%* | *49.5%* | Common Equity Ratio | *51.0%* |
| | 755.1 | 755.7 | 1276.3 | 1243.7 | 1721.4 | 1994.8 | 3785.5 | 3828.5 | 4092.1 | 4172.3 | *4430* | *4580* | Total Capital ($mill) | *5800* |
| | 965.8 | 982.3 | 1335.4 | 1300.3 | 1516.0 | 1722.5 | 3374.4 | 3629.2 | 3836.8 | 4136.9 | *4365* | *4575* | Net Plant ($mill) | *5850* |
| | 5.1% | 6.5% | 5.9% | 6.8% | 6.2% | 5.8% | 5.3% | 6.1% | 5.9% | 5.9% | *6.0%* | *6.0%* | Return on Total Cap'l | *6.0%* |
| | 6.6% | 8.2% | 9.6% | 10.4% | 9.3% | 7.6% | 8.5% | 9.8% | 8.7% | 8.8% | *9.0%* | *9.0%* | Return on Shr. Equity | *9.5%* |
| | 6.6% | 8.2% | 9.6% | 10.4% | 9.3% | 7.6% | 8.5% | 9.8% | 8.7% | 8.8% | *9.0%* | *9.0%* | Return on Com Equity | *9.5%* |
| | NMF | NMF | 2.1% | 1.9% | 2.8% | 1.7% | 2.3% | 3.6% | 3.0% | 3.1% | *3.5%* | *3.5%* | Retained to Com Eq | *4.0%* |
| | NMF | 112% | 79% | 82% | 70% | 77% | 73% | 63% | 65% | 65% | *63%* | *61%* | All Div'ds to Net Prof | *56%* |

BUSINESS: Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to 3.2 million customers via six regulated natural gas utility operations: Louisiana Division, West Texas Division, Mid-Tex Division, Mississippi Division, Colorado-Kansas Division, and Kentucky/Mid-States Division. Combined 2008 gas volumes: 293 MMcf. Breakdown: 56%, residential; 32%, commercial; 7%, industrial; and 5% other. 2008 depreciation rate 3.5%. Has around 4,560 employees. Officers and directors own approximately 1.9% of common stock (12/08 Proxy). Chairman and Chief Executive Officer: Robert W. Best. Incorporated: Texas. Address: P.O. Box 650205, Dallas, Texas 75265. Telephone: 972-934-9227. Internet: www.atmosenergy.com.

**Atmos Energy's core natural gas utility has generated healthy earnings of late.** That is largely because of an increase in rates, primarily for the Mid-Tex, Louisiana, and West Texas divisions. But throughput is being constrained some by diminished consumption from residential and commercial customers (reflecting difficult economic conditions).

**The pipeline and storage, and regulated transmission and storage units are performing nicely, as well.** The former segment is enjoying expanded margins arising from gains from the settlement of financial positions associated with storage and trading activities. Meanwhile, results for the regulated transmission and storage operation are being boosted by higher transportation fees on through-system deliveries, due to favorable market conditions.

**It appears that consolidated share net will advance around 5%, to $2.10, in fiscal 2009** (which ends September 30th). Assuming further expansion in operating margins, the bottom line may increase at a similar rate, to $2.20 a share, the following fiscal year.

**Finances are in order.** An acquisition caused a mid-decade rise in the debt ratio. But the company has whittled that figure back to normal, if at the cost of some dilution from stock issuances. A reduced level of uncollectible accounts, owing to lower gas prices, is another plus these days.

**We believe that more steady, though unexciting, profit growth is in store for the company over the next 3 to 5 years.** The utility is one of the country's biggest natural gas-only distributors, currently serving customers across 12 states. What is more, the unregulated segments, especially pipelines, possess healthy overall prospects. Excluding future acquisitions, annual share-net gains may be in the mid-single-digit range over 2012-2014.

**On a risk-adjusted basis, these good-quality shares offer decent total return potential.** The dividend yield is appealing, compared to others in the *Value Line* Natural Gas Utility universe. Future hikes in the payout, though likely to be gradual, as in previous years, should be well covered by earnings. Meanwhile, the stock is ranked 3 (Average) for Timeliness.

*Frederick L. Harris, III September 11, 2009*

(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '99, d23¢; '00, 12¢; '03, d17¢; '06, d18¢; '07, d2¢; Q2 '09, 12¢. Next egs. rpt. due early Nov. (C) Dividends historically paid in early March, June, Sept., and Dec. ■ Div. reinvestment plan. Direct stock purchase plan avail. (D) In millions. (E) Qtrs may not add due to change in shrs outstanding.

| | |
|---|---|
| Company's Financial Strength | B+ |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 50 |
| Earnings Predictability | 85 |

# LACLEDE GROUP NYSE-LG

RECENT PRICE 32.61 | P/E RATIO 13.8 (Trailing: 10.9 / Median: 15.0) | RELATIVE P/E RATIO 0.86 | DIV'D YLD 4.8% | VALUE LINE

TIMELINESS 3 Lowered 5/22/09
SAFETY 2 Raised 6/20/03
TECHNICAL 5 Lowered 9/4/09
BETA .60 (1.00 = Market)

2012-14 PROJECTIONS

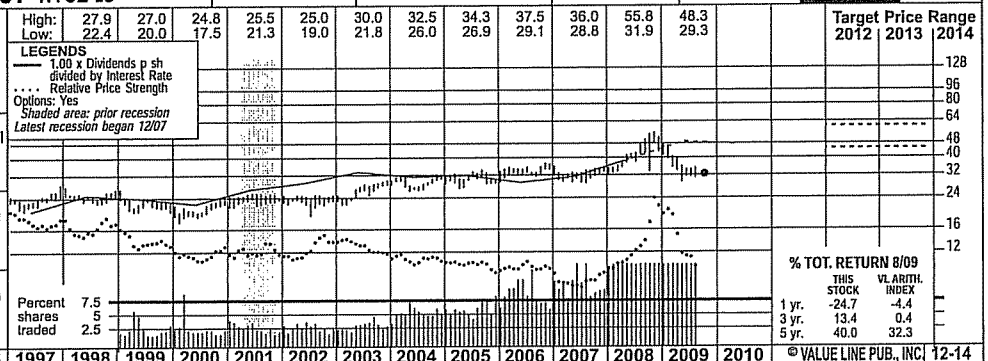
| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 60 | (+85%) | 19% |
| Low | 45 | (+40%) | 12% |

Insider Decisions

| | O | N | D | J | F | M | A | M | J |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 1 |
| Options | 0 | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| to Sell | 0 | 6 | 0 | 0 | 0 | 0 | 0 | 1 | 0 |

Institutional Decisions

| | 4Q2008 | 1Q2009 | 2Q2009 |
|---|---|---|---|
| to Buy | 73 | 70 | 71 |
| to Sell | 86 | 81 | 81 |
| Hld's(000) | 11494 | 11043 | 10569 |




| 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | © VALUE LINE PUB., INC. | 12-14 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 32.33 | 33.43 | 24.79 | 31.03 | 34.33 | 31.04 | 26.04 | 29.99 | 53.08 | 39.84 | 54.95 | 59.59 | 75.43 | 93.51 | 93.40 | 100.44 | 88.90 | 91.30 | Revenues per sh | 111.55 |
| 2.81 | 2.65 | 2.55 | 3.29 | 3.32 | 3.02 | 2.56 | 2.68 | 3.00 | 2.56 | 3.15 | 2.79 | 2.98 | 3.81 | 3.87 | 4.22 | 4.90 | 4.50 | "Cash Flow" per sh | 5.40 |
| 1.61 | 1.42 | 1.27 | 1.87 | 1.84 | 1.58 | 1.47 | 1.37 | 1.61 | 1.18 | 1.82 | 1.82 | 1.90 | 2.37 | 2.31 | 2.64 | 2.95 | 2.60 | Earnings per sh A B | 3.00 |
| 1.22 | 1.22 | 1.24 | 1.26 | 1.30 | 1.32 | 1.34 | 1.34 | 1.34 | 1.34 | 1.34 | 1.35 | 1.37 | 1.40 | 1.45 | 1.49 | 1.53 | 1.57 | Div'ds Decl'd per sh C ■ | 1.70 |
| 2.62 | 2.50 | 2.63 | 2.35 | 2.44 | 2.68 | 2.58 | 2.77 | 2.51 | 2.80 | 2.67 | 2.45 | 2.84 | 2.97 | 2.72 | 2.57 | 2.55 | 2.60 | Cap'l Spending per sh | 3.40 |
| 12.19 | 12.44 | 13.05 | 13.72 | 14.26 | 14.57 | 14.96 | 14.99 | 15.26 | 15.07 | 15.65 | 16.96 | 17.31 | 18.85 | 19.79 | 22.12 | 23.65 | 23.55 | Book Value per sh D | 28.05 |
| 15.59 | 15.67 | 17.42 | 17.56 | 17.56 | 17.63 | 18.88 | 18.88 | 18.88 | 18.96 | 19.11 | 20.98 | 21.17 | 21.36 | 21.65 | 21.99 | 22.50 | 23.00 | Common Shs Outst'g E | 26.00 |
| 13.5 | 16.4 | 15.5 | 11.9 | 12.5 | 15.5 | 15.8 | 14.9 | 14.5 | 20.0 | 13.6 | 15.7 | 16.2 | 13.6 | 14.2 | 14.3 | Bold figures are Value Line estimates | | Avg Ann'l P/E Ratio | 17.5 |
| .80 | 1.08 | 1.04 | .75 | .72 | .81 | .90 | .97 | .74 | 1.09 | .78 | .83 | .86 | .73 | .75 | .89 | | | Relative P/E Ratio | 1.15 |
| 5.6% | 5.3% | 6.3% | 5.6% | 5.6% | 5.4% | 5.8% | 6.6% | 5.7% | 5.7% | 5.4% | 4.7% | 4.4% | 4.3% | 4.4% | 3.9% | | | Avg Ann'l Div'd Yield | 3.2% |
| | | | | | | 491.6 | 566.1 | 1002.1 | 755.2 | 1050.3 | 1250.3 | 1597.0 | 1997.6 | 2021.6 | 2209.0 | 2000 | 2100 | Revenues ($mill) A | 2900 |
| | | | | | | 26.9 | 26.0 | 30.5 | 22.4 | 34.6 | 36.1 | 40.1 | 50.5 | 49.8 | 57.6 | 65.0 | 60.0 | Net Profit ($mill) | 80.0 |
| | | | | | | 35.5% | 35.2% | 32.7% | 35.4% | 35.0% | 34.8% | 34.1% | 32.5% | 33.4% | 31.3% | 35.5% | 35.0% | Income Tax Rate | 35.0% |
| | | | | | | 5.5% | 4.6% | 3.0% | 3.0% | 3.3% | 2.9% | 2.5% | 2.5% | 2.5% | 2.6% | 3.3% | 2.9% | Net Profit Margin | 2.8% |
| | | | | | | 41.8% | 45.2% | 49.5% | 47.5% | 50.4% | 51.6% | 48.1% | 49.5% | 45.3% | 44.4% | 42.5% | 45.0% | Long-Term Debt Ratio | 47.0% |
| | | | | | | 57.8% | 54.5% | 50.2% | 52.3% | 49.4% | 48.3% | 51.8% | 50.4% | 54.6% | 55.5% | 57.5% | 55.0% | Common Equity Ratio | 53.0% |
| | | | | | | 488.6 | 519.2 | 574.1 | 546.6 | 605.0 | 737.4 | 707.9 | 798.9 | 784.5 | 876.1 | 925 | 985 | Total Capital ($mill) | 1375 |
| | | | | | | 519.4 | 575.4 | 602.5 | 594.4 | 621.2 | 646.9 | 679.5 | 763.8 | 793.8 | 823.2 | 865 | 915 | Net Plant ($mill) | 1250 |
| | | | | | | 7.1% | 6.7% | 6.9% | 6.0% | 7.4% | 6.6% | 7.6% | 8.4% | 8.5% | 8.1% | 8.5% | 7.5% | Return on Total Cap'l | 7.0% |
| | | | | | | 9.5% | 9.1% | 10.5% | 7.8% | 11.5% | 10.1% | 10.9% | 12.5% | 11.6% | 11.8% | 12.0% | 11.0% | Return on Shr. Equity | 11.0% |
| | | | | | | 9.5% | 9.1% | 10.5% | 7.8% | 11.6% | 10.1% | 10.9% | 12.5% | 11.6% | 11.8% | 12.0% | 11.0% | Return on Com Equity | 11.0% |
| | | | | | | 1.0% | .2% | 1.8% | NMF | 3.1% | 2.7% | 3.1% | 5.1% | 4.3% | 5.2% | 6.0% | 4.5% | Retained to Com Eq | 5.0% |
| | | | | | | 89% | 98% | 83% | 113% | 74% | 73% | 72% | 59% | 63% | 56% | 53% | 60% | All Div'ds to Net Prof | 55% |

CAPITAL STRUCTURE as of 6/30/09
Total Debt $522.2 mill. Due in 5 Yrs $90.0 mill.
LT Debt $389.2 mill. LT Interest $25.0 mill.
(Total interest coverage: 3.0x)

Leases, Uncapitalized Annual rentals $.9 mill.
Pension Assets-9/08 $248.3 mill.
Oblig. $308.7 mill.

Pfd Stock None
Common Stock 22,167,303 shs.
as of 7/31/09

MARKET CAP: $725 million (Small Cap)

| CURRENT POSITION ($MILL.) | 2007 | 2008 | 6/30/09 |
|---|---|---|---|
| Cash Assets | 52.7 | 14.9 | 89.1 |
| Other | 414.6 | 547.0 | 283.6 |
| Current Assets | 467.3 | 561.9 | 372.7 |
| Accts Payable | 106.8 | 159.6 | 79.3 |
| Debt Due | 251.6 | 216.1 | 133.0 |
| Other | 115.3 | 103.5 | 87.8 |
| Current Liab. | 473.7 | 479.2 | 300.1 |
| Fix. Chg. Cov. | 282% | 377% | 370% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '06-'08 to '12-'14 |
|---|---|---|---|
| Revenues | 11.5% | 14.0% | 2.5% |
| "Cash Flow" | 2.0% | 6.5% | 5.5% |
| Earnings | 3.5% | 9.5% | 3.5% |
| Dividends | 1.0% | 1.5% | 2.5% |
| Book Value | 3.5% | 5.5% | 5.5% |

| Fiscal Year Ends | QUARTERLY REVENUES ($ mill.) A Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2006 | 689.2 | 708.8 | 330.6 | 269.0 | 1997.6 |
| 2007 | 539.6 | 700.8 | 457.9 | 323.3 | 2021.6 |
| 2008 | 504.0 | 747.7 | 505.5 | 451.8 | 2209.0 |
| 2009 | 674.3 | 659.1 | 309.9 | 356.7 | 2000 |
| 2010 | 530 | 570 | 520 | 480 | 2100 |

| Fiscal Year Ends | EARNINGS PER SHARE A B F Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2006 | 1.23 | 1.05 | .13 | d.04 | 2.37 |
| 2007 | .89 | .97 | .43 | .03 | 2.31 |
| 2008 | .99 | 1.39 | .41 | d.14 | 2.64 |
| 2009 | 1.42 | 1.40 | .31 | d.18 | 2.95 |
| 2010 | 1.03 | 1.21 | .38 | d.02 | 2.60 |

| Cal-endar | QUARTERLY DIVIDENDS PAID C ■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2005 | .34 | .345 | .345 | .345 | 1.38 |
| 2006 | .345 | .355 | .355 | .355 | 1.41 |
| 2007 | .365 | .365 | .365 | .365 | 1.46 |
| 2008 | .375 | .375 | .375 | .375 | 1.50 |
| 2009 | .385 | .385 | .385 | | |

BUSINESS: Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri, including the city of St. Louis, St. Louis County, and parts of 10 other counties. Has roughly 630,000 customers. Purchased SM&P Utility Resources, 1/02; divested, 3/08. Therms sold and transported in fiscal 2008: 1.08 mill. Revenue mix for regulated operations: residential, 62%; commercial and industrial, 24%; transportation, 1%; other, 13%. Has around 1,807 employees. Officers and directors own approximately 7.2% of common shares (1/09 proxy). Chairman, Chief Executive Officer, and President: Douglas H. Yaeger. Incorporated: Missouri. Address: 720 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.thelacledegroup.com.

**It appears that Laclede Group will generate record earnings in fiscal 2009**, which ends on September 30th. The non-regulated gas marketing unit, Laclede Energy Resources, is enjoying a healthy rise in volumes. That has been brought about by significantly increased pipeline capacity and expanded margins on sales of natural gas (reflecting a drop in natural gas prices). Unfortunately, the utility, Laclede Gas, has not performed up to par of late, stemming partly from a rise in operational expenses. Furthermore, last year's results included certain previously unrecognized tax benefits (which amounted to about $0.07 a share). Nevertheless, consolidated share net may well advance about 12%, to $2.95 a share, in fiscal 2009.

**But fiscal 2010 may be a down year**, when measured against the strong profits we anticipate for this year. Moreover, the benefit of sharply lower natural gas prices may not be repeatable.

**The company's 3- to 5-year prospects look unspectacular.** Annual customer growth for the natural gas distribution unit has been only around 1% for some time, and it appears that trend will continue. This is because the service territory, based in eastern Missouri, is in a mature phase. Laclede Energy Resources has promising expansion possibilities, given its proximity to existing and planned pipelines, as well as opportunities from shale development. But that segment has contributed just a small portion to total profits on a historical basis. A major acquisition could help to offset this, but it appears that such plans are not on management's agenda at this juncture. Consequently, annual earnings-per-share growth could range only between 4% and 5% out to 2012-2014.

**Income-oriented accounts may find the dividend yield modestly appealing.** Further increases in the payout will probably be gradual, however. That is largely because of Laclede Gas' unexciting expansion prospects.

**Total return potential over the 3- to 5-year horizon looks unexciting**, based on the stock's current quotation and assuming minimal growth in the distribution.

*Frederick L. Harris, III September 11, 2009*

| | |
|---|---|
| Company's Financial Strength | B+ |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 60 |
| Earnings Predictability | 85 |

(A) Fiscal year ends Sept. 30th. (B) Based on average shares outstanding thru. '97, then diluted. Excludes nonrecurring loss: '06, 7¢. Excludes gain from discontinued operations: '08, 94¢. Next earnings report due late Oct. (C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available. (D) Incl. deferred charges. In '08: $340.4 mill., $15.48/sh. (E) In millions. (F) Qtly. egs. may not sum due to rounding or change in shares outstanding.

# NEW JERSEY RES. NYSE-NJR

RECENT PRICE 36.60 | P/E RATIO 14.2 (Trailing: 17.3 Median: 15.0) | RELATIVE P/E RATIO 0.88 | DIV'D YLD 3.4% | VALUE LINE

TIMELINESS 3 Lowered 5/22/09
SAFETY 1 Raised 9/15/06
TECHNICAL 5 Lowered 9/11/09
BETA .65 (1.00 = Market)

**2012-14 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 45 | (+25%) | 8% |
| Low | 35 | (-5%) | 2% |

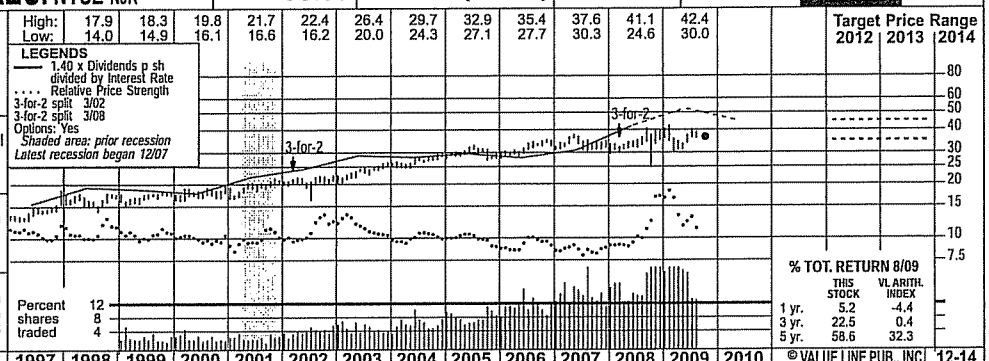
**Insider Decisions**

| | O | N | D | J | F | M | A | M | J |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 |
| Options | 1 | 2 | 3 | 0 | 0 | 1 | 0 | 0 | 0 |
| to Sell | 0 | 1 | 4 | 0 | 1 | 0 | 0 | 0 | 0 |

**Institutional Decisions**

| | 4Q2008 | 1Q2009 | 2Q2009 |
|---|---|---|---|
| to Buy | 93 | 87 | 89 |
| to Sell | 73 | 88 | 88 |
| Hld's(000) | 24319 | 23324 | 24695 |

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | © VALUE LINE PUB., INC. | 12-14 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 17.9 | 18.3 | 19.8 | 21.7 | 22.4 | 26.4 | 29.7 | 32.9 | 35.4 | 37.6 | 41.1 | 42.4 | | | | | | | | Target Price Range 2012 2013 2014 |
| Low: | 14.0 | 14.9 | 16.1 | 16.6 | 16.2 | 20.0 | 24.3 | 27.1 | 27.7 | 30.3 | 24.6 | 30.0 | | | | | | | | |
| | 12.02 | 12.81 | 11.36 | 13.48 | 17.31 | 17.73 | 22.65 | 29.42 | 51.22 | 44.11 | 62.29 | 60.89 | 76.19 | 79.63 | 72.62 | 90.74 | *65.90* | *81.40* | Revenues per sh [A] | *85.00* |
| | 1.42 | 1.54 | 1.42 | 1.48 | 1.63 | 1.74 | 1.86 | 1.99 | 2.12 | 2.14 | 2.38 | 2.50 | 2.62 | 2.73 | 2.44 | 3.62 | *3.35* | *3.60* | "Cash Flow" per sh | *3.70* |
| | .76 | .84 | .86 | .92 | .99 | 1.04 | 1.11 | 1.20 | 1.30 | 1.39 | 1.59 | 1.70 | 1.77 | 1.87 | 1.55 | 2.70 | *2.45* | *2.70* | Earnings per sh [B] | *2.80* |
| | .68 | .68 | .68 | .69 | .71 | .73 | .75 | .76 | .78 | .80 | .83 | .87 | .91 | .96 | 1.01 | 1.11 | *1.24* | *1.28* | Div'ds Decl'd per sh [C] ■ | *1.40* |
| | 1.54 | 1.40 | 1.18 | 1.19 | 1.15 | 1.07 | 1.21 | 1.23 | 1.10 | 1.02 | 1.14 | 1.45 | 1.28 | 1.28 | 1.46 | 1.72 | *1.75* | *1.75* | Cap'l Spending per sh | *1.80* |
| | 6.54 | 6.43 | 6.47 | 6.73 | 6.92 | 7.26 | 7.57 | 8.29 | 8.80 | 8.71 | 10.26 | 11.25 | 10.60 | 15.00 | 15.50 | 17.28 | *18.80* | *20.75* | Book Value per sh [D] | *27.45* |
| | 37.84 | 38.93 | 40.03 | 40.69 | 40.23 | 40.07 | 39.92 | 39.59 | 40.00 | 41.50 | 40.85 | 41.61 | 41.32 | 41.44 | 41.61 | 42.06 | *42.50* | *43.00* | Common Shs Outst'g [E] | *45.00* |
| | 15.1 | 13.0 | 11.8 | 13.6 | 13.5 | 15.3 | 15.2 | 14.7 | 14.2 | 14.7 | 14.0 | 15.3 | 16.8 | 16.1 | 21.6 | 12.3 | *Bold figures are Value Line estimates* | | Avg Ann'l P/E Ratio | *14.0* |
| | .89 | .85 | .79 | .85 | .78 | .80 | .87 | .96 | .73 | .80 | .80 | .81 | .89 | .87 | 1.15 | .77 | | | Relative P/E Ratio | *.95* |
| | 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% | 3.2% | 3.0% | 3.3% | | | Avg Ann'l Div'd Yield | *3.6%* |
| | | | | | | | 904.3 | 1164.5 | 2048.4 | 1830.8 | 2544.4 | 2533.6 | 3148.3 | 3299.6 | 3021.8 | 3816.2 | *2800* | *3500* | Revenues ($mill) [A] | *3825* |
| | | | | | | | 44.9 | 47.9 | 52.3 | 56.8 | 65.4 | 71.6 | 74.4 | 78.5 | 65.3 | 113.9 | *80.0* | *105* | Net Profit ($mill) | *125* |
| | | | | | | | 36.2% | 37.8% | 38.0% | 38.7% | 39.4% | 39.1% | 39.1% | 38.9% | 38.8% | 37.8% | *39.0%* | *39.0%* | Income Tax Rate | *40.0%* |
| | | | | | | | 5.0% | 4.1% | 2.6% | 3.1% | 2.6% | 2.8% | 2.4% | 2.4% | 2.2% | 3.0% | *3.7%* | *3.3%* | Net Profit Margin | *3.3%* |
| | | | | | | | 48.7% | 47.0% | 50.1% | 50.6% | 38.1% | 40.3% | 42.0% | 34.8% | 37.3% | 38.5% | *38.5%* | *37.0%* | Long-Term Debt Ratio | *32.0%* |
| | | | | | | | 51.2% | 52.9% | 49.9% | 49.4% | 61.9% | 59.7% | 58.0% | 65.2% | 62.7% | 61.5% | *61.5%* | *63.0%* | Common Equity Ratio | *68.0%* |
| | | | | | | | 590.4 | 620.1 | 706.2 | 732.4 | 676.8 | 783.8 | 755.3 | 954.0 | 1028.0 | 1182.1 | *1300* | *1415* | Total Capital ($mill) | *1815* |
| | | | | | | | 705.4 | 730.6 | 743.9 | 756.4 | 852.6 | 880.4 | 905.1 | 934.9 | 970.9 | 1017.3 | *1040* | *1060* | Net Plant ($mill) | *1125* |
| | | | | | | | 9.0% | 9.0% | 8.5% | 8.7% | 10.7% | 10.1% | 11.2% | 9.6% | 7.7% | 10.7% | *9.0%* | *9.0%* | Return on Total Cap'l | *8.0%* |
| | | | | | | | 14.8% | 14.6% | 14.8% | 15.7% | 15.6% | 15.3% | 17.0% | 12.6% | 10.1% | 15.7% | *13.0%* | *13.0%* | Return on Shr. Equity | *10.0%* |
| | | | | | | | 14.8% | 14.6% | 14.9% | 15.7% | 15.6% | 15.3% | 17.0% | 12.6% | 10.1% | 15.7% | *13.0%* | *13.0%* | Return on Com Equity | *10.0%* |
| | | | | | | | 5.0% | 5.4% | 6.1% | 6.9% | 7.7% | 7.8% | 8.5% | 6.3% | 3.6% | 9.5% | *6.5%* | *7.0%* | Retained to Com Eq | *5.0%* |
| | | | | | | | 67% | 63% | 59% | 56% | 51% | 49% | 50% | 50% | 64% | 40% | *50%* | *47%* | All Div'ds to Net Prof | *50* |




**% TOT. RETURN 8/09**

| | THIS STOCK | VL ARITH. INDEX |
|---|---|---|
| 1 yr. | 5.2 | -4.4 |
| 3 yr. | 22.5 | 0.4 |
| 5 yr. | 58.6 | 32.3 |

**CAPITAL STRUCTURE as of 6/30/09**
Total Debt $512.3 mill. Due in 5 Yrs $175.6 mill.
LT Debt $457.7 mill. LT Interest $16.9 mill.
Incl. $8.8 mill. capitalized leases.
(LT interest earned: 4.8x; total interest coverage: 4.8x)
Pension Assets-9/08 $80.6 mill.
Oblig. $102.4 mill.
Pfd Stock None

Common Stock 42,014,773 shs.
as of 8/4/09
MARKET CAP: $1.5 billion (Mid Cap)

| CURRENT POSITION ($MILL.) | 2007 | 2008 | 6/30/09 |
|---|---|---|---|
| Cash Assets | 5.1 | 42.6 | 77.0 |
| Other | 794.8 | 1067.1 | 636.5 |
| Current Assets | 799.9 | 1109.7 | 713.5 |
| Accts Payable | 64.4 | 61.7 | 49.2 |
| Debt Due | 260.8 | 238.3 | 54.6 |
| Other | 378.1 | 594.0 | 475.9 |
| Current Liab. | 703.3 | 894.0 | 579.7 |
| Fix. Chg. Cov. | 461% | 450% | 450% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '06-'08 to '12-'14 |
|---|---|---|---|
| Revenues | 17.5% | 9.0% | *1.0%* |
| "Cash Flow" | 6.0% | 6.0% | *4.0%* |
| Earnings | 7.5% | 7.5% | *5.5%* |
| Dividends | 4.0% | 5.0% | *5.5%* |
| Book Value | 8.5% | 11.5% | *9.5%* |

| Fiscal Year Ends | QUARTERLY REVENUES ($ mill.) [A] Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2006 | 1164 | 1064 | 536.1 | 535.5 | 3299.6 |
| 2007 | 737.4 | 1029 | 662.2 | 593.2 | 3021.8 |
| 2008 | 811.1 | 1178 | 1000 | 827.1 | 3816.2 |
| 2009 | 801.3 | 937.5 | 441.1 | *620.1* | *2800* |
| 2010 | *845* | *985* | *790* | *880* | *3500* |

| Fiscal Year Ends | EARNINGS PER SHARE [A B] Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2006 | .82 | 1.43 | d.09 | d.29 | 1.87 |
| 2007 | .70 | .19 | .60 | .06 | 1.55[F] |
| 2008 | 1.31 | 1.86 | d.10 | d.39 | 2.70 |
| 2009 | .77 | 1.71 | .03 | *d.06* | *2.45* |
| 2010 | *.85* | *1.75* | *d.05* | *.15* | *2.70* |

| Cal-endar | QUARTERLY DIVIDENDS PAID [C E■] Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2005 | .227 | .227 | .227 | .227 | .91 |
| 2006 | .24 | .24 | .24 | .24 | .96 |
| 2007 | .253 | .253 | .253 | .253 | 1.01 |
| 2008 | .267 | .28 | .28 | .28 | 1.11 |
| 2009 | .31 | .31 | .31 | | |

**BUSINESS:** New Jersey Resources Corp. is a holding company providing retail/wholesale energy svcs. to customers in New Jersey, and in states from the Gulf Coast to New England, and Canada. New Jersey Natural Gas had about 484,000 customers at 9/30/08 in Monmouth and Ocean Counties, and other N.J. Counties. Fiscal 2008 volume: 99.6 bill. cu. ft. (59% firm, 6% interruptible industrial and electric utility, 35% off-system and capacity release). N.J. Natural Energy subsidiary provides unregulated retail/wholesale natural gas and related energy svcs. 2008 dep. rate: 2.9%. Has 854 empls. Off./dir. own about 1.7% of common (12/09 Proxy). Chrmn., CEO, & Pres. : Laurence M. Downes. Inc.: NJ Addr.: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 732-938-1480. Web: www.njresources.com.

**New Jersey Resources' bottom line has been improving despite weaker top-line results.** All of the company's operating segments registered lower volumes during the June period. The NJR Energy Services unit, which typically contributes the lion's share of revenues, was hit the hardest on both a dollar-value and percentage basis. Meantime, the Natural Gas Distribution and Retail segments also registered declines well into the double digits. The bulk of that downturn can be attributed to the lower commodity prices compared to last year, and conservation efforts, as consumers continue to real in spending. Still, the customer base continues to widen. The New Jersey Natural Gas division has added almost 4,200 new customer accounts thus far in 2009 and completed more than 450 natural gas heat conversions. All told, the company registered higher-than-expected earnings for the June interim. But,

**We do look for September's share net to fall into negative territory.** The anticipated loss during the fiscal fourth quarter is related to the seasonal nature of the natural gas business. Nonetheless, economic headwinds have prompted us to trim a nickel off our 2009 earnings estimate to $2.45 a share. This would represent a decline of about 9%. However, we view this largely as a technicality, due to last year's difficult comparison and the fact that NJR continues to improve the fundamentals of its business through the expansion of its mid-stream assets and an ever-widening customer base.

**Capital projects and infrastructure programs augur well for longer-term prospects.** The Steckman Ridge storage facility has begun accumulating natural gas inventories in preparation for the coming winter. That facility is expected to start making meaningful earnings contributions next year. And the other programs should provide needed jobs, while simultaneously boosting the safety and reliability of the distribution system.

**These high-quality shares may appeal to income-oriented accounts.** They don't stand out for appreciation potential for the pull to 2012-2014, compared to most utilities. The main appeal here comes from solid dividend growth prospects.

*Bryan J. Fong* *September 11, 2009*

(A) Fiscal year ends Sept. 30th.
(B) Diluted earnings. Qtly egs may not sum to total due to change in shares outstanding. Next earnings report due late Oct.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) Includes regulatory assets in 2008: $340.7 million, $8.09/share.
(E) In millions, adjusted for splits.
(F) Restated.

| | |
|---|---|
| Company's Financial Strength | A |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 65 |
| Earnings Predictability | 45 |

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

RECENT PRICE 41.94 | P/E RATIO 14.7 (Trailing: 15.5 Median: 16.0) | RELATIVE P/E RATIO 0.91 | DIV'D YLD 4.0% | VALUE LINE

TIMELINESS 3 Lowered 7/24/09
SAFETY 1 Raised 3/18/05
TECHNICAL 4 Lowered 9/4/09
BETA .60 (1.00 = Market)

2012-14 PROJECTIONS

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 70 | (+65%) | 16% |
| Low | 55 | (+30%) | 10% |

Insider Decisions

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

Institutional Decisions

| | 4Q2008 | 1Q2009 | 2Q2009 |
|---|---|---|---|
| to Buy | 82 | 67 | 78 |
| to Sell | 83 | 93 | 69 |
| Hld's(000) | 14907 | 15126 | 15387 |

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | © VALUE LINE PUB., INC. | 12-14 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 18.15 | 18.30 | 16.02 | 16.86 | 15.82 | 16.77 | 18.17 | 21.09 | 25.78 | 25.07 | 23.57 | 25.69 | 33.01 | 37.20 | 39.13 | 39.16 | *39.60* | *41.50* | Revenues per sh | *48.20* |
| | 3.74 | 3.50 | 3.41 | 3.86 | 3.72 | 3.24 | 3.72 | 3.68 | 3.86 | 3.65 | 3.85 | 3.92 | 4.34 | 4.76 | 5.41 | 5.31 | *5.60* | *5.85* | "Cash Flow" per sh | *6.75* |
| | 1.74 | 1.63 | 1.61 | 1.97 | 1.76 | 1.02 | 1.70 | 1.79 | 1.88 | 1.62 | 1.76 | 1.86 | 2.11 | 2.35 | 2.76 | 2.57 | *2.85* | *2.85* | Earnings per sh [A] | *3.45* |
| | 1.17 | 1.17 | 1.18 | 1.20 | 1.21 | 1.22 | 1.23 | 1.24 | 1.25 | 1.26 | 1.27 | 1.30 | 1.32 | 1.39 | 1.44 | 1.52 | *1.60* | *1.68* | Div'ds Decl'd per sh [B] ■ | *2.00* |
| | 3.61 | 4.23 | 3.02 | 3.70 | 5.07 | 4.02 | 4.78 | 3.46 | 3.23 | 3.11 | 4.90 | 5.52 | 3.48 | 3.56 | 4.48 | 3.92 | *4.50* | *4.50* | Cap'l Spending per sh | *4.50* |
| | 13.08 | 13.63 | 14.55 | 15.37 | 16.02 | 16.59 | 17.12 | 17.93 | 18.56 | 18.88 | 19.52 | 20.64 | 21.28 | 22.01 | 22.52 | 23.71 | *24.90* | *26.10* | Book Value per sh | *30.50* |
| | 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 | 27.24 | 26.41 | 26.50 | *26.50* | *26.50* | Common Shs Outst'g [C] | *28.00* |
| | 12.9 | 13.0 | 12.9 | 11.7 | 14.4 | 26.7 | 14.5 | 12.4 | 12.9 | 17.2 | 15.8 | 16.7 | 17.0 | 15.9 | 16.7 | 18.1 | *Bold figures are Value Line estimates* | | Avg Ann'l P/E Ratio | *18.0* |
| | .76 | .85 | .86 | .73 | .83 | 1.39 | .83 | .81 | .66 | .94 | .90 | .88 | .91 | .86 | .89 | 1.11 | | | Relative P/E Ratio | *1.20* |
| | 5.2% | 5.5% | 5.7% | 5.2% | 4.8% | 4.5% | 5.0% | 5.6% | 5.1% | 4.5% | 4.6% | 4.2% | 3.7% | 3.7% | 3.1% | 3.3% | | | Avg Ann'l Div'd Yield | *3.2%* |
| | | | | | | | 455.8 | 532.1 | 650.3 | 641.4 | 611.3 | 707.6 | 910.5 | 1013.2 | 1033.2 | 1037.9 | *1025* | *1125* | Revenues ($mill) | *1350* |
| | | | | | | | 44.9 | 47.8 | 50.2 | 43.8 | 46.0 | 50.6 | 58.1 | 65.2 | 74.5 | 68.5 | *75.5* | *75.5* | Net Profit ($mill) | *96.5* |
| | | | | | | | 35.4% | 35.9% | 35.4% | 34.9% | 33.7% | 34.4% | 36.0% | 36.3% | 37.2% | 36.9% | *37.0%* | *37.0%* | Income Tax Rate | *37.0%* |
| | | | | | | | 9.9% | 9.0% | 7.7% | 6.8% | 7.5% | 7.1% | 6.4% | 6.4% | 7.2% | 6.6% | *7.3%* | *6.7%* | Net Profit Margin | *7.2%* |
| | | | | | | | 46.0% | 45.1% | 43.0% | 47.6% | 49.7% | 46.0% | 47.0% | 46.3% | 46.3% | 44.9% | *47%* | *47%* | Long-Term Debt Ratio | *47%* |
| | | | | | | | 49.9% | 50.9% | 53.2% | 51.5% | 50.3% | 54.0% | 53.0% | 53.7% | 53.7% | 55.1% | *53%* | *53%* | Common Equity Ratio | *53%* |
| | | | | | | | 861.5 | 887.8 | 880.5 | 937.3 | 1006.6 | 1052.5 | 1108.4 | 1116.5 | 1106.8 | 1140.4 | *1180* | *1225* | Total Capital ($mill) | *1400* |
| | | | | | | | 895.9 | 934.0 | 965.0 | 995.6 | 1205.9 | 1318.4 | 1373.4 | 1425.1 | 1495.9 | 1549.1 | *1600* | *1660* | Net Plant ($mill) | *1900* |
| | | | | | | | 6.8% | 6.7% | 6.9% | 5.9% | 5.7% | 5.9% | 6.5% | 7.1% | 8.5% | 7.7% | *8.0%* | *8.0%* | Return on Total Cap'l | *8.0%* |
| | | | | | | | 9.7% | 9.8% | 10.0% | 8.9% | 9.1% | 8.9% | 9.9% | 10.9% | 12.5% | 10.9% | *11.0%* | *11.0%* | Return on Shr. Equity | *11.0%* |
| | | | | | | | 9.9% | 10.0% | 10.2% | 8.5% | 9.0% | 8.9% | 9.9% | 10.9% | 12.5% | 10.9% | *11.0%* | *11.0%* | Return on Com Equity | *11.0%* |
| | | | | | | | 2.8% | 3.1% | 3.5% | 1.9% | 2.6% | 2.7% | 3.7% | 4.5% | 6.0% | 4.5% | *4.5%* | *4.5%* | Retained to Com Eq | *4.5%* |
| | | | | | | | 74% | 70% | 67% | 79% | 72% | 69% | 63% | 59% | 52% | 59% | *56%* | *59%* | All Div'ds to Net Prof | *58%* |

Target Price Range 2012 | 2013 | 2014: 120, 100, 80, 64, 48, 32, 24, 20, 16, 12, 8

% TOT. RETURN 8/09

| | THIS STOCK | VL ARITH. INDEX |
|---|---|---|
| 1 yr. | -10.5 | -4.4 |
| 3 yr. | 21.8 | 0.4 |
| 5 yr. | 63.1 | 32.3 |

| | High: | 30.8 | 27.9 | 27.5 | 26.8 | 30.7 | 31.3 | 34.1 | 39.6 | 43.7 | 52.8 | 55.2 | 46.1 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Low: | 24.3 | 19.5 | 17.8 | 21.7 | 23.5 | 24.0 | 27.5 | 32.4 | 32.8 | 39.8 | 37.7 | 37.7 | |

LEGENDS
1.10 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 9/96
Options: Yes
*Shaded area: prior recession*
*Latest recession began 12/07*

Percent shares traded: 15, 10, 5

CAPITAL STRUCTURE as of 6/30/09
Total Debt $677.6 mill. Due in 5 Yrs $173.8 mill.
LT Debt $587.0 mill. LT Interest $37.0 mill.

(Total interest coverage: 4.0x)

Pension Assets-12/08 $163 mill.
Oblig. $281 mill.
Pfd Stock None

Common Stock 26,513,188 shares as of 7/31/09
MARKET CAP $1.1 billion (Mid Cap)

| CURRENT POSITION ($MILL.) | 2007 | 2008 | 6/30/09 |
|---|---|---|---|
| Cash Assets | 6.1 | 6.9 | 31.1 |
| Other | 268.8 | 474.1 | 241.3 |
| Current Assets | 274.9 | 481.0 | 272.4 |
| Accts Payable | 119.7 | 94.4 | 50.1 |
| Debt Due | 148.1 | 248.0 | 90.6 |
| Other | 122.1 | 208.9 | 148.8 |
| Current Liab. | 389.9 | 551.3 | 289.5 |
| Fx. Chg. Cov. | 408% | 393% | NMF |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '06-'08 to '12-'14 |
|---|---|---|---|
| Revenues | 9.0% | 9.0% | *4.0%* |
| "Cash Flow" | 3.5% | 6.5% | *4.5%* |
| Earnings | 5.0% | 8.0% | *5.0%* |
| Dividends | 2.0% | 3.0% | *5.5%* |
| Book Value | 3.5% | 3.5% | *5.0%* |

| Calendar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2006 | 390.4 | 171.0 | 114.9 | 336.9 | 1013.2 |
| 2007 | 394.1 | 183.2 | 124.2 | 331.7 | 1033.2 |
| 2008 | 387.7 | 191.3 | 109.7 | 349.2 | 1037.9 |
| 2009 | 437.4 | 149.4 | *100* | *338.2* | *1025* |
| 2010 | *420* | *215* | *125* | *365* | *1125* |

| Calendar | EARNINGS PER SHARE [A] Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2006 | 1.48 | .07 | d.35 | 1.15 | 2.35 |
| 2007 | 1.77 | .10 | d.22 | 1.11 | 2.76 |
| 2008 | 1.62 | .08 | d.38 | 1.25 | 2.57 |
| 2009 | 1.72 | .12 | *d.31* | *1.32* | *2.85* |
| 2010 | *1.72* | *.11* | *d.33* | *1.35* | *2.85* |

| Calendar | QUARTERLY DIVIDENDS PAID [B] ■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2005 | .325 | .325 | .325 | .345 | 1.32 |
| 2006 | .345 | .345 | .345 | .355 | 1.39 |
| 2007 | .355 | .355 | .355 | .375 | 1.44 |
| 2008 | .375 | .375 | .375 | .395 | 1.52 |
| 2009 | .395 | .395 | .395 | | |

BUSINESS: Northwest Natural Gas Co. distributes natural gas to 90 communities, 662,000 customers, in Oregon (90% of customers) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.5 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system. Owns local underground storage. Rev. breakdown: residential, 55%; commercial, 28%; industrial, gas transportation, and other, 17%. Employs 1,106. Barclays Global owns 6.6% of shares; officers and directors, 1.4% (4/09 proxy). CEO: Gregg S. Kantor. Inc.: Oregon. Address: 220 NW 2nd Ave., Portland, OR 97209. Telephone: 503-226-4211. Internet: www.nwnatural.com.

**Northwest Natural's normal-looking first-half results contained some unusual elements.** The company shares in either 20% or 10% of the difference between forecast natural gas costs and the actual outlays in Oregon. In this year's first half, very low gas prices led to an $11 million profit from the cost-sharing mechanism, versus a $6 million loss in the prior-year period. The profit, however, was partially offset by considerably higher operating and maintenance expenses, due partly to higher pension expense related to the decline in the stock market and bonuses due to the earnings gain. Meanwhile, the recession cost Northwest 3,000 customers in the June period, dropping its year-to-year customer increase to 0.8%.

**Thus, we look for little earnings change through 2010.** With natural gas prices likely to rise at least a bit next year, Northwest has opted to share in 10% of the difference between forecast and actual gas costs, likely reducing commodity cost effects. As gas prices are down, however, the company expects that residential rates will drop 15%-20% next year, raising the incentive to convert to gas heat. Moreover, the company plans to pare 50 to 100 jobs, adding to the 175 it eliminated in the last two years.

**Northwest should benefit from a new union contract.** Under the new five-year agreement, union members (about 60% of the workforce) received a 2.3% raise but will get just 1% more per year for years two through five, plus up to 2% for inflation. The company gains extra flexibility, and new hires will not be eligible for the defined benefit pension plan.

**New projects could significantly boost earnings by the end of our time horizon.** Northwest owns 75% of the Gill Ranch, CA gas storage project and will invest about $160 million in the project; it should contribute to the bottom line by 2011. The proposed Palomar pipeline would bring a second source of gas to the Portland area; its eastern section could come on line by 2013. NWN's investment would be around $200 million, plus an equal sum if the western half is built.

**These top-quality shares offer decent total-return potential, suitable for conservative accounts.**

*Sigourney B. Romaine September 11, 2009*

(A) Diluted earnings per share. Excludes nonrecurring items: '98, $0.15; '00, $0.11; '06, ($0.06); '08, ($0.03); 1Q '09, 6¢. Next earnings report due early November.

(B) Dividends historically paid in mid-February, May, August, and November. ■ Dividend reinvestment plan available.

(C) In millions, adjusted for stock split.

| | |
|---|---|
| Company's Financial Strength | A |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 70 |
| Earnings Predictability | 90 |

# PIEDMONT NAT'L. GAS NYSE-PNY

RECENT PRICE 24.24 | P/E RATIO 14.8 (Trailing: 15.6 / Median: 18.0) | RELATIVE P/E RATIO 0.92 | DIV'D YLD 4.5% | VALUE LINE

TIMELINESS 3 Raised 6/15/07
SAFETY 2 New 7/27/90
TECHNICAL 4 Raised 7/17/09
BETA .65 (1.00 = Market)

2012-14 PROJECTIONS

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 40 | (+65%) | 17% |
| Low | 30 | (+25%) | 10% |

Insider Decisions

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

Institutional Decisions

| | 4Q2008 | 1Q2009 | 2Q2009 |
|---|---|---|---|
| to Buy | 112 | 75 | 78 |
| to Sell | 93 | 123 | 96 |
| Hld's(000) | 33160 | 34611 | 33567 |

| | High: | 18.1 | 18.3 | 19.7 | 19.0 | 19.0 | 22.0 | 24.3 | 25.8 | 28.4 | 28.0 | 35.3 | 32.0 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Low: | 13.9 | 14.3 | 11.8 | 14.6 | 13.7 | 16.6 | 19.2 | 21.3 | 23.2 | 22.0 | 21.7 | 20.7 |

LEGENDS
— 1.40 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 11/04
Options: Yes
*Shaded area: prior recession*
*Latest recession began 12/07*

Target Price Range 2012 | 2013 | 2014

% TOT. RETURN 8/09

| | THIS STOCK | VL ARITH. INDEX |
|---|---|---|
| 1 yr. | -13.5 | -4.4 |
| 3 yr. | 3.2 | 0.4 |
| 5 yr. | 34.0 | 32.3 |

| 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | © VALUE LINE PUB., INC. | 12-14 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 10.57 | 10.82 | 8.76 | 11.59 | 12.84 | 12.45 | 10.97 | 13.01 | 17.06 | 12.57 | 18.14 | 19.95 | 22.96 | 25.80 | 23.37 | 28.52 | *26.45* | *27.25* | Revenues per sh [A] | *30.00* |
| 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 | 2.51 | 2.64 | 2.77 | *2.85* | *2.95* | "Cash Flow" per sh | *3.15* |
| .73 | .68 | .73 | .84 | .93 | .98 | .93 | 1.01 | 1.01 | .95 | 1.11 | 1.27 | 1.32 | 1.27 | 1.40 | 1.49 | *1.60* | *1.70* | Earnings per sh [B] | *1.90* |
| .48 | .51 | .54 | .57 | .61 | .64 | .68 | .72 | .76 | .80 | .82 | .85 | .91 | .95 | .99 | 1.03 | *1.07* | *1.11* | Div'ds Decl'd per sh [C] | *1.23* |
| 1.58 | 1.95 | 1.72 | 1.64 | 1.52 | 1.48 | 1.58 | 1.65 | 1.29 | 1.21 | 1.16 | 1.85 | 2.50 | 2.74 | 1.85 | 2.47 | *2.40* | *2.10* | Cap'l Spending per sh | *2.25* |
| 5.45 | 5.68 | 6.16 | 6.53 | 6.95 | 7.45 | 7.86 | 8.26 | 8.63 | 8.91 | 9.36 | 11.15 | 11.53 | 11.83 | 11.99 | 12.11 | *12.70* | *13.25* | Book Value per sh [D] | *15.05* |
| 52.30 | 53.15 | 57.67 | 59.10 | 60.39 | 61.48 | 62.59 | 63.83 | 64.93 | 66.18 | 67.31 | 76.67 | 76.70 | 74.61 | 73.23 | 73.26 | *73.50* | *73.50* | Common Shs Outst'g [E] | *73.00* |
| 15.4 | 15.7 | 13.8 | 13.9 | 13.6 | 16.3 | 17.7 | 14.3 | 16.7 | 18.4 | 16.7 | 16.6 | 17.9 | 19.2 | 18.7 | 18.2 | *Bold figures are* | | Avg Ann'l P/E Ratio | *18.0* |
| .91 | 1.03 | .92 | .87 | .78 | .85 | 1.01 | .93 | .86 | 1.01 | .95 | .88 | .95 | 1.04 | .99 | 1.15 | *Value Line* | | Relative P/E Ratio | *1.50* |
| 4.3% | 4.8% | 5.4% | 4.9% | 4.8% | 4.0% | 4.1% | 5.0% | 4.5% | 4.6% | 4.4% | 4.1% | 3.8% | 3.9% | 3.8% | 3.8% | *estimates* | | Avg Ann'l Div'd Yield | *3.6%* |
| 686.5 | 830.4 | 1107.9 | 832.0 | 1220.8 | 1529.7 | 1761.1 | 1924.7 | 1711.3 | 2089.1 | *1945* | *2005* | Revenues ($mill) [A] | *2190* |
| 58.2 | 64.0 | 65.5 | 62.2 | 74.4 | 95.2 | 101.3 | 97.2 | 104.4 | 110.0 | *115* | *125* | Net Profit ($mill) | *140* |
| 39.7% | 34.7% | 34.6% | 33.1% | 34.8% | 35.1% | 33.7% | 34.2% | 33.0% | 36.4% | *35.0%* | *35.0%* | Income Tax Rate | *35.0%* |
| 8.5% | 7.7% | 5.9% | 7.5% | 6.1% | 6.2% | 5.8% | 5.0% | 6.1% | 5.3% | *6.1%* | *6.3%* | Net Profit Margin | *6.4%* |
| 46.2% | 46.1% | 47.6% | 43.9% | 42.2% | 43.6% | 41.4% | 48.3% | 48.4% | 47.2% | *47.5%* | *48.0%* | Long-Term Debt Ratio | *47.0%* |
| 53.8% | 53.9% | 52.4% | 56.1% | 57.8% | 56.4% | 58.6% | 51.7% | 51.6% | 52.8% | *52.5%* | *52.0%* | Common Equity Ratio | *53.0%* |
| 914.7 | 978.4 | 1069.4 | 1051.6 | 1090.2 | 1514.9 | 1509.2 | 1707.9 | 1703.3 | 1681.5 | *1775* | *1875* | Total Capital ($mill) | *2075* |
| 1047.0 | 1072.0 | 1114.7 | 1158.5 | 1812.3 | 1849.8 | 1939.1 | 2075.3 | 2141.5 | 2240.8 | *2250* | *2300* | Net Plant ($mill) | *2450* |
| 8.1% | 8.3% | 7.9% | 7.8% | 8.6% | 7.8% | 8.2% | 7.2% | 7.8% | 8.2% | *8.0%* | *8.0%* | Return on Total Cap'l | *8.0%* |
| 11.8% | 12.1% | 11.7% | 10.6% | 11.8% | 11.1% | 11.5% | 11.0% | 11.9% | 12.4% | *12.5%* | *13.0%* | Return on Shr. Equity | *12.5%* |
| 11.8% | 12.1% | 11.7% | 10.6% | 11.8% | 11.1% | 11.5% | 11.0% | 11.9% | 12.4% | *12.5%* | *13.0%* | Return on Com Equity | *12.5%* |
| 3.3% | 3.5% | 3.0% | 1.7% | 3.1% | 3.7% | 3.6% | 2.8% | 3.5% | 3.9% | *4.0%* | *4.5%* | Retained to Com Eq | *4.5%* |
| 72% | 71% | 75% | 83% | 74% | 66% | 68% | 74% | 70% | 69% | *67%* | *65%* | All Div'ds to Net Prof | *65%* |

CAPITAL STRUCTURE as of 4/30/09
Total Debt $1029.0 mill. Due in 5 Yrs $150.0 mill.
LT Debt $793.5 mill. LT Interest $55.5 mill.
(LT interest earned: 4.0x; total interest coverage: 3.7x)

Pension Assets-10/08 $150.3 mill. Oblig. $143.5 mill.

Pfd Stock None

Common Stock 72,959,779 shs.
as of 6/2/09
MARKET CAP: $1.8 billion (Mid Cap)

| CURRENT POSITION ($MILL.) | 2007 | 2008 | 4/30/09 |
|---|---|---|---|
| Cash Assets | 7.5 | 7.0 | 20.7 |
| Other | 427.8 | 593.8 | 528.0 |
| Current Assets | 435.3 | 600.8 | 548.7 |
| Accts Payable | 143.6 | 132.3 | 94.0 |
| Debt Due | 195.0 | 436.5 | 235.5 |
| Other | 75.9 | 112.7 | 182.3 |
| Current Liab. | 424.5 | 681.5 | 511.8 |
| Fix. Chg. Cov. | 309% | 341% | 350% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '06-'08 to '12-'14 |
|---|---|---|---|
| Revenues | 7.5% | 10.0% | *2.5%* |
| "Cash Flow" | 5.0% | 7.0% | *3.0%* |
| Earnings | 4.5% | 6.5% | *5.5%* |
| Dividends | 5.0% | 4.5% | *3.5%* |
| Book Value | 5.5% | 6.0% | *4.0%* |

| Fiscal Year Ends | QUARTERLY REVENUES ($ mill.) [A] Jan.31 | Apr.30 | Jul.31 | Oct.31 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2006 | 921.4 | 483.2 | 237.9 | 282.2 | 1924.7 |
| 2007 | 677.2 | 531.5 | 224.4 | 278.2 | 1711.3 |
| 2008 | 788.5 | 634.2 | 354.7 | 311.7 | 2089.1 |
| 2009 | 779.6 | 455.4 | *372* | *338* | *1945* |
| 2010 | *790* | *470* | *390* | *355* | *2005* |

| Fiscal Year Ends | EARNINGS PER SHARE [A B] Jan.31 | Apr.30 | Jul.31 | Oct.31 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2006 | .94 | .57 | d.16 | d.08 | 1.27 |
| 2007 | .94 | .69 | d.12 | d.11 | 1.40 |
| 2008 | 1.12 | .66 | d.10 | d.18 | 1.49 |
| 2009 | 1.10 | .73 | *d.10* | *d.13* | *1.60* |
| 2010 | *1.12* | *.75* | *d.08* | *d.09* | *1.70* |

| Cal-endar | QUARTERLY DIVIDENDS PAID [C] Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2005 | .215 | .23 | .23 | .23 | .91 |
| 2006 | .23 | .24 | .24 | .24 | .95 |
| 2007 | .24 | .25 | .25 | .25 | .99 |
| 2008 | .25 | .26 | .26 | .26 | 1.03 |
| 2009 | .26 | .27 | .27 | | |

BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 935,724 customers in North Carolina, South Carolina, and Tennessee. 2008 revenue mix: residential (39%), commercial (24%), industrial (12%), other (25%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 73.5% of revenues. '08 deprec. rate: 3.2%. Estimated plant age: 8.7 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 1,833 employees. Officers & directors own about 1.1% of common stock (1/09 proxy). Chairman, CEO, & President: Thomas E. Skains. Inc.: NC. Address: 4720 Piedmont Row Drive, Charlotte, NC 28210. Telephone: 704-364-3120. Internet: www.piedmontng.com.

**Piedmont Natural Gas has posted a mixed bag of financial results thus far in 2009.** Quarterly sales in the first half declined, year over year, as the weakened economy continued to weigh on both residential and commercial new construction activities. As a result, PNY's regulated utility segment has been experiencing declining customer growth compounded by rising conservation practices at existing accounts. Nonetheless, margins have been widening, thanks largely to lower natural gas costs, which have more than offset the rise in operating expenses. These trends resulted in a 10.6% hike in the April-period bottom line.

**Meantime, slumping demand has put the brakes on many of the company's capital projects.** Management has opted to defer its pipeline infrastructure enhancement plans that were scheduled to serve the new gas-fired power generation markets of North Carolina. Moreover, construction of the liquid natural gas storage facility in Robeson County, NC has also been put off. Current customer growth projections in that region indicate this facility may not be necessary for a few more years. As a result, PNY is holding off on construction until 2012, with a potential in-service date of 2015. These moves ought to help the company conserve cash at a time when rising accounts receivable and higher delinquencies are a distinct possibility.

**Still, we have raised our earnings estimates for this year and next by a nickel.** The main culprit for the disappointing 2009 revenues can be attributed to the slumping commodity prices. This trend masks Piedmont's continued customer growth, a figure that should register at about 1%-1.5% this year. Meantime, lower gas costs should continue to offset the margin tightening associated with diminished volumes. Consequently, annual earnings gains should persist.

**These neutrally ranked shares have some appeal as an income vehicle.** Recovery potential for the pull to 2012-2014 is about average for a utility. But the recent dividend hike, and relative stability provided by an ever-increasing customer base, shines a positive light on this good-quality stock.

*Bryan J. Fong* *September 11, 2009*

(A) Fiscal year ends October 31st.
(B) Diluted earnings. Excl. extraordinary item: '00, 8¢. Excl. nonrecurring charge: '97, 2¢. Next earnings report due early Nov. Quarters may not add to total due to change in shares outstanding.
(C) Dividends historically paid mid-January, April, July, October.
■ Div'd reinvest. plan available; 5% discount.
(D) Includes deferred charges. In 2008: $16.3 million, 22¢/share.
(E) In millions, adjusted for stock split.

| | |
|---|---|
| Company's Financial Strength | B++ |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 60 |
| Earnings Predictability | 90 |

# SOUTH JERSEY INDS. NYSE-SJI

RECENT PRICE 34.29 | P/E RATIO 14.3 (Trailing: 14.8 / Median: 14.0) | RELATIVE P/E RATIO 0.89 | DIV'D YLD 3.6% | VALUE LINE

TIMELINESS 3 Lowered 8/14/09
SAFETY 2 Lowered 1/4/91
TECHNICAL 5 Lowered 9/11/09
BETA .65 (1.00 = Market)

2012-14 PROJECTIONS

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 50 | (+45%) | 13% |
| Low | 35 | (Nil) | 5% |

Insider Decisions

| | O | N | D | J | F | M | A | M | J |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 1 | 0 | 0 | 1 | 0 | 0 | 0 |
| Options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| to Sell | 0 | 2 | 0 | 0 | 0 | 4 | 0 | 1 | 2 |

Institutional Decisions

| | 4Q2008 | 1Q2009 | 2Q2009 |
|---|---|---|---|
| to Buy | 75 | 73 | 70 |
| to Sell | 69 | 70 | 78 |
| Hld's(000) | 16545 | 16545 | 15858 |

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | © VALUE LINE PUB., INC | 12-14 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 15.4 | 15.4 | 15.1 | 17.0 | 18.3 | 20.3 | 26.5 | 32.4 | 34.3 | 41.3 | 40.6 | 40.8 | | |
| Low: | 11.0 | 10.8 | 12.3 | 13.8 | 14.1 | 15.3 | 19.7 | 24.9 | 25.6 | 31.2 | 25.2 | 32.0 | | |
| | 17.60 | 22.43 | 35.30 | 20.69 | 26.34 | 29.51 | 31.78 | 31.76 | 32.30 | 32.36 | *30.85* | *31.60* | Revenues per sh | *36.35* |
| | 1.84 | 1.95 | 1.90 | 2.12 | 2.24 | 2.44 | 2.51 | 3.51 | 3.20 | 3.48 | *3.35* | *3.60* | "Cash Flow" per sh | *4.20* |
| | 1.01 | 1.08 | 1.15 | 1.22 | 1.37 | 1.58 | 1.71 | 2.46 | 2.09 | 2.27 | *2.40* | *2.65* | Earnings per sh A | *3.10* |
| | .72 | .73 | .74 | .75 | .78 | .82 | .86 | .92 | 1.01 | 1.11 | *1.20* | *1.28* | Div'ds Decl'd per sh B ■ | *1.50* |
| | 2.19 | 2.21 | 2.82 | 3.47 | 2.36 | 2.67 | 3.21 | 2.51 | 1.88 | 2.08 | *2.35* | *2.40* | Cap'l Spending per sh | *2.90* |
| | 6.74 | 7.25 | 7.81 | 9.67 | 11.26 | 12.41 | 13.50 | 15.11 | 16.25 | 17.33 | *18.65* | *19.35* | Book Value per sh C | *22.75* |
| | 22.30 | 23.00 | 23.72 | 24.41 | 26.46 | 27.76 | 28.98 | 29.33 | 29.61 | 29.73 | *30.00* | *31.00* | Common Shs Outst'g D | *33.00* |
| | 13.3 | 13.0 | 13.6 | 13.5 | 13.3 | 14.1 | 16.6 | 11.9 | 17.2 | 15.9 | *Bold figures are Value Line estimates* | | Avg Ann'l P/E Ratio | *14.0* |
| | .76 | .85 | .70 | .74 | .76 | .74 | .88 | .64 | .91 | .95 | | | Relative P/E Ratio | *.95* |
| | 5.4% | 5.2% | 4.7% | 4.6% | 4.3% | 3.7% | 3.0% | 3.2% | 2.8% | 3.1% | | | Avg Ann'l Div'd Yield | *3.5%* |
| | 392.5 | 515.9 | 837.3 | 505.1 | 696.8 | 819.1 | 921.0 | 931.4 | 956.4 | 962.0 | *925* | *980* | Revenues ($mill) | *1200* |
| | 22.0 | 24.7 | 26.8 | 29.4 | 34.6 | 43.0 | 48.6 | 72.0 | 61.8 | 67.7 | *70.0* | *80.0* | Net Profit ($mill) | *100* |
| | 42.8% | 43.1% | 42.2% | 41.4% | 40.6% | 40.9% | 41.5% | 41.3% | 41.9% | 47.7% | *38.0%* | *40.0%* | Income Tax Rate | *40.0%* |
| | 5.6% | 4.8% | 3.2% | 5.8% | 5.0% | 5.2% | 5.3% | 7.7% | 6.5% | 7.0% | *7.6%* | *8.2%* | Net Profit Margin | *8.3%* |
| | 53.8% | 54.1% | 57.0% | 53.6% | 50.8% | 48.7% | 44.9% | 44.7% | 42.7% | 39.2% | *38.5%* | *40.0%* | Long-Term Debt Ratio | *38.0%* |
| | 37.0% | 37.6% | 35.9% | 46.1% | 49.0% | 51.0% | 55.1% | 55.3% | 57.3% | 60.8% | *61.5%* | *60.0%* | Common Equity Ratio | *62.0%* |
| | 405.9 | 443.5 | 516.2 | 512.5 | 608.4 | 675.0 | 710.3 | 801.1 | 839.0 | 848.0 | *910* | *1000* | Total Capital ($mill) | *1210* |
| | 533.3 | 562.2 | 607.0 | 666.6 | 748.3 | 799.9 | 877.3 | 920.0 | 948.9 | 982.6 | *1030* | *1075* | Net Plant ($mill) | *1250* |
| | 7.4% | 7.4% | 6.9% | 7.6% | 7.3% | 7.9% | 8.3% | 10.1% | 8.6% | 8.5% | *8.5%* | *9.0%* | Return on Total Cap'l | *9.0%* |
| | 11.7% | 12.1% | 12.1% | 12.4% | 11.5% | 12.4% | 12.4% | 16.3% | 12.8% | 13.1% | *12.5%* | *13.5%* | Return on Shr. Equity | *13.5%* |
| | 14.6% | 14.8% | 12.8% | 12.5% | 11.6% | 12.5% | 12.4% | 16.3% | 12.8% | 13.1% | *12.5%* | *13.5%* | Return on Com Equity | *13.5%* |
| | 4.2% | 4.8% | 3.5% | 4.7% | 5.0% | 5.9% | 6.2% | 10.2% | 6.7% | 6.7% | *6.0%* | *6.5%* | Retained to Com Eq | *6.5%* |
| | 72% | 67% | 76% | 62% | 57% | 52% | 50% | 37% | 48% | 49% | *51%* | *50%* | All Div'ds to Net Prof | *50%* |

% TOT. RETURN 8/09

| | THIS STOCK | VL ARITH. INDEX |
|---|---|---|
| 1 yr. | 0.4 | -4.4 |
| 3 yr. | 31.1 | 0.4 |
| 5 yr. | 79.3 | 32.3 |

Target Price Range 2012 | 2013 | 2014

CAPITAL STRUCTURE as of 6/30/09
Total Debt $496.4 mill. Due in 5 Yrs $228.8 mill.
LT Debt $332.7 mill. LT Interest $16.0 mill.
(Total interest coverage: 8.4x)

Pension Assets-12/08 $88.3 mill. Oblig. $142.7 mill.

Pfd Stock none

Common Stock 29,796,232 common shs.
as of 8/3/09

MARKET CAP: $1.0 billion (Mid Cap)

| CURRENT POSITION ($MILL.) | 2007 | 2008 | 6/30/09 |
|---|---|---|---|
| Cash Assets | 11.7 | 5.8 | 6.0 |
| Other | 316.6 | 429.3 | 351.4 |
| Current Assets | 328.3 | 435.1 | 357.4 |
| Accts Payable | 101.2 | 120.2 | 87.9 |
| Debt Due | 118.4 | 237.6 | 163.7 |
| Other | 108.7 | 142.1 | 135.7 |
| Current Liab. | 328.3 | 499.9 | 387.3 |
| Flx. Chg. Cov. | 476% | 598% | 834% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '06-'08 to '12-'14 |
|---|---|---|---|
| Revenues | 6.0% | 3.0% | *2.0%* |
| "Cash Flow" | 8.5% | 10.0% | *3.5%* |
| Earnings | 11.5% | 13.0% | *5.5%* |
| Dividends | 3.5% | 6.0% | *7.0%* |
| Book Value | 9.0% | 11.0% | *6.0%* |

| Calendar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2006 | 372.6 | 153.8 | 154.7 | 250.3 | 931.4 |
| 2007 | 368.4 | 171.7 | 156.2 | 260.1 | 956.4 |
| 2008 | 348.1 | 135.8 | 210.4 | 267.7 | 962.0 |
| 2009 | 362.2 | 134.5 | *150* | *278.3* | *925* |
| 2010 | *365* | *160* | *170* | *285* | *980* |

| Calendar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2006 | 1.06 | .20 | .51 | .69 | 2.46 |
| 2007 | 1.30 | .21 | d.05 | .63 | 2.09 |
| 2008 | 1.32 | .26 | .04 | .67 | 2.27 |
| 2009 | 1.46 | .15 | *.05* | *.74* | *2.40* |
| 2010 | *1.45* | *.25* | *.10* | *.85* | *2.65* |

| Calendar | QUARTERLY DIVIDENDS PAID B■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2005 | -- | .213 | .213 | .438 | .86 |
| 2006 | -- | .225 | .225 | .470 | .92 |
| 2007 | -- | .245 | .245 | .515 | 1.01 |
| 2008 | -- | .270 | .270 | .568 | 1.11 |
| 2009 | -- | .298 | .298 | | |

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 340,136 customers in New Jersey's southern counties, which covers about 2,500 square miles and includes Atlantic City. Gas revenue mix '08: residential, 46%; commercial, 23%; cogeneration and electric generation, 6%; industrial, 25%. Non-utility operations include: South Jersey Energy, South Jersey Resources Group, Marina Energy, and South Jersey Energy Service Plus. Has 602 employees. Off./dir. control 1.0% of com. shares; Barclays, 7.5%; Keeley Asset Management, 5.6% (3/09 proxy). Chrmn. & CEO: Edward Graham. Incorp.: NJ. Address: 1 South Jersey Plaza, Folsom, NJ 08037. Tel.: 609-561-9000. Internet: www.sjindustries.com.

**South Jersey Industries posted a flat top-line comparison and lower share earnings for the second quarter.** Earnings declined moderately at subsidiary South Jersey Gas in the recent interim. Lower interest payments were more than offset by higher pension expense and an increase in other operating costs at this business. Meanwhile, significantly cooler temperatures during the period resulted in lower air conditioning demand and reduced earnings at the on-site energy production business, Marina Energy. The Asset Management and Marketing business also posted an earnings decline for the quarter.

**The company has attractive prospects for the coming years.** Customer growth at South Jersey Gas has continued at a steady clip, despite weakness in the broader economy. Natural gas remains the fuel of choice in the markets served by the utility, and SJG continues to see significant interest in conversions from other fuel sources to natural gas. Its recent gas main extension project, along with aggressive marketing efforts, should benefit the utility going forward. We anticipate solid results from the nonutility operations, as well.

**South Jersey Gas has filed with the New Jersey Board of Public Utilities to reduce rates by 20.2%.** The approval of the Basic Gas Supply Service (BGSS) petition would allow customers to realize significant savings, and provide an incentive for homeowners to switch from oil to natural gas. The BGSS clause allows South Jersey to pass along increases and decreases in gas costs directly to consumers. The company's ability to secure lower-priced gas has allowed it to provide customers with the lower rates.

**Shares of South Jersey Industries have slipped one notch in Timeliness,** and are now neutrally ranked for year-ahead performance. Looking further out, we anticipate higher revenues and share earnings at the company by 2012-2014. Moreover, SJI scores high marks for Safety, Price Stability, and Earnings Predictability. But from the present quotation, this issue has below-average, though reasonably well-defined, total return potential for the coming years.

*Michael Napoli, CPA* *September 11, 2009*

(A) Based on GAAP EPS through 2006, economic earnings thereafter. GAAP EPS: '07, $2.10; '08, $2.58. Excl. nonrecur. gain (loss): '01, $0.13; '08, $0.31. Excl gain (losses) from discont. ops.: '99, ($0.02); '00, ($0.04); '01, ($0.02); '02, ($0.04); '03, ($0.09); '05, ($0.02); '06, ($0.02); '07, $0.01. Earnings may not sum due to rounding. Next egs. report due in November. (B) Div'ds paid early Apr., Jul., Oct., and late Dec. ■ Div. reinvest. plan avail. (C) Incl. regulatory assets. In 2008: $270.4 mill., $9.10 per shr. (D) In millions, adj. for split.

| | |
|---|---|
| Company's Financial Strength | B++ |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 90 |
| Earnings Predictability | 80 |

# SOUTHWEST GAS NYSE-SWX

RECENT PRICE 23.98 | P/E RATIO 13.5 (Trailing: 16.3 Median: 19.0) | RELATIVE P/E RATIO 0.84 | DIV'D YLD 4.1% | VALUE LINE

TIMELINESS 3 Raised 5/23/08
SAFETY 3 Lowered 1/4/91
TECHNICAL 4 Lowered 7/24/09
BETA .75 (1.00 = Market)

2012-14 PROJECTIONS

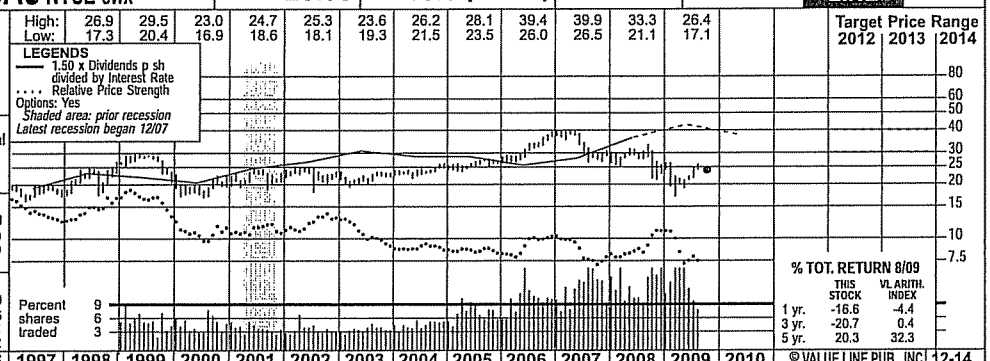
| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 40 | (+65%) | 17% |
| Low | 30 | (+25%) | 10% |

Insider Decisions

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

Institutional Decisions

| | 4Q2008 | 1Q2009 | 2Q2009 |
|---|---|---|---|
| to Buy | 83 | 83 | 86 |
| to Sell | 75 | 71 | 71 |
| Hld's(000) | 32362 | 32859 | 32802 |




| 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | © VALUE LINE PUB., INC. | 12-14 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 25.68 | 28.16 | 23.03 | 24.09 | 26.73 | 30.17 | 30.24 | 32.61 | 42.98 | 39.68 | 35.96 | 40.14 | 43.59 | 48.47 | 50.28 | 48.53 | *39.55* | *41.50* | Revenues per sh | *52.00* |
| 3.24 | 5.09 | 2.65 | 3.00 | 3.85 | 4.48 | 4.45 | 4.57 | 4.79 | 5.07 | 5.11 | 5.57 | 5.20 | 5.97 | 6.21 | 5.76 | *5.95* | *6.15* | "Cash Flow" per sh | *7.30* |
| .63 | 1.22 | .10 | .25 | .77 | 1.65 | 1.27 | 1.21 | 1.15 | 1.16 | 1.13 | 1.66 | 1.25 | 1.98 | 1.95 | 1.39 | *1.75* | *1.90* | Earnings per sh A | *2.30* |
| .74 | .80 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .86 | .90 | *.95* | *1.00* | Div'ds Decl'd per sh B■† | *1.15* |
| 5.43 | 6.64 | 6.79 | 8.19 | 6.19 | 6.40 | 7.41 | 7.04 | 8.17 | 8.50 | 7.03 | 8.23 | 7.49 | 8.27 | 7.96 | 6.79 | *5.50* | *5.95* | Cap'l Spending per sh | *7.20* |
| 15.96 | 16.38 | 14.55 | 14.20 | 14.09 | 15.67 | 16.31 | 16.82 | 17.27 | 17.91 | 18.42 | 19.18 | 19.10 | 21.58 | 22.98 | 23.49 | *25.25* | *26.05* | Book Value per sh | *28.00* |
| 21.00 | 21.28 | 24.47 | 26.73 | 27.39 | 30.41 | 30.99 | 31.71 | 32.49 | 33.29 | 34.23 | 36.79 | 39.33 | 41.77 | 42.81 | 44.19 | *45.50* | *47.00* | Common Shs Outst'g C | *50.00* |
| 26.5 | 14.0 | NMF | 69.3 | 24.1 | 13.2 | 21.1 | 16.0 | 19.0 | 19.9 | 19.2 | 14.3 | 20.6 | 15.9 | 17.3 | 20.3 | *Bold figures are Value Line estimates* | | Avg Ann'l P/E Ratio | *15.0* |
| 1.57 | .92 | NMF | 4.34 | 1.39 | .69 | 1.20 | 1.04 | .97 | 1.09 | 1.09 | .76 | 1.10 | .86 | .92 | 1.22 | | | Relative P/E Ratio | *1.00* |
| 4.4% | 4.7% | 5.4% | 4.7% | 4.4% | 3.8% | 3.1% | 4.2% | 3.8% | 3.6% | 3.8% | 3.5% | 3.2% | 2.6% | 2.6% | 3.2% | | | Avg Ann'l Div'd Yield | *3.3%* |
| | | | | | | 936.9 | 1034.1 | 1396.7 | 1320.9 | 1231.0 | 1477.1 | 1714.3 | 2024.7 | 2152.1 | 2144.7 | *1800* | *1950* | Revenues ($mill) | *2600* |
| | | | | | | 39.3 | 38.3 | 37.2 | 38.6 | 38.5 | 58.9 | 48.1 | 80.5 | 83.2 | 61.0 | *80.0* | *90.0* | Net Profit ($mill) | *115* |
| | | | | | | 35.5% | 26.2% | 34.5% | 32.8% | 30.5% | 34.8% | 29.7% | 37.3% | 36.5% | 40.1% | *38.0%* | *38.0%* | Income Tax Rate | *36.0%* |
| | | | | | | 4.2% | 3.7% | 2.7% | 2.9% | 3.1% | 4.0% | 2.8% | 4.0% | 3.9% | 2.8% | *4.4%* | *4.6%* | Net Profit Margin | *4.4%* |
| | | | | | | 60.3% | 60.2% | 56.2% | 62.5% | 66.0% | 64.2% | 63.8% | 60.6% | 58.1% | 55.3% | *51.0%* | *50.5%* | Long-Term Debt Ratio | *49.0%* |
| | | | | | | 35.5% | 35.8% | 39.6% | 34.1% | 34.0% | 35.8% | 36.2% | 39.4% | 41.9% | 44.7% | *49.0%* | *49.5%* | Common Equity Ratio | *51.0%* |
| | | | | | | 1424.7 | 1489.9 | 1417.6 | 1748.3 | 1851.6 | 1968.6 | 2076.0 | 2287.8 | 2349.7 | 2323.3 | *2350* | *2475* | Total Capital ($mill) | *2750* |
| | | | | | | 1581.1 | 1686.1 | 1825.6 | 1979.5 | 2175.7 | 2336.0 | 2489.1 | 2668.1 | 2845.3 | 2983.3 | *3050* | *3150* | Net Plant ($mill) | *3600* |
| | | | | | | 4.8% | 4.6% | 5.1% | 4.3% | 4.2% | 5.0% | 4.3% | 5.5% | 5.5% | 4.5% | *5.0%* | *5.5%* | Return on Total Cap'l | *6.0%* |
| | | | | | | 7.0% | 6.5% | 6.0% | 5.9% | 6.1% | 8.3% | 6.4% | 8.9% | 8.5% | 5.9% | *7.0%* | *7.5%* | Return on Shr. Equity | *8.0%* |
| | | | | | | 7.8% | 7.2% | 6.6% | 6.5% | 6.1% | 8.3% | 6.4% | 8.9% | 8.5% | 5.9% | *7.0%* | *7.5%* | Return on Com Equity | *8.0%* |
| | | | | | | 2.8% | 2.4% | 1.9% | 1.9% | 1.7% | 4.3% | 2.2% | 5.2% | 4.8% | 2.1% | *3.0%* | *3.5%* | Retained to Com Eq | *4.0%* |
| | | | | | | 64% | 67% | 71% | 70% | 72% | 49% | 65% | 42% | 44% | 63% | *54%* | *52%* | All Div'ds to Net Prof | *50%* |

CAPITAL STRUCTURE as of 6/30/09

Total Debt $1228.0 mill. Due in 5 Yrs $566.1 mill.
LT Debt $1222.9 mill. LT Interest $85.0 mill.
(Total interest coverage: 2.2x)
Leases, Uncapitalized Annual rentals $6.0 mill.
Pension Assets-12/08 $342.9 mill. Oblig. $558.9 mill.
Pfd Stock None

Common Stock 44,822,466 shs.
as of 7/30/09

MARKET CAP: $1.1 billion (Mid Cap)

| CURRENT POSITION ($MILL.) | 2007 | 2008 | 6/30/09 |
|---|---|---|---|
| Cash Assets | 32.0 | 26.4 | 26.8 |
| Other | 470.5 | 411.7 | 232.5 |
| Current Assets | 502.5 | 438.1 | 259.3 |
| Accts Payable | 220.7 | 191.4 | 68.0 |
| Debt Due | 47.1 | 62.8 | 5.1 |
| Other | 260.1 | 255.7 | 303.0 |
| Current Liab. | 527.9 | 509.9 | 376.1 |
| Fix. Chg. Cov. | 229% | 224% | 233% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '06-'08 to '12-'14 |
|---|---|---|---|
| Revenues | 6.0% | 4.5% | *1.0%* |
| "Cash Flow" | 4.5% | 3.5% | *3.5%* |
| Earnings | 7.0% | 9.0% | *4.5%* |
| Dividends | 0.5% | 1.0% | *5.0%* |
| Book Value | 4.5% | 5.0% | *3.5%* |

| Calendar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2006 | 676.9 | 430.9 | 351.8 | 565.1 | 2024.7 |
| 2007 | 793.7 | 426.6 | 371.5 | 560.3 | 2152.1 |
| 2008 | 813.6 | 447.3 | 374.4 | 509.4 | 2144.7 |
| 2009 | 689.9 | 387.6 | *275* | *447.5* | *1800* |
| 2010 | *730* | *410* | *310* | *500* | *1950* |

| Calendar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2006 | 1.11 | .02 | d.26 | 1.11 | 1.98 |
| 2007 | 1.17 | d.01 | d.22 | 1.01 | 1.95 |
| 2008 | 1.14 | d.06 | d.38 | .71 | 1.39 |
| 2009 | 1.12 | d.01 | *d.35* | *.99* | *1.75* |
| 2010 | *1.15* | *Nil* | *d.30* | *1.05* | *1.90* |

| Calendar | QUARTERLY DIVIDENDS PAID B■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2005 | .205 | .205 | .205 | .205 | .82 |
| 2006 | .205 | .205 | .205 | .205 | .82 |
| 2007 | .205 | .215 | .215 | .215 | .85 |
| 2008 | .215 | .225 | .225 | .225 | .89 |
| 2009 | .225 | .238 | .238 | | |

BUSINESS: Southwest Gas Corporation is a regulated gas distributor serving approximately 1.8 million customers in sections of Arizona, Nevada, and California. Comprised of two business segments: natural gas operations and construction services. 2008 margin mix: residential and small commercial, 86%; large commercial and industrial, 5%; transportation, 9%. Total throughput: 2.4 billion therms. Sold PriMerit Bank, 7/96. Has 4,732 employees. Off. & Dir. own 2.0% of common stock; T. Rowe Price Associates, Inc., 7.0%; Barclays Global Investors, 6.8%; GAMCO Investors, Inc., 6.4% (3/09 Proxy). Chairman: James J. Kropid. CEO: Jeffrey W. Shaw. Inc.: CA. Address: 5241 Spring Mountain Road, Las Vegas, Nevada 89146. Telephone: 702-876-7237. Internet: www.swgas.com.

**Southwest Gas reported unfavorable top-line performance for the second quarter.** The recent recession stymied customer growth and resulted in lower usage. On the bright side, rate relief in Arizona and California (discussed below) supported results. Consequently, the company's share loss of $0.01 compared favorably with the prior-year tally. Losses are common during the second and third quarters, owing to the seasonal nature of the business. Looking forward, we expect lower revenue and a normal-sized share loss for the third quarter. Earnings comparisons ought to improve in the fourth quarter, assuming a better operating environment and greater cost control. Overall, we anticipate lower revenue and higher share earnings for Southwest in full-year 2009. Bottom-line growth may well continue next year.

**The company is awaiting a rate case decision from the state of Nevada.** Southwest is seeking a $30.5 million rate increase to compensate it for higher operating costs in that state. The request asks that the new rates take effect at the beginning of November. The company is also seeking an improvement in rate design. Specifically, SWX wants to implement a decoupled rate structure that would allow it more freedom in pursuing customer conservation opportunities. This follows recent prior rate case settlements in California and Arizona.

**Investors should be mindful of several caveats.** Warmer-than-normal temperatures during the winter months can hurt performance at Southwest Gas. In addition, the company will probably incur greater operating costs as it continues to expand, and profitability may suffer if rate relief cannot keep up with rising expenses.

**The pace of customer growth should pick up in the future.** That's assuming economic conditions in Southwest's service areas improve in the coming years. As a result, we anticipate higher revenues and share earnings at the company by 2012-2014. Moreover, income-oriented investors may find the stock's prospects for dividend growth attractive. But from the present quotation, this neutrally ranked equity features about-average total return potential for a utility.

*Michael Napoli, CPA* *September 11, 2009*

(A) Based on avg. shares outstand. thru. '96, then diluted. Excl. nonrec. gains (losses): '93, 8¢; '97, 16¢; '02, (10¢); '05, (11¢); '06, 7¢. Incl. asset writedown: '93, 44¢. Excl. loss from disc. ops.: '95, 75¢. Totals may not sum due to rounding. Next egs. report due early November. (B) Dividends historically paid early March, June, September, December. ■† Div'd reinvestment and stock purchase plan avail. (C) In millions.

| | |
|---|---|
| Company's Financial Strength | B |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 65 |
| Earnings Predictability | 70 |

# WGL HOLDINGS NYSE-WGL

RECENT PRICE 33.30 | P/E RATIO 13.2 (Trailing: 13.1 Median: 15.0) | RELATIVE P/E RATIO 0.82 | DIV'D YLD 4.4% | VALUE LINE

TIMELINESS 3 Lowered 6/5/09
SAFETY 1 Raised 4/2/93
TECHNICAL 5 Lowered 9/11/09
BETA .65 (1.00 = Market)

2012-14 PROJECTIONS

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 45 | (+35%) | 12% |
| Low | 35 | (+5%) | 6% |

Insider Decisions

| | O | N | D | J | F | M | A | M | J |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 0 | 4 | 0 | 0 | 1 | 0 | 0 | 0 | 0 |
| to Sell | 0 | 4 | 0 | 0 | 4 | 1 | 0 | 2 | 0 |

Institutional Decisions

| | 4Q2008 | 1Q2009 | 2Q2009 |
|---|---|---|---|
| to Buy | 94 | 97 | 85 |
| to Sell | 95 | 96 | 98 |
| Hld's(000) | 31580 | 30919 | 31333 |

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| High: | 30.8 | 29.4 | 31.5 |
| Low: | 23.1 | 21.0 | 21.8 |

LEGENDS
1.30 x Dividends p sh divided by Interest Rate
Relative Price Strength
Options: Yes
Shaded area: prior recession
Latest recession began 12/07

Target Price Range 2012 | 2013 | 2014

% TOT. RETURN 8/09

| | THIS STOCK | VL ARITH. INDEX |
|---|---|---|
| 1 yr. | 7.4 | -4.4 |
| 3 yr. | 21.1 | 0.4 |
| 5 yr. | 43.4 | 32.3 |

| 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | © VALUE LINE PUB., INC. | 12-14 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 21.55 | 21.69 | 19.30 | 22.19 | 24.16 | 23.74 | 20.92 | 22.19 | 29.80 | 32.63 | 42.45 | 42.93 | 44.94 | 53.96 | 53.51 | 52.65 | *53.20* | *54.25* | Revenues per sh [A] | *57.60* |
| 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 | 3.89 | 3.89 | 4.34 | *4.40* | *4.45* | "Cash Flow" per sh | *4.70* |
| 1.31 | 1.42 | 1.45 | 1.85 | 1.85 | 1.54 | 1.47 | 1.79 | 1.88 | 1.14 | 2.30 | 1.98 | 2.13 | 1.94 | 2.10 | 2.44 | *2.50* | *2.55* | Earnings per sh [B] | *2.70* |
| 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 | 1.37 | 1.41 | *1.47* | *1.51* | Div'ds Decl'd per sh [C] ■ | *1.63* |
| 2.43 | 2.84 | 2.63 | 2.85 | 3.20 | 3.62 | 3.42 | 2.67 | 2.68 | 3.34 | 2.65 | 2.33 | 2.32 | 3.27 | 3.33 | 2.70 | *3.00* | *3.00* | Cap'l Spending per sh | *2.50* |
| 11.04 | 11.51 | 11.95 | 12.79 | 13.48 | 13.86 | 14.72 | 15.31 | 16.24 | 15.78 | 16.25 | 16.95 | 17.80 | 18.86 | 19.83 | 20.99 | *22.00* | *23.05* | Book Value per sh [D] | *26.20* |
| 41.50 | 42.19 | 42.93 | 43.70 | 43.70 | 43.84 | 46.47 | 46.47 | 48.54 | 48.56 | 48.63 | 48.67 | 48.65 | 48.89 | 49.45 | 49.92 | *50.00* | *50.00* | Common Shs Outst'g [E] | *50.00* |
| 15.6 | 14.0 | 12.7 | 11.5 | 12.7 | 17.2 | 17.3 | 14.6 | 14.7 | 23.1 | 11.1 | 14.2 | 14.7 | 15.5 | 15.6 | 13.7 | *Bold figures are Value Line estimates* | | Avg Ann'l P/E Ratio | *15.0* |
| .92 | .92 | .85 | .72 | .73 | .89 | .99 | .95 | .75 | 1.26 | .63 | .75 | .78 | .84 | .82 | .85 | | | Relative P/E Ratio | *1.00* |
| 5.3% | 5.6% | 6.1% | 5.4% | 5.0% | 4.5% | 4.8% | 4.8% | 4.6% | 4.8% | 5.0% | 4.6% | 4.2% | 4.5% | 4.2% | 4.2% | | | Avg Ann'l Div'd Yield | *4.0%* |
| 972.1 | 1031.1 | 1446.5 | 1584.8 | 2064.2 | 2089.6 | 2186.3 | 2637.9 | 2646.0 | 2628.2 | *2660* | *2715* | Revenues ($mill) [A] | *2880* |
| 68.8 | 84.6 | 89.9 | 55.7 | 112.3 | 98.0 | 104.8 | 96.0 | 102.9 | 122.9 | *125* | *130* | Net Profit ($mill) | *135* |
| 36.0% | 36.1% | 39.6% | 34.0% | 38.0% | 38.2% | 37.4% | 39.0% | 39.1% | 37.1% | *37.0%* | *37.0%* | Income Tax Rate | *38.0%* |
| 7.1% | 8.2% | 6.2% | 3.5% | 5.4% | 4.7% | 4.8% | 3.6% | 3.9% | 4.7% | *4.7%* | *4.8%* | Net Profit Margin | *4.7%* |
| 41.5% | 43.1% | 41.7% | 45.7% | 43.8% | 40.9% | 39.5% | 37.8% | 37.9% | 35.9% | *36.5%* | *35.5%* | Long-Term Debt Ratio | *34.0%* |
| 56.1% | 54.8% | 56.3% | 52.4% | 54.3% | 57.2% | 58.6% | 60.4% | 60.3% | 62.4% | *62.0%* | *63.0%* | Common Equity Ratio | *64.5%* |
| 1218.5 | 1299.2 | 1400.8 | 1462.5 | 1454.9 | 1443.6 | 1478.1 | 1526.1 | 1625.4 | 1679.5 | *1780* | *1830* | Total Capital ($mill) | *2040* |
| 1402.7 | 1460.3 | 1519.7 | 1606.8 | 1874.9 | 1915.6 | 1969.7 | 2067.9 | 2150.4 | 2208.3 | *2325* | *2420* | Net Plant ($mill) | *2720* |
| 7.1% | 7.9% | 7.9% | 5.3% | 9.1% | 8.2% | 8.5% | 7.6% | 7.6% | 8.5% | *8.0%* | *8.0%* | Return on Total Cap'l | *8.0%* |
| 9.7% | 11.4% | 11.0% | 7.0% | 13.7% | 11.5% | 11.7% | 10.1% | 10.2% | 11.4% | *11.5%* | *11.0%* | Return on Shr. Equity | *10.5%* |
| 9.9% | 11.7% | 11.2% | 7.2% | 14.0% | 11.7% | 12.0% | 10.3% | 10.4% | 11.6% | *12.0%* | *11.5%* | Return on Com Equity | *11.0%* |
| 1.8% | 3.7% | 3.8% | NMF | 6.2% | 4.1% | 4.6% | 3.2% | 3.5% | 5.0% | *4.5%* | *4.5%* | Retained to Com Eq | *4.0%* |
| 82% | 69% | 67% | 112% | 56% | 65% | 62% | 69% | 66% | 57% | *59%* | *59%* | All Div'ds to Net Prof | *60%* |

CAPITAL STRUCTURE as of 6/30/09
Total Debt $728.7 mill. Due In 5 Yrs $264.5 mill.
LT Debt $624.1 mill. LT Interest $37.4 mill.
(LT interest earned: 5.9x; total interest coverage: 5.2x)
Pension Assets-9/08 $588.2 mill.
Oblig. $590.5 mill.
Preferred Stock $28.2 mill. Pfd. Div'd $1.3 mill.

Common Stock 50,141,229 shs.
as of 7/31/09

MARKET CAP: $1.7 billion (Mid Cap)

| CURRENT POSITION ($MILL.) | 2007 | 2008 | 6/30/09 |
|---|---|---|---|
| Cash Assets | 4.9 | 6.2 | 41.6 |
| Other | 568.8 | 736.1 | 553.2 |
| Current Assets | 573.7 | 742.3 | 594.8 |
| Accts Payable | 216.9 | 243.1 | 202.8 |
| Debt Due | 205.4 | 347.0 | 104.6 |
| Other | 134.8 | 158.4 | 202.1 |
| Current Liab. | 557.1 | 748.5 | 509.5 |
| Fix. Chg. Cov. | 432% | 490% | 500% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '06-'08 to '12-'14 |
|---|---|---|---|
| Revenues | 8.5% | 9.0% | *1.5%* |
| "Cash Flow" | 3.5% | 4.0% | *2.5%* |
| Earnings | 2.0% | 4.0% | *4.0%* |
| Dividends | 1.5% | 1.5% | *3.0%* |
| Book Value | 4.0% | 4.5% | *4.5%* |

| Fiscal Year Ends | QUARTERLY REVENUES ($ mill.) [A] Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2006 | 902.9 | 1064.5 | 346.9 | 323.6 | 2637.9 |
| 2007 | 732.9 | 1119.9 | 467.5 | 325.7 | 2646.0 |
| 2008 | 751.6 | 1020.0 | 464.7 | 391.9 | 2628.2 |
| 2009 | 821.5 | 1040.9 | 427.0 | *370.6* | *2660* |
| 2010 | *830* | *1050* | *445* | *390* | *2715* |

| Fiscal Year Ends | EARNINGS PER SHARE [A] [B] Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2006 | .93 | 1.17 | d.01 | d.15 | 1.94 |
| 2007 | .92 | 1.27 | .22 | d.31 | 2.10 |
| 2008 | .96 | 1.66 | .06 | d.24 | 2.44 |
| 2009 | 1.03 | 1.65 | .11 | *d.29* | *2.50* |
| 2010 | *1.04* | *1.66* | *.12* | *d.27* | *2.55* |

| Cal-endar | QUARTERLY DIVIDENDS PAID [C] ■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2005 | .325 | .333 | .333 | .333 | 1.32 |
| 2006 | .333 | .338 | .338 | .338 | 1.34 |
| 2007 | .34 | .34 | .34 | .34 | 1.36 |
| 2008 | .34 | .36 | .36 | .36 | 1.42 |
| 2009 | .36 | .37 | .37 | | |

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 (1,053,032 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 7.1% of common stock; Off./dir. less than 1% (1/09 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 a mixed bag of financial results for the off-peak June period.** Top-line volumes fell approximately 8% over that time frame. This stemmed from weakness at the regulated utility segment, which has been dealing with lower natural gas consumption and some equipment cost issues. On a brighter note, the retail energy marketing division got a boost to its revenues and earnings contributions from higher natural gas and electricity margins. On the efficiency front, management has been performing well. Operating expenses declined 90 basis points versus the year-ago period. This stemmed from lower labor and benefits expenses. All told, the bottom line advanced nicely.

**We look for the company to register a mid-single-digit earnings hike this year.** The decent gains experienced earlier in 2009 will probably be offset by a larger share deficit in the fiscal fourth quarter. Despite the widening margins and solid performance from the retail energy and design build segments, demand at the mainstay regulated utility business may be soft. Also, the September period is historically and seasonally slow for WGL. Nonetheless, considering all that happened in the past year, the company appears to be in solid shape.

**The LNG peaking facility is going to take longer than expected to be completed and put into service.** That project will be used to support customer growth and maintain the pressure requirements of the distribution system in Chillum, MD. It was planned to be in service by the 2012-2013 winter heating season, but due to regulatory and legal issues, the following year is more likely.

**These top-quality shares may appeal to income-oriented accounts**, as they offer an attractive dividend yield. Typically, too, they proved much less volatile than the broader market during the recent turmoil. This partly stems from WGL's large government business in the DC metro area, which has been less affected by the economic downturn. These benefits are evident in the equity's top-notch Safety rank, and high mark for Price Stability. But appreciation potential is subpar for the pull to 2012-2014.

*Bryan J. Fong* *September 11, 2009*

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

(A) Fiscal years end Sept. 30th.
(B) Based on diluted shares. Excludes nonrecurring losses: '01, (13¢); '02, (34¢); '07, (4¢) discontinued operations: '06, (15¢). Qtly egs. may not sum to total, due to change in shares outstanding. Next earnings report due late Oct.
(C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available.
(D) Includes deferred charges and intangibles. '08: $291.3 million, $5.81/sh.
(E) In millions, adjusted for stock split.

# SOUTHERN UNION NYSE-SUG

RECENT PRICE 19.30 | P/E RATIO 10.5 (Trailing: 11.4 Median: 20.0) | RELATIVE P/E RATIO 0.65 | DIV'D YLD 3.1% | VALUE LINE

TIMELINESS 3 Lowered 9/14/07
SAFETY 3 New 3/24/00
TECHNICAL 3 Lowered 8/28/09
BETA 1.05 (1.00 = Market)

2012-14 PROJECTIONS

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 35 | (+80%) | 19% |
| Low | 25 | (+30%) | 10% |

Insider Decisions

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

| | 4Q2008 | 1Q2009 | 2Q2009 |
|---|---|---|---|
| to Buy | 118 | 110 | 122 |
| to Sell | 114 | 109 | 97 |
| Hld's(000) | 94196 | 92994 | 90904 |

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | © VALUE LINE PUB., INC. | 12-14 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 5.66 | 10.12 | 12.89 | 16.51 | 19.04 | 16.99 | 14.73 | 15.88 | 29.77 | 20.30 | 14.75 | 22.22 | 17.95 | 19.54 | 21.14 | 24.15 | 20.00 | 21.25 | Revenues per sh [A] | 23.25 |
| | .58 | .82 | 1.30 | 1.43 | 1.43 | 1.29 | 1.27 | 1.26 | 1.54 | 1.79 | 1.29 | 2.77 | 2.71 | 2.96 | 3.15 | 3.27 | 3.35 | 3.70 | "Cash Flow" per sh | 4.10 |
| | .26 | .26 | .43 | .54 | .49 | .31 | .26 | .20 | .19 | .56 | .67 | 1.24 | 1.58 | 1.33 | 1.75 | 1.81 | 1.75 | 2.00 | Earnings per sh [A B] | 2.15 |
| | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | .40 | .45 | .60 | .64 | .68 | Div'ds Decl'd per sh [D■] | .80 |
| | .50 | 1.03 | 1.81 | 1.58 | 1.71 | 1.96 | 1.78 | 1.92 | 1.91 | 1.47 | .99 | 2.79 | 2.49 | 2.90 | 4.98 | 4.75 | 3.60 | 3.15 | Cap'l Spending per sh | 3.40 |
| | 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 | 15.96 | 18.17 | 19.40 | 20.55 | Book Value per sh [E] | 24.35 |
| | 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 | 119.77 | 123.77 | 124.00 | 125.00 | 127.00 | Common Shs Outst'g [C] | 132.00 |
| | 15.9 | 20.3 | 12.5 | 14.1 | 21.2 | 37.5 | 59.8 | 71.1 | 87.5 | 29.5 | 17.9 | 13.4 | 15.0 | 15.3 | 17.5 | 12.6 | Bold figures are Value Line estimates | | Avg Ann'l P/E Ratio | 14.0 |
| | .94 | 1.33 | .84 | .88 | 1.22 | 1.95 | 3.41 | 4.62 | 4.48 | 1.61 | 1.02 | .71 | .80 | .83 | .93 | .77 | | | Relative P/E Ratio | .93 |
| | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 1.5% | 1.5% | 2.6% | | | Avg Ann'l Div'd Yield | 2.1% |
| | | | | | | | 605.2 | 831.7 | 1932.8 | 1290.6 | 1188.5 | 1800.0 | 2019.4 | 2340.2 | 2616.7 | 2994.3 | 2500 | 2700 | Revenues ($mill) [A] | 3065 |
| | | | | | | | 10.4 | 11.1 | 12.9 | 36.6 | 43.7 | 114.0 | 195.7 | 217.1 | 228.7 | 223.8 | 235 | 275 | Net Profit ($mill) | 305 |
| | | | | | | | 40.5% | 49.0% | 35.3% | 29.2% | 35.7% | 37.7% | 26.6% | 33.5% | 29.4% | 33.0% | 33.0% | 33.0% | Income Tax Rate | 33.0% |
| | | | | | | | 1.7% | 1.3% | .7% | 2.8% | 3.7% | 6.3% | 9.7% | 9.3% | 8.7% | 7.5% | 9.4% | 10.2% | Net Profit Margin | 10.0% |
| | | | | | | | 62.0% | 53.1% | 66.4% | 63.3% | 65.0% | 63.1% | 52.5% | 56.7% | 57.3% | 57.9% | 57.5% | 58.5% | Long-Term Debt Ratio | 57.5% |
| | | | | | | | 38.0% | 46.9% | 33.6% | 36.7% | 35.0% | 30.2% | 41.6% | 38.4% | 38.2% | 40.0% | 41.0% | 40.0% | Common Equity Ratio | 41.0% |
| | | | | | | | 792.0 | 1569.6 | 2151.5 | 1867.6 | 2632.1 | 3416.6 | 3903.2 | 4740.1 | 5166.1 | 5625.4 | 5920 | 6525 | Total Capital ($mill) | 7835 |
| | | | | | | | 878.3 | 1487.2 | 1456.3 | 1456.4 | 3144.8 | 3207.5 | 3485.9 | 4584.4 | 5102.3 | 5457.0 | 5750 | 6000 | Net Plant ($mill) | 6750 |
| | | | | | | | 3.6% | 2.3% | 2.9% | 4.3% | 3.3% | 4.8% | 6.5% | 6.5% | 6.1% | 6.0% | 6.0% | 6.0% | Return on Total Cap'l | 6.0% |
| | | | | | | | 3.5% | 1.5% | 1.8% | 5.3% | 4.7% | 9.0% | 10.6% | 10.6% | 10.4% | 9.9% | 10.0% | 10.5% | Return on Shr. Equity | 9.5% |
| | | | | | | | 3.5% | 1.5% | 1.8% | 5.3% | 4.7% | 10.2% | 11.0% | 11.0% | 10.7% | 10.4% | 10.5% | 11.0% | Return on Com Equity | 10.0% |
| | | | | | | | 3.5% | 1.5% | 1.8% | 5.3% | 4.7% | 10.2% | 11.0% | 9.1% | 8.3% | 5.9% | 5.5% | 6.5% | Retained to Com Eq | 5.5% |
| | | | | | | | -- | -- | -- | -- | -- | 7% | 9% | 24% | 29% | 33% | 34% | 32% | All Div'ds to Net Prof | 34% |

% TOT. RETURN 8/09

| | THIS STOCK | VL ARITH. INDEX |
|---|---|---|
| 1 yr. | -21.0 | -4.4 |
| 3 yr. | -22.9 | 0.4 |
| 5 yr. | 20.7 | 32.3 |

Target Price Range 2012 | 2013 | 2014

CAPITAL STRUCTURE as of 6/30/09
Total Debt $3619.0 mill. Due in 5 Yrs $1270 mill.
LT Debt $3267.9 mill. LT Interest $181 mill.
(Est'd LT interest earned: 2.9x; total interest coverage: 2.6x)
(58% of Cap'l)
Leases, Uncapitalized: Annual rentals $21.4 mill.
Pension Assets-12/08 $102.4 mill.
Oblig. $172.1 mill.
Pfd. Stock $115.0 mill. Pfd. Div'd. $12.2 mill.
(2% of Cap'l)
Common Stock 124,056,552 shs.
as of 7/31/09
MARKET CAP: $2.4 billion (Mid Cap)

| CURRENT POSITION ($MILL.) | 2007 | 2008 | 6/30/09 |
|---|---|---|---|
| Cash Assets | 5.7 | 4.3 | 15.2 |
| Receivables | 358.5 | 327.4 | 207.3 |
| Inventory (Avg Cst) | 263.6 | 337.9 | 254.1 |
| Other | 180.5 | 362.8 | 249.5 |
| Current Assets | 808.3 | 1032.4 | 726.1 |
| Accts Payable | 335.3 | 246.9 | 186.4 |
| Debt Due | 558.3 | 462.1 | 351.1 |
| Other | 430.1 | 642.9 | 561.0 |
| Current Liab. | 1323.7 | 1351.9 | 1098.5 |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '06-'08 to '12-'14 |
|---|---|---|---|
| Revenues | 2.0% | -2.5% | 1.0% |
| "Cash Flow" | 8.0% | 14.0% | 4.5% |
| Earnings | 13.0% | 39.5% | 5.0% |
| Dividends | -- | -- | 11.0% |
| Book Value | 12.0% | 5.0% | 7.0% |

| Calendar | QUARTERLY REVENUES ($ mill.) [A] Mar.31 | Jun.31 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2006 | 547.2 | 552.4 | 564.4 | 676.2 | 2340.2 |
| 2007 | 780.2 | 588.1 | 525.5 | 722.9 | 2616.7 |
| 2008 | 952.7 | 711.0 | 657.3 | 673.3 | 2994.3 |
| 2009 | 683.7 | 453.0 | 650 | 713.3 | 2500 |
| 2010 | 720 | 505 | 700 | 775 | 2700 |

| Calendar | EARNINGS PER SHARE [A B] Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2006 | .60 | .10 | .06 | .57 | 1.33 |
| 2007 | .53 | .39 | .34 | .49 | 1.75 |
| 2008 | .64 | .43 | .29 | .47 | 1.81 |
| 2009 | .52 | .35 | .35 | .53 | 1.75 |
| 2010 | .60 | .48 | .37 | .55 | 2.00 |

| Calendar | QUARTERLY DIVIDENDS PAID [D■] Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2005 | -- | -- | -- | -- | -- |
| 2006 | -- | .10 | .10 | .10 | .30 |
| 2007 | .10 | .10 | .10 | .10 | .40 |
| 2008 | .15 | .15 | .15 | .15 | .60 |
| 2009 | .15 | .15 | .15 | | |

**BUSINESS:** Southern Union Co. owns 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 560,000 residential, commercial, and industrial customers through its Missouri Gas Energy and New England Gas Company. Acq. Panhandle Energy 6/03; Sid Richardson Energy Services 3/06. Sold Rhode Island operations 2/06; PG Energy 1/06. Owns 100% interest in CCE Holdings. Has 2,413 employees. Officers & directors own 10.3% of stock (4/09 proxy). Chairman, President & Chief Executive Officer: George L. Lindemann. Inc.: Deleware. Address: 5444 Westheimer Road, Houston, TX 77056. Telephone: 713-989-2000. Internet: www.southernunionco.com.

**Southern Union continues to operate in a difficult business environment.** Top-line volumes declined more than 38% during the June interim. This stemmed from a substantial downturn at the Gathering and Processing segment (G&P), as that unit dealt with lower realized commodity pricing for both natural gas and natural gas liquid. Meanwhile, the Transportation and Storage unit (T&S) revenues eked a bit higher, registering a 2.5% increase. But that division is still feeling the effects of damages incurred to its Sea Robin pipeline system as a result of last year's Hurricane Ike. Consequently, T&S' volumes have been slow to advance, and maintenance costs were higher than anticipated. Still, the company has been successful in its cost-cutting initiatives. Despite the slumping volumes, margins have been widening, which has helped to moderate the erosion of earnings. Nonetheless, share net fell more than 18% during that time frame. Thus,

**We trimmed this year's earnings estimate by about 5%, to $1.75 a share.** This stems from customer conservation and slumping commodity prices that will likely continue to impact results throughout the remainder of 2009. Meantime, higher expenses associated with repairs needed as a result of last year's hurricane season, and capital expenditures related to projects not yet put into service, will probably continue to offset a portion of the cost-cutting efforts, at least for the time being. But reduced competition and lower pricing will eventually begin to equalize, bringing supply and demand back into balance. Thus, SUG's top and bottom lines will probably begin to recover next year.

**Multiple infrastructure enhancement projects augur well for the bottom line.** The Trunkline LNG facility was likye in service by the time this report went to press. And the Florida Gas Transmission Phase VIII expansion ought to follow suit, sometime in the spring of 2011.

**These neutrally ranked shares have some appeal.** Even after advancing almost 15% since our June review, the equity offers respectable 3- to 5-year recovery potential for a utility company. Meantime, the solid dividend yield may appeal to income-seeking accounts.

*Bryan J. Fong* *September 11, 2009*

A) Fiscal year ends June 30th through 2004; December 31st beg. in 2005. (B) Based on diluted shares. Excludes non-recurring per share gain (loss): '01, 81¢; '03, 55¢; '06, (1.30¢), '08, 45¢. Next egs. report due late Oct. Qtly egs. may not sum due to change in shares count. (C) In millions, adj. for splits. (D) Annual 5% common stock dividend suspended end of 2005. Cash dividend started April 2006. Qtrly div'ds paid January, April, July, and October. ■ Dividend Reinvestment plan available. (E) Incl. intang. In 2008: $89.2 mill., $0.72/sh.

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

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 Nine Value Line Natural Gas Distribution Companies | Southern Union Company |
|---|---|---|---|
| 1. | Prospective Yield on Aaa Rated Corporate Bonds (1) | 5.60 % | 5.60 % |
| 2. | Adjustment to Reflect Yield Spread Between Aaa Rated Corporate Bonds and A Rated Public Utility Bonds | 0.50 (2) | 0.50 (2) |
| 3. | Adjusted Prospective Yield on A Rated Public Utility Bonds | 6.10 %* | 6.10 %* |
| 4. | Adjustment to Reflect Bond Rating Difference of Proxy Group | 0.18 (3) | 0.54 (4) |
| 5. | Adjusted Prospective Bond Yield | 6.28 | 6.64 |
| 6. | Equity Risk Premium (5) | 4.66 | 5.99 |
| 7. | Risk Premium Derived Common Equity Cost Rate | 10.94 % | 12.63 % |

* Actual Moody's A Rated Public Utility Bond Yield for August 2009 is 5.71%.

Notes: (1) Derived in Note (3) on Page 39 of this Schedule.

(2) The average yield spread of A rated public utility bonds over Aaa rated corporate bonds of 0.50% from Page 37 of this Schedule.

(3) Adjustment to reflect the A3 Moody's Bond Rating of the Proxy Group of Nine Value Line Natural Gas Distribution Companies as shown on Page 35 of this Schedule. Normally, Mr. Hanley would take 1/3 of the spread between Baa and A2 Public Utility Bonds (1/3 * 0.78% = 0.26%) to reflect the risk of the proxy group. However Mr. Hanley believes that the current spread between A2 and Baa2 rated public utility bonds are not representitive of the long-term and will utilize a normalized spread of 0.54% between A2 and Baa2 rated public utility bonds based upon a weighting shown on page 37 of this Schedule and explained in Mr. Hanley's rebuttal testimony. A spread of 0.18%, or 1/3 of the normalized spread will be applied to the prospective yield on A rated public utility bonds relative to the proxy group of nine Value Line natural gas distribution companies as shown above.

(4) Adjustment to reflect the Baa3 Moody's Bond Rating of Southern Union Company as shown on page 35 of this Schedule. Normally, Mr. Hanley would take the full spread between A2 and Baa2 yields (0.78%) and add it to prospective A yield to reflect the risk of Southern Union Company. However Mr. Hanley believes that the current spread between A2 and Baa2 rated public utility bonds are not representitive of the long-term and will utilize a normalized spread of 0.54% between A2 and Baa2 rated public utility bonds based upon a weighting shown on Page 37 of this Schedule and explained in Mr. Hanley's rebuttal testimony. The full spread of 0.54% will be applied to the prospective yield on A rated public utility bonds relative to Southern Union Company as shown above.

(5) From Page 38 of this Schedule.

Comparison of Bond Ratings, Business Risk and Financial Risk Profiles for the
Proxy Group of Nine Value Line Natural Gas Distribution Companies
and Southern Union Company

| | | Moody's Bond Rating August 2009 | | Standard & Poor's Bond Rating August 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Bond Rating | Numerical Weighting (1) | Bond Rating | Numerical Weighting (1) | Credit Rating | Numerical Weighting (1) | Business Risk Profile (2) | Numerical Weighting (1) | Financial Risk Profile (2) | Numerical Weighting (1) |
| | Proxy Group of Nine Value Line Natural Gas Distribution Companies | | | | | | | | | | |
| ATG | AGL Resources Inc. (3) | A3 | 7.0 | A- | 7.0 | A- | 7.0 | Excellent | 1.0 | Significant | 4.0 |
| ATO | Atmos Energy Corp. | Baa2 | 9.0 | BBB+ | 8.0 | BBB+ | 8.0 | Excellent | 1.0 | Significant | 4.0 |
| LG | The Laclede Group, Inc. (4) | A3 | 7.0 | A | 6.0 | A | 6.0 | Excellent | 1.0 | Intermediate | 3.0 |
| NJR | New Jersey Resources Corp. (5) | NR | -- | NR | -- | A | 6.0 | Excellent | 1.0 | Intermediate | 3.0 |
| NWN | Northwest Natural Gas Co. | A2 | 6.0 | AA- | 4.0 | AA- | 4.0 | Excellent | 1.0 | Intermediate | 3.0 |
| PNY | Piedmont Natural Gas Co., Inc. | A3 | 7.0 | A | 6.0 | A | 6.0 | Excellent | 1.0 | Intermediate | 3.0 |
| SJI | South Jersey Industries, Inc. (6) | A3 | 7.0 | A | 6.0 | BBB+ | 8.0 | Excellent | 1.0 | Significant | 4.0 |
| SWX | Southwest Gas Corporation | Baa3 | 10.0 | BBB | 9.0 | BBB | 9.0 | Excellent | 1.0 | Aggressive | 5.0 |
| WGL | WGL Holdings, Inc. (7) | A2 | 6.0 | AA- | 4.0 | AA- | 4.0 | Excellent | 1.0 | Intermediate | 3.0 |
| | AVERAGE | A3 | 7.4 | A | 6.3 | A | 6.0 | Excellent | 1.0 | Significant | 3.6 |
| | Southern Union Company | Baa3 | 10.0 | BBB- | 10.0 | BBB- | 10.0 | Strong | 2.0 | Significant | 4.0 |

Notes: (1) From Page 36 of this Schedule.
(2) From Standard & Poor's Issuer Ranking: U.S. Natural Gas Distribution and Integrated Gas Companies, Strongest to Weakest and U.S. Midstream Energy Companies, Strongest to Weakest September 2, 2009.
(3) Ratings, business risk and financial risk profiles are those of Atlanta Gas Light Company.
(4) Ratings, business risk and financial risk are those of Laclede Gas Company.
(5) Ratings, business risk and financial risk profiles are those of New Jersey Natural Gas Company.
(6) Ratings, business risk and financial risk profiles are those of South Jersey Gas.
(7) Ratings, business risk and financial risk profiles are those of Washington Gas Light Company.

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

Missouri Gas Energy
Numerical Assignment for
Moody's and Standard & Poor's Bond Ratings,
Standard & Poor's Credit Ratings, and
Standard & Poor's Business and Financial Risk Profiles

| Moody's Bond Rating | Numerical Bond Weighting | Standard & Poor's Bond / Credit Rating |
|---|---|---|
| Aaa | 1 | AAA |
| Aa1 | 2 | AA+ |
| Aa2 | 3 | AA |
| Aa3 | 4 | AA- |
| A1 | 5 | A+ |
| A2 | 6 | A |
| A3 | 7 | A- |
| Baa1 | 8 | BBB+ |
| Baa2 | 9 | BBB |
| Baa3 | 10 | BBB- |
| Ba1 | 11 | BB+ |
| Ba2 | 12 | BB |
| Ba3 | 13 | BB- |

Standard & Poor's

| Business Risk Profile | Numerical Weighting | Financial Risk Profile | Numerical Weighting |
|---|---|---|---|
| Excellent | 1 | Minimal | 1 |
| Strong | 2 | Modest | 2 |
| Satisfactory | 3 | Intermediate | 3 |
| Fair | 4 | Significant | 4 |
| Weak | 5 | Aggressive | 5 |
| Vulnerable | 6 | Highly Leveraged | 6 |

Moody's
Comparison of Interest Rate Trends
for the Two Months Ending August 2009 (1)

| Years | Corporate Bonds Aaa Rated | Public Utility Bonds Aa Rated | Public Utility Bonds A Rated | Public Utility Bonds Baa Rated | Spread - Corporate v. Public Utility Bonds: Aa (Pub. Util.) over Aaa (Corp.) | Spread - Corporate v. Public Utility Bonds: A (Pub. Util.) over Aaa (Corp.) | Spread - Corporate v. Public Utility Bonds: Baa (Pub. Util.) over Aaa (Corp.) | Spread - Public Utility Bonds: A over Aa | Spread - Public Utility Bonds: Baa over A |
|---|---|---|---|---|---|---|---|---|---|
| July-09 | 5.41 | 5.63 | 5.97 | 6.87 % | 0.22 % | 0.56 % | 1.46 % | 0.34 % | 0.90 % |
| August-09 | 5.26 | 5.33 | 5.71 | 6.36 | 0.07 | 0.45 | 1.10 | 0.38 | 0.65 |
| Average of Last 2 Months | 5.34 % | 5.48 % | 5.84 % | 6.62 % | 0.14 % | 0.50 % | 1.28 % | 0.36 % | 0.78 % |

| | | |
|---|---|---|
| Average 5 yr Spread Between Moody's A and Baa Rated Public Utility Bonds (2) | 0.46% | 60% Weight |
| August 2009 Spread Between Moody's A and Baa Rated Public Utility Bonds (2) | 0.65% | 40% Weight |
| 5 yr Normalized Spread Between Moody's A and Baa Rated Public Utility Bonds | 0.54% | |

Notes: (1) All yields are distributed yields.
(2) From Page 48 of this Schedule.

Missouri Gas Energy
Judgment of Equity Risk Premium for
the Proxy Group of Nine Value Line Natural Gas Distribution Companies

| Line No. | | Proxy Group of Nine Value Line Natural Gas Distribution Companies | Southern Union Company |
|---|---|---|---|
| 1. | Calculated equity risk premium based on the total market using the beta approach (1) | 5.17 % | 8.35 % |
| 2. | Mean equity risk premium based on a study using the holding period returns of public utilities with Baa rated bonds (2) | 4.15 | 3.63 |
| 3. | Average equity risk premium | 4.66 % | 5.99 % |

Notes:
(1) From Page 39 of this Schedule.
(2) From Page 41 of this Schedule.

Missouri Gas Energy
Derivation of Equity Risk Premium Based on the Total Market Approach
Using the Beta for
the Proxy Group of Nine Value Line Natural Gas Distribution Companies

| Line No. | | Proxy Group of Nine Value Line Natural Gas Distribution Companies | Southern Union Company |
|---|---|---|---|
| 1. | Arithmetic mean total return rate on the Standard & Poor's 500 Composite Index - 1926-2007 (1) | 11.70 % | 11.70 % |
| 2. | Arithmetic mean yield on Aaa and Aa Corporate Bonds 1926-2007 (2) | (6.10) | (6.10) |
| 3. | Historical Equity Risk Premium | 5.60 % | 5.60 % |
| 4. | Forecasted 3-5 year Total Annual Market Return (3) | 17.09 % | 17.09 % |
| 5. | Prospective Yield an Aaa Rated Corporate Bonds (4) | (5.60) | (5.60) |
| 6. | Forecasted Equity Risk Premium | 11.49 % | 11.49 % |
| 7. | Conclusion of Equity Risk Premium (5) | 7.96 % | 7.96 % |
| 8. | Adjusted Value Line Beta (6) | 0.65 | 1.05 |
| 9. | Beta Adjusted Equity Risk Premium | 5.17 % | 8.35 % |

Notes:

(1) From Ibbotson SBBI - 2009 Valuation Yearbook - Market Results for Stocks Bonds Bills and Inflation for 1926-2008, Morningstar, Inc., 2009 Chicago, IL.

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

(3) From Page 51 of this Schedule.

(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 September 1, 2009 (see Page 40 of this Schedule). The estimates are detailed below.

| | |
|---|---|
| Third Quarter 2009 | 5.40 % |
| Fourth Quarter 2009 | 5.50 |
| First Quarter 2010 | 5.60 |
| Second Quarter 2010 | 5.60 |
| Third Quarter 2010 | 5.70 |
| Fourth Quarter 2010 | 5.80 |
| Average | 5.60 % |

(5) The average of the Historical Equity Risk Premium of 6.20% from Line No. 3 and the Forecasted Equity Risk Premium of 11.49% from Line No. 6 ((6.20% + 11.49%) / 2 = 8.84%. Normally, Mr. Hanley would use this average in his Risk Premium Analysis. However, in Mr. Hanley's opinion, the current and recent substantial volatility in the stock market is extraordinary and not representative of the expected long-term. In view of the recent substantial increase in the market over the last five to six months, the potential for market appreciation has declined significantly. Thus, in Mr. Hanley's opinion, more weight should now be given to the market appreciation potenital. Consequently, a 40% weight to the forecasted risk premium of 11.49% and a 60% weight to the historical risk premium if 5.60% is appropriate to reflect the current economic climate. The result of the weighting indicates a 7.96% risk premium.

(6) From Page 42 of this Schedule.

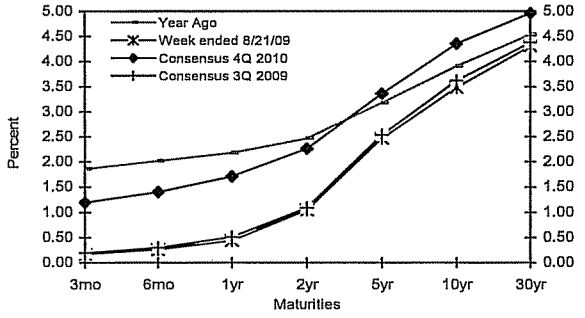
## Consensus Forecasts Of U.S. Interest Rates And Key Assumptions[1]

| | History | | | | | | | | Consensus Forecasts-Quarterly Avg. | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Average For Week End | | | | Average For Month | | | Latest Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q |
| Interest Rates | Aug. 21 | Aug. 14 | Aug. 7 | July 31 | July | June | May | 2Q 2009 | 2009 | 2009 | 2010 | 2010 | 2010 | 2010 |
| Federal Funds Rate | 0.16 | 0.17 | 0.18 | 0.15 | 0.16 | 0.21 | 0.18 | 0.18 | 0.2 | 0.2 | 0.2 | 0.4 | 0.7 | 1.1 |
| Prime Rate | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.2 | 3.2 | 3.3 | 3.4 | 3.8 | 4.2 |
| LIBOR, 3-mo. | 0.44 | 0.45 | 0.47 | 0.49 | 0.52 | 0.62 | 0.82 | 0.85 | 0.6 | 0.6 | 0.6 | 0.8 | 1.1 | 1.5 |
| Commercial Paper, 1-mo. | 0.17 | 0.19 | 0.17 | 0.19 | 0.18 | 0.18 | 0.22 | 0.21 | 0.3 | 0.3 | 0.3 | 0.5 | 0.9 | 1.2 |
| Treasury bill, 3-mo. | 0.17 | 0.18 | 0.18 | 0.19 | 0.18 | 0.18 | 0.18 | 0.19 | 0.2 | 0.2 | 0.3 | 0.5 | 0.8 | 1.2 |
| Treasury bill, 6-mo. | 0.26 | 0.28 | 0.29 | 0.26 | 0.28 | 0.31 | 0.30 | 0.36 | 0.3 | 0.4 | 0.5 | 0.7 | 1.0 | 1.4 |
| Treasury bill, 1 yr. | 0.44 | 0.47 | 0.49 | 0.49 | 0.48 | 0.51 | 0.50 | 0.57 | 0.5 | 0.6 | 0.8 | 1.0 | 1.3 | 1.7 |
| Treasury note, 2 yr. | 1.05 | 1.16 | 1.23 | 1.14 | 1.02 | 1.18 | 0.93 | 1.01 | 1.1 | 1.2 | 1.4 | 1.6 | 1.9 | 2.3 |
| Treasury note, 5 yr. | 2.47 | 2.65 | 2.73 | 2.63 | 2.46 | 2.71 | 2.13 | 2.13 | 2.5 | 2.6 | 2.8 | 2.9 | 3.1 | 3.4 |
| Treasury note, 10 yr. | 3.48 | 3.67 | 3.77 | 3.67 | 3.56 | 3.72 | 3.29 | 3.16 | 3.6 | 3.7 | 3.9 | 4.0 | 4.2 | 4.4 |
| Treasury note, 30 yr. | 4.31 | 4.47 | 4.52 | 4.49 | 4.41 | 4.52 | 4.23 | 3.97 | 4.4 | 4.5 | 4.6 | 4.7 | 4.8 | 5.0 |
| Corporate Aaa bond | 5.24 | 5.34 | 5.34 | 5.40 | 5.41 | 5.61 | 5.54 | 5.50 | 5.4 | 5.5 | 5.6 | 5.6 | 5.7 | 5.8 |
| Corporate Baa bond | 6.56 | 6.62 | 6.71 | 6.91 | 7.09 | 7.50 | 8.06 | 8.10 | 7.0 | 7.0 | 7.0 | 7.0 | 7.1 | 7.2 |
| State & Local bonds | 4.58 | 4.65 | 4.65 | 4.69 | 4.72 | 4.81 | 4.56 | 4.85 | 4.7 | 4.8 | 4.8 | 4.8 | 4.9 | 5.0 |
| Home mortgage rate | 5.12 | 5.29 | 5.22 | 5.25 | 5.22 | 5.42 | 4.86 | 5.08 | 5.3 | 5.3 | 5.4 | 5.6 | 5.7 | 5.9 |
| | History | | | | | | | | Consensus Forecasts-Quarterly Avg. | | | | | |
| | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q |
| Key Assumptions | 2007 | 2007 | 2008 | 2008 | 2008 | 2008 | 2009 | 2009 | 2009 | 2009 | 2010 | 2010 | 2010 | 2010 |
| Major Currency Index | 77.0 | 73.3 | 72.0 | 70.9 | 73.5 | 81.3 | 82.7 | 79.4 | 76.4 | 76.1 | 76.2 | 76.4 | 76.6 | 76.6 |
| Real GDP | 3.6 | 2.1 | -0.7 | 1.5 | -2.7 | -5.4 | -6.4 | -1.0 | 2.3 | 2.3 | 2.4 | 2.8 | 2.7 | 2.8 |
| GDP Price Index | 1.6 | 2.3 | 1.9 | 1.8 | 4.0 | 0.1 | 1.9 | 0.0 | 1.5 | 1.4 | 1.4 | 1.5 | 1.6 | 1.7 |
| Consumer Price Index | 2.4 | 5.8 | 4.5 | 4.5 | 6.2 | -8.3 | -2.4 | 1.3 | 2.6 | 1.8 | 1.7 | 1.6 | 2.1 | 2.1 |

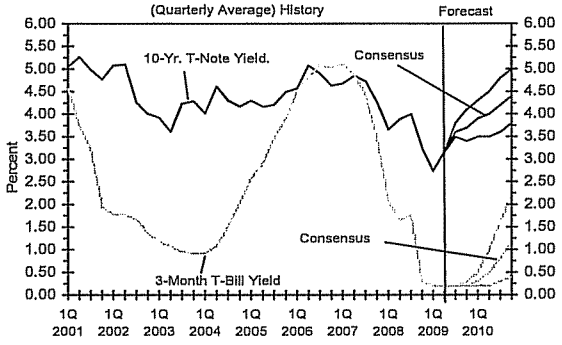
Individual panel members' forecasts are on pages 4 through 9. Historical data for interest rates except LIBOR is from Federal Reserve Release (FRSR) H.15. LIBOR quotes available from *The Wall Street Journal*. Definitions reported here are same as those in FRSR H.15. Treasury yields are reported on a 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).

### U.S. Treasury Yield Curve

Week ended August 21, 2009 and Year Ago vs.
3Q 2009 and 4Q 2010 Consensus Forecasts

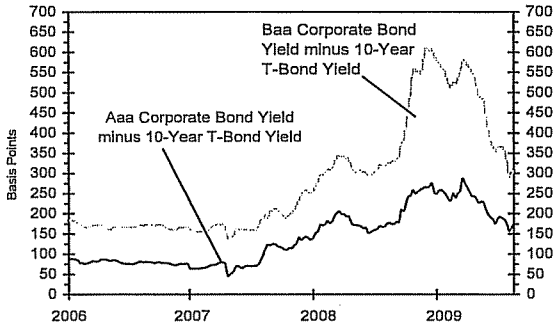



### U.S. 3-Mo. T-Bills & 10-Yr. T-Note Yield



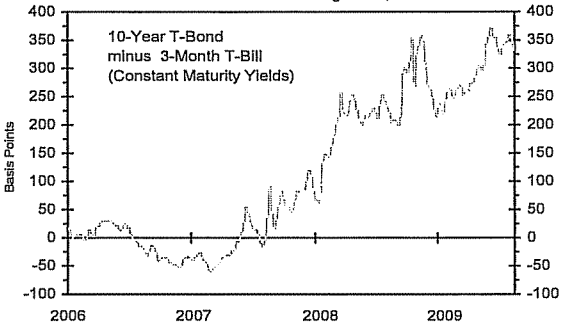

### Corporate Bond Spreads

As of week ended August 21, 2009




### U.S. Treasury Yield Curve

As of week ended August 21, 2009



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) | Over Baa Rated Public Utility Bonds AUS Consultants - Utility Services Study (1) |
|---|---|---|---|
| | | 1928-2008 | 1928-2008 |
| 1. | Arithmetic Mean Holding Period Returns (2): Standard & Poor's Public Utility Index | 10.74 % | 10.74 % |
| 2. | Arithmetic Mean Yield on: Moody's A Rated Public Utility Bonds | (6.59) | |
| 3. | Arithmetic Mean Yield on: Moody's Baa Rated Public Utility Bonds | | (7.11) |
| 4. | Equity Risk Premium | 4.15 % | 3.63 % |

Notes: (1) S&P Public Utility Index and Moody's Public Utility Bond Average Annual Yields 1928-2008, (AUS Consultants - Utility Services, 2009).

(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.

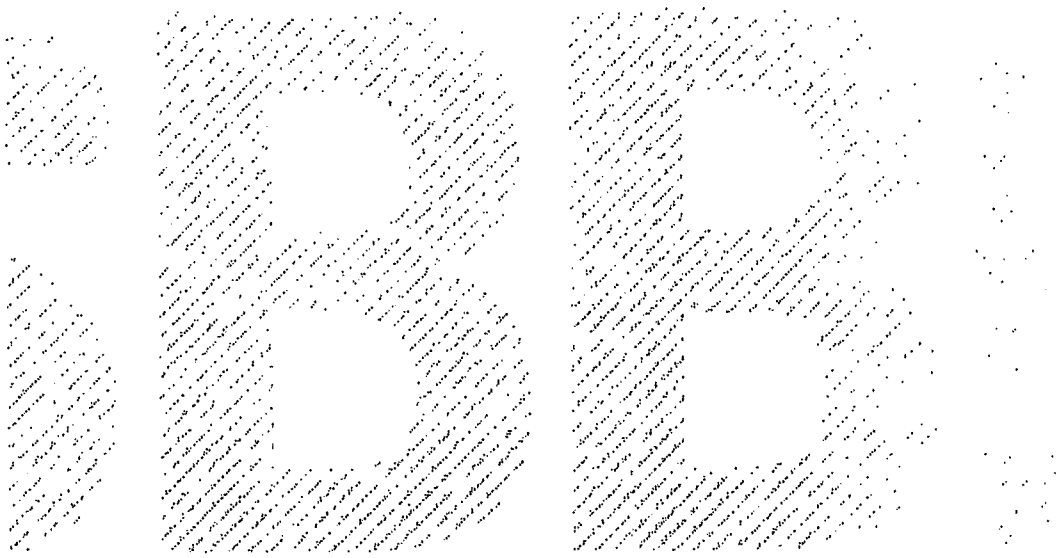
Missouri Gas Energy
Value Line Adjusted Betas for
the Proxy Group of Nine Value Line Natural Gas Distribution Companies
and Southern Union Company

| | Value Line Adjusted Beta |
|---|---|
| Proxy Group of Nine Value Line Natural Gas Distribution Companies | |
| AGL Resources Inc. | 0.75 |
| Atmos Energy Corp. | 0.65 |
| The Laclede Group, Inc. | 0.60 |
| New Jersey Resources Corp. | 0.65 |
| Northwest Natural Gas Co. | 0.60 |
| Piedmont Natural Gas Co., Inc. | 0.65 |
| South Jersey Industries, Inc. | 0.65 |
| Southwest Gas Corporation | 0.75 |
| WGL Holdings, Inc. | 0.65 |
| Average | 0.66 |
| Median | 0.65 |
| Southern Union Company | 1.05 |

Source of Information: Value Line Investment Survey (Standard Edition) September 11, 2009.

# Ibbotson® SBBI®
2009 Valuation Yearbook

Market Results for
Stocks, Bonds, Bills, and Inflation
1926–2008



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Treasury bond; however, the Treasury currently does not issue a 20-year bond. The 30-year bond that the Treasury recently began issuing again is theoretically more correct due to the long-term nature of business valuation, yet Ibbotson Associates instead creates a series of returns using bonds on the market with approximately 20 years to maturity. The reason for the use of a 20-year maturity bond is that 30-year Treasury securities have only been issued over the relatively recent past, starting in February of 1977, and were not issued at all through the early 2000s.

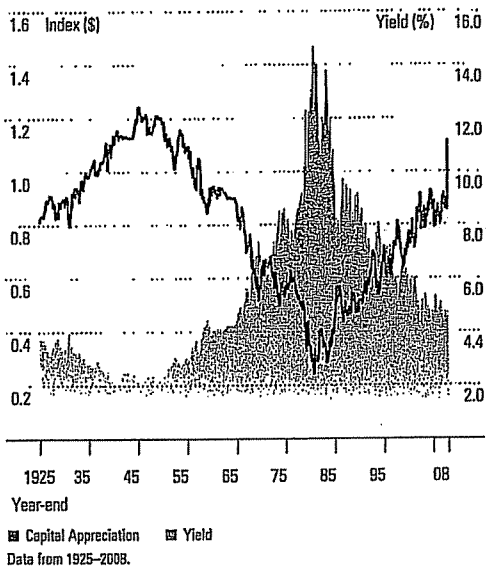
The same reason exists for why we do not use the 10-year Treasury bond—a long history of market data is not available for 10-year bonds. We have persisted in using a 20-year bond to keep the basis of the time series consistent.

**Income Return**

Another point to keep in mind when calculating the equity risk premium is that the income return on the appropriate-horizon Treasury security, rather than the total return, is used in the calculation. The total return is comprised of three return components: the income return, the capital appreciation return, and the reinvestment return. The income return is defined as the portion of the total return that results from a periodic cash flow or, in this case, the bond coupon payment. The capital appreciation return results from the price change of a bond over a specific period. Bond prices generally change in reaction to unexpected fluctuations in yields. Reinvestment return is the return on a given month's investment income when reinvested into the same asset class in the subsequent months of the year. The income return is thus used in the estimation of the equity risk premium because it represents the truly riskless portion of the return.[2]

Yields have generally risen on the long-term bond over the 1926–2008 period, so it has experienced negative capital appreciation over much of this time. This trend has turned around since the 1980s, however. Graph 5-2 illustrates the yields on the long-term government bond series compared to an index of the long-term government bond capital appreciation. In general, as yields rose, the capital appreciation index fell, and vice versa. Had an investor held the long-term bond to maturity, he would have realized the yield on the bond as the total return. However, in a constant maturity portfolio, such as those used to measure bond returns in this publication, bonds are sold before maturity (at a capital loss if the market yield has risen since the time of purchase). This negative return is associated with the risk of unanticipated yield changes.

**Graph 5-2:** Long-term Government Bond Yields versus Capital Appreciation Index




Data from 1925–2008.

For example, if bond yields rise unexpectedly, investors can receive a higher coupon payment from a newly issued bond than from the purchase of an outstanding bond with the former lower-coupon payment. The outstanding lower-coupon bond will thus fail to attract buyers, and its price will decrease, causing its yield to increase correspondingly, as its coupon payment remains the same. The newly priced outstanding bond will subsequently attract purchasers who will benefit from the shift in price and yield; however, those investors who already held the bond will suffer a capital loss due to the fall in price.

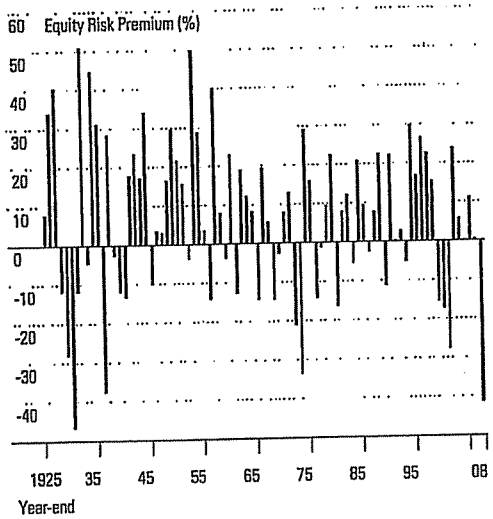
Anticipated changes in yields are assessed by the market and figured into the price of a bond. Future changes in yields that are not anticipated will cause the price of the bond to adjust accordingly. Price changes in bonds due to unanticipated changes in yields introduce price risk into the total return. Therefore, the total return on the bond series does not represent the riskless rate of return.The income return better represents the unbiased estimate of the purely riskless rate of return, since an investor can hold a bond to maturity and be entitled to the income return with no capital loss.

### Arithmetic versus Geometric Means

The equity risk premium data presented in this book are arithmetic average risk premia as opposed to geometric average risk premia. The arithmetic average equity risk premium can be demonstrated to be most appropriate when discounting future cash flows. For use as the expected equity risk premium in either the CAPM or the building block approach, the arithmetic mean or the simple difference of the arithmetic means of stock market returns and riskless rates is the relevant number. This is because both the CAPM and the building block approach are additive models, in which the cost of capital is the sum of its parts. The geometric average is more appropriate for reporting past performance, since it represents the compound average return.

The argument for using the arithmetic average is quite straightforward. In looking at projected cash flows, the equity risk premium that should be employed is the equity risk premium that is expected to actually be incurred over the future time periods. Graph 5-3 shows the realized equity risk premium for each year based on the returns of the S&P 500 and the income return on long-term government bonds. (The actual, observed difference between the return on the stock market and the riskless rate is known as the realized equity risk premium.) There is considerable volatility in the year-by-year statistics. At times the realized equity risk premium is even negative.

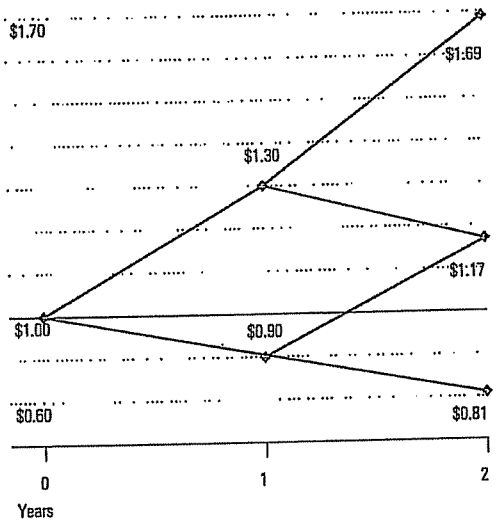
**Graph 5-3:** Realized Equity Risk Premium Per Year




Data from 1926–2008.

To illustrate how the arithmetic mean is more appropriate than the geometric mean in discounting cash flows, suppose the expected return on a stock is 10 percent per year with a standard deviation of 20 percent. Also assume that only two outcomes are possible each year: +30 percent and –10 percent (i.e., the mean plus or minus one standard deviation). The probability of occurrence for each outcome is equal. The growth of wealth over a two-year period is illustrated in Graph 5-4.

**Graph 5-4:** Growth of Wealth Example




The most common outcome of $1.17 is given by the geometric mean of 8.2 percent. Compounding the possible outcomes as follows derives the geometric mean:

$$[(1+0.30)\times(1-0.10)]^{1/2}-1=0.082$$

However, the expected value is predicted by compounding the arithmetic, not the geometric, mean. To illustrate this, we need to look at the probability-weighted average of all possible outcomes:

| | |
|---|---|
| (0.25 × $1.69) | = $0.4225 |
| + (0.50 × $1.17) | = $0.5850 |
| + (0.25 × $0.81) | = $0.2025 |
| Total | $1.2100 |

Therefore, $1.21 is the probability-weighted expected value. The rate that must be compounded to achieve the terminal value of $1.21 after 2 years is 10 percent, the arithmetic mean:

$$\$1\times(1+0.10)^2=\$1.21$$

The geometric mean, when compounded, results in the median of the distribution:

$$\$1\times(1+0.082)^2=\$1.17$$

The arithmetic mean equates the expected future value with the present value; it is therefore the appropriate discount rate.

**Appropriate Historical Time Period**

The equity risk premium can be estimated using any historical time period. For the U.S., market data exists at least as far back as the late 1800s. Therefore, it is possible to estimate the equity risk premium using data that covers roughly the past 100 years.

Our equity risk premium covers the time period from 1926 to the present. The original data source for the time series comprising the equity risk premium is the Center for Research in Security Prices. CRSP chose to begin their analysis of market returns with 1926 for two main reasons. CRSP determined that the time period around 1926 was approximately when quality financial data became available. They also made a conscious effort to include the period of extreme market volatility from the late twenties and early thirties; 1926 was chosen because it includes one full business cycle of data before the market crash of 1929. These are the most basic reasons why our equity risk premium calculation window starts in 1926.

Implicit in using history to forecast the future is the assumption that investors' expectations for future outcomes conform to past results. This method assumes that the price of taking on risk changes only slowly, if at all, over time. This "future equals the past" assumption is most applicable to a random time-series variable. A time-series variable is random if its value in one period is independent of its value in other periods.

**Does the Equity Risk Premium Revert to Its Mean Over Time?**

Some have argued that the estimate of the equity risk premium is upwardly biased since the stock market is currently priced high. In other words, since there have been several years with extraordinarily high market returns and realized equity risk premia, the expectation is that returns and realized equity risk premia will be lower in the future, bringing the average back to a normalized level. This argument relies on several studies that have tried to determine whether reversion to the mean exists in stock market prices and the equity risk premium.[3] Several academics contradict each other on this topic; moreover, the evidence supporting this argument is neither conclusive nor compelling enough to make such a strong assumption.

Our own empirical evidence suggests that the yearly difference between the stock market total return and the U.S. Treasury bond income return in any particular year is random. Graph 5-3, presented earlier, illustrates the randomness of the realized equity risk premium.

A statistical measure of the randomness of a return series is its serial correlation. Serial correlation (or autocorrelation) is defined as the degree to which the return of a given series is related from period to period. A serial correlation near positive one indicates that returns are predictable from one period to the next period and are positively related. That is, the returns of one period are a good predictor of the returns in the next period. Conversely, a serial correlation near negative one indicates that the returns in one period are inversely related to those of the next period. A serial correlation near zero indicates that the returns are random or unpredictable from one period to the next. Table 5-3 contains the serial correlation of the market total returns, the realized long-horizon equity risk premium, and inflation.

**Table 5-3:** Interpretation of Annual Serial Correlations

| Series | Serial Correlation | Interpretation |
|---|---|---|
| Large Company Stock Total Returns | 0.04 | Random |
| Equity Risk Premium | 0.04 | Random |
| Inflation Rates | 0.64 | Trend |

Data from 1926–2008

The significance of this evidence is that the realized equity risk premium next year will not be dependent on the realized equity risk premium from this year. That is, there is no discernable pattern in the realized equity risk premium—it is virtually impossible to forecast next year's realized risk premium based on the premium of the previous year. For example, if this year's difference between the riskless rate and the return on the stock market is higher than last year's, that does not imply that next year's will be higher than this year's. It is as likely to be higher as it is lower. The best estimate of the expected value of a variable that has behaved randomly in the past is the average (or arithmetic mean) of its past values.

Table 5-4 also indicates that the equity risk premium varies considerably by decade. The complete decades ranged from a high of 17.9 percent in the 1950s to a low of 0.3 percent in the 1970s, however, thus far the 2000s have shown a -6.7 percent equity risk premium. This look at historical equity risk premium reveals no observable pattern.

**Table 5-4:** Long-Horizon Equity Risk Premium by Decade (%)

| 1920s* | 1930s | 1940s | 1950s | 1960s | 1970s | 1980s | 1990s | 2000s** | 1999-2008 |
|---|---|---|---|---|---|---|---|---|---|
| 17.6 | 2.3 | 8.0 | 17.9 | 4.2 | 0.3 | 7.9 | 12.1 | -6.7 | -4.5 |

Data from 1926–2008.
*Based on the period 1926–1929.
**Based on the period 2000–2008.

Finnerty and Leistikow perform more econometrically sophisticated tests of mean reversion in the equity risk premium. Their tests demonstrate that—as we suspected from our simpler tests—the equity risk premium that was realized over 1926 to the present was almost perfectly free of mean reversion and had no statistically identifiable time trends.[4] Lo and MacKinlay conclude, "the rejection of the random walk for weekly returns does not support a mean-reverting model of asset prices."

**Choosing an Appropriate Historical Period**

The estimate of the equity risk premium depends on the length of the data series studied. A proper estimate of the equity risk premium requires a data series long enough to give a reliable average without being unduly influenced by very good and very poor short-term returns. When calculated using a long data series, the historical equity risk premium is relatively stable.[5] Furthermore, because an average of the realized equity risk premium is quite volatile when calculated using a short history, using a long series makes it less likely that the analyst can justify any number he or she wants. The magnitude of how shorter periods can affect the result will be explored later in this chapter.

Some analysts estimate the expected equity risk premium using a shorter, more recent time period on the basis that recent events are more likely to be repeated in the near future; furthermore, they believe that the 1920s, 1930s, and 1940s contain too many unusual events. This view is suspect because all periods contain "unusual" events. Some of the most unusual events of the last hundred years took place quite recently, including the inflation of the late 1970s and early 1980s, the October 1987 stock market crash, the collapse of the high-yield bond market, the major contraction and consolidation of the thrift industry, the collapse of the Soviet Union, the development of the European Economic Community, and the attacks of September 11, 2001.

It is even difficult for economists to predict the economic environment of the future. For example, if one were analyzing the stock market in 1987 before the crash, it would be statistically improbable to predict the impending short-term volatility without considering the stock market crash and market volatility of the 1929–1931 period.

Without an appreciation of the 1920s and 1930s, no one would believe that such events could happen. The 83-year period starting with 1926 is representative of what can happen: it includes high and low returns, volatile and quiet markets, war and peace, inflation and deflation, and prosperity and depression. Restricting attention to a shorter historical period underestimates the amount of change that could occur in a long future period. Finally, because historical event-types (not specific events) tend to repeat themselves, long-run capital market return studies can reveal a great deal about the future. Investors probably expect "unusual" events to occur from time to time, and their return expectations reflect this.

**A Look at the Historical Results**

It is interesting to take a look at the realized returns and realized equity risk premium in the context of the above discussion. Table 5-5 shows the average stock market return and the average (arithmetic mean) realized long-horizon equity risk premium over various historical time periods. Similarly, Graph 5-5 shows the average (arithmetic mean) realized equity risk premium calculated through 2008 for different starting dates. The table and the graph both show

Missouri Gas Energy
Spreads Between Moody's A and Baa Rated Public Utility Bond Yields
for Five Years Eight Months Ending August 2009

| DATE | Moody's A Rated Public Utility Bond Yields | Moody's Baa Rated Public Utility Bond Yields | Spread Between A and Baa Rated Bond Yields |
|---|---|---|---|
| Jan-04 | 6.15% | 6.47% | 0.32% |
| Feb-04 | 6.15% | 6.28% | 0.13% |
| Mar-04 | 5.97% | 6.12% | 0.15% |
| Apr-04 | 6.35% | 6.46% | 0.11% |
| May-04 | 6.62% | 6.75% | 0.13% |
| Jun-04 | 6.46% | 6.84% | 0.38% |
| Jul-04 | 6.27% | 6.67% | 0.40% |
| Aug-04 | 6.14% | 6.45% | 0.31% |
| Sep-04 | 5.98% | 6.27% | 0.29% |
| Oct-04 | 5.94% | 6.17% | 0.23% |
| Nov-04 | 5.97% | 6.16% | 0.19% |
| Dec-04 | 5.92% | 6.10% | 0.18% |
| Jan-05 | 5.78% | 5.95% | 0.17% |
| Feb-05 | 5.61% | 5.76% | 0.15% |
| Mar-05 | 5.83% | 6.01% | 0.18% |
| Apr-05 | 5.64% | 5.95% | 0.31% |
| May-05 | 5.53% | 5.88% | 0.35% |
| Jun-05 | 5.40% | 5.70% | 0.30% |
| Jul-05 | 5.51% | 5.80% | 0.29% |
| Aug-05 | 5.50% | 5.81% | 0.31% |
| Sep-05 | 5.52% | 5.83% | 0.31% |
| Oct-05 | 5.79% | 6.08% | 0.29% |
| Nov-05 | 5.88% | 6.19% | 0.31% |
| Dec-05 | 5.80% | 6.14% | 0.34% |
| Jan-06 | 5.75% | 6.06% | 0.31% |
| Feb-06 | 5.82% | 6.11% | 0.29% |
| Mar-06 | 5.98% | 6.26% | 0.28% |
| Apr-06 | 6.29% | 6.54% | 0.25% |
| May-06 | 6.42% | 6.59% | 0.17% |
| Jun-06 | 6.40% | 6.61% | 0.21% |
| Jul-06 | 6.37% | 6.61% | 0.24% |
| Aug-06 | 6.20% | 6.43% | 0.23% |
| Sep-06 | 6.00% | 6.26% | 0.26% |
| Oct-06 | 5.98% | 6.24% | 0.26% |
| Nov-06 | 5.80% | 6.04% | 0.24% |
| Dec-06 | 5.81% | 6.05% | 0.24% |
| Jan-07 | 5.96% | 6.16% | 0.20% |
| Feb-07 | 5.90% | 6.10% | 0.20% |
| Mar-07 | 5.85% | 6.10% | 0.25% |
| Apr-07 | 5.97% | 6.24% | 0.27% |
| May-07 | 5.99% | 6.23% | 0.24% |
| Jun-07 | 6.30% | 6.54% | 0.24% |
| Jul-07 | 6.25% | 6.49% | 0.24% |
| Aug-07 | 6.24% | 6.51% | 0.27% |
| Sep-07 | 6.18% | 6.45% | 0.27% |
| Oct-07 | 6.11% | 6.36% | 0.25% |
| Nov-07 | 5.97% | 6.27% | 0.30% |
| Dec-07 | 6.16% | 6.51% | 0.35% |
| Jan-08 | 6.02% | 6.35% | 0.33% |
| Feb-08 | 6.21% | 6.60% | 0.39% |
| Mar-08 | 6.21% | 6.68% | 0.47% |
| Apr-08 | 6.29% | 6.81% | 0.52% |
| May-08 | 6.27% | 6.79% | 0.52% |
| Jun-08 | 6.38% | 6.93% | 0.55% |
| Jul-08 | 6.40% | 6.97% | 0.57% |
| Aug-08 | 6.37% | 6.98% | 0.61% |
| Sep-08 | 6.49% | 7.15% | 0.66% |
| Oct-08 | 7.56% | 8.58% | 1.02% |
| Nov-08 | 7.20% | 8.98% | 1.78% |
| Dec-08 | 6.54% | 8.13% | 1.59% |
| Jan-09 | 6.39% | 7.90% | 1.51% |
| Feb-09 | 6.30% | 7.74% | 1.44% |
| Mar-09 | 6.42% | 8.00% | 1.58% |
| Apr-09 | 6.48% | 8.03% | 1.55% |
| May-09 | 6.49% | 7.76% | 1.27% |
| Jun-09 | 6.20% | 7.30% | 1.10% |
| Jul-09 | 5.97% | 6.87% | 0.90% |
| Aug-09 | 5.71% | 6.36% | 0.65% |
| Average | 6.11% | 6.57% | 0.46% |

Source of Information:
Mergent Bond Record, September 2009, Volume 76, No. 9.

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

| Line No. | | Proxy Group of Nine Value Line Natural Gas Distribution Companies | Southern Union Company |
|---|---|---|---|
| 1. | Traditional Capital Asset Pricing Model (1) | 10.44 % | 13.98 % |
| 2. | Empirical Capital Asset Pricing Model (1) | 11.21 % | 13.87 % |
| 3. | Conclusion | 10.83 % | 13.93 % |

Notes:
(1) From Page 50 of this Schedule.

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

| | 1 | 2 | 3 |
|---|---|---|---|
| | Value Line Adjusted Beta | Company-Specific Risk Premium Based on Market Premium of 8.87% (1) | CAPM Result Including Risk-Free Rate of 4.67% (2) |
| | | Traditional Capital Asset Pricing Model (3) | |
| Proxy Group of Nine Value Line Natural Gas Distribution Companies | | | |
| AGL Resources Inc. | 0.75 | 6.65 % | 11.32 % |
| Atmos Energy Corp. | 0.65 | 5.77 | 10.44 |
| The Laclede Group, Inc. | 0.60 | 5.32 | 9.99 |
| New Jersey Resources Corp. | 0.65 | 5.77 | 10.44 |
| Northwest Natural Gas Co. | 0.60 | 5.32 | 9.99 |
| Piedmont Natural Gas Co., Inc. | 0.65 | 5.77 | 10.44 |
| South Jersey Industries, Inc. | 0.65 | 5.77 | 10.44 |
| Southwest Gas Corporation | 0.75 | 6.65 | 11.32 |
| WGL Holdings, Inc. | 0.65 | 5.77 | 10.44 |
| Average | 0.66 | 5.87 % | 10.54 % |
| Median | 0.65 | 5.77 % | 10.44 % |
| Southern Union Company | 1.05 | 9.31 % | 13.98 % |
| | | Empirical Capital Asset Pricing Model (4) | |
| Proxy Group of Nine Value Line Natural Gas Distribution Companies | | | |
| AGL Resources Inc. | 0.75 | 7.21 % | 11.88 % |
| Atmos Energy Corp. | 0.65 | 6.54 | 11.21 |
| The Laclede Group, Inc. | 0.60 | 6.21 | 10.88 |
| New Jersey Resources Corp. | 0.65 | 6.54 | 11.21 |
| Northwest Natural Gas Co. | 0.60 | 6.21 | 10.88 |
| Piedmont Natural Gas Co., Inc. | 0.65 | 6.54 | 11.21 |
| South Jersey Industries, Inc. | 0.65 | 6.54 | 11.21 |
| Southwest Gas Corporation | 0.75 | 7.21 | 11.88 |
| WGL Holdings, Inc. | 0.65 | 6.54 | 11.21 |
| Average | 0.66 | 6.62 % | 11.29 % |
| Median | 0.65 | 6.54 % | 11.21 % |
| Southern Union Company | 1.05 | 9.20 % | 13.87 % |

See Page 51 for notes.

Missouri Gas Energy
Development of the Market-Required Rate of Return on Common Equity Using
the Capital Asset Pricing Model
Adjusted to Reflect a Forecasted Risk-Free Rate and Market Return

Notes:

(1) For reasons explained in Mr. Hanley's direct testimony, from the two previous month-end (July 2009 – August 2009), as well as a recently available (September 11, 2009), Value Line Summary & Index, a forecasted 3-5 year total annual market return of 17.09% can be derived by averaging the 2-month 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 73% produces a four-year average annual return of 14.68% ($(1.73^{.25}) - 1$). When the average annual forecasted dividend yield of 2.41% is added, a total average market return of 17.09% (2.41% + 14.68%) is derived.

The 2-month and spot forecasted total market return of 17.09% minus the risk-free rate of 4.67% (developed in Note 2) is 12.42% (17.09% - 4.67%). The Morningstar, Inc. (Ibbotson Associates) calculated market premium of 6.50% for the period 1926-2008 results from a total market return of 11.70% less the average income return on long-term U.S. Government Securities of 5.20% (11.70% - 5.20% = 6.50%). This is then averaged with the 12.42% Value Line market premium resulting in a 9.46% market premium. In Mr. Hanley's opinion, the current and recent substantial volatility in the stock market is extraordinary and not representative of the expected long-term. In view of the recent substantial increase in the market from when Mr. Hanley's original analysis was performed, the potential for market appreciation has declined significantly. Thus, a greater weight must be given to the market appreciation potential. Consequently, a 40% weight will be applied to the projected risk premium of 12.42% and a 60% weight will be applied to the historical market premium. The product of this weighting is 8.87% ((.40 * 12.42%) + (.60 * 6.50%)) which will be then multiplied by the beta in column 1 of Page 50 of this Schedule.

(2) For reasons explained previously in Mr. Hanley's direct testimony, the risk-free rate that Mr. Hanley relies upon for his CAPM analysis is the average forecast based upon six quarterly estimates of 30-year Treasury Note yields per the consensus of nearly 50 economists reported in the Blue Chip Financial Forecasts. The most recent is from September 1, 2009 (see Page 40 of this Schedule).The estimates are detailed below:

| | 30-Year Treasury Note Yield |
|---|---|
| Third Quarter 2009 | 4.40% |
| Fourth Quarter 2009 | 4.50 |
| First Quarter 2010 | 4.60 |
| Second Quarter 2010 | 4.70 |
| Third Quarter 2010 | 4.80 |
| Fourth Quarter 2010 | 5.00 |
| Average | 4.67% |

(3) 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
$\beta$ = Value Line Adjusted Beta
$R_M$ = Return on the market as a whole

(4) 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
$\beta$ = Value Line Adjusted Beta
$R_M$ = Return on the market as a whole

Source of Information: Value Line Summary & Index
Blue Chip Financial Forecasts, September 1, 2009
Value Line Investment Survey, (Standard Edition)
Ibbotson SBBI – 2009 Valuation Yearbook – Market Results for Stocks, Bonds, Bills, and Inflation for 1926-2008, Morningstar, Inc., 2009, Chicago,

Missouri Gas Energy
Comparable Earnings Analysis
for a Proxy Group of Nine Non-Utility Companies Comparable to the
Proxy Group of Nine Value Line Natural Gas Distribution Companies (1)

| Proxy Group of Nine Non-Utility Companies Comparable to the Proxy Group of Nine Value Line Natural Gas Distribution Companies (1) | Adj Beta | Unadj Beta | Standard Error of the Regression | Standard Deviation of Beta | Rate of Return on Book Common Equity, Net Worth, or Partner's Capital 5-Year Projected (2) Percent | Student's Statistic |
|---|---|---|---|---|---|---|
| Automatic Data Proc. | 0.75 | 0.58 | 2.2033 | 0.0635 | 16.00 % | (0.65) |
| Gallagher (Arthur J.) | 0.70 | 0.51 | 2.2842 | 0.0658 | 24.00 | 0.86 |
| Erie Indemnity Co. | 0.70 | 0.51 | 2.0646 | 0.0595 | 21.00 | 0.29 |
| Intl Flavors & Frag. | 0.70 | 0.53 | 2.2368 | 0.0644 | 24.00 | 0.86 |
| Kraft Foods | 0.65 | 0.44 | 2.2521 | 0.0649 | 10.50 | (1.69) |
| Northrop Grumman | 0.75 | 0.56 | 2.2626 | 0.0652 | 15.50 | (0.74) |
| Raytheon Co. | 0.75 | 0.59 | 2.1222 | 0.0611 | 15.00 | (0.84) |
| Sara Lee Corp. | 0.70 | 0.50 | 2.2565 | 0.0650 | 23.50 | 0.77 |
| Exxon Mobil Corp. | 0.80 | 0.62 | 2.2771 | 0.0656 | 25.50 | 1.15 |
| Average | 0.72 | 0.54 | 2.2177 | 0.0639 | | |
| Average for the Proxy Group of Nine Value Line Natural Gas Distribution Companies | 0.70 | 0.52 | 2.1000 (3) | 0.0605 | | |
| Median (4) | | | | | 21.00% | |

See Page 54 for notes.

Missouri Gas Energy
Comparable Earnings Analysis
for a Proxy Group of Twenty Non-Utility Companies Comparable to
Southern Union Company (5)

| Proxy Group of Twenty Non-Utility Companies Comparable to Southern Union Company (5) | Adj Beta | Unadj Beta | Standard Error of the Regression | Standard Deviation of Beta | Rate of Return on Book Common Equity, Net Worth, or Partner's Capital 5-Year Projected (2) Percent | Student's Statistic |
|---|---|---|---|---|---|---|
| Air Products & Chem. | 1.10 | 1.08 | 2.3626 | 0.0681 | 20.00 % | 0.39 |
| AptarGroup | 1.00 | 1.00 | 2.5946 | 0.0747 | 11.50 | (0.90) |
| Avery Dennison | 1.00 | 0.95 | 2.3991 | 0.0691 | 17.00 | (0.07) |
| Amer. Express | 1.15 | 1.21 | 2.4846 | 0.0716 | 23.50 | 0.92 |
| Ball Corp. | 1.10 | 1.12 | 2.5673 | 0.0740 | 18.00 | 0.08 |
| Can. National Railway | 1.10 | 1.13 | 2.5814 | 0.0744 | 15.50 | (0.30) |
| Rockwell Collins | 1.05 | 1.02 | 2.4591 | 0.0708 | 21.50 | 0.61 |
| Dow Chemical | 1.00 | 0.96 | 2.5945 | 0.0747 | 14.00 | (0.52) |
| DST Systems | 1.00 | 0.97 | 2.3933 | 0.0689 | 29.50 | 1.83 |
| Eaton Corp. | 1.10 | 1.14 | 2.4252 | 0.0699 | 12.50 | (0.75) |
| Fortune Brands | 1.00 | 0.99 | 2.3314 | 0.0672 | 11.50 | (0.90) |
| Honeywell Intl | 1.10 | 1.08 | 2.4089 | 0.0694 | 21.00 | 0.54 |
| Mettler-Toledo Intl | 1.00 | 0.97 | 2.5052 | 0.0722 | 32.50 (6) | 2.28 |
| News Corp. | 1.05 | 1.03 | 2.3072 | 0.0665 | 10.50 | (1.05) |
| Praxair Inc. | 1.05 | 1.02 | 2.3077 | 0.0665 | 23.50 | 0.92 |
| Donnelley (R.R) & Sons | 1.05 | 1.02 | 2.5412 | 0.0732 | 20.00 | 0.39 |
| Republic Services | 1.05 | 1.01 | 2.3435 | 0.0675 | 12.50 | (0.75) |
| Stanley Works | 1.10 | 1.09 | 2.6062 | 0.0751 | 16.50 | (0.14) |
| Travelers Cos. | 1.05 | 1.02 | 2.5261 | 0.0728 | 11.50 | (0.90) |
| Time Warner | 1.00 | 0.96 | 2.2781 | 0.0656 | 6.50 | (1.66) |
| Average | 1.05 | 1.04 | 2.4509 | 0.0706 | | |
| Southern Union Company | 1.10 | 1.09 | 2.4005 (7) | 0.0692 | | |
| Median (4) | | | | | 16.75% | |
| Conservative Median (8) | | | | | 16.50% | |

See Page 54 for notes.

Missouri Gas Energy
Comparable Earnings Analysis

Notes:

(1) The criteria for selection of the proxy group of nine non-utility companies was that the non-utility companies be domestic and have a meaningful rate of return on book common equity, shareholders' equity, net worth, or partners' capital for each of the five years ended 2007 and projected 2011- 2013 as reported in Value Line Investment Survey (Standard Edition). The proxy group of nine non-utility companies was selected based uponthe proxy group of nine Value Line natural gas distribution companies' unadjusted beta range of 0.40 – 0.64 and standard error of the regression range of 1.9155 – 2.2845. 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 95.50% of the distribution of unadjusted betas and standard errors of the regression.

(2) 2011 - 2013.

(3) The standard deviation of group of ten Value Line electric and combination electric and gas companies' standard error of the regression is 0.0923. The standard deviation of the standarderror of the regression is calculated as follows:

$$\text{Standard Deviation of the Std. Err. of the Regr.} = \frac{\text{Standard Error of the Regression}}{\sqrt{2N}}$$

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

$$\text{Thus, } 0.0923 = \frac{2.100}{\sqrt{518}} = \frac{2.100}{22.7596}$$

(4) Median five year projected rate of return on book common equity, shareholder's equity, net worth, or partners' capital.

(5) The criteria for selection of the proxy group of twenty companies was that the non-utility companies be domestic and have a meaningful projected rate of return on book common equity, shareholders' equity, net worth, or partners' capital 2011 - 2013 as reported in Value Line Investment Survey (Standard Edition). The proxy group of twenty non-utility companies was selected based upon Southern Union Company's unadjusted beta range of 0.95 – 1.23 and standard error of the regression range of 2.1896 – 2.6114. 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 95.50% of the distribution of unadjusted betas and standard errors of the regression.

(6) The Student's T-statistic associated with these returns exceeds 2.083 at the 95% level of confidence. Therefore, they have been excluded, as outliers, to arrive at proper mean projected returns as fully explained in Mr. Hanley's testimony.

(7) The standard deviation of the proxy group of eight Value Line natural gas distribution companies' standard error of the regression is 0.2110 (2.4005 / 22.7596).

(8) Median of the five year historical and five year projected return on book common equity, shareholder's equity, net worth or partner's capital excluding returns identified as outliers as outlined on Note 6) above.

Source of Information: Value Line, Inc., December 15, 2008
Value Line Investment Survey (Standard Edition)

Missouri Gas Energy
Authorized Returns on Equity and Equity Ratios for
Natural Gas Distribution Companies from January 2008 to August 2009

| Company | State | Case Identification | Date | Return on Equity (%) | | Common Equity /Total Cap (%) | |
|---|---|---|---|---|---|---|---|
| Northern States Power Co-WI | Wisconsin | D-4220-UR-115 (gas) | 1/8/2008 | 10.75 | | 52.51 | |
| Wisconsin Electric Power Co. | Wisconsin | D-5-UR-103 (WEP-GAS) | 1/17/2008 | 10.75 | | 54.36 | |
| Wisconsin Gas LLC | Wisconsin | D-5-UR-103 (WG) | 1/17/2008 | 10.75 | | 46.64 | |
| North Shore Gas Co. | Illinois | D-07-0241 | 2/5/2008 | 9.99 | | 56.00 | |
| Peoples Gas Light & Coke Co. | Illinois | D-07-0242 | 2/5/2008 | 10.19 | | 56.00 | |
| Indiana Gas Co. | Indiana | Ca-43298 | 2/13/2008 | 10.20 | (1) | 48.99 | (1) |
| Avista Corp. | Oregon | D-UG-181 | 3/31/2008 | 10.00 | (1) | 50.00 | (1) |
| Duke Energy Ohio Inc. | Ohio | C-07-0589-GA-AIR | 5/28/2008 | 10.50 | (1) | 55.76 | (1) |
| Atmos Energy Corp. | Texas | GUD-9762 | 6/24/2008 | 10.00 | | 48.27 | |
| Questar Gas Co. | Utah | D-07-057-13 | 6/27/2008 | 10.00 | (1) | 51.38 | (1) |
| San Diego Gas & Electric Co. | California | AP-06-12-009 (gas) | 7/31/2008 | 10.70 | (1) | 49.00 | (1) |
| Southern California Gas Co. | California | AP-06-12-010 | 7/31/2008 | 10.82 | (1) | 48.00 | (1) |
| SourceGas Distribution LLC | Colorado | D-08S-108G | 8/27/2008 | 10.25 | (1) | 53.13 | (1) |
| Chesapeake Utilities Corp. | Delaware | D-07-186 | 9/2/2008 | 10.25 | (1) | 61.81 | (1) |
| Atmos Energy Corp. | Georgia | D-27163-U | 9/17/2008 | 10.70 | | 45.00 | |
| Central Illinois Light Co. | Illinois | D-07-0588 | 9/24/2008 | 10.68 | | 46.50 | |
| Central Illinois Public | Illinois | D-07-0589 | 9/24/2008 | 10.68 | | 47.91 | |
| Illinois Power Co. | Illinois | D-07-0590 | 9/24/2008 | 10.68 | | 51.76 | |
| Avista Corp. | Idaho | C-AVU-G-08-01 | 9/30/2008 | 10.20 | (1) | 47.94 | (1) |
| New Jersey Natural Gas Co. | New Jersey | D-GR-07110889 | 10/3/2008 | 10.30 | (1) | 51.20 | (1) |
| Puget Sound Energy Inc. | Washington | D-UG-07-2301 | 10/8/2008 | 10.15 | (1) | 46.00 | (1) |
| CenterPoint Energy Resources | Texas | GUD 9791 | 10/20/2008 | 10.06 | | 55.40 | |
| Piedmont Natural Gas Co. | North Carolina | D-G-9, Sub 550 | 10/24/2008 | 10.60 | (1) | 51.00 | (1) |
| Public Service Co. of NC | North Carolina | D-G-5, Sub 495 | 10/24/2008 | 10.60 | (1) | 54.00 | (1) |
| Southwest Gas Corp. | California | A-07-12-022 (SoCalDiv) | 11/21/2008 | 10.50 | (1) | 47.00 | (1) |
| Southwest Gas Corp. | California | A-07-12-022 (NoCalDiv) | 11/21/2008 | 10.50 | (1) | 47.00 | (1) |
| Southwest Gas Corp. | California | A-07-12-022 (LkTah) | 11/21/2008 | 10.50 | (1) | 47.00 | (1) |
| Narragansett Electric Co. | Rhode Island | D-3943 | 11/24/2008 | 10.50 | | NA | |
| Columbia Gas of Ohio Inc | Ohio | C-08-0072-GA-AIR | 12/3/2008 | 10.39 | (1) | NA | (1) |
| Southwest Gas Corp. | Arizona | D-G-01551A-07-0504 | 12/24/2008 | 10.00 | | 43.44 | |
| Northwest Natural Gas Co. | Washington | D-UG-08-0546 | 12/26/2008 | 10.10 | (1) | 50.74 | (1) |
| Avista Corp. | Washington | D-UG-08-0417 | 12/29/2008 | 10.20 | (1) | 46.30 | (1) |
| Michigan Gas Utilities Corp | Michigan | C-U-15549 | 1/13/2009 | 10.45 | (1) | 46.49 | (1) |
| New England Gas Company | Massachusetts | DPU 08-35 | 2/2/2009 | 10.05 | | 34.19 | |
| Louisville Gas & Electric Co. | Kentucky | C-2008-00252 (gas) | 2/5/2009 | NA | (1) | NA | (1) |
| Equitable Gas Company | Pennsylvania | C-R-2008-2029325 | 2/26/2009 | NA | (1) | NA | (1) |
| Atmos Energy Corp. | Tennessee | D-08-00197 | 3/9/2009 | 10.30 | (1) | 48.12 | (1) |
| Northern Illinois Gas Co. | Illinois | D-08-0363 | 3/25/2009 | 10.17 | | 46.42 | |
| Entergy New Orleans Inc. | Louisiana | D-UD-08-03 (gas) | 4/2/2009 | 10.75 | (1) | NA | (1) |
| Peoples Gas System | Florida | D-080318-GU | 5/5/2009 | 10.75 | | 48.51 | |
| Niagara Mohawk Power Corp. | New York | C-08-G-0609 | 5/14/2009 | 10.20 | (1) | 43.70 | (1) |
| Minnesota Energy Resources | Minnesota | D-G-007,011/GR-08-835 | 5/21/2009 | 10.21 | | 48.77 | |
| EnergyNorth Natural Gas Inc | New Hampshire | D-DG-08-009 | 5/29/2009 | 9.54 | (1) | 50.00 | (1) |
| Black Hills Iowa Gas Utility | Iowa | D-RPU-08-3 | 6/3/2009 | 10.10 | (1) | 51.38 | (1) |
| Central Hudson Gas & Electric | New York | C-08-G-0888 | 6/18/2009 | 10.00 | | 47.00 | |
| CT Natural Gas Corp. | Connecticut | D-08-12-06 | 6/30/2009 | 9.31 | | 52.52 | |
| Southern Connecticut Gas Co. | Connecticut | D-08-12-07 | 7/17/2009 | 9.26 | | 52.00 | |
| Avista Corp. | Idaho | C-AVU-G-09-01 | 7/17/2009 | 10.50 | (1) | 50.00 | (1) |
| UGI Central Penn Gas | Pennsylvania | R-2008-2079675 | 8/27/2009 | NA | (1) | NA | (1) |
| UGI Penn Natural Gas | Pennsylvania | R-2008-2079660 | 8/27/2009 | NA | (1) | NA | (1) |
| | | | Average | 10.31 | % | 49.51 | % |
| | | | Median | 10.28 | % | 48.99 | % |
| | | | Average of Litigated Cases | 10.27 | % | 49.12 | % |
| | | | Median of Litigated Cases | 10.20 | % | 48.51 | % |

Notes:
(1) Order followed stipulation or settlement by the parties. Decision particulars not necessarily precedent-setting or specifically adopted by the regulatory body.

Source of Information:
Report downloaded from Regulatory Research Associates, Inc. (RRA) an SNL Energy Company on September 10, 2009.

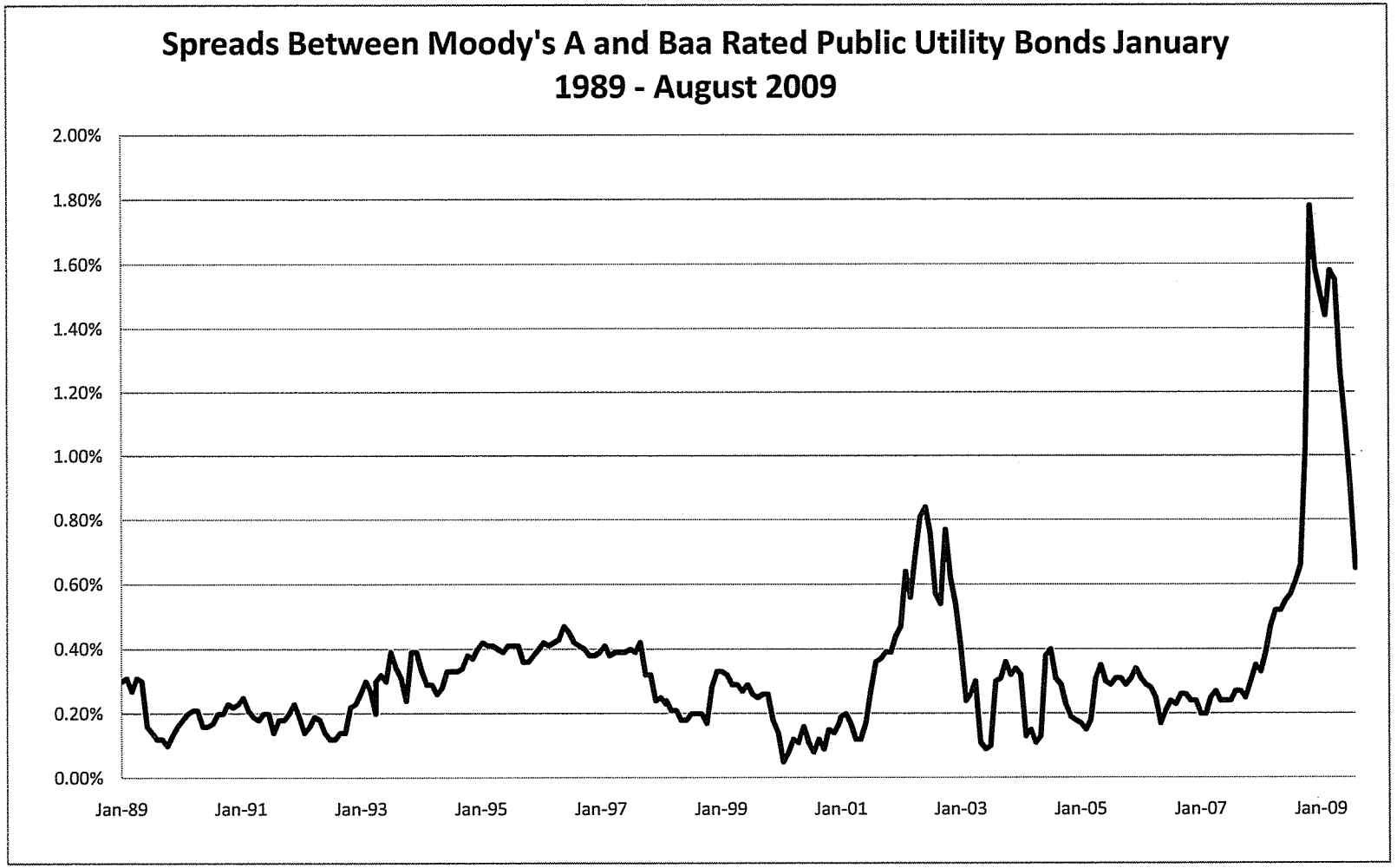
Missouri Gas Energy
Inappropriate Inclusion of NICOR, Inc., Nisource, Inc., and UGI Corporation
as Proxy Companies

| | Company Name | Dividend Omission / Cutters? | Pending / Expected Merger or Acquisition? | Over 60% of Operating Income due to Regulated Gas Distribution Operations? | Over 60% of Total Assets due to Regulated Gas Distribution Operations? |
|---|---|---|---|---|---|
| GAS | NICOR, Inc. | | Yes | | |
| NI | Nisource, Inc. | | | 36.49% | 37.11% |
| UGI | UGI Corporation | | | 23.51% | 26.22% |

Source of Information:

Value Line Investment Survey
AUS Merger and Acquisition Quarterly Report June 30, 2009
Company 2008 SEC Filing 10K

Missouri Gas Energy
Spreads Between Moody's
Moody's A and Baa Rated Public Utility Bonds
1989 - Present




Source of Information:
Mergent Bond Record, Various Dates.

Missouri Gas Energy
Moody's Bond Yields
January 1989 - August 2009

| DATE | Moody's A Rated Public Utility Bonds | Moodys Baa Rated Utility Bonds | Spread between A and Baa Rated Public Utility Bonds |
|---|---|---|---|
| Jan-89 | 10.08% | 10.38% | 0.30% |
| Feb-89 | 10.07% | 10.38% | 0.31% |
| Mar-89 | 10.23% | 10.50% | 0.27% |
| Apr-89 | 10.18% | 10.49% | 0.31% |
| May-89 | 9.99% | 10.29% | 0.30% |
| Jun-89 | 9.64% | 9.80% | 0.16% |
| Jul-89 | 9.50% | 9.64% | 0.14% |
| Aug-89 | 9.52% | 9.64% | 0.12% |
| Sep-89 | 9.58% | 9.70% | 0.12% |
| Oct-89 | 9.54% | 9.64% | 0.10% |
| Nov-89 | 9.51% | 9.64% | 0.13% |
| Dec-89 | 9.44% | 9.60% | 0.16% |
| Jan-90 | 9.56% | 9.74% | 0.18% |
| Feb-90 | 9.76% | 9.96% | 0.20% |
| Mar-90 | 9.85% | 10.06% | 0.21% |
| Apr-90 | 9.92% | 10.13% | 0.21% |
| May-90 | 10.00% | 10.16% | 0.16% |
| Jun-90 | 9.80% | 9.96% | 0.16% |
| Jul-90 | 9.75% | 9.92% | 0.17% |
| Aug-90 | 9.92% | 10.12% | 0.20% |
| Sep-90 | 10.12% | 10.32% | 0.20% |
| Oct-90 | 10.05% | 10.28% | 0.23% |
| Nov-90 | 9.90% | 10.12% | 0.22% |
| Dec-90 | 9.73% | 9.96% | 0.23% |
| Jan-91 | 9.71% | 9.96% | 0.25% |
| Feb-91 | 9.47% | 9.68% | 0.21% |
| Mar-91 | 9.55% | 9.74% | 0.19% |
| Apr-91 | 9.46% | 9.64% | 0.18% |
| May-91 | 9.44% | 9.64% | 0.20% |
| Jun-91 | 9.59% | 9.79% | 0.20% |
| Jul-91 | 9.55% | 9.69% | 0.14% |
| Aug-91 | 9.29% | 9.47% | 0.18% |
| Sep-91 | 9.16% | 9.34% | 0.18% |
| Oct-91 | 9.12% | 9.32% | 0.20% |
| Nov-91 | 9.05% | 9.28% | 0.23% |
| Dec-91 | 8.88% | 9.07% | 0.19% |
| Jan-92 | 8.84% | 8.98% | 0.14% |
| Feb-92 | 8.93% | 9.09% | 0.16% |
| Mar-92 | 8.97% | 9.16% | 0.19% |
| Apr-92 | 8.93% | 9.11% | 0.18% |
| May-92 | 8.87% | 9.01% | 0.14% |
| Jun-92 | 8.78% | 8.90% | 0.12% |
| Jul-92 | 8.57% | 8.69% | 0.12% |
| Aug-92 | 8.44% | 8.58% | 0.14% |
| Sep-92 | 8.40% | 8.54% | 0.14% |
| Oct-92 | 8.54% | 8.76% | 0.22% |
| Nov-92 | 8.63% | 8.86% | 0.23% |
| Dec-92 | 8.43% | 8.69% | 0.26% |

Missouri Gas Energy
Moody's Bond Yields
January 1989 - August 2009

| DATE | Moody's A Rated Public Utility Bonds | Moodys Baa Rated Utility Bonds | Spread between A and Baa Rated Public Utility Bonds |
|---|---|---|---|
| Jan-93 | 8.27% | 8.57% | 0.30% |
| Feb-93 | 8.04% | 8.31% | 0.27% |
| Mar-93 | 7.90% | 8.10% | 0.20% |
| Apr-93 | 7.81% | 8.11% | 0.30% |
| May-93 | 7.86% | 8.18% | 0.32% |
| Jun-93 | 7.75% | 8.05% | 0.30% |
| Jul-93 | 7.54% | 7.93% | 0.39% |
| Aug-93 | 7.25% | 7.59% | 0.34% |
| Sep-93 | 7.04% | 7.35% | 0.31% |
| Oct-93 | 7.03% | 7.27% | 0.24% |
| Nov-93 | 7.30% | 7.69% | 0.39% |
| Dec-93 | 7.34% | 7.73% | 0.39% |
| Jan-94 | 7.33% | 7.66% | 0.33% |
| Feb-94 | 7.47% | 7.76% | 0.29% |
| Mar-94 | 7.47% | 7.76% | 0.29% |
| Apr-94 | 7.85% | 8.11% | 0.26% |
| May-94 | 8.33% | 8.61% | 0.28% |
| Jun-94 | 8.31% | 8.64% | 0.33% |
| Jul-94 | 8.47% | 8.80% | 0.33% |
| Aug-94 | 8.41% | 8.74% | 0.33% |
| Sep-94 | 8.64% | 8.98% | 0.34% |
| Oct-94 | 8.86% | 9.24% | 0.38% |
| Nov-94 | 8.98% | 9.35% | 0.37% |
| Dec-94 | 8.76% | 9.16% | 0.40% |
| Jan-95 | 8.73% | 9.15% | 0.42% |
| Feb-95 | 8.52% | 8.93% | 0.41% |
| Mar-95 | 8.37% | 8.78% | 0.41% |
| Apr-95 | 8.27% | 8.67% | 0.40% |
| May-95 | 7.91% | 8.30% | 0.39% |
| Jun-95 | 7.60% | 8.01% | 0.41% |
| Jul-95 | 7.70% | 8.11% | 0.41% |
| Aug-95 | 7.83% | 8.24% | 0.41% |
| Sep-95 | 7.62% | 7.98% | 0.36% |
| Oct-95 | 7.46% | 7.82% | 0.36% |
| Nov-95 | 7.43% | 7.81% | 0.38% |
| Dec-95 | 7.23% | 7.63% | 0.40% |
| Jan-96 | 7.22% | 7.64% | 0.42% |
| Feb-96 | 7.37% | 7.78% | 0.41% |
| Mar-96 | 7.73% | 8.15% | 0.42% |
| Apr-96 | 7.89% | 8.32% | 0.43% |
| May-96 | 7.98% | 8.45% | 0.47% |
| Jun-96 | 8.06% | 8.51% | 0.45% |
| Jul-96 | 8.02% | 8.44% | 0.42% |
| Aug-96 | 7.84% | 8.25% | 0.41% |

Missouri Gas Energy
Moody's Bond Yields
January 1989 - August 2009

| DATE | Moody's A Rated Public Utility Bonds | Moodys Baa Rated Utility Bonds | Spread between A and Baa Rated Public Utility Bonds |
|---|---|---|---|
| Sep-96 | 8.01% | 8.41% | 0.40% |
| Oct-96 | 7.77% | 8.15% | 0.38% |
| Nov-96 | 7.49% | 7.87% | 0.38% |
| Dec-96 | 7.59% | 7.98% | 0.39% |
| Jan-97 | 7.77% | 8.18% | 0.41% |
| Feb-97 | 7.64% | 8.02% | 0.38% |
| Mar-97 | 7.87% | 8.26% | 0.39% |
| Apr-97 | 8.03% | 8.42% | 0.39% |
| May-97 | 7.89% | 8.28% | 0.39% |
| Jun-97 | 7.72% | 8.12% | 0.40% |
| Jul-97 | 7.48% | 7.87% | 0.39% |
| Aug-97 | 7.51% | 7.93% | 0.42% |
| Sep-97 | 7.47% | 7.79% | 0.32% |
| Oct-97 | 7.35% | 7.67% | 0.32% |
| Nov-97 | 7.25% | 7.49% | 0.24% |
| Dec-97 | 7.16% | 7.41% | 0.25% |
| Jan-98 | 7.05% | 7.28% | 0.23% |
| Feb-98 | 7.12% | 7.36% | 0.24% |
| Mar-98 | 7.16% | 7.37% | 0.21% |
| Apr-98 | 7.16% | 7.37% | 0.21% |
| May-98 | 7.16% | 7.34% | 0.18% |
| Jun-98 | 7.03% | 7.21% | 0.18% |
| Jul-98 | 7.03% | 7.23% | 0.20% |
| Aug-98 | 7.00% | 7.20% | 0.20% |
| Sep-98 | 6.93% | 7.13% | 0.20% |
| Oct-98 | 6.96% | 7.13% | 0.17% |
| Nov-98 | 7.03% | 7.31% | 0.28% |
| Dec-98 | 6.91% | 7.24% | 0.33% |
| Jan-99 | 6.97% | 7.30% | 0.33% |
| Feb-99 | 7.09% | 7.41% | 0.32% |
| Mar-99 | 7.26% | 7.55% | 0.29% |
| Apr-99 | 7.22% | 7.51% | 0.29% |
| May-99 | 7.47% | 7.74% | 0.27% |
| Jun-99 | 7.74% | 8.03% | 0.29% |
| Jul-99 | 7.71% | 7.97% | 0.26% |
| Aug-99 | 7.91% | 8.16% | 0.25% |
| Sep-99 | 7.93% | 8.19% | 0.26% |
| Oct-99 | 8.06% | 8.32% | 0.26% |
| Nov-99 | 7.94% | 8.12% | 0.18% |
| Dec-99 | 8.14% | 8.28% | 0.14% |
| Jan-00 | 8.35% | 8.40% | 0.05% |
| Feb-00 | 8.25% | 8.33% | 0.08% |
| Mar-00 | 8.28% | 8.40% | 0.12% |
| Apr-00 | 8.29% | 8.40% | 0.11% |

Missouri Gas Energy
Moody's Bond Yields
January 1989 - August 2009

| DATE | Moody's A Rated Public Utility Bonds | Moodys Baa Rated Utility Bonds | Spread between A and Baa Rated Public Utility Bonds |
|---|---|---|---|
| May-00 | 8.70% | 8.86% | 0.16% |
| Jun-00 | 8.36% | 8.47% | 0.11% |
| Jul-00 | 8.25% | 8.33% | 0.08% |
| Aug-00 | 8.13% | 8.25% | 0.12% |
| Sep-00 | 8.23% | 8.32% | 0.09% |
| Oct-00 | 8.14% | 8.29% | 0.15% |
| Nov-00 | 8.11% | 8.25% | 0.14% |
| Dec-00 | 7.84% | 8.01% | 0.17% |
| Jan-01 | 7.80% | 7.99% | 0.19% |
| Feb-01 | 7.74% | 7.94% | 0.20% |
| Mar-01 | 7.68% | 7.85% | 0.17% |
| Apr-01 | 7.94% | 8.06% | 0.12% |
| May-01 | 7.99% | 8.11% | 0.12% |
| Jun-01 | 7.85% | 8.02% | 0.17% |
| Jul-01 | 7.78% | 8.05% | 0.27% |
| Aug-01 | 7.59% | 7.95% | 0.36% |
| Sep-01 | 7.75% | 8.12% | 0.37% |
| Oct-01 | 7.63% | 8.02% | 0.39% |
| Nov-01 | 7.57% | 7.96% | 0.39% |
| Dec-01 | 7.83% | 8.27% | 0.44% |
| Jan-02 | 7.66% | 8.13% | 0.47% |
| Feb-02 | 7.54% | 8.18% | 0.64% |
| Mar-02 | 7.76% | 8.32% | 0.56% |
| Apr-02 | 7.57% | 8.26% | 0.69% |
| May-02 | 7.52% | 8.33% | 0.81% |
| Jun-02 | 7.42% | 8.26% | 0.84% |
| Jul-02 | 7.31% | 8.07% | 0.76% |
| Aug-02 | 7.17% | 7.74% | 0.57% |
| Sep-02 | 7.08% | 7.62% | 0.54% |
| Oct-02 | 7.23% | 8.00% | 0.77% |
| Nov-02 | 7.14% | 7.76% | 0.62% |
| Dec-02 | 7.07% | 7.61% | 0.54% |
| Jan-03 | 7.06% | 7.47% | 0.41% |
| Feb-03 | 6.93% | 7.17% | 0.24% |
| Mar-03 | 6.79% | 7.05% | 0.26% |
| Apr-03 | 6.64% | 6.94% | 0.30% |
| May-03 | 6.36% | 6.47% | 0.11% |
| Jun-03 | 6.21% | 6.30% | 0.09% |
| Jul-03 | 6.57% | 6.67% | 0.10% |
| Aug-03 | 6.78% | 7.08% | 0.30% |
| Sep-03 | 6.56% | 6.87% | 0.31% |
| Oct-03 | 6.43% | 6.79% | 0.36% |

Missouri Gas Energy
Moody's Bond Yields
January 1989 - August 2009

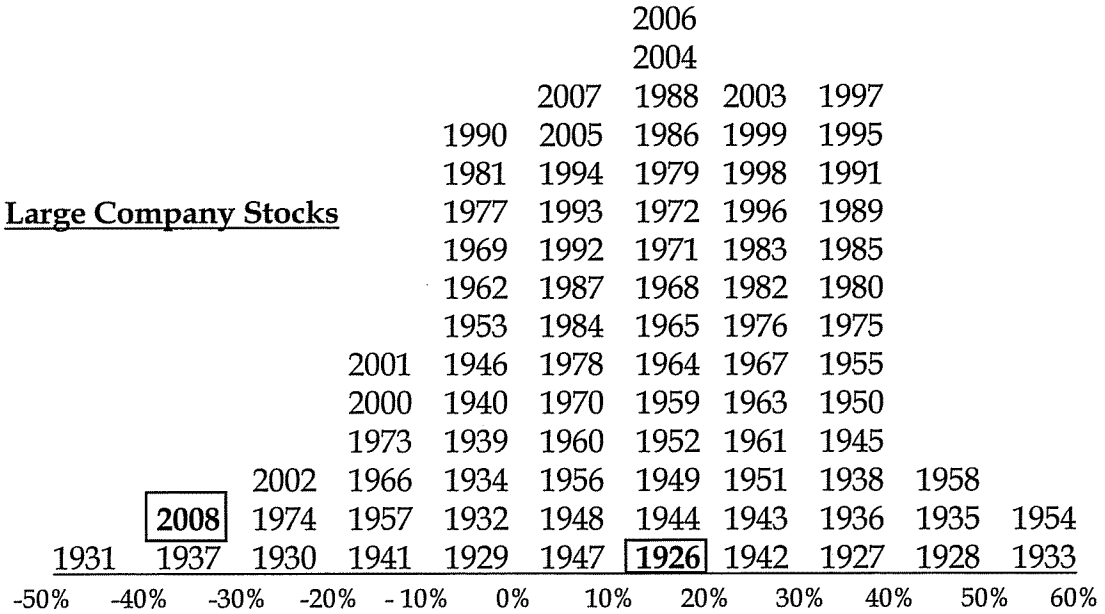
| DATE | Moody's A Rated Public Utility Bonds | Moodys Baa Rated Utility Bonds | Spread between A and Baa Rated Public Utility Bonds |
|---|---|---|---|
| Nov-03 | 6.37% | 6.69% | 0.32% |
| Dec-03 | 6.27% | 6.61% | 0.34% |
| Jan-04 | 6.15% | 6.47% | 0.32% |
| Feb-04 | 6.15% | 6.28% | 0.13% |
| Mar-04 | 5.97% | 6.12% | 0.15% |
| Apr-04 | 6.35% | 6.46% | 0.11% |
| May-04 | 6.62% | 6.75% | 0.13% |
| Jun-04 | 6.46% | 6.84% | 0.38% |
| Jul-04 | 6.27% | 6.67% | 0.40% |
| Aug-04 | 6.14% | 6.45% | 0.31% |
| Sep-04 | 5.98% | 6.27% | 0.29% |
| Oct-04 | 5.94% | 6.17% | 0.23% |
| Nov-04 | 5.97% | 6.16% | 0.19% |
| Dec-04 | 5.92% | 6.10% | 0.18% |
| Jan-05 | 5.78% | 5.95% | 0.17% |
| Feb-05 | 5.61% | 5.76% | 0.15% |
| Mar-05 | 5.83% | 6.01% | 0.18% |
| Apr-05 | 5.64% | 5.95% | 0.31% |
| May-05 | 5.53% | 5.88% | 0.35% |
| Jun-05 | 5.40% | 5.70% | 0.30% |
| Jul-05 | 5.51% | 5.80% | 0.29% |
| Aug-05 | 5.50% | 5.81% | 0.31% |
| Sep-05 | 5.52% | 5.83% | 0.31% |
| Oct-05 | 5.79% | 6.08% | 0.29% |
| Nov-05 | 5.88% | 6.19% | 0.31% |
| Dec-05 | 5.80% | 6.14% | 0.34% |
| Jan-06 | 5.75% | 6.06% | 0.31% |
| Feb-06 | 5.82% | 6.11% | 0.29% |
| Mar-06 | 5.98% | 6.26% | 0.28% |
| Apr-06 | 6.29% | 6.54% | 0.25% |
| May-06 | 6.42% | 6.59% | 0.17% |
| Jun-06 | 6.40% | 6.61% | 0.21% |
| Jul-06 | 6.37% | 6.61% | 0.24% |
| Aug-06 | 6.20% | 6.43% | 0.23% |
| Sep-06 | 6.00% | 6.26% | 0.26% |
| Oct-06 | 5.98% | 6.24% | 0.26% |
| Nov-06 | 5.80% | 6.04% | 0.24% |
| Dec-06 | 5.81% | 6.05% | 0.24% |
| Jan-07 | 5.96% | 6.16% | 0.20% |
| Feb-07 | 5.90% | 6.10% | 0.20% |
| Mar-07 | 5.85% | 6.10% | 0.25% |
| Apr-07 | 5.97% | 6.24% | 0.27% |
| May-07 | 5.99% | 6.23% | 0.24% |
| Jun-07 | 6.30% | 6.54% | 0.24% |

Missouri Gas Energy
Moody's Bond Yields
January 1989 - August 2009

| DATE | Moody's A Rated Public Utility Bonds | Moodys Baa Rated Utility Bonds | Spread between A and Baa Rated Public Utility Bonds |
|---|---|---|---|
| Jul-07 | 6.25% | 6.49% | 0.24% |
| Aug-07 | 6.24% | 6.51% | 0.27% |
| Sep-07 | 6.18% | 6.45% | 0.27% |
| Oct-07 | 6.11% | 6.36% | 0.25% |
| Nov-07 | 5.97% | 6.27% | 0.30% |
| Dec-07 | 6.16% | 6.51% | 0.35% |
| Jan-08 | 6.02% | 6.35% | 0.33% |
| Feb-08 | 6.21% | 6.60% | 0.39% |
| Mar-08 | 6.21% | 6.68% | 0.47% |
| Apr-08 | 6.29% | 6.81% | 0.52% |
| May-08 | 6.27% | 6.79% | 0.52% |
| Jun-08 | 6.38% | 6.93% | 0.55% |
| Jul-08 | 6.40% | 6.97% | 0.57% |
| Aug-08 | 6.37% | 6.98% | 0.61% |
| Sep-08 | 6.49% | 7.15% | 0.66% |
| Oct-08 | 7.56% | 8.58% | 1.02% |
| Nov-08 | 7.20% | 8.98% | 1.78% |
| Dec-08 | 6.54% | 8.13% | 1.59% |
| Jan-09 | 6.39% | 7.90% | 1.51% |
| Feb-09 | 6.30% | 7.74% | 1.44% |
| Mar-09 | 6.42% | 8.00% | 1.58% |
| Apr-09 | 6.48% | 8.03% | 1.55% |
| May-09 | 6.49% | 7.76% | 1.27% |
| Jun-09 | 6.20% | 7.30% | 1.10% |
| Jul-09 | 5.97% | 6.87% | 0.90% |
| Aug-09 | 5.71% | 6.36% | 0.65% |

Source of Information:
Mergent Bond Record, Various Dates

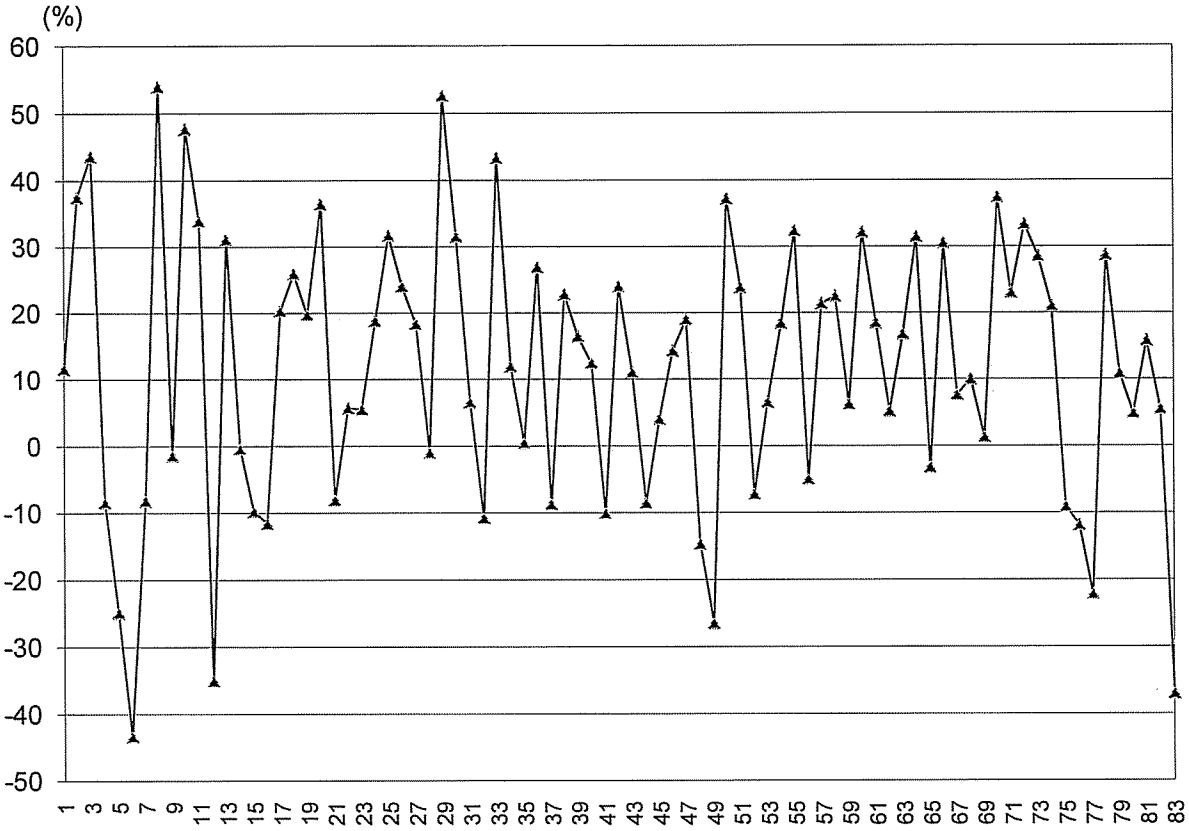
# Missouri Gas Energy
# Total Returns on Large Company Stocks
# 1926 to 2008




Arithmetic Mean: $r_A = \sum_{t=1}^{n} r_t \,/\, n$

Source : Ibbotson SBBI – 2009 Valuation Yearbook – Market Results for Stocks, Bonds, Bills, and Inflation –1926-2008, pp. 166-167, Morningstar, Inc., 2009 Chicago, IL

# Missouri Gas Energy
## Large Company Stock Returns
## From 1926 to 2008

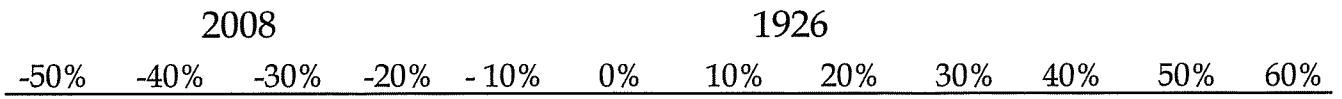



Source of Information:

Ibbotson SBBI - 2009 Valuation Yearbook - Market Results for Stocks Bonds Bills and Inflation - 1926-2008, Morningstar, Inc., 2009 Chicago, IL.

# Missouri Gas Energy
# Total Returns on Large Company Stocks
# 1926 to 2008

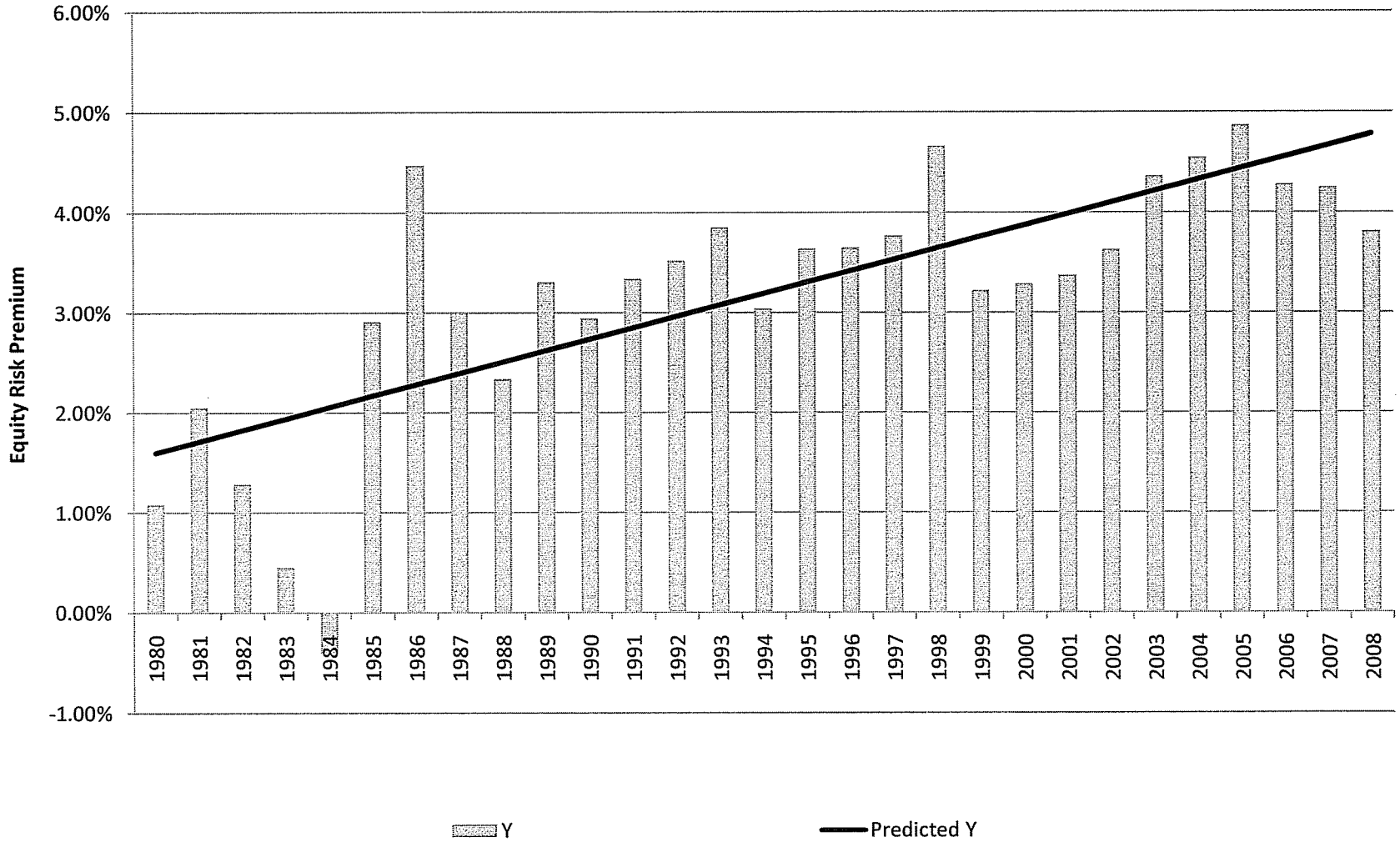
**Large Company Stocks**




Geometric Mean: $r_G = \left[ V_n / V_0 \right]^{1/n} - 1$

Source : Ibbotson SBBI – 2009 Valuation Yearbook – Market Results for Stocks, Bonds, Bills, and Inflation –1926-2008, pp. 166-167, Morningstar, Inc., 2009 Chicago, IL

# Predicted Equity Risk Premium based on Regression Analysis of OCP Witness Lawton on Schedule (DJL-10)



Missouri Gas Energy
Regression Analysis of Observed Risk Premiums
1980 - 2008

| | BCP Witness Lawton Observations (1) | | |
|---|---|---|---|
| | Avg Bond Yield | Authorized Returns | Indicated Risk Premium |
| 1980 | 13.15% | 14.23% | 1.08% |
| 1981 | 13.31% | 15.36% | 2.05% |
| 1982 | 14.03% | 15.32% | 1.29% |
| 1983 | 15.33% | 15.78% | 0.45% |
| 1984 | 15.62% | 15.22% | -0.40% |
| 1985 | 12.29% | 15.20% | 2.91% |
| 1986 | 9.46% | 13.93% | 4.47% |
| 1987 | 9.98% | 12.99% | 3.01% |
| 1988 | 10.45% | 12.79% | 2.34% |
| 1989 | 9.66% | 12.97% | 3.31% |
| 1990 | 9.76% | 12.70% | 2.94% |
| 1991 | 9.21% | 12.55% | 3.34% |
| 1992 | 8.57% | 12.09% | 3.52% |
| 1993 | 7.56% | 11.41% | 3.85% |
| 1994 | 8.30% | 11.34% | 3.04% |
| 1995 | 7.91% | 11.55% | 3.64% |
| 1996 | 7.74% | 11.39% | 3.65% |
| 1997 | 7.63% | 11.40% | 3.77% |
| 1998 | 7.00% | 11.66% | 4.66% |
| 1999 | 7.55% | 10.77% | 3.22% |
| 2000 | 8.14% | 11.43% | 3.29% |
| 2001 | 7.72% | 11.09% | 3.37% |
| 2002 | 7.53% | 11.16% | 3.63% |
| 2003 | 6.61% | 10.97% | 4.36% |
| 2004 | 6.20% | 10.75% | 4.55% |
| 2005 | 5.67% | 10.54% | 4.87% |
| 2006 | 6.08% | 10.36% | 4.28% |
| 2007 | 6.11% | 10.36% | 4.25% |
| 2008 | 6.65% | 10.46% | 3.81% |

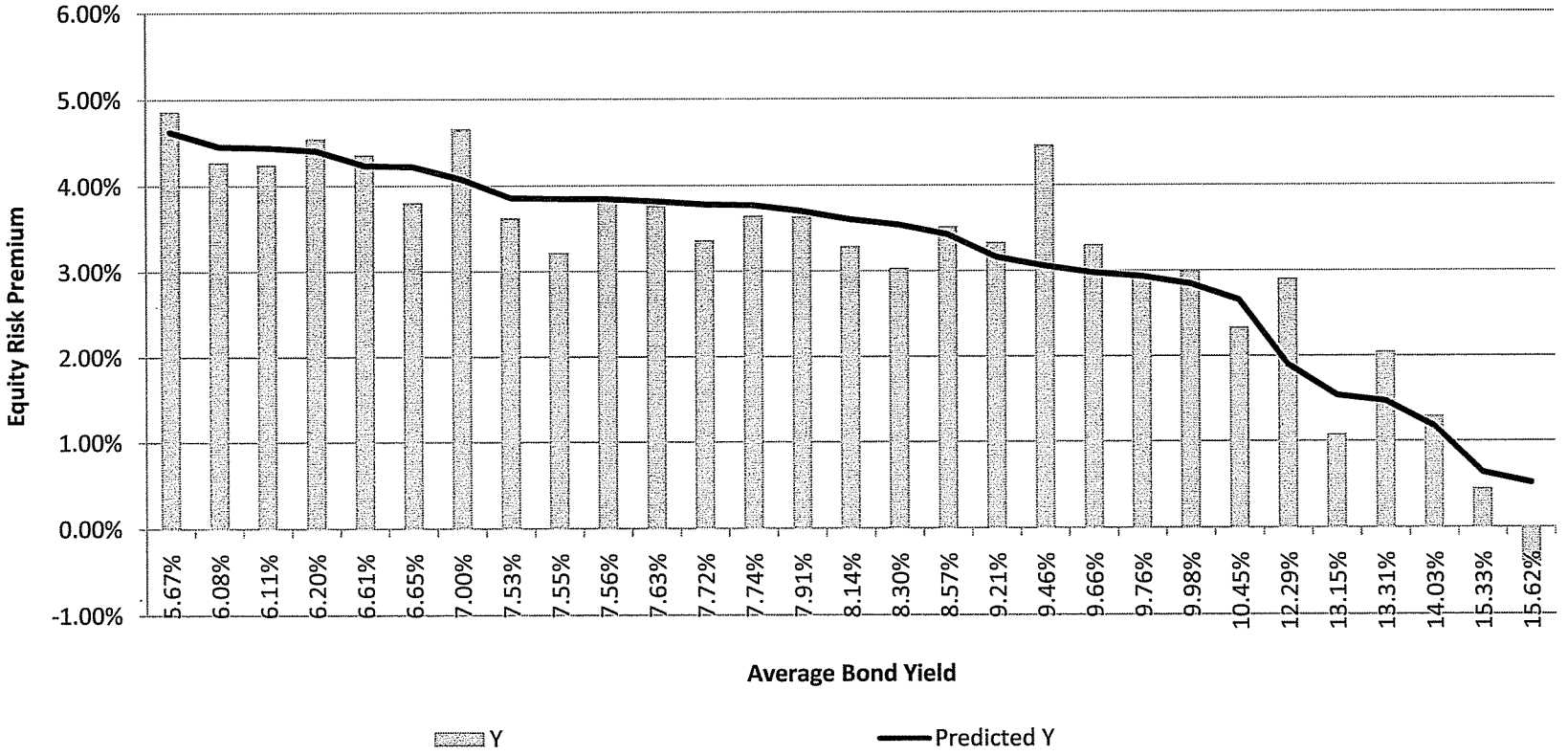
| Regression Predictions | | |
|---|---|---|
| *Observation* | *Predicted Y* | *Residuals* |
| 1 | 0.016012414 | -0.005212414 |
| 2 | 0.017148227 | -0.021148227 |
| 3 | 0.018284039 | -0.013784039 |
| 4 | 0.019419852 | 0.001080148 |
| 5 | 0.020555665 | -0.007655665 |
| 6 | 0.021691478 | 0.007408522 |
| 7 | 0.022827291 | 0.021872709 |
| 8 | 0.023963103 | 0.006136897 |
| 9 | 0.025098916 | -0.001698916 |
| 10 | 0.026234729 | 0.006865271 |
| 11 | 0.027370542 | 0.002029458 |
| 12 | 0.028506355 | 0.004893645 |
| 13 | 0.029642167 | 0.005557833 |
| 14 | 0.03077798 | 0.00772202 |
| 15 | 0.031913793 | -0.001513793 |
| 16 | 0.033049606 | 0.003350394 |
| 17 | 0.034185419 | 0.002314581 |
| 18 | 0.035321232 | 0.002378768 |
| 19 | 0.036457044 | 0.010142956 |
| 20 | 0.037592857 | -0.005392857 |
| 21 | 0.03872867 | -0.00582867 |
| 22 | 0.039864483 | -0.006164483 |
| 23 | 0.041000296 | -0.004700296 |
| 24 | 0.042136108 | 0.001463892 |
| 25 | 0.043271921 | 0.002228079 |
| 26 | 0.044407734 | 0.004292266 |
| 27 | 0.045543547 | -0.002743547 |
| 28 | 0.04667936 | -0.00417936 |
| 29 | 0.047815172 | -0.009715172 |

T-Statistic 6.16694392

Notes:

(1) From Schedule (DJL-10).

## Predicted Equity Risk Premium based on Regression Analysis of OPC Witness Lawton on Schedule (DJL-10)



Missouri Gas Energy
Regression Analysis of Observed Risk Premiums
1980 - 2008

BCP Witness Lawton Observations (1)

| | Avg Bond Yield | Authorized Returns | Indicated Risk Premium |
|---|---|---|---|
| 2005 | 5.67% | 10.54% | 4.87% |
| 2006 | 6.08% | 10.36% | 4.28% |
| 2007 | 6.11% | 10.36% | 4.25% |
| 2004 | 6.20% | 10.75% | 4.55% |
| 2003 | 6.61% | 10.97% | 4.36% |
| 2008 | 6.65% | 10.46% | 3.81% |
| 1998 | 7.00% | 11.66% | 4.66% |
| 2002 | 7.53% | 11.16% | 3.63% |
| 1999 | 7.55% | 10.77% | 3.22% |
| 1993 | 7.56% | 11.41% | 3.85% |
| 1997 | 7.63% | 11.40% | 3.77% |
| 2001 | 7.72% | 11.09% | 3.37% |
| 1996 | 7.74% | 11.39% | 3.65% |
| 1995 | 7.91% | 11.55% | 3.64% |
| 2000 | 8.14% | 11.43% | 3.29% |
| 1994 | 8.30% | 11.34% | 3.04% |
| 1992 | 8.57% | 12.09% | 3.52% |
| 1991 | 9.21% | 12.55% | 3.34% |
| 1986 | 9.46% | 13.93% | 4.47% |
| 1989 | 9.66% | 12.97% | 3.31% |
| 1990 | 9.76% | 12.70% | 2.94% |
| 1987 | 9.98% | 12.99% | 3.01% |
| 1988 | 10.45% | 12.79% | 2.34% |
| 1985 | 12.29% | 15.20% | 2.91% |
| 1980 | 13.15% | 14.23% | 1.08% |
| 1983 | 13.31% | 15.36% | 2.05% |
| 1984 | 14.03% | 15.32% | 1.29% |
| 1982 | 15.33% | 15.78% | 0.45% |
| 1981 | 15.62% | 15.22% | -0.40% |

| *Observation* | *Predicted Y* | *Residuals* |
|---|---|---|
| 1 | 0.046282568 | 0.002417432 |
| 2 | 0.044587512 | -0.001787512 |
| 3 | 0.044463483 | -0.001963483 |
| 4 | 0.044091398 | 0.001408602 |
| 5 | 0.042396341 | 0.001203659 |
| 6 | 0.04223097 | -0.00413097 |
| 7 | 0.040783971 | 0.005816029 |
| 8 | 0.0385928 | -0.0022928 |
| 9 | 0.038510114 | -0.006310114 |
| 10 | 0.038468772 | 3.12284E-05 |
| 11 | 0.038179372 | -0.000479372 |
| 12 | 0.037807286 | -0.004107286 |
| 13 | 0.0377246 | -0.0012246 |
| 14 | 0.037021772 | -0.000621772 |
| 15 | 0.036070887 | -0.003170887 |
| 16 | 0.035409401 | -0.005009401 |
| 17 | 0.034293145 | 0.000906855 |
| 18 | 0.031647203 | 0.001752797 |
| 19 | 0.030613632 | 0.014086368 |
| 20 | 0.029786775 | 0.003313225 |
| 21 | 0.029373347 | 2.66531E-05 |
| 22 | 0.028463804 | 0.001636196 |
| 23 | 0.026520691 | -0.003120691 |
| 24 | 0.018913609 | 0.010186391 |
| 25 | 0.015358124 | -0.004558124 |
| 26 | 0.014696639 | 0.005803361 |
| 27 | 0.011719955 | 0.001180045 |
| 28 | 0.006345385 | -0.001845385 |
| 29 | 0.005146443 | -0.009146443 |

T-Statistic -12.7385

Notes:
(1) From Schedule (DJL-10).

Missouri Gas Energy
Lawton Corrected Risk Premium Method
Reflecting a Forecasted Equity Risk Premium

| | |
|---|---|
| Projected Baa Corporate Bond (1) | 7.05 % |
| Spread Between Baa Corporates and Baa Public Utiliy Bonds (2) | -0.19 |
| Projected Baa Public Utility Bond | 6.86 % |
| Expected Risk Premium Over Public Utility Bonds (3) | 4.78 |
| Indicated Common Equity Cost Rate Based on Risk | 11.64 % |
| Projected Baa Public Utility Bond | 6.86 % |
| Expected Equity Risk Premium due to Inverse Relationship between Treasury Bond Yields and Equity Risk Premia (4) | 4.14 |
| Indicated Common Equity Cost Rate Based on Risk | 11.00 % |
| Average of the Two Methods | 11.32 % |

Notes:

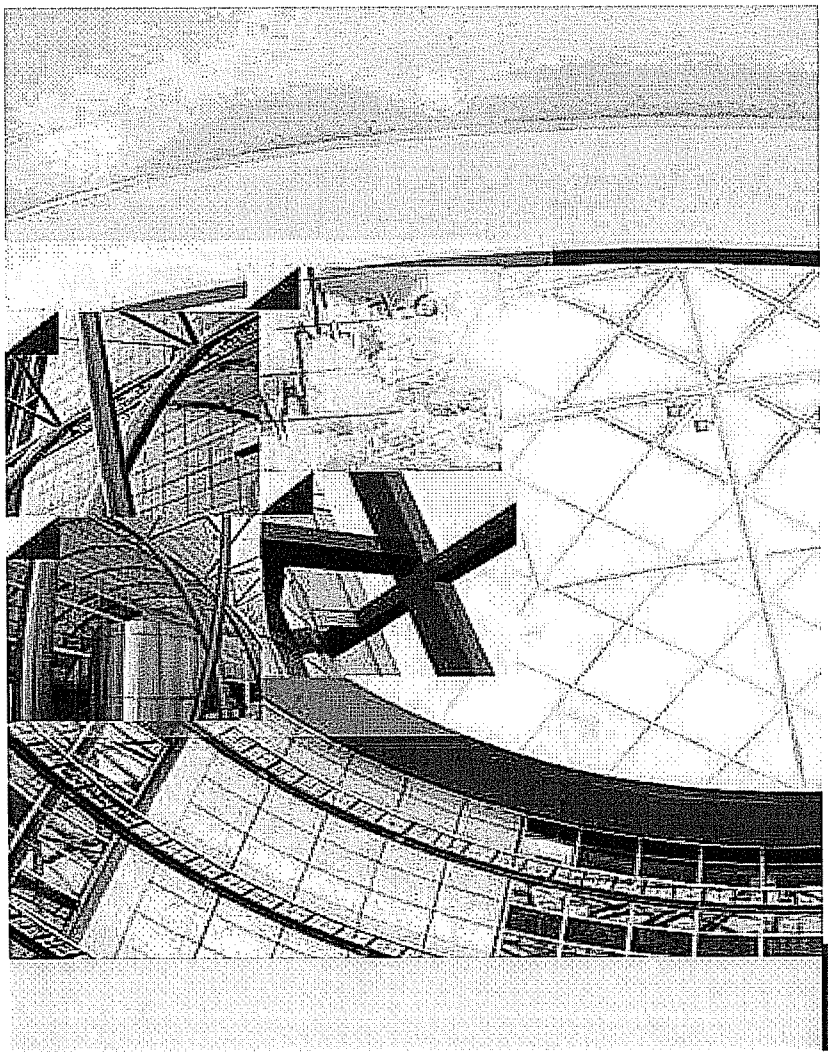
(1) Average forecast based upon six quarterly estimates of Baa rated corporate bonds per the consensus of nearly 50 economists reported in Blue Chip Financial Forecasts dated September 1, 2009 (see Page 40 of Schedule FJH-21). The estimates are detailed below.

| | |
|---|---|
| Third Quarter 2009 | 7.00 % |
| Fourth Quarter 2009 | 7.00 |
| First Quarter 2010 | 7.00 |
| Second Quarter 2010 | 7.00 |
| Third Quarter 2010 | 7.10 |
| Fourth Quarter 2010 | 7.20 |
| Average | 7.05 % |

(2) From Schedule (DJL-4).

(3) From Schedule FJH-25, Sheet 2.

(4) From Schedule FJH-25, Sheet 4.



Southern Union

# Market Update

August, 20 2009

CALYON
CRÉDIT AGRICOLE CIB

# Utilities Recent Transactions
## Industry Comparable

Southern Union

| COMPANY | DYNEGY HOLDINGS INC | AMEREN CORP | NORTHWESTERN CORP | INTEGRYS ENERGY | DTE ENERGY CO |
|---|---|---|---|---|---|
| INDUSTRY | Electric Services | Electric Services | Electric and other services | Electric Services | Integrated Energy Compagny: DTE Energy; Electric Generation & Distribution: Detroit Ed.; Natural Gas Distribution: MichCon |
| CORPORATE RATING | B/B2 | BBB-/Baa3 | BBB/Baa2 | BBB+/A3 | BBB / BBB/Baa1 / BBB |
| UNSECURED RATING | B/B3 | BB+/Baa3 | BBB/Baa2 | BBB+/A3 | BBB-/Baa2 / BBB/Baa1 / BBB/Baa1 |
| DATE | 5-Aug-09 | 29-Jun-09 | 29-Jun-09 | 27-May-09 | 29-Apr-09 |
| FACILITY DESCRIPTION | RC (5-year) $850MM<br>TLB (6-year) $70MM<br>LC (6-year) $450MM | RC (2-year) $1,079.5 MM<br>RC (2-year) $800 MM | RC (3-year) $250 MM | RC (364-day) $425MM<br>(accordion to $750MM) | $1,000MM (total) 2-Yr RC<br>$538MM / $211MM / $250MM |
| PURPOSE | Debt Repayment | Corporate Purposes | Corporate Purposes | Corporate Purpose | Corporate Purpose |
| FIRST DRAWN<br>UNDRAWN COST | L+375 bps<br>CF: 75 bps | L+425 bps<br>100 bps | L+300 bps<br>CF: 50 bps | L+300.0 bps<br>CF: 50 bps | L+350.0 bps / L+300.0 bps / L+300.0 bps<br>87.5 bps / 62.5 bps / 62.5 bps |
| PRICING GRID | | | Sr Rating / Margin / Cmt Fee<br>≥ A-/A3 225.0 bps 25.0 bps<br>BBB+/Baa1 275.0 bps 37.5 bps<br>BBB/Baa2 300.0 bps 50.0 bps<br>BBB-/Baa3 350.0 bps 62.5 bps<br>≤ BB+/Ba1 400.0 bps 75.0 bps | Sr Rating / Margin / Cmt Fee<br>≥ AA/Aa3 200.0 bps 15.0 bps<br>A+/A1 225.0 bps 20.0 bps<br>A/A2 250.0 bps 25.0 bps<br>A-/A3 275.0 bps 37.5 bps<br>BBB+/Baa1 300.0 bps 50.0 bps<br>BBB/Baa2 325.0 bps 62.5 bps<br>BBB-/Baa3 375.0 bps 75.0 bps | Sr Rating / Drawn Cost / Fac Fee<br>≥ A-/A3 250.0 bps 50.0 bps<br>BBB+/Baa1 300.0 bps 62.5 bps<br>BBB/Baa2 350.0 bps 87.5 bps<br>BBB-/Baa3 400.0 bps 112.5 bps<br>≤ BB+/Ba1 450.0 bps 125.0 bps |
| COVENANTS | Max Debt/EBITDA 2.50x<br>Mini cons EBITBA/ Int Ex: 1.75x | | Cons Debt/Cap: 65% | Max Debt/Cap: 65% | Max Debt/Cap: 65% |

*Source: Thomson Reuters LPC, Bloomberg*

CALYON CRÉDIT AGRICOLE CIB

# Utilities Recent Transactions
## Industry Comparable

Southern Union

| COMPANY | DYNEGY HOLDINGS INC | AMEREN CORP | NORTHWESTERN CORP | INTEGRYS ENERGY | DTE ENERGY CO |
|---|---|---|---|---|---|
| COMMENTS | Amendment Fee: 50 bps<br><br>Expects a "temporary reduction in availability of liquidity" under its credit facility in mid-to late-2009 "as a result of forecasted EBITDA and a corresponding borrowing limitation under the secured debt to EBITDA covenant | These facilities cumulatively provide $2.1 billion of credit through July 14, 2010, reducing to $1.88 billion through July 14, 2011. The facilities were oversubscribed | | Comes with an accordion for increment credit to $750 MM<br>Upfront fee 200.0 bps (as per news article) | Commitment / Upfront Fee<br>≥ $85MM 250.0 bps<br>≥ $55MM 225.0 bps<br>≥ $35MM 200.0 bps<br><$35MM 175.0 bps |
| | Lenders<br>Citigroup Admin. Agent<br>JP Morgan Doc. Agent<br>ABN AMRO Bank NV Doc. Agent<br>Bank of America<br>Credit Suisse Doc. Agent<br>Calyon Participant<br>Lehman Brothers Participant | Lenders<br>JP Morgan Admin. Agent<br>Barclays Capital Synd. Agent<br>BNP Paribas Participant<br>BTMU Participant<br>US Bank Participant | Lenders<br>Bank of America Merrill Lynch Admin. Agent<br>JP Morgan Syndic. Agent<br>US Bank Doc. Agent<br>Union Bank of California Doc. Agent<br>Bank of Nova Scotia Participant<br>Credit Suisse Participant<br>Keycorp Participant<br>UBS Participant | Lenders<br>Bank of America Admin. Agent<br>JP Morgan Syndic. Agent<br>Nova Scotia Co-Doc Agent<br>Morgan Stanley Co-Doc Agent<br>US Bank Co-Doc Agent<br>State Bank of India Participant<br>Union Bank Participant<br>Keybank Participant<br>Land Bank of Taiwan Participant<br>Taiwan Business Bank Participant<br>Mega International Participant<br>State Street Participant | Lenders<br>Barclays Agent<br>Citigroup Agent<br>JP Morgan Agent<br>Royal Bank of Scotland Agent<br>Bank of America Agent<br>Bank of Nova Scotia Agent<br><br>Expected Closing Date 4/29/2009<br>$600MM already committed by Bank meeting date (03/30/2009) |

*Source: Thomson Reuters LPC, Bloomberg*



CALYON CREDIT AGRICOLE CIB

Missouri Gas Energy
Indicators that Mr. Murray's Proxy Companies are Viewed
as Gas Distribution Companies by Investors

| Company | Ticker | Included in Edward Jones Gas Distribution Companies? | Included in Value Line Natural Gas Utility Group? | % of Net Operating Income Derived from Gas Distribution Operations | % of Total Assets Devoted to Gas Distribution Operations |
|---|---|---|---|---|---|
| AGL Resources, Inc | AGL | Yes | Yes | 67.99% | 78.98% |
| Atmos Energy Corporation | ATO | Yes | Yes | 61.13% | 79.44% |
| New Jersey Resources Corporation | NJR | Yes | Yes | 43.75% | 64.27% |
| Northwest Natural Gas Company | NWN | Yes | Yes | 89.53% | 96.28% |
| Piedmont Natural Gas Co., Inc. | PNY | Yes | Yes | 100.13% | 96.70% |
| South Jersey Industries, Inc. | SJI | Yes | Yes | 54.99% | 73.84% |
| WGL Holdings, Inc. | WGL | Yes | Yes | 96.63% | 90.58% |
| Average | | | | 73.45% | 82.87% |
| Median | | | | 67.99% | 79.44% |

Source of Information:
2008 SEC Filings of Company 10K

Schedule FJH-28

Missouri Gas Energy
Indicated Common Equity Cost Rate Through Use
of the Capital Asset Pricing Model for
Staff Witness Murray's Proxy Group of Seven Utility Companies

| Line No. | | Staff Witness Murray's Proxy Group of Seven Utility Companies |
|---|---|---|
| 1. | Traditional Capital Asset Pricing Model (1) | 10.44 % |
| 2. | Empirical Capital Asset Pricing Model (1) | 11.21 % |
| 3. | Conclusion | 10.83 % |

Notes: (1) From Page 2 of this Schedule.

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

| | 1 | 2 | 3 |
|---|---|---|---|
| | Value Line Adjusted Beta | Company-Specific Risk Premium Based on Market Premium of 8.87% (1) | CAPM Result Including Risk-Free Rate of 4.67% (2) |
| | | Traditional Capital Asset Pricing Model (3) | |
| Staff Witness Murray's Proxy Group of Seven Utility Companies | | | |
| AGL Resources, Inc | 0.75 | 6.65 | 11.32 |
| Atmos Energy Corporation | 0.65 | 5.77 | 10.44 |
| New Jersey Resources Corporation | 0.65 | 5.77 | 10.44 |
| Northwest Natural Gas Company | 0.60 | 5.32 | 9.99 |
| Piedmont Natural Gas Co., Inc. | 0.65 | 5.77 | 10.44 |
| South Jersey Industries, Inc. | 0.65 | 5.77 | 10.44 |
| WGL Holdings, Inc. | 0.65 | 5.77 | 10.44 |
| Average | 0.66 | 5.83 % | 10.50 % |
| Median | 0.65 | 5.77 % | 10.44 % |
| | | Empirical Capital Asset Pricing Model (4) | |
| Staff Witness Murray's Proxy Group of Seven Utility Companies | | | |
| AGL Resources, Inc | 0.75 | 7.21 | 11.88 |
| Atmos Energy Corporation | 0.65 | 6.54 | 11.21 |
| New Jersey Resources Corporation | 0.65 | 6.54 | 11.21 |
| Northwest Natural Gas Company | 0.60 | 6.21 | 10.88 |
| Piedmont Natural Gas Co., Inc. | 0.65 | 6.54 | 11.21 |
| South Jersey Industries, Inc. | 0.65 | 6.54 | 11.21 |
| WGL Holdings, Inc. | 0.65 | 6.54 | 11.21 |
| Average | 0.66 | 6.59 % | 11.26 % |
| Median | 0.65 | 6.54 % | 11.21 % |

Please see Schedule FJH-21, Page 51 for notes.

Missouri Gas Energy
Implied ROEs Based on Murray Reasonableness Check
Shown on Page 42 of Staff Direct Testimony

| Staff Proposed Capital Structure (1) | Ratio | | Embedded Cost | | Weighted Cost of Capital | |
|---|---|---|---|---|---|---|
| Common Stock Equity | 51.06 | % | 9.75 | % (2) | 4.98 | % |
| Long-Term Debt | 40.47 | | 5.92 | | 2.40 | |
| Short-Term Debt | 8.47 | | 0.89 | | 0.08 | |
| | 100.00 | % | | | 7.46 | % |
| Reasonableness Check based on Lowest ROR (3) | | | | | | |
| Common Stock Equity | 51.06 | % | 10.83 | % | 5.53 | % |
| Long-Term Debt | 40.47 | | 5.92 | | 2.40 | |
| Short-Term Debt | 8.47 | | 0.89 | | 0.08 | |
| | 100.00 | % | | | 8.01 | % |
| Reasonableness Check based on Highest ROR (4) | | | | | | |
| Common Stock Equity | 51.06 | % | 12.34 | % | 6.30 | % |
| Long-Term Debt | 40.47 | | 5.92 | | 2.40 | |
| Short-Term Debt | 8.47 | | 0.89 | | 0.08 | |
| | 100.00 | % | | | 8.78 | % |
| Reasonableness Check based on Average ROR (5) | | | | | | |
| Common Stock Equity | 51.06 | % | 11.44 | % | 5.84 | % |
| Long-Term Debt | 40.47 | | 5.92 | | 2.40 | |
| Short-Term Debt | 8.47 | | 0.89 | | 0.08 | |
| | 100.00 | % | | | 8.32 | % |

Notes:

(1) From Murray Schedule 19.

(2) Midpoint of Mr. Murray's DCF cost rate range of 9.25% - 10.25 %.

(3) Based on the lowest average quarterly ROR awarded to gas utilities shown on Page 42 of the Staff Report.

(4) Based on the highest average quarterly ROR awarded to gas utilities shown on Page 42 of the Staff Report.

(5) Based on the average of all quarterly awarded RORs shown on Page 42 of the Staff Report.