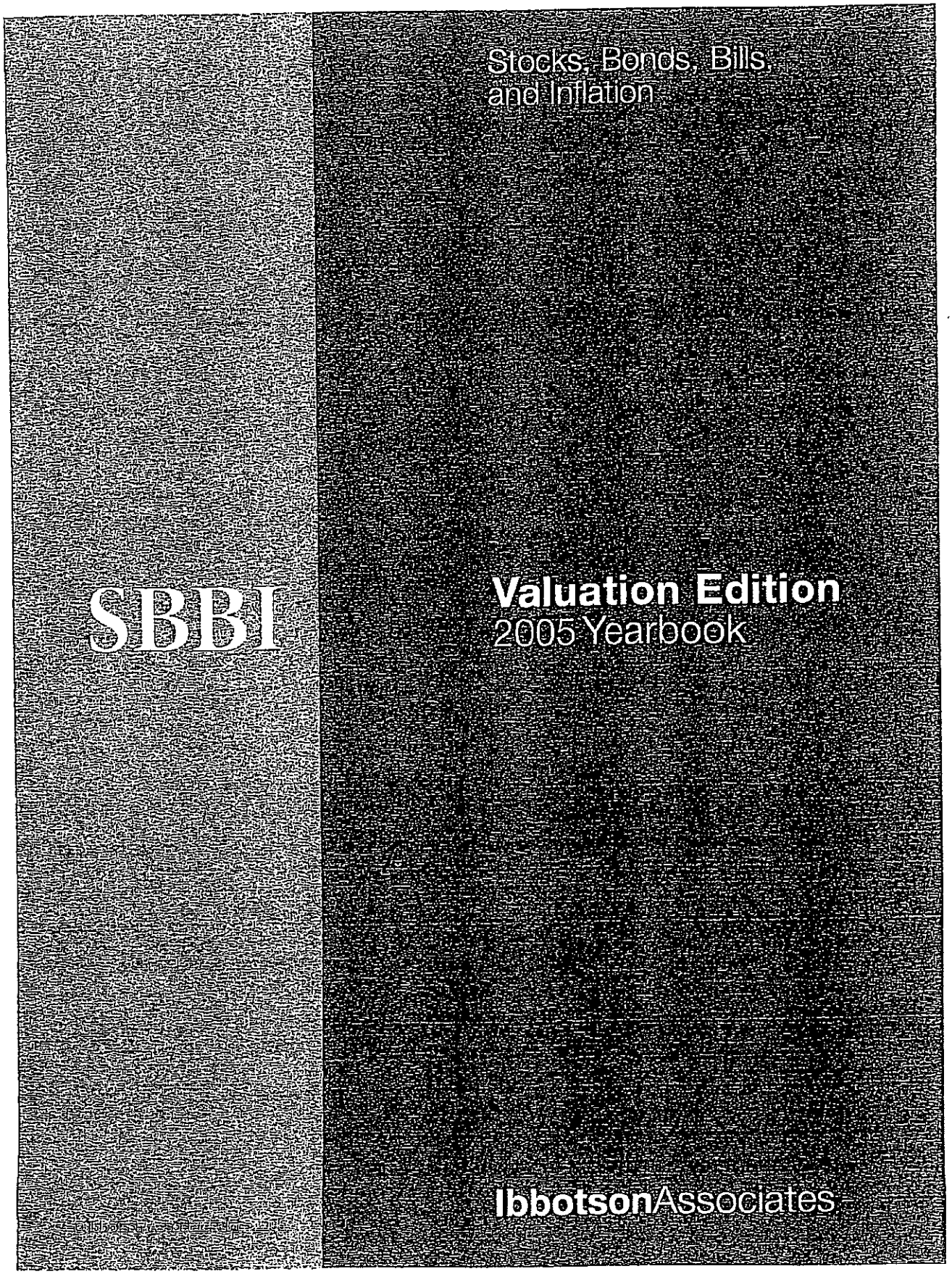
Missouri Gas Energy
Market Capitalization of Missouri Gas Energy
for the Proxy Group of Four Gas Distribution Companies, the Proxy Group of Eight
Value Line Gas Distribution Companies and Southern Union Company

Company	1 Common Stock Shares Outstanding at September 30, 2005 (1) & (*) (millions)	2 Book Value per Share at September 30, 2005 (1) & (*)	3 Total Common Equity at September 30, 2005 (*) (millions)	4 Closing Stock Market Price on March 17, 2006	5 Market-to-Book Ratio at March 17, 2006 (2)	6 Market Capitalization on March 17, 2006 (3) (millions)
Missouri Gas Energy	NA (4)	NA	$ 267.077 (4)	NA		
Based upon the Proxy Group of Four Gas Distribution Companies					196.8 % (5)	$ 525.607 (6)
Based upon the Proxy Group of Eight Value Line Gas Distribution Companies					201.3 % (7)	$ 537.626 (8)
Based upon Southern Union Company					164.2 % (9)	$ 438.625 (10)
Proxy Group of Four Gas Distribution Companies						
Cascade Natural Gas Corporation	11.413	$ 10.393	$ 118.615	$ 19.610	188.7 %	$ 223.809
NICOR Inc.	44.180	18.364	811.300	41.920	228.3	1,852.024
Northwest Natural Gas Company	27.621	21.249	586.931	34.360	161.7	949.058
Piedmont Natural Gas Co., Inc.	76.698	11.528	884.192	24.030	208.4	1,843.053
	27.736	$ 16.669	$ 505.615	$ 31.963	196.8 %	$ 1,008.297
Proxy Group of Eight Value Line Gas Distribution Companies						
Cascade Natural Gas Corporation	11.413	$ 10.393	$ 118.615	$ 19.610	188.7 %	$ 223.809
The Laclede Group, Inc.	21.172	17.312	366.525	34.300	198.1 %	726.200
New Jersey Resources Corp.	27.546	15.903	438.052	44.510	279.9 %	1,226.072
NICOR Inc.	44.180	18.364	811.300	41.920	228.3	1,852.024
Northwest Natural Gas Company	27.621	21.249	586.931	34.360	161.7	949.058
Peoples Energy Corporation	38.157	20.970	800.154	37.850	180.5	1,444.251
Piedmont Natural Gas Co., Inc.	76.698	11.528	884.192	24.030	208.4	1,843.053
WGL Holdings, Inc.	48.704	18.365	893.992	30.300	165.1	1,475.742
Average	36.936	$ 16.759	$ 612.470	$ 33.360	201.3 %	$ 1,217.526
Southern Union Company	110.354	$ 14.717	$ 1,624.059	$ 24.170	164.2 %	$ 2,667.265

NA = Not Available

Notes:
(1) Column 3 / Column 1.
(2) Column 4 / Column 2.
(3) Column 5 * Column 3.
(4) Based upon allocating Missouri Gas Energy's rate base at December 31, 2005 of $580.601647 by Mr. Hanley's recommended hypothetical common equity ratio 46.00%. $267.077 = $580.601647 * 46.00%.
(5) The market-to-book ratio of Missouri Gas Energy, at March 17, 2006 is assumed to be equal to the average market-to-book ratio at March 17, 2006 of the Proxy Group of Four 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 March 17, 2006 of the proxy group of four gas distribution companies, 196.8%, and Missouri Gas Energy's market capitalization at March 17, 2006 would therefore have been $525.607 million. ($525.607 = $267.077 * 196.8%).
(7) The market-to-book ratio of Missouri Gas Energy at March 17, 2006 is assumed to be equal to the average market-to-book ratio at March 17, 2006 of the Proxy Group of Eight Value Line Natural Gas Distribution Companies.
(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 March 17, 2006 of the proxy group of four gas distribution companies, 201.3%, and Missouri Gas Energy's market capitalization at March 17, 2006 would therefore have been $537.626 million. ($537.626 = $267.077 * 201.3%).
(9) The market-to-book ratio of Missouri Gas Energy, at March 17, 2006 is assumed to be equal to the average market-to-book ratio at March 17, 2006 of Southern Union Company.
(10) Missouri Gas Energy's common stock, if traded, would trade at a market-to-book ratio equal to the average market-to-book ratio at March 17, 2006 of Southern Union Company, 164.2%, and Missouri Gas Energy's market capitalization at March 17, 2006 would therefore have been $438.265 million. ($438.265 = $267.077 * 164.2%).
(*) As of September 2005, except NICOR, Northwest Natural and Southern Union Company, which are at December 2005 and for Piedmont Natural Gas which is at October 2005.

Source of Information: Company Annual Forms 10-K
Source of Information: DTN Trading Markets' DTNIQ/Interquote.com


Stocks, Bonds, Bills,
and Inflation
SBBI
Valuation Edition
2005 Yearbook
IbbotsonAssociates

Chapter 7

Firm Size and Return

The Firm Size Phenomenon

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

Construction of the Decile Portfolios

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

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

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

Size of the Deciles

Table 7-1 reveals that the top three deciles of the NYSE/AMEX/NASDAQ account for most of the total market value of its stocks. Approximately two-thirds of the market value is represented by the first decile, which currently consists of 172 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

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

79 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 2004.

Table 7-1

Size-Decile Portfolios of the NYSE/AMEX/NASDAQ Size and Composition
1926-2004

Decile	Historical Average Percentage of Total Capitalization	Recent Number of Companies	Recent Decile Market Capitalization (in thousands)	Recent Percentage of Total Capitalization
1-Largest	63.31%	172	$8,214,688,366	63.16%
2	13.97%	177	1,722,153,325	13.24%
3	7.58%	199	894,917,914	6.88%
4	4.74%	209	548,389,454	4.22%
5	3.24%	219	400,381,543	3.08%
6	2.37%	257	325,662,936	2.50%
7	1.73%	300	264,131,617	2.03%
8	1.28%	372	219,976,996	1.69%
9	0.98%	589	230,476,080	1.77%
10-Smallest	0.80%	1,782	185,820,318	1.43%
Mid-Cap 3-5	15.56%	627	1,843,688,910	14.18%
Low-Cap 6-8	5.38%	929	809,771,549	6.23%
Micro-Cap 9-10	1.79%	2,371	416,296,398	3.20%

Source: © 200503 CRSP® Center for Research in Security Prices. Graduate School of Business. The University of Chicago. Used with permission. All rights reserved. www.crsp.uchicago.edu

Historical average percentage of total capitalization shows the average, over the last 79 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, 2004.

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 $6,241,953,000 but greater than $1,607,854,000. Low-cap stocks include deciles 6–8 and currently include all companies in the NYSE/AMEX/NASDAQ with market capitalizations at or below $1,607,854,000 but greater than $505,437,000. Micro-cap stocks include deciles 9–10 and include companies with market capitalizations at or below $505,437,000. The market capitalization of the smallest company included in the micro-capitalization group is currently $1,393,000.

Table 7-2

Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, Largest Company and Its Market Capitalization by Decile
September 30, 2004

Decile	Market Capitalization of Largest Company (in thousands)	Company Name
1-Largest	$342,087,219	General Electric Co.
2	14,096,886	Agilent Technologies Inc.
3	6,241,953	Tenet Healthcare Corp.
4	3,464,104	Wellchoice Inc.
5	2,231,707	OGE Energy Corp.
6	1,607,854	Entercom Communications Corp.
7	1,097,603	Vintage Petroleum Inc.
8	748,219	Wabash National Corp.
9	505,437	World Fuel Services Corp.
10-Smallest	262,725	Mastec Inc.

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

Presentation of the Decile Data

Summary statistics of annual returns of the 10 deciles over 1926–2004 are presented in Table 7-4. Note from this exhibit that both the average return and the total risk, or standard deviation of annual returns, tend to increase as one moves from the largest decile to the smallest. Furthermore, the serial correlations of returns are near zero for all but the smallest two deciles. Serial correlations and their significance will be discussed in detail later in this chapter.

Graph 7-1 depicts the growth of one dollar invested in each of three NYSE/AMEX/NASDAQ groups broken down into mid-cap, low-cap, and micro-cap stocks. The index value of the entire NYSE/AMEX/NASDAQ is also included. All returns presented are value-weighted based on the market capitalizations of the deciles contained in each subgroup. The sheer magnitude of the size effect in some years is noteworthy. While the largest stocks actually declined 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. This divergence in the performance of small and large company stocks is a common occurrence.

Table 7-3

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

from 1926 to1965

	Capitalization of Largest Company (in thousands)			Capitalization of Smallest Company (in thousands)		
Date (Sept 30)	Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10	Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10
1926	$61,490	$14,040	$4,305	$14,100	$4,325	$43
1927	$65,281	$14,746	$4,450	$15,311	$4,496	$72
1928	$81,998	$18,975	$5,074	$19,050	$5,119	$135
1929	$107,085	$24,328	$5,875	$24,480	$5,915	$126
1930	$67,808	$13,050	$3,219	$13,068	$3,264	$30
1931	$42,607	$8,142	$1,905	$8,222	$1,927	$15
1932	$12,431	$2,170	$473	$2,196	$477	$19
1933	$40,298	$7,210	$1,830	$7,280	$1,875	$100
1934	$38,129	$6,659	$1,569	$6,734	$1,673	$68
1935	$37,631	$6,519	$1,350	$6,549	$1,383	$38
1936	$46,920	$11,505	$2,660	$11,526	$2,668	$98
1937	$51,750	$13,601	$3,500	$13,635	$3,539	$68
1938	$36,102	$8,325	$2,125	$8,372	$2,145	$60
1939	$35,784	$7,367	$1,697	$7,389	$1,800	$75
1940	$31,050	$7,990	$1,861	$8,007	$1,872	$51
1941	$31,744	$8,316	$2,086	$8,336	$2,087	$72
1942	$26,135	$6,870	$1,779	$6,875	$1,788	$82
1943	$43,218	$11,475	$3,647	$11,480	$3,903	$395
1944	$46,621	$13,066	$4,800	$13,068	$4,812	$309
1945	$55,268	$17,325	$6,413	$17,575	$6,428	$225
1946	$79,158	$24,192	$10,013	$24,199	$10,051	$829
1947	$57,830	$17,735	$5,373	$17,872	$6,380	$747
1948	$67,238	$19,575	$7,313	$19,651	$7,329	$784
1949	$55,506	$14,549	$5,037	$14,577	$5,108	$379
1950	$65,881	$18,675	$6,176	$18,750	$6,201	$303
1951	$82,517	$22,750	$7,567	$22,860	$7,598	$668
1952	$97,936	$25,452	$8,428	$25,532	$8,480	$480
1953	$98,595	$25,374	$8,156	$25,395	$8,168	$459
1954	$125,834	$29,645	$8,484	$29,707	$8,488	$463
1955	$170,829	$41,445	$12,353	$41,681	$12,366	$553
1956	$183,434	$46,805	$13,481	$46,886	$13,524	$1,122
1957	$192,861	$47,658	$13,844	$48,509	$13,848	$925
1958	$195,083	$46,774	$13,789	$46,871	$13,816	$550
1959	$253,644	$64,221	$19,500	$64,372	$19,548	$1,804
1960	$246,202	$61,485	$19,344	$61,529	$19,385	$831
1961	$296,261	$79,058	$23,562	$79,422	$23,613	$2,455
1962	$250,433	$58,866	$18,952	$59,143	$18,968	$1,018
1963	$308,438	$71,846	$23,819	$71,971	$23,822	$295
1964	$344,033	$79,343	$25,594	$79,508	$25,595	$223
1965	$363,759	$84,479	$28,365	$84,600	$28,375	$250

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

Table 7-3 (continued)

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

from 1966 to 2004

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

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

Table 7-4
Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, Summary Statistics of Annual Returns
1926–2004

Decile	Geometric Mean	Arithmetic Mean	Standard Deviation	Serial Correlation
1-Largest	9.6%	11.4%	19.27%	0.09
2	10.9	13.2	22.00	0.03
3	11.3	13.8	23.81	–0.02
4	11.3	14.4	26.10	–0.02
5	11.7	15.0	26.94	–0.02
6	11.8	15.5	27.97	0.04
7	11.6	15.7	30.17	0.01
8	11.9	16.7	33.65	0.04
9	12.2	17.7	36.77	0.05
10-Smallest	14.0	21.8	45.67	0.15
Mid-Cap, 3–5	11.4	14.2	24.90	–0.02
Low-Cap, 6–8	11.8	15.8	29.68	0.03
Micro-Cap, 9–10	12.8	19.0	39.38	0.08
NYSE/AMEX/NASDAQ				
Total Value-Weighted Index	10.1	12.1	20.32	0.03

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

Aspects of the Firm Size Effect

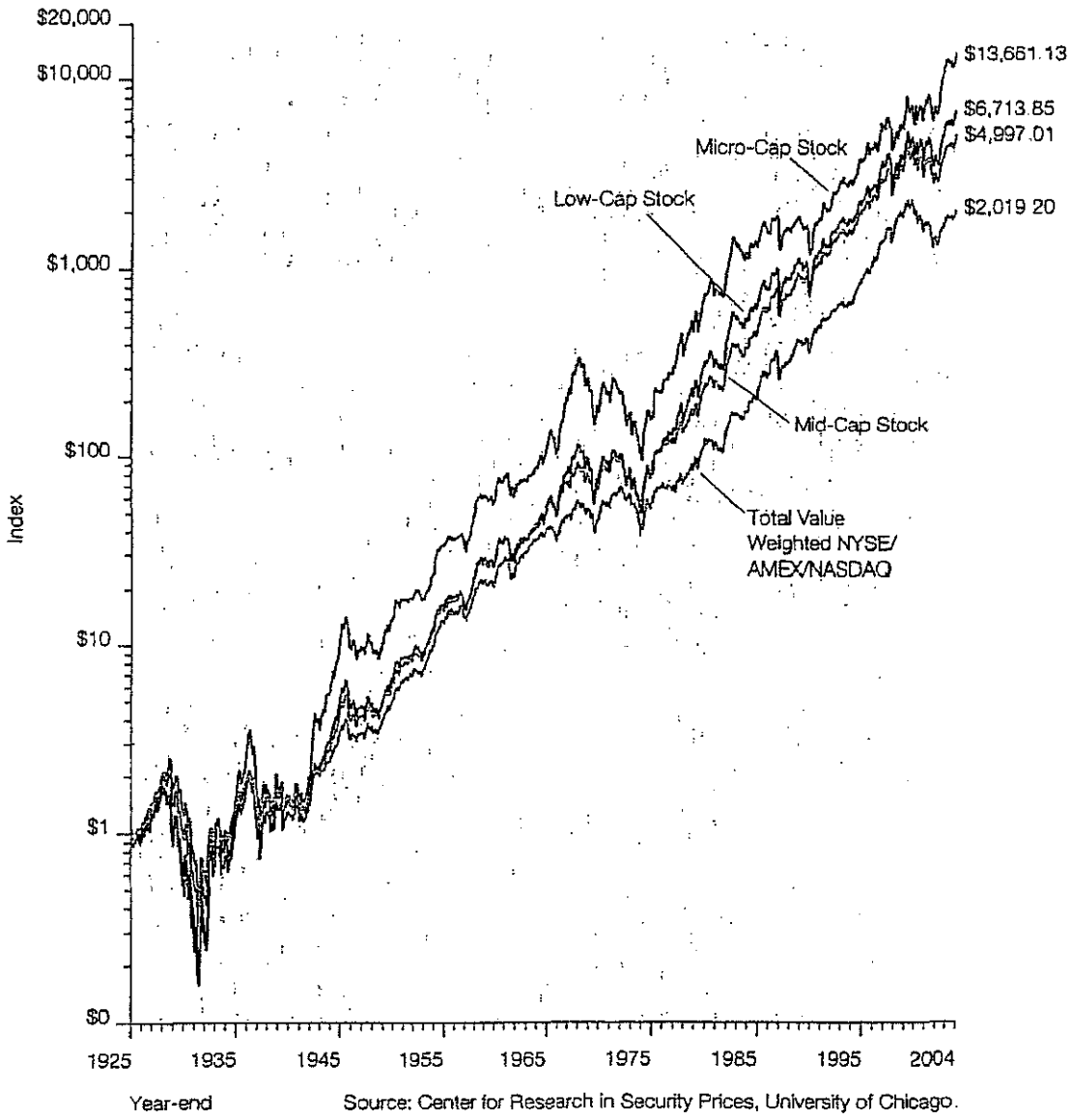
The firm size phenomenon is remarkable in several ways. First, the greater risk of small stocks does not, in the context of the capital asset pricing model (CAPM), fully account for their higher returns over the long term. In the CAPM, only systematic or beta risk is rewarded; small company stocks have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

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

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

Graph 7-1

Size-Decile Portfolios of the NYSE/AMEX/NASDAQ: Wealth Indices of Investments in Mid-, Low-, Micro- and Total Capitalization Stocks
1925–2004
Year-end 1925 = $1 00



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

Long-Term Returns in Excess of Systematic Risk

The capital asset pricing model (CAPM) does not fully account for the higher returns of small company stocks. Table 7-5 shows the returns in excess of systematic risk over the past 79 years for each decile of the NYSE/AMEX/NASDAQ. Recall that the CAPM is expressed as follows:

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

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

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

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

2 The equity risk premium is estimated by the 79-year arithmetic mean return on large company stocks, 12.39 percent, less the 79-year arithmetic mean income-return component of 20-year government bonds as the historical riskless rate, in this case 5.22 percent. (It is appropriate, however, to match the maturity, or duration, of the riskless asset with the investment horizon.) See Chapter 5 for more detail on equity risk premium estimation.

3 Historical betas were calculated using a simple regression of the monthly portfolio (decile) total returns in excess of the 30-day U.S. Treasury bill total returns versus the S&P 500 total returns in excess of the 30-day U.S. Treasury bill, January 1926–December 2004. See Chapter 6 for more detail on beta estimation.

Table 7-5

Long-Term Returns In Excess of CAPM Estimation for Decile Portfolios of the NYSE/AMEX/NASDAQ
1926–2004

Decile	Beta*	Arithmetic Mean Return	Realized Return In Excess of Riskless Rate**	Estimated Return In Excess of Riskless Rate†	Size Premium (Return in Excess of CAPM)
1-Largest	0 91	11.39%	6 16%	6.53%	–0 37%
2	1 04	13.24%	8 02%	7 42%	0 60%
3	1 10	13 84%	8 62%	7 86%	0 75%
4	1 13	14 38%	9 15%	8 08%	1 07%
5	1.16	14.96%	9.74%	8.30%	1.44%
6	1 18	15 46%	10.23%	8 48%	1 75%
7	1 23	15 67%	10 45%	8 83%	1 61%
8	1 28	16 74%	11 51%	9.15%	2 36%
9	1 34	17 71%	12 48%	9 62%	2 86%
10-Smallest	1 41	21 77%	16 54%	10.14%	6 41%
Mid-Cap, 3-5	1 12	14 19%	8 96%	8 01%	0 95%
Low-Cap, 6-8	1 22	15 76%	10 54%	8 73%	1 81%
Micro-Cap, 9-10	1 36	18 97%	13 74%	9.72%	4 02%

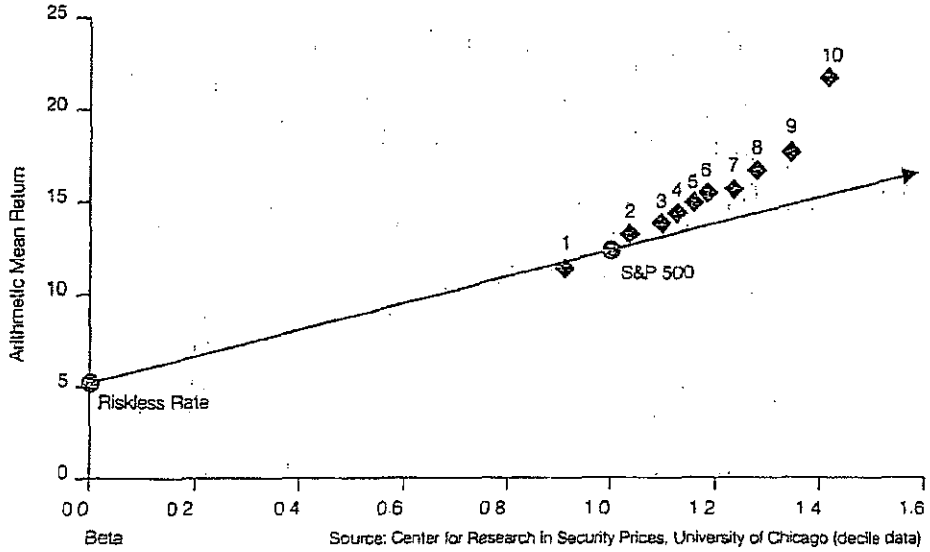
*Betas are estimated from monthly portfolio total returns in excess of the 30-day U.S. Treasury bill total return versus the S&P 500 total returns in excess of the 30-day U S. Treasury bill, January 1926–December 2004

**Historical riskless rate is measured by the 79-year arithmetic mean income return component of 20-year government bonds (5 22 percent).

†Calculated in the context of the CAPM by multiplying the equity risk premium by beta. The equity risk premium is estimated by the arithmetic mean total return of the S&P 500 (12 39 percent) minus the arithmetic mean income return component of 20-year government bonds (5 22 percent) from 1926–2004.

Graph 7-2

Security Market Line versus Size-Decile Portfolios of the NYSE/AMEX/NASDAQ
1926–2004



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

Further Analysis of the 10th Decile

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

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

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

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

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

Table 7-6

Size-Decile Portfolios 10a and 10b of the NYSE/AMEX/NASDAQ, Largest Company and Its Market Capitalization
September 30, 2004

Decile	Recent Number of Companies	Recent Decile Market Capitalization (in thousands)	Market Capitalization of Largest Company (in thousands)	Company Name
10a	532	$98,581,341	$262.725	Mastec Inc.
10b	1,261	$83.633.980	$143.916	Rex Stores Corp

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

Table 7-7

Long-Term Returns in Excess of CAPM Estimation for Decile Portfolios of the NYSE/AMEX/NASDAQ, with 10th Decile Split
1926–2004

	Beta*	Arithmetic Mean Return	Realized Return in Excess of Riskless Rate**	Estimated Return in Excess of Riskless Rate†	Size Premium (Return in Excess of CAPM)
1-Largest	0 91	11 39%	6 16%	6 53%	–0 37%
2	1 04	13 24%	8 02%	7 42%	0 60%
3	1 10	13 84%	8 62%	7 86%	0 75%
4	1 13	14 38%	9 15%	8 08%	1 07%
5	1 16	14 96%	9 74%	8 30%	1 44%
6	1 18	15 46%	10 23%	8 48%	1 75%
7	1 23	15 67%	10 45%	8 83%	1 61%
8	1 28	16 74%	11 51%	9 15%	2 36%
9	1 34	17 71%	12 48%	9 62%	2 86%
10a	1 42	19 95%	14 73%	10 19%	4 54%
10b-Smallest	1 39	25 13%	19 90%	10 00%	9 90%
Mid-Cap, 3–5	1 12	14 19%	8 96%	8 01%	0 95%
Low-Cap, 6–8	1 22	15 76%	10 54%	8 73%	1 81%
Micro-Cap, 9-10	1 36	18 97%	13 74%	9 72%	4 02%

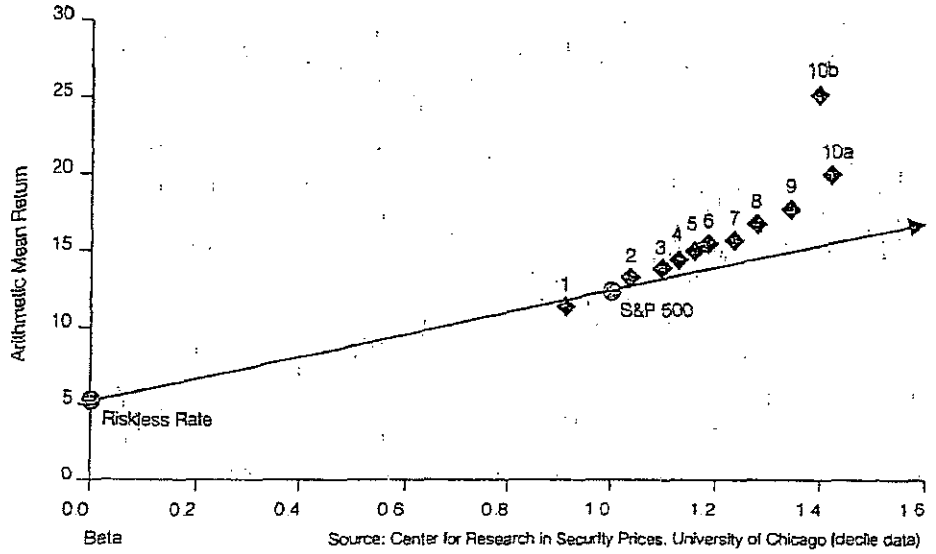
*Betas are estimated from monthly portfolio total returns in excess of the 30-day U.S. Treasury bill total return versus the S&P 500 total returns in excess of the 30-day U S. Treasury bill, January 1925–December 2004

**Historical riskless rate is measured by the 79-year arithmetic mean income return component of 20-year government bonds (5 22 percent).

†Calculated in the context of the CAPM by multiplying the equity risk premium by beta. The equity risk premium is estimated by the arithmetic mean total return of the S&P 500 (12 39 percent) minus the arithmetic mean income return component of 20-year government bonds (5 22 percent) from 1926–2004

Graph 7-3

Security Market Line versus Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, with 10th Decile Split
1926-2004



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

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Standard & Poor's CORPORATE RATINGS CRITERIA

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CORPORATE RATINGS CRITERIA

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Chairman, Corporate Ratings Criteria Committee

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Utilities

The utilities rating methodology encompasses two basic components: business risk analysis and financial analysis. Evaluation of industry characteristics, the utility's position within that industry, its regulation, and its management provides the context for assessing a firm's financial condition.

Historical analysis is a tool for identifying strengths and weaknesses, and provides a starting point for evaluating financial condition. Business position assessment is the qualitative measure of a utility's fundamental creditworthiness. It focuses on the forces that will shape the utilities' future.

Utilities credit analysis factors

Business risk	Financial risk
• Markets and service area economy	• Earnings protection
• Competitive position	• Capital structure
• Operations	• Cash flow adequacy
• Regulation	• Financial flexibility/capital attraction
• Management	
• Fuel, power, and water supply	
• Asset concentration	

The credit analysis of utilities is quickly evolving, as utilities are treated less as regulated monopolies and more as entities faced with a host of challengers in a competitive environment. Marketplace dynamics are supplanting the power of regulation, making it critically important to reduce costs and/or market new services in order to thwart competitors' inroads.

Markets and service area economy

Assessing service territory begins with the economic and demographic evaluation of the area in which the utility has its franchise. Strength of long-term demand for the product is examined from a macroeconomic perspective. This enables Standard & Poor's to evaluate the affordability of rates and the staying power of demand.

Standard & Poor's tries to discern any secular consumption trends and, more importantly, the reasons for them. Specific items examined include the size and growth rate of the market, strength of the franchise, historical and projected sales growth, income levels and trends in population, employment, and per capita income. A utility with a healthy economy and customer base—as illustrated by diverse employment opportunities, average or above-average wealth and income statistics, and low unemployment—will have a greater capacity to support its operations.

For electric and gas utilities, distribution by customer class is scrutinized to assess the depth and diversity of the utility's customer mix. For example, heavy industrial concentration is viewed cautiously, since a utility may have significant exposure to cyclical volatility. Alternatively, a large residential component yields a stable and more predictable revenue stream. The largest utility customers are identified to determine their importance to the bottom line and assess the risk of their loss and potential adverse effect on the utility's financial position. Credit concerns arise when individual customers represent more than 5% of revenues. The company or industry may play a significant role in the overall economic base of the service area. Moreover, large customers may turn to cogeneration or alternative power supplies to meet their energy needs, potentially leading to reduced cash flow for the utility (even in cases where a large customer pays discounted rates and is not a profitable account for the utility). Customer concentration is less significant for water and telecommunication utilities.

Competitive position

As competitive pressures have intensified in the utilities industry, Standard & Poor's analysis has deepened to include a more thorough review of competitive position.

Electric utility competition

For electric utilities, competitive factors examined include: percentage of firm wholesale revenues that are most vulnerable to competition; industrial load concentration; exposure of key customers to alternative suppliers; commercial concentrations; rates for various customer classes; rate design and flexibility; production costs, both marginal and fixed; the regional capacity situation; and transmission constraints. A regional focus is evident, but high costs and rates relative to national averages are also of significant concern because of the potential for electricity substitutes over time.

Mounting competition in the electric utility industry derives from excess generating capacity, lower barriers to entering the electric generating business, and marginal costs that are below embedded costs. Standard & Poor's has already witnessed declining prices in wholesale markets, as *de facto* retail competition is already being seen in several parts of the country. Standard & Poor's believes that over the coming years more and more customers will want and demand lower prices. Initial concerns focus on the largest industrial loads, but other customer classes will be increasingly vulnerable. Competition will not necessar-

ily be driven by legislation. Other pressures will arise from global competition and improving technologies, whether it be the declining cost of incremental generation or advances in transmission capacity or substitute energy sources like the fuel cell. It is impossible to say precisely when wide-open retail competition will occur; this will be evolutionary. However, significantly greater competition in retail markets is inevitable.

Gas utility competition

Similarly, gas utilities are analyzed with regard to their competitive standing in the three major areas of demand: residential, commercial, and industrial. Although regulated as holders of monopoly power, natural gas utilities have for some time been actively competing for energy market share with fuel oil, electricity, coal, solar, wood, etc. The long-term staying power of market demand for natural gas cannot be taken for granted. In fact, as the electric utility industry restructures and reduces costs, electric power will become more cost competitive and threaten certain gas markets. In addition, independent gas marketers have made greater inroads behind the city gate and are competing for large gas users. Moreover, the recent trend by state regulators to unbundle utility services is creating opportunities for outsiders to market niche products. Distributors still have the upper hand, but those who do not reduce and control costs, and thus rates, could find competition even more difficult.

Natural gas pipelines are judged to carry a somewhat higher business risk than distribution companies because they face competition in every one of their markets. To the extent a pipeline serves utilities versus industrial end users, its stability is greater. Over the next five years, pipeline competition will heat up since many service contracts with customers are expiring. Most distributor or end-use customers are looking to reduce pipeline costs and are working to improve their load factor to do so. Thus, pipelines will likely find it difficult to recontract all capacity in coming years. Being the pipeline of choice is a function of attractive transportation rates, diversity and quality of services provided, and capacity available in each particular market. In all cases though, periodic discounting of rates to retain customers will occur and put pressure on profitability.

Water utility competition

As the last true utility monopoly, water utilities face very little competition and there is currently no challenge to the continuation of franchise areas. The only exceptions have been cases where investor-owned water companies have been subject to condemnation and municipalization because of poor service or political motivations. In that regard, Standard & Poor's pays close attention to costs and rates in relation to neighboring utilities and national averages. (In contrast, the privatization of public water facilities has begun, albeit at a slower pace than anticipated. This is occurring mostly in the form of operating contracts and public/private partnerships, and not in asset transfers. This trend should continue as cities look for ways to balance their tight budgets.) Also, water utilities are not fully immune to the forces of competition; in a few instances wholesale customers can access more than one supplier.

Telephone competition

The Telecommunications Act of 1996 accelerates the continuing challenge to the local exchange companies' (LECs) century-old monopoly in the local loop. Competitive access providers (CAPs), both facilities-based and resellers, are aggressively pursuing customers, generally targeting metropolitan areas, and promising lower rates and better service.

Most long-distance calls are still originated and terminated on the local telephone company network. To complete such a call, the long-distance provider (including AT&T, MCI, Sprint and a host of smaller interexchange carriers or "IXCs") must pay the local telephone company a steep "access" fee to compensate the local phone company for the use of its local network. CAPs, in contrast, build or lease facilities that directly connect customers to their long-distance carrier, bypassing the local telephone company and avoiding access fees, and thereby can offer lower long-distance rates. But the LECs are not standing still; they are combating the loss of business to CAPs by lowering access fees, thereby reducing the economic incentive for a high usage long-distance customer to use a CAP. LECs are attempting to make up for the loss of revenues from lower access fees by increasing basic local service rates (or at least not lowering them), since basic service is far less subject to competition. LECs are improving operating efficiency and marketing high margin, value-added new services. Additionally, in the wake of the Telecommunications Act, LECs will capture at least some of the inter-LATA long-distance market. As a result of these initiatives, LECs continue to rebuild themselves—from the traditional utility monopoly to leaner, more marketing oriented organizations.

While LECs, and indeed all segments of the telecommunications sector, face increasing competition, there are favorable industry factors that tend to offset heightened business risk and auger for overall ratings stability for most LECs. Importantly, telecommunications is a declining-cost business. With increased deployment of fiber optics, the cost of transport has fallen dramatically and digital switching hardware and software have yielded more capable, trouble-free and cost-efficient networks. As a result, the cost of network maintenance has dropped sharply, as illustrated by the ratio of employees per 10,000 access lines, an oft cited measurement of efficiency. Ratios as low as 25 employees per 10,000 lines are being seen, down from the typical 40 or more employees per 10,000 ratio of only a few years ago.

In addition, networks are far more capable. They are increasingly digitally switched and able to accommodate high-speed communications. The infrastructure needed to accommodate switched broadband services will be built into telephone networks over the next few years. These advanced networks will enable telephone companies to look to a greater variety of high-margin, value-added serv-

ices. In addition to those current services such as call waiting or caller ID, the delivery of hundreds of broadcast and interactive video channels will be possible. While these services offer the potential of new revenue streams, they will simultaneously present a formidable challenge. LECs will be entering the new (to them) arena of multimedia entertainment and will have to develop expertise in marketing and entertainment programming acumen; such skills stand in sharp contrast to LECs' traditional strengths in engineering and customer service.

Operations

Standard & Poor's focuses on the nature of operations from the perspective of cost, reliability, and quality of service. Here, emphasis is placed on those areas that require management attention in terms of time or money and which, if unresolved, may lead to political, regulatory, or competitive problems.

Operations of electric utilities

For electrics, the status of utility plant investment is reviewed with regard to generating plant availability and utilization, and also for compliance with existing and contemplated environmental and other regulatory standards. The record of plant outages, equivalent availability, load factors, heat rates, and capacity factors are examined. Also important is efficiency, as defined by total megawatt hour per employee and customers per employee. Transmission interconnections are evaluated in terms of the number of utilities to which the utility in question has access, the cost structures and available generating capacity of these other utilities, and the price paid for wholesale power.

Because of mounting competition and the substantial escalation in decommissioning estimates, significant weight is given to the operation of nuclear facilities. Nuclear plants are becoming more vulnerable to high production costs that make their rates uneconomic. Significant asset concentration may expose the utility to poor performance, unscheduled outages or premature shutdowns, and large deferrals or regulatory assets that may need to be written off for the utility to remain competitive. Also, nuclear facilities tend to represent significant portions of their operators' generating capability and assets. The loss of a productive nuclear unit from both power supply and rate base can interrupt the revenue stream and create substantial additional costs for repairs and improvements and replacement power. The ability to keep these stations running smoothly and economically directly influences the ability to meet electric demand, the stability of revenues and costs, and, by extension, the ability to maintain adequate creditworthiness. Thus, economic operation, safe operation, and long-term operation are examined in depth. Specifically, emphasis is placed on operation and maintenance costs, busbar costs, fuel costs, refueling outages, forced outages, plant statistics, NRC evaluations, the potential need for repairs, operating licenses, decommissioning estimates and amounts held in external trusts, spent fuel storage capacity, and management's nuclear experience. In essence, favorable nuclear operations offer significant opportunities but, if a nuclear unit runs poorly or not at all, the attendant risks can be great.

Operations of gas utilities

For gas pipeline and distribution companies, the degree of plant utilization, the physical condition of the mains and lines, adequacy of storage to meet seasonal needs, "lost and unaccounted for" gas levels, and per-unit nongas operating and construction costs are important factors. Efficiency statistics such as load factor, operating costs per customer, and operating income per employee are also evaluated in comparison to other utilities and the industry as a whole.

Operations of water utilities

As a group, water utilities are continually upgrading their physical plant to satisfy regulations and to develop additional supply. Over the next decade, water systems will increasingly face the task of maintaining compliance, as drinking water regulations change and infrastructure ages. Given that the Safe Drinking Water Act was authorized in 1974, the first generation of treatment plants built to conform with these rules are almost 20 years old. Additionally, because the focus during this period was on satisfying environmental standards, deferred maintenance of distribution systems has been common, especially in older urban areas. The increasing cost of supplying treated water argues against the high level of unaccounted for water witnessed in the industry. Consequently, Standard & Poor's anticipates capital plans for rebuilding distribution lines and major renewal and replacement efforts aimed at treatment plants.

Operations of telephone companies

For telephone companies, cost-of-service analysis focuses on plant capability and measures of efficiency and quality of service. Plant capability is ascertained by looking at such parameters as percentage of digitally switched lines; fiber optic deployment, in particular in those portions of the plant key to network survival; and the degree of broadband capacity fiber and coaxial deployment and broadband switching capacity. Efficiency measures include operating margins, the ratio of employees per 10,000 access lines, and the extent of network and operations consolidation. Quality of service encompasses examination of quantitative measures, such as trouble reports and repeat service calls, as well as an assessment of qualitative factors, that may include service quality goals mandated by regulators.

Regulation

Regulatory rate-setting actions are reviewed on a case-by-case basis with regard to the potential effect on creditworthiness. Regulators' authorizing high rates of return is of little value unless the returns are earnable. Furthermore, allowing high returns based on noncash items does not benefit bondholders. Also, to be viewed positively, regulatory treatment should allow consistent performance from

period to period, given the importance of financial stability as a rating consideration.

The utility group meets frequently with commission and staff members, both at Standard & Poor's offices and at commission headquarters, demonstrating the importance Standard & Poor's places on the regulatory arena for credit quality evaluation. Input from these meetings and from review of rate orders and their impact weigh heavily in Standard & Poor's analysis.

Standard & Poor's does not "rate" regulatory commissions. State commissions typically regulate a number of diverse industries, and regulatory approaches to different types of companies often differ within a single regulatory jurisdiction. This makes it all but impossible to develop inclusive "ratings" for regulators.

Standard & Poor's evaluation of regulation also encompasses the administrative, judicial, and legislative processes involved in state and federal regulation. These can affect rate-setting activities and other aspects of the business, such as competitive entry, environmental and safety rules, facility siting, and securities sales.

As the utility industry faces an increasingly deregulated environment, alternatives to traditional rate-making are becoming more critical to the ability of utilities to effectively compete, maintain earnings power, and sustain creditor protection. Thus, Standard & Poor's focuses on whether regulators, both state and federal, will help or hinder utilities as they are exposed to greater competition. There is much that regulators can do, from allocating costs to more captive customers to allowing pricing flexibility—and sometimes just stepping out of the way.

Under traditional rate-making, rates and earnings are tied to the amount of invested capital and the cost of capital. This can sometimes reward companies more for justifying costs than for containing them. Moreover, most current regulatory policies do not permit utilities to be flexible when responding to competitive pressures of a deregulated market. Lack of flexible tariffs for electric utilities may lure large customers to wheel cheaper power from other sources.

In general, a regulatory jurisdiction is viewed favorably if it permits earning a return based on the ability to sustain rates at competitive levels. In addition to performance-based rewards or penalties, flexible plans could include market-based rates, price caps, index-based prices, and rates premised on the value of customer service. Such rates more closely mirror the competitive environment that utilities are confronting.

Electric industry regulation

The ability to enter into long-term arrangements at negotiated rates without having to seek regulatory approval for each contract is also important in the electric industry. (While contracting at reduced rates constrains financial performance, it lessens the potential adverse impact in the event of retail wheeling. Since revenue losses associated with this strategy are not likely to be recovered from ratepayers, utilities must control costs well enough to remain competitive if they are to sustain current levels of bondholder protection.)

Natural gas industry regulation

In the gas industry, too, several state commission policies weigh heavily in the evaluation of regulatory support. Examples include stabilization mechanisms to adjust revenues for changes in weather or the economy, rate and service unbundling decisions, revenue and cost allocation between sales and transportation customers, flexible industrial rates, and the general supportiveness of construction costs and gas purchases.

Water industry regulation

In all water utility activities, federal and state environmental regulations continue to play a critical role. The legislative timetable to effect the 1986 amendments to the Safe Drinking Water Act of 1974 was quite aggressive. But environmental standards-setting has actually slowed over the past couple of years due largely to increasing sentiment that the stringent, costly standards have not been justified on the basis of public health. A moratorium on the promulgation of significant new environmental rules is anticipated.

Telecommunications industry regulation

Despite the advances in telecommunications deregulation, analysis of regulation of telephone operators will continue to be a key rating determinant for the foreseeable future. The method of regulation may be either classic rate-based rate of return or some form of price cap mechanism. The most important factor is to assess whether the regulatory framework—no matter which type—provides sufficient financial incentive to encourage the rated company to maintain its quality of service and to upgrade its plant to accommodate new services while facing increasing competition from wireless operators and cable television companies.

Where regulators do still set tariffs based on an authorized return, Standard & Poor's strives to explore with regulators their view of the rate-of-return components that can materially impact reported versus regulatory earnings. Specifically these include the allowable base upon which the authorized return can be earned, allowable expenses, and the authorized return. Since regulatory oversight runs the gamut from strict, adversarial relationships with the regulated operating companies to highly supportive postures, Standard & Poor's probes beyond the apparent regulatory environment to ascertain the actual impact of regulation on the rated company.

Management

Evaluating the management of a utility is of paramount importance to the analytical process since management's abilities and decisions affect all areas of a company's operations. While regulation, the economy, and other outside factors can influence results, it is ultimately the quality of management that determines the success of a company.

With emerging competition, utility management will be more closely scrutinized by Standard & Poor's and will become an increasingly critical component of the credit evaluation. Management strategies can be the key determinant in differentiating utilities and in establishing where companies lie on the business position spectrum. It is imperative that managements be adaptable, aggressive, and proactive if their utilities are to be viable in the future; this is especially important for utilities that are currently uncompetitive.

The assessment of management is accomplished through meetings, conversations, and reviews of company plans. It is based on such factors as tenure, industry experience, grasp of industry issues, knowledge of customers and their needs, knowledge of competitors, accounting and financing practices, and commitment to credit quality. Management's ability and willingness to develop workable strategies to address their systems' needs, to deal with the competitive pressures of free market, to execute reasonable and effective long-term plans, and to be proactive in leading their utilities into the future are assessed. Management quality is also indicated by thoughtful balancing of public and private priorities, a record of credibility, and effective communication with the public, regulatory bodies, and the financial community. Boards of directors will receive ever more attention with respect to their role in setting appropriate management incentives.

With competition the watchword, Standard & Poor's also focuses on management's efforts to enhance financial condition. Management can bolster bondholder protection by taking any number of discretionary actions, such as selling common equity, lowering the common dividend payout, and paying down debt. Also important for the electric industry will be creativity in entering into strategic alliances and working partnerships that improve efficiency, such as central dispatching for a number of utilities or locking up at-risk customers through long-term contracts or expanded flexible pricing agreements. Proactive management teams will also seek alternatives to traditional rate-base, rate-of-return rate-making, move to adopt higher depreciation rates for generating facilities, segment customers by individual market preferences, and attempt to create superior service organizations.

In general, management's ability to respond to mounting competition and changes in the utility industry in a swift and appropriate manner will be necessary to maintain credit health.

Fuel, power, and water supply

Assessment of present and prospective fuel and power supply is critical to every electric utility analysis, while gauging the long-term natural gas supply position for gas pipeline and distribution companies and the water resources of a water utility is equally important. There is no similar analytical category for telephone utilities.

Electric utilities

For electric utilities emphasis is placed on generating reserve margins, fuel mix, fuel contract terms, demand-side management techniques, and purchased power arrangements. The adequacy of generating margins is examined nationally, regionally, and for each individual company. However, the reserve margin picture is muddied by the imprecise nature of peak-load growth forecasting, and also supply uncertainty relating to such things as Canadian capacity availability and potential plant shutdowns due to age, new NRC rules, acid rain remedies, fuel shortages, problems associated with nontraditional technologies, and so forth. Even apparently ample reserves may not be what they seem. Moreover, the quality of capacity is just as important as the size of reserves. Companies' reserve requirements differ, depending upon individual operating characteristics.

Fuel diversity provides flexibility in a changing environment. Supply disruptions and price hikes can raise rates and ignite political and regulatory pressures that ultimately lead to erosion in financial performance. Thus, the ability to alter generating sources and take advantage of lower cost fuels is viewed favorably.

Dependence on any single fuel means exposure to that fuel's problems: electric utilities that rely on oil or gas face the potential for shortages and rapid price increases; utilities that own nuclear generating facilities face escalating costs for decommissioning; and coal-fired capacity entails environmental problems stemming from concerns over acid rain and the "greenhouse effect."

Buying power from neighboring utilities, qualifying facility projects, or independent power producers may be the best choice for a utility that faces increasing electricity demand. There has been a growing reliance on purchased power arrangements as an alternative to new plant construction. This can be an important advantage, since the purchasing utility avoids potential construction cost overruns as well as risking substantial capital. Also, utilities can avoid the financial risks typical of a multiyear construction program that are caused by regulatory lag and prudence reviews. Furthermore, purchased power may enhance supply flexibility, fuel resource diversity, and maximize load factors. Utilities that plan to meet demand projections with a portfolio of supply-side options also may be better able to adapt to future growth uncertainties. Notwithstanding the benefits of purchasing, such a strategy has risks associated with it. By entering into a firm long-term purchased power contract that contains a fixed-cost component, utilities can incur substantial market, operating, regulatory, and financial risks. Moreover, regulatory treatment of purchased power removes any upside potential that might help offset the risks. Utilities are not compensated through incentive rate-making; rather, purchased power is recovered dollar-for-dollar as an operating expense.

To analyze the financial impact of purchased power, Standard & Poor's first calculates the net present value of future annual capacity payments (discounted at 10%). This represents a potential debt equivalent—the off-balance-sheet obligation that a utility incurs when it enters into a long-term purchased power contract. However, Standard

& Poor's adds to the utility's balance sheet only a portion of this amount, recognizing that such a contractual arrangement is not entirely the equivalent of debt. What percentage is added is a function of Standard & Poor's qualitative analysis of the specific contract and the extent to which market, operating, and regulatory risks are borne by the utility (the risk factor). For unconditional, take-or-pay contracts, the risk factor range is from 40%-80%, with the average hovering around 60%. A lower risk factor is typically assigned for system purchases from coal-fired utilities and a higher risk factor is usually designated for unit-specific nuclear purchases. The range for take-and-pay performance obligations is between 10%-50%.

Gas utilities

For gas distribution utilities, long-term supply adequacy obviously is critical, but the supply role has become even more important in credit analysis since the Federal Energy Regulatory Commission's Order 636 eliminated the interstate pipeline merchant business. This thrust gas supply responsibilities squarely on local gas distributors. Standard & Poor's has always believed distributor management has the expertise and wherewithal to perform the job well, but the risks are significant since gas costs are such a large percentage of total utility costs. In that regard, it is important for utilities to get preapprovals of supply plans by state regulators or at least keep the staff and commissioners well informed. To minimize risks, a well-run program would diversify gas sources among different producers or marketers, different gas basins in the U.S. and Canada, and different pipeline routes. Also, purchase contracts should be firm, with minimal take-or-pay provisions, and have prices tied to an industry index. A modest percentage of fixed-price gas is not unreasonable. Contracts, whether of gas purchases or pipeline capacity, should be intermediate term. Staggering contract expirations (preferably annually) provides an opportunity to be an active market player. A modest degree of reliance on spot purchases provides flexibility, as does the use of market-based storage. Gas storage and on-property gas resources such as liquefied natural gas or propane air are effective peak-day and peak-season supply management tools.

Since pipeline companies no longer buy and sell natural gas and are just common carriers, connections with varied reserve basins and many wells within those basins are of great importance. Diversity of sources helps offset the risks arising from the natural production declines eventually experienced by all reserve basins and individual wells. Moreover, such diversity can enhance a pipeline's attractiveness as a transporter of natural gas to distributors and end users seeking to buy the most economical gas available for their needs.

Water utilities

Nearly all water systems throughout the U.S. have ample long-term water supplies. Yet to gain comfort, Standard & Poor's assesses the production capability of treatment plants and the ability to pump water from underground aquifers in relation to the usage demands from consumers. Having adequate treated water storage facilities has become important in recent years and has helped many systems meet demands during peak summer periods. Of interest is whether the resources are owned by the utility or purchased from other utilities or local authorities. Owning properties with water rights provides more supply security. This is especially so in states like California where water allocations are being reduced, particularly since recent droughts and environmental issues have created alarm. Since the primary cost for water companies is treatment, it makes little difference whether raw water is owned or bought. In fact, compliance with federal and state water regulations is very high, and the overall cost to deliver treated water to consumers remains relatively affordable.

Asset concentration in the electric utility industry

In the electric industry, Standard & Poor's follows the operations of major generating facilities to assess if they are well managed or troubled. Significant dependence on one generating facility or a large financial investment in a single asset suggests high risk. The size or magnitude of a particular asset relative to total generation, net plant in service, and common equity is evaluated. Where substantial asset concentration exists, the financial profile of a company may experience wide swings depending on the asset's performance. Heavy asset concentration is most prevalent among utilities with costly nuclear units.

Earnings protection

In this category, pretax cash income coverage of all interest charges is the primary ratio. For this calculation, allowance for funds used during construction (AFUDC) is removed from income and interest expense. AFUDC and other such noncash items do not provide any protection for bondholders. To identify total interest expense, the analyst reclassifies certain operating expenses. The interest component of various off-balance-sheet obligations, such as leases and some purchased-power contracts, is included in interest expense. This provides the most direct indication of a utility's ability to service its debt burden.

While considerable emphasis in assessing credit protection is placed on coverage ratios, this measure does not provide the entire earnings protection picture. Also important are a company's earned returns on both equity and capital, measures that highlight a firm's earnings performance. Consideration is given to the interaction of embedded costs, financial leverage, and pretax return on capital.

Capital structure

Analyzing debt leverage goes beyond the balance sheet and covers quasi-debt items and elements of hidden financial leverage. Noncapitalized leases (including sale/leaseback obligations), debt guarantees, receivables financing, and purchased-power contracts are all considered debt equivalents and are reflected as debt in calculating capital

structure ratios. By making debt level adjustments, the analyst can compare the degree of leverage used by each utility company.

Furthermore, assets are examined to identify undervalued or overvalued items. Assets of questionable value are discounted to more accurately evaluate asset protection.

Some firms use short-term debt as a permanent piece of their capital structure. Short-term debt also is considered part of permanent capital when it is used as a bridge to permanent financing. Seasonal, self-liquidating debt is excluded from the permanent debt amount, but this situation is rare—with the exception of certain gas utilities. Given the long life of almost all utility assets, short-term debt may expose these companies to interest-rate volatility, remarketing risk, bank line backup risk, and regulatory exposure that cannot be readily offset. The lower cost of shorter-term obligations (assuming a positively sloped yield curve) is a positive factor that partially mitigates the risk of interest-rate variability. As a rule of thumb, a level of short-term debt that exceeds 10% of total capital is cause for concern.

Similarly, if floating-rate debt and preferred stock constitute over one-third of total debt plus preferred stock, this level is viewed as unusually high and may be cause for concern. It might also indicate that management is aggressive in its financial policies.

A layer of preferred stock in the capital structure is usually viewed as equity—since dividends are discretionary and the subordinated claim on assets provides a cushion for providers of debt capital. A preferred component of up to 10% is typically viewed as a permanent wedge in the capital structure of utilities. However, as rate-of-return regulation is phased out, preferred stock may be viewed by utilities—as many industrial firms would—as a temporary option for companies that are not current taxpayers that do not benefit from the tax deductibility of interest. Even now, floating-rate preferred and money market perpetual preferred are problematic; a rise in the rate due to deteriorating credit quality tends to induce a company to take out such preferred stock with debt. Structures that convey tax deductibility to preferred stock have become very popular and do generally afford such financings with equity treatment.

Cash flow adequacy

Cash flow adequacy relates to a company's ability to generate funds internally relative to its needs. It is a basic component of credit analysis because it takes cash to pay expenses, fund capital spending, pay dividends, and make interest and principal payments. Since both common and preferred dividend payments are important to maintain capital market access, Standard & Poor's looks at cash flow measures both before and after dividends are paid.

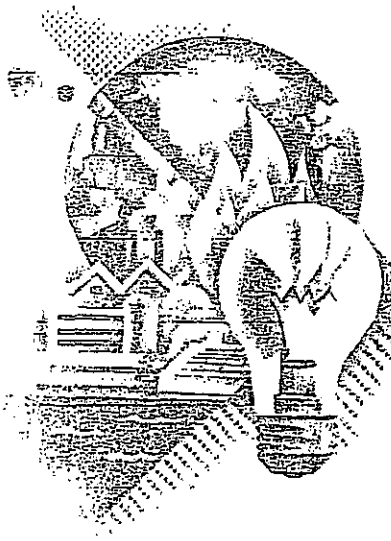
To determine cash flow adequacy, several quantitative relationships are examined. Emphasis is placed on cash flow relative to debt, debt service requirements, and capital spending. Cash flow adequacy is evaluated with respect to a firm's ability to meet all fixed charges, including capacity payments under purchased-power contracts. Despite the conditional nature of some contracts, the purchaser is obligated to pay a minimum capacity charge. The ratio used is funds from operations plus interest and capacity payments divided by interest plus capacity payments.

Financial flexibility/capital attraction

Financing flexibility incorporates a utility's financing needs, plans, and alternatives, as well as its flexibility to accomplish its financing program under stress without damaging creditworthiness. External funding capability complements internal cash flow. Especially since utilities are so capital intensive, a firm's ability to tap capital markets on an ongoing basis must be considered. Debt capacity reflects all the earlier elements: earnings protection, debt leverage, and cash flow adequacy. Market access at reasonable rates is restricted if a reasonable capital structure is not maintained and the company's financial prospects dim. The analyst also reviews indenture restrictions and the impact of additional debt on covenant tests.

Standard & Poor's assesses a company's capacity and willingness to issue common equity. This is affected by various factors, including the market-to-book ratio, dividend policy, and any regulatory restrictions regarding the composition of the capital structure.

June 7, 2004
Vol 13, No 21



Standard & Poor's UTILITIES & PERSPECTIVES

GLOBAL UTILITIES RATING SERVICE

STANDARD &POOR'S

New Business Profile Scores Assigned for U.S. Utility and Power Companies; Financial Guidelines Revised

Standard & Poor's Ratings Services has assigned new business profile scores to U.S. utility and power companies to better reflect the relative business risk among companies in the sector. Standard & Poor's also has revised its published risk-adjusted financial guidelines. The new business scores and financial guidelines do not represent a change to Standard & Poor's ratings criteria or methodology, and no ratings changes are anticipated from the new business profile scores or revised financial guidelines.

New Business Profile Scores and Revised Financial Guidelines

Standard & Poor's has always monitored changes in the industry and altered its business risk assessments accordingly. This is the first time since the 10-point business profile scale for U.S. investor-owned utilities was implemented that a comprehensive assessment of the benefits and the application of the methodology has been made. The principal purpose was to determine if the methodology continues to provide meaningful differentiation of business risk. The review indicated that while business profile scoring continues to provide analytical benefits, the complete range of the 10-point scale was not being utilized to the fullest extent.

Standard & Poor's has also revised the key financial guidelines that it uses as an integral part of evaluating the credit quality of U.S. utility and power companies. These guidelines were last updated in June 1999. The financial guidelines for three principal ratios (funds from operations (FFO) interest coverage, FFO to total debt, and total debt to total capital) have been broadened so as to be more flexible. Pretax interest cov-

Chart 1

Distribution of Business Profile Scores

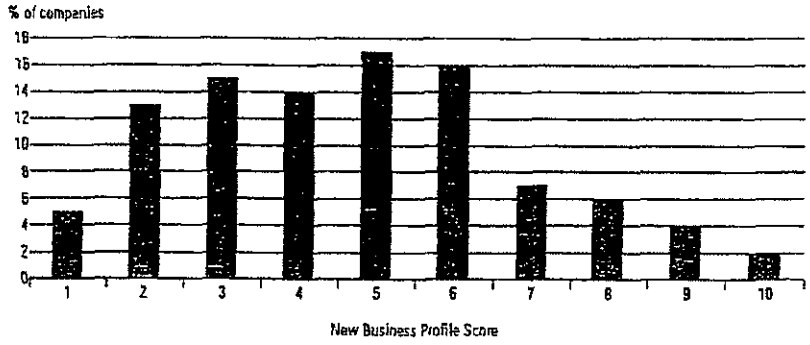
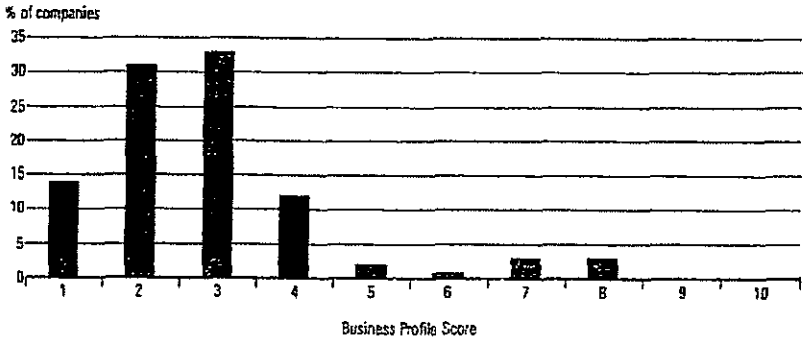


Chart 2

Transmission and Distribution—Water, Gas, and Electric



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erage as a key credit ratio was eliminated.

Finally, Standard & Poor's has segmented the utility and power industry into sub-sectors based on the dominant corporate strategy that a company is pursuing. Standard & Poor's has published a new U.S. utility and power company ranking list that reflects these sub-sectors.

There are numerous benefits to the reassessment. Fuller utilization of the entire 10-point scale provides a superior relative ranking of qualitative business risk. A revision of the financial guidelines supports the goal of not causing rating changes from the recalibration of the business profiles. Classification of companies by sub-sectors will ensure greater comparability and consistency in ratings. The use of industry segmentation will also allow more in-depth statistical analysis of ratings distributions and rating changes.

The reassessment does not represent a change to Standard & Poor's criteria or methodology for determining ratings for utility and power companies. Each business profile score should be considered as the assignment of a new score; these scores do not represent improvement or deterioration in our assessment of an individual company's business risk relative to the previously assigned score. The financial guidelines continue to be risk-adjusted based on historical utility and industrial medians. Segmentation into industry sub-sectors does not imply that specific company characteristics will not weigh heavily into the assignment of a company's business profile score.

Results

Previously, 83% of U.S. utility and power business profile scores fell between '3' and '6', which clearly does not reflect the risk differentiation that exists in the utility and power industry today. Since the 10-point scale was introduced, the industry has transformed into a much less homogenous industry, where the divergence of business risk—particularly regarding management, strategy, and degree of competitive market exposure—has created a much wider spectrum of risk profiles. Yet over the same period, business profile scores actually converged more tightly around a median score of '4'. The new business pro-

Chart 3

Transmission Only—Electric, Gas, and Other

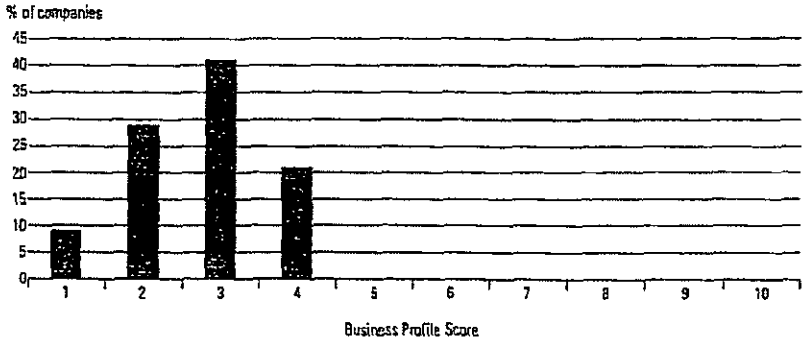
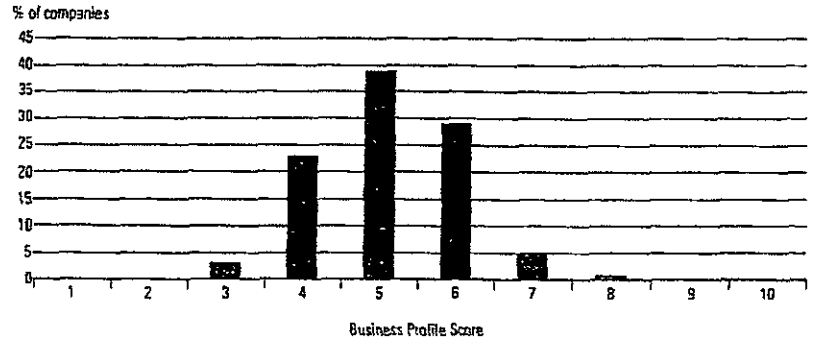


Chart 4

Integrated Electric, Gas, and Combination Utilities



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file scores, as of June 2, are shown in Chart 1. The overall median business profile score is now '5'.

Table 1 contains the revised financial guidelines. It is important to emphasize that these metrics are only guidelines associated with expectations for various rating levels. Although credit ratio analysis is an important part of the ratings process, these three statistics are by no means the only critical financial measures that Standard & Poor's uses in its analytical process. We also analyze a wide array of financial ratios that do not have published guidelines for each rating category.

Again, ratings analysis is not driven solely by these financial ratios, nor has it ever been. In fact, the new financial guidelines that Standard & Poor's is incorporating for the specified rating categories reinforce the analytical framework whereby other factors can outweigh the achievement of otherwise acceptable financial ratios. These factors include:

- Effectiveness of liability and liquidity management;
- Analysis of internal funding sources;
- Return on invested capital;
- The execution record of stated business strategies;
- Accuracy of projected performance versus actual results, as well as the trend;
- Assessment of management's financial policies and attitude toward credit; and
- Corporate governance practices.

Charts 2 through 6 show business profile scores broken out by industry sub-sector. The five industry sub-sectors are:

- Transmission and distribution—Water, gas, and electric;
- Transmission only—Electric, gas, and other;
- Integrated electric, gas, and combination utilities;
- Diversified energy and diversified nonenergy; and
- Energy merchant/power developer/trading and marketing companies.

The average business profile scores for transmission and distribution companies and transmission-only companies are lower on the scale than the previous averages, while the average business profile scores for integrated utilities, diversified energy, and energy merchants and developers are higher.

Chart 5

Diversified Energy and Diversified Non-Energy

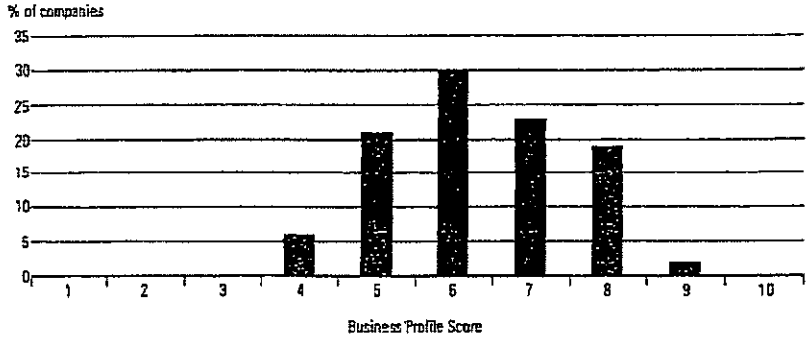
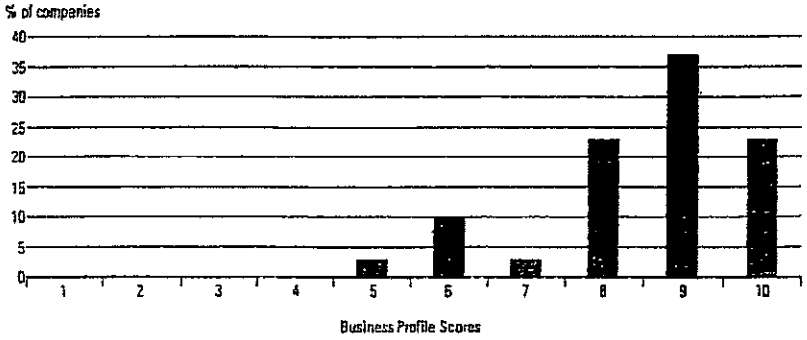


Chart 6

Energy Merchant/Developers/Trading and Marketing



See pages 16 to 19 for the company ranking list of business profile scores segmented by industry sub-sector and ranked in order of credit rating, outlook, business profile score, and relative strength

Business Profile Score Methodology

Standard & Poor's methodology of determining corporate utility business risk is anchored in the assessment of certain specific characteristics that define the sector. We assign business profile scores to each of the rated companies in the utility and power sector on a 10-point scale, where '1' represents the lowest risk and '10' the highest risk. Business profile scores are assigned to all rated utility and power companies, whether they are holding companies, subsidiaries, or stand-alone corporations. For operating subsidiaries and stand-alone companies, the score is a bottom-up assessment. Scores for families of companies are a composite of the operating subsidiaries' scores. The actual credit rating of a company is analyzed, in part, by comparing the business profile score with the risk-adjusted financial guidelines.

For most companies, business profile scores are assessed using five categories; specifically, regulation, markets, operations, competitiveness, and management. The emphasis placed on each category may be influenced by the

Table 1

Revised Financial Guidelines

Funds from operations/interest coverage (x)

Business Profile	AA		A		BBB		BB	
1	3	2.5	2.5	1.5	1.5	1		
2	4	3	3	2	2	1		
3	4.5	3.5	3.5	2.5	2.5	1.5	1.5	1
4	5	4.2	4.2	3.5	3.5	2.5	2.5	1.5
5	5.5	4.5	4.5	3.8	3.8	2.8	2.8	1.8
6	6	5.2	5.2	4.2	4.2	3	3	2
7	8	6.5	6.5	4.5	4.5	3.2	3.2	2.2
8	10	7.5	7.5	5.5	5.5	3.5	3.5	2.5
9			10	7	7	4	4	2.8
10			11	8	8	5	5	3

Funds from operation/total debt (%)

Business Profile	AA		A		BBB		BB	
1	20	15	15	10	10	5		
2	25	20	20	12	12	8		
3	30	25	25	15	15	10	10	5
4	35	28	28	20	20	12	12	8
5	40	30	30	22	22	15	15	10
6	45	35	35	28	28	18	18	12
7	55	45	45	30	30	20	20	15
8	70	55	55	40	40	25	25	15
9			65	45	45	30	30	20
10			70	55	55	40	40	25

Total debt/total capital (%)

Business Profile	AA		A		BBB		BB	
1	48	55	55	60	60	70		
2	45	52	52	58	58	68		
3	42	50	50	55	55	65	65	70
4	38	45	45	52	52	62	62	68
5	35	42	42	50	50	60	60	65
6	32	40	40	48	48	58	58	62
7	30	38	38	45	45	55	55	60
8	25	35	35	42	42	52	52	58
9			32	40	40	50	50	55
10			25	35	35	48	48	52

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dominant strategy of the company or other factors. For example, for a regulated transmission and distribution company, regulation may account for 30% to 40% of the business profile score because regulation can be the single-most important credit driver for this type of company. Conversely, competition, which may not exist for a transmission and distribution company, would provide a much lower proportion (e.g., 5% to 15%) of the business profile score.

For certain types of companies, such as power generators, power developers, oil and gas exploration and production companies, or nonenergy-related holdings, where these five components may not be appropriate, Standard & Poor's will use other, more appropriate methodologies. Some of these companies are assigned business profile scores that are useful only for relative ranking purposes.

As noted above, the business profile score for a parent or holding company is a composite of the business profile scores of its individual subsidiary companies. Again, Standard & Poor's does not apply rigid guidelines for determining the proportion or weighting that each subsidiary represents in the overall business profile score. Instead, it is determined based on a number of factors. Standard & Poor's will analyze each subsidiary's contribution to FFO, forecast capital expenditures, liquidity requirements, and other parameters, including the extent to which one subsidiary has higher growth. The weighting is determined case-by-case ■

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PROXY GROUP OF FOUR GAS GAS DISTRIBUTION COMPANIES
CAPITALIZATION AND FINANCIAL STATISTICS (1)
2001 - 2005, INCLUSIVE

	2005	2004	2003	2002	2001	
			(MILLIONS OF DOLLARS)			
CAPITALIZATION STATISTICS						
AMOUNT OF CAPITAL EMPLOYED						
TOTAL PERMANENT CAPITAL	$1,075.195	$1,022.514	$906.955	$891.001	$848.838	
SHORT-TERM DEBT	$220.925	$183.875	$304.765	$107.626	$114.323	
TOTAL CAPITAL EMPLOYED	$1,296.120	$1,206.389	$1,211.720	$998.627	$963.160	
INDICATED AVERAGE CAPITAL COST RATES (2)						
TOTAL DEBT	5.80 %	5.77 %	5.92 %	6.78 %	7.05 %	
PREFERRED STOCK	NMF	NMF	7.04	7.30	5.90	
CAPITAL STRUCTURE RATIOS						5 YEAR AVERAGE
BASED ON TOTAL PERMANENT CAPITAL:						
LONG-TERM DEBT	47.35 %	46.22 %	47.79 %	48.62 %	45.61 %	47.12 %
PREFERRED STOCK	0.00	0.00	0.00	0.31	1.06	0.27
COMMON EQUITY	52.65	53.78	52.21	51.07	53.35	52.61
TOTAL	100.00 %	100.00 %	100.00 %	100.00 %	100.02 %	100.00 %
BASED ON TOTAL CAPITAL:						
TOTAL DEBT, INCLUDING SHORT-TERM	55.00 %	53.86 %	58.51 %	53.08 %	52.11 %	54.51 %
PREFERRED STOCK	0.00	0.00	0.00	0.27	0.93	0.24
COMMON EQUITY	45.00	46.14	41.49	46.65	46.96	45.25
TOTAL	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
FINANCIAL STATISTICS						
FINANCIAL RATIOS - MARKET BASED						
EARNINGS / PRICE RATIO	5.62 %	5.64 %	6.15 %	6.37 %	7.20 %	6.24 %
MARKET / AVERAGE BOOK RATIO	199.73	193.37	160.22	160.29	169.73	168.67
DIVIDEND YIELD	4.23	4.13	4.99	4.96	4.75	4.61
DIVIDEND PAYOUT RATIO	77.32	81.50	84.23	80.64	66.67	78.07
RATE OF RETURN ON AVERAGE BOOK COMMON EQUITY	11.75 %	10.93 %	11.06 %	11.63 %	13.50 %	11.77 %
FUNDS FROM OPERATIONS / INTEREST COVERAGE (3)	4.33 X	5.38 X	6.18 X	5.63 X	3.55 X	5.01 X
FUNDS FROM OPERATIONS / TOTAL DEBT (4)	17.08 %	24.63 %	23.88 %	27.95 %	17.43 %	22.41 %
TOTAL DEBT / TOTAL CAPITAL	55.00 %	53.86 %	58.51 %	53.08 %	52.11 %	54.51 %

See Page 2 for notes.

Proxy Group of Four Gas Distribution Companies
Capitalization and Financial Statistics
2001-2005, Inclusive

Notes:

(1) All capitalization and financial statistics for the group are the arithmetic average of the achieved results for each individual company in the group, and are based upon financial statements as originally reported in each year.

(2) Computed by relating actual long-term debt interest or preferred stock dividends booked to average of beginning and ending long-term debt or preferred stock reported to be outstanding.

(3) Funds from operations (sum of net income, depreciation, amortization, net deferred income tax and investment tax credits, less total AFUDC) plus interest charges divided by interest charges.

(4) Funds from operations (as defined in Note 3) as a percentage of total debt.

(5) Sinking Fund Requirements were obtained from Company Annual Forms 10-K.

Selection Criteria:

The basis of selection was to include those gas distribution companies: 1) which are assigned an SIC Code of 4924 (Natural Gas Distribution) by the Standard & Poor's Compustat/Research Insight; 2) which have common stock actively traded; 3) which are included in Value Line Investment Survey (Standard Edition) and ThomsonFN First Call; 4) which have not cut or omitted their cash common stock dividends during the five calendar years ending 2005 or through the time of the preparation of Mr. Hanley's accompanying direct testimony; 5) which had more than 80% of their 2004 operating revenues derived from gas distribution operations; 6) which at the time of the preparation of Mr. Hanley's direct testimony, were not expected to be acquired by or merged into another company; and 7) which are included in S&P's Compustat PC Plus/Research Insight Data Base. It is necessary to point out that although the data shown for the proxy groups are for the five years ended 2005, the proxy group selection was based on 2004 data because at the time of the selection the whole universe of companies did not have 2005 data readily available in S&P's Compustat PC Plus/Research Insight Data Base.

The following four companies met the above criteria:
Cascade Natural Gas Corporation
NICOR Inc.
Northwest Natural Gas Company
Piedmont Natural Gas Company, Inc.

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Database
Annual Reports to Shareholders and / or Forms 10-K

Missouri Gas Energy
Weather Normalization Adjustment (WNA) Clauses
for the Proxy Group of Four Ga Distribution Companies
and Southern Union Company

	Weather Normalization Clause
Proxy Group of Four Value Line Gas Distribution Companies	
Cascade Natural Gas Corporation	No
NICOR Inc	No
Northwest Natural Gas Company	Yes (1)
Piedmont Natural Gas Co., Inc.	Yes
Southern Union Company	Yes (2)

Notes: (1) Northwest Natural Gas Company operates in the states of Oregon and Washington as NW Natural. The company has a WNA in Oregon, but not in Washington.

(2) Southern Union Company has operating subsidiaries in Missouri, Massachusetts, Pennsylvania and Rhode Island. However, only New England Gas Company in the state of Rhode Island has a WNA Clause

Source of Information: Company Annual Reports to Shareholders and / or Forms 10-K
Company Provided Information
Regulatory Research Associates, Inc., An SNL Energy Company

PROXY GROUP OF EIGHT VALUE LINE GAS DISTRIBUTION COMPANIES
CAPITALIZATION AND FINANCIAL STATISTICS (1)
2001 - 2005, INCLUSIVE

	2005	2004	2003	2002	2001	
			(MILLIONS OF DOLLARS)			
CAPITALIZATION STATISTICS						
AMOUNT OF CAPITAL EMPLOYED						
TOTAL PERMANENT CAPITAL	$1,132.436	$1,120.513	$999.954	$981.270	$959.382	
SHORT-TERM DEBT	$147.179	$152.230	$249.709	$128.951	$162.706	
TOTAL CAPITAL EMPLOYED	$1,279.615	$1,272.743	$1,249.663	$1,110.221	$1,122.088	
INDICATED AVERAGE CAPITAL COST RATES (2)						
TOTAL DEBT	5.65 %	5.33 %	5.42 %	6.01 %	6.76 %	
PREFERRED STOCK	4.78	4.81	5.54	5.98	5.39	
CAPITAL STRUCTURE RATIOS						5 YEAR AVERAGE
BASED ON TOTAL PERMANENT CAPITAL:						
LONG-TERM DEBT	47.01 %	46.70 %	46.25 %	48.53 %	46.72 %	47.04 %
PREFERRED STOCK	0.24	0.25	0.26	0.42	0.81	0.40
COMMON EQUITY	52.75	53.05	53.49	51.05	52.47	52.56
TOTAL	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
BASED ON TOTAL CAPITAL:						
TOTAL DEBT, INCLUDING SHORT-TERM	52.93 %	53.38 %	56.39 %	54.10 %	53.92 %	54.14 %
PREFERRED STOCK	0.24	0.24	0.23	0.38	0.72	0.36
COMMON EQUITY	46.83	46.38	43.38	45.52	45.36	45.50
TOTAL	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
FINANCIAL STATISTICS						
FINANCIAL RATIOS - MARKET BASED						
EARNINGS / PRICE RATIO	5.92 %	5.96 %	6.96 %	6.07 %	7.02 %	6.39 %
MARKET / AVERAGE BOOK RATIO	202.15	192.63	179.88	174.00	165.52	186.84
DIVIDEND YIELD	4.22	4.26	4.93	5.13	4.81	4.67
DIVIDEND PAYOUT RATIO	74.86	76.91	73.84	91.55	69.31	77.29
RATE OF RETURN ON AVERAGE BOOK COMMON EQUITY	12.02 %	11.49 %	12.45 %	10.79 %	12.96 %	11.94 %
FUNDS FROM OPERATIONS / INTEREST COVERAGE (3)	4.61 X	5.41 X	6.09 X	4.90 X	3.78 X	4.96 X
FUNDS FROM OPERATIONS / TOTAL DEBT (4)	19.98 %	22.79 %	23.65 %	22.20 %	17.41 %	21.21 %
TOTAL DEBT / TOTAL CAPITAL	52.93 %	53.38 %	56.39 %	54.10 %	53.92 %	54.14 %

See Page 2 for notes.

Proxy Group of Eight Value Line Gas Distribution Companies
Capitalization and Financial Statistics
2001-2005, Inclusive

Notes:

(1) All capitalization and financial statistics for the group are the arithmetic average of the achieved results for each individual company in the group, and are based upon financial statements as originally reported in each year.

(2) Computed by relating actual long-term debt interest or preferred stock dividends booked to average of beginning and ending long-term debt or preferred stock reported to be outstanding.

(3) Funds from operations (as defined in Note 3) plus interest charges divided by interest charges.

(4) Funds from operations (sum of net income, depreciation, amortization, net deferred income tax and investment tax credits, less total AFUDC) as a percentage of total debt.

(5) Sinking Fund Requirements were obtained from Company Annual Forms 10-K.

Selection Criteria:

The basis of selection was to include those gas distribution companies: 1) which are included in Value Line Investment Survey (Standard Edition) – Natural Gas (Distribution) Industry; 2) which have common stock actively traded and are included in ThomsonFN First Call; 3) which have not cut or omitted their cash common stock dividends during the five calendar years ending 2004 or through the time of the preparation of Mr. Hanley's accompanying direct testimony; 4) which had more than 60% of their 2004 operating revenues derived from gas distribution operations; 5) which, at the time of the preparation of Mr. Hanley's direct testimony, were not expected to be acquired by or merged into another company; and 6) which are included in Standard & Poor's Compustat PC Plus/Research Insight Data Base. The following companies have been excluded from the proxy group: Southwest Gas Corporation does not have ThomsonFN/First Call projected five-year growth Rate in EPS; SEMCO Energy had a dividend cut in 2002 and Southern Union Company, which began paying dividends in March 2006, did not have cash dividends during the previous years. Also, AGL Resources, Atmos Energy, South Jersey Industries and UGI Corporation have been excluded because those companies had less than 60% of their 2004 operating revenues derived from gas distribution operations; KeySpan Corporation has been excluded because the company is in the process of being acquired by National Grid. It is necessary to point out that although the data shown for the proxy groups are for the five years ended 2005, the proxy group selection was based on 2004 data because at the time of the selection the whole universe of companies did not have 2005 data readily available in S&P's Compustat PC Plus/Research Insight Data Base.

The following eight companies met the above criteria:
Cascade Natural Gas Corporation
The Laclede Group, Inc.
New Jersey Resources Corp.
NICOR Inc.
Northwest Natural Gas Company
Peoples Energy Corporation
Piedmont Natural Gas Company, Inc.
WGL Holdings, Inc.

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Database
Annual Reports to Shareholders and / or Forms 10-K

Missouri Gas Energy
Weather Normalization Adjustment (WNA) Clauses
for the Proxy Group of Eight Value Line Gas Distribution Companies
and Southern Union Company

	Weather Normalization Clause
Proxy Group of Eight Value Line Gas Distribution Companies	
Cascade Natural Gas Corporation	No
The Laclede Group, Inc	Yes (1)
New Jersey Resources Corp.	Yes
NICOR Inc.	No
Northwest Natural Gas Company	Yes (2)
Peoples Energy Corporation	No (3)
Piedmont Natural Gas Co . Inc	Yes
WGL Holdings, Inc.	Yes (4)
Southern Union Company	Yes (5)

Notes:
(1) Laclede Group does not have a WNA However, as part of the 2002 rate case settlement, the Utility initiated, effective November 9, 2002. an innovative weather mitigation rate design that lessens the impact of weather volatility on Laclede Gas customers during cold winters and is expected to stabilize the utility's earnings for the future.

(2) Northwest Natural Gas Company operates in the states of Oregon and Washington as NW Natural. The company has a WNA in Oregon, but not in Washington.

(3) Peoples Energy had risk-reducing weather stabilization products for fiscal years 2004 and 2005. However, the company did not purchase weather insurance for fiscal year 2006. For fiscal year 2006, the company will manage weather risk only through the use of block rates in utility rate design.

(4) In August 2005, WGL Holding's subsidiary in Maryland received approval from the PSC to implement a Revenue Normalization Adjustment (RNA). Furthermore, WGL Holdings Inc. has risk-reducing weather stabilization insurance products in place for Washington D.C. and the state of Virginia. However, the company is not recovering the insurance premiums in rates.

(5) Southern Union Company has operating subsidiaries in Missouri, Massachusetts, Pennsylvania and Rhode Island. However, only New England Gas Company in the state of Rhode Island has a WNA Clause.

Source of Information: Company Annual Reports to Shareholders and / or Forms 10-K
Company Provided Information
Regulatory Research Associates. Inc., An SNL Energy Company

SOUTHERN UNION COMPANY
CAPITALIZATION AND FINANCIAL STATISTICS (1)
2001 - 2005, INCLUSIVE
(SHOWN FOR INFORMATIONAL PURPOSES ONLY)

	2005	2004	2003	2002	2001	5 YEAR AVERAGE
			(MILLIONS OF DOLLARS)			
CAPITALIZATION STATISTICS						
AMOUNT OF CAPITAL EMPLOYED						
TOTAL PERMANENT CAPITAL	$4,029,858	$3,516,603	$3,366,823	$1,975,777	$2,157,401	
SHORT-TERM DEBT	$420,000	$21,000	$251,500	$131,800	$190,600	
TOTAL CAPITAL EMPLOYED	$4,449,858	$3,537,603	$3,618,323	$2,107,577	$2,348,001	
INDICATED AVERAGE CAPITAL COST RATES (2)						
TOTAL DEBT	5.55 %	5.14 %	4.51 %	6.64 %	9.18 %	
PREFERRED STOCK	7.55	11.03				
CAPITAL STRUCTURE RATIOS						
BASED ON TOTAL PERMANENT CAPITAL:						
LONG-TERM DEBT	53.99 %	64.11 %	72.66 %	65.31 %	66.54 %	64.52 %
PREFERRED STOCK	5.71	6.54	0.00	0.00	0.00	2.45
COMMON EQUITY	40.30	29.35	27.34	34.69	33.46	33.03
TOTAL	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
BASED ON TOTAL CAPITAL:						
TOTAL DEBT, INCLUDING SHORT-TERM	58.33 %	64.33 %	74.56 %	67.48 %	69.26 %	66.79 %
PREFERRED STOCK	5.17	6.50	0.00	0.00	0.00	2.33
COMMON EQUITY	36.50	29.17	25.44	32.52	30.74	30.88
TOTAL	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
FINANCIAL STATISTICS						
FINANCIAL RATIOS - MARKET BASED						
EARNINGS / PRICE RATIO	0.13 %	7.60 %	5.71 %	1.91 %	5.19 %	4.15 %
MARKET / AVERAGE BOOK RATIO	171.89	135.05	108.72	146.65	151.48	142.76
DIVIDEND YIELD	0.00	0.00	0.00	0.00	0.00	0.00
DIVIDEND PAYOUT RATIO	0.00	0.00	0.00	0.00	0.00	0.00
RATE OF RETURN ON AVERAGE BOOK COMMON EQUITY	0.25 %	10.38 %	5.44 %	2.79 %	7.78 %	5.33 %
FUNDS FROM OPERATIONS / INTEREST COVERAGE (3)	2.60 X	3.40 X	2.90 X	2.70 X	2.90 X	2.90 X
FUNDS FROM OPERATIONS / TOTAL DEBT (4)	8.20 %	13.40 %	6.60 %	12.20 %	13.00 %	10.68 %
TOTAL DEBT / TOTAL CAPITAL	58.33 %	64.33 %	74.56 %	67.48 %	69.26 %	66.79 %

See Page 2 for notes.

Southern Union Company
Capitalization and Financial Statistics
2001-2005, Inclusive
(SHOWN FOR INFORMATIONAL PURPOSES ONLY)

Notes:

(1) All capitalization and financial statistics are based upon financial statements as originally reported in each year. Southern Union used to have a June fiscal year, but in 2005 the company changed its fiscal year to December. Therefore, the reported data for the year 2005 are as of December, but the data for the previous years are as of June 2001 – 2004.

(2) Computed by relating actual long-term debt interest or preferred stock dividends booked to average of beginning and ending long-term debt or preferred stock reported to be outstanding.

(3) Coverages - excluding all AFUDC represent the number of times available earnings, excluding all AFUDC, cover fixed charges.

(4) Sinking Fund Requirements were obtained from Company Annual Forms 10-K.

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Database
Annual Reports to Shareholders and / or Forms 10-K

Missouri Gas Energy
Capital Structure Based upon Total Capital for
the Proxy Group of Four Gas Distribution Companies
for the Years 2001 through 2005

	2005	2004	2003	2002	2001	5 YEAR AVERAGE
Cascade Natural Gas Corporation						
Long-Term Debt	57.00 %	48.45 %	58.63 %	59.09 %	43.61 %	53.36 %
Short-Term Debt	4.10	11.36	1.35	0.00	13.96	6.15
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	38.90	40.19	40.02	40.91	42.44	40.49
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.01 %	100.00 %
NICOR Inc.						
Long-Term Debt	27.74 %	28.63 %	27.21 %	32.14 %	31.14 %	29.37 %
Short-Term Debt	30.30	28.22	31.48	20.40	19.32	25.94
Preferred Stock	0.00	0.00	0.00	0.28	0.42	0.14
Common Equity	41.96	43.15	41.31	47.18	49.12	44.54
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Northwest Natural Gas Company						
Long-Term Debt	42.60 %	42.65 %	45.83 %	45.36 %	40.66 %	43.42 %
Short-Term Debt	10.19	8.76	7.80	6.80	10.53	8.82
Preferred Stock	0.00	0.00	0.00	0.81	3.31	0.82
Common Equity	47.21	48.59	46.37	47.03	45.50	46.94
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Piedmont Natural Gas Co., Inc.						
Long-Term Debt	38.76 %	40.63 %	28.05 %	44.45 %	46.31 %	39.64 %
Short-Term Debt	9.31	6.74	33.69	4.06	2.90	11.34
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	51.93	52.63	38.26	51.49	50.79	49.02
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Proxy Group of Four Gas Distribution Companies						
Long-Term Debt	41.52 %	40.09 %	39.93 %	45.26 %	40.43 %	41.45 %
Short-Term Debt	13.48	13.77	18.58	7.82	11.68	13.07
Preferred Stock	0.00	0.00	0.00	0.27	0.93	0.24
Common Equity	45.00	46.14	41.49	46.65	46.96	45.25
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Data Base
Company Annual Forms 10-K (Sinking Fund Requirements)

Missouri Gas Energy
Capital Structure Based upon Total Capital for
the Proxy Group of Eight Value Line Gas Distribution Companies
for the Years 2001 through 2005

	2005	2004	2003	2002	2001	5 YEAR AVERAGE
Cascade Natural Gas Corporation						
Long-Term Debt	57 00 %	48.45 %	58 63 %	59.09 %	43 61 %	53 36 %
Short-Term Debt	4 10	11 36	1 35	0.00	13 95	6 15
Preferred Stock	0.00	0.00	0 00	0 00	0.00	0.00
Common Equity	38.90	40.19	40.02	40.91	42.44	40.49
Total Capital	100.00 %	100 00 %	100 00 %	100.00 %	100.01 %	100.00 %
The Laclede Group, Inc.						
Long-Term Debt	46 48 %	48 62 %	37.01 %	38 81 %	41 15 %	42 41 %
Short-Term Debt	8 62	8 56	26 51	22 05	16 93	16 53
Preferred Stock	0 12	0 15	0 15	0 17	0 24	0 17
Common Equity	44 78	42.67	36.33	38.97	41.68	40.89
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
New Jersey Resources Corp.						
Long-Term Debt	34 35 %	32 08 %	30 09 %	48 53 %	44.71 %	37.95 %
Short-Term Debt	18 67	24 24	21 48	7 31	10 83	16 51
Preferred Stock	0.00	0.00	0 00	0 04	0 04	0 02
Common Equity	46.97	43.68	48.43	44.12	44.42	45.52
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
NICOR Inc.						
Long-Term Debt	27 74 %	28.63 %	27.21 %	32 14 %	31 14 %	29 37 %
Short-Term Debt	30 30	28 22	31 48	20 40	19 32	25 94
Preferred Stock	0 00	0 00	0 00	0 28	0.42	0 14
Common Equity	41.96	43.15	41.31	47.18	49.12	44.54
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Northwest Natural Gas Company						
Long-Term Debt	42.60 %	42 65 %	45.83 %	45 35 %	40 66 %	43 42 %
Short-Term Debt	10 19	8 76	7.80	6 80	10 53	8 82
Preferred Stock	0 00	0 00	0 00	0.81	3 31	0 82
Common Equity	47.21	48.59	46.37	47.03	45.50	46 94
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Peoples Energy Corporation						
Long-Term Debt	52 56 %	49 22 %	41 35 %	37 05 %	36 18 %	43 27 %
Short-Term Debt	0.48	3 05	11 55	16 56	24 67	11 26
Preferred Stock	0 00	0 00	0 00	0 00	0 00	0 00
Common Equity	46.96	47.73	47.10	46.39	39.15	45.47
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Piedmont Natural Gas Co., Inc.						
Long-Term Debt	38 76 %	40 63 %	28 05 %	44 45 %	46 31 %	39 64 %
Short-Term Debt	9 31	6 74	33 69	4 06	2 90	11 34
Preferred Stock	0 00	0 00	0 00	0.00	0 00	0 00
Common Equity	51.93	52.63	38.26	51.49	50 79	49.02
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
WGL Holdings, Inc.						
Long-Term Debt	39 71 %	39 98 %	39 04 %	44 51 %	39 96 %	40 64 %
Short-Term Debt	2 56	5 87	10 03	5 69	8 47	6 52
Preferred Stock	1 76	1 73	1 70	1 77	1 78	1 75
Common Equity	55.97	52.42	49.23	48.03	49.79	51.09
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Proxy Group of Eight Value Line Gas Distribution Companies						
Long-Term Debt	42 40 %	41 28 %	38.40 %	43 74 %	40 47 %	41 26 %
Short-Term Debt	10 53	12 10	17 99	10 36	13 45	12.89
Preferred Stock	0 24	0 24	0 23	0 38	0 72	0 36
Common Equity	46.83	46.38	43.38	45.52	45.36	45.49
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

Source of Information: Standard & Poor's Compustat Services, Inc , PC Plus / Research Insight Data Base
Company Annual Forms 10-K (Sinking Fund Requirements)

Missouri Gas Energy
Capital Structure Based upon Total Capital for
the Proxy Group of Four Gas Distribution Companies
for the Five Quarters Ended December 2005

	Quarter Ended 12/05	Quarter Ended 9/05	Quarter Ended 6/05	Quarter Ended 3/05	Quarter Ended 12/04	5 QUARTERS AVERAGE
Cascade Natural Gas Corporation						
Long-Term Debt	54 79 %	57 00 %	53 56 %	53 60 %	45 27 %	52 84 %
Short-Term Debt	5 96	4 10	5 55	4 42	14 66	6 94
Preferred Stock	0 00	0 00	0 00	0 00	0 00	0 00
Common Equity	39 25	38 90	40 89	41 98	40 07	40 22
Total Capital	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %
NICOR Inc.						
Long-Term Debt	27 74 %	34 92 %	38 51 %	38 00 %	28 63 %	33 58 %
Short-Term Debt	30 30	10 13	0 00	2 64	28 22	14 26
Preferred Stock	0 00	0 00	0 00	0 00	0 00	0 00
Common Equity	41 96	54 95	61 39	59 36	43 15	52 16
Total Capital	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %
Northwest Natural Gas Company						
Long-Term Debt	42 60 %	45 16 %	48 11 %	44 99 %	42 65 %	44 70 %
Short-Term Debt	10 19	6 18	0 00	0 95	8 76	5 22
Preferred Stock	0 00	0 00	0 00	0 00	0 00	0 00
Common Equity	47 21	48 66	51 89	54 06	48 59	50 08
Total Capital	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %
Piedmont Natural Gas Co , Inc.						
Long-Term Debt	33 85 %	38 76 %	40 02 %	41 48 %	37 51 %	38 32 %
Short-Term Debt	17 95	9 31	5 09	0 00	10 77	8 62
Preferred Stock	0 00	0 00	0 00	0 00	0 00	0 00
Common Equity	48 20	51 93	54 89	58 52	51 72	53 05
Total Capital	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %
Proxy Group 4 Gas Distribution Companies						
Long-Term Debt	39 74 %	43 96 %	45 08 %	44 52 %	38 52 %	42 36 %
Short-Term Debt	16 10	7 43	2 66	2 00	15 60	8 76
Preferred Stock	0 00	0 00	0 00	0 00	0 00	0 00
Common Equity	44 16	48 61	52 26	53 48	45 88	48 88
Total Capital	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %

(1) The data for all companies are effective March, June, September and December However, Piedmont Natural Gas data are for the quarters ended January, April, July and October

Source of Information: Standard & Poor's Compustat Services, Inc , PC Plus / Research Insight Data Base
Company Annual Forms 10K and 10Q

PG Energy
Capital Structure Based upon Total Capital for
the Proxy Group of Eight Value Line Gas Distribution Companies
for the Five Quarters Ended December 2005

	Quarter Ended 12/05	Quarter Ended 9/05	Quarter Ended 6/05	Quarter Ended 3/05	Quarter Ended 12/04	5 QUARTERS AVERAGE
Cascade Natural Gas Corporation						
Long-Term Debt	54 79 %	57 00 %	53 56 %	53 60 %	45 27 %	52 84 %
Short-Term Debt	5 96	4 10	5 55	4 42	14 66	6 94
Preferred Stock	0 00	0 00	0 00	0 00	0 00	0 00
Common Equity	39 25	38 90	40 89	41 98	40 07	40 22
Total Capital	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %
The Laclede Group, Inc						
Long-Term Debt	36 47 %	46 48 %	46 80 %	44 75 %	41 03 %	43 11 %
Short-Term Debt	25 82	8 62	5 83	10 14	19 12	13 91
Preferred Stock	0 09	0 12	0 12	0 11	0 12	0 11
Common Equity	37 62	44 78	47 25	45 00	39 73	42 88
Total Capital	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %
New Jersey Resources Corp.						
Long-Term Debt	27 93 %	34 36 %	31 11 %	34 39 %	28 92 %	31 34 %
Short-Term Debt	28 70	18 67	18 74	10 39	25 96	20 49
Preferred Stock	0 00	0 00	0 00	0 00	0 00	0 00
Common Equity	43 37	46 97	50 15	55 22	45 12	48 17
Total Capital	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %
NICOR Inc.						
Long-Term Debt	27 74 %	34 92 %	38 61 %	38 00 %	28 63 %	33 58 %
Short-Term Debt	30 30	10 13	0 00	2 64	28 22	14 26
Preferred Stock	0 00	0 00	0 00	0 00	0 00	0 00
Common Equity	41 96	54 95	61 39	59 36	43 15	52 16
Total Capital	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %
Northwest Natural Gas Company						
Long-Term Debt	42 60 %	45 16 %	48 11 %	44 99 %	42 65 %	44 70 %
Short-Term Debt	10 19	6 18	0 00	0 95	8 76	5 22
Preferred Stock	0 00	0 00	0 00	0 00	0 00	0 00
Common Equity	47 21	48 66	51 89	54 06	48 59	50 08
Total Capital	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %
Peoples Energy Corporation						
Long-Term Debt	47 75 %	52 56 %	50 06 %	50 50 %	45 94 %	49 36 %
Short-Term Debt	9 46	0 48	0 85	0 00	8 81	3 92
Preferred Stock	0 00	0 00	0 00	0 00	0 00	0 00
Common Equity	42 79	46 96	49 09	49 50	45 25	46 72
Total Capital	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %
Piedmont Natural Gas Co., Inc. (1)						
Long-Term Debt	33 85 %	38 76 %	40 02 %	41 48 %	37 51 %	38 32 %
Short-Term Debt	17 95	9 31	5 09	0 00	10 77	8 62
Preferred Stock	0 00	0 00	0 00	0 00	0 00	0 00
Common Equity	48 20	51 93	54 89	58 52	51 72	53 05
Total Capital	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %
WGL Holdings, Inc						
Long-Term Debt	33 51 %	39 71 %	36 99 %	36 76 %	37 22 %	36 84 %
Short-Term Debt	16 39	2 56	1 72	4 96	9 42	7 01
Preferred Stock	1 49	1 76	1 82	1 69	1 65	1 68
Common Equity	48 61	55 97	59 47	56 59	51 71	54 47
Total Capital	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %
Proxy Group 8 Gas Value Line Gas Distribution Companies						
Long-Term Debt	38 08 %	43 62 %	43 16 %	43 06 %	38 39 %	41 26 %
Short-Term Debt	18 10	7 51	4 72	4 19	15 72	10 05
Preferred Stock	0 20	0 23	0 24	0 22	0 22	0 22
Common Equity	43 62	48 64	51 88	52 53	45 67	48 47
Total Capital	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %	100 00 %

(1) The data for all companies are effective March, June, September and December However, Piedmont Natural Gas data are for the quarters ended January April, July and October

Source of Information: Standard & Poor's Compustat Services, Inc , PC Plus / Research Insight Data Base
Company Annual Forms 10K and 10Q

Southern Union Company
Pro Forma Capital Structure
Projected as of June 30, 2006
(SHOWN FOR INFORMATION PURPOSES ONLY)

Type of Capital	Pro Forma Outstanding June 30, 2006 (1)	Capitalization Ratio
Long-Term Debt	$ 2,027,928,645	48.19 %
Short-Term Debt	420,000,000	9.98
Preferred Securities	223,828,509	5.32
Common Equity	1,536,052,320	36.50
Total	$ 4,207,809,474	100.00 %

Notes:

(1) Company Provided

Missouri Gas Energy
Long-Term Debt Cost Rates of the
the Proxy Group of Four Gas Distribution Companies.
Proxy Group of Eight Gas Distribution Companies and
Southern Union Company
Actual at Fiscal Year End 2005

Line No.	Proxy Group of Four Gas Distribution Companies	Actual at Fiscal Year End 2005 (1)
	Cascade Natural Gas Corporation	7.06 %
	NICOR Inc.	6.03
	Northwest Natural Gas Company	6.58
	Piedmont Natural Gas Co., Inc	7.03
1	Average	6.68 %
	Proxy Group of Eight Gas Distribution Companies	
	Cascade Natural Gas Corporation	7.06 %
	The Laclede Group, Inc	6.74
	New Jersey Resources Corp	4.15
	NICOR Inc.	6.03
	Northwest Natural Gas Company	6.58
	Peoples Energy Corporation	5.47
	Piedmont Natural Gas Co., Inc	7.03
	WGL Holdings, Inc.	6.23
2	Average	6.16 %
3.	Midpoint of Long-Term Debt Cost Rate (2)	6.42 %
4	Provision for Estimated Issuance Costs	0.15
5	Conclusion of Long-Term Debt Cost Rate Applicable to PG Energy (3)	6.57 %
	Southern Union Company	6.07

Notes: (1) Supporting information on pages 2 through 10 of this Schedule.
(2) Average of Line No. 1 and Line No 2.
(3) Sum of Line No 3 and Line No. 4

Missouri Gas Energy
Calculation of the Composite Cost Rate of Long-Term Debt Outstanding for Cascade Natural Gas Company
At September 30, 2005

Series	Amount Outstanding ($ 000s)	Effective Cost Rate	Annualized Cost ($ 000s)	Composite Interest Rate
Medium-Term Notes				
8 50% Due October 2006	$ 8,000	8 500	$ 680	
8 06% Due September 2012	14,000	8 060	1,128	
8 10% Due October 2012	5,000	8 100	405	
8 11% Due October 2012	3,000	8 110	243	
7 95% Due February 2013	4,000	7 950	318	
8 01% Due February 2013	10,000	8 010	801	
7 95% Due February 2013	10,000	7 950	795	
7 48% Due September 2027	20,000	7 480	1,496	
7 098% Due March 2029	15,000	7 098	1,065	
Notes				
5 21% Due September 2020	15,000	5 210	782	
7 50% Due November 2031	39,840	7 500	2,988	
5 25% Insured Quarterly Notes Due February 2035	30,000	5 250	1,575	
Total Long-Term Debt	$ 173,840		$ 12,276	7.06 %

Source of Information: 2005 Annual Form 10-K

Missouri Gas Energy
Calculation of the Composite Cost Rate of Long-Term Debt Outstanding for The Laclede Group Inc.
At September 30, 2005

Series	Amount Outstanding ($ 000s)	Effective Cost Rate	Annualized Cost ($ 000s)	Composite Interest Rate
First Mortgage Bonds				
8-5/8% Series, Due May 15, 2006	$ 40,000	8.625 %	$ 3,450	
7-1/2% Series, Due November 1, 2007	40,000	7.500	3,000	
6-1/2% Series, Due November 15, 2010	25,000	6.500	1,625	
6-1/2% Series, Due October 15, 2012	25,000	6.500	1,625	
5-1/2% Series, Due May 1, 2019	50,000	5.500	2,750	
7% Series, Due June 1, 2029	25,000	7.000	1,750	
7.90% Series, Due September 15, 2030	30,000	7.900	2,370	
6% Series, Due May 1, 2034	100,000	6.000	6,000	
Long-Term Debt to Unconsolidated Affiliate Tr	46,400	6.740 (1)	3,127	
Total Long-Term Debt	$ 381,400		$ 25,697	6.74 %

Notes: (1) Assumed equal to the composite debt cost rate of all debt excluding long-term debt to unconsolidated affiliate trust at September 30, 2005

Source of Information: 2005 Annual Form 10-K

Missouri Gas Energy
Calculation of the Composite Cost Rate of Long-Term Debt Outstanding for New Jersey Resources Corp
At September 30, 2005

Series	Amount Outstanding ($ 000s)	Effective Cost Rate	Annualized Cost ($ 000s)	Composite Interest Rate
New Jersey Natural Gas				
First Mortgage Bonds				
5 38% Series W, Due August 1, 2023	$ 10.300	5.380 %	$ 554	
6 27% Series X, Due November 1, 2008	30.000	6 270	1.881	
6 25% Series Y, Due August 1, 2024	10.500	6.250	656	
Variable Series AA, Due August 1, 2030	25.000	2.200 (1)	550	
Variable Series BB, Due August 1, 2030	16.000	2.200 (1)	352	
6 88% Series CC, Due October 1, 2010	20.000	6.880	1.376	
Variable Series DD, Due September 1, 2(	13.500	2.200 (1)	297	
Variable Series EE, Due January 1, 2028	9.545	2.200 (1)	210	
Variable Series FF, Due January 1, 2028	15.000	2.200 (1)	330	
Variable Series GG, April 1, 2033	18.000	2 200 (1)	396	
5% Series HH, Due December 1, 2038	12.000	5 000	600	
4.77% Unsecured Senior Notes	60.000	4 770	2.862	
Capital Lease Obligations - Buildings	28.290	4 150 (2)	1.174	
Capital Lease Obligations - Meters	27.322	4 150 (2)	1.134	
New Jersey Resources				
3.75% Unsecured Senior Notes, Due March 15, 2009	25,000	3 750 (2)	938	
Total Long-Term Debt	$ 320,457		$ 13,310	4.15 %

Notes: (1) Weighted average interest rate.
(2) Assumed equal to the composite debt cost rate of all debt excluding capital lease obligations at September 30, 2005.

Source of Information: 2005 Annual Form 10-K

Missouri Gas Energy
Calculation of the Composite Cost Rate of Long-Term Debt Outstanding for NICOR Inc.
At December 31, 2005

Series	Amount Outstanding ($ 000s)	Effective Cost Rate	Annualized Cost ($ 000s)	Composite Interest Rate
First Mortgage Bonds				
5.55% Series, Due 2006	$ 50,000	5.550	$ 2,775	
5.875% Series, Due 2008	75,000	5.875	4,406	
5.37% Series, Due 2009	50,000	5.370	2,685	
6.625% Series, Due 2011	75,000	6.625	4,969	
7.20% Series, Due 2016	50,000	7.200	3,600	
5.80% Series, Due 2023	50,000	5.800	2,900	
6.58% Series, Due 2028	50,000	6.580	3,290	
5.90% Series, Due 2032	50,000	5.900	2,950	
5.90% Series, Due 2033	50,000	5.900	2,950	
Other Long-Term Debt				
Senior Unsecured Term Loan, Due 2007	40,000	5.030 (1)	2,012	
Total Long-Term Debt	$ 540,000		$ 32,537	6.03 %

Notes: (1) London Inter-bank Offered Rate plus 0.5% at December 30, 2005 from Blue Chip Financial Forecasts, February 1, 2006, p. 2

Source of Information: 2005 Annual Form 10-K

Missouri Gas Energy
Calculation of the Composite Cost Rate of Long-Term Debt Outstanding for Northwest Natural Gas Company
At December 31, 2005

Series	Amount Outstanding ($ 000s)	Effective Cost Rate	Annualized Cost ($ 000s)	Composite Interest Rate
First Mortgage Bonds				
6.050% Series B, Due 2006	$ 8,000	6.050 %	$ 484	
6.310% Series B, Due 2007	20,000	6.310	1,262	
6.800% Series B, Due 2007	9,500	6.800	646	
6.500% Series B, Due 2008	5,000	6.500	325	
4.110% Series B, Due 2010	10,000	4.110	411	
7.450% Series B, Due 2010	25,000	7.450	1,863	
6.665% Series B, Due 2011	10,000	6.665	667	
7.130% Series B, Due 2012	40,000	7.130	2,852	
8.260% Series B, Due 2014	10,000	8.260	826	
4.700% Series, B, Due 2015	40,000	4.700	1,880	
7.000% Series B, Due 2017	40,000	7.000	2,800	
6.600% Series B, Due 2018	22,000	6.600	1,452	
8.310% Series B, Due 2019	10,000	8.310	831	
7.630% Series B, Due 2019	20,000	7.630	1,526	
9.050% Series A, Due 2021	10,000	9.050	905	
5.620% Series B, Due 2023	40,000	5.620	2,248	
7.720% Series B, Due 2025	20,000	7.720	1,544	
6.520% Series B, Due 2025	10,000	6.520	652	
7.050% Series B, Due 2026	20,000	7.050	1,410	
7.000% Series B, Due 2027	20,000	7.000	1,400	
6.650% Series B, Due 2027	20,000	6.650	1,330	
6.650% Series B, Due 2028	10,000	6.650	665	
7.740% Series B, Due 2030	20,000	7.740	1,548	
7.850% Series B, Due 2030	10,000	7.850	785	
5.820% Series B, Due 2032	30,000	5.820	1,746	
5.660% Series B, Due 2033	40,000	5.660	2,264	
5.250% Series B, Due 2035	10,000	5.250	525	
Total Long-Term Debt	$ 529,500		$ 34,847	6.58 %

Source of Information: 2005 Annual Form 10-K

Missouri Gas Energy
Calculation of the Composite Cost Rate of Long-Term Debt Outstanding for Peoples Energy Corporation
At September 30, 2005

Series	Amount Outstanding ($ 000s)	Effective Cost Rate	Annualized Cost ($ 000s)	Composite Interest Rate
Peoples Energy Corporation				
6 9% Series A. Due January 15, 2001	$ 325.000	6 900 %	$ 22.425	
The Peoples Gas Light and Coke Co.				
First and Refunding Mortgage Bonds				
4.75% Series HH. Due March 1, 2030, adjustable after July 1. 2014	50.000	4.750	2.375	
5.00% Series KK. Due February 1. 2033	50.000	5 000	2.500	
3.05% Series LL. due February 1. 2033, adjustable after February 1,	50.000	3 050	1.525	
4 00% Series MM-2, Due March 1, 2010	50.000	4 000	2.000	
4 625% Series NN-2, Due May 1, 2013	75.000	4 625	3.469	
4 875% Series QQ, Due November 1. 2038, adjustable after November	75.000	4.875	3.656	
4.30% Series RR. Due June 1, 2035, adjustable after June 1, 2016	50.000	4.300	2.150	
Adjustable Rate Bonds				
Series OO. Due October 1. 2037	51.000	5 470 (1)	2.790	
Series PP. Due October 1. 2037	51.000	5 470 (1)	2.790	
North Shore Gas Company				
First Mortgage Bonds				
5 00% Series M Due December 1, 2028	29.250	5 000	1.463	
4 625% Series N-1, Due May 1. 2013	40.000	4 625	1.850	
Total Long-Term Debt	$ 896.250		$ 48.993	5.47 %

Notes: (1) Assumed equal to the composite debt cost rate of all debt excluding the adjustable rate bonds at September 30. 2005.

Source of Information: 2005 Annual Form 10-K

Missouri Gas Energy
Calculation of the Composite Cost Rate of Long-Term Debt Outstanding for Piedmont Natural Gas Co . Inc
At October 31, 2005

Series	Amount Outstanding ($ 000s)	Effective Cost Rate	Annualized Cost ($ 000s)	Composite Interest Rate
Senior Notes				
9 44%. Due 2006	$ 35.000	9 440 %	$ 3.304	
8 51%. Due 2017	35.000	8 510	2.979	
Medium-Term Notes				
7 35%. Due 2009	30.000	7 350	2.205	
7 80%. Due 2010	60.000	7 800	4.680	
6 55%. Due 2011	60.000	6 550	3.930	
5 00%. Due 2013	100.000	5 000	5.000	
6 87%. Due 2023	45.000	6 870	3.092	
8 45%. Due 2024	40,000	8 450	3.380	
7 40%. Due 2025	55.000	7 400	4.070	
7.50%. Due 2026	40.000	7 500	3.000	
7 95%. Due 2029	60.000	7 950	4.770	
6 00%. Due 2033	100.000	6 000	6.000	
Total Long-Term Debt	$ 660,000		$ 46.410	7.03 %

Source of Information: 2005 Annual Form 10-K

Missouri Gas Energy
Calculation of the Composite Cost Rate of Long-Term Debt Outstanding for WGL Holdings, Inc.
At September 30, 2005

Series	Amount Outstanding ($ 000s)	Effective Cost Rate (1)	Annualized Cost ($ 000s)	Composite Interest Rate
Washington Gas Light Company				
Unsecured Medium-Term Notes				
6.51% - 7.31%, Due Fiscal Year 2008	$ 45,100	6.910 (1)	$ 3,116	
5.49% - 6.92%, Due Fiscal Year 2009	75,000	6.205 (2)	4,654	
7.50% - 7.70%, Due Fiscal Year 2010	24,000	7.600 (3)	1,824	
6.64%, Due Fiscal Year 2011	30,000	6.640	1,992	
5.90% - 6.05%, Due Fiscal Year 2012	77,000	5.975 (4)	4,601	
4.88% - 5.17%, Due Fiscal Year 2014	67,000	5.025 (5)	3,367	
4.83%, Due Fiscal Year 2015	20,000	4.830	966	
6.65%, Due Fiscal Year 2023	20,000	6.650	1,330	
5.44%, Due Fiscal Year 2025	40,500	5.440	2,203	
6.15%, Due Fiscal Year 2026	50,000	6.150	3,075	
6.40% - 6.82%, Due Fiscal Year 2027	125,000	6.610 (6)	8,263	
6.57% - 6.85%, Due Fiscal Year 2028	52,000	6.710 (7)	3,489	
7.50%, Due Fiscal Year 2030	8,500	7.500	638	
Other long-term debt	227	6.230 (8)	14	
Total Long-Term Debt	$ 634,327		$ 39,532	6.23 %

Notes:
(1) 6.910% = (6.51% + 7.31%) / 2
(2) 6.205% = (5.49% + 6.92%) / 2
(3) 7.600% = (7.50% + 7.70%) / 2
(4) 5.975% = (5.90% + 6.05%) / 2
(5) 5.025% = (4.88% + 5.17%) / 2
(6) 6.610% = (6.40% + 6.82%) / 2
(7) 6.710% = (6.57% + 6.85%) / 2
(8) Assumed equal to the composite debt cost rate of all debt excluding other long-term debt at September 30, 2005

Source of Information: 2005 Annual Form 10-K

Missouri Gas Energy
Calculation of the Composite Cost Rate of Long-Term Debt Outstanding for Southern Union Company
At December 31, 2005

Series	Amount Outstanding ($ 000s)	Effective Cost Rate	Annualized Cost ($ 000s)	Composite Interest Rate
Southern Union Company				
7.60% Senior Notes Due 2024	$ 359,765	7.600 %	$ 27,342	
8.25% Senior Notes Due 2029	300,000	8.250	24,750	
2.75% Senior Notes Due 2006	125,000	2.750	3,438	
6.50% to 10.25% First Mortgage Bonds, Due 2006 to 2029	111,419	8.375 (1)	9,331	
4.375% Senior Notes, Due 2008	100,000	4.375	4,375	
Capital Lease and other, Due 2006 to 2007	71	6.070 (2)	4	
Panhandle Energy				
2.75% Senior Notes, Due 2007	200,000	2.750	5,500	
4.80% Senior Notes, Due 2008	300,000	4.800	14,400	
6.05% Senior Notes, Due 2013	250,000	6.050	15,125	
6.50% Senior Notes, Due 2009	60,623	6.500	3,940	
8.25% Senior Notes, Due 2010	40,500	8.250	3,341	
7.00% Senior Notes, Due 2029	66,305	7.000	4,641	
Term Loan, Due 2007	255,626	6.070 (2)	15,516	
Total Long-Term Debt	$ 2,169,309		$ 131,703	6.07 %

Notes: (1) 8.375% = (6.50% + 10.25%) / 2
(2) Assumed equal to the composite debt cost rate of all debt excluding the term loan, due 2007 at December 31, 2005

Source of Information: 2005 Annual Form 10-K

Missouri Gas Energy
Hypothetical Example of the Inadequacy of
A DCF Return Rate Related to Book Value
When Market Value is Greater / Less than Book Value

Line No.		1 Market Value	2 Book Value with Market to Book Ratio of 180%	3 Book Value with Market to Book Ratio of 80%
1.	Per Share	$ 24.000	$ 13.33	$ 30.00
2.	DCF Cost Rate (1)	10.00%	10.00%	10.00%
3.	Return in Dollars	$ 2.400	$ 1.333	$ 3.000
4	Dividends (2)	$ 0.960	$ 0.960	$ 0.960
5	Growth in Dollars	$ 1.440	$ 0.373	$ 2.040
6	Return on Market Value	10.00%	5.55% (3)	12.50% (4)
7.	Rate of Growth on Market Value	6.00% (5)	1.55% (6)	8.50% (7)

Notes:
(1) Comprised of 4.0% dividend yield and 6.0%% growth.
(2) $24.00 * 4.0% yield = $0.960.
(3) $1.333 / $24.00 market value = 5.55%.
(4) $3.000 / $24.00 market value = 12.50%.
(5) Expected rate of growth per market based DCF model.
(6) Actual rate of growth when DCF cost rate is applied to book value ($1.333 possible earnings - $0.960 dividends = $0.373 for growth / $24.00 market value = 1.55%).
(7) Actual rate of growth when DCF cost rate is applied to book value ($3.000 possible earnings - $0.960 dividends = $2.040 for growth / $24.00 market value = 8.50%).

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

	1 Dividend Yield (1)	2 Dividend Growth Component (2)	3 Adjusted Dividend Yield (3)	4 Growth Rate (4)	5 Indicated DCF Return Rate (5)	6 Recommended DCF Return Rate (6)
Proxy Group of Four Gas Distribution Companies						
Cascade Natural Gas Corporation	4 87 %	0 14 %	5 01	5 75 %	10 76 %	10 76 %
NICOR Inc.	4 49	0 09	4 58	3.85	8 43	--
Northwest Natural Gas Company	3 97	0 12	4 09	6 00	10 09	10 09
Piedmont Natural Gas Co . Inc	3.86	0.10	3.96	5 30	9 26	--
Average	4.30 %	0.11 %	4.41 %	5.23 %	9.64 %	10.43 %
DCF Results Adjusted for Financial Leverage					10.70 % (7)	11.89 % (7)
						11.46 % (8)
Proxy Group of Eight Value Line Gas Distribution Companies						
Cascade Natural Gas Corporation	4 87 %	0 14 %	5 01	5 75 %	10 76 %	10 76 %
The Laclede Group, Inc	4 25	0 13	4 38	6 00	10 38	10 38
New Jersey Resources Corp	3 26	0 08	3 34	5 00	8 34	--
NICOR Inc.	4 49	0 09	4 58	3 85	8 43	--
Northwest Natural Gas Company	3 97	0 12	4 09	6 00	10 09	10 09
Peoples Energy Corporation	5 91	0.07	5 98	2 46	8 46	--
Piedmont Natural Gas Co . Inc	3 86	0 10	3 96	5 30	9 26	--
WGL Holdings, Inc	4 39	0 06	4 45	2.75	7.20	--
Average	4.38 %	0.10 %	4.47 %	4.64 %	9.12 %	10.41 %
DCF Results Adjusted for Financial Leverage					10.00 % (7)	11.60 % (7)
						11.52 % (9)
Southern Union Company	1.65 %	0.08 %	1.73 %	9.25 %	10.98 %	10.98 %
DCF Results Adjusted for Financial Leverage						12.32 % (7)

Notes:
(1) From page 1 of Schedule 10 of this exhibit
(2) This reflects a growth rate component equal to one-half the average projected five-year growth rate in EPS (from page 1 of Schedule 12 of this Exhibit x Line No. 1 to reflect the periodic payment of dividends (Gordon Model) as opposed to the continuous payment Thus, for Cascade Natural Gas 4 87% x (1/2 x 5 75%) = 0 14%
(3) Column 1 + Column 2
(4) From page 1 of Schedule 12 of this Exhibit
(5) Column 3 + Column 4
(6) Includes only those indicated common equity cost rates which are greater than 9 45% (the lowest rate awarded to a gas distribution utility between January 1, 2004 and December 31, 2005, from Schedule 17 of this Exhibit) as fully explained in Mr Hanley's accompanying direct testimony
(7) Based upon the adjustment described in note 5 on pages 3 and 4 of Schedule 1 of this Exhibit
(8) Based upon the adjustment described in note 5 on pages 3 and 4 of Schedule 1 of this Exhibit, using the market value and book value capital structure of Cascade Natural Gas Corp and Northwest Natural Gas Co. at September 30, 2005 and December 2005, as shown on page 6 of Schedule 1 of this Exhibit.
(9) Based upon the adjustment described in note 5 on pages 3 and 4 of Schedule 1 of this Exhibit, using the average market value and average book value capital structure of Cascade Natural Gas Corp , The Laclede Group, Inc and Northwest Natural Gas Co at September 30, 2005 for Cascade and Laclede, and at December 2005 for Northwest Natural, as can be gleaned from the information shown on pages 7 and 8 of Schedule 1 of this Exhibit.

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

	Dividend Yield			
		Average Based Upon Average High / Low Market Prices (2)		Average
	Spot (3/17/06) (1)	Feb. 2006	Jan. 2006	Dividend Yield (3)
Proxy Group of Four Gas Distribution Companies				
Cascade Natural Gas Corporation	4.90 %	4.84 %	4.86 %	4.87 %
NICOR Inc	4.44 %	4.51 %	4.53 %	4.49
Northwest Natural Gas Company	4.02 %	4.02 %	3.88 %	3.97
Piedmont Natural Gas Co., Inc	4.00 %	3.80 %	3.77 %	3.86
Average	4.34 %	4.29 %	4.26 %	4.30 %
Proxy Group of Eight Value Line Gas Distribution Companies				
Cascade Natural Gas Corporation	4.90 %	4.84 %	4.86 %	4.87 %
The Laclede Group, Inc.	4.14 %	4.22 %	4.39 %	4.25
New Jersey Resources Corp.	3.24 %	3.24 %	3.31 %	3.26
NICOR Inc	4.44 %	4.51 %	4.53 %	4.49
Northwest Natural Gas Company	4.02 %	4.02 %	3.88 %	3.97
Peoples Energy Corporation	5.76 %	5.96 %	6.00 %	5.91
Piedmont Natural Gas Co., Inc	4.00 %	3.80 %	3.77 %	3.86
WGL Holdings, Inc.	4.46 %	4.35 %	4.36 %	4.39
Average	4.37 %	4.37 %	4.39 %	4.38 %
Southern Union Company	1.65 %	0.00 %	0.00 %	1.65 %

Notes:
(1) The spot dividend yield is the current annualized dividend per share divided by the spot market price on 3/17/06. The dividend yield was calculated by using finance.yahoo.com and interquote.com and DTN Trading Market's DTNIQ/Interquote.com

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

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

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

Missouri Gas Energy
Current Institutional Holdings (1) and Individual Holdings (2)
for the Proxy Group of Four Gas Distribution Companies, the Proxy Group of
Eight Value Line Gas Distribution Companies and Southern Union Company

	1 March 2006 Percentage of Institutional Holdings	2 March 2006 Percentage of Individual Holdings (1)
Proxy Group of Four Gas Distribution Companies		
Cascade Natural Gas Corporation	41.3 %	58.7 %
NICOR Inc	71.4	28.6
Northwest Natural Gas Company	47.2	52.8
Piedmont Natural Gas Co., Inc.	40.3	59.7
Average	50.1 %	49.9 %
Proxy Group of Eight Value Line Gas Distribution Companies		
Cascade Natural Gas Corporation	41.3 %	58.7 %
The Laclede Group, Inc.	41.2	58.8
New Jersey Resources Corp.	49.2	50.8
NICOR Inc.	71.4	28.6
Northwest Natural Gas Company	47.2	52.8
Peoples Energy Corporation	59.1	40.9
Piedmont Natural Gas Co., Inc	40.3	59.7
WGL Holdings, Inc.	59.4	40.6
Average	51.1 %	48.9 %
Southern Union Company	75.4 %	24.6 %

(1) (1 - column 1).

Source of Information: reuters com - updated March 18, 2006

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

	1	2		3
	Value Line Projected 2008-'10 Growth Rate in EPS (1)	Thomson FN / First Call Projected Median Five-Year Growth Rate in EPS	(# est.)	Average Projected Five-Year Growth Rate in EPS (2)
Proxy Group of Four Gas Distribution Companies				
Cascade Natural Gas Corporation	8.50 %	3.00 %	[1]	5.75 %
NICOR Inc.	4.00	3.70	[2]	3.85
Northwest Natural Gas Company	7.00	5.00	[5]	6.00
Piedmont Natural Gas Co., Inc	6.00	4.60	[2]	5.30
Average	6.38 %	4.08 %		5.23 %
Proxy Group of Eight Value Line Gas Distribution Companies				
Cascade Natural Gas Corporation	8.50 %	3.00 %	[1]	5.75 %
The Laclede Group, Inc.	7.00	5.00	[1]	6.00
New Jersey Resources Corp.	4.50	5.50	[4]	5.00
NICOR Inc.	4.00	3.70	[2]	3.85
Northwest Natural Gas Company	7.00	5.00	[5]	6.00
Peoples Energy Corporation	0.50	4.45	[2]	2.48
Piedmont Natural Gas Co., Inc	6.00	4.60	[2]	5.30
WGL Holdings, Inc.	2.00	3.50	[4]	2.75
Average	4.94 %	4.34 %		4.64 %
Southern Union Company	14.50 %	7.50 %	[6]	9.25 % (3)

Notes:
(1) From page 2 through 10 of this Schedule
(2) Average of Columns 1 and 2.
(3) Weighted in approximation to individual and institutional holdings from Schedule 11 of this Exhibit - namely 25% to Value Line (greater reliance by individuals) and ThomsonFN/First Call (greater reliance by institutions).

Source of Information: Value Line Investment Survey, (Standard Edition), March 17, 2006
ThomsonFN First Call Earnings, thomsonfn.com, updated March 11, 2006

CASCADE NAT'L GAS NYSE-CGC

RECENT PRICE 19.03 | P/E RATIO 19.0 (Trailing: 20.5 / Median: 18.0) | RELATIVE P/E RATIO 1.03 | DIV'D YLD 5.0% | VALUE LINE

TIMELINESS 4 Lowered 3/17/06
SAFETY 3 New 7/27/90
TECHNICAL 3 Raised 2/10/06
BETA .80 (1.00 = Market)

2009-11 PROJECTIONS

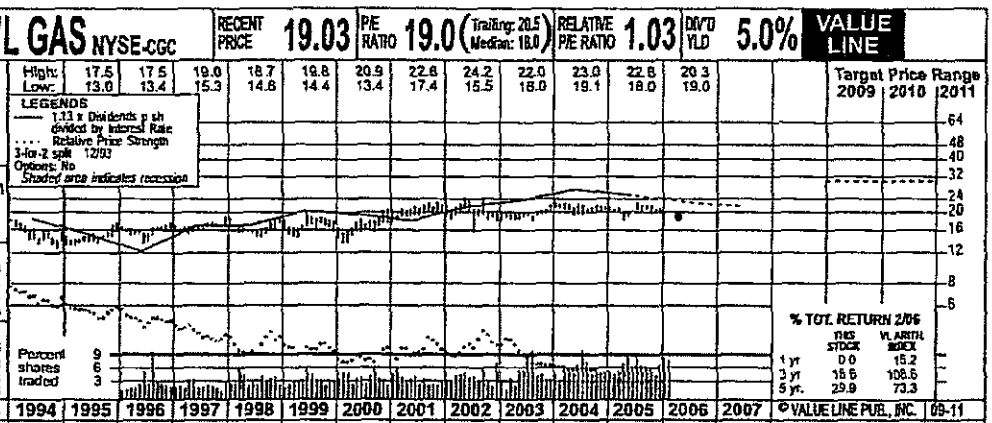
	Price	Gain	Ann'l Total Return
High	30	(+60%)	16%
Low	20	(+5%)	6%

Insider Decisions

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

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	35	44	38
to Sell	37	28	34
Hld's(000)	4474	4775	4695



1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
24.45	23.27	20.03	21.88	21.59	19.98	11.84	17.85	17.17	18.89	21.90	30.40	29.06	27.20	28.23	28.61	44.80	49.55	Revenues per sh [A]	66.40
2.36	2.29	1.66	2.04	1.71	2.07	1.22	1.92	2.06	2.40	2.60	2.72	2.48	2.25	2.63	2.32	2.55	2.75	"Cash Flow" per sh	4.20
1.26	1.14	.63	1.05	.60	.80	.39	.93	.84	1.24	1.39	1.47	1.13	.87	1.19	.82	1.00	1.15	Earnings per sh [AB]	1.55
.87	.90	.93	.94	.96	.96	.72	.96	.96	.96	.96	.96	.96	.96	.96	.96	.96	.96	Div'ds Decl'd per sh [C▪]	.96
2.50	2.97	4.64	3.85	3.06	4.12	2.42	2.66	2.32	1.81	1.65	2.16	1.91	2.56	3.50	2.53	1.90	2.20	Cap'l Spending per sh	4.00
8.33	8.63	9.09	9.96	9.81	9.76	10.09	10.16	10.07	10.36	10.79	11.01	10.34	10.11	10.52	10.39	12.35	14.30	Book Value per sh [D]	16.60
6.56	6.63	7.61	8.57	8.91	9.14	10.79	10.97	11.05	11.05	11.05	11.05	11.05	11.13	11.27	11.41	11.50	11.50	Common Shs Outst'g [E]	12.50
8.9	12.2	23.7	16.6	25.7	18.2	40.0	17.6	19.4	13.7	11.7	13.4	16.2	22.0	17.5	25.1	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	16.5
.56	.76	1.44	.98	1.69	1.22	2.51	1.01	1.01	.78	.76	.69	.99	1.25	.92	1.34			Relative P/E Ratio	1.10
7.8%	6.4%	6.2%	5.4%	6.2%	6.6%	4.6%	5.9%	5.9%	5.7%	5.9%	4.9%	4.7%	5.0%	4.6%	4.7%			Avg Ann'l Div'd Yield	3.9%
127.7	195.8	189.7	208.6	241.9	335.8	321.0	302.8	318.1	326.5	515	570	Revenues ($mill) [A]	830
4.2	10.6	9.8	14.2	15.4	16.2	12.5	9.7	13.3	9.2	11.5	13.2	Net Profit ($mill)	19.5
34.8%	37.1%	37.4%	36.5%	37.1%	35.0%	34.9%	34.2%	36.2%	37.5%	37.0%	37.0%	Income Tax Rate	37.0%
3.3%	5.4%	5.2%	6.8%	6.4%	4.8%	3.9%	3.2%	4.2%	2.8%	2.2%	2.3%	Net Profit Margin	2.3%
46.8%	50.6%	48.4%	50.9%	51.2%	50.7%	59.1%	55.9%	52.1%	59.4%	57.0%	55.0%	Long-Term Debt Ratio	51.0%
50.0%	46.5%	48.7%	46.6%	48.8%	49.3%	40.9%	44.1%	47.9%	40.6%	43.0%	45.0%	Common Equity Ratio	49.0%
217.8	239.4	228.5	245.6	244.2	246.6	279.1	255.5	247.4	292.5	330	365	Total Capital ($mill)	475
255.7	255.2	276.6	282.3	284.8	294.2	299.6	312.3	334.6	342.5	350	365	Net Plant ($mill)	470
3.4%	6.2%	6.1%	7.5%	8.1%	6.5%	6.4%	6.0%	7.7%	5.0%	5.0%	5.5%	Return on Total Cap'l	5.5%
3.6%	9.0%	8.3%	11.7%	12.9%	13.3%	10.9%	8.6%	11.2%	7.8%	8.0%	8.0%	Return on Shr Equity	8.5%
3.5%	9.1%	8.3%	12.0%	12.9%	13.3%	10.9%	8.6%	11.2%	7.8%	8.0%	8.0%	Return on Com Equity	8.5%
NMF	.7%	NMF	2.7%	4.0%	4.6%	1.7%	NMF	2.1%	NMF	.5%	1.5%	Retained to Com Eq	3.0%
NMF	93%	106%	78%	68%	65%	85%	110%	81%	118%	96%	84%	All Div'ds to Net Prof	63%

CAPITAL STRUCTURE as of 12/31/05

Total Debt $152.6 mill. Due in 5 Yrs $20.5 mill
LT Debt $165.7 mill. LT Interest $10.0 mill.
(LT interest earned: 2.3x; total interest coverage: 2.3x)

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

Pfd Stock None

Common Stock 11,442,516 shs.
as of 1/31/06
MARKET CAP: $225 million (Small Cap)

CURRENT POSITION [A]

($MILL.)	2004	2005	12/31/05
Cash Assets	.5	1.1	2.3
Other	65.9	141.0	163.6
Current Assets	66.4	142.1	165.9
Accts Payable	12.9	17.8	53.1
Debt Due	47.5	12.5	26.9
Other	38.6	111.9	77.1
Current Liab.	99.0	142.2	167.1
Fix. Chg. Cov.	269%	225%	250%

ANNUAL RATES of change (per sh)

	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	3.0%	7.5%	15.5%
"Cash Flow"	2.0%	.5%	10.0%
Earnings	1.5%	-3.5%	8.5%
Dividends	--	--	.5%
Book Value	.5%	--	10.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill) [A] Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	100.5	109.3	53.8	39.2	302.8
2004	104.9	119.4	52.1	41.7	318.1
2005	104.6	117.7	56.3	47.9	326.5
2006	158.6	167	100	89.4	515
2007	170	177	115	108	570

Fiscal Year Ends	EARNINGS PER SHARE [A B] Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	.60	.67	d.16	d.22	.87
2004	.72	.79	d.05	d.26	1.19
2005	.59	.65	d.10	d.32	.82
2006	.70	.70	d.12	d.28	1.00
2007	.75	.73	d.12	d.21	1.15

Calendar	QUARTERLY DIVIDENDS PAID [C▪] Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.24	.24	.24	.24	.96
2003	.24	.24	.24	.24	.96
2004	.24	.24	.24	.24	.96
2005	.24	.24	.24	.24	.96
2006	.24				

BUSINESS: Cascade Natural Gas Corporation distributes natural gas to roughly 227,000 customers in Washington and Oregon. In 2005, total throughput was 108.2 billion cu. ft. Core customers: residential, commercial, firm industrial, interruptible (71% of oper. margin, 24% of gas deliveries); non-core: industrial, transportation service (29%, 76%). Serves pulp & paper, plywood, chem. fertilizers, oil refining, & food process. inds. Main connecting pipeline: Northwest Pipeline Corp. '05 deprec. rate: 2.9%. Est'd plant age: 12 yrs. Has around 375 employees. Officers and directors own 1.8% of com. (12/05 proxy). President and Chief Executive Officer: David W. Stevens. Inc.: WA. Address: 222 Fairview Ave. North, Seattle, WA 98109. Tel.: 206-624-3900. Internet: www.cngc.com.

Share net for Cascade Natural Gas bounced back sharply for the first quarter of fiscal 2006 (ends September 30th) versus the year-ago tally. Consumption for the core residential and commercial business was boosted by cooler weather (especially during December), plus an expanded customer base. Furthermore, the performance of the electric generation segment, a key component of the industrial unit, also benefited from lower temperatures, as well as a settlement involving an inactive power plant. Finally, there was a decline in the company's labor expenses (attributable partly to better management of overtime) and employee benefits costs (reflecting the outsourcing of retiree medical obligations to an insurance firm).

At this juncture, indications point to a jump in the bottom line of about 22%, to $1.00 a share, this year. Assuming a continuation of positive business trends, share net stands to climb another 15%, to $1.15, in 2007.

A request for a general rate hike was filed with the Washington Utilities and Transportation Commission. (The last time Cascade had such a filing was in 1995.) The proposed new rates would generate additional annual revenues of $11.7 million. We note that our presentation will reflect this measure once approval is granted, which is hard to determine at this juncture.

Solid results appear to be in store for the company over the next three to five years. A generally favorable economic environment in the Pacific Northwest enabled the pace of new home and commercial construction to be steady in the past. We expect more of the same, which augurs well for Cascade's account hookups. Other positives include an automated meter reading system and a consolidated call center for customers. That said, share earnings may expand roughly 10% annually out to 2009-2011.

The equity offers a healthy dividend yield. But further increases in the distribution may be moderate, given future capital expenditures for the company's expanding customer base. Meanwhile, these shares are ranked 4 (Below Average) for Timeliness.

Frederick L. Harris, III *March 17, 2006*

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

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	55
Earnings Predictability	70

LACLEDE GROUP NYSE-LG

RECENT PRICE 32.37 | P/E RATIO 13.8 (Trailing: 13.8 / Median: 15.0) | RELATIVE P/E RATIO 0.75 | DIV'D YLD 4.4% | VALUE LINE

TIMELINESS 3 Raised 2/10/06
SAFETY 2 Raised 6/23/03
TECHNICAL 3 Lowered 11/18/05
BETA .60 (1.00 = Market)

2009-11 PROJECTIONS

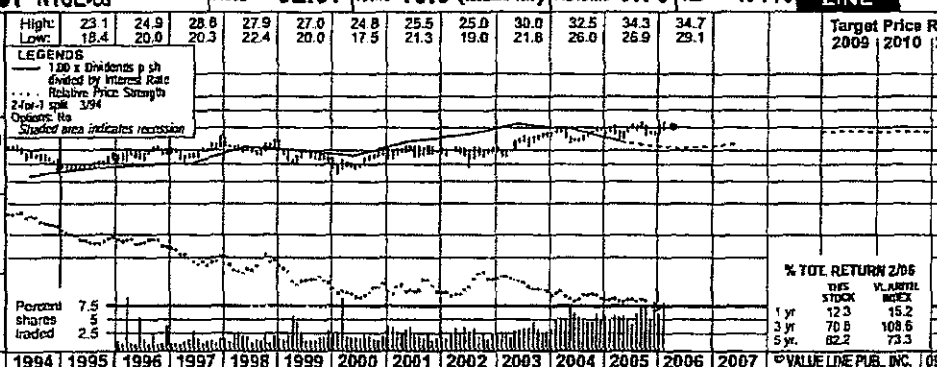
	Price	Gain	Ann'l Total Return
High	40	(+25%)	10%
Low	30	(-5%)	3%

Insider Decisions

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

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	48	51	50
to Sell	45	35	37
Hld's(000)	6382	6774	8521



1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
30.21	28.10	26.83	32.33	33.43	24.79	31.03	34.33	31.04	25.04	29.99	53.06	39.84	54.95	59.59	75.43	91.65	95.05	Revenues per sh	125.00
2.13	2.37	2.32	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	3.55	3.70	"Cash Flow" per sh	4.40
1.08	1.28	1.17	1.61	1.42	1.27	1.67	1.84	1.58	1.47	1.37	1.61	1.18	1.82	1.82	1.90	2.35	2.40	Earnings per sh A B	2.80
1.18	1.20	1.20	1.22	1.22	1.24	1.26	1.30	1.32	1.34	1.34	1.34	1.34	1.34	1.35	1.37	1.40	1.42	Div'ds Decl'd per sh C=	1.50
1.87	2.46	2.87	2.62	2.50	2.63	2.35	2.44	2.68	2.58	2.77	2.51	2.89	2.67	2.45	2.84	3.15	3.40	Cap'l Spending per sh	4.40
11.75	11.83	11.79	12.19	12.44	13.05	13.72	14.26	14.57	14.96	14.99	15.25	15.07	15.65	16.96	17.31	18.25	18.75	Book Value per sh D	22.30
15.59	15.59	15.59	15.59	15.67	17.42	17.56	17.56	17.63	18.68	18.68	18.68	18.96	19.11	20.58	21.17	21.50	21.50	Common Shs Outst'g E	24.00
14.6	12.5	15.8	13.5	16.4	15.5	11.9	12.5	15.5	15.8	14.9	14.5	20.0	13.6	15.7	16.2	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	12.5
1.08	.80	.96	.80	1.06	1.04	.75	.72	.81	.90	.97	.74	1.09	.78	.83	.86			Relative P/E Ratio	.85
7.5%	7.5%	6.5%	5.6%	5.3%	6.3%	5.6%	5.6%	5.4%	5.8%	6.6%	5.7%	5.7%	5.4%	4.7%	4.4%			Avg Ann'l Div'd Yield	4.3%
						544.8	602.8	547.2	491.6	566.1	1002.1	755.2	1050.3	1250.3	1597.0	1970	2130	Revenues ($mill) A	3000
						32.8	32.6	27.9	26.9	26.0	30.5	22.4	34.6	36.1	40.1	50.5	51.5	Net Profit ($mill)	70.0
						35.9%	36.1%	35.6%	35.5%	35.2%	32.7%	35.4%	35.0%	34.8%	34.1%	34.0%	34.0%	Income Tax Rate	35.0%
						6.0%	5.4%	5.1%	5.5%	4.6%	3.0%	3.0%	3.3%	2.9%	2.5%	2.6%	2.4%	Net Profit Margin	2.3%
						42.5%	38.0%	40.9%	41.8%	45.2%	49.5%	47.5%	50.4%	51.6%	48.1%	48.0%	48.0%	Long-Term Debt Ratio	49.0%
						57.1%	61.6%	58.6%	57.8%	54.5%	50.2%	52.3%	49.4%	48.3%	51.8%	52.0%	52.0%	Common Equity Ratio	51.0%
						422.2	406.8	438.0	488.6	519.2	574.1	546.6	605.0	737.4	707.9	755	775	Total Capital ($mill)	1050
						452.2	467.6	490.6	519.4	575.4	602.5	594.4	621.2	646.9	679.5	710	745	Net Plant ($mill)	900
						9.4%	9.7%	8.1%	7.1%	6.7%	6.9%	6.0%	7.4%	6.6%	7.7%	8.0%	8.0%	Return on Total Cap'l	8.0%
						13.5%	12.9%	10.8%	9.5%	9.1%	10.5%	7.8%	11.5%	10.1%	10.9%	13.0%	13.0%	Return on Shr. Equity	13.0%
						13.6%	12.9%	10.8%	9.5%	9.1%	10.5%	7.8%	11.6%	10.1%	10.9%	13.0%	13.0%	Return on Com Equity	13.0%
						4.5%	3.9%	1.8%	1.0%	.2%	1.8%	NMF	3.1%	2.7%	3.1%	5.0%	5.0%	Retained to Com Eq	6.5%
						67%	70%	83%	89%	98%	83%	113%	74%	73%	72%	60%	59%	All Div'ds to Net Prof	51%

CAPITAL STRUCTURE as of 12/31/05
Total Debt $650.0 mill. Due in 5 Yrs $175.0 mill.
LT Debt $340.5 mill. LT Interest $25.0 mill.
(Total interest coverage: 3.0x)

Leases, Uncapitalized Annual rentals $1.7 mill.
Pension Assets-9/05 $272.8 mill.
Oblig. $327.2 mill.
Pfd Stock $.9 mill. Pfd Div'd $.05 mill.
Common Stock 21,282,283 shs.
as of 1/27/06

MARKET CAP: $700 million (Small Cap)

CURRENT POSITION ($MILL.)	2004	2005	12/31/05
Cash Assets	13.9	6.0	23.6
Other	323.7	418.1	611.4
Current Assets	337.6	424.1	635.2
Accts Payable	68.4	138.4	227.8
Debt Due	96.5	110.7	309.5
Other	97.7	116.5	93.7
Current Liab	262.6	365.6	631.0
Fix. Chg. Cov.	279%	293%	285%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	7.5%	17.0%	12.0%
"Cash Flow"	1.0%	4.5%	7.0%
Earnings	2.5%	4.5%	7.0%
Dividends	1.0%	.5%	2.0%
Book Value	3.0%	2.5%	6.0%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	280.1	422.2	186.6	161.4	1050.3
2004	332.6	475.0	245.1	197.6	1250.3
2005	442.5	576.5	311.3	266.7	1597.0
2006	689.2	685	320	275.8	1970
2007	700	700	400	330	2130

Fiscal Year Ends	EARNINGS PER SHARE A B F Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	.80	1.14	.11	d.21	1.82
2004	.87	1.12	.19	d.28	1.82
2005	.79	1.06	.29	d.24	1.90
2006	1.23	1.10	.30	d.28	2.35
2007	1.21	1.13	.30	d.24	2.40

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

BUSINESS: Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri, including the city of St. Louis, St. Louis County, and parts of 8 other counties. Has more than 630,000 customers. Purchased SM&P for $43 million (1/02). Therms sold and transported in fiscal '05: 1.12 mill. Revenue mix for regulated operations: residential, 60%; commercial and industrial, 23%; transportation, 2%; other, 15%. Has about 3,815 employees; 6,270 common stockholders. Officers and directors own about 6.0% of common shares (1/06 Proxy). Chairman, Chief Executive Officer, and President: Douglas H. Yaeger. Incorporated: Missouri. Address: 720 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.lacledegas.com.

Laclede Group's share net rose considerably for the first quarter of fiscal 2006 (year ends September 30th). Laclede Gas Company, the core subsidiary, was aided by higher sales to entities that were outside the service territory, a general rate increase (effective since last October), and colder temperatures within the system. But the advance was limited, to a certain degree, by heightened operation and maintenance expenses. Meanwhile, margins for the non-regulated gas marketing segment, Laclede Energy Resources, widened nicely because of regional supply/demand imbalances caused by the recent hurricanes, plus a healthy flow of interstate pipeline wholesale transactions. Lastly, SM&P Utility Resources, an underground facility locating firm, benefited from the attainment of business in both new and existing markets, as well as profit-enhancement initiatives (which included new training methods and quality assurance programs).

At this juncture, the bottom line appears set to jump nearly 24%, to $2.35 a share, in fiscal 2006. Share net may flatten out next year, though, due to the difficult comparison.

Still, we do not envision any spectacular performances for the company out to 2009-2011. It appears that internal growth for Laclede Gas will remain modest, at best, since the customer base in the greater St. Louis area has been expanding less than 1% annually. As such, any substantial gains will have to come from the unregulated units or from major acquisitions, scenarios we don't see happening anytime soon. Consequently, annual bottom-line increases could only be in the mid-single-digit range over the 3- to 5-year period.

The stock offers an appealing dividend, which is amply secured by earnings. But hikes in the payout will likely be minimal, given that Laclede's gas service area is in a mature stage.

Long-term total-return potential is unexciting. That's because these shares are currently trading within our 2009-2011 Target Price Range, and we are assuming moderate dividend growth. Meanwhile, the equity is neutrally ranked for Timeliness.

Frederick L. Harris, III *March 17, 2006*

Company's Financial Strength	B+
Stock's Price Stability	95
Price Growth Persistence	45
Earnings Predictability	65

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

NEW JERSEY RES. NYSE-NJR

RECENT PRICE 43.48 | P/E RATIO 15.5 (Trailing: 14.4 Median: 15.0) | RELATIVE P/E RATIO 0.84 | DIV'D YLD 3.4% | VALUE LINE

TIMELINESS 4 Raised 2/17/06
SAFETY 2 New 7/27/90
TECHNICAL 3 Raised 3/10/06
BETA .80 (1.00 = Market)

2008-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	65	(+50%)	13%
Low	50	(+15%)	7%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	0	0
Options	0	5	0	0	3	0	1	4	0
to Sell	0	5	0	0	2	0	1	4	0

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	72	64	64
to Sell	54	62	80
Hld(000)	12971	13318	13455

High: 20.3 19.9 28.0 26.8 27.4 29.8 32.5 33.8 39.5 44.6 49.3 46.0
Low: 14.3 17.8 18.8 21.0 22.4 24.1 24.8 24.3 30.0 36.5 40.7 41.5

LEGENDS
1.18 x Dividends p sh divided by Interest Rate
Relative Price Strength
3-for-2 split 3/07
Options: No
Shaded area indicates recession

Target Price Range 2009 | 2010 | 2011

% TOT. RETURN 2/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	4.5	15.2
3 yr.	54.9	103.6
5 yr.	108.8	73.3

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
	16.01	15.99	16.88	18.02	19.22	17.03	20.22	25.97	26.59	33.98	44.13	76.62	66.17	93.43	91.33	114.29	118.20	122.80	Revenues per sh A	139.05
	1.54	1.58	1.95	2.14	2.31	2.13	2.22	2.45	2.60	2.79	2.99	3.18	3.21	3.58	3.75	3.92	4.15	4.35	"Cash Flow" per sh	5.10
	.65	.55	1.09	1.15	1.26	1.29	1.37	1.48	1.55	1.66	1.79	1.95	2.09	2.38	2.55	2.65	2.80	2.90	Earnings per sh B	3.30
	.96	1.00	1.01	1.01	1.01	1.01	1.03	1.07	1.09	1.12	1.15	1.17	1.20	1.24	1.30	1.36	1.46	1.52	Div'ds Decl'd per sh C=	1.70
	4.37	2.91	1.99	2.31	2.10	1.77	1.76	1.72	1.60	1.61	1.85	1.66	1.53	1.71	2.17	1.92	2.20	2.20	Cap'l Spending per sh	2.30
	8.85	8.57	9.44	9.81	9.64	9.70	10.10	10.38	10.88	11.35	12.43	13.20	13.06	15.38	16.87	15.90	17.50	19.15	Book Value per sh	25.15
	20.28	20.95	24.43	25.23	25.95	26.69	27.13	26.82	26.72	26.61	26.39	26.56	27.67	27.23	27.74	27.55	27.25	27.00	Common Shs Outst'g D	26.00
	24.0	22.3	12.4	15.1	13.0	11.7	13.6	13.5	15.3	15.2	14.7	14.2	14.7	14.0	15.3	16.8	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	17.0
	1.78	1.42	.75	.89	.85	.78	.85	.78	.80	.87	.96	.73	.80	.80	.81	.90			Relative P/E Ratio	1.15
	6.2%	8.1%	7.5%	5.8%	6.2%	6.7%	5.6%	5.3%	4.6%	4.5%	4.4%	4.2%	3.9%	3.7%	3.3%	3.1%			Avg Ann'l Div'd Yield	3.0%
							548.5	696.5	710.3	904.3	1164.5	2048.4	1830.8	2544.4	2533.6	3148.3	3220	3315	Revenues ($mill) A	3815
							38.7	41.5	43.3	44.9	47.9	52.3	56.8	65.4	71.6	74.4	78.0	80.0	Net Profit ($mill)	95.0
							32.6%	33.3%	30.4%	36.2%	37.8%	36.0%	38.7%	39.4%	39.1%	39.1%	39.0%	39.0%	Income Tax Rate	40.0%
							7.1%	6.0%	6.1%	5.0%	4.1%	2.6%	3.1%	2.6%	2.8%	2.4%	2.4%	2.5%	Net Profit Margin	2.6%
							50.7%	49.3%	51.2%	46.7%	47.0%	50.1%	50.6%	38.1%	40.3%	42.0%	41.0%	40.0%	Long-Term Debt Ratio	36.5%
							45.8%	47.1%	45.6%	51.2%	52.9%	49.9%	49.4%	61.9%	59.7%	58.0%	59.0%	60.0%	Common Equity Ratio	63.5%
							598.2	590.6	638.2	590.4	620.1	706.2	732.4	676.8	783.6	755.3	810	860	Total Capital ($mill)	1030
							655.2	659.4	680.0	705.4	730.6	743.9	756.4	852.6	860.4	905.1	950	990	Net Plant ($mill)	1150
							8.1%	8.6%	8.1%	9.0%	9.0%	8.5%	8.7%	10.7%	10.1%	11.2%	11.0%	11.0%	Return on Total Cap'l	10.5%
							13.1%	13.9%	13.9%	14.8%	14.6%	14.8%	15.7%	15.6%	15.3%	17.0%	16.5%	15.5%	Return on Shr. Equity	14.5%
							13.5%	14.3%	14.4%	14.8%	14.6%	14.9%	15.7%	15.6%	15.3%	17.0%	16.5%	15.5%	Return on Com Equity	14.5%
							3.4%	4.0%	4.4%	5.0%	5.4%	6.1%	6.9%	7.7%	7.8%	8.5%	8.0%	8.0%	Retained to Com Eq	7.5%
							76%	73%	71%	67%	63%	59%	56%	51%	49%	50%	51%	51%	All Div'ds to Net Prof	48%

CAPITAL STRUCTURE as of 12/31/05
Total Debt $687.1 mill. Due in 5 Yrs $500.0 mill.
LT Debt $335.4 mill. LT Interest $25.0 mill.
Incl. $6.9 mill. capitalized leases
(LT interest earned: 5.5x;
total interest coverage: 4.8x)
Pension Assets-9/05 $82.6 mill.
Oblig. $99.9 mill.
Pfd Stock None

Common Stock 27,618,779 shs
as of 1/31/06
MARKET CAP: $1.2 billion (Mid Cap)

CURRENT POSITION

($MILL.)	2004	2005	12/31/05
Cash Assets	5.0	25.0	8.2
Other	681.0	927.8	1045.0
Current Assets	686.0	952.8	1053.2
Accts Payable	42.9	54.7	35.4
Debt Due	287.4	177.4	351.7
Other	357.4	744.2	591.3
Current Liab.	687.7	976.3	978.4
Fix. Chg. Cov.	826%	660%	700%

ANNUAL RATES of change (per sh)

	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	18.5%	23.5%	5.5%
"Cash Flow"	5.5%	6.0%	5.5%
Earnings	7.5%	8.5%	4.5%
Dividends	2.5%	3.0%	4.5%
Book Value	5.0%	7.0%	8.0%

QUARTERLY REVENUES ($ mil.) A

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	668.9	1152.7	369.7	353.1	2544.4
2004	643.0	1037.7	438.5	414.4	2533.6
2005	854.0	1065.1	544.3	684.9	3148.3
2006	1164.6	985	560	510.4	3220
2007	1000	1150	610	555	3315

EARNINGS PER SHARE A B E

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	.85	1.50	.16	d.13	2.38
2004	.87	1.82	.06	d.20	2.55
2005	.91	1.84	.07	d.17	2.65
2006	1.23	1.77	.04	d.24	2.80
2007	1.13	1.84	.10	d.17	2.90

QUARTERLY DIVIDENDS PAID C=

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	30	30	30	30	1.20
2003	31	31	31	31	1.24
2004	325	325	325	325	1.30
2005	34	34	34	34	1.36
2006	35				

BUSINESS: New Jersey Resources Corp. is the holding company for New Jersey Natural Gas Co., a natural gas utility (about 463,000 customers at 9/30/05) in Monmouth, Ocean, and parts of other N.J counties. Fiscal 2005 volume: 124.7 bill. cu. ft (50% firm, 8% interruptible industrial and electric utility, 42% off-system and capacity release). New Jersey Natural Energy subsid. provides unregulated retail and wholesale natural gas and related energy services to customers in 17 states. 2005 deprec. rate: 2.8%. Est'd plant age: 8 years. Has 551 utility employees, 16,300 stockholders. Off & dir. own about 3% of common stock (12/05 Proxy). Chairman and CEO: Laurence M. Downes, Inc.: N.J. Address: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 908-938-1480. Internet: www.njliving.com.

New Jersey Resources began fiscal 2006 (ends September 30th) on a strong note. The company reported earnings of $1.23 a share, a 35% increase from the year-ago period. Almost all of these gains can be attributed to the performance of the Wholesale energy-marketing segment, where earnings rose nearly 130%, to $15 million. This was due to market volatility and higher natural gas prices that ensued as a result of the damage from hurricanes Katrina and Rita. This allowed NJR, through its energy operations, to benefit from its storage and pipeline capacity. Moreover, storage capacity typically becomes more valuable during times when prices are fluctuating, though, the company is also protected through the use of financial hedges.

The company's primary subsidiary, New Jersey Natural Gas (NJNG), reported decent results. The utility continues to benefit from strong customer growth, which has been offset somewhat by reduced customer usage from higher natural gas prices. During the December period, NJNG added 3,424 customers to its service territory, and management anticipates a growth rate of about 2.3% in 2006. Also, in December, NJNG filed a Conservation and Usage Adjustment clause with the New Jersey Board of Public Utilities. The plan, which is currently under review, would allow NJNG to capture changes related to weather and customer usage, and would be measured against a benchmark on an annual basis. In addition, NJNG received approval to implement a 23% increase in prices as a result of higher gas prices. Even so, this will have no impact on its reported gross margins since these costs were necessary to recover the higher costs of gas in its supply and were passed onto customers.

These shares are good quality, and the company's consistent results are reflected in the stock price. Recently, the board increased its share-repurchase program, and coupled with strong customer growth and contributions from the company's wholesale business, this should support steady earnings advances. However, the yield doesn't stand out from the group. The stock is also not favorably ranked for year-ahead performance.

Evan I. Blatter *March 17, 2006*

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

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

NICOR, INC. NYSE-GAS

RECENT PRICE 41.70 | P/E RATIO 18.0 (Trailing: 18.2 / Median: 14.0) | RELATIVE P/E RATIO 0.97 | DIV'D YLD 4.5% | VALUE LINE

TIMELINESS 4 Lowered 5/13/05
SAFETY 3 Lowered 6/17/05
TECHNICAL 3 Lowered 11/7/05
BETA 1.15 (1.00 = Market)

2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+30%)	11%
Low	35	(-15%)	1%

Insider Decisions

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

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	120	119	117
to Sell	78	81	97
Hld's(000)	28108	30060	30965

High:	28.5	37.1	42.9	44.4	42.9	43.9	42.4	49.0	39.3	39.7	43.0	43.1
Low:	21.8	25.4	30.0	37.1	31.2	29.4	34.0	17.3	23.7	32.0	35.5	39.0

LEGENDS
1.30 x Dividends p sh divided by Interest Rate
Relative Price Strength
2-for-1 split 4/93
Options: Yes
Shaded area indicates recession

Target Price Range 2009 | 2010 | 2011

% TOT. RETURN 2/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	20.6	15.2
3 yr.	66.6	100.6
5 yr.	48.9	73.3

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
26.52	26.46	26.90	31.02	31.23	29.42	37.39	41.33	30.84	34.45	50.52	57.30	43.11	60.46	62.12	76.00	71.25	68.85	Revenues per sh	71.75
3.86	3.92	4.14	3.80	4.11	4.19	4.97	5.28	5.21	5.59	6.16	6.41	6.03	5.37	6.00	6.19	6.25	6.55	"Cash Flow" per sh	6.95
1.93	1.86	1.92	1.97	2.07	1.96	2.42	2.65	2.31	2.57	2.94	3.01	2.68	2.11	2.22	2.27	2.40	2.55	Earnings per sh [A]	2.80
1.06	1.12	1.18	1.22	1.25	1.28	1.32	1.40	1.48	1.54	1.66	1.76	1.84	1.86	1.86	1.86	1.86	1.88	Div'ds Decl'd per sh [B] ■	2.02
3.00	3.65	3.12	2.62	3.34	3.12	2.42	2.34	2.87	3.26	3.48	4.18	4.37	4.12	4.32	4.57	4.50	4.50	Cap'l Spending per sh	4.50
11.67	12.28	12.76	13.05	13.26	13.67	14.74	15.43	15.97	16.80	15.56	16.39	16.55	17.13	16.99	18.36	18.90	19.55	Book Value per sh	21.40
57.33	57.30	55.77	53.96	51.54	50.30	49.49	48.22	47.51	46.89	45.49	44.40	44.01	44.04	44.10	44.18	44.20	44.30	Common Shs Outst'g [C]	44.60
10.7	11.5	11.6	14.1	12.5	13.1	12.5	14.2	17.6	14.6	11.9	12.8	13.1	15.8	15.9	17.3	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	16.0
.79	.73	.70	.83	.82	.88	.76	.82	.92	.83	.77	.66	.72	.90	.84	.92			Relative P/E Ratio	1.05
5.1%	5.2%	5.3%	4.4%	4.8%	5.0%	4.4%	3.9%	3.6%	4.1%	4.7%	4.6%	4.9%	5.6%	5.3%	4.7%			Avg Ann'l Div'd Yield	4.5%
1850.7	1992.6	1465.1	1615.2	2296.1	2544.1	1897.4	2662.7	2739.7	3357.8	3150	3950	Revenues ($mill)	3200
121.2	124.3	111.1	121.9	136.4	136.3	128.0	93.1	98.1	101.1	105	115	Net Profit ($mill)	125
35.8%	35.0%	34.4%	34.7%	34.8%	33.5%	31.0%	35.2%	31.8%	28.3%	34.0%	34.0%	Income Tax Rate	34.0%
6.5%	6.2%	7.6%	7.5%	5.9%	5.4%	6.7%	3.5%	3.6%	3.0%	3.3%	3.8%	Net Profit Margin	3.9%
41.3%	42.3%	42.1%	35.5%	32.7%	37.8%	35.1%	39.6%	39.8%	37.4%	36.5%	36.0%	Long-Term Debt Ratio	34.0%
58.1%	57.2%	57.4%	64.0%	66.7%	61.7%	64.5%	60.3%	60.1%	62.6%	63.5%	64.0%	Common Equity Ratio	66.0%
1255.1	1300.6	1322.6	1230.1	1061.2	1180.1	1128.9	1251.5	1246.0	1297.7	1320	1350	Total Capital ($mill)	1450
1771.9	1735.8	1731.8	1735.2	1729.6	1768.6	1796.8	2484.2	2549.8	2659.1	2750	2850	Net Plant ($mill)	3150
11.1%	11.1%	9.9%	10.9%	13.7%	12.3%	12.2%	8.3%	8.8%	8.9%	8.5%	9.5%	Return on Total Cap'l	9.5%
16.4%	16.6%	14.5%	15.4%	19.1%	18.6%	17.5%	12.3%	13.1%	12.5%	12.5%	13.5%	Return on Shr. Equity	13.0%
16.6%	16.7%	14.6%	15.4%	19.2%	18.7%	17.5%	12.3%	13.1%	12.5%	12.5%	13.5%	Return on Com Equity	13.0%
7.6%	7.6%	5.4%	6.2%	8.5%	7.9%	6.5%	1.5%	2.1%	2.3%	3.0%	3.5%	Retained to Com Eq	3.5%
54%	55%	63%	60%	56%	58%	63%	88%	84%	81%	78%	72%	All Div'ds to Net Prof	72%

CAPITAL STRUCTURE as of 12/31/05
Total Debt $1121.8 mill. Due in 5 Yrs $495.7 mill.
LT Debt $485.8 mill. LT Interest $25.0 mill.
(Total interest coverage: 4.0x)

Pension Assets-12/04 $424.0 mill Oblig. $284.4 mill

Pfd Stock $.6 mill. Pfd Div'd Nil
11,681 shares of 4.48% redeemable preferred stock
Common Stock 44,192,259 shares as of 2/21/06
MARKET CAP: $1.8 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2003	2004	12/31/05
Cash Assets	83.2	83.2	126.9
Other	832.7	937.7	1218.8
Current Assets	915.9	1020.9	1345.7
Accts Payable	385.4	502.9	658.2
Debt Due	575.0	490.2	636.0
Other	108.3	178.3	328.7
Current Liab.	1068.7	1171.4	1622.9
Fix. Chg. Cov.	437%	428%	NMF

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '09-'11
Revenues	6.0%	9.0%	1.5%
"Cash Flow"	3.5%	1.5%	3.0%
Earnings	2.0%	-0.5%	4.0%
Dividends	4.5%	4.5%	1.5%
Book Value	2.5%	1.0%	3.5%

Calendar	QUARTERLY REVENUES ($ mill) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	1171.3	452.8	294.8	743.8	2662.7
2004	1115.7	429.5	299.9	894.6	2739.7
2005	1179.9	484.4	336.0	1357.5	3357.8
2006	1200	500	350	1100	3150
2007	1150	500	350	1050	3050

Calendar	EARNINGS PER SHARE [A] Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	1.11	.21	.01	.78	2.11
2004	.96	.44	d.26	1.08	2.22
2005	.98	.35	d.06	1.02	2.27
2006	.95	.40	d.05	1.10	2.40
2007	1.05	.40	d.05	1.15	2.55

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

BUSINESS: Nicor Inc. is a holding company with gas distribution as its primary business. Serves over 2.1 million customers in northern and western Illinois. 2004 gas delivered: 473.2 bcf, incl. 217.7 bcf from transportation. 2004 gas sales (255.5 bcf): residential, 80%; commercial, 17%; industrial, 3%. Principal supplying pipelines: Natural Gas Pipeline, Midwestern Gas, and Northern Natural. Current operations include Tropical Shipping subsidiary and several energy related ventures. Divested inland barging, 7/86; contract drilling, 9/86; oil and gas E&P, 6/93. Has about 3,600 employees, 23,700 stkhldrs. Off./dir own about 1.9% of cmmn. stk. (4/05 proxy). Chairman and CEO: Russ Strobel. Inc.: IL. Addr.: 1844 Ferry Road, Naperville, IL 60563. Tel.: 630-305-9500. Internet: www.nicor.com.

Our near-term earnings estimates for Nicor are somewhat tentative. In late 2005, the company had received approval from the Illinois Commerce Commission (ICC) for a base rate increase of $54.2 million. But certain matters with respect to the rate case are currently under rehearing by the ICC. Depending on the outcome, expected soon, Nicor's level of rate relief may be subject to change. In the worst-case scenario, there would be a $7.1 million reduction in additional annual revenues. On the upside, the company may be awarded another $0.9 million annually. In light of the uncertainty regarding the final decision, our top- and bottom-line estimates may be subject to revision. However, we think that the ICC will strongly consider the original base rate increase, given the latest setbacks at the core natural gas distribution business.

Unseasonably warm weather conditions should weigh on profits in 2006. There has been a significant deviation from normal weather conditions within Nicor's service region through the first two months of the year. As of February 20, 2006, weather was estimated to be 330 degree days warmer than normal. Management indicated that a 100-degree day variance from normal weather would impact earnings by approximately $1.5 million-$2 million. (Our earnings estimates for 2007 are partly based on a return to more-seasonable temperatures.) To make matters worse, operating and maintenance expenses are likely to climb, offsetting incremental revenues from the aforementioned rate case.

We do not expect to see a meaningful increase in dividends anytime soon. It ought to be challenging for Nicor to raise the dividend in the near term, based on our cash flow projections. Other considerations include working capital requirements, as well as the planned capital expenditure budget of $198 million in 2006.

Nicor stock is ranked 4 (Below Average) for the year ahead. Operational hurdles, such as mounting wages and benefits costs, coupled with the negative impact of warmer weather in the early months of 2006, are reasons for concern. The stock's high yield, from a well-covered dividend, is the main appeal here.

Charles W. Noh *March 17, 2006*

(A) Based on primary earnings thru. '96, then diluted. Excl. nonrecurring gains/(loss): '89, 7¢; '97, 6¢; '98, 11¢; '99, 5¢; '00, ($1.96); '01, 16¢; '03, (27¢); '04, (52¢); '05, 80¢. Excl. items from discontinued ops.: '93, 4¢; '96, 30¢. Quarterly earnings may not sum to total due to rounding. Next earnings report due late April.
(B) Dividends historically paid early February, May, August, November. ■ Dividend reinvestment plan available. (C) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	60
Price Growth Persistence	45
Earnings Predictability	75

N.W. NAT'L GAS NYSE-NWN

RECENT PRICE 33.58 | P/E RATIO 15.7 (Trailing: 16.1 / Median: 14.0) | RELATIVE P/E RATIO 0.85 | DIV'D YLD 4.1% | VALUE LINE

TIMELINESS 4 Lowered 9/16/05
SAFETY 1 Raised 3/18/05
TECHNICAL 3 Raised 3/10/06
BETA .70 (1.00 = Market)

2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+35%)	11%
Low	35	(+5%)	5%

Insider Decisions

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

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	77	65	59
to Sell	38	49	54
Hlds(000)	13459	13457	12922

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
High:	22.6	25.9	31.4	30.8	27.9	27.5	26.8	30.7	31.3	34.1	39.8	36.8							Target Price Range 2009	2010	2011
Low:	18.3	20.8	23.0	24.3	19.5	17.8	21.7	23.5	24.0	27.5	32.4	32.8									
	17.02	16.74	14.10	18.15	18.30	16.02	16.86	15.82	16.77	18.17	21.09	25.78	25.07	23.57	25.69	33.01	39.65	42.25	Revenues per sh	51.80
	3.22	2.57	3.25	3.74	3.50	3.41	3.86	3.72	3.24	3.72	3.68	3.86	3.65	3.85	3.92	4.34	4.60	4.60	"Cash Flow" per sh	5.10
	1.52	.67	.74	1.74	1.63	1.61	1.97	1.76	1.02	1.70	1.79	1.88	1.62	1.76	1.86	2.11	2.25	2.40	Earnings per sh A	2.85
	1.10	1.13	1.15	1.17	1.17	1.18	1.20	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.30	1.32	1.38	1.42	Div'ds Decl'd per sh B=	1.70
	3.85	3.56	3.73	3.61	4.23	3.02	3.78	5.07	4.02	4.78	3.46	3.23	3.11	4.90	5.52	3.22	3.60	3.60	Cap'l Spending per sh	3.60
	12.61	12.23	12.41	13.08	13.63	14.55	15.37	16.02	16.59	17.12	17.93	18.56	18.88	19.52	20.64	21.27	21.95	22.90	Book Value per sh	25.55
	17.41	17.68	19.46	19.77	20.13	22.24	22.56	22.86	24.85	25.09	25.23	25.23	25.59	25.94	27.55	27.58	27.75	27.80	Common Shs Outst'g C	28.00
	10.2	28.1	27.0	12.9	13.0	12.9	11.7	14.4	26.7	14.5	12.4	12.9	17.2	15.6	16.7	17.0	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	14.0
	.76	1.79	1.64	.76	.85	.86	.73	.83	1.39	.83	.81	.66	.94	.90	.88	.90			Relative P/E Ratio	.95
	6.7%	5.9%	5.7%	5.2%	5.5%	5.7%	5.2%	4.8%	4.5%	5.0%	5.6%	5.1%	4.5%	4.6%	4.2%	3.7%			Avg Ann'l Div'd Yield	4.3%
	380.3	361.8	416.7	455.8	532.1	650.3	641.4	611.3	707.6	910.5	1100	1175	Revenues ($mill)	1450
	46.8	43.1	27.3	44.9	47.8	50.2	43.8	46.0	50.6	58.1	62.5	66.5	Net Profit ($mill)	77.0
	36.9%	32.9%	31.0%	35.4%	35.9%	35.4%	34.9%	33.7%	34.4%	36.0%	35.0%	35.0%	Income Tax Rate	35.0%
	12.3%	11.9%	6.6%	9.9%	9.0%	7.7%	6.8%	7.5%	7.1%	6.4%	5.7%	5.7%	Net Profit Margin	5.3%
	41.4%	46.0%	45.0%	46.0%	45.1%	43.0%	47.6%	49.7%	46.0%	47.0%	47.0%	47.0%	Long-Term Debt Ratio	47%
	52.6%	49.0%	50.6%	49.9%	50.9%	53.2%	51.5%	50.3%	54.0%	53.0%	53.0%	53.0%	Common Equity Ratio	53%
	657.4	748.0	815.6	881.5	887.8	880.5	937.3	1006.6	1052.5	1108.4	1150	1200	Total Capital ($mill)	1350
	745.3	827.5	894.7	895.9	934.0	965.0	995.6	1205.9	1318.4	1338.5	1375	1400	Net Plant ($mill)	1500
	8.9%	7.4%	5.0%	6.8%	6.7%	6.9%	5.9%	5.7%	5.9%	7.0%	7.0%	7.0%	Return on Total Cap'l	7.0%
	12.1%	10.7%	6.1%	9.7%	9.8%	10.0%	8.9%	9.1%	8.9%	10.0%	10.0%	10.5%	Return on Shr. Equity	10.5%
	12.7%	11.0%	6.0%	9.9%	10.0%	10.2%	8.5%	9.0%	8.9%	10.0%	10.0%	10.5%	Return on Com Equity	10.5%
	5.0%	3.6%	NMF	2.8%	3.1%	3.5%	1.9%	2.6%	2.7%	3.7%	3.7%	3.7%	Retained to Com Eq	3.8%
	63%	70%	118%	74%	70%	67%	79%	72%	69%	63%	61%	59%	All Div'ds to Net Prof	60%

% TOT. RETURN 2/06

	THIS STOCK	VL ARITH. INDEX
1 yr	-2.4	15.2
3 yr	58.3	108.6
5 yr	72.8	73.3

CAPITAL STRUCTURE as of 12/31/05
Total Debt $656.2 mill. Due in 5 Yrs $76.0 mill.
LT Debt $521.5 mill. LT Interest $31.0 mill.

(Total interest coverage: 3.5x)

Pension Assets-12/05 $218.6 mill.
Oblig. $267.9 mill.
Pfd Stock None

Common Stock 27,582,296 shs.
as of 2/23/06
MARKET CAP $925 million (Small Cap)

CURRENT POSITION ($MILL.)	2003	2004	12/31/05
Cash Assets	4.7	5.2	7.1
Other	194.8	231.9	316.6
Current Assets	199.5	237.1	323.7
Accts Payable	86.0	102.5	135.3
Debt Due	85.2	117.5	134.7
Other	43.2	47.3	56.6
Current Liab.	214.4	267.3	326.6
Fix. Chg. Cov.	280%	316%	340%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '09-'11
Revenues	4.0%	8.0%	11.00
"Cash Flow"	1.0%	1.5%	4.5%
Earnings	2.5%	3.0%	7.0%
Dividends	1.0%	1.0%	4.0%
Book Value	4.0%	3.5%	3.5%

Calendar	QUARTERLY REVENUES ($ mill) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	206.5	117.5	69.5	217.8	611.3
2004	254.5	109.7	81.4	262.0	707.6
2005	308.7	153.7	106.7	341.4	910.5
2006	375	200	150	375	1100
2007	400	215	160	400	1175

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	1.01	.17	d.25	.83	1.76
2004	1.24	d.03	d.30	.95	1.86
2005	1.43	.04	d.31	.93	2.11
2006	1.50	.02	d.31	1.04	2.25
2007	1.55	.05	d.30	1.10	2.40

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

BUSINESS: Northwest Natural Gas Co (doing business as NW Natural) distributes natural gas at retail to 90 communities, 617,000 customers, in Oregon (90% of custs.) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.4 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system to bring gas to market. Owns local underground storage. Rev. breakdown: resident'l & comm'l, 80%; ind., 8%; transport. and other, 12%. Employs 1,3050. Has abt 9,200 com. shrhldrs. Insiders own about 1% of com. (4/05 proxy). CEO: Mark S. Dodson. Inc.: OR. Addr.: 220 NW 2nd Ave., Portland, OR 97209. Telephone: 503-226-4211. Web: www.nwnatural.com.

Northwest Natural ended a fine 2005 on a decent note. Excluding the costs of settling a dispute with some industrial customers, fourth-quarter 2005 earnings per share would have risen a few percent. The larger-than-normal earnings gain for all of 2005 resulted mostly from higher-than-average rate increases, profits from gas cost hedging, and earnings from storage operations. That said, customer growth also made a major contribution to the strong 2005 results as Northwest raised its customer count by over 3% for the 19th year in a row.

We look for a more normal earnings gain this year. Customer growth will likely continue at a healthy rate, very likely at the 3% plus recent rate as Oregon gains population. With weather normalization and conservation clauses in its Oregon residential rates, Northwest is largely protected from (and can also benefit little) from changes in consumption due to warmer- or colder-than-average temperatures and conservation, should high gas costs persist. Industrial gas sales should rise, as gas currently has a price advantage relative to oil. Finally, operation and maintenance costs will probably increase by less than the 11% rate in 2005 as the company begins to read about a third of its meters automatically.

Earnings will probably continue to benefit from above-average customer growth. Local use of gas in residences is relatively low, at 53%, giving Northwest good potential to profit from converting houses from other fuels. The company estimates that total prospects of around 480,000 include about 320,000 with a gas main either in their street or a few blocks away. And Northwest targets its marketing on the profitable prospects — those more likely to convert at modest cost to the utility. With OPEC apparently in firm control of oil prices, industrial customers will likely continue to use gas for fuel. Finally, acquisitions could help, given NWN's relatively low debt-to-capital ratio.

These untimely shares have some appeal for conservative investors. While their dividend yield is below the industry average, the payout ratio is on the low side, and Northwest has better growth prospects than most gas utilities.

Sigourney B. Romaine *March 17, 2006*

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

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	70

PEOPLES ENERGY NYSE-PGL

RECENT PRICE 36.82 | P/E RATIO 16.4 (Trailing: 15.2, Median: 14.0) | RELATIVE P/E RATIO 0.88 | DIV'D YLD 5.9% | VALUE LINE

TIMELINESS 4 Raised 2/3/06
SAFETY 2 Lowered 3/17/06
TECHNICAL 3 Raised 2/17/06
BETA .85 (1.00 = Market)

2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+50%)	15%
Low	40	(+10%)	7%

Insider Decisions

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

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	94	105	92
to Sell	79	66	82
Hld(000)	22022	21808	21830

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
	35.63	33.69	31.54	36.09	36.70	29.60	34.29	36.34	32.28	33.66	40.16	64.13	41.81	58.28	59.90	68.05	75.90	75.65	Revenues per sh A	78.55
	3.74	3.73	3.67	3.85	3.99	3.68	4.98	4.92	4.44	4.74	5.58	5.84	5.59	5.88	5.32	5.30	5.40	5.40	"Cash Flow" per sh	5.85
	2.07	2.05	2.06	2.11	2.13	1.78	2.96	2.81	2.25	2.39	2.71	3.16	2.80	2.88	2.18	2.26	2.25	2.40	Earnings per sh B	2.70
	1.65	1.71	1.76	1.78	1.80	1.80	1.82	1.87	1.91	1.95	2.00	2.04	2.07	2.12	2.16	2.18	2.18	2.18	Div'ds Decl'd per sh C=	2.24
	3.15	3.10	3.40	3.77	2.50	2.75	2.45	2.55	4.05	6.45	7.02	7.52	5.66	5.10	5.02	4.26	4.35	4.25	Cap'l Spending per sh	4.30
	16.61	16.95	17.72	18.02	18.39	18.38	19.49	20.43	21.03	21.66	22.02	22.76	22.74	23.11	23.06	20.95	20.65	20.40	Book Value per sh D	20.60
	32.70	32.76	34.77	34.86	34.87	34.91	34.96	35.07	35.26	35.49	35.30	35.40	35.46	36.69	36.69	38.16	39.00	40.00	Common Shs Outst'g E	42.00
	11.2	11.8	13.1	15.0	13.3	14.7	10.7	12.7	15.2	15.5	12.1	12.3	13.3	13.4	19.1	18.9	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	17.0
	.63	.75	.79	.89	.67	.98	.67	.73	.84	.88	.79	.63	.73	.76	1.02	1.00			Relative P/E Ratio	1.15
	7.1%	7.0%	6.5%	5.6%	6.3%	6.9%	5.7%	5.2%	5.2%	5.3%	6.1%	5.2%	5.5%	5.5%	5.2%	5.1%			Avg Ann'l Div'd Yield	4.9%
	1198.7	1274.4	1133.1	1194.4	1417.5	2270.2	1482.5	2138.4	2260.2	2599.6	2960	3025	Revenues ($mill) A	3300
	103.4	98.4	79.4	84.8	96.1	111.7	99.3	103.9	81.6	86.2	90.0	95.0	Net Profit ($mill)	115.0
	37.6%	36.4%	36.2%	35.9%	34.1%	35.4%	34.2%	36.3%	31.7%	36.4%	36.0%	36.0%	Income Tax Rate	35.0%
	8.6%	7.7%	7.0%	7.1%	6.8%	4.9%	6.7%	4.9%	3.6%	3.3%	3.0%	3.2%	Net Profit Margin	3.4%
	43.6%	42.4%	41.1%	40.4%	35.1%	44.4%	40.7%	46.7%	50.8%	52.6%	52.6%	52.3%	Long-Term Debt Ratio	50.5%
	56.4%	57.6%	58.9%	59.6%	64.9%	55.6%	59.3%	53.3%	49.2%	47.2%	47.4%	47.7%	Common Equity Ratio	49.1%
	1208.3	1243.5	1258.0	1290.5	1196.7	1449.8	1360.3	1592.3	1767.5	1695.8	1760	1710	Total Capital ($mill)	1760
	1381.1	1402.2	1446.7	1519.8	1545.3	1753.9	1773.9	1838.2	1904.2	1947.3	1970	2040	Net Plant ($mill)	2370
	10.3%	9.5%	7.8%	8.0%	9.5%	9.3%	8.4%	8.1%	6.0%	6.6%	7.0%	7.0%	Return on Total Cap'l	8.0%
	15.2%	13.7%	10.7%	11.0%	12.4%	13.9%	12.3%	12.3%	9.4%	10.8%	11.0%	11.5%	Return on Shr. Equity	13.5%
	15.2%	13.7%	10.7%	11.0%	12.4%	13.9%	12.3%	12.3%	9.4%	10.8%	11.0%	11.5%	Return on Com Equity	13.5%
	5.9%	4.7%	1.7%	2.1%	3.4%	5.0%	3.3%	3.4%	.2%	.5%	.5%	1.0%	Retained to Com Eq	2.5%
	61%	68%	84%	81%	73%	64%	73%	73%	97%	95%	94%	92%	All Div'ds to Net Prof	82%

% TOT. RETURN 2/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	-8.5	15.2
3 yr.	19.1	100.6
5 yr.	20.2	73.3

CAPITAL STRUCTURE as of 12/31/05
Total Debt $1072.5 mill. Due in 5 Yrs $226.9 mill.
LT Debt $895.2 mill. LT Interest $50.0 mill.
(Total interest coverage: 2.9x)

Pension Assets-9/05 $480.6 mill.
Oblig. $508.6 mill.

Pfd Stock None

Common Stock 38,347,808 shs.
as of 1/31/06
MARKET CAP: $1.4 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2004	2005	12/31/05
Cash Assets	21.1	43.5	48.2
Other	531.3	855.1	1079.9
Current Assets	552.4	898.6	1128.1
Accts Payable	144.7	236.2	418.0
Debt Due	55.6	8.1	177.3
Other	335.8	657.4	489.2
Current Liab	536.1	901.7	1084.5
Fix. Chg. Cov.	304%	332%	190%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '09-'11
Revenues	4.5%	9.5%	5.5%
"Cash Flow"	4.0%	3.5%	0.5%
Earnings	2.5%	1.0%	0.5%
Dividends	1.5%	2.0%	1.0%
Book Value	2.5%	2.0%	-1.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mil.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	549.2	903.8	398.1	287.3	2138.4
2004	604.9	927.0	401.1	327.2	2260.2
2005	737.4	1026.9	455.9	379.4	2599.6
2006	1052.4	1065	465	377.6	2960
2007	1070	1105	470	380	3025

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	.87	1.77	.22	.04	F 2.87
2004	.85	1.48	.15	d.27	F 2.18
2005	.77	1.37	.18	d.06	2.26
2006	.93	1.29	.22	d.19	2.25
2007	.95	1.30	.20	d.05	2.40

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

BUSINESS: Peoples Energy Corporation distributes natural gas via its utility subsidiaries, Peoples Gas Light & Coke Co. (approx 814,000 customers at 9/30/05) and North Shore Gas Co. (155,000), in Chicago and northeastern Illinois. Fiscal 2004 gas distribution revenues: $1.7 billion: residential, 78%; commercial, 15%; industrial, 3%; other, 3%. Main supplier is Natural Gas Pipeline Co. of America. Purchased gas costs and revenue taxes accounted for 76% of gas revenues in fiscal '05. Depreciation rate: 5.5%. Est'd plant age: 11 years. Has 2,182 empls. 19,236 shareholders. Off. and Dir. own 1.5% of common (1/06 Proxy). Chrmn. and CEO: Thomas Patrick, Inc.: IL. Address: 130 E. Randolph Dr., Chicago, IL 60601. Tel.: 312-240-4730. Internet: www.peoplesenergy.com.

Share earnings at Peoples Energy should be relatively flat in 2006, as margins narrow. Partially as a result of warmer weather in January, management is anticipating EPS at the low end of its projected guidance of $2.25-$2.45. From 2007 to the end of the decade, we expect earnings growth to resume, albeit at a moderate pace.

On March 6th, the Illinois Commerce Commission (ICC) approved an amended settlement with Peoples Energy. The agreement, between the company's subsidiaries and the Illinois attorney general, the city of Chicago, and the Citizens Utility Board, was related to natural gas charges for 2000-2004. As part of the settlement, PGL will pay $100 million in customer refunds, spend up to $30 million funding conservation programs, and cease collections on roughly $207 million in customer bad debt. The settlement was a tough pill to swallow, but it clears the way to focus on normal operations.

The company recently acquired oil and gas properties by way of subsidiary Peoples Energy Production. The deal involved the purchase of property in east Texas, north Louisiana, and Mississippi for about $139 million. This remains consistent with the company's strategy of acquiring property with proven reserves and upside potential, as management expects the company to enjoy an abundance of low-risk drilling opportunities in the coming years. Also, the company appears poised to exit the power generation business, as PGL is currently looking to sell its power assets.

Peoples Energy faces a period of transition in 2006, as CEO Thomas M. Patrick recently announced his intention to retire within a year. The board is currently in the process of screening for successor candidates.

Despite the high dividend yield, shares of PGL are not particularly attractive. Although we believe management intends to maintain the current dividend, a payout ratio of 95% reduces the company's financial flexibility. Some much-needed rate relief is in the preliminary stages. There's a chance this may become effective early in fiscal 2007. For now, the stock is untimely.

Michael F. Napoli *March 17, 2006*

(A) Fiscal year ends Sept. 30th.
(B) Diluted earnings per share. Excludes nonrecurring gains/(losses): '05, ($0.21); 1Q, '06, ($1.44). Next earnings report due late April.
(C) Dividends historically paid mid-January, April, July, October. ■ Dividend reinvestment plan available.
(D) Includes deferred charges. At 9/30/05: $47.9 mill., $1.26/sh.
(E) In millions.
(F) Earnings don't sum due to change in shares outstanding.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	45
Earnings Predictability	80

PIEDMONT NAT'L. NYSE-PNY

RECENT PRICE 23.62 | P/E RATIO 18.2 (Trailing: 17.6 / Median: 17.0) | RELATIVE P/E RATIO 0.98 | DIV'D YLD 4.1% | VALUE LINE

TIMELINESS 4 Raised 12/23/05
SAFETY 2 New 7/27/90
TECHNICAL 3 Raised 1/20/06
BETA .75 (1.00 = Market)

2009-11 PROJECTIONS

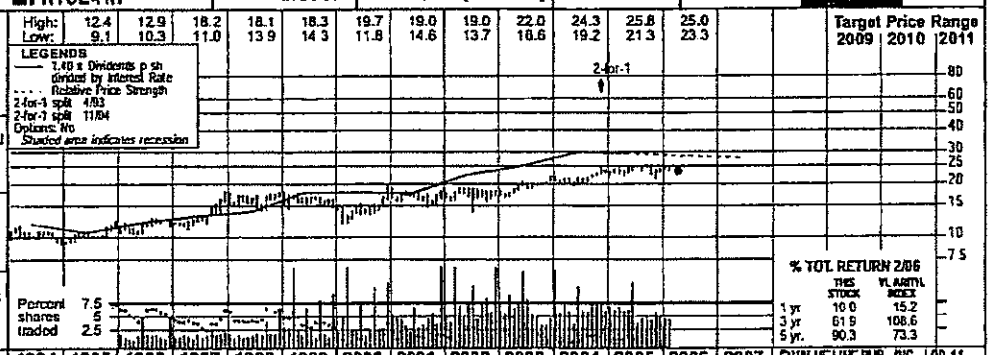
	Price	Gain	Ann'l Total Return
High	40	(+70%)	17%
Low	30	(+25%)	10%

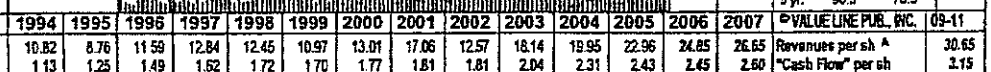
Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	10	9	8	15	9	0	10	24	11
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	1	2	0	0	0	0	2

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	64	75	76
to Sell	84	71	77
Hld's(000)	28757	28827	30419





1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
9.42	8.32	8.91	10.57	10.82	8.76	11.59	12.84	12.45	10.97	13.01	17.06	12.57	18.14	19.95	22.96	24.85	26.65	Revenues per sh A	30.65
.97	.78	1.07	1.14	1.13	1.25	1.49	1.62	1.72	1.70	1.77	1.81	1.81	2.04	2.31	2.43	2.45	2.60	"Cash Flow" per sh	3.15
.61	.44	.70	.73	.68	.73	.84	.93	.98	.93	1.01	1.01	.95	1.11	1.27	1.32	1.30	1.40	Earnings per sh B	1.75
.42	.44	.46	.48	.51	.54	.57	.61	.64	.68	.72	.76	.80	.82	.85	.91	.96	1.00	Div'ds Decl'd per sh C=	1.17
1.62	1.37	1.41	1.58	1.95	1.72	1.64	1.52	1.48	1.58	1.65	1.29	1.21	1.16	1.85	2.50	2.60	2.35	Cap'l Spending per sh	2.15
4.58	4.83	5.13	5.45	5.58	6.16	6.53	6.95	7.45	7.86	8.26	8.63	8.91	9.36	11.15	11.53	11.65	12.10	Book Value per sh D	12.30
42.87	49.46	51.59	52.30	53.15	57.57	59.10	60.39	61.48	62.59	63.83	64.93	66.18	67.31	76.67	76.70	76.50	76.00	Common Shs Outst'g E	75.00
11.3	16.3	12.3	15.4	15.7	13.8	13.9	13.6	16.3	17.7	14.3	16.7	18.4	16.7	16.5	17.9	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	19.0
.84	1.04	.75	.91	1.03	.92	.87	.78	.85	1.01	.93	.86	1.01	.95	.88	.95			Relative P/E Ratio	1.25
6.0%	6.0%	5.3%	4.3%	4.8%	5.4%	4.9%	4.8%	4.0%	4.1%	5.0%	4.5%	4.6%	4.4%	4.1%	3.8%			Avg Ann'l Div'd Yield	3.5%
685.1	775.5	765.3	686.5	830.4	1107.9	832.0	1220.8	1529.7	1761.1	1900	2025	Revenues ($mill) A	2300
48.6	55.2	60.3	58.2	64.0	85.5	62.2	74.4	95.2	101.3	100	105	Net Profit ($mill)	130
38.9%	39.1%	39.2%	39.7%	34.7%	34.6%	33.1%	34.8%	35.1%	33.7%	35.0%	35.0%	Income Tax Rate	35.0%
7.1%	7.1%	7.9%	8.5%	7.7%	5.8%	7.5%	6.1%	6.2%	5.8%	5.3%	5.2%	Net Profit Margin	5.7%
50.3%	47.6%	44.7%	46.2%	46.1%	47.6%	43.9%	42.2%	43.6%	41.4%	41.0%	40.0%	Long-Term Debt Ratio	40.0%
49.7%	52.4%	55.3%	53.8%	53.9%	52.4%	56.1%	57.8%	56.4%	58.6%	59.0%	60.0%	Common Equity Ratio	60.0%
777.1	800.8	829.3	914.7	978.4	1059.4	1051.6	1090.2	1514.9	1509.2	1515	1545	Total Capital ($mill)	1575
862.0	941.7	990.6	1047.0	1072.0	1114.7	1158.5	1812.3	1849.8	1939.1	2040	2170	Net Plant ($mill)	2400
8.2%	8.9%	9.2%	8.1%	8.3%	7.9%	7.8%	8.6%	7.8%	8.2%	8.0%	8.0%	Return on Total Cap'l	9.0%
12.6%	13.1%	13.2%	11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	11.5%	Return on Shr. Equity	12.5%
12.6%	13.1%	13.2%	11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	11.5%	Return on Com Equity	12.5%
3.9%	4.6%	4.7%	3.3%	3.5%	3.0%	1.7%	3.1%	3.7%	3.6%	3.0%	3.5%	Retained to Com Eq	4.5%
69%	65%	65%	72%	71%	75%	83%	74%	66%	68%	73%	71%	All Div'ds to Net Prof	67%

CAPITAL STRUCTURE as of 10/31/05
Total Debt $818.5 mill. Due in 5 Yrs $283.5 mill.
LT Debt $625.0 mill. LT Interest $40.0 mill.
(LT interest earned: 4.5x; total interest coverage: 4.5x)

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

Pfd Stock None

Common Stock 76,612,685 shs.
as of 1/10/06
MARKET CAP: $1.8 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2003	2004	10/31/05
Cash Assets	11.2	5.7	7.1
Other	296.4	329.5	497.8
Current Assets	307.6	335.2	504.9
Accts Payable	90.9	99.6	182.8
Debt Due	557.1	109.5	193.5
Other	77.2	97.1	152.3
Current Liab.	725.2	306.2	528.6
Fix. Chg. Cov.	356%	378%	400%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	7.5%	11.0%	7.0%
"Cash Flow"	7.0%	5.5%	5.5%
Earnings	5.5%	5.0%	6.0%
Dividends	5.5%	5.0%	5.5%
Book Value	6.5%	6.5%	3.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2003	493.5	407.8	140.1	179.4	1220.8
2004	618.8	482.4	214.7	213.8	1529.7
2005	680.6	508.0	232.9	339.6	1761.1
2006	921.4	470	240	268.6	1900
2007	810	560	315	340	2025

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

Calendar	QUARTERLY DIVIDENDS PAID C= Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.20	.20	.20	.20	.80
2003	.208	.208	.208	.208	.83
2004	.215	.215	.215	.215	.86
2005	.23	.23	.235	.23	.92
2006	.24				

BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 990,000 customers in North Carolina, South Carolina, and Tennessee. 2005 revenue mix: residential (39%), commercial (24%), industrial (13%), other (24%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 71.6% of revenues. '05 depreciation rate: 3.3%. Estimated plant age: 8.7 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 2,124 employees, 16,606 shareholders of record. CEO & President: Thomas E. Skains. Incorporated: North Carolina. Address: 1915 Rexford Road, P.O. Box 33068 Charlotte, NC 28233. Telephone: 704-364-3120. Internet: www.piedmontng.com.

Piedmont Natural Gas' first-quarter earnings were basically flat versus the prior year at $0.94 a share. As a result of increased customer conservation due to higher natural gas prices and temperatures that were 10% warmer than normal, system throughput for the most recent period decreased about 8% year over year, to 66.2 dekatherms. However, high natural gas prices are not always good for distribution companies, since rising gas prices result in higher levels of bad-debt expense and service costs. In 2005, the company's utility customer base rose slightly over 3%, well above the national average, which should continue this year based on new housing startups throughout Piedmont's service territory. Moreover, 2006 utility results should be enhanced from two rate case outcomes last year. In North Carolina, the company received a margin increase of $20.1 million, while it received a $2.6 million increase in South Carolina.

The company continues to expand its presence in nonregulated activities. This has allowed Piedmont to diversify its earnings stream into activities such as SouthStar Energy, Pine Needle LNG, Cardinal Pipeline, and its newest venture, Hardy Storage Company. These activities contributed $3.2 million to net income during the first quarter, slightly below the year-ago period. Hardy Storage, a joint venture with Columbia Gas Transmission, involves an underground natural gas storage facility in West Virginia. The field would have a capacity to store over 12 billion cubic feet of natural gas and be capable of delivering up to 176 million cubic feet of gas per day to markets in the eastern United States. The company received FERC approval to proceed in November of 2005, and has set a target date of completion for April. Moreover, the project is fully contracted under long-term firm contracts.

This equity remains untimely. The primary purpose for investing in Piedmont would be for its yield, which stands at 4%, near the industry norm, and its Safety rank of 2 (Above Average). Furthermore, total return potential over the 3- to 5-year pull is above the average stock covered in *The Value Line Investment Survey.*

Evan I. Blatter *March 17, 2006*

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

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	85
Earnings Predictability	80

WGL HOLDINGS NYSE-WGL

RECENT PRICE 29.98 | P/E RATIO 16.2 (Trailing: 14.0 / Median: 15.0) | RELATIVE P/E RATIO 0.88 | DIV'D YLD 4.5% | VALUE LINE

TIMELINESS 5 Lowered 9/2/05
SAFETY 1 Raised 4/2/93
TECHNICAL 4 Lowered 3/17/06
BETA .80 (1.00 = Market)

2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	35	(+15%)	8%
Low	30	(Nil)	5%

Insider Decisions

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

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	96	87	88
to Sell	63	65	67
Hld's(000)	27756	27169	27959

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
	18.75	17.50	18.37	21.55	21.69	19.30	22.19	24.16	23.74	20.92	22.19	29.60	32.63	42.45	42.93	44.94	51.15	53.35	Revenues per sh A	59.45
	2.17	2.04	2.17	2.25	2.43	2.51	2.93	3.02	2.79	2.74	3.20	3.24	2.63	4.00	3.87	3.97	3.75	3.90	"Cash Flow" per sh	4.50
	1.26	1.14	1.27	1.31	1.42	1.45	1.85	1.85	1.54	1.47	1.79	1.88	1.14	2.30	1.98	2.11	1.85	1.95	Earnings per sh B	2.40
	1.01	1.05	1.07	1.09	1.11	1.12	1.14	1.17	1.20	1.22	1.24	1.26	1.27	1.28	1.30	1.32	1.35	1.38	Div'ds Decl'd per sh C=	1.45
	2.38	2.05	2.17	2.43	2.84	2.63	2.85	3.20	3.62	3.42	2.67	2.66	3.34	2.65	2.33	2.32	4.10	4.05	Cap'l Spending per sh	2.55
	10.17	9.63	10.66	11.04	11.51	11.95	12.79	13.48	13.86	14.72	15.31	16.24	15.78	16.25	16.95	17.80	17.85	18.60	Book Value per sh D	21.30
	39.23	39.89	40.62	41.50	42.19	42.93	43.70	43.70	43.84	46.47	46.41	46.54	48.56	48.63	48.67	48.65	48.70	48.70	Common Shs Outst'g E	48.80
	11.7	12.8	13.6	15.6	14.0	12.7	11.5	12.7	17.2	17.3	14.6	14.7	23.1	11.1	14.2	14.7	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	14.0
	.87	.82	.82	.92	.92	.85	.72	.73	.89	.99	.95	.75	1.26	.63	.75	.78			Relative P/E Ratio	.90
	6.9%	7.2%	6.2%	5.3%	5.6%	6.1%	5.4%	5.0%	4.5%	4.8%	4.8%	4.6%	4.8%	5.0%	4.6%	4.2%			Avg Ann'l Div'd Yield	4.3%
	969.8	1055.8	1040.6	972.1	1031.1	1446.5	1584.8	2064.2	2089.6	2186.3	2490	2600	Revenues ($mill) A	2900
	81.6	82.0	68.6	66.8	84.6	89.9	55.7	112.3	98.0	104.8	90.0	95.0	Net Profit ($mill)	120
	37.7%	36.9%	35.6%	36.0%	36.1%	39.6%	34.0%	38.0%	36.2%	37.4%	38.0%	38.0%	Income Tax Rate	38.0%
	8.4%	7.8%	6.6%	7.1%	8.2%	6.2%	3.5%	5.4%	4.7%	4.8%	3.6%	3.7%	Net Profit Margin	4.1%
	37.6%	41.1%	40.3%	41.5%	43.1%	41.7%	45.7%	43.8%	40.9%	39.5%	39.0%	39.0%	Long-Term Debt Ratio	39.0%
	59.4%	56.2%	57.1%	56.1%	54.8%	56.3%	52.4%	54.3%	57.2%	58.5%	59.0%	59.0%	Common Equity Ratio	59.0%
	941.1	1049.0	1064.8	1218.5	1299.2	1400.8	1462.5	1454.9	1443.6	1478.1	1515	1575	Total Capital ($mill)	1790
	1130.8	1217.1	1319.5	1402.7	1460.3	1519.7	1606.8	1874.9	1915.6	1969.7	2120	2270	Net Plant ($mill)	2550
	10.1%	9.3%	8.0%	7.1%	7.9%	7.9%	5.3%	9.1%	8.2%	8.5%	6.0%	6.0%	Return on Total Cap'l	6.5%
	13.9%	13.3%	10.8%	9.7%	11.4%	11.0%	7.0%	13.7%	11.5%	11.7%	10.0%	10.0%	Return on Shr. Equity	11.0%
	14.4%	13.7%	11.1%	9.9%	11.7%	11.2%	7.2%	14.0%	11.7%	12.0%	10.0%	10.0%	Return on Com Equity	11.0%
	5.6%	5.1%	2.5%	1.8%	3.7%	3.8%	NMF	6.2%	4.1%	4.6%	2.5%	3.0%	Retained to Com Eq	4.5%
	62%	63%	78%	82%	69%	67%	112%	56%	65%	62%	74%	70%	All Div'ds to Net Prof	60%

CAPITAL STRUCTURE as of 12/31/05
Total Debt $945.2 mill. Due in 5 Yrs $530.0 mill.
LT Debt $560.4 mill. LT Interest $40.0 mill.
(LT interest earned: 5.1x; total interest coverage: 4.9x)
Pension Assets-9/05 $691.7 mill.
Oblig. $691.2 mill.
Preferred Stock $28.2 mill. Pfd Div'd $1.3 mill.

Common Stock 48,762,226 shs
as of 1/31/06

MARKET CAP: $1.5 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2004	2005	12/31/05
Cash Assets	6.6	4.8	25.8
Other	426.3	476.2	936.6
Current Assets	432.9	481.0	962.4
Accts Payable	179.0	204.9	351.4
Debt Due	156.3	91.0	385.8
Other	77.6	116.5	255.1
Current Liab.	412.9	411.4	992.3
Fix. Chg. Cov.	448%	460%	450%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	7.5%	14.5%	5.5%
"Cash Flow"	5.0%	6.5%	2.5%
Earnings	4.5%	6.0%	2.0%
Dividends	1.5%	1.5%	2.0%
Book Value	4.0%	3.0%	4.0%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	560.0	651.1	373.2	279.9	2064.2
2004	585.3	862.2	356.9	285.2	2089.6
2005	623.4	929.8	349.0	284.1	2186.3
2006	909.3	920	360	300.7	2490
2007	920	940	390	350	2600

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	1.10	1.61	d.05	d.36	2.30
2004	.81	1.62	d.08	d.37	1.98
2005	.88	1.63	d.17	d.23	2.11
2006	.91	1.45	d.20	d.31	1.85
2007	.94	1.56	d.20	d.35	1.95

Calendar	QUARTERLY DIVIDENDS PAID C= Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	315	318	318	318	1.27
2002	318	32	32	32	1.28
2003	32	325	325	325	1.30
2004	325	333	333	333	1.32
2005	333				

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 (1,029,430 meters). Hampshire Gas, a federally regulated sub., operates an underground gas-storage facility in WV. Non-regulated subs.: Wash. Gas Energy Svcs. sells and delivers natural gas and provides energy related products in the D.C metro area; Wash. Gas Energy Sys. designs/installs comm'l heating, ventilating, and air cond. systems. American Century Inv. own 9.3% of common stock; Off./dir. less than 1% (1/06 proxy). Chmn. & 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.wgiholdings.com.

WGL Holdings is off to a decent start in fiscal 2006 (ends September 30th). The mainstay utility segment, where earnings are largely dependent on the rates it is able to charge customers, reported earnings of $0.92 a share in the most recent quarter, a 14% increase over a year ago. Contributing to these results was weather that was 10% colder than normal. Also, during the quarter, the company purchased a three-year weather insurance policy covering Washington D.C., and a heating degree-day derivative contract to cover the winter season in its Virginia service area. Both of these policies are designed to fully protect against warmer-than-normal temperatures, which should help second-quarter results somewhat due to the above-average temperatures experienced in January. Elsewhere, WGL continues to add meters at a nice pace, and is on track to gain an additional 30,500 customers for the year. However,

WGL Holdings' nonregulated segment reported a loss of $0.01 a share for the December period. This is well below the $0.07 gain last year, and was primarily due to poor results from the retail energy marketing segment. The unit struggled owing to lower margins on natural gas, which can be attributed to larger mark-to-market losses. Moreover, the heating ventilating, and air-conditioning segment posted a loss of $431,000, similar to the prior year. As a result of the lackluster performance from WGL's nonregulated activities, we have lowered our 2006 earnings forecast by a nickel, to $1.85, which is within management's guided range. Modest progress is possible in 2007.

The Prince George's County repair efforts continue to progress. So far, Washington Gas has completed about 23% of the main replacements and 21% of the service work. It will evaluate the effects of these capital expenditures on its ability to earn its allowed rate of return, before taking appropriate action.

This stock may interest income-oriented investors. The yield is very respectable among WGL's utility competitors and these shares carry our Highest ratings for Safety (1) and Price Stability (100). This issue is not well ranked for performance, though (Timeliness: 5).

Evan I. Blatter *March 17, 2006*

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

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

SOUTHERN UNION NYSE-SUG

RECENT PRICE 23.68 | P/E RATIO 16.1 (Trailing: 22.9 Median: 27.0) | RELATIVE P/E RATIO 0.87 | DIV'D YLD 1.7% | VALUE LINE

TIMELINESS 3 Lowered 8/13/04
SAFETY 3 New 3/24/00
TECHNICAL 3 Raised 1/20/06
BETA 1.00 (1.00 = Market)

2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+90%)	18%
Low	30	(+25%)	8%

Insider Decisions

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

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	103	111	117
to Sell	90	103	100
Hld's(000)	73529	81115	83690

	6.6	12.0	12.3	18.4	18.4	23.2	21.9	17.6	17.0	23.8	26.3	25.5		
High:	4.8	7.3	9.7	10.9	13.1	10.5	14.4	8.8	10.4	16.1	20.8	22.9		
Low:														

LEGENDS
10.5 x "Cash Flow" p sh
Relative Price Strength
3-for-2 split 3/94
4-for-3 split 3/96
3-for-2 split 7/98
Options: Yes
Shaded area indicates recession

Target Price Range 2009 | 2010 | 2011

% TOT. RETURN 2/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	1.9	15.2
3 yr.	116.2	108.6
5 yr.	44.5	73.3

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	©VALUE LINE PUB., INC.	09-11
7.42	7.44	7.22	5.66	10.12	12.89	16.51	19.04	16.99	14.73	15.88	29.77	20.30	14.75	22.22	17.65	17.55	17.95	Revenues per sh A	19.80
.24	.58	.62	.58	.82	1.30	1.43	1.43	1.29	1.27	1.26	1.54	1.79	1.29	2.77	2.60	2.85	3.00	"Cash Flow" per sh	3.35
d.14	.08	.15	.26	.26	.43	.54	.49	.31	.26	.20	.19	.56	.57	1.24	1.45	1.65	1.75	Earnings per sh A B	2.10
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	.40	.42	Div'ds Decl'd per sh D	.50
.75	.79	.70	.50	1.03	1.81	1.56	1.71	1.96	1.78	1.92	1.91	1.47	.99	2.79	2.33	1.95	1.70	Cap'l Spending per sh	1.20
5.44	5.47	5.55	5.47	5.65	3.37	3.88	7.10	7.54	7.33	14.05	11.12	10.78	11.42	12.74	13.70	14.85	16.05	Book Value per sh E	20.40
26.92	26.93	26.67	36.94	37.01	37.24	37.59	37.65	39.38	41.09	52.39	64.93	63.57	60.56	61.00	111.40	114.00	117.00	Common Shs Outst'g C	125.00
--	34.3	20.2	15.9	20.3	12.5	14.1	21.2	37.5	59.8	71.1	87.5	29.5	17.9	13.4	16.3	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	18.0
--	2.19	1.23	.94	1.33	.84	.88	1.22	1.95	3.41	4.62	4.48	1.61	1.02	.71	.87			Relative P/E Ratio	1.20
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--			Avg Ann'l Div'd Yield	1.3%
620.4	717.0	669.3	605.2	831.7	1932.8	1290.6	1188.5	1800.0	1900	2000	2100	Revenues ($mill) A	2475
20.8	19.0	12.2	10.4	11.1	12.9	36.6	43.7	114.0	180	205	225	Net Profit ($mill)	280
41.8%	39.4%	39.5%	40.5%	49.0%	35.3%	29.2%	35.7%	37.7%	29.0%	35.0%	35.5%	Income Tax Rate	37.0%
3.4%	2.7%	1.8%	1.7%	1.3%	.7%	2.8%	3.7%	6.3%	9.5%	10.4%	10.7%	Net Profit Margin	11.4%
66.4%	64.5%	63.0%	62.0%	53.1%	66.4%	63.3%	65.0%	63.1%	55.5%	53.5%	52.0%	Long-Term Debt Ratio	48.5%
20.0%	35.5%	37.0%	38.0%	46.9%	33.6%	36.7%	35.0%	30.2%	39.0%	41.0%	43.0%	Common Equity Ratio	47.0%
731.3	753.6	803.2	792.0	1569.6	2151.5	1867.6	2532.1	3416.6	3925	4130	4380	Total Capital ($mill)	5410
744.5	773.6	848.4	878.3	1487.2	1456.3	1456.4	3144.8	3207.5	3400	3525	3625	Net Plant ($mill)	4000
5.3%	4.7%	3.7%	3.6%	2.3%	2.9%	4.3%	3.3%	4.8%	5.0%	5.0%	5.5%	Return on Total Cap'l	5.5%
8.5%	7.1%	4.1%	3.5%	1.5%	1.8%	5.3%	4.7%	9.0%	10.5%	11.0%	10.5%	Return on Shr. Equity	10.0%
14.3%	7.1%	4.1%	3.5%	1.5%	1.8%	5.3%	4.7%	10.2%	11.0%	11.0%	11.0%	Return on Com Equity	10.5%
14.3%	7.1%	4.1%	3.5%	1.5%	1.8%	5.3%	4.7%	10.2%	11.0%	8.5%	8.5%	Retained to Com Eq	8.0%
--	--	--	--	--	--	--	--	7%	10%	30%	30%	All Div'ds to Net Prof	29%

CAPITAL STRUCTURE as of 9/30/05
Total Debt $2448.9 mill. Due in 5 Yrs $1125 mill.
LT Debt $2049.3 mill. LT Interest $110 mill.
(Est'd LT interest earned: 3.3x; total interest coverage: 2.8x)
(51% of Cap'l)
Leases, Uncapitalized: Annual rentals $18.6 mill.
Pension Assets-12/04 $276.8 mill.
Oblig. $398.5 mill.
Pfd Stock $230.0 mill. Pfd. Div'd. $18.0 mill.
(7% of Cap'l)
Common Stock 111,422,143 shs.
as of 10/28/05
MARKET CAP: $2.6 billion (Mid Cap)

CURRENT POSITION ($MILL)	2003	2004	9/30/05
Cash Assets	87.0	20.0	.6
Receivables	192.4	181.8	181.0
Inventory (Avg Cst)	173.8	200.3	292.4
Other	78.4	53.5	122.2
Current Assets	531.6	455.7	596.2
Accts Payable	112.8	122.3	120.9
Debt Due	986.3	121.0	399.6
Other	254.9	270.6	423.1
Current Liab.	1354.0	513.9	943.6

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '05-'11
Revenues	9.5%	2.5%	0.5%
"Cash Flow"	11.0%	6.0%	8.0%
Earnings	14.0%	18.5%	14.5%
Dividends	--	--	NMF
Book Value	7.5%	9.5%	8.5%

Calendar	QUARTERLY REVENUES ($mill) A				Full Year
	Sep.30	Dec.31	Mar.31	Jun.30	
2004	231.4	507.1	774.6	286.9	1800.0
	Mar.31	Jun.30	Sep.30	Dec.31	
2005	767.6	305.2	255.0	572.2	1900
2006	615	310	270	605	2000
2007	640	335	300	625	2100

Calendar	EARNINGS PER SHARE A B F				Full Year
	Sep.30	Dec.31	Mar.31	Jun.30	
2004	d.05	.43	.87	d.01	1.24
	Mar.31	Jun.30	Sep.30	Dec.31	
2005	.82	.10	.13	.40	1.45
2006	.88	.13	.06	.58	1.65
2006	.90	.15	.10	.60	1.75

Calendar	QUARTERLY DIVIDENDS PAID D				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2002	NO CASH DIVIDENDS BEING PAID				
2003					
2004					
2005					
2006					

BUSINESS: Southern Union Co. distributes natural gas to approximately 1 million customers through its operating divisions - Missouri Gas Energy, PG Energy, and New England. They serve residential customers in Missouri (494,000), Pennsylvania (156,000), Florida (5,000), Rhode Island, Massachusetts (290,000), and Mexico. Completed merger with Valley Resources, Fall River Gas, and Providence Energy in Sept. 2000. Sold Southern Union Gas Company in Jan. 2003. Has 3,023 employees. Officers & directors own 18.1% of stock (10/04 proxy). Chairman, President & Chief Executive Officer: George L. Lindemann, Inc.: Delaware. Address: 417 Lackawanna Avenue, Scranton, PA 18503. Telephone: 570-614-5000. Internet: www.southernunionco.com.

Southern Union has completed the acquisition of Sid Richardson Energy for $1.6 billion. The business will enter the Southern Union Gas Services segment, with the purchase temporarily funded through the use of a bridge loan until permanent financing can be put in place. The company will use the proceeds from the sales of its PG Energy assets of $580 million, and Rhode Island gas utility assets of $575 million, less assumed debt of $77 million, to partially offset the Sid Richardson deal. Moreover, the remaining amount will likely be funded through the use of equity and debt financing. Sid Richardson is a leading provider of gas gathering and processing services in the southeastern New Mexico and west Texas areas of the Permian Basin. Furthermore, over the past few years Southern Union has slowly transitioned from a distribution company into other ventures, such as transportation and storage.

The company's growth prospects over the 2009–2011 period appear promising. Southern Union's phase I of the Truckline LNG expansion should be completed shortly, with the second phase on pace to be finished by the middle of the year. Upon completion, send-out capacity will triple to 1.8 billion cubic feet per day. The Florida Gas phase VII expansion, which will increase capacity by up to 160 MMcf per day, is scheduled to be in service by the middle of 2007 if regulatory approval is granted. Further out to late decade, the Transwestern pipeline Phoenix lateral is scheduled to come on line. These projects should all contribute to the mid-single-digit earnings gains we are forecasting over the 3- to 5-year pull.

The board has approved a cash dividend for 2006. The annual payment will total $0.40 a share, and replace the company's historical use of a 5% annual stock dividend. (The fourth-quarter earnings results were to be announced shortly after this report went to press.) Meanwhile, over the 2009–2011 period, Southern Union shares offer investors worthwhile total return potential. Finally, following the increase in debt levels from the Sid Richardson purchase, the company will likely continue the task of reducing its debt-to-equity ratio.

Evan I. Blatter *March 17, 2006*

A) Fiscal year ends June 30th through 2004; December 31st beg. in 2005.
(B) Based on diluted shares. Excludes nonrecurring per-share gain (loss): '01, 68¢; '03, 50¢. Next egs. report due late April.
(C) In millions, adjusted for stock splits.
(D) Annual 5% common stock dividend suspended end of 2005. Initial cash dividend expected to be paid in first half of 2006
(E) Ind intang. in 2004: $640.5 mill., $7.90/sh.
(F) Six months ended Dec. 31 2004: rev. $794.3 million. earnings, $0.07

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

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

Line No.		Proxy Group of Four Gas Distribution Companies	Proxy Group of Eight Value Line Gas Distribution Companies	Southern Union Company
1.	Prospective Yield on Aaa Rated Corporate Bonds (1)	5 75 %	5.75 %	5.75 %
2.	Adjustment to Reflect Yield Spread Between Aaa Rated Corporate Bonds and A Rated Public Utility Bonds	0.47 (2)	0.47 (2)	0.47 (2)
3.	Adjusted Prospective Yield on A Rated Public Utility Bonds	6 22 %	6 22 %	6 22 %
4.	Adjustment to Reflect Bond Rating Difference	0.00 (4)	0.00 (4)	0.40 (3)
5.	Adjusted Prospective Bond Yield	6 22	6 22	6 62
6.	Equity Risk Premium (5)	4.31	4.26	4.44
7.	Risk Premium Derived Common Equity Cost Rate	10.53 %	10.48 %	11.06 %

Notes:
(1) Derived in Note (4) on page 6 of this schedule.
(2) The average yield spread of A rated public utility bonds over Aaa rated corporate bonds of 0 47% from page 4 of this schedule.
(3) One and one-third the average the average spread between A and Baa rated public utility bond yields of 30 basis points ((1 1/3 X 0.30% = 0 40% (from page 4 of this schedule))
(4) No adjustment necessary as the average Moody's bond rating for the proxy group is A2
(5) From page 5 of this schedule

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

	February 2006 Moody's Bond Rating		February 2006 Standard & Poor's Bond Rating		Standard & Poor's Business Profile (2)
	Bond Rating	Numerical Weighting (1)	Bond Rating	Numerical Weighting (1)	
Proxy Group of Four Gas Distribution Companies					
Cascade Natural Gas Corporation	Baa1	8.0	BBB+	8.0	2.0
NICOR Inc (3)	Aa3	4.0	AA	3.0	2.0
Northwest Natural Gas Company	A2	6.0	A+	5.0	1.0
Piedmont Natural Gas Co., Inc	A3	7.0	A	6.0	2.0
Average	A2	6.3	A+/A	5.5	1.8
Proxy Group of Eight Value Line Gas Distribution Companies					
Cascade Natural Gas Corporation	Baa1	8.0	BBB+	8.0	2.0
The Laclede Group, Inc (4)	A3	7.0	A	6.0	3.0
New Jersey Resources Corp. (5)	Aa3	4.0	AA-	4.0	2.0
NICOR Inc. (3)	Aa3	4.0	AA	3.0	2.0
Northwest Natural Gas Company	A2	6.0	A+	5.0	1.0
Peoples Energy Corporation (6)	Aa3	4.0	A-	7.0	3.0
Piedmont Natural Gas Co., Inc	A3	7.0	A	6.0	2.0
WGL Holdings, Inc. (7)	A2	6.0	AA-	4.0	2.0
Average	A2	5.8	A	5.4	2.1
Southern Union Company (8)	Baa3	10.0	BBB	9.0	3.0

Notes:
(1) From page 3 of this schedule
(2) From Standard & Poor's U.S. Utility And Power Ranking List, March 17, 2006.
(3) Ratings and business profile are those of NICOR Gas Company
(4) Ratings and business profile are those of Laclede Gas Co.
(5) Ratings and business profile are those of New Jersey Natural Gas
(6) Ratings and business profile are a composite of those of North Shore Gas Company and Peoples Gas Light & Coke Company.
(7) Ratings and business profile are those of Washington Gas Light Company
(8) Ratings and business profile are a composite of those of Southern Union Company, Panhandle Eastern Pipe Line Company and Transwestern Pipeline Company.

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

Missouri Gas Energy
Numerical Assignment for
Moody's and Standard & Poor's Bond Ratings

Moody's Bond Rating	Numerical Bond Weighting	Standard & Poor's Bond 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-

Moody's
Comparison of Interest Rate Trends
for the Two Months Ending January 2006 (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
January-06	5.29 %	5.50 %	5.75 %	6.06 %	0.21 %	0.46 %	0.77 %	0.25 %	0.31 %
February-06	5.35	5.55	5.82	6.11	0.20 %	0.47 %	0.76 %	0.27 %	0.29 %
Average Spread (2)					0.21 %	0.47 %	0.77 %	0.26 %	0.30 %

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

Source of Information: Mergent Bond Record Monthly Update, March 2006, Vol. 73, No. 3

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

Line No.		Proxy Group of Four Gas Distribution Companies	Proxy Group of Eight Value Line Gas Distribution Companies	Southern Union Company
1	Calculated equity risk premium based on the total market using the beta approach (1)	4.47 %	4.37 %	5.26 %
2.	Mean equity risk premium based on a study using the holding period returns of public utilities with:			
	a. A rated bonds (2)	4.14	4.14	
	b. Baa rated bonds (2)			3.62
3.	Average equity risk premium	4.31 %	4.26 %	4.44 %

Notes: (1) From page 6 of this schedule
(2) From page 8 of this schedule.

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

Line No.		Proxy Group of Four Gas Distribution Companies	Proxy Group of Eight Value Line Gas Distribution Companies	Southern Union Company
1.	Arithmetic mean total return rate on the Standard & Poor's 500 Composite Index - 1926-2004 (1)	12 40 %	12 40 %	12 40 %
2	Arithmetic mean yield on Aaa and Aa Corporate Bond 1926-2004 (2)	(6.12)	(6.12)	(6.12)
3	Historical Equity Risk Premium	6.28 %	6.28 %	6.28 %
4	Forecasted 3-5 year Total Annual Market Return (3)	9 99 %	9 99 %	9 99 %
5	Prospective Yield an Aaa Rated Corporate Bonds (4)	(5.75)	(5.75)	(5.75)
6	Forecasted Equity Risk Premium	4.24 %	4.24 %	4.24 %
7.	Average of Historical and Forecasted Equity Risk Premium (5)	5 26 %	5 26 %	5 26 %
8	Adjusted Value Line Beta (6)	0.85	0.83	1.00
9	Beta Adjusted Equity Risk Premium	4.47 %	4.37 %	5.26 %

Notes:

(1) From Stocks, Bonds, Bills and Inflation - 2005 Yearbook Valuation Edition, Ibbotson Associates, Inc , Chicago, IL, 2005

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

(3) From page 4 of schedule 15

(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 March 1, 2006 (see page 7 of this schedule) The estimates are detailed below

First Quarter 2006	5 40 %
Second Quarter 2006	5 70
Third Quarter 2006	5 80
Fourth Quarter 2006	5 80
First Quarter 2007	5 90
Second Quarter 2007	5.90
Average	5.75 %

(5) Average of the Historical Equity Risk Premium of 6 3% from Line No. 3 and the Forecasted Equity Risk Premium of 4.24% from Line No 6 ((6 28% + 4 24%) / 2 = 5 26%, rounded to 5 3%)

(6) From page 9 of this schedule

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

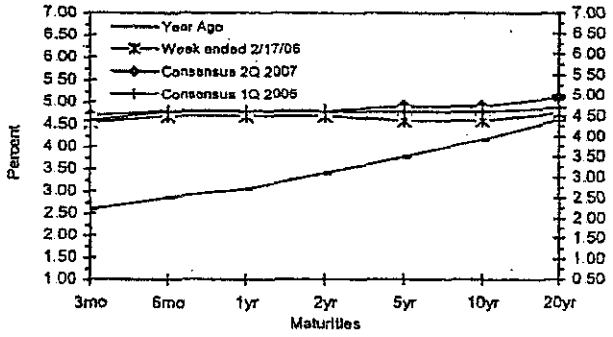
	History								Consensus Forecasts-Quarterly Avg.					
	Average For Week Ending				Average For Month			Latest Q	1Q	2Q	3Q	4Q	1Q	2Q
Interest Rates	Feb. 17	Feb. 10	Feb. 3	Jan. 27	Jan.	Dec.	Nov.	4Q 2005	2006	2006	2006	2006	2007	2007
Federal Funds Rate	4.49	4.50	4.44	4.26	4.29	4.16	4.00	3.98	4.5	4.8	4.9	4.9	4.9	4.7
Prime Rate	7.50	7.50	7.32	7.25	7.26	7.15	7.00	6.97	7.5	7.8	7.9	7.9	7.9	7.7
LIBOR, 3-mo.	4.76	4.72	4.70	4.63	4.60	4.49	4.35	4.34	4.7	5.0	5.1	5.1	5.0	4.9
Commercial Paper, 1-mo.	4.46	4.46	4.46	4.44	4.36	4.23	4.01	4.03	4.5	4.9	5.0	5.0	4.9	4.8
Treasury bill, 3-mo.	4.55	4.50	4.48	4.42	4.34	3.97	3.97	3.91	4.4	4.7	4.8	4.8	4.8	4.7
Treasury bill, 6-mo.	4.70	4.68	4.61	4.53	4.47	4.33	4.30	4.25	4.6	4.8	4.9	4.9	4.9	4.8
Treasury bill, 1 yr.	4.70	4.67	4.60	4.50	4.45	4.35	4.33	4.29	4.6	4.9	5.0	5.0	4.9	4.8
Treasury note, 2 yr.	4.69	4.64	4.57	4.44	4.40	4.40	4.42	4.36	4.6	4.9	4.9	4.9	4.9	4.8
Treasury note, 5 yr.	4.59	4.54	4.49	4.38	4.35	4.39	4.45	4.39	4.6	4.8	4.9	4.9	4.9	4.9
Treasury note, 10 yr.	4.59	4.56	4.55	4.46	4.42	4.47	4.54	4.49	4.6	4.8	4.9	4.9	4.9	4.9
Treasury note, 20 yr.	4.76	4.73	4.75	4.69	4.65	4.73	4.83	4.77	4.7	4.9	5.0	5.1	5.1	5.1
Corporate Aaa bond	5.37	5.34	5.39	5.33	5.30	5.37	5.42	5.38	5.4	5.7	5.8	5.8	5.9	5.9
Corporate Baa bond	6.30	6.28	6.31	6.26	6.24	6.32	6.39	6.35	6.4	6.6	6.8	6.8	6.9	6.8
State & Local bonds	4.42	4.42	4.43	4.42	4.37	4.46	4.57	4.50	4.5	4.7	4.8	4.8	4.8	4.8
Home mortgage rate	6.28	6.24	6.23	6.12	6.15	6.27	6.33	6.22	6.2	6.4	6.5	6.6	6.6	6.7

	History								Consensus Forecasts-Quarterly Avg.					
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Key Assumptions	2004	2004	2004	2004	2005	2005	2005	2005	2006	2006	2006	2006	2007	2007
Major Currency Index	85.3	88.0	86.5	81.9	81.3	83.5	84.7	85.8	85.0	84.5	83.7	83.0	82.4	82.2
Real GDP	4.3	3.5	4.0	3.3	3.8	3.3	4.1	1.1	4.7	3.3	3.1	3.0	3.0	3.1
GDP Price Index	3.6	3.9	1.5	2.7	3.1	2.6	3.3	3.0	2.4	2.4	2.2	2.2	2.3	2.2
Consumer Price Index	3.3	3.9	2.1	3.6	2.3	3.8	5.5	3.3	2.4	2.5	2.5	2.4	2.4	2.4

[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).

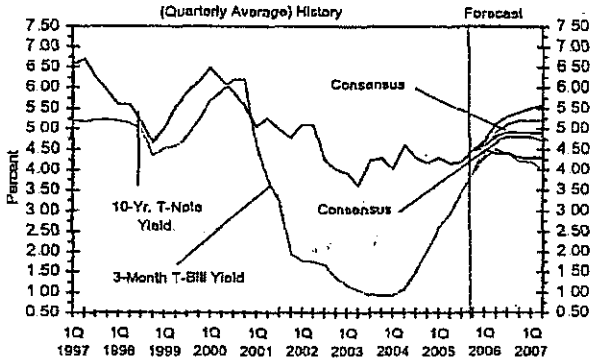
U.S. Treasury Yield Curve

Week ended February 17, 2006 and Year Ago vs. 1Q 2006 and 2Q 2007 Consensus forecasts



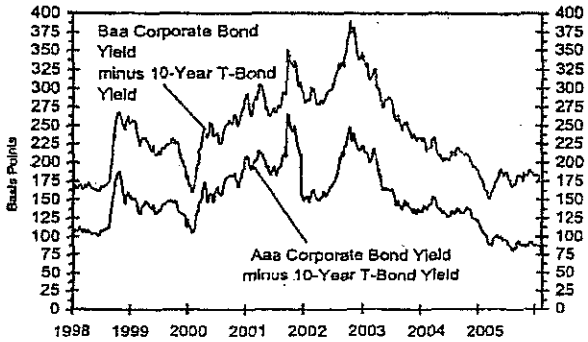
U.S. 3-Mo. T-Bills & 10-Yr. T-Note Yield

(Quarterly Average) History — Forecast



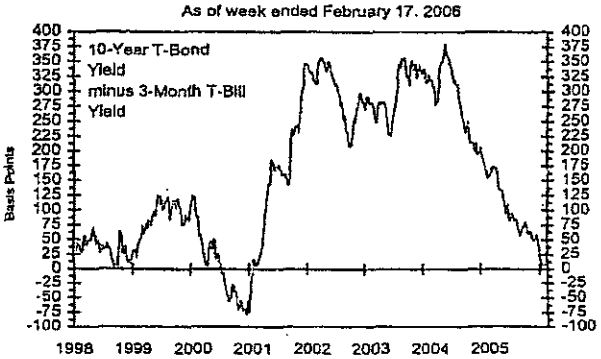
Corporate Bond Spreads

As of week ended February 17, 2006



U.S. Treasury Yield Curve

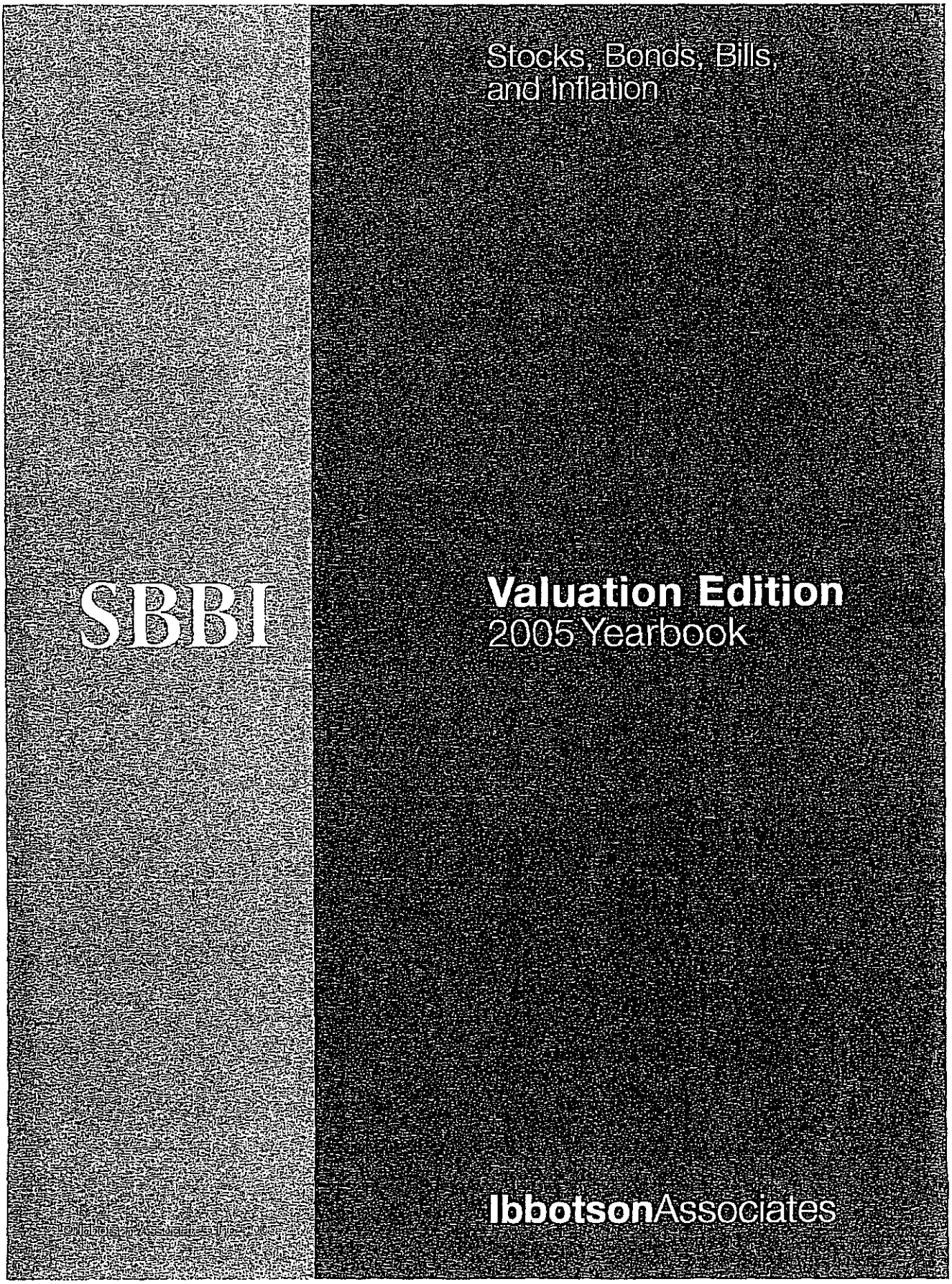
As of week ended February 17, 2006



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

	Value Line Adjusted Beta
Proxy Group of Four Gas Distribution Companies	
Cascade Natural Gas Corporation	0.80
NICOR Inc.	1.15
Northwest Natural Gas Company	0.70
Piedmont Natural Gas Co., Inc.	0.75
Average	0.85
Proxy Group of Eight Value Line Gas Distribution Companies	
Cascade Natural Gas Corporation	0.80
The Laclede Group, Inc.	0.80
New Jersey Resources Corp.	0.80
NICOR Inc.	1.15
Northwest Natural Gas Company	0.70
Peoples Energy Corporation	0.85
Piedmont Natural Gas Co., Inc.	0.75
WGL Holdings, Inc.	0.80
Average	0.83
Southern Union Company	1.00

Source of Information: Value Line Investment Survey, (Standard Edition)
March 17, 2006


Stocks, Bonds, Bills,
and Inflation
SBBI
Valuation Edition
2005 Yearbook
IbbotsonAssociates

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.

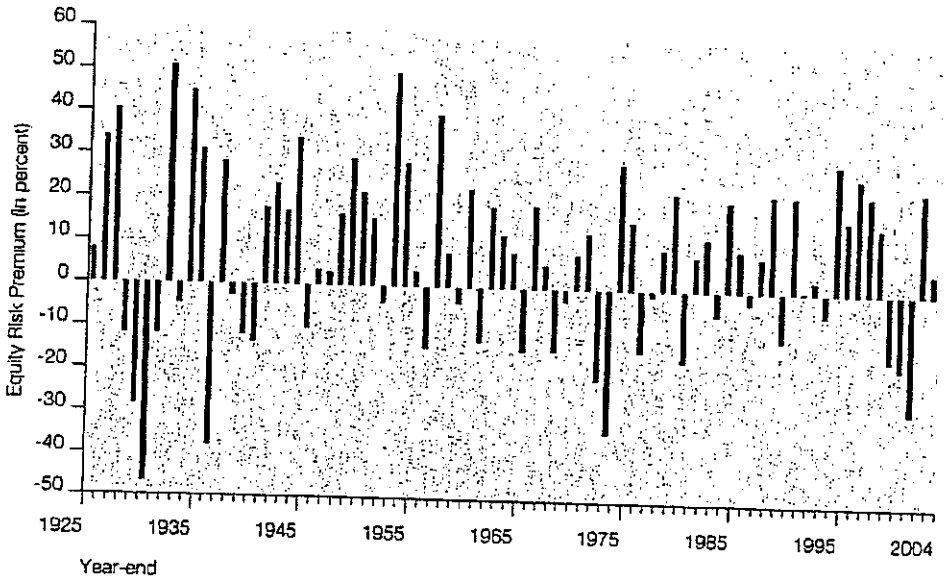
Arithmetic versus Geometric Means

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.

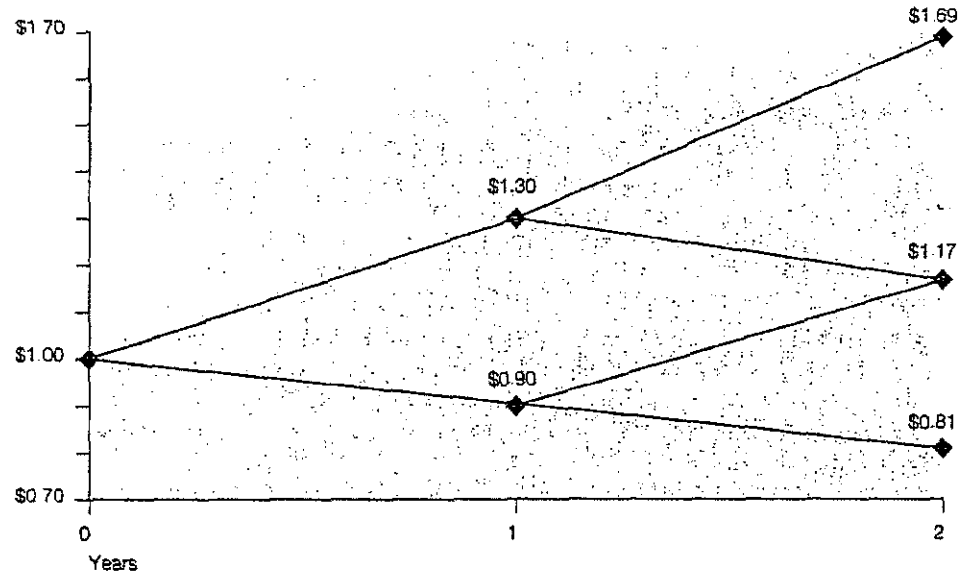
Graph 5-3

Realized Equity Risk Premium Per Year
1926–2004



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:

$(0.25 \times \$1.69)$	$= \$0.4225$
$+ (0.50 \times \$1.17)$	$= \$0.5850$
$+ (0.25 \times \$0.81)$	$= \$0.2025$
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.

The Ibbotson Associates 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 Ibbotson Associates' 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.

3 Fama, Eugene F., and Kenneth R. French. "Permanent and Temporary Components of Stock Prices," *Journal of Political Economy*, April 1988, pp. 246–273. Poterba, James M., and Lawrence H. Summers. "Mean Reversion in Stock Prices," *Journal of Financial Economics*, October 1988, pp. 27–59. Lo, Andrew W., and A. Craig MacKinlay. "Stock Market Prices Do Not Follow Random Walks: Evidence from a Simple Specification Test," *The Review of Financial Studies*, Spring 1988, pp. 41–66. Finnerty, John D., and Dean Leistikow. "The Behavior of Equity and Debt Risk Premiums: Are They Mean Reverting and Downward-Trending?" *The Journal of Portfolio Management*, Summer 1993, pp. 73–84. Ibbotson, Roger G., and Scott L. Lummer. "The Behavior of Equity and Debt Risk Premiums: Comment," *The Journal of Portfolio Management*, Summer 1994, pp. 98–100. Finnerty, John D., and Dean Leistikow. "The Behavior of Equity and Debt Risk Premiums: Reply to Comment," *The Journal of Portfolio Management*, Summer 1994, pp. 101–102.

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
1926–2004

Series	Serial Correlation	Interpretation
Large Company Stock Total Returns	0 03	Random
Equity Risk Premium	0 04	Random
Inflation Rates	0 65	Trend

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, from a high of 17.9 percent in the 1950s to a low of 0.3 percent in the 1970s. This look at the historical equity risk premium reveals no observable pattern.

Table 5-4
Long-Horizon Equity Risk Premium by Decade
1926–2004

1920s*	1930s	1940s	1950s	1960s	1970s	1980s	1990s	2000s**	1995-2004
17 6%	2 3%	8 0%	17 9%	4 2%	0 3%	7 9%	12 1%	–6 2%	8 1%

*Based on the period 1926–1929

**Based on the period 2000–2004

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 this century 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, and the development of the European Economic Community—all of these happened approximately in the last 30 years.

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 79-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

4 Though the study performed by Finnerty and Leistikow demonstrates that the traditional equity risk premium exhibits no mean reversion or drift, they conclude that, "the processes generating these risk premiums are generally mean-reverting." This conclusion is completely unrelated to their statistical findings and has received some criticism. In addition to examining the traditional equity risk premia, Finnerty and Leistikow include analyses on "real" risk premia as well as separate risk premia for income and capital gains. In their comments on the study, Ibbotson and Lummer show that these "real" risk premia adjust for inflation twice, "creating variables with no economic content." In addition, separating income and capital gains does not shed light on the behavior of the risk premia as a whole.

5 This assertion is further corroborated by data presented in *Global Investing: The Professional's Guide to the World of Capital Markets* (by Roger G. Ibbotson and Gary P. Brinson and published by McGraw-Hill, New York). Ibbotson and Brinson constructed a stock market total return series back to 1790. Even with some uncertainty about the accuracy of the data before the mid-nineteenth century, the results are remarkable. The real (adjusted for inflation) returns that investors received during the three 50-year periods and one 51-year period between 1790 and 1990 did not differ greatly from one another (that is, in a statistically significant amount). Nor did the real returns differ greatly from the overall 201-year average. This finding implies that because real stock-market returns have been reasonably consistent over time, investors can use these past returns as reasonable bases for forming their expectations of future returns.

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 2004 for different starting dates. The table and the graph both show that using a longer historical period provides a more stable estimate of the equity risk premium. The reason is that any unique period will not be weighted heavily in an average covering a longer historical period. It better represents the probability of these unique events occurring over a long period of time.

Table 5-5
Stock Market Return and Equity Risk Premium Over Time
1926–2004

Period Length	Period Dates	Large Company Stock Arithmetic Mean Total Return	Long-Horizon Equity Risk Premium
79 years	1926–2004	12.4%	7.2%
70 years	1935–2004	13.1%	7.7%
60 years	1945–2004	13.3%	7.3%
50 years	1955–2004	12.3%	5.6%
40 years	1965–2004	11.8%	4.4%
30 years	1975–2004	14.9%	6.9%
20 years	1985–2004	14.5%	7.4%
15 years	1990–2004	12.4%	6.0%
10 years	1995–2004	14.0%	8.1%
5 years	2000–2004	-0.7%	-6.2%

Looking carefully at Graph 5-5 will clarify this point. The graph shows the realized equity risk premium for a series of time periods through 2004, starting with 1926. In other words, the first value on the graph represents the average realized equity risk premium over the period 1926–2004. The next value on the graph represents the average realized equity risk premium over the period 1927–2004, and so on, with the last value representing the average over the most recent five years, 2000–2004. Concentrating on the left side of Graph 5-5, one notices that the realized equity risk premium, when measured over long periods of time, is relatively stable. In viewing the graph from left to right, moving from longer to shorter historical periods, one sees that the value of the realized equity risk premium begins to decline significantly. Why does this occur? The reason is that the severe bear market of 1973–1974 is receiving proportionately more weight in the shorter, more recent average. If you continue to follow the line to the right, however, you will also notice that when 1973 and 1974 fall out of the recent average, the realized equity risk premium jumps up by nearly 1.5 percent.

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

Line No.		Proxy Group of Four Gas Distribution Companies	Proxy Group of Eight Value Line Gas Distribution Companies	Southern Union Company
1.	Capital Asset Pricing Model Derived Company Equity Cost Rate (1)	10.48 %	10.17 %	11.09 %
2	Capital Asset Pricing Model Derived Company Equity Cost Rate (2)	10.40 %	10.32 %	11.09 %
3	Conclusion	10.44 %	10.25 %	11.09 %

Notes: (1) Developed on page 2 of this schedule.
(2) Developed on page 3 of this schedule

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

	Value Line Adjusted Beta	Company-Specific Risk Premium Based on Market Premium of 6.11% (1)	CAPM Result Including Risk-Free Rate of 4.98% (2)	Recommended CAPM Result (3)
		Traditional Capital Asset Pricing Model (4)		
Proxy Group of Four Gas Distribution Companies				
Cascade Natural Gas Corporation	0.80	4.89 %	9.87 %	9.87 %
NICOR Inc.	1.15	7.03	12.01	12.01
Northwest Natural Gas Company	0.70	4.28	9.26	--
Piedmont Natural Gas Co . Inc	0.75	4.58	9.56	9.56
Average	0.85	5.20 %		10.48 %
Proxy Group of Eight Value Line Gas Distribution Companies				
Cascade Natural Gas Corporation	0.80	4.89 %	9.87 %	9.87 %
The Laclede Group, Inc	0.80	4.89	9.87	9.87
New Jersey Resources Corp	0.80	4.89	9.87	9.87
NICOR Inc.	1.15	7.03	12.01	12.01
Northwest Natural Gas Company	0.70	4.28	9.26	--
Peoples Energy Corporation	0.85	5.19	10.17	10.17
Piedmont Natural Gas Co . Inc	0.75	4.58	9.56	9.56
WGL Holdings, Inc	0.80	4.89	9.87	9.87
Average	0.83	5.08 %		10.17 %
Southern Union Company	1.00	6.11 %	11.09 %	11.09 %

See page 4 for notes

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

	Value Line Adjusted Beta	Company-Specific Risk Premium Based on Market Premium of 6.11% (1)	CAPM Result Including Risk-Free Rate of 4.98% (2)	Recommended CAPM Result (3)
		Empirical Capital Asset Pricing Model (5)		
Proxy Group of Four Gas Distribution Companies				
Cascade Natural Gas Corporation	0.80	5.19 %	10.17 %	10.17 %
NICOR Inc.	1.15	6.80	11.78	11.78
Northwest Natural Gas Company	0.70	4.74	9.72	9.72
Piedmont Natural Gas Co . Inc	0.75	4.96	9.94	9.94
Average	0.85	5.42 %		10.40 %
Proxy Group of Eight Value Line Gas Distribution Companies				
Cascade Natural Gas Corporation	0.80	5.19 %	10.17 %	10.17 %
The Laclede Group, Inc	0.80	5.19	10.17	10.17
New Jersey Resources Corp	0.80	5.19	10.17	10.17
NICOR Inc.	1.15	6.80	11.78	11.78
Northwest Natural Gas Company	0.70	4.74	9.72	9.72
Peoples Energy Corporation	0.85	5.42	10.40	10.40
Piedmont Natural Gas Co . Inc	0.75	4.96	9.94	9.94
WGL Holdings, Inc	0.80	5.19	10.17	10.17
Average	0.83	5.34 %		10.32 %
Southern Union Company	1.00	6.11 %	11.09 %	11.09 %

See page 4 for notes

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

Notes:

(1) From the two previous month-end (January '06 – February '06), as well as a recently available (March 3, 2006), Value Line Summary & Index, a forecasted 3-5 year total annual market return of 9.99% can be derived by averaging the January 2006, February 2006, and spot forecasted total 3-5 year total appreciation, converting it into an annual market appreciation and adding the Value Line average forecasted annual dividend yield.

The 3-5 year average total market appreciation of 38%, produces a four-year average annual return of 8.39% (((1.38$^{0.25}$) - 1)*100) When the average annual forecasted dividend yield of 1.60% is added, a total average market return of 9.99% (1.60% + 8.39%) is derived.

January 2006, February 2006 and spot forecasted total market return of 9.99% minus the risk-free rate of 4.98% (developed in Note 2) is 5.01% (9.99% - 4.98%). The Ibbotson Associates calculated market premium of 7.20% for the period 1926-2004 results from a total market return of 12.40% less the average income return on long-term U.S. Government Securities of 5.20% (12.40% - 5.20% = 7.20%) This is then averaged with the 5.01% Value Line market premium resulting in a 6.105%, rounded to 6.11%, market premium. The 6.11% market premium is then multiplied by the beta in column 1 of pages 2 and 3 of this schedule

(2) Average forecast based upon six quarterly estimates of 20-year Treasury Note yields per the consensus of nearly 50 economists reported in the Blue Chip Financial Forecasts dated March 1, 2006 (see page 7 of Schedule 13 of this exhibit). The estimates are detailed below:

	20-Year Treasury Note Yield
First Quarter 2006	4.70%
Second Quarter 2006	4.90
Third Quarter 2006	5.00
Fourth Quarter 2006	5.10
First Quarter 2007	5.10
Second Quarter 2007	5.10
Average	4.98%

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

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

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

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

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

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

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

Source of Information: Value Line Summary & Index (Standard Edition)
Blue Chip Financial Forecasts, March 1, 2006
Value Line Investment Survey, March 17, 2006
Stocks, Bonds, Bills and Inflation – Valuation Edition -2005 Yearbook Market Results for 1926-2004 Ibbotson Associates, Inc., Chicago, IL

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

Proxy Group of Thirty-Eight Non-Utility Companies Comparable to the Proxy Group of Four Gas Distribution Companies (1)	Adj Beta	Unadj Beta	Standard Error of the Regression	5-Year Projected Rate of Return on Net Worth, Equity or Partners' Capital (2) Percent	Student's T-Test
Albemarle Corp.	0 90	0 80	3 1129	13 50 %	(0 25)
Alberto Culver	0.70	0 53	2 9772	13 50	(0 25)
Alexander & Baldwin	0 90	0 78	3 1119	12 50	(0 38)
Ashland Inc.	0 85	0.70	3 0119	7 50	(1 05)
BOK Financial	0 80	0 64	3 0444	13 00	(0 32)
Baldor Electric	0 85	0.77	2 9975	16 00	0 08
Banta Corp	0.75	0 59	2 8763	13 50	(0 25)
Capitol Fed Fin'l	0.70	0 51	2 9480	8 00	(0.98)
Cincinnati Financial	0 85	0.75	3 0515	7 50	(1.05)
City National Corp	0 90	0.79	3 2484	16 50	0 15
ConocoPhillips	0 90	0.78	3 0735	7 00	(1.11)
Dentsply Int'l	0 70	0 54	3 2618	14 00	(0.18)
Dun & Bradstreet	0 80	0 63	3 0607	31 00 (3)	2 08
Ecolab Inc	0 90	0 81	2 9292	24 50	1 21
First Midwest Bancorp	0 90	0 80	2 9316	19 50	0 55
Graco Inc	0 85	0.77	3 2291	41 00 (3)	3 41
Hancock Holding	0 70	0 54	3 0665	14 50	(0 12)
Harte-Hanks	0 85	0.70	3 1520	18 50	0.42
Hillenbrand Inds	0 80	0 63	3 3283	19 00	0 48
Hospitality Properties	0 85	0.73	3 0360	7 00	(1.11)
Iron Mountain	0.90	0.79	3 3620	13 00	(0.32)
Markel Corp.	0.80	0.67	2 9135	13 50	(0.25)
McClatchy Co	0 75	0 61	2 9836	10 00	(0.71)
McGraw-Hill	0 80	0 63	3 0963	21 50	0.82
Media General 'A'	0.90	0 81	3.1158	7 50	(1.05)
Meredith Corp.	0 90	0.77	2 9132	20 50	0.68
New York Times	0 90	0 81	3 0126	16 00	0 08
Occidental Petroleum	0.90	0.78	3 3428	17 50	0.28
People's Bank	0.85	0.70	3 1720	12 50	(0.38)
Pfizer Inc.	0.85	0.70	3.1781	23 00	1.01
Plum Creek Timber	0.75	0.58	2 9367	16 00	0.08
RLI Corp.	0.75	0.55	3.1141	11 00	(0.58)
Toro Co.	0.85	0.75	3 2727	33 00 (3)	2 34
Trizec Properties	0 80	0.67	3 3071	8 00	(0 98)
Union Pacific	0.90	0 79	3 1224	9 00	(0 85)
Washington Federal	0.85	0.74	3 0069	14 50	(0 12)
Webster Fin'l	0.90	0.78	3 0201	10 00	(0 71)
Wels Markets	0.70	0 54	3 2441	10 00	(0 71)
Average for the Non-Utility Group	0.83	0.70	3.0938		
Average for the Proxy Group of Four Gas Distribution Companies	0.80	0.65 (4)	3.1280 (5)		
Mean (3)				13.69 %	
Conclusion (6)				14.26 %	

See pages 5 and 6 for notes

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

Proxy Group of Twenty-Three Non-Utility Companies Comparable to the Proxy Group of Eight Value Line Gas Distribution Companies (7)	Adj Beta	Unadj. Beta	Standard Error of the Regression	5-Year Projected Rate of Return on Net Worth, Equity or Partners' Capital (2) Percent	Student's T-Test
Alberto Culver	0 70	0.53	2 9772	13.50 %	(0.14)
Apartment Invesiment	0 65	0 46	2.7732	9.50	(0.70)
Ashland Inc	0 85	0 70	3.0119	7.50	(0.98)
BRE Properties	0 70	0.50	2 6424	9.00	(0.77)
Banta Corp.	0 75	0 59	2 8763	13.50	(0.14)
Buckeye Partners L P.	0 70	0 47	2.7302	19.50	0.69
Capitol Fed. Fin'l	0 70	0 51	2 9480	8.00	(0.91)
Crescent Real Est	0 80	0 68	2 8368	11.50	(0.42)
Duke Realty Corp.	0 70	0.53	2 5998	9.00	(0.77)
Exxon Mobil Corp	0 80	0.65	2 5674	18.50	0.55
Federal Rlty Inv. Trust	0 70	0 48	2.7163	17.00	0.34
Hudson City Bancorp	0 75	0.57	2 7926	8.50	(0.84)
Kimberly-Clark	0 65	0.46	2.9350	33.00 (8)	2.57
Liberty Corp.	0 75	0 60	2 6765	8.50	(0.84)
Liberty Property	0 70	0.49	2.5717	14.00	(0.07)
Markel Corp.	0 80	0.67	2.9135	13.50	(0.14)
McClatchy Co	0 75	0 61	2 9836	10.00	(0.63)
Moody's Corp	0 80	0.64	2.8144	35.00 (8)	2.85
Old Nat'l Bancorp	0 70	0.49	2.6033	15.00	0.07
Plum Creek Timber	0 75	0.58	2.9367	16.00	0.21
Simon Property Group	0 70	0.48	2.7083	10.00	(0.63)
Washington Federal	0 85	0.74	3.0069	14.50	0.00
Washington R E.I.T.	0 70	0.54	2.7710	19.50	0.69
Average for the Non-Utility Group	0.74	0.56	2.7997		
Average for the Proxy Group of Eight Value Line Gas Distribution Companies	0.78	0.61 (9)	2.7792 (10)		
Mean (8)				12.67 %	
Conclusion (6)				14.37 %	

See pages 5 and 6 for notes.

Missouri Gas Energy
Comparable Earnings Analysis
for a Proxy Group of Ninety-Eight Non-Utility Companies Comparable to
Southern Union Company (11)

Proxy Group of Ninety-Eight Non-Utility Companies Comparable Southern Union Company (11)	Adj Beta	Unadj. Beta	Standard Error of the Regression	5-Year Projected Rate of Return on Net Worth, Equity or Partners' Capital (2)	
				Percent	Student's T-Test
21st Century Ins. Group	0 90	0.78	4.0866	9 50 %	(0.99)
ADVO Inc	0 90	0 79	3 8183	22 50	1.13
Abbott Labs.	0 80	0.68	3 8832	23 00	1 21
Advance Auto Parts	0.90	0.82	4 2012	20 50	0 80
Aflac Inc.	0 95	0 86	3 9019	15 50	(0 01)
Albany Int'l 'A'	1 05	1 06	4 2858	13 00	(0.42)
Allstate Corp.	0.95	0 85	3 8067	15 50	(0.01)
Amerada Hess	0 90	0 80	4 0188	8 00	(1.24)
Ameron Int'l	0 85	0 76	4 4690	10 50	(0.83)
Anadarko Petroleum	0.90	0 83	4 4300	9 00	(1 07)
Arch Chemicals	0 90	0 81	4 4104	12 50	(0.50)
AutoZone Inc	0.85	0 70	4.4014	46 00 (14)	4.96
Autoliv Inc.	1.10	1 10	3 8933	13 50	(0 34)
Ball Corp	0 90	0 79	3 9067	20 00	0 72
Bandag Inc	0 95	0 85	3 9212	9 00	(1 07)
Bank of Hawaii	0 95	0 86	3 9299	21 00	0 88
Berkley (W R.)	0 80	0 67	4 1772	14 50	(0 18)
Biomet	0 90	0 77	4 3919	22 50	1 13
Black & Decker	1 05	1 06	4 2481	16.00	0 07
Boeing	1 05	1 05	4 0907	21 00	0 88
Borders Group	0.95	0 87	4 5155	14 50	(0.18)
Briggs & Stratton	1.10	1 09	3 8532	17 50	0 31
Brink's (The) Co	1.05	1 07	4 2341	14 50	(0 18)
Brown & Brown	0.90	0 78	4 1737	17 00	0 23
Burlington Coat	1.05	1 02	4 2140	11 00	(0.75)
Burlington Resources	0.80	0 69	4 3635	14 50	(0.18)
C H. Robinson	0.85	0.76	4 2837	18 00	0 39
CSX Corp.	1 05	1 04	4 1493	10 00	(0.91)
Cabot Corp.	1.00	0 95	4 3746	11 50	(0 67)
Casey's Gen'l Stores	0 85	0.74	4 3342	12 50	(0.50)
Chesapeake Corp	0 95	0 88	4 2930	5 00	(1.73)
Chicago Mercantile	1 00	0.99	4 4902	20 50	0 80
ChoicePoint Inc.	0 90	0.81	3 9443	13 50	(0.34)
Commercial Metals	0 95	0 86	4 1715	15 00	(0.09)
Cooper Tire & Rubber	1 00	0.99	4 4032	14 50	(0.18)
Countrywide Financial	1 00	0 98	4 0648	13.00	(0.42)
Cytec Inds.	1 00	0.97	4 1299	16 50	0.15
Datascope Corp	0 95	0 85	4 3746	10 80	(0.78)
Dionex Corp.	0 85	0 70	3 9844	21 80	1.01
Downey Fin'l	0 90	0 81	4 1632	16.00	0.07
Eagle Materials	0 90	0 80	4 1023	17 50	0 31
Encore Acquisition	1 00	0 99	4 4182	12 50	(0 50)
Federal Signal	0 95	0 87	4 0623	14.00	(0.26)
Florida Rock	1 00	0 94	3 9042	16 50	0 15
Gallagher (Arthur J)	0 95	0 86	4 1442	22.00	1 05
Gardner Denver	0 85	0 73	4 2431	11.00	(0 75)
Gaylord Entertainm	0 95	0 90	4 2247	5 00	(1 73)
Glatfelter	0 85	0 76	4 2850	10.50	(0 83)
GlobalSantaFe Corp.	1 00	0 99	4 4410	11.00	(0 75)
Haemonetics Corp.	0 85	0 71	4 4929	13.50	(0 34)
Harrah's Entertain	0 95	0 87	4 4861	12.50	(0 50)
Int'l Business Mach	1 05	1.06	3 8409	29.50 (14)	2 27
Jack in the Box	0 90	0 78	4 4569	14.50	(0 18)
Jacobs Engineering	0 95	0 92	3 9469	13.50	(0 34)
Kellwood Co.	0 90	0 78	4 3632	8 50	(1 15)
Kelly Services 'A'	0 95	0 87	4 2955	10.00	(0 91)
Kohl's Corp.	1 05	1.04	4 1867	14.00	(0 26)
Lauder (Estee)	0 90	0.81	4 0447	26.50	1 78
Lincoln Elec Hldgs	0 85	0.73	4 0259	14.00	(0 26)
Marcus Corp.	0 85	0 75	4 4413	10 50	(0 83)
Masco Corp.	1 10	1 09	4 2366	19 00	0 56
McDonald's Corp	1 05	1 00	3 9567	13.50	(0 34)
Merck & Co	0 80	0 68	4 4432	25 00	1 54
Miller (Herman)	0 95	0.92	4 1296	32 00 (14)	2 68

Missouri Gas Energy
Comparable Earnings Analysis
for a Proxy Group of Ninety-Eight Non-Utility Companies Comparable to
Southern Union Company (11)

Proxy Group of Ninety-Eight Non-Utility Companies Comparable Southern Union Company (11)	Adj. Beta	Unadj. Beta	Standard Error of the Regression	5-Year Projected Rate of Return on Net Worth, Equity or Partners' Capital (2)	
				Percent	Student's T-Test
Murphy Oil Corp	0 85	0.76	3.9883	9 00	(1.07)
New York Community	0 95	0 85	4.1363	12.50	(0 50)
Newell Rubbermaid	0.85	0.76	4 1959	22.50	1 13
Nordson Corp.	1 05	1 02	3.9829	15.50	(0.01)
Norfolk Southern	1 05	1.04	4.2922	12.50	(0 50)
Outback Steakhouse	0 90	0 83	4 1896	16.50	0 15
PMI Group	1 05	1.06	3.9777	12.00	(0 58)
Pactiv Corp	0 90	0 81	3.8556	15.00	(0 09)
Payless ShoeSource	0 85	0.74	4.0567	10.00	(0 91)
Pixar	1 05	1 02	4.1578	10.50	(0 83)
Polaris Inds.	1 00	0 93	3 8154	27.50	1 94
Progressive (Ohio)	1 05	1 05	4 3361	13.00	(0 42)
Quanex Corp.	1 00	0 93	4 0393	14.50	(0 18)
RPM Int'l	0 85	0 76	4.4246	13.50	(0 34)
Reinsurance Group	0 90	0 82	4.1328	11.00	(0 75)
Rohm and Haas	1 05	1.07	4.4998	14.50	(0.18)
Ruby Tuesday	0 85	0.75	4.5025	16.50	0.15
SAFECO Corp.	0 95	0 89	4 4267	12.00	(0 58)
Schulman (A.)	0 85	0.71	4.1966	7.50	(1 32)
Sigma-Aldrich	0 85	0 71	3 9318	19.50	0 64
Sovereign Bancorp	1 10	1.11	3.9183	16.00	0 07
St. Jude Medical	0 85	0 73	4.2191	14.50	(0 18)
Stanley Works	1 00	0 97	3 9338	17.50	0 31
Steelcase Inc 'A'	0 85	0.76	4.5001	14.00	(0 26)
Superior Inds. Int'l	1 00	0 98	3 8279	9 50	(0 99)
Sybron Dental	0 90	0 82	4 4078	11.00	(0 75)
Tecumseh Products 'A'	0 80	0 68	3.8145	9 00	(1 07)
Trinity Inds	0 95	0 89	4 2319	13 00	(0 42)
Tupperware Brands	0 85	0.74	4.3901	23 00	1 21
United Stationers	1 10	1 11	4.1798	14 50	(0.18)
Varian Medical Sys.	0 80	0 67	4 1332	23 50	1 29
Waste Management	0 90	0 82	4 2063	21 50	0 97
Wausau Paper	1 00	1 00	4 0989	20 00	0 72
Weight Watchers	0 95	0 90	3 8996	27 00	1 86
Average for the Non-Utility Group	0.94	0.87	4.1720		
Southern Union Company	0.95	0.89 (12)	4.1728 (13)		
Mean (14)				14.94 %	
Conclusion (6)				13.88 %	

See pages 5 and 6 for notes

Missouri Gas Energy
Comparable Earnings Analysis

Notes:

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

(2) 2008-2010.

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

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

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

Standard Deviation of the Standard Error of the Regression =

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

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

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

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

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

Missouri Gas Energy
Comparable Earnings Analysis

minus two standard deviations of the unadjusted beta and standard error of the regression as detailed in Mr. Hanley's accompanying direct testimony. Plus or minus two standard deviations captures 95.5% of the distribution of unadjusted betas and standard errors of the regression

(8) The Student's T-statistic associated with this projected return exceeds 2.074 at the 95% level of confidence with twenty-two (22 = 23 observations – 1) degrees of freedom. Therefore, it has been excluded, as an outlier, to arrive at a proper mean projected return as fully explained in the accompanying direct testimony.

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

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

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

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

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

(14) The Student's T-statistic associated with this projected return exceeds 1.96 at the 95% level of confidence with twenty-two (97 = 98 observations – 1) degrees of freedom. Therefore, it has been excluded, as an outlier, to arrive at a proper mean projected return as fully explained in the accompanying direct testimony.

Source of Information: Value Line, Inc., Proprietary database, December 15, 2005
Value Line Investment Survey (Standard Edition)

Missouri Gas Energy
Authorized Returns on Common Equity and
Common Equity Ratios for Gas Distribution Companies
for the period January 2004 through December 2005

Company	Date	Jurisdiction	Authorized Return on Common Equity		Authorized Common Equity Ratio	
Madison Gas and Electric	01/13/04	WI	12 00	%	55 91	%
Public Service Co of New Mexico	01/13/04	NM	10 25	(1)	47 77	
City Gas Co. of Florida	02/09/04	FL	11 25		36 77	(2, 3)
Southwest Gas Corporation	03/16/04	CA	10 90		42 00	
Interstate Power & Light	04/05/04	MN	11 00		47 15	
TXU-Gas	05/25/04	TX	10 00		49 80	
Southern Indiana Gas & Electric	06/30/04	IN	10 50	(1)	44 00	(2)
South Jersey Gas	07/08/04	NJ	10 00	(1)	45 00	
Centerpoint Energy Arkla	07/22/04	LA	10 25	(1)	45 80	(4)
Southwest Gas, Southern Division	08/26/04	NV	10 50		40 00	
Southern Gas, Northern Division	08/26/04	NV	10 50		40 00	
Avista Corporation	09/09/04	ID	10 40		42 59	
Missouri Gas Energy	09/21/04	MO	10 50		29 99	
Consolidated Edison of New York	09/27/04	NY	10 30	(1)	48 00	
Washington Gas	09/27/04	VA	10 50	(1)	50 96	
Chattanooga Gas	10/20/04	TN	10 20		35.50	
Indiana Gas	11/30/04	IN	10 60	(1)	50 06	
Yankee Gas Service	12/08/04	CT	9 90	(1)	47 90	
Wisconsin Public Service	12/21/04	WI	11 50		57 35	
Madison Gas and Electric	12/22/04	WI	11 50		57 64	
Centerpoint Energy Arkla	12/28/04	OK	10 25	(1)	49 86	
Puget Sound Energy	02/18/05	WA	10 30		43 00	
SEMCO Energy Gas	03/29/05	MI	11 00	(1)	- -	
Vectren Energy Delivery of Ohio	04/13/05	OH	10 60		48 10	(5)
Michigan Consolidated Gas	04/28/05	MI	11 00		39 31	(2, 3)
AmerenIP - Formerly Illinois Power	05/17/05	IL	10 00	(1)	53 09	
CenterPoint Energy Minnegasco	06/08/05	MN	10 18		50 27	
Atlanta Gas Light	06/10/05	GA	10 90	(1)	- -	(6)
Entergy Gulf States	07/06/05	LA	10 50	(1)	47 52	
Wisconsin Power and Light	07/19/05	WI	11 50		61 75	
Northern States Power	08/11/05	MN	10 40	(1)	50 24	(3)
Centerpoint Energy Arkansas Gas	09/19/05	AR	9 45		31 80	(2)
Northern Illinois Gas - Now Nicor Gas	09/30/05	IL	10 51		56 37	
Oklahoma Natural Gas	10/04/05	OK	9 90	(1)	46 76	
Interstate Power & Light	10/14/05	IA	10 40	(1)	49 35	(3)
South Carolina Electric & Gas	10/31/05	SC	10 25	(1)	50 75	
Arkansas Western Gas	11/02/05	AR	9 70		33 03	(2)
Bay State Gas	11/30/05	MA	10 00		53 95	
Arkansas Oklahoma Gas	12/09/05	AR	9 70		41 04	(2, 5)
Madison Gas and Electric	12/12/05	WI	11 00		56 65	
Pacific Gas and Electric	12/16/05	CA	11 35		52 00	
San Diego Gas & Electric	12/16/05	CA	10 70		49 00	
Baltimore Gas & Electric	12/21/05	MD	11 00		48 40	
Avista Corporation	12/21/05	WA	10 40	(1)	40 00	
Wisconsin Public Service	12/22/05	WI	11 00		59 73	
Union Light, Heat & Power	12/22/05	KY	10 20		54 45	
Southern Connecticut Gas	12/28/05	CT	10 00	(1)	51 28	
Average			10.53	%	47.40	%
Average of Litigated Cases			10.66	%	46.91	%

Notes:
(1) Order followed stipulation or settlement by the parties. Decision particulars not necessarily precedent-setting or specifically adopted by the regulatory body
(2) Capital structure includes cost-free items or tax credit balances at the overall rate of return
(3) Interim rates implemented prior to issuance of final order
(4) Hypothetical capital structure utilized
(5) Estimated
(6) Revised

Source of Information: Major Rate Case Decisions - January 2004 - December 2005
Regulatory Focus - Supplemental Studies, January 12, 2006
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