Exhibit No.:	
Issue:	*Rate of Return on Equity*
Witness:	*James M. Anderson*
Sponsoring Party:	*Missouri Gas Utility, Inc.*
Type of Exhibit:	*Direct Testimony*
Case No:	
Date Testimony Prepared:	*August 24, 2007*

MISSOURI PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY

OF

JAMES M. ANDERSON

MISSOURI GAS UTILITY, INC.

CASE NO.

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DIRECT TESTIMONY
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MISSOURI GAS UTILITY, INC.

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INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. James M. Anderson, 7887 E. Belleview Ave. 11th Floor, Denver, CO 80111

Q. ON WHOSE BEHALF IS YOUR TESTIMONY PRESENTED?

A. Missouri Gas Utility, Inc. ("MGU" or the "Company").

Q. BY WHOM, AND IN WHAT CAPACITY, ARE YOU EMPLOYED?

A. I am Senior Vice President of Municipal Capital Markets Group, Inc., an investment banking firm that is a member of FINRA (Financial Industry Regulatory Authority, formerly the National Association of Security Dealers, Inc.). In this capacity, I have provided investment banking services to CNG Holdings, Inc. ("CNG" or the "Holding Company"), the owner of all of MGU's outstanding common stock. These services included: a) underwriting all of the Holding Company's revenue bonds, b) placing all of the Holding Company's common equity in the private equity market, and c) advising CNG on the acquisitions of the municipal gas systems that were acquired to form MGU.

Q. DO YOU HAVE ANY OTHER RELATIONSHIP WITH MGU?

A. Yes. I am a member of the boards of directors of both MGU and CNG.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND RELEVANT BUSINESS EXPERIENCE.

A. The information is shown in the attached Appendix 1.

Q. HAVE YOU TESTIFIED BEFORE OTHER REGULATORY BODIES?

A. Yes. I have testified before the Colorado Public Utility Commission and the North Carolina Utilities Commission.

Q. IN WHAT CAPACITY?

A. I have testified as a rate of return witness and as a financial feasibility witness on the start-up of a new natural gas local distribution company.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. My testimony is presented to recommend to the Commission a fair and reasonable rate of return on common equity (cost of common equity) and the use of the appropriate capital structure for the Company's Cost-of-Service analysis.

Q. HAVE YOU PREPARED ANY SCHEDULES OR STUDIES TO BE PRESENTED WITH YOUR TESTIMONY?

A. Yes. I have prepared a study of the rate of return on common equity (cost of common equity) that is attached as Schedule JMA-1.

SUMMARY OF RECOMMENDATIONS

Q. WHAT IS YOUR RECOMMENDED RATE OF RETURN ON COMMON EQUITY?

A. Based on the discounted cash flow (DCF) model in the study in Schedule JMA-1 and the additional risk common shareholders experience in the ownership of non-publicly traded securities (see the explanation of this risk below), I recommend a rate of return on common equity in a range of 12% to 13%.

Q. WHAT CAPITAL STRUCTURE DO YOU RECOMMEND BE USED FOR THE COST-OF-SERVICE ANALYSIS?

A. I recommend that the Holding Company's adjusted capital structure be used in the Cost-of-Service analysis for the reasons discussed later in my testimony.

Q. WHAT IS THE HOLDING COMPANY'S CURRENT CAPITAL STRUCTURE?

A. CNG's long-term debt at June 30, 2007 was $31,221,328 and its common equity at June 30, 2007 was $33,823,285. At June 30, 2007, CNG's capital ratio was 48% long-term debt and 52% common equity.

Q. WHAT CHANGES HAVE BEEN MADE TO CNG'S CAPITAL STRUCTURE SINCE THE MARCH 31, 2007 AUDITED STATEMENT?

A. CNG raised $18,959,536 (net after issuing costs) from the private placement of additional common stock on May 30, 2007, retired $2,267,000 of preferred stock, paid $1 million of accounts payable, and retired a $4,471,150 line of credit. See Schedule JMA-2 for the June 30, 2007 balance sheet for the Holding Company.

Q. HAVE THERE BEEN ANY OTHER ADJUSTMENTS TO CNG'S CAPITAL STRUCTURE SINCE MARCH 31, 2007?

A. No.

DETERMINATION OF THE RATE OF RETURN ON COMMON EQUITY

Q. PLEASE DESCRIBE YOUR APPROACH IN DETERMINING YOUR RECOMMENDED RATE OF RETURN ON COMMON EQUITY (OR THE

COST OF CAPITAL)?

A. I prepared a discounted cash flow analysis for all but one of the publicly traded local distribution companies (LDC) that are included in the Value Line Investment Survey (dated June 15, 2007, pages 445 to 460) of natural gas utilities and determined the average rate of return on common equity ranges from 9.5% to 10%, see Schedule JMA-1. Both MGU and CNG are private companies, and their common stock does not trade on a public exchange or market. As a result, I added 250 to 300 basis points to the DCF range to compensate for the additional risk of holding a private security. This resulted in a recommended rate of return on common equity range of 12% to 13%.

Q. COULD YOU HAVE USED PRIVATELY HELD LOCAL DISTRIBUTION COMPANIES TO PERFORM YOUR DCF ANALYSIS?

A. No.

Q. WHY NOT?

A. Because there are no reliable financial statements, independent forecasts of future earnings and market share quotes available on privately held LDCs, I was forced to use the publicly traded companies. The lack of information on private LDCs is a major drawback to using the DCF analysis for a private LDC such as MGU.

Q. WHY DID YOU LEAVE ONE OF THE COMPANIES COVERED IN VALUE-LINE INVESTMENT SURVEY OUT OF YOUR DCF ANALYSIS?

A. I omitted SEMCO Energy, Inc. from my DCF analysis because it was primarily in the construction business during the five- and ten-year periods of the analysis.

Q. FOR PURPOSES OF YOUR ANALYSIS IN THIS CASE, ARE THERE OTHER DRAWBACKS IN THE STANDARD DCF ANALYSIS BESIDES THE LACK OF INFORMATION ON PRIVATE COMPANIES?

A. Yes. The standard DCF theory is based on the following assumptions:

1. Market equilibrium,
2. Perpetual life of the company,
3. Constant dividend payout ratio,
4. Dividend payout of less than 100% of earnings,
5. Constant price/earnings ratio,
6. Constant growth in cash dividends,
7. Stability in interest rates over time,
8. Stability in required rates of return on equity over time, and
9. Stability in earned returns over time.

It is difficult, if not impossible, to find sample companies that have any of the above qualities, with the exception of perpetual life.

Q. WHAT VARIATIONS FROM THE STANDARD DCF THEORY ASSUMPTIONS DID YOU NOTE AMONG YOUR SAMPLE COMPANIES?

A. In my sample companies, dividend payout ratio ranged from 0% (for Southern Union from 1997 to 2005) to 113% (for Laclede Group in 2002). Both Atmos'

and Laclede's dividend payout ratio exceeded 100% of net profit during the sample period. During the sample period, price/earnings ratios varied, on average, from 12.7 to 23.5, with Atmos having the greatest variation (13.5 to 33.0) and New Jersey Resources having the most consistent P/E ratio (13.5 to 16.8). No company in the sample showed a constant growth in dividends. The annual earned returns for the sample companies were anything but stable. The rate of return on common equity ranged from an annual average low of 7.7% to an annual average high of 14.4%, an 87% variance. Finally, during the sample period, interest rates varied widely, as evidenced by the yield on thirty-year U.S. treasury bonds between 1997 and 2006 that ranged from a high of 7.09% to a low of 4.29%, for a 280 basis point change, or a percentage change of 65%.

Q. ARE THERE ANY OTHER PROBLEMS WITH THE STANDARD DCF ANALYSIS?

A. Yes. The standard DCF analysis uses the percentage growth in the sample companies' per share book value as an indicator of the rate of return on common equity. The growth of a company's book value can result from earnings on a company's common equity, but it can also result from the company selling additional common shares at a market price over the per share book value. For example, a company with a book value of $10 million and 1 million outstanding shares has a per share book value of $10. If that company sells an additional 1 million shares at a market price of $15, it will

have a new book value of $25 million, with 2 million shares outstanding, or a per share book value of $12.50. This is a 25% annual growth rate, without any growth from earnings or increase in the market value of the shares.

Q. DID YOU MAKE ANY ADJUSTMENTS TO YOUR DCF ANALYSIS TO CORRECT FOR THESE PROBLEMS?

A. Yes. I included the average actual annual rate of return on common equity of the sample companies in my DCF analysis. The actual rates of return on common equity are from the same publication of Value-Line as referred to earlier. The average actual annual rate of return posted by the sample companies was given a 50% weight in my DCF analysis.

Q. HOW DOES INCLUDING THE ACTUAL RATE OF RETURN ON EQUITY ADJUST FOR THE PROBLEMS ASSOCIATED WITH THE STANDARD DCF ANALYSIS?

A. The purpose of the DCF analysis is to determine the rate of return on common equity that investors require to invest in a utility. A five- and ten-year history of fourteen public companies' rates of return produce a reasonable rate of return expectation investors have about their investment. Further, the actual average rate of return on common equity must be available to the sample companies in order to produce the growth in dividends, earnings and book value normally included in the standard DCF analysis.

Q. PLEASE EXPLAIN IN GREATER DETAIL WHY YOU ADJUSTED THE RATE

OF RETURN ON EQUITY RESULTING FROM THE DCF ANALYSIS?

A. The DCF analysis was adjusted to make up for the additional risk of holding private, non-publicly traded shares that was not reflected in the public companies used in the analysis. The legal principles for the assessment of the just and reasonable rate of return recommendations are based on the Bluefield Water Works case, where the court stated:

> "A public utility is entitled to such rates as will permit it to earn a return....equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties;..."

The shareholders of private companies' risks and uncertainties do not correspond to the risks of the shareholders of the public companies, including those companies used in my DCF analysis; therefore, an adjustment to the rate of return on common equity is required to compensate for this additional risk.

Q. WHAT ARE THE ADDITIONAL RISKS EXPERIENCED BY SHAREHOLDERS OF NON-PUBLICLY TRADED COMPANIES?

A. The principal risks are:

No secondary market for private stock. Investors in publicly traded companies can quickly liquidate their investments in the public markets. Shareholders of private companies have few opportunities to liquidate their

investments. The shareholders investing in a private company must be prepared to make a long-term investment and accept long-term setbacks in the private company's fortunes. Holders of private shares wishing to sell their stock must: 1) find an accredited individual investor or qualified institutional buyer (as defined by the SEC) willing to purchase their stock, 2) provide the prospective investor with all the material information on the company that is commonly presented in an offering prospectus, or 3) engage an agent to perform these functions. The cost of a private placement agent can range from 5% to 10% of the total price receive for the shares. My firm has charged CNG fees in this range for the private placement of its common stock. The fees to sell publicly traded stock are virtually immaterial, as the fees can be as low as $9.95 to sell all of a holder's shares. As a result of these factors, a private shareholder may be unable to sell his or her holdings, and if the shares can be sold, the cost of sale will be substantial and the price realized would be lower than that received for a public company's shares (due to the additional risks of private equity) .

Exit strategy required. Most private company shareholders will only be able to sell their investments when, and if, the company becomes a public company or sells the entire company to another owner, normally in the same business. Therefore, shareholders in a private company must rely almost entirely on the management to execute on an exit strategy to earn a profit on their equity investment.

No independent market valuation of a private stock price. The price of a private company's stock normally is set by its board of directors at the time an investor buys the stock from the company. There is no independent market valuation of the stock price. At the time of purchase, an investor has no assurance that the price he or she is paying is appropriate. After purchase, the investor generally has no independent market valuation to value the stock for estate planning or other purposes.

Risk of securing additional capital. The ability of a private company to raise additional equity capital is much more limited than a public company with its access to the public equity markets. Without the availability of the public market, raising additional equity capital can be expensive and may not be available at all. The lack of additional capital can reduce the private company's ability to take advantage of new business opportunities, restrict its cash flow, cause it to become over-levered and increase its operating and interest costs.

Q. DOES MGU HAVE ANY ADDITIONAL RISKS NOT GENERALLY SHARED BY THE COMPANIES THAT MAKE UP YOUR DCF ANALYSIS?

A. Yes. The communities served by MGU are small rural towns that do not have any prohibitions against the use of larger propane tanks within the town borders. Most, if not all, urban cities served by the companies in my DCF analysis prohibit propane tanks with a capacity of more than five gallons. As a result, MGU has the risk that its customers can convert to propane. There is no corresponding comprehensive fuel switching risk borne by the companies in

my DCF analysis.

Q. SOME OF THE SAMPLE COMPANIES IN YOUR DCF ANALYSIS DISTRIBUTE NATURAL GAS IN RURAL AREAS WHERE FUEL SWITCHING IS POSSIBLE. DO YOU CONSIDER THIS TO BE A RISK SIMILAR TO THE MGU'S RISKS?

A. No

Q. PLEASE EXPLAIN.

A. While it is true that some of the companies in my DCF analysis serve rural communities and make "farm taps" available to customers outside of towns, such customers make up a very small percentage of the sample companies' total customers. See Schedule JMA-3 for the estimated number of customers served by the sample companies and the approximate location of the sample companies' service territories. On the other hand, in the case of MGU, 100% of its customers can switch fuel at any time. Commonly, towns over 10,000 in population have regulations limiting propane tanks. The three towns served by MGU all have populations under 2,000. Prior to selling its gas system, the town council of Gallatin attempted to prohibit propane tanks larger than five gallons. This effort was rejected by the residents.

Q. ARE THESE ADDITIONAL RISKS KNOWN TO PROSPECTIVE INVESTORS PRIOR TO THEIR MAKING AN INVESTMENT IN CNG?

A. Yes. CNG has prepared private placement memorandums, similar to a public

company's offering prospectus. The memorandums outline these risks in detail. Each investor receives a copy of a memorandum before he/she invests. Companies placing securities by a private placement are obligated by U.S. and state securities laws and regulations to make the same disclosures that public companies are obliged to make.

Q. WHAT IS THE IMPACT OF THESE ADDITIONAL RISKS ON PRIVATE COMPANIES?

A. These risks result in private shareholders requiring a higher rate of return for their equity investment in the private company.

Q. HOW DID YOU DETERMINE THE AMOUNT TO ADJUST THE RATE OF RETURN ON EQUITY FOR THE ADDITIONAL RISK OF A PRIVATE COMPANY?

A. I was unable to find an established formula to calculate the additional return required by private investors; however, there are several subjective indicators of the additional cost of private common equity. These indicators are: 1) my personal experience in the private placement market, 2) the cost of selling private equity securities, 3) the preference of investors to participate in the public markets, as indicated by the size of the public market when compared to the private market, and 4) the preference for regulated utilities to be public companies.

Q. FROM YOUR EXPERIENCE, WHAT IS THE ADDITIONAL RATE OF

RETURN ON COMMON EQUITY THAT INVESTORS EXPECT IN THE PRIVATE MARKETS?

A. Investors in the private market anticipate a return of at least one-third more than a comparable investment in a public company. Private investors acknowledge that different industrial groups offer different rates of return. For the utility industry, private investors may accept less than for other industries; however, if a public LDC returns 10%, a similarly situated private LDC should return one-third more, or 13.3%.

Q. IS THERE A DIFFERENCE IN PRIVATE EQUITY INVESTORS THAT DRIVES THESE EXPECTATIONS?

Yes. Investors participating in the private equity market tend to be more sophisticated. Indeed, investors in CNG are required to complete a questionnaire as part of the investor's subscription agreement that is intended to demonstrate the investor's level of experience and knowledge about investments. As a result of this level of knowledge and experience, private equity investors are aware of the rates of return on equity that public companies earn in industries similar to a prospective private investment. They also recognize the difficulties and costs of liquidating a private investment (discussed below). As a result, private investors are not hesitant to demand a higher rate of return on their investment in a private company.

Q. IS THERE AN ADDITIONAL COST OF SELLING PRIVATE COMMON

EQUITY OVER PUBLIC COMMON EQUITY?

A. Yes. The placement fees of private common equity are 8% to 10% of the principal amount raised in the private placement. For a public offering, the underwriting fees range from 2.5% to 6% of the amount raised. In addition, the public offering must be registered with the U.S. Securities and Exchange Commission. Legal fees associated with registration add an additional cost of 0.25% to 0.5% to a public offering, for a total of 3% to 6.5%. Both the public and private sale involves legal fees for preparations of disclosure materials that are roughly equal. For both public and private sales, these costs are one-time fees that are paid by the company, but reduce the shareholder's equity in the company. Because these fees reduce shareholder's equity, there is a dollar-for-dollar reduction in the book value of the shares. The net result is that a private placement can have an additional cost to the value of shareholder's stock price of 3.5% to 5%. In addition to this cost, the private investor may have the same costs at the sale of his/her private stock, only this time it must be paid directly by the shareholder rather than the company. The public shareholder will not have a material cost to sell his/her public stock. This can bring the total cost of buying and selling private stock to 7% to 10% over public stock. Most private investors consider a long-term holding period to be five to ten years. If a private investor amortizes his/her cost of buying and selling a private stock over their holding period, the annual cost is 0.7% to 1% for a ten-year holding period and 1.4% to 2% for a five-year holding period. Because

the holding period is unknown at the time of purchase, the typical private investor would consider the additional annual rate of return needed to cover transaction costs to be 1.5%.

Q. WHAT HAS MGU'S AND CNG'S EXPERIENCE BEEN WITH REGARD TO THE COST OF RAISING COMMON EQUITY IN THE PRIVATE MARKET?

A. All of MGU's common equity has been sold to CNG without cost; however, CNG needed to raise private common equity to make its investment in MGU. CNG raised $15 million, in five offerings, at an average cost of 9.5%, and it has recently raised $18.9 million, at a cost of 5.2%. CNG's average cost to raise common equity has been 7.15%.

Q. WHAT ARE THE SIZE OF THE PUBLIC AND PRIVATE MARKETS?

A. The value of the world's public stock markets is approximately $51 trillion. The size of the current private hedge fund market is estimated at $1.2 trillion. There are certainly other participants in the private market; however, if these other participants are five times as large as the hedge funds, that leaves the private market at $8.6 trillion, or about 17% as large as the public markets.

Q. HOW DOES THE SIZE OF THE PUBLIC AND PRIVATE MARKETS RELATE TO THE RATE OF RETURN ON COMMON EQUITY?

A. The large difference in the size of the markets indicates a clear preference among investors to invest in public companies. In order to overcome this preference, a private company must offer a higher rate of return on its private common equity to attract investors.

Q. HOW DOES AN INVESTOR'S PREFERENCE FOR PUBLIC COMPANIES RELATE TO THE RATE OF RETURN ON COMMON EQUITY FOR A REGULATED UTILITY?

A. Because regulators and customers demand the lowest possible cost for utility services, regulated utility companies seek the lowest cost of capital. As most large utility companies (based on number of customers served) are public companies, this is a clear indication that the least cost common equity capital is available in the public markets.

Q. IF CHEAPER EQUITY CAPITAL IS AVAILABLE IN THE PUBLIC MARKETS, WHY HAVE MGU OR CNG NOT BECOME A PUBLIC COMPANY?

A. Both MGU and CNG are too small to become public companies. CNG is a very small company compared with the average publicly traded LDC. The average gross revenues in 2006 for a company covered in my DCF analysis was $2.91 billion. CNG's gross revenues (including MGU's gross revenues) for its fiscal year 2006-07 were $14.03 million. The average net utility plant of a company in my DCF analysis in 2006 was $2.53 billion, as compared to CNG's net utility plant at March 31, 2007 of $52.1 million. Of the fourteen companies in my DCF analysis, only one, Keyspan Corporation, is considered by Value-Line to be a "large cap" company; that is, a company with a market capitalization of more that $5 billion. By this definition, all but one of the companies in my DCF analysis would be considered smaller public companies.

Q. WHAT ARE THE RISKS OF BEING A SMALL PUBLIC COMPANY?

A. Very small public companies are not generally followed by publications such as Value-Line or by research analysts of brokerage firms. Without this coverage, the investing public, both institutional and individual investors, may never learn about a small company. This can have a negative impact on the market price of a small public company's stock. Further, the small number of shares available to trade in the public market can give short-sellers the opportunity to drive the market price lower by selling short and dramatically increasing the supply of a small company's shares on the market. Because of these risks, small public companies' shares do not sell at favorable prices in an initial public offering or after the offering. Market prices for small companies will often trade at prices well below the price/earnings ratios for larger companies in the same industry, or even below the small company's book value.

Q. IS THE RISK OF A SMALL PUBLIC COMPANY GREATER THAN THOSE OF A PRIVATE COMPANY?

A. The risks of being a very small public company appear to be greater than the additional risks associated with being a private company. A run on the stock by short-sellers and/or the general inattention by market participants can reduce a small public company's share market price well below book value. With a stock market price below book value, a small public company's ability to raise additional capital will be eliminated, thereby keeping the company small indefinitely. The only remedy for a low share market price is for a small

company to annually increase earnings at an increasing percentage rate over a number of years. As a regulated utility, without the ability to raise additional capital to expand, boosting annual earnings at an increasing rate can be virtually impossible.

RECOMMENDED CAPITAL STRUCTURE

Q. WHY SHOULD MGU'S COST-OF-SERVICE ANALYSIS BE BASED ON CNG'S CAPITAL STRUCTURE?

A. There are four reasons that the Cost-of-Service Analysis should be based on CNG's adjusted capital structure and its debt to equity ratio:

1. CNG provides unsecured loans to MGU and performs all of MGU's cash management. At June 30, 2007, MGU had unsecured loans due CNG of $436,000, see Schedule JMA-4. MGU employees are not engaged in cash management of MGU's cash, as this activity is entirely handled by CNG employees.

2. CNG is primarily a regulated natural gas and water distribution utility. This results in CNG and MGU having the same business risks. In addition to MGU, CNG Holdings, Inc. owns Colorado Natural Gas, Inc. a regulated natural gas distribution company serving about 9,500 customers and Colorado Water Utility, Inc., a regulated water distribution company serving approximately 350 customers. These three utility distribution companies generate 99% of CNG Holdings' revenues and net sales income.

3. CNG is slightly more leveraged than MGU. This is an indication that CNG

has used a portion of its debt capital to hold a portion of MGU's equity.

4. CNG has guaranteed MGU's bank debt.

Q. IS MGU'S CAPITAL STRUCTURE MATERIALLY DIFFERENT THAN CNG'S?

A. No. At June 30, 2007, after CNG contributed additional common equity capital to MGU from the proceeds of the sale of CNG stock in May, 2007, MGU's debt-to-equity ratio is very similar to CNG's capital ratio. Attached is MGU's unaudited balance sheet at June 30, 2007 as Schedule JMA-4.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes

Missouri Gas Utility, Inc.

10-Year Per Share Growth Rates for Dividends, Earnings, & Book Value
For Value-Line Investment Survey Natural Gas Utility Industry
At June 15, 2007

	Name	Symbol	Annual Compounded Rates			Average
			Dividend	Earnings	Book Val.	Comp. Rate
1	AGL Resources, Inc.	ATG	3.20%	7.10%	6.54%	5.61%
2	Atmos Energy Corp.	ATO	2.24%	4.09%	6.21%	4.18%
3	Cascade Natural Gas, Corp.	CGC	0.00%	1.60%	0.43%	0.68%
4	Keyspan Corp.	KSE	2.51%	0.23%	3.04%	1.93%
5	Laclede Group, Inc.	LG	0.74%	2.56%	2.83%	2.05%
6	New Jersey Resources Corp.	NJR	3.01%	6.58%	8.04%	5.88%
7	NICOR, Inc.	GAS	2.88%	1.74%	2.33%	2.32%
8	N.W. Natural Gas Co.	NWN	1.40%	2.93%	3.23%	2.52%
9	Piedmont Natural Gas Co.	PNY	4.53%	3.16%	5.46%	4.39%
10	South Jersey Industries, Inc.	SJI	2.48%	11.08%	8.92%	7.49%
11	Southern Union Co.	SUG	0.00%	13.25%	7.91%	7.05%
12	Southwest Gas Corp.	SWX	0.00%	9.90%	4.36%	4.75%
13	UGI Corp.	UGI	3.54%	12.63%	10.57%	8.91%
14	WGL Holdings, Inc.	WGL	1.37%	0.48%	3.09%	1.64%
			1.99%	5.52%	5.21%	4.24%

5-Year Per Share Growth Rates for Dividends, Earnings, & Book Value
For Value-Line Investment Survey Natural Gas Utility Industry
At June 15, 2007

	Name	Symbol	Annual Compounded Rates			Average
			Dividend	Earnings	Book Val.	Comp. Rate
1	AGL Resources, Inc.	ATG	6.50%	8.37%	10.59%	8.49%
2	Atmos Energy Corp.	ATO	1.32%	6.64%	7.95%	5.31%
3	Cascade Natural Gas, Corp.	CGC	0.00%	-0.72%	0.52%	-0.07%
4	Keyspan Corp.	KSE	0.99%	-4.63%	4.50%	0.29%
5	Laclede Group, Inc.	LG	0.88%	14.97%	4.58%	6.81%
6	New Jersey Resources Corp.	NJR	3.71%	6.02%	11.49%	7.08%
7	NICOR, Inc.	GAS	0.22%	1.02%	3.26%	1.50%
8	N.W. Natural Gas Co.	NWN	1.98%	7.72%	3.12%	4.27%
9	Piedmont Natural Gas Co.	PNY	3.50%	5.98%	5.83%	5.10%
10	South Jersey Industries, Inc.	SJI	4.17%	15.06%	9.34%	9.52%
11	Southern Union Co.	SUG	0.00%	24.87%	7.11%	10.66%
12	Southwest Gas Corp.	SWX	0.00%	11.87%	3.80%	5.22%
13	UGI Corp.	UGI	4.72%	12.34%	22.25%	13.10%
14	WGL Holdings, Inc.	WGL	1.08%	11.22%	2.98%	5.09%
			2.08%	8.62%	6.95%	5.88%

Missouri Gas Utility, Inc.

Average of 5 & 10 year Compounded Annual Growth Rate for Dividends, Earnings & Book Value

	Name	Symbol	5-Year Average Comp. Rate	10-Year Average Comp. Rate	Average 5 & 10-Year
1	AGL Resources, Inc.	ATG	8.49%	5.61%	7.05%
2	Atmos Energy Corp.	ATO	5.31%	4.18%	4.74%
3	Cascade Natural Gas, Corp.	CGC	-0.07%	0.68%	0.31%
4	Keyspan Corp.	KSE	0.29%	1.93%	1.11%
5	Laclede Group, Inc.	LG	6.81%	2.05%	4.43%
6	New Jersey Resources Corp.	NJR	7.08%	5.88%	6.48%
7	NICOR, Inc.	GAS	1.50%	2.32%	1.91%
8	N.W. Natural Gas Co.	NWN	4.27%	2.52%	3.40%
9	Piedmont Natural Gas Co.	PNY	5.10%	4.39%	4.74%
10	South Jersey Industries, Inc.	SJI	9.52%	7.49%	8.51%
11	Southern Union Co.	SUG	10.66%	7.05%	8.86%
12	Southwest Gas Corp.	SWX	5.22%	4.75%	4.99%
13	UGI Corp.	UGI	13.10%	8.91%	11.01%
14	WGL Holdings, Inc.	WGL	5.09%	1.64%	3.37%
			5.88%	4.24%	5.06%

Average of Historical & Projected* Compounded Annual Growth Rates

	Name	Symbol	Average 5 & 10- Yr. Growth Rate	Projected 3 to 5 Year EPS Growth Rate*	Average Historical & Projected Rate
1	AGL Resources, Inc.	ATG	7.05%	3.48%	5.26%
2	Atmos Energy Corp.	ATO	4.74%	4.40%	4.57%
3	Cascade Natural Gas, Corp.	CGC	0.31%	6.22%	3.26%
4	Keyspan Corp.	KSE	1.11%	4.95%	3.03%
5	Laclede Group, Inc.	LG	4.43%	3.32%	3.87%
6	New Jersey Resources Corp.	NJR	6.48%	5.01%	5.75%
7	NICOR, Inc.	GAS	1.91%	2.89%	2.40%
8	N.W. Natural Gas Co.	NWN	3.40%	6.77%	5.08%
9	Piedmont Natural Gas Co.	PNY	4.74%	5.32%	5.03%
10	South Jersey Industries, Inc.	SJI	8.51%	5.45%	6.98%
11	Southern Union Co.	SUG	8.86%	9.01%	8.93%
12	Southwest Gas Corp.	SWX	4.99%	4.81%	4.90%
13	UGI Corp.	UGI	11.01%	7.06%	9.03%
14	WGL Holdings, Inc.	WGL	3.37%	4.51%	3.94%
			5.06%	5.23%	5.15%

*Projected by Value Line Investment Survey, June 15, 2007, pages 446 to 460

Missouri Gas Utility, Inc.

Actual* 5 & 10-Year Average Rate of Return on Common Equity For Sample Group

	Name	Symbol	10-Yr. Avg. Rate of Return on Comm. Eq.	5-Yr. Avg. Rate of Return on Comm. Eq.	Avg. of 5 & 10 yr. Actual Return on Comm. Eq.
1	AGL Resources, Inc.	ATG	12.09%	13.12%	12.61%
2	Atmos Energy Corp.	ATO	9.70%	9.14%	9.42%
3	Cascade Natural Gas, Corp.	CGC	10.43%	9.74%	10.09%
4	Keyspan Corp.	KSE	8.94%	10.42%	9.68%
5	Laclede Group, Inc.	LG	10.57%	10.58%	10.58%
6	New Jersey Resources Corp.	NJR	14.86%	15.12%	14.99%
7	NICOR, Inc.	GAS	15.47%	14.02%	14.75%
8	N.W. Natural Gas Co.	NWN	9.49%	9.56%	9.53%
9	Piedmont Natural Gas Co.	PNY	11.79%	11.20%	11.50%
10	South Jersey Industries, Inc.	SJI	12.70%	12.24%	12.47%
11	Southern Union Co.	SUG	6.02%	8.44%	7.23%
12	Southwest Gas Corp.	SWX	7.53%	7.66%	7.60%
13	UGI Corp.	UGI	17.09%	17.94%	17.52%
14	WGL Holdings, Inc.	WGL	11.27%	11.02%	11.15%
			11.28%	11.44%	11.36%

Discounted Cash Flow (DCF) Estimated Rate of Return on Common Equity for Sample Group

	Name	Projected* Dividend Yield	Average Historical & Projected Rate	Dividend Yield & Hist. & Proj. Rate of Ret.	Avg. of 5 & 10 yr. Actual Return on Comm. Eq.	Average Actual ROE & % Inc. DPS, EPS & BVPS
1	AGL Resources, Inc.	3.90%	5.26%	9.16%	12.61%	10.88%
2	Atmos Energy Corp.	4.00%	4.57%	8.57%	9.42%	9.00%
3	Cascade Natural Gas, Corp.	3.60%	3.26%	6.86%	10.09%	8.47%
4	Keyspan Corp.	4.60%	3.03%	7.63%	9.68%	8.65%
5	Laclede Group, Inc.	4.90%	3.87%	8.77%	10.58%	9.67%
6	New Jersey Resources Corp.	2.80%	5.75%	8.55%	14.99%	11.77%
7	NICOR, Inc.	4.10%	2.40%	6.50%	14.75%	10.62%
8	N.W. Natural Gas Co.	3.00%	5.08%	8.08%	9.53%	8.80%
9	Piedmont Natural Gas Co.	3.80%	5.03%	8.83%	11.50%	10.16%
10	South Jersey Industries, Inc.	2.60%	6.98%	9.58%	12.47%	11.02%
11	Southern Union Co.	1.20%	8.93%	10.13%	7.23%	8.68%
12	Southwest Gas Corp.	2.30%	4.90%	7.20%	7.60%	7.40%
13	UGI Corp.	2.60%	9.03%	11.63%	17.52%	14.57%
14	WGL Holdings, Inc.	3.90%	3.94%	7.84%	11.15%	9.49%
		3.38%	5.15%	8.52%	11.36%	9.94%
	Estimated Rate of Return on Common Equity for a Public Company				9.50%	10.0%
	Range of Additional Rate of Return for Private Companies' Risks & Costs				2.5%	3.0%
	Recommended Rate of Return on Common Equity				12.00%	13.00%

*Projected by Value Line Investment Survey, June 15, 2007, pages 446 to 460

Schedule JMA-2

CNG Holdings, Inc.
Consolidated Balance Sheet
30-Jun-07

Assets	
Current assets	
Cash	$ 10,753,125
Accounts receivable, net of allowance for bad debts	945,095
Accrued unbilled revenues	103,816
Accounts receivable - other	243,887
Material and supplies	26,383
Gas Stored	315,770
Prepaid expenses	479,442
Total current assets	12,867,518
Property, plant and equipment	
Utility distribution plants in service	59,298,990
Less accumulated depreciation	(7,088,766)
Net utility distribution plants in service	52,210,224
Construction work in progress	607,638
Net property, plant and equipment	52,817,862
Water Rights	914,000
Notes receivable	100,000
Deferred Charges	
Unamortized debt issuance & rate case costs	1,799,926
Regulatory assets	568,390
Total assets	69,067,696
Liabilities and Stockholders' Equity	
Current liabilities	
Current portion of long-term debt	$ 96,907
Current portion of capital lease obligations	69,662
Accounts payable	525,286
Accrued liabilities	800,202
Unrecovered purchased gas cost	483,191
Customer advances for construction	253,151
Total current liabilities	2,228,399
Non-current liabilities	
Long-term revenue bonds	29,600,000
Long-term bank debt less current portion	1,276,285
Capital lease obligations less current portion	178,474
Deferred gain	465,253
Deferred tax liability	1,496,000
Total non-current liabilities	33,016,012
Total liabilities	35,244,411
Stockholders' equity	
Common stock	33,030,909
Preferred stock	0
Retained earnings	792,376
Total stockholders' equity	33,823,285
Total liabilities and stockholders' equity	69,067,696

Schedule JMA-3

Missouri Gas Utility, Inc.
Customers Served, Principal Communities Served & Estimated Population

		Customers*	Primary Communities Served*	Estimated Population**
	Missouri Gas Utility, Inc.	**923**	**Towns of Coffey, Gallatin & Hamilton, MO**	**3,742**
1	AGL Resources, Inc.	2,200,000	Atlanta, GA, Chattanooga, TN & Virginia	1,422,028
2	Atmos Energy Corp.	3,200,000	Portions of CO, KS, KT, LA & TX	1,750,000
3	Cascade Natural Gas, Corp.	246,000	Portions of OR & WA	615,000
4	Keyspan Corp.	2,600,000	New York City & Long Island, NY	10,762,191
5	Laclede Group, Inc.	631,000	City of St. Louis & St. Louis County	1,016,315
6	New Jersey Resources Corp.	471,000	Monmouth & Ocean Counties, NJ	1,126,217
7	NICOR, Inc.	2,100,000	Northern & Western IL	4,542,500
8	N.W. Natural Gas Co.	641,000	Oregon & Southwest WA	884,600
9	Piedmont Natural Gas Co.	1,016,000	Portions of NC, SC & TN	1,352,000
10	South Jersey Industries, Inc.	330,049	Southern NJ	1,351,489
11	Southern Union Co.	560,000	Portions of Western MO and New England	1,150,000
12	Southwest Gas Corp.	1,800,000	Portions of AZ, NV & CA	3,150,000
13	UGI Corp.	535,000	Portions of Eastern PA	1,205,000
14	WGL Holdings, Inc.	1,031,916	Washington DC, Suburban MD & VA	3,186,900

* Value Line Investment Survey, June 15, 2007, pages 446 to 460
** U.S. Census Bureau

Schedule JMA-4

Missouri Gas Utility, Inc.
Un-audited Balance Sheet
June 30, 2007

Assets	
Current assets	
Cash	$ 138,844
Accounts receivable, net of allowance for bad debts	11,069
Accrued unbilled revenues	2,472
Accounts receivable - other	51,957
Material and supplies	1,288
Gas Stored	315,770
Prepaid expenses	110,241
Total current assets	631,641
Property, plant and equipment	
Utility distribution plants in service	3,346,342
Less accumulated depreciation	(163,388)
Net utility distribution plants in service	3,182,954
Construction work in progress	181,871
Net property, plant and equipment	3,364,825
Deferred Charges	
Unamortized debt issuance & rate case costs	34,018
Regulatory assets	141,543
Total assets	4,172,027
Liabilities and Stockholders' Equity	
Current liabilities	
Current portion of long-term debt	$ 40,571
Current portion of capital lease obligations	0
Accounts payable	104,233
Accrued liabilities	124,165
Unrecovered purchased gas cost	61,582
Customer advances for construction	100,000
Total current liabilities	430,551
Non-current liabilities	
Long-term bank debt less current portion	1,274,918
Long-term unsecured note to Holdings	436,000
Capital lease obligations less current portion	26,990
Deferred tax liability	56,000
Total non-current liabilities	1,793,908
Total liabilities	2,224,459
Stockholders' equity	
Common stock	1,028,308
Contributed capital	824,593
Retained earnings	94,667
Total stockholders' equity	1,947,568
Total liabilities and stockholders' equity	4,172,027

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(303) 478-7833 (Cell)

Current Position:
Since 1996, Mr. Anderson has been a partner of Municipal Capital Markets Group, Inc., where he is engaged as an investment banker. He also managers the firm's Denver office. MCM is a leading provider of capital to human service industry, correctional facilities, not-for-profit organizations, utilities, public/private partnerships, Colorado special districts and higher education. Through his investment banking expertise, Mr. Anderson has originated both debt and equity for the broad array of the firm's clients. MCM is a member in good standing of the Financial Industry Regulatory Authority (FINRA) and the Securities Investors Protection Corporation (SPIC).

Selected Past Projects and Clients Served by Mr. Anderson:

1. The University of Colorado power and steam generation facility ($41,250,000). The investment banking team headed by Mr. Anderson was engaged by the University to finance the project and provide the project with a long-term gas supply,

2. University of Colorado Health Science Center, financial advisor central heating and cooling facility,

3. Colorado Natural Gas, Inc., an investor owned utility, $35,160,000 of equity and $31,375,000 of debt financed by MCM,

4. City of Imperial, California $32,500,000 Water and Waste Utility Financing

5. Washington County, Colorado $8,875,000 Criminal Justice Center, financed by MCM

6. Vermont Community Mental Health and Developmental Care Providers, $42,000,000, financed by MCM

Professional Licenses:
Financial Industry Regulatory Authority: General Securities Principal, Financial and Operations Principal, Municipal Securities Principal and Municipal Securities Representative

Past Professional History:
Prior to joining Municipal Capital Markets, Mr. Anderson was a senior vice president with John Hancock Financial Services (1991 to 1996). From 1984 to 1991 Mr. Anderson was Managing Director with Prudential Securities Public Finance Division. He became associated with Prudential when, in 1984, it purchased the regional investment banking firm of Anderson DeMonbrun, Inc. of which Mr. Anderson was Co-founder and Chief Executive Officer (1979 to 1984). He was employed with Hanifen Imhoff, Inc., (1971 to 1979) in April 1971 as a trainee in the public finance department. He became Assistant Vice President in 1974, appointed Vice President in 1975, appointed to Board of Directors in 1976, and appointed Senior Vice President in 1977 as Manager of the Public Finance Department.

Education:
B. S. Business Administration (Major: Accounting) - University of Denver, Denver, CO (1969)
Attended: Hastings College, Hastings, NE (1965-1967)
Graduated: Englewood High School, Englewood, CO (1965)

Community Service and Other Business Experience:
American Lung Association of Colorado - Member of Board of Directors, Currently Chairman (1991 - Present)
American Lung Association - National Organization (1999 to 2006) – Past Member Board of Directors and Treasurer
Trustee (1999 - 2006) of the American Lung Association Pension Plan (a $60 million defined benefit plan)
Colorado Natural Gas, Inc. (Investor Owned Utility) – Member Board of Directors (1997 - Present)
Colorado State Municipal Bond Supervision Advisory Board Member (1996-Present)
(This board advises the Colorado State Securities Commissioner on bonds issued by Colorado special districts.)

Business Reference:
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