Exhibit No.:	
Issues:	Return on Equity, Capital Structure
Witness:	Pauline M. Ahern
Exhibit Type:	Rebuttal
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2007-0216 SR-2007-0217
Date:	July 10, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2007-0216
SR-2007-0217

EXHIBIT

TO ACCOMPANY THE

REBUTTAL TESTIMONY

OF

PAULINE M. AHERN

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

Missouri American Water Company
Embedded Cost of Long-Term Debt
June 30, 2006

Line No.	Debt Issue Type	Coupon Rate	Orginal Amount Issued	Issue Date	Maturity Date	Interest Payment Date(s)	Principal Amount At 6/30/06	Unamortized Debt Expense	Unamortized (Discount) or Premium	Carrying Value	Annual Interest	Annual Debt Expense	Total Annual Cost	Embedded Cost
1	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)
2	Bonds:													
3														
4	General Mortgage Bonds:													
5	Series K		11,000,000	12/1/1977	12/1/2007	NA	$0	$3,220	$14,239	(17,459)	0	12,322	12,322	
6	Series O		10,000,000	1/15/1988	1/15/2008	NA	0	4,834	41,300	(46,134)	0	30,756	30,756	
7	Series P	10.050%	12,000,000	12/1/1988	12/1/2008	NA	0	13,494	42,708	(56,202)	0	23,256	23,256	
8	Series Q	9.490%	11,000,000	12/1/1989	12/1/2029	NA	0	61,170	606,205	(667,375)	0	28,500	28,500	
9	Series R	6.900%	25,000,000	2/1/1991	2/1/2021	NA	0	645,137	320,513	(965,650)	0	66,221	66,221	
10	Series S		25,000,000	2/1/1992	2/1/2022	NA	0	671,074	343,027	(1,014,101)	0	65,079	65,079	
11	Series T	5.500%	15,000,000	2/1/1993	2/1/2023	Feb 1, Aug 1	14,890,000	431,223	0	14,458,777	818,950	26,004	844,954	
12	Series U	5.700%	12,000,000	6/1/1995	6/1/2025	Jun 1, Dec 1	11,885,000	373,302	0	11,511,698	677,445	19,734	697,179	
13	Series V	5.500%	20,000,000	11/1/1996	11/1/2026	May 1, Nov 1	19,860,000	645,646	0	19,234,354	1,093,400	31,752	1,125,152	
14	Series W	7.500%	15,000,000	5/1/1997	5/1/2007	May 1, Nov 1	15,000,000	12,095	0	14,987,905	1,125,000	14,514	1,139,514	
15	Series X	5.100%	25,000,000	3/1/1998	3/1/2028	Mar 1, Sep 1	24,985,000	733,010	0	24,231,990	1,273,215	33,831	1,307,046	
16	Series Y	5.000%	40,000,000	3/1/1999	3/1/2029	Mar 1, Sep 1	39,950,000	1,247,469	0	38,702,531	1,997,500	55,032	2,052,532	
17	Series	5.850%	$6,000,000	7/26/1996	7/1/2026	Jan 1, Jul 1	56,000,000	$297,769	$0	$5,702,231	$351,000	14,889	$365,889	
18														
19	Series	5.500%	5,000,000	3/16/1993	1/1/2023	Jan 1, Jul 1	4,835,000	214,182	0	4,620,818	265,925	12,981	278,906	
20	Series	7.140%	12,500,000	3/23/1994	3/1/2034	Mar 1, Sep 1	12,500,000	231,635	0	12,268,365	892,500	8,371	900,871	
21	Series	8.580%	3,000,000		3/1/2025	Mar 1, Sep 1	3,000,000	48,433	0	2,951,567	257,400	2,595	259,995	
22	Series	7.790%	8,000,000	6/12/1997	6/1/2027	Jun 1, Dec 1	8,000,000	79,484	0	7,920,516	623,200	3,799	626,999	
23	Series A	5.000%	4,500,000	2/26/1998	2/1/2028	Feb 1, Aug 1	4,500,000	255,347	0	4,244,653	225,000	11,832	236,832	
24	Series B	5.000%	19,000,000	11/24/1998	11/1/2028	May 1, Nov 1	18,840,000	937,767	0	17,902,233	942,000	41,990	983,990	
25	Series	5.900%	29,000,000	5/1/2000	3/1/2030	Mar 1, Sep 1	29,000,000	1,169,603	0	27,830,397	1,711,000	49,416	1,760,416	
26	Series	5.200%	15,000,000	4/1/2002	4/1/1932	Apr 1, Oct 1	15,000,000	774,342	0	14,225,658	780,000	31,536	811,536	
27	Series	5.650%	56,000,000	6/12/2002	6/12/2007	Jun 12	56,000,000	11,395	0	55,988,605	3,164,000	12,430	3,176,430	
28		Associated with pending debt issuance						49,174						
29	Sub-total						$284,245,000	$8,910,805	$1,367,992	$274,015,377	$16,197,535	$596,839	$16,794,374	
30														
31														
32	Embedded cost of long-term debt (M Divided by J)													6.13%

Missouri American Water Company
Embedded Cost of Preferred Stock
June 30, 2006

Line No.	Issue	Rate	Dividend Payment Dates		Dollar Amount Outstanding at 06/30/2006	Sinking Fund Payment Date	Premium or Discount	Unamortized Preferred Stock Expense	Net Proceeds	Annual Dividends	Annual Preferred Stock Expense	Total Annual Cost	Sinking Fund Amt*	Embedded Cost
1	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)
2														
3	Series	9.180%	Feb. 1 May 1, Aug 1, Nov 1		$2,500,000		$0	$33,855	$2,466,145	$229,500	$1,268	$230,768		
4	Series	5.875%	Jan 1, Apr 1, Jul 1, Oct 1		144,000	Oct 1	0	0	144,000	8,460	0	8,460	12,000	
5														
6	Total				$2,644,000		$0	$33,855	$2,610,145	$237,960	$1,268	$239,228	$12,000	
7														
8	Embedded cost of long-term debt (L Divided by I)													9.17%
9	* Sinking fund paid Oct 1 each year													

83500 American Water Works Company
GL0178SY Missouri American Water-Co 17
BALSHT Total Company (USGAAP)
Balance Sheet
For the Period Ending 06/30/2006

02/06/07
09:54 54

S0090-R1

Missouri-American Water Co.

Description	Current Year
ASSETS	
1 Utility Plant	$ 1,089,536,325
2 Construction work in progress	14,108,826
3 Accumulated depreciation	292,740,382-
4 Utility plant acquisition adjustment	10,122,915
5 Other utility plant adjustments	
6 Sub-total Utility Plant	821,027,684
7 Non-Utility property	
8 Other investments	75,464
Current Assets	
10 Cash and cash equivalents	2,767,093
11 Temporary investments	
12 Customer accounts receivable	11,465,228
13 Allowance for uncollectible accounts	776,164
14 Unbilled revenues	17,796,658
15 FIT refund due from assoc companies	869,632
16 Miscellaneous receivables	2,912,034
17 Materials and supplies	3,075,202
19 Other	2,479,390
20 Sub-total	40,607,873
22 Deferred debits	
23 Debt and preferred stock	10,312,651
24 Expense of rate proceeding	219,959
25 Prelim survey & invest charges	10,868
26 Reg Asset income tax recovery	25,448,438
27 Other	15,562,118
29 Sub-total	51,554,034
30 Total Assets	913,265,055
32 CAPITAL AND LIABILITIES	
33 Common Stock	95,994,075
34 Paid in capital	2,764,716
35 Retained Earnings	124,202,842
36 Unearned Compensation	
37 Reacquired C/S & Accum Comp Inc	
38 Total common equity	222,961,633
39 Preferred stock	
40 Long term debt	286,889,000
41 Total capitalization	509,850,633
42 Current Liabilities	
43 Bank debt	49,424,657
44 Current portion of LTD	12,000
45 Accounts Payable	4,114,937
46 Taxes accrued	10,622,566
47 Interest accrued	3,831,344
48 Customer deposits	259
49 Dividends declared	
51 Other	11,741,653
52 Sub-total	79,747,418
54 Deferred credits	
55 Customer adv. for construction	62,882,323
56 Deferred income taxes	94,689,771
57 Deferred investment tax credits	4,272,389
58 Reg.liab-inc tax,refund thru rates	3,618,075
59 Other	25,357,201
60 Sub-total	190,819,759
62 Contributions in aid of construction	132,847,245
Total capital and liabilities	$ 913,265,055

* UNAUDITED *

American Water Works Capital Corp
Embedded Cost of Long-Term Debt
June 30, 2006

Line No.	Debt Issue Type	Coupon Rate	Orginial Amount Issued	Issue Date	Maturity Date	Interest Payment Date(s)	Principal Amount At 06/30/06	Unamortized Debt Expense	Unamortized (Discount) or Premium	Carrying Value	Interest	Annual Debt Expense	Total Annual Cost	Embedded Cost
1	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)
2														
3														
4														
5	Senior Note	4.000%	$100,000,000		12/1/2008	Jun 30, Dec 30	$100,000,000		$0	$100,000,000	$4,000,000		$4,000,000	
6	Bond	4.750%	$113,000,000		3/1/2014	Jun 30, Dec 30	113,000,000		0	113,000,000	5,367,500		5,367,500	
7	Bond	5.800%	$10,000,000		3/1/2034	Jun 30, Dec 30	10,000,000			10,000,000	580,000		580,000	
8	Bond	5.650%	$130,000,000		6/12/2007	Jun 12	130,000,000	52,474		129,947,526	7,345,000	57,245	7,402,245	
9	Bond	4.920%	$25,000,000		9/30/2014	Mar 31, Sep 30	25,000,000			25,000,000	1,230,000		1,230,000	
10	Bond	6.050%	$35,000,000		12/1/2033	Jun 1, Dec 1	35,000,000	27,003		34,972,997	2,117,500	1,108	2,118,608	
11	Bond	5.370%	$407,300,000		11/12/2006	May 12, Nov 12	407,300,000			407,300,000	21,872,010		21,872,010	
12	Bond	5.650%	$40,000,000		6/12/2007	Jun 12	40,000,000	7,923		39,992,077	2,260,000	8,643	2,268,643	
13	Bond	5.900%	$50,300,000		9/30/2034	Mar 31, Sep 30	50,300,000	653,104		49,646,896	2,967,700	23,119	2,990,819	
14	Bond	5.430%	$75,000,000		3/18/2015	Mar 31, Sep 30	75,000,000			75,000,000	4,072,500		4,072,500	
15	Bond	3.650%	$16,700,000		8/4/2006	Var	16,700,000	746,425		15,953,575	609,550	29,857	639,407	
16	Bond	3.560%	$18,250,000		7/13/2006	Var	18,250,000	328,203	0	17,921,797	649,700	26,976	676,676	
17	Bond	3.650%	$17,950,000		8/4/2006	Var	17,950,000	334,273	0	17,615,727	655,175	26,217	681,392	
18	Bond	6.870%	$140,000,000		3/29/2011	Mar 29, Sep 29	140,000,000	714,737	0	139,285,263	9,618,000	150,478	9,768,478	
19	Bond	3.660%	$23,325,000		8/4/2006	Var	23,325,000	231,674		23,093,326	853,695	8,968	862,663	
20	Bond	3.850%	10,635,000		7/13/2006	Var	10,635,000	25,857		10,609,143	409,448	1,167	410,615	
21	Bond	4.920%	900,000,000		11/6/2006	Nov 6	900,000,000	80,128		899,919,872	44,280,000	222,524	44,502,524	
22	Bond	4.920%	148,500,000		11/6/2006	Nov 6	148,500,000	9,640		148,490,360	7,306,200	29,275	7,335,475	
23	Sub-total						$2,260,960,000	$3,211,440	$0	$2,257,748,560	$116,193,978	$585,577	$116,779,555	
24														
25														
26	Embedded cost of long-term debt (M Divided by J)													5.17%

American Water Works Capital Corp
Embedded Cost of Preferred Stock
June 30, 2006

Line No.	Issue	Rate	Dividend Payment Dates		Dollar Amount Outstanding at 06/30/06	Sinking Fund Payment Date	Premium or Discount	Unamortized Preferred Stock Expense	Net Proceeds	Dividends	Annual Preferred Stock Expense	Total Annual Cost	Sinking Fund Amt*	Embedded Cost
1	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)
2														
3	No Preferred Stock Outstanding													
4														
5														
6														
7	Total				$0		$0	$0	$0	$0	$0	$0	$0	
8														
9	Embedded cost of preferred stock (L Divided by I)													#DIV/0!

No. S0102

DATA INFORMATION REQUEST
Missouri American Water Company
CASE NO. W R-2007-0216

Requested From: Don Petry
Date Requested: 1/31/07
Information Requested:

Please indicate the amount of financing Missouri-American Water Company received from American Water through American Water Capital Corporation (AWCC) since January 1, 2004. Please break this down by equity and debt financing and when this financing was issued.

Requested By: David Murray, MoPSC, - david.murray@psc.mo.gov - 573-751-9160

Information Provided:

American Water Capital Corporation is the primary source of long-term debt and short-term debt for Missouri American Water Company. American Water is the source of Missouri American Water Company's common equity.

Since January 1, 2004 no additional long-term debt borrowings have been entered in to between Missouri-American Water and American Water Capital Corp.

Missouri-American Water maintains a short-term line of credit with American Water Capital Corp. Short-term debt balances since December 31, 2003 were:

- December 31, 2003 $ 0
- December 31, 2004 $15,129,000
- December 31, 2005 $19,310,000
- December 31, 2006 $61,273,000

Missouri-American Water has not received an equity contribution from American Water Works Company, Inc. for the period January 1, 2004 through December 31, 2006.

Hyperlink:

Date Response Provided:

Signed By: _____

Prepared By: Lou Walters

STANDARD
&POOR'S

RATINGSDIRECT

August 1, 2003

American Water Capital Corp.

Credit Analyst:
Dimitri Nikas, New York (1) 212-438-7807

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American Water Capital Corp.

Corporate Credit Rating

A/Negative/A-1

Business profile.

Above average

Financial Policy.

Aggressive

Debt Maturities.

2003 $199 mil
2004 $58 mil.
2005 $62 mil.
2006 $1.072 bil.
2007 $84 9 mil.

Bank Lines/Liquid Assets:

The company has a 364-day $500 million credit facility maturing on July 31, 2003, which is used as back-up for the company's $500 million commercial paper program. As of March 31, 2003, approximately $169 million were outstanding under the commercial paper program. Given this level of liquidity, upcoming debt maturities should not pose a liquidity problem.

Outstanding Rating(s)

American Water Capital Corp.

Sr unsecd debt	
Local currency	A-
CP	
Local currency	A-1

Corporate Credit Rating History

June 19, 2000	A-
Sept. 21, 2000	A-/A-2
July 15, 2003	A/A-1

Company Contact

Major Rating Factors

Strengths.

- Regulatory environments are generally supportive of credit quality.
- Regulatory and operating diversity with operations in over 20 states.
- Attractive service territories with mostly residential and small commercial customers.
- Low operating risk water production and distribution operations.
- Strong competitive position due to high barriers to entry.

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Weaknesses:

- Involvement in nonregulated contract management operations increases business risk to some extent.

Rationale

The ratings on American Water Capital Corp. (AWCC), a wholly owned subsidiary of American Water Works Co. Inc., reflect the strong support arrangement with parent American Water Works and, in turn, the strong parental support stemming from ownership of American Water Works by the German multi-utility RWE AG. AWCC acts as the funding vehicle for American Water Works' regulated water utility companies.

In determining the ratings on AWCC, Standard & Poor's considers the stand-alone credit profile of American Water Works and then notches up the stand-alone rating to reflect the material level of parental support from RWE and the core nature of American Water Works' regulated water operations to the RWE water division. However, Standard & Poor's does not equalize the ratings on the two companies. While the operations of American Water Works are core to the RWE group, the stand-alone credit profile of American Water Works is weaker than that of the consolidated credit profile of RWE. The outlook is negative, reflecting Standard & Poor's presumption that the credit quality of AWCC will be dictated by RWE, and movements in ratings could be in the same direction. Nevertheless, movement in ratings will be evaluated periodically to ensure that the ratings accurately reflect Standard & Poor's assessment of the level of support from RWE to American Water Works.

AWCC's stand-alone credit profile reflects parent American Water Works' strong business position, which is characterized by regulatory diversity and operations in generally supportive regulatory environments; a steadily growing customer base that is largely residential and commercial; geographic diversity with operations in more than 20 states; high-quality operations that comply with all the latest water production standards promulgated by the EPA; and a strong competitive position by virtue of the high barriers to entry encountered by new entrants. These strengths are tempered mainly by American Water Works' involvement in nonregulated, contract-management water business, which carries significantly more risk relative to the regulated water operations. While currently the unregulated ventures are not material contributors to revenues and cash flows, as such ventures increase in size and scope, they could influence American Water Works' business risk profile. Combined with a financial profile that is relatively weak, Standard & Poor's estimates that on a stand-alone basis, AWCC could be rated at the upper end of the 'BBB' rating category.

American Water Works is the largest water utility holding company in the U.S. with 2.8 million customers; it operates in 23 states. It is expected to contribute about 40% of RWE's water division revenues and EBITDA. About 80% of revenues and 75% of sales come from residential and commercial customers, providing a stable customer base with predictable water-usage patterns. The geographic diversity tempers the effect of adverse weather patterns on the company's cash flow and cushions the company from unfavorable rate decisions in any particular jurisdiction. On average, the regulatory environment is viewed as supportive because many states afford recovery of construction expenses with minimal delay; provide for the implementation of single-tariff pricing, reducing the complexity of multi-tariff rate proceedings; and provide regular rate increases.

American Water Works' financial profile is relatively weak for the current rating. Debt leverage has improved dramatically after the merger with RWE was completed, dropping to under 50% from just under 70% at year-end 2002. Funds from operations (FFO) to interest coverage is expected to continue to be under 3x over the intermediate term, while FFO to average total debt is expected to be just over 10% in the same time period. Capital spending

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needs will only be partly internally funded with the balance funded through debt issuances in the capital markets or through intercompany loans with RWE.

Liquidity.
AWCC has a 364-day $500 million credit facility maturing in July 2003, which is used as backup for the company's $500 million commercial paper program. At March 31, 2003, about $200 million was outstanding under the commercial paper program. Given this level of liquidity, upcoming debt maturities of $69 million in 2003, $41 million in 2004, and $59 million in 2005 should not pose a problem. Nevertheless, Standard & Poor's expects that RWE will continue to provide support in the form of equity infusions and intercompany loans, alleviating any liquidity constraints.

Outlook

The negative outlook on AWCC reflects the outlook on its ultimate parent RWE and the likelihood that if the ratings on RWE are lowered, then the ratings on AWCC could be lowered as well. The negative outlook on RWE reflects the very limited headroom available to the company at the existing rating level. Any debt-funded acquisitions, a change in the company's strategy of disposing of its noncore activities over the medium term, or the introduction of a regulator in Germany would put pressure on the rating.

Business Description

AWCC is the financing subsidiary of American Water Works, the largest U.S water company with regulated utility operations serving about 2.9 million customers in 23 states. American Water Works was purchased by RWE AG in January 2003 for $4.6 billion. American Water Works is expected to contribute about 40% of RWE's water division revenues and EBITDA.

Rating Methodology

In determining the ratings of AWCC, Standard & Poor's considers the stand-alone credit profile of American Water Works and then notches up the stand-alone rating to reflect the material level of parental support from RWE as well as the core nature of American Water Works' regulated water operations to the RWE water division.

However, Standard & Poor's does not equalize the ratings on RWE and American Water Works. Although the operations of American Water Works are core to the RWE group, American Water Works' stand-alone credit profile is weaker than RWE's consolidated credit profile.

There is a support agreement between American Water Works and AWCC, which links the two entities, but American Water Works does not guarantee debt issued by AWCC. As a result of the current arrangement, the credit quality of AWCC is the same as that of American Water Works. In turn, the credit quality of American Water Works reflects the consolidated credit profiles of its operating subsidiaries.

The outlook on AWCC reflects Standard & Poor's presumption that the AWCC's credit quality will be dictated by RWE, and movements in ratings could be in the same direction. Nevertheless, movement in ratings will be evaluated periodically, to ensure that the ratings accurately reflect Standard & Poor's assessment of the level of support from RWE to American Water Works.

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Business Profile

American Water Works' regulated utility business operates under a diverse regulatory environment with operations in 23 states. Standard & Poor's views the regulatory environment as supportive of credit quality because each regulatory jurisdiction in which the regulated subsidiaries operate provides for some combination of the following policies:

- Use of a forward-looking test year, which results in rates reflective of future costs;
- Intermim-period recovery of interest and depreciation expense for major construction projects until new rates reflect the cost of the project;
- Rate recovery for utility-plant returns before a plant goes into service, instead of capitalizing an allowance for funds used during construction;
- Cost recovery for distribution system infrastructure replacements without needing to file a full rate proceeding; and
- Single tariff pricing, which is easier to implement, reduces the complexity of rate proceedings, and spreads fixed costs over a larger customer base.

During the 16-month merger approval process with RWE, requests for rate increases were postponed. Accordingly, in 2004 American Water Works' regulated subsidiaries will be filing requests for rate increases to recover capital expenditures already in place. Where these rate increases are substantial, the regulated subsidiaries may face some resistance from regulators.

The customer base is largely residential (approximately 58% of revenues, 51% of sales) and commercial (approximately 21% of revenues, 24% of sales), providing for significant stability in the revenues and predictable water usage patterns. There is no material customer concentration. The consistency of the customer base has remained relatively stable over time, despite the rapid growth. The large degree of fragmentation present in the water utility industry, combined with the substantial capital needs of many smaller water companies to meet increasingly stringent water quality standards, affords numerous opportunities for consolidation. American Water Works has been aggressively acquiring private and municipal water systems, leading to an above average customer growth rate.

Standard & Poor's views the regulated water operations as having low operating risk, thereby providing support to credit quality. Furthermore, the American Water Works' regulated utility subsidiaries are fully compliant with all material federal and local standards for water production, mitigating any concerns of noncompliance. Approximately 40% of the company's capital spending budget is targeted toward updating and improving its distribution system and include extensions to serve new areas as well as upgrades of existing systems.

The nonregulated business can also have low operating risk, as these ventures are in the same line of business. However, the risk in these ventures is overbidding for a contract and not earning an adequate return, or earning a return over a disproportionately long period of time. Nevertheless, capital spending needs for nonregulated operations continue to be modest at less than 4% of total capital spending.

American Water Works has a strong competitive position stemming from its extensive presence in the water utility industry and the high quality of service provided. The company acts as a consolidator by acquiring both large and small companies. Barriers to entry are high in the water industry because a new entrant must have not only the

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capital to compete against a company as large as American Water Works, but also must be able to demonstrate a good historical track record

Financial Profile

American Water Works had an aggressive financial policy evidenced by liberal use of debt to fund growth in the past few years. As a result, at year-end 2002, debt leverage increased to about 69% of total capital although the measure dropped to 48% in 2003.

Financial Policy: Aggressive

Profitability/cash flow protection.

American Water Works' cash flow protection measures weakened substantial by year-end 2002, as debt leverage increased substantially and the company postponed filing for necessary rate increases. As a result, FFO to interest coverage reduced to less than 2.5x, while FFO to total debt reduced to less than 10%. Furthermore, internally generated cash funded only about 50% of total capital spending needs. Subsequent to the acquisition by RWE, American Water Works' cash flow protection measures are expected to improve marginally, in part reflecting the implementation of needed rate increases and organic growth. Nevertheless, internally generated cash is expected to continue to be inadequate to fully fund capital expenditures in future years, requiring further external funding and placing pressure on cash flow protection measures. As a result, FFO to interest coverage is expected to reach 3x, and FFO to average total debt should reach 11% over the intermediate term.

Capital structure/financial flexibility.

Debt leverage has steadily increased in recent years, reflecting the incremental use of debt to fund acquisitions and, at year-end 2002, debt leverage was almost 69%. However, subsequent to the merger with RWE, debt leverage has improved dramatically, with total debt to total capital dropping to about 48% in 2003. Although American Water Works' equity increased as a result of the transaction, the absolute level of debt increased further, continuing to place pressure on the financial profile. Furthermore, debt leverage is expected to continue to rise as free cash flow remains insufficient to fund capital spending needs.

American Water Works has strong financial flexibility mainly from RWE's parental support, which Standard & Poor's assumes will provide funding for American Water Works' short-term debt needs. Furthermore, the level of capital expenditures poses a challenge because the bulk of the spending (over 40%) is for transmission and distribution projects, including expansion, implying that such capital expenditures may not be delayed or postponed.

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Missouri American Water Company
Capital Structure Based upon Total Capital for
MoPSC Staff Witness Murray's Four Comparable Water Companies,
the Proxy Group of Six AUS Utility Reports Water Companies and
the Proxy Group of Four Value Line (Std. Ed.) Water Companies
for the Years 2002 through 2006

	2006	2005	2004	2003	2002	5 YEAR AVERAGE
American States Water Company						
Long-Term Debt	45.95 %	48.03 %	43.66 %	46.21 %	49.61 %	46.69 %
Short-Term Debt	5.48	4.82	8.55	11.22	7.10	7.43
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	48.57	47.15	47.79	42.57	43.29	45.87
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Aqua America, Inc.						
Long-Term Debt	48.53 %	48.68 %	50.03 %	49.35 %	50.36 %	49.39 %
Short-Term Debt	5.88	7.47	5.10	6.47	9.39	6.86
Preferred Stock	0.09	0.08	0.08	0.06	0.06	0.07
Common Equity	45.50	43.77	44.79	44.12	40.19	43.67
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Artesian Resources Corp.						
Long-Term Debt	56.30 %	60.30 %	55.85 %	54.79 %	53.82 %	56.21 %
Short-Term Debt	6.03	2.08	7.38	9.39	3.24	5.62
Preferred Stock	0.00	0.00	0.00	0.07	0.17	0.05
Common Equity	37.67	37.62	36.77	35.75	42.77	38.12
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
California Water Services Group						
Long-Term Debt	44.58 %	48.07 %	48.66 %	51.77 %	51.25 %	48.87 %
Short-Term Debt	0.00	0.00	0.00	1.22	7.42	1.73
Preferred Stock	0.50	0.61	0.61	0.66	0.71	0.62
Common Equity	54.92	51.32	50.73	46.35	40.62	48.79
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Middlesex Water Company						
Long-Term Debt	49.98 %	54.75 %	51.36 %	50.57 %	47.29 %	50.79 %
Short-Term Debt	0.00	1.68	4.86	6.42	9.47	4.49
Preferred Stock	1.49	1.66	1.79	2.09	2.18	1.84
Common Equity	48.53	41.91	41.99	40.92	41.06	42.88
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
SJW Corp.						
Long-Term Debt	40.24 %	42.63 %	43.77 %	45.64 %	39.98 %	42.45 %
Short-Term Debt	3.80	0.00	0.00	0.00	4.16	1.59
Preferred Stock	0.01	0.02	0.04	0.05	0.07	0.04
Common Equity	55.95	57.35	56.19	54.31	55.79	55.92
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Southwest Water Company						
Long-Term Debt	43.85 %	46.67 %	48.53 %	48.50 %	57.07 %	48.92 %
Short-Term Debt	0.00	0.00	0.00	0.00	0.00	0.00
Preferred Stock	0.15	0.17	0.28	0.85	0.74	0.44
Common Equity	56.00	53.16	51.19	50.65	42.19	50.64
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
York Water Company						
Long-Term Debt	48.82 %	47.34 %	51.94 %	41.40 %	45.00 %	46.90 %
Short-Term Debt	0.00	6.65	0.00	9.07	3.77	3.90
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	51.18	46.01	48.06	49.53	51.23	49.20
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

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Capital Structure Based upon Total Capital for
MoPSC Staff Witness Murray's Four Comparable Water Companies,
the Proxy Group of Six AUS Utility Reports Water Companies and
the Proxy Group of Four Value Line (Std. Ed.) Water Companies
for the Years 2002 through 2006

	2006	2005	2004	2003	2002	5 YEAR AVERAGE
MoPSC Staff Witness Murray's Four Comparable Water Companies						
Long-Term Debt	47.26 %	49.88 %	48.43 %	49.48 %	49.63 %	48.94 %
Short-Term Debt	2.84	3.49	4.63	6.33	8.35	5.13
Preferred Stock	0.52	0.59	0.62	0.70	0.73	0.63
Common Equity	49.38	46.04	46.32	43.49	41.29	45.30
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Proxy Group of Six AUS Water Companies						
Long-Term Debt	47.40 %	49.18 %	48.98 %	48.19 %	48.34 %	48.42 %
Short-Term Debt	3.53	3.50	3.51	6.23	5.84	4.52
Preferred Stock	0.10	0.12	0.12	0.14	0.17	0.13
Common Equity	48.97	47.20	47.39	45.44	45.65	46.93
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Proxy Group of Four Value Line (Std. Ed.) Water Companies						
Long-Term Debt	45.72 %	47.86 %	47.72 %	48.96 %	52.07 %	48.47 %
Short-Term Debt	2.84	3.07	3.41	4.73	5.98	4.01
Preferred Stock	0.19	0.22	0.25	0.39	0.38	0.29
Common Equity	51.25	48.85	48.62	45.92	41.57	47.24
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

STANDARD & POOR'S RATINGSDIRECT

RESEARCH

Summary:

American Water Works Co. Inc.

Publication date: 18-May-2007
Primary Credit Analyst: Kenneth L Farer, New York (1) 212-438-1679; kenneth_farer@standardandpoors.com

Credit Rating: A-/Watch Neg/A-2

Rationale

The ratings on American Water Works Co. Inc. and American Water Capital Corp. (A-/Watch Neg/A-2) reflect the stand-alone credit quality of American Water Works. American Water Capital is a wholly owned subsidiary of American Water Works, which serves as the funding vehicle for American Water Works' regulated water utility subsidiaries.

The ratings on American Water Works and American Water Capital are on CreditWatch with negative implications and will remain on CreditWatch until the completion of the sale of American Water Works by parent RWE AG (A+/Negative/A-1), which is expected in 2007. The CreditWatch listing reflects continued uncertainty surrounding the extensive regulatory process associated with the sale, the need for an updated business plan, and completion of significant debt and equity offerings. As part of the sale process, the company has received approval from more than half the 13 states and completed its $900 million private placement offering in December 2006.

American Water Works' stand-alone business risk profile is '2' (excellent). (Utility business profiles are categorized from '1' (excellent) to '10' (vulnerable)). The business profile stems from insulation from competition, geographically diverse and largely residential markets, a supportive regulatory environment, and the relatively low operating risk of managing groundwater and water treatment facilities. Uncertainty associated with American Water Works' IPO in 2007, increasingly stringent water quality standards, and the company's reliance on acquisitions to provide growth partly offset its strengths.

American Water Works' stand-alone financial risk profile is intermediate and includes management's projected post-IPO debt-to-capital ratio of 45% to 55%. We will reassess the financial risk profile when additional information is available concerning the company's post-IPO business plan and capital structure.

Historical earnings and margins are stable, supported by healthy markets and regulatory recovery of operating and capital costs, although increased operating and capital expenses can lag regulatory recovery. For the past five years, funds from operations (FFO) to total debt has been about 10% and FFO interest coverage was in the 1.5x to 2.5x area. Given the business risk profile of '2', American Water Works' cash flow metrics are somewhat weak for the 'A-' rating.

In RWE's investor presentation related to the sale of its water businesses, the company stated that its North American Water segment, which includes some operations outside of American Water Works, plans to spend $3.6 billion on capital expenditures from 2005 to 2009, compared with about $500 million per year recently. American Water Works' increased capital spending is needed to upgrade aging water systems, accommodate population and economic growth, and comply with environmental regulations. RWE projects negative free cash flow and external financing to fund the higher capital spending. Over the intermediate term, continued customer growth and regulatory rate increases could improve credit measures. However, improvements could be hindered if future regulatory rate increases do not keep pace with the company's increased capital spending.

Short-term credit factors

The 'A-2' short-term rating on American Water Works and American Water Capital reflects:

- Adequate consolidated liquidity;

- Stable cash flows from regulated subsidiaries;
- American Water Capital's $800 million revolving credit facility, which matures on Sept. 15, 2011 (excluding extensions); and
- Manageable debt maturities over the next few years.

American Water Works has maintained adequate cash balances, typically exceeding $50 million, although future levels could differ after the sale by RWE. Uses of American Water Capital's $800 million revolving credit facility, which matures on Sept. 15, 2011, are targeted for backup to the company's $700 million commercial paper program and LOCs, as needed. Financial covenants in the revolving credit facility include a maximum debt to capital (with adjustments) of 70% and restrictions on liens, distributions, debt incurred at American Water Works, and asset sales. The change of control provision is more restrictive than most revolving credit agreements, as a change of control is defined as one entity owning 25% or more of the post-IPO outstanding common stock or certain majority changes to the membership of the board of directors.

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Missouri-American Water Company
Historical & Projected Growth Rates for
Mr. Murray's Four Comparable Water Utility Companies
Corrected to Exclude Negative Growth Rates and S&P's Forecasted Growth in EPS

Company Name	1 Historical Growth Rate (DPS, EPS, & BVPS) (1)	2 Projected 5-Year Growth I/B/E/S (Mean) (2)	3 Projected 3-5 Year EPS Growth (Value Line) (1)	4 Average Projected Growth (3)	5 Average Historical & Projected Growth
American States Water Company	2.21% (1)	4.50%	9.00%	6.75%	4.48%
Aqua America Inc.	8.42%	10.00%	7.50%	8.75%	8.59%
California Water Services Group	1.92% (1)	7.00%	6.50%	6.75%	4.34%
Middlesex Water Company	3.13%	8.00%	NA	8.00%	5.57%
Average	3.92%	7.38%	7.67%	7.56%	5.75%

Range of Growth Rate	5.75% - 6.75%
Proposed Dividend Yield (4)	2.90%
Estimated Cost of Common Equity	8.65% - 9.65%
Adjustment to Reflect an A- Credit Rating (5)	0.10%
Adjusted Estimated Cost of Common Equity	8.75% - 9.75%
Midpoint	9.25%

Notes:
(1) From Mr. Murray's Schedule 13-3, average of 10-Year Average EPS, DPS & BVPS growth rate and 5-Year Average DPS, EPS & BVPS growth rate (excluding negative EPS growth rates of 2.50% and 0.50% for 2010-2012 for American States Water Company and California Water
(2) From Mr. Murray's Schedule 14.
(3) Does not include Projected 5-Year EPS Growth (S&P) from Mr. Murray's Schedule 14 because the source of S&P's growth rates is I/B/E/S, as shown on page 2 of this Schedule.
(4) From Mr. Murray's Schedule 16.
(5) From page 33 of Mr. Murray's direct testimony.

STANDARD
&POOR'S

Earnings Guide

JUNE 2007

HOW TO USE THE EARNINGS GUIDE

It is necessary to carefully read the following instructions and those on Pages 1 and 2 to interpret the abbreviations and the data contained in the Earnings Guide.

Name of Issue	Common Stock Rank	Fiscal	Actual EPS	Street Estimates	5–Yr Proj EPS Growth Rate–%	Annual Revs. ($Mil.)	Net Tangible Book ($/Shr)	Cash Flow ($/Shr)	Month End Price	P/E	Next EPS Rept Date
NAME OF ISSUE is not the exact corporate title of the company. Also, because of space limitation, the occasional use of abbreviations has been necessary.	**STANDARD AND POOR'S** ranking definitions are found on Page 2.	**FISCAL** is the month in which the corporation's year ends. Details of stock splits and stock dividends, effected during the past five years are reported by footnotes which carry numerals corresponding to those attached to the fiscal. Adjustments have been made for all stock dividends.	**ACTUAL EPS** is the last fiscal earnings reported. See Page 1 for additional information.	**STREET ESTIMATES:** The mean is the average EPS of all contributors; the highest and lowest estimate is also given to give the user a sense of the estimate's range. The number of contributors indicates how many analysts are following the issue. Directional arrows are used to signal when a dramatic change in the annual estimate has occurred. See Page 1 for additional information.	**ESTIMATED FIVE-YEAR FUTURE EARNINGS GROWTH RATE %** is the annualized compounded growth rate projected for the next five years. The rate is based on the last actual reported annual earnings. A company which has reported poor or negative earnings may show a high projected growth rate due to its small base.	**SALES REVENUES** are as reported by the corporation in its last Annual Report in millions of dollars.	**BOOK VALUE** is the tangible book value per common share after intangibles (goodwill, debt discount, pfd liquidating value...) have been deducted.	**CASH FLOW** (given for industrial companies only) is net income (before extraordinary items and discontinued operations and after preferred dividends) plus depreciation, depletion and amortization. It is reported for the last actual fiscal period.	**PRICE** is the last sale or bid for the month indicated.	**P/E RATIO** is derived by dividing current price by the estimated new year earnings. P/E ratios are shown for values of 1 thru 99. If an estimate is negative, a 'd' is presented.	**DATE OF NEXT EPS REPORT** is an estimated date of the next expected quarterly or annual earnings report by the company.

STOCK SPLITS & DIVIDENDS are indicated by superior numbers after the fiscal column. Details appear in footnotes which carry numerical symbols corresponding to those in the column. Adjustments to earnings, book value, and cash flow have been made for all stock splits and stock dividends.

Published

JUNE • 2007

EARNINGS GUIDE

Data revised through the last business day of prior month

EARNINGS GUIDE INTRODUCTION

The Standard & Poor's Earnings Guide gives investors the Wall Street consensus of earnings estimates. This information, previously available only to professional money managers, reports Wall Street's earnings expectations on over 5,500 publicly traded stocks. The Guide provides high, low and mean estimates as supplied by I/B/E/S International, Inc. Additionally, the number of contributors is provided to indicate how many analysts are following each issue. Professional money managers rely on this information in their stock selections. The estimates in the Guide were compiled from over 2,300 financial analysts, representing more than 200 individual brokerage firms nationwide.

Other relevant items of investment use, such as book value, cash flow, estimated five-year projected earnings growth rate, and annual revenue are included. This data further assists investors in selecting stocks that meet their individual investment criteria.

Finally, estimates are very time sensitive. While prior Guides may be used for research, or to determine trends, the rapidly changing market mandates continuous product updating. This publication will provide up-to-date market data in an easy to use format.

UNIFORM FOOTNOTE EXPLANATIONS

To provide for consistency and eliminate repetition, items recurring frequently that demand footnote explanation have been designated with specific symbols, which are explained on this page.

EARNINGS PER SHARE are presented on a "Diluted" basis (indicated with a footnote "v") as available by company, excluding extraordinary items. This policy change from old "Primary" earnings is reflective of all earnings reported after December 15, 1997 (FASB 128). Net asset values are shown for mutual funds. Foreign issues traded ADR are in dollars, converted at prevailing exchange rate. Specific footnotes used in earnings columns:

- △ — Excludes extraordinary income
- ▲ — Includes extraordinary income
- □ — Excludes extraordinary charge
- ■ — Includes extraordinary charge
- *f* — Primary earnings(includes dilutive common equivalents)
- * — Before tax loss carryforward
- ± — Combined various classes
- ● — Prior year earnings and P/E
- ‡ — Next year earnings and P/E
- @ — Fully diluted earnings
- ¦ — Partial year
- d — Deficit
- i — Currency of country of origin
- p — Pro forma reflecting acquisitions, mergers, etc.
- P — Preliminary
- v — Diluted

WHEN A SET OF EARNINGS ARE FOR NEXT YEAR (fiscal 2005) the symbol ‡ will be placed before the name of the issue. For these issues the last annual is 2005. The next two estimates are for 2006 and 2007, and the P/E is based on the 2006 estimate.

When a company has a prior year's earnings (fiscal 2003) the symbol ● will be used. For these issues, the last annual would be 2003. The estimates are for 2004 and 2005, and the P/E is based on the 2004 estimate.

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Missouri-American Water Company
Capital Asset Pricing Model (CAPM) Cost-Of-Common-Equity Estimates
for Mr. Murray's Four Comparable Water Utility Companies Corrected
to Reflect a Prospective Risk-Free Rate and
the Appropriate Historical Equity Risk Premium

	1	2	3	4	5
Company Name	Risk-Free Rate (1)	Company's Beta (2)	Market Risk Premium (1926 - 2006) (3)	Beta Adjusted Market Risk Premium (4)	Cost of Common Equity (5)
American States Water Company	5.30%	0.80	7.10%	5.68%	10.98%
Aqua America, Inc.	5.30%	0.90	7.10%	6.39%	11.69%
California Water Services Group	5.30%	0.90	7.10%	6.39%	11.69%
Middlesex Water Company	5.30%	0.85	7.10%	6.04%	11.34%
Average	5.30%	0.86	7.10%	6.13%	11.43%

Notes: (1) Derived in note 2 on page 3 of Schedule PMA-28.
(2) From Mr. Murray's Schedule 17.
(3) Derived in note 1 on page 3 of Schedule PMA-28.
(4) Column 2 * Column 3.
(5) Column 1 + Column 4.

Missouri-American Water Company
Capital Asset Pricing Model (CAPM) Cost-Of-Common-Equity Estimates
for Mr. Murray's Four Comparable Water Utility Companies Corrected
to Reflect a Prospective Risk-Free Rate and
the Average Historical and Forecasted Market Equity Risk Premium

	1	2	3	4	5
	Traditional Capital Asset Pricing Model				
Company Name	Risk-Free Rate (1)	Company's Beta (2)	Market Risk Premium (3)	Beta Adjusted Market Risk Premium (4)	Cost of Common Equity (5)
American States Water Company	5.30%	0.80	5.80%	4.64%	9.94%
Aqua America, Inc.	5.30%	0.90	5.80%	5.22%	10.52%
California Water Services Group	5.30%	0.90	5.80%	5.22%	10.52%
Middlesex Water Company	5.30%	0.85	5.80%	4.93%	10.23%
Average	5.30%	0.86	5.80%	5.00%	10.30%

	Empirical Capital Asset Pricing Model				
Company Name	Risk-Free Rate (1)	Company's Beta (2)	Market Risk Premium (3)	Beta Adjusted Market Risk Premium (6)	Cost of Common Equity (5)
American States Water Company	5.30%	0.80	5.80%	4.93%	10.23%
California Water Services Group	5.30%	0.90	5.80%	5.37%	10.67%
Middlesex Water Company	5.30%	0.90	5.80%	5.37%	10.67%
Philadelphia Suburban Corporation	5.30%	0.85	5.80%	5.15%	10.45%
Average	5.30%	0.86	5.80%	5.21%	10.51%

Average of Traditional and Empirical CAPM	10.41%

Notes:
(1) From note 2 on page 3 of Schedule PMA-28.
(2) From Mr. Murray's Schedule 16.
(3) Derived in note 1 on page 3 of Schedule PMA-28.
(4) Column 2 * Column 3.
(5) Column 1 + Column 4.
(6) The empirical CAPM is applied using the formula found in note 4 on page 3 of Schedule PMA-28.

Stocks, Bonds, Bills, and Inflation

Market Results for 1926–2006

2007 Yearbook
Valuation Edition

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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.

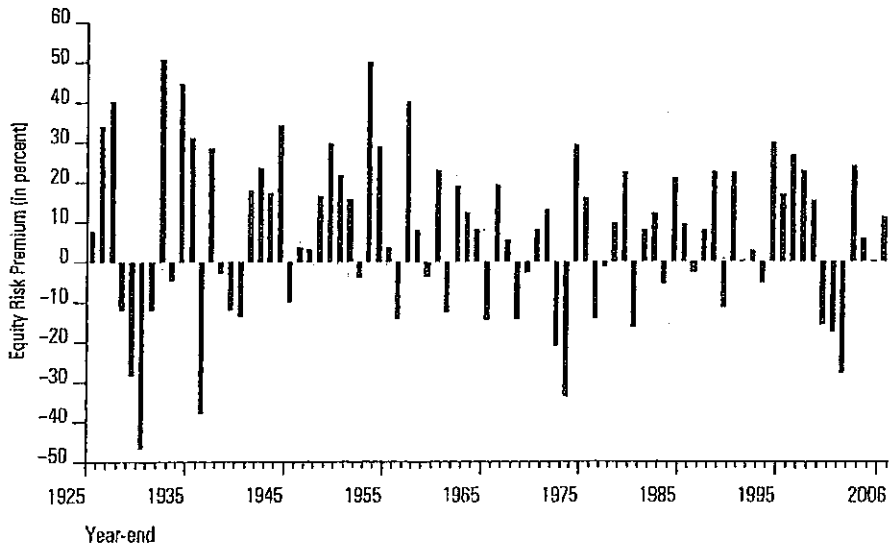
Anticipated changes in yields are assessed by the market and figured into the price of a bond. Future changes in yields that are not anticipated will cause the price of the bond to adjust accordingly. Price changes in bonds due to unanticipated changes in yields introduce price risk into the total return. 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.

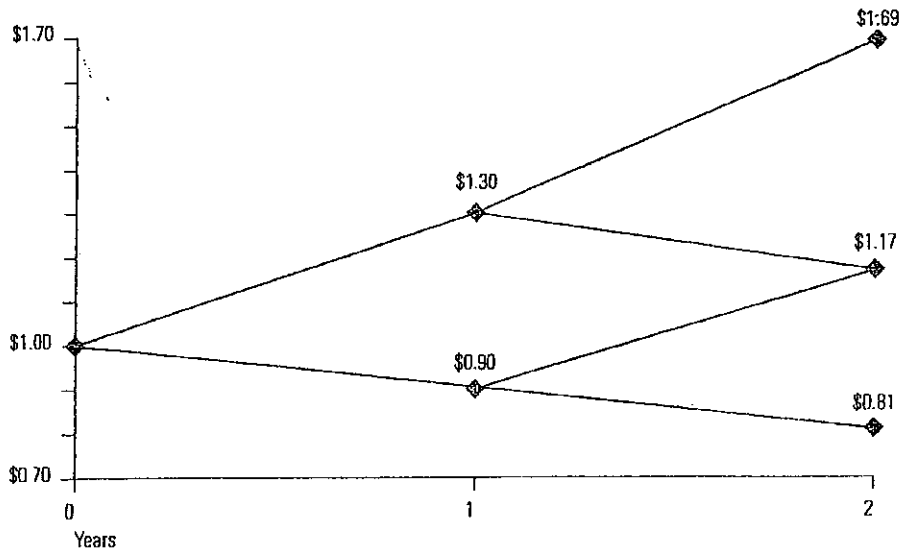
The argument for using the arithmetic average is quite straightforward. In looking at projected cash flows, the equity risk premium that should be employed is the equity risk premium that is expected to actually be incurred over the future time periods. Graph 5-3 shows the realized equity risk premium 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
1926–2006



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

Graph 5-4
Growth of Wealth Example



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

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

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

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

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

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

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

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

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

Appropriate Historical Time Period

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

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

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

Does the Equity Risk Premium Revert to Its Mean over Time?

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

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

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
1926–2006

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. The complete decades ranged from a high of 17.9 percent in the 1950s to a low of 0.3 percent in the 1970s, however, thus far the 2000s have shown a −2.8 percent equity risk premium. This look at historical equity risk premium reveals no observable pattern.

Table 5-4
Long-Horizon Equity Risk Premium by Decade
1926–2006

1920s*	1930s	1940s	1950s	1960s	1970s	1980s	1990s	2000s**	1997-2006
17.6%	2.3%	8.0%	17.9%	4.2%	0.3%	7.9%	12.1%	−2.8%	4.5%

*Based on the period 1926–1929

**Based on the period 2000–2006

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

Choosing an Appropriate Historical Period

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

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

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

Without an appreciation of the 1920s and 1930s, no one would believe that such events could happen. The 81-year period starting with 1926 is representative of what can happen: it includes high and low returns, volatile and quiet markets, war and peace, inflation and deflation, and prosperity and depression. Restricting attention to a shorter historical period underestimates the amount of change that could occur in a long future period. Finally, because historical event-types (not specific events) tend to

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.

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

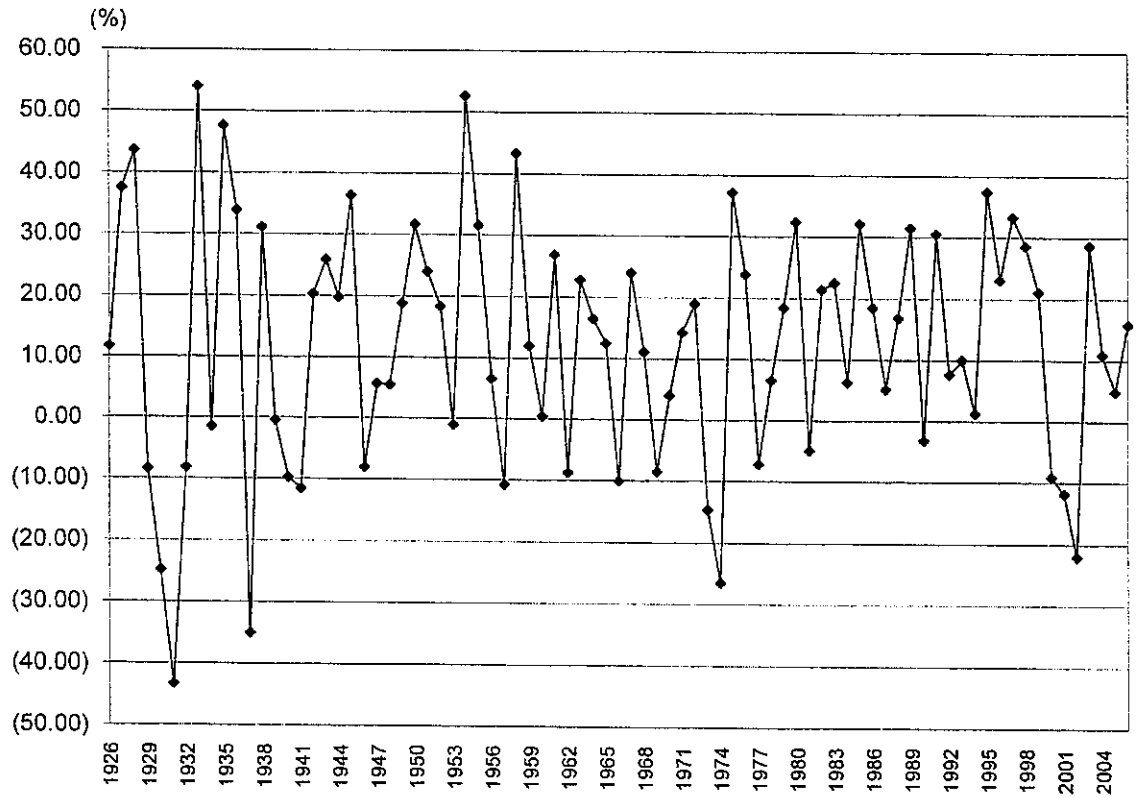
It is interesting to take a look at the realized returns and realized equity risk premium in the context of the above discussion. Table 5-5 shows the average stock market return and the average (arithmetic mean) realized long-horizon equity risk premium over various historical time periods. Similarly, Graph 5-5 shows the average (arithmetic mean) realized equity risk premium calculated through 2006 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
1926–2006

Period Length	Period Dates	Large Company Stock Arithmetic Mean Total Return	Long-Horizon Equity Risk Premium
81 years	1926–2006	12.3%	7.1%
70 years	1937–2006	12.3%	6.7%
60 years	1947–2006	13.2%	7.1%
50 years	1957–2006	11.9%	5.2%
40 years	1967–2006	12.3%	4.8%
30 years	1977–2006	13.6%	5.8%
20 years	1987–2006	13.0%	6.4%
15 years	1992–2006	12.0%	6.0%
10 years	1997–2006	10.0%	4.5%
5 years	2002–2006	7.6%	2.7%

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 2006, starting with 1926. In other words, the first value on the graph represents the average realized equity risk premium over the period 1926–2006. The next value on the graph represents the average realized equity risk premium over the period 1927–2006, and so on, with the last value representing the average over the most recent five years, 2002–2006. 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 1.2 percent.

Missouri American Water Company
Large Company Stock Returns
From 1926 to 2006



Source of Information:

Stocks, Bonds, Bills and Inflation - Valuation Edition 2007 Yearbook,
Morningstar, Inc., Chicago, Il

Missouri American Water Company
Total Returns on Large Company Stocks
1926 to 2006

Large Company Stocks

-50%	-40%	-30%	-20%	-10%	0%	10%	20%	30%	40%	50%	60%
						2006					
						2004					
						1988	2003	1997			
				1990	2005	1986	1999	1995			
				1981	1994	1979	1998	1991			
				1977	1993	1972	1996	1989			
				1969	1992	1971	1983	1985			
				1962	1987	1968	1982	1980			
				1953	1984	1965	1976	1975			
			2001	1946	1978	1964	1967	1955			
			2000	1940	1970	1959	1963	1950			
			1973	1939	1960	1952	1961	1945			
		2002	1966	1934	1956	1949	1951	1938	1958		
		1974	1957	1932	1948	1944	1943	1936	1935	1954	
1931	1937	1930	1941	1929	1947	1926	1942	1927	1928	1933	

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

Source : Stocks, Bonds, Bills, and Inflation - Valuation Edition 2007 Yearbook, pp. 30-31, Morningstar, Inc., Chicago, IL

Missouri American Water Company
Total Returns on Large Company Stocks
1926 to 2006

Large Company Stocks

2006

1926

-50% -40% -30% -20% - 10% 0% 10% 20% 30% 40% 50% 60%

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

Source : Stocks, Bonds, Bills, and Inflation – Valuation Edition 2007 Yearbook, pp. 30-31, Morningstar, Inc., Chicago, IL

Missouri American Water Company
Derivation of the Range of Rate of Return on Common Equity on Missouri American Water Company's Actual Book Common Equity at April 30, 2007 Implicit in MoPSC Witness Murray's Recommended Range of Overall Rate of Return

MoPSC Witness Murray's Recommended Range of Overall Rate of Return

Type of Capital	Ratios (1)	Cost Rate (1)	Weighted Cost Rate (1)	Before-Income Tax Weighted Cost Rate (2)
Common Stock Equity	28.18%	8.60% - 9.60%	2.42% - 2.70%	3.97% - 4.43%
Preferred Stock	19.18%	5.90%	1.13%	1.85%
Long-Term Debt	46.36%	5.25%	2.43%	2.43%
Short-Term Debt	6.28%	4.40%	0.28%	0.28%
Total	100.00%		6.27% - 6.55% *	8.53% - 8.99%

Derivation of the Range of Rate of Return on the Company's Requested Common Equity Ratio Implicit in MoPSC Witness Murray's Recommended Range of Overall Rate of Return

Type of Capital	Ratios (3)	Cost Rate	Weighted Cost Rate	Before-Income Tax Weighted Cost Rate (2)
Common Equity	47.81%	6.97% - 7.55% (4)	3.33% - 3.61% (5)	5.46% - 5.92% (6)
Preferred Stock	0.44%	9.17% (3)	0.04%	0.07%
Long-Term Debt	44.50%	5.87% (3)	2.61%	2.61%
Short-Term Debt	7.26%	5.39% (3)	0.39%	0.39%
Total	100.00% *		6.37% - 6.65%	8.53% - 8.99% (7)

* Does not add due to rounding.

Notes:
(1) From MoPSC Witness Murray's Schedule 20.
(2) Based upon a company-provided combined Federal and state income tax rate of 39%.
(3) From Schedule JMJ-5.
(4) Common equity cost rate range implicit in MoPSC Witness Murray's recommended before-income tax overall rate of return range of 8.53% - 8.99% when applied to the Company's capital structure ratios at May 31, 2007, the true-up period. The common equity cost rate range of 6.97% - 7.55% is derived by dividing the range of weighted cost rate of common equity of 3.33% - 3.61% (derived in note 5 below) by the Company's May 31, 2007 common equity ratio of 47.81%. 6.97% = (3.33% ÷ 47.81%) and 7.55% = (3.61% ÷ 47.81%).
(5) Range of weighted cost rate of common equity derived by multiplying the range before-income tax weighted cost rate of common equity of 5.46% - 5.92% (derived in note 6 below) by (1 - 39%). 3.33% = (5.46% * (1 - 39%)) = 5.46% * 61% = 3.33% and 3.61% = (5.92% * (1 - 39%)) = 5.92% * 61% = 3.61%.
(6) Range of before-income tax weighted cost rate of common equity derived by subtracting the sum of the before-income tax weighted cost rates of preferred stock (0.07%), long-term debt (2.61%) and short-term debt (0.39%) from MoPSC Witness Murray's recommended range before-income tax overall rate of return of 8.53% - 8.99%. 5.46% = 8.53% - 0.07% - 2.61% - 0.39% and 5.92% = 8.99% - 0.07% - 2.61% - 0.39%.

Missouri American Water Company
Authorized Returns on Common Equity and
Common Equity Ratios for Electric and Gas Distribution Companies
from January 2005 through June 2007

Date	Company	Type of Utility	State	Authorized Return on Common Equity	Authorized Common Equity Ratio		Yield on Moody's A Rated Public Utility Bonds (1)	Spread
6-Jan-05	South Carolina Electric & Gas	Electric	SC	10 70	50 31		5 97	4 73
28-Jan-05	Aquila Networks-WPK	Electric	KS	10 50	33 63		5 92	4 58
18-Feb-05	Puget Sound Energy	Electric	WA	10 30	43 00		5 92	4 38
18-Feb-05	Puget Sound Energy	Gas	WA	10 30	43 00		5 92	4 38
25-Feb-05	PacifiCorp	Electric	UT	10.50	47 80	(2)	5 78	4 72
10-Mar-05	Empire District Electric	Electric	MO	11 00	49 14	(2)	5 78	5 22
24-Mar-05	Consolidated Edison of New York	Electric	NY	10 30	48 00	(2)(4)(7)	5 61	4 69
29-Mar-05	SEMCO Energy Gas	Gas	MI	11 00	- -	(2)	5 61	5 39
31-Mar-05	Texas- New Mexico Power	Electric	TX	10 25	40 00	(2)(6)	5 61	4 64
4-Apr-05	Central Vermont Public Service	Electric	VT	10 00	55 53		5 61	4 39
7-Apr-05	Arizona Public Service	Electric	AZ	10.25	45 00 (5)	(2)	5 61	4 64
13-Apr-05	Vectren Energy Delivery of Ohio	Gas	OH	10 60	48 10 E		5 61	4 99
28-Apr-05	Michigan Consolidated Gas	Gas	MI	11 00	39 31 *	(3)	5 83	5 17
17-May-05	AmerenIP	Gas	IL	10 00	53 09	(2)	5 83	4 17
18-May-05	Entergy Louisiana	Electric	LA	10 25	48 73	(2)	5 83	4 42
25-May-05	Savannah Electric and Power	Electric	GA	10 75	- -	(2)	5 64	5 11
26-May-05	Atlantic City Electric	Electric	NJ	9 75	46 22	(2)(6)	5 64	4 11
1-Jun-05	Jersey Central Power & Light	Electric	NJ	9 75	46 00	(2)(6)	5 64	4 11
8-Jun-05	Public Service New Hampshire	Electric	NH	9 63	- -		5 64	3 99
8-Jun-05	CenterPoint Energy Minnegasco	Gas	MN	10 18	50 27	(2)(3)	5 64	4 54
10-Jun-05	Atlanta Gas Light	Gas	GA	10 90	- -	(2)(8)	5 64	5 26
6-Jul-05	Entergy Gulf States	Gas	LA	10 50	47 52	(2)	5 53	4 97
19-Jul-05	Wisconsin Power and Light	Electric	WI	11 50	61 75		5 53	5 97
19-Jul-05	Wisconsin Power and Light	Gas	WI	11 50	61 75		5 53	5 97
5-Aug-05	Cap Rock Energy	Electric	TX	11.75	25 00 (5)		5 40	6 35
11-Aug-05	Northern States Power	Gas	MN	10.40	50 24	(2)(3)	5.40	5 00
15-Aug-05	AEP Texas Central	Electric	TX	10 13	40 00	(2)(7)	5 40	4 73
19-Sep-05	CenterPoint Energy Arkansas Gas	Gas	AR	9 45	31 80 *		5 51	3 94
28-Sep-05	PacifiCorp	Electric	OR	10 00	47 50		5.50	4 50
30-Sep-05	Northern Illinois Gas	Gas	IL	10 51	56 37		5 50	5 01
4-Oct-05	Oklahoma Natural Gas	Gas	OK	9 90	46 76	(2)	5 50	4 40
14-Oct-05	Interstate Power & Light	Gas	IA	10 40	49 35	(2)(3)	5 50	4 90
31-Oct-05	South Carolina Electric & Gas	Gas	SC	10 25	50 75	(2)	5 52	4 73
2-Nov-05	Arkansas Western Gas	Gas	AR	9 70	33 03 *		5 52	4 18
30-Nov-05	Bay State Gas	Gas	MA	10 00	53 95		5 79	4 21
9-Dec-05	Arkansas Oklahoma Gas	Gas	AR	9 70	41 04 * E		5 79	3 91
12-Dec-05	Madison Gas and Electric	Electric	WI	11 00	56 65		5 79	5 21
12-Dec-05	Madison Gas and Electric	Gas	WI	11 00	56 65		5 79	5 21
13-Dec-05	OGE Electric Service	Electric	OK	10.75	55 69		5 79	4 96
16-Dec-05	Pacific Gas and Electric	Electric	CA	11 35	52 00		5 79	5 56
16-Dec-05	Southern California Edison	Electric	CA	11 60	48 00		5 79	5 81
16-Dec-05	Pacific Gas and Electric	Gas	CA	11 35	52 00		5 79	5 56
16-Dec-05	San Diego Gas & Electric	Gas	CA	10 70	49 00		5 79	4 91
16-Dec-05	San Diego Gas & Electric	Electric	CA	10 70	49 00		5 79	4 91
21-Dec-05	Cincinnati Gas & Electric	Electric	OH	10 29	47 53	(2)(6)	5 88	4 41
21-Dec-05	Avista Corp	Electric	WA	10 40	40 00	(2)	5 88	4 52
21-Dec-05	Baltimore Gas & Electric	Gas	MD	11 00	48 40		5 88	5 12
21-Dec-05	Avista Corp	Gas	WA	10 40	40 00	(2)	5 88	4 52
22-Dec-05	Wisconsin Public Service	Electric	WI	11 00	59 73		5 88	5 12
22-Dec-05	Consumers Energy	Electric	MI	11 15	36 31 *		5 88	5 27
22-Dec-05	Wisconsin Public Service	Gas	WI	11 00	59 73		5 88	5 12
22-Dec-05	Union Light, Heat & Power	Gas	KY	10 20	54 45		5 88	4 32
28-Dec-05	Westar Energy North	Electric	KS	10 00	44 59		5 88	4 12
28-Dec-05	Kansas Gas and Electric	Electric	KS	10 00	44 59		5 88	4 12
28-Dec-05	Southern Connecticut Gas	Gas	CN	10 00	51 28	(2)	5 88	4 12
5-Jan-06	Northern States Power	Gas	WI	11 00	53 66		5 88	5 12
5-Jan-06	Northern States Power	Electric	WI	11 00	53 66		5 88	5 12
25-Jan-06	Wisconsin Electric Power	Gas	WI	11 20	56 24		5 80	5 40
25-Jan-06	Wisconsin Gas	Gas	WI	11 20	50 20		5.80	5 40
27-Jan-06	United Illuminating	Electric	CT	9 75	48 00	(4)(6)(9)	5.80	3 95
3-Feb-06	Public Service of Colorado	Gas	CO	10 50	55 49	(2)	5.80	4 70
23-Feb-06	Southwest Gas	Gas	AZ	9 50	40 00 (5)		5.75	3 75
1-Mar-06	Aquila	Gas	IA	10 40 E	51 39	(2)(3)	5 75	4 65
3-Mar-06	Interstate Power and Light	Electric	MN	10 39	49 10	(2)	5 75	4 64
17-Apr-06	PacifiCorp	Electric	WA	10 20	46 00		5 82	4 38
18-Apr-06	MidAmerican Energy	Electric	IA	11 90 (12)	- -		5 82	6 08
25-Apr-06	Delmarva Power & Light	Electric	DE	10 00	47 72	(6)	5 98	4 02
26-Apr-06	Sierra Pacific Power	Electric	NV	10 60	40 76		5 98	4 62
26-Apr-06	Sierra Pacific Power	Gas	NV	10 60	40 76		5 98	4 62
25-May-06	LA Gas Service/Trans LA Gas	Gas	LA	10 40	48 00 (6)	(2)	6 29	4 11
27-Jun-06	Upper Peninsula Power	Electric	MI	10 75	47 12	(2)	6.42	4 33
6-Jul-06	Maine Public Service	Electric	ME	10 20	50 00	(2)(6)	6 42	3 78
24-Jul-06	Central Hudson Gas & Electric	Electric	NY	9 60	45 00	(2)(4)(7)	6 40	3 20
24-Jul-06	Central Hudson Gas & Electric	Gas	NY	9 60	45 00	(2)(6)(7)	6 40	3 20
26-Jul-06	AEP West Virginia	Electric	WV	10 50	- -	(2)(7)	6 40	4 10
28-Jul-06	Comonwealth Edison	Electric	IL	10 05	42 86	(7)(9)	6 40	3 65
23-Aug-06	New York State Electric & Gas	Electric	NY	9 55	41 60	(7)	6 37	3 18
1-Sep-06	Northern States Power	Electric	MN	10 54	51 67	(3)(10)	6 37	4 17

Missouri American Water Company
Authorized Returns on Common Equity and
Common Equity Ratios for Electric and Gas Distribution Companies
from January 2005 through June 2007

Date	Company	Type of Utility	State	Authorized Return on Common Equity	Authorized Common Equity Ratio		Yield on Moody's A Rated Public Utility Bonds (1)	Spread
14-Sep-06	PacifiCorp	Electric	OR	10 00	50 00	(2)(9)	6 37	3 63
20-Sep-06	Kinder Morgan	Gas	WV	11 00	43 58	(2)(9)	6 37	4 63
26-Sep-06	Chesapeake Utilities	Gas	MD	10 75	53 00	(2)	6 20	4 55
6-Oct-06	Unitil Energy Systems	Electric	NH	9 67	43 10	(2)(4)(7)	6 20	3 47
20-Oct-06	Orange & Rockland Utilities	Gas	NY	9 80	48 00	(2)(4)(5)	6 20	3 60
2-Nov-06	CenterPoint Energy Minnesota Gas	Gas	MN	9 71	46 14	(3)	6 00	3 71
9-Nov-06	Public Service Electric & Gas	Gas	NJ	10 00	47 40	(2)	6 00	4 00
21-Nov-06	Central Illinois Light	Electric	IL	10 12	45 57	(7)	5 98	4 14
21-Nov-06	Central Illinois Public Service	Electric	IL	10.08	48 92	(7)	5 98	4 10
21-Nov-06	Illinios Power	Electric	IL	10 08	51 56	(7)	5 98	4 10
21-Nov-06	Consumers Energy	Gas	MI	11 00	35 06 *	(3)	5 98	5 02
1-Dec-06	Pacificorp	Electric	UT	10 25	- -	(2)(4)	5 98	4 27
1-Dec-06	Public Service of Colorado	Electric	CO	10 50	60 00	(2)	5 98	4 52
7-Dec-06	Central Vermont Public Service	Electric	VT	10 75	55 57	(2)	5 98	4 77
21-Dec-06	Empire District Electric	Electric	MO	10 90	49 74		5 80	5 10
21-Dec-06	Kansas City Power & Light	Electric	MO	11 25	53 69		5 80	5 45
22-Dec-06	Green Mountain Power	Electric	VT	10 25	52 76	(2)	5 80	4 45
5-Jan-07	OGE Electric Service	Electric	AR	10 00	32 33 *	(2)	5 80	4 20
5-Jan-07	Puget Sound Energy	Electric	WA	10 40	44 00		5 80	4 60
5-Jan-07	Puget Sound Energy	Gas	WA	10 40	44.00		5 80	4 60
9-Jan-07	SEMCO Energy Gas	Gas	MI	11 00	42 94 *	(2)	5 80	5 20
11-Jan-07	Metropolitan Edison	Electric	PA	10 10	49.00	(7)	5 80	4 30
11-Jan-07	Pennyslvania Electric	Electric	PA	10 10	49.00	(7)	5 80	4 30
11-Jan-07	Wisconsin Public Service	Electric	WI	10 90	57 46		5 80	5 10
11-Jan-07	Wisconsin Public Service	Gas	WI	10 90	57 46		5 80	5 10
12-Jan-07	Portland General Electric	Electric	OR	10 10	50 00 (5)		5 80	4 30
19-Jan-07	Wisconsin Power and Light	Electric	WI	10 80	54 13		5 80	5 00
19-Jan-07	Wisonsin Power and Light	Gas	WI	10 80	54 13		5 80	5 00
26-Jan-07	Fitchburg Gas & Electric	Gas	MA	10 00	- -	(2)(4)	5 81	4 19
8-Feb-07	PPL Gas	Gas	PA	10 40	51 79 (5)		5 81	4 59
14-Mar-07	Connecticut Natural Gas	Gas	CT	10 10	53 60	(2)	5 96	4 14
20-Mar-07	Delmarva Power & Light	Gas	DE	10 25	46 90	(2)(3)	5 96	4 29
22-Mar-07	Rockland Electric	Electric	NJ	9 97	46 50	(2)(6)	5 90	4 07
22-Mar-07	Southern Union	Gas	MO	10 50	36 06		5 90	4 60
29-Mar-07	Atmos Energy	Gas	TX	10 00	47 90 (5)		5 90	4 10
15-May-07	Appalachian Power	Electric	VA	10 00	41 11 *		5 85	4 15
17-May-07	Aquila Networks-MPS	Electric	MO	10 25	48 17		5 85	4 40
17-May-07	Aquila Networks-L&P	Electric	MO	10 25	48 17		5 85	4 40
22-May-07	Monongahela Pow /Potomac Ed	Electric	WV	10 50	46 07		5 97	4 53
22-May-07	Union Electric	Electric	MO	10 20	52 22		5 97	4 23
23-May-07	Nevada Power	Electric	NV	10 70	47 29		5 97	4 73
25-May-07	Public Service of New Hampshire	Electric	NH	9 67	47 66	(2)(6)	5 97	3 70
5-Jun-07	Cascade Natural Gas	Gas	OR	10 10	45 00	(2)	5 97	4 13
13-Jun-07	Northern States Power	Gas	ND	10 75	51 59	(2)	5 97	4 78
15-Jun-07	Entergy Arkansas	Electric	AR	9 90	32 19 *		5 97	3 93
18-Jun-07	Public Service of Colorado	Gas	CO	10 25	60 17	(2)	5 97	4 28
22-Jun-07	Appalachian Pow /Wheeling Pow	Electric	WV	10 50	42 88	(2)(14)	5 99	4 51
28-Jun-07	Arizona Public Service	Electric	AZ	10 75	54 50		5 99	4 76
29-Jun-07	Yankee Gas Services	Gas	CT	10 10	50 30	(2)	5 99	4 11
29-Jun-07	Public Service of New Mexico	Gas	NM	9.53	48.00		5.99	3.54
	Average - All Cases			10.42 %	47.92 %		5.86 %	4.55 %
	Average - Litigated Cases			10.51 %	47.89 %		5.84 %	4.67 %

Prospective Yield on A Rated Public Utility Bonds	6 60 %
Average Spread between Authroized Returns on Common Equity and the yield on 10-year U S Treasury Notes for Litigated Cases	4.67
Indicated Common Equity Cost Rate	11.27 %

Notes:
(1) Actual A rated yield represents the yield of the previous month if the order was issued on or after the 21st of each month, or the yield of two months prior if the order was issued on or before the 20th of each month For example, the yield for 4/17/06 is the A rated Public Utility yield for February 2006 and the yield for 4/26/06 is the A rated Public Utility yield for March 2006
(2) Order followed full or partial stipulation settlement by the parties Decision particulars not necessarily precedent- setting or specifically
(3) Interim rate implemented prior to the issuance of final order, normally under bond and subject to refund
(4) Rate change to be implemented in multiple steps
(5) Hypothetical
(6) Rate change applicable to electric distribution rates only
(7) Rate change applicable to electric transmission and distribution rates only
(8) The stipulation requires the company to freeze rates for five years, and over this time period, to credit its pipeline replacement program a total of $25 million and senior citizen rates $7 5 million
(9) Indicated rate increase to be phased-in over four years, with a 6 88% ROR authorized for 2006, 6.89% for 2007, 7 09% for 2008, and 7 48% for 2009
(10) Rate increase declined to $114 9 million effective 1/1/07
(11) While the rate increase was voted 9/20/06 and became effective 10/1/06, a final order was not issued until 12/4/06
(12) ROE applies only to a proposed 545mW wind generation project
(13) From page 1 of Schedule PMA-27
(14) Return implicit in settlement

* Capital structure includes cost-free items or tax credit balances at the overall rate of return

Source of Information:
Major Rate Case Decisions - January 2005 - December 2006, Published by Regulatory Research Associates, Inc . An SNL Energy Company
Regulatory Focus - Regulatory Study, Major Rate Case Decisions - January-March 2007, April 3 2007, Published by Regulatory Research Associates, Inc . An SNL Energy Company
Mergent Bond Record Monthly Update. May 2007, Vol 74, No 5

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

Line No.		1		2	3		4
		13-Week Average Market Price Ending May 18, 2007 (1) (millions)	(times larger)	Applicable Decile of the NYSE/AMEX/ NASDAQ	Applicable Size Premium (2)		Spread from Applicable Size Premium (3)
1.	Missouri American Water Company						
A.	MIEC Witness Gorman's Nine Company Gas Utility Comparable Group	$ 579.144		8 - 9 (4)	2.49%	(5)	
2.	MIEC Witness Gorman's Nine Company Gas Utility Comparable Group	$ 2,551.437	4.4 x (8)	5 (6)	1.45%	(7)	1.04%

Decile	Number of Companies (8)	Recent Total Market Capitalization (8) (millions)	Recent Average Market Capitalization (millions)	Size Premium (Return in Excess of CAPM) (2)
1 - Largest	168	$9,586,846.750	$57,064.564	-0.36%
2	179	2,148,609.950	12,003.408	0.65%
3	198	1,126,434.240	5,689.062	0.81%
4	184	624,621.080	3,394.680	1.03%
5	209	492,840.110	2,358.087	1.45%
6	264	428,711.640	1,623.908	1.67%
7	291	333,661.890	1,146.604	1.62%
8	355	284,415.720	801.171	2.28%
9	660	298,400.730	452.122	2.70%
10 - Smallest	1744	229,218.310	131.433	6.27%

See page 2 for notes.

Missouri American Water Company
Derivation of Investment Risk Adjustment Based upon
Ibbotson Associates' Size Premia for the Decile Portfolios of the NYSE

Notes:

(1) From page 3 of this Schedule.

(2) From page 13 of this Schedule.

(3) Line No. 1 – Line No. 2 and Line No. 1 – Line No. 3 of Columns 3 and 4, respectively. For example, the 1.04% in Column 5, Line No. 2 is derived as follows 1.04%% = 2.49% - 1.45%.

(4) With an estimated market capitalization of $579.144 million (based upon MIEC Witness Gorman's nine company gas utility comparable group), Missouri American Water Company falls between the 8th the 9th deciles of the NYSE/AMEX/NASDAQ which have an average market capitalization of $624.647 as can be gleaned from the information shown in the table on the bottom half of page 1 of this Schedule.

(5) Average size premium applicable to the 8th and 9th deciles of the NYSE/AMEX/NASDAQ as can be gleaned from the information shown in the table on the bottom half of page 1 and on page 13 of this Schedule.

(6) With an estimated market capitalization of $2,551.437 million, MIEC Witness Gorman's nine company gas utility comparable group falls in the 5th decile of the NYSE/AMEX/NASDAQ which has an average market capitalization of $2,358.087 million as shown in the table on the bottom half of page 1 of this Schedule.

(7) Size premium applicable to the 5th decile of the NYSE/AMEX/NASDAQ as shown in the table on the bottom half of page 1 and on page 13 of this Schedule.

(8) From page 6 of this Schedule.

Source of Information: Ibbotson Associates, Stocks, Bonds, Bills and Inflation – Market Results for 1926-2006 - Valuation Edition 2007 Yearbook, Morningstar, Inc., Chicago, IL, 2007

Missouri American Water Company
Market Capitalization of Missouri American Water Company
and MIEC Witness Gorman's Nine Company Gas Utility Comparable Group

Company	1 Common Stock Shares Outstanding at March 31, 2007 * (millions)	2 Book Value per Share at March 31, 2007 * (1)	3 Total Common Book Value Equity at March 31, 2007 * (millions)	4 13-Week Average Market Price Ending May 18, 2007 (2)	5 Market-to-Book Ratio at June 11, 2007 (3)	6 Market Capitalization on June 11 2007 (3) (millions)
Missouri American Water Company	NA (4)	NA	$ 295.030 (4)	NA	196.3 % (5)	$ 579.144 (6)
MIEC Witness Gorman's Nine Company Gas Utility Comparable Group						
MIEC Witness Gorman's Nine Company Gas Utility Comparable Group						
AGL Resources Inc.	77.900	$ 21.540	$ 1,678.000	$ 42.460	197.1 %	$ 3,307.634
Atmos Energy Corp.	88.764	22.779	2,021.953	31.860	139.9	2,828.021
KeySpan Corp.	175.763	26.601	4,675.500	41.200	154.9	7,241.436
New Jersey Resources Corp.	27.940	23.365	652.805	51.320	219.6	1,433.881
NICOR Inc.	44.901	20.336	913.100	49.180	241.8	2,208.231
Northwest Natural Gas Co.	27.110	23.252	630.367	46.860	201.5	1,270.375
Piedmont Natural Gas Co., Inc.	74.585	12.228	912.013	26.440	216.2	1,972.027
South Jersey Industries, Inc.	29.420	15.747	463.289	37.280	236.7	1,096.778
WGL Holdings, Inc.	49.129	20.520	1,008.105	32.660	159.2	1,604.553
Average	66.168	$ 20.708	$ 1,439.459	$ 39.918	196.3 %	$ 2,551.437

Notes:
(1) Column 3 / Column 1.
(2) From MIEC Witness Gorman's Appendix B-5, page 2.
(3) Column 5 * Column 3.
(4) Missouri American Water Company's proforma common equity at April 30, 2007 from Schedule JMJ-1.
(5) The market-to-book ratio of Missouri American Water Company for the 13-weeks ending May 18, 2007 is assumed to be equal to the average market-to-book ratio for the 13-weeks ending May 18, 2007 of MIEC Witness Gorman's nine gas company utility comparable group.
(6) Missouri American Water Company's common stock if traded at a market-to-book ratio equal to the average market-to-book ratio for the 13-weeks ending May 18, 2007 of MIEC Witness Gorman's nine company gas utility comparable group, 196.3% would result in a market capitalization for the 13-weeks ending May 18, 2007 of $579.144 million. ($579.144 = $295.030 * 196.3%).

(*) As of March 31, 2007, except for Piedmont Natural Gas, which is at January 31, 2007.

Source of Information: Company Annual Forms 10-K and/or 10-Q

Stocks, Bonds, Bills, and Inflation

Market Results for 1926–2006

2007 Yearbook
Valuation Edition

MORNINGSTAR

Chapter 7

Firm Size and Return

The Firm Size Phenomenon

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

Construction of the Decile Portfolios

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

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

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

Size of the Deciles

Table 7-1 reveals that the top three deciles of the NYSE/AMEX/NASDAQ account for most of the total market value of its stocks. Nearly two-thirds of the market value is represented by the first decile, which currently consists of 168 stocks, while the smallest decile accounts for just over one percent of the

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.

market value. The data in the second column of Table 7-1 are averages across all 81 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 2006.

Table 7-1
Size-Decile Portfolios of the NYSE/AMEX/NASDAQ Size and Composition
1926 through September 30, 2006

Decile	Historical Average Percentage of Total Capitalization	Recent Number of Companies	Recent Decile Market Capitalization (in thousands)	Recent Percentage of Total Capitalization
1-largest	63.26%	168	$9,586,846,750	61.64%
2	13.97%	179	2,148,609,950	13.81%
3	7.57%	198	1,126,434,240	7.24%
4	4.73%	184	624,621,080	4.02%
5	3.24%	209	492,840,110	3.17%
6	2.38%	264	428,711,640	2.76%
7	1.74%	291	333,661,890	2.15%
8	1.29%	355	284,415,720	1.83%
9	1.00%	660	298,400,730	1.92%
10-Smallest	0.82%	1,744	229,218,310	1.47%
Mid-Cap 3-5	15.54%	591	2,243,894,380	15.41%
Low-Cap 6-8	5.41%	910	1,046,789,110	7.19%
Micro-Cap 9-10	1.83%	2,404	527,619,100	3.62%

Source: © 2007-03 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 81 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, 2006.

Table 7-2 gives the current breakpoints that define the composition of the NYSE/AMEX/NASDAQ size deciles. The largest company and its market capitalization are presented for each decile. Table 7-3 shows the historical breakpoints for each of the three size groupings presented throughout this chapter. Mid-cap stocks are defined here as the aggregate of deciles 3–5. Based on the most recent data (Table 7-2), companies within this mid-cap range have market capitalizations at or below $7,777,183,000 but greater than $1,946,588,000. Low-cap stocks include deciles 6–8 and currently include all companies in the NYSE/AMEX/NASDAQ with market capitalizations at or below $1,946,588,000 but greater than $626,955,000. Micro-cap stocks include deciles 9–10 and include companies with market capitalizations at or below $626,955,000. The market capitalization of the smallest company included in the micro-capitalization group is currently $2,247,000.

Table 7-2
Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, Largest Company and Its Market Capitalization by Decile
September 30, 2006

Decile	Market Capitalization of Largest Company (in thousands)	Company Name
1-Largest	$371,187,368	Exxon Mobil Corp.
2	16,820,566	EOG Resources Inc.
3	7,777,183	Xcel Energy Inc.
4	4,085,184	First American Corp /CA
5	2,848,771	Scotts Miracle Gro Co.
6	1,946,588	DRS Technologies Inc
7	1,378,476	ESCO Technologies Inc.
8	976,624	Knoll Inc
9	626,955	Bandag Inc.
10-Smallest	314,433	M & F Worldwide Corp

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 1926–2006 are presented in Table 7-4. Note from this exhibit that both the average return and the total risk, or standard deviation of annual returns, tend to increase as one moves from the largest decile to the smallest. Furthermore, the serial correlations of returns are near zero for all but the smallest two deciles. Serial correlations and their significance will be discussed in detail later in this chapter.

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

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

from 1926 to1965

	Capitalization of Largest Company (in thousands)			Capitalization of Smallest Company (in thousands)		
Date (Sept 30)	Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10	Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10
1926	$61,490	$13,835	$4,263	$13,860	$4,278	$43
1927	$65,078	$14,522	$4,450	$14,664	$4,496	$65
1928	$81,095	$18,788	$5,119	$18,801	$5,170	$135
1929	$103,054	$24,300	$5,850	$24,328	$5,862	$118
1930	$66,750	$12,918	$3,356	$13,050	$3,359	$30
1931	$43,120	$8,142	$1,944	$8,222	$1,946	$15
1932	$12,667	$2,208	$468	$2,223	$469	$19
1933	$40,298	$7,280	$1,875	$7,346	$1,892	$120
1934	$38,019	$6,638	$1,691	$6,669	$1,722	$69
1935	$37,631	$6,549	$1,350	$6,605	$1,383	$38
1936	$46,980	$11,526	$2,800	$11,563	$2,801	$98
1937	$51,750	$13,635	$3,563	$13,793	$3,600	$68
1938	$36,102	$8,372	$2,195	$8,400	$2,200	$60
1939	$35,409	$7,478	$1,854	$7,500	$1,860	$75
1940	$30,930	$8,007	$1,872	$8,130	$1,929	$51
1941	$31,398	$8,336	$2,087	$8,357	$2,100	$72
1942	$26,037	$6,870	$1,779	$6,875	$1,788	$82
1943	$42,721	$11,403	$3,847	$11,475	$3,903	$395
1944	$46,221	$13,066	$4,812	$13,068	$4,820	$309
1945	$55,268	$17,575	$6,428	$17,584	$6,466	$225
1946	$77,784	$24,192	$10,149	$24,199	$10,168	$829
1947	$57,942	$17,735	$6,380	$17,872	$6,410	$747
1948	$67,238	$19,632	$7,329	$19,651	$7,348	$784
1949	$56,082	$14,549	$5,108	$14,577	$5,112	$379
1950	$66,143	$18,675	$6,225	$18,700	$6,243	$303
1951	$82,517	$22,750	$7,598	$22,860	$7,600	$668
1952	$97,936	$25,452	$8,480	$25,532	$8,551	$480
1953	$98,595	$25,374	$8,168	$25,395	$8,177	$459
1954	$125,834	$29,707	$8,488	$29,791	$8,502	$463
1955	$170,829	$41,681	$12,444	$41,861	$12,524	$553
1956	$183,792	$46,886	$13,623	$47,103	$13,659	$1,122
1957	$194,300	$47,658	$13,848	$48,509	$13,950	$925
1958	$195,536	$46,774	$13,816	$46,871	$14,015	$550
1959	$256,283	$64,110	$19,548	$64,221	$19,701	$1,804
1960	$252,292	$61,529	$19,344	$61,596	$19,385	$831
1961	$301,464	$77,996	$23,562	$78,976	$23,613	$2,455
1962	$250,786	$58,785	$18,744	$58,866	$18,952	$1,018
1963	$308,903	$71,846	$23,927	$71,971	$24,056	$296
1964	$349,675	$79,508	$25,595	$79,937	$25,607	$223
1965	$365,675	$84,600	$28,483	$85,065	$28,543	$250

Source: 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 2006

	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	$403,137	$99,960	$34,884	$100,107	$34,966	$381
1967	$459,438	$118,988	$42,188	$119,635	$42,237	$381
1968	$531,306	$150,893	$60,543	$151,260	$60,719	$592
1969	$518,485	$146,792	$54,353	$147,311	$54,503	$2,119
1970	$382,884	$94,754	$29,916	$94,845	$29,932	$822
1971	$551,690	$147,426	$45,570	$147,810	$45,571	$865
1972	$557,181	$143,835	$46,728	$144,263	$46,757	$1,031
1973	$431,354	$96,699	$29,352	$96,710	$29,430	$561
1974	$356,876	$79,878	$23,355	$80,280	$23,400	$444
1975	$477,054	$102,313	$30,353	$103,283	$30,394	$540
1976	$566,296	$121,717	$34,864	$121,992	$34,901	$564
1977	$584,577	$139,196	$40,700	$139,620	$40,765	$513
1978	$580,881	$164,093	$47,927	$164,455	$48,038	$830
1979	$665,019	$177,378	$51,197	$177,769	$51,274	$948
1980	$762,195	$199,312	$50,496	$199,315	$50,544	$549
1981	$962,397	$264,690	$72,104	$264,783	$72,450	$1,446
1982	$770,517	$210,301	$55,336	$210,630	$55,423	$1,060
1983	$1,209,911	$353,889	$104,382	$356,238	$104,588	$2,025
1984	$1,075,436	$315,965	$91,004	$316,103	$91,195	$2,093
1985	$1,440,436	$370,224	$94,875	$370,729	$94,887	$760
1986	$1,857,621	$449,015	$110,617	$449,462	$110,953	$706
1987	$2,059,143	$468,948	$113,419	$470,662	$113,430	$1,277
1988	$1,957,926	$421,340	$94,449	$421,675	$94,573	$696
1989	$2,145,947	$480,975	$100,285	$483,623	$100,384	$96
1990	$2,171,217	$474,065	$93,750	$474,477	$93,790	$132
1991	$2,129,863	$457,958	$87,586	$458,853	$87,733	$278
1992	$2,428,671	$500,327	$103,352	$500,346	$103,500	$510
1993	$2,705,192	$603,588	$137,105	$607,449	$137,137	$602
1994	$2,470,244	$596,059	$148,104	$597,975	$148,216	$598
1995	$2,789,938	$647,210	$155,386	$647,253	$155,532	$89
1996	$3,142,657	$751,316	$193,001	$751,680	$193,016	$1,043
1997	$3,484,440	$813,923	$228,900	$814,355	$229,058	$585
1998	$4,216,707	$925,688	$252,553	$926,215	$253,031	$1,671
1999	$4,251,741	$875,309	$220,397	$875,582	$220,456	$1,502
2000	$4,143,902	$840,000	$192,083	$840,730	$192,439	$1,393
2001	$5,156,315	$1,108,224	$265,734	$1,108,969	$265,736	$443
2002	$4,930,326	$1,116,525	$308,980	$1,124,331	$309,245	$501
2003	$4,744,580	$1,163,369	$329,060	$1,163,423	$329,529	$332
2004	$6,241,953	$1,607,854	$505,437	$1,607,931	$506,410	$1,393
2005	$7,187,244	$1,728,888	$586,393	$1,729,364	$587,243	$1,079
2006	$7,777,183	$1,946,588	$626,955	$1,947,240	$627,017	$2,247

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
1926–2006

Decile	Geometric Mean	Arithmetic Mean	Standard Deviation	Serial Correlation
1-Largest	9.6	11.3	19.06	0.09
2	11.0	13.3	21.72	0.03
3	11.3	13.8	23.51	-0.02
4	11.3	14.3	25.78	-0.02
5	11.7	14.9	26.61	-0.02
6	11.8	15.3	27.67	0.04
7	11.7	15.6	29.80	0.01
8	11.9	16.6	33.27	0.04
9	12.1	17.5	36.31	0.05
10-Smallest	14.0	21.6	45.16	0.15
Mid-Cap, 3–5	11.4	14.2	24.59	-0.02
Low-Cap, 6–8	11.8	15.7	29.34	0.03
Micro-Cap, 9–10	12.8	18.8	38.92	0.08
NYSE/AMEX/NASDAQ Total Value-Weighted Index	10.1	12.1	20.08	0.03

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

Aspects of the Firm Size Effect

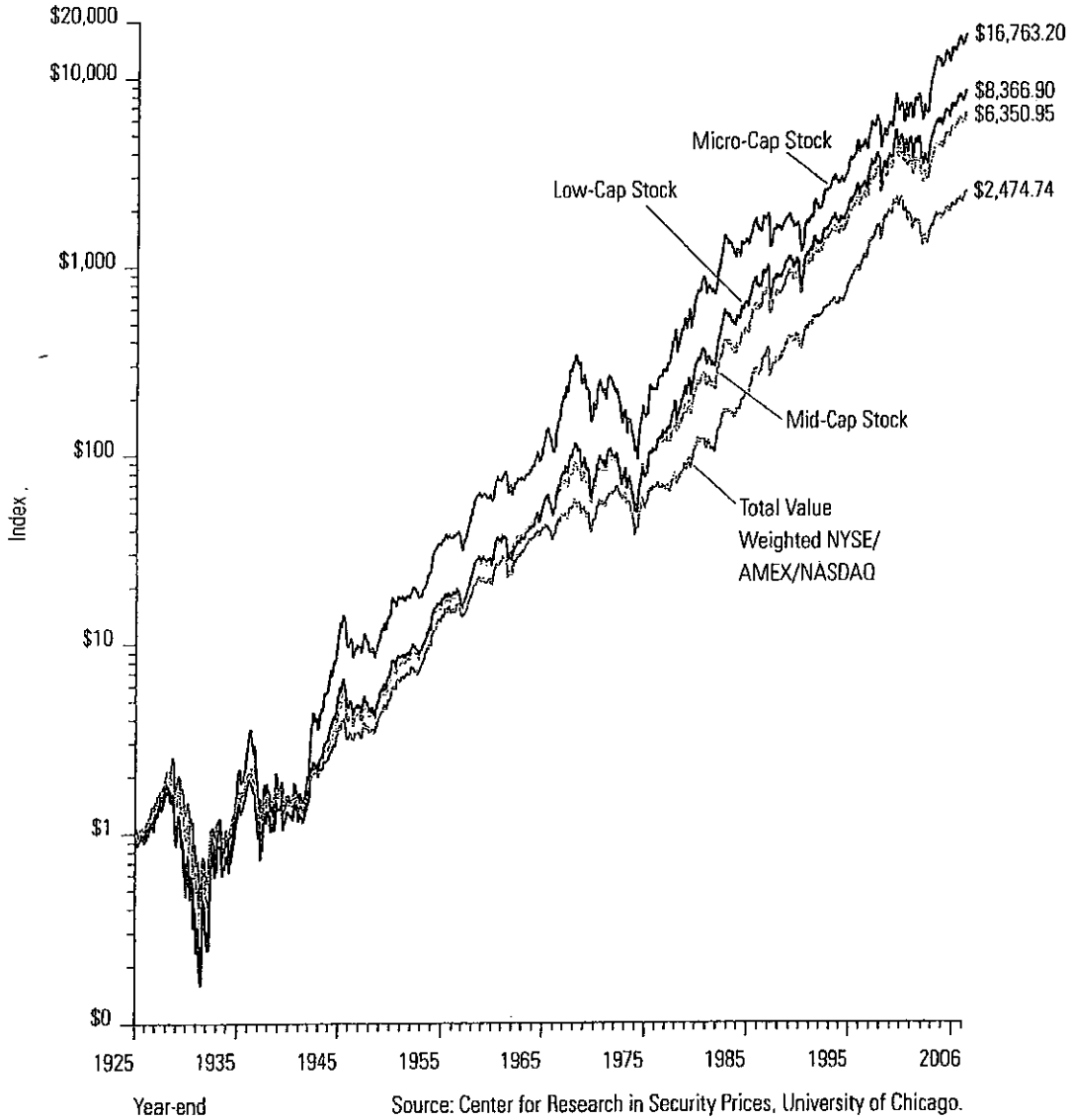
The firm size phenomenon is remarkable in several ways. First, the greater risk of small stocks does not, in the context of the capital asset pricing model (CAPM), fully account for their higher returns over the long term. In the CAPM only systematic, or beta risk, is rewarded; small company stocks have 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
Year-end 1925 = $1.00

1925–2006



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 81 years for each decile of the NYSE/AMEX/NASDAQ. Recall that the CAPM is expressed as follows:

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

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

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

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

2 The equity risk premium is estimated by the 81-year arithmetic mean return on large company stocks, 12.34 percent, less the 81-year arithmetic mean income-return component of 20-year government bonds as the historical riskless rate, in this case 5.21 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 2006. 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
1926–2006

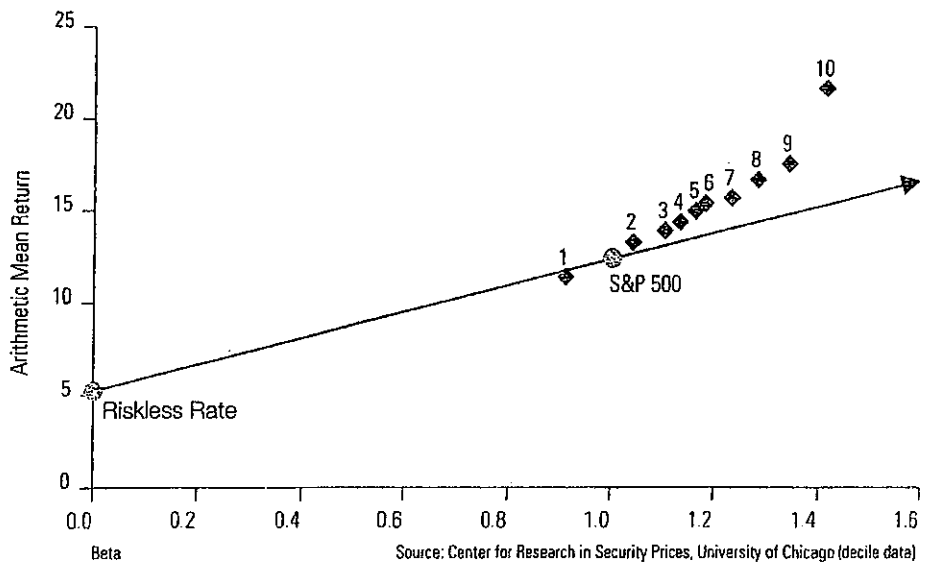
Decile	Beta*	Arithmetic Mean Return	Realized Return in Excess of Riskless Rate**	Estimated Return in Excess of Riskless Rate†	Size Premium (Return in Excess of CAPM)
1-Largest	0.91	11.35%	6.13%	6.49%	−0.36%
2	1.04	13.25%	8.04%	7.39%	0.65%
3	1.10	13.85%	8.64%	7.82%	0.81%
4	1.13	14.28%	9.07%	8.04%	1.03%
5	1.16	14.92%	9.71%	8.26%	1.45%
6	1.18	15.33%	10.11%	8.45%	1.67%
7	1.23	15.63%	10.42%	8.80%	1.62%
8	1.28	16.61%	11.39%	9.12%	2.28%
9	1.34	17.48%	12.27%	9.57%	2.70%
10-Smallest	1.41	21.57%	16.36%	10.09%	6.27%
Mid-Cap, 3-5	1.12	14.15%	8.94%	7.97%	0.97%
Low-Cap, 6-8	1.22	15.67%	10.46%	8.70%	1.76%
Micro-Cap, 9-10	1.36	18.77%	13.56%	9.68%	3.88%

*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 2006.

**Historical riskless rate is measured by the 81-year arithmetic mean income return component of 20-year government bonds (5.21 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 (12.34 percent) minus the arithmetic mean income return component of 20-year government bonds (5.21 percent) from 1926–2006.

Graph 7-2
Security Market Line versus Size-Decile Portfolios of the NYSE/AMEX/NASDAQ
1926–2006



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, 2006

Decile	Recent Number of Companies	Recent Decile Market Capitalization (in thousands)	Market Capitalization of Largest Company (in thousands)	Company Name
10a	511	124,268,473	314,433	M & F Worldwide Corp.
10b	1,237	103,630,389	173,439	Great Lakes Bancorp Inc New

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
1926–2006

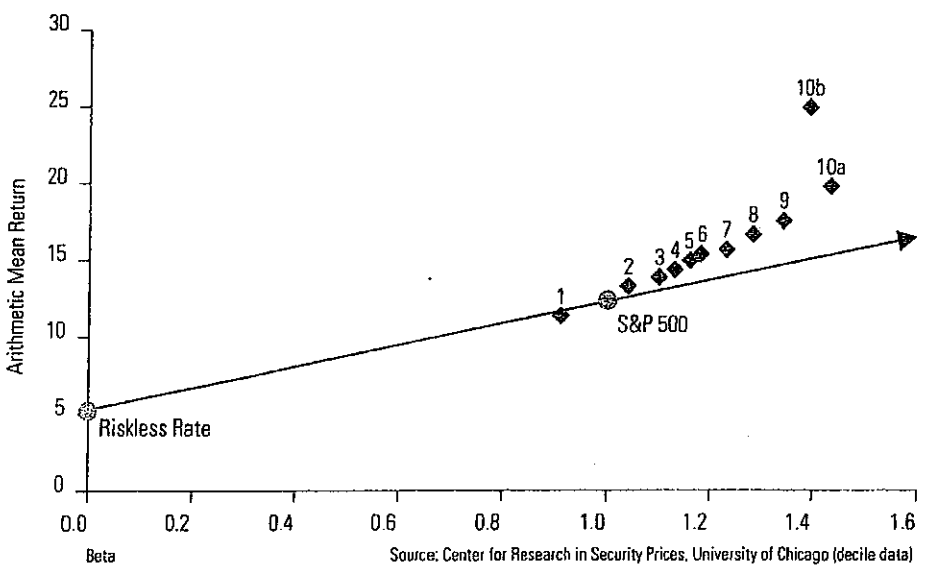
	Beta*	Arithmetic Mean Return	Realized Return in Excess of Riskless Rate**	Estimated Return in Excess of Riskless Rate†	Size Premium (Return in Excess of CAPM)
1-Largest	0.91	11.35%	6.13%	6.49%	–0.36%
2	1.04	13.25%	8.04%	7.39%	0.65%
3	1.10	13.85%	8.64%	7.82%	0.81%
4	1.13	14.28%	9.07%	8.04%	1.03%
5	1.16	14.92%	9.71%	8.26%	1.45%
6	1.18	15.33%	10.11%	8.45%	1.67%
7	1.23	15.63%	10.42%	8.80%	1.62%
8	1.28	16.61%	11.39%	9.12%	2.28%
9	1.34	17.48%	12.27%	9.57%	2.70%
10a	1.43	19.74%	14.53%	10.17%	4.35%
10b-Smallest	1.39	24.78%	19.57%	9.89%	9.68%
Mid-Cap, 3-5	1.12	14.15%	8.94%	7.97%	0.97%
Low-Cap, 6-8	1.22	15.67%	10.46%	8.70%	1.76%
Micro-Cap, 9-10	1.36	18.77%	13.56%	9.68%	3.88%

*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 2006.

**Historical riskless rate is measured by the 81-year arithmetic mean income return component of 20-year government bonds (5.21 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 (12.34 percent) minus the arithmetic mean income return component of 20-year government bonds (5.21 percent) from 1926–2006

Graph 7-3
Security Market Line versus Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, with 10th Decile Split
1926-2006



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

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

Sept.	Number of Companies
1926	52*
1930	72
1940	78
1950	100
1960	109
1970	865
1980	685
1990	1,814
2000	1,927
2005	1,746
2006	1,744

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

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

Alternative Methods of Calculating the Size Premia

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

Changing the Market Benchmark

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

For the entire period analyzed, 1926–2006, the betas obtained using the NYSE total value-weighted index are higher than those obtained using the S&P 500. Since smaller companies had higher betas using the NYSE benchmark, one would expect the size premia to shrink. However, as was illustrated in Chapter 5, the equity risk premium calculated using the NYSE deciles 1–2 benchmark results in a value of 6.41, as opposed to 7.13 when using the S&P 500. The effect of the higher betas and lower equity risk premium cancel each other out, and the resulting size premia in Table 7-9 are slightly higher than those resulting from the original study.

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

Missouri American Water Company
Indicated Common Equity Cost Rate
Through Use of a Risk Premium Model
Using an Adjusted Total Market Approach

Line No.		MIEC Witness Gorman's Eight Company Water Utility Comparable Group	MIEC Witness Gorman's Nine Company Gas Utility Comparable Group
1	Prospective Yield on Aaa Rated Corporate Bonds (1)	6.1 %	6.1 %
2	Adjustment to Reflect Yield Spread Between Aaa Rated Corporate Bonds and A Rated Public Utility Bonds	0.5 (2)	0.5 (2)
3	Adjusted Prospective Yield on A Rated Public Utility Bonds	6.6 %	6.6 %
4	Adjustment to Reflect Bond Rating Difference of Proxy Group	0.0 (3)	0.1 (4)
5	Adjusted Prospective Bond Yield	6.6	6.7
6	Equity Risk Premium (5)	4.3	4.4
7	Risk Premium Derived Common Equity Cost Rate	10.9 %	11.1 %

Notes:

(1) Derived in Note (3) on page 4 of this Schedule

(2) The average yield spread of A rated public utility bonds over Aaa rated corporate bonds of 0.53%, rounded to 0.5% from note 6 below.

(3) No adjustment necessary as the average Moody's bond rating of the proxy group is A2 as shown on page 2 of this Schedule.

(4) One-third the average spread between Moody's A and Baa rated public utility bond yields of 25 basis points to reflect the proxy group's average Moody's bond rating of A3 as shown on page 2 of this Schedule ((1/3 X 0.25% = 0.083%, rounded to 0.1% (from note 6 below)

(5) From page 3 of this Schedule

(6) Comparison of Interest Rate Trends for the Three Months for the Three Months Ended May 2007

	Corporate Bonds	Public Utility Bonds		Moody's Spread	
Months	Aaa Rated	A Rated	Baa Rated	A (Pub. Util.) over Aaa (Corp.)	Baa (Pub. Util.) over A (Pub. Util.)
March-07	5.30%	5.85%	6.10%		
April-07	5.47%	5.97%	6.24%		
May-07	5.47%	5.99%	6.23%		
Average	5.41%	5.94%	6.19%	0.53%	0.25%

Source of Information: Mergent Bond Record, June 2007, Vol 75, No 7

Missouri American Water Company
Comparison of Bond Ratings and Business Profile for
MIEC Witness Gorman's Eight Company Water Utility Comparable Group
and MIEC Witness Gorman's Nine Company Gas Utility Comparable Group

	June 2007 Moody's Bond Rating		June 2007 Standard & Poor's Bond Rating				Standard & Poor's Business Position / Profile (2)
	Bond Rating	Numerical Weighting (1)	Bond Rating	Numerical Weighting (1)	Credit Rating	Numerical Weighting (1)	
MIEC Witness Gorman's Eight Company Water Utility Comparable Group							
American States Water Co (3)	A2	6	A-	7	A-	7	3.0
Aqua America, Inc (4)	NR	--	AA-	4	A+	5	2.0
California Water Service Group (5)	A2	6	NR	--	A+	5	3.0
Connecticut Water Services, Inc (6)	NR	--	AAA	1	A	6	2.0
Middlesex Water Company	NR	--	A	6	A-	7	3.0
SJW Corporation (7)	NR	--	NR	--	NR	--	--
Southwest Water Company (8)	NR	--	NR	--	NR	--	--
York Water Company	NR	--	A-	7	A-	7	2.0
Average	A2	6.0	A+	5.0	A	6.2	2.5
MIEC Witness Gorman's Nine Company Gas Utility Comparable Group							
AGL Resources Inc. (9)	A3	7	A-	7	A-	7	3.0
Atmos Energy Corporation (10)	Baa3	10	BBB	9	BBB	9	3.0
KeySpan Corp. (11)	A2	6	A+	5	A+ / A	5.5	1.5
New Jersey Resources Corp. (12)	Aa3	4	AA-	4	A+	5	2.0
NICOR, Inc. (13)	A1	5	AA	3	AA	3	2.0
Northwest Natural Gas Company	A2	6	AA-	4	AA-	4	1.0
Piedmont Natural Gas Company, Inc	A3	7	A	6	A	6	2.0
South Jersey Industries, Inc (14)	Baa1	8	A	6	BBB+	8	2.0
WGL Holdings, Inc. (15)	A2	6	AA-	4	AA-	4	2.0
Average	A3	6.6	A+	5.3	A	5.7	2.1

Notes:
(1) From page 3 of PMA-11.
(2) From Standard & Poor's U.S. Issuer Ranking: U.S. Utility and Power Companies, Strongest to Weakest, June 22, 2007
(3) Ratings and business profile are those of Golden State Water Company
(4) Ratings and business profile are those of Aqua Pennsylvania, Inc.
(5) Ratings and business profile are those of California Water Service Company
(6) Ratings and business profile are those of Connecticut Water Company.
(7) Ratings and business position are those of San Jose Water Company.
(8) Ratings and business position are a composite of those of Hornsby Bend Utility Co., New Mexico Utilities, Inc., Suburban Water Systems, and Windermere Utility Co.
(9) Moody's ratings are those of Atlanta Gas Light Co. S&P's ratings and business profile are a composite of those of Atlanta Gas Light Co. and Pivotal Utility Holdings (formerly NUI Utilities).
(10) Moody's ratings and S&P's business profile are those of Atmos Energy Corporation S&P's ratings are a composite of those of Atmos Energy Corporation and United Cities Gas Company dba Atmos Energy Corporation.
(11) Moody's ratings and S&P's business profile are those of Atmos Energy Corporation. S&P's ratings are a composite of those of Boston Gas, Colonial Gas, EnergyNorth Natural Gas, Essex County Gas, KeySpan Energy Delivery Long Island and KeySpan Energy Delivery New York.
(12) Ratings and business profile are those of New Jersey Natural Gas Company
(13) Ratings and business profile are those of NICOR Gas Company.
(14) Ratings and business profile are those of South Jersey Natural Gas Company.
(15) Ratings and business profile are those of Washington Gas Light Company.

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

Missouri American Water Company
Judgment of Equity Risk Premium for
MIEC Witness Gorman's Eight Company Water Utility Comparable Group
and MIEC Witness Gorman's Nine Company Gas Utility Comparable Group

Line No.		MIEC Witness Gorman's Eight Company Water Utility Comparable Group	MIEC Witness Gorman's Nine Company Gas Utility Comparable Group
1.	Calculated equity risk premium based on the total market using the beta approach (1)	4.1 %	4.4 %
2.	Mean equity risk premium based on a study using the holding period returns of public utilities with A rated bonds (2)	4.4	4.4
3.	Average equity risk premium	4.3 %	4.4 %

Notes: (1) From page 4 of this Schedule.
(2) From page 8 of Schedule PMA-11.

Missouri American Water Company
Derivation of Equity Risk Premium Based on the Total Market Approach
Using the Beta for
MIEC Witness Gorman's Eight Company Water Utility Comparable Group
and MIEC Witness Gorman's Nine Company Gas Utility Comparable Group

Line No.		MIEC Witness Gorman's Eight Company Water Utility Comparable Group	MIEC Witness Gorman's Nine Company Gas Utility Comparable Group
1	Arithmetic mean total return rate on the Standard & Poor's 500 Composite Index - 1926-2006 (1)	12 3 %	12 3 %
2.	Arithmetic mean yield on Aaa and Aa Corporate Bonds 1926-2006 (2)	(6.1)	(6.1)
3.	Historical Equity Risk Premium	6.2 %	6.2 %
4	Forecasted 3-5 year Total Annual Market Return (3)	9.8 %	9 8 %
5	Prospective Yield an Aaa Rated Corporate Bonds (4)	(6.1)	(6.1)
6.	Forecasted Equity Risk Premium	3.7 %	3.7 %
7.	Average of Historical and Forecasted Equity Risk Premium (5)	5 0 %	5.0 %
8.	Adjusted Value Line Beta (6)	0.81	0.87
9	Beta Adjusted Equity Risk Premium	4.1 %	4.4 %

Notes: (1) From Stocks, Bonds, Bills and Inflation - market Results for 1926-2006 - 2007 Yearbook Valuation Edition, Morninstar, Inc , Chicago, IL, 2007

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

(3) From 3 of Schedule PMA-28.

(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 July 1, 2007 (see page 4 of Schedule PMA-28). The estimates are detailed below

Third Quarter 2007	5.9 %
Fourth Quarter 2007	6.0
First Quarter 2008	6.1
Second Quarter 2008	6.1
Third Quarter 2008	6.1
Fourth Quarter 2008	6.2
Average	6.1 %

(5) Average of the Historical Equity Risk Premium of 6 2% from Line No 3 and the Forecasted Equity Risk Premium of 3 7% from Line No 6 ((6 2% + 3.7%) / 2 = 4 95%, rounded to 5 0%

(6) From page 5 of this Schedule

Missouri American Water Company
Value Line Adjusted Betas for
MIEC Witness Gorman's Eight Company Water Utility Comparable Group
and MIEC Witness Gorman's Nine Company Gas Utility Comparable Group

	Value Line Adjusted Beta
MIEC Witness Gorman's Eight Company Water Utility Comparable Group	
American States Water Co.	0.80
Aqua America, Inc.	0.90
California Water Service Group	0.90
Connecticut Water Services, Inc.	0.90
Middlesex Water Company	0.85
SJW Corporation	0.70
Southwest Water Company	0.90
York Water Company	0.55
Average	0.81
MIEC Witness Gorman's Nine Company Gas Utility Comparable Group	
AGL Resources Inc.	0.95
Atmos Energy Corporation	0.80
KeySpan Corp.	0.85
New Jersey Resources Corp.	0.80
NICOR, Inc.	1.30
Northwest Natural Gas Company	0.75
Piedmont Natural Gas Company, Inc.	0.80
South Jersey Industries, Inc.	0.70
WGL Holdings, Inc.	0.85
Average	0.87

Source of Information: Value Line Investment Survey, June 15, 2007 and April 27, 2007
Standard Edition and Small and Mid-Cap Edition

AMER. STATES WATER NYSE-AWR

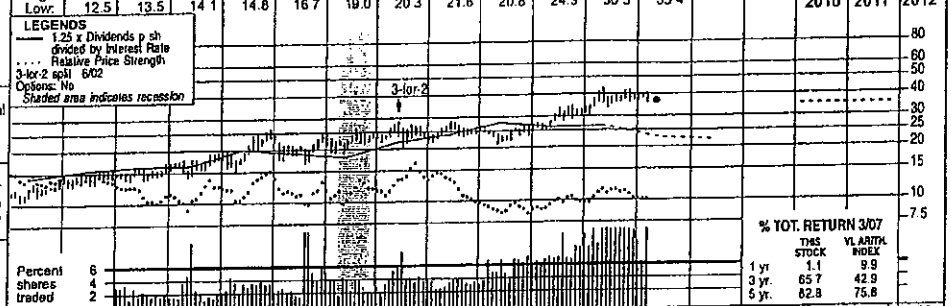
RECENT PRICE 36.70 | P/E RATIO 24.5 (Trailing: 27.6 / Median: 18.0) | RELATIVE P/E RATIO 1.26 | DIV'D YLD 2.6% | VALUE LINE

TIMELINESS 5 Lowered 12/1/06
SAFETY 3 New 2/4/00
TECHNICAL 3 Lowered 4/27/07
BETA .80 (1.00 = Market)

High:	16.1	17.1	19.5	26.5	25.3	26.4	29.0	29.0	26.8	34.6	43.8	41.1
Low:	12.5	13.5	14.1	14.8	16.7	19.0	20.3	21.6	20.8	24.3	30.3	35.4

Target Price Range 2010 | 2011 | 2012

LEGENDS
— 1.25 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 6/02
Options: No
Shaded area indicates recession



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+35%)	10%
Low	35	(-5%)	2%

Insider Decisions

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

Institutional Decisions

	2Q2006	3Q2006	4Q2006
to Buy	67	53	59
to Sell	44	55	39
Hld's(000)	8042	8361	8944

% TOT. RETURN 3/07

	THIS STOCK	VL ARITH. INDEX
1 yr.	1.1	9.9
3 yr.	65.7	42.9
5 yr.	82.8	75.8

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
9.15	10.10	9.27	10.43	11.03	11.37	11.44	11.02	12.91	12.17	13.06	13.78	13.98	13.61	14.06	16.75	15.55	15.80	Revenues per sh	17.25
1.78	1.81	1.67	1.68	1.75	1.75	1.85	2.04	2.26	2.20	2.53	2.54	2.08	2.23	2.64	2.90	3.10	3.25	"Cash Flow" per sh	3.60
1.19	1.15	1.11	.95	1.03	1.13	1.04	1.08	1.19	1.28	1.35	1.34	.78	1.05	1.32	1.33	1.55	1.65	Earnings per sh A	2.05
.73	.77	.79	.80	.81	.82	.83	.84	.85	.86	.87	.87	.88	.89	.90	.91	.94	.97	Div'd Decl'd per sh B■	1.08
2.77	2.31	1.90	2.43	2.19	2.40	2.58	3.11	4.30	3.03	3.18	2.68	3.76	5.03	4.24	3.91	3.95	3.95	Cap'l Spending per sh	4.00
8.39	8.85	9.95	10.07	10.29	11.01	11.24	11.48	11.82	12.74	13.22	14.05	13.97	15.01	15.72	16.64	17.80	19.20	Book Value per sh	22.25
9.91	9.96	11.71	11.77	11.77	13.33	13.44	13.44	13.44	15.12	15.12	15.18	15.21	16.75	16.80	17.05	18.00	19.00	Common Shs Outst'g C	22.00
8.8	10.5	13.4	12.8	11.6	12.6	14.5	15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	Bold figures are		Avg Ann'l P/E Ratio	21.0
.56	.64	.79	.84	.78	.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.47	Value Line		Relative P/E Ratio	1.40
7.0%	6.3%	5.3%	6.6%	6.7%	5.8%	5.5%	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.4%	estimates		Avg Ann'l Div'd Yield	2.5%

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		10-12
153.8	148.1	173.4	184.0	197.5	209.2	212.7	228.0	236.2	268.6	280	300	Revenues ($mill)	380
14.1	14.6	16.1	18.0	20.4	20.3	11.9	16.5	22.5	23.1	28.0	32.0	Net Profit ($mill)	45.0
41.1%	40.9%	46.0%	45.7%	43.0%	38.9%	43.5%	37.4%	47.0%	40.5%	41.0%	41.0%	Income Tax Rate	42.0%
--	--	--	--	--	--	--	--	--	--	Nil	Nil	AFUDC % to Net Profit	Nil
43.0%	43.6%	51.0%	47.5%	54.9%	52.0%	52.0%	47.7%	50.4%	48.6%	49.5%	49.0%	Long-Term Debt Ratio	49.5%
56.3%	55.7%	48.4%	51.9%	44.7%	48.0%	48.0%	52.3%	49.6%	51.4%	50.5%	51.0%	Common Equity Ratio	50.5%
268.4	277.1	328.2	371.1	447.6	444.4	442.3	480.4	532.5	551.6	635	720	Total Capital ($mill)	965
383.6	414.8	449.6	509.1	539.8	563.3	602.3	664.2	713.2	750.6	795	835	Net Plant ($mill)	975
6.9%	7.0%	6.6%	6.4%	6.1%	6.5%	4.6%	5.2%	5.4%	6.0%	6.0%	6.0%	Return on Total Cap'l	6.5%
9.2%	9.4%	10.0%	9.2%	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	8.5%	9.0%	Return on Shr. Equity	9.0%
9.2%	9.4%	10.1%	9.3%	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	8.5%	9.0%	Return on Com Equity	9.0%
1.8%	2.1%	2.9%	3.0%	3.6%	3.3%	NMF	1.0%	2.8%	2.7%	3.5%	3.5%	Retained to Com Eq	4.5%
80%	78%	72%	68%	65%	65%	113%	84%	67%	67%	60%	58%	All Div'ds to Net Prof	52%

CAPITAL STRUCTURE as of 12/31/06
Total Debt $300.4 mill. Due in 5 Yrs $3.3 mill.
LT Debt $267.8 mill. LT Interest $24.0 mill.
(LT interest earned: 3.1x; total interest coverage: 2.9x) (49% of Cap'l)

Leases, Uncapitalized: None
Pension Assets-12/06 $64.3 mill.
Oblig. $86.1 mill.
Pfd Stock None. Pfd Div'd None.

Common Stock 17,049,137 shs.
MARKET CAP: $625 million (Small Cap)

CURRENT POSITION ($MILL.)	2004	2005	12/31/06
Cash Assets	4.3	13.0	3.2
Receivables	14.3	13.3	14.8
Inventory (Avg Cst)	1.5	1.4	1.6
Other	32.9	41.2	44.8
Current Assets	53.0	68.9	64.4
Accts Payable	18.2	19.7	24.0
Debt Due	45.9	27.6	32.6
Other	22.2	30.3	29.3
Current Liab.	86.3	77.6	85.9
Fix. Chg. Cov.	246%	325%	325%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '10-'12
Revenues	3.0%	3.0%	3.0%
"Cash Flow"	3.0%	1.5%	5.5%
Earnings	--	-2.5%	9.0%
Dividends	1.0%	1.0%	3.0%
Book Value	4.0%	4.5%	6.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2004	46.7	59.3	69.0	53.0	228.0
2005	49.8	60.5	68.1	57.8	236.2
2006	60.6	62.1	73.6	66.3	268.6
2007	63.0	69.0	79.0	69.0	280
2008	67.0	75.0	85.0	73.0	300

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2004	.08	.30	.52	.15	1.05
2005	.22	.34	.47	.29	1.32
2006	.35	.36	.32	.30	1.33
2007	.35	.40	.45	.35	1.55
2008	.37	.43	.48	.37	1.65

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.221	.221	.221	.221	.88
2004	.221	.221	.221	.225	.89
2005	.225	.225	.225	.225	.90
2006	.225	.225	.225	.235	.91
2007	.235				

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to more than 250,000 customers in 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to nearly 23,250 customers in the city of Big Bear Lake and in areas of San Bernardino County. Acquired Chaparral City Water of Arizona (10/00). Has roughly 555 employees. Officers & directors own 3.1% of common stock (4/07 Proxy). Chairman: Lloyd Ross. President & CEO: Floyd Wicks. Incorporated: CA. Addr.: 630 East Foothill Boulevard, San Dimas, CA 91773. Tele.: 909-394-3600. Web: www.aswater.com.

Regulatory improvements augur well for American States Water. The California Public Utilities Commission (CPUC) is responsible for overseeing utility companies and their business practices in the Golden State. After years of handing down unfavorable decisions in a delayed fashion, it appears as though the board has taken a turn for the better. Under Governor Schwarzenegger's watch, it has employed a much more business-friendly approach, issuing more favorable decisions in much shorter time. Also, the CPUC announced that it has eliminated its earnings test on balancing account cost recovery, enabling Cal-based water utilities to recover costs even if they were earning over their allowed ROE in the district. We view these developments as positives for AWR. It has a number of GRC cases being reviewed that may well add to our current earnings estimates of $1.55 for this year and $1.65 for 2008.

There may be even more good news on the horizon. A fellow Cal water utility provider filed a general rate case last year petitioning the CPUC to enact a water revenue adjustment mechanism (RAM). If enacted, RAM would allow recovery of refund water revenues when actual sales are below adopted water sales included in the GRC assumptions. The CPUC has asked the company to refile its request, sparking speculation that the commission may back such a practice. Although the adoption of this methodology would provide significant upside to our estimates, as per *Value Line* protocol, we will not account for such until a decision is finalized.

Government contracts provide further optimism. The military has expressed its interest in outsourcing water and wastewater operations at all of its bases. American has already inked deals for a couple of these bases, and additional deals could add upside to our 3- to 5-year projections.

Still, most investors will want to take a pass on this untimely issue. We are concerned that infrastructure costs will increase at too fast a rate over the next couple of years and offset any gains we envision from the aforementioned initiatives. Therefore, the stock holds limited 3- to 5-year appreciation potential.

Andre J. Costanza *April 27, 2007*

(A) Primary earnings. Excludes nonrecurring gains: '91, 73¢; '92, 13¢; '04, 14¢; '05, 25¢; '06, 6¢. Quarterly earnings may not sum due to change in share count. Next earnings report due early May.
(B) Dividends historically paid in early March, June, September, December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for splits.

Company's Financial Strength	B++
Stock's Price Stability	75
Price Growth Persistence	85
Earnings Predictability	60

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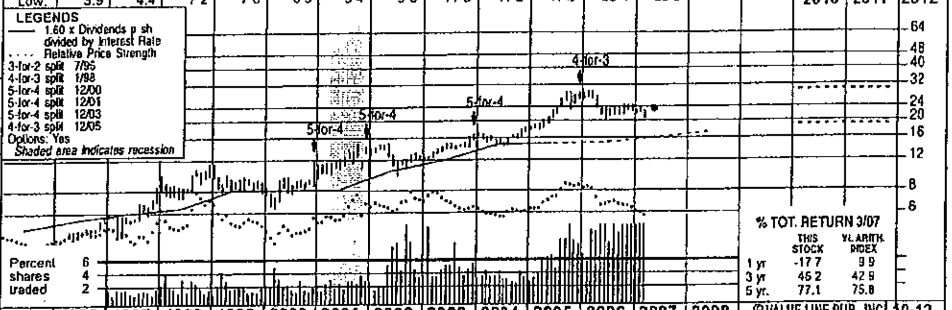
AQUA AMERICA NYSE-WTR

RECENT PRICE 23.37 | P/E RATIO 29.6 (Trailing: 30.4 Median: 21.0) | RELATIVE P/E RATIO 1.53 | DIV'D YLD 2.1% | VALUE LINE

TIMELINESS 4 Raised 3/9/07
SAFETY 3 Lowered 8/1/03
TECHNICAL 3 Lowered 12/22/05
BETA .90 (1.00 = Market)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
High:	5.7	8.5	11.5	11.5	12.0	14.8	15.0	16.8	18.5	29.2	29.8	24.0
Low:	3.9	4.4	7.2	7.6	6.3	9.4	9.6	11.8	14.2	17.5	20.1	20.5

Target Price Range 2010 | 2011 | 2012



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+30%)	9%
Low	19	(-20%)	-2%

Insider Decisions

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

Institutional Decisions

	2Q2006	3Q2006	4Q2006
to Buy	131	119	122
to Sell	105	84	91
Hld's(000)	40896	44837	51814

% TOT. RETURN 3/07

	THIS STOCK	VL ARITH. INDEX
1 yr	-17.7	9.9
3 yr	46.2	42.9
5 yr.	77.1	75.8

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
2.14	1.82	1.70	1.82	1.84	1.86	2.02	2.09	2.41	2.46	2.70	2.85	2.97	3.48	3.85	4.03	*4.35*	*4.65*	Revenues per sh	*5.35*
.45	.39	.42	.42	.47	.50	.56	.61	.72	.76	.86	.94	.96	1.09	1.21	1.26	*1.40*	*1.50*	"Cash Flow" per sh	*1.80*
.25	.24	.24	.26	.29	.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	.70	*.80*	*.90*	Earnings per sh A	*1.05*
.19	.20	.21	.21	.22	.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	.44	*.48*	*.55*	Div'd Decl'd per sh B■	*.70*
.54	.60	.47	.46	.52	.48	.58	.82	.90	1.16	1.09	1.20	1.32	1.54	1.84	2.05	*2.10*	*2.15*	Cap'l Spending per sh	*2.30*
2.07	2.09	2.29	2.41	2.46	2.69	2.84	3.21	3.42	3.85	4.15	4.36	5.34	5.89	6.30	6.96	*7.15*	*7.45*	Book Value per sh	*9.30*
41.42	51.20	59.40	59.77	63.74	65.75	67.47	72.20	106.80	111.82	113.97	113.19	123.45	127.18	128.97	132.33	*134.00*	*136.00*	Common Shs Outst'g C	*140.00*
10.8	12.5	14.4	13.5	12.0	15.6	17.8	22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	34.7	*Bold figures are*	*Value Line*	Avg Ann'l P/E Ratio	*23.0*
.69	.76	.85	.89	.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.88	*estimates*		Relative P/E Ratio	*1.55*
7.2%	6.8%	5.9%	6.0%	6.2%	4.9%	3.9%	2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.9%			Avg Ann'l Div'd Yield	*2.9%*
						136.2	151.0	257.3	275.5	307.3	322.0	367.2	442.0	496.8	533.5	*580*	*630*	Revenues ($mill)	*750*
						23.2	28.8	45.0	50.7	58.5	62.7	67.3	80.0	91.2	92.0	*105*	*120*	Net Profit ($mill)	*150*
						40.6%	40.5%	38.4%	38.9%	39.3%	38.5%	39.3%	39.4%	38.4%	39.6%	*39.5%*	*39.0%*	Income Tax Rate	*39.0%*
						--	--	--	--	--	--	--	--	2.9%	2.0%	*2.0%*	*2.0%*	AFUDC % to Net Profit	*2.0%*
						54.4%	52.7%	52.9%	52.0%	52.2%	54.2%	51.4%	50.0%	52.0%	50.8%	*51.0%*	*52.0%*	Long-Term Debt Ratio	*51.0%*
						44.8%	46.6%	46.7%	47.8%	47.7%	45.8%	48.6%	50.0%	48.0%	49.2%	*49.0%*	*48.0%*	Common Equity Ratio	*49.5%*
						427.2	496.6	782.7	901.1	990.4	1076.2	1355.7	1497.3	1690.4	1873.3	*1970*	*2110*	Total Capital ($mill)	*2550*
						534.5	609.8	1135.4	1251.4	1368.1	1490.8	1824.3	2069.8	2280.0	2506.0	*2700*	*2850*	Net Plant ($mill)	*3500*
						7.4%	7.6%	7.6%	7.4%	7.8%	7.6%	6.4%	6.7%	6.9%	6.5%	*7.0%*	*7.0%*	Return on Total Cap'l	*7.5%*
						11.9%	12.3%	12.2%	11.7%	12.3%	12.7%	10.2%	10.7%	11.2%	10.0%	*11.0%*	*11.5%*	Return on Shr. Equity	*11.5%*
						12.0%	12.4%	12.3%	11.7%	12.4%	12.7%	10.2%	10.7%	11.2%	10.0%	*11.0%*	*11.5%*	Return on Com Equity	*11.5%*
						3.6%	4.5%	4.3%	4.7%	5.1%	5.2%	4.2%	4.6%	4.9%	3.7%	*4.0%*	*4.5%*	Retained to Com Eq	*4.0%*
						70%	64%	65%	60%	59%	59%	59%	57%	56%	63%	*63%*	*64%*	All Div'ds to Net Prof	*66%*

CAPITAL STRUCTURE as of 12/31/06
Total Debt $1102.1 mill Due in 5 Yrs $143.3 mill
LT Debt $951.7 mill. LT Interest $55.0 mill
(LT interest earned: 3.6x; total interest coverage: 3.4x) (50% of Cap'l)

Pension Assets-12/06 $126.5 mill. Oblig. $178.3 mill.

Pfd Stock None

Common Stock 132,325,690 shares

MARKET CAP: $3.1 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2004	2005	12/31/06
Cash Assets	13.1	11.9	44.0
Receivables	64.5	62.7	72.1
Inventory (AvgCst)	6.9	7.8	10.2
Other	5.6	7.6	8.4
Current Assets	90.1	90.0	134.7
Accts Payable	23.5	55.5	49.4
Debt Due	135.3	163.1	150.4
Other	58.6	44.7	55.8
Current Liab.	217.4	263.3	255.6
Fix. Chg. Cov.	364%	377%	360%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '10-'12
Revenues	7.0%	8.0%	6.5%
"Cash Flow"	9.5%	9.5%	7.5%
Earnings	9.0%	8.5%	7.5%
Dividends	6.0%	6.5%	9.5%
Book Value	9.5%	11.0%	7.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	99.8	106.5	120.3	115.4	442.0
2005	114.0	123.1	136.8	122.9	496.8
2006	118.0	131.7	147.0	136.8	533.5
2007	*130*	*150*	*160*	*140*	*580*
2008	*140*	*160*	*180*	*150*	*630*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.13	.14	.20	.17	.64
2005	.15	.17	.22	.17	.71
2006	.13	.17	.21	.19	.70
2007	*.16*	*.22*	*.22*	*.20*	*.80*
2008	*.20*	*.24*	*.24*	*.22*	*.90*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.084	.084	.084	.09	.34
2004	.09	.09	.09	.098	.37
2005	.098	.098	.098	.107	.40
2006	.107	.107	.115	.115	.44
2007	.115				

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately 2.8 million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '06: residential, 60%; commercial, 14%; industrial & other, 26%. Officers and directors own 1.2% of the common stock (4/06 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com

Aqua America's results are starting to improve. After reporting weak profits for the first nine months of 2006, the company posted a 12% earnings advance in the final quarter of the year. Problems, such as higher production costs, increased short-term financing expense, poor weather, and delays in regulatory approvals, eased a bit during the quarter.

Increased rates should help lift results in the year ahead. Although one of the company's largest subsidiaries, Aqua Pennsylvania, received a substantial lift in rates in mid-2006, contributions from these adjustments should be more meaningful in 2007. In addition to the recent settlement of rate cases in Illinois and New Jersey, we expect Aqua America to receive further rate increases in 2007 and 2008.

The company will likely expand through acquisition. Aqua America completed about 28 acquisitions in 2006. The largest purchase, New York Water Services, which closed at the end of the year, helped expand the customer base considerably. More recently, the company agreed to buy Aquarian Water of Sea Cliff, Long Island. Although the acquisition strategy makes sense, it probably adds some risk. Acquired facilities can require expensive capital improvements to qualify for rate increases. Also, expenses, such as depreciation, can rise, before being fully offset by higher revenue.

We expect earnings to advance at about 6%-10% annually, on average, for the next few years. We are leaving our earnings estimate for 2007 unchanged, and are introducing an estimate of $0.90 per diluted share for 2008 at this time. The company should be able to improve efficiency at some of its recently purchased businesses. Results should also benefit from moderating chemical prices and energy utility costs.

These shares are ranked 4 (Below Average) for Timeliness. Further, our current projections indicate the issue offers little, if any, appreciation potential for the next 3 to 5 years. The dividend payout remains at about 63%, which is considerable. But the yield on this stock is not too attractive and thus offers limited downside price protection for investors.

Adam Rosner *April 27, 2007*

(A) Primary shares outstanding through '96; diluted thereafter. Excl. nonrec. gains (losses): '90, (38¢); '91, (34¢); '92, (38¢); '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from disc. operations: '96, 2¢. Next earnings report due early May. (B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount). (C) In millions, adjusted for stock splits

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	90
Earnings Predictability	100

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CALIFORNIA WATER NYSE-CWT

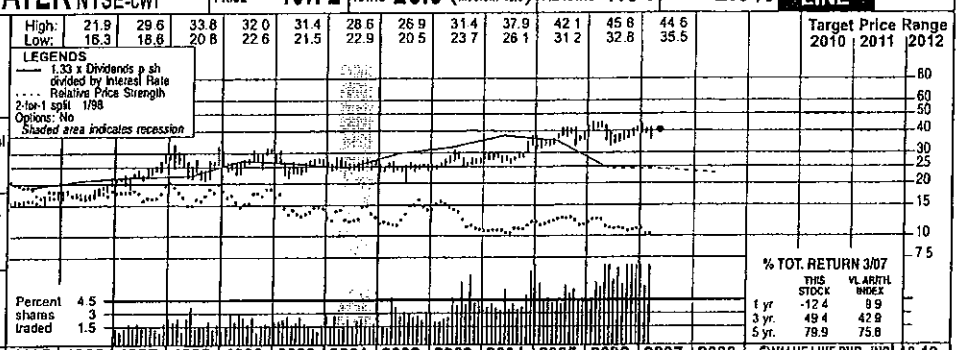
RECENT PRICE 40.72 | P/E RATIO 25.9 (Trailing: 30.4 Median: 19.0) | RELATIVE P/E RATIO 1.34 | DIV'D YLD 2.8% | VALUE LINE

TIMELINESS 5 Lowered 8/11/06
SAFETY 2 Lowered 8/11/05
TECHNICAL 3 Lowered 1/26/07
BETA .90 (1.00 = Market)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
High:	21.9	29.6	33.8	32.0	31.4	28.6	26.9	31.4	37.9	42.1	45.8	44.6
Low:	16.3	18.6	20.8	22.6	21.5	22.9	20.5	23.7	26.1	31.2	32.8	35.5

Target Price Range 2010 | 2011 | 2012

LEGENDS
— 1.33 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 1/98
Options: No
Shaded area indicates recession



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+25%)	8%
Low	40	(Nil)	2%

Insider Decisions

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

Institutional Decisions

	2Q2006	3Q2006	4Q2006
to Buy	42	35	65
to Sell	39	37	26
Hld's(000)	5714	5853	8338

Percent shares traded 4.5 3 1.5

% TOT. RETURN 3/07

	THIS STOCK	VL ARITH. INDEX
1 yr.	-12.4	9.9
3 yr.	49.4	42.9
5 yr.	79.9	75.8

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
11.18	12.29	13.34	12.59	13.17	14.48	15.48	14.76	15.96	16.16	16.26	17.33	16.37	17.18	17.44	16.20	17.40	18.15	Revenues per sh	21.30
1.98	1.92	2.25	2.02	2.07	2.50	2.92	2.60	2.75	2.52	2.20	2.65	2.51	2.83	3.03	2.76	3.20	3.45	"Cash Flow" per sh	3.90
1.21	1.09	1.35	1.22	1.17	1.51	1.83	1.45	1.53	1.31	.94	1.25	1.21	1.46	1.47	1.34	1.60	1.75	Earnings per sh A	2.15
.90	.93	.96	.99	1.02	1.04	1.06	1.07	1.09	1.10	1.12	1.12	1.12	1.13	1.14	1.15	1.16	1.17	Div'd Decl'd per sh B ■	1.20
3.03	3.09	2.53	2.26	2.17	2.83	2.61	2.74	3.44	2.45	4.09	5.82	4.39	3.73	4.01	4.28	4.35	4.50	Cap'l Spending per sh	4.35
10.35	10.51	10.90	11.56	11.72	12.22	13.00	13.38	13.43	12.90	12.95	13.12	14.44	15.66	15.79	18.31	19.05	19.55	Book Value per sh C	21.30
11.38	11.38	11.38	12.49	12.54	12.62	12.62	12.62	12.94	15.15	15.16	15.18	16.93	18.37	18.39	20.66	21.00	21.50	Common Shs Outst'g D	23.00
11.2	14.1	13.6	14.1	13.7	11.9	12.6	17.8	17.8	19.6	27.1	19.8	22.1	20.1	24.9	29.6	Bold figures are		Avg Ann'l P/E Ratio	21.0
.72	.86	.80	.92	.92	.75	.73	.93	1.01	1.27	1.39	1.08	1.26	1.06	1.33	1.57	Value Line		Relative P/E Ratio	1.40
6.6%	6.1%	5.2%	5.8%	6.4%	5.8%	4.6%	4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	3.4%	estimates		Avg Ann'l Div'd Yield	2.7%

CAPITAL STRUCTURE as of 12/31/06
Total Debt $293.6 mill. Due in 5 Yrs $11.9 mill.
LT Debt $291.8 mill. LT Interest $22.5 mill.

(LT interest earned: 3.5x; total int. cov.: 3.2x)

Pension Assets-12/06 $78.4 mill.
Oblig. $109.1 mill.
Pfd Stock $3.5 mill. Pfd Div'd $.15 mill.
139,000 shares, 4.4% cumulative ($25 par)

Common Stock 20,656,699 shs
as of 3/6/07

MARKET CAP: $850 million (Small Cap)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		10-12
195.3	186.3	206.4	244.8	246.8	263.2	277.1	315.6	320.7	334.7	365	390	Revenues ($mill)	490
23.3	18.4	19.9	20.0	14.4	19.1	19.4	26.0	27.2	25.6	35.0	40.0	Net Profit ($mill)	50.0
37.4%	36.4%	37.8%	42.3%	39.4%	39.7%	39.9%	39.6%	42.4%	39.7%	41.0%	41.0%	Income Tax Rate	41.0%
--	--	--	--	--	--	10.3%	3.2%	3.3%	--	Nil	Nil	AFUDC % to Net Profit	Nil
45.4%	44.2%	46.9%	48.9%	50.3%	55.3%	50.2%	48.6%	48.3%	43.3%	44.5%	46.5%	Long-Term Debt Ratio	48.5%
53.5%	54.7%	52.0%	50.2%	48.8%	44.0%	48.1%	50.8%	51.1%	56.2%	55.0%	53.0%	Common Equity Ratio	51.0%
306.7	308.6	333.8	388.8	402.7	453.1	498.4	565.9	568.1	673.6	730	790	Total Capital ($mill)	965
460.4	478.3	515.4	582.0	624.3	697.0	759.5	800.3	862.7	941.5	1000	1060	Net Plant ($mill)	1240
9.4%	7.8%	7.8%	6.8%	5.3%	5.9%	5.6%	6.1%	6.3%	5.2%	6.5%	6.5%	Return on Total Cap'l	7.0%
13.9%	10.7%	11.2%	10.0%	7.2%	9.4%	7.8%	8.9%	9.3%	6.7%	8.5%	9.5%	Return on Shr. Equity	10.0%
14.1%	10.8%	11.4%	10.1%	7.2%	9.5%	7.9%	9.0%	9.3%	6.8%	8.5%	9.5%	Return on Com Equity	10.0%
6.0%	2.8%	3.5%	1.8%	NMF	1.0%	.7%	2.1%	2.1%	.5%	2.5%	3.5%	Retained to Com Eq	4.5%
58%	74%	70%	82%	119%	90%	91%	77%	78%	93%	70%	63%	All Div'ds to Net Prof	55%

CURRENT POSITION ($MILL.)	2004	2005	12/31/06
Cash Assets	18.8	9.5	60.3
Other	51.6	42.7	49.3
Current Assets	70.4	52.2	109.6
Accts Payable	19.8	36.1	33.1
Debt Due	1.1	1.1	1.8
Other	36.3	39.6	35.3
Current Liab	57.2	76.8	70.2
Fix. Chg. Cov.	338%	361%	317%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '10-'12
Revenues	2.5%	1.5%	3.5%
"Cash Flow"	3.0%	1.5%	5.0%
Earnings	1.0%	-0.5%	6.5%
Dividends	1.5%	1.0%	1.0%
Book Value	3.0%	3.0%	5.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	60.2	88.9	97.1	69.4	315.6
2005	60.3	81.5	101.1	77.8	320.7
2006	65.2	81.1	107.8	80.6	334.7
2007	70.0	90.0	120	85.0	365
2008	75.0	97.0	128	90.0	390

Cal-endar	EARNINGS PER SHARE A E Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.08	.59	.59	.20	1.46
2005	.03	.41	.71	.32	1.47
2006	.04	.31	.68	.31	1.34
2007	.08	.42	.76	.34	1.60
2008	.10	.45	.82	.38	1.75

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.281	.281	.281	.281	1.12
2004	.283	.283	.283	.283	1.13
2005	.285	.285	.285	.285	1.14
2006	.2875	.2875	.2875	.2875	1.15
2007	.290				

BUSINESS: California Water Service Group provides regulated and nonregulated water service to over 2 million people (483,900 customers) in 83 communities in California, Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired National Utility Company (5/04); Rio Grande Corp. (11/00). Revenue breakdown, '06: residential, 70%; business, 18%; public authorities, 5%; industrial, 5%; other, 2%. '06 reported deprec. rate: 3.3%. Has roughly 870 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson. Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwater.com.

California Water Service Group appears poised for a strong bottom-line rebound this year. Although the water utility provider had some trouble in 2006, we expect better weather conditions, especially in the first half of the year, to help it bounce back. Meanwhile, there are better regulatory practices in play now. The California Public Utilities Commission (CPUC), which is responsible for maintaining a balance between consumers and Cal-based utilities, recently awarded CWT an allowed ROE of 10.2% on its general rate case regarding 24 districts. The ruling was in line with what we expected and points to an improving regulatory environment in the state. This augurs well for the company's prospects, as it submits a general rate case to recover higher non-operational costs for eight of its districts every three years, and has a few cases currently being reviewed. Against this backdrop, we look for CWT to post share earnings of $1.60 this year, representing a 19% gain.

Further regulatory improvements should boost 2008 earnings. Given the CPUC's more business-friendly nature, there is a good chance that the board will enact some of the reformations proposed in the Water Action Plan that are on the table. A decision is expected in the second half of this year. We are introducing a 2008 share-net estimate of $1.75.

Capital constraints remain a problem, though. CWT is making heavy investments in its current systems. Indeed, capital expenditures have increased significantly in recent years and are likely to remain high for the foreseeable future. Unfortunately, it does not have enough cash on hand to foot the bill, making additional stock and debt offerings necessary.

Growth-minded investors will want to look elsewhere. The stock is ranked 5 (Lowest) for Timeliness and offers limited 3- to 5-year appreciation potential, given its financing problems.

That said, those looking for a steady stream of income may like what they see. Despite its capital constraints, CWT recently raised its annual dividend, marking the 40th consecutive year of increase. Although there are higher-yielding instruments out there, CWT's 2 (Above Average) Safety rank adds appeal.

Andre J. Costanza *April 27, 2007*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; 02, 8¢. Next earnings report due early May.
(B) Dividends historically paid in mid-Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available.
(C) Incl. deferred charges. In '06: $69.5 mill., $3.36/sh.
(D) In millions, adjusted for split.
(E) May not total due to change in shares.

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

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CONN. WATER SERVICES NDQ--CTWS

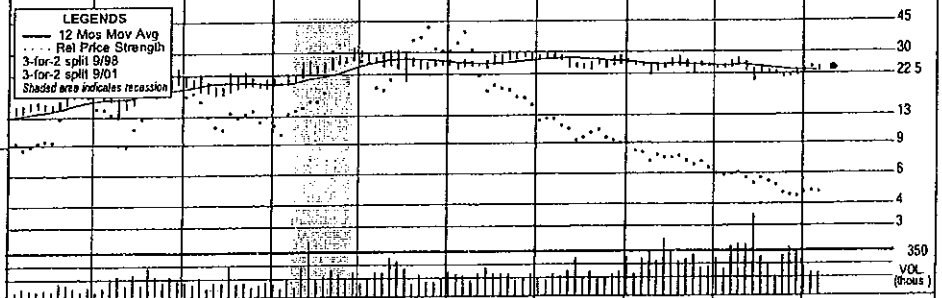
RECENT PRICE	TRAILING P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
24.25	29.9	1.46	3.5%	

19.00	24.67	23.50	32.21	31.09	30.41	29.76	28.17	27.71	25.09	High
13.33	12.67	17.00	19.50	20.35	24.00	23.83	21.91	20.29	22.52	Low

RANKS

PERFORMANCE 2 Above Average
Technical 3 Average
SAFETY 3 Average
BETA .90 (1.00 = Market)

Financial Strength B+
Price Stability 75
Price Growth Persistence 55
Earnings Predictability 80



© VALUE LINE PUBLISHING, INC.	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007/2008
SALES PER SH	5.58	5.87	5.70	5.93	5.77	5.91	6.04	5.81	5.68	
"CASH FLOW" PER SH	1.59	1.65	1.73	1.78	1.78	1.89	1.91	1.62	1.52	
EARNINGS PER SH	1.02	1.03	1.09	1.13	1.12	1.15	1.16	.88	.81	*1.05 A,B/1.15 C*
DIV'DS DECL'D PER SH	.78	.79	.79	.80	.81	.83	.84	.85	.86	
CAP'L SPENDING PER SH	1.12	1.42	1.43	1.86	1.98	1.49	1.58	1.96	1.96	
BOOK VALUE PER SH	8.52	8.61	8.92	9.25	10.06	10.46	10.94	11.52	11.60	
COMMON SHS OUTST'G (MILL)	6.80	7.26	7.28	7.65	7.94	7.97	8.04	8.17	8.27	
AVG ANN'L P/E RATIO	15.5	18.2	18.2	21.5	24.3	23.5	22.9	28.6	29.1	*23.1/21.1*
RELATIVE P/E RATIO	.81	1.04	1.18	1.10	1.33	1.34	1.21	1.51	1.57	
AVG ANN'L DIV'D YIELD	4.9%	4.2%	4.0%	3.3%	3.0%	3.0%	3.1%	3.4%	3.6%	
SALES ($MILL.)	37.9	42.6	41.5	45.4	45.8	47.1	48.5	47.5	46.9	*Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.*
OPERATING MARGIN	46.2%	48.7%	48.8%	56.1%	57.7%	52.1%	51.0%	48.3%	43.7%	
DEPRECIATION ($MILL.)	3.9	4.5	4.7	5.0	5.4	5.9	6.0	6.1	5.9	
NET PROFIT ($MILL.)	7.0	7.5	8.0	8.7	8.8	9.2	9.4	7.2	6.7	
INCOME TAX RATE	34.3%	40.1%	35.7%	36.1%	33.8%	17.9%	22.9%	--	23.5%	
NET PROFIT MARGIN	18.4%	17.6%	19.2%	19.1%	19.2%	19.5%	19.4%	15.1%	14.3%	
WORKING CAP'L ($MILL.)	d3.7	d3.8	.3	d3.3	d5.1	d3.9	d.7	13.0	1.2	
LONG-TERM DEBT ($MILL.)	62.5	65.4	64.7	64.0	64.8	64.8	66.4	77.4	77.3	
SHR. EQUITY ($MILL.)	58.7	63.3	65.7	71.6	80.7	84.2	88.7	94.9	96.7	
RETURN ON TOTAL CAP'L	7.3%	7.4%	7.6%	7.9%	7.4%	7.5%	7.0%	5.0%	4.9%	
RETURN ON SHR. EQUITY	11.9%	11.8%	12.1%	12.1%	10.9%	10.9%	10.6%	7.5%	6.9%	
RETAINED TO COM EQ	2.8%	3.1%	3.2%	3.6%	3.1%	3.2%	3.1%	3%	NMF	
ALL DIV'DS TO NET PROF	76%	74%	74%	71%	72%	71%	71%	95%	105%	

A No. of analysts changing earn. est. in last 14 days: 0 up, 0 down, consensus 5-year earnings growth 10.0% per year. B Based upon one analyst's estimate. C Based upon one analyst's estimate.

ANNUAL RATES

of change (per share)	5 Yrs.	1 Yr.
Sales	--	-2.5%
"Cash Flow"	-0.5%	-6.0%
Earnings	-2.5%	-5.0%
Dividends	1.0%	1.0%
Book Value	5.0%	0.5%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/04	10.9	12.0	13.9	11.7	48.5
12/31/05	10.9	11.0	14.1	11.5	47.5
12/31/06	10.5	11.4	13.3	11.7	46.9
12/31/07					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/03	.26	.15	.48	.26	1.15
12/31/04	.24	.26	.47	.19	1.16
12/31/05	.24	.15	.41	.08	.88
12/31/06	.21	.12	.45	.03	.81
12/31/07	.22	.23	.36		

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2004	.208	.208	.21	.21	.84
2005	.21	.21	.213	.213	.85
2006	.213	.213	.215	.215	.86
2007	.215				

INSTITUTIONAL DECISIONS

	2Q'06	3Q'06	4Q'06
to Buy	14	11	18
to Sell	18	19	12
Hld's(000)	1462	1253	1318

ASSETS ($mill.)	2004	2005	12/31/06
Cash Assets	.7	4.4	1.4
Receivables	9.8	5.9	9.5
Inventory (Avg cost)	.9	.9	.9
Other	3.9	14.9	2.4
Current Assets	15.3	26.1	14.2
Property, Plant & Equip, at cost	344.5	345.0	370.5
Accum Depreciation	98.4	97.3	102.4
Net Property	246.1	247.7	268.1
Other	29.5	32.2	32.9
Total Assets	290.9	306.0	315.2
LIABILITIES ($mill.)			
Accts Payable	5.5	4.8	6.0
Debt Due	6.0	7.1	5.3
Other	4.4	1.3	1.7
Current Liab	15.9	13.2	13.0

LONG-TERM DEBT AND EQUITY as of 12/31/06

Total Debt $82.6 mill. Due in 5 Yrs. $5.3 mill.
LT Debt $77.3 mill.
Including Cap. Leases None (44% of Cap'l)

Leases, Uncapitalized Annual rentals $.3 mill.

Pension Liability None in '06 vs. None in '05

Pfd Stock $.8 mill. Pfd Div'd Paid NMF

Common Stock 8,270,394 shares (56% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: Connecticut Water Services, Inc. primarily operates as a water utility company in Connecticut. It operates through three segments: Water Activities, Real Estate Transactions, and Services and Rentals. The Water Activities segment supplies public drinking water to its customers. The Real Estate Transactions segment is involved in the sale of its limited excess real estate holdings. The Services and Rentals segment provides contracted services to water and wastewater utilities and other clients, as well as leases certain of its properties to third parties. This segment's services include contract operations of water and wastewater facilities; Linebacker, its service line protection plan for public drinking water customers; and provision of bulk deliveries of emergency drinking water to businesses and residences via tanker truck. As of March 19, the company provided water to approximately 83,000 or 286,000 customers in 41 towns in Connecticut. Has about 200 employees. Chairman: Marshall T. Chiaraluce. Inc.: CT. Address: 93 West Main Street, Clinton, CT 06413. Tel.: (860) 669-8636. Internet: http://www.ctwater.com.

A Z

April 27, 2007

TOTAL SHAREHOLDER RETURN
Dividends plus appreciation as of 3/31/2007

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
6.66%	10.97%	-4.83%	-6.21%	3.39%

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MIDDLESEX WATER NDQ--MSEX

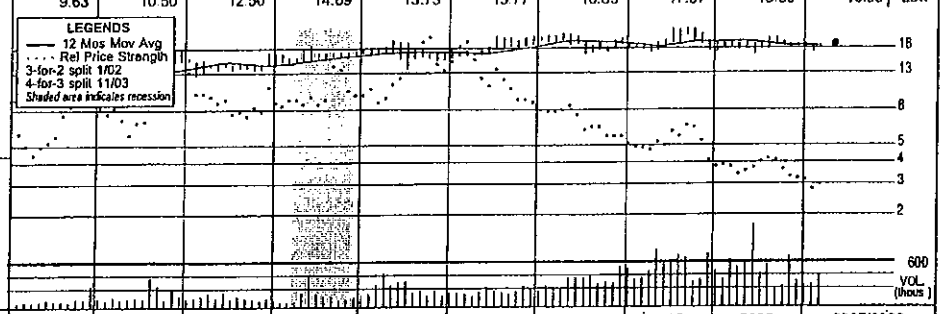
RECENT PRICE 18.95 | TRAILING P/E RATIO 23.1 | RELATIVE P/E RATIO 1.13 | DIV'D YLD Nil | VALUE LINE

	12.88	19.75	16.97	18.73	20.04	21.23	21.81	23.47	20.50	19.07 High
	9.63	10.50	12.50	14.69	13.73	15.77	16.65	17.07	16.50	16.93 Low

RANKS

PERFORMANCE	4	Below Average
Technical	3	Average
SAFETY	3	Average
BETA .85	(1.00 = Market)	

LEGENDS
— 12 Mos Mov Avg
.... Rel Price Strength
3-for-2 split 1/02
4-for-3 split 11/03
Shaded area indicates recession



Financial Strength	B+
Price Stability	80
Price Growth Persistence	60
Earnings Predictability	70

© VALUE LINE PUBLISHING, INC.	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007/2008
SALES PER SH	4.39	5.35	5.39	5.87	5.98	6.12	6.25	6.44	6.16	
"CASH FLOW" PER SH	1.02	1.19	.99	1.18	1.20	1.15	1.28	1.33	1.33	
EARNINGS PER SH	.71	.76	.51	.66	.73	.61	.73	.71	.82	.86 A,B/.88 C
DIV'DS DECL'D PER SH	.58	.60	.61	.62	.63	.65	.66	.67	.68	
CAP'L SPENDING PER SH	2.68	2.33	1.32	1.25	1.59	1.87	2.54	2.18	2.31	
BOOK VALUE PER SH	6.80	6.95	6.98	7.11	7.39	7.60	8.38	8.60	9.82	
COMMON SHS OUTST'G (MILL.)	9.82	10.00	10.11	10.17	10.36	10.48	11.36	11.58	13.17	
AVG ANN'L P/E RATIO	15.2	17.6	28.7	24.6	23.5	30.0	26.4	27.4	22.7	22.0/21.5
RELATIVE P/E RATIO	.79	1.00	1.87	1.26	1.28	1.71	1.39	1.45	1.23	
AVG ANN'L DIV'D YIELD	5.4%	4.4%	4.2%	3.8%	3.7%	3.5%	3.4%	3.5%	3.7%	
SALES ($MILL.)	43.1	53.5	54.5	59.6	61.9	64.1	71.0	74.6	81.1	Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.
OPERATING MARGIN	37.0%	33.9%	32.2%	47.2%	47.1%	44.0%	44.4%	44.4%	47.4%	
DEPRECIATION ($MILL.)	3.8	4.3	4.9	5.3	5.0	5.6	6.4	7.2	7.8	
NET PROFIT ($MILL.)	6.5	7.9	5.3	7.0	7.8	6.6	8.4	8.5	10.0	
INCOME TAX RATE	31.5%	28.8%	33.1%	34.8%	33.3%	32.8%	31.1%	27.6%	33.4%	
NET PROFIT MARGIN	15.1%	14.7%	9.7%	11.7%	12.5%	10.3%	11.9%	11.4%	12.4%	
WORKING CAP'L ($MILL.)	14.6	6.8	d2.7	d.9	d9.3	d13.3	d11.8	d4.5	2.8	
LONG-TERM DEBT ($MILL.)	78.0	82.3	81.1	88.1	87.5	97.4	115.3	128.2	130.7	
SHR. EQUITY ($MILL.)	71.7	74.6	74.7	76.4	80.6	83.7	99.2	103.6	133.3	
RETURN ON TOTAL CAP'L	5.7%	6.4%	4.9%	5.6%	6.0%	5.0%	5.1%	5.0%	5.1%	
RETURN ON SHR. EQUITY	9.1%	10.6%	7.1%	9.1%	9.6%	7.9%	8.5%	8.2%	7.5%	
RETAINED TO COM EQ	1.8%	2.5%	NMF	.5%	1.3%	NMF	.9%	.5%	1.2%	
ALL DIV'DS TO NET PROF	81%	78%	121%	94%	87%	106%	90%	94%	84%	

A No. of analysts changing earn. est. in last 14 days: 0 up, 0 down, consensus 5-year earnings growth 8.0% per year. B Based upon 2 analysts' estimates. C Based upon one analyst's estimate.

ANNUAL RATES

of change (per share)	5 Yrs.	1 Yr.
Sales	2.5%	-4.5%
"Cash Flow"	3.5%	0.5%
Earnings	3.5%	15.5%
Dividends	2.0%	1.5%
Book Value	5.0%	14.5%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/04	15.9	17.8	19.8	17.5	71.0
12/31/05	16.7	18.4	20.8	18.7	74.6
12/31/06	18.2	21.0	22.6	19.3	81.1
12/31/07					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/03	.11	.17	.22	.11	.61
12/31/04	.09	.16	.29	.19	.73
12/31/05	.12	.16	.26	.17	.71
12/31/06	.15	.25	.28	.14	.82
12/31/07	.14	.24	.30		

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2004	.165	.165	.165	.168	.66
2005	.168	.168	.168	.17	.67
2006	.17	.17	.17	.173	.68
2007	.173				

INSTITUTIONAL DECISIONS

	2Q'05	3Q'06	4Q'06
to Buy	15	17	21
to Sell	20	22	14
Hld's(000)	1771	1544	2182

ASSETS ($mill.)	2004	2005	12/31/06
Cash Assets	4.0	3.0	5.8
Receivables	9.9	11.8	12.6
Inventory (Avg cost)	1.2	1.3	1.3
Other	.9	.9	1.2
Current Assets	16.0	17.0	20.9
Property, Plant & Equip. at cost	314.9	343.0	376.8
Accum Depreciation	52.0	55.0	59.7
Net Property	262.9	288.0	317.1
Other	26.7	19.4	32.3
Total Assets	305.6	324.4	370.3
LIABILITIES ($mill.)			
Accts Payable	6.0	6.0	5.5
Debt Due	12.1	5.9	2.5
Other	9.7	9.6	10.1
Current Liab	27.8	21.5	18.1

LONG-TERM DEBT AND EQUITY as of 12/31/06

Total Debt $133.2 mill. Due in 5 Yrs. $13.5 mill.
LT Debt $130.7 mill.
Including Cap. Leases None
(50% of Cap'l)

Leases, Uncapitalized Annual rentals None

Pension Liability $16.4 mill. in '06 vs. $6.7 mill. in '05

Pfd Stock $4.0 mill. Pfd Div'd Paid $.2 mill.
(1% of Cap'l)

Common Stock 13,168,081 shares
(49% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey and Delaware, as well as a regulated wastewater utility in New Jersey. It offers contract operations services and a service line maintenance program through its nonregulated subsidiary, Utility Service Affiliates, Inc. The company's water utility system treats, stores, and distributes water for residential, commercial, industrial, and fire prevention purposes. Under a special contract, it also provides water treatment and pumping services to the Township of East Brunswick. Middlesex Water's other New Jersey subsidiaries offer water and wastewater services to residents in Southampton Township. The company's Delaware subsidiaries, Tidewater Utilities, Inc.; Southern Shores Water Company, LLC; and Tidewater Environmental Services, Inc.; offer water services to retail customers in New Castle, Kent, and Sussex counties. Has 243 employees. Chairman: J. Richard Tompkins. Inc.: NJ. Address: 1500 Ronson Road, P.O. Box 1500, Iselin, NJ 08830. Tel.: (732) 634-1500. Internet: http://www.middlesexwater.com.

A.Z.

April 27, 2007

TOTAL SHAREHOLDER RETURN
Dividends plus appreciation as of 3/31/2007

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
-1.82%	-3.47%	-0.24%	-2.04%	24.04%

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SJW CORP. NYSE-SJW

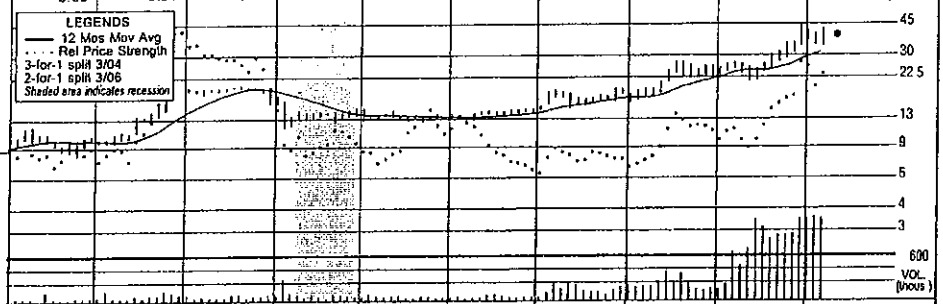
RECENT PRICE 39.26 | TRAILING P/E RATIO 33.0 | RELATIVE P/E RATIO 1.61 | DIV'D YLD 1.5% | VALUE LINE

	11.92	20.17	20.33	17.83	15.07	14.95	19.64	27.80	45.33	43.00 High
	8.08	9.54	15.83	11.58	12.67	12.57	14.60	16.07	21.16	33.55 Low

RANKS

PERFORMANCE 3 Average
Technical 3 Average
SAFETY 3 Average
BETA .70 (1.00 = Market)

Financial Strength B++
Price Stability 75
Price Growth Persistence 80
Earnings Predictability 70



© VALUE LINE PUBLISHING, INC.	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007/2008
SALES PER SH	5.58	6.40	6.74	7.45	7.97	8.20	9.14	9.86	10.35	
"CASH FLOW" PER SH	1.26	1.43	1.23	1.49	1.55	1.75	1.89	2.21	2.38	
EARNINGS PER SH	.76	.87	.58	.77	.78	.91	.87	1.12	1.19	*1.41 A,B/1.49 C*
DIV'DS DECL'D PER SH	.39	.40	.41	.43	.46	.49	.51	.53	.57	
CAP'L SPENDING PER SH	1.81	1.77	1.89	2.63	2.06	3.41	2.31	2.83	3.87	
BOOK VALUE PER SH	7.53	7.88	7.90	8.17	8.40	9.11	10.11	10.72	12.48	
COMMON SHS OUTST'G (MILL)	19.01	18.27	18.27	18.27	18.27	18.27	18.27	18.27	18.28	
AVG ANN'L P/E RATIO	13.1	15.5	33.1	18.5	17.3	15.4	19.6	19.7	23.5	*27.8/26.3*
RELATIVE P/E RATIO	.68	.88	2.15	.95	.94	.88	1.04	1.04	1.27	
AVG ANN'L DIV'D YIELD	3.9%	3.0%	2.1%	3.0%	3.4%	3.5%	3.0%	2.4%	2.0%	
SALES ($MILL.)	106.0	117.0	123.2	136.1	145.7	149.7	166.9	180.1	189.2	*Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.*
OPERATING MARGIN	36.0%	33.2%	30.2%	64.4%	63.7%	56.0%	56.4%	55.9%	57.0%	
DEPRECIATION ($MILL.)	9.6	10.2	11.9	13.2	14.0	15.2	18.5	19.7	21.3	
NET PROFIT ($MILL)	14.4	15.9	10.7	14.0	14.2	16.7	16.0	20.7	22.2	
INCOME TAX RATE	40.2%	35.9%	41.0%	34.5%	40.4%	36.2%	42.1%	41.6%	40.8%	
NET PROFIT MARGIN	13.6%	13.6%	8.7%	10.3%	9.8%	11.2%	9.6%	11.5%	11.7%	
WORKING CAP'L ($MILL.)	9.4	d3.0	d11.4	d3.8	d4.8	12.0	13.0	10.8	22.2	
LONG-TERM DEBT ($MILL)	90.0	90.0	90.0	110.0	110.0	139.6	143.6	145.3	163.6	
SHR. EQUITY ($MILL)	143.2	143.9	144.3	149.4	153.5	166.4	184.7	195.9	228.2	
RETURN ON TOTAL CAP'L	7.4%	8.2%	5.9%	6.7%	6.9%	6.9%	6.5%	7.6%	7.0%	
RETURN ON SHR. EQUITY	10.1%	11.0%	7.4%	9.4%	9.3%	10.0%	8.7%	10.6%	9.7%	
RETAINED TO COM EQ	4.9%	5.9%	2.2%	4.1%	3.8%	4.7%	3.6%	5.6%	5.2%	
ALL DIV'DS TO NET PROF	52%	46%	70%	56%	59%	53%	58%	47%	46%	

[A] *No. of analysts changing earn. est. in last 14 days: 0 up, 0 down, consensus 5-year earnings growth 10.0% per year.* [B] *Based upon one analyst's estimate.* [C] *Based upon one analyst's estimate*

ANNUAL RATES

of change (per share)	5 Yrs.	1 Yr.
Sales	7.5%	5.0%
"Cash Flow"	9.5%	7.5%
Earnings	7.5%	6.0%
Dividends	5.5%	6.5%
Book Value	7.0%	16.5%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/04	31.1	45.6	52.3	37.9	166.9
12/31/05	33.3	44.8	58.5	43.5	180.1
12/31/06	33.7	47.9	63.1	44.5	189.2
12/31/07					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/03	.18	.24	.33	.16	.91
12/31/04	.09	.27	.30	.21	.87
12/31/05	.15	.31	.53	.13	1.12
12/31/06	.14	.35	.48	.22	1.19
12/31/07	*.20*	*.37*			

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2004	.128	.128	.128	.128	.51
2005	.134	.134	.134	.134	.54
2006	.141	.141	.141	.141	.56
2007	.151				

INSTITUTIONAL DECISIONS

	2Q'06	3Q'06	4Q'06
to Buy	31	34	33
to Sell	27	24	22
Hld's(000)	6941	7001	7341

ASSETS ($mill.)	2004	2005	12/31/06
Cash Assets	10.9	9.4	3.8
Receivables	14.6	18.4	20.9
Inventory	.6	.6	.9
Other	2.3	3.3	33.9
Current Assets	28.4	31.7	59.5
Property, Plant & Equip, at cost	646.9	695.0	776.2
Accum Depreciation	190.1	210.2	234.5
Net Property	456.8	484.8	541.7
Other	67.0	71.2	104.7
Total Assets	552.2	587.7	705.9
LIABILITIES ($mill.)			
Accts Payable	.9	5.1	7.3
Debt Due	.3	.3	16.0
Other	14.2	15.5	13.9
Current Liab	15.4	20.9	37.2

LONG-TERM DEBT AND EQUITY as of 12/31/06

Total Debt $179.6 mill. Due in 5 Yrs. $21.7 mill.
LT Debt $163.6 mill.
Including Cap. Leases None (42% of Cap'l)

Leases, Uncapitalized Annual rentals None

Pension Liability $26.3 mill. in '06 vs. $13.2 mill. in '05

Pfd Stock None Pfd Div'd Paid None

Common Stock 18,281,769 shares (58% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: SJW Corp. operates as the holding company for San Jose Water Company (SJWC), SJW Land Company, Crystal Choice Water Service LLC, and SJWTX Water, Inc. SJWC produces, purchases, stores, purifies, distributes, and sells water. It provides water service to customers in Cupertino, San Jose, Campbell, Monte Sereno, Saratoga, the Town of Los Gatos, and in the county of Santa Clara, California. SJWC also provides nonregulated water-related services, including water system operations, billings, and cash remittance services. SJW Land owns and operates parking facilities in San Jose, California, as well as owns commercial buildings and other undeveloped land primarily in the San Jose Metropolitan area, some properties in the states of Florida, Texas, and Connecticut, and a 70% limited partnership interest in 444 West Santa Clara Street, L.P. Crystal Choice sells and rents water conditioning and purification equipment. Has 357 employees. Chairman: Drew Gibson. Inc.: CA. Address: 374 West Santa Clara Street, San Jose, CA 95113. Tel.: (408) 279-7800. Internet: http://www.sjwater.com.

A.Z

April 27, 2007

TOTAL SHAREHOLDER RETURN
Dividends plus appreciation as of 3/31/2007

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
4.84%	36.48%	53.69%	151.41%	241.70%

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SOUTHWEST WATER NDQ-SWWC

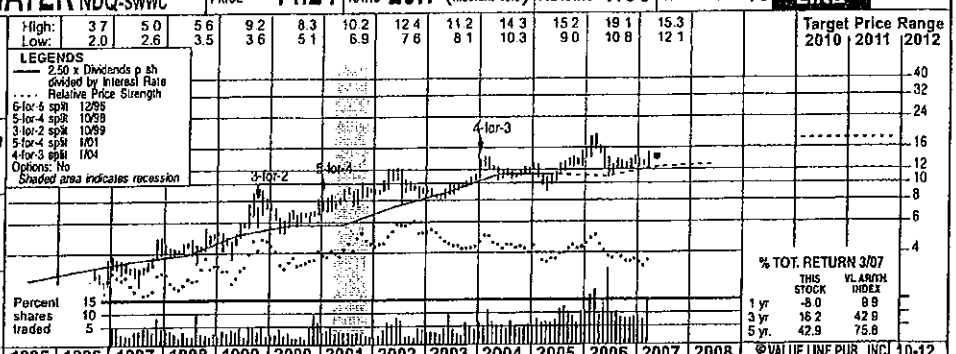
RECENT PRICE 14.24 | P/E RATIO 29.7 (Trailing: 35.6 Median: 19.0) | RELATIVE P/E RATIO 1.53 | DIV'D YLD 1.7% | VALUE LINE

TIMELINESS 3 Raised 3/30/07
SAFETY 3 New 10/28/05
TECHNICAL 3 Lowered 2/16/07
BETA .90 (1.00 = Market)

High:	3.7	5.0	5.6	9.2	8.3	10.2	12.4	11.2	14.3	15.2	19.1	15.3
Low:	2.0	2.6	3.5	3.6	5.1	6.9	7.6	8.1	10.3	9.0	10.8	12.1

Target Price Range 2010 | 2011 | 2012

LEGENDS
— 2.50 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
6-for-5 split 12/95
5-for-4 split 10/98
3-for-2 split 10/99
5-for-4 split 1/01
4-for-3 split 1/04
Options: No
Shaded area indicates recession



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	18	(+25%)	8%
Low	12	(-15%)	-1%

Insider Decisions

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

Institutional Decisions

	2Q2006	3Q2006	4Q2006
to Buy	33	30	40
to Sell	32	20	16
Hld's(000)	8415	9034	10780

% TOT. RETURN 3/07

	THIS STOCK	VL ARITH. INDEX
1 yr.	-8.0	8.9
3 yr.	16.2	42.9
5 yr.	42.9	75.8

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
3.34	3.77	4.03	4.20	4.84	5.31	5.61	5.63	6.16	7.49	8.15	9.12	10.70	9.23	9.10	9.42	9.60	10.00	Revenues per sh	11.00
.28	.44	.38	.38	.44	.46	.53	.59	.65	.76	.87	.86	.91	.67	.76	.85	.95	1.05	"Cash Flow" per sh	1.35
.02	.19	.08	.09	.12	.15	.21	.25	.31	.38	.42	.39	.44	.23	.34	.40	.45	.50	Earnings per sh A	.70
.18	.18	.14	.08	.08	.09	.09	.10	.11	.13	.14	.15	.16	.18	.20	.21	.24	.26	Div'd Decl'd per sh B	.34
.39	.42	.60	.72	.84	.95	.74	.79	.53	.55	1.06	1.78	1.14	1.26	1.66	1.87	1.90	1.95	Cap'l Spending per sh	2.05
2.41	2.42	2.31	2.31	2.45	2.40	2.52	2.70	3.05	3.44	3.84	4.27	4.90	6.17	6.49	6.98	7.60	8.45	Book Value per sh D	10.50
11.60	11.80	11.97	12.13	11.74	12.45	12.65	12.83	13.12	13.99	14.17	14.35	16.17	20.36	22.33	23.80	25.00	26.00	Common Shs Outst'g C	30.00
NMF	14.5	35.8	22.3	14.6	16.5	16.9	17.2	19.6	17.0	19.6	24.8	21.2	51.6	35.5	34.8	Bold figures are		Avg Ann'l P/E Ratio	21.0
NMF	.88	2.11	1.46	.98	1.03	.97	.69	1.12	1.11	1.01	1.35	1.21	2.73	1.89	1.88	Value Line		Relative P/E Ratio	1.40
5.5%	6.6%	4.7%	4.2%	4.7%	3.4%	2.7%	2.3%	1.8%	2.0%	1.7%	1.5%	1.7%	1.5%	1.6%	1.5%	estimates		Avg Ann'l Div'd Yield	2.3%

CAPITAL STRUCTURE as of 12/31/06
Total Debt $130.0 mill. Due in 5 Yrs $41.0 mill.
LT Debt $128.6 mill. LT Interest $8.0 mill.
(Total interest coverage: 2.7x) (44% of Cap'l)

Leases, Uncapitalized: Annual rentals $6.7 mill.
Pension Liability None

Pfd Stock $.458 mill. Pfd Div'd $.024 mill.

Common Stock 23,802,000 shs.

MARKET CAP: $350 million (Small Cap)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		10-12
71.0	72.2	80.9	104.7	115.5	130.8	173.0	188.0	203.2	224.2	240	260	Revenues ($mill)	330
2.6	3.4	4.2	5.4	6.2	6.0	7.2	4.5	7.3	9.4	12.0	14.0	Net Profit ($mill)	22.0
41.6%	39.5%	39.0%	37.0%	36.0%	34.9%	35.9%	35.1%	36.0%	35.0%	36.0%	36.0%	Income Tax Rate	35.5%
--	--	--	--	14.4%	3.2%	--	11.0%	9.5%	12.5%	11.5%	12.0%	AFUDC % to Net Profit	12.5%
47.9%	48.7%	45.2%	48.6%	51.4%	56.7%	47.9%	47.9%	44.7%	43.6%	44.0%	44.0%	Long-Term Debt Ratio	43.5%
51.3%	50.5%	54.1%	50.7%	48.2%	42.9%	51.8%	52.0%	55.1%	56.4%	56.0%	56.0%	Common Equity Ratio	56.5%
62.2	68.5	73.9	95.0	113.0	142.8	152.8	242.0	262.9	295.1	340	380	Total Capital ($mill)	560
102.1	109.2	113.7	157.8	171.1	203.9	219.5	302.6	344.8	389.6	450	510	Net Plant ($mill)	750
6.8%	7.1%	7.6%	7.6%	7.6%	5.8%	6.2%	3.1%	4.1%	4.6%	4.5%	5.0%	Return on Total Cap'l	5.0%
8.0%	9.5%	10.3%	11.1%	11.4%	9.7%	9.0%	3.6%	5.0%	5.6%	6.0%	6.0%	Return on Shr. Equity	7.0%
8.1%	9.6%	10.4%	11.1%	11.4%	9.7%	9.1%	3.6%	5.0%	5.6%	6.0%	6.0%	Return on Com Equity	7.0%
4.5%	6.0%	7.0%	7.8%	7.8%	6.3%	5.8%	8%	2.1%	2.6%	3.0%	3.0%	Retained to Com Eq	3.5%
45%	38%	33%	31%	32%	36%	36%	78%	58%	53%	51%	51%	All Div'ds to Net Prof	54%

CURRENT POSITION ($MILL.)	2004	2005	12/31/06
Cash Assets	1.9	3.0	4.3
Receivables	23.9	28.5	27.5
Inventory (Avg Cst)	1.9	--	--
Other	17.6	18.2	16.5
Current Assets	45.3	47.7	48.3
Accts Payable	12.3	10.0	12.7
Debt Due	3.4	9.5	1.4
Other	20.0	21.1	21.7
Current Liab.	35.7	40.6	35.8

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '10-'12
Revenues	8.5%	8.5%	2.0%
"Cash Flow"	7.0%	3.5%	8.0%
Earnings	13.5%	1.5%	11.0%
Dividends	6.0%	10.0%	9.5%
Book Value	9.5%	14.0%	8.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	39.8	45.7	55.0	47.5	188.0
2005	45.2	51.3	54.7	52.0	203.2
2006	50.8	55.4	60.1	57.9	224.2
2007	55.0	60.0	65.0	60.0	240
2008	62.0	66.0	68.0	64.0	260

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	--	.13	.11	d.01	.23
2005	d.01	.15	.14	.05	.34
2006	.03	.08	.16	.13	.40
2007	.05	.14	.16	.10	.45
2008	.06	.15	.18	.11	.50

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.042	.042	.042	.046	.17
2004	.046	.046	.046	.050	.19
2005	.048	.048	.048	.052	.20
2006	.052	.052	.052	.058	.21
2007	.058	.058			

BUSINESS: Southwest Water Company provides a broad range of services including water production, treatment and distribution; wastewater collection and treatment; utility billing and collection; utility infrastructure construction management; and public works services. It operates out of two groups, Utility (38% of 2006 revenues) and Services (62%). Utility owns and manages rate-regulated public water utilities in California, New Mexico, Oklahoma, and Texas. Services does mostly maintenance work on a contract basis. Off. & dir. own 6.3% of com. shs.; Stein Roe Investment Council, 9.7% (4/07 proxy). CEO and Chairman: Mark Swatek. Inc.: DE. Addr.: One Wilshire Building, 624 S. Grand Ave. Ste. 2900, Los Angeles, CA 90017. Tel.: 213-929-1800. Internet: www.swwc.com.

Southwest Water Company is performing well. The Utility Group, which accounts for less than half of total revenues, continues to make sizable bottom-line contributions. Income from this unit advanced about 15% in 2006. Much of the strength was due to warmer temperatures and increased water consumption. Rates also rose, thanks to favorable regulatory environments in California and Texas. We expect the company to file for higher rates at several facilities in 2007, lifting this unit further.

The Services Group is improving as well. Revenue at this segment continues to benefit from the addition of new customers and expanded service offerings. Although the operating margin at this division has been a bit narrow in the past, profitability is starting to improve. This likely reflects better contract terms and lower levels of spending.

The company continues to make acquisitions. In March, Southwest Water announced that it had purchased five water companies and waste water facilities located in northern Mississippi. There are also some acquisitions in progress in Alabama. By purchasing businesses located outside of the California area, Southwest Water should be able to reduce its dependence on the state's regulatory agencies and weather climate. Contributions from upcoming acquisitions will not be included in our figures until these transactions are finalized.

We expect earnings to make steady, but moderate, advances for the next few years. We are leaving our earnings estimate unchanged for 2007, and introducing an estimate of $0.50 per diluted share for 2008. In addition to improved operations, results should benefit from restructuring efforts. Management plans to consolidate several subsidiaries in order to trim legal and accounting costs. Elsewhere, there will probably be a review of the employee compensation program.

These neutrally ranked shares have below-average appreciation potential for the next 3 to 5 years. The company raised its quarterly dividend by about 12% in the December period. However, the issue's dividend yield is still not too attractive, despite the considerable increase.

Adam Rosner *April 27, 2007*

(A) Diluted earnings. Excludes nonrecurring gains (losses): '00, (3¢); '01, (5¢); '02, 1¢; '05, (23¢). Next earnings report due early May.
(B) Dividends historically paid in late January, April, July, and October.
(C) In millions, adjusted for splits.
(D) Includes intangibles. In 2006: $36.0 million, $1.51/share

Company's Financial Strength	B
Stock's Price Stability	60
Price Growth Persistence	75
Earnings Predictability	55

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YORK WATER CO NDQ-YORW

RECENT PRICE	TRAILING P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
17.82	30.7	1.50	2.6%	

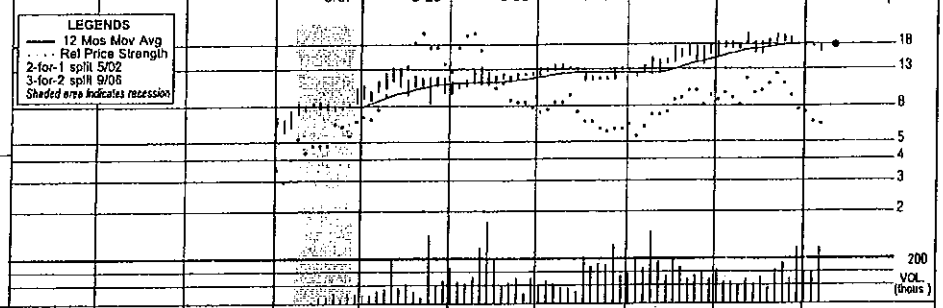
				10.22 / 5.67	13.45 / 8.20	13.49 / 9.33	14.03 / 11.00	17.87 / 11.67	20.99 / 15.33	18.15 / 16.12 High / Low

RANKS

PERFORMANCE 3 Average
Technical 3 Average
SAFETY 3 Average
BETA .55 (1.00 = Market)

Financial Strength B+
Price Stability 60
Price Growth Persistence 50
Earnings Predictability 85

LEGENDS
— 12 Mos Mov Avg
. . . Rel Price Strength
2-for-1 split 5/02
3-for-2 split 9/06
Shaded area indicates recession



© VALUE LINE PUBLISHING, INC.	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007/2008
REVENUES PER SH	--	--	--	2.05	2.05	2.17	2.18	2.58	2.56	
"CASH FLOW" PER SH	--	--	--	.59	.57	.65	.65	.79	.77	
EARNINGS PER SH	--	--	--	.43	.40	.47	.49	.56	.58	.63 A,B/.69 C
DIV'D DECL'D PER SH	--	--	--	.34	.35	.37	.39	.42	.45	
CAP'L SPENDING PER SH	--	--	--	.75	.66	1.07	2.50	1.69	1.85	
BOOK VALUE PER SH	--	--	--	3.79	3.90	4.06	4.65	4.85	5.84	
COMMON SHS OUTST'G (MILL.)	--	--	--	9.46	9.55	9.63	10.33	10.40	11.20	
AVG ANN'L P/E RATIO	--	--	--	17.9	26.9	24.5	25.7	26.3	31.2	28.3/25.8
RELATIVE P/E RATIO	--	--	--	.92	1.47	1.40	1.36	1.39	1.68	
AVG ANN'L DIV'D YIELD	--	--	--	4.3%	3.3%	3.2%	3.1%	2.9%	2.5%	
REVENUES ($MILL.)	--	--	18.5	19.4	19.6	20.9	22.5	26.8	28.7	Bold figures
NET PROFIT ($MILL.)	--	--	3.8	4.0	3.8	4.4	4.8	5.8	6.1	are consensus
INCOME TAX RATE	--	--	35.7%	35.8%	34.9%	34.8%	36.7%	36.7%	34.4%	earnings
AFUDC % TO NET PROFIT	--	--	--	2.2%	3.7%	--	--	--	7.2%	estimates
LONG-TERM DEBT RATIO	--	--	50.2%	47.7%	46.7%	43.4%	42.5%	44.1%	48.3%	and, using the
COMMON EQUITY RATIO	--	--	49.8%	52.3%	53.3%	56.6%	57.5%	55.9%	51.7%	recent prices,
TOTAL CAPITAL ($MILL.)	--	--	65.2	68.6	69.9	69.0	83.6	90.3	126.5	P/E ratios.
NET PLANT ($MILL.)	--	--	97.0	102.3	106.7	116.5	140.0	155.3	174.4	
RETURN ON TOTAL CAP'L	--	--	7.9%	7.9%	7.4%	8.5%	7.6%	8.4%	6.2%	
RETURN ON SHR. EQUITY	--	--	11.6%	11.2%	10.2%	11.4%	10.0%	11.6%	9.3%	
RETURN ON COM EQUITY	--	--	11.6%	11.2%	10.2%	11.4%	10.0%	11.6%	9.3%	
RETAINED TO COM EQ	--	--	2.5%	2.5%	1.3%	2.6%	2.1%	3.0%	2.2%	
ALL DIV'DS TO NET PROF	--	--	78%	78%	88%	77%	79%	74%	77%	

A No. of analysts changing earn. est. in last 14 days: 0 up, 0 down, consensus 5-year earnings growth 8.0% per year. B Based upon 3 analysts' estimates. C Based upon 2 analysts' estimates.

ANNUAL RATES

of change (per share)	5 Yrs.	1 Yr.
Revenues	3.5%	-0.5%
"Cash Flow"	4.5%	-2.5%
Earnings	4.5%	3.5%
Dividends	-3.0%	7.0%
Book Value	6.0%	20.5%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/04	5.3	5.5	5.6	6.1	22.5
12/31/05	6.2	6.7	7.2	6.7	26.8
12/31/06	6.6	7.0	7.7	7.4	28.7
12/31/07					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/03	.08	.11	.16	.12	.47
12/31/04	.12	.11	.12	.14	.49
12/31/05	.12	.14	.17	.13	.56
12/31/06	.12	.14	.17	.15	.58
12/31/07	.13	.17	.20		

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2004	.097	.097	.097	.097	.39
2005	.104	.104	.104	.104	.42
2006	.112	.112	.112	.112	.45
2007	.118	.118			

INSTITUTIONAL DECISIONS

	2Q'06	3Q'06	4Q'06
to Buy	9	11	13
to Sell	6	6	6
Hld's(000)	718	723	1164

ASSETS ($mill.)	2004	2005	12/31/06
Cash Assets	.2	.0	.0
Receivables	3.7	3.8	4.8
Inventory (Avg cost)	.7	.8	.8
Other	.4	.5	1.1
Current Assets	5.0	5.1	6.7
Property, Plant & Equip. at cost	164.3	182.4	202.7
Accum Depreciation	24.3	27.1	28.3
Net Property	140.0	155.3	174.4
Other	11.1	11.9	15.0
Total Assets	156.1	172.3	196.1
LIABILITIES ($mill.)			
Accts Payable	1.8	2.6	1.6
Debt Due	16.3	19.3	1.2
Other	3.1	2.8	3.1
Current Liab	21.2	24.7	5.9

LONG-TERM DEBT AND EQUITY as of 12/31/06

Total Debt $62.3 mill. Due in 5 Yrs. $18.0 mill.
LT Debt $61.1 mill.
Including Cap. Leases $17.5 mill. (48% of Cap'l)

Leases, Uncapitalized Annual rentals None

Pension Liability $5.9 mill. in '06 vs. $3.9 mill. in '05

Pfd Stock None Pfd Div'd Paid None

Common Stock 11,201,119 shares (52% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: York Water Company engages in the impounding, purification, and distribution of water in York County and Adams County, Pennsylvania. It supplies water for residential, commercial, industrial, and other customers. The company has two reservoirs, Lake Williams and Lake Redman, which together hold approximately 2.2 billion gallons of water. It also has a 15-mile pipeline from the Susquehanna River to Lake Redman that provides access to an additional supply of water. The company serves 34 municipalities in York County and four municipalities in Adams County. Has 106 employees. C.E.O. & President: Jeffrey S. Osman. Inc.: PA. Address: 130 East Market Street, York, PA 17401. Tel.: (717) 845-3601. Internet: http://www.yorkwater.com.

A.Z.

April 27, 2007

TOTAL SHAREHOLDER RETURN
Dividends plus appreciation as of 3/31/2007

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
-4.26%	-9.41%	-0.65%	36.09%	91.55%

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AGL RESOURCES NYSE-ATG

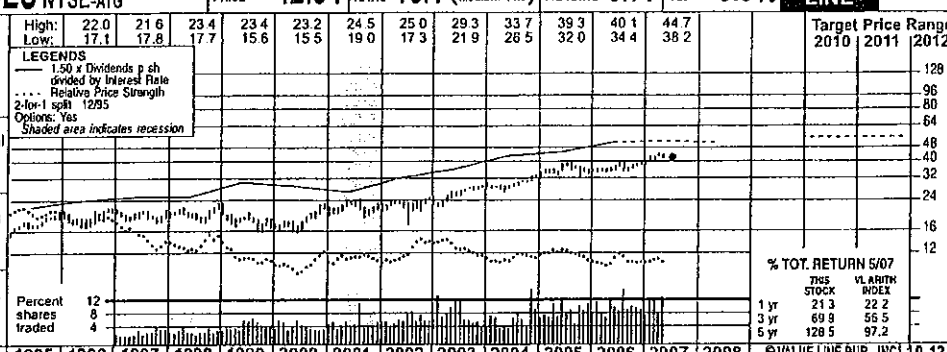
RECENT PRICE 42.34 | P/E RATIO 15.1 (Trailing: 16.2 / Median: 14.0) | RELATIVE P/E RATIO 0.77 | DIV'D YLD 3.9% | VALUE LINE

TIMELINESS 4 Lowered 8/11/06
SAFETY 2 New 7/27/90
TECHNICAL 3 Raised 2/23/07
BETA .95 (1.00 = Market)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
High:	22.0	21.6	23.4	23.4	23.2	24.5	25.0	29.3	33.7	39.3	40.1	44.7
Low:	17.1	17.8	17.7	15.6	15.5	19.0	17.3	21.9	26.5	32.0	34.4	38.2

Target Price Range 2010 | 2011 | 2012

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



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+30%)	10%
Low	40	(-5%)	3%

Insider Decisions

	J	A	S	O	N	D	J	F	M
to Buy	0	0	0	0	1	0	0	0	0
Options	0	1	0	0	3	6	0	1	0
to Sell	0	2	0	0	4	1	0	0	0

Institutional Decisions

	2Q2006	3Q2006	4Q2006
to Buy	95	113	121
to Sell	102	78	89
Hld's(000)	49525	50305	49321

Percent shares traded 12 8 4

% TOT. RETURN 5/07

	THIS STOCK	VL ARITH INDEX
1 yr	21.3	22.2
3 yr	69.9	56.5
5 yr	128.5	97.2

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
20.26	20.43	22.73	23.59	19.32	21.91	22.75	23.36	18.71	11.25	19.04	15.32	15.25	23.89	34.98	33.73	34.95	35.45	Revenues per sh A	38.75
2.07	2.31	2.25	2.24	2.33	2.49	2.42	2.65	2.29	2.86	3.31	3.39	3.47	3.29	4.20	4.62	4.80	5.00	"Cash Flow" per sh	5.55
1.04	1.13	1.08	1.17	1.33	1.37	1.37	1.41	.91	1.29	1.50	1.82	2.08	2.28	2.48	2.72	2.80	2.90	Earnings per sh A B	3.10
1.02	1.03	1.04	1.04	1.04	1.06	1.08	1.08	1.08	1.08	1.08	1.08	1.11	1.15	1.30	1.48	1.64	1.64	Div'ds Decl'd per sh C■	1.80
2.95	2.74	2.49	2.37	2.17	2.37	2.59	2.05	2.51	2.92	2.83	3.30	2.46	3.44	3.44	3.26	3.35	3.30	Cap'l Spending per sh	3.45
9.42	9.70	9.90	10.19	10.12	10.56	10.99	11.42	11.59	11.50	12.19	12.52	14.66	18.06	19.29	20.71	21.55	21.50	Book Value per sh D	22.50
47.57	48.69	49.72	50.86	55.02	55.70	56.60	57.30	57.10	54.00	55.10	56.70	64.50	76.70	77.70	77.70	78.00	79.00	Common Shs Outst'g E	80.00
15.3	15.5	17.9	15.1	12.6	13.8	14.7	13.9	21.4	13.6	14.6	12.5	12.5	13.1	14.3	13.5	Bold figures are		Avg Ann'l P/E Ratio	15.0
.98	.94	1.06	.99	.84	.86	.85	.72	1.22	.88	.75	.68	.71	.69	.76	.73	Value Line		Relative P/E Ratio	1.00
6.4%	5.9%	5.4%	5.9%	6.2%	5.6%	5.4%	5.5%	5.5%	6.2%	4.9%	4.7%	4.3%	3.9%	3.7%	4.0%	estimates		Avg Ann'l Div'd Yield	3.9%

						1287.6	1338.6	1068.6	607.4	1049.3	868.9	983.7	1832.0	2718.0	2621.0	2725	2800	Revenues ($mill) A	3100
						76.6	80.6	52.1	71.1	82.3	103.0	132.4	153.0	193.0	212.0	220	230	Net Profit ($mill)	250
						37.9%	32.5%	33.1%	34.3%	40.7%	36.0%	35.9%	37.0%	37.7%	37.8%	38.0%	38.0%	Income Tax Rate	38.0%
						5.9%	6.0%	4.9%	11.7%	7.8%	11.9%	13.5%	8.4%	7.1%	8.1%	8.1%	8.2%	Net Profit Margin	8.1%
						46.7%	47.5%	45.3%	45.9%	61.3%	58.3%	50.3%	54.0%	51.9%	50.2%	49.3%	49.3%	Long-Term Debt Ratio	49.2%
						45.9%	47.1%	49.2%	48.3%	38.7%	41.7%	49.7%	46.0%	48.1%	49.8%	50.7%	50.7%	Common Equity Ratio	50.8%
						1356.4	1388.4	1345.8	1286.2	1736.3	1704.3	1901.4	3068.0	3114.0	3231.0	3315	3350	Total Capital ($mill)	3540
						1496.6	1534.0	1598.9	1637.5	2058.9	2194.2	2352.4	3176.0	3271.0	3436.0	3550	3700	Net Plant ($mill)	4000
						7.3%	7.6%	5.7%	7.4%	6.5%	8.1%	8.9%	6.3%	7.9%	8.0%	8.0%	8.5%	Return on Total Cap'l	8.5%
						11.0%	11.1%	7.1%	10.2%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	13.0%	13.5%	Return on Shr. Equity	14.0%
						11.3%	12.3%	7.9%	11.5%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	13.0%	13.5%	Return on Com Equity	14.0%
						3.2%	4.4%	NMF	3.2%	4.2%	7.0%	6.6%	5.6%	6.2%	6.3%	5.5%	6.0%	Retained to Com Eq	6.0%
						74%	64%	101%	72%	65%	52%	53%	49%	52%	52%	58%	56%	All Div'ds to Net Prof	58%

CAPITAL STRUCTURE as of 3/31/07
Total Debt $1734.0 mill. Due in 5 Yrs $411.0 mill
LT Debt $1623.0 mill LT Interest $100.0 mill

(Total interest coverage: 3.7x)
Leases, Uncapitalized Annual rentals $32.0 mill

Pension Assets-12/06 $375.0 mill Oblig. $454.0 mill

Pfd Stock None
Common Stock 77,794,028 shs as of 4/25/07

MARKET CAP: $3.3 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2005	2006	3/31/07
Cash Assets	30.0	20.0	29.0
Other	2002.0	1802.0	1365.0
Current Assets	2032.0	1822.0	1394.0
Accts Payable	264.0	213.0	160.0
Debt Due	522.0	539.0	111.0
Other	1153.0	875.0	830.0
Current Liab.	1939.0	1627.0	1101.0
Fix. Chg. Cov.	442%	397%	384%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	3.5%	13.5%	4.0%
"Cash Flow"	5.5%	7.0%	5.5%
Earnings	7.0%	15.0%	3.5%
Dividends	2.5%	4.0%	5.5%
Book Value	6.5%	10.5%	2.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	651	294	262	625	1832
2005	908	430	387	993	2718
2006	1044	436	434	707	2621
2007	973	480	455	817	2725
2008	1000	500	470	830	2800

Cal-endar	EARNINGS PER SHARE A B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	1.00	.33	.31	.64	2.28
2005	1.14	.30	.19	.85	2.48
2006	1.41	.25	.46	.60	2.72
2007	1.30	.35	.50	.65	2.80
2008	1.40	.35	.45	.70	2.90

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.27	.28	.28	.28	1.11
2004	.28	.29	.29	.29	1.15
2005	.31	.31	.31	.37	1.30
2006	.37	.37	.37	.37	1.48
2007	.41	.41			

BUSINESS: AGL Resources, Inc. is a public utility holding company. Its distribution subsidiaries include Atlanta Gas Light, Chattanooga Gas, and Virginia Natural Gas. The utilities have more than 2.2 million customers in Georgia (primarily Atlanta), Virginia, and in southern Tennessee. Also engaged in nonregulated natural gas marketing and other, allied services. Also wholesales and retails propane. Nonregulated subsidiaries: Georgia Natural Gas Services markets natural gas at retail. Acq. Virginia Natural Gas, 10/00. Sold Utilipro, 3/01. Off./dir. own less than 1.0% of common; Barclays Global Investors, 5.0% (3/07 Proxy). Pres. & CEO: John W. Somerhalder II. Inc.: GA. Addr.: 10 Peachtree Place N.E., Atlanta, GA 30309. Tel.: 404-584-4000. Internet: www.aglresources.com.

AGL Resources posted solid results for the first quarter, although revenues and share earnings came in somewhat below the record-high numbers achieved in the prior year's period. Performance was supported by the Retail Energy Operations segment, where operating earnings increased about 17%. This business experienced increased customer usage during the quarter. The addition of the Ohio retail market that SouthStar Energy Services entered last summer also boosted performance. (AGL owns a 70% noncontrolling interest in SouthStar.) In addition, the company benefited from a lower cost of gas during the recent interim. However, operating earnings declined considerably in the Wholesale Services business, which experienced lower commercial activity and mark-to-market losses following an increase in NYMEX natural gas prices.

We anticipate a moderate top-line advance in the current year. The company has reaffirmed its share-net guidance of $2.75-$2.85 for 2007, assuming normal weather and average volatility in natural gas prices. Our projection remains at the midpoint of this range. This modest growth ought to continue in the following year, as well.

Subsidiary Golden Triangle Storage has plans to build a $180 million natural gas storage facility. This proposed facility should provide 12 billion cubic feet of working gas capacity following completion of the first phase. Located at the Spindletop salt dome in Beaumont, Texas, it will connect with six pipelines serving diverse markets with counter-seasonal demand. Construction is scheduled to begin next year, with the facility becoming operational in 2011.

Shares of AGL are ranked 4 (Below Average) for Timeliness. We anticipate modest growth in revenues and earnings per share over the pull to 2010-2012. This appears to be reflected in the current quotation, and appreciation potential is unexciting for this timeframe. On the bright side, the company recently increased its dividend by over 10%. Income-oriented investors may find the 3.9% dividend yield enticing. In addition, this good-quality issue has superior marks for Safety and Price Stability.

Michael F. Napoli, CPA *June 15, 2007*

(A) Fiscal year ends December 31st. Ended September 30th prior to 2002.
(B) Diluted earnings per share. Excl. nonrecurring gains (losses): '95, ($0.83); '99, $0.39; '00, $0.13; '01, $0.13; '03, ($0.07). Next earnings report due early August.
(C) Dividends historically paid early March, June, Sept. and Dec. ■ Div'd reinvest. plan available.
(D) Includes intangibles. At 3/31/07: $420 million, $5.40/share.
(E) In millions, adjusted for stock split.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	70
Earnings Predictability	75

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ATMOS ENERGY CORP. NYSE-ATO

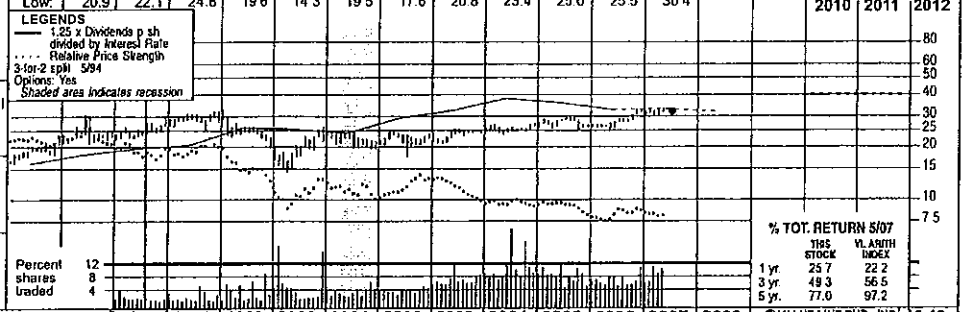
RECENT PRICE 32.12 | P/E RATIO 16.2 (Trailing: 14.6 Median: 16.0) | RELATIVE P/E RATIO 0.83 | DIV'D YLD 4.0% | VALUE LINE

TIMELINESS 3 Raised 7/28/06
SAFETY 2 Raised 12/16/05
TECHNICAL 4 Lowered 5/25/07
BETA .80 (1.00 = Market)

High:	31.0	30.5	32.3	33.0	26.3	25.8	24.5	25.5	27.6	30.0	33.1	33.5
Low:	20.9	22.1	24.6	19.6	14.3	19.5	17.6	20.8	23.4	25.0	25.5	30.4

Target Price Range 2010 | 2011 | 2012

LEGENDS
— 1.25 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 5/94
Options: Yes
Shaded area indicates recession



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+25%)	9%
Low	30	(-5%)	3%

Insider Decisions

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

Institutional Decisions

	2Q2006	3Q2006	4Q2006
to Buy	102	90	115
to Sell	67	88	84
Hld's(000)	46293	48572	53928

Percent shares traded 12 8 4

% TOT. RETURN 5/07

	THIS STOCK	VL ARITH INDEX
1 yr.	25.7	22.2
3 yr.	49.3	56.5
5 yr.	77.0	97.2

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

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
30.59	27.90	22.09	26.61	35.36	22.82	54.39	46.50	61.75	75.27	61.90	62.70	Revenues per sh A	74.75
2.85	3.38	2.62	3.01	3.03	3.39	3.23	2.91	3.90	4.26	4.20	4.30	"Cash Flow" per sh	4.75
1.34	1.84	.81	1.03	1.47	1.45	1.71	1.58	1.72	2.00	2.00	2.10	Earnings per sh A B	2.50
1.01	1.06	1.10	1.14	1.16	1.18	1.20	1.22	1.24	1.26	1.28	1.30	Div'ds Decl'd per sh C■	1.35
4.13	4.44	3.53	2.36	2.77	3.17	3.10	3.03	4.14	5.20	5.00	5.30	Cap'l Spending per sh	6.60
11.04	12.21	12.09	12.28	14.31	13.75	16.66	18.05	19.90	20.16	22.45	21.75	Book Value per sh	25.20
29.64	30.40	31.25	31.95	40.79	41.68	51.48	62.80	80.54	81.74	89.50	92.50	Common Shs Outst'g D	107.00
17.9	15.4	33.0	18.9	15.6	15.2	13.4	15.9	16.1	13.5	Bold figures are		Avg Ann'l P/E Ratio	14.0
1.03	.80	1.88	1.23	.80	.83	.76	.84	.86	.73	Value Line		Relative P/E Ratio	.95
4.2%	3.7%	4.1%	5.9%	5.1%	5.4%	5.2%	4.9%	4.5%	4.7%	estimates		Avg Ann'l Div'd Yield	3.9%
906.8	848.2	690.2	850.2	1442.3	950.8	2799.9	2920.0	4973.3	6152.4	5540	5800	Revenues ($mill) A	8000
39.2	55.3	25.0	32.2	56.1	59.7	79.5	86.2	135.8	162.3	180	195	Net Profit ($mill)	270
37.5%	36.5%	35.0%	36.1%	37.3%	37.1%	37.1%	37.4%	37.7%	37.6%	39.0%	39.0%	Income Tax Rate	40.5%
4.3%	6.5%	3.6%	3.8%	3.9%	6.3%	2.8%	3.0%	2.7%	2.6%	3.2%	3.4%	Net Profit Margin	3.4%
48.1%	51.8%	50.0%	48.1%	54.3%	53.9%	50.2%	43.2%	57.7%	57.0%	48.0%	50.0%	Long-Term Debt Ratio	51.0%
51.9%	48.2%	50.0%	51.9%	45.7%	46.1%	49.8%	56.8%	42.3%	43.0%	52.0%	50.0%	Common Equity Ratio	49.0%
630.2	769.7	755.1	755.7	1276.3	1243.7	1721.4	1994.8	3785.5	3828.5	4070	4230	Total Capital ($mill)	5750
849.1	917.9	965.8	982.3	1335.4	1300.3	1516.0	1722.5	3374.4	3629.2	3850	4150	Net Plant ($mill)	5300
8.3%	9.0%	5.1%	6.5%	5.9%	6.8%	5.2%	5.8%	5.3%	6.1%	6.0%	6.0%	Return on Total Cap'l	6.5%
12.0%	14.9%	6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.9%	8.5%	9.0%	Return on Shr. Equity	9.5%
12.0%	14.9%	6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.9%	8.5%	9.0%	Return on Com Equity	9.5%
3.9%	6.3%	NMF	NMF	2.1%	1.9%	2.8%	1.7%	2.3%	3.6%	3.0%	3.5%	Retained to Com Eq	4.5%
57%	58%	NMF	112%	79%	82%	70%	77%	73%	63%	64%	62%	All Div'ds to Net Prof	54%

CAPITAL STRUCTURE as of 3/31/07
Total Debt $2181.5 mill. Due in 5 Yrs $1450.0 mill.
LT Debt $1878.3 mill. LT Interest $115.0 mill.
(LT interest earned: 2.9x; total interest coverage: 2.8x)
Leases, Uncapitalized Annual rentals $16.0 mill.
Pfd Stock None
Pension Assets-9/06 $362.7 mill. Oblig. $326.5 mill.
Common Stock 88,806,235 shs as of 4/25/07
MARKET CAP: $2.9 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2005	2006	3/31/07
Cash Assets	40.1	75.8	176.3
Other	1224.3	1041.7	1253.1
Current Assets	1264.4	1117.5	1429.4
Accts Payable	461.3	345.1	665.2
Debt Due	148.1	385.6	303.2
Other	503.4	388.5	421.4
Current Liab.	1112.8	1119.2	1389.8
Fix. Chg. Cov.	395%	408%	415%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	7.5%	17.0%	3.5%
"Cash Flow"	4.0%	5.0%	4.5%
Earnings	3.5%	10.0%	6.0%
Dividends	3.0%	2.0%	1.5%
Book Value	6.5%	8.5%	4.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2004	763.6	1117.5	546.1	492.8	2920.0
2005	1371.0	1687.8	909.9	1004.6	4973.3
2006	2283.8	2033.8	863.2	971.6	6152.4
2007	1602.6	2075.6	900	961.8	5540
2008	1450	1450	1450	1450	5800

Fiscal Year Ends	EARNINGS PER SHARE A B E Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2004	.57	1.12	.09	d.11	1.68
2005	.79	1.11	.06	d.21	1.72
2006	.88	1.10	d.22	.25	2.00
2007	.97	1.20	d.06	d.11	2.00
2008	.95	1.15	.08	d.08	2.10

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.30	.30	.30	.305	1.21
2004	.305	.305	.305	.31	1.23
2005	.31	.31	.31	.315	1.25
2006	.315	.315	.315	.32	1.27
2007	.32	.32			

BUSINESS: Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to 3.2 million customers via six regulated natural gas utility operations: Louisiana Division, West Texas Division, Mid-Tex Division, Mississippi Division, Colorado-Kansas Division, and Kentucky/Mid-States Division. Combined 2006 gas volumes: 272 MMcf. Breakdown: 53%, residential; 32%, commercial; 10%, industrial; and 5% other. 2006 depreciation rate 3.6%. Has around 4,600 employees. Officers and directors own approximately 1.9% of common stock (12/06 Proxy). Chairman and Chief Executive Officer: Robert W. Best. Incorporated: Texas. Address: P.O. Box 650205, Dallas, Texas 75265. Telephone: 972-934-9227. Internet: www.atmosenergy.com.

Atmos Energy Corporation generated healthy bottom-line growth during the first half of fiscal 2007 (ends September 30th). The core utility unit enjoyed a 9% increase in throughput, plus benefits from the implementation of weather-normalization mechanisms for the Mid-Tex and Louisiana operations. Furthermore, margins for the natural gas marketing segment widened nicely, partially because of efforts to capture more favorable arbitrage opportunities with regard to storage activities. Meanwhile, the pipeline business reaped the rewards of the North Side Loop and other projects that were completed last year, and there was a healthy rise in asset management fees.

Nevertheless, we believe that share net will be flat for the year as a whole. The fourth-quarter comparison may be quite difficult, given that our fiscal 2006 figure excludes an $0.18-a-share charge for the impairment of irrigation properties in the West Texas Division. Furthermore, the public offering of 6.3 million common shares last December will dilute earnings per share by around a nickel. Lastly, the effective income tax rate has been higher.

The company stands to register steady, albeit measured, profit gains out to 2010-2012. With utility operations in 12 states, Atmos is not dependent on the economy or rate commissions in any one region of the country. What's more, the non-utility businesses, contributing between 15% and 35% of net income historically, possess decent overall prospects. (During 2006, the company expanded into natural gas gathering, which fits nicely with the pipeline unit.) In the present corporate configuration, share net could advance between 5% and 7% annually over the 3- to 5-year timeframe.

Income-oriented investors may find the dividend yield appealing. And it seems that more moderate increases in the distribution are likely. Earnings coverage should remain strong.

But long-term total-return potential is limited, since these good-quality shares are already trading within our 2010-2012 Target Price Range. And for the coming year, the equity is ranked to just approximate the broader market averages.

Frederick L. Harris, III *June 15, 2007*

(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '97, d53¢; '99, d23¢; '00, 12¢; '03, d17¢; '06, d18¢. Next egs. rpt. due early Aug. (C) Dividends historically paid in early March, June, Sept., and Dec. ■ Div. reinvestment plan. Direct stock purchase plan avail. (D) In millions, adjusted for stock splits. (E) Qtrs may not add due to change in shrs outstanding. (F) ATO completed United Cities merger 7/97.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	35
Earnings Predictability	70

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KEYSPAN CORP. NYSE-KSE

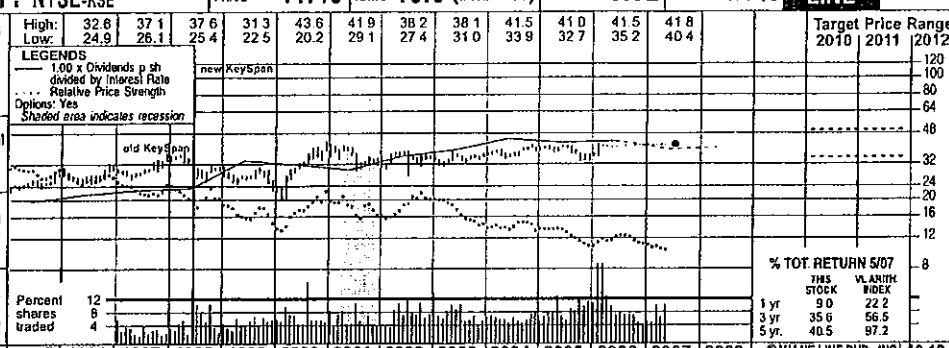
RECENT PRICE 41.48 | P/E RATIO 18.0 (Trailing: 18.9 Median: 16.0) | RELATIVE P/E RATIO 0.92 | DIV'D YLD 4.6% | VALUE LINE

TIMELINESS — Suspended 2/24/06
SAFETY 2 Lowered 3/26/99
TECHNICAL — Suspended 2/24/06
BETA .85 (1.00 = Market)

High:	32.6	37.1	37.6	31.3	43.6	41.9	38.2	38.1	41.5	41.0	41.5	41.8
Low:	24.9	26.1	25.4	22.5	20.2	29.1	27.4	31.0	33.9	32.7	35.2	40.4

Target Price Range 2010 | 2011 | 2012

LEGENDS
— 1.00 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area indicates recession



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+20%)	9%
Low	35	(-15%)	2%

Insider Decisions

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

Institutional Decisions

	2Q2006	3Q2006	4Q2006
to Buy	126	107	142
to Sell	167	150	129
Hld's(000)	95823	95187	97902

% TOT. RETURN 5/07

	THIS STOCK	VL ARITH. INDEX
1 yr	9.0	22.2
3 yr	35.6	56.5
5 yr.	40.5	97.2

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
23.43	24.74	25.99	28.13	24.93	28.72	29.12	13.20	22.07	37.56	47.57	41.92	43.31	41.35	43.94	40.94	43.20	45.20	Revenues per sh A	52.80
2.38	3.03	3.04	3.29	3.35	3.54	4.27	.45	3.57	4.51	5.72	6.36	6.22	5.86	4.55	4.45	4.85	4.95	"Cash Flow" per sh	5.40
1.45	1.35	1.73	1.85	1.90	1.96	2.12	d1.34	1.62	2.10	1.72	2.75	2.62	2.43	2.33	2.17	2.30	2.40	Earnings per sh B	2.80
1.27	1.29	1.32	1.35	1.39	1.42	1.46	1.50	1.78	1.78	1.78	1.78	1.78	1.79	1.83	1.87	1.91	1.95	Div'ds Decl'd per sh C ■	2.16
3.44	3.95	4.37	4.15	4.36	6.04	5.60	5.19	5.42	4.64	7.60	7.96	6.34	4.89	3.09	2.99	3.20	3.20	Cap'l Spending per sh	3.20
14.37	14.55	15.54	16.27	16.94	18.17	19.09	23.18	20.28	20.65	20.73	20.67	22.94	24.22	25.60	25.76	26.15	26.55	Book Value per sh D	30.55
42.28	43.45	46.38	47.59	48.79	49.86	50.77	130.42	133.87	136.36	139.43	142.42	159.66	160.82	174.37	175.41	176.00	177.00	Common Shs Outst'g E	180.00
13.1	15.1	14.3	13.7	12.7	13.7	13.8	--	16.8	14.8	20.8	12.7	13.1	15.4	16.3	18.4	Bold figures are		Avg Ann'l P/E Ratio	15.0
.84	.92	.84	.90	.85	.86	.80	--	.96	.96	1.07	.69	.75	.81	.87	1.00	Value Line		Relative P/E Ratio	1.00
6.7%	6.4%	5.3%	5.3%	5.8%	5.3%	5.0%	4.8%	6.5%	5.7%	5.0%	5.1%	5.2%	4.8%	4.8%	4.7%	estimates		Avg Ann'l Div'd Yield	5.1%

CAPITAL STRUCTURE as of 3/31/07
Total Debt $4419.5 mill. Due in 5 Yrs $1.9 bill.
LT Debt $4283.3 mill. LT Interest $260 mill.
(total interest coverage: 3.4x)
Leases, uncapitalized Annual rentals $59.0 mill.
Pension Assets-12/06 $2.5 bill. Oblig. $2.8 bill.

Pfd Stock None

Common Stock 175,762,812 shs.
as of 4/13/07
MARKET CAP: $7.3 billion (Large Cap)

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		10-12
1478.2	1721.9	2954.6	5121.5	6633.1	5970.7	6915.2	6650.5	7662.0	7181.6	7600	8000	Revenues ($mill) A	9500
106.1	d166.9	258.6	300.8	243.7	397.4	424.2	396.0	398.6	382.6	405	425	Net Profit ($mill)	505
35.0%	--	34.5%	41.8%	46.4%	36.2%	39.5%	34.5%	37.5%	37.2%	37.5%	37.5%	Income Tax Rate	37.5%
7.2%	NMF	8.8%	5.9%	3.7%	6.7%	6.1%	6.0%	5.2%	5.3%	5.3%	5.3%	Net Profit Margin	5.3%
43.5%	31.8%	37.5%	59.6%	61.2%	63.3%	60.0%	53.0%	46.8%	49.4%	49.5%	49.5%	Long-Term Debt Ratio	49.5%
56.5%	59.4%	60.6%	39.2%	37.7%	35.7%	39.1%	46.7%	53.2%	50.6%	50.5%	50.5%	Common Equity Ratio	50.5%
1714.1	5089.9	4482.1	7175.0	7672.3	8252.5	9356.9	8333.1	8384.9	8937.9	9400	9900	Total Capital ($mill)	11000
1810.6	3776.3	4240.0	6358.3	6605.9	7217.6	8894.3	7067.9	7336.9	7578.3	7800	8100	Net Plant ($mill)	9700
7.3%	NMF	7.1%	5.3%	4.5%	6.2%	5.8%	6.4%	6.1%	5.5%	5.5%	5.5%	Return on Total Cap'l	5.5%
10.9%	NMF	9.2%	10.4%	8.2%	13.4%	11.3%	10.1%	8.9%	8.5%	8.5%	8.5%	Return on Shr. Equity	8.5%
10.9%	NMF	8.2%	10.0%	8.2%	13.3%	11.4%	10.0%	8.9%	8.5%	8.5%	8.5%	Return on Com Equity	8.5%
3.3%	NMF	NMF	1.4%	NMF	4.8%	3.9%	2.7%	2.0%	1.3%	1.5%	2.0%	Retained to Com Eq	2.0%
70%	NMF	110%	86%	103%	85%	66%	74%	77%	85%	82%	81%	All Div'ds to Net Prof	77%

CURRENT POSITION ($MILL.)	2005	2006	3/31/07
Cash Assets	124.5	210.9	326.5
Other	2895.6	2576.1	2430.5
Current Assets	3020.1	2787.0	2757.0
Accts Payable	1087.0	1026.0	815.9
Debt Due	670.6	86.2	136.2
Other	397.6	595.8	520.6
Current Liab.	2155.2	1708.0	1472.7
Flx. Chg. Cov.	336%	323%	NMF

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	4.5%	3.5%	4.0%
"Cash Flow"	4.0%	1.5%	1.5%
Earnings	2.0%	5.0%	3.5%
Dividends	3.0%	0.5%	3.0%
Book Value	4.0%	4.0%	3.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	2595	1365	1050	1638	6650.5
2005	2480	1342	1303	2535	7662.0
2006	2661	1377	1218	1924	7181.6
2007	2862	1400	1300	2038	7600
2008	2975	1450	1400	2175	8000

Cal-endar	EARNINGS PER SHARE A B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	1.39	.13	.03	.88	2.43
2005	1.40	.11	.13	.69	2.33
2006	1.18	.18	.29	.52	2.17
2007	1.21	.15	.25	.69	2.30
2008	1.25	.15	.25	.75	2.40

Cal-endar	QUARTERLY DIVIDENDS PAID A C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.445	.445	.445	.445	1.78
2004	.445	.445	.445	.445	1.78
2005	.455	.455	.455	.455	1.82
2006	.465	.465	.465	.465	1.86
2007	.475	.475			

BUSINESS: KeySpan Corp. is a holding company created 5/98, via the merger of KeySpan Energy (formerly Brooklyn Union Gas) and Long Island Lighting. Acq. Eastern Enterprises 11/00, making KeySpan the largest gas distributor in the Northeast, serving most of New York City and Long Island and parts of New England. Has 2.6 mill. gas meters in one-family homes and apartments. Also generates electricity and operates transmission/distr. sys. by contract with L.I. Power Author. Sold its stake in Houston Exploration, 2004. Owns 20% of Iroquois Pipeline. Non-regulated subs. market gas supplies, sell ind'l energy mgmt. svcs. Has 9,700 empls. Chrmn.: Robert B. Catell. Inc.: NY. Address: 1 MetroTech Center, Brooklyn, NY 11201. Tel.: 718-403-1000. Internet: www.keyspanenergy.com.

KeySpan's acquisition by National Grid has been pushed back a bit. The companies have obtained all but two of the necessary approvals, the consents of the New York and New Hampshire public utilities commissions. The New Hampshire authority should approve the deal shortly, but the staff of the NYPUC had some concerns. KeySpan and National Grid (which owns Niagara Mohawk upstate) say they have answers to the issues raised by the New York staff; moreover, National Grid estimates that the merger would provide New York customers with around $800 million in lower rates. The state commission is presumably taking a closer look to protect consumers. However skeptical the staff may be of such a large number, we think that the merger will go through and close this fall. If it does not, though, KSE shares would likely fall 5% to 15%.

The first quarter's quite normal earnings growth concealed widely differing segment performances. Profits from gas distribution rose 20% from the prior-year period, thanks to weather that was roughly normal, but about 13% colder than last year. Electricity profits, however, plummeted $66.5 million, to a loss of $1.5 million, due to additional generating capacity in New York City, an expected hedging loss, and some unusual overhauls costs. In the 2006 quarter, electricity profits benefited from unusually large oil to gas price differentials, which boosted results since the Ravenswood plant can use whichever fuel is cheaper.

Lower electricity profits will likely lead to negative comparisons over the balance of the year. In the last three quarters of 2006, KeySpan's power hedging netted $46 million, which we don't expect to see this year. Also, the lower power capacity revenues of recent quarters will likely persist, though that will probably be mitigated by higher usage this year due to more-normal (hotter) weather. Gas profits should rise a bit, reflecting the good first quarter and around $50 million of new gross profits from new customers.

These unranked shares are trading according to the acquisition offer. If the merger does not go through, they would probably decline, which we think would constitute a buying opportunity.

Sigourney B. Romaine, CFA June 15, 2007

(A) Data for former KeySpan Energy through '97 (years ended 9/30); new KeySpan Corp. from '98 on a calendar fiscal year. (B) Diluted shs. Excl. nonrecur. gains (charges): '96, $0.52; '97, $0.16; '03, ($0.23); '04, ($0.40); '05, ($.05); '06, $0.29. Excl. gain (loss) discont. ops.: '01, ($0.14); '02, ($0.14); '03, $0.01; '04, $0.81. Next egs. report due late July. (C) Divs. historically paid early Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available. (D) Includes intangibles; at 12/31/06, $9.50/sh. (E) In millions, adjusted for split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	75

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NEW JERSEY RES. NYSE-NJR

RECENT PRICE 54.45 | P/E RATIO 16.8 (Trailing: 15.6 Median: 15.0) | RELATIVE P/E RATIO 0.86 | DIV'D YLD 2.8% | VALUE LINE

TIMELINESS 4 Raised 5/11/07
SAFETY 1 Raised 9/15/06
TECHNICAL 4 Lowered 5/11/07
BETA .80 (1.00 = Market)

High:	19.9	28.0	26.8	27.4	29.8	32.5	33.6	39.5	44.6	49.3	53.2	56.4			
Low:	17.8	18.8	21.0	22.4	24.1	24.8	24.3	30.0	36.5	40.7	41.5	46.3			

Target Price Range 2010 | 2011 | 2012

2010-12 PROJECTIONS

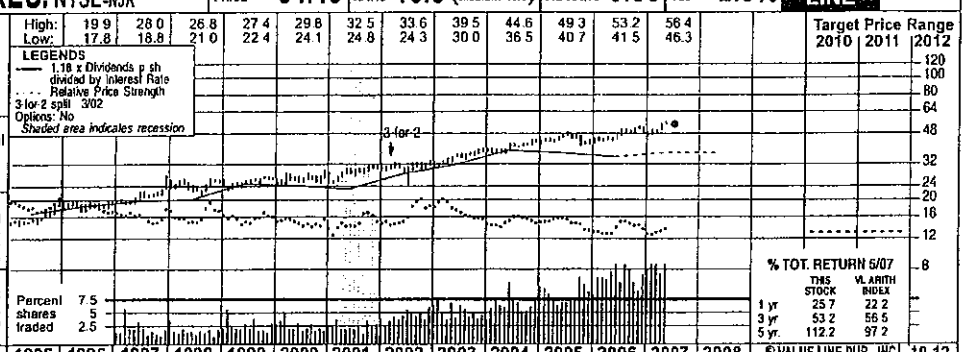
	Price	Gain	Ann'l Total Return
High	50	(-10%)	1%
Low	40	(-25%)	-4%

Insider Decisions

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

Institutional Decisions

	3Q2006	4Q2006	1Q2007
to Buy	73	61	68
to Sell	80	69	69
Hld's(000)	16255	16616	15657



% TOT. RETURN 6/07

	THIS STOCK	VL ARITH INDEX
1 yr.	25.7	22.2
3 yr.	53.2	56.5
5 yr.	112.2	97.2

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
15.99	16.88	18.02	19.22	17.03	20.22	25.97	26.59	33.98	44.13	76.82	66.17	93.43	91.33	114.29	119.44	*121.45*	*122.80*	Revenues per sh A	*127.50*
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	4.10	*4.30*	*4.35*	"Cash Flow" per sh	*4.35*
.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	*3.00*	*3.05*	Earnings per sh B	*3.15*
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	1.44	*1.52*	*1.60*	Div'ds Decl'd per sh C■	*1.72*
2.91	1.99	2.31	2.10	1.77	1.78	1.72	1.60	1.81	1.85	1.66	1.53	1.71	2.17	1.92	1.92	*1.95*	*1.95*	Cap'l Spending per sh	*1.85*
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	22.50	*23.80*	*24.90*	Book Value per sh D	*30.05*
20.95	24.43	25.23	25.95	26.69	27.13	26.82	26.72	26.61	26.39	26.66	27.67	27.23	27.74	27.55	27.63	*28.00*	*28.50*	Common Shs Outst'g E	*30.00*
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	16.1	*Bold figures are*		Avg Ann'l P/E Ratio	*14.0*
1.42	.75	.89	.85	.78	.85	.78	.80	.87	.96	.73	.80	.80	.81	.89	.86	*Value Line*		Relative P/E Ratio	*.95*
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%	3.2%	*estimates*		Avg Ann'l Div'd Yield	*4.5%*

CAPITAL STRUCTURE as of 3/31/07
Total Debt $486.6 mill. Due in 5 Yrs $300.0 mill.
LT Debt $335.5 mill. LT Interest $17.0 mill
Incl. $7.4 mill. capitalized leases.
(LT interest earned: 6.0x; total interest coverage: 6.0x)
Pension Assets-9/06 $95.8 mill. Oblig. $103.7 mill
Pfd Stock None

Common Stock 27,993,844 shs.
as of 5/11/07
MARKET CAP: $1.5 billion (Mid Cap)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		10-12
696.5	710.3	904.3	1164.5	2048.4	1830.8	2544.4	2533.6	3148.3	3299.6	*3400*	*3500*	Revenues ($mill) A	*3825*
41.5	43.3	44.9	47.9	52.3	56.8	65.4	71.6	74.4	78.5	*85.5*	*88.5*	Net Profit ($mill)	*95.0*
33.3%	30.4%	36.2%	37.8%	38.0%	38.7%	39.4%	39.1%	39.1%	38.9%	*39.0%*	*39.0%*	Income Tax Rate	*40.0%*
6.0%	6.1%	5.0%	4.1%	2.6%	3.1%	2.6%	2.8%	2.4%	2.4%	*2.5%*	*2.5%*	Net Profit Margin	*2.5%*
49.3%	51.2%	48.7%	47.0%	50.1%	50.6%	36.1%	40.3%	42.0%	34.8%	*32.8%*	*31.4%*	Long-Term Debt Ratio	*30.7%*
47.1%	45.6%	51.2%	52.9%	49.9%	49.4%	61.9%	59.7%	58.0%	65.2%	*67.2%*	*68.6%*	Common Equity Ratio	*69.3%*
590.6	638.2	590.4	620.1	706.2	732.4	676.8	783.8	755.3	954.0	*930*	*1035*	Total Capital ($mill)	*1300*
659.4	680.0	705.4	730.6	743.9	756.4	852.6	880.4	905.1	934.9	*955*	*975*	Net Plant ($mill)	*1200*
8.6%	8.1%	9.0%	9.0%	8.5%	8.7%	10.7%	10.1%	11.2%	9.6%	*9.5%*	*9.5%*	Return on Total Cap'l	*8.5%*
13.9%	13.9%	14.8%	14.6%	14.8%	15.7%	15.6%	15.3%	17.0%	12.6%	*13.0%*	*12.5%*	Return on Shr. Equity	*10.5%*
14.3%	14.4%	14.8%	14.6%	14.9%	15.7%	15.6%	15.3%	17.0%	12.6%	*13.0%*	*12.5%*	Return on Com Equity	*10.5%*
4.0%	4.4%	5.0%	5.4%	6.1%	6.9%	7.7%	7.8%	8.5%	6.3%	*6.5%*	*6.0%*	Retained to Com Eq	*5.0%*
73%	71%	67%	63%	59%	56%	51%	49%	50%	50%	*50%*	*52%*	All Div'ds to Net Prof	*54%*

CURRENT POSITION ($MILL.)	2005	2006	3/31/07
Cash Assets	25.0	5.0	8.1
Other	927.8	960.5	799.2
Current Assets	952.8	965.5	807.3
Accts Payable	54.7	46.8	48.9
Debt Due	177.4	284.4	131.1
Other	744.2	566.0	610.1
Current Liab.	976.3	897.2	790.1
Fix. Chg. Cov.	660%	570%	550%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	19.0%	16.0%	*3.0%*
"Cash Flow"	6.0%	5.5%	*1.5%*
Earnings	7.5%	8.0%	*3.0%*
Dividends	3.0%	3.5%	*4.0%*
Book Value	6.5%	8.5%	*7.5%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2004	643.0	1037	438.5	414.4	2533.6
2005	854.0	1065	544.3	684.9	3148.3
2006	1164	1064	536.1	535.5	3299.6
2007	741.5	1024	*805*	*829.5*	*3400*
2008	*1195*	*1090*	*585*	*630*	*3500*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2004	.87	1.82	.06	d.20	2.55
2005	.91	1.84	.07	d.17	2.65
2006	1.23	2.14	d.14	d.43	2.80
2007	1.01	2.87	*d.27*	*d.61*	*3.00*
2008	*1.26*	*2.75*	*d.40*	*d.56*	*3.05*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.31	.31	.31	.31	1.24
2004	.325	.325	.325	.325	1.30
2005	.34	.34	.34	.34	1.36
2006	.36	.36	.36	.36	1.44
2007	.38	.38			

BUSINESS: New Jersey Resources Corp. is a holding company providing retail/wholesale energy svcs. to customers in New Jersey, and in states from the Gulf Coast to New England, and Canada. New Jersey Natural Gas had about 471,000 customers at 9/30/06 in Monmouth and Ocean Counties, and other N.J. Counties. Fiscal 2006 volume: 102.8 bill. cu. ft. (56% firm, 7% interruptible industrial and electric utility, 37% off-system and capacity release). N.J. Natural Energy subsid. provides unregulated retail/wholesale natural gas and related energy svcs. 2005 dep. rate: 2.7%. Has 766 empls. Off./dir. own about 2% of common (12/06 Proxy). Chmn. and CEO: Laurence M. Downes. Inc.: N.J. Addr.: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 732-938-1480. Web: www.njliving.com.

New Jersey Resources posted strong share earnings in the fiscal second quarter (ended March 31, 2007), rising 34% over the prior-year period. Due to better-than-expected results we have raised our earnings estimate slightly.

We look for earnings of $3.00 and $3.05 a share in fiscal 2007 and 2008. The 5%-10% advance in the current year should be the result of continued customer growth, both in terms of the size of the territory being serviced by the company, as well as by switching from other kinds of fuel sources to natural gas. Furthermore, earnings are now sheltered by a new plan known as the Conservation Incentive Program (CIP). The utility's share net was previously hurt by the Weather Normalization Clause (WNC), which only protected against weather-related issues. The new CIP program also takes into account non weather-related issues attributable to energy conservation, which have affected usage patterns in the past.

The company has entered a joint venture agreement to provide storage services. The Steckman Ridge partnership is with Spectra Energy for the purpose of developing and operating a natural gas storage facility in Bedford County, Pennsylvania. The location will offer access to the Texas Eastern pipeline system, and is projected to require a total investment of $250 million. At present, the necessary approvals have been requested from the Federal Energy Regulatory Commission (FERC), and the facility is planned to be in use by the middle of the 2009 calendar year.

Shares of the New Jersey-based energy provider offer minimal appeal at this time. Currently, the equity is ranked to lag the broad market averages in the coming six to 12 months (Timeliness: 4). Furthermore, the stock is trading above our 2010-2012 Target Price Range, based on subpar earnings growth prospects due to a potentially lower level of gas usage. In all, our projections call for no appreciation potential between now and 2010-2012. However, income investors might take note that we do expect the company to maintain steady payout growth going forward, which currently provides an above-average yield.

Bryan Fong *June 15, 2007*

(A) Fiscal year ends Sept. 30th.
(B) Diluted earnings. Next earnings report due late July.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) Includes regulatory assets in 2006: $323.0 million, $11.70/share
(E) In millions, adjusted for split

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	90
Earnings Predictability	95

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NICOR, INC. NYSE-GAS

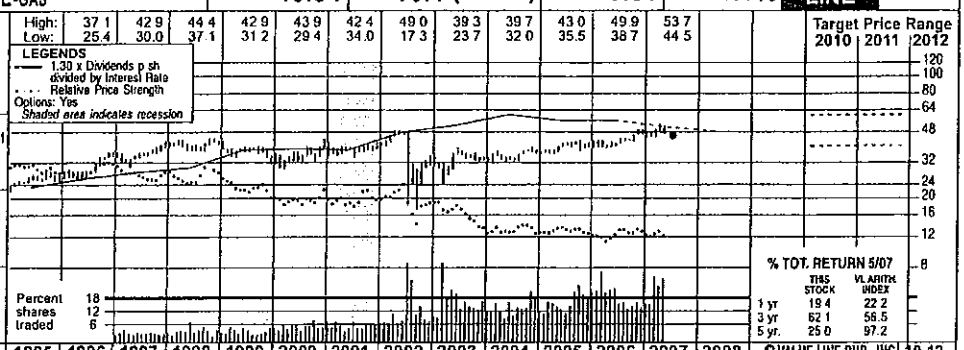
RECENT PRICE 45.84 | P/E RATIO 16.1 (Trailing: 15.7 Median: 15.0) | RELATIVE P/E RATIO 0.83 | DIV'D YLD 4.1% | VALUE LINE

TIMELINESS 4 Lowered 5/18/07
SAFETY 3 Lowered 6/17/05
TECHNICAL 4 Lowered 6/1/07
BETA 1.30 (1.00 = Market)

High:	37.1	42.9	44.4	42.9	43.9	42.4	49.0	39.3	39.7	43.0	49.9	53.7
Low:	25.4	30.0	37.1	31.2	29.4	34.0	17.3	23.7	32.0	35.5	38.7	44.5

Target Price Range 2010 | 2011 | 2012

LEGENDS
— 1.30 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area indicates recession



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+30%)	10%
Low	40	(-15%)	1%

Insider Decisions

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

Institutional Decisions

	2Q2006	3Q2006	4Q2006
to Buy	98	83	124
to Sell	110	118	80
Hld's(000)	32450	32534	32939

Percent shares traded 18 12 6

% TOT. RETURN 5/07

	THIS STOCK	VL ARITH. INDEX
1 yr	19.4	22.2
3 yr	62.1	56.5
5 yr.	25.0	97.2

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
26.46	28.90	31.02	31.23	29.42	37.39	41.33	30.84	34.45	50.52	57.30	43.11	60.46	62.12	76.00	65.92	68.90	71.10	Revenues per sh	71.10
3.92	4.14	3.80	4.11	4.19	4.97	5.29	5.21	5.59	6.16	6.41	6.03	5.37	6.00	6.19	6.82	6.20	6.35	"Cash Flow" per sh	6.45
1.86	1.92	1.97	2.07	1.96	2.42	2.55	2.31	2.57	2.94	3.01	2.88	2.11	2.22	2.29	3.03	2.85	2.90	Earnings per sh A	3.15
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	1.90	1.90	Div'ds Decl'd per sh B ■	2.00
3.65	3.12	2.62	3.34	3.12	2.42	2.34	2.87	3.28	3.48	4.18	4.37	4.12	4.32	4.57	4.17	4.45	4.45	Cap'l Spending per sh	4.45
12.28	12.76	13.05	13.26	13.67	14.74	15.43	15.97	16.89	15.56	16.39	16.55	17.13	16.99	18.36	19.43	20.45	21.45	Book Value per sh	24.40
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	44.90	45.00	45.00	Common Shs Outst'g C	45.00
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	15.0	Bold figures are		Avg Ann'l P/E Ratio	16.0
.73	.70	.83	.82	.88	.78	.82	.92	.83	.77	.66	.72	.90	.84	.92	.81	Value Line		Relative P/E Ratio	1.05
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%	4.3%	estimates		Avg Ann'l Div'd Yield	4.5%
						1992.6	1465.1	1615.2	2298.1	2544.1	1897.4	2662.7	2739.7	3357.8	2960.0	3100	3200	Revenues ($mill)	3200
						124.3	111.1	121.9	136.4	136.3	128.0	93.1	98.1	101.1	128.3	130	130	Net Profit ($mill)	140
						35.0%	34.4%	34.7%	34.6%	33.5%	31.0%	35.2%	31.8%	28.3%	26.3%	30.0%	31.0%	Income Tax Rate	33.0%
						6.2%	7.6%	7.5%	5.9%	5.4%	6.7%	3.5%	3.6%	3.0%	4.3%	4.1%	4.1%	Net Profit Margin	4.4%
						42.3%	42.1%	35.5%	32.7%	37.8%	35.1%	39.6%	39.8%	37.4%	36.3%	35.0%	34.0%	Long-Term Debt Ratio	31.0%
						57.2%	57.4%	64.0%	66.7%	61.7%	64.5%	60.3%	60.1%	62.5%	63.7%	65.0%	66.0%	Common Equity Ratio	69.0%
						1300.6	1322.6	1230.1	1061.2	1180.1	1128.9	1251.5	1246.0	1297.7	1370.7	1420	1465	Total Capital ($mill)	1600
						1735.8	1731.8	1735.2	1729.6	1768.6	1796.8	2484.2	2549.8	2659.1	2714.1	2850	2950	Net Plant ($mill)	3250
						11.1%	9.9%	10.9%	13.7%	12.3%	12.2%	8.3%	8.8%	9.4%	10.9%	10.5%	10.5%	Return on Total Cap'l	10.0%
						16.6%	14.5%	15.4%	19.1%	18.6%	17.5%	12.3%	13.1%	12.5%	14.7%	14.0%	13.5%	Return on Shr. Equity	13.0%
						16.7%	14.6%	15.4%	19.2%	18.7%	17.5%	12.3%	13.1%	12.5%	14.7%	14.0%	14.0%	Return on Com Equity	13.0%
						7.6%	5.4%	6.2%	8.5%	7.9%	6.5%	1.5%	2.1%	2.3%	5.2%	4.5%	4.5%	Retained to Com Eq	4.5%
						55%	63%	60%	56%	56%	63%	88%	84%	81%	65%	66%	65%	All Div'ds to Net Prof	64%

CAPITAL STRUCTURE as of 3/31/07
Total Debt $595.1 mill. Due in 5 Yrs $550.0 mill.
LT Debt $498.1 mill. LT Interest $5.1 mill.
(Total interest coverage: 4.6x)

Pension Assets-12/06 $432.3 mill. Oblig. $271.3 mill.

Pfd Stock $.6 mill. Pfd Div'd $2.0 mill.
(11,681 shares of 4.48% mandatorily redeemable preferred stock)
Common Stock 45,024,851 shares as of 4/26/07
MARKET CAP: $2.1 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2005	2006	3/31/07
Cash Assets	126.9	67.6	44.9
Other	1218.8	843.1	877.5
Current Assets	1345.7	910.7	922.4
Accts Payable	658.2	564.5	446.7
Debt Due	636.0	350.0	97.0
Other	328.7	227.9	573.2
Current Liab.	1622.9	1142.4	1116.9
Fix. Chg. Cov.	367%	NMF	46.9%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	7.5%	7.5%	0.5%
"Cash Flow"	3.5%	1.0%	0.5%
Earnings	1.5%	-3.0%	4.5%
Dividends	4.0%	2.5%	1.0%
Book Value	3.0%	2.5%	5.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	1115.7	429.5	299.9	894.6	2739.7
2005	1179.9	484.4	236.0	1357.5	3257.8
2006	1319.4	451.3	351.1	838.2	2960.0
2007	1334.7	515.3	350	900	3100
2008	1350	525	375	950	3200

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.96	.44	d.26	1.08	2.22
2005	.98	.35	d.06	1.02	2.29
2006	.94	.41	.39	1.29	3.03
2007	.93	.43	.34	1.15	2.85
2008	.95	.45	.35	1.15	2.90

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.465	.465	.465	.465	1.86
2004	.465	.465	.465	.465	1.86
2005	.465	.465	.465	.465	1.86
2006	.465	.465	.465	.465	1.86
2007	.465	.465			

BUSINESS: Nicor Inc. is a holding company with gas distribution as its primary business. Serves over 2.1 million customers in northern and western Illinois. 2006 gas delivered: 438.7 Bcf, incl. 206.0 Bcf from transportation. 2006 gas sales (232.7 bcf): residential, 80%; commercial, 18%; industrial, 2%. Principal supplying pipelines: Natural Gas Pipeline, Horizon Pipeline, and TGPC. Current operations include Tropical Shipping subsidiary and several energy related ventures. Divested inland barging, 7/86; contract drilling, 9/86; oil and gas E&P, 6/93. Has about 3,900 employees. Off./dir. own about 1.7% of common stock (3/07 proxy). Chairman and CEO: Russ Strobel. Inc.: Illinois. Address: 1844 Ferry Road, Naperville, Illinois 60563. Telephone: 630-305-9500. Internet: www.nicor.com.

Nicor reported a slight decline in share net in its first quarter. The company posted earnings of $0.93 a share, compared with $0.94 a share in the same period of 2006. These results excluded a one-time benefit related to Nicor's reserve for its mercury inspection and repair program, as well as its mercury-related cost recoveries. The top line edged up slightly, by 1%, from the year-ago tally.

The company reiterated its earnings guidance for 2007. Nicor's new share-net range of $2.76-$2.96 reflects the benefit, totaling $0.11, mentioned above. Thus, management has maintained its earnings guidance for the remainder of 2007. All told, this year's results will likely be down from 2006, which benefited from a strong performance in wholesale natural gas marketing.

Base rates should stay near current levels for the foreseeable future. Nicor continues to work within previously agreed upon parameters. Moreover, the company does not have any rate cases pending with the Illinois Commerce Commission.

Nicor's strategy should boost results in 2008. Management appears focused on improving GAS' margins by cutting costs and better utilizing its resources. Thus, we anticipate the top and bottom lines will grow at a single-digit clip next year.

The company offers a solid dividend yield. Nicor returns a healthy 4.1% to investors, which is above the industry average. The company has consistently paid a dividend for numerous years, which may be of interest to income-oriented investors.

Nicor has below-average appreciation potential to 2010-2012. These shares are trading within our 3- to 5-year Target Price Range, which limits their appeal to investors with an eye on the future. Additionally, this stock is influenced by the unpredictable gas commodities market, which adds further volatility to Nicor's profile.

These shares are ranked to trail the broader market in the year ahead. Indeed, Nicor will likely struggle to match its performance in 2006. Therefore, most investors may want to remain on the sidelines until Nicor's overall operating environment improves.

Richard Gallagher *June 15, 2007*

(A) Based on primary earnings thru '96, then diluted. Excl. nonrecurring gains/(loss): '97, 6¢; '98, 11¢; '99, 5¢; '00, ($1.96); '01, 16¢; '03, (27¢); '04, (52¢); '05, 80¢; '06, (17¢). Excl. items from discontinued ops.: '93, 4¢; '96, 30¢. Quarterly earnings may not sum to total due to rounding. Next egs. report due early August. (B) Dividends historically paid early February, May, August, November. ■ Dividend reinvestment plan available. (C) In millions.

Company's Financial Strength	A
Stock's Price Stability	50
Price Growth Persistence	40
Earnings Predictability	75

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N.W. NAT'L GAS NYSE-NWN

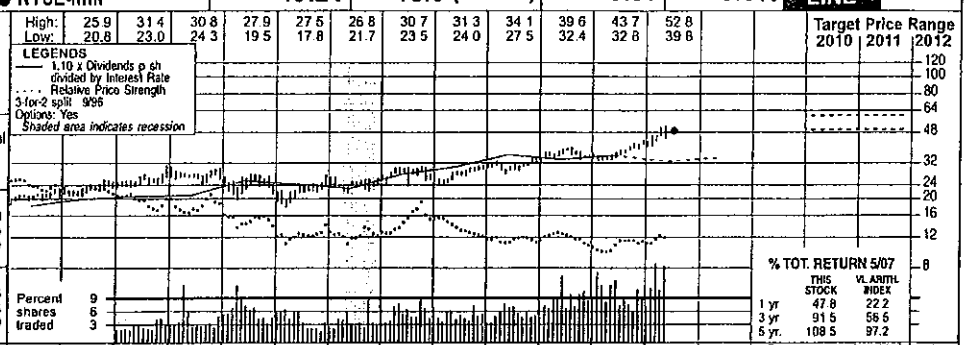
RECENT PRICE 49.21 | P/E RATIO 18.9 (Trailing: 19.1 Median: 16.0) | RELATIVE P/E RATIO 0.97 | DIV'D YLD 3.0% | VALUE LINE

TIMELINESS 3 Raised 2/23/07
SAFETY 1 Raised 3/18/05
TECHNICAL 3 Lowered 1/12/07
BETA .75 (1.00 = Market)

High:	25.9	31.4	30.8	27.9	27.5	26.8	30.7	31.3	34.1	39.6	43.7	52.8
Low:	20.8	23.0	24.3	19.5	17.8	21.7	23.5	24.0	27.5	32.4	32.8	39.8

Target Price Range 2010 | 2011 | 2012

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



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+20%)	9%
Low	50	(Nil)	4%

Insider Decisions

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

Institutional Decisions

	2Q2006	3Q2006	4Q2006
to Buy	77	66	75
to Sell	59	54	60
Hld's(000)	14328	14332	14381

Percent shares traded 9 6 3

% TOT. RETURN 5/07

	THIS STOCK	VL ARITH. INDEX
1 yr	47.8	22.2
3 yr	91.5	56.5
5 yr.	108.5	97.2

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
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	37.20	37.95	39.80	Revenues per sh	44.85
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	4.75	5.15	5.20	"Cash Flow" per sh	5.90
.67	.74	1.74	1.63	1.61	1.97	1.76	1.02	1.70	1.79	1.88	1.62	1.76	1.66	2.11	2.35	2.60	2.65	Earnings per sh A	3.10
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	1.39	1.46	1.54	Div'ds Decl'd per sh B■	1.86
3.58	3.73	3.61	4.23	3.02	3.70	5.07	4.02	4.78	3.46	3.23	3.11	4.90	5.52	3.48	3.56	4.45	3.85	Cap'l Spending per sh	3.85
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	21.28	22.01	23.20	24.20	Book Value per sh	27.35
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	27.24	27.00	27.00	Common Shs Outst'g C	29.00
28.1	27.0	12.9	13.0	12.9	11.7	14.4	26.7	14.5	12.4	12.9	17.2	15.8	16.7	17.0	16.3	Bold figures are		Avg Ann'l P/E Ratio	18.0
1.79	1.64	.76	.85	.86	.73	.83	1.39	.83	.81	.66	.94	.90	.88	.91	.88	Value Line		Relative P/E Ratio	1.20
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%	3.7%	estimates		Avg Ann'l Div'd Yield	3.3%
						361.8	416.7	455.8	532.1	650.3	641.4	611.3	707.6	910.5	1013.2	1025	1075	Revenues ($mill)	1300
						43.1	27.3	44.9	47.8	50.2	43.8	46.0	50.6	58.1	63.4	70.5	71.5	Net Profit ($mill)	90.0
						32.9%	31.0%	35.4%	35.9%	35.4%	34.9%	33.7%	34.4%	36.0%	36.4%	37.0%	37.0%	Income Tax Rate	37.0%
						11.9%	6.6%	9.9%	9.0%	7.7%	6.8%	7.5%	7.1%	6.4%	6.3%	6.9%	6.7%	Net Profit Margin	6.9%
						46.0%	45.0%	46.0%	45.1%	43.0%	47.6%	49.7%	46.0%	47.0%	46.3%	47.0%	47.0%	Long-Term Debt Ratio	48.0%
						49.0%	50.6%	49.9%	50.9%	53.2%	51.5%	50.3%	54.0%	53.0%	53.7%	53.0%	53.0%	Common Equity Ratio	52.0%
						748.0	815.6	861.5	887.8	880.5	937.3	1006.6	1052.5	1108.4	1116.5	1150	1200	Total Capital ($mill)	1350
						827.5	894.7	895.9	934.0	965.0	995.6	1205.9	1318.4	1373.4	1425.1	1485	1525	Net Plant ($mill)	1650
						7.4%	5.0%	6.8%	6.7%	6.9%	5.9%	5.7%	5.9%	6.5%	7.0%	7.0%	7.0%	Return on Total Cap'l	7.0%
						10.7%	6.1%	9.7%	9.8%	10.0%	8.9%	9.1%	8.9%	9.9%	10.6%	11.0%	11.0%	Return on Shr. Equity	11.5%
						11.0%	6.0%	9.9%	10.0%	10.2%	8.5%	9.0%	8.9%	9.9%	10.6%	11.0%	11.0%	Return on Com Equity	11.5%
						3.6%	NMF	2.8%	3.1%	3.5%	1.9%	2.6%	2.7%	3.7%	4.2%	5.0%	5.0%	Retained to Com Eq	4.5%
						70%	118%	74%	70%	67%	79%	72%	69%	63%	60%	56%	58%	All Div'ds to Net Prof	60%

CAPITAL STRUCTURE as of 3/31/07
Total Debt $646.6 mill. Due in 5 Yrs $251.7 mill.
LT Debt $517.0 mill. LT Interest $31.0 mill.

(Total interest coverage: 3.4x)

Pension Assets-12/05 $236 mill.
Oblig. $269 mill.
Pfd Stock None

Common Stock 26,987,803 shs
as of 4/30/07
MARKET CAP $1.3 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2005	12/31/06	3/31/07
Cash Assets	7.1	5.8	5.1
Other	316.6	303.0	218.6
Current Assets	323.7	308.8	223.7
Accts Payable	135.3	113.6	92.2
Debt Due	134.7	129.6	15.0
Other	56.6	98.3	128.7
Current Liab.	326.6	341.5	235.9
Fx. Chg. Cov.	340%	349%	NMF

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	6.5%	8.0%	6.0%
"Cash Flow"	2.0%	3.0%	5.0%
Earnings	2.0%	3.0%	6.5%
Dividends	1.0%	1.5%	5.5%
Book Value	4.0%	3.5%	4.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	254.5	109.7	81.4	262.0	707.6
2005	308.7	153.7	106.7	341.4	910.5
2006	390.4	171.0	114.9	336.9	1013.2
2007	394.1	175	110	345.9	1025
2008	410	185	120	360	1075

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	1.24	d.03	d.30	.95	1.86
2005	1.44	.04	d.31	.94	2.11
2006	1.48	.07	d.35	1.15	2.35
2007	1.70	.06	d.33	1.17	2.60
2008	1.69	.07	d.33	1.22	2.65

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.315	.315	.315	.325	1.27
2004	.325	.325	.325	.325	1.30
2005	.325	.325	.325	.345	1.32
2006	.345	.345	.345	.355	1.39
2007	.355	.355			

BUSINESS: Northwest Natural Gas Co. distributes natural gas at retail to 90 communities, 641,000 customers, in Oregon (90% of costs) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.5 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system. Owns local underground storage. Rev. breakdown: residential, 55%; commercial, 28%; industrial, gas transportation, and other, 17%. Employs 1,200. Fidelity owns 14.9% of shares; Snyder Cap'l, 8.7%; off./dir., 2.0% (4/07 proxy). CEO: Mark S. Dodson. Inc.: Oregon. Address: 220 NW 2nd Ave., Portland, OR 97209. Tel.: 503-226-4211. Internet: www.nwnatural.com.

Northwest Natural's first-quarter earnings got a big boost from gas hedging . . . In Oregon, the company retains one-third of the difference, whether loss or gain, between its forecast and actual gas costs. (The cost of gas is all passed through to customers in Washington.) Hedging netted $9.8 million, pretax, in the March 2007 period, compared with $1.8 million in both the 2006 and 2005 first quarters. The difference amounted to $0.18 a share in 2007. First-quarter results also benefited from customer growth of 2.8%, colder weather than last year, and a bit lower bad-debt costs.

. . . but we don't look for similar gains over the balance of the year. At 2.8%, Northwest's customer growth remains at about twice the national average, but the housing slowdown is affecting the Portland area somewhat. Accordingly, that source of earnings growth is not likely to be as fruitful in 2007. Gas storage profits should rise a bit, as Northwest has expanded its Mist storage facility by around 7%. And the company's work-redesign program, now in its second year, will likely yield further gains, but we think they will just mitigate labor cost inflation.

Absent further gas hedging profits, earnings will probably not rise much in 2008. Customer growth will probably pick up a bit, after a slowdown in 2007. The work redesign program will probably be completed, outsourcing some activities and paring costs by some centralizing and automated meter reading. But no major project now in the works is due to come on stream by 2008. Still,

Earnings growth is likely to be above the industry average out to 2010-2012. The urban zoning boundary of Portland is scheduled to be extended to include some eastern suburbs over the next five years. When that happened west of the city in the 1990s, Northwest saw great customer growth, and a similar spurt is likely from the coming expansion. The likely opening of one or two liquefied natural gas plants in the company's territory should boost earnings, as well.

These neutrally ranked, top-quality shares are trading on the company's good prospects. But their dividend yield is now below the industry average.

Sigourney B. Romaine, CFA June 15, 2007

(A) Diluted earnings per share. Excludes nonrecurring items: '98, $0.15; '00, $0.11; '06, ($0.06). Next earnings report due early August.
(B) Dividends historically paid in mid-February, mid-May, mid-August, and mid-November.
■ Dividend reinvestment plan available.
(C) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	65
Earnings Predictability	80

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PIEDMONT NAT'L. GAS NYSE-PNY

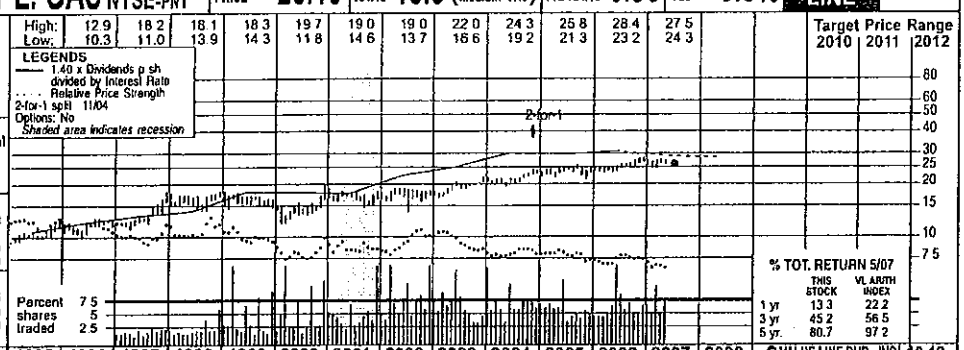
RECENT PRICE 26.10 | P/E RATIO 18.5 (Trailing: 20.6 Median: 17.0) | RELATIVE P/E RATIO 0.95 | DIV'D YLD 3.8% | VALUE LINE

TIMELINESS 3 Raised 6/15/07
SAFETY 2 New 7/27/90
TECHNICAL 4 Lowered 5/25/07
BETA .80 (1.00 = Market)

High:	12.9	18.2	18.1	18.3	19.7	19.0	22.0	24.3	25.8	28.4	27.5	
Low:	10.3	11.0	13.9	14.3	11.8	14.6	13.7	16.6	19.2	21.3	23.2	24.3

Target Price Range 2010 | 2011 | 2012

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



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+55%)	14%
Low	30	(+15%)	7%

Insider Decisions

	J	A	S	O	N	D	J	F	M
to Buy	10	1	0	0	0	0	0	0	1
Options	0	0	0	0	0	0	0	0	0
to Sell	2	0	0	0	0	1	0	0	0

Institutional Decisions

	2Q2006	3Q2006	4Q2006
to Buy	85	68	79
to Sell	61	69	70
Hld's(000)	32936	33570	33589

Percent shares traded 7.5 / 5 / 2.5

% TOT. RETURN 5/07

	THIS STOCK	VL ARITH INDEX
1 yr	13.3	22.2
3 yr	45.2	56.5
5 yr.	80.7	97.2

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
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	25.80	*27.10*	*28.50*	Revenues per sh A	*32.60*
.78	1.07	1.14	1.13	1.25	1.49	1.62	1.72	1.70	1.77	1.81	1.81	2.04	2.31	2.43	2.50	*2.50*	*2.60*	"Cash Flow" per sh	*2.90*
.44	.70	.73	.68	.73	.84	.93	.98	.93	1.01	1.01	.95	1.11	1.27	1.32	1.27	*1.40*	*1.45*	Earnings per sh B	*1.60*
.44	.46	.48	.51	.54	.57	.61	.64	.68	.72	.76	.80	.82	.85	.91	.95	*.99*	*1.03*	Div'ds Decl'd per sh C■	*1.15*
1.37	1.41	1.56	1.95	1.72	1.64	1.52	1.46	1.58	1.65	1.29	1.21	1.16	1.85	2.50	2.74	*1.95*	*2.05*	Cap'l Spending per sh	*2.30*
4.83	5.13	5.45	5.68	6.16	6.53	6.95	7.45	7.86	8.26	8.63	8.91	9.36	11.15	11.53	11.83	*12.35*	*12.90*	Book Value per sh D	*14.45*
49.46	51.59	52.30	53.15	57.67	59.10	60.39	61.48	62.59	63.83	64.93	66.18	67.31	76.67	76.70	74.61	*73.80*	*73.00*	Common Shs Outst'g E	*71.80*
16.3	12.3	15.4	15.7	13.8	13.9	13.6	16.3	17.7	14.3	16.7	18.4	16.7	16.6	17.9	19.4	*Bold figures are*		Avg Ann'l P/E Ratio	*22.0*
1.04	.75	.91	1.03	.92	.87	.78	.85	1.01	.93	.86	1.01	.95	.88	.95	1.02	*Value Line*		Relative P/E Ratio	*1.30*
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%	3.9%	*estimates*		Avg Ann'l Div'd Yield	*3.5%*

CAPITAL STRUCTURE as of 1/31/07
Total Debt $1057.5 mill. Due in 5 Yrs $150.0 mill.
LT Debt $825.0 mill. LT Interest $50.0 mill.
(LT interest earned: 4.0x; total interest coverage: 4.0x)

Pension Assets-10/05 $211.9 mill. Oblig. $236.3 mill.

Pfd Stock None

Common Stock 74,599,552 shs as of 3/2/07
MARKET CAP: $1.9 billion (Mid Cap)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		10-12
775.5	765.3	686.5	830.4	1107.9	832.0	1220.8	1529.7	1761.1	1924.7	*2000*	*2100*	Revenues ($mill) A	*2340*
55.2	60.3	58.2	64.0	65.5	62.2	74.4	95.2	101.3	96.7	*105*	*105*	Net Profit ($mill)	*115*
39.1%	39.2%	39.7%	34.7%	34.6%	33.1%	34.8%	35.1%	33.7%	35.0%	*35.0%*	*35.0%*	Income Tax Rate	*35.0%*
7.1%	7.9%	8.5%	7.7%	5.9%	7.5%	6.1%	6.2%	5.8%	5.0%	*5.2%*	*5.1%*	Net Profit Margin	*5.0%*
47.6%	44.7%	46.2%	46.1%	47.6%	43.9%	42.2%	43.8%	41.4%	48.3%	*48.5%*	*49.0%*	Long-Term Debt Ratio	*47.2%*
52.4%	55.3%	53.8%	53.9%	52.4%	56.1%	57.8%	56.4%	58.6%	51.7%	*51.5%*	*51.0%*	Common Equity Ratio	*52.8%*
800.8	829.3	914.7	978.4	1069.4	1051.6	1090.2	1514.9	1508.2	1708.0	*1770*	*1845*	Total Capital ($mill)	*1970*
941.7	990.6	1047.0	1072.0	1114.7	1158.5	1812.3	1849.8	1939.1	2075.0	*2100*	*2150*	Net Plant ($mill)	*2350*
8.9%	9.2%	8.1%	8.3%	7.9%	7.8%	8.6%	7.8%	8.2%	7.1%	*7.0%*	*7.0%*	Return on Total Cap'l	*7.0%*
13.1%	13.2%	11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	*11.5%*	*11.5%*	Return on Shr. Equity	*11.5%*
13.1%	13.2%	11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	*11.5%*	*11.5%*	Return on Com Equity	*11.5%*
4.6%	4.7%	3.3%	3.5%	3.0%	1.7%	3.1%	3.7%	3.6%	2.8%	*3.5%*	*3.5%*	Retained to Com Eq	*3.5%*
65%	65%	72%	71%	75%	83%	74%	56%	68%	74.6%	*71%*	*71%*	All Div'ds to Net Prof	*69%*

CURRENT POSITION ($MILL.)	2005	2006	1/31/07
Cash Assets	7.1	8.9	18.0
Other	497.8	467.1	598.4
Current Assets	504.9	476.0	616.4
Accts Payable	182.8	80.3	128.5
Debt Due	193.5	170.0	232.5
Other	152.3	150.1	156.0
Current Liab	528.6	400.4	517.0
Fix. Chg. Cov.	271%	261%	300%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	7.5%	11.0%	*6.0%*
"Cash Flow"	7.0%	5.5%	*3.0%*
Earnings	5.5%	5.0%	*4.0%*
Dividends	5.5%	5.0%	*4.0%*
Book Value	6.5%	6.5%	*4.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2004	618.8	482.4	214.7	213.8	1529.7
2005	680.6	508.0	232.9	339.6	1761.1
2006	921.4	483.2	237.9	282.2	1924.7
2007	677.2	531.6	*350*	*322.8*	*2000*
2008	*925*	*575*	*275*	*325*	*2100*

Fiscal Year Ends	EARNINGS PER SHARE A B F Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2004	1.03	.54	d.11	d.21	1.27
2005	.93	.52	d.06	d.07	1.32
2006	.94	.57	d.16	d.08	1.27
2007	.94	.69	*d.13*	*d.10*	*1.40*
2008	*.95*	*.60*	*d.06*	*d.04*	*1.45*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.20	.208	.208	.208	.82
2004	.208	.215	.215	.215	.85
2005	.215	.23	.23	.23	.91
2006	.23	.24	.24	.24	.95
2007	.25				

BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 1,016,000 customers in North Carolina, South Carolina, and Tennessee. 2006 revenue mix: residential (44%), commercial (26%), industrial (11%), other (19%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 72.8% of revenues. '06 deprec. rate: 3.5%. Estimated plant age: 8.7 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 2,051 employees. Officers & directors own less than 1% of common stock (1/07 proxy). Chairman, CEO, & President: Thomas E. Skains. Inc.: NC. Addr.: 4720 Piedmont Row Drive, Charlotte, NC 28210. Telephone: 704-731-4226. Internet: www.piedmontng.com.

Piedmont Natural Gas posted a $0.12 year-to-year share-net gain in the fiscal second quarter (period ended April 30th). One factor affecting the bottom line is strong customer growth. So far this year we have seen growth of 2.2% over last year. Despite warmer weather earlier in the fiscal year the expansion of the customer base has boosted revenues, which has created operating leverage. Also, the lower cost of wholesale natural gas and reduced maintenance expenses has helped bolster operating profits. Finally, the company has been pursuing opportunities that have aided the earnings recovery. Its Automated Meter Reading (AMR) project in South Carolina is now operational. And, a similar endeavor in North Carolina was completed earlier this year. Both are likely to help streamline operations and enhance profitability.

Piedmont's joint venture, Hardy Storage Company, is now being stocked with natural gas. The facility should be up and running later this year, and recent improvements should allow the field to deliver natural gas as soon as November. Delivery capacity is projected to increase roughly 75% by the time the facility becomes fully developed in 2009. Firm long-term contracts have been established with several gas distribution companies, which should result in stable cash flows for Hardy. Piedmont will benefit from the underground storage asset as an affiliate and through the use of the facility as a customer.

The company continues to pass earnings on to investors through respectable dividends. During the first quarter, the directors raised the payout for the 29th consecutive year. The company boosted annual dividends by 5%, an increase of a nickel.

Shares of PNY offer about average appreciation potential over the 2010–2012 push. However, the dividend yield of approximately 4% may be appealing to income-oriented investors. This, coupled with the 5% discount offered through the dividend reinvestment plan should produce an attractive total return for patient investors. Also, conservative investors should note the stock's Above-Average Safety rank.

Bryan Fong *June 15, 2007*

(A) Fiscal year ends October 31st.
(B) Diluted earnings. Excl. extraordinary item: '00, 8¢. Excl. nonrecurring charge: '97, 2¢. Next earnings report due early Aug.
(C) Dividends historically paid mid-January, April, July, October.
■ Div'd reinvest. plan available; 5% discount.
(D) Includes deferred charges. At 10/31/06: $11.3 million, 15¢/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	60
Earnings Predictability	80

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SOUTH JERSEY INDS. NYSE-SJI

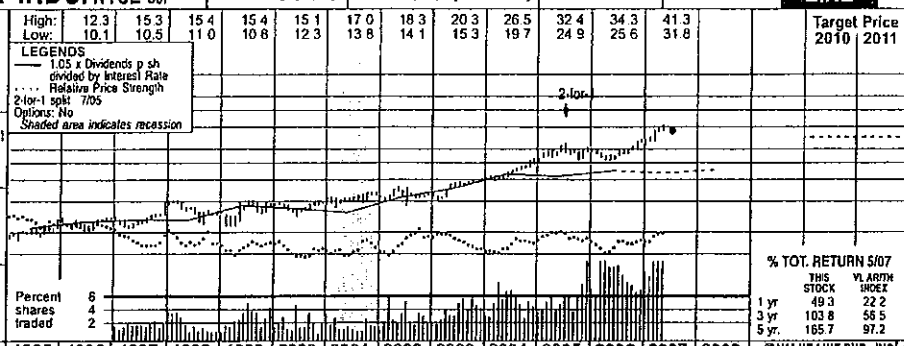
RECENT PRICE 38.20 | P/E RATIO 16.6 (Trailing: 20.8 Median: 14.0) | RELATIVE P/E RATIO 0.85 | DIV'D YLD 2.6% | VALUE LINE

TIMELINESS 3 Raised 3/9/07
SAFETY 2 Lowered 1/4/91
TECHNICAL 3 Lowered 1/26/07
BETA .70 (1.00 = Market)

High:	12.3	15.3	15.4	15.4	15.1	17.0	18.3	20.3	26.5	32.4	34.3	41.3		
Low:	10.1	10.5	11.0	10.8	12.3	13.8	14.1	15.3	19.7	24.9	25.6	31.8		

Target Price Range 2010 | 2011 | 2012

LEGENDS
— 1.05 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 7/05
Options: No
Shaded area indicates recession



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+30%)	9%
Low	35	(-10%)	1%

Insider Decisions

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

Institutional Decisions

	2Q2006	3Q2006	4Q2006
to Buy	64	50	58
to Sell	46	47	44
Hld's(000)	15700	15711	15568

% TOT. RETURN 5/07

	THIS STOCK	VL ARITH. INDEX
1 yr	49.3	22.2
3 yr	103.8	56.5
5 yr.	165.7	97.2

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
15.10	16.67	17.03	17.45	16.50	16.52	16.18	20.89	17.60	22.43	35.30	20.69	26.34	29.51	31.78	31.77	32.60	33.75	Revenues per sh	37.50
1.37	1.56	1.54	1.35	1.65	1.54	1.60	1.44	1.84	1.95	1.90	2.12	2.24	2.44	2.51	2.88	3.25	3.40	"Cash Flow" per sh	4.15
.64	.81	.78	.61	.83	.85	.86	.64	1.01	1.08	1.15	1.22	1.37	1.58	1.71	2.46	2.30	2.45	Earnings per sh A	3.00
.71	.71	.72	.72	.72	.72	.72	.72	.72	.73	.74	.75	.78	.82	.86	.92	.98	1.04	Div'ds Decl'd per sh B ■	1.20
2.17	1.69	1.87	1.93	2.08	2.01	2.30	3.06	2.19	2.21	2.82	3.47	2.36	2.67	3.21	2.51	2.50	2.60	Cap'l Spending per sh	3.15
6.77	6.95	7.17	7.23	7.34	8.03	6.43	6.23	6.74	7.25	7.81	9.67	11.26	12.41	13.50	15.11	16.15	16.40	Book Value per sh C	17.95
18.48	19.00	19.61	21.43	21.44	21.51	21.54	21.56	22.30	23.00	23.72	24.41	26.46	27.76	28.98	29.33	29.75	30.50	Common Shs Outst'g D	32.00
14.5	13.2	15.8	16.1	12.2	13.3	13.8	21.2	13.3	13.0	13.6	13.5	13.3	14.1	16.6	11.9	Bold figures are		Avg Ann'l P/E Ratio	14.0
.93	.80	.93	1.06	.82	.83	.80	1.10	.76	.85	.70	.74	.76	.74	.88	.64	Value Line		Relative P/E Ratio	.95
7.6%	6.6%	5.9%	7.4%	7.2%	6.4%	6.1%	5.3%	5.4%	5.2%	4.7%	4.6%	4.3%	3.7%	3.0%	3.2%	estimates		Avg Ann'l Div'd Yield	2.9%

348.6	450.2	392.5	515.9	837.3	505.1	696.8	819.1	921.0	931.4	970	1030	Revenues ($mill)	1200
18.4	13.8	22.0	24.7	26.8	29.4	34.6	43.0	48.6	54.0	65.0	70.0	Net Profit ($mill)	95.0
36.8%	46.2%	42.8%	43.1%	42.2%	41.4%	40.6%	40.9%	41.5%	41.1%	41.0%	40.5%	Income Tax Rate	40.0%
5.3%	3.1%	5.6%	4.8%	3.2%	5.8%	5.0%	5.2%	5.3%	5.8%	6.7%	6.8%	Net Profit Margin	7.9%
54.6%	57.3%	53.8%	54.1%	57.0%	53.6%	50.8%	48.7%	44.9%	44.7%	43.9%	44.4%	Long-Term Debt Ratio	42.5%
35.8%	33.5%	37.0%	37.6%	35.0%	46.1%	49.0%	51.0%	55.1%	55.3%	56.1%	55.6%	Common Equity Ratio	57.5%
387.1	401.1	405.9	443.5	516.2	512.5	608.4	675.0	710.3	801.1	855	900	Total Capital ($mill)	1000
456.5	504.3	533.3	562.2	607.0	666.6	748.3	799.9	877.3	920.0	960	1025	Net Plant ($mill)	1200
6.7%	5.3%	7.4%	7.4%	6.9%	7.6%	7.3%	7.9%	8.3%	7.9%	9.0%	9.0%	Return on Total Cap'l	11.0%
10.5%	8.1%	11.7%	12.1%	12.1%	12.4%	11.5%	12.4%	12.4%	12.2%	13.5%	14.0%	Return on Shr. Equity	16.5%
13.3%	10.3%	14.6%	14.8%	12.8%	12.5%	11.6%	12.5%	12.4%	12.2%	13.5%	14.0%	Return on Com Equity	16.5%
2.1%	NMF	4.2%	4.8%	3.5%	4.7%	5.0%	5.9%	6.2%	6.1%	7.5%	7.5%	Retained to Com Eq	10.0%
84%	112%	72%	67%	76%	62%	57%	52%	50%	50%	45%	45%	All Div'ds to Net Prof	40%

CAPITAL STRUCTURE as of 3/31/07
Total Debt $442.6 mill. Due in 5 Yrs $117.7 mill.
LT Debt $358.0 mill. LT Interest $22.0 mill.
(Total interest coverage: 5.1x)

Pension Assets-12/06 $117.1 mill. Oblig. $132.6 mill.

Pfd Stock none

Common Stock 29,465,942 common shs as of 5/1/07

MARKET CAP: $1.1 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2005	2006	3/31/07
Cash Assets	4.9	7.9	13.9
Other	352.6	363.8	319.7
Current Assets	357.5	371.7	333.6
Accts Payable	179.0	101.6	111.7
Debt Due	149.7	197.0	84.6
Other	74.4	124.2	121.1
Current Liab	403.1	422.8	317.4
Fix. Chg. Cov.	486%	527%	495%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	6.5%	4.5%	3.0%
"Cash Flow"	5.5%	6.5%	8.0%
Earnings	8.5%	9.5%	NMF
Dividends	2.0%	3.5%	5.5%
Book Value	6.0%	13.5%	4.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	307.6	136.5	129.5	245.5	819.1
2005	328.6	154.0	157.0	281.4	921.0
2006	372.6	153.8	154.7	250.3	931.4
2007	368.4	170	160	271.6	970
2008	390	190	170	280	1030

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.91	.15	.02	.50	1.58
2005	.96	.27	.09	.39	1.71
2006	1.06	.20	.51	.69	2.45
2007	1.30	.20	.30	.50	2.30
2008	1.25	.25	.35	.60	2.45

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	--	.193	.193	.395	.78
2004	--	.202	.202	.415	.82
2005	--	.213	.213	.438	.86
2006	--	.225	.225	.470	.92
2007	--	.245			

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 330,049 customers in New Jersey's southern counties, which covers 2,500 square miles and includes Atlantic City. Gas revenue mix '06: residential, 43%; commercial, 24%; cogeneration and electric generation, 3%; industrial, 30%. Non-utility operations include: South Jersey Energy, South Jersey Resources Group, Marina Energy, and South Jersey Energy Service Plus. Has 611 employees. Off./dir. cntrl: 1.2% of com. shares; Dimensional Fund Advisors, 8.3%; Barclays, 6.0% (3/07 proxy). Chrmn. & CEO: Edward Graham. Incorp.: NJ. Address: 1 South Jersey Plaza, Folsom, NJ 08037. Tel.: 609-561-9000. Internet: www.sjindustries.com.

Our share earnings figures for South Jersey Industries will now be based on the company's economic earnings, a non-GAAP measure that eliminates unrealized gains and losses from commodity derivative transactions. Investors should be advised that bottom-line figures from 2007 onward will not be directly comparable with those from prior years, although we'll discuss any notable differences. GAAP EPS will be disclosed in the footnotes. The switch better reflects basic trends.

The Utility business reported solid results for the first quarter. Performance was benefited by growth in the customer base and the implementation of the Conservation Incentive Program (discussed below). This was partially offset by increased interest and depreciation expense, compared to the prior year's period.

We are optimistic about the company's Conservation Incentive Program (CIP). This initiative allows subsidiary South Jersey Gas to promote energy conservation, while insulating itself from the negative impact of reduced customer usage. The CIP prevented the loss of $3.1 million in the first quarter by offsetting the effect of lower customer utilization. This program should continue to benefit SJI going forward.

The company has announced a new project for Marina Energy. Marina develops, owns, and operates on-site energy plants, which provide income streams as part of long-term contracts. The company recently announced that it will partner with DCO Energy to design, construct, own, and operate a thermal facility that will provide for the heating and cooling needs of Boyd Gaming's Echelon casino and resort project in Las Vegas. This $200 million facility will likely become operational in 2010.

These shares are neutrally ranked for Timeliness. This issue earns high marks for Price Stability and Earnings Predictability. We anticipate steady growth in share earnings to 2010-2012. The dividend ought to increase during this timeframe, as well. Nevertheless, at the present quotation, appreciation potential is unexciting. Moreover, the current dividend yield of 2.6% is below average for a gas utility.

Michael F. Napoli, CPA *June 15, 2007*

(A) Based on avg. shs through 2006, economic earnings thereafter. GAAP EPS: Q1 2007, $0.92. Excl. nonrecur. gain: '01, $0.13. Excl. gain (losses) from discont. ops.: '96, $1.14; '97, ($0.24); '98, ($0.26); '99, ($0.02); '00, ($0.04); '01, ($0.02); '02, ($0.04); '03, ($0.09); '05, ($0.02); '06, ($0.02). Next egs. report due early August. (B) Dividends paid early Apr., Jul., Oct., and late Dec. ■ Div. reinvest. plan avail. (C) Incl. regulatory assets. At 3/31/07: $220.0 mill., $7.48 per shr. (D) In millions, adjusted for split.

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

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WGL HOLDINGS NYSE-WGL

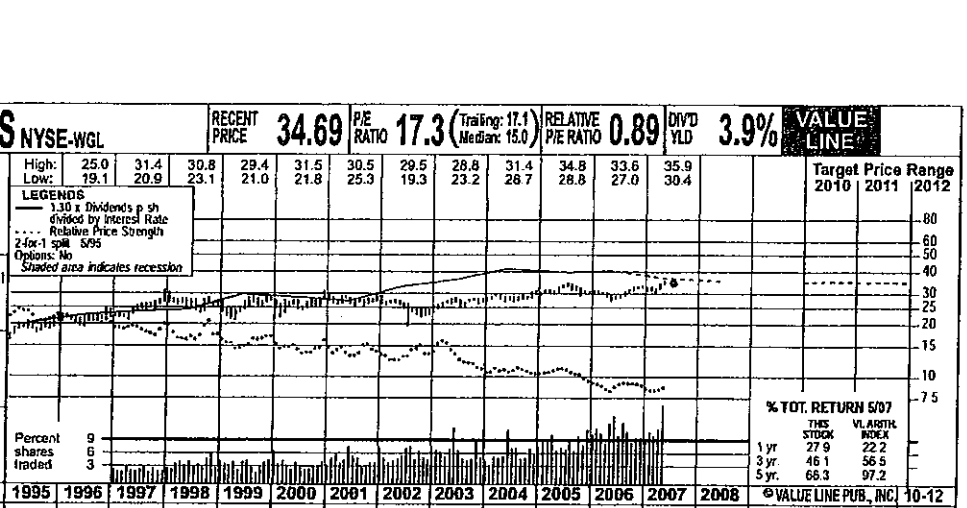
RECENT PRICE 34.69 | P/E RATIO 17.3 (Trailing: 17.1 Median: 15.0) | RELATIVE P/E RATIO 0.89 | DIV'D YLD 3.9% | VALUE LINE

TIMELINESS 3 Raised 5/25/07
SAFETY 1 Raised 4/2/93
TECHNICAL 4 Lowered 5/25/07
BETA .85 (1.00 = Market)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
High:	25.0	31.4	30.8	29.4	31.5	30.5	29.5	28.8	31.4	34.8	33.6	35.9
Low:	19.1	20.9	23.1	21.0	21.8	25.3	19.3	23.2	28.7	28.8	27.0	30.4

Target Price Range 2010 | 2011 | 2012

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



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	35	(Nil)	4%
Low	30	(-15%)	1%

Insider Decisions

	J	A	S	O	N	D	J	F	M
to Buy	0	0	0	0	1	0	0	0	0
Options	1	6	0	1	6	1	0	0	0
to Sell	1	7	0	1	6	1	0	0	0

Institutional Decisions

	2Q2006	3Q2006	4Q2006
to Buy	73	86	81
to Sell	78	73	68
Hld's(000)	29760	30043	30408

Percent shares traded 9 6 3

% TOT. RETURN 5/07

	THIS STOCK	VL ARITH. INDEX
1 yr.	27.9	22.2
3 yr.	46.1	56.5
5 yr.	66.3	97.2

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
17.50	18.37	21.55	21.69	19.30	22.19	24.16	23.74	20.92	22.19	29.80	32.63	42.45	42.93	44.94	53.96	55.65	57.20	Revenues per sh A	62.40
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	3.93	3.90	3.95	"Cash Flow" per sh	4.40
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	1.94	1.98	2.10	Earnings per sh B	2.40
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	1.34	1.36	1.40	Div'ds Decl'd per sh C■	1.52
2.05	2.17	2.43	2.84	2.63	2.85	3.20	3.62	3.42	2.67	2.68	3.34	2.65	2.33	2.32	3.27	2.45	2.45	Cap'l Spending per sh	2.55
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	18.28	19.40	20.05	Book Value per sh D	22.10
39.89	40.62	41.50	42.19	42.93	43.70	43.70	43.84	46.47	46.47	48.54	48.56	48.63	48.67	48.65	48.89	48.91	48.92	Common Shs Outst'g E	49.00
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	15.5	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	15.0
.82	.82	.92	.92	.85	.72	.73	.89	.99	.95	.75	1.26	.63	.75	.78	.81			Relative P/E Ratio	1.00
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%	4.5%			Avg Ann'l Div'd Yield	4.3%

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		10-12
1055.8	1040.6	972.1	1031.1	1446.5	1584.8	2064.2	2089.6	2186.3	2637.9	2715	2800	Revenues ($mill) A	3050
82.0	68.6	68.8	84.6	89.9	55.7	112.3	98.0	104.8	95.1	96.0	100	Net Profit ($mill)	115
36.9%	35.6%	36.0%	36.1%	39.5%	34.0%	38.0%	38.2%	37.4%	39.0%	38.0%	38.0%	Income Tax Rate	38.0%
7.8%	6.6%	7.1%	8.2%	6.2%	3.5%	5.4%	4.7%	4.8%	3.6%	3.7%	3.7%	Net Profit Margin	3.8%
41.1%	40.3%	41.5%	43.1%	41.7%	45.7%	43.8%	40.9%	39.5%	38.5%	36.8%	36.1%	Long-Term Debt Ratio	33.7%
56.2%	57.1%	56.1%	54.8%	56.3%	52.4%	54.3%	57.2%	58.6%	61.5%	61.4%	62.1%	Common Equity Ratio	64.5%
1049.0	1064.8	1218.5	1299.2	1400.8	1462.5	1454.9	1443.6	1478.1	1497.8	1550	1580	Total Capital ($mill)	1690
1217.1	1319.5	1402.7	1460.3	1519.7	1606.8	1874.9	1915.6	1969.7	2068	2170	2280	Net Plant ($mill)	2640
9.3%	8.0%	7.1%	7.8%	7.9%	5.3%	9.1%	8.2%	8.5%	7.7%	7.5%	7.5%	Return on Total Cap'l	8.0%
13.3%	10.8%	9.7%	11.4%	11.0%	7.0%	13.7%	11.5%	11.7%	10.3%	10.0%	10.5%	Return on Shr. Equity	10.5%
13.7%	11.1%	9.9%	11.7%	11.2%	7.2%	14.0%	11.7%	12.0%	10.2%	10.5%	10.5%	Return on Com Equity	10.5%
5.1%	2.5%	1.8%	3.7%	3.8%	NMF	6.2%	4.1%	4.6%	3.1%	3.0%	3.0%	Retained to Com Eq	3.5%
63%	78%	82%	69%	67%	112%	56%	65%	62%	70%	69%	68%	All Div'ds to Net Prof	64%

CAPITAL STRUCTURE as of 3/31/07
Total Debt $778.0 mill. Due in 5 Yrs $290.0 mill.
LT Debt $605.1 mill. LT Interest $40.6 mill.
(LT interest earned: 4.8x; total interest coverage: 4.2x)
Pension Assets-9/06 $699.9 mill. Oblig. $697.4 mill.
Preferred Stock $28.2 mill. Pfd Div'd $1.3 mill.

Common Stock 49,224,499 shs. as of 4/30/07

MARKET CAP: $1.5 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2005	2006	3/31/07
Cash Assets	4.8	4.4	92.8
Other	476.2	556.9	798.8
Current Assets	481.0	561.3	765.9
Accts Payable	204.9	208.5	312.0
Debt Due	91.0	238.4	172.9
Other	115.5	113.9	185.5
Current Liab.	411.4	560.8	670.4
Fix. Chg. Cov.	460%	465%	460%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	7.5%	14.5%	4.5%
"Cash Flow"	5.0%	6.5%	1.5%
Earnings	4.5%	6.0%	2.0%
Dividends	1.5%	1.5%	2.5%
Book Value	4.0%	3.0%	3.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2004	585.3	862.2	356.9	285.2	2089.6
2005	623.4	929.8	349.0	284.1	2186.3
2006	902.9	1064.5	346.9	323.6	2637.9
2007	732.9	1119.9	440	422.2	2715
2008	970	1040	390	400	2800

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2004	.81	1.62	d.08	d.37	1.98
2005	.88	1.63	d.17	d.23	2.11
2006	.93	1.17	d.01	d.15	1.94
2007	.92	1.29	.02	d.25	1.98
2008	.95	1.26	.04	d.15	2.10

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.32	.325	.325	.325	1.30
2004	.325	.333	.333	.333	1.32
2005	.33	.33	.333	.333	1.33
2006	.333	.333	.338	.338	1.34
2007	.34	.34			

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 (1,031,916 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 9.6% of common stock; Off./dir. less than 1% (1/07 proxy). Chrmn. & CEO: J.H. DeGraffenreidt. Inc.: D.C. and VA. Addr.: 1100 H St., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com

WGL Holdings' earnings will likely be little changed in fiscal 2007 (ends September 30th). Factors holding earnings in check this year include revenue normalization adjustment (RNA), which is a new rate designs that allows for a decreased affect on the bottom line. RMA would moderate some upside earnings potential. In turn, though, it should limit the downside as well. Second, management plans for continued infrastructure investments, such as two facilities in Maryland (discussed below). Finally, the company has been pursuing new rate cases in all three of its markets. That is, rate cases in Virginia, the District of Columbia and Maryland seeks a cumulative relief in rates of $71 million as well as the implementation of new rate designs.

The bottom line should start to advance in 2008. Thanks largely to benefits from price management initiatives namely the previously discussed RNA rate design recently introduced in Maryland, and pending rulings in D.C. and Virginia.

Washington Gas has minimized damages related to gas leaks at a distribution system in Cove Point, Maryland. The leaks were caused by decreased amounts of heavy hydrocarbons in liquefied natural gas (LNG), which shrunk rubber seals in pipe couplings. To prevent further leaks, WGL has included a gas conditioning facility to reintroduce heavy hydrocarbons in the form of hexane gas into the gas steam coming from the Cove Point plant. So far efforts have resulted in a considerable reduction in the number of leaks in the affected Prince George's county. Due to the successful results management has reduced the estimated cost of this project by 35%-40%.

WGL continues to ramp up capacity through the production of a Liquid Natural Gas peaking facility in Maryland. We think this will enable it to meet customers' peak day gas requirements at an operating cost that is about 25% less than alternatives, by the 2011-2012 winter heating season.

This equity offers a solid dividend yield of roughly 4%. Nevertheless the stock is trading within out Target Price Range and total return potential for the 2010-2012 time horizon is unattractive.

Bryan Fong *June 15, 2007*

(A) Fiscal years end Sept. 30th.
(B) Based on diluted shares. Excludes nonrecurring losses: '01, (13¢); '02, (34¢); discontinued operations: '06, (15¢). Next earnings report due late July.
(C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available.
(D) Includes deferred charges and intangibles. '06: $296.6 million, $6.07/sh.
(E) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	70
Earnings Predictability	65

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Missouri American Water Company
of the Capital Asset Pricing Model for
MIEC Witness Gorman's Eight Company Water Utility Comparable Group
and MIEC Witness Gorman's Nine Company Gas Utility Comparable Group

Line No.		MIEC Witness Gorman's Eight Company Water Utility Comparable Group	MIEC Witness Gorman's Nine Company Gas Utility Comparable Group
1.	Traditional Capital Asset Pricing Model (1)	10.0 %	10.3 %
2.	Empirical Capital Asset Pricing Model (1)	10.3 %	10.5 %
3.	Conclusion	10.2 %	10.4 %

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

Missouri American Water Company
Indicated Common Equity Cost Rate Through Use
of the Capital Asset Pricing Model

	1	2	3
	Value Line Adjusted Beta	Company-Specific Risk Premium Based on Market Premium of 5.8% (1)	CAPM Result Including Risk-Free Rate of 5.3% (2)
		Traditional Capital Asset Pricing Model (3)	
MIEC Witness Gorman's Eight Company Water Utility Comparable Group			
American States Water Co	0.80	4.6 %	9.9 %
Aqua America, Inc	0.90	5.2	10.5
California Water Service Group	0.90	5.2	10.5
Connecticut Water Services, Inc	0.90	5.2	10.5
Middlesex Water Company	0.85	4.9	10.2
SJW Corporation	0.70	4.1	9.4
Southwest Water Company	0.90	5.2	10.5
York Water Company	0.55	3.2	8.5
Average	0.81	4.7 %	10.0 %
MIEC Witness Gorman's Nine Company Gas Utility Comparable Group			
AGL Resources Inc.	0.95	5.5 %	10.8 %
Atmos Energy Corporation	0.80	4.6	9.9
KeySpan Corp	0.85	4.9	10.2
New Jersey Resources Corp	0.80	4.6	9.9
NICOR, Inc.	1.30	7.5	12.8
Northwest Natural Gas Company	0.75	4.4	9.7
Piedmont Natural Gas Company, Inc	0.80	4.6	9.9
South Jersey Industries, Inc	0.70	4.1	9.4
WGL Holdings, Inc	0.85	4.9	10.2
Average	0.87	5.0 %	10.3 %
		Empirical Capital Asset Pricing Model (5)	
MIEC Witness Gorman's Eight Company Water Utility Comparable Group			
American States Water Co.	0.80	4.9 %	10.2 %
Aqua America, Inc.	0.90	5.4	10.7
California Water Service Group	0.90	5.4	10.7
Connecticut Water Services, Inc.	0.90	5.4	10.7
Middlesex Water Company	0.85	5.1	10.4
SJW Corporation	0.70	4.5	9.8
Southwest Water Company	0.90	5.4	10.7
York Water Company	0.55	3.8	9.1
Average	0.81	5.0 %	10.3 %
MIEC Witness Gorman's Nine Company Gas Utility Comparable Group			
AGL Resources Inc.	0.95	5.6 %	10.9 %
Atmos Energy Corporation	0.80	4.9	10.2
KeySpan Corp.	0.85	5.1	10.4
New Jersey Resources Corp.	0.80	4.9	10.2
NICOR, Inc.	1.30	7.1	12.4
Northwest Natural Gas Company	0.75	4.7	10.0
Piedmont Natural Gas Company, Inc.	0.80	4.9	10.2
South Jersey Industries, Inc	0.70	4.5	9.8
WGL Holdings, Inc	0.85	5.1	10.4
	0.87	5.2 %	10.5 %

See page 3 for notes

Missouri American Water Company
Development of the Market-Required Rate of Return on Common Equity Using
the Capital Asset Pricing Model for
the MIEC Witness Gorman's Eight Company Water Utility Comparable Groupand the
Nine Company Gas Utility Comparable Group
Adjusted to Reflect a Forecasted Risk-Free Rate and Market Return

Notes:

(1) From the three previous month-end (Apr. '07 – June '06), as well as a recently available (June 29, 2007), Value Line Summary & Index, a forecasted 3-5 year total annual market return of 9.8% can be derived by averaging the 3-month and spot forecasted total 3-5 year total appreciation, converting it into an annual market appreciation and adding the Value Line average forecasted annual dividend yield.

The 3-5 year average total market appreciation of 37% produces a four-year average annual return of 8.19 % ($(1.37^{.25}) - 1$). When the average annual forecasted dividend yield of 1.62% is added, a total average market return of9.81%, rounded to 9.8% (1.62% + 8.19%).

The 3-month and spot forecasted total market return of 9.8% minus the risk-free rate of 5.3% (developed in Note 2) is 4.5% (9.8% - 5.3%). The Ibbotson Associates calculated market premium of 7.1% for the period 1926-2006 results from a total market rdurn of 12 3% less the average income return on long-term U.S. Government Securities of 5.2% (12 3% - 5.2% = 7.1%). This is then averaged with the 4.5% Value Line market premium resulting in a 5.8%, market premium. The 5.8% market premium is then multiplied by the beta in column 1 of page 2 of this Schedule.

(2) Average forecast based upon six quarterly estimates of 30-year Treasury Note yields per the consensus of nearly 50 economists reported in the Blue Chip Financial Forecasts dated July 1, 2007 (see page 4 of this Schedule.) The estimates are detailed below:

	30-Year Treasury Note Yield
Third Quarter 2007	5.3%
Fourth Quarter 2007	5.3
First Quarter 2008	5.3
Second Quarter 2008	5.3
Third Quarter 2008	5.4
Fourth Quarter 2008	5.4
Average	5.3%

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

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

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

(4) Includes only those indicated common equity cost rates which are above 8.6%, i.e., 200 basis points above the prospective yield of 6.6% on A rated Moody's public utility bonds (page 1 of Schedule PMA-27.)

(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

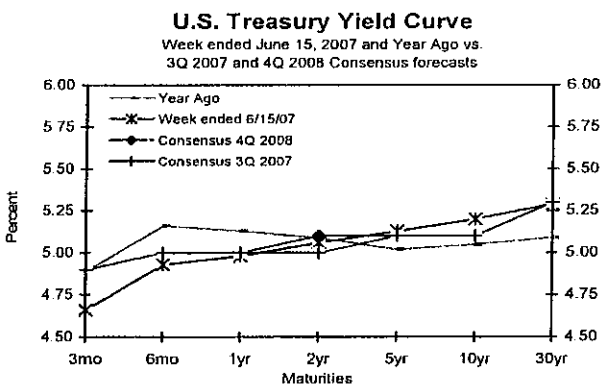
Source of Information: Value Line Summary & Index
Blue Chip Financial Forecasts, July 1, 2007
Value Line Investment Survey, April 27, 2007, Standard Edition and Small and Mid-Cap Edition and June 15, 2007, Standard Edition
Stocks, Bonds, Bills and Inflation – Market Results for 1926-2006 - Valuation Edition 2007 Yearbook,
Morningstar, Inc., Chicago, IL 2007

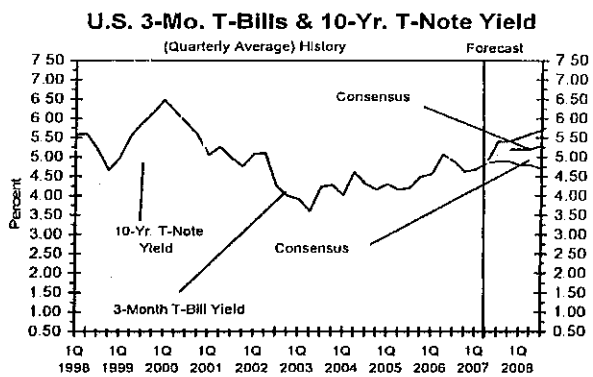
Consensus Forecasts Of U.S. Interest Rates And Key Assumptions[1]

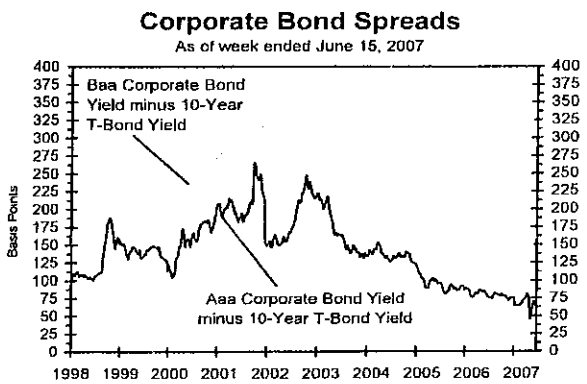
	History								Consensus Forecasts-Quarterly Avg.					
	Average For Week Ending				Average For Month			*Latest Q*	4Q	3Q	1Q	2Q	3Q	4Q
Interest Rates	Jun 15	June 8	Jun 1	May 25	May	Apr.	Mar.	*2Q 2007**	2007	2007	2008	2008	2008	2008
Federal Funds Rate	5.26	5.24	5.28	5.24	5.25	5.25	5.26	*5.25*	5.2	5.2	5.2	5.1	5.1	5.1
Prime Rate	8.25	8.25	8.25	8.25	8.25	8.25	8.25	*8.25*	8.2	8.2	8.2	8.1	8.1	8.1
LIBOR, 3-mo.	5.36	5.36	5.36	5.36	5.35	5.35	5.35	*5.34*	5.4	5.4	5.3	5.3	5.3	5.2
Commercial Paper, 1-mo.	5.26	5.22	5.24	5.23	5.22	5.23	5.23	*5.23*	5.3	5.3	5.2	5.2	5.2	5.2
Treasury bill, 3-mo.	4.66	4.8	4.82	4.90	4.87	5.01	5.08	*4.87*	4.9	4.9	4.9	4.9	4.9	4.9
Treasury bill, 6-mo.	4.93	4.97	4.98	5.00	4.98	5.07	5.10	*5.00*	5.0	5.0	5.0	5.0	5.0	5.0
Treasury bill, 1 yr.	4.98	4.98	4.96	4.95	4.91	4.93	4.92	*4.94*	5.0	5.0	5.0	5.0	5.0	5.0
Treasury note, 2 yr.	5.06	4.99	4.92	4.84	4.77	4.67	4.57	*4.82*	5.0	5.1	5.1	5.0	5.1	5.1
Treasury note, 5 yr.	5.13	4.98	4.86	4.77	4.67	4.59	4.48	*4.77*	5.1	5.1	5.1	5.1	5.1	5.1
Treasury note, 10 yr.	5.20	5.02	4.90	4.84	4.75	4.69	4.56	*4.85*	5.1	5.2	5.2	5.2	5.3	5.3
Treasury note, 30 yr.	5.29	5.12	5.02	4.99	4.9	4.87	4.72	*4.99*	5.3	5.3	5.3	5.3	5.4	5.4
Corporate Aaa bond	5.89	5.67	5.58	5.55	5.47	5.47	5.30	*5.57*	5.9	6.0	6.1	6.1	6.1	6.2
Corporate Baa bond	6.79	6.62	6.51	6.47	6.39	6.39	6.27	*6.50*	6.8	6.9	7.0	7.0	7.1	7.1
State & Local bonds	4.64	4.54	4.41	4.38	4.31	4.26	4.15	*4.39*	4.7	4.7	4.8	4.8	4.8	4.8
Home mortgage rate	6.74	6.53	6.42	6.37	6.26	6.18	6.16	*6.36*	6.6	6.7	6.7	6.7	6.8	6.8

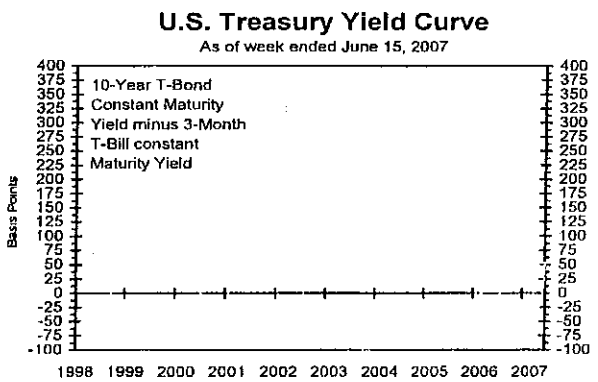
	History								Consensus Forecasts-Quarterly Avg.					
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	*2Q*	3Q	4Q	1Q	2Q	4Q	3Q
Key Assumptions	2005	2005	2006	2006	2006	2006	2007	*2007**	2007	2007	2008	2008	2008	2008
Major Currency Index	84.7	85.8	84.9	82.2	81.7	81.6	81.9	*79.3*	79.0	78.6	78.3	78.0	77.9	78.0
Real GDP	4.2	1.8	5.6	2.6	2.0	2.5	0.6	*3.1*	2.6	2.7	2.9	2.9	2.9	3.0
GDP Price Index	3.3	3.3	3.3	3.3	1.9	1.7	4.0	*3.1*	2.3	2.2	2.4	2.2	2.2	2.1
Consumer Price Index	5.5	3.5	1,8	5.1	3.0	-2.0	3.8	*5.2*	2.6	2.1	2.5	2.5	2.4	2.2

[1]Individual panel members' forecasts are on pages 4 through 9. Historical data for interest rates except LIBOR is from Federal Reserve Release (FRSR) H 15. LIBOR quotes available from *The Wall Street Journal*. Definitions reported here are same as those in FRSR H 15. Treasury yields are reported on a constant maturity basis. Historical data for the U S Federal Reserve Board's Major Currency Index is from FRSR H 10 and G 5. Historical data for Real GDP and GDP Chained Price Index are from the Bureau of Economic Analysis (BEA). Consumer Price Index (CPI) history is from the Department of Labor's Bureau of Labor Statistics (BLS). ***Interest rate data for 2Q 2007 based on historical data through the week ended June 15th. Data for 2Q 2007 Major Currency Index also is based on data through week ended June 15th. Figures for 2Q 2007 Real GDP, GDP Chained Price Index and Consumer Price Index are consensus forecasts based on a special question asked of the panel members this month.***









Missouri American Water Company
Description of R-Squared Statistic from
Modern Portfolio Theory & The Capital Asset
Pricing Model – A User's Guide

"We can also describe how much of the activity of the dependent variable (here, our stock returns) was explained by the independent variable (the market returns) __ that is, how well the line fits the data. The measure that describes this association is called the *coefficient of determination*, or R^2. If all the stock-return variation were coincident with market-return changes, the R^2 would be 1.00. Smaller explanatory power would result in a lower R^2.

* * * * *

The beta calculated for an average stock has an R^2 of about .30. Perhaps we should be pleased that the market 'explains' as much as 30 percent of the variance of a typical stock. By itself, this finding is significant but not surprising. Nevertheless, at least 70 percent remains to be explained, and that area is the province of security analysts. The question, What else drives the price of individual securities?"

Source of information: Diana R. Harrington, Modern Portfolio Theory & The Capital Asset Pricing Model – A User's Guide, Prentice-Hall, Inc., 1983, pp. 73-74.

Missouri American Water Company
Value Line Adjusted Betas and Their Related R-Squareds for
MIEC Witness Gorman's Eight Company Water Utility Comparable Group and
Nine Company Gas Utility Comparable Group

MIEC Witness Gorman's Eight Company Water Utility Comparable Group	Value Line Adjusted Beta	R-Squared
American States Water Co.	0.80	0.1502
Aqua America, Inc.	0.90	0.2529
California Water Service Group	0.90	0.2316
Connecticut Water Services	0.90	0.2421
Middlesex Water Company	0.85	0.1955
SJW Corporation	0.75	0.0940
Southwest Water Company	1.00	0.1895
York Water Company	0.50	0.0128
Average	0.83	0.1711

MIEC Witness Gorman's Nine Company Gas Utility Comparable Group		
AGL Resources	0.95	0.4099
Atmos Energy	0.80	0.3716
KeySpan Corp.	0.85	0.3860
New Jersey Resources	0.80	0.3358
NICOR	1.30	0.3961
Northwest Natural Gas	0.75	0.2581
Piedmont Natural Gas	0.80	0.3592
South Jersey Industries	0.70	0.2048
WGL Holdings, Inc.	0.85	0.3993
Average	0.87	0.3468

Source of Information: Value Line Inc., Proprietary Database, June 15, 2007

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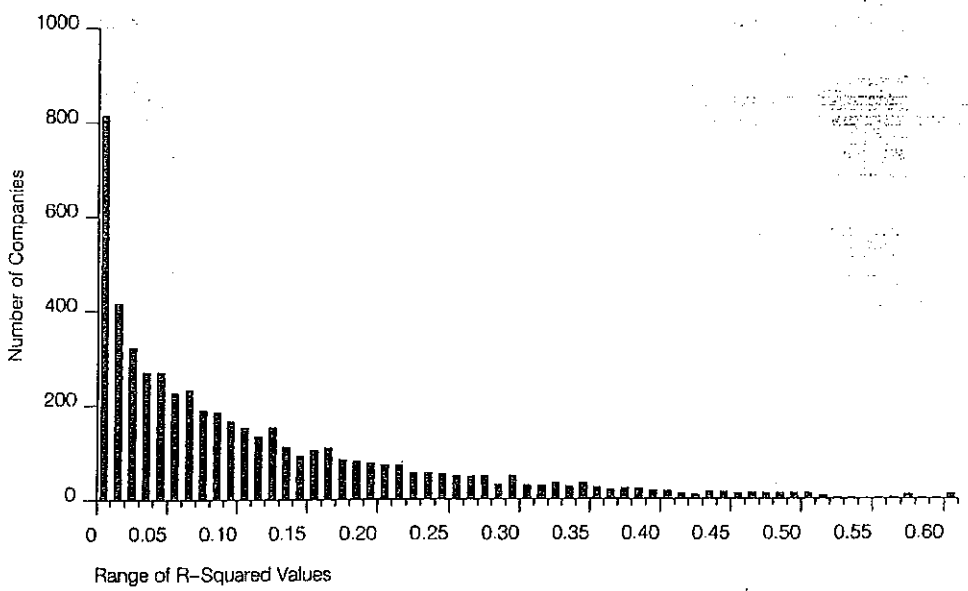
In terms of measuring beta via regression, a high R-squared means that the movements of the returns of the security are explained largely by the movements of the returns of the market. The R-squared for security betas are usually quite low. Graphs 6-4 and 6-5 show a distribution of R-squared statistics from Ibbotson Associates' *Beta Book*. The first graph shows the distribution of R-squared for the approximately 5,000 companies included in the publication. The second graph shows the distribution of R-squared for the largest 100 companies, in terms of equity capitalization, that are included in the book.

Graph 6-4

R-Squared Distribution for Entire Population
October 2000 through September 2005



Note that most betas have an R-squared less than 0.3. What can we infer from this data? There may be other company- or industry-specific factors that drive security prices. While the CAPM includes only one factor in determining expected returns, it does not disallow the existence of others.

Table 6-7

Ordinary Least Squares Betas for the NYSE Size Portfolios 1926–2005

	January 2001–December 2005	1926–2005
Decile 1	0.84	0.90
Decile 2	0.79	1.02
Decile 3	0.97	1.08
Decile 4	0.89	1.11
Decile 5	0.86	1.13
Decile 6	0.89	1.16
Decile 7	0.90	1.20
Decile 8	0.96	1.24
Decile 9	1.04	1.31
Decile 10	0.97	1.40

By looking at the same analysis over a number of 60-month periods, the relationship between the betas of large and small companies becomes clearer. Graph 6-9 shows rolling 60-month betas for selected NYSE deciles. The beta of each decile is calculated over the 60-month period January 1, 1926 through December 31, 1930, then the calculation is carried forward for each consecutive 60-month period through December 31, 2005. While the portfolio containing the largest companies has a very stable beta, the portfolio containing the smallest companies has periods where the beta is high and periods where it is low. Referring back to Table 6-7, the most recent 60-month period is one in which small company betas are low. There does not appear to be the consistency in the beta measure of smaller companies as there is with larger companies.