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Witness: Pauline M. Ahern
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Sponsoring Party: Missouri-American Water
Company
Case No.: WR-2010-0131
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2010-0131

EXHIBIT

**TO ACCOMPANY THE
REBUTTAL TESTIMONY**

OF

PAULINE M. AHERN, CRRA

ON BEHALF OF

MISSOURI AMERICAN WATER COMPANY

MAWC Exhibit No. 136
Date 5-17-10 Reporter KF
File No. WR-2010-0131

Missouri-American Water Company
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to the Financial Supporting Schedules
of Pauline M. Ahern, CRRA

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Missouri-American Water Company
Percent Change in Gross Domestic Product (GDP) for the Years 1998 - 2008

Code	Industry Title	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	'07-'08	'98-'08
	Value added (Millions of dollars)												% Change	
VA	Gross domestic product	8746997	9268410	9816969	10127976	10469601	10960770	11685901	12421685	13178378	13807539	14284597	3.31%	5.58%
VA	Private industries	7852501	8127193	8614288	8869852	9131169	9542338	10194273	10853091	11529271	12064612	12424626	2.98%	5.53%
VA	Agriculture, forestry, fishing, and hunting	102395	93779	98019	97895	95444	114383	142160	133337	121627	167907	157695	-6.08%	4.92%
VA	Farms	78901	68774	71526	73134	70819	88267	114673	104123	91118	137251	...	...	...
VA	Forestry, fishing, and related activities	23494	25005	26494	24781	24625	26118	27467	29214	30509	30656	...	...	...
VA	Mining	74785	65397	121334	118737	106534	143345	171341	223815	262406	275012	325343	18.30%	17.75%
VA	Oil and gas extraction	35173	47217	60990	72515	62753	93617	114315	150491	180557	184678	...	...	...
VA	Mining, except oil and gas	27031	27492	26992	27082	26834	27238	30333	38755	43196	45310	...	...	...
VA	Support activities for mining	12561	10888	13353	19140	16946	22290	26693	36589	58653	65025	...	...	...
VA	Utilities	180606	185417	189291	202286	207328	219976	240271	239454	272736	281424	308024	8.74%	6.02%
VA	Construction	374387	406602	435914	469535	482277	496212	539216	605450	846015	810842	581537	-4.80%	5.01%
VA	Manufacturing	1343650	1373112	1426218	1341330	1352640	1359327	1427887	1480590	1577399	1616828	1637871	1.29%	2.22%
VA	Durable goods	806865	820392	865268	778671	774764	771794	807475	845060	899423	921964	914711	-0.79%	1.40%
VA	Wood products	29358	31930	31437	31313	30421	32103	37477	38437	33780	31449	...	...	...
VA	Nonmetallic mineral products	42327	45103	45743	44862	45941	45134	49335	53018	57964	54421	...	...	...
VA	Primary metals	49422	47303	48193	41072	41943	38352	54533	58352	63449	62387	...	...	...
VA	Fabricated metal products	112705	116360	121686	112040	107403	108304	115193	123732	131647	140391	...	...	...
VA	Machinery	111472	105629	109296	103157	96525	94277	103446	111643	119511	125680	...	...	...
VA	Computer and electronic products	185673	162777	165583	136931	124152	124001	125461	133736	144407	148294	...	...	...
VA	Electrical equipment, appliances, and components	44735	48198	50580	49194	48785	48604	45659	46268	55270	58381	...	...	...
VA	Motor vehicles, bodies and trailers, and parts	106827	115397	116105	103694	116862	124093	106942	98225	98315	98454	...	...	...
VA	Other transportation equipment	63344	64253	64439	69175	69642	82352	70677	80573	87865	96140	...	...	...
VA	Furniture and related products	29101	30965	32712	30200	31061	33447	31196	34738	36820	35383	...	...	...
VA	Miscellaneous manufacturing	49902	52480	57515	57234	60029	62926	67357	68339	70795	72984	...	...	...
VA	Nondurable goods	538985	552720	560950	562459	577855	587533	620413	635529	677978	694861	722960	4.04%	3.38%
VA	Food and beverage and tobacco products	137539	153587	154809	167129	172880	187940	161045	159206	160181	174696	...	...	...
VA	Textile mills and textile product mills	27127	26440	26453	22713	21948	23107	23119	23230	21720	19783	...	...	...
VA	Apparel and leather and allied products	26049	24739	25052	22798	20913	16259	17325	17071	16679	16077	...	...	...
VA	Paper products	52154	54150	55594	48946	50311	50310	50687	50245	56943	50659	...	...	...
VA	Printing and related support activities	48508	48183	49009	46688	45662	45249	45554	46319	47488	47854	...	...	...
VA	Petroleum and coal products	30643	22399	26248	33376	26246	39148	56621	70903	73600	70412	...	...	...
VA	Chemical products	153362	157142	157057	157227	174363	179465	196746	201497	236003	249195	...	...	...
VA	Plastics and rubber products	83603	67100	66728	63406	65534	84034	67314	67060	65362	66168	...	...	...
VA	Wholesale trade	542939	577698	591688	607078	615365	637005	686657	722433	773243	805319	816787	1.67%	4.67%
VA	Retail trade	596633	635458	662430	691578	719578	751483	776919	824653	866527	892522	865488	-0.79%	4.45%
VA	Transportation and warehousing	273704	287410	301622	296946	304557	316576	344625	364727	387381	407188	414858	1.88%	4.73%
VA	Air transportation	52501	54668	57678	49960	46336	51729	49142	46282	50289	55244	...	...	...
VA	Rail transportation	24531	24668	25530	25559	26191	28079	29835	33549	38970	40548	...	...	...
VA	Water transportation	6516	6413	7222	7417	6958	8739	9510	9984	10826	10700	...	...	...
VA	Truck transportation	88196	89838	92621	93315	95651	98360	111395	118425	122486	127622	...	...	...
VA	Transit and ground passenger transportation	13777	14400	14457	15088	15684	16066	17580	17850	18309	19318	...	...	...
VA	Pipeline transportation	9245	9243	8718	9166	11519	9856	10671	9473	11353	12018	...	...	...
VA	Other transportation and support activities	59652	64750	70225	71359	73376	75425	85337	91561	97808	101484	...	...	...
VA	Warehousing and storage	21085	23209	24971	25084	26641	28320	31155	35564	37339	40255	...	...	...
VA	Information	381573	439313	458304	476934	462961	489083	530619	557770	595987	586269	621988	8.09%	5.58%
VA	Publishing industries (includes software)	96656	118664	118733	118671	118993	123546	130830	143309	134284	138792	...	...	...
VA	Motion picture and sound recording industries	25286	30107	32525	33588	36684	38282	40243	42318	42883	43430	...	...	...
VA	Broadcasting and telecommunications	229782	253834	271301	283196	276949	277937	302218	310409	317042	342391	...	...	...
VA	Information and data processing services	29847	36709	37746	41499	46156	49318	57328	61734	85377	61858	...	...	...
VA	Finance, insurance, real estate, rental, and leasing	1684608	1798398	1930952	2059197	2141889	2244618	2376770	2527949	2685771	2811217	2848410	1.32%	6.01%
VA	Finance and insurance	841118	679842	740489	782827	822728	864623	907883	989473	1080925	1091416	1084895	-2.43%	5.80%
VA	Federal Reserve banks, credit intermediation, and related activities	277474	308007	319025	360055	417443	445015	457792	495860	518776	504425	...	...	...
VA	Securities, commodity contracts, and investments	134070	139930	167713	170223	148390	145887	158266	188535	211922	237501	...	...	...
VA	Insurance carriers and related activities	217437	216887	238264	234393	237439	254999	267747	279995	311757	332486	...	...	...
VA	Funds, trusts, and other financial vehicles	11669	15038	15487	17956	19458	18723	24077	25063	18470	17003	...	...	...
VA	Real estate and rental and leasing	1043490	1118558	1190463	1276571	1319162	1379995	1470887	1538476	1624847	1719802	1783514	3.70%	6.14%
VA	Real estate	950296	1017949	1082116	1169899	1215893	1274230	1368737	1428175	1498258	1586549	...	...	...
VA	Rental and leasing services and lessors of intangible assets	93192	100608	108345	106672	103269	105785	110302	126589	133253	...	...	...	...
VA	Professional and business services	976166	1064543	1140848	1165680	1188965	1248930	1338190	1483927	1568433	1694145	1805772	6.59%	7.07%
VA	Professional, scientific, and technical services	565310	613938	675121	698825	705227	733125	792709	859400	930588	1007780	1095570	8.71%	7.63%

Missouri-American Water Company
Percent Change in Gross Domestic Product (GDP) for the Years 1996 - 2008

Code	Industry Title	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	'07-'08	'98-'08
Value added (Millions of dollars)													% Change	
VA	Legal services	120893	127345	136126	145583	145762	154213	168743	179766	187516	198351	...		
VA	Computer systems design and related services	92862	107792	125744	127064	127323	124333	126670	134870	152409	169262	...		
VA	Miscellaneous professional, scientific, and technical services	351555	378798	413251	428198	432152	454580	497096	544762	590643	640166	...		
VA	Management of companies and enterprises	156610	170458	183354	177636	183799	195502	210146	236230	248938	271251	283750	4.61%	6.81%
VA	Administrative and waste management services	254047	280150	282373	289419	299956	320303	335335	368298	368927	415113	426451	2.73%	5.92%
VA	Administrative and support services	231877	255407	257207	264073	273252	290899	304336	335193	358869	381215	...		
VA	Waste management and remediation services	22170	24742	25166	25346	26706	29403	30999	33104	32056	33698	...		
VA	Educational services, health care, and social assistance	601537	634468	678436	739327	799566	657265	916268	969729	1025813	1086972	1157916	6.53%	7.55%
VA	Educational services	67634	72774	79239	65094	93266	100096	106296	113564	121060	129531	138254	6.73%	8.27%
VA	Health care and social assistance	533904	561713	599197	654233	706300	757189	807972	856145	904753	957440	1019662	6.50%	7.45%
VA	Ambulatory health care services	276083	288565	307824	336120	361803	385673	406661	438712	467011	498101	...		
VA	Hospitals and nursing and residential care facilities	214539	225566	238552	258044	281113	303854	330483	340961	356825	373681	...		
VA	Social assistance	43282	47583	53022	56069	63384	67641	70628	76472	60917	85558	...		
VA	Arts, entertainment, recreation, accommodation, and food services	305973	327774	350119	361469	381505	398882	427462	451766	484866	513335	536346	4.48%	6.44%
VA	Arts, entertainment, and recreation	76624	83801	88676	95684	102390	107188	113744	118141	126896	133647	140134	4.70%	6.91%
VA	Performing arts, spectator sports, museums, and related activities	34634	37757	40012	42695	46731	49577	52713	54218	58760	61808	...		
VA	Amusements, gambling, and recreation industries	42191	46044	46684	52969	55859	57611	81031	63924	68138	72038	...		
VA	Accommodation and food services	229146	243973	261443	265605	279115	291674	313718	333625	357970	379489	396212	4.41%	6.27%
VA	Accommodation	78072	84297	90672	87487	89100	90692	98428	106068	113713	120894	...		
VA	Food services and drinking places	151077	159677	170771	178318	190015	200982	215290	227557	244257	258594	...		
VA	Other services, except government	211145	217806	229112	241458	252521	265274	273690	287493	299464	315634	328798	3.54%	4.97%
VA	Government	1094496	1141217	1202681	1258325	1338432	1416433	1491626	1566794	1649105	1742926	1839971	5.57%	5.94%
VA	Federal	352911	361880	378749	385701	417325	446589	479354	501905	527587	554009	586564	5.88%	5.81%
VA	General government	293058	300904	315362	325665	352873	383934	412592	438239	480138	484229	...		
VA	Government enterprises	59853	50958	63387	60036	64452	64655	68762	63868	67449	69780	...		
VA	State and local	741585	779357	823932	872623	921107	969844	1012274	1068889	1121518	1168917	1253407	5.42%	6.00%
VA	General government	677223	711795	754226	800769	848936	896175	935844	986647	1037183	1098994	...		
VA	Government enterprises	64363	67562	69706	71654	72169	73688	76430	80242	84335	69923	...		
VA	NIPA reconciliation item /1/	...	...	...	...	...	...	...	...	...	...	...
Addenda:														
VA	Gross domestic product, NIPAs	...	...	...	...	...	...	...	...	...	...	...
VA	Less: Value added, all industries	...	...	...	...	...	...	...	...	...	...	...
VA	Equals: NIPA reconciliation item /1/	...	...	...	...	...	...	...	...	...	...	...
VA	Private goods-producing industries /3/	1695417	1958869	2081485	2027496	2036893	2113266	2280803	2443191	2807447	2670587	2702246	1.19%	4.02%
VA	Private services-producing industries /4/	5757084	6168304	6532802	6842155	7094276	7429072	7913670	8409900	8921824	9394025	9722379	3.50%	6.00%
VA	Information-communications-technology-producing industries /5/	365038	425942	465786	424184	416624	421198	440488	473649	496478	516004	535680	3.81%	3.74%

Missouri-American Water Company
Correction of MoPSC Staff's Single Stage DCF using only Projected 5-Year EPS Growth Rates

	[1]	[2]	[3]	[4]	[5]
	Expected Annual Dividend (1)	Average High / Low Price (1)	Projected Dividend Yield (1)	Average Projected Growth Rate (2)	Estimated Cost of Common Equity (3)
<u>MoPSC Witness Murray's Proxy Group of Four Water Companies</u>					
American States Water Company	1.05	33.992	3.09%	6.75%	9.84%
Aqua America, Inc.	0.59	17.117	3.45%	9.30%	12.75%
California Water Service Group	1.19	36.788	3.23%	7.25%	10.48%
York Water Company	0.51	14.102	3.63%	6.75%	10.38%
			<u>3.35%</u>	<u>7.51%</u>	<u>10.86%</u>
			Proposed Dividend Yield:		3.35%
			Proposed Range of Growth:		<u>6.75% - 9.30%</u>
			Indicated Cost of Common Equity:		<u>10.10% - 12.65%</u>

Notes:

- (1) From Schedule 17 of the Staff Report.
- (2) From Schedule 15 of the Staff Report. Used only projected estimates of 5-year EPS growth rates for the companies and included the 7.50% 5 year EPS growth rate for York Water Company provided by Value Line sheet in which Staff omitted.
- (3) Column 3 + Column 4.

Missouri-American Water Company
Capital Asset Pricing Model (CAPM) Cost-of-Common-Equity Estimates
for MoPSC Staff's Four Water Companies Corrected
to Reflect a Risk-Free Rate and a Market Risk Premium which Accounts for
a Properly derived Historical Market Risk Premium and a Projected Market Risk Premium

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
<u>Traditional Capital Asset Pricing Model</u>					
<u>MoPSC Staff's Proxy Group of Four Water Companies</u>	<u>Risk-Free Rate (1)</u>	<u>Company's Beta (2)</u>	<u>Market Risk Premium (3)</u>	<u>Beta Adjusted Market Risk Premium (4)</u>	<u>Cost of Common Equity (5)</u>
American States Water Company	4.90%	0.80	7.68%	6.14%	11.04%
Aqua America, Inc.	4.90%	0.65	7.68%	4.99%	9.89%
California Water Services Group	4.90%	0.75	7.68%	5.76%	10.66%
York Water Company	4.90%	0.65	7.68%	4.99%	9.89%
Average	<u>4.90%</u>	<u>0.71</u>	<u>7.68%</u>	<u>5.47%</u>	<u>10.37%</u>
<u>Empirical Capital Asset Pricing Model</u>					
<u>MoPSC Staff's Proxy Group of Four Water Companies</u>	<u>Risk-Free Rate (1)</u>	<u>Company's Beta (2)</u>	<u>Market Risk Premium (3)</u>	<u>Beta Adjusted Market Risk Premium (6)</u>	<u>Cost of Common Equity (5)</u>
American States Water Company	4.90%	0.80	7.68%	6.53%	11.43%
Aqua America, Inc.	4.90%	0.65	7.68%	5.66%	10.56%
California Water Services Group	4.90%	0.75	7.68%	6.24%	11.14%
York Water Company	4.90%	0.65	7.68%	5.66%	10.56%
Average	<u>4.90%</u>	<u>0.71</u>	<u>7.68%</u>	<u>6.02%</u>	<u>10.92%</u>
Average of Traditional and Empirical CAPM					<u>10.65%</u>

Notes on page 3 of this Schedule.

Consensus Forecasts Of U.S. Interest Rates And Key Assumptions¹

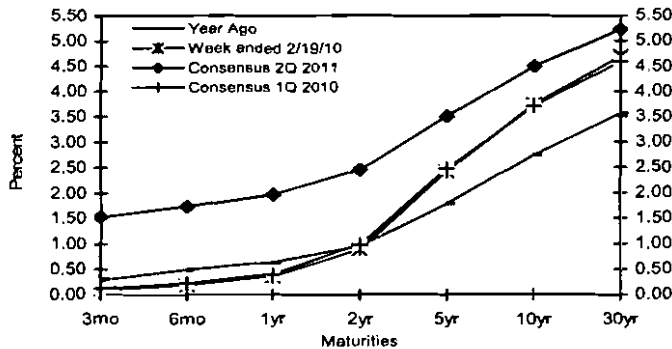
Interest Rates	History								Consensus Forecasts-Quarterly Avg.						
	Average For Week End				Average For Month				Latest Q 4Q 2009	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011
	Feb.19	Feb.12	Feb.5	Jan.29	Jan.	Dec.	Nov.								
Federal Funds Rate	0.12	0.13	0.13	0.12	0.11	0.12	0.12	0.12	0.1	0.2	0.3	0.7	1.1	1.5	
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.2	3.3	3.4	3.7	4.1	4.5	
LIBOR, 3-mo.	0.25	0.25	0.25	0.25	0.25	0.25	0.27	0.27	0.3	0.4	0.6	0.9	1.4	1.7	
Commercial Paper, 1-mo.	0.14	0.12	0.11	0.12	0.13	0.14	0.13	0.13	0.2	0.3	0.4	0.8	1.2	1.6	
Treasury bill, 3-mo.	0.10	0.11	0.10	0.07	0.06	0.05	0.05	0.06	0.1	0.2	0.4	0.8	1.2	1.5	
Treasury bill, 6-mo.	0.19	0.18	0.17	0.15	0.15	0.17	0.15	0.16	0.2	0.3	0.6	0.9	1.4	1.7	
Treasury bill, 1 yr.	0.36	0.35	0.33	0.31	0.35	0.37	0.31	0.35	0.4	0.6	0.8	1.2	1.6	2.0	
Treasury note, 2 yr.	0.89	0.86	0.83	0.86	0.93	0.87	0.80	0.87	1.0	1.2	1.5	1.8	2.2	2.5	
Treasury note, 5 yr.	2.42	2.34	2.33	2.39	2.48	2.34	2.23	2.30	2.5	2.6	2.8	3.1	3.3	3.5	
Treasury note, 10 yr.	3.74	3.69	3.66	3.66	3.73	3.59	3.40	3.46	3.7	3.8	4.0	4.2	4.3	4.5	
Treasury note, 30 yr.	4.70	4.62	4.55	4.55	4.60	4.49	4.31	4.33	4.6	4.7	4.8	5.0	5.1	5.2	
Corporate Aaa bond	5.44	5.36	5.29	5.28	5.26	5.26	5.19	5.20	5.3	5.4	5.5	5.7	5.8	5.9	
Corporate Baa bond	6.45	6.36	6.25	6.23	6.25	6.37	6.32	6.33	6.4	6.5	6.6	6.8	6.8	7.0	
State & Local bonds	4.38	4.34	4.36	4.39	4.33	4.21	4.37	4.26	4.5	4.6	4.7	4.8	4.9	5.0	
Home mortgage rate	4.93	4.97	5.01	4.98	5.03	4.93	4.88	4.92	5.1	5.2	5.4	5.7	5.8	6.0	

Key Assumptions	History								Consensus Forecasts-Quarterly					
	1Q		2Q		3Q		4Q		1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011
	2008	2008	2008	2008	2009	2009	2009	2009						
Major Currency Index	72.0	70.9	73.5	81.3	82.7	79.4	75.4	73.6	75.4	75.6	75.9	76.1	76.3	76.6
Real GDP	-0.7	1.5	-2.7	-5.4	-6.4	-0.7	2.2	5.9	3.0	3.0	2.9	3.0	3.0	3.1
GDP Price Index	1.9	1.8	4.0	0.1	1.9	0.0	0.4	0.4	1.5	1.3	1.5	1.5	1.8	1.7
Consumer Price Index	4.5	4.5	6.2	-8.3	-2.4	1.3	3.6	3.4	2.0	1.6	1.9	1.9	2.1	2.0

Forecasts for interest rates and the Federal Reserve's Major Currency Index represent averages for the quarter. Forecasts for Real GDP, GDP Price Index and Consumer Price Index are seasonally-adjusted annual rates of change (saar). 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*. Interest rate definitions are the same as those in FRSR H.15. Treasury yields are reported on a constant maturity basis. Historical data for the Fed's Major Currency Index is from FRSR H.10 and G.5. Historical data for Real GDP and GDP Chained Price Index are from the Bureau of Economic Analysis (BEA). Consumer Price Index (CPI) history is from the Department of Labor's Bureau of Labor Statistics (BLS).

U.S. Treasury Yield Curve

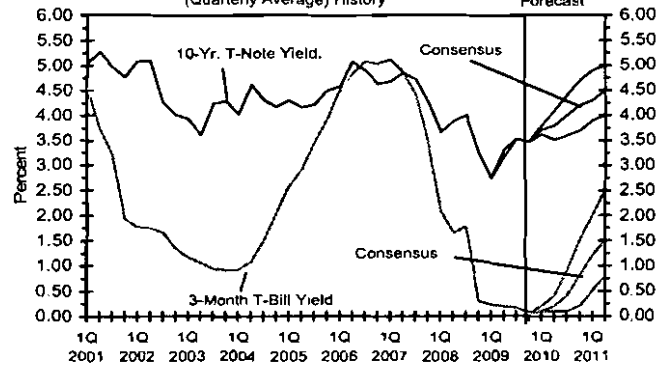
Week ended February 19, 2009 and Year Ago vs. 1Q 2010 and 2Q 2011 Consensus Forecasts



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

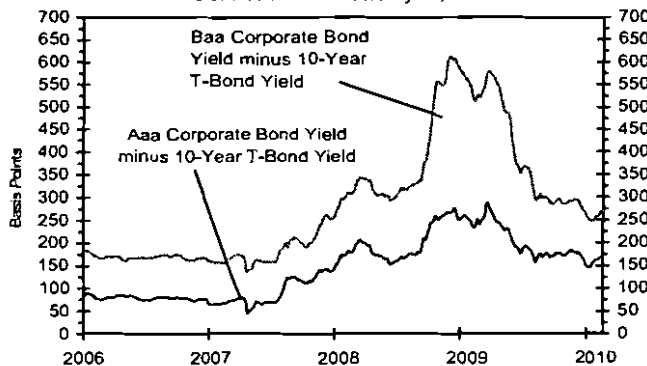
(Quarterly Average) History

Forecast



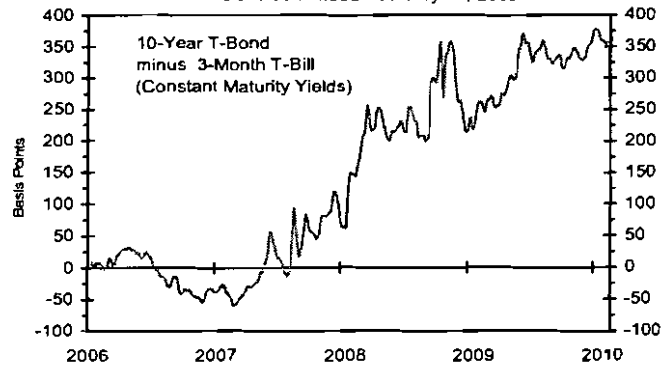
Corporate Bond Spreads

As of week ended February 19, 2009



U.S. Treasury Yield Curve

As of week ended February 19, 2009



Missouri-American Water Company
Development of the Market-Required Rate of Return on Common Equity Using
the Capital Asset Pricing Model for
MoPSC Staff's Proxy Group of Four Water Companies

Notes:

- (1) The average forecast based upon six quarterly estimates of 30-year Treasury Note yields per the consensus of nearly 50 economists reported in the Blue Chip Financial Forecasts dated March 1, 2010 (see page 2 of this Schedule). The estimates are detailed below:

	<u>30-Year Treasury Note Yield</u>
First Quarter 2010	4.60
Second Quarter 2010	4.70
Third Quarter 2010	4.80
Fourth Quarter 2010	5.00
First Quarter 2011	5.10
Second Quarter 2011	5.20
Average	<u>4.90%</u>

- (2) From Schedule PMA-20.
- (3) For reasons explained in Ms. Ahern's direct testimony, from the three previous month-end (December 2009 – February 2010), Value Line Summary & Index, a forecasted 3-5 year total annual market return of 13.65% 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 55% produces a four-year average annual return of 11.58% $((1.55^{0.25}) - 1)$. When the average annual forecasted dividend yield of 2.07% is added, a total average market return of 13.65% (2.07% + 11.58%) is derived.

The 3-month and spot forecasted total market return of 13.65% minus the forecasted risk-free rate of 4.90% (developed in Note 2) is 8.75% (13.65% - 4.90%). The Morningstar, Inc. (Ibbotson Associates) calculated market premium of 6.60% for the period 1926-2009 results from a total market return of 11.80% less the average income return on long-term U.S. Government Securities of 5.20% (11.80% - 5.20% = 6.60%). This is then averaged with the 8.75% Value Line market premium resulting in a 7.68% market premium. The 7.68% market premium is then multiplied by the beta in column 2 of page 1 of this Schedule.

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

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

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

- (5) Column 4 + Column 1.
- (6) The empirical CAPM is applied using the following formula:

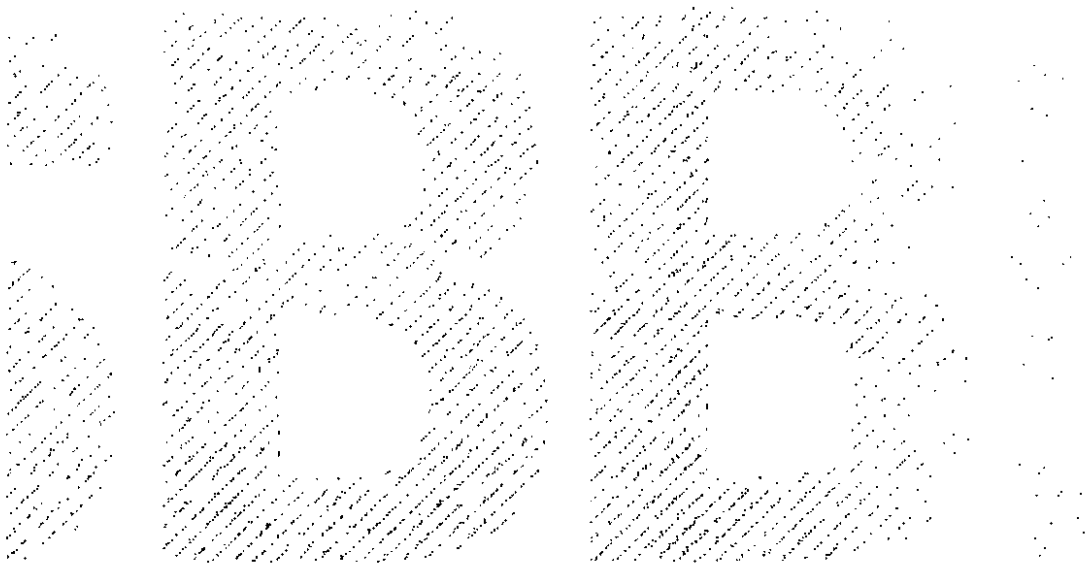
$$R_S = R_F + .25 (R_M - R_F) + .75 \beta (R_M - R_F)$$

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

Source of Information: Value Line Summary & Index
Blue Chip Financial Forecasts, March 1, 2010
Value Line Investment Survey, January 22, 2010 Standard Edition and Small and Mid-Cap Edition
2010 Ibbotson Risk Premia Over Time Report – Estimates for 1926-2009

Ibbotson® SBBI®
2009 Valuation Yearbook

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

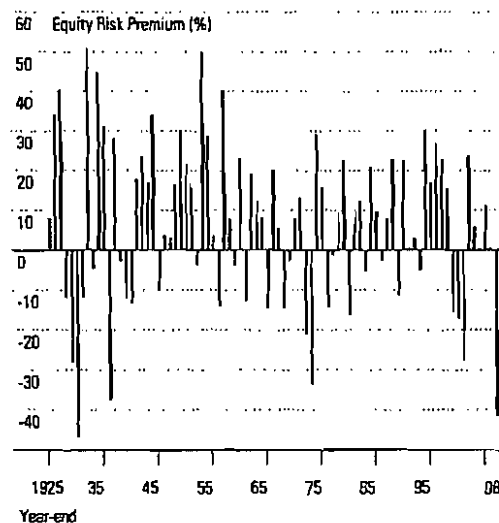


Arithmetic versus Geometric Means

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

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

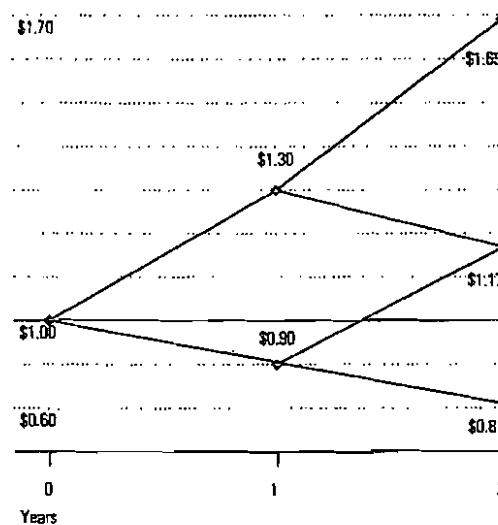
Graph 5-3: Realized Equity Risk Premium Per Year



Data from 1926-2008.

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

Graph 5-4: Growth of Wealth Example



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

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

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

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

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

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

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

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

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

Appropriate Historical Time Period

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

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

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

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

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

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

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

Table 5-3: Interpretation of Annual Serial Correlations

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

Data from 1926–2008

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

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

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

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

Data from 1926–2008.

*Based on the period 1926–1929.

**Based on the period 2000–2008.

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

Choosing an Appropriate Historical Period

The estimate of the equity risk premium depends on the length of the data series studied. A proper estimate of the equity risk premium requires a data series long enough to give a reliable average without being unduly influenced by very good and very poor short-term returns. When calculated using a long data series, the historical equity risk premium is relatively stable.⁵ Furthermore, because an average of the realized equity risk premium is quite volatile when calculated using a short history, using a long series

makes it less likely that the analyst can justify any number he or she wants. The magnitude of how shorter periods can affect the result will be explored later in this chapter.

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

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

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

A Look at the Historical Results

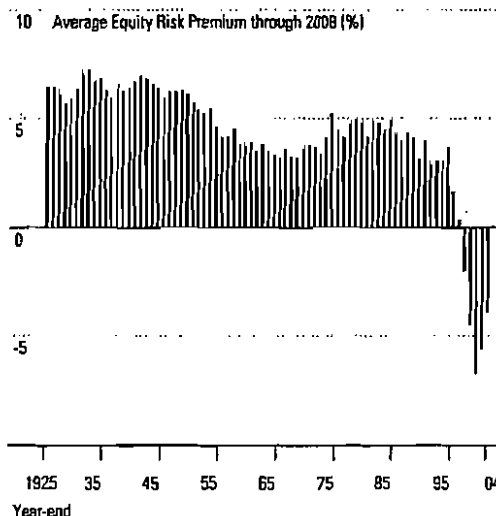
It is interesting to take a look at the realized returns and realized equity risk premium in the context of the above discussion. Table 5-5 shows the average stock market return and the average (arithmetic mean) realized long-horizon equity risk premium over various historical time periods. Similarly,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

Table 5-5: Stock Market Return and Equity Risk Premium Over Time

Length (Yrs.)	Period Dates	Large Company Stock Arithmetic Mean Total Return (%)	Long-Horizon Equity Risk Premium (%)
83	1926-2008	11.7	6.5
70	1939-2008	11.9	6.3
60	1949-2008	12.4	6.3
50	1959-2008	10.6	3.8
40	1969-2008	10.6	3.2
30	1979-2008	12.5	5.0
20	1989-2008	10.4	4.2
15	1994-2008	8.7	3.1
10	1999-2008	0.7	-4.5
5	2004-2008	0.0	-4.7

Data from 1926-2008.

Graph 5-5: Equity Risk Premium Using Different Starting Dates



Data from 1926-2008

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.

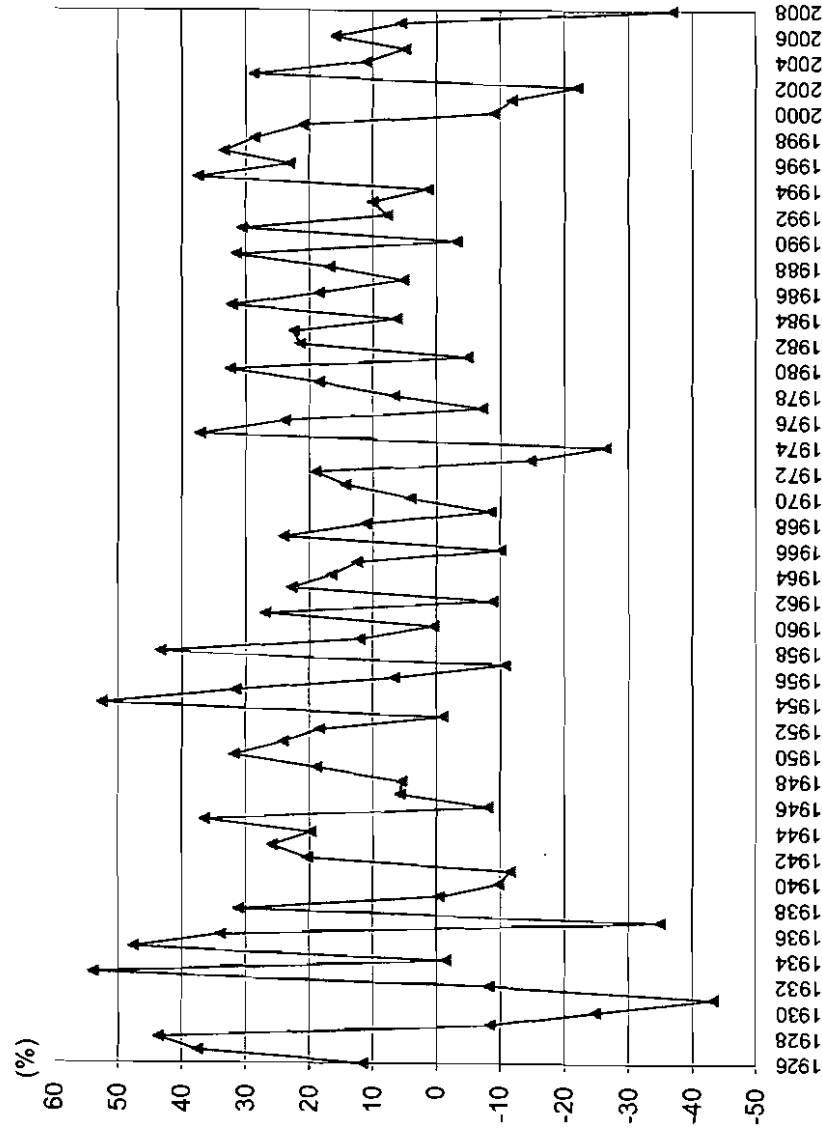
Looking carefully at Graph 5-5 will clarify this point. The graph shows the realized equity risk premium for a series of time periods through 2008, starting with 1926. In other words, the first value on the graph represents the average realized equity risk premium over the period 1926-2008. The next value on the graph represents the average real-

ized equity risk premium over the period 1927-2008, and so on, with the last value representing the average over the most recent five years, 2004-2008. 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.

Additionally, use of recent historical periods for estimation purposes can lead to illogical conclusions. As seen in Table 5-5, the recent bear market in the early 2000's and in 2008 has caused the realized equity risk premium in the shorter historical periods to be lower than the long-term average.

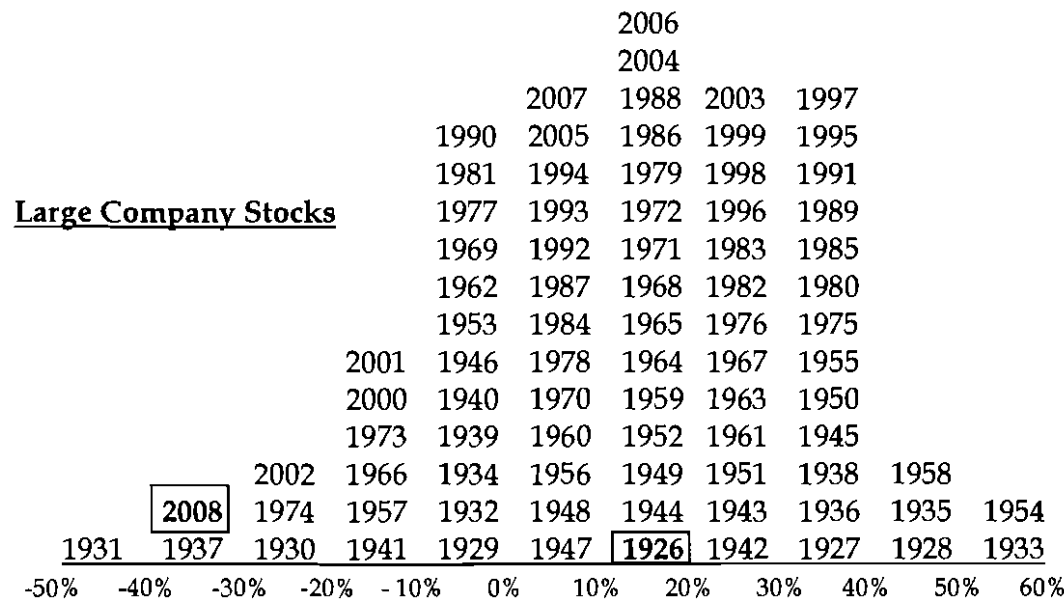
The impact of adding one additional year of data to a historical average is lessened the greater the initial time period of measurement. Short-term averages can be affected considerably by one or more unique observations. On the other hand, long-term averages produce more stable results. A series of graphs looking at the realized equity risk premium will illustrate this effect. Graph 5-6 shows the average (arithmetic mean) realized long-horizon equity risk premium starting in 1926. Each additional point on the graph represents the addition of another year to the average. Although the graph is extremely volatile in the beginning periods, the stability of the long-term average is quite remarkable. Again, the "unique" periods of time will not be weighted heavily in a long-term average, resulting in a more stable estimate.

Missouri-American Water Company
Large Company Stock Returns
From 1926 to 2008



Source of Information:
Ibbotson SBBJ - 2009 Valuation Yearbook - Market Results for Stocks Bonds Bills and Inflation - 1926-
2008, Morningstar, Inc., 2009 Chicago, IL.

Missouri-American Water Company Total Returns on Large Company Stocks 1926 to 2008

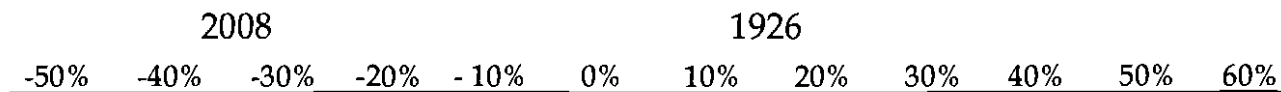


$$\text{Arithmetic Mean: } r_A = \frac{\sum_{t=1}^n r_t}{n}$$

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

Missouri-American Water Company Total Returns on Large Company Stocks 1926 to 2008

Large Company Stocks



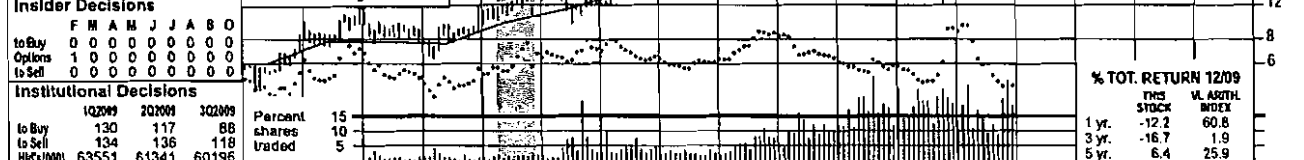
$$\text{Geometric Mean: } r_G = \left[V_n / V_0 \right]^{1/n} - 1$$

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

AQUA AMERICA NYSE-WTR

RECENT PRICE **17.57** P/E RATIO **20.9** (Trailing: 23.7 Median: 25.0) RELATIVE P/E RATIO **1.21** DIV'D YLD **3.4%** VALUE LINE

TIMELINESS 3 Lowered 6/26/09	High: 11.5	11.5	12.0	14.8	15.0	16.8	18.5	29.2	29.8	26.6	22.0	21.5	Target Price Range 2012 2013 2014
SAFETY 3 Lowered 8/1/03	Low: 7.2	7.6	6.3	9.4	9.6	11.8	14.2	17.5	20.1	18.9	12.2	15.4	
TECHNICAL 3 Lowered 1/1/10	LEGENDS 1.60 x Dividends p sh divided by Interest Rate Relative Price Strength 4-for-3 split 1/98 5-for-4 split 12/00 5-for-4 split 12/01 5-for-4 split 12/03 4-for-3 split 12/05												
BETA .65 (1.00 - Market)	Options: Yes Shaded area: prior recession Latest recession began 12/07												



Insider Decisions													F M A M J J A B O						
to Buy 0 0 0 0 0 0 0 0 0 0 0 0 0																			
Options 1 0 0 0 0 0 0 0 0 0 0 0 0																			
to Sell 0 0 0 0 0 0 0 0 0 0 0 0 0																			
Institutional Decisions													Percent shares traded						
to Buy 130 117 88													15						
to Sell 134 136 118													10						
Htz(000) 63551 61341 60196																			
1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010													© VALUE LINE PUB., INC. 1-14						
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	4.52	4.63	4.95	5.35	Revenues per sh	6.45
.42	.42	.47	.50	.56	.61	.72	.76	.85	.94	.96	1.09	1.21	1.26	1.37	1.42	1.70	1.85	"Cash Flow" per sh	2.40
.24	.26	.28	.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	.70	.71	.73	.80	.90	Earnings per sh A	1.25
.21	.21	.22	.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	.44	.48	.51	.55	.59	Div'd Decl'd per sh B=C	.70
.47	.46	.52	.48	.58	.82	.90	1.16	1.09	1.20	1.32	1.54	1.84	2.05	1.79	1.98	1.90	1.95	Cap'l Spending per sh	2.15
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	7.32	7.82	7.90	8.35	Book Value per sh	10.35
59.40	59.77	63.74	65.75	67.47	72.20	106.80	111.82	113.97	113.19	123.45	127.18	126.97	132.33	133.40	135.37	136.30	137.00	Common Shs Outst'g C	139.00
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	32.0	24.9	22.2		Avg Ann'l P/E Ratio	21.0
.85	.89	.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.87	1.70	1.50	1.48		Relative P/E Ratio	1.40
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%	1.8%	2.1%	2.8%	3.0%		Avg Ann'l Div'd Yield	2.0%

CAPITAL STRUCTURE as of 9/30/09													257.3		275.5		307.3		322.0		367.2		442.0		496.8		533.5		602.5		627.0		675		735		Revenues (\$mill)		900	
Total Debt \$1320.2 mill. Due in 5 Yrs \$245.0 mill.													45.0		50.7		58.5		62.7		67.3		80.0		91.2		92.0		95.0		97.9		109		123		Net Profit (\$mill)		175	
LT Debt \$1265.4 mill. LT Interest \$65.0 mill.													38.4%		38.9%		39.3%		38.5%		39.3%		39.4%		38.4%		39.6%		38.9%		39.7%		39.0%		39.0%		Income Tax Rate		39.0%	
(LT interest earned: 3.4x; total interest coverage: 3.4x)													52.9%		52.0%		52.2%		54.2%		51.4%		50.0%		52.0%		51.6%		55.4%		54.1%		54.0%		53.0%		AFUDC % to Net Profit		2.0%	
Pension Assets-12/08 \$112.2 mill. Oblig. \$204.7 mill.													46.7%		47.8%		47.7%		45.8%		46.6%		50.0%		48.0%		48.4%		44.6%		45.9%		46.0%		47.0%		Long-Term Debt Ratio		48.0%	

Pfd Stock None													782.7		901.1		990.4		1076.2		1355.7		1497.3		1690.4		1904.4		2191.4		2306.6		2276		2345		Total Capital (\$mill)		2765	
Common Stock 136,270,613 shares as of 10/20/09													1135.4		1251.4		1368.1		1490.8		1824.3		2069.8		2280.0		2506.0		2792.8		2997.4		3150		3300		Net Plant (\$mill)		3500	
MARKET CAP: \$2.4 billion (Mid Cap)													7.6%		7.4%		7.8%		7.6%		6.4%		6.7%		6.9%		6.4%		5.9%		5.7%		6.0%		6.5%		Return on Total Cap'l		7.5%	
CURRENT POSITION (SMILL)													12.2%		11.7%		12.3%		12.7%		10.2%		10.7%		11.2%		10.0%		9.7%		9.3%		10.0%		10.5%		Return on Shr. Equity		12.0%	
2007 2008 9/30/09													12.3%		11.7%		12.4%		12.7%		10.2%		10.7%		11.2%		10.0%		9.7%		9.3%		10.0%		10.5%		Return on Com Equity		12.0%	
Cash Assets													4.3%		4.7%		5.1%		5.2%		4.2%		4.6%		4.9%		3.7%		3.2%		2.8%		3.5%		3.0%		Returned to Com Eq D		5.0%	
Receivables													65%		60%		59%		59%		59%		59%		57%		56%		63%		67%		70%		66%		All Div'ds to Net Eq E		57%	
Inventory (AvgCst)													14.5		14.9		18.0		18.1		18.0		18.0		18.0		18.0		18.0		18.0		18.0		18.0		Income Tax Rate		39.0%	
Other													82.9		84.5		86.0		86.0		86.0		86.0		86.0		86.0		86.0		86.0		86.0		86.0		AFUDC % to Net Profit		2.0%	
Current Assets													8.8		9.8		10.3		10.3		10.3		10.3		10.3		10.3		10.3		10.3		10.3		10.3		Long-Term Debt Ratio		48.0%	
Accts Payable													9.3		11.8		10.5		10.5		10.5		10.5		10.5		10.5		10.5		10.5		10.5		10.5		Common Equity Ratio		52.0%	
Debt Due													115.5		121.0		124.9		124.9		124.9		124.9		124.9		124.9		124.9		124.9		124.9		124.9		Total Capital (\$mill)		2765	
Other													45.8		50.0		28.3		28.3		28.3		28.3		28.3		28.3		28.3		28.3		28.3		28.3		Net Plant (\$mill)		3500	
Current Liab.													80.8		87.9		54.8		54.8		54.8		54.8		54.8		54.8		54.8		54.8		54.8		54.8		Return on Total Cap'l		7.5%	
Flx. Chg. Cov.													56.6		55.3		149.0		149.0		149.0		149.0		149.0		149.0		149.0		149.0		149.0		149.0		Return on Shr. Equity		12.0%	
2007 2008 9/30/09													183.2		193.2		230.1		230.1		230.1		230.1		230.1		230.1		230.1		230.1		230.1		230.1		Return on Com Equity		12.0%	
323%													329%		325%		325%		325%		325%		325%		325%		325%		325%		325%		325%		All Div'ds to Net Eq E		57%			

ANNUAL RATES													Past 10 Yrs.		Past 5 Yrs.		Est'd '06-'08 to '12-'14	
of change (per sh)													8.0%		9.0%		6.5%	
Revenues													9.5%		8.0%		10.0%	
"Cash Flow"													7.5%		5.5%		10.0%	
Earnings													7.0%		8.0%		6.5%	
Dividends													9.5%		10.0%		6.0%	
Book Value																		
QUARTERLY REVENUES (\$ mill.)													Full Year		Full Year			
Cal-endar													Mar.31 Jun.30 Sep.30 Dec.31		Full Year			
2006													117.9 131.7 147.0 136.9		533.5			
2007													137.3 150.6 165.5 149.1		602.5			
2008													139.3 151.0 177.1 159.6		627.0			
2009													154.5 167.3 180.8 172.4		675			
2010													165 185 195 190		735			
EARNINGS PER SHARE A													Full Year		Full Year			
Cal-endar													Mar.31 Jun.30 Sep.30 Dec.31		Full Year			
2006													.13 .17 .21 .19		.70			
2007													.13 .17 .22 .19		.71			
2008													.11 .17 .26 .19		.73			
2009													.14 .19 .25 .22		.80			
2010													.15 .22 .28 .25		.90			
QUARTERLY DIVIDENDS PAID B=C													Full Year		Full Year			
Cal-endar													Mar.31 Jun.30 Sep.30 Dec.31		Full Year			
2006													.107 .107 .115 .115		.44			
2007													.115 .115 .125 .125		.48			
2008													.125 .125 .125 .135		.51			
2009													.135 .135 .135 .145		.55			
2010																		

During the September interim, Aqua America lost some ground on a year-over-year basis. Although revenues were up slightly from the prior year, earnings dropped a penny, as unfavorable weather conditions and higher operating costs hurt profits during the third quarter. Looking ahead, though, the company probably ended the year on a good note. A number of rate-relief cases were set to be decided in the fourth quarter which, if approved, should provide a slight last-minute boost to the top and bottom lines. Also, management has been actively working to reduce operating costs, and the benefits of these efforts should help widen margins. For the year, we expect a total increase in revenues and earnings of \$48 million and \$0.07 a share, respectively, but it should be noted that last year included a gain from the sale of its underperforming Woodhaven system. Aqua America should continue to expand its reach through acquisitions and rate-relief cases over the next few years. The company has acquired a wastewater treatment plant in Lumpkin County, Georgia, and this new subsidiary

others. Water supply revenues '08: residential, 60%; commercial, 14%; industrial & other, 26%. Officers and directors own 1.3% of the common stock (4/09 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 810-525-1400. Internet: www.aquaamerica.com.

(Aqua Georgia Inc.) may be bolstered by further purchases in this region. Also, WTR expanded its Aqua Pennsylvania division in December, purchasing the assets of Athens Township Authority, and subsequently signed a 20-year contract to provide water services. Additionally, the \$75 million in rate cases filed in 2009 should, if judged in Aqua's favor, boost revenues and earnings over the next few years.

These shares are a neutral choice for the coming six to 12 month period, but hold some appeal for the long haul. One attractive trait is the steady dividend yield, which was raised 7.4% during the fourth quarter of 2008. The company has historically raised its payout every year, and this will most likely continue over the coming 3- to 5-year stretch. Also, the top- and bottom-line gains we project over the 2012-2014 horizon give this equity good recovery potential. Conservative investors should also take note of the high scores for Stock Price Stability and Earnings Predictability, as well as the below-the-market average Beta coefficient.

John D. Burke
January 22, 2010

(A) Diluted shares. Excl. nonrec. gains (losses): '99, (1¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from disc. operations: '96, 2¢. Next earnings report due early February.	(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 8+	Stock's Price Stability 95	Price Growth Persistence 70	Earnings Predictability 100
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CALIFORNIA WATER NYSE-CWT

RECENT PRICE **36.83** P/E RATIO **18.4** (Trailing: 18.5 Median: 22.0) RELATIVE P/E RATIO **1.06** DIV'D YLD **3.2%** VALUE LINE

TIMELINESS 4 Lowered 11/6/09	High: 33.6 32.0 31.4 28.6 26.9 31.4 37.9 42.1 45.8 45.4 46.6 46.3	Target Price Range 2012 2013 2014
SAFETY 3 Lowered 7/27/07	Low: 20.8 22.6 21.5 22.9 20.5 23.7 26.1 31.2 32.8 34.2 27.7 33.5	
TECHNICAL 3 Lowered 12/25/09	LEGENDS 1.33 x Dividends p sh divided by Interest Rate Relative Price Strength 2 for 1 split 1/98 Options: Yes Shaded area: prior recession Latest recession began 12/07	
BETA .75 (1.00 = Market)		
2012-14 PROJECTIONS		
Price High 60 Low 40	Gain +65% +10%	Ann'l Total Return 15% 5%
Insider Decisions F M A M J J A S O to Buy 0 0 0 0 0 0 0 0 0 0 to Sell 0 0 0 0 0 0 0 0 0 0 to Sell 0 0 0 0 0 0 0 0 0 0		
Institutional Decisions 10/2009 10/2009 10/2009 to Buy 83 76 75 to Sell 81 85 56 Held (000) 10000 10018 9635		
% TOT. RETURN 12/09 THIS STOCK -16.2 S&P 500 -0.7 3 yr. 13.2 5 yr. 25.9		

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	VALUE LINE PUB., INC.	12-14
13.34	12.59	13.17	14.46	15.48	14.76	15.96	16.16	16.26	17.33	16.37	17.18	17.44	16.20	17.76	19.80	21.35	22.10	Revenues per sh	23.90
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	2.71	3.12	3.72	4.05	4.25	"Cash Flow" per sh	4.80
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	1.50	1.90	1.99	2.20	Earnings per sh ^	2.60
.86	.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	1.18	1.19	Div'd Decl'd per sh ^	1.25
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	3.68	4.82	5.20	5.25	Cap'l Spending per sh	5.25
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	18.15	18.50	19.44	20.00	19.75	Book Value per sh ^	21.30
11.38	12.49	12.54	12.62	12.62	12.62	12.94	15.15	15.18	15.18	16.93	18.37	18.39	20.66	20.67	20.72	21.00	21.25	Common Shs Outst'g ^	23.00
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	29.2	26.1	19.8	19.3		Avg Ann'l P/E Ratio	19.0
.80	.92	.92	.75	.73	.93	1.01	1.27	1.39	1.08	1.26	1.06	1.33	1.58	1.39	1.20	1.26		Relative P/E Ratio	1.25
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%	2.9%	3.0%	3.1%	3.1%		Avg Ann'l Div'd Yield	2.5%

CAPITAL STRUCTURE as of 9/30/09
 Total Debt \$397.9 mil. Due in 5 Yrs \$40.0 mil.
 LT Debt \$373.5 mil. LT Interest \$25.0 mil.
 (LT Interest earned: 7.8x; total int. cov.: 6.6x)

Pension Assets -12/08 \$66.8 mil.
 Oblig. \$192.9 mil.

Pfd Stock None

Common Stock 20,744,952 shs.
 as of 11/2/09

MARKET CAP: \$775 million (Small Cap)

206.4	244.8	246.8	263.2	277.1	315.6	320.7	334.7	367.1	410.3	448	470	Revenues (\$mil) ^	550
19.9	20.0	14.4	19.1	19.4	26.0	27.2	25.6	31.2	39.8	42.0	45.0	Net Profit (\$mil)	60.0
37.9%	42.3%	39.4%	39.7%	39.9%	39.6%	42.4%	37.4%	39.9%	37.7%	40.0%	39.0%	Income Tax Rate	39.0%
--	--	--	10.3%	3.2%	3.3%	10.6%	8.3%	8.6%	8.5%	10.0%	10.0%	AFUDC % to Net Profit	10.0%
46.9%	48.9%	50.3%	55.3%	50.2%	48.6%	48.3%	43.5%	42.9%	41.6%	47.0%	46.5%	Long-Term Debt Ratio	48.5%
52.0%	50.2%	48.8%	44.0%	49.1%	50.8%	51.1%	55.9%	56.6%	58.4%	53.0%	53.5%	Common Equity Ratio	51.5%
339.8	388.8	402.7	453.1	498.4	565.9	568.1	670.1	674.9	690.4	795	805	Total Capital (\$mil)	950
515.4	582.0	624.3	697.0	759.5	800.3	862.7	941.5	1010.2	1112.4	1175	1240	Net Plant (\$mil)	1425
7.8%	6.8%	5.3%	5.9%	5.6%	6.1%	6.3%	5.2%	5.9%	7.1%	7.0%	7.0%	Return on Total Cap'l	8.0%
11.2%	10.0%	7.2%	9.4%	7.6%	8.9%	9.3%	6.8%	8.1%	9.9%	10.0%	10.3%	Return on Shr. Equity	12.0%
11.4%	10.1%	7.2%	9.5%	7.9%	9.0%	9.3%	6.8%	8.1%	9.9%	10.0%	10.5%	Return on Com Equity	12.0%
3.5%	1.8%	NMF	1.0%	.7%	2.1%	2.1%	1.0%	1.8%	3.8%	4.0%	5.0%	Retained to Com Eq	6.5%
70%	82%	119%	90%	91%	77%	78%	86%	77%	61%	59%	56%	All Div'ds to Net Prof	48%

Cash Assets	6.7	13.9	47.6
Other	53.3	65.9	92.8
Current Assets	60.0	79.8	140.4
Acc'ts Payable	36.7	45.1	54.4
Debt Due	2.7	42.8	24.4
Other	30.3	35.3	52.0
Current Liab.	69.7	123.2	130.8
Fix. Chg. Cov.	333%	398%	430%

Cal-endar	QUARTERLY REVENUES (\$ mil.)^	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2006	65.2 81.1 107.8 80.6	334.7
2007	71.6 95.8 113.8 85.9	367.1
2008	72.9 105.6 131.7 100.1	410.3
2009	86.7 116.7 139.2 105.4	448
2010	91.0 122 146 111	470

Cal-endar	EARNINGS PER SHARE ^	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2006	.04 .31 .68 .31	1.34
2007	.07 .37 .67 .39	1.50
2008	.01 .48 1.06 .35	1.90
2009	.12 .58 .94 .35	1.99
2010	.11 .60 1.00 .39	2.10

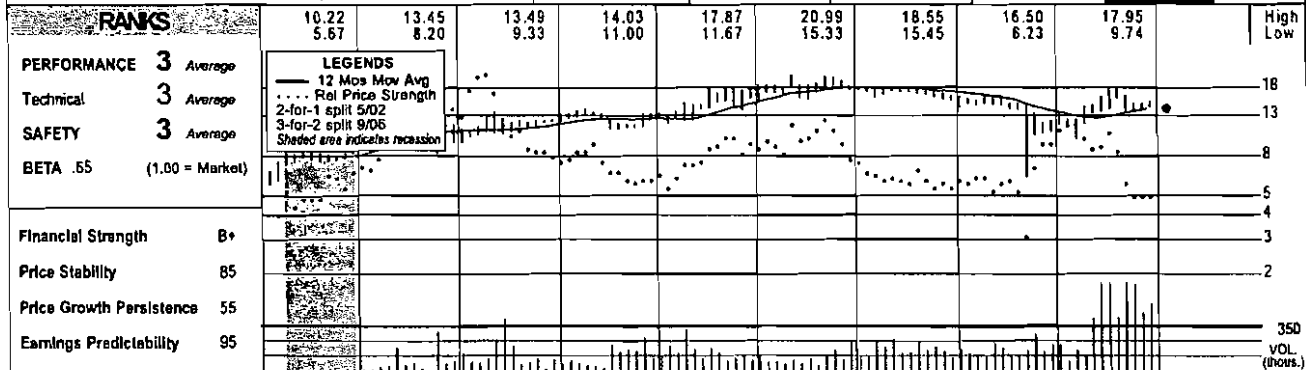
Cal-endar	QUARTERLY DIVIDENDS PAID ^	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2006	.2875 .2875 .2875 .2875	1.15
2007	.290 .290 .290 .290	1.16
2008	.293 .293 .293 .293	1.17
2009	.295 .295 .295 .295	1.16
2010		

BUSINESS: California Water Service Group provides regulated and nonregulated water service to roughly 463,600 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 Rio Grande Corp; West Hawaii Utilities (9/08). Revenue breakdown: '08: residential, 69%; business, 18%; public authorities, 5%; industrial, 5%; other, 3%. '08 reported depreciation rate: 2.4%. Has roughly 929 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson (4/09 Proxy). Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.cawatergroup.com.

Improvements on the regulatory front augur well for California Water Service Group's top line. Indeed, earlier rate increases handed down by the California Public Utilities Commission (CPUC) enabled the water utility to post record-high revenues of \$139.2 million in the third quarter, a 6% improvement from the year before. We look for similar growth in the fourth quarter and for full-year 2010. Meanwhile, the company filed its 2009 general rate case during the period, seeking \$71 million in 2011 with increases of nearly \$25 million in 2012 and 2013. It was CWT's first consolidated request, covering all 24 districts, and a ruling may well take 18 months to be made. We expect a relatively favorable outcome given the CPUC's more recent disposition. **However, operating costs appear to be on the rise, too.** Despite the top-line benefits mentioned above, share earnings fell 11% in the September period and came in a dime below our estimate. Operating expenses swelled 10%, as aging infrastructures required greater maintenance, and the increased demand drove up distribution costs. We suspect that these trends persisted in the fourth quarter and will only intensify going forward. As a result, we've tempered our expectations, estimating that CWT barely broke even in the final quarter of 2009 and that earnings growth will not be anything to write home about for full-year 2010. **The stock has fallen a notch for Timeliness and is now ranked 4 (Below Average).** Recent share-price declines, coupled with the tough outlook, make this an unattractive selection for the coming six to 12 months. **Its 3- to 5-year appeal is better, but still lacking in our opinion.** CWT does not have the finances on hand to meet the rising infrastructure costs that are likely to amount over the next couple of years. The share and/or debt offerings that will be required to help improve the balance sheet will come at a price, with the higher share count and interest rate expenses limiting potential shareholder gains. Although the dividend yield looks healthy at first blush, those seeking an income vehicle have better options available, particularly on a risk-adjusted basis. *Andre J. Costanza January 22, 2010*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; '02, 8¢. Next earnings report due early February.	(B) Dividends historically paid in mid-Feb., May, Aug., and Nov. ^ Div'd reinvestment plan available.	(C) Incl. deferred charges. In '08: \$3.9 mil., \$19/sh.	(D) In millions, adjusted for split.	(E) Excludes non-reg. rev.	Company's Financial Strength B++
					Stock's Price Stability 80
					Price Growth Persistence 75
					Earnings Predictability 80

YORK WATER CO NDQ-YORW RECENT PRICE **14.08** TRAILING P/E RATIO **21.3** RELATIVE P/E RATIO **1.19** DIV'D YLD **3.6%** VALUE LINE



© VALUE LINE PUBLISHING, INC.	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010/2011
REVENUES PER SH	2.05	2.05	2.17	2.18	2.58	2.56	2.79	2.89	--	
"CASH FLOW" PER SH	.59	.57	.65	.65	.79	.77	.86	.88	--	
EARNINGS PER SH	.43	.40	.47	.49	.56	.58	.57	.57	.66 ^{A,B}	.66 ^{C,NA}
DIV'D DECL'D PER SH	.34	.35	.37	.39	.42	.45	.48	.49	--	
CAP'L SPENDING PER SH	.75	.66	1.07	2.50	1.69	1.85	1.69	2.17	--	
BOOK VALUE PER SH	3.79	3.90	4.06	4.65	4.85	5.84	5.97	6.14	--	
COMMON SHS OUTST'G (MILL)	9.46	9.55	9.63	10.33	10.40	11.20	11.27	11.37	--	
AVG ANN'L P/E RATIO	17.9	26.9	24.5	25.7	26.3	31.2	30.3	24.6	21.3	21.3/NA
RELATIVE P/E RATIO	.92	1.47	1.40	1.36	1.39	1.68	1.61	1.48	--	
AVG ANN'L DIV'D YIELD	4.3%	3.3%	3.2%	3.1%	2.9%	2.5%	2.8%	3.5%	--	
REVENUES (\$MILL)	19.4	19.6	20.9	22.5	26.8	28.7	31.4	32.8	--	Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.
NET PROFIT (\$MILL)	4.0	3.8	4.4	4.8	5.8	6.1	6.4	6.4	--	
INCOME TAX RATE	35.8%	34.9%	34.8%	36.7%	36.7%	34.4%	36.5%	36.1%	--	
AFUDC % TO NET PROFIT	2.2%	3.7%	--	--	--	7.2%	3.6%	10.1%	--	
LONG-TERM DEBT RATIO	47.7%	46.7%	43.4%	42.5%	44.1%	48.3%	46.5%	54.5%	--	
COMMON EQUITY RATIO	52.3%	53.3%	56.6%	57.5%	55.9%	51.7%	53.5%	45.5%	--	
TOTAL CAPITAL (\$MILL)	68.6	69.9	69.0	83.6	90.3	126.5	125.7	153.4	--	
NET PLANT (\$MILL)	102.3	106.7	116.5	140.0	155.3	174.4	191.6	211.4	--	
RETURN ON TOTAL CAP'L	7.9%	7.4%	8.5%	7.6%	8.4%	6.2%	6.7%	5.7%	--	
RETURN ON SHR. EQUITY	11.2%	10.2%	11.4%	10.0%	11.6%	9.3%	9.5%	9.2%	--	
RETURN ON COM EQUITY	11.2%	10.2%	11.4%	10.0%	11.6%	9.3%	9.5%	9.2%	--	
RETAINED TO COM EQ	2.5%	1.3%	2.6%	2.1%	3.0%	2.2%	1.7%	1.4%	--	
ALL DIV'DS TO NET PROF	78%	88%	77%	79%	74%	77%	82%	85%	--	

^ANo. of analysts changing earn. est. in last 9 days: 0 up, 0 down, consensus 5-year earnings growth 7.5% per year. ^BBased upon 4 analysts' estimates. ^CBased upon 4 analysts' estimates.

ANNUAL RATES		
of change (per share)	5 Yrs.	1 Yr.
Revenues	5.5%	3.5%
"Cash Flow"	7.0%	3.5%
Earnings	6.0%	--
Dividends	6.0%	3.0%
Book Value	9.0%	3.0%

Fiscal Year	QUARTERLY SALES (\$mill.)				Full Year
	1Q	2Q	3Q	4Q	
12/31/07	7.4	7.9	8.3	7.8	31.4
12/31/08	7.5	7.8	8.6	8.9	32.8
12/31/09	8.8	9.2	9.8		
12/31/10					

Fiscal Year	EARNINGS PER SHARE				Full Year
	1Q	2Q	3Q	4Q	
12/31/06	.12	.14	.17	.15	.58
12/31/07	.12	.15	.15	.15	.57
12/31/08	.11	.13	.15	.18	.57
12/31/09	.13	.17	.18	.17	
12/31/10	.14	.17			

Cal-endar	QUARTERLY DIVIDENDS PAID				Full Year
	1Q	2Q	3Q	4Q	
2007	.118	.118	.118	.118	.47
2008	.121	.121	.121	.121	.48
2009	.126	.126	.126	.126	.50
2010	.128				

INSTITUTIONAL DECISIONS			
	1Q'09	2Q'09	3Q'09
to Buy	17	30	35
to Sell	10	12	16
Hid's(000)	1958	2477	2941

ASSETS (\$mill.)	2007	2008	9/30/09
Cash Assets	.0	.0	.1
Receivables	5.2	5.9	5.7
Inventory (Avg cost)	.8	.7	.8
Other	.8	.7	1.1
Current Assets	6.8	7.3	7.7

Property, Plant & Equip, at cost	2007	2008	9/30/09
	223.1	246.0	--
Accum Depreciation	31.5	34.6	--
Net Property	191.6	211.4	220.9
Other	12.6	21.7	21.3
Total Assets	211.0	240.4	249.9

LIABILITIES (\$mill.)	2007	2008	9/30/09
Accs Payable	3.2	2.0	2.6
Debt Due	15.0	8.7	9.3
Other	3.2	3.5	4.3
Current Liab	21.4	14.2	16.2

LONG-TERM DEBT AND EQUITY
as of 9/30/09

Total Debt \$83.3 mill. Due in 5 Yrs. NA
LT Debt \$74.0 mill.
Including Cap. Leases NA (47% of Cap'l)
Leases, Uncapitalized Annual rentals NA

Pension Liability \$9.8 mill. in '08 vs. \$4.0 mill. in '07

Pfd Stock None Pfd Div'd Paid None

Common Stock 12,411,181 shares (53% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: The York Water Company engages in the impounding, purification, and distribution of water in York County and Adams County, Pennsylvania. The company supplies water for residential, commercial, industrial, and other customers. It has two reservoirs, Lake Williams, which is 700 feet long and 58 feet high, and creates a reservoir covering approximately 165 acres containing about 870 million gallons of water; and Lake Redman, which is 1,000 feet long and 52 feet high and creates a reservoir covering approximately 290 acres containing about 1.3 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. As of December 31, 2008, the company served approximately 176,000 residential, commercial, industrial, and other customers. In November, the company completed the Beaver Creek Village water system acquisition. Has 110 employees. C.E.O. & President: Jeffrey R. Hines, Inc.: PA. Address: 130 East Market Street, York, PA 17401. Tel.: (717) 845-3601. Internet: <http://www.yorkwater.com>.

January 22, 2010

TOTAL SHAREHOLDER RETURN				
Dividends plus appreciation as of 12/31/2009				
3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
5.61%	-3.72%	24.34%	-10.37%	30.61%

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
	Market Capitalization (1) (millions)	(times smaller)	Applicable Decile of the NYSE/AMEX/ NASDAQ (2)	Applicable Size Premium (3)	Spread from Applicable Size Premium for (4)
1.	<u>Apply Canyon Utility Company</u>				
a.	Based upon MoPSC Staff's Proxy Group of Four Water Companies				
	\$ 655.329	1.5	7 - 8	2.11%	
2.	<u>MoPSC Staff's Proxy Group of Four Water Companies</u>				
	\$ 979.633		7	1.73%	0.38%

(A)	(B)	(C)	(D)	(E)
Decile	Smallest Company in Decile (millions)	Largest Company in Decile (millions)	Midpoint (millions)	Size Premium (Return in Excess of CAPM) (2)
1 - Largest	\$ 14,692.016	\$ 329,725.255	\$ 172,208.636	-0.37%
2	5,975.836	14,691.668	10,333.752	0.74%
3	3,428.570	5,936.147	4,682.359	0.85%
4	2,386.985	3,414.634	2,900.810	1.15%
5	1,602.429	2,384.026	1,993.228	1.69%
6	1,063.333	1,600.169	1,331.751	1.73%
7	685.129	1,063.308	874.219	1.73%
8	432.175	684.790	558.483	2.49%
9	214.194	431.256	322.725	2.85%
10 - Smallest	1.007	214.111	107.559	6.28%

Source: 2010 Ibbotson Risk Premia Over Time Report - Estimates for 1926-2009

Notes:

- (1) From Page 2 of this Schedule.
- (2) Gleaned from Column (D) on the bottom of this page. The appropriate decile (Column (A)) corresponds to the market capitalization of the proxy group, which is found in Column 1.
- (3) Corresponding risk premium to the decile is provided on Column (E) on the bottom of this page.
- (4) Line No. 1a Column 3 - Line No. 2 Column 3 and Line No. 1b, Column 3 - Line No. 3 of Column 3 etc.. For example, the 0.38% in Column 4, Line No. 2 is derived as follows 0.38% = 2.11% - 1.73%.

Missouri-American Water Company
Market Capitalization of Missouri-American Water Company, and
MoPSC Staff's Proxy Group of Four Water Companies

<u>Company</u>	<u>Exchange</u>	<u>1</u> Common Stock Shares Outstanding at Fiscal Year End 2009 (millions)	<u>2</u> Book Value per Share at Fiscal Year End 2009 (1)	<u>3</u> Total Common Equity at Fiscal Year End 2009 (millions)	<u>4</u> Average Stock Market Price (2)	<u>5</u> Market-to-Book Ratio on March 24, 2010 (3) (4)	<u>6</u> Market Capitalization (5) (millions)
<u>Missouri-American Water Company</u>		NA	NA	<u>\$ 339.373</u> (6)	NA		
<u>Based upon MoPSC Staff's Proxy Group of Four Water Companies</u>						<u>193.1 %</u>	<u>\$ 655.329</u>
<u>MoPSC Staff's Proxy Group of Four Water Companies</u>							
American States Water Co.		18.532	\$ 19.395	\$ 359.430	\$ 33.992	175.3 %	\$ 629.951
Aqua America, Inc.		137.149	8.085	1,108.904	17.117	211.700	2,347.575
California Water Service Group		20.765	20.257	420.634	36.788	181.600	763.903
York Water Company		12.559	6.921	86.922	14.102	203.800	177.103
<u>Average</u>		<u>47.251</u>	<u>\$ 13.665</u>	<u>\$ 493.973</u>	<u>\$ 25.500</u>	<u>193.1 %</u>	<u>\$ 979.633</u>

NA= Not Available

- Notes: (1) Column 3 / Column 1.
(2) From Schedule 17 of the Staff Report.
(3) Column 4 / Column 2.
(4) The market-to-book ratio of Missouri-American Water Company is assumed to be equal to the average market-to-book ratio of MoPSC Staff's proxy group of four water companies.
(5) Column 5* Column 3.
(6) From Schedule PMA-1, page 4. 2009 annual data not available at the end of February 2010, the time of MoPSC Staff's rate of return analysis.

Source of Information: 2009 Annual Forms 10K
yahoo.finance.com

Missouri-American Water Company
Fully-Litigated Authorized Returns on Common Equity and
Common Equity Ratios for Electric and Natural Gas Distribution
Companies from January 2009 Through March 31, 2010

State	Company	Case Identification	Service	Date	(1) Rate Increase (\$M)	(2) Return on Rate Base	(3) Return on Equity	(4) Common Equity Ratio	(5) Moody's A Rated Utility Bonds (1)	(6) Implied Equity Risk Premium (2)
Ohio	Public Service Co. of OH	Ca-PUD-200800144	Electric	1/14/2009	59.3	8.31	10.50	44.10	7.67	2.90
Ohio	Cleveland Elec. Illuminating Co.	C-07-0551-EL-AIR (CEI)	Electric	1/21/2009	28.20	6.48	10.50	49.00	6.54	3.96
Ohio	Ohio Edison Co.	C-07-0551-EL-AIR (OE)	Electric	1/21/2009	68.90	6.48	10.50	49.00	6.54	3.96
Ohio	Toltec Edison Co.	C-07-0551-EL-AIR (TE)	Electric	1/21/2009	38.50	6.48	10.50	49.00	6.54	3.96
Missouri	Union Electric Co.	C-ER-2006-0318	Electric	1/27/2009	161.70	6.34	10.78	52.01	6.54	4.22
Idaho	Idaho Power Co.	C-IPC-E-08-10	Electric	1/30/2009	27.00	6.18	10.50	49.27	6.54	3.96
Massachusetts	New England Gas Company	DPJ 08-35	Natural Gas	2/22/2009	3.70	7.74	10.05	34.19	6.54	3.51
Connecticut	United Illuminating Co.	D-05-07-04	Electric	2/4/2009	6.10	7.59	6.75	50.00	6.54	2.21
Indiana	Indiana Michigan Power Co.	Ca-43306	Electric	3/4/2009	19.10	7.62	10.50	45.80	6.39	4.11
California	Southern California Edison Co.	Ap-07-11-011	Electric	3/12/2009	308.10	6.75	11.50	48.00	6.36	5.11
Florida	Tampa Electric Co.	D-080317-EJ	Electric	3/17/2009	147.70	6.29	11.25	47.48	6.30	4.85
Illinois	Northern Illinois Gas Co.	D-06-0363	Natural Gas	3/25/2009	80.20	6.09	11.17	51.07	6.30	3.67
Minnesota	ALLETE (Minnesota Power)	D-E-015/GR-08-415	Electric	4/3/2009	20.40	6.45	10.74	54.79	6.30	4.44
Utah	D-09-035-38	Electric	4/21/2009	45.00	6.96	10.81	51.00	6.42	4.18	
New York	Consolidated Edison Co. of NY	C-08-E-0539	Electric	4/24/2009	523.40	7.79	10.00	48.00	6.42	3.58
Florida	Peoples Gas System	D-080318-GU	Natural Gas	5/5/2009	19.20	6.50	10.75	48.51	6.42	4.33
Idaho	Idaho Power Co.	C-IPC-E-09-07	Electric	5/28/2009	10.50	6.18	10.50	49.27	6.48	4.02
New York	Central Hudson Gas & Electric	C-08-E-0887	Electric	6/22/2009	39.60	7.28	10.00	47.00	6.49	3.51
Nevada	Nevada Power Co.	D-08-12002	Electric	6/24/2009	222.70	6.66	10.60	44.15	6.49	4.31
Minnesota	Minnesota Energy Resources	D-G-007,011/GR-08-835	Natural Gas	6/29/2009	15.40	7.96	10.21	48.77	6.49	3.72
Connecticut	CT Natural Gas Corp.	D-08-12-06	Natural Gas	6/30/2009	(16.20)	7.82	6.31	52.52	6.49	3.62
Connecticut	Southern Connecticut Gas Co.	D-08-12-07	Natural Gas	7/17/2009	(12.50)	6.05	6.28	52.00	6.20	3.06
Texas	Oncor Electric Delivery Co.	D-35717	Electric	8/31/2009	115.10	6.26	10.25	40.00	5.97	4.28
Minnesota	Northern States Power Co. - MN	D-E-002/GR-08-1085	Electric	10/23/2009	91.40	6.63	10.66	32.47	5.53	5.35
Nevada	Southwest Gas Corp.	D-09-04003 (Southern)	Natural Gas	10/29/2009	17.60	7.40	10.15	47.09	5.53	4.62
Nevada	Southwest Gas Corp.	D-09-04003 (Northern)	Natural Gas	10/29/2009	(0.50)	6.30	10.15	47.09	5.53	4.62
Massachusetts	Bay State Gas Co.	DPJ 09-30	Natural Gas	10/30/2009	16.10	6.18	8.95	53.57	5.53	4.42
Michigan	Consumers PeoplCorp	C-01-15645	Electric	11/22/2009	139.40	6.98	10.70	40.51	5.53	5.17
West Virginia	Hope Gas Inc	C-08-1703-G-427	Natural Gas	11/20/2009	6.80	6.85	6.45	42.34	5.55	3.90
Massachusetts	Massachusetts Electric Co.	DPJ 09-39	Electric	11/30/2009	43.90	7.65	10.35	43.15	5.55	4.80
Wisconsin	Wisconsin Electric Power Co.	D-5-UR-104 (WEP-EL)	Electric	12/18/2009	65.60	6.98	10.40	53.02	5.64	4.75
Wisconsin	Wisconsin Power and Light Co.	6660 UR-117 (elec)	Electric	12/18/2009	56.60	6.81	10.40	50.38	5.64	4.76
Wisconsin	Wisconsin Electric Power Co.	D-5-UR-104 (WEP-GAS)	Natural Gas	12/18/2009	(2.00)	6.85	10.40	53.02	5.64	4.75
Wisconsin	Wisconsin Gas LLC	D-5-UR-104 (WG)	Natural Gas	12/18/2009	3.70	9.09	10.50	46.62	5.64	4.66
Wisconsin	Wisconsin Power and Light Co.	D-6580-UR-117 (gas)	Natural Gas	12/18/2009	6.50	6.94	10.40	50.38	5.64	4.76
Wisconsin	Madison Gas and Electric Co.	D-3270-UR-116 (elec)	Electric	12/22/2009	11.90	6.67	10.40	55.34	5.64	4.75
Wisconsin	Northern States Power Co. - WI	D-4220-UR-116 (elec)	Electric	12/22/2009	6.40	6.93	10.40	52.30	5.64	4.76
Wisconsin	Madison Gas and Electric Co.	D-3270-UR-116 (gas)	Natural Gas	12/22/2009	(1.50)	6.66	10.40	55.34	5.64	4.76
Maryland	Delpmarva Power & Light Co.	C-9192	Electric	12/30/2009	7.50	7.98	10.00	49.57	5.64	4.35
Iowa	Intertate Power & Light Co.	D-RPU-2009-0002	Electric	1/4/2010	63.70	6.91	10.80	49.52	5.64	5.15
Michigan	Detroit Edison Co.	C-LJ-15768	Electric	1/11/2010	217.40	7.02	11.00	39.46	5.64	5.38
Minnesota	CenterPoint Energy Resources	D-G-008/GR-08-1075	Natural Gas	1/11/2010	40.80	6.09	10.24	52.55	5.64	4.60
Illinois	North Shore Gas Co.	C-08-0166	Natural Gas	1/21/2010	13.90	6.19	10.33	56.00	5.76	4.54
Illinois	Peoples Gas Light & Coke Co.	C-09-0167	Natural Gas	1/21/2010	69.60	6.05	10.23	56.00	5.79	4.44
Texas	Atmos Energy Corp.	GUO 9669	Natural Gas	1/26/2010	2.70	6.50	10.48	48.91	5.76	4.61
Rhode Island	Narragansett Electric Co.	D-4065	Electric	2/9/2010	23.50	7.20	9.80	42.75	5.76	4.01
Utah	PeoplCorp	D-09-035-23	Electric	2/18/2010	32.40	6.34	10.50	51.00	5.77	4.83
Texas	CenterPoint Energy Resources	GUO 9902	Natural Gas	2/23/2010	5.10	6.65	10.50	55.60	5.77	4.73
District of Columbia	Potomac Electric Power Co.	F.C. 1076	Electric	3/2/2010	16.80	6.01	9.83	46.18	5.77	3.68
Florida	Florida Power Corp.	D-090076-EI	Electric	3/5/2010	126.20	7.88	10.50	45.74	5.77	4.73
Nebraska	Southern Gas Distribution LLC	D-NG-0080	Natural Gas	3/9/2010	1.80	7.80	9.80	49.95	5.77	3.63
Florida	Florida Power & Light Co.	D-080677-EI	Electric	3/17/2010	75.50	6.65	10.60	47.00	5.87	4.13
Illinois	MidAmerican Energy Co.	D-09-0312	Natural Gas	3/24/2010	2.70	7.60	10.13	47.08	5.87	4.26
Georgia	Airgas Energy Corp.	D-30442	Natural Gas	3/31/2010	2.90	6.61	10.70	47.70	5.87	4.83
				Average	\$ 58.3	6.18	10.32	48.78	6.02	4.30
				Average Implied Equity Risk Premium						4.30
				Projected Yield on A Rated Public Utility Bonds (3)						6.12
				Implied Common Common Equity Cost Rate						10.42

Notes:
(1) Actual A rated yield represents the yield of the previous month if the order was issued on or after the 15th of each month, or the yield of two months prior if the order was issued on or before the 15th of each month. For example, the yield for 1/14/09 is the A rated Public Utility yield for November 2008 and the yield for 1/21/09 is the A rated Public Utility yield for December 2008.

(2) Column 3 - Column 5.

(3) From Page 2 of this Schedule.

Missouri-American Water Company
Calculation of Prospective Yield on A Rated Public Utility Bonds

Blue Chip Forecast of Aaa Corporate Bonds Ending Q2 2011 (1):	5.60 %
Adjustment to Reflect Spread Between Aaa Corporate bonds and A Rated Public Utility Bonds (2)	<u>0.52</u>
Adjusted Prospective Yield on A Rated Public Utility Bonds	<u><u>6.12 %</u></u>

Notes:

- (1) From page 2 of Schedule 17.
- (2) Three month spread between Moody's Aaa corporate and A rated utility bond yields ending February 2010, consistent with Staff's DCF study.

Source of Information:

Blue Chip Financial Forecasts, March 1, 2010
Mergent Bond Record, March 2010, Vol 77, No. 3.

Missouri-American Water Company
Summary of Cost of Capital and Fair Rate of Return
Based upon the Pro Forma Capital Structure of at April 30, 2010

<u>Type of Capital</u>	<u>Ratios (1)</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-Term Debt	50.40%	6.36% (1)	3.21%
Short-Term Debt	<u>0.00%</u>	3.62%	<u>0.00%</u>
Total Debt	50.40%		3.21%
Preferred Stock	0.33%	9.20%	0.03%
Common Equity	<u>49.27%</u>	11.35% (2)	<u>5.59%</u>
Total	<u>100.00%</u>		<u>8.83%</u>

(1) Company-provided.

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

Missouri-American Water Company
Brief Summary of Common Equity Cost Rate

No.	Principal Methods	Proxy Group of Six AUS Utility Reports Water Companies	Proxy Group of Eight AUS Utility Reports Gas Distribution Companies
1.	Discounted Cash Flow Model (DCF) (1)	10.55 %	9.10 %
2.	Risk Premium Model (RPM) (2)	10.81	10.53
3.	Capital Asset Pricing Model (CAPM) (3)	10.85	10.04
4.	Comparable Earnings Model (CEM) (4)	13.50	NMF
5.	Indicated Common Equity Cost Rate before Adjustment for Business Risk	11.85 %	10.15 %
6.	Business Risk Adjustment (5)	<u>0.05</u>	<u>0.15</u>
7.	Range of Indicated Common Equity Cost Rate After Adjustment for Business Risk	11.90 %	10.30 %
8.	Financial / Credit Risk Adjustment (6)	<u>0.32</u>	<u>0.21</u>
9.	Range of Indicated Common Equity Cost Rate After Adjustment for Business and Financial / Credit Risk	<u>12.22 %</u>	<u>10.51 %</u>
10.	Recommended Common Equity Cost Rate	<u>11.35%</u>	

- Notes: (1) From page 16 of this Schedule.
(2) From page 33 of this Schedule.
(3) From page 41 of this Schedule.
(4) From pages 45 and 46 of this Schedule.
(5) Business risk adjustment to reflect Missouri-American Water Company's greater business risk due to its small size relative to the proxy groups as detailed in Ms. Ahern's direct testimony.
(6) Financial / credit risk adjustment to reflect Missouri-American Water Company's greater financial / credit risk relative to the proxy groups as detailed in Ms. Ahern's direct testimony.

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

Line No.	1		2	3	4
	Market Capitalization on April 5, 2010 (1) (millions)	(times larger)	Applicable Decile of the NYSE/AMEX/ NASDAQ (2)	Applicable Size Premium (3)	Spread from Applicable Size Premium for (4)
1.	<u>Missouri-American Water Company</u>				
a.	\$ 660.080		7 - 8	2.11%	
b.	\$ 556.572		8	2.49%	
2.	\$ 806.468	1.2 x	7 - 8	2.11%	0.00%
3.	\$ 1,630.049	2.9 x	5 - 6	1.71%	0.78%

(A)	(B)	(C)	(D)	(E)
Decile	Number of Companies (millions)	Recent Total Market Capitalization (millions)	Recent Average Market Capitalization (millions)	Size Premium (Return in Excess of CAPM) (2)
1 - Largest	168	\$ 6,087,379.357	\$ 48,020.115	-0.37%
2	176	1,681,320.126	\$ 9,552.955	0.74%
3	174	802,997.270	\$ 4,614.927	0.85%
4	185	566,025.344	\$ 3,059.598	1.15%
5	215	435,313.426	\$ 2,024.714	1.69%
6	241	319,576.916	\$ 1,326.045	1.73%
7	305	281,895.344	\$ 924.247	1.73%
8	417	197,085.621	\$ 472.627	2.49%
9	560	178,722.563	\$ 319.147	2.85%
10 - Smallest	1361	118,048.288	\$ 88.735	6.28%

*From pages 7 and 11 of this Schedule

Notes:

- (1) From Page 4 of this Schedule.
- (2) Gleaned from Column (D) on the bottom of this page. The appropriate decile (Column (A)) corresponds to the market capitalization of the proxy group, which is found in Column 1.
- (3) Corresponding risk premium to the decile is provided on Column (E) on the bottom of this page.
- (4) Line No. 1a Column 3 – Line No. 2 Column 3 and Line No. 1b, Column 3 – Line No. 3 of Column 3 etc.. For example, the 0.00% in Column 4, Line No. 2 is derived as follows 0.00% = 2.11% - 2.11%.

Missouri-American Water Company
Market Capitalization of United Water New York, Inc.
the Proxy Group of Six AUS Utility Reports Water Companies
and the Proxy Group of Eight AUS Utility Reports Natural Gas Distribution Companies

1	2	3	4	5	6		
Company	Exchange	Common Stock Shares Outstanding at Fiscal Year End 2009 (millions)	Book Value per Share at Fiscal Year End 2009 (1)	Total Common Equity at Fiscal Year End 2009 (millions)	Closing Stock Market Price on April 5, 2010	Market-to-Book Ratio on April 5, 2010 (2)	Market Capitalization on April 5, 2010 (3) (millions)
<u>Missouri-American Water Company</u>		NA	NA	\$ 339,373 (4)	NA		
Based Upon the Proxy Group of Six AUS Utility Reports Water Companies						194.5 % (5)	\$ 660,080 (6)
Based Upon the Proxy Group of Eight AUS Utility Reports Gas Distribution Companies						164.0 % (7)	\$ 556,572 (8)
<u>Proxy Group of Six AUS Utility Reports Water Companies</u>							
American States Water Co	NYSE	18,532	\$ 19,395	\$ 359,430	\$ 35,950	185.4 %	\$ 666,237
Aqua America, Inc.	NYSE	137,149	8,085	1,108,904	17,960	222.1	2,463,192
California Water Service Group	NYSE	20,765	20,257	420,634	38,900	192.0	807,759
Middlesex Water Company	NASDAQ	13,519	10,326	139,631	17,650	170.9	238,610
SJW Corporation	NYSE	18,500	13,663	252,756	26,240	192.1 %	485,430
York Water Company	NASDAQ	12,559	6,921	86,622	14,140	204.3	177,580
Average		36,837	\$ 13,106	\$ 304,713	\$ 25,140	194.5 %	\$ 806,468
<u>Proxy Group of Eight AUS Utility Reports Gas Distribution Companies</u>							
RGL Resources, Inc.	NYSE	77,500	\$ 22,968	\$ 1,780,000	\$ 39,250	170.9 %	\$ 3,041,875
Atmos Energy Corp	NYSE	92,552	23,519	2,176,761	29,390	125.0	2,720,095
Delta Natural Gas Company	NYSE	3,318	16,725	55,493	29,320	175.3	97,285
Laclede Group, Inc.	NYSE	22,188	25,323	517,000	34,240	146.6	759,036
Northwest Natural Gas Company	NYSE	26,533	24,879	660,105	47,480	190.8	1,259,788
Piedmont Natural Gas Co., Inc.	NYSE	73,266	12,665	927,948	27,610	216.0	2,022,674
Southwest Gas Corporation	NYSE	45,092	24,442	1,102,127	30,680	125.5	1,383,414
WGL Holdings, Inc.	NYSE	50,143	21,891	1,097,698	35,020	160.0	1,756,025
Average		46,822	\$ 21,302	\$ 1,039,645	\$ 34,124	164.0 %	\$ 1,630,049

NA = Not Available

- Notes: (1) Column 3 / Column 1
(2) Column 4 / Column 2.
(3) Column 5 * Column 3
(4) From Missouri-American Water Co.'s 2009 Annual Report to the Missouri Public Service Commission.
(5) The market-to-book ratio of Missouri-American Water Company on April 5, 2010 is assumed to be equal to the average market-to-book ratio at April 5, 2010 of the proxy group of six AUS Utility Reports water companies.
(6) Missouri-American Water Company's common stock, if traded, would trade at a market-to-book ratio equal to the average market-to-book ratio at April 5, 2010 of the proxy group of six AUS Utility Reports water companies, 194.5%, and Missouri-American Water Company's market capitalization on April 5, 2010 would therefore have been \$660,080 million (\$660,080 = \$339,373 * 194.5%).
(7) The market-to-book ratio of Missouri-American Water Company on April 5, 2010 is assumed to be equal to the average market-to-book ratio at April 5, 2010 of the proxy group of eight AUS Utility Reports gas distribution companies.
(8) Missouri-American Water Company's common stock, if traded, would trade at a market-to-book ratio equal to the average market-to-book ratio at April 5, 2010 of the proxy group of eight AUS Utility Reports gas distribution companies, 164.0%, and Missouri-American Water Company's market capitalization on April 5, 2010 would therefore have been \$556,572 million (\$556,572 = \$339,363 * 164.0%).

Source of Information: Edgar Online's i-Metric database
yahoo.finance.com

Ibbotson® SBBI®
2010 Valuation Yearbook

Market Results for
Stocks, Bonds, Bills, and Inflation
1926–2009

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.

Size and Liquidity

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

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

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

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

Construction of the Decile Portfolios

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

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

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

Table 7-1: Size-Decile Portfolios of the NYSE/AMEX/NASDAQ
Number of Companies, Historical and Recent Market Capitalization

Decile	Historical Average Percentage of Total Capitalization	Recent Number of Companies	Recent Decile Market Capitalization (in Thousands)	Recent Percentage of Total Capitalization
1	63.26%	168	\$8,087,379,357	63.78%
2	13.94	176	1,681,320,126	13.29
3	7.54	174	802,997,270	6.35
4	4.72	185	566,025,344	4.48
5	3.24	215	435,313,426	3.44
6	2.39	241	319,576,916	2.53
7	1.76	305	281,895,344	2.23
8	1.31	417	197,085,821	1.56
9	1.02	560	178,722,563	1.41
10-Smallest	0.83	1,361	118,046,268	0.93
Mid-Cap 3-5	15.49	574	1,804,336,040	14.27
Low-Cap 6-8	5.45	963	798,557,882	6.31
Micro-Cap 9-10	1.86	1,921	296,768,831	2.35

Data from 1926-2008. Source: Morningstar and CRSP. Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2010 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

Historical average percentage of total capitalization shows the average, over the last 84 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 December 31, 2009.

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

Decile	Recent Market Capitalization (in Thousands)	Company Name
1-Largest	\$329,725,255	Exxon Mobil Corp.
2	14,691,668	Sysco Corp.
3	5,936,147	American International Group Inc.
4	3,414,634	Resmed Inc.
5	2,384,026	Mirent Corp.
6	1,600,169	Cypress Semiconductor Corp.
7	1,063,308	Energys
8	684,790	Live Nation Inc.
9	431,256	American Reprographics Co.
10-Smallest	214,111	Quicksilver Gas Services LP

Source: Morningstar and CRSP. Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2010 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission. Market capitalization and name of largest company in each decile as of September 30, 2009.

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 market value. The data in the second column of Table 7-1 are averages across all 84 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 as of December 31, 2009.

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 \$5,936,147,000 but greater than \$1,600,169,000. Low-cap stocks include deciles 6-8 and currently include all companies in the NYSE/AMEX/NASDAQ with market capitalizations at or below \$1,600,169,000 but greater than \$431,256,000. Micro-cap stocks include deciles 9-10 and include companies with market capitalizations at or below \$431,256,000. The market capitalization of the smallest company included in the micro-capitalization group is currently \$214,111.

Presentation of the Decile Data

Summary statistics of annual returns of the 10 deciles over 1926-2009 are presented in Table 7-4. Note from this exhibit that both the average return and the total risk, or standard deviation of annual returns, tend to increase as one moves from the largest decile to the smallest. Furthermore, the serial correlations of returns are near zero for all but the smallest deciles. Serial correlations and their significance will be discussed in detail later in this chapter.

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

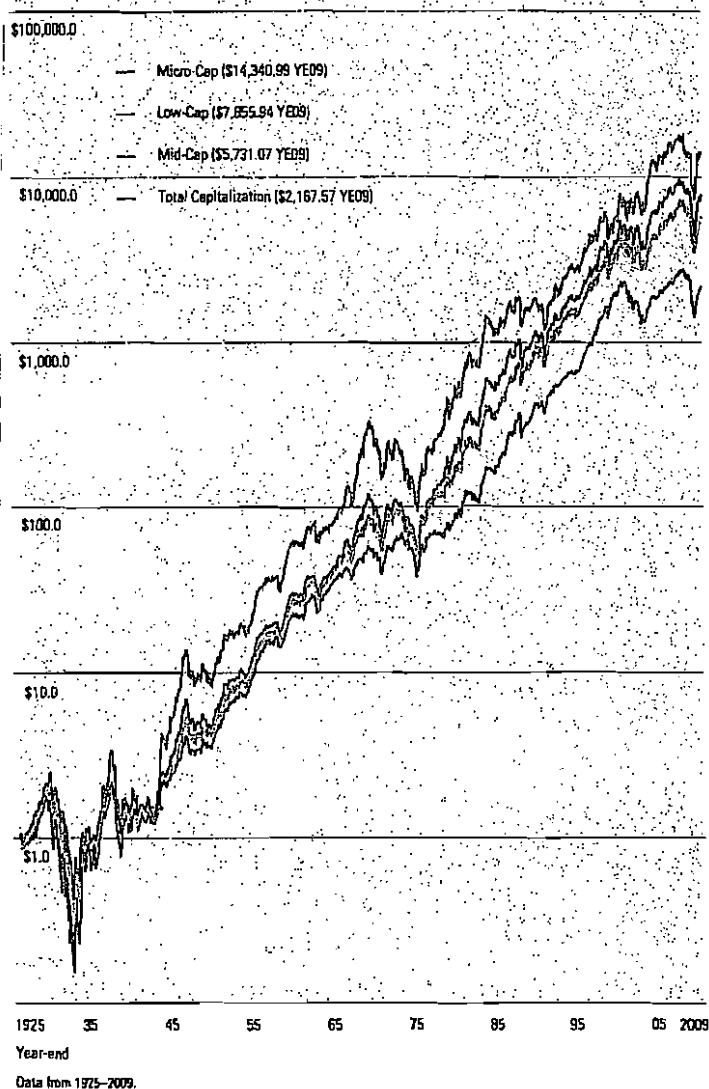
1926-1965

Date	Capitalization of Largest Company (in Thousands)			Capitalization of Smallest Company (in Thousands)		
	Mid-Cap	Low-Cap	Micro-Cap	Mid-Cap	Low-Cap	Micro-Cap
	3-5	6-8	9-10	3-5	6-8	9-10
1926	\$60,103	\$13,795	\$4,213	\$13,800	\$4,263	\$43
1927	64,820	14,491	4,415	14,522	4,450	65
1928	80,910	18,761	5,074	18,788	5,119	135
1929	103,054	24,328	5,862	24,480	5,873	118
1930	66,750	12,918	3,358	13,050	3,369	30
1931	42,607	8,142	1,927	8,222	1,944	15
1932	12,212	2,208	468	2,223	469	19
1933	40,298	7,210	1,830	7,280	1,875	120
1934	38,019	6,638	1,673	6,669	1,691	69
1935	37,631	6,549	1,350	6,605	1,383	38
1936	46,963	11,505	2,754	11,526	2,800	98
1937	51,750	13,635	3,539	13,793	3,563	68
1938	35,019	8,372	2,195	8,400	2,200	60
1939	35,409	7,478	1,819	7,500	1,854	75
1940	29,903	7,990	1,861	8,007	1,872	51
1941	30,362	8,316	2,086	8,336	2,087	72
1942	26,037	6,868	1,770	6,870	1,779	82
1943	42,721	11,403	3,847	11,475	3,903	395
1944	46,221	13,056	4,812	13,068	4,820	309
1945	55,125	17,325	6,413	17,575	6,428	225
1946	77,784	24,192	10,149	24,199	10,168	829
1947	57,830	17,719	6,373	17,735	6,380	508
1948	67,238	19,632	7,329	19,651	7,348	683
1949	56,082	14,549	5,037	14,577	5,108	379
1950	66,143	18,675	6,225	18,700	6,243	303
1951	82,517	22,750	7,598	22,860	7,600	668
1952	95,636	25,405	8,428	25,452	8,480	480
1953	98,218	25,340	8,156	25,374	8,168	459
1954	125,834	29,707	8,488	29,791	8,502	463
1955	170,829	41,445	12,366	41,681	12,444	553
1956	183,792	46,805	13,524	46,886	13,623	1,122
1957	194,300	47,658	13,844	48,509	13,848	925
1958	195,536	46,774	13,789	46,871	13,816	550
1959	256,283	64,110	19,548	64,221	19,701	1,804
1960	252,282	61,485	19,293	61,529	19,344	831
1961	296,261	77,983	23,552	77,996	23,613	2,455
1962	250,786	58,785	18,952	58,866	18,968	1,018
1963	308,903	71,846	23,927	71,971	24,055	296
1964	348,675	79,508	25,595	79,937	25,607	223
1965	365,675	84,600	28,483	85,065	28,543	250

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

Date	Capitalization of Largest Company (in Thousands)			Capitalization of Smallest Company (in Thousands)		
	Mid-Cap	Low-Cap	Micro-Cap	Mid-Cap	Low-Cap	Micro-Cap
	3-5	6-8	9-10	3-5	6-8	9-10
1966	403,137	99,960	34,884	100,107	34,988	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	556,296	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	862,397	264,690	72,104	264,783	72,450	1,446
1982	770,517	210,301	55,336	210,630	55,423	1,060
1983	1,209,917	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	1,857,521	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	898
1989	2,145,947	480,975	100,285	483,623	100,384	96
1990	2,171,217	474,065	93,750	474,477	93,780	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	2,705,182	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	751,880	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	6,247,953	1,607,854	505,437	1,607,931	506,410	1,393
2005	7,187,244	1,728,888	586,393	1,729,364	587,243	1,079
2006	7,777,183	1,946,588	626,955	1,947,240	627,017	2,247
2007	9,206,713	2,411,794	723,258	2,413,583	725,267	1,922
2008	7,360,271	1,848,961	453,254	1,849,950	453,398	1,575
2009	5,936,147	1,600,169	431,256	1,602,429	432,175	1,007

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



Graph 7-1 depicts the growth of one dollar invested in each of three NYSE/AMEX/NASDAQ groups broken down into mid-cap, low-cap, and micro-cap stocks. The index value of the entire NYSE/AMEX/NASDAQ is also included. All returns presented are value-weighted based on the market capitalizations of the deciles contained in each subgroup. The sheer magnitude of the size effect in some years is noteworthy. While the largest stocks actually declined 9 percent in 1977, the smallest stocks rose more

than 20 percent. A more extreme case occurred in the depression-recovery year of 1933, when the difference between the first and tenth decile returns was far more substantial, with the largest stocks rising 46 percent, and the smallest stocks rising 218 percent. This divergence in the performance of small and large company stocks is a common occurrence.

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

Decile	Geometric Mean	Arithmetic Mean	Standard Deviation	Serial Correlation
1-Largest	9.1	10.9	19.4	0.07
2	10.4	12.8	22.4	0.01
3	10.7	13.4	23.9	-0.04
4	10.7	13.8	26.2	-0.03
5	11.3	14.6	27.0	-0.04
6	11.2	14.8	27.6	0.02
7	11.2	15.2	29.8	0.00
8	11.4	16.3	34.4	0.04
9	11.5	17.0	36.7	0.04
10-Smallest	13.1	20.9	45.2	0.14
Mid Cap	10.9	13.7	25.0	-0.04
Low Cap	11.3	15.2	29.4	0.02
Micro	12.1	18.2	39.2	0.07
NYSE/AMEX/ NASDAQ Total Value Weighted Index	9.6	11.6	20.5	0.01

Data from 1926-2009. Source: Morningstar and CRSP. Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2010 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

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

Aspects of the Firm Size Effect

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

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

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

Decile	Beta*	Arithmetic Mean Return (%)	Actual Return in Excess of Riskless Rate** (%)	CAPM Return in Excess of Riskless Rate [†] (%)	Size Premium (Return in Excess of CAPM) (%)
1-Largest	0.91	10.90	5.72	6.09	-0.37
2	1.03	12.81	7.64	6.90	0.74
3	1.10	13.36	8.18	7.33	0.85
4	1.12	13.82	8.65	7.50	1.15
5	1.16	14.59	9.41	7.72	1.69
6	1.18	14.81	9.63	7.90	1.73
7	1.24	15.19	10.01	8.28	1.73
8	1.30	16.33	11.15	8.67	2.49
9	1.35	17.01	11.84	8.99	2.85
10-Smallest	1.41	20.85	15.68	9.39	6.28
Mid-Cap, 3-5	1.12	13.71	8.54	7.45	1.08
Low-Cap, 6-8	1.23	15.20	10.03	8.18	1.85
Micro-Cap, 9-10	1.36	18.23	13.06	9.07	3.99

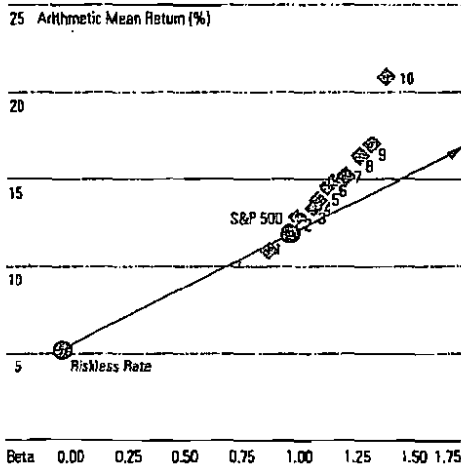
Data from 1926-2009.

*Betas are estimated from monthly returns in excess of the 30-day U.S. Treasury bill total return, January 1926-December 2009.

**Historical riskless rate measured by the 84-year arithmetic mean income return component of 20-year government bonds (5.18).

[†]Calculated in the context of the CAPM by multiplying the equity risk premium by beta. The equity risk premium is estimated by the arithmetic mean total return of the S&P 500 (11.85 percent) minus the arithmetic mean income return component of 20-year government bonds (5.18 percent) from 1926-2009.

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



Data from 1926-2009.

Source: Morningstar and CRSP. Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2010 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

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

Long-Term Returns in Excess of Systematic Risk

The capital asset pricing model (CAPM) does not fully account for the higher returns of small company stocks. Table 7-5 shows the returns in excess of systematic risk over the past 84 years for each decile of the NYSE/AMEX/NASDAQ. Recall that the CAPM is expressed as follows:

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

Table 7-5 uses the CAPM to estimate the return in excess of the riskless rate and compares this estimate to historical performance. According to the CAPM, the expected return on a security should consist of the riskless rate plus an additional return to compensate for the systematic risk of the security. The return in excess of the riskless rate is estimated in the context of the CAPM by multiplying the equity risk premium by β (beta). The equity risk premium is the return that compensates investors for taking on risk equal to the risk of the market as a whole (systematic risk).³ Beta measures the extent to which a security or portfolio is exposed to systematic risk.⁴ The beta of each decile indicates the degree to which the decile's return moves with that of the overall market.

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

Table 7-6: Size-Decile Portfolios of the NYSE/AMEX/NASDAQ
10th Decile Sub-Portfolios

Decile	Recent Number of Companies	Market Capitalization of Largest Company (in Thousands)	Company Name
10a	395	214,111	Quicksilver Gas Services L P
10w	163	214,111	Quicksilver Gas Services L P
10x	232	169,497	Landry's Restaurants, Inc.
10b	1,382	123,516	Lee Enterprises
10y	302	123,516	Lee Enterprises
10z	1,080	76,052	Federal Agricultural Mortgage Corporation A

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

Sources: Morningstar and CRSP. Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2010 Center for Research in Security Prices (CRSP), The University of Chicago Booth School of Business. Used with permission.

Market capitalization and name of largest company in each decile as of September 30, 2009.

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

Further Analysis of the 10th Decile

The size premia presented thus far do a great deal to explain the return due solely to size in publicly traded companies. However, by splitting the 10th decile into further 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.

Ibbotson first split the 10th decile into 10a and 10b in the 2001 Ibbotson S&P Valuation Yearbook. With the 2010 Ibbotson S&P Valuation Yearbook, we introduce an even closer look at the smallest companies by splitting 10a into 10w and 10x, and splitting 10b into 10y and 10z.

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 NYSE AMEX and NASDAQ were allocated into the same size groupings. This same methodology was used to split the 10th decile into four parts: 10w, 10x (sub-portfolios of 10a), and 10y, and 10z (sub-portfolios of 10b). Splitting the 10th decile into 10a and 10b is equivalent to breaking the stocks

down into 20 size groupings, with portfolios 19 and 20 representing 10a and 10b. Further splitting 10a into 10w and 10x and 10b into 10y and 10z is equivalent to breaking the stocks down into 40 size groupings, with portfolios 37 and 38 representing 10w and 10x, and portfolios 39 and 40 representing 10y and 10z.

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, and the portfolio made up of the smallest companies, 10z, has the largest size premium, which is demonstrated visually in Graph 7-3. This can be useful information in valuing companies that are extremely small. Table 7-6 presents the size, composition, and breakpoints of each size category. First, the recent number of companies and total decile market capitalization are presented for each of the portfolios. Then the market capitalization and name of the largest company is presented. Breaking the smallest decile down lowers the significance of the results compared to results for the 10th decile taken as a whole, however. There are always going to be more companies included in the Micro-cap than in the 10th decile, and more companies in the 10th decile than in the 10b category. The more stocks included in a sample, the more significance can be placed on the results. The 10th decile gets as small as 49 companies back in March of 1926. This is still significant.

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 demonstrate that the company size to size premia relationship continues to hold true, even when broken down into subdivisions 10a, 10w, 10x, 10b, 10y, and 10z.

All things considered, size premia developed for these portfolios 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.

Overlapping Size Categories

A common question among valuation practitioners is about how to use the various size premium metrics that Morningstar provides when size-based category breakpoints overlap. This issue is magnified now that we have published even more granularly for the 10th decile.

There are going to be cases when the estimated equity value for a subject could categorize it in a number of size premium buckets. This range of potential size premium choices would have a tremendous effect on the firm's enterprise value. There are two decision paths when making this choice. The improper path is to choose the size premium that achieves the self-serving goal of influencing the enterprise value in the direction most desired. In many cases this leads to choosing the highest size premium number (12.06% in Table 7-7), because this will lead to the lowest enterprise value for tax purposes, marital dissolution, acquisition valuation, etc. The proper path is to choose the size premium that is most statistically relevant for your application.

Choosing the Right Size Premium

There are two primary factors in determining which size premium to use. First, identify how close to a size category boundary your subject company falls. Second, determine how confident you are in your estimate of equity value.

Let's say you have an example where the estimated equity value is close to the top breakpoint of the 10b category, toward the middle of the 10th decile, and toward the bottom of the Micro-cap. In this case, the statistically conservative choice is the 10th decile. We need to balance the confidence that our subject firm actually falls within a particular size category with the need to tailor that size grouping as tight as possible to make the peers relevant to our analysis. The Micro-cap category is too broad for this case, since the subject firm falls in the lower range of the category, and 10b is too narrow since our subject company would barely squeeze in under the top breakpoint before sliding into 10a. We can say with confidence that the 10th decile puts our company among the most peers of similar size.

Since estimating equity value for the purpose of size premium categorization is a circular challenge, it makes sense to use as many quality metrics that are available to perform this estimate. In doing so, you may find that the equity estimates cross a number of size premium categories. In this case, it is advisable to sacrifice granularity for statistical confidence. For example, if you have three equity estimates indicating that your firm would fall in the middle of 10x, bottom of 10x, and middle of 10y categories, the overall 10th decile size premium would be the best category to capture the size of similar peer companies while acknowledging that the imperfections and circular nature of the size bucketing process.

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

	Beta*	Arithmetic Mean Return (%)	Realized Return in Excess of Riskless Rate** (%)	Estimated Return in Excess of Riskless Rate† (%)	Size Premium (Return in Excess of CAPM) (%)
1	0.91	10.90	5.72	5.09	-0.37
2	1.03	12.81	7.64	6.90	0.74
3	1.10	13.36	8.18	7.33	0.85
4	1.12	13.82	8.65	7.50	1.15
5	1.16	14.59	9.41	7.72	1.69
6	1.18	14.81	9.63	7.90	1.73
7	1.24	15.19	10.01	8.28	1.73
8	1.30	16.33	11.15	8.67	2.49
9	1.35	17.01	11.84	8.99	2.85
10a	1.42	19.10	13.92	9.47	4.45
10w	1.39	18.33	13.15	9.30	3.85
10x	1.45	19.78	14.60	9.69	4.91
10b	1.38	24.39	19.21	9.20	10.01
10y	1.40	23.58	18.40	9.35	9.05
10z	1.35	26.23	21.05	8.99	12.06
Mid-Cap, 3-5	1.12	13.71	8.54	7.45	1.08
Low-Cap, 6-8	1.23	15.20	10.03	8.18	1.85
Micro-Cap, 9-10	1.36	18.23	13.06	9.07	3.99

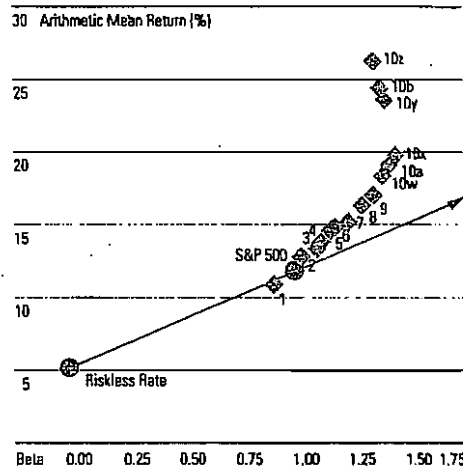
Data from 1926-2008. Source: Morningstar and CRSP. Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2010 Center for Research in Security Prices (CRSP), The University of Chicago Booth School of Business. Used with permission.

* Betas are estimated from monthly portfolio total returns in excess of the 30-day U.S. Treasury bill total return versus the S&P 500 total returns in excess of the 30-day U.S. Treasury bill, January 1926-December 2009.

** Historical riskless rate is measured by the 84-year arithmetic mean income return component of 20-year government bonds (5.18 percent).

† Calculated in the context of the CAPM by multiplying the equity risk premium by beta. The equity risk premium is estimated by the arithmetic mean total return of the S&P 500 (11.85 percent) minus the arithmetic mean income return component of 20-year government bonds (5.18 percent) from 1926-2009.

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



Data from 1926-2009.

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	665
1990	1,814
2000	1,927
2005	1,746
2006	1,744
2007	1,775
2008	1,626
2009	1,777

Source: Morningstar and CRSP. Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2010 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

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

Alternative Methods of Calculating the Size Premia

The size premia estimation method presented above makes several assumptions with respect to the market benchmark and the measurement of beta. The impact of these assumptions can best be examined by looking at some alternatives. In this section we will examine the impact on the size premia of using a different market benchmark for estimating the equity risk premia and beta. We will also examine the effect on the size premia study of using sum beta or an annual beta.³

Changing the Market Benchmark

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

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

	Beta*	Arith- metic Mean Return (%)	Realized Return in Excess of Riskless Rate** (%)	Estimated Return in Excess of Riskless Rate* (%)	Size Premium (Return in Excess of CAPM) (%)
1	0.99	10.90	5.72	5.84	-0.13
2	1.11	12.81	7.64	6.59	1.05
3	1.17	13.36	8.18	6.95	1.24
4	1.20	13.82	8.65	7.17	1.53
5	1.23	14.59	9.41	7.29	2.12
6	1.26	14.81	9.63	7.45	2.18
7	1.32	15.19	10.01	7.81	2.20
8	1.38	16.33	11.15	8.17	2.98
9	1.42	17.01	11.84	8.44	3.39
10	1.48	20.85	15.68	8.79	6.89
Mid-Cap, 3-5	1.19	13.71	8.54	7.06	1.48
Low-Cap, 6-8	1.30	15.20	10.03	7.71	2.32
Micro-Cap, 9-10	1.43	18.23	13.06	8.50	4.55

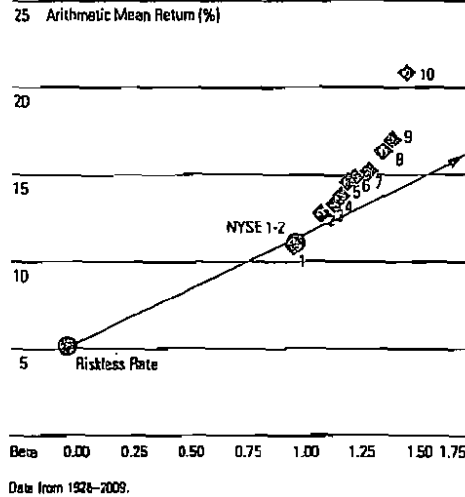
Data from 1926-2009. Source: Morningstar and CRSP. Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2010 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

*Betas are estimated from monthly portfolio total returns in excess of the 30-day U.S. Treasury bill total return versus the CRSP Deciles 1-2 total returns in excess of the 30-day U.S. Treasury bill, January 1926-December 2009.

**Historical riskless rate is measured by the 84-year arithmetic mean income return component of 20-year government bonds (5.18 percent).

³Calculated 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 CRSP Deciles 1-2 (11.10 percent) minus the arithmetic mean income return component of 20-year government bonds (5.18 percent) from 1926-2009.

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



For the entire period analyzed, 1926–2009, the betas obtained using the NYSE total value-weighted index are higher than those obtained using the S&P 500. Since smaller companies had higher betas using the NYSE benchmark, one would expect the size premia to shrink. However, as was illustrated in Chapter 5, the equity risk premium calculated using the NYSE deciles 1–2 benchmark results in a value of 5.93, as opposed to 6.67 when using the S&P 500. The effect of the higher betas and lower equity risk premium cancel each other out, and the resulting size premia in Table 7-9 are slightly higher than those resulting from the original study.

Measuring Beta with Sum Beta

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

demonstrates that a size premium is still necessary to estimate the expected returns using sum beta in conjunction with the CAPM, though the premium is smaller than that needed when using the typical calculation of beta.

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

Table 7-10: Long-Term Returns in Excess of CAPM Estimation for Decile Portfolios of the NYSE/AMEX/NASDAQ, with Sum Beta

	Beta*	Arithmetic Mean Return (%)	Realized Return in Excess of Riskless Rate** (%)	Estimated Return in Excess of Riskless Rate ¹ (%)	Size Premium (Return in Excess of CAPM) (%)
1-Largest	0.91	10.90	5.72	6.08	-0.36
2	1.06	12.81	7.64	7.04	0.59
3	1.13	13.36	8.18	7.55	0.64
4	1.20	13.82	8.65	8.00	0.65
5	1.24	14.59	9.41	8.25	1.17
6	1.30	14.81	9.63	8.66	0.96
7	1.36	15.19	10.01	9.21	0.80
8	1.49	16.33	11.15	9.97	1.19
9	1.56	17.01	11.84	10.36	1.46
10-Smallest	1.71	20.85	15.69	11.40	4.28
Mid-Cap, 3-5	1.17	13.71	8.54	7.81	0.73
Low-Cap, 6-8	1.36	15.20	10.03	9.10	0.93
Micro-Cap, 9-10	1.60	18.23	13.06	10.67	2.38

Data from 1926–2009. Source: Morningstar and CRSP. Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2010 Center for Research in Security Prices (CRSP), The University of Chicago Booth School of Business. Used with permission.

* Betas are estimated from monthly portfolio total returns in excess of the 30-day U.S. Treasury bill total return versus the S&P 500 total returns in excess of the 30-day U.S. Treasury bill, January 1926–December 2009.

** Historical riskless rate is measured by the 84-year arithmetic mean income return component of 20-year government bonds (5.18 percent).

¹ Calculated in the context of the CAPM by multiplying the equity risk premium by beta. The equity risk premium is estimated by the arithmetic mean total return of the S&P 500 (11.85 percent) minus the arithmetic mean income return component of 20-year government bonds (5.18 percent) from 1926–2009.

Missouri-American Water Company
Indicated Common Equity Cost Rate Through Use of the
Single Stage Discounted Cash Flow Model for
the Proxy Group of Six AUS Utility Reports Water Companies
and the Proxy Group of Eight AUS Utility Reports Natrual Gas Distribution Companies

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
	Average Dividend Yield (1)	Dividend Growth Component (2)	Adjusted Dividend Yield (3)	Growth Rate (4)	Indicated Common Equity Cost Rate (5)
<u>Proxy Group of Six AUS Utility Reports Water Companies</u>					
American States Water Co.	3.01 %	0.10 %	3.11 %	6.75 %	9.86 %
Aqua America, Inc.	3.31	0.15	3.46	9.30	12.76
California Water Service Group	3.15	0.11	3.26	7.25	10.51
Middlesex Water Company	4.16	0.19	4.35	9.00	13.35
SJW Corporation	2.73	NA	2.73	NA	2.73
York Water Company	3.71	0.13	3.84	6.75	10.59
Average	<u>3.35 %</u>	<u>0.14 %</u>	<u>3.46 %</u>	<u>7.81 %</u>	<u>9.97 %</u>
Median	<u>3.23 %</u>	<u>0.13 %</u>	<u>3.36 %</u>	<u>7.25 %</u>	<u>10.55 %</u>
<u>Proxy Group of Eight AUS Utility Reports Gas Distribution Companies</u>					
AGL Resources, Inc.	4.60 %	0.10 %	4.70 %	4.55 %	9.25 %
Atmos Energy Corp.	4.68	0.12	4.80	5.00	9.80
Delta Natural Gas Company	4.43	0.07	4.50	3.00	7.50
Laclede Group, Inc.	4.71	0.06	4.77	2.50	7.27
Northwest Natural Gas Company	3.61	0.09	3.70	5.25	8.95
Piedmont Natural Gas Co., Inc.	4.08	0.11	4.19	5.50	9.69
Southwest Gas Corporation	3.21	0.11	3.32	6.75	10.07
WGL Holdings, Inc.	4.33	0.03	4.36	1.55	5.91
Average	<u>4.21 %</u>	<u>0.09 %</u>	<u>4.29 %</u>	<u>4.26 %</u>	<u>8.56 %</u>
Median	<u>4.38 %</u>	<u>0.10 %</u>	<u>4.43 %</u>	<u>4.78 %</u>	<u>9.10 %</u>

Notes:

- (1) From page 17 of this Schedule.
- (2) This reflects a growth rate component equal to one-half the conclusion of growth rate (from page 18 of this Schedule) x Column 1 to reflect the periodic payment of dividends (Gordon Model) as opposed to the continuous payment. Thus, for American States Water Co., $3.01\% \times (1/2 \times 6.75\%) = 0.10\%$.
- (3) Column 1 + Column 2.
- (4) From page 18 of this Schedule.
- (5) Column 3 + Column 4.

Schedule PMA-8
(UPDATED)

Missouri-American Water Company
Derivation of Dividend Yield for Use in the
Discounted Cash Flow Model

	Dividend Yield		
	Spot (4/5/2010)	Average of Last 3 Months (2)	Average Dividend Yield (3)
<u>Proxy Group of Six AUS Utility Reports Companies</u>			
American States Water Co.	2.89 %	3.12 %	3.01 %
Aqua America, Inc.	3.23	3.40	3.31
California Water Service Group	3.06	3.24	3.15
Middlesex Water Company	4.08	4.25	4.16
SJW Corporation	2.59	2.88	2.73
York Water Company	<u>3.62</u>	<u>3.79</u>	<u>3.71</u>
Average	<u>3.25 %</u>	<u>3.44 %</u>	<u>3.35 %</u>
Median	<u>3.15 %</u>	<u>3.32 %</u>	<u>3.23 %</u>
<u>Proxy Group of Eight AUS Utility Reports Companies</u>			
AGL Resources Inc.	4.48 %	4.72 %	4.60 %
Atmos Energy Corporation	4.56	4.81	4.68
Delta Natural Gas Company	4.43	4.42	4.43
Laclede Group, Inc.	4.61	4.80	4.71
Northwest Natural Gas Co.	3.50	3.72	3.61
Piedmont Natural Gas Co., Inc.	4.06	4.10	4.08
Southwest Gas Corporation	3.10	3.32	3.21
WGL Holdings, Inc.	<u>4.20</u>	<u>4.46</u>	<u>4.33</u>
Average	<u>4.12 %</u>	<u>4.29 %</u>	<u>4.21 %</u>
Median	<u>4.32 %</u>	<u>4.44 %</u>	<u>4.38 %</u>

- Notes: (1) The spot dividend yield is the current annualized dividend per share divided by the spot market price on 4/5/10.
(2) The average 3-month dividend yield was computed by relating the indicated annualized dividend rate and market price on the last trading day of each of the three months ended 3/31/10.
(3) Equal weight has been given to the 3-month average and spot dividend yield.

Source of Information: yahoo.finance.com

Missouri-American Water Company
Historical and Projected Growth

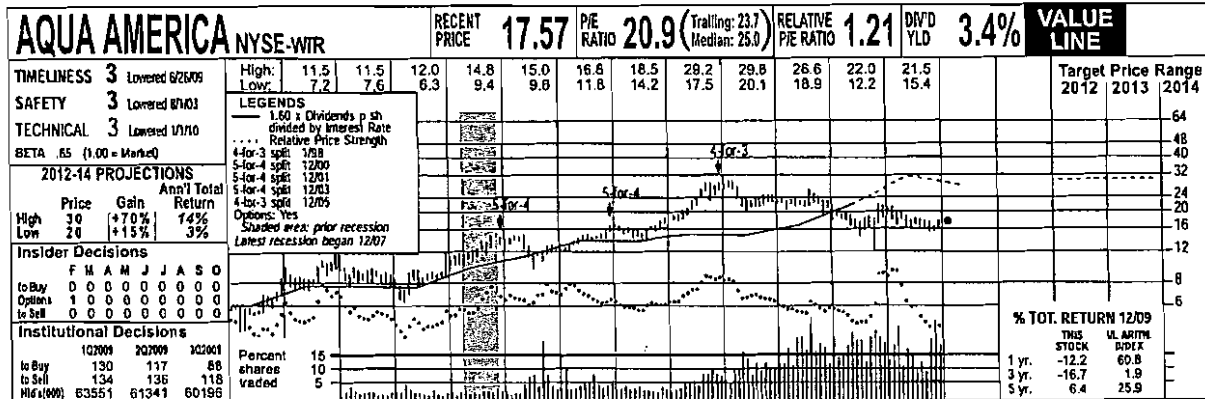
	1	2	3
	Value Line Projected 2006- '08 to 2012-'14 Growth Rate (1)	Reuters Mean Consensus Projected Five Year EPS Growth Rate	Average Projected Five Year Growth Rate in EPS (2)
	EPS	EPS	No. of Est.
<u>Proxy Group of Six AUS Utility Reports</u>			
<u>Water Companies</u>			
American States Water Co.	9.50 %	4.00 %	[1]
Aqua America, Inc.	10.00	8.60	[5]
California Water Service Group	8.50	6.00	[2]
Middlesex Water Company	9.00	NA	[NA]
SJW Corporation	NA	NA	[NA]
York Water Company	7.50	6.00	[1]
Average	<u>8.90 %</u>	<u>6.15 %</u>	<u>7.81 %</u>
Median	<u>9.00 %</u>	<u>6.00 %</u>	<u>7.25 %</u>
<u>Proxy Group of Eight AUS Utility</u>			
<u>Reports Gas Distribution Companies</u>			
AGL Resources, Inc.	3.50 %	5.60 %	[4]
Almos Energy Corp.	5.50	4.50	[5]
Delta Natural Gas Company	3.00	3.00	[1]
Laclede Group, Inc.	2.50	NA	[NA]
Northwest Natural Gas Company	5.00	5.50	[2]
Piedmont Natural Gas Co., Inc.	4.00	7.00	[2]
Southwest Gas Corporation	8.00	5.50	[2]
WGL Holdings, Inc.	2.50	0.60	[1]
Average	<u>4.25 %</u>	<u>4.53 %</u>	<u>4.26 %</u>
Median	<u>3.75 %</u>	<u>5.50 %</u>	<u>4.78 %</u>

NA= Not Available

Notes: (1) As shown on pages 19 through 32 of this Schedule.
(2) Average of Columns 1 and 2.

Source of Information: Value Line Investment Survey, January 22, and March 12, 2010
Reuters Company Research (Printed April 6, 2010)

AMER. STATES WATER NYSE:AWR		RECENT PRICE	34.75	P/E RATIO	18.5 (Trading: 18.6 Median: 22.0)	RELATIVE P/E RATIO	1.07	DIV YLD	3.0%	VALUE LINE										
TIMELINESS 3 Lowered 6/5/09	High: 19.5	26.5	25.3	26.4	29.0	29.0	26.8	34.6	43.8	46.1	42.0	38.8		Target Price Range	2012	2013	2014			
SAFETY 3 New 2/4/00	Low: 14.1	14.8	16.7	19.0	20.3	21.6	20.8	24.3	30.3	33.8	27.0	29.8		128						
TECHNICAL 3 Raised 12/4/08	LEGENDS --- 1.25 x Dividends p sh divided by Interest Rate Relative Price Strength 3 for 2 split 6/02 Options: No Shaded area: prior recession Latest recession began 12/07										80									
BETA .80 (1.00 = Market)	2012-14 PROJECTIONS										64									
	Price	Gain	Ann'l Total	3-for-2										48						
	High	6.0	(+7.5%)	17%											40					
	Low	4.0	(+1.5%)	6%											32					
Insider Decisions	F M A M J J A S D										24									
to Buy	0	0	0	0	0	0	0	0	0	0	0	0	0	12						
Options	0	0	0	0	0	0	0	0	0	0	0	0	0							
to Sell	0	1	0	0	0	0	0	0	0	0	0	0	0							
Institutional Decisions	10Q09 2Q09 3Q09										% TOT. RETURN 12/09									
to Buy	55	66	54	Percent										1 yr.	10.5	18.0				
to Sell	88	53	53	shares										3 yr.	-0.5	1.9				
Net Buy	9283	10578	10947	traded										5 yr.	56.5	25.9				
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
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	15.76	17.49	18.42	19.60	20.55	Revenues per sh	21.75	
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	2.89	3.31	3.37	3.65	3.90	"Cash Flow" per sh	4.60	
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	1.62	1.55	1.85	2.00	Earnings per sh	2.60	
.79	.80	.81	.82	.83	.84	.85	.86	.87	.87	.88	.89	.90	.91	.96	1.00	1.01	1.05	Div'd Decl'd per sh	1.22	
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	2.88	4.45	4.05	4.25	Cap'l Spending per sh	5.00	
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	17.53	17.95	19.60	20.00	Book Value per sh	22.00	
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	17.23	17.30	18.60	19.00	Common Shs Outst'g	20.00	
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	24.0	22.6	18.54		Avg Ann'l P/E Ratio	19.0	
.79	.84	.78	.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.27	1.37	1.22		Relative P/E Ratio	1.25	
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%	2.5%	2.5%	2.9%	2.9%		Avg Ann'l Div'd Yield	2.4%	
CAPITAL STRUCTURE as of 9/30/09		173.4	184.0	197.5	209.2	212.7	220.0	236.2	259.6	301.4	318.7	365	390	Revenues (\$mil)	450					
Total Debt \$327.5 mil. Due In 5 Yrs \$25.0 mil.		16.1	18.0	20.4	20.3	11.9	16.5	22.5	23.1	28.0	26.8	35.0	39.0	Net Profit (\$mil)	52.0					
LT Debt \$306.3 mil. LT Interest \$23.5 mil.		46.0%	45.7%	43.0%	38.9%	43.5%	37.4%	47.0%	40.5%	42.6%	37.8%	38.5%	38.5%	Income Tax Rate	40.0%					
(LT interest earned: 3.8x; total interest coverage: 3.5x)		51.0%	47.5%	54.9%	52.0%	52.0%	47.7%	50.4%	48.6%	46.9%	46.2%	46.0%	44.5%	AFUDC % to Net Profit	5.0%					
(48% of Cap'l)		48.4%	51.9%	44.7%	48.0%	48.0%	52.3%	49.6%	51.4%	53.1%	53.8%	54.0%	55.5%	Long-Term Debt Ratio	46.5%					
Leases, Uncapitalized: Annual rentals \$2.9 mil.		328.2	371.1	447.6	444.4	442.3	480.4	532.5	551.6	569.4	577.0	675	705	Total Capital (\$mil)	825					
Pension Assets-12/08 \$54.2 mil.		449.6	509.1	539.8	563.3	602.3	664.2	713.2	750.6	776.4	825.3	870	920	Net Plant (\$mil)	1025					
Oblig. \$94.5 mil.		6.6%	6.4%	6.1%	6.5%	4.6%	5.2%	5.4%	6.0%	6.7%	6.4%	7.0%	7.5%	Return on Total Cap'l	8.5%					
PLD Stock None.		10.0%	9.2%	10.1%	9.5%	5.8%	6.6%	8.5%	8.1%	9.3%	8.6%	9.5%	10.5%	Return on Shr. Equity	12.0%					
Common Stock 18,512,032 shs.		10.1%	9.3%	10.1%	9.5%	5.8%	6.6%	8.5%	8.1%	9.3%	8.6%	9.5%	10.5%	Return on Com Equity	12.0%					
as of 11/30/09		2.9%	3.0%	3.6%	3.3%	NM/F	1.0%	2.8%	2.7%	3.8%	3.1%	4.5%	5.0%	Retained to Com Eq	6.5%					
MARKET CAP: \$650 million (Small Cap)		72%	68%	65%	65%	113%	84%	67%	67%	58%	64%	54%	53%	All Div'ds to Net Prof	47%					
CURRENT POSITION 2007 2008 9/30/09 (\$MILL.)		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 675 employees. Officers & directors own 2.5% of common stock (4/09 Proxy). Chairman: Lloyd Ross, President & CEO: Floyd Wicks, Inc. CA. Addr.: 630 East Foothill Boulevard, San Dimas, CA 91773. Tele.: 909-394-3600. Inernet: www.aswater.com.																		
Cash Assets		1.7	7.3	7.4	American States Water posted impressive third-quarter growth. Indeed, the water utility reported earnings of \$0.52 a share, as revenues advanced 17%, to a record \$101 million. Expectations should be tempered a bit, however. Last year's third-quarter figures were relatively weak. The December-period comparisons are far more formidable. Plus, although the top line is likely to continue being the beneficiary of favorable general rate case rulings from the California Public Utilities Commission, operating expenses look to be on the rise, as evidenced by the most recent double-digit increase. Already decaying infrastructures are only growing older and requiring more investment. Much in that vein, we anticipate that the company had trouble meeting last year's share-net total in the fourth quarter, despite a healthy high single-digit top-line advance. For many of the same reasons, bottom-line growth for full-year 2010, though healthy, will likely pale in comparison to the levels witnessed in 2009. The company's balance sheet is not exactly seductive. In order to meet the growing infrastructure requirements mentioned above, the cash-strapped entity will have to continue to seek outside financing, with debt and share offerings likely becoming commonplace. The higher interest rate and share count associated with these transactions will limit the benefits of the expansion of the unregulated business. These shares are not too intriguing at this juncture. Share-price momentum has tapered off in the months following our October review and is likely to remain relatively stagnant over the coming six to 12 months as the emergence from the recession continues to gain steam and investors regain confidence and take a more aggressive stance. The longer-term picture is not much better, with burgeoning financing costs curbing 3- to 5-year shareholder gains. Although risk-averse investors may be intrigued by the issue's income component (in a much anticipated move the board recently raised the quarterly dividend by 4% to \$0.26 a share), it should be noted that there are a number of better income sources, particularly in the utility genre, to choose from.															
Other		61.4	63.3	92.3	<i>Andre J. Costanza</i> January 22, 2010															
Current Assets		63.1	90.6	99.7																
Accts Payable		29.1	36.6	37.4																
Debt Due		37.8	75.3	21.2																
Other		27.4	25.5	40.4																
Current Liab.		94.3	137.4	99.0																
Fix. Chg. Cov.		314%	293%	352%																
ANNUAL RATES Past Past Est'd '08-'08 of change (per sh) 10 Yrs. 5 Yrs. to '12-'14																				
Revenues		4.5%	5.0%	4.0%																
"Cash Flow"		5.5%	6.0%	6.5%																
Earnings		3.5%	5.5%	9.5%																
Dividends		1.5%	2.0%	4.5%																
Book Value		4.5%	5.0%	4.0%																
QUARTERLY REVENUES (\$ mil.)		Full Year																		
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	2006	64.3	63.0	75.0	66.3	268.6										
	2007	72.3	79.3	75.8	74.0	301.4														
	2008	68.9	80.3	85.3	84.2	318.7														
	2009	79.6	93.6	101.8	90.0	365														
	2010	85.0	100	108	97.0	390														
EARNINGS PER SHARE A		Full Year																		
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	2006	.35	.36	.32	.30	1.33										
	2007	.40	.42	.44	.35	1.62														
	2008	.30	.53	.26	.43	1.55														
	2009	.28	.64	.52	.41	1.85														
	2010	.30	.65	.58	.47	2.00														
QUARTERLY DIVIDENDS PAID B=C		Full Year																		
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	2006	.225	.225	.225	.235	.91										
	2007	.235	.235	.235	.250	.96														
	2008	.250	.250	.250	.250	1.00														
	2009	.250	.250	.250	.260	1.01														
	2010																			
(A) Primary earnings. Excludes nonrecurring gains/(losses): '04, 14¢; '05, 25¢; '06, 6¢; '08, (27¢). Next earnings report due late February. May not add due to rounding.		(B) Dividends historically paid in early March, June, September, and December. * Div'd reinvestment plan available.		(C) In millions, adjusted for split.		Company's Financial Strength B++														
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		Price Growth Persistence 70																		
		Earnings Predictability 70																		
		To subscribe call 1-800-833-0046.																		



Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	12-14
Price	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	4.52	4.63	4.95	5.35	6.45
Gain	.42	.42	.47	.50	.56	.61	.72	.76	.86	.94	.96	1.09	1.21	1.26	1.37	1.42	1.70	1.85	2.40
Return	.24	.26	.29	.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	.70	.71	.73	.80	.90	1.25
Div'd	.21	.21	.22	.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	.44	.48	.51	.55	.59	.70
Cap'l Sp.	.47	.46	.52	.48	.58	.82	.90	1.18	1.09	1.20	1.32	1.54	1.84	2.05	1.79	1.98	1.90	1.95	2.15
Book Value	2.29	2.41	2.45	2.69	2.84	3.21	3.42	3.85	4.15	4.36	5.34	5.89	6.30	6.96	7.32	7.82	7.90	8.35	10.35
Common Sh.	59.40	58.77	63.74	65.75	67.47	72.20	106.80	111.82	113.97	113.19	123.45	127.18	128.97	132.33	133.40	135.37	136.30	137.00	139.00
Avg Ann'l P/E	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	32.0	24.9	22.2	21.0	21.0
Relative P/E	.85	.89	.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.87	1.70	1.50	1.48	1.48	1.40
Avg Ann'l Div'd Yield	5.9%	6.0%	6.2%	4.9%	3.9%	3.0%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.8%	2.1%	2.8%	3.0%	3.0%	2.0%
Revenues (\$mill)	257.3	275.5	307.3	322.0	357.2	442.0	495.8	533.5	602.5	627.0	675	735	800	890	900	975	1009	1123	1275
Net Profit (\$mill)	45.0	50.7	58.5	62.7	67.3	80.0	91.2	92.0	95.0	97.9	109	123	175	175	175	199	210	223	245
Income Tax Rate	38.4%	36.9%	39.3%	38.5%	39.3%	39.4%	38.4%	39.6%	38.9%	39.7%	39.0%	39.0%	39.0%	39.0%	39.0%	39.7%	39.0%	39.0%	39.0%
AFUDC % to Net Profit	---	---	---	---	---	---	---	---	2.9%	3.1%	3.0%	2.6%	2.0%	2.0%	2.6%	3.0%	2.6%	2.6%	2.0%
Long-Term Debt Ratio	52.9%	52.0%	52.2%	54.2%	51.4%	50.0%	52.0%	51.6%	55.4%	54.1%	54.0%	53.0%	48.0%	48.0%	44.6%	45.9%	46.0%	47.0%	48.0%
Common Equity Ratio	46.7%	47.8%	47.7%	45.8%	48.6%	50.0%	48.0%	48.4%	44.6%	45.9%	46.0%	47.0%	52.0%	52.0%	55.4%	54.1%	54.0%	53.0%	52.0%
Total Capital (\$mill)	782.7	901.1	990.4	1076.2	1355.7	1497.3	1690.4	1904.4	2191.4	2306.6	2276	2345	2765	2765	2765	2765	2765	2765	2765
Net Plant (\$mill)	1135.4	1251.4	1368.1	1490.8	1624.3	2069.8	2280.0	2506.0	2792.8	2997.4	3150	3300	3500	3500	3500	3500	3500	3500	3500
Return on Total Cap'l	7.6%	7.4%	7.8%	7.6%	6.4%	6.7%	6.9%	6.4%	5.9%	5.7%	6.0%	6.5%	7.3%	7.3%	6.0%	6.0%	6.5%	6.5%	7.5%
Return on Shr. Equity	12.2%	11.7%	12.3%	12.7%	10.2%	10.7%	11.2%	10.7%	9.7%	9.3%	10.0%	10.5%	12.0%	12.0%	9.7%	9.3%	10.0%	10.5%	12.0%
Return on Com Equity	12.3%	11.7%	12.4%	12.7%	10.2%	10.7%	11.2%	10.7%	9.7%	9.3%	10.0%	10.5%	12.0%	12.0%	9.7%	9.3%	10.0%	10.5%	12.0%
Retained to Com Eq	4.3%	4.7%	5.1%	5.2%	4.2%	4.6%	4.9%	3.7%	3.2%	2.8%	3.5%	3.0%	5.0%	5.0%	3.2%	2.8%	3.5%	3.0%	5.0%
All Div'ds to Net Prof	65%	60%	59%	59%	59%	57%	56%	63%	67%	70%	66%	69%	57%	57%	67%	70%	66%	69%	57%

CAPITAL STRUCTURE as of 9/30/09
 Total Debt \$1320.2 mill. Due in 5 Yrs \$245.0 mill.
 LT Debt \$1265.4 mill. LT Interest \$65.0 mill.
 (LT Interest earned: 3.4x; total interest coverage: 3.4x)
 (54% of Cap'l)
Pension Assets-12/08 \$112.2 mill.
 Oblig. \$204.7 mill.
Pld Stock None
 Common Stock 136,270,613 shares as of 10/20/09
MARKET CAP: \$2.4 billion (Mid Cap)

CURRENT POSITION 2007 2008 9/30/09 (\$MILL)

Cash Assets	14.5	14.9	18.0
Receivables	62.9	84.5	86.1
Inventory (AvgCst)	8.8	9.8	10.3
Other	9.3	11.8	10.5
Current Assets	115.5	121.0	124.9
Accts Payable	45.8	50.0	28.3
Debt Due	80.8	87.9	54.8
Other	56.6	55.3	149.0
Current Liab.	183.2	183.2	230.1
Fix. Chg. Cov.	323%	329%	325%

ANNUAL RATES Past 10 Yrs. Past 3 Yrs. to '06-'08 Est'd '06-'08 to '12-'14

Revenues	8.0%	9.0%	6.5%
"Cash Flow"	9.5%	8.0%	10.0%
Earnings	7.5%	5.5%	10.0%
Dividends	7.0%	8.0%	6.5%
Book Value	9.5%	10.0%	6.0%

During the September interim, Aqua America lost some ground on a year-over-year basis. Although revenues were up slightly from the prior year, earnings dropped a penny, as unfavorable weather conditions and higher operating costs hurt profits during the third quarter. Looking ahead, though, the company probably ended the year on a good note. A number of rate-relief cases were set to be decided in the fourth quarter which, if approved, should provide a slight last-minute boost to the top and bottom lines. Also, management has been actively working to reduce operating costs, and the benefits of these efforts should help widen margins. For the year, we expect a total increase in revenues and earnings of \$48 million and \$0.07 a share, respectively, but it should be noted that last year included a gain from the sale of its underperforming Woodhaven system. Aqua America should continue to expand its reach through acquisitions and rate-relief cases over the next few years. The company has acquired a wastewater treatment plant in Lumpkin County, Georgia, and this new subsidiary

Business: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three 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 '08: residential, 80%; commercial, 14%; industrial & other, 26%. Officers and directors own 1.3% of the common stock (4/09 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis, Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 810-525-1400. Internet: www.aquaamerica.com.

These shares are a neutral choice for the coming six to 12 month period, but hold some appeal for the long haul. One attractive trait is the steady dividend yield, which was raised 7.4% during the fourth quarter of 2008. The company has historically raised its payout every year, and this will most likely continue over the coming 3- to 5-year stretch. Also, the top- and bottom-line gains we project over the 2012-2014 horizon give this equity good recovery potential. Conservative investors should also take note of the high scores for Stock Price Stability and Earnings Predictability, as well as the below-market average Beta coefficient.

John D. Burke *January 22, 2010*

(A) Diluted shares. Excl. nonrec. gains (losses): '99, (114); '00, 24; '01, 24; '02, 56; '03, 44. Excl. gain from disc. operations: '96, 24. Next earnings report due early February.
 (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	95
Price Growth Persistence	70
Earnings Predictability	100

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CALIFORNIA WATER NYSE-CWT		RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIVD YLD	VALUE LINE
		36.83	18.4 (Trailing: 18.5 Median: 22.0)		1.06	3.2%	
TIMELINESS	4 Lowered 11/6/09	High: 33.8	32.0	31.4	28.6	28.9	31.4
SAFETY	3 Lowered 12/7/07	Low: 20.8	22.6	21.5	22.8	20.5	23.7
TECHNICAL	3 Lowered 12/25/09	LEGENDS 1.33 x Dividends p sh divided by Interest Rate Relative Price Strength 2-for-1 split 1/98 Options: Yes Shaded area: prior recession Latest recession began 12/07					
BETA	.75 (1.00 = Market)	2012-14 PROJECTIONS					
		Price	Gain	Ann'l Total			
		High 60 (+65%)	15%	Return			
		Low 40 (+10%)	5%				
Insider Decisions		F M A M J J A S O					
		to Buy 0 0 0 0 0 0 0 0					
		Options 0 0 0 0 0 0 0 0					
		to Sell 0 0 0 0 0 0 0 0					
Institutional Decisions		Percent shares traded					
		10000 10018 9635					
		to Buy 83 78 56					
		to Sell 81 85 75					
		Hrs(%) 10000 10018 9635					
		1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010					
		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 17.76 19.80 21.35 22.10					
		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 2.71 3.12 3.72 4.05 4.25					
		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 1.50 1.90 1.99 2.10					
		.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 1.18 1.19					
		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 3.68 4.82 5.20 5.25					
		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 18.15 18.50 19.44 20.00 19.75					
		11.38 12.49 12.54 12.62 12.62 12.62 12.94 15.15 15.18 15.18 16.93 18.37 18.39 20.66 20.67 20.72 21.00 21.25					
		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 29.2 25.1 19.8 19.7					
		.80 .92 .92 .75 .73 .93 1.01 1.27 1.39 1.08 1.26 1.06 1.33 1.58 1.39 1.20 1.26					
		5.2% 5.6% 6.4% 5.8% 4.6% 4.2% 4.0% 4.3% 4.4% 4.5% 4.2% 3.5% 3.1% 2.9% 3.0% 3.1% 3.1%					
CAPITAL STRUCTURE as of 9/30/09		206.4 244.8 246.8 263.2 277.1 315.6 320.7 334.7 367.1 410.3 448 470					
Total Debt \$397.9 mil. Due in 5 Yrs \$40.0 mil.		19.9 20.0 14.4 19.1 19.4 26.0 27.2 25.6 31.2 39.8 42.0 45.0					
LT Debt \$373.5 mil. LT Interest \$25.0 mil.		37.9% 42.3% 39.4% 39.7% 39.9% 39.6% 42.4% 37.4% 39.9% 37.7% 40.0% 39.6%					
(LT interest earned: 7.8x; total int. cov.: 6.6x)		46.9% 48.9% 50.3% 55.3% 50.2% 48.6% 48.3% 43.5% 42.9% 41.6% 47.0% 46.5%					
Pension Assets-12/08 \$66.9 mil. Oblig. \$192.9 mil.		52.0% 50.2% 48.8% 44.0% 49.1% 50.8% 51.1% 55.9% 56.6% 58.4% 53.0% 53.5%					
Pfd Stock None		333.8 388.8 402.7 453.1 498.4 565.9 588.1 670.1 674.9 690.4 795 805					
Common Stock 20,744,952 shs. as of 11/2/09		515.4 582.0 624.3 697.0 759.5 800.3 862.7 941.5 1010.2 1112.4 1175 1240					
MARKET CAP: \$775 million (Small Cap)		7.8% 6.8% 5.3% 5.9% 5.6% 6.1% 6.3% 5.2% 5.9% 7.1% 7.0% 7.0%					
CURRENT POSITION 2007 2008 9/30/09 (\$MIL)		11.2% 10.0% 7.2% 9.4% 7.8% 8.9% 9.3% 6.8% 8.1% 9.0% 10.0% 10.5%					
Cash Assets 6.7 13.9 47.6		14.2% 10.1% 7.2% 9.5% 7.9% 9.0% 9.3% 6.8% 8.1% 9.9% 10.0% 10.5%					
Other 53.3 65.9 92.8		3.5% 7.8% NMF 1.0% .7% 2.1% 2.1% 1.0% 1.8% 3.8% 4.0% 5.0%					
Current Assets 60.0 79.8 140.4		70% 62% 118% 90% 91% 77% 78% 85%					
Accts Payable 38.7 45.1 54.4		BUSINESS: California Water Service Group provides regulated and nonregulated water service to roughly 463,600 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 Rio Grande Corp. West Hawaii Utilities (9/08). Revenue breakdown, '08: residential, 68%; business, 18%; public authorities, 5%; industrial, 5%; other, 3%. '08 reported depreciation rate: 2.4%. Has roughly 929 employees. Chairman: Robert W. Foy, President & CEO; Peter C. Nelson (4/09 Proxy), Inc., Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.cawatergroup.com.					
Debt Due 2.7 42.8 24.4		<p>Improvements on the regulatory front augur well for California Water Service Group's top line. Indeed, earlier rate increases handed down by the California Public Utilities Commission (CPUC) enabled the water utility to post record-high revenues of \$139.2 million in the third quarter, a 6% improvement from the year before. We look for similar growth in the fourth quarter and for full-year 2010. Meanwhile, the company filed its 2009 general rate case during the period, seeking \$71 million in 2011 with increases of nearly \$25 million in 2012 and 2013. It was CWT's first consolidated request, covering all 24 districts, and a ruling may well take 18 months to be made. We expect a relatively favorable outcome given the CPUC's more recent disposition. However, operating costs appear to be on the rise, too. Despite the top-line benefits mentioned above, share earnings fell 11% in the September period and came in a dime below our estimate. Operating expenses swelled 10%, as aging infrastructures required greater maintenance, and the increased demand drove up distribution costs. We suspect that these trends</p>					
Other 30.3 35.3 52.0		<p>persisted in the fourth quarter and will only intensify going forward. As a result, we've tempered our expectations, estimating that CWT barely broke even in the final quarter of 2009 and that earnings growth will not be anything to write home about for full-year 2010. The stock has fallen a notch for Timeliness and is now ranked 4 (Below Average). Recent share-price declines, coupled with the tough outlook, make this an unattractive selection for the coming six to 12 months. Its 3- to 5-year appeal is better, but still lacking in our opinion. CWT does not have the finances on hand to meet the rising infrastructure costs that are likely to amount over the next couple of years. The share and/or debt offerings that will be required to help improve the balance sheet will come at a price, with the higher share count and interest rate expenses limiting potential shareholder gains. Although the dividend yield looks healthy at first blush, those seeking an income vehicle have better options available, particularly on a risk-adjusted basis.</p>					
Current Liab. 69.7 123.2 130.8		<p>André J. Costanza January 22, 2010</p>					
Fix. Chg. Cov. 333% 398% 430%		<p>Company's Financial Strength B++ Stock's Price Stability 80 Price Growth Persistence 75 Earnings Predictability 80</p>					
ANNUAL RATES of change (per sh)		<p>(A) Basic EPS. Excl. nonrecurring gain (loss). '00, ('74) '01, 4; '02, 8. Next earnings report due early February.</p>					
Past 10 Yrs. Past 5 Yrs. Past Est'd '06-'08 to '12-'14		<p>(B) Dividends historically paid in mid-Feb., May, Aug., and Nov. = Div'd reinvestment plan available.</p>					
Revenues 2.0% 1.5% 5.0%		<p>(C) Incl. deferred charges. In '08: \$3.9 mil., \$19/sh.</p>					
"Cash Flow" 2.0% 5.5% 7.0%		<p>(D) In millions, adjusted for split.</p>					
Earnings - 7.0% 8.5%		<p>(E) Excludes non-reg. rev.</p>					
Dividends 1.0% 0.5% 1.5%		<p>To subscribe call 1-800-833-0046.</p>					
Book Value 4.0% 6.5% 2.0%		<p>© 2010, Value Line Publishing, Inc. All rights reserved. Material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is solely for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.</p>					
Cal-endar		<p>QUARTERLY REVENUES (\$ mil.)¹ Full Year</p>					
Mar.31 Jun.30 Sep.30 Dec.31		<p>2006 65.2 81.1 107.8 80.6 334.7</p>					
2007 71.6 95.8 113.8 85.9 367.1							
2008 72.9 105.6 131.7 100.1 410.3							
2009 86.7 116.7 139.2 105.4 448							
2010 91.0 122 146 111 470							
Cal-endar		<p>EARNINGS PER SHARE ^A Full Year</p>					
Mar.31 Jun.30 Sep.30 Dec.31		<p>2006 .04 .31 .68 .31 1.34</p>					
2007 .07 .37 .67 .39 1.50							
2008 .01 .48 1.05 .35 1.90							
2009 .12 .58 .94 .35 1.99							
2010 .11 .60 1.00 .39 2.10							
Cal-endar		<p>QUARTERLY DIVIDENDS PAID ^B Full Year</p>					
Mar.31 Jun.30 Sep.30 Dec.31		<p>2006 .2875 .2875 .2875 .2875 1.15</p>					
2007 .290 .290 .290 .290 1.16							
2008 .293 .293 .293 .293 1.17							
2009 .295 .295 .295 .295 1.16							

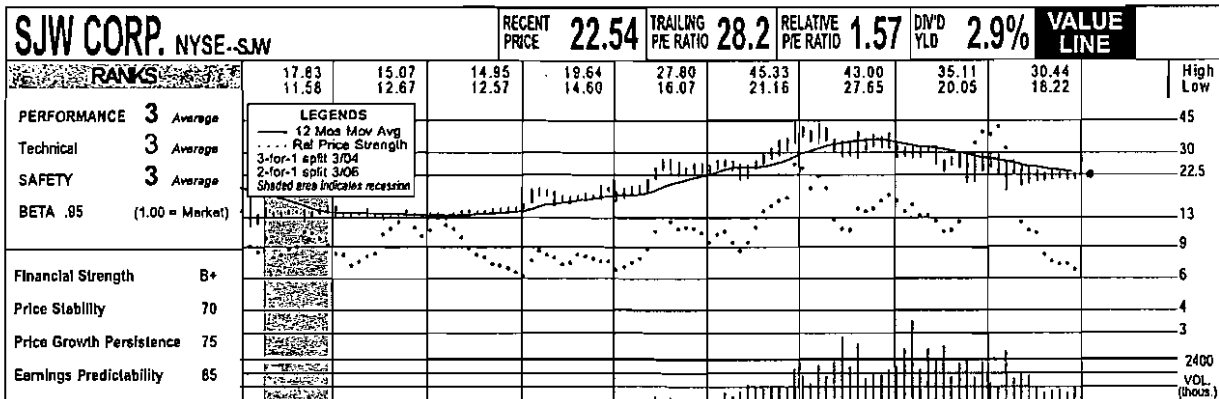
MIDDLESEX WATER NDQ-MSEX		RECENT PRICE	TRAILING P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE				
		17.21	23.6	1.31	4.2%					
RANKS	18.73 14.69	20.04 13.73	21.23 15.77	21.81 16.65	23.47 17.07	20.50 16.50	20.24 16.93	19.83 12.05	17.91 11.64	High Low
PERFORMANCE	3 Average									
Technical	3 Average									
SAFETY	2 Above Average									
BETA	.80 (1.00 = Market)									
Financial Strength	B+									
Price Stability	95									
Price Growth Persistence	40									
Earnings Predictability	90									
VALUE LINE PUBLISHING, INC.										
SALES PER SH	5.87	5.98	6.12	6.25	6.44	6.16	6.50	6.79	-	
"CASH FLOW" PER SH	1.18	1.20	1.15	1.28	1.33	1.33	1.49	1.53	-	
EARNINGS PER SH	.66	.73	.61	.73	.71	.82	.87	.89	.70 ^{A,B}	.80 ^{C,NA}
DIV'D'S DECL'D PER SH	.62	.63	.65	.66	.67	.68	.69	.70	-	
CAP'L SPENDING PER SH	1.25	1.59	1.87	2.54	2.18	2.31	1.66	2.12	-	
BOOK VALUE PER SH	7.11	7.39	7.60	8.38	8.60	9.82	10.05	10.28	-	
COMMON SHS OUTST'G (MILL)	10.17	10.36	10.48	11.36	11.58	13.17	13.25	13.40	-	
AVG ANN'L P/E RATIO	24.6	23.5	30.0	26.4	27.4	22.7	21.6	19.8	24.6	21.5/NA
RELATIVE P/E RATIO	1.26	1.28	1.71	1.39	1.45	1.23	1.15	1.19	-	
AVG ANN'L DIV'D YIELD	3.8%	3.7%	3.5%	3.4%	3.5%	3.7%	3.7%	4.0%	-	
SALES (\$MILL)	59.6	61.9	64.1	71.0	74.6	81.1	86.1	91.0	-	Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.
OPERATING MARGIN	47.2%	47.1%	44.0%	44.4%	44.4%	47.4%	47.0%	46.9%	-	
DEPRECIATION (\$MILL)	5.3	5.0	5.6	6.4	7.2	7.8	8.2	8.5	-	
NET PROFIT (\$MILL)	7.0	7.8	6.6	8.4	8.5	10.0	11.8	12.2	-	
INCOME TAX RATE	34.8%	33.3%	32.8%	31.1%	27.6%	33.4%	32.6%	33.2%	-	
NET PROFIT MARGIN	11.7%	12.5%	10.3%	11.9%	11.4%	12.4%	13.8%	13.4%	-	
WORKING CAP'L (\$MILL)	d.9	d9.3	d13.3	d11.8	d4.5	2.8	d9.6	d40.9	-	
LONG-TERM DEBT (\$MILL)	88.1	67.5	97.4	115.3	128.2	130.7	131.6	118.2	-	
SHR. EQUITY (\$MILL)	76.4	80.6	83.7	99.2	103.6	133.3	137.1	141.2	-	
RETURN ON TOTAL CAP'L	5.6%	6.0%	5.0%	5.1%	5.0%	5.1%	5.6%	5.8%	-	
RETURN ON SHR. EQUITY	9.1%	9.6%	7.9%	8.5%	8.2%	7.5%	8.6%	8.6%	-	
RETAINED TO COM EQ	.5%	1.3%	NMF	.9%	.5%	1.2%	1.8%	1.9%	-	
ALL DIV'D'S TO NET PROF	94%	87%	106%	90%	94%	84%	79%	78%	-	

^ANo. of analysts changing earn. est. in last 9 days: 0 up, 0 down, consensus 5-year earnings growth 9.0% per year. ^BBased upon 3 analysts' estimates. ^CBased upon 3 analysts' estimates.

ANNUAL RATES				ASSETS (\$mill.)				INDUSTRY Water Utility				
of change (per share)	5 Yrs.	1 Yr.		2007	2008	9/30/09						
Sales	1.5%	4.5%		2.0	3.3	3.1	BUSINESS: Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey (NJ) and Delaware, and a regulated wastewater utility in NJ. It offers contract operations services and a service line maintenance program through its nonregulated subsidiary, Utility Service Affiliates, Inc. Its water utility system treats, stores, and distributes water for residential, commercial, industrial, and fire prevention purposes. It also provides water treatment and pumping services to the Township of East Brunswick. Its other NJ subsidiaries offer water and wastewater services to residents in Southampton Township. Its Delaware subsidiaries provide water services to retail customers in New Castle, Kent, and Sussex counties. In November, the company announced the acquisition of the assets of Twin Lakes Water Services, Inc., which serves approximately 330 people in Shohola, Pennsylvania. Has 269 employees. Chairman: J. Richard Tompkins. Address: 1500 Ronson Rd, P.O. BOX 1500, Iselin, NJ 08830. Tel.: 732-634-1500. Internet: http://www.middlesexwater.com .					
"Cash Flow"	4.5%	2.5%		12.8	14.3	18.2	<i>W.T.</i>					
Earnings	5.5%	2.5%		7.2	1.5	1.6	<i>January 22, 2010</i>					
Dividends	2.0%	1.5%		1.4	1.5	1.7						
Book Value	6.5%	2.5%		17.4	20.6	24.6						
Fiscal Year	QUARTERLY SALES (\$mill.)			Property, Plant & Equip, et cost	398.6	438.8	--					
	1Q	2Q	3Q	4Q	Acum Depreciation	64.7	70.5	--				
12/31/07	19.0	21.8	24.1	21.2	Net Property	333.9	366.3	380.0				
12/31/08	20.8	23.0	25.7	21.5	Other	41.4	53.1	52.2				
12/31/09	20.6	23.1	25.5		Total Assets	392.7	440.0	456.8				
12/31/10					LIABILITIES (\$mill.)							
Fiscal Year	EARNINGS PER SHARE			Full Year	Accts Payable	6.5	5.7	4.5				
	1Q	2Q	3Q	4Q	Debt Due	9.0	43.9	47.4				
12/31/06	.15	.25	.28	.14	Other	11.5	11.9	11.0				
12/31/07	.13	.24	.31	.19	Current Liab	27.0	81.5	62.9				
12/31/08	.15	.26	.35	.13	LONG-TERM DEBT AND EQUITY as of 9/30/09							
12/31/09	.10	.21	.29	.10	Total Debt \$174.1 mill			Due In 5 Yrs. NA				
12/31/10	.08	.22			LT Debt \$126.7 mill			(47% of Cap'l)				
Cal-endar	QUARTERLY DIVIDENDS PAID			Full Year	Including Cap. Leases NA							
	1Q	2Q	3Q	4Q	Leases, Uncapitalized Annual rentals NA							
2007	.173	.173	.173	.175	Pension Liability \$25.5 mill. In '08 vs. \$13.3 mill. In '07							
2008	.175	.175	.175	.178	Pfd Stock None			Pfd Div'd Paid None				
2009	.178	.178	.178	.18	Common Stock 13,469,000 shares			(53% of Cap'l)				
2010												
INSTITUTIONAL DECISIONS												
	1Q'09	2Q'09	3Q'09									
to Buy	41	41	30									
to Sell	27	33	28									
Hld's(000)	4505	4802	4958									
TOTAL SHAREHOLDER RETURN <i>Dividends plus appreciation as of 12/31/2009</i>												
	3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.							
	16.15%	24.79%	7.19%	5.45%	11.94%							

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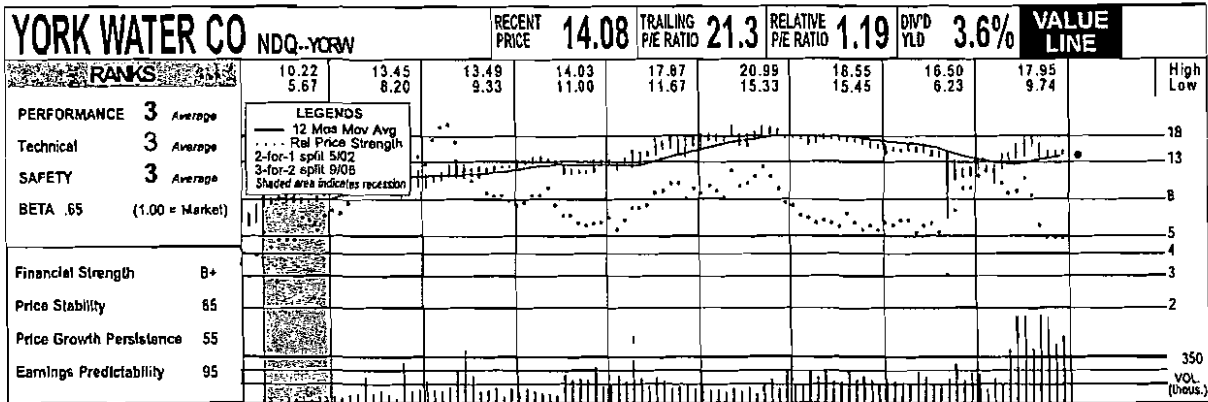
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© VALUE LINE PUBLISHING, INC.	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010/2011
SALES PER SH	7.45	7.97	8.20	9.14	9.88	10.35	11.25	12.12	—	—
"CASH FLOW" PER SH	1.49	1.55	1.75	1.88	2.21	2.38	2.30	2.44	—	—
EARNINGS PER SH	.77	.78	.81	.87	1.12	1.19	1.04	1.08	.80 ^{A,B}	1.17 ^C /NA
DIV'DS DECL'D PER SH	.43	.46	.49	.51	.53	.57	.61	.65	—	—
CAP'L SPENDING PER SH	2.63	2.06	3.41	2.31	2.83	3.87	6.62	3.79	—	—
BOOK VALUE PER SH	8.17	8.40	9.11	10.11	10.72	12.48	12.90	13.99	—	—
COMMON SHS OUTST'G (MILL)	18.27	18.27	18.27	18.27	18.27	18.28	18.36	18.18	—	—
AVG ANN'L P/E RATIO	18.5	17.3	15.4	19.8	19.7	23.5	33.4	26.2	28.2	19.3/NA
RELATIVE P/E RATIO	.95	.94	.88	1.04	1.04	1.27	1.77	1.58	—	—
AVG ANN'L DIV'D YIELD	3.0%	3.4%	3.5%	3.0%	2.4%	2.0%	1.7%	2.3%	—	—
SALES (\$MILL)	136.1	145.7	149.7	166.9	180.1	189.2	206.6	220.3	—	—
OPERATING MARGIN	64.4%	63.7%	56.0%	56.4%	55.8%	57.0%	41.8%	42.4%	—	—
DEPRECIATION (\$MILL)	13.2	14.0	15.2	18.5	19.7	21.3	22.9	24.0	—	—
NET PROFIT (\$MILL)	14.0	14.2	16.7	18.0	20.7	22.2	19.3	20.2	—	—
INCOME TAX RATE	34.5%	40.4%	36.2%	42.1%	41.6%	40.8%	39.4%	39.5%	—	—
NET PROFIT MARGIN	10.3%	9.8%	11.2%	9.6%	11.5%	11.7%	9.4%	9.2%	—	—
WORKING CAP'L (\$MILL)	d3.8	d4.9	12.0	13.0	10.8	22.2	d1.4	d11.3	—	—
LONG-TERM DEBT (\$MILL)	110.0	110.0	139.8	143.6	145.3	163.6	216.3	216.6	—	—
SHR. EQUITY (\$MILL)	149.4	153.5	166.4	184.7	195.9	228.2	236.9	254.3	—	—
RETURN ON TOTAL CAP'L	6.7%	6.9%	6.9%	6.5%	7.6%	7.0%	5.7%	5.8%	—	—
RETURN ON SHR. EQUITY	9.4%	9.3%	10.0%	8.7%	10.6%	9.7%	8.2%	8.0%	—	—
RETAINED TO COM EQ	4.1%	3.8%	4.7%	3.6%	5.6%	5.2%	3.5%	3.3%	—	—
ALL DIV'DS TO NET PROF	56%	59%	53%	58%	47%	46%	57%	59%	—	—

^ANo. of analysts changing earn. est. in last 9 days: 0 up, 0 down, consensus 5-year earnings growth not available. ^BBased upon 2 analysts' estimates. ^CBased upon 2 analysts' estimates.

ANNUAL RATES				ASSETS (\$mill.)				INDUSTRY: Water Utility			
of change (per share)	5 Yrs.	1 Yr.		2007	2008	9/30/09		BUSINESS: SJW Corporation, through its subsidiaries, engages in the production, purchase, storage, purification, distribution, and retail sale of water. The company offers nonregulated water-related services, including water system operations, cash remittances, and maintenance contract services. SJW also owns undeveloped land; a 70% limited partnership interest in 444 West Santa Clara Street, L.P.; and operates commercial buildings in Arizona, California, Connecticut, Florida, Tennessee, and Texas. As of December 31, 2008, SJW provided water service to approximately 226,000 connections that served a population of approximately one million people in the San Jose area. It also provides water service to approximately 8,700 connections that serve approximately 36,000 residents in a service area in the region between San Antonio and Austin, Texas. Has 379 employees. Chairman: Charles J. Tomiskoetter, Inc.: CA. Address: 110 W. Taylor Street, San Jose, CA 95110. Tel.: (408) 279-7800. Internet: http://www.sjwater.com.			
Sales	7.5%	7.5%		2.4	3.4	1.9		<p>LIABILITIES (\$mill.) Accts Payable 9.3 5.8 9.1 Debt Due 5.6 19.1 5.1 Other 18.1 18.4 23.1 Current Liab 33.0 43.3 37.3</p> <p>LONG-TERM DEBT AND EQUITY as of 8/30/09 Total Debt \$251.1 mill. Due In 5 Yrs. NA LT Debt \$246.0 mill. Including Cap. Leases NA (49% of Cap'l) Leases, Uncapitalized Annual rentals NA</p> <p>Pension Liability \$42.3 mill. in '08 vs. \$23.4 mill. in '07</p> <p>Pfd Stock None Pfd Div'd Paid None Common Stock 18,498,897 shares (51% of Cap'l)</p>			
"Cash Flow"	8.5%	6.0%		23.0	24.5	34.6					
Earnings	6.0%	4.0%		.8	.9	.9					
Dividends	5.5%	6.5%		5.4	3.2	2.5					
Book Value	9.0%	8.5%		31.8	32.0	39.9					
Fiscal Year	QUARTERLY SALES (\$mill.)			Full Year							
	1Q	2Q	3Q	4Q							
12/31/07	39.0	55.1	64.9	47.6	206.8						
12/31/08	41.3	60.0	69.5	49.5	220.3						
12/31/09	40.0	56.2	69.3								
12/31/10											
Fiscal Year	EARNINGS PER SHARE			Full Year							
	1Q	2Q	3Q	4Q							
12/31/06	.14	.35	.48	.22	1.19						
12/31/07	.12	.29	.43	.20	1.04						
12/31/08	.15	.34	.44	.15	1.08						
12/31/09	d.01	.23	.43	.13							
12/31/10	.09	.32									
Cal-endar	QUARTERLY DIVIDENDS PAID			Full Year							
	1Q	2Q	3Q	4Q							
2007	.151	.151	.151	.151	.60						
2008	.161	.161	.161	.161	.64						
2009	.165	.165	.165	.165	.66						
2010											
INSTITUTIONAL DECISIONS											
	1Q'09	2Q'09	3Q'09								
to Buy	45	43	34								
to Sell	32	40	29								
Hld's(000)	8505	8694	8607								



VALUE LINE PUBLISHING, INC.	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010/2011
REVENUES PER SH	2.05	2.05	2.17	2.18	2.58	2.56	2.79	2.89	--	
"CASH FLOW" PER SH	.59	.57	.65	.65	.79	.77	.86	.88	--	
EARNINGS PER SH	.43	.40	.47	.49	.56	.58	.57	.57	.66 ^{A,B}	.66 ^C /NA
DIV'D DECL'D PER SH	.34	.35	.37	.39	.42	.45	.48	.49	--	
CAP'L SPENDING PER SH	.75	.66	1.07	2.50	1.69	1.85	1.69	2.17	--	
BOOK VALUE PER SH	3.79	3.90	4.06	4.65	4.85	5.84	5.97	6.14	--	
COMMON SHS OUTST'G (MILL)	9.46	9.55	9.63	10.33	10.40	11.20	11.27	11.37	--	
AVG ANN'L P/E RATIO	17.9	26.9	24.5	25.7	28.3	31.2	30.3	24.6	21.3	21.3/NA
RELATIVE P/E RATIO	.92	1.47	1.40	1.36	1.39	1.68	1.61	1.48	--	
AVG ANN'L DIV'D YIELD	4.3%	3.3%	3.2%	3.1%	2.9%	2.5%	2.8%	3.5%	--	
REVENUES (\$MILL)	19.4	19.6	20.9	22.5	26.8	28.7	31.4	32.8	--	
NET PROFIT (\$MILL)	4.0	3.8	4.4	4.8	5.8	6.1	6.4	6.4	--	
INCOME TAX RATE	35.8%	34.9%	34.8%	36.7%	36.7%	34.4%	36.5%	36.1%	--	
AFUDC % TO NET PROFIT	2.2%	3.7%	--	--	--	7.2%	3.6%	10.1%	--	
LONG-TERM DEBT RATIO	47.7%	46.7%	43.4%	42.5%	44.1%	48.3%	46.5%	54.5%	--	
COMMON EQUITY RATIO	52.3%	53.3%	56.6%	57.5%	55.9%	51.7%	53.5%	45.5%	--	
TOTAL CAPITAL (\$MILL)	68.6	69.8	69.0	83.6	90.3	126.5	125.7	153.4	--	
NET PLANT (\$MILL)	102.3	106.7	116.5	140.0	155.3	174.4	191.6	211.4	--	
RETURN ON TOTAL CAP'L	7.9%	7.4%	8.5%	7.6%	8.4%	6.2%	6.7%	5.7%	--	
RETURN ON SHR. EQUITY	11.2%	10.2%	11.4%	10.0%	11.6%	9.3%	9.5%	9.2%	--	
RETURN ON COM EQUITY	11.2%	10.2%	11.4%	10.0%	11.6%	9.3%	9.5%	9.2%	--	
RETAINED TO COM EQ	2.5%	1.3%	2.6%	2.1%	3.0%	2.2%	1.7%	1.4%	--	
ALL DIV'D'S TO NET PROF	78%	88%	77%	79%	74%	77%	82%	65%	--	

^ANo. of analysts changing earn. est. in last 9 days: 0 up, 0 down, consensus 5-year earnings growth 7.5% per year. ^BBased upon 4 analysts' estimates. ^CBased upon 4 analysts' estimates.

ANNUAL RATES				
of change (per share)	5 Yrs.	1 Yr.		
Revenues	5.5%	3.5%		
"Cash Flow"	7.0%	3.5%		
Earnings	6.0%			
Dividends	6.0%	3.0%		
Book Value	9.0%	3.0%		

Fiscal Year	1Q	2Q	3Q	4Q	Full Year
12/31/07	7.4	7.9	8.3	7.8	31.4
12/31/08	7.5	7.8	8.6	8.9	32.8
12/31/09	8.8	9.2	8.8		
12/31/10					

Fiscal Year	1Q	2Q	3Q	4Q	Full Year
12/31/08	.12	.14	.17	.15	.58
12/31/07	.12	.15	.15	.15	.57
12/31/08	.11	.13	.15	.18	.57
12/31/09	.13	.17	.16	.17	
12/31/10	.14	.17			

Calendar	1Q	2Q	3Q	4Q	Full Year
2007	.118	.118	.118	.118	.47
2008	.121	.121	.121	.121	.48
2009	.126	.126	.125	.126	.50
2010	.128				

INSTITUTIONAL DECISIONS			
	1Q'09	2Q'09	3Q'09
to Buy	17	30	35
to Sell	10	12	16
Hlx's(000)	1958	2477	2941

ASSETS (\$mill.)				2007	2008	9/30/09
Cash Assets				.0	.0	.1
Receivables				5.2	5.9	5.7
Inventory (Avg cost)				.8	.7	.8
Other				.8	.7	1.1
Current Assets				6.8	7.3	7.7

LIABILITIES (\$mill.)				2007	2008	9/30/09
Accts Payable				3.2	2.0	2.6
Debt Due				15.0	6.7	9.3
Other				3.2	3.5	4.3
Current Liab				21.4	14.2	16.2

LONG-TERM DEBT AND EQUITY as of 9/30/09

Total Debt \$83.3 mill.	Due In 5 Yrs. NA
LT Debt \$74.0 mill.	
Including Cap. Leases NA	(47% of Cap'l)
Leases, Uncapitalized Annual rentals NA	
Pension Liability \$9.6 mill. in '08 vs. \$4.0 mill. in '07	

INDUSTRY: Water Utility

BUSINESS: The York Water Company engages in the impounding, purification, and distribution of water in York County and Adams County, Pennsylvania. The company supplies water for residential, commercial, industrial, and other customers. It has two reservoirs, Lake Williams, which is 700 feet long and 58 feet high, and creates a reservoir covering approximately 165 acres containing about 870 million gallons of water; and Lake Redman, which is 1,000 feet long and 52 feet high and creates a reservoir covering approximately 290 acres containing about 1.3 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. As of December 31, 2008, the company served approximately 176,000 residential, commercial, industrial, and other customers. In November, the company completed the Beaver Creek Village water system acquisition. Has 110 employees. C.E.O. & President: Jeffrey R. Hines, Inc.: PA. Address: 130 East Market Street, York, PA 17401. Tel.: (717) 845-3601. Internet: <http://www.yorkwater.com>.

P/T

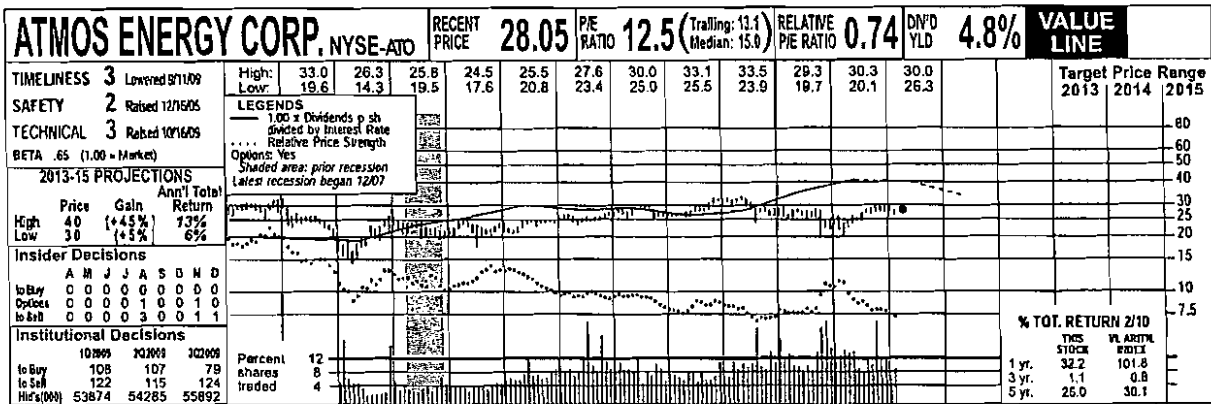
January 22, 2010

TOTAL SHAREHOLDER RETURN					
Dividends plus appreciation as of 12/31/2009					
	3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
	5.61%	-3.72%	24.34%	-10.37%	30.61%

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AGL RESOURCES NYSE-AGL		RECENT PRICE	37.00	P/E RATIO	12.5 (Trailing: 12.8 Median: 14.1)	RELATIVE P/E RATIO	0.74	DIV'D YLD	4.8%	VALUE LINE														
TIMELINESS 3 Raised 2/12/10	High: 23.4 23.2 24.5 25.0 29.3 33.7 39.3 40.1 44.7 39.1 37.5 37.2	Low: 15.6 15.5 19.0 17.3 21.9 26.5 32.0 34.4 35.2 24.0 24.0 34.3			Target Price	2013	2014	2015																
SAFETY 2 New 7/27/00	LEGENDS 1.10 x Dividends p sh divided by Interest Rate Relative Price Strength Options: Yes Shaded area: prior recession Latest recession began 12/07																							
TECHNICAL 3 Lowered 2/12/10	2013-15 PROJECTIONS Price Gain Return High 6.0 (+6.0%) 13% Low 4.5 (+2.0%) 5%																							
BETA .75 (1.00 = Market)	Insider Decisions A M J J A S O N D to Buy 0 0 0 0 0 0 0 0 0 0 0 0 to Sell 0 1 0 0 0 1 1 2 to Buy 0 2 0 0 1 0 0 2 1																							
Institutional Decisions 10/09 10/24 11/2 to Buy 110 124 112 to Sell 107 96 99 Net (000) 45714 45682 45741																								
Percent shares traded 18 12 6																								
% TOT. RETURN 2/10 1 yr. 37.9 101.8 3 yr. 3.3 0.8 5 yr. 31.6 30.1																								
1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011																								
23.58	19.32	21.91	22.75	23.36	18.71	11.25	19.04	15.32	15.25	23.89	34.98	33.73	32.64	36.41	29.90	34.35	36.10	Revenues per sh ^A	40.35					
2.24	2.33	2.49	2.42	2.65	2.29	2.86	3.31	3.39	3.47	3.29	4.20	4.50	4.65	4.68	5.95	5.05	5.30	"Cash Flow" per sh	5.75					
1.17	1.33	1.37	1.37	1.41	.91	1.29	1.50	1.82	2.08	2.28	2.48	2.72	2.72	2.71	2.89	2.95	3.10	Earnings per sh ^{A,B}	3.40					
1.04	1.04	1.06	1.08	1.08	1.08	1.08	1.08	1.08	1.11	1.15	1.30	1.48	1.64	1.68	1.72	1.76	1.80	Div'ds Decl'd per sh ^C	1.92					
2.37	2.17	2.37	2.59	2.05	2.51	2.92	2.83	3.30	2.46	3.44	3.44	3.26	3.39	4.84	6.15	4.45	4.50	Cap'l Spending per sh	5.30					
10.19	10.12	10.56	10.99	11.42	11.59	11.50	12.19	12.52	14.66	18.06	19.29	20.71	21.74	21.48	22.95	24.10	25.45	Book Value per sh ^D	29.95					
50.86	55.02	55.70	56.60	57.30	57.10	54.00	55.10	56.70	64.50	76.70	77.70	77.70	76.40	76.90	77.50	78.50	79.00	Common Shs Outst'g ^E	80.50					
15.1	12.6	13.8	14.7	13.9	21.4	13.6	14.6	12.5	12.5	13.1	14.3	13.5	14.7	12.3	11.1	10.8	11.1	Avg Ann'l P/E Ratio	15.0					
.99	.84	.86	.85	.72	1.22	.88	.75	.68	.71	.69	.76	.73	.78	.74	.73	.74	.73	Relative P/E Ratio	1.00					
5.9%	6.2%	5.6%	5.4%	5.5%	5.5%	8.2%	4.5%	4.7%	4.3%	3.9%	3.7%	4.0%	4.1%	5.0%	5.4%	5.4%	5.4%	Avg Ann'l Div'd Yield	3.8%					
CAPITAL STRUCTURE as of 12/31/09 Total Debt \$2578.0 mill. Due in 5 Yrs \$543.0 mill. LT Debt \$1974.0 mill. LT Interest \$90.0 mill. (Total interest coverage: 4.5x)											607.4	1049.3	868.9	983.7	1832.0	2718.0	2621.0	2494.0	2800.0	2317.0	2695	2850	Revenues (\$mill) ^A	3250
Leases, Uncapitalized Annual rentals \$28.0 mill. Pension Assets-12/09 \$303.0 mill. Oblig. \$463.0 mill.											71.1	82.3	103.0	132.4	153.0	193.0	212.0	211.0	207.6	260	230	245	Net Profit (\$mill)	275
Pfd Stock None											34.3%	40.7%	36.0%	35.9%	37.0%	37.7%	37.8%	37.6%	40.5%	30.0%	35.0%	35.0%	Income Tax Rate	38.0%
Common Stock 77,543,821 shs. as of 1/29/10 MARKET CAP: \$2.9 billion (Mid Cap)											11.7%	7.8%	11.9%	13.5%	8.4%	7.1%	8.1%	8.5%	7.4%	11.2%	8.6%	8.6%	Net Profit Margin	8.4%
CURRENT POSITION 2007 2008 12/31/09											45.9%	61.3%	58.3%	50.3%	54.0%	51.9%	50.2%	50.2%	50.3%	53.0%	54.0%	52.0%	Long-Term Debt Ratio	51.0%
Cash Assets 21.0 16.0 26.0 Other 1790.0 2026.0 1974.0 Current Assets 1811.0 2042.0 2000.0 Accrs Payable 172.0 202.0 237.0 Debt Due 560.0 866.0 602.0 Other 693.0 915.0 933.0 Current Liab. 1645.0 1963.0 1772.0 Chg. Cov. 391% 416% 472%											1286.2	1736.3	1704.3	1901.4	3008.0	3114.0	3231.0	3335.0	3327.0	3750	3900	4200	Total Capital (\$mill)	4900
ANNUAL RATES Past Past Est'd '06-'08 of change (per sh) 10 Yrs. 5 Yrs. to '13-'15											1637.5	2058.9	2194.2	2352.4	3178.0	3271.0	3436.0	3556.0	3816.0	2900	3080	3250	Net Plant (\$mill)	3900
Revenues 4.0% 15.5% 2.5% "Cash Flow" 6.0% 6.5% 3.0% Earnings 7.0% 6.5% 3.0% Dividends 4.0% 8.0% 2.5% Book Value 7.0% 10.0% 5.0%											7.4%	6.5%	8.1%	8.9%	6.3%	7.9%	8.0%	7.7%	7.4%	7.0%	7.0%	6.5%	Return on Total Cap'l	6.5%
Cal-endar 2007 2008 2009 2010 2011											10.2%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	12.7%	12.6%	14.5%	12.0%	12.0%	Return on Shr. Equity	11.0%
QUARTERLY REVENUES (\$ mill.) Full Year											11.5%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	12.7%	12.6%	14.5%	12.0%	12.0%	Return on Com Equity	11.0%
Cal-endar Mar.31 Jun.30 Sep.30 Dec.31											3.2%	4.2%	7.0%	6.6%	5.6%	6.2%	6.3%	5.3%	5.1%	7.0%	5.0%	5.5%	Retained to Com Eq	5.0%
2007 973 467 369 685 2494 2008 1012 444 539 805 2800 2009 995 377 307 638 2317 2010 1020 450 475 750 2695 2011 1075 475 500 800 2850											72%	65%	52%	53%	49%	52%	58%	60%	60%	50%	56%	57%	AD Div'ds to Net Prof	55%
Cal-endar 2007 2008 2009 2010 2011											BUSINESS: AGL Resources Inc. is a public utility holding company. Its distribution subsidiaries include Atlanta Gas Light, Chattanooga Gas, Elizabethtown Gas and Virginia Natural Gas. The utilities have more than 2.3 million customers in Georgia, Virginia, Tennessee, New Jersey, Florida, and Maryland. Engaged in non-regulated natural gas marketing and other allied services. Deregulated subsidiaries: Georgia Natural Gas markets natural gas at retail. Sold Utilipro, 3/01. Acquired Compass Energy Services, 10/07. Franklin Resources owns 7.7% of common stock; off./dir. less than 1.0% (3/09 Proxy). Pres. & CEO: John W. Somersfelder II, Inc.; GA. Addr.: Ten Peachtree Place N.E., Atlanta, GA 30309. Telephone: 404-584-4000. Internet: www.aglresources.com.													
EARNINGS PER SHARE ^B Full Year											AGL Resources reported better-than-anticipated fourth quarter profit. Earnings of \$0.92 a share topped our estimate of \$0.78 a share. A good performance in the company's unregulated businesses offset disappointing results in AGL's gas utility operations. For the full year, the utility posted a solid bottom-line showing (\$2.89 a share), thanks to strong results in the March period. However, a year-over-year decline in customers weighed on the top line (\$2.3 billion). The company provided positive guidance for 2010. Management expects share net to come in between \$2.95 and \$3.05 this year. We have increased our estimate by a nickel, matching the low end of this range. We look for results across AGL's operations to perform mostly in line with 2009's showing except at the company's wholesale services business, which should post improved results. Moreover, AGL will probably focus on new projects to offset the decline in customers due to the weak residential real estate market. Furthermore, the company recently added two new pipeline projects that began commercial operation recently, which should provide a boost to results over the coming months.													
Cal-endar 2006 2007 2008 2009 2010 2011											The board raised AGL's quarterly payout by a penny (or 2.3%) to \$0.44 a share. Accordingly, income-oriented accounts may want to take note of these shares. Indeed, this stock's yield (4.8%) is above average for a natural gas utility. Long-term prospects appear to be promising. The company reached a legal settlement, which will allow it to expand its presence on Jefferson Island. Moreover, a few rate cases should come into play in the near term, which if approved, would bolster results over the long haul. Additionally, AGL recently launched a new energy services business that targets large-scale clients. This should contribute to profits in the years ahead. These shares are neutrally ranked for Timeliness. But this stock may be of interest to patient investors. Indeed, the issue is attractive on a risk-adjusted basis (Safety: 2) for total-return potential over the 3- to 5-year pull, based on our projections of steady earnings growth and modest dividend increases.													
QUARTERLY DIVIDENDS PAID ^C Full Year											Richard Gallagher													
Cal-endar 2006 2007 2008 2009 2010											March 12, 2010													
2006 .37 .37 .37 .37 1.48 2007 .41 .41 .41 .41 1.64 2008 .42 .42 .42 .42 1.68 2009 .43 .43 .43 .43 1.72 2010 .44											Company's Financial Strength 8+ Stock's Price Stability 100 Price Growth Persistence 75 Earnings Predictability 95													
(A) Fiscal year ends December 31st. Ended September 30th prior to 2002.											\$0.13; '01, \$0.13; '03, (\$0.07); '08, \$0.13. Next earnings report due late April. (C) Dividends historically paid early March, June, Sept., and Dec. * Div'd reinvest. plan available. (D) Includes intangibles. In 2009: \$418 million, \$5.44/share. (E) In millions.													
(B) Diluted earnings per share. Excl. non-recurring gains (losses): '85, (\$0.83); '99, \$0.39; '00, \$0.13.											To subscribe call 1-800-833-0046.													
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	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	VALU LINE PUB., INC.	3-15
Revenues per sh ^A	26.61	35.36	22.82	54.39	46.50	61.75	75.27	66.03	79.52	53.89	48.85	50.00	Revenues per sh ^A	68.20
"Cash Flow" per sh	3.01	3.03	3.39	3.23	2.91	3.90	4.26	4.14	4.19	4.29	4.70	4.80	"Cash Flow" per sh	5.40
Earnings per sh ^{A,B}	1.03	1.47	1.45	1.71	1.58	1.72	2.00	1.94	2.00	1.97	2.25	2.35	Earnings per sh ^{A,B}	2.70
Div's Decl'd per sh ^C	1.14	1.16	1.18	1.20	1.22	1.24	1.26	1.28	1.30	1.32	1.34	1.36	Div's Decl'd per sh ^C	1.45
Cap'l Spending per sh	2.36	2.77	3.17	3.10	3.03	4.14	5.20	4.39	5.20	5.51	5.60	5.70	Cap'l Spending per sh	6.70
Book Value per sh	12.28	14.31	13.75	16.66	18.05	19.50	20.16	22.01	22.60	23.57	24.58	24.95	Book Value per sh	27.80
Common Shs Outst'g ^D	31.95	40.79	41.68	51.48	62.80	80.54	81.74	89.33	90.81	92.55	94.00	96.00	Common Shs Outst'g ^D	110.00
Avg Ann'l P/E Ratio	18.9	15.6	15.2	13.4	15.9	16.1	13.5	15.9	13.6	12.5	12.5	12.5	Avg Ann'l P/E Ratio	13.0
Relative P/E Ratio	1.23	.80	.83	.76	.84	.66	.73	.84	.82	.82	.82	.82	Relative P/E Ratio	.85
Avg Ann'l Div'd Yield	5.0%	5.1%	5.4%	5.2%	4.9%	4.5%	4.7%	4.2%	4.8%	4.8%	5.3%	5.3%	Avg Ann'l Div'd Yield	4.1%
Revenues (\$mil) ^A	850.2	1442.3	950.8	2799.9	2920.0	4973.3	6152.4	5888.4	7221.3	4969.1	4600	4800	Revenues (\$mil) ^A	7500
Net Profit (\$mil)	32.2	56.1	59.7	79.5	86.2	135.8	162.3	170.5	180.3	179.7	210	225	Net Profit (\$mil)	300
Income Tax Rate	36.1%	37.3%	37.1%	37.1%	37.4%	37.7%	37.6%	35.8%	38.4%	34.4%	38.5%	38.5%	Income Tax Rate	40.5%
Net Profit Margin	3.8%	3.9%	6.3%	2.8%	3.0%	2.7%	2.6%	2.9%	2.5%	3.6%	4.6%	4.7%	Net Profit Margin	4.0%
Long-Term Debt Ratio	48.1%	54.3%	53.9%	50.2%	43.2%	57.7%	57.0%	52.0%	50.8%	49.9%	49.0%	49.0%	Long-Term Debt Ratio	49.0%
Common Equity Ratio	51.9%	45.7%	46.1%	49.8%	56.8%	42.3%	43.0%	48.0%	49.2%	50.1%	51.0%	51.0%	Common Equity Ratio	51.0%
Total Capital (\$mil)	755.7	1276.3	1243.7	1721.4	1994.8	3785.5	3828.5	4092.1	4172.3	4346.2	4520	4700	Total Capital (\$mil)	6000
Net Plant (\$mil)	982.3	1335.4	1300.3	1516.0	1722.5	3374.4	3629.2	3836.8	4136.9	4439.1	4745	5050	Net Plant (\$mil)	6100
Return on Total Cap'l	6.5%	5.9%	6.8%	6.2%	5.9%	5.3%	6.1%	5.9%	5.9%	6.0%	6.0%	6.5%	Return on Total Cap'l	6.5%
Return on Shr. Equity	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	8.3%	9.0%	9.5%	Return on Shr. Equity	10.0%
Return on Com Equity	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	8.3%	9.0%	9.5%	Return on Com Equity	10.0%
Retained to Com Eq	NMF	2.1%	1.9%	2.6%	1.7%	2.3%	3.6%	3.0%	3.1%	2.7%	3.5%	4.0%	Retained to Com Eq	4.5%
All Div'ds to Net Prof	112%	79%	82%	70%	77%	73%	63%	65%	65%	68%	60%	58%	All Div'ds to Net Prof	53%

CAPITAL STRUCTURE as of 12/31/09
Total Debt \$249.3 mill. Due in 5 Yrs \$685.0 mill.
LT Debt \$2159.5 mill. LT Interest \$130.0 mill.
(LT interest earned: 2.8x; total interest coverage: 2.8x)
Leases, Uncapitalized Annual rentals \$17.8 mill.
Pfd Stock None
Pension Assets-9/09 \$301.1 mill.
Dblig. \$380.0 mill.
Common Stock 93,054,189 shs.
as of 1/28/10
MARKET CAP: \$2.6 billion (Mid Cap)

CURRENT POSITION	2006	2009	12/31/09
Cash Assets	48.7	111.2	174.8
Other	1238.4	717.7	1111.8
Current Assets	1285.1	828.9	1286.6
Accts Payable	395.4	207.4	578.8
Debt Due	351.3	72.7	189.8
Dilr	460.4	457.3	413.8
Current Liab.	1207.1	737.4	1182.4
Fix. Chg. Cov.	450%	416%	435%

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09
of change (per sh)	10 Yrs.	5 Yrs.	to '13-'15
Revenues	9.5%	10.0%	.5%
"Cash Flow"	3.5%	6.0%	4.5%
Earnings	4.0%	4.5%	5.5%
Dividends	2.0%	1.5%	2.0%
Book Value	7.0%	7.0%	3.5%

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2007	1602.6	2075.6	1218.2	1002.0	5898.4
2008	1657.5	2484.0	1639.1	1440.7	7221.3
2009	1716.3	1821.4	780.8	650.6	4969.1
2010	1292.9	1650	900	757.1	4600
2011	1065	1835	1045	855	4800

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2007	.97	1.20	d.15	d.05	1.94
2008	.82	1.24	d.07	.02	2.00
2009	.83	1.29	.02	d.17	1.97
2010	1.00	1.32	.05	d.12	2.25
2011	.97	1.36	.03	d.01	2.35

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.315	.315	.315	.32	1.27
2007	.32	.32	.32	.325	1.29
2008	.325	.325	.325	.33	1.31
2009	.33	.33	.33	.335	1.33
2010	.335				

BUSINESS: Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to over three 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 2009 gas volumes: 287 MMcf. Breakdown: 57%, residential;

Atmos Energy got off to a strong start in fiscal 2010, which ends on September 30th, as first-quarter earnings per share were around 20% higher than the year-earlier tally. For one thing, the natural gas marketing segment enjoyed a substantial increase in unrealized margins, brought about, to a certain extent, by a narrowing of spreads between current cash prices and forward natural gas prices. Furthermore, results for the natural gas utility were aided partially by higher rates in the Mid-Tex, Louisiana, and West Texas service areas. That unit also benefited from a 7% rise in throughput, as colder temperatures boosted consumption. Finally, the regulated transmission and storage operation experienced a drop in operating expenses because of a decreased level of pipeline maintenance activity.

We expect the momentum to continue during the remaining three quarters. As a result, the bottom line stands to advance about 14%, to \$2.25 a share, in fiscal 2010. Assuming further expansion in operating margins, share net may reach \$2.35 next year. That would be a much slower

rate of growth due to the difficult comparison. Steady, though unexciting, earnings gains appear to be in store for the company in the next three to five years. The utility is one of the nation's largest natural gas-only distributors, now serving over three million customers across 12 states. Moreover, the unregulated segments (contributing between 15% and 35% to net income annually on a historical basis) possess healthy prospects. Lastly, management may return to its successful strategy of purchasing less-efficient utilities and shoring up their profitability through expense-reduction initiatives, rate relief, and aggressive marketing. (Future acquisitions are excluded from our figures, however.) In Atmos' current configuration, annual share-net growth could be in the mid-single-digit range over the 2013-2015 period.

On a risk-adjusted basis, total return potential is appealing. Meanwhile, these good-quality shares are ranked to perform in line with the broader market in the year ahead.

Frederick L. Harris, III March 12, 2010

(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '00, '12; '03, d17; '06, d18; '07, d2; '09, '12. Next eps. rpt. due early May. (C) Dividends historically paid in early March, June, Sept., and Dec. = Div. reinvestment plan. Direct stock purchase plan available. (D) In millions. (E) Qtrs may not add due to change in shrs outstanding. Company's Financial Strength 8+
Stock's Price Stability 100
Price Growth Persistence 50
Earnings Predictability 90

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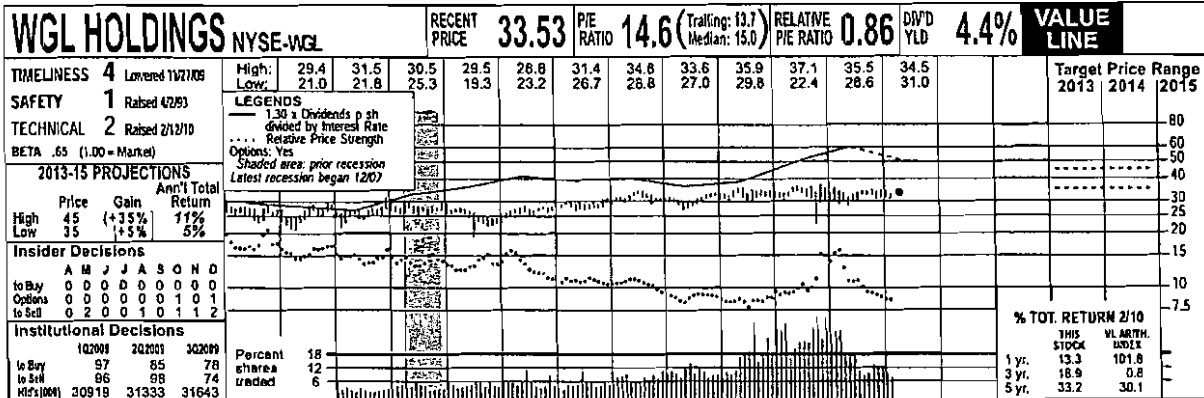
DELTA NAT. GAS NDQ-DGAS		RECENT PRICE	TRAILING P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE							
RANKS		20.99 17.69	23.08 18.50	24.10 21.00	28.75 22.02	30.00 23.60	26.82 24.11	26.08 23.50	32.19 11.70	29.80 18.46	30.00 27.96	High Low	
PERFORMANCE	3 Average	LEGENDS — 12 Mos Mov Avg ... Rel Price Strength Shaded area indicates recession										45	
Technical	3 Average											30	
SAFETY	2 Above Average											22.5	
BETA	.65 (1.00 = Market)											13	
Financial Strength	B+											9	
Price Stability	95											6	
Price Growth Persistence	50											4	
Earnings Predictability	70											3	
VOL. (thous.)													
Q VALUE LINE PUBLISHING, INC.	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010/2011			
SALES PER SH	28.36	22.11	21.59	24.74	28.05	36.01	29.06	34.16	31.84	1.65 ^{A,B} NA			
"CASH FLOW" PER SH	3.08	3.16	2.65	2.65	2.86	2.94	3.19	3.49	2.89				
EARNINGS PER SH	1.47	1.45	1.49	1.20	1.55	1.55	1.62	2.08	1.58				
DIV'DS DECL'D PER SH	1.14	1.16	1.18	1.18	1.18	1.20	1.22	1.24	1.28				
CAP'L SPENDING PER SH	2.83	3.72	2.90	2.80	1.65	2.39	2.47	1.69	2.54				
BOOK VALUE PER SH	13.12	13.51	14.49	15.26	15.73	16.16	16.61	17.48	17.78				
COMMON SHS OUTST'G (MILL)	2.50	2.53	3.17	3.20	3.23	3.26	3.28	3.30	3.32				
AVG ANN'L P/E RATIO	12.3	14.1	14.5	20.1	16.8	16.9	15.5	12.3	15.0	17.9/NA			
RELATIVE P/E RATIO	.63	.77	.83	1.06	.69	.91	.82	.74	.99				
AVG ANN'L DIV'D YIELD	6.3%	5.7%	5.5%	4.9%	4.5%	4.6%	4.9%	4.9%	5.4%				
SALES (\$MILL)	70.8	55.9	68.4	79.2	84.2	117.3	98.2	112.7	105.6	Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.			
OPERATING MARGIN	23.2%	29.3%	24.7%	21.2%	21.9%	16.2%	20.4%	19.8%	18.0%				
DEPRECIATION (\$MILL)	4.0	4.4	4.5	4.7	4.3	4.6	5.2	4.7	4.4				
NET PROFIT (\$MILL)	3.6	3.6	3.9	3.6	5.0	5.0	5.3	6.8	5.2				
INCOME TAX RATE	38.0%	38.2%	38.0%	38.1%	38.3%	36.6%	37.3%	37.8%	36.6%				
NET PROFIT MARGIN	5.1%	6.5%	5.8%	4.6%	5.9%	4.3%	5.4%	6.1%	4.9%				
WORKING CAP'L (\$MILL)	d12.6	d15.3	d.2	d.7	.9	4.6	5.1	8.2	5.5				
LONG-TERM DEBT (\$MILL)	49.3	48.6	53.4	53.0	52.7	58.6	58.6	58.3	57.6				
SHR. EQUITY (\$MILL)	32.8	34.2	45.9	48.8	50.8	52.8	54.4	57.6	59.0				
RETURN ON TOTAL CAP'L	6.7%	6.6%	5.9%	5.6%	6.7%	6.7%	6.3%	7.6%	6.2%				
RETURN ON SHR. EQUITY	11.1%	10.6%	8.6%	7.9%	9.8%	9.5%	9.7%	11.9%	8.8%				
RETAINED TO COM EQ	2.5%	2.1%	1.6%	.2%	2.4%	2.1%	2.4%	4.8%	1.7%				
ALL DIV'DS TO NET PROF	78%	80%	81%	98%	76%	77%	75%	60%	81%				
*No. of analysts changing earn. est. in last 27 days: 0 up, 0 down, consensus 5-year earnings growth 3.0% per year. ^B Based upon one analyst's estimate.													
ANNUAL RATES				ASSETS (\$mill.)			INDUSTRY: Natural Gas (Div.)						
of change (per share)				2008	2009	12/31/09	BUSINESS: Delta Natural Gas Company, Inc. sells natural gas to approximately 37,000 retail customers on its distribution system in central and southeastern Kentucky. Its Regulated segment sells natural gas to its retail customers, primarily in 23 rural counties. This segment also transports gas to industrial customers on its system who purchase gas in the open market, as well as transports gas on behalf of local producers not on its distribution system. The company's Non Regulated segment purchases natural gas on the open market and from Kentucky producers, and resells this gas to industrial customers on its distribution system and to others not on its system. This segment also produces natural gas that is sold to Delgasco for resale. As of June 30, the company owned approximately 2,500 miles of natural gas gathering, transmission, distribution, storage, and service lines, as well as interests in oil and gas leases on 10,300 acres in Bell, Knox, and Whitley counties. Has 155 employees. Chairman, C.E.O. & President: Glenn R. Jennings, Inc.: K.Y. Address: 3617 Lexington Road, Winchester, KY 40391. Tel.: (859) 744-6171. Internet: http://www.deltagas.com. L.Y.						
5 Yrs.				3	.1	.1							
1 Yr.				.3	.1	.1							
Sales				11.4	4.1	12.7							
"Cash Flow"				15.0	10.4	11.5							
Earnings				7.3	4.8	6.9							
Dividends				34.0	19.4	31.2							
Book Value													
5 Yrs.													
1 Yr.													
Sales													
"Cash Flow"													
Earnings													
Dividends													
Book Value													
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N.W. NAT'L GAS NYSE:NMN		RECENT PRICE	45.85	P/E RATIO	17.0	(Trailing: 16.6 Median: 16.0)	RELATIVE P/E RATIO	1.00	DIV'D YLD	3.7%	VALUE LINE							
TIMELINESS	4 Lowered 3/12/10	High: 27.9	27.5	26.8	30.7	31.3	34.1	39.6	43.7	52.8	55.2	46.5	46.1	41.1	Target Price Range	2013	2014	2015
SAFETY	1 Raised 3/18/05	Low: 19.5	17.8	21.7	23.5	24.0	27.5	32.4	32.8	39.8	37.7	37.7	41.1					
TECHNICAL	2 Raised 2/12/10	LEGENDS --- 1.10 x Dividends p sh divided by Interest Rate ... Relative Price Strength Options: Yes Shaded area: prior recession Latest recession began 12/07																
BETA	.60 (1.00 = Market)	2013-15 PROJECTIONS Price Gain Ann'l Total High 65 (+4.0%) 12% Low 55 (+2.0%) 8%																
Insider Decisions		A M J J A S O N D to Buy 0 0 0 0 0 0 0 0 1 Options 0 0 0 0 0 0 0 0 2 to Sell 0 1 1 2 0 0 2 3																
Institutional Decisions		10Q99 2Q2009 3Q2009 to Buy 67 78 64 to Sell 93 82 82 Net (Net) 15126 15387 15134 Percent shares traded 15 10 5																
CAPITAL STRUCTURE as of 12/31/09		Total Debt \$738.7 mill. Due in 5 Yrs \$145 mill. LT Debt \$601.7 mill. LT Interest \$34.0 mill. (Total Interest coverage: 3.9x) Pension Assets-12/08 \$201 mill. Oblig. \$308 mill. Pfd Stock None Common Stock 26,533,028 shares as of 2/23/10 MARKET CAP \$1.2 billion (Mid Cap)																
CURRENT POSITION		2007 2008 2009 (\$MILL) Cash Assets 6.1 6.9 8.4 Other 268.6 474.1 319.8 Current Assets 274.9 481.0 328.2 Accs Payable 118.7 94.4 123.7 Debt Due 148.1 248.0 137.0 Other 122.1 208.9 131.9 Current Liab. 389.9 551.3 392.8 Fx. Chg. Cov. 408% 393% 395%																
ANNUAL RATES		Past 10 Yrs. Past 5 Yrs. Est'd '06-'08 to '13-'15 Revenues 9.0% 9.0% 2.5% "Cash Flow" 3.5% 6.5% 3.5% Earnings 5.0% 8.0% 5.0% Dividends 2.0% 3.0% 8.0% Book Value 3.5% 3.5% 5.0%																
QUARTERLY REVENUES (\$ MILL)		Cal-ender Mar.31 Jun.30 Sep.30 Dec.31 Full Year 2007 394.1 183.2 124.2 331.7 1033.2 2008 387.7 191.3 109.7 349.2 1037.9 2009 437.3 149.3 116.8 309.3 1012.7 2010 375 135 110 330 950 2011 400 145 125 355 1025																
EARNINGS PER SHARE		Cal-ender Mar.31 Jun.30 Sep.30 Dec.31 Full Year 2007 1.77 .10 d.22 1.11 2.76 2008 1.62 .08 d.38 1.25 2.57 2009 1.72 .12 d.25 1.18 2.77 2010 1.70 .11 d.29 1.28 2.80 2011 1.77 .11 d.27 1.34 2.95																
QUARTERLY DIVIDENDS PAID		Cal-ender Mar.31 Jun.30 Sep.30 Dec.31 Full Year 2006 .345 .345 .345 .355 1.39 2007 .355 .355 .355 .375 1.44 2008 .375 .375 .375 .395 1.52 2009 .395 .395 .395 .415 1.60 2010 .415																
BUSINESS:		Northwest Natural Gas Co. distributes natural gas to 90 communities, 666,000 customers, in Oregon (90% of customers) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.5 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system. Owns local underground storage. Rev. breakdown: residential, 57%; commercial, 26%; industrial, gas transportation, and other, 17%. Employs 1,061. Barclays Global owns 8.6% of shares; officers and directors, 1.4% (4/09 proxy). CEO: Gregg S. Kanior, Inc.: Oregon. Address: 220 NW 2nd Ave., Portland, OR 97209. Telephone: 503-226-4211. Internet: www.nwnatural.com																
Northwest Natural's 2009 results reflected some unusual items. The company earned \$15 million pretax from its commodity cost-sharing arrangement in Oregon, under which Northwest retains some of the difference between actual and forecast gas costs, with the majority going to the rate payers. That windfall was partially offset by higher pension, healthcare, incentive bonus, and severance costs. Customer growth was just below 1% last year, compared with an average of around 3% annually for many years through 2007, as the recession flattened housing starts. All told, earnings would have been around \$2.60-\$2.65 a share in 2009, excluding the unusual items. We anticipate a normal year in 2010. Thanks to much-lower natural gas prices, Northwest is lowering its residential gas prices by around 10% this year. That and the incipient economic recovery should produce better customer growth than in 2009. Operating costs should remain moderate, owing to a roughly 20% headcount reduction since 2005. Pension and bonus expenses should decline, unless the latter rises due to a very good year.		Steady growth is likely next year. We expect the recovery in customer growth and industrial gas use to continue. Polls indicate that gas is favored over electricity for home heating by a three to one margin in Portland, and returning prosperity should increase conversions to gas from other fuels. Costs should remain moderate, as last year's new union contract provides for more workforce flexibility and caps payroll and healthcare costs at 3% annually depending on inflation. Finally, the Gill Ranch gas storage project in California is scheduled to open late this year and ought to contribute to results in 2011. A new pipeline could boost earnings noticeably by 2013-2015. Northwest owns half of the proposed Palomar pipeline, which would provide Portland a needed second source of gas. If both halves are built, the company's investment would be around \$400 million. Though that would entail raising some equity, it would lift earnings beyond our forecast, which excludes the project for now. These high-quality shares offer good risk adjusted total-return potential. <i>Sigourney B. Romatne March 12, 2010</i>																
(A) Diluted earnings per share. Excludes non-recurring items: '98, \$0.15; '00, \$0.11; '05, (\$0.06); '08, (\$0.03); '09, 6¢. Next earnings report due early May. (B) Dividends historically paid in mid-February, May, August, and November. (C) In millions, adjusted for split. * Dividend reinvestment plan available.		Company's Financial Strength A Stock's Price Stability 100 Price Growth Persistence 70 Earnings Predictability 90 To subscribe call 1-800-833-0046.																

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PIEDMONT NAT'L. GAS NYSE-PNY		RECENT PRICE	26.38	P/E RATIO	16.0 (Trading: 15.8 Median: 17.0)	RELATIVE P/E RATIO	0.94	DIV YLD	4.2%	VALUE LINE									
TIMELINESS 3	Raised 6/15/07	High: 18.3	19.7	19.0	19.0	22.0	24.3	25.8	28.4	28.0	35.3	32.0	27.4	Target Price Range	2013	2014	2015		
SAFETY 2	New 7/27/90	Low: 14.3	11.8	14.6	13.7	16.6	19.2	21.3	23.2	22.0	21.7	20.7	23.9						
TECHNICAL 2	Raised 2/21/10	LEGENDS 1.40 x Dividends p sh divided by Interest Rate ... Relative Price Strength 2-for-1 split 11/04 Options: Yes Shaded area: prior recession Latest recession began 12/07																	
BETA .65	(1.00 = Market)	2013-15 PROJECTIONS																	
Price Gain Ann'l Total		High 4.0	15.0%	15%															
Low 3.0		3.0	+15%	8%															
Insider Decisions																			
Institutional Decisions																			
CAPITAL STRUCTURE as of 10/31/09																			
Total Debt \$1098.5 mill. Due In 5 Yrs \$220.0 mill.																			
LT Debt \$732.5 mill. LT Interest \$55.1 mill.																			
(LT interest earned: 4.1%; total interest coverage: 3.5x)																			
Pension Assets: 10/09 \$184.3 mill.																			
Oblig. \$195.3 mill.																			
Pld Stock None																			
Common Stock 73,295,603 shs. as of 12/11/09																			
MARKET CAP: \$1.9 billion (Mid Cap)																			
CURRENT POSITION 2007 2008 10/31/09																			
Cash Assets 7.5 7.0 7.6																			
Other 427.8 593.8 505.6																			
Current Assets 435.3 800.8 513.2																			
Accts Payable 143.6 132.3 115.4																			
Debt Due 185.0 436.7 396.0																			
Other 85.9 112.7 118.8																			
Current Liab. 424.5 681.5 600.2																			
Fix. Chg. Cov. 309% 341% 316%																			
ANNUAL RATES of change (per sh)																			
Revenues 7.5% 8.0% 2.0%																			
"Cash Flow" 5.5% 6.5% 2.5%																			
Earnings 5.0% 6.5% 4.0%																			
Dividends 5.0% 4.5% 3.5%																			
Book Value 5.0% 4.5% 3.0%																			
Fiscal Year Ends																			
QUARTERLY REVENUES (\$mill) A																			
2007 677.2 531.5 224.4 278.2 1711.3																			
2008 788.5 634.2 354.7 311.7 2089.1																			
2009 779.6 455.4 180.3 222.8 1638.1																			
2010 795 470 195 240 1700																			
2011 805 480 210 255 1750																			
Fiscal Year Ends																			
EARNINGS PER SHARE A B																			
2007 .94 .69 d.12 d.11 1.40																			
2008 1.12 .68 d.10 d.18 1.49																			
2009 1.10 .73 d.10 d.06 1.67																			
2010 1.15 .75 d.10 d.15 1.65																			
2011 1.16 .77 d.09 d.14 1.70																			
Calendar																			
QUARTERLY DIVIDENDS PAID C																			
2006 .23 .24 .24 .24 .95																			
2007 .24 .25 .25 .25 .93																			
2008 .25 .26 .26 .26 1.03																			
2009 .26 .27 .27 .27 1.07																			
2010 .27																			
BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 952,469 customers in North Carolina, South Carolina, and Tennessee. 2009 revenue mix: residential (48%), commercial (28%), industrial (8%), other (16%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 65.7% of revenues. '09 deprec. rate: 3.4%. Estimated plant age: 8.4 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 1,821 employees. Officers & directors own about 1.3% of common stock (1/10 proxy). Chairman, CEO, & President: Thomas E. Skains, Inc.: NC. Address: 4720 Piedmont Row Drive, Charlotte, NC 28210. Telephone: 704-364-3120. Internet: www.piedmonting.com.																			
Piedmont Natural Gas likely posted a modest earnings advance for the first quarter of fiscal 2010 (ended January 31st). The company was expected to issue financial results shortly after this report went to press. Top line volumes probably advanced in the low single-digit range, thanks to additional customer accounts, and a firming up in natural gas pricing. Meantime, system throughput ought to have advanced a couple of percentage points as a result of colder-than-normal weather patterns. Margins likely continued to benefit from last year's rate-case increases in North Carolina and lower operations and maintenance expenses. On balance, profits probably rose approximately 5% over that time frame. However, We trimmed \$0.20 off our 2010 share-net estimate. PNY has proposed rate reductions for customers in North and South Carolina, due to the declining cost of wholesale gas prices. The proposal would lower residential billing rates in each state by roughly 5%. If it is passed, the new rates will have gone into effect on March 1st. Meantime, diminished contributions from the Southstar divestiture are also factored into our reduced estimates. The company sold half of its Southstar Energy Holdings. PNY received \$57.5 million (\$0.42 a share) from AGI Resources for a 15% stake in Southstar. That deal closed during the January interim and should provide a nice boost to cash. The downside is that earnings contributions from those holdings were starting to pick up, but due to the diminished stake, will now fall by roughly 50%. We have introduced our 2011 revenue and earnings estimates of \$1.75 billion and \$1.70 a share, respectively. Continued growth in customer accounts, and the benefits from existing joint ventures should all contribute to the anticipated rebound in the top and bottom lines. These neutrally ranked shares may appeal to income-oriented accounts. The equity offers a decent dividend yield, when compared to other utilities covered in the Value Line Investment Survey. Meantime, solid dividend-growth prospects, an Above-Average Safety rank (2), and a top mark for Price Stability (100) are all pluses.																			
Bryan J. Fong																			
March 12, 2010																			
(A) Fiscal year ends October 31st.																			
(B) Diluted earnings. Excl. extraordinary item: '00, '04. Excl. nonrecurring charge: '97, '2r.																			
(C) Dividends historically paid mid-January, April, July, October.																			
(D) Div'd reinvest. plan available; 5% discount.																			
(E) Includes deferred charges. In 2009: \$31.6 million, 43¢/share.																			
(F) In millions, adjusted for stock split.																			
Company's Financial Strength																			
Stock's Price Stability																			
Price Growth Persistence																			
Earnings Predictability																			
To subscribe call 1-800-833-0046.																			

SOUTHWEST GAS NYSE:SWX			RECENT PRICE	PIE RATIO	Trailing: 14.9 Median: 19.0	RELATIVE PIE RATIO	DIV'D YLD	VALUE LINE																																																																																																																																																																																																						
TIMELINESS 3	Raised 5/23/08	High: 29.5	29.56	14.6	14.9	0.86	3.4%	Target Price																																																																																																																																																																																																						
SAFETY 3	Lowered 1/4/01	Low: 20.4						2013 2014 2015																																																																																																																																																																																																						
TECHNICAL 2	Raised 2/26/10	23.0																																																																																																																																																																																																												
BETA .75	(1.00-Market)	16.9																																																																																																																																																																																																												
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Institutional Decisions																																																																																																																																																																																																														
CAPITAL STRUCTURE as of 12/31/09			<table border="1"> <tr> <td>Total Debt</td> <td>\$1270.7 mill.</td> <td>Due in 5 Yrs</td> <td>\$496.3 mill.</td> </tr> <tr> <td>LT Debt</td> <td>\$1269.4 mill.</td> <td>LT Interest</td> <td>\$85.0 mill.</td> </tr> <tr> <td colspan="4">Total interest coverage: 2.6x</td> </tr> <tr> <td colspan="4">Leases, Uncapitalized Annual rentals</td> <td>\$5.0 mill.</td> </tr> <tr> <td colspan="4">Pension Assets-12/09</td> <td>\$418.5 mill.</td> </tr> <tr> <td colspan="4">Pfd Stock</td> <td>None</td> </tr> <tr> <td colspan="4">Common Stock</td> <td>45,228,164 shs. as of 2/17/10</td> </tr> </table>						Total Debt	\$1270.7 mill.	Due in 5 Yrs	\$496.3 mill.	LT Debt	\$1269.4 mill.	LT Interest	\$85.0 mill.	Total interest coverage: 2.6x				Leases, Uncapitalized Annual rentals				\$5.0 mill.	Pension Assets-12/09				\$418.5 mill.	Pfd Stock				None	Common Stock				45,228,164 shs. as of 2/17/10																																																																																																																																																																						
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MARKET CAP: \$1.3 billion (Mid Cap)			<table border="1"> <tr> <td>1994</td> <td>1995</td> <td>1996</td> <td>1997</td> <td>1998</td> <td>1999</td> <td>2000</td> <td>2001</td> <td>2002</td> <td>2003</td> <td>2004</td> <td>2005</td> <td>2006</td> <td>2007</td> <td>2008</td> <td>2009</td> <td>2010</td> <td>2011</td> </tr> <tr> <td>26.16</td> <td>23.03</td> <td>24.09</td> <td>26.73</td> <td>30.17</td> <td>30.24</td> <td>32.61</td> <td>42.98</td> <td>39.68</td> <td>35.96</td> <td>40.14</td> <td>43.59</td> <td>48.47</td> <td>50.28</td> <td>48.53</td> <td>42.00</td> <td>42.95</td> <td>44.70</td> </tr> <tr> <td>5.09</td> <td>2.65</td> <td>3.00</td> <td>3.85</td> <td>4.48</td> <td>4.45</td> <td>4.57</td> <td>4.79</td> <td>5.07</td> <td>5.11</td> <td>5.57</td> <td>5.20</td> <td>5.37</td> <td>6.21</td> <td>5.76</td> <td>6.15</td> <td>6.40</td> <td>6.80</td> </tr> <tr> <td>1.22</td> <td>.10</td> <td>.25</td> <td>.77</td> <td>1.65</td> <td>1.27</td> <td>1.21</td> <td>1.15</td> <td>1.16</td> <td>1.13</td> <td>1.66</td> <td>1.25</td> <td>1.98</td> <td>1.95</td> <td>1.39</td> <td>1.94</td> <td>2.05</td> <td>2.20</td> </tr> <tr> <td>.80</td> <td>.82</td> <td>.82</td> <td>.82</td> <td>.82</td> <td>.82</td> <td>.82</td> <td>.82</td> <td>.82</td> <td>.82</td> <td>.82</td> <td>.82</td> <td>.82</td> <td>.86</td> <td>.90</td> <td>.95</td> <td>1.00</td> <td>1.05</td> </tr> <tr> <td>6.64</td> <td>6.79</td> <td>8.19</td> <td>6.19</td> <td>6.40</td> <td>7.41</td> <td>7.04</td> <td>8.17</td> <td>8.50</td> <td>7.03</td> <td>8.23</td> <td>7.49</td> <td>8.27</td> <td>7.96</td> <td>6.79</td> <td>4.80</td> <td>5.65</td> <td>6.40</td> </tr> <tr> <td>16.38</td> <td>14.55</td> <td>14.20</td> <td>14.09</td> <td>15.67</td> <td>16.31</td> <td>16.82</td> <td>17.27</td> <td>17.91</td> <td>18.42</td> <td>19.18</td> <td>19.10</td> <td>21.58</td> <td>22.98</td> <td>23.49</td> <td>24.46</td> <td>26.10</td> <td>27.65</td> </tr> <tr> <td>21.28</td> <td>24.47</td> <td>26.73</td> <td>27.39</td> <td>30.41</td> <td>30.99</td> <td>31.71</td> <td>32.49</td> <td>33.29</td> <td>34.23</td> <td>36.79</td> <td>39.33</td> <td>41.77</td> <td>42.81</td> <td>44.19</td> <td>45.09</td> <td>46.00</td> <td>47.00</td> </tr> <tr> <td>14.0</td> <td>NMF</td> <td>NMF</td> <td>24.1</td> <td>13.2</td> <td>21.1</td> <td>16.0</td> <td>19.0</td> <td>19.9</td> <td>19.2</td> <td>14.3</td> <td>20.6</td> <td>15.9</td> <td>17.3</td> <td>20.3</td> <td>12.2</td> <td></td> <td></td> </tr> <tr> <td>.92</td> <td>NMF</td> <td>NMF</td> <td>1.39</td> <td>1.09</td> <td>1.20</td> <td>1.04</td> <td>.97</td> <td>1.09</td> <td>1.09</td> <td>.76</td> <td>1.10</td> <td>.86</td> <td>.92</td> <td>1.22</td> <td>.80</td> <td></td> <td></td> </tr> <tr> <td>4.7%</td> <td>5.4%</td> <td>4.7%</td> <td>4.4%</td> <td>3.8%</td> <td>3.1%</td> <td>4.2%</td> <td>3.8%</td> <td>3.6%</td> <td>3.8%</td> <td>3.5%</td> <td>3.2%</td> <td>2.6%</td> <td>2.6%</td> <td>3.2%</td> <td>4.0%</td> <td></td> <td></td> </tr> </table>						1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	26.16	23.03	24.09	26.73	30.17	30.24	32.61	42.98	39.68	35.96	40.14	43.59	48.47	50.28	48.53	42.00	42.95	44.70	5.09	2.65	3.00	3.85	4.48	4.45	4.57	4.79	5.07	5.11	5.57	5.20	5.37	6.21	5.76	6.15	6.40	6.80	1.22	.10	.25	.77	1.65	1.27	1.21	1.15	1.16	1.13	1.66	1.25	1.98	1.95	1.39	1.94	2.05	2.20	.80	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.86	.90	.95	1.00	1.05	6.64	6.79	8.19	6.19	6.40	7.41	7.04	8.17	8.50	7.03	8.23	7.49	8.27	7.96	6.79	4.80	5.65	6.40	16.38	14.55	14.20	14.09	15.67	16.31	16.82	17.27	17.91	18.42	19.18	19.10	21.58	22.98	23.49	24.46	26.10	27.65	21.28	24.47	26.73	27.39	30.41	30.99	31.71	32.49	33.29	34.23	36.79	39.33	41.77	42.81	44.19	45.09	46.00	47.00	14.0	NMF	NMF	24.1	13.2	21.1	16.0	19.0	19.9	19.2	14.3	20.6	15.9	17.3	20.3	12.2			.92	NMF	NMF	1.39	1.09	1.20	1.04	.97	1.09	1.09	.76	1.10	.86	.92	1.22	.80			4.7%	5.4%	4.7%	4.4%	3.8%	3.1%	4.2%	3.8%	3.6%	3.8%	3.5%	3.2%	2.6%	2.6%	3.2%	4.0%		
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BUSINESS: Southwest Gas Corporation is a regulated gas distributor serving approximately 1.8 million customers in sections of Arizona, Nevada, and California. Composed of two business segments: natural gas operations and construction services. 2009 margin mix: residential and small commercial, 86%; large commercial and industrial, 4%; transportation, 10%. Total throughput: 2.2 billion			<table border="1"> <tr> <td>1034.1</td> <td>1396.7</td> <td>1320.9</td> <td>1231.0</td> <td>1477.1</td> <td>1714.3</td> <td>2024.7</td> <td>2152.1</td> <td>2144.7</td> <td>1893.8</td> <td>1975</td> <td>2100</td> </tr> <tr> <td>38.3</td> <td>37.2</td> <td>38.6</td> <td>38.5</td> <td>58.9</td> <td>48.1</td> <td>80.5</td> <td>83.2</td> <td>61.0</td> <td>87.4</td> <td>95.0</td> <td>110</td> </tr> <tr> <td>26.2%</td> <td>34.5%</td> <td>32.8%</td> <td>30.5%</td> <td>34.8%</td> <td>29.7%</td> <td>37.3%</td> <td>36.5%</td> <td>40.1%</td> <td>34.0%</td> <td>35.0%</td> <td>36.0%</td> </tr> <tr> <td>3.7%</td> <td>2.7%</td> <td>2.9%</td> <td>3.1%</td> <td>4.0%</td> <td>2.8%</td> <td>4.0%</td> <td>3.9%</td> <td>2.8%</td> <td>4.6%</td> <td>4.8%</td> <td>5.2%</td> </tr> <tr> <td>60.2%</td> <td>56.2%</td> <td>62.5%</td> <td>66.0%</td> <td>64.2%</td> <td>63.8%</td> <td>60.6%</td> <td>58.1%</td> <td>55.3%</td> <td>53.5%</td> <td>51.0%</td> <td>50.0%</td> </tr> <tr> <td>35.8%</td> <td>39.6%</td> <td>34.1%</td> <td>34.0%</td> <td>35.8%</td> <td>36.2%</td> <td>39.4%</td> <td>41.9%</td> <td>44.7%</td> <td>46.5%</td> <td>49.0%</td> <td>50.0%</td> </tr> <tr> <td>1489.9</td> <td>1417.6</td> <td>1748.3</td> <td>1851.6</td> <td>1968.6</td> <td>2076.0</td> <td>2267.8</td> <td>2349.7</td> <td>2323.3</td> <td>2372.0</td> <td>2450</td> <td>2600</td> </tr> <tr> <td>1686.1</td> <td>1825.6</td> <td>1979.5</td> <td>2175.7</td> <td>2336.0</td> <td>2489.1</td> <td>2668.1</td> <td>2845.3</td> <td>2983.3</td> <td>3034.5</td> <td>3125</td> <td>3200</td> </tr> <tr> <td>4.6%</td> <td>5.1%</td> <td>4.3%</td> <td>4.2%</td> <td>5.0%</td> <td>4.3%</td> <td>5.5%</td> <td>5.5%</td> <td>4.5%</td> <td>5.5%</td> <td>6.0%</td> <td>6.0%</td> </tr> <tr> <td>6.5%</td> <td>6.0%</td> <td>5.9%</td> <td>6.1%</td> <td>8.3%</td> <td>6.4%</td> <td>8.9%</td> <td>8.5%</td> <td>5.9%</td> <td>7.9%</td> <td>8.0%</td> <td>8.5%</td> </tr> <tr> <td>7.2%</td> <td>6.6%</td> <td>6.5%</td> <td>6.1%</td> <td>8.3%</td> <td>6.4%</td> <td>8.9%</td> <td>8.5%</td> <td>5.9%</td> <td>7.9%</td> <td>8.0%</td> <td>8.5%</td> </tr> <tr> <td>2.4%</td> <td>1.9%</td> <td>1.9%</td> <td>1.7%</td> <td>4.3%</td> <td>2.2%</td> <td>5.2%</td> <td>4.8%</td> <td>2.1%</td> <td>4.0%</td> <td>4.0%</td> <td>4.5%</td> </tr> <tr> <td>67%</td> <td>71%</td> <td>70%</td> <td>72%</td> <td>49%</td> <td>65%</td> <td>42%</td> <td>44%</td> <td>63%</td> <td>49%</td> <td>48%</td> <td>44%</td> </tr> </table>						1034.1	1396.7	1320.9	1231.0	1477.1	1714.3	2024.7	2152.1	2144.7	1893.8	1975	2100	38.3	37.2	38.6	38.5	58.9	48.1	80.5	83.2	61.0	87.4	95.0	110	26.2%	34.5%	32.8%	30.5%	34.8%	29.7%	37.3%	36.5%	40.1%	34.0%	35.0%	36.0%	3.7%	2.7%	2.9%	3.1%	4.0%	2.8%	4.0%	3.9%	2.8%	4.6%	4.8%	5.2%	60.2%	56.2%	62.5%	66.0%	64.2%	63.8%	60.6%	58.1%	55.3%	53.5%	51.0%	50.0%	35.8%	39.6%	34.1%	34.0%	35.8%	36.2%	39.4%	41.9%	44.7%	46.5%	49.0%	50.0%	1489.9	1417.6	1748.3	1851.6	1968.6	2076.0	2267.8	2349.7	2323.3	2372.0	2450	2600	1686.1	1825.6	1979.5	2175.7	2336.0	2489.1	2668.1	2845.3	2983.3	3034.5	3125	3200	4.6%	5.1%	4.3%	4.2%	5.0%	4.3%	5.5%	5.5%	4.5%	5.5%	6.0%	6.0%	6.5%	6.0%	5.9%	6.1%	8.3%	6.4%	8.9%	8.5%	5.9%	7.9%	8.0%	8.5%	7.2%	6.6%	6.5%	6.1%	8.3%	6.4%	8.9%	8.5%	5.9%	7.9%	8.0%	8.5%	2.4%	1.9%	1.9%	1.7%	4.3%	2.2%	5.2%	4.8%	2.1%	4.0%	4.0%	4.5%	67%	71%	70%	72%	49%	65%	42%	44%	63%	49%	48%	44%																																										
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ANNUAL RATES Past 10 Yrs. Past 5 Yrs. Est'd '07-'09 to '13-'13			<table border="1"> <tr> <td>Revenues</td> <td>6.0%</td> <td>4.5%</td> <td>2.0%</td> </tr> <tr> <td>"Cash Flow"</td> <td>4.5%</td> <td>3.5%</td> <td>4.0%</td> </tr> <tr> <td>Earnings</td> <td>7.0%</td> <td>9.0%</td> <td>8.0%</td> </tr> <tr> <td>Dividends</td> <td>0.5%</td> <td>1.0%</td> <td>5.5%</td> </tr> <tr> <td>Book Value</td> <td>4.5%</td> <td>5.0%</td> <td>4.5%</td> </tr> </table>						Revenues	6.0%	4.5%	2.0%	"Cash Flow"	4.5%	3.5%	4.0%	Earnings	7.0%	9.0%	8.0%	Dividends	0.5%	1.0%	5.5%	Book Value	4.5%	5.0%	4.5%																																																																																																																																																																																		
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Earnings	7.0%	9.0%	8.0%																																																																																																																																																																																																											
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APPROVED REVENUE INCREASES HELP IT TO COPE WITH GROWTH IN OPERATING EXPENSES.			<p>The board has recently approved a dividend increase of roughly 5%. Starting with the June payout, the quarterly dividend is now \$0.25 per share. This follows other dividend hikes in recent years. We find this pattern encouraging and expect it to continue.</p> <p>But the stock is not without risk. Warmer-than-usual temperatures during the winter months can hurt profitability at Southwest Gas. Also, the company will probably incur greater costs as it continues to expand operations. Moreover, insufficient, or lagging, rate relief can also hurt performance.</p> <p>These shares remain neutrally ranked for year-ahead relative price performance. Looking further out, we anticipate solid bottom-line growth at the company over the pull to 2013-2015. Income-oriented accounts may find this issue's dividend growth prospects attractive. That said, total return potential for the coming years is not particularly compelling, from the present quotation.</p> <p>Michael Napoli, CFA March 12, 2010</p>																																																																																																																																																																																																											
SWX began 2010 on a sound note, despite a challenging operating environment. The bottom line should further benefit from higher rates in the company's service territories (discussed below) and improved cost controls. Modest customer growth should also help. Overall, we anticipate a moderate bottom-line advance at Southwest Gas for the current year. Growth will probably continue from 2011 onward. The company has reduced its capital expenditures, given the current low-growth environment. The southwest was one of the nation's hardest hit regions during the housing crisis. Even so, Southwest Gas continues to upgrade and expand its distribution system, and we expect investment in operations will gradually rebound in the coming years.			<p>The company is benefiting from recent rate relief. Southwest Gas has realized higher rates in Nevada, California, and Arizona. In addition, SWX now has improved rate design in Nevada that allows it to more aggressively encourage conservation by its customers. The company's focus on procuring rate relief and improving rate design is important, as such</p>																																																																																																																																																																																																											
<p>(A) Based on avg. shares outstanding thru '06, then diluted. Excl. nonrec. gains (losses): '97, 16%; '02, (10%); '05, (11%); '06, 7%. Excl. loss from disc. ops.: '95, 75%. Totals may not sum due to rounding. Next egs. report due late April/early May. (B) Dividends historically paid early March, June, September, December. *1 Div'd reinvestment and stock purchase plan avail. (C) In millions.</p>			<table border="1"> <tr> <td>Company's Financial Strength</td> <td>8</td> </tr> <tr> <td>Stock's Price Stability</td> <td>100</td> </tr> <tr> <td>Price Growth Persistence</td> <td>65</td> </tr> <tr> <td>Earnings Predictability</td> <td>75</td> </tr> </table>						Company's Financial Strength	8	Stock's Price Stability	100	Price Growth Persistence	65	Earnings Predictability	75																																																																																																																																																																																														
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© 2010, Value Line Publishing, Inc. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscribers' own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.			<p>To subscribe call 1-800-833-0046.</p>																																																																																																																																																																																																											



Year	2007	2008	2009	2010	2011	13-15
Revenues per sh ^A	53.51	52.65	53.88	53.00	54.00	57.30
"Cash Flow" per sh	3.89	4.44	4.35	4.35	4.35	4.70
Earnings per sh ^B	3.33	2.77	2.70	2.70	2.70	2.70
Div'ds Decl'd per sh ^C	1.37	1.41	1.47	1.51	1.55	1.67
Cap'l Spending per sh	3.33	2.77	3.00	2.50	2.50	2.50
Book Value per sh ^D	19.83	20.99	22.65	23.55	26.75	26.75
Common Shs Outst'g ^E	49.45	50.14	50.00	50.00	50.00	50.00
Avg Ann'l P/E Ratio	4.5	4.2	4.5	4.5	4.5	4.5
Relative P/E Ratio	4.5	4.2	4.5	4.5	4.5	4.5
Avg Ann'l Div'd Yield	4.2%	4.2%	4.2%	4.2%	4.2%	4.1%

Year	2007	2008	2009	2010	2011	13-15
Total Debt \$871.9 mil.	2686.2	2706.9	2650	2700	2865	2865
LT Debt \$512.6 mil.	122.9	128.7	115	125	135	135
Income Tax Rate	37.1%	39.1%	37.0%	38.0%	38.0%	38.0%
Net Profit Margin	4.7%	4.8%	4.5%	4.5%	4.5%	4.8%
Long-Term Debt Ratio	37.8%	37.9%	35.9%	33.3%	36.0%	34.0%
Common Equity Ratio	60.3%	62.4%	65.0%	63.5%	64.5%	64.5%
Total Capital (\$mil)	1625.4	1679.5	1687.7	1810	1855	2075
Net Plant (\$mil)	2150.4	2206.3	2269.1	2330	2395	2600
Return on Total Cap'l	7.6%	8.5%	8.8%	7.7%	8.0%	8.0%
Return on Shr. Equity	10.1%	10.2%	11.4%	10.5%	10.5%	10.5%
Return on Com Equity	10.4%	11.6%	11.6%	10.5%	11.0%	11.0%
Retained to Com Eq	3.2%	3.5%	5.0%	5.0%	4.0%	4.0%
All Div'ds to Net Prof	69%	66%	57%	57%	63%	61%

CAPITAL STRUCTURE as of 12/31/09
 Total Debt \$871.9 mil. Due In 5 Yrs \$256.7 mil.
 LT Debt \$512.6 mil. LT Interest \$40.4 mil.
 (LT interest earned: 6.2x; total interest coverage: 5.7x)
 Pension Assets 9/09 \$550.0 mil.
 Preferred Stock \$28.2 mil. Pfd. Div'd \$1.3 mil.
 Common Stock 50,302,721 shs. as of 12/31/10

MARKET CAP: \$1.7 billion (Mid Cap)

CURRENT POSITION 2008 2009 12/31/09 (\$MIL)

Cash Assets	6.2	7.9	13.6
Other	736.1	675.6	852.1
Current Assets	742.3	683.5	865.7
Accrs Payable	243.1	213.5	271.3
Debt Due	347.0	266.5	259.2
Other	158.4	154.6	244.5
Current Liab.	748.5	634.6	775.0
Fix. Crg. Cov.	490%	533%	535%

ANNUAL RATES Past 10 Yrs. Past 5 Yrs. Est'd '07-'09 to '11-'15

Revenues	9.0%	6.5%	1.0%
"Cash Flow"	4.0%	4.0%	2.0%
Earnings	4.0%	5.5%	2.5%
Dividends	1.5%	2.0%	3.0%
Book Value	4.0%	5.0%	4.0%

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2007	732.9	1119.9	467.5	325.7	2646.0
2008	751.6	1020.0	464.7	391.9	2628.2
2009	826.2	1040.9	427.0	412.8	2706.9
2010	727.4	1050	455	417.6	2650
2011	740	1060	465	435	2700

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2007	.92	1.27	.22	d.31	2.10
2008	.96	1.66	.06	d.24	2.44
2009	1.03	1.65	.11	d.25	2.53
2010	1.01	1.55	.05	d.31	2.30
2011	1.05	1.58	.07	d.25	2.45

Calendar Year	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.333	.338	.338	.338	1.35
2007	.34	.34	.34	.34	1.36
2008	.34	.36	.36	.36	1.42
2009	.36	.37	.37	.37	1.47
2010	.37				

WGL Holdings is off to a so-so start in fiscal 2010 (began October 1st). Revenues declined 12% in the first quarter. This stemmed from diminished volumes at the regulated utility business due to soft pricing and customer conservation. But this was partially offset by rising volumes at the non-utility operations. Meantime, the design-build unit did not make meaningful contributions to the bottom line this past quarter as profitability fell into negative territory. Still, decreases in the cost of gas minimized the bottom-line decline to roughly 2%, which was better than we had expected. Nonetheless, For the time being, we have left our 2010 earnings estimate unchanged. We look for the top line to register a low single-digit decline this year. This ought to stem from the continued depressed natural gas prices. Still, despite weak revenue volumes, the regulated utility segment has seen a 10,300 increase in active meters over the past 12 months. Meantime, the retail energy marketing segment has been experiencing higher realized margins and more-favorable weather patterns. On balance, we expect share net to contract

Bryan J. Fong
March 12, 2010

(A) Fiscal years end Sept. 30th.
 (B) Based on diluted shareholding. Excludes non-recurring losses: '01, (13¢); '02, (34¢); '07, (4¢); '08, (14¢) discontinued operations; '06, (15¢). Oily eqs. may not sum to total, due to change in shares outstanding. Next earnings report due late April. (C) Dividends historically paid early February, May, August, and November. (D) Includes deferred charges and intangibles. (E) In millions, adjusted for stock split.

Company's Financial Strength 100
 Stock's Price Stability A
 Price Growth Persistence 80
 Earnings Predictability 55

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

<u>Line No.</u>		<u>Proxy Group of Six AUS Utility Reports Water Companies</u>	<u>Proxy Group of Eight AUS Utility Reports Gas Distribution Companies</u>
1.	Prospective Yield on Aaa Rated Corporate Bonds (1)	5.68 %	5.68 %
2.	Adjustment to Reflect Yield Spread Between Aaa Rated Corporate Bonds and A Rated Public Utility Bonds	<u>0.52 (2)</u>	<u>0.52 (2)</u>
3.	Adjusted Prospective Yield on A Rated Public Utility Bonds	6.20 %	6.20 %
4.	Adjustment to Reflect Bond Rating Difference of Proxy Group	<u>0.00 (3)</u>	<u>0.14 (4)</u>
5.	Adjusted Prospective Bond Yield	6.20	6.34
6.	Equity Risk Premium (5)	<u>4.61</u>	<u>4.19</u>
7.	Risk Premium Derived Common Equity Cost Rate	<u><u>10.81 %</u></u>	<u><u>10.53 %</u></u>

- Notes:
- (1) Derived in Note (3) on page 37 of this Schedule.
 - (2) The average yield spread of A rated public utility bonds over Aaa rated corporate bonds of 0.52% from page 35 of this Schedule.
 - (3) No adjustment necessary as the average Moody's bond rating of the proxy group of six AUS Utility Reports water companies is A2 as shown on page 34 of this Schedule.
 - (4) Adjustment to reflect the A3 Moody's Bond Rating of the proxy group of eight AUS Utility Reports natural gas distribution companies as shown on page 34 of this Schedule. The 14 basis point adjustment is derived by taking 1/3 of the spread between Baa and A Public Utility Bonds ($1/3 * 0.41\% = 0.14\%$).
 - (5) From page 5 of this Schedule.

Missouri-American Water Company
Comparison of Bond Ratings, Business Risk and Financial Risk Profiles for
the Proxy Group of Six AUS Utility Reports Water Companies
and the Proxy Group of Eight AUS Utility Reports Natural Gas Distribution Companies

	Moody's		Standard & Poor's									
	Bond Rating		Bond Rating						Business Risk		Financial Risk	
	April 2010		April 2010						Profile (2)		Profile (2)	
	Bond Rating	Numerical Weighting (1)	Bond Rating	Numerical Weighting (1)	Credit Rating	Numerical Weighting (1)	Business Risk Profile (2)	Numerical Weighting (1)	Financial Risk Profile (2)	Numerical Weighting (1)		
Proxy Group of Six AUS Utility Reports Water Companies												
American States Water Company (3)	A2	6.0	A	6.0	A	6.0	Excellent	1.0	Intermediate	3.0		
Aqua America, Inc. (4)	NR	--	AA-	4.0	A+	5.0	Excellent	1.0	Intermediate	3.0		
California Water Services Group (5)	NR	--	AA-	4.0	A+	5.0	Excellent	1.0	Intermediate	3.0		
Middlesex Water Co	NR	--	A	6.0	A-	7.0	Excellent	1.0	Intermediate	3.0		
SJW Corporation (6)	NR	--	NR	--	NR	--	NR	--	NR	--		
York Water Company (The)	NR	--	A-	7.0	A-	7.0	Excellent	1.0	Intermediate	3.0		
Average	A2	6.0	A+	5.4	A	6.0	Excellent	1.0	Intermediate	3.0		
Proxy Group of Eight AUS Utility Reports Gas Distribution Companies												
AGL Resources Inc (7)	A3	7.0	A-	7.0	A-	7.0	Excellent	1.0	Significant	4.0		
Atmos Energy Corporation	Baa2	9.0	BBB+	8.0	BBB+	8.0	Excellent	1.0	Significant	4.0		
Delta Natural Gas Company, Inc.	NR	--	NR	--	NR	--	NR	--	NR	--		
Laclede Group, Inc. (The) (8)	A2	6.0	A	6.0	A	6.0	Excellent	1.0	Intermediate	3.0		
Northwest Natural Gas Company	A1	5.0	AA-	4.0	A+	5.0	Excellent	1.0	Intermediate	3.0		
Piedmont Natural Gas Company	A3	7.0	A	6.0	A	6.0	Excellent	1.0	Intermediate	3.0		
Southwest Gas Corp	Baa3	10.0	BBB	9.0	BBB	9.0	Excellent	1.0	Aggressive	5.0		
WGL Holdings, Inc. (9)	A2	6.0	AA-	4.0	AA-	4.0	Excellent	1.0	Intermediate	3.0		
Average	A3	7.1	A	6.3	A	6.0	Excellent	1.0	Significant	4.0		

- Notes: (1) From page 3 of Schedule PMA-11.
(2) From Standard & Poor's Issuer Ranking: U.S. Investor-Owned Water Utilities, Strongest to Weakest, March 2, 2010 and U.S. Natural Gas Distribution and Integrated Gas Companies, Strongest to Weakest March 2, 2010.
(3) Ratings, business risk and financial risk profiles are those of Golden State Water Company
(4) Ratings, business risk and financial risk profiles are those of Aqua Pennsylvania, Inc.
(5) Ratings, business risk and financial risk profiles are those of California Water Service Company.
(6) Ratings, business risk and financial risk profiles are those of San Jose Water Company.
(7) Ratings, business risk and financial risk profiles are those of Atlanta Gas Light Company.
(8) Ratings, business risk and financial risk are those of Laclede Gas Company.
(9) Ratings, business risk and financial risk profiles are those of Washington Gas Light Company.

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

Moody's
Comparison of Interest Rate Trends
for the Three Months Ending February 2010 (1)

Months	Corporate Bonds				Spread - Corporate v. Public Utility Bonds			Spread - Public Utility Bonds	
	Aaa Rated	Aa Rated	A Rated	Baa Rated	Aa (Pub. Util.) over Aaa (Corp.)	A (Pub. Util.) over Aaa (Corp.)	Baa (Pub. Util.) over Aaa (Corp.)	A over Aa	Baa over A
December-09	5.26	5.52	5.79	6.26 %					
January-10	5.26	5.55	5.77	6.16					
February-10	5.35	5.69	5.87	6.25					
Average of Last 3 Months	<u>5.29 %</u>	<u>5.59 %</u>	<u>5.81 %</u>	<u>6.22 %</u>	<u>0.30 %</u>	<u>0.52 %</u>	<u>0.93 %</u>	<u>0.22 %</u>	<u>0.41 %</u>

Notes: (1) All yields are distributed yields.

Source of Information: Mergent Bond Record, March 2010, Vol. 77, No. 3.

Missouri-American Water Company
Judgment of Equity Risk Premium for
the Proxy Group of Six AUS Utility Reports Water Companies
and the Proxy Group of Eight AUS Utility Reports Natural Gas Distribution Companies

Line No.		Proxy Group of Six AUS Utility Reports Water Companies	Proxy Group of Eight AUS Utility Reports Gas Distribution Companies
1.	Calculated equity risk premium based on the total market using the beta approach (1)	5.07 %	4.23 %
2.	Mean equity risk premium based on a study using the holding period returns of public utilities with A rated bonds (2)	<u>4.15</u>	<u>4.15</u>
3.	Average equity risk premium	<u>4.61 %</u>	<u>4.19 %</u>

Notes: (1) From page 37 of this Schedule.
(2) From page 39 of this Schedule.

Missouri-American Water Company
Derivation of Equity Risk Premium Based on the Total Market Approach
Using the Beta for
the Proxy Group of Six AUS Utility Reports Water Companies
and the Proxy Group of Eight AUS Utility Reports Natural Gas Distribution Companies

Line No.		<u>Proxy Group of Six AUS Utility Reports Water Companies</u>	<u>Proxy Group of Eight AUS Utility Reports Gas Distribution Companies</u>
1.	Arithmetic mean total return rate on the Standard & Poor's 500 Composite Index - 1926-2009 (1)	11.80 %	11.80 %
2.	Arithmetic mean yield on Aaa and Aa Corporate Bonds 1926-2009 (2)	<u>(6.10)</u>	<u>(6.10)</u>
3.	Historical Equity Risk Premium	<u>5.70 %</u>	<u>5.70 %</u>
4.	Forecasted 3-5 year Total Annual Market Return (3)	12.99 %	12.99 %
5.	Prospective Yield an Aaa Rated Corporate Bonds (4)	<u>(5.68)</u>	<u>(5.68)</u>
6.	Forecasted Equity Risk Premium	<u>7.31 %</u>	<u>7.31 %</u>
7.	Conclusion of Equity Risk Premium (5)	6.51 %	6.51 %
8.	Adjusted Value Line Beta (6)	<u>0.78</u>	<u>0.65</u>
9.	Beta Adjusted Equity Risk Premium	<u>5.07 %</u>	<u>4.23 %</u>

- Notes: (1) From Ibbotson SBBJ - 2010 Valuation Yearbook - Market Results for Stocks Bonds Bills and Inflation for 1926-2010, Morningstar, Inc., 2010 Chicago, IL.
(2) From Moody's Industrial Manual and Mergent Bond Record Monthly Update.
(3) From page 43 of this Schedule.
(4) Average forecast based upon six quarterly estimates of Aaa rated corporate bonds per the consensus of nearly 50 economists reported in Blue Chip Financial Forecasts dated April 1, 2010 (see page 38 of this Schedule). The estimates are detailed below.

Second Quarter 2010	5.30 %
Third Quarter 2010	5.50
Fourth Quarter 2010	5.60
First Quarter 2011	5.70
Second Quarter 2011	5.90
Third Quarter 2011	<u>6.10</u>
Average	<u>5.68 %</u>

- (5) Average of the Historical Equity Risk Premium of 5.70% from Line No. 3 and the Forecasted Equity Risk Premium of 7.31% from Line No. 6 $((5.70\% + 7.31\%) / 2 = 6.51\%)$.
(6) From page 40 of this Schedule.

Consensus Forecasts Of U.S. Interest Rates And Key Assumptions

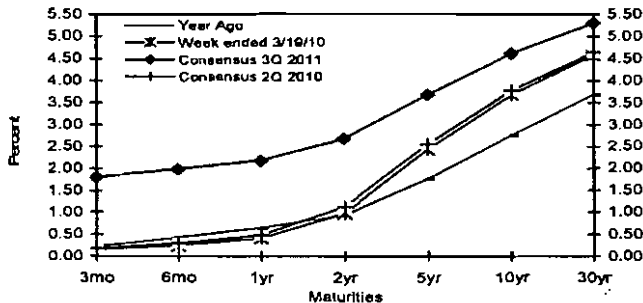
Interest Rates	History							Latest Q*	Consensus Forecasts Quarterly Avg.					
	Average For Week End				Average For Month				2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011	3Q 2011
	Mar.19	Mar.12	Mar.5	Feb.26	Feb.	Jan.	Dec.	1Q 2010	2010	2010	2010	2011	2011	2011
Federal Funds Rate	0.18	0.16	0.13	0.12	0.13	0.11	0.12	0.12	0.2	0.2	0.5	0.9	1.3	1.7
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.2	3.3	3.6	4.0	4.3	4.7
LIBOR, 3-mo.	0.27	0.26	0.25	0.25	0.25	0.25	0.25	0.25	0.3	0.5	0.8	1.2	1.6	2.0
Commercial Paper, 1-mo.	0.17	0.16	0.13	0.14	0.13	0.13	0.14	0.13	0.2	0.3	0.7	1.1	1.5	1.9
Treasury bill, 3-mo.	0.16	0.16	0.14	0.12	0.11	0.06	0.05	0.09	0.2	0.3	0.6	1.0	1.4	1.8
Treasury bill, 6-mo.	0.24	0.22	0.19	0.19	0.18	0.15	0.17	0.17	0.3	0.4	0.8	1.2	1.6	2.0
Treasury bill, 1 yr.	0.41	0.39	0.34	0.34	0.35	0.35	0.37	0.35	0.5	0.7	1.0	1.4	1.8	2.2
Treasury note, 2 yr.	0.97	0.93	0.84	0.86	0.86	0.93	0.87	0.90	1.1	1.3	1.7	2.0	2.3	2.7
Treasury note, 5 yr.	2.42	2.39	2.29	2.37	2.36	2.48	2.34	2.41	2.5	2.7	3.0	3.2	3.4	3.7
Treasury note, 10 yr.	3.68	3.72	3.62	3.69	3.69	3.73	3.59	3.71	3.8	3.9	4.1	4.3	4.4	4.6
Treasury note, 30 yr.	4.59	4.67	4.58	4.62	4.62	4.60	4.49	4.61	4.6	4.8	4.9	5.0	5.2	5.3
Corporate Aaa bond	5.21	5.28	5.24	5.31	5.35	5.26	5.26	5.30	5.3	5.5	5.6	5.7	5.9	6.1
Corporate Baa bond	6.21	6.30	6.26	6.33	6.34	6.25	6.37	6.29	6.3	6.5	6.7	6.8	6.9	7.1
State & Local bonds	4.32	4.33	4.34	4.36	4.36	4.33	4.21	4.34	4.5	4.6	4.7	4.8	4.9	5.1
Home mortgage rate	4.96	4.95	4.97	5.05	4.99	5.03	4.93	5.00	5.2	5.4	5.6	5.7	5.9	6.1

Key Assumptions	History							1Q*	Consensus Forecasts Quarterly					
	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	3Q 2009	4Q 2009		2010	2010	2010	2011	2011	2011
Major Currency Index	70.9	73.5	81.3	82.7	79.4	75.4	73.6	75.4	75.6	75.8	76.4	76.4	76.6	77.0
Real GDP	1.5	-2.7	-5.4	-6.4	-0.7	2.2	5.6	2.9	3.0	2.9	3.0	3.0	3.1	3.2
GDP Price Index	1.8	4.0	0.1	1.9	0.0	0.4	0.5	1.4	1.2	1.4	1.4	1.7	1.7	1.7
Consumer Price Index	5.2	6.4	-9.2	-2.2	1.9	3.7	2.6	1.7	1.5	1.9	1.8	2.0	2.0	2.2

Forecasts for interest rates and the Federal Reserve's Major Currency Index represent averages for the quarter. Forecasts for Real GDP, GDP Price Index and Consumer Price Index are seasonally-adjusted annual rates of change (saar). 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*. Interest rate definitions are the same as those in FRSR H.15. Treasury yields are reported on a constant maturity basis. Historical data for the Fed'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 1Q 2010 based on historical data through the week ended March 19th. Data for 1Q 2010 Major Currency Index also is based on data through week ended March 19th. Figures for 1Q 2010 Real GDP, GDP Chained Price Index and Consumer Price Index are consensus forecasts based on a special question asked of the panelists this month (see page 14).

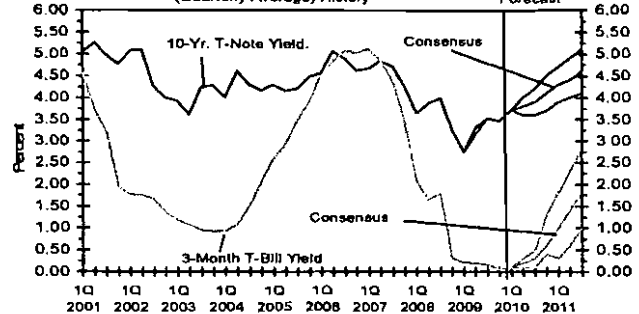
U.S. Treasury Yield Curve

Week ended March 19, 2010 and Year Ago vs. 2Q 2010 and 3Q 2011 Consensus Forecasts



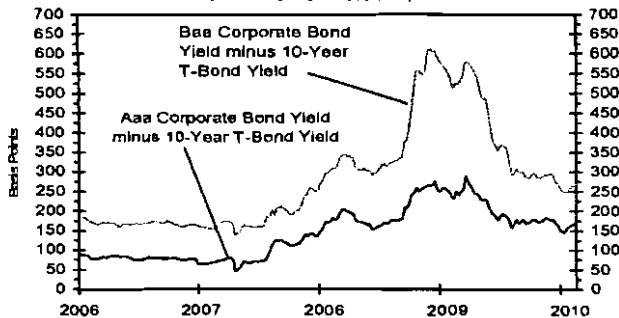
U.S. 3-Mo. T-Bills & 10-Yr. T-Note Yield

(Quarterly Average) History



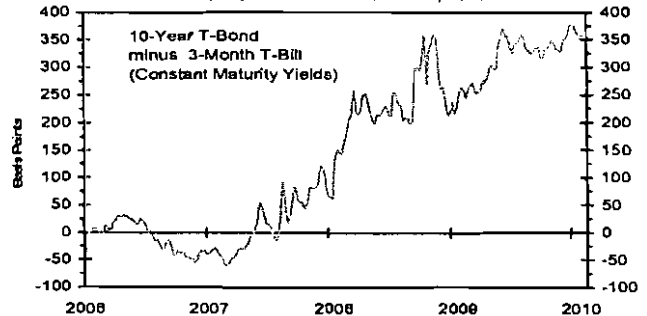
Corporate Bond Spreads

As of week ended March 19, 2010



U.S. Treasury Yield Curve

As of week ended March 19, 2010



Missouri-American Water Company
Derivation of Mean Equity Risk Premium Based on a Study
Using Holding Period Returns of Public Utilities

Line No.		Over A Rated Public Utility Bonds AUS Consultants - Utility Services Study (1)
Time Period		1928-2008
1.	Arithmetic Mean Holding Period Returns (2): Standard & Poor's Public Utility Index	10.74 %
2.	Arithmetic Mean Yield on: Moody's A Rated Public Utility Bonds	<u>(6.59)</u>
3.	Equity Risk Premium	<u><u>4.15 %</u></u>

- Notes: (1) S&P Public Utility Index and Moody's Public Utility Bond Average Annual Yields 1928-2008, (AUS Consultants - Utility Services, 2009).
- (2) Holding period returns are calculated based upon income received (dividends and interest) plus the relative change in the market value of a security over a one-year holding period.

Schedule PMA-11
Page 9 of 9
(UPDATED)

Missouri-American Water Company
Value Line Adjusted Betas for
the Proxy Group of Six AUS Utility Reports Water Companies
and the Proxy Group of Eight AUS Utility Reports Natrual Gas Distribution Companies

	<u>Value Line Adjusted Beta</u>
<u>Proxy Group of Six AUS Utility Reports Water Companies</u>	
American States Water Co.	0.80
Aqua America, Inc.	0.65
California Water Service Group	0.75
Middlesex Water Company	0.80
SJW Corporation	0.95
York Water Company	<u>0.65</u>
 Average	 <u>0.77</u>
 Median	 <u>0.78</u>
 <u>Proxy Group of Eight AUS Utility Reports Gas Distribution Companies</u>	
AGL Resources, Inc.	0.75
Atmos Energy Corp.	0.65
Delta Natural Gas Company	0.65
Laclede Group, Inc.	0.60
Northwest Natural Gas Company	0.60
Piedmont Natural Gas Co., Inc.	0.65
Southwest Gas Corporation	0.75
WGL Holdings, Inc.	<u>0.65</u>
 Average	 <u>0.66</u>
 Median	 <u>0.65</u>

Source of Information: Value Line Investment Survey, January 22, and March 12, 2010
Standard Edition and Small and Mid-Cap Edition

Schedule PMA-12
Page 1 of 3
(UPDATED)

Missouri-American Water Company
Indicated Common Equity Cost Rate Through Use
of the Capital Asset Pricing Model for the
the Proxy Group of Six AUS Utility Reports Water Companies
and the Proxy Group of Eight AUS Utility Reports Natrual Gas Distribution Companies

<u>Line No.</u>		<u>Proxy Group of Six AUS Utility Reports Water Companies</u>	<u>Proxy Group of Eight AUS Utility Reports Gas Distribution Companies</u>
1.	Traditional Capital Asset Pricing Model (1)	10.64 %	9.72 %
2.	Empirical Capital Asset Pricing Model (1)	<u>11.05 %</u>	<u>10.36 %</u>
3.	Conclusion	<u>10.85 %</u>	<u>10.04 %</u>

Notes: (1) From page 4 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 7.31% (1)	CAPM Result Including Risk-Free Rate of 4.97% (2)
<u>Traditional Capital Asset Pricing Model (3)</u>			
<u>Proxy Group of Six AUS Utility Reports Water Companies</u>			
American States Water Co.	0.80	5.85 %	10.82 %
Aqua America, Inc.	0.65	4.75	9.72
California Water Service Group	0.75	5.46	10.45
Middlesex Water Company	0.80	5.85	10.82
SJW Corporation	0.95	6.94	11.91
York Water Company	0.65	4.75	9.72
Average	<u>0.77</u>	<u>5.60 %</u>	<u>10.57 %</u>
Median	<u>0.78</u>	<u>5.67 %</u>	<u>10.64 %</u>
<u>Proxy Group of Eight AUS Utility Reports Gas Distribution Companies</u>			
AGL Resources, Inc.	0.75	5.48 %	10.45 %
Atmos Energy Corp.	0.65	4.75	9.72
Delta Natural Gas Company	0.65	4.75	9.72
Laclede Group, Inc.	0.60	4.39	9.36
Northwest Natural Gas Company	0.60	4.39	9.36
Piedmont Natural Gas Co., Inc.	0.65	4.75	9.72
Southwest Gas Corporation	0.75	5.48	10.45
WGL Holdings, Inc.	0.65	4.75	9.72
Average	<u>0.66</u>	<u>4.84 %</u>	<u>9.81 %</u>
Median	<u>0.65</u>	<u>4.75 %</u>	<u>9.72 %</u>
<u>Empirical Capital Asset Pricing Model (4)</u>			
<u>Proxy Group of Six AUS Utility Reports Water Companies</u>			
American States Water Co.	0.80	6.21 %	11.18 %
Aqua America, Inc.	0.65	5.39	10.36
California Water Service Group	0.75	5.94	10.91
Middlesex Water Company	0.80	6.21	11.16
SJW Corporation	0.95	7.04	12.01
York Water Company	0.65	5.39	10.36
Average	<u>0.77</u>	<u>6.03 %</u>	<u>11.00 %</u>
Median	<u>0.78</u>	<u>6.08 %</u>	<u>11.05 %</u>
<u>Proxy Group of Eight AUS Utility Reports Gas Distribution Companies</u>			
AGL Resources, Inc.	0.75	5.94 %	10.91 %
Atmos Energy Corp.	0.65	5.39	10.36
Delta Natural Gas Company	0.65	5.39	10.36
Laclede Group, Inc.	0.60	5.12	10.09
Northwest Natural Gas Company	0.60	5.12	10.09
Piedmont Natural Gas Co., Inc.	0.65	5.39	10.36
Southwest Gas Corporation	0.75	5.94	10.91
WGL Holdings, Inc.	0.65	5.39	10.36
Average	<u>0.66</u>	<u>5.46 %</u>	<u>10.43 %</u>
Median	<u>0.65</u>	<u>5.39 %</u>	<u>10.36 %</u>

See page 43 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 Proxy Group of Six AUS Utility Reports Water Companies
and the Proxy Group of Eight AUS Utility Reports Natural Gas Distribution Companies
Adjusted to Reflect a Forecasted Risk-Free Rate and Market Return

Notes:

- (1) For reasons explained in Ms. Ahern's accompanying direct testimony, from the three previous month-end (January 2010 – March 2010), as well as a recently available (April 9, 2010), Value Line Summary & Index, a forecasted 3-5 year total annual market return of 12.99% 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 52% produces a four-year average annual return of 11.04% $((1.52^{0.25}) - 1)$. When the average annual forecasted dividend yield of 1.95% is added, a total average market return of 12.99% $(1.95\% + 11.04\%)$ is derived.

The 3-month and spot forecasted total market return of 12.99% minus the forecasted risk-free rate of 4.97% (developed in Note 2) is 8.02% $(12.99\% - 4.97\%)$. The Morningstar, Inc. (Ibbotson Associates) calculated market premium of 6.60% for the period 1926-2009 results from a total market return of 11.80% less the average income return on long-term U.S. Government Securities of 5.20% $(11.80\% - 5.20\% = 6.60\%)$. This is then averaged with the 11.80% Value Line market premium resulting in an 7.31% market premium. The 7.31% market premium is then multiplied by the beta in column 1 of page 2 of this Schedule.

- (2) The average forecast based upon six quarterly estimates of 30-year Treasury Note yields per the consensus of nearly 50 economists reported in the Blue Chip Financial Forecasts dated April 1, 2010 (see page 37 of this Schedule). The estimates are detailed below:

	<u>30-Year Treasury Note Yield</u>
Second Quarter 2010	4.60
Third Quarter 2010	4.80
Fourth Quarter 2010	4.90
First Quarter 2011	5.00
Second Quarter 2011	5.20
Third Quarter 2011	<u>5.30</u>
Average	<u>4.97%</u>

- (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) 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, April 1, 2010
Value Line Investment Survey, January 22 and March 12, 2010 Standard Edition and Small and Mid-Cap Edition
Ibbotson SBBi – 2010 Valuation Yearbook – Market Results for Stocks, Bonds, Bills, and Inflation for 1926-2009, Morningstar, Inc., 2010, Chicago,

Missouri-American Water Company
Comparable Earnings Analysis
for a Proxy Group of One Hundred Seventeen Non-Utility Companies Comparable to the
Proxy Group of Six AUS Utility Reports Water Companies (1)

Proxy Group of One Hundred Seventeen Non-Utility Companies Comparable to the Proxy Group of Six AUS Utility Reports Water Companies (1)	VL		Residual Standard Error of the Regression	Standard Deviation of Beta	Rate of Return on Book Common Equity, Net Worth, or Partner's Capital	
	Adjusted Beta	Unadjusted Beta			5-Year Projected (2)	
					5 Year Projection	Student's T Statistic
Affiliated Computer	0.75	0.56	3.2080	0.0714	N/A	N/A
Analog Devices	0.90	0.81	3.6726	0.0818	20.00	0.57
Allergan, Inc.	0.90	0.82	3.3584	0.0748	16.50	0.11
Gallagher (Arthur J.)	0.75	0.56	3.1255	0.0698	20.00	0.57
Amgen	0.65	0.42	3.8066	0.0847	13.50	(0.29)
Aon Corp.	0.70	0.52	3.9021	0.0689	14.00	(0.22)
AVX Corp.	0.95	0.85	3.4217	0.0762	8.00	(1.02)
Bed Bath & Beyond	0.90	0.85	3.7545	0.0836	12.50	(0.42)
Beckman Coulter	0.75	0.62	3.1885	0.0710	13.00	(0.36)
Bio-Red Labs. A	0.90	0.84	3.8852	0.0860	11.50	(0.56)
BJs Wholesale Club	0.75	0.55	4.0163	0.0894	10.50	(0.69)
BMC Software	0.85	0.73	3.3622	0.0748	18.50	0.51
Brown & Brown	0.70	0.51	3.2448	0.0722	12.50 (3)	(0.42)
Cardinal Health	0.75	0.60	3.3076	0.0736	11.00	(0.62)
Coca-Cola Enterprises	0.90	0.81	3.5117	0.0782	45.50	3.96
Crown Holdings	0.90	0.83	3.4851	0.0776	26.50	1.44
Cephalon Inc	0.70	0.52	4.0466	0.0901	14.50	(0.16)
Cerner Corp.	0.85	0.71	3.9413	0.0877	10.00	(0.75)
CLARCOR Inc	0.95	0.85	3.7027	0.0824	12.00	(0.49)
Coherent, Inc.	0.90	0.78	3.8597	0.0859	7.00	(1.15)
Coca-Cola Bottling	0.70	0.47	3.6316	0.0608	20.00	0.57
Columbia Sportswear	0.90	0.77	3.8340	0.0854	12.50	(0.42)
Copart, Inc.	0.95	0.85	3.6260	0.0808	13.50	(0.29)
Charles River	0.85	0.77	3.7464	0.0834	9.00	(0.89)
Del Monte Foods	0.70	0.53	3.2787	0.0729	11.50	(0.56)
Dionex Corp	0.90	0.78	3.5366	0.0787	17.00	0.18
DIRECTV Group (The)	0.85	0.77	3.1875	0.0710	NMF	NMF
DeVita Inc.	0.65	0.39	3.1744	0.0707	16.00	0.04
Lauder (Estee)	0.95	0.85	3.3989	0.0757	36.50 (3)	2.76
EarthLink, Inc.	0.70	0.51	4.0490	0.0901	13.00	(0.36)
EMC Corp.	0.90	0.84	3.8370	0.0854	10.50	(0.69)
Energy Transfer	0.85	0.71	3.1256	0.0696	N/A (3)	N/A
First Niagara Finl Group	0.85	0.73	3.5910	0.0789	9.00	(0.89)
Forxal Labs.	0.80	0.63	3.8042	0.0847	9.50	(0.82)
Genzyme Corp.	0.65	0.44	3.7938	0.0845	11.00	(0.62)
Gilead Sciences	0.65	0.40	3.6747	0.0818	33.50	2.37
G&K Services A	0.80	0.69	3.3552	0.0747	8.00	(1.02)
Global Payments	0.85	0.70	3.7010	0.0824	16.50	0.11
Gen-Probe	0.85	0.76	4.0290	0.0897	13.00	(0.36)
Haemonetics Corp.	0.65	0.42	3.1695	0.0706	12.50	(0.42)
Hasbro, Inc.	0.50	0.62	3.3402	0.0744	22.00	0.84
HCC Insurance Hldgs.	0.85	0.71	3.1673	0.0705	12.00	(0.49)
Hewitt Associates A	0.75	0.58	3.2548	0.0725	18.00	0.31
Block (H&R)	0.90	0.78	3.7417	0.0833	28.00	1.64
Hospire Inc.	0.70	0.51	3.6472	0.0812	20.50	0.64
Heartland Express	0.85	0.72	3.8916	0.0889	23.00	0.97
IDEXX Labs.	0.85	0.77	3.2854	0.0727	24.00	1.10
Intell Inc.	0.90	0.83	3.1748	0.0707	21.00	0.71
Investors Bancorp Inc	0.70	0.51	3.4584	0.0788	6.00	(1.29)
Inl Speedway A	0.90	0.82	3.4301	0.0764	8.00	(1.02)
J&J Snack Foods	0.75	0.57	3.4659	0.0772	12.50	(0.42)
Life Technologies	0.80	0.65	3.7722	0.0840	11.00	(0.62)
Unicare Holdings	0.65	0.41	3.2537	0.0724	19.50	0.51

Missouri-American Water Company
Comparable Earnings Analysis
for a Proxy Group of One Hundred Seventeen Non-Utility Companies Comparable to the
Proxy Group of Six AUS Utility Reports Water Companies (1)

Proxy Group of One Hundred Seventeen Non-Utility Companies Comparable to the Proxy Group of Six AUS Utility Reports Water Companies (1)	VL Adjusted Beta	Unadjusted Beta	Residual Standard Error of the Regression	Standard Deviation of Beta	Rate of Return on Book Common Equity, Net Worth, or Partner's Capital	
					5-Year Projected (2)	
					5 Year Projection	Student's T Statistic
Mattel, Inc.	0.85	0.78	3.8964	0.0867	19.00	0.44
Mathews Intl	0.85	0.72	3.2537	0.0724	18.00	0.04
McKesson Corp.	0.80	0.64	3.6895	0.0821	13.50	(0.29)
Medtronic, Inc.	0.75	0.80	3.4569	0.0770	20.00	0.57
Medco Health Solutions	0.70	0.49	3.5992	0.0801	15.00	(0.09)
Markel Corp.	0.90	0.80	3.2875	0.0732	7.00	(1.15)
Magellan Midstream	0.90	0.83	3.3682	0.0750	25.00	1.24
MAXIMUS Inc.	0.80	0.64	3.3819	0.0753	14.50	(0.16)
National Instruments	0.90	0.81	3.6957	0.0823	15.50 (3)	0.11
Annelly Capital Mgmt.	0.80	0.63	3.9643	0.0883	11.50	(0.56)
Novo Nordisk ADR	0.80	0.69	3.1452	0.0700	33.00	2.30
Northwest Bancorp	0.85	0.70	3.2705	0.0728	N/A	N/A
New York Community	0.80	0.69	3.6327	0.0809	11.50	(0.56)
Realty Income Corp.	0.90	0.84	3.6316	0.0808	8.00	(1.02)
Owens & Minor	0.70	0.50	3.3588	0.0748	13.50	(0.29)
Omnicor Corp.	0.90	0.83	3.1502	0.0701	21.00	0.71
Odyssey Re Hldgs.	0.70	0.52	3.2108	0.0715	N/A	N/A
O'Reilly Automotive	0.85	0.72	3.5748	0.0798	11.00	(0.82)
Plains All Amer. Pipe.	0.90	0.79	3.5972	0.0801	10.00	(0.75)
PepsiAmericas Inc.	0.80	0.68	3.4481	0.0768	N/A	N/A
Peoples United Finl	0.65	0.40	3.2451	0.0722	6.00	(1.26)
Pepsi Bottling Group	0.90	0.78	3.3408	0.0744	N/A	N/A
Patterson Cos.	0.90	0.80	3.7787	0.0841	12.50	(0.42)
Peets Coffee & Tea	0.80	0.63	3.9190	0.0872	12.00 (3)	(0.49)
PerkinElmer Inc	0.90	0.79	3.8054	0.0847	10.50	(0.68)
Papa Johns Intl	0.85	0.77	3.9534	0.0880	20.00	0.57
Ruddick Corp.	0.80	0.38	3.5943	0.0800	11.00	(0.62)
Reinsurance Group	0.85	0.76	3.7769	0.0841	13.00	(0.38)
ResMed Inc	0.75	0.57	3.9162	0.0872	14.50	(0.16)
Rollins, Inc.	0.80	0.65	3.2083	0.0714	29.50	1.84
Ross Stores	0.85	0.72	3.8089	0.0847	36.50	2.76
Sycamore Networks	0.85	0.77	3.8995	0.0824	2.50	(1.75)
Schulmen (A.)	0.90	0.81	4.0352	0.0898	7.50	(1.09)
Shenwin-Williams	0.75	0.55	3.3228	0.0740	27.50	1.57
Silgan Holdings	0.80	0.64	3.1408	0.0699	17.00	0.18
Synopsys, Inc	0.85	0.72	3.7319	0.0831	12.50	(0.42)
Suburban Propane	0.75	0.62	3.2843	0.0731	37.00	2.83
Staricycle Inc.	0.65	0.47	3.5458	0.0788	15.00	(0.09)
STERIS Corp.	0.90	0.81	3.6866	0.0821	14.00	(0.22)
St. Jude Medical	0.80	0.68	4.0412	0.0900	17.00	0.18
Constellation Brande	0.85	0.76	3.8445	0.0856	11.00	(0.82)
Stryker Corp	0.80	0.66	3.3340	0.0742	18.00	0.04
Hanover Insurance	0.85	0.77	3.2090	0.0714	9.50	(0.82)
TEPPCO Partners L.P.	0.90	0.82	3.5151	0.0783	N/A	N/A
Total System Svcs.	0.90	0.80	3.4336	0.0764	15.00	(0.09)
Texas Instruments	0.90	0.81	3.6129	0.0804	16.00	0.04
Universal Health Sv. 'B	0.80	0.88	3.6443	0.0811	11.50	(0.56)
Universal Corp.	0.80	0.88	3.6708	0.0882	12.50	(0.42)
Varian Medical Sys.	0.80	0.69	3.8942	0.0867	22.00	0.84
WD-40 Co.	0.75	0.55	3.5149	0.0782	16.50	0.11
Werner Enterprises	0.90	0.82	3.9498	0.0879	14.00	(0.22)
Wels Markets	0.65	0.46	3.1192	0.0694	9.00	(0.68)
W.P. Carey & Co. LLC	0.90	0.80	3.5415	0.0766	15.00	(0.09)
Watson Pharmc.	0.75	0.58	3.2191	0.0717	11.50	(0.56)
Washington Post	0.80	0.67	3.4859	0.0776	7.00	(1.15)
Berkley (W.R.)	0.75	0.58	3.3727	0.0751	17.00	0.18
West Pharmc. Svcs.	0.80	0.65	3.9378	0.0877	14.00	(0.22)
Watson Wyatt	0.70	0.54	3.3237	0.0740	N/A	N/A
World Wrestling Ent.	0.80	0.68	3.3909	0.0756	31.50	2.10
Wolverine World Wide	0.80	0.66	3.9008	0.0868	17.00	0.16
Allegheny Corp.	0.65	0.72	3.2654	0.0727	8.50	(1.22)
Zimmer Holdings	0.95	0.85	3.7669	0.0839	12.50	(0.42)
Average	0.61	0.68	3.5555	0.0792		

Average for the Proxy Group of Six AUS Utility
Reports Water Companies 0.77 0.61 3.5871 (4) 0.0799

Median (5) 13.50%

Conclusion (6) 13.50%

See page 4 of Schedule PMA-13 for notes.

Missouri-American Water Company
Comparable Earnings Analysis
for a Proxy Group of Twenty Five Non-Utility Companies Comparable to the
Proxy Group of Eight AUS Utility Reports Natural Gas Distribution Companies (7)

Rate of Return on Book Common
Equity, Net Worth, or Partner's
Capital

Proxy Group of Twenty Five Non-Utility Companies Comparable to the Proxy Group of Eight AUS Utility Reports Natural Gas Distribution Companies (7)	VL Adjusted Beta	Unadjusted Beta	Residual Standard Error of the Regression	Standard Deviation of Beta	5 Year Projection	Student's T Statistic
AmerisourceBergen	0.70	0.52	2.7517	0.0613	15.0 %	(0.79)
Automatic Data Proc.	0.70	0.54	2.2331	0.0497	16.0	(0.70)
Baxter Intl Inc.	0.60	0.35	2.4924	0.0555	26.5	0.23
Bard (C.R.)	0.55	0.31	2.4789	0.0552	20.0	(0.35)
Becton, Dickinson	0.65	0.40	2.5881	0.0576	20.5	(0.30)
Church & Dwight	0.60	0.35	2.6247	0.0584	15.0	(0.79)
Colgate-Palmolive	0.55	0.30	2.6663	0.0594	41.0	1.52
Clorox Co.	0.65	0.40	2.3441	0.0522	58.5 (8)	3.07
Campbell Soup	0.60	0.32	2.4069	0.0536	35.0	0.98
Erie Indemnity Co.	0.70	0.53	2.2086	0.0492	20.0	(0.35)
Hormel Foods	0.65	0.43	2.7259	0.0607	16.0	(0.70)
Hershey Co.	0.65	0.47	2.7933	0.0622	42.5	1.65
Intl Flavors & Frag.	0.75	0.58	2.4057	0.0536	21.0	(0.26)
Kraft Foods	0.70	0.48	2.4920	0.0555	10.5	(1.19)
Kinder Morgan Energy	0.75	0.61	2.5204	0.0561	24.5	0.05
Coca-Cola	0.60	0.33	2.2256	0.0495	23.0	(0.08)
Laboratory Corp.	0.65	0.42	2.6786	0.0596	19.0	(0.44)
McDonalds Corp.	0.70	0.47	2.4563	0.0547	30.5	0.58
McCormick & Co.	0.55	0.30	2.6807	0.0597	18.0	(0.53)
PepsiCo, Inc.	0.60	0.36	2.2579	0.0503	27.5	0.32
Raytheon Co.	0.75	0.57	2.6400	0.0588	17.5	(0.57)
Sysco Corp.	0.75	0.55	2.6244	0.0584	34.0	0.90
Tootsie Roll Ind.	0.70	0.52	2.5729	0.0573	8.0	(1.41)
Wal-Mart Stores	0.60	0.36	2.3459	0.0522	17.5	(0.57)
Exxon Mobil Corp.	0.75	0.60	2.4733	0.0551	21.0	(0.26)
Average	<u>0.66</u>	<u>0.44</u>	<u>2.5075</u>	<u>0.0558</u>		
Average for the Proxy Group of Eight AUS Natural Gas Distribution Companies	<u>0.66</u>	<u>0.44</u>	<u>2.4773 (8)</u>	<u>0.0551</u>		
Median (5)					<u>20.25%</u>	
Conclusion (6)					<u>20.00%</u>	

See page 4 of Schedule PMA-13 for notes.

Missouri-American Water Company
Yields on Moody's A and Baa Rated Public Utility Bonds
and Aaa Rated Corporate Bonds Since April 1990

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(UPDATED)

Date	Aaa Corporate Bonds	Moody's A PU Bonds	Moody's Baa PU Bonds	Spraed Between Aaa v A PU Bonds	Spread Between Aaa v Baa PU Bonds	Spread between A and Baa PU Bonds
Apr-90	9.46%	9.92%	10.13%	0.46%	0.67%	0.21%
May-90	9.47%	10.00%	10.16%	0.53%	0.69%	0.16%
Jun-90	9.26%	9.60%	9.96%	0.54%	0.70%	0.16%
Jul-90	9.24%	9.75%	9.92%	0.51%	0.68%	0.17%
Aug-90	9.41%	9.92%	10.12%	0.51%	0.71%	0.20%
Sep-90	9.56%	10.12%	10.32%	0.56%	0.76%	0.20%
Oct-90	9.53%	10.05%	10.28%	0.52%	0.75%	0.23%
Nov-90	9.30%	9.90%	10.12%	0.60%	0.82%	0.22%
Dec-90	9.05%	9.73%	9.96%	0.68%	0.91%	0.23%
Jan-91	9.04%	9.71%	9.96%	0.67%	0.92%	0.25%
Feb-91	8.83%	9.47%	9.66%	0.64%	0.85%	0.21%
Mar-91	8.93%	9.55%	9.74%	0.62%	0.81%	0.19%
Apr-91	8.66%	9.46%	9.64%	0.60%	0.78%	0.18%
May-91	8.66%	9.44%	9.64%	0.58%	0.78%	0.20%
Jun-91	9.01%	9.59%	9.79%	0.58%	0.78%	0.20%
Jul-91	9.00%	9.55%	9.89%	0.55%	0.69%	0.14%
Aug-91	8.75%	9.29%	9.47%	0.54%	0.72%	0.18%
Sep-91	8.61%	9.16%	9.34%	0.55%	0.73%	0.18%
Oct-91	8.55%	9.12%	9.32%	0.57%	0.77%	0.20%
Nov-91	8.48%	9.05%	9.28%	0.57%	0.80%	0.23%
Dec-91	8.31%	8.88%	9.07%	0.57%	0.78%	0.19%
Jan-92	8.20%	8.84%	8.98%	0.84%	0.78%	0.14%
Feb-92	8.29%	8.93%	9.09%	0.64%	0.80%	0.18%
Mar-92	8.35%	8.97%	9.16%	0.62%	0.81%	0.19%
Apr-92	8.33%	8.93%	9.11%	0.60%	0.78%	0.18%
May-92	8.28%	8.87%	9.01%	0.59%	0.73%	0.14%
Jun-92	8.22%	8.78%	8.90%	0.56%	0.68%	0.12%
Jul-92	8.07%	8.57%	8.69%	0.50%	0.62%	0.12%
Aug-92	7.95%	8.44%	8.58%	0.49%	0.63%	0.14%
Sep-92	7.92%	8.40%	8.54%	0.48%	0.62%	0.14%
Oct-92	7.99%	8.54%	8.76%	0.55%	0.77%	0.22%
Nov-92	8.10%	8.63%	8.86%	0.53%	0.76%	0.23%
Dec-92	7.98%	8.43%	8.69%	0.45%	0.71%	0.26%
Jan-93	7.91%	8.27%	8.57%	0.36%	0.66%	0.30%
Feb-93	7.71%	8.04%	8.31%	0.33%	0.60%	0.27%
Mar-93	7.58%	7.90%	8.10%	0.32%	0.52%	0.20%
Apr-93	7.46%	7.81%	8.11%	0.35%	0.65%	0.30%
Apr-93	7.43%	7.88%	8.18%	0.43%	0.75%	0.32%
May-93	7.33%	7.75%	8.05%	0.42%	0.72%	0.30%
Jun-93	7.17%	7.54%	7.93%	0.37%	0.76%	0.39%
Jul-93	6.85%	7.25%	7.59%	0.40%	0.74%	0.34%
Aug-93	6.66%	7.04%	7.35%	0.38%	0.69%	0.31%
Sep-93	6.67%	7.03%	7.27%	0.36%	0.80%	0.24%
Oct-93	6.93%	7.30%	7.69%	0.37%	0.76%	0.39%
Nov-93	8.93%	7.34%	7.73%	0.41%	0.80%	0.39%
Dec-93	8.92%	7.33%	7.66%	0.41%	0.74%	0.33%
Jan-94	7.08%	7.47%	7.76%	0.39%	0.68%	0.29%
Mar-94	7.46%	7.47%	7.76%	-0.01%	0.28%	0.29%
Apr-94	7.88%	7.85%	8.11%	-0.03%	0.23%	0.26%
May-94	7.99%	6.33%	6.61%	0.34%	0.62%	0.28%
Jun-94	7.97%	8.31%	8.64%	0.34%	0.67%	0.33%
Jul-94	8.11%	8.47%	8.80%	0.36%	0.69%	0.33%
Aug-94	8.07%	8.41%	8.74%	0.34%	0.67%	0.33%
Sep-94	8.34%	8.64%	8.98%	0.30%	0.64%	0.34%
Oct-94	8.57%	8.86%	9.24%	0.29%	0.67%	0.36%
Nov-94	8.66%	8.98%	9.35%	0.30%	0.67%	0.37%
Dec-94	8.46%	8.76%	9.18%	0.30%	0.70%	0.40%
Jan-95	8.48%	8.73%	9.15%	0.27%	0.69%	0.42%
Feb-95	8.26%	8.52%	8.93%	0.26%	0.67%	0.41%
Mar-95	8.12%	8.37%	8.78%	0.25%	0.68%	0.41%
Apr-95	8.03%	8.27%	8.67%	0.24%	0.64%	0.40%
May-95	7.65%	7.91%	8.30%	0.26%	0.85%	0.39%
Jun-95	7.30%	7.60%	8.01%	0.30%	0.71%	0.41%
Jul-95	7.41%	7.70%	8.11%	0.29%	0.70%	0.41%
Aug-95	7.57%	7.83%	8.24%	0.26%	0.67%	0.41%
Sep-95	7.32%	7.62%	7.98%	0.30%	0.66%	0.36%
Oct-95	7.12%	7.46%	7.82%	0.34%	0.70%	0.36%
Nov-95	7.02%	7.43%	7.81%	0.41%	0.79%	0.38%
Dec-95	6.82%	7.23%	7.83%	0.41%	0.81%	0.40%
Jan-96	6.81%	7.22%	7.64%	0.41%	0.83%	0.42%
Feb-96	6.99%	7.37%	7.78%	0.38%	0.79%	0.41%
Mar-96	7.35%	7.73%	8.15%	0.38%	0.80%	0.42%
Apr-96	7.50%	7.89%	8.32%	0.39%	0.82%	0.43%
May-96	7.82%	7.98%	8.45%	0.36%	0.83%	0.47%
Jun-96	7.71%	8.06%	8.51%	0.35%	0.80%	0.45%
Jul-96	7.65%	8.02%	8.44%	0.37%	0.79%	0.42%
Aug-96	7.46%	7.64%	8.25%	0.38%	0.79%	0.41%
Sep-96	7.66%	8.01%	8.41%	0.35%	0.75%	0.40%
Oct-96	7.39%	7.77%	8.15%	0.38%	0.78%	0.38%
Nov-96	7.10%	7.49%	7.87%	0.39%	0.77%	0.38%

Missouri-American Water Company
Yields on Moody's A and Baa Rated Public Utility Bonds
and Aaa Rated Corporate Bonds Since April 1990

Schedule PMA-14
Page 2 of 3
(UPDATED)

Date	Aaa Corporate Bonds	Moody's A PU Bonds	Moody's Baa PU Bonds	Sprad Between Aaa v A PU Bonds	Sprad Between Aaa v Baa PU Bonds	Sprad between A and Baa PU Bonds
Dec-96	7.20%	7.59%	7.98%	0.39%	0.78%	0.39%
Jan-97	7.42%	7.77%	8.18%	0.35%	0.76%	0.41%
Feb-97	7.31%	7.64%	8.02%	0.33%	0.71%	0.38%
Mar-97	7.55%	7.87%	8.26%	0.32%	0.71%	0.39%
Apr-97	7.73%	8.03%	8.42%	0.30%	0.69%	0.39%
May-97	7.58%	7.89%	8.28%	0.31%	0.70%	0.39%
Jun-97	7.41%	7.72%	8.12%	0.31%	0.71%	0.40%
Jul-97	7.14%	7.48%	7.87%	0.34%	0.73%	0.39%
Aug-97	7.22%	7.51%	7.83%	0.29%	0.71%	0.42%
Sep-97	7.15%	7.47%	7.79%	0.32%	0.64%	0.32%
Oct-97	7.00%	7.35%	7.67%	0.35%	0.67%	0.32%
Nov-97	6.87%	7.25%	7.49%	0.38%	0.62%	0.24%
Dec-97	6.76%	7.16%	7.41%	0.40%	0.65%	0.25%
Jan-98	6.61%	7.05%	7.28%	0.44%	0.67%	0.23%
Feb-98	6.67%	7.12%	7.36%	0.45%	0.69%	0.24%
Feb-98	6.72%	7.16%	7.37%	0.44%	0.65%	0.21%
Mar-98	6.69%	7.16%	7.37%	0.47%	0.66%	0.21%
Apr-98	6.69%	7.16%	7.34%	0.47%	0.65%	0.18%
May-98	6.53%	7.03%	7.21%	0.50%	0.66%	0.18%
Jun-98	6.55%	7.03%	7.23%	0.48%	0.66%	0.20%
Jul-98	6.52%	7.00%	7.20%	0.48%	0.68%	0.20%
Aug-98	6.40%	6.93%	7.13%	0.53%	0.73%	0.20%
Oct-98	6.37%	6.96%	7.13%	0.59%	0.76%	0.17%
Nov-98	6.41%	7.03%	7.31%	0.62%	0.90%	0.28%
Dec-98	6.22%	6.81%	7.24%	0.69%	1.02%	0.33%
Jan-99	6.24%	6.87%	7.30%	0.73%	1.06%	0.33%
Feb-99	6.40%	7.09%	7.41%	0.69%	1.01%	0.32%
Mar-99	6.62%	7.28%	7.55%	0.64%	0.93%	0.29%
Apr-99	6.64%	7.22%	7.51%	0.58%	0.87%	0.29%
May-99	6.93%	7.47%	7.74%	0.54%	0.81%	0.27%
Jun-99	7.23%	7.74%	8.03%	0.51%	0.80%	0.29%
Jul-99	7.19%	7.71%	7.97%	0.52%	0.78%	0.26%
Aug-99	7.40%	7.91%	8.16%	0.51%	0.76%	0.25%
Sep-99	7.39%	7.93%	8.19%	0.54%	0.80%	0.26%
Oct-99	7.55%	8.06%	8.32%	0.51%	0.77%	0.26%
Nov-99	7.36%	7.94%	8.12%	0.58%	0.78%	0.18%
Dec-99	7.55%	8.14%	8.28%	0.59%	0.73%	0.14%
Jan-00	7.78%	8.35%	8.40%	0.57%	0.62%	0.05%
Feb-00	7.68%	8.25%	8.33%	0.57%	0.65%	0.08%
Mar-00	7.68%	8.28%	8.40%	0.80%	0.72%	0.12%
Apr-00	7.64%	8.29%	8.40%	0.65%	0.76%	0.11%
May-00	7.99%	8.70%	8.86%	0.71%	0.87%	0.16%
Jun-00	7.67%	8.36%	8.47%	0.69%	0.80%	0.11%
Jul-00	7.65%	8.25%	8.33%	0.60%	0.68%	0.08%
Aug-00	7.55%	8.13%	8.25%	0.58%	0.70%	0.12%
Sep-00	7.82%	8.23%	8.32%	0.61%	0.70%	0.09%
Oct-00	7.55%	8.14%	8.29%	0.59%	0.74%	0.16%
Nov-00	7.45%	8.11%	8.25%	0.66%	0.80%	0.14%
Dec-00	7.21%	7.64%	8.01%	0.63%	0.80%	0.17%
Jan-01	7.15%	7.80%	7.99%	0.65%	0.84%	0.18%
Feb-01	7.10%	7.74%	7.94%	0.64%	0.84%	0.20%
Mar-01	6.98%	7.68%	7.85%	0.70%	0.67%	0.17%
Apr-01	7.20%	7.94%	8.08%	0.74%	0.86%	0.12%
May-01	7.29%	7.99%	8.11%	0.70%	0.82%	0.12%
Jun-01	7.18%	7.85%	8.02%	0.67%	0.84%	0.17%
Jul-01	7.13%	7.78%	8.05%	0.65%	0.92%	0.27%
Aug-01	7.02%	7.59%	7.95%	0.57%	0.93%	0.36%
Sep-01	7.17%	7.75%	8.12%	0.58%	0.95%	0.37%
Oct-01	7.03%	7.63%	8.02%	0.60%	0.99%	0.39%
Nov-01	6.97%	7.57%	7.96%	0.80%	0.99%	0.39%
Dec-01	6.77%	7.83%	8.27%	1.06%	1.50%	0.44%
Jan-02	6.55%	7.66%	8.13%	1.11%	1.58%	0.47%
Feb-02	6.51%	7.54%	8.18%	1.03%	1.67%	0.64%
Mar-02	8.81%	7.78%	8.32%	0.95%	1.51%	0.56%
Apr-02	6.76%	7.57%	8.26%	0.81%	1.50%	0.69%
May-02	6.75%	7.52%	8.33%	0.77%	1.58%	0.81%
Jun-02	6.63%	7.42%	8.26%	0.79%	1.63%	0.84%
Jul-02	6.53%	7.31%	8.07%	0.78%	1.54%	0.76%
Aug-02	6.37%	7.17%	7.74%	0.80%	1.37%	0.57%
Sep-02	6.15%	7.06%	7.62%	0.93%	1.47%	0.54%
Oct-02	6.32%	7.23%	8.00%	0.91%	1.68%	0.77%
Nov-02	6.31%	7.14%	7.76%	0.83%	1.45%	0.62%
Dec-02	6.21%	7.07%	7.61%	0.86%	1.40%	0.54%
Jan-03	6.17%	7.06%	7.47%	0.69%	1.30%	0.41%
Feb-03	5.95%	6.93%	7.17%	0.98%	1.22%	0.24%
Mar-03	5.89%	6.79%	7.05%	0.90%	1.16%	0.26%
Apr-03	5.74%	6.64%	6.94%	0.90%	1.20%	0.30%
May-03	5.22%	6.38%	6.47%	1.14%	1.25%	0.11%
Jun-03	4.97%	6.21%	6.30%	1.24%	1.33%	0.09%
Jul-03	5.49%	6.57%	6.67%	1.08%	1.16%	0.10%
Aug-03	5.88%	6.76%	7.08%	0.80%	1.20%	0.30%
Sep-03	5.72%	6.58%	6.87%	0.84%	1.15%	0.31%
Oct-03	5.70%	6.43%	6.79%	0.73%	1.09%	0.36%
Nov-03	5.65%	6.37%	6.69%	0.72%	1.04%	0.32%
Dec-03	5.62%	6.27%	6.61%	0.65%	0.99%	0.34%
Jan-04	5.54%	6.15%	6.47%	0.61%	0.93%	0.32%

Missouri-American Water Company
Yields on Moody's A and Baa Rated Public Utility Bonds
and Aaa Rated Corporate Bonds Since April 1990

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(UPDATED)

Date	Aaa Corporate Bonds	Moody's A PU Bonds	Moody's Baa PU Bonds	Spraad Between Aaa v A PU Bonds	Spraad Between Aaa v Baa PU Bonds	Spraad Between A and Baa PU Bonds
Feb-04	5.50%	6.15%	8.28%	0.65%	0.78%	0.13%
Mar-04	5.33%	5.97%	8.12%	0.64%	0.79%	0.15%
Apr-04	5.73%	6.35%	6.46%	0.62%	0.73%	0.11%
May-04	6.04%	6.62%	6.75%	0.58%	0.71%	0.13%
Jun-04	6.01%	6.46%	6.84%	0.45%	0.83%	0.38%
Jul-04	5.82%	6.27%	6.67%	0.45%	0.85%	0.40%
Aug-04	5.65%	6.14%	6.45%	0.49%	0.80%	0.31%
Sep-04	5.46%	5.98%	6.27%	0.52%	0.81%	0.29%
Oct-04	5.47%	5.94%	6.17%	0.47%	0.70%	0.23%
Nov-04	5.52%	5.97%	6.16%	0.45%	0.64%	0.19%
Dec-04	5.47%	5.92%	6.10%	0.45%	0.63%	0.18%
Jan-05	5.36%	5.76%	5.95%	0.42%	0.59%	0.17%
Feb-05	5.20%	5.61%	5.76%	0.41%	0.56%	0.15%
Mar-05	5.40%	5.83%	6.01%	0.43%	0.61%	0.18%
Apr-05	5.33%	5.64%	5.95%	0.31%	0.62%	0.31%
May-05	5.15%	5.53%	5.88%	0.36%	0.73%	0.35%
Jun-05	4.96%	5.40%	5.70%	0.44%	0.74%	0.30%
Jul-05	5.06%	5.51%	5.80%	0.45%	0.74%	0.29%
Aug-05	5.09%	5.50%	5.81%	0.41%	0.72%	0.31%
Sep-05	5.13%	5.52%	5.83%	0.39%	0.70%	0.31%
Oct-05	5.35%	5.79%	6.08%	0.44%	0.73%	0.29%
Nov-05	5.42%	5.88%	6.19%	0.46%	0.77%	0.31%
Dec-05	5.37%	5.80%	6.14%	0.43%	0.77%	0.34%
Jan-06	5.29%	5.75%	6.06%	0.46%	0.77%	0.31%
Feb-06	5.35%	5.82%	6.11%	0.47%	0.76%	0.29%
Mar-06	5.53%	5.96%	6.26%	0.45%	0.73%	0.28%
Apr-06	5.64%	6.29%	6.54%	0.45%	0.70%	0.25%
May-06	5.95%	6.42%	6.59%	0.47%	0.64%	0.17%
Jun-06	5.89%	6.40%	6.61%	0.51%	0.72%	0.21%
Jul-06	5.85%	6.37%	6.61%	0.52%	0.76%	0.24%
Aug-06	5.68%	6.20%	6.43%	0.52%	0.75%	0.23%
Sep-06	5.51%	6.00%	6.26%	0.49%	0.75%	0.26%
Oct-06	5.51%	5.96%	6.24%	0.47%	0.73%	0.26%
Nov-06	5.33%	5.60%	6.04%	0.47%	0.71%	0.24%
Dec-06	5.32%	5.81%	6.05%	0.49%	0.73%	0.24%
Jan-07	5.40%	5.96%	6.16%	0.56%	0.76%	0.20%
Feb-07	5.39%	5.90%	6.10%	0.51%	0.71%	0.20%
Mar-07	5.30%	5.85%	6.10%	0.55%	0.80%	0.25%
Apr-07	5.47%	5.97%	6.24%	0.50%	0.77%	0.27%
May-07	5.47%	5.99%	6.23%	0.52%	0.76%	0.24%
Jun-07	5.79%	6.30%	6.54%	0.51%	0.75%	0.24%
Jul-07	5.73%	6.25%	6.49%	0.52%	0.76%	0.24%
Aug-07	5.79%	6.24%	6.51%	0.45%	0.72%	0.27%
Sep-07	5.74%	6.16%	6.45%	0.44%	0.71%	0.27%
Oct-07	5.66%	6.11%	6.36%	0.45%	0.70%	0.25%
Nov-07	5.44%	5.97%	6.27%	0.53%	0.83%	0.30%
Dec-07	5.43%	6.16%	6.51%	0.67%	1.02%	0.35%
Jan-08	5.33%	6.02%	6.35%	0.69%	1.02%	0.33%
Feb-08	5.53%	6.21%	6.60%	0.68%	1.07%	0.39%
Mar-08	5.51%	6.21%	6.68%	0.70%	1.17%	0.47%
Apr-08	5.55%	6.29%	6.81%	0.74%	1.26%	0.52%
May-08	5.57%	6.27%	6.79%	0.70%	1.22%	0.52%
Jun-08	5.66%	6.38%	6.93%	0.70%	1.25%	0.55%
Jul-08	5.67%	6.40%	6.97%	0.73%	1.30%	0.57%
Aug-08	5.64%	6.37%	6.98%	0.73%	1.34%	0.61%
Sep-08	5.65%	6.49%	7.15%	0.84%	1.50%	0.66%
Oct-08	6.28%	7.56%	8.58%	1.28%	2.30%	1.02%
Nov-08	6.12%	7.20%	8.96%	1.08%	2.66%	1.76%
Dec-08	5.05%	6.54%	8.13%	1.49%	3.08%	1.59%
Jan-09	5.05%	6.39%	7.90%	1.34%	2.65%	1.51%
Feb-09	5.27%	6.30%	7.74%	1.03%	2.47%	1.44%
Mar-09	5.50%	6.42%	8.00%	0.92%	2.50%	1.58%
Apr-09	5.39%	6.48%	8.03%	1.09%	2.64%	1.55%
May-09	5.54%	6.49%	7.76%	0.95%	2.22%	1.27%
Jun-09	5.61%	6.20%	7.30%	0.59%	1.69%	1.10%
Jul-09	5.41%	5.97%	6.87%	0.56%	1.46%	0.90%
Aug-09	5.26%	5.71%	6.36%	0.45%	1.10%	0.65%
Sep-09	5.13%	5.53%	6.12%	0.40%	0.99%	0.59%
Oct-09	5.15%	5.55%	6.14%	0.40%	0.99%	0.59%
Nov-09	5.19%	5.64%	6.16%	0.45%	0.99%	0.54%
Dec-09	5.26%	5.79%	6.26%	0.53%	1.00%	0.47%
Jan-10	5.26%	5.77%	6.16%	0.51%	0.90%	0.39%
Feb-10	5.35%	5.67%	6.25%	0.52%	0.90%	0.38%
Average	6.81%	7.36%	7.71%	0.55%	0.90%	0.35%
Median	6.90%	7.47%	7.92%	0.52%	0.76%	0.29%

Source of Information:
S&P Public Utility Index and Moody's Public Utility Bond Average Annual Yields 1928-2010, (AUS Consultants - Utility Services, 2010).