Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Union Light Heat & Power Company
Case No. 2005-00042

Witness Responding: Michael J. Majoros, Jr.

16. Refer to the Majoros Direct Testimony, pages 12 through 14 of 40 and Exhibit MJM-7. In pages 12 and 13 of 40, Mr. Majoros makes two references to Exhibit MJM-7. Provide the specific pages in Exhibit MJM-7 referenced in pages 12 and 13 of 40.

Response:

Page 12, line 10 reference – please see Exhibit___(MJM-7), pages 3-6 of 17.
Page 13, line 19 reference – please see Exhibit___(MJM-7), page 7 of 17.

Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Union Light Heat & Power Company
Case No. 2005-00042

Witness Responding: Michael J. Majoros, Jr.

17. Refer to the Majoros Direct Testimony, page 14 of 40 and Exhibit MJM-8, page 1 of 4.
    a. Provide the basis for the following statement, "Second, it is not even clear that the net salvage that Mr. Spanos studied for the services account even relates to these types of services."
    b. Refer to Exhibit MJM-8, page 1 of 4. Explain in detail why the apparent over-depreciation of Account 2801 should also be applied to Account 2761.

Response:

a. Please see pages 19-21 of Mr. Majoros' testimony. Mr. Majoros provides a detailed explanation.

b. First, Mr. Majoros is uncertain as to the use of the word "apparent." Mr. Spanos calculated these numbers, not Mr. Majoros. Second, Mr. Majoros is not proposing to apply anything to anything. He summarizes Mr. Spanos' numbers to show that collectively, the cast iron investment is overdepreciated.

Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Union Light Heat & Power Company
Case No. 2005-00042

Witness Responding: Michael J. Majoros, Jr.

18. Refer to the Majoros Direct Testimony, pages 15 and 16 of 40 and Exhibit MJM-9.
    a. On pages 15 and 16 of 40, Mr. Majoros makes two references to Exhibit MJM-9. Provide the specific pages in Exhibit MJM-9 referenced in pages 15 and 16 of 40.
    b. Pages 7 and 8 of 8 of Exhibit MJM-9 appears to indicate a 70-year life for this account. However, the calculated average service life is 50.6 years. Explain why the 70 year life is more appropriate given the average service life of 50.6 years.

Response:

a. Page 15, line 10 reference – please see Exhibit___(MJM-9), page 3 of 8.
Page 16, line 20 reference – please see Exhibit___(MJM-9), page 4 of 9.

b. The average service life of 50.6 shown on Exhibit___(MJM-9) is the weighted average service life resulting from the use of an 70-R1.5 curve and the ELG procedure. See response to Question No. 14.

Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Union Light Heat & Power Company
Case No. 2005-00042

Witness Responding: Michael J. Majoros, Jr.

19. The analysis supplied in the Majoros Direct Testimony, Exhibits MJM-5 through MJM-7 indicates that the calculation of the remaining life was based upon the "broad group/vintage group life group procedures." The depreciation study submitted by ULH&P is based on the equal life group procedure, and Mr. Majoros has accepted 23 of the 32 proposed depreciation rates contained in ULH&P's depreciation study. Would the adoption of Mr. Majoros's proposed depreciation rates result in depreciation rates determined using multiple life group procedures? Is this a desirable approach to take when establishing depreciation rates? Explain the responses.

Response:

Again, Mr. Majoros apologizes for the typographical errors in his testimony and exhibits. The reference to Broad Group/Vintage Group is in error. Mr. Majoros' remaining lives, and as such his depreciation rates, are calculated using the ELG procedure. Please see the corrected versions of the exhibits attached in response to Question No. 11.

Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Union Light Heat & Power Company
Case No. 2005-00042

Witness Responding: Michael J. Majoros, Jr.

20. Refer to the Majoros Direct Testimony, page 23 of 40. Explain the basis for the conclusion contained in the following statements, "Notice that the liability increased by $3 million in one year. That is the amount that ULH&P collected from ratepayers, over and above its actual removal costs in 2004."

Response:

The regulatory liability discussed on page 23 of Mr. Majoros' testimony relates to accruals for cost of removal which have not yet been spent. According to page 131 of ULH&P's 2004 10K Report:

> CG&E's transmission and distribution business, PSI and ULH&P ratably accrue the estimated retirement and removal cost of rate regulated property, plant and equipment when removal of the asset is considered likely, in accordance with established regulatory practices. The accrued, but not incurred, balance for these costs is classified as *Regulatory liabilities*, under Statement 71, as previously disclosed in (c).[1]

The regulatory liability increased from $27 million to $30 million, i.e., by $3 million during 2004. As explained by the Company, the increase in the regulatory liability from year to year is related to collections for cost of removal, over and above what has been spent. This issue is not a matter of debate, it is a fact.

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[1] ULH&P December 31, 2004 10K Report, page 131, Notes to Financial Statements - (j) Asset Retirement Obligations and Accrued Cost of Removal.

Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Union Light Heat & Power Company
Case No. 2005-00042

Witness Responding: Michael J. Majoros, Jr.

21. Refer to the Majoros Direct Testimony, page 31 of 40. Has Mr. Majoros conducted a study or reviewed studies discussing the likelihood of electric restructuring in Kentucky? Explain the response.

Response:

No. However, subsequent to filing this testimony, Mr. Majoros also has concluded that even the possibility of an alternative form of regulation might provide the basis for ULH&P to take the regulatory liability into income. That is what the telephone industry did. The issue is that the money is at risk. The Commission can provide some protection on behalf of ratepayers by recognizing the regulatory liability.

Response of the Attorney General to Initial Data Request of Commission Staff to the Attorney General
Union Light Heat & Power Company
Case No. 2005-00042

Witness Responding: Michael J. Majoros, Jr.

22. Refer to the Majoros Direct Testimony, pages 34 through 36 of 40.
    a. Refer to page 34 of 40. On line 26 is the statement, "Experience indicates that it is highly unlikely that these amounts will be spent for cost of removal in the magnitude that they have been collected." Provide the basis for this statement, including any analysis Mr. Majoros has performed using ULH&P-specific data.
    b. Refer to page 35 of 40. On line 1 is the statement, "[I]t is fair and reasonable for the Kentucky PSC to specifically recognize the ratepayers' security interest in these monies until they are actually spent on their intended purpose." Explain the basis for the statement that ratepayers have a "security interest" in cost of removal incorporated into depreciation rates.
    c. Refer to page 36 of 40. On line 4 is the statement, "However, in recognition of prior KPSC Orders, I recommend that the regulatory liability be specifically identified as a refundable component of accumulated depreciation." Specifically identify the Commission Orders referenced in this statement.

Response:

a. See Exhibit___(MJM-13) where Mr. Majoros explains TIFCA. The amounts will not be expended for cost of removal in the magnitude they have been collected because they are based on inflated estimates, and applied to ever-increasing plant balances, which increase as a result of growth and modernization, both of which are also subject to inflation. Again, this is a factual issue.

b. Mr. Majoros was harkening back to his college days when he took business law. See Mr. Majoros' response to ULH&P Question No. 46, attached.

c. See page 37, line 15 to page 38, line 10 of Mr. Majoros' testimony.

Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Union Light Heat & Power Company
Case No. 2005-00042

Witness Responding: Dr. J. Randall Woolridge

23. Refer to the Direct Testimony of Dr. J. Randall Woolridge ("Woolridge Direct Testimony"), page 3. Dr. Woolridge states that the benchmark for long-term capital costs is the rate on 10-year Treasury Bonds. Explain why the benchmark is 10-year bonds rather than 20-year bonds.

Response:

It is Dr.Woolridge's opinion that the 10-year Treasury has become the benchmark for long-term capital costs. The 10-year yield seems to get the most attention in the financial press. Below are several opinions regarding the importance of the 10-year yield.

The Street.Com: Treasury Bonds
(www.thestreet.com/tsc/basics/ tscglossary/Treasury_Securities.html)

The 10-year note is the U.S. benchmark, meaning that people look to its yield as a proxy for all U.S. interest rates. Formerly, that honor went to the 30-year bond. But reduced issuance of 30-year bonds has given them scarcity value, making them less reliable as an indicator of how high people think interest rates should be. (30-year bond sometimes trades like commodities.)

Recession Telltale
(www.forbes.com/forbes/2000/1113/6613388a_print.html)

That bellowing you hear from the bulls would have you believe that this time it's different, that the inversion is really a chimera produced by the shortage of long Treasury bonds. Indeed, the 30-year yield has fallen 20 basis points since the Fed started its rate-raising campaign. Moody's, Merrill Lynch and other major Wall Street powers assume the long bond is going the way of the passenger pigeon and have switched to the 10-year Treasury as their benchmark.

Goldman Sachs Sees 10 year note as its government debt benchmark
(www.bradynet.com/bbs/us/100004-0.html)

2000 Feb, NEW YORK, Feb 9 (Reuters) – With the U.S. Treasury Department buying back benchmark 30-year bonds and cutting back on new issuance of long bonds, investment bank Goldman Sachs said on Wednesday it would now use the Treasury 10-year note as its government debt benchmark to gauge appropriate prices and yields on other types of securities.

Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Union Light Heat & Power Company
Case No. 2005-00042

Witness Responding: Dr. J. Randall Woolridge

24. Refer to the Woolridge Direct Testimony, page 5. Provide a copy of Jeremy J. Siegel's article referenced in footnote 1.

Response:

The requested article is provided on the CD labeled as bb PSC-I-24A.

The Shrinking Equity Premium

Historical facts and future forecasts.

Jeremy J. Siegel

JEREMY J. SIEGEL is the Russell E. Palmer professor of finance at the Wharton School of the University of Pennsylvania in Philadelphia (PA 19104).

Few conundrums have caught the imagination of economists and practitioners as much as the "Equity Premium Puzzle," the title chosen by Rajneesh Mehra and Edward Prescott for their seminal 1985 article in the *Journal of Monetary Economics*. Mehra and Prescott show that the historical return on stocks has been too high in relation to the return on risk-free assets to be explained by the standard economic models of risk and return without invoking unreasonably high levels of risk aversion.[1] They calculate the margin by which stocks outperformed safe assets — the *equity premium* — to be in excess of 6 percentage points per year, and claim that the profession is at a loss to explain its magnitude.

There have been many attempts since to explain the size of the equity premium by variations of the standard finance model. I shall not enumerate them here, but refer readers to reviews by Abel [1991], Kocherlakota [1996], Cochrane [1997], and Siegel and Thaler [1997].

I review here the estimates of the equity premium derived from historical data, and offer some reasons why I believe that most of the historical data underestimate the real return on fixed-income assets and overestimate the expected return on equities. I shall also offer some reasons why, given the current high level of the stock market relative to corporate earnings, the forward-looking equity premium may be considerably lower than the historical average.

REAL RETURNS ON "RISK-FREE" ASSETS

From 1889 through 1978, Mehra and Prescott estimate the real return on short-dated fixed-income

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assets (commercial paper until 1920 and Treasury bills thereafter) to have been 0.8%. In 1976 and again in 1982, Roger Ibbotson and Rex Sinquefield formally estimated the real risk-free rate to be even lower — at zero, based on historical data analyzed from 1926. This extremely low level of the short-term real rate is by itself puzzling, and has been termed the "real rate puzzle" by Weil [1989]. The essence of this puzzle is that, given the historical growth of per capita income, it is surprising that the demand to borrow against tomorrow's higher consumption has not resulted in higher borrowing rates.

EXHIBIT 1
COMPOUND ANNUAL REAL RETURNS (%)
U.S. DATA, 1802-1998

	Stocks	Bonds	Bills	Gold	Inflation
1802-1998	7.0	3.5	2.9	–0.1	1.3
1802-1870	7.0	4.8	5.1	0.2	0.1
1871-1925	6.6	3.7	3.2	–0.8	0.6
1926-1998	7.4	2.2	0.7	0.2	3.1
1946-1998	7.8	1.3	0.6	–0.7	4.2

Source: Siegel [1998] updated.

The low measured level of the risk-free rate may in fact be in part an artifact of the time period examined. There is abundant evidence that the real rate both during the nineteenth century and after 1982 has been substantially higher. Exhibit 1, based on Siegel [1998], indicates that over the entire period from 1802 through 1998, the real compound annual return on Treasury bills (or equivalent safe assets) has been 2.9%, while the realized return on long-term government bonds has been 3.5%. Exhibit 2 presents the historical equity premium for selected time periods for both bonds and bills based on the same data.[2]

The danger of using historical averages — even over long periods — to make forecasts is readily illustrated by noting Ibbotson and Sinquefield's long-term predictions made in 1976 and again in 1982 on the basis of their own analysis of the historical data. In 1976, they made predictions for the twenty-five-year period from

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EXHIBIT 2
EQUITY PREMIUMS (%) — U.S. DATA, 1802-1998

	Equity Premium with Bonds		Equity Premium with Bills	
	Geometric	Arithmetic	Geometric	Arithmetic
1802-1998	3.5	4.7	5.1	5.5
1802-1870	2.2	3.2	1.9	2.9
1871-1925	2.9	4.0	3.4	4.6
1926-1998	5.2	6.7	6.7	8.6
1946-1998	6.5	7.3	7.2	8.6

Source: Siegel [1998] updated.

1976 through 2000, and in 1982 they made predictions for the twenty-year period from 1982 through 2001. Their forecasts are shown in Exhibit 3. Since we now have data for most of these forecast periods, it is of interest to assess their estimates.

The last two decades have been extremely good for financial assets, so it is not surprising that Ibbotson and Sinquefield underestimate all their real returns. But their most serious underestimation is for fixed-income assets, where they forecast the real bill rate to average essentially zero and the real return on bonds to be less than 2%. Given the standard deviation of estimates, realized annual real bond and bill returns have been 9.9% and 2.9%, respectively, significantly above their estimates. Since negative real returns on fixed-income assets persisted between the two surveys, Ibbotson and Sinquefield more seriously underestimate long-term real bill rates in their 1982 forecasts than they did in 1976.[3]

My purpose here is not to highlight errors in Ibbotson's and Sinquefield's past forecasts. Their analysis was state-of-the-art, and their data have rightly formed the benchmark for the risk and return estimates used by both professional and academic economists. I bring these forecasts to light to show that even the fifty-year history of financial returns available to economists at that time was insufficient to estimate future real fixed-income returns.

EXHIBIT 3
LONG-TERM FORECASTS OF REAL RETURNS — COMPOUND ANNUAL RATES OF RETURN

Forecast Period		Stocks	Bonds	Bills	Inflation
1976-2000	Forecast	6.3 (23.5)	1.5 (8.0)	0.4 (4.6)	6.4 (4.8)
	Actual*	11.0	5.3	2.1	4.8
1982-2001	Forecast	7.6 (21.9)	1.8 (8.3)	0.0 (4.4)	12.8 (5.1)
	Actual*	14.6	9.9	2.9	3.3

*Data through 1998.
Standard deviations of annual returns in parentheses.
Source: Ibbotson and Sinquefield [1976, 1982].

It is not well understood why the real rate of returns on fixed-income assets was so low during the 1926-1980 period. The bursts of unanticipated inflation following the end of World War II and during the 1970s certainly had a negative effect on the realized real returns from long-term bonds. Perhaps the shift from a gold standard to a paper monetary standard had a negative effect on these real returns until investors fully adjusted to the inflationary bias inherent in the new monetary standard.[4]

Whatever the reasons, the current yields on the Treasury inflation-protected securities, or TIPS, first issued in 1997 support the assertion that the future real returns on risk-free assets will be substantially above the level estimated over the Ibbotson-Sinquefield period. This is so even when the estimating period includes the higher real rates of the past two decades. In August 1999, the ten- and thirty-year TIPS bond yielded 4.0%, nearly twice the realized rate of return on long-dated government bonds over the past seventy-five years.[5]

The market projects real returns on risk-free assets to be substantially higher in the future than they have been over most of this century. It is also likely that the expected returns in the past are substantially greater than they have turned out ex post, especially for longer-dated securities. If one uses a 3.5% real return on fixed-income assets, the geometric equity premium for a 7.0% real stock return falls to 3.5%.

HISTORICAL EQUITY RETURNS AND SURVIVORSHIP BIAS

The real return on stocks, as I have emphasized [1998], has displayed a remarkable long-term stability. Over the entire 196-year period that I examine, the long-term after-inflation geometric annual rate of return on equity averages 7.0%. In the 1926-1998 period, the real return has been 7.4%, and since 1946 (when virtually all the thirteenfold increase in the consumer price index over the past two hundred years has taken place) the real return on equity has been 7.8%. The relative stability of long-term real equity returns is in marked contrast to the unstable real returns on fixed-income assets.

Some economists believe the 7% historical real

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return on equities very likely overstates the true expected return on stocks. They claim that using the ex post equity returns in the United States to represent returns expected by shareholders is misleading. This is because no investor in the nineteenth or early twentieth century could know for certain that the United States would be the most successful capitalist country in history and experience the highest equity returns.

This "survivorship bias" hypothesis, as it has been called, is examined by Jorion and Goetzmann [1999] in "Global Stock Markets in the Twentieth Century." They conclude that of thirty-nine equity markets that existed in 1921, none of them show as high a real capital appreciation as the United States, and most of them have had substantial disruptions in their operations or have disappeared altogether. They report that the median real capital appreciation of non-U.S. markets has been only 0.8% per year as opposed to 4.3% in the U.S.[6]

But this evidence may be misleading. Total returns of a portfolio, especially over long periods of time, are a very non-linear function of the returns of the individual components. Mathematically it can be shown that if individual stock returns are lognormal, the performance of the *median* stock is almost always worse than the market portfolio performance.[7]

So, it is not surprising that the median performance of individual countries will not match the "world portfolio" or the returns in the dominant market. Jorion and Goetzmann recognize this near the end of their study when they show that compound annual real return on a GDP-weighted portfolio of equities in all countries falls only 28 basis points short of the U.S. return. In fact, because of the real depreciation of the dollar over this time, the compound annual *dollar* return on a GDP-weighted world is actually 30 basis points *higher* than the return on U.S. equities.[8]

But examining international stock returns alone does not give us a better measure of the equity premium. The equity premium measures the *difference* between the returns on stocks and safe bonds. Although stock returns may be lower in foreign countries than the U.S., the real returns on foreign bonds are substantially lower. Almost all disrupted markets experienced severe inflation, in some instances wiping out the value of fixed-income assets. (One could say that the equity premium in Germany covering any period including the 1922-1923 hyperinflation is over 100%, since the real value of fixed-income assets fell to zero while equities did not.)

Even investors who purchased bonds that promised precious metals or foreign currency experienced significant defaults. It is my belief that if one uses a world portfolio of stocks and bonds, the equity *premium* will turn out higher, not lower, than found in the U.S.[9]

TRANSACTION COSTS AND DIVERSIFICATION

I believe that 7.0% per year does approximate the long-term real return on equity indexes. But the return on equity *indexes* does not necessarily represent the *realized* return to the equityholder. There are two reasons for this: transaction costs and the lack of diversification.[10]

Mutual funds and, more recently, low-cost "index funds" were not available to investors of the nineteenth or early twentieth century. Prior to 1975, brokerage commissions on buying and selling individual stocks were fixed by the New York Stock Exchange, and were substantially higher than today. This made the accumulation and maintenance of a fully diversified portfolio of stocks quite costly.

The advent of mutual funds has substantially lowered the cost of maintaining a diversified portfolio. And the cost of investing in mutual funds has declined over the last several decades. Rea and Reid [1998] report a decline of 76 basis points (from 225 to 149) in the average annual fee for equity mutual funds from 1980 to 1997 (see also Bogle [1999, p. 69]). Index funds with a cost of less than 20 basis points per year are now available to small investors.

Furthermore, the risk experienced by investors unable to fully diversify their portfolios made the risk-return trade-off less desirable than that calculated from stock indexes. On a risk-adjusted basis, a less-than-fully diversified portfolio has a lower expected return than the total market.

Given transaction costs and inadequate diversification, I assume that equity investors experienced real returns more in the neighborhood of 5% to 6% over most of the nineteenth and twentieth century rather than the 7% calculated from indexes. Assuming a 3.5% real return on bonds, the historical equity premium may be more like 1.5 to 2.5 percentage points, rather than the 6.0 percentage points recorded by Mehra and Prescott.

PROJECTING FUTURE EQUITY RETURNS

Future stock returns should not be viewed independently of current fundamentals, since the price of

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stocks is the present discounted value of all expected future cash flows. Earnings are the source of these cash flows, and the average price-to-earnings (P-E) ratio in the U.S. from 1871 through 1998 is 14 (see Shiller [1989] for an excellent source for this series).

Using data from August 13, 1999, the S&P 500 stock index is 1327, and the mean 1999 estimate for operating earnings of the S&P 500 stock index of fifteen analysts polled by Bloomberg News is $48.47.[11] This yields a current P-E ratio on the market of 27.4. But due to the increased number of write-offs and other special charges taken by management over the last several years, operating earnings have exceeded total earnings by 10% to 15%.[12] On the basis of reported earnings, which is what most historical series report (including Shiller's), the P-E ratio of the market is currently about 32.[13]

There are two long-term consequences of the high level of stock prices relative to fundamentals. Either 1) future stock returns are going to be lower than historical averages, or 2) earnings (and hence other fundamentals such as dividends or book value) are going to rise at a more rapid rate in the future. A third possibility, that P-E ratios will rise continually without bound, is ruled out since this would cause an unstable bubble in stock prices that must burst.

If future dividends grow no faster than they have in the past, forward-looking real stock returns will be lower than the 7% historical average. As is well known from the dividend discount model, the rate of return on stocks can be calculated by adding the current dividend yield to the expected rate of growth of future dividends. The current dividend yield on the S&P 500 index is 1.2%. Since 1871, the growth of real per share dividends on the index has been 1.3%, but since 1946, due in part to a higher reinvestment rate, growth has risen to 2.1%. If we assume future growth of real per share dividends to be close to the most recent average of 2.1%, we obtain a 3.3% real return on equities, less than one-half the historical average.

A second method of calculating future real returns yields a similar figure. If the rate of return on capital equals the return investors require on stocks, the *earnings yield*, or the reciprocal of the price-earnings ratio, equals the forward-looking real long-term return on equity (see Phillips [1999] for a more formal development of this proposition). Long-term data support this contention; a 14 price-to-earnings ratio corresponds to a 7.1% earnings yield, which approximates the long-term real return on equities. The current P-E ratio on the S&P 500 stock index is between 27 to 32, depending on whether total or operating earnings are considered. This indicates a current earnings yield, and hence a future long-term and real return, of between 3.1% to 3.7% on equities.

One way to explain these projected lower future equity returns is that investors are bidding up the price of stocks to higher levels as the favorable historical data about the risks and returns in the equity market become incorporated into investor decisions.[14] Lower transaction costs further enable investors to assemble diversified portfolios of stocks to take advantage of these returns. The desirability of stocks may be further reinforced by the perception that the business cycle has become less severe over time and has reduced the inherent risk in equities.[15]

If these factors are the cause of the current bull market, then the revaluation of equity prices is a one-time adjustment. This means that future expected equity returns should be lower, not higher, than in the past. During this period of upward price adjustment, however, equity returns will be higher than average, increasing the historical measured returns in the equity market.

This divergence between increased historical returns and lower future returns could set the stage for some significant investor disappointment, as survey evidence suggests that many investors expect future returns to be higher, not lower, than in the past (see "PaineWebber Index of Investor Optimism" [1999]).

SOURCES OF FASTER EARNINGS GROWTH

Although the increased recognition of the risks and returns to equity may be part of the explanation for the bull market in stocks, there must be other reasons. This is because the forward-looking rates of return we derive for equities fall below the current 4.0% yield on inflation-protected government bonds. Although one could debate whether in the long run stocks or *nominal* bonds are riskier in real terms, there should be no doubt that the inflation-protected bonds are safer than equities and should have a lower expected return.

Hence, some part of the current bull market in stocks must be due to the expectations that future earnings (and dividend) growth will be significantly above the historical average. Optimists frequently cite higher growth of real output and enhanced productivity, enabled by the technological and communications revolution, as the source of this higher growth. Yet the long-run relation between the growth of real output and *per share* earn-

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ings growth is quite weak on both theoretical and empirical grounds. Per share earnings growth has been primarily determined by the reinvestment rate of the firm, or the earnings yield minus the dividend yield, not the rate of output growth.[16]

The reason why output growth does not factor into per share earnings growth is that new shares must be issued (or debt floated) to cover the expansion of productive technology needed to increase output. Over the long run, the returns to technological progress have gone to workers in the form of higher real wages, while the return per unit of capital has remained essentially unchanged. Real output growth could spur growth in per share earnings only if it were "capital-enhancing," in the growth terminology, which is contrary to the labor-augmenting and wage-enhancing technological change that has marked the historical data (see Diamond [1999] for a discussion of growth and real return).

But there are factors that may contribute to higher future earnings growth of U.S. corporations, at least temporarily. The United States has emerged as the leader in the fastest-growing segments of the world economy: technology, communications, pharmaceuticals, and, most recently, the Internet and Internet technology. Furthermore, the penetration of U.S. brand names such as Coca-Cola, Procter & Gamble, Disney, Nike, and others into the global economy can lead to temporarily higher profit growth for U.S. firms.

Nonetheless, the level of corporate earnings would have to double to bring the P-E ratio down to the long-term average, or to increase by 50% to bring the P-E ratio down to 20. A 20 price-to-earnings yield corresponds to a 5% earnings yield or a 5% real return, a return that I believe approximates realized historical equity returns after transaction costs are subtracted. For per share earnings to temporarily grow to a level 50% above the long-term trend is clearly possible in a world economy where the U.S. plays a dominant role, but it is by no means certain.

CONCLUSION

The degree of the equity premium calculated from data estimated from 1926 is unlikely to persist in the future. The real return on fixed-income assets is likely to be significantly higher than that estimated on earlier data. This is confirmed by the yields available on Treasury inflation-linked securities, which currently exceed 4%. Furthermore, despite the acceleration in earnings growth, the return on equities is likely to fall from its historical level due to the very high level of equity prices relative to fundamentals.[17]

All of this makes it very surprising that Ivo Welch [1999] in a survey of over 200 academic economists finds that most estimate the equity premium at 5 to 6 percentage points over the next thirty years. Such a premium would require a 9% to 10% real return on stocks, given the current real yield on Treasury inflation-indexed securities. This means that real per share dividends would have to grow by nearly 8.0% to 9.0% per year, given the current 1.2% dividend yield, to prevent the P-E ratio from rising farther from its current record levels. This growth rate is more than six times the growth rate of real dividends since 1871 and more than triple their growth rate since the end of World War II.

Unless there is a substantial increase in the productivity of capital, dividend growth of this magnitude would mean an ever-increasing share of national income going to profits. This by itself might cause political ramifications that could be negative for shareholders.

ENDNOTES

This article is adapted from a paper delivered at the UCLA Conference, "The Equity Premium and Stock Market Valuations," and a Princeton Center for Economic Policy Studies Conference, "What's Up with the Stock Market?" both held in May 1999. The author thanks participants in these seminars and particularly Jay Ritter, Robert Shiller, and Peter L. Bernstein for their comments.

[1] A few economists believe these high levels of risk aversion are not unreasonable; see, e.g., Kandel and Stambaugh [1991].

[2] In the capital asset pricing model, equity risk premiums are derived from the *arithmetic* and not geometric returns. Compound annual geometric returns are almost universally used in characterizing long-term returns.

[3] Their wildly high 12.8% long-term inflation estimate in 1982 is derived by subtracting their low historical real yield from the high nominal bond rate. This overprediction has no effect on their estimated *real* returns.

[4] But real rates on *short-dated* bonds, for which unanticipated inflation should have been less important, were also extremely low between 1926 and 1980.

[5] I am very persuaded by the research of Campbell and Viceira [1998], who argue that in a multiperiod world the proper risk-free asset is an inflation-indexed annuity rather than the short-dated Treasury bill. This conclusion comes from intertemporal models where agents desire to hedge against unanticipated changes in the real rate of interest. The duration of such an indexed annuity is closely approximated by the ten-year inflation-indexed bonds.

[6] They are unable to construct dividend series for most foreign countries, but they make a not-unreasonable assumption that dividend yields in the U.S. were at least as high as abroad.

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[7] Intuitively, the return of the winners more than compensates for the lower returns of the more numerous losers.

[8] Furthermore, the dollar return on the foreign portfolio is much better measured than the real return. These data are taken from Jorion and Goetzmann [1991], Tables VI and VII.

[9] To avoid the problems with default, gold is considered the "risk-free" alternative in many countries. But gold's long-term real returns are negative in the U.S. even before one considers storage and insurance costs. And precious metals are far from risk-free in real terms. The real return on gold since 1982 has been a negative 7% per year.

[10] I abstract from taxes, which reduce the return on both bonds and stocks.

[11] These data were taken from the Bloomberg terminal on August 16, 1999.

[12] From 1970 through 1989, operating earnings exceeded reported earnings by an average of 2.29%. Since 1990, the average has been 12.93%.

[13] There are other factors that distort reported earnings, some upward (underreporting option costs: see Murray, Smithers, and Emerson [1998]) and some downward (overexpensing R&D; see Nakamura [1999]). No clear bias is evident.

[14] This is particularly true on a long-term, after-inflation basis. See Siegel [1998, Chapter 2].

[15] Bernstein [1998] has emphasized the role of economic stability in stock valuation. Also see Zarnowitz [1999] and Romer [1999]. Other reasons given for the high price of equities rely on demographic factors, specifically the accumulations of "baby boomers." This should, however, reduce both stock and bond returns, yet we see real bond returns as high if not higher than historically.

[16] From 1871 to 1998, the growth of real per share earnings is only 1.7% per year, slightly less than obtained by subtracting the median dividend yield of 4.8% from the median earnings yield of 7.2%.

[17] This should not be construed as predicting that equity prices need fall significantly, or that the expected returns on equities are not higher, even at current levels, than those on fixed-income investments.

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Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Union Light Heat & Power Company
Case No. 2005-00042

Witness Responding: Dr. J. Randall Woolridge

25. Refer to the Woolridge Direct Testimony, page 6. Provide a copy of the Alan Greenspan speech referenced in footnote 2.

Response:

The requested article is provided on the CD labeled as bb PSC-I-25A.

Greenspan Speech, October 14, 1999

There can be little doubt that the dramatic improvements in information technology in recent years have altered our approach to risk. Some analysts perceive that information technology has permanently lowered equity premiums and, hence, permanently raised the prices of the collateral that underlies all financial assets.

The reason, of course, is that information is critical to the evaluation of risk. The less that is known about the current state of a market or a venture, the less the ability to project future outcomes and, hence, the more those potential outcomes will be discounted.

The rise in the availability of real-time information has reduced the uncertainties and thereby lowered the variances that we employ to guide portfolio decisions. At least part of the observed fall in equity premiums in our economy and others over the past five years does not appear to be the result of ephemeral changes in perceptions. It is presumably the result of a permanent technology-driven increase in information availability, which by definition reduces uncertainty and therefore risk premiums. This decline is most evident in equity risk premiums. It is less clear in the corporate bond market, where relative supplies of corporate and Treasury bonds and other factors we cannot easily identify have outweighed the effects of more readily available information about borrowers.

The marked increase over this decade in the projected slope of technology advance, of course, has also augmented expectations of earnings growth, as evidenced by the dramatic increase since 1995 in security analysts' projections of long-term earnings. While it may be that the expectations of higher earnings embodied in equity values have had a spillover effect on discount factors, the latter remain essentially independent of the earnings expectations themselves.

That equity premiums have generally declined during the past decade is not in dispute. What is at issue is how much of the decline reflects new, irreversible technologies, and what part is a consequence of a prolonged business expansion without a significant period of adjustment. The business expansion is, of course, reversible, whereas the technological advancements presumably are not.

Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Union Light Heat & Power Company
Case No. 2005-00042

Witness Responding: Dr. J. Randall Woolridge

26. Refer to the Woolridge Direct Testimony, page 8 and Exhibit JRW-3.

a. Provide copies of the pages from the *Value Line Investment Survey* and *C. A. Turner Utility Reports* used to develop JRW-3.

b. Explain why companies such as Atmos Energy Corp., Keyspan Corp., NICOR, Inc., Peoples Energy Corp. and WGL Holdings, Inc, all with operating revenues in excess of $1.8 billion and net plant in excess of $1.9 billion, are good proxy companies for ULH&P.

c. Explain why companies were not excluded if involved in merger activity.

Response:

a. The requested material is provided on the CD labeled as bb PSC-I-26A.

b. The Value Line industry groupings, such as for the Natural Gas Distribution industry, are well recognized. In developing a proxy group, I wanted to have a recognized group of companies, primarily in the gas distribution business, which was sufficiently large in number. Furthermore, I am unaware of any studies that indicate differences in risk in gas distribution companies on the basis of size.

c. Merger and acquisition activity is ongoing, and the prices paid reflect the expected returns available to the buyer of the business.

NATURAL GAS DISTRIBUTION & INTEGRATED NAT. GAS COMPANIES

COMPANY	OPER REV $ MILL (1)	% GAS REV	NET PLANT $ MILL	NET PLANT PER $ REV (1)	S&P BOND RATING	MOODY'S BOND RATING	COMMON EQUITY RATIO (3)	% RETURN ON BOOK VALUE COMMON EQUITY (4)	% RETURN ON BOOK VALUE TOTAL CAPITAL	REGULATION ALLOWED ROE	REGULATION ORDER DATE
AGL Resources Inc. (NYSE-ATG)	[redacted]	51	[redacted]	1.73	[redacted]	A3	[redacted]	13.1	[redacted]	10.83	[redacted]
Atmos Energy Corporation (NYSE-ATO)	[redacted]	59	[redacted]	0.91	[redacted]	Baa3	[redacted]	9.5	[redacted]	11.86	[redacted]
Cascade Natural Gas Corporation (NYSE-CGC)	[redacted]	100	[redacted]	1.06	[redacted]	Baa1	[redacted]	9.5	[redacted]	11.75	[redacted]
Chesapeake Utilities Corporation (NYSE-CPK)	[redacted]	70	[redacted]	0.99	[redacted]	NR	[redacted]	12.6	[redacted]	-	[redacted]
Delta Natural Gas Company (NDQ-DGAS)	[redacted]	66	[redacted]	1.32	[redacted]	NR	[redacted]	12.8	[redacted]	-	[redacted]
El Paso Corporation (NYSE-EP)	[redacted]	45	[redacted]	3.19	[redacted]	B1	[redacted]	NM	[redacted]		[redacted]
Energen Corporation (NYSE-EGN)	[redacted]	56	[redacted]	1.90	[redacted]	A1	[redacted]	17.0	[redacted]	13.40	[redacted]
Energy West Incorporated (NDQ-EWST)	[redacted]	57	[redacted]	0.53	[redacted]	NR	[redacted]	NM	[redacted]	12.63	[redacted]
EnergySouth, Inc. (NDQ-ENSI)	[redacted]	96	[redacted]	1.71	[redacted]	NR	[redacted]	13.9	[redacted]	13.60	[redacted]
Equitable Resources, Inc. (NYSE-EQT)	[redacted]	61	[redacted]	1.58	[redacted]	A2	[redacted]	NM	[redacted]	11.00	[redacted]
KeySpan Corp. (NYSE-KSE)	[redacted]	64	[redacted]	1.02	[redacted]	A2	[redacted]	13.9	[redacted]	10.20	[redacted]
Kinder Morgan, Inc. (NYSE-KMI)	[redacted]	29	[redacted]	5.02	[redacted]	Baa2	[redacted]	19.2	[redacted]	-	[redacted]
Laclede Group, Inc. (NYSE-LG)	[redacted]	66	[redacted]	0.48	[redacted]	A3	[redacted]	10.6	[redacted]	-	[redacted]
National Fuel Gas Company (NYSE-NFG)	[redacted]	56	[redacted]	1.49	[redacted]	A3	[redacted]	13.3	[redacted]	11.00	[redacted]
New Jersey Resources Corp. (NYSE-NJR)	[redacted]	36	[redacted]	0.33	[redacted]	Aa3	[redacted]	16.4	[redacted]	11.50	[redacted]
NICOR Inc. (NYSE-GAS)	[redacted]	86	[redacted]	0.93	[redacted]	Aa3	[redacted]	10.0	[redacted]	-	[redacted]
Northwest Natural Gas Co. (NYSE-NWN)	[redacted]	98	[redacted]	1.84	[redacted]	A2	[redacted]	9.4	[redacted]	10.20	[redacted]
ONEOK, Inc. (NYSE-OKE)	[redacted]	33	[redacted]	0.63	[redacted]	Baa1	[redacted]	17.0	[redacted]	-	[redacted]
Peoples Energy Corporation (NYSE-PGL)	[redacted]	66	[redacted]	0.79	[redacted]	Aa3	[redacted]	8.8	[redacted]	11.20	[redacted]
Piedmont Natural Gas Co., Inc. (NYSE-PNY)	[redacted]	77	[redacted]	1.17	[redacted]	A3	[redacted]	10.3	[redacted]	11.30	[redacted]
Questar Corporation (NYSE-STR)	[redacted]	41	[redacted]	1.57	[redacted]	A2	[redacted]	17.0	[redacted]	11.20	[redacted]
RGC Resources, Inc. (NDQ-RGCO)	[redacted]	80	[redacted]	0.65	[redacted]	NR	[redacted]	10.5	[redacted]	9.85	[redacted]
SEMCO Energy, Inc. (NYSE-SEN)	[redacted]	93	[redacted]	1.10	[redacted]	Ba2	[redacted]	NM	[redacted]	11.78	[redacted]
South Jersey Industries, Inc. (NYSE-SJI)	[redacted]	61	[redacted]	0.98	[redacted]	Baa1	[redacted]	13.4	[redacted]	10.00	[redacted]
Southern Union Company (NYSE-SUG)	[redacted]	73	[redacted]	1.79	[redacted]	Baa3	[redacted]	5.7	[redacted]	10.86	[redacted]
Southwest Gas Corporation (NYSE-SWX)	[redacted]	85	[redacted]	0.48	[redacted]	Baa2	[redacted]	8.5	[redacted]	10.80	[redacted]
Southwestern Energy Company (NYSE-SWN)	[redacted]	79	[redacted]	2.06	[redacted]	Ba1	[redacted]	NM	[redacted]	11.30	[redacted]
UGI Corporation (NYSE-UGI)	[redacted]	17	[redacted]	0.53	[redacted]	Ba1	[redacted]	18.6	[redacted]	-	[redacted]
WGL Holdings, Inc. (NYSE-WGL)	[redacted]	63	[redacted]	0.90	[redacted]	A2	[redacted]	11.5	[redacted]	10.62	[redacted]
Williams Companies, Inc. (NYSE-WMB)	[redacted]	11	[redacted]	0.95	[redacted]	Ba3	[redacted]	2.2	[redacted]		[redacted]
AVERAGE	[redacted]		[redacted]		[redacted]		[redacted]	12.2	[redacted]	11.28	[redacted]

NATURAL GAS DISTRIBUTION & INTEGRATED NAT. GAS COMPANIES

		PER SHARE		DATA ($)			PERCENT (2)				
COMPANY	LATEST 12 MONTHS EARNINGS AVAILABLE	EARNINGS	CURRENT ANNUAL DIVIDEND	BOOK VALUE (1)	STOCK PRICE 4/18	COMMON SHARES O/S MILL	DIV PAYOUT	DIV YIELD	MKT/ BOOK	DIV/ BOOK (2)	PRICE EARN MULT
AGL Resources Inc. (NYSE-ATG)	12/04	2.29	1.24	18.03	34.38	76.8	54	3.6	191	6.9	15.0
Atmos Energy Corporation (NYSE-ATO)	12/04	1.80	1.24	19.92	26.94	79.3	69	4.6	135	6.2	16.0
Cascade Natural Gas Corporation (NYSE-CGC)	12/04	1.03	0.96	10.89	19.66	11.3	93	4.9	181	8.8	19.1
Chesapeake Utilities Corporation (NYSE-CPK)	12/04	1.64	1.12	13.60	28.00	5.7	68	4.0	206	8.2	17.1
Delta Natural Gas Company (NDQ-DGAS)	12/04	1.86	1.18	16.35	25.03	3.0	63	4.7	153	7.2	13.5
El Paso Corporation (NYSE-EP)	12/04	-1.45	0.16	5.36	10.15	651.1	NM	1.6	189	3.0	NM
Energen Corporation (NYSE-EGN)	12/04	3.48	0.80	21.96	62.15	36.6	23	1.3	283	3.6	17.9
Energy West Incorporated (NDQ-EWST)	12/04	-0.35	0.00	4.94	6.47	2.6	0	0.0	131	NM	NM
EnergySouth, Inc. (NDQ-ENSI)	12/04	1.62	0.80	12.36	26.96	7.8	49	3.0	218	6.5	16.6
Equitable Resources, Inc. (NYSE-EQT)	12/04	4.42	1.68	14.24	57.30	61.4	38	2.9	402	11.8	13.0
KeySpan Corp. (NYSE-KSE)	12/04	3.23	1.82	24.22	38.01	160.8	56	4.8	157	7.5	11.8
Kinder Morgan, Inc. (NYSE-KMI)	12/04	4.24	2.80	23.16	73.63	123.7	66	3.8	318	12.1	17.4
Laclede Group, Inc. (NYSE-LG)	12/04	1.82	1.38	17.53	29.00	21.0	76	4.8	165	7.9	15.9
National Fuel Gas Company (NYSE-NFG)	12/04	2.01	1.12	16.10	28.01	83.2	56	4.0	174	7.0	13.9
New Jersey Resources Corp. (NYSE-NJR)	12/04	2.75	1.36	18.19	43.35	27.7	49	3.1	238	7.5	15.8
NICOR Inc. (NYSE-GAS)	12/04	1.70	1.86	16.99	36.02	44.1	109	5.2	212	11.0	21.2
Northwest Natural Gas Co. (NYSE-NWN)	12/04	1.88	1.30	20.64	35.15	27.5	69	3.7	170	6.3	18.7
ONEOK, Inc. (NYSE-OKE)	12/04	2.30	1.00	15.42	28.80	104.1	43	3.5	187	6.5	12.5
Peoples Energy Corporation (NYSE-PGL)	12/04	2.04	2.18	23.34	40.38	37.9	107	5.4	173	9.3	19.8
Piedmont Natural Gas Co., Inc. (NYSE-PNY)	1/05	0.93	0.92	11.86	22.37	76.8	99	4.1	189	7.8	24.1
Questar Corporation (NYSE-STR)	12/04	2.67	0.86	17.05	55.09	84.4	32	1.6	323	5.0	20.6
RGC Resources, Inc. (NDQ-RGCO)	12/04	0.45	1.18	18.24	25.85	2.1	265	4.6	142	6.5	58.1
SEMCO Energy, Inc. (NYSE-SEN)	12/04	0.11	0.30	5.85	5.20	28.4	273	5.8	89	5.1	47.3
South Jersey Industries, Inc. (NYSE-SJI)	12/04	3.14	1.70	24.81	54.60	13.9	54	3.1	220	6.9	17.4
Southern Union Company (NYSE-SUG)	12/04	0.97	0.00	16.80	24.49	89.2	0	0.0	146	NM	25.2
Southwest Gas Corporation (NYSE-SWX)	12/04	1.60	0.82	19.18	24.60	36.8	51	3.3	128	4.3	15.4
Southwestern Energy Company (NYSE-SWN)	12/04	2.80	0.00	12.30	57.51	36.4	0	0.0	468	NM	20.5
UGI Corporation (NYSE-UGI)	12/04	2.91	1.25	15.96	46.08	57.6	43	2.7	289	7.8	15.8
WGL Holdings, Inc. (NYSE-WGL)	12/04	2.03	1.33	18.10	30.08	48.7	66	4.4	166	7.3	14.8
Williams Companies, Inc. (NYSE-WMB)	12/04	0.18	0.20	8.83	17.10	561.2	111	1.2	194	2.3	NM
AVERAGE							72	3.3	208	7.0	19.8

AGL RESOURCES NYSE-ATG

RECENT PRICE 34.75 | **P/E RATIO** 15.3 (Trailing: 15.2 Median: 14.0) | **RELATIVE P/E RATIO** 0.81 | **DIV'D YLD** 3.6% | **VALUE LINE**

TIMELINESS 3 Raised 2/4/05
SAFETY 2 New 7/27/90
TECHNICAL 3 Lowered 1/7/05
BETA .80 (1.00 = Market)

2008-10 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+30%)	10%
Low	35	(Nil)	4%

Insider Decisions

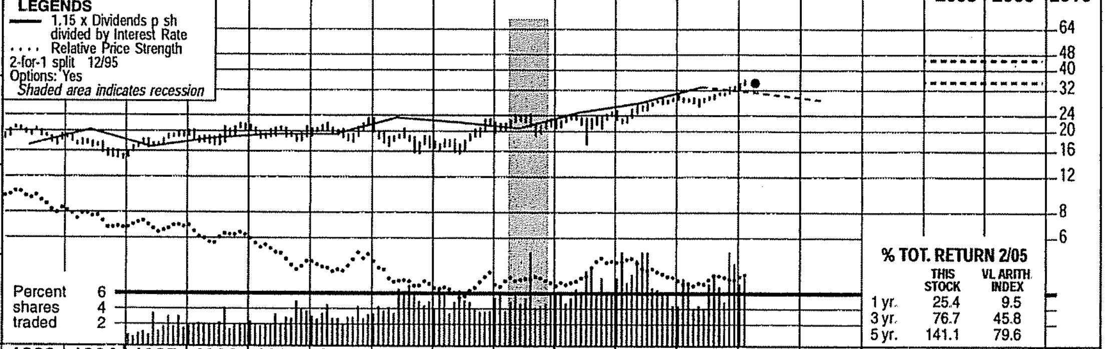
	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	1	0
Options	0	0	0	0	4	2	2	3	2
to Sell	0	0	0	0	4	2	2	2	2

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	90	91	128
to Sell	71	53	50
Hld's(000)	35078	36912	48181

High:	19.4	20.0	22.0	21.6	23.4	23.4	23.2	24.5	25.0	29.3	33.7	36.1
Low:	14.6	14.9	17.1	17.8	17.7	15.6	15.5	19.0	17.3	21.9	26.5	32.0

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



% TOT. RETURN 2/05

	THIS STOCK	VL ARITH. INDEX
1 yr.	25.4	9.5
3 yr.	76.7	45.8
5 yr.	141.1	79.6

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
21.63	22.58	20.26	20.43	22.73	23.59	19.32	21.91	22.75	23.36	18.71	11.25	19.04	15.32	15.25	23.89	26.70	29.85	Revenues per sh A	34.00
1.93	2.04	2.07	2.31	2.25	2.24	2.33	2.49	2.42	2.65	2.29	2.86	3.31	3.39	3.47	3.29	3.65	3.80	"Cash Flow" per sh	4.25
.95	1.01	1.04	1.13	1.08	1.17	1.33	1.37	1.37	1.41	.91	1.29	1.50	1.82	2.08	2.28	2.30	2.40	Earnings per sh A B	2.75
.94	.98	1.02	1.03	1.04	1.04	1.04	1.06	1.08	1.08	1.08	1.08	1.08	1.08	1.11	1.15	1.24	1.26	Div'ds Decl'd per sh C■	1.30
2.65	2.73	2.95	2.74	2.49	2.37	2.17	2.37	2.59	2.05	2.51	2.92	2.83	3.30	2.46	3.44	3.60	2.90	Cap'l Spending per sh	2.25
8.83	8.97	9.42	9.70	9.90	10.19	10.12	10.56	10.99	11.42	11.59	11.50	12.19	12.52	14.66	18.06	19.15	20.20	Book Value per sh	23.90
43.40	44.32	47.57	48.69	49.72	50.86	55.02	55.70	56.60	57.30	57.10	54.00	55.10	56.70	64.50	76.70	76.80	77.00	Common Shs Outst'g D	78.00
13.7	14.2	15.3	15.5	17.9	15.1	12.6	13.8	14.7	13.9	21.4	13.6	14.6	12.5	12.5	13.1	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	15.0
1.04	1.05	.98	.94	1.06	.99	.84	.86	.85	.72	1.22	.88	.75	.68	.71	.70			Relative P/E Ratio	1.00
7.2%	6.8%	6.4%	5.9%	5.4%	5.9%	6.2%	5.6%	5.4%	5.5%	5.5%	6.2%	4.9%	4.7%	4.3%	3.9%			Avg Ann'l Div'd Yield	3.2%
						1063.0	1220.2	1287.6	1338.6	1068.6	607.4	1049.3	868.9	983.7	1832.0	2050	2300	Revenues ($mill) A	2650
						74.3	75.6	76.6	80.6	52.1	71.1	82.3	103.0	132.4	153.0	175	185	Net Profit ($mill)	210
						36.9%	38.6%	37.9%	32.5%	33.1%	34.3%	40.7%	36.0%	35.9%	37.0%	37.0%	37.0%	Income Tax Rate	37.0%
						7.0%	6.2%	5.9%	6.0%	4.9%	11.7%	7.8%	11.9%	13.5%	8.4%	8.5%	8.0%	Net Profit Margin	8.0%
						47.4%	46.2%	48.7%	47.5%	45.3%	45.9%	61.3%	58.3%	50.3%	54.0%	52.0%	50.0%	Long-Term Debt Ratio	44%
						47.6%	48.9%	45.9%	47.1%	49.2%	48.3%	38.7%	41.7%	49.7%	46.0%	48.0%	50.0%	Common Equity Ratio	56%
						1170.3	1201.3	1356.4	1388.4	1345.8	1286.2	1736.3	1704.3	1901.4	3008.0	3070	3130	Total Capital ($mill)	3340
						1350.3	1415.4	1496.6	1534.0	1598.9	1637.5	2058.9	2194.2	2352.4	3178.0	3300	3450	Net Plant ($mill)	3950
						8.2%	8.0%	7.3%	7.6%	5.7%	7.4%	6.5%	8.1%	8.9%	6.3%	6.0%	6.0%	Return on Total Cap'l	6.5%
						12.1%	11.7%	11.0%	11.1%	7.1%	10.2%	12.3%	14.5%	14.0%	11.0%	12.0%	12.0%	Return on Shr. Equity	11.5%
						12.5%	12.1%	11.3%	12.3%	7.9%	11.5%	12.3%	14.5%	14.0%	11.0%	12.0%	12.0%	Return on Com Equity	11.5%
						4.6%	3.8%	3.2%	4.4%	NMF	3.2%	4.2%	7.0%	6.6%	5.6%	5.5%	5.5%	Retained to Com Eq	6.0%
						66%	71%	74%	64%	101%	72%	65%	52%	53%	49%	54%	53%	All Div'ds to Net Prof	48%

CAPITAL STRUCTURE as of 12/31/04
Total Debt 1957.0 mill. **Due in 5 Yrs** 338.0 mill.
LT Debt $1623.0 mill. LT Interest $70.0 mill.

(Total interest coverage: 4.4x)
Leases, Uncapitalized Annual rentals $27.0 mill.

Pension Assets-12/04 $279.0 mill. **Oblig.** $340.0 mill.
Pfd Stock None
Common Stock 76,953,218 shs.
as of 2/11/05

MARKET CAP: $2.7 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2002	2003	12/31/04
Cash Assets	8.4	16.5	49.0
Other	578.0	730.8	1408.0
Current Assets	586.4	747.3	1457.0
Accts Payable	91.1	73.7	207.0
Debt Due	418.6	77.0	334.0
Other	506.1	903.7	936.0
Current Liab.	1015.8	1054.4	1477.0
Fix. Chg. Cov.	242%	357%	510%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '08-'10
Revenues	-2.0%	-3.5%	11.0%
"Cash Flow"	4.0%	6.5%	4.0%
Earnings	6.0%	11.0%	5.0%
Dividends	0.5%	0.5%	2.5%
Book Value	4.5%	6.0%	8.0%

Fiscal Year Begins	QUARTERLY REVENUES ($ mill.) A Mar.31	Jun.30	Sep.30	Dec.31	Full Fiscal Year
2002	173.4	255.1	190.7	249.7	868.9
2003	352.5	186.6	166.3	278.3	983.7
2004	651.0	294.0	262.0	625.0	1832.0
2005	715	335	315	685	2050
2006	815	370	355	760	2300

Fiscal Year Begins	EARNINGS PER SHARE A B Mar.31	Jun.30	Sep.30	Dec.31	Full Fiscal Year
2002	.89	.21	.17	.55	1.82
2003	.98	.29	.27	.54	2.08
2004	1.00	.33	.31	.64	2.28
2005	.98	.33	.32	.67	2.30
2006	1.00	.35	.35	.70	2.40

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.27	.27	.27	.27	1.08
2002	.27	.27	.27	.27	1.08
2003	.27	.28	.28	.28	1.11
2004	.28	.29	.29	.29	1.15
2005	.31				

BUSINESS: AGL Resources, Inc. is a public utility holding company. Its distribution subsidiaries are Atlanta Gas Light, Chattanooga Gas, and Virginia Natural Gas. The utilities have around 2.2 million customers in Georgia, primarily Atlanta, Virginia, and in southern Tennessee. Also engaged in nonregulated natural gas marketing and other, allied services. Also wholesales and retails propane. Nonregulated subsidiaries: Georgia Natural Gas Services markets natural gas at retail. Acquired Virginia Natural Gas, 10/00. Sold Utilipro, 3/01. Officers/directors own 1.2% of outstanding common shares (3/04 Proxy). President & CEO: Paula Rosput Reynolds. Incorporated: Georgia. Address: 303 Peachtree St., N.E., Atlanta, GA 30308. Telephone: 404-584-9470. Internet: www.aglresources.com.

We look for slim gains in 2005 at AGL Resources after earnings increased almost 10%, to $2.28 in 2004. Even though this figure was well ahead of our estimate, it was due to the timing of certain events. The acquisition of the NUI Corporation in November contributed $0.07 toward fourth-quarter earnings. In addition, Sequent Energy Management, a subsidiary of AGL, which is involved in asset optimization in the transportation and storage of natural gas, recorded earnings $0.05 above management's previous expectations. This was due to its hedging program, which allows it to make a profit on gas that was purchased when prices were lower.

Much of AGL's earnings are derived from its regulated segment, and therefore achieving favorable rulings in its upcoming Atlanta Gas Light (Georgia) and Chattanooga Gas Company (Tennessee) proceedings will be essential in meeting its 2005 earnings target of about $2.30. This estimate assumes the smooth integration of NUI into its current group of assets. Atlanta Gas Light has filed a request for a $26 million rate increase, which would include a return on equity within the range of 10.2%–12.2%, slightly above the current rate in place. The Georgia commission is scheduled to issue a ruling on this matter in late April. Too, AGL is awaiting a final ruling on its appeal of the October, 2004 Chattanooga rate case. The Tennessee authority authorized new rates based on a 7.43% return on equity and an increase in revenues of $1 million, versus the $4 million that was requested. For both of these cases, we look for AGL to receive part or all of the increases.

This good-quality issue offers a decent dividend yield for income-oriented investors. In February, the company raised its dividend 7%, to $0.31, and we project slight increases through the 2008–2010 period. In addition, AGL has an Above-Average Safety rank and carries our highest rating for stock price stability. Furthermore, this stock offers only limited capital appreciation potential; however, based on our present 3- to 5-year projections further expansion in its nonregulated activities may well improve these prospects.

Evan I. Blatter *March 18, 2005*

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

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	45
Earnings Predictability	65

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ATMOS ENERGY CORP. NYSE-ATO

RECENT PRICE	P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD
27.86	15.9 (Trailing: 14.7; Median: 16.0)	0.85	4.5%

VALUE LINE

TIMELINESS 3 Raised 8/20/04
SAFETY 3 Lowered 6/23/00
TECHNICAL 3 Lowered 8/6/04
BETA .70 (1.00 = Market)

2008-10 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	35	(+25%)	*10%*
Low	25	(-10%)	*2%*

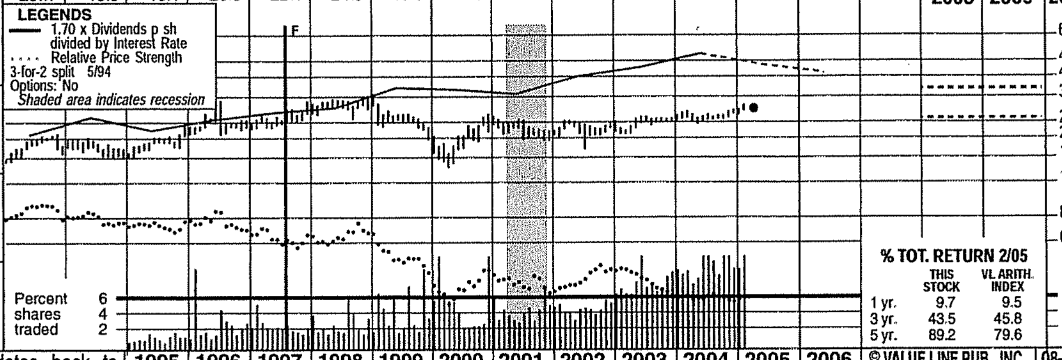
Insider Decisions

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

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	80	106	130
to Sell	48	32	36
Hld's(000)	21874	29466	43075

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
High:	20.3	23.0	31.0	30.5	32.3	33.0	26.3	25.8	24.5	25.5	27.6	29.2
Low:	15.9	16.1	20.9	22.1	24.8	19.6	14.3	19.5	17.6	20.8	23.4	25.9



% TOT. RETURN 2/05

	THIS STOCK	VL ARITH. INDEX
1 yr.	9.7	9.5
3 yr.	43.5	45.8
5 yr.	89.2	79.6

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
28.08	30.19	30.59	27.90	22.09	26.61	35.36	22.82	54.39	46.50	*65.50*	*66.30*	Revenues per sh A	*75.25*
2.55	2.80	2.85	3.38	2.62	3.01	3.03	3.39	3.23	2.91	*4.00*	*4.25*	"Cash Flow" per sh	*6.25*
1.22	1.51	1.34	1.84	.81	1.03	1.47	1.45	1.71	1.58	*1.75*	*1.85*	Earnings per sh A B	*2.30*
.92	.96	1.01	1.06	1.10	1.14	1.16	1.18	1.20	1.22	*1.24*	*1.26*	Div'ds Decl'd per sh C■	*1.35*
4.05	4.84	4.13	4.44	3.53	2.36	2.77	3.17	3.10	3.03	*4.20*	*4.35*	Cap'l Spending per sh	*5.20*
10.20	10.75	11.04	12.21	12.09	12.28	14.31	13.75	16.66	18.05	*19.50*	*20.75*	Book Value per sh	*26.25*
15.52	16.02	29.64	30.40	31.25	31.95	40.79	41.68	51.48	62.80	*82.00*	*86.00*	Common Shs Outst'g D	*97.00*
15.0	15.1	17.9	15.4	33.0	18.9	15.6	15.2	13.4	15.9	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*13.0*
1.00	.95	1.03	.80	1.88	1.23	.80	.83	.76	.84			Relative P/E Ratio	*.85*
5.0%	4.2%	4.2%	3.7%	4.1%	5.9%	5.1%	5.4%	5.2%	4.9%			Avg Ann'l Div'd Yield	*4.5%*
435.8	483.7	906.8	848.2	690.2	850.2	1442.3	950.8	2799.9	2920.0	*5370*	*5700*	Revenues ($mill) A	*7300*
18.8	23.9	39.2	55.3	25.0	32.2	56.1	59.7	79.5	86.2	*145*	*160*	Net Profit ($mill)	*225*
33.8%	35.7%	37.5%	36.5%	35.0%	36.1%	37.3%	37.1%	37.1%	37.4%	*38.0%*	*38.0%*	Income Tax Rate	*38.0%*
4.3%	5.0%	4.3%	6.5%	3.6%	3.8%	3.9%	6.3%	2.8%	3.0%	*2.7%*	*2.8%*	Net Profit Margin	*3.1%*
45.3%	41.5%	48.1%	51.8%	50.0%	48.1%	54.3%	53.9%	50.2%	43.2%	*59.0%*	*57.0%*	Long-Term Debt Ratio	*52.0%*
54.7%	58.5%	51.9%	48.2%	50.0%	51.9%	45.7%	46.1%	49.8%	56.8%	*41.0%*	*43.0%*	Common Equity Ratio	*48.0%*
289.6	294.6	630.2	769.7	755.1	755.7	1276.3	1243.7	1721.4	1994.8	*3900*	*4150*	Total Capital ($mill)	*5300*
363.3	413.6	849.1	917.9	965.8	982.3	1335.4	1300.3	1516.0	1722.5	*3300*	*3400*	Net Plant ($mill)	*4500*
8.9%	10.6%	8.3%	9.0%	5.1%	6.5%	5.9%	6.8%	6.2%	5.8%	*5.5%*	*5.5%*	Return on Total Cap'l	*6.0%*
11.9%	13.9%	12.0%	14.9%	6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	*9.0%*	*9.0%*	Return on Shr. Equity	*9.0%*
11.9%	13.9%	12.0%	14.9%	6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	*9.0%*	*9.0%*	Return on Com Equity	*9.0%*
2.9%	5.1%	3.9%	6.3%	NMF	NMF	2.1%	1.9%	2.8%	1.7%	*2.5%*	*3.0%*	Retained to Com Eq	*3.5%*
76%	64%	67%	58%	NMF	112%	79%	82%	70%	77%	*70%*	*68%*	All Div'ds to Net Prof	*58%*

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

CAPITAL STRUCTURE as of 12/31/04
Total Debt $2289.9 mill. **Due in 5 Yrs** $800.0 mill.
LT Debt $2255.2 mill. **LT Interest** $135.0 mill.
(LT interest earned: 3.3x; total interest coverage: 3.1x)
Leases, Uncapitalized Annual rentals $9.7 mill.
Pfd Stock None
Pension Assets-9/04 $346.2 mill. **Oblig.** $313.0 mill.
Common Stock 79,348,039 shs.
as of 1/31/05
MARKET CAP: $2.2 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2003	2004	12/31/04
Cash Assets	15.7	201.9	25.2
Other	442.3	475.2	1183.0
Current Assets	458.0	677.1	1208.2
Accts Payable	179.9	185.3	653.4
Debt Due	127.9	5.9	34.7
Other	127.9	223.3	283.1
Current Liab.	435.7	414.5	971.2
Fix. Chg. Cov.	382%	384%	380%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '08-'10
Revenues	2.5%	9.0%	*10.5%*
"Cash Flow"	3.0%	1.5%	*12.0%*
Earnings	4.0%	3.5%	*6.5%*
Dividends	3.5%	2.5%	*2.0%*
Book Value	5.5%	6.5%	*8.5%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2002	271.3	379.5	161.8	138.2	950.8
2003	680.4	1194.1	488.5	436.9	2799.9
2004	763.6	1117.5	546.1	492.8	2920.0
2005	1368.6	*1750*	*1150*	*1101.4*	*5370*
2006	*1425*	*1425*	*1425*	*1425*	*5700*

Fiscal Year Ends	EARNINGS PER SHARE A B E Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2002	.50	1.01	.08	d.14	1.45
2003	.60	1.24	--	d.05	1.71
2004	.57	1.12	.09	d.11	1.58
2005	.79	*1.18*	*d.03*	*d.19*	*1.75*
2006	*.72*	*1.20*	*Nil*	*d.07*	*1.85*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.29	.29	.29	.295	1.17
2002	.295	.295	.295	.30	1.19
2003	.30	.30	.30	.305	1.21
2004	.305	.305	.305	.31	1.23
2005	.31				

BUSINESS: Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas through seven regulated natural gas utility operations: Louisiana Division, Mid-States Division, West Texas Division, Mid-Tex Division, Mississippi Valley Gas Company Division, Colorado-Kansas Division, and Kentucky Division. Combined 2004 sales volumes: 173 MMcf. Breakdown: 53%, residential; 26%, commercial; 13%, industrial; and 8%, other. 2004 depreciation rate 11.0%. Has around 4,200 employees. Officers and directors own approximately 2.6% of common stock (12/04 Proxy). Chairman and Chief Executive Officer: Robert W. Best. Incorporated: Texas. Address: P.O. Box 650205, Dallas, Texas 75265. Telephone: 972-934-9227. Internet: www.atmosenergy.com.

Atmos Energy began fiscal 2005 (ends September 30th) in excellent shape. The surge in earnings for the first quarter relative to the prior-year tally can be attributed largely to the recent addition of TXU Gas Company. Indeed, we estimate that this acquisition will add between $0.05 and $0.10 to share net this year. Within the non-utility segment (accounting for 38% of first quarter 2005 net income, versus 29% in the year-ago period), the performance of the natural gas marketing unit was boosted partly by favorable results from the management of the storage portfolio. On the negative side, profits were dampened somewhat by an increased share count and higher interest expense (both arising from the TXU transaction), plus unseasonably warm weather. Still, we think share net will advance around 10%, to $1.75, in 2005. Merger synergies ought to enable the bottom line to reach $1.85 a share next year.

Gas supply hedges should protect results, to a certain extent, against possible sharp increases in natural gas prices during the 2004-2005 heating season. Management is covering approximately 50% of Atmos' anticipated flowing gas requirements through storage and financial contracts at an average cost of $6.22 per Mcf, compared to $5.25 per Mcf for the same period last year.

We anticipate steady, if measured, share-earnings gains for the company over the 2008-2010 timeframe. One strength is that the utility operations are well diversified geographically, making Atmos' performance less susceptible to the economic environment or rate commissions in any one region of the country. Also, the non-utility segments appear to have decent expansion prospects. Excluding future acquisitions, the bottom line may grow between 5% and 10% annually over the coming 3- to 5-year period.

The biggest attraction here is the dividend yield. What's more, our favorable projections for the company indicate that further increases in the payout are likely.

But long-term total-return potential is unimpressive, since these shares are trading within our 2008-2010 Target Price Range. Too, they're ranked just 3 (Average) for Timeliness.

Frederick L. Harris, III *March 18, 2005*

(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '97, d53¢; '99, d23¢; '00, 12¢; '03, d17¢. Next egs. rpt. due early May. (C) Dividends historically paid in early March, June, Sept., and Dec. ■ Div. reinvestment plan. (3% discount). Direct stock purchase plan avail. (D) In millions, adjusted for stock splits. (E) Qtrs may not add due to change in shrs out. (F) ATO completed United Cities merger 7/97.

Company's Financial Strength	B+
Stock's Price Stability	95
Price Growth Persistence	30
Earnings Predictability	55

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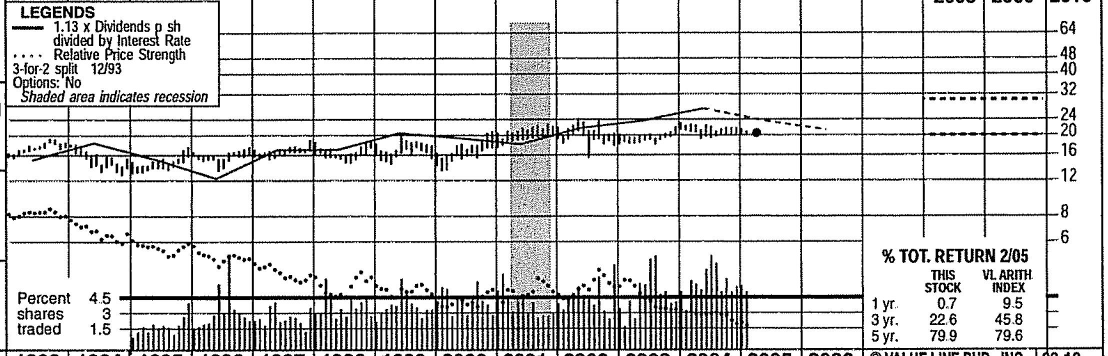
CASCADE NAT'L GAS NYSE-CGC

RECENT PRICE 20.48 | **P/E RATIO** 17.8 (Trailing: 19.1 Median: 18.0) | **RELATIVE P/E RATIO** 0.95 | **DIV'D YLD** 4.7% | **VALUE LINE**

TIMELINESS 5 Lowered 11/26/04
SAFETY 3 New 7/27/90
TECHNICAL 3 Lowered 7/2/04
BETA .75 (1.00 = Market)

High:	18.1	17.5	17.5	19.0	18.7	19.8	20.9	22.8	24.2	22.0	23.0	21.5
Low:	12.8	13.0	13.4	15.3	14.6	14.4	13.4	17.4	15.5	18.0	19.1	20.1



% TOT. RETURN 2/05

	THIS STOCK	VL ARITH. INDEX
1 yr.	0.7	9.5
3 yr.	22.6	45.8
5 yr.	79.9	79.6

2008-10 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+45%)	*14%*
Low	20	(Nil)	*5%*

Insider Decisions

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

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	45	44	33
to Sell	33	30	34
Hld's(000)	4496	4631	4676

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
26.87	24.45	23.27	20.03	21.88	21.59	19.98	11.84	17.85	17.17	18.89	21.90	30.40	29.06	27.20	28.23	*27.90*	*29.20*	Revenues per sh A	*40.00*
2.47	2.36	2.29	1.66	2.04	1.71	2.07	1.22	1.92	2.06	2.40	2.60	2.72	2.48	2.25	2.63	*2.65*	*3.00*	"Cash Flow" per sh	*4.60*
1.29	1.26	1.14	.63	1.05	.60	.80	.39	.93	.84	1.24	1.39	1.47	1.13	.87	1.19	*1.15*	*1.25*	Earnings per sh AB	*1.60*
.85	.87	.90	.93	.94	.96	.96	.72	.96	.96	.96	.96	.96	.96	.96	.96	*.96*	*.96*	Div'ds Decl'd per sh C■	*.98*
1.99	2.50	2.97	4.64	3.85	3.06	4.12	2.42	2.66	2.32	1.81	1.65	2.16	1.91	2.56	3.50	*2.90*	*3.20*	Cap'l Spending per sh	*4.40*
7.96	8.33	8.63	9.09	9.96	9.81	9.76	10.09	10.16	10.07	10.36	10.79	11.01	10.34	10.11	10.52	*11.05*	*11.70*	Book Value per sh D	*14.70*
6.49	6.56	6.63	7.61	8.57	8.91	9.14	10.79	10.97	11.05	11.05	11.05	11.05	11.05	11.13	11.27	*11.30*	*11.30*	Common Shs Outst'g E	*12.00*
8.6	8.9	12.2	23.7	16.6	25.7	18.2	40.0	17.6	19.4	13.7	11.7	13.4	18.2	22.0	17.5	*Bold figures are*		Avg Ann'l P/E Ratio	*16.0*
.65	.66	.78	1.44	.98	1.69	1.22	2.51	1.01	1.01	.78	.76	.69	.99	1.25	.92	*Value Line*		Relative P/E Ratio	*1.05*
7.7%	7.8%	6.4%	6.2%	5.4%	6.2%	6.6%	4.6%	5.9%	5.9%	5.7%	5.9%	4.9%	4.7%	5.0%	4.6%	*estimates*		Avg Ann'l Div'd Yield	*3.9%*
						182.7	127.7	195.8	189.7	208.6	241.9	335.8	321.0	302.8	318.1	*315*	*330*	Revenues ($mill) A	*480*
						7.7	4.2	10.6	9.8	14.2	15.4	16.2	12.5	9.7	13.3	*13.0*	*14.0*	Net Profit ($mill)	*20.0*
						36.8%	34.8%	37.1%	37.4%	36.5%	37.1%	35.0%	34.9%	34.2%	36.2%	*36.5%*	*36.5%*	Income Tax Rate	*36.5%*
						4.2%	3.3%	5.4%	5.2%	6.8%	6.4%	4.8%	3.9%	3.2%	4.2%	*4.1%*	*4.2%*	Net Profit Margin	*4.2%*
						51.4%	46.8%	50.6%	48.4%	50.9%	51.2%	50.7%	59.1%	55.9%	52.1%	*52.0%*	*51.0%*	Long-Term Debt Ratio	*51.0%*
						45.0%	50.0%	46.5%	48.7%	46.6%	48.8%	49.3%	40.9%	44.1%	47.9%	*48.0%*	*49.0%*	Common Equity Ratio	*49.0%*
						198.5	217.8	239.4	228.5	245.6	244.2	246.6	279.1	255.5	247.4	*260*	*270*	Total Capital ($mill)	*360*
						239.1	255.7	265.2	276.6	282.3	284.8	294.2	299.6	312.3	334.6	*345*	*360*	Net Plant ($mill)	*475*
						5.9%	3.4%	6.2%	6.1%	7.5%	8.1%	8.5%	6.4%	6.0%	7.7%	*6.5%*	*6.5%*	Return on Total Cap'l	*7.0%*
						8.0%	3.6%	9.0%	8.3%	11.7%	12.9%	13.3%	10.9%	8.6%	11.2%	*10.5%*	*10.5%*	Return on Shr. Equity	*11.5%*
						8.1%	3.5%	9.1%	8.3%	12.0%	12.9%	13.3%	10.9%	8.6%	11.2%	*10.5%*	*10.5%*	Return on Com Equity	*11.5%*
						NMF	NMF	.7%	NMF	2.7%	4.0%	4.6%	1.7%	NMF	2.1%	*2.0%*	*2.5%*	Retained to Com Eq	*5.0%*
						106%	NMF	93%	108%	78%	69%	65%	85%	110%	81%	*83%*	*77%*	All Div'ds to Net Prof	*59%*

CAPITAL STRUCTURE as of 12/31/04

Total Debt $183.9 mill. **Due in 5 Yrs** $55.0 mill.
LT Debt $128.9 mill. **LT Interest** $10.0 mill.
(LT interest earned: 2.8x; total interest coverage: 2.7x)

Pension Assets-9/04 $51.3 mill. **Oblig.** $65.5 mill.

Pfd Stock None

Common Stock 11,293,156 shs.
as of 1/24/05
MARKET CAP: $225 million (Small Cap)

CURRENT POSITION A ($MILL.)	2003	2004	12/31/04
Cash Assets	7.5	.5	2.4
Other	33.1	65.9	83.6
Current Assets	40.6	66.4	86.0
Accts Payable	10.5	12.9	34.2
Debt Due	25.8	47.5	55.0
Other	19.7	38.6	26.4
Current Liab.	56.0	99.0	115.6
Fix. Chg. Cov.	213%	269%	260%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '08-'10
Revenues	3.0%	9.5%	*6.0%*
"Cash Flow"	3.0%	3.0%	*11.0%*
Earnings	3.5%	1.0%	*7.0%*
Dividends	--	--	*.5%*
Book Value	.5%	--	*6.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2002	102.8	122.3	56.8	39.1	321.0
2003	100.5	109.3	53.8	39.2	302.8
2004	104.9	119.4	52.1	41.7	318.1
2005	104.6	*118*	*52.0*	*40.4*	*315*
2006	*105*	*125*	*55.0*	*45.0*	*330*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2002	.56	.86	d.06	d.23	1.13
2003	.60	.67	d.18	d.22	.87
2004	.72	.79	d.05	d.26	1.19
2005	.59	*.79*	*d.06*	*d.17*	*1.15*
2006	*.70*	*.80*	*d.07*	*d.18*	*1.25*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.24	.24	.24	.24	.96
2002	.24	.24	.24	.24	.96
2003	.24	.24	.24	.24	.96
2004	.24	.24	.24	.24	.96
2005	.24				

BUSINESS: Cascade Natural Gas Corporation distributes natural gas to around 225,000 customers in Washington and Oregon. In 2004, total throughput was 113.4 billion cu. ft. Core customers: residential, commercial, firm industrial, interruptible (69% of oper. margin, 23% of gas deliveries); non-core: industrial, transportation service (31%, 77%). Serves pulp & paper, plywood, chem. fertilizers, oil refining, & food process. inds. Main connecting pipeline: Northwest Pipeline Corp. '04 deprec. rate: 6.5%. Est'd plant age: 12 yrs. Has around 430 employees. Officers and directors own 1.7% of com. (12/04 proxy). President and Chief Executive Officer: David W. Stevens. Inc.: WA. Address: 222 Fairview Ave. North, Seattle, WA 98109. Tel.: 206-624-3900. Internet: www.cngc.com.

Cascade Natural Gas Corporation got off to a poor start in fiscal 2005 (ends September 30th). The substantial drop in first-quarter earnings compared to the year-ago figure was attributable partly to warmer temperatures, which particularly diminished consumption in the residential and commercial categories. Furthermore, revenues from the gas management services operation lost clients due to competition from energy marketers (a segment that has reemerged from the Enron debacle). Also, persistently high natural gas prices prompted some of the company's electric generation customers to turn to lower-cost hydroelectric power. On the positive side, results were helped by an expanded customer base and expense-containment efforts. Nevertheless, it appears that 2005 share net will be moderately lower or just in line with last year's tally. But we think the bottom line may bounce back some next year, assuming, of course, that one or more of the aforementioned negatives abate.

We are positive about the company's operating performance prospects out to 2008-2010. Thanks to generally favorable economic conditions in the Pacific Northwest, annual account hookups increased at a decent clip in the past, and it appears that this trend will continue. Of note is the fact that a considerable number of newly constructed houses in that region contain gas-using appliances, such as water heaters. Furthermore, a significant portion of Cascade's new customers could come from conversions from alternative fuel sources, given the environmental advantages of natural gas and assuming that future prices are competitive. Lastly, management is seeking a rate design that would reduce earnings swings caused by changes in the weather. That said, annual share net advances could be in the upper-single-digit range over the coming 3- to 5-year period.

These shares offer a healthy dividend yield. But we anticipate little or no growth in the distribution, as cash flows are utilized to meet the needs of an expanding customer base. Meanwhile, these shares hold a 5 (Lowest) rank for Timeliness, arising from the gas company's weak earnings to date.

Frederick L. Harris, III *March 18, 2005*

(A) Cal. yr. thru. 12/95. Changed to 9/30 fiscal yr. in '96. (B) Primary egs. thru. '97, then diluted. Excl. nonrec. gains (losses): '91, 19¢; '93, 3¢; '96, (11¢); '98, (2¢); '99, (1¢); '01, 9¢; '02, (16¢); '03, (5¢). '04 egs. don't add to total due to rounding. Next egs. rpt. due late April. (C) Dividends historically paid in the middle of Feb., May, Aug., Nov. ■Div'd reinvest. plan avail. (D) Incl. deferred charges. In '04: $21.4 mill., $1.90/sh. (E) In mill., adj. for stk. split.

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	50
Earnings Predictability	70

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NICOR, INC. NYSE-GAS

RECENT PRICE **37.28** | P/E RATIO **17.1** (Trailing: 16.8 Median: 14.0) | RELATIVE P/E RATIO **0.91** | DIV'D YLD **5.0%** | **VALUE LINE**

TIMELINESS 3 Raised 8/20/04
SAFETY 2 Raised 9/20/02
TECHNICAL 3 Lowered 3/4/05
BETA 1.05 (1.00 = Market)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
High:	29.3	28.5	37.1	42.9	44.4	42.9	43.9	42.4	49.0	39.3	39.7	38.3
Low:	21.9	21.8	25.4	30.0	37.1	31.2	29.4	34.0	17.3	23.7	32.0	35.5

2008-10 PROJECTIONS

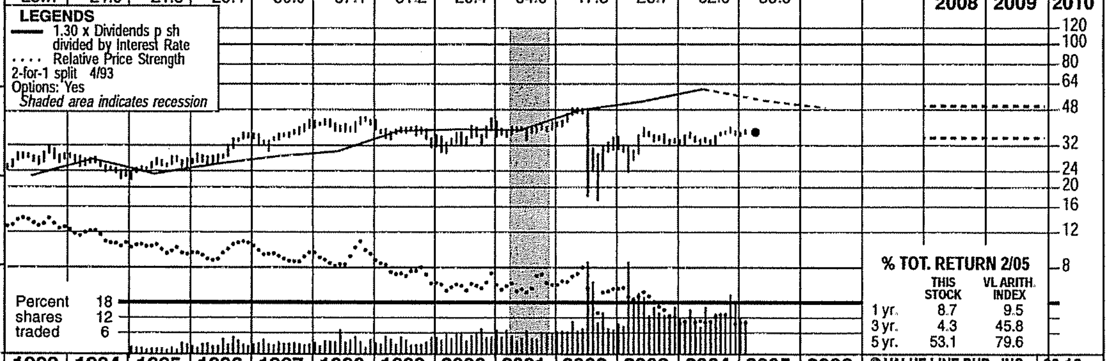
	Price	Gain	Ann'l Total Return
High	50	(+35%)	12%
Low	35	(-5%)	4%

Insider Decisions

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

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	92	86	109
to Sell	102	85	66
Hld's(000)	26522	27339	27979



% TOT. RETURN 2/05

	THIS STOCK	VL ARITH. INDEX
1 yr.	8.7	9.5
3 yr.	4.3	45.8
5 yr.	53.1	79.6

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
27.37	26.52	26.46	28.90	31.02	31.23	29.42	37.39	41.33	30.84	34.45	50.52	57.30	43.11	60.46	62.12	*66.90*	*69.00*	Revenues per sh	*73.05*
3.79	3.86	3.92	4.14	3.80	4.11	4.19	4.97	5.29	5.21	5.59	6.16	6.41	6.03	5.37	6.00	*6.10*	*6.35*	"Cash Flow" per sh	*7.10*
1.99	1.93	1.86	1.92	1.97	2.07	1.96	2.42	2.55	2.31	2.57	2.94	3.01	2.88	2.11	2.22	*2.10*	*2.25*	Earnings per sh A	*2.65*
1.00	1.06	1.12	1.18	1.22	1.25	1.28	1.32	1.40	1.48	1.54	1.66	1.76	1.84	1.86	1.86	*1.88*	*1.92*	Div'ds Decl'd per sh B ■	*2.08*
2.53	3.00	3.65	3.12	2.62	3.34	3.12	2.42	2.34	2.87	3.28	3.48	4.18	4.37	4.12	4.32	*5.10*	*5.10*	Cap'l Spending per sh	*5.05*
11.05	11.67	12.28	12.76	13.05	13.26	13.67	14.74	15.43	15.97	16.80	15.56	16.39	16.55	17.13	16.99	*17.35*	*17.65*	Book Value per sh	*18.75*
59.24	57.93	57.30	55.77	53.96	51.54	50.30	49.49	48.22	47.51	46.89	45.49	44.40	44.01	44.04	44.10	*44.10*	*44.20*	Common Shs Outst'g C	*44.50*
9.2	10.7	11.5	11.6	14.1	12.5	13.1	12.5	14.2	17.6	14.6	11.9	12.8	13.1	15.8	15.9	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*16.0*
.70	.79	.73	.70	.83	.82	.88	.78	.82	.92	.83	.77	.66	.72	.90	.85			Relative P/E Ratio	*1.05*
5.5%	5.1%	5.2%	5.3%	4.4%	4.8%	5.0%	4.4%	3.9%	3.6%	4.1%	4.7%	4.6%	4.9%	5.6%	5.3%			Avg Ann'l Div'd Yield	*4.9%*
						1480.1	1850.7	1992.6	1465.1	1615.2	2298.1	2544.1	1897.4	2662.7	2739.7	*2950*	*3050*	Revenues ($mill)	*3250*
						99.8	121.2	124.3	111.1	121.9	136.4	136.3	128.0	93.1	98.1	*95.0*	*100*	Net Profit ($mill)	*120*
						35.3%	35.8%	35.0%	34.4%	34.7%	34.8%	33.5%	31.0%	35.2%	31.8%	*33.0%*	*33.0%*	Income Tax Rate	*33.0%*
						6.7%	6.5%	6.2%	7.6%	7.5%	5.9%	5.4%	6.7%	3.5%	3.6%	*3.2%*	*3.3%*	Net Profit Margin	*3.7%*
						40.2%	41.3%	42.3%	42.1%	35.5%	32.7%	37.8%	35.1%	39.6%	39.8%	*38.5%*	*38.0%*	Long-Term Debt Ratio	*34.0%*
						59.0%	58.1%	57.2%	57.4%	64.0%	66.7%	61.7%	64.5%	60.3%	60.1%	*61.5%*	*62.0%*	Common Equity Ratio	*66.0%*
						1165.2	1255.1	1300.6	1322.6	1230.1	1061.2	1180.1	1128.9	1251.5	1246.0	*1240*	*1255*	Total Capital ($mill)	*1260*
						1779.3	1771.9	1735.8	1731.8	1735.2	1729.6	1768.6	1796.8	2484.2	2549.8	*2630*	*2700*	Net Plant ($mill)	*2930*
						10.1%	11.1%	11.1%	9.9%	10.9%	13.7%	12.3%	12.2%	8.3%	8.8%	*8.5%*	*9.0%*	Return on Total Cap'l	*10.0%*
						14.3%	16.4%	16.6%	14.5%	15.4%	19.1%	18.6%	17.5%	12.3%	13.1%	*12.5%*	*13.0%*	Return on Shr. Equity	*14.5%*
						14.4%	16.6%	16.7%	14.6%	15.4%	19.2%	18.7%	17.5%	12.3%	13.1%	*12.5%*	*13.0%*	Return on Com Equity	*14.5%*
						5.0%	7.6%	7.6%	5.4%	6.2%	8.5%	7.9%	6.5%	1.5%	2.1%	*1.5%*	*2.0%*	Retained to Com Eq	*3.0%*
						65%	54%	55%	63%	60%	56%	58%	63%	88%	84%	*87%*	*85%*	All Div'ds to Net Prof	*78%*

CAPITAL STRUCTURE as of 12/31/04
Total Debt $985.5 mill. **Due in 5 Yrs** $665.0 mill.
LT Debt $495.3 mill. **LT Interest** $20.0 mill.
(Total interest coverage: 4.5x)

No Defined Benefit Pension Plan

Pfd Stock $1.8 mill. **Pfd Div'd** Nil

Common Stock 44,113,480 shares
as of 2/23/05

MARKET CAP: $1.6 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2002	2003	12/31/04
Cash Assets	100.9	83.2	83.2
Other	606.8	832.7	937.7
Current Assets	707.7	915.9	1020.9
Accts Payable	556.3	385.4	502.9
Debt Due	415.0	575.0	490.2
Other	127.3	108.3	178.3
Current Liab.	1098.6	1068.7	1171.4
Fix. Chg. Cov.	442%	510%	NMF

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '08-'10
Revenues	6.0%	9.0%	*5.0%*
"Cash Flow"	3.5%	1.5%	*3.5%*
Earnings	2.0%	-0.5%	*1.5%*
Dividends	4.5%	4.5%	*2.0%*
Book Value	2.5%	1.0%	*2.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	551.1	391.8	249.8	704.7	1897.4
2003	1171.3	452.8	294.8	743.8	2662.7
2004	1115.7	429.5	299.9	894.6	2739.7
2005	*1175*	*445*	*315*	*1015*	*2950*
2006	*1200*	*475*	*350*	*1025*	*3050*

Cal-endar	EARNINGS PER SHARE A D Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.82	.50	.67	.89	2.88
2003	1.11	.21	.01	.78	2.11
2004	.96	.44	d.26	1.08	2.22
2005	*.95*	*.35*	*d.20*	*1.00*	*2.10*
2006	*1.00*	*.40*	*d.15*	*1.00*	*2.25*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.415	.44	.44	.44	1.74
2002	.46	.46	.46	.46	1.84
2003	.46	.465	.465	.465	1.86
2004	.465	.465	.465	.465	1.86
2005	.465				

BUSINESS: Nicor Inc. is a holding company with gas distribution as its primary business. Serves over 2.1 million customers in northern and western Illinois. 2004 gas delivered: 473.2 bcf, incl. 217.7 bcf from transportation. 2004 gas sales (255.5 bcf): residential, 80%; commercial, 17%; industrial, 3%. Principal supplying pipelines: Natural Gas Pipeline, Midwestern Gas, and Northern Natural. Current operations include Tropical Shipping subsidiary and several energy related ventures. Divested inland barging, 7/86; contract drilling, 9/86; oil and gas E&P, 6/93. Has about 3,600 employees, 23,700 stkhldrs. Off./dir. own about 1.5% of cmmn. stk. (3/04 proxy). Chrmn. and CEO: Thomas Fisher. Inc.: IL. Addr.: 1844 Ferry Road, Naperville, IL 60563. Tel.: 630-305-9500. Internet: www.nicor.com.

Nicor's profits should be weighed down by higher expenses in 2005. Specifically, the core gas distribution division is expected to face rising operating and maintenance expenses, such as those related to labor and compliance costs. We note that these are just some of the recurring costs that have contributed to this segment's declining operating profits over the past couple of years. Indeed, the prolonged period of higher natural gas prices has led to more difficult business conditions, given that a jump in natural gas costs tends to lead to an increase in bad debt expenses. Normally, gas costs are passed on to customers, some of whom may not be able to afford their bills under the current market environment.

The company is seeking financial assistance from state regulators. Last November, Nicor filed a request with the Illinois Commerce Commission (ICC) for an overall increase in business and residential rates in an effort to help offset mounting operating expenses as well as greater capital expenditures. The proposed rate application involves a rate hike of approximately $83 million or 16.5% of base rate revenues. We remain optimistic that the ICC will issue a favorable order, but the review process is time-consuming, around 11 months, and it is not certain if the full amount requested will be approved. Assuming a positive outcome, every $0 million in rate relief applied this year is estimated to add about $0.03 per share in earnings.

Prospects for the smaller shipping business ought to bolster the bottom line. In 2004, this unit, which transports various cargo to the Caribbean region, posted operating profits of $1.6 million, a 39% improvement from a year ago. A strenthening economy should drive up tourism rates there, boosting the need for additional related shipments.

Income-oriented investors may find these shares appealing, based on the current yield. But there is downside risk that has to be considered. The biggest factor is the pending decision by the ICC over the rate relief proposal. Without such help, we think that the company will find it more difficult to grow or even sustain its rate of dividend payments.

Charles W. Noh *March 18, 2005*

(A) Based on primary earnings thru. '96, then diluted. Excl. nonrecurring gains/(loss): '89, 7¢; '97, 6¢; '98, 11¢; '99, 5¢; '00, ($1.96); '01, 16¢; '03, (27¢); '04, (52¢). Excl. items from discontinued ops.: '93, 4¢; '96, 30¢. Next earnings report due late April. (B) Dividends historically paid early February, May, August, November. ■ Dividend reinvestment plan available. (C) In millions, adjusted for stock split. (D) 2002 quarters don't add due to change in shares outstanding.

Company's Financial Strength	A
Stock's Price Stability	70
Price Growth Persistence	60
Earnings Predictability	80

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KEYSPAN CORP. NYSE-KSE

RECENT PRICE **39.56** | P/E RATIO **13.3** (Trailing: 14.6 Median: 14.0) | RELATIVE P/E RATIO **0.71** | DIV'D YLD **4.6%** | VALUE LINE

TIMELINESS 4 Lowered 12/10/04
SAFETY 2 Lowered 3/26/99
TECHNICAL 3 Lowered 12/31/04
BETA .80 (1.00 = Market)

2008-10 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+25%)	*10%*
Low	40	(Nil)	*5%*

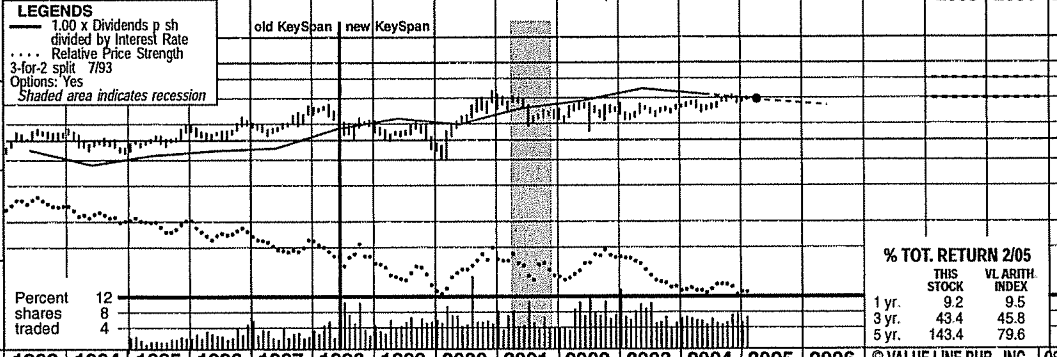
Insider Decisions

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

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	135	135	149
to Sell	147	133	120
Hld's(000)	79445	78174	79838

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
High:	28.6	29.6	32.6	37.1	37.6	31.3	43.6	41.9	38.2	38.1	41.5	40.9
Low:	21.5	22.0	24.9	26.1	25.4	22.5	20.2	29.1	27.4	31.0	33.9	38.0



% TOT. RETURN 2/05

	THIS STOCK	VL ARITH. INDEX
1 yr.	9.2	9.5
3 yr.	43.4	45.8
5 yr.	143.4	79.6

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
26.71	26.64	23.43	24.74	25.99	28.13	24.93	28.72	29.12	13.20	22.07	37.56	47.57	41.92	43.31	*41.40*	*40.26*	*43.00*	Revenues per sh	*54.25*
2.64	2.62	2.38	3.03	3.04	3.29	3.35	3.54	4.27	.45	3.57	4.51	5.72	6.36	6.22	*6.15*	*5.00*	*5.25*	"Cash Flow" per sh	*6.50*
1.68	1.62	1.45	1.35	1.73	1.85	1.90	1.96	2.12	d1.34	1.62	2.10	1.72	2.75	2.62	2.71	*2.35*	*2.50*	Earnings per sh B	*3.20*
1.19	1.23	1.27	1.29	1.32	1.35	1.39	1.42	1.46	1.50	1.78	1.78	1.78	1.78	1.78	1.79	*1.83*	*1.87*	Div'ds Decl'd per sh C ■	*2.05*
4.30	3.51	3.44	3.95	4.37	4.15	4.36	6.04	5.60	5.19	5.42	4.64	7.60	7.96	6.34	*4.70*	*5.65*	*5.50*	Cap'l Spending per sh	*7.00*
13.36	13.68	14.37	14.55	15.54	16.27	16.94	18.17	19.09	23.18	20.28	20.65	20.73	20.67	22.94	*24.90*	*26.85*	*28.05*	Book Value per sh D	*30.25*
36.29	37.30	42.28	43.45	46.38	47.59	48.79	49.86	50.77	130.42	133.87	136.36	139.43	142.42	159.66	*160.75*	*172.00*	*171.00*	Common Shs Outst'g E	*166.00*
10.1	11.9	13.1	15.1	14.3	13.7	12.7	13.7	13.8	--	16.8	14.8	20.8	12.7	13.1	13.8	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*14.0*
.76	.88	.84	.92	.84	.90	.85	.86	.80	--	.96	.96	1.07	.69	.75	.73			Relative P/E Ratio	*.95*
7.0%	6.4%	6.7%	6.4%	5.3%	5.3%	5.8%	5.3%	5.0%	4.8%	6.5%	5.7%	5.0%	5.1%	5.2%	4.8%			Avg Ann'l Div'd Yield	*4.7%*
						1216.3	1432.0	1478.2	1721.9	2954.6	5121.5	6633.1	5970.7	6915.2	6650.5	*6925*	*7350*	Revenues ($mill) A	*9000*
						91.8	97.2	106.1	d166.9	258.6	300.8	243.7	397.4	424.2	443.3	*400*	*430*	Net Profit ($mill)	*530*
						32.0%	28.9%	35.0%	--	34.5%	41.8%	46.4%	36.2%	39.5%	*32.0%*	*38.0%*	*38.0%*	Income Tax Rate	*39.0%*
						7.6%	6.8%	7.2%	NMF	8.8%	5.9%	3.7%	6.7%	6.1%	6.7%	*5.8%*	*5.9%*	Net Profit Margin	*5.9%*
						46.4%	43.8%	43.5%	31.8%	37.5%	59.6%	61.2%	63.3%	60.0%	*52.5%*	*47.0%*	*47.5%*	Long-Term Debt Ratio	*49.5%*
						53.2%	55.8%	56.5%	59.4%	60.6%	39.2%	37.7%	35.7%	39.1%	*46.5%*	*52.0%*	*52.0%*	Common Equity Ratio	*50.0%*
						1553.8	1624.4	1714.1	5089.9	4482.1	7175.0	7672.3	8252.5	9356.9	*8575*	*8850*	*9200*	Total Capital ($mill)	*10050*
						1512.6	1698.1	1810.6	3778.3	4240.0	6358.3	6605.9	7217.6	8894.3	*7000*	*7300*	*7700*	Net Plant ($mill)	*9000*
						7.5%	7.4%	7.3%	NMF	7.1%	5.3%	4.5%	6.2%	5.8%	*7.0%*	*6.0%*	*6.5%*	Return on Total Cap'l	*7.0%*
						11.0%	10.7%	10.9%	NMF	9.2%	10.4%	8.2%	13.1%	11.3%	*11.0%*	*8.5%*	*9.0%*	Return on Shr. Equity	*10.5%*
						11.1%	10.7%	10.9%	NMF	8.2%	10.0%	8.2%	13.3%	11.4%	*11.0%*	*8.5%*	*9.0%*	Return on Com Equity	*10.5%*
						2.9%	2.9%	3.3%	NMF	NMF	1.4%	NMF	4.8%	3.9%	*3.5%*	*2.0%*	*2.0%*	Retained to Com Eq	*4.0%*
						74%	73%	70%	NMF	110%	86%	103%	65%	66%	*66%*	*78%*	*76%*	All Div'ds to Net Prof	*64%*

CAPITAL STRUCTURE as of 9/30/04
Total Debt $5.01 bill. **Due in 5 Yrs** $2.7 bill.
LT Debt $4.42 bill. **LT Interest** $330.0 mill.
(total interest coverage: *2.3*x)

Pension Assets-12/03 $1.9 bill. **Oblig.** $2.3 bill.

Pfd Stock $75.0 mill. **Pfd Div'd** $5.3 mill.

Common Stock 160,595,889 shs.

MARKET CAP: $6.4 billion (Large Cap)

CURRENT POSITION ($MILL.)	2002	2003	9/30/04
Cash Assets	170.6	205.8	361.3
Other	2045.9	2181.1	1719.8
Current Assets	2216.5	2386.9	2081.1
Accts Payable	1061.6	1141.6	662.1
Debt Due	927.1	483.4	591.5
Other	231.5	223.8	236.8
Current Liab.	2220.2	1848.8	1490.4
Fix. Chg. Cov.	289%	315%	*260%*

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '01-'03 to '08-'10
Revenues	6.0%	13.5%	*3.0%*
"Cash Flow"	8.0%	17.0%	*1.0%*
Earnings	4.5%	21.0%	*4.5%*
Dividends	3.0%	4.0%	*2.0%*
Book Value	4.0%	1.5%	*5.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	1871.6	1216.1	1079.8	1803.2	5970.7
2003	2512.5	1408.2	1131.8	1862.7	6915.2
2004	2595.6	1365.8	1050.4	1638.7	6650.5
2005	*2500*	*1350*	*1075*	*2000*	*6925*
2006	*2650*	*1420*	*1150*	*2130*	*7350*

Cal-endar	EARNINGS PER SHARE A B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	1.51	.20	.02	1.02	2.75
2003	1.53	d.05	.07	1.07	2.62
2004	1.53	.28	d.73	1.63	2.71
2005	*1.35*	*Nil*	*Nil*	*1.00*	*2.35*
2006	*1.42*	*.05*	*d.05*	*1.08*	*2.50*

Cal-endar	QUARTERLY DIVIDENDS PAID A C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.445	.445	.445	.445	1.78
2002	.445	.445	.445	.445	1.78
2003	.445	.445	.445	.445	1.78
2004	.445	.445	.445	.445	1.78
2005	.455				

BUSINESS: KeySpan Corp. is a holding company created 5/98, via the merger of KeySpan Energy (formerly Brooklyn Union) and Long Island Lighting. Acq. Eastern Enterprises 11/00, making KeySpan the largest gas distributor in the Northeast, serving most of New York City and nearby Long Island, and New England. Has 2.5 mill. gas meters in one-family homes and apartments. Also generates electricity and operates transmission/distr. sys. by contract with L.I. Power Author. Parent sold its 23.5% stake in Houston Explor. 11/24/04; Owns 20% of Iroquois Pipeline. Non-regulated subs. market gas supplies, sell ind'l energy mgmt. svcs. Has 9,950 empls. Chrmn.: R.B. Catell. Inc.: NY. Address: 1 MetroTech Center, Brooklyn, NY 11201. Tel.: 718-403-1000. Web:www.keyspanenergy.com.

KeySpan is returning to basics. During the past year or so, this gas distributor and power producer has reordered its line-up of business activities to make the stock a more dependable holding for income investors, this issue's usual adherents. Management has been selling off nonregulated activities. The divestitures include the money-losing mechanical contractors, which install and repair residential and commercial heating and air conditioning systems. KeySpan has also sold its stake in Houston Exploration. Though this gas and oil producer made money for its parent, the uncertainty of domestic wellhead prices represented too much of a shareholder risk. Given its conservative bent, KeySpan is focusing on nurturing the growth of its gas-utility operations serving the New York metro area and New England. Though gas distribution is regulated as to tariffs and profits, KeySpan's utilities, having no competition from other gas distributors, are structured to provide slow, but stable, growth.

Finances are looking better. KeySpan's makeover effort has resulted in a mix of capital gains and writedowns. Notwithstanding the uneven earnings performance, the company's financial profile has improved and may be further enhanced in 2005 by debt conversions. The balance sheet will remain leveraged with senior capital, however, though much less so than previously. The leverage befits a regulated utility required to keep its capital costs as low as would be prudent for shareholders and ratepayers.

The dividend now seems to have room to grow. For 2005, there might be another round of restructuring charges. At the moment, though, our estimates assume profits will be almost entirely from operations, with share earnings reflecting the dilutive effect of debt conversions. Keyspan's electric generation business, a prime subsidiary activity that's free of price and profit regulation, may contribute some 30% of earnings. Power generation, while it implies a measure of shareholder risk, effects a good balance of profitable business for KeySpan. The shares are best held for income. A notable feature is that this utility stock is trading at a yield premium, even on the prospect of a growing dividend.

Gerald Holtzman *March 18, 2005*

(A) Data for former KeySpan Energy through '97 (years end 9/30); new KeySpan Corp. from '98 on a calendar-year basis. **(B)** Diluted shs. Excl. nonrecur. gains (charges): '90, ($0.19); '96, $0.52; '97, $0.16; '03, ($0.23); '04, $0.53. Excl. gain (loss) discont. ops.: '00, ($0.02); '01, ($0.14); '02, ($0.14); '03, $0.01; '04, $0.94. Next egs. report due late April. **(C)** Dividends historically paid in February, May, August, and November. ■ Div'd reinvestment plan available. **(D)** Includes deferred charges. At 12/31/03: $19.40 /sh. **(E)** In millions, adjusted for split.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	50
Earnings Predictability	15

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LACLEDE GROUP NYSE-LG

RECENT PRICE 30.65 **P/E RATIO** 16.6 (Trailing: 16.8 Median: 15.0) **RELATIVE P/E RATIO** 0.88 **DIV'D YLD** 4.5% **VALUE LINE**

TIMELINESS 5 Lowered 11/5/04
SAFETY 2 Raised 6/20/03
TECHNICAL 3 Lowered 3/4/05
BETA .75 (1.00 = Market)

2008-10 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+30%)	*10%*
Low	30	(Nil)	*4%*

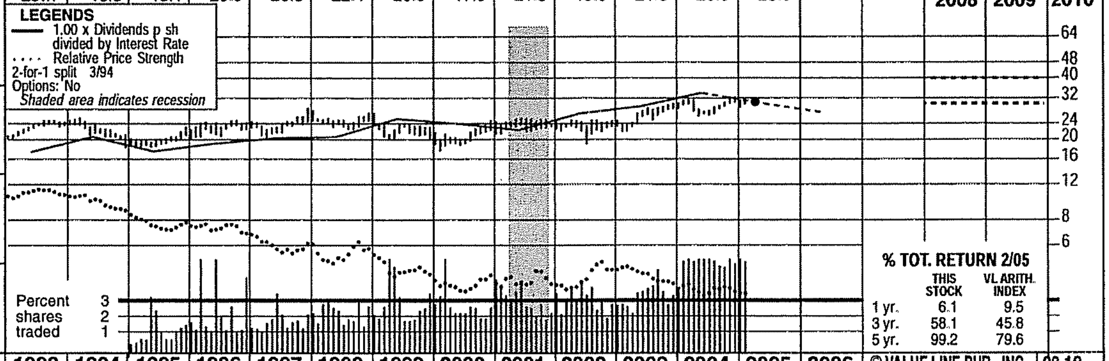
Insider Decisions

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

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	54	52	45
to Sell	35	35	40
Hld's(000)	6273	6476	6396

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
High:	25.6	23.1	24.9	28.6	27.9	27.0	24.8	25.5	25.0	30.0	32.5	32.8
Low:	18.3	18.4	20.0	20.3	22.4	20.0	17.5	21.3	19.0	21.8	26.0	28.6



% TOT. RETURN 2/05

	THIS STOCK	VL ARITH. INDEX
1 yr.	6.1	9.5
3 yr.	58.1	45.8
5 yr.	99.2	79.6

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
31.57	30.21	28.10	26.83	32.33	33.43	24.79	31.03	34.33	31.04	26.04	29.99	53.08	39.84	54.95	59.59	*66.50*	*75.80*	Revenues per sh	*103.70*
2.47	2.13	2.37	2.32	2.81	2.65	2.55	3.29	3.32	3.02	2.56	2.68	3.00	2.56	3.15	2.79	*3.00*	*3.25*	"Cash Flow" per sh	*4.20*
1.45	1.08	1.28	1.17	1.61	1.42	1.27	1.87	1.84	1.58	1.47	1.37	1.61	1.18	1.82	1.82	*1.85*	*1.95*	Earnings per sh A B	*2.25*
1.15	1.18	1.20	1.20	1.22	1.22	1.24	1.26	1.30	1.32	1.34	1.34	1.34	1.34	1.34	1.35	*1.38*	*1.38*	Div'ds Decl'd per sh C■	*1.42*
1.82	1.87	2.46	2.87	2.62	2.50	2.63	2.35	2.44	2.68	2.58	2.77	2.51	2.80	2.67	2.45	*2.60*	*2.70*	Cap'l Spending per sh	*3.00*
11.74	11.75	11.83	11.79	12.19	12.44	13.05	13.72	14.26	14.57	14.96	14.99	15.26	15.07	15.65	16.96	*19.60*	*22.35*	Book Value per sh D	*29.65*
15.59	15.59	15.59	15.59	15.59	15.67	17.42	17.56	17.56	17.63	18.88	18.88	18.88	18.96	19.11	20.98	*21.50*	*21.50*	Common Shs Outst'g E	*21.50*
10.3	14.6	12.5	15.8	13.5	16.4	15.5	11.9	12.5	15.5	15.8	14.9	14.5	20.0	13.6	15.7	*Bold figures are*		Avg Ann'l P/E Ratio	*15.5*
.78	1.08	.80	.96	.80	1.08	1.04	.75	.72	.81	.90	.97	.74	1.09	.78	.82	*Value Line*		Relative P/E Ratio	*1.05*
7.7%	7.5%	7.5%	6.5%	5.6%	5.3%	6.3%	5.6%	5.6%	5.4%	5.8%	6.6%	5.7%	5.7%	5.4%	4.7%	*estimates*		Avg Ann'l Div'd Yield	*3.9%*
						431.9	544.8	602.8	547.2	491.6	566.1	1002.1	755.2	1050.3	1250.3	*1430*	*1630*	Revenues ($mill) A	*2230*
						20.9	32.8	32.5	27.9	26.9	26.0	30.5	22.4	34.6	36.1	*40.0*	*42.0*	Net Profit ($mill)	*50.0*
						32.1%	35.9%	36.1%	35.6%	35.5%	35.2%	32.7%	35.4%	35.0%	34.8%	*35.0%*	*35.0%*	Income Tax Rate	*35.0%*
						4.8%	6.0%	5.4%	5.1%	5.5%	4.6%	3.0%	3.0%	3.3%	2.9%	*2.8%*	*2.6%*	Net Profit Margin	*2.2%*
						40.2%	42.5%	38.0%	40.9%	41.8%	45.2%	49.5%	47.5%	50.4%	51.6%	*51.0%*	*51.0%*	Long-Term Debt Ratio	*51.0%*
						59.3%	57.1%	61.6%	58.6%	57.8%	54.5%	50.2%	52.3%	49.4%	48.3%	*49.0%*	*49.0%*	Common Equity Ratio	*49.0%*
						383.5	422.2	406.8	438.0	488.6	519.2	574.1	546.6	605.0	737.4	*860*	*980*	Total Capital ($mill)	*1300*
						434.3	452.2	467.6	490.6	519.4	575.4	602.5	594.4	621.2	646.9	*675*	*700*	Net Plant ($mill)	*800*
						7.1%	9.4%	9.7%	8.1%	7.1%	6.7%	6.9%	6.0%	7.4%	6.6%	*6.0%*	*6.0%*	Return on Total Cap'l	*5.5%*
						9.1%	13.5%	12.9%	10.8%	9.5%	9.1%	10.5%	7.8%	11.5%	10.1%	*9.5%*	*9.0%*	Return on Shr. Equity	*8.0%*
						9.2%	13.6%	12.9%	10.8%	9.5%	9.1%	10.5%	7.8%	11.6%	10.1%	*9.5%*	*9.0%*	Return on Com Equity	*8.0%*
						.4%	4.5%	3.9%	1.8%	1.0%	.2%	1.8%	NMF	3.1%	2.7%	*2.5%*	*2.5%*	Retained to Com Eq	*3.0%*
						96%	67%	70%	83%	89%	98%	83%	113%	74%	73%	*74%*	*71%*	All Div'ds to Net Prof	*61%*

CAPITAL STRUCTURE as of 12/31/04
Total Debt $557.8 mill. **Due in 5 Yrs** $175.0 mill.
LT Debt $380.4 mill. **LT Interest** $25.0 mill.
(Total interest coverage: 2.9x)

Leases, Uncapitalized Annual rentals $1.6 mill.
Pension Assets-9/04 $259.5 mill.
Oblig. $252.6 mill.
Pfd Stock $1.1 mill. **Pfd Div'd** $.06 mill.
Common Stock 21,053,708 shs.
as of 1/28/05

MARKET CAP: $650 million (Small Cap)

CURRENT POSITION ($MILL.)	2003	2004	12/31/04
Cash Assets	7.3	13.9	23.6
Other	280.6	323.7	441.4
Current Assets	287.9	337.6	465.0
Accts Payable	66.0	68.4	129.8
Debt Due	218.2	96.5	177.4
Other	82.1	97.7	93.7
Current Liab.	366.3	262.6	400.9
Fix. Chg. Cov.	295%	279%	280%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '08-'10
Revenues	5.0%	11.0%	*12.5%*
"Cash Flow"	1.0%	-1.0%	*7.0%*
Earnings	1.5%	-.5%	*6.0%*
Dividends	1.0%	.5%	*1.0%*
Book Value	2.5%	1.5%	*11.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.)A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2002	194.6	287.5	147.3	125.8	755.2
2003	280.1	422.2	186.6	161.4	1050.3
2004	332.6	475.0	245.1	197.6	1250.3
2005	442.5	*515*	*260*	*212.5*	*1430*
2006	*490*	*560*	*305*	*275*	*1630*

Fiscal Year Ends	EARNINGS PER SHARE A B F Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2002	.41	1.10	d.05	d.28	1.18
2003	.80	1.14	.11	d.21	1.82
2004	.87	1.12	.19	d.28	1.82
2005	.79	*1.15*	*.21*	*d.30*	*1.85*
2006	*.85*	*1.15*	*.20*	*d.25*	*1.95*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.335	.335	.335	.335	1.34
2002	.335	.335	.335	.335	1.34
2003	.335	.335	.335	.335	1.34
2004	.335	.34	.34	.34	1.36
2005	.34				

BUSINESS: Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri (population, 2 million), including the city of St. Louis, St. Louis County, and parts of 8 other counties. Has more than 630,000 customers. Purchased SM&P for $43 million (1/02). Therms sold and transported in fiscal '04: 1.12 mill. Revenue mix for regulated operations: residential, 63%; commercial and industrial, 23%; transportation, 2%; other, 12%. Has around 3,440 employees. Officers and directors own approximately 6.0% of common shares (1/05 Proxy). Chairman, Chief Executive Officer, and President: Douglas H. Yaeger. Incorporated: Missouri. Address: 720 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.lacledegas.com.

Laclede Group began fiscal 2005 (ends September 30th) on a sour note. The lower share net for the first quarter compared to the year-ago tally was attributable largely to the dilutive effect of the sale of 1.7 million common shares in 2004. Furthermore, the performance of Laclede Gas Company, the core subsidiary, was afflicted partly by decreased gas sales arising from unseasonably warm temperatures in November (though a weather mitigation rate design offset this somewhat). Also, results here were dampened by lower income from off-system sales and capacity release, plus heightened operating expenses. On the positive side, the nonutility gas marketing unit, Laclede Energy Resources, enjoyed increased volumes and higher margins achieved in a favorable market. Also, earnings for SM&P Utility Resources (an underground facility locating firm) were boosted by the return of a substantial portion of business from two customers and expansion into new and existing markets. In spite of this, we believe that consolidated 2005 share net will just approximate last year's figure. Our tentative 2006 figure of $.95 a share assumes some expansion in operating margins.

A request for a general rate increase was filed with the Missouri Public Service Commission. (Laclede last received such a rate hike in 2002.) The proposed new rates would generate additional annual revenues of about $4.0 million. But given that the reviewing process could take as long as 11 months, the benefits may not be realized until the winter of 2006. Note that our presentation will reflect the rate increase once approval has been granted.

Income-oriented investors may find the current dividend appealing. But additional hikes in the payout could be slow in coming, since Laclede Gas' service territory is in a mature phase.

The stock's long-term total-return potential is limited. That's because these shares are already trading within the 2008-2010 Target Price Range, and we're assuming that future dividend growth is moderate. What's more, the equity is ranked to underperform the year-ahead market.

Frederick L. Harris, III *March 18, 2005*

(A) Fiscal year ends Sept. 30th.
(B) Based on average shares outstanding thru. '97, then diluted. Next earnings report due late April.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) Incl. deferred charges. In '04: $206.6 mill., $9.85/sh.
(E) In millions. Adjusted for stock split.
(F) Qtly. egs. may not sum due to change in shares outstanding.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	40
Earnings Predictability	65

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N.W. NAT'L GAS NYSE-NWN

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
36.02	17.6	(Trailing: 19.4 Median: 14.0)	0.94	3.6%	VALUE LINE

TIMELINESS	3	Raised 3/11/05
SAFETY	1	Raised 3/18/05
TECHNICAL	3	Lowered 12/24/04

BETA .65 (1.00 = Market)

2008-10 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+10%)	*6%*
Low	30	(-15%)	*Nil*

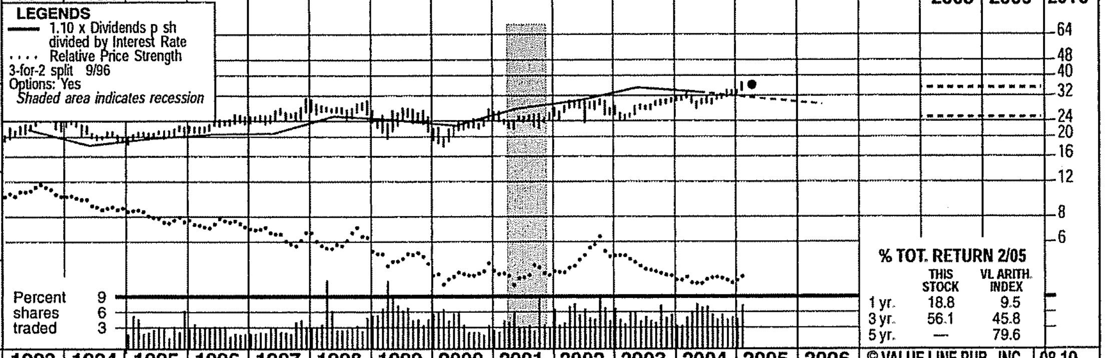
Insider Decisions

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

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	61	55	51
to Sell	55	57	50
Hld's(000)	13055	12727	12975

High:	24.3	22.8	25.9	31.4	30.8	27.9	27.5	26.8	30.7	31.3	34.1	37.2
Low:	18.8	18.3	20.8	23.0	24.3	19.5	17.8	21.7	23.5	24.0	27.5	32.4



% TOT. RETURN 2/05

	THIS STOCK	VL ARITH. INDEX
1 yr.	18.8	9.5
3 yr.	56.1	45.8
5 yr.	—	79.6

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
15.22	17.02	16.74	14.10	18.15	18.30	16.02	16.86	15.82	16.77	18.17	21.09	25.78	25.07	23.57	*25.70*	*28.10*	*29.45*	Revenues per sh	*32.00*
2.85	3.22	2.57	3.25	3.74	3.50	3.41	3.86	3.72	3.24	3.72	3.68	3.86	3.65	3.85	*3.90*	*4.35*	*4.65*	"Cash Flow" per sh	*5.35*
1.58	1.62	.67	.74	1.74	1.63	1.61	1.97	1.76	1.02	1.70	1.79	1.88	1.62	1.76	1.86	*2.10*	*2.25*	Earnings per sh A	*2.50*
1.07	1.10	1.13	1.15	1.17	1.17	1.18	1.20	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.30	*1.33*	*1.37*	Div'ds Decl'd per sh B■	*1.50*
3.36	3.85	3.58	3.73	3.61	4.23	3.02	3.70	5.07	4.02	4.78	3.46	3.23	3.11	4.90	*5.50*	*5.00*	*5.00*	Cap'l Spending per sh	*5.00*
12.04	12.61	12.23	12.41	13.08	13.63	14.55	15.37	16.02	16.59	17.12	17.93	18.56	18.88	19.52	*20.65*	*21.45*	*22.50*	Book Value per sh C	*25.25*
17.14	17.41	17.68	19.46	19.77	20.13	22.24	22.56	22.86	24.85	25.09	25.23	25.23	25.59	25.94	*27.55*	*27.75*	*28.00*	Common Shs Outst'g D	*28.50*
9.8	10.2	28.1	27.0	12.9	13.0	12.9	11.7	14.4	26.7	14.5	12.4	12.9	17.2	15.8	16.7	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*14.0*
.74	.76	1.79	1.64	.76	.85	.86	.73	.83	1.39	.83	.81	.66	.94	.90	.88			Relative P/E Ratio	*.95*
6.9%	6.7%	5.9%	5.7%	5.2%	5.5%	5.7%	5.2%	4.8%	4.5%	5.0%	5.6%	5.1%	4.5%	4.6%	4.2%			Avg Ann'l Div'd Yield	*4.4%*
						356.3	380.3	361.8	416.7	455.8	532.1	650.3	641.4	611.3	707.6	*780*	*825*	Revenues ($mill)	*950*
						38.1	46.8	43.1	27.3	44.9	47.8	50.2	43.8	46.0	50.6	*58.5*	*63.5*	Net Profit ($mill)	*73.0*
						36.8%	36.9%	32.9%	31.0%	35.4%	35.9%	35.4%	34.9%	33.7%	*34.5%*	*35.0%*	*35.0%*	Income Tax Rate	*35.0%*
						10.7%	12.3%	11.9%	6.6%	9.9%	9.0%	7.7%	6.8%	7.5%	7.2%	*7.5%*	*7.7%*	Net Profit Margin	*7.7%*
						43.5%	41.4%	46.0%	45.0%	46.0%	45.1%	43.0%	47.6%	49.7%	*46.0%*	*46.5%*	*46.0%*	Long-Term Debt Ratio	*47.0%*
						50.3%	52.8%	49.0%	50.6%	49.9%	50.9%	53.2%	51.5%	50.3%	*54.0%*	*53.5%*	*54.0%*	Common Equity Ratio	*53.0%*
						643.3	657.4	748.0	815.6	861.5	887.8	880.5	937.3	1006.6	*1050*	*1110*	*1160*	Total Capital ($mill)	*1360*
						697.2	745.3	827.5	894.7	895.9	934.0	965.0	995.6	1205.9	*1320*	*1400*	*1470*	Net Plant ($mill)	*1635*
						7.7%	8.9%	7.4%	5.0%	6.8%	6.7%	6.9%	5.9%	5.7%	*6.0%*	*6.5%*	*6.5%*	Return on Total Cap'l	*7.0%*
						10.5%	12.1%	10.7%	6.1%	9.7%	9.8%	10.0%	8.9%	9.1%	*9.0%*	*10.0%*	*10.0%*	Return on Shr. Equity	*10.0%*
						10.9%	12.7%	11.0%	6.0%	9.9%	10.0%	10.2%	8.5%	9.0%	*9.0%*	*10.0%*	*10.0%*	Return on Com Equity	*10.0%*
						3.0%	5.0%	3.6%	NMF	2.8%	3.1%	3.5%	1.9%	2.6%	*3.0%*	*3.5%*	*4.0%*	Retained to Com Eq	*4.0%*
						74%	63%	70%	118%	74%	70%	67%	79%	72%	*69%*	*63%*	*61%*	All Div'ds to Net Prof	*60%*

CAPITAL STRUCTURE as of 9/30/04
Total Debt $582.6 mill. **Due in 5 Yrs** $125.0 mill.
LT Debt $484.9 mill. **LT Interest** $33.0 mill.
Incl. $5.6 mill. 7¼% debs. due 3/1/12, each conv. into 50.25 com. shs. at $19.90.
(Total interest coverage: *2.8x*)

Pension Assets-12/03 $168.3 mill. **Oblig.** $205.4 mill.

Pfd Stock None

Common Stock 27,422,949 shs.
MARKET CAP $1.0 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2002	2003	9/30/04
Cash Assets	7.3	4.7	4.1
Other	186.7	194.8	137.2
Current Assets	194.0	199.5	141.3
Accts Payable	74.4	86.0	60.8
Debt Due	89.8	85.2	97.7
Other	40.8	43.2	50.5
Current Liab.	205.0	214.4	209.0
Fx. Chg. Cov.	296%	280%	*280%*

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '01-'03 to '08-'10
Revenues	4.5%	8.5%	*3.5%*
"Cash Flow"	1.5%	1.0%	*5.0%*
Earnings	5.0%	2.0%	*5.0%*
Dividends	1.0%	1.0%	*2.5%*
Book Value	4.0%	3.5%	*4.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	278.6	101.9	78.7	182.2	641.4
2003	206.5	117.5	69.5	217.8	611.3
2004	254.5	109.7	81.4	262.0	707.6
2005	*280*	*125*	*90.0*	*285*	*780*
2006	*300*	*130*	*95.0*	*300*	*825*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	1.32	d.13	d.26	.69	1.62
2003	1.01	.17	d.25	.83	1.76
2004	1.24	d.03	d.30	.95	1.86
2005	*1.26*	*.15*	*d.31*	*1.00*	*2.10*
2006	*1.30*	*.17*	*d.29*	*1.07*	*2.25*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.31	.31	.31	.315	1.25
2002	.315	.315	.315	.315	1.26
2003	.315	.315	.315	.325	1.27
2004	.325	.325	.325	.325	1.30
2005	.325				

BUSINESS: Northwest Natural Gas Co. (doing business as NW Natural) distributes natural gas at retail to 90 communities, 596,000 customers, in Oregon (96% of revs.) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.4 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline sys. to bring gas to market. Owns local underground storage. Rev. breakdown: resident'l & comm'l, 84%; ind., 10%; transport. and other, 6%. Employs 1,291. Has about 10,000 com. shrhldrs. Insiders own about 1% of com. Ch. Exec. Off.: Richard Woolworth. Inc.: OR. Addr.: 220 N.W. 2nd Ave., Portland, OR 97209. Tel.: 503-226-4211. Web: www.nwnatural.com.

Northwest Natural stock is a high-quality holding for current income. Nearly all of the company's business is local gas distribution. As such, it is a regulated utility under the supervision of state overseers in Oregon and Washington. Importantly, though, NW Natural is a financially secure utility, whose growth is nurtured by the Pacific Northwest's diverse and expanding economy. Too, the company's selling effort is made easier by gas prices that are competitive with alternate fuels and power. In regulatory matters, NW Natural, since 2003, has been favored with a new rate design, which should help to keep earnings on a fairly stable uptrend in the coming years. The outcome should be wider coverage of the dividend, allowing the payout to grow a little faster than it has in the past. On that score, it seems, NW Natural shares have attracted stronger support. Though the issue's recent price reduces the current dividend yield to a level that's moderately below the gas-utility average, the prospect of more generous dividend hikes should mean an improved one-year total return to make up for much of the current yield deficit.

Regulation has been fairly easy. NW Natural's permissible return on common equity, at 10.20%, factors in today's low borrowing costs. Accordingly, it is in line with the returns gas-utility regulators in most other states allow their charges. But NW Natural's rate design includes some generous features. A wider profit margin is set for the winter heating season and more than offsets the effect of a lower margin during the summer months when demand tends to be low. The rates also include a weather normalization tariff to negate the effects of year-to-year winter temperature swings on profits. In all, the new rate structure should afford management a more predictable cash flow for financial planning. Notably, too, NW Natural may earn above its benchmark return by achieving certain cost savings. And nonregulated business, chiefly gas storage service to nonaffiliated pipelines, should contribute a little to earnings in the coming years. As with all utility stocks, NW Natural is interest rate-sensitive; a run-up in money costs will likely weigh heavily on the price of these shares.

Gerald Holtzman *March 18, 2005*

(A) Diluted earnings per share. Excludes nonrecurring gain: '98, $0.15; '00, $0.11. Next earnings report due late April.
(B) Dividends historically paid in mid-February, mid-May, mid-August, and mid-November.
■ Div'd reinvestment plan available.
(C) Includes intangibles. At 12/31/03: $6.66/sh.
(D) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	40
Earnings Predictability	65

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PEOPLES ENERGY NYSE-PGL

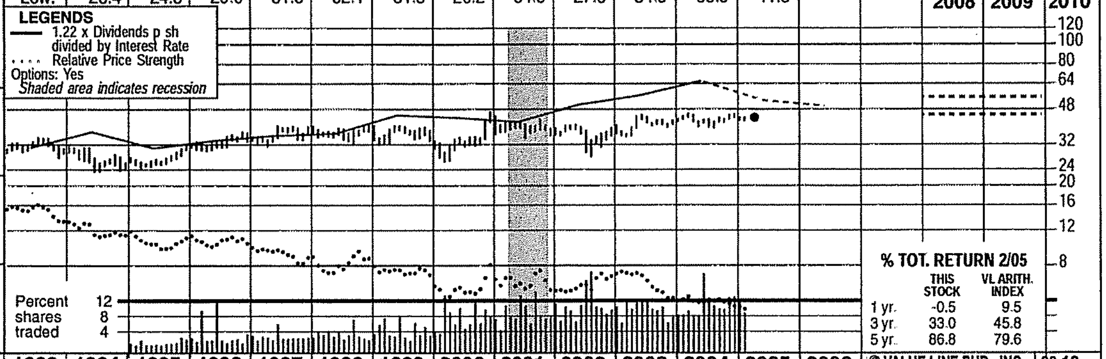
RECENT PRICE 43.57 **P/E RATIO** 16.4 (Trailing: 20.6 Median: 14.0) **RELATIVE P/E RATIO** 0.87 **DIV'D YLD** 5.0% **VALUE LINE**

TIMELINESS 5 Lowered 2/4/05
SAFETY 1 Raised 9/29/95
TECHNICAL 3 Lowered 3/4/05
BETA .80 (1.00 = Market)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
High:	32.1	32.0	37.4	39.9	40.1	40.3	46.9	44.6	40.4	45.3	46.0	44.4
Low:	23.4	24.3	29.6	31.3	32.1	31.8	26.2	34.3	27.8	34.9	38.5	41.8

Target Price Range

2008	2009	2010



% TOT. RETURN 2/05

	THIS STOCK	VL ARITH. INDEX
1 yr.	-0.5	9.5
3 yr.	33.0	45.8
5 yr.	86.8	79.6

2008-10 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+25%)	*10%*
Low	45	(+5%)	*6%*

Insider Decisions

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

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	97	80	98
to Sell	85	72	54
Hld's(000)	21432	19912	21183

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
36.42	35.63	33.69	31.54	36.09	36.70	29.60	34.29	36.34	32.28	33.66	40.16	64.13	41.81	58.28	59.90	**62.25**	**59.20**	Revenues per sh A	**76.45**
3.92	3.74	3.73	3.67	3.85	3.99	3.68	4.98	4.92	4.44	4.74	5.58	5.84	5.59	5.88	5.32	**5.95**	**6.35**	"Cash Flow" per sh	**7.55**
2.39	2.07	2.05	2.06	2.11	2.13	1.78	2.96	2.81	2.25	2.39	2.71	3.16	2.80	2.87	2.18	**2.65**	**2.75**	Earnings per sh B	**3.00**
1.58	1.65	1.71	1.76	1.78	1.80	1.80	1.82	1.87	1.91	1.95	2.00	2.04	2.07	2.12	2.16	**2.18**	**2.20**	Div'ds Decl'd per sh C ■	**2.28**
4.15	3.15	3.10	3.40	3.77	2.50	2.75	2.45	2.55	4.05	6.45	7.02	7.52	5.66	5.10	5.02	**3.95**	**5.80**	Cap'l Spending per sh	**7.15**
16.20	16.61	16.95	17.72	18.02	18.39	18.38	19.49	20.43	21.03	21.66	22.02	22.76	22.74	23.11	23.06	**23.40**	**24.45**	Book Value per sh D	**28.85**
32.62	32.70	32.76	34.77	34.88	34.87	34.91	34.96	35.07	35.26	35.49	35.30	35.40	35.46	36.69	36.69	**38.00**	**37.00**	Common Shs Outst'g E	**35.00**
7.9	11.2	11.8	13.1	15.0	13.3	14.7	10.7	12.7	16.2	15.5	12.1	12.3	13.3	13.4	19.1	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	**17.0**
.60	.83	.75	.79	.89	.87	.98	.67	.73	.84	.88	.79	.63	.73	.76	1.02			Relative P/E Ratio	**1.15**
8.4%	7.1%	7.0%	6.5%	5.6%	6.3%	6.9%	5.7%	5.2%	5.2%	5.3%	6.1%	5.2%	5.5%	5.5%	5.2%			Avg Ann'l Div'd Yield	**4.5%**
						1033.4	1198.7	1274.4	1138.1	1194.4	1417.5	2270.2	1482.5	2138.4	2260.2	**2365**	**2250**	Revenues ($mill) A	**2675**
						62.2	103.4	98.4	79.4	84.8	96.1	111.7	99.3	103.9	81.6	**100**	**105**	Net Profit ($mill)	**105**
						34.4%	37.6%	36.4%	36.2%	35.9%	34.1%	35.4%	34.2%	36.3%	31.7%	**36.0%**	**36.0%**	Income Tax Rate	**36.0%**
						6.0%	8.6%	7.7%	7.0%	7.1%	6.8%	4.9%	6.7%	4.9%	3.6%	**4.2%**	**4.7%**	Net Profit Margin	**3.9%**
						49.2%	43.6%	42.4%	41.1%	40.4%	35.1%	44.4%	40.7%	46.7%	50.8%	**50.5%**	**49.5%**	Long-Term Debt Ratio	**47.0%**
						50.8%	56.4%	57.6%	58.9%	59.6%	64.9%	55.6%	59.3%	53.3%	49.2%	**49.5%**	**50.5%**	Common Equity Ratio	**53.0%**
						1263.6	1208.3	1243.5	1258.0	1290.5	1196.7	1449.8	1360.3	1592.3	1767.5	**1790**	**1815**	Total Capital ($mill)	**1910**
						1373.1	1381.1	1402.2	1446.7	1519.8	1645.3	1753.9	1773.9	1838.2	1904.2	**1970**	**2035**	Net Plant ($mill)	**2305**
						7.0%	10.3%	9.5%	7.8%	8.0%	9.5%	9.3%	8.4%	8.1%	6.0%	**7.0%**	**7.0%**	Return on Total Cap'l	**7.0%**
						9.7%	15.2%	13.7%	10.7%	11.0%	12.4%	13.9%	12.3%	12.3%	9.4%	**11.0%**	**11.5%**	Return on Shr. Equity	**10.5%**
						9.7%	15.2%	13.7%	10.7%	11.0%	12.4%	13.9%	12.3%	12.3%	9.4%	**11.0%**	**11.5%**	Return on Com Equity	**10.5%**
						NMF	5.9%	4.7%	1.7%	2.1%	3.4%	5.0%	3.3%	3.4%	.2%	**2.0%**	**2.0%**	Retained to Com Eq	**2.5%**
						101%	61%	66%	84%	81%	73%	64%	73%	73%	97%	**83%**	**81%**	All Div'ds to Net Prof	**77%**

CAPITAL STRUCTURE as of 12/31/04

Total Debt $1069.2 mill. **Due in 5 Yrs** $315.0 mill.

LT Debt $897.2 mill. **LT Interest** $50.0 mill.
(Total interest coverage: 4.7x)

Pension Assets-9/04 $544.9 mill.
Oblig. $515.8 mill.

Pfd Stock None

Common Stock 37,914,479 shs.
as of 1/31/05

MARKET CAP: $1.7 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2003	2004	12/31/04
Cash Assets	33.0	21.1	16.5
Other	457.1	531.3	784.0
Current Assets	490.1	552.4	800.5
Accts Payable	236.6	144.7	210.9
Debt Due	207.9	55.6	172.0
Other	156.1	335.8	332.5
Current Liab.	600.6	536.1	715.4
Fix. Chg. Cov.	259%	304%	388%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '01-'03 to '08-'10
Revenues	5.0%	10.0%	*2.5%*
"Cash Flow"	4.5%	4.0%	*2.0%*
Earnings	3.5%	2.0%	*1.0%*
Dividends	1.5%	2.0%	*1.5%*
Book Value	2.5%	2.5%	*4.5%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2002	377.5	522.8	347.1	235.1	1482.5
2003	549.2	903.8	398.1	287.3	2138.4
2004	604.9	927.0	401.1	327.1	2260.2
2005	737.4	**930**	**390**	**307.6**	**2365**
2006	**660**	**910**	**380**	**300**	**2250**

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2002	.87	1.55	.33	.05	2.80
2003	.87	1.77	.22	.04	F 2.87
2004	.85	1.46	.15	d.27	F 2.18
2005	.77	**1.49**	**.27**	**.12**	**2.65**
2006	**.87**	**1.54**	**.22**	**.12**	**2.75**

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.50	.51	.51	.51	2.03
2002	.51	.52	.52	.52	2.07
2003	.53	.53	.53	.53	2.12
2004	.54	.54	.54	.54	2.16
2005	.545				

BUSINESS: Peoples Energy Corporation distributes natural gas via its utility subsidiaries, Peoples Gas Light & Coke Co. (approx. 1,000,000 customers at 9/30/04) and North Shore Gas Co. (150,000), in Chicago and northeastern Illinois. Fiscal 2004 volume: 229 bill. cu. ft.: residential, 51%; commercial, 9%; industrial, 2%; other, 38%. Main supplier is Natural Gas Pipeline Co. of America. Purchased gas costs and revenue taxes accounted for 67% of gas revenues in fiscal '04. Depreciation rate: 3.5%. Est'd plant age: 10 years. Has 2,400 employees, 20,988 shareholders. Directors own 1% of common (1/05 Proxy). Chairman and CEO: Thomas M. Patrick. Inc.: Illinois. Address: 130 East Randolph Drive, Chicago, IL 60601. Telephone: 312-240-4000. Internet: www.pecorp.com.

Unseasonably warm weather has hurt Peoples Energy. Lower gas distribution deliveries, due to weather that was 9% warmer than normal and 2% warmer than last year, resulted in roughly a 7% decline in December-quarter operating income. The utility accrued $.1 million of weather-insurance recoveries, but this only partially offset the negative impact of warmer temperatures. January weather continued to be warmer than normal, therefore we don't expect any year over year improvement in the March period. Unless the remainder of the quarter is significantly colder than normal, we doubt Peoples will be able to offset the low fiscal first quarter (years end September 30th) gas throughput. Meanwhile, the company's restructuring program reduced costs by $ million during the fiscal first quarter and is expected to result in cost savings of $5 million for the whole year. Nonetheless, we have lowered our fiscal 2005 earnings estimate by $0.10 a share, to $2.65.

The Oil and Gas segment remains the leader of PGL's diversified energy businesses. Oil and Gas operating income declined 9% in the first quarter, due to timing delays with the company's drilling program, which resulted in lower than expected production. But we expect production growth of 5%-10% in the fiscal second and third quarters, as Peoples accelerates its drilling program. To wit, PGL has allocated 44% of its $60 million fiscal 2005 capital-spending budget towards Oil and Gas production.

The recent quarterly dividend hike has, oddly enough, raised some concern. Peoples only raised its quarterly payment by one half cent, rather than the one-cent increase that has been the norm of the last decade. We believe the dividend is safe, but that the decision reflects the possibility that PGL's recent problems in the core gas distribution business may be worse than we thought. As it stands, the yield is higher than the industry average (a good thing), but, conversely, so is the payout, indicating that earnings are not comfortably covering dividend payments. In our view, management must have some doubts about the near-term earning power of the utility, as non-core operations apparently can't pick up the slack at present.

Edward Plank *March 18, 2005*

(A) Fiscal year ends Sept. 30th.
(B) Basic earnings per share. Excludes acct'g gains/(losses): '89, $0.30; '99, $0.22; '00, ($0.27). Next earnings report due late April.
(C) Dividends historically paid mid-January, April, July, October. ■ Dividend reinvestment plan available.
(D) Includes deferred charges. At 9/30/04: $74.0 mill., $1.96/sh.
(E) In millions.
(F) Earnings don't sum due to change in shares outstanding.

Company's Financial Strength	A
Stock's Price Stability	95
Price Growth Persistence	45
Earnings Predictability	85

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PIEDMONT NAT'L. NYSE-PNY

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
23.34	18.7	(Trailing: 20.2 Median: 16.0)	0.99	3.9%	VALUE LINE

TIMELINESS 5 Lowered 2/11/05
SAFETY 2 New 7/27/90
TECHNICAL 3 Lowered 12/24/04
BETA .75 (1.00 = Market)

2008-10 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+30%)	10%
Low	25	(+5%)	6%

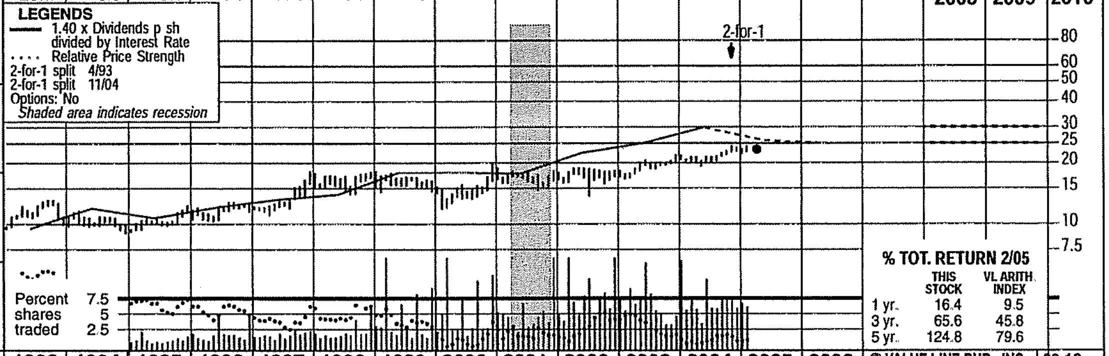
Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	1	0	1	8	0	9	0	10	9
Options	0	0	0	0	0	0	0	0	0
to Sell	3	0	1	0	0	1	1	0	1

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	78	61	80
to Sell	52	52	58
Hld's(000)	29204	30297	30343

High:	11.7	12.4	12.9	18.2	18.1	18.3	19.7	19.0	19.0	22.0	24.3	24.3
Low:	9.0	9.1	10.3	11.0	13.9	14.3	11.8	14.6	13.7	16.6	19.2	22.0



% TOT. RETURN 2/05

	THIS STOCK	VL ARITH. INDEX
1 yr.	16.4	9.5
3 yr.	65.6	45.8
5 yr.	124.8	79.6

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
10.12	9.42	8.32	8.91	10.57	10.82	8.76	11.59	12.84	12.45	10.97	13.01	17.06	12.57	18.14	19.95	22.20	20.80	Revenues per sh A	24.10
.96	.97	.78	1.07	1.14	1.13	1.25	1.49	1.62	1.72	1.70	1.77	1.81	1.81	2.04	2.31	2.30	2.50	"Cash Flow" per sh	3.15
.61	.61	.44	.70	.73	.68	.73	.84	.93	.98	.93	1.01	1.01	.95	1.11	1.27	1.25	1.30	Earnings per sh B	1.60
.39	.42	.44	.46	.48	.51	.54	.57	.61	.64	.68	.72	.76	.80	.82	.86	.92	.98	Div'ds Decl'd per sh C■	1.10
1.56	1.62	1.37	1.41	1.58	1.95	1.72	1.64	1.52	1.48	1.58	1.65	1.29	1.21	1.16	1.85	1.35	1.40	Cap'l Spending per sh	1.45
4.37	4.58	4.83	5.13	5.45	5.68	6.16	6.53	6.95	7.45	7.86	8.26	8.63	8.91	9.36	11.15	11.45	11.90	Book Value per sh D	13.75
41.57	42.87	49.46	51.59	52.30	53.15	57.67	59.10	60.39	61.48	62.59	63.83	64.93	66.18	67.31	76.67	77.00	76.00	Common Shs Outst'g E	73.00
10.3	11.3	16.3	12.3	15.4	15.7	13.8	13.9	13.6	16.3	17.7	14.3	16.7	18.4	16.7	16.6	Bold figures are		Avg Ann'l P/E Ratio	17.0
.78	.84	1.04	.75	.91	1.03	.92	.87	.78	.85	1.01	.93	.86	1.01	.95	.87	Value Line		Relative P/E Ratio	1.15
6.3%	6.0%	6.0%	5.3%	4.3%	4.8%	5.4%	4.9%	4.8%	4.0%	4.1%	5.0%	4.5%	4.6%	4.4%	4.1%	estimates		Avg Ann'l Div'd Yield	4.0%
						505.2	685.1	775.5	765.3	686.5	830.4	1107.9	832.0	1220.8	1529.7	1710	1580	Revenues ($mill) A	1760
						40.3	48.6	55.2	60.3	58.2	64.0	65.5	62.2	74.4	95.2	95.0	100	Net Profit ($mill)	120
						38.7%	38.9%	39.1%	39.2%	39.7%	34.7%	34.6%	33.1%	34.8%	35.1%	35.0%	35.0%	Income Tax Rate	35.0%
						8.0%	7.1%	7.1%	7.9%	8.5%	7.7%	5.9%	7.5%	6.1%	6.2%	5.6%	6.3%	Net Profit Margin	6.7%
						50.4%	50.3%	47.6%	44.7%	46.2%	46.1%	47.6%	43.9%	42.2%	43.6%	43.0%	42.0%	Long-Term Debt Ratio	37.5%
						49.6%	49.7%	52.4%	55.3%	53.8%	53.9%	52.4%	56.1%	57.8%	56.4%	57.0%	58.0%	Common Equity Ratio	62.5%
						716.0	777.1	800.8	829.3	914.7	978.4	1069.4	1051.6	1090.2	1514.9	1540	1565	Total Capital ($mill)	1605
						801.3	862.0	941.7	990.6	1047.0	1072.0	1114.7	1158.5	1812.3	1849.8	1900	1950	Net Plant ($mill)	2150
						7.5%	8.2%	8.9%	9.2%	8.1%	8.3%	7.9%	7.8%	8.6%	7.8%	7.5%	8.0%	Return on Total Cap'l	9.0%
						11.4%	12.6%	13.1%	13.2%	11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.0%	11.0%	Return on Shr. Equity	12.0%
						11.4%	12.6%	13.1%	13.2%	11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.0%	11.0%	Return on Com Equity	12.0%
						2.7%	3.9%	4.6%	4.7%	3.3%	3.5%	3.0%	1.7%	3.1%	3.7%	2.5%	3.0%	Retained to Com Eq	4.0%
						76%	69%	65%	65%	72%	71%	75%	83%	74%	66%	75%	74%	All Div'ds to Net Prof	67%

CAPITAL STRUCTURE as of 10/31/04
Total Debt $769.5 mill. **Due in 5 Yrs** $175.0 mill.
LT Debt $660.0 mill. **LT Interest** $33.0 mill.
(LT interest earned: 4.1x; total interest coverage: 3.9x)

Pension Assets-10/04 $125.1 mill.
Oblig. $149.7 mill.

Pfd Stock None

Common Stock 76,669,998 shs.

MARKET CAP: $1.8 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2002	2003	10/31/04
Cash Assets	13.1	11.2	7.5
Other	162.7	296.4	327.7
Current Assets	175.8	307.6	335.2
Accts Payable	51.1	90.9	99.6
Debt Due	93.5	557.1	109.5
Other	60.5	77.2	97.1
Current Liab.	205.1	725.2	306.2
Fix. Chg. Cov.	288%	356%	378%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '08-'10
Revenues	5.5%	7.0%	5.0%
"Cash Flow"	6.5%	4.0%	6.5%
Earnings	4.5%	3.0%	7.5%
Dividends	5.5%	5.0%	4.0%
Book Value	6.0%	5.5%	7.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2002	288.7	293.9	127.9	121.5	832.0
2003	493.5	407.8	140.1	179.4	1220.8
2004	618.8	482.4	214.7	213.8	1529.7
2005	680.6	540	250	239.4	1710
2006	635	500	220	225	1580

Fiscal Year Ends	EARNINGS PER SHARE A B F Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2002	.63	.64	d.14	d.18	.95
2003	.87	.47	d.15	d.08	1.11
2004	1.03	.54	d.11	d.21	1.27
2005	.93	.54	d.11	d.11	1.25
2006	.98	.53	d.11	d.10	1.30

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.183	.193	.193	.193	.76
2002	.20	.20	.20	.20	.80
2003	.208	.208	.208	.208	.83
2004	.215	.215	.215	.215	.86
2006	.23				

BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 960,000 customers in North Carolina, South Carolina, and Tennessee. 2004 revenue mix: residential (43%), commercial (25%), industrial (9%), other (23%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 53.3% of revenues. '04 depreciation rate: 3.3%. Estimated plant age: 8.7 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 2,155 employees, 16,433 shareholders of record. CEO & President: Thomas E. Skains. Incorporated: North Carolina. Address: 1915 Rexford Road, P.O. Box 33068 Charlotte, NC 28233. Telephone: 704-364-3120. Internet: www.piedmontng.com.

Piedmont Natural Gas' January-quarter earnings were about a dime less than we expected. For the first period of fiscal 2005 (years end October 31st), share net was about 10% lower than year, as well. However, the per share results were not a strict apples to apples comparison, given the dilutive effect of Piedmont's January 2004 equity offering. Net income, as compared to last year, was actually a bit higher, as margins expanded by 3 percentage points and operating expenses only increased 1%. Still, weather that was 9% warmer than normal and 8% warmer than the prior year hurt the bottom line. Indeed, system throughput for the quarter totaled 72 million dekatherms, down about 2% versus last year.

We look for Piedmont to earn $1.25 a share this year. This is near the low end of management's target range of $1.23-$1.30. Our projection assumes continued strong customer growth in the 3.0%-3.5% range, normal weather conditions, and wholesale natural gas prices similar to those that held through fiscal 2004. Higher gas prices are not always a good thing for local distribution companies like PNY, though, as they tend to increase gas carrying costs and uncollectibles from low-income customers. We don't expect any general rate case activity to impact 2005 earnings.

Diversified businesses continue to augment net income. Non-utility operations provided $3.5 million for the quarter. Piedmont's Georgia-based joint venture, SouthStar Energy, accounted for the majority of this amount ($2.7 million), with contributions from the Pine Needle and Cardinal Pipeline joint ventures making up the balance. We expect Piedmont to continue to pursue strategic investments (likely storage or pipeline assets), a strategy that has allowed the company to diversify its earnings stream.

This equity is presently untimely. Still, income-oriented investors may find favor with PNY for its steady dividend growth. Currently, the yield stands at about 4%, average for the LDC group. The stock's above-average Safety rank is testament to the company's stable finances, strong demographic base in the Southeast, and solid management team.

Edward Plank *March 18, 2005*

(A) Fiscal year ends October 31st.
(B) Diluted earnings. Excl. extraordinary item: '00, 8¢. Excl. nonrecurring charge: '97, 2¢. Next earnings report due late-May.
(C) Dividends historically paid mid-January, April, July, October.
■ Div'd reinvest. plan available; 5% discount.
(D) Includes deferred charges At 10/31/04: $5.3 million, 7¢/share.
(E) In millions, adjusted for stock split.
(F) Quarters may not add to total due to change in shares outstanding.

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

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SOUTH JERSEY INDS. NYSE-SJI

RECENT PRICE 56.95 | **P/E RATIO** 17.7 (Trailing: 18.3 Median: 13.0) | **RELATIVE P/E RATIO** 0.94 | **DIV'D YLD** 3.0% | **VALUE LINE**

TIMELINESS 4 Lowered 12/17/04
SAFETY 2 Lowered 1/4/91
TECHNICAL 4 Lowered 3/4/05
BETA .55 (1.00 = Market)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
High:	24.0	23.5	24.6	30.5	30.8	30.8	30.1	34.1	36.7	40.7	53.1	58.4
Low:	16.6	17.9	20.1	21.0	22.0	21.5	24.5	27.6	28.2	30.5	39.4	49.9

2008-10 PROJECTIONS

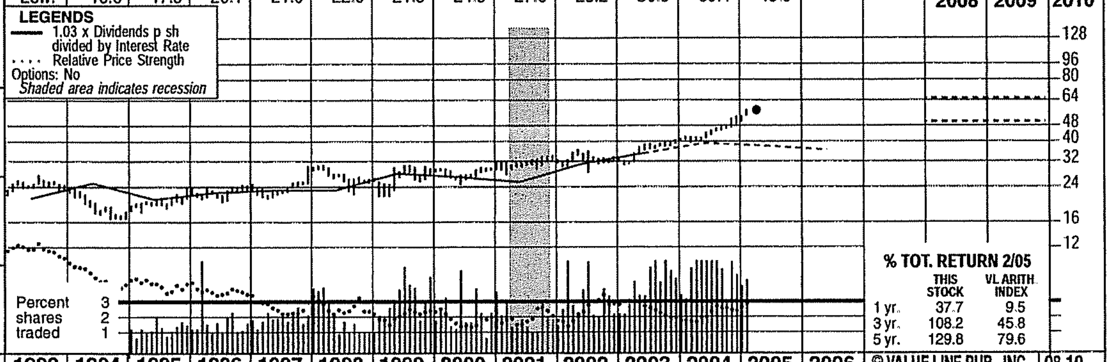
	Price	Gain	Ann'l Total Return
High	65	(+15%)	6%
Low	50	(-10%)	1%

Insider Decisions

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

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	40	39	46
to Sell	41	35	35
Hld's(000)	6133	6233	6469



% TOT. RETURN 2/05

	THIS STOCK	VL ARITH. INDEX
1 yr.	37.7	9.5
3 yr.	108.2	45.8
5 yr.	129.8	79.6

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
30.54	28.80	30.19	33.33	34.06	34.90	33.00	33.05	32.36	41.77	35.19	44.86	70.60	41.38	52.67	59.00	60.55	62.95	Revenues per sh	66.65
3.00	2.68	2.75	3.12	3.08	2.70	3.30	3.08	3.19	2.87	3.67	3.90	3.79	4.25	4.48	4.95	5.15	5.45	"Cash Flow" per sh	6.30
1.66	1.33	1.27	1.61	1.55	1.21	1.65	1.70	1.71	1.28	2.01	2.16	2.29	2.43	2.73	3.11	3.25	3.40	Earnings per sh A	4.00
1.36	1.40	1.41	1.41	1.43	1.44	1.44	1.44	1.44	1.44	1.44	1.46	1.48	1.51	1.56	1.64	1.70	1.80	Div'ds Decl'd per sh B ■	2.10
4.55	4.21	4.34	3.39	3.74	3.86	4.16	4.02	4.61	6.11	4.37	4.42	5.64	6.94	4.72	4.80	5.00	5.30	Cap'l Spending per sh	6.25
13.49	13.58	13.53	13.90	14.33	14.46	14.67	16.06	12.86	12.45	13.48	14.50	15.62	19.34	22.52	25.75	26.50	27.50	Book Value per sh C	30.00
8.48	9.03	9.24	9.50	9.80	10.72	10.72	10.76	10.77	10.78	11.15	11.50	11.86	12.21	13.23	13.80	14.20	14.30	Common Shs Outst'g D	15.00
11.9	13.6	14.5	13.2	15.8	16.1	12.2	13.3	13.8	21.2	13.3	13.0	13.6	13.5	13.3	12.9	Bold figures are		Avg Ann'l P/E Ratio	14.0
.90	1.01	.93	.80	.93	1.06	.82	.83	.80	1.10	.76	.85	.70	.74	.76	.69	Value Line		Relative P/E Ratio	.95
6.9%	7.7%	7.6%	6.6%	5.9%	7.4%	7.2%	6.4%	6.1%	5.3%	5.4%	5.2%	4.7%	4.6%	4.3%	4.0%	estimates		Avg Ann'l Div'd Yield	4.0%
						353.8	355.5	348.6	450.2	392.5	515.9	837.3	505.1	696.8	813.7	860	900	Revenues ($mill)	1000
						17.8	18.5	18.4	13.8	22.0	24.7	26.8	29.4	34.6	43.0	46.0	48.7	Net Profit ($mill)	60.0
						34.4%	35.5%	36.8%	46.2%	42.8%	43.1%	42.2%	41.4%	40.6%	42.0%	42.0%	42.0%	Income Tax Rate	42.0%
						5.0%	5.2%	5.3%	3.1%	5.6%	4.8%	3.2%	5.8%	5.0%	5.3%	5.4%	5.4%	Net Profit Margin	6.0%
						51.4%	46.1%	54.6%	57.3%	53.8%	54.1%	57.0%	53.6%	50.8%	49.0%	50.0%	51.0%	Long-Term Debt Ratio	52.0%
						47.9%	53.2%	35.8%	33.5%	37.0%	37.6%	35.9%	46.1%	49.0%	51.0%	50.0%	49.0%	Common Equity Ratio	48.0%
						328.4	324.8	387.1	401.1	405.9	443.5	516.2	512.5	608.4	700	750	800	Total Capital ($mill)	950
						422.7	423.9	456.5	504.3	533.3	562.2	607.0	666.6	748.3	770	825	875	Net Plant ($mill)	1050
						7.8%	7.9%	6.7%	5.3%	7.4%	7.4%	6.9%	7.6%	7.3%	6.0%	6.0%	6.0%	Return on Total Cap'l	6.5%
						11.2%	10.5%	10.5%	8.1%	11.7%	12.1%	12.1%	12.4%	11.5%	12.0%	12.5%	12.5%	Return on Shr. Equity	13.0%
						11.2%	10.6%	13.3%	10.3%	14.6%	14.8%	12.8%	12.5%	11.6%	12.0%	12.5%	12.5%	Return on Com Equity	13.0%
						1.4%	1.6%	2.1%	NMF	4.2%	4.8%	3.5%	4.7%	5.0%	6.0%	6.0%	6.0%	Retained to Com Eq	6.5%
						88%	85%	84%	112%	72%	67%	76%	62%	57%	48%	52%	53%	All Div'ds to Net Prof	53%

CAPITAL STRUCTURE as of 9/30/04
Total Debt $400.7 mill. **Due in 5 Yrs** $73.5 mill.
LT Debt $327.0 mill. **LT Interest** $17.0 mill.

(Total interest coverage: 3.8x)

Pension Assets-12/03 $83.1 mill. **Oblig.** $91.0 mill.
Pfd Stock $1.7 mill. **Pfd Div'd** $.1 mill.
16,904 Series B shs. 8% cum. ($100 par) callable 106.7
Common Stock 13,792,371 common shs. **as of 11/2/04**
MARKET CAP: $775 million (Small Cap)

CURRENT POSITION ($MILL.)	2002	2003	9/30/04
Cash Assets	4.3	4.4	7.7
Other	208.4	261.4	235.4
Current Assets	212.7	265.8	243.1
Accts Payable	76.7	80.3	64.9
Debt Due	177.2	118.1	73.7
Other	62.7	70.1	72.0
Current Liab.	316.6	268.5	210.6
Fix. Chg. Cov.	335%	378%	360%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '01-'03 to '08-'10
Revenues	5.5%	9.0%	6.0%
"Cash Flow"	3.5%	6.5%	6.5%
Earnings	5.5%	9.5%	5.5%
Dividends	0.5%	1.0%	4.5%
Book Value	3.0%	7.0%	5.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	177.0	84.2	69.1	174.8	505.1
2003	279.9	106.2	90.1	220.6	696.8
2004	305.5	134.6	128.2	245.4	813.7
2005	320	145	135	260	860
2006	335	155	140	270	900

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	1.65	.06	d.27	.99	2.43
2003	1.84	.16	d.13	.86	2.73
2004	1.82	.27	.03	.99	3.11
2005	1.85	.32	.05	1.03	3.25
2006	1.90	.40	Nil	1.10	3.40

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.365	.37	.37	.37	1.48
2002	.37	.375	.375	.375	1.50
2003	.385	.385	.385	.405	1.56
2004	.405	.405	.405	.425	1.64
2005					

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 314,000 customers in New Jersey's southern counties, which cover 2,500 square miles and include Atlantic City. Principal suppliers include Transcontinental Gas Pipeline and Columbia Gas Pipeline. Gas revenue mix: resident'l, 31%; commercial and industrial, 10%; transportion, including off-system sales and gas marketing, 54%; off-system, 4%; cogeneration, power generation. Has 643 employees. Offs./dirs. cntrl. 1.1% of com. shares; Dimensional Fund Advisors, 5.3% (3/04 proxy). Chrmn. & CEO: Edward Graham. Incorp.: NJ. Address: 1 South Jersey Plaza, Rte. 54, Folsom, NJ 08037. Telephone: 609-561-9000. Web: www.sjindustries.com.

Nonutility operations should continue to enhance South Jersey Industries' earnings growth. Net income from the Atlantic City Borgata Hotel's thermal energy plant doubled from last year. This significant growth will likely continue in upcoming years as the Borgata has planned a 500,000-square-foot expansion in 2006 and the addition of another tower in 2007 requiring sizeable enhancements to the onsite energy production facility. The contribution to net income by this operation could contribute 4.0% to 4.5% of earnings by 2007. All told, we estimate that earnings will advance 4.0%-5.0% in 2005 and 2006 with an acceleration in 2007 and 2008 as the Borgata expansions begin to fully kick in. We expect the average annual long-term growth in earnings to be roughly in line with the low end of the company's projected 6%-7% range.

Improvements on both the regulated natural gas side and the nonregulated end stand to aid in increasing the stability to the company's operations. Should British Petroleum's planned construction of a three-million-barrel liquefied natural gas storage facility in Crown Landing be approved, SJI will have access to a sizable buffer against supply shortages resulting from abnormal winter weather patterns. Moreover, access to buffer capacity will help stabilize price fluctuations during peak usage periods. Other initiatives, such as the approved construction of a methane-powered electrical generation plant at the Egg Harbor landfill, should also aid in bolstering the company's future operations. This is important as enhancement of nonutility-based services makes SJI less dependent on regulated utility-based earnings.

This issue's yield is relatively low for a utility. The stock has risen more than 15% since our last report, three months ago, and is now moving toward the upper end of our 2008-2010 target price range. Accordingly, the stock's 3- to 5- year total-return potential is low, despite the fact we believe that SJI will attain its goal of 3%-6% average annual dividend growth over that time. *(Note: Our figures do not reflect a proposed 2-for-1 stock split, which is subject to shareholder approval at the annual meeting on April 21st.)*

Edward C. Muztafago *March 18, 2005*

(A) Based on avg. shs. Excl. nonrecur. gain: '01, $0.13. Excl gain (losses) from discont. ops.: '96, $1.14; '97, ($0.24); '98, ($0.26); '99, ($0.02); '00, ($0.04); '01, ($0.02); '02, ($0.04); '03, ($0.09). Excl. gain due to acct'g change: '93, $0.04; '01, $0.14. Next egs. report due late Apr.

(B) Dividends historically paid early Jan., Apr., Jul., and Oct. ■ Div. reinvest. plan avail. (2% disc.).

(C) Incl. regulatory assets: in '03, 5.75 per shr.

(D) In mill.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	75
Earnings Predictability	85

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WGL HOLDINGS NYSE-WGL

RECENT PRICE	P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD
31.14	16.4 (Trailing: 15.2 Median: 14.0)	0.87	4.3%

VALUE LINE

TIMELINESS	4	Raised 2/11/05
SAFETY	1	Raised 4/2/93
TECHNICAL	3	Lowered 9/24/04

BETA .75 (1.00 = Market)

2008-10 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+30%)	*10%*
Low	35	(+10%)	*7%*

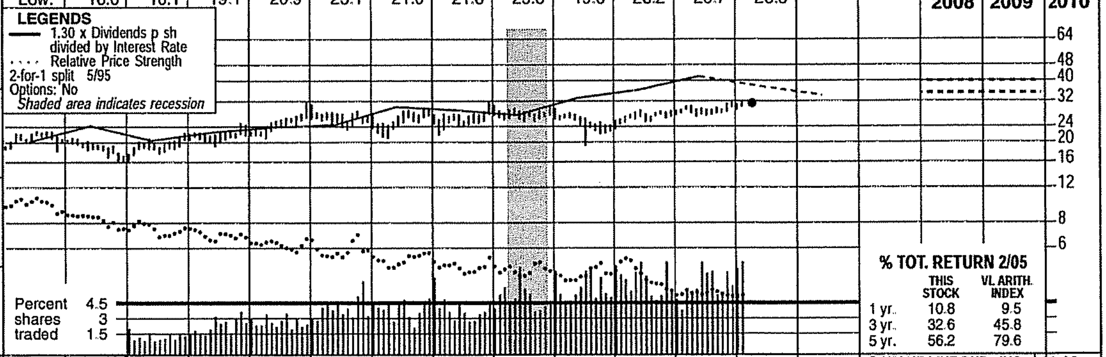
Insider Decisions

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

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	75	68	86
to Sell	66	51	60
Hld's(000)	23948	23834	24821

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
High:	21.3	22.4	25.0	31.4	30.8	29.4	31.5	30.5	29.5	28.8	31.4	31.9	
Low:	16.0	16.1	19.1	20.9	23.1	21.0	21.8	25.3	19.3	23.2	26.7	28.8	



% TOT. RETURN 2/05

	THIS STOCK	VL ARITH. INDEX
1 yr.	10.8	9.5
3 yr.	32.6	45.8
5 yr.	56.2	79.6

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
19.52	18.75	17.50	18.37	21.55	21.69	19.30	22.19	24.16	23.74	20.92	22.19	29.80	32.63	42.45	42.93	*44.35*	*46.40*	Revenues per sh A	*54.40*
2.03	2.17	2.04	2.17	2.25	2.43	2.51	2.93	3.02	2.79	2.74	3.20	3.24	2.63	4.00	3.87	*3.80*	*4.00*	"Cash Flow" per sh	*4.85*
1.22	1.26	1.14	1.27	1.31	1.42	1.45	1.85	1.85	1.54	1.47	1.79	1.88	1.14	2.30	1.98	*1.90*	*2.05*	Earnings per sh B	*2.60*
.97	1.01	1.05	1.07	1.09	1.11	1.12	1.14	1.17	1.20	1.22	1.24	1.26	1.27	1.28	1.30	*1.33*	*1.34*	Div'ds Decl'd per sh C■	*1.40*
3.00	2.38	2.05	2.17	2.43	2.84	2.63	2.85	3.20	3.62	3.42	2.67	2.68	3.34	2.65	2.33	*2.70*	*2.70*	Cap'l Spending per sh	*2.75*
9.86	10.17	9.63	10.66	11.04	11.51	11.95	12.79	13.48	13.86	14.72	15.31	16.24	15.78	16.25	16.95	*17.50*	*18.25*	Book Value per sh D	*21.35*
38.70	39.23	39.89	40.62	41.50	42.19	42.93	43.70	43.70	43.84	46.47	46.47	48.54	48.56	48.63	48.67	*48.70*	*48.70*	Common Shs Outst'g E	*48.70*
10.6	11.7	12.8	13.6	15.6	14.0	12.7	11.5	12.7	17.2	17.3	14.6	14.7	23.1	11.1	14.2	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*14.0*
.80	.87	.82	.82	.92	.92	.85	.72	.73	.89	.99	.95	.75	1.26	.63	.75			Relative P/E Ratio	*.95*
7.5%	6.9%	7.2%	6.2%	5.3%	5.6%	6.1%	5.4%	5.0%	4.5%	4.8%	4.8%	4.6%	4.8%	5.0%	4.6%			Avg Ann'l Div'd Yield	*3.7%*
						828.7	969.8	1055.8	1040.6	972.1	1031.1	1446.5	1584.8	2064.2	2089.6	*2160*	*2260*	Revenues ($mill) A	*2650*
						62.9	81.6	82.0	68.6	68.8	84.6	89.9	55.7	112.3	98.0	*95.0*	*100*	Net Profit ($mill)	*125*
						37.4%	37.7%	36.9%	35.6%	36.0%	36.1%	39.6%	34.0%	38.0%	38.2%	*37.0%*	*37.0%*	Income Tax Rate	*37.0%*
						7.6%	8.4%	7.8%	6.6%	7.1%	8.2%	6.2%	3.5%	5.4%	4.7%	*4.4%*	*4.4%*	Net Profit Margin	*4.7%*
						37.8%	37.6%	41.1%	40.3%	41.5%	43.1%	41.7%	45.7%	43.8%	40.9%	*38.5%*	*37.0%*	Long-Term Debt Ratio	*31.0%*
						58.9%	59.4%	56.2%	57.1%	56.1%	54.8%	56.3%	52.4%	54.3%	57.2%	*60.0%*	*61.0%*	Common Equity Ratio	*67.0%*
						870.6	941.1	1049.0	1064.8	1218.5	1299.2	1400.8	1462.5	1454.9	1443.6	*1480*	*1500*	Total Capital ($mill)	*1600*
						1056.1	1130.6	1217.1	1319.5	1402.7	1460.3	1519.7	1606.8	1874.9	1915.6	*1950*	*2050*	Net Plant ($mill)	*2500*
						8.7%	10.1%	9.3%	8.0%	7.1%	7.9%	7.9%	5.3%	9.1%	8.2%	*6.5%*	*7.0%*	Return on Total Cap'l	*8.0%*
						11.6%	13.9%	13.3%	10.8%	9.7%	11.4%	11.0%	7.0%	13.7%	11.5%	*10.5%*	*10.5%*	Return on Shr. Equity	*11.5%*
						12.0%	14.4%	13.7%	11.1%	9.9%	11.7%	11.2%	7.2%	14.0%	11.7%	*10.5%*	*11.0%*	Return on Com Equity	*12.0%*
						2.8%	5.6%	5.1%	2.5%	1.8%	3.7%	3.8%	NMF	6.2%	4.1%	*3.0%*	*4.0%*	Retained to Com Eq	*5.5%*
						77%	62%	63%	78%	82%	69%	67%	112%	56%	65%	*70%*	*65%*	All Div'ds to Net Prof	*53%*

CAPITAL STRUCTURE as of 12/31/04
Total Debt $794.9 mill. **Due in 5 Yrs** $315.0 mill.
LT Debt $573.7 mill. **LT Interest** $40.0 mill.
(Total interest coverage: 4.8x)

Pension Assets-9/04 $683.1 mill. **Oblig.** $655.8 mill.
Preferred Stock $28.2 mill. **Pfd Div'd** $1.3 mill.

Common Stock 48,692,959 shs. as of 1/31/05
MARKET CAP: $1.5 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2003	2004	12/31/04
Cash Assets	4.5	6.6	10.7
Other	404.4	426.3	620.5
Current Assets	408.9	432.9	631.2
Accts Payable	142.7	179.0	236.5
Debt Due	178.9	156.3	221.2
Other	64.5	77.6	169.5
Current Liab.	386.1	412.9	627.2
Fix. Chg. Cov.	487%	449%	460%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '08-'10
Revenues	6.5%	11.5%	*5.5%*
"Cash Flow"	4.5%	4.0%	*5.5%*
Earnings	3.0%	2.0%	*6.5%*
Dividends	1.5%	1.5%	*1.5%*
Book Value	4.0%	3.0%	*4.5%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2002	417.1	564.8	314.2	288.7	1584.8
2003	560.0	851.1	373.2	279.9	2064.2
2004	585.3	862.2	356.9	285.2	2089.6
2005	624.1	*880*	*365*	*290.9*	*2160*
2006	*655*	*915*	*385*	*305*	*2260*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2002	.66	1.09	d.14	d.47	1.14
2003	1.10	1.61	d.05	d.36	2.30
2004	.81	1.62	d.08	d.37	1.98
2005	.88	*1.43*	*d.06*	*d.35*	*1.90*
2006	*.94*	*1.49*	*d.05*	*d.33*	*2.05*

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.31	.315	.315	.315	1.26
2002	.315	.318	.318	.318	1.27
2003	.318	.32	.32	.32	1.28
2004	.32	.325	.325	.325	1.30
2005	.325				

BUSINESS: WGL Holdings, Inc. is the parent of Washington Gas Light, a natural gas distributor in Washington, D.C. and adjacent areas of VA. and MD. to resident'l and comm'l users (1,006,227 meters). Hampshire Gas, a federally regulated sub., operates an underground gas-storage facility in WV. Non-regulated subs.: Wash. Gas Energy Svcs. sells and delivers natural gas and provides energy related products in the D.C. metro area; Wash. Gas Energy Sys. designs/installs comm'l heating, ventilating, and air cond. systems. Has 1,914 employees. Off./dir. own less than 1% of the common stock (1/05 proxy). Chairman & CEO: J.H. DeGraffenreidt. Inc.: D.C. and VA. Address: 1100 H St., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.

WGL Holdings operates in a regulated environment, with earnings largely dependent upon the rates it is able to charge its customers. The company's first-quarter share net increased about 9%, due to the higher rates that were in effect in Washington D.C. and Maryland, along with lower income taxes, interest expenses, and customer growth (discussed below). Moreover, WGL's utility operations are weather-sensitive, which does affect its earnings. Thus far, fiscal 2005 has been about 2% colder than normal, but WGL is up against a difficult benchmark in the current quarter, as temperatures were about 10% colder than normal in the second quarter of 2004, which seems likely to lead to reduced earnings. We look for WGL to post fiscal-2005 share net of $1.90, off somewhat from the prior-year figure.

WGL is well positioned to expand its customer base. The company serves the Washington, D.C.; Virginia; and Maryland regions, among the nation's leaders in job creation. Regional economic forecasts predict the addition of over 600,000 new households over the next 20 years. In 2004, the company went over the one million active customer meter base, and management would like to increase this metric by about 25,000–30,000 per year.

The company will continue to expand its nonregulated utilities business. WGL's nonregulated utilities comprised about 8% of total income during the past three months, down from 12% in the prior-year period. This can be attributed to lower gross margins from the sale of natural gas in the Retail Energy Marketing segment, along with lower-than-budgeted performance in the HVAC segment, which reported a loss of $432,000 this past quarter. Management would like to break even on the HVAC segment in fiscal 2005, as well as expand its nonregulated business as an overall percentage of sales.

These shares have limited appreciation potential for both the year ahead and over the 3- to 5-year pull, yet may hold some appeal for income-oriented investors. With a well-covered dividend yield of 4.3%, above that of the average stock covered by *Value Line*, it carries our highest Safety rank, and stock price stability rating.

Evan I. Blatter *March 18, 2005*

(A) Beginning 1989, fiscal years end Sept. 30th. (B) Based on diluted shares. Excludes nonrecurring losses: '01, (13¢); '02, (34¢). Next earnings report due late April.
(C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available.
(D) Includes deferred charges and intangibles. '04: $156.5 million, $3.22/sh.
(E) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	70
Earnings Predictability	60

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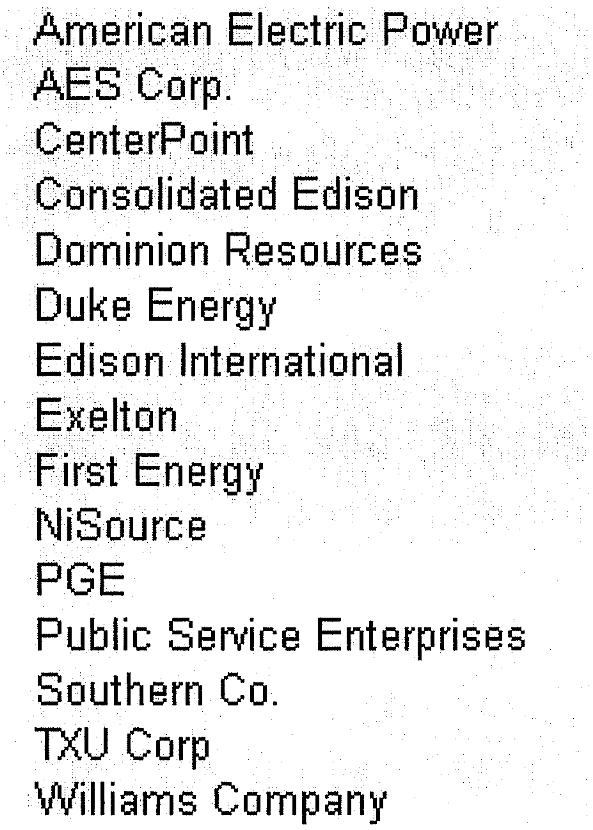
Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Union Light Heat & Power Company
Case No. 2005-00042

Witness Responding: Dr. J. Randall Woolridge

27. Provide a list of the companies represented in the Dow Jones Utilities Index and provide the percentage of total revenues provided by gas utility revenues.

Response:

The companies include:



American Electric Power
AES Corp.
CenterPoint
Consolidated Edison
Dominion Resources
Duke Energy
Edison International
Exelton
First Energy
NiSource
PGE
Public Service Enterprises
Southern Co.
TXU Corp
Williams Company

Dr. Woolridge is unaware of the percentage of revenues from gas. The analysis performed in the testimony did not pertain to gas revenues.

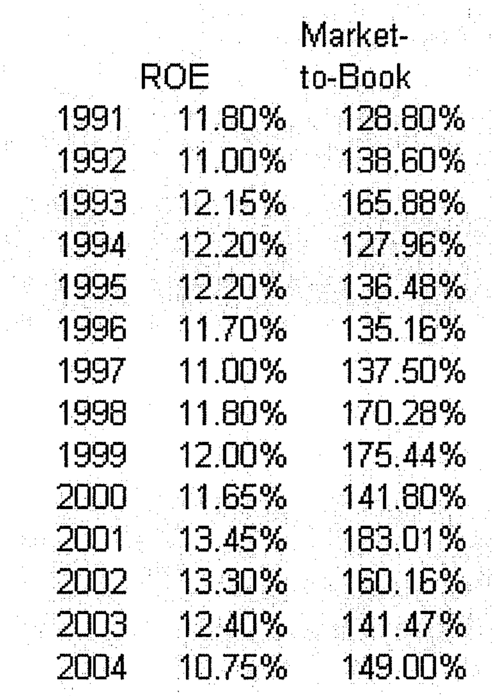
Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Union Light Heat & Power Company
Case No. 2005-00042

Witness Responding: Dr. J. Randall Woolridge

28. Refer to the Woolridge Direct Testimony, page 3 and Exhibit JRW-5.
    a. Provide a table with the Market to Book and the Return on Equity ("ROE") values used to produce the graph in the exhibit.
    b. Provide further explanation of how the graph supports the statements on lines 5-6 and lines 9-11 on page 12 of the testimony.

Response:

a. The data comes from Value Line and is listed below:



	ROE	Market-to-Book
1991	11.80%	128.80%
1992	11.00%	138.60%
1993	12.15%	165.88%
1994	12.20%	127.96%
1995	12.20%	136.48%
1996	11.70%	135.16%
1997	11.00%	137.50%
1998	11.80%	170.28%
1999	12.00%	175.44%
2000	11.65%	141.80%
2001	13.45%	183.01%
2002	13.30%	160.16%
2003	12.40%	141.47%
2004	10.75%	149.00%

b. Exhibit_(JRW-5) provides data that supports the capital cosst have declined over the past decade and, since market-to-book ratios have consistently been above 1.0, these utilities have earned returns on equity above their cosst of equity.

Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Union Light Heat & Power Company
Case No. 2005-00042

Witness Responding: Dr. J. Randall Woolridge

29. Refer to the Woolridge Direct Testimony, Exhibit JRW-5, page 3 of 3. Provide a table that contains the Market to Book and ROE values for the 11 companies in Dr. Woolridge's proxy group. Use the same format as in the table provided in response to the preceding question regarding the Dow Jones Utilities graph in the Exhibit.

Response:

a. The current return on equity and market-to-book ratios for the eleven companies in the proxy group are provided on page 1 of Exhibit_(JRW-3)

Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Union Light Heat & Power Company
Case No. 2005-00042

Witness Responding: Dr. J. Randall Woolridge

30. Refer to the Woolridge Direct Testimony, pages 15 and 16. Provide a detailed explanation of why a risk premium study, of which the Capital Asset Pricing Model is one form, provides less reliable estimates of ROE than other types of studies.

Response:

Two reasons. First, as discussed on page 18 of the testimony, since utilities are viewed as being in the maturity stage of the DCF with relatively stable growth, the components of the DCF model can be estimated, in my opinion, with more confidence. Second, there is a debate concerning how to measure an equity risk premium – and along with this debate – there are large differences in estimated equity risk premiums.

Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Union Light Heat & Power Company
Case No. 2005-00042

Witness Responding: Dr. J. Randall Woolridge

31. Refer to the Woolridge Direct Testimony, page 21, lines 5-6 and lines 16-17. Provide documentation and any official guidelines used by analysts that direct and instruct how to adjust dividend yields.

Response:

a. Provided on the CD as PSC-I-31 is the testimony of Gordon and Gould that discusses the issue.

Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Union Light Heat & Power Company
Case No. 2005-00042

Witness Responding: Dr. J. Randall Woolridge

32. Refer to the Woolridge Direct Testimony, page 24.
    a. Identify the companies that represent outliers in the data sets.
    b. Explain why each of the outliers should not be eliminated from the proxy group.
    c. Explain how averaging the median value with the mean eliminates the effect of outliers in the data.

Response:

a. On page 3 of Exhibit_(JRW-7), some of the individual historic growth rate numbers (not the companies themselves) are well above or below the norms for the group. These outliers would include the following: AGL (5-year EPS growth), Keyspan (5-year EPS growth), South Jersey (5-year EPS growth).

b. Using the median is a common way to include these observations in the sample but not allow them to distort the measure of central tendency.

c. The median mitigates the effect of the outliers, I have then averaged the mean and median figures to get a good sense of the overall central tendency of the figures.

BEFORE THE FEDERAL COMMUNICATIONS COMMISSION

IN THE MATTER OF)
)
AMERICAN TELEPHONE AND TELEGRAPH COMPANY) CC DOCKET NO. 79-63
)
PETITION FOR MODIFICATION OF)
PRESCRIBED RATE OF RETURN)

PREPARED DIRECT TESTIMONY

OF

DR. MYRON J. GORDON

AND

DR. LAWRENCE I. GOULD

APRIL, 1980

III. COST OF EQUITY CAPITAL

It is widely accepted that a public utility should earn a return on capital that allows it to raise the capital necessary to meet the demand for its services without an adverse effect on current shareholder stock. Such a rate of return is called the utility's cost of capital. A return in excess of that rate burdens the consumer with prices which are excessive and causes an unjustified transfer of income from the consuming public to the shareholders of the utility. It also encourages the utility to increase costs and prices further by overinvesting in plant facilities. On the other hand, a return on capital below the required return may discourage the utility from raising sufficient capital to meet demands for service, causing consumers to suffer an impairment in the quantity and quality of service. Therefore, if the return allowed by the Commission is either too high or too low, the result is less than satisfactory to the consumer. The testimony which follows is offered with a view to estimating as closely as possible the actual required return on capital (also called the cost of capital) and, with some care, to avoiding any bias in either direction.

In measuring the cost of capital from each source, the cost of debt and the cost of preferred capital pose few problems. It is clear that the utility must pay the embedded interest on its outstanding debt and the prescribed dividend on the preferred stock. Both of these measurements involve perfectly straightforward calculations. Somewhat more controversial is the problem of determining the cost of common equity capital.

A. General Principles

A utility's cost of common equity capital is the return or yield that investors on average require on its common stock as implied in the price that they are willing to pay to hold the stock. This implied yield is the cost of common equity capital, because the existing shareholders neither gain nor lose as a consequence of additional investment and financing, regardless of the method of financing, as long as the return the company earns on its common equity is equal to the return investors require on the stock. By contrast, when the allowed return on common is above the return investors require, each dollar of additional financing raises the value of the existing shares. Conversely, when the utility's operating income less interest on debt, income taxes, and preferred dividends does not leave a return on common equity equal to the return investors require on the stock, we not only have a depressed stock price because of the low return, but, in addition, each dollar of additional investment and financing