EDUCATION AND EMPLOYMENT HISTORY
STEPHEN G. HILL

EDUCATION

Auburn University - Auburn, Alabama - Bachelor of Science in Chemical Engineering (1971); Honors - member Tau Beta Pi national engineering honorary society, Dean's list, candidate for outstanding engineering graduate; Organizations - Engineering Council, American Institute of Chemical Engineers

Tulane University - New Orleans, Louisiana - Masters in Business Administration (1973); concentration: Finance; awarded scholarship; Organizations - member MBA curriculum committee, Vice-President of student body, academic affairs

Continuing Education - NARUC Regulatory Studies Program at Michigan State University

EMPLOYMENT

West Virginia Air Pollution Control Commission (1975)
Position: Engineer ; Responsibility: Overseeing the compliance of all chemical companies in the State with the pollution guidelines set forth in the Clean Air Act.

West Virginia Public Service Commission-Consumer Advocate (1982)
Position: Rate of Return Analyst ; Responsibility: All rate of return research and testimony promulgated by the Consumer Advocate; also, testimony on engineering issues, when necessary.

Hill Associates (1989)
Position: Principal; Responsibility: Expert testimony regarding financial and economic issue in regulated industries.

PUBLICATIONS

"The Market Risk Premium and the Proper Interpretation of Historical Data," Proceedings of the Fourth NARUC Biennial Regulatory Information Conference, Volume I, pp. 245-255.
"Use of the Discounted Cash Flow Has Not Been Invalidated," Public Utilities Fortnightly, March 31, 1988, pp. 35-38.
"Private Equity Buyouts of Public Utilities: Preparation for Regulators," National Regulatory Research Institute, Paper 07-11, December 2007.

MEMBERSHIPS

American Institute of Chemical Engineers; Society of Utility and Regulatory Financial Analysts (Certified Rate of Return Analyst, Member of the Board of Directors)

APPENDIX B

Q. PLEASE PROVIDE AN EXAMPLE WHICH DESCRIBES THE DETERMINANTS OF LONG-TERM SUSTAINABLE GROWTH.

A. Assume that a hypothetical regulated firm had a first period common equity or book value per share of $10, the investor-expected return on that equity was 10% and the stated company policy was to pay out 60% of earnings in dividends. The first period earnings per share are expected to be $1.00 ($10/share book equity x 10% equity return) and the expected dividend is $0.60. The amount of earnings not paid out to shareholders ($0.40), the retained earnings, raises the book value of the equity to $10.40 in the second period. The table below continues the hypothetical for a five year period and illustrates the underlying determinants of growth.

TABLE A.

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	GROWTH
BOOK VALUE	$10.00	$10.40	$10.82	$11.25	$11.70	4.00%
EQUITY RETURN	10%	10%	10%	10%	10%	-
EARNINGS/SH.	$1.00	$1.040	$1.082	$1.125	$1.170	4.00%
PAYOUT RATIO	0.60	0.60	0.60	0.60	0.60	-
DIVIDENDS/SH.	$0.60	$0.624	$0.649	$0.675	$0.702	4.00%

We see that under steady-state conditions, the earnings, dividends and book value all grow at the same rate. Moreover, the key to this growth is the amount of earnings retained or reinvested in the firm and the return on that new portion of equity. If we let "b" equal the retention ratio of the firm (1 – the payout ratio) and let "r" equal the firm's expected return on equity, the DCF growth rate "g" (also referred to as the internal or sustainable growth rate) is equal to their product, or

$$g = br. \qquad \text{(i)}$$

Professor Myron Gordon, who developed the Discounted Cash Flow technique and first

introduced it into the regulatory arena, has determined that Equation (i) embodies the underlying fundamentals of growth and, therefore, is a primary measure of growth to be used in the DCF model. Professor Gordon's research also indicates that analysts' growth rate projections are useful in estimating investors' expected sustainable growth.

I should note here that the above hypothetical does not allow for the existence of external sources of equity financing, i.e., sales of common stock. Stock financing will cause investors to expect additional growth if the company is expected to issue new shares at a market price that exceeds book value. The excess of market over book would inure to current shareholders, increasing their per share equity value. Therefore, if the company is expected to continue to issue stock at a price that exceeds book value, the shareholders would continue to expect their book value to increase and would add that growth expectation to that stemming from earnings retention or internal growth. Conversely, if a company were expected to issue new equity at a price below book value, that would have a negative effect on shareholder's current growth rate expectations. In such a situation, shareholders would perceive an overall growth rate less than that produced by internal sources (retained earnings). Finally, with little or no expected equity financing or a market-to-book ratio near unity, investors would expect the sustainable growth rate for the company to equal that derived from Equation (i), "g = br." Dr. Gordon[1] identifies the growth rate which includes both expected internal and external financing as:

$$g = br + sv, \qquad \text{(ii)}$$

where,

g = DCF expected growth rate,
r = return on equity,
b = retention ratio,
v = fraction of new common stock sold that accrues to the current shareholder,
s = funds raised from the sale of stock

[1]Gordon, M.J., The Cost of Capital to a Public Utility, MSU Public Utilities Studies, East Lansing, Michigan, 1974, pp., 30–33.

as a fraction of existing equity.

Additionally,

$$v = 1 - BV/MP, \qquad \text{(iii)}$$

where,

MP = market price,
BV = book value.

I have used Equation (iii) as the basis for my examination of the investor expected long-term growth rate (g) in this proceeding.

Q. IN YOUR PREVIOUS EXAMPLE, EARNINGS AND DIVIDENDS GREW AT THE SAME RATE (br) AS DID BOOK VALUE. WOULD THE GROWTH RATE IN EARNINGS OR DIVIDENDS, THEREFORE, BE SUITABLE FOR DETERMINING THE DCF GROWTH RATE ?

A. No, not necessarily. Rates of growth derived from earnings or dividends alone can be unreliable due to extraneous influences on those parameters such as changes in the expected rate of return on common equity or changes in the payout ratio. That is why it is necessary to examine the underlying determinants of growth through the use of a sustainable growth rate analysis.

If we take the hypothetical example previously stated and assume that, in year three, the expected return on equity rises to 15%, the resultant growth rate for earnings and dividends far exceeds that which the company could sustain indefinitely. The potential error in using those growth rates to estimate "g" is illustrated in the following table.

TABLE B.

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	GROWTH
BOOK VALUE	$10.00	$10.40	$10.82	$11.47	$12.157	5.00%
EQUITY RETURN	10%	10%	15%	15%	15%	10.67%
EARNINGS/SH.	$1.00	$1.040	$1.623	$1.720	$1.824	16.20%
PAYOUT RATIO	0.60	0.60	0.60	0.60	0.60	-
DIVIDENDS/SH.	$0.60	$0.624	$0.974	$1.032	$1.094	16.20%

What has happened is a shift in steady-state growth paths. For years one and two, the sustainable rate of growth (g=br) is 4.00%, just as in the previous hypothetical. Then, in the last three years, the sustainable growth rate increases to 6.00% (g=br = 0.4x15%). If the regulated firm were expected to continue to earn a 15% return on equity and retain 40% of its earnings, then a growth rate of 6.0% would be a reasonable estimate of the long-term sustainable growth rate. However, the compound annual growth rate for dividends and earnings exceeds 16% which is the result only of an increased equity return rather than the intrinsic ability of the firm to grow continuously at a 16% annual rate. Clearly, this type of estimate of future growth cannot be used with any reliability at all. In the case of the hypothetical, to utilize a 16% growth rate in a DCF model would be to expect the company's return on common equity to increase by 50% every five years into the indefinite future. This would be a ridiculous forecast for any regulated firm and underscores the importance of utilizing the underlying fundamentals of growth in the DCF model.

It can also be demonstrated that a change in our hypothetical regulated firm's payout ratio makes the past rate of growth in dividends an unreliable basis for predicting "g". If we assume our regulated firm consistently earns its expected equity return (10%) but in the third year, changes its payout ratio from 60% to 80% of earnings, the results are shown in the table below.

TABLE C.

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	GROWTH
BOOK VALUE	$10.00	$10.40	$10.82	$11.036	$11.26	3.01%
EQUITY RETURN	10%	10%	10%	10%	10%	-
EARNINGS/SH.	$1.00	$1.040	$1.082	$1.104	$1.126	3.01%
PAYOUT RATIO	0.60	0.60	0.80	0.80	0.80	7.46%
DIVIDENDS/SH.	$0.60	$0.624	$0.866	$0.833	$0.900	10.67%

What we see here is that, although the company has registered a high dividend growth rate (10.67%), it is, again, not at all representative of the growth that could be sustained indefinitely, as called for in the DCF model. In actuality, the sustainable growth rate has declined from 4.0% the first two years to only 2.0% (g=br = 0.2x10%) during the last three years due to the increased payout ratio. To utilize a 10% growth rate in a DCF analysis of this hypothetical regulated firm would 1) assume the payout ratio of the firm would continue to increase 33% every five years into the indefinite future, 2) lead to the highly implausible result that the firm intends to consistently pay out more in dividends than it earns and 3) grossly overstate the cost of equity capital.

APPENDIX C
SAMPLE COMPANY GROWTH RATE ANALYSES

WATER UTILITIES

AWR – American States Water - AWR's sustainable growth rate has averaged 1.87% over the most recent five year period (2003-2007), including a set-back with low growth in 2003. In the most recent years, the company's sustainable growth has increased steadily and was near 4% by 2007. VL expects AWR's sustainable growth to rise above that historical growth rate level and reach 6% by the 2011-2013 period. However, AWR's book value growth rate is expected to be 2.5% over the next five years, which is below the historical growth of 4.5%. AWR's earnings per share are projected to increase at an 11%, according to Value Line; 4% according to IBES and 12% according to Zack's—a very wide variation. Also, Value Line's very high earnings growth projection for AWR is predicated on an expectation of a dramatic increase in ROE over the next five years, which cannot continue indefinitely, making that 11% earnings growth rate projection unrepresentative of long-term investor expectations. Over the past five years, AWR's earnings growth was only1.5%, according to Value Line's three-year base period calculation. The company's historical dividend growth was also only 1.5%, but Value Line projects that dividends will grow at a much higher rate of 5% in the next three- to five-year period. Investors can reasonably expect long-term sustainable growth rate in the future to be higher than the past but not as high as the company's current earnings growth projections; a growth rate of **5.5%** is reasonable for AWR.

Regarding share growth, AWR's shares outstanding decreased at a 3.2% rate over the past five years. The growth the number of shares is projected by VL to increase at a 4% rate through the 2011-13 period. An expectation of share growth of **3.5%** for this company is reasonable.

AWK – American Water Works – Historical sustainable growth data for AWK is not available due to the company's recent re-emergence into the public market and because no dividend was paid during 2006 and 2007. VL projects that the internal growth will range between 1.5% and 2.6% from 2008 through 2011-13. Value Line does not publish projected five-year earnings, dividend and book value growth rates for AWK because it does not have sufficient data (Value Line uses three-year periods for beginning and ending point calculations in their growth rate analyses and AWK does not have sufficient historical data for that calculation.) However, VL does project values for per share earnings , dividends and book value for 2011-2013, which can be compared to 2008 values to obtain growth expectations. For earnings , VL's projections indicate a growth of 5.9% between 2008 and 2012 (the mid-point of the 2011-2013 projection period). Dividends, which were just initiated in 2008 , after doubling in 2009, are projected to grow at a 6.5% rate. AWK's book value, however is expected to decline between 2008 and the 2011-2013 period, moderating long-term growth expectations. The projected sustainable growth (2%), and book value growth rate data indicate that investors can expect the relatively low growth from AWK, while the earnings growth rate projections published by sell-side analysts indicates relatively high growth, with Value Line's projections of 5% to 6% dividend and earnings growth falling in between those extremes. Investors can reasonably expect a sustainable growth rate of **6.0%** for AWK.

Regarding share growth, AWK's shares outstanding showed a 0% rate of growth over the past two years. However, due to an anticipated stock issuance in 2009, AWK's growth rate in shares outstanding is expected to show a 6% rate of

increase through 2011-13. A long-term expectation of share growth of **2%** for this company is reasonable.

WTR – Aqua America – WTR's sustainable growth rate has averaged 4.04% over the most recent five-year period, with 3% growth in the most recent year. VL expects WTR's sustainable growth to rise to approximately 4.4% through the 2011-13 period. WTR's book value growth rate is expected to be 5% over the next five years, down considerably from the 10.5% rate of growth experienced over the past five years, and similar to sustainable growth projections. Also, WTR's earnings per share are projected to increase at 6% according to Value Line (7% IBES, 8% Zacks). Value Line also projects a 5.5% growth in dividends, lower than the rate of dividend growth for the previous five years (7.5%). Also Value Line shows historical earnings growth of 7%. The 5-year compound historical growth rate of earnings growth for this company is 7.7%. Investors can reasonably expect a higher sustainable growth rate in the future — **5.75%** for WTR is reasonable.

Regarding share growth, WTR's shares outstanding increased at approximately a 2% rate over the past five years. The number of shares is expected to grow at a 0.8% rate through 2011-13. An expectation of share growth of **1%** for this company is reasonable.

CWT – California Water - CWT's sustainable growth rate has averaged 1.50% over the most recent five-year period published by Value Line (2003-2007). VL expects CWT's sustainable growth to improve dramatically over recent low growth rate levels and reach 6.4% by the 2011-2013 period. However, moderating that expected increase in growth, CWT's book value growth rate is expected to be 3% over the next five years, below the 6% rate of growth experienced over the past five years, and below internal growth projections. Also, CWT's earnings per share are projected to increase at a 11% (VL) rate (again, due to a dramatic increase in earned return, which is unsustainable). IBES and Zacks project 8% and 8.4% earnings growth for CWT, respectively. CWT's dividends are expected to show 2% growth over the next five years, after growing at a 0.5% rate the previous five years, according to Value Line. Those dividend data shows higher growth expectations for the future but at an absolute level that is far below earnings growth expectations. Over the past five years, CWT's earnings growth was 4.5%. Based on projected earnings and sustainable growth, investors can reasonably expect long-term sustainable growth rate in the future to be higher than the internal growth projections published by Value Line; a growth rate of **5.5%** is reasonable for CWT.

Regarding share growth, CWT's shares outstanding increased at a 5% rate over the past five years due, in part, to an equity issuance in 2004. Since that time shares outstanding have increased at a 4% rate. The growth the number of shares is projected by VL to increase at about a 2% rate between 2007 and the 2011-13 period. An expectation of share growth of **2.5%** for this company is reasonable.

CTWS- Connecticut Water Service- CTWS's sustainable growth rate has averaged only 1.42% over the most recent five-year period, ranging between –0.48% and 3.03% over that time period. VL provides no projected data for CTWS. However, CTWS's book value growth rate averaged 4.5% over the past five years. Also, according to Value Line, which bases growth rates on three-year base periods, CTWS's earnings per share was negative (-4%), while its dividends grew at a 1.5% rate. A five-year compound growth rate analysis of the same data shows historical dividend growth of 5.79% for CTWS. Based primarily on historical book value and dividend growth, investors can reasonably expect a sustainable growth rate in the future of **5.0%** for CTWS.

Regarding share growth, CTWS's shares outstanding increased at a 1.26% rate over the past five years. An expectation of share growth of **1.0%** for this company is reasonable.

MSEX – Middlesex Water - MSEX's sustainable growth rate averaged 0.84% for the five-year period, with the results in the most recent years above that average, ranging from 1.3% to 1.8%. MSEX's book value growth averaged 6%, according to Value Line. Historically MSEX's earnings and dividends increased at a 5% and 2% rates, respectively. Both IBES and Zack's indicate earnings growth expectations for MSEX of 8%. The average of the Value Line and 5-year compound historical growth rates is 4.3%. These data, combined with lower sustainable growth and higher earnings growth projections indicate that a sustainable internal growth rate of **5.0%** is reasonable for this company.

Regarding share growth, MSEX's shares outstanding grew at approximately a 6% rate over the past five years, due to an equity issuance in 2006; subsequent to that MSEX's shares have grown at about a 0.5% rate. An expectation of share growth of **3.0%** for this company is reasonable.

PNNW – Pennichuck Water - PNNW's sustainable internal growth rate averaged –1.6% over the five-year historical period, with several negative growth years, because the company paid out more in dividends per share than it earned. However, PNNW's book value growth rate grew at a 2.5% rate during that period , according to Value Line. Calculating book value growth on a 5-year compound growth basis, PNNW's historical growth rate in book value per share is 3.4%. PNNW's dividends grew at 3%, according to VL (and 2.1% according to a simple 5-year compound growth rate analysis). The biggest discrepancy in the historical data for PNNW relates to growth in earnings per share, where Value Line's three-year base period methodology indicates historical earnings growth of –20%, while a compound growth calculation between 2003 and 2007 shows 6.5% growth in earnings. In this instance VL's methodology may be misleading because it includes the very poor earnings years of 2005 and 2006 for PNNW in which earnings per share were only $0.13 and $0.14, respectively, compared to $0.84/share in 2007 and $0.85/share projected for 2008. Therefore, investors can reasonably expect a sustainable growth rate of **4.0%** from PNNW.

Regarding share growth, PNNW's shares outstanding rose at about a 7.3% rate over the past five years. In the most recent year, that rate of increase fell to 4%. An expectation of share growth of **5%** for this company is reasonable.

SJW – Entergy Corp. - SJW's internal sustainable growth rate has averaged 4.45% over the most recent five year period (2003-2007). Also, SJW's book value growth rate was 8% over the past five years—pointing to higher growth expectations for the future. Over the past five years, SJW's earnings and dividends grew at a 9.5% and 5.5% rates, respectively, according to Value Line. Zack's projects earnings per share growth for SJW of 13.5%. On a compound growth basis, SJW's earnings dividends and book value grew over the past five years at 9.26%, 1.50% and 7.24%, respectively. These data indicate that investors can reasonably expect a sustainable growth rate in the future above past averages. Therefore, **7%** is a reasonable long-term growth expectation for SJW.

Regarding share growth, SJW's shares outstanding grew at a 0.12% rate over the past five years. An expectation of share growth of **0%** for this company is reasonable.

YORW – York Water - YORW's sustainable growth rate has averaged 2.19% over the most recent five year period (2003-2007), with lower growth in the most recent year. VL reports YORW's historical book value growth rate to be 7.5% over the past five years and 2.5% during the most recent year. YORW's earnings per share were 6.5% over the past five years and –1.5% during the most recent year. Value Line does not report five-year dividend growth for YORW, but indicates one-year dividend growth of 4.5%. A five-year compound growth rate analysis shows an historical dividend growth rate of 6.4%. Investors can reasonably expect a sustainable growth rate in the future of **5.0%** for YORW.

Regarding share growth, YORW's shares outstanding grew at a 4% rate over the past five years. That rate of growth slowed to 0.6% in the most recent year. An expectation of share growth of **2%** for this company is reasonable.

GAS DISTRIBUTION UTILITIES

ATG – AGL Resources - ATG's internal sustainable growth rate has averaged 5.8% over the most recent five year period (2003-2007). Sustainable growth is expected to decline, reaching 5.6% by the 2011-2013 period. Also, ATG's book value growth rate is expected to be 2.0% over the next five years—far below the 10.5% rate of growth experienced over the past five years. ATG's earnings are projected to increase at a rate of from 3% (Value Line) to 4.25% (IBES) to 4.0% (Zack's). ATG's dividends are expected to show 4% growth. Over the past five years, ATG's earnings grew at a 15% rate according to Value Line (but 5.36% on a compound growth basis) while its dividends showed 4% growth. Dividends are projected to grow at 4%. These data indicate that investors can reasonably expect a sustainable growth rate in the future above past averages. Therefore, **4.5%** is a reasonable long-term growth expectation for ATG.

Regarding share growth, ATG's shares outstanding grew at a 4.32% rate over the past five years, due, primarily, to a stock issuance in 2004. Since 2004, share growth has been slightly negative. The number of shares outstanding is projected by Value Line to continue to increase at approximately a 1% rate through 20011-13. An expectation of share growth of **1%** for this company is reasonable.

GAS – NICOR - GAS's sustainable growth rate averaged 3.30% over the most recent five year period, but the most recent two years were above that average indicating an upward trend. VL expects GAS's sustainable growth, after declining in 2008 and 2009 to exceed that historical growth rate level, to about 6%, by the 2011-2013 period. GAS's book value growth rate is expected to be 4.5% over the next five years, similar to the 4.0% rate of growth experienced over the past five years. GAS's earnings per share is projected to increase at a 4.0% (VL) to 2.85% (IBES) to 6.5% (Zack's) rate—only Zack's earnings projections are near the indicated internal growth rate. GAS's dividends are expected to grow at a 0% rate, moderating long-term growth rate expectations. Over the past five years, GAS's earnings growth was –1.5% while its dividends increased at a 1.0% rate. Investors can reasonably expect a sustainable growth rate in the future of **4.75%** for GAS.

Regarding share growth, GAS's shares outstanding increased at a 1.04% rate over the past five years. The number of shares outstanding in 2011-2013 is expected to show a –0.4% growth rate from 2007 levels. An expectation of share growth of **0%** for this company is reasonable.

NI – NiSource - NI's sustainable growth rate averaged 2.01% over the most recent five year period, but the most recent two years were below that average indicating a moderating trend. VL expects NI's sustainable growth, after declining in 2008 and

2009 to exceed that historical growth rate level, to 2.9%, by the 2011-2013 period. NI's book value growth rate is expected to be 2.0% over the next five years, equal to the 2.0% rate of growth experienced over the past five years. NI's earnings per share are projected to increase at a rate of 5% (VL), Zack's (2.5%) and IBES (1.6%). NI's dividends are expected to grow at a 1.5% rate—an improvement over the negative growth in the past. Over the past five years, NI's earnings growth was negative5%, according to VL. Investors can reasonably expect a sustainable growth rate in the future higher than that of the past and **2.0%** is reasonable for NI.

Regarding share growth, NI's shares outstanding increased at approximately a 1.1% rate over the past five years. That rate of increase is expected to decline in the future to a 0.2% rate through 2011-2013. An expectation of share growth of **0.5%** for this company is reasonable.

NWN – Northwest Natural Gas - NWN's sustainable growth rate has averaged 3.86% over the most recent five-year period, with an upward trend. VL expects NWN's sustainable growth to increase to approximately 4.8% by the 2011-2013 period. NWN's book value growth rate is expected to be 3.5% over the next five years, consistent with the 3.5% rate of growth experienced over the past five years, pointing to stable growth in the future. Also, NWN's earnings per share are projected to increase at a rate of from 7% (Value Line), to 4.75% (IBES), to 6.8% (Zack's). Over the past five years, NWN's earnings growth was 6.5% according to Value Line. Historically, dividends grew at a 2% rate, and VL expects that rate to increase to 5.5% over the next five years. Investors can reasonably expect a higher sustainable growth over the long term — **5.25%** for NWN is reasonable.

Regarding share growth, NWN's shares outstanding increased at a 0.45% rate over the past five years. The number of shares is expected to increasea to a 1.2% rate through 2011-13. An expectation of share growth of **0.75%** for this company is reasonable.

PNY – Piedmont Natural Gas - PNY's sustainable growth rate, relatively stable througout the period, has averaged only 3.3% over the most recent five-year period. VL projects that PNY's sustainable growth will rise to about 5.5% within three to five years. PNY's book value growth rate was relatively high—6.5%—over the past five years, but VL projects that growth will decline to a 4.5% rate in the future. Value Line reports that PNY's earnings per share are projected to increase at a rate of 7.5%; IBES and Zack's project similar earnings growth (7.13% and 7.6%, respectively). Historically, earnings per share increased at 6% and dividends grew at a 4.5% rate, and Value Line projects that dividend growth will decline to 4% over the next three- to five-year period, moderating long-term growth expectations. Investors can reasonably expect a higher sustainable growth over the long term — **5.5%** for PNY is reasonable.

Regarding share growth, PNY's shares outstanding increased at a 2.13% rate over the past five years. Value Line projects that the number of shares will remain constant over the next three to five years. An expectation of share growth of **0.5%** for this company is reasonable.

SJI – South Jersey Industries - SJI's sustainable growth rate has averaged 6.8% over the most recent five year period (2003-2007), including a high earnings year in 2006. VL expects SJI's sustainable growth to rise above that historical growth rate level and reach 9% by the 2011-2013 period, through a dramatically increased ROE. However, SJI's book value growth rate is expected to be 4.5% over the next five years, which is significantly below the historical growth of 12.5%. That information would tend to moderate long term growth expectations. SJI's earnings per share are projected to increase at a 6%, according to Value Line; 7.5% according to IBES and

8% according to Zack's. Over the past five years, SJI's earnings growth was 12.5%, according to Value Line's three-year base period calculation. The company's historical dividend growth was 4.5%, but Value Line projects that dividends will grow at a slightly higher rate of 5.5% in the next three- to five-year period. Investors can reasonably expect long-term sustainable growth rate in the future to be higher than the past but not as high as the company's current earnings growth projections; a growth rate of **6.5%** is reasonable for SJI.

Regarding share growth, SJI's shares outstanding increased at a 2.85% rate over the past five years. The growth the number of shares is projected by VL to increase at a 1.5% rate through the 2011-13 period. An expectation of share growth of **2%** for this company is reasonable.

SWX – Southwest Gas – Historical sustainable growth data for SWX averaged 3.6% over the past five years with an increasing trend. VL projects that the internal growth will continue to risk from 2008 through 2011-13, reaching 5.5%. Value Line's projected five-year book value growth rate for SWX is 4.0%, which is slightly greater than the 3.5% historical rate. VL projects SWX's earnings will increase at a 6.5% rate while the analysts polled by IBES and Zack's indicate 6% and 8% earnings growth for the future. Dividends, which have showed 0% growth historically, are projected to grow at a 4% rate in the future. The projected sustainable growth (2%), and book value growth rate data indicate that investors can expect the relatively low growth from SWX, while the earnings growth rate projections published by sell-side analysts indicates relatively high growth, with Value Line's projections of 5% to 6% dividend and earnings growth falling in between those extremes. Investors can reasonably expect a sustainable growth rate of **5.25%** for SWX.

Regarding share growth, SWX's shares outstanding showed a 5.75% rate of growth over the past two years. However, SWX's growth rate in shares outstanding is expected to show a 2.3% rate of increase through 2011-13. A long-term expectation of share growth of **3.5%** for this company is reasonable.

WGL – WGL Holdings – WGL's sustainable growth rate has averaged 4.30% over the most recent five-year period, with 3.6% growth in the most recent year. VL expects WGL's sustainable growth to remain at approximately 4% through the 2011-13 period. WGL's book value growth rate is expected to increase somewhat to 5% from the 3.5% rate of growth experienced over the past five years, and slightly above the sustainable growth projections. Also, WGL's earnings per share are projected to increase at 3.5% according to Value Line (4% IBES, 7.5% Zacks). Value Line also projects a 2.5% growth in dividends, higher than the rate of dividend growth for the previous five years (1.5%), but well below other growth rate projections. Also Value Line shows historical earnings growth of 5%. Investors can reasonably expect a higher sustainable growth rate in the future — **4.5%** for WGL is reasonable.

Regarding share growth, WGL's shares outstanding increased at approximately a 0.42% rate over the past five years. The number of shares is expected to grow at a 0.2% rate through 2011-13. An expectation of share growth of **0.25%** for this company is reasonable.

CPK – Chesapeake Utilities Corp. - CPK's sustainable growth rate has averaged 4.2% over the most recent five-year period published by Value Line (2003-2007). CPK's book value growth rate was 6% over the past five years, and above internal growth. Also, IBES and Zacks project 5.1% and 6.8% earnings growth for CPK, respectively. CPK's dividends grew at a 1.5% rate the previous five years, according to Value Line. Those dividend data indicate lower growth expectations

for the future, below earnings growth expectations. Over the past five years, CPK's earnings growth was 8%, according to Value Line, but a 5-year compound growth analysis indicates 2.4% historical earnings growth. Based on projected earnings and sustainable growth, investors can reasonably expect long-term sustainable growth rate in the future to be higher than the internal growth projections published by Value Line; a growth rate of **5%** is reasonable for CPK.

Regarding share growth, CPK's shares outstanding increased at a 4.6% rate over the past five years due, in part, to an equity issuance in 2006. Since that time shares outstanding have increased at a 1.3% rate. An expectation of share growth of **2.5%** for this company is reasonable.