1. In all previous proceedings in which Kentucky-American applied for a general rate adjustment using a fully forecasted test period, the Commission found that "slippage" adjustments were appropriate to account for the effect of capital construction budget variances for the 10 years prior to the forecasted period.

a. State whether the AG agrees with the use of slippage adjustments in general adjustment rate proceedings in which a fully forecasted test period is used.

b. Refer to Kentucky-American's Response to Commission Staff's Second Information Request, item 36. State whether the AG agrees with the slippage adjustments set forth in that response.

c. Explain why the AG witnesses have not proposed slippage adjustments or otherwise included such adjustments in their recommendations.

RESPONSE:

Notice by Counsel: The Attorney General notes that Kentucky-American Water Company has utilized a forward-looking test period in the following cases. Case No. 92-452; Case No. 94-197; Case No. 95-554; Case No. 97-034; Case No. 2000-00120; Case No. 2004-00103; Case No. 2007-00143; and Case No. 2008-00427. Three of these cases, 94-197, 2007-00143, and 2008-00427, were "settled" through the Commission's review of unanimous recommendations and stipulations by the parties. With regard to these three cases, the Attorney General submits that the Orders did not contain specific findings regarding slippage factors or adjustments. For the remaining, "fully-litigated," cases, the Attorney General agrees that slippage factors and adjustment were utilized.

a. The OAG agrees that in general "slippage" adjustments can be appropriate in rate proceedings that utilize a forecasted test period where there is an established multi-year pattern of utility over-projection of construction expenditures and/or plant additions. The OAG does not agree that "slippage" adjustments should be used to add additional plant to rate base beyond that forecast by a utility. The OAG did not propose a slippage adjustment in KAWC's last rate case, Docket 2008-00427, or in the case before that one, Docket 2007-00143.

b. No. The OAG does not agree that a "slippage" adjustment should be applied to increase rate base, depreciation expense and the total revenue requirement beyond the utility's forecast, which is what the "slippage" adjustment listed in KAWC's response to Staff set 2, item 36 would effectively do in the context of the current KAWC rate case. The purpose of "slippage" adjustments are to protect ratepayers from utility overestimations of rate base that can result from utility overestimations of cost, from slippage of in-service dates of plant, from construction delays, capital expenditure deferrals, etc. Where demonstrations of a pattern of utility over-projections have occurred, a "slippage" adjustment, to reduce specific rate base components, is applied for ratemaking purposes as a ratepayer safeguard. Because the utility is sufficiently incented by its shareholders to not underestimate its additions to utility plant, there is no need for a ratepayers safeguard through a "reverse" slippage factor. In fact, in such a situation, it would not be a "slippage" adjustment because it is not relating to the protecting ratepayers from the risks of utility overestimation.

RESPONSE OF THE WITNESS:

c. No "slippage" adjustment appeared to be warranted in the context of the current KAWC rate case. Also see the response to part b.

2. AG witness Ralph C. Smith proposes to eliminate Construction Work In Progress ("CWIP") from Kentucky-American's forecasted rate base and to remove the Allowance for Funds Used During Construction ("AFUDC") from forecasted operating revenues.[1]

a. State whether Mr. Smith is aware that the Commission has previously allowed Kentucky-American to include CWIP in rate base but offset the return by including AFUDC in operating revenues.

b. State whether Mr. Smith agrees with the statement below:

> Generally, regulated utilities recognize the carrying costs of construction in rates through one of two methods: inclusion of CWIP in rate base or accrual of Allowance for Funds Used During Construction ("AFUDC"). This Commission has, in previous Kentucky-American rate proceedings, applied a hybrid approach that combines these two methods. This approach allows Kentucky-American to include all CWIP in rate base while accruing AFUDC on projects taking longer than 30 days to complete. Under this approach, AFUDC revenue is reported "above the line." This approach eliminates the effects of including AFUDC bearing CWIP in rate base. It further allows Kentucky-American to accrue AFUDC as part of an asset's cost where appropriate and to earn a return on CWIP where AFUDC is not accrued.
>
> We are not persuaded by the AG's argument that customers paying the rates approved in this case may never receive service from CWIP included in rate base. Effectively, the only CWIP upon which Kentucky-American will earn a return is that which will be completed and placed into service within 30 days of its construction start date.[2]

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[1] Direct Testimony of Ralph C. Smith at 10-16 and 32 (filed June 11, 2010).

[2] Case No. 2004-00103, Adjustment of Rates of Kentucky-American Water Company (Ky. PSC Feb. 28, 2005) at 11.

c. If Mr. Smith does not agree with the statement set forth in item 2(b), explain why.

d. List the events or changing conditions that have occurred since the issuance of the Commission's Order of February 28, 2005 in Case No. 2004-00103 that would require the Commission to reconsider and modify its position on CWIP and AFUDC as expressed in that Order.

RESPONSE:

a. Yes.

b. Mr. Smith agrees that the first paragraph describes how the Commission has addressed CWIP and AFUDC in prior KAWC rate cases, specifically in Case No. 2004-00103. The single largest component of CWIP in the last KAWC rate case, Docket No. 2008-00427, KRS II, has been completed and is providing service. The OAG is not arguing in the current KAWC rate case that customers paying the rates approved in this case "may never receive service from CWIP included in rate base," so that part of the statement does not appear to be applicable to the current case. With respect to the last sentence, the hybrid method allows KAWC to earn a return on <u>all</u> CWIP; KAWC earns a cash return on non-AFUDC CWIP and an AFUDC return on the remaining CWIP.

c. See response to b, above.

d. Events and changing conditions since February 28, 2005, that the Commission may want to consider in re-evaluating its ratemaking treatment of CWIP and AFUDC in the current KAWC rate case include the frequent and relatively large rate increases that KAWC's customers have borne between February 2005 and today, the worldwide financial crisis, the worst U.S. recession since the Great Depression, the continuing high level of unemployment, the still fragile economy, the size of KAWC's current rate increase request, KAWC's financial health, KAWC's prospective need to access financial markets during the anticipated rate effective period in the current case, and the fact that many of KAWC's customers are likely to still be struggling to make ends meet as a result of such conditions and could therefore need currently, perhaps more than was the case in 2005, a modest break in the size of their water rate increase that would result from the exclusion of CWIP and AFUDC in the current KAWC rate case.

3. State the net revenue requirement effect of Mr. Smith's proposal to exclude CWIP from rate base and to remove AFUDC from operating revenues.

RESPONSE:

The approximate net revenue requirement effect of OAG Adjustments B-1 of \$(1,172,277) and C-3 of \$652,067, both are shown on Exhibit RCS-1, Schedule A, page 2 of 2, on lines 8 and 18, respectively, is \$(520,210). That is, the net reduction to the revenue requirement from these two adjustments is approximately \$520,000. This approximate impact does not attempt to include fine-tuning for cash working capital and interest synchronization impacts.

4. In his direct testimony, Mr. Smith discusses a "Major Tax Accounting Change" for the method of accounting for repairs and maintenance.[3]

a. Provide a detailed description of the referenced change.

b. Explain how this change affects the calculation of deferred income taxes.

RESPONSE:

a. The referenced change involved a major change in the income tax accounting applied by American Water Works Company (AWWC) and its subsidiaries/Transmission and Distribution business segments, including KAWC, for repairs and maintenance expenditures, effective as of January 1, 2008. See the materials included in Attachment RCS-3 filed with Mr. Smith's direct testimony for additional details.

b. As a result of the change in tax accounting method, AWWC effectively restated past amounts reported on its income tax returns filed by the IRS with certain amounts that were previously being capitalized and depreciated for income tax purposes being expensed for income tax purposes. This resulted in a substantial refund of past income tax payments or a substantial reduction in the income taxes paid in the year the change was implemented and results in a higher annual deduction on the income tax returns going forward as costs that were previously capitalized and depreciated for income tax purposes are now being expensed. As the income taxes are normalized in Kentucky for ratemaking purposes, this resulted in a tax-timing difference in that the Company deducts the costs on its income tax return as a current period expense while the costs are capitalized and depreciated for ratemaking purposes. Given the tax-timing difference and immediate reductions to income taxes paid to the IRS, the Company has use of the funds prior to them being recognized for regulatory accounting purposes. Thus, Accumulated Deferred Income Taxes have increased and this should be recognized and should result in a reduction in rate base. The Company has the use of a cost-free source of funds in the form of Accumulated Deferred Income Taxes which should be reflected as a deduction to rate base. Impacts by component were provided by KAWC to the OAG in the KAWC supplemental information shown on the attachment to this response, PSC-OAG-1-4-b.PDF. Mr. Smith's Attachment RCS-2, Schedule B-7 will be updated to reflect the necessary adjustment, which is expected to reduce KAWC's proposed rate base by $2,392,803 to reflect the full amount of the cost-free source of funds as ADIT that KAWC has the use of, but has not reflected as a deduction to rate base in the derivation of KAWC's rate base.

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[3] Direct Testimony of Ralph C. Smith at 21 - 27.

5. At page 25 of his direct testimony, Mr. Smith states that he is "aware of this issue, involving a major change to a utility's tax accounting method, being raised in some recent electric utility rate cases." For each of the cases to which Mr. Smith is referring:

a. State the state utility regulatory commission before which the case was brought, the case style and case number, and the name of electric utility involved; and

b. Provide a copy of all orders from the utility regulatory commission proceeding in which the accounting change was discussed.

RESPONSE:

a. Mr. Smith is currently aware of the following recent electric utility rate cases in which similar major change to a utility's tax accounting method for repairs were addressed:

1) District of Columbia Public Service Commission, Formal Case No. 1076, Potomac Electric Power Company.
2) Utah Public Service Commission, Rocky Mountain Power Company. *In the Matter of the Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations*, Docket No. 09-035-23, and *In the Matter of the Division of Public Utilities' Review and Audit of Rocky Mountain Power's Deferred Tax Normalization Method*, Docket No. 09-035-03, Order Approving Stipulation Regarding Change In Income Tax Treatment Of Repair Deductions And Basis Normalization, issued December 8, 2009.
3) Washington Utilities And Transportation Commission, Docket No. UE 090704/UG 090705, Puget Sound Energy, Inc.

b. See attached for copies of orders in the above-referenced dockets.

6. At page 15 of his direct testimony, Mr. Smith states that "[i]t is not appropriate to include CWIP in rate base, particularly as the projects may result in additional revenues or cost savings which have not been reflected in the future test year ended September 30, 2011."

a. Identify all construction projects that are included in CWIP that will definitely result in additional revenues and provide the calculation of the expected additional revenues that will occur as a result of the identified project(s).

b. Identify all construction projects that are included in CWIP that will definitely result in cost savings and provide the calculation of the expected cost savings that will occur as a result of the identified project(s).

RESPONSE:

a. The referenced statement was general in nature; at this time, we have not identified the specific information requested.

b. The referenced statement was general in nature; at this time, we have not identified the specific information requested.

7. Explain why, as the Commission has permitted a cash return on CWIP for the jurisdictional electric and gas utilities, it should not afford the same ratemaking treatment to Kentucky-American.

RESPONSE:

The issue of whether a utility requires a cash return on CWIP should be examined in the context of each individual utility rate case. Among the factors that the Commission may want to consider are those cited in Mr. Smith's testimony in the current KAWC rate case.

Additionally, the Commission may want to consider that the calculation of the AFUDC rate proposed by KAWC is its overall rate of return. For electric utilities, the AFUDC rate can be significantly lower than the overall rate of return because, for electric utilities that follow the Uniform System of Accounts (USOA) prescribed by the Federal Energy Regulatory Commission (FERC), low cost short-term debt is applied first to construction in deriving the FERC-prescribed AFUDC rate. Per 18 CFR Chapter 1, Electric Plant Instructions, Components of Construction Cost, Allowance for Funds Used During Construction (AFUDC), provides for the FERC formula for computing AFUDC that effectively computes the AFUDC rate based on first applying short-term debt to construction, such that, to the extent that short-term debt is equal to or exceeds the construction balance, the AFUDC rate would be the short-term debt interest rate. In other words, there may be a difference in the AFUDC procedure that KAWC has applied versus what an electric utility following the Electric Plant Instructions in the FERC USOA would apply. The Commission may want to consider such differences in how AFUDC is calculated by different types of utilities in deciding whether to apply a different treatment for CWIP and AFUDC in the current KAWC rate case.

Additionally, the use of a forward-looking test period rather than an historical test period could be a significant factor for consideration. Specifically, KU and LG&E, in their pending rate applications [Note: Case Numbers 2009-00548 and 2009-549, respectively], are using historical test periods in support of their requests for rate increases. In Kentucky, the majority of rate adjustment applications are supported by historical test periods, and the practices and rationales associated with that type of application do not necessarily transfer over to forward-looking test periods. For years, KAWC was the only Kentucky utility that utilized a forward-looking test period. Because the use of a forward-looking test year, by its very nature, includes in rate base plant that had been under construction but which is projected to be completed during the future test year, that represents a different situation than a determination of rate base for a utility filing using an historic test year.

8. State whether Mr. Smith believes that the use of the 1/8 formula approach to calculate Kentucky-American's cash working capital is a reasonable alternative to the use of a cash working capital study. Explain.

RESPONSE:

No. The 1/8 formula does not consider the actual cash flow of the utility and would produce a cash working capital requirement even in situations where one does not exist.

9. State whether Mr. Smith agrees with the following statement: "To demonstrate that the inclusion of forecasted business development costs are reasonable and appropriately included in Kentucky-American's regulated operations, Kentucky-American must document and separate forecasted management fees from those that are directly assignable and those that are allocated.[4] Explain.

RESPONSE:

In general, yes. KRS 278.190(3) assigns the burden of proof to show that the increased rate or charge is just and reasonable upon the utility. As was pointed out by the Kentucky Public Service Commission in Case No. 9482: Kentucky-American must prove that ratepayers benefit from an expenditure in order to recover the expense through rates. (*In the Matter of: Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on and After February 7, 1986*, Case No. 9482, Order, 8 July 1986, at page 22.) Additionally, it is necessary for the expense to be essential to the provision of reasonable service. (*In the Matter of: Adjustment of Rates of Columbia Gas of Kentucky, Inc.*, Case No. 10498, Order, 6 October 1989, at page 30.) Incidental or speculative benefit is not sufficient. If Kentucky-American fails to meet its burden of proof, then the expenditure is borne by Kentucky-American's investors.

4 *See* Case No. 2004-00103, Order of Feb. 28, 2005 at 53.

10. a. List all state utility regulatory commissions that have adopted consolidated income tax adjustments for ratemaking purposes.

b. Provide a copy of all orders from the state utility regulatory commissions listed in the response to item 10(a) in which the commission has addressed the use of consolidated income tax adjustments for rate-making purposes.

RESPONSE:

a. We do not have the requested information of "all state utility regulatory commissions that have adopted consolidated income tax adjustments for ratemaking purposes." We are aware in general that the following regulatory jurisdictions have utilized some form of rate recognition for consolidated income tax savings for ratemaking purposes: Pennsylvania, New Jersey, Texas, Connecticut, Oregon, West Virginia and Kentucky.

Mr. Smith also has general knowledge about an "actual taxes paid" doctrine that he understands has been applied in utility ratemaking proceedings, which limits income tax expense to amounts paid. One well-known articulation of the actual taxes paid doctrine is contained in the U. S. Supreme Court decision ***In Federal Power Commission v. United Gas Pipe Line Company et al.***, 386 U.S. 237, 87 S.Ct. 1003, 18 L.Ed.2d 18 (1967), where the United States Supreme Court ruled:

> In our view what the Commission did here did not exceed the powers granted to it by Congress. One of its statutory duties is to determine just and reasonable rates which will be sufficient to permit the company to recover its costs of service and a reasonable return on its investment. Cost of service is therefore a major focus of inquiry. Normally included as a cost of service is a proper allowance for taxes, including federal income taxes. The determination of this allowance, as a general proposition, is obviously within the jurisdiction of the Commission. Ratemaking is, of course subject to the rule that the income and expense of unregulated and regulated activities should be segregated. But there is no suggestion in these cases that in arriving at the net taxable income of United the Commission violated this rule. Nor did it in our view in determining the tax allowance. United had not filed its own separate tax return. Instead it had joined with others in the filing of a consolidated return which resulted in the affiliated group's paying a lower total tax than would have been due had the affiliates filed on a separate-return basis. The question for the Commission was what portion of the single consolidated tax liability belonged to United. Other members of the group should not be required to pay any part of United's tax, but neither should United pay the tax of others. A proper allocation had to be made by the Commission. Respondents insist that in making the allocation the Commission would violate the statute unless in every conceivable circumstance, including this one, United is allowed an amount for

> taxes equal to what it would have paid had it filed a separate return. In their view United should never share in the tax savings inherent in a consolidated return, even if on a consolidated basis system losses exceed system gains and neither the affiliated group nor any member in it has any tax liability. This is an untenable position and we reject it. Rates fixed on this basis would give the pipeline company and its stockholders not only the fair return to which they are entitled but also the full amount of an expense never in fact incurred. In such circumstances, the Commission could properly disallow the hypothetical tax expense and hold that rates based on such an unreal cost of service would not be just and reasonable.
>
> It is true that the avoidance of tax and the reduction of the tax allowance are accomplished only by applying losses of unregulated companies to the income of the regulated entity. But the Commission is not responsible for the use of consolidated returns. It is the tax law which permits an election by an appropriate group to file on a consolidated basis. The members of a group, as in these cases, themselves chose not to file separate returns and hence, for tax purposes, to mingle profits and losses of both regulated and unregulated concerns, apparently deeming it more desirable to attempt to turn the losses of some companies into immediate cash through tax savings rather than to count on the loss companies themselves having future profits against which prior losses could be applied. Such a private decision made by the affiliates, including the regulated member, has the practical and intended consequence of reducing the group's federal income taxes, perhaps to zero, as was true of one of the years involved in the Cities Service case. But when the out-of-pocket tax cost of the regulated affiliate is reduced, there is an immediate confrontation with the ratemaking principle that limits cost of service to expenses actually incurred. Nothing in Colorado Interstate or Panhandle forbids the Commission to recognize the actual tax saving impact of a private election to file consolidated returns. On the contrary, both cases support the power and the duty of the Commission to limit cost of service to real expenses.

386 U.S. at 243-44. Thus, the highest court in the nation has upheld a regulator's decision to "limit cost of service to real expenses" by recognizing the fact that the utility was participating in a consolidated income tax return which resulted in the group paying lower federal income taxes.

b. We do not have all orders where a state utility regulatory commission has addressed the use of consolidated income tax adjustments for rate-making purposes. The OAG reserves the right to cite cases in legal filings in this case, including briefs.

11. a. List all state utility regulatory commissions that have rejected or denied consolidated income tax adjustments for rate-making purposes.

b. Provide a copy of all orders from the state utility regulatory commissions listed in the response to item 11(a) in which the commission has addressed the use of consolidated income tax adjustments for rate-making purposes.

RESPONSE:

a. We do not have the requested information. See the OAG response to Staff Request 10 for what we have.

b. See response to part a.

12. In Case No. 2004-00103, the Commission accepted the AG's proposal to adjust Kentucky-American's forecasted current and deferred income tax expenses to reflect the use of a consolidated tax return because it had previously held that the savings resulting from the filing of a consolidated tax filing was a merger benefit, subject to allocation.[5] Explain why, as Kentucky-American is no longer an affiliate of either Thames Water Aqua Holdings, Thames Water Aqua US Holdings, Inc., or RWE Aktiengesellschaft, a consolidated income tax adjustment is reasonable and appropriate.

RESPONSE:

The existence of consolidated federal income tax savings in the filing of a consolidated U.S. federal income tax return by American Water Works Company (AWWC) is not dependent upon whether or not AWWC is owned by a foreign entity. See the direct testimony of OAG witness Michael Majoros in prior KAWC rate case, Case No. 2007-00143, the direct testimony of OAG witness Robert Henkes in the last KAWC rate case, Docket No. 2008-00427, and the direct testimony of OAG witness Ralph Smith in the current KAWC rate case.

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5 Id. at 65-66.

13. Refer to Direct Testimony of Ralph C. Smith at 29-32. State whether Mr. Smith's proposed consolidated income tax adjustment conforms to the federal income tax normalization requirements. Explain.

RESPONSE:

The adjustment uses the effective tax rate method that has been used in other utility rate cases, including previous KAWC rate cases, and approved by the Commission in Case No. 2004-00103. On September 11, 1991, the Subcommittee on Select Revenue Measures of the Committee on Ways and Means of the United States House of Representatives held a hearing on the subject. At the hearing, a statement of the issue and the IRS's present position was given by Michael J. Graetz, Deputy Assistant Secretary of Tax Policy, U.S. Department of Treasury. In the absence of regulations specifically prohibiting consolidated tax adjustments, the IRS's position is that these adjustments can be made without violating the normalization requirements of the Internal Revenue Code.

14. Refer to Direct Testimony of Dr. J. Randall Woolridge at 17. Provide a copy of the case study to which Dr. Woolridge refers in footnote 2.

RESPONSE: Please see the attached document.

Note on Value Drivers[1]

Value-based management assumes that value creation should be a primary consideration in managerial decision making. It requires a thorough understanding of what creates value and why as well as the ability to measure value accurately. The goal of this note is to highlight the determinants of equity value and, in doing so, provide a framework for making financial, strategic, and investment decisions. In particular, the note describes three value drivers: profitability, advantage horizon, and reinvestment. Using both a theoretical model and a numerical example, it shows how each value driver affects equity value and explains why. It also presents empirical evidence to support the relation between the value drivers and value creation.

Theoretical Equity Valuation Model

Discounted cash flow (DCF) analysis translates future cash flows into current market values. For example, given a stream of equity cash flows (ECF) and a discount rate equal to the cost of equity (K_E), the market value of equity (E_{MV}) is the present value of future equity cash flows:

$$E_{MV} = ECF_1/(1+K_E) + ECF_2/(1+K_E)^2 + \ldots \qquad (1)$$

When the equity cash flows and discount rate are constant over time, this series is a stable perpetuity which can be written as:

$$E_{MV} = ECF/K_E \qquad (2)$$

Assuming that the equity cash flows are equal to the accounting return on equity (ROE) times the book value of equity (E_{BV}) at the beginning of the period, then equation 2 can be rewritten as:

$$E_{MV} = [(ROE)*(E_{BV})]/K_E \qquad (3)$$

$$\text{where } ROE = \text{Net Income}/E_{BV}$$

While the assumption that equity cash flows are equal to accounting earnings is convenient for expositional reasons, this assumption is clearly not valid except in very special circumstances. For example, non-cash items such as depreciation or deferred taxes, and cash-items that do not flow through the income statement such as changes in working capital and fixed assets both cause cash

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1 Much of the material in this note appears in Fruhan (1979), chapter 1.

Professor Benjamin C. Esty prepared this note as the basis for class discussion.

flows to deviate from reported net income. Nevertheless, this assumption is not a bad approximation and, as will be shown in the next section, seems to generate reasonable empirical predictions.

After dividing each side of equation 3 by the book value of equity, the left side of the equality becomes the market-to-book ratio (the market value of equity divided by the book value of equity):

$$\text{Market/Book} = E_{MV} / E_{BV} = \text{ROE}/K_E \tag{4}$$

Equation 4 says that a firm's market-to-book ratio equals the ratio of its return on equity to its cost of equity. This simple valuation model, or variations of it, can be used to analyze the relation between profitability, growth, and value.

Profitability

The first value driver, profitability, is immediately clear from equation 4. For a given industry, more profitable firms—those able to generate higher returns per dollar of equity—should have higher market-to-book ratios. Conversely, firms which are unable to generate returns in excess of their cost of equity should sell for less than book value.

Profitability	Value
If ROE $> K_E$	then Market/Book > 1
If ROE $= K_E$	then Market/Book $= 1$
If ROE $< K_E$	then Market/Book < 1

One implication of this model is that firms can increase equity value by increasing their return on equity. The Du Pont formula decomposes ROE into three components and provides some guidance on how to increase it:

$$\begin{aligned}\text{ROE} &= (\text{Net Income/Equity}) \\ &= (\text{Net Income/Sales}) * (\text{Sales/Assets}) * (\text{Assets/Equity}) \\ &= (\text{Profit Margin}) * (\text{Asset Turnover}) * (\text{Financial Leverage})\end{aligned}$$

For example, increasing the profit margin through higher prices or lower costs will increase the ROE. Similarly, increasing the asset turnover by increasing inventory turnover or reducing days receivables will increase the ROE. However, increasing financial leverage has dual, and possibly contradictory, effects. It increases not only the ROE through the Du Pont formula, but also the cost of equity.

A firm's cost of equity, or equivalently investors' expected return on equity, can be estimated using the Capital Asset Pricing Model (CAPM). According to the model, the expected return on equity is a function of a firm's equity beta (β_E) which, in turn, is a function of both leverage and asset risk (β_A):

$$K_E = R_F + \beta_E (R_M - R_F) \tag{5}$$

where:

R_M = return on the market portfolio
R_F = risk-free rate of return

$$\beta_E = [\beta_A - \beta_D (D/V)] (V/E) \tag{6}$$

because:

$$\beta_A = \beta_D (D/V) + \beta_E (E/V) \tag{7}$$

and

$$\text{Firm Value (V)} = \text{Debt Value (D)} + \text{Equity Value (E)} \tag{8}$$

Assuming riskless debt, meaning the beta of debt is zero, then equation 6 can be written as:

$$\beta_E = \beta_A\,(V/E) \tag{9}$$

As financial leverage (D/V) increases, the ratio of firm value to equity value (V/E) increases, the equity beta increases, and, according to equation 5, the expected return on equity increases. The expected return increases because equity cash flows are riskier: leverage increases debtholders fractional claim on the firm's cash flows. As a result, an increase in leverage can either increase or decrease the ratio in equation 4 depending on whether the return on equity (the numerator) or the cost of equity (the denominator) increases faster.

Advantage Horizon

Equation 4 presents a firm's market-to-book ratio as a stable perpetuity under the assumption that its profitability remains constant forever. An alternative, and more realistic assumption, is that firms generate positive abnormal returns—returns in excess of their cost of capital—for only a limited number of years. The period during which firms generate positive abnormal returns is known as the advantage horizon.

Using a variation of the simple valuation model in equation 4, Appendix 1 derives the market-to-book ratio as an annuity rather than a stable perpetuity. It assumes that a firm's equity returns can be divided into two parts: *normal* returns equal to the firm's cost of equity (K_E) and *abnormal* returns equal to the actual ROE less the cost of equity (ROE - K_E). Viewed in this fashion, one can think of abnormal returns and the advantage horizon in the same way Stewart (1991) defines economic value added (EVA) and the competitive advantage period (CAP). Equation A1.8 from the Appendix 1 is:[2]

$$\textbf{Market/Book} = 1 + (\textbf{ROE}-K_E) * [(1/K_E) - (1/(K_E(1+K_E)^n))] \tag{10}$$

where the advantage horizon is defined as n years. According to this formula, the greater the spread between a firm's return on equity and its cost of equity (ROE - K_E), the longer the advantage horizon (increasing n), and the sooner abnormal returns occur (positive abnormal returns in early years), the higher the market-to-book ratio. Firms that earn normal returns (K_E = ROE) in all periods should have market-to-book ratios equal to one; firms that generate negative abnormal returns during the advantage (disadvantage) period should have market-to-book ratios less than one.

Equation 10 is more realistic than equation 4 because most firms earn positive abnormal returns for only a limited number of years. The presence of positive abnormal returns encourages entry by new firms and increased competition by existing firms. Over time, competition reduces excess returns to the point where firms just earn the expected, or normal, rate of return. Although there is typically an inverse relation between the magnitude of positive abnormal profits and the length of the advantage horizon, this model implies that firms should seek to extend the advantage horizon as long as possible for a given level of profitability.

Ghemawat (1991) refers to this ability to preserve competitive advantage as sustainability and asserts it is a key determinant of value creation. Sustainability, he maintains, depends on a firm's ability to create scarcity value and for the firm's owners to capture or appropriate this value. Threats to scarcity value include imitation and substitution. A firm can defend against imitation by erecting barriers to entry or forestalling entry through aggressive positioning; a firm can defend against substitution by continually improving or augmenting its product. Threats to appropriability include

[2] This formula is a variation of the accounting-based valuation methods described in Bernard (1994); Palepu, Bernard, and Healy (1996), and Ohlson (1995).

slack and hold-up both of which result from misaligned incentives. Slack occurs when firms fail to create as much value as they are capable of creating; hold-up occurs when non-owners, instead of owners, capture value. Non-owners are often able to capture value when they provide complementary, and necessary, inputs.

Reinvestment

The third value driver, reinvestment, builds on the other two factors and incorporates the concept of growth. Firms that have attractive investment opportunities, meaning that investments are expected to generate positive abnormal earnings, can create equity value by reinvesting earnings or by investing additional equity. Appendix 2 derives a valuation model which allows for reinvestment of earnings at rate γ where γ equals the retention rate or the fraction of net income reinvested in the firm. The quantity γROE is a firm's sustainable growth rate, the rate at which it can grow its assets (or sales if they are proportional to assets) without changing its capital structure or raising external equity. With reinvestment, the valuation model becomes (equation A2.4):

$$\textbf{Market/Book} = [\textbf{ROE}(1 - \gamma)] / (K_E - \gamma\textbf{ROE}) \qquad (11)$$

When a firm pays out all of its earnings as dividends, then the retention rate is zero ($\gamma = 0$) and equation 11 reduces to the simple valuation model in equation 4. Assuming a firm has attractive investment opportunities in which it can generate positive abnormal returns (ROE>K_E), then it can increase value by retaining a larger fraction of earnings and investing them in the business. Thus reinvestment and growth creates value only when a firm can generate positive abnormal returns on future investment opportunities. Those firms with the greatest number and the most profitable investment opportunities should have the highest market-to-book ratios provided they are able to fund the projects.

In fact, it is often convenient to think of firm value as consisting of two parts: the present value of <u>assets in place</u> and the present value of <u>future growth opportunities</u> (Myers, 1977). The former require little in the way of additional investment, while the latter are investment opportunities which are expected to earn positive abnormal returns. These investment opportunities are called "real" options because they resemble financial options, particularly call options. They can be interpreted and managed using option pricing theory and valued using option pricing techniques (see Luehrman, 1995).

Numerical Example

Combining equations 10 and 11 produces a single valuation model that incorporates all three value drivers. Exhibit 1 shows this model as well as the relation between a hypothetical firm's market-to-book ratio and the value drivers. The exhibit presents three cases with differing levels of reinvestment (γ = 0%, 33%, and 66%). For each case, there is a sensitivity table showing how the market-to-book ratio depends on the advantage horizon and level of profitability (ROE).

Case #1 (no reinvestment) shows that more profitable firms have higher market-to-book ratios—the ratio increases as one reads across the rows. As stated earlier, the impact of the advantage horizon depends on whether a firm generates positive or negative abnormal earnings. The longer a firm can generate positive abnormal earnings, the greater its market-to-book ratio. However, because of discounting, abnormal earnings in later years have a smaller impact on the market-to-book ratio than abnormal earnings in early years. Alternatively, firms that generate negative abnormal earnings have market-to-book ratios less than one. Moreover, their market-to-book ratio falls as the advantage (disadvantage) horizon gets longer. Finally, the market-to-book ratio is equal to one and is independent of the advantage horizon for firms that generate normal earnings (the case where ROE=K_E).

Cases #2 and #3 (with reinvestment rates equal to 33% and 66%, respectively) illustrate the impact of reinvestment. Like the advantage horizon, reinvestment creates additional value only for firms that generate positive abnormal earnings. When firms are able to generate positive abnormal returns (ROE = 25%), have a long advantage horizon (30 years), and reinvest a large fraction of earnings (γ = 66%), they create significant value. The difference between the market-to-book ratio in the high return/long horizon with no reinvestment (case #1) and with reinvestment (case #3) is large: 1.66 vs. 4.27.

Empirical Evidence

This section presents empirical evidence on the relation between the value drivers and value creation. Despite the assumptions imbedded in the simple valuation models, they do, nonetheless, yield predictions which are consistent with what we observe in practice.

Profitability

The model predicts that there is a relation between a firm's market-to-book ratio and the ratio of its return on equity to its cost of equity. Given a set of firms in a single industry, the model implies that there should be a positive relation between ROE's and market-to-book ratios for these firms assuming their costs of capital are approximately equal. To a first approximation, it is reasonable to assume that firms in the same industry will have similar capital costs because they hold similar assets and, typically, have similar capital structures.

Exhibit 2 shows the relation between market-to-book ratios and firm profitability for two quite different industries: grocery stores and oil field service companies. Whereas the grocery industry is a retail business with high inventories and low margins, the oil-field services industry is a service business with industrial customers and higher margins. Yet in both cases, there is a very clear, positive relation between equity value and ROE's: higher ROE's are associated with higher market-to-book ratios. Fruhan (1996) presents similar evidence for a much wider range of industries including newspapers, telecommunications, and specialty chemicals.

There are at least two reasons why this relation does not hold perfectly. First, not all firms in the same industry have the same leverage or same asset risk. Thus, financial and operating differences cause the cost of equity to differ across firms. Second, accounting data is subject to manipulation by managers. On the one hand, managers provide valuable information through their choice of accounting disclosures and policies. On the other hand, they are biased which may lead them to distort reported numbers. Fortunately, however, most distortions occur through accruals which eventually get reversed. Because accounting data is subject to this kind of manipulation, it is critical to understand whether the reported numbers reflect economic reality. To the extent high ROE's reflect economic reality, and not unreasonable deferral of costs or a one-time aberrations, then the relation shown in exhibit 2 will be stronger. When accounting data does not reflect economic reality, one must undo the distortions before trying to make substantive conclusions about the business or its prospects.

Advantage Horizon

Several researchers have studied the length of the advantage horizon. For example, Fruhan (1995) examined a sample of 87 "high-performing" firms defined as those firms with sales of greater than $200 million and an average ROE of greater than 25% for five consecutive years between 1976-82. He calculated the median ROE for the firms from 1976-78 and from 1989-93, and then compared these medians against the average ROE for firms on the S&P 400 (see Exhibit 3). Whereas the median ROE for the high-performing subgroup was 21% above the average ROE for the S&P 400 in 1976-82, it was only 2% above in the later period. Thus the high-performing firms' abnormal earnings had largely dissipated over the fifteen year interval.

Palepu *et al* (1996, pp. 5.4-5.7) report similar findings: abnormally high or low ROE's tend to revert to normal levels, roughly between 10-14%, often within five years and usually within ten years.[3] The reversion in ROE's is largely due to reversion in profit margins rather than reversion in asset turnover or leverage which remain relatively constant over time. The fact that advantage horizon lasts for five or ten years provides some justification for using five or ten-year projections in discounted cash flow analysis.

In another study, Ghemawat (1991) examined the returns on investment (ROI) for 692 business units from 1971-1980. After sorting the business units by their ROI in 1971, he divided the sample into two equal subgroups and calculated the average ROI for each subgroup over the next ten years. Initially, the top group had an average ROI of 39% compared to 3% for the bottom group. The 36% spread between the two groups decreased to less than 3% by the end of ten years: the average ROI for the top group had decreased to 21.5% while the average ROI for the bottom group increased to 18.0%.

While the evidence consistently shows that the advantage horizon is finite, firms like Coca-Cola, Wal-Mart, and Microsoft have been able to extend their advantage horizons for many years. These firms have been able to create tremendous value for shareholders by sustaining their ability to generate positive abnormal profits.

Reinvestment

The key insight from the model regarding investment is that reinvestment of earnings is value enhancing only when investment opportunities generate expected returns in excess of the cost of equity (ROE>K_E). Because investment opportunities vary across firms and vary over time for the same firm, it is impossible to make conclusive statements on the value of reinvestment. Nevertheless, there is some evidence that reinvestment creates value. Recent studies have shown that firms which announce major capital expenditure or research and development (R&D) programs experience positive abnormal equity returns.[4] The market interprets these announcements as good news and their stock prices usually increase. While it may be the case that firms announce only their most positive NPV investments, Fruhan (1979, Table 1-6) provides evidence from a sample of almost 1500 firms that broadly supports the relation among high profitability, high reinvestment, and high equity valuations.

Acquisitions represent another form of investment for many firms. Jensen and Ruback (1983) review the many studies on acquirer returns surrounding merger announcements. They conclude that, on average, acquirer shareholders do not lose and target shareholders gain from merger

[3] See also Freeman, Ohlson, and Penman (1982).
[4] McConnell and Muscarella (1985) analyze capital expenditure announcements while Chan, Martin, and Kensigner (1990) analyze R&D expenditure announcements.

announcements. Thus, acquisitions create net gains for both firms combined even though they do not increase acquirer shareholder value.

Jensen (1986, 1993) presents an opposing view. He argues that managers often overinvest, i.e. invest in negative net present value projects, especially when their firms generate substantial free cash flow. Their incentive to overinvest results from their compensation being tied, indirectly, to firm size which, in turn, is a function of the amount investment. They are able to over invest because internal control systems such as board oversight are weak. In the absence of effective internal control systems, external forces such as the market for corporate control discipline investment activity. Jensen cites the oil industry in general and the Gulf Oil takeover in particular as examples where takeovers eliminated wasteful capital expenditures. Just as investing in positive NPV projects creates value, so, too, does eliminating negative NPV investments.

Warren Buffet, the prominent investor and chairman of Berkshire Hathaway, acknowledged the problem of overinvestment in his company's 1984 annual report:

> Many corporations that show consistently good returns have, indeed, employed a large portion of their retained earnings on an economically unattractive, even disastrous, basis. Their marvelous core businesses camouflage repeated failures in capital allocation elsewhere (usually involving high-priced acquisitions). The managers at fault periodically report on the lessons they have learned from the latest disappointment. They then usually seek out future lessons. (Failure seems to go to their heads.). . . In such cases, shareholders would be far better off if the earnings were retained to expand only the high-return business, with the balance being paid in dividends or used to repurchase stock...

Although stated in his characteristically droll way, Buffet's point is clear: reinvestment destroys value unless it generates an appropriate risk-adjusted rate of return.

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Exhibit 1: Numerical example of the relation between the value drivers and value creation

Combining equations 10 and 11 yields the following equation:

$$\text{Market/Book} = [(1+\gamma ROE)/(1+K_E)]^n + [ROE(1-\gamma)/(K_E - \gamma ROE)]\,[1 - ((1+\gamma ROE)/(1+K_E))^n]$$

This Exhibit shows the hypothetical market-to-book ratios as a function of the three value drivers: profitability, advantage horizon, and re-investment.; assuming the firm has a cost of equity equal to 15%. The three cases differ by the level of reinvestment which varies from 0% to 66%.

Case #1: Reinvestment rate (γ) = 0%

Advantage Horizon	**Return on Equity (ROE)** 5%	15%	25%
5 years	0.66	1.00	1.34
15 years	0.42	1.00	1.58
30 years	0.34	1.00	1.66

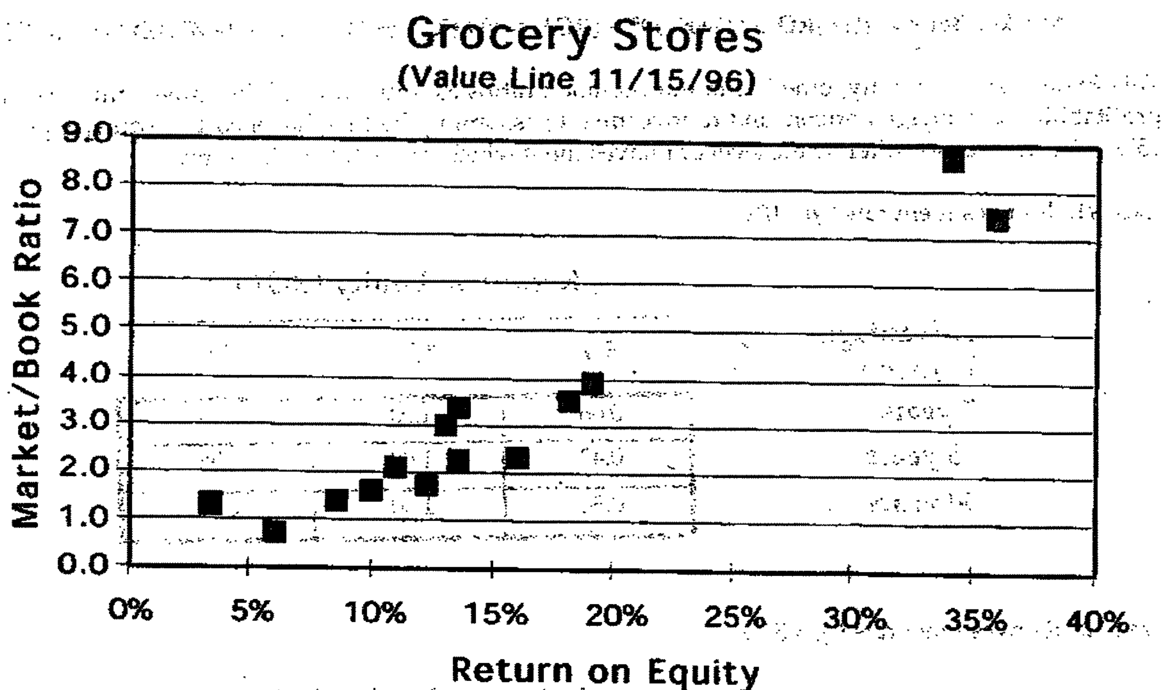
Case #2: Reinvestment rate (γ) = 33%

Advantage Horizon	**Return on Equity (ROE)** 5%	15%	25%
5 years	0.65	1.00	1.39
15 years	0.37	1.00	1.88
30 years	0.27	1.00	2.24

Case #3: Reinvestment rate (γ) = 66%

Advantage Horizon	**Return on Equity (ROE)** 5%	15%	25%
5 years	0.65	1.00	1.45
15 years	0.32	1.00	2.43
30 years	0.18	1.00	4.27

Exhibit 2: Relation between Return on Equity (ROE) and Market-to-Book Ratio



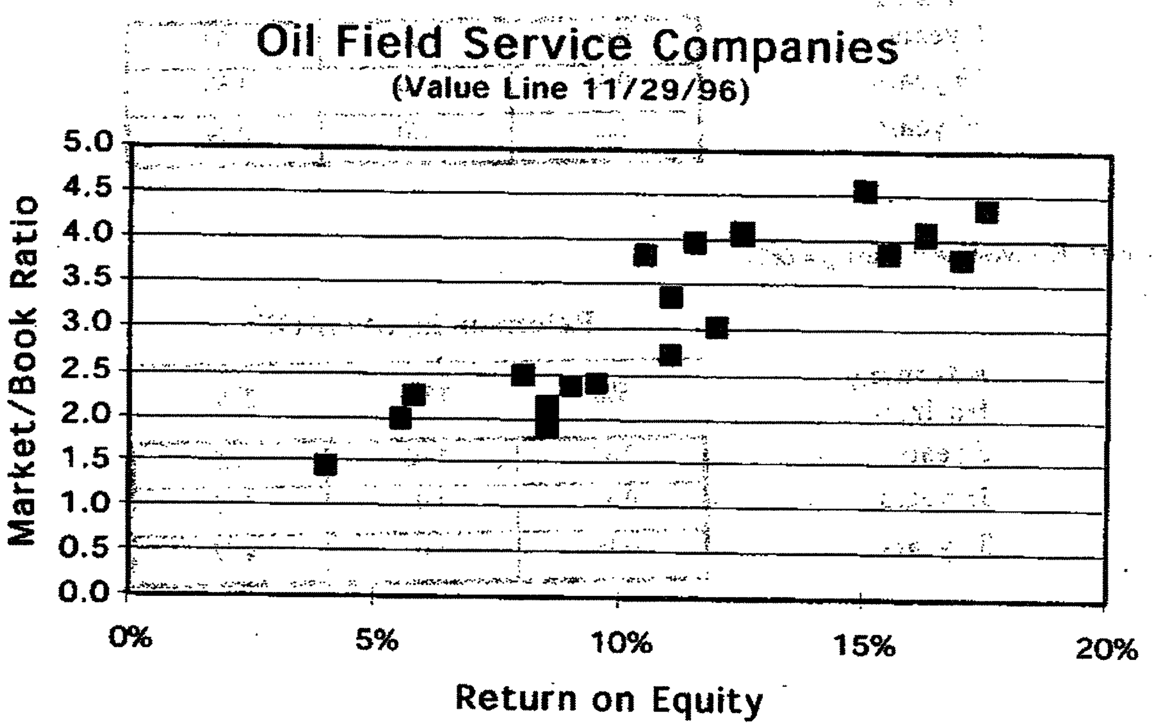


Exhibit 3: Advantage horizon

Fruhan (1995) analyzed the advantage horizon of a sample of 87 high-performing firms. To be included in the sample, firms had to have an average ROE of more than 25% for five consecutive years between 1976-82 and have sales greater than $200 million. He found the following:

Top Performers:	1976-78 Average ROE
1. Petrie Stores	2.03
2. H&R Block	1.45
3. Standard Microsystems	1.43
4. Airborne Freight	0.77
5. Wendy's International	0.74
6. Commerce Clearing House	0.67
7. Avon Products	0.67
8. Southwest Airlines	0.63
9. Charming Shoppes	0.56
10. Loctite Corp.	0.56

For the period from 1976-78:

Median ROE for the top 87 firms	= 37%
S&P 400 Average ROE	= 15%
Spread	= 21%

For the period from 1989-93:

Median ROE for the top 87 firms	= 17%
S&P 400 Average ROE	= 15%
Spread	= 2%

Lesson: The advantage horizon is finite.

Appendix 1: Equity value and the advantage horizon

Equations 1 and 3 show that a firm's equity market value is a function of its return on equity (ROE) and cost of equity (K_E). Assuming no retention of earnings and constant returns, equity value is:

$$E_{MV} = ROE^{*}E_{BV} /(1+K_E) + ROE^{*}E_{BV} /(1+K_E)^2 + \ldots \qquad \text{(A1.1)}$$

dividing through by the book value of equity (E_{BV}) yields

$$\text{Market/Book} = E_{MV} /E_{BV} = ROE/ (1+K_E) + ROE /(1+K_E)^2 + \ldots \qquad \text{(A1.2)}$$

The ROE can be divided into two parts: ROE = $(ROE - K_E) + K_E$. The first term (ROE- KE) consists of "abnormal" earnings, returns to equity in excess of the cost of equity; the second term consists of "normal" earnings because that is the expected return on equity. Substituting back into equation A1.2 yields:

$$\text{Market/Book} = [ROE\text{-}K_E) + K_E]/(1+K_E) + [ROE\text{-}K_E) + K_E] /(1+K_E)^2 + \ldots \qquad \text{(A1.3)}$$

$$\text{Market/Book} = (ROE\text{-}K_E)/(1+K_E) + ([ROE\text{-}K_E)/(1+K_E)^2 + \ldots$$

$$+ K_E/(1+K_E) + K_E/(1+K_E)^2 + \ldots \qquad \text{(A1.4)}$$

Equation A1.4 is the sum of two geometric series, one of normal earnings and one of abnormal earnings. The present value of the normal earnings (using a perpetuity formula) is one:

$$1 = K_E/K_E = K_E/(1+K_E) + K_E/(1+K_E)^2 + \ldots \qquad \text{(A1.5)}$$

The present value of the abnormal earnings depends on how long the firm expects to earn abnormal earnings. It can be thought of as an annuity: The firm receives a stream of abnormal earnings for a period of n years. The present value of an annuity can be written as:

$$\text{present value} = (ROE\text{-}K_E) * [(1/K_E) - (1/(K_E(1+K_E)^n)] \qquad \text{(A1.6)}$$

Combining equations A1.5 and A1.6 yields:

$$\textbf{Market/Book} = 1 + \{(ROE\text{-}K_E)^{*}[(1/K_E) - (1/(K_E(1+K_E)^n)]\} \qquad \text{(A1.7)}$$

as n approaches infinity, equation A1.7 reduces to equation 4 in the note.

Appendix 2: Equity value and reinvestment

This appendix derives a model of equity valuation as a growing perpetuity. Given a firm with a constant return on equity (ROE), it can either retain its earnings or pay them out to equityholders as dividends. Assuming the firms retains a fraction of earnings (γ) and pays out the remainder, then the market value of equity can be determined as follows.

Time	Total Earnings	Amount Paid Out (ECF)	Amount Retained	Book Value of Equity
t=0				E_0
t=1	ROE^*E_0	$(1-\gamma)^*\ ROE^*E_0$	$(\gamma)^*\ ROE^*E_0$	$E_1 = E_0 + (\gamma)^*\ ROE^*E_0$ $E_1 = E_0\,(1+\gamma ROE)$
t=2	ROE^*E_1 $ROE^*[E_0(1+\gamma ROE)]$	$(1-\gamma)^*\ ROE^*E_1$ $(1-\gamma)^*\ ROE^*\ E_0\,(1+\gamma ROE)$	$(\gamma)^*\ ROE^*E_1$ $(\gamma)^*\ ROE^*\ E_0\,(1+\gamma ROE)$	$E_2 = E_1 + (\gamma)^*\ ROE^*E_1$ $E_2 = E_1\,(1+\gamma ROE)$ $E_2 = E_0\,(1+\gamma ROE)^2$
t=3	ROE^*E_2 $ROE^*[E_0(1+\gamma ROE)^2]$	$(1-\gamma)^*\ ROE^*E_2$ $(1-\gamma)^*\ ROE^*\ E_0\,(1+\gamma ROE)^2$	$(\gamma)^*\ ROE^*E_2$ $(\gamma)^*\ ROE^*\ E_0\,(1+\gamma ROE)^2$	$E_3 = E_2 + (\gamma)^*\ ROE^*E_2$ $E_3 = E_2\,(1+\gamma ROE)$ $E_3 = E_0\,(1+\gamma ROE)^3$
t=4	(etc.)			
Growth Rate	γROE	γROE	γROE	γROE

Value = discounted present value of payouts (equity cash flows)

$$= \frac{((1-\gamma)^*\ ROE^*E_0)}{(1+K_E)} + \frac{((1-\gamma)^*\ ROE^*\ E_0\,(1+\gamma ROE)}{(1+K_E)^2} + \ldots \tag{A2.1}$$

$$= \frac{((1-\gamma)^*\ ROE^*E_0)}{(1+K_E)} \{1 + [(1+\gamma ROE)/(1+K_E)] + [(1+\gamma ROE)/(1+K_E)]^2 + \ldots\} \tag{A2.2}$$

Equation A-2 is a growing perpetuity with growth rate equal to γROE. It can be rewritten as:

$$\text{Equity Value} = \frac{(1-\gamma)^*\ ROE^*E_0}{(K_E - \gamma ROE)} \tag{A2.3}$$

After multiplying through by the book value of equity (E_0), one gets the ratio of equity at market value to equity at book value ($E_{MV}/E_{BV} = V/E_0$):

$$\text{Market/Book} = \frac{(1-\gamma)^*\ ROE}{(K_E - \gamma ROE)} \tag{A2.4}$$

15. Refer to Direct Testimony of Dr. J. Randall Woolridge, Exhibit_JRW-4 at 2. For each company in Panels A and B, provide the most recent company profiles as published in *Value Line Investment Survey*.

RESPONSE: Please see the attached documents.

CALIFORNIA WATER NYSE-CWT

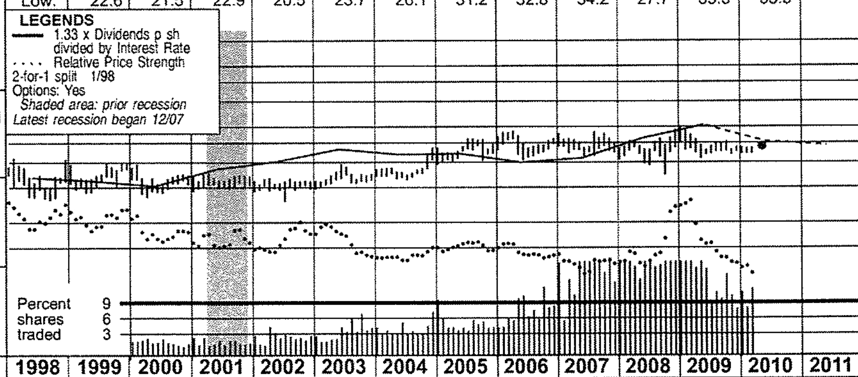
RECENT PRICE	38.51	P/E RATIO	19.2 (Trailing: 19.7 / Median: 22.0)	RELATIVE P/E RATIO	1.06	DIV'D YLD	3.1%	VALUE LINE

TIMELINESS **4** Lowered 11/6/09
SAFETY **3** Lowered 7/27/07
TECHNICAL **3** Lowered 4/23/10
BETA .75 (1.00 = Market)

High:	32.0	31.4	28.6	26.9	31.4	37.9	42.1	45.8	45.4	46.6	48.3	39.6	
Low:	22.6	21.5	22.9	20.5	23.7	26.1	31.2	32.8	34.2	27.7	33.5	35.3	

Target Price Range
2013 | 2014 | 2015

LEGENDS
— 1.33 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 1/98
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



2013-15 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+55%)	14%
Low	40	(+5%)	4%

Insider Decisions

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

Institutional Decisions

	2Q2009	3Q2009	4Q2009
to Buy	76	56	51
to Sell	85	75	56
Hld's(000)	10018	9635	10204

% TOT. RETURN 3/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	-7.2	91.1
3 yr.	7.0	7.6
5 yr.	30.4	42.8

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
12.59	13.17	14.48	15.48	14.76	15.96	16.16	16.26	17.33	16.37	17.18	17.44	16.20	17.76	19.80	21.64	*22.40*	*23.70*	Revenues per sh	*25.45*
2.02	2.07	2.50	2.92	2.60	2.75	2.52	2.20	2.65	2.51	2.83	3.03	2.71	3.12	3.72	3.87	*3.95*	*4.15*	"Cash Flow" per sh	*4.50*
1.22	1.17	1.51	1.83	1.45	1.53	1.31	.94	1.25	1.21	1.46	1.47	1.34	1.50	1.90	1.95	*2.05*	*2.25*	Earnings per sh A	*2.60*
.99	1.02	1.04	1.06	1.07	1.09	1.10	1.12	1.12	1.12	1.13	1.14	1.15	1.16	1.17	1.18	*1.19*	*1.20*	Div'd Decl'd per sh B ■	*1.25*
2.26	2.17	2.83	2.61	2.74	3.44	2.45	4.09	5.82	4.39	3.73	4.01	4.28	3.68	4.82	5.33	*5.35*	*5.35*	Cap'l Spending per sh	*5.40*
11.56	11.72	12.22	13.00	13.38	13.43	12.90	12.95	13.12	14.44	15.66	15.79	18.15	18.50	19.44	20.26	*20.70*	*21.40*	Book Value per sh C	*23.25*
12.49	12.54	12.62	12.62	12.62	12.94	15.15	15.18	15.18	16.93	18.37	18.39	20.66	20.67	20.72	20.77	*21.00*	*21.50*	Common Shs Outst'g D	*23.00*
14.1	13.7	11.9	12.6	17.8	17.8	19.6	27.1	19.8	22.1	20.1	24.9	29.2	26.1	19.8	19.7	*Bold figures are*		Avg Ann'l P/E Ratio	*19.0*
.92	.92	.75	.73	.93	1.01	1.27	1.39	1.08	1.26	1.06	1.33	1.58	1.39	1.19	1.32	*Value Line*		Relative P/E Ratio	*1.25*
5.8%	6.4%	5.8%	4.6%	4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	2.9%	3.0%	3.1%	3.1%	*estimates*		Avg Ann'l Div'd Yield	*2.5%*

CAPITAL STRUCTURE as of 12/31/09
Total Debt $399.3 mill. **Due in 5 Yrs** $55.2 mill.
LT Debt $374.3 mill. **LT Interest** $24.4 mill.

(LT interest earned: 4.1x; total int. cov.: 3.8x)

Pension Assets-12/09 $105.6 mill.
Oblig. $219.7 mill.

Pfd Stock None

Common Stock 20,765,422 shs.
as of 2/24/10

MARKET CAP: $800 million (Small Cap)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		13-15
244.8	246.8	263.2	277.1	315.6	320.7	334.7	367.1	410.3	449.4	*470*	*510*	Revenues ($mill) E	*585*
20.0	14.4	19.1	19.4	26.0	27.2	25.6	31.2	39.8	40.6	*43.0*	*49.0*	Net Profit ($mill)	*60.0*
42.3%	39.4%	39.7%	39.9%	39.6%	42.4%	37.4%	39.9%	37.7%	40.3%	*39.0%*	*39.0%*	Income Tax Rate	*39.0%*
--	--	--	10.3%	3.2%	3.3%	10.6%	8.3%	8.6%	7.6%	*8.5%*	*10.0%*	AFUDC % to Net Profit	*10.0%*
48.9%	50.3%	55.3%	50.2%	48.6%	48.3%	43.5%	42.9%	41.6%	47.1%	*47.0%*	*46.5%*	Long-Term Debt Ratio	*49.0%*
50.2%	48.8%	44.0%	49.1%	50.8%	51.1%	55.9%	56.6%	58.4%	52.9%	*53.0%*	*53.5%*	Common Equity Ratio	*51.0%*
388.8	402.7	453.1	498.4	565.9	568.1	670.1	674.9	690.4	794.9	*855*	*905*	Total Capital ($mill)	*1055*
582.0	624.3	697.0	759.5	800.3	862.7	941.5	1010.2	1112.4	1198.1	*1265*	*1325*	Net Plant ($mill)	*1475*
6.8%	5.3%	5.9%	5.6%	6.1%	6.3%	5.2%	5.9%	7.1%	6.5%	*6.5%*	*7.0%*	Return on Total Cap'l	*7.0%*
10.0%	7.2%	9.4%	7.8%	8.9%	9.3%	6.8%	8.1%	9.9%	9.6%	*10.0%*	*10.5%*	Return on Shr. Equity	*11.0%*
10.1%	7.2%	9.5%	7.9%	9.0%	9.3%	6.8%	8.1%	9.9%	9.6%	*10.0%*	*10.5%*	Return on Com Equity	*11.0%*
1.8%	NMF	1.0%	.7%	2.1%	2.1%	1.0%	1.8%	3.8%	3.8%	*4.0%*	*5.0%*	Retained to Com Eq	*6.0%*
82%	119%	90%	91%	77%	78%	86%	77%	61%	60%	*58%*	*53%*	All Div'ds to Net Prof	*48%*

CURRENT POSITION ($MILL.)	2007	2008	12/31/09
Cash Assets	6.7	13.9	9.9
Other	53.3	65.9	82.3
Current Assets	60.0	79.8	92.2
Accts Payable	36.7	45.1	43.7
Debt Due	2.7	42.8	25.0
Other	30.3	35.3	41.7
Current Liab.	69.7	123.2	110.4
Fix. Chg. Cov.	333%	398%	430%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	2.5%	3.0%	*4.5%*
"Cash Flow"	2.5%	6.0%	*4.0%*
Earnings	1.0%	6.5%	*6.5%*
Dividends	1.0%	1.0%	*1.0%*
Book Value	4.0%	6.0%	*3.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.)E Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	71.6	95.8	113.8	85.9	367.1
2008	72.9	105.6	131.7	100.1	410.3
2009	86.6	116.7	139.2	106.9	449.4
2010	*93.0*	*122*	*145*	*110*	*470*
2011	*100*	*131*	*157*	*122*	*510*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	.07	.37	.67	.39	1.50
2008	.01	.48	1.06	.35	1.90
2009	.12	.58	.94	.31	1.95
2010	*.11*	*.61*	*.98*	*.35*	*2.05*
2011	*.14*	*.67*	*1.03*	*.41*	*2.25*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.2875	.2875	.2875	.2875	1.15
2007	.290	.290	.290	.290	1.16
2008	.293	.293	.293	.293	1.17
2009	.295	.295	.295	.295	1.18
2010	.2975				

BUSINESS: California Water Service Group provides regulated and nonregulated water service to roughly 463,600 customers in 83 communities in California, Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired Rio Grande Corp; West Hawaii Utilities (9/08). Revenue breakdown, '08: residential, 69%; business, 18%; public authorities, 5%; industrial, 5%; other, 3%. '08 reported depreciation rate: 2.4%. Has roughly 929 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson (4/09 Proxy). Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwatergroup.com.

Increased expenses sank California Water Service Group's bottom line in the fourth quarter. The water utility posted share earnings of $0.31, 11% below both last year's mark and our estimate. The top line rose a better-than-anticipated 7%, to roughly $107 million, but expenses grew faster, due to increased water production and SG&A costs, specifically for higher pension and benefit commitments.

We have tempered our 2010 earnings expectations accordingly. Operating costs are likely to continue to rise, as aging infrastructures require greater maintenance and repairs. The company will get little in the way of relief from rate hikes this year, however, because other than potential modest inflationary increases, there is not expected to be any rate increases implemented until 2011. Most of the company's subsidiaries have not been up for general rate case reviews in more than three years, owing to the changeover to a consolidated filing system. As a result, we suspect that earnings growth will be lucky to top 5% this year.

Growth rates ought to pick up next year, however. As mentioned above, the company has filed a rate relief request with the California Public Utilities Commission (CPUC) for more than $70 million. A ruling is likely to be handed down by yearend, with the new rates effective January 1, 2011. Although the proposal may be a bit lofty, we expect a favorable ruling, given the recent regulatory landscape and necessity to maintain current water standards. Therefore, we've pegged CWT to earn $2.25 a share, on revenues of more than $500 million next year.

That said, we think the stock is fully valued at this time. It is ranked 4 (Below Average) for Timeliness and trails the *Value Line* median in terms of 3- to 5-year appreciation potential. Although a more constructive regulatory climate looks to be in place, the greater stock and debt offerings that are likely to be needed to keep up the burgeoning infrastructure costs will probably dilute shareholder gains to 2013-2015. The issue's steady dividend growth adds some appeal for those seeking total return, but investors have better pure-growth and/or income vehicles to choose from elsewhere.

Andre J. Costanza *April 23, 2010*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; '02, 8¢. Next earnings report due late July.
(B) Dividends historically paid in mid-Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available.
(C) Incl. deferred charges. In '09: $2.6 mill., $.13/sh.
(D) In millions, adjusted for split.
(E) Excludes non-reg. rev.

Company's Financial Strength	B++
Stock's Price Stability	85
Price Growth Persistence	75
Earnings Predictability	80

CONN. WATER SERVICES NDQ–CTWS

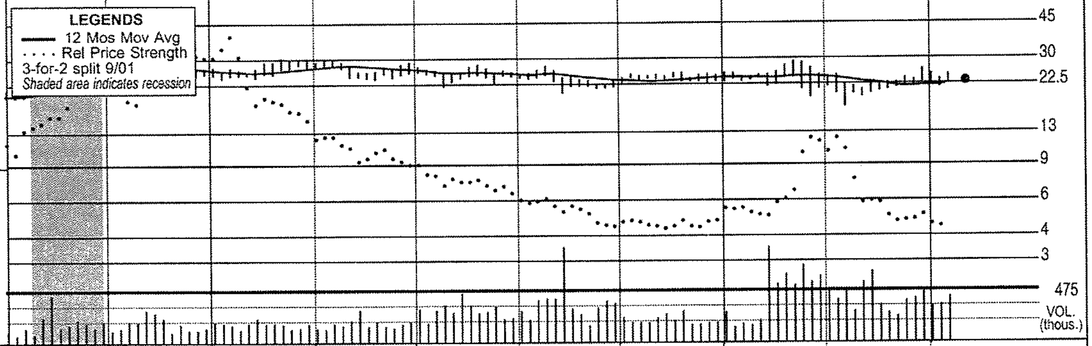
RECENT PRICE	23.15	TRAILING P/E RATIO	19.5	RELATIVE P/E RATIO	1.03	DIV'D YLD	3.9%	VALUE LINE

High	32.21	31.09	30.41	29.76	28.17	27.71	25.61	28.95	26.44	25.12
Low	19.50	20.35	24.00	23.83	21.91	20.29	22.40	19.26	17.31	21.57

RANKS

PERFORMANCE	3	Average
Technical	3	Average
SAFETY	2	Above Average
BETA .80		(1.00 = Market)

Financial Strength	B+
Price Stability	95
Price Growth Persistence	30
Earnings Predictability	85



© VALUE LINE PUBLISHING, INC.	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010/2011
SALES PER SH	5.93	5.77	5.91	6.04	5.81	5.68	7.05	7.24	6.93	
"CASH FLOW" PER SH	1.78	1.78	1.89	1.91	1.62	1.52	1.90	1.95	1.93	
EARNINGS PER SH	1.13	1.12	1.15	1.16	.88	.81	1.05	1.11	1.19	***1.15[A,B]/1.29[C]***
DIV'DS DECL'D PER SH	.80	.81	.83	.84	.85	.86	.87	.88	.90	
CAP'L SPENDING PER SH	1.86	1.98	1.49	1.58	1.96	1.96	2.24	2.44	3.28	
BOOK VALUE PER SH	9.25	10.06	10.46	10.94	11.52	11.60	11.95	12.23	12.67	
COMMON SHS OUTST'G (MILL)	7.65	7.94	7.97	8.04	8.17	8.27	8.38	8.46	8.57	
AVG ANN'L P/E RATIO	21.5	24.3	23.5	22.9	28.6	29.0	23.0	22.2	18.4	***20.1/17.9***
RELATIVE P/E RATIO	1.10	1.33	1.34	1.21	1.51	1.57	1.22	1.34	1.23	
AVG ANN'L DIV'D YIELD	3.3%	3.0%	3.0%	3.1%	3.4%	3.6%	3.6%	3.6%	4.1%	
SALES ($MILL)	45.4	45.8	47.1	48.5	47.5	46.9	59.0	61.3	59.4	***Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.***
OPERATING MARGIN	56.1%	57.7%	52.1%	51.0%	48.3%	43.7%	40.8%	49.0%	35.8%	
DEPRECIATION ($MILL)	5.0	5.4	5.9	6.0	6.1	5.9	7.2	7.1	6.4	
NET PROFIT ($MILL)	8.7	8.8	9.2	9.4	7.2	6.7	8.8	9.4	10.2	
INCOME TAX RATE	36.1%	33.8%	17.9%	22.9%	--	23.5%	32.4%	27.2%	19.5%	
NET PROFIT MARGIN	19.1%	19.2%	19.5%	19.4%	15.1%	14.3%	14.9%	15.4%	17.2%	
WORKING CAP'L ($MILL)	d3.3	d5.1	d3.9	d.7	13.0	1.2	8.1	d3.3	d13.1	
LONG-TERM DEBT ($MILL)	64.0	64.8	64.8	66.4	77.4	77.3	92.3	92.2	112.0	
SHR. EQUITY ($MILL)	71.6	80.7	84.2	88.7	94.9	96.7	100.9	104.2	109.3	
RETURN ON TOTAL CAP'L	7.9%	7.4%	7.5%	7.0%	5.0%	4.9%	5.5%	5.9%	5.5%	
RETURN ON SHR. EQUITY	12.1%	10.9%	10.9%	10.6%	7.5%	6.9%	8.7%	9.0%	9.3%	
RETAINED TO COM EQ	3.6%	3.1%	3.2%	3.1%	.3%	NMF	1.6%	1.9%	2.3%	
ALL DIV'DS TO NET PROF	71%	72%	71%	71%	95%	105%	82%	79%	76%	

[A]No. of analysts changing earn. est. in last 10 days: 0 up, 0 down, consensus 5-year earnings growth not available. [B]Based upon 3 analysts' estimates. [C]Based upon 2 analysts' estimates.

ANNUAL RATES

of change (per share)	5 Yrs.	1 Yr.
Sales	3.5%	-4.5%
"Cash Flow"	0.5%	-0.5%
Earnings	-0.5%	7.0%
Dividends	1.5%	2.5%
Book Value	3.0%	3.5%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/07	13.2	14.4	17.0	14.4	59.0
12/31/08	13.6	16.0	17.0	14.7	61.3
12/31/09	13.4	15.1	16.6	14.3	59.4
12/31/10					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/06	.21	.12	.45	.03	.81
12/31/07	.18	.22	.46	.19	1.05
12/31/08	.20	.35	.34	.22	1.11
12/31/09	.13	.27	.66	.13	1.19
12/31/10	***.15***	***.29***	***.47***		

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2007	.215	.215	.218	.218	.87
2008	.218	.218	.222	.222	.88
2009	.222	.222	.228	.228	.90
2010	.228				

INSTITUTIONAL DECISIONS

	2Q'09	3Q'09	4Q'09
to Buy	29	26	30
to Sell	23	19	16
Hld's(000)	2776	2860	2957

ASSETS ($mill.)	2007	2008	12/31/09
Cash Assets	8.6	.7	5.4
Receivables	11.1	12.0	6.5
Inventory (Avg cost)	1.0	1.1	1.1
Other	2.3	2.0	7.0
Current Assets	23.0	15.8	20.0
Property, Plant & Equip, at cost	392.5	418.1	448.2
Accum Depreciation	108.2	115.8	123.0
Net Property	284.3	302.3	325.2
Other	53.5	54.3	70.1
Total Assets	360.8	372.4	415.3
LIABILITIES ($mill.)			
Accts Payable	6.0	5.7	6.5
Debt Due	6.5	12.1	25.0
Other	2.4	1.3	1.6
Current Liab	14.9	19.1	33.1

LONG-TERM DEBT AND EQUITY as of 12/31/09

Total Debt $137.0 mill. **Due in 5 Yrs.** $25.0 mill.
LT Debt $112.0 mill.
Including Cap. Leases None
(51% of Cap'l)

Leases, Uncapitalized Annual rentals $3.3 mill.

Pension Liability $14.9 mill. in '09 vs. $16.7 mill. in '08

Pfd Stock $.7 mill. **Pfd Div'd Paid** NMF

Common Stock 8,573,744 shares
(49% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: Connecticut Water Service, Inc. primarily operates as a water utility company in Connecticut. It operates through three segments: Water Activities, Real Estate Transactions, and Services and Rentals. The Water Activities segment supplies public drinking water to its customers. The Real Estate Transactions segment involves in the sale of its limited excess real estate holdings. The Services and Rentals segment provides contracted services to water and wastewater utilities and other clients, as well as leases certain of its properties to third parties. This segment's services include contract operations of water and wastewater facilities; Linebacker, its service line protection plan for public drinking water customers; and provision of bulk deliveries of emergency drinking water to businesses and residences via tanker truck. As of December 3, 2009, it provided water to more than 90,000 customers, or about 300,000 people, in 54 towns throughout Connecticut. Has 225 employees. Chairman, C.E.O. & President: Eric W. Thornburg. Inc.: CT. Address: 93 West Main Street, Clinton, CT 06413. Tel.: (860) 669-8636. Internet: http://www.ctwater.com. *W.T.*

April 23, 2010

TOTAL SHAREHOLDER RETURN
Dividends plus appreciation as of 3/31/2010

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
-5.13%	6.01%	19.52%	8.37%	12.11%

MIDDLESEX WATER NDQ–MSEX

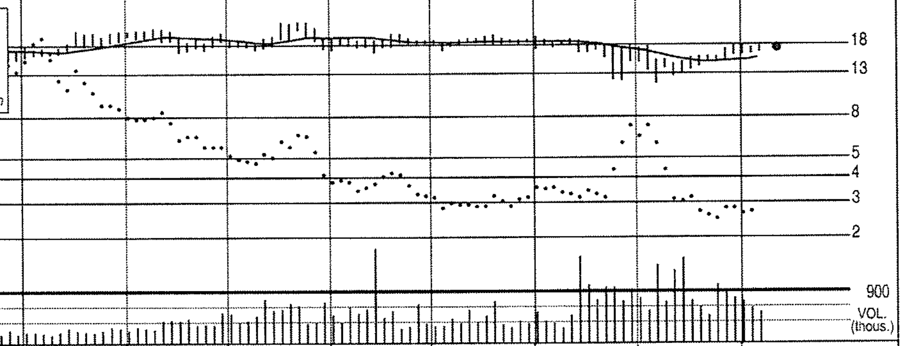
RECENT PRICE	17.44	TRAILING P/E RATIO	24.2	RELATIVE P/E RATIO	1.28	DIV'D YLD	4.1%	VALUE LINE

RANKS

PERFORMANCE	2	Above Average
Technical	2	Above Average
SAFETY	2	Above Average
BETA .75		(1.00 = Market)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
High	18.73	20.04	21.23	21.81	23.47	20.50	20.24	19.83	17.91	18.00
Low	14.69	13.73	15.77	16.65	17.07	16.50	16.93	12.05	11.64	16.16

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



Financial Strength	B+
Price Stability	95
Price Growth Persistence	40
Earnings Predictability	90

© VALUE LINE PUBLISHING, INC.	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010/2011
SALES PER SH	5.87	5.98	6.12	6.25	6.44	6.16	6.50	6.79	6.75	
"CASH FLOW" PER SH	1.18	1.20	1.15	1.28	1.33	1.33	1.49	1.53	1.40	
EARNINGS PER SH	.66	.73	.61	.73	.71	.82	.87	.89	.72	*NA/NA*
DIV'DS DECL'D PER SH	.62	.63	.65	.66	.67	.68	.69	.70	.71	
CAP'L SPENDING PER SH	1.25	1.59	1.87	2.54	2.18	2.31	1.66	2.12	1.49	
BOOK VALUE PER SH	7.11	7.39	7.60	8.38	8.60	9.82	10.05	10.28	10.33	
COMMON SHS OUTST'G (MILL)	10.17	10.36	10.48	11.36	11.58	13.17	13.25	13.40	13.52	
AVG ANN'L P/E RATIO	24.6	23.5	30.0	26.4	27.4	22.7	21.6	19.8	21.0	*NA/NA*
RELATIVE P/E RATIO	1.26	1.28	1.71	1.39	1.45	1.23	1.15	1.19	1.40	
AVG ANN'L DIV'D YIELD	3.8%	3.7%	3.5%	3.4%	3.5%	3.7%	3.7%	4.0%	4.7%	
SALES ($MILL)	59.6	61.9	64.1	71.0	74.6	81.1	86.1	91.0	91.2	*Bold figures*
OPERATING MARGIN	47.2%	47.1%	44.0%	44.4%	44.4%	47.4%	47.0%	46.9%	42.6%	*are consensus*
DEPRECIATION ($MILL)	5.3	5.0	5.6	6.4	7.2	7.8	8.2	8.5	9.2	*earnings*
NET PROFIT ($MILL)	7.0	7.8	6.6	8.4	8.5	10.0	11.8	12.2	10.0	*estimates*
INCOME TAX RATE	34.8%	33.3%	32.8%	31.1%	27.6%	33.4%	32.6%	33.2%	34.1%	*and, using the*
NET PROFIT MARGIN	11.7%	12.5%	10.3%	11.9%	11.4%	12.4%	13.8%	13.4%	10.9%	*recent prices,*
WORKING CAP'L ($MILL)	d.9	d9.3	d13.3	d11.8	d4.5	2.8	d9.6	d40.9	d38.6	*P/E ratios.*
LONG-TERM DEBT ($MILL)	88.1	87.5	97.4	115.3	128.2	130.7	131.6	118.2	124.9	
SHR. EQUITY ($MILL)	76.4	80.6	83.7	99.2	103.6	133.3	137.1	141.2	143.0	
RETURN ON TOTAL CAP'L	5.6%	6.0%	5.0%	5.1%	5.0%	5.1%	5.6%	5.8%	5.0%	
RETURN ON SHR. EQUITY	9.1%	9.6%	7.9%	8.5%	8.2%	7.5%	8.6%	8.6%	7.0%	
RETAINED TO COM EQ	.5%	1.3%	NMF	.9%	.5%	1.2%	1.8%	1.9%	.1%	
ALL DIV'DS TO NET PROF	94%	87%	106%	90%	94%	84%	79%	78%	98%	

Note: No analyst estimates available.

ANNUAL RATES

of change (per share)	5 Yrs.	1 Yr.
Sales	2.0%	-0.5%
"Cash Flow"	4.0%	-8.5%
Earnings	3.5%	-19.0%
Dividends	1.5%	1.5%
Book Value	5.5%	0.5%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/07	19.0	21.8	24.1	21.2	86.1
12/31/08	20.8	23.0	25.7	21.5	91.0
12/31/09	20.6	23.1	25.5	22.0	91.2
12/31/10					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/06	.15	.25	.28	.14	.82
12/31/07	.13	.24	.31	.19	.87
12/31/08	.15	.26	.35	.13	.89
12/31/09	.10	.21	.29	.12	.72
12/31/10					

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2007	.173	.173	.173	.175	.69
2008	.175	.175	.175	.178	.70
2009	.178	.178	.178	.18	.71
2010	.18				

INSTITUTIONAL DECISIONS

	2Q'09	3Q'09	4Q'09
to Buy	41	30	32
to Sell	33	28	20
Hld's(000)	4902	4958	4846

ASSETS ($mill.)	2007	2008	12/31/09
Cash Assets	2.0	3.3	4.3
Receivables	12.8	14.3	10.6
Inventory (Avg cost)	1.2	1.5	1.6
Other	1.4	1.5	5.5
Current Assets	17.4	20.6	22.0
Property, Plant & Equip, at cost	398.6	436.8	453.6
Accum Depreciation	64.7	70.5	77.1
Net Property	333.9	366.3	376.5
Other	41.4	53.1	59.6
Total Assets	392.7	440.0	458.1
LIABILITIES ($mill.)			
Accts Payable	6.5	5.7	4.3
Debt Due	9.0	43.9	46.6
Other	11.5	11.9	9.8
Current Liab	27.0	61.5	60.7

LONG-TERM DEBT AND EQUITY as of 12/31/09

Total Debt $171.5 mill. **Due in 5 Yrs.** $63.0 mill.
LT Debt $124.9 mill.
Including Cap. Leases None
(47% of Cap'l)
Leases, Uncapitalized Annual rentals None

Pension Liability $25.7 mill. in '09 vs. $25.5 mill. in '08

Pfd Stock $3.4 mill. **Pfd Div'd Paid** $.2 mill.
(1% of Cap'l)

Common Stock 13,519,000 shares
(52% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey (NJ) and Delaware, and a regulated wastewater utility in NJ. It offers contract operations services and a service line maintenance program through its nonregulated subsidiary, Utility Service Affiliates, Inc. Its water utility system treats, stores, and distributes water for residential, commercial, industrial, and fire prevention purposes. It also provides water treatment and pumping services to the Township of East Brunswick. Its other NJ subsidiaries offer water and wastewater services to residents in Southampton Township. Its Delaware subsidiaries provide water services to retail customers in New Castle, Kent, and Sussex counties. In March, the company entered into an agreement to purchase Montague Water Company, Inc. and Montague Sewer Company, Inc. Has 285 employees. Chairman: J. Richard Tompkins. Address: 1500 Ronson Rd, P.O. BOX 1500, Iselin, NJ 08830. Tel.: 732-634-1500. Internet: http://www.middlesexwater.com.

W.T.

April 23, 2010

TOTAL SHAREHOLDER RETURN

Dividends plus appreciation as of 3/31/2010

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
-2.18%	15.58%	24.13%	5.05%	13.25%

PENNICHUCK CORP NDQ--PNNW

RECENT PRICE	TRAILING P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	
23.36	42.5	2.24	3.1%	VALUE LINE

RANKS	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
	20.25	24.30	26.25	22.34	22.00	25.90	26.92	28.48	24.80	23.51	High
	14.49	17.63	15.18	17.99	18.10	17.00	20.05	14.75	16.56	19.00	Low

PERFORMANCE 3 *Average*

Technical 3 *Average*

SAFETY 3 *Average*

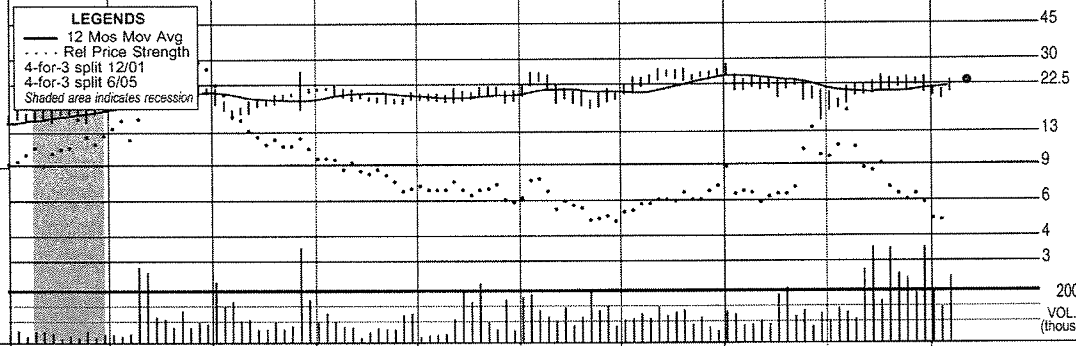
BETA .50 (1.00 = Market)

Financial Strength B+

Price Stability 90

Price Growth Persistence 50

Earnings Predictability 30



© VALUE LINE PUBLISHING, INC.	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010/2011
SALES PER SH	7.15	7.35	6.69	7.15	5.67	5.81	6.99	7.29	7.05	
"CASH FLOW" PER SH	2.09	2.00	1.53	1.57	.89	.99	1.77	2.10	1.43	
EARNINGS PER SH	1.14	1.13	.62	.60	.13	.14	.84	1.11	.55	***.72*** [A,B]***/.79*** [C]
DIV'DS DECL'D PER SH	.57	.59	.63	.65	.66	.66	.66	.66	.70	
CAP'L SPENDING PER SH	2.58	1.65	2.25	1.69	2.60	5.08	4.25	3.45	1.76	
BOOK VALUE PER SH	9.61	9.55	9.44	9.37	10.89	10.57	10.78	11.24	11.87	
COMMON SHS OUTST'G (MILL)	3.18	3.19	3.19	3.22	4.19	4.21	4.23	4.25	4.65	
AVG ANN'L P/E RATIO	14.5	18.1	30.3	32.7	NMF	NMF	29.1	20.0	38.9	***32.4/29.6***
RELATIVE P/E RATIO	.74	.99	1.73	1.73	NMF	NMF	1.54	1.20	2.60	
AVG ANN'L DIV'D YIELD	3.4%	2.9%	3.4%	3.3%	3.3%	3.2%	2.7%	3.0%	3.3%	
SALES ($MILL)	22.8	23.4	21.4	23.0	23.8	24.5	29.5	31.0	32.8	***Bold figures***
OPERATING MARGIN	51.0%	44.5%	37.9%	40.7%	34.0%	30.7%	39.3%	47.0%	48.4%	***are consensus***
DEPRECIATION ($MILL)	3.0	2.8	2.9	3.1	3.3	3.6	3.9	4.2	4.3	***earnings***
NET PROFIT ($MILL)	3.6	3.6	2.0	1.9	.5	.6	3.6	4.7	2.4	***estimates***
INCOME TAX RATE	39.1%	37.2%	38.9%	38.4%	38.0%	38.0%	39.2%	36.7%	39.6%	***and, using the***
NET PROFIT MARGIN	15.9%	15.4%	9.2%	8.4%	2.0%	2.3%	12.1%	15.2%	7.3%	***recent prices,***
WORKING CAP'L ($MILL)	3.5	4.6	.4	d11.0	19.2	3.2	2.9	d1.9	.6	***P/E ratios.***
LONG-TERM DEBT ($MILL)	27.1	26.9	26.9	16.9	41.3	47.7	58.0	59.6	54.3	
SHR. EQUITY ($MILL)	30.6	30.4	30.2	30.2	45.6	44.6	45.6	47.8	55.2	
RETURN ON TOTAL CAP'L	8.0%	8.0%	5.1%	5.9%	1.7%	2.2%	4.8%	6.2%	3.9%	
RETURN ON SHR. EQUITY	11.8%	11.8%	6.5%	6.4%	1.0%	1.3%	7.9%	9.9%	4.3%	
RETAINED TO COM EQ	5.9%	5.5%	NMF	NMF	NMF	NMF	1.7%	4.0%	NMF	
ALL DIV'DS TO NET PROF	50%	54%	102%	107%	NMF	NMF	78%	59%	NMF	

[A]No. of analysts changing earn. est. in last 10 days: 0 up, 1 down, consensus 5-year earnings growth not available. [B]Based upon 3 analysts' estimates. [C]Based upon 3 analysts' estimates.

ANNUAL RATES of change (per share)	5 Yrs.	1 Yr.
Sales	–	-3.5%
"Cash Flow"	1.0%	-31.5%
Earnings	1.0%	-50.5%
Dividends	1.5%	6.0%
Book Value	3.5%	5.5%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/07	6.0	7.1	9.4	7.0	29.5
12/31/08	6.8	7.9	8.4	7.9	31.0
12/31/09	7.0	8.5	9.5	7.8	32.8
12/31/10					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/06	d.17	.04	.16	.11	.14
12/31/07	.04	.31	.38	.11	.84
12/31/08	.59	.19	.21	.12	1.11
12/31/09	d.02	.18	.32	.07	.55
12/31/10	***.03***	***.22***	***.39***		

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2007	.165	.165	.165	.165	.66
2008	.165	.165	.165	.165	.66
2009	.175	.175	.175	.175	.70
2010	.18				

INSTITUTIONAL DECISIONS	2Q'09	3Q'09	4Q'09
to Buy	28	19	25
to Sell	12	19	10
Hld's(000)	2314	2358	2520

ASSETS ($mill.)	2007	2008	12/31/09
Cash Assets	9.0	1.1	1.6
Receivables	4.7	5.1	4.4
Inventory (Avg cost)	1.1	.9	.7
Other	1.0	1.8	2.8
Current Assets	15.8	8.9	9.5
Property, Plant & Equip, at cost	175.6	187.4	192.6
Accum Depreciation	35.3	36.1	37.8
Net Property	140.3	151.3	154.8
Other	12.5	14.8	13.3
Total Assets	168.6	175.0	177.6
LIABILITIES ($mill.)			
Accts Payable	1.9	.4	1.1
Debt Due	6.7	6.7	5.9
Other	4.3	3.7	1.9
Current Liab	12.9	10.8	8.9

LONG-TERM DEBT AND EQUITY as of 12/31/09

Total Debt $60.2 mill. **Due in 5 Yrs.** $9.5 mill.
LT Debt $54.3 mill.
Including Cap. Leases None
(50% of Cap'l)

Leases, Uncapitalized Annual rentals $4.4 mill.

Pension Liability $5.7 mill. in '09 vs. $6.4 mill. in '08

Pfd Stock None **Pfd Div'd Paid** None

Common Stock 4,651,058 shares
(50% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: Pennichuck Corporation, through its subsidiaries, engages in the collection, storage, treatment, and distribution of potable water for domestic, industrial, commercial, and fire protection service in southern and central New Hampshire. The company also provides non-regulated water management services, including monitoring, maintenance, testing, and compliance reporting services for water systems of various towns, businesses, and residential communities. In addition, it engages in real estate planning, development, and management of residential, commercial, industrial, and retail properties. Further, Pennichuck controls approximately 450 acres of developable land in Nashua and Merrimack, New Hampshire. It serves Nashua, New Hampshire and 10 surrounding municipalities in southern New Hampshire with an estimated total population of 110,000. Has 101 employees. C.E.O. & President: Duane C. Montopoli . Inc.: NH. Address: 25 Manchester Street, Merrimack, NH 03054. Tel.: (603) 882-5191. Internet: http://www.pennichuck.com.

W.T.

April 23, 2010

TOTAL SHAREHOLDER RETURN
Dividends plus appreciation as of 3/31/2010

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
12.27%	9.86%	18.76%	11.61%	5.56%

AQUA AMERICA NYSE-WTR

RECENT PRICE	P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
17.97	21.9 (Trailing: 23.3) (Median: 25.0)	1.21	3.2%	

TIMELINESS 3 Lowered 6/26/09
SAFETY 3 Lowered 8/1/03
TECHNICAL 3 Lowered 4/23/10
BETA .65 (1.00 = Market)

2013-15 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	35	(+95%)	20%
Low	25	(+40%)	11%

Insider Decisions

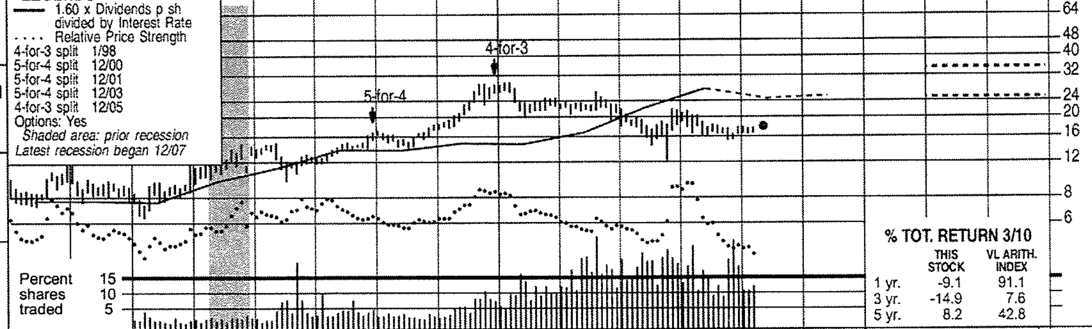
	M	J	J	A	S	O	N	D	J
to Buy	0	0	0	0	0	0	2	0	0
Options	0	0	0	0	0	0	0	1	0
to Sell	0	0	0	0	0	0	0	1	0

Institutional Decisions

	2Q2009	3Q2009	4Q2009
to Buy	117	88	127
to Sell	136	118	104
Hld's(000)	61341	60196	60166

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
High:	11.5	12.0	14.8	15.0	16.8	18.5	29.2	29.8	26.6	22.0	21.5	18.1
Low:	7.6	6.3	9.4	9.6	11.8	14.2	17.5	20.1	18.9	12.2	15.4	16.5

LEGENDS
— 1.60 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
4-for-3 split 1/98
5-for-4 split 12/00
5-for-4 split 12/01
5-for-4 split 12/03
4-for-3 split 12/05
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



Target Price Range 2013 | 2014 | 2015

% TOT. RETURN 3/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	-9.1	91.1
3 yr.	-14.9	7.6
5 yr.	8.2	42.8

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
1.82	1.84	1.86	2.02	2.09	2.41	2.46	2.70	2.85	2.97	3.48	3.85	4.03	4.52	4.63	4.91	**5.30**	**5.70**	Revenues per sh	**6.95**
.42	.47	.50	.56	.61	.72	.76	.86	.94	.96	1.09	1.21	1.26	1.37	1.42	1.61	**1.75**	**1.90**	"Cash Flow" per sh	**2.60**
.26	.29	.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	.70	.71	.73	.77	**.85**	**.95**	Earnings per sh A	**1.40**
.21	.22	.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	.44	.48	.51	.55	**.60**	**.65**	Div'd Decl'd per sh B ■	**.70**
.46	.52	.48	.58	.82	.90	1.16	1.09	1.20	1.32	1.54	1.84	2.05	1.79	1.98	2.08	**2.15**	**2.25**	Cap'l Spending per sh	**2.50**
2.41	2.46	2.69	2.84	3.21	3.42	3.85	4.15	4.36	5.34	5.89	6.30	6.96	7.32	7.82	8.12	**8.30**	**8.60**	Book Value per sh	**10.15**
59.77	63.74	65.75	67.47	72.20	106.80	111.82	113.97	113.19	123.45	127.18	128.97	132.33	133.40	135.37	136.49	**137.50**	**138.00**	Common Shs Outst'g C	**140.00**
13.5	12.0	15.6	17.8	22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	34.7	32.0	24.9	23.1	*Bold figures are*		Avg Ann'l P/E Ratio	**21.0**
.89	.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.87	1.70	1.50	1.54	*Value Line*		Relative P/E Ratio	**1.40**
6.0%	6.2%	4.9%	3.9%	2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.8%	2.1%	2.8%	3.1%	*estimates*		Avg Ann'l Div'd Yield	**2.0%**
						275.5	307.3	322.0	367.2	442.0	496.8	533.5	602.5	627.0	670.5	**730**	**785**	Revenues ($mill)	**975**
						50.7	58.5	62.7	67.3	80.0	91.2	92.0	95.0	97.9	104.4	**125**	**135**	Net Profit ($mill)	**195**
						38.9%	39.3%	38.5%	39.3%	39.4%	38.4%	39.6%	38.9%	39.7%	39.4%	**39.0%**	**39.0%**	Income Tax Rate	**39.0%**
						--	--	--	--	--	--	--	--	2.9%	3.1%	**2.8%**	**2.5%**	AFUDC % to Net Profit	**1.7%**
						52.0%	52.2%	54.2%	51.4%	50.0%	52.0%	51.6%	55.4%	54.1%	55.6%	**55.0%**	**54.0%**	Long-Term Debt Ratio	**49.5%**
						47.8%	47.7%	45.8%	48.6%	50.0%	48.0%	48.4%	44.6%	45.9%	44.4%	**45.0%**	**46.0%**	Common Equity Ratio	**50.5%**
						901.1	990.4	1076.2	1355.7	1497.3	1690.4	1904.4	2191.4	2306.6	2495.5	**2530**	**2575**	Total Capital ($mill)	**2805**
						1251.4	1368.1	1490.8	1824.3	2069.8	2280.0	2506.0	2792.8	2997.4	3227.3	**3300**	**3350**	Net Plant ($mill)	**3600**
						7.4%	7.8%	7.6%	6.4%	6.7%	6.9%	6.4%	5.9%	5.7%	5.6%	**6.0%**	**6.5%**	Return on Total Cap'l	**8.0%**
						11.7%	12.3%	12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	9.4%	**10.0%**	**11.0%**	Return on Shr. Equity	**14.0%**
						11.7%	12.4%	12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	9.4%	**10.0%**	**11.0%**	Return on Com Equity	**14.0%**
						4.7%	5.1%	5.2%	4.2%	4.6%	4.9%	3.7%	3.2%	2.8%	2.7%	**3.0%**	**3.5%**	Retained to Com Eq D	**7.0%**
						60%	59%	59%	59%	57%	56%	63%	67%	70%	72%	**70%**	**67%**	All Div'ds to Net Prof	**51%**

CAPITAL STRUCTURE as of 12/31/09
Total Debt $1473.6 mill. **Due in 5 Yrs** $276.5 mill.
LT Debt $1386.6 mill. **LT Interest** $70.0 mill.
(LT interest earned: 3.5x; total interest coverage: 3.5x) (56% of Cap'l)

Pension Assets-12/09 $135.6 mill. **Oblig.** $217.8 mill.

Pfd Stock None

Common Stock 136,679,644 shares as of 2/12/10

MARKET CAP: $2.4 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	12/31/09
Cash Assets	14.5	14.9	21.9
Receivables	82.9	84.5	78.7
Inventory (AvgCst)	8.8	9.8	9.5
Other	9.3	11.8	11.5
Current Assets	115.5	121.0	121.6
Accts Payable	45.8	50.0	57.9
Debt Due	80.8	87.9	87.0
Other	56.6	55.3	56.1
Current Liab.	183.2	193.2	201.0
Fix. Chg. Cov.	323%	329%	346%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	8.0%	9.0%	7.0%
"Cash Flow"	9.5%	8.0%	10.0%
Earnings	7.5%	5.5%	11.5%
Dividends	7.0%	8.0%	5.5%
Book Value	9.5%	10.0%	4.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	137.3	150.6	165.5	149.1	602.5
2008	139.3	151.0	177.1	159.6	627.0
2009	154.5	167.3	180.8	167.9	670.5
2010	**165**	**185**	**195**	**185**	**730**
2011	**175**	**195**	**210**	**205**	**785**

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	.13	.17	.22	.19	.71
2008	.11	.17	.26	.19	.73
2009	.14	.19	.25	.20	.77
2010	**.15**	**.20**	**.27**	**.23**	**.85**
2011	**.17**	**.22**	**.30**	**.26**	**.95**

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.107	.107	.115	.115	.44
2007	.115	.115	.125	.125	.48
2008	.125	.125	.125	.135	.51
2009	.135	.135	.135	.145	.55
2010	.145				

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '09: residential, 58.5%; commercial, 14%; industrial & other, 27.5%. Officers and directors own 1.5% of the common stock (4/10 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

Aqua America managed to increase its profits in 2009 despite the weakened economic backdrop. For the full year, revenues advanced 7%, mostly due to benefits from rate-relief cases and gains from acquisitions. This offset unfavorable weather conditions that hurt the top line. The bottom line benefited from cost-cutting efforts, but this was discounted by a 6% increase in capital spending.

The company's customer growth over the next few years will most likely be gained through acquisitions. Toward this end, Aqua America's New Jersey subsidiary completed the purchase of the water system assets of Bloomsbury Borough. This added about 1,000 residential and commercial customers. More acquisitions of smaller water and wastewater companies will be one of the main points of focus for WTR's management.

Earnings gains over the next few years should be bolstered through rate relief cases. During the first two months of 2010, Aqua America has won rate relief cases that should add $6 million per annum to the top line. An additional $65 million in lawsuits should be resolved in the latter half of this year, and management plans to petition for $25 million–$30 million in rate increases and surcharges by yearend.

The dividend payout should continue to be a bright spot for Aqua America. The historical trend of management raising its dividend every year will most likely continue going forward.

This stock is ranked to mirror the broader market over the coming year. Although share earnings were flat year over year in the second half of 2009, we estimate that the top and bottom lines will advance over the next few quarters.

These shares hold above-average appreciation potential over the coming 3 to 5 years. The aforementioned gains from acquisitions should enable revenues and earnings to continue to rise over the pull to 2013–2015. Other points of interest for this equity include its high scores for Stock Price Stability and Earnings Predictability. All told, this stock is best suited for long-term conservative investors.

John D. Burke *April 23, 2010*

(A) Diluted shares. Excl. nonrec. gains (losses): '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from disc. operations: '96, 2¢. Earnings may not add due to rounding. Next earnings report due late April.
(B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount).
(C) In millions, adjusted for stock splits.

Company's Financial Strength	B+
Stock's Price Stability	95
Price Growth Persistence	70
Earnings Predictability	100

SJW CORP. NYSE–SJW

RECENT PRICE	27.27	TRAILING P/E RATIO	33.7	RELATIVE P/E RATIO	1.77	DIV'D YLD	2.5%	VALUE LINE

RANKS	17.83	15.07	14.95	19.64	27.80	45.33	43.00	35.11	30.44	27.60	High
	11.58	12.67	12.57	14.60	16.07	21.16	27.65	20.05	18.22	21.60	Low

PERFORMANCE 3 *Average*

Technical 3 *Average*

SAFETY 3 *Average*

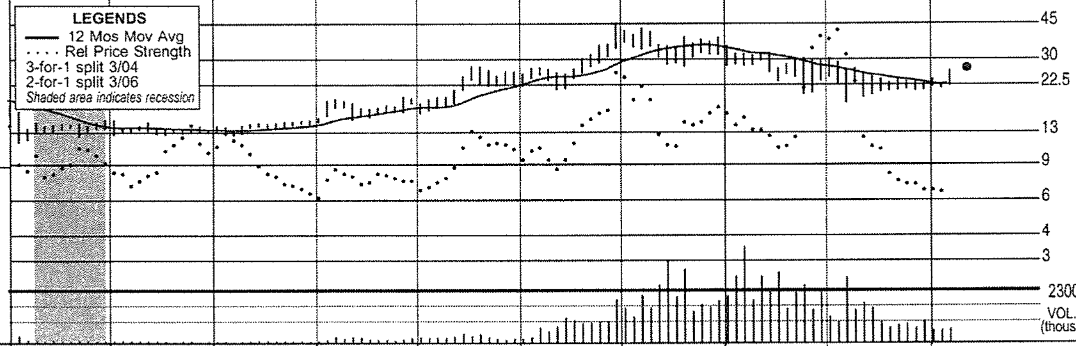
BETA .95 (1.00 = Market)

Financial Strength B+

Price Stability 65

Price Growth Persistence 75

Earnings Predictability 85



© VALUE LINE PUBLISHING, INC.	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010/2011
SALES PER SH	7.45	7.97	8.20	9.14	9.86	10.35	11.25	12.12	11.68	
"CASH FLOW" PER SH	1.49	1.55	1.75	1.89	2.21	2.38	2.30	2.44	2.21	
EARNINGS PER SH	.77	.78	.91	.87	1.12	1.19	1.04	1.08	.81	***1.04*** [A,B] ***/1.13*** [C]
DIV'DS DECL'D PER SH	.43	.46	.49	.51	.53	.57	.61	.65	.66	
CAP'L SPENDING PER SH	2.63	2.06	3.41	2.31	2.83	3.87	6.62	3.79	3.17	
BOOK VALUE PER SH	8.17	8.40	9.11	10.11	10.72	12.48	12.90	13.99	13.66	
COMMON SHS OUTST'G (MILL)	18.27	18.27	18.27	18.27	18.27	18.28	18.36	18.18	18.50	
AVG ANN'L P/E RATIO	18.5	17.3	15.4	19.6	19.7	23.5	33.4	26.2	28.7	***26.2/24.1***
RELATIVE P/E RATIO	.95	.94	.88	1.04	1.04	1.27	1.77	1.58	1.92	
AVG ANN'L DIV'D YIELD	3.0%	3.4%	3.5%	3.0%	2.4%	2.0%	1.7%	2.3%	2.8%	
SALES ($MILL)	136.1	145.7	149.7	166.9	180.1	189.2	206.6	220.3	216.1	***Bold figures***
OPERATING MARGIN	64.4%	63.7%	56.0%	56.4%	55.9%	57.0%	41.8%	42.4%	42.5%	***are consensus***
DEPRECIATION ($MILL)	13.2	14.0	15.2	18.5	19.7	21.3	22.9	24.0	25.6	***earnings***
NET PROFIT ($MILL)	14.0	14.2	16.7	16.0	20.7	22.2	19.3	20.2	15.2	***estimates***
INCOME TAX RATE	34.5%	40.4%	36.2%	42.1%	41.6%	40.8%	39.4%	39.5%	40.4%	***and, using the***
NET PROFIT MARGIN	10.3%	9.8%	11.2%	9.6%	11.5%	11.7%	9.4%	9.2%	7.0%	***recent prices,***
WORKING CAP'L ($MILL)	d3.8	d4.9	12.0	13.0	10.8	22.2	d1.4	d11.3	d4.0	***P/E ratios.***
LONG-TERM DEBT ($MILL)	110.0	110.0	139.6	143.6	145.3	163.6	216.3	216.6	246.9	
SHR. EQUITY ($MILL)	149.4	153.5	166.4	184.7	195.9	228.2	236.9	254.3	252.8	
RETURN ON TOTAL CAP'L	6.7%	6.9%	6.9%	6.5%	7.6%	7.0%	5.7%	5.8%	4.4%	
RETURN ON SHR. EQUITY	9.4%	9.3%	10.0%	8.7%	10.6%	9.7%	8.2%	8.0%	6.0%	
RETAINED TO COM EQ	4.1%	3.8%	4.7%	3.6%	5.6%	5.2%	3.5%	3.3%	1.2%	
ALL DIV'DS TO NET PROF	56%	59%	53%	58%	47%	46%	57%	59%	80%	

[A] No. of analysts changing earn. est. in last 10 days: 0 up, 0 down, consensus 5-year earnings growth not available. [B] Based upon 2 analysts' estimates. [C] Based upon 2 analysts' estimates.

ANNUAL RATES

of change (per share)	5 Yrs.	1 Yr.
Sales	6.5%	-3.5%
"Cash Flow"	6.0%	-9.5%
Earnings	3.0%	-25.5%
Dividends	5.5%	2.5%
Book Value	8.0%	-2.5%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/07	39.0	55.1	64.9	47.6	206.6
12/31/08	41.3	60.0	69.5	49.5	220.3
12/31/09	40.0	58.2	69.3	48.6	216.1
12/31/10					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/06	.14	.35	.48	.22	1.19
12/31/07	.12	.29	.43	.20	1.04
12/31/08	.15	.34	.44	.15	1.08
12/31/09	.01	.23	.43	.14	.81
12/31/10	***.05***	***.26***	***.48***		

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2007	.151	.151	.151	.151	.60
2008	.161	.161	.161	.161	.64
2009	.165	.165	.165	.165	.66
2010	.17				

INSTITUTIONAL DECISIONS

	2Q'09	3Q'09	4Q'09
to Buy	43	34	43
to Sell	40	29	24
Hld's(000)	8694	8607	8827

ASSETS ($mill.)	2007	2008	12/31/09
Cash Assets	2.4	3.4	1.4
Receivables	23.0	24.5	23.3
Inventory	.8	.9	1.0
Other	5.4	3.2	2.3
Current Assets	31.6	32.0	28.0
Property, Plant & Equip, at cost	904.3	958.7	1020.7
Accum Depreciation	258.8	274.5	302.2
Net Property	645.5	684.2	718.5
Other	90.2	134.7	132.0
Total Assets	767.3	850.9	878.5
LIABILITIES ($mill.)			
Accts Payable	9.3	5.8	6.6
Debt Due	5.6	19.1	6.9
Other	18.1	18.4	18.5
Current Liab	33.0	43.3	32.0

LONG-TERM DEBT AND EQUITY as of 12/31/09

Total Debt $253.8 mill. **Due in 5 Yrs.** $21.5 mill.
LT Debt $246.9 mill.
Including Cap. Leases None
(49% of Cap'l)

Leases, Uncapitalized Annual rentals None

Pension Liability $47.5 mill. in '09 vs. $42.3 mill. in '08

Pfd Stock None **Pfd Div'd Paid** None

Common Stock 18,499,602 shares
(51% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: SJW Corporation, through its subsidiaries, engages in the production, purchase, storage, purification, distribution, and retail sale of water. The company offers nonregulated water-related services, including water system operations, cash remittances, and maintenance contract services. SJW also owns undeveloped land; a 70% limited partnership interest in 444 West Santa Clara Street, L.P.; and operates commercial buildings in Arizona, California, Connecticut, Florida, Tennessee, and Texas. As of September 30, 2009, SJW provided water service to approximately 226,000 connections that served a population of approximately one million people in the San Jose area. It also provides water service to approximately 8,700 connections that serve approximately 36,000 residents in a service area in the region between San Antonio and Austin, Texas. Has 375 employees. Chairman: Charles J. Toeniskoetter. Inc.: CA. Address: 110 W. Taylor Street, San Jose, CA 95110. Tel.: (408) 279-7800. Internet: http://www.sjwater.com.

W.T.

April 23, 2010

TOTAL SHAREHOLDER RETURN

Dividends plus appreciation as of 3/31/2010

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
13.50%	12.94%	3.07%	-32.38%	62.58%

AMER. STATES WATER NYSE-AWR

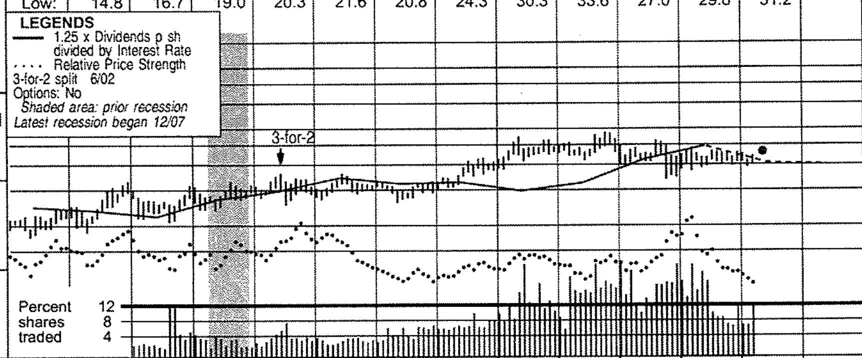
RECENT PRICE	37.04	P/E RATIO	23.6 (Trailing: 22.9 / Median: 22.0)	RELATIVE P/E RATIO	1.30	DIV'D YLD	2.8%	VALUE LINE

TIMELINESS 4 Lowered 3/19/10
SAFETY 3 New 2/4/00
TECHNICAL 3 Lowered 4/23/10
BETA .80 (1.00 = Market)

High:	26.5	25.3	26.4	29.0	29.0	26.8	34.6	43.8	46.1	42.0	38.8	38.2
Low:	14.8	16.7	19.0	20.3	21.6	20.8	24.3	30.3	33.6	27.0	29.8	31.2

Target Price Range 2013 | 2014 | 2015

LEGENDS
— 1.25 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 6/02
Options: No
Shaded area: prior recession
Latest recession began 12/07



2013-15 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+50%)	13%
Low	35	(-5%)	2%

Insider Decisions

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

Institutional Decisions

	2Q2009	3Q2009	4Q2009
to Buy	66	54	57
to Sell	53	53	39
Hld's(000)	10578	10847	11007

% TOT. RETURN 3/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	-1.5	91.1
3 yr.	2.3	7.6
5 yr.	57.5	42.8

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
10.43	11.03	11.37	11.44	11.02	12.91	12.17	13.06	13.78	13.98	13.61	14.06	15.76	17.49	18.42	19.48	**19.75**	**20.25**	Revenues per sh	**22.10**
1.68	1.75	1.75	1.85	2.04	2.26	2.20	2.53	2.54	2.08	2.23	2.64	2.89	3.31	3.37	3.40	**3.50**	**3.70**	"Cash Flow" per sh	**4.15**
.95	1.03	1.13	1.04	1.08	1.19	1.28	1.35	1.34	.78	1.05	1.32	1.33	1.62	1.55	1.62	**1.75**	**1.90**	Earnings per sh A	**2.35**
.80	.81	.82	.83	.84	.85	.86	.87	.87	.88	.89	.90	.91	.96	1.00	1.01	**1.04**	**1.08**	Div'd Decl'd per sh B■	**1.18**
2.43	2.19	2.40	2.58	3.11	4.30	3.03	3.18	2.68	3.76	5.03	4.24	3.91	2.89	4.45	4.18	**4.15**	**4.10**	Cap'l Spending per sh	**4.20**
10.07	10.29	11.01	11.24	11.48	11.82	12.74	13.22	14.05	13.97	15.01	15.72	16.64	17.53	17.95	19.39	**20.25**	**21.00**	Book Value per sh	**22.35**
11.77	11.77	13.33	13.44	13.44	13.44	15.12	15.12	15.18	15.21	16.75	16.80	17.05	17.23	17.30	18.53	**19.25**	**20.00**	Common Shs Outst'g C	**21.50**
12.8	11.6	12.6	14.5	15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	24.0	22.6	21.2	*Bold figures are*		Avg Ann'l P/E Ratio	**19.0**
.84	.78	.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.27	1.36	1.42	*Value Line*		Relative P/E Ratio	**1.25**
6.6%	6.7%	5.8%	5.5%	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.5%	2.5%	2.9%	2.9%	*estimates*		Avg Ann'l Div'd Yield	**2.6%**

CAPITAL STRUCTURE as of 12/31/09
Total Debt $306.3 mill. **Due in 5 Yrs** $12.3 mill.
LT Debt $305.6 mill. **LT Interest** $22.3 mill.
(LT interest earned: 3.4x: total interest coverage: 3.2x) (56% of Cap'l)

Leases, Uncapitalized: Annual rentals $3.2 mill.

Pension Assets-12/09 $74.0 mill. **Oblig.** $103.1 mill.

Pfd Stock None.

Common Stock 18,554,364 shs. as of 3/10/10
MARKET CAP: $700 million (Small Cap)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		13-15
184.0	197.5	209.2	212.7	228.0	236.2	268.6	301.4	318.7	361.0	**380**	**405**	Revenues ($mill)	**475**
18.0	20.4	20.3	11.9	16.5	22.5	23.1	28.0	26.8	29.5	**33.0**	**38.0**	Net Profit ($mill)	**50.0**
45.7%	43.0%	38.9%	43.5%	37.4%	47.0%	40.5%	42.6%	37.8%	38.9%	**38.5%**	**38.5%**	Income Tax Rate	**38.5%**
--	--	--	--	--	--	12.2%	8.5%	6.9%	3.2%	**5.0%**	**5.0%**	AFUDC % to Net Profit	**5.0%**
47.5%	54.9%	52.0%	52.0%	47.7%	50.4%	48.6%	46.9%	46.2%	45.9%	**47.0%**	**47.0%**	Long-Term Debt Ratio	**49.0%**
51.9%	44.7%	48.0%	48.0%	52.3%	49.6%	51.4%	53.1%	53.8%	54.1%	**53.0%**	**53.0%**	Common Equity Ratio	**51.0%**
371.1	447.6	444.4	442.3	480.4	532.5	551.6	569.4	577.0	665.0	**735**	**795**	Total Capital ($mill)	**940**
509.1	539.8	563.3	602.3	664.2	713.2	750.6	776.4	825.3	866.4	**910**	**955**	Net Plant ($mill)	**1100**
6.4%	6.1%	6.5%	4.6%	5.2%	5.4%	6.0%	6.7%	6.4%	5.9%	**6.0%**	**6.5%**	Return on Total Cap'l	**7.0%**
9.2%	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	9.3%	8.6%	8.2%	**8.5%**	**9.0%**	Return on Shr. Equity	**10.5%**
9.3%	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	9.3%	8.6%	8.2%	**8.5%**	**9.0%**	Return on Com Equity	**10.5%**
3.0%	3.6%	3.3%	NMF	1.0%	2.8%	2.7%	3.9%	3.1%	3.2%	**3.5%**	**4.0%**	Retained to Com Eq	**5.0%**
68%	65%	65%	113%	84%	67%	67%	58%	64%	61%	**61%**	**57%**	All Div'ds to Net Prof	**50%**

CURRENT POSITION ($MILL.)	2007	2008	12/31/09
Cash Assets	1.7	7.3	1.7
Other	61.4	83.3	94.3
Current Assets	63.1	90.6	96.0
Accts Payable	29.1	36.6	33.9
Debt Due	37.8	75.3	.7
Other	27.4	25.5	65.1
Current Liab.	94.3	137.4	99.7
Fix. Chg. Cov.	314%	293%	352%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	4.5%	6.0%	3.0%
"Cash Flow"	5.0%	8.0%	3.5%
Earnings	4.0%	8.5%	6.5%
Dividends	1.5%	2.5%	3.0%
Book Value	4.5%	5.0%	3.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2007	72.3	79.3	75.8	74.0	301.4
2008	68.9	80.3	85.3	84.2	318.7
2009	79.6	93.6	101.5	86.3	361.0
2010	**83.0**	**98.0**	**107**	**92.0**	**380**
2011	**89.0**	**105**	**114**	**97.0**	**405**

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2007	.40	.42	.44	.35	1.62
2008	.30	.53	.26	.43	1.55
2009	.28	.64	.52	.18	1.62
2010	**.27**	**.58**	**.54**	**.36**	**1.75**
2011	**.28**	**.64**	**.57**	**.41**	**1.90**

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.225	.225	.225	.235	.91
2007	.235	.235	.235	.250	.96
2008	.250	.250	.250	.250	1.00
2009	.250	.250	.250	.260	1.01
2010	.260				

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to more than 250,000 customers in 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to nearly 23,250 customers in the city of Big Bear Lake and in areas of San Bernardino County. Acquired Chaparral City Water of Arizona (10/00). Has 703 employees. Officers & directors own 2.6% of common stock (4/10 Proxy). Chairman: Lloyd Ross. President & CEO: Robert J. Sprowls. Inc: CA. Addr: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel: 909-394-3600. Internet: www.aswater.com.

The costs of doing business continue to add up for American States Water. Indeed, the water utility saw earnings cut by more than half in the fourth quarter of 2009, despite posting a 3% top-line advance. Higher maintenance and SG&A expenses were the problem, dragging down operating margins a full basis point. Meanwhile, a higher share count shaved a couple of pennies off share earnings.

Operating expenses ought to continue mounting going forward . . . Water infrastructures are growing older and, in many cases, outdated. They require significant repairs and sometimes, complete overhauls. As a result, maintenance costs are expected to remain on an upward trajectory for the foreseeable future. Although the cost structure is likely to benefit from the absence of a $2-plus million legal charge incurred last year, margins will probably show modest improvement in 2010 before stalling in 2011 and eroding thereafter.

. . . and the financial burden remains worrisome. With a fairly leveraged balance sheet and negligible reserve, American is strapped for cash and will need to tap debt and equity markets in order to keep up with the burgeoning infrastructure costs we envision persisting in the years to come. Such endeavors come at a price, however, and the higher interest rate and loftier share count will limit shareholder gains. Against this backdrop, we now look for the company to earn $1.75 a share in 2010 and $1.90 next year.

Prospective investors will probably want to look elsewhere. These shares are ranked 4 (Below Average) for Timeliness, and are likely to trail the broader market for the coming six to 12 months. The issue's longer-term prospects are not any better, with rising costs likely to limit gains over the next 3 to 5 years. The stock is already trading within the 2013-2015 Target Price Range based on our projections. The income component may seem tempting at first blush, but its appeal fades when compared to those of some other stocks in our *Survey*, particularly in the utility space. Although the company has a longstanding history of dividend increases, its financial constraints may well keep growth in check.

Andre J. Costanza *April 23, 2010*

(A) Primary earnings. Excludes nonrecurring gains/(losses): '04, 14¢; '05, 25¢; '06, 6¢; '08, (27¢). Next earnings report due early May. Quarterly egs. may not add due to rounding.
(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for split.

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

SOUTHWEST WATER NDQ-SWWC

RECENT PRICE 10.48 | P/E RATIO 45.6 (Trailing: 87.3; Median: 29.0) | RELATIVE P/E RATIO 2.52 | DIV'D YLD 1.9% | VALUE LINE

TIMELINESS – Suspended 3/12/10
SAFETY 4 New 10/23/09
TECHNICAL – Suspended 3/12/10
BETA 1.10 (1.00 = Market)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
High:					9.2	8.3	10.2	12.4	11.2	14.3	15.2	19.1	16.4	13.4	6.3	10.7	
Low:					3.6	5.1	6.9	7.6	8.1	10.3	9.0	10.8	11.5	2.7	3.1	5.6	

Target Price Range 2013 | 2014 | 2015

2013-15 PROJECTIONS

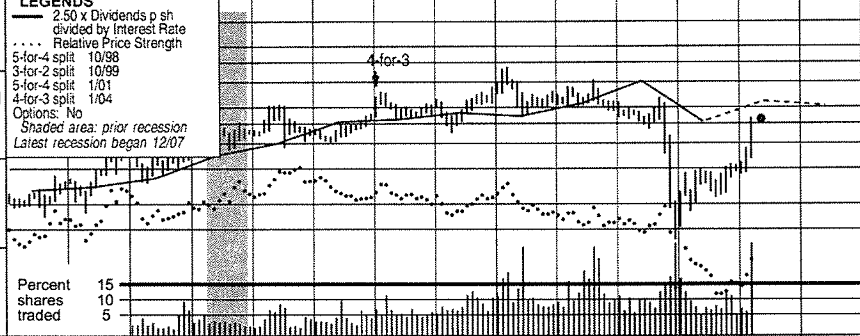
	Price	Gain	Ann'l Total Return
High	18	70%	17%
Low	11	5%	4%

Insider Decisions

	M	J	J	A	S	O	N	D	J
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

	2Q2009	3Q2009	4Q2009
to Buy	42	42	36
to Sell	39	31	34
Hld's(000)	11107	10401	10872



% TOT. RETURN 3/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	148.4	91.1
3 yr.	-23.2	7.6
5 yr.	9.6	42.8

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
4.20	4.84	5.31	5.61	5.63	6.16	7.49	8.15	9.12	10.70	9.23	9.10	9.42	8.96	8.87	8.58	*8.85*	*9.40*	Revenues per sh	*12.00*
.38	.44	.46	.53	.59	.65	.76	.87	.86	.91	.67	.78	.85	.69	.66	.77	*.85*	*1.00*	"Cash Flow" per sh	*1.50*
.09	.12	.15	.21	.25	.31	.38	.42	.39	.44	.23	.34	.40	.31	.04	.17	*.25*	*.35*	Earnings per sh A	*.70*
.08	.08	.09	.09	.10	.11	.13	.14	.15	.16	.18	.20	.21	.23	.24	.13	*.20*	*.20*	Div'd Decl'd per sh B	*.20*
.72	.84	.95	.74	.79	.53	.55	1.06	1.78	1.14	1.26	1.66	1.87	1.70	1.35	1.71	*1.75*	*1.85*	Cap'l Spending per sh	*2.00*
2.31	2.45	2.40	2.52	2.70	3.05	3.44	3.84	4.27	4.90	6.17	6.49	6.98	6.54	4.55	4.66	*4.70*	*4.80*	Book Value per sh D	*5.95*
12.13	11.74	12.45	12.65	12.83	13.12	13.99	14.17	14.35	16.17	20.36	22.33	23.80	24.27	24.90	24.60	*24.80*	*25.00*	Common Shs Outst'g C	*25.00*
22.3	14.6	16.5	16.9	17.2	19.6	17.0	19.8	24.8	21.2	NMF	35.5	34.8	42.1	NMF	30.1	*Bold figures are*		Avg Ann'l P/E Ratio	*20.0*
1.46	.98	1.03	.97	.89	1.12	1.11	1.01	1.35	1.21	NMF	1.89	1.88	2.23	NMF	2.01	*Value Line*		Relative P/E Ratio	*1.35*
4.2%	4.7%	3.4%	2.7%	2.3%	1.8%	2.0%	1.7%	1.5%	1.7%	1.5%	1.6%	1.5%	1.8%	2.4%	2.5%	*estimates*		Avg Ann'l Div'd Yield	*2.0%*

CAPITAL STRUCTURE as of 12/31/09
Total Debt $155.0 mill. **Due in 5 Yrs** $155.0 mill.
LT Debt $152.8 mill. **LT Interest** $9.0 mill.
(Total interest coverage: 2.7x) (48% of Cap'l)

Leases, Uncapitalized: Annual rentals $5.5 mill.
Pension Liability None

Pfd Stock $.458 mill. **Pfd Div'd** $.020 mill.
Common Stock 24,794,218 shs.
as of 2/28/10

MARKET CAP: $250 million (Small Cap)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		13-15
104.7	115.5	130.8	173.0	188.0	203.2	224.2	217.3	220.9	211.1	*220*	*235*	Revenues ($mill)	*300*
5.4	6.2	6.0	7.2	4.5	7.3	9.3	5.1	1.0	5.3	*6.2*	*8.8*	Net Profit ($mill)	*17.5*
37.0%	36.0%	34.9%	35.9%	36.1%	36.0%	35.0%	56.0%	56.0%	NMF	*NMF*	*39.0%*	Income Tax Rate	*39.0%*
--	14.4%	3.2%	--	11.0%	9.5%	--	--	12.5%	12.7%	*9.7%*	*7.9%*	AFUDC % to Net Profit	*5.8%*
48.8%	51.4%	56.7%	47.9%	47.9%	44.7%	43.6%	47.7%	62.6%	61.1%	*59.5%*	*57.2%*	Long-Term Debt Ratio	*50.1%*
50.7%	48.2%	42.9%	51.8%	52.0%	55.1%	56.3%	52.1%	37.2%	38.9%	*40.5%*	*42.8%*	Common Equity Ratio	*49.9%*
95.0	113.0	142.8	152.8	242.0	262.9	295.2	304.5	304.4	294.7	*285*	*280*	Total Capital ($mill)	*300*
157.8	171.1	203.9	219.5	302.6	344.8	389.6	417.9	429.3	409.0	*402*	*400*	Net Plant ($mill)	*450*
7.6%	7.6%	5.8%	6.2%	3.1%	4.1%	4.5%	2.9%	1.8%	3.1%	*4.0%*	*5.0%*	Return on Total Cap'l	*7.5%*
11.1%	11.4%	9.7%	9.0%	3.6%	5.0%	5.6%	3.2%	.9%	3.6%	*5.5%*	*7.5%*	Return on Shr. Equity	*11.5%*
11.1%	11.4%	9.7%	9.1%	3.6%	5.0%	5.6%	3.2%	.8%	.8%	*1.0%*	*3.0%*	Return on Com Equity	*8.5%*
7.8%	7.8%	6.3%	5.8%	.8%	2.1%	2.6%	NMF	NMF	.8%	*1.0%*	*3.0%*	Retained to Com Eq	*8.5%*
31%	32%	36%	36%	78%	58%	54%	112%	NMF	78%	*80%*	*57%*	All Div'ds to Net Prof	*29%*

CURRENT POSITION ($MILL.)	2007	2008	12/31/09
Cash Assets	2.9	1.1	2.9
Receivables	26.0	29.7	27.0
Inventory (Avg Cst)	--	--	--
Other	32.7	26.9	12.9
Current Assets	61.6	57.7	42.8
Accts Payable	14.9	16.1	14.1
Debt Due	1.9	2.2	2.2
Other	29.4	28.4	21.2
Current Liab.	46.2	46.7	37.5

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	5.0%	-0.5%	*4.0%*
"Cash Flow"	3.5%	-3.5%	*11.0%*
Earnings	2.0%	-10.0%	*16.0%*
Dividends	9.5%	8.5%	*-2.0%*
Book Value	9.0%	7.0%	*Nil*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2007	48.1	55.0	57.4	56.8	217.3
2008	49.6	56.9	60.4	54.0	220.9
2009	50.1	52.4	59.0	49.6	211.1
2010	*52.0*	*54.0*	*62.0*	*52.0*	*220*
2011	*55.0*	*58.0*	*66.0*	*56.0*	*235*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2007	.03	.09	.09	.11	.31E
2008	d.04	.03	d.02	.07	.04
2009	.03	.03	.05	.06	.17
2010	*.05*	*.05*	*.07*	*.08*	*.25*
2011	*.07*	*.08*	*.10*	*.10*	*.35*

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.052	.052	.052	.058	.21
2007	.058	.058	.058	.058	.23
2008	.06	.06	.06	.06	.24
2009	.025	.025	.025	.05	.13
2010	.05	.05			

BUSINESS: SouthWest Water Company provides a broad range of services including water production, treatment and distribution; wastewater collection and treatment; utility billing and collection; and utility infrastructure. It operates four groups, Utility, 32% of 2008 revenues; Texas Utility, 16%; O&M Services, 18%; Texas MUD Services, 34%. Utility and Texas Utility own and manage rate-regulated public water utilities in California, Alabama, Oklahoma, and Texas. O&M and Texas MUD Services maintain projects on a contract and fee basis. Officers and directors own 4.2% of common shares (4/09 proxy). CEO/Chrmn: Mark Swatek. Inc.: DE. Addr.: One Wilshire Building, 624 S. Grand Ave. Ste. 2900, Los Angeles, CA 90017. Tel.: 213-929-1800. Internet: www.swwc.com.

SouthWest Water Company has entered into an agreement to be acquired. On March 2nd, the board of directors approved the purchase by a group of independent investors for $11 a share, plus the assumption of $152 million in debt. Upon approval of stockholders and regulatory agencies, the company would be run as a privately owned business. However, a number of legal entities are investigating if the board of directors breached their fiduciary duties and/or violated state laws in their attempts to sell the company, citing uncertainties as to whether the current offer is a fair reflection of the stock's value after a number of financial statements had to be restated due to accounting errors. Investors should note that the stock is currently trading near the purchase price, which would probably drop considerably if the deal falls through (the current price represents a nearly 70% rise since our January report).

Meanwhile, the company showed an overall year-over-year earnings improvement in 2009, but it has not fully recovered from the sharp drop in 2008. Revenues declined nearly 5% in 2009 versus 2008. Bottom-line improvement was weighed down by the weakened economy, reduced consumption because of water conservation efforts in California, and elevated fixed costs. The Utilities segment was also hurt by the sale of operations in New Mexico (as per a settlement made under threat of condemnation in May, 2009). Looking ahead, we expect a moderate top-and bottom-line recovery out to 2013-2015.

The Timeliness rank of these shares has been suspended due to the possible sale of the company. But our earnings presentation reflects the continuing operation of SouthWest as a publicly traded entity. The aforementioned possibility of a price decline if the deal is rejected, coupled with the uncertainty of Southwest's business prospects because of the weakened housing market, adds considerable risk.

John D. Burke *April 23, 2010*

CASH POSITION	5-Year Av'g	12/31/09
Current Assets to Current Liabilities:	125%	114%
Cash & Equiv's to Current Liabilities:	10%	8%
Working Capital to Sales:	5%	3%

(A) Diluted earnings. Excludes nonrecurring gains (losses): '00, (3¢); '01, (5¢); '02, 1¢; '05, (23¢); '07, (54¢); '08, ($1.35); '09, (74¢). Next earnings report mid-May. Excludes discontinued operations: '09, (74¢).
(B) Dividends historically paid in late January, April, July, and October.
(C) In millions, adjusted for splits.
(D) Includes intangibles. In 2009: $19.4 million, $0.79/share.
(E) Earnings may not sum to total due to rounding.

Company's Financial Strength	C++
Stock's Price Stability	45
Price Growth Persistence	35
Earnings Predictability	45

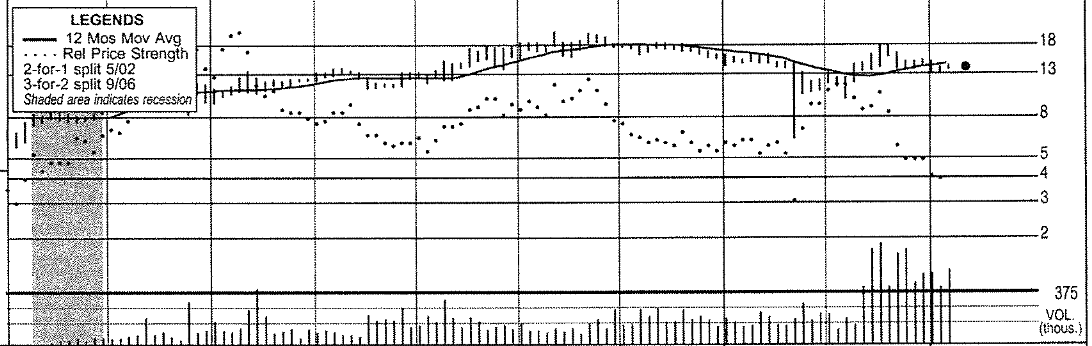
YORK WATER CO NDQ–YORW

RECENT PRICE	TRAILING P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
13.96	21.8	1.15	3.7%	

RANKS											
	10.22	13.45	13.49	14.03	17.87	20.99	18.55	16.50	17.95	15.00	High
	5.67	8.20	9.33	11.00	11.67	15.33	15.45	6.23	9.74	13.04	Low

PERFORMANCE 3 *Average*
Technical 3 *Average*
SAFETY 3 *Average*
BETA .65 (1.00 = Market)

Financial Strength B+
Price Stability 85
Price Growth Persistence 55
Earnings Predictability 95



© VALUE LINE PUBLISHING, INC.	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010/2011
REVENUES PER SH	2.05	2.05	2.17	2.18	2.58	2.56	2.79	2.89	2.95	
"CASH FLOW" PER SH	.59	.57	.65	.65	.79	.77	.86	.88	.95	
EARNINGS PER SH	.43	.40	.47	.49	.56	.58	.57	.57	.64	***.68*** A,B ***/.72*** C
DIV'D DECL'D PER SH	.34	.35	.37	.39	.42	.45	.48	.49	.51	
CAP'L SPENDING PER SH	.75	.66	1.07	2.50	1.69	1.85	1.69	2.17	1.18	
BOOK VALUE PER SH	3.79	3.90	4.06	4.65	4.85	5.84	5.97	6.14	6.92	
COMMON SHS OUTST'G (MILL)	9.46	9.55	9.63	10.33	10.40	11.20	11.27	11.37	12.56	
AVG ANN'L P/E RATIO	17.9	26.9	24.5	25.7	26.3	31.2	30.3	24.6	21.9	***20.5/19.4***
RELATIVE P/E RATIO	.92	1.47	1.40	1.36	1.39	1.68	1.61	1.48	1.46	
AVG ANN'L DIV'D YIELD	4.3%	3.3%	3.2%	3.1%	2.9%	2.5%	2.8%	3.5%	3.6%	
REVENUES ($MILL)	19.4	19.6	20.9	22.5	26.8	28.7	31.4	32.8	37.0	***Bold figures***
NET PROFIT ($MILL)	4.0	3.8	4.4	4.8	5.8	6.1	6.4	6.4	7.5	***are consensus***
INCOME TAX RATE	35.8%	34.9%	34.8%	36.7%	36.7%	34.4%	36.5%	36.1%	37.9%	***earnings***
AFUDC % TO NET PROFIT	2.2%	3.7%	--	--	--	7.2%	3.6%	10.1%	--	***estimates***
LONG-TERM DEBT RATIO	47.7%	46.7%	43.4%	42.5%	44.1%	48.3%	46.5%	54.5%	45.7%	***and, using the***
COMMON EQUITY RATIO	52.3%	53.3%	56.6%	57.5%	55.9%	51.7%	53.5%	45.5%	54.3%	***recent prices,***
TOTAL CAPITAL ($MILL)	68.6	69.9	69.0	83.6	90.3	126.5	125.7	153.4	160.1	***P/E ratios.***
NET PLANT ($MILL)	102.3	106.7	116.5	140.0	155.3	174.4	191.6	211.4	222.0	
RETURN ON TOTAL CAP'L	7.9%	7.4%	8.5%	7.6%	8.4%	6.2%	6.7%	5.7%	6.2%	
RETURN ON SHR. EQUITY	11.2%	10.2%	11.4%	10.0%	11.6%	9.3%	9.5%	9.2%	8.6%	
RETURN ON COM EQUITY	11.2%	10.2%	11.4%	10.0%	11.6%	9.3%	9.5%	9.2%	8.6%	
RETAINED TO COM EQ	2.5%	1.3%	2.6%	2.1%	3.0%	2.2%	1.7%	1.4%	1.9%	
ALL DIV'DS TO NET PROF	78%	88%	77%	79%	74%	77%	82%	85%	78%	

[A] No. of analysts changing earn. est. in last 10 days: 0 up, 0 down, consensus 5-year earnings growth 6.0% per year. [B] Based upon 4 analysts' estimates. [C] Based upon 4 analysts' estimates.

ANNUAL RATES of change (per share)	5 Yrs.	1 Yr.
Revenues	6.0%	2.0%
"Cash Flow"	7.5%	7.5%
Earnings	5.5%	12.5%
Dividends	6.0%	3.5%
Book Value	8.5%	13.0%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/07	7.4	7.9	8.3	7.8	31.4
12/31/08	7.5	7.8	8.6	8.9	32.8
12/31/09	8.8	9.2	9.8	9.2	37.0
12/31/10					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/06	.12	.14	.17	.15	.58
12/31/07	.12	.15	.15	.15	.57
12/31/08	.11	.13	.15	.18	.57
12/31/09	.13	.17	.18	.16	.64
12/31/10	*.14*	*.18*	*.19*		

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

INSTITUTIONAL DECISIONS	2Q'09	3Q'09	4Q'09
to Buy	30	35	28
to Sell	12	16	15
Hld's(000)	2477	2941	2961

ASSETS ($mill.)	2007	2008	12/31/09
Cash Assets	.0	.0	.0
Receivables	5.2	5.9	5.4
Inventory (Avg cost)	.8	.7	.7
Other	.8	.7	1.0
Current Assets	6.8	7.3	7.1
Property, Plant & Equip, at cost	223.1	246.0	260.4
Accum Depreciation	31.5	34.6	38.4
Net Property	191.6	211.4	222.0
Other	12.6	21.7	19.7
Total Assets	211.0	240.4	248.8
LIABILITIES ($mill.)			
Accts Payable	3.2	2.0	1.4
Debt Due	15.0	8.7	9.3
Other	3.2	3.5	3.9
Current Liab	21.4	14.2	14.6

LONG-TERM DEBT AND EQUITY as of 12/31/09

Total Debt $82.6 mill. **Due in 5 Yrs.** $24.6 mill.
LT Debt $73.2 mill.
Including Cap. Leases None
(46% of Cap'l)
Leases, Uncapitalized Annual rentals None

Pension Liability $8.8 mill. in '09 vs. $9.8 mill. in '08

Pfd Stock None **Pfd Div'd Paid** None

Common Stock 12,558,724 shares
(54% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: The York Water Company engages in the impounding, purification, and distribution of water in York County and Adams County, Pennsylvania. The company supplies water for residential, commercial, industrial, and other customers. It has two reservoirs, Lake Williams, which is 700 feet long and 58 feet high, and creates a reservoir covering approximately 165 acres containing about 870 million gallons of water; and Lake Redman, which is 1,000 feet long and 52 feet high and creates a reservoir covering approximately 290 acres containing about 1.3 billion gallons of water. In addition, the company possesses a 15-mile pipeline from the Susquehanna River to Lake Redman that provides access to an additional supply of water. As of December 31, 2009, the company served approximately 180,000 residential, commercial, industrial, and other customers in 39 municipalities in York County and seven municipalities in Adams County. Has 111 employees. C.E.O. & President: Jeffrey R. Hines. Inc.: PA. Address: 130 East Market Street, York, PA 17401. Tel.: (717) 845-3601. Internet: http://www.yorkwater.com.

W.T.

April 23, 2010

TOTAL SHAREHOLDER RETURN
Dividends plus appreciation as of 3/31/2010

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
-4.36%	1.00%	15.19%	-10.47%	26.22%

AMERICAN WATER NYSE-AWK

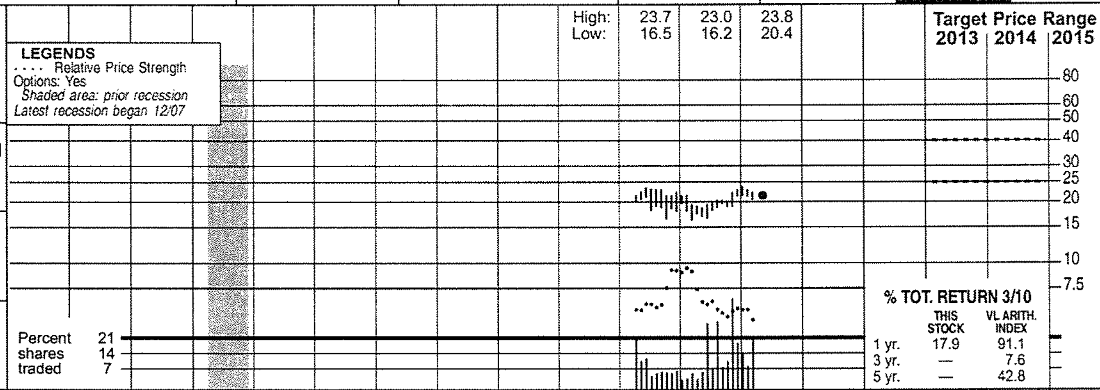
RECENT PRICE	21.48	P/E RATIO	16.3 (Trailing: 17.3 / Median: NMF)	RELATIVE P/E RATIO	0.90	DIV'D YLD	3.9%	VALUE LINE

TIMELINESS – E

SAFETY 3 New 7/25/08

TECHNICAL – E

BETA .65 (1.00 = Market)



% TOT. RETURN 3/10	THIS STOCK	VL ARITH. INDEX
1 yr.	17.9	91.1
3 yr.	—	7.6
5 yr.	—	42.8

2013-15 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+85%)	20%
Low	25	(+15%)	9%

Insider Decisions

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

	2Q2009	3Q2009	4Q2009
to Buy	137	152	178
to Sell	66	72	77
Hld's(000)	82903	119774	157474

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
--	--	--	--	--	--	--	--	--	--	--	--	13.08	13.84	14.61	13.98	*14.05*	*13.95*	Revenues per sh	*14.65*
--	--	--	--	--	--	--	--	--	--	--	--	.65	d.47	2.87	2.89	*2.95*	*3.05*	"Cash Flow" per sh	*3.35*
--	--	--	--	--	--	--	--	--	--	--	--	d.97	d2.14	1.10	1.25	*1.40*	*1.50*	Earnings per sh A	*1.70*
--	--	--	--	--	--	--	--	--	--	--	--	--	--	.40	.82	*.86*	*.90*	Div'd Decl'd per sh B	*1.00*
--	--	--	--	--	--	--	--	--	--	--	--	4.31	4.74	6.31	4.50	*4.30*	*4.25*	Cap'l Spending per sh	*4.20*
--	--	--	--	--	--	--	--	--	--	--	--	23.86	28.39	25.64	22.91	*22.95*	*23.35*	Book Value per sh D	*24.40*
--	--	--	--	--	--	--	--	--	--	--	--	160.00	160.00	160.00	174.63	*185.00*	*195.00*	Common Shs Outst'g C	*215.00*
--	--	--	--	--	--	--	--	--	--	--	--	--	--	18.9	15.6	*Bold figures are*		Avg Ann'l P/E Ratio	*20.0*
--	--	--	--	--	--	--	--	--	--	--	--	--	--	1.14	1.04	*Value Line*		Relative P/E Ratio	*1.35*
--	--	--	--	--	--	--	--	--	--	--	--	--	--	1.9%	4.2%	*estimates*		Avg Ann'l Div'd Yield	*3.1%*
						--	--	--	--	--	--	2093.1	2214.2	2336.9	2440.7	*2600*	*2725*	Revenues ($mill)	*3150*
						--	--	--	--	--	--	d155.8	d342.3	187.2	209.9	*250*	*280*	Net Profit ($mill)	*350*
						--	--	--	--	--	--	--	--	37.4%	37.9%	*38.5%*	*39.0%*	Income Tax Rate	*40.0%*
						--	--	--	--	--	--	--	--	12.5%	10.0%	*10.0%*	*10.0%*	AFUDC % to Net Profit	*15.0%*
						--	--	--	--	--	--	56.1%	50.9%	53.1%	56.9%	*55.5%*	*55.0%*	Long-Term Debt Ratio	*53.0%*
						--	--	--	--	--	--	43.9%	49.1%	46.9%	43.1%	*44.5%*	*45.0%*	Common Equity Ratio	*47.0%*
						--	--	--	--	--	--	8692.8	9245.7	8750.2	9289.0	*9635*	*10050*	Total Capital ($mill)	*11250*
						--	--	--	--	--	--	8720.6	9318.0	9991.8	10524	*11050*	*11550*	Net Plant ($mill)	*13050*
						--	--	--	--	--	--	NMF	NMF	3.7%	3.8%	*4.0%*	*4.0%*	Return on Total Cap'l	*4.5%*
						--	--	--	--	--	--	NMF	NMF	4.6%	5.2%	*6.0%*	*6.0%*	Return on Shr. Equity	*6.5%*
						--	--	--	--	--	--	NMF	NMF	4.6%	5.2%	*6.0%*	*6.0%*	Return on Com Equity	*6.5%*
						--	--	--	--	--	--	NMF	NMF	3.0%	1.8%	*2.0%*	*2.0%*	Retained to Com Eq	*2.5%*
						--	--	--	--	--	--	--	--	34%	65%	*62%*	*63%*	All Div'ds to Net Prof	*62%*

CAPITAL STRUCTURE as of 12/31/09
Total Debt $5342.3 mill. **Due in 5 Yrs** $243.9 mill.
LT Debt $5288.2 mill. **LT Interest** $296.5 mill.
(Total interest coverage: 2.1x) (57% of Cap'l)

Leases, Uncapitalized: Annual rentals $29.0 mill.
Pension Assets-12/09 $695.5 mill
Oblig. $1128.2 mill.
Pfd Stock $24.2 mill. **Pfd Div'd** $2.0 mill.

Common Stock 174,670,026 shs.
as of 2/25/10

MARKET CAP: $3.8 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	12/31/09
Cash Assets	13.5	9.5	22.3
Other	416.9	408.2	476.8
Current Assets	430.4	417.7	499.1
Accts Payable	168.9	149.8	138.6
Debt Due	316.8	654.8	54.1
Other	288.8	300.2	414.7
Current Liab.	774.5	1104.8	607.4
Fix. Chg. Cov.	228%	198%	225%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	--	--	*1.0%*
"Cash Flow"	--	--	*21.0%*
Earnings	--	--	*NMF*
Dividends	--	--	*39.0%*
Book Value	--	--	*-1.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2007	468.6	558.7	633.1	553.8	2214.2
2008	506.8	589.4	672.2	568.5	2336.9
2009	550.2	612.7	680.0	597.8	2440.7
2010	*575*	*650*	*725*	*650*	*2600*
2011	*600*	*680*	*760*	*685*	*2725*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2007	.02	.31	d1.00	d1.47	d2.14
2008	.04	.28	.55	.23	1.10
2009	.19	.32	.52	.21	1.25
2010	*.19*	*.35*	*.57*	*.29*	*1.40*
2011	*.22*	*.37*	*.60*	*.31*	*1.50*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	--	--	--	--	--
2007	--	--	--	--	--
2008	--	--	.20	.20	.40
2009	.20	.20	.21	.21	.82
2010	.21				

BUSINESS: American Water Works Company, Inc. is the largest investor-owned water and wastewater utility in the U.S., providing services to over 15 million people in 32 states and Canada. Its non-regulated business assists municipalities and military bases with the maintenance and upkeep as well. Regulated operations made up almost 90% of 2008 revenues. New Jersey is its biggest market accounting for nearly 20% of revenues. Has roughly 7,300 employees. Depreciation rate, 2.1% in '08. RWE AG owns roughly 49% of common stock outstanding. Capital World Investors, 8%. Off. & dir. own less than 1%. President & CEO; Donald L. Correl. Chairman; George Mackenzie Jr. Address: 1025 Laurel Oak Road, Vorhees, NJ 08043. Telephone: 856-346-8200. Internet: www.amwater.com.

American Water Works disappointed in the final quarter of 2009. The water utility reported earnings of $0.21 a share in the December period, 9% short of last year's mark and 16% below our estimate. Favorable rate case rewards lifted revenues 5%, but growth was a little lighter than expected, with inclement weather conditions in most of the company's biggest markets resulting in a sharp volume decline. Meanwhile, operating and interest costs increased as did the share count. On another note, management provided earnings guidance for the first time, but failed to supply specifics about how it expected to achieve 7%-10% earnings growth. Wall Street appeared unsettled and AWK shares have fallen 6%-plus in value since our January review.

We suspect that management is being a bit cautious with its outlook. Weather in the fourth quarter was a significant hurdle, and a return to more normal conditions should be a major boon in 2010. Plus, the company has over $200 million in rate relief pending. Regulatory boards have been fairly favorable in recent memory, and we expect similarly constructive rulings to continue being handed down. Margins should benefit from these improvements too, enabling the company to come in at the high end of guidance and earn $1.40 a share this year.

Increasing infrastructure costs are threatening longer-term growth, however. Despite improved regulatory backing, maintenance expenses are likely to continue to eat away at profitability over time. Indeed, many of the nation's water systems are decaying and require significant investment. However, American does not have the funds on hand to keep up with these costs, and will have to continue looking to outside financiers to make the improvements. These initiatives, although necessary, will keep growth under wraps in 2011 and thereafter.

Most will want to take a pass on this issue. Although the stock's healthy stream of income makes it an appealing total return vehicle, its lack of trading history makes it a speculative selection. Indeed, AWK has yet to be assigned performance indicators, such as a Timeliness rank or Price Stability score.

Andre J. Costanza *April 23, 2010*

(A) Diluted earnings. Excludes nonrecurring gains (losses): '08, ($4.62); '09, ($2.63). Discontinued operations: '06, (4¢).
Next earnings report due early May. Quarterly earnings may not sum due to rounding.
(B) Dividends to be paid in January, April, July, and October. ■ Div. reinvestment available.
(C) In millions.
(D) Includes intangibles. In 2009: $1.250 billion, $7.16/share.
(E) The stock has not been trading long enough to generate a Timeliness rank.

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

INDUSTRY TIMELINESS: 92 (of 97)

The Water Utility Industry has not done too well over the last few months. Indeed, investor sentiment has remained weak for most in this group since our January review, as signs of a stabilizing economy, along with difficult operating conditions, caused many on Wall Street to look outside this space for better growth potential. Indeed, the majority of the companies here reported disappointing December-earnings results due to inclement weather and the rising costs of doing business.

Although weather conditions ought to take on more normal patterns this year, and there seems to a more favorable regulatory landscape in place, the group still faces a stiff headwind looking ahead. The Environmental Protection Agency suggests that most water infrastructures are insufficient and are in need of significant repair, if not replacement. In fact, data reveals that nearly half of the water pipes currently in place will be classified as inadequate by the end of the decade, requiring major investment. Unfortunately, most providers do not have the finances to meet these commitments and will be forced to seek outside financing to stay afloat. The Industry, therefore, ranks near the bottom of the *Value Line Investment Survey*, with growth being limited by greater maintenance costs and the expenses associated with doing so.

Positive Industry Fundamentals

No matter how you slice it, water is one of the biggest necessities of human existence. It is used in virtually every aspect of life, providing the ultimate in job security for those who ensure its safe and effective delivery to fountains and faucets in millions of homes across the United States. And demand is only expected to increase in years to come, with the population likely to continue to grow.

With so much riding on the delivery of water, individual states have put regulatory bodies in place to oversee water utilities, and maintain a balance of power between them and customers. They are responsible for reviewing and ruling on general rate requests made by utilities to help recover costs. Although many of these authorities have tended to be public advocates in the past, the tide has turned more recently, with a more business-friendly approach being implemented of late. Indeed, general rate cases are coming back with more favorable rulings and in a far more-timely manner. The implementation of accounting mechanisms, such as those layed out in the Water Action Plan, should continue to benefit the industry and provide more predictable future results.

Troubling Costs

Despite the better regulatory environment, water providers have a difficult road ahead. Many of the current water systems were built decades ago and have grown outdated and require significant maintenance or complete overhauls. This, coupled with the growing threat of bioterrorism, ought to continue driving maintenance and infrastructure costs higher, forcing many cash-strapped companies to seek out financiers. Many smaller operations, meanwhile, unable to meet the capital requirements, are looking to get out. *SouthWest Water*, for example, has announced that it has accepted a buyout offer from a group of independent investors. As a result, it is likely nearing the end of its days in our *Survey*. This can be a boon to some of the larger players, such as *Aqua America*, which has used the consolidation trend as a way to build its business at a relatively low start-up cost. M&A activity ought to remain widespread.

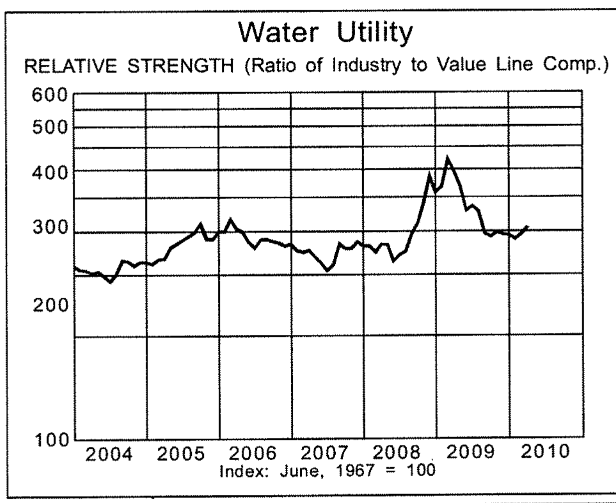
Conclusion

Most investors will probably not want to dive into these waters. The majority of the stock's here lack appreciation potential for both the coming six to 12 months as well as the next 3 to 5 years. That said, *Aqua America* may pique the interest of some, as its aggressive acquisition strategy will help to drive industry-leading growth out to 2013-2015. Meanwhile, we believe that investors may have a bit of false sense of security with this group. Although these stock's healthy dividends have historically provided some shelter during times of economic uncertainty, increasing costs and a dearth of finances may eventually catch up with entities operating in this space, resulting in tempered income generation. Either way, there are better income vehicles to be found elsewhere. As always, though, we suggest that investors look through reports of each individual stock before making a financial commitment.

Andre J. Costanza

Composite Statistics: Water Utility Industry

2006	2007	2008	2009	2010	2011		13-15
3454.1	3702.5	3913.8	3921.8	*4400*	*4650*	Revenues ($mill)	*5475*
d5.8	d183.0	352.7	384.4	*460*	*480*	Net Profit ($mill)	*675*
NMF	NMF	37.0%	38.7%	*39.0%*	*39.0%*	Income Tax Rate	*39.0%*
NMF	NMF	1.5%	1.1%	*3.0%*	*5.0%*	AFUDC % to Net Profit	*10.0%*
54.0%	51.0%	52.6%	55.5%	*56.5%*	*56.0%*	Long-Term Debt Ratio	*52.0%*
45.9%	49.0%	47.4%	44.5%	*43.5%*	*44.0%*	Common Equity Ratio	*48.0%*
12113.9	12985.9	12629.1	13244.4	*14050*	*14600*	Total Capital ($mill)	*16350*
13308.3	14315.2	15356.1	15815.6	*16925*	*17575*	Net Plant ($mill)	*19675*
1.6%	.2%	4.3%	4.4%	*4.5%*	*4.0%*	Return on Total Cap'l	*6.0%*
NMF	NMF	5.9%	6.5%	*6.5%*	*6.0%*	eturn on Shr. Equity	*8.5%*
NMF	NMF	5.9%	6.5%	*6.5%*	*6.0%*	Return on Com Equity	*8.5%*
NMF	NMF	2.9%	2.2%	*2.5%*	*2.5%*	Retained to Com Eq	*4.5%*
NMF	NMF	51%	66%	*60%*	*58%*	All Div'ds to Net Prof	*55%*
NMF	NMF	21.0	18.9	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*19.0*
NMF	NMF	1.26	1.26			Relative P/E Ratio	*1.25*
2.0%	2.3%	2.4%	3.5%			Avg Ann'l Div'd Yield	*2.4%*



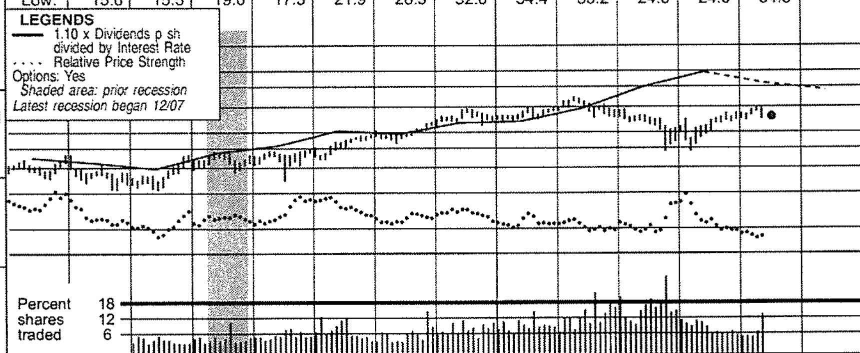
AGL RESOURCES NYSE-AGL

RECENT PRICE 35.82 | P/E RATIO 12.1 (Trailing: 11.7 Median: 13.0) | RELATIVE P/E RATIO 0.78 | DIV'D YLD 4.9% | VALUE LINE

TIMELINESS 3 Raised 2/12/10
SAFETY 2 New 7/27/90
TECHNICAL 3 Raised 5/14/10
BETA .75 (1.00 = Market)

High:	23.4	23.2	24.5	25.0	29.3	33.7	39.3	40.1	44.7	39.1	37.5	40.1
Low:	15.6	15.5	19.0	17.3	21.9	26.5	32.0	34.4	35.2	24.0	24.0	34.3

LEGENDS
— 1.10 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



Target Price Range 2013 | 2014 | 2015

80 / 60 / 50 / 40 / 30 / 25 / 20 / 15 / 10 / 7.5

2013-15 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+70%)	17%
Low	40	(+10%)	7%

Insider Decisions

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

Institutional Decisions

	2Q2009	3Q2009	4Q2009
to Buy	124	112	110
to Sell	96	99	109
Hld's(000)	45662	45741	46073

Percent shares traded: 18 / 12 / 6

% TOT. RETURN 5/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	32.5	41.6
3 yr.	-0.7	-2.6
5 yr.	30.1	37.2

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
23.59	19.32	21.91	22.75	23.36	18.71	11.25	19.04	15.32	15.25	23.89	34.98	33.73	32.64	36.41	29.88	32.80	34.00	Revenues per sh A	39.40
2.24	2.33	2.49	2.42	2.65	2.29	2.86	3.31	3.39	3.47	3.29	4.20	4.50	4.65	4.68	4.90	5.05	5.30	"Cash Flow" per sh	5.70
1.17	1.33	1.37	1.37	1.41	.91	1.29	1.50	1.82	2.08	2.28	2.48	2.72	2.72	2.71	2.88	2.95	3.10	Earnings per sh A B	3.40
1.04	1.04	1.06	1.08	1.08	1.08	1.08	1.08	1.08	1.11	1.15	1.30	1.48	1.64	1.68	1.72	1.75	1.80	Div'ds Decl'd per sh C■	1.95
2.37	2.17	2.37	2.59	2.05	2.51	2.92	2.83	3.30	2.46	3.44	3.44	3.26	3.39	4.84	6.14	4.20	4.45	Cap'l Spending per sh	5.30
10.19	10.12	10.56	10.99	11.42	11.59	11.50	12.19	12.52	14.66	18.06	19.29	20.71	21.74	21.48	22.95	24.10	25.45	Book Value per sh D	29.50
50.86	55.02	55.70	56.60	57.30	57.10	54.00	55.10	56.70	64.50	76.70	77.70	77.70	76.40	76.90	77.54	78.50	79.00	Common Shs Outst'g E	80.00
15.1	12.6	13.8	14.7	13.9	21.4	13.6	14.6	12.5	12.5	13.1	14.3	13.5	14.7	12.3	11.2	Bold figures are		Avg Ann'l P/E Ratio	15.0
.99	.84	.86	.85	.72	1.22	.88	.75	.68	.71	.69	.76	.73	.78	.74	.75	Value Line		Relative P/E Ratio	1.00
5.9%	6.2%	5.6%	5.4%	5.5%	5.5%	6.2%	4.9%	4.7%	4.3%	3.9%	3.7%	4.0%	4.1%	5.0%	5.4%	estimates		Avg Ann'l Div'd Yield	3.8%

CAPITAL STRUCTURE as of 3/31/10
Total Debt $1827.0 mill. Due in 5 Yrs $540.0 mill.
LT Debt $1674.0 mill. LT Interest $75.0 mill.
(Total interest coverage: 3.2x)

Leases, Uncapitalized Annual rentals $28.0 mill.
Pension Assets-12/09 $303.0 mill. Oblig. $463.0 mill.
Pfd Stock None

Common Stock 77,849,493 shs. as of 4/20/10
MARKET CAP: $2.8 billion (Mid Cap)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		13-15
607.4	1049.3	868.9	983.7	1832.0	2718.0	2621.0	2494.0	2800.0	2317.0	2560	2670	Revenues ($mill) A	3150
71.1	82.3	103.0	132.4	153.0	193.0	212.0	211.0	207.6	222.0	230	245	Net Profit ($mill)	270
34.3%	40.7%	36.0%	35.9%	37.0%	37.7%	37.8%	37.6%	40.5%	35.2%	35.0%	35.0%	Income Tax Rate	38.0%
11.7%	7.8%	11.9%	13.5%	8.4%	7.1%	8.1%	8.5%	7.4%	9.6%	8.6%	8.6%	Net Profit Margin	8.4%
45.9%	61.3%	58.3%	50.3%	54.0%	51.9%	50.2%	50.2%	50.3%	52.6%	47.5%	46.0%	Long-Term Debt Ratio	45.0%
48.3%	38.7%	41.7%	49.7%	46.0%	48.1%	49.8%	49.8%	49.7%	47.4%	52.5%	54.0%	Common Equity Ratio	55.0%
1286.2	1736.3	1704.3	1901.4	3008.0	3114.0	3231.0	3335.0	3327.0	3754.0	3585	3720	Total Capital ($mill)	4140
1637.5	2058.9	2194.2	2352.4	3178.0	3271.0	3436.0	3566.0	3816.0	4146.0	4310	4485	Net Plant ($mill)	5080
7.4%	6.5%	8.1%	8.9%	6.3%	7.9%	8.0%	7.7%	7.4%	6.9%	7.5%	7.5%	Return on Total Cap'l	7.5%
10.2%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	12.7%	12.6%	12.5%	12.0%	12.0%	Return on Shr. Equity	11.5%
11.5%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	12.7%	12.6%	12.5%	12.0%	12.0%	Return on Com Equity	11.5%
3.2%	4.2%	7.0%	6.6%	5.6%	6.2%	6.3%	5.3%	5.1%	5.3%	5.0%	5.0%	Retained to Com Eq	5.0%
72%	65%	52%	53%	49%	52%	52%	58%	60%	57%	59%	57%	All Div'ds to Net Prof	57%

CURRENT POSITION ($MILL.)	2008	2009	3/31/10
Cash Assets	16	26	19
Other	2026	1974	1630
Current Assets	2042	2000	1649
Accts Payable	202	237	219
Debt Due	866	602	153
Other	915	933	1411
Current Liab.	1983	1772	1783
Fix. Chg. Cov.	416%	472%	390%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	4.5%	12.5%	3.0%
"Cash Flow"	7.0%	7.0%	3.0%
Earnings	8.5%	6.0%	3.5%
Dividends	4.5%	8.5%	2.5%
Book Value	7.0%	8.0%	5.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	973.0	467.0	369.0	685.0	2494.0
2008	1012.0	444.0	539.0	805.0	2800.0
2009	995.0	377.0	307.0	638.0	2317.0
2010	1003.0	425	455	677	2560
2011	1050	450	490	680	2670

Cal-endar	EARNINGS PER SHARE B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	1.29	.40	.17	.86	2.72
2008	1.16	.30	.28	.97	2.71
2009	1.55	.26	.16	.91	2.88
2010	1.73	.30	.20	.72	2.95
2011	1.41	.36	.33	1.00	3.10

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.37	.37	.37	.37	1.48
2007	.41	.41	.41	.41	1.64
2008	.42	.42	.42	.42	1.68
2009	.43	.43	.43	.43	1.72
2010	.44	.44			

BUSINESS: AGL Resources Inc. is a public utility holding company. Its distribution subsidiaries include Atlanta Gas Light, Chattanooga Gas, Elizabethtown Gas and Virginia Natural Gas. The utilities have more than 2.3 million customers in Georgia, Virginia, Tennessee, New Jersey, Florida, and Maryland. Engaged in nonregulated natural gas marketing and other allied services. Deregulated subsidiaries: Georgia Natural Gas markets natural gas at retail. Sold Utilipro, 3/01. Acquired Compass Energy Services, 10/07. Franklin Resources owns 7.7% of common stock; off./dir., less than 1.0% (3/09 Proxy). Pres. & CEO: John W. Somerhalder II. Inc.: GA. Addr.: Ten Peachtree Place N.E., Atlanta, GA 30309. Telephone: 404-584-4000. Internet: www.aglresources.com.

AGL Resources reported a good first-quarter profit. Earnings of $1.73 a share were well above our estimate of $1.50. One-time gains on storage and transportation hedges during the quarter, contributions from recently completed projects, and good commercial activity were the catalysts for the strong showing.

Despite the first-quarter showing, we are keeping our earnings estimate of $2.95 per share for 2010. This estimate is at the low end of the company's target for the year. Increases in pension, retirement, and other labor costs, combined with a decline in customer growth as a result of the weak housing market in Georgia, leads us to err on the side of caution despite the strong first-quarter.

The company's long-term prospects appear promising. A rate case is scheduled to be filed with the Georgia Public Service Commission, that, if approved, would bolster future results. Management is optimistic about the outcome of the case, as the last base-rate increase for AGL in Georgia was in 1993. Additionally, the initial commercial operation of the Golden Triangle Storage project in Texas has started, with hopes to increase the efficiency of the existing energy infrastructure.

AGL Resources announced the sale of AGL Networks to Zayo group. AGL Networks constructs, owns, and operates fiber optic networks, which is outside the parent company's core business. AGL Resources is currently working to transfer assignments and franchise agreements to Zayo. The deal is likely to be completed by the end of the second quarter. Zayo is paying approximately $75 million for AGL Networks and, with the sale, the company plans to focus on its core business and fund growth opportunities in its core segment: regulated natural gas.

This issue is neutrally ranked for Timeliness. However, the stock's Safety rank of 2 helps to make it attractive on a risk-adjusted basis for total return potential over the 3- to 5-year pull. The capital from the sale of AGL Networks, the progressing Golden Triangle project, along with the upcoming rate cases in Georgia point to steady earnings growth and modest dividend increases for this issue.

Sahana Zutshi *June 11, 2010*

(A) Fiscal year ends December 31st. Ended September 30th prior to 2002.
(B) Diluted earnings per share. Excl. nonrecurring gains (losses): '95, ($0.83); '99, $0.39; '00, $0.13; '01, $0.13; '03, ($0.07); '08, $0.13. Next earnings report due early July. (C) Dividends historically paid early March, June, Sept., and Dec. ■ Div'd reinvest. plan available. (D) Includes intangibles. In 2009: $418 million, $5.44/share.
(E) In millions.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	75
Earnings Predictability	95

ATMOS ENERGY CORP. NYSE-ATO

RECENT PRICE 26.46 | P/E RATIO 12.5 (Trailing: 12.8; Median: 15.0) | RELATIVE P/E RATIO 0.80 | DIV'D YLD 5.1% | VALUE LINE

High:	33.0	26.3	25.8	24.5	25.5	27.6	30.0	33.1	33.5	29.3	30.3	30.2
Low:	19.6	14.3	19.5	17.6	20.8	23.4	25.0	25.5	23.9	19.7	20.1	25.9

TIMELINESS 4 Lowered 5/14/10

SAFETY 2 Raised 12/16/05

TECHNICAL 3 Lowered 4/23/10

BETA .65 (1.00 = Market)

LEGENDS
— 1.00 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area: prior recession
Latest recession began 12/07

Target Price Range 2013 | 2014 | 2015

2013-15 PROJECTIONS

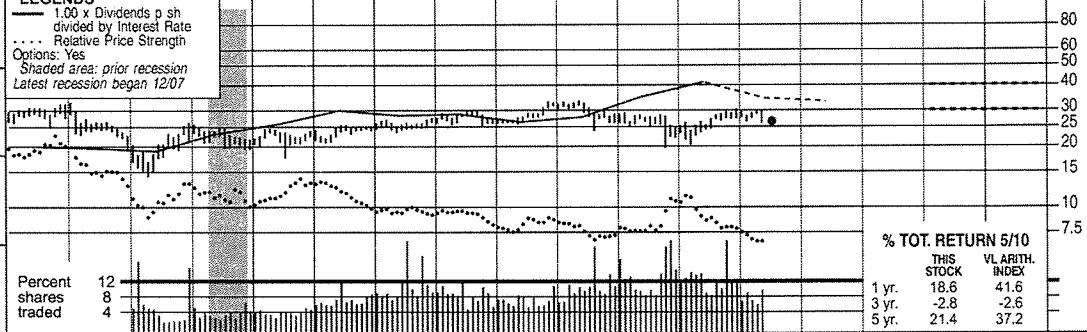
	Price	Gain	Ann'l Total Return
High	40	(+50%)	15%
Low	30	(+15%)	8%

Insider Decisions

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

Institutional Decisions

	2Q2009	3Q2009	4Q2009
to Buy	107	79	111
to Sell	115	124	102
Hld's(000)	54285	55892	54841



% TOT. RETURN 5/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	18.6	41.6
3 yr.	-2.8	-2.6
5 yr.	21.4	37.2

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

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
26.61	35.36	22.82	54.39	46.50	61.75	75.27	66.03	79.52	53.69	*52.15*	*53.15*	Revenues per sh A	*68.20*
3.01	3.03	3.39	3.23	2.91	3.90	4.26	4.14	4.19	4.29	*4.55*	*4.80*	"Cash Flow" per sh	*5.40*
1.03	1.47	1.45	1.71	1.58	1.72	2.00	1.94	2.00	1.97	*2.15*	*2.25*	Earnings per sh A B	*2.70*
1.14	1.16	1.18	1.20	1.22	1.24	1.26	1.28	1.30	1.32	*1.34*	*1.36*	Div'ds Decl'd per sh C ■	*1.45*
2.36	2.77	3.17	3.10	3.03	4.14	5.20	4.39	5.20	5.51	*5.60*	*5.70*	Cap'l Spending per sh	*6.70*
12.28	14.31	13.75	16.66	18.05	19.90	20.16	22.01	22.60	23.52	*25.05*	*25.50*	Book Value per sh	*27.80*
31.95	40.79	41.68	51.48	62.80	80.54	81.74	89.33	90.81	92.55	*94.00*	*96.00*	Common Shs Outst'g D	*110.00*
18.9	15.6	15.2	13.4	15.9	16.1	13.5	15.9	13.6	12.5	*Bold figures are*		Avg Ann'l P/E Ratio	*13.0*
1.23	.80	.83	.76	.84	.86	.73	.84	.82	.82	*Value Line*		Relative P/E Ratio	*.85*
5.9%	5.1%	5.4%	5.2%	4.9%	4.5%	4.7%	4.2%	4.8%	5.3%	*estimates*		Avg Ann'l Div'd Yield	*4.1%*
850.2	1442.3	950.8	2799.9	2920.0	4973.3	6152.4	5898.4	7221.3	4969.1	*4900*	*5100*	Revenues ($mill) A	*7500*
32.2	56.1	59.7	79.5	86.2	135.8	162.3	170.5	180.3	179.7	*200*	*215*	Net Profit ($mill)	*300*
36.1%	37.3%	37.1%	37.1%	37.4%	37.7%	37.6%	35.8%	38.4%	34.4%	*38.5%*	*38.5%*	Income Tax Rate	*40.5%*
3.8%	3.9%	6.3%	2.8%	3.0%	2.7%	2.6%	2.9%	2.5%	3.6%	*4.1%*	*4.2%*	Net Profit Margin	*4.0%*
48.1%	54.3%	53.9%	50.2%	43.2%	57.7%	57.0%	52.0%	50.8%	49.9%	*49.0%*	*49.0%*	Long-Term Debt Ratio	*49.0%*
51.9%	45.7%	46.1%	49.8%	56.8%	42.3%	43.0%	48.0%	49.2%	50.1%	*51.0%*	*51.0%*	Common Equity Ratio	*51.0%*
755.7	1276.3	1243.7	1721.4	1994.8	3785.5	3828.5	4092.1	4172.3	4346.2	*4620*	*4800*	Total Capital ($mill)	*6000*
982.3	1335.4	1300.3	1516.0	1722.5	3374.4	3629.2	3836.8	4136.9	4439.1	*4745*	*5050*	Net Plant ($mill)	*6100*
6.5%	5.9%	6.8%	6.2%	5.8%	5.3%	6.1%	5.9%	5.9%	5.9%	*6.0%*	*6.0%*	Return on Total Cap'l	*6.5%*
8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	8.3%	*8.5%*	*9.0%*	Return on Shr. Equity	*10.0%*
8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	8.3%	*8.5%*	*9.0%*	Return on Com Equity	*10.0%*
NMF	2.1%	1.9%	2.8%	1.7%	2.3%	3.6%	3.0%	3.1%	2.7%	*3.0%*	*3.5%*	Retained to Com Eq	*4.5%*
112%	79%	82%	70%	77%	73%	63%	65%	65%	68%	*63%*	*61%*	All Div'ds to Net Prof	*53%*

CAPITAL STRUCTURE as of 3/31/10
Total Debt $2169.6 mill. **Due in 5 Yrs** $685.0 mill.
LT Debt $2159.5 mill. **LT Interest** $130.0 mill.
(LT interest earned: 2.8x; total interest coverage: 2.8x)
Leases, Uncapitalized Annual rentals $17.8 mill.
Pfd Stock None
Pension Assets-9/09 $301.1 mill. **Oblig.** $380.0 mill.
Common Stock 93,147,184 shs. **as of 4/30/10**
MARKET CAP: $2.5 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2008	2009	3/31/10
Cash Assets	46.7	111.2	231.2
Other	1238.4	717.7	876.2
Current Assets	1285.1	828.9	1107.4
Accts Payable	395.4	207.4	521.9
Debt Due	351.3	72.7	10.1
Other	460.4	457.3	432.5
Current Liab.	1207.1	737.4	964.5
Fix. Chg. Cov.	450%	416%	430%

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

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2007	1602.6	2075.6	1218.2	1002.0	5898.4
2008	1657.5	2484.0	1639.1	1440.7	7221.3
2009	1716.3	1821.4	780.8	650.6	4969.1
2010	1292.9	1940.3	*900*	*766.8*	*4900*
2011	*1140*	*2000*	*1080*	*880*	*5100*

Fiscal Year Ends	EARNINGS PER SHARE A B E Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2007	.97	1.20	d.15	d.05	1.94
2008	.82	1.24	d.07	.02	2.00
2009	.83	1.29	.02	d.17	1.97
2010	1.00	1.17	*.04*	*d.06*	*2.15*
2011	*.97*	*1.30*	*.03*	*d.05*	*2.25*

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.315	.315	.315	.32	1.27
2007	.32	.32	.32	.325	1.29
2008	.325	.325	.325	.33	1.31
2009	.33	.33	.33	.335	1.33
2010	.335	.335			

BUSINESS: Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to over three million customers via six regulated natural gas utility operations: Louisiana Division, West Texas Division, Mid-Tex Division, Mississippi Division, Colorado-Kansas Division, and Kentucky/Mid-States Division. Combined 2009 gas volumes: 282 MMcf. Breakdown: 57%, residential; 32%, commercial; 7%, industrial; and 4% other. 2009 depreciation rate 3.6%. Has around 4,700 employees. Officers and directors own approximately 1.6% of common stock (12/09 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.

Following an extra-strong first quarter, Atmos Energy's earnings per share declined about 9% in the March interim. (Fiscal 2010 ends on September 30th.) The regulated transmission and storage operation was hurt, to a certain extent, by lower transportation fees on through-system deliveries, reflecting narrower basis spreads. Furthermore, the pipeline division suffered from a drop in margins earned on storage optimization activities, given fewer trading opportunities (which created a less volatile natural gas market).

But we remain upbeat about the company's prospective results for the full year. The bread-and-butter natural gas utility is enjoying higher rates in the Mid-Tex, Louisiana, West Texas, and Mississippi service areas. That operation is also benefiting from a healthy rise in throughput, as cooler temperatures have boosted consumption. Cost-containment initiatives are helping Atmos Energy, too. At this juncture, it appears that consolidated share net will climb nearly 10%, to $2.15, in fiscal 2010. Further expansion in operating margins ought to enable the bottom line to advance another 5%, to $2.25 a share, next year.

Steady, albeit unspectacular, earnings growth seems likely out to mid-decade. The utility is one of the nation's biggest natural gas-only distributors, currently serving more than three million customers across 12 states. Moreover, the other segments (especially pipelines) possess healthy overall prospects. Lastly, management may return to its successful strategy of purchasing less-efficient utilities and shoring up their profitability through expense-reduction initiatives, rate relief, and aggressive marketing efforts. (Future business combinations are excluded from our figures, however.) In Atmos Energy's present configuration, annual share-net increases may be in the mid-single-digit range over the 2013-2015 horizon.

Total return possibilities for this good-quality stock look appealing, when adjusted for risk. But for the coming six to 12 months, these solid dividend-paying shares are ranked to underperform the broader market averages.

Frederick L. Harris, III *June 11, 2010*

(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '00, 12¢; '03, d17¢; '06, d18¢; '07, d2¢; '09, 12¢; Q2 '10, 5¢. Next egs. rpt. due early Aug. (C) Dividends historically paid in early March, June, Sept., and Dec. ■ Div. reinvestment plan. Direct stock purchase plan avail. (D) In millions. (E) Qtrs may not add due to change in shrs outstanding.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	90

LACLEDE GROUP NYSE-LG

RECENT PRICE 32.02 | P/E RATIO 13.5 (Trailing: 13.5, Median: 14.0) | RELATIVE P/E RATIO 0.87 | DIV'D YLD 5.0% | VALUE LINE

TIMELINESS 5 Lowered 2/5/10
SAFETY 2 Raised 6/20/03
TECHNICAL 2 Lowered 6/11/10
BETA .55 (1.00 = Market)

High:	27.0	24.8	25.5	25.0	30.0	32.5	34.3	37.5	36.0	55.8	48.3	35.9
Low:	20.0	17.5	21.3	19.0	21.8	26.0	26.9	29.1	28.8	31.9	29.3	30.8

Target Price Range: 2013 | 2014 | 2015

2013-15 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+70%)	18%
Low	40	(+25%)	10%

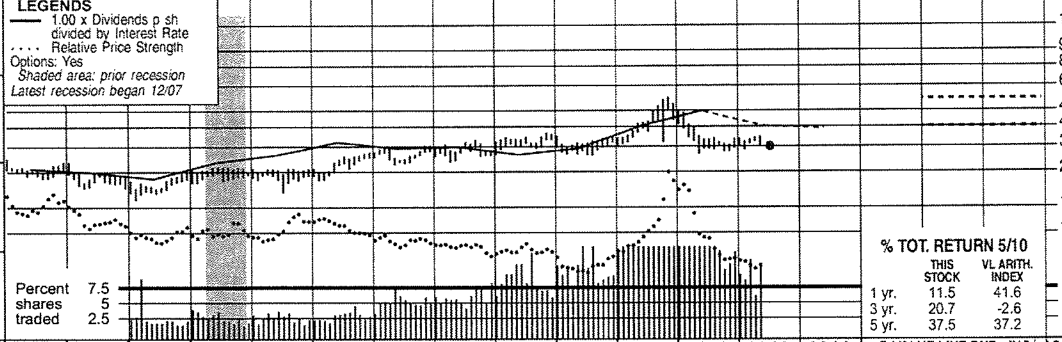
Insider Decisions

	J	A	S	O	N	D	J	F	M
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	1	0	0	0

Institutional Decisions

	2Q2009	3Q2009	4Q2009
to Buy	71	60	75
to Sell	81	67	60
Hld's(000)	10569	10660	10697

LEGENDS
— 1.00 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



% TOT. RETURN 5/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	11.5	41.6
3 yr.	20.7	-2.6
5 yr.	37.5	37.2

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
33.43	24.79	31.03	34.33	31.04	26.04	29.99	53.08	39.84	54.95	59.59	75.43	93.51	93.40	100.44	85.49	75.55	78.70	Revenues per sh	96.15
2.65	2.55	3.29	3.32	3.02	2.56	2.68	3.00	2.56	3.15	2.79	2.98	3.81	3.87	4.22	4.56	4.15	4.35	"Cash Flow" per sh	5.20
1.42	1.27	1.87	1.84	1.58	1.47	1.37	1.61	1.18	1.82	1.82	1.90	2.37	2.31	2.64	2.92	2.40	2.60	Earnings per sh A B	3.00
1.22	1.24	1.26	1.30	1.32	1.34	1.34	1.34	1.34	1.34	1.35	1.37	1.40	1.45	1.49	1.53	1.57	1.61	Div'ds Decl'd per sh C■	1.75
2.50	2.63	2.35	2.44	2.68	2.58	2.77	2.51	2.80	2.67	2.45	2.84	2.97	2.72	2.57	2.36	2.45	2.55	Cap'l Spending per sh	3.15
12.44	13.05	13.72	14.26	14.57	14.96	14.99	15.26	15.07	15.65	16.96	17.31	18.85	19.79	22.12	23.32	24.95	25.55	Book Value per sh D	27.70
15.67	17.42	17.56	17.56	17.63	18.88	18.88	18.88	18.96	19.11	20.98	21.17	21.36	21.65	21.99	22.17	22.50	23.00	Common Shs Outst'g E	26.00
16.4	15.5	11.9	12.5	15.5	15.8	14.9	14.5	20.0	13.6	15.7	16.2	13.6	14.2	14.3	13.4	Bold figures are		Avg Ann'l P/E Ratio	16.0
1.08	1.04	.75	.72	.81	.90	.97	.74	1.09	.78	.83	.86	.73	.75	.86	.88	Value Line		Relative P/E Ratio	1.05
5.3%	6.3%	5.6%	5.6%	5.4%	5.8%	6.6%	5.7%	5.7%	5.4%	4.7%	4.4%	4.3%	4.4%	3.9%	3.9%	estimates		Avg Ann'l Div'd Yield	3.7%

CAPITAL STRUCTURE as of 3/31/10
Total Debt $504.3 mill. Due in 5 Yrs $180.0 mill.
LT Debt $364.3 mill. LT Interest $20.0 mill.
(Total interest coverage: 4.3x)

Leases, Uncapitalized Annual rentals $.9 mill.
Pension Assets-9/09 $223.7 mill. Oblig. $378.0 mill.
Pfd Stock None
Common Stock 22,281,309 shs. as of 4/29/10

MARKET CAP: $725 million (Small Cap)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		13-15
566.1	1002.1	755.2	1050.3	1250.3	1597.0	1997.6	2021.6	2209.0	1895.2	1700	1810	Revenues ($mill) A	2500
26.0	30.5	22.4	34.6	36.1	40.1	50.5	49.8	57.6	64.3	55.0	60.0	Net Profit ($mill)	80.0
35.2%	32.7%	35.4%	35.0%	34.8%	34.1%	32.5%	33.4%	31.3%	33.6%	36.0%	36.0%	Income Tax Rate	36.0%
4.6%	3.0%	3.0%	3.3%	2.9%	2.5%	2.5%	2.5%	2.6%	3.4%	3.2%	3.3%	Net Profit Margin	3.2%
45.2%	49.5%	47.5%	50.4%	51.6%	48.1%	49.5%	45.3%	44.4%	42.9%	40.0%	40.0%	Long-Term Debt Ratio	47.0%
54.5%	50.2%	52.3%	49.4%	48.3%	51.8%	50.4%	54.6%	55.5%	57.1%	60.0%	60.0%	Common Equity Ratio	53.0%
519.2	574.1	546.6	605.0	737.4	707.9	798.9	784.5	876.1	906.3	935	980	Total Capital ($mill)	1360
575.4	602.5	594.4	621.2	646.9	679.5	763.8	793.8	823.2	855.9	890	935	Net Plant ($mill)	1250
6.7%	6.9%	6.0%	7.4%	6.6%	7.6%	8.4%	8.5%	8.1%	8.7%	7.0%	7.5%	Return on Total Cap'l	7.5%
9.1%	10.5%	7.8%	11.5%	10.1%	10.9%	12.5%	11.6%	11.8%	12.4%	10.0%	10.0%	Return on Shr. Equity	11.0%
9.1%	10.5%	7.8%	11.6%	10.1%	10.9%	12.5%	11.6%	11.8%	12.4%	10.0%	10.0%	Return on Com Equity	11.0%
.2%	1.8%	NMF	3.1%	2.7%	3.1%	5.1%	4.3%	5.2%	5.9%	3.5%	4.0%	Retained to Com Eq	5.0%
98%	83%	113%	74%	73%	72%	59%	63%	56%	53%	64%	62%	All Div'ds to Net Prof	57%

CURRENT POSITION ($MILL.)	2008	2009	3/31/10
Cash Assets	14.9	74.6	83.8
Other	547.0	294.2	354.4
Current Assets	561.9	368.8	438.2
Accts Payable	159.6	72.8	122.8
Debt Due	216.1	129.8	140.0
Other	103.5	96.5	100.2
Current Liab.	479.2	299.1	363.0
Fix. Chg. Cov.	377%	420%	410%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	12.0%	12.5%	.5%
"Cash Flow"	3.5%	8.5%	3.5%
Earnings	5.0%	10.5%	2.5%
Dividends	1.0%	2.0%	2.5%
Book Value	4.0%	6.5%	4.0%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.)A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2007	539.6	700.8	457.9	323.3	2021.6
2008	504.0	747.7	505.5	451.8	2209.0
2009	674.3	659.1	309.9	251.9	1895.2
2010	491.2	635.3	320	253.5	1700
2011	490	650	403	267	1810

Fiscal Year Ends	EARNINGS PER SHARE A B F Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2007	.89	.97	.43	.03	2.31
2008	.99	1.39	.41	d.14	2.64
2009	1.42	1.40	.31	d.22	2.92
2010	1.03	1.26	.34	d.23	2.40
2011	1.00	1.41	.41	d.22	2.60

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.345	.355	.355	.355	1.41
2007	.365	.365	.365	.365	1.46
2008	.375	.375	.375	.375	1.50
2009	.385	.385	.385	.385	1.54
2010	.395	.395			

BUSINESS: Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri, including the city of St. Louis, St. Louis County, and parts of 10 other counties. Has roughly 630,000 customers. Purchased SM&P Utility Resources, 1/02; divested, 3/08. Therms sold and transported in fiscal 2009: 1.07 mill. Revenue mix for regulated operations: residential, 65%; commercial and industrial, 24%; transportation, 1%; other, 10%. Has around 1,762 employees. Officers and directors own approximately 8% of common shares (1/10 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.thelacledegroup.com.

Share net for Laclede Group plunged about 19% in the first half of fiscal 2010 (ends September 30th), versus the year-ago tally. That was due mainly to Laclede Energy Resources, which suffered from a substantial decline in margins on sales of natural gas, reflecting narrower price differentials. In fact, that unit contributed only $0.28 a share to the bottom line during that period, compared to $1.05 in the first six months of fiscal 2009. **But there was a silver lining.** The performance of Laclede Gas was aided nicely by the sale of propane in the wholesale market, and, to a lesser degree, higher net investment income. Laclede Group also benefited from a 15% reduction in operating expenses.

Nonetheless, it appears that the bottom line for this year, as a whole, will fall between 15% and 20%. Improved results could be in store for the company in fiscal 2011, however, assuming a better showing from Laclede Energy Resources. As a result, share net may climb to $2.60. Note that our presentation does not include a pending rate case in Missouri, in which the firm seeks a net revenue increase of $52.6 million annually, to help offset the rising costs of providing natural gas service to its customers.

Prospects out to 2013-2015 look unexciting. Growth in the customer base for the natural gas distribution unit will probably remain moderate. (In fact, the number of customers in fiscal 2009 was just 1.2% higher than in fiscal 1999.) That's because the service territory, located in eastern Missouri, is in a mature phase. We believe that Laclede Energy Resources has promising expansion opportunities, but has contributed only a small portion to total profits on a historical basis. A major acquisition could help to offset this, but it seems that no such plans are on the agenda at this juncture. Consequently, annual share-net growth could be just around 5% over the 3- to 5-year horizon.

These good-quality shares offer limited total-return potential. That is based partly on our assumption of moderate future increases in the dividend, given the utility's unexciting growth prospects. Meanwhile, the Timeliness rank is 5 (Lowest).

Frederick L. Harris, III *June 11, 2010*

(A) Fiscal year ends Sept. 30th.
(B) Based on average shares outstanding thru. '97, then diluted. Excludes nonrecurring loss: '06, 7¢. Excludes gain from discontinued operations: '08, 94¢. Next earnings report due late July. (C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available. (D) Incl. deferred charges. In '09: $488.3 mill., $22.03/sh.
(E) In millions.
(F) Qtly. egs. may not sum due to rounding or change in shares outstanding.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	85

NEW JERSEY RES. NYSE-NJR

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
36.15	14.3	(Trailing: 15.1 Median: 15.0)	0.88	3.8%	

TIMELINESS 4 Lowered 10/9/09
SAFETY 1 Raised 9/15/06
TECHNICAL 3 Raised 10/23/09
BETA .65 (1.00 = Market)

High:	17.9	18.3	19.8	21.7	22.4	26.4	29.7	32.9	35.4	37.6	41.1	42.4
Low:	14.0	14.9	16.1	16.6	16.2	20.0	24.3	27.1	27.7	30.3	24.6	30.0

Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

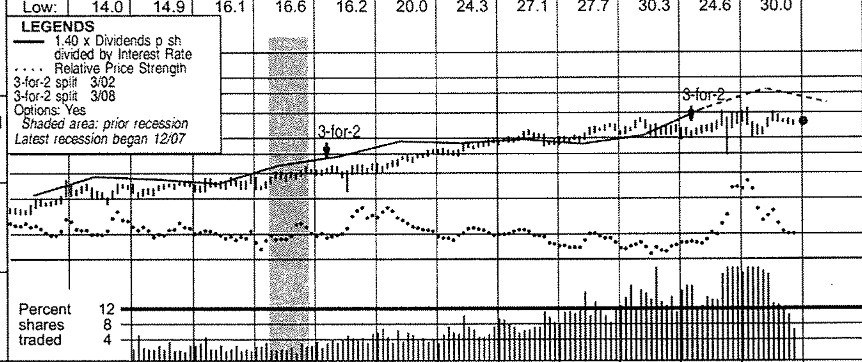
	Price	Gain	Ann'l Total Return
High	45	(+25%)	9%
Low	35	(-5%)	3%

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	0	0	0	0	1	0	0	0	0
Options	0	0	1	0	0	0	0	3	0
to Sell	0	1	0	0	0	0	0	4	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	93	87	89
to Sell	73	88	88
Hld's(000)	24319	23324	24695



% TOT. RETURN 11/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-9.1	60.4
3 yr.	12.8	-4.1
5 yr.	42.8	22.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
12.02	12.81	11.36	13.48	17.31	17.73	22.65	29.42	51.22	44.11	62.29	60.89	76.19	79.63	72.62	90.74	61.55	*75.60*	Revenues per sh A	*78.90*
1.42	1.54	1.42	1.48	1.63	1.74	1.86	1.99	2.12	2.14	2.38	2.50	2.62	2.73	2.44	3.62	3.16	*3.50*	"Cash Flow" per sh	*3.75*
.76	.84	.86	.92	.99	1.04	1.11	1.20	1.30	1.39	1.59	1.70	1.77	1.87	1.55	2.70	2.40	*2.60*	Earnings per sh B	*2.85*
.68	.68	.68	.69	.71	.73	.75	.76	.78	.80	.83	.87	.91	.96	1.01	1.11	1.24	*1.36*	Div'ds Decl'd per sh C■	*1.52*
1.54	1.40	1.18	1.19	1.15	1.07	1.21	1.23	1.10	1.02	1.14	1.45	1.28	1.28	1.46	1.72	1.78	*1.75*	Cap'l Spending per sh	*1.80*
6.54	6.43	6.47	6.73	6.92	7.26	7.57	8.29	8.80	8.71	10.26	11.25	10.60	15.00	15.50	17.28	16.38	*18.40*	Book Value per sh D	*25.10*
37.84	38.93	40.03	40.69	40.23	40.07	39.92	39.59	40.00	41.50	40.85	41.61	41.32	41.44	41.61	42.06	42.12	*43.00*	Common Shs Outst'g E	*45.00*
15.1	13.0	11.8	13.6	13.5	15.3	15.2	14.7	14.2	14.7	14.0	15.3	16.8	16.1	21.6	12.3	14.9		Avg Ann'l P/E Ratio	*14.0*
.89	.85	.79	.85	.78	.80	.87	.96	.73	.80	.80	.81	.89	.87	1.15	.77	.83		Relative P/E Ratio	*.95*
5.8%	6.2%	6.7%	5.6%	5.3%	4.6%	4.5%	4.4%	4.2%	3.9%	3.7%	3.3%	3.1%	3.2%	3.0%	3.3%	3.5%		Avg Ann'l Div'd Yield	*3.8%*

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
904.3	1164.5	2048.4	1830.8	2544.4	2533.6	3148.3	3299.6	3021.8	3816.2	2592.5	*3250*	Revenues ($mill) A	*3550*
44.9	47.9	52.3	56.8	65.4	71.6	74.4	78.5	65.3	113.9	101.9	*110*	Net Profit ($mill)	*125*
36.2%	37.8%	38.0%	38.7%	39.4%	39.1%	39.1%	38.9%	38.8%	37.8%	*39.0%*	*39.0%*	Income Tax Rate	*40.0%*
5.0%	4.1%	2.6%	3.1%	2.6%	2.8%	2.4%	2.4%	2.2%	3.0%	*3.9%*	*3.6%*	Net Profit Margin	*3.6%*
48.7%	47.0%	50.1%	50.6%	38.1%	40.3%	42.0%	34.8%	37.3%	38.5%	39.8%	*40.0%*	Long-Term Debt Ratio	*33.5%*
51.2%	52.9%	49.9%	49.4%	61.9%	59.7%	58.0%	65.2%	62.7%	61.5%	60.2%	*60.0%*	Common Equity Ratio	*66.5%*
590.4	620.1	706.2	732.4	676.8	783.8	755.3	954.0	1028.0	1182.1	1145.2	*1315*	Total Capital ($mill)	*1705*
705.4	730.6	743.9	756.4	852.6	880.4	905.1	934.9	970.9	1017.3	1064.4	*1085*	Net Plant ($mill)	*1150*
9.0%	9.0%	8.5%	8.7%	10.7%	10.1%	11.2%	9.6%	7.7%	10.7%	*9.9%*	*9.5%*	Return on Total Cap'l	*8.5%*
14.8%	14.6%	14.8%	15.7%	15.6%	15.3%	17.0%	12.6%	10.1%	15.7%	*14.8%*	*14.0%*	Return on Shr. Equity	*11.5%*
14.8%	14.6%	14.9%	15.7%	15.6%	15.3%	17.0%	12.6%	10.1%	15.7%	*14.8%*	*14.0%*	Return on Com Equity	*11.5%*
5.0%	5.4%	6.1%	6.9%	7.7%	7.8%	8.5%	6.3%	3.6%	9.5%	*7.2%*	*6.5%*	Retained to Com Eq	*5.5%*
67%	63%	59%	56%	51%	49%	50%	50%	64%	40%	*51%*	*52%*	All Div'ds to Net Prof	*54%*

CAPITAL STRUCTURE as of 9/30/09
Total Debt $605.4 mill. **Due in 5 Yrs** $157.7 mill.
LT Debt $455.5 mill. **LT Interest** $15.8 mill.
Incl. $9.9 mill. capitalized leases.
(LT interest earned: 4.8x; total interest coverage: 4.8x)
Pension Assets-9/08 $100.6 mill. **Oblig.** $133.8 mill.
Pfd Stock None

Common Stock 41,585,243 shs. as of 11/24/09
MARKET CAP: $1.5 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	5.1	42.6	36.2
Other	794.8	1067.1	648.0
Current Assets	799.9	1109.7	684.2
Accts Payable	64.4	61.7	44.4
Debt Due	260.8	238.3	149.9
Other	378.1	594.0	361.9
Current Liab.	703.3	894.0	556.2
Fix. Chg. Cov.	461%	450%	450%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	17.5%	9.0%	-.5%
"Cash Flow"	6.0%	6.0%	4.0%
Earnings	7.5%	7.5%	5.5%
Dividends	4.0%	5.0%	7.0%
Book Value	8.5%	11.5%	8.0%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	1164	1064	536.1	535.5	3299.6
2007	737.4	1029	662.2	593.2	3021.8
2008	811.1	1178	1000	827.1	3816.2
2009	801.3	937.5	441.1	412.6	2592.5
2010	*845*	*985*	*720*	*700*	*3250*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	.82	1.43	d.09	d.29	1.87
2007	.70	.19	.60	.06	1.55F
2008	1.31	1.86	d.10	d.39	2.70
2009	.77	1.71	.03	d.12	2.40
2010	*.85*	*1.75*	*.05*	*d.05*	*2.60*

Cal-endar	QUARTERLY DIVIDENDS PAID C E■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.24	.24	.24	.24	.96
2007	.253	.253	.253	.253	1.01
2008	.267	.28	.28	.28	1.11
2009	.31	.31	.31	.31	
2010	.34				

BUSINESS: New Jersey Resources Corp. is a holding company providing retail/wholesale energy svcs. to customers in New Jersey, and in states from the Gulf Coast to New England, and Canada. New Jersey Natural Gas had about 484,000 customers at 9/30/08 in Monmouth and Ocean Counties, and other N.J. Counties. Fiscal 2008 volume: 99.6 bill. cu. ft. (59% firm, 6% interruptible industrial and electric utility, 35% off-system and capacity release). N.J. Natural Energy subsidiary provides unregulated retail/wholesale natural gas and related energy svcs. 2008 dep. rate: 2.9%. Has 854 empls. Off./dir. own about 1.7% of common (12/09 Proxy). Chrmn., CEO, & Pres.: Laurence M. Downes. Inc.: NJ Addr.: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 732-938-1480. Web: www.njresources.com.

New Jersey Resources performed well in fiscal 2009 (ended September 30th) despite the difficult economy. The top line declined 32% due to weak contributions from the NJR Energy Services unit. That segment was hit especially hard as a result of lower commodity pricing and consumer conservation efforts. On the upside, the New Jersey Natural Gas (NJNG) division managed to post incremental revenue gains. This stemmed from 5,850 new customers and the completion of more than 700 natural gas heat conversions. All told, share net declined roughly 11%, to $2.40.

We trimmed our 2010 earnings estimate by a dime, to $2.60 a share. This would still represent an 8% improvement on a year-to-year basis. Increased contributions from midstream assets, additional customers at the NJNG segment, and stabilization in the decline of top- and bottom-line contributions at the energy services division underpin our expectation.

The company's financial position is adequate. Cash and equivalents declined at a double-digit clip this year. However, those reserves still tallied more than $36 million, which should provide a nice safety net. Meantime, NJR's debt levels appear in check, and easily serviceable. Also, of note, management recently approved a 9.7% dividend hike to $0.34 a share payable January 1st. NJR's dividend yield is low, compared to other utilities we cover, but the increase helps sweeten the deal.

New Jersey Resources' midstream assets are starting to pick up steam. The Steckman Ridge storage facility began accepting natural gas injections this past spring. At this point, it is in service and ready for the winter heating season. In fact, that operation is expected to contribute $0.08-$0.12 to this year's bottom line.

These shares have fallen one notch on our Timeliness Ranking System. They are now ranked to lag the broader market averages in the coming six to 12 months (Timeliness: 4). Also, New Jersey Resources' appreciation potential for the pull to 2012-2014 is below par, even for a utility, which typically falls short on this measure, compared to all equities covered in the *Value Line* universe. **Still, solid dividend growth prospects may appeal to income-oriented investors.**

Bryan J. Fong *December 11, 2009*

(A) Fiscal year ends Sept. 30th.
(B) Diluted earnings. Qtly egs may not sum to total due to change in shares outstanding. Next earnings report due late Jan.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) Includes regulatory assets in 2009: $391.0 million, $9.21/share.
(E) In millions, adjusted for splits.
(F) Restated.

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

NICOR INC. NYSE-GAS

RECENT PRICE 39.72 | P/E RATIO 14.7 (Trailing: 11.9 Median: 15.0) | RELATIVE P/E RATIO 0.94 | DIV'D YLD 4.7% | VALUE LINE

TIMELINESS 3 Raised 11/13/09

SAFETY 3 Lowered 6/17/05

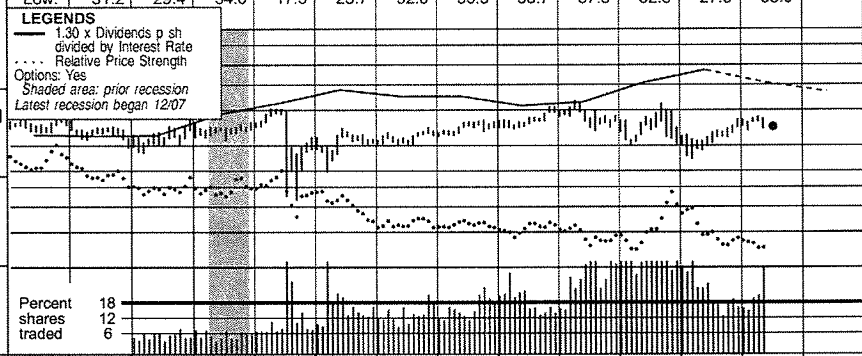
TECHNICAL 3 Lowered 6/11/10

BETA .75 (1.00 = Market)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
High:	42.9	43.9	42.4	49.0	39.3	39.7	43.0	49.9	53.7	52.0	43.4	44.7				
Low:	31.2	29.4	34.0	17.3	23.7	32.0	35.5	38.7	37.8	32.3	27.5	38.0				

Target Price Range 2013 | 2014 | 2015

LEGENDS
— 1.30 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



2013-15 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+50%)	11%
Low	40	Nil	Nil

Insider Decisions

	J	A	S	O	N	D	J	F	M
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	1	0

Institutional Decisions

	2Q2009	3Q2009	4Q2009
to Buy	105	92	112
to Sell	103	104	107
Hld's(000)	25968	24945	26177

Percent shares traded 18 / 12 / 6

% TOT. RETURN 5/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	34.7	41.6
3 yr.	-0.9	-2.6
5 yr.	28.5	37.2

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
31.23	29.42	37.39	41.33	30.84	34.45	50.52	57.30	43.11	60.46	62.12	76.00	65.92	69.20	83.68	58.62	*60.45*	*62.10*	Revenues per sh	*71.45*
4.11	4.19	4.97	5.29	5.21	5.59	6.16	6.41	6.03	5.37	6.00	6.19	6.82	6.96	6.85	7.32	*7.10*	*7.35*	"Cash Flow" per sh	*8.40*
2.07	1.96	2.42	2.55	2.31	2.57	2.94	3.01	2.88	2.11	2.22	2.27	2.87	2.98	2.63	2.97	*2.70*	*2.85*	Earnings per sh A	*3.00*
1.25	1.28	1.32	1.40	1.48	1.54	1.66	1.76	1.84	1.86	1.86	1.86	1.86	1.86	1.86	1.86	*1.86*	*1.86*	Div'ds Decl'd per sh B■	*1.86*
3.34	3.12	2.42	2.34	2.87	3.28	3.48	4.18	4.37	4.12	4.32	4.57	4.17	3.77	5.54	4.87	*6.25*	*6.70*	Cap'l Spending per sh	*7.45*
13.26	13.67	14.74	15.43	15.97	16.80	15.56	16.39	16.55	17.13	16.99	18.36	19.43	20.58	21.55	22.93	*23.65*	*24.65*	Book Value per sh	*28.00*
51.54	50.30	49.49	48.22	47.51	46.89	45.49	44.40	44.01	44.04	44.10	44.18	44.90	45.90	45.13	45.25	*45.50*	*45.50*	Common Shs Outst'g C	*45.50*
12.5	13.1	12.5	14.2	17.6	14.6	11.9	12.8	13.1	15.8	15.9	17.3	15.0	15.0	15.1	11.8	*Bold figures are*		Avg Ann'l P/E Ratio	*16.0*
.82	.88	.78	.82	.92	.83	.77	.66	.72	.90	.84	.92	.81	.80	.91	.78	*Value Line*		Relative P/E Ratio	*1.05*
4.8%	5.0%	4.4%	3.9%	3.6%	4.1%	4.7%	4.6%	4.9%	5.6%	5.3%	4.7%	4.3%	4.2%	4.7%	5.3%	*estimates*		Avg Ann'l Div'd Yield	*3.9%*

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		13-15
2298.1	2544.1	1897.4	2662.7	2739.7	3357.8	2960.0	3176.3	3776.6	2652.1	*2750*	*2825*	Revenues ($mill)	*3250*
136.4	136.3	128.0	93.1	98.1	101.1	128.3	135.2	119.5	135.5	*125*	*130*	Net Profit ($mill)	*135*
34.8%	33.5%	31.0%	35.2%	31.8%	28.3%	26.3%	26.6%	27.0%	32.5%	*27.0%*	*27.0%*	Income Tax Rate	*27.0%*
5.9%	5.4%	6.7%	3.5%	3.6%	3.0%	4.3%	4.3%	3.2%	5.1%	*4.6%*	*4.6%*	Net Profit Margin	*4.2%*
32.7%	37.8%	35.1%	39.6%	39.8%	37.4%	36.3%	30.9%	31.5%	32.4%	*28%*	*27%*	Long-Term Debt Ratio	*25%*
66.7%	61.7%	64.5%	60.3%	60.1%	62.5%	63.7%	69.0%	68.4%	67.6%	*72%*	*73%*	Common Equity Ratio	*75%*
1061.2	1180.1	1128.9	1251.5	1246.0	1297.7	1370.7	1368.0	1421.1	1535.9	*1500*	*1545*	Total Capital ($mill)	*1700*
1729.6	1768.6	1796.8	2484.2	2549.8	2659.1	2714.1	2757.3	2858.6	2939.1	*3075*	*3225*	Net Plant ($mill)	*3720*
13.7%	12.3%	12.2%	8.3%	8.8%	9.4%	10.9%	11.2%	9.7%	10.0%	*9.5%*	*9.5%*	Return on Total Cap'l	*9.0%*
19.1%	18.6%	17.5%	12.3%	13.1%	12.5%	14.7%	14.3%	12.3%	13.1%	*11.5%*	*11.5%*	Return on Shr. Equity	*11.0%*
19.2%	18.7%	17.5%	12.3%	13.1%	12.5%	14.7%	14.3%	12.3%	13.1%	*11.5%*	*11.5%*	Return on Com Equity	*11.0%*
8.5%	7.9%	6.5%	1.5%	2.1%	2.3%	5.2%	5.4%	3.6%	4.9%	*3.5%*	*4.0%*	Retained to Com Eq	*4.0%*
56%	58%	63%	88%	84%	81%	65%	62%	71%	63%	*68%*	*65%*	All Div'ds to Net Prof	*61%*

CAPITAL STRUCTURE as of 3/31/10
Total Debt $801.8 mill. **Due in 5 Yrs** $569.0 mill.
LT Debt $498.8 mill. **LT Interest** $6.5 mill.
(Total interest coverage: 11.7x)

Pension Assets-12/09 $364 mill. **Oblig.** $306 mill.

Pfd Stock $.1 mill. **Pfd Div'd** None

Common Stock 45,271,489 shares
as of 4/26/10

MARKET CAP: $1.8 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2008	2009	3/31/10
Cash Assets	95.5	133.7	128.8
Other	1243.4	869.6	817.9
Current Assets	1338.9	1003.3	946.7
Accts Payable	411.3	353.9	236.6
Debt Due	789.9	494.0	303.0
Other	466.8	320.2	619.7
Current Liab.	1668.0	1168.1	1159.3
Fix. Chg. Cov.	461%	569%	1067%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	7.0%	5.0%	*1.5%*
"Cash Flow"	3.0%	4.0%	*3.5%*
Earnings	1.5%	3.5%	*2.5%*
Dividends	2.5%	--	*Nil*
Book Value	3.0%	5.0%	*5.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	1334.7	556.9	365.2	919.5	3176.3
2008	1595.7	699.8	440.3	1040.8	3776.6
2009	1110.8	447.6	325.6	768.1	2652.1
2010	1192.9	*445*	*325*	*787.1*	*2750*
2011	*1175*	*450*	*350*	*850*	*2825*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	1.04	.40	.32	1.22	2.98
2008	.91	.64	.03	1.05	2.63
2009	.96	.50	.30	1.21	2.97
2010	.91	*.45*	*.30*	*1.04*	*2.70*
2011	*.95*	*.50*	*.35*	*1.05*	*2.85*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.465	.465	.465	.465	1.86
2007	.465	.465	.465	.465	1.86
2008	.465	.465	.465	.465	1.86
2009	.465	.465	.465	.465	1.86
2010	.465	.465			

BUSINESS: Nicor Inc. is a holding company with gas distribution as its primary business. Serves over 2.2 million customers in northern and western Illinois. 2009 gas delivered: 475.9 Bcf, incl. 217.1 Bcf from transportation. 2009 gas sales (258.8 bcf): residential, 78%; commercial, 20%; industrial, 2%. Principal supplying pipelines: Natural Gas Pipeline, Horizon Pipeline, and TGPC. Current operations include Tropical Shipping subsidiary and several energy related ventures. Divested oil and gas E&P, 6/93. Has about 3,900 employees. Officers/directors own about 2.5% of common stock (3/10 proxy). Chairman and Chief Executive Officer: Russ Strobel. Incorporated: Illinois. Address: 1844 Ferry Road, Naperville, Illinois 60563. Telephone: 630-305-9500. Internet: www.nicor.com.

Nicor posted solid results in the first quarter. Earnings of $0.91 a share beat our estimate by a penny. Note that we have excluded a $0.42 benefit from the recently implemented bad debt recovery mechanism. The company's gas distribution business and other energy ventures performed well. However, the shipping segment continues to struggle. High fuel costs have weighed on this division's profitability.

The company launched a new energy efficiency program. The initiative aims to encourage customers to use energy carefully by offering rebates, ideas and tools. This program should help Nicor adapt to the increasing amount of customer conservation (discussed below) that has affected its business.

Near-term hurdles are still present. The economic downturn continues to weigh on Nicor. Most notably, lower construction activity has weighed on results. Additionally, customers continue to use their energy sparingly, which has hurt the top line. Further, the shipping business continues to be pressured by high fuel costs. In response, the company has worked to cut costs. All told, we estimate earnings will fall 9% to $2.70 a share.

We look for the bottom line to improve in 2011. The gas distribution division will probably continue to post good results. What's more, the shipping business will likely improve thanks to a more favorable operating environment. Accordingly, we look for earnings to increase $0.15 to $2.85 a share.

This stock has below-average total return potential over the 2013-2015 time frame. The company has not increased its dividend in recent years. Moreover, declining customer usage should limit earnings growth over the 3- to 5-year pull. As a result, the long-term picture appears to be uninspiring.

Nicor shares are pegged to track the broader market averages in the year ahead. This issue does not stand out at present. Therefore, we suggest most investors stay on the sidelines. Income-oriented accounts may want to consider this equity, nonetheless, as it offers an above-average dividend yield (4.7%) compared to its peers.

Richard Gallagher *June 11, 2010*

(A) Based on primary earnings thru. '96, then diluted. Excl. nonrecurring gains/(loss): '97, 6¢; '98, 11¢; '99, 5¢; '00, ($1.96); '01, 16¢; '03, (27¢); '04, (52¢); '05, 80¢; '06, (17¢); '07 (13¢). Excl. items from discontinued ops.: '96, 30¢. Next egs. report due late July. (B) Dividends historically paid mid February, May, August, November. ■ Dividend reinvestment plan available. (C) In millions.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	45
Earnings Predictability	85

N.W. NAT'L GAS NYSE-NWN

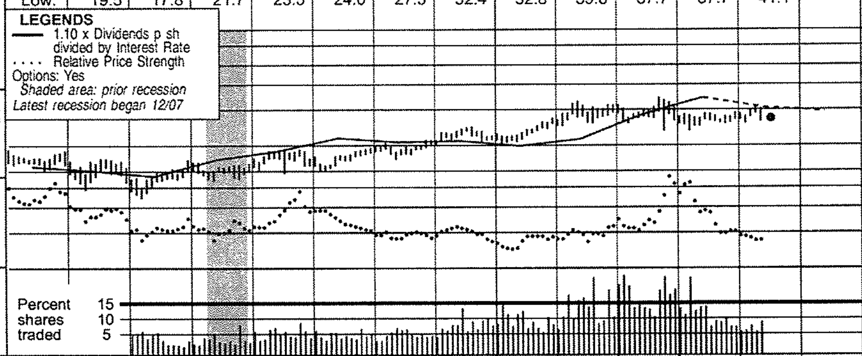
RECENT PRICE 43.49 | P/E RATIO 16.4 (Trailing: 16.2 / Median: 16.0) | RELATIVE P/E RATIO 1.05 | DIV'D YLD 3.9% | VALUE LINE

TIMELINESS **4** Lowered 3/12/10
SAFETY **1** Raised 3/18/05
TECHNICAL **2** Raised 5/14/10
BETA .60 (1.00 = Market)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
High:	27.9	27.5	26.8	30.7	31.3	34.1	39.6	43.7	52.8	55.2	46.5	49.2
Low:	19.5	17.8	21.7	23.5	24.0	27.5	32.4	32.8	39.8	37.7	37.7	41.1

Target Price Range: 2013 | 2014 | 2015

LEGENDS
— 1.10 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



2013-15 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	65	(+50%)	*11%*
Low	55	(+25%)	*6%*

Insider Decisions

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

Institutional Decisions

	2Q2009	3Q2009	4Q2009
to Buy	78	64	67
to Sell	69	82	65
Hld's(000)	15387	15134	15206

% TOT. RETURN 5/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	7.5	41.6
3 yr.	-2.1	-2.6
5 yr.	44.9	37.2

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
18.30	16.02	16.86	15.82	16.77	18.17	21.09	25.78	25.07	23.57	25.69	33.01	37.20	39.13	39.16	38.17	*34.80*	*37.40*	Revenues per sh	*47.50*
3.50	3.41	3.86	3.72	3.24	3.72	3.68	3.86	3.65	3.85	3.92	4.34	4.76	5.41	5.31	5.20	*5.10*	*5.40*	"Cash Flow" per sh	*6.45*
1.63	1.61	1.97	1.76	1.02	1.70	1.79	1.88	1.62	1.76	1.86	2.11	2.35	2.76	2.57	2.83	*2.65*	*2.80*	Earnings per sh A	*3.50*
1.17	1.18	1.20	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.30	1.32	1.39	1.44	1.52	1.60	*1.65*	*1.75*	Div'ds Decl'd per sh B ■	*2.10*
4.23	3.02	3.70	5.07	4.02	4.78	3.46	3.23	3.11	4.90	5.52	3.48	3.56	4.48	3.92	5.09	*5.10*	*5.05*	Cap'l Spending per sh	*5.20*
13.63	14.55	15.37	16.02	16.59	17.12	17.93	18.56	18.88	19.52	20.64	21.28	22.01	22.52	23.71	24.88	*25.70*	*26.90*	Book Value per sh	*29.65*
20.13	22.24	22.56	22.86	24.85	25.09	25.23	25.23	25.59	25.94	27.55	27.58	27.24	26.41	26.50	26.53	*26.60*	*26.75*	Common Shs Outst'g C	*27.80*
13.0	12.9	11.7	14.4	26.7	14.5	12.4	12.9	17.2	15.8	16.7	17.0	15.9	16.7	18.1	15.2	*Bold figures are*		Avg Ann'l P/E Ratio	*17.0*
.85	.86	.73	.83	1.39	.83	.81	.66	.94	.90	.88	.91	.86	.89	1.09	1.01	*Value Line*		Relative P/E Ratio	*1.15*
5.5%	5.7%	5.2%	4.8%	4.5%	5.0%	5.6%	5.1%	4.5%	4.6%	4.2%	3.7%	3.7%	3.1%	3.3%	3.7%	*estimates*		Avg Ann'l Div'd Yield	*3.6%*

CAPITAL STRUCTURE as of 3/31/10
Total Debt $732.7 mill. **Due in 5 Yrs** $145 mill.
LT Debt $601.7 mill. **LT Interest** $34.0 mill.

(Total interest coverage: 2.3x)

Pension Assets-12/09 $201 mill. **Oblig.** $308 mill.

Pfd Stock None

Common Stock 26,563,978 shares

MARKET CAP $1.2 billion (Mid Cap)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		13-15
532.1	650.3	641.4	611.3	707.6	910.5	1013.2	1033.2	1037.9	1012.7	*925*	*1000*	Revenues ($mill)	*1320*
47.8	50.2	43.8	46.0	50.6	58.1	65.2	74.5	68.5	75.1	*70.5*	*75.0*	Net Profit ($mill)	*95.0*
35.9%	35.4%	34.9%	33.7%	34.4%	36.0%	36.3%	37.2%	36.9%	38.3%	*38.0%*	*38.0%*	Income Tax Rate	*38.0%*
9.0%	7.7%	6.8%	7.5%	7.1%	6.4%	6.4%	7.2%	6.6%	7.4%	*7.5%*	*7.5%*	Net Profit Margin	*7.0%*
45.1%	43.0%	47.6%	49.7%	46.0%	47.0%	46.3%	46.3%	44.9%	47.7%	*47%*	*46%*	Long-Term Debt Ratio	*43%*
50.9%	53.2%	51.5%	50.3%	54.0%	53.0%	53.7%	53.7%	55.1%	52.3%	*53%*	*54%*	Common Equity Ratio	*57%*
887.8	880.5	937.3	1006.6	1052.5	1108.4	1116.5	1106.8	1140.4	1261.8	*1295*	*1335*	Total Capital ($mill)	*1440*
934.0	965.0	995.6	1205.9	1318.4	1373.4	1425.1	1495.9	1549.1	1670.1	*1740*	*1805*	Net Plant ($mill)	*2015*
6.7%	6.9%	5.9%	5.7%	5.9%	6.5%	7.1%	8.5%	7.7%	7.3%	*7.0%*	*7.0%*	Return on Total Cap'l	*8.0%*
9.8%	10.0%	8.9%	9.1%	8.9%	9.9%	10.9%	12.5%	10.9%	11.4%	*10.0%*	*10.5%*	Return on Shr. Equity	*11.5%*
10.0%	10.2%	8.5%	9.0%	8.9%	9.9%	10.9%	12.5%	10.9%	11.4%	*10.0%*	*10.5%*	Return on Com Equity	*11.5%*
3.1%	3.5%	1.9%	2.6%	2.7%	3.7%	4.5%	6.0%	4.5%	5.0%	*3.5%*	*4.0%*	Retained to Com Eq	*4.0%*
70%	67%	79%	72%	69%	63%	59%	52%	59%	56%	*64%*	*60%*	All Div'ds to Net Prof	*66%*

CURRENT POSITION ($MILL.)	2008	2009	3/31/10
Cash Assets	6.9	8.4	8.4
Other	474.1	319.8	297.9
Current Assets	481.0	328.2	306.3
Accts Payable	94.4	123.7	93.5
Debt Due	248.0	137.0	96.0
Other	208.9	131.9	186.0
Current Liab.	551.3	392.6	375.5
Fx. Chg. Cov.	408%	395%	285%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	8.5%	9.5%	*3.5%*
"Cash Flow"	4.0%	7.0%	*3.5%*
Earnings	6.0%	9.5%	*4.5%*
Dividends	2.0%	3.5%	*5.5%*
Book Value	3.5%	4.0%	*4.0%*

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	394.1	183.2	124.2	331.7	1033.2
2008	387.7	191.3	109.7	349.2	1037.9
2009	437.4	149.1	116.9	309.3	1012.7
2010	286.5	*150*	*140*	*348.5*	*925*
2011	*400*	*140*	*120*	*340*	*1000*

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	1.77	.10	d.22	1.11	2.76
2008	1.62	.08	d.38	1.25	2.57
2009	1.78	.12	d.25	1.18	2.83
2010	1.64	*.08*	*d.30*	*1.23*	*2.65*
2011	*1.75*	*.10*	*d.35*	*1.30*	*2.80*

Calendar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.345	.345	.345	.355	1.39
2007	.355	.355	.355	.375	1.44
2008	.375	.375	.375	.395	1.52
2009	.395	.395	.395	.415	1.60
2010	.415	.415			

BUSINESS: Northwest Natural Gas Co. distributes natural gas to 90 communities, 668,000 customers, in Oregon (90% of customers) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.5 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system. Owns local underground storage. Rev. breakdown: residential, 57%; commercial, 26%; industrial, gas transportation, and other, 17%. Employs 1,061. Barclays Global owns 6.6% of shares; officers and directors, 1.4% (4/09 proxy). CEO: Gregg S. Kantor. Inc.: Oregon. Address: 220 NW 2nd Ave., Portland, OR 97209. Telephone: 503-226-4211. Internet: www.nwnatural.com.

Northwest Natural Gas finished the first quarter of 2010 with earnings per share of $1.64, compared to the year-before figure of $1.78. Lower utility revenues, a result of warmer weather and lower customer usage, combined with much-reduced revenues from lower gas prices compared to last year, were cited as the primary causes of the lower earnings.

Management plans to cut costs to aid its bottom line in 2010. The company has gone through a staff reduction, trimming approximately 117 employees, down 11% from last year. Lower staffing costs, combined with reduced bad debt expenses, led to a 10% reduction in operations and management costs in the first quarter, compared to the same period in 2009.

We anticipate slow customer growth through the year. The customer growth pace is stable, up about 1% on a 12-month basis. The housing markets in several of the company's operating areas appear to be improving, which management believes will enhance customer rolls as the year progresses.

It has been rough going for two major projects, with the Gill Ranch gas storage project in California remaining on schedule to open late this year, but suffering a delay of several weeks due to heavy rain. The project costs have increased from an estimated $180 million, to $185 million-$205 million. The project is scheduled to open late this year and contribute to revenues in 2011. Meanwhile, the Palomar pipeline project, being developed with TransCanada, has also suffered a setback. NorthernStar Natural Gas, the customer that purchased the majority of the capacity on the pipeline, has decided to suspend work on the project and intends to file for bankruptcy protection. NWS is currently looking for additional customers so that it can continue with the project. Although the company has a strong financial position, these uncertainties have caused us to lower our future earnings-per-share estimates.

The Timeliness rank of this issue has been lowered to 4. Even so, patient investors, seeking an above-average yield from a well-covered dividend that seems likely to continue to be regularly increased, should consider this stock.

Sahana Zutshi *June 11, 2010*

(A) Diluted earnings per share. Excludes nonrecurring items: '98, $0.15; '00, $0.11; '06, ($0.06); '08, ($0.03); '09, 6¢. Next earnings report due early July.

(B) Dividends historically paid in mid-February, May, August, and November.
■ Dividend reinvestment plan available.

(C) In millions, adjusted for split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	70
Earnings Predictability	95

PIEDMONT NAT'L. GAS NYSE-PNY

RECENT PRICE	24.86	P/E RATIO	15.0 (Trailing: 14.5; Median: 17.0)	RELATIVE P/E RATIO	0.96	DIV'D YLD	4.5%	VALUE LINE

TIMELINESS 3 Raised 6/15/07
SAFETY 2 New 7/27/90
TECHNICAL 2 Raised 5/21/10
BETA .65 (1.00 = Market)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
High:	18.3	19.7	19.0	19.0	22.0	24.3	25.8	28.4	28.0	35.3	32.0	28.5	
Low:	14.3	11.8	14.6	13.7	16.6	19.2	21.3	23.2	22.0	21.7	20.7	23.9	

Target Price Range 2013 | 2014 | 2015

2013-15 PROJECTIONS

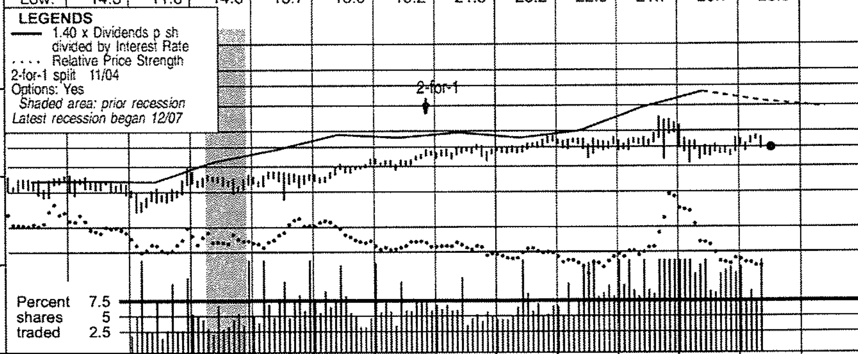
	Price	Gain	Ann'l Total Return
High	40	(+60%)	16%
Low	30	(+20%)	9%

Insider Decisions

	J	A	S	O	N	D	J	F	M
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

	2Q2009	3Q2009	4Q2009
to Buy	78	78	92
to Sell	96	82	75
Hld's(000)	33567	33498	33373



% TOT. RETURN 5/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	17.0	41.6
3 yr.	7.7	-2.6
5 yr.	26.0	37.2

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
10.82	8.76	11.59	12.84	12.45	10.97	13.01	17.06	12.57	18.14	19.95	22.96	25.80	23.37	28.52	22.36	*21.90*	*23.80*	Revenues per sh A	*26.90*
1.13	1.25	1.49	1.62	1.72	1.70	1.77	1.81	1.81	2.04	2.31	2.43	2.51	2.64	2.77	3.01	*2.90*	*2.95*	"Cash Flow" per sh	*3.20*
.68	.73	.84	.93	.98	.93	1.01	1.01	.95	1.11	1.27	1.32	1.28	1.40	1.49	1.67	*1.65*	*1.70*	Earnings per sh AB	*1.90*
.51	.54	.57	.61	.64	.68	.72	.76	.80	.82	.85	.91	.95	.99	1.03	1.07	*1.11*	*1.15*	Div'ds Decl'd per sh C■	*1.27*
1.95	1.72	1.64	1.52	1.48	1.58	1.65	1.29	1.21	1.16	1.85	2.50	2.74	1.85	2.47	1.76	*.65*	*.55*	Cap'l Spending per sh	*1.45*
5.68	6.16	6.53	6.95	7.45	7.86	8.26	8.63	8.91	9.36	11.15	11.53	11.83	11.99	12.11	12.67	*12.95*	*13.40*	Book Value per sh D	*14.65*
53.15	57.67	59.10	60.39	61.48	62.59	63.83	64.93	66.18	67.31	76.67	76.70	74.61	73.23	73.26	73.27	*72.00*	*71.50*	Common Shs Outst'g E	*69.00*
15.7	13.8	13.9	13.6	16.3	17.7	14.3	16.7	18.4	16.7	16.6	17.9	19.2	18.7	18.2	15.4	*Bold figures are*		Avg Ann'l P/E Ratio	*18.0*
1.03	.92	.87	.78	.85	1.01	.93	.86	1.01	.95	.88	.95	1.04	.99	1.10	1.02	*Value Line*		Relative P/E Ratio	*1.20*
4.8%	5.4%	4.9%	4.8%	4.0%	4.1%	5.0%	4.5%	4.6%	4.4%	4.1%	3.8%	3.9%	3.8%	3.8%	4.1%	*estimates*		Avg Ann'l Div'd Yield	*3.7%*
						830.4	1107.9	832.0	1220.8	1529.7	1761.1	1924.6	1711.3	2089.1	1638.1	*1575*	*1700*	Revenues ($mill) A	*1855*
						64.0	65.5	62.2	74.4	95.2	101.3	97.2	104.4	110.0	122.8	*119*	*122*	Net Profit ($mill)	*130*
						34.7%	34.6%	33.1%	34.8%	35.1%	33.7%	34.2%	33.0%	36.3%	28.5%	*30.0%*	*30.0%*	Income Tax Rate	*30.0%*
						7.7%	5.9%	7.5%	6.1%	6.2%	5.8%	5.0%	6.1%	5.3%	7.5%	*7.6%*	*7.0%*	Net Profit Margin	*7.0%*
						46.1%	47.6%	43.9%	42.2%	43.6%	41.4%	48.3%	48.4%	47.2%	44.1%	*44.5%*	*45.5%*	Long-Term Debt Ratio	*47.0%*
						53.9%	52.4%	56.1%	57.8%	56.4%	58.6%	51.7%	51.6%	52.8%	55.9%	*55.5%*	*54.5%*	Common Equity Ratio	*53.0%*
						978.4	1069.4	1051.6	1090.2	1514.9	1509.2	1707.9	1703.3	1681.5	1660.5	*1680*	*1760*	Total Capital ($mill)	*1905*
						1072.0	1114.7	1158.5	1812.3	1849.8	1939.1	2075.3	2141.5	2240.8	2304.4	*2350*	*2375*	Net Plant ($mill)	*2450*
						8.3%	7.9%	7.8%	8.6%	7.8%	8.2%	7.2%	7.8%	8.2%	9.1%	*8.5%*	*8.5%*	Return on Total Cap'l	*8.0%*
						12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	11.9%	12.4%	13.2%	*13.0%*	*12.5%*	Return on Shr. Equity	*13.0%*
						12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	11.9%	12.4%	13.2%	*13.0%*	*12.5%*	Return on Com Equity	*13.0%*
						3.5%	3.0%	1.7%	3.1%	3.7%	3.6%	2.8%	3.5%	3.9%	4.8%	*4.0%*	*4.0%*	Retained to Com Eq	*4.0%*
						71%	75%	83%	74%	66%	68%	74%	70%	69%	64%	*67%*	*68%*	All Div'ds to Net Prof	*67%*

CAPITAL STRUCTURE as of 1/31/10
Total Debt $1085.3 mill. Due in 5 Yrs $220.0 mill.
LT Debt $732.3 mill. LT Interest $55.1 mill.
(LT interest earned: 4.1x; total interest coverage: 3.5x)

Pension Assets-10/09 $184.3 mill. **Oblig.** $195.3 mill.

Pfd Stock None

Common Stock 71,741,380 shs.
as of 3/2/10
MARKET CAP: $1.8 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2008	2009	1/31/10
Cash Assets	7.0	7.6	16.2
Other	593.8	505.6	617.5
Current Assets	600.8	513.2	633.7
Accts Payable	132.3	115.4	187.3
Debt Due	436.5	366.0	353.0
Other	112.7	118.8	129.3
Current Liab.	681.5	600.2	669.6
Fix. Chg. Cov.	341%	316%	316%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	7.5%	8.0%	*1.5%*
"Cash Flow"	5.5%	6.5%	*2.0%*
Earnings	5.0%	6.5%	*3.5%*
Dividends	5.0%	4.5%	*3.5%*
Book Value	5.0%	4.5%	*3.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2007	677.2	531.5	224.4	278.2	1711.3
2008	788.5	634.2	354.7	311.7	2089.1
2009	779.6	455.4	180.3	222.8	1638.1
2010	673.7	*466.3*	*195*	*240*	*1575*
2011	*755*	*480*	*210*	*255*	*1700*

Fiscal Year Ends	EARNINGS PER SHARE A B Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2007	.94	.69	d.12	d.11	1.40
2008	1.12	.66	d.10	d.18	1.49
2009	1.10	.73	d.10	d.06	1.67
2010	1.14	*.75*	*d.10*	*d.14*	*1.65*
2011	*1.15*	*.76*	*d.09*	*d.12*	*1.70*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.23	.24	.24	.24	.95
2007	.24	.25	.25	.25	.99
2008	.25	.26	.26	.26	1.03
2009	.26	.27	.27	.27	1.07
2010	.27	.28			

BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 952,469 customers in North Carolina, South Carolina, and Tennessee. 2009 revenue mix: residential (48%), commercial (28%), industrial (8%), other (16%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 65.7% of revenues. '09 deprec. rate: 3.4%. Estimated plant age: 8.4 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 1,821 employees. Officers & directors own about 1.3% of common stock (1/10 proxy). Chairman, CEO, & President: Thomas E. Skains. Inc.: NC. Address: 4720 Piedmont Row Drive, Charlotte, NC 28210. Telephone: 704-364-3120. Internet: www.piedmontng.com.

Piedmont Natural Gas is on pace to log relatively unchanged earnings in 2010. The January interim's revenues declined 13.6% on a year-to-year basis, due to the weak residential and commercial new construction markets. This was partially offset by PNY's continued focus on and success of converting customers to natural gas. In fact, the core utility business added over 3,000 new customers to Piedmont's system during that period. On the operational front, margins got a boost from gas-cost adjustments, residential growth, and improved volumes from industrial customers. These trends helped to reduce the cost of gas, and on balance, despite the weaker top line, earnings advanced 3.6% to $1.14 a share (excluding a gain of $0.41 per share, related to the sale of 50% of PNY's stake in Southstar Energy Holdings). All told, we have left our 2010 top- and bottom-line estimates intact.

The balance sheet appears adequate, and is improving. Cash reserves more than doubled since the start of the year. That measure has risen to just over $16 million. Meanwhile, the debt load remains stable and at manageable levels. On the downside, a recent uptick in receivables and allowance for doubtful accounts raises a few eyebrows. This may indicate that some customers are having trouble paying their bills and could eventually lead to writedowns of uncollectables.

A recent dividend hike sweetens the deal. The board of directors approved a 3.7% increase in the quarterly dividend, to $0.28 a share, bringing this year's annual payout to $1.11, making this an attractive selection for income-seeking accounts. Dividend growth is a hallmark here.

The company's bottom line ought to resume its upward trajectory in 2011. Customer additions in the low single-digit percentages ought to help the core utility operations. Meanwhile, Piedmont's non-utility businesses, namely Southstar, should continue to provide increased contributions. And sooner or later, housing construction will recover and bear fruit for this natural gas distributor.

This good-quality stock offers worthwhile total return potential. And at the moment, it is ranked to keep pace with the broader market averages.

Bryan J. Fong *June 11, 2010*

(A) Fiscal year ends October 31st.
(B) Diluted earnings. Excl. extraordinary item: '00, 8¢. Excl. nonrecurring charge: '97, 2¢. Next earnings report due early Aug. Quarters may not add to total due to change in shares outstanding.
(C) Dividends historically paid mid-January, April, July, October.
■ Div'd reinvest. plan available; 5% discount.
(D) Includes deferred charges. In 2009: $31.6 million, 43¢/share.
(E) In millions, adjusted for stock split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	95

SOUTH JERSEY INDS. NYSE-SJI

RECENT PRICE 43.13 | P/E RATIO 16.3 (Trailing: 17.9 Median: 14.0) | RELATIVE P/E RATIO 1.04 | DIV'D YLD 3.2% | VALUE LINE

TIMELINESS 3 Lowered 8/14/09

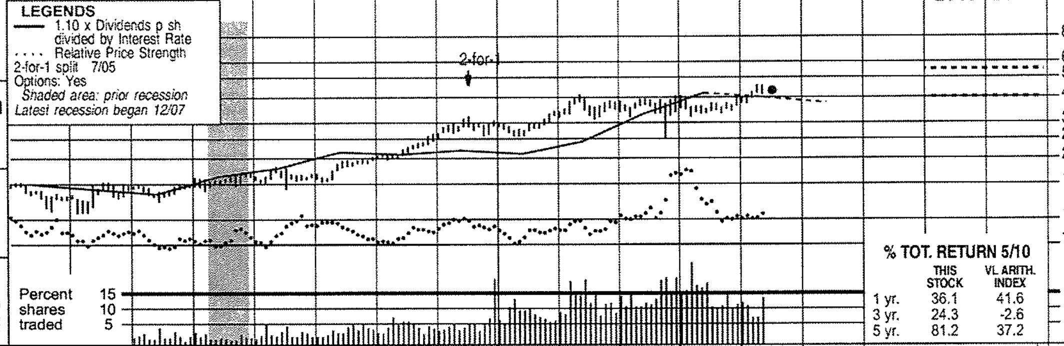
SAFETY 2 Lowered 1/4/91

TECHNICAL 2 Raised 5/28/10

BETA .60 (1.00 = Market)

High:	15.4	15.1	17.0	18.3	20.3	26.5	32.4	34.3	41.3	40.6	40.8	46.0
Low:	10.8	12.3	13.8	14.1	15.3	19.7	24.9	25.6	31.2	25.2	32.0	37.2

Target Price Range 2013 | 2014 | 2015



2013-15 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+30%)	9%
Low	40	(-5%)	2%

Insider Decisions

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

Institutional Decisions

	2Q2009	3Q2009	4Q2009
to Buy	70	63	69
to Sell	78	72	72
Hld's(000)	15858	15611	15927

% TOT. RETURN 5/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	36.1	41.6
3 yr.	24.3	-2.6
5 yr.	81.2	37.2

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
	17.45	16.50	16.52	16.18	20.89	17.60	22.43	35.30	20.69	26.34	29.51	31.78	31.76	32.30	32.36	28.37	*29.20*	*30.15*	Revenues per sh	*36.75*
	1.35	1.65	1.54	1.60	1.44	1.84	1.95	1.90	2.12	2.24	2.44	2.51	3.51	3.20	3.48	3.44	*3.70*	*3.95*	"Cash Flow" per sh	*4.60*
	.61	.83	.85	.86	.64	1.01	1.08	1.15	1.22	1.37	1.58	1.71	2.46	2.09	2.27	2.38	*2.65*	*2.85*	Earnings per sh A	*3.35*
	.72	.72	.72	.72	.72	.72	.73	.74	.75	.78	.82	.86	.92	1.01	1.11	1.22	*1.34*	*1.40*	Div'ds Decl'd per sh B ■	*1.60*
	1.93	2.08	2.01	2.30	3.06	2.19	2.21	2.82	3.47	2.36	2.67	3.21	2.51	1.88	2.08	3.67	*4.10*	*3.15*	Cap'l Spending per sh	*4.40*
	7.23	7.34	8.03	6.43	6.23	6.74	7.25	7.81	9.67	11.26	12.41	13.50	15.11	16.25	17.33	18.27	*19.65*	*20.30*	Book Value per sh C	*23.55*
	21.43	21.44	21.51	21.54	21.56	22.30	23.00	23.72	24.41	26.46	27.76	28.98	29.33	29.61	29.73	29.80	*30.50*	*31.50*	Common Shs Outst'g D	*34.00*
	16.1	12.2	13.3	13.8	21.2	13.3	13.0	13.6	13.5	13.3	14.1	16.6	11.9	17.2	15.9	15.0	*Bold figures are*		Avg Ann'l P/E Ratio	*14.0*
	1.06	.82	.83	.80	1.10	.76	.85	.70	.74	.76	.74	.88	.64	.91	.96	.99	*Value Line*		Relative P/E Ratio	*.95*
	7.4%	7.2%	6.4%	6.1%	5.3%	5.4%	5.2%	4.7%	4.6%	4.3%	3.7%	3.0%	3.2%	2.8%	3.1%	3.4%	*estimates*		Avg Ann'l Div'd Yield	*3.4%*
							515.9	837.3	505.1	696.8	819.1	921.0	931.4	956.4	962.0	845.4	*890*	*950*	Revenues ($mill)	*1250*
							24.7	26.8	29.4	34.6	43.0	48.6	72.0	61.8	67.7	71.1	*80.0*	*90.0*	Net Profit ($mill)	*115*
							43.1%	42.2%	41.4%	40.6%	40.9%	41.5%	41.3%	41.9%	47.7%	36.7%	*40.0%*	*40.0%*	Income Tax Rate	*40.0%*
							4.8%	3.2%	5.8%	5.0%	5.2%	5.3%	7.7%	6.5%	7.0%	8.4%	*9.0%*	*9.5%*	Net Profit Margin	*9.2%*
							54.1%	57.0%	53.6%	50.8%	48.7%	44.9%	44.7%	42.7%	39.2%	36.5%	*37.0%*	*38.5%*	Long-Term Debt Ratio	*38.5%*
							37.6%	35.9%	46.1%	49.0%	51.0%	55.1%	55.3%	57.3%	60.8%	63.5%	*63.0%*	*61.5%*	Common Equity Ratio	*61.5%*
							443.5	516.2	512.5	608.4	675.0	710.3	801.1	839.0	848.0	857.4	*950*	*1040*	Total Capital ($mill)	*1300*
							562.2	607.0	666.6	748.3	799.9	877.3	920.0	948.9	982.6	1073.1	*1125*	*1160*	Net Plant ($mill)	*1325*
							7.4%	6.9%	7.6%	7.3%	7.9%	8.3%	10.1%	8.6%	8.9%	8.9%	*9.0%*	*9.5%*	Return on Total Cap'l	*9.5%*
							12.1%	12.1%	12.4%	11.5%	12.4%	12.4%	16.3%	12.8%	13.1%	13.1%	*13.5%*	*14.0%*	Return on Shr. Equity	*14.5%*
							14.8%	12.8%	12.5%	11.6%	12.5%	12.4%	16.3%	12.8%	13.1%	13.1%	*13.5%*	*14.0%*	Return on Com Equity	*14.5%*
							4.8%	3.5%	4.7%	5.0%	5.9%	6.2%	10.2%	6.7%	6.7%	6.4%	*6.5%*	*7.0%*	Retained to Com Eq	*7.5%*
							67%	76%	62%	57%	52%	50%	37%	48%	49%	51%	*51%*	*49%*	All Div'ds to Net Prof	*47%*

CAPITAL STRUCTURE as of 3/31/10
Total Debt $495.4 mill. **Due in 5 Yrs** $260.7 mill.
LT Debt $326.4 mill. **LT Interest** $20.0 mill.
(Total interest coverage: 5.9x)

Pension Assets-12/09 $105.9 mill. **Oblig.** $149.0 mill.

Pfd Stock None

Common Stock 29,872,825 common shs. as of 5/3/10

MARKET CAP: $1.3 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2008	2009	3/31/10
Cash Assets	5.8	3.8	4.5
Other	429.3	364.6	377.3
Current Assets	435.1	368.4	381.8
Accts Payable	120.2	123.9	146.6
Debt Due	237.6	231.7	169.0
Other	142.1	123.2	174.8
Current Liab.	499.9	478.8	490.4
Fix. Chg. Cov.	598%	585%	582%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	6.0%	3.0%	*3.0%*
"Cash Flow"	8.5%	10.0%	*5.5%*
Earnings	11.5%	13.0%	*7.0%*
Dividends	3.5%	6.0%	*6.0%*
Book Value	9.0%	11.0%	*5.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	368.4	171.7	156.2	260.1	956.4
2008	348.1	135.8	210.4	267.7	962.0
2009	362.2	134.5	127.1	221.6	845.4
2010	329.3	*140*	*145*	*275.7*	*890*
2011	*370*	*150*	*150*	*280*	*950*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	1.30	.21	d.05	.63	2.09
2008	1.32	.26	.04	.67	2.27
2009	1.46	.15	d.06	.83	2.38
2010	1.49	*.20*	*.10*	*.86*	*2.65*
2011	*1.55*	*.25*	*.10*	*.95*	*2.85*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	--	.225	.225	.470	.92
2007	--	.245	.245	.515	1.01
2008	--	.270	.270	.568	1.11
2009	--	.298	.298	.628	1.22
2010	--	.330			

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 343,566 customers in New Jersey's southern counties, which covers about 2,500 square miles and includes Atlantic City. Gas revenue mix '09: residential, 48%; commercial, 23%; cogeneration and electric generation, 5%; industrial, 24%. Non-utility operations include: South Jersey Energy, South Jersey Resources Group, Marina Energy, and South Jersey Energy Service Plus. Has 617 employees. Off./dir. control 1.0% of com. shares; Black Rock Inc., 8.2% (3/10 proxy). Chrmn. & CEO: Edward Graham. Incorp.: NJ. Address: 1 South Jersey Plaza, Folsom, NJ 08037. Tel.: 609-561-9000. Internet: www.sjindustries.com.

South Jersey Industries should continue to report solid results going forward. The company appears fairly well positioned in the markets that it serves. Overall, we anticipate favorable comparisons for the coming quarters, and higher revenues and share earnings for the company for full-year 2010. Bottom-line growth ought to continue in 2011, although probably at a more moderate clip.

Long-term prospects for South Jersey Gas are encouraging. The utility should continue to experience modest growth in its customer base, despite current softness in the housing construction market. Natural gas remains the fuel of choice within the utility's service territory. Moreover, SJG continues to see interest from customers looking to convert from other fuel sources to natural gas. Indeed, the company expects conversions will increase its customer base by over 3,000 in the current year. In addition, South Jersey Gas has filed a base rate case with the New Jersey Board of Public Utilities, seeking an increase of roughly $36 million (about 7%). This rate case will probably be completed late in 2010. Elsewhere,

The company's nonutility operations should also continue to perform well. The Retail Energy business should benefit from healthy demand for renewable energy projects. This segment recently announced a seventh landfill gas-to-electricity project in Sussex County, New Jersey. This $10 million project will generate 3.2 megawatts of electricity when it becomes operational in mid-2011. Meanwhile, an eventual rise in gas pricing volatility would create opportunities for the Wholesale Energy unit to lock in attractive margins, as this business has significant gas storage and pipeline capacity under management.

This stock remains neutrally ranked for year-ahead performance. Looking further out, we anticipate additional growth in revenues and share earnings at the company over the pull to 2013-2015. Moreover, this good-quality issue earns high marks for Safety, Price Stability, and Earnings Predictability. At the current share price, total return potential is modest, and the dividend yield is below the group's average.

Michael Napoli, CFA *June 11, 2010*

(A) Based on GAAP egs. through 2006, economic egs. thereafter. GAAP EPS: '07, $2.10; '08, $2.58; '09, $1.94. Excl. nonrecur. gain (loss): '01, $0.13; '08, $0.31; '09, ($0.44). Excl gain (losses) from discont. ops.: '99, ($0.02); '00, ($0.04); '01, ($0.02); '02, ($0.04); '03, ($0.09); '05, ($0.02); '06, ($0.02); '07, $0.01. Egs. may not sum due to rounding. Next egs. report due in August. (B) Div'ds paid early Apr., Jul., Oct., and late Dec. ■ Div. reinvest. plan avail. (C) Incl. reg. assets. In 2009: $240.5 mill., $8.07 per shr. (D) In millions, adj. for split.

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

SOUTHWEST GAS NYSE-SWX

RECENT PRICE	28.90	P/E RATIO	12.6 (Trailing: 12.8; Median: 18.0)	RELATIVE P/E RATIO	0.81	DIV'D YLD	3.5%	VALUE LINE

TIMELINESS **2** Raised 5/21/10
SAFETY **3** Lowered 1/4/91
TECHNICAL **3** Lowered 3/26/10
BETA .75 (1.00 = Market)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
High:	29.5	23.0	24.7	25.3	23.6	26.2	28.1	39.4	39.9	33.3	29.5	32.9
Low:	20.4	16.9	18.6	18.1	19.3	21.5	23.5	26.0	26.5	21.1	17.1	26.3

Target Price Range 2013 | 2014 | 2015

2013-15 PROJECTIONS

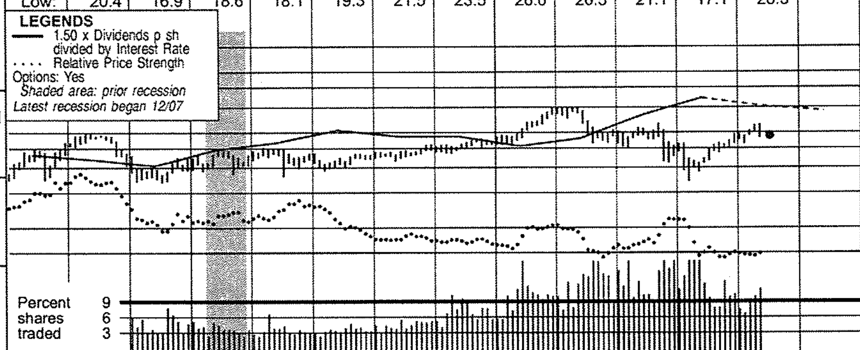
	Price	Gain	Ann'l Total Return
High	50	(+75%)	17%
Low	35	(+20%)	8%

Insider Decisions

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

Institutional Decisions

	2Q2009	3Q2009	4Q2009
to Buy	86	73	78
to Sell	71	68	66
Hld's(000)	32802	33100	33222



80
60
50
40
30
25
20
15
10
7.5

% TOT. RETURN 5/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	47.6	41.6
3 yr.	-14.1	-2.6
5 yr.	38.4	37.2

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
28.16	23.03	24.09	26.73	30.17	30.24	32.61	42.98	39.68	35.96	40.14	43.59	48.47	50.28	48.53	42.00	**39.65**	**42.00**	Revenues per sh	**55.00**
5.09	2.65	3.00	3.85	4.48	4.45	4.57	4.79	5.07	5.11	5.57	5.20	5.97	6.21	5.76	6.15	**6.45**	**6.70**	"Cash Flow" per sh	**7.40**
1.22	.10	.25	.77	1.65	1.27	1.21	1.15	1.16	1.13	1.66	1.25	1.98	1.95	1.39	1.94	**2.30**	**2.40**	Earnings per sh A	**2.80**
.80	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.86	.90	.95	**1.00**	**1.05**	Div'ds Decl'd per sh B■†	**1.20**
6.64	6.79	8.19	6.19	6.40	7.41	7.04	8.17	8.50	7.03	8.23	7.49	8.27	7.96	6.79	4.81	**3.80**	**4.45**	Cap'l Spending per sh	**6.00**
16.38	14.55	14.20	14.09	15.67	16.31	16.82	17.27	17.91	18.42	19.18	19.10	21.58	22.98	23.49	24.46	**26.10**	**27.65**	Book Value per sh	**32.00**
21.28	24.47	26.73	27.39	30.41	30.99	31.71	32.49	33.29	34.23	36.79	39.33	41.77	42.81	44.19	45.09	**46.00**	**47.00**	Common Shs Outst'g C	**50.00**
14.0	NMF	NMF	24.1	13.2	21.1	16.0	19.0	19.9	19.2	14.3	20.6	15.9	17.3	20.3	12.2	*Bold figures are*		Avg Ann'l P/E Ratio	**15.0**
.92	NMF	NMF	1.39	.69	1.20	1.04	.97	1.09	1.09	.76	1.10	.86	.92	1.22	.80	*Value Line*		Relative P/E Ratio	**1.00**
4.7%	5.4%	4.7%	4.4%	3.8%	3.1%	4.2%	3.8%	3.6%	3.8%	3.5%	3.2%	2.6%	2.6%	3.2%	4.0%	*estimates*		Avg Ann'l Div'd Yield	**2.9%**

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		13-15
1034.1	1396.7	1320.9	1231.0	1477.1	1714.3	2024.7	2152.1	2144.7	1893.8	**1825**	**1975**	Revenues ($mill)	**2750**
38.3	37.2	38.6	38.5	58.9	48.1	80.5	83.2	61.0	87.4	**105**	**115**	Net Profit ($mill)	**140**
26.2%	34.5%	32.8%	30.5%	34.8%	29.7%	37.3%	36.5%	40.1%	34.0%	**36.0%**	**35.0%**	Income Tax Rate	**35.0%**
3.7%	2.7%	2.9%	3.1%	4.0%	2.8%	4.0%	3.9%	2.8%	4.6%	**5.8%**	**5.8%**	Net Profit Margin	**5.1%**
60.2%	56.2%	62.5%	66.0%	64.2%	63.8%	60.6%	58.1%	55.3%	53.5%	**48.5%**	**48.0%**	Long-Term Debt Ratio	**46.5%**
35.8%	39.6%	34.1%	34.0%	35.8%	36.2%	39.4%	41.9%	44.7%	46.5%	**51.5%**	**52.0%**	Common Equity Ratio	**53.5%**
1489.9	1417.6	1748.3	1851.6	1968.6	2076.0	2287.8	2349.7	2323.3	2372.0	**2320**	**2500**	Total Capital ($mill)	**3000**
1686.1	1825.6	1979.5	2175.7	2336.0	2489.1	2668.1	2845.3	2983.3	3034.5	**3125**	**3200**	Net Plant ($mill)	**3600**
4.6%	5.1%	4.3%	4.2%	5.0%	4.3%	5.5%	5.5%	4.5%	5.4%	**6.0%**	**6.0%**	Return on Total Cap'l	**6.5%**
6.5%	6.0%	5.9%	6.1%	8.3%	6.4%	8.9%	8.5%	5.9%	7.9%	**9.0%**	**9.0%**	Return on Shr. Equity	**9.0%**
7.2%	6.6%	6.5%	6.1%	8.3%	6.4%	8.9%	8.5%	5.9%	7.9%	**9.0%**	**9.0%**	Return on Com Equity	**9.0%**
2.4%	1.9%	1.9%	1.7%	4.3%	2.2%	5.2%	4.8%	2.1%	4.0%	**5.0%**	**5.0%**	Retained to Com Eq	**5.0%**
67%	71%	70%	72%	49%	65%	42%	44%	63%	49%	**44%**	**43%**	All Div'ds to Net Prof	**43%**

CAPITAL STRUCTURE as of 3/31/10
Total Debt $1123.1 mill. **Due in 5 Yrs** $496.3 mill.
LT Debt $1121.8 mill. **LT Interest** $75.0 mill.
(Total interest coverage: 2.9x)
Leases, Uncapitalized Annual rentals $5.0 mill.
Pension Assets-12/09 $418.5 mill. **Oblig.** $648.6 mill.

Pfd Stock None

Common Stock 45,371,013 shs. **as of 5/3/10**

MARKET CAP: $1.3 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2008	2009	3/31/10
Cash Assets	26.4	65.3	39.0
Other	411.7	352.3	320.2
Current Assets	438.1	417.6	359.2
Accts Payable	191.4	158.9	120.3
Debt Due	62.8	1.3	1.3
Other	255.7	314.0	378.8
Current Liab.	509.9	474.2	500.4
Fix. Chg. Cov.	224%	251%	275%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	6.0%	4.5%	2.5%
"Cash Flow"	4.5%	3.5%	3.5%
Earnings	7.0%	9.0%	8.0%
Dividends	.5%	1.0%	5.0%
Book Value	4.5%	5.0%	5.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	793.7	426.6	371.5	560.3	2152.1
2008	813.6	447.3	374.4	509.4	2144.7
2009	689.9	387.6	317.5	498.8	1893.8
2010	668.8	***375***	***300***	***481.2***	***1825***
2011	***700***	***410***	***340***	***525***	***1975***

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	1.17	d.01	d.22	1.01	1.95
2008	1.14	d.06	d.38	.71	1.39
2009	1.12	d.01	d.18	1.02	1.94
2010	1.42	***Nil***	***d.17***	***1.05***	***2.30***
2011	***1.35***	***Nil***	***d.10***	***1.15***	***2.40***

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.205	.205	.205	.205	.82
2007	.205	.215	.215	.215	.85
2008	.215	.225	.225	.225	.89
2009	.225	.238	.238	.238	.94
2010	.238	.250			

BUSINESS: Southwest Gas Corporation is a regulated gas distributor serving approximately 1.8 million customers in sections of Arizona, Nevada, and California. Comprised of two business segments: natural gas operations and construction services. 2009 margin mix: residential and small commercial, 86%; large commercial and industrial, 4%; transportation, 10%. Total throughput: 2.2 billion therms. Sold PriMerit Bank, 7/96. Has 4,450 employees. Off. & Dir. own 2.0% of common stock; BlackRock Inc., 9.1%; GAMCO Investors, Inc, 6.8%; T. Rowe Price Associates, Inc., 6.0% (3/10 Proxy). Chairman: James J. Kropid. CEO: Jeffrey W. Shaw. Inc.: CA. Address: 5241 Spring Mountain Road, Las Vegas, Nevada 89193. Telephone: 702-876-7237. Internet: www.swgas.com.

Southwest Gas turned in a mixed performance for the first quarter. Despite lower revenues, share earnings improved nicely in the recent interim. Looking forward, we anticipate unimpressive earnings results for the second and third quarters. Given the seasonal nature of the business, unfavorable bottom-line performance is common during these periods. However, we look for a modest share-net improvement for the fourth quarter. Overall, we anticipate a top-line decline, but higher earnings for full-year 2010. Modest customer growth will probably have little impact in the near term, although higher rates (discussed below) should continue to support the top line at the natural gas business. Moreover, the bottom line will probably further benefit from efforts to control operating expenses and a lower cost of gas sold.

The company ought to continue to benefit in the coming years from recent rate relief. Southwest Gas has realized higher rates in Nevada, California, and Arizona. Moreover, SWX now has improved rate design in Nevada that allows it to more aggressively encourage conservation by its customers. The company will likely remain focused on procuring rate relief and improving rate design going forward. Overall, we expect higher revenues and share earnings at Southwest from 2011 onward.

Investors should be mindful of several caveats. The company will probably incur greater expenses as it continues to expand operations in the coming years. In addition, warmer-than-normal temperatures during the winter months can hurt profitability at Southwest Gas. Furthermore, insufficient, or lagging, rate relief may also hurt performance.

Shares of Southwest Gas have improved a notch in Timeliness since our March review, and are now ranked to outperform the broader market for the coming six to 12 months. Looking further out, we anticipate higher revenue and share earnings at the company by 2013-2015. Dividends will likely continue to increase, as well. However, this appears to be partly reflected in the present quotation, making total return potential not particularly compelling.

Michael Napoli, CFA *June 11, 2010*

(A) Based on avg. shares outstand. thru. '96, then diluted. Excl. nonrec. gains (losses): '97, 16¢; '02, (10¢); '05, (11¢); '06, 7¢. Excl. loss from disc. ops.: '95, 75¢. Totals may not sum due to rounding. Next egs. report due early August. (B) Dividends historically paid early March, June, September, December. ■† Div'd reinvestment and stock purchase plan avail. (C) In millions.

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

WGL HOLDINGS NYSE-WGL

RECENT PRICE	33.04	P/E RATIO	14.4 (Trailing: 13.5; Median: 15.0)	RELATIVE P/E RATIO	0.92	DIV'D YLD	4.6%	VALUE LINE

TIMELINESS 4 Lowered 11/27/09

SAFETY 1 Raised 4/2/93

TECHNICAL 2 Raised 5/28/10

BETA .65 (1.00 = Market)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
High:	29.4	31.5	30.5	29.5	28.8	31.4	34.8	33.6	35.9	37.1	35.5	36.6
Low:	21.0	21.8	25.3	19.3	23.2	26.7	28.8	27.0	29.8	22.4	28.6	31.0

2013-15 PROJECTIONS

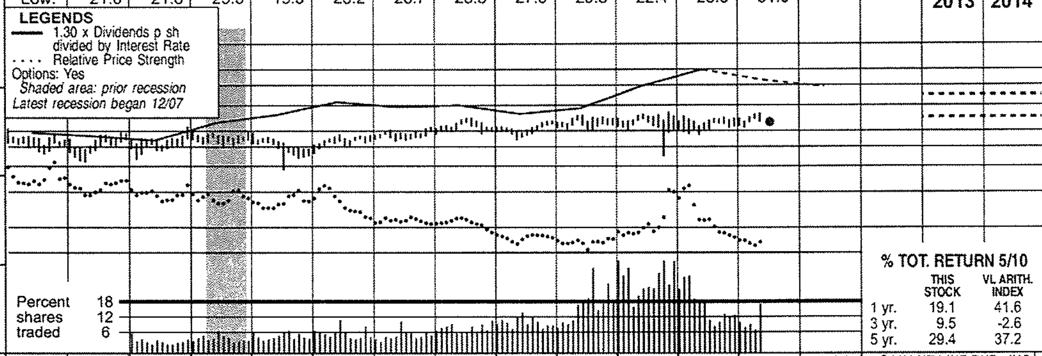
	Price	Gain	Ann'l Total Return
High	45	(+35%)	12%
Low	35	(+5%)	6%

Insider Decisions

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

Institutional Decisions

	2Q2009	3Q2009	4Q2009
to Buy	85	78	81
to Sell	98	74	83
Hld's(000)	31333	31643	31716



% TOT. RETURN 5/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	19.1	41.6
3 yr.	9.5	-2.6
5 yr.	29.4	37.2

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
21.69	19.30	22.19	24.16	23.74	20.92	22.19	29.80	32.63	42.45	42.93	44.94	53.96	53.51	52.65	53.98	*53.00*	*54.00*	Revenues per sh A	*57.30*
2.43	2.51	2.93	3.02	2.79	2.74	3.20	3.24	2.63	4.00	3.87	3.97	3.84	3.89	4.34	4.44	*4.25*	*4.40*	"Cash Flow" per sh	*4.70*
1.42	1.45	1.85	1.85	1.54	1.47	1.79	1.88	1.14	2.30	1.98	2.13	1.94	2.09	2.44	2.53	*2.35*	*2.50*	Earnings per sh B	*2.70*
1.11	1.12	1.14	1.17	1.20	1.22	1.24	1.26	1.27	1.28	1.30	1.32	1.35	1.37	1.41	1.47	*1.51*	*1.55*	Div'ds Decl'd per sh C■	*1.67*
2.84	2.63	2.85	3.20	3.62	3.42	2.67	2.68	3.34	2.65	2.33	2.32	3.27	3.33	2.70	2.77	*3.00*	*2.50*	Cap'l Spending per sh	*2.50*
11.51	11.95	12.79	13.48	13.86	14.72	15.31	16.24	15.78	16.25	16.95	17.80	18.86	19.83	20.99	21.89	*22.70*	*23.60*	Book Value per sh D	*26.65*
42.19	42.93	43.70	43.70	43.84	46.47	46.47	48.54	48.56	48.63	48.67	48.65	48.89	49.45	49.92	50.14	*50.00*	*50.00*	Common Shs Outst'g E	*50.00*
14.0	12.7	11.5	12.7	17.2	17.3	14.6	14.7	23.1	11.1	14.2	14.7	15.5	15.6	13.7	12.6	*Bold figures are*		Avg Ann'l P/E Ratio	*15.0*
.92	.85	.72	.73	.89	.99	.95	.75	1.26	.63	.75	.78	.84	.83	.82	.83	*Value Line*		Relative P/E Ratio	*1.00*
5.6%	6.1%	5.4%	5.0%	4.5%	4.8%	4.8%	4.6%	4.8%	5.0%	4.6%	4.2%	4.5%	4.2%	4.2%	4.6%	*estimates*		Avg Ann'l Div'd Yield	*4.1%*

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		13-15
1031.1	1446.5	1584.8	2064.2	2089.6	2186.3	2637.9	2646.0	2628.2	2706.9	*2650*	*2700*	Revenues ($mill) A	*2865*
84.6	89.9	55.7	112.3	98.0	104.8	96.0	102.9	122.9	128.7	*115*	*125*	Net Profit ($mill)	*135*
36.1%	39.6%	34.0%	38.0%	38.2%	37.4%	39.0%	39.1%	37.1%	39.1%	*37.0%*	*38.0%*	Income Tax Rate	*38.0%*
8.2%	6.2%	3.5%	5.4%	4.7%	4.8%	3.6%	3.9%	4.7%	4.8%	*4.3%*	*4.6%*	Net Profit Margin	*4.7%*
43.1%	41.7%	45.7%	43.8%	40.9%	39.5%	37.8%	37.9%	35.9%	33.3%	*36.0%*	*35.0%*	Long-Term Debt Ratio	*34.0%*
54.8%	56.3%	52.4%	54.3%	57.2%	58.6%	60.4%	60.3%	62.4%	65.0%	*62.5%*	*63.5%*	Common Equity Ratio	*64.5%*
1299.2	1400.8	1462.5	1454.9	1443.6	1478.1	1526.1	1625.4	1679.5	1687.7	*1810*	*1860*	Total Capital ($mill)	*2060*
1460.3	1519.7	1606.8	1874.9	1915.6	1969.7	2067.9	2150.4	2208.3	2269.1	*2330*	*2395*	Net Plant ($mill)	*2600*
7.9%	7.9%	5.3%	9.1%	8.2%	8.5%	7.6%	7.6%	8.5%	8.8%	*7.5%*	*8.0%*	Return on Total Cap'l	*7.5%*
11.4%	11.0%	7.0%	13.7%	11.5%	11.7%	10.1%	10.2%	11.4%	11.4%	*10.5%*	*10.5%*	Return on Shr. Equity	*10.0%*
11.7%	11.2%	7.2%	14.0%	11.7%	12.0%	10.3%	10.4%	11.6%	11.6%	*11.0%*	*11.0%*	Return on Com Equity	*10.5%*
3.7%	3.8%	NMF	6.2%	4.1%	4.6%	3.2%	3.5%	5.0%	5.0%	*3.5%*	*4.0%*	Retained to Com Eq	*4.0%*
69%	67%	112%	56%	65%	62%	69%	66%	57%	57%	*64%*	*62%*	All Div'ds to Net Prof	*61%*

CAPITAL STRUCTURE as of 3/31/10
Total Debt $804.2 mill. **Due in 5 Yrs** $256.7 mill.
LT Debt $591.6 mill. **LT Interest** $40.4 mill.
(LT interest earned: 6.2x; total interest coverage: 5.7x)
Pension Assets-9/09 $550.0 mill. **Oblig.** $678.1 mill.
Preferred Stock $28.2 mill. **Pfd. Div'd** $1.3 mill.

Common Stock 50,646,386 shs. **as of 4/30/10**

MARKET CAP: $1.7 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2008	2009	3/31/10
Cash Assets	6.2	7.9	123.5
Other	736.1	675.6	750.7
Current Assets	742.3	683.5	874.2
Accts Payable	243.1	213.5	233.2
Debt Due	347.0	266.5	212.6
Other	158.4	154.6	244.5
Current Liab.	748.5	634.6	690.3
Fix. Chg. Cov.	490%	533%	535%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	9.0%	6.5%	*1.0%*
"Cash Flow"	4.0%	4.0%	*2.0%*
Earnings	4.0%	5.5%	*2.5%*
Dividends	1.5%	2.0%	*3.0%*
Book Value	4.0%	5.0%	*4.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2007	732.9	1119.9	467.5	325.7	2646.0
2008	751.6	1020.0	464.7	391.9	2628.2
2009	826.2	1040.9	427.0	412.8	2706.9
2010	727.4	1056.6	*449*	*417*	*2650*
2011	*740*	*1065*	*460*	*435*	*2700*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2007	.92	1.27	.22	d.31	2.10
2008	.96	1.66	.06	d.24	2.44
2009	1.03	1.65	.11	d.25	2.53
2010	1.01	1.64	*.05*	*d.35*	*2.35*
2011	*1.05*	*1.69*	*.06*	*d.30*	*2.50*

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.333	.338	.338	.338	1.35
2007	.34	.34	.34	.34	1.36
2008	.34	.36	.36	.36	1.42
2009	.36	.37	.37	.37	1.47
2010	.37	.378			

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 (1,064,071 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. Amer. Century Inv. own 7.7% of common stock; Off./dir. less than 1% (1/10 proxy). Chrmn. & CEO: Terry D. McCallister. Inc.: D.C. and VA. Addr.: 101 Const. Ave., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.

WGL Holdings continues to perform well this year. March-period revenues got a low single-digit boost from solid non-utility volumes. The regulated utility segment still makes up the lion's share of the top and bottom line, but that unit's revenue contributions declined a bit, compared to last year. Still, lower operating and interest expenses helped to widen margins. And, on balance, the bottom line was better than expected during this period, only falling two cents on a year-over-year basis. Consequently,

We have raised our 2010 and 2011 earnings estimates by a nickel. These gains should be supported by increased total accounts, tight cost controls, and the recovery of the regional economy in WGL's service areas. We remain cautiously optimistic for the time being.

The balance sheet appears solid. Cash and equivalents advanced 15.7 times so far this year, to about $124 million. And the debt levels have remained consistent. Meanwhile, the board of directors recently approved a 2.2% increase in the quarterly dividend, to $0.378 a share.

A revenue normalization adjustment (RNA) and capital projects augur well for longer-term prospects. WGL is in the process of getting approval for its RNA in the District of Columbia. It hopes to have this in place before the upcoming winter heating season. The company has been using derivative products to offset weather variations. Once approved, all three of its service areas will be covered by RNA mechanisms, thus reducing cash flow volatility and benefiting customers through bill stability. At the same time, management has postponed its projected in-service date for the liquid natural gas peaking plant in Chillum, Maryland. That facility will eventually provide up to five days worth of capacity during peak winter months. But, at the moment, it is being held up by legal and governmental delays.

Although untimely, these shares may appeal to income-seeking accounts, as a result of the attractive dividend yield and steady dividend growth. And, total return potential through 2013-2015 is about average for a utility. Another plus, for investors seeking stability, is that these shares are as steady as they come.

Bryan J. Fong *June 11, 2010*

(A) Fiscal years end Sept. 30th.
(B) Based on diluted shares. Excludes nonrecurring losses: '01, (13¢); '02, (34¢); '07, (4¢); '08, (14¢) discontinued operations: '06, (15¢). Qtly egs. may not sum to total, due to change in shares outstanding. Next earnings report due late July.
(C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available.
(D) Includes deferred charges and intangibles. '09: $386.7 million, $7.71/sh.
(E) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	95

The Natural Gas Utility Industry has fallen to the bottom quartile of our Timeliness spectrum. These utilities are operating in a tough business environment due to low natural gas prices and customer conservation. Moreover, the economic recovery has led investors to turn to less conservative investments, which has hurt valuations across this group. All told, near-term prospects are widely unattractive. However, many issues in this sector still offer attractive dividend yields, which may be of interest to income-oriented investors.

Economic Environment

Improved investor confidence has caused the stock market to rally in recent months. As a result, investors have sought higher returns, which has adversely affected defensive sectors like the Natural Gas Utility Industry. What's more, this group has been facing a variety of challenges of late. Most notably, the weakness in the housing market continues to pressure usage for natural gas. This, coupled with customer conservation, has depressed demand across this sector. In response, many of these utilities have scaled back their capital spending to adjust to the difficult operating environment. Moreover, many have increased their marketing efforts in recent months in an effort to induce demand. All told, we expect the tough market conditions to continue to weigh on results in the near term.

Regulation

The regulatory environment in this sector remains crucial to this group's profitability over the long haul. These companies are regulated by state commissions that determine the return on equity these businesses can attain. For the most part, these utilities tend to post flat bottom-line results, year to year. Rate cases generally occur when operational costs pressure profitability. The outcome of these cases can have a meaningful impact on stock valuations because they have a heavy bearing on profitability. Thus, regulators try to strike a balance between shareholder and customer interests when rendering decisions. All told, interested investors should keep a close eye on pending rate cases when reading the following pages.

INDUSTRY TIMELINESS: 79 (of 98)

Other Operating Factors

Many of the utilities have invested in nonregulated operations in recent years. While this makes up only a small portion of revenues for this sector, we expect it to become an increasingly important opportunity in the years ahead. Nonregulated activities are businesses that are free from the oversight of the aforementioned regulatory bodies. These ventures are generally more risky, but also offer greater potential for returns. Moreover, they provide a way for these companies to diversify their income.

Cost controls are another way these utilities use to strengthen their results. Given the regulatory oversight, earnings growth is restricted. Thus, effective cost management is one of the main methods these companies utilize to improve their profitability.

Another factor that weighs on this group is unseasonable weather. Warmer- or colder-than-normal weather can increase volatility for natural gas prices. To limit this risk, the management of these businesses sometimes use hedging techniques, namely weather-adjusted rate mechanisms. Thus, investors looking for utilities with more stable results will probably want to look for those that utilize this strategy.

Energy-efficiency programs are becoming an increasingly important theme, as well. Regulators have encouraged these companies to implement such programs to decrease energy consumption. Government-backed incentives allow these businesses to adopt these programs without sacrificing profitability.

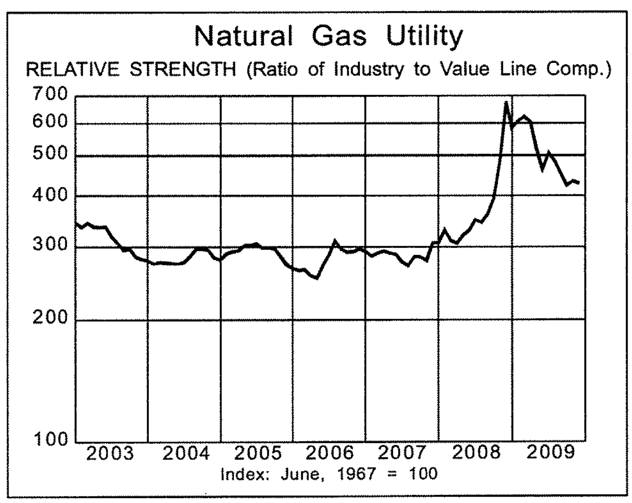
Conclusion

The Natural Gas Utility Industry is not ranked favorably for year-ahead price performance. Investors interested in stock appreciation over the coming six to 12 months would probably do better to look elsewhere. However, income-oriented accounts may want to take a look at some of the stocks in the following pages. Indeed, numerous equities in this group offer rather attractive dividend yields.

Richard Gallagher

Composite Statistics: Natural Gas Utility

2005	2006	2007	2008	2009	2010		12-14
36075	38273	38528	44207	*45500*	*47000*	Revenues ($mill)	*52750*
1386.0	1553.3	1562.4	1694.2	*1775*	*1850*	Net Profit ($mill)	*2150*
36.0%	35.3%	33.9%	35.7%	*36.0%*	*36.0%*	Income Tax Rate	*36.0%*
3.8%	4.0%	4.1%	3.8%	*3.9%*	*3.9%*	Net Profit Margin	*4.1%*
51.3%	51.2%	50.4%	50.6%	*51.0%*	*51.0%*	Long-Term Debt Ratio	*52.0%*
48.4%	48.7%	49.5%	49.4%	*48.0%*	*48.0%*	Common Equity Ratio	*46.0%*
29218	30847	32263	32729	*33250*	*34750*	Total Capital ($mill)	*40000*
30894	32543	33936	35342	*36750*	*38500*	Net Plant ($mill)	*46250*
6.5%	6.6%	6.5%	6.8%	*6.5%*	*6.5%*	Return on Total Cap'l	*7.0%*
9.7%	10.2%	9.8%	10.5%	*10.0%*	*10.5%*	Return on Shr. Equity	*11.0%*
9.8%	10.2%	9.8%	10.5%	*10.0%*	*10.5%*	Return on Com Equity	*11.0%*
3.5%	4.0%	3.7%	4.3%	*4.0%*	*4.5%*	Retained to Com Eq	*5.0%*
65%	61%	62%	59%	*60%*	*62%*	All Div'ds to Net Prof	*65%*
17.1	15.6	16.6	13.9	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*13.0*
.91	.84	.88	.83			Relative P/E Ratio	*.85*
3.8%	3.9%	3.7%	4.2%			Avg Ann'l Div'd Yield	*4.6%*
315%	327%	336%	358%	*375%*	*375%*	Fixed Charge Coverage	*400%*



16. Refer to Direct Testimony of Dr. J. Randall Woolridge, Exhibit JRW-10 at 2. Provide the calculations used to derive in the dividend yields for Panels A and B. Indicate whether stock prices used in the calculations were highs, lows, means, or medians.

<u>Response:</u>

There were no calculations involved. The dividend yields are published monthly by AUS Utilities Reports. The stock prices that are used in the dividend yield are the mid-month stock price.

17. Refer to Direct Testimony of Dr. J. Randall Woolridge at 34-35 and Exhibit_JRW-10 at 3-5.

a. Explain why blending the median values of ten- and five-year averages produces a meaningful estimate of growth rates.

b. Explain why blending projected estimates of earnings, dividends, and book value growth rates into a single number provides a meaningful estimate of growth rates.

Response:

a. Dr. Woolridge uses the five- and ten- years historic growth rates to identify a historic baseline growth rate. Dr. Woolridge believes that this is important since the vast majority of data provided to investors is historic data. Dr. Woolridge uses the median since extremely high or low observations can distort the mean as a measure of central tendency.

b. Two reasons. First, according to the DCF model, dividends, earnings and book value all grow at the same rate of growth. Therefore, all three are relevant in gauging expected growth in the DCF model. Second, whereas earnings growth gets most of the attention from investors, earnings growth can be volatile over time. In time of earnings volatility, dividends and book value can provide a better indication of potential growth.

18. Refer to Direct Testimony of Dr. J. Randall Woolridge at 47-48 and Exhibit_JRW-11 at 6.

a. Provide a copy of each study listed in the Exhibit on page 6.

b. Explain why it is appropriate to use geometric means in calculating equity risk premiums in the context of this case

c. Explain why averaging geometric and arithmetic means produces a meaningful estimate in the context of this case.

d. State whether the most recent Ibbotson SBBI yearbook contains any discussion of estimating and using the ex ante approaches or a discussion comparing the ex ante and historical approaches to calculating risk premiums. If yes, provide a copy of those sections of the yearbook in which those discussions appear.

RESPONSE:

a. Please see the attached documents.

b. Dr. Woolridge discusses why it is appropriate to use geometric means his testimony at pages 78-79. The use of the geometric mean return is also supported in the following excerpt from Campbell, Diamond, and Shoven (*Estimating the Real Return on Stocks over the Long Term*, Presented to the Social Security Advisory Board August 2001, pp. 3-4). Please see the attached documents.

Perhaps the simplest way to forecast future returns is to use some average of past returns. Very naturally, this method has been favored by many investors and analysts. However there are several difficulties with it.

Geometric average or arithmetic average? The geometric average return is the cumulative past return on U.S. equities, annualized. Siegel (1998) studies long-term historical data on value-weighted U.S. share indexes. He reports a geometric average of 7.0% over two different sample periods, 1802-1997 and 1871-1997. The arithmetic average return is the average of one-year past returns on U.S. equities. It is considerably higher than the geometric average return, 8.5% over 1802-1997 and 8.7% over 1871-1997.

When returns are serially uncorrelated, the arithmetic average represents the best forecast of future return in any randomly selected future year. For long holding periods, the best forecast is the arithmetic average compounded up appropriately. If one is making a 75-year forecast, for example, one should forecast a cumulative return of 1.08575 based on 1802-1997 data.

When returns are negatively serially correlated, however, the arithmetic average is not necessarily superior as a forecast of long-term future returns. To understand this, consider an extreme example in which prices alternate deterministically between 100 and 150. The return is 50% when prices rise, and -33% when prices fall. Over any even number of periods, the geometric average return is zero, but the arithmetic average return is 8.5%. In this case the arithmetic average return is misleading because it fails to take account of the fact that high returns always multiply a low initial price of 100, while low returns always multiply a high initial price of 150. The geometric average is a better indication of long-term future prospects in this example.

This point is not just a theoretical curiosity, because in the historical data summarized by Siegel, there is strong evidence that the stock market is mean-reverting. That is, periods of high returns tend to be followed by periods of lower returns. This suggests that the arithmetic average return probably overstates expected future returns over long periods.

c. The use of arithmetic versus geometric means returns has always been subject to debate. Dr. Woolridge uses both. The justification for using both measures of central tendency comes from Brad Cornell entitled The Equity Risk Premium (John Wiley & Sons, 1999). Please see the attached documents. With respect to the choice of arithmetic versus geometric mean, Cornell makes the following observations (p. 38):

Which average is the more appropriate choice? That depends on the question being asked. Assuming that the returns being averaged are largely independent and that the future is like the past, the best estimate of expected returns over a given future holding period is the arithmetic average of past returns over the same holding period. For instance, if the goal is to estimate future stock-market returns on a year-by-year basis, the appropriate average is the annual arithmetic risk premium. On the other hand, if the goal is to estimate what the average equity risk premium will be over the next 50 years, the geometric average is a better choice. Because the ultimate goal in this book is to arrive at reasonable forward-looking estimates of the *equity risk premium, both arithmetic and geometric averages are employed where they are useful.*

It is worth reiterating that projection of any past average is based on the implicit assumption that the future will be like the past. If the assumption is not reasonable, both the arithmetic and geometric averages will tend to be misleading.

d. Yes; please see the attached documents.

19. Refer to Direct Testimony of Dr. J. Randall Woolridge, Exhibit_JRW-11 at 11. Provide a copy of the Table "Kentucky-American Water Company - CAPM - Real S&P 500 ESP Growth Rate" in Excel spreadsheet form with all formulas intact and unprotected.

RESPONSE: The requested file is provided in electronic format through the enclosed CD.

20. Table 1, which is appended to this Request, reflects annual depreciation expense for the Kentucky River Station II facilities based upon the current estimated construction costs using the depreciation rates contained in a net present-value analysis that Kentucky-American submitted in Case No. 2007-00134[6] and those in a depreciation study that Kentucky-American has presented in this proceeding.

a. State whether Mr. Smith agrees with the calculations set forth in Table 1. If no, explain why not.

b. State the weight, if any, that should be given to the depreciation rates used in Case No. 2007-00134 in assessing the appropriateness and reasonableness of Kentucky-American's proposal to use the remaining life depreciation rates for the existing plant to calculate the depreciation expense for the new Kentucky River Station II facilities. Explain.

RESPONSE:

Notice: The OAG is not clear as to what is being requested, nonetheless, it submits the following:

a. If the request is asking Mr. Smith to check the calculations set forth in the Table, he agrees that the amounts in Col.C = Col.A x Col.B, and the amounts in Col. E = Col.A x Col.D and that the totals listed there sum to the amounts shown, as verified below:

[6] Case No. 2007-00134, The Application of Kentucky-American Water Company for a Certificate of Convenience and Necessity Authorizing the Construction of Kentucky River Station II, Associated Facilities and Transmission Main. Response filed Dec. 10, 2007.

Kentucky Office of the Attorney General's Response to Commission Staff's First Set of Information Requests
Ky PSC Case No. 2010-00036

	Case No. 2007-001 34			Revised W/P4-1		Difference Increase (Decrease)
Depreciation Group	Est. Cost	Dep. Rate	Dep. Exp.	Dep. Rate	Dep. Exp.	(Decrease)
	(A)	(B)	(C) = AxB	(D)	(E)=AxD	(F) = E-C
Lake, River and Other Intakes	$5,648,952	2.29%	$129,361	2.05%	$115,804	($13,557)
Raw Water Pumping Station:						
Structure	$13,819,059	1.94%	268,090	2.85%	393,843	$125,753
Electric Pumping Equipment	$2,239,867	2.45%	54,877	2.25%	50,397	($4,480)
Supply Mains	$657,044	1.82%	11,958	2.20%	14,455	$2,497
Water Treatment Plant						
Structure	$36,152,863	1.91%	690,520	2.95%	1,066,509	$375,989
Equipment	$18,659,215	2.21%	412,369	2.51%	468,346	$55,977
Electric Pumping Equipment	$3,286,961	2.45%	80,531	2.25%	73,957	($6,574)
Finished Water Main	$67,551,898	1.66%	1,121,362	1.66%	1,121,362	$0
Transmission Storage	$2,325,750	2.25%	52,329	2.03%	47,213	($5,116)
Transmission Water Pumping Station						
Structure	$5,989,814	1.94%	116,202	2.85%	170,710	$54,508
Electric Pumping Equipment	$2,299,447	2.45%	56,336	2.25%	51,738	($4,598)
Totals	$158,630,870		$2,993,935		$3,574,334	$580,399

A column F has been added to Staff's Table 1 to show the differences by component between columns E and B.

b. Determining the weight of evidence as it impacts upon changed depreciation rates, is a matter for the Commission's consideration in the current KAWC rate case. The depreciation rates from Case No. 2007-00134 cited by Staff in the referenced Table 1 provide one point of reference. In comparison with those depreciation rates, the significant increases in the following four accounts would appear to be of primary concern: Raw Water Pumping Station: Structure, Water Treatment Plant Structure, Water Treatment Plant Equipment, and Transmission Water Pumping Station Structure.