

ATMOS ENERGY CORP. NYSE-ATO

RECENT PRICE **26.61** P/E RATIO **14.6** (Trailing: 14.5 Median: 16.0) RELATIVE P/E RATIO **0.83** DIV'D YLD **4.8%** VALUE LINE

TIMELINESS 4 Lowered 5/12/06
SAFETY 2 Raised 12/16/05
TECHNICAL 3 Raised 5/5/06
BETA .75 (1.00 = Market)

2009-11 PROJECTIONS

High Price 35 Gain (+30%)
 Low Price 30 Gain (+15%)
 Ann'l Total Return 11%
 7%

Insider Decisions

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

Institutional Decisions

3Q2005 4Q2005 1Q2006
 to Buy 102 93 89
 to Sell 67 91 84
 Held (000) 43139 43022 46004

High: 23.0 31.0 30.5 32.3 33.0 26.3 25.8 24.5 25.5 27.6 30.0 27.7
 Low: 16.1 20.9 22.1 24.8 19.6 14.3 19.5 17.6 20.8 23.4 25.0 25.5

LEGENDS
 1.70 x Dividends p sh
 divided by Interest Rate
 Relative Price Strength
 3-for-2 split 5/94
 Options: No
 Shaded area indicates recession

Percent shares traded

Percent shares traded

Percent shares traded

Percent shares traded

Percent shares traded

Percent shares traded

Percent shares traded

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Percent shares traded

Percent shares traded

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC. 09-11
Revenues per sh ^A	30.19	30.59	27.90	22.09	26.61	35.36	22.82	54.39	46.50	61.75	85.00	88.10	110.00
"Cash Flow" per sh	2.80	2.85	3.38	2.62	3.01	3.03	3.39	3.23	2.91	3.90	4.05	4.25	5.30
Earnings per sh ^{A B}	1.51	1.34	1.84	.81	1.03	1.47	1.45	1.71	1.58	1.72	1.85	1.95	2.50
Div'ds Decl'd per sh ^C	.96	1.01	1.06	1.10	1.14	1.16	1.18	1.20	1.22	1.24	1.26	1.28	1.35
Cap'l Spending per sh	4.84	4.13	4.44	3.53	2.36	2.77	3.17	3.10	3.03	4.14	5.00	5.90	7.30
Book Value per sh	10.75	11.04	12.21	12.09	12.28	14.31	13.75	16.66	18.05	19.90	21.00	21.75	24.10
Common Shs Outst'g ^D	16.02	29.64	30.40	31.25	31.95	40.79	41.68	51.48	62.80	80.54	82.00	84.00	100.00
Avg Ann'l P/E Ratio	15.1	17.9	15.4	33.0	18.9	15.6	15.2	13.4	15.9	16.1	16.0	16.1	13.0
Relative P/E Ratio	.95	1.03	.80	1.88	1.23	.80	.83	.76	.84	.84	.84	.84	.85
Avg Ann'l Div'd Yield	4.2%	4.2%	3.7%	4.1%	5.9%	5.1%	5.4%	5.2%	4.9%	4.5%	4.5%	4.5%	4.2%
Revenues (\$mill) ^A	483.7	906.8	848.2	690.2	850.2	1442.3	950.8	2799.9	2920.0	4973.3	6970	7400	11000
Net Profit (\$mill)	23.9	39.2	55.3	25.0	32.2	56.1	59.7	79.5	86.2	135.8	150	165	250
Income Tax Rate	35.7%	37.5%	36.5%	35.0%	36.1%	37.3%	37.1%	37.1%	37.4%	37.7%	37.5%	37.5%	38.0%
Net Profit Margin	5.0%	4.3%	6.5%	3.6%	3.8%	3.9%	6.3%	2.8%	3.0%	2.7%	2.2%	2.2%	2.3%
Long-Term Debt Ratio	41.5%	48.1%	51.8%	50.0%	48.1%	54.3%	53.9%	50.2%	43.2%	57.7%	57.0%	57.0%	55.0%
Common Equity Ratio	58.5%	51.9%	48.2%	50.0%	51.9%	45.7%	46.1%	49.8%	56.8%	42.3%	43.0%	43.0%	45.0%
Total Capital (\$mill)	294.6	630.2	769.7	755.1	755.7	1276.3	1243.7	1721.4	1994.8	3785.5	4000	4250	5350
Net Plant (\$mill)	413.6	849.1	917.9	965.8	982.3	1335.4	1300.3	1516.0	1722.5	3374.4	3675	3975	5000
Return on Total Cap'l	10.6%	8.3%	9.0%	5.1%	6.5%	5.9%	6.8%	6.2%	5.8%	5.3%	5.5%	5.5%	6.5%
Return on Shr. Equity	13.9%	12.0%	14.9%	6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	8.5%	9.0%	10.5%
Return on Com Equity	13.9%	12.0%	14.9%	6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	8.5%	9.0%	10.5%
Retained to Com Eq	5.1%	3.9%	6.3%	NMF	NMF	2.1%	1.9%	2.8%	1.7%	2.3%	2.5%	3.0%	5.0%
All Div'ds to Net Prof	64%	67%	58%	NMF	112%	79%	82%	70%	77%	73%	69%	65%	54%

CAPITAL STRUCTURE as of 3/31/06
 Total Debt \$2446.7 mill. Due In 5 Yrs \$860.0 mill.
 LT Debt \$2181.1 mill. LT Interest \$135.0 mill.
 (LT Interest earned: 2.7%; total interest coverage: 2.6x)

Leases, Uncapitalized Annual rentals \$15.3 mill.

Pfd Stock None

Pension Assets-9/05 \$355.9 mill. Oblig. \$359.9 mill.

Common Stock 81,151,592 shs.

as of 4/28/06

MARKET CAP: \$2.2 billion (Mid Cap)

CURRENT POSITION

	2004	2005	3/31/06
Cash Assets	201.9	40.1	48.9
Other	475.2	1224.3	1442.9
Current Assets	677.1	1264.4	1491.8
Accts Payable	185.3	461.3	708.1
Debt Due	5.9	148.1	265.6
Other	223.3	503.4	380.1
Current Liab.	414.5	1112.8	1353.8
Fix. Chg. Cov.	384%	395%	390%

ANNUAL RATES

	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05
of change (per sh)			
Revenues	6.0%	16.5%	12.5%
"Cash Flow"	3.5%	2.0%	8.0%
Earnings	4.0%	6.5%	7.0%
Dividends	3.0%	2.0%	2.0%
Book Value	6.5%	8.5%	5.0%

QUARTERLY REVENUES (\$mill.) ^A

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	680.4	1194.1	488.5	436.9	2799.9
2004	763.6	1117.5	546.1	492.8	2920.0
2005	1371.0	1687.8	909.9	1004.6	4973.3
2006	2283.8	2033.8	1300	1352.4	6970
2007	2000	1700	1700	1700	7400

EARNINGS PER SHARE ^{A B E}

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	.60	1.24	--	d.05	1.71
2004	.57	1.12	.09	d.11	1.58
2005	.79	1.11	.06	d.21	1.72
2006	.88	1.10	.05	d.18	1.85
2007	.85	1.15	.08	d.13	1.95

QUARTERLY DIVIDENDS PAID ^C

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.295	.295	.295	.30	1.19
2003	.30	.30	.30	.305	1.21
2004	.305	.305	.305	.31	1.23
2005	.31	.31	.31	.315	1.25
2006	.315	.315	.315	.315	1.25

BUSINESS: Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to 3.2 million customers via seven regulated natural gas utility operations: Louisiana Division, Mid-States Division, West Texas Division, Mid-Tex Division, Mississippi Division, Colorado-Kansas Division, and Kentucky Division. Combined 2005 gas volumes: 296 MMcf. Breakdown: 55%, resi-

Fiscal 2006 earnings for Atmos Energy's core utility segment have been a bit lower than the previous year's figure. (The fiscal year ends September 30th.) This can be attributed partially to warmer temperatures, which have particularly afflicted the Mid-Tex and Louisiana divisions because they do not have a weather-normalized rate structure. (Management argues that it is seeking rate-design changes in those areas, but such measures must be approved by regulators.) Also, we estimate that the after-effects of Hurricane Katrina will reduce this year's share net by roughly a dime.

But the non-utility operations are performing well, overall. The marketing business is benefiting considerably from strategies to capture favorable arbitrage spreads created by rising natural gas volatility. Furthermore, the greatly expanded pipeline and storage unit is enjoying increased throughput on the Atmos Pipeline-Texas system, plus expanded margins for transportation and related services.

That said, we think consolidated share earnings will advance roughly

8%, to \$1.85, in fiscal 2006. Further improvement in operating margins ought to enable the bottom line to reach \$1.95 a share next year.

Atmos Energy is one of the more aggressively managed natural gas utilities within the Value Line universe, as it successfully completed several major acquisitions over the past 20 years (the last one being TXU Gas Company in 2004). Management will undoubtedly continue to employ its strategy of purchasing less-efficient companies and shoring up their profitability through rate filings, expense-reduction initiatives, and aggressive marketing efforts.

The main attraction here is the dividend, which is adequately covered by earnings. And our favorable projections for Atmos indicate that more increases in the distribution are likely.

But long-term total-return potential is unspectacular. That's partly because these shares are presently trading near our 3- to 5-year Target Price Range. Too, they are ranked 4 (Below Average) for Timeliness.

Frederick L. Harris, III June 16, 2006

(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '97, d534; '99, d234; '00, 124; '03, d174. Next eggs. rpt. due early Aug. (C) Dividends historically paid in early

March, June, Sept., and Dec. ■ Div. reinvestment plan. Direct stock purchase plan avail. (D) In millions, adjusted for stock splits. (E) Qtrs may not add due to change in shrs

outstanding. (F) ATO completed United Cities merger 7/97.

Company's Financial Strength
 Stock's Price Stability 100
 Price Growth Persistence 25
 Earnings Predictability 65

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VALUE
LINE

LEGENDS
 — 1.30 x Dividends p sh
 divided by Interest Rate
 Relative Price Strength
 2-for-1 split 4/93
 Options: Yes
 Shaded area indicates recession

Percent shares traded	18	
	12	
	6	

1994	1995	1996	1997
31.23	29.42	37.39	
4.11	4.19	4.97	
2.07	1.96	2.42	
1.25	1.28	1.32	
3.34	3.12	2.42	
13.26	13.67	14.74	
51.54	50.30	49.49	
12.5	13.1	12.5	
.82	.88	.78	
4.8%	5.0%	4.4%	

1986	1850.7	1
1987	121.2	1
1988	35.8%	1

	6.5%	
Obllg. \$284.4	41.3%	4
	58.1%	5

Nil	1255.1	1
Preferred	1771.9	1
	11.1%	
	16.4%	
	16.6%	
Cap)	7.6%	

2005	3/31/06	54%
------	---------	-----

126.9	119.2	BUSINESS its primary and western from trans- commerci- ural Gas
218.8	800.8	
345.7	920.0	
658.2	362.8	
636.0	138.0	
328.7	1052.4	

522.9	1190.4
NMF	NMF
Est'd '03-'05	
to '09-'11	
5%	1.0%
5%	3.0%
5%	4.0%
5%	1.5%
5%	2.0%

\$ mill.)	Full Year
Dec.31	
743.8	2662.7
894.6	2739.7
1357.5	3357.8
1200.6	3405
1170	3300

A Dec.31	Full Year
.78	2.11
1.08	2.22
1.02	2.27
1.10	2.45
1.15	2.50

Dec.31	Full Year
.46	1.84
.465	1.86
.465	1.86
.465	1.86

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VALUE
LINE

2006	.37	.37	case involving the company's Virginia			Evan I. Blatter	June 16, 2006
(A) Fiscal year ends December 31st. Ended September 30th prior to 2002.			\$0.13; '01, \$0.13; '03, \$0.07. Next earnings report due late July.		available.	Company's Financial Strength	B++
(B) Diluted earnings per share. Excl. nonrecurring gains (losses): '95, \$.43; '99, \$.03; '00,			(C) Dividends historically paid early March, June, Sept, and Dec. = Div'd reinvest. plan		(D) Includes intangibles. In 2005: \$422 million, \$.43/share.	Stock's Price Stability	95
2006. Value Line Publishing, Inc. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or by any information storage and retrieval system, without prior written permission from Value Line Publishing, Inc.					(E) In millions, adjusted for stock split.	Price Growth Persistence	60
						Earnings Predictability	70
						To subscribe call 1-800-833-0046.	

00248

VALUE
LINE

Target Price Range	
2009	2010
2009	2010

		20
		16
		12
T. RETURN 5/06		8
THIS STOCK	VL. ARITH. INDEX	
2.8	15.4	
40.0	68.4	
78.1	61.0	

THIS STOCK	VL ARITH. INDEX
2.8	15.4
40.0	68.4
78.1	61.0

© VALUE LINE PUB., INC.	09-11
Revenues per sh ^A	129.80
"Cash Flow" per sh	4.70
Earnings per sh ^B	3.30
Div'ds Decl'd per sh ^{Ca}	1.70
Cap'l Spending per sh	2.10
Book Value per sh	23.15
Common Shs Outst'g ^D	28.50
Avg Ann'l P/E Ratio	17.0
Relative P/E Ratio	1.15
Avg Ann'l Div'd Yield	3.0%

Revenues (\$mill) ^A	3700
Net Profit (\$mill)	95.0
Income Tax Rate	40.0%
Net Profit Margin	2.5%
Long-Term Debt Ratio	37.0%
Common Equity Ratio	63.0%
Total Capital (\$mill)	1055
Net Plant (\$mill)	1150

Net Plant (\$mill)	1150
Return on Total Cap'l	10.5%
Return on Shr. Equity	14.5%
Return on Com Equity	14.5%

Retained to Com Eq	7.0%
All Div'ds to Net Prof	51%

te of 2.3%. However, customer growth are high gas prices, as more. Meanwhile, the t warm weather was NJNG's weather

WNC). The policy is to keep both fluctuating customers bills due to rate changes. But the policy has not reduced customer complaints. In December, the company was fined by the New Jersey Board of Public Utilities for failing to

replace the current
tion and adjustment
ture variations due
eratures and usage.
ne evaluation phase,
o have it in place for

return potential is rock. New Jersey Remain its steady profit r growth and expansion Energy unit. However yield is still be counterparts.

meters to rise at a rate of 2.3%. However, the benefits from customer growth are reduced slightly by high gas prices, as households conserve more. Meanwhile, the impact from the recent warm weather was offset somewhat by NJNG's weather normalization clause (WNC). The policy is supposed to eliminate both fluctuating gross margins and customers bills due to changing weather patterns. But the policy did not protect against reduced customer usage. Therefore, in December, the company filed with the New Jersey Board of Public Utilities to replace the current WNC with a conservation and adjustment clause that would capture variations due to both changing temperatures and usage. The plan is still in the evaluation phase, but NJNG is hopeful to have it in place for fiscal 2007.

Risk-adjusted total return potential is good for a utility stock. New Jersey Resources should maintain its steady profit growth due to customer growth and expansion of its Wholesale Energy unit. However, the stock's dividend yield is still below that of its utility counterparts.

Evan I. Blatter *June 16, 2006*

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

To subscribe call 1-800-833-0046.

SOUTHWEST GAS NYSE-SW					RECENT PRICE	28.93	P/E RATIO	17.0	(Trailing: 19.5 Median: 20.0)	RELATIVE P/E RATIO	0.97	DIV'D YLD	2.8%	VALUE LINE																							
TIMELINESS	3	Raised 5/12/06	High:	18.4	19.9	20.3	26.9	29.5	23.0	24.7	25.3	23.6	26.2	28.1	29.9			Target Price	Range																		
SAFETY	3	Lowered 1/4/91	Low:	13.6	14.9	16.1	17.3	20.4	16.9	18.6	18.1	19.3	21.5	23.5	26.0			2009	2010																		
TECHNICAL	3	Lowered 10/21/05	LEGENDS																	2011																	
BETA	.85	(1.00 = Market)	1.15 x Dividends p sh divided by Interest Rate																																		
2009-11 PROJECTIONS										Options: No Shaded area indicates recession																											
Price	Gain	Ann'l Total																																			
High	50	(+75%)																																			
Low	35	(+20%)																																			
Insider Decisions																																					
J	A	S	O	N	D	J	F	M																													
to Buy	0	0	0	1	2	0	0	0																													
Options	0	5	7	0	0	0	1	0																													
to Sell	0	5	7	0	0	0	1	0																													
Institutional Decisions																																					
3Q2005	4Q2005	1Q2006	Percent	6																																	
to Buy	72	62	69	4																																	
to Sell	46	53	53	2																																	
Hld's(000)	26079	25543	26476																																		
1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC. 09-11																			
25.90	24.99	25.93	25.68	28.16	23.03	24.09	26.73	30.17	30.24	32.61	42.98	39.68	35.96	40.14	43.59	46.85	47.60	Revenues per sh ^A	49.45																		
3.96	1.53	3.34	3.24	5.09	2.65	3.00	3.85	4.48	4.45	4.57	4.79	5.07	5.11	5.57	5.20	5.70	5.95	"Cash Flow" per sh	6.50																		
1.81	d.76	.81	.63	1.22	.10	.25	.77	1.65	1.27	1.21	1.15	1.16	1.13	1.66	1.25	1.70	1.85	Earnings per sh ^{A B}	2.30																		
1.40	.88	.70	.74	.80	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	Div'ds Decl'd per sh ^C	.82																		
5.06	3.76	5.02	5.43	6.64	6.79	8.19	6.19	6.40	7.41	7.04	8.17	8.50	7.03	8.23	7.49	6.35	6.55	Cap'l Spending per sh	7.10																		
17.63	15.88	15.99	15.96	16.38	14.55	14.20	14.09	15.67	16.31	16.82	17.27	17.91	18.42	19.18	19.10	19.65	20.35	Book Value per sh	24.00																		
20.04	20.60	20.60	21.00	21.28	24.47	26.73	27.39	30.41	30.99	31.71	32.49	33.29	34.23	36.79	39.33	41.00	42.00	Common Shs Outst'g ^D	45.00																		
8.7	--	16.6	26.5	14.0	NMF	69.3	24.1	13.2	21.1	16.0	19.0	19.9	19.2	14.3	20.6	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	18.0																		
.85	--	1.01	1.57	9.2	NMF	4.34	.69	1.20	1.04	.97	1.09	1.09	1.09	.76	1.10			Relative P/E Ratio	1.20																		
8.9%	7.0%	5.2%	4.4%	4.7%	5.4%	4.7%	4.4%	3.8%	3.1%	4.2%	3.8%	3.6%	3.8%	3.5%	3.2%			Avg Ann'l Div'd Yield	2.0%																		
CAPITAL STRUCTURE as of 3/31/06						644.1	732.0	917.3	936.9	1034.1	1396.7	1320.9	1231.0	1477.1	1714.3	1920	2000	Revenues (\$mill) ^A	2225																		
Total Debt \$1412.1 mill. Due in 5 Yrs \$224.7 mill.						6.6	20.8	47.5	39.3	38.3	37.2	38.6	38.5	58.9	48.1	70.0	80.0	Net Profit (\$mill)	105																		
LT Debt \$1329.1 mill. LT Interest \$85.0 mill.						37.1%	29.2%	43.4%	35.5%	26.2%	34.5%	32.8%	30.5%	34.8%	29.7%	35.0%	35.0%	Income Tax Rate	35.0%																		
(Total interest coverage: 1.9x)						1.0%	2.8%	5.2%	4.2%	3.7%	2.7%	2.9%	3.1%	4.0%	2.8%	3.6%	3.9%	Net Profit Margin	4.7%																		
Pension Assets-12/05 \$359.6 mill.						60.2%	63.6%	60.2%	60.3%	60.2%	56.2%	62.5%	66.0%	64.2%	63.8%	63.5%	62.9%	Long-Term Debt Ratio	58.9%																		
Obliq. \$511.0 mill.						34.4%	31.5%	35.3%	35.5%	35.8%	39.6%	34.1%	34.0%	35.8%	36.2%	36.5%	37.1%	Common Equity Ratio	41.1%																		
Pfd Stock None						1104.8	1224.7	1349.3	1424.7	1489.9	1417.6	1748.3	1851.6	1968.6	2076.0	2205	2305	Total Capital (\$mill)	2630																		
Common Stock 40,052,735 shs.						1278.5	1360.3	1459.4	1581.1	1686.1	1625.6	1979.5	2175.7	2336.0	2489.1	2600	2750	Net Plant (\$mill)	3200																		
(as of 5/3/06)						2.8%	3.9%	5.8%	4.8%	4.6%	5.1%	4.3%	4.2%	5.0%	4.3%	5.0%	5.5%	Return on Total Cap'l	5.5%																		
MARKET CAP: \$1.2 billion (Mid Cap)						1.5%	4.7%	8.9%	7.0%	6.5%	6.0%	5.9%	6.1%	8.3%	6.4%	8.5%	8.5%	Return on Shr. Equity	9.5%																		
CURRENT POSITION						1.7%	5.4%	10.0%	7.8%	7.2%	6.6%	6.5%	6.1%	8.3%	6.4%	8.5%	9.5%	Return on Com Equity	9.5%																		
2004						NMF	NMF	5.0%	2.8%	2.4%	1.9%	1.9%	1.7%	4.3%	2.2%	4.5%	5.5%	Retained to Com Eq	6.5%																		
2005						NMF	NMF	50%	64%	67%	71%	70%	72%	49%	65%	47%	43%	All Div'ds to Net Prof	35%																		
3/31/06																																					
CASH ASSETS (\$mill.)																																					
Cash Assets						13.6						29.6						13.9																			
Other						418.4						513.1						455.2																			
Current Assets						432.0						542.7						469.1																			
Accts Payable						165.9						259.5						137.4																			
Debt Due						129.8						107.2						83.0																			
Other						187.3						254.3						265.5																			
Current Liab.						483.0						621.0						485.9																			
Fix. Chg. Cov.						166%						167%						181%																			
ANNUAL RATES																																					
Past 10 Yrs.						4.5%						5.0%						3.5%																			
Revenues						4.0%						3.5%						3.5%																			
"Cash Flow"						7.5%						0.5%						Nil																			
Earnings						0.5%						2.0%						4.0%																			
Dividends						2.0%						3.0%						4.0%																			
Book Value																																					
QUARTERLY REVENUES (\$mill.)																																					
Cal-endar						Mar.31						Jun.30						Full Year																			
2003						403.3						255.8						220.2																			
2004						473.4						278.7						264.5																			
2005						542.9						361.1						313.3																			
2006						676.9						390						335																			
2007						675						410						365																			
EARNINGS PER SHARE ^B						Mar.31						Jun.30						Full Year																			
2003						.76						d.12						d.51																			
2004						1.18						d.24						d.51																			
2005						.88						d.07						d.43																			
2006						1.11						d.05						d.45																			
2007						1.15						d.05						d.50																			
QUARTERLY DIVIDENDS PAID ^C						Mar.31						Jun.30						Full Year																			
2002						.205						.205						.205																			
2003						.205						.205						.205																			
2004						.205						.205						.205																			
2005						.205						.205						.205																			
2006						.205						.205						.205																			
2007						.205						.205						.205																			
(A) Incl. income for PriMerit Bank on the equity basis through 1994.																																					
(B) Based on avg. shares outstanding, thru. '96, then diluted. Excl. nonrec. gains (losses). '93, '86, '97, '16; '02, (10¢); '05, (11¢). Incl. asset writedown: '93, 44¢. Excl. loss from disc. ops.: '95, 75¢. Next eggs. report due in August.																																					
(C) Dividends historically paid early March, June, September, December.																																					
■ Div'd reinvest. plan avail. (D) In millions.																																					
Company's Financial Strength																		8																			
Stock's Price Stability																		95																			
Price Growth Persistence																		50																			
Earnings Predictability																		65																			
To subscribe call 1-800-833-0046.																																					

VALUE
LINE

	Target 2009	Price 2010	Range 2011
			80
			60
			50
			40

TOT. RETURN 5/06

THIS STOCK	VL ARITH. INDEX
-7.6	15.4
18.5	68.4
29.5	61.0

LINE	PUB, INC.	09-11
Revenues per sh ^A		61.50
th Flow"r per sh		4.60
Revenues per sh ^B		2.40
ts Decl'd per sh ^C		1.45
Spending per sh		2.55
Value per sh ^D		21.30
mon Shs Outst'g ^E		48.80
Ann'l P/E Ratio		14.01
ive P/E Ratio		9.0
Ann'l Div'd Yield		4.3%
Revenues (\$mill) ^A		3000
Profit (\$mill)		120
me Tax Rate		38.0%
Profit Margin		4.0%
Term Debt Ratio		39.0%
mon Equity Ratio		59.0%
Capital (\$mill)		1790
Plant (\$mill)		2550
m on Total Cap'l		6.5%
m on Shr. Equity		11.0%
m on Com Equity		11.0%

ined to Com Eq	4.5%
iv'ds to Net Prof	60%

down nearly 16%

od. The weather
e the volatility of
stock's stability.
t, WGL plans to
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he new rates may

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in Chillum**

timely, offer a

June 16, 2006

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

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VALUE
LINE

Target Price Range		
2009	2010	2011
		80
		60
		50
		40

[illegible]

15
10
7.5

THIS STOCK	VL. ARITH. INDEX
0.1	15.4
41.5	68.4
79.4	61.0

CAPITAL STRUCTURE as of 3/31/06	380.3	361.8	416.7	455.8	532.1	650.3	641.4	611.3	707.6	910.5	1100	1175	Revenues (\$mill)	1450
Total Debt \$579.9 mill. Due in 5 Yrs \$204.2 mill.	46.8	43.1	27.3	44.9	47.8	50.2	43.8	46.0	50.6	58.1	62.5	66.5	Net Profit (\$mill)	77.0
LT Debt \$501.5 mill. LT Interest \$31.0 mill.	36.9%	32.9%	31.0%	35.4%	35.9%	35.4%	34.9%	33.7%	34.4%	36.0%	36.0%	36.0%	Income Tax Rate	36.0%
(Total interest coverage: 3.4x)	12.3%	11.9%	6.6%	9.9%	9.0%	7.7%	6.8%	7.5%	7.1%	6.4%	5.7%	5.7%	Net Profit Margin	5.3%
Pension Assets-12/05 \$218.6 mill.	41.4%	46.0%	45.0%	46.0%	45.1%	43.0%	47.6%	49.7%	46.0%	47.0%	47.0%	47.0%	Long-Term Debt Ratio	47%
Oblig. \$267.9 mill.	52.8%	49.0%	50.6%	49.9%	50.9%	53.2%	51.5%	50.3%	54.0%	53.0%	53.0%	53.0%	Common Equity Ratio	53%
Pfd Stock None	657.4	748.0	815.6	861.5	887.8	880.5	937.3	1006.6	1052.5	1108.4	1150	1200	Total Capital (\$mill)	1350
	745.3	827.5	894.7	895.9	934.0	965.0	995.6	1205.9	1318.4	1373.4	1375	1400	Net Plant (\$mill)	1500
Common Stock 27,576,846 shs.	8.9%	7.4%	5.0%	6.8%	6.7%	6.9%	5.9%	5.7%	5.9%	6.5%	7.0%	7.0%	Return on Total Cap'l	7.0%
as of 4/23/06	12.1%	10.7%	6.1%	9.7%	9.8%	10.0%	8.9%	9.1%	8.9%	9.9%	10.0%	10.5%	Return on Shr. Equity	10.5%
MARKET CAP \$950 million (Small Cap)	12.7%	11.0%	6.0%	9.9%	10.0%	10.2%	8.5%	9.0%	8.9%	9.9%	10.0%	10.5%	Return on Com Equity	10.5%

5.0%	3.6%	NMF	2.8%	3.1%	3.5%	1.9%	2.6%	3.7%	3.7%	3.7%	3.7%	Retained to Com Eq	3.8%
63%	70%	118%	74%	70%	67%	70%	72%	60%	63%	61%	50%	All Div'ds to Net Prof	60%

BUSINESS: Northwest Natural Gas Co. distributes natural gas at retail to 90 communities, 617,000 customers, in Oregon (90% of custs.) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.4 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest	Pipeline system to bring gas to market. Owns local underground storage. Rev. breakdown: resident/1, 53%; comm/1, 27%; ind., transport. and other, 20%. Employs 1,305. Has abt 9,300 common shrlhlds. Barclays owns 6.2% of shares; insiders, 1% (4/06 proxy). CEO: Mark S. Dodson, Inc. OR. Addr.: 220 NW 2nd Ave., Portland, OR 97209. Tel.: 503-228-4211. Internet: www.nwnatural.com .
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Northwest Natural started 2006 on a decent note. Total gas volume delivered rose 11% in the first quarter, and the customer count was up 3.5% in the last 12 months. Operating expenses were up 4% from the 2005 period, and earnings from

storage operations rose to \$0.05 a share from \$0.03 last year. But Northwest's weather adjustment rate mechanism (WARM), contributed just \$0.8 million to gross profits in the 2006 quarter, down from \$8.1 million last year.

We look for normal share-net growth

ning of high-density development of the area just east of the center of Portland. Northwest plans to install its mains in that area at the same time as power, water, and sewer lines are put in, and that should save some costs.

We think earnings per share will grow

In 2006 . . . coming largely in the fourth quarter. Fourth-quarter 2005 earnings were hurt by several cents a share of unusual items, so our estimate for the final period of 2006 represents an average year-to-year gain. Northwest has enjoyed yearly customer growth of over 3% for many

... and that will likely continue through 2007. Northwest is investing about \$25 million in automatic meter reading systems in 2006 and 2007, to

all and U.S. producers, has transportation flights on Northwest OR 97209. Tel.: 503-226-4211. Internet: www.nwflair.com.

from \$8.1 million last year.

should save some costs.

and that will likely continue. These untimely shares have some an-

imate reading about 40% of its meters. *Sigourney B. Romaine, CFA June 16, 2000*

should save some costs.

These untimely shares have some an-

Sigourney B. Romaine, CFA June 16, 2000

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

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PEOPLES ENERGY NYSE-PGL

RECENT PRICE **37.11** P/E RATIO **19.8** (Trailing: 17.1 Median: 14.0) RELATIVE P/E RATIO **1.13** DIV'D YLD **5.9%** VALUE LINE

TIMELINESS 3 Raised 2/3/06	High: 32.0 37.4 39.9 40.1 40.3 46.9 44.6 40.4 45.3 46.0 45.5 38.7	Target Price Range
SAFETY 2 Lowered 3/17/06	Low: 24.3 29.6 31.3 32.1 31.8 26.2 34.3 27.8 34.9 38.5 34.3 34.9	2009 2010 2011
TECHNICAL 2 Raised 6/2/06		
BETA .90 (1.00 = Market)	120 100 80 64	

2009-11 PROJECTIONS													48
Price	Gain	Ann'l Total											32
High 55	(+50%)	Return 15%											24
Low 40	(+10%)	Return 7%											20
Insider Decisions													16
J	A	S	O	N	D	J	F	M					12
to Buy	0	0	0	0	1	0	0	0	0	0	0	0	8
Options	0	0	0	0	0	0	0	0	0	0	0	0	
to Sell	0	0	0	0	0	0	0	0	0	0	0	0	
Institutional Decisions													
3Q2005	4Q2005	1Q2006	Percent	12									
to Buy	105	92	78	8									
to Sell	66	82	94	4									
Hld's(000)	21808	21830	24457										

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC. 09-11	
35.63	33.69	31.54	36.09	36.70	29.60	34.29	36.34	32.28	33.66	40.16	64.13	41.81	58.28	59.90	68.13	78.60	80.40	Revenues per sh ^A	88.10
3.74	3.73	3.67	3.85	3.99	3.68	4.44	4.74	5.58	5.84	5.59	5.88	5.32	5.31	4.90	4.90	4.85	4.90	"Cash Flow" per sh	5.85
2.07	2.05	2.06	2.11	2.13	1.78	2.96	2.81	2.25	2.39	2.71	3.16	2.80	2.88	2.18	2.26	1.85	1.90	Earnings per sh ^B	2.70
1.65	1.71	1.76	1.78	1.80	1.80	1.82	1.87	1.91	1.95	2.00	2.04	2.07	2.12	2.16	2.18	2.18	2.18	Div'ds Decl'd per sh ^C	2.24
3.15	3.10	3.40	3.77	2.50	2.75	2.45	2.55	4.05	6.45	7.02	7.52	5.66	5.10	5.02	4.27	8.45	6.25	Cap'l Spending per sh	7.15
16.81	16.95	17.72	18.02	18.39	18.38	19.49	20.43	21.03	21.66	22.02	22.76	22.74	23.11	23.06	20.97	20.15	19.40	Book Value per sh ^D	19.15
32.70	32.76	34.77	34.88	34.87	34.91	34.96	35.07	35.26	35.49	35.30	35.40	35.46	36.69	37.73	38.16	39.00	40.00	Common Shs Outst'g ^E	42.00
11.2	11.8	13.1	15.0	13.3	14.7	10.7	12.7	16.2	15.5	12.1	12.3	13.3	13.4	19.1	18.9			Avg Ann'l P/E Ratio	17.0
.83	.75	.79	.89	.87	.98	.67	.73	.84	.88	.79	.63	.73	.76	1.01	1.01			Relative P/E Ratio	1.15
7.1%	7.0%	6.5%	5.6%	6.3%	6.9%	5.7%	5.2%	5.2%	5.3%	6.1%	5.2%	5.5%	5.5%	5.2%	5.1%			Avg Ann'l Div'd Yield	4.9%

CAPITAL STRUCTURE as of 3/31/06																			Revenues (\$mill) ^A	3700
Total Debt \$1060.5 mill. Due in 5 Yrs \$226.9 mill.																			Net Profit (\$mill)	115
LT Debt \$894.3 mill. LT Interest \$52.0 mill.																			Income Tax Rate	35.0%
(Total interest coverage: 1.4x)																			Net Profit Margin	3.1%
Pension Assets-9/05 \$520.4 mill.																			Long-Term Debt Ratio	52.6%
Oblig. \$641.7 mill.																			Common Equity Ratio	47.4%
Pfd Stock None																			Total Capital (\$mill)	1700
Common Stock 38,409,036 shs.																			Net Plant (\$mill)	2550
as of 4/30/06																			Return on Total Cap'l	8.5%
MARKET CAP: \$1.4 billion (Mid Cap)																			Return on Shr. Equity	14.5%
CURRENT POSITION 2004 2005 3/31/06																			Return on Com Equity	14.5%
(SMILL.)																			Retained to Com Eq	2.5%
Cash Assets	21.1	43.5	107.3																All Div'ds to Net Prof	82%
Other	531.3	855.1	1026.3																	
Current Assets	552.4	898.6	1133.6																	
Accts Payable	144.7	236.2	237.9																	
Debt Due	55.6	8.1	166.2																	
Other	335.8	657.4	716.0																	
Current Liab.	536.1	901.7	1120.1																	
Fix. Chg. Cov.	304%	332%	128%																	

BUSINESS: Peoples Energy Corporation distributes natural gas via its utility subsidiaries, Peoples Gas Light & Coke Co. (approx. 814,000 customers at 9/30/05) and North Shore Gas Co. (155,000), in Chicago and northeastern Illinois. Fiscal 2005 gas distribution revenues: \$1.7 billion: residential, 79%; commercial, 15%; industrial, 3%; other, 3%. Main supplier is Natural Gas Pipeline Co. of America. Purchased gas costs and revenue taxes accounted for 77% of gas revenues in fiscal '05. Depreciation rate: 3.5%. Est'd plant age: 11 years. Has 2,182 empls., 19,236 shareholders. Off. and Dir. own 1.5% of common (1/06 Proxy). Chrmn. and CEO: Thomas Patrick, Inc. IL. Address: 130 E. Randolph Dr., Chicago, IL 60601. Tel.: 312-240-4730. Internet: www.peoplesenergy.com.

We are projecting lower share net at Peoples Energy for fiscal year 2006, as margins narrow. For the six-month period ended March 31st, operating income for the Gas Distribution segment has fallen by nearly 14%, compared to the prior year's period. The decline is largely a result of warmer-than-normal weather. Customer conservation and increased bad debt expense have also played a part.

The company will likely file for rate relief with the Illinois Commerce Commission early this summer. The complete process usually takes about 11 months. Rate increases granted would probably not become effective until spring of 2007, halfway through the fiscal year.

Earnings per share may not show much improvement in 2007. Costs should continue to increase in the gas distribution business. The absence of the power assets will probably be a factor, also. Earnings growth may well pick up in 2008, assuming the company receives sufficient rate relief. From this point, we expect earnings will advance at a solid pace to the end of the decade.

Peoples Energy continues to divest its power assets. The company recently announced the sale of its roughly 30% interest in the Southeast Chicago Energy Project. PGL received roughly \$50 million in cash from Exelon for its stake. The company plans to use the proceeds to reduce short-term debt. Management expects to divest the remaining power assets later this year.

The stock is not without risk. Although we believe that management will make every effort to maintain the current dividend, a payout ratio of 95% reduces the company's financial flexibility. In addition, the price volatility of natural gas products may negatively affect PGL's cost structure. The adverse impact of warmer weather and the company's dependence on rate relief are other caveats.

Peoples Energy shares are ranked 3 (Neutral) for Timeliness. Although the stock offers a high dividend yield of 5.9%, no increase in the payout is likely for at least a couple of years. Assuming PGL emerges from the difficult stretch it is going through, total return possibilities may interest patient investors.

Michael F. Napoli June 16, 2006

VALUE
LINE

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CASCAD NAT'L GAS NYSE-CGC										RECENT PRICE	20.74	P/E RATIO	18.9 (Trailing: 19.6 Median: 18.0)	RELATIVE P/E RATIO	1.07	DIVID YLD	4.6%	VALUE LINE																																
TIMELINESS 4		Lowered 3/17/06		High: 17.5	17.5	19.0	18.7	19.8	20.9	22.8	24.2	22.0	23.0	22.8	21.2					Target Price	Range																													
SAFETY 3		New 7/27/90		Low: 13.0	13.4	15.3	14.6	14.4	13.4	17.4	15.5	18.0	19.1	18.0	19.0					2009	2010	2011																												
TECHNICAL 3		Raised 6/9/06		LEGENDS 1.13 x Dividends p sh divided by Interest Rate Relative Price Strength 3-for-2 split 12/93 Options: No Shaded area indicates recession																		64																												
BETA .85		(1.00 = Market)																				48																												
																						2009-11 PROJECTIONS																						40						
		Price	Gain	Ann'l Total																		32																												
		High	Low	30	(+45%)	13%																24																												
		Low	20	(-5%)	4%																	16																												
Insider Decisions																						12																												
		J	A	S	O	N	D	J	F	M												8																												
		to Buy	0	0	0	0	0	0	0	0												6																												
		Options	0	0	0	0	0	0	0	0																																								
		to Sell	0	0	0	0	0	0	0	0																																								
Institutional Decisions																																																		
		3Q2005	4Q2005	1Q2006	Percent		9																																											
		to Buy	44	38	shares		6																																											
		to Sell	26	34	traded		3																																											
		Hldrs(000)	4775	4695																																														
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007																																																		
24.45	23.27	20.03	21.88	21.59	19.98	11.84	17.85	17.17	18.89	21.90	30.40	29.06	27.20	28.23	28.61	44.35	49.55	Revenues per sh ^A		66.40																														
2.36	2.29	1.66	2.04	1.71	2.07	1.22	1.92	2.06	2.40	2.60	2.72	2.48	2.25	2.63	2.32	2.60	2.90	"Cash Flow" per sh		4.00																														
1.26	1.14	.63	1.05	.60	.80	.39	.93	.84	1.24	1.39	1.47	1.13	.87	1.19	.82	1.05	1.20	Earnings per sh ^{AB}		1.60																														
.87	.90	.93	.94	.96	.96	.72	.96	.96	.96	.96	.96	.96	.96	.96	.96	.96	.96	Div'ds Decl'd per sh ^C		.98																														
2.50	2.97	4.64	3.85	3.06	4.12	2.42	2.66	2.32	1.81	1.65	2.16	1.91	2.56	3.50	2.53	1.90	2.20	Cap'l Spending per sh		4.10																														
8.33	8.63	9.09	9.96	9.81	9.76	10.09	10.16	10.07	10.36	10.79	11.01	10.34	10.11	10.52	10.39	11.80	13.70	Book Value per sh ^D		18.05																														
6.56	6.63	7.61	8.57	8.91	9.14	10.79	10.97	11.05	11.05	11.05	11.05	11.05	11.13	11.27	11.41	11.50	11.50	Common Shs Outst'g ^E		12.50																														
8.9	12.2	23.7	16.6	25.7	18.2	40.0	17.6	19.4	13.7	11.7	13.4	18.2	22.0	17.5	25.1	Avg Ann'l P/E Ratio		16.5																																
.66	.78	1.44	.98	1.69	1.22	2.51	1.01	1.01	.78	.76	.69	.99	1.25	.92	1.34	Relative P/E Ratio		1.10																																
7.8%	6.4%	6.2%	5.4%	6.2%	6.6%	4.6%	5.9%	5.9%	5.7%	5.9%	4.9%	4.7%	5.0%	4.6%	4.7%	Avg Ann'l Div'd Yield		3.9%																																
																		© VALUE LINE PUB., INC.		09-11																														
CAPITAL STRUCTURE as of 3/31/06																		Revenues (\$mill) ^A		830																														
Total Debt \$173.6 mill. Due in 5 Yrs \$20.5 mill.																		Net Profit (\$mill)		20.0																														
LT Debt \$165.6 mill. LT Interest \$10.0 mill.																		Income Tax Rate		37.0%																														
(LT interest earned: 2.3x; total interest coverage: 2.3x)																		Net Profit Margin		2.4%																														
Pension Assets-9/05 \$58.5 mill. Oblig. \$71.7 mill.																		Long-Term Debt Ratio		52.0%																														
Pfd Stock None																		Common Equity Ratio		48.0%																														
Common Stock 11,481,486 shs.																		Total Capital (\$mill)		470																														
as of 4/28/06																		Net Plant (\$mill)		465																														
MARKET CAP: \$250 million (Small Cap)																		Return on Total Cap'l		6.0%																														
CURRENT POSITION^A 2004 2005 3/31/06																		Return on Shr. Equity		9.0%																														
Cash Assets 5 1.1 6.7																		Return on Com Equity		9.0%																														
Other 65.9 141.0 108.0																		Retained to Com Eq		3.5%																														
Current Assets 66.4 142.1 114.7																		All Div'ds to Net Prof		61%																														
Accts Payable 12.9 17.8 35.9																																																		
Debt Due 47.5 12.5 8.0																																																		
Other 38.6 111.9 58.5																																																		
Current Liab. 99.0 142.2 102.4																																																		
Fix. Chg. Cov. 269% 225% 245%																																																		
ANNUAL RATES																																																		
of change (per sh)																																																		
Past 10 Yrs. Past 5 Yrs. Est'd '03-'05																																																		
Revenues 3.0% 7.5% 15.5%																																																		
"Cash Flow" 2.0% .5% 9.0%																																																		
Earnings 1.5% -3.5% 9.0%																																																		
Dividends -- -- .5%																																																		
Book Value .5% -- 10.0%																																																		
QUARTERLY REVENUES (\$mill.)^A																																																		
Fiscal Year Ends Dec.31 Mar.31 Jun.30 Sep.30 Full Fiscal Year																																																		
2003	100.5	109.3	53.8	39.2	302.8																																													
2004	104.9	119.4	52.1	41.7	318.1																																													
2005	104.6	117.7	56.3	47.9	326.5																																													
2006	158.6	162.8	100	88.6	510																																													
2007	170	177	115	108	570																																													
EARNINGS PER SHARE^{AB}																																																		
Fiscal Year Ends Dec.31 Mar.31 Jun.30 Sep.30 Full Fiscal Year																																																		
2003	.60	.67	.18	.22	.87																																													
2004	.72	.79	.05	.26	1.19																																													
2005	.59	.65	.10	.32	.82																																													
2006	.70	.78	.12	.31	1.05																																													
2007	.75	.73	.08	.20	1.20																																													
QUARTERLY DIVIDENDS PAID^C																																																		
Cal-endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year																																																		
2002	.24	.24	.24	.24	.96																																													
2003	.24	.24	.24	.24	.96																																													
2004	.24	.24	.24	.24	.96																																													
2005	.24	.24	.24	.24	.96																																													
2006	.24	.24	.24	.24	.96																																													
2007	.24	.24	.24	.24	.96																																													

BUSINESS: Cascade Natural Gas Corporation distributes natural gas to roughly 235,000 customers in Washington and Oregon. In 2005, total throughput was 108.2 billion cu. ft. Core customers: residential, commercial, firm industrial, interruptible (71% of oper. margin, 24% of gas deliveries); non-core: industrial, transportation service (29%, 76%). Serves pulp & paper, plywood, chem. fertiliz-

ers, oil refining, and food process. Inds. Main connecting pipeline: Northwest Pipeline Corp. '05 deprec. rate: 2.9%. Est'd plant age: 12 yrs. Has around 375 employees. Officers and directors own 1.8% of com. (12/05 proxy). President and Chief Executive Officer: David W. Stevens, Inc.: WA. Address: 222 Fairview Ave. North, Seattle, WA 98109. Tel.: 206-624-3900. Internet: www.cngc.com.

Results for Cascade Natural Gas have shown significant improvement in fiscal 2006 (ends September 30th) compared to last year's figures. The bread-and-butter residential and commercial business is performing nicely, thanks to steady growth in the customer base, plus increased consumption (reflecting colder temperatures). What's more, the company has been successful at keeping a tight lid on operating expenses, via such measures as effective management of overtime and outsourcing retiree medical obligations to an insurance firm. These factors ought to help share net jump about 28%, to \$1.05, in fiscal 2006. Further expansion in operating margins should enable Cascade's bottom line to advance another 14%, to \$1.20 a share, next year. Note that a request for a rate hike, intended to generate additional annual revenues of \$11.7 million, was filed with the Washington Utilities and Transportation Commission. (Our presentation will account for this when approval is granted, which cannot be determined at this time.)

We are upbeat about the gas distributor's 2009-2011 prospects, as well.

Annual account hookups rose at a fairly steady clip in the past, thanks to generally favorable economic conditions in the Pacific Northwest, and it appears that this trend will continue. What's more, a decent portion of new business should come from conversions, given natural gas' environmental advantages and assuming that prices for this fuel source are competitive. Consequently, earnings per share has the potential to advance around 10% annually, on average, for the coming 3- to 5-year time period.

Income-oriented accounts may find the dividend yield appealing. But additional increases in the distribution will likely be slow in coming, as cash flows are used to accommodate an expanding customer base.

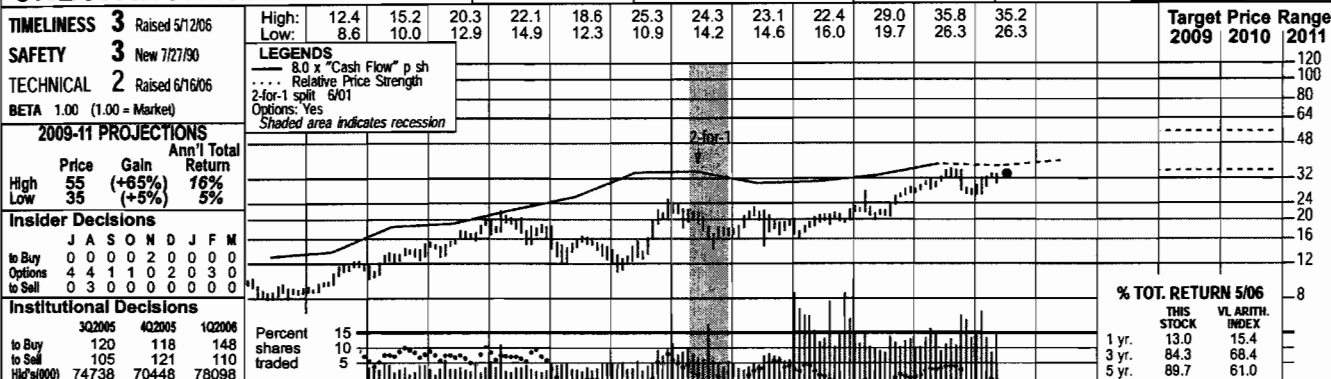
Total-return possibilities are limited. That's primarily because these shares are already trading within our 2009-2011 Target Price Range, and our presentation assumes only modest dividend growth. Furthermore, Cascade stock is ranked to underperform the market over the next six to 12 months.

Frederick L. Harris, III June 16, 2006

UGI CORP. NYSE-UGI				RECENT PRICE	23.68	P/E RATIO	14.7 (Trailing: 15.4 Median: 14.0)	RELATIVE P/E RATIO	0.84	DIV'D YLD	3.0%	VALUE LINE							
TIMELINESS	5	Lowered 5/5/06	High: 7.4 Low: 6.3	8.3 6.7	10.0 7.2	9.9 6.8	8.2 5.0	8.8 6.1	10.5 7.5	13.5 8.6	17.5 12.5	20.7 14.9	30.0 19.2	24.2 20.2	Target Price	2009	2010	2011	
SAFETY	2	Raised 9/17/04	LEGENDS 1.50 x Dividends p sh divided by Interest Rate Relative Price Strength 3-for-2 split 4/03 2-for-1 split 5/05 Options: Yes Shaded area indicates recession																
TECHNICAL	3	Raised 6/9/06																	
BETA	90	(1.00 = Market)																	
2009-11 PROJECTIONS																			
Ann'l Total																			
High	Price	Gain	Return																
Low	30	(+25%)	9%																
	20	(-15%)	-7%																
Insider Decisions																			
J A S O N D J F M																			
to Buy 0 0 0 0 0 0 0 2 1																			
Options to Sell 0 5 1 0 0 0 5 3 2																			
to Sell 0 6 2 0 0 0 0 2 1																			
Institutional Decisions																			
3Q2005 4Q2005 1Q2006																			
to Buy 111 104 84																			
to Sell 90 102 104																			
Hld's(%) 68294 68538 69301																			
Percent shares traded 9 6 3																			
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007																			
7.06	8.92	7.84	5.32	7.84	8.89	15.67	16.66	14.46	16.91	21.75	30.14	26.64	35.44	36.95	46.65	47.40	48.85	Revenues per sh ^A	45.65
.60	.71	.79	.44	.82	.82	1.21	1.36	1.29	1.62	1.74	1.99	2.03	2.38	2.44	3.13	2.95	3.20	"Cash Flow" per sh	3.35
.27	.29	.38	.14	.39	.20	.35	.49	.41	.45	.53	.70	.90	1.15	1.22	1.72	1.55	1.75	Earnings per sh ^B	1.85
.39	.41	.43	.33	.45	.46	.47	.48	.48	.49	.51	.53	.54	.57	.60	.65	.69	.72	Div'ds Decl'd per sh ^C	.81
.75	.56	.49	.43	.50	.70	.63	.70	.69	.86	.88	.95	1.14	1.18	1.31	1.51	1.40	1.40	Cap'l Spending per sh	1.45
3.74	4.07	4.32	4.33	4.38	3.85	3.80	3.82	3.69	3.05	3.05	3.12	3.82	6.67	8.14	9.52	10.45	11.50	Book Value per sh ^D	14.45
61.25	79.55	90.33	95.83	97.18	98.75	99.41	98.59	99.60	81.81	80.98	81.89	83.11	85.40	102.42	104.80	105.50	106.50	Common Shs Outst'g ^E	109.50
21.5	21.3	17.7	NMF	18.7	33.9	21.0	16.2	21.7	15.9	13.6	12.1	11.4	12.6	13.4	13.8	13.8	13.8	Avg Ann'l P/E Ratio	13.0
1.60	1.36	1.07	NMF	1.23	2.27	1.32	.93	1.13	.91	.88	.62	.62	.72	.71	.73	.73	.73	Relative P/E Ratio	.85
6.7%	6.7%	6.4%	4.2%	6.2%	6.8%	6.4%	6.0%	5.5%	6.9%	7.0%	6.2%	5.3%	3.9%	3.7%	2.7%	2.7%	2.7%	Avg Ann'l Div'd Yield	3.2%
CAPITAL STRUCTURE as of 3/31/06																			
Total Debt \$1828.6 mill. Due in 5 Yrs \$928.8 mill.																			
LT Debt \$1636.8 mill. LT Interest \$105.0 mill. (Total interest coverage: 3.7x)																			
Leases, Uncapitalized Annual rentals \$46.5 mill.																			
Pension Assets 9/05 \$215.3 mill. Oblig. \$247.9 mill.																			
Minority interests in AmeriGas \$198.0 mill.																			
Pfd Stock None																			
Common Stock 105,309,875 shares as of 4/30/06																			
MARKET CAP: \$2.5 bill. (Mid Cap)																			
CURRENT POSITION 2004 2005 3/31/06 (\$MILL.)																			
Cash Assets 199.6 385.0 369.1																			
Other 636.9 787.3 938.1																			
Current Assets 836.5 1172.3 1307.2																			
Accts Payable 323.9 399.7 440.8																			
Debt Due 200.9 349.4 191.8																			
Other 398.0 414.0 310.3																			
Current Liab. 922.8 1163.1 942.9																			
Fix. Chg. Cov. 271% 350% NMF																			
ANNUAL RATES Past Past Est'd '03-'05 of change (per sh) 10 Yrs. 5 Yrs. to '09-'11																			
Revenues 18.5% 17.5% 2.5%																			
"Cash Flow" 14.5% 11.5% 4.0%																			
Earnings 19.0% 24.0% 5.5%																			
Dividends 4.0% 4.0% 5.0%																			
Book Value 7.0% 20.0% 10.0%																			
Fiscal Year Ends Dec.31 Mar.31 Jun.30 Sep.30 Full Fiscal Year																			
2003 739.9 1135.9 623.1 527.2 3026.1																			
2004 893.7 1316.6 823.4 751.0 3784.7																			
2005 1361.9 1788.2 932.5 806.1 4888.7																			
2006 1577.9 1845.5 925 651.6 5000																			
2007 1650 1950 900 700 5200																			
Fiscal Year Ends Dec.31 Mar.31 Jun.30 Sep.30 Full Fiscal Year																			
2003 .43 .81 d.03 d.06 1.15																			
2004 .44 .81 .08 d.03 1.22																			
2005 .61 1.12 .10 d.08 1.72																			
2006 .54 .98 .10 d.07 1.55																			
2007 .60 1.15 .10 d.10 1.75																			
Calendar Mar.31 Jun.30 Sep.30 Dec.31 Full Year																			
2002 .133 .133 .137 .137 .54																			
2003 .137 .142 .142 .142 .57																			
2004 .142 .142 .156 .156 .60																			
2005 .156 .156 .169 .169 .65																			
2006 .169 .169 .176 .176 .68																			
BUSINESS: UGI Corporation operates five business segments: AmeriGas Propane (accounted for 9% of net income in 2005), International Propane (53%), Gas Utility (21%), Electric Utility (6%) and Energy Services (12%). UGI Utilities distributes natural gas and electricity to nearly 370,000 customers in eastern PA; 44%-owned AmeriGas Partners is the largest U.S. propane marketer, serving about 1.3 million users in 46 states. Acquired remaining 80% interest in Antargaz (3/04). '05 depr. rate: 5.3%. About 9,300 employees, 9,480 stockholders. Barklays Bank PLC owns 8.7% of comn. stk.; off/dir., 2.4% (2/06 proxy). Chairman and CEO: Lon R. Greenberg, Inc.: PA. Addr.: 460 North Gulph Rd., King of Prussia, PA 19406. Tel.: 610-337-1000. Internet: www.ugicorp.com.																			
UGI Corp. is likely to post lower profits in fiscal 2006 (ends September 30th). Our opinion is partly based on the especially strong performance from Antargaz in the previous year. Indeed, the company's acquisition of Antargaz in March, 2004, was a timely move, as profits in the International Propane division climbed to record levels. Unusually high unit margins and favorable currency exchange rates helped to enhance earnings in 2005. However, this strong performance was unsustainable. In the March quarter, this unit reported a nearly 23% decline in operating income to \$74 million, despite having sold a similar amount of retail gallons. Unfavorable weather conditions in the U.S. have also weighed on the bottom line. The Gas Utility segment suffered an 18% decline in operating profits, to \$39.9 million, due in part to warmer-than-normal temperatures. Higher operating expenses also hurt results. In light of the latest setbacks, we have trimmed our full-year earnings estimate by \$0.05 per share to \$1.55. It should be mentioned that UGI produces much of its income during the winter heating season, and we do not expect volatility in earnings through the balance of the financial year.																			
Earnings may rebound next year, assuming that Mother Nature cooperates. A return to normal weather conditions in the U.S. should help to stabilize profits in the Gas Utility segment, as well as in the smaller Electric Utility business. In addition, the company is seeking to expand its Gas Utility operations via a large acquisition. The buyout of PG Energy's natural gas utility assets is still pending. UGI's cash offer of \$580 million is currently under review by Pennsylvania regulators. If all goes well, the deal is expected to be completed in the September quarter. Importantly, the acquisition should be accretive to earnings in the first full year of ownership. Investors looking for dividend growth may find these untimely shares of interest. The company has been able to consistently increase its cash flow by expanding its operations through acquisitions. This has enabled UGI to raise the dividend payout at a competitive rate. Charles W. Noh June 16, 2006																			
Company's Financial Strength B+ Stock's Price Stability 90 Price Growth Persistence 65 Earnings Predictability 80																			
To subscribe call 1-800-833-0046.																			

ONEOK INC. NYSE-OKE

RECENT PRICE **33.63** P/E RATIO **14.3** (Trailing: 12.2 Median: 13.0) RELATIVE P/E RATIO **0.81** DIV'D YLD **3.6%** VALUE LINE



1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
12.54	12.95	12.71	14.81	14.84	17.58	22.46	20.69	29.06	29.83	112.38	113.38	34.63	31.50	57.47	129.81	95.00	93.60	Revenues per sh ^{A E}	91.85
1.26	1.38	1.48	1.61	1.62	1.72	2.30	2.38	2.79	3.22	4.26	4.33	3.78	3.86	4.14	4.70	4.60	4.90	"Cash Flow" per sh	5.80
.61	.67	.61	.72	.67	.79	.97	1.07	1.12	1.03	1.48	1.23	1.29	2.13	2.30	2.55	2.35	2.50	Earnings per sh ^{A B}	3.10
.38	.41	.48	.53	.56	.56	.59	.60	.60	.62	.62	.62	.62	.69	.88	1.09	1.18	1.28	Div'ds Decl'd per sh ^C	1.40
1.32	2.16	1.31	1.62	1.39	--	1.64	1.61	4.77	3.40	5.27	5.69	3.47	2.26	2.53	2.57	2.65	2.65	Cap'l Spending per sh	2.80
6.26	6.51	6.64	6.82	6.94	7.19	7.61	8.24	9.51	9.81	11.11	21.08	22.47	13.04	15.41	18.38	19.75	20.65	Book Value per sh ^F	25.20
53.25	53.24	53.26	53.27	53.38	54.04	54.52	56.16	63.15	61.77	59.11	60.00	60.76	95.19	104.20	97.65	120.00	125.00	Common Shs Outst'g ^D	135.00
12.0	10.8	12.9	14.3	14.0	11.9	12.5	13.8	16.4	15.2	10.5	15.9	15.0	9.2	10.3	11.9	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	15.0
.89	.69	.78	.84	.92	.80	.78	.80	.85	.87	.68	.81	.82	.52	.54	.64			Relative P/E Ratio	1.00
5.2%	5.7%	6.2%	5.2%	5.9%	5.9%	4.9%	4.1%	3.3%	4.0%	4.0%	3.2%	3.2%	3.5%	3.7%	3.6%			Avg Ann'l Div'd Yield	3.0%
CAPITAL STRUCTURE as of 3/31/06						1224.3	1161.9	1835.4	1842.8	6642.9	6803.1	2104.3	2999.0	5988.1	12676	11400	11700	Revenues (\$mill) ^{A E}	12400
Total Debt\$3855.6 mill. Due in 5 Yrs \$1853.9 mill.						15.8%	17.5%	16.6%	19.0%	7.2%	7.6%	24.7%	20.2%	11.3%	6.0%	7.5%	8.0%	Operating Margin	9.5%
LT Debt \$3104.1 mill. LT Interest \$161.0 mill.						72.9	74.5	101.7	129.7	143.4	157.3	147.8	160.9	188.7	183.4	250	275	Depreciation (\$mill)	330
(Total interest coverage: 5.0x) (57% of Cap'l)						52.8	59.3	101.8	106.4	145.6	139.4	118.9	206.6	242.2	275.4	295	330	Net Profit (\$mill)	440
Pension Assets-12/05 \$703.9 mill. Oblig. \$777.4 mill.						38.5%	37.0%	39.5%	38.7%	38.3%	36.8%	46.3%	40.1%	38.2%	34.2%	36.0%	36.0%	Income Tax Rate	36.0%
Pfd Stock None						4.3%	5.1%	5.5%	5.8%	2.2%	2.0%	5.6%	6.9%	4.0%	2.2%	2.6%	2.8%	Net Profit Margin	3.6%
						30.6	18.2	d122.7	d104.3	d210.4	d256.4	d94.0	d346.1	d396.0	d389.5	d60	d70.0	Working Cap'l (\$mill)	d85.0
						336.8	328.2	312.4	810.1	1473.2	1498.0	1511.1	1978.6	1543.2	2024.1	3105	3205	Long-Term Debt (\$mill)	3405
						423.7	462.6	1168.9	1174.5	1225.0	1265.3	1365.6	1241.4	1605.7	1794.8	2370	2580	Shr. Equity (\$mill)	3400
Common Stock 117,395,380 shs. as of 4/30/06						9.0%	9.5%	7.9%	6.4%	6.9%	7.2%	5.8%	7.8%	9.2%	8.3%	7.0%	7.0%	Return on Total Cap'l	8.0%
						12.5%	12.8%	8.7%	9.1%	11.9%	11.0%	8.7%	16.6%	15.1%	15.3%	12.5%	13.0%	Return on Shr. Equity	13.0%
MARKET CAP: \$3.9 billion (Mid Cap)						6.0%	6.8%	7.8%	5.0%	11.4%	5.2%	3.3%	10.9%	9.5%	9.2%	7.0%	8.0%	Retained to Com Eq	8.5%
CURRENT POSITION						53%	47%	54%	72%	48%	53%	63%	34%	37%	40%	42%	39%	All Div'ds to Net Prof	33%
(MW)																			

CAPITAL STRUCTURE as of 3/31/06
 Total Debt \$385.6 mill. Due in 5 Yrs \$185.9 mill.
 LT Debt \$310.4 mill. LT Interest \$161.0 mill.
 (Total interest coverage: 5.0x) (57% of Cap'l)

Pension Assets-12/05 \$703.9 mill. **Oblig.** \$777.4 mill.
Pfd Stock None

Common Stock 117,395,380 shs.
 as of 4/30/06

MARKET CAP: \$3.9 billion (Mid Cap)

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	16.5%	5.0%	4.0%
"Cash Flow"	10.0%	4.5%	5.5%
Earnings	12.5%	14.0%	5.0%
Dividends	5.0%	7.5%	8.0%
Book Value	8.5%	9.0%	8.5%

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2003	1085.0	496.5	568.3	849.2	2999.0
2004	1030.9	632.1	1726.8	2598.3	5988.1
2005	2743.7	2129.9	3181.6	4694.5	12749.7
2006	3911.0	2100	2400	2989	11400
2007	3600	2300	2700	3100	11700

Cal-endar	EARNINGS PER SHARE ^B				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2003	1.20	.23	.01	.65	2.13 ^F
2004	1.04	.17	.19	.90	2.30
2005	.97	.23	.49	.86	2.55
2006	1.17	.20	.35	.63	2.35
2007	1.15	.25	.35	.75	2.50

Cal-endar	QUARTERLY DIVIDENDS PAID C=				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2002	.155	.155	.155	.155	.62
2003	.17	.17	.17	.18	.69
2004	.19	.21	.23	.25	.88
2005	.25	.28	.28	.28	1.09
2006	.28	.30			

BUSINESS: ONEOK Inc. engages in several aspects of the energy business. It purchases, gathers, processes, transports, stores, and distributes natural gas. The company also drills for and produces oil and natural gas, extracts, sells, and markets natural gas liquids, and has gas marketing and trading operations. ONEOK has over 1.4 million distribution customers in Oklahoma and Kansas. Its in-

ONEOK reported impressive first-quarter revenue and share-net growth of 43% and 21%, respectively. These results were driven by strength in the Energy Services segment and the Pipelines and Storage segment, as operating income advanced by 77% and 96%, respectively, compared to the prior year's period. Growth in the Natural Gas Liquids segment also augmented earnings.

For full-year 2006, earnings per share should be somewhat below the level reached last year. Increased interest and depreciation expense, as well as higher employee benefit costs, should lower earnings. In 2007, share-net growth should resume, as growth in expenses moderates. Also, note that the company recently increased its quarterly dividend by 7%, to \$0.30 per share. Dividend growth should continue in the coming years.

ONEOK recently received approval to raise rates in two of its service areas in Texas. The increased rates, which took effect in late April, affect 56,500 natural gas distribution customers, and should increase annual revenues by \$2.5 million. ONEOK has another rate case in Texas

pending approval and is seeking a rate increase in Kansas that, if approved, would augment revenues by \$73.3 million.

Affiliate ONEOK Partners recently announced a joint venture agreement with Williams to build the Overland Pass Pipeline. The 750-mile natural gas liquids pipeline will have the capacity to transport 110,000 barrels per day of natural gas liquids from southwestern Wyoming to a major distribution and storage hub in Kansas. The project is expected to increase total annual operating income at ONEOK Partners, in which ONEOK has a 46% interest, by \$63 million.

ONEOK is not without risk. Long-term debt has risen by more than 50% since the beginning of the year, as a result of the company's increased interest in ONEOK Partners. With a long-term debt-to-equity ratio of approximately 1.3, ONEOK has more leverage than we would prefer. **These neutrally ranked shares should track the overall market for the year ahead.** But patient investors may be rewarded, as OKE has worthwhile total-return potential to late decade.

Michael F. Napoli June 16, 2006

(A) Fiscal year moved to a calendar year, beginning in 2000. (B) Diluted earnings. Excl. nonrecurr. items: '02, 9¢; '03, (91¢); '05, \$2.51. Next eggs. report due late August. (C) Dividends

historically paid mid-Feb., May, Aug., and Nov. ■ Div'd reinvest. plan avail. (D) In mill., adj. for splits. (E) Qtrly. figs. don't sum due to changes in shares count. (F) Includes intangibles. At

3/31/06: \$991.3 mill., \$8.45/sh.

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

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EQUITABLE RES. NYSE-EQT

RECENT PRICE **33.29**

P/E RATIO **17.1** (Trailing: 19.1 Median: 16.0)

RELATIVE P/E RATIO **.97**

DIV'D YLD **2.6%**

VALUE LINE

TIMELINESS 4 Lowered 5/5/06
SAFETY 2 Raised 6/23/00
TECHNICAL 3 Raised 5/26/06
BETA .85 (1.00 = Market)

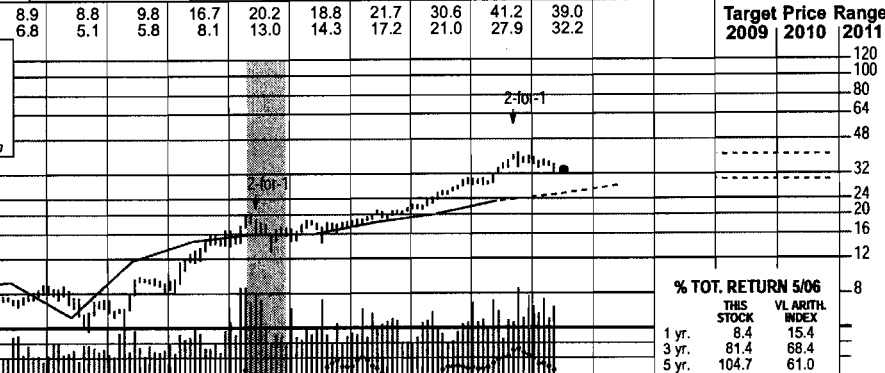
2009-11 PROJECTIONS
 Price 40 (+20%)
 Low 30 (-10%)
 Gain 8%
 Return 1%

Insider Decisions
 J A S O N D J F M
 to Buy 0 0 0 0 0 2 0 0 0
 Options 0 1 0 0 0 0 0 0 5
 to Sell 0 1 0 0 0 0 0 0 5

Institutional Decisions
 3Q2005 4Q2005 1Q2006
 to Buy 119 155 115
 to Sell 123 120 148
 Hld's(000) 86427 84833 86852

LEGENDS
 9.0 x "Cash Flow" p sh
 Relative Price Strength
 3-for-2 split 1/93
 2-for-1 split 6/01
 2-for-1 split 9/05
 Options: Yes
 Shaded area indicates recession

Percent shares traded
 9
 6
 3



1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
5.27	5.43	6.47	7.94	10.11	10.18	13.17	14.56	6.15	8.12	12.69	13.81	8.57	8.40	9.76	10.46	11.95	12.90	Revenues per sh	14.55
.85	.95	1.00	1.09	1.12	1.08	.97	1.01	.67	1.30	1.63	1.76	1.77	2.02	2.22	2.58	2.80	3.10	"Cash Flow" per sh	3.55
.47	.51	.48	.57	.44	.33	.39	.43	.20	.50	.86	1.15	1.18	1.37	1.50	1.75	1.95	2.20	Earnings per sh ^A	2.50
.23	.25	.26	.28	.29	.30	.30	.30	.30	.30	.30	.32	.34	.49	.72	.82	.87	.91	Div'ds Decl'd per sh ^B	1.03
.81	1.88	.79	2.46	1.06	.84	.78	1.71	.97	.78	.95	1.04	1.75	1.78	1.66	2.30	4.15	2.10	Cap'l Spending per sh	2.15
4.22	4.48	4.70	5.28	5.43	5.11	5.25	5.58	4.94	4.91	5.33	6.62	6.24	7.74	7.17	2.96	4.20	5.40	Book Value per sh	9.15
125.20	125.24	125.54	137.86	138.16	140.03	141.38	147.72	143.42	130.92	130.16	127.74	124.68	124.73	122.06	119.91	121.00	120.00	Common Shs Outst'g ^C	117.00
13.3	12.2	14.9	17.0	18.8	21.7	18.5	17.8	37.3	16.1	14.5	14.4	14.5	14.4	16.7	19.2	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	14.0
.99	.78	.90	1.00	1.23	1.45	1.16	1.03	1.94	.92	.94	.74	.79	.82	.88	1.03			Relative P/E Ratio	.95
3.6%	4.0%	3.6%	2.9%	3.5%	4.1%	4.1%	3.9%	4.1%	3.7%	2.4%	1.9%	2.0%	2.5%	2.9%	2.4%			Avg Ann'l Div'd Yield	2.9%

CAPITAL STRUCTURE as of 3/31/06
 Total Debt \$833.4 mill. Due in 5 Yrs \$382.6 mill.

LT Debt \$763.4 mill. LT Interest \$45.0 mill.
 (Total interest coverage: 8.4x) (55% of Cap'l)

Leases, Uncapitalized None

Pension Assets-12/05 \$75 mill. Oblig. \$82 mill.
Pfd Stock None

Common Stock 120,575,748 shares as of 3/31/06
MARKET CAP: \$4.0 billion (Mid Cap)

CURRENT POSITION 2004 2005 3/31/06 (\$MILL.)

Cash Assets	--	75.0	5.0
Receivables	238.6	249.4	197.5
Inventory (Avg Cst)	204.6	289.9	189.0
Other	209.4	482.2	303.7
Current Assets	652.6	1097.2	695.2
Accts Payable	187.7	242.6	175.4
Debt Due	306.1	368.3	70.0
Other	521.5	1481.6	1065.8
Current Liab.	1015.3	2092.5	1311.2

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	--	1.0%	7.0%
"Cash Flow"	7.5%	13.5%	7.5%
Earnings	13.0%	24.5%	8.5%
Dividends	9.0%	18.0%	7.0%
Book Value	1.0%	3.5%	7.5%

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	342.3	218.5	185.5	301.0	1047.3
2004	400.4	240.7	205.9	344.7	1191.6
2005	401.3	230.2	229.3	392.9	1253.7
2006	430.1	285	285	444.9	1445
2007	450	300	325	475	1550

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.51	.25	.23	.38	1.37
2004	.55	.24	.29	.42	1.50
2005	.60	.27	.33	.55	1.75
2006	.59	.40	.35	.61	1.95
2007	.70	.45	.45	.60	2.20

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.08	.09	.09	.09	.34
2003	.09	.10	.15	.15	.49
2004	.15	.19	.19	.19	.72
2005	.19	.21	.21	.21	.82
2006	.21	.22			

BUSINESS: Equitable Resources, Inc. markets natural gas products and energy services. Distributes natural gas to 274,400 customers, mainly residential, in parts of PA, WV, and KY. Operates 8,500 miles of pipelines in WV, KY, VA, and PA. Produces natural gas in the Appalachian Basin with total proved reserves of 2,365 Bcfe. Operates approx. 12,000 wells in Appalachia. '05 net operating revenues by business segment: Utilities (34%), Supply (66%). Sold NORESCO, 12/05. '05 dep. rate: 2.9%. About 1,250 employees, 4,182 stockholders. Off./dir. own 4.0% of common stock; Capital Research and Mngt., 6.9% (3/06 proxy). Chairman, President & CEO: Murry S. Gerber. Inc.: PA. Address: 1 Oxford Centre, Pittsburgh, PA 15219. Tel.: 412-553-5700. Internet: www.eqt.com.

Equitable Resources' near-term earnings prospects are supported by its production and gathering business. Equitable Supply has been a bright spot, stabilizing profits in the March quarter. This division posted operating profits of \$72 million, up 10% from the same period a year ago. A 7% improvement in the average well-head sales price was the largest contributing factor. Perhaps more importantly, Equitable Supply was able to keep pace with last year's sales volumes, despite having sold certain wells in May, 2005. Production from new wells helped to maintain output levels. It should be noted that management appears to be more aggressive on the development front, with 133 wells drilled in the first quarter, more than double the amount in the first quarter of 2005. We assume that such activity will pick up in order to meet the stated target of drilling at least 550 wells in 2006. In this case, sales volumes ought to increase approximately 4% to 77 Bcfe. **Expansion in mid-stream operations is also considered a plus.** The buildup of mid-stream assets will take some time, but the long-term prospects are appealing, in

our view. Development of the Big Sandy Pipeline is one of the most financially attractive projects, currently undergoing the regulatory and permitting process. Natural gas producers in Appalachia have shown a lot of interest in the pipeline, and capacity has been expanded to accommodate the strong demand. Operations are expected to commence in 2007. **There is potential upside to our estimates.** The pending \$970 million acquisition of Dominion Resources' natural gas distribution and midstream businesses seems to be on track to close by the end of this year. From an operational standpoint, the proposed deal would make Equitable the largest natural gas distributor in Pennsylvania. Also, there is an opportunity to generate operational synergies, given the large overlap in the combined service territories. As per *Value Line* convention, the pending acquisition will not be reflected in our estimates until it is consummated. **These shares lack investment appeal at this time.** The current quote seems to already reflect the pending buyout. *Charles W. Noh* June 16, 2006

(A) Based on diluted shares. Excludes net non-recurring gain/loss: '95, (\$1.29); '96, 13¢; '97, 3¢; '98, (\$1.73); '00, (12¢); '02, 4¢; '03, (6¢); '05, \$0.34. Excludes results of disc. ops.: '98, (24¢); '05, 1¢. Includes accelerated collection of prior years' gas costs: '95, 19¢; '96, 13¢; '97, 13¢; '98, 5¢. Next egs. rpt. due late July. (B) Dividends historically paid in early March, June, Sept., and Dec. (C) Div. reinvestment plan available. (D) In millions, adjusted for stock splits. (E) Company's Financial Strength B++ Stock's Price Stability 95 Price Growth Persistence 90 Earnings Predictability 65

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NATIONAL FUEL GAS NYSE-NFG										RECENT PRICE	34.96	P/E RATIO	14.5 (Trailing: 17.1 Median: 14.0)	RELATIVE P/E RATIO	0.82	DIV'D YLD	3.4%	VALUE LINE														
TIMELINESS	3	Raised 10/14/05	High: 16.9	22.1	24.5	24.8	26.5	32.3	31.6	25.7	27.5	29.2	36.0	36.8					Target Price	2009	2010	2011										
SAFETY	2	New 7/27/90	Low: 12.5	15.7	19.7	19.8	18.8	19.7	22.0	15.6	19.0	23.8	26.2	30.6																		
TECHNICAL	3	Raised 5/26/06	LEGENDS — 6.0 x "Cash Flow" p.sh Relative Price Strength 2-for-1 split 9/01 Options: Yes Shaded area indicates recession																													
BETA	.95	(1.00 = Market)																														
2009-11 PROJECTIONS																																
Price	30	Gain	Ann'l Total																													
High	30	(-15%)	Return																													
Low	20	(-45%)	NII																													
Insider Decisions																				% TOT. RETURN 5/06												
J	A	S	O	N	D	J	F	M																								
to Buy	0	0	1	0	0	0	0	0																								
Options	3	2	1	0	0	1	0	1																								
to Sell	1	1	0	0	0	1	0	1																								
Institutional Decisions																				% TOT. RETURN 5/06												
3Q2005	4Q2005	1Q2006	Percent																													
to Buy	131	131	7.5																													
to Sell	96	96	2.5																													
Hld's(000)	34798	34927																														
1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC. 09-11														
15.63	13.99	13.58	13.92	15.31	13.03	15.96	16.58	16.22	16.26	18.12	26.45	18.25	24.99	24.48	22.80	28.55	30.60	Revenues per sh ^A				26.00										
1.68	1.61	1.71	1.97	2.11	1.97	2.68	2.97	2.99	3.15	3.42	4.31	3.84	4.29	4.25	4.06	4.60	4.75	"Cash Flow" per sh				4.50										
.92	.82	.97	1.08	1.12	1.02	1.39	1.51	1.44	1.48	1.61	2.11	1.58	1.89	1.97	1.91	2.35	2.60	Earnings per sh ^B				2.05										
.68	.72	.74	.76	.78	.80	.83	.86	.89	.92	.95	.99	1.03	1.06	1.10	1.14	1.18	1.20	Div'ds Decl'd per sh ^C				1.26										
2.83	2.53	2.33	1.80	1.81	2.44	2.27	2.80	5.11	3.35	3.42	3.69	2.90	1.87	2.08	2.59	3.00	3.50	Cap'l Spending per sh				2.30										
8.48	8.76	9.34	10.04	10.47	10.69	11.31	11.97	11.57	12.09	12.55	12.63	12.54	13.97	15.11	14.58	15.90	17.10	Book Value per sh				19.65										
57.06	61.85	67.71	73.32	74.56	74.87	75.70	76.33	76.94	77.68	78.66	79.41	80.26	81.44	82.99	84.36	84.00	85.00	Common Shs Outst'g ^D				86.50										
13.3	14.4	13.0	14.5	14.4	13.7	12.2	14.0	15.6	15.5	15.0	12.7	14.3	11.8	12.7	15.0	Avg Ann'l P/E Ratio				12.5												
.99	.92	.79	.86	.94	.92	.76	.81	.81	.88	.98	.65	.78	.67	.67	.83	Relative P/E Ratio				.85												
5.6%	6.1%	5.8%	4.8%	4.8%	5.8%	4.9%	4.1%	3.9%	4.0%	3.9%	3.7%	4.6%	4.7%	4.3%	4.0%	Avg Ann'l Div'd Yield				4.2%												
CAPITAL STRUCTURE as of 3/31/06						1208.0	1265.8	1248.0	1263.3	1425.3	2100.4	1464.5	2035.5	2031.4	1923.6	2400	2600	Revenues (\$mill) ^A				2250										
Total Debt \$1123.9 mill. Due in 5 Yrs \$332.2 mill.						26.7%	27.5%	28.5%	30.6%	30.7%	26.3%	33.1%	26.6%	25.9%	26.0%	24.0%	25.0%	Operating Margin				26.0%										
LT Debt \$1114.4 mill. LT Interest \$73.1 mill.						98.2	111.7	118.9	129.7	142.2	174.9	180.7	195.2	189.5	179.8	180	185	Depreciation (\$mill)				210										
(Total interest coverage: 4.8x) (4.3% of Cap'l)						104.7	114.7	111.4	115.0	127.2	167.4	127.6	154.2	163.3	162.4	205	220	Net Profit (\$mill)				180										
Leases, Uncapitalized Annual rentals \$8.5 mill.						38.8%	37.5%	39.4%	35.7%	37.5%	40.7%	37.6%	37.8%	35.5%	37.7%	39.0%	39.0%	Income Tax Rate				38.0%										
Pension Assets-9/05 \$616 mill. Oblig. \$825 mill.						8.7%	9.1%	8.9%	9.1%	8.9%	8.0%	8.7%	7.6%	8.0%	8.4%	8.5%	8.6%	Net Profit Margin				7.9%										
Pfd Stock None						d130.5	d155.5	d478.9	d381.8	d490.0	d509.6	d373.5	d146.2	d50.8	112.8	100	125	Working Cap'l (\$mill)				50.0										
Common Stock 83,976,340 shares as of 4/30/06						574.0	581.6	692.7	822.7	953.6	1046.7	1145.3	1147.8	1133.3	1119.0	1115	1100	Long-Term Debt (\$mill)				1000										
MARKET CAP: \$2.9 billion (Mid Cap)						856.0	913.7	890.1	939.3	887.4	1002.7	1006.9	1137.4	1253.7	1229.6	1335	1455	Shr. Equity (\$mill)				1700										
CURRENT POSITION						8.7%	9.1%	8.7%	8.4%	8.3%	10.2%	8.0%	8.8%	8.6%	8.5%	9.5%	10.0%	Return on Total Cap'l				8.0%										
2004						12.2%	12.6%	12.5%	12.2%	12.9%	16.7%	12.7%	13.6%	13.0%	13.2%	15.5%	15.0%	Return on Shr. Equity				10.5%										
2005						5.1%	5.5%	5.0%	4.8%	5.5%	9.1%	4.6%	6.1%	5.9%	5.5%	8.0%	8.0%	Retained to Com Eq				4.0%										
3/31/06						58%	56%	60%	61%	57%	46%	63%	55%	55%	58%	48%	46%	All Div'ds to Net Prof				60%										
(\$MILL.)						Cash Assets	57.5	57.6	98.1																							
						Receivables	129.8	155.1	358.0																							
						Inventory (LIFO)	104.0	97.8	64.3																							
						Other	113.3	262.3	180.5																							
						Current Assets	404.6	572.8	700.9																							
						Accts Payable	119.1	156.6	158.1																							
						Debt Due	171.1	9.4	9.5																							
						Other	165.2	295.1	305.5																							
						Current Liab.	455.4	460.0	473.1																							
ANNUAL RATES						Past	Past	Est'd	'03-'05																							
of change (per sh)						10 Yrs.	5 Yrs.	to '09-'11																								
						Revenues	4.5%	6.5%	2.0%																							
						"Cash Flow"	8.0%	6.5%	.5%																							
						Earnings	5.5%	4.0%	1.5%																							
						Dividends	3.5%	3.5%	2.5%																							
						Book Value	3.5%	3.0%	4.0%																							
FISCAL YEAR ENDS						Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year																						
2003	479.7	809.1	449.5	297.2	2035.5																											
2004	532.5	801.7	419.0	278.2	2031.4																											
2005	500.3	735.8	400.4	287.1	1923.6																											
2006	710.8	891.0	450	348.2	2400																											
2007	735	890	490	485	2600																											
FISCAL YEAR ENDS						Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year																						
2003	.58	.99	.31	.03	1.89																											
2004	.53	.95	.40	.09	1.97																											
2005	.60	.84	.31	.16	1.91																											
2006	.67	.91	.41	.36	2.35																											
2007	.73	1.02	.45	.40	2.60																											
Cal-endar						Mar.31	Jun.30	Sep.30	Dec.31	Full Year																						
2002	.253	.253	.26	.26	1.03																											
2003	.26	.26	.27	.27	1.06																											
2004	.27	.27	.28	.28	1.10																											
2005	.28	.28	.29	.29	1.14																											
2006	.29	.29	.30																													

BUSINESS: National Fuel Gas Company is an integrated natural gas company. Gas Utility sells and transports gas to about 733,000 customers in western New York and northwestern Pennsylvania. The company's pipeline and storage division owns gas pipelines between Pennsylvania and the New York/Canadian border near Buffalo. The exploration and production segment is operated by Seneca Resources and other nonregulated divisions. 2005 depreciation rate: 4.3%. Has 2,044 employees, 19,063 stockholders. Off/dir. own 6.5% of common stock; Vanguard, 8.7% (1/06 proxy). Chairman, President, & CEO: Philip C. Ackerman, Inc.: NJ. Address: 6363 Main Street, Williamsville, NY 14221. Telephone: 716-857-7000. Internet: www.nationalfuelgas.com.

National Fuel Gas will likely have a strong year in fiscal 2006. The oil and natural gas exploration and production (E&P) division is on track to record marked share-net growth this fiscal year. The exploration and production segment (10% of second-quarter revenues) continues to drive profitability, thanks to higher oil and natural gas prices and a higher-margin cost structure. Although natural gas pricing has softened in recent months, quotes are still at historically high levels. This segment has been, far and away, the swing factor, recording double-digit gains over last fiscal year. The company's largest segments, utility and energy marketing (61% and 23%, respectively) have been growing revenues nicely. However, rising operating costs and interest expense have limited bottom-line growth. We believe these areas will continue to supplement income growth, but E&P is likely to remain the key driver over the next few quarters.

The company's E&P segment's fundamentals are promising. We expect production to pick up, as recently completed wells and steadfast ongoing drilling efforts in Canada, which have yielded 100% success rates, coupled with projects in the Appalachian region, offer considerable promise. The Gulf of Mexico is also coming back on stream at a fair pace, as repairs continue in the aftermath of Hurricane Katrina. Too, National's recently implemented technology should lower lease operating expenses over the next few months. This would enhance margin expansion.

Meanwhile, the utility and pipeline and storage segments are improving. Both of the government regulated units are clearing obstacles. The distribution division has been benefiting from higher rates, particularly in New York. Pennsylvania, however, was hit hard by warmer winter months. Additionally, higher efficiency gas revenues and lower project development costs associated with the Empire connector are promising.

Still, we believe these good quality shares are fully valued. The likely retreat in natural gas prices over the long term would reduce profits from their present highs and the stock is trading above our 2009-2011 Target Price Range.

Simon R. Shoucair June 16, 2006

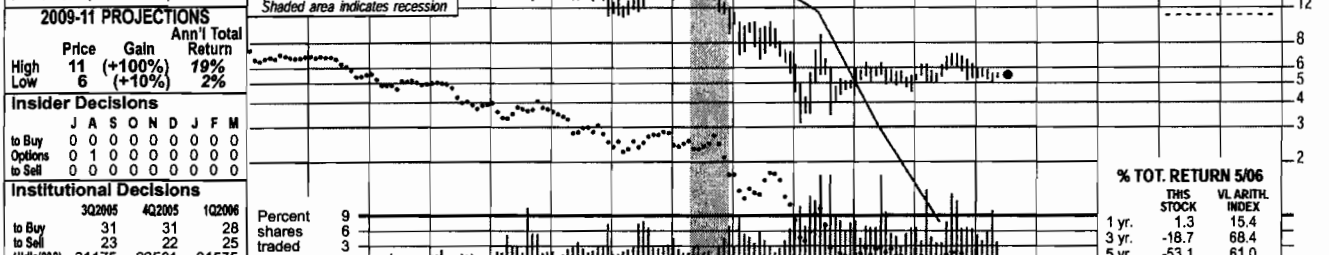
ENERGEN CORP. NYSE-EGN										RECENT PRICE	34.46	P/E RATIO	10.8	(Trailing: 12.6 Median: 13.0)	RELATIVE P/E RATIO	0.61	DIV'D YLD	1.3%	VALUE LINE
TIMELINESS 3 Lowered 1/27/06	High: 6.3	7.8	10.3	11.3	10.6	16.8	20.1	15.0	21.0	30.0	44.3	39.5							Target Price Range 2009 2010 2011
SAFETY 3 Lowered 9/17/04	Low: 5.0	5.4	7.3	7.6	6.6	7.3	10.8	10.8	14.0	19.9	27.1	32.2							120 100 80 64 48 32 24 20 16 12 8
TECHNICAL 3 Lowered 6/16/06	LEGENDS																		
BETA .85 (1.00 = Market)	1.40 x Dividends p sh divided by Interest Rate																		
2009-11 PROJECTIONS	2-for-1 split 3/98																		
Ann'l Total	2-for-1 split 6/05																		
Options: No	Shaded area indicates recession																		
Price																			
Gain																			
Return																			
High																			
Low																			
Insider Decisions																			
J A S O N D J F M																			
to Buy																			
Options																			
to Sell																			
Institutional Decisions																			
3Q2005																			
to Buy																			
to Sell																			
Hld's(000)																			
1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC. 09-11	
8.23	8.06	8.15	8.65	8.63	7.36	8.95	7.78	8.58	8.35	9.23	12.61	9.74	11.63	12.81	15.35	21.65	24.25	Revenues per sh ^A	28.25
.92	.94	1.03	1.05	1.14	1.12	1.40	1.54	2.00	2.15	2.36	2.51	2.45	3.14	3.40	4.14	5.10	5.90	"Cash Flow" per sh	5.55
.34	.36	.39	.44	.50	.44	.49	.58	.62	.66	.91	1.12	1.00	1.55	1.75	2.35	3.20	3.90	Earnings per sh ^B	3.30
.23	.24	.25	.26	.27	.28	.29	.30	.32	.33	.34	.35	.36	.37	.38	.40	.44	.48	Div'ds Decl'd per sh ^C	.60
1.06	1.16	.55	1.06	1.04	1.58	3.77	4.92	2.98	2.02	2.21	3.06	2.39	2.47	2.43	3.14	3.10	3.20	Cap'l Spending per sh	4.80
3.05	3.02	3.19	3.40	3.82	3.99	4.22	5.23	5.62	6.07	6.66	7.72	8.39	9.65	10.98	12.15	13.60	14.85	Book Value per sh ^D	17.15
39.49	40.42	40.73	41.28	43.67	43.64	44.65	57.59	58.56	59.61	60.22	62.25	69.49	72.45	73.17	73.49	72.00	71.00	Common Shs Outst'g ^E	85.00
13.3	12.6	11.0	12.4	11.1	12.3	12.0	13.4	15.6	13.5	10.8	13.6	13.0	11.1	13.6	14.7	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	13.0
.99	.80	.67	.73	.73	.82	.75	.77	.81	.77	.70	.70	.71	.63	.72	.79			Relative P/E Ratio	.85
5.1%	5.4%	6.0%	4.8%	4.9%	5.2%	5.0%	3.9%	3.3%	3.6%	3.4%	2.3%	2.8%	2.1%	1.6%	1.2%			Avg Ann'l Div'd Yield	1.4%
CAPITAL STRUCTURE as of 3/31/06						399.4	448.2	502.6	497.5	555.6	785.0	677.2	842.2	937.4	1128.4	1560	1720	Revenues (\$mill) ^A	2400
Total Debt \$753.3 mill. Due in 5 Yrs \$430.0 mill.						21.5	29.0	36.3	39.6	55.2	69.1	64.9	110.3	127.5	172.9	230	275	Net Profit (\$mill)	280
LT Debt \$683.3 mill. LT Interest \$35.0 mill.						19.0%	9.6%	--	3%	11.4%	19.0%	22.5%	36.8%	37.2%	36.1%	36.5%	36.5%	Income Tax Rate	37.5%
(Total interest coverage: 6.8x)						5.4%	6.5%	7.2%	8.0%	9.9%	8.8%	9.6%	13.1%	13.6%	15.3%	14.7%	16.0%	Net Profit Margin	11.7%
Leases, Uncapitalized Annual rentals \$7.0 mill.						50.9%	48.1%	53.1%	50.7%	46.9%	53.1%	46.8%	44.2%	43.3%	43.4%	44.0%	45.0%	Long-Term Debt Ratio	44.0%
						49.1%	51.9%	46.9%	49.3%	53.1%	46.9%	53.2%	55.8%	56.7%	56.6%	56.0%	55.0%	Common Equity Ratio	56.0%
Pension Assets-12/05 \$140.2 mill.						384.0	580.7	702.0	733.3	754.8	1024.9	1095.8	1251.9	1416.6	1575.9	1750	1920	Total Capital (\$mill)	2600
Oblig. \$172.5 mill.						444.9	667.0	756.3	861.1	907.8	998.3	1256.8	1433.5	1783.1	2068.0	2250	2470	Net Plant (\$mill)	3350
Pfd Stock None						7.1%	6.4%	6.8%	7.4%	9.3%	8.7%	7.3%	10.2%	10.2%	12.2%	14.5%	15.5%	Return on Total Cap'l	12.0%
Common Stock 73,468,950 shs.						11.4%	9.6%	11.0%	11.0%	13.8%	14.4%	11.1%	15.8%	15.9%	19.4%	23.5%	26.0%	Return on Shr. Equity	19.5%
as of 5/2/06						11.4%	9.6%	11.0%	11.0%	13.8%	14.4%	11.1%	15.8%	15.9%	19.4%	23.5%	26.0%	Return on Com Equity	19.5%
MARKET CAP: \$2.5 billion (Mid Cap)						4.6%	4.5%	5.5%	5.7%	8.8%	10.0%	7.0%	12.1%	12.4%	16.1%	20.5%	23.0%	Retained to Com Eq	16.0%
						60%	53%	50%	48%	36%	31%	37%	24%	22%	17%	14%	12%	All Div'ds to Net Prof	18%
CURRENT POSITION						2004	2005	3/31/06											
(\$mill.)																			
Cash Assets						4.5	8.7	8.6											
Other						345.4	469.8	366.2											
Current Assets						349.9	478.5	374.8											
Accts Payable						159.9	306.6	174.0											
Debt Due						145.0	168.0	70.0											
Other						193.7	213.7	208.3											
Current Liab.						498.6	688.3	452.3											
Fix. Chg. Cov.						579%	680%	590%											
ANNUAL RATES						Past	Past	Est'd '03-'05											
of change (per sh)						10 Yrs.	5 Yrs.	to '09-'11											
Revenues						5.0%	9.0%	13.5%											
"Cash Flow"						12.5%	10.5%	8.0%											
Earnings						15.0%	21.0%	10.0%											
Dividends						3.5%	3.0%	8.0%											
Book Value						11.5%	12.5%	8.0%											
Fiscal Year						Mar.31	Jun.30	Sep.30	Dec.31	Full Fiscal Year									
2003						309.7	184.0	146.1	202.4	842.2									
2004						351.4	188.2	166.5	231.3	937.4									
2005						361.0	241.7	190.6	335.1	1128.4									
2006						488.1	370	321.9	380	1560									
2007						430	430	430	430	1720									
EARNINGS PER SHARE ^{A,B}						Mar.31	Jun.30	Sep.30	Dec.31	Full Fiscal Year									
2003						.76	.35	.16	.28	1.55									
2004						.83	.31	.19	.42	1.75									
2005						.80	.51	.26	.78	2.35									
2006						1.18	.65	.57	.80	3.20									
2007						1.40	.80	.70	1.00	3.90									
QUARTERLY DIVIDENDS PAID ^C						Mar.31	Jun.30	Sep.30	Dec.31	Full Year									
2002						.087	.087	.09	.09	.36									
2003						.09	.09	.092	.092	.37									
2004						.092	.092	.096	.096	.38									
2005						.10	.10	.10	.10	.40									
2006						.11	.11												
(A) Fiscal year end 9/30 thru '01, 12/31 after. Three-month stub end 12/31/01: Revenues, \$147.3 mil. EPS, 15¢ (excl. nonrec. charge of 9¢). (B) Primary eggs thru '96, then diluted. (C) Div'd historically paid in early March, June, Sept., Dec. ■ Div'd reinvest. plan avail. (D) Incl. intang. assets. In '05: \$71.7 mill., \$0.98/sh. (E) In mill., adjusted for stock splits.																			
Excl. nonrec. items: '92, 3¢; '94, 5¢; '99, 3¢; '00, 4¢; '01, 2¢; '02, 5¢. Excl. disc. ops.: '02, 1¢; '03, 1¢. Next eggs. rpt. late July. (C) Div'd historically paid in early March, June, Sept., Dec. ■ Div'd reinvest. plan avail. (D) Incl. intang. assets. In '05: \$71.7 mill., \$0.98/sh. (E) In mill., adjusted for stock splits.										Company's Financial Strength B++ Stock's Price Stability 80 Price Growth Persistence 100 Earnings Predictability 65									
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SOUTHERN UNION NYSE:SUG			RECENT PRICE	24.40	P/E RATIO	13.9 (Trailing: 15.4 Median: 27.0)	RELATIVE P/E RATIO	0.79	DIV'D YLD	1.6%	VALUE LINE	Target Price Range					
TIMELINESS 3 Lowered 8/13/04			High: 8.6	12.0	12.3	18.4	18.4	23.2	21.9	17.6	17.0	23.8	26.3	26.2	2009	2010	2011
SAFETY 3 New 3/24/00			Low: 4.8	7.3	9.7	10.9	13.1	10.5	14.4	8.8	10.4	16.1	20.8	22.8			
TECHNICAL 3 Raised 5/19/06			LEGENDS														
BETA 1.05 (1.00 = Market)			10.5 x "Cash Flow" p sh														
2009-11 PROJECTIONS			3-for-2 split 3/94														
Ann'l Total			4-for-3 split 3/96														
Price 45 (+85%)			3-for-2 split 7/98														
Gain (+25%)			Options: Yes														
Return 18%			Options: No														
8%			Shaded area indicates recession														
Insider Decisions			3-for-2														
J A S O N D J F M																	
to Buy 0 0 0 0 1 0 0 0 2																	
Options 2 1 1 0 0 0 0 1 1																	
to Sell 2 1 1 0 0 0 0 1 1																	
Institutional Decisions																	
3Q2005 4Q2005 1Q2006																	
to Buy 111 117 118																	
to Sell 103 100 95																	
Hld's (000) 81115 83690 82728																	
Percent shares traded																	
12																	
8																	
4																	
3-for-2																	

SEMCO ENERGY NYSE-SEN

RECENT PRICE 5.47 **P/E RATIO** 18.2 (Trailing: 54.7 Median: 23.0) **RELATIVE P/E RATIO** 1.03 **DIV'D YLD** Nil **VALUE LINE**

TIMELINESS 3 Lowered 1/13/06
SAFETY 4 Lowered 12/17/04
TECHNICAL 4 Raised 5/12/06
BETA .80 (1.00 = Market)



2000	2001	2002	2003	2004	2005	2006	2007	* VALUE LINE PUB., INC.		09-11									
20.04	19.84	20.97	23.39	27.21	24.49	40.06	55.56	36.67	21.48	23.41	24.28	25.53	19.44	17.90	18.25	19.00	16.90	Revenues per sh	14.20
1.43	1.65	1.78	1.77	1.67	1.71	1.71	1.63	1.39	2.06	2.78	1.98	2.35	1.37	1.12	1.12	1.20	1.40	"Cash Flow" per sh	1.40
.59	.63	.78	.78	.84	.83	.88	.71	.55	.96	.90	d.01	.48	.14	.12	.26	.30	.45	Earnings per sh ^A	.65
.53	.55	.58	.61	.62	.67	.71	.74	.74	.81	.84	.84	.59	.35	.08	--	Nil	Nil	Div'ds Decl'd per sh ^B	Nil
1.40	2.53	2.10	1.83	1.49	1.92	2.21	2.12	1.45	1.96	3.69	3.02	1.86	1.08	1.37	1.19	1.20	1.15	Cap'l Spending per sh	.95
5.86	6.08	6.47	6.93	7.85	7.99	6.61	6.82	7.61	7.95	7.50	6.20	5.84	6.22	5.79	5.65	5.85	6.35	Book Value per sh ^C	7.45
11.40	11.67	12.00	12.35	13.69	13.70	13.67	13.86	17.38	17.91	18.06	18.36	18.84	28.06	28.40	33.70	35.50	35.50	Common Shs Outst'g ^D	45.00
18.4	17.3	16.1	21.4	18.3	19.3	17.7	23.8	29.7	15.3	15.3	--	17.7	36.5	45.5	22.7	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	13.0
1.37	1.11	.98	1.26	1.20	1.29	1.11	1.37	1.54	.87	.99	--	.97	2.08	2.40	1.22			Relative P/E Ratio	.85
4.9%	5.1%	4.7%	3.6%	4.0%	4.2%	4.5%	4.4%	4.5%	5.6%	6.1%	6.1%	7.0%	6.8%	1.5%	--			Avg Ann'l Div'd Yield	Nil

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
20.04	19.84	20.97	23.39	27.21	24.49	40.06	55.56	36.67	21.48	23.41	24.28	25.53	19.44	17.90	18.25	19.00	16.90	Revenues per sh	14.20
1.43	1.65	1.78	1.77	1.67	1.71	1.71	1.63	1.39	2.06	2.78	1.98	2.35	1.37	1.12	1.12	1.20	1.40	"Cash Flow" per sh	1.40
.59	.63	.78	.78	.84	.83	.88	.71	.55	.96	.90	d.01	.48	.14	.12	.26	.30	.45	Earnings per sh A	.65
.53	.55	.58	.61	.62	.67	.71	.74	.74	.81	.84	.84	.59	.35	.08	--	Nil	Nil	Div'ds Decl'd per sh B	Nil
1.40	2.53	2.10	1.83	1.49	1.92	2.21	2.12	1.45	1.96	3.69	3.02	1.86	1.08	1.37	1.19	1.20	1.15	Cap'l Spending per sh	.95
5.86	6.08	6.47	6.93	7.85	7.99	6.61	6.82	7.61	7.95	7.50	6.20	5.84	6.22	5.79	5.65	5.85	6.35	Book Value per sh C	7.45
11.40	11.67	12.00	12.35	13.69	13.70	13.67	13.86	17.38	17.91	18.06	18.36	18.84	28.06	28.40	33.70	35.50	35.50	Common Shs Outst'g D	45.00
18.4	17.3	16.1	21.4	18.3	19.3	17.7	23.8	29.7	15.3	15.3	--	17.7	36.5	45.5	22.7	Bold figures are Value Line estimates	675	Avg Ann'l P/E Ratio	13.0
1.37	1.11	.98	1.26	1.20	1.29	1.11	1.37	1.54	.87	.99	--	.97	2.08	2.40	1.22	--	600	Relative P/E Ratio	.85
4.9%	5.1%	4.7%	3.6%	4.0%	4.2%	4.5%	4.4%	4.5%	5.5%	6.1%	6.1%	7.0%	6.8%	1.5%	--	--	600	Avg Ann'l Div'd Yield	Nil
CAPITAL STRUCTURE as of 3/31/06																			
Total Debt \$477.5 mill. Due in 5 Yrs \$263.9 mill.																			
LT Debt \$441.5 mill. LT Interest \$38.0 mill.																			
(Total interest coverage: 1.4x)																			
Leases, Uncapitalized Annual rentals \$1.9 mill.																			
Pension Assets-12/05 \$70 mill. Oblig. \$94 mill.																			
Pfd Stock \$70.0 mill. Pfd Div'd \$3.5 mill.																			
350,000 shs., 5% cum., liq. val. \$200, ea. convertible into common stock at a conversion price of \$7.65 per share.																			
Common Stock 34,626,494 shs.																			
MARKET CAP: \$200 million (Small Cap)																			
CURRENT POSITION																			
	2004	2005	3/31/06																
Cash Assets	3.7	5.7	5.9																
Other	182.7	257.0	205.4																
Current Assets	186.4	262.7	211.3																
Accts Payable	29.3	64.6	51.0																
Debt Due	54.4	78.9	36.0																
Other	43.4	54.8	43.3																
Current Liab.	127.1	198.3	130.3																
Fix. Chg. Cov	122%	125%	NMF																

BUSINESS: SEMCO Energy, Inc. distributes natural gas to about 409,000 customers in Michigan and Alaska. Residential (62% of total sales). Other businesses include information technology services, propane distribution, and natural gas pipeline and storage. Construction Services business discontinued in 2003. Sold energy marketing business in 3/99. Divested NOARK, 1/98. Acquired Hot-flame Transport, 3/98; Enstar, 11/99. 2005 depreciation rate: 3.6%. Has about 566 employees, 7,909 registered stockholders. Off/dir. own 2.2% of common stock; FMR Corp., 10.0% (4/06 proxy). Chairman: Dr. John M. Albertine. President & CEO: George Schreiber, Jr. Inc.: MI. Addr.: 405 Water Street, Port Huron, MI 48060. Tel.: 810-987-2200. Internet: www.semcoenergy.com.

SEMCO Energy encountered some temporary setbacks in the March quarter. Warmer-than-normal weather conditions limited the level of gas consumption by customers within the Michigan service area. It was estimated that normalized average gas consumption declined by 4.6% in the period, compared to a year ago. We note that unfavorable weather conditions probably lowered earnings by about \$0.04 per share.

A return to normal weather conditions should help to stabilize earnings, but the weak consumption trends seem to also reflect a pickup in energy conservation efforts by customers (about 90% of the company's customer base is residential). Volatile natural gas prices have led to higher utility bills for customers, prompting the greater use of alternative energy-saving devices. This has been especially true for Michigan residents, given the hardships at General Motors and Ford, and their impact on the state's economy. Management noted that customer growth in Michigan is roughly 1%, not big compared to industry averages.

The company is seeking rate relief

from regulators. In late May, SEMCO Energy requested an \$18.1 million increase in base rates with the Michigan Public Service Commission. In our view, the proposed rate relief should be considered, given the company's low return on equity (ROE) over the past couple of years, versus the allowable ROE of 11.0%. Without additional revenues, there may be greater stress on finances due to working capital requirements, as well as the increase in uncollectible customer accounts. Still, it is difficult to predict the outcome of the rate case that will conclude no later than March, 2007.

These shares lack investment appeal at this time. Higher natural gas prices have taken a toll on the company's business prospects. This, in turn, has put a strain on the highly leveraged balance sheet. Under these circumstances, most investors are advised to look elsewhere.

Charles W. Noh June 16, 2006

CASH POSITION					5-Year Av'g	3/31/06
Current Assets to Current Liabilities:					79.6%	162%
Cash & Equiv's to Current Liabilities:					1.7%	5%
Working Capital to Sales:					NMF	12%

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	207.6	100.5	74.2	163.1	545.4
2004	207.8	81.8	54.0	164.7	508.3
2005	226.6	95.6	62.3	230.6	615.1
2006	271.5	125	75.0	203.5	675
2007	250	100	65.0	185	600

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.57	d.27	d.32	.16	.14
2004	.45	d.13	d.26	.06	.12
2005	.38	d.11	d.29	.22	.26
2006	.30	d.10	d.25	.35	.30
2007	.40	d.10	d.20	.35	.45

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.21	.125	.125	.125	.59
2003	.125	.125	.075	.075	.40
2004	.075	.075	--	--	.15
2005	--	--	--	--	--
2006	--	--	--	--	--

(A) Diluted eps. Excludes nonrecurring gain/loss: '98, 8¢; '99, 4¢; '01, (34¢); '03, (\$1.48); '05, (\$0.27); '06, (\$0.02). Excludes gain/loss from discontinued operations: '04, (\$0.28); '05, \$0.02. Next earnings report due early Aug. Quarterly figures may not sum to total due to rounding or change in share count (antidilution). (B) Dividends on common stock suspended as of 6/04. (C) Includes intangibles; '05, \$143.4 mill., \$4.26/sh. (D) In millions.

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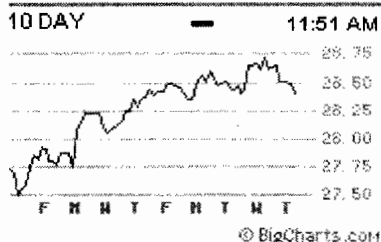
COMPANY RESEARCH

QUOTE

Atmos Energy Corp. (ATO)

07/13/06 11:51 a.m. EDT NYSE

Last	Change	% Change
28.41	-0.14	-0.49%
Open	High	Low
28.49	28.65	28.40
Volume	Prior Day's Volume	Prior Day's Close
44,600	170,900	28.55



52-Week High 29.97 (08/03/2005) 52-Week Low 25.00 (10/13/2005)

1 day | 10 day | 1 mo | 3 mo | 1 year
• Go To Stock Charting

U.S. stock prices on NYSE and AMEX are delayed 20 minutes or more, Nasdaq prices are delayed 15 minutes or more. Volume updates until the following times (ET): NYSE- 5:00 p.m., AMEX- 4:00 p.m., Nasdaq- 6:30 p.m.

Stock Data

Market Cap(Mil)	2,316.88
P/E Ratio	15.71
Dividend Yield	4.41%
Latest Dividend	\$0.315
Pay Date of Latest Dividend	06/12/06
Last 3 for 2 or 50% stock div. Stock Split	
Date of Last Split	05/17/94
Shares Outstanding (Mil)	81.15
Public Float (Mil)	78.70

All data updated daily before market opens
Source: Reuters

Short Interest

Total Shares* on 06/08/06:	1,491.0
Total Shares* for Previous Month:	3,354.0

Short Interest

Latest News

MarketWatch

- August 8 The party isn't over, but the tab is coming due
- March 9 Higher oil prices suggest its time to get defensive
- February 8 Updates, advisories and surprises

Latest Press Releases

- Jul. 6 Atmos Energy Granted Weather-Based Relief by the Railroad Commission of Texas; Interim Adjustment Will Take Effect October 1
- Jun. 20 Atmos Energy Recognized With CIO 100 Award; Company Wins Award Three Times in Four Years
- Jun. 15 Atmos Energy Corporation CFO to Speak at Wachovia Securities Conference

• FULL PRESS RELEASES

Short Interest Ratio**	5.09
Short Interest as % of Public Float	1.89
*in thousands **Number of days of average daily volume needed to close out total short position. Source: Reuters	
Indexes	
• Component of S&P 600 Small Cap Index	
Dow Jones Industry Group Center	
Gas Distribution	
Ratings & Estimates	
• Get Complete Analyst Ratings • Get Complete Earnings Estimates	
Mean Recommendation (1 = Strong Buy, 5 = Strong Sell)	2.4
Earning Consensus Estimate	\$0.04

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COMPANY RESEARCH

QUOTE

AGL Resources Inc. (ATG)

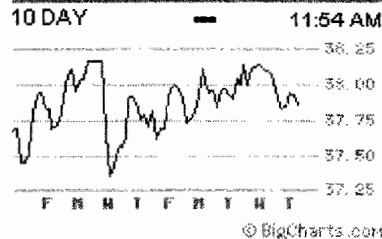
07/13/06 11:54 a.m. EDT NYSE

Last **37.86** Change **0.01** % Change **0.03%**

Open **37.75** High **38.00** Low **37.73**

Volume **104,800** Prior Day's Volume **194,400** Prior Day's Close **37.85**

52-Week High **39.09** (08/03/2005) 52-Week Low **32.23** (10/20/2005)



1 day | 10 day | 1 mo | 3 mo | 1 year
• Go To Stock Charting

U.S. stock prices on NYSE and AMEX are delayed 20 minutes or more, Nasdaq prices are delayed 15 minutes or more. Volume updates until the following times (ET): NYSE- 5:00 p.m., AMEX- 4:00 p.m., Nasdaq- 6:30 p.m.

Stock Data	Latest News
Market Cap(Mil) 2,949.71	The Wall Street Journal Online
P/E Ratio 13.73	Jun. 30 JP Morgan Starts AGL Resources At Neutral >ATG
Dividend Yield 3.91%	Jun. 27 AGL Resources Names James Gillis Pres Of AGL Networks >ATG
Latest Dividend \$0.37	• FULL NEWS FROM THE WALL STREET JOURNAL ONLINE
Pay Date of Latest Dividend 06/01/06	MarketWatch
Last Stock Split 100% stock div.	January 26 Updates, advisories and surprises
Date of Last Split 12/04/95	December 7 Costco, Texas Instruments, National Semi
Shares Outstanding (Mil) 77.93	December 7 Safeco names former energy executive as new CEO
Public Float (Mil) 77.20	Latest Press Releases
All data updated daily before market opens Source: Reuters	Jul. 12 AGL Resources Names Melanie Platt to Take on an Additional Role as President of AGL Resources Foundation
Short Interest	Jul. 6 (CNW) AGL Resources To Host Second Quarter 2006 Earnings Conference Call
Total Shares* on 06/08/06: 1,715.0	Jul. 6 AGL Resources To Host Second Quarter 2006 Earnings Conference Call
Total Shares* for Previous Month: 1,410.0	Jun. 30 Conservation Components of Chattanooga Gas Company's Rate Case Filing to Benefit Customers
Short Interest Ratio** 4.44	Jun. 29 Harriette Watkins, President of AGL Resources Foundation, to Retire
	Jun. 27 (CNW) AGL Capital Corporation Prices \$175 Million of Senior Notes
	Jun. 27 AGL Capital Corporation Prices \$175 Million of

Short Interest as % of Public Float 2.22	Jun. 27 AGL Resources Names James Gillis President of AGL Networks
*in thousands **Number of days of average daily volume needed to close out total short position. Source: Reuters	Jun. 20 (CNW) AGL Resources CEO to Speak at Wachovia Securities Conference Jun. 20 AGL Resources CEO to Speak at Wachovia Securities Conference • FULL PRESS RELEASES
Indexes • Component of S&P 400 Mid Cap Index	
Dow Jones Industry Group Center Gas Distribution	
Ratings & Estimates • Get Complete Analyst Ratings • Get Complete Earnings Estimates	
Mean Recommendation 1.9 (1 = Strong Buy, 5 = Strong Sell)	
Earning Consensus Estimate \$0.35	

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THE WALL STREET JOURNAL. ONLINE

COMPANY RESEARCH

QUOTE

Cascade Natural Gas Corp. (CGC)

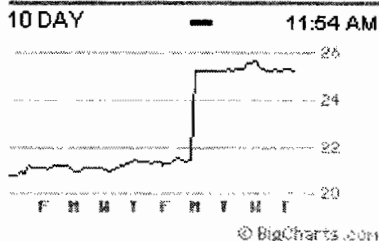
07/13/06 11:54 a.m. EDT NYSE

Last	Change	% Change
25.31	0.01	0.04%

Open	High	Low
25.30	25.43	25.30

Volume	Prior Day's Volume	Prior Day's Close
43,300	158,200	25.30

52-Week High	52-Week Low
25.68 (07/12/2006)	18.95 (03/09/2006)



1 day | 10 day | 1 mo | 3 mo | 1 year
• Go To Stock Charting

U.S. stock prices on NYSE and AMEX are delayed 20 minutes or more, Nasdaq prices are delayed 15 minutes or more. Volume updates until the following times (ET): NYSE- 5:00 p.m., AMEX- 4:00 p.m., Nasdaq- 6:30 p.m.

Stock Data

Market Cap(Mil) **290.48**

P/E Ratio **23.60**

Dividend Yield **3.79%**

Latest Dividend **\$0.24**

Pay Date of Latest Dividend **08/15/06**

Last **3 for 2 or 50% stock div.**
Stock Split

Date of Last Split **12/21/93**

Shares Outstanding (Mil) **11.48**

Public Float (Mil) **11.40**

All data updated daily before market opens
Source: Reuters

Short Interest

Total Shares* on 06/08/06: **475.0**

Total Shares* for Previous Month: **440.0**

Short Interest

Latest News

The Wall Street Journal Online

Jul. 9 MDU Resources To Buy Cascade Natural Gas For \$26.50/Shr

• FULL NEWS FROM THE WALL STREET JOURNAL ONLINE

MarketWatch

July 10 Highlights of rising and falling U.S. stocks

July 9 MDU Resources to acquire Cascade Natural Gas

July 31 Humana, Tyson, Teva, Home Depot and more

Latest Press Releases

Jul. 9 MDU Resources to Acquire Cascade Natural Gas

Jun. 23 Cascade Natural Gas Corporation Announces Conference Call for Fiscal 2006 Third Quarter Results Thursday, July 27, 2006, 10:30 AM Eastern Time

• FULL PRESS RELEASES

Short Interest Ratio**	6.25
Short Interest as % of Public Float	4.17
*in thousands **Number of days of average daily volume needed to close out total short position. Source: Reuters	
Indexes	
• Component of S&P 600 Small Cap Index	
Dow Jones Industry Group Center	
Gas Distribution	
Ratings & Estimates	
• Get Complete Analyst Ratings • Get Complete Earnings Estimates	
Mean Recommendation (1 = Strong Buy, 5 = Strong Sell)	3.7
Earning Consensus Estimate	\$-0.1

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COMPANY RESEARCH

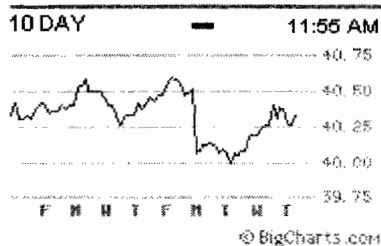
QUOTE

KeySpan Corp. (KSE)

07/13/06 11:55 a.m. EDT NYSE

Last	Change	% Change
40.33	-0.05	-0.12%
Open	High	Low
40.37	40.37	40.20
Volume	Prior Day's Volume	Prior Day's Close
323,500	686,600	40.38

52-Week High 52-Week Low
41.52 (02/24/2006) **32.66** (10/19/2005)



1 day | 10 day | 1 mo | 3 mo | 1 year
 • Go To Stock Charting

U.S. stock prices on NYSE and AMEX are delayed 20 minutes or more, Nasdaq prices are delayed 15 minutes or more. Volume updates until the following times (ET): NYSE- 5:00 p.m., AMEX- 4:00 p.m., Nasdaq- 6:30 p.m.

Stock Data	Latest News
Market Cap(Mil) 7,064.90	The Wall Street Journal Online
P/E Ratio 19.20	Jul. 12 National Grid/KeySpan Deal Clears Foreign Investment Review
Dividend Yield 4.61%	Jul. 11 Analysts' Lowest-Rated Stocks
Latest Dividend \$0.465	Jul. 10 Applications Given Early Antitrust Clearance By FTC
Pay Date of Latest Dividend 08/01/06	Jul. 10 National Grid Gets Early Termination Of Antitrust Period
Last Stock Split n.a.	Jul. 5 Analysts' Lowest-Rated Stocks
Date of Last Split n.a.	Jun. 27 Analysts' Lowest-Rated Stocks
Shares Outstanding (Mil) 174.96	Jun. 20 Analysts' Lowest-Rated Stocks
Public Float (Mil) 171.60	• FULL NEWS FROM THE WALL STREET JOURNAL ONLINE
All data updated daily before market opens Source: Reuters	MarketWatch
	May 4 Updates, advisories and surprises
	May 4 Keyspan net slumps on warm winter, weak energy sales
	April 29 Stocks could rise amid heavy week of data, Fed remarks
Short Interest	Latest Press Releases
Total Shares* on 06/08/06: 6,442.0	Jul. 12 National Grid Acquisition of KeySpan Clears Review of the Committee on Foreign Investment in the United States
Total Shares* for Previous Month: 2,368.0	Jul. 10 CORRECTING and REPLACING: National Grid and KeySpan Announce Clearance of Hart-Scott-Rodino Waiting Period
Short Interest Ratio** 9.26	Jul. 10 KeySpan Announces Quarterly Stock Dividend

Short Interest as % of Public Float 3.75	Jun. 30 KeySpan Announces Common Stock Dividend • FULL PRESS RELEASES
*in thousands **Number of days of average daily volume needed to close out total short position. Source: Reuters	
Indexes • Component of S&P 500 Index	
Dow Jones Industry Group Center Gas Distribution	
Ratings & Estimates • Get Complete Analyst Ratings • Get Complete Earnings Estimates	
Mean Recommendation 3.4 (1 = Strong Buy, 5 = Strong Sell)	
Earning Consensus Estimate \$0.14	

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COMPANY RESEARCH

QUOTE

Laclede Group Inc. (LG)

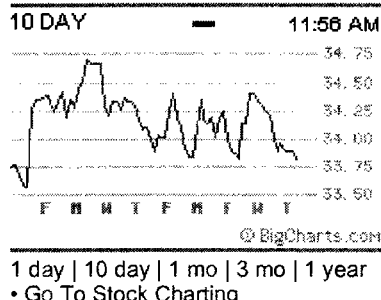
07/13/06 11:56 a.m. EDT NYSE

Last	Change	% Change
33.82	-0.10	-0.29%

Open	High	Low
33.92	34.20	33.69

Volume	Prior Day's Volume	Prior Day's Close
41,200	61,000	33.92

52-Week High	52-Week Low
35.55 (03/27/2006)	28.60 (10/27/2005)



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Stock Data	Latest News
Market Cap(Mil) 723.40	MarketWatch
P/E Ratio 14.96	January 26 Updates, advisories and surprises
Dividend Yield 4.19%	January 26 Highlights of rising and falling U.S. stocks
Latest Dividend \$0.355	July 21 Coming up on MarketWatch Weekend, July 23-24, 2005
Pay Date of Latest Dividend 07/03/06	Latest Press Releases
Last Stock Split 100% stock div.	Jun. 22 (CNW) Lafarge Confirms Its Ambition, Presenting Its Detailed Strategic Plan 'Excellence 2008'
Date of Last Split 03/08/94	• FULL PRESS RELEASES
Shares Outstanding (Mil) 21.33	
Public Float (Mil) 20.10	
All data updated daily before market opens Source: Reuters	
Short Interest	
Total Shares* on 06/08/06: 1,601.0	
Total Shares* for Previous Month: 1,397.0	
Short Interest Ratio** 14.82	

Short Interest as % of Public Float		7.97
*in thousands **Number of days of average daily volume needed to close out total short position. Source: Reuters		
Indexes		
• Component of S&P 600 Small Cap Index		
Dow Jones Industry Group Center		
Gas Distribution		
Ratings & Estimates		
• Get Complete Analyst Ratings • Get Complete Earnings Estimates		
Mean Recommendation		2.0
(1 = Strong Buy, 5 = Strong Sell)		
Earning Consensus Estimate		\$0.25

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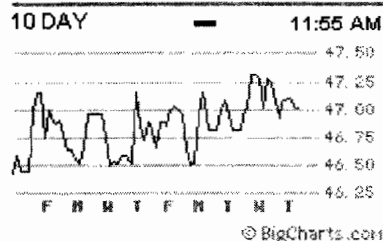
COMPANY RESEARCH

QUOTE

New Jersey Resources Corp. (NJR)

07/13/06 11:55 a.m. EDT NYSE

Last	Change	% Change
47.02	-0.06	-0.13%
Open	High	Low
47.08	47.23	46.95
Volume	Prior Day's Volume	Prior Day's Close
73,200	101,300	47.08



52-Week High 52-Week Low

48.35 (07/15/2005) **40.68** (10/19/2005)

1 day | 10 day | 1 mo | 3 mo | 1 year
• Go To Stock Charting

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Stock Data	Latest News
Market Cap(Mil) 1,319.51	The Wall Street Journal Online
P/E Ratio 14.87	Jul. 7 China, Japan Envoys On N Korean Nuclear Issue To Meet Fri
Dividend Yield 3.06%	• FULL NEWS FROM THE WALL STREET JOURNAL ONLINE
Latest Dividend \$0.36	Barron's Online (separate subscription required)
Pay Date of Latest Dividend 07/03/06	Jun. 26 Research Reports
Last 3 for 2 or 50% stock div. Stock Split	• FULL NEWS FROM BARRON'S ONLINE
Date of Last Split 03/04/02	MarketWatch
Shares Outstanding (Mil) 28.03	February 6 Updates, advisories and surprises
Public Float (Mil) 27.90	October 18 Businesses using natural gas may see curtailed service
All data updated daily before market opens Source: Reuters	July 27 Updates, advisories and surprises
Short Interest	
Total Shares* on 06/08/06: 2,199.0	
Total Shares* for Previous Month: 1,902.0	
Short Interest	

002515

Short Interest Ratio**	13.17
Short Interest as % of Public Float	7.88
*in thousands **Number of days of average daily volume needed to close out total short position. Source: Reuters	
Indexes	
• Component of S&P 600 Small Cap Index	
Dow Jones Industry Group Center	
Gas Distribution	
Ratings & Estimates	
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Mean Recommendation (1 = Strong Buy, 5 = Strong Sell)	2.8
Earning Consensus Estimate	\$0.0

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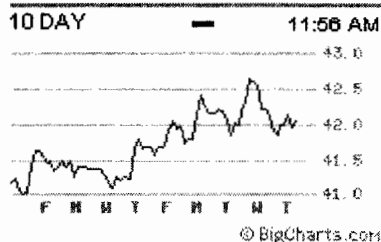
COMPANY RESEARCH

QUOTE

Nicor Inc. (GAS)

07/13/06 11:56 a.m. EDT NYSE

Last	Change	% Change
42.05	0.06	0.14%
Open	High	Low
41.91	42.34	41.90
Volume	Prior Day's Volume	Prior Day's Close
143,000	326,400	41.99



52-Week High 52-Week Low

43.12 (02/27/2006) **37.42** (10/13/2005)

1 day | 10 day | 1 mo | 3 mo | 1 year
• Go To Stock Charting

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Stock Data	Latest News
Market Cap(Mil) 1,863.46	The Wall Street Journal Online
P/E Ratio 13.65	Jul. 7 Nicor In Tentative Pact With SEC On Settlement >GAS
Dividend Yield 4.43%	• FULL NEWS FROM THE WALL STREET JOURNAL ONLINE
Latest Dividend \$0.465	MarketWatch
Pay Date of Latest Dividend 08/01/06	July 8 Dominion Homes, MetLife, Alcoa
Last Stock Split 100% stock div.	June 1 Sector reverses course to follow market higher
Date of Last Split 04/27/93	May 2 Updates, advisories and surprises
Shares Outstanding (Mil) 44.38	Latest Press Releases
Public Float (Mil) 43.70	Jul. 7 Nicor Reaches Tentative Agreement with Enforcement Staff of United States Securities and Exchange Commission
All data updated daily before market opens Source: Reuters	• FULL PRESS RELEASES
Short Interest	
Total Shares* on 06/08/06: 6,738.0	
Total Shares* for Previous Month: 6,648.0	
Short Interest Ratio** 15.89	

Short Interest as % of Public Float		15.42
*in thousands **Number of days of average daily volume needed to close out total short position. Source: Reuters		
Indexes		
• Component of S&P 500 Index		
Dow Jones Industry Group Center		
Gas Distribution		
Ratings & Estimates		
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Mean Recommendation		2.6
(1 = Strong Buy, 5 = Strong Sell)		
Earning Consensus Estimate		\$0.4

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THE WALL STREET JOURNAL. ONLINE

COMPANY RESEARCH

QUOTE

Northwest Natural Gas Co. (NWN)

07/13/06 11:57 a.m. EDT NYSE

Last	Change	% Change
36.37	-0.17	-0.47%
Open	High	Low
36.48	36.66	36.23
Volume	Prior Day's Volume	Prior Day's Close
32,300	98,400	36.54



52-Week High 52-Week Low

39.63 (08/03/2005) **32.83** (02/13/2006)

1 day | 10 day | 1 mo | 3 mo | 1 year
• Go To Stock Charting

U.S. stock prices on NYSE and AMEX are delayed 20 minutes or more, Nasdaq prices are delayed 15 minutes or more.
Volume updates until the following times (ET): NYSE- 5:00 p.m., AMEX- 4:00 p.m., Nasdaq- 6:30 p.m.

Stock Data	Latest News
Market Cap(Mil) 1,007.66	The Wall Street Journal Online
P/E Ratio 17.03	Jun. 30 JP Morgan Starts Northwest Natural At Neutral >NWN
Dividend Yield 3.78%	• FULL NEWS FROM THE WALL STREET JOURNAL ONLINE
Latest Dividend \$0.345	MarketWatch
Pay Date of Latest Dividend 08/15/06	November 3 Updates, advisories and surprises
Last 3 for 2 or 50% stock div. Stock Split	May 26 Updates, advisories and surprises
Date of Last Split 09/09/96	April 29 Updates, advisories and surprises
Shares Outstanding (Mil) 27.58	Latest Press Releases
Public Float (Mil) 27.30	Jul. 3 NW Natural Declares Dividends
All data updated daily before market opens Source: Reuters	Jun. 29 NW Natural Schedules Conference Call to Review Financial Results for Quarter Ended June 30, 2006
Short Interest	• FULL PRESS RELEASES
Total Shares* on 06/08/06: 1,882.0	
Total Shares* for Previous Month: 1,317.0	
Short Interest	

002519

Short Interest Ratio**	12.55
Short Interest as % of Public Float	6.89
*in thousands **Number of days of average daily volume needed to close out total short position. Source: Reuters	
Indexes	
• Component of S&P 600 Small Cap Index	
Dow Jones Industry Group Center	
Gas Distribution	
Ratings & Estimates	
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Mean Recommendation (1 = Strong Buy, 5 = Strong Sell)	2.7
Earning Consensus Estimate	\$0.05

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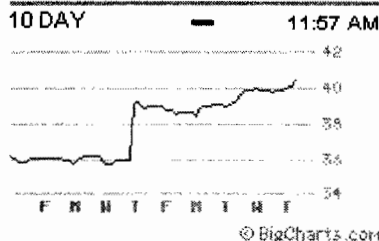
QUOTE

Peoples Energy Corp. (PGL)

07/13/06 11:57 a.m. EDT NYSE

Last	Change	% Change
40.48	0.54	1.35%
Open	High	Low
39.79	40.56	39.70
Volume	Prior Day's Volume	Prior Day's Close
302,500	835,000	39.94

52-Week High 52-Week Low
45.52 (07/28/2005) **34.34** (10/19/2005)



1 day | 10 day | 1 mo | 3 mo | 1 year
 • Go To Stock Charting

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Stock Data	Latest News
Market Cap(Mil) 1,534.06	The Wall Street Journal Online
P/E Ratio 78.10	Jul. 12 Oil News Roundup
Dividend Yield 5.46%	Jul. 11 Oil News Roundup
Latest Dividend \$0.545	Jul. 11 WPS Will Buy Peoples Energy
Pay Date of Latest Dividend 07/14/06	Jul. 10 Oil News Roundup
Last Stock Split n.a.	Jul. 10 WPS Resources-Peoples Energy Deal Has \$45M Breakup Fee
Date of Last Split n.a.	Jul. 10 Global M&A At \$2.1T Year To Date, Set To Break Record
Shares Outstanding (Mil) 38.41	Jul. 10 WPS Could Shed Peoples' Oil & Gas Production Business
Public Float (Mil) 37.90	• FULL NEWS FROM THE WALL STREET JOURNAL ONLINE
All data updated daily before market opens Source: Reuters	MarketWatch
	July 10 Kraft, Tyson Foods, Kimco, Pan Pacific, WPS in focus
	July 6 Highlights of rising and falling U.S. stocks
	July 6 WPS Resources sets its sites on Peoples Energy, shares jump
Short Interest	Latest Press Releases
Total Shares* on 06/08/06: 5,848.0	Jul. 12 WPS Resources Corporation and Peoples Energy Corporation to Webcast Investor Presentation
Total Shares* for Previous Month: 5,580.0	Jul. 10 (PR) WPS Resources Corporation and Peoples Energy Corporation to Combine to Create a Diversified Energy Company Serving the Midwest, Northeast U.S., and Canada
Short Interest Ratio** 14.77	Jul. 10 WPS Resources Corporation and Peoples Energy Corporation to Combine to Create a Diversified Energy Company Serving the Midwest, Northeast U.S., and Canada

002521

Short Interest as % of Public Float 15.43	Jul. 10 WPS Resources Corporation and Peoples Energy Corporation to Combine to Create a Diversified Energy Company Serving the Midwest, Northeast U.S., and Canada
*in thousands **Number of days of average daily volume needed to close out total short position. Source: Reuters	Jul. 6 Schaeffer's S&P 500 Index Hot Stocks Features Peoples Energy, Altria, Reynolds American, eBay, and Maxim Integrated Products Jul. 6 Peoples Energy Statement Regarding Potential Strategic Transaction Jul. 6 WPS Resources Acknowledges Discussion with Peoples Energy
Indexes • Component of S&P 500 Index	• FULL PRESS RELEASES
Dow Jones Industry Group Center	
Gas Distribution	
Ratings & Estimates • Get Complete Analyst Ratings • Get Complete Earnings Estimates	
Mean Recommendation 3.0 (1 = Strong Buy, 5 = Strong Sell)	
Earning Consensus Estimate \$0.07	

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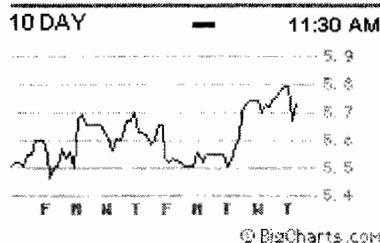
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COMPANY RESEARCH
QUOTE
SEMCO Energy Inc. (SEN)

07/13/06 11:30 a.m. EDT NYSE

Last	Change	% Change
5.73	-0.06	-1.04%
Open	High	Low
5.78	5.79	5.67
Volume	Prior Day's Volume	Prior Day's Close
19,000	46,900	5.79

52-Week High	52-Week Low
7.05 (08/31/2005)	5.04 (04/11/2006)


 1 day | 10 day | 1 mo | 3 mo | 1 year
 • Go To Stock Charting

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Stock Data	Latest News
Market Cap(Mil) 200.49	MarketWatch
P/E Ratio 54.71	May 7 Stocks likely to move in trading Monday, May 9
Dividend Yield 0.0%	May 7 Semco Energy restates for accounting changes
Latest Dividend \$0.0	November 21 Campbell, Krispy Kreme, Toys 'R' Us
Pay Date of Latest Dividend n.a.	
Last Stock Split 5% stock div.	
Date of Last Split 05/01/98	
Shares Outstanding (Mil) 34.63	
Public Float (Mil) 34.20	
All data updated daily before market opens Source: Reuters	
Short Interest	
Total Shares* on 06/08/06: 625.0	
Total Shares* for Previous Month: 0.0	
Short Interest Ratio** 12.02	

002523

Short Interest as % of Public Float		1.83
*in thousands **Number of days of average daily volume needed to close out total short position. Source: Reuters		
Dow Jones Industry Group Center		
Gas Distribution		
Ratings & Estimates		
• Get Complete Analyst Ratings • Get Complete Earnings Estimates		
Mean Recommendation (1 = Strong Buy, 5 = Strong Sell)		2.0
Earning Consensus Estimate		\$-0.1

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002524



COMPANY RESEARCH

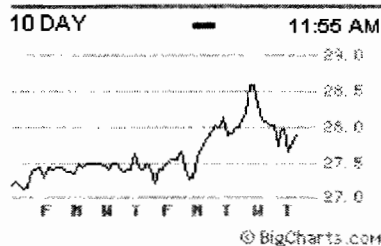
QUOTE

South Jersey Industries Inc. (SJI)

07/13/06 11:55 a.m. EDT NYSE

Last	Change	% Change
27.88	-0.08	-0.29%
Open	High	Low
27.85	27.95	27.67
Volume	Prior Day's Volume	Prior Day's Close
56,900	130,800	27.96

52-Week High	52-Week Low
30.80 (12/16/2005)	25.63 (05/24/2006)



1 day | 10 day | 1 mo | 3 mo | 1 year
• Go To Stock Charting

U.S. stock prices on NYSE and AMEX are delayed 20 minutes or more, Nasdaq prices are delayed 15 minutes or more. Volume updates until the following times (ET): NYSE- 5:00 p.m., AMEX- 4:00 p.m., Nasdaq- 6:30 p.m.

Stock Data

Market Cap(Mil)	815.36
P/E Ratio	16.56
Dividend Yield	3.22%
Latest Dividend	\$0.225
Pay Date of Latest Dividend	07/05/06
Last Stock Split	100% stock div.
Date of Last Split	07/01/05
Shares Outstanding (Mil)	29.16
Public Float (Mil)	28.80

All data updated daily before market opens
Source: Reuters

Short Interest

Total Shares* on 06/08/06:	1,497.0
Total Shares* for Previous Month:	1,253.0
Short Interest Ratio**	11.98

Latest News

MarketWatch

May 5	Updates, advisories and surprises
November 29	Highlights of rising and falling U.S. stocks
November 8	Updates, advisories and surprises

Latest Press Releases

Jul. 5	SJI CEO Elected Vice Chairman of NJ Commission on Higher Education
Jun. 20	SJI CEO to Speak at Wachovia Securities Equity Conference

• FULL PRESS RELEASES

Short Interest as % of Public Float		5.20
*in thousands **Number of days of average daily volume needed to close out total short position. Source: Reuters		
Indexes		
• Component of S&P 600 Small Cap Index		
Dow Jones Industry Group Center		
Gas Distribution		
Ratings & Estimates		
• Get Complete Analyst Ratings • Get Complete Earnings Estimates		
Mean Recommendation		1.7
(1 = Strong Buy, 5 = Strong Sell)		
Earning Consensus Estimate		\$0.28

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COMPANY RESEARCH

QUOTE

Southern Union Co. (SUG)

07/13/06 11:58 a.m. EDT NYSE

Last	Change	% Change
26.44	-0.12	-0.45%
Open	High	Low
26.56	26.74	26.41
Volume	Prior Day's Volume	Prior Day's Close
87,400	523,600	26.56

52-Week High 52-Week Low

27.35 (07/03/2006) **21.66** (11/09/2005)

1 day | 10 day | 1 mo | 3 mo | 1 year
 • Go To Stock Charting

U.S. stock prices on NYSE and AMEX are delayed 20 minutes or more, Nasdaq prices are delayed 15 minutes or more. Volume updates until the following times (ET): NYSE- 5:00 p.m., AMEX- 4:00 p.m., Nasdaq- 6:30 p.m.

Stock Data	Latest News
Market Cap(Mil) 2,971.04	The Wall Street Journal Online
P/E Ratio 0.00	Jun. 27 SUBSCRIBERS: Southern Union Stake News Already Reported
Dividend Yield 1.51%	Jun. 26 Hldr Wants Southern Union To Consider Sale Of Company
Latest Dividend \$0.1	Jun. 20 Southern Union To Expand Pipeline System In Texas, La.
Pay Date of Latest Dividend 07/14/06	• FULL NEWS FROM THE WALL STREET JOURNAL ONLINE
Last Stock Split 5% stock div.	Barron's Online (separate subscription required)
Date of Last Split 08/18/05	Jul. 3 13D Filings
Shares Outstanding (Mil) 111.86	• FULL NEWS FROM BARRON'S ONLINE
Public Float (Mil) 99.60	MarketWatch
All data updated daily before market opens Source: Reuters	May 10 Updates, advisories and surprises
	May 9 Cisco, Symantec, Disney
	March 14 Updates, advisories and surprises
Short Interest	Latest Press Releases
Total Shares* on 06/08/06: 6,375.0	Jun. 27 FindProfit.com Updates Outlooks on Southern Union, Web.com, RealNetworks, and Expedia
Total Shares* for Previous Month: 5,532.0	Jun. 20 Southern Union Announces Pipeline Expansion Project with Energy Transfer as Anchor Shipper
Short Interest Ratio** 9.49	Jun. 16 Southern Union Company Declares Quarterly Dividend

002527

Short Interest as % of Public Float 6.40	• FULL PRESS RELEASES
*in thousands **Number of days of average daily volume needed to close out total short position. Source: Reuters	
Indexes • Component of S&P 600 Small Cap Index	
Dow Jones Industry Group Center Gas Distribution	
Ratings & Estimates • Get Complete Analyst Ratings • Get Complete Earnings Estimates	
Mean Recommendation 1.7 (1 = Strong Buy, 5 = Strong Sell)	
Earning Consensus Estimate \$0.23	

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COMPANY RESEARCH
QUOTE
Southwest Gas Corp. (SWX)

07/13/06 11:58 a.m. EDT NYSE

Last	Change	% Change
31.84	0.11	0.35%

Open	High	Low
31.58	32.07	31.53

Volume	Prior Day's Volume	Prior Day's Close
117,000	188,600	31.73

52-Week High	52-Week Low
32.41 (07/06/2006)	25.12 (10/20/2005)

10 DAY 11:58 AM



© BigCharts.com

 1 day | 10 day | 1 mo | 3 mo | 1 year
 • Go To Stock Charting

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Stock Data

 Market Cap(Mil) **1,270.87**

 P/E Ratio **23.35**

 Dividend Yield **2.58%**

 Latest Dividend **\$0.205**

 Pay Date of Latest Dividend **09/01/06**

 Last Stock Split **n.a.**

 Date of Last Split **n.a.**

 Shares Outstanding (Mil) **40.05**

 Public Float (Mil) **40.00**

All data updated daily before market opens
 Source: Reuters

Short Interest

 Total Shares* on 06/08/06: **2,167.0**

 Total Shares* for Previous Month: **1,685.0**

 Short Interest Ratio** **9.30**
Latest News
MarketWatch

August 9	Updates, advisories and surprises
January 5	Stocks to watch Monday
June 9	Boeing, Vivendi, Amazon.com and more

002529

Short Interest as % of Public Float		5.42
*in thousands **Number of days of average daily volume needed to close out total short position. Source: Reuters		
Indexes		
• Component of S&P 600 Small Cap Index		
Dow Jones Industry Group Center		
Gas Distribution		
Ratings & Estimates		
• Get Complete Analyst Ratings • Get Complete Earnings Estimates		
Mean Recommendation		2.4
(1 = Strong Buy, 5 = Strong Sell)		
Earning Consensus Estimate		\$0.0

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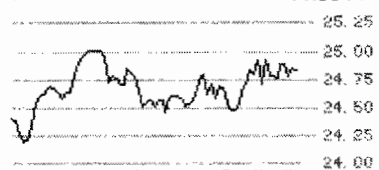
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COMPANY RESEARCH
QUOTE
UGI Corp. (UGI)

07/13/06 11:56 a.m. EDT NYSE

Last	Change	% Change
24.83	-0.06	-0.24%
Open	High	Low
24.79	24.97	24.71
Volume	Prior Day's Volume	Prior Day's Close
52,900	366,300	24.89

10 DAY — 11:56 AM


 52-Week High **29.98** (08/03/2005) 52-Week Low **20.21** (12/30/2005)

 1 day | 10 day | 1 mo | 3 mo | 1 year
 • Go To Stock Charting

U.S. stock prices on NYSE and AMEX are delayed 20 minutes or more, Nasdaq prices are delayed 15 minutes or more. Volume updates until the following times (ET): NYSE- 5:00 p.m., AMEX- 4:00 p.m., Nasdaq- 6:30 p.m.

Stock Data	Latest News
Market Cap(Mil) 2,621.16	MarketWatch
P/E Ratio 17.28	April 26 Updates, advisories and surprises
Dividend Yield 2.83%	January 27 Highlights of rising and falling U.S. stocks
Latest Dividend \$0.176	November 16 Highlights of rising and falling U.S. stocks
Pay Date of Latest Dividend 07/01/06	
Last Stock Split 100% stock div.	
Date of Last Split 05/25/05	
Shares Outstanding (Mil) 105.31	
Public Float (Mil) 104.30	
All data updated daily before market opens Source: Reuters	
Short Interest	
Total Shares* on 06/08/06: 1,689.0	
Total Shares* for Previous Month: 1,380.0	
Short Interest Ratio** 2.82	

002531

Short Interest as % of Public Float		1.62
*in thousands **Number of days of average daily volume needed to close out total short position. Source: Reuters		
Indexes		
• Component of S&P 600 Small Cap Index		
Dow Jones Industry Group Center		
Gas Distribution		
Ratings & Estimates		
• Get Complete Analyst Ratings • Get Complete Earnings Estimates		
Mean Recommendation		2.3
(1 = Strong Buy, 5 = Strong Sell)		
Earning Consensus Estimate		\$0.11

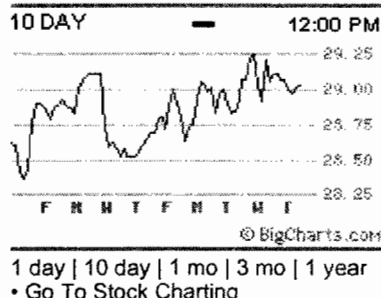
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COMPANY RESEARCH
QUOTE
WGL Holdings Inc. (WGL)

07/13/06 11:58 a.m. EDT NYSE

Last	Change	% Change
29.02	-0.05	-0.17%
Open	High	Low
29.07	29.16	28.93
Volume	Prior Day's Volume	Prior Day's Close
101,200	416,000	29.07

 52-Week High **34.70** (08/01/2005) 52-Week Low **27.04** (05/24/2006)


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Stock Data	Latest News
Market Cap(Mil) 1,417.52	The Wall Street Journal Online
P/E Ratio 17.41	Jul. 11 WGL Hldgs Unit To Explore Business Outsourcing
Dividend Yield 4.64%	• FULL NEWS FROM THE WALL STREET JOURNAL ONLINE
Latest Dividend \$0.338	MarketWatch
Pay Date of Latest Dividend 08/01/06	September 30 Do-it-yourself hedge-fund strategies
Last Stock Split 100% stock div.	February 3 Updates, advisories and surprises
Date of Last Split 05/02/95	January 5 Updates, advisories and surprises
Shares Outstanding (Mil) 48.76	Latest Press Releases
Public Float (Mil) 48.30	Jun. 29 WGL Holdings, Washington Gas Declare Dividends
All data updated daily before market opens Source: Reuters	Jun. 15 Washington Gas Reaffirms System Safety Following FERC Decision Regarding Dominion Cove Point LNG Terminal
Short Interest	• FULL PRESS RELEASES
Total Shares* on 06/08/06: 5,323.0	
Total Shares* for Previous Month: 3,749.0	
Short Interest Ratio** 18.23	

Short Interest as % of Public Float		11.02
*in thousands **Number of days of average daily volume needed to close out total short position. Source: Reuters		
Indexes		
• Component of S&P 400 Mid Cap Index		
Dow Jones Industry Group Center		
Gas Distribution		
Ratings & Estimates		
• Get Complete Analyst Ratings • Get Complete Earnings Estimates		
Mean Recommendation		3.0
(1 = Strong Buy, 5 = Strong Sell)		
Earning Consensus Estimate		\$-0.08

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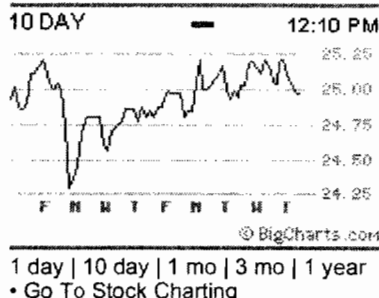
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002534


COMPANY RESEARCH
QUOTE
Piedmont Natural Gas Co. (PNY)

07/13/06 12:10 a.m. EDT NYSE

Last	Change	% Change
24.98	-0.24	-0.95%
Open	High	Low
25.19	25.24	24.90
Volume	Prior Day's Volume	Prior Day's Close
143,400	363,500	25.22


 52-Week High **25.80** (09/19/2005) 52-Week Low **21.26** (11/08/2005)

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Stock Data	Latest News
Market Cap(Mil) 1,898.50	The Wall Street Journal Online
P/E Ratio 18.23	Jun. 26 Baird Raises Piedmont Natural Gas To Outperform From Neutral
Dividend Yield 3.81%	• FULL NEWS FROM THE WALL STREET JOURNAL ONLINE
Latest Dividend \$0.24	MarketWatch
Pay Date of Latest Dividend 07/14/06	June 7 Updates, advisories and surprises
Last Stock Split 100% stock div.	March 3 Updates, advisories and surprises
Date of Last Split 11/01/04	September 2 Updates, advisories and surprises
Shares Outstanding (Mil) 75.28	Latest Press Releases
Public Float (Mil) 74.50	Jun. 16 Piedmont Natural Gas Names Williams To Lead Transportation and Major Account Services
All data updated daily before market opens Source: Reuters	• FULL PRESS RELEASES
Short Interest	
Total Shares* on 06/08/06: 5,124.0	
Total Shares* for Previous Month: 5,282.0	
Short Interest Ratio** 19.34	

002535

Short Interest as % of Public Float		6.88
*in thousands **Number of days of average daily volume needed to close out total short position. Source: Reuters		
Indexes		
• Component of S&P 600 Small Cap Index		
Dow Jones Industry Group Center		
Gas Distribution		
Ratings & Estimates		
• Get Complete Analyst Ratings • Get Complete Earnings Estimates		
Mean Recommendation		2.8
(1 = Strong Buy, 5 = Strong Sell)		
Earning Consensus Estimate		\$-0.09

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002535

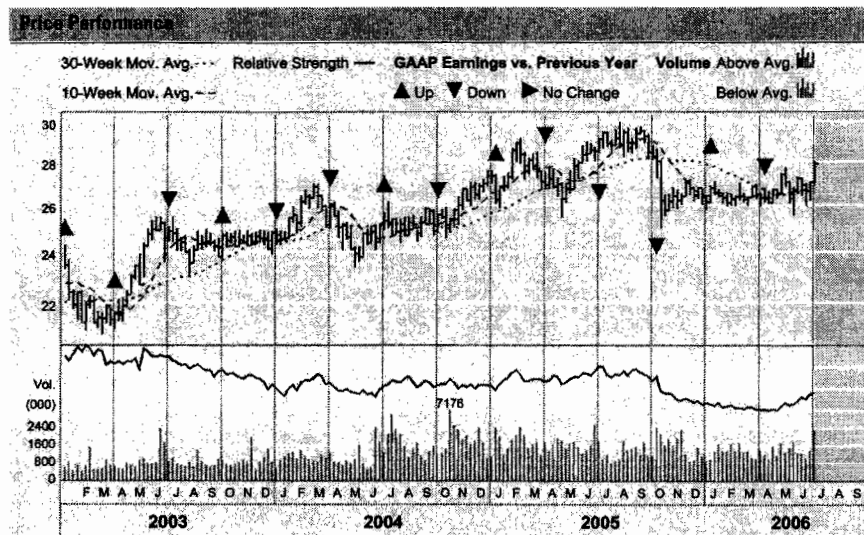
Atmos Energy Corp

GICS Sector Utilities
Sub-Industry Gas Utilities

Summary ATO distributes and sells natural gas to residential, commercial, industrial and agricultural customers, and also conducts non-utility operations.

Key Stock Statistics (Source: S&P, Company Reports, Vickers)

Price as of Jun 30, 2006	\$27.91	Dividend Rate/Share	\$1.26	\$10K Invested 5 Yrs Ago	\$14,619	Total Shares Outstg. (M)	81.2
52-Wk Range	\$29.97-\$25.00	Trailing 12-Month P/E	15.5	Beta	0.21	Market Capitalization(B)	\$2,265
Trailing 12-Month EPS	\$1.80	Tangible Book Val/Share	\$10.74	Yield (%)	4.51	Institutional Ownership (%)	57



S&P Analyst **Michael Infranco**

Operational Review May 19, 2006

Income Statement Analysis & Financial Review

Operating revenues in the six months ended March 31, 2006, advanced 41%, year to year, primarily reflecting increased throughput. Purchased gas costs rose 51%; the gain in gross profit was held to 7.7%. Total operating expenses were well controlled, rising only 6.1%; operating profit advanced 9.9%, to \$330.5 million, from \$300.9 million. After higher interest charges, and taxes at 37.8%, versus 37.4%, net income was up 7.9%, to \$159,823,000 (\$1.98 a share, on 4.0% more shares), from \$148,101,000 (\$1.90).

In the FY 06 (Sep.) second quarter, operating revenues totaled \$2.03 billion, up 21%, year to year. However, profitability was negatively affected by weather that was 16% warmer than normal, as adjusted for jurisdictions with weather-normalized rates. Net income was up less than 1%, to \$88,796,000 (\$1.10 a share, on 1.6% more shares), from \$88,502,000 (\$1.11).

Key Operating Information

Total utility gas throughput in the FY 06 second quarter was 142.9 Bcf, down from 160.1 Bcf a year earlier. Capital expenditures totaled \$213.2 million for the six months ended March 31, 2006, up from \$137.5 million in the year-earlier period. The increase primarily reflected increased spending as-

sociated with the company's North Side Loop project in the Dallas/Fort Worth Metroplex and other pipeline expansion projects in the Atmos Pipeline-Texas Division, as well as various capital projects in the Mid-Tex Division.

Recent Developments

In May, the company said that unseasonably warm winter weather negatively affected its business during the FY 06 second quarter, but noted that much of the negative impact of the weather was offset by the continued strong performance of its nonutility businesses, especially its natural gas marketing operations. Also in May, the company said it believes that despite the unseasonably warm weather, continued natural gas price volatility creates the potential for its complementary non-utility businesses to deliver stronger results, partially offsetting the impact of warmer weather. As a result, the company continues to expect FY 06 earnings to be between \$1.80 and \$1.90 per share.

Quantitative Evaluations

S&P Earnings & Dividend Rank

B	C	B-	B	B+	A-	A	A+
---	---	----	---	----	----	---	----

S&P Fair Value Rank

1	2	3	4	5
---	---	---	---	---

LOWEST HIGHEST

Fair Value Calculation

\$26.90

Insider Activity

Neutral

UNFAVORABLE	NEUTRAL	FAVORABLE
-------------	---------	-----------

Volatility

Low

LOW	AVERAGE	HIGH
-----	---------	------

Technical Evaluation

BULLISH

Since June, 2006, the technical indicators for ATO have been BULLISH.

Relative Strength Rank

STRONG

81

LOWEST = 1 HIGHEST = 99

Revenue/Earnings Data

Revenue (Million \$)

	1Q	2Q	3Q	4Q	Year
2006	2,284	2,034	--	--	--
2005	1,371	1,688	910.0	1,005	4,973
2004	763.6	1,117	546.1	492.9	2,920
2003	680.4	1,194	488.5	436.9	2,800
2002	271.3	379.5	161.8	138.2	950.9
2001	442.8	675.1	164.3	160.1	1,442

Earnings Per Share (\$)

	1Q	2Q	3Q	4Q	Year
2006	0.88	1.10	--	--	--
2005	0.79	1.11	0.06	-0.21	1.72
2004	0.57	1.12	0.09	-0.11	1.58
2003	0.60	1.24	Nil	-0.05	1.71
2002	0.50	1.01	0.08	-0.14	1.45
2001	0.70	1.13	-0.08	-0.19	1.47

Fiscal year ended Sep. 30. Next earnings report expected: Early August

Dividend Data (Dates: annual Payment Date: monthly)

Amount (\$)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.310	08/08	08/23	08/25	09/12/05
0.315	11/08	11/22	11/25	12/12/05
0.315	02/07	02/23	02/27	03/10/06
0.315	05/10	05/23	05/25	06/12/06

Dividends have been paid since 1984

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Atmos Energy Corp

Business Summary May 19, 2006

Atmos Energy Corp. is engaged primarily in the natural gas utility business as well as other natural gas nonutility businesses. ATO believes it is one of the country's largest natural gas only distributors based on number of customers and one of the largest intrastate pipeline operators in Texas based on miles of pipe. As of September 30, 2005, the company distributed natural gas through sales and transportation arrangements to about 3.2 million residential, commercial, public authority and industrial customers through its seven regulated utility divisions, which covered service areas in 12 states. In addition, ATO transports natural gas for others through its distribution system.

The company has four operating segments: utility operations, which accounted for 58% of revenues in FY 05 (Sep.), natural gas marketing operations 39%, pipeline and storage 3%, and other non-utility operations less than 1%.

ATO's utility operations are conducted through seven divisions: Atmos Energy Louisiana; Atmos Energy West Texas; Atmos Energy Colorado-Kansas; Atmos Energy Mid-States; Atmos Energy Kentucky; Atmos Energy Mid-Tex; and Atmos Energy Mississippi. Natural gas supply comes from a variety of third-party providers and from gas held in storage. The company has estimated its peak-day availability of natural gas supply from long-term contracts, short-term contracts and withdrawals from underground storage at about 4.2 Bcf. The peak-day demand for ATO's utility operations in FY 05 was on December 23, 2004, when sales to customers reached about 3.5 Bcf.

Natural gas marketing operations consist of Atmos Energy Marketing. Services include furnishing natural gas supplies at fixed and market-based prices, contract negotiation and administration, load forecasting, gas storage acquisition and management services, transportation services, peaking sales and balancing services, capacity utilization strategies and gas price management through the use of derivative products.

The company's pipeline and storage segment consists of the regulated pipeline and storage operations of the Atmos Pipeline-Texas Division and the nonregulated pipeline and storage operations of Atmos Pipeline and Storage, LLC. ATO believes that the natural gas transmission and storage operations acquired in the TXU Gas acquisition, which are operated in the Atmos Pipeline-Texas Division, represent one of the largest intrastate pipeline operations in Texas. The Texas Division transports natural gas to the company's Mid-Tex Division and for third parties. These operations include interconnected natural gas transmission lines, five underground storage reservoirs (including a salt dome facility) and 24 compressor stations and related properties, all within Texas. ATO believes that these operations may create additional gas marketing and other opportunities for its non-regulated subsidiaries.

Nonutility operations consist primarily of Atmos Energy Services, LLC (AES) and Atmos Power Systems, Inc. Through AES, ATO provides natural gas management services to its utility operations, other than the Mid-Tex Division. These services include aggregating and purchasing gas supply, arranging transportation and storage logistics and ultimately delivering the gas to its utility service areas at competitive prices in exchange for revenues that are equal to the costs incurred to provide those services. Through Atmos Power Systems, the company constructs gas-fired electric peaking power-generating plants and associated facilities and may enter into agreements to either lease or sell these plants.

The company's recent business strategy has included growth through acquisitions. Over the past five years, ATO has accelerated its growth through acquisitions that included the purchase of the remaining 55% interest in Woodward Marketing, L.L.C. that it did not already own in April 2001; the assets of Louisiana Gas Service Co. in July 2001; Mississippi Valley Gas Co. in December 2002; and the natural gas distribution and pipeline system of TXU Gas Co. in October 2004.

The company's natural gas utility distribution business is seasonal and dependent on weather conditions in its service areas. Gas sales to residential and commercial customers are greater during the winter months than during the remainder of the year. The volumes of gas sales during the winter months will vary with the temperatures during these months. The seasonal nature of ATO's sales to residential and commercial customers is partially offset by sales in the spring and summer months to agricultural customers in Texas, Colorado and Kansas who use natural gas to operate irrigation equipment.

Corporate Information

Investor Contact

S.C. Kappes (972- 855-3729)

Office

5430 LBJ Freeway, Dallas, TX 75240.

Telephone

972-934-9227.

Fax

972-855-3040.

Email

investorrelations@atmosenergy.com

Website

<http://www.atmosenergy.com>

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Founded

1983

Employees

4,543

Stockholders

26,170

Atmos Energy Corp

Key Stock Statistics

Price as of Jun 30, 2006	\$27.91	Dividend Rate/Share	\$1.26	\$10K Invested 5 Yrs Ago	\$14,619	Total Shares Outstg. (M)	81.2
52-Wk Range	\$29.97-25.00	Trailing 12-Month P/E	15.5	Beta	0.21	Market Capitalization(B)	\$2,265
Trailing 12-Month EPS	\$1.80	Tangible Book Val/Share	\$10.74	Yield (%)	4.51	Institutional Ownership (%)	57

Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Revenue	4.29	37.66	34.49	20.99
Net Income	8.51	17.08	34.40	18.07

Ratio Analysis (Annual Avg.)

Net Margin (%)	2.95	4.02	4.04	4.10
LTD of Capitalization (%)	63.77	55.95	54.04	50.56

Expanded Ratio Analysis

	2004	2003	2002	2001
Price/Revenue	0.51	0.40	1.01	0.56
Price/Tang. Book Value	1.92	2.14	2.54	1.71
Price/Net Income	17.26	14.22	16.12	14.49
Total Shares Outstg (M)	54.4	46.5	41.3	38.2

Figures based on calendar year-end price

Company Financials

Per Share Data (\$) Year Ended Sep. 30	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Tangible Book Value	NA	14.25	11.35	9.19	12.43	12.28	12.09	12.21	11.04	10.75
Earnings	1.72	1.58	1.71	1.45	1.47	1.14	0.58	1.84	0.81	1.51
Dividends	1.24	1.22	1.20	1.18	1.16	1.14	1.11	1.06	1.01	0.96
Payout Ratio	72%	77%	70%	81%	79%	100%	191%	58%	125%	64%
Prices:High	29.97	27.59	25.50	24.55	25.75	26.25	33.00	32.25	27.88	31.00
Prices:Low	25.00	23.40	20.85	17.56	19.45	14.25	19.63	24.75	22.13	20.88
P/E Ratio:High	17	17	15	17	18	23	57	18	34	21
P/E Ratio:Low	15	15	12	12	13	13	34	13	27	14

Income Statement Analysis (Million \$)

Revenue	NA	2,920	2,800	951	1,442	850	690	848	907	484
Depreciation	NA	96.6	87.0	81.5	67.7	63.9	56.9	47.6	45.3	20.8
Maintenance	NA	NA	NA	NA	6.37	7.65	9.14	10.3	12.0	4.21
Fixed Charges Coverage	NA	3.11	2.99	2.60	2.70	2.12	1.70	3.45	2.14	3.53
Construction Credits	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Effective Tax Rate	NA	37.4%	37.1%	37.1%	37.3%	36.1%	35.0%	36.5%	37.5%	35.7%
Net Income	NA	86.2	79.5	59.7	56.1	35.9	17.7	55.3	23.8	23.9

Balance Sheet & Other Financial Data (Million \$)

Gross Property	NA	2,634	3,444	2,128	2,110	1,580	1,549	1,446	1,333	666
Capital Expenditures	NA	190	159	132	113	75.6	110	135	122	77.6
Net Property	NA	1,723	2,480	1,300	1,335	982	966	918	849	414
Capitalization:Long Term Debt	NA	1,995	864	670	692	363	378	399	303	122
Capitalization:% Long Term Debt	NA	63.8	50.2	53.9	54.3	48.1	43.5	51.8	48.1	41.5
Capitalization:Preferred	NA	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Capitalization:% Preferred	NA	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Capitalization:Common	NA	1,133	858	573	584	392	378	371	327	172
Capitalization:% Common	NA	36.2	49.8	46.1	45.7	51.9	100.0	48.2	51.9	58.5
Total Capital	NA	3,342	1,945	1,378	1,415	887	490	850	718	334
% Operating Ratio	NA	95.1	95.0	91.4	93.3	92.4	93.1	89.2	94.2	91.9
% Earned on Net Property	NA	11.6	8.2	17.8	17.1	18.3	5.8	9.2	8.3	10.0
% Return on Revenue	NA	3.0	2.8	6.3	3.9	4.2	2.6	6.5	2.6	5.0
% Return on Invested Capital	NA	4.9	8.6	8.5	9.0	9.1	12.3	7.1	8.2	11.8
% Return on Common Equity	NA	8.7	11.1	10.3	11.5	9.3	4.7	15.8	9.5	14.5

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

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Atmos Energy Corp

Sub-Industry Outlook

Our investment outlook for natural gas utilities is negative. Through June 16, the S&P Gas Utilities Index was up 3.3%, year to date, versus a 0.4% gain for the S&P 1500. In 2005, the sub-industry index outperformed the broader market, rising 4.4%, versus 3.8% for the 1500. Gas utilities (characterized by slower growth but higher dividend yields) have enjoyed above-average returns versus the S&P 1500, due in part, we think, to historically low interest rates, which have made their dividends more attractive to investors. The 15% tax rate on dividend income has been extended by two years, to 2010, and should increase the appeal of these high-yielding equities.

For 2006, we expect low single digit growth, on average, for regulated utility operations. Rising employee-related expenses, higher bad debt costs and lagging utility rate relief should mostly offset new customer additions, in our view. With ratepayers already paying higher prices for natural gas supply costs (via pass-through mechanisms), we believe utilities will face an uphill battle in securing rate increases for delivery and maintenance. High natural gas prices led to lower usage per customer (via fuel-switching and conservation efforts) in the first quarter of 2006. A milder winter, while contributing to lower usage in the first quarter, helped lower gas prices through the first four months of the year. We think oil-to-gas conversions will continue in 2006, albeit at a slower pace. However, unregulated operations such as wholesale and retail gas marketing, HVAC installation and repair, and energy trading saw stronger growth in the first quarter as customers sought ways to lower their bills.

Over the next two years, we look for earnings growth at gas utilities to be below that of the S&P 1500. We also believe there are investment risks

associated with higher interest rates expected over the next couple of years, making these shares somewhat less attractive on a yield basis.

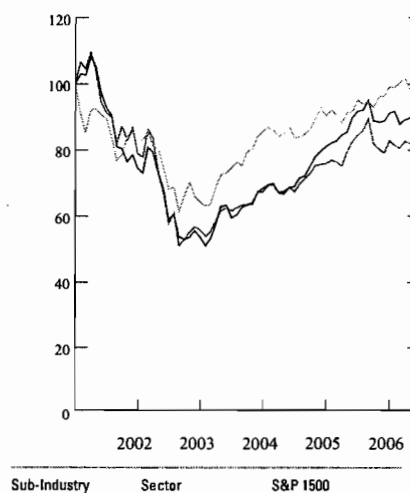
Our fundamental outlook for vertically integrated natural gas distribution companies with unregulated midstream and upstream operations is neutral. These companies have seen robust earnings growth, driven by higher gas and oil prices in 2005. We expect higher hedged commodity prices and small volume gains to drive mid-single digit profit growth in 2006. Longer term, we think an improving regulatory environment will likely increase access to public lands for drilling and pipeline expansion and expedite permit procedures, providing for steady long-term production gains. Still, we expect higher production-related costs to restrict earnings gains at gas utilities with E&P operations.

--Justin McCann

Stock Performance

GICS Sector: Utilities
Sub-Industry: Gas Utilities

Based on S&P 1500 Indexes
Month-end Price Performance as of 06/30/06



NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

Sub-Industry : Gas Utilities Peer Group*: Distributors - Larger

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price	P/E Ratio	12-Mo. Trailing EPS	30-Day Price Chg(%)	1 Year Price Chg(%)	Beta	Yield (%)	Quality Ranking	Ret. on Equity (%)	Pretax Margin (%)	LTD to Cap (%)
Atmos Energy	ATO	2,265	27.91	16	1.80	4%	-3%	0.21	4.5	B+	8.7	NM	NA
AGL Resources	ATG	2,971	38.12	14	2.75	4%	-1%	0.49	3.9	A-	13.4	NM	NA
Laclede Group	LG	733	34.36	15	2.27	2%	8%	0.37	4.1	B+	11.1	NM	NA
Piedmont Natural Gas	PNY	1,829	24.30	17	1.39	0%	1%	0.42	4.0	A-	11.6	NM	NA
Southern Union	SUG	3,027	27.06	NM	0.04	10%	16%	0.92	1.5	B	0.2	NM	NA
WGL Holdings	WGL	1,412	28.95	17	1.67	1%	-14%	0.26	4.7	B+	11.8	NM	NA

NA-Not Available NM-Not Meaningful NR-Not Rated. *For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

Atmos Energy Corp

S&P Analyst Research Notes and other Company News

May 9, 2006

NEW YORK (Standard & Poor's)--May 6, 2006, Atmos Energy Corp., announced 2Q EPS \$1.10 vs. \$1.11 and 6 mos. EPS \$1.98 vs. \$1.90.

May 5, 2006

Posts \$1.10 vs. \$1.11 Q2 EPS (GAAP) as higher costs, expenses offset 21% rise in op. revenue... Sees '06 EPS at lower end of previously announced \$1.80-\$1.90 guidance.

February 8, 2006

NEW YORK (Standard & Poor's)--Feb 7, 2006, Atmos Energy Corp., announced 1Q EPS \$0.88 vs. \$0.79.

November 8, 2005

NEW YORK (Standard & Poor's)--Nov 8, 2005, Atmos Energy Corp., announced 4Q loss per share of \$0.21 vs. loss of \$0.11 and annual EPS \$1.72 vs. \$1.58.

August 9, 2005

NEW YORK (Standard & Poor's)--Aug 8, 2005, Atmos Energy Corp., announced 3Q EPS \$0.06 vs. \$0.09 and 9 mos. EPS \$1.94 vs. \$1.78.

May 10, 2005

NEW YORK (Standard & Poor's)--May 9, 2005, Atmos Energy Corp., announced 2Q EPS \$1.11 vs. \$1.12 and 6 mos. EPS \$1.90 vs. \$1.69.

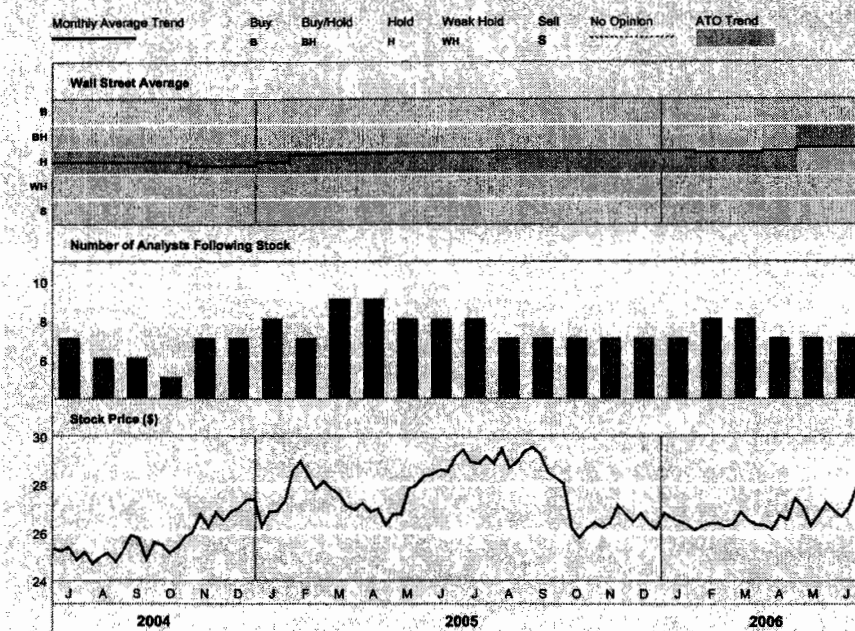
February 9, 2005

NEW YORK (Standard & Poor's)--Feb 8, 2005, Atmos Energy Corp., announced 1Q EPS \$0.79 vs. \$0.57.

Atmos Energy Corp

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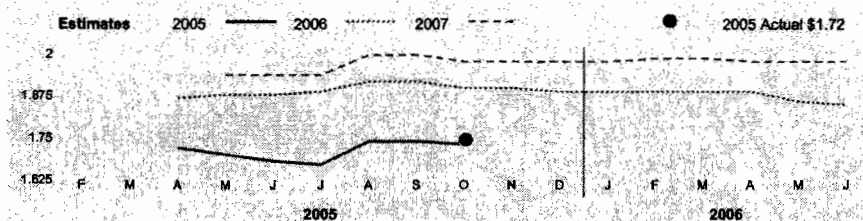
Analysts' Recommendations



Of the total 8 companies following ATO, 7 analysts currently publish recommendations.

	No. of Ratings	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	1	14	1	1
Buy/Hold	2	29	2	1
Hold	4	57	4	6
Weak Hold	0	0	0	0
Sell	0	0	0	0
No Opinion	0	0	0	0
Total	7	100	7	8

Wall Street Consensus Estimates



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2007	1.96	2.02	1.90	5	14.2
2006	1.83	1.85	1.80	6	15.3
2007 vs. 2006	▲ 7%	▲ 9%	▲ 6%	▼ -17%	▼ -7%
Q3'07	0.07	0.08	0.06	2	NM
Q3'06	0.04	0.06	-0.03	5	NM
Q3'07 vs. Q3'06	▲ 75%	▲ 33%	▲ 300%	▼ -60%	NM

A company's earnings outlook plays a major part in any investment decision. Standard & Poor's organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

Wall Street Consensus Opinion

BUY/HOLD

Companies Offering Coverage

AG Edwards & Sons
Argus Research Corp.
Calyon Securities (usa) Inc.
JJB Hilliard WL Lyons
Lehman Brothers, Inc.
Natexis Bleichroeder Inc.
UBS Warburg
Wachovia Securities

Wall Street Consensus vs. Performance

For fiscal year 2006, analysts estimate that ATO will earn \$1.83. For the 2nd quarter of fiscal year 2006, ATO announced earnings per share of \$1.10, representing 60% of the total annual estimate. For fiscal year 2007, analysts estimate that ATO's earnings per share will grow by 7% to \$1.96.

Atmos Energy Corp

Glossary

Quantitative Evaluations

In contrast to our qualitative STARS recommendations, which are assigned by S&P analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

S&P Earnings & Dividend Rank (also known as S&P Quality Rank)

Growth and stability of earnings and dividends are deemed key elements in establishing S&P's earnings and dividend rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+ Highest	B Below Average
A High	B- Lower
A- Above Average	C Lowest
B+ Average	O In Reorganization
NR Not Ranked	

S&P Fair Value Rank

Using S&P's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following:

- 5-Stock is significantly undervalued
- 4-Stock is moderately undervalued
- 3-Stock is fairly valued
- 2-Stock is modestly overvalued
- 1-Stock is significantly overvalued

S&P Fair Value Calculation

The price at which a stock should trade at, according to S&P's proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Earnings & Dividend Rankings). Relying heavily on a company's actual return on equity, the S&P Fair Value model places a value on a security based on placing a formula-derived price-to-book multiple on a company's consensus earnings per share estimate.

Insider Activity

Gives an insight as to insider sentiment by showing whether directors, officers and key employees who have proprietary information not available to the general public, are buying or selling the company's stock during the most recent six months.

Volatility

Rates the volatility of the stock's price over the past year.

Technical Evaluation

In researching the past market history of prices and trading volume for each company, S&P's computer models apply special technical methods and formulas to identify and project price trends for the stock.

Relative Strength Rank

Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P's universe on a rolling 13-week basis.

Global Industry Classification Standard (GICS)

An industry classification standard, developed by Standard & Poor's in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 67 Industries, and 147 Sub-Industries.

Exchange Type

ASE - American Stock Exchange; NNM - Nasdaq National Market; NSC - Nasdaq Smallcap; NYSE - New York Stock Exchange; BB - OTC Bulletin Board; OT - Over-the-Counter; TO - Toronto Stock Exchange.

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Data provided by [Capital IQ](#), except where noted.**VALUATION MEASURES**

Market Cap (intraday):	2.25B
Enterprise Value (28-Jun-06) ³ :	4.62B
Trailing P/E (ttm, intraday):	15.12
Forward P/E (fye 30-Sep-07) ¹ :	14.12
PEG Ratio (5 yr expected):	2.50
Price/Sales (ttm):	0.36
Price/Book (mrq):	1.31
Enterprise Value/Revenue (ttm) ³ :	0.74
Enterprise Value/EBITDA (ttm) ³ :	8.276

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	30-Sep
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	2.37%
Operating Margin (ttm):	6.07%

Management Effectiveness

Return on Assets (ttm):	4.14%
Return on Equity (ttm):	8.84%

Income Statement

Revenue (ttm):	6.24B
Revenue Per Share (ttm):	77.883
Qtrly Revenue Growth (yoy):	20.70%
Gross Profit (ttm):	1.13B

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TRADING INFORMATION**Stock Price History**

Beta:	0.58
52-Week Change ³ :	-4.11%
S&P500 52-Week Change ³ :	3.13%
52-Week High (03-Aug-05) ³ :	29.97
52-Week Low (13-Oct-05) ³ :	25.50
50-Day Moving Average ³ :	26.74
200-Day Moving Average ³ :	26.52

Share Statistics

Average Volume (3 month) ³ :	284,177
Average Volume (10 day) ³ :	307,514
Shares Outstanding:	81.15M
Float:	79.80M

EBITDA (ttm):	558.00M	% Held by Insiders ⁴ :	1.90%
Net Income Avl to Common (ttm):	147.51M	% Held by Institutions ⁴ :	56.00%
Diluted EPS (ttm):	1.83	Shares Short (as of 10-May-06) ³ :	3.35M
Qtrly Earnings Growth (yoy):	0.30%	Short Ratio (as of 10-May-06) ³ :	11.8
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	4.30%
Total Cash (mrq):	48.90M	Shares Short (prior month) ³ :	1.86M
Total Cash Per Share (mrq):	0.603	Dividends & Splits	
Total Debt (mrq):	2.45B	Forward Annual Dividend Rate ⁵ :	1.26
Total Debt/Equity (mrq):	1.434	Forward Annual Dividend Yield ⁵ :	4.70%
Current Ratio (mrq):	1.102	Trailing Annual Dividend Rate ³ :	1.25
Book Value Per Share (mrq):	21.045	Trailing Annual Dividend Yield ³ :	4.60%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	5.00%
Operating Cash Flow (ttm):	135.24M	Payout Ratio ⁵ :	69%
Levered Free Cash Flow (ttm):	-175.10M	Dividend Date ³ :	10-Mar-06
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	23-May-06
Income Statement - Balance Sheet		Last Split Factor (new per old) ² :	3:2
Cash Flow		Last Split Date ³ :	17-May-94

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Abbreviation Guide: **K** = Thousands; **M** = Millions; **B** = Billions

mrq = Most Recent Quarter (as of 31-Mar-06)

ttm = Trailing Twelve Months (as of 31-Mar-06)

yoy = Year Over Year (as of 31-Mar-06)

lfy = Last Fiscal Year (as of 30-Sep-05)

fye = Fiscal Year Ending

¹ = Data provided by Thomson; ² = Data provided by EDGAR Online;

³ = Data derived from multiple sources or calculated by Yahoo! Finance;

⁴ = Data provided by Computershare; ⁵ = Data provided by Hemscott Americas

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Data provided by [Capital IQ](#), except where noted.**VALUATION MEASURES**

Market Cap (intraday):	2.93B
Enterprise Value (28-Jun-06) ³ :	4.85B
Trailing P/E (ttm, intraday):	15.16
Forward P/E (fye 31-Dec-07) ¹ :	13.93
PEG Ratio (5 yr expected):	2.70
Price/Sales (ttm):	1.02
Price/Book (mrq):	1.85
Enterprise Value/Revenue (ttm) ³ :	1.79
Enterprise Value/EBITDA (ttm) ³ :	8.441

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	31-Dec
Most Recent Quarter (mrq):	31-Dec-05

Profitability

Profit Margin (ttm):	7.10%
Operating Margin (ttm):	16.26%

Management Effectiveness

Return on Assets (ttm):	4.65%
Return on Equity (ttm):	13.38%

Income Statement

Revenue (ttm):	2.72B
Revenue Per Share (ttm):	35.162
Qtrly Revenue Growth (yoy):	56.90%
Gross Profit (ttm):	1.09B

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TRADING INFORMATION**Stock Price History**

Beta:	0.4
52-Week Change ³ :	-2.17%
S&P500 52-Week Change ³ :	3.13%
52-Week High (05-Jul-05) ³ :	39.32
52-Week Low (20-Oct-05) ³ :	32.23
50-Day Moving Average ³ :	36.15
200-Day Moving Average ³ :	35.63

Share Statistics

Average Volume (3 month) ³ :	355,872
Average Volume (10 day) ³ :	377,000
Shares Outstanding:	77.93M
Float:	77.63M

EBITDA (ttm):	575.00M	% Held by Insiders ⁴ :	5.34%
Net Income Avl to Common (ttm):	193.00M	% Held by Institutions ⁴ :	63.20%
Diluted EPS (ttm):	2.48	Shares Short (as of 10-Mar-06) ³ :	943.73K
Qtrly Earnings Growth (yoy):	43.50%	Short Ratio (as of 10-Mar-06) ³ :	2.5
Balance Sheet		Short % of Float (as of 10-Mar-06) ³ :	1.20%
Total Cash (mrq):	30.00M	Shares Short (prior month) ³ :	1.02M
Total Cash Per Share (mrq):	0.385	Dividends & Splits	
Total Debt (mrq):	2.14B	Forward Annual Dividend Rate ⁵ :	1.48
Total Debt/Equity (mrq):	1.426	Forward Annual Dividend Yield ⁵ :	4.20%
Current Ratio (mrq):	1.048	Trailing Annual Dividend Rate ³ :	1.42
Book Value Per Share (mrq):	20.294001	Trailing Annual Dividend Yield ³ :	3.80%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	4.40%
Operating Cash Flow (ttm):	78.00M	Payout Ratio ⁵ :	52%
Levered Free Cash Flow (ttm):	-57.88M	Dividend Date ³ :	01-Jun-06
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	15-Feb-06
<u>Income Statement - Balance Sheet</u>		Last Split Factor (new per old) ² :	2:1
<u>Cash Flow</u>		Last Split Date ³ :	04-Dec-95

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Data provided by [Capital IQ](#), except where noted.**VALUATION MEASURES**

Market Cap (intraday):	239.15M
Enterprise Value (28-Jun-06) ³ :	406.77M
Trailing P/E (ttm, intraday):	19.34
Forward P/E (fye 30-Sep-07) ¹ :	17.80
PEG Ratio (5 yr expected):	4.92
Price/Sales (ttm):	0.56
Price/Book (mrq):	1.81
Enterprise Value/Revenue (ttm) ³ :	0.96
Enterprise Value/EBITDA (ttm) ³ :	7.822

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	30-Sep
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	2.89%
Operating Margin (ttm):	8.07%

Management Effectiveness

Return on Assets (ttm):	4.53%
Return on Equity (ttm):	9.49%

Income Statement

Revenue (ttm):	425.60M
Revenue Per Share (ttm):	37.296
Qtrly Revenue Growth (yoy):	38.30%
Gross Profit (ttm):	91.72M

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TRADING INFORMATION**Stock Price History**

Beta:	0.92
52-Week Change ³ :	0.88%
S&P500 52-Week Change ³ :	3.13%
52-Week High (21-Jul-05) ³ :	22.80
52-Week Low (10-Mar-06) ³ :	18.95
50-Day Moving Average ³ :	20.67
200-Day Moving Average ³ :	20.02

Share Statistics

Average Volume (3 month) ³ :	61,753.8
Average Volume (10 day) ³ :	42,100
Shares Outstanding:	11.48M
Float:	11.32M

EBITDA (ttm):	52.01M	% Held by Insiders ⁴ :	1.42%
Net Income Avl to Common (ttm):	12.29M	% Held by Institutions ⁴ :	45.20%
Diluted EPS (ttm):	1.08	Shares Short (as of 10-May-06) ³ :	439.65K
Qtrly Earnings Growth (yoy):	22.20%	Short Ratio (as of 10-May-06) ³ :	7.5
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	3.90%
Total Cash (mrq):	6.68M	Shares Short (prior month) ³ :	357.26K
Total Cash Per Share (mrq):	0.582	Dividends & Splits	
Total Debt (mrq):	173.60M	Forward Annual Dividend Rate ⁵ :	0.96
Total Debt/Equity (mrq):	1.328	Forward Annual Dividend Yield ⁵ :	4.70%
Current Ratio (mrq):	1.121	Trailing Annual Dividend Rate ³ :	0.96
Book Value Per Share (mrq):	11.399	Trailing Annual Dividend Yield ³ :	4.60%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	4.60%
Operating Cash Flow (ttm):	33.60M	Payout Ratio ⁵ :	91%
Levered Free Cash Flow (ttm):	8.56M	Dividend Date ³ :	15-May-06
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	27-Jul-06
Income Statement - Balance Sheet		Last Split Factor (new per old) ² :	3:2
Cash Flow		Last Split Date ³ :	21-Dec-93

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Market Cap (intraday):	7.08M
Enterprise Value (28-Jun-06) ³ :	23.75M
Trailing P/E (ttm, intraday):	44.73
Forward P/E (fye 30-Sep-07) ¹ :	N/A
PEG Ratio (5 yr expected):	N/A
Price/Sales (ttm):	0.27
Price/Book (mrq):	1.33
Enterprise Value/Revenue (ttm) ³ :	0.91
Enterprise Value/EBITDA (ttm) ³ :	12.722



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FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	30-Sep
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	0.61%
Operating Margin (ttm):	4.66%

Management Effectiveness

Return on Assets (ttm):	2.35%
Return on Equity (ttm):	2.51%

Income Statement

Revenue (ttm):	26.01M
Revenue Per Share (ttm):	51.313
Qtrly Revenue Growth (yoy):	12.90%
Gross Profit (ttm):	8.39M

TRADING INFORMATION**Stock Price History**

Beta:	-1.33
52-Week Change ³ :	-7.47%
S&P500 52-Week Change ³ :	3.13%
52-Week High (25-Oct-05) ³ :	18.00
52-Week Low (18-May-06) ³ :	13.26
50-Day Moving Average ³ :	14.02
200-Day Moving Average ³ :	14.35

Share Statistics

Average Volume (3 month) ³ :	356.923
Average Volume (10 day) ³ :	0
Shares Outstanding:	506.00K
Float:	347.44K

EBITDA (ttm):	1.87M	% Held by Insiders ⁴ :	N/A
Net Income Avl to Common (ttm):	137.55K	% Held by Institutions ⁴ :	N/A
Diluted EPS (ttm):	0.31	Shares Short ³ :	N/A
Qtrly Earnings Growth (yoy):	-30.10%	Short Ratio ³ :	N/A
Balance Sheet		Short % of Float ³ :	N/A
Total Cash (mrq):	1.36M	Shares Short (prior month) ³ :	N/A
Total Cash Per Share (mrq):	2.685	Dividends & Splits	
Total Debt (mrq):	18.01M	Forward Annual Dividend Rate ⁵ :	N/A
Total Debt/Equity (mrq):	3.37	Forward Annual Dividend Yield ⁵ :	N/A
Current Ratio (mrq):	0.637	Trailing Annual Dividend Rate ³ :	N/A
Book Value Per Share (mrq):	10.542	Trailing Annual Dividend Yield ³ :	NaN%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	1.80%
Operating Cash Flow (ttm):	-1.62M	Payout Ratio ⁵ :	N/A
Levered Free Cash Flow (ttm):	840.78K	Dividend Date ³ :	31-Dec-03
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	30-Oct-01
<u>Income Statement - Balance Sheet</u>		Last Split Factor (new per old) ² :	N/A
<u>Cash Flow</u>		Last Split Date ³ :	N/A

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VALUATION MEASURES

Market Cap (intraday):	79.91M
Enterprise Value (28-Jun-06) ³ :	146.02M
Trailing P/E (ttm, intraday):	15.11
Forward P/E (fye 30-Jun-07) ¹ :	15.86
PEG Ratio (5 yr expected):	4.20
Price/Sales (ttm):	0.68
Price/Book (mrq):	1.47
Enterprise Value/Revenue (ttm) ³ :	1.24
Enterprise Value/EBITDA (ttm) ³ :	8.233

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	30-June
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	4.46%
Operating Margin (ttm):	11.25%

Management Effectiveness

Return on Assets (ttm):	5.43%
Return on Equity (ttm):	9.92%

Income Statement

Revenue (ttm):	118.03M
Revenue Per Share (ttm):	36.477
Qtrly Revenue Growth (yoy):	39.40%
Gross Profit (ttm):	30.73M

TRADING INFORMATION**Stock Price History**

Beta:	0.73
52-Week Change ³ :	-7.05%
S&P500 52-Week Change ³ :	3.13%
52-Week High (14-Sep-05) ³ :	30.00
52-Week Low (26-Oct-05) ³ :	23.60
50-Day Moving Average ³ :	24.8817
200-Day Moving Average ³ :	25.5303

Share Statistics

Average Volume (3 month) ³ :	2,267.69
Average Volume (10 day) ³ :	1,428.57
Shares Outstanding:	3.25M
Float:	3.12M

EBITDA (ttm):	17.74M	% Held by Insiders ⁴ :	3.87%
Net Income Avl to Common (ttm):	5.26M	% Held by Institutions ⁴ :	9.40%
Diluted EPS (ttm):	1.627	Shares Short (as of 10-May-06) ³ :	3.05K
Qtrly Earnings Growth (yoy):	-10.40%	Short Ratio (as of 10-May-06) ³ :	1.4
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	0.10%
Total Cash (mrq):	221.04K	Shares Short (prior month) ³ :	2.69K
Total Cash Per Share (mrq):	0.068	Dividends & Splits	
Total Debt (mrq):	66.50M	Forward Annual Dividend Rate ⁵ :	1.20
Total Debt/Equity (mrq):	1.229	Forward Annual Dividend Yield ⁵ :	4.90%
Current Ratio (mrq):	1.203	Trailing Annual Dividend Rate ³ :	1.20
Book Value Per Share (mrq):	16.639	Trailing Annual Dividend Yield ³ :	4.90%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	5.10%
Operating Cash Flow (ttm):	5.78M	Payout Ratio ⁵ :	75%
Levered Free Cash Flow (ttm):	3.58M	Dividend Date ³ :	15-Mar-06
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	26-May-06
<u>Income Statement - Balance Sheet</u>		Last Split Factor (new per old) ² :	N/A
<u>Cash Flow</u>		Last Split Date ³ :	N/A

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Market Cap (intraday):	2.77B
Enterprise Value (28-Jun-06) ³ :	3.37B
Trailing P/E (ttm, intraday):	13.82
Forward P/E (fye 31-Dec-07) ¹ :	9.48
PEG Ratio (5 yr expected):	1.45
Price/Sales (ttm):	2.15
Price/Book (mrq):	2.59
Enterprise Value/Revenue (ttm) ³ :	2.69
Enterprise Value/EBITDA (ttm) ³ :	6.792

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	31-Dec
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	16.05%
Operating Margin (ttm):	28.86%

Management Effectiveness

Return on Assets (ttm):	9.47%
Return on Equity (ttm):	22.05%

Income Statement

Revenue (ttm):	1.26B
Revenue Per Share (ttm):	17.168
Qtrly Revenue Growth (yoy):	35.20%
Gross Profit (ttm):	812.77M

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TRADING INFORMATION**Stock Price History**

Beta:	0.93
52-Week Change ³ :	5.98%
S&P500 52-Week Change ³ :	3.13%
52-Week High (04-Oct-05) ³ :	44.31
52-Week Low (24-May-06) ³ :	32.16
50-Day Moving Average ³ :	34.16
200-Day Moving Average ³ :	35.74

Share Statistics

Average Volume (3 month) ³ :	482,185
Average Volume (10 day) ³ :	707,586
Shares Outstanding:	73.47M
Float:	72.67M

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EBITDA (ttm):	496.89M	% Held by Insiders ⁴ :	9.17%
Net Income Avl to Common (ttm):	201.45M	% Held by Institutions ⁴ :	69.00%
Diluted EPS (ttm):	2.73	Shares Short (as of 10-May-06) ³ :	725.76K
Qtrly Earnings Growth (yoy):	48.20%	Short Ratio (as of 10-May-06) ³ :	1.7
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	1.00%
Total Cash (mrq):	8.62M	Shares Short (prior month) ³ :	819.71K
Total Cash Per Share (mrq):	0.117	Dividends & Splits	
Total Debt (mrq):	753.26M	Forward Annual Dividend Rate ⁵ :	0.44
Total Debt/Equity (mrq):	0.732	Forward Annual Dividend Yield ⁵ :	1.20%
Current Ratio (mrq):	0.829	Trailing Annual Dividend Rate ³ :	0.42
Book Value Per Share (mrq):	14.189	Trailing Annual Dividend Yield ³ :	1.10%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	2.00%
Operating Cash Flow (ttm):	348.40M	Payout Ratio ⁵ :	15%
Levered Free Cash Flow (ttm):	50.40M	Dividend Date ³ :	01-Jun-06
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	11-May-06
Income Statement - Balance Sheet		Last Split Factor (new per old) ² :	2:1
Cash Flow		Last Split Date ³ :	02-Jun-05

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Market Cap (intraday):	27.11M
Enterprise Value (28-Jun-06) ³ :	59.66M
Trailing P/E (ttm, intraday):	10.66
Forward P/E (fye 30-Jun-07) ¹ :	N/A
PEG Ratio (5 yr expected):	N/A
Price/Sales (ttm):	0.32
Price/Book (mrq):	1.41
Enterprise Value/Revenue (ttm) ³ :	0.74
Enterprise Value/EBITDA (ttm) ³ :	7.742

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	30-June
Most Recent Quarter (mrq):	31-Dec-05

Profitability

Profit Margin (ttm):	3.01%
Operating Margin (ttm):	6.87%

Management Effectiveness

Return on Assets (ttm):	4.77%
Return on Equity (ttm):	15.92%

Income Statement

Revenue (ttm):	80.77M
Revenue Per Share (ttm):	28.955
Qtrly Revenue Growth (yoy):	25.10%
Gross Profit (ttm):	18.38M

TRADING INFORMATION**Stock Price History**

Beta:	-0.11
52-Week Change ³ :	3.47%
S&P500 52-Week Change ³ :	3.13%
52-Week High (29-Sep-05) ³ :	13.89
52-Week Low (11-Aug-05) ³ :	8.20
50-Day Moving Average ³ :	9.68
200-Day Moving Average ³ :	9.77

Share Statistics

Average Volume (3 month) ³ :	3,944.62
Average Volume (10 day) ³ :	5,257.14
Shares Outstanding:	2.93M
Float:	2.08M

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EBITDA (ttm):	7.71M	% Held by Insiders ⁴ :	68.10%
Net Income Avl to Common (ttm):	2.43M	% Held by Institutions ⁴ :	1.20%
Diluted EPS (ttm):	0.87	Shares Short (as of 10-Mar-06) ³ :	1.86K
Qtrly Earnings Growth (yoy):	97.20%	Short Ratio (as of 10-Mar-06) ³ :	0.7
Balance Sheet		Short % of Float (as of 10-Mar-06) ³ :	0.10%
Total Cash (mrq):	1.08M	Shares Short (prior month) ³ :	1.27K
Total Cash Per Share (mrq):	0.367	Dividends & Splits	
Total Debt (mrq):	30.43M	Forward Annual Dividend Rate ⁵ :	0.20
Total Debt/Equity (mrq):	1.719	Forward Annual Dividend Yield ⁵ :	1.90%
Current Ratio (mrq):	1.185	Trailing Annual Dividend Rate ³ :	0.17
Book Value Per Share (mrq):	6.552	Trailing Annual Dividend Yield ³ :	1.80%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	3.30%
Operating Cash Flow (ttm):	2.45M	Payout Ratio ⁵ :	4%
Levered Free Cash Flow (ttm):	-5.78M	Dividend Date ³ :	31-Jan-06
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	20-Jan-06
<u>Income Statement - Balance Sheet</u>		Last Split Factor (new per old) ² :	2:1
<u>Cash Flow</u>		Last Split Date ³ :	27-Jun-94

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VALUATION MEASURES

Market Cap (intraday):	27.11M
Enterprise Value (28-Jun-06) ³ :	46.74M
Trailing P/E (ttm, intraday):	14.14
Forward P/E (fye 30-Jun-07) ¹ :	N/A
PEG Ratio (5 yr expected):	N/A
Price/Sales (ttm):	0.32
Price/Book (mrq):	1.41
Enterprise Value/Revenue (ttm) ³ :	0.55
Enterprise Value/EBITDA (ttm) ³ :	6.901

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	30-June
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	2.21%
Operating Margin (ttm):	5.37%

Management Effectiveness

Return on Assets (ttm):	4.69%
Return on Equity (ttm):	10.99%

Income Statement

Revenue (ttm):	85.49M
Revenue Per Share (ttm):	29.736
Qtrly Revenue Growth (yoy):	17.20%
Gross Profit (ttm):	18.38M

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Beta:	-0.15
52-Week Change ³ :	3.47%
S&P500 52-Week Change ³ :	3.13%
52-Week High (29-Sep-05) ³ :	13.89
52-Week Low (11-Aug-05) ³ :	8.20
50-Day Moving Average ³ :	9.68
200-Day Moving Average ³ :	9.77

Share Statistics

Average Volume (3 month) ³ :	3,944.62
Average Volume (10 day) ³ :	5,257.14
Shares Outstanding:	2.93M
Float:	2.08M

EBITDA (ttm):	6.77M	% Held by Insiders ⁴ :	68.31%
Net Income Avl to Common (ttm):	1.89M	% Held by Institutions ⁴ :	2.70%
Diluted EPS (ttm):	0.65	Shares Short (as of 10-May-06) ³ :	1.26K
Qtrly Earnings Growth (yoy):	-24.70%	Short Ratio (as of 10-May-06) ³ :	0.4
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	0.10%
		Shares Short (prior month) ³ :	215
Total Cash (mrq):	485.03K	Dividends & Splits	
Total Cash Per Share (mrq):	0.165		
Total Debt (mrq):	20.78M	Forward Annual Dividend Rate ⁵ :	0.20
Total Debt/Equity (mrq):	1.082	Forward Annual Dividend Yield ⁵ :	2.20%
Current Ratio (mrq):	1.46	Trailing Annual Dividend Rate ³ :	0.17
Book Value Per Share (mrq):	6.552	Trailing Annual Dividend Yield ³ :	1.80%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	3.30%
		Payout Ratio ⁵ :	10%
Operating Cash Flow (ttm):	4.77M	Dividend Date ³ :	31-Jan-06
Levered Free Cash Flow (ttm):	-4.31M	Ex-Dividend Date ⁵ :	20-Jan-06
View Financials (provided by EDGAR Online):		Last Split Factor (new per old) ² :	2:1
		Last Split Date ³ :	27-Jun-94
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Market Cap (intraday):	251.44M
Enterprise Value (28-Jun-06) ³ :	330.59M
Trailing P/E (ttm, intraday):	18.21
Forward P/E (fye 30-Sep-07) ¹ :	16.88
PEG Ratio (5 yr expected):	3.46
Price/Sales (ttm):	1.83
Price/Book (mrq):	2.23
Enterprise Value/Revenue (ttm) ³ :	2.45
Enterprise Value/EBITDA (ttm) ³ :	8.126

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	30-Sep
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	10.27%
Operating Margin (ttm):	22.24%

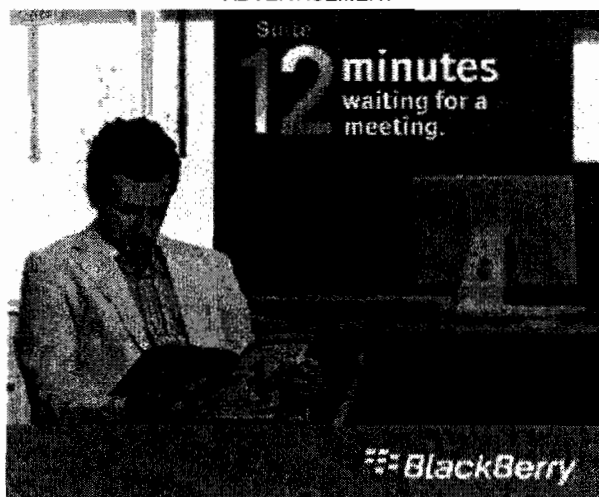
Management Effectiveness

Return on Assets (ttm):	7.30%
Return on Equity (ttm):	13.01%

Income Statement

Revenue (ttm):	135.04M
Revenue Per Share (ttm):	17.116
Qtrly Revenue Growth (yoy):	4.50%
Gross Profit (ttm):	49.36M

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Beta:	0.65
52-Week Change ³ :	12.41%
S&P500 52-Week Change ³ :	3.13%
52-Week High (16-Jun-06) ³ :	34.92
52-Week Low (17-Aug-05) ³ :	25.82
50-Day Moving Average ³ :	31.63
200-Day Moving Average ³ :	30.32

Share Statistics

Average Volume (3 month) ³ :	14,113.8
Average Volume (10 day) ³ :	13,871.4
Shares Outstanding:	7.92M
Float:	6.89M

EBITDA (ttm):	40.68M	% Held by Insiders ⁴ :	10.62%
Net Income Avl to Common (ttm):	13.88M	% Held by Institutions ⁴ :	28.70%
Diluted EPS (ttm):	1.74	Shares Short (as of 10-May-06) ³ :	206.55K
Qtrly Earnings Growth (yoy):	-2.00%	Short Ratio (as of 10-May-06) ³ :	20.2
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	2.90%
		Shares Short (prior month) ³ :	168.72K
Total Cash (mrq):	4.20M	Dividends & Splits	
Total Cash Per Share (mrq):	0.53		
Total Debt (mrq):	80.71M	Forward Annual Dividend Rate ⁵ :	0.92
Total Debt/Equity (mrq):	0.727	Forward Annual Dividend Yield ⁵ :	2.90%
Current Ratio (mrq):	1.142	Trailing Annual Dividend Rate ³ :	0.88
Book Value Per Share (mrq):	14.02	Trailing Annual Dividend Yield ³ :	2.80%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	3.60%
		Payout Ratio ⁵ :	49%
Operating Cash Flow (ttm):	25.80M	Dividend Date ³ :	01-Jul-06
Levered Free Cash Flow (ttm):	-4.01M	Ex-Dividend Date ⁵ :	13-Jun-06
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		Last Split Date ³ :	02-Sep-04

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Market Cap (intraday):	4.03B
Enterprise Value (28-Jun-06) ³ :	4.81B
Trailing P/E (ttm, intraday):	16.07
Forward P/E (fye 31-Dec-07) ¹ :	14.99
PEG Ratio (5 yr expected):	1.76
Price/Sales (ttm):	3.17
Price/Book (mrq):	6.60
Enterprise Value/Revenue (ttm) ³ :	3.75
Enterprise Value/EBITDA (ttm) ³ :	10.763

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	31-Dec
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	19.96%
Operating Margin (ttm):	27.41%

Management Effectiveness

Return on Assets (ttm):	6.78%
Return on Equity (ttm):	37.54%

Income Statement

Revenue (ttm):	1.28B
Revenue Per Share (ttm):	10.632
Qtrly Revenue Growth (yoy):	7.20%
Gross Profit (ttm):	742.56M

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Beta:	0.55
52-Week Change ³ :	-1.72%
S&P500 52-Week Change ³ :	3.13%
52-Week High (04-Oct-05) ³ :	41.18
52-Week Low (22-Jun-06) ³ :	31.59
50-Day Moving Average ³ :	33.47
200-Day Moving Average ³ :	35.79

Share Statistics

Average Volume (3 month) ³ :	699,778
Average Volume (10 day) ³ :	848,914
Shares Outstanding:	120.58M
Float:	112.65M

EBITDA (ttm):	446.99M	% Held by Insiders ⁴ :	12.00%
Net Income Avl to Common (ttm):	256.14M	% Held by Institutions ⁴ :	72.50%
Diluted EPS (ttm):	2.08	Shares Short (as of 10-May-06) ³ :	2.57M
Qtrly Earnings Growth (yoy):	-5.30%	Short Ratio (as of 10-May-06) ³ :	4.1
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	2.30%
Total Cash (mrq):	5.02M	Shares Short (prior month) ³ :	2.40M
Total Cash Per Share (mrq):	0.042	Dividends & Splits	
Total Debt (mrq):	833.43M	Forward Annual Dividend Rate ⁵ :	0.88
Total Debt/Equity (mrq):	1.354	Forward Annual Dividend Yield ⁵ :	2.60%
Current Ratio (mrq):	0.522	Trailing Annual Dividend Rate ³ :	0.85
Book Value Per Share (mrq):	5.107	Trailing Annual Dividend Yield ³ :	2.50%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	2.10%
Operating Cash Flow (ttm):	-39.61M	Payout Ratio ⁵ :	40%
Levered Free Cash Flow (ttm):	-34.42M	Dividend Date ³ :	01-Jun-06
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	03-May-06
<u>Income Statement - Balance Sheet</u>		Last Split Factor (new per old) ² :	2:1
<u>Cash Flow</u>		Last Split Date ³ :	02-Sep-05

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Market Cap (intraday):	713.78M
Enterprise Value (28-Jun-06) ³ :	1.24B
Trailing P/E (ttm, intraday):	14.75
Forward P/E (fye 30-Sep-07) ¹ :	15.35
PEG Ratio (5 yr expected):	3.69
Price/Sales (ttm):	0.35
Price/Book (mrq):	1.70
Enterprise Value/Revenue (ttm) ³ :	0.63
Enterprise Value/EBITDA (ttm) ³ :	9.364

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	30-Sep
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	2.43%
Operating Margin (ttm):	5.17%

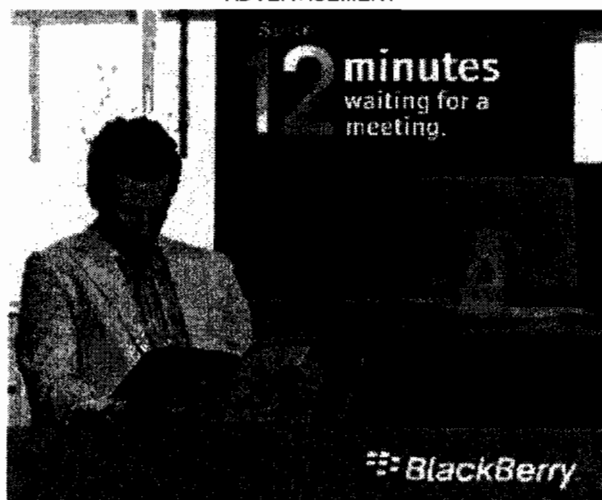
Management Effectiveness

Return on Assets (ttm):	4.48%
Return on Equity (ttm):	12.13%

Income Statement

Revenue (ttm):	1.98B
Revenue Per Share (ttm):	93.355
Qtrly Revenue Growth (yoy):	22.90%
Gross Profit (ttm):	194.95M

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**TRADING INFORMATION****Stock Price History**

Beta:	1.11
52-Week Change ³ :	2.50%
S&P500 52-Week Change ³ :	3.13%
52-Week High (27-Mar-06) ³ :	35.55
52-Week Low (27-Oct-05) ³ :	28.60
50-Day Moving Average ³ :	33.10
200-Day Moving Average ³ :	32.57

Share Statistics

Average Volume (3 month) ³ :	105,952
Average Volume (10 day) ³ :	88,214.3
Shares Outstanding:	21.33M
Float:	20.09M

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EBITDA (ttm):	132.38M	% Held by Insiders ⁴ :	5.77%
Net Income Avl to Common (ttm):	48.11M	% Held by Institutions ⁴ :	45.80%
Diluted EPS (ttm):	2.27	Shares Short (as of 10-May-06) ³ :	1.40M
Qtrly Earnings Growth (yoy):	-6.70%	Short Ratio (as of 10-May-06) ³ :	15.7
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	6.60%
Total Cash (mrq):	47.47M	Shares Short (prior month) ³ :	1.30M
Total Cash Per Share (mrq):	2.226	Dividends & Splits	
Total Debt (mrq):	582.19M	Forward Annual Dividend Rate ⁵ :	1.42
Total Debt/Equity (mrq):	1.419	Forward Annual Dividend Yield ⁵ :	4.40%
Current Ratio (mrq):	1.013	Trailing Annual Dividend Rate ³ :	1.40
Book Value Per Share (mrq):	19.264999	Trailing Annual Dividend Yield ³ :	4.30%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	5.00%
Operating Cash Flow (ttm):	7.91M	Payout Ratio ⁵ :	62%
Levered Free Cash Flow (ttm):	72.48M	Dividend Date ³ :	03-Jul-06
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	07-Jun-06
<u>Income Statement - Balance Sheet</u>		Last Split Factor (new per old) ² :	2:1
<u>Cash Flow</u>		Last Split Date ³ :	08-Mar-94

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Market Cap (intraday):	1.29B
Enterprise Value (28-Jun-06) ³ :	1.70B
Trailing P/E (ttm, intraday):	14.46
Forward P/E (fye 30-Sep-07) ¹ :	16.12
PEG Ratio (5 yr expected):	2.75
Price/Sales (ttm):	0.37
Price/Book (mrq):	2.06
Enterprise Value/Revenue (ttm) ³ :	0.49
Enterprise Value/EBITDA (ttm) ³ :	8.463

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	30-Sep
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	2.57%
Operating Margin (ttm):	4.83%

Management Effectiveness

Return on Assets (ttm):	5.15%
Return on Equity (ttm):	15.68%

Income Statement

Revenue (ttm):	3.46B
Revenue Per Share (ttm):	125.345
Qtrly Revenue Growth (yoy):	-0.10%
Gross Profit (ttm):	367.92M

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TRADING INFORMATION**Stock Price History**

Beta:	0.52
52-Week Change ³ :	-5.25%
S&P500 52-Week Change ³ :	3.13%
52-Week High (11-Jul-05) ³ :	49.34
52-Week Low (19-Oct-05) ³ :	40.68
50-Day Moving Average ³ :	44.66
200-Day Moving Average ³ :	44.2896

Share Statistics

Average Volume (3 month) ³ :	167,885
Average Volume (10 day) ³ :	174,529
Shares Outstanding:	28.03M
Float:	27.91M

EBITDA (ttm):	201.10M	% Held by Insiders ⁴ :	0.42%
Net Income Avl to Common (ttm):	88.94M	% Held by Institutions ⁴ :	53.00%
Diluted EPS (ttm):	3.176	Shares Short (as of 10-May-06) ³ :	1.90M
Qtrly Earnings Growth (yoy):	16.50%	Short Ratio (as of 10-May-06) ³ :	14
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	6.80%
		Shares Short (prior month) ³ :	1.84M
Total Cash (mrq):	8.70M	Dividends & Splits	
Total Cash Per Share (mrq):	0.31		
Total Debt (mrq):	426.36M	Forward Annual Dividend Rate ⁵ :	1.44
Total Debt/Equity (mrq):	0.69	Forward Annual Dividend Yield ⁵ :	3.20%
Current Ratio (mrq):	1.24	Trailing Annual Dividend Rate ³ :	1.42
Book Value Per Share (mrq):	22.093	Trailing Annual Dividend Yield ³ :	3.10%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	3.50%
		Payout Ratio ⁵ :	43%
Operating Cash Flow (ttm):	96.42M	Dividend Date ³ :	03-Apr-06
Levered Free Cash Flow (ttm):	5.85M	Ex-Dividend Date ⁵ :	13-Jun-06
View Financials (provided by EDGAR Online):		Last Split Factor (new per old) ² :	3:2
		Last Split Date ³ :	04-Mar-02
Income Statement - Balance Sheet			
Cash Flow			

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Market Cap (intraday):	1.82B
Enterprise Value (28-Jun-06) ³ :	2.31B
Trailing P/E (ttm, intraday):	13.32
Forward P/E (fye 31-Dec-07) ¹ :	16.10
PEG Ratio (5 yr expected):	5.43
Price/Sales (ttm):	0.51
Price/Book (mrq):	2.13
Enterprise Value/Revenue (ttm) ³ :	0.66
Enterprise Value/EBITDA (ttm) ³ :	6.64

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	31-Dec
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	3.90%
Operating Margin (ttm):	4.71%

Management Effectiveness

Return on Assets (ttm):	2.78%
Return on Equity (ttm):	16.88%

Income Statement

Revenue (ttm):	3.50B
Revenue Per Share (ttm):	79.037
Qtrly Revenue Growth (yoy):	11.80%
Gross Profit (ttm):	664.40M

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TRADING INFORMATION**Stock Price History**

Beta:	0.2
52-Week Change ³ :	-2.59%
S&P500 52-Week Change ³ :	3.13%
52-Week High (27-Feb-06) ³ :	43.12
52-Week Low (13-Oct-05) ³ :	37.42
50-Day Moving Average ³ :	40.79
200-Day Moving Average ³ :	40.83

Share Statistics

Average Volume (3 month) ³ :	456,468
Average Volume (10 day) ³ :	404,500
Shares Outstanding:	44.38M
Float:	43.86M

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EBITDA (ttm):	347.60M	% Held by Insiders ⁴ :	1.28%
Net Income Avl to Common (ttm):	136.50M	% Held by Institutions ⁴ :	75.90%
Diluted EPS (ttm):	3.07	Shares Short (as of 10-May-06) ³ :	6.65M
Qtrly Earnings Growth (yoy):	0.50%	Short Ratio (as of 10-May-06) ³ :	16.1
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	15.20%
		Shares Short (prior month) ³ :	5.99M
Total Cash (mrq):	137.70M	Dividends & Splits	
Total Cash Per Share (mrq):	3.103		
Total Debt (mrq):	618.20M	Forward Annual Dividend Rate ⁵ :	1.86
Total Debt/Equity (mrq):	0.737	Forward Annual Dividend Yield ⁵ :	4.60%
Current Ratio (mrq):	0.773	Trailing Annual Dividend Rate ³ :	1.86
Book Value Per Share (mrq):	18.892	Trailing Annual Dividend Yield ³ :	4.60%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	5.00%
		Payout Ratio ⁵ :	61%
Operating Cash Flow (ttm):	255.30M	Dividend Date ³ :	01-Aug-06
Levered Free Cash Flow (ttm):	259.54M	Ex-Dividend Date ⁵ :	28-Jun-06
View Financials (provided by EDGAR Online):		Last Split Factor (new per old) ² :	2:1
		Last Split Date ³ :	27-Apr-93
Income Statement - Balance Sheet			
Cash Flow			

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Market Cap (intraday):	985.01M
Enterprise Value (28-Jun-06) ³ :	1.55B
Trailing P/E (ttm, intraday):	16.62
Forward P/E (fye 31-Dec-07) ¹ :	14.95
PEG Ratio (5 yr expected):	3.14
Price/Sales (ttm):	0.98
Price/Book (mrq):	1.58
Enterprise Value/Revenue (ttm) ³ :	1.57
Enterprise Value/EBITDA (ttm) ³ :	8.114

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	31-Dec
Most Recent Quarter (mrq):	31-Mar-06

Profitability

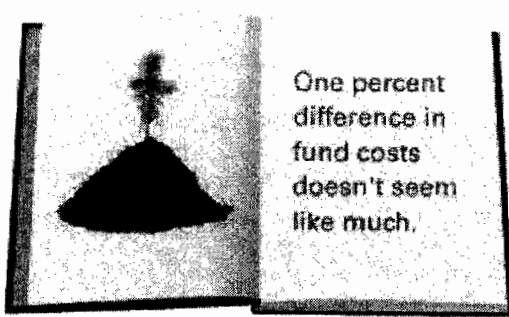
Profit Margin (ttm):	5.98%
Operating Margin (ttm):	13.00%

Management Effectiveness

Return on Assets (ttm):	4.50%
Return on Equity (ttm):	9.73%

Income Statement

Revenue (ttm):	992.10M
Revenue Per Share (ttm):	35.991
Qtrly Revenue Growth (yoy):	26.40%
Gross Profit (ttm):	324.99M

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TRADING INFORMATION**Stock Price History**

Beta:	0.63
52-Week Change ³ :	-7.96%
S&P500 52-Week Change ³ :	3.13%
52-Week High (03-Aug-05) ³ :	39.63
52-Week Low (13-Feb-06) ³ :	32.83
50-Day Moving Average ³ :	34.84
200-Day Moving Average ³ :	34.83

Share Statistics

Average Volume (3 month) ³ :	141,011
Average Volume (10 day) ³ :	122,543
Shares Outstanding:	27.58M
Float:	27.39M

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EBITDA (ttm):	191.36M	% Held by Insiders ⁴ :	0.74%
Net Income Avl to Common (ttm):	59.29M	% Held by Institutions ⁴ :	48.20%
Diluted EPS (ttm):	2.15	Shares Short (as of 10-May-06) ³ :	1.32M
Qtrly Earnings Growth (yoy):	2.90%	Short Ratio (as of 10-May-06) ³ :	11.2
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	4.80%
Total Cash (mrq):	7.52M	Shares Short (prior month) ³ :	1.13M
Total Cash Per Share (mrq):	0.273	Dividends & Splits	
Total Debt (mrq):	579.90M	Forward Annual Dividend Rate ⁵ :	1.38
Total Debt/Equity (mrq):	0.937	Forward Annual Dividend Yield ⁵ :	3.90%
Current Ratio (mrq):	1.024	Trailing Annual Dividend Rate ³ :	1.36
Book Value Per Share (mrq):	22.443001	Trailing Annual Dividend Yield ³ :	3.80%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	4.30%
Operating Cash Flow (ttm):	62.29M	Payout Ratio ⁵ :	63%
Levered Free Cash Flow (ttm):	24.03M	Dividend Date ³ :	15-May-06
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	26-Apr-06
<u>Income Statement - Balance Sheet</u>		Last Split Factor (new per old) ² :	3:2
<u>Cash Flow</u>		Last Split Date ³ :	09-Sep-96

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VALUATION MEASURES

Market Cap (intraday):	3.96B
Enterprise Value (28-Jun-06) ³ :	7.76B
Trailing P/E (ttm, intraday):	6.40
Forward P/E (fye 31-Dec-07) ¹ :	14.66
PEG Ratio (5 yr expected):	1.80
Price/Sales (ttm):	0.28
Price/Book (mrq):	1.67
Enterprise Value/Revenue (ttm) ³ :	0.56
Enterprise Value/EBITDA (ttm) ³ :	8.862

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	31-Dec
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	4.09%
Operating Margin (ttm):	4.76%

Management Effectiveness

Return on Assets (ttm):	4.74%
Return on Equity (ttm):	21.96%

Income Statement

Revenue (ttm):	13.89B
Revenue Per Share (ttm):	136.951
Qtrly Revenue Growth (yoy):	44.70%
Gross Profit (ttm):	1.34B

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TRADING INFORMATION**Stock Price History**

Beta:	1.11
52-Week Change ³ :	3.26%
S&P500 52-Week Change ³ :	3.13%
52-Week High (03-Aug-05) ³ :	35.85
52-Week Low (30-Dec-05) ³ :	26.30
50-Day Moving Average ³ :	32.69
200-Day Moving Average ³ :	30.57

Share Statistics

Average Volume (3 month) ³ :	705,000
Average Volume (10 day) ³ :	492,200
Shares Outstanding:	117.40M
Float:	109.71M

EBITDA (ttm):	875.73M	% Held by Insiders ⁴ :	0.61%
Net Income Avl to Common (ttm):	431.10M	% Held by Institutions ⁴ :	68.90%
Diluted EPS (ttm):	5.27	Shares Short (as of 10-May-06) ³ :	1.00M
Qtrly Earnings Growth (yoy):	20.30%	Short Ratio (as of 10-May-06) ³ :	1.8
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	0.90%
Total Cash (mrq):	36.80M	Shares Short (prior month) ³ :	1.19M
Total Cash Per Share (mrq):	0.313	Dividends & Splits	
Total Debt (mrq):	3.86B	Forward Annual Dividend Rate ⁵ :	1.20
Total Debt/Equity (mrq):	1.637	Forward Annual Dividend Yield ⁵ :	3.60%
Current Ratio (mrq):	0.913	Trailing Annual Dividend Rate ³ :	1.14
Book Value Per Share (mrq):	20.08	Trailing Annual Dividend Yield ³ :	3.40%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	3.40%
Operating Cash Flow (ttm):	113.07M	Payout Ratio ⁵ :	22%
Levered Free Cash Flow (ttm):	232.25M	Dividend Date ³ :	15-May-06
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	27-Apr-06
<u>Income Statement - Balance Sheet</u>		Last Split Factor (new per old) ² :	2:1
<u>Cash Flow</u>		Last Split Date ³ :	12-Jun-01

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Market Cap (intraday):	1.37B
Enterprise Value (28-Jun-06) ³ :	2.36B
Trailing P/E (ttm, intraday):	75.42
Forward P/E (fye 30-Sep-07) ¹ :	16.18
PEG Ratio (5 yr expected):	4.04
Price/Sales (ttm):	0.44
Price/Book (mrq):	1.61
Enterprise Value/Revenue (ttm) ³ :	0.77
Enterprise Value/EBITDA (ttm) ³ :	8.17

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Fiscal Year Ends:	30-Sep
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	0.59%
Operating Margin (ttm):	4.43%

Management Effectiveness

Return on Assets (ttm):	3.05%
Return on Equity (ttm):	2.38%

Income Statement

Revenue (ttm):	3.07B
Revenue Per Share (ttm):	80.335
Qtrly Revenue Growth (yoy):	14.90%
Gross Profit (ttm):	794.22M

TRADING INFORMATION**Stock Price History**

Beta:	0.66
52-Week Change ³ :	-19.25%
S&P500 52-Week Change ³ :	3.13%
52-Week High (28-Jul-05) ³ :	45.52
52-Week Low (19-Oct-05) ³ :	34.34
50-Day Moving Average ³ :	36.55
200-Day Moving Average ³ :	36.48

Share Statistics

Average Volume (3 month) ³ :	364,048
Average Volume (10 day) ³ :	310,557
Shares Outstanding:	38.41M
Float:	38.09M

EBITDA (ttm):	288.66M	% Held by Insiders ⁴ :	0.83%
Net Income Avl to Common (ttm):	20.50M	% Held by Institutions ⁴ :	69.00%
Diluted EPS (ttm):	0.47	Shares Short (as of 10-May-06) ³ :	5.58M
Qtrly Earnings Growth (yoy):	-35.20%	Short Ratio (as of 10-May-06) ³ :	17.2
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	14.60%
Total Cash (mrq):	75.25M	Shares Short (prior month) ³ :	5.14M
Total Cash Per Share (mrq):	1.959	Dividends & Splits	
Total Debt (mrq):	1.06B	Forward Annual Dividend Rate ⁵ :	2.18
Total Debt/Equity (mrq):	1.257	Forward Annual Dividend Yield ⁵ :	6.20%
Current Ratio (mrq):	1.012	Trailing Annual Dividend Rate ³ :	2.18
Book Value Per Share (mrq):	22.003	Trailing Annual Dividend Yield ³ :	6.20%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	5.40%
Operating Cash Flow (ttm):	171.42M	Payout Ratio ⁵ :	468%
Levered Free Cash Flow (ttm):	-87.01M	Dividend Date ³ :	13-Apr-06
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	20-Jun-06
Income Statement - Balance Sheet		Last Split Factor (new per old) ² :	N/A
Cash Flow		Last Split Date ³ :	N/A

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Market Cap (intraday):	6.76B
Enterprise Value (28-Jun-06) ³ :	7.32B
Trailing P/E (ttm, intraday):	18.76
Forward P/E (fye 31-Dec-07) ¹ :	14.08
PEG Ratio (5 yr expected):	1.78
Price/Sales (ttm):	2.22
Price/Book (mrq):	3.60
Enterprise Value/Revenue (ttm) ³ :	2.48
Enterprise Value/EBITDA (ttm) ³ :	7.873

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	31-Dec
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	12.44%
Operating Margin (ttm):	22.10%

Management Effectiveness

Return on Assets (ttm):	10.48%
Return on Equity (ttm):	22.78%

Income Statement

Revenue (ttm):	2.96B
Revenue Per Share (ttm):	34.777
Qtrly Revenue Growth (yoy):	34.00%
Gross Profit (ttm):	959.02M

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Beta:	0.56
52-Week Change ³ :	16.71%
S&P500 52-Week Change ³ :	3.13%
52-Week High (03-Oct-05) ³ :	89.60
52-Week Low (28-Jun-05) ³ :	65.42
50-Day Moving Average ³ :	73.74
200-Day Moving Average ³ :	75.38

Share Statistics

Average Volume (3 month) ³ :	846,266
Average Volume (10 day) ³ :	1,244,970
Shares Outstanding:	85.55M
Float:	84.64M

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EBITDA (ttm):	930.30M	% Held by Insiders ⁴ :	1.07%
Net Income Avl to Common (ttm):	367.67M	% Held by Institutions ⁴ :	70.10%
Diluted EPS (ttm):	4.21	Shares Short (as of 10-May-06) ³ :	1.84M
Qtrly Earnings Growth (yoy):	44.10%	Short Ratio (as of 10-May-06) ³ :	2.3
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	2.20%
Total Cash (mrq):	29.15M	Shares Short (prior month) ³ :	1.56M
Total Cash Per Share (mrq):	0.341	Dividends & Splits	
Total Debt (mrq):	983.22M	Forward Annual Dividend Rate ⁵ :	0.94
Total Debt/Equity (mrq):	0.54	Forward Annual Dividend Yield ⁵ :	1.30%
Current Ratio (mrq):	0.76	Trailing Annual Dividend Rate ³ :	0.91
Book Value Per Share (mrq):	21.278	Trailing Annual Dividend Yield ³ :	1.20%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	2.10%
Operating Cash Flow (ttm):	853.98M	Payout Ratio ⁵ :	22%
Levered Free Cash Flow (ttm):	-259.22M	Dividend Date ³ :	13-Mar-06
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	24-May-06
<u>Income Statement - Balance Sheet</u>		Last Split Factor (new per old) ² :	2:1
<u>Cash Flow</u>		Last Split Date ³ :	16-Jun-98

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VALUATION MEASURES

Market Cap (intraday):	52.18M
Enterprise Value (28-Jun-06) ³ :	86.10M
Trailing P/E (ttm, intraday):	15.16
Forward P/E (fye 30-Sep-07) ¹ :	N/A
PEG Ratio (5 yr expected):	N/A
Price/Sales (ttm):	0.37
Price/Book (mrq):	1.28
Enterprise Value/Revenue (ttm) ³ :	0.61
Enterprise Value/EBITDA (ttm) ³ :	7.121

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	30-Sep
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	2.41%
Operating Margin (ttm):	5.44%

Management Effectiveness

Return on Assets (ttm):	4.35%
Return on Equity (ttm):	8.21%

Income Statement

Revenue (ttm):	142.22M
Revenue Per Share (ttm):	67.745
Qtrly Revenue Growth (yoy):	5.70%
Gross Profit (ttm):	25.15M

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Beta:	-0.12
52-Week Change ³ :	-6.17%
S&P500 52-Week Change ³ :	3.13%
52-Week High (04-Aug-05) ³ :	27.74
52-Week Low (24-May-06) ³ :	22.72
50-Day Moving Average ³ :	25.35
200-Day Moving Average ³ :	25.19

Share Statistics

Average Volume (3 month) ³ :	953.846
Average Volume (10 day) ³ :	114.286
Shares Outstanding:	2.12M
Float:	2.04M

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EBITDA (ttm):	12.09M	% Held by Insiders ⁴ :	4.00%
Net Income Avl to Common (ttm):	3.32M	% Held by Institutions ⁴ :	12.00%
Diluted EPS (ttm):	1.62	Shares Short (as of 10-May-06) ³ :	2.53K
Qtrly Earnings Growth (yoy):	4.50%	Short Ratio (as of 10-May-06) ³ :	2.7
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	0.10%
Total Cash (mrq):	1.31M	Shares Short (prior month) ³ :	3.03K
Total Cash Per Share (mrq):	0.618	Dividends & Splits	
Total Debt (mrq):	34.15M	Forward Annual Dividend Rate ⁵ :	1.20
Total Debt/Equity (mrq):	0.823	Forward Annual Dividend Yield ⁵ :	4.80%
Current Ratio (mrq):	1.277	Trailing Annual Dividend Rate ³ :	1.19
Book Value Per Share (mrq):	19.558001	Trailing Annual Dividend Yield ³ :	4.70%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	8.70%
Operating Cash Flow (ttm):	833.30K	Payout Ratio ⁵ :	56%
Levered Free Cash Flow (ttm):	-1.59M	Dividend Date ³ :	01-May-06
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	11-Apr-06
<u>Income Statement - Balance Sheet</u>		Last Split Factor (new per old) ² :	2:1
<u>Cash Flow</u>		Last Split Date ³ :	05-Jul-94

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Market Cap (intraday):	190.44M
Enterprise Value (28-Jun-06) ³ :	729.82M
Trailing P/E (ttm, intraday):	20.75
Forward P/E (fye 31-Dec-07) ¹ :	13.41
PEG Ratio (5 yr expected):	4.40
Price/Sales (ttm):	0.29
Price/Book (mrq):	0.91
Enterprise Value/Revenue (ttm) ³ :	1.11
Enterprise Value/EBITDA (ttm) ³ :	8.409

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	31-Dec
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	1.81%
Operating Margin (ttm):	8.85%

Management Effectiveness

Return on Assets (ttm):	3.91%
Return on Equity (ttm):	4.49%

Income Statement

Revenue (ttm):	660.02M
Revenue Per Share (ttm):	20.82
Qtrly Revenue Growth (yoy):	19.80%
Gross Profit (ttm):	171.24M

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TRADING INFORMATION**Stock Price History**

Beta:	0.94
52-Week Change ³ :	-5.93%
S&P500 52-Week Change ³ :	3.13%
52-Week High (31-Aug-05) ³ :	7.05
52-Week Low (11-Apr-06) ³ :	5.04
50-Day Moving Average ³ :	5.54
200-Day Moving Average ³ :	5.55

Share Statistics

Average Volume (3 month) ³ :	99,058.5
Average Volume (10 day) ³ :	94,342.9
Shares Outstanding:	34.63M
Float:	32.87M

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EBITDA (ttm):	86.79M	% Held by Insiders ⁴ :	25.59%
Net Income Avl to Common (ttm):	7.59M	% Held by Institutions ⁴ :	61.70%
Diluted EPS (ttm):	0.27	Shares Short (as of 10-May-06) ³ :	1.22M
Qtrly Earnings Growth (yoy):	-2.90%	Short Ratio (as of 10-May-06) ³ :	7.4
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	3.60%
Total Cash (mrq):	4.33M	Shares Short (prior month) ³ :	1.47M
Total Cash Per Share (mrq):	0.125	Dividends & Splits	
Total Debt (mrq):	477.45M	Forward Annual Dividend Rate ⁵ :	N/A
Total Debt/Equity (mrq):	1.752	Forward Annual Dividend Yield ⁵ :	N/A
Current Ratio (mrq):	1.622	Trailing Annual Dividend Rate ³ :	N/A
Book Value Per Share (mrq):	6.103	Trailing Annual Dividend Yield ³ :	NaN%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	5.70%
Operating Cash Flow (ttm):	31.44M	Payout Ratio ⁵ :	N/A
Levered Free Cash Flow (ttm):	-60.38M	Dividend Date ³ :	15-May-04
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	28-Apr-04
Income Statement - Balance Sheet		Last Split Factor (new per old) ² :	21:20
Cash Flow		Last Split Date ³ :	01-May-98

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Market Cap (intraday):	789.97M
Enterprise Value (28-Jun-06) ³ :	1.24B
Trailing P/E (ttm, intraday):	16.15
Forward P/E (fye 31-Dec-07) ¹ :	14.04
PEG Ratio (5 yr expected):	2.43
Price/Sales (ttm):	0.82
Price/Book (mrq):	1.86
Enterprise Value/Revenue (ttm) ³ :	1.29
Enterprise Value/EBITDA (ttm) ³ :	9.438

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	31-Dec
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	5.02%
Operating Margin (ttm):	10.73%

Management Effectiveness

Return on Assets (ttm):	4.95%
Return on Equity (ttm):	12.38%

Income Statement

Révenue (ttm):	957.39M
Revenue Per Share (ttm):	33.613
Qtrly Revenue Growth (yoy):	11.10%
Gross Profit (ttm):	144.26M

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Beta:	0.38
52-Week Change ³ :	-12.89%
S&P500 52-Week Change ³ :	3.13%
52-Week High (06-Jul-05) ³ :	32.38
52-Week Low (24-May-06) ³ :	25.63
50-Day Moving Average ³ :	26.67
200-Day Moving Average ³ :	27.96

Share Statistics

Average Volume (3 month) ³ :	157,655
Average Volume (10 day) ³ :	117,571
Shares Outstanding:	29.16M
Float:	28.71M

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EBITDA (ttm):	131.02M	% Held by Insiders ⁴ :	1.53%
Net Income Avl to Common (ttm):	48.76M	% Held by Institutions ⁴ :	48.90%
Diluted EPS (ttm):	1.68	Shares Short (as of 10-May-06) ³ :	1.25M
Qtrly Earnings Growth (yoy):	0.60%	Short Ratio (as of 10-May-06) ³ :	7.8
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	4.40%
Total Cash (mrq):	11.21M	Shares Short (prior month) ³ :	1.01M
Total Cash Per Share (mrq):	0.384	Dividends & Splits	
Total Debt (mrq):	459.89M	Forward Annual Dividend Rate ⁵ :	0.90
Total Debt/Equity (mrq):	1.096	Forward Annual Dividend Yield ⁵ :	3.40%
Current Ratio (mrq):	0.944	Trailing Annual Dividend Rate ³ :	0.89
Book Value Per Share (mrq):	14.41	Trailing Annual Dividend Yield ³ :	3.30%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	4.00%
Operating Cash Flow (ttm):	-4.73M	Payout Ratio ⁵ :	51%
Levered Free Cash Flow (ttm):	36.85M	Dividend Date ³ :	04-Apr-06
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	07-Jun-06
Income Statement - Balance Sheet		Last Split Factor (new per old) ² :	2:1
Cash Flow		Last Split Date ³ :	01-Jul-05
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VALUATION MEASURES

Market Cap (intraday):	1.22B
Enterprise Value (28-Jun-06) ³ :	2.59B
Trailing P/E (ttm, intraday):	21.57
Forward P/E (fye 31-Dec-07) ¹ :	15.38
PEG Ratio (5 yr expected):	5.33
Price/Sales (ttm):	0.65
Price/Book (mrq):	1.50
Enterprise Value/Revenue (ttm) ³ :	1.40
Enterprise Value/EBITDA (ttm) ³ :	7.941

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[Click Here to Download Your Report!](#)**FINANCIAL HIGHLIGHTS****Fiscal Year**

Fiscal Year Ends:	31-Dec
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	2.99%
Operating Margin (ttm):	9.04%

Management Effectiveness

Return on Assets (ttm):	3.46%
Return on Equity (ttm):	7.16%

Income Statement

Revenue (ttm):	1.85B
Revenue Per Share (ttm):	47.723
Qtrly Revenue Growth (yoy):	24.70%
Gross Profit (ttm):	571.72M

TRADING INFORMATION**Stock Price History**

Beta:	0.23
52-Week Change ³ :	17.54%
S&P500 52-Week Change ³ :	3.13%
52-Week High (27-Jun-06) ³ :	30.29
52-Week Low (07-Jul-05) ³ :	25.00
50-Day Moving Average ³ :	28.79
200-Day Moving Average ³ :	27.85

Share Statistics

Average Volume (3 month) ³ :	214,617
Average Volume (10 day) ³ :	232,271
Shares Outstanding:	40.05M
Float:	39.68M

EBITDA (ttm):	325.56M	% Held by Insiders ⁴ :	0.89%
Net Income Avl to Common (ttm):	55.17M	% Held by Institutions ⁴ :	67.30%
Diluted EPS (ttm):	1.41	Shares Short (as of 10-May-06) ³ :	1.68M
Qtrly Earnings Growth (yoy):	34.60%	Short Ratio (as of 10-May-06) ³ :	10.8
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	4.20%
Total Cash (mrq):	13.87M	Shares Short (prior month) ³ :	1.59M
Total Cash Per Share (mrq):	0.346	Dividends & Splits	
Total Debt (mrq):	1.41B	Forward Annual Dividend Rate ⁵ :	0.82
Total Debt/Equity (mrq):	1.768	Forward Annual Dividend Yield ⁵ :	2.80%
Current Ratio (mrq):	0.965	Trailing Annual Dividend Rate ³ :	0.82
Book Value Per Share (mrq):	20.079	Trailing Annual Dividend Yield ³ :	2.70%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	3.40%
Operating Cash Flow (ttm):	158.95M	Payout Ratio ⁵ :	60%
Levered Free Cash Flow (ttm):	-25.74M	Dividend Date ³ :	01-Sep-06
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	11-Aug-06
Income Statement - Balance Sheet		Last Split Factor (new per old) ² :	N/A
Cash Flow		Last Split Date ³ :	N/A

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mrq = Most Recent Quarter (as of 31-Mar-06)

ttm = Trailing Twelve Months (as of 31-Mar-06)

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lty = Last Fiscal Year (as of 31-Dec-05)

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Market Cap (intraday):	1.38B
Enterprise Value (28-Jun-06) ³ :	2.20B
Trailing P/E (ttm, intraday):	17.01
Forward P/E (fye 30-Sep-07) ¹ :	15.17
PEG Ratio (5 yr expected):	4.46
Price/Sales (ttm):	0.53
Price/Book (mrq):	1.42
Enterprise Value/Revenue (ttm) ³ :	0.84
Enterprise Value/EBITDA (ttm) ³ :	8.052

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	30-Sep
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	3.13%
Operating Margin (ttm):	6.89%

Management Effectiveness

Return on Assets (ttm):	4.00%
Return on Equity (ttm):	8.56%

Income Statement

Revenue (ttm):	2.61B
Revenue Per Share (ttm):	53.626
Qtrly Revenue Growth (yoy):	15.10%
Gross Profit (ttm):	1.16B

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TRADING INFORMATION**Stock Price History**

Beta:	0.71
52-Week Change ³ :	-16.69%
S&P500 52-Week Change ³ :	3.13%
52-Week High (14-Jul-05) ³ :	34.79
52-Week Low (24-May-06) ³ :	27.04
50-Day Moving Average ³ :	28.49
200-Day Moving Average ³ :	29.77

Share Statistics

Average Volume (3 month) ³ :	258,992
Average Volume (10 day) ³ :	235,600
Shares Outstanding:	48.76M
Float:	48.51M

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EBITDA (ttm):	272.72M	% Held by Insiders ⁴ :	0.52%
Net Income Avl to Common (ttm):	81.68M	% Held by Institutions ⁴ :	57.20%
Diluted EPS (ttm):	1.67	Shares Short (as of 10-May-06) ³ :	3.75M
Qtrly Earnings Growth (yoy):	-28.80%	Short Ratio (as of 10-May-06) ³ :	16.1
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	7.70%
Total Cash (mrq):	14.11M	Shares Short (prior month) ³ :	3.58M
Total Cash Per Share (mrq):	0.289	Dividends & Splits	
Total Debt (mrq):	798.38M	Forward Annual Dividend Rate ⁵ :	1.35
Total Debt/Equity (mrq):	0.828	Forward Annual Dividend Yield ⁵ :	4.80%
Current Ratio (mrq):	1.146	Trailing Annual Dividend Rate ³ :	1.34
Book Value Per Share (mrq):	19.763	Trailing Annual Dividend Yield ³ :	4.80%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	4.70%
Operating Cash Flow (ttm):	48.02M	Payout Ratio ⁵ :	80%
Levered Free Cash Flow (ttm):	1.16M	Dividend Date ³ :	01-May-06
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	06-Apr-06
<u>Income Statement - Balance Sheet</u>		Last Split Factor (new per old) ² :	2:1
<u>Cash Flow</u>		Last Split Date ³ :	02-May-95

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VALUATION MEASURES

Market Cap (intraday):	13.75B
Enterprise Value (28-Jun-06) ³ :	24.46B
Trailing P/E (ttm, intraday):	12.47
Forward P/E (fye 31-Dec-07) ¹ :	15.84
PEG Ratio (5 yr expected):	6.65
Price/Sales (ttm):	2.32
Price/Book (mrq):	2.09
Enterprise Value/Revenue (ttm) ³ :	4.16
Enterprise Value/EBITDA (ttm) ³ :	8.228

FINANCIAL HIGHLIGHTS**Fiscal Year**

Fiscal Year Ends:	31-Dec
Most Recent Quarter (mrq):	31-Mar-06

Profitability

Profit Margin (ttm):	18.84%
Operating Margin (ttm):	32.88%

Management Effectiveness

Return on Assets (ttm):	6.23%
Return on Equity (ttm):	16.13%

Income Statement

Revenue (ttm):	5.88B
Revenue Per Share (ttm):	12.077
Qtrly Revenue Growth (yoy):	34.60%
Gross Profit (ttm):	3.85B

TRADING INFORMATION**Stock Price History**

Beta:	0.55
52-Week Change ³ :	7.49%
S&P500 52-Week Change ³ :	3.13%
52-Week High (19-Dec-05) ³ :	32.43
52-Week Low (18-Aug-05) ³ :	25.84
50-Day Moving Average ³ :	29.26
200-Day Moving Average ³ :	30.09

Share Statistics

Average Volume (3 month) ³ :	158,714
Average Volume (10 day) ³ :	368,157
Shares Outstanding:	487.60M
Float:	487.45M



EBITDA (ttm):	2.97B	% Held by Insiders ⁴ :	7.53%
Net Income Avl to Common (ttm):	1.08B	% Held by Institutions ⁴ :	42.80%
Diluted EPS (ttm):	2.26	Shares Short (as of 10-May-06) ³ :	568.91K
Qtrly Earnings Growth (yoy):	20.30%	Short Ratio (as of 10-May-06) ³ :	7.1
Balance Sheet		Short % of Float (as of 10-May-06) ³ :	N/A
Total Cash (mrq):	321.15M	Shares Short (prior month) ³ :	522.72K
Total Cash Per Share (mrq):	0.659	Dividends & Splits	
Total Debt (mrq):	10.75B	Forward Annual Dividend Rate ⁵ :	1.09
Total Debt/Equity (mrq):	1.536	Forward Annual Dividend Yield ⁵ :	3.80%
Current Ratio (mrq):	0.632	Trailing Annual Dividend Rate ³ :	1.13
Book Value Per Share (mrq):	13.368	Trailing Annual Dividend Yield ³ :	4.00%
Cash Flow Statement		5 Year Average Dividend Yield ⁵ :	3.90%
Operating Cash Flow (ttm):	1.85B	Payout Ratio ⁵ :	47%
Levered Free Cash Flow (ttm):	798.31M	Dividend Date ³ :	31-Jul-06
View Financials (provided by EDGAR Online):		Ex-Dividend Date ⁵ :	29-Mar-06
Income Statement - Balance Sheet		Last Split Factor (new per old) ² :	N/A
Cash Flow		Last Split Date ³ :	N/A
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03 - 00313

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

Docket No.

DIRECT TESTIMONY OF DONALD A. MURRY, Ph.D.
ON BEHALF OF
NASHVILLE GAS COMPANY

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Donald A. Murry. My address is 5555 North Grand Blvd., Oklahoma City,
3 Oklahoma 73112.

4 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?

5 A. I am a Vice President and economist with C. H. Guernsey & Company in Oklahoma City. I
6 am also a Professor Emeritus of Economics on the faculty of the University of Oklahoma.

7 Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

8 A. I have a B. S. in Business Administration, and an M.A. and a Ph.D. in Economics from the
9 University of Missouri - Columbia.

0 Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.

1 A. From 1964 to 1974, I was an Assistant and Associate Professor and Director of Research on
2 the faculty of the University of Missouri - St. Louis. For the period 1974-98, I was a Professor
3 of Economics at the University of Oklahoma and since 1998 I have been a Professor
4 Emeritus at the University of Oklahoma. Until 1978, I also served as Director of the Center
5 for Economic and Management Research. In each of these positions, I directed and
6 performed academic and applied research projects related to energy and regulatory policy.
7 During this time, I also served on several state and national committees associated with

1 energy policy and regulatory matters and I have published and presented a number of
2 papers in the field of regulatory economics in the energy industries.

3 **Q. PLEASE DESCRIBE YOUR REGULATORY EXPERIENCE.**

4 A. Since 1964, I have consulted for a number of private and public utilities, state and federal
5 agencies, and other industrial clients regarding energy and regulatory matters in the United
6 States, Canada and other countries. In 1971-72, I served as Chief of the Economic Studies
7 Division, Office of Economics of the Federal Power Commission. From 1978 to early 1981, I
8 was Vice President and Corporate Economist for Stone & Webster Management
9 Consultants, Inc. I am now a Vice President with C. H. Guernsey & Company. In all of these
10 positions I have directed and performed a wide variety of applied research projects and
11 conducted other projects related to regulatory matters. Recently, I have assisted both private
12 and public companies and government officials in areas related to the regulatory, financial
13 and competitive issues associated with the restructuring of the utility industry in the United
14 States and other countries.

15 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE OR BEEN AN EXPERT WITNESS IN**
16 **PROCEEDINGS BEFORE REGULATORY BODIES?**

17 A. Yes, I have appeared before the U.S. District Court-Western District of Louisiana, U.S.
18 District Court-Western District of Oklahoma, District Court-Fourth Judicial District of Texas,
19 U.S. Senate Select Committee on Small Business, Federal Power Commission, Federal
20 Energy Regulatory Commission, Interstate Commerce Commission, Alabama Public Service
21 Commission, Colorado Public Utilities Commission, Florida Public Service Commission,
22 Georgia Public Service Commission, Illinois Commerce Commission, Iowa Commerce
23 Commission, Kansas Corporation Commission, Kentucky Public Service Commission,
24 Louisiana Public Service Commission, Maryland Public Service Commission, Missouri
Public Service Commission, New Mexico Public Service Commission, New York Public

1 Service Commission, Power Authority of the State of New York, Nevada Public Service
2 Commission, North Carolina Utilities Commission, Oklahoma Corporation Commission,
3 South Carolina Public Service Commission, Tennessee Public Service Commission,
4 Tennessee Regulatory Authority, Texas Public Utilities Commission, the Railroad
5 Commission of Texas, the State Corporation Commission of Virginia and the Public Service
6 Commission of Wyoming.

7 **Q. WHAT IS THE NATURE OF YOUR TESTIMONY IN THIS CASE?**

8 A. Nashville Gas Company, also referred to as the "Company," has retained me to analyze its
9 current cost of capital and to recommend a rate of return that is appropriate in this
10 proceeding. Piedmont Natural Gas Company, also referred to as "PNG," is the parent
11 company of Nashville Gas Company and raises the capital that supports the utility services
12 of Nashville Gas Company. Consequently, I concentrated on the cost of capital of PNG in
13 this analysis.

14 **Q. HOW DID YOU PROCEED IN DEVELOPING YOUR ANALYSIS AND**
15 **RECOMMENDATION?**

16 A. I reviewed the current economic environment, the current conditions in the equity markets
17 and the current level of interest rates to determine factors that will affect the analysis of the
18 cost of capital of a utility. I also reviewed characteristics of the Company and PNG,
19 especially regarding measures that can help identify their financial and business risk in the
20 current business environment. Using this information as a background, I identified the
21 common stock equity, long-term debt and short-term debt components of PNG's capital
22 structure as this represents the source of the Nashville Gas' capital. Finally, I estimated the
23 costs of these various components of capital.

24 **Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?**

1 A. Yes. I am sponsoring an exhibit that I have attached to my testimony as Schedules DAM-1
2 through Schedule DAM-22.

3 Q. WAS THIS EXHIBIT PREPARED EITHER BY YOU OR UNDER YOUR DIRECT
4 SUPERVISION?

5 A. Yes, it was.

6 Q. HOW DOES UTILITY REGULATION AFFECT YOUR COST OF CAPITAL
7 TESTIMONY?

8 A. Historically, the presumed presence of market power in a franchised utility market is the
9 principal economic rationale for utility regulation. I used this as a guide for my approach to
10 measuring the cost of capital of the Company. This is analytically appropriate because of the
11 potential for economies of scale to be associated with providing utility service at the retail
12 level. In general, analysts have often said that the purpose of regulation is to provide a
13 surrogate for the lack of competitive pressures in retail utility service.

14 The presence of a single firm providing key utility services in some markets is still
15 the basis for regulation. Duplication of production and distribution facilities by more than
16 one firm may be economically inefficient; therefore, market pressure cannot achieve the
17 same pricing and service results as in competitive markets.

18 Q. AS YOU HAVE CHARACTERIZED THE RATIONALE FOR REGULATION, WHAT IS
19 THE PRINCIPAL OBJECTIVE IN SETTING THE ALLOWED RETURN IN A
20 REGULATORY PROCEEDING?

21 A. As a general principle, setting an allowed return that is sufficient, but not larger than
22 necessary, to allow a utility to recover the costs of providing service, is the principal
23 objective of regulation. I believe this is also consistent with the precedent of regulation.
Stated differently, one could say that setting a "fair" rate of return on invested capital is the

1 principal objective. Since the rate of return must be sufficient to attract and maintain capital,
2 setting the allowed return can be a critical step in the regulatory process.

3 **Q. WHAT DO YOU MEAN BY A FAIR RATE OF RETURN?**

4 A. In this context I am using the term fair rate of return to refer to a return that meets the
5 standards set by the United States Supreme Court decision in *Bluefield Water Works and*
6 *Improvement Company vs. Public Service Commission*, 262 U.S. 679 (1923) ("*Bluefield*"), as
7 further modified in *Federal Power Commission vs. Hope Natural Gas Company*, 320 U.S. 591
8 (1944) ("*Hope*"). It is my understanding from these decisions that a rate of return is a fair
9 return if it provides earnings to investors similar to those from alternative investments in
10 companies of equivalent risk.

11 **Q. CAN YOU INTERPRET THESE LEGAL DECISIONS IN AN ECONOMIC OR MARKET**
12 **CONTEXT?**

13 A. Yes. From my understanding of these decisions, a fair rate of return will provide the
14 opportunity for a utility to earn a return equal to that of comparable investments of
15 corresponding risk and uncertainty. In this way, the return will be sufficient to enable the
16 Company to operate successfully, maintain its financial integrity, attract capital, and
17 compensate its investors for the risks assumed.

18 **Q. WHAT DO YOU THINK IS THE APPROPRIATE CAPITAL STRUCTURE FOR THE**
19 **COMPANY IN THIS PROCEEDING?**

20 A. Since Nashville Gas Company is a division of Piedmont Natural Gas, I used the capital
21 structure of Piedmont to estimate the total capital cost of the Company in this proceeding. I
22 have presented the capital structure of PNG that is appropriate in this proceeding as
23 Schedule DAM-1. It shows a total capital for Piedmont of \$1,129,031,779, as of December 31,
2002. PNG's capital structure includes long-term debt of \$505,957,746, or 44.81 percent of

1 total capital. Short-term debt appropriate for this proceeding is \$19,615,385, or 1.74 percent
2 of total capital. The common stock equity of Piedmont that is relevant for this proceeding is
3 \$603,458,649, or 53.45 percent.

4 **Q. WHAT DID YOU DETERMINE IS THE EMBEDDED COST OF LONG-TERM DEBT**
5 **FOR USE IN CALCULATING THE COST OF CAPITAL OF THE COMPANY IN THIS**
6 **PROCEEDING?**

7 A. As I have shown in Schedule DAM-2, the cost of long-term debt is 7.72 percent.

8 **Q. WHAT IS THE COST OF SHORT-TERM DEBT THAT IS RELEVANT FOR THIS**
9 **PROCEEDING?**

10 A. The appropriate cost of short-term debt for that component of the capital structure is 2.00
11 percent.

12 **Q. WHAT DID YOU DETERMINE IS THE LEVEL OF COMMON STOCK EQUITY?**

13 A. The level of common stock equity that is appropriate for this proceeding is \$603,458,649.
14 This consists of a common stock component of \$345,133,209 and a retained earnings
15 component of \$258,325,440 at December 31, 2002. I have illustrated the common stock equity
16 in Schedule DAM-3.

17 **Q. HOW DID YOU CALCULATE THE COST OF COMMON STOCK EQUITY FOR THE**
18 **COMPANY IN THIS PROCEEDING?**

19 A. I used two common methodologies, the Discounted Cash Flow ("DCF") and the Capital
20 Asset Pricing Model ("CAPM"). The DCF, which was my primary method, is probably the
21 method most commonly used by analysts to estimate the cost of common equity of a utility
22 in a rate proceeding. As a second method, I used the CAPM. I used this method to calculate
23 a cost of common equity for Piedmont and for a group of comparable publicly traded gas
1 distribution utilities.

1 Q. YOU STATED THAT YOU CONSIDERED CURRENT MARKET CONDITIONS. HOW
2 DID YOU DO THIS?

3 A. I noted the current market conditions, especially those that would be useful in interpreting
4 the results of these calculations. For example, among the most important market influences
5 on the current cost of capital are undoubtedly the risks to investors from the recent market
6 declines, investor uncertainty and volatility. These market conditions are important when
7 interpreting the results of the DCF and CAPM analyses. Putting the results of these analyses
8 in the context of current market conditions aids in their interpretation and ultimately in
9 recommending an allowed return in this proceeding.

10 Q. WHEN YOU INTERPRETED MARKET CONDITIONS, WHAT KIND OF
11 INFORMATION DID YOU REVIEW?

12 A. I reviewed data concerning general market conditions and financial information that would
13 be available to knowledgeable investors. In this way I linked the Company's risk to the
14 current market conditions. I also compared the measures of risk of Piedmont and Nashville
15 Gas to the measures of risk of the comparable companies.

16 Q. HOW DID YOU SELECT THE COMPANIES THAT YOU USED AS COMPARABLE TO
17 THE COMPANY?

18 A. Using criteria that are similar to characteristics of Piedmont, I selected comparable
19 companies from a group of gas distribution companies reported by *Value Line*. First, I
20 selected companies that were primarily in the gas distribution business and listed in *Value*
21 *Line*. Second, I limited the group of distribution companies to companies with a
22 capitalization of at least \$450 million and not more than \$1.4 billion. Because of the
23 importance of investor's perceptions concerning equity security and the importance of

1 financial risk, I included only companies that paid a common stock dividend and that had a
2 capital structure with common stock equity of at least 40 percent in the year 2002.

3 **Q. FROM THIS PROCESS, WHAT COMPANIES DID YOU DETERMINE WERE**
4 **COMPARABLE TO PIEDMONT?**

5 **A.** I selected a group of seven natural gas companies that are similar in several important
6 respects to Piedmont. This group of companies includes the following: AGL Resources,
7 Atmos Energy, New Jersey Resources, NICOR, Northwest Natural Gas, Peoples Energy
8 Corporation and WGL Holdings.

9 **Q. YOU STATED EARLIER THAT YOU EVALUATED THE FINANCIAL RISK OF THE**
10 **COMPANY. WHAT DO YOU MEAN BY FINANCIAL RISK?**

11 **A.** I mean the exposure to the investors in common stock because of the level of claims to
12 company earnings that precede the claims of common stock holders. The primary indicator
13 of the financial risk of common stock is the proportion of outstanding debt. Consequently, I
14 studied the comparable common stock equity ratios of Piedmont and the other companies
15 and recent trends in levels of common stock equity. From this comparison, I concluded that
16 the common equity of Piedmont used in this analysis is similar to equity ratios of the
17 comparable companies. However, there are some notable differences. Of this group, it
18 appears that NICOR maintains a relatively high common equity ratio. AGL Resources has in
19 recent years maintained a relatively low common equity ratio. In general, however, as
20 illustrated in Schedule DAM-4, the common equity set for Piedmont for ratemaking
21 purposes in this proceeding is conservative.

22 **Q. YOU MENTIONED THAT YOU USED THE DCF METHOD FOR DETERMINING**
23 **COST OF COMMON STOCK IN YOUR ANALYSIS. CAN YOU DEFINE THE DCF**
METHODOLOGY FOR MEASURING COST OF COMMON EQUITY?

1 A. Yes. Typically, in the DCF calculation the investor's required rate of return is expressed as:

2
$$K = D/P + g$$

3 Where: K = cost of common equity
4 D = dividend per share
5 P = price per share, and
6 g = rate of growth of dividends, or alternatively, common stock earnings
7

8 In this expression K is a capitalization rate required to convert the stream of future
9 returns into a current value.

10 Q. ARE THERE ADVANTAGES ASSOCIATED WITH USE OF THE DCF METHOD FOR
11 MEASURING THE COST OF CAPITAL IN A RATEMAKING PROCEEDING?

12 A. Yes. In my opinion, the principal advantages of using the DCF technique in a ratemaking
13 proceeding are that it is a market-based measure of the cost of capital, and it is theoretically
14 sound. It uses the market prices information and the company's dividend and earnings
15 performance to determine the value that an investor places on anticipated returns. Since
16 returns on an investment will come in the form of dividends and capital gains, the investor
17 will pay a market price for the security that will not exceed the present value of that stream
18 of earnings. Using these market relationships, we can estimate the opportunity cost of an
19 investor's funds. Conceptually, this relationship is straight-forward and easy to understand.

20 An additional benefit of the DCF method for ratemaking is that it is widely
21 recognized and accepted by analysts and commissions. Mechanically, it is relatively easy to
22 calculate.

23 Q. ARE THERE DIFFICULTIES IN USING THE DCF METHOD TO MEASURE COST OF
24 CAPITAL THAT MAY BE IMPORTANT TO YOUR ANALYSIS?

25 A. The problems with using the DCF technique to measure the cost of capital seem to arise
26 primarily in two categories. One is the limitation of data available to the analyst. A second is

1 the analyst's interpretation of those data. Some of these problems one can readily identify
2 because they are often points of controversy. Others arise because analysts use the theory
3 without assessing the credibility of calculations or comprehending their implications.

4 **Q. HOW DO YOU THINK ONE SHOULD DEAL WITH THESE PROBLEMS?**

5 A. One should carefully select data used in the DCF analysis and interpret the results just as
6 carefully in the context of market conditions.

7 **Q. ARE YOU AWARE IF THESE PROBLEMS COULD AFFECT YOUR ANALYSIS OR THE**
8 **ANALYSIS OF OTHER ANALYSTS IN THIS PROCEEDING?**

9 A. I believe the equity markets in recent months produced valuations of securities that may be
10 difficult to analyze for ratemaking purposes. The historical data and forecasted data may
11 come from two quite different market regimes; for example, the market valuation of
12 companies in the natural gas industry changed abruptly at the time of the Enron collapse.
13 That is, the recent volatility and declines in the equity markets complicate the analyst's job
14 of interpreting the DCF cost of equity calculations for ratemaking purposes. Since rates are
15 being set for the future, a sharp division between prospective and historical data diminishes
16 the usefulness of historical data for analytical purposes.

17 **Q. IN LIGHT OF THESE DISTINCT MARKET CHANGES, HOW DID YOU ESTIMATE**
18 **INVESTOR EXPECTATIONS IN PERFORMING YOUR DCF ANALYSIS?**

19 A. I studied forecasted growth in earnings per share, growth in dividends per share, and
20 growth in book value per share from several sources. However, given current market
21 circumstances, I focused my analysis principally on forecasted earnings and dividends.
22 Although I studied historical dividends and earnings, the recent shift in investor confidence
23 and market volatility makes historical data less useful for predicting market expectations.

1 For example, I reviewed the rates of growth for the most recent five and ten-year periods,
2 but this was to put current expectations in some historical context.

3 **Q. WHAT DID YOU CONCLUDE FROM YOUR REVIEW OF HISTORICAL AND**
4 **FORECASTED GROWTH RATES?**

5 A. The earnings per share growth rates are higher than dividend growth rates for PNG and the
6 comparable companies as a group. I have illustrated both historical and forecasted growth
7 rates for dividends and earnings in Schedule DAM-5.

8 **Q. DID YOU REACH ANY OTHER CONCLUSIONS ABOUT PIEDMONT AND THE**
9 **COMPARABLE COMPANIES FROM YOUR ANALYSIS IN THIS SCHEDULE?**

10 A. Yes. As noted, Piedmont's dividend growth over the period studied was relatively high
11 when compared to the dividend growth of the comparable companies. The significance of
12 this observation became more apparent when I studied dividend payout ratios of the
13 companies. Schedule DAM-6 shows that Piedmont's dividend payout ratio, or percentage of
14 earnings paid in dividends, has generally increased over the last five years. That is, they
15 have at least increased up to the present. One should also note that the payout ratios are
16 also affected directly by the level of common stock earnings, which are the ratios'
17 denominators. Of course, because dividends are normally more stable than earnings over
18 time, the differences in earnings also could account for the differentials in payout ratios.

19 **Q. HOW DOES PNG'S RETURNS ON COMMON EQUITY COMPARE TO THOSE OF**
20 **THE COMPARABLE COMPANIES?**

21 A. As Schedule DAM-7 shows, the returns on common equity of Piedmont have been less than
22 the average of the group of comparable companies since 2000.

23 **Q. HOW DID YOU DETERMINE COMMON STOCK PRICES FOR YOUR DCF**
1 **ANALYSIS?**

1 A. I used common stock prices for a recent 52-week period as reported by the *Wall Street*
2 *Journal*. I also used current prices from a recent two-week period as reported by *YAHOO!*
3 *Finance*. In this way, I tried to capture both current market conditions and market conditions
4 over the past year. As I stated previously, for comparative purposes I developed the same
5 DCF analyses for Piedmont and the comparable companies.

6 Q. HOW WOULD YOU CHARACTERIZE THE RESULTS OF YOUR DCF ANALYSIS?

7 A. The calculation of the DCF cost of capital, using dividend growth rate that was a
8 combination of historical and forecasted dividend growth rates and common stock prices for
9 the past year, produces a low estimate of the cost of common stock for the comparable
10 companies. The reason for this is obvious; dividend growth rates have been constrained by
11 earnings. For example, the average dividend growth rate of the comparable companies was
12 only 2.00 percent. In general, these DCF results are so low that they are comparable to yields
13 on debt instruments, and this is not commensurate with the risk differentials between
14 common stock ownership and ownership of a quality debt instrument. This is not a credible
15 result. I have illustrated this result in Schedule DAM-8. Using a combination of historical
16 and forecasted earnings growth and prices over the past year produced somewhat different
17 DCF results; however, the DCF estimates were still highly influenced by earlier market
18 conditions. These results are shown in Schedule DAM-9.

19 Q. YOU SAID THAT YOU FOCUSED ON EARNINGS PER SHARE GROWTH RATES
20 BECAUSE OF RECENT, MAJOR CHANGES IN THE EQUITIES MARKETS. DID YOUR
21 DCF ANALYSIS USING PRICES OVER THE PAST YEAR AND FORECASTED
22 EARNINGS PER SHARE GROWTH RATES PRODUCE RESULTS THAT YOU
23 CONSIDERED RELEVANT TO THIS PROCEEDING?

1 A. Yes. I believe the results were valuable for determining an allowed rate of return for this
2 proceeding. Schedule DAM-10 uses earnings per share growth forecasts and prices for the
3 recent 52-week period to estimate the cost of common stock. For example, the estimated cost
4 of common stock equity for Piedmont ranges from 9.37 percent to 14.07 percent in this
5 calculation. For the comparable companies, the DCF range using forecasted earnings is
6 between 9.29 percent and 13.86 percent. The calculated DCF results for the comparable
7 companies serve to verify the DCF calculations for Piedmont.

8 **Q. WHAT DID YOUR DCF ANALYSIS USING CURRENT MARKET PRICES SHOW?**

9 A. The average DCF cost of common equity calculation for the comparable companies using
10 dividend growth rates ranges between 7.20 percent and 7.29 percent, as shown in Schedule
11 DAM-11. Once again, given the current bond yields, these results cannot represent the
12 expectations and requirements of common stock investors. They do illustrate, however, the
13 importance of evaluating and interpreting DCF results. Using a combination of historical
14 earnings and current prices, as Schedule DAM-12 illustrates, again produces results that are
15 influenced by the earlier data. The comparable companies have DCF results that average
16 only 10.72 percent and 10.81 percent using earnings per share growth rate.

17 **Q. WHAT DID YOUR DCF COST OF CAPITAL USING CURRENT MARKET PRICES
18 AND EARNINGS GROWTH ESTIMATES INDICATE?**

19 A. This DCF calculation, using current prices and forecasted earnings growth for Piedmont,
20 ranges from a low of 9.69 percent to a high of 12.75 percent. The cost of common stock using
21 forecasted earnings growth for the comparable companies ranges from a low of 10.13
22 percent to a high of 12.30 percent. I have shown these calculations in Schedule DAM-13. I
23 have prepared a summary of the DCF results using earnings per share growth rates, which
are the most relevant for this analysis, and presented this summary in Schedule DAM-14.

1 Q. YOU STATED THAT YOU USED THE CAPITAL ASSET PRICING MODEL IN YOUR
2 ANALYSIS. WHAT IS THE CAPITAL ASSET PRICING MODEL?

3 A. The Capital Asset Pricing Model, or CAPM model, is a risk premium method for measuring
4 cost of capital that is based on an investor's ability to diversify by combining risky securities
5 into an investment portfolio. It measures the risk differential, or premium, between a given
6 security and the market as a whole. The diversification of investments reduces risk to the
7 investor. However, some risk is non-diversifiable, e.g., the market risk, and investors remain
8 exposed to that risk. The theoretical CAPM model is expressed as:

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

9
10 Where: K = the required return
11 R_F = the risk-free rate
12 R_M = the required overall market return
13 β = beta, a measure of security risk relative to the overall market
14

15 Note that the value of market risk is the differential between the market rate and the "risk-
16 free" rate. Beta is the measure of volatility, as a measure of risk, of a security relative to the
17 market as a whole. By estimating the risk differential between an individual security and the
18 market as a whole, one can measure the relative cost of that security compared to the
19 market.

20 Q. HOW DID YOU USE THE CAPM COST OF CAPITAL RESULT IN YOUR ANALYSIS?

21 A. The CAPM links the incremental cost of capital of an individual company with the risk
22 differential between that company and the market as a whole. In this way, the CAPM is a
23 second measure for comparison to the DCF measured cost of common stock. As a risk
24 premium method, it uses current debt costs as a basis, or benchmark, for measuring the cost
25 of common stock. This is a rather imprecise method, but it is a good tool for assessing the

1 general cost of a security, and in this instance it serves as a good check on the results of the
2 DCF calculation.

3 **Q. ARE THERE CONSIDERATIONS CONCERNING THE USE OF THE CAPM ANALYSIS**
4 **FOR THE PURPOSES OF RATEMAKING THAT COULD BE IMPORTANT IN YOUR**
5 **ANALYSIS?**

6 A. No method for measuring the cost of common stock is flawless, of course, and this is the
7 case of the CAPM method. Perhaps the most important consideration is that it attempts to
8 measure the non-diversifiable market risk, and this may not be the most important risk
9 facing investors. The betas are some times unstable and difficult to reconcile with other
10 financial information. For example, analysts have pointed out that firms near bankruptcy
11 sometimes have low betas, which would imply illogically that their common stocks are
12 relatively low risk investments. Nevertheless, it measures the cost differential between a
13 known security and common stock, which is a useful check for the DCF analysis.

14 **Q. WHAT IS THE COST OF COMMON STOCK FOR PNG THAT YOU DETERMINED**
15 **USING THE CAPITAL ASSET PRICING MODEL?**

16 A. I used two approaches to estimate a CAPM cost of capital, providing two comparative
17 calculations for the DCF analysis that I had developed previously. The results of these
18 CAPM analyses are shown in Schedules DAM-15 and DAM-16, respectively. Note that the
19 estimated costs of common stock for Piedmont are 11.74 percent and 11.32 percent from
20 these two methods. For the comparable companies the average CAPM results are 11.74
21 percent and 11.02 percent.

22 **Q. WHAT DID YOU DO WHEN YOU REVIEWED CURRENT MARKET CONDITIONS?**

23 A. As I explained previously, I considered the recent level of common stock valuations. I also
1 reviewed market volatility and the possible significance of the Federal Reserve's monetary

1 policy of maintaining low short-term interest rates. Of course, I was especially interested in
2 the implications of this policy on the cost of capital to be set in this proceeding.

3 **Q. HOW DID YOU EVALUATE THE EFFECT OF THE INTEREST RATES ON YOUR**
4 **ANALYSIS?**

5 A. I compared the pattern of 30-year long-term government bond rates, corporate bond rates
6 and short-term government rates. Although short-term rates declined sharply in the fall of
7 2002, the long-term government and industrial bonds did not. I have illustrated these
8 relationships in Schedule DAM-17. This schedule shows the decline in the 90-Day Treasury
9 bill rate while the 30-Year Treasury bond and Moody's Aaa Corporate Bond rates remained
10 relatively constant.

11 **Q. IS THE RELATIVE LEVEL OF LONG-TERM AND SHORT-TERM INTEREST RATES**
12 **IMPORTANT TO YOUR TESTIMONY?**

13 A. Yes. The purpose of this analysis is to determine the cost of capital for the Company by
14 evaluating the cost of capital of Piedmont. The long-term securities are more likely to be
15 substitutes for instruments in Piedmont's permanent capital structure than are short-term
16 securities.

17 **Q. YOU INDICATED THAT YOU REVIEWED MARKET VOLATILITY. FROM THE**
18 **STANDPOINT OF YOUR ANALYSIS IN THIS PROCEEDING, WHAT DID YOU DO?**

19 A. I looked at measures of market fluctuations. As Schedule DAM-18 illustrates, there has been
20 a sharp decline in the value of both the Dow Jones Industrial Average and the Dow Jones
21 Utility Index over the past year. With the recent volatility of the markets, common equities
22 have generally been vulnerable to market pressure. From the standpoint of my analysis, it is
23 significant that there has been a sharp decline in the utility index since last August. That is,
despite the decline in the Dow Jones Industrials Index, the Dow Jones Utilities Index has

1 declined at even a faster rate. Of course, the decline in values in common stock equities in
2 recent markets is common knowledge; however, this comparison shows that stock prices of
3 utilities declined even further than the common equities of industrials.

4 Q. DID YOU REVIEW ANY OTHER MARKET RELATED INFORMATION CONCERNING
5 PIEDMONT?

6 A. Yes. I reviewed summary statistics of Piedmont and the comparable companies that were
7 indicative of the business risk of these companies. Comparative data are shown in Schedules
8 DAM-19 and DAM-20. The "Safety Rank" and "Timeliness," as measured by *Value Line*, are
9 similar for these companies. An average "Safety Rank" for an investment in the common
10 equity of a regulated utility indicates that *Value Line* does not consider it a safer investment
11 than the common stock of most industrial firms.

12 Q. WHY DO YOU BELIEVE ANALYSTS DO NOT CONSIDER GAS DISTRIBUTION
13 COMPANIES AS RELATIVELY "SAFE" INVESTMENTS?

14 A. The natural gas industry has experienced substantial change in recent years. The traditional
15 role of local distribution companies ("LDCs") as intermediaries between pipelines and
16 customers has been transformed by policy initiatives at both federal and state levels, which
17 has increased the companies' business risk. LDCs face higher demand risk because LDC
18 customers now have alternative means of meeting their energy requirements. Furthermore,
19 LDCs face higher supply risks due to commodity price swings and the need to manage
20 complex procurement, storage, and transportation contracts. Additionally, in 2003, the
21 natural gas industry faces unprecedented challenges because of the deteriorating financial
22 condition of many market participants following the collapse of Enron and the resulting
23 turmoil in the energy trading market.

Q. HOW HAVE THE BUSINESS RISKS FACING LDCS INCREASED IN THESE

1 **MARKETS?**

2 A. With regard to demand risk, competition from alternative fuels is high. Large volume
3 industrial customers represent a significant portion of LDCs' total revenue and any loss of
4 sales to industrial customers can have serious financial repercussions. On the supply side,
5 market forces have supplanted the traditional buy-and-sell relationship between LDCs and
6 pipelines. In many respects, the risk of commodity price swings and supply interruptions
7 have been passed from the pipelines to the LDCs.

8 **Q. HAS THE TURMOIL IN THE ENERGY TRADING MARKET AFFECTED THE**
9 **BUSINESS RISK FACING LDCS?**

10 A. Yes. The recent volatility in the equity markets, especially the energy sector, since the
11 collapse of Enron, has increased the business risk of LDCs and the risk to equity investors in
12 that sector. Improprieties in financial reporting and energy trading uncovered in recent
13 years have led to substantial drops in the value of many pipelines and electric wholesalers
14 that were active in trading natural gas. The potential for further financial instability is a
15 concern for the entire industry. Recent revelations of false reporting of price and volume
16 information regarding natural gas trades have further eroded confidence in the trading
17 market. Concerns regarding the efficacy of price indices may lead to unraveling of existing
18 contracts and reduce the willingness of parties to enter into new contracts. Therefore, PNG's
19 cost of equity is higher than it would have been absent these events. That is, all other things
20 being equal, higher market risk drives up the cost of capital.

21 **Q. YOU INDICATED THAT INTERPRETATION OF THE DCF RESULTS WAS**
22 **IMPORTANT. WHAT FACTORS INFLUENCED YOUR INTERPRETATION OF THE**
23 **DCF RESULTS?**

1 A. The nature of the DCF method itself was one of the important factors. The DCF method,
2 because of its theoretical basis, estimates the marginal cost of common stock equity of a
3 company. In that way, it is an estimate of the minimal return necessary to attract marginal,
4 or incremental, investment in common stock equity. However, the method does not account
5 for any other factors that may affect the ability of a company to earn a return. It does not
6 account for influences that are outside the discounted value of expected returns.
7 Consequently, there is no cushion in this calculation to assure that the regulated company
8 will earn its allowed return. However, in order to achieve the objective of the allowed
9 return, such a cushion is necessary.

10 Q. IN YOUR EXPERIENCE, IS IT COMMON FOR REGULATORS AND ANALYSTS TO
11 RECOGNIZE THIS CHARACTERISTIC OF THE DCF METHOD?

12 A. Yes, it is. Regulators and analysts often use adjustments to compensate for the marginal cost
13 nature of the DCF calculation. For example, some analysts specifically apply a flotation
14 adjustment.

15 Q. DID YOU CALCULATE A SPECIFIC FLOTATION ADJUSTMENT TO INCLUDE IN
16 YOUR RETURN RECOMMENDATION?

17 A. No, I did not apply a specific flotation adjustment.

18 Q. HOW DID YOU REACH YOUR RECOMMENDED RETURN IN THIS PROCEEDING?

19 A. As I indicated, when I developed my recommended return for Piedmont's common stock, I
20 relied primarily upon the results from the DCF analyses using the projected earnings
21 growth rates. Because market conditions have changed so abruptly, the historical financial
22 data are not as important to investors as their expectations. My conclusions were also
23 influenced by the cost of capital requirements of the comparable companies and the current

1 market conditions. I used the CAPM analysis as a verification and check on my DCF
2 analysis.

3 **Q. WHAT IS YOUR RECOMMENDATION FOR A RATE OF RETURN FOR COMMON**
4 **STOCK IN THIS PROCEEDING FOR NASHVILLE GAS COMPANY?**

5 A. Based on the results of my analysis, I looked to the high end of the DCF calculated cost of
6 common equity for Piedmont in the current and past-year's market. For Piedmont, these
7 results were 12.75 percent and 14.07 percent. I am recommending a return of 12.60 percent
8 that is slightly below the lower of these two estimates for Nashville Gas Company. I have
9 illustrated the calculation of my total cost of capital recommendation, which is 10.22 percent,
10 in Schedule DAM-21.

11 **Q. DID YOU TEST THE ADEQUACY OF YOUR RECOMMENDATION?**

12 A. Yes. I calculated the after-tax interest coverage ratio for Piedmont assuming the allowed
13 return of 12.60 percent on common stock equity and compared it with the after-tax coverage
14 ratio of the comparable companies. I have shown these calculations in Schedule DAM-22.

15 **Q. WHAT DID THESE CALCULATIONS OF THE AFTER-TAX INTEREST COVERAGE**
16 **SHOW?**

17 A. The after-tax coverage for Piedmont is 2.93 times with an achieved return of 12.60 percent
18 on common stock equity. I believe this an adequate coverage. As a comparative measure,
19 the average after-tax interest coverage for the comparable companies is 3.14 times.

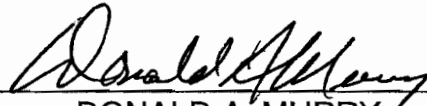
20 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?**

21 A. Yes, it does.

AFFIDAVIT

STATE OF OKLAHOMA)
) ss
COUNTY OF OKLAHOMA)

Before me, the undersigned Notary Public, Personally appeared DONALD A. MURRY, who being duly sworn on oath deposes and says that the foregoing prepared testimony and statement of facts contained therein are true and correct to the best of his knowledge, information and belief.



DONALD A. MURRY

Subscribed and sworn to before me this 23rd day of April, 2003



Notary Public 02017037

My commission expires:
October 8, 2006

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Nashville Gas Company

Schedule DAM- 1:	Pro Forma Capital Structure
Schedule DAM- 2:	Long-term Debt
Schedule DAM- 3:	Common Equity
Schedule DAM- 4:	Comparison of Common Equity Ratios
Schedule DAM- 5:	DCF Growth Rate Summary
Schedule DAM- 6:	Comparison of Dividend Payout Ratios
Schedule DAM- 7:	Comparison of Returns on Common Equity
Schedule DAM- 8:	52-Week Price Range DCF Using Dividend per Share Growth Rates
Schedule DAM- 9:	52-Week Price Range DCF Using Earnings per Share Growth Rates
Schedule DAM- 10:	52-Week Price Range DCF Using Projected Earnings Growth Rates
Schedule DAM- 11:	Current Price Range DCF Using Dividend per Share Growth Rates
Schedule DAM- 12:	Current Price Range DCF Using Earnings per Share Growth Rates
Schedule DAM- 13:	Current Price Range DCF Using Projected Earnings Growth Rates
Schedule DAM- 14:	Summary of Discounted Cash Flow
Schedule DAM- 15:	Historical Capital Asset Pricing Model
Schedule DAM- 16:	Size Adjusted Capital Asset Pricing Model
Schedule DAM- 17:	Comparison of Bond Yields
Schedule DAM- 18:	Comparison of Dow Jones Indices
Schedule DAM- 19:	Comparison of Value Line's Safety Rank
Schedule DAM- 20:	Comparison of Value Line's Timeliness Rank
Schedule DAM- 21:	Proposed Capital Structure and Cost of Capital
Schedule DAM- 22:	After-Tax Times Interest Earned Ratios

Nashville Gas Company

Pro Forma Capitalization

Thirteen Months Average for the Period Ended December 31, 2002

		<u>Ratio</u>
Long-Term Debt	\$505,957,746	44.81%
Short-Term Debt	\$19,615,385	1.74%
Common Equity	\$603,458,649	53.45%
 Total	 \$1,129,031,779	 100.00%

Source: Piedmont Natural Gas Company Work Papers

Nashville Gas Company

Embedded Cost of Long-Term Debt

Period Ended December 31, 2002

	Principal Amount	Interest Rate	Interest Expense	Amortization of Debt Expense	Total Interest Expenses
Senior Notes:					
10.06%, due 2004	\$4,000,000	10.06%	\$402,400	\$0	\$402,400
9.44%, due 2006	\$35,000,000	9.44%	\$3,304,000	\$0	\$3,304,000
8.51%, due 2017	\$35,000,000	8.51%	\$2,978,500	\$2,436	\$2,980,936
Medium-Term Notes:					
7.40%, due 2025	\$55,000,000	7.40%	\$4,070,000	\$17,280	\$4,087,280
7.80%, due 2010	\$60,000,000	7.80%	\$4,680,000	\$50,016	\$4,730,016
7.35%, due 2009	\$30,000,000	7.35%	\$2,205,000	\$25,728	\$2,230,728
7.95%, due 2029	\$60,000,000	7.95%	\$4,770,000	\$19,656	\$4,789,656
7.50%, due 2026	\$40,000,000	7.50%	\$3,000,000	\$11,820	\$3,011,820
6.23%, due 2003	\$45,000,000	6.23%	\$2,803,500	\$37,812	\$2,841,312
6.87%, due 2023	\$45,000,000	6.87%	\$3,091,500	\$14,424	\$3,105,924
8.45%, due 2024	\$40,000,000	8.45%	\$3,380,000	\$12,900	\$3,392,900
6.55%, due 2011	\$60,000,000	6.55%	\$3,930,000	\$47,952	\$3,977,952
Issues Redeemed Before Maturity:					
10.02% redemption premium	\$0	10.02%	\$0	\$53,436	\$53,436
10.11% redemption premium	\$0	10.11%	\$0	\$57,804	\$57,804
10.02% debt expense	\$0	10.02%	\$0	\$10,140	\$10,140
10.11% debt expense	\$0	10.11%	\$0	\$3,576	\$3,576
	\$509,000,000		\$38,614,900	\$364,980	\$38,979,880
Less Unamortized Debt Expense	(\$3,779,651)				
Total Outstanding	\$505,220,349				
Embedded Cost of Long-Term Debt					7.72%

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Nashville Gas Company

Common Stock Equity

Thirteen Months Average for the Period Ended December 31, 2002

Common Stock	\$345,133,209
Retained Earnings	\$258,325,440
Total Common Equity	\$603,458,649

Source: Piedmont Natural Gas Company Work Papers

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Nashville Gas Company

Comparable Local Distribution Companies

Comparison of Common Equity Ratios

	1999	2000	2001	2002	2003(E)	Five Year Average
Piedmont Natural Gas	53.8%	53.9%	52.4%	56.1%	58.0%	54.8%
AGL Resources, Inc.	49.2%	48.3%	38.7%	40.0%	42.0%	43.6%
Atmos Energy Corp.	50.0%	51.9%	45.7%	46.1%	45.0%	47.7%
New Jersey Resources	51.2%	52.9%	49.9%	49.4%	55.5%	51.8%
Nicor, Inc.	64.0%	66.7%	61.7%	65.0%	68.0%	65.1%
Northwest Natural Gas	49.9%	50.9%	53.2%	50.5%	48.5%	50.6%
Peoples Energy Corp.	59.6%	64.9%	55.6%	59.3%	61.5%	60.2%
WGL Holdings, Inc.	56.1%	54.8%	56.3%	52.4%	53.0%	54.5%
Comparable Companies' Average	54.3%	55.8%	51.6%	51.8%	53.4%	53.4%

Source: Value Line Investment Survey

Nashville Gas Company
Comparable Local Distribution Companies

Growth Rate Summary

	1998 TO 2007 Estimate			Five Year Historical			Forecasted Growth Rates		S&P EPS
	EPS	DPS	Book Value	EPS	DPS	Book Value	EPS	DPS	
Piedmont Natural Gas	5.8%	4.5%	4.5%	3.5%	6.0%	5.5%	8.0%	4.0%	5.0%
AGL Resources, Inc.	6.1%	0.0%	5.0%	-1.0%	0.5%	2.5%	8.0%	0.0%	7.0%
Atmos Energy Corp.	5.8%	2.5%	2.5%	-0.5%	4.0%	5.0%	9.0%	2.0%	6.0%
New Jersey Resources	8.1%	2.8%	9.5%	7.0%	2.5%	5.0%	8.5%	3.0%	7.0%
Nicor, Inc.	4.2%	4.8%	2.3%	5.5%	5.0%	3.0%	3.5%	4.5%	5.0%
Northwest Natural Gas	5.4%	1.0%	0.5%	0.5%	1.0%	4.0%	6.5%	1.5%	3.0%
Peoples Energy Corp.	4.5%	1.8%	4.2%	3.0%	2.0%	3.0%	4.0%	1.5%	5.0%
WGL Holdings, Inc.	4.5%	1.2%	3.5%	-1.5%	2.0%	4.5%	7.0%	1.0%	4.0%
Comparable Companies' Average	5.52%	2.00%	3.93%	1.86%	2.43%	3.86%	6.64%	1.93%	5.29%

Sources : Value Line Investment Survey

Nashville Gas Company

Comparable Local Distribution Companies

Payout Ratio Comparison for the Past Five Years

	1999	2000	2001	2002	2003(E)	Five Year Average
Piedmont Natural Gas	72%	71%	75%	83%	79%	76%
AGL Resources, Inc.	101%	72%	65%	59%	61%	72%
Atmos Energy Corp.	NMF	112%	79%	82%	77%	88%
New Jersey Resources	67%	63%	59%	56%	52%	59%
Nicor, Inc.	60%	56%	58%	63%	74%	62%
Northwest Natural Gas	74%	70%	67%	78%	71%	72%
Peoples Energy Corp.	81%	73%	64%	73%	76%	73%
WGL Holdings, Inc.	82%	69%	67%	112%	64%	79%
Comparable Companies' Average	78%	74%	66%	75%	68%	72%

* NMF- No Meaningful Figure

Source: Value Line Investment Survey

Nashville Gas Company

Comparable Local Distribution Companies

Comparison of Returns on Common Equity

	1999	2000	2001	2002	2003(E)
Piedmont Natural Gas	11.8%	12.1%	11.7%	10.6%	11.0%
AGL Resources, Inc.	7.9%	11.5%	12.3%	14.0%	14.0%
Atmos Energy Corp.	6.6%	8.2%	9.6%	10.4%	11.0%
New Jersey Resources	14.8%	14.6%	14.9%	15.7%	15.0%
Nicor, Inc.	15.4%	19.2%	18.7%	17.0%	14.5%
Northwest Natural Gas	9.9%	10.0%	10.2%	9.0%	10.5%
Peoples Energy Corp.	11.0%	12.4%	13.9%	12.3%	12.0%
WGL Holdings, Inc.	9.9%	11.7%	11.2%	7.2%	12.0%
Comparable Companies' Average	10.8%	12.5%	13.0%	12.2%	12.7%

Source: Value Line Investment Survey

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Nashville Gas Company

Comparable Local Distribution Companies

52-Week Price Range Cost of Capital

	Share Prices		2003 Dividend		2003 Yields		1997-99 Dividend		2006-08E Dividend		Growth Rate		Cost of Capital	
	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High
Piedmont Natural Gas	27.35	38.00	1.66	4.37%	6.07%	1.28	1.90	4.46%	8.82%	10.53%				
AGL Resources, Inc.	17.25	25.41	1.08	4.25%	6.26%	1.08	1.08	0.00%	4.25%	6.26%				
Atmos Energy Corp.	17.56	24.55	1.20	4.89%	6.83%	1.06	1.32	2.50%	7.39%	9.34%				
New Jersey Resources	24.35	33.70	1.24	3.68%	5.09%	1.09	1.40	2.79%	6.46%	7.88%				
Nicor, Inc.	18.09	49.00	1.84	3.76%	10.17%	1.47	2.24	4.77%	8.52%	14.94%				
Northwest Natural Gas	23.46	30.70	1.27	4.14%	5.41%	1.22	1.33	0.96%	5.10%	6.38%				
Peoples Energy Corp.	27.80	40.45	2.12	5.24%	7.63%	1.91	2.24	1.79%	7.03%	9.41%				
WGL Holdings, Inc.	19.25	27.95	1.28	4.58%	6.65%	1.20	1.33	1.18%	5.76%	7.83%				
Comparable Companies' Average	21.11	33.11	1.43	4.36%	6.86%	1.29	1.56	2.00%	6.36%	8.86%				

Source : Value Line Investment Survey
Wall Street Journal

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Nashville Gas Company
Comparable Local Distribution Companies

52-Week Price Range Cost of Capital

	Share Prices		2003 Dividend		2003 Yields		1997-99 EPS	2006-08E EPS	Growth Rate	Cost of Capital	
	Low	High			Low	High				Low	High
Piedmont Natural Gas	27.35	38.00	1.66		4.37%	6.07%	1.89	3.15	5.84%	10.21%	11.91%
AGL Resources, Inc.	17.25	25.41	1.08		4.25%	6.26%	1.23	2.10	6.12%	10.37%	12.38%
Atmos Energy Corp.	17.56	24.55	1.20		4.89%	6.83%	1.33	2.20	5.75%	10.64%	12.59%
New Jersey Resources	24.35	33.70	1.24		3.68%	5.09%	1.56	3.15	8.10%	11.77%	13.19%
Nicor, Inc.	18.09	49.00	1.84		3.76%	10.17%	2.48	3.60	4.24%	8.00%	14.41%
Northwest Natural Gas	23.46	30.70	1.27		4.14%	5.41%	1.49	2.40	5.41%	9.55%	10.83%
Peoples Energy Corp.	27.80	40.45	2.12		5.24%	7.63%	2.48	3.70	4.53%	9.77%	12.16%
WGL Holdings, Inc.	19.25	27.95	1.28		4.58%	6.65%	1.62	2.40	4.46%	9.04%	11.11%
Comparable Companies' Average	21.11	33.11	1.43		4.36%	6.86%	1.74	2.79	5.52%	9.88%	12.38%

Source : Value Line Investment Survey
Wall Street Journal

Nashville Gas Company

Comparable Local Distribution Companies

52-Week Price Range Cost of Capital

	Share Prices		2003 Dividend	2003 Yields		EPS Forecasts		Cost of Capital	
	Low	High		Low	High	Value Line	S & P	Low	High
Piedmont Natural Gas	27.35	38.00	1.66	4.37%	6.07%	8.00%	5.00%	9.37%	14.07%
AGL Resources, Inc.	17.25	25.41	1.08	4.25%	6.26%	8.00%	7.00%	11.25%	14.26%
Atmos Energy Corp.	17.56	24.55	1.20	4.89%	6.83%	9.00%	6.00%	10.89%	15.83%
New Jersey Resources	24.35	33.70	1.24	3.68%	5.09%	8.50%	7.00%	10.68%	13.59%
Nicor, Inc.	18.09	49.00	1.84	3.76%	10.17%	3.50%	5.00%	7.26%	15.17%
Northwest Natural Gas	23.46	30.70	1.27	4.14%	5.41%	6.50%	3.00%	7.14%	11.91%
Peoples Energy Corp.	27.80	40.45	2.12	5.24%	7.63%	4.00%	5.00%	9.24%	12.63%
WGL Holdings, Inc.	19.25	27.95	1.28	4.58%	6.65%	7.00%	4.00%	8.58%	13.65%
Comparable Companies' Average	21.11	33.11	1.43	4.36%	6.86%	6.64%	5.29%	9.29%	13.86%

Sources : Value Line Investment Survey
Wall Street Journal

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Nashville Gas Company
Comparable Local Distribution Companies

Current Price Range Cost of Capital

	Share Prices		Current Dividend		Current Yields		1997-99 Dividend	2006-08E Dividend	Growth Rate	Cost of Capital	
	Low	High	Low	High	Low	High				Low	High
Piedmont Natural Gas	34.91	35.42	1.66	4.69%	4.75%		1.28	1.90	4.46%	9.14%	9.21%
AGL Resources, Inc.	22.78	23.20	1.08	4.66%	4.74%		1.08	1.08	0.00%	4.66%	4.74%
Atmos Energy Corp.	21.28	21.61	1.20	5.55%	5.64%		1.06	1.32	2.50%	8.06%	8.14%
New Jersey Resources	32.28	32.96	1.24	3.76%	3.84%		1.09	1.40	2.79%	6.55%	6.63%
Nicor, Inc.	26.66	27.26	1.84	6.75%	6.90%		1.47	2.24	4.77%	11.51%	11.67%
Northwest Natural Gas	24.92	25.39	1.27	5.00%	5.10%		1.22	1.33	0.96%	5.97%	6.06%
Peoples Energy Corp.	35.56	36.08	2.12	5.88%	5.96%		1.91	2.24	1.79%	7.66%	7.75%
WGL Holdings, Inc.	26.19	26.64	1.28	4.80%	4.89%		1.20	1.33	1.18%	5.98%	6.07%
Comparable Companies' Average	27.09	27.59	1.43	5.20%	5.30%		1.29	1.56	2.00%	7.20%	7.29%

Sources:
Value Line Investment Survey
YAHOO! Finance

Nashville Gas Company

Comparable Local Distribution Companies

Current Price Range Cost of Capital

	Share Prices		Current Dividend	Current Yields		EPS Forecasts		Cost of Capital	
	Low	High		Low	High	Value Line	S & P	Low	High
Piedmont Natural Gas	34.91	35.42	1.66	4.69%	4.75%	8.00%	5.00%	10.00%	10.00%

Nashville Gas Company

Comparable Local Distribution Companies

Current Price Range Cost of Capital

	Share Prices		Current Dividend	Current Yields		1997-99 EPS	2006-08E EPS	Growth Rate	Cost of Capital	
	Low	High		Low	High				Low	High
Piedmont Natural Gas	34.91	35.42	1.66	4.69%	4.75%	1.89	3.15	5.84%	10.53%	10.59%
AGL Resources, Inc.	22.78	23.20	1.08	4.66%	4.74%	1.23	2.10	6.12%	10.78%	10.87%
Atmos Energy Corp.	21.28	21.61	1.20	5.55%	5.64%	1.33	2.20	5.75%	11.30%	11.39%
New Jersey Resources	32.28	32.96	1.24	3.76%	3.84%	1.56	3.15	8.10%	11.86%	11.94%
Nicor, Inc.	26.66	27.26	1.84	6.75%	6.90%	2.48	3.60	4.24%	10.99%	11.15%
Northwest Natural Gas	24.92	25.39	1.27	5.00%	5.10%	1.49	2.40	5.41%	10.41%	10.51%
Peoples Energy Corp.	35.56	36.08	2.12	5.88%	5.96%	2.48	3.70	4.53%	10.41%	10.49%
WGL Holdings, Inc.	26.19	26.64	1.28	4.80%	4.89%	1.62	2.40	4.46%	9.27%	9.35%
Comparable Companies' Average	27.09	27.59	1.43	5.20%	5.30%	1.74	2.79	5.52%	10.72%	10.81%

Sources:
Value Line Investment Survey
YAHOO! Finance

Nashville Gas Company

Comparable Local Distribution Companies

Cost of Equity : Historical Capital Asset Pricing Model

	Market Total Returns	Long-Term Corporate Bonds Return	Risk Premium	Beta	Adjusted Risk Premium	Aaa Corporate Bonds Return	Cost of Equity
Piedmont Natural Gas Company	14.55%	6.20%	8.35%	0.70	5.85%	5.89%	11.74%
AGL Resources, Inc.	14.55%	6.20%	8.35%	0.75	6.26%	5.89%	12.15%
Atmos Energy Corp.	14.55%	6.20%	8.35%	0.60	5.01%	5.89%	10.90%
New Jersey Resources	14.55%	6.20%	8.35%	0.65	5.43%	5.89%	11.32%
Nicor, Inc.	14.55%	6.20%	8.35%	0.90	7.52%	5.89%	13.41%
Northwest Natural Gas	14.55%	6.20%	8.35%	0.60	5.01%	5.89%	10.90%
Peoples Energy Corp.	14.55%	6.20%	8.35%	0.75	6.26%	5.89%	12.15%
WGL Holdings, Inc.	14.55%	6.20%	8.35%	0.65	5.43%	5.89%	11.32%
Comparable Companies' Average	14.55%	6.20%	8.35%	0.70	5.85%	5.89%	11.74%

Sources :

Value Line Investment Survey
 Ibbotson Associates 2003 SBI Yearbook: Valuation Edition
 Federal Reserve Statistical Release

Nashville Gas Company

Comparable Local Distribution Companies

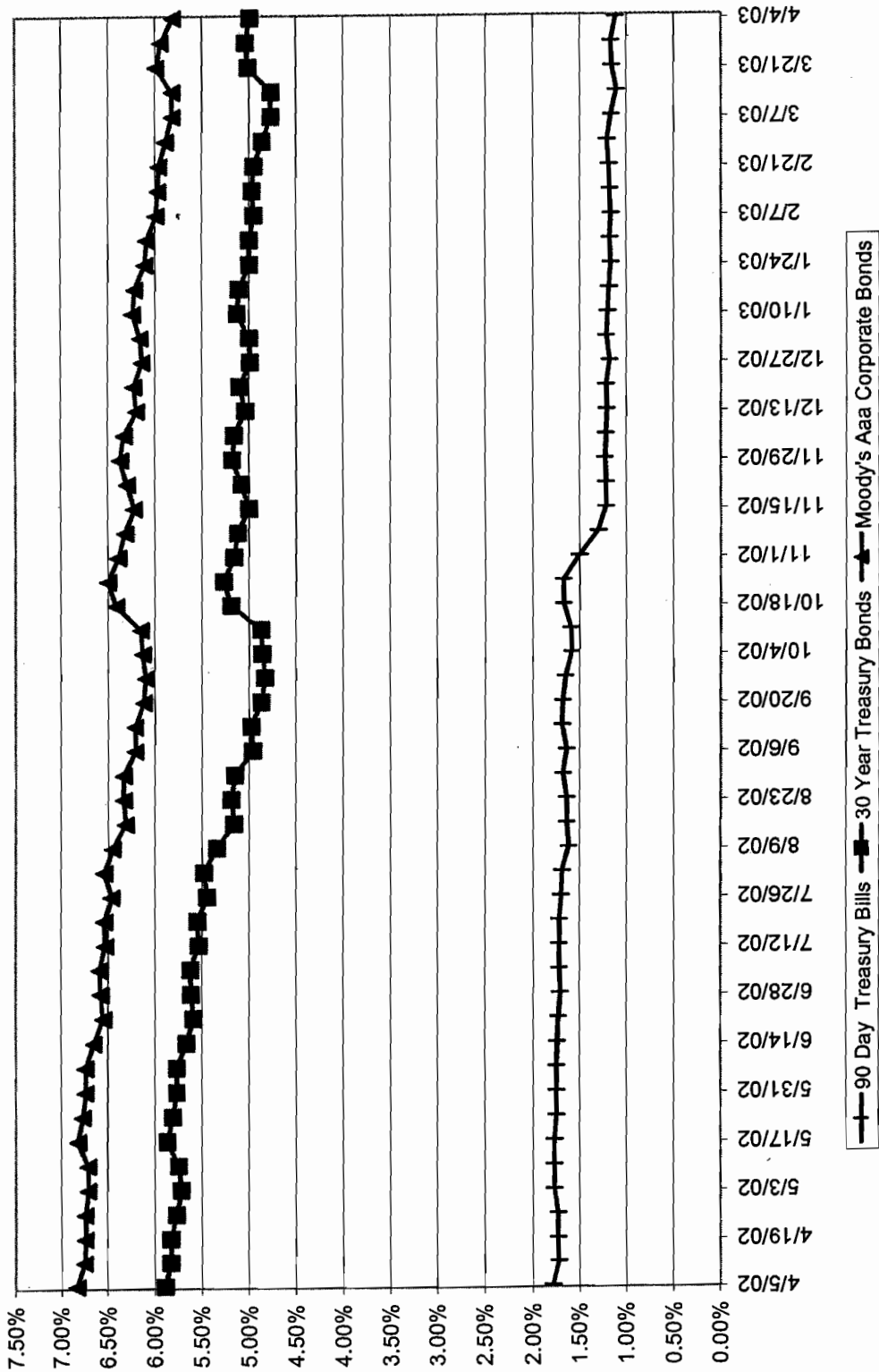
Cost of Equity : Size Adjusted Capital Asset Pricing Model

	Risk Free Return	Beta	Equity Risk Premium	Adjusted Equity Risk Premium	Size Premium	Cost of Equity
Piedmont Natural Gas Company	4.90%	0.70	7.00%	4.90%	1.52%	11.32%
AGL Resources, Inc.	4.90%	0.75	7.00%	5.25%	0.82%	10.97%
Atmos Energy Corp.	4.90%	0.60	7.00%	4.20%	1.52%	10.62%
New Jersey Resources	4.90%	0.65	7.00%	4.55%	1.52%	10.97%
Nicor, Inc.	4.90%	0.90	7.00%	6.30%	1.52%	12.72%
Northwest Natural Gas	4.90%	0.60	7.00%	4.20%	1.52%	10.62%
Peoples Energy Corp.	4.90%	0.75	7.00%	5.25%	0.82%	10.97%
WGL Holdings, Inc.	4.90%	0.65	7.00%	4.55%	0.82%	10.27%
Comparable Companies' Average	4.90%	0.70	7.00%	4.90%	1.22%	11.02%

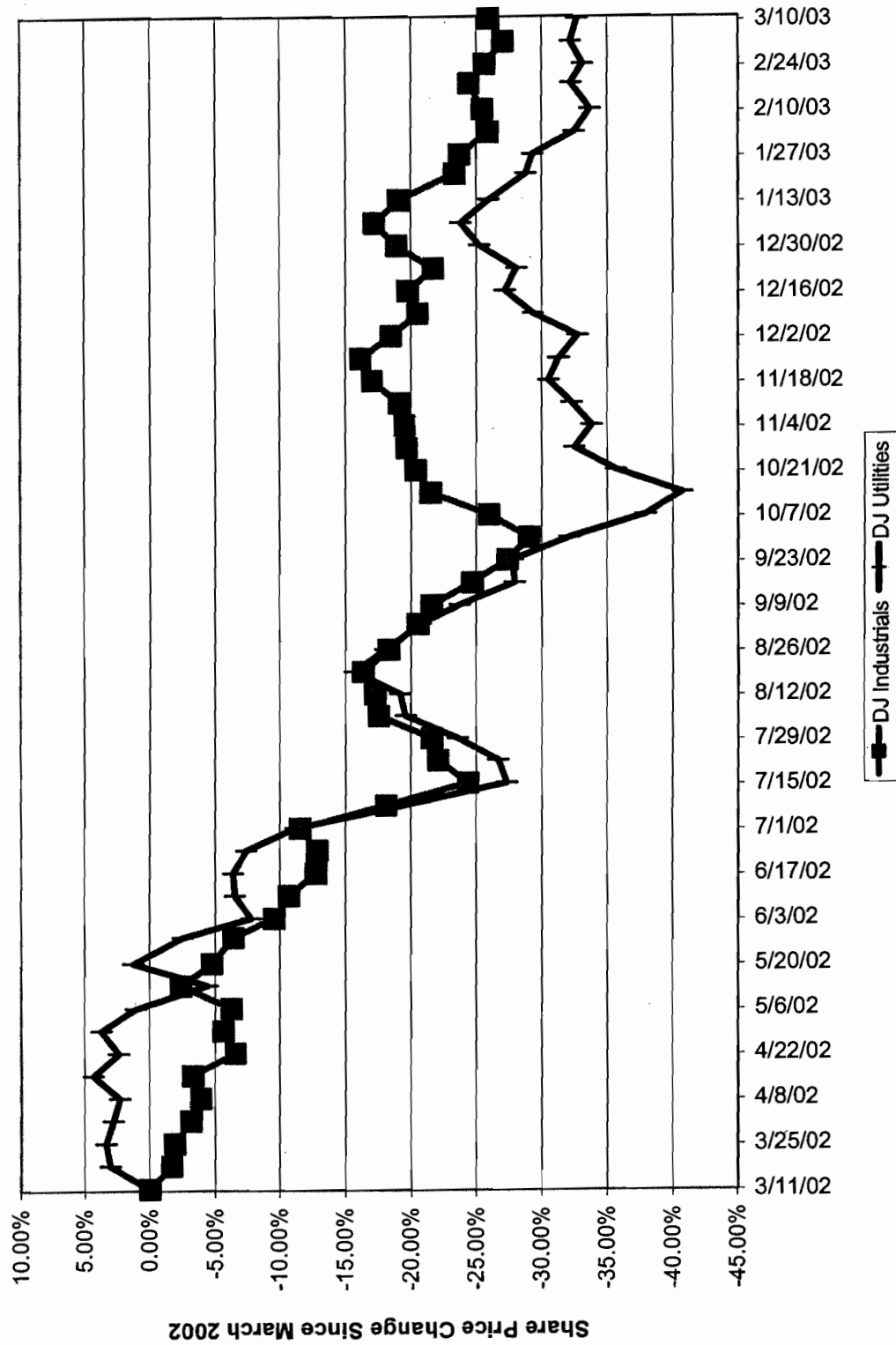
Sources :

Value Line Investment Survey
 Ibbotson Associates 2003 SBBI Yearbook: Valuation Edition
 Federal Reserve Statistical Release

Comparison of Bond Yields



Comparison of Dow Jones Indices



Nashville Gas Company

Comparable Local Distribution Companies

Comparison of Value Line's Safety Rank

	Safety Rank
Piedmont Natural Gas	2
AGL Resources, Inc.	2
Atmos Energy Corp.	3
New Jersey Resources	2
Nicor, Inc.	2
Northwest Natural Gas	2
Peoples Energy Corp.	1
WGL Holdings, Inc.	1
Comparable Companies' Average	1.9

Source: Value Line Investment Survey

Nashville Gas Company
Comparable Local Distribution Companies
Comparison of Value Line's Timeliness Rank

	Timeliness Rank
Piedmont Natural Gas	3
AGL Resources, Inc.	3
Atmos Energy Corp.	3
New Jersey Resources	3
Nicor, Inc.	4
Northwest Natural Gas	4
Peoples Energy Corp.	3
WGL Holdings, Inc.	3
Comparable Companies' Average	3.3

Source: Value Line Investment Survey

Nashville Gas Company

Proposed Cost of Capital

Thirteen Months Average for the Period Ended December 31, 2002

		Ratio	Embedded Cost	Weighted Cost
Long-Term Debt	\$505,957,746	44.81%	7.72%	3.46%
Short-Term Debt	\$19,615,385	1.74%	2.00%	0.03%
Common Equity	\$603,458,649	53.45%	12.60%	6.73%
Total	\$1,129,031,779	100.00%		10.22%

Source: Piedmont Natural Gas Company Work Papers

Nashville Gas Company

Comparable Local Distribution Companies

Comparison of After-Tax Times Long Term Interest Earned Ratios

Piedmont Natural Gas Company	@12.6% ROE	2.93
AGL Resources, Inc.		2.48
Atmos Energy Corp.		2.47
New Jersey Resources		4.80
Nicor, Inc.		3.89
Northwest Natural Gas		2.55
Peoples Energy Corp.		2.78
WGL Holdings, Inc.		2.99
Comparable Companies' Average		3.14

Source : Value Line Investment Survey

Tennessee Regulatory Authority

Docket No. 99-00999

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EXECUTIVE SECRETARY

In the Matter of

Application of Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc., for an Adjustment of its Rates and Charges, the Approval of Revised Tariffs and the Approval of Revised Service Regulations

**Petition, Testimony, and Exhibits
on Behalf of
Nashville Gas Company,
a Division of
Piedmont Natural Gas Company, Inc.**



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AMOS, JEFFRIES & ROBINSON, L.L.P.

ATTORNEYS AND COUNSELLORS AT LAW

TELEPHONE: (704) 643-1001
FACSIMILE: (704) 556-0824

MAILING ADDRESS:
PMB 317
7816 FAIRVIEW ROAD
CHARLOTTE, NORTH CAROLINA 28226

GREENSBORO OFFICE:
1230 RENAISSANCE PLAZA
230 NORTH ELM STREET (27401)
P.O. BOX 787 (27402)
GREENSBORO, NORTH CAROLINA
TELEPHONE: (336) 273-5569
FACSIMILE: (336) 273-2435

December 30, 1999

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Re: Application of Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. for an Adjustment of its Rates and Charges, the Approval of Revised Tariffs and the Approval of Revised Service Regulations
Docket No. 99-00994

Dear Mr. Waddell:

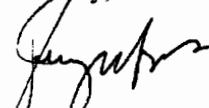
Pursuant to T.C.A. § 65-5-203, I am enclosing for filing in the above captioned proceeding, the original and fourteen copies of the following documents on behalf of Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. requesting and adjustment of its rates and charges, approval of revised tariffs and approval of revised service regulations effective February 1, 2000:

1. Petition of Nashville Gas Company;
2. Testimony of Ware F. Schiefer;
3. Testimony and Exhibits of Bill R. Morris;
4. Testimony and Exhibits of Chuck W. Fleenor; and
5. Testimony and Exhibits of Dr. Donald A. Murry.

I am enclosing six (6) copies of the workpapers supporting the foregoing testimony and exhibits and a check in the amount of \$25.00 in payment of the filing fee.

I am enclosing an additional copy of the filing package that I would appreciate your stamping filed.

Sincerely,


Jerry W. Amos

*paid \$25.00
ck# 842458*

JWA:kam

Encl.

c: Vincent Williams, Consumer Advocate
T.G. Pappas, Esq.

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**Before The
Tennessee Regulatory Authority**

Nashville, Tennessee

In re:	)	
	)	
Application of Nashville Gas Company, a	)	
Division of Piedmont Natural Gas Company,	)	
Inc. for an Adjustment of its Rates and	)	Petition
Charges, the Approval of Revised Tariffs and	)	
the Approval of Revised Service Regulations.	)	

Docket No. _____

Pursuant to Section 65-5-203 of the Tennessee Code Annotated and the rules and regulations of the Tennessee Regulatory Authority (Authority), Nashville Gas Company (Nashville Gas), a division of Piedmont Natural Gas Company, Inc. (Piedmont), hereby applies (1) for authority to adjust its rates and charges for natural gas service for the purposes of obtaining a general increase in its rates, (2) for approval of revised tariffs, and (3) for approval of revised service regulations. In support of this petition, Nashville Gas respectfully shows:

**Description of
Piedmont Natural Gas Company
and
Nashville Gas Company**

1. Piedmont is incorporated under the laws of the State of North Carolina and is engaged in the business of transporting, distributing and selling gas in the States of Tennessee, North Carolina and South Carolina. Piedmont's principal office and place of business is located at 1915 Rexford Road, Charlotte, North Carolina.

2. Piedmont conducts its natural gas distribution business in the State of Tennessee through its operating division, Nashville Gas. Nashville Gas' natural gas distribution business is subject to regulation and supervision by the Authority pursuant to Chapter 4 of Title 65 of the Tennessee Code Annotated.

3. Nashville Gas has its principal offices at 665 Mainstream Drive, Nashville, Tennessee, and it is engaged in the business of furnishing natural gas to customers located in Davidson County and portions of the adjoining counties of Cheatham, Dickson, Robertson, Rutherford, Sumner, Trousdale, Williamson and Wilson and in certain incorporated towns and cities located therein.

Request for General Rate Increase

4. Nashville Gas' existing rates for natural gas service are not adequate to permit it to earn a fair and reasonable return on its investment. If Nashville Gas is (a) to maintain its facilities and services in accordance with the reasonable requirements of its customers in its service area, (b) to compete in the market for capital funds on terms which are reasonable and which are fair to its customers and to its existing investors and (c) to produce a fair profit for its stockholders, it must be granted a general increase in its rates.

5. As shown in the exhibits filed with this petition, Nashville Gas will be able to earn an overall return of only 7.55 % during the attrition period (12-months ending May 31, 2001). Such rate of return is not fair and reasonable and is confiscatory under Article I, Section 8 of the Constitution of Tennessee and the 14th Amendment of the Constitution of the United States.

6. Nashville Gas' inability to earn a fair and reasonable return on its investment results from a number of factors, including the following:

- a. Since its rates were last increased, Nashville Gas has invested \$84.9 million in new plant and facilities to serve its customers, including more than 24,000 customers who have been added since that date.
- b. Since its rates were last increased, Nashville Gas has been required to acquire additional capital to enable it to improve and extend its natural gas services to its customers.
- c. Since its rates were last increased, Nashville Gas' expenses have increased because of the need to offer improved and expanded service to new and existing customers.

7. Additional reasons supporting Nashville Gas' request for a general rate increase are set forth in the testimony and exhibits of witnesses being filed with this petition, all of which testimony and exhibits are incorporated herein.

8. The proposed rates for which Nashville Gas seeks approval are set forth in Exhibit ____ (CWF-5) and are incorporated herein.

Request for Approval of Revised Tariffs and Service Regulations

9. Nashville Gas is seeking approval of certain changes to its service regulations and to the language of its tariffs.

Supporting Documentation

10. In further support of this petition, Nashville Gas is filing herewith the following:

- a. Testimony of Ware F. Schiefer, President and Chief Operating Officer of Piedmont Natural Gas Company;
- b. Testimony and exhibits of Charles W. Fleenor, Vice President of Gas Services of Piedmont Natural Gas Company;
- c. Testimony and exhibits of Bill R. Morris, Director of Rates, Piedmont Natural Gas Company;
- d. Testimony and exhibits of Donald A. Murry, Economist with C.H. Guernsey & Company, Oklahoma City, Oklahoma; and
- e. Miscellaneous workpapers supporting the above referred to exhibits.

Notices

11. It is respectfully requested that any notice or other communications with respect to this Petition be sent to:

Ware F. Schiefer
President
Piedmont Natural Gas Company, Inc.
P. O. Box 33068
Charlotte, NC 28233

T.G. Pappas
R. Dale Grimes
Bass, Berry & Sims
2700 First American Center
Nashville, TN 37238

Jerry W. Amos
Amos, Jeffries & Robinson, L.L.P.
PMB 317, 3817 Fairview Road
Charlotte, NC 28226

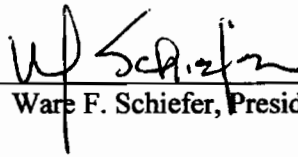
Prayer for Relief

Wherefore, it is respectfully requested that the Authority (1) set this application for hearing at an early date, (2) cause notice to be issued as required, (3) find that Nashville Gas' existing tariffs and rates are inadequate and that the proposed tariffs and rates attached hereto as Exhibit ____ (CWF-5) are fair, just and reasonable and in the public interest and permit them to become effective on February 1, 2000 or as soon thereafter as lawfully permitted, (4) approve the requested changes to Nashville Gas' revised tariffs and service regulations and (5) grant such other relief as may be required in light of the evidence to be produced at the hearing of this cause.

This the 29th day of December, 1999.

Piedmont Natural Gas Company, Inc.

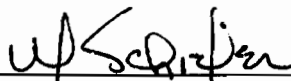
By: _____



Ware F. Schiefer, President

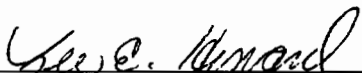
STATE OF NORTH CAROLINA)
)
COUNTY OF MECKLENBURG)

Ware F. Schiefer, being first duly sworn, states that he is President of Piedmont Natural Gas Company, Inc.; that he has read the foregoing Petition; that the facts stated therein are true to the best of his knowledge, information and belief; and that he has been duly authorized to execute the foregoing Petition on behalf of Piedmont Natural Gas Company, Inc.



Ware F. Schiefer

Sworn to and subscribed before me
this the 29 th day of December, 1999.



Notary Public

My commission expires:

My Commission Expires October 29, 2000

Tennessee Regulatory Authority
Docket No. _____

In the Matter of)
)
Application of Nashville Gas Company, a)
Division of Piedmont Natural Gas Com-)
pany, Inc., for an Adjustment of its Rates)
and Charges, the Approval of Revised)
Tariffs and the Approval of Revised)
Service Regulations)

Testimony of Ware F. Schiefer
on Behalf of
Nashville Gas Company,
a Division of
Piedmont Natural Gas Company, Inc.



1 **I. Identification of Witness.**

2 **Q. Please state your name and your business address.**

3 A. My name is Ware F. Schiefer. My business address is 1915 Rexford Road,
4 Charlotte, North Carolina.

5 **Q. By whom and in what capacity are you employed?**

6 A. I am President and Chief Operating Officer of Piedmont Natural Gas Company,
7 Inc. (Piedmont).

8 **Q. Please describe your educational and professional background.**

9 A. I received a B.S. degree in Civil Engineering from The Citadel in Charleston,
10 South Carolina in 1959. In 1968, I completed the requirements for and became
11 a Registered Professional Engineer in North Carolina. I was employed by
12 Piedmont in 1965 as an Industrial Sales Engineer. In 1969, I was promoted to
13 supervisor of Piedmont's Heating and Air-conditioning Department and
14 Commercial Sales Manager. In 1973, I was named Director of Gas Utilization,
15 and I remained in this capacity until 1976 when I was named Assistant Vice
16 President – Director Gas Utilization. I was elected a Vice President in 1978,
17 Senior Vice President in 1986, Executive Vice President in 1995, and President
18 and Chief Operating Officer in February 1999.

19 **Q. Please describe the scope of your present responsibilities for Piedmont.**

20 A. As President and Chief Operating Officer, I am responsible for the day-to-day
21 operations of Piedmont. My activities primarily focus on operations, sales and
22 marketing, and gas supply.

23 **Q. Have you previously testified before this Authority or any other regulatory
24 authority?**

25 A. I have testified on numerous occasions before the Tennessee Public Service
26 Commission. I have also testified before the North Carolina Utilities Commission,

**Piedmont Natural Gas Company, Inc.
Nashville Gas Company**

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1 the Public Service Commission of South Carolina, and the Federal Energy
2 Regulatory Commission (FERC).

3 **Q. In what areas have you testified?**

4 A. At the state level, I have testified in the areas of gas supply requirements, gas
5 supply prudence, revenue requirements, cost of service and rate design. At the
6 FERC, I have testified on customer requirements, curtailment priorities, gas
7 allocation and other areas dealing with pipeline rates.

8 **Q. Have you held any positions in natural gas trade associations?**

9 A. Yes. I have served on the board of directors of the Southern Gas Association
10 and the Southeastern Gas Association. I also served as president of the
11 Southeastern Gas Association.

12 **II. Purpose of Testimony.**

13 **Q. What is the purpose of your testimony in this proceeding?**

14 A. My testimony is being filed to support Piedmont's application in this case. I will
15 (1) provide a brief description of Piedmont and its businesses, (2) provide a
16 brief description of our application in this docket and (3) explain why we filed
17 the application in this case.

18 **III. Identification of Piedmont.**

19 **Q. Please describe Piedmont and its business.**

20 A. Piedmont Natural Gas Company, Inc., is a North Carolina corporation with
21 headquarters in Charlotte, North Carolina. Piedmont is principally engaged in
22 the natural gas distribution business and as of November, 1999, delivered gas
23 to approximately 620,000 customers, including 134,000 in Tennessee, 382,000
24 in North Carolina and 104,000 in South Carolina.

25 **Q. Please describe your gas business in Tennessee.**

1 A. Our natural gas operations in Tennessee are conducted through Nashville Gas
2 Company (Nashville Gas), an operating division of Piedmont. Nashville Gas
3 furnishes natural gas to customers located in Davidson County and portions of
4 the adjoining counties of Cheatham, Dickson, Robertson, Rutherford, Sumner,
5 Trousdale, Williamson and Wilson.

6 **Q. How long has the Nashville Gas Division been owned and operated by**
7 **Piedmont?**

8 A. Piedmont acquired Tennessee Natural Resources Inc., the then parent company
9 of Nashville Gas on March 15, 1985. At the time of the acquisition Nashville
10 Gas served 67,000 customers and had net-utility plant of \$48 million. Due to
11 its inability to raise sufficient capital, Nashville Gas had not been meeting the
12 needs of this rapidly growing area. Piedmont committed to placing \$50 million
13 in new plant in Tennessee within five years, a 100% increase.

14 **Q. Has Piedmont lived up to its commitment to this Commission?**

15 A. Yes. During the first five years Piedmont owned Nashville Gas, \$85 million in
16 plant was added to upgrade the system and to add 22,000 new customers. This
17 commitment has continued as the Company has increased gross plant in
18 service, from the 1985 acquisition date to the date of this filing, by \$277.3
19 million or an increase of 344% over the original plant purchased. During this
20 same time period we have added 67,000 new customers net, an increase of
21 100%.

22 **IV. Description of Application.**

23 **Q. What is Nashville Gas seeking in this application?**

24 A. Nashville Gas is seeking a general increase in its rates and charges. The
25 increase in rates and charges is necessary to cover the costs (including a return

1 on investment) of additional plant constructed to expand and improve natural
2 gas services in Tennessee. We are also seeking approval of certain changes to
3 our service regulations and to the language of our tariffs.

4 **Q. Will other witnesses offer testimony on Piedmont's behalf in this proceeding?**

5 A. Yes. Mr. Bill Morris will testify in support of our accounting exhibits, including
6 our revenue, expenses and plant. Mr. Donald Murry will provide testimony in
7 support of our requested rate of return. Mr. Chuck Fleenor will provide testimony
8 in support of our proposed rate design and the changes we are proposing in our
9 tariff language.

10 **Q. How did Piedmont determine what rate increase to seek in this proceeding?**

11 A. We first determined the rate increase that would be required to permit us to
12 recover all of our prudently incurred expenses and to earn what we believe to be
13 a fair return on our investment. Based on those calculations, we determined that
14 we required a rate increase of \$12,076,449.

15 Next we examined the "Final Order" issued by the Authority in our last
16 general rate case (Docket No. 96-00977) to see if our determination of the
17 required rate increase was consistent with that Order. We also examined the
18 Authority's final order in Docket No. 97-00982, which we believe to be the
19 only general rate case order issued by the Authority in a natural gas utility case
20 subsequent to the order issued in our last general rate case.

21 **Q. Why did you examine the Authority's order in Docket No. 97-00982?**

22 A. We wanted to determine if the Authority had made any new or different
23 pronouncements with respect to the proper treatment of various items in natural
24 gas general rate cases.

1 **Q. Did you find any new or different pronouncements in Docket No. 97-**
2 **00982?**

3 A. We found one such pronouncement. In our last general rate case, we sought to
4 recover our actual test period advertising expenses of \$1,486,000. The
5 Authority allowed us to recover one-half of that amount, but ordered the staff
6 to conduct a study and to submit it to the Authority no later than May 31, 1997.
7 In Docket No. 97-00982, which was decided after the due date of the study, the
8 Authority allowed the gas utility to recover 100% of its advertising expenses.

9 **Q. After examining the two orders, did you determine that your original**
10 **determination of your rate increase was consistent with those orders?**

11 A. No. We determined that it was not; therefore, we revised our calculations to be
12 consistent with those two orders.

13 **Q. What was the effect of those revisions on your requested rate increase?**

14 A. It reduced our requested rate increase by \$1,388,837.

15 **Q. Why were you willing to reduce your request?**

16 A. The Authority's order in our last general rate case was appealed to the court, and
17 the court affirmed that order. Although we do not agree with all portions of that
18 order or the court's decision, we believe it would be a waste of time for the
19 Authority and all of the parties to attempt to relitigate those issues in this
20 proceeding.

21 **Q. In your last rate case, the Authority authorized a return on common equity**
22 **of 11.5%. Did you file for the same return in this case?**

23 A. No. A review of past orders by the Authority and its predecessor, the Tennessee
24 Public Service Commission, indicates that the authorized rate of return depends
25 upon a number of factors that change from time to time and that the rate of return

1 authorized by the Authority at one point in time is not necessarily indicative of the
2 rate of return that will be authorized at a different time. As a result, we employed
3 an expert cost of capital witness, and we are requesting the 12.5% rate of return
4 on common equity recommended by him.

5 **Q. Please explain why it was necessary to file this rate case.**

6 A. Nashville Gas has invested \$84.9 million in additional utility plant since our last
7 rate case. That investment represents a 30.4% increase in our utility plant in
8 the three and one-half years since our last rate case. In addition, we have added
9 approximately 24,000 customers during this period. Of course, the addition of
10 this plant and these customers has increased our operation and maintenance
11 expenses.

12 **Q. How has Nashville Gas financed the addition of these customers?**

13 A. Since Nashville Gas is an operating division of Piedmont, the financing for our
14 expansion in Tennessee, as well as our expansion in North Carolina and South
15 Carolina, was provided by Piedmont. Piedmont provided this financing
16 through a combination of internally generated cash flow and long-term debt
17 and equity financing. The following table shows a comparison of the total
18 company customers added, the capital invested to add those customers and the
19 long-term financing required to finance these additions over the past five years:

Table 1

Year Ended October 31	Customers Added	Capital Investments	Long-Term Financing
1995	28,500	\$100.8 Million	\$98.4 Million
1996	31,230	\$98.3 Million	\$55.9 Million
1997	33,000	\$93.5 Million	\$15.7 Million
1998	31,400	\$93.5 Million	\$17.1 Million
1999	34,650	\$102.0 Million	\$71.4 Million

For the year ending October 31, 2000, Piedmont expects to add approximately 32,780 customers, to invest \$117.0 million in its utility operations and to sell in excess of \$56 million of long-term securities.

Q. How does Piedmont's capital investment and customer additions in Tennessee compare with its investment and customer additions in the other states in which it operates?

A. Piedmont is committed to expanding its facilities and providing natural gas service to as many customers as feasible in all states in which we operate. The following table shows how much Piedmont has invested in Tennessee and how many customers Nashville Gas has added in Tennessee just during the past five years:

Table 2

Year Ended October 31	Customers Added	Capital Invested
1995	6,065	\$24.7 Million
1996	6,110	\$25.1 Million
1997	6,064	\$26.5 Million
1998	5,691	\$17.8 Million
1999	6,082	\$21.7 Million

As shown in Table 2, we have added a total of 30,012 customers in Tennessee over the past five years, an average yearly increase of over 5.6%. During this same five-year period, we have invested over \$115.8 million in capital additions, an average 9.2% increase in plant per year. In fact, we have in the past five years increased our investment in Tennessee by over 46%.

Q. How does the addition of these customers and the plant constructed to serve these customers affect your need for rate relief?

A. Most of the capital required to construct the additional plant required to serve these new customers comes from long-term financing. The investors who provide this financing expect to be paid a fair return on their investment. Thus, when we issue new securities, we increase our need for funds to pay the interest, dividends or other return on those securities. To place this need in proper perspective, over 36% of our issued and outstanding long-term securities were issued within the past five years. In addition, when we add new customers, we must read their meters, prepare and mail their bills, answer their inquiries, meet regulatory requirements and provide additional services to

1 them. There are significant costs associated with providing these services to
2 new customers.

3 **Q. Don't you also receive additional revenues from these new customers?**

4 A. We do receive additional revenues, however, these additional revenues are not
5 sufficient to cover the additional costs. Our existing rates are based on the
6 embedded original costs of our property after depreciation of \$1,929 per
7 customer allowed in our last rate case. During the three and one-half years
8 following that rate case, we added \$45,972,898 of additional net plant. When
9 divided by the 20,245 net customers added during that period, the incremental
10 cost per new customer was \$2,245. In addition, our existing rates are based on
11 the level of expenses that existed at our last general rate case, and, as shown in
12 the exhibits filed by Piedmont witness Bill R. Morris, these expenses have
13 increased. As a result, existing rates do not cover the higher costs of the
14 additional property and do not cover the current costs of providing service.

15 **Q. Have you taken any steps to reduce the costs of serving existing and new**
16 **customers?**

17 A. Yes. We have taken many such steps over the years. One such step was taken
18 in the spring and summer of 1997 when the Company set out to reorganize its
19 corporate goals and planning strategies. During this process, it was determined
20 that Piedmont and Nashville would have to either (a) reduce their capital
21 investments in new facilities and services or (b) continue to file repeated rate
22 cases unless some method was found for reducing expenses. It was for this
23 reason that the GAP process was begun. ("GAP" refers to the difference
24 between (x) the income that would be required to permit Piedmont and
25 Nashville to continue to raise the necessary capital for future customer

Piedmont Natural Gas Company, Inc.
Nashville Gas Company

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1 additions and (y) the income that would actually be produced without either an
2 increase in revenue through rate cases or a decrease in expenses.)

3 The GAP process involved a solicitation of suggestions from all
4 employees, a consideration of those suggestions by various "teams" of
5 employees from all levels, a review and approval of various suggestions by
6 senior management, and, finally, consideration of the final recommendations
7 by the Company's Board of Directors.

8 Over 2,000 employee suggestions on ways to become more efficient, to
9 better serve our customers and to generate increased shareholder value were
10 received and evaluated. As a result of implementing proposals relating to every
11 area of the Company's operations – from outsourcing our main-frame computer
12 center to overtime and expense reductions – we achieved substantial cost
13 reductions.

14 The most difficult cost reduction measure was the reduction in personnel.
15 Through a "Special Event Voluntary Severance Plan" and by not filling certain
16 vacant positions, we achieved a significant reduction in our payroll costs.
17 Under this Plan, most of the reductions in work force were obtained through
18 voluntary terminations. Financial incentives were offered to certain employees
19 to obtain these voluntary terminations and to eliminate or lessen any financial
20 burdens for the terminated employees. Only eight Nashville employees were
21 terminated involuntarily. We provided assistance to terminated employees to
22 obtain other employment. It is our understanding that, with one possible
23 exception, all of the terminated employees who wished to remain employed
24 were able to find new positions. One of the terminated employees has moved

1 from Tennessee and we have not been able to determine his current
2 employment status.

3 **Q. Were any of the costs associated with the severance plan paid by**
4 **ratepayers?**

5 A. No. This plan cost approximately \$1.8 million. The full amount was written
6 off in 1997, resulting in a \$0.04 per share reduction in earnings for our
7 shareholders. None of the costs were recovered from our ratepayers.

8 **Q. Do you have any evidence that Piedmont's efforts to reduce costs have**
9 **been effective?**

10 A. Yes. Exhibit WFS-1 shows the number of customers served by each employee
11 of Nashville Gas at the time of our last rate case in 1995 and the number of
12 customers served in 1999. As you can see, each employee now serves 80 more
13 customers than in 1995.

14 **Q. Does the total number of employees include the employees who are located**
15 **in the general office in Charlotte, North Carolina as well as the employees**
16 **who are located in Tennessee?**

17 A. Yes. The number of employees shown for both 1995 and 1999 includes an
18 allocation of general office employees using the allocation method approved
19 in our last rate case.

20 **Q. Can you provide an estimate of the savings that result from the increase**
21 **in the number of customers served per employee?**

22 A. If we had not increased the number of customers served per employee since
23 1995, we would need an additional 81 employees today. Based on the average
24 cost per employee, our payroll costs would be approximately \$3.1 million
25 higher than included in this case.

Piedmont Natural Gas Company, Inc.
Nashville Gas Company

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1 **Q. Can you provide any other evidence that your efforts to reduce costs have**
2 **been effective?**

3 A. Yes. Our average cost of adding a new customer in Tennessee in 1995 was
4 \$3,178 and in 1996 was \$3,176. In 1999, we had been able to reduce this cost
5 to \$2,383, a reduction of almost 25%.

6 **Q. Has the increase in the number of customers served per employee reduced**
7 **the quality of customer service provided by Nashville?**

8 A. No. As a result of the increased competition in our business, we constantly
9 monitor our customer service to make sure that we are responding to our
10 customers' needs. As we have increased the number of customers served per
11 employee, we have also increased our employee training so they can be more
12 efficient but no less effective in responding to the needs of our customers. We
13 have also implemented new technology to better serve our customers. We are
14 satisfied that the quality of our customer service has not deteriorated as a result
15 of the increase in number of customers served per employee.

16 **Q. How does a reduction in the cost of adding a customer produce savings for**
17 **your customers?**

18 A. The following table quantifies the savings in our cost of capital.
19
20
21
22
23
24
25

Table 3

**Piedmont Natural Gas Co.
Cost of Capital Reduction Attributable to Reduction in Cost Per Customer Addition**

	Year Ended				
	1995	1996	1997	1998	1999
Customers Added	28,500	31,200	33,000	31,400	34,653
Cost Per Customer Added	\$2,455	\$2,246	\$2,082	\$1,883	\$1,800
Capital Expenditures Avoided	—	\$6.5mm	\$12.3mm	\$18.0mm	\$22.7mm
Cumulative Capital Expenditures Avoided	—	\$6.5mm	\$18.8mm	\$36.8mm	\$59.5mm
Reduction in Cost of Capital (10.15%)	—	\$.3mm	\$1.3mm	\$2.8mm	\$4.9mm
Cumulative Reduction in Cost of Capital	—	\$.3mm	\$1.6mm	\$4.4mm	\$9.3mm

Q. You have stated that the addition of new plant and customers and the additional costs associated with that plant and those new customers is the major cause of this rate proceeding. Couldn't you just stop adding customers and avoid future rate cases?

A. No. We also add plant to replace existing plant as that plant deteriorates over time. In addition, from time to time we must relocate plant as new roads are built and as existing buildings are torn down and replaced. The cost of replacing or relocating existing plant and serving replacement customers would continue even if we did not increase the total number of customers served by us. We would also need to continue the twelve-year comprehensive cast iron main replacement program. A program begun in 1992 which is expected to cost in excess of \$42 million when completed. Nevertheless, I do agree that rate cases would be filed

1 less frequently if were not to increase the total number of customers served by the
2 Company.

3 **Q. If that is the case, why do you continue to add new plant to serve more**
4 **customers?**

5 A. In their efforts to remain economically strong, Nashville and its environs must
6 compete with other areas both within and outside of the State of Tennessee. Study
7 after study shows that no community can remain economically healthy for very
8 long without the necessary infrastructure, including the availability of natural gas
9 and other utilities. As a good corporate citizen, we are committed to do our part
10 to provide our part of this infrastructure.

11 **Q Do you have anything to add at this time?**

12 A. Yes. We are proud of our Company's contribution to the State of Tennessee, in
13 general, and to Nashville and its environs, in particular. We believe our efforts to
14 expand our service as rapidly as possible while at the same time maintaining
15 reasonable rates has contributed to the economic growth of our service area. As
16 indicated by the testimony in this case, we have taken substantial and, in some
17 instances, very difficult steps to reduce our costs for the benefit of our customers.
18 I can assure this Authority that under my leadership we will continue that policy.

19 Finally, I would like to thank the Authority for its assistance in helping us
20 meet our mutual objective of providing natural gas service to our existing and new
21 customers at reasonable rates while at the same time providing a fair and
22 reasonable return to those investors who provide the funds to make it possible for
23 us to pay for the plant needed to serve those customers.

24 I have appeared before various regulatory agencies for more than 30 years,
25 and I have concluded that the best results for all of the many interests involved are
26 reached when the Company, the consumer representatives and the Authority work

Piedmont Natural Gas Company, Inc.

Nashville Gas Company

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1 together in a cooperative, rather than an adversarial, environment. That was the
2 conclusion that led us to follow the past decisions of this Authority in this rate
3 case even in those instances when those decisions did not favor the Company. We
4 hope to avoid unnecessary controversy and to obtain a result that fairly balances
5 the interests of our customers, our employees, our investors and the communities
6 we serve.

Piedmont Natural Gas Company, Inc.
Nashville Gas Company

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Affidavit

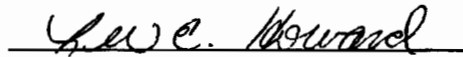
State of North Carolina)
)
County of Mecklenburg)

Ware F. Schiefer, being first duly sworn, deposes and says that he is the same Ware F. Schiefer whose prepared testimony accompanies this affidavit.

Ware F. Schiefer further states that, to the best of his knowledge and belief, his answers to the questions contained in such prepared testimony are true and accurate.


Ware F. Schiefer

Sworn to and subscribed before me, a Notary
Public, on this the 29 th day of December, 1999.



My Commission Expires:

My Commission Expires October 29, 2000

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Nashville

Customers Per Employee

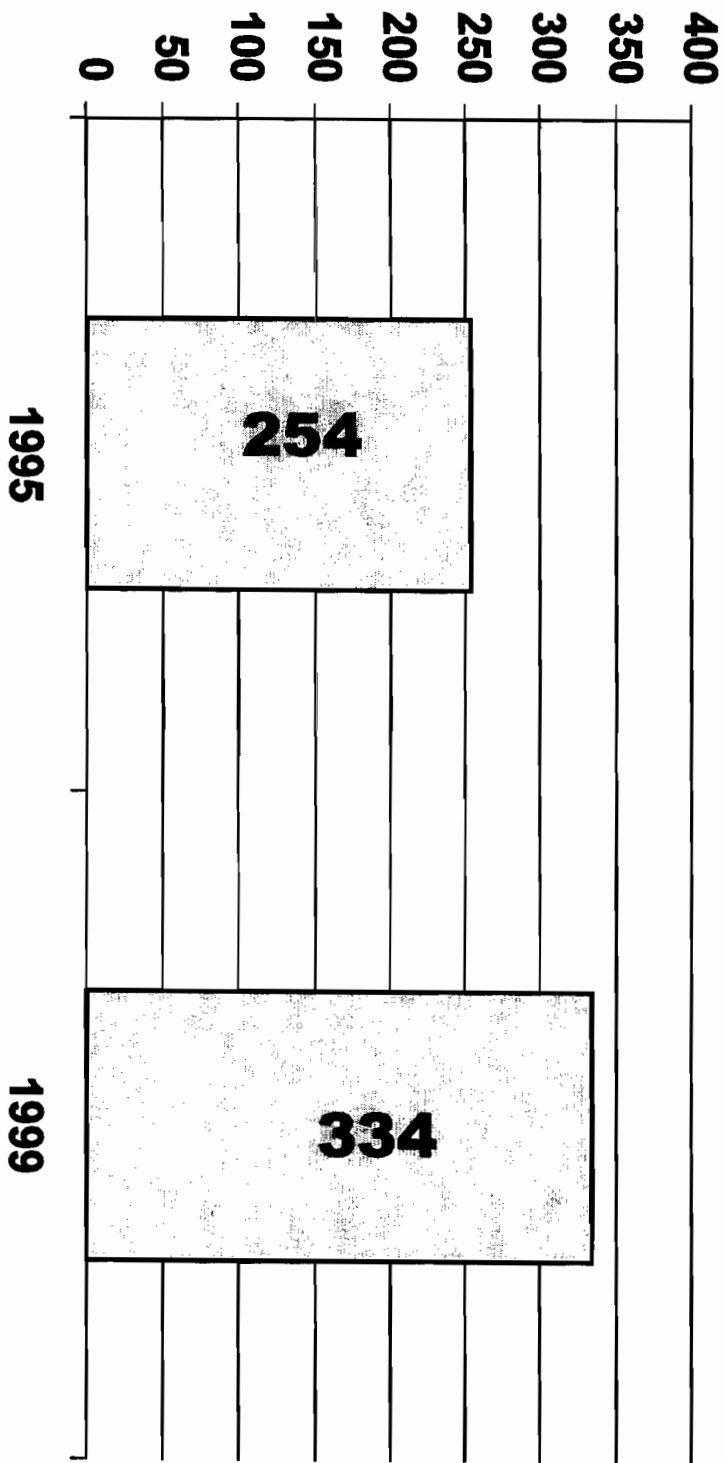


Exhibit WFS - 1

Tennessee Regulatory Authority

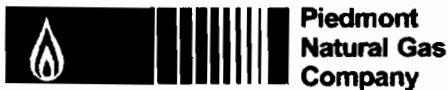
Docket No. _____

In the Matter of

**Application of Nashville Gas Company, a
Division of Piedmont Natural Gas Com-
pany, Inc., for an Adjustment of its Rates
and Charges, the Approval of Revised
Tariffs and the Approval of Revised
Service Regulations**

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**Testimony of Bill R. Morris
on Behalf of
Nashville Gas Company,
a Division of
Piedmont Natural Gas Company, Inc.**



1 **Q. Please state your name and business address.**

2 A. My name is Bill R. Morris, and my business address is 1915 Rexford Road, Charlotte,
3 North Carolina.

4 **Q. By whom and in what capacity are you employed?**

5 A. I am employed by Piedmont Natural Gas Company ("Piedmont") as Director of Rates.

6 **Q. By whom were you employed prior to being employed by Piedmont?**

7 A. I was employed by Nashville Gas Company ("Nashville Gas") as Assistant Vice President
8 of Rates prior to my transfer to Piedmont in February 1986. Prior to my employment by
9 Nashville Gas Company, I was employed by the Tennessee Public Service Commission
10 ("TPSC") as a Financial Analyst from August 1974 through September 1981.

11 **Q. Briefly describe your educational background.**

12 A. I received a Bachelor of Science degree in accounting in 1974 from Austin Peay State
13 University. In 1979 I became a Certified Public Accountant in the state of Tennessee.

14 **Q. Have you previously offered testimony in any regulatory proceedings?**

15 A. Yes. While with the TPSC, I entered testimony as a staff witness in numerous rate cases.
16 Since being employed by Nashville Gas Company and Piedmont, I have testified before
17 the North Carolina Utilities Commission, the South Carolina Public Service Commission
18 and this Authority and its predecessor, the TPSC. I have also entered testimony before the
19 Federal Energy Regulatory Commission (FERC).

20 **Q. Are you a member of any professional associations?**

1 A. Yes, I am a member of the American Institute of Certified Public Accountants, the
2 Tennessee Society of Certified Public Accountants and the North Carolina Association of
3 Certified Public Accountants. I also serve on the Southern Gas Association's Rate
4 Committee.

5 **Q. What is the purpose of your testimony in this case?**

6 A. The purpose of my testimony is to present information to the Commission relative to
7 certain adjustments made to the test period operating results. Specifically, on Exhibit
8 ____ (BRM-1), I am responsible for the adjustments in columns 2, 6, 7 and 8 relating to all
9 items with the exception of the sale and transportation of gas revenues and cost of gas.
10 These items will be discussed by Mr. Chuck Fleenor as will the adjustments appearing in
11 column 4.

12 I am also responsible for the proposed changes to the Company's Service Regulations
13 which are filed as part of this rate case.

14 **Q. Would you summarize the information contained on Exhibit ____ (BRM-1)?**

15 A. Column 1 reflects the income statement and rate base for the test period—the 12 months
16 ended August 31, 1999. The revenues, expenses and taxes represent those amounts
17 appearing on the Company's income statement. The rate base amounts, except for the
18 allowance for working capital, were calculated using the 13-month average of the balances
19 appearing on the Company's balance sheet.

20 The amounts appearing in Column 2 are the accumulation of all adjustments
21 necessary to reflect changes in revenues, expenses, taxes, and investment anticipated to
22 occur from the end of the test period through the attrition period—the 12 months ending

1 May 31, 2001. The attrition period has traditionally been defined by this Authority as the
2 first year in which new rates will be in effect. Based on the combined analyses of Mr.
3 Fleenor and myself, the changes that are anticipated to occur through the attrition period
4 will erode the current earnings of Nashville Gas. As column 3 reflects, the expected rate
5 of return for the attrition period is only 7.55 percent, excluding Special Contract revenues.
6 Column 4 represents the reduction in Nashville's demand gas costs that will occur during
7 the attrition period. Unlike the commodity portion of Nashville's gas cost that fluctuates
8 from month-to-month, demand gas costs are generally fixed costs and not subject to
9 monthly fluctuations. This reduction is recognized on Exhibit __ (BRM-1) to more
10 accurately reflect the impact of the proposed rate design in this case. Mr. Fleenor will
11 address this in more detail in his testimony.

12 Column 5 shows the effect on the attrition period after recognizing the demand gas
13 cost reduction in Column 4. As shown in Column 5, the demand gas cost reduction has no
14 effect on the Company's attrition period net operating income on line 18.

15 Column 6 of Exhibit __ (BRM-1) is the amount of additional revenues required to
16 achieve the overall rate of return of 10.50 percent requested in this filing. The \$11,577,545
17 revenue increase does not, however, recognize the revenues anticipated from Nashville's
18 three Special Contract customers. Column 7 shows the total revenues from these
19 customers under the existing contracts in the amount of \$889,933. I will explain how
20 Nashville Gas proposes to treat these revenues on an ongoing basis later in my testimony.
21 Column 8 is the requested revenue increase in the amount of \$10,687,612 after
22 consideration is given to the Special Contract revenues. Lastly, Column 9 represents the
23 attrition period income statement, rate base, and overall rate of return after adjustments for
24 proposed revenues. This column includes those revenues applicable to the Special Contract
25 customers.

1 Q. How does Nashville Gas propose to handle the revenues from its Special Contract
2 customers?

3 A. Let me begin by explaining that Nashville Gas currently has Special Contracts approved
4 for three of its large industrial transportation customers. These customers are Ford,
5 Bridgestone and State Industries. Due to the propriety of these contracts, the revenues
6 from these customers have been aggregated to protect the specific negotiated rates
7 approved for each special contract.

8 The special contract with Ford became effective on March 1, 1998 and will expire
9 on October 31, 2000, approximately half way through the attrition period. The Bridgestone
10 and State Industries contracts were both entered into effective on August 1, 1998 and will
11 expire on December 31, 2002. Because the Ford contract expires during the attrition period
12 in this case and it is very likely that the Bridgestone and State contracts will expire prior
13 to our next general rate case, Nashville Gas proposes to handle the revenues from these
14 contracts through an incentive tracking mechanism. Under the proposal, the \$889,933 of
15 existing Special Contract revenue, would be set as a benchmark. Any differences in the
16 annual revenues actually realized under these contracts and the benchmark amount would
17 be either debited or credited to the tracking account. Nashville Gas proposes, as an
18 incentive mechanism, to share in any differences on a 90%/10% basis. This proposal
19 would provide an incentive for the Company during contract renegotiations in that
20 Nashville Gas would retain 10% of any gains from a higher negotiated rate. Conversely,
21 if a lower rate was negotiated, Nashville Gas would absorb 10% of any reductions in
22 revenues. The 90%/10% sharing ratio was adopted by this Authority on negotiated rates
23 for both Bridgestone and State during the period of time immediately prior to approval of
24 the special contracts. It is also the sharing ratio adopted by the Authority for similar
25 negotiated rate transactions for this state's other two local gas distribution companies.

1 Nashville feels that its proposal is fair both to the ratepayer and the Company in that it
2 provides the Company the opportunity to achieve the rate of return ultimately allowed in
3 this proceeding and it provides an incentive to the Company to do the best job of
4 negotiating the highest competitive rate possible with these large volume customers which
5 will benefit ratepayers.

6 **Q. Please describe the procedures you used to develop the income statement amounts**
7 **under your responsibility for the attrition period?**

8 A. The attrition period amounts in this case were projected using the methodologies adopted
9 by this Authority in Docket No. 96-00977, Nashville Gas' last rate case, with one
10 exception. I will explain later in my testimony how this one exception, advertising
11 expense, was projected and why the method adopted in our last rate case was not used in
12 this rate case. Generally speaking, the items that could be calculated from a zero base,
13 were so calculated. These calculations were based upon interviews with the appropriate
14 company manager responsible for the item. As explained earlier in my testimony, we have
15 attempted to employ the methodologies adopted by the Authority in our last rate case. In
16 that case, the Authority accepted the Company's zero-based calculations and stated "it is
17 preferable to price-out these expenses rather than apply a broad growth rate when
18 possible."¹

19 For those items which could not reasonably be calculated using the above procedure,
20 I projected the amounts by applying growth factors to the test period amounts. On certain
21 accounts, projections were made by applying growth factors reflecting the combined effects

¹ Order, Docket No. 96-00977, February 19, 1997, p.16

1 of inflation and customer growth. On other accounts, I used only the inflation growth
2 factor.

3 **Q. Please give some examples of how you used the described procedures to project**
4 **attrition period income statement amounts?**

5 A. An example of a zero-based calculation is the projection of salaries and wages expense.
6 Generally, this calculation involves pricing Nashville Gas employees individually at the
7 hourly/monthly pay rate projected for the attrition period. To this amount, anticipated
8 overtime was added, and appropriate amounts were capitalized and assigned to non-utility
9 functions.

10 An example of the growth factor procedure is the projection of various maintenance
11 accounts. Due to the number of these accounts, it would be practically impossible to
12 employ the zero-based procedure. Therefore, accounts were grouped, and a growth factor
13 was applied to the test period amounts to arrive at the attrition period projections.

14 **Q. Please explain the procedures you used to develop Rate Base amounts.**

15 A. The starting point was to pull the August 31, 1999 balances in Plant in Service, CWIP,
16 Accumulated Depreciation, and Accumulated Deferred Income. To these balances, the
17 monthly projected additions in the current fiscal year 2000 construction budget and the
18 applicable months of the fiscal year 2001 construction budget were added to project the
19 balances for these times items through May 31, 2001. A 13-month average was then
20 calculated for the attrition period. Non-plant related Rate Base items such as customer
21 advances and contributions in aid of construction were calculated using historical trend
22 analyses. The allowance for working capital is a combination of the projected average
23 balances of current asset and liability accounts and the results of the lead/lag study adopted

1 by the Authority in our last rate case. In that rate case, the only issue addressed by the
2 Authority in the lead-lag study involved the lag days for income tax expense. The lead-lag
3 study in this case utilizes the 38 lag days for federal income tax adopted by the Authority
4 in Docket No. 96-00977.

5 **Q. Please explain the adjustments to the test period capital structure.**

6 A. The Attrition Period average capital structure is the same as the average capital structure
7 for the test period ending August 31, 1999. In Docket No. 96-00977, the Authority adopted
8 the use of an historical capital structure, thus, as I have previously explained, we have
9 recognized the Authority's policy in this filing.

10 **Q. Please explain Column 5 of Exhibit ____ (BRM-1).**

11 A. Column 5 shows the operating revenues (excluding special contract revenues), operating
12 expenses, net operating income for return and return on rate base for the attrition period.
13 As this exhibit shows our existing rates will permit us to earn only 7.55 percent on rate
14 base excluding special contract revenue. This return on rate base equates to a return of
15 only 7.09 percent on Common Equity.

16 **Q. Does Column 5 reflect your best judgment as to the attrition period return on the**
17 **investment of Nashville Gas in property which is used and useful in providing**
18 **natural gas service to jurisdictional customers in Tennessee under existing rates?**

19 A. Yes.

20 **Q. Please explain Columns 8 and 9.**

1 A. Column 8 contains the additional revenues and related expense and tax adjustments that
2 would result from the proposed increase in revenues after recognizing the revenues from
3 the Special Contract customers shown in Column 7. Column 9 reflects the revenues,
4 expenses, taxes, net operating income and rate base for the attrition period after
5 adjustments for proposed increases in revenues. As Column 9 shows, the proposed
6 revenues will permit us to earn 10.50 percent on our rate base. This return on rate base
7 equates to a return on equity of 12.5 percent. Dr. Donald A. Murry will support this equity
8 return in his testimony.

9 **Q. You previously testified that Nashville Gas has recognized the decisions made by this**
10 **Authority in Docket No. 96-00977 with the exception of advertising expense. Please**
11 **identify those items that were filed in accordance with the Authority's Order in**
12 **Docket No. 96-00977.**

13 A. I have already discussed three of these items earlier in my testimony, however, for
14 clarification purposes, I will repeat them.

- 15 • Where possible, operating expenses were projected for the attrition period using a zero-based
16 budgeting concept as opposed to applying growth factors to the test period recorded amounts.
- 17 • The working capital allowance calculation included 38 lag days for federal income taxes
18 rather than the negative 106 days included in the last rate case.
- 19 • The attrition period capital structure is the same as the historical test period. In the last rate
20 case, The Company recognized proforma debt and stock transactions during the attrition
21 period.

22 Additionally, the Company's attrition period projections recognize the following policies
23 adopted in our last rate case.

- 24 • Forfeited Discounts has been included as a component in computing the Revenue Conversion
25 Factor.

- 1 • Demand gas cost was computed by multiplying the demand billing determinants by the
- 2 demand recovery component in billing rates. The result is that revenues and cost are the
- 3 same, thus removing any gas cost issues from the attrition gross margin.
- 4 • Sales promotion expenses are not included in the calculation of advertising expense.
- 5 • An appropriate allocation of corporate payroll has been made reflecting the increased
- 6 consolidations of functions at the corporate office
- 7 • The employee position level at the end of the test period was utilized in the priceout of
- 8 salaries and wages expense .
- 9 • Long-term incentive plan (LTIP) costs are included at one-half of the projected attrition
- 10 period expense level.
- 11 • Injuries and damages expenses have been calculated by applying the growth factor to the test
- 12 period historical expense.
- 13 • Pension expense excludes FASB 87 expense and includes amortization of the deferred
- 14 regulatory asset which was permitted in the last rate case.
- 15 • Corporate allocations were based on a net plant percentage factor.
- 16 • The gross domestic product (GDP) index was used in the computation of the attrition growth
- 17 factor as opposed to the consumer price index (CPI) which the company used in the last rate
- 18 case filing.
- 19 • Charitable contributions have been excluded from attrition period operating expenses.
- 20 • An attempt has been made to identify and remove all items of a non-recurring nature from
- 21 the attrition period operating expenses.
- 22 • The error in the calculation of Administrative Transferred Credits has been corrected and
- 23 both the test period and attrition period amounts reflect the proper amounts.
- 24 • All expenses associated with country club dues and fees for professional sports tickets are
- 25 recorded in below-the-line accounts.

1 **Q. Does the fact that you filed this rate case in accordance with the Authority's past**
2 **orders indicate that the Company agrees with each of the Authorities individual**
3 **decisions in those orders?**

4 A. No. As explained in more detail in Mr. Schiefer's testimony, it simply indicates that we
5 do not wish to relitigate those issues in this case.

6 **Q. You mentioned that the Company has not recognized the decision made by the**
7 **Authority on advertising expense in the last rate case. Would you explain why this**
8 **decision was not recognized in this filing?**

9 A. In our last rate case, the majority of the Authority² approved an amount equal to one-half
10 of the advertising expense filed by the Company, or approximately \$743,000. During its
11 deliberations, the Authority also ordered that a study be performed by its Staff "of the
12 appropriate allowance for advertising for all Class A utilities under the Authority's
13 jurisdiction."³ The results of the study were to be reported to the Authority no later than
14 May 31, 1997.

15 I am unaware of the results of that study. However, I have reviewed the Authority's
16 Order in the Chattanooga Gas rate case in Docket No. 97-00982 and determined that the
17 Authority did not employ the one-half rule in that case. Instead, the Authority adopted a
18 policy of applying the combined inflation and customer growth factor to the actual test

² Director Greer voted not to approve the one-half method

³ Order, Docket No. 96-00977, February 19, 1997, p. 10.

1 period amount.⁴ Thus, Chattanooga was allowed to recover \$430,670 in non-labor sales
2 promotion expenses (which includes advertising).

3 **Q. What approach did you use in projecting advertising expense in this rate case?**

4 A. I used the same method as approved by the Authority in the Chattanooga Gas rate case.
5 That is, I have applied the combined inflation and customer growth factor to the actual test
6 period amount.

7 **Q. Mr. Morris, you said at the beginning of your testimony that you are also responsible**
8 **for the revised Service Regulations filed in this case. Would you please describe why**
9 **these revisions are needed.**

10 A. Yes. In reviewing the Company's existing Service Regulations, I determined that the last
11 time any revisions had been made was in May, 1993. In fact, some of the sheets dated
12 back as far as 1983. I think it is safe to say that a review and update of our service
13 regulations was needed in light of regulatory and market changes. The revised Service
14 Regulations are included with my testimony as Exhibit___(BRM-2) and redline copies
15 comparing the revised sheets with the original sheets are included as part of the worksheets
16 filed in this case.

17 **Q. Please summarize the significant changes in the service regulations proposed in this**
18 **filing.**

⁴ Order, Docket No. 97-00982, October 7, 1998, pp. 34-36.

1 A. In my opinion, the most significant change proposed is a change in Nashville Gas' existing
2 main extension policy. The current main extension policy was approved in 1988. The
3 policy is predicated on a ratio method whereby the Company's investment is tied to gross
4 revenue to be received from the main extension. Specifically, the policy allows the
5 Company to invest an amount equal to two times the estimated annual revenue (EAR) to
6 be received from customers in new residential developments and up to three times the EAR
7 from customers in established residential neighborhoods.

8 The Company proposes to change its policy to allow main extension investments on
9 those projects that produce a positive net present value (NPV) over the life of the project.
10 The discount rate in the NPV calculation is equal to the overall allowed rate of return in the
11 Company's last general rate case. This methodology has been approved by both the North
12 Carolina Utilities Commission and the Public Service Commission of South Carolina for
13 main extensions in Piedmont's other two jurisdictions. It is my understanding that a
14 similar policy was approved for Chattanooga Gas Company in Docket No. 96-01174. We
15 feel that the proposed main extension policy is preferable to the existing policy because
16 gross annual revenues can vary significantly from one time period to another due to
17 fluctuating wholesale gas prices. Thus, the existing policy often results in one main
18 extension being approved when gas prices are at a high level and a similar main extension
19 being disapproved at another time when gas prices are lower. By focusing on margin rather
20 than revenues, customer will receive equal treatment regardless of the wholesale price of
21 gas.

22 We are also proposing to eliminate the current preference given to Company
23 employees under the existing main extension policy.

1 **Q. Please explain the other important changes being proposed to the service regulations**
2 **in this case.**

3 A. We are proposing the elimination of the provision for 200 feet of free service line for the
4 installation of gas air conditioning and heating which is currently included in Nashville
5 Gas' service line policy since we no longer add gas air conditioning customers to our
6 system. Additionally, we are proposing a change in our service line policy to provide for
7 100 feet of free service line for the installation of one major gas appliance where no main
8 extension is required. An additional 50 feet of free service line would be allowed for the
9 installation of each additional minor appliance such as an outdoor grill or fireplace logs.

10 We are proposing an increase in our reconnect fee from \$35 to \$50. Lastly, we have
11 proposed the elimination of the entire section pertaining to mobile homes.

12 **Q. Does this conclude your testimony?**

13 A. Yes, it does.

Affidavit

State of North Carolina)
)
County of Mecklenburg)

Bill R. Morris, being first duly sworn, deposes and says that he is the same Bill R. Morris whose prepared testimony and exhibits accompany this affidavit.

Bill R. Morris further states that, to the best of his knowledge and belief, his answers to the questions contained in such prepared testimony are true and accurate.

Bill R. Morris
Bill R. Morris

Sworn to and subscribed before me, a Notary Public, on this the 29th day of December, 1999.

Lee C. Ward

My Commission Expires:

My Commission Expires October 29, 2000

002672



**Piedmont
Natural Gas
Company**

Exhibit____(BRM-2)
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Nashville Gas Company Service Regulations

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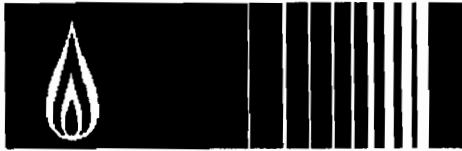
Section 2 - Meters

Section 3 – Fuel Lines

Section 4 – Service Lines

Section 5 – Mains

**Section 6 – Rules and Regulations Governing Supply
and Consumption of Gas**



Nashville Gas Company Service Regulations

Section 1 – GENERAL SERVICE POLICY OF NASHVILLE GAS

Nashville Gas (hereinafter referred to as "the Company") will make free service calls, within certain broad guidelines, around-the-clock on customer appliances connected to our mains. Those service requests requiring immediate attention will be answered as soon as possible. Those of less urgent nature will be answered on a scheduled basis according to the workload. In either case, the Company will make every effort to answer each customer's call promptly and to leave all appliances operating at maximum efficiency.

Free Services (1220-4-5-.06(iii))

The Company provides the following services at no charge to the customer during normal working hours (Mon - Fri, 8am - 5pm, excluding Holidays):

- Install gas meters and regulators for new customers
- Turn-on, turn-off, & service gas meters
- Check for gas leaks
- Investigate the possible presence of carbon monoxide
- Cut off pilots
- Disconnect appliances (disconnect & cap existing pipe only)
- Food Service equipment service including leveling, adjusting, or calibrating
- Diagnostic time or time to provide an estimate for jobbing work
- Quotes for appliance installation
- The first light-up and service call of the heating season on central furnaces (a flat charge applies for each additional light-up)
- Gaslight turn-on and re-lighting
- Service leased water heaters
- Service appliances other than central heating systems or gas air conditioners (no parts needed) including:
 - Service calls to diagnose problems
 - Check gas pressure
 - Adjust burners
 - Clean air mixers
 - Light pilots
 - Clean & adjust pilots
 - Examine flue connections & check draft
 - Check and calibrate thermostats & controls
 - Check appliance wiring & other electrical components
- Service central heating systems including floor furnaces and unit heaters

including:

- Service calls to diagnose problems
- Gas and air adjustments on burners and pilot assemblies
- Adjustments of controls and thermostats
- Minor electrical repairs that do not require materials
- Service Arkla, Bryant, and other gas-fired air conditioners including:
 - Service calls to diagnose problems
 - Gas and air adjustments on burners and pilot assemblies
 - Checks of controls and thermostats
 - Pumping of water-cooled units to maintain operation
 - Purging of non-condensables from air-cooled units

Note: When an appliance is not operating, every effort will be made to answer the call without delay, and in most circumstances, on the same day. Should repair work be required, parts needed to complete the repair will be ordered from the manufacturer and installed if the customer so desires. There is, however, a charge for this service.

The company will also provide immediate response to any hazardous situation that might cause threat to life or property after normal working hours (Mon – Fri, 5pm - 8am; Sat; Sun; & Holidays) at no charge, including:

- Fire or explosion
- Gas leak
- Damaged gas main or service (parts & labor may apply for third party damage repairs)
- Gas appliance that won't cut off
- Carbon monoxide investigation (E077 with symptoms)
- Leased water heater service within 24 hours

Services For Which There Are Charges

- Installation or connection of gas appliances
- Reconnects of gas appliances
- Repair of gas appliances where parts are needed (except central systems)
- Repair or replacement parts, electrical equipment, or thermostats on Arkla or Bryant gas air conditioners beyond Service/Warranty Contract
- Cleaning condensers and condensate lines on gas A/C units
- Gaslight repairs and reconditioning
- Miscellaneous pipe work
- Change outs and reconnects of food service equipment
- Repair of gas air conditioning units installed after January 1, 1975; units on which the Warranty/Service Contract has expired; and units or installations not approved by the Company's Service Department

- Work involving replacement of filters and out-of-warranty parts (charged on a "time and materials" basis)
- After hours work that requires a repair including commercial cooking and water heating equipment (the customer may be given the option for jobbing repair at the current overtime rate, if time and workload permits)

Work the Company Does Not Provide

- Replacement of filters in central heating equipment
- Installation, connection, or repair of unit heaters and central heating equipment
- Repair or replacement of unit heaters and other equipment requiring an electrician
- Repair or installation of gas appliances that are not AGA certified nor where gas appliances are not used in accordance with manufacturer listing
- Repairs on heating equipment that requires parts will not be made except on those units sold by Nashville Gas prior to May 1, 1974. In addition, the Company does not install furnace filters
- No work will be performed on electrical air conditioning units installed with a gas furnace (this work will be referred to the installer or mechanical contractor)

Termination Policy

Reasons for Termination of Service or Denial of Service (1220-4-5-.18)

Service may be refused or discontinued for any of the reasons listed below. Unless otherwise stated, the customer shall be allowed a reasonable time in which to comply with the rule before service is discontinued.

1. With notice in the event of a condition determined by the utility to be hazardous
2. Without notice in the event of customer use of equipment or the utility's service to others
3. Without notice in the event of tampering with the equipment furnished and owned by the utility
4. Without notice in the event of unauthorized use
5. For violation of and/or non-compliance with the utility's rules on file with and approved by the Tennessee Regulatory Authority
6. For failure of the customer to fulfill his contractual obligations for service and/or facilities subject to regulation by the Tennessee Regulatory Authority
7. For failure of the customer to permit the utility reasonable access to its equipment
8. For non-payment of bill provided that the utility has made a reasonable attempt to effectively collect and has given the customer written notice that he

- has at least five (5) days, excluding Sundays and holidays, in which to make settlement on his account or have his service denied
9. For failure of the customer to provide the utility with a deposit as authorized by 1220-4-5-.14 of the Tennessee Regulatory Authority Statutes
 10. For failure of the customer to furnish such services, equipment, permits, certificates, and/or rights-of-way, as shall have been specified by the utility as a condition to obtaining service, or in the event such equipment or permission are withdrawn or terminated.

Insufficient Reasons for Denying Service (1220-4-5-.19)

The following shall not constitute sufficient cause for refusal of service to a present or prospective customer:

1. Delinquency in payment for service by a previous occupant of the premises to be served
2. Failure to pay for merchandise purchased from the utility
3. Failure to pay for a different type of class of public utility service
4. Failure to pay the bill of another customer as guarantor thereof
5. Failure to pay a back bill rendered in accordance 1220-4-5-.17(a) of Tennessee Regulatory Authority Statutes.

Disconnection

The Company has the right to shut off gas from any consumer who may be in arrears for a longer period than twenty (20) days in paying for gas furnished hereunder or under any other prior or subsequent agreement, or for gas used by the consumer at the consumer's present or any prior subsequent address. The said twenty-day period commences to run from the date the bill was rendered. The Company will not shut off gas for non-payment without first mailing a notice to the consumer giving him seven (7) calendar days to pay the bill in arrears.

Reinstating Service

If natural gas service is disconnected for nonpayment, service will be restored after the customer has paid the total amount past due, paid the reconnection charge and paid a deposit.

Third-Party Notification

At the customer's request, the Company will send a copy of any disconnection notice to a designated third party. However, the designated third party is not responsible for paying the bill.

Medical Emergencies and Life Support Devices

The Company will delay disconnection of gas service for 30 days if a physician, public health officer or social service official certifies in writing that discontinuing gas service will worsen an existing medical emergency for a permanent resident of the premises where services are rendered. A prompt request is important. During the 30-day extension, payment of the bill must be guaranteed by another person or entity that is acceptable to the Company.

The Company will not disconnect service at the service address if there are natural gas appliances that are critical to maintaining the health of one or more permanent residents. The Customer Service Department must be contacted to determine whether a gas appliance is considered a life-support device.

Notice of Rights and Remedies

Should the Customer request help in paying his natural gas bill the Company will provide the customer with a list of community agencies that provide aid in paying their natural gas bill. The company will also, in some cases, make alternative pay arrangements if the customer is temporarily unable to pay his natural gas bill. However, if such an agreement is made the customer gives up their right to dispute the amount due under the agreement. If the customer does not fulfill the terms of the agreement, the Company may disconnect service and a new pay agreement will not be offered before we disconnect service.

If the Customer wants to appeal an unfavorable decision regarding a natural gas bill, they may contact the Tennessee Regulatory Authority's Complaint Division, 460 James Robertson Parkway, Nashville, TN 37219 (615-741-3939 or 800-342-8359). This must be done before the net due date if the dispute involves a disconnection notice. The Company will not disconnect service for nonpayment of the disputed portion of the bill while it is being reviewed. The Customers right to appeal will not expire if delay on the Company's part makes it impossible to contact the TRA within the required time period. The Customer also has the right to suspend payment of the disputed portion of the bill while the dispute procedures mentioned above are in progress.

Customer Classifications

Residential

Residential service applies to single private residences, including separate private units of apartment houses and other multiple dwellings, actually used for residential purposes, which are separately metered. A dwelling shall be considered non-residential which has more than one apartment or condo on the same meter. A

duplex, for example, shall be considered residential only if each of the two units is separately metered. A residential dwelling will also be considered commercial if in the Company's judgment such dwelling and/or usage is identifiable as being used primarily (more than 50%) for business or professional purposes.

Commercial

Commercial service applies to customers engaged in selling, warehousing, or distributing a commodity or service in some business activity or profession or in some other form of economic or social activity. For example, and not by way of limitation, all local, state and federal governmental agencies, any organizations or institutions whether profit or non-profit, with uses other than those involving industrial or residential requirements are classified as commercial customers. Also included are offices, stores, schools, dormitories, hotels, restaurants, apartment houses, religious institutions, orphanages, clubs, boarding and rooming houses, communes, motor courts, camps, and rehabilitation organizations.

Industrial

Industrial service applies to customers primarily engaged in a process that creates or changes raw or unfinished materials into another form of product, including the generation of electric power.

Firm Service

Firm service applies to those schedules or contracts under which the Seller is expressly obligated to deliver specific volumes within a given time period and under which the Seller anticipates no interruptions. This obligation does permit unexpected interruption in those cases where the supply to higher priority customers is threatened.

Interruptible Service

Interruptible (Limited Availability) service refers to those schedules or contracts under which the Seller is not expressly obligated to deliver specific volumes within a given time period. This category of service anticipates and permits interruption on short notice, or service under schedules or contracts that expressly or implicitly require installation of alternate fuel capability.

Temporary Customers

The following are classed as temporary customers:

- People living in rented, electrically heated houses with electric water heaters

- People using construction shanties, temporary buildings, trailers, concession stands, and similar structures
- People living in houses or using business structures in such bad state of repair that it appears likely they will be demolished or condemned within five years
- People living in houses or using business structures where it appears probable that the house or building will be demolished within five years because of urban renewal, highway construction, or the like
- People living in or using mobile homes other than those meeting the requirements set forth in Section 6.

Priority of Service

The Company has established the following categories of service in order of priority:

1. Residential, small commercial (less than 50 MCF on a peak day), school, hospital, police protection, fire protection, sanitation, or correctional facility requirements
2. Essential agricultural requirements
3. Large commercial requirements (50 MCF or more on a peak day), firm industrial requirements for plant protection, feedstock and process needs, pipeline customer storage injection requirements, and firm industrial sales up to 300 MCF per day
4. All industrial requirements not specified in 2, 3, 5, 6, 7, 8, 9 or 10
5. Firm industrial requirements for boiler fuel use at less than 3,000 MCF per day, but more than 1,500 MCF per day, where alternate fuel capabilities can meet such requirements
6. Firm industrial requirements for large volume (3,000 MCF or more per day) boiler fuel use where alternate fuel capabilities can meet such requirements
7. Limited Availability requirements of less than 300 MCF per day, where alternate fuel capabilities can meet such requirements
8. Limited Availability requirements of more than 300 MCF per day but less than 1,500 MCF per day, where alternate fuel capabilities can meet such requirements
9. Limited Availability requirements of intermediate volumes (from 1,500 MCF per day through 3,000 MCF per day), where alternate fuel capabilities can meet such requirements
10. Limited Availability requirements of more than 3,000 MCF per day, but less than 10,000 MCF per day, where alternate fuel capabilities can meet such requirements
11. Limited Availability requirements of more than 10,000 MCF per day, where alternate fuel capabilities can meet such requirements.

Meter Turn On

There is no charge for meter turn on for a new customer. There will be a flat charge for meter turn on for an existing customer or member of same family or household. For turning on meters shut off for non-payment of bills there will be a flat charge for meter turn on plus payment of all past due bills. The Company may also secure an additional customer deposit. If an existing customer requests that his/her meter be turned off for the summer to avoid minimum bills during the summer period and then requests the Company to turn the meter back on, the flat charge for meter turn on will apply.

Gas Wastage (1220-4-5-.06(iv))

Excessive gas consumption without knowledge by the customer may possibly be the result of gas leakage or appliance malfunction. Gas bill adjustments generally will not be permitted for improper and/or inefficient operation of gas appliances or for gas leaks. Adjustments for all special cases will be based upon individual merit dependent upon such factors as prompt action by the customer, the nature of the problem, maintenance of facilities by the customer, the time period involved, etc. An example might possibly be a hot water relief valve stuck open or a broken hot water line on a gas water heater. All such special adjustments shall not exceed 35% of the wastage and shall be approved by the Director of Customer Service (residential) or the General Manager of Marketing (commercial). Wastage shall be based on Service Department inspection or Customer Service Department researches. The Director of Customer Service shall determine consumption rates. Duration of the adjustment shall not exceed 30 days. Where such gas appliance malfunction or gas leakage was directly caused by actions of Company personnel or occurred within 30 days of the date the work was performed by Company personnel, the Company will grant 100% credit of wastage to the customer. The amount of wastage will be approved by the Service Superintendent and not exceed a period of 30 days.

Title to Facilities

The title to all facilities including mains, gas service lines, meters, and accessory equipment up to and including the outlet of the meter assembly shall be vested in the Company, notwithstanding any charge which may be made to the customer for extending service.

Appliance Classifications

Major appliances

- central heating systems

- circulating heater*
- floor furnaces
- gas air conditioners
- water heaters

* A circulating heater will be considered as a major appliance when it has all of the following features:

1. Has an input rating of 40,000 BTU per hour or greater (two or more smaller vented circulating heaters having a combined output of 40,000 BTU or more will be considered as one major appliance)
2. Is used for heating throughout the heating season
3. Is the major source of space heating in the building

Minor appliances

- clothes dryers
- gas fireplaces
- gaslights
- grills
- incinerators
- log starters
- logs
- ranges
- swimming pool gas water heaters

General Installation / Connection & Repair Policy

The following regulations are applicable for residential natural gas appliance connections on Nashville Gas lines. The delivery and uncrating of the appliance is the responsibility of the customer/dealer. The connection/installation of commercial and/or industrial gas appliances is the responsibility of dealer. All natural gas appliance installations on Nashville Gas lines shall comply with the provisions of the Southern Gas Code (SBCCI), as updated. All appliances must also be AGA approved. The Company reserves the right to refuse to connect those appliances which, in its judgment, do not conform to appropriate safety requirements.

Space Heaters and Central Heating

The Company will provide free of charge: a service call to diagnose the problem, gas and air adjustments on burners and pilot assemblies, adjustments to controls and thermostats, and minor electrical repairs not requiring material. The Company shall not make repairs to gas furnaces other than pilots, thermocouples, or other parts we normally stock. A heating

contractor, preferably the one who installed the equipment, will perform such repairs. The Company does not install air filters. The Company will make repairs to gas heating equipment that was installed by the Company. Such repairs will be charged to the customer on a "Time and Material" basis or at a flat charge if so provided for herein.

A Gas Furnace Safety Inspection is provided without charge by the Company and covers the following:

1. Check for gas leaks at the meter and on the customers' gas fuel lines.
2. Check furnace vent.
3. Safety inspection of the gas fired equipment to ascertain that safety and other limit controls are operating correctly.
4. Safety inspection of the furnace combustion chamber to determine if cracked or unsafe.

A Gas Furnace Operational Inspection is provided at the request of the Federal Housing Authority, Veteran's Administration, HUD, real estate/mortgage firms, or other parties interested in a more thorough operational inspection of the gas fired heating equipment. Such requests should be initially referred to the Marketing Department. There is a charge for this inspection that includes the following:

1. Check for gas leaks at the meter and on the customers' gas fuel lines.
2. Check furnace vent.
3. Safety inspection of the gas fired equipment to ascertain that safety inspection and other limit controls are operating correctly.
4. Inspection of the combustion chamber for safety (check for cracked chamber) and for operational purposes to determine the condition of furnace.
5. Calculate actual equipment input rate (Btu/h) to determine if the burner is operating in accordance with the manufacturers' instructions and rating plate.
6. Make an inspection of the air delivery system to check for the condition of ductwork and delivery of reasonable air volumes.
7. Provide a written report to the client on findings of Operational Inspection.

Automatic Vent Dampers

Automatic vent dampers that are AGA certified and UL listed are acceptable. Dampers must be installed in accordance with the manufacturer's instructions. The name of the qualified installing agency must be affixed to the damper. The vent damper must be so installed and wired so that upon failure it will "fail safe" in the open position. If not, the damper and the associated gas appliance will be red-tagged and turned off. The Company will not install, repair, or provide service on the damper installation. In the instance of a malfunction or a retrofit damper installation, the Company will secure the damper in a "make safe" position and advise the customer to secure repair through the distributor,

manufacturer, or installing dealer. The Company does not endorse any specific brand unit and does not endorse or guarantee any claimed energy savings.

Unvented Gas Heaters

The use of UL listed unvented natural gas space heaters is permitted in accordance with the Southern Gas Association Code. However, they may not be located in bedroom areas or sleeping quarters, nor in confined areas where the listed total input rating of such heaters is greater than 30 BTU/HR/CF of space volume (confined space definition).

Further, the gas meter will not be turned on in the following cases:

- Where unvented heaters are the primary source of heat in a residence
- Where unvented heaters are the primary source of heat in commercial or industrial structures unless specifically approved by the Service Superintendent or General Superintendent as being unconfined space and adequately ventilated

Gas Air Conditioning

On Arkla, Bryant, and other gas-fired air conditioning units connected to our lines, the Company will provide the following services without charge to the customer:

1. Make service call to diagnose the problem.
2. Perform gas and air adjustments to all burners and pilot assemblies.
3. Check thermostats and controls.
4. Pumping of water-cooled units in order to maintain operations.
5. Purging of non-condensables from air-cooled units.

Other than that described above, and unless specifically covered under appropriate customer Warranty/Service Contract, service work involving repair or parts replacement will be charged to the customer on a "Time and Material" basis. The General Manager of Marketing or the Service Superintendent will determine any exceptions. On request by customer, the Company will replace air filters on gas air conditioning system on our lines for a flat charge, regardless of the number of filters required per job. This will apply to plain flat filters only, not bag or other types.

Water Heaters

All installations of and repairs on water heaters purchased from Nashville Gas will be charged on a "Time & Material" basis. The Company will provide dip tube replacement, thermostat control, and other repairs to the residential customer for a charge based on "Time & Material". For repairs of commercial gas water heaters, the customer is to be referred to local dealer or plumber.

Dryers

Installations of and repairs on residential gas clothes dryers will be charged on a "Time & Material" basis. Repair requests on commercial gas clothes dryers, other thermocouples or other parts normally stocked by our storeroom, will be referred to the appropriate dealer for servicing.

Gas Grills

The Company, as part of its free service program, will make burner air and gas adjustments, check controls, and assist in problem diagnosis on a no-charge basis. Installations of and repairs on gas grills will be charged on a "Time & Material" basis. Cleaning and painting of the grill will be the responsibility of customer. The Company may also perform the following:

1. Post Replacement: Gas grill posts will be replaced for "Time and Material." If a special post must be fabricated, the cost of the installation and post will be "Time and Material."
2. Repairs to Cut or Damaged Tubing: If repair to tubing is performed by the Company, the charge will be "Time and Material". A service representative can sometimes perform this work, but generally a three-man fitting crew is required.
3. All Other Repairs – All other repairs will be performed at "Time and Material".

Gaslights

With regard to gaslights, the Company will turn on, re-light and replace mantles without charge to the residential customer. Should the residential customer wish to replace the mantles himself, the Company will, upon request, mail to him replacement mantles for residential use in his gaslights without charge. Residential customers may also pick up free replacement mantles for use only in their gaslights at the Company's storeroom. The same gaslight service policies apply to commercial/industrial customers except they will be charged for the mantles. Subdivision entrances and multi-family developments do not qualify for residential use. Services do not include the painting of gaslights or glass cleaning; these are considered the owner's responsibilities.

The Company will recondition the customer's gaslight, including replacement of mantles, cleaning and/or replacement of glass panes as required, and painting repair of gaslight as necessary, for a flat labor charge plus cost of replacement parts (other than mantles). In the case of multiple gaslights on the same piece of property, the labor charge shall apply only to the first light. For each additional light on the same property, an additional charge

plus parts (other than mantles) will apply. The same policy applies to commercial customers except they will also be charged for mantles. Installation of and repairs on gaslights will be charged on a "Time & Materials" basis. The Company may also perform the following:

1. Post and/or Light Head Replacement: Post only replacement will be performed by the company on a "Time & Material" basis. All customers needing to purchase a gaslight head will be referred to the Home Energy Center.
2. Repairs to Cut or Damaged Tubing: If repair to tubing is performed by the Company, the charge will be "Time & Material". A service representative can sometimes perform this work, but generally a three-man fitting crew is required.
3. Complete Replacement: The customer shall be referred to the Company's Home Energy Center. If the customer provides a replacement light head and post of the same basic type, the Company will connect the replacement, charging the customer on a "Time & Material" basis.
4. All Other Repairs: Other repairs will be performed on a "Time & Material" basis.

Gas Logs & Log Starters

All installations of or repairs on gas logs and log starters will be charged on a "Time & Material" basis.

Other Miscellaneous Residential Gas Appliances

All installations of or repairs on other approved gas appliances will be charged on a "Time & Material" basis.

Customer Options

In those instances where a flat charge for connection/repair is listed, the customer may elect prior to our performing the work involved to be charged on a "Time & Material" basis rather than the flat charge. However, having elected to take the T&M option, after the work is completed that decision cannot be reversed and customer will be charged on the "Time & Material" basis. All customer charges described herein are subject to change by the Company.

Appliance Parts Broken by Company Personnel

From time to time when our service personnel are repairing a customer's gas appliance, other adjacent parts become broken during the course of the repair. Such instances leave

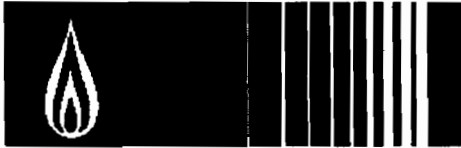
of 16appliances at the same time, shall be "Time and Material". Conversion of furnaces or other appliances will be done on "Time and Material" basis.

Commercial

Conversion of AGA approved residential gas appliances or commercial gas appliances in a commercial structure will be performed on a "Time and Material" basis. Service line and meter installation will be on the same basis as any other new customer. Any necessary fuel line, house piping and appliance connection will be done on a "Time and Material" basis.

Temporary Conversions to Liquid Propane

When deemed necessary by Nashville Gas, new construction and conversion customers will be temporarily converted to liquid propane at no charge. The conversion back to natural gas will also be performed by Nashville Gas at no charge.



Nashville Gas Company Service Regulations

Section 2 – METERS

Installation & Location

The Company performs standard meter installation at no charge to the customer. However, a customer desiring an underground meter installation will be charged for the additional cost. The most desirable and serviceable location for a new residential meter installation is on the outside of the structure, approximately four feet past the front wall, where it is not subject to damage from automobiles. The new meter shall be so located unless it is physically impractical or it interferes with customer's use of his property. If a problem arises, the Service Superintendent and General Manager of Marketing will make a decision on a location after consulting with the Construction Superintendent. Underground meter locations will not be used except as approved by the Vice President of Tennessee Operations.

The proper meter location for large outside commercial or industrial meters, especially those having multiple structures, is at the property line wherever possible. Under no circumstances shall a meter be located within 10 feet of a combustion air intake. Further, meters shall not be located within 3 feet of an ignition source such as heating or air conditioning equipment, water heaters, electric meters, switch gear, electric panels, etc.

The customer or owner must at all times provide a proper and accessible location for all meters and regulators. The following rules apply as well:

1. All meters installed on high-pressure services must be installed outdoors.
2. All "farm tap" meters shall be located at the main.
3. All meters served from standard and medium pressure mains shall be installed outdoors, except in those instances in which it is extremely difficult to do so or is very undesirable from the customer's viewpoint. In such cases, the meter may be installed indoors, at the discretion of the Company, if the installation conforms to applicable codes.
4. If a customer desires to use gas solely for swimming pool water heating, the meter shall be located at the house and the fuel line run from this point to the pool heater.
5. If located indoors, the meter shall not be located:
 - a. Above the ground floor
 - b. Less than 3 feet from a hot air furnace or boiler
 - c. Less than 3 feet from a gas oven or hot water heater
 - d. On or under stairways
 - e. In bathrooms or adjoining clothes closets
 - f. In small, unvented, or confined spaces

- g. Where subject to damage, extreme high temperature, or corrosion
- h. In entrances or exits so as to obstruct passage in any way
- i. Less than 10 feet from boilers or other sources of heat, if the meter capacity is 80B or larger

Meter Relocation

Outside meters will be relocated when requested by the customer, however, the customer will be charged Time and Material.

Meter Testing

The Company maintains a regular program of meter testing and change-out to insure metering accuracy. Upon written request from the customer for a special test of his meter, the Company will inspect the meter at a reasonable time in accordance with provisions of Rules, Regulations and Statutes Governing Public Utilities as issued by the Tennessee Regulatory Authority. Such meters will be considered to register correctly if the error is not greater than plus or minus two percent (2%). If the meter is found to be registering incorrectly, the meter will be repaired or adjusted to conform to standards with no charge to the customer for testing or repair. If the meter is registering correctly, there will be a meter testing charge to the customer.

Meter Tampering or By-pass

The term "metered gas" is defined as "all gas that has passed through the customer's meter." It is Company policy to prosecute those persons involved where the Company finds evidence of meter tampering or by-pass. Such acts are illegal, as well as extremely dangerous, and Tennessee State Law provides for substantial punishment. In such cases, the customer or party involved will be charged for all gas used and the cost of meter repair including travel time and all other related expenses on a "Time and Materials" basis. At the Company's option, gas service may also be terminated. The Regional Customer Service Manager, the Manager of Meter Reading, and the Service Superintendent will handle such investigations.

Meter Damage

The customer has a responsibility to provide reasonable protection for the Company's metering facilities from damage by his employees, customers, and the general public. It is not, however, his equipment and he cannot be expected to provide security such as guards, surveillance, enclosures, etc. to protect the Company's meters from acts of vandalism or from the general public. The Company selects and approves meter locations.

If a location is in a drive, parking lot, alley, etc. where damage is likely, then it is the Company's responsibility to provide adequate protection such as posts, etc. In cases where the Company's metering facilities are damaged, the Service Department shall conduct investigations of the incidents. The Chief Engineer will approve all proposed meter damage bills after consultation with the General Manager of Marketing and the Service Superintendent. With regard to actual damage responsibility, the following applies:

1. If the customer or his employees cause damage (accidentally or purposely), then the customer should be billed for damages.
2. If a visitor, commercial vehicle, or general public vehicle damages a meter, damage relief should come from that person or firm causing the damage. Damage relief shall not come from the customer, unless it can be proven that the damage by a third party resulted from negligence on the customer's part.



Nashville Gas Company Service Regulations

Section 3 — FUEL LINES

Customer gas fuel lines installed on Company mains shall comply with provisions of the Southern Gas Code (SBCCI), the appropriate gas code recognized by the Metropolitan Government of Nashville and Davidson County, Nashville Gas, or other county regulations. The care and maintenance of all customer-owned underground fuel lines is the responsibility of the customer. All piping carrying metered gas is considered a fuel line. When in place in a finished building, hidden from view and not easily accessible, the piping is considered a concealed fuel line. All fuel lines will be (a) standard threaded and coupled or welded steel minimum schedule 40 pipe (depending on operating pressure), or (b) plastic pipe or tubing of the following types: TR-418 PE 2306 — orange color, Drisco 7000 or 8000 PE 3406 — black color, or approved equal.

Fuel Lines May

- Be installed underground in accordance with applicable codes to include corrosion protection.
- Be installed to serve any number of buildings if all the buildings are located on a single or continuous tract of land with common ownership.
- Be concealed if installed in accordance with applicable codes.

Fuel Lines May Not

- Be smaller than 1-1/4" coated steel or 1-1/8" x.090 wt Polyethylene (PE) tubing if installed underground (unless serving only gaslights, grills, or logs). Fuel lines to remote heating units may be smaller as approved by the Service Department. The Service Department will determine the size of fuel lines for mobile homes.
- Extend to or across property under different ownership.
- Cross any public street, alley, or highway. Fuel lines shall be sized to have a minimum pressure drop between the meter outlet and any appliance of 0.3-inch water column. Those fuel lines served from standard pressure distribution systems will be sized on 0.2-inch water column pressure drop.

Installation Charges

All fuel lines will be installed at the customer's expense with one exception: when determined necessary, the Company may choose to install a fuel line instead of a service line. In this event, ownership with maintenance responsibility shall remain with the customer. In such cases, footage of fuel line installed shall be equal to the footage of

service line that would be "free service" if the customer were served in the usual manner (a "farm tap" customer is an example). Charges for residential underground fuel lines will be "Time & Material." Pre-installation estimates may be obtained from the Service Department (for plastic tubing) or the Construction Department (for all other underground fuel lines). The customer at his expense will replace any sidewalk or pavement cut. The customer will be charged "Time and Materials" for all fuel line repairs (excluding tubing to gaslights and grills) made by the Company.

Commercial or Industrial Fuel Lines

Commercial or Industrial fuel line piping work requests shall be referred to local plumbing contractors, except in special cases as approved by the Superintendent of Construction and the General Manager of Marketing. If the Company installs a customer's underground fuel line, the charge will be "Time and Materials."



Nashville Gas Company Service Regulations

Section 4 – SERVICE LINES

Service lines are pipes used to carry unmetered gas from the main to the customer's meter. The preferred route of the service line will be from the nearest adequate main to four (4) feet beyond the customer's nearest building wall. Service lines, service relocations, and extensions may be installed in accordance with applicable codes by either the Company or by a contractor approved by the Company. The complete installation must be inspected and approved, prior to being backfilled, by the appropriate Company representative. In general, service lines should not be laid on vacant property adjoining the building to be served if there is likelihood that a building will be constructed on the vacant property. Service line installation policies are subject to conditions of gas supply and the Company's limited service attachment programs.

Customer Types

Residential

The Company will install free of charge 100 feet of service line for one major appliance where no main extension is required. An additional 50 feet of service line shall be installed free of charge for each additional appliance. These footages refer to the service line between the customer's property line and four (4) feet past the nearest outside building wall. The customer shall replace any sidewalk or pavement on his property that is cut.

For service lines to supply appliances not included as major appliances, the customer shall be charged the Company's actual cost for the entire length of the service line from the main to the meter. However, this rule shall not be construed as prohibiting the Company from installing service lines for certain groups of minor appliances as long as the installation is made under more favorable terms to the customer and no discrimination is practiced between customers whose service requirements are similar.

Commercial or Industrial

For permanent use and where revenues justify, the Company will install free of charge 100 feet of service line measured from customer's property line or four feet past the nearest building wall, whichever is less.

Charges

The facilities to be installed by the Company as described above will be at no cost to the customer if (1) at a minimum the customer will be installing central gas heating or gas water heating, (2) the gas service line extends along the route selected by the Company and (3) the length of the gas service line is no greater than allowed, as shown above. In the event that the above conditions are not met, the service line installed for the customer must provide a reasonable return to the Company. If the customer wishes the facilities to be constructed along a route other than the route selected by the Company and/or if the gas service line is more than the length allowed above and/or the service to be rendered to the customer will not produce a reasonable return to the Company, the Company may require the customer to pay the excess cost of constructing the facilities along the alternate route or in excess of the footage allowed and/or to make a contribution which will permit the Company to earn a reasonable return. In all cases any pavement or sidewalk cut will be replaced by and at the customer's expense.

Exceptions

In cases where there is exceptional cost due to length of service, paving (such as crossing major street), rock, etc., these service orders shall be reviewed by the Engineering Department on a case-by-case basis to determine if revenue received will justify the added expense. The Chief Engineer and the General Manager of Marketing must approve these exceptions. Examples: A residence may have several hundred feet of excess service line but the revenue would justify the added expense of the service line or a customer may have a small revenue and the paving cost would be so great as to make it uneconomical.

Excess Service

Excess service refers to that portion of the total cost of a service line installed for a customer that is in excess of the Company's justifiable investment and is that portion of service line cost paid for by the customer. A customer may pay the excess service charge with cash or credit with approval, and may spread the cost over three years on a monthly installment payment basis. Interest will be computed on the unpaid balance at a rate of 1.5% monthly.

Repairs

Repairs to service lines damaged by others shall be charged at the Company's actual repair costs.

Service Extensions

A service extension includes all piping carrying unmetered gas from the termination of the previous service line to the inlet of the meter. Service extensions and relocations shall be installed at the customer's expense.

Branch Services

Branch services will be permitted only when the point of junction of the two services is either in the public right-of-way or on a customer's property. In the latter case, written and notarized permission of the property owner must be obtained and filed with the Register of Deeds of the appropriate county. In the case of services requiring in-line valves, the service must be branched in the public right-of-way, and the Construction Department must confirm presence of a valve in each branch.

Multiple Buildings on Same Lot

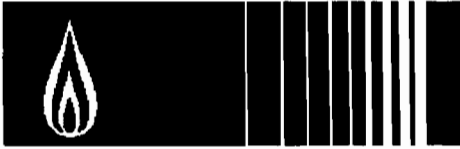
In those cases where two or more buildings are located on the same lot in such a manner as to be reasonably suited to subdividing, the Company will, if requested, run separate service lines to these buildings. However, if the buildings are not so situated (e.g. garage apartments or combination commercial and residential buildings), the Company will not run separate services except where the full cost of the additional service from main to meter, including paving, is borne by the customer.

Service Line Enlargements

If the load through an existing service is so increased as to require a larger service line, the Company will enlarge the existing service to a point four (4) feet beyond the customer's nearest outside building wall without charge. Any enlargement of the service line beyond this point will be at the customer's expense. Any fuel line changes will be at the customer's expense.

Shopping Centers

A shopping center shall be considered as a single structure containing a minimum of 7,500 square feet of floor space and a minimum of four (4) tenants or business stores operating within the structure. The Company shall install one service line and one bank of gas meters for each 12,000 square feet of floor space. The final number of meter banks shall be at the discretion of the General Manager of Marketing, based upon the size and layout of the particular shopping center under consideration.



Nashville Gas Company Service Regulations

Section 5 – MAINS

The Company has a policy of extending its main(s) to serve a new customer (or customers) provided such main extension is determined to be economically feasible. The criteria for economic feasibility shall be met when the total annual net revenue to be obtained from the customer (or customers) provides a rate of return that is equal to or greater than the overall cost of capital established in the Company's last general rate case.

The determination of the anticipated rate of return on the main extension will be based on a net present value (NPV) computation utilizing the following parameters:

1. Net revenues will be calculated by applying the applicable tariff margin rate to the estimated annual total usage.
2. Estimated annual total usage shall be based on those appliances that will be in use during the first five (5) years of service, except as provided in paragraph 3 under "Main Extension Contract".
3. The required investment will be based upon engineering cost estimates as determined by the Company and will include the costs of all facilities required for providing service including material and labor costs associated with the installation of mains, service lines, metering and regulating equipment, easements, rights of way, street crossings, and all other required equipment or facilities.
4. The discount rate shall be equal to the overall cost of capital allowed in the Company's last general rate case adjusted for taxes and depreciation.
5. The discount period shall be equal to the economic useful life of the investment in the mains and services.
6. Main extensions producing a positive net present value at the end of the discount period shall be considered economically feasible.

Main Extension Contract

To the extent the net present value computation produces a negative result:

1. The customer shall pay to the Company an amount equal to the negative net present value at the end of the discount period, plus any additional funds required to provide for the payment of resulting taxes. This payment may be made in a lump sum or in periodic payments (without interest) – annual, monthly, etc.
2. If within three (3) years after the original installation, the customer making the payment adds additional major or minor appliances, the Company will refund to the customer (if paid in advance or credit his account if on extended terms), upon written request, an

amount equal to the net annual revenues anticipated to be realized from the usage of the additional appliance(s).

3. If within three years after the original installation additional customers are connected to the main then the Company shall refund (or credit his account) to customers making the payment, upon written request, an amount equal the net annual revenues anticipated to be realized from the additional customer(s).
4. In no case shall the customer making the payment be refunded more than he paid.

The above provisions assume that only one customer will make the payments. If two or more customers make the payment, the contract will be adjusted to reflect this fact; for example, if two customers made equal payments and a refund is due because one of the two has added an additional appliance, then the entire refund shall be paid to him.

Exceptions

This rule shall not be construed as prohibiting the Company from making extensions requiring larger investment than that specified above if the extension is made under more favorable terms to the customer and no discrimination is practiced between customers whose service requirements are similar.

The Company may also make exceptions to the main extension rule when system improvements are realized by the extension or when the extension would enhance the opportunity of adding new customers in the near future.

Main Relocation

If a customer requests a re-routing or relocation of a main located on a public right-of-way, the customer will be charged for this work. If the main is located on private property, such as an easement, railroad right-of-way, the case will be referred to the Engineering Department for determination as to whether a charge shall be made. The same will apply to relocations or re-routings requested by a contractor. Repairs to mains damaged by a contractor will be charged to the contractor on a "Time and Materials" basis.

Aboveground Facilities

If the above-ground facilities (such as post regulators, vent pipe, etc.) are so located that they seriously interfere with, or make impracticable, the owner's use of this property, the relocation of such facility will be done at no cost to the customer. An example of serious interference would be when the aboveground facility was located in front of a proposed narrow driveway. In all other cases, the cost of relocation will be charged to the customer. In those cases where it is difficult to determine whether the customer is to be charged for

the relocation, the decision shall be made by the Vice President of Tennessee Operations. The charge, unless specified for any of the above items, will be either of the following, at the customer's option, prior to commencement of work:

1. Estimated cost as determined by the Construction Department
2. Actual cost



Nashville Gas Company Service Regulations

Section 6 - Rules and Regulations Governing Supply & Consumption of Gas

The consumer agrees to the following rules and regulations, having made proper application and deposit for service with Nashville Gas Company.

1. Consumer is responsible for damage to any gas meter or equipment belonging to the Company placed on the premises occupied by the consumer and will immediately reimburse the Company for all costs of repairing or replacing same. In accordance with Item (1), Section 1220-4-5-. 18, Reasons for Denial of Service of the Tennessee Regulatory Authority's Rules and Regulations, a consumer may be refused service if consumer has damaged the Company's equipment or tampered with the lock on a meter. The Company will charge \$45.00 for a broken meter lock.
2. Consumer will use gas supplied through Company's meter only. Use of other metering devices or bypassing equipment and tampering or adjustments on company-owned metering facilities by consumer are prohibited. The Company will not permit secondary meter billing.
3. In case the meter has failed to register the quantity of gas consumed, in whole or in part, the consumer will pay such reasonable sum as is ascertained to be due for the period involved.
4. The Company's authorized agents shall have access to consumer's premises at all reasonable times for the purpose of checking, reading, servicing, and disconnecting the meter; shutting off gas; and for such other purposes as the Company may deem advisable to protect its interests.
5. The Company shall be under no duty to inspect, repair, or maintain the service of other pipes, connections, equipment, or appliances located beyond the meter outlet on the premises of the consumer.
6. The consumer shall be liable and shall pay for all gas passing through the meter until it is turned off. When termination of service is requested, consumer must ensure that the Company receives either written or verbal notice at least two days prior to the desired date of termination. Access to the meter must be provided.
7. The consumer is entitled to the usual discount allowed by the Company if bills are paid within the first twelve days following the date bills are rendered. All gas bills are due when rendered and they will be considered as rendered when mailed to the address specified by the consumer. A residential, head of household consumer dependent on social security or other retirement check may request a net to gross

- discount waiver. Qualified consumers will be granted a net to gross discount waiver and the account will be monitored for continuing compliance.
8. The Company shall have the right to shut off gas from any consumer who may be in arrears for a longer period than twenty days in paying for gas furnished hereunder or under any other prior or subsequent agreement, or for gas used by consumer at consumer's present or any prior or subsequent address, it being understood hereby that said twenty day period commences to run from date the bill is rendered as above defined. The Company will not shut off gas for non-payment without first mailing a notice to the consumer giving him seven days to pay for the bill in arrears.
 9. The Company is authorized to require the consumer to make a deposit, or increase any existing deposit, in such amount as the Company deems proper for its protection before restoring gas service. The deposit amount will not exceed two consecutive billing periods or ninety (90) days, whichever is less.
 10. If a consumer is found using gas service without having made proper application and deposit, a notice to the consumer will be delivered to the premises and the consumer will be allowed four days in which to make proper application before the service is discontinued.
 11. All consumer deposits will accrue simple interest on the principal at the rate of six (6) percent per annum.
 12. The Company will charge \$50.00 for turning on a meter for an existing consumer or member of the same family or household at same address. This charge applies only to those consumers who have previously elected to have the meter turned off without discontinuing service or whose account has been closed because of non-payment of a bill.
 13. In the event gas is shut off because of consumer's failure to pay, a charge will be made for each restoration. The Company will charge \$50.00 plus payment of past due gas bills for turning on meters shut off for non-payment of bill. The Company will not be liable for damages for shutting off gas or for delay in restoring service. An additional deposit may also be required.
 14. The consumer agrees to notify Company in advance of any planned change in physical premise or environment around meter or service to determine impact on safety cases, meter reading, and meter maintenance.
 15. In the event the Company is unable, wholly or in part, by reason of force majeure to carry out its obligations to provide service, the obligations of the Company so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused but for no longer period, and such cause shall as far as possible be remedied with all reasonable dispatch. The term "force majeure" as employed above shall mean acts of God; extreme weather conditions; strikes, lockouts, or other industrial disturbances; acts of the public enemy; war; blockades;

insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; storms; floods; washouts; arrests and restraints of governments and people; civil disturbances; explosions; breakage of or accidents to machinery, lines of pipe, or the Company's peak shaving plants; freezing of wells or lines of reduction in gas pressure by its suppliers; inability to obtain rights-of-way, permits, materials, equipment, or supplies for use in the Company's peak shaving plants; and any other causes whether of the kind herein enumerated or otherwise, not within control of the Company, and which by the exercise of due diligence the Company is unable to prevent or overcome. It is understood and agreed that the settlement of strikes or lockouts shall be entirely within the discretion of the Company, and the above requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts when such course is inadvisable in the discretion of the Company.

16. When the Company in its discretion determines that it is necessary to curtail service to maintain the integrity of its distribution system or to provide for its or the public's safety, the Company shall have the right to curtail delivery of gas to any consumer.
17. In the event of a failure or interruption of service, the Company shall use all reasonable diligence to remove the cause or causes thereof, but the Company shall not be liable for any loss or damage resulting from such failure or interruption due to accidents, force majeure, extreme weather conditions, or causes beyond its control.

Tennessee Regulatory Authority

Docket No. _____

In the Matter of

**Application of Nashville Gas Company, a
Division of Piedmont Natural Gas Com-
pany, Inc., for an Adjustment of its Rates
and Charges, the Approval of Revised
Tariffs and the Approval of Revised
Service Regulations**

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**Testimony of Donald A. Murry
on Behalf of
Nashville Gas Company,
a Division of
Piedmont Natural Gas Company, Inc.**



BEFORE THE
TENNESSEE REGULATORY AUTHORITY

PREPARED DIRECT TESTIMONY
OF
DONALD A. MURRY, Ph.D.

On Behalf of
NASHVILLE GAS COMPANY
A DIVISION OF
PIEDMONT NATURAL GAS COMPANY

1 Q. Please state your name and business address.

2 A. My name is Donald A. Murry. My address is 5555 North Grand Blvd. Oklahoma City,
3 Oklahoma 73112.

4 Q. By whom are you employed and in what position?

5 A. I am an economist with C. H. Guernsey & Company in Oklahoma City. I am also a
6 Professor Emeritus at the University of Oklahoma.

7 Q. What is your educational background?

8 A. I have a B. S. in Business Administration, and a M.A. and a Ph.D. in Economics from
9 the University of Missouri - Columbia.

10 Q. Please describe your professional background that might be relevant to this proceeding.

11 A. From 1964 to 1974, I was on the faculty of the University of Missouri - St. Louis as an
12 Assistant and Associate Professor and Director of Research. From 1974 through the
13 present, I have been a Professor of Economics at the University of Oklahoma. Until
14 1978, I also served as Director of the Center for Economic and Management Research.

1 In each of these positions, I directed and performed academic and applied research
2 projects related to energy and regulatory policy. During this time, I also served on several
3 state and national committees associated with energy policy and regulatory matters and
4 published and presented a number of papers in the field of regulatory economics in the
5 energy industries.

6 Q. What is your professional experience in regulatory affairs?

7 A. Since 1964, I have consulted for a number of private and public utilities, state and federal
8 agencies, and other industrial clients regarding energy and regulatory matters in the
9 United States, Canada and other countries. In 1971-72, I served as Chief of the Economic
10 Studies Division, Office of Economics of the Federal Power Commission. From 1978
11 to early 1981, I was Vice President and Corporate Economist for Stone & Webster
12 Management Consultants, Inc. and managed the Washington D.C. office. In both of these
13 positions I directed and performed a wide variety of applied research projects and
14 conducted other projects related to regulatory matters. Recently, I have assisted both
15 private and public companies and government officials in areas related to regulatory,
16 financial and competitive issues associated with the restructuring of the utility industry
17 in the United States and other countries.

18 Q. Have you previously testified before or been an expert witness in proceedings before
19 regulatory bodies?

20 A. Yes, I have appeared before the U.S. District Court-Western District of Louisiana, U.S.
21 District Court-Western District of Oklahoma, District Court-Fourth Judicial District of
22 Texas, U.S. Senate Select Committee on Small Business, Federal Power Commission,

1 Federal Energy Regulatory Commission, Interstate Commerce Commission, Alabama
2 Public Service Commission, Alaska Public Utilities Commission, Arkansas Public
3 Service Commission, Colorado Public Utilities Commission, Florida Public Service
4 Commission, Georgia Public Service Commission, Illinois Commerce Commission,
5 Iowa Commerce Commission, Kansas Corporation Commission, Kentucky Public
6 Service Commission, Louisiana Public Service Commission, Maryland Public Service
7 Commission, Missouri Public Service Commission, New York Public Service
8 Commission, Power Authority of the State of New York, Nevada Public Service
9 Commission, North Carolina Utilities Commission, Oklahoma Corporation Commission,
10 South Carolina Public Service Commission, Tennessee Public Service Commission,
11 Texas Public Utilities Commission, the Railroad Commission of Texas, the State
12 Corporation Commission of Virginia and the Public Service Commission of Wyoming.

13 Q. What is the purpose of your testimony in this proceeding?

14 A. I have been retained by Piedmont Natural Gas Company ("Piedmont" or the "Company")
15 to develop a recommended cost of capital. This recommended cost of capital is
16 appropriate for Piedmont's proposed tariffs in this proceeding.

17 Q. How did you proceed in developing your recommended cost of capital?

18 A. First, I evaluated the capital structure in this procedure and the Piedmont cost of debt and
19 common stock including the planned new security issues. As is common in this type of
20 analysis, I devoted much of my effort to calculating the cost of the common stock equity
21 component of Piedmont's capital structure. From these analyses, I determined a rate of
22 return to recommend in this proceeding. I also evaluated my return recommendation in

- 1 light of the ongoing restructuring of the natural gas industry and the need to maintain the
2 financial integrity of Piedmont's securities.
- 3 Q. Are you sponsoring any exhibits that accompany your testimony?
- 4 A. Yes. I am sponsoring the attached Exhibit DAM, which consists of 22 schedules.
- 5 Q. Were these schedules prepared by you or under your direction?
- 6 A. Yes.
- 7 Q. What is the rationale for regulation of public utilities and the setting of a rate of return?
- 8 A. In general, utilities are granted franchises, which, along with obligations to serve, usually
9 give a company some exclusive rights to provide service in a given region. Thus, utilities
10 are subject to price regulation designed to allow utilities to recover the costs of providing
11 service and to earn a "fair" return on invested capital. Establishing this return is the
12 purpose of my testimony.
- 13 Q. What is a fair rate of return for a regulated public utility?
- 14 A. A fair rate of return for a utility meets the standards of the United States Supreme Court
15 decision in the *Bluefield Water Works and Improvement Company vs. Public Service*
16 *Commission*, 262 U.S. 679 (1923) case (*Bluefield*), as further modified in the *Federal*
17 *Power Commission vs. Hope Natural Gas Company*, 320 U.S. 591 (1944) (*Hope*).
18 Following these precedents, it is a rate of return which provides earnings to investors
19 similar to the alternative investments in companies of equivalent risk. Such a rate of
20 return will allow a company to maintain its present capital and to attract additional
21 capital on reasonable terms.
- 22 Q. How did you determine the return necessary to attract and maintain capital?

1 A. I used methods that rely on market valuations of common stock in the capital market.
2 These methods all use market information in some manner in estimating the cost of
3 capital. That in turn is the basis for measuring the return on investments required to
4 support the utility's operations. This rationale is consistent with the economic rationale
5 set forth in the *Hope* decision.

6 Q. Why is the *Hope* decision important?

7 A. That decision clarified the principle that a return should be set at a level that will instill
8 investor confidence in the financial integrity of the company and provide a return
9 sufficient to attract capital. A company will attract and maintain capital when the return
10 on investment in the company is equal to the return from investment in businesses with
11 comparable investment risks.

12 Q. In developing your analysis what steps did you follow?

13 A. First, I evaluated the capital structure of Piedmont that is relevant for this proceeding.
14 Then I developed a cost of each of the components in the capital structure. Finally, based
15 on this information and current market conditions and relevant risks, I developed my
16 recommended return.

17 Q. What is the capital structure for Piedmont that is appropriate for this proceeding?

18 A. The appropriate capital structure for Piedmont is \$377,568,915 long-term debt,
19 \$30,807,692 short-term debt and \$490,496,702 in common stock equity. That results in
20 a total capital of \$898,873,310 for Piedmont. I have illustrated this capital structure on
21 Schedule DAM-1. Since this is Piedmont's current capital structure, it is appropriate for
22 this proceeding.

23 Q. What are the ratios of the capital components that you used in your analysis?

- 1 A. As the schedule shows, the long-term debt is 42.00 percent of the total capital. The
2 short-term debt is 3.43 percent of total capital. Therefore, the common stock equity ratio
3 is 54.57 percent.
- 4 Q. What is Piedmont's embedded cost of its long-term debt for this proceeding?
- 5 A. Piedmont's cost of long-term debt, which is the weighted cost of long-term debt, is 8.27
6 percent. The embedded cost of long-term debt, which is based on the annual cost of each
7 of the outstanding issues, is shown in Schedule DAM-2.
- 8 Q. What is the justification for the level of Piedmont's common stock equity which you are
9 recommending for use in this case?
- 10 A. The common stock equity at August 31, 1999 is \$490,496,702. I have listed components
11 of the common stock and retained earnings in Schedule DAM-3.
- 12 Q. What methods did you use to evaluate the cost of common stock of Piedmont?
- 13 A. Since the common stock of Piedmont is publicly traded, I used two market-based
14 evaluations for analysis. I used the Discounted Cash Flow (DCF) technique, which relies
15 on market prices and the stream of returns that an investor would anticipate when
16 making an investment. I also used the Capital Asset Pricing Model (CAPM), which uses
17 the current return to risk-free securities as an analytical basis and estimates the risk
18 differential between that value and the security in question. In all of these studies, I
19 developed analyses of the investment requirements of investors in Piedmont's securities.
- 20 Q. How did you determine the level of returns that might be necessary for a Piedmont
21 investor?
- 22 A. In addition to the analyses of the cost of capital based on the DCF and the CAPM
23 methods, I evaluated financial statistics of Piedmont, and I compared them to the

1 financial statistics of a group of other companies. For example, I developed the same cost
2 of capital measures for a group of companies that are comparable to Piedmont. I also
3 considered the special risk factors that affect the cost of capital of Piedmont. Finally, I
4 evaluated the financial integrity of my recommendations as a measure of the adequacy
5 of these recommendations.

6 Q. How did you evaluate the adequacy of your recommendation?

7 A. To assess the results of my analysis of Piedmont, I also reviewed the market risk and
8 financial risk of Piedmont and compared these data to that of a group of comparable
9 companies. As to the adequacy of my recommendation, I verified that my
10 recommendation would meet the requirements of investors. The recommended return
11 must be sufficient to maintain the financial integrity of the company, and the basic
12 measures of this financial integrity are the measures of interest coverage.

13 Q. What was the group of companies that you used in your comparative analysis of common
14 equity costs?

15 A. The firms that I used as comparative companies are AGL Resources, New Jersey
16 Resources, NICOR, Inc., Northwest Natural Gas, Peoples Energy, and Washington Gas
17 Light. This is a group of gas distribution companies which I selected, in part, because
18 they are similar in many respects to Piedmont.

19 Q. What criteria did you use to select the comparative companies in your analysis?

20 A. I used five criteria. First, *Value Line* must list the company so the data source is common
21 and forecasts are comparable. Second, the company cannot have any involvement
22 currently in a merger that is obviously influencing the value of its security prices. Third,
23 at least two-thirds of the company's revenues must come from regulated gas distribution

1 service. Fourth, the company must have a market capitalization between \$650 million
2 and \$1.8 billion. Fifth, I tried to avoid regulatory conflict by not selecting companies that
3 had operations in Tennessee.

4 Q. These companies are all larger than Nashville Gas Company, which is the company
5 requesting a rate adjustment before the Commission. Do you think that it is appropriate
6 to use companies that are so much larger as comparative companies in your analysis?

7 A. Because larger companies can raise capital at lower costs, at least in part because they
8 have greater market presence, the use of these larger companies is a conservative
9 approach in my analysis of the cost of capital of Nashville Gas. Consequently, I have
10 recognized the relative size of Nashville Gas and these comparative companies in my
11 judgment regarding the appropriate return.

12 Q. You indicated that you reviewed the capital structure of Piedmont. Did you evaluate the
13 common stock equity level of Piedmont?

14 A. Yes. As Schedule DAM-4 shows, Piedmont's common stock equity ratio is similar to
15 the equity ratios of the comparative companies.

16 Q. How does the common stock equity ratio of a utility affect its cost of capital?

17 A. In general, lower common stock equity ratios mean greater financial risk. The dividend
18 payment is less protected. Greater financial risk means that investors will view those
19 stocks as less attractive. This, of course, raises the cost of common stock.

20 Q. You stated that you used the DCF method to estimate the cost of capital. What are the
21 principal characteristics of that method?

22 A. The Discounted Cash Flow method relies on market price information that reflects the
23 value that investors place on an anticipated stream of returns. Those returns are expected

1 dividends and any capital gains. By relating its value, or price, to the expected income
2 stream, an analyst can estimate the cost of common stock equity.

3 Since the investor anticipates a return from common stock of a stream of
4 dividends and other returns, the present value of that stream of returns equals the price,
5 at the margin, that an investor will pay for the security. Symbolically, if K is equal to the
6 cost of common equity, $K = D/P + g$, where D = dividends, P = price per share, and g =
7 rate of growth of dividends. That is, K is a capitalization rate that converts a stream of
8 future returns (dividend and stock appreciation) to a current value.

9 Q. Since the DCF method is an expression of a theoretical relationship, how useful is it in
10 practice ?

11 A. The DCF method is conceptually sound, and analysts generally accept the theory.
12 Although they are likely to agree that it is sound conceptually, analysts differ in how to
13 apply the theory. One area of controversy is the growth rate that represents the
14 expectations by investors about future earnings streams. Because many factors may
15 influence market price at any time, the estimate of the cost of capital is also sensitive to
16 market changes. That creates a problem in interpreting the results for ratemaking
17 purposes.

18 Q. You stated that the DCF method requires an analyst to evaluate the investor expectations
19 of the earnings stream of a common stock investment. How does one determine an
20 estimate of investor's expectations?

21 A. Investors develop expectations about future returns based on information that may come
22 to them from various sources. This information may be historical; historical data reveals
23 recent performance and trends. Information regarding projections of future earnings are

1 also available to investors. For example, it is reasonable to assume that rational investors
2 will review earnings forecasts when they are evaluating a common stock investment.

3 Q. Is this the type of data that you used in your analysis of investor expectations?

4 A. Yes. For example, I used earnings growth and dividend growth data that are readily
5 available to investors and which they commonly use. Earnings enable the payment of
6 dividends, and a growth in earnings enables dividends to grow. Whether earnings are
7 paid out in dividends or retained by a company, earnings growth will raise the value of
8 a common stock. Both earnings growth and dividend growth are key variables that
9 investors observe and financial analysts review as expected returns from an investment.
10 For these reasons, I used both earnings growth and dividend growth from recognized,
11 published sources.

12 Q. Did you use both historical and forecasted earnings and dividend growth rates in your
13 analysis?

14 A. Yes. I analyzed growth in earnings per share, dividends per share, and book values for
15 the most recent five-year and ten-year periods. In addition I used near-term earnings
16 and dividend growth forecasts. The expected returns are often most important to
17 investors so I analyzed them separately, as well.

18 Q. What did you determine from your study of the growth in earnings and dividends?

19 A. As shown in Schedule DAM-5, the earnings growth rates and dividend growth rates for
20 Piedmont are both relatively high and similar. However, the earnings growth rates and
21 the dividend growth rates for the comparative companies clearly differ by a large
22 margin.

- 1 Q. How do you explain the divergence in the earnings and dividend growth rates in recent
2 years and in their forecasts?
- 3 A. This pattern reflects company financial behavior, which I believe we could expect, under
4 the increased competitive conditions in the gas industry. Increased competition increases
5 the risk and the uncertainty of returns to the investors of gas distribution companies.
6 Considering this added business uncertainty, management may conserve cash from
7 earnings rather than raising cash dividends.
- 8 Q. What earnings and dividend forecasts did you use in your analysis?
- 9 A. I used forecasts from both the *Value Line* and *Standard & Poor's*, which reports the
10 I/B/E/S forecasts, as representative of analysts' expectations for Piedmont. Both are
11 readily available and used by analysts and investors.
- 12 Q. How will the high growth rate in earnings forecasted for these companies by both *Value*
13 *Line* and *Standard & Poor's* affect investors?
- 14 A. I believe the high growth rate in earnings forecasted by both *Value Line* and *Standard &*
15 *Poor's* will attract a new type of investor. It will attract investors looking for growth. On
16 the other hand, it may discourage investors seeking stability over time. To some
17 investors, this will likely diminish the relative attractiveness of gas distribution
18 companies, including Piedmont. Inevitably, investors in gas distribution companies will
19 change from investors seeking dividends to investors seeking appreciation in value.
- 20 Q. In your opinion, is this change in investor profile important?
- 21 A. Yes. Investors looking for earnings growth and relying less on dividends are deferring
22 their current returns in exchange for the expected future return. In the long-term, they

1 will demand a higher return as a tradeoff for giving up more stable near-term returns. In
2 fact, the earnings-dividend growth differential means that the investors already are facing
3 this tradeoff between growth and stable earnings.

4 Q. What price information did you use in your DCF analyses?

5 A. Recognizing the volatility of the securities markets, I took a longer view than looking just
6 at current market conditions. I developed DCF estimates of the cost of common stock
7 using the range of market prices since the beginning of 1999. Also, I used price
8 information from a recent two-week period to estimate a current cost of capital.

9 Q. What did you determine from your DCF analysis?

10 A. My Schedules DAM-6, DAM-7, DAM-8 show estimated costs of common stock using
11 1999 yields. With the earnings per share growth estimates, the DCF results range
12 between 9.72 percent and 12.4 percent. Schedules DAM-9, DAM-10, and DAM-11
13 show DCF results between 12.02 percent and 10.27 percent using market prices from a
14 recent two-week period.

15 Q. What did you observe in your DCF analysis that applied specifically to the Piedmont cost
16 of common stock?

17 A. In comparison to the selected companies, Piedmont's historical earnings per share
18 growth rates and forecasted growth rates are higher than the selected companies.
19 Consequently, because of the attraction of investors to these growth rates, the dividend
20 yields are somewhat lower than the comparative companies. This means that many
21 investors are buying and holding the Piedmont stock in anticipation of growth rather than
22 in anticipation of early dividends. Schedule DAM-12 is a summary of the DCF analyses

1 showing the differences between the current prices of the Company's stock and the
2 prices throughout 1999.

3 Q. In evaluating these DCF results, what factors influenced your use of them in your
4 analysis?

5 A. I considered the theoretical basis of the DCF methodology in interpreting these results
6 and using these calculations to reach my recommendation. In theory, the DCF calculation
7 produces a marginal cost measure of the cost of common stock. There is no margin for
8 misinterpreting the DCF results and setting the allowed return at a level below the true
9 cost of capital. Therefore, analysts often adjust the results of the mechanical calculations
10 in light of the theoretical basis of the DCF. For example, some analysts compensate for
11 this shortcoming by applying either a flotation or market pressure adjustment, or both,
12 to the results from their DCF calculations.

13 Q. Did you calculate a separate flotation or market pressure adjustment?

14 A. No, I did not. The need to raise capital in the future is important in evaluating these DCF
15 results. I considered this need, and the theoretical basis of the DCF method, in
16 determining my recommended return.

17 Q. Previously, in discussing the techniques that you used in your analysis, you stated that
18 you used the Capital Asset Pricing Model or CAPM model. What is the CAPM model?

19 A. The CAPM model is based on an investor's ability to diversify by combining risky
20 securities into an investment portfolio. The diversification of investments in this way
21 reduces the overall risk to the investor. However, some risk is non-diversifiable, such as
22 the market risk. Investors remain exposed to that market risk.

1 The formal CAPM model is expressed as:

2
$$K = R_F + \beta (R_M - R_F)$$

3 Where: K = the required return.
4 R_F = the risk-free rate.
5 R_M = the required overall market return; and
6 β = beta, a measure of security risk relative to the overall market.

7 Note that the value of market risk is the differential between the market rate and the risk-
8 free rate. Beta is the relative measure of this risk of securities. One can interpret beta as
9 the relationship between an individual security and the market as a whole. The Capital
10 Asset Pricing Model is useful because it can effectively link the incremental cost of
11 capital of an individual company with the risk differential between that company and the
12 market as a whole.

13 Q. How did you apply the theory of the CAPM model in your analysis?

14 A. I developed two different CAPM measures. First, I developed a standard historical
15 CAPM analysis. Then, because of recognized biases in the CAPM method, I also
16 developed a size-adjusted CAPM analysis. This second technique compensates for bias
17 in company size. That bias is important in ratemaking when comparing smaller
18 companies to larger companies.

19 Q. Since Nashville Gas is a much smaller company than Piedmont and the comparative
20 companies that you used in your analysis, did this size adjustment compensate for the
21 relative risks in this case?

22 A. No, in this case the adjustment does not account for the size adjustment for a small
23 company such as Nashville. However, since Piedmont raises the capital for Nashville,
24 this differential is not as significant as it would be for a stand-alone company. I do not

1 believe that the entire size adjustment is appropriate in this case. Because of the size bias
2 of the CAPM method, the results of my analysis using Piedmont data are undoubtedly
3 conservative estimates of the cost of capital of Nashville Gas.

4 Q. You stated that you developed a standard historical CAPM analysis. What were the
5 results of that analysis?

6 A. Using a risk-free rate of long-term government securities, the current betas, and the
7 current market rate of the cost of capital for Piedmont, the historical CAPM analysis
8 results for Piedmont are 12.45 percent. The results of that analysis are shown in Schedule
9 DAM-13. As shown, the beta for Piedmont is only .55 which is lower than the betas for
10 all of the comparative companies. The beta is a measure of market price volatility, and
11 the lower the beta the lower the market risk, and the lower the estimated cost of capital.
12 Because of this low beta the Piedmont cost of capital is lower than the average for the
13 comparative companies, which is 13.06 percent using this CAPM method.

14 Q. You stated that you also developed a size-adjusted CAPM analysis. What were the
15 results of that calculation?

16 A. In a second CAPM analysis, which is a method that compensates for the risk associated
17 with the size of a company, I calculated a cost of common equity for Piedmont. This
18 estimate of 11.33 percent, as shown in Schedule DAM-14, is lower than the comparative
19 companies' average of 12.06 percent. Again this lower estimate for Piedmont is because
20 of the relatively low beta of Piedmont.

21 Q. In reaching your recommended return, what other factors did you consider?

- 1 A. As I stated previously, I recognized the analytical characteristics of the DCF and the
2 CAPM methodologies. I considered the current market conditions, and I considered the
3 current financial market's assessment of the changing risks in the gas distribution
4 industry. Of course, these changes were brought about by the increasing competition
5 faced by many companies in the industry.
- 6 Q. How does this increased competition affect your recommendation for a return on
7 common stock?
- 8 A. The measured cost of capital reflects the investor's evaluation of the market structure
9 and investor's interpretation of the financial and business risks of the investment.
10 Consequently, I also evaluated how investors were compensating for these risks.
- 11 Q. What risks of competition did you consider?
- 12 A. I considered a number of risks that currently affect gas distribution companies because
13 of the increased competition in the gas industry. First, there was the deregulation of
14 pipelines, and for distributors, the increased risks in acquiring gas and uncertainties about
15 gas price passthroughs. Now the gas distributors are facing increased competition for
16 end-use customers. As the investors are becoming aware of the implications of
17 competition in the retail market, they assess the associated risks. Investors will embody
18 those risks by discounting their expected future returns in determining the current market
19 values of securities.
- 20 Q. To your knowledge, is there evidence that Nashville is likely to be impacted by the
21 increased competition in the gas distribution sector?

1 A. There is at least one major customer of Nashville Gas that will have the opportunity to
2 renegotiate its contract in the near future. The threat of an adjustment to the forecasted
3 revenue in this proceeding is one such competitive risk faced by investors in Nashville
4 Gas.

5 Q. Do you believe that investors have taken these risks into account?

6 A. I believe that knowledgeable investors are aware of these risks, and they are taking them
7 into account in their investment decisions. As they become aware of risks, investors will
8 account for them by discounting the expected returns. This discounting will show up as
9 lower market prices for securities.

10 Q. Do you believe that this is the case for the investors in gas distribution companies
11 presently?

12 A. I believe that investors are recognizing the general movement to deregulation in the
13 natural gas industry, and I believe that the markets are recognizing these risks more and
14 more as the effects become apparent. Investors have recognized the risks to transmission
15 companies previously, and the market performance of gas distribution companies are
16 now indicating an investor awareness in this sector, as well.

17 Q. How do you know that the investors have been able to distinguish between the risks and
18 returns of the gas distribution companies and the transmission companies?

19 A. I compared the market performance of the gas distribution companies and the gas
20 transmission companies over the past year. Schedule DAM-15 illustrates that the
21 transmission companies have experienced the same relative price appreciation as the
22 Dow Jones Industrial Index. The gas distribution companies, at least until recently, have

1 lagged the transmission companies market performance. Generally, in recent months,
2 investors have found the common stock of gas distribution companies less attractive
3 investments than the stock of gas transmission companies and the industrial companies.
4 The prices of the stocks reflect their relative attractiveness.

5 Q. Do you know what may have caused these market differences?

6 A. Although I cannot be certain, the relevant difference may be the investor's perceptions
7 of the relative risks. For example, the common stocks of the gas transmission companies
8 began tracking the increases in the industrial index subsequent to deregulation. The gas
9 distribution companies stocks did not.

10 Q. How has Piedmont' common stock fared during this period?

11 A. Schedule DAM-16 shows that during the past 12 months Piedmont's common stock has
12 lagged the Dow Jones Utility Index.

13 Q. You stated previously that you specifically reviewed the risk of Piedmont. What analyses
14 did you perform?

15 A. I compared several financial statistics of Piedmont to those of the comparative
16 companies. Several of these indicate the relative risks to investors.

17 Q. What did these comparisons show?

18 A. As Schedule DAM-17 shows, historically Piedmont has had a higher price-earnings ratio
19 relative to the comparative companies; however, there was a shift in 1997-98. In that
20 period, the price earnings ratio of Piedmont fell below that of the comparative
21 companies. This means that the market was now valuing Piedmont's earnings at a
22 relatively lower level than previously. Schedule DAM-18 illustrates the historical

- 1 dividend yields of these same companies, and it illustrates the shift in 1997-98. Piedmont
2 also has had lower yields than the comparative companies for the past five years.
3 Although *Value Line's* safety rank of Piedmont is similar to the safety rank of the
4 comparative companies, *Value Line* has identified an investment in Piedmont's common
5 stock as untimely. See Schedules DAM-19 and DAM-20.
- 6 Q. What is the *Value Line* Timeliness ranking?
- 7 A. The Timeliness ranking of 1 (highest) is the "... best choice for the typical investor ..."
8 at an acceptable level of risk.
- 9 Q. What is the *Value Line* Safety ranking?
- 10 A. The Safety ranking of 1 (highest) is the "... safest, most stable, least risky. . ." common
11 stock investments when risk is measured by the company's financial strength and stock's
12 price stability. The rank of 5 is probably one of the riskiest, least safe common stock
13 investments.
- 14 Q. Do you think that these measures are appropriate measures of the risk as assessment of
15 the cost of capital in this proceeding?
- 16 A. These are appropriate measures of risk of Piedmont's securities. It is important to note
17 that the cost of capital that I have evaluated for this proceeding is primarily based on the
18 cost of capital of Piedmont. Using Piedmont's financial statistics to assess the risk of
19 investing in Nashville Gas Company is appropriate, but it is a very conservative method
20 for estimating the cost of capital in this proceeding.
- 21 Q. What is your recommendation for a return in this proceeding?

1 A. Based on the DCF analysis, the CAPM analysis and the current market conditions, I
2 believe that the cost of capital for Nashville Gas Company in this proceeding falls in the
3 range of 12.0 to 12.5 percent. Since the statistics that I used to evaluate this cost of
4 capital of Nashville Gas were all Piedmont's, and because of the current conditions, I
5 believe that the rate of return on common stock in this proceeding should be at the high
6 end of this range, or 12.5 percent.

7 Q. Based on your analysis, what is your recommended return on total capital?

8 A. My recommended return on total capital is 10.50 percent, which Schedule DAM-21
9 illustrates.

10 Q. When you said that you considered current market conditions in determining your
11 recommended return, what conditions were you referring to?

12 A. The Federal Reserve actions have increased the level of interest rates three times in the
13 last several months. Consequently, because gas distribution companies of common stocks
14 are interest-rate sensitive, the costs of equity capital for gas distribution companies are
15 trending upward.

16 Q. How did you evaluate whether or not your recommended return was sufficient to attract
17 and retain capital investment in Nashville?

18 A. Although the risks to capital invested in Nashville Gas are certainly higher than the risks
19 of capital invested in Piedmont, I believe that the interest coverage ratio of Piedmont
20 from this recommended return level is an appropriate measure of the adequacy of my
21 recommended return. For example, the After-Tax Interest Coverage at 12.5 percent return
22 on common stock is 2.96 times. This is shown in Schedule DAM-22. I believe that this

1 coverage ratio is adequate and appropriate. Note that this coverage is equal to the average
2 of the comparative companies.

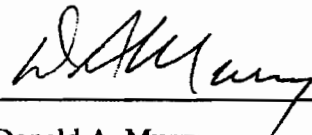
3 Q. Does this conclude your testimony?

4 A. Yes, it does.

AFFIDAVIT

STATE OF OKLAHOMA)
) SS
COUNTY OF OKLAHOMA)

Before me, the undersigned Notary Public, personally appeared DONALD A. MURRY, who being duly sworn on oath deposes and says that the foregoing prepared testimony and statement of facts contained therein are true and correct to the best of his knowledge, information and belief.



Donald A. Murry

Subscribed and sworn to before me this 3rd day of December, 1999.



Notary Public

My Commission Expires:
October 5, 2002

Nashville Natural Gas Company
A Division of Piedmont Natural Gas

Schedule DAM-1:	Thirteen Month Average Capital Structure
Schedule DAM-2:	Long Term Debt
Schedule DAM-3:	Common Equity
Schedule DAM-4:	Comparison of Common Equity Ratios
Schedule DAM-5:	DCF Growth Rate Summary
Schedule DAM-6:	1999 DCF Using Dividend per Share Growth Rates
Schedule DAM-7:	1999 DCF Using Earnings per Share Growth Rates
Schedule DAM-8:	1999 DCF Using Projected Earnings Growth Rates
Schedule DAM-9:	Current DCF Using Dividend per Share Growth Rates
Schedule DAM-10:	Current DCF Using Earnings per Share Growth Rates
Schedule DAM-11:	Current DCF Using Projected Earnings Growth Rates
Schedule DAM-12:	Summary of Discounted Cash Flow Analysis
Schedule DAM-13:	Historical Capital Asset Pricing Model
Schedule DAM-14:	Size-Adjusted Capital Asset Pricing Model
Schedule DAM-15:	Comparison of Price Appreciation of Mergent's Gas Companies
Schedule DAM-16:	Comparison of Piedmont Stock Price Appreciation and the Dow Jones Industrial Average
Schedule DAM-17:	Comparison of Price Earnings Ratios
Schedule DAM-18:	Comparison of Dividend Yields
Schedule DAM-19:	Comparison of Value Line's Safety Rank
Schedule DAM-20:	Comparison of Value Line's Timeliness Rank
Schedule DAM-21:	Proposed Capital Structure and Cost of Capital
Schedule DAM-22:	After Tax Times Interest Earned Ratios

Nashville Gas Company

A Division of Piedmont Natural Gas Company

Capitalization

Thirteen Months Average for the Period Ended August 31, 1999

	<u>Average</u>	<u>Ratio</u>
Long-Term Debt	\$377,568,915	42.00%
Short-Term Debt	30,807,692	3.43%
Common Equity	<u>490,496,702</u>	<u>54.57%</u>
Total	<u>\$898,873,309</u>	<u>100.00%</u>

Source: Piedmont Natural Gas Company Work Papers

Nashville Gas Company

A Division of Piedmont Natural Gas Company

Capitalization - Test Period Ended August 31, 1999

Embedded Cost of Long-Term Debt

Account #	Description	Thirteen Months Average	A Annual Cost	B Amortization of Debt Expense	C Total Annual Cost
=====	=====	=====	=====	=====	=====
Senior Notes:					
22415	9.19%, due 2001	30,000,000	2,757,000	0	2,757,000
22412	10.02%, due 2003	19,692,308	1,973,169	10,140	1,983,309
22413	10.06%, due 2004	11,538,462	1,160,769	0	1,160,769
22414	10.11%, due 2004	23,692,308	2,395,292	3,576	2,398,868
22416	9.44%, due 2006	35,000,000	3,304,000	0	3,304,000
22422	8.51%, due 2017	35,000,000	2,978,500	2,436	2,980,936
Medium-Term Notes:					
22423	6.23%, due 2003	45,000,000	2,803,500	37,815	2,841,315
22425	6.87%, due 2023	45,000,000	3,091,500	14,430	3,105,930
22426	8.45%, due 2024	40,000,000	3,380,000	12,892	3,392,892
22409	7.40%, due 2025	55,000,000	4,070,000	17,278	4,087,278
22421	7.50%, due 2026	40,000,000	3,000,000	11,820	3,011,820
Debentures:					
18128	8.9%	0	0	43,572	43,572
18136	8.9% redemption premium	0	0	149,909	149,909
Total		379,923,077	<u>30,913,731</u>	<u>303,867</u>	<u>31,217,598</u>
Less Unamortized Debt Expense		<u>(2,354,161)</u>			
Total Long-Term Debt		<u>377,568,915</u>			
Embedded Cost of Long-Term Debt					<u>8.27%</u>

Source: Piedmont Natural Gas Company Work Papers

Nashville Gas Company

A Division of Piedmont Natural Gas Company

Capitalization - Test Period Ended August 31, 1999

Common Stock Equity

	13 Month Average
Common Stock	285,299,244
Retained Earnings	<u>205,197,458</u>
Total Common Equity	490,496,702

Source: Piedmont Natural Gas Company Work Papers

Nashville Gas Company

A Division of Piedmont Natural Gas

Equity Ratio Comparison for the Past Five Years

	1994	1995	1996	1997	1998	Five Year Average
Piedmont Natural Gas	49.1%	49.6%	49.7%	52.4%	55.3%	51.2%
AGL Resources	45.8%	47.6%	48.9%	45.9%	47.1%	47.1%
New Jersey Resources	42.0%	41.0%	45.8%	47.1%	45.6%	44.3%
NICOR, Incorporated	59.3%	59.0%	58.1%	57.2%	57.4%	58.2%
Northwest Natural Gas	45.1%	50.3%	52.8%	49.0%	50.6%	49.6%
Peoples Energy	50.6%	50.8%	56.4%	57.6%	58.9%	54.9%
Washington Gas Light	56.7%	58.9%	59.4%	56.2%	57.1%	57.7%
Comparable Companies' Average	49.9%	51.3%	53.6%	52.2%	54.2%	52.2%

Source: Value Line Investment Survey

Nashville Gas Company
Comparable Local Distribution Companies
Growth Rate Summary

	1994 TO 2003 Estimate		Value Line		Value Line		Projections		S & P
	E/S	D/S	BK Value	E/S	D/S	BK Value	E/S	D/S	
Piedmont Natural Gas	7.6%	5.2%	6.3%	8.0%	6.0%	6.5%	7.0%	4.5%	6.0%
AGL Resources	5.0%	1.6%	3.9%	5.0%	1.0%	2.5%	5.5%	2.0%	5.0%
New Jersey Resources	7.0%	2.5%	5.5%	9.5%	1.0%	2.5%	7.5%	3.0%	6.0%
NICOR, Inc.	6.1%	4.8%	4.7%	5.0%	3.5%	4.0%	7.5%	4.5%	7.0%
Northwest Natural Gas	3.4%	1.6%	4.7%	8.5%	1.0%	5.0%	6.0%	2.0%	4.0%
Peoples Energy	5.9%	1.9%	4.0%	5.0%	1.5%	3.0%	4.0%	2.0%	5.0%
Washington Gas Light	5.7%	2.2%	4.9%	7.0%	2.0%	5.0%	4.5%	2.5%	5.0%
Comparable Companies' Average	5.52%	2.43%	4.63%	6.67%	1.67%	3.67%	5.83%	2.67%	5.33%

Sources : Value Line Investment Survey
Standard & Poor's Earnings Guide

Nashville Gas Company
Comparable Local Distribution Companies

1999 Cost of Capital

	Share Prices			1999 Dividend	1999 Yields		1993-95 Dividend	2002-04E Dividend	Growth Rate	Cost of Capital	
	High	Low	High		High	Low				High	Low
Piedmont Natural Gas	36.60	28.60		1.36	4.76%	3.72%	1.02	1.60	5.17%	9.92%	8.88%
AGL Resources	23.40	16.80		1.08	6.43%	4.62%	1.04	1.20	1.60%	8.03%	6.22%
New Jersey Resources	40.10	33.60		1.68	5.00%	4.19%	1.52	1.90	2.51%	7.51%	6.70%
NICOR, Inc.	42.90	34.10		1.54	4.52%	3.59%	1.25	1.90	4.76%	9.28%	8.35%
Northwest Natural Gas	27.90	19.50		1.23	6.31%	4.41%	1.17	1.35	1.57%	7.88%	5.98%
Peoples Energy	40.30	31.80		1.95	6.13%	4.84%	1.79	2.12	1.88%	8.01%	6.72%
Washington Gas Light	28.90	21.00		1.22	5.81%	4.22%	1.11	1.35	2.23%	8.04%	6.45%
Comparable Companies' Average	33.92	26.13		1.45	5.70%	4.31%	1.31	1.64	2.43%	8.12%	6.74%

Source : Value Line Investment Survey

Nashville Gas Company

Comparable Local Distribution Companies

1999 Cost of Capital

	Share Prices		1999 Dividend	1999 Yields		1993-95 EPS	2002-04E EPS	Growth Rate	Cost of Capital	
	High	Low		High	Low				High	Low
Piedmont Natural Gas	36.60	28.60	1.36	4.76%	3.72%	1.42	2.75	7.65%	12.40%	11.36%
AGL Resources	23.40	16.80	1.08	6.43%	4.62%	1.19	1.85	4.99%	11.42%	9.61%
New Jersey Resources	40.10	33.60	1.68	5.00%	4.19%	1.85	3.40	7.02%	12.02%	11.21%
NICOR, Inc.	42.90	34.10	1.54	4.52%	3.59%	2.00	3.40	6.07%	10.59%	9.66%
Northwest Natural Gas	27.90	19.50	1.23	6.31%	4.41%	1.66	2.25	3.44%	9.74%	7.85%
Peoples Energy	40.30	31.80	1.95	6.13%	4.84%	2.01	3.35	5.86%	11.99%	10.70%
Washington Gas Light	28.90	21.00	1.22	5.81%	4.22%	1.39	2.30	5.73%	11.54%	9.95%
Comparable Companies' Average	33.92	26.13	1.45	5.70%	4.31%	1.68	2.76	5.52%	11.22%	9.83%

Source : Value Line Investment Survey

Nashville Gas Company
Comparable Local Distribution Companies

	Share Prices		1999 Dividend	1999 Yields		EPS Estimates		Cost of Capital	
	High	Low		High	Low	Value Line	S&P	High	Low
Piedmont Natural Gas	36.60	28.60	1.36	4.76%	3.72%	7.00%	6.00%	11.76%	9.72%
AGL Resources	23.40	16.80	1.08	6.43%	4.62%	5.50%	5.00%	11.93%	9.62%
New Jersey Resources	40.10	33.60	1.68	5.00%	4.19%	7.50%	6.00%	12.50%	10.19%
NICOR, Inc.	42.90	34.10	1.54	4.52%	3.59%	7.50%	7.00%	12.02%	10.59%
Northwest Natural Gas	27.90	19.50	1.23	6.31%	4.41%	6.00%	4.00%	12.31%	8.41%
Peoples Energy	40.30	31.80	1.95	6.13%	4.84%	4.00%	5.00%	11.13%	8.84%
Washington Gas Light	28.90	21.00	1.22	5.81%	4.22%	4.50%	5.00%	10.81%	8.72%
Comparable Companies' Average	33.92	26.13	1.45	5.70%	4.31%	5.83%	5.33%	11.78%	9.39%

Sources : Value Line Investment Survey
Standard & Poor's Earnings Guide

Nashville Gas Company
Comparable Local Distribution Companies

Current Cost of Capital

	Share Prices		Current Dividend	Current Yields		1993-95 Dividend	2002-04E Dividend	Growth Rate	Cost of Capital	
	High	Low		High	Low				High	Low
Piedmont Natural Gas	31.84	31.14	1.36	4.37%	4.27%	1.02	1.60	5.17%	9.53%	9.44%
AGL Resources	17.29	16.80	1.08	6.43%	6.25%	1.04	1.20	1.60%	8.03%	7.85%
New Jersey Resources	40.66	40.11	1.68	4.19%	4.13%	1.52	1.90	2.51%	6.70%	6.64%
NICOR, Inc.	38.42	37.51	1.54	4.11%	4.01%	1.25	1.90	4.76%	8.87%	8.77%
Northwest Natural Gas	25.86	25.24	1.23	4.87%	4.76%	1.17	1.35	1.57%	6.44%	6.33%
Peoples Energy	36.78	35.88	1.95	5.44%	5.30%	1.79	2.12	1.88%	7.31%	7.18%
Washington Gas Light	26.18	25.64	1.22	4.76%	4.66%	1.11	1.35	2.23%	6.99%	6.89%
Comparable Companies' Average	30.86	30.20	1.45	4.97%	4.85%	1.31	1.64	2.43%	7.39%	7.28%

Sources:
Value Line Investment Survey
Wall Street Journal

Nashville Gas Company

Comparable Local Distribution Companies

Current Cost of Capital

	Share Prices		Current Dividend	Current Yields		1993-95 EPS	2002-04E EPS	Growth Rate	Cost of Capital	
	High	Low		High	Low				High	Low
Piedmont Natural Gas	31.84	31.14	1.36	4.37%	4.27%	1.42	2.75	7.65%	12.02%	11.92%
AGL Resources	17.29	16.80	1.08	6.43%	6.25%	1.19	1.85	4.99%	11.42%	11.24%
New Jersey Resources	40.66	40.11	1.68	4.19%	4.13%	1.85	3.40	7.02%	11.21%	11.15%
NICOR, Inc.	38.42	37.51	1.54	4.11%	4.01%	2.00	3.40	6.07%	10.18%	10.08%
Northwest Natural Gas	25.86	25.24	1.23	4.87%	4.76%	1.66	2.25	3.44%	8.31%	8.19%
Peoples Energy	36.78	35.88	1.95	5.44%	5.30%	2.01	3.35	5.86%	11.30%	11.16%
Washington Gas Light	26.18	25.64	1.22	4.76%	4.66%	1.39	2.30	5.73%	10.49%	10.39%
Comparable Companies' Average	30.86	30.20	1.45	4.97%	4.85%	1.68	2.76	5.52%	10.48%	10.37%

Sources:
Value Line Investment Survey
Wall Street Journal

Schedule DAM-10

002735

Nashville Gas Company
Comparable Local Distribution Companies
Current Cost of Capital

	Share Prices		Current Dividend	Current Yields		EPS Estimates		Cost of Capital	
	High	Low		High	Low	Value Line	S&P	High	Low
Piedmont Natural Gas	31.84	31.14	1.36	4.37%	4.27%	7.00%	6.00%	11.37%	10.27%
AGL Resources	17.29	16.80	1.08	6.43%	6.25%	5.50%	5.00%	11.93%	11.25%
New Jersey Resources	40.66	40.11	1.68	4.19%	4.13%	7.50%	6.00%	11.69%	10.13%
NICOR, Inc.	38.42	37.51	1.54	4.11%	4.01%	7.50%	7.00%	11.61%	11.01%
Northwest Natural Gas	25.86	25.24	1.23	4.87%	4.76%	6.00%	4.00%	10.87%	8.76%
Peoples Energy	36.78	35.88	1.95	5.44%	5.30%	4.00%	5.00%	10.44%	9.30%
Washington Gas Light	26.18	25.64	1.22	4.76%	4.66%	4.50%	5.00%	9.76%	9.16%
Comparable Companies' Average	30.86	30.20	1.45	4.97%	4.85%	5.83%	5.33%	11.05%	9.93%

Sources : Value Line Investment Survey
Standard & Poor's Earnings Guide
Wall Street Journal

Nashville Gas Company
A Division of Piedmont Natural Gas Company
Summary of Discounted Cash Flow Analysis

	DCF Range	
	High	Low
Using 1999 Dividend Yields		
Piedmont Natural Gas	12.40%	8.88%
Comparable Companies' Average	11.78%	6.74%
Using Current Dividend Yields		
Piedmont Natural Gas	12.02%	9.44%
Comparable Companies' Average	11.05%	7.28%

Sources : Schedules DAM-4 through DAM-11

Nashville Gas Company

Comparable Local Distribution Companies

Cost of Equity : Historical Capital Asset Pricing Model

	Market Total Returns	Long-Term Corporate Bonds Return	Risk Premium	Beta	Adjusted Risk Premium	Aaa Corporate Bonds Return	Cost of Equity
Piedmont Natural Gas Company	15.30%	6.10%	9.20%	0.55	5.06%	7.39%	12.45%
AGL Resources	15.30%	6.10%	9.20%	0.65	5.98%	7.39%	13.37%
New Jersey Resources	15.30%	6.10%	9.20%	0.55	5.06%	7.39%	12.45%
NICOR, Inc.	15.30%	6.10%	9.20%	0.60	5.52%	7.39%	12.91%
Northwest Natural Gas	15.30%	6.10%	9.20%	0.60	5.52%	7.39%	12.91%
Peoples Energy	15.30%	6.10%	9.20%	0.75	6.90%	7.39%	14.29%
Washington Gas Light	15.30%	6.10%	9.20%	0.55	5.06%	7.39%	12.45%
Moody's Companies' Average	15.30%	6.10%	9.20%	0.62	5.67%	7.39%	13.06%

Sources :

Value Line Investment Survey
Ibbotson Associates 1999 SBBI Yearbook
Federal Reserve Statistical Release

Nashville Gas Company

Comparable Local Distribution Companies

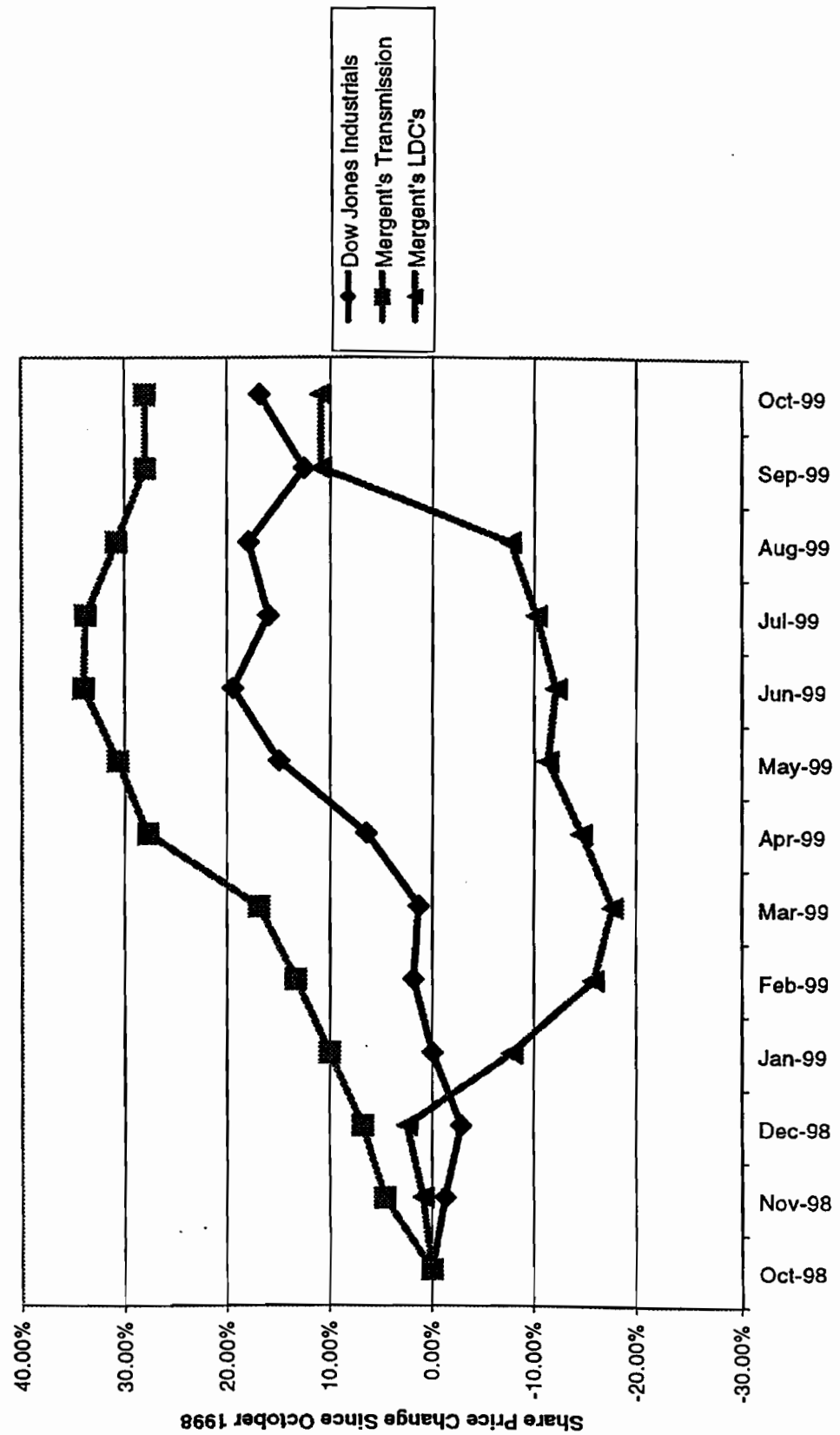
Cost of Equity : Size Adjusted Capital Asset Pricing Model

	Risk Free Return	Beta	Equity Risk Premium	Adjusted Equity Risk Premium	Size Premium	Cost of Equity
Piedmont Natural Gas Company	6.43%	0.55	8.00%	4.40%	0.50%	11.33%
AGL Resources	6.43%	0.65	8.00%	5.20%	0.50%	12.13%
New Jersey Resources	6.43%	0.55	8.00%	4.40%	1.10%	11.93%
NICOR, Inc.	6.43%	0.60	8.00%	4.80%	0.50%	11.73%
Northwest Natural Gas	6.43%	0.60	8.00%	4.80%	1.10%	12.33%
Peoples Energy	6.43%	0.75	8.00%	6.00%	0.50%	12.93%
Washington Gas Light	6.43%	0.55	8.00%	4.40%	0.50%	11.33%
Moody's Companies' Average	6.43%	0.62	8.00%	4.93%	0.70%	12.06%

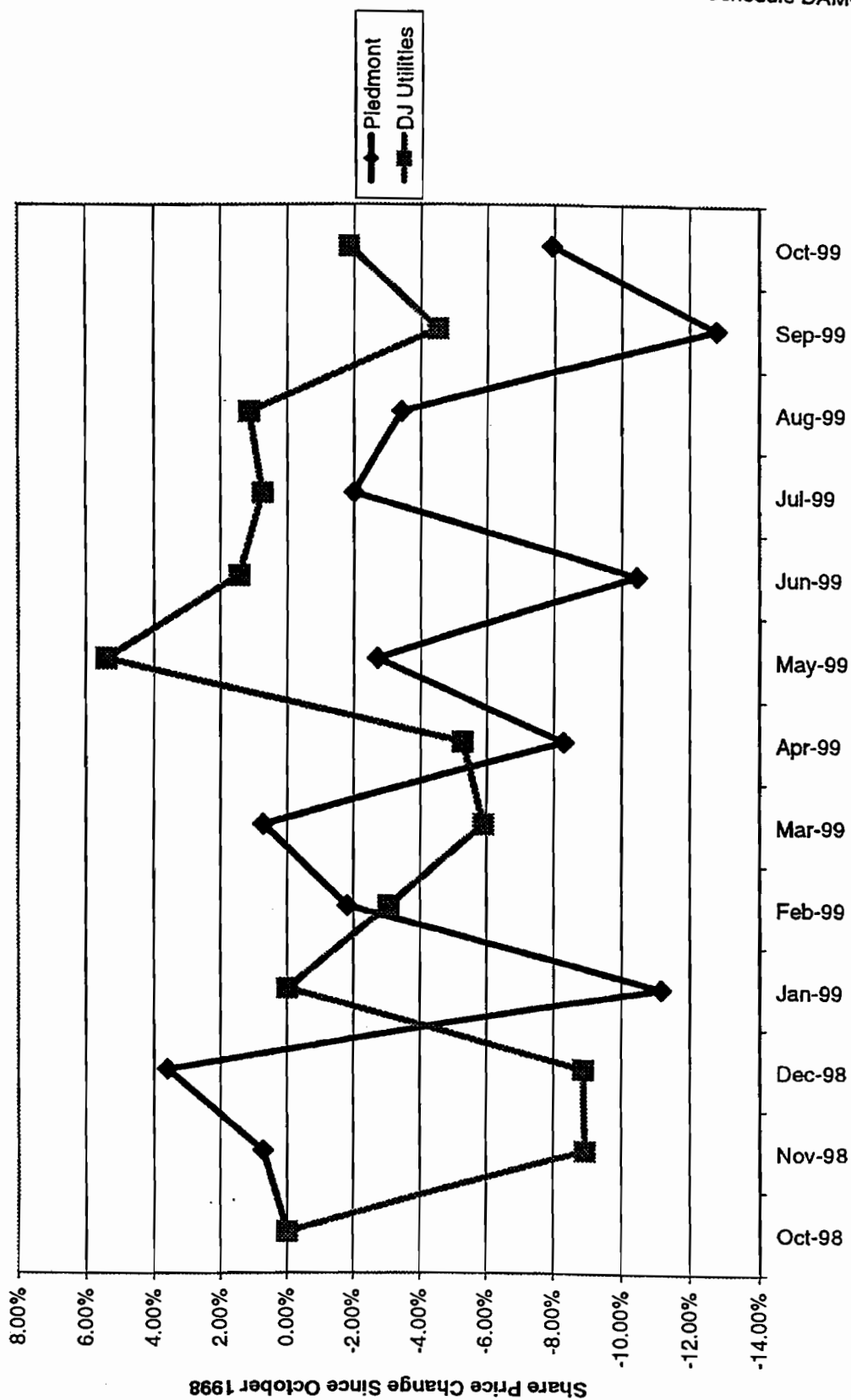
Sources :

Value Line Investment Survey
Ibbotson Associates 1999 SBI Yearbook
Federal Reserve Statistical Release

Comparison of Price Appreciation
for Mergent's Gas Companies



Piedmont Stock Price vs. DJ Utility Index



Nashville Gas Company

A Division of Piedmont Natural Gas

Price / Earnings Ratios Comparison for the Past Five Years

	1994	1995	1996	1997	1998	Five Year Average
Piedmont Natural Gas	15.7	13.8	13.9	13.6	16.3	14.7
AGL Resources	15.1	12.6	13.8	14.7	13.9	14.0
New Jersey Resources	13.0	11.7	13.6	13.5	15.3	13.4
NICOR, Incorporated	12.5	13.1	12.5	14.2	17.6	14.0
Northwest Natural Gas	13.0	12.9	11.7	14.4	26.7	15.7
Peoples Energy	13.3	14.7	10.7	12.7	16.2	13.5
Washington Gas Light	14.0	12.7	11.5	12.7	17.2	13.6
Comparable Companies' Average	13.5	13.0	12.3	13.7	18.3	14.2

Source: Value Line Investment Survey

Nashville Gas Company

A Division of Piedmont Natural Gas

Dividend Yield Comparison for the Past Five Years

	1994	1995	1996	1997	1998	Five Year Average
Piedmont Natural Gas	4.8%	5.4%	4.9%	4.8%	4.0%	4.8%
AGL Resources	5.9%	6.2%	5.6%	5.4%	5.5%	5.7%
New Jersey Resources	6.2%	6.7%	5.6%	5.3%	4.6%	5.7%
NICOR, Incorporated	4.8%	5.0%	4.4%	3.9%	3.6%	4.3%
Northwest Natural Gas	5.5%	5.7%	5.2%	4.8%	4.5%	5.1%
Peoples Energy	6.3%	6.9%	5.7%	5.2%	5.2%	5.9%
Washington Gas Light	5.6%	6.1%	5.4%	5.0%	4.5%	5.3%
Comparable Companies' Average	5.7%	6.1%	5.3%	4.9%	4.7%	5.3%

Source: Value Line Investment Survey

Nashville Gas Company

A Division of Piedmont Natural Gas

Comparison of Value Line's Safety Rank

	Safety Rank
Piedmont Natural Gas	2
AGL Resources	2
New Jersey Resources	2
NICOR, Incorporated	1
Northwest Natural Gas	2
Peoples Energy	1
Washington Gas Light	1
Comparable Companies' Average	1.5

Source: Value Line Investment Survey

Nashville Gas Company

A Division of Piedmont Natural Gas

Comparison of Value Line's Timeliness Rank

	Timeliness Rank
Piedmont Natural Gas	5
AGL Resources	4
New Jersey Resources	4
NICOR, Incorporated	4
Northwest Natural Gas	3
Peoples Energy	4
Washington Gas Light	3
Comparable Companies' Average	3.67

Source: Value Line Investment Survey

Nashville Gas Company
A Division of Piedmont Natural Gas Company
Pro Forma Capital Structure
Cost of Capital

	Average	Ratio	Embedded Cost	Weighted Cost
Long-Term Debt	377,568,915	42.00%	8.27%	3.47%
Short-Term Debt	30,807,692	3.43%	6.00%	0.21%
Common Equity	490,496,702	54.57%	12.50%	6.82%
Total	898,873,309	100.00%		10.50%

Source: Piedmont Natural Gas Company Work Papers

Nashville Gas Company

Moody's Local Distribution Companies

Comparison of After-Tax Times Long Term Interest Earned Ratios

Piedmont Natural Gas Company	@12.5% ROE	2.96
AGL Resources		2.65
New Jersey Resources		3.27
NICOR, Inc.		4.17
Northwest Natural Gas		2.01
Peoples Energy		2.90
Washington Gas Light		3.32
Comparable Companies' Average		3.05

Source : Value Line Investment Survey