



**NATIONAL FUEL GAS  
DISTRIBUTION CORPORATION  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
DOCKET NO. R-00061493**

**Information Submitted Pursuant to Pa. PUC Regulation  
Regarding Filing of Rate Changes**

**Tariff Gas Pa. P.U.C. No. 9  
Volume IV**

**ORIGINAL**

**NATIONAL FUEL GAS DISTRIBUTION CORPORATION  
(PENNSYLVANIA DIVISION)**

**EXHIBIT  
(Consisting of 16 Schedules)**

**TO ACCOMPANY THE**

**DIRECT TESTIMONY**

**OF**

**FRANK J. HANLEY, CRRA  
PRESIDENT  
AUS CONSULTANTS - UTILITY SERVICES**

**CONCERNING**

**FAIR RATE OF RETURN**

SECRETARY OF STATE  
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National Fuel Gas Distribution Corporation  
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to the Financial Supporting Exhibits  
of Frank J. Hanley

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National Fuel Gas Distribution Corporation  
 Summary of Cost of Capital and Fair Rate of Return  
 Actual at January 31, 2006

Type of Capital	Ratios (1)	Cost Rate		Weighted Cost Rate	
Long-Term Debt	40.04 %	6.64 % (2)		2.66 %	
Short-Term Debt	<u>8.46</u>	4.35 (2)		<u>0.37</u>	
Total Debt	48.50 (3)			3.03	
Common Equity	<u>51.50</u>	12.00 %	— 12.25 % (4)	<u>6.18 %</u>	<u>6.31 %</u>
Total	<u>100.00 %</u>			<u>9.21 %</u>	<u>9.34 %</u>

Notes:

- (1) A capital structure consisting of 48.50% debt and 51.50% equity is utilized for cost of capital purposes for the following reasons:
  - (a) Distribution's actual capital structure at January 31, 2006 (shown on Schedule 6, page 1 of this Exhibit) includes a 64.00% common equity ratio, which is inappropriate for ratemaking purposes;
  - (b) If Distribution, viewed as a stand alone, had an 'A-' bond ratings and a business profile of "4" from S&P, it would be required to maintain total equity in the range of 48.0% to 55.0% (as can be determined from the data shown on Schedule 2, page 14 of this Exhibit).
  - (c) Distribution's parent, National Fuel Gas Company (NFG) has an actual capital structure at January 31, 2006, which includes a common equity ratio of 56.80% (shown on schedule 6, page 1 of this Exhibit), exceeds the range required of 48% -55% required by S&P for an "A" bond rating with a business profile of 4, consequently, Mr. Hanley adopts the mid-point of that range, or a 51.50% equity ratio.
- (2) Company-provided.
- (3) The 48.5% total debt ratio has been allocated between long-term and short-term debt based upon the mid-point of the average long-term and short-term debt ratios of the proxy group of four gas distribution companies and the proxy group of nine Value Line gas distribution companies for the five quarters ended December 31, 2005 as derived in note 5 on page 1 of Schedule 6 of this Exhibit.
- (4) Based upon informed judgment from the entire study, the principal results of which are summarized on page 3 of this Schedule.

National Fuel Gas Distribution Corporation  
Summary of Cost of Capital and Fair Rate of Return  
Estimated at January 31, 2007

<u>Type of Capital</u>	<u>Ratios (1)</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-Term Debt	40.04 %	6.64 % (2)	2.66 %
Short-Term Debt	<u>8.46</u>	6.03 (2)	<u>0.51</u>
Total Debt	48.50 (3)		3.17
Common Equity	<u>51.50</u>	12.00 % — 12.25 % (4)	<u>6.18 % — 6.31 %</u>
Total	<u>100.00 %</u>		<u>9.35 % — 9.48 %</u>

Notes:

- (1) A capital structure consisting of 48.50% debt and 51.50% equity is utilized for cost of capital purposes for the following reasons:
- (a) Distribution's estimated capital structure at January 31, 2007 (shown on Schedule 6, page 2 of this Exhibit) includes a 59.51% common equity ratio, which is inappropriate for ratemaking purposes;
  - (b) If Distribution, viewed as a stand alone, had an 'A-' bond ratings and a business profile of "4" from S&P, it would be required to maintain total equity in the range of 48.0% to 55.0% (as can be determined from the data shown on Schedule 2, page 14 of this Exhibit).
  - (c) Distribution's parent, National Fuel Gas Company (NFG) is estimated to have a January 31, 2007 Capital Structure, which includes a 54.16% common equity ratio (shown on schedule 6, page 2 of this Exhibit), while within the range required of 48% -55% by S&P for an "A" bond rating with a business profile of 4, Mr. Hanley adopts the mid-point of that range or a 51.50% equity ratio.
- (2) Company-provided.
- (3) The 48.5% total debt ratio has been allocated between long-term and short-term debt based upon the mid-point of the average long-term and short-term debt ratios of the proxy group of four gas distribution companies and the proxy group of nine Value Line gas distribution companies for the five quarters ended December 31, 2005 as derived in note 5 on page 2 of Schedule 6 of this Exhibit.
- (4) Based upon informed judgment from the entire study, the principal results of which are summarized on page 3 of this Schedule.

National Fuel Gas Distribution Corporation  
Brief Summary of Common Equity Cost Rate

Line No.	Principal Methods	Proxy Group of Four Gas Distribution Companies	Proxy Group of Nine Value Line Gas Distribution Companies
1.	Discounted Cash Flow Model (1)	10.76 %	10.30 %
2.	Risk Premium Model (2)	10.70	10.62
3.	Capital Asset Pricing Model (3)	10.37	10.19
4.	Comparable Earnings Analysis (4)	<u>14.56</u>	<u>14.48</u>
5.	Indicated Range Common Equity Cost Rate before		
	A. Investment Risk Adjustments	11.60 %	11.40 %
	B. Practical Adjusted Discounted Cash Flow Results (DCF) (5)	12.05	11.98
6.	Indicated Common Equity Cost Rate Before Adjustments for Risk	11.60	11.40 %
7.	Adjustments for Unique Risk		
	A. Due to small Size	30 - 60 (6)	30 - 60 (6)
	B. Due to lack of WNA	<u>0.13 (7)</u>	<u>0.17 (7)</u>
8.	Indicated After Common Equity Cost Rate Before Adjustments for Risk	12.03% - 12.33%	11.87% - 12.17%
9.	Recommended Common Equity Cost Rate Range	<b>12.00% - 12.25%</b>	

See pages 4, 5 and 6 for notes.

National Fuel Gas Distribution Corporation  
Notes to Brief Summary of Cost of Equity

Notes:

- (1) The 10.76% (4 LDCs) and 10.30% (9 Value Line LDCs) adjusted DCF cost rates reflect the added financial risk attributable to the application of a market based cost of common equity to a book value common equity ratio as made by the Pennsylvania Public Utility Commission (PAPUC) in Orders re: Pennsylvania-American Water Company (R-00016339) entered January 25, 2002, re: Pennsylvania-American Water Company (R-00038304) entered January 16, 2004, and re: Aqua Pennsylvania, Inc. (formerly Pennsylvania Suburban Water Company) (R-00038805) entered August 5, 2004, in order to reflect understatement of DCF cost rates due to the divergence of market and book value common equity ratios, especially in a volatile stock market. The basis for this adjustment is shown below:

The 9.69% and 9.42% DCF cost rates are relative to the average market value common equity of the proxy group of four gas distribution companies and the proxy group of nine value line gas distribution companies (LDCs), respectively. The cost of common equity for an LDC with 100% common equity must first be calculated as follows:

$$k_u = k_o - \left[ \left\{ (k_u - l) * (1 - t) * (MD / ME) \right\} - \left\{ (k_u - l_s) * (1 - t) * (MS / ME) \right\} - \left\{ (k_u - d) * (MP / ME) \right\} \right]$$

For the Proxy Group of Four Gas Distribution Companies:

$$8.41\% = 9.69\% - \left[ \left\{ (8.41\% - 5.79\%) * (1 - 35\%) * (31.11\% / 59.85\%) \right\} - \left\{ (8.41\% - 4.42\%) * (1 - 35\%) * (9.04\% / 59.85\%) \right\} - \left\{ (8.41\% - 6.12\%) * (0.0\% / 59.85\%) \right\} \right]$$

For the Proxy Group of Nine Value Line Gas Distribution Companies:

$$8.27\% = 9.42\% - \left[ \left\{ (8.27\% - 5.79\%) * (1 - 35\%) * (32.66\% / 60.60\%) \right\} - \left\{ (8.27\% - 4.42\%) * (1 - 35\%) * (6.58\% / 60.60\%) \right\} - \left\{ (8.27\% - 6.12\%) * (0.16\% / 60.60\%) \right\} \right]$$

Where:  $k_u$  = cost of common equity for a firm with 100% common equity.  
 $k_o$  = market determined cost of common equity, i.e., DCF cost rate, 9.69% (4 LDCs.) / 9.42% (9 LDCs.).  
 $l$  = cost rate of long-term debt, i.e., 5.79%, the average of the Jan. 2006 (5.75%) and Feb. 2006 (5.82%) yields on Moody's A rated public utility debt.  
 $l_s$  = cost rate of short-term debt, i.e., 4.42%, the average of the Jan. 2006 (4.36%) and Feb. 2006 (4.47%) commercial paper rate, from Federal Reserve Statistical Release H.15.  
 $t$  = tax rate, i.e., 35%.  
 $MD$  = average long-term debt ratio based upon a market-value capital structure, using the fair value of long-term debt at April 13, 2006 from pages 7 to 9 of this schedule.  
 $MS$  = average short-term debt ratio based upon a market-value capital structure, using the book value of short-term debt April 13, 2006 from pages 7 to 9 of this schedule.  
 $ME$  = average common equity ratio based upon a market-value capital structure at April 13, 2006.  
 $d$  = cost rate of preferred stock, i.e., 6.12%, the average of the Jan. 2006 (6.14%) and Feb. 2006 (6.10%) yields on Moody's A rated public utility preferred stocks.  
 $MP$  = average preferred stock ratio based upon a market-value

National Fuel Gas Distribution Corporation  
Notes to Brief Summary of Cost of Equity

capital structure at April 13, 2006, assuming preferred stock has a market-to-book ratio of 1.00, from pages 7 to 9 of this schedule.

From these "unlevered" costs of common equity, 8.41% (4 LDCs) and 8.27% (9 LDCs), the cost of common equity using the average book value capital structure ratios of the proxy groups can be derived as follows:

$$k_u = k_e + \{ \{ (k_u - l) * (1 - t) * (BD / BE) \} + \{ (k_u - l_s) * (1 - t) * (BS / BE) \} + \{ (k_u - d) * (BP / BE) \} \}$$

For the Proxy Group of Four Gas Distribution Companies:

$$10.76\% = 8.41\% + \{ \{ (8.41\% - 5.79\%) * (1 - 35\%) * (41.52\% / 45.00\%) \} + \{ (8.41\% - 4.42\%) * (1 - 35\%) * (13.48\% / 45.00\%) \} + \{ (8.41\% - 6.12\%) * (0.0\% / 45.00\%) \} \}$$

For the Proxy Group of Nine Value Line Gas Distribution Companies:

$$10.30\% = 8.27\% + \{ \{ (8.27\% - 5.79\%) * (1 - 35\%) * (43.19\% / 46.69\%) \} + \{ (8.27\% - 4.42\%) * (1 - 35\%) * (9.91\% / 46.69\%) \} + \{ (8.27\% - 6.12\%) * (0.21\% / 46.69\%) \} \}$$

Where:  $k_u$  = cost of common equity for a firm with 100% common equity.  
 $k_e$  = cost of common equity based upon book value capital structure ratios.  
 $l$  = cost rate of debt, i.e., 5.79%, the average of the Jan. 2006 (5.75%) and Feb. 2006 (5.82%) yields on Moody's A rated public utility debt.  
 $l_s$  = cost rate of short-term debt, i.e., 4.42%, the average of the Jan. 2006 (4.36%) and Feb. 2006 (4.47%) commercial paper rate, from Federal Reserve Statistical Release H.15.  
 $t$  = tax rate, i.e., 35%.  
 $BD$  = average debt ratio based upon the carrying value of long-term debt at April 13, 2006 from pages 7 to 9 of this schedule.  
 $BS$  = average short-term debt ratio based upon a book value capital structure, using the book value of short-term debt at April 13, 2006 from pages 7 to 9 of this schedule.  
 $d$  = cost rate of preferred stock, i.e., 6.12%, the average of the Jan. 2006 (6.14%) and Feb. 2006 (6.10%) yields on Moody's A rated public utility preferred stocks.  
 $BP$  = average preferred stock ratio based upon a book-value capital structure at April 13, 2006, from pages 7 to 9 of this schedule.

- (2) From page 1 of Schedule 12.
- (3) From Page 1 of Schedule 14.
- (4) From Pages 1 and 2 of Schedule 15.
- (5) Using the formulas described above, the 10.72% and 10.78% practical DCF results from the proxy groups of 4 and 9 LDCs and 9 Value Line LDCs are 12.05% and 11.98%, respectively.
- (6) From page 1 of Schedule 8, Column 5. Risk Adjustment due to NFGDC's greater relative business risk due to its small size vis-à-vis the two proxy groups, respectively, as summarized on page 10 of this Schedule and based

National Fuel Gas Distribution Corporation  
Notes to Brief Summary of Cost of Equity

upon all of the information contained on pages 7 through 25 of this schedule. Schedule. NFGDC's smaller size based on its Pennsylvania rate base warrants an upward adjustment in common equity cost rate of 1.88%. 188 basis points) vis-à-vis proxy groups of LDCs (see page 10 of this Schedule). However, Mr. Hanley's recommends a range of only 0.30% - 0.60% in order to be conservative while still recognizing the financial reality of size on cost rate.

- (7) As explained in Mr. Hanley's direct testimony, NFGDC does not enjoy *protection from the vagaries of the weather*. Since the majority of the companies in both proxy groups have such clauses (see page 4 of Schedules 4 and 5 of this Exhibit), NFGDC's PA jurisdiction has greater relative risk vis-à-vis the companies in the proxy groups, due to the greater variability of its earnings attributable to the vagaries of weather. In Mr. Hanley's judgment the added risk attributable to the lack of protection from the vagaries of weather is approximately 25 basis points. As shown on Page 4 of Schedule 4, the equivalent of 2 companies in the proxy group of four LDCs, have WNCs in place. This equates to about 50% of the full impact or 13 basis points  $((0.25\% * 50\%) = 0.125\%$ , rounded to 0.13%). It can be determined in similar fashion by reference to Page 4 of Schedule 5, that the equivalent of 6 companies in the proxy group of nine Value Line LDCs enjoy protection from weather, of the full impact or 17 basis points  $((0.25\% * 66.7\%) = 0.167\%$ , rounded to 0.17%).

Capital Structure Based upon Total Capital  
for the Proxy Group of Four Gas Distribution Companies  
As of September 2005 (1)

	Based Upon Book Value		Based Upon Market Value of Common Equity at September 30, 2005	
	Amount Outstanding (\$ mil)	Ratios	Amount Outstanding (\$ mil)	Ratios
<b>Cascade Natural Gas Corporation</b>				
Long-Term Debt	\$ 173.84	57.00 %	\$ 188.63	44.39 %
Short-Term Debt	12.50	4.10	12.50	2.94
Total Debt	186.34	61.10	201.13	47.33
Preferred Stock	-	-	-	-
Common Equity	118.62	38.90	223.81	52.67
Total Equity	118.62	38.90	223.81	52.67
Total Capital	\$ 304.96	100.00 %	\$ 424.94	100.00 %
<b>NICOR Inc.</b>				
Long-Term Debt	\$ 538.40	27.74 %	\$ 525.00	17.72 %
Short-Term Debt	586.00	30.30	586.00	19.78
Total Debt	1,122.40	58.04	1,111.00	37.50
Preferred Stock	-	-	-	-
Common Equity	811.30	41.96	1,852.02	62.50
Total Equity	811.30	41.96	1,852.02	62.50
Total Capital	\$ 1,933.70	100.00 %	\$ 2,963.02	100.00 %
<b>Northwest Natural Gas Company</b>				
Long-Term Debt	\$ 329.50	42.60 %	\$ 379.38	35.00 %
Short-Term Debt	126.70	10.18	126.70	7.66
Total Debt	656.20	52.79	706.08	42.66
Preferred Stock	-	-	-	-
Common Equity	586.93	47.21	949.06	57.34
Total Equity	586.93	47.21	949.06	57.34
Total Capital	\$ 1,243.13	100.00 %	\$ 1,655.14	100.00 %
<b>Piedmont Natural Gas Co., Inc.</b>				
Long-Term Debt	\$ 660.00	38.76 %	\$ 753.27	27.34 %
Short-Term Debt	158.50	9.31	158.50	5.76
Total Debt	818.50	48.07	911.77	33.10
Preferred Stock	-	-	-	-
Common Equity	884.19	51.93	1,843.05	66.90
Total Equity	884.19	51.93	1,843.05	66.90
Total Capital	\$ 1,702.69	100.00 %	\$ 2,754.82	100.00 %
<b>Proxy Group of Four Gas Distribution Companies</b>				
Long-Term Debt		41.52 %		31.11 %
Short-Term Debt		13.48		9.04
Total Debt		55.00		40.15
Preferred Stock		-		-
Common Equity		45.00		59.85
Total Equity		45.00		59.85
Total Capital		100.00 %		100.00 %

(1) Capital Structure Based upon Total Capital as of September 2005, except NICOR Northwest Natural, which is December 2005, and for Piedmont Natural Gas, which is October 2005.

Source of Information: Company Annual Forms 10-K  
Source of Information: DTN Trading Markets' DTNDataInterquote.com

Capital Structure Based upon Total Capital  
for the Proxy Group of Nine Value Line Gas Distribution Companies  
At September 2005 (1)

	Based Upon Book Value		Based Upon Market Value of Common Equity at September 30, 2005	
	Amount Outstanding (\$ mil.)	Ratios	Amount Outstanding (\$ mil.)	Ratios
<b>Almos Energy Corporation</b>				
Long-Term Debt	\$ 2,186.37	55.58 %	\$ 2,078.30	48.03 %
Short-Term Debt	144.81	3.88	144.81	3.35
Total Debt	2,331.18	59.26	2,223.11	51.38
Preferred Stock	-	-	-	-
Common Equity	1,602.42	40.74	2,103.68	48.62
Total Equity	1,602.42	40.74	2,103.68	48.62
Total Capital	\$ 3,933.60	100.00 %	\$ 4,326.79	100.00 %
<b>Cascade Natural Gas Corporation</b>				
Long-Term Debt	\$ 173.84	57.00 %	\$ 188.83	44.21 %
Short-Term Debt	12.50	4.10	12.50	2.93
Total Debt	186.34	61.10	201.13	47.14
Preferred Stock	-	-	-	-
Common Equity	118.62	38.90	225.52	52.86
Total Equity	118.62	38.90	225.52	52.86
Total Capital	\$ 304.96	100.00 %	\$ 426.65	100.00 %
<b>The Laclede Group, Inc.</b>				
Long-Term Debt	\$ 380.43	46.48 %	\$ 413.52	34.80 %
Short-Term Debt	70.61	8.62	70.61	5.94
Total Debt	451.04	55.10	484.13	40.74
Preferred Stock	1.01	0.12	1.01	0.08
Common Equity	366.63	44.78	703.33	59.18
Total Equity	367.63	44.80	704.34	59.26
Total Capital	\$ 818.67	100.00 %	\$ 1,188.47	100.00 %
<b>New Jersey Resources Corp.</b>				
Long-Term Debt	\$ 264.80 (2)	30.20 %	\$ 266.80	16.07 %
Short-Term Debt	174.10	19.85	174.10	10.49
Total Debt	438.90	50.05	440.90	26.56
Preferred Stock	-	-	-	-
Common Equity	438.05	49.95	1,218.91	73.44
Total Equity	438.05	49.95	1,218.91	73.44
Total Capital	\$ 876.95	100.00 %	\$ 1,659.81	100.00 %
<b>NICOR Inc.</b>				
Long-Term Debt	\$ 536.40	27.74 %	\$ 525.00	18.55 %
Short-Term Debt	586.00	30.30	586.00	20.71
Total Debt	1,122.40	58.04	1,111.00	39.26
Preferred Stock	-	-	-	-
Common Equity	811.30	41.96	1,719.04	60.74
Total Equity	811.30	41.96	1,719.04	60.74
Total Capital	\$ 1,933.70	100.00 %	\$ 2,830.04	100.00 %
<b>Northwest Natural Gas Company</b>				
Long-Term Debt	\$ 529.50	42.60 %	\$ 579.38	35.07 %
Short-Term Debt	126.70	10.19	126.70	7.67
Total Debt	656.20	52.79	706.08	42.74
Preferred Stock	-	-	-	-
Common Equity	586.93	47.21	946.02	57.26
Total Equity	586.93	47.21	946.02	57.26
Total Capital	\$ 1,243.13	100.00 %	\$ 1,652.10	100.00 %

Capital Structure Based upon Total Capital  
for the Proxy Group of Nine Value Line Gas Distribution Companies  
At September 2005 (1)

	Based Upon Book Value		Based Upon Market Value of Common Equity at September 30, 2005	
	Amount Outstanding (\$ mil )	Ratios	Amount Outstanding (\$ mil )	Ratios
<b><u>Peoples Energy Corporation</u></b>				
Long-Term Debt	\$ 895.58	52.56 %	\$ 912.80	40.07 %
Short-Term Debt	8.15	0.48	8.15	0.36
Total Debt	903.73	53.04	920.95	40.43
Preferred Stock	-	-	-	-
Common Equity	800.15	46.96	1,356.87	59.57
Total Equity	800.15	46.96	1,356.87	59.57
Total Capital	\$ 1,703.89	100.00 %	\$ 2,277.82	100.00 %
<b><u>Piedmont Natural Gas Co., Inc.</u></b>				
Long-Term Debt	\$ 660.00	38.76 %	\$ 753.27	27.59 %
Short-Term Debt	158.50	9.31	158.50	5.81
Total Debt	818.50	48.07	911.77	33.40
Preferred Stock	-	-	-	-
Common Equity	884.19	51.93	1,818.51	66.60
Total Equity	884.19	51.93	1,818.51	66.60
Total Capital	\$ 1,702.69	100.00 %	\$ 2,730.28	100.00 %
<b><u>WGL Holdings, Inc.</u></b>				
Long-Term Debt	\$ 584.20 (2)	37.76 %	\$ 626.80	29.57 %
Short-Term Debt	40.88	2.64	40.88	1.83
Total Debt	625.08	40.40	667.68	31.50
Preferred Stock	28.17	1.82	28.20	1.33
Common Equity	893.99	57.78	1,423.63	67.17
Total Equity	922.17	59.60	1,451.83	68.50
Total Capital	\$ 1,547.24	100.00 %	\$ 2,119.51	100.00 %
<b><u>Proxy Group of Nine Gas Distribution Companies</u></b>				
Long-Term Debt		43.19 %		32.66 %
Short-Term Debt		8.91		6.58
Total Debt		53.10		39.24
Preferred Stock		0.21		0.16
Common Equity		46.69		60.60
Total Equity		46.90		60.76
Total Capital		100.00 %		100.00 %

(1) Capital Structure Based upon Total Capital as of September 2005, except NICOR Northwest Natural, which is December 2005, and for Piedmont Natural Gas, which is October 2005

(2) Book Value Long-term debt for New Jersey Resources and WGL Holdings are based on the carrying amount published by the companies in their Annual Form 10-Ks.

Source of Information: Company Annual Forms 10-K  
Source of Information: DTN Trading Markets' DTN/Q/Interquote.com

National Fuel Gas Distribution Corporation  
Derivation of Investment Risk Adjustment Based upon  
Ibbotson Associates' Size Premia for the Decile Portfolios of the NYSE/AMEX/NASDAQ

<u>Line No.</u>	<u>1</u>		<u>2</u>		<u>3</u>	<u>4</u>	<u>5</u>		
	Total Capitalization (incl. Short-Term Debt) for the Year 2005		Market Capitalization on April 13, 2006 (1)		Applicable Decile of the NYSE/AMEX/ NASDAQ	Applicable Size Premium	Spread from Applicable Size Premium (2)		
	( millions )	(times larger)	( millions )	(times larger)					
1. <u>National Fuel Gas Distribution Corporation</u>	\$ 296.951	(3)							
B. <u>Based upon the Proxy Group of Four Gas Distribution Companies</u>			\$ 300.966		9 - 10 (4)	3.58%	(5)		
A. <u>Based upon the Proxy Group of Nine Value Line Gas Distribution Companies</u>			\$ 296.072		9 - 10 (4)	3.58%	(5)		
2. <u>Proxy Group of Four Gas Distribution Companies</u>	\$ 1,298.120	(6)	4.4	\$ 1,216.986	4.0	6 - 7 (7)	1.70%	(8)	1.88%
3. <u>Proxy Group of Nine Value Line Gas Distribution Companies</u>	\$ 1,574.495	(9)	5.3 x	\$ 1,315.987	4.4 x	6 - 7 (10)	1.70%	(11)	1.88%

Decile	Number of Companies	Recent Total Market Capitalization ( millions )	Recent Average Market ( millions )
1 - Largest	169	\$8,869,801.117	\$52,484.030
2	182	2,025,323.685	11,128.152
3	195	1,074,448.763	5,509.994
4	208	656,297.080	3,185.908
5	207	452,329.097	2,185.165
6	238	389,595.517	1,636.956
7	299	319,642.175	1,069.037
8	352	287,783.718	817.567
9	693	268,738.291	387.790
10 - Smallest	1746	216,334.858	123.903

See page 10 for notes.

National Fuel Gas Distribution Corporation  
Derivation of Investment Risk Adjustment Based upon  
Ibbotson Associates' Size Premia for the Decile Portfolios of the NYSE

Notes:

- (1) From page 12 of this Schedule.
- (2) Line No. 1 – Line No. 2 and Line No. 1 – Line No. 3 of Columns 3 and 4, respectively. For example, the 1.88% in Column 5, Line No. 2 is derived as follows  $1.88\% = 3.58\% - 1.70\%$ .
- (3) Company-provided rate base at January 31, 2007 presumed to equal total capitalization if it were a stand-alone entity rather than a subsidiary with all of its external capital provided by the parent, National Fuel Gas Company.
- (4) With an estimated market capitalization of \$300.966 million (based upon the Proxy Group of Four Gas Distribution Companies) and \$296.072 (based upon the proxy group of Nine Value Line Gas Distribution Companies), National Fuel falls between the 9<sup>th</sup> and 10<sup>th</sup> decile of the NYSE/AMEX/NASDAQ which has an average market capitalization of \$255.847 as shown in the table on the bottom half of page 9 of this Schedule.
- (5) Size premium applicable to the 9<sup>th</sup> and 10<sup>th</sup> decile of the NYSE/AMEX/NASDAQ as shown on page 24 of this Schedule.
- (6) From page 1 of Schedule 4
- (7) With an estimated market capitalization of \$1,216.986 million, the proxy group of Four Gas Distribution Companies falls between the 6<sup>th</sup> and 7<sup>th</sup> deciles of the NYSE/AMEX/NASDAQ which has an average market capitalization of \$1,352.997 as shown in the table on the bottom half of page 9 of this Schedule.
- (8) Average size premium applicable to the 6<sup>th</sup> and 7<sup>th</sup> deciles of the NYSE/AMEX/NASDAQ as can be gleaned from the information shown on page 24 of this schedule.
- (9) From page 1 of Schedule 4.
- (10) With an estimated market capitalization of \$1,315.987 million, the proxy group of Nine Value Line Gas Distribution Companies falls between the 6<sup>th</sup> and 7<sup>th</sup> deciles of the NYSE/AMEX/NASDAQ which has an average market capitalization of \$1,352.997 as shown in the table on the bottom half of page 9 of this Schedule.
- (11) Average size premium applicable to the 6<sup>th</sup> and 7<sup>th</sup> deciles of the NYSE/AMEX/NASDAQ as can be gleaned from the information shown on page 24 of this schedule.

**National Fuel Gas Distribution Corporation**  
**Market Capitalization of National Fuel Gas Distribution Corporation**  
**for the Proxy Group of Four Gas Distribution Companies**  
**and the Proxy Group of Nine Value Line Gas Distribution Companies**

Company	1 Common Stock Shares Outstanding at September 30, 2005 (1) & (*) ( millions )	2 Book Value per Share at September 30, 2005 (1) & (*)	3 Total Common Equity at September 30, 2005 (*) ( millions )	4 Closing Stock Market Price on April 13, 2006	5 Market-to-Book Ratio at April 13, 2006 (2)	6 Market Capitalization on April 13, 2006 (3) ( millions )
<b>National Fuel Gas Distribution Corporation</b>	NA (4)	NA	\$ 152.930 (4)	NA		
Based upon the Proxy Group of Four Gas Distribution Companies					196.8 % (5)	\$ 300.966 (6)
Based upon the Proxy Group of Nine Value Line Gas Distribution Companies					193.6 % (7)	\$ 296.072 (8)
<b>Proxy Group of Four Gas Distribution Companies</b>						
Cascade Natural Gas Corporation	11.413	\$ 10.393	\$ 118.615	\$ 19.610	188.7 %	\$ 223.809
NICOR Inc.	44.180	18.364	811.300	41.920	228.3	1,852.024
Northwest Natural Gas Company	27.621	21.249	586.931	34.360	161.7	949.058
Piedmont Natural Gas Co., Inc.	76.698	11.528	884.192	24.030	208.4	1,843.053
	<u>39.978</u>	<u>\$ 15.384</u>	<u>\$ 600.260</u>	<u>\$ 29.980</u>	<u>196.8 %</u>	<u>\$ 1,216.986</u>
<b>Proxy Group of Nine Value Line Gas Distribution Companies</b>						
Almos Energy Corporation	80.539	\$ 19.896	\$ 1,602.422	\$ 26.120	131.3 %	\$ 2,103.879
Cascade Natural Gas Corporation	11.413	10.393	118.615	19.610	188.7	223.809
The Laclede Group, Inc.	21.172	17.312	366.525	34.300	198.1	726.200
New Jersey Resources Corp.	27.546	15.903	438.052	44.510	279.9	1,226.072
NICOR Inc.	44.180	18.364	811.300	41.920	228.3	1,852.024
Northwest Natural Gas Company	27.621	21.249	586.931	34.360	161.7	949.058
Peoples Energy Corporation	38.157	20.970	800.154	37.850	180.5	1,444.251
Piedmont Natural Gas Co., Inc.	76.698	11.528	884.192	24.030	208.4	1,843.053
WGL Holdings, Inc.	48.704	18.355	893.992	30.300	165.1	1,475.742
Average	<u>41.781</u>	<u>\$ 17.108</u>	<u>\$ 722.465</u>	<u>\$ 32.556</u>	<u>193.6 %</u>	<u>\$ 1,315.987</u>

NA = Not Available

- Notes: (1) Column 3 / Column 1.  
(2) Column 4 / Column 2.  
(3) Column 5 \* Column 3.  
(4) Based upon allocating National Fuel Gas Distribution Corporation's rate base at January 31, 2007 of \$296,950,785 by Mr. Hanley's recommended common equity ratio 51.50%.  $\$152.930 = \$296,950,785 * 51.50\%$ .  
(5) The market-to-book ratio of National Fuel Gas Distribution Corporation at April 13, 2006 is assumed to be equal to the average market-to-book ratio at April 13, 2006 of the Proxy Group of Four Gas Distribution Companies.  
(6) National Fuel Gas Distribution Corporation's common stock, if traded, would trade at a market-to-book ratio equal to the average market-to-book ratio at April 13, 2006 of the proxy group of Four Gas Distribution Companies, 196.8%, and National Fuel's market capitalization at April 13, 2006 would therefore have been \$287.897 million.  $(\$287.897 = \$146.128 * 196.8\%)$ .  
(7) The market-to-book ratio of National Fuel Gas Distribution Corporation at April 13, 2006 is assumed to be equal to the average market-to-book ratio at April 13, 2006 of the proxy group of Nine Value Line Natural Gas Distribution Companies.  
(8) National Fuel Gas Distribution's common stock, if traded, would trade at a market-to-book ratio equal to the average market-to-book ratio at April 13, 2006 of the proxy group of Nine Value Line Gas Distribution Companies, 193.6%, and National Fuel's market capitalization at April 13, 2006 would therefore have been \$283.216 million.  $(\$283.216 = \$146.128 * 193.6\%)$ .  
(\*) As of September 2005, except NICOR and Northwest Natural, which are at December 2005, and for Piedmont Natural Gas which is at October 2005.

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# Chapter 7

## Firm Size and Return

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### The Firm Size Phenomenon

One of the most remarkable discoveries of modern finance is that of a relationship between firm size and return. The relationship cuts across the entire size spectrum but is most evident among smaller companies, which have higher returns on average than larger ones. Many studies have looked at the effect of firm size on return.<sup>1</sup> In this chapter, the returns across the entire range of firm size are examined.

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### Construction of the Decile Portfolios

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

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

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

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### Size of the Deciles

Table 7-1 reveals that the top three deciles of the NYSE/AMEX/NASDAQ account for most of the total market value of its stocks. Nearly two-thirds of the market value is represented by the first decile, which currently consists of 169 stocks, while the smallest decile accounts for just over

<sup>1</sup> Rolf W. Banz was the first to document this phenomenon. See Banz, Rolf W. "The Relationship Between Returns and Market Value of Common Stocks," *Journal of Financial Economics*, Vol. 9, 1981, pp. 3-18.

one percent of the market value. The data in the second column of Table 7-1 are averages across all 80 years. Of course, the proportion of market value represented by the various deciles varies from year to year.

Columns three and four give recent figures on the number of companies and their market capitalization, presenting a snapshot of the structure of the deciles near the end of 2005.

**Table 7-1**  
 Size-Decile Portfolios of the NYSE/AMEX/NASDAQ Size and Composition  
 1926 through September 30, 2005

Decile	Historical Average Percentage of Total Capitalization	Recent Number of Companies	Recent Decile Market Capitalization (in thousands)	Recent Percentage of Total Capitalization
1-largest	63.29%	169	\$8,869,801,117	60.92%
2	13.97%	182	2,025,323,685	13.91%
3	7.57%	195	1,074,448,763	7.38%
4	4.74%	206	656,297,080	4.51%
5	3.24%	207	452,329,097	3.11%
6	2.37%	238	389,595,517	2.68%
7	1.73%	299	319,642,175	2.20%
8	1.28%	352	287,783,718	1.98%
9	0.99%	693	268,738,291	1.85%
10-Smallest	0.81%	1,746	216,334,858	1.49%
Mid-Cap 3-5	15.55%	608	2,183,074,940	14.99%
Low-Cap 6-8	5.39%	889	997,021,410	6.85%
Micro-Cap 9-10	1.80%	2,439	485,073,149	3.33%

Source: © 200603 CRSP® Center for Research in Security Prices, Graduate School of Business, The University of Chicago. Used with permission. All rights reserved. www.crsp.uchicago.edu.

Historical average percentage of total capitalization shows the average, over the last 80 years, of the decile market values as a percentage of the total NYSE/AMEX/NASDAQ calculated each month. Number of companies in deciles, recent market capitalization of deciles, and recent percentage of total capitalization are as of September 30, 2005.

Table 7-2 gives the current breakpoints that define the composition of the NYSE/AMEX/NASDAQ size deciles. The largest company and its market capitalization are presented for each decile. Table 7-3 shows the historical breakpoints for each of the three size groupings presented throughout this chapter. Mid-cap stocks are defined here as the aggregate of deciles 3-5. Based on the most recent data (Table 7-2), companies within this mid-cap range have market capitalizations at or below \$7,187,244,000 but greater than \$1,728,888,000. Low-cap stocks include deciles 6-8 and currently include all companies in the NYSE/AMEX/NASDAQ with market capitalizations at or below \$1,728,888,000 but greater than \$586,393,000. Micro-cap stocks include deciles 9-10 and include companies with market capitalizations at or below \$586,393,000. The market capitalization of the smallest company included in the micro-capitalization group is currently \$1,079,000.

Table 7-2  
 Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, Largest Company  
 and Its Market Capitalization by Decile  
 September 30, 2005

Decile	Market Capitalization of Largest Company (In thousands)	Company Name
1-Largest	\$367,495,144	General Electric Co.
2	16,016,450	Entergy Corp.
3	7,187,244	Chesapeake Energy Corp.
4	3,981,425	Ball Corp.
5	2,519,280	Calanese Corp.
6	1,728,888	AGCO Corp.
7	1,280,966	ESCO Technologies Inc.
8	872,103	West Pharmaceutical Services Inc.
9	586,393	General Cable Corp.
10-Smallest	264,981	4Kids Entertainment Inc.

Source: Center for Research in Security Prices, University of Chicago.

### Presentation of the Decile Data

Summary statistics of annual returns of the 10 deciles over 1926-2005 are presented in Table 7-4. Note from this exhibit that both the average return and the total risk, or standard deviation of annual returns, tend to increase as one moves from the largest decile to the smallest. Furthermore, the serial correlations of returns are near zero for all but the smallest two deciles. Serial correlations and their significance will be discussed in detail later in this chapter.

Graph 7-1 depicts the growth of one dollar invested in each of three NYSE/AMEX/NASDAQ groups broken down into mid-cap, low-cap, and micro-cap stocks. The index value of the entire NYSE/AMEX/NASDAQ is also included. All returns presented are value-weighted based on the market capitalizations of the deciles contained in each subgroup. The sheer magnitude of the size effect in some years is noteworthy. While the largest stocks actually declined 9 percent in 1977, the smallest stocks rose more than 20 percent. A more extreme case occurred in the depression-recovery year of 1933, when the difference between the first and tenth decile returns was far more substantial, with the largest stocks rising 46 percent, and the smallest stocks rising 224 percent. This divergence in the performance of small and large company stocks is a common occurrence.

Table 7-3

**Size-Decile Portfolios of the NYSE/AMEX/NASDAQ  
 Largest and Smallest Company by Size Group**

from 1926 to 1965

Date (Sept 30)	Capitalization of Largest Company (in thousands)			Capitalization of Smallest Company (in thousands)		
	Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10	Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10
1926	\$61,490	\$14,040	\$4,305	\$14,100	\$4,325	\$43
1927	\$65,281	\$14,746	\$4,450	\$15,311	\$4,496	\$72
1928	\$81,998	\$18,975	\$5,074	\$19,050	\$5,119	\$135
1929	\$107,085	\$24,328	\$5,875	\$24,480	\$5,915	\$126
1930	\$67,808	\$13,050	\$3,219	\$13,088	\$3,264	\$30
1931	\$42,607	\$8,142	\$1,905	\$8,222	\$1,927	\$15
1932	\$12,431	\$2,170	\$473	\$2,196	\$477	\$19
1933	\$40,298	\$7,210	\$1,830	\$7,280	\$1,875	\$100
1934	\$38,129	\$6,669	\$1,669	\$6,734	\$1,673	\$68
1935	\$37,631	\$6,519	\$1,350	\$6,549	\$1,383	\$38
1936	\$46,920	\$11,505	\$2,660	\$11,526	\$2,668	\$98
1937	\$51,750	\$13,601	\$3,500	\$13,635	\$3,539	\$68
1938	\$36,102	\$8,325	\$2,125	\$8,372	\$2,145	\$60
1939	\$35,784	\$7,367	\$1,697	\$7,389	\$1,800	\$75
1940	\$31,050	\$7,990	\$1,861	\$8,007	\$1,872	\$51
1941	\$31,744	\$8,316	\$2,086	\$8,336	\$2,087	\$72
1942	\$26,135	\$6,870	\$1,779	\$6,875	\$1,788	\$82
1943	\$43,218	\$11,475	\$3,847	\$11,480	\$3,903	\$395
1944	\$46,621	\$13,086	\$4,800	\$13,068	\$4,812	\$309
1945	\$55,268	\$17,325	\$6,413	\$17,575	\$6,428	\$225
1946	\$79,158	\$24,192	\$10,013	\$24,199	\$10,051	\$829
1947	\$57,830	\$17,735	\$6,373	\$17,872	\$6,380	\$747
1948	\$67,238	\$19,575	\$7,313	\$19,651	\$7,329	\$784
1949	\$55,506	\$14,549	\$5,037	\$14,577	\$5,108	\$379
1950	\$65,881	\$18,675	\$6,176	\$18,750	\$6,201	\$303
1951	\$82,517	\$22,750	\$7,567	\$22,860	\$7,598	\$658
1952	\$97,936	\$25,452	\$8,428	\$25,532	\$8,480	\$480
1953	\$98,595	\$25,374	\$8,156	\$25,395	\$8,168	\$459
1954	\$125,834	\$29,645	\$8,484	\$29,707	\$8,488	\$463
1955	\$170,829	\$41,445	\$12,353	\$41,681	\$12,366	\$553
1956	\$183,434	\$46,805	\$13,481	\$46,886	\$13,524	\$1,122
1957	\$192,861	\$47,658	\$13,844	\$48,509	\$13,848	\$925
1958	\$195,083	\$46,774	\$13,789	\$46,871	\$13,816	\$550
1959	\$253,644	\$64,221	\$19,500	\$64,372	\$19,548	\$1,804
1960	\$246,202	\$61,485	\$19,344	\$61,529	\$19,385	\$831
1961	\$296,261	\$79,058	\$23,562	\$79,422	\$23,613	\$2,455
1962	\$250,433	\$58,866	\$18,952	\$59,143	\$18,968	\$1,018
1963	\$308,438	\$71,846	\$23,819	\$71,971	\$23,822	\$296
1964	\$344,033	\$79,343	\$25,594	\$79,508	\$25,595	\$223
1965	\$363,759	\$84,479	\$28,365	\$84,600	\$28,375	\$250

Source: Center for Research in Security Prices, University of Chicago.

Firm Size and Return

Table 7-3 (continued)

Size-Decile Portfolios of the NYSE/AMEX/NASDAQ  
 Largest and Smallest Company by Size Group

from 1966 to 2005

Date (Sept 30)	Capitalization of Largest Company (in thousands)			Capitalization of Smallest Company (in thousands)		
	Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10	Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10
1966	\$399,455	\$99,578	\$34,884	\$99,935	\$34,966	\$381
1967	\$459,170	\$117,985	\$42,267	\$118,329	\$42,313	\$381
1968	\$528,326	\$149,261	\$60,351	\$150,128	\$60,397	\$592
1969	\$517,452	\$144,770	\$54,273	\$145,684	\$54,280	\$2,119
1970	\$380,246	\$94,025	\$29,910	\$94,047	\$29,916	\$822
1971	\$542,517	\$145,340	\$45,571	\$145,673	\$45,589	\$865
1972	\$545,211	\$139,647	\$46,728	\$139,710	\$46,757	\$1,031
1973	\$424,584	\$94,809	\$29,601	\$95,378	\$29,606	\$561
1974	\$344,013	\$75,272	\$22,475	\$75,853	\$22,481	\$444
1975	\$465,763	\$96,954	\$28,140	\$97,266	\$28,144	\$540
1976	\$551,071	\$116,184	\$31,987	\$116,212	\$32,002	\$564
1977	\$573,084	\$136,804	\$39,192	\$137,323	\$39,254	\$513
1978	\$572,967	\$159,778	\$46,621	\$160,524	\$46,629	\$830
1979	\$661,336	\$174,480	\$49,088	\$174,517	\$49,172	\$948
1980	\$754,562	\$194,012	\$48,671	\$194,241	\$48,953	\$549
1981	\$954,665	\$259,028	\$71,276	\$261,059	\$71,289	\$1,446
1982	\$762,028	\$205,590	\$54,675	\$206,536	\$54,883	\$1,060
1983	\$1,200,680	\$352,698	\$103,443	\$352,944	\$103,530	\$2,025
1984	\$1,068,972	\$314,650	\$90,419	\$315,214	\$90,659	\$2,093
1985	\$1,432,342	\$367,413	\$93,810	\$368,249	\$94,000	\$760
1986	\$1,857,621	\$444,827	\$109,956	\$445,648	\$109,975	\$706
1987	\$2,059,143	\$467,430	\$112,035	\$468,948	\$112,125	\$1,277
1988	\$1,957,926	\$420,257	\$94,268	\$421,340	\$94,302	\$696
1989	\$2,147,608	\$480,975	\$100,285	\$483,623	\$100,384	\$96
1990	\$2,164,185	\$472,003	\$93,627	\$474,065	\$93,750	\$132
1991	\$2,129,863	\$457,958	\$87,586	\$458,853	\$87,733	\$278
1992	\$2,428,671	\$500,346	\$103,352	\$501,050	\$103,500	\$510
1993	\$2,711,068	\$608,520	\$137,945	\$608,825	\$137,987	\$602
1994	\$2,497,073	\$601,552	\$149,435	\$602,552	\$149,532	\$598
1995	\$2,793,761	\$653,178	\$158,011	\$654,019	\$158,063	\$89
1996	\$3,150,685	\$763,377	\$195,188	\$763,812	\$195,326	\$1,043
1997	\$3,511,132	\$818,299	\$230,472	\$821,028	\$230,564	\$480
1998	\$4,216,707	\$934,264	\$253,329	\$936,727	\$253,336	\$1,671
1999	\$4,251,741	\$875,309	\$218,336	\$875,582	\$218,368	\$1,502
2000	\$4,143,902	\$840,000	\$192,598	\$840,730	\$192,721	\$1,462
2001	\$5,252,063	\$1,114,792	\$269,275	\$1,115,200	\$270,391	\$443
2002	\$5,012,705	\$1,143,845	\$314,042	\$1,144,452	\$314,174	\$501
2003	\$4,794,027	\$1,166,799	\$330,608	\$1,167,040	\$330,797	\$332
2004	\$6,241,953	\$1,607,854	\$505,437	\$1,607,931	\$506,410	\$1,393
2005	\$7,187,244	\$1,728,888	\$586,393	\$1,729,364	\$587,243	\$1,079

Source: Center for Research In Security Prices, University of Chicago.

**Table 7-4**  
**Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, Summary Statistics of Annual Returns 1926-2005**

Decile	Geometric Mean	Arithmetic Mean	Standard Deviation	Serial Correlation
1-Largest	9.5	11.3	19.17	0.09
2	10.9	13.2	21.86	0.03
3	11.3	13.8	23.66	-0.02
4	11.3	14.3	25.94	-0.02
5	11.6	14.9	26.78	-0.02
6	11.8	15.3	27.84	0.04
7	11.6	15.6	29.99	0.01
8	11.8	16.6	33.47	0.04
9	12.0	17.5	36.55	0.05
10-Smallest	14.0	21.6	45.44	0.15
Mid-Cap, 3-5	11.4	14.2	24.74	-0.02
Low-Cap, 6-8	11.7	15.7	29.52	0.03
Micro-Cap, 9-10	12.7	18.8	39.16	0.08
NYSE/AMEX/NASDAQ				
Total Value-Weighted Index	10.1	12.0	20.21	0.03

Source: Center for Research in Security Prices, University of Chicago.

### Aspects of the Firm Size Effect

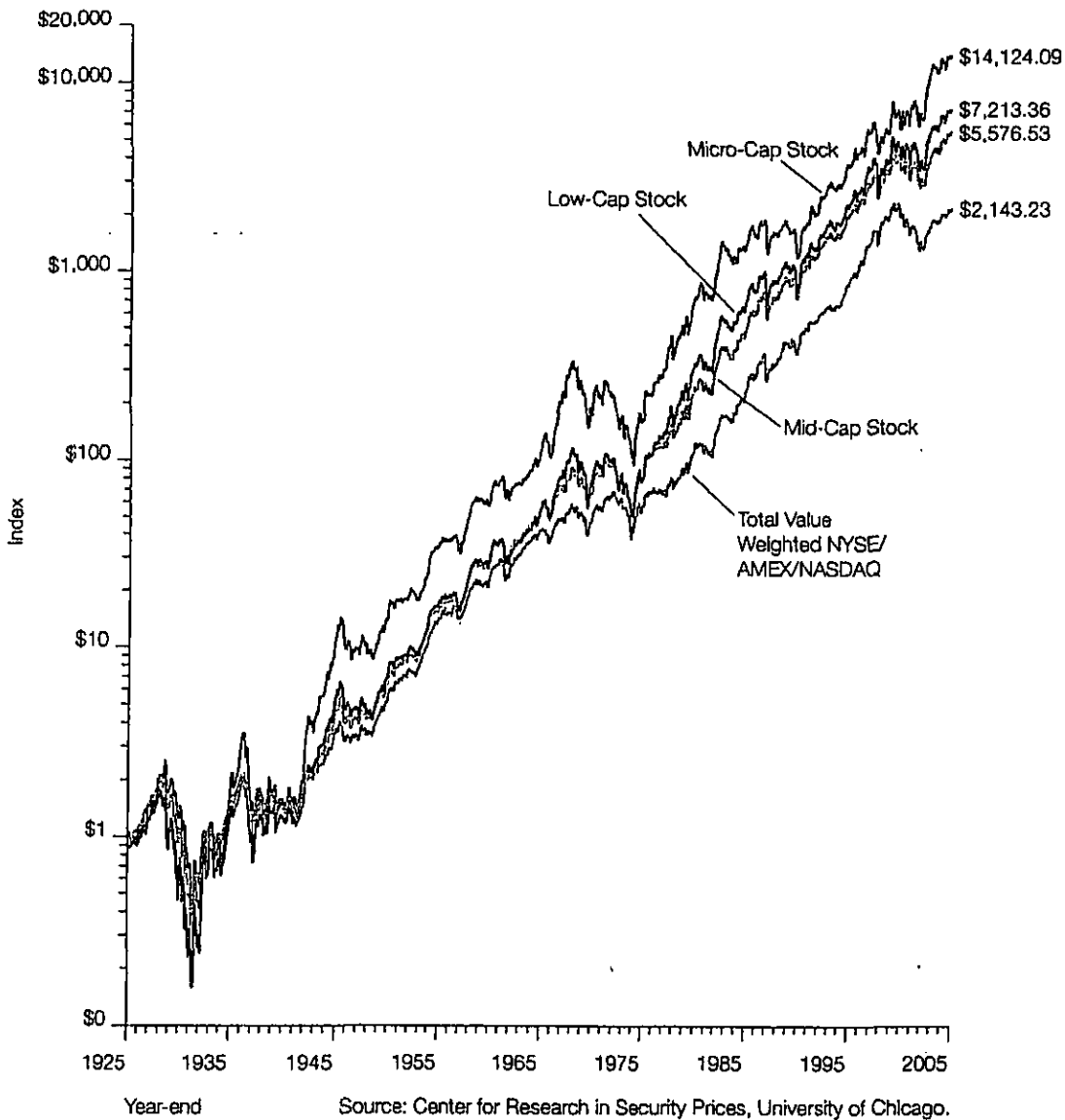
The firm size phenomenon is remarkable in several ways. First, the greater risk of small stocks does not, in the context of the capital asset pricing model (CAPM), fully account for their higher returns over the long term. In the CAPM only systematic, or beta risk, is rewarded; small company stocks have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

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

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

Firm Size and Return

Graph 7-1  
Size-Decile Portfolios of the NYSE/AMEX/NASDAQ: Wealth Indices of Investments in Mid-, Low-, Micro- and Total Capitalization Stocks  
1925-2005  
Year-end 1925 = \$1.00



### Long-Term Returns in Excess of Systematic Risk

The capital asset pricing model (CAPM) does not fully account for the higher returns of small company stocks. Table 7-5 shows the returns in excess of systematic risk over the past 80 years for each decile of the NYSE/AMEX/NASDAQ. Recall that the CAPM is expressed as follows:

$$k_s = r_f + (\beta_s \times \text{ERP})$$

Table 7-5 uses the CAPM to estimate the return in excess of the riskless rate and compares this estimate to historical performance. According to the CAPM, the expected return on a security should consist of the riskless rate plus an additional return to compensate for the systematic risk of the security. The return in excess of the riskless rate is estimated in the context of the CAPM by multiplying the equity risk premium by  $\beta$  (beta). The equity risk premium is the return that compensates investors for taking on risk equal to the risk of the market as a whole (systematic risk).<sup>2</sup> Beta measures the extent to which a security or portfolio is exposed to systematic risk.<sup>3</sup> The beta of each decile indicates the degree to which the decile's return moves with that of the overall market.

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

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

<sup>2</sup> The equity risk premium is estimated by the 80-year arithmetic mean return on large company stocks, 12.30 percent, less the 80-year arithmetic mean income-return component of 20-year government bonds as the historical riskless rate, in this case 5.22 percent. (It is appropriate, however, to match the maturity, or duration, of the riskless asset with the investment horizon.) See Chapter 5 for more detail on equity risk premium estimation.

<sup>3</sup> Historical betas were calculated using a simple regression of the monthly portfolio (decile) total returns in excess of the 30-day U.S. Treasury bill total returns versus the S&P 500 total returns in excess of the 30-day U.S. Treasury bill, January 1926–December 2005. See Chapter 6 for more detail on beta estimation.

Firm Size and Return

Table 7-5

Long-Term Returns in Excess of CAPM Estimation for Decile Portfolios of the NYSE/AMEX/NASDAQ 1926-2005

Decile	Beta*	Arithmetic Mean Return	Realized Return in Excess of Riskless Rate**	Estimated Return in Excess of Riskless Rate†	Size Premium (Return in Excess of CAPM)
1-Largest	0.91	11.29%	6.07%	6.45%	-0.37%
2	1.04	13.22%	8.00%	7.33%	0.67%
3	1.10	13.84%	8.62%	7.77%	0.85%
4	1.13	14.31%	9.09%	7.98%	1.10%
5	1.16	14.91%	9.69%	8.20%	1.49%
6	1.18	15.33%	10.11%	8.38%	1.73%
7	1.23	15.62%	10.40%	8.73%	1.67%
8	1.28	16.60%	11.38%	9.05%	2.33%
9	1.34	17.48%	12.26%	9.50%	2.76%
10-Smallest	1.41	21.59%	16.37%	10.01%	6.36%
Mid-Cap, 3-5	1.12	14.15%	8.94%	7.91%	1.02%
Low-Cap, 6-8	1.22	15.66%	10.44%	8.63%	1.81%
Micro-Cap, 9-10	1.36	18.77%	13.55%	9.61%	3.95%

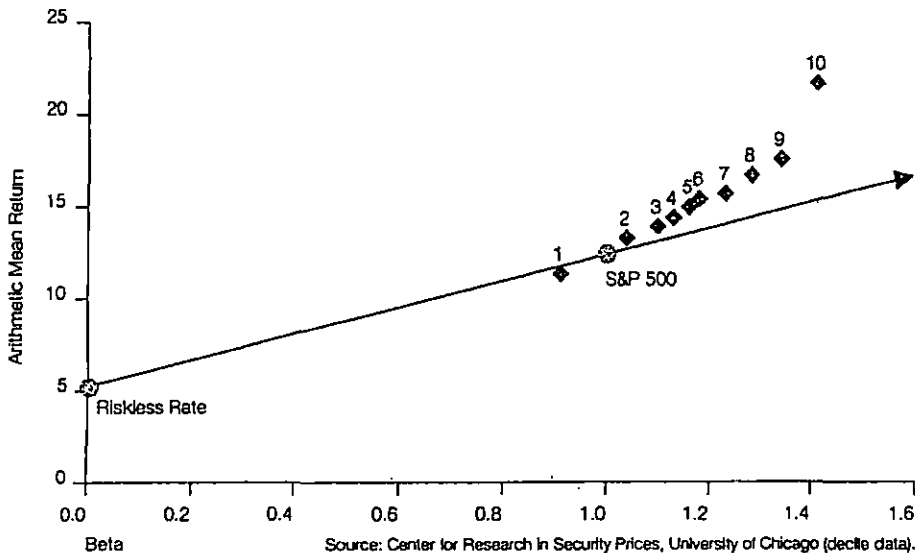
\*Betas are estimated from monthly portfolio total returns in excess of the 30-day U.S. Treasury bill total return versus the S&P 500 total returns in excess of the 30-day U.S. Treasury bill, January 1926-December 2005.

\*\*Historical riskless rate is measured by the 80-year arithmetic mean income return component of 20-year government bonds (5.22 percent).

†Calculated in the context of the CAPM by multiplying the equity risk premium by beta. The equity risk premium is estimated by the arithmetic mean total return of the S&P 500 (12.30 percent) minus the arithmetic mean income return component of 20-year government bonds (5.22 percent) from 1926-2005.

Graph 7-2

Security Market Line versus Size-Decile Portfolios of the NYSE/AMEX/NASDAQ 1926-2005



Source: Center for Research in Security Prices, University of Chicago (decile data).

### Further Analysis of the 10th Decile

The size premia presented thus far do a great deal to explain the return due solely to size in publicly traded companies. However, by splitting the 10th decile into two size groupings we can get a closer look at the smallest companies. This magnification of the smallest companies will demonstrate whether the company size to size premia relationship continues to hold true.

As previously discussed, the method for determining the size groupings for size premia analysis was to take the stocks traded on the NYSE and break them up into 10 deciles, after which stocks traded on the AMEX and NASDAQ were allocated into the same size groupings. This same methodology was used to split the 10th decile into two parts: 10a and 10b, with 10b being the smaller of the two. This is equivalent to breaking the stocks down into 20 size groupings, with portfolios 19 and 20 representing 10a and 10b.

Table 7-7 shows that the pattern continues; as companies get smaller their size premium increases. There is a noticeable increase in size premium from 10a to 10b, which can also be demonstrated visually in Graph 7-3. This can be useful in valuing companies that are extremely small. Table 7-6 presents the size, composition, and breakpoints of deciles 10a and 10b. First, the recent number of companies and total decile market capitalization are presented. Then the largest company and its market capitalization are presented.

Breaking the smallest decile down lowers the significance of the results compared to results for the 10th decile taken as a whole, however. The same holds true for comparing the 10th decile with the Micro-Cap aggregation of the 9th and 10th deciles. The more stocks included in a sample the more significance can be placed on the results. While this is not as much of a factor with the recent years of data, these size premia are constructed with data back to 1926. By breaking the 10th decile down into smaller components we have cut the number of stocks included in each grouping. The change over time of the number of stocks included in the 10th decile for the NYSE/AMEX/NASDAQ is presented in Table 7-8. With fewer stocks included in the analysis early on, there is a strong possibility that just a few stocks can dominate the returns for those early years.

While the number of companies included in the 10th decile for the early years of our analysis is low, it is not too low to still draw meaningful results even when broken down into subdivisions 10a and 10b. All things considered, size premia developed for deciles 10a and 10b are significant and can be used in cost of capital analysis. These size premia should greatly enhance the development of cost of capital analysis for very small companies.

Table 7-6  
 Size-Decile Portfolios 10a and 10b of the NYSE/AMEX/NASDAQ,  
 Largest Company and Its Market Capitalization  
 September 30, 2005

Decile	Recent Number of Companies	Recent Decile Market Capitalization (in thousands)	Market Capitalization of Largest Company (in thousands)	Company Name
10a	483	\$108,194,821	\$264,981	4Kids Entertain Inc.
10b	1,279	\$102,157,012	\$169,195	Quaker Chemical Corp.

Note: These numbers may not aggregate to equal decile 10 figures.  
 Source: Center for Research in Security Prices, University of Chicago.

Firm Size and Return

**Table 7-7**  
 Long-Term Returns in Excess of CAPM Estimation for Decile Portfolios of the NYSE/AMEX/NASDAQ, with 10th Decile Split 1926-2005

	Beta*	Arithmetic Mean Return	Realized Return in Excess of Riskless Rate**	Estimated Return in Excess of Riskless Rate†	Size Premium (Return in Excess of CAPM)
1-Largest	0.91	11.29%	6.07%	6.45%	-0.37%
2	1.04	13.22%	8.00%	7.33%	0.67%
3	1.10	13.84%	8.62%	7.77%	0.85%
4	1.13	14.31%	9.09%	7.98%	1.10%
5	1.16	14.91%	9.69%	8.20%	1.49%
6	1.18	15.33%	10.11%	8.38%	1.73%
7	1.23	15.62%	10.40%	8.73%	1.67%
8	1.28	16.60%	11.38%	9.05%	2.33%
9	1.34	17.48%	12.26%	9.50%	2.76%
10a	1.43	19.71%	14.49%	10.10%	4.39%
10b-Smallest	1.39	24.87%	19.65%	9.82%	9.83%
Mid-Cap, 3-5	1.12	14.15%	8.94%	7.91%	1.02%
Low-Cap, 6-8	1.22	15.66%	10.44%	8.63%	1.81%
Micro-Cap, 9-10	1.36	18.77%	13.55%	9.61%	3.95%

\*Betas are estimated from monthly portfolio total returns in excess of the 30-day U.S. Treasury bill total return versus the S&P 500 total returns in excess of the 30-day U.S. Treasury bill, January 1926-December 2005.

\*\*Historical riskless rate is measured by the 80-year arithmetic mean income return component of 20-year government bonds (5.22 percent).

†Calculated in the context of the CAPM by multiplying the equity risk premium by beta. The equity risk premium is estimated by the arithmetic mean total return of the S&P 500 (12.30 percent) minus the arithmetic mean income return component of 20-year government bonds (5.22 percent) from 1926-2005.

**Graph 7-3**  
 Security Market Line versus Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, with 10th Decile Split 1926-2005

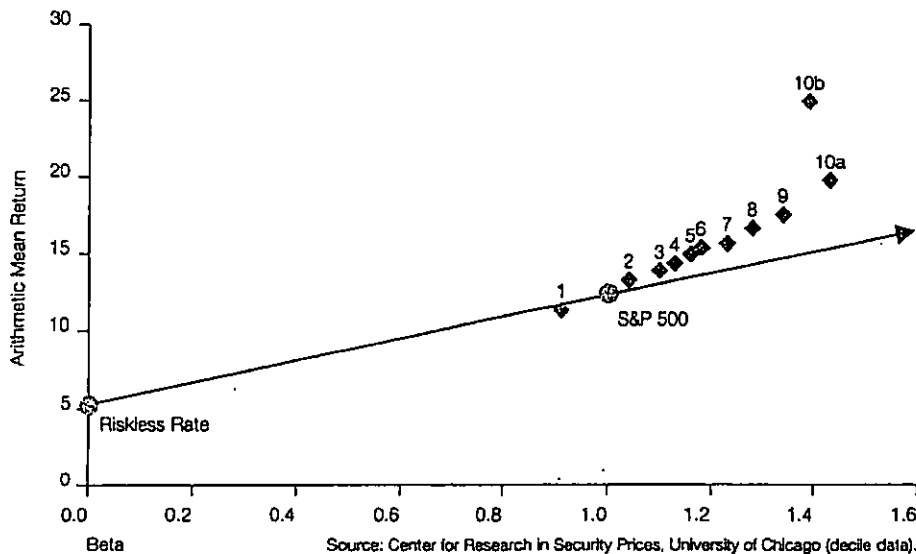


Table 7-8  
 Historical Number of Companies for NYSE/AMEX/NASDAQ Decile 10

Sept.	Number of Companies
1926	52*
1930	72
1940	78
1950	100
1960	109
1970	865
1980	665
1990	1,814
2000	1,927
2005	1,746

\*The fewest number of companies was 49 in March, 1926

Source: Center for Research in Security Prices, University of Chicago.

#### Alternative Methods of Calculating the Size Premia

The size premia estimation method presented above makes several assumptions with respect to the market benchmark and the measurement of beta. The impact of these assumptions can best be examined by looking at some alternatives. In this section we will examine the impact on the size premia of using a different market benchmark for estimating the equity risk premia and beta. We will also examine the effect on the size premia study of using sum beta or an annual beta.<sup>4</sup>

#### Changing the Market Benchmark

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

For the entire period analyzed, 1926-2005, the betas obtained using the NYSE total value-weighted index are higher than those obtained using the S&P 500. Since smaller companies had higher betas using the NYSE benchmark, one would expect the size premia to shrink. However, as was illustrated in Chapter 5, the equity risk premium calculated using the NYSE deciles 1-2 benchmark results in a value of 6.33, as opposed to 7.08 when using the S&P 500. The effect of the higher betas and lower equity risk premium cancel each other out, and the resulting size premia in Table 7-9 are slightly higher than those resulting from the original study.

<sup>4</sup> Sum beta is the method of beta estimation described in Chapter 6 that was developed to better account for the lagged reaction of small stocks to market movements. The sum beta methodology was developed for the same reason that the size premia were developed; small company betas were too small to account for all of their excess returns.

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# Utilities

The utilities rating methodology encompasses two basic components: business risk analysis and financial analysis. Evaluation of industry characteristics, the utility's position within that industry, its regulation, and its management provides the context for assessing a firm's financial condition.

Historical analysis is a tool for identifying strengths and weaknesses, and provides a starting point for evaluating financial condition. Business position assessment is the qualitative measure of a utility's fundamental creditworthiness. It focuses on the forces that will shape the utilities' future.

Utilities credit analysis factors	
Business risk	Financial risk
• Markets and service area economy	• Earnings protection
• Competitive position	• Capital structure
• Operations	• Cash flow adequacy
• Regulation	• Financial flexibility/capital attraction
• Management	
• Fuel, power, and water supply	
• Asset concentration	

The credit analysis of utilities is quickly evolving, as utilities are treated less as regulated monopolies and more as entities faced with a host of challengers in a competitive environment. Marketplace dynamics are supplanting the power of regulation, making it critically important to reduce costs and/or market new services in order to thwart competitors' inroads.

## Markets and service area economy

Assessing service territory begins with the economic and demographic evaluation of the area in which the utility has its franchise. Strength of long-term demand for the product is examined from a macroeconomic perspective. This enables Standard & Poor's to evaluate the affordability of rates and the staying power of demand.

Standard & Poor's tries to discern any secular consumption trends and, more importantly, the reasons for them. Specific items examined include the size and growth rate of the market, strength of the franchise, historical and projected sales growth, income levels and trends in population, employment, and per capita income. A utility with a healthy economy and customer base—as illustrated by diverse employment opportunities, average or above-average wealth and income statistics, and low unemploy-

ment—will have a greater capacity to support its operations.

For electric and gas utilities, distribution by customer class is scrutinized to assess the depth and diversity of the utility's customer mix. For example, heavy industrial concentration is viewed cautiously, since a utility may have significant exposure to cyclical volatility. Alternatively, a large residential component yields a stable and more predictable revenue stream. The largest utility customers are identified to determine their importance to the bottom line and assess the risk of their loss and potential adverse effect on the utility's financial position. Credit concerns arise when individual customers represent more than 5% of revenues. The company or industry may play a significant role in the overall economic base of the service area. Moreover, large customers may turn to cogeneration or alternative power supplies to meet their energy needs, potentially leading to reduced cash flow for the utility (even in cases where a large customer pays discounted rates and is not a profitable account for the utility). Customer concentration is less significant for water and telecommunication utilities.

## Competitive position

As competitive pressures have intensified in the utilities industry, Standard & Poor's analysis has deepened to include a more thorough review of competitive position.

### Electric utility competition

For electric utilities, competitive factors examined include: percentage of firm wholesale revenues that are most vulnerable to competition; industrial load concentration; exposure of key customers to alternative suppliers; commercial concentrations; rates for various customer classes; rate design and flexibility; production costs, both marginal and fixed; the regional capacity situation; and transmission constraints. A regional focus is evident, but high costs and rates relative to national averages are also of significant concern because of the potential for electricity substitutes over time.

Mounting competition in the electric utility industry derives from excess generating capacity, lower barriers to entering the electric generating business, and marginal costs that are below embedded costs. Standard & Poor's has already witnessed declining prices in wholesale markets, as *de facto* retail competition is already being seen in several parts of the country. Standard & Poor's believes that over the coming years more and more customers will want and demand lower prices. Initial concerns focus on the largest industrial loads, but other customer classes will be increasingly vulnerable. Competition will not necessar-

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ily be driven by legislation. Other pressures will arise from *global competition and improving technologies, whether it be the declining cost of incremental generation or advances in transmission capacity or substitute energy sources like the fuel cell. It is impossible to say precisely when wide-open retail competition will occur; this will be evolutionary. However, significantly greater competition in retail markets is inevitable.*

**Gas utility competition**

Similarly, gas utilities are analyzed with regard to their competitive standing in the three major areas of demand: residential, commercial, and industrial. Although regulated as holders of monopoly power, natural gas utilities have for some time been actively competing for energy market share with fuel oil, electricity, coal, solar, wood, etc. The long-term staying power of market demand for natural gas cannot be taken for granted. In fact, as the electric utility industry restructures and reduces costs, electric power will become more cost competitive and threaten certain gas markets. In addition, independent gas marketers have made greater inroads behind the city gate and are competing for large gas users. Moreover, the recent trend by state regulators to unbundle utility services is creating opportunities for outsiders to market niche products. Distributors still have the upper hand, but those who do not reduce and control costs, and thus rates, could find competition even more difficult.

Natural gas pipelines are judged to carry a somewhat higher business risk than distribution companies because they face competition in every one of their markets. To the extent a pipeline serves utilities versus industrial end users, its stability is greater. Over the next five years, pipeline competition will heat up since many service contracts with customers are expiring. Most distributor or end-use customers are looking to reduce pipeline costs and are working to improve their load factor to do so. Thus, pipelines will likely find it difficult to recontract all capacity in coming years. Being the pipeline of choice is a function of *attractive transportation rates, diversity and quality of services provided, and capacity available in each particular market. In all cases though, periodic discounting of rates to retain customers will occur and put pressure on profitability.*

**Water utility competition**

As the last true utility monopoly, water utilities face very little competition and there is currently no challenge to the continuation of franchise areas. The only exceptions have been cases where investor-owned water companies have been subject to condemnation and municipalization because of poor service or political motivations. In that regard, Standard & Poor's pays close attention to costs and rates in relation to neighboring utilities and national averages. (In contrast, the privatization of public water facilities has begun, albeit at a slower pace than anticipated. This is occurring mostly in the form of operating contracts and public/private partnerships, and not in asset transfers. This trend should continue as cities look for ways to bal-

ance their tight budgets.) Also, water utilities are not fully immune to the forces of competition; in a few instances wholesale customers can access more than one supplier.

**Telephone competition**

The Telecommunications Act of 1996 accelerates the continuing challenge to the local exchange companies' (LECs) century-old monopoly in the local loop. Competitive access providers (CAPs), both facilities-based and resellers, are aggressively pursuing customers, generally targeting metropolitan areas, and promising lower rates and better service.

Most long-distance calls are still originated and terminated on the local telephone company network. To complete such a call, the long-distance provider (including AT&T, MCI, Sprint and a host of smaller interexchange carriers or "IXCs") must pay the local telephone company a steep "access" fee to compensate the local phone company for the use of its local network. CAPs, in contrast, build or lease facilities that directly connect customers to their long-distance carrier, bypassing the local telephone company and avoiding access fees, and thereby can offer lower long-distance rates. But the LECs are not standing still; they are combating the loss of business to CAPs by lowering access fees, thereby reducing the economic incentive for a high usage long-distance customer to use a CAP. LECs are attempting to make up for the loss of revenues from lower access fees by increasing basic local service rates (or at least not lowering them), since basic service is far less subject to competition. LECs are improving operating efficiency and marketing high margin, value-added new services. Additionally, in the wake of the Telecommunications Act, LECs will capture at least some of the inter-LATA long-distance market. As a result of these initiatives, LECs continue to rebuild themselves—from the traditional utility monopoly to leaner, more marketing oriented organizations.

While LECs, and indeed all segments of the telecommunications sector, face increasing competition, there are favorable industry factors that tend to offset heightened business risk and auger for overall ratings stability for most LECs. Importantly, telecommunications is a declining-cost business. With increased deployment of fiber optics, the cost of transport has fallen dramatically and digital switching hardware and software have yielded more capable, trouble-free and cost-efficient networks. As a result, the cost of network maintenance has dropped sharply, as illustrated by the ratio of employees per 10,000 access lines, an oft cited measurement of efficiency. Ratios as low as 25 employees per 10,000 lines are being seen, down from the typical 40 or more employees per 10,000 ratio of only a few years ago.

In addition, networks are far more capable. They are increasingly digitally switched and able to accommodate high-speed communications. The infrastructure needed to accommodate switched broadband services will be built into telephone networks over the next few years. These advanced networks will enable telephone companies to look to a greater variety of high-margin, value-added serv-

ices. In addition to those current services such as call waiting or caller ID, the delivery of hundreds of broadcast and interactive video channels will be possible. While these services offer the potential of new revenue streams, they will simultaneously present a formidable challenge. LECs will be entering the new (to them) arena of multimedia entertainment and will have to develop expertise in marketing and entertainment programming acumen; such skills stand in sharp contrast to LECs' traditional strengths in engineering and customer service.

## Operations

Standard & Poor's focuses on the nature of operations from the perspective of cost, reliability, and quality of service. Here, emphasis is placed on those areas that require management attention in terms of time or money and which, if unresolved, may lead to political, regulatory, or competitive problems.

### Operations of electric utilities

For electric, the status of utility plant investment is reviewed with regard to generating plant availability and utilization, and also for compliance with existing and contemplated environmental and other regulatory standards. The record of plant outages, equivalent availability, load factors, heat rates, and capacity factors are examined. Also important is efficiency, as defined by total megawatt hour per employee and customers per employee. Transmission interconnections are evaluated in terms of the number of utilities to which the utility in question has access, the cost structures and available generating capacity of these other utilities, and the price paid for wholesale power.

Because of mounting competition and the substantial escalation in decommissioning estimates, significant weight is given to the operation of nuclear facilities. Nuclear plants are becoming more vulnerable to high production costs that make their rates uneconomic. Significant asset concentration may expose the utility to poor performance, unscheduled outages or premature shutdowns, and large deferrals or regulatory assets that may need to be written off for the utility to remain competitive. Also, nuclear facilities tend to represent significant portions of their operators' generating capability and assets. The loss of a productive nuclear unit from both power supply and rate base can interrupt the revenue stream and create substantial additional costs for repairs and improvements and replacement power. The ability to keep these stations running smoothly and economically directly influences the ability to meet electric demand, the stability of revenues and costs, and, by extension, the ability to maintain adequate creditworthiness. Thus, economic operation, safe operation, and long-term operation are examined in depth. Specifically, emphasis is placed on operation and maintenance costs, busbar costs, fuel costs, refueling outages, forced outages, plant statistics, NRC evaluations, the potential need for repairs, operating licenses, decommissioning estimates and amounts held in external trusts, spent fuel storage capacity, and management's nuclear experi-

ence. In essence, favorable nuclear operations offer significant opportunities but, if a nuclear unit runs poorly or not at all, the attendant risks can be great.

### Operations of gas utilities

For gas pipeline and distribution companies, the degree of plant utilization, the physical condition of the mains and lines, adequacy of storage to meet seasonal needs, "lost and unaccounted for" gas levels, and per-unit nongas operating and construction costs are important factors. Efficiency statistics such as load factor, operating costs per customer, and operating income per employee are also evaluated in comparison to other utilities and the industry as a whole.

### Operations of water utilities

As a group, water utilities are continually upgrading their physical plant to satisfy regulations and to develop additional supply. Over the next decade, water systems will increasingly face the task of maintaining compliance, as drinking water regulations change and infrastructure ages. Given that the Safe Drinking Water Act was authorized in 1974, the first generation of treatment plants built to conform with these rules are almost 20 years old. Additionally, because the focus during this period was on satisfying environmental standards, deferred maintenance of distribution systems has been common, especially in older urban areas. The increasing cost of supplying treated water argues against the high level of unaccounted for water witnessed in the industry. Consequently, Standard & Poor's anticipates capital plans for rebuilding distribution lines and major renewal and replacement efforts aimed at treatment plants.

### Operations of telephone companies

For telephone companies, cost-of-service analysis focuses on plant capability and measures of efficiency and quality of service. Plant capability is ascertained by looking at such parameters as percentage of digitally switched lines; fiber optic deployment, in particular in those portions of the plant key to network survival; and the degree of broadband capacity fiber and coaxial deployment and broadband switching capacity. Efficiency measures include operating margins, the ratio of employees per 10,000 access lines, and the extent of network and operations consolidation. Quality of service encompasses examination of quantitative measures, such as trouble reports and repeat service calls, as well as an assessment of qualitative factors, that may include service quality goals mandated by regulators.

## Regulation

Regulatory rate-setting actions are reviewed on a case-by-case basis with regard to the potential effect on creditworthiness. Regulators' authorizing high rates of return is of little value unless the returns are earnable. Furthermore, allowing high returns based on noncash items does not benefit bondholders. Also, to be viewed positively, regulatory treatment should allow consistent performance from

period to period, given the importance of financial stability as a rating consideration.

The utility group meets frequently with commission and staff members, both at Standard & Poor's offices and at commission headquarters, demonstrating the importance Standard & Poor's places on the regulatory arena for credit quality evaluation. Input from these meetings and from review of rate orders and their impact weigh heavily in Standard & Poor's analysis.

Standard & Poor's does not "rate" regulatory commissions. State commissions typically regulate a number of diverse industries, and regulatory approaches to different types of companies often differ within a single regulatory jurisdiction. This makes it all but impossible to develop inclusive "ratings" for regulators.

Standard & Poor's evaluation of regulation also encompasses the administrative, judicial, and legislative processes involved in state and federal regulation. These can affect rate-setting activities and other aspects of the business, such as competitive entry, environmental and safety rules, facility siting, and securities sales.

As the utility industry faces an increasingly deregulated environment, alternatives to traditional rate-making are becoming more critical to the ability of utilities to effectively compete, maintain earnings power, and sustain creditor protection. Thus, Standard & Poor's focuses on whether regulators, both state and federal, will help or hinder utilities as they are exposed to greater competition. There is much that regulators can do, from allocating costs to more captive customers to allowing pricing flexibility—and sometimes just stepping out of the way.

Under traditional rate-making, rates and earnings are tied to the amount of invested capital and the cost of capital. This can sometimes reward companies more for justifying costs than for containing them. Moreover, most current regulatory policies do not permit utilities to be flexible when responding to competitive pressures of a deregulated market. Lack of flexible tariffs for electric utilities may lure large customers to wheel cheaper power from other sources.

In general, a regulatory jurisdiction is viewed favorably if it permits earning a return based on the ability to sustain rates at competitive levels. In addition to performance-based rewards or penalties, flexible plans could include market-based rates, price caps, index-based prices, and rates premised on the value of customer service. Such rates more closely mirror the competitive environment that utilities are confronting.

#### **Electric industry regulation**

The ability to enter into long-term arrangements at negotiated rates without having to seek regulatory approval for each contract is also important in the electric industry. (While contracting at reduced rates constrains financial performance, it lessens the potential adverse impact in the event of retail wheeling. Since revenue losses associated with this strategy are not likely to be recovered from rate-payers, utilities must control costs well enough to remain

competitive if they are to sustain current levels of bondholder protection.)

#### **Natural gas industry regulation**

In the gas industry, too, several state commission policies weigh heavily in the evaluation of regulatory support. Examples include stabilization mechanisms to adjust revenues for changes in weather or the economy, rate and service unbundling decisions, revenue and cost allocation between sales and transportation customers, flexible industrial rates, and the general supportiveness of construction costs and gas purchases.

#### **Water industry regulation**

In all water utility activities, federal and state environmental regulations continue to play a critical role. The legislative timetable to effect the 1986 amendments to the Safe Drinking Water Act of 1974 was quite aggressive. But environmental standards-setting has actually slowed over the past couple of years due largely to increasing sentiment that the stringent, costly standards have not been justified on the basis of public health. A moratorium on the promulgation of significant new environmental rules is anticipated.

#### **Telecommunications industry regulation**

Despite the advances in telecommunications deregulation, analysis of regulation of telephone operators will continue to be a key rating determinant for the foreseeable future. The method of regulation may be either classic rate-based rate of return or some form of price cap mechanism. The most important factor is to assess whether the regulatory framework—no matter which type—provides sufficient financial incentive to encourage the rated company to maintain its quality of service and to upgrade its plant to accommodate new services while facing increasing competition from wireless operators and cable television companies.

Where regulators do still set tariffs based on an authorized return, Standard & Poor's strives to explore with regulators their view of the rate-of-return components that can materially impact reported versus regulatory earnings. Specifically these include the allowable base upon which the authorized return can be earned, allowable expenses, and the authorized return. Since regulatory oversight runs the gamut from strict, adversarial relationships with the regulated operating companies to highly supportive postures, Standard & Poor's probes beyond the apparent regulatory environment to ascertain the actual impact of regulation on the rated company.

#### **Management**

Evaluating the management of a utility is of paramount importance to the analytical process since management's abilities and decisions affect all areas of a company's operations. While regulation, the economy, and other outside factors can influence results, it is ultimately the quality of management that determines the success of a company.

With emerging competition, utility management will be more closely scrutinized by Standard & Poor's and will become an increasingly critical component of the credit evaluation. Management strategies can be the key determinant in differentiating utilities and in establishing where companies lie on the business position spectrum. It is imperative that managements be adaptable, aggressive, and proactive if their utilities are to be viable in the future; this is especially important for utilities that are currently uncompetitive.

The assessment of management is accomplished through meetings, conversations, and reviews of company plans. It is based on such factors as tenure, industry experience, grasp of industry issues, knowledge of customers and their needs, knowledge of competitors, accounting and financing practices, and commitment to credit quality. Management's ability and willingness to develop workable strategies to address their systems' needs, to deal with the competitive pressures of free market, to execute reasonable and effective long-term plans, and to be proactive in leading their utilities into the future are assessed. Management quality is also indicated by thoughtful balancing of public and private priorities, a record of credibility, and effective communication with the public, regulatory bodies, and the financial community. Boards of directors will receive ever more attention with respect to their role in setting appropriate management incentives.

With competition the watchword, Standard & Poor's also focuses on management's efforts to enhance financial condition. Management can bolster bondholder protection by taking any number of discretionary actions, such as selling common equity, lowering the common dividend payout, and paying down debt. Also important for the electric industry will be creativity in entering into strategic alliances and working partnerships that improve efficiency, such as central dispatching for a number of utilities or locking up at-risk customers through long-term contracts or expanded flexible pricing agreements. Proactive management teams will also seek alternatives to traditional rate-base, rate-of-return rate-making, move to adopt higher depreciation rates for generating facilities, segment customers by individual market preferences, and attempt to create superior service organizations.

In general, management's ability to respond to mounting competition and changes in the utility industry in a swift and appropriate manner will be necessary to maintain credit health.

### ***Fuel, power, and water supply***

Assessment of present and prospective fuel and power supply is critical to every electric utility analysis, while gauging the long-term natural gas supply position for gas pipeline and distribution companies and the water resources of a water utility is equally important. There is no similar analytical category for telephone utilities.

#### **Electric utilities**

For electric utilities emphasis is placed on generating

reserve margins, fuel mix, fuel contract terms, demand-side management techniques, and purchased power arrangements. The adequacy of generating margins is examined nationally, regionally, and for each individual company. However, the reserve margin picture is muddied by the imprecise nature of peak-load growth forecasting, and also supply uncertainty relating to such things as Canadian capacity availability and potential plant shut-downs due to age, new NRC rules, acid rain remedies, fuel shortages, problems associated with nontraditional technologies, and so forth. Even apparently ample reserves may not be what they seem. Moreover, the quality of capacity is just as important as the size of reserves. Companies' reserve requirements differ, depending upon individual operating characteristics.

Fuel diversity provides flexibility in a changing environment. Supply disruptions and price hikes can raise rates and ignite political and regulatory pressures that ultimately lead to erosion in financial performance. Thus, the ability to alter generating sources and take advantage of lower cost fuels is viewed favorably.

Dependence on any single fuel means exposure to that fuel's problems: electric utilities that rely on oil or gas face the potential for shortages and rapid price increases; utilities that own nuclear generating facilities face escalating costs for decommissioning; and coal-fired capacity entails environmental problems stemming from concerns over acid rain and the "greenhouse effect."

Buying power from neighboring utilities, qualifying facility projects, or independent power producers may be the best choice for a utility that faces increasing electricity demand. There has been a growing reliance on purchased power arrangements as an alternative to new plant construction. This can be an important advantage, since the purchasing utility avoids potential construction cost overruns as well as risking substantial capital. Also, utilities can avoid the financial risks typical of a multiyear construction program that are caused by regulatory lag and prudence reviews. Furthermore, purchased power may enhance supply flexibility, fuel resource diversity, and maximize load factors. Utilities that plan to meet demand projections with a portfolio of supply-side options also may be better able to adapt to future growth uncertainties. Notwithstanding the benefits of purchasing, such a strategy has risks associated with it. By entering into a firm long-term purchased power contract that contains a fixed-cost component, utilities can incur substantial market, operating, regulatory, and financial risks. Moreover, regulatory treatment of purchased power removes any upside potential that might help offset the risks. Utilities are not compensated through incentive rate-making; rather, purchased power is recovered dollar-for-dollar as an operating expense.

To analyze the financial impact of purchased power, Standard & Poor's first calculates the net present value of future annual capacity payments (discounted at 10%). This represents a potential debt equivalent—the off-balance-sheet obligation that a utility incurs when it enters into a long-term purchased power contract. However, Standard

& Poor's adds to the utility's balance sheet only a portion of this amount, recognizing that such a contractual arrangement is not entirely the equivalent of debt. What percentage is added is a function of Standard & Poor's qualitative analysis of the specific contract and the extent to which market, operating, and regulatory risks are borne by the utility (the risk factor). For unconditional, take-or-pay contracts, the risk factor range is from 40%-80%, with the average hovering around 60%. A lower risk factor is typically assigned for system purchases from coal-fired utilities and a higher risk factor is usually designated for unit-specific nuclear purchases. The range for take-and-pay performance obligations is between 10%-50%.

#### **Gas utilities**

For gas distribution utilities, long-term supply adequacy obviously is critical, but the supply role has become even more important in credit analysis since the Federal Energy Regulatory Commission's Order 636 eliminated the interstate pipeline merchant business. This thrust gas supply responsibilities squarely on local gas distributors. Standard & Poor's has always believed distributor management has the expertise and wherewithal to perform the job well, but the risks are significant since gas costs are such a large percentage of total utility costs. In that regard, it is important for utilities to get preapprovals of supply plans by state regulators or at least keep the staff and commissioners well informed. To minimize risks, a well-run program would diversify gas sources among different producers or marketers, different gas basins in the U.S. and Canada, and different pipeline routes. Also, purchase contracts should be firm, with minimal take-or-pay provisions, and have prices tied to an industry index. A modest percentage of fixed-price gas is not unreasonable. Contracts, whether of gas purchases or pipeline capacity, should be intermediate term. Staggering contract expirations (preferably annually) provides an opportunity to be an active market player. A modest degree of reliance on spot purchases provides flexibility, as does the use of market-based storage. Gas storage and on-property gas resources such as liquefied natural gas or propane air are effective peak-day and peak-season supply management tools.

Since pipeline companies no longer buy and sell natural gas and are just common carriers, connections with varied reserve basins and many wells within those basins are of great importance. Diversity of sources helps offset the risks arising from the natural production declines eventually experienced by all reserve basins and individual wells. Moreover, such diversity can enhance a pipeline's attractiveness as a transporter of natural gas to distributors and end users seeking to buy the most economical gas available for their needs.

#### **Water utilities**

Nearly all water systems throughout the U.S. have ample long-term water supplies. Yet to gain comfort, Standard & Poor's assesses the production capability of treatment plants and the ability to pump water from underground aquifers in relation to the usage demands from consumers.

Having adequate treated water storage facilities has become important in recent years and has helped many systems meet demands during peak summer periods. Of interest is whether the resources are owned by the utility or purchased from other utilities or local authorities. Owning properties with water rights provides more supply security. This is especially so in states like California where water allocations are being reduced, particularly since recent droughts and environmental issues have created alarm. Since the primary cost for water companies is treatment, it makes little difference whether raw water is owned or bought. In fact, compliance with federal and state water regulations is very high, and the overall cost to deliver treated water to consumers remains relatively affordable.

#### **Asset concentration in the electric utility industry**

In the electric industry, Standard & Poor's follows the operations of major generating facilities to assess if they are well managed or troubled. Significant dependence on one generating facility or a large financial investment in a single asset suggests high risk. The size or magnitude of a particular asset relative to total generation, net plant in service, and common equity is evaluated. Where substantial asset concentration exists, the financial profile of a company may experience wide swings depending on the asset's performance. Heavy asset concentration is most prevalent among utilities with costly nuclear units.

#### **Earnings protection**

In this category, pretax cash income coverage of all interest charges is the primary ratio. For this calculation, allowance for funds used during construction (AFUDC) is removed from income and interest expense. AFUDC and other such noncash items do not provide any protection for bondholders. To identify total interest expense, the analyst reclassifies certain operating expenses. The interest component of various off-balance-sheet obligations, such as leases and some purchased-power contracts, is included in interest expense. This provides the most direct indication of a utility's ability to service its debt burden.

While considerable emphasis in assessing credit protection is placed on coverage ratios, this measure does not provide the entire earnings protection picture. Also important are a company's earned returns on both equity and capital, measures that highlight a firm's earnings performance. Consideration is given to the interaction of embedded costs, financial leverage, and pretax return on capital.

#### **Capital structure**

Analyzing debt leverage goes beyond the balance sheet and covers quasi-debt items and elements of hidden financial leverage. Noncapitalized leases (including sale/lease-back obligations), debt guarantees, receivables financing, and purchased-power contracts are all considered debt equivalents and are reflected as debt in calculating capital

structure ratios. By making debt level adjustments, the analyst can compare the degree of leverage used by each utility company.

Furthermore, assets are examined to identify undervalued or overvalued items. Assets of questionable value are discounted to more accurately evaluate asset protection.

Some firms use short-term debt as a permanent piece of their capital structure. Short-term debt also is considered part of permanent capital when it is used as a bridge to permanent financing. Seasonal, self-liquidating debt is excluded from the permanent debt amount, but this situation is rare—with the exception of certain gas utilities. Given the long life of almost all utility assets, short-term debt may expose these companies to interest-rate volatility, remarketing risk, bank line backup risk, and regulatory exposure that cannot be readily offset. The lower cost of shorter-term obligations (assuming a positively sloped yield curve) is a positive factor that partially mitigates the risk of interest-rate variability. As a rule of thumb, a level of short-term debt that exceeds 10% of total capital is cause for concern.

Similarly, if floating-rate debt and preferred stock constitute over one-third of total debt plus preferred stock, this level is viewed as unusually high and may be cause for concern. It might also indicate that management is aggressive in its financial policies.

A layer of preferred stock in the capital structure is usually viewed as equity—since dividends are discretionary and the subordinated claim on assets provides a cushion for providers of debt capital. A preferred component of up to 10% is typically viewed as a permanent wedge in the capital structure of utilities. However, as rate-of-return regulation is phased out, preferred stock may be viewed by utilities—as many industrial firms would—as a temporary option for companies that are not current taxpayers that do not benefit from the tax deductibility of interest. Even now, floating-rate preferred and money market perpetual preferred are problematic; a rise in the rate due to deteriorating credit quality tends to induce a company to take out such preferred stock with debt. Structures that convey tax deductibility to preferred stock have become very popular and do generally afford such financings with equity treatment.

### ***Cash flow adequacy***

Cash flow adequacy relates to a company's ability to generate funds internally relative to its needs. It is a basic component of credit analysis because it takes cash to pay expenses, fund capital spending, pay dividends, and make interest and principal payments. Since both common and preferred dividend payments are important to maintain capital market access, Standard & Poor's looks at cash flow measures both before and after dividends are paid.

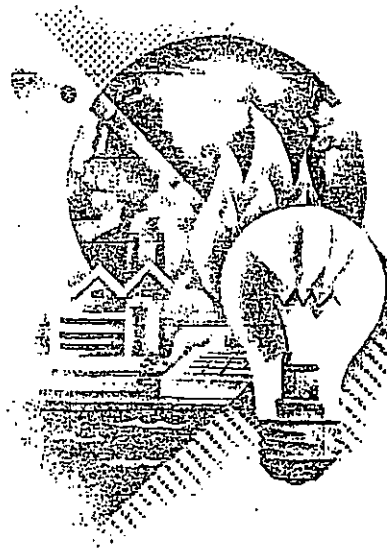
To determine cash flow adequacy, several quantitative relationships are examined. Emphasis is placed on cash flow relative to debt, debt service requirements, and capital spending. Cash flow adequacy is evaluated with respect to a firm's ability to meet all fixed charges, including capacity payments under purchased-power contracts. Despite the conditional nature of some contracts, the purchaser is obligated to pay a minimum capacity charge. The ratio used is funds from operations plus interest and capacity payments divided by interest plus capacity payments.

### ***Financial flexibility/capital attraction***

Financing flexibility incorporates a utility's financing needs, plans, and alternatives, as well as its flexibility to accomplish its financing program under stress without damaging creditworthiness. External funding capability complements internal cash flow. Especially since utilities are so capital intensive, a firm's ability to tap capital markets on an ongoing basis must be considered. Debt capacity reflects all the earlier elements: earnings protection, debt leverage, and cash flow adequacy. Market access at reasonable rates is restricted if a reasonable capital structure is not maintained and the company's financial prospects dim. The analyst also reviews indenture restrictions and the impact of additional debt on covenant tests.

Standard & Poor's assesses a company's capacity and willingness to issue common equity. This is affected by various factors, including the market-to-book ratio, dividend policy, and any regulatory restrictions regarding the composition of the capital structure.

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**STANDARD  
& POOR'S**

## New Business Profile Scores Assigned for U.S. Utility and Power Companies; Financial Guidelines Revised

Standard & Poor's Ratings Services has assigned new business profile scores to U.S. utility and power companies to better reflect the relative business risk among companies in the sector. Standard & Poor's also has revised its published risk-adjusted financial guidelines. The new business scores and financial guidelines do not represent a change to Standard & Poor's ratings criteria or methodology, and no ratings changes are anticipated from the new business profile scores or revised financial guidelines.

### New Business Profile Scores and Revised Financial Guidelines

Standard & Poor's has always monitored changes in the industry and altered its business risk assessments accordingly. This is the first time since the 10-point business pro-

file scale for U.S. investor-owned utilities was implemented that a comprehensive assessment of the benefits and the application of the methodology has been made. The principal purpose was to determine if the methodology continues to provide meaningful differentiation of business risk. The review indicated that while business profile scoring continues to provide analytical benefits, the complete range of the 10-point scale was not being utilized to the fullest extent.

Standard & Poor's has also revised the key financial guidelines that it uses as an integral part of evaluating the credit quality of U.S. utility and power companies. These guidelines were last updated in June 1999. The financial guidelines for three principal ratios (funds from operations (FFO) interest coverage, FFO to total debt, and total debt to total capital) have been broadened so as to be more flexible. Pretax interest cov-

Chart 1  
 Distribution of Business Profile Scores

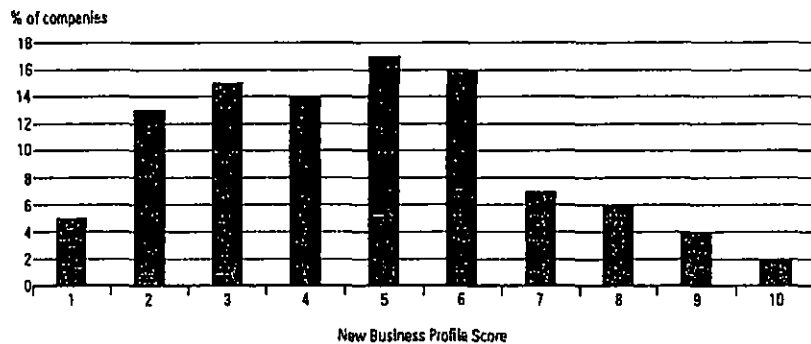
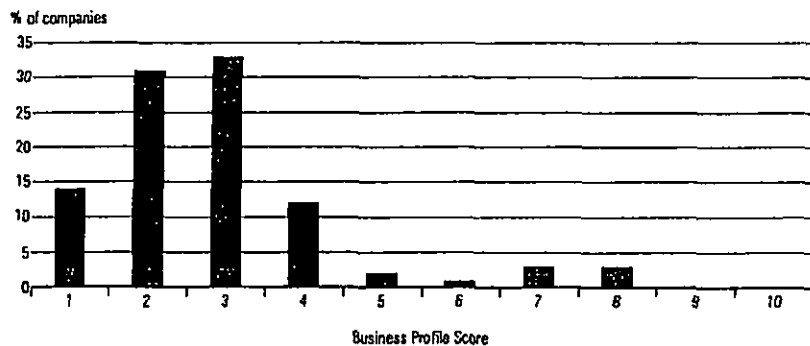


Chart 2  
 Transmission and Distribution—Water, Gas, and Electric



Feature Article

erage as a key credit ratio was eliminated.

Finally, Standard & Poor's has segmented the utility and power industry into sub-sectors based on the dominant corporate strategy that a company is pursuing. Standard & Poor's has published a new U.S. utility and power company ranking list that reflects these sub-sectors.

*There are numerous benefits to the reassessment.* Fuller utilization of the entire 10-point scale provides a superior relative ranking of qualitative business risk. A revision of the financial guidelines supports the goal of not causing rating changes from the recalibration of the business profiles. Classification of companies by sub-sectors will ensure greater comparability and consistency in ratings. The use of industry segmentation will also allow more in-depth statistical analysis of ratings distributions and rating changes.

The reassessment does not represent a change to Standard & Poor's criteria or methodology for determining ratings for utility and power companies. Each business profile score should be considered as the assignment of a new score; these scores do not represent improvement or deteri-

oration in our assessment of an individual company's business risk relative to the previously assigned score. The financial guidelines continue to be risk-adjusted based on historical utility and industrial medians. Segmentation into industry sub-sectors does not imply that specific company characteristics will not weigh heavily into the assignment of a company's business profile score.

**Results**

Previously, 83% of U.S. utility and power business profile scores fell between '3' and '6', which clearly does not reflect the risk differentiation that exists in the utility and power industry today. Since the 10-point scale was introduced, the industry has transformed into a much less homogenous industry, where the divergence of business risk—particularly regarding management, strategy, and degree of competitive market exposure—has created a much wider spectrum of risk profiles. Yet over the same period, business profile scores actually converged more tightly around a median score of '4'. The new business pro-

Chart 3  
 Transmission Only—Electric, Gas, and Other

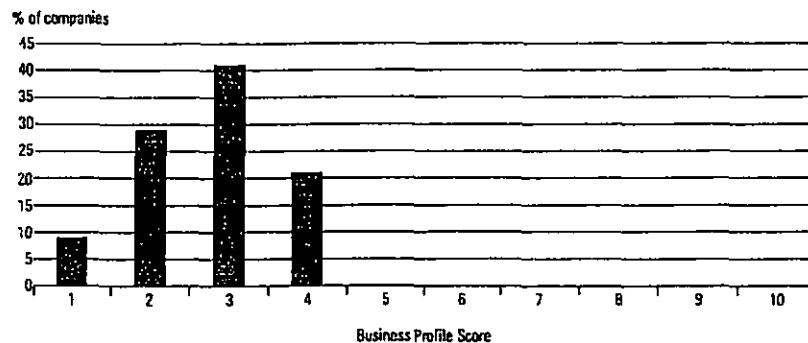
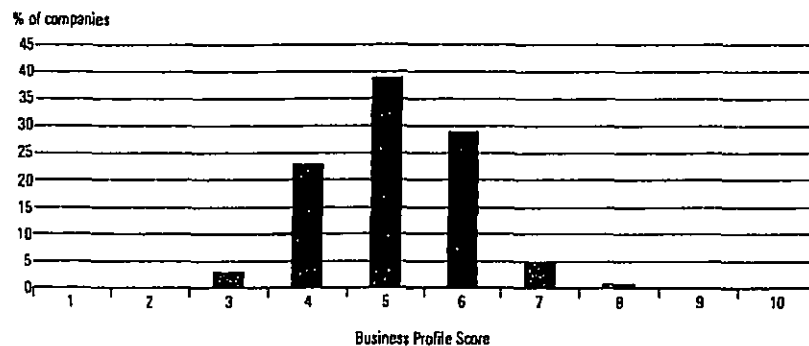


Chart 4  
 Integrated Electric, Gas, and Combination Utilities



Feature Article

file scores, as of June 2, are shown in Chart 1. The overall median business profile score is now '5'.

Table 1 contains the revised financial guidelines. It is important to emphasize that these metrics are only guidelines associated with expectations for various rating levels. Although credit ratio analysis is an important part of the ratings process, these three statistics are by no means the only critical financial measures that Standard & Poor's uses in its analytical process. We also analyze a wide array of financial ratios that do not have published guidelines for each rating category.

Again, ratings analysis is not driven solely by these financial ratios, nor has it ever been. In fact, the new financial guidelines that Standard & Poor's is incorporating for the specified rating categories reinforce the analytical framework whereby other factors can outweigh the achievement of otherwise acceptable financial ratios. These factors include:

- Effectiveness of liability and liquidity management;
- Analysis of internal funding sources;

- Return on invested capital;
- The execution record of stated business strategies;
- Accuracy of projected performance versus actual results, as well as the trend;
- Assessment of management's financial policies and attitude toward credit; and
- Corporate governance practices.

Charts 2 through 6 show business profile scores broken out by industry sub-sector. The five industry sub-sectors are:

- Transmission and distribution—Water, gas, and electric;
- Transmission only—Electric, gas, and other;
- Integrated electric, gas, and combination utilities;
- Diversified energy and diversified nonenergy; and
- Energy merchant/power developer/trading and marketing companies.

The average business profile scores for transmission and distribution companies and transmission-only companies are lower on the scale than the previous averages, while the average business profile scores for integrated utilities, diversified energy, and energy merchants and developers are higher.

Chart 5  
 Diversified Energy and Diversified Non-Energy

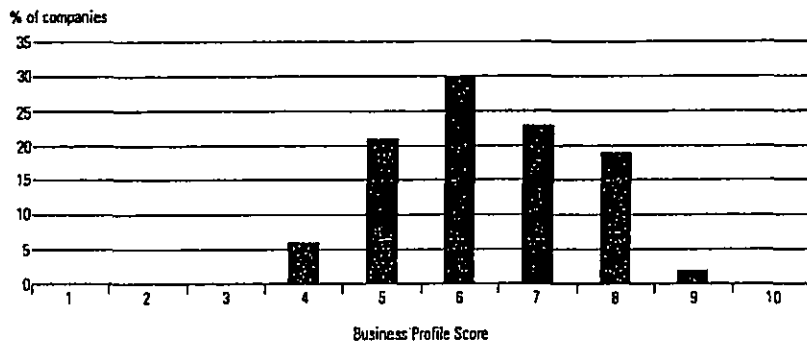
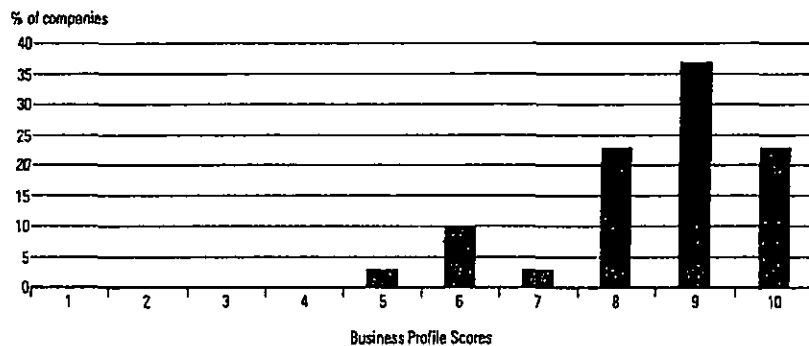


Chart 6  
 Energy Merchant/Developers/Trading and Marketing



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See pages 16 to 19 for the company ranking list of business profile scores segmented by industry sub-sector and ranked in order of credit rating, outlook, business profile score, and relative strength.

**Business Profile Score Methodology**

Standard & Poor's methodology of determining corporate utility business risk is anchored in the assessment of certain specific characteristics that define the sector. We assign business profile scores to each of the rated companies in the utility and power sector on a 10-point scale, where '1' represents the lowest risk and '10' the highest risk. Business pro-

file scores are assigned to all rated utility and power companies, whether they are holding companies, subsidiaries, or stand-alone corporations. For operating subsidiaries and stand-alone companies, the score is a bottom-up assessment. Scores for families of companies are a composite of the operating subsidiaries' scores. The actual credit rating of a company is analyzed, in part, by comparing the business profile score with the risk-adjusted financial guidelines.

For most companies, business profile scores are assessed using five categories; specifically, regulation, markets, operations, competitiveness, and management. The emphasis placed on each category may be influenced by the

Table 1

**Revised Financial Guidelines**

**Funds from operations/interest coverage (x)**

Business Profile	AA		A		BBB			BB	
1	3	2.5	2.5	1.5	1.5	1			
2	4	3	3	2	2	1			
3	4.5	3.5	3.5	2.5	2.5	1.5	1.5	1	
4	5	4.2	4.2	3.5	3.5	2.5	2.5	1.5	
5	5.5	4.5	4.5	3.8	3.8	2.8	2.8	1.8	
6	6	5.2	5.2	4.2	4.2	3	3	2	
7	8	6.5	6.5	4.5	4.5	3.2	3.2	2.2	
8	10	7.5	7.5	5.5	5.5	3.5	3.5	2.5	
9			10	7	7	4	4	2.8	
10			11	8	8	5	5	3	

**Funds from operation/total debt (%)**

Business Profile	AA		A		BBB			BB	
1	20	15	15	10	10	5			
2	25	20	20	12	12	8			
3	30	25	25	15	15	10	10	5	
4	35	28	28	20	20	12	12	8	
5	40	30	30	22	22	15	15	10	
6	45	35	35	28	28	18	18	12	
7	55	45	45	30	30	20	20	15	
8	70	55	55	40	40	25	25	15	
9			65	45	45	30	30	20	
10			70	55	55	40	40	25	

**Total debt/total capital (%)**

Business Profile	AA		A		BBB			BB	
1	48	55	55	60	60	70			
2	45	52	52	58	58	68			
3	42	50	50	55	55	65	65	70	
4	38	45	45	52	52	62	62	68	
5	35	42	42	50	50	60	60	65	
6	32	40	40	48	48	58	58	62	
7	30	38	38	45	45	55	55	60	
8	25	35	35	42	42	52	52	58	
9			32	40	40	50	50	55	
10			25	35	35	48	48	52	

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dominant strategy of the company or other factors. For example, for a regulated transmission and distribution company, regulation may account for 30% to 40% of the business profile score because regulation can be the single-most important credit driver for this type of company. Conversely, competition, which may not exist for a transmission and distribution company, would provide a much lower proportion (e.g., 5% to 15%) of the business profile score.

For certain types of companies, such as power generators, power developers, oil and gas exploration and production companies, or nonenergy-related holdings, where these five components may not be appropriate, Standard & Poor's will use other, more appropriate methodologies. Some of these companies are assigned business profile scores that are useful only for relative ranking purposes.

As noted above, the business profile score for a parent or holding company is a composite of the business profile scores of its individual subsidiary companies. Again, Standard & Poor's does not apply rigid guidelines for deter-

mining the proportion or weighting that each subsidiary represents in the overall business profile score. Instead, it is determined based on a number of factors. Standard & Poor's will analyze each subsidiary's contribution to FFO, forecast capital expenditures, liquidity requirements, and other parameters, including the extent to which one subsidiary has higher growth. The weighting is determined case-by-case. ■

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**NATIONAL FUEL GAS COMPANY**  
**CAPITALIZATION AND FINANCIAL STATISTICS (1)**  
**2001 - 2005, INCLUSIVE**

	2005	2004	2003	2002	2001	
	(MILLIONS OF DOLLARS)					
<b>CAPITALIZATION STATISTICS</b>						
<b>AMOUNT OF CAPITAL EMPLOYED</b>						
TOTAL PERMANENT CAPITAL	\$2,357,988	\$2,438,326	\$2,560,181	\$2,341,548	\$2,181,108	
SHORT-TERM DEBT	<u>\$0.000</u>	<u>\$156,800</u>	<u>\$118,200</u>	<u>\$265,386</u>	<u>\$489,673</u>	
TOTAL CAPITAL EMPLOYED	<u>\$2,357,988</u>	<u>\$2,595,126</u>	<u>\$2,678,381</u>	<u>\$2,606,934</u>	<u>\$2,670,781</u>	
<b>INDICATED AVERAGE CAPITAL COST RATES (2)</b>						
TOTAL DEBT	6.77 %	6.44 %	6.82 %	6.57 %	6.63 %	
<b>CAPITAL STRUCTURE RATIOS</b>						
						<b>5 YEAR AVERAGE</b>
<b>BASED ON TOTAL PERMANENT CAPITAL</b>						
LONG-TERM DEBT	47.85 %	47.06 %	54.27 %	55.77 %	53.01 %	51.59 %
MINORITY INTEREST	0.00	1.52	1.30	1.23	1.02	1.01
COMMON EQUITY	<u>\$2.15</u>	<u>\$1.42</u>	<u>\$4.43</u>	<u>\$3.00</u>	<u>\$5.97</u>	<u>\$7.40</u>
TOTAL	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
<b>BASED ON TOTAL CAPITAL:</b>						
TOTAL DEBT, INCLUDING SHORT-TERM	47.85 %	50.26 %	56.29 %	60.28 %	61.62 %	55.26 %
MINORITY INTEREST	0.00	1.43	1.24	1.10	0.84	0.92
COMMON EQUITY	<u>\$2.15</u>	<u>\$8.31</u>	<u>\$2.47</u>	<u>\$8.62</u>	<u>\$7.54</u>	<u>\$3.82</u>
TOTAL	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
<b>FINANCIAL STATISTICS</b>						
<b>FINANCIAL RATIOS - MARKET BASED</b>						
EARNINGS / PRICE RATIO	5.92 %	8.10 %	10.21 %	7.12 %	3.06 %	6.88 %
MARKET / AVERAGE BOOK RATIO	209.54	172.48	171.48	184.12	215.29	186.58
DIVIDEND YIELD	3.63	4.35	4.82	4.93	3.59	4.22
DIVIDEND PAYOUT RATIO	62.14	54.24	45.60	69.49	118.87	70.07
<b>RATE OF RETURN ON AVERAGE BOOK COMMON EQUITY</b>	12.36 %	13.93 %	17.52 %	11.71 %	8.58 %	12.42 %
<b>FUNDS FROM OPERATIONS / INTEREST COVERAGE (3)</b>	5.90 X	5.50 X	5.90 X	4.70 X	4.50 X	5.30 X
<b>FUNDS FROM OPERATIONS / TOTAL DEBT (4)</b>	35.60 %	31.30 %	34.20 %	24.60 %	22.70 %	29.68 %
<b>TOTAL DEBT / TOTAL CAPITAL</b>	47.85 %	50.26 %	56.29 %	60.28 %	61.62 %	55.26 %

See page 3 for notes.

**NATIONAL FUEL GAS DISTRIBUTION CORPORATION**  
**CAPITALIZATION AND FINANCIAL STATISTICS (1)**  
**2001 - 2005, INCLUSIVE**

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	
	(MILLIONS OF DOLLARS)					
<b><u>CAPITALIZATION STATISTICS</u></b>						
<b><u>AMOUNT OF CAPITAL EMPLOYED</u></b>						
TOTAL PERMANENT CAPITAL	\$792.628	\$788.513	\$775.391	\$786.816	\$792.897	
SHORT-TERM DEBT	<u>\$251.500</u>	<u>\$172.900</u>	<u>\$207.400</u>	<u>\$158.600</u>	<u>\$113.600</u>	
TOTAL CAPITAL EMPLOYED	<u>\$1,044.128</u>	<u>\$961.413</u>	<u>\$982.791</u>	<u>\$945.416</u>	<u>\$906.497</u>	
<b><u>INDICATED AVERAGE CAPITAL COST RATES (2)</u></b>						
LONG TERM DEBT	8.17 %	7.57 %	10.52 %	9.71 %	9.30 %	
<b><u>CAPITAL STRUCTURE RATIOS</u></b>						
<b><u>5 YEAR</u></b>						
<b><u>AVERAGE</u></b>						
<b><u>BASED ON TOTAL PERMANENT CAPITAL</u></b>						
LONG-TERM DEBT	27.54 %	27.69 %	28.17 %	31.65 %	33.95 %	29.80 %
PREFERRED STOCK	0.00	0.00	0.00	0.00	0.00	0.00
COMMON EQUITY	<u>72.46</u>	<u>72.31</u>	<u>71.83</u>	<u>68.34</u>	<u>66.05</u>	<u>70.20</u>
TOTAL	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
<b><u>BASED ON TOTAL CAPITAL</u></b>						
TOTAL DEBT, INCLUDING SHORT-TERM	45.00 %	40.69 %	43.33 %	43.13 %	42.23 %	42.88 %
PREFERRED STOCK	0.00	0.00	0.00	0.00	0.00	0.00
COMMON EQUITY	<u>55.00</u>	<u>59.31</u>	<u>56.67</u>	<u>56.87</u>	<u>57.77</u>	<u>57.12</u>
TOTAL	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
<b><u>FINANCIAL STATISTICS</u></b>						
<b><u>DIVIDEND PAYOUT RATIO</u></b>	90.77 %	73.38 %	64.36 %	71.32 %	57.56 %	71.48 %
<b><u>RATE OF RETURN ON AVERAGE BOOK COMMON EQUITY</u></b>	7.01 %	8.80 %	10.11 %	9.19 %	11.83 %	9.39 %
<b><u>FUNDS FROM OPERATIONS / INTEREST COVERAGE (3)</u></b>	4.90 x	6.00 x	4.90 x	4.60 x	3.90 x	4.90 x
<b><u>FUNDS FROM OPERATIONS / TOTAL DEBT</u></b>	19.90 %	25.70 %	26.20 %	28.40 %	20.30 %	24.10 %
<b><u>TOTAL DEBT / TOTAL CAPITAL</u></b>	45.00 %	40.69 %	43.33 %	43.13 %	42.23 %	42.88 %

See page 3 for notes.

National Fuel Gas Company  
and National Fuel Gas Distribution Corporation  
Capitalization and Financial Statistics  
2001-2005, Inclusive  
(SHOWN FOR INFORMATIONAL PURPOSES ONLY)

Notes:

- (1) All capitalization and financial statistics are based upon financial statements as originally reported in each year.
- (2) Computed by relating actual long-term debt interest booked to average of beginning and ending long-term debt or reported to be outstanding.
- (3) Coverages - excluding all AFUDC represent the number of times available earnings, excluding all AFUDC, cover fixed charges.
- (4) Sinking Fund Requirements for National Fuel Gas Company were obtained from Company Annual Forms 10-K.

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Database  
Annual Reports to Shareholders and / or Forms 10-K

**PROXY GROUP OF FOUR GAS GAS DISTRIBUTION COMPANIES  
CAPITALIZATION AND FINANCIAL STATISTICS (1)  
2001 - 2005, INCLUSIVE**

	2005	2004	2003	2002	2001	
	(MILLIONS OF DOLLARS)					
<b>CAPITALIZATION STATISTICS</b>						
<b>AMOUNT OF CAPITAL EMPLOYED</b>						
TOTAL PERMANENT CAPITAL	\$1,075,195	\$1,022,514	\$908,955	\$891,001	\$848,838	
SHORT-TERM DEBT	\$220,925	\$183,875	\$304,765	\$107,826	\$114,323	
TOTAL CAPITAL EMPLOYED	\$1,296,120	\$1,206,389	\$1,211,720	\$998,827	\$963,160	
<b>INDICATED AVERAGE CAPITAL COST RATES (2)</b>						
TOTAL DEBT	5.80 %	5.77 %	5.92 %	6.79 %	7.05 %	
PREFERRED STOCK	NMF	NMF	7.04	7.30	5.90	
<b>CAPITAL STRUCTURE RATIOS</b>						
<b>BASED ON TOTAL PERMANENT CAPITAL:</b>						
LONG-TERM DEBT	47.35 %	46.22 %	47.79 %	48.62 %	45.61 %	47.12 %
PREFERRED STOCK	0.00	0.00	0.00	0.31	1.06	0.27
COMMON EQUITY	52.65	53.78	52.21	51.07	53.35	52.61
TOTAL	100.00 %	100.00 %	100.00 %	100.00 %	100.02 %	100.00 %
<b>BASED ON TOTAL CAPITAL:</b>						
TOTAL DEBT, INCLUDING SHORT-TERM	55.00 %	53.86 %	58.51 %	53.08 %	52.11 %	54.51 %
PREFERRED STOCK	0.00	0.00	0.00	0.27	0.93	0.24
COMMON EQUITY	45.00	46.14	41.49	46.85	46.98	45.25
TOTAL	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>FINANCIAL STATISTICS</b>						
<b>FINANCIAL RATIOS - MARKET BASED</b>						
EARNINGS / PRICE RATIO	5.82 %	5.64 %	6.15 %	6.37 %	7.20 %	6.24 %
MARKET / AVERAGE BOOK RATIO	193.73	193.37	180.22	180.29	189.73	186.67
DIVIDEND YIELD	4.23	4.13	4.99	4.96	4.75	4.61
DIVIDEND PAYOUT RATIO	77.32	81.50	84.23	80.64	86.67	78.07
<b>RATE OF RETURN ON AVERAGE BOOK COMMON EQUITY</b>	11.75 %	10.80 %	11.06 %	11.63 %	13.50 %	11.77 %
<b>FUNDS FROM OPERATIONS / INTEREST COVERAGE (3)</b>	4.33 X	5.38 X	6.18 X	5.63 X	3.65 X	5.01 X
<b>FUNDS FROM OPERATIONS / TOTAL DEBT (4)</b>	17.88 %	24.83 %	23.98 %	27.95 %	17.43 %	22.41 %
<b>TOTAL DEBT / TOTAL CAPITAL</b>	55.00 %	53.86 %	58.51 %	53.08 %	52.11 %	54.51 %

See Page 2 for notes.

Proxy Group of Four Gas Distribution Companies  
Capitalization and Financial Statistics  
2001-2005, Inclusive

Notes:

- (1) All capitalization and financial statistics for the group are the arithmetic average of the achieved results for each individual company in the group, and are based upon financial statements as originally reported in each year.
- (2) Computed by relating actual long-term debt interest or preferred stock dividends booked to average of beginning and ending long-term debt or preferred stock reported to be outstanding.
- (3) Funds from operations (sum of net income, depreciation, amortization, net deferred income tax and investment tax credits, less total AFUDC) plus interest charges divided by interest charges.
- (4) Funds from operations (as defined in Note 3) as a percentage of total debt.
- (5) Sinking Fund Requirements were obtained from Company Annual Forms 10-K.

Selection Criteria:

*The basis of selection was to include those gas distribution companies: 1) which are assigned an SIC Code of 4924 (Natural Gas Distribution) by the Standard & Poor's Compustat/Research Insight; 2) which have common stock actively traded; 3) which are included in Value Line Investment Survey (Standard Edition) and ThomsonFN First Call; 4) which have not cut or omitted their cash common stock dividends during the five calendar years ending 2005 or through the time of the preparation of Mr. Hanley's accompanying direct testimony; 5) which had more than 80% of their 2005 operating revenues derived from gas distribution operations; 6) which at the time of the preparation of Mr. Hanley's direct testimony, were not expected to be acquired by or merged into another company; and 7) which are included in S&P's Compustat PC Plus/Research Insight Data Base.*

The following four companies met the above criteria:

Cascade Natural Gas Corporation  
NICOR Inc.  
Northwest Natural Gas Company  
Piedmont Natural Gas Company, Inc.

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research  
Insight Database  
Annual Reports to Shareholders and / or Forms 10-K

National Fuel Gas Distribution Corporation  
 Capital Structure Based upon Total Capital for  
 the Proxy Group of Four Gas Distribution Companies  
 for the Years 2001 through 2005

	2005	2004	2003	2002	2001	5 YEAR AVERAGE
<u>Cascade Natural Gas Corporation</u>						
Long-Term Debt	57.00 %	48.45 %	58.63 %	59.09 %	43.61 %	53.36 %
Short-Term Debt	4.10	11.36	1.35	0.00	13.96	6.15
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	38.90	40.19	40.02	40.91	42.43	40.48
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<u>NICOR Inc.</u>						
Long-Term Debt	27.74 %	28.63 %	27.21 %	32.14 %	31.14 %	29.37 %
Short-Term Debt	30.30	28.22	31.48	20.40	19.32	25.94
Preferred Stock	0.00	0.00	0.00	0.28	0.42	0.14
Common Equity	41.96	43.15	41.31	47.18	49.12	44.54
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<u>Northwest Natural Gas Company</u>						
Long-Term Debt	42.60 %	42.65 %	45.83 %	45.36 %	40.66 %	43.42 %
Short-Term Debt	10.19	8.76	7.80	8.80	10.63	8.82
Preferred Stock	0.00	0.00	0.00	0.81	3.31	0.82
Common Equity	47.21	48.59	46.37	47.03	45.50	46.94
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<u>Piedmont Natural Gas Co., Inc.</u>						
Long-Term Debt	38.76 %	40.63 %	28.05 %	44.45 %	46.31 %	39.64 %
Short-Term Debt	9.31	6.74	33.69	4.06	2.90	11.34
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	51.93	52.63	38.26	51.49	50.79	49.02
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<u>Proxy Group of Four Gas Distribution Companies</u>						
Long-Term Debt	41.52 %	40.09 %	39.93 %	45.26 %	40.43 %	41.45 %
Short-Term Debt	13.48	13.77	18.58	7.82	11.68	13.07
Preferred Stock	0.00	0.00	0.00	0.27	0.93	0.24
Common Equity	45.00	46.14	41.49	46.65	46.96	45.25
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Data Base  
 Company Annual Forms 10-K (Sinking Fund Requirements)

National Fuel Gas Distribution Corporation  
Weather Normalization Adjustment (WNA) Clauses  
for the Proxy Group of Four Gas Distribution Companies

	<u>Weather Normalization Clause</u>
<u>Proxy Group of Four Value Line Gas Distribution Companies</u>	
Cascade Natural Gas Corporation	No
NICOR Inc.	No
Northwest Natural Gas Company	Yes (1)
Piedmont Natural Gas Co., Inc.	Yes

Notes: (1) Northwest Natural Gas Company operates in the states of Oregon and Washington as NW Natural. The company has a WNA in Oregon, but not in Washington.

Source of Information: Company Annual Reports to Shareholders and / or  
Forms 10-K  
Company Provided Information  
Regulatory Research Associates, Inc., An SNL Energy Company

PROXY GROUP OF NINE VALUE LINE GAS DISTRIBUTION COMPANIES  
CAPITALIZATION AND FINANCIAL STATISTICS (1)  
2001 - 2005, INCLUSIVE

	2005	2004	2003	2002	2001	
	(MILLIONS OF DOLLARS)					
<u>CAPITALIZATION STATISTICS</u>						
<u>AMOUNT OF CAPITAL EMPLOYED</u>						
TOTAL PERMANENT CAPITAL	\$1,427.587	\$1,218.309	\$1,081.157	\$1,012.871	\$996.890	
SHORT-TERM DEBT	\$146.815	\$135.315	\$235.141	\$130.822	\$168.988	
TOTAL CAPITAL EMPLOYED	\$1,574.502	\$1,353.625	\$1,316.298	\$1,143.693	\$1,163.879	
<u>INDICATED AVERAGE CAPITAL COST RATES (2)</u>						
TOTAL DEBT	5.96 %	5.53 %	5.60 %	6.10 %	6.70 %	
PREFERRED STOCK	4.78	4.81	5.54	5.98	5.39	
<u>5 YEAR</u>						
<u>AVERAGE</u>						
<u>CAPITAL STRUCTURE RATIOS</u>						
<u>BASED ON TOTAL PERMANENT CAPITAL:</u>						
LONG-TERM DEBT	48.20 %	45.33 %	46.71 %	49.21 %	47.64 %	47.62 %
PREFERRED STOCK	0.22	0.22	0.23	0.37	0.72	0.35
COMMON EQUITY	51.58	53.45	53.06	50.42	51.64	52.03
TOTAL	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<u>BASED ON TOTAL CAPITAL:</u>						
TOTAL DEBT, INCLUDING SHORT-TERM	53.63 %	52.27 %	56.08 %	54.69 %	54.71 %	54.28 %
PREFERRED STOCK	0.21	0.21	0.21	0.34	0.64	0.32
COMMON EQUITY	46.16	47.52	43.71	44.97	44.65	45.40
TOTAL	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<u>FINANCIAL STATISTICS</u>						
<u>FINANCIAL RATIOS - MARKET BASED</u>						
EARNINGS / PRICE RATIO	5.97 %	5.01 %	7.02 %	6.16 %	6.96 %	6.42 %
MARKET / AVERAGE BOOK RATIO	195.67	187.36	176.74	171.34	183.89	183.00
DIVIDEND YIELD	4.25	4.32	4.96	5.18	4.85	4.71
DIVIDEND PAYOUT RATIO	74.64	76.96	73.37	90.44	70.35	77.15
<u>RATE OF RETURN ON AVERAGE BOOK COMMON EQUITY</u>	11.79 %	11.18 %	12.30 %	10.74 %	12.80 %	11.76 %
<u>FUNDS FROM OPERATIONS / INTEREST COVERAGE (3)</u>	4.49 X	5.29 X	5.89 X	4.74 X	3.80 X	4.84 X
<u>FUNDS FROM OPERATIONS / TOTAL DEBT (4)</u>	19.36 %	23.06 %	23.44 %	21.77 %	17.21 %	20.97 %
<u>TOTAL DEBT / TOTAL CAPITAL</u>	53.63 %	52.27 %	56.08 %	54.69 %	54.71 %	54.28 %

See Page 2 for notes.

Proxy Group of Nine Value Line Gas Distribution Companies  
• Capitalization and Financial Statistics  
2001-2005, Inclusive

Notes:

- (1) All capitalization and financial statistics for the group are the arithmetic average of the achieved results for each individual company in the group, and are based upon financial statements as originally reported in each year.
- (2) Computed by relating actual long-term debt interest or preferred stock dividends booked to average of beginning and ending long-term debt or preferred stock reported to be outstanding.
- (3) Funds from operations (as defined in Note 3) plus interest charges divided by interest charges.
- (4) Funds from operations (sum of net income, depreciation, amortization, net deferred income tax and investment tax credits, less total AFUDC) as a percentage of total debt.
- (5) Sinking Fund Requirements were obtained from Company Annual Forms 10-K.

Selection Criteria:

The basis of selection was to include those gas distribution companies: 1) which are included in Value Line Investment Survey (Standard Edition) – Natural Gas (Distribution) Industry; 2) which have common stock actively traded and are included in ThomsonFN First Call; 3) which have not cut or omitted their cash common stock dividends during the five calendar years ending 2005 or through the time of the preparation of Mr. Hanley's accompanying direct testimony; 4) which had more than 60% of their 2005 operating revenues derived from gas distribution operations; 5) which, at the time of the preparation of Mr. Hanley's direct testimony, were not expected to be acquired by or merged into another company; and 6) which are included in Standard & Poor's Compustat PC Plus/Research Insight Data Base. The following companies have been excluded from the proxy group: Southwest Gas Corporation does not have ThomsonFN/First Call projected five-year growth Rate in EPS; SEMCO Energy had a dividend cut in 2002; AGL Resources, South Jersey Industries and UGI Corporation have been excluded because those companies had less than 60% of their 2005 operating revenues derived from gas distribution operations; KeySpan Corporation and Southern Union Company have been excluded because the companies are involved in merger and acquisition/divestiture activities. KeySpan Energy is in the process of being acquired by National Grid and Southern Union is in the process of divesting two of its main gas distribution subsidiaries.

The following eight companies met the above criteria:

Atmos Energy Corporation  
Cascade Natural Gas Corporation  
The Laclede Group, Inc.  
New Jersey Resources Corp.  
NICOR Inc.  
Northwest Natural Gas Company  
Peoples Energy Corporation  
Piedmont Natural Gas Company, Inc.  
WGL Holdings, Inc.

**National Fuel Gas Distribution Corporation**  
Capital Structure Based upon Total Capital for  
the Proxy Group of Nine Value Line Gas Distribution Companies  
for the Years 2001 through 2005

	2005	2004	2003	2002	2001	5 YEAR AVERAGE
<b>Almos Energy Corporation</b>						
Long-Term Debt	55.58 %	43.35 %	47.22 %	49.06 %	47.60 %	48.56 %
Short-Term Debt	3.68	0.00	6.41	10.33	13.43	6.77
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	40.74	56.65	46.37	40.61	38.97	44.67
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>Cascade Natural Gas Corporation</b>						
Long-Term Debt	57.00 %	48.45 %	58.63 %	59.09 %	43.61 %	53.36 %
Short-Term Debt	4.10	11.36	1.35	0.00	13.96	6.15
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	38.90	40.19	40.02	40.91	42.43	40.49
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>The Lacke Group, Inc.</b>						
Long-Term Debt	46.46 %	48.62 %	37.01 %	38.81 %	41.15 %	42.41 %
Short-Term Debt	8.62	8.56	26.51	22.05	16.93	16.53
Preferred Stock	0.12	0.15	0.15	0.17	0.24	0.17
Common Equity	44.78	42.67	36.33	38.97	41.68	40.89
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>New Jersey Resources Corp.</b>						
Long-Term Debt	34.36 %	32.08 %	30.09 %	48.53 %	44.71 %	37.95 %
Short-Term Debt	18.67	24.24	21.48	7.31	10.83	16.51
Preferred Stock	0.00	0.00	0.00	0.04	0.04	0.02
Common Equity	46.97	43.68	48.43	44.12	44.42	45.52
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>NICOR Inc.</b>						
Long-Term Debt	27.74 %	28.63 %	27.21 %	32.14 %	31.14 %	29.37 %
Short-Term Debt	30.30	28.22	31.48	20.40	19.32	25.94
Preferred Stock	0.00	0.00	0.00	0.28	0.42	0.14
Common Equity	41.96	43.15	41.31	47.18	49.12	44.54
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>Northwest Natural Gas Company</b>						
Long-Term Debt	42.60 %	42.65 %	45.83 %	45.36 %	40.66 %	43.42 %
Short-Term Debt	10.19	8.76	7.80	6.80	10.53	8.82
Preferred Stock	0.00	0.00	0.00	0.81	3.31	0.82
Common Equity	47.21	48.59	46.37	47.03	45.50	46.94
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>Peoples Energy Corporation</b>						
Long-Term Debt	52.56 %	49.22 %	41.35 %	37.05 %	38.18 %	43.27 %
Short-Term Debt	0.48	3.05	11.55	16.58	24.87	11.26
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	46.96	47.73	47.10	46.39	39.15	45.47
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>Piedmont Natural Gas Co., Inc.</b>						
Long-Term Debt	38.76 %	40.63 %	28.05 %	44.45 %	46.31 %	39.64 %
Short-Term Debt	9.31	6.74	33.69	4.06	2.90	11.34
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	51.93	52.63	38.26	51.49	50.79	49.02
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>WGL Holdings, Inc.</b>						
Long-Term Debt	39.71 %	39.98 %	39.04 %	44.51 %	39.96 %	40.64 %
Short-Term Debt	2.56	5.87	10.03	5.69	8.47	6.52
Preferred Stock	1.76	1.73	1.70	1.77	1.78	1.75
Common Equity	55.97	52.42	49.23	48.03	49.79	51.09
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>Proxy Group of Nine Value Line Gas Distribution Companies</b>						
Long-Term Debt	43.86 %	41.51 %	39.38 %	44.33 %	41.26 %	42.07 %
Short-Term Debt	9.77	10.76	16.70	10.36	13.45	12.21
Preferred Stock	0.21	0.21	0.21	0.34	0.84	0.32
Common Equity	46.16	47.52	43.71	44.97	44.65	45.40
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Data Base  
Company Annual Forms 10-K (Sinking Fund Requirements)

National Fuel Gas Distribution Corporation  
 Weather Normalization Adjustment (WNA) Clauses  
 for the Proxy Group of Nine Value Line Gas Distribution Companies

	<u>Weather Normalization Clause</u>
<u>Proxy Group of Eight Value Line Gas Distribution Companies</u>	
Atmos Energy Corporation	Yes (1)
Cascade Natural Gas Corporation	No
The Laclede Group, Inc.	Yes (2)
New Jersey Resources Corp.	Yes
NICOR Inc.	No
Northwest Natural Gas Company	Yes (3)
Peoples Energy Corporation	No (4)
Piedmont Natural Gas Co., Inc.	Yes
WGL Holdings, Inc.	Yes (5)

- Notes: (1) Atmos Energy Corporation has WNA clauses in the following states: Georgia, Kansas, Kentucky, Mississippi, Tennessee, Texas and Virginia.
- (2) Laclede Group does not have a WNA. However, as part of the 2002 rate case settlement, the Utility initiated, effective November 9, 2002, an innovative weather mitigation rate design that lessens the impact of weather volatility on Laclede Gas customers during cold winters and is expected to stabilize the utility's earnings for the future.
- (3) Northwest Natural Gas Company operates in the states of Oregon and Washington as NW Natural. The company has a WNA in Oregon, but not in Washington.
- (4) Peoples Energy had risk-reducing weather stabilization products for fiscal years 2004 and 2005. However, the company did not purchase weather insurance for fiscal year 2006. For fiscal year 2006, the company will manage weather risk only through the use of block rates in utility rate design.
- (5) In August 2005, WGL Holding's subsidiary in Maryland received approval from the PSC to implement a Revenue Normalization Adjustment (RNA). Furthermore, WGL Holdings Inc. has risk-reducing weather stabilization insurance products in place for Washington D.C. and the state of Virginia. However, the company is not recovering the insurance premiums in rates.

Source of Information: Company Annual Reports to Shareholders and / or  
 Forms 10-K  
 Company Provided Information  
 Regulatory Research Associates, Inc., An SNL Energy Company

National Fuel Gas Distribution Corporation  
Capital Structure and Related Ratios for  
National Fuel Gas Company and Subsidiaries and  
National Fuel Gas Distribution Corporation  
Actual at January 31, 2006

Type of Capital	National Fuel Gas Company and Subsidiaries Actual at January 31, 2006		National Fuel Gas Distribution Corporation Actual at January 31, 2006	
	Amount Outstanding (1) (\$ 000s)	Ratios Based on Total Investor Provided Capital	Amount Outstanding (1) (\$ 000s)	Ratios Based on Total Investor Provided Capital
Long-Term Debt	\$ 1,096,181	41.57 %	\$ 218,310	23.90 %
Short-Term Debt	42,753	1.63	110,506	12.10
Total Debt	\$ 1,138,934	43.20	\$ 328,816	36.00
Common Equity	1,497,778	56.80	584,502	64.00
Total Capital	\$ 2,636,712	100.00 %	\$ 913,318	100.00 %

Type of Capital	Based upon the Utilized Capital Structure Ratios		Based upon the Utilized Capital Structure Ratios	
	Amount Outstanding (\$ 000s)	Ratios Based on Total Investor Provided Capital	Amount Outstanding (\$ 000s)	Ratios Based on Total Investor Provided Capital
Long-Term Debt	\$ 1,230,817 (2)	46.68 %	\$ 365,693 (4)	40.04 %
Short-Term Debt	47,988 (2)	1.82	77,267 (4)	8.46
Total Debt	\$ 1,278,805 (3)	48.50	\$ 442,959 (3)	48.50 (5)
Common Equity	1,357,907 (3)	51.50	470,359 (3)	51.50
Total Capital	\$ 2,636,712 (1)	100.00 %	\$ 913,318 (1)	100.00 %

Notes:

- (1) Company-provided.  
(2) Derived by allocating total utilized debt outstanding of \$1,278,805 derived in Note 3 below by the proportions of long-term and short-term debt to total debt outstanding at January 31, 2006 as derived below:

National Fuel Gas Company and Subsidiaries		
Long-Term Debt	\$ 1,096,181	98.25 %
Short-Term Debt	42,753	3.75
Total Debt	\$ 1,138,934	100.00 %

- (3) Derived by multiplying total capital outstanding at January 31, 2006 by a hypothetical debt ratio of 48.50% and a hypothetical common equity ratio of 51.50%.  
(4) Derived by allocating total utilized debt outstanding of \$442,959 by the proportions of long-term and short-term debt to total debt outstanding at January 31, 2006 as derived in note 5 below.  
(5) The 48.50% total debt ratio has been allocated between long-term and short-term debt based upon the mid-point of the average long-term and short-term debt ratios of the proxy group of four gas distribution companies and the proxy group of nine Value Line gas distribution companies for the five quarters ended December 31, 2005 as shown on pages 3 and 4 this Schedule. The allocation is derived as follows:

	Average for the Five Quarters Ended December 31, 2005			
	Proxy Group of Four Gas Distribution Companies		Proxy Group of Nine Value Line Gas Distribution Companies	
	Ratios	% to Total	Ratios	% to Total
Long-Term Debt	42.36 %	82.86 %	42.92 %	82.24 %
Short-Term Debt	8.76	17.14	9.27	17.76
Total Debt	51.12 %	100.00 %	52.19 %	100.00 %

Midpoint of the Proxy Group of Four Gas Distribution Companies and the Proxy Group of Nine Value Line Gas Distribution Companies		
	Ratios	% to Total
Long-Term Debt	42.64 %	82.55 %
Short-Term Debt	9.02	17.45
Total Debt	51.66 %	100.00 %

Therefore, the utilized long-term debt ratio of 40.04% is derived as 82.55% \* 48.50% and the short-term debt ratio of 8.46% is derived as 17.45% \* 48.50%.

**National Fuel Gas Distribution Corporation**  
Capital Structure and Related Ratios for  
National Fuel Gas Company and Subsidiaries and  
National Fuel Gas Distribution Corporation  
Estimated at January 31, 2007

Type of Capital	National Fuel Gas Company and Subsidiaries Estimated at January 31, 2007		National Fuel Gas Distribution Corporation Estimated at January 31, 2007	
	Amount Outstanding (1) (\$ 000s)	Ratios Based on Total Investor Provided Capital	Amount Outstanding (1) (\$ 000s)	Ratios Based on Total Investor Provided Capital
Long-Term Debt	\$ 1,096,031	42.87 %	\$ 258,310	28.91 %
Short-Term Debt	75,840	2.97	103,493	11.58
Total Debt	\$ 1,171,871	45.84	\$ 361,803	40.49
Common Equity	1,384,760	54.16	531,715	59.51
Total Capital	\$ 2,556,621	100.00 %	\$ 893,518	100.00 %

Type of Capital	Based upon the Utilized Capital Structure Ratios		Based upon the Utilized Capital Structure Ratios	
	Amount Outstanding (\$ 000s)	Ratios Based on Total Investor Provided Capital	Amount Outstanding (\$ 000s)	Ratios Based on Total Investor Provided Capital
Long-Term Debt	\$ 1,159,683 (2)	45.36 %	\$ 357,765 (4)	40.04 %
Short-Term Debt	80,278 (2)	3.14	75,592 (4)	8.46
Total Debt	\$ 1,239,961 (3)	48.50	\$ 433,356 (3)	48.50 (5)
Common Equity	1,316,660 (3)	51.50	460,162 (3)	51.50
Total Capital	\$ 2,556,621 (1)	100.00 %	\$ 893,518 (1)	100.00 %

Notes:

- (1) Company-provided.  
(2) Derived by allocating total hypothetical debt outstanding of \$1,239,961 derived in Note 3 below by the proportions of long-term and short-term debt to total debt expected to be outstanding at January 31, 2007 as derived below:

National Fuel Gas Company and Subsidiaries		
Long-Term Debt	\$ 1,096,031	93.53 %
Short-Term Debt	75,840	6.47
Total Debt	\$ 1,171,871	100.00 %

- (3) Derived by multiplying total capital expected to be outstanding at January 31, 2007 by a hypothetical debt ratio of 48.50% and a hypothetical common equity ratio of 51.50%.  
(4) Derived by allocating total hypothetical debt outstanding of \$433,356 by the proportions of long-term and short-term debt to total debt expected to be outstanding at January 31, 2007 as derived in note 5 below.  
(5) The 48.50% total debt ratio has been allocated between long-term and short-term debt based upon the mid-point of the average long-term and short-term debt ratios of the proxy group of four gas distribution companies and the proxy group of nine Value Line gas distribution companies for the five quarters ended December 31, 2005 as shown on pages 3 and 4 this Schedule. The allocation is derived as follows:

	Average for the Five Quarters Ended December 31, 2005			
	Proxy Group of Four Gas Distribution Companies		Proxy Group of Nine Value Line Gas Distribution Companies	
	Ratios	% to Total	Ratios	% to Total
Long-Term Debt	42.38 %	82.86 %	42.92 %	82.24 %
Short-Term Debt	8.76	17.14	9.27	17.76
Total Debt	51.12 %	100.00 %	52.19 %	100.00 %

Midpoint of the Proxy Group of Four Gas Distribution Companies and the Proxy Group of Nine Value Line Gas Distribution Companies		
	Ratios	% to Total
Long-Term Debt	42.64 %	82.55 %
Short-Term Debt	9.02	17.45
Total Debt	51.66 %	100.00 %

Therefore, the utilized long-term debt ratio of 40.04% is derived as 82.55% \* 48.50% and the short-term debt ratio of 8.46% is derived as 17.45% \* 48.50%.

National Fuel Gas Distribution Corporation  
 Capital Structure Based upon Total Capital for  
 the Proxy Group of Four Gas Distribution Companies  
 for the Five Quarters Ended December 2005

	Quarter Ended 12/05	Quarter Ended 9/05	Quarter Ended 6/05	Quarter Ended 3/05	Quarter Ended 12/04	5 QUARTERS AVERAGE
<b>Cascade Natural Gas Corporation</b>						
Long-Term Debt	54.79 %	57.00 %	53.56 %	53.60 %	45.27 %	52.84 %
Short-Term Debt	5.96	4.10	5.55	4.42	14.66	6.94
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	<u>39.25</u>	<u>38.90</u>	<u>40.89</u>	<u>41.98</u>	<u>40.07</u>	<u>40.22</u>
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>NICOR Inc.</b>						
Long-Term Debt	27.74 %	34.92 %	38.61 %	38.00 %	28.63 %	33.58 %
Short-Term Debt	30.30	10.13	0.00	2.64	28.22	14.26
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	<u>41.96</u>	<u>54.95</u>	<u>61.39</u>	<u>59.36</u>	<u>43.15</u>	<u>52.16</u>
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>Northwest Natural Gas Company</b>						
Long-Term Debt	42.60 %	45.16 %	48.11 %	44.99 %	42.65 %	44.70 %
Short-Term Debt	10.19	6.18	0.00	0.95	8.76	5.22
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	<u>47.21</u>	<u>48.66</u>	<u>51.89</u>	<u>54.06</u>	<u>48.59</u>	<u>50.08</u>
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>Piedmont Natural Gas Co., Inc.</b>						
Long-Term Debt	33.85 %	38.76 %	40.02 %	41.46 %	37.51 %	38.32 %
Short-Term Debt	17.95	9.31	5.09	0.00	10.77	8.62
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	<u>48.20</u>	<u>51.93</u>	<u>54.89</u>	<u>58.52</u>	<u>51.72</u>	<u>53.05</u>
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>Proxy Group 4 Gas Distribution Companies</b>						
Long-Term Debt	39.74 %	43.96 %	45.08 %	44.52 %	38.52 %	42.36 %
Short-Term Debt	16.10	7.43	2.66	2.00	15.60	8.76
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	<u>44.16</u>	<u>48.61</u>	<u>52.26</u>	<u>53.48</u>	<u>45.88</u>	<u>48.88</u>
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

(1) The data for all companies are effective March, June, September and December. However, Piedmont Natural Gas data are for the quarters ended January, April, July and October.

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Data Base  
 Company Annual Forms 10K and 10Q

National Fuel Gas Distribution Corporation  
Capital Structure Based upon Total Capital for  
the Proxy Group of Nine Value Line Gas Distribution Companies  
for the Five Quarters Ended December 2005

	Quarter Ended 12/05	Quarter Ended 9/05	Quarter Ended 6/05	Quarter Ended 3/05	Quarter Ended 12/04	5 QUARTERS AVERAGE
<b>Almos Energy Corporation</b>						
Long-Term Debt	50.85 %	55.58 %	57.51 %	58.07 %	59.05 %	56.21 %
Short-Term Debt	11.03	3.68	0.00	0.00	0.75	3.09
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	38.12	40.74	42.48	41.93	40.20	40.63
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>Cascade Natural Gas Corporation</b>						
Long-Term Debt	54.79 %	57.00 %	53.56 %	53.60 %	45.27 %	52.84 %
Short-Term Debt	5.96	4.10	5.55	4.42	14.66	6.94
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	39.25	38.90	40.89	41.98	40.07	40.22
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>The Laclede Group, Inc.</b>						
Long-Term Debt	36.47 %	46.48 %	46.80 %	44.75 %	41.03 %	43.11 %
Short-Term Debt	25.82	8.62	5.83	10.14	19.12	13.91
Preferred Stock	0.09	0.12	0.12	0.11	0.12	0.11
Common Equity	37.62	44.78	47.25	45.00	39.73	42.88
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>New Jersey Resources Corp.</b>						
Long-Term Debt	27.93 %	34.36 %	31.11 %	34.39 %	28.92 %	31.34 %
Short-Term Debt	28.70	18.57	18.74	10.39	25.96	20.49
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	43.37	46.97	50.15	55.22	45.12	48.17
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>NIGOR Inc.</b>						
Long-Term Debt	27.74 %	34.92 %	38.61 %	38.00 %	28.63 %	33.58 %
Short-Term Debt	30.30	10.13	0.00	2.64	28.22	14.26
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	41.96	54.95	61.39	59.36	43.15	52.16
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>Northwest Natural Gas Company</b>						
Long-Term Debt	42.60 %	45.18 %	48.11 %	44.99 %	42.65 %	44.70 %
Short-Term Debt	10.19	6.18	0.00	0.95	8.76	5.22
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	47.21	48.66	51.89	54.06	48.59	50.08
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>Populos Energy Corporation</b>						
Long-Term Debt	47.75 %	52.56 %	50.06 %	50.50 %	45.94 %	49.36 %
Short-Term Debt	9.46	0.48	0.85	0.00	8.81	3.92
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	42.79	46.96	49.09	49.50	45.25	46.72
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>Piedmont Natural Gas Co., Inc. (1)</b>						
Long-Term Debt	33.85 %	38.76 %	40.02 %	41.48 %	37.51 %	38.32 %
Short-Term Debt	17.95	9.31	5.09	0.00	10.77	8.62
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	48.20	51.93	54.89	58.52	51.72	53.05
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>WGL Holdings, Inc.</b>						
Long-Term Debt	33.51 %	39.71 %	38.99 %	36.76 %	37.22 %	36.84 %
Short-Term Debt	16.39	2.56	1.72	4.96	9.42	7.01
Preferred Stock	1.49	1.76	1.82	1.69	1.65	1.68
Common Equity	48.61	55.97	59.47	56.58	51.71	54.47
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<b>Proxy Group Nine Gas Value Line Gas Distribution Companies</b>						
Long-Term Debt	39.50 %	44.95 %	44.75 %	44.73 %	40.69 %	42.92 %
Short-Term Debt	17.31	7.08	4.20	3.72	14.05	9.27
Preferred Stock	0.18	0.21	0.22	0.20	0.20	0.20
Common Equity	43.01	47.76	50.84	51.35	45.06	47.60
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

(1) The data for all companies are effective March, June, September and December. However, Piedmont Natural Gas data are for the quarters ended January, April, July and October.

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Data Base  
Company Annual Forms 10K and 10Q

National Fuel Gas Distribution Corporation  
 Hypothetical Example of the Inadequacy of  
 A DCF Return Rate Related to Book Value  
When Market Value Is Greater / Less than Book Value

<u>Line No.</u>	<u>1</u>	<u>2</u>	<u>3</u>
	<u>Market Value</u>	<u>Book Value with Market to Book Ratio of 180%</u>	<u>Book Value with Market to Book Ratio of 80%</u>
1. Per Share	\$ 24.000	\$ 13.33	\$ 30.00
2. DCF Cost Rate (1)	10.00%	10.00%	10.00%
3. Return in Dollars	\$ 2.400	\$ 1.333	\$ 3.000
4. Dividends (2)	\$ 0.960	\$ 0.960	\$ 0.960
5. Growth in Dollars	\$ 1.440	\$ 0.373	\$ 2.040
6. Return on Market Value	10.00%	5.55% (3)	12.50% (4)
7. Rate of Growth on Market Value	6.00% (5)	1.55% (6)	8.50% (7)

- Notes: (1) Comprised of 4.0% dividend yield and 6.0%% growth.  
 (2)  $\$24.00 \times 4.0\% \text{ yield} = \$0.960$ .  
 (3)  $\$1.333 / \$24.00 \text{ market value} = 5.55\%$ .  
 (4)  $\$3.000 / \$24.00 \text{ market value} = 12.50\%$ .  
 (5) Expected rate of growth per market based DCF model.  
 (6) Actual rate of growth when DCF cost rate is applied to book value ( $\$1.333 \text{ possible earnings} - \$0.960 \text{ dividends} = \$0.373 \text{ for growth} / \$24.00 \text{ market value} = 1.55\%$ ).  
 (7) Actual rate of growth when DCF cost rate is applied to book value ( $\$3.000 \text{ possible earnings} - \$0.960 \text{ dividends} = \$2.040 \text{ for growth} / \$24.00 \text{ market value} = 8.50\%$ ).

**National Fuel Gas Distribution Corporation**  
Indicated Common Equity Cost Rate through the use  
of the Discounted Cash Flow Model for the Proxy Group of Four Gas distribution Companies  
and the Proxy Group of Nine Value Line Gas Distribution Companies

	1	2	3	4	5	6
	Dividend Yield (1)	Dividend Growth Component (2)	Adjusted Dividend Yield (3)	Growth Rate (4)	Indicated DCF Return Rate (5)	Practical DCF Results (6)
<b>Proxy Group of Four Gas Distribution Companies</b>						
Cascade Natural Gas Corporation	4.88	0.15	5.03	6.25	11.28	11.28
NICOR Inc.	4.61	0.08	4.69	3.50	8.19	---
Northwest Natural Gas Company	4.03	0.12	4.15	8.00	10.15	10.15
Piedmont Natural Gas Co., Inc.	3.95	0.10	4.05	5.10	9.15	---
Average	<u>4.37 %</u>	<u>0.11 %</u>	<u>4.48 %</u>	<u>5.21 %</u>	<u>9.69 %</u>	<u>10.72 %</u>
DCF Results Adjusted for Financial Leverage					<u>10.76 % (7)</u>	<u>12.05 % (7)</u>
<b>Proxy Group of Nine Value Line Gas Distribution Companies</b>						
Atmos Energy Corporation	4.78	0.15	4.93	6.40	11.33	11.33
Cascade Natural Gas Corporation	4.88	0.15	5.03	6.25	11.28	11.28
The Laclede Group, Inc.	4.23	0.13	4.36	6.00	10.36	10.36
New Jersey Resources Corp.	3.25	0.08	3.33	5.00	8.33	---
NICOR Inc.	4.61	0.08	4.69	3.50	8.19	---
Northwest Natural Gas Company	4.03	0.12	4.15	8.00	10.15	10.15
Peoples Energy Corporation	6.01	0.09	6.10	2.90	9.00	---
Piedmont Natural Gas Co., Inc.	3.95	0.10	4.05	5.10	9.15	---
WGL Holdings, Inc.	4.45	0.06	4.51	2.50	7.01	---
Average	<u>4.47 %</u>	<u>0.11 %</u>	<u>4.57 %</u>	<u>4.85 %</u>	<u>9.42 %</u>	<u>10.78 %</u>
DCF Results Adjusted for Financial Leverage					<u>10.30 % (7)</u>	<u>11.98 % (7)</u>

- Notes: (1) From page 1 of Schedule 9 of this Exhibit.  
(2) This reflects a growth rate component equal to one-half the average projected five-year growth rate in EPS (from page 1 of Schedule 12 of this Exhibit x Line No. 1 to reflect the periodic payment of dividends (Gordon Model) as opposed to the continuous payment. Thus, for Cascade Natural Gas  $4.88\% \times (1/2 \times 6.25\%) = 0.15\%$ .  
(3) Column 1 + Column 2.  
(4) From page 1 of Schedule 11 of this Exhibit.  
(5) Column 3 + Column 4.  
(6) Includes only those indicated common equity cost rates which are greater than 9.45% (the lowest rate awarded to a gas distribution utility between January 1, 2004 and March 31, 2005, from Schedule 16 of this Exhibit) as fully explained in Mr. Hanley's accompanying direct testimony.  
(7) Based upon the adjustment described in note 1 on pages 3 and 4 of Schedule 1 of this Exhibit.

National Fuel Gas Distribution Corporation  
Derivation of Dividend Yield for Use in the  
Discounted Cash Flow Model

	Dividend Yield			Average Dividend Yield (3)
	Spot (4/13/06) (1)	Average Based Upon Average High / Low Market Prices (2)		
		March 2006	Feb. 2006	
<u>Proxy Group of Four Gas Distribution Companies</u>				
Cascade Natural Gas Corporation	4.86 %	4.95 %	4.84 %	4.88 %
NICOR Inc.	4.78	4.53	4.51	4.61
Northwest Natural Gas Company	4.03	4.03	4.02	4.03
Piedmont Natural Gas Co., Inc.	4.05	4.01	3.80	3.95
Average	<u>4.43 %</u>	<u>4.38 %</u>	<u>4.29 %</u>	<u>4.37 %</u>
<u>Proxy Group of Nine Value Line Gas Distribution Companies</u>				
Atmos Energy Corporation	4.82 %	4.76 %	4.76 %	4.78 %
Cascade Natural Gas Corporation	4.86	4.95	4.84	4.88
The Laclede Group, Inc.	4.27	4.21	4.22	4.23
New Jersey Resources Corp.	3.25	3.27	3.24	3.25
NICOR Inc.	4.78	4.53	4.51	4.61
Northwest Natural Gas Company	4.03	4.03	4.02	4.03
Peoples Energy Corporation	6.13	5.95	5.96	6.01
Piedmont Natural Gas Co., Inc.	4.05	4.01	3.80	3.95
WGL Holdings, Inc.	4.62	4.38	4.35	4.45
Average	<u>4.53 %</u>	<u>4.45 %</u>	<u>4.41 %</u>	<u>4.47 %</u>

- Notes: (1) The spot dividend yield is the current annualized dividend per share divided by the spot market price on 4/13/06. The dividend yield was calculated by using [finance.yahoo.com](http://finance.yahoo.com) and [interquote.com](http://interquote.com) and DTN Trading Market's [DTNIQ/Interquote.com](http://DTNIQ/Interquote.com)
- (2) The average 3-month dividend yield was computed by relating the indicated annualized dividend rate and market price on the last trading day of each of the two months ended March 2006.
- (3) Equal weight has been given to the spot, February 2006 and March 2006 dividend yield.

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus/Research Insight Data Base  
DTN Trading Markets' [DTNIQ/Interquote.com](http://DTNIQ/Interquote.com)  
<http://finance.yahoo.com>

National Fuel Gas Distribution Corporation  
 Current Institutional Holdings (1) and Individual Holdings (2)  
 for the Proxy Group of Four Gas Distribution Companies  
 and the Proxy Group of Nine Value Line Gas Distribution Companies

	1	2
	April 2006 Percentage of Institutional Holdings	April 2006 Percentage of Individual Holdings (1)
	<u>          </u>	<u>          </u>
<u>Proxy Group of Four Gas Distribution Companies</u>		
Cascade Natural Gas Corporation	41.3 %	58.7 %
NICOR Inc.	70.8	29.2
Northwest Natural Gas Company	47.5	52.5
Piedmont Natural Gas Co., Inc.	40.3	59.7
Average	<u>50.0 %</u>	<u>50.0 %</u>
 <u>Proxy Group of Nine Value Line Gas Distribution Companies</u>		
Atmos Energy Corporation	54.0 %	46.0 %
Cascade Natural Gas Corporation	41.3 %	58.7 %
The Laclede Group, Inc.	41.1	58.9
New Jersey Resources Corp.	50.2	49.8
NICOR Inc.	70.8	29.2
Northwest Natural Gas Company	47.5	52.5
Peoples Energy Corporation	60.1	39.9
Piedmont Natural Gas Co., Inc.	40.3	59.7
WGL Holdings, Inc.	59.5	40.5
Average	<u>51.6 %</u>	<u>48.4 %</u>

(1) (1 - column 1).

Source of Information: reuters.com - updated April 13, 2006

National Fuel Gas Distribution Corporation  
Development of Projected Growth for Use in the Discounted Cash Flow Model

	1	2	3	
	Value Line Projected 2008-'10 Growth Rate in EPS (1)	Thomson FN / First Call Projected Median Five-Year Growth Rate EPS	No. of Estimates	Average Projected Five-Year Growth Rate in EPS (2)
<u>Proxy Group of Four Gas Distribution Companies</u>				
Cascade Natural Gas Corporation	8.50 %	4.00 %	[2]	6.25 %
NICOR Inc.	4.00	3.00	[4]	3.50
Northwest Natural Gas Company	7.00	5.00	[4]	6.00
Piedmont Natural Gas Co., Inc.	6.00	4.20	[1]	5.10
Average	<u>6.38 %</u>	<u>4.05 %</u>		<u>5.21 %</u>
<u>Proxy Group of Nine Value Line Gas Distribution Companies</u>				
Atmos Energy Corporation	7.00 %	5.80 %	[4]	6.40 %
Cascade Natural Gas Corporation	8.50 %	4.00 %	[2]	6.25 %
The Laclede Group, Inc.	7.00	5.00	[1]	6.00
New Jersey Resources Corp.	4.50	5.50	[4]	5.00
NICOR Inc.	4.00	3.00	[4]	3.50
Northwest Natural Gas Company	7.00	5.00	[4]	6.00
Peoples Energy Corporation	0.50	5.30	[2]	2.90
Piedmont Natural Gas Co., Inc.	6.00	4.20	[1]	5.10
WGL Holdings, Inc.	2.00	3.00	[4]	2.50
Average	<u>5.17 %</u>	<u>4.53 %</u>		<u>4.85 %</u>

Notes: (1) From pages 2 through 10 of this Schedule.

(2) Average of Columns 1 and 2.

Source of Information: Value Line Investment Survey, (Standard Edition), March 17, 2006  
 ThomsonFN First Call Earnings, thomsonfn.com, updated April 13, 2006

ATMOS ENERGY CORP. NYSE:ATO				RECENT PRICE	26.15	P/E RATIO	14.1 (Trading: 14.2 Median: 16.0)	RELATIVE P/E RATIO	0.76	DIV'D YLD	4.9%	VALUE LINE																																																																																																																																																																																																																																																																																																																																																																																																																																												
<b>TIMELINESS</b>	3	Raised 2/17/06	High: 23.0	31.0	30.6	32.3	33.0	29.3	25.8	24.6	25.5	27.8	30.0	27.1	25.8	Target Price	2009	2010	2011																																																																																																																																																																																																																																																																																																																																																																																																																																					
<b>SAFETY</b>	2	Raised 12/16/05	Low: 16.1	20.9	22.1	24.8	19.6	14.3	19.5	17.9	20.8	23.4	25.0	25.8																																																																																																																																																																																																																																																																																																																																																																																																																																										
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<b>Insider Decisions</b>			<table border="1"> <tr><th>Month</th><th>A</th><th>M</th><th>J</th><th>J</th><th>A</th><th>B</th><th>D</th><th>N</th><th>D</th></tr> <tr><td>to Buy</td><td>1</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td><td>1</td><td>0</td><td>0</td></tr> <tr><td>to Sell</td><td>0</td><td>1</td><td>0</td><td>1</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>to Hold</td><td>0</td><td>1</td><td>0</td><td>1</td><td>2</td><td>0</td><td>1</td><td>0</td><td>1</td></tr> </table>													Month	A	M	J	J	A	B	D	N	D	to Buy	1	0	0	0	0	0	1	0	0	to Sell	0	1	0	1	0	0	0	0	0	to Hold	0	1	0	1	2	0	1	0	1																																																																																																																																																																																																																																																																																																																																																																																																	
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<b>Institutional Decisions</b>			<table border="1"> <tr><th>Year</th><th>2002Q5</th><th>2002Q5</th><th>2002Q5</th><th>2002Q5</th></tr> <tr><td>to Buy</td><td>104</td><td>102</td><td>83</td><td>83</td></tr> <tr><td>to Sell</td><td>72</td><td>67</td><td>81</td><td>81</td></tr> <tr><td>to Hold</td><td>41588</td><td>43139</td><td>43022</td><td>43022</td></tr> </table>													Year	2002Q5	2002Q5	2002Q5	2002Q5	to Buy	104	102	83	83	to Sell	72	67	81	81	to Hold	41588	43139	43022	43022																																																																																																																																																																																																																																																																																																																																																																																																																					
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<b>Atmos Energy's history</b>			<p>Atmos Energy's history dates back to 1908 in the Texas Panhandle. Over the years, through various mergers, it became part of Pioneer Corporation, and, in 1981, Pioneer named its gas distribution division Energas. In 1983, Pioneer organized Energas as a separate subsidiary and distributed the outstanding shares of Energas to Pioneer shareholders. Energas changed its name to Atmos in 1988. Atmos acquired Trans Louisiana Gas in 1986, Western Kentucky Gas Utility in 1987, Greeley Gas in 1993, United Cities Gas in 1997, and others.</p>																																																																																																																																																																																																																																																																																																																																																																																																																																																					
<b>CAPITAL STRUCTURE as of 12/31/05</b>			<table border="1"> <tr><th>Year</th><th>1996</th><th>1997</th><th>1998</th><th>1999</th><th>2000</th><th>2001</th><th>2002</th><th>2003</th><th>2004</th><th>2005</th><th>2006</th><th>2007</th><th>2008</th><th>2009</th><th>2010</th><th>2011</th></tr> <tr><td>Revenues per sh<sup>A</sup></td><td>30.19</td><td>30.59</td><td>27.90</td><td>22.09</td><td>26.61</td><td>35.36</td><td>22.82</td><td>54.39</td><td>46.50</td><td>61.75</td><td>103.50</td><td>104.73</td><td>104.73</td><td>104.73</td><td>104.73</td><td>104.73</td></tr> <tr><td>"Cash Flow" per sh</td><td>2.80</td><td>2.85</td><td>3.38</td><td>2.62</td><td>3.01</td><td>3.03</td><td>3.39</td><td>3.23</td><td>2.91</td><td>3.90</td><td>3.85</td><td>4.30</td><td>4.30</td><td>4.30</td><td>4.30</td><td>4.30</td></tr> <tr><td>Earnings per sh<sup>A,B</sup></td><td>1.51</td><td>1.34</td><td>1.84</td><td>.81</td><td>1.03</td><td>1.47</td><td>1.45</td><td>1.71</td><td>1.58</td><td>1.72</td><td>1.85</td><td>2.00</td><td>2.00</td><td>2.00</td><td>2.00</td><td>2.00</td></tr> <tr><td>Div'ds Decl'd per sh<sup>C</sup></td><td>.96</td><td>1.01</td><td>1.06</td><td>1.10</td><td>1.14</td><td>1.16</td><td>1.18</td><td>1.20</td><td>1.22</td><td>1.24</td><td>1.26</td><td>1.28</td><td>1.28</td><td>1.28</td><td>1.28</td><td>1.28</td></tr> <tr><td>Cap'l Spending per sh</td><td>4.84</td><td>4.13</td><td>4.44</td><td>3.53</td><td>2.36</td><td>2.77</td><td>3.17</td><td>3.10</td><td>3.03</td><td>4.14</td><td>5.00</td><td>5.90</td><td>5.90</td><td>5.90</td><td>5.90</td><td>5.90</td></tr> <tr><td>Book Value per sh</td><td>10.75</td><td>11.04</td><td>12.21</td><td>12.09</td><td>12.28</td><td>14.31</td><td>13.75</td><td>16.66</td><td>18.05</td><td>19.90</td><td>20.85</td><td>21.40</td><td>21.40</td><td>21.40</td><td>21.40</td><td>21.40</td></tr> <tr><td>Common Shs Outst'g<sup>D</sup></td><td>16.02</td><td>29.64</td><td>30.40</td><td>31.25</td><td>31.95</td><td>40.79</td><td>41.68</td><td>51.48</td><td>62.80</td><td>60.54</td><td>62.00</td><td>64.00</td><td>64.00</td><td>64.00</td><td>64.00</td><td>64.00</td></tr> <tr><td>Avg Ann'l P/E Ratio</td><td>15.1</td><td>17.9</td><td>15.4</td><td>33.0</td><td>18.9</td><td>15.6</td><td>15.2</td><td>13.4</td><td>15.9</td><td>16.1</td><td>15.9</td><td>15.9</td><td>15.9</td><td>15.9</td><td>15.9</td><td>15.9</td></tr> <tr><td>Relative P/E Ratio</td><td>.95</td><td>1.03</td><td>.80</td><td>1.88</td><td>1.23</td><td>.80</td><td>.83</td><td>.76</td><td>.84</td><td>.84</td><td>.84</td><td>.84</td><td>.84</td><td>.84</td><td>.84</td><td>.84</td></tr> <tr><td>Avg Ann'l Div'd Yield</td><td>4.2%</td><td>4.2%</td><td>3.7%</td><td>4.1%</td><td>5.9%</td><td>5.1%</td><td>5.4%</td><td>5.2%</td><td>4.9%</td><td>4.5%</td><td>4.5%</td><td>4.5%</td><td>4.5%</td><td>4.5%</td><td>4.5%</td><td>4.5%</td></tr> <tr><td>Revenues (\$mil)<sup>A</sup></td><td>483.7</td><td>906.8</td><td>848.2</td><td>690.2</td><td>850.2</td><td>1442.3</td><td>850.8</td><td>2799.9</td><td>2920.0</td><td>4973.3</td><td>8485</td><td>8800</td><td>8800</td><td>8800</td><td>8800</td><td>8800</td></tr> <tr><td>Net Profit (\$mil)</td><td>23.9</td><td>39.2</td><td>55.3</td><td>25.0</td><td>32.2</td><td>56.1</td><td>59.7</td><td>79.5</td><td>86.2</td><td>135.8</td><td>150</td><td>170</td><td>170</td><td>170</td><td>170</td><td>170</td></tr> <tr><td>Income Tax Rate</td><td>35.7%</td><td>37.5%</td><td>36.5%</td><td>35.0%</td><td>36.1%</td><td>37.3%</td><td>37.1%</td><td>37.1%</td><td>37.4%</td><td>37.7%</td><td>37.5%</td><td>37.5%</td><td>37.5%</td><td>37.5%</td><td>37.5%</td><td>37.5%</td></tr> <tr><td>Long-Term Debt Ratio</td><td>5.0%</td><td>4.3%</td><td>6.5%</td><td>3.6%</td><td>3.8%</td><td>3.9%</td><td>6.3%</td><td>2.6%</td><td>3.0%</td><td>2.7%</td><td>1.8%</td><td>1.9%</td><td>1.9%</td><td>1.9%</td><td>1.9%</td><td>1.9%</td></tr> <tr><td>Net Profit Margin</td><td>41.5%</td><td>48.1%</td><td>61.8%</td><td>50.0%</td><td>48.1%</td><td>54.3%</td><td>63.9%</td><td>50.2%</td><td>43.2%</td><td>57.7%</td><td>57.0%</td><td>57.0%</td><td>57.0%</td><td>57.0%</td><td>57.0%</td><td>57.0%</td></tr> <tr><td>Common Equity Ratio</td><td>58.5%</td><td>51.9%</td><td>48.2%</td><td>50.0%</td><td>51.9%</td><td>45.7%</td><td>48.1%</td><td>49.8%</td><td>56.8%</td><td>42.3%</td><td>43.0%</td><td>43.0%</td><td>43.0%</td><td>43.0%</td><td>43.0%</td><td>43.0%</td></tr> <tr><td>Total Capital (\$mil)</td><td>294.6</td><td>630.2</td><td>769.7</td><td>755.1</td><td>755.7</td><td>1276.3</td><td>1243.7</td><td>1721.4</td><td>1694.8</td><td>3785.5</td><td>3960</td><td>4180</td><td>4180</td><td>4180</td><td>4180</td><td>4180</td></tr> <tr><td>Net Plant (\$mil)</td><td>413.6</td><td>849.1</td><td>917.9</td><td>965.8</td><td>982.3</td><td>1335.4</td><td>1300.3</td><td>1516.0</td><td>1722.5</td><td>3374.4</td><td>3675</td><td>3975</td><td>3975</td><td>3975</td><td>3975</td><td>3975</td></tr> <tr><td>Return on Total Cap'l</td><td>10.6%</td><td>8.3%</td><td>9.0%</td><td>5.1%</td><td>6.5%</td><td>5.9%</td><td>6.8%</td><td>6.2%</td><td>6.0%</td><td>6.3%</td><td>5.5%</td><td>6.0%</td><td>6.0%</td><td>6.0%</td><td>6.0%</td><td>6.0%</td></tr> <tr><td>Return on Str. Equity</td><td>13.9%</td><td>12.0%</td><td>14.9%</td><td>6.6%</td><td>8.2%</td><td>9.6%</td><td>10.4%</td><td>9.3%</td><td>7.6%</td><td>8.5%</td><td>8.0%</td><td>8.5%</td><td>8.0%</td><td>8.5%</td><td>8.0%</td><td>8.5%</td></tr> <tr><td>Return on Com Equity</td><td>13.9%</td><td>12.0%</td><td>14.9%</td><td>6.6%</td><td>8.2%</td><td>9.6%</td><td>10.4%</td><td>9.3%</td><td>7.6%</td><td>8.5%</td><td>8.0%</td><td>8.5%</td><td>8.0%</td><td>8.5%</td><td>8.0%</td><td>8.5%</td></tr> <tr><td>Retained to Com Eq</td><td>5.1%</td><td>3.9%</td><td>6.3%</td><td>NMF</td><td>NMF</td><td>2.1%</td><td>1.9%</td><td>2.8%</td><td>1.7%</td><td>2.3%</td><td>2.5%</td><td>3.9%</td><td>3.9%</td><td>3.9%</td><td>3.9%</td><td>3.9%</td></tr> <tr><td>All Div'ds to Net Prof</td><td>64%</td><td>67%</td><td>58%</td><td>NMF</td><td>112%</td><td>79%</td><td>79%</td><td>70%</td><td>77%</td><td>73%</td><td>69%</td><td>63%</td><td>63%</td><td>63%</td><td>63%</td><td>63%</td></tr> </table>													Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Revenues per sh <sup>A</sup>	30.19	30.59	27.90	22.09	26.61	35.36	22.82	54.39	46.50	61.75	103.50	104.73	104.73	104.73	104.73	104.73	"Cash Flow" per sh	2.80	2.85	3.38	2.62	3.01	3.03	3.39	3.23	2.91	3.90	3.85	4.30	4.30	4.30	4.30	4.30	Earnings per sh <sup>A,B</sup>	1.51	1.34	1.84	.81	1.03	1.47	1.45	1.71	1.58	1.72	1.85	2.00	2.00	2.00	2.00	2.00	Div'ds Decl'd per sh <sup>C</sup>	.96	1.01	1.06	1.10	1.14	1.16	1.18	1.20	1.22	1.24	1.26	1.28	1.28	1.28	1.28	1.28	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	5.90	5.90	5.90	5.90	Book Value per sh	10.75	11.04	12.21	12.09	12.28	14.31	13.75	16.66	18.05	19.90	20.85	21.40	21.40	21.40	21.40	21.40	Common Shs Outst'g <sup>D</sup>	16.02	29.64	30.40	31.25	31.95	40.79	41.68	51.48	62.80	60.54	62.00	64.00	64.00	64.00	64.00	64.00	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	15.9	15.9	15.9	15.9	15.9	15.9	Relative P/E Ratio	.95	1.03	.80	1.88	1.23	.80	.83	.76	.84	.84	.84	.84	.84	.84	.84	.84	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%	4.5%	4.5%	4.5%	4.5%	Revenues (\$mil) <sup>A</sup>	483.7	906.8	848.2	690.2	850.2	1442.3	850.8	2799.9	2920.0	4973.3	8485	8800	8800	8800	8800	8800	Net Profit (\$mil)	23.9	39.2	55.3	25.0	32.2	56.1	59.7	79.5	86.2	135.8	150	170	170	170	170	170	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%	37.5%	37.5%	37.5%	37.5%	Long-Term Debt Ratio	5.0%	4.3%	6.5%	3.6%	3.8%	3.9%	6.3%	2.6%	3.0%	2.7%	1.8%	1.9%	1.9%	1.9%	1.9%	1.9%	Net Profit Margin	41.5%	48.1%	61.8%	50.0%	48.1%	54.3%	63.9%	50.2%	43.2%	57.7%	57.0%	57.0%	57.0%	57.0%	57.0%	57.0%	Common Equity Ratio	58.5%	51.9%	48.2%	50.0%	51.9%	45.7%	48.1%	49.8%	56.8%	42.3%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	Total Capital (\$mil)	294.6	630.2	769.7	755.1	755.7	1276.3	1243.7	1721.4	1694.8	3785.5	3960	4180	4180	4180	4180	4180	Net Plant (\$mil)	413.6	849.1	917.9	965.8	982.3	1335.4	1300.3	1516.0	1722.5	3374.4	3675	3975	3975	3975	3975	3975	Return on Total Cap'l	10.6%	8.3%	9.0%	5.1%	6.5%	5.9%	6.8%	6.2%	6.0%	6.3%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%	Return on Str. Equity	13.9%	12.0%	14.9%	6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	8.0%	8.5%	8.0%	8.5%	8.0%	8.5%	Return on Com Equity	13.9%	12.0%	14.9%	6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	8.0%	8.5%	8.0%	8.5%	8.0%	8.5%	Retained to Com Eq	5.1%	3.9%	6.3%	NMF	NMF	2.1%	1.9%	2.8%	1.7%	2.3%	2.5%	3.9%	3.9%	3.9%	3.9%	3.9%	All Div'ds to Net Prof	64%	67%	58%	NMF	112%	79%	79%	70%	77%	73%	69%	63%	63%	63%	63%	63%																	
Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011																																																																																																																																																																																																																																																																																																																																																																																																																																								
Revenues per sh <sup>A</sup>	30.19	30.59	27.90	22.09	26.61	35.36	22.82	54.39	46.50	61.75	103.50	104.73	104.73	104.73	104.73	104.73																																																																																																																																																																																																																																																																																																																																																																																																																																								
"Cash Flow" per sh	2.80	2.85	3.38	2.62	3.01	3.03	3.39	3.23	2.91	3.90	3.85	4.30	4.30	4.30	4.30	4.30																																																																																																																																																																																																																																																																																																																																																																																																																																								
Earnings per sh <sup>A,B</sup>	1.51	1.34	1.84	.81	1.03	1.47	1.45	1.71	1.58	1.72	1.85	2.00	2.00	2.00	2.00	2.00																																																																																																																																																																																																																																																																																																																																																																																																																																								
Div'ds Decl'd per sh <sup>C</sup>	.96	1.01	1.06	1.10	1.14	1.16	1.18	1.20	1.22	1.24	1.26	1.28	1.28	1.28	1.28	1.28																																																																																																																																																																																																																																																																																																																																																																																																																																								
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	5.90	5.90	5.90	5.90																																																																																																																																																																																																																																																																																																																																																																																																																																								
Book Value per sh	10.75	11.04	12.21	12.09	12.28	14.31	13.75	16.66	18.05	19.90	20.85	21.40	21.40	21.40	21.40	21.40																																																																																																																																																																																																																																																																																																																																																																																																																																								
Common Shs Outst'g <sup>D</sup>	16.02	29.64	30.40	31.25	31.95	40.79	41.68	51.48	62.80	60.54	62.00	64.00	64.00	64.00	64.00	64.00																																																																																																																																																																																																																																																																																																																																																																																																																																								
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	15.9	15.9	15.9	15.9	15.9	15.9																																																																																																																																																																																																																																																																																																																																																																																																																																								
Relative P/E Ratio	.95	1.03	.80	1.88	1.23	.80	.83	.76	.84	.84	.84	.84	.84	.84	.84	.84																																																																																																																																																																																																																																																																																																																																																																																																																																								
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%	4.5%	4.5%	4.5%	4.5%																																																																																																																																																																																																																																																																																																																																																																																																																																								
Revenues (\$mil) <sup>A</sup>	483.7	906.8	848.2	690.2	850.2	1442.3	850.8	2799.9	2920.0	4973.3	8485	8800	8800	8800	8800	8800																																																																																																																																																																																																																																																																																																																																																																																																																																								
Net Profit (\$mil)	23.9	39.2	55.3	25.0	32.2	56.1	59.7	79.5	86.2	135.8	150	170	170	170	170	170																																																																																																																																																																																																																																																																																																																																																																																																																																								
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%	37.5%	37.5%	37.5%	37.5%																																																																																																																																																																																																																																																																																																																																																																																																																																								
Long-Term Debt Ratio	5.0%	4.3%	6.5%	3.6%	3.8%	3.9%	6.3%	2.6%	3.0%	2.7%	1.8%	1.9%	1.9%	1.9%	1.9%	1.9%																																																																																																																																																																																																																																																																																																																																																																																																																																								
Net Profit Margin	41.5%	48.1%	61.8%	50.0%	48.1%	54.3%	63.9%	50.2%	43.2%	57.7%	57.0%	57.0%	57.0%	57.0%	57.0%	57.0%																																																																																																																																																																																																																																																																																																																																																																																																																																								
Common Equity Ratio	58.5%	51.9%	48.2%	50.0%	51.9%	45.7%	48.1%	49.8%	56.8%	42.3%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%																																																																																																																																																																																																																																																																																																																																																																																																																																								
Total Capital (\$mil)	294.6	630.2	769.7	755.1	755.7	1276.3	1243.7	1721.4	1694.8	3785.5	3960	4180	4180	4180	4180	4180																																																																																																																																																																																																																																																																																																																																																																																																																																								
Net Plant (\$mil)	413.6	849.1	917.9	965.8	982.3	1335.4	1300.3	1516.0	1722.5	3374.4	3675	3975	3975	3975	3975	3975																																																																																																																																																																																																																																																																																																																																																																																																																																								
Return on Total Cap'l	10.6%	8.3%	9.0%	5.1%	6.5%	5.9%	6.8%	6.2%	6.0%	6.3%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%																																																																																																																																																																																																																																																																																																																																																																																																																																								
Return on Str. Equity	13.9%	12.0%	14.9%	6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	8.0%	8.5%	8.0%	8.5%	8.0%	8.5%																																																																																																																																																																																																																																																																																																																																																																																																																																								
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Retained to Com Eq	5.1%	3.9%	6.3%	NMF	NMF	2.1%	1.9%	2.8%	1.7%	2.3%	2.5%	3.9%	3.9%	3.9%	3.9%	3.9%																																																																																																																																																																																																																																																																																																																																																																																																																																								
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<b>CURRENT POSITION</b>			<table border="1"> <tr><th>Year</th><th>2004</th><th>2005</th><th>12/31/05</th></tr> <tr><td>Cash Assos</td><td>201.9</td><td>40.1</td><td>49.5</td></tr> <tr><td>Other</td><td>475.2</td><td>1224.3</td><td>2126.8</td></tr> <tr><td>Current Assos</td><td>677.1</td><td>1264.4</td><td>2176.3</td></tr> <tr><td>Accs Payable</td><td>185.3</td><td>481.3</td><td>1170.4</td></tr> <tr><td>Debt Due</td><td>6.9</td><td>148.1</td><td>477.3</td></tr> <tr><td>Other</td><td>223.3</td><td>503.4</td><td>402.0</td></tr> <tr><td>Current Liab.</td><td>414.3</td><td>1112.8</td><td>2048.7</td></tr> <tr><td>Fbc. Chg. Cov.</td><td>384%</td><td>395%</td><td>390%</td></tr> </table>													Year	2004	2005	12/31/05	Cash Assos	201.9	40.1	49.5	Other	475.2	1224.3	2126.8	Current Assos	677.1	1264.4	2176.3	Accs Payable	185.3	481.3	1170.4	Debt Due	6.9	148.1	477.3	Other	223.3	503.4	402.0	Current Liab.	414.3	1112.8	2048.7	Fbc. Chg. Cov.	384%	395%	390%																																																																																																																																																																																																																																																																																																																																																																																																					
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<b>ANNUAL RATES</b>			<table border="1"> <tr><th>Year</th><th>Past 10 Yrs</th><th>Past 5 Yrs</th><th>Est'd '03-'05</th></tr> <tr><td>Revenues</td><td>6.0%</td><td>16.5%</td><td>12.5%</td></tr> <tr><td>"Cash Flow"</td><td>3.5%</td><td>2.0%</td><td>8.0%</td></tr> <tr><td>Earnings</td><td>4.0%</td><td>6.5%</td><td>7.0%</td></tr> <tr><td>Dividends</td><td>3.0%</td><td>2.0%</td><td>2.0%</td></tr> <tr><td>Book Value</td><td>6.5%</td><td>8.5%</td><td>5.0%</td></tr> </table>													Year	Past 10 Yrs	Past 5 Yrs	Est'd '03-'05	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%																																																																																																																																																																																																																																																																																																																																																																																																																	
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<b>EARNINGS PER SHARE<sup>A,B,E</sup></b>			<table border="1"> <tr><th>Fiscal Year</th><th>Dec.31</th><th>Mar.31</th><th>Jun.30</th><th>Sep.30</th><th>Full Fiscal Year</th></tr> <tr><td>2003</td><td>.60</td><td>1.24</td><td>..</td><td>0.05</td><td>1.71</td></tr> <tr><td>2004</td><td>.79</td><td>1.12</td><td>.09</td><td>0.11</td><td>1.58</td></tr> <tr><td>2005</td><td>.79</td><td>1.11</td><td>.06</td><td>0.21</td><td>1.72</td></tr> <tr><td>2006</td><td>.88</td><td>1.08</td><td>.05</td><td>0.16</td><td>1.85</td></tr> <tr><td>2007</td><td>.85</td><td>1.17</td><td>.08</td><td>0.10</td><td>2.00</td></tr> </table>													Fiscal Year	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year	2003	.60	1.24	..	0.05	1.71	2004	.79	1.12	.09	0.11	1.58	2005	.79	1.11	.06	0.21	1.72	2006	.88	1.08	.05	0.16	1.85	2007	.85	1.17	.08	0.10	2.00																																																																																																																																																																																																																																																																																																																																																																																																					
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<b>QUARTERLY DIVIDENDS PAID<sup>C</sup></b>			<table border="1"> <tr><th>Calendar</th><th>Mar.31</th><th>Jun.30</th><th>Sep.30</th><th>Dec.31</th><th>Full Year</th></tr> <tr><td>2002</td><td>.295</td><td>.295</td><td>.295</td><td>.30</td><td>1.19</td></tr> <tr><td>2003</td><td>.30</td><td>.30</td><td>.30</td><td>.305</td><td>1.21</td></tr> <tr><td>2004</td><td>.305</td><td>.305</td><td>.305</td><td>.31</td><td>1.23</td></tr> <tr><td>2005</td><td>.31</td><td>.31</td><td>.31</td><td>.315</td><td>1.25</td></tr> <tr><td>2006</td><td>.315</td><td></td><td></td><td></td><td></td></tr> </table>													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																																																																																																																																																																																																																																																																																																																																																																																																									
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<b>BUSINESS:</b>			<p>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%, residential; 31%, commercial; 10%, industrial; and 4% other. 2005 depreciation rate 3.7%. Has around 4,330 employees. Officers and directors own approximately 2.6% of common stock (12/05 Proxy). Chairman and Chief Executive Officer: Robert W. Best, Incorporated: Texas. Address: P.O. Box 650205, Dallas, Texas 75265. Telephone: 972-934-9227. Internet: www.atmosenergy.com.</p>																																																																																																																																																																																																																																																																																																																																																																																																																																																					
<b>Atmos Energy Corporation's share net</b>			<p>for the first quarter of fiscal 2006, ends September 30th, was 11% better than the year-ago tally. The bread-and-butter utility operation was added largely by temperatures that were 7% colder, adjusted for jurisdictions with weather-normalized rates. But results here continued to suffer from the impact of Hurricane Katrina, leading us to believe that this year's earnings will be reduced by roughly \$0.10 a share as a result. (Atmos lost some 40,000 customers indefinitely due to the storm.) Within the nonutility segment, the pipeline and storage unit enjoyed increased throughput on the Atmos Pipeline-Texas system, plus expanded margins for transportation and related services. But profits for the natural gas marketing business were squeezed by a sharp rise in operating expenses, reflecting greater headcount and higher regulatory compliance costs.</p>																																																																																																																																																																																																																																																																																																																																																																																																																																																					
<b>That said, the bottom line may advance</b>			<p>in the upper-single-digit range, to around \$1.85 a share, in fiscal 2006. Additional improvement in operating margins may enable earnings per share to reach \$2.00 next year.</p>																																																																																																																																																																																																																																																																																																																																																																																																																																																					
<b>We are constructive about the company's 3- to 5-year prospects.</b>			<p>With the utility division now serving some 3.2 million customers across 12 states, Atmos is not dependent on the economy or rate commissions in any one region of the country. Moreover, the non-utility operations (contributing between 15% and 35% of net income historically), possess decent growth potential, overall. Lastly, management will undoubtedly stick to its successful strategy of purchasing less-efficient utilities and shoring up their profitability through cost-cutting efforts, rate relief, and aggressive marketing initiatives. (Many uncertainties prevent us from including future acquisitions, however.) In the company's present configuration, share net may rise around 8% annually over the 2009-2011 timeframe.</p>																																																																																																																																																																																																																																																																																																																																																																																																																																																					
<b>The stock offers a high yield, a well-covered payout, and modest dividend growth.</b>			<p>But performance-wise, these shares are presently hovering near our 3- to 5-year Target Price Range, and are ranked only 3 (Average) for Timeliness. Frederick L. Harris, III March 17, 2006</p>																																																																																																																																																																																																																																																																																																																																																																																																																																																					

(A) Fiscal year ends Sept. 30th. (B) Div'ds shown. Excl. nonrec. items: '87, 453; '89, 423; '00, 12; '03, 417; Next qtr. pd. due early May. (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) Ctrs may not add due to change in shrs outstanding. (F) ATO completed United Cities merger 7/97. (G) Company's Financial Strength 8+, Stock Price Stability 100, Price Growth Persistence 25, Earnings Predictability 60. To subscribe call 1-800-833-0046.

CASCAD NAT'L GAS NYSE:CGC										RECENT PRICE	19.03	P/E RATIO	19.0	(Trailing 20.5 Median: 18.0)	RELATIVE P/E RATIO	1.03	DIV YLD	5.0%	VALUE LINE																																																																																																																																																																																																																																																																									
<b>TIMELINESS</b> 4	Lowest 3/7/06	High: 17.5	17.5	19.0	18.7	18.8	20.9	22.8	24.2	22.0	23.0	22.8	20.3																																																																																																																																																																																																																																																																															
<b>SAFETY</b> 3	New 7/27/06	Low: 13.0	13.4	15.3	14.8	14.4	13.4	17.4	15.5	18.0	19.1	18.0	18.0																																																																																																																																																																																																																																																																															
<b>TECHNICAL</b> 3	Raised 2/10/06	<b>LEGENDS</b> 1.33 x Dividends p sh divided by Interest Rate Relative Price Strength 3-Mo 2 split 12/93 Options: No Shaded area indicates recession																																																																																																																																																																																																																																																																																										
<b>BETA</b> .80	(1.00 = Market)	<b>2009-11 PROJECTIONS</b> Price Gain Ann'l Total High 30 (+60%) 16% Low 20 (+5%) 8%																																																																																																																																																																																																																																																																																										
<b>Insider Decisions</b>		<table border="1"> <tr><th>to Buy</th><th>A</th><th>M</th><th>J</th><th>J</th><th>A</th><th>S</th><th>O</th><th>N</th><th>D</th></tr> <tr><td>to Buy</td><td>0</td><td>2</td><td>1</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>to Sell</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td></tr> </table>																		to Buy	A	M	J	J	A	S	O	N	D	to Buy	0	2	1	0	0	0	0	0	0	to Sell	0	0	0	0	0	0	0	0	0																																																																																																																																																																																																																																											
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<b>Institutional Decisions</b>		<table border="1"> <tr><th>to Buy</th><th>202205</th><th>102205</th><th>402205</th></tr> <tr><td>to Buy</td><td>35</td><td>44</td><td>38</td></tr> <tr><td>to Sell</td><td>37</td><td>28</td><td>34</td></tr> <tr><td>Net Buy</td><td>4474</td><td>4775</td><td>4892</td></tr> </table>																		to Buy	202205	102205	402205	to Buy	35	44	38	to Sell	37	28	34	Net Buy	4474	4775	4892																																																																																																																																																																																																																																																									
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<b>Percent Shares Traded</b>		<table border="1"> <tr><th>9</th><th>8</th><th>7</th><th>6</th><th>5</th><th>4</th><th>3</th><th>2</th><th>1</th><th>0</th></tr> <tr><td>3</td><td>3</td><td>3</td><td>3</td><td>3</td><td>3</td><td>3</td><td>3</td><td>3</td><td>3</td></tr> </table>																		9	8	7	6	5	4	3	2	1	0	3	3	3	3	3	3	3	3	3	3																																																																																																																																																																																																																																																					
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<b>% TOT. RETURN 2006</b>		<table border="1"> <tr><th>1 yr.</th><th>3 yr.</th><th>5 yr.</th></tr> <tr><td>0.0</td><td>16.2</td><td>108.6</td></tr> <tr><td>20.9</td><td>73.3</td><td></td></tr> </table>																		1 yr.	3 yr.	5 yr.	0.0	16.2	108.6	20.9	73.3																																																																																																																																																																																																																																																																	
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<b>VALUE LINE P.B. INC.</b>		<table border="1"> <tr><th>09-11</th><th>2007</th><th>2006</th><th>2005</th><th>2004</th><th>2003</th><th>2002</th><th>2001</th><th>2000</th><th>1999</th><th>1998</th><th>1997</th><th>1996</th><th>1995</th><th>1994</th><th>1993</th><th>1992</th><th>1991</th><th>1990</th></tr> <tr><td>64.40</td><td>49.55</td><td>44.80</td><td>28.61</td><td>28.23</td><td>27.20</td><td>29.06</td><td>30.40</td><td>21.90</td><td>18.89</td><td>17.17</td><td>17.85</td><td>11.84</td><td>19.98</td><td>21.59</td><td>21.88</td><td>20.03</td><td>23.27</td><td>24.45</td></tr> <tr><td>4.20</td><td>2.55</td><td>2.32</td><td>2.63</td><td>2.25</td><td>2.48</td><td>2.72</td><td>2.60</td><td>2.60</td><td>2.06</td><td>2.06</td><td>1.82</td><td>1.22</td><td>2.07</td><td>1.71</td><td>1.51</td><td>1.66</td><td>2.29</td><td>2.36</td></tr> <tr><td>1.55</td><td>1.15</td><td>1.00</td><td>1.19</td><td>1.02</td><td>1.13</td><td>1.47</td><td>1.39</td><td>1.24</td><td>.84</td><td>.93</td><td>.39</td><td>.80</td><td>.80</td><td>.60</td><td>1.05</td><td>.83</td><td>1.14</td><td>1.26</td></tr> <tr><td>.30</td><td>.96</td><td>.96</td><td>.86</td><td>.96</td><td>.96</td><td>.96</td><td>.96</td><td>.96</td><td>.96</td><td>.96</td><td>.96</td><td>.72</td><td>.96</td><td>.96</td><td>.94</td><td>.94</td><td>.90</td><td>.87</td></tr> <tr><td>4.00</td><td>3.90</td><td>3.30</td><td>2.53</td><td>2.53</td><td>2.56</td><td>1.91</td><td>2.36</td><td>3.30</td><td>2.42</td><td>2.66</td><td>2.32</td><td>1.81</td><td>1.65</td><td>4.12</td><td>3.06</td><td>3.85</td><td>4.64</td><td>2.50</td></tr> <tr><td>18.60</td><td>14.30</td><td>12.35</td><td>10.39</td><td>10.52</td><td>10.34</td><td>10.79</td><td>11.01</td><td>10.36</td><td>10.07</td><td>10.16</td><td>10.09</td><td>10.09</td><td>9.76</td><td>9.81</td><td>9.98</td><td>9.09</td><td>8.63</td><td>8.33</td></tr> <tr><td>12.50</td><td>11.30</td><td>11.30</td><td>11.41</td><td>11.27</td><td>11.05</td><td>11.05</td><td>11.05</td><td>11.05</td><td>11.05</td><td>11.05</td><td>11.05</td><td>10.79</td><td>10.97</td><td>8.91</td><td>8.57</td><td>7.61</td><td>6.83</td><td>6.56</td></tr> <tr><td>78.3</td><td>25.1</td><td>22.0</td><td>17.5</td><td>17.5</td><td>17.5</td><td>13.4</td><td>18.2</td><td>22.0</td><td>19.4</td><td>17.6</td><td>48.0</td><td>18.6</td><td>18.2</td><td>18.2</td><td>18.6</td><td>25.7</td><td>12.2</td><td>8.8</td></tr> <tr><td>1.10</td><td>1.34</td><td>1.25</td><td>1.25</td><td>1.25</td><td>1.25</td><td>.89</td><td>.76</td><td>.76</td><td>1.01</td><td>1.01</td><td>2.51</td><td>1.01</td><td>1.22</td><td>1.59</td><td>1.59</td><td>1.44</td><td>.66</td><td>.66</td></tr> <tr><td>3.0%</td><td>4.7%</td><td>4.6%</td><td>4.7%</td><td>4.6%</td><td>4.7%</td><td>4.7%</td><td>4.5%</td><td>4.7%</td><td>5.9%</td><td>5.9%</td><td>4.6%</td><td>5.9%</td><td>6.6%</td><td>6.2%</td><td>5.4%</td><td>6.2%</td><td>7.8%</td><td>7.8%</td></tr> </table>																		09-11	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	64.40	49.55	44.80	28.61	28.23	27.20	29.06	30.40	21.90	18.89	17.17	17.85	11.84	19.98	21.59	21.88	20.03	23.27	24.45	4.20	2.55	2.32	2.63	2.25	2.48	2.72	2.60	2.60	2.06	2.06	1.82	1.22	2.07	1.71	1.51	1.66	2.29	2.36	1.55	1.15	1.00	1.19	1.02	1.13	1.47	1.39	1.24	.84	.93	.39	.80	.80	.60	1.05	.83	1.14	1.26	.30	.96	.96	.86	.96	.96	.96	.96	.96	.96	.96	.96	.72	.96	.96	.94	.94	.90	.87	4.00	3.90	3.30	2.53	2.53	2.56	1.91	2.36	3.30	2.42	2.66	2.32	1.81	1.65	4.12	3.06	3.85	4.64	2.50	18.60	14.30	12.35	10.39	10.52	10.34	10.79	11.01	10.36	10.07	10.16	10.09	10.09	9.76	9.81	9.98	9.09	8.63	8.33	12.50	11.30	11.30	11.41	11.27	11.05	11.05	11.05	11.05	11.05	11.05	11.05	10.79	10.97	8.91	8.57	7.61	6.83	6.56	78.3	25.1	22.0	17.5	17.5	17.5	13.4	18.2	22.0	19.4	17.6	48.0	18.6	18.2	18.2	18.6	25.7	12.2	8.8	1.10	1.34	1.25	1.25	1.25	1.25	.89	.76	.76	1.01	1.01	2.51	1.01	1.22	1.59	1.59	1.44	.66	.66	3.0%	4.7%	4.6%	4.7%	4.6%	4.7%	4.7%	4.5%	4.7%	5.9%	5.9%	4.6%	5.9%	6.6%	6.2%	5.4%	6.2%	7.8%	7.8%																																																								
09-11	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990																																																																																																																																																																																																																																																																										
64.40	49.55	44.80	28.61	28.23	27.20	29.06	30.40	21.90	18.89	17.17	17.85	11.84	19.98	21.59	21.88	20.03	23.27	24.45																																																																																																																																																																																																																																																																										
4.20	2.55	2.32	2.63	2.25	2.48	2.72	2.60	2.60	2.06	2.06	1.82	1.22	2.07	1.71	1.51	1.66	2.29	2.36																																																																																																																																																																																																																																																																										
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4.00	3.90	3.30	2.53	2.53	2.56	1.91	2.36	3.30	2.42	2.66	2.32	1.81	1.65	4.12	3.06	3.85	4.64	2.50																																																																																																																																																																																																																																																																										
18.60	14.30	12.35	10.39	10.52	10.34	10.79	11.01	10.36	10.07	10.16	10.09	10.09	9.76	9.81	9.98	9.09	8.63	8.33																																																																																																																																																																																																																																																																										
12.50	11.30	11.30	11.41	11.27	11.05	11.05	11.05	11.05	11.05	11.05	11.05	10.79	10.97	8.91	8.57	7.61	6.83	6.56																																																																																																																																																																																																																																																																										
78.3	25.1	22.0	17.5	17.5	17.5	13.4	18.2	22.0	19.4	17.6	48.0	18.6	18.2	18.2	18.6	25.7	12.2	8.8																																																																																																																																																																																																																																																																										
1.10	1.34	1.25	1.25	1.25	1.25	.89	.76	.76	1.01	1.01	2.51	1.01	1.22	1.59	1.59	1.44	.66	.66																																																																																																																																																																																																																																																																										
3.0%	4.7%	4.6%	4.7%	4.6%	4.7%	4.7%	4.5%	4.7%	5.9%	5.9%	4.6%	5.9%	6.6%	6.2%	5.4%	6.2%	7.8%	7.8%																																																																																																																																																																																																																																																																										
<b>CAPITAL STRUCTURE as of 12/31/05</b>		<table border="1"> <tr><th>2007</th><th>2006</th><th>2005</th><th>2004</th><th>2003</th><th>2002</th><th>2001</th><th>2000</th><th>1999</th><th>1998</th><th>1997</th><th>1996</th><th>1995</th><th>1994</th><th>1993</th><th>1992</th><th>1991</th><th>1990</th></tr> <tr><td>630</td><td>570</td><td>515</td><td>326.5</td><td>318.1</td><td>302.8</td><td>321.0</td><td>335.8</td><td>241.9</td><td>208.6</td><td>189.7</td><td>195.8</td><td>127.7</td><td>4.2</td><td>10.6</td><td>8.8</td><td>14.2</td><td>15.4</td><td>16.2</td></tr> <tr><td>19.5</td><td>13.2</td><td>11.5</td><td>9.2</td><td>13.3</td><td>9.7</td><td>12.5</td><td>16.2</td><td>15.4</td><td>14.2</td><td>9.8</td><td>8.8</td><td>4.2</td><td>10.6</td><td>8.8</td><td>14.2</td><td>15.4</td><td>16.2</td><td>16.2</td></tr> <tr><td>37.0%</td><td>37.0%</td><td>37.0%</td><td>37.9%</td><td>36.2%</td><td>34.2%</td><td>34.9%</td><td>35.0%</td><td>37.1%</td><td>36.5%</td><td>37.4%</td><td>37.1%</td><td>34.8%</td><td>34.8%</td><td>34.8%</td><td>34.8%</td><td>34.8%</td><td>34.8%</td><td>34.8%</td></tr> <tr><td>2.3%</td><td>2.3%</td><td>2.3%</td><td>2.8%</td><td>2.2%</td><td>3.2%</td><td>3.2%</td><td>3.2%</td><td>6.4%</td><td>6.8%</td><td>5.2%</td><td>5.2%</td><td>3.3%</td><td>3.3%</td><td>3.3%</td><td>3.3%</td><td>3.3%</td><td>3.3%</td><td>3.3%</td></tr> <tr><td>61.0%</td><td>55.0%</td><td>57.0%</td><td>59.4%</td><td>62.1%</td><td>59.1%</td><td>57.7%</td><td>50.7%</td><td>51.2%</td><td>50.9%</td><td>48.4%</td><td>50.8%</td><td>48.8%</td><td>48.8%</td><td>48.8%</td><td>48.8%</td><td>48.8%</td><td>48.8%</td><td>48.8%</td></tr> <tr><td>49.0%</td><td>45.0%</td><td>43.0%</td><td>40.6%</td><td>47.9%</td><td>44.1%</td><td>40.9%</td><td>49.3%</td><td>48.8%</td><td>46.8%</td><td>48.7%</td><td>46.8%</td><td>48.8%</td><td>48.8%</td><td>48.8%</td><td>48.8%</td><td>48.8%</td><td>48.8%</td><td>48.8%</td></tr> <tr><td>475</td><td>365</td><td>292.5</td><td>247.4</td><td>265.5</td><td>247.4</td><td>265.5</td><td>247.4</td><td>248.6</td><td>245.6</td><td>228.5</td><td>228.5</td><td>217.8</td><td>255.7</td><td>265.2</td><td>276.6</td><td>282.3</td><td>284.8</td><td>294.2</td></tr> <tr><td>470</td><td>365</td><td>350</td><td>342.5</td><td>312.3</td><td>299.6</td><td>312.3</td><td>334.6</td><td>294.2</td><td>284.8</td><td>276.6</td><td>276.6</td><td>255.7</td><td>265.2</td><td>265.2</td><td>265.2</td><td>265.2</td><td>265.2</td><td>265.2</td></tr> <tr><td>5.5%</td><td>5.0%</td><td>5.0%</td><td>7.7%</td><td>6.0%</td><td>6.0%</td><td>6.0%</td><td>6.4%</td><td>8.1%</td><td>8.1%</td><td>7.5%</td><td>6.1%</td><td>3.4%</td><td>3.6%</td><td>3.6%</td><td>3.6%</td><td>3.6%</td><td>3.6%</td><td>3.6%</td></tr> <tr><td>8.5%</td><td>8.0%</td><td>8.0%</td><td>8.0%</td><td>8.6%</td><td>10.8%</td><td>10.8%</td><td>8.6%</td><td>13.3%</td><td>12.9%</td><td>11.7%</td><td>8.3%</td><td>3.6%</td><td>3.6%</td><td>3.6%</td><td>3.6%</td><td>3.6%</td><td>3.6%</td><td>3.6%</td></tr> <tr><td>8.5%</td><td>8.0%</td><td>8.0%</td><td>7.8%</td><td>11.2%</td><td>10.8%</td><td>10.8%</td><td>8.6%</td><td>13.3%</td><td>12.9%</td><td>11.7%</td><td>8.3%</td><td>3.6%</td><td>3.6%</td><td>3.6%</td><td>3.6%</td><td>3.6%</td><td>3.6%</td><td>3.6%</td></tr> <tr><td>3.0%</td><td>1.5%</td><td>1.5%</td><td>2.1%</td><td>1.7%</td><td>1.7%</td><td>1.7%</td><td>1.7%</td><td>4.0%</td><td>4.0%</td><td>2.7%</td><td>2.7%</td><td>1.5%</td><td>1.5%</td><td>1.5%</td><td>1.5%</td><td>1.5%</td><td>1.5%</td><td>1.5%</td></tr> <tr><td>63%</td><td>84%</td><td>96%</td><td>81%</td><td>81%</td><td>110%</td><td>85%</td><td>65%</td><td>69%</td><td>78%</td><td>108%</td><td>83%</td><td>83%</td><td>83%</td><td>83%</td><td>83%</td><td>83%</td><td>83%</td><td>83%</td></tr> </table>																		2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	630	570	515	326.5	318.1	302.8	321.0	335.8	241.9	208.6	189.7	195.8	127.7	4.2	10.6	8.8	14.2	15.4	16.2	19.5	13.2	11.5	9.2	13.3	9.7	12.5	16.2	15.4	14.2	9.8	8.8	4.2	10.6	8.8	14.2	15.4	16.2	16.2	37.0%	37.0%	37.0%	37.9%	36.2%	34.2%	34.9%	35.0%	37.1%	36.5%	37.4%	37.1%	34.8%	34.8%	34.8%	34.8%	34.8%	34.8%	34.8%	2.3%	2.3%	2.3%	2.8%	2.2%	3.2%	3.2%	3.2%	6.4%	6.8%	5.2%	5.2%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	61.0%	55.0%	57.0%	59.4%	62.1%	59.1%	57.7%	50.7%	51.2%	50.9%	48.4%	50.8%	48.8%	48.8%	48.8%	48.8%	48.8%	48.8%	48.8%	49.0%	45.0%	43.0%	40.6%	47.9%	44.1%	40.9%	49.3%	48.8%	46.8%	48.7%	46.8%	48.8%	48.8%	48.8%	48.8%	48.8%	48.8%	48.8%	475	365	292.5	247.4	265.5	247.4	265.5	247.4	248.6	245.6	228.5	228.5	217.8	255.7	265.2	276.6	282.3	284.8	294.2	470	365	350	342.5	312.3	299.6	312.3	334.6	294.2	284.8	276.6	276.6	255.7	265.2	265.2	265.2	265.2	265.2	265.2	5.5%	5.0%	5.0%	7.7%	6.0%	6.0%	6.0%	6.4%	8.1%	8.1%	7.5%	6.1%	3.4%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	8.5%	8.0%	8.0%	8.0%	8.6%	10.8%	10.8%	8.6%	13.3%	12.9%	11.7%	8.3%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	8.5%	8.0%	8.0%	7.8%	11.2%	10.8%	10.8%	8.6%	13.3%	12.9%	11.7%	8.3%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.0%	1.5%	1.5%	2.1%	1.7%	1.7%	1.7%	1.7%	4.0%	4.0%	2.7%	2.7%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	63%	84%	96%	81%	81%	110%	85%	65%	69%	78%	108%	83%	83%	83%	83%	83%	83%	83%	83%
2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990																																																																																																																																																																																																																																																																											
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49.0%	45.0%	43.0%	40.6%	47.9%	44.1%	40.9%	49.3%	48.8%	46.8%	48.7%	46.8%	48.8%	48.8%	48.8%	48.8%	48.8%	48.8%	48.8%																																																																																																																																																																																																																																																																										
475	365	292.5	247.4	265.5	247.4	265.5	247.4	248.6	245.6	228.5	228.5	217.8	255.7	265.2	276.6	282.3	284.8	294.2																																																																																																																																																																																																																																																																										
470	365	350	342.5	312.3	299.6	312.3	334.6	294.2	284.8	276.6	276.6	255.7	265.2	265.2	265.2	265.2	265.2	265.2																																																																																																																																																																																																																																																																										
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<b>Common Stock 11,442,516 shs. as of 12/31/05</b>																																																																																																																																																																																																																																																																																												
<b>MARKET CAP: \$225 million (Small Cap)</b>																																																																																																																																																																																																																																																																																												
<b>CURRENT POSITION<sup>A</sup></b>		<table border="1"> <tr><th>2004</th><th>2005</th><th>12/31/05 (\$MILL.)</th></tr> <tr><td>5</td><td>1.1</td><td>2.3</td></tr> <tr><td>85.9</td><td>141.0</td><td>163.6</td></tr> <tr><td>66.4</td><td>142.1</td><td>165.8</td></tr> <tr><td>12.9</td><td>17.8</td><td>63.1</td></tr> <tr><td>47.5</td><td>12.5</td><td>26.8</td></tr> <tr><td>38.8</td><td>111.9</td><td>77.1</td></tr> <tr><td>88.0</td><td>142.2</td><td>167.1</td></tr> <tr><td>269%</td><td>225%</td><td>250%</td></tr> </table>																		2004	2005	12/31/05 (\$MILL.)	5	1.1	2.3	85.9	141.0	163.6	66.4	142.1	165.8	12.9	17.8	63.1	47.5	12.5	26.8	38.8	111.9	77.1	88.0	142.2	167.1	269%	225%	250%																																																																																																																																																																																																																																														
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<b>ANNUAL RATES</b>		<table border="1"> <tr><th>Post 10 Yrs.</th><th>Post 5 Yrs.</th><th>Est'd '03-'05 to '09-'11</th></tr> <tr><td>3.0%</td><td>7.5%</td><td>16.5%</td></tr> <tr><td>2.0%</td><td>.5%</td><td>10.0%</td></tr> <tr><td>1.5%</td><td>-3.5%</td><td>8.5%</td></tr> <tr><td>.5%</td><td>--</td><td>6%</td></tr> <tr><td>.5%</td><td>--</td><td>10.8%</td></tr> </table>																		Post 10 Yrs.	Post 5 Yrs.	Est'd '03-'05 to '09-'11	3.0%	7.5%	16.5%	2.0%	.5%	10.0%	1.5%	-3.5%	8.5%	.5%	--	6%	.5%	--	10.8%																																																																																																																																																																																																																																																							
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<b>Share net for Cascade Natural Gas</b>		<p>Share net for Cascade Natural Gas bounced back sharply for the first quarter of fiscal 2006 (ends September 30th) versus the year-ago tally. Consumption for the core residential and commercial business was boosted by cooler weather (especially during December), plus an expanded customer base. Furthermore, the performance of the electric generation segment, a key component of the industrial unit, also benefited from lower temperatures, as well as a settlement involving an inactive power plant. Finally, there was a decline in the company's labor expenses (attributable partly to better management of overtime) and employee benefits costs (reflecting the outsourcing of retiree medical obligations to an insurance firm).</p>																																																																																																																																																																																																																																																																																										
<b>At this juncture, indications point to a jump in the bottom line of about 22%, to \$1.00 a share, this year. Assuming a continuation of positive business trends, share net stands to climb another 15%, to \$1.15, in 2007.</b>		<p>At this juncture, indications point to a jump in the bottom line of about 22%, to \$1.00 a share, this year. Assuming a continuation of positive business trends, share net stands to climb another 15%, to \$1.15, in 2007.</p>																																																																																																																																																																																																																																																																																										
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LACLEDE GROUP NYSE-LG				RECENT PRICE	32.37	P/E RATIO	13.8	(Trailing: 13.8 Median: 15.0)	RELATIVE P/E RATIO	0.75	DIV YLD	4.4%	VALUE LINE						
<b>TIMELINESS</b> 3	Raised 2/10/05	High: 23.1	24.9	28.8	27.0	25.6	30.0	32.5	34.3	34.7			Target Price Range 2009 2010 2011						
<b>SAFETY</b> 2	Raised 6/20/03	Low: 18.4	20.0	22.4	20.0	17.5	21.3	19.0	21.8	28.0	28.9		64						
<b>TECHNICAL</b> 3	Lowered 11/10/05	<b>LEGENDS</b> 1.00 x Dividends p sh divided by Interest Rate ..... Relative Price Strength 2-for-1 split 3/04 Opened No Shaded area indicates recession																	
<b>BETA</b> .80 (1.00 = Market)		<b>2009-11 PROJECTIONS</b> Price Gain Return High 40 (+25%) 10% Low 30 (-5%) 3%																	
<b>Insider Decisions</b> A M J J A S O N D to Buy 0 0 0 0 0 0 0 0 0 0 0 0 0 0 Options 0 0 0 0 0 3 0 0 0 0 0 0 0 0 to Sell 0 0 0 0 0 3 0 0 0 0 0 0 0 0																			
<b>Institutional Decisions</b> 2022 2025 2028 to Buy 48 31 50 to Sell 45 55 37 Market 6362 5774 8521 Percent shares traded 7.5 6 2.6																			
<b>1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007</b>																			
30.21	28.10	28.83	32.33	33.43	24.79	31.03	34.33	31.04	26.04	28.89	53.08	39.84	54.95	59.59	75.43	91.65	89.05	Revenues per sh	125.00
2.13	2.37	2.32	2.81	2.65	2.65	3.29	3.32	3.02	2.66	2.68	3.00	2.58	3.15	2.79	2.98	3.55	3.70	"Cash Flow" per sh	4.40
1.08	1.28	1.17	1.61	1.42	1.27	1.87	1.84	1.58	1.47	1.37	1.61	1.18	1.82	1.82	1.90	2.35	2.40	Earnings per sh A B	2.80
1.18	1.20	1.20	1.22	1.22	1.24	1.26	1.30	1.32	1.34	1.34	1.34	1.34	1.35	1.37	1.40	1.42	1.42	Div'ds Decl'd per sh C	1.50
1.87	2.46	2.67	2.62	2.50	2.63	2.35	2.44	2.68	2.58	2.77	2.51	2.60	2.67	2.45	2.84	3.15	3.40	Cap'l Spending per sh	4.40
11.75	11.83	11.79	12.19	12.44	13.05	13.72	14.26	14.57	14.96	14.99	15.26	15.07	15.65	16.96	17.31	18.25	18.73	Book Value per sh D	22.30
15.53	15.59	15.59	15.59	15.67	17.42	17.56	17.56	17.63	18.88	18.88	18.88	18.95	19.11	20.98	21.17	21.50	21.50	Common Shs Outstanding	24.00
14.6	12.5	15.8	13.5	16.4	15.5	11.9	12.5	15.5	15.8	14.9	14.6	20.0	13.6	15.7	16.2	16.2	16.2	Avg Ann'l P/E Ratio	12.5
1.08	.80	.96	.80	1.08	1.04	.75	.72	.81	.80	.97	.74	1.09	.78	.83	.86	.86	.86	Relative P/E Ratio	.85
7.5%	7.5%	6.5%	5.6%	6.3%	6.3%	5.6%	5.6%	5.4%	5.8%	6.6%	5.7%	6.7%	5.4%	4.7%	4.4%	4.4%	4.4%	Avg Ann'l Div'd Yield	4.3%
<b>CAPITAL STRUCTURE as of 12/31/05</b> Total Debt \$650.0 mil. Due in 5 Yrs \$175.0 mil. LT Debt \$340.5 mil. LT Interest \$25.0 mil. (Total interest coverage: 3.0x)																			
<b>Leases, Uncapitalized Annual rentals \$1.7 mil.</b> <b>Pension Assets-9/05 \$272.8 mil.</b> <b>Pfd Stock \$.9 mil. Pfd Div'd \$.05 mil. as of 1/27/06</b> <b>MARKET CAP: \$700 million (Small Cap)</b>																			
<b>CURRENT POSITION (\$MIL)</b> Cash Assets 13.9 6.0 23.8 Other 323.7 418.1 611.4 Current Assets 337.6 424.1 635.2 Accts Payable 88.4 138.4 227.8 Debt Due 85.6 110.7 309.5 Other 97.7 116.5 83.7 Current Liab. 282.8 365.6 631.0 Fix. Chg. Cov. 279% 283% 285%																			
<b>ANNUAL RATES OF CHANGE (per sh)</b> Past 10 Yrs. Past 5 Yrs. Est'd '03-'05 to '09-'11 Revenues 7.5% 17.0% 12.0% "Cash Flow" 1.0% 1.5% 7.0% Earnings 2.5% 4.5% 7.0% Dividends 1.0% 5% 2.0% Book Value 3.0% 2.5% 5.0%																			
<b>QUARTERLY REVENUES (\$ MIL)</b> Fiscal Year Ends Dec.31 Mar.31 Jun.30 Sep.30 Full Fiscal Year 2003 280.1 422.2 188.8 161.4 1050.3 2004 332.6 475.0 245.1 197.6 1250.3 2005 442.5 576.5 311.3 266.7 1597.0 2006 589.2 685 320 276.8 1970 2007 700 700 400 330 2130																			
<b>EARNINGS PER SHARE A B F</b> Fiscal Year Ends Dec.31 Mar.31 Jun.30 Sep.30 Full Fiscal Year 2003 .80 1.14 .11 0.21 1.82 2004 .87 1.12 .19 0.28 1.82 2005 .79 1.06 .29 0.24 1.90 2006 1.23 1.10 .30 0.28 2.35 2007 1.21 1.13 .30 0.24 2.40																			
<b>QUARTERLY DIVIDENDS PAID C</b> Cal. order Mar.31 Jun.30 Sep.30 Dec.31 Full Year 2002 .335 .335 .335 .335 1.34 2003 .335 .335 .335 .335 1.34 2004 .335 .34 .34 .34 1.36 2005 .34 .345 .345 .345 1.38 2006 .345 .355																			
<b>BUSINESS:</b> Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri, including the city of St. Louis, St. Louis County, and parts of 8 other counties. Has more than 600,000 customers. Purchased SM&P for \$43 million (1/02). Themes sold and transported in fiscal '05: 1.12 mil. Revenue mix for regulated operations: residential, 60%; commercial and industrial, 23%; transportation, 2%; other, 15%. Has about 3,815 employees; 6,270 common stockholders. Officers and directors own about 6.0% of common shares (1/08 Proxy). Chairman, Chief Executive Officer, and President: Douglas H. Yaeger. Incorporated: Missouri. Address: 120 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.lacledegas.com.																			
<b>Laclede Group's share net rose considerably for the first quarter of fiscal 2006 (year ends September 30th).</b> Laclede Gas Company, the core subsidiary, was aided by higher sales to entities that were outside the service territory, a general rate increase (effective since last October), and colder temperatures within the system. But the advance was limited, to a certain degree, by heightened operation and maintenance expenses. Meanwhile, margins for the non-regulated gas marketing segment, Laclede Energy Resources, widened nicely because of regional supply/demand imbalances caused by the recent hurricanes, plus a healthy flow of interstate pipeline wholesale transactions. Lastly, SM&P Utility Resources, an underground facility locating firm, benefited from the attainment of business in both new and existing markets, as well as profit-enhancement initiatives (which included new training methods and quality assurance programs).																			
<b>At this juncture, the bottom line appears set to jump nearly 24%, to \$2.35 a share, in fiscal 2006.</b> Share net may flatten out next year, though, due to the difficult comparison.																			
<b>Still, we do not envision any spectacular performances for the company out to 2009-2011.</b> It appears that internal growth for Laclede Gas will remain modest, at best, since the customer base in the greater St. Louis area has been expanding less than 1% annually. As such, any substantial gains will have to come from the unregulated units or from major acquisitions, scenarios we don't see happening anytime soon. Consequently, annual bottom-line increases could only be in the mid-single-digit range over the 3- to 5-year period.																			
<b>The stock offers an appealing dividend, which is amply secured by earnings.</b> But hikes in the payout will likely be minimal, given that Laclede's gas service area is in a mature stage.																			
<b>Long-term total-return potential is unexciting.</b> That's because these shares are currently trading within our 2009-2011 Target Price Range, and we are assuming moderate dividend growth. Meanwhile, the equity is neutrally ranked for Timeliness.																			
<b>Frederick L. Harris, III March 17, 2006</b>																			

(A) Fiscal year ends Sept. 30th.  
 (B) Based on average shares outstanding thru 8/1, then diluted. Next earnings report due late April.  
 (C) Dividends historically paid in early January, April, July, and October. Dividend reinvestment plan available.  
 (D) Incl. deferred charges in '05: \$203.8 mil., \$9.83ch.  
 (E) In millions. Adjusted for stock split.  
 (F) Qty. eqs. may not sum due to change in shares outstanding.  
 Company's Financial Strength B+  
 Stock's Price Stability 95  
 Price Growth Persistence 45  
 Earnings Predictability 65  
 To subscribe call 1-800-833-0046.

NEW JERSEY RES. NYSE: NJR		RECENT PRICE	43.48	P/E RATIO	15.5 (Trailing: 14.4 Median: 15.0)	RELATIVE P/E RATIO	0.84	DYD YLD	3.4%	VALUE LINE						
<b>TIMELINESS</b> 4	Raised 2/17/06	High: 20.3	19.9	28.0	27.4	29.0	32.5	33.8	39.5	44.8	49.3	46.0	Target Price	2009	2010	2011
<b>SAFETY</b> 2	New 1/27/06	Low: 14.3	17.8	18.8	21.0	24.1	24.8	24.3	30.0	36.5	40.7	41.5				
<b>TECHNICAL</b> 3	Raised 3/1/06	<b>LEGENDS</b> 1.18 = Dividends p sh divided by Interest Rate .... Relative Price Strength 3-for-2 split 30/2 Options: No Shaded area indicates recession														
<b>BETA</b> .80	(1.00 = Market)	<b>2009-11 PROJECTIONS</b> Ann'l Total High Price 65 (+50%) Low Price 50 (+15%) Gain 13% Return 7%														
<b>Insider Decisions</b>		M A M J J A S O N D Buy 0 0 0 0 0 0 0 0 0 0 0 0 Options 0 0 0 0 3 0 1 4 0 Sell 0 5 0 0 2 0 1 4 0														
<b>Institutional Decisions</b>		10/20/05 10/26/05 4/22/06 Buy 72 64 64 Sell 54 62 60 Net Buy 18 2 4														
<b>Percent Shores Traded</b>		7.5 5 2.5														
<b>% TOT. RETURN 2/06</b>		1 yr. 4.6 3 yr. 54.9 5 yr. 108.8														
<b>VALUE LINE PUB. INC.</b>		09-11 REVENUES PER SH <sup>A</sup> 139.85 CASH FLOW PER SH 5.70 EARNINGS PER SH <sup>B</sup> 2.30 DIVIDENDS PER SH <sup>C</sup> 1.70 CAP. SPENDING PER SH 2.30 BOOK VALUE PER SH 25.15 COMMON SHS OUTSTG <sup>D</sup> 28.00 AVG ANNUAL P/E RATIO 17.0 RELATIVE P/E RATIO 1.15 AVG ANNUAL DIV'D YIELD 3.0%														
<b>CAPITAL STRUCTURE as of 12/31/05</b>		Total Debt \$687.1 mil. Due in 5 Yrs \$500.0 mil. LT Debt \$335.4 mil. LT Interest \$25.0 mil. Incl. \$6.9 mil. capitalized leases. (LT interest earned: 5.5c; total interest coverage: 4.8x) Pension Assets-9/05 \$82.6 mil.														
<b>Phd Stock None</b>		Oblig. \$89.9 mil.														
<b>Common Stock 27,618,779 sha. as of 1/31/06</b>		MARKET CAP: \$1.2 billion (Mid Cap)														
<b>CURRENT POSITION (MILL)</b>		2004 2005 12/31/05 Cash Assets 5.0 25.0 8.2 Other 681.0 927.8 1045.0 Current Assets 686.0 952.8 1053.2 Accts Payable 42.9 64.7 35.4 Debt Due 287.4 177.4 351.7 Other 357.4 744.2 591.3 Current Liab. 687.7 976.3 978.4 Fbc. Chg. Cov. 826% 680% 700%														
<b>ANNUAL RATES OF CHANGE (per sh)</b>		Past 10 Yrs. Past 5 Yrs. Est'd '03-'05 to '09-'11 Revenues 18.5% 23.5% 5.5% "Cash Flow" 5.5% 6.0% 5.5% Earnings 7.5% 8.5% 4.6% Dividends 2.5% 3.0% 4.6% Book Value 5.0% 7.0% 8.0%														
<b>QUARTERLY REVENUES (\$ mil.) <sup>A</sup></b>		Fiscal Year Ends Dec.31 Mar.31 Jun.30 Sep.30 Full Fiscal Year 2003 668.9 1152.7 369.7 353.1 2544.4 2004 643.0 1037.7 438.5 414.4 2533.6 2005 654.0 1065.1 544.3 684.9 3148.3 2006 1164.6 985 560 510.4 3220 2007 1000 1150 610 555 3315														
<b>EARNINGS PER SHARE <sup>A B C</sup></b>		Fiscal Year Ends Dec.31 Mar.31 Jun.30 Sep.30 Full Fiscal Year 2003 .85 1.50 .16 0.13 2.38 2004 .87 1.82 .06 0.20 2.55 2005 .91 1.84 .07 0.17 2.65 2006 1.23 1.77 .04 0.24 2.80 2007 1.13 1.84 .10 0.17 2.90														
<b>QUARTERLY DIVIDENDS PAID <sup>C</sup></b>		Calendar Mar.31 Jun.30 Sep.30 Dec.31 Full Year 2002 .30 .30 .30 .30 1.20 2003 .31 .31 .31 .31 1.24 2004 .325 .325 .325 .325 1.30 2005 .34 .34 .34 .34 1.36 2006 .36														
<b>BUSINESS:</b>		New Jersey Resources Corp. is the holding company for New Jersey Natural Gas Co., a natural gas utility (about 463,000 customers at 9/30/05) in Monmouth, Ocean, and parts of other N.J. counties. Fiscal 2005 volume: 124.7 bil. cu. ft. (50% firm, 8% interruptible industrial and electric utility, 42% off-system and capacity release). New Jersey Natural Energy subsid. provides unregulated retail and wholesale natural gas and related energy services to customers in 17 states. 2005 deprec. rate: 2.8%. Est'd plant age: 8 years. Has 551 utility employees, 16,300 stockhldr. Off. & dr. own about 3% of common stock (12/05 Proxy). Chairman and CEO: Laurence M. Downes, Inc.; N.J. Address: 1415 Wyckoff Road, Wall, NJ 07719. Tel: 808-938-1480. Internet: www.njring.com.														
<b>anticipates a growth rate of about 2.3% in 2006. Also, in December, NJNG filed a Conservation and Usage Adjustment clause with the New Jersey Board of Public Utilities. The plan, which is currently under review, would allow NJNG to capture changes related to weather and customer usage, and would be measured against a benchmark on an annual basis. In addition, NJNG received approval to implement a 23% increase in prices as a result of higher gas prices. Even so, this will have no impact on its reported gross margins since these costs were necessary to recover the higher costs of gas in its supply and were passed onto customers. These shares are good quality, and the company's consistent results are reflected in the stock price. Recently, the board increased its share-repurchase program, and coupled with strong customer growth and contributions from the company's wholesale business, this should support steady earnings advances. However, the yield doesn't stand out from the group. The stock is also not favorably ranked for year-ahead performance.</b>		<b>Evans I. Blatter</b> March 17, 2006														

(A) Fiscal year ends Sept. 30th. (B) Diluted earnings. Next earnings report due late April. (C) Dividends historically paid in early January. (D) In millions, adjusted for split. (E) Earnings may not sum due to changes in shares outstanding. Company's Financial Strength B++ Stock's Price Stability 100 Price Growth Persistence 85 Earnings Predictability 100 © 2006, Value Line Publishing, Inc. All rights reserved. Financial 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, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product. To subscribe call 1-800-833-0046.

**NICOR, INC. NYSE-GAS** RECENT PRICE **41.70** P/E RATIO **18.0** (Trailing: 18.2 Median: 14.8) RELATIVE P/E RATIO **0.97** DIV YLD **4.5%** VALUE LINE

<b>TIMELINESS</b> 4 Lowered 5/13/05	High: 28.5	37.1	42.9	44.4	42.9	43.9	42.4	49.0	39.3	39.7	43.0	43.1	39.0	Target Price Range 2009 2010 2011
<b>SAFETY</b> 3 Lowered 6/17/05	Low: 21.8	25.4	30.0	37.1	31.2	28.4	34.0	17.3	23.7	32.0	36.6	39.0		120
<b>TECHNICAL</b> 3 Lowered 7/1/05	<b>LEGENDS</b> 1.30 = Dividends per share divided by Interest Rate ..... Relative Price Strength 2.40-1.50 = 493 Shaded area indicates recession												80	
<b>BETA</b> 1.15 (1.00 = Market)	<b>2009-11 PROJECTIONS</b> Ann'l Total High Price 55 (+30%) 11% Low Price 35 (-15%) 9%												64	
<b>Insider Decisions</b>	A M J J A S O N D to Buy 0 0 0 1 0 0 1 0 0 Options 0 1 0 0 0 1 0 0 0 to Sell 0 0 0 0 0 0 0 0 0												48	
<b>Institutional Decisions</b>	202005 202005 202005 to Buy 120 119 117 to Sell 78 81 97 Options 28108 30060 30868												32	
	Percent shares traded 18 shares 12 6												24	
	% TOT. RETURN 2/06 THIS STOCK VS. S&P 500 INDEX 1 yr. 20.6 16.2 3 yr. 66.6 106.6 5 yr. 48.9 73.3												20	

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	VALUE LINE PUBL. R/C	09-11
26.52	26.46	28.90	31.02	31.23	29.42	37.39	41.33	30.84	34.45	50.52	57.30	43.11	60.46	62.12	76.00	71.25	68.85	Revenues per sh	71.75
3.86	3.92	4.14	3.80	4.11	4.19	4.97	5.29	5.21	5.59	6.16	6.41	6.03	5.37	6.00	6.19	6.35	6.55	"Cash Flow" per sh	6.95
1.93	1.88	1.92	1.97	2.07	1.96	2.42	2.55	2.31	2.57	2.94	3.01	2.88	2.11	2.22	2.27	2.40	2.55	Earnings per sh	2.80
1.06	1.12	1.18	1.22	1.25	1.28	1.32	1.40	1.48	1.54	1.66	1.76	1.84	1.86	1.88	1.88	1.86	1.88	Div'ds Decl'd per sh	2.02
3.00	3.65	3.12	2.62	3.34	3.12	2.42	2.34	2.87	3.28	3.48	4.18	4.37	4.12	4.32	4.57	4.50	4.50	Cap'l Spending per sh	4.50
11.67	12.28	12.76	13.05	13.26	13.67	14.74	15.43	15.97	16.80	15.56	16.39	16.55	17.13	16.99	18.36	18.90	19.55	Book Value per sh	21.40
57.33	57.30	55.77	53.96	51.54	50.30	49.49	48.22	47.51	46.89	45.49	44.40	44.01	44.04	44.10	44.18	44.20	44.30	Common Shs Outstanding	44.80
10.7	11.5	11.6	14.1	12.5	13.1	12.5	14.2	17.8	14.6	11.9	12.8	13.1	15.8	15.9	17.3	15.9	17.3	Avg Ann'l P/E Ratio	16.0
.79	.73	.70	.83	.82	.89	.78	.82	.82	.83	.77	.68	.72	.90	.84	.92	.84	.92	Relative P/E Ratio	1.05
5.1%	5.2%	5.3%	4.4%	4.8%	5.0%	4.4%	3.9%	3.6%	4.1%	4.7%	4.6%	4.9%	5.6%	5.3%	4.7%			Avg Ann'l Div'd Yield	4.5%

CAPITAL STRUCTURE as of 12/31/05	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
Total Debt \$1121.8 mil. Due In 5 Yrs \$495.7 mil.	1850.7	1952.6	1465.1	1615.2	2208.1	2544.1	1897.4	2662.7	2739.7	3357.8	3150	3050	3200	3200	3200	3200	3200	3200	3200
LT Debt \$485.8 mil. LT Interest \$25.0 mil.	121.2	124.3	111.1	121.9	136.4	136.3	128.0	93.1	98.1	101.1	105	115	115	115	115	115	115	115	115
(Total interest coverage: 4.1x)	35.8%	35.0%	34.4%	34.7%	34.8%	33.5%	31.0%	35.2%	31.8%	28.3%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%
Pension Assets-12/04 \$424.0 mil. Oblig. \$284.4 mil.	5.5%	6.2%	7.6%	7.5%	5.9%	5.4%	6.7%	3.5%	3.6%	3.0%	3.3%	3.5%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
Pfd Stock \$6 mil. Pfd Div'd Nil	41.3%	42.3%	42.1%	35.5%	32.7%	37.8%	35.1%	39.6%	39.8%	37.4%	36.5%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
11,681 shares of 4.48% redeemable preferred stock	58.1%	57.2%	57.4%	64.0%	66.7%	61.7%	64.5%	60.3%	60.1%	62.6%	63.5%	64.0%	64.0%	64.0%	64.0%	64.0%	64.0%	64.0%	64.0%
Common Stock 44,182,258 shares as of 2/21/06	1255.1	1300.6	1322.6	1230.1	1061.2	1180.1	1128.9	1261.5	1297.7	1320	1350	1450	1450	1450	1450	1450	1450	1450	1450
MARKET CAP: \$1.8 billion (Mid Cap)	1771.9	1735.8	1731.8	1735.2	1729.6	1768.6	1796.8	2484.2	2549.8	2659.1	2750	2850	2850	2850	2850	2850	2850	2850	2850

CURRENT POSITION	2003	2004	12/31/05
Cash Assets	83.2	83.2	126.9
Other	832.7	837.7	1218.8
Current Assets	915.9	920.9	1345.7
Accounts Payable	385.4	502.9	658.2
Debt Due	575.0	490.2	658.0
Other	108.3	178.3	328.7
Current Liab.	7088.7	11771.4	7622.9
Fix. Chg. Gov.	437%	428%	NMF

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04
Revenues	6.0%	9.0%	1.5%
"Cash Flow"	3.5%	1.5%	3.0%
Earnings	2.0%	-0.5%	4.0%
Dividends	4.5%	4.5%	1.5%
Book Value	2.5%	1.0%	3.5%

QUARTERLY REVENUES (\$ mil)	Full Year
2003	2662.7
2004	2739.7
2005	3357.8
2006	3150
2007	3050

EARNINGS PER SHARE	Full Year
2003	2.11
2004	2.22
2005	2.27
2006	2.40
2007	2.55

QUARTERLY DIVIDENDS PAID	Full Year
2002	1.84
2003	1.88
2004	1.85
2005	1.85
2006	1.85

**BUSINESS:** Nicor Inc. is a holding company with gas distribution as its primary business. Serves over 2.1 million customers in northern and western Illinois. 2004 gas delivered: 473.2 bcf, ind 217.7 bcf from transportation. 2004 gas sales (255.5 bcf): residential, 80%; commercial, 17%; industrial, 3%. Principal supplying pipelines: Natural Gas Pipeline, Midwestern Gas, and Northern Natural. Current operations include Tropical Shipping subsidiary and several energy related ventures. Diversified inland barging, 7/8; contract drilling, 9/86; oil and gas E&P, 6/93. Has about 3,600 employees, 23,700 sq. ft. Off. Adv. own about 1.9% of common stock (405 proxy). Chairman and CEO: Russ Strobel, Inc.: IL Addr.: 1844 Ferry Road, Naperville, IL 60563. Tel.: 630-305-9500. Internet: www.nicor.com.

**Our near-term earnings estimates for Nicor are somewhat tentative. In late 2005, the company had received approval from the Illinois Commerce Commission (ICC) for a base rate increase of \$54.2 million. But certain matters with respect to the rate case are currently under rehearing by the ICC. Depending on the outcome, expected soon, Nicor's level of rate relief may be subject to change. In the worst-case scenario, there would be a \$7.1 million reduction in additional annual revenues. On the upside, the company may be awarded another \$0.9 million annually. In light of the uncertainty regarding the final decision, our top- and bottom-line estimates may be subject to revision. However, we think that the ICC will strongly consider the original base rate increase, given the latest setbacks at the core natural gas distribution business. Unseasonably warm weather conditions should weigh on profits in 2006. There has been a significant deviation from normal weather conditions within Nicor's service region through the first two months of the year. As of February 20, 2006, weather was estimated to be 330 degree days warmer than normal. Management indicated that a 100-degree day variance from normal weather would impact earnings by approximately \$1.5 million-\$2 million. (Our earnings estimates for 2007 are partly based on a return to more-reasonable temperatures.) To make matters worse, operating and maintenance expenses are likely to climb, offsetting incremental revenues from the aforementioned rate case. We do not expect to see a meaningful increase in dividends anytime soon. It ought to be challenging for Nicor to raise the dividend in the near term, based on our cash flow projections. Other considerations include working capital requirements, as well as the planned capital expenditure budget of \$198 million in 2006. Nicor stock is ranked 4 (Below Average) for the year ahead. Operational hurdles, such as mounting wages and benefits costs, coupled with the negative impact of warmer weather in the early months of 2006, are reasons for concern. The stock's high yield, from a well-covered dividend, is the main appeal here. Charles W. Noh March 17, 2006**

(A) Based on primary earnings thru '96, then diluted. Excl. nonrecurring gains/losses: '89, '76; '87, '64; '88, '11; '99, '56; '00, '11; '96; '01, '16; '03, '27; '04, '52; '05, '80%. Excl. items from discontinued ops: '93, '4; '96, '30%. Quarterly earnings may not sum to total due to rounding. Next earnings report due into April. (B) Dividends historically paid early February. (C) Dividends historically paid early February. May, August, November: Dividend reinvestment plan available. (C) In millions, adjusted for stock split. Company's Financial Strength: A Stock's Price Stability: 60 Price Growth Persistence: 45 Earnings Predictability: 75 To subscribe call 1-800-833-0046.

N.W. NAT'L GAS NYSE: NWN				RECENT PRICE	33.58	P/E RATIO	15.7 (Trailing: 16.1 Median: 14.0)	RELATIVE P/E RATIO	0.85	DIVID YLD	4.1%	VALUE LINE									
TIMELINESS	4	Lowered 9/16/05		High: 22.8	25.9	31.4	30.8	27.0	27.5	28.8	30.7	31.3	34.1	39.8	38.6	Target Price Range	2009	2010	2011		
SAFETY	1	Raised 3/18/05		Low: 16.3	20.8	23.0	24.3	19.5	17.8	21.7	23.5	24.0	27.5	32.4	32.8						
TECHNICAL	3	Raised 3/10/05		LEGENDA 1.10 x Dividends p sh divided by Interest Rate 0.0 x Adj Book value ... Relative Price Strength 1-yr-2 split: 2:1 Options: Yes Shaded area indicates recession																	
BETA	70	(1.00 = Market)		2005-11 PROJECTIONS																	
Insider Decisions			Price Gain Return													% TOT. RETURN 2005					
Institutional Decisions			Ann'l Total													THIS STOCK VS. AVERAGE					
CAPITAL STRUCTURE as of 12/31/05			Percent shares traded													1 yr. -2.4					
MARKET CAP \$925 million (Small Cap)			9													3 yr. 58.3					
CURRENT POSITION			6													5 yr. 72.8					
ANNUAL RATES			3													VS. VALUE LINE P/B, INC.					
QUARTERLY REVENUES (\$ mil)			9													09-11					
EARNINGS PER SHARE			6																		
QUARTERLY DIVIDENDS PAID			3																		
BUSINESS			380.3													1450					
Northwest Natural ended a fine 2005 on a decent note. Excluding the costs of settling a dispute with some industrial customers, fourth-quarter 2005 earnings per share would have risen a few percent. The larger-than-normal earnings gain for all of 2005 resulted mostly from higher-than-average rate increases, profits from gas cost hedging, and earnings from storage operations. That said, customer growth also made a major contribution to the strong 2005 results as Northwest raised its customer count by over 3% for the 19th year in a row.			46.8													1450					
We look for a more normal earnings gain this year. Customer growth will likely continue at a healthy rate, very likely at the 3% plus recent rate as Oregon gains population. With weather normalization and conservation clauses in its Oregon residential rates, Northwest is largely protected from (and can also benefit little) from changes in consumption due to warmer- or colder-than-average temperatures and conservation, should high gas costs persist. Industrial gas sales should rise, as gas currently has a price advantage relative to oil. Finally, operation and maintenance costs will probably increase by less than the 11% rate in 2005 as the company begins to read about a third of its meters automatically. Earnings will probably continue to benefit from above-average customer growth. Local use of gas in residences is relatively low, at 53%, giving Northwest good potential to profit from converting houses from other fuels. The company estimates that total prospects of around 480,000 include about 320,000 with a gas main either in their street or a few blocks away. And Northwest targets its marketing on the profitable prospects — those more likely to convert at modest cost to the utility. With OPEC apparently in firm control of oil prices, industrial customers will likely continue to use gas for fuel. Finally, acquisitions could help, given NWN's relatively low debt-to-capital ratio. These untimely shares have some appeal for conservative investors. While their dividend yield is below the industry average, the payout ratio is on the low side, and Northwest has better growth prospects than most gas utilities.			36.9%													1450					
Sigourney B. Romaine March 17, 2006			32.9%													1450					
Company's Financial Strength			31.0%													1450					
Stock's Price Stability			35.4%													1450					
Price Growth Persistence			35.9%													1450					
Earnings Predictability			35.4%													1450					

(A) Diluted earnings per share. Excludes non-recurring gains: '98, \$0.15; '00, \$0.11. Next earnings report due early May.  
(B) Dividends historically paid in mid-February, mid-May, mid-August, and mid-November. = Div'd reinvestment plan available.  
(C) In millions, adjusted for stock split

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PEOPLES ENERGY NYSE:PGL				RECENT PRICE	36.82	P/E RATIO	16.4 (Trailing: 15.2 Median: 14.0)	RELATIVE P/E RATIO	0.88	DIV YLD	5.9%	VALUE LINE						
TIMELINESS	4	Raised 2/06	High: 32.0	37.4	39.9	40.1	40.3	46.9	44.6	40.4	45.3	48.0	45.5	37.8	Target Price Range	2009	2010	2011
SAFETY	2	Lowered 3/1/06	Low: 24.3	29.6	31.3	32.1	31.8	26.2	34.3	27.8	34.9	38.6	34.3	34.9				
TECHNICAL	3	Raised 2/1/06	<b>LEGENDS</b> - - - - - 1.22 x Dividends p sh divided by Interest Rate . . . . . Relative Price Strength Options: Yes Shaded area indicates recession															
BETA	AS	(1.00 = Market)	<b>2009-11 PROJECTIONS</b> Price Gain Return High 55 (+50%) 75% Low 40 (+10%) 7%															
Insider Decisions			A M J J A S O N D Buy 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 Options 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 Sell 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0															
Institutional Decisions			2005 2006 2007 Buy 94 105 92 Sell 79 68 82 Held 2202 2168 2130															
CAPITAL STRUCTURE as of 12/31/05			Total Debt \$1072.5 mil Due In 5 Yrs \$226.9 mil. LT Debt \$895.2 mil LT Interest \$50.0 mil (Total interest coverage: 2.8x)															
Pension Assets-9/05 \$480.6 mil			Oblig. \$508.8 mil															
Pfd Stock None																		
Common Stock 38,347,808 shs. as of 1/31/06																		
MARKET CAP: \$1.4 billion (Mid Cap)																		
CURRENT POSITION (MILL)			2004 2005 12/31/05 Cash Assets 21.1 43.6 48.2 Other 531.3 855.1 1079.9 Current Assets 552.4 898.6 1128.1 Accts Payable 144.7 236.2 418.0 Debt Due 55.6 8.1 177.3 Other 335.8 657.4 489.2 Current Liab. 336.1 801.7 1084.5 Fix. Chg. Cov. 304% 332% 180%															
ANNUAL RATES of change (per sh)			Past 10 Yrs Past 5 Yrs Est'd '02-'04 to '09-'11 Revenues 4.5% 9.5% 5.5% "Cash Flow" 4.0% 3.5% 0.6% Earnings 2.5% 1.0% 0.5% Dividends 1.5% 2.0% 1.0% Book Value 2.5% 2.0% -1.5%															
QUARTERLY REVENUES (\$ mil) A			Fiscal Year Ends Dec.31 Mar.31 Jun.30 Sep.30 Full Fiscal Year 2003 549.2 803.8 398.1 287.3 2138.4 2004 604.9 827.0 401.1 327.2 2260.2 2005 737.4 1026.9 455.9 379.4 2599.6 2006 1052.4 1065 465 377.6 2960 2007 1070 1105 470 380 3025															
EARNINGS PER SHARE A			Fiscal Year Ends Dec.31 Mar.31 Jun.30 Sep.30 Full Fiscal Year 2003 .87 1.77 22 .04 F 2.87 2004 .85 1.46 .15 6.27 F 2.18 2005 .77 1.37 .18 6.06 2.26 2006 .93 1.20 22 d.10 2.25 2007 .95 1.30 20 d.05 2.40															
QUARTERLY DIVIDENDS PAID C			Calendar Mar.31 Jun.30 Sep.30 Dec.31 Full Year 2002 .51 .52 .52 .52 2.07 2003 .53 .53 .53 .53 2.12 2004 .54 .54 .54 .54 2.16 2005 .54 .545 .545 .545 2.18 2006 .545															
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 2004 gas distribution revenues: \$1.7 billion; residential, 79%; commercial, 16%; industrial, 3%; other, 3%. Main supplier is Natural Gas Pipeline Co. of America. Purchased gas costs and revenue taxes accounted for 76% of gas revenues in fiscal '05. Depreciation rate: 5.5%. Ear'd plant age: 11 years. Has 2,182 emp's, 19,236 shareholders. Off. and Dir. own 1.5% of common (1/06 Proxy). Chmn. and CEO: Thomas Patrick, Inc. IL Address: 130 E. Randolph Dr., Chicago, IL 60601. Tel: 312-240-4730. Internet: www.peoplesenergy.com.																		
Share earnings at Peoples Energy should be relatively flat in 2006, as margins narrow. Partially as a result of warmer weather in January, management is anticipating EPS at the low end of its projected guidance of \$2.25-\$2.45. From 2007 to the end of the decade, we expect earnings growth to resume, albeit at a moderate pace.																		
On March 6th, the Illinois Commerce Commission (ICC) approved an amended settlement with Peoples Energy. The agreement, between the company's subsidiaries and the Illinois attorney general, the city of Chicago, and the Citizens Utility Board, was related to natural gas charges for 2000-2004. As part of the settlement, PGL will pay \$100 million in customer refunds, spend up to \$30 million funding conservation programs, and cease collections on roughly \$207 million in customer bad debt. The settlement was a tough pill to swallow, but it clears the way to focus on normal operations.																		
The company recently acquired oil and gas properties by way of subsidiary Peoples Energy Production. The deal involved the purchase of property in																		
east Texas, north Louisiana, and Mississippi for about \$139 million. This remains consistent with the company's strategy of acquiring property with proven reserves and upside potential, as management expects the company to enjoy an abundance of low-risk drilling opportunities in the coming years. Also, the company appears poised to exit the power generation business, as PGL is currently looking to sell its power assets.																		
Peoples Energy faces a period of transition in 2006, as CEO Thomas M. Patrick recently announced his intention to retire within a year. The board is currently in the process of screening for successor candidates.																		
Despite the high dividend yield, shares of PGL are not particularly attractive. Although we believe management intends to maintain the current dividend, a payout ratio of 95% reduces the company's financial flexibility. Some much-needed rate relief is in the preliminary stages. There's a chance this may become effective early in fiscal 2007. For now, the stock is untimely.																		
Michael F. Napoli March 17, 2006																		

(A) Fiscal year ends Sept. 30th. (B) Diluted earnings per share. Excludes non-recurring gains/losses: '05, (\$0.21); '04, '06, (\$1.44) Next earnings report due late April. (C) Dividends historically paid mid-January, April, July, October. = Dividend reinvestment plan available. (D) Includes deferred charges. At 9/30/05: \$47.9 mil, \$1.26/sh. (E) In millions. (F) Earnings don't sum due to change in shares outstanding. Company's Financial Strength 8++ Stock's Price Stability 100 Price Growth Persistence 45 Earnings Predictability 80

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PIEDMONT NAT'L NYSE-PHY		RECENT PRICE	P/E RATIO	Trailing P/E Ratio	RELATIVE P/E RATIO	DYD YLD	VALUE LINE
<b>TIMELINESS</b> 4 Raised 12/20/05 <b>SAFETY</b> 2 New 12/1/00 <b>TECHNICAL</b> 3 Raised 1/20/06 <b>BETA</b> .75 (1.00 = Market) <b>2009-11 PROJECTIONS</b> Price Gain Ann'l Total High 40 (+70%) 17% Low 30 (+25%) 10%		23.62	18.2	(Trailing: 17.6 Median: 17.0)	0.98	4.1%	
<b>High:</b> 12.4 12.9 18.2 18.1 18.3 19.7 19.0 19.0 22.0 24.3 25.8 25.0 <b>Low:</b> 9.1 10.3 11.0 13.9 14.3 11.8 14.8 13.7 16.8 19.2 21.3 23.3		<b>Target Price Range</b> 2009 2010 2011 80 60 50 40 30 25 20 15 10 7.5					
<b>LEGENDS</b> 1.40 x Dividends p sh Divided by Interest Rate Relative Price Strength 2-for-1 split 4/03 2-for-1 split 11/04 Options: No Shaded area indicates recession							
<b>Insider Decisions</b> A M J J A S O N D to Buy 10 8 6 16 9 0 10 24 11 to Sell 0 0 0 0 0 0 0 0 0 to Hold 0 0 1 2 0 0 0 0 2		<b>Institutional Decisions</b> 12/20/05 12/02/05 10/20/05 to Buy 84 75 77 to Sell 84 71 77 Net Buy 0 4 0 Net Sell 0 4 0					
<b>Percent Shares Traded</b> 7.5 5.5 2.5		<b>% TOT. RETURN 2008</b> 1 yr. 10.0 15.2 3 yr. 61.9 108.6 5 yr. 90.3 73.3					
<b>1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007</b>		<b>VALUE LINE PUBL. INC. 09-11</b>					
9.42 8.32 8.91 10.57 10.82 8.76 11.59 12.84 12.45 10.97 13.01 17.06 12.57 18.14 19.95 22.96 24.85 25.65		Revenues per sh <sup>A</sup> 39.85 "Cash Flow" per sh <sup>A</sup> 3.15 Earnings per sh <sup>B</sup> 1.75 Div'ds Decl'd per sh <sup>C</sup> 1.17					
1.62 1.37 1.41 1.58 1.95 1.72 1.84 1.52 1.48 1.58 1.85 1.29 1.21 1.16 1.85 2.50 2.60 2.35		Cap'l Spending per sh 2.15 Book Value per sh <sup>D</sup> 13.30 Common Shs Outst'g <sup>E</sup> 75.00					
4.58 4.83 5.13 5.45 5.68 6.16 6.53 6.95 7.45 7.86 8.26 8.63 8.91 9.38 11.15 11.53 11.65 12.10		Avg Ann'l P/E Ratio 19.0 Relative P/E Ratio 1.25 Avg Ann'l Div'd Yield 3.5%					
42.87 49.48 51.59 52.30 53.15 57.57 59.10 60.39 61.48 62.59 63.83 64.93 66.18 67.31 76.67 76.70 76.50 76.60		Bold figures are Value Line estimates					
11.3 16.3 12.3 15.4 15.7 13.8 13.9 13.6 18.3 17.7 14.3 18.7 18.4 16.7 16.6 17.9 18.8 19.6		Avg Ann'l P/E Ratio 19.0 Relative P/E Ratio 1.25 Avg Ann'l Div'd Yield 3.5%					
.84 1.04 .76 .91 1.03 .92 .87 .78 .85 1.01 .93 .86 1.01 .85 .88 .96		Avg Ann'l P/E Ratio 19.0 Relative P/E Ratio 1.25 Avg Ann'l Div'd Yield 3.5%					
6.0% 6.0% 5.3% 4.3% 4.8% 5.4% 4.9% 4.8% 4.0% 4.1% 5.0% 4.5% 4.6% 4.4% 4.1% 3.8%		Avg Ann'l P/E Ratio 19.0 Relative P/E Ratio 1.25 Avg Ann'l Div'd Yield 3.5%					
<b>CAPITAL STRUCTURE as of 10/31/05</b> Total Debt \$818.5 mill Due in 5 Yrs \$283.5 mill. LT Debt \$625.0 mill. LT Interest \$40.0 mill. (LT Interest earned: 4.5x; total interest coverage: 4.5x)		685.1 775.5 765.3 686.5 830.4 1107.9 832.0 1220.8 1529.7 1761.1 1900 2023 48.6 55.2 60.3 58.2 64.0 65.5 62.2 74.4 95.2 101.3 100 105					
<b>Pension Assets-10/05 \$199.2 mill.</b> Oblig. \$236.6 mill.		36.8% 39.1% 39.2% 39.7% 34.7% 34.6% 33.1% 34.8% 35.1% 33.7% 35.0% 35.0% 7.1% 7.1% 7.9% 8.5% 7.7% 5.9% 7.5% 6.1% 6.2% 5.8% 5.9% 5.2% 50.3% 47.6% 44.7% 46.2% 46.1% 47.6% 43.9% 42.2% 43.6% 41.4% 41.0% 40.0% 49.7% 52.4% 55.3% 53.8% 53.9% 52.4% 56.1% 57.8% 56.4% 58.6% 58.0% 60.0%					
<b>Pfd Stock None</b> Common Stock 76,612,685 shs. as of 11/0/06 MARKET CAP: \$1.8 billion (Mid Cap)		777.1 800.8 829.3 914.7 978.4 1069.4 1051.6 1090.2 1514.9 1509.2 1515 1545 862.0 941.7 990.6 1047.0 1072.0 1114.7 1158.5 1812.3 1849.8 1939.1 2040 2170					
<b>Business:</b> Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 890,000 customers in North Carolina, South Carolina, and Tennessee. 2005 revenue mix: residential (38%), commercial (24%), industrial (13%), other (24%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 71.6% of revenues. US depreciation rate: 3.3%. Estimated plant age: 8.7 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 2,124 employees. 16,606 shareholders of record. CEO & President: Thomas E. Shaina, Incorporated; North Carolina. Address: 1915 Roxford Road, P.O. Box 33068 Charlotte, NC 28233. Telephone: 704-364-3120. Internet: www.piedmonting.com.		8.2% 8.9% 9.2% 8.1% 8.3% 7.9% 7.8% 8.6% 7.8% 8.2% 8.0% 8.0% 12.6% 13.1% 13.2% 11.8% 12.1% 11.7% 10.6% 11.8% 11.1% 11.5% 11.5% 11.5% 12.6% 13.1% 13.2% 11.8% 12.1% 11.7% 10.6% 11.8% 11.1% 11.5% 11.5% 11.5%					
<b>ANNUAL RATES</b> Past 10 Yrs. Past 5 Yrs. Est'd '03-'05 of change (per sh) 10 Yrs. 5 Yrs. 10-'09-'11 Revenues 7.5% 11.0% 7.0% "Cash Flow" 7.0% 8.5% 5.5% Earnings 5.5% 5.0% 6.0% Dividends 6.5% 5.0% 6.5% Book Value 6.5% 6.5% 3.5%		3.9% 4.6% 4.7% 3.3% 3.5% 3.0% 1.7% 3.1% 3.7% 3.6% 3.0% 3.5% 69% 65% 65% 72% 71% 75% 83% 74% 66% 68% 73% 71%					
<b>QUARTERLY REVENUES (\$ mill)</b> <sup>A</sup> Fiscal Year Ends: Jan.31 Apr.30 Jul.31 Oct.31 Full Fiscal Year 2003 493.5 407.8 140.1 179.4 1220.8 2004 618.8 482.4 214.7 213.8 1529.7 2005 680.6 508.0 232.9 339.6 1761.1 2006 821.4 470 240 268.5 1900 2007 810 560 315 340 2025		<b>QUARTERLY EARNINGS PER SHARE</b> <sup>A</sup> <sup>B</sup> <sup>C</sup> <sup>D</sup> Full Fiscal Year Fiscal Year Ends: Jan.31 Apr.30 Jul.31 Oct.31 Full Fiscal Year 2003 .87 .47 .15 .08 1.11 2004 1.03 .54 .11 .21 1.27 2005 .93 .52 .06 .07 1.32 2006 .94 .54 .07 .11 1.30 2007 .98 .57 .08 .09 1.40					
<b>QUARTERLY DIVIDENDS PAID</b> <sup>C</sup> Full Year Calendar: Mar.31 Jun.30 Sep.30 Dec.31 Full Year 2002 .20 .20 .20 .20 .80 2003 .208 .208 .208 .208 .83 2004 .215 .215 .215 .215 .86 2005 .23 .23 .235 .23 .92 2006 .24		<b>Business:</b> Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 890,000 customers in North Carolina, South Carolina, and Tennessee. 2005 revenue mix: residential (38%), commercial (24%), industrial (13%), other (24%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 71.6% of revenues. US depreciation rate: 3.3%. Estimated plant age: 8.7 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 2,124 employees. 16,606 shareholders of record. CEO & President: Thomas E. Shaina, Incorporated; North Carolina. Address: 1915 Roxford Road, P.O. Box 33068 Charlotte, NC 28233. Telephone: 704-364-3120. Internet: www.piedmonting.com.					
<b>SouthStar Energy, Pine Needle LNG, Cardinal Pipeline, and its newest venture, Hardy Storage Company. These activities contributed \$3.2 million to net income during the first quarter, slightly below the year-ago period. Hardy Storage, a joint venture with Columbia Gas Transmission, involves an underground natural gas storage facility in West Virginia. The field would have a capacity to store over 12 billion cubic feet of natural gas and be capable of delivering up to 176 million cubic feet of gas per day to markets in the eastern United States. The company received FERC approval to proceed in November of 2005, and has set a target date of completion for April. Moreover, the project is fully contracted under long-term firm contracts.</b>		<b>This equity remains untimely.</b> The primary purpose for investing in Piedmont would be for its yield, which stands at 4%, near the industry norm, and its Safety rank of 2 (Above Average). Furthermore, total return potential over the 3- to 5-year pull is above the average stock covered in <i>The Value Line Investment Survey</i> . <i>Evan I. Blatter</i> March 17, 2006					

(A) Fiscal year ends October 31st.  
 (B) Diluted earnings. Excl. extraordinary item '00, '04. Excl. nonrecurring charge: '97, '24. Next earnings report due early May.  
 (C) Dividends historically paid mid-January, April, July, October.  
 (D) Includes deferred charges at 10/31/05.  
 (E) In millions, adjusted for stock splits.  
 (F) Quarters may not add to total due to change in shares outstanding.  
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WGL HOLDINGS NYSE-WGL		RECENT PRICE	29.98	P/E RATIO	16.2	(Trailing: 14.0 Median: 13.0)	RELATIVE P/E RATIO	0.88	DIVID YLD	4.5%	VALUE LINE											
TIMELINESS	5 Lowered 9/2/05	High: 30.8	22.4	25.0	31.4	30.8	29.4	31.5	30.5	29.5	28.8	31.4	34.8	31.5	28.8	29.6	Target Price	2008	2010	2011	Range	
SAFETY	1 Raised 4/2/03	Low: 16.1	19.1	20.9	23.1	21.0	21.8	23.2	25.3	28.8	23.2	28.7	28.8	29.6	29.6	29.6						
TECHNICAL	4 Lowered 1/17/06	LEGEND: 130 = Dividends p sh divided by Interest Rate ..... Relative Price Strength 2-4or-1 spk 593 Shaded area indicates recession																				
BETA	80 (1.00 = Market)	2009-11 PROJECTIONS																				
Insider Decisions		to Buy: 0 to Sell: 0 1 0 0 1 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 Options: 0 1 0 0 1 0 0 0 0 0																				
Institutional Decisions		to Buy: 96 97 88 87 to Sell: 63 65 67 67 Ref: 2009 27756 27189 27859																				
CAPITAL STRUCTURE as of 12/31/05		Total Debt \$946.2 mil Dus in 5 Yrs \$530.0 mil LT Debt \$550.4 mil LT Interest \$40.0 mil (LT Interest earned: 5.1%, total interest coverage: 4.9x) Preferred Stock \$28.2 mil Pfd Div'd \$1.3 mil Common Stock 48,782,228 shs as of 1/31/06																				
MARKET CAP: \$1.5 billion (Mid Cap)		CURRENT POSITION																				
ANNUAL RATES		of change (per sh) 18 Yrs. 5 Yrs. to '03-'05 5 Yrs. to '06-'11																				
FISCAL YEAR ENDS		QUARTERLY REVENUES (\$ mil) A																				
FISCAL YEAR ENDS		EARNINGS PER SHARE A, B																				
CALENDAR		QUARTERLY DIVIDENDS PAID C, D																				
BUSINESS:		WGL Holdings is off to a decent start in fiscal 2006 (ends September 30th). The mainstay utility segment, where earnings are largely dependent on the rates it is able to charge customers, reported earnings of \$0.92 a share in the most recent quarter, a 14% increase over a year ago. Contributing to these results was weather that was 10% colder than normal. Also, during the quarter, the company purchased a three-year weather insurance policy covering Washington D.C., and a heating degree-day derivative contract to cover the winter season in its Virginia service area. Both of these policies are designed to fully protect against warmer-than-normal temperatures, which should help second-quarter results somewhat due to the above-average temperatures experienced in January. Elsewhere, WGL continues to add meters at a nice pace, and is on track to gain an additional 30,500 customers for the year. However, WGL Holdings' nonregulated segment reported a loss of \$0.01 a share for the December period. This is well below the \$0.07 gain last year, and was primarily due to poor results from the retail energy marketing segment. The unit struggled owing to lower margins on natural gas, which can be attributed to larger market losses. Moreover, the heating ventilating, and air-conditioning segment posted a loss of \$431,000, similar to the prior year. As a result of the lackluster performance from WGL's nonregulated activities, we have lowered our 2006 earnings forecast by a nickel, to \$1.85, which is within management's guided range. Modest progress is possible in 2007. The Prince George's County repair efforts continue to progress. So far, Washington Gas has completed about 23% of the main replacements and 21% of the service work. It will evaluate the effects of these capital expenditures on its ability to earn its allowed rate of return, before taking appropriate action. This stock may interest income-oriented investors. The yield is very respectable among WGL's utility competitors and these shares carry our Highest ratings for Safety (1) and Price Stability (100). This issue is not well ranked for performance, though (Timeliness: 5). Evan J. Blatter March 17, 2006																				

(A) Fiscal years end Sept 30th  
(B) Based on diluted shares. Excludes non-recurring losses: '01, ('04), '02, ('04)  
Next earnings report due late April.  
(C) Dividends historically paid early February, May, August, and November. = Dividend reinvestment plan available.  
(D) Includes deferred charges and intangibles.  
(E) In millions, adjusted for stock split.  
Company's Financial Strength A  
Stock's Price Stability 100  
Price Growth Persistence 80  
Earnings Predictability 60  
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National Fuel Gas Distribution Corporation  
Indicated Common Equity Cost Rate  
Through Use of a Risk Premium Model  
Using an Adjusted Total Market Approach

Line No.		<u>Proxy Group of Four Gas Distribution Companies</u>	<u>Proxy Group of Nine Value Line Gas Distribution Companies</u>
1.	Prospective Yield on Aaa Rated Corporate Bonds (1)	5.93 %	5.93 %
2.	Adjustment to Reflect Yield Spread Between Aaa Rated Corporate Bonds and A Rated Public Utility Bonds	<u>0.47 (2)</u>	<u>0.47 (2)</u>
3.	Adjusted Prospective Yield on A Rated Public Utility Bonds	6.40 %	6.40 %
4.	Adjustment to Reflect Bond Rating Difference	<u>0.00 (3)</u>	<u>0.00 (3)</u>
5.	Adjusted Prospective Bond Yield	6.40	6.40
6.	Equity Risk Premium (4)	<u>4.30</u>	<u>4.22</u>
7.	Risk Premium Derived Common Equity Cost Rate	<u>10.70 % (5)</u>	<u>10.62 % (5)</u>

- Notes: (1) Derived in Note (4) on page 6 of this schedule.
- (2) The average yield spread of A rated public utility bonds over Aaa rated corporate bonds of 0.47% from page 4 of this schedule.
- (3) No adjustment necessary as the average Moody's bond rating for the proxy group is A2.
- (4) From page 5 of this schedule.
- (5) Using equity risk premiums of 4.13% and 4.07%, based upon the years 1979-2005 and 1979-2003, inclusive, (derived in Note 5 on page 5 of this Schedule) results in risk premium derived common equity cost rates of 10.53% (4 LDCS) and 10.47% (9 LDCS).

National Fuel Gas Distribution Corporation  
*Comparison of Bond Ratings and Business profile*  
for the Proxy Group of Four Gas Distribution Companies  
and the Proxy Group of Eight Value Line Gas Distribution Companies

	<u>March 2006</u> <u>Moody's</u> <u>Bond Rating</u>		<u>March 2006</u> <u>Standard &amp; Poor's</u> <u>Bond Rating</u>		<u>Standard &amp; Poor's</u> <u>Business Profile (2)</u>
	<u>Bond</u> <u>Rating</u>	<u>Numerical</u> <u>Weighting (1)</u>	<u>Bond</u> <u>Rating</u>	<u>Numerical</u> <u>Weighting (1)</u>	
<u>Proxy Group of Four</u> <u>Gas Distribution Companies</u>					
Cascade Natural Gas Corporation	Baa1	8.0	BBB+	8.0	2.0
NICOR Inc. (3)	Aa3	4.0	AA	3.0	2.0
Northwest Natural Gas Company	A2	6.0	AA-	4.0	1.0
Piedmont Natural Gas Co., Inc.	A3	7.0	A	6.0	2.0
<i>Average</i>	<u>A2</u>	<u>6.3</u>	<u>A+</u>	<u>5.3</u>	<u>1.8</u>
<u>Proxy Group of Nine Value</u> <u>Line Gas Distribution Companies</u>					
Atmos Energy Corporation (4)	Baa3	10.0	BBB	9.0	4.0
Cascade Natural Gas Corporation	Baa1	8.0	BBB+	8.0	2.0
The Laclede Group, Inc. (5)	A3	7.0	A	6.0	3.0
New Jersey Resources Corp. (6)	Aa3	4.0	AA-	4.0	2.0
NICOR Inc. (3)	Aa3	4.0	AA	3.0	2.0
Northwest Natural Gas Company	A2	6.0	AA-	4.0	1.0
Peoples Energy Corporation (7)	Aa3	4.0	A-	7.0	3.0
Piedmont Natural Gas Co., Inc.	A3	7.0	A	6.0	2.0
WGL Holdings, Inc. (8)	A2	6.0	AA-	4.0	2.0
<i>Average</i>	<u>A2</u>	<u>6.2</u>	<u>A</u>	<u>5.7</u>	<u>2.3</u>
National Fuel Gas Company	<u>Baa1</u>	<u>8.0</u>	<u>BBB+</u>	<u>8.0</u>	<u>7.0</u>

- Notes: (1) From page 3 of this schedule.  
(2) From Standard & Poor's U.S. Utility And Power Ranking List, April 12, 2006  
(3) Ratings and business profile are those of NICOR Gas Company.  
(4) Moody's Ratings and business profile are those of Atmos Energy Corporation. S&P ratings are those of Atmos Energy Corporation and United Cities Gas Company dba Atmos Energy Corporation.  
(5) Ratings and business profile are those of Laclede Gas Co.  
(6) Ratings and business profile are those of New Jersey Natural Gas.  
(7) Ratings and business profile are a composite of those of North Shore Gas Company and Peoples Gas Light & Coke Company.  
(8) Ratings and business profile are those of Washington Gas Light Company

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

National Fuel Gas Distribution Corporation  
Numerical Assignment for  
Moody's and Standard & Poor's Bond Ratings

<u>Moody's Bond Rating</u>	<u>Numerical Bond Weighting</u>	<u>Standard &amp; Poor's Bond Rating</u>
Aaa	1	AAA
Aa1	2	AA+
Aa2	3	AA
Aa3	4	AA-
A1	5	A+
A2	6	A
A3	7	A-
Baa1	8	BBB+
Baa2	9	BBB
Baa3	10	BBB-
Ba1	11	BB+
Ba2	12	BB
Ba3	13	BB-

Moody's  
 Comparison of Interest Rate Trends  
 for the Two Months Ending February 2006 (1)

Years	Corporate Bonds	Public Utility Bonds			Spread - Corporate v. Public Utility Bonds			Spread - Public Utility Bonds	
	Aaa Rated	Aa Rated	A Rated	Baa Rated	Aa (Pub. Util.) over Aaa (Corp.)	A (Pub. Util.) over Aaa (Corp.)	Baa (Pub. Util.) over Aaa (Corp.)	A over Aa	Baa over A
January-06	5.29 %	5.50 %	5.75 %	6.06 %	0.21 %	0.46 %	0.77 %	0.25 %	0.31 %
February-06	5.35	5.55	5.82	6.11	0.20 %	0.47 %	0.76 %	0.27 %	0.29 %
Average Spread (2)					<u>0.21 %</u>	<u>0.47 %</u>	<u>0.77 %</u>	<u>0.26 %</u>	<u>0.30 %</u>

Notes: (1) All yields are distributed yields.  
 (2) Equal weight has been given to the January and February 2006 spread.

Source of Information: Mergent Bond Record Monthly Update, March 26, Vol. 73, No. 3

National Fuel Gas Distribution Corporation  
Judgment of Equity Risk Premium for  
for the Proxy Group of Four Gas Distribution Companies  
and the Proxy Group of Nine Value Line Gas Distribution Companies

Line No.		Proxy Group of Four Gas Distribution Companies	Proxy Group of Nine Value Line Gas Distribution Companies
1.	Calculated equity risk premium based on the total market using the beta approach (1)	4.45 % (3)	4.29 % (3)
2.	Mean equity risk premium based on a study using the holding period returns of public utilities with: A rated bonds (2)	<u>4.14 (4)</u>	<u>4.14 (4)</u>
3.	Average equity risk premium	<u>4.30 % (5)</u>	<u>4.22 % (5)</u>

- Notes:
- (1) From page 6 of this schedule.
  - (2) From page 8 of this schedule.
  - (3) The equity risk premium based on the total market using the beta approach and an historical equity risk premium for the years 1979 - 2005, inclusive, are 3.52% (4 LDCS) and 3.39% (9 LDCS), as derived in Note 9 on page 6 of this Schedule.
  - (4) The mean equity risk premium based on a study using the holding period returns of public utilities with A rated bonds for the years 1979 - 2003, inclusive, is 4.74%, as derived in Note 4 on page 8 of this Schedule.
  - (5) The average equity risk premiums based upon the years 1979 - 2005 / 1979 - 2003, as indicated in Notes 3 and 4 above is 4.13% (4 LDCS -  $4.13\% = (3.52\% + 4.74\%) / 2$ ) and 4.07% (9 LDCS -  $4.07\% = (3.39\% + 4.74\%) / 2$ ).

National Fuel Gas Distribution Corporation  
 Derivation of Equity Risk Premium Based on the Total Market Approach  
 for the Proxy Group of Four Gas Distribution Companies  
 and the Proxy Group of Nine Value Line Gas Distribution Companies

Line No.	<u>Proxy Group of Four Gas Distribution Companies</u>	<u>Proxy Group of Nine Value Line Gas Distribution Companies</u>
1.	Arithmetic mean total return rate on the Standard & Poor's 500 Composite Index - 1926-2005 (1)	12.30 %
2.	Arithmetic mean yield on Aaa and Aa Corporate Bonds 1926-2005 (2)	<u>(6.10)</u>
3.	Historical Equity Risk Premium	<u>6.20 % (7)</u>
4.	Forecasted 3-5 year Total Annual Market Return (3)	10.18 %
5.	Prospective Yield on Aaa Rated Corporate Bonds (4)	<u>(5.93)</u>
6.	Forecasted Equity Risk Premium	<u>4.25 %</u>
7.	Average of Historical and Forecasted Equity Risk Premium (5)	5.23 % (8)
8.	Adjusted Value Line Beta (6)	<u>0.85</u>
9.	Beta Adjusted Equity Risk Premium	<u>4.45 % (9)</u>

Notes: (1) From Stocks, Bonds, Bills and Inflation - 2006 Yearbook Valuation Edition, Ibbotson Associates, Inc., Chicago, IL, 2006.

(2) From Moody's Industrial Manual and Mergent Bond Record Monthly Update.

(3) From page 4 of Schedule 14.

(4) Average forecast based upon six quarterly estimates of Aaa rated corporate bonds per the consensus of nearly 50 economists reported in Blue Chip Financial Forecasts dated April 1, 2006 (see page 7 of this schedule). The estimates are detailed below.

Second Quarter 2006	5.7 %
Third Quarter 2006	5.9
Fourth Quarter 2006	6.0
First Quarter 2007	6.0
Second Quarter 2007	6.0
Third Quarter 2007	<u>6.0</u>
Average	<u>5.93 %</u>

(5) Average of the Historical Equity Risk Premium of 6.20% from Line No. 3 and the Forecasted Equity Risk Premium of 4.25% from Line No. 6  $((6.20\% + 4.25\%) / 2 = 5.23\%)$ .

(6) From page 9 of this schedule.

(7) The Historical Equity Risk Premium for the years 1979 - 2005, inclusive, is the difference between the arithmetic mean total return rate on the S&P 500 Composite Index of 14.50% and the arithmetic mean total return rate of the Salomon Brothers Long-Term High-Grade Corporate Bond Index of 10.47% or 4.03%.  $(4.03\% = 14.50\% - 10.47\%)$ .

(8) Average of the Historical Equity Risk Premium for the years 1979 - 2005 of 4.03% (derived in Note 7 above) and the Forecasted Equity Risk Premium of 4.25% from Line No. 6 is 4.14%.  $((4.03\% + 4.25\%) / 2 = 4.14\%)$ .

(9) Applying the average adjusted Value Line beta of the proxy groups, 0.85 (4 LDGS) and 0.82 (9 LDGS), to the average equity risk premium of 4.14% (derived in Note 8 above) yields Beta Adjusted Equity Risk Premiums of 3.52% (4 LDGS) and 3.39% (9 LDGS).

2 ■ BLUE CHIP FINANCIAL FORECASTS ■ APRIL 1, 2006

Consensus Forecasts Of U.S. Interest Rates And Key Assumptions<sup>1</sup>

Interest Rates	History							Consensus Forecasts-Quarterly Avg.						
	Average For Week Ending				Average For Month			Latest Q*	2Q 2006	3Q 2006	4Q 2006	1Q 2007	2Q 2007	3Q 2007
	Mar. 17	Mar. 10	Mar. 3	Feb. 24	Feb.	Jan.	Dec.	1Q 2006						
Federal Funds Rate	4.51	4.51	4.50	4.49	4.49	4.29	4.16	4.43	4.8	5.0	5.0	4.9	4.8	4.7
Prime Rate	7.50	7.50	7.50	7.50	7.50	7.26	7.15	7.42	7.8	8.0	8.0	7.9	7.8	7.7
LIBOR, 3-mo.	4.92	4.88	4.83	4.79	4.76	4.60	4.49	4.75	5.1	5.2	5.2	5.1	5.0	5.0
Commercial Paper, 1-mo.	4.62	4.53	4.47	4.50	4.47	4.36	4.23	4.46	4.9	5.1	5.1	5.0	4.9	4.9
Treasury bill, 3-mo.	4.62	4.60	4.62	4.58	4.54	4.34	3.97	4.50	4.8	4.9	4.9	4.8	4.7	4.7
Treasury bill, 6-mo.	4.80	4.77	4.75	4.72	4.69	4.47	4.33	4.64	4.9	5.0	5.0	5.0	4.9	4.8
Treasury bill, 1 yr.	4.76	4.77	4.74	4.72	4.68	4.45	4.35	4.63	4.9	5.1	5.0	5.0	4.9	4.9
Treasury note, 2 yr.	4.67	4.74	4.72	4.71	4.67	4.40	4.40	4.59	4.9	5.0	5.0	4.9	4.9	4.9
Treasury note, 5 yr.	4.67	4.76	4.66	4.61	4.57	4.35	4.39	4.54	4.8	5.0	5.0	5.0	4.9	4.9
Treasury note, 10 yr.	4.71	4.74	4.61	4.56	4.57	4.42	4.47	4.56	4.8	5.0	5.0	5.0	5.0	5.0
Treasury note, 30 yr.	4.73	4.72	4.58	4.51	4.54	na	na	na	4.9	5.0	5.1	5.1	5.1	5.1
Corporate Aaa bond	5.53	5.53	5.38	5.32	5.35	5.30	5.37	5.38	5.7	5.9	6.0	6.0	6.0	6.0
Corporate Baa bond	6.41	6.41	6.27	6.23	6.27	6.24	6.32	6.29	6.7	6.8	6.9	7.0	6.9	6.9
State & Local bonds	4.40	4.45	4.39	4.36	4.41	4.37	4.46	4.40	4.7	4.8	4.8	4.9	4.9	4.9
Home mortgage rate	6.34	6.37	6.24	6.26	6.25	6.15	6.27	6.24	6.5	6.6	6.7	6.7	6.7	6.7

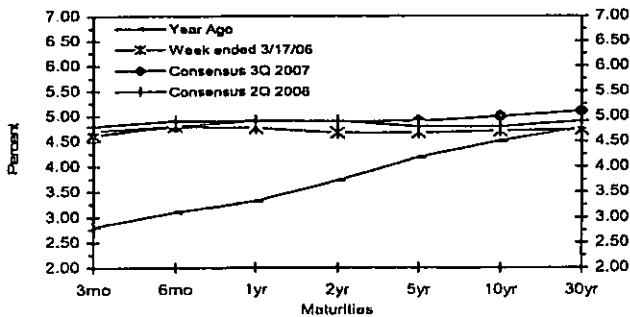
  

Key Assumptions	History							Consensus Forecasts-Quarterly Avg.						
	2Q 2004	3Q 2004	4Q 2004	1Q 2005	2Q 2005	3Q 2005	4Q 2005	1Q* 2006	2Q 2006	3Q 2006	4Q 2006	1Q 2007	2Q 2007	3Q 2007
Major Currency Index	88.0	86.5	81.9	81.3	83.5	84.7	85.8	84.9	84.7	84.1	83.3	82.6	82.0	81.4
Real GDP	3.5	4.0	3.3	3.8	3.3	4.1	1.6	4.8	3.3	3.0	2.9	3.0	3.0	3.0
GDP Price Index	3.9	1.5	2.7	3.1	2.6	3.3	3.3	2.5	2.4	2.3	2.3	2.3	2.2	2.2
Consumer Price Index	3.9	2.1	3.6	2.3	3.8	5.5	3.3	2.4	2.5	2.5	2.5	2.5	2.4	2.4

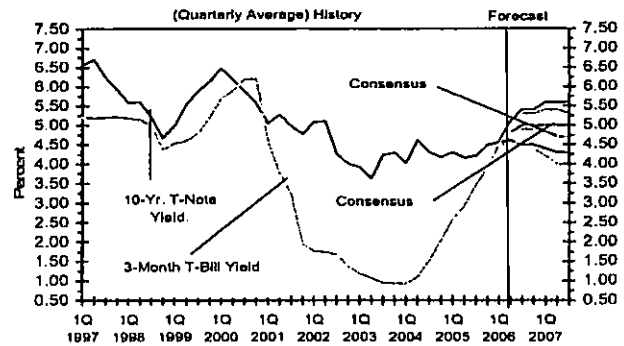
<sup>1</sup>Individual panel members' forecasts are on pages 4 through 9. Historical data for interest rates except LIBOR is from Federal Reserve Release (FRSR) H.15. LIBOR quotes available from *The Wall Street Journal*. Definitions reported here are same as those in FRSR H.15. Treasury yields are reported on a constant maturity basis. Historical data for the U.S. Federal Reserve Board's Major Currency Index is from FRSR H.10 and G.5. Historical data for Real GDP and GDP Chained Price Index are from the Bureau of Economic Analysis (BEA). Consumer Price Index (CPI) history is from the Department of Labor's Bureau of Labor Statistics (BLS). \*Interest rate data for 1Q 2006 based on historical data through the week ended March 17th. Data for 1Q 2006 Major Currency Index also is based on data through week ended March 17th. Figures for 1Q 2006 Real GDP, GDP Chained Price Index and Consumer Price Index are consensus forecasts based on a special question survey this month of the panel members.

U.S. Treasury Yield Curve

Week ended March 17, 2006 and Year Ago vs. 2Q 2006 and 3Q 2007 Consensus forecasts

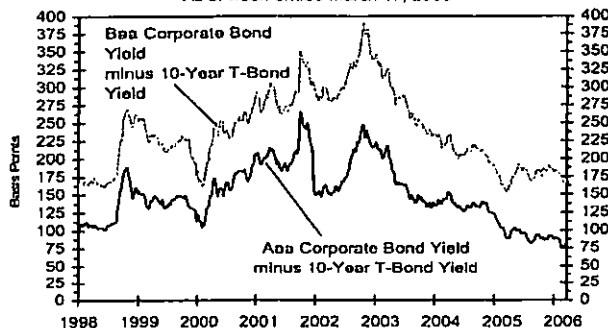


U.S. 3-Mo. T-Bills & 10-Yr. T-Note Yield



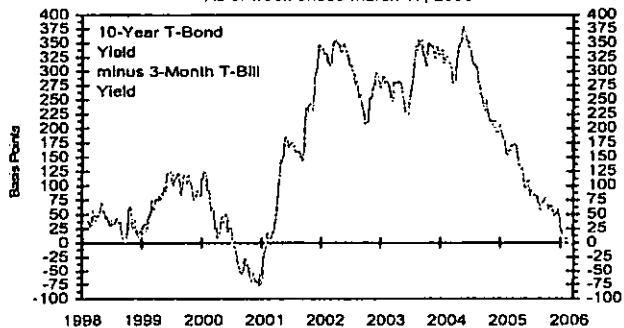
Corporate Bond Spreads

As of week ended March 17, 2006



U.S. Treasury Yield Curve

As of week ended March 17, 2006



National Fuel Gas Distribution Corporation  
 Derivation of Mean Equity Risk Premium Based on a Study  
 Using Holding Period Returns of Public Utilities

Line No.	Over A Rated Public Utility Bonds AUS Consultants - Utility Services Study (1)
	1
Time Period	1928-2003 (3)
1. Arithmetic Mean Holding Period Returns (2): Standard & Poor's Public Utility Index	10.77 %
2. Arithmetic Mean yield on: A-rated Public Utility Bonds	(6.63)
3. Equity Risk Premium	4.14 %

- Notes: (1) S&P Public Utility Index and Moody's Public Utility Bond Average Annual Yields, 1928-2003 (AUS Consultants - Utility Services, 2004).
- (2) Holding period returns are calculated based upon income received (dividends and interest) plus the relative change in the market value of a security over a one-year holding period.
- (3) 2003 information is the latest available at the time of preparation.
- (4) An adjusted equity risk premium based upon holding period returns for the years 1979-2003, inclusive, can be derived as follows:

	1979-2003
Arithmetic Mean Holding Period Returns (2): Standard & Poor's Public Utility Index	14.64 %
Arithmetic Mean yield on: A-rated Public Utility Bonds	(9.90)
Equity Risk Premium	4.74 %

National Fuel Gas Distribution Corporation  
Value Line Adjusted Betas  
for the Proxy Group of Four Gas Distribution Companies  
and the Proxy Group of Nine Value Line Gas Distribution Companies

	<u>Value Line Adjusted Beta</u>
<u>Proxy Group of Four Gas Distribution Companies</u>	
Cascade Natural Gas Corporation	0.80
NICOR Inc.	1.15
Northwest Natural Gas Company	0.70
Piedmont Natural Gas Co., Inc.	<u>0.75</u>
Average	<u><u>0.85</u></u>
<u>Proxy Group of Nine Value Line Gas Distribution Companies</u>	
Atmos Energy Corporation	0.70
Cascade Natural Gas Corporation	0.80
The Laclede Group, Inc.	0.80
New Jersey Resources Corp.	0.80
NICOR Inc.	1.15
Northwest Natural Gas Company	0.70
Peoples Energy Corporation	0.85
Piedmont Natural Gas Co., Inc.	0.75
WGL Holdings, Inc.	<u>0.80</u>
Average	<u><u>0.82</u></u>

Source of Information: Value Line Investment Survey. (Standard Edition)  
March 17, 2006

Stocks, Bonds, Bills,  
and Inflation

**SBBI**

**Valuation Edition**  
2006 Yearbook

**ibbotson**

For example, if bond yields rise unexpectedly, investors can receive a higher coupon payment from a newly issued bond than from the purchase of an outstanding bond with the former lower-coupon payment. The outstanding lower-coupon bond will thus fail to attract buyers, and its price will decrease, causing its yield to increase correspondingly, as its coupon payment remains the same. The newly priced outstanding bond will subsequently attract purchasers who will benefit from the shift in price and yield; however, those investors who already held the bond will suffer a capital loss due to the fall in price.

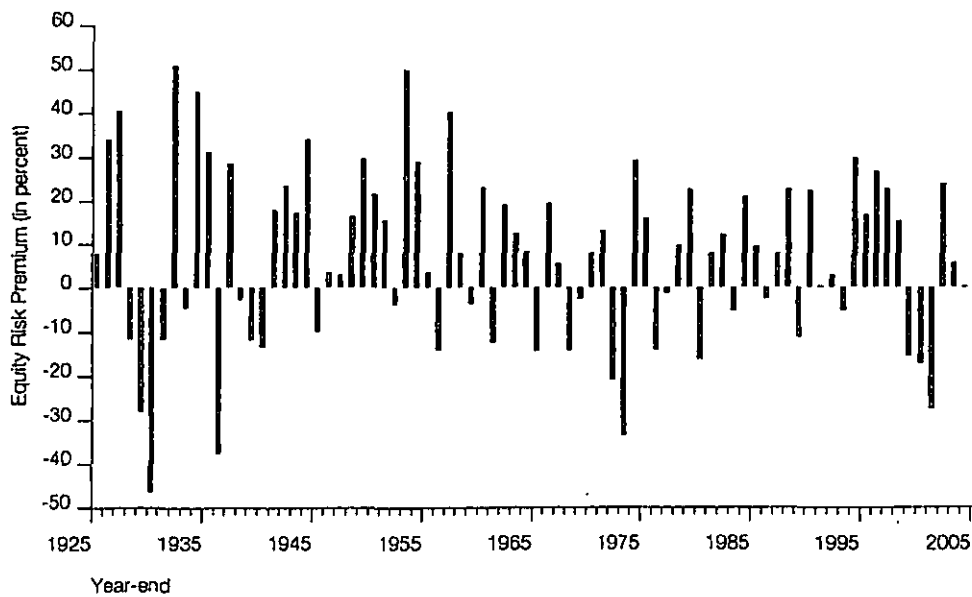
Anticipated changes in yields are assessed by the market and figured into the price of a bond. Future changes in yields that are not anticipated will cause the price of the bond to adjust accordingly. Price changes in bonds due to unanticipated changes in yields introduce price risk into the total return. Therefore, the total return on the bond series does not represent the riskless rate of return. The income return better represents the unbiased estimate of the purely riskless rate of return, since an investor can hold a bond to maturity and be entitled to the income return with no capital loss.

#### **Arithmetic versus Geometric Means**

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

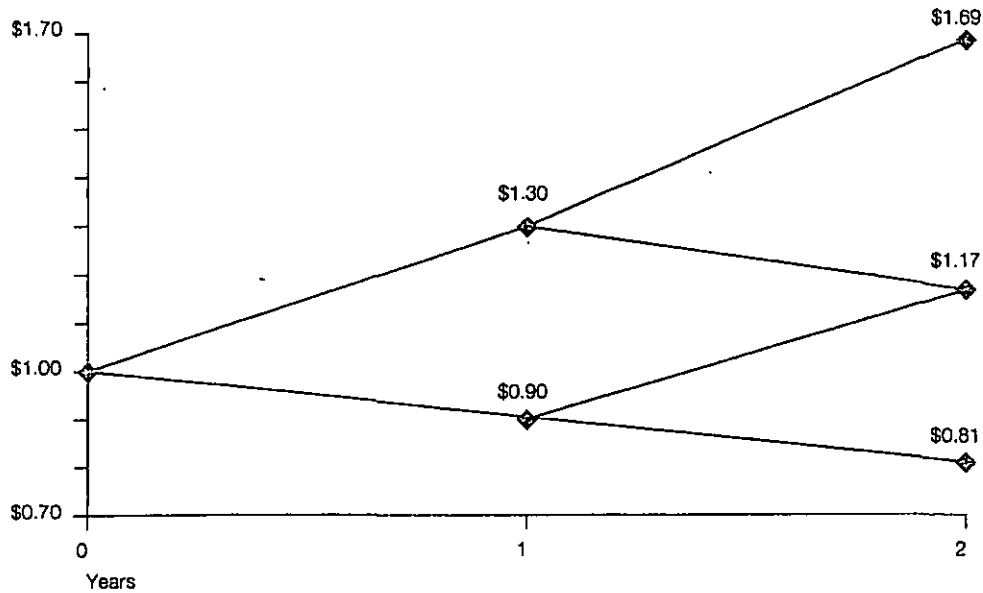
The argument for using the arithmetic average is quite straightforward. In looking at projected cash flows, the equity risk premium that should be employed is the equity risk premium that is expected to actually be incurred over the future time periods. Graph 5-3 shows the realized equity risk premium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

Graph 5-3  
Realized Equity Risk Premium Per Year  
1926-2005



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

Graph 5-4  
 Growth of Wealth Example



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

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

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

(0.25 × \$1.69) =	\$0.4225
+ (0.50 × \$1.17) =	\$0.5850
+ (0.25 × \$0.81) =	\$0.2025
<b>Total</b>	<b>\$1.2100</b>

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

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

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

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

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

### Appropriate Historical Time Period

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

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

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

### Does the Equity Risk Premium Revert to Its Mean over Time?

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

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

<sup>3</sup> Fama, Eugene F., and Kenneth R. French. "Permanent and Temporary Components of Stock Prices," *Journal of Political Economy*, April 1988, pp. 246-273. Poterba, James M., and Lawrence H. Summers. "Mean Reversion in Stock Prices," *Journal of Financial Economics*, October 1988, pp. 27-59. Lo, Andrew W., and A. Craig MacKinlay. "Stock Market Prices Do Not Follow Random Walks: Evidence from a Simple Specification Test," *The Review of Financial Studies*, Spring 1988, pp. 41-66. Finnerty, John D., and Dean Leistikow. "The Behavior of Equity and Debt Risk Premiums: Are They Mean Reverting and Downward-Trending?" *The Journal of Portfolio Management*, Summer 1993, pp. 73-84. Ibbotson, Roger G., and Scott L. Lummer. "The Behavior of Equity and Debt Risk Premiums: Comment," *The Journal of Portfolio Management*, Summer 1994, pp. 98-100. Finnerty, John D., and Dean Leistikow. "The Behavior of Equity and Debt Risk Premiums: Reply to Comment," *The Journal of Portfolio Management*, Summer 1994, pp. 101-102.

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

Table 5-3  
 Interpretation of Annual Serial Correlations  
 1926-2005

Series	Serial Correlation	Interpretation
Large Company Stock Total Returns	0.03	Random
Equity Risk Premium	0.04	Random
Inflation Rates	0.65	Trend

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

Table 5-4 also indicates that the equity risk premium varies considerably by decade, from a high of 17.9 percent in the 1950s to a low of 0.3 percent in the 1970s. This look at the historical equity risk premium reveals no observable pattern.

Table 5-4  
 Long-Horizon Equity Risk Premium by Decade  
 1926-2005

1920s*	1930s	1940s	1950s	1960s	1970s	1980s	1990s	2000s**	1996-2005
17.6%	2.3%	8.0%	17.9%	4.2%	0.3%	7.9%	12.1%	-5.1%	5.1%

\*Based on the period 1926-1929.

\*\*Based on the period 2000-2005.

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

#### Choosing an Appropriate Historical Period

The estimate of the equity risk premium depends on the length of the data series studied. A proper estimate of the equity risk premium requires a data series long enough to give a reliable average without being unduly influenced by very good and very poor short-term returns. When calculated using a long data series, the historical equity risk premium is relatively stable.<sup>5</sup> Furthermore, because an average of the realized equity risk premium is quite volatile when calculated using a short history, using a long series makes it less likely that the analyst can justify any number he or she wants. The magnitude of how shorter periods can affect the result will be explored later in this chapter.

Some analysts estimate the expected equity risk premium using a shorter, more recent time period on the basis that recent events are more likely to be repeated in the near future; furthermore, they believe that the 1920s, 1930s, and 1940s contain too many unusual events. This view is suspect because all periods contain “unusual” events. Some of the most unusual events of this century took place quite recently, including the inflation of the late 1970s and early 1980s, the October 1987 stock market crash, the collapse of the high-yield bond market, the major contraction and consolidation of the thrift industry, the collapse of the Soviet Union, and the development of the European Economic Community—all of these happened approximately in the last 30 years.

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

Without an appreciation of the 1920s and 1930s, no one would believe that such events could happen. The 80-year period starting with 1926 is representative of what can happen: it includes high and low returns, volatile and quiet markets, war and peace, inflation and deflation, and prosperity and depression. Restricting attention to a shorter historical period underestimates the amount of change that could occur in a long future period. Finally, because historical event-types (not specific

<sup>4</sup> Though the study performed by Finnerty and Leistikow demonstrates that the traditional equity risk premium exhibits no mean reversion or drift, they conclude that, “the processes generating these risk premiums are generally mean-reverting.” This conclusion is completely unrelated to their statistical findings and has received some criticism. In addition to examining the traditional equity risk premium, Finnerty and Leistikow include analyses on “real” risk premia as well as separate risk premia for income and capital gains. In their comments on the study, Ibbotson and Lummer show that these “real” risk premia adjust for inflation twice, “creating variables with no economic content.” In addition, separating income and capital gains does not shed light on the behavior of the risk premia as a whole.

<sup>5</sup> This assertion is further corroborated by data presented in *Global Investing: The Professional's Guide to the World of Capital Markets* (by Roger G. Ibbotson and Gary P. Brinson and published by McGraw-Hill, New York). Ibbotson and Brinson constructed a stock market total return series back to 1790. Even with some uncertainty about the accuracy of the data before the mid-nineteenth century, the results are remarkable. The real (adjusted for inflation) returns that investors received during the three 50-year periods and one 51-year period between 1790 and 1990 did not differ greatly from one another (that is, in a statistically significant amount). Nor did the real returns differ greatly from the overall 201-year average. This finding implies that because real stock-market returns have been reasonably consistent over time, investors can use these past returns as reasonable bases for forming their expectations of future returns.

events) tend to repeat themselves, long-run capital market return studies can reveal a great deal about the future. Investors probably expect "unusual" events to occur from time to time, and their return expectations reflect this.

### A Look at the Historical Results

It is interesting to take a look at the realized returns and realized equity risk premium in the context of the above discussion. Table 5-5 shows the average stock market return and the average (arithmetic mean) realized long-horizon equity risk premium over various historical time periods. Similarly, Graph 5-5 shows the average (arithmetic mean) realized equity risk premium calculated through 2005 for different starting dates. The table and the graph both show that using a longer historical period provides a more stable estimate of the equity risk premium. The reason is that any unique period will not be weighted heavily in an average covering a longer historical period. It better represents the probability of these unique events occurring over a long period of time.

Table 5-5  
 Stock Market Return and Equity Risk Premium Over Time  
 1926-2005

Period Length	Period Dates	Large Company Stock Arithmetic Mean Total Return	Long-Horizon Equity Risk Premium
80 years	1926-2005	12.3%	7.1%
70 years	1936-2005	12.5%	7.0%
60 years	1946-2005	12.8%	6.8%
50 years	1956-2005	11.7%	5.0%
40 years	1966-2005	11.6%	4.2%
30 years	1976-2005	13.8%	6.0%
20 years	1986-2005	13.2%	6.4%
15 years	1991-2005	13.0%	6.7%
10 years	1996-2005	10.7%	5.1%
5 years	2001-2005	2.1%	-3.0%

Looking carefully at Graph 5-5 will clarify this point. The graph shows the realized equity risk premium for a series of time periods through 2005, starting with 1926. In other words, the first value on the graph represents the average realized equity risk premium over the period 1926-2005. The next value on the graph represents the average realized equity risk premium over the period 1927-2005, and so on, with the last value representing the average over the most recent five years, 2001-2005. Concentrating on the left side of Graph 5-5, one notices that the realized equity risk premium, when measured over long periods of time, is relatively stable. In viewing the graph from left to right, moving from longer to shorter historical periods, one sees that the value of the realized equity risk premium begins to decline significantly. Why does this occur? The reason is that the severe bear market of 1973-1974 is receiving proportionately more weight in the shorter, more recent average. If you continue to follow the line to the right, however, you will also notice that when 1973 and 1974 fall out of the recent average, the realized equity risk premium jumps up by nearly 1.3 percent.

National Fuel Gas Distribution Corporation  
Indicated Common Equity Cost Rate Through Use of the  
Capital Asset Pricing Model for the Proxy Group of Four Gas Distribution Companies  
and the Proxy Group of Nine Value Line Gas Distribution Companies.

Line No.		Proxy Group of Four Gas Distribution Companies	Proxy Group of Nine Value Line Gas Distribution Companies
1.	Traditional Capital Asset Pricing Model Derived Company Equity Cost Rates (1)	<u>10.25</u> %	<u>10.05</u> %
	Practical CAPM Cost Rates (1)	<u>10.56</u> %	<u>10.25</u>
2.	Empirical Capital Asset Pricing Model Derived Company Equity Cost Rate (2)	<u>10.48</u> %	<u>10.33</u> %
	Practical ECAPM Cost Rates (2)	<u>10.48</u> %	<u>10.33</u>
3.	(a) CAPM Results	<u>10.37</u> % (3)	<u>10.19</u> % (3)
	(b) Practical CAPM Results	<u>10.52</u> % (4)	<u>10.29</u> % (4)

Notes: (1) Developed on page 2 of this schedule.

(2) Developed on page 3 of this schedule.

(3) Average Ibbotson Associates historical market premium for the years 1979-2005, inclusive, of 6.48% (from Note 6 on page 4 of this Schedule) with the 5.13% Value Line market risk premium (from Note 1, page 3 of this Schedule) results in a 5.81% market premium. Applying the traditional and empirical CAPM, using this 5.81% market premium, the average Value Line adjusted betas of the proxy groups of 0.85 (4 LDCS) and 0.82 (9 LDCS) and risk-free rate of 5.05% (from Note 2, page 4 of this Schedule), results in traditional CAPM cost rates of 9.99% (4 LDCS) and 9.81% (9 LDCS) and empirical CAPMs of 10.21% (4 LDCS) and 10.07% (9 LDCS), for average CAPM cost rates of 10.08% (4 LDCS) and 9.94% (9 LDCS).

(4) Includes only those indicated common equity cost rates which are greater than 9.45% (the lowest rate awarded to a gas distribution utility between January 1, 2004 and March 31, 2006, from Schedule 16 of this Exhibit) as fully explained in Mr. Hanley's accompanying direct testimony.

**National Fuel Gas Distribution Corporation**  
 Indicated Common Equity Cost Rate Through Use  
 of the Capital Asset Pricing Model

	<u>Value Line Adjusted Beta</u>	<u>Company-Specific Risk Premium Based on Market Premium of 6.12% (1)</u>	<u>CAPM Result Including Risk-Free Rate of 5.05% (2)</u>	<u>Practical CAPM Results (3)</u>
<b>Traditional Capital Asset Pricing Model (4)</b>				
<u>Proxy Group of Four Gas Distribution Companies</u>				
Cascade Natural Gas Corporation	0.80	4.80 %	9.95 %	9.95 %
NICOR Inc.	1.15	7.04	12.09	12.09
Northwest Natural Gas Company	0.70	4.28	9.33	--
Piedmont Natural Gas Co., Inc.	0.75	4.59	9.64	9.64
Average	<u>0.85</u>	<u>5.20 %</u>	<u>10.25 %</u>	<u>10.56 %</u>
<u>Proxy Group of Nine Value Line Gas Distribution Companies</u>				
Atmos Energy Corporation	0.70	4.28 %	9.33 %	-- %
Cascade Natural Gas Corporation	0.80	4.90 %	9.95 %	9.95 %
The Laclede Group, Inc.	0.80	4.90	9.95	9.95
New Jersey Resources Corp.	0.80	4.90	9.95	9.95
NICOR Inc.	1.15	7.04	12.09	12.09
Northwest Natural Gas Company	0.70	4.28	9.33	--
Peoples Energy Corporation	0.85	5.20	10.25	10.25
Piedmont Natural Gas Co., Inc.	0.75	4.59	9.64	9.64
WGL Holdings, Inc.	0.80	4.90	9.95	9.95
Average	<u>0.82</u>	<u>5.00 %</u>	<u>10.05 %</u>	<u>10.25 %</u>

See page 4 for notes.

National Fuel Gas Distribution Corporation  
 Indicated Common Equity Cost Rate Through Use  
 of the Capital Asset Pricing Model

<u>Value Line Adjusted Beta</u>	<u>Company-Specific Risk Premium Based on Market Premium of 6.12% (1)</u>	<u>CAPM Result Including Risk-Free Rate of 5.05% (2)</u>	<u>Practical CAPM Results (3)</u>
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Empirical Capital Asset Pricing Model(5)

Proxy Group of Four Gas  
Distribution Companies

Cascade Natural Gas Corporation	0.80	5.20 %	10.25 %	10.25 %
NICOR Inc	1.15	6.81	11.86	11.86
Northwest Natural Gas Company	0.70	4.74	9.79	9.79
Piedmont Natural Gas Co., Inc.	0.75	4.97	10.02	10.02
Average	<u>0.85</u>	<u>5.43 %</u>	<u>10.48 %</u>	<u>10.48 %</u>

Proxy Group of Nine Value Line  
Gas Distribution Companies

Almos Energy Corporation	0.70	4.74 %	9.79 %	9.79 %
Cascade Natural Gas Corporation	0.80	5.20	10.25	10.25 %
The Laclede Group, Inc.	0.80	5.20	10.25	10.25
New Jersey Resources Corp	0.80	5.20	10.25	10.25
NICOR Inc.	1.15	6.81	11.86	11.86
Northwest Natural Gas Company	0.70	4.74	9.79	9.79
Peoples Energy Corporation	0.85	5.43	10.48	10.48
Piedmont Natural Gas Co., Inc	0.75	4.97	10.02	10.02
WGL Holdings, Inc.	0.80	5.20	10.25	10.25
Average	<u>0.82</u>	<u>5.28 %</u>	<u>10.33 %</u>	<u>10.33 %</u>

See page 4 for notes.

National Fuel Gas Distribution Corporation  
 Development of the Market-Required Rate of Return on Common Equity Using the  
 Capital Asset Pricing Model for the Proxy Group of Four Gas Distribution Companies  
 and the Proxy Group of Nine Value Line Gas Distribution Companies  
Adjusted to Reflect a Forecasted Risk-Free Rate and Market Return

Notes:

- (1) From the two previous month-end (January '06 – February '06), as well as a recently available (March 3, 2006), Value Line Summary & Index, a forecasted 3-5 year total annual market return of 10.18% can be derived by averaging the January 2006, February 2006, and spot forecasted total 3-5 year total appreciation, converting it into an annual market appreciation and adding the Value Line average forecasted annual dividend yield.

The 3-5 year average total market appreciation of 39%, produces a four-year average annual return of 8.58%  $((1.39^{0.25}) - 1) * 100$ . When the average annual forecasted dividend yield of 1.60% is added, a total average market return of 10.18% (1.60% + 8.58%) is derived.

January 2006, February 2006 and spot forecasted total market return of 10.18% minus the risk-free rate of 5.05% (developed in Note 2) is 5.13% (10.18% - 5.05%). The Ibbotson Associates calculated market premium of 7.10% for the period 1926-2005 results from a total market return of 12.30% less the average income return on long-term U.S. Government Securities of 5.20% (12.30% - 5.20% = 7.10%). This is then averaged with the 5.13% Value Line market premium resulting in a 6.09% market premium. The 6.12% market premium is then multiplied by the beta in column 1 of pages 2 and 3 of this schedule.

- (2) Average forecast based upon six quarterly estimates of 30-year Treasury Note yields per the consensus of nearly 50 economists reported in the Blue Chip Financial Forecasts dated April 1, 2006 (see page 7 of Schedule 12 of this exhibit). The estimates are detailed below:

	<u>30-Year Treasury Note Yield</u>
Second Quarter 2006	4.90%
Third Quarter 2006	5.00
Fourth Quarter 2006	5.10
First Quarter 2007	5.10
Second Quarter 2007	5.10
Third Quarter 2007	<u>5.10</u>
Average	<u>5.05%</u>

- (3) Includes only those indicated common equity cost rates which are greater than 9.45% for reasons fully explained in Mr. Hanley's accompanying direct testimony.

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

$$R_s = R_f + \beta (R_m - R_f)$$

Where  $R_s$  = Return rate of common stock  
 $R_f$  = Risk Free Rate  
 $\beta$  = Value Line Adjusted Beta  
 $R_m$  = Return on the market as a whole

- (5) The empirical CAPM is applied using the following formula:

$$R_s = R_f + .25 (R_m - R_f) + .75 \beta (R_m - R_f)$$

Where  $R_s$  = Return rate of common stock  
 $R_f$  = Risk-Free Rate  
 $\beta$  = Value Line Adjusted Beta  
 $R_m$  = Return on the market as a whole

- (6) The Ibbotson Associates calculated market premium of 6.48% for the period 1979-2005 results from a total market return of 14.50% less the average income return on long-term U.S. Government Securities of 8.02% (14.50% - 8.02% = 6.48%)

Source of Information: Value Line Summary & Index (Standard Edition)  
Blue Chip Financial Forecasts, April 1, 2006  
Value Line Investment Survey, March 17, 2006  
Stocks, Bonds, Bills and Inflation – Valuation Edition -2006 Yearbook Market  
 Results for 1926-2005 Ibbotson Associates, Inc., Chicago, IL

National Fuel Gas Distribution Corporation  
 Comparable Earnings Analysis  
 for a Proxy Group of Sixty-Four Non-Utility Companies Comparable to  
 the Proxy Group of Four Gas Distribution Companies (1)

Proxy Group of Sixty-Four Non-Utility Companies Comparable to the Proxy Group of Four Gas Distribution Companies (1)	Adj Beta	Unadj. Beta	Standard Error of the Regression	5-Year Projected Rate of Return on Net Worth, Equity or Partners' Capital (2)	
				Percent	Student's T-Test
Alexander & Baldwin	0.95	0.66	2.6403	12.50 %	(0.45)
Allstate Corp	0.90	0.77	2.5832	13.00	(0.39)
Aptar Group	0.85	0.87	2.6760	12.00	(0.51)
Astoria Financial	0.95	0.87	2.8307	22.00	0.67
Automatic Data Proc	0.95	0.88	2.7879	17.00	0.08
Avery Dennison	0.85	0.86	2.5977	21.50	0.61
BOK Financial	0.85	0.71	2.5848	13.00	(0.39)
Balfour Electric	0.95	0.87	2.6785	16.00	(0.04)
Bantia Corp	0.80	0.62	2.6361	13.50	(0.33)
Bard (C R)	0.75	0.59	2.9625	21.50	0.61
Beclon Dickinson	0.80	0.62	2.8442	19.50	0.38
Buckeye Partners L P	0.75	0.58	2.5987	19.50	0.38
Burlington Northern	0.90	0.84	2.8715	14.50	(0.21)
CLARCOR Inc	0.95	0.85	2.8944	13.00	(0.39)
ConocoPhillips	0.80	0.79	2.7874	7.00	(1.09)
Crescent Real Est	0.85	0.76	2.7749	11.50	(0.56)
Cullen/Frost Bankers	0.90	0.77	2.8993	16.50	0.02
Delphi Finl 'A'	0.85	0.87	2.5566	11.50	(0.56)
Duke Realty Corp.	0.75	0.60	2.5186	9.00	(0.86)
Dun & Bradstreet	0.80	0.66	2.7582	31.00	1.73
Fannie Mae	0.85	0.73	2.9445	13.00	(0.39)
Federal Rty Inv Trust	0.75	0.60	2.6073	17.00	0.08
Federated Investors	0.90	0.85	2.5541	31.00	1.73
Fifth Third Bancorp	0.90	0.84	2.6110	15.50	(0.09)
First Horizon National	0.85	0.74	2.5449	16.00	(0.04)
Freddie Mac	0.85	0.78	2.7285	11.50	(0.56)
GlaxoSmithKline ADR	0.85	0.71	2.6596	55.00 (3)	4.55
Golden West Finl	0.90	0.77	2.9482	17.00	0.08
Graco Inc	0.90	0.84	2.9370	41.00 (3)	2.91
HCC Insurance Hldgs	0.95	0.86	2.8467	12.00	(0.51)
HNI Corp.	0.80	0.69	2.8273	18.00	0.20
Hilbrenbrand Inds.	0.75	0.57	2.8672	19.00	0.32
Hospitality Properties	0.90	0.83	2.8265	7.00	(1.09)
Hudson City Bancorp	0.85	0.72	2.6544	8.50	(0.82)
ITT Industries	0.90	0.78	2.7228	18.50	0.26
Lancaster Colony	0.80	0.83	2.8708	14.00	(0.27)
Liz Claiborne	0.90	0.84	2.8650	13.00	(0.39)
Market Corp.	0.75	0.62	2.5107	13.50	(0.33)
McGraw-Hill	0.80	0.64	2.5824	21.50	0.61
Media General 'A'	0.90	0.81	2.6158	7.50	(1.04)
Minerals Techn.	0.95	0.87	2.8472	8.50	(0.92)
New Plan Excel Rty	0.75	0.59	2.8161	10.50	(0.68)
Occidental Petroleum	0.90	0.83	2.9420	17.50	0.14
Packaging Corp	0.85	0.76	2.9087	19.50	0.38
Penn REIT	0.75	0.62	2.7436	7.50	(1.04)
People's Bank	0.80	0.67	2.9669	12.50	(0.45)
Pfizer Inc.	0.90	0.79	2.9314	23.00	0.79
Pium Creek Timber	0.80	0.66	2.5565	15.50	(0.09)
Progressive (Ohio)	0.90	0.81	2.6849	12.00	(0.51)
Reinsurance Group	0.95	0.88	2.9531	11.00	(0.62)
SAFECO Corp	0.85	0.71	2.7353	11.00	(0.62)
Sigma-Aldrich	0.80	0.67	2.7992	19.50	0.38
Simon Property Group	0.75	0.61	2.5468	10.00	(0.74)
Sysco Corp	0.80	0.63	2.8146	40.50 (3)	2.85
TCF Financial	0.95	0.89	2.8117	25.00	1.02
TD Banknorth Inc.	0.90	0.81	2.5978	7.00	(1.09)
Tribune Co	0.90	0.82	2.8346	10.00	(0.74)
Trizec Properties	0.85	0.75	2.9757	8.00	(0.98)
Universal Corp.	0.75	0.58	2.5661	13.00	(0.39)
V F Corp	0.95	0.88	2.7480	16.00	(0.04)
Valspar Corp	0.85	0.75	2.8469	14.00	(0.27)
Walgreen Co	0.80	0.65	2.9638	18.00	0.20
Washington REIT	0.80	0.65	2.6275	19.50	0.38
Wells Markets	0.75	0.61	2.7357	10.00	(0.74)
Average for the Non-Utility Group	<u>0.85</u>	<u>0.74</u>	<u>2.7433</u>		
Average for the Proxy Group of Four Gas Distribution Companies	<u>0.85</u>	<u>0.73 (4)</u>	<u>2.7367 (5)</u>		

Mean (3) 14.87 %

Conclusion (6) 14.56 %

See pages 5 and 6 for notes

**National Fuel Gas Distribution Corporation**  
**Comparable Earnings Analysis**  
for a Proxy Group of Thirty-Six Non-Utility Companies Comparable to  
the Proxy Group of Nine Value Line Gas Distribution Companies (7)

Proxy Group of Thirty-six Non-Utility Companies Comparable to the Proxy Group of <i>Eight Value Line Gas Distribution Companies (7)</i>	Adj. Beta	Unadj. Beta	Standard Error of the Regression	5-Year Projected Rate of Return on Net Worth, Equity or Partners' Capital (2)	
				Percent	Student's T-Test
Allstate Corp.	0.90	0.77	2.5832	13.00 %	(0.41)
BOK Financial	0.85	0.71	2.5848	13.00	(0.41)
BRE Properties	0.75	0.60	2.4042	9.00	(0.96)
Bank of Hawaii	0.90	0.81	2.2667	21.00	0.69
Cedar Fair L.P.	0.70	0.54	2.3394	37.50 (8)	2.95
Chevron Corp.	0.85	0.73	2.2628	17.50	0.21
City National Corp.	0.80	0.67	2.3911	16.50	0.07
Duke Realty Corp.	0.75	0.60	2.5186	9.00	(0.96)
Ecolab Inc.	0.85	0.76	2.3784	24.50	1.17
Equity Office P'pty	0.75	0.55	2.4039	7.50	(1.16)
Equity Residential	0.80	0.64	2.4498	6.00	(1.37)
Exxon Mobil Corp.	0.85	0.75	2.2324	18.50	0.35
First Horizon National	0.85	0.74	2.5449	16.00	0.00
Gannett Co.	0.90	0.77	2.2191	13.00	(0.41)
Genuine Parts	0.90	0.78	2.1745	14.50	(0.20)
Harle-Hanks	0.90	0.79	2.3850	18.50	0.35
Kimco Realty	0.75	0.57	2.3201	18.00	0.28
Liberty Property	0.75	0.60	2.4684	14.00	(0.27)
Market Corp.	0.75	0.62	2.5107	13.50	(0.34)
McClatchy Co.	0.75	0.54	2.3070	10.00	(0.82)
McGraw-Hill	0.80	0.64	2.5824	21.50	0.76
Mercury General	0.85	0.71	2.4919	15.50	(0.06)
Moody's Corp.	0.75	0.58	2.4653	35.00 (8)	2.61
New York Times	0.85	0.76	2.4422	16.00	0.00
Pitney Bowes	0.90	0.78	2.2537	32.50 (8)	2.27
Plum Creek Timber	0.80	0.66	2.5585	15.50	(0.06)
Protective Life	0.90	0.80	2.3361	11.50	(0.61)
Simon Property Group	0.75	0.61	2.5468	10.00	(0.82)
St. Joe Corp.	0.85	0.73	2.4750	19.00	0.42
Transatlantic Hldgs.	0.80	0.65	2.3995	12.00	(0.54)
Union Pacific	0.85	0.73	2.4196	9.00	(0.96)
United Dominion R'ty	0.75	0.55	2.2699	8.00	(1.09)
Universal Corp.	0.75	0.58	2.5661	13.00	(0.41)
Wal-Mart Stores	0.80	0.66	2.4482	21.50	0.76
Washington Federal	0.85	0.70	2.2850	14.50	(0.20)
Webster Fin'l	0.90	0.80	2.3711	10.00	(0.82)
Average for the Non-Utility Group	<u>0.82</u>	<u>0.68</u>	<u>2.4071</u>		

Average for the Proxy Group of Nine Value Line  
Gas Distribution Companies 0.82 0.68 (9) 2.3821 (10)

Mean (8) 14.24 %

Conclusion (6) 14.48 %

See pages 5 and 6 for notes.

National Fuel Gas Distribution Corporation  
Comparable Earnings Analysis

Notes:

- (1) The criteria for selection of the proxy group of sixty-four non-utility companies was that the non-utility companies be domestic and have a meaningful projected 2008 – 2010 rate of return on net worth or partners' capital as reported in Value Line Investment Survey (Standard Edition). The proxy group of sixty-four non-utility companies was selected based upon the proxy group of four gas distribution companies' unadjusted beta range of 0.57 – 0.89 and standard error of the regression range of 2.4963 – 2.9771. These ranges are based upon plus or minus two standard deviations of the unadjusted beta and standard error of the regression as detailed in Mr. Hanley's accompanying direct testimony. Plus or minus two standard deviations captures 95.5% of the distribution of unadjusted betas and standard errors of the regression.
- (2) 2008-2010.
- (3) The Student's T-statistic associated with this projected return exceeds 1.960 at the 95% level of confidence. Therefore, it has been excluded, as an outlier, to arrive at a proper mean projected return as fully explained in the accompanying direct testimony.
- (4) The standard deviation of the proxy group of four gas distribution companies' unadjusted beta is 0.0777.
- (5) The standard deviation of the proxy group of four gas distribution companies' standard error of the regression is 0.1202. The standard deviation of the standard error of the regression is calculated as follows:

Standard Deviation of the Standard Error of the Regression =

$$\frac{\text{Standard Error of the Regression}}{\sqrt{2N}}$$

Where: N = number of observations. Since Value Line betas are derived from weekly price change observations over a period of five years, N = 259

$$\text{Thus, } 0.1202 = \frac{2.7367}{\sqrt{518}} = \frac{2.7367}{22.7596}$$

- (6) Average of 5-year projected rates of return excluding those above 20% and below 9.45% for reasons fully explained in Mr. Hanley's testimony.
- (7) The criteria for selection of the proxy group of thirty-six non-utility companies was that the non-utility companies be domestic and have a meaningful projected 2008 – 2010 rate of return on net worth or partners' capital as reported in Value Line Investment Survey (Standard Edition). The proxy group of twenty-three non-utility companies was selected based upon the proxy group of nine Value Line gas distribution companies' unadjusted beta range of 0.54 – 0.82 and standard error of

National Fuel Gas Distribution Corporation  
Comparable Earnings Analysis

the regression range of 2.1727 – 2.5915. These ranges are based upon plus or minus two standard deviations of the unadjusted beta and standard error of the regression as detailed in Mr. Hanley's accompanying direct testimony. Plus or minus two standard deviations captures 95.5% of the distribution of unadjusted betas and standard errors of the regression

- (8) The Student's T-statistic associated with this projected return exceeds 1.960 at the 95% level of confidence. Therefore, it has been excluded, as an outlier, to arrive at a proper mean projected return as fully explained in the accompanying direct testimony.
- (9) The standard deviation of the proxy group of nine Value Line gas distribution companies' unadjusted beta is 0.0676.
- (10) The standard deviation of the proxy group of nine Value Line gas distribution companies' standard error of the regression is  $0.1047 = (2.3821 / 22.7596)$ .

Source of Information: Value Line, Inc., Proprietary database, March 16, 2006  
Value Line Investment Survey (Standard Edition)

National Fuel Gas Distribution Corporation  
Authorized Returns on Common Equity and  
Common Equity Ratios for Gas Distribution Companies  
for the period January 2004 through March 2006

<u>Company</u>	<u>Date</u>	<u>Jurisdiction</u>	<u>Authorized Return on Common Equity</u>	<u>Authorized Common Equity Ratio</u>
Madison Gas and Electric	01/13/04	WI	12.00 %	55.91 %
Public Service Co. of New Mexico	01/13/04	NM	10.25 (1)	47.77
City Gas Co. of Florida	02/09/04	FL	11.25	36.77 (2, 3)
Southwest Gas Corporation	03/18/04	CA	10.90	42.00
Interstate Power & Light	04/05/04	MN	11.00	47.15
TXU-Gas	05/25/04	TX	10.00	49.80
Southern Indiana Gas & Electric	06/30/04	IN	10.50 (1)	44.00 (2)
South Jersey Gas	07/08/04	NJ	10.00 (1)	46.00
Centerpoint Energy Arkla	07/22/04	LA	10.25 (1)	45.80 (4)
Southwest Gas, Southern Division	08/26/04	NV	10.50	40.00
Southern Gas, Northern Division	08/26/04	NV	10.50	40.00
Avista Corporation	09/09/04	ID	10.40	42.59
Missouri Gas Energy	09/21/04	MO	10.50	29.99
Consolidated Edison of New York	09/27/04	NY	10.30 (1)	48.00
Washington Gas	09/27/04	VA	10.50 (1)	50.98
Chattanooga Gas	10/20/04	TN	10.20	35.50
Indiana Gas	11/30/04	IN	10.60 (1)	50.06
Yankee Gas Service	12/08/04	CT	9.90 (1)	47.90
Wisconsin Public Service	12/21/04	WI	11.50	57.35
Madison Gas and Electric	12/22/04	WI	11.50	57.64
Centerpoint Energy Arkla	12/28/04	OK	10.25 (1)	49.86
Puget Sound Energy	02/18/05	WA	10.30	43.00
SEMCO Energy Gas	03/29/05	MI	11.00 (1)	--
Vectren Energy Delivery of Ohio	04/13/05	OH	10.60	48.10 (5)
Michigan Consolidated Gas	04/28/05	MI	11.00	39.31 (2, 3)
AmerenIP - Formerly Illinois Power	05/17/05	IL	10.00 (1)	53.09
CenterPoint Energy Minnegasco	06/08/05	MN	10.18	50.27
Atlanta Gas Light	06/10/05	GA	10.90 (1)	-- (6)
Energy Gulf States	07/06/05	LA	10.50 (1)	47.52
Wisconsin Power and Light	07/19/05	WI	11.50	61.75
Northern States Power	08/11/05	MN	10.40 (1)	50.24 (3)
Centerpoint Energy Arkansas Gas	09/19/05	AR	9.45	31.80 (2)
Northern Illinois Gas - Now Nicor Gas	09/30/05	IL	10.51	56.37
Oklahoma Natural Gas	10/04/05	OK	9.90 (1)	46.76
Interstate Power & Light	10/14/05	IA	10.40 (1)	49.35 (3)
South Carolina Electric & Gas	10/31/05	SC	10.25 (1)	50.75
Arkansas Western Gas	11/02/05	AR	9.70	33.03 (2)
Bay State Gas	11/30/05	MA	10.00	53.95
Arkansas Oklahoma Gas	12/09/05	AR	9.70	41.04 (2, 5)
Madison Gas and Electric	12/12/05	WI	11.00	56.65
Pacific Gas and Electric	12/15/05	CA	11.35	52.00
San Diego Gas & Electric	12/16/05	CA	10.70	49.00
Baltimore Gas & Electric	12/21/05	MD	11.00	48.40
Avista Corporation	12/21/05	WA	10.40 (1)	40.00
Wisconsin Public Service	12/22/05	WI	11.00	59.73
Union Light, Heat & Power	12/22/05	KY	10.20	54.45
Southern Connecticut Gas	12/28/05	CT	10.00 (1)	51.28
Northern States Power	01/05/06	WI	11.00	53.66
Wisconsin Electric Power	01/25/06	WI	11.20	56.34
Wisconsin Gas	01/25/06	WI	11.20	50.20
Public Service Co. of Colorado	02/03/06	CO	10.50 (1)	55.49
Southwest Gas	02/23/06	AZ	9.50	40.00 (4)
Aquila	03/01/06	IA	10.40 (1)	51.39 (5)
Average			<u>10.54</u> %	<u>47.84</u> %
Average of Litigated Cases			<u>10.67</u> %	<u>47.30</u> %

- Notes: (1) Order followed stipulation or settlement by the parties. Decision particulars not necessarily precedent-setting or specifically adopted by the regulatory body.
- (2) Capital structure includes cost-free items or tax credit balances at the overall rate of return
- (3) Interim rates implemented prior to issuance of final order.
- (4) Hypothetical capital structure utilized.
- (5) Estimated
- (6) Revised

Source of Information: Major Rate Case Decisions - January 2004 - December 2005  
Regulatory Focus - Supplemental Studies, January 12, 2006  
Major Rate Case Decisions - January 2006 - March 31, 2006  
Regulatory Focus - Supplemental Studies, April 5, 2006  
Published by Regulatory Research Associates, Inc., An SNL Energy Company

NATIONAL FUEL GAS DISTRIBUTION CORPORATION  
 PENNSYLVANIA RATE JURISDICTION  
 53.53 II. RATE OF RETURN  
A. ALL UTILITIES

1. Provide capitalization and capitalization ratios for the last five-year period and projected through the next two years. (With short-term debt and without short-term debt.) (Company, Parent and System [consolidated].)
  - a. Provide year-end interest coverage before and after taxes for the last three years and at latest date. (Indenture and SEC Basis.) (Company, Parent and System [consolidated].)
  - b. Provide year-end preferred stock dividend coverage for the last three years and at latest date (Charter and SEC Basis).

.....

1. Capitalization and capitalization ratios for 2001 through 2005 can be found in Exhibit No. 400, Schedule 3, pages 1 and 2. Capitalization and capitalization ratios projected at September 30, 2006 and 2007 are as follows:

(in millions)	<u>NFG Consolidated</u>		<u>NFG Consolidated</u>		<u>Distribution Corp.</u>		<u>Distribution Corp.</u>	
	<u>September 30, 2006</u>		<u>September 30, 2007</u>		<u>September 30, 2006</u>		<u>September 30, 2007</u>	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Long-Term Debt	\$ 1,119	44.6%	\$ 1,110	41.8%	\$ 258	28.5%	\$ 258	28.1%
Short-Term Debt	163	6.5%	124	4.7%	123	13.6%	162	17.6%
Total Debt	1,282	51.1%	1,234	46.5%	381	42.1%	420	45.7%
Common Equity	1,226	48.9%	1,424	53.5%	524	57.9%	498	54.3%
Total Capital	<u>\$ 2,508</u>	<u>100.0%</u>	<u>\$ 2,658</u>	<u>100.0%</u>	<u>\$ 905</u>	<u>100.0%</u>	<u>\$ 918</u>	<u>100.0%</u>

a.

	Twelve Months Ended			
	December 31, 2005	September 30, 2005	September 30, 2004	September 30, 2003
Indenture	5.36	5.19	4.75	4.52
SEC	4.22	3.92	3.67	3.91

b. Not applicable.

NATIONAL FUEL GAS DISTRIBUTION CORPORATION  
PENNSYLVANIA RATE JURISDICTION  
53.53 II. RATE OF RETURN  
A. ALL UTILITIES

2. Provide latest quarterly financial report (Company and Parent)

.....

National Fuel Gas Distribution Corporation does not publish quarterly financial reports.

Attached is National Fuel Gas Company's December 31, 2005 Form 10-Q.

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-3880

**NATIONAL FUEL GAS COMPANY**

(Exact name of registrant as specified in its charter)

New Jersey  
(State or other jurisdiction of  
incorporation or organization)

13-1086010  
(I.R.S. Employer  
Identification No.)

6363 Main Street  
Williamsville, New York  
(Address of principal executive offices)

14221  
(Zip Code)

(716) 857-7000  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common stock, \$1 par value, outstanding at January 31, 2006: **84,509,054** shares.

## GLOSSARY OF TERMS

Exhibit No. 402

Witness: Bauer

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Frequently used abbreviations or acronyms used in this report:

### **National Fuel Gas Companies**

Data-Track	Data-Track Account Services, Inc.
Distribution Corporation	National Fuel Gas Distribution Corporation
Empire	Empire State Pipeline
ESNE	Energy Systems North East, LLC
Highland	Highland Forest Resources, Inc.
Horizon	Horizon Energy Development, Inc.
Horizon LFG	Horizon LFG, Inc.
Horizon Power	Horizon Power, Inc.
Leidy Hub	Leidy Hub, Inc.
Model City	Model City Energy, LLC
National Fuel	National Fuel Gas Company
NFR	National Fuel Resources, Inc.
Registrant	National Fuel Gas Company
Seneca	Seneca Resources Corporation
Seneca Energy	Seneca Energy II, LLC
Supply Corporation	National Fuel Gas Supply Corporation
The Company	The Registrant, the Registrant and its subsidiaries or the Registrant's subsidiaries as appropriate in the context of the disclosure
U.E.	United Energy, a.s.

### **Regulatory Agencies**

FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
NYPSC	State of New York Public Service Commission
PaPUC	Pennsylvania Public Utility Commission
SEC	Securities and Exchange Commission

### **Other**

2005 Form 10-K	The Company's Annual Report on Form 10-K for the year ended September 30, 2005
APB 20	Accounting Principles Board Opinion No. 20, Accounting Changes
APB 25	Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees
Bbl	Barrel (of oil)
Bcf	Billion cubic feet (of natural gas)
Board foot	A measure of lumber and/or timber equal to 12 inches in length by 12 inches in width by one inch in thickness.
Capital expenditure	Represents additions to property, plant, and equipment, or the amount of money a company spends to buy capital assets or upgrade its existing capital assets.
Cashout revenues	A cash resolution of a gas imbalance whereby a customer pays Supply Corporation for gas the customer receives in excess of amounts delivered into Supply Corporation's system by the customer's shipper.
Degree day	A measure of the coldness of the weather experienced, based on the extent to which the daily average temperature falls below a reference temperature, usually 65 degrees Fahrenheit.
Derivative	A financial instrument or other contract, the terms of which include an underlying (a price, interest rate, index rate, exchange rate, or other variable) and notional amount (number of units, barrels, cubic feet, etc.). <i>The terms also permit for the instrument or contract to be settled net and no initial net investment is required to enter into the financial instrument or contract. Examples include futures contracts, options, no cost collars and swaps.</i>

Dth	Dekatherm; one Dth of natural gas has a heating value of 1,000,000 British thermal units, approximately equal to the heating value of 1 Mcf of natural gas.
Energy Policy Act	Energy Policy Act of 2005
Exchange Act	Securities Exchange Act of 1934, as amended
Expenditures for long-lived assets	Includes capital expenditures, stock acquisitions and/or investments in partnerships.
FIN 47	FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations - an interpretation of SFAS 143
Firm transportation and/or storage	The transportation and/or storage service that a supplier of such service is obligated by contract to provide and for which the customer is obligated to pay whether or not the service is utilized.
GAAP	Accounting principles generally accepted in the United States of America
Goodwill	An intangible asset representing the difference between the fair value of a company and the price at which a company is purchased.
Hedging	A method of minimizing the impact of price, interest rate, and/or foreign currency exchange rate changes, often times through the use of derivative financial instruments.
Hub	Location where pipelines intersect enabling the trading, transportation, storage, exchange, lending and borrowing of natural gas.
Interruptible transportation and/or storage	The transportation and/or storage service that, in accordance with contractual arrangements, can be interrupted by the supplier of such service, and for which the customer does not pay unless utilized.
LIFO	Last-in, first-out
Mbbl	Thousand barrels (of oil)
Mcf	Thousand cubic feet (of natural gas)
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MDth	Thousand dekatherms (of natural gas)
MMcf	Million cubic feet (of natural gas)
Order 667	An order issued by FERC entitled "Repeal of the Public Utility Holding Company Act of 1935 and Enactment of the Public Utility Holding Company Act of 2005"
Order 2004	An order issued by FERC entitled "Standards of Conduct for Transmission Providers"
Precedent Agreement	An agreement between a pipeline company and a potential customer to sign a service agreement after specified events (called "conditions precedent") happen, usually within a specified time.
Proved developed reserves	Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.
Proved undeveloped reserves	Reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required to make these reserves productive.
PUHCA 1935	Public Utility Holding Company Act of 1935, as amended
PUHCA 2005	Public Utility Holding Company Act of 2005
Reserves	The unproduced but recoverable oil and/or gas in place in a formation which has been proven by production.
Restructuring	Generally referring to partial "deregulation" of the utility industry by statutory or regulatory process. Restructuring of federally regulated pipelines separate (or "unbundled") gas commodity service from transportation service for wholesale and large-volume retail markets. State restructuring programs attempt to extend the same process to retail mass markets.
SFAS	Statement of Financial Accounting Standards

**GLOSSARY OF TERMS (Concl.)**

**Exhibit No. 402  
Witness: Bauer  
Page 5**

SFAS 3	Statement of Financial Accounting Standards No. 3, Reporting Accounting Changes in Interim Financial Statements
SFAS 123	Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation
SFAS 123R	Statement of Financial Accounting Standards No. 123R, Share-Based Payment
SFAS 143	Statement of Financial Accounting Standards No. 143, Accounting for <i>Asset Retirement Obligations</i>
SFAS 154	Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections
Stock acquisitions	Investments in corporations.
Unbundled service	A service that has been separated from other services, with rates charged that reflect the cost of only the separated service.
WNC	Weather normalization clause; a clause in utility rates which adjusts customer rates to allow a utility to recover its normal operating costs calculated at normal temperatures. If temperatures during the measured period are warmer than normal, customers are assessed a surcharge. If temperatures during the measured period are colder than normal, customers receive a credit.

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• The Company has nothing to report under this item.	

Reference to "the Company" in this report means the Registrant or the Registrant and its subsidiaries collectively, as appropriate in the context of the disclosure. All references to a certain year in this report are to the Company's fiscal year ended September 30 of that year, unless otherwise noted.

This Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements should be read with the cautionary statements and important factors included in this Form 10-Q at Item 2 - MD&A, under the heading "Safe Harbor for Forward-Looking Statements." Forward-looking statements are all statements other than statements of historical fact, including, without limitation, those statements that are designated with an asterisk ("\*") following the statement, as well as those statements that are identified by the use of the words "anticipates," "estimates," "expects," "intends," "plans," "predicts," "projects," and similar expressions.

National Fuel Gas Company  
Consolidated Statements of Income and Earnings  
Reinvested in the Business  
(Unaudited)

(Thousands of Dollars, Except Per Common Share Amounts)	Three Months Ended December 31,	
	2005	2004
<b>INCOME</b>		
<b>Operating Revenues</b>	\$710,756	\$500,283
<b>Operating Expenses</b>		
Purchased Gas	436,778	256,156
Operation and Maintenance	103,628	92,623
Property, Franchise and Other Taxes	17,181	17,056
Depreciation, Depletion and Amortization	43,046	42,709
	600,633	408,544
<b>Operating Income</b>	110,123	91,739
<b>Other Income (Expense):</b>		
Income from Unconsolidated Subsidiaries	1,264	785
Interest Income	1,134	272
Other Income	741	552
Interest Expense on Long-Term Debt	(18,218)	(18,376)
Other Interest Expense	(1,775)	(2,417)
<b>Income from Continuing Operations Before Income Taxes</b>	93,269	72,555
Income Tax Expense	35,850	27,725
<b>Income from Continuing Operations</b>	57,419	44,830
<b>Income from Discontinued Operations, Net of Tax</b>	-	5,608
<b>Net Income Available for Common Stock</b>	57,419	50,438
<b>EARNINGS REINVESTED IN THE BUSINESS</b>		
Balance at October 1	813,020	718,926
	870,439	769,364
Dividends on Common Stock (2005 - \$0.29; 2004 - \$0.28)	24,488	23,274
<b>Balance at December 31</b>	\$845,951	\$746,090
<b>Earnings Per Common Share:</b>		
Basic:		
Income from Continuing Operations	\$0.68	\$0.54
Income from Discontinued Operations	-	0.07
<b>Net Income Available for Common Stock</b>	\$0.68	\$0.61
Diluted:		
Income from Continuing Operations	\$0.67	\$0.53
Income from Discontinued Operations	-	0.07
<b>Net Income Available for Common Stock</b>	\$0.67	\$0.60
<b>Weighted Average Common Shares Outstanding:</b>		
Used in Basic Calculation	84,422,717	83,150,086
Used in Diluted Calculation	86,256,862	84,638,106

See Notes to Condensed Consolidated Financial Statements

National Fuel Gas Company  
Consolidated Balance Sheets  
(Unaudited)

	December 31, 2005	September 30, 2005
(Thousands of Dollars)		
<b>ASSETS</b>		
<b>Property, Plant and Equipment</b>	\$4,471,581	\$4,423,255
Less - Accumulated Depreciation, Depletion and Amortization	1,602,254	1,583,955
	2,869,327	2,839,300
<b>Current Assets</b>		
Cash and Temporary Cash Investments	64,464	57,607
Hedging Collateral Deposits	38,691	77,784
Receivables - Net of Allowance for Uncollectible Accounts of \$33,279 and \$26,940, Respectively	289,229	155,064
Unbilled Utility Revenue	97,932	20,465
Gas Stored Underground	60,040	64,529
Materials and Supplies - at average cost	32,063	33,267
Unrecovered Purchased Gas Costs	28,552	14,817
Prepayments and Other Current Assets	53,697	65,469
Deferred Income Taxes	47,635	83,774
Fair Value of Derivative Financial Instruments	797	-
	713,100	572,776
<b>Other Assets</b>		
Recoverable Future Taxes	85,000	85,000
Unamortized Debt Expense	17,025	17,567
Other Regulatory Assets	50,790	47,028
Deferred Charges	3,864	4,474
Other Investments	82,336	80,394
Investments in Unconsolidated Subsidiaries	10,771	12,658
Goodwill	5,476	5,476
Intangible Assets	41,637	42,302
Other	10,609	15,677
	307,508	310,576
<b>Total Assets</b>	\$3,889,935	\$3,722,652

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

National Fuel Gas Company  
Consolidated Balance Sheets  
(Unaudited)

Exhibit No. 402  
Witness: Bauer  
Page 9

	December 31, 2005	September 30, 2005
(Thousands of Dollars)		
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>Capitalization:</b>		
<b>Comprehensive Shareholders' Equity</b>		
Common Stock, \$1 Par Value		
Authorized - 200,000,000 Shares;		
Issued And Outstanding – 84,498,511 Shares		
And 84,356,748 Shares, Respectively	\$ 84,499	\$ 84,357
Paid in Capital	538,907	529,834
Earnings Reinvested in the Business	845,951	813,020
<b>Total Common Shareholder Equity Before</b>		
Items of Other Comprehensive Loss	1,469,357	1,427,211
Accumulated Other Comprehensive Loss	(148,064)	(197,628)
<b>Total Comprehensive Shareholders' Equity</b>	<b>1,321,293</b>	<b>1,229,583</b>
<b>Long-Term Debt, Net of Current Portion</b>	<b>1,116,779</b>	<b>1,119,012</b>
<b>Total Capitalization</b>	<b>2,438,072</b>	<b>2,348,595</b>
<b>Current and Accrued Liabilities</b>		
Notes Payable to Banks and		
Commercial Paper	74,800	-
Current Portion of Long-Term Debt	9,516	9,393
Accounts Payable	212,067	155,485
Amounts Payable to Customers	1,031	1,158
Dividends Payable	24,488	24,445
Other Accruals and Current Liabilities	58,788	60,404
Fair Value of Derivative Financial Instruments	127,428	209,072
	<b>508,118</b>	<b>459,957</b>
<b>Deferred Credits</b>		
Deferred Income Taxes	500,982	489,720
Taxes Refundable to Customers	11,066	11,009
Unamortized Investment Tax Credit	6,621	6,796
Cost of Removal Regulatory Liability	91,724	90,396
Other Regulatory Liabilities	64,360	66,339
Pension and Other Post-Retirement Benefit Liabilities	153,242	143,687
Asset Retirement Obligation	41,647	41,411
Other Deferred Credits	74,103	64,742
	<b>943,745</b>	<b>914,100</b>
<b>Commitments and Contingencies</b>	<b>-</b>	<b>-</b>
<b>Total Capitalization and Liabilities</b>	<b>\$3,889,935</b>	<b>\$3,722,652</b>

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

National Fuel Gas Company  
Consolidated Statements of Cash Flows  
(Unaudited)

Exhibit No. 402  
Witness: Bauer  
Page 10

(Thousands of Dollars)	Three Months Ended December 31,	
	2005	2004
<b>OPERATING ACTIVITIES</b>		
Net Income Available for Common Stock	\$57,419	\$50,438
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation, Depletion and Amortization	43,046	46,940
Deferred Income Taxes	16,653	(1,864)
Income from Unconsolidated Subsidiaries, Net of Cash Distributions	1,887	715
Minority Interest in Foreign Subsidiaries	-	937
Excess Tax Benefits Associated with Stock-Based Compensation Awards	(6,439)	-
Other	3,159	2,684
Change in:		
Hedging Collateral Deposits	39,093	973
Receivables and Unbilled Utility Revenue	(211,491)	(132,963)
Gas Stored Underground and Materials and Supplies	5,692	12,824
Unrecovered Purchased Gas Costs	(13,735)	636
Prepayments and Other Current Assets	17,075	6,946
Accounts Payable	56,580	43,950
Amounts Payable to Customers	(127)	7,640
Other Accruals and Current Liabilities	(554)	14,605
Other Assets	(3,083)	(13,894)
Other Liabilities	15,394	18,560
<b>Net Cash Provided by Operating Activities</b>	<b>20,569</b>	<b>59,127</b>
<b>INVESTING ACTIVITIES</b>		
Capital Expenditures	(70,368)	(40,022)
Other	(745)	(1,046)
<b>Net Cash Used in Investing Activities</b>	<b>(71,113)</b>	<b>(41,068)</b>
<b>FINANCING ACTIVITIES</b>		
Change in Notes Payable to Banks and Commercial Paper	74,800	13,300
Excess Tax Benefits Associated with Stock-Based Compensation Awards	6,439	-
Reduction of Long-Term Debt	(2,110)	(3,509)
Dividends Paid on Common Stock	(24,445)	(23,210)
Net Proceeds from Issuance of Common Stock	2,570	3,452
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>57,254</b>	<b>(9,967)</b>
<b>Effect of Exchange Rates on Cash</b>	<b>147</b>	<b>5,339</b>
<b>Net Increase in Cash and Temporary Cash Investments</b>	<b>6,857</b>	<b>13,431</b>
<b>Cash and Temporary Cash Investments at October 1</b>	<b>57,607</b>	<b>57,541</b>
<b>Cash and Temporary Cash Investments at December 31</b>	<b>\$64,464</b>	<b>\$70,972</b>

See Notes to Condensed Consolidated Financial Statements

Item 1. Financial Statements (Cont.)

National Fuel Gas Company  
Consolidated Statements of Comprehensive Income  
(Unaudited)

Exhibit No. 402  
 Witness: Bauer  
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(Thousands of Dollars)	Three Months Ended December 31,	
	2005	2004
Net Income Available for Common Stock	\$57,419	\$50,438
Other Comprehensive Income, Before Tax:		
Foreign Currency Translation Adjustment	255	30,984
Unrealized Gain on Securities Available for Sale Arising During the Period	1,142	1,129
Unrealized Gain on Derivative Financial Instruments Arising During the Period	40,997	20,102
Reclassification Adjustment for Realized Losses on Derivative Financial Instruments in Net Income	37,931	18,196
Other Comprehensive Income, Before Tax	80,325	70,411
Income Tax Expense Related to Unrealized Gain on Securities Available for Sale Arising During the Period	400	395
Income Tax Expense Related to Unrealized Gain on Derivative Financial Instruments Arising During the Period	15,776	7,727
Reclassification Adjustment for Income Tax Benefit on Realized Losses from Derivative Financial Instruments In Net Income	14,585	6,911
Income Taxes – Net	30,761	15,033
Other Comprehensive Income	49,564	55,378
Comprehensive Income	\$106,983	\$105,816

See Notes to Condensed Consolidated Financial Statements

National Fuel Gas Company  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

**Note 1 - Summary of Significant Accounting Policies**

**Principles of Consolidation.** The Company consolidates its majority owned entities. The equity method is used to account for minority owned entities. All significant intercompany balances and transactions are eliminated.

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassification.** Certain prior years amounts have been reclassified to conform with current year presentation.

**Earnings for Interim Periods.** The Company, in its opinion, has included all adjustments that are necessary for a fair statement of the results of operations for the reported periods. The consolidated financial statements and notes thereto, included herein, should be read in conjunction with the financial statements and notes for the years ended September 30, 2005, 2004 and 2003 that are included in the Company's 2005 Form 10-K. The 2006 consolidated financial statements will be examined by the Company's independent accountants after the end of the fiscal year.

The earnings for the three months ended December 31, 2005 should not be taken as a prediction of earnings for the entire fiscal year ending September 30, 2006. Most of the business of the Utility and Energy Marketing segments is seasonal in nature and is influenced by weather conditions. Due to the seasonal nature of the heating business in the Utility and Energy Marketing segments, earnings during the winter months normally represent a substantial part of the earnings in those segments for the entire fiscal year.

**Consolidated Statement of Cash Flows.** For purposes of the Consolidated Statement of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity of generally three months or less to be cash equivalents.

**Hedging Collateral Deposits.** Cash held in margin accounts serve as collateral for open positions on exchange-traded futures contracts, exchange-traded options and over-the-counter swaps and collars.

**Gas Stored Underground - Current.** In the Utility segment, gas stored underground – current is carried at lower of cost or market, on a LIFO method. Gas stored underground – current normally declines during the first and second quarters of the year and is replenished during the third and fourth quarters. In the Utility segment, the current cost of replacing gas withdrawn from storage is recorded in the Consolidated Statements of Income and a reserve for gas replacement is recorded in the Consolidated Balance Sheets under the caption "Other Accruals and Current Liabilities." Such reserve, which amounted to \$18.4 million at December 31, 2005, is reduced to zero by September 30 of each year as the inventory is replenished.

**Accumulated Other Comprehensive Income (Loss).** The components of Accumulated Other Comprehensive Income (Loss), net of related tax effect, are as follows (in thousands):

**Item 1. Financial Statements (Cont.)**

	<u>At December 31, 2005</u>	<u>At September 30, 2005</u>
Minimum Pension Liability Adjustment	\$(107,844)	\$(107,844)
Cumulative Foreign Currency Translation Adjustment	28,264	28,009
Net Unrealized Loss on Derivative Financial Instruments	(74,772)	(123,339)
Net Unrealized Gain on Securities Available for Sale	<u>6,288</u>	<u>5,546</u>
Accumulated Other Comprehensive Loss	<u>\$(148,064)</u>	<u>\$(197,628)</u>

**Earnings Per Common Share.** Basic earnings per common share is computed by dividing income available for common stock by the weighted average number of common shares outstanding for the period. Diluted earnings per common share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For purposes of determining diluted earnings per common share, the only potentially dilutive securities the Company has outstanding are stock options. The diluted weighted average shares outstanding shown on the Consolidated Statement of Income reflects the potential dilution as a result of these stock options as determined using the Treasury Stock Method. Stock options that are antidilutive are excluded from the calculation of diluted earnings per common share. For the quarters ended December 31, 2005 and December 31, 2004, there were no stock options excluded as being antidilutive.

**Stock-Based Compensation.** The Company has various stock option and stock award plans which provide or provided for the issuance of one or more of the following to key employees: incentive stock options, nonqualified stock options, restricted stock, performance units or performance shares. Stock options under all plans have exercise prices equal to the average market price of Company common stock on the date of grant, and generally no option is exercisable less than one year or more than ten years after the date of each grant. Restricted stock is subject to restrictions on vesting and transferability. Restricted stock awards entitle the participants to full dividend and voting rights. Certificates for shares of restricted stock awarded under the Company's stock option and stock award plans are held by the Company during the periods in which the restrictions on vesting are effective. Restricted stock awards generally lapse ratably over a period of not more than ten years after the date of each grant.

Prior to October 1, 2005, the Company accounted for its stock-based compensation under the recognition and measurement principles of APB 25 and related interpretations. Under that method, no compensation expense was recognized for options granted under the Company's stock option and stock award plans. The Company did record, in accordance with APB 25, compensation expense for the market value of restricted stock on the date of the award over the periods during which the vesting restrictions existed.

Effective October 1, 2005, the Company adopted SFAS 123R, which requires the measurement and recognition of compensation cost at fair value for all share-based payments, including stock options. The Company has chosen to use the modified version of prospective application, as allowed by SFAS 123R. Using the modified prospective application, the Company is recording compensation cost for the portion of awards granted prior to October 1, 2005 for which the requisite service had not been rendered and is recognizing such compensation cost as the requisite service is rendered on or after October 1, 2005. Such compensation expense is based on the grant-date fair value of the awards as calculated for the Company's disclosure using a Binomial option-pricing model under SFAS 123. Any new awards, modifications to awards, repurchases of awards, or cancellations of awards subsequent to September 30, 2005 will follow the provisions of SFAS 123R, with compensation expense being calculated using the Black-Scholes-Merton closed form model. The Company has chosen the Black-Scholes-Merton closed form model since it is easier to administer than the Binomial option-pricing model. Furthermore, since the Company does not have complex stock-based compensation awards, it does not believe that compensation expense would be materially different under either model. There were no stock-based compensation awards during the quarters ended December 31, 2005 and December 31, 2004. Stock-based compensation expense for the quarters ended December 31, 2005 and December 31, 2004

Item 1. Financial Statements (Cont.)

totaled approximately \$149,000 and \$164,000, respectively, and is included in operation and maintenance expenses in the consolidated statement of income. The total income tax benefit related to stock-based compensation expense during the quarters ended December 31, 2005 and December 31, 2004 was approximately \$59,000 and \$65,000, respectively. There were no capitalized stock based compensation costs during the quarters ended December 31, 2005 and December 31, 2004.

The following table illustrates the effect on net income and earnings per share of the Company had the Company applied the fair value recognition provisions of SFAS 123 relating to stock-based employee compensation for the quarter ended December 31, 2004:

	Three Months Ended December 31, 2004
(In thousands, except per common share amounts)	
Net Income, Available for Common Stock, As Reported	\$ 50,438
Add: Stock-Based Employee Compensation Expense Included in Reported Net Income, Net of Tax	106
Deduct: Total Stock-Based Employee Compensation Expense Determined Under Fair Value Based Method for all Awards, Net of Related Tax Effects	(362)
Pro Forma Net Income Available for Common Stock	\$ 50,182
Earnings Per Common Share:	
Basic-As Reported	\$ 0.61
Basic-Pro Forma	\$ 0.60
Diluted-As Reported	\$ 0.60
Diluted-Pro Forma	\$ 0.59

Stock Options

Transactions during the quarter ended December 31, 2005 were as follows (in thousands, except option prices and years):

**Item 1. Financial Statements (Cont.)**

**Exhibit No. 402  
Witness: Bauer  
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	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Options Outstanding at September 30, 2005	10,997	\$ 23.78		
Granted	—	—		
Exercised	(178)	21.24		
Forfeited	—	—		
Options Outstanding at December 31, 2005	10,819	\$ 23.82	4.38	\$ 79,699
Options Exercisable at December 31, 2005	10,669	\$ 23.82	4.38	\$ 78,595

The total intrinsic value of stock options exercised during the quarters ended December 31, 2005 and December 31, 2004 totaled approximately \$1.9 million and \$2.9 million, respectively. The amount of cash received by the Company from the exercise of such stock options was approximately \$2.7 million during the quarter ended December 31, 2005 and approximately \$3.7 million during the quarter ended December 31, 2004. The tax benefit realized by the Company from the exercise of such stock options during the quarters ended December 31, 2005 and December 31, 2004 was \$0.9 million and \$1.1 million, respectively. No stock options were granted or became fully vested during the quarters ended December 31, 2005 and December 31, 2004. As of December 31, 2005, unrecognized compensation expense related to stock options totaled approximately \$0.2 million, which will be recognized over a weighted average period of 1.3 years.

For options granted prior to October 1, 2005, the fair value of options at date of grant was estimated using a Binomial option-pricing model with the following weighted average assumptions:

	Three Months Ended December 31,	
	2005	2004
Risk Free Interest Rate	4.04%	4.81%
Expected Life (years)	6.6	5.7
Expected Volatility	21.2%	21.9%
Expected Dividend Yield (Quarterly)	1.10%	1.06%

The risk-free interest rate is based on the yield of a Treasury Note with a remaining term commensurate with the expected term of the option. The expected life and expected volatility are based on historical experience.

The Company used a forfeiture rate of 13.6% for calculating stock-based compensation expense related to stock options and this rate is based on historical experience of the Company's currently unvested stock option grants.

Restricted Share Awards

Transactions during the quarter ended December 31, 2005 were as follows (in thousands, except fair values):

	Number of Restricted Share Awards		Weighted Average Fair Value per Award
	_____		_____
Restricted Share Awards Outstanding at September 30, 2005	65	\$	24.46
Granted	—		—
Vested	(8)		23.75
Forfeited	—		—
	_____		_____
Restricted Share Awards Outstanding at December 31, 2005	57	\$	24.56
	_____		_____

As of December 31, 2005, unrecognized compensation expense related to restricted share awards totaled approximately \$0.2 million, which will be recognized over a weighted average period of 1.1 years.

**New Accounting Pronouncements.** In March 2005, the FASB issued FIN 47, an interpretation of SFAS 143. FIN 47 provides clarification of the term "conditional asset retirement obligation" as used in SFAS 143, defined as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. Under this standard, a company must record a liability for a conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. FIN 47 also serves to clarify when a company would have sufficient information to reasonably estimate the fair value of a conditional asset retirement obligation. FIN 47 becomes effective no later than the end of fiscal 2006. The Company is currently evaluating the impact of FIN 47, if any, on its consolidated financial statements.

In May 2005, the FASB issued SFAS 154. SFAS 154 replaces APB 20 and SFAS 3 and changes the requirements for the accounting for and reporting of a change in accounting principle. The Company is required to adopt SFAS 154 for accounting changes and corrections of errors that occur in fiscal 2007. Early adoption is permitted. The Company's financial condition and results of operations will only be impacted by SFAS 154 if there are any accounting changes or corrections of errors in the future.

**Note 2 - Income Taxes**

The components of federal, state and foreign income taxes included in the Consolidated Statement of Income are as follows (in thousands):

Item 1. Financial Statements (Cont.)

	Three Months Ended December 31,	
	2005	2004
Operating Expenses:		
Current Income Taxes		
Federal	\$14,311	\$23,742
State	4,814	6,525
Foreign	72	68
Deferred Income Taxes		
Federal	10,870	(2,182)
State	1,695	(960)
Foreign	4,088	532
	<u>35,850</u>	<u>27,725</u>
Other Income:		
Deferred Investment Tax Credit	(174)	(174)
Discontinued Operations	-	1,968
Total Income Taxes	<u>\$35,676</u>	<u>\$29,519</u>

The U.S. and foreign components of income before income taxes are as follows (in thousands):

	Three Months Ended December 31,	
	2005	2004
U.S.	\$79,630	\$68,582
Foreign	13,465	11,375
	<u>\$93,095</u>	<u>\$79,957</u>

Total income taxes as reported differ from the amounts that were computed by applying the federal income tax rate to income before income taxes. The following is a reconciliation of this difference (in thousands):

	Three Months Ended December 31,	
	2005	2004
Income Tax Expense, Computed at Statutory Rate of 35%	\$32,583	\$27,985
Increase (Reduction) in Taxes Resulting From:		
State Income Taxes	4,231	3,617
Foreign Tax Differential	(557)	(1,399)
Miscellaneous	(581)	(684)
Total Income Taxes	<u>\$35,676</u>	<u>\$29,519</u>

Significant components of the Company's deferred tax liabilities (assets) were as follows (in thousands):

**Item 1. Financial Statements (Cont.)**

	At December 31, 2005	At September 30, 2005
<b>Deferred Tax Liabilities:</b>		
Property, Plant and Equipment	\$577,306	\$567,850
Other	54,509	52,436
<b>Total Deferred Tax Liabilities</b>	<b>631,815</b>	<b>620,286</b>
<b>Deferred Tax Assets:</b>		
Minimum Pension Liability Adjustment	(58,070)	(58,069)
Capital Loss Carryover	(8,459)	(9,145)
Unrealized Hedging Losses	(44,897)	(75,657)
Other	(69,919)	(74,346)
	(181,345)	(217,217)
Valuation Allowance	2,877	2,877
<b>Total Deferred Tax Assets</b>	<b>(178,468)</b>	<b>(214,340)</b>
<b>Total Net Deferred Income Taxes</b>	<b>\$453,347</b>	<b>\$405,946</b>
<b>Presented as Follows:</b>		
Net Deferred Tax Asset – Current	(47,635)	(83,774)
Net Deferred Tax Liability – Non-Current	500,982	489,720
<b>Total Net Deferred Income Taxes</b>	<b>\$453,347</b>	<b>\$405,946</b>

Regulatory liabilities representing the reduction of previously recorded deferred income taxes with rate-regulated activities that are expected to be refundable to customers amounted to \$11.1 million and \$11.0 million at December 31, 2005 and September 30, 2005, respectively. Also, regulatory assets representing future amounts collectible from customers, corresponding to additional deferred income taxes not previously recorded because of prior ratemaking practices, amounted to \$85.0 million at December 31, 2005 and September 30, 2005.

The American Jobs Creation Act of 2004 was signed into law on October 22, 2004. This legislation included a provision which provided a substantially reduced tax rate of 5.25% on certain dividends received from foreign affiliates. In the quarter ended June 30, 2005, the Company received a dividend of \$72.8 million from a foreign affiliate and recorded a tax of \$3.8 million on such dividend.

A capital loss carryover of \$24.2 million existed at December 31, 2005, which expires if not utilized by September 30, 2008. Although realization is not assured, management estimates that a portion of the deferred tax asset associated with this carryover will be realized during the carryover period, and a valuation allowance is recorded for the remaining portion. Adjustments to the valuation allowance may be necessary in the future if estimates of capital gain income are revised.

**Note 3 - Capitalization**

**Common Stock.** During the three months ended December 31, 2005, the Company issued 141,763 shares of common stock under the Company's stock option and director compensation plans.

**Note 4 - Commitments and Contingencies**

**Environmental Matters.** The Company is subject to various federal, state and local laws and regulations relating to the protection of the environment. The Company has established procedures for the ongoing evaluation of its operations to identify potential environmental exposures and comply with regulatory policies and procedures. It is the Company's policy to accrue estimated environmental clean-up costs (investigation and remediation) when such amounts can reasonably be estimated and it is probable that the Company will be required to incur such costs. At December 31, 2005, the Company has estimated its remaining clean-up costs related to former manufactured gas plant sites and third party waste disposal sites will be \$3.7 million. This liability has been recorded on the Consolidated Balance Sheet at December 31, 2005. The Company expects to recover its environmental clean-up costs from a

**Item 1. Financial Statements (Cont.)**

combination of insurance proceeds and rate recovery. Other than as discussed in Note G of the Company's 2005 Form 10-K, the Company is currently not aware of any material additional exposure to environmental liabilities. However, adverse changes in environmental regulations or other factors could impact the Company.

**Other.** The Company is involved in litigation arising in the normal course of business. Also in the normal course of business, the Company is involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, compliance with regulations, rate base, cost of service and purchased gas cost issues, among other things. While the resolution of such litigation or regulatory matters could have a material effect on earnings and cash flows in the quarterly and annual period of resolution, none of this litigation, and none of these regulatory matters, are expected to change materially the Company's present liquidity position, nor have a material adverse effect on the financial condition of the Company.

**Note 5 – Discontinued Operations**

On July 18, 2005, the Company completed the sale of its entire 85.16% interest in U.E., a district heating and electric generation business in the Bohemia region of the Czech Republic, to Czech Energy Holdings, a.s. for sales proceeds of approximately \$116.3 million. The sale resulted in the recognition of a gain of approximately \$25.8 million, net of tax, at September 30, 2005. Market conditions during 2005, including the increasing value of the Czech currency as compared to the U.S. dollar, caused the value of the assets of U.E. to increase, providing an opportunity to sell the U.E. operations at a profit for the Company. As a result of the decision to sell its majority interest in U.E., the Company began presenting the Czech Republic operations, which are primarily comprised of U.E., as discontinued operations in June 2005. U.E. was the major component of the Company's International segment. With this change in presentation, the Company discontinued all reporting for an International segment.

The following is selected financial information of the discontinued operations for U.E.:

<i>(Thousands)</i>	Three Months Ended December 31, 2004
Operating Revenues	\$43,975
Operating Expenses	35,777
Operating Income	8,198
Other Income	826
Interest Expense	(169)
Income before Income Taxes and Minority Interest	8,855
Income Tax Expense	2,310
Minority Interest, Net of Taxes	937
Income from Discontinued Operations	\$5,608

**Note 6 – Business Segment Information**

The Company has five reportable segments: Utility, Pipeline and Storage, Exploration and Production, Energy Marketing, and Timber. The breakdown of the Company's reportable segments is based upon a combination of factors including differences in products and services, regulatory environment and geographic factors.

The data presented in the tables below reflect the reportable segments and reconciliations to consolidated amounts. As stated in the 2005 Form 10-K, the Company evaluates segment performance based on income before discontinued operations, extraordinary items and cumulative effects of changes in accounting (when applicable). When these items are not applicable, the Company evaluates performance based on net income. There have been no changes in the basis of segmentation nor in the basis of measuring segment profit or loss from those used in the 2005 Form 10-K. There have been no

Item 1. Financial Statements (Cont.)

material changes in the amount of assets for any operating segment from the amounts disclosed in the 2005 Form 10-K.

Quarter Ended December 31, 2005 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from External Customers	\$431,479	\$34,738	\$82,087	\$145,560	\$16,908	\$710,772	\$(16)	\$ -	\$710,756
Intersegment Revenues	\$4,121	\$21,296	\$ -	\$ -	\$23	\$25,440	\$4,527	\$(29,967)	\$ -
Segment Profit (Loss): Net Income (Loss)	\$21,753	\$15,850	\$17,435	\$987	\$1,464	\$57,489	\$570	\$(640)	\$57,419

Quarter Ended December 31, 2004 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Revenue from External Customers	\$316,829	\$32,445	\$71,838	\$63,494	\$12,995	\$497,601	\$2,682	\$ -	\$500,283
Intersegment Revenues	\$4,305	\$20,599	\$ -	\$ -	\$ -	\$24,904	\$1,080	\$(25,984)	\$ -
Segment Profit (Loss): Income (Loss) from Continuing Operations	\$18,072	\$12,277	\$13,923	\$750	\$753	\$45,775	\$600	\$(1,545)	\$44,830

**Note 7 - Intangible Assets**

The components of the Company's intangible assets were as follows (in thousands):

	At December 31, 2005			At September 30, 2005
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Net Carrying Amount
Intangible Assets Subject to Amortization				
Long-Term Transportation Contracts	\$8,580	\$(3,118)	\$5,462	\$5,729
Long-Term Gas Purchase Contracts	31,864	(3,831)	28,033	28,431
Intangible Assets Not Subject to Amortization				
Retirement Plan Intangible Asset	8,142	-	8,142	8,142
	<u>\$48,586</u>	<u>\$(6,949)</u>	<u>\$41,637</u>	<u>\$42,302</u>

Aggregate Amortization Expense  
(Thousands)

Three Months Ended December 31, 2005	\$666
Three Months Ended December 31, 2004	\$666

Amortization expense for the transportation contracts is estimated to be \$0.8 million for the remainder of 2006 and \$1.1 million annually for 2007 and 2008. Amortization expense is estimated to be \$0.5 million and \$0.4 million for 2009 and 2010, respectively.

Amortization expense for the long-term gas purchase contracts is estimated to be \$1.2 million for the remainder of 2006 and \$1.6 million annually for 2007, 2008, 2009 and 2010.

**Note 8 - Retirement Plan and Other Post-Retirement Benefits**

Components of Net Periodic Benefit Cost (in thousands):

Three months ended December 31,

	Retirement Plan		Other Post-Retirement Benefits	
	2005	2004	2005	2004
Service Cost	\$4,104	\$3,429	\$2,007	\$1,538
Interest Cost	10,049	10,520	6,701	6,446
Expected Return on Plan Assets	(12,486)	(12,386)	(5,576)	(4,715)
Amortization of Prior Service Cost	239	257	1	1
Amortization of Transition Amount	-	-	1,782	1,782
Amortization of Losses	5,777	2,618	5,850	3,116
Net Amortization and Deferral For Regulatory Purposes (Including Volumetric Adjustments) (1)	<u>(1,528)</u>	<u>883</u>	<u>(2,684)</u>	<u>(713)</u>
Net Periodic Benefit Cost	<u>\$6,155</u>	<u>\$5,321</u>	<u>\$8,081</u>	<u>\$7,455</u>

(1) The Company's policy is to record retirement plan and other post-retirement benefit costs in the Utility segment on a volumetric basis to reflect the fact that the Utility segment experiences higher throughput of natural gas in the winter months and lower throughput of natural gas in the summer months.

**Item 1. Financial Statements (Concl.)**

**Employer Contributions.** During the three months ended December 31, 2005, the Company contributed \$1.8 million to its retirement plan and \$7.8 million to its post-retirement benefit plan. In the remainder of 2006, the Company expects to contribute in the range of \$13.0 million to \$18.0 million to its retirement plan and to contribute in the range of \$25.0 million to \$32.0 million to its post-retirement benefit plan.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**CRITICAL ACCOUNTING POLICIES**

For a complete discussion of critical accounting policies, refer to "Critical Accounting Policies" in Item 7 of the Company's 2005 Form 10-K. There have been no subsequent changes to that disclosure.

**RESULTS OF OPERATIONS**

**Earnings**

The Company's earnings were \$57.4 million for the quarter ended December 31, 2005 compared to earnings of \$50.4 million for the quarter ended December 31, 2004. As previously discussed, the Company began presenting its Czech Republic operations as discontinued operations in June 2005. Prior year amounts have been reclassified to reflect this change in presentation. The Company's earnings from continuing operations were \$57.4 million for the quarter ended December 31, 2005 compared to earnings from continuing operations of \$44.8 million for the quarter ended December 31, 2004. The increase in earnings from continuing operations of \$12.6 million is primarily the result of higher earnings in the Utility, Pipeline and Storage, and Exploration and Production segments. Additional discussion of earnings in each of the business segments can be found in the business segment information that follows. Note that all amounts used in the earnings discussions are after-tax amounts.

**Earnings (Loss) by Segment**

Three Months Ended December 31 (Thousands)	2005	2004	Increase (Decrease)
Utility	\$21,753	\$18,072	\$3,681
Pipeline and Storage	15,850	12,277	3,573
Exploration and Production	17,435	13,923	3,512
Energy Marketing	987	750	237
Timber	1,464	753	711
Total Reportable Segments	57,489	45,775	11,714
All Other	570	600	(30)
Corporate <sup>(1)</sup>	(640)	(1,545)	905
Total Earnings from Continuing Operations	57,419	44,830	12,589
Earnings from Discontinued Operations	-	5,608	(5,608)
Total Consolidated	\$57,419	\$ 50,438	\$6,981

<sup>(1)</sup> Includes earnings from the former International segment's activity other than the activity from the Czech Republic operations included in Earnings from Discontinued Operations.

**Utility**

**Utility Operating Revenues**

Three Months Ended December 31 (Thousands)	2005	2004	Increase (Decrease)
Retail Sales Revenues:			
Residential	\$344,873	\$255,066	\$89,807
Commercial	56,890	41,783	15,107
Industrial	4,452	2,143	2,309
	406,215	298,992	107,223
Transportation	26,916	20,960	5,956
Other	2,469	1,182	1,287
	\$435,600	\$321,134	\$ 114,466

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Cont.)**

**Utility Throughput**

Three Months Ended December 31 (MMcf)	2005	2004	Increase (Decrease)
Retail Sales:			
Residential	19,524	19,869	(345)
Commercial	3,443	3,454	(11)
Industrial	327	176	151
	23,294	23,499	(205)
Transportation	14,342	14,103	239
	37,636	37,602	34

**Degree Days**

Three Months Ended December 31	Normal	2005	2004	Percent Colder (Warmer) Than	
				Normal	Prior Year
Buffalo	2,260	2,210	2,172	(2.2)	1.7
Erie	2,081	2,048	1,997	(1.6)	2.6

**2005 Compared with 2004**

Operating revenues for the Utility segment increased \$114.5 million for the quarter ended December 31, 2005 as compared with the quarter ended December 31, 2004. The \$107.2 million increase in retail gas sales was primarily the result of the recovery of higher gas costs (gas costs are recovered dollar for dollar in revenues). The increase in transportation revenues was primarily due to an out-of-period adjustment of \$3.9 million to correct the New York jurisdiction's calculation of the symmetrical sharing component of the Gas Adjustment rate. The adjustment resulted when it was determined that certain credits that had been included in the calculation should have been removed during the implementation of a previous rate case settlement. The symmetrical sharing component is a mechanism included in Distribution's New York rate settlement that shares with customers 90% of the difference between actual revenues received from large volume customers and the level of revenues that were projected to be received during the rate year. The adjustment related to fiscal years 2002 through 2005. The impact of the New York rate case settlement, which became effective in August 2005, was to increase operating revenues by \$7.4 million. This increase consisted of a base rate increase, the implementation of a merchant function charge, the elimination of certain bill credits, and the elimination of the gross receipts tax surcharge. In the Pennsylvania jurisdiction, the impact of a base rate increase, which became effective in April 2005, was to increase operating revenues by \$2.7 million.

The Utility segment's earnings for the quarter ended December 31, 2005 were \$21.7 million, an increase of \$3.7 million when compared with the quarter ended December 31, 2004. In the New York jurisdiction, earnings increased \$1.8 million. The increased earnings in the New York jurisdiction largely related to the symmetrical sharing adjustment discussed above (\$2.6 million). The positive impact to revenues of the New York rate case settlement (\$4.8 million) was mostly offset by lower usage per customer account (\$1.9 million), higher bad debt expense (\$2.1 million), higher pension expense (\$0.6 million), and higher interest expense (\$0.6 million). In the Pennsylvania jurisdiction, earnings increased \$1.9 million. Increased earnings in the Pennsylvania jurisdiction resulted primarily from a base rate increase first implemented in April 2005 (\$1.8 million). This increase more than offset slightly higher bad debt expense (\$0.6 million).

The impact of weather variations on earnings in the New York jurisdiction is mitigated by that jurisdiction's weather normalization clause (WNC). The WNC in New York, which covers the eight-month period from October through May, has had a stabilizing effect on earnings for the New York rate jurisdiction. For the quarters ended December 31, 2005 and December 31, 2004, the WNC preserved \$0.5 million and \$1.3 million of earnings, respectively, since it was warmer than normal. In periods of colder than normal weather, the WNC benefits Distribution Corporation's New York customers.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Cont.)**

**Pipeline and Storage**

**Pipeline and Storage Operating Revenues**

Three Months Ended December 31 (Thousands)	2005	2004	Increase (Decrease)
Firm Transportation	\$31,086	\$29,531	\$1,555
Interruptible Transportation	1,323	926	397
	32,409	30,457	1,952
Firm Storage Service	16,248	16,094	154
Other	7,377	6,493	884
	\$56,034	\$53,044	\$ 2,990

**Pipeline and Storage Throughput**

Three Months Ended December 31 (MMcf)	2005	2004	Increase (Decrease)
Firm Transportation	102,822	83,742	19,080
Interruptible Transportation	3,723	1,662	2,061
	106,545	85,404	21,141

**2005 Compared with 2004**

Operating revenues for the Pipeline and Storage segment increased \$3.0 million for the quarter ended December 31, 2005 as compared with the quarter ended December 31, 2004. The \$2.0 million increase in transportation revenues was primarily due to additional contracts with customers and the renewal of contracts at higher rates, both of which reflect the increased demand for transportation services due to market conditions resulting from the effects of last fall's hurricane damage to production and pipeline infrastructure in the Gulf of Mexico. The \$0.9 million increase in other operating revenues was primarily due to higher revenues from unbundled pipeline sales due to higher natural gas prices (\$1.4 million), offset by a decrease in cashout revenues (\$0.7 million). Cashout revenues are completely offset by purchased gas expense and consequently have no impact on earnings.

Earnings in the Pipeline and Storage segment increased \$3.6 million from \$12.3 million for the quarter ended December 31, 2004 to \$15.9 million for the quarter ended December 31, 2005. The major factors contributing to the increase were higher transportation revenues (\$1.3 million) and higher revenues from unbundled pipeline sales (\$0.9 million), both noted above, as well as lower operating expenses (\$1.1 million). Operating expenses decreased primarily due to a lower reserve for preliminary project costs associated with the Empire State Pipeline Expansion project (\$0.7 million) and the impact of lower pension expense (\$0.2 million).

**Exploration and Production**

**Exploration and Production Operating Revenues**

Three Months Ended December 31 (Thousands)	2005	2004	Increase (Decrease)
Gas (after Hedging)	\$49,341	\$42,744	\$6,597
Oil (after Hedging)	29,395	26,896	2,499
Gas Processing Plant	13,419	8,704	4,715
Other	1,524	753	771
Intrasegment Elimination <sup>(1)</sup>	(11,592)	(7,259)	(4,333)
	\$82,087	\$71,838	\$ 10,249

<sup>(1)</sup> Represents the elimination of certain West Coast gas production included in "Gas (after Hedging)" in the table above that was sold to the gas processing plant shown in the table above. An elimination for the same dollar amount was made to reduce the gas processing plant's Purchased Gas expense.

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**Production Volumes**

Three Months Ended December 31	2005	2004	Increase (Decrease)
<b>Gas Production (MMcf)</b>			
Gulf Coast	1,667	3,225	(1,558)
West Coast	1,018	1,039	(21)
Appalachia	1,253	1,206	47
Canada	1,911	1,665	246
	5,849	7,135	(1,286)
<b>Oil Production (Mbbbl)</b>			
Gulf Coast	107	289	(182)
West Coast	685	653	32
Appalachia	10	3	7
Canada	87	76	11
	889	1,021	(132)

**Average Prices**

Three Months Ended December 31	2005	2004	Increase (Decrease)
<b>Average Gas Price/Mcf</b>			
Gulf Coast	\$10.74	\$6.50	\$4.24
West Coast	\$11.08	\$6.55	\$4.53
Appalachia	\$13.62	\$7.73	\$5.89
Canada	\$10.76	\$5.45	\$5.31
Weighted Average	\$11.42	\$6.47	\$4.95
Weighted Average After Hedging	\$8.44	\$5.99	\$2.45
<b>Average Oil Price/Bbl</b>			
Gulf Coast	\$57.90	\$47.08	\$10.82
West Coast	\$51.34	\$37.14	\$14.20
Appalachia	\$61.53	\$44.33	\$17.20
Canada	\$43.18	\$38.43	\$4.75
Weighted Average	\$51.45	\$40.08	\$11.37
Weighted Average After Hedging	\$33.07	\$26.35	\$6.72

**2005 Compared with 2004**

Operating revenues for the Exploration and Production segment increased \$10.2 million for the quarter ended December 31, 2005 as compared with the quarter ended December 31, 2004. Gas production revenue after hedging increased \$6.6 million. An increase in the weighted average price of gas after hedging (\$2.45 per Mcf) more than offset an overall decrease in gas production. Oil production revenue after hedging increased \$2.5 million. An increase in the weighted average price of oil after hedging (\$6.72 per bbl) more than offset an overall decrease in oil production of 132,000 barrels. Most of the decrease in gas and oil production occurred in the Gulf Coast (a 1,558 MMcf decline in gas production and a 182,000 bbl decline in oil production), which is consistent with this region's expected delays in production volumes due largely to the impact of last fall's hurricane damage to pipeline infrastructure in the Gulf of Mexico. Currently, Seneca has approximately 87% of its pre hurricane Gulf of Mexico production back on line. The remaining 13% continues to wait on pipeline and facilities repair. These repairs may be completed within the next six months.\*

The Exploration and Production segment's earnings for the quarter ended December 31, 2005 were \$17.4 million compared with earnings of \$13.9 million for the quarter ended December 31, 2004. The increase is attributable to the positive impact of higher natural gas and crude oil revenues, as discussed above (\$5.9 million positive contribution to earnings). Partially offsetting this increase, the Exploration and Production segment experienced higher lease operating costs (\$2.0 million), primarily in

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the West Coast region due to higher steaming costs associated with heavy crude oil production in the California Midway-Sunset field.

**Energy Marketing**

**Energy Marketing Operating Revenues**

Three Months Ended December 31 (Thousands)	2005	2004	Increase (Decrease)
Natural Gas (after Hedging)	\$145,523	\$63,489	\$82,034
Other	37	5	32
	\$145,560	\$63,494	\$ 82,066

**Energy Marketing Volumes**

Three Months Ended December 31	2005	2004	Increase (Decrease)
Natural Gas – (MMcf)	9,975	8,007	1,968

**2005 Compared with 2004**

Operating revenues for the Energy Marketing segment increased \$82.1 million for the quarter ended December 31, 2005 as compared with the quarter ended December 31, 2004. This increase primarily reflects higher gas sales revenue due to an increase in the price of natural gas and, to a lesser extent, an increase in throughput.

The Energy Marketing segment's earnings increased \$0.2 million from \$0.8 million for the quarter ended December 31, 2004 to \$1.0 million for the quarter ended December 31, 2005. The major factors contributing to the increase were higher gross margin (\$0.5 million) resulting from higher throughput offset by an increase in operating expenses (\$0.3 million).

**Timber**

**Timber Operating Revenues**

Three Months Ended December 31 (Thousands)	2005	2004	Increase (Decrease)
Log Sales	\$6,256	\$4,876	\$1,380
Green Lumber Sales	1,462	1,446	16
Kiln Dry Lumber Sales	8,500	6,274	2,226
Other	713	399	314
Operating Revenues	\$16,931	\$12,995	\$3,936

**Timber Board Feet**

Three Months Ended December 31 (Thousands)	2005	2004	Increase (Decrease)
Log Sales	2,491	1,745	746
Green Lumber Sales	1,974	2,164	(190)
Kiln Dry Lumber Sales	4,486	3,366	1,120
	8,951	7,275	1,676

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**2005 Compared with 2004**

Operating revenues for the Timber segment increased \$3.9 million for the quarter ended December 31, 2005 as compared with the quarter ended December 31, 2004. Higher revenues from kiln dry lumber sales (\$2.2 million and 1.1 million board feet) are partially responsible for the increase due to an increase in processing capacity for kiln dry lumber. The increase in capacity resulted from the addition of two new kilns in February 2005. Higher log sales of \$1.4 million also contributed to the increase in revenues. Favorable weather conditions allowed for the harvesting of greater volumes of timber and the accompanying cherry veneer logs, which have the highest price in the harvested timber mix.

The Timber segment's earnings for the quarter ended December 31, 2005 were \$1.5 million, an increase of \$0.7 million when compared with earnings of \$0.8 million for the quarter ended December 31, 2004. The increase was principally due to higher margins from lumber and log sales (\$1.2 million). This was partially offset by higher depletion expense (\$0.3 million).

**Corporate and All Other**

**2005 Compared with 2004**

Corporate and All Other recorded a loss of \$0.1 million for the quarter ended December 31, 2005 compared with a loss of \$0.9 million for the quarter ended December 31, 2004. This improvement was principally due to an increase in interest income resulting from the investment of proceeds received from the sale of U.E. in July 2005.

**CAPITAL RESOURCES AND LIQUIDITY**

The Company's primary source of cash during the three-month period ended December 31, 2005 consisted of short-term borrowings and cash provided by operating activities. This source of cash was supplemented by issuances of common stock under the Company's stock plans. During the three months ended December 31, 2005, the common stock used to fulfill the requirements of the Company's 401(k) plans and Direct Stock Purchase and Dividend Reinvestment Plan was obtained via open market purchases.

**Operating Cash Flow**

Internally generated cash from operating activities consists of net income available for common stock, adjusted for noncash expenses, noncash income and changes in operating assets and liabilities. Noncash items include depreciation, depletion and amortization, deferred income taxes, income or loss from unconsolidated subsidiaries net of cash distributions, and minority interest in foreign subsidiaries.

Cash provided by operating activities in the Utility and the Pipeline and Storage segments may vary from period to period because of the impact of rate cases. In the Utility segment, supplier refunds, over- or under-recovered purchased gas costs and weather may also significantly impact cash flow. The impact of weather on cash flow is tempered in the Utility segment's New York rate jurisdiction by its WNC and in the Pipeline and Storage segment by Supply Corporation's straight fixed-variable rate design.

Because of the seasonal nature of the heating business in the Utility and Energy Marketing segments, revenues in these segments are relatively high during the heating season, primarily the first and second quarters of the fiscal year, and receivable balances historically increase during these periods from the balances receivable at September 30.

The storage gas inventory normally declines during the first and second quarters of the year and is replenished during the third and fourth quarters. For storage gas inventory accounted for under the LIFO method, the current cost of replacing gas withdrawn from storage is recorded in the Consolidated Statements of Income and a reserve for gas replacement is recorded in the Consolidated Balance

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Sheets under the caption "Other Accruals and Current Liabilities." Such reserve is reduced as the inventory is replenished.

Cash provided by operating activities in the Exploration and Production segment may vary from period to period as a result of changes in the commodity prices of natural gas and crude oil. The Company uses various derivative financial instruments, including price swap agreements and no cost collars in an attempt to manage this energy commodity price risk.

Net cash provided by operating activities totaled \$20.6 million for the three months ended December 31, 2005, a decrease of \$38.5 million compared with the \$59.1 million provided by operating activities for the three months ended December 31, 2004. This decrease can be attributed to the timing of gas cost recovery in the Utility segment. It also can be attributed to the timing of federal tax payments and reflects the fact that the Company no longer has positive cash flow from its former Czech Republic operations, which were sold in July 2005. These decreases were partially offset by higher oil and gas revenues in the Exploration and Production segment and a decrease in hedging collateral deposits for the quarter ended December 31, 2005 in the Exploration and Production and Energy Marketing segments. Hedging collateral deposits serve as collateral for open positions on exchange-traded futures contracts, exchange-traded options and over-the-counter swaps and collars.

**Investing Cash Flow**

Expenditures for Long-Lived Assets

The Company's expenditures for long-lived assets totaled \$70.4 million during the three months ended December 31, 2005. The table below presents these expenditures:

Three Months Ended December 31, 2005 (in millions of dollars)	
	Total Expenditures for Long-Lived Assets
Utility	\$12.4
Pipeline and Storage	6.2
Exploration and Production	50.9
Timber	0.5
Corporate and All Other	0.4
	<b>\$70.4</b>

Utility

The majority of the Utility capital expenditures for the three months ended December 31, 2005 were made for replacement of mains and main extensions, as well as for the replacement of service lines.

Pipeline and Storage

The majority of the Pipeline and Storage capital expenditures for the three months ended December 31, 2005 were made for additions, improvements, and replacements to this segment's transmission and gas storage systems.

The Company continues to explore various opportunities to expand its capabilities to transport gas to the East Coast, either through the Supply Corporation or Empire systems or in partnership with others. In October 2005, Empire filed an application with the FERC for the authority to build and operate the Empire Connector project to expand its natural gas pipeline operations to serve new markets in New

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Cont.)**

York and elsewhere in the Northeast by extending the Empire Pipeline.\* Assuming the proposed Millennium Pipeline is constructed, the Empire Connector will provide an upstream supply link for Phase I of the Millennium Pipeline and will transport Canadian and other natural gas supplies to downstream customers, including KeySpan Gas East Corporation, which has entered into precedent agreements to subscribe for at least 150 MDth per day of natural gas transportation service through the Empire State Pipeline and the Millennium Pipeline systems.\* The Empire Connector will be designed to move up to approximately 250 MDth of natural gas per day.\* Empire anticipates that FERC will provide a determination on this application by November 2006.\* The targeted in-service date is November 2007.\* The Company anticipates financing this project with cash on hand and/or through the use of the Company's bi-lateral lines of credit.\* As of December 31, 2005, the Company had incurred approximately \$4.7 million in costs (all of which have been reserved) related to this project. Of this amount, \$0.7 million and \$1.7 million were incurred during the quarters ended December 31, 2005 and December 31, 2004, respectively.

The Company also plans to extend Supply Corporation's pipeline system from the Tuscarora storage field to the intersection of the proposed Millennium and Empire Connector pipelines (the Tuscarora Extension).\* The Tuscarora Extension will be designed initially to move up to approximately 130 MDth of natural gas per day.\* The targeted in-service date is late in calendar 2007 or early in calendar 2008.\* The Company anticipates financing this project with cash on hand and/or through the use of the Company's bi-lateral lines of credit.\* The Tuscarora Extension is contingent on market developments, and the Company has not yet filed an application with the FERC for the authority to build and operate it. There have been no costs incurred by the Company related to this project as of December 31, 2005.

Exploration and Production

The Exploration and Production segment capital expenditures for the three months ended December 31, 2005 included approximately \$12.1 million for Canada, \$24.0 million for the Gulf Coast region (\$24.0 million for the off-shore program in the Gulf of Mexico), \$9.4 million for the West Coast region and \$5.4 million for the Appalachian region. The significant amount spent in the Gulf Coast region is related to high commodity prices, which has improved the economics of investment in the area. These amounts included approximately \$8.0 million spent to develop proved undeveloped reserves.

Timber

The majority of the Timber segment capital expenditures for the three months ended December 31, 2005 were made for purchases of equipment for Highland's sawmill and kiln operations.

Corporate and All Other

The majority of the Corporate and All Other capital expenditures for the three months ended December 31, 2005 were for the construction of a distributed generation facility at the Company's corporate headquarters.

The Company continuously evaluates capital expenditures and investments in corporations, partnerships, and other business entities. The amounts are subject to modification for opportunities such as the acquisition of attractive oil and gas properties, timber or natural gas storage facilities and the expansion of natural gas transmission line capacities. While the majority of capital expenditures in the Utility segment are necessitated by the continued need for replacement and upgrading of mains and service lines, the magnitude of future capital expenditures or other investments in the Company's other business segments depends, to a large degree, upon market conditions.\*

**Financing Cash Flow**

Consolidated short-term debt increased \$74.8 million during the three months ended December 31, 2005. The Company continues to consider short-term debt (consisting of short-term notes payable to

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banks and commercial paper) an important source of cash for temporarily financing capital expenditures and investments in corporations and/or partnerships, gas-in-storage inventory, unrecovered purchased gas costs, margin calls on derivative financial instruments, exploration and development expenditures and other working capital needs. Fluctuations in these items can have a significant impact on the amount and timing of short-term debt. At December 31, 2005, the Company had outstanding short-term notes payable to banks of \$74.8 million. There was no outstanding commercial paper at December 31, 2005. The Company had SEC authorization under PUHCA 1935 to borrow and have outstanding as much as \$750.0 million of short-term debt at any time through February 8, 2006. PUHCA 1935 was repealed effective February 8, 2006, and as of that date the Company no longer needs authorization from the SEC under that act to issue short-term debt. As for bank loans, the Company maintains a number of individual (bi-lateral) uncommitted or discretionary lines of credit with certain financial institutions for general corporate purposes. Borrowings under these lines of credit are made at competitive market rates. Each of these credit lines, which aggregate to \$420.0 million, are revocable at the option of the financial institutions and are reviewed on an annual basis. The Company anticipates that these lines of credit will continue to be renewed.\* The total amount available to be issued under the Company's commercial paper program is \$200.0 million. The commercial paper program is backed by a syndicated committed credit facility which totals \$300.0 million and extends through September 30, 2010. The Company plans to increase the size of its commercial paper program from \$200.0 million to \$300.0 million.\*

Under the Company's committed credit facility, the Company has agreed that its debt to capitalization ratio will not exceed .65 at the last day of any fiscal quarter from September 30, 2005 through September 30, 2010. At December 31, 2005, the Company's debt to capitalization ratio (as calculated under the facility) was .48. The constraints specified in the committed credit facility would permit an additional \$1.25 billion in short-term and/or long-term debt to be outstanding (further limited by the indenture covenants discussed below) before the Company's debt to capitalization ratio would exceed .65. If a downgrade in any of the Company's credit ratings were to occur, access to the commercial paper markets might not be possible.\* However, the Company expects that it could borrow under its uncommitted bank lines of credit or rely upon other liquidity sources, including cash provided by operations.\*

Under the Company's existing indenture covenants, at December 31, 2005, the Company would have been permitted to issue up to a maximum of \$837.0 million in additional long-term unsecured indebtedness at then-current market interest rates in addition to being able to issue new indebtedness to replace maturing debt. The Company's present liquidity position is believed to be adequate to satisfy known demands.\*

The Company's 1974 indenture, pursuant to which \$399.0 million (or 35%) of the Company's long-term debt (as of December 31, 2005) was issued, contains a cross-default provision whereby the failure by the Company to perform certain obligations under other borrowing arrangements could trigger an obligation to repay the debt outstanding under the indenture. In particular, a repayment obligation could be triggered if the Company fails (i) to pay any scheduled principal or interest on any debt under any other indenture or agreement or (ii) to perform any other term in any other such indenture or agreement, and the effect of the failure causes, or would permit the holders of the debt to cause, the debt under such indenture or agreement to become due prior to its stated maturity, unless cured or waived.

The Company's \$300.0 million committed credit facility also contains a cross-default provision whereby the failure by the Company or its significant subsidiaries to make payments under other borrowing arrangements, or the occurrence of certain events affecting those other borrowing arrangements, could trigger an obligation to repay any amounts outstanding under the committed credit facility. In particular, a repayment obligation could be triggered if (i) the Company or any of its significant subsidiaries fails to make a payment when due of any principal or interest on any other indebtedness aggregating \$20.0 million or more or (ii) an event occurs that causes, or would permit the holders of any other indebtedness aggregating \$20.0 million or more to cause, such indebtedness to become due prior to its stated maturity. As of December 31, 2005, the Company had no debt outstanding under the committed credit facility.

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The Company also had authorization from the SEC, under PUHCA 1935 to issue long-term debt securities and equity securities in an aggregate amount of up to \$1.5 billion during the period from November 2002 through February 8, 2006. As a result of the repeal of PUHCA 1935 (effective February 8, 2006), the Company no longer needs authorization under that act to issue long-term debt securities and equity securities. The Company has an effective registration statement on file with the SEC under which it has available capacity to issue an additional \$550.0 million of debt and equity securities under the Securities Act of 1933. The Company may sell all or a portion of the remaining registered securities if warranted by market conditions and the Company's capital requirements. Any offer and sale of the above mentioned \$550.0 million of debt and equity securities will be made only by means of a prospectus meeting the requirements of the Securities Act of 1933 and the rules and regulations thereunder.

The amounts and timing of the issuance and sale of debt or equity securities will depend on market conditions, indenture requirements, regulatory authorizations and the capital requirements of the Company.

On December 8, 2005, the Company's board of directors authorized the Company to implement a share repurchase program, whereby the Company may repurchase outstanding shares of common stock, up to an aggregate amount of 8 million shares in the open market or through privately negotiated transactions. It is expected that this share repurchase program will be funded with cash provided by operating activities and/or through the use of the Company's bi-lateral lines of credit.\* Currently, no shares have been repurchased under this program, but it is expected that open market repurchases will begin in February 2006 and continue from time to time depending on market conditions.\*

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has entered into certain off-balance sheet financing arrangements. These financing arrangements are primarily operating and capital leases. The Company's consolidated subsidiaries have operating leases, the majority of which are with the Utility and the Pipeline and Storage segments, having a remaining lease commitment of approximately \$49.8 million. These leases have been entered into for the use of buildings, vehicles, construction tools, meters, computer equipment and other items and are accounted for as operating leases. The Company's unconsolidated subsidiaries, which are accounted for under the equity method, have capital leases of electric generating equipment having a remaining lease commitment of approximately \$8.4 million. The Company has guaranteed 50% or \$4.2 million of these capital lease commitments.

**OTHER MATTERS**

The Company is involved in litigation arising in the normal course of business. Also in the normal course of business, the Company is involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, compliance with regulations, rate base, cost of service and purchased gas cost issues, among other things. While the resolution of such litigation or regulatory matters could have a material effect on earnings and cash flows in the quarterly and annual period of resolution, none of this litigation, and none of these regulatory matters, are expected to change materially the Company's present liquidity position, nor have a material adverse effect on the financial condition of the Company.\*

**Market Risk Sensitive Instruments**

For a complete discussion of market risk sensitive instruments, refer to "Market Risk Sensitive Instruments" in Item 7 of the Company's 2005 Form 10-K. There have been no subsequent material changes to the Company's exposure to market risk sensitive instruments.

**Rate and Regulatory Matters**

**Energy Policy Act**

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On August 8, 2005, President Bush signed into law the Energy Policy Act, which, among other things, repealed PUHCA 1935 effective February 8, 2006. With repeal of PUHCA 1935, the Company is no longer subject to that act's broad regulatory provisions, including provisions relating to the issuance of securities, sales and acquisitions of securities and utility assets, intra-company transactions and limitations on diversification. The Energy Policy Act includes PUHCA 2005, which, among other things, grants the FERC and state public utility regulatory commissions access to certain books and records of companies in holding company systems, provides (upon request of a state commission or holding company system) for FERC review of allocations of costs of non-power goods and administrative services in electric utility holding company systems, and modifies the jurisdiction of FERC over certain mergers and acquisitions involving public utilities or holding companies. On December 8, 2005, pursuant to PUHCA 2005, the FERC issued Order 667. As required by Order 667, the Company will file a "Notification of Holding Company Status" with the FERC by March 10, 2006. Certain subsidiaries of the Company may be eligible for exemption from the requirements of PUHCA 2005 and Order 667. The Company is in the process of evaluating that matter and may file appropriate exemption notifications with the FERC. The Company is unable to predict at this time what the ultimate outcome of these or future legislative or regulatory changes will be. The Company is still in the process of analyzing the effect of the Energy Policy Act on the Company, including the effects of any related proceeding at the state level and new regulations at the federal level.

**Utility Operation**

Base rate adjustments in both the New York and Pennsylvania jurisdictions do not reflect the recovery of purchased gas costs. Such costs are recovered through operation of the purchased gas adjustment clauses of the appropriate regulatory authorities.

**New York Jurisdiction**

On August 27, 2004, Distribution Corporation filed proposed tariff amendments and supporting testimony designed to increase its annual revenues by \$41.3 million beginning October 1, 2004. Parties, including the NYPSC Staff, the New York State Consumer Protection Board, Multiple Intervenors (an advocate for large commercial and industrial customers), natural gas marketers and others, filed responsive testimony recommending a base rate decrease, among other things. Thereafter, the Parties and other interests commenced settlement negotiations. On April 15, 2005, Distribution Corporation, the Parties and others executed an agreement settling all outstanding issues. In an order issued July 22, 2005, the NYPSC, approved the April 15, 2005 settlement agreement, substantially as filed, for an effective date of August 1, 2005. The settlement agreement provides for a rate increase of \$21 million by means of the elimination of bill credits (\$5.8 million) and an increase in base rates (\$15.2 million). For the two-year term of the agreement and thereafter, the return on equity level above which earnings must be shared with rate payers will be 11.5%.

**Pennsylvania Jurisdiction**

On September 15, 2004, Distribution Corporation filed proposed tariff amendments with PaPUC to increase annual revenues by \$22.8 million to cover increases in the cost of service to be effective November 14, 2004. The rate request was filed to address throughput reductions and increased operating costs such as uncollectibles and personnel expenses. Applying standard procedure, the PaPUC suspended Distribution Corporation's tariff filing to perform an investigation and hold hearings. On February 16, 2005, the parties reached a settlement of all issues. The settlement was submitted to the Administrative Law Judge, who, on March 2, 2005 issued a decision recommending adoption of the settlement. The settlement provides for a base rate increase of \$12.0 million and terminates the tracking of pension expenses versus the rate allowance. The settlement was approved by PaPUC on March 23, 2005, and the new rates went into effect on April 15, 2005.

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**Pipeline and Storage**

Supply Corporation currently does not have a rate case on file with the FERC. Management will continue to monitor Supply Corporation's financial position to determine the necessity of filing a rate case in the future.

On November 25, 2003, the FERC issued Order 2004. Order 2004 was clarified in Order 2004-A on April 16, 2004 and Order 2004-B on August 2, 2004. Order 2004, which went into effect September 22, 2004, regulates the conduct of transmission providers (such as Supply Corporation) with their "energy affiliates." The FERC broadened the definition of "energy affiliates" to include any affiliate of a transmission provider if that affiliate engages in or is involved in transmission (gas or electric) transactions, or manages or controls transmission capacity, or buys, sells, trades or administers natural gas or electric energy or engages in financial transactions relating to the sale or transmission of natural gas or electricity. Supply Corporation's principal energy affiliates are Seneca, NFR and, possibly, Distribution Corporation.\* Order 2004 provides that companies may request waivers, which the Company has done with respect to Distribution Corporation and is awaiting rulings. Order 2004 also provides an exemption for local distribution companies that are affiliated with interstate pipelines (such as Distribution Corporation), but the exemption is limited, with very minor exceptions, to local distribution corporations that do not make any off-system sales. Distribution Corporation stopped making such off-system sales effective September 22, 2004, although it continues to make certain sales permitted by a prior FERC order; FERC has required Supply Corporation to provide arguments justifying the continued effectiveness of that order. Supply Corporation and Distribution Corporation would like to continue operating as they do, whether by waiver, amendment or further clarification of the new rules, or by complying with the requirements applicable if Distribution Corporation were an energy affiliate. Treating Distribution Corporation as an energy affiliate, without any waivers, would require changes in the way Supply Corporation and Distribution Corporation operate which would decrease efficiency, but probably would not increase capital or operating expenses to an extent that would be material to the financial condition of the Company.\* Until there is further clarification from the FERC on the scope of these exemptions and rulings on the Company's waiver requests, the Company is unable to predict the impact Order 2004 will have on the Company. As previously mentioned, Distribution Corporation stopped making off-system sales, effective September 22, 2004. The Company does not expect that change to have a material effect on the Company's results of operations, as margins resulting from off-system sales are minimal as a result of profit sharing with retail customers.\*

Empire currently does not have a rate case on file with the NYPSC. Management will continue to monitor its financial position in the New York jurisdiction to determine the necessity of filing a rate case in the future. Among the issues that will be resolved in connection with Empire's FERC application to build the Empire Connector are the rates and terms of service that would become applicable to all of Empire's business, effective upon Empire accepting the FERC certificate and placing its new facilities into service (currently targeted for November 2007), when Empire would become an interstate pipeline subject to FERC regulation.\*

**Environmental Matters**

The Company is subject to various federal, state and local laws and regulations relating to the protection of the environment. The Company has established procedures for the ongoing evaluation of its operations to identify potential environmental exposures and comply with regulatory policies and procedures. It is the Company's policy to accrue estimated environmental clean-up costs (investigation and remediation) when such amounts can reasonably be estimated and it is probable that the Company will be required to incur such costs. The Company has estimated its remaining clean-up costs related to former manufactured gas plant sites and third party waste disposal site will be \$3.7 million.\* This liability has been recorded on the Consolidated Balance Sheet at December 31, 2005. The Company expects to recover its environmental clean-up costs from a combination of rate recovery and insurance proceeds.\* Other than as discussed in Note G of the 2005 Form 10-K (referred to below), the Company is currently not aware of any material additional exposure to environmental liabilities. However, adverse changes in environmental regulations or other factors could impact the Company.\*

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Cont.)**

For further discussion refer to Note G - Commitments and Contingencies under the heading "Environmental Matters" in Item 8 of the 2005 Form 10-K, and to Part II, Item 1, "Legal Proceedings."

**New Accounting Pronouncements**

In March 2005, the FASB issued FIN 47, an interpretation of SFAS 143. FIN 47 provides additional guidance on the term "conditional asset retirement obligation" as used in SFAS 143, and in particular the standard clarifies when a Company must record a liability for a conditional asset retirement obligation. The Company is currently evaluating the impact of FIN 47, if any, on its consolidated financial statements. For further discussion of FIN 47 and its impact on the Company, refer to Item 1 at Note 1 – Summary of Significant Accounting Policies.

In May 2005, the FASB issued SFAS 154. SFAS 154 replaces APB 20 and SFAS 3 and changes the requirements for the accounting for and reporting of a change in accounting principle. The Company's financial condition and results of operations will only be impacted by SFAS 154 if there are any accounting changes or corrections of errors in the future. For further discussion of SFAS 154 and its impact on the Company, refer to Item 1 at Note 1 – Summary of Significant Accounting Policies.

**Safe Harbor for Forward-Looking Statements**

The Company is including the following cautionary statement in this Form 10-Q to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements include statements concerning plans, objectives, goals, projections, strategies, future events or performance, and underlying assumptions and other statements which are other than statements of historical facts. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are also expressly qualified by these cautionary statements. *Certain statements contained in this report, including, without limitation, those which are designated with an asterisk ("\*") and those which are identified by the use of the words "anticipates," "estimates," "expects," "intends," "plans," "predicts," "projects," and similar expressions, are "forward-looking" statements as defined in the Private Securities Litigation Reform Act of 1995 and accordingly involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. The forward-looking statements contained herein are based on various assumptions, many of which are based, in turn, upon further assumptions. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including, without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties, but there can be no assurance that management's expectations, beliefs or projections will result or be achieved or accomplished. In addition to other factors and matters discussed elsewhere herein, the following are important factors that, in the view of the Company, could cause actual results to differ materially from those discussed in the forward-looking statements:*

1. Changes in laws and regulations to which the Company is subject, including changes in tax, environmental, safety and employment laws and regulations, and changes in laws and regulations relating to repeal of the Holding Company Act;
2. Changes in economic conditions, including economic disruptions caused by terrorist activities, acts of war or major accidents;
3. Changes in demographic patterns and weather conditions, including the occurrence of severe weather, such as hurricanes;
4. Changes in the availability and/or price of natural gas or oil and the effect of such changes on the accounting treatment or valuation of derivative financial instruments or the Company's natural gas and oil reserves;

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Cont.)**

5. Impairments under the SEC's full cost ceiling test for natural gas and oil reserves;
6. Changes in the availability and/or price of derivative financial instruments;
7. Changes in the price differentials between various types of oil;
8. Failure of the price differential between heavy sour crude oil and light sweet crude oil to return to its historical norm;
9. Inability to obtain new customers or retain existing ones;
10. Significant changes in competitive factors affecting the Company;
11. Governmental/regulatory actions, initiatives and proceedings, including those involving acquisitions, financings, rate cases (which address, among other things, allowed rates of return, rate design and retained gas), affiliate relationships, industry structure, franchise renewal, and environmental/safety requirements;
12. Unanticipated impacts of restructuring initiatives in the natural gas and electric industries;
13. Significant changes from expectations in actual capital expenditures and operating expenses and unanticipated project delays or changes in project costs or plans, including changes in the plans of the sponsors of the proposed Millennium Pipeline with respect to that project;
14. The nature and projected profitability of pending and potential projects and other investments;
15. Occurrences affecting the Company's ability to obtain funds from operations, debt or equity to finance needed capital expenditures and other investments, including any downgrades in the Company's credit ratings;
16. Uncertainty of oil and gas reserve estimates;
17. Ability to successfully identify and finance acquisitions or other investments and ability to operate and integrate existing and any subsequently acquired business or properties;
18. Ability to successfully identify, drill for and produce economically viable natural gas and oil reserves;
19. Significant changes from expectations in the Company's actual production levels for natural gas or oil;
20. Regarding foreign operations, changes in trade and monetary policies, inflation and exchange rates, taxes, operating conditions, laws and regulations related to foreign operations, and political and governmental changes;
21. Significant changes in tax rates or policies or in rates of inflation or interest;
22. Significant changes in the Company's relationship with its employees or contractors and the potential adverse effects if labor disputes, grievances or shortages were to occur;
23. Changes in accounting principles or the application of such principles to the Company;
24. The cost and effects of legal and administrative claims against the Company;
25. Changes in actuarial assumptions and the return on assets with respect to the Company's retirement plan and post-retirement benefit plans;

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Concl.)**

26. Increasing health care costs and the resulting effect on health insurance premiums and on the obligation to provide post-retirement benefits; or
27. Increasing costs of insurance, changes in coverage and the ability to obtain insurance.

The Company disclaims any obligation to update any forward-looking statements to reflect events or circumstances after the date hereof.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Refer to the "Market Risk Sensitive Instruments" section in Item 2 – MD&A.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. These rules refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed is *accumulated and communicated to the company's management, including its principal executive and principal financial officers*, as appropriate to allow timely decisions regarding required disclosure. The Company's management, including the Chief Executive Officer and Principal Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

**Changes in Internal Controls Over Financial Reporting**

The management of the Company maintains a system of internal control over financial reporting that is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with GAAP. There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II. Other Information**

**Item 1. Legal Proceedings**

In an action instituted in the New York State Supreme Court, Chautauqua County on January 31, 2000 against Seneca, NFR and "National Fuel Gas Corporation," Donald J. and Margaret Ortel and Brian and Judith Rapp, "individually and on behalf of all those similarly situated," allege, in an amended complaint which adds National Fuel Gas Company as a party defendant that (a) Seneca underpaid royalties due under leases operated by it, and (b) Seneca's co-defendants (i) fraudulently participated in and concealed such alleged underpayment, and (ii) induced Seneca's alleged breach of such leases. Plaintiffs seek an accounting, declaratory and related injunctive relief, and compensatory and exemplary damages. Defendants have denied each of plaintiffs' material substantive allegations and set up twenty-five affirmative defenses in separate verified answers.

A motion was made by plaintiffs on July 15, 2002 to certify a class comprising all persons presently and formerly entitled to receive royalties on the sale of natural gas produced and sold from wells operated in New York by Seneca (and its predecessor Empire Exploration, Inc). On December 23,

**Item 1. Legal Proceedings (Cont.)**

2002, the court granted certification of the proposed class, as modified to exclude those leaseholders whose leases provide for calculation of royalties based upon a flat fee, or flat fee per cubic foot of gas produced. The court's order states that there are approximately 749 potential class members. Discovery closed on July 31, 2005, and the plaintiffs thereafter filed a formal demand for a jury trial and a "Note of Issue and Statement of Readiness" to proceed to trial. A trial date has not been set.

On October 13, 2005, the Company and the attorneys for the class entered into a Stipulation of Settlement, under which (i) the class would be expanded for purposes of settlement to include similarly situated persons entitled to royalties on natural gas production in Pennsylvania, (ii) the Company would pay \$2.25 million to the plaintiffs to settle all damages, interest, legal fees and costs, and (iii) the Company would comply with various procedures set out in the Stipulation regarding the marketing of natural gas produced and the calculation of royalties. A fairness hearing was held on December 19, 2005, at which no interested parties objected to the settlement. On January 27, 2006, the judge issued an order approving the settlement as fair, reasonable and adequate. The Company's balance sheets at December 31, 2005 and September 30, 2005 include a liability for the \$2.25 million settlement. Subsequent periodic filings will not include any further discussion of this matter.

In an action instituted in the New York State Supreme Court, Kings County on February 18, 2003 against Distribution Corporation and Paul J. Hissin, an unaffiliated third party, plaintiff Donna Fordham-Coleman, as administratrix of the estate of Velma Arlene Fordham, alleges that Distribution Corporation's denial of natural gas service in November 2000 to the plaintiff's decedent, Velma Arlene Fordham, caused decedent's death in February 2001. The plaintiff seeks damages for wrongful death and pain and suffering, plus punitive damages. Distribution Corporation has denied plaintiff's material allegations, set up seven affirmative defenses in separate verified answers and filed a cross-claim against the co-defendant. Distribution Corporation believes, and will vigorously assert, that plaintiff's allegations lack merit. The Court changed venue of the action to New York State Supreme Court, Erie County. Discovery has closed. Distribution Corporation filed a motion for summary judgment and is awaiting the Court's decision on that motion. A trial date has been scheduled for February 27, 2006.

On December 22, 2003, the Pennsylvania Department of Environmental Protection (DEP) issued an order to Seneca to halt its timber harvesting operations on 21,000 acres in Cameron, Elk and McKean counties in Pennsylvania. The order asserts certain violations of DEP regulations concerning erosion, sedimentation and stream crossings. The order requires Seneca to apply for certain permits, control erosion, submit plans for removal of water encroachments not included in permit applications, notify the DEP of additional current or planned timber harvesting operations, and grant the DEP access to timber acreage. On January 9, 2004, Seneca filed with the Pennsylvania Environmental Hearing Board (Hearing Board) a notice of appeal, objecting to each finding and order contained in the order, and asserting that the DEP's findings are factually incorrect, an arbitrary exercise of the DEP's functions and duties, and contrary to law. Also on January 9, 2004, Seneca filed with the Hearing Board a petition requesting a stay of operation of portions of the order. On January 16, 2004, the parties settled Seneca's request for a stay. Seneca has resumed its timber harvesting operations pursuant to the terms of the settlement. The settlement preserves various issues raised by the DEP's order for a hearing on the merits of Seneca's notice of appeal. Seneca is engaged in settlement negotiations regarding this matter.\* The most substantial question in the appeal involves whether Seneca is required to apply for a permit under Section 102.5(b) of Title 25 of the Pennsylvania Code, governing earth disturbance activities of greater than 25 acres. The DEP takes the position that Seneca must aggregate the acreage of all of its logging sites across its entire 21,000 acre tract for purposes of determining whether its earth disturbing activities meet the 25 acres threshold. Seneca maintains that no permit is required, because the law does not require aggregation and each of its individual logging sites disturbs less than 25 acres.

The Company believes, based on the information presently known, that the ultimate resolution of these matters, individually or in the aggregate, will not be material to the consolidated financial condition, results of operations, or cash flow of the Company.\* No assurances can be given, however, as to the ultimate outcomes of these matters, and it is possible that the outcomes, individually or in the aggregate, could be material to results of operations or cash flow for a particular quarter or annual period.\*

**Item 1. Legal Proceedings (Concl.)**

For a discussion of various environmental and other matters, refer to Part I, Item 1 at Note 4 and Part I, Item 2 - MD&A of this report under the heading "Environmental Matters."

The Company is involved in litigation arising in the normal course of business. Also in the normal course of business, the Company is involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, compliance with regulations, rate base, cost of service and purchased gas cost issues, among other things. While the resolution of such litigation or regulatory matters could have a material effect on earnings and cash flows in the period of resolution, none of this litigation, and none of these regulatory matters, are expected to change materially the Company's present liquidity position, nor have a material adverse effect on the financial condition of the Company.\*

**Item 1A. Risk Factors**

For a complete discussion of risk factors, refer to "Risk Factors" in Item 1A of the 2005 Form 10-K. There have been no subsequent material changes to that disclosure.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On October 16, 2005 the Company issued a total of 2,100 unregistered shares of Company common stock to the seven non-employee directors of the Company then serving on the Board of Directors, 300 shares to each such director. All of these unregistered shares were issued as partial consideration for the directors' services during the quarter ended December 31, 2005, pursuant to the Company's Retainer Policy for Non-Employee Directors. These transactions were exempt from registration by Section 4(2) of the Securities Act of 1933 as transactions not involving a public offering.

**Issuer Purchases of Equity Securities**

Period	Total Number of Shares Purchased <sup>(a)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Share Repurchase Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under Share Repurchase Plans or Programs <sup>(b)</sup>
Oct. 1-31, 2005	11,675	\$32.68	-	-
Nov. 1-30, 2005	11,268	\$29.83	-	-
Dec. 1-31, 2005	47,953	\$32.05	-	8,000,000
Total	70,896	\$31.80	-	8,000,000

<sup>(a)</sup> Represents (i) shares of common stock of the Company purchased on the open market with Company "matching contributions" for the accounts of participants in the Company's 401(k) plans, and (ii) shares of common stock of the Company tendered to the Company by holders of stock options or shares of restricted stock for the payment of option exercise prices and/or applicable withholding taxes.

<sup>(b)</sup> On December 8, 2005, the Company's Board of Directors authorized the repurchase of up to eight million shares of the Company's common stock. Repurchases may be made from time to time in the open market or through private transactions.

**Item 6. Exhibits**

(a) Exhibits

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10	Material Contracts:

Item 6. Exhibits (Concl.)

- 10.1 National Fuel Gas Company Tophat Plan, dated December 7, 2005.
- 10.2 Description of performance goals for Chief Executive Officer under the Company's Annual At Risk Compensation Incentive Program.
- 12 Statements regarding Computation of Ratios:  
  
Ratio of Earnings to Fixed Charges for the Twelve Months Ended December 31, 2005 and the Fiscal Years Ended September 30, 2001 through 2005.
- 31.1 Written statements of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934.
- 31.2 Written statements of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934.
- 32 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99 National Fuel Gas Company Consolidated Statement of Income for the Twelve Months Ended December 31, 2005 and 2004.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL FUEL GAS COMPANY  
(Registrant)

/s/ R. J. Tanski  
R. J. Tanski  
Treasurer and Principal Financial Officer

/s/ K. M. Camiolo  
K. M. Camiolo  
Controller and Principal Accounting Officer

Date: February 9, 2006