UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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Sea Robin Pipeline Company, LLC	)	**Docket No. RP07-___-000**
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PREPARED DIRECT TESTIMONY OF ROBERT B. HEVERT

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name, affiliation, and business address.

A. My name is Robert B. Hevert, and I am President of Concentric Energy Advisors, Inc. ("CEA"), located at 313 Boston Post Road West, Suite 210, Marlborough, Massachusetts 01752.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of Sea Robin Pipeline Company, LLC ("Sea Robin" or the "Company").

Q. Please describe your experience in the energy and utility industries.

A. I have previously served as an executive and manager with other consulting firms (*i.e.* REED Consulting Group and Navigant Consulting, Inc.), and as a financial officer of Bay State Gas Company. I have provided testimony regarding strategic and financial matters, including the cost of capital, before several state utility regulatory agencies and the Federal Energy Regulatory Commission (the "FERC" or the "Commission"), and have advised numerous energy and utility clients on a wide range of financial and economic issues including both asset and corporate-based transactions. Many of those assignments have included the determination of the cost of capital for transaction and valuation purposes. A summary of my professional and educational background is provided in Exhibit No. SR-45 to my testimony.

Q. Please describe CEA's activities in energy and utility engagements.

A. CEA provides financial and economic advisory services to a large number of energy and utility clients across North America. Our financial advisory activities include buy and sell-side merger, acquisition and divestiture engagements; due diligence and valuation engagements, including the provision of fairness opinions; project and corporate finance services; and transaction support services. Our economic and market analysis services include utility ratemaking and regulatory advisory services, energy market assessments, market entry and exit analysis, and energy contract negotiations.

II. PURPOSE AND OVERVIEW OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present evidence and provide a recommendation regarding the Company's return on equity ("ROE"). My analyses and recommendations are supported by the data presented in Exhibit Nos. SR-46 through SR-58.

Q. What are your conclusions regarding the appropriate ROE for Sea Robin?

A. Based on my analyses, I have concluded that the Company should be provided the opportunity to earn a ROE in the range of approximately 11.00 percent to approximately 13.70 percent. Taking into consideration the relative level of business risk faced by the Company, I recommend an equity cost rate of 13.50 percent. This equity return will adequately compensate investors for their investment in the capital of the Company and will provide the Company with the opportunity to attract new capital on reasonable terms.

Q. Please provide a brief overview of the analyses that led to your conclusions.

A. Consistent with Commission precedent, my analyses and recommendation are based primarily on the two-stage Discounted Cash Flow ("DCF") model. My application of the DCF model and analytical results are based on third-party analyst growth projections, as well as market-based information including current annual dividends (or distributions), and recent stock (or unit) prices. In applying and assessing the results of my DCF analyses, I considered certain costs and trends, including the fundamental business risks currently facing the natural gas pipeline industry in general and the Company in particular. In addition, I have reviewed my DCF results relative to other widely used ROE estimation methodologies and benchmarks.

The Commission, Sea Robin and other interstate gas companies are at a crossroads in re-evaluating the methodologies employed in their application of the DCF model for purposes of determining ROE. As a result of industry consolidation, financial instability, and diminished involvement in regulated interstate gas pipeline operations, the historical proxy group no longer provides a reasonable comparison for a financially stable interstate gas pipeline. As a practical matter, there is only one corporate pipeline company (the Williams Companies) that possibly could be considered a proxy for Sea Robin. Moreover (as discussed in more detail later in my testimony), natural gas Local Distribution Companies ("LDCs") in general, and the three LDCs used as comparison companies in recent FERC proceedings in particular, recently have been trading at unusually high valuation multiples with correspondingly low dividend yields. Consequently, DCF results based on those companies are inherently biased. In fact, based on current market data, DCF results for the three LDC's are substantially below returns that have recently been authorized (on average for natural gas pipelines). Under these conditions, in which there is no viable corporate pipeline proxy group and the potential LDC proxy companies render unreasonable DCF results, it is necessary to consider alternative approaches to estimating the Company's ROE. As such, I have relied upon multiple analytical approaches, and for the reasons discussed later in my testimony, have incorporated certain Master Limited Partnerships ("MLPs") in my analysis.

The need to consider MLPs as proxy entities also has been addressed in a recent INGAA white paper, in which the process used by the Commission to establish ROEs for natural gas pipelines was examined, particularly in the following three areas: (1) the Commission's past practice, (2) the implications of excluding MLPs from a DCF analysis of interstate gas companies; and (3) the shortcomings of the DCF analysis in itself. INGAA's concluding statement with respect to the treatment of MLPs is a fair summary of the industry's position on this issue:

> This report does not suggest that the DCF methodology is so flawed that the Commission should cease using it to calculate pipeline returns. But the Commission must recognize the increasingly important role that MLPs play in the interstate pipeline industry by including an appropriate mix of MLPs in the proxy group...[1]

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1 INGAA, *Allowed Returns on Equity in the Interstate Gas Pipeline Industry Issues and Options Regarding the FERC DCF Approach*, dated August 24, 2006, at 6.

The Commission likewise has recognized that there are an insufficient number of publicly traded pipeline corporations to form a reasonable proxy group and as such, has allowed the use of LDCs as proxies for pipeline companies. The Commission also found, however, that "LDCs face lower risks (relative to interstate pipelines) due to the nature of their operations."[2] Since the DCF results for the LDCs are well below other observable, practical benchmarks, the use of natural gas LDCs as proxies for a pipeline would create a significant downward bias in the determination of the Company's ROE. Consequently, it now is extremely important to consider alternative methodologies and proxy entities when determining the appropriate ROE for Sea Robin.

Q. Does the Commission oppose the inclusion of MLPs in the proxy group that is relied upon to establish the appropriate return on equity for a natural gas pipeline?

A. No. In its recent *Kern River* decision, the Commission noted that while MLPs were not included in the proxy group in that proceeding they were "not making a generic finding that MLPs cannot, in future cases, be considered for inclusion in the proxy group if a proper evidentiary showing is made".[3] Rather, the Commission stated that in order for MLPs to be included in the proxy group, it would be necessary to demonstrate that "distributions used as the 'dividend' include(s) only a payment of earnings and not a return of investment".[4] The Commission's concern appears to

2 See *Kern River Gas Transmission Company*, 117 FERC ¶ 61,077 (2006) at 72. Clarification added.
3 *Kern River*, p. 63.
4 *HIOS*, 110 FERC at p. 126.

be that, to the extent that MLP distributions include a return of capital, both the yield and growth components of the DCF model may be biased:

> If the growth forecasted for an MLP comes from external capital, it is necessary either (1) to explain why the external sources of capital do not distort the DCF result for that MLP, or (2) propose an adjustment to the DCF analysis to eliminate any distortion.[5]

More recently, the Commission invited interested parties to provide comments regarding the inclusion of MLPs in proxy groups, or an alternative calculation to the DCF as a method of determining the return on equity.[6]

Q. Have you performed any analyses to address the Commission's concern in that regard?

A. Yes. As discussed in more detail later in my testimony, I first analyzed whether projected distributions are expected to be paid out of operating cash flows (including distributions to the General Partner). In each case for which such projections were available, I found that distributions were expected to be made entirely from internally generated funds. Based on that analysis, I concluded that the MLP distribution yields were not biased by the source of funds underlying the projected distributions.

In order to address the Commission's concern that the comparatively high MLP yields (relative to corporate entities) did not unduly "distort" the expected growth rates, I compared the relative contributions of the yield and growth components to the DCF results for a proxy group of MLPs, the Williams Companies (which, as discussed later herein, is the sole corporate pipeline company that is eligible to be

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5 *Kern River*, paragraph 152.

6 118 FERC ¶ 61,252 (2007).

included as a proxy company) and the three LDCs referenced in *Kern River*. As expected, the growth component represented a substantially smaller portion of the DCF result for the MLPs relative to the corporate entities. I concluded, therefore, that the MLP distribution yields appropriately result in lower expected growth rates. To assess whether the MLPs' growth is more dependent on external financing than the corporate companies, I examined the extent to which the analysts' consensus growth estimates (as provided by I/B/E/S) exceeded the implied "sustainable growth rate" (defined as the product of the earnings retained and the expected return on equity) for the MLPs and corporate entities, respectively. That analysis showed that analysts' growth expectations are considerably greater than the "sustainable growth" estimate for both groups, indicating that external financing is a significant element of expected long term growth for both MLPs and corporate entities. I therefore concluded that there is no basis to assume that the consensus MLP growth rates are "distorted" relative to corporate growth rates by virtue of external financing.

Finally, in order to assess the reasonableness of the DCF results (which are based in large part on a group of MLPs), I conducted a risk premium analysis based on the historical relationship between Commission-authorized ROEs and concurrent long-term interest rates. As discussed in more detail in Section VI, the results of that analysis were highly consistent with my median DCF results, providing further support for the position that the DCF results, based on a proxy group including MLPs, are not biased vis-à-vis corporate entities.

Q. How is the balance of your testimony organized?

A. My remaining testimony is organized into five sections. Section III discusses the regulatory guidelines and financial considerations pertinent to rate of return estimates. Section IV discusses current economic conditions that have a bearing on the determination of an appropriate rate of return. Section V discusses the criteria and approach for the selection of my proxy group of comparable companies. Section VI explains the data and methodologies in my analyses and my recommendation of the appropriate ROE for Sea Robin. Section VII summarizes my results and conclusions.

III. REGULATORY GUIDELINES AND FINANCIAL CONSIDERATIONS

Q. Please describe the guiding principles used in establishing the ROE for a regulated utility.

A. The United States Supreme Court's precedent-setting decisions in *Hope* and *Bluefield* established the standards for determining the fairness or reasonableness of a utility's allowed ROE. Among the standards established by the Court in those cases are: (i) consistency with other businesses having similar or comparable risks; and (ii) adequacy of the return to support credit quality and access to capital, while maintaining financial integrity. The *Hope* and *Bluefield* cases read, in pertinent part:

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be adequate, under efficient and economic management, to maintain and support

> its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.[7]
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> * * *
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> Rates which are not sufficient to yield a reasonable return on the value of the property used at the time it is being used to render the service are unjust, unreasonable and confiscatory...[8]
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> * * *
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> From the investor or company point of view, it is important that there be enough revenue not only for operating expenses, but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.[9]

Q. Why is it important for a utility to be allowed the opportunity to earn a return adequate to attract capital at reasonable terms?

A. There is a long history regarding the allowed return on equity, the role of capital structure, and the resulting cost of capital in the establishment of just and reasonable rates for utility services. Among the themes common to many Federal, State and Supreme Court cases is the principle that a utility's cost of capital (including its capital structure and allowed return on common equity) must be reflective of other enterprises having comparable risks acting independently in the financial markets. A return that is adequate to attract capital at reasonable terms

7 *Bluefield Waterworks & Improvement Company v. Public Service Commission of West Virginia*, 262 U.S. 679, at 692-693 (1923).

8 Id., at 690-692.

9 *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, at 603 (1944), ("Hope").

enables the utility to provide safe, reliable service while maintaining its financial integrity. In keeping with the *Hope* and *Bluefield* standards, that return should be commensurate with the returns expected elsewhere in the market for investments of equivalent risk. The consequence of the Commission's order in this case, therefore, should be to provide the Company with the opportunity to earn a return on equity that is: (1) adequate to attract capital at reasonable terms, thereby enabling it to provide safe, reliable natural gas storage service; (2) sufficient to ensure the financial integrity of the Company's gas transmission operations; and (3) commensurate with returns on investments in enterprises having corresponding risks. To the extent the Company is provided the opportunity to earn its market-based cost of capital, neither customers nor shareholders should be disadvantaged.

Q. Please discuss the importance of the allowed rate of return from the perspective of the capital markets.

A. The financial community continues to put the pipeline industry under intense scrutiny. There is little question, for example, that the rating agencies continue to focus on financial profiles and business risks for all pipeline companies. To that point, Standard & Poor's noted that:

> When evaluating the creditworthiness of natural gas pipeline companies, Standard & Poor's analysis begins with a qualitative assessment of a company's business risk profile. The company's financial metrics are then examined in light of its business risk profile, since companies with higher business risk require stronger financial metrics at the same rating category.[10]

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[10] Standard & Poors, *"Key Rating Factors for U.S. Natural Gas Pipelines"*, *Commentary Report* (10 August 2005): at 1.

Thus, the allowed rate of return should take into consideration capital market expectations relative to both earnings and risk.

Q. Has the Commission recognized the importance of establishing a rate of return that is commensurate with the risks incurred by equity investors?

A. Yes, in *SoCal*, the Commission concluded that "investors generally cannot be expected to purchase stock, if debt, which has less risk than stock, yields the same return".[11] As discussed later in my testimony, that conclusion is relevant to the DCF results for certain corporate pipeline and LDC companies in this case.

Q. What is the basis for your recommended ROE for Sea Robin?

A. My recommended ROE is based on a proxy group of publicly-traded corporations and Master Limited Partnerships with significant interstate natural gas pipeline operations. My recommendation relies on a range of reasonableness, determined by the high and low DCF results, and is supported by additional corroborating analyses. By selecting a group of entities with risks and business characteristics comparable to Sea Robin, I have ensured that my analysis in this proceeding comports with the *Hope* and *Bluefield* standards upon which my recommendation is based, as well as the FERC standard for natural gas pipelines, established in *Williston Basin*.[12] As such, my analyses result in a recommended ROE that is both commensurate with the Company's total risk (i.e., business risk and financial risk) and sufficient to attract capital at reasonable rates.

The Commission has stated its preference for the application of a Discounted Cash Flow ("DCF") model that incorporates both near-term earnings growth forecasts

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11 SoCal Edison, 92 FERC paragraph 61,070 at 61,266 (2002).

12 *Williston Basin Interstate Pipeline Company*, 104 FERC ¶ 61,036 (2003).

and longer-term estimates of macroeconomic growth (referred to herein as the "two-stage DCF" model). My testimony, therefore, relies heavily on the two-stage DCF model. As discussed in more detail later in my testimony, however, to the extent that LDCs are used as comparison companies, it will be very important to consider alternative ROE estimation methodologies. As such, I have performed a risk premium analysis based on FERC-authorized returns for corporate gas pipeline companies. As noted earlier, the results of that analysis is consistent with my median DCF results.

IV. CURRENT ECONOMIC CONDITIONS

Q. Please describe the business environment and risks currently facing interstate natural gas pipeline and storage companies.

A. Natural gas pipeline companies are faced with a series of regulatory, business and economic risks that, in aggregate, continue to exert competitive pressure, thereby influencing both business and financial risks. In general, shorter contract durations, counter-party credit risk, and pricing pressure resulting from the lower of cost or market based rates has increased the competitive nature of the natural gas pipeline business in general. Moreover, unbundling initiatives at the state jurisdictional level have provided end-users and shippers with an enhanced range of competitive alternatives that may enable shippers to shift risks to the pipelines by obtaining shorter term contracts or releasing capacity to other shippers.

Q. Is it your view that Sea Robin faces greater risk than other interstate pipeline and storage companies?

A. Yes. Based on my review of the Company's business and financial risks, Sea Robin faces greater overall operating risk than other natural gas gathering and transportation companies. As discussed in the testimony of Mr. Langston, Sea Robin is exposed to a number of business risks that in aggregate, render the Company considerably more risky than other natural gas gathering and pipeline systems. As Mr. Langston notes, those risks fall in several categories, including: (i) a lack of direct end-use markets; (ii) the offshore nature of the Sea Robin system; (iii) a high degree of dependence on shallow Gulf of Mexico drillings; (iv) declining production in the shallow water Gulf; (v) a high number of competitors and available capacity; (vi) dependence of volumetric charges for cost recovery due to the primarily interruptible customer base; (vii) limited ability to attract interconnection with growing deepwater supplies; (viii) higher projected operating costs due to hurricane-related risks, and; (ix) limited opportunities from offshore LNG deliveries.

As Mr. Langston explains, these risks distinguish Sea Robin from other gathering and transportation systems. The fact that there are no end-use markets connected to the Sea Robin system, for example, results in multiple contracting and operating requirements for its customers. These costs can be avoided by the Company's customers by delivering from offshore platforms directly to transportation systems with large, directly connected markets, resulting in a competitive disadvantage for Sea Robin. As Mr. Langston further notes, Sea Robin's customers are producers and marketers as opposed to local distribution companies or industrial end-users. As such, Sea Robin competes for customers at the highly competitive and volatile wellhead. That risk is exacerbated by the fact that deepwater drilling in the Gulf of Mexico is expected to expand, putting further competitive pressure on shallow water systems such as Sea Robin. As Mr. Langston explains, in response to these competitive threats, the Company has often agreed to invest its own capital to connect a prospective customer's platform to Sea Robin, or has offered discounts to shippers that otherwise could connect to a competing offshore pipeline system.

In addition to the competitive pressures discussed above, the Company's return on equity also is threatened by virtue of the fact that only a small portion of Sea Robin's revenues are derived from firm transportation contracts. Absent a substantial portion of long-term firm transportation revenues, Sea Robin has a significant risk of under-recovery of its fixed costs. In light of the lack of firm contracts, Sea Robin must rely on interruptible volume for its fixed cost recovery. Here again, the Company faces considerable risk with respect to its ability to earn a reasonable rate of return. Indeed, as Mr. Langston notes, overall operating costs have increased since Hurricanes Katrina and Rita; a continuation of that trend would further erode the Company's ability to earn its required equity return.

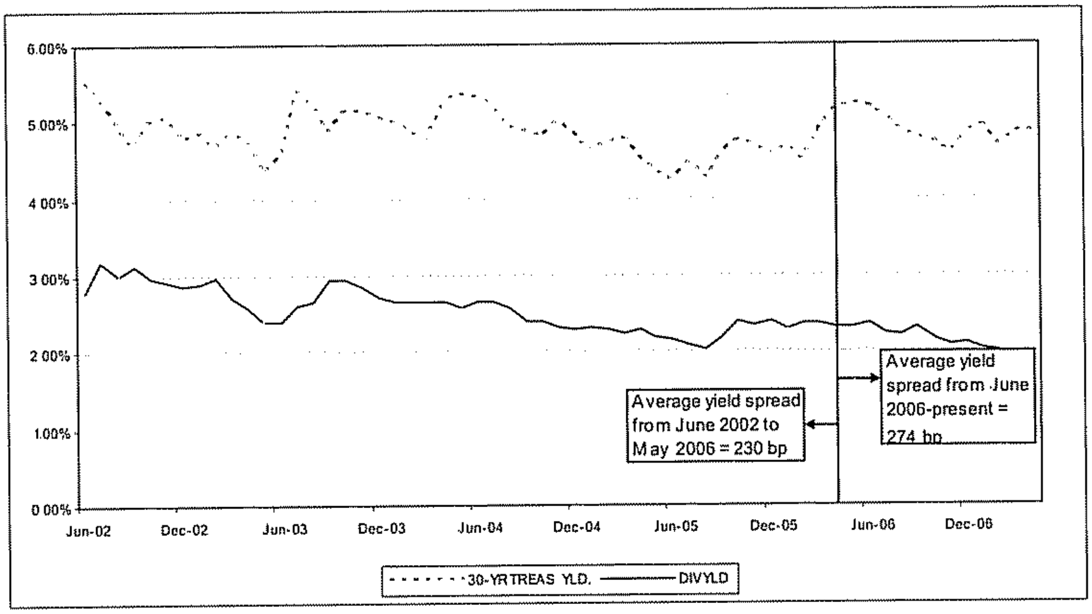
Importantly, the business risks noted above distinguish Sea Robin from other natural gas gathering and transportation systems. Given the widely held view that interstate pipelines are more risky than local distribution companies, it follows that Sea Robin's ROE should be meaningfully above that which would be required for LDCs. Even if one were to look to the high end of DCF results based on a group of companies that have significant LDC operations, however, any conclusion drawn from such an analysis would be biased by the fact that LDC stocks have traded at unusually high valuation levels over the past several months. As a result, LDC dividend yields and, therefore, DCF results are unusually low.

Q. Have you performed any analyses to assess the current level of natural gas LDC stock valuations?

A. Yes, I analyzed three widely-accepted measures of utility stock price valuation: (1) the difference between the yield on long-term Treasury bonds and utility dividend yields (often referred to as the "yield spread"), (2) recent utility Price/Earnings ratios relative to the long-term average; and (3) recent utility Market/Book ratios relative to the long-term average. I discuss each of these valuation measures in turn, below.

(1) The Widening Yield Spread There is little question that utility stock prices and dividend yields are strongly related to interest rates. From June 2002 through May 2006, the yield spread between the average dividend yield (for the three LDCs used by the Commission in *Kern River, i.e.*, National Fuel Gas, Questar, and Equitable Resources) and the 30-year Treasury rate was approximately 230 basis points. As shown on Chart 1 (below), however, for the period from June 2006 through May 2007, the average yield spread has increased to 274 basis points.

Chart 1: Historical Yield Spreads – LDCs



As Chart 1 also indicates, the widening yield spread has accelerated since the beginning of 2007. The data in Chart 1 therefore, indicate that over the past year, yield spreads were wider, and dividend yields were lower, than the long-term relationship would suggest. That divergence is consistent with the notion that utility stocks are currently "expensive" relative to interest rates.

The widening yield spread also has been noted by other industry analysts in their assessment of current utility stock valuations. Calyon Securities, for example, pointed out that between March and May 2007, the yield spread between the Dow Jones Utility Index (the "DJUI") and the ten-year Treasury Bonds increased by 50 basis points.[13] While the DJUI is a relatively broad index of utility companies, Calyon's conclusion that dividend yields are unusually low relative to historical

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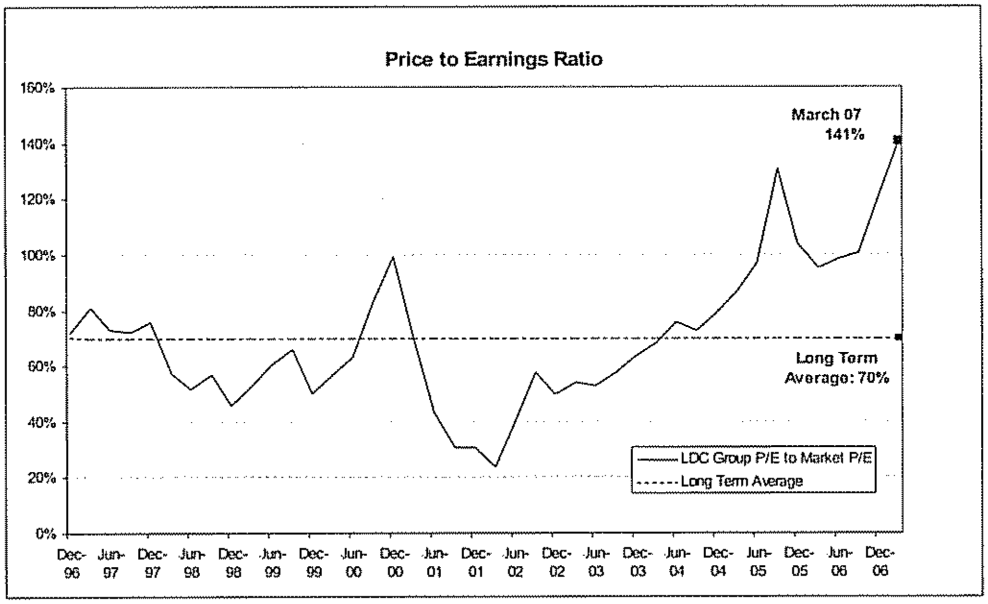
13 Calyon Securities, *Utility Valuation: Yields and Relative P/E's Indicate It's Time for a Pause*, May 29, 2007.

standards supports the position that the current average dividend yield for the three LDC's does not represent long-term market conditions.

(2) The Price/Earnings Ratio Consistent with the widening of the yield spread, the LDC group average Price/Earnings ("P/E") ratio has increased significantly as a percentage of the overall market (as measured by the S&P 500 Index). That is, over the last 10 years (since June 1997), the LDC group average P/E ratio has been approximately 70 percent of the S&P 500 P/E ratio. As of the end of the first quarter of 2007 (3/31/07), the proxy group average P/E was approximately 141 percent of the S&P 500 P/E, indicating that utility stock earnings multiples are very high relative to their historical norms. As shown on Chart 2 (below), the increase in relative valuation multiples has accelerated significantly over the past several months. In fact, since December 2006, the 180-day average LDC group P/E ratio has increased from 19.55 to 22.70 (an increase of approximately 11.6 percent) while the 180-day average S&P 500 P/E ratio actually decreased from 17.68 to 17.41 (a decrease of 1.5 percent).

Chart 2: LDC P/E Relative to Market P/E



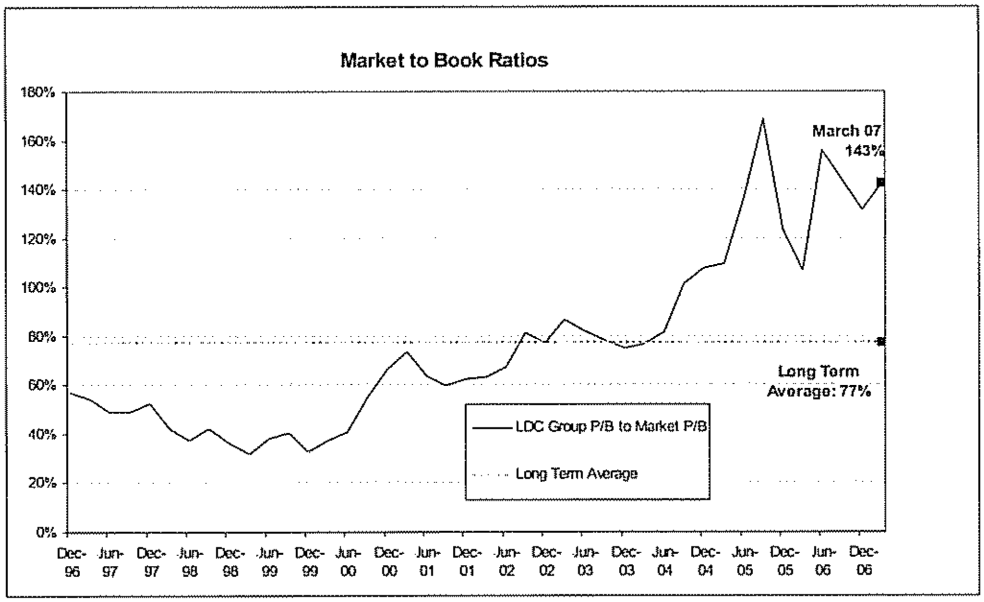
Here again, Calyon Securities arrived at a similar conclusion regarding relative P/E ratios, finding that the DJUI P/E as a percentage of the S&P 500 P/E ratio has increased from its long-term average of approximately 75 percent to 110 percent. In fact, Calyon noted that the current relative P/E (of 110 percent) is "the highest relative P/E in our study period and likely one of the highest in history."[14]

(3) The Market/Book Ratio As with the widening of the yield spread and the increase in P/E relative to the market, market valuations for the proxy group companies, in terms of market/book ratios ("M/B") recently have significantly deviated from long-term levels. As shown in Chart 3 (below), over the last 10 years (since June 1997), the LDC group average M/B ratio has been approximately 77 percent of the S&P 500 M/B ratio. As of the end of the first quarter of 2007 (3/31/07), the LDC

[14] Id.

group average M/B was approximately 143 percent of the S&P 500 M/B, indicating again that utility multiples are very high relative to their historical norms.

Chart 3: LDC Market/Book Relative to Market Market/Book



Q. Are these valuation levels being driven by factors other than company and market fundamentals?

A. Yes, I believe so. In my view, the recent increase in valuations cannot be explained entirely by recently low interest rates or improving company fundamentals; investors' speculation relative to merger prospects have had a significant effect on utility stock valuations. Since the effective repeal of the Public Utilities Holding Company Act ("PUHCA") in February 2006, there have been a number of mergers announced in the utility segment. Moreover, the recent entrance of private equity firms has introduced a substantial source of acquisition funds into the sector. Interestingly, private equity investors have participated across the spectrum of utility

M&A transactions from the relatively small proposed acquisition of SEMCO Energy (market capitalization of $275 million) by Cap Rock Holding Corporation to the $45 billion acquisition of TXU Corporation by a consortium led by Kohlberg, Kravis, Roberts and Company, and the Texas Pacific Group. It is unclear, however, whether the recent level of merger activity will continue. As AG Edwards recently pointed out,

> ...it has been 12 months since a new acquisition of gas utility assets has been announced. High natural gas prices may be putting a damper on new announcements. We continue to believe an occasional announcement or two can be expected each year, but that a wave of gas utility takeovers is unlikely.[15]

It appears, therefore, that the current level of utility valuations cannot be sustained by market fundamentals and that the speculative effect of increased merger activity by both utility operating companies and private equity firms likewise may not be sustainable over the long term.

Q. What are the implications of these findings for the determination of Sea Robin's ROE?

A. The analyses discussed above indicate that the LDC proxy group stock prices currently are "expensive" relative to historical valuations and the market in general. As a result, it is likely that the DCF results for the three LDCs cited in *Kern River* significantly understate long-term expected returns. As discussed in greater detail later in my testimony, the effect of these market conditions is to produce DCF results for LDC companies that are significantly below the results of other ROE

[15] AG Edwards, Weekly Utility Summary, June 1, 2007.

estimation methodologies. Under such market conditions it is appropriate to question the relevance of the LDC companies as a proxy for Sea Robin. If, however, the Commission were to continue to use the LDCs in its determination of the Company's cost of equity, it would be appropriate to also consider the results of alternative approaches.

Q. What effect do these factors have on the determination of an appropriate ROE for Sea Robin?

A. As I have discussed previously, Sea Robin faces greater overall operating risk than other interstate natural gas gathering and transportation companies. Therefore, based on a proxy group of interstate pipeline entities, it would be inappropriate to place the Company's ROE at the median result. Furthermore, as the Commission pointed out in *Kern River*, there is no dispute that pipeline companies are more risky than LDCs. As discussed above, however, current LDC valuations would produce biased DCF results. As such, to the extent that a proxy group that includes LDCs is used in this analysis, consistent with the Commission's decision in *Kern River*, the ROE should be set well above the median DCF result.

V. PROXY GROUP COMPANIES

Q. Why is it necessary to use a proxy group in the determination of an equity return?

A. The use of proxy groups is a widely employed analytical method to assist in estimating the cost of equity for a particular company. As discussed in more detail later in my testimony, the methods most commonly used by financial analysts to estimate the cost of equity are based on company-specific market data and projections. In the case of Sea Robin, which is a wholly owned subsidiary of Southern Union Company ("Southern Union"), the Company has no publicly traded common stock. As such, it is necessary to develop a group of publicly traded entities that are comparable to the Company in certain fundamental respects. Since it is possible that market data for a single company may reflect the effects of unusual or transitory events, the primary benefit of using a group of comparable companies is that it serves to attenuate the effects of anomalous events that may be associated with any one company. Additionally, proxy groups include a range of characteristics for companies deemed to be comparable to Sea Robin, and thus provide a benchmark to gauge the reasonableness of ROE estimate results.

Q. How did you select the companies included in your proxy group?

A. I began with the six company group used by the Administrative Law Judge in her initial decision in *Kern River*. These six companies are derived from the same group, adjusted for divestitures and mergers, approved by the Commission in *Williston Basin*, and today represent those corporate entities with the most significant natural gas pipeline holdings. That group consists of El Paso Corporation; Equitable Resources, Inc.; Kinder Morgan, Inc.; National Fuel Gas Company; Questar Corporation; and Williams Companies.

Q. Have you adopted the six company group in its entirety as your proxy group?

A. No, I have not. While all of those companies meet certain screening criteria, there are varying degrees to which their financial performance relies on regulated, as opposed to non-regulated operations. Moreover, several of those companies derive only a small portion of their financial results from FERC-regulated natural gas transmission. As discussed in more detail below, the effect of that criterion is to substantially limit the number of corporate natural gas pipeline companies that reasonably can be considered comparable to Sea Robin.

Q. On what basis do you claim that certain of the six companies previously listed as successors to the Williston Basin proxy group, fail to meet your screening criteria?

A. Equitable Resources and Questar fail to meet my requirement that natural gas transmission represents a significant portion of the combined business segments. Further, Equitable Resources failed to meet the criterion that a substantial portion of its economic value is derived from interstate pipeline or storage operations[16]. These companies have been rejected by the Commission in the past due to the fact that they are substantially local distribution companies with a significantly different risk profiles than that of Sea Robin.[17] El Paso's financial condition requires that it be excluded from my proxy group due to the reduction of its dividend and its continued low credit rating. Finally, in May 2006, Kinder Morgan announced its intention to be taken private; on May 24, 2007 the transaction received approval from the California Public Utilities Commission (which was the last regulatory approval required to close the transaction) and on May 30, 2007 the transaction closed.

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16 Furthermore, Equitable is currently engaged in the acquisition of Dominion Peoples and Dominion Hope, a transaction that is under investigation by the Federal Trade Commission.

17 *Williston Basin Interstate Pipeline Co.*, 87 FERC ¶61,264 at 62,007 (1999).

Q. Please describe the basis on which you determined whether the candidate companies were substantively engaged in natural gas transmission.

A. As summarized on Table 1 (below), as of December, 2006, the percentage that pipeline operations contributed to revenues, operating income and utility assets varied significantly among the six corporate natural gas pipeline companies:

Table 1: Business Segment Information[18]

Company	% Revenue from Pipeline Operations	% Operating Income from Pipeline Operations	% Assets from Pipeline Operations	Overall Weighting
El Paso Corporation	63%	3%	55%	59%
Equitable Resources	5%	7%	0%	6%
Kinder Morgan, Inc.	61%	53%	56%	64%
National Fuel Gas	10%	37%	21%	23%
Questar Corp.	6%	13%	0%	10%
Williams Companies	11%	37%	26%	25%

For the purposes of my ROE recommendation, I have considered those companies with an overall weighting for interstate natural gas pipeline operations of greater than 25% to be significantly engaged in interstate natural gas transportation. In my view, this approach is somewhat more inclusive than the approach taken in *Williston* wherein the Commission stated that it determined whether a company's pipeline operations constituted a high proportion of its business based on whether on average over the most recent three year period, approximately 50 percent or more of "total dollars" was produced in at least one of two areas, including operating income and total assets.[19]

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18 Source: SEC Forms 10-K and 10-Q. The percentages in the table represent the average of 2006, 2005 and 2004. Refer to Exhibit No. SR-50.

19 Kern River Gas Transmission Company, 117 FERC ¶ 61,077, fn 225.

As indicated in Table 1 (above), my analysis of Equitable Resources indicates that only 6 percent of its combined operations were derived from natural gas pipeline operations, whereas 24 percent of its operations are related to its LDC activities and 52 percent relate to natural gas supply. Questar's natural gas pipeline operations comprise only 10 percent of its business, while its gas distribution operations total 24 percent, and its exploration and production operations contribute 66 percent of its total. National Fuel's natural gas pipeline operations represent approximately 23 percent of its operations, while its LDC operations make up 42 percent, and the bulk of the remainder is attributable to exploration and production. In the case of Questar and Equitable, there is little question that interstate pipeline and storage services constitute too small a percentage of consolidated operations to be considered comparable to Sea Robin.

Q. Why have you excluded National Fuel from your proxy group?

A. First, National Fuel derived approximately 23 percent of its consolidated operations from interstate gas pipelines and storage services. Since that level of operations is below my 25 percent threshold, in my view, National Fuel does not have sufficient interstate pipeline and storage operations to be considered comparable to Sea Robin.

It also is important to note that the DCF result for National Fuel Gas is considerably below any reasonable estimate of required equity returns for natural gas utilities, much less interstate pipeline and storage companies. As the Commission pointed out, investors cannot be expected to invest in common equity if debt "yields essentially the same return."[20] At that time, the DCF model produced ROE estimates for El Paso and Williams that were approximately 110 basis points above the Moody's utility index bond yield. As shown on Table 2 (below), the current spread (*i.e.* the implied equity risk premium) between the DCF result for National Fuel and the six-month average yield on the Moody's Baa utility bond index is approximately 186 basis points. Even that risk premium, however is inadequate to attract new investment. The spread between Commission-authorized natural gas pipeline returns and the Moody's Baa utility bond yield demonstrates that the required risk premium is far greater than 186 basis points. As shown in Table 2 (below), the spread between the Moody's Baa utility bond yield and the allowed return in *Kern River* was 495 basis points. Furthermore, the average spread between the Moody's Baa utility bond yield index and the average Commission-authorized pipeline returns from 2000 through the first quarter of 2007 is 425 basis points. The 186 basis point risk premium implied by the National Fuel Gas DCF result, therefore, is unrealistically low.

Table 2: Equity Risk Premia

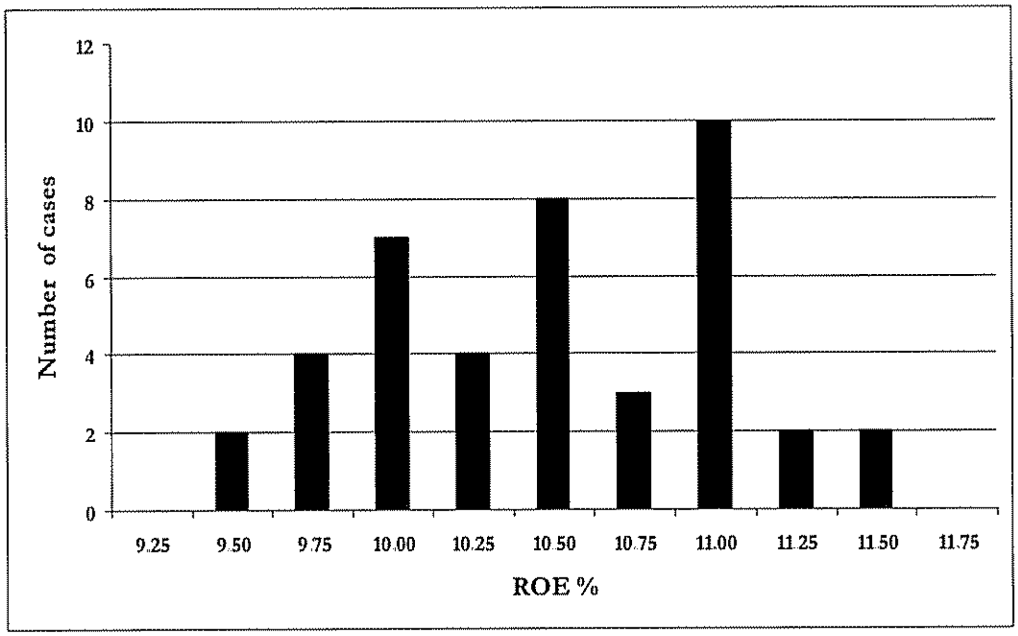
	National Fuel Gas	Kern River	Authorized Pipeline Returns
DCF Result	8.01%	11.20%	11.68%
Moody's Baa Utility Bond Yield	6.15%	6.25%	7.43%
Equity Risk Premium	1.86%	4.95%	4.25%

20 *Southern California Edison Company*, 92 FERC ¶ 61,070 at 61,266 (2002). Referred to herein as "*SoCal*".

Q. Is there another benchmark that can be used to assess the reasonableness of the DCF results for National Fuel?

A. Yes. As the Commission pointed out in *SoCal*, there is no dispute that LDCs are less risky than interstate pipeline companies. As shown on Chart 4 (below) since 2004 there has not been a single natural gas utility ROE award that has been below 9.45 percent. In addition, during that same time period the average spread between authorized gas LDC ROEs and the concurrent yield on the Moody's Baa utility index (i.e., the equity risk premium) was over 400 basis points. National Fuel's 8.01 percent DCF result, therefore is clearly well below the return that would be expected for the comparatively low risk LDC group, much less than would be expected for interstate pipeline and storage companies. Consequently, it would be inappropriate to include National Fuel in the Sea Robin proxy group.

Chart 4: LDCs Allowed Return on Equity



Q. Why have you excluded El Paso from your proxy group when it has the highest percentage of natural gas pipeline operations of all the companies?

A. El Paso, although it is owner of a large pipeline network, continues to suffer from a weakened financial and credit profile. El Paso reduced its dividend in 2003 and, as a result, has the second lowest dividend yield of any company being considered for potential inclusion in the proxy group. In addition, while the rating agencies have provided mixed signals on the outlook for El Paso, they have noted significant concerns with the company's balance sheet and its exploration and production business unit. FitchRatings ("Fitch") recently recognized an improvement in the company's credit profile; however, Fitch remains concerned by the "significant leverage that remains on the balance sheet and lingering issues with the upstream operations."[21] Fitch further noted that "[w]hile the balance sheet improvement at El Paso is significant, including a material reduction in external debt at the parent company level, consolidated and parent company debt will remain sizeable at year-end 2007."[22] Finally, Fitch stated that upstream operating results would have to improve and credit measures would need to strengthen before it would consider taking a positive rating action. Fitch currently assigns El Paso a BB+ rating with a "stable" outlook.

Standard & Poor's ("S&P") assigns El Paso a BB rating with a "positive" outlook, citing as weaknesses "aggressive debt leverage, weak cash flow credit protection measures and underperforming exploration and production operations"[23]. S&P

21 FitchRatings, Leveraged Finance Weekly, March 9, 2007.
22 Id.
23 Standard & Poor's Ratings Direct, ElPaso Corp, June 6, 2007, p. 1.

clarifies that its positive outlook reflects "the potential for the E&P segment to produce the cash flow necessary for improved credit metrics in the next 18 to 24 months."[24] S&P noted, however, that the E&P business unit has repeatedly failed to meet its targets in recent years. Furthermore, S&P noted that "[f]ailure to meet upstream targets or a deterioration in liquidity could dampen upward ratings prospects".[25]

Finally, while Moody's assigns El Paso a positive outlook and a credit rating of Ba3, Moody's also states that the company's credit rating hinges on the returns of the E&P business segment. The E&P business segment, which represents approximately one-third of the company's EBIT is identified by Moody's as the company's "predominant business risk". Such a company cannot be expected to share the same investment expectations as those for a financially stable company such as Sea Robin.

Although the rating agencies describe El Paso's financial condition as having improved substantially, it also is evident that El Paso continues to face balance sheet and other financial and operating risks. As discussed below, it is equally clear that the company's DCF results do not adequately reflect those risks relative to the other comparison companies; in fact El Paso, which arguably is the highest risk of the potential proxy companies, has the second lowest DCF result.[26] (See Exhibit No. SR-46)

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24 Ibid, p. 3.
25 Ibid.
26 It also is interesting to note that El Paso itself is considering folding certain of its pipeline companies into an MLP. See Prepared Direct Testimony of Randolph A. Barlow, Exhibit 5-8.

Q. Why did you not consider Sea Robin's parent company, Southern Union, for inclusion in the proxy group?

A. I have not considered Southern Union for inclusion in the proxy group due to the limited history of its cash dividend payment, as the company has only been paying dividends for one year. In my view, the company's limited dividend history disqualifies Southern Union from consideration in the group. Moreover, it generally is my practice not to consider the subject company or its parent for inclusion in the proxy group.

Q. What companies remain from the six that you considered for inclusion in the proxy group?

A. Only the Williams Companies remain and, therefore, there is no viable proxy group using only publicly-traded pipeline corporations. Moreover, Williams' credit rating remains below investment grade. Typically, to obtain a group of companies with comparable business risks, I would apply a screen to my proxy group candidates to verify that all companies were of investment grade or better. If such a credit rating requirement for all proxy group companies' were applied in this case, however, even Williams would have been excluded, leaving no corporate pipeline proxy companies. As opposed to El Paso, whose DCF results are implausibly close to the Moody's utility index bond yield and considerably below any recently authorized gas LDC equity return, William's DCF result, while somewhat low relative to recent LDC authorized returns and pipeline company equity risk premia, is demonstrably above the Company's current debt cost rate (see Exhibit No. SR-47). Moreover, the rating agencies tend to be more positive about the financial and operating improvements made by Williams than El Paso. Fitch has assigned Williams a "positive" outlook suggesting a stronger credit profile than El Paso. S&P assigns Williams a rating of BB+ with a "stable" outlook, indicating that this outlook will be upgraded to positive if Williams "continues to strengthen its credit metrics and exercises greater capital discipline."[27] Furthermore, S&P notes that:

> Williams has significantly improved its financial metrics and operating performance. Williams has employed capital discipline as it has rebalanced its portfolio and reduced debt leverage, positioning the firm to garner greater expected cash flow. In addition, the company has taken steps to fortify its liquidity and decrease its exposure to long-dated tolling contracts.[28]

Finally, Moody's has recently placed Williams under review for a possible upgrade. The upgrade is being attributed to Williams' announcement that it intends to sell substantially all of its merchant power generation operations, which is expected to improve leverage and lower the volatility of cash flow and earnings.[29] Consequently, it would not be unreasonable to include Williams in the proxy group. Even if one were to include Williams, given the lack of fundamental comparability issues associated with LDCs (discussed earlier) and the fact that only one corporate pipeline possibly could be considered (*i.e.*, Williams), it is necessary to expand the universe of potential comparison companies to include publicly traded interstate gas pipelines structured on MLPs.

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27 Standard & Poors, RatingsDirect, The Williams Cos. Inc, March 30, 2007, p. 4.
28 Ibid, p. 1.
29 Moody's Investors Service, Global Credit Research Rating Action, The Williams Companies, May 21, 2007.

Q. Please discuss the process by which you selected the companies included in your proxy group.

A. To ensure that my proxy group meets the comparability standard set forth in *Hope* and *Bluefield*, I began by considering all of the companies that Value Line classifies as the Diversified Natural Gas industry group. This industry group includes the majority of the publicly-traded corporations and MLPs that have significant interests in interstate natural gas transportation. As I have discussed, the publicly traded corporations did not meet the criteria for inclusion in the proxy group. I then considered MLPs with significant natural gas pipeline operations that were not covered by Value Line. From this population, I applied the following criteria (see also Exhibit No. SR-48):

1) All of the companies have publicly-traded common stock or units;

2) All of the companies have significant involvement in natural gas transmission and own 100 percent of at least one FERC-regulated natural gas pipeline;

3) All of the companies derive a substantial portion of their revenues and income from natural gas transmission;

4) All of the companies are currently paying cash dividends or distributions;

5) All of the companies are in sound financial condition with no pending negative ratings actions that would significantly impact investors' perception of risk; and

6) None of the companies are engaged in significant transactions involving mergers or acquisitions.

The first two criteria are consistent with the Commission's Order in *EPGT Texas Gas Pipeline L.P.*, 99 FERC ¶61,295 (2002), wherein the Commission commented on screening criteria for proxy group companies in natural gas proceedings. To that point, the Commission stated that "The companies should be publicly-traded, engaged largely in natural gas transmission, and own natural gas pipelines regulated by the Commission."[30]

In order to determine the extent to which the candidate companies are engaged in pipeline operations, I developed a list of interstate pipelines owned by each of the companies evaluated for potential inclusion in the proxy group (see Exhibit No. SR-49). For each of those companies, I gathered revenue, operating income, and asset data by business segment for the years ended 2006, 2005 and 2004. Based on that data, I calculated the percentage of revenues, operating income and assets associated with natural gas transmission; an analysis that is critical to the selection of a reasonable proxy group in identifying peer companies with risks comparable to those of Sea Robin. (See Exhibit No. SR-50).

Q. Did you use the same proxy group screening criteria for the MLPs and the corporate companies reviewed above?

A. Yes, I have reviewed the publicly-traded corporations and the MLPs engaged in natural gas pipeline operations according to the thresholds discussed earlier.

Q. What is the final composition of your proxy group?

A. My proxy group is comprised of the following seven companies:

- Williams Companies
- Boardwalk Pipeline Partners, L.P.
- Enbridge Energy Partners, L.P.
- Enterprise Products Partners, L.P.
- Kinder Morgan Energy Partners, L.P.

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30 99 FERC at 62,250.

- MarkWest Partners, L.P.
- OneOK Partners, L.P.

Exhibit No. SR-49) provides a list of pipelines owned by each of the MLPs included in my proxy group.

Q. Please explain further why you consider it appropriate to include Master Limited Partnerships in your proxy group.

A. As a practical matter, since only one pipeline company can reasonably be considered a candidate for the proxy group, it is necessary to consider other proxy entities, including LDCs and MLPs. As noted earlier, however, the business segment profile and DCF results for the LDCs disqualify those companies from inclusion in the proxy group. Moreover, since the investment in pipeline assets is beginning to be dominated by MLPs, it is important to recognize their legitimacy as proxy companies in gas pipeline proceedings. To that point, a recent white paper prepared for the Interstate Natural Gas Association of America ("INGAA") recognizes the importance of MLPs in developing proxy groups:

> Currently, the fundamental issue in selecting a proxy group in a natural gas pipeline rate case is whether or not to include representatives of the many pipeline companies that are organized as MLPs. The basic premise for creating the proxy-group approach in the first place was that, because gas pipeline companies were not publicly-traded, a group of similar publicly traded companies was needed in order to establish a proxy for investor expectations regarding natural gas pipelines. Now as MLPs have grown in number, scope and importance, they comprise a very representative group of true, publicly–traded pipeline companies to which the Commission can turn for market guidance.

The Commission has relied on MLPs as proxy companies in oil pipeline cases. Also, the Commission considered a proxy group including MLPs to be "reasonable" in *Natural Gas Pipeline Company of America, and Panther Interstate Pipeline Energy, LLC*, 105 FERC ¶61,383 (2003), for purposes of imputing a capital structure on Panther. That proxy group included Equitable Resources, Kinder Morgan, KM Energy, National Fuel, ONEOK, Inc., Questar, and TEPPCO. Moreover, as noted earlier the Commission stated in *Kern River* and *HIOS*, that it was "not making a generic finding that MLPs cannot, in future cases, be considered for inclusion in the proxy group if a proper evidentiary showing is made".[31]

Q. What was the Commission's concern with respect to the inclusion of MLPs in the proxy group in *HIOS* and *Kern River*?

A. The Commission's concern centered on whether the distribution payment to the unit holders included a return of a portion of the partner's original investment, and if so, whether it would effectively distort the dividend yield component of the DCF model. In *Kern River*, the Commission noted that while it did not intend to "foreclose" the issue of whether or not MLP could be included in a proxy group, non-MLP companies must demonstrate that the payment of distribution is consistent with the expected growth rates used in the DCF analysis. Thus, the Commission stated that it would not consider including an MLP in the proxy group, unless the record demonstrates that the distribution used as the "dividend" includes

[31] *Kern River*, Docket No. RP04-274-000, Opinion No. 486, October 19, 2006, p. 63.

only a payment of earnings and not a return of investment.[32] INGAA recently addressed the Commission's concern, noting that:

> This white paper concludes that the Commission's concern is misplaced. An examination of a five-year history of actual returns to equity investors from the gas-pipeline MLPs revealed that a short-term DCF analysis for the same period would have been a very accurate predictor of actual returns. Measuring investor expectations by applying the DCF formula to a group that includes MLPs would appear to be as valid as any application of the formula to stock-owned companies.[33]

Q. Do you agree with INGAA regarding the inclusion of MLPs in the proxy group?

A. Yes. I do. Investors value assets based upon the expected future cash flows they will generate and do not differentiate their valuations based upon whether the source of that cash is a stock dividend or a partnership unit distribution. A 13.50 percent investment return on an MLP unit is no different than a 13.50 percent investment return on a share of stock, of equivalent risk, regardless of whether it is classified as a dividend or distribution. Generally, the primary difference between the two investments is the timing of cash flows, i.e., MLPs will generate greater cash flows during the holding period, with less potential for capital appreciation (generally, recognized as the growth component of the DCF model). Stocks, on the other hand, pay a lower dividend but have a greater potential for capital appreciation. Chart 5 (below) demonstrates that in fact, the ROE estimates for MLPs, corporate pipelines (i.e., Williams) and the LDCs have radically different

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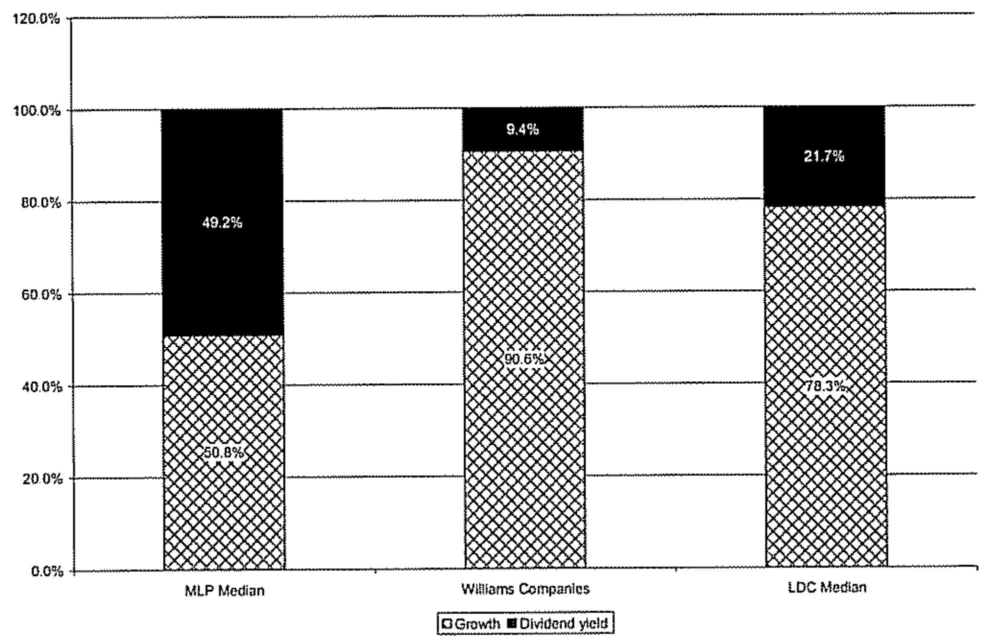
32 *HIOS, LLC*, 110 FERC ¶ 61,043.

33 INGAA, "*Allowed Returns on Equity in the Interstate Gas Pipeline Industry Issues and Options Regarding the FERC DCF Approach*", dated August 24, 2006, at 5.

compositions; the portion of the ROE relating to growth is significantly lower for the MLPs, while the dividend component is significantly greater.

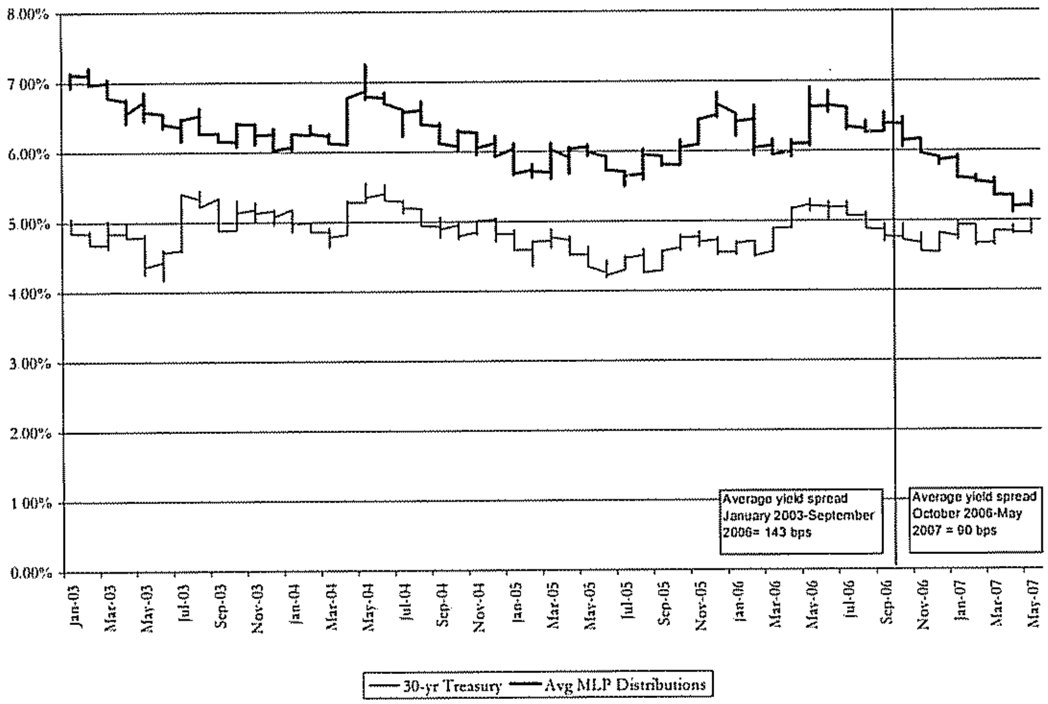
Chart 5: DCF Components



Q. Earlier you discussed the spread between yields on utility stocks and Treasury yields. Have you performed a similar analysis for the MLPs?

A. Yes. I analyzed the yield spread between MLPs and long-term Treasury Bonds. As shown in Chart 6 (below), the yield spread between the 30-year Treasury and MLP distributions remained fairly constant from the beginning of 2003 through the third quarter of 2006. Since that time the yield spread has declined steadily from 143 basis points to 90 basis points. As with utility stocks, it appears that MLP distribution yields are somewhat lower than otherwise would be expected based on long-term market relationships.

Chart 6: Historical Yield Spreads



Q. Do the relatively high distribution yields characteristic of an MLP cause the DCF analysis to overstate the ROE recommendation for a corporate pipeline company?

A. No. Investors understand that in general, there is a trade-off between distribution and expected growth. It is true that MLPs generally pay out a greater share of cash in distributions than a corporation would pay in dividends, as required by the tax code. However, it follows as a consequence of the high payout that MLPs have less cash available for reinvestment, and, as a result, their growth expectations are often lower than the growth expectations for corporations.

Q. Has the DCF model historically provided an accurate measure of investors' expectations for MLPs?

A. Yes, it appears that the two-stage DCF model adequately weighs the income prospects of an investment with its growth prospects and in general does provide an accurate reflection of future returns. The performance of the DCF model in evaluating the returns of MLPs were examined in the INGAA paper by "backcasting", or comparing the actual return to investors for a recent past period with the return that would have been predicted by a short-term DCF study for the same period. That study indicated that a short-term DCF approach would have predicted a return of 17.22 percent, compared to the 18.48 percent return that was actually realized by the investors. This study provides reasonable evidence that, in fact, the DCF formula, applied directly to the MLPs provides an accurate (if not conservative) representation of investors' expectations.[34]

Q. Have you performed any analyses to determine whether or not the MLPs actually reflect a diminution of capital from distributions?

A. Yes, I have performed an analysis of the natural gas pipeline MLPs covered by Value Line to determine whether there is any diminution of capital resulting from equity distributions by reviewing the historical (and projected) book capital per unit. My analysis is premised on the construct that if MLP distributions were in fact a return of capital, the book capital per unit would steadily decline over time. Additionally, forward projections of book value per unit growth would be zero or negative.

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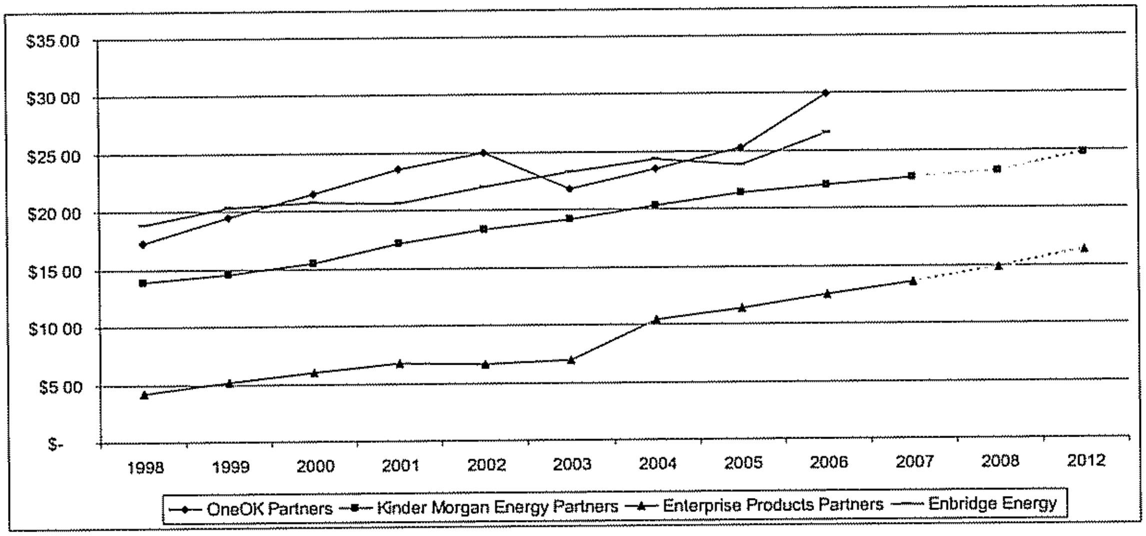
[34] INGAA, *Allowed Returns on Equity in the Interstate Gas Pipeline Industry Issues and Options Regarding the FERC DCF Approach*, dated August 24, 2006, at 20.

Chart 7: Partnership Capital per Unit (Adjusted for Market to Book Effect on New Issuances)[35]



As shown in Chart 7 (above) and in Exhibit No. SR-51, my results affirm that there is no diminution of capital resulting from equity distributions, in nominal or real terms, and that book value per unit, distributions per unit, and earnings per unit grow steadily over the analyzed period from 1998 to 2012.

To determine whether analysts other than Value Line expect distributions to be made out of operating cash flows, I examined the projected distributable cash flow and distributions for those MLPs in my proxy group that are covered by RBC Capital Markets ("RBC"). As part of its coverage, RBC provides detailed projections of distributable cash flows and distributions per unit. As shown in Exhibit No. SR-52, the "distribution coverage" (i.e., the ratio of distributable cash

35 Source: Valueline growth estimates. Valueline did not report growth estimates for OneOk Partners and Enbridge Energy Partners.

flow to distributions) never falls below 1.0, indicating that distributions are expected to be paid entirely out of distributable cash flows[36].

Q. Do the RBC reports provide any other insights?

A. Yes. As part of its cash flow projections, RBC projects the distributions expected to be paid out to the General Partner. As noted by Wachovia Capital Markets, LLC, the yield should take into consideration payments made to the General Partner.[37] Based on the RBC projections, that adjustment would increase the yield by approximately 170 to 205 basis points.

Q. Have you performed any analyses in response to the Commission's concern that MLP growth rates may be "distorted" as a result of external financing?

A. Yes. The Commission's concern appears to be premised on the proposition that over the long term, corporate growth is largely financed by internally generated funds. Internally generated funds, then, are a function of the return on equity and the percentage of earnings retained (i.e., the percentage of earnings not paid out in dividends). To the extent that MLPs distribute a large portion of their earnings or cash flow, there is less cash available for reinvestment; their growth, therefore, must be funded from external sources. At issue, then, is whether the corporate companies' expected growth rates also are significantly dependent on external financing. To the extent that is the case, it is unclear whether the MLP growth rates are "distorted" by virtue of their dependence on external funds.

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36 Cash flows are based on maintenance capital expenditures, and include payments to the general partner. It should be noted that total capital expenditures are likely to include items in addition to maintenance capital expenditures.

37 Wachovia Capital Markets, LLC, Master Limited Partnerships: Primer 2nd Edition, August 23, 3005, p.18.

To determine whether the corporate companies' growth rates are materially affected by expected external financing, I calculated the internal growth rate (defined as the product of the retention ratio and the expected return on equity) for each of Questar, Equitable, National Fuel Gas and Williams. As shown on Exhibit No. SR-53, the average internal growth rate for those four companies is 5.48 percent. As also shown on that Exhibit, the average I/B/E/S growth rate is 8.75 percent. The average difference of 3.27 percent, therefore, reflects the extent to which expected growth is dependent on external financing. Thus for the four corporate entities, external funding represents approximately 40 percent of expected growth. While that is certainly lower than the extent to which MLPs are dependent on external financing, it nonetheless is a significant portion[38]. Consequently, it is my view that external funding does not "distort" the MLP growth rates relative to the corporate growth rates.

Q. Please discuss the tax treatment of the MLPs for unit holders.

A. MLPs combine the benefits of a partnership with the liquidity of a publicly traded stock. According to the IRS, an MLP is a partnership whose interests are traded on an established securities market or are readily tradable on a secondary market (or its substantial equivalent). Distribution holders are taxed directly at their marginal income tax rate for their share of partnership net income, regardless of the amount of the distribution that they have received. Generally, MLPs distribute the majority of their free cash leaving little cash retained in the business. Because there generally

[38] As shown on Exhibit SGS-52, Page 4, on a historical basis, total capital expenditures and dividends exceeded operating cash flows (on average) for the three LDCs, indicating that external financing has been required for growth

is a significant difference between free cash flow and net income, due to the large depreciation charge on pipeline assets, unit holders are afforded a significant tax incentive by minimizing taxable income recognition during the holding period and deferring payment on the majority of taxes until the ultimate sale of the partnership units. To the extent that the cash distribution exceeds the unit holder's share of marginal income (which generally is the case), the unit holder's tax basis in the partnership will be reduced, which has the effect of deferring taxation on that portion of the distribution until such time as the partnership unit is sold.

Q. How does this compare to the tax treatment of publicly-traded corporate entities?

A. Generally, in the case of both MLPs and corporations, every dollar received by way of distribution to the unit or shareholders is taxed over the holding period, from purchase to sale. In the case of the corporation, its shareholders are taxed on its dividends, and the basis of the original investment is never reduced, regardless of whether the dividend exceeded earnings per share. At the time of sale, any capital gain (or loss) will be determined by subtracting the original basis from the proceeds of the sale. As discussed above, the MLP unit holder generally pays taxes on a portion of its distribution, but the non-taxable portion of the distribution reduces the basis, and leads to earlier recognition of income.

In Exhibit No. SR-54, I have developed a simple example that illustrates that the unit holder or shareholder is ultimately taxed on 100 percent of all distributions or dividends and all capital gains, over the holding period, in both the corporate and MLP scenarios. That example assumes that net income is $5 per share, the payout ratio is 100 percent, and distributions are $20 per share. The example further assumes that a $100 investment in a share of stock or MLP unit was made at the end of year 0, and the investment was sold at the end of year 4 for $200. Capital gain amounts are determined by subtracting the basis, at the end of year 4, from the proceeds of the sale. Growth rates are assumed to be zero for purposes of simplifying the example.

The example illustrates the tax deferral feature of the MLP, as the taxable gain in the year of sale is greater than it would be upon the sale of a corporate stock, to the extent that distributions exceeded partnership income. However, in the end, every dollar received, whether in the form of distributions, dividends, or capital gains, is taxable both to the MLP unitholder and corporate stockholder. It should be noted that once the MLP basis is reduced to zero, 100 percent of all distributions are fully taxable in the period they are received.

Q. Are you aware that legislation recently has been introduced regarding the taxation of publicly traded partnerships?

A. Yes. On June 14, 2007, Senators Baucus and Grassley introduced legislation that "...would tax as corporations all partnerships that directly or indirectly derive income from investment advisor or asset management services."[39] On its face, the bill appears expressly limited to partnerships that derive income or gains "...from services provided by any person as an investment advisor, as defined in the Investment Advisors Act of 1940, or as a person associated with an investment

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[39] United States Senate Committee on Finance, News Release dated June 14, 2007, *Baucus-Grassley Bill Addresses Publicly Traded Partnerships*

advisor, as defined in that Act."[40] The bill does not address the use of such partnerships, as Congress envisioned, in fostering energy infrastructure investment.

Q. How does the investment community regard MLPs in comparison to corporations; in what ways do they differ in the eyes of the investor?

A. Investors consider the two primary components of the return on their investments, yield and growth. The decision to invest in MLPs, relative to other publicly traded securities, is largely dependent on the investor's preference with respect to distributions, tax treatment, growth prospects, and risk. S&P discusses the features of MLPs in the context of the greater market, acknowledging that there is a trade-off between the receipt of large cash distributions and the resulting loss of financial flexibility that is characteristic of MLPs:

> The main attractive feature of MLPs for investors is that they avoid double taxation by paying out nearly all free cash flow to unitholders. In addition, general partners of MLPs can receive an increasingly large interest in distributions as dividends are raised. However, MLPs therefore also often have limited financial flexibility and must rely on their ability to raise fresh debt or equity to fund new investments.[41]

Q. What are your conclusions with respect to the inclusion of MLPs in the proxy group and whether MLP distributions constitute a return of capital for purposes of developing an ROE estimate?

A. It is appropriate to treat the distribution yield exactly the same as the dividend yield for purposes of calculating the DCF ROE estimates. It is understood that MLPs typically have higher distribution yields than corporations have dividend yields, but

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[40] Congressional Record – Senate, S7744, June 14, 2007.

[41] Standard and Poor's, *Commentary Report, Key Rating Factors For U.S. Natural Gas Pipelines*, August 10, 2005, at 3.

this difference is offset in the growth rates of the two companies' structures. The MLPs will assume a lower growth rate with less cash available to fund growth, where as corporate pipeline companies would generally expect a higher growth rate in conjunction with a lower dividend yield. As discussed earlier in my testimony, however, for the MLPs included in my proxy group there is no indication that the distribution yields are unduly biased by the source of distributable funds or that external financing distorts the MLP growth rates relative to corporate growth rates (See Exhibit No. SR-55). My results therefore indicate that there is no distinguishable difference between the returns required by investors for a publicly-traded corporation versus a publicly-traded MLP (all else being equal).

VI. DETERMINATION OF THE APPROPRIATE ROE

Q. Please describe the DCF approach.

A. The DCF approach is based on the theory that an equity share's price represents the present value of all future expected cash flows. In its simplest form, the DCF model expresses the ROE as the sum of the expected dividend (or distribution) yield and long-term growth rate. The DCF approach estimates a firm's ROE as the rate that equates the discounted value of all future cash flows expected by investors with the value of its common stock (or limited partnership units). In its most common form, the DCF model is expressed as follows:

$$k = \frac{D(1+g)}{P} + g \quad [1]$$

where "*k*" equals the required return, "*D*" is the current dividend (or distribution), "*g*" is the expected growth rate, and "*P*" represents the subject company's stock (or unit) price[42]. As noted later in my testimony, consistent with Commission precedent, the two-stage form of the DCF model used in my analysis is essentially similar to Equation [1], but for the fact that the growth rate, *g*, is calculated as the weighted average of a near-term and a long-term growth rate.

Q. What assumptions are required for the DCF model?

A. The DCF model requires the following assumptions: (i) a constant average growth rate for earnings and dividends; (ii) a stable dividend payout ratio; (iii) a constant price-to-earnings multiple; and (iv) a discount rate greater than the expected growth rate. In light of those assumptions, it is not uncommon for analysts to apply considered judgment or to make specific adjustments to model inputs or results in arriving at an ROE recommendation.

A. <u>Dividend (or Distribution) Yield</u>

Q. How did you determine the dividend yield?

A. In keeping with Commission precedent, I have used the current annualized dividend (or distribution) together with the average of the high and low stock prices for each of the most recent six-months for each of the proxy group companies as of May 31, 2007.[43] My calculation of the average stock or unit prices for each proxy group company is shown on Exhibit No. SR-56. As shown in that Exhibit, I also calculated the average stock price using the simple 180-day average price as of May 31, 2007.

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42 Strictly speaking, MLPs make "distributions" to unit holders and corporations pay "dividends" to stockholders, but the DCF model makes no distinction between dividends and distributions. I have attempted to provide the alternate term, where appropriate, throughout the testimony.

43 *See Williston Basis Interstate Pipeline Company*, 84 FERC ¶ 61,081, at 61,382 (1998).

Q. Did you adjust the dividend (or distribution) yield to account for periodic growth in dividends (or distributions)?

A. Yes. Since companies tend to increase their quarterly dividends (or distributions) at different times throughout the year, it is reasonable to assume that such increases will be evenly distributed over calendar quarters. Given that assumption, it is reasonable to apply one-half of the expected annual dividend (or distribution) growth rate for the purposes of calculating the expected dividend (or distribution) yield component of the DCF model. This adjustment ensures that the expected yield is representative of the coming 12-month period. Accordingly, the DCF estimates provided in Exhibit No. SR-57 reflect one-half of the expected near-term growth in the dividend (or distribution) yield component of the model.

B. <u>DCF Growth Estimates</u>

Q. Is it important to select appropriate measures of growth in applying the DCF model?

A. Yes. The general form of the DCF model assumes a single growth estimate in perpetuity. Accordingly, in order to reduce the future growth rate to a single measure, one must assume a constant payout ratio, and that earnings, dividends (or distributions) and book value will all grow at the same constant rate. Over the long run, however, dividend (or distribution) growth can only be sustained by earnings growth. As noted by Brigham and Houston:

> Growth in dividends occurs primarily as a result of growth in *earnings per share* (EPS). Earnings growth, in turn, results from a number of factors, including (1) inflation, (2) the amount of earnings the

> company retains and invests, and (3) the rate of return the company earns on its equity (ROE).[44]

Consequently, it is important to focus on measures of earnings growth from multiple, credible sources as an appropriate measure of future growth.

Q. Why do you rely on forecasted, as opposed to historical, growth rates as the basis for your growth rate projections?

A. The ROE is a forward-looking concept that focuses on investor expectations regarding future returns. The estimation of such returns, therefore, should be based on forward-looking or projected data. Indeed, substantial academic research has demonstrated the relationship between analysts' forecasts and investor expectations.[45] In my view, I/B/E/S earnings growth rates, a source which provides a consensus estimate of earnings growth by collecting five-year earnings growth forecasts from a large pool of analysts on approximately 5,000 companies, and also a source commonly used by the Commission in ROE proceedings, provide a reasonable measure of growth estimates for use in the DCF model.

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44 Eugene F. Brigham and Joel F. Houston, *Fundamentals of Financial Management*, at 317 (Concise Fourth Edition, Thomson South-Western) [emphasis added].

45 *See*, Robert S. Harris, *Using Analysts' Growth Forecasts to Estimate Shareholder Required Rates of Return*, FINANCIAL MANAGEMENT (Spring 1986) at 59. In a review of literature regarding the extent to which analyst forecasts are reflected in stock prices, Harris noted: "...Vander Weide and Carleton recently compare consensus financial analyst forecasts of earnings growth to 41 different historical growth measures. They conclude that "there is overwhelming evidence that the consensus analysts' forecast of future growth is superior to historically-oriented growth measures in predicting the firm's stock price...consistent with the hypothesis that investors use analysts' forecasts, rather than historically-oriented growth calculations, in making stock buy and sell decisions.""

Q. What sources of near-term growth have you used in your DCF analysis?

A. In keeping with the Commission's preference, I have used the five-year growth estimates in earnings per share published by I/B/E/S.[46]

Q. How did you incorporate your near-term growth forecasts into the two-stage DCF analysis?

A. In *Williston Basin* (84 FERC ¶ 61,081), the Commission affirmed the use of a simple average of the near and long-term growth rate forecasts. Subsequently, in Opinion No. 414-A, the Commission modified the two-stage DCF analysis to "give greater weight to the short-term growth rate than to the long-term growth rate."[47] That approach, which applied weights of two-thirds and one-third to a short-term and long-term forecast, respectively, was affirmed in Opinion 414-B.[48] Consistent with the Commission's practice, therefore, I have given my near-term growth estimates, based on I/B/E/S estimates, a weighting factor of two-thirds (as discussed below, my long-term growth estimate is given a weighting factor of one-third).

Q. How did you develop your long-term growth rate estimate?

A. In Opinion No. 414-A[49] the Commission indicated a clear preference for the use of measures of long-term Gross Domestic Product ("GDP") growth as the long-term component of the growth estimate. That Opinion affirmed the Commission's findings in *Williston Basin* that GDP is an appropriate estimate of long-term growth because:

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46 Opinion No. 414-A, 84 FERC ¶ 61,084, (1998).
47 Ibid.
48 Opinion No. 414-B, 85 FERC ¶ 61,323 at 62,269-70.
49 Id.

> ...as companies reach maturity over the long-term, their growth slows, and their growth rate will approach that of the economy as a whole; second, the Commission concluded that, over the long-run, an expectation that a regulated firm will grow at the rate of the average firm in the economy is reasonable; third, the purpose of using the DCF analysis in this proceeding is to approximate the rate of return an investor would reasonably expect from a pipeline company, and record in those proceedings showed that the long-term growth of the economy is used by two large investment houses as their long-term growth figure in conducting DCF analyses for investment purposes; and fourth, witnesses in those proceedings used the long-term growth of the economy as a whole as confirmation or support for their analyses.[50]

It is important to note, however, that while GDP growth may well provide a reasonable estimate of long-term earnings growth, it is not necessarily the case that earnings growth will equal revenue growth over the long term. It is worthy of note that the Blue Chip Economic Indicators consensus forecast indicates that over the latter portion of Blue Chip's forecast period, pre-tax income is expected to grow at an annual rate of approximately 5.7 percent. While I have not included a separate pre-tax income growth rate in my two-stage DCF model, I have considered that data in forming my estimate of long-term growth.

Q. What sources did you consider for your long-term growth rate estimate?

A. My long-term growth estimate is derived from (1) the *Annual Energy Outlook*, published by the Energy Information Administration; and (2) Blue Chip Economic Indicators Consensus Forecast; and (3) a market-based inflation estimate based on the difference between 10-year Treasuries and 10-year Treasury Inflation Protected

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50 84 FERC ¶ 61,081, at 61,385.

Securities ("TIPS").[51] The simple average of those three inflation adjusted sources produces a long-term nominal GDP growth rate of 5.35 percent. This is approximately a 35 basis point difference from the pretax income growth rate discussed above.

Q. Please explain how you applied the DCF model to the MLPs.

A. An MLP is a limited partnership, whose partnership interests are represented by units that are publicly traded, much the same as a stock price represents a shareholder's interests in a corporation. As discussed earlier, MLPs do not pay dividends, but rather make distributions to its limited partnership unit holders. I have applied the distribution per unit in the DCF model in the same way that I have applied the dividend yield per share of common stock. In addition, I have addressed the quarterly payment of distributions and dividends in the same way, by multiplying the dividend or distribution yield by 1 + ½ of the growth rate to obtain the expected distribution yield. The cash distributions that are received by the unit holders are analogous to dividends received by common shareholders. In both situations the return to the investor is the cash flow received in quarterly distributions plus the cash that would be received if the units or shares were sold upon a given valuation date.

Q. Please summarize your application of the two-stage DCF model.

A. I calculated the DCF result for each of the proxy group companies using the following inputs:

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[51] The difference in 10-year Treasury yield and the year on 10-year TIPS is often considered to be as estimate of long-term inflation expectations. Nominal GDP growth is calculated as the product of $(1+i)x(1+g)$ where i is the expected inflation rate and g is the long-term real GDP growth rate.

1) Based on Commission precedent,[52] I have averaged the nearest six monthly low and high stock (or unit) prices for the period ended May 31, 2007. This is the most current data available to obtain a perspective on market conditions as I prepare my testimony for the term *P*;
2) The current annualized dividend (or distribution) per share as of May 31, 2007;
3) I have used the I/B/E/S forecast for each of the proxy group companies as the short-term forecast growth rate;
4) I have used the simple average of the long-term nominal GDP forecast by the EIA, Blue Chip Economic Indicators, and inflation, measured as the difference between 10-year Treasuries and the TIPS as the long-term forecast growth rate.

As discussed earlier, I adjusted the six-month average dividend yield by one half of the expected short-term growth rate to arrive at the expected dividend yield component of the model. Finally, in accordance with the Commission's past practice, I applied weights of two-thirds and one-third to the short-term and long-term forecast growth rates, respectively. Please refer to Exhibit No. SR-57 for a tabulation of dividend yields and growth rates used in my DCF analysis.

Q. Please explain the approach by which you calculated your range of results.

A. I calculated my range of results in accordance with the Commission's past practice, which is to say that I calculated the two-stage DCF result for each company in the proxy group. I then established the range of reasonableness by reference to the low and high results of the group.

C. DCF Results

Q. Please describe the results of your DCF analysis.

A. Based on all the factors discussed in my testimony, and as shown in Exhibit No. SR-57, I have established a zone of reasonableness that is based on the high and low

52 Order rejecting partial settlement, establishing transportation and storage rates, and directing filings in *Cranberry Pipeline Corp.*, 112 FERC ¶ 61,268 (2005).

DCF results, for the comparable companies, from approximately 11.00 percent to 13.70 percent. I have tabulated the alternative measures of central tendency for my proxy group in Table 3 (below) based on both the Commission's averaging convention[53] and the simple 180-day average stock price.

Table 3: DCF Results

	Low	Mean	Median	Mid-point	High
DCF Results	10.96%	12.13%	12.13%	12.26%	13.56%
DCF Result 180 – Day Average Stock Price[54]	10.99%	12.28%	12.27%	12.34%	13.70%

Q. Did you undertake an additional supplemental analysis to validate your DCF model results?

A. Yes. I used the Bond Yield Plus Risk Premium approach to validate the results of my DCF analysis.

Q. Why is it important to use multiple methodologies when calculating the cost of equity?

A. Each of the models available to estimate the cost of equity is subject to its own set of assumptions or methodological constraints. For example, while the two-stage DCF model uses market-derived yield data, it also assumes a constant (albeit, weighted) growth rate in perpetuity. Consequently, many finance texts recommend using multiple approaches when estimating the cost of equity. Copeland, Koller and

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53 The Commission has typically relied on a six month average that is based on the average of six monthly data points, calculated based on the average of the high and the low stock price each month for the six month period.

54 180-day average is calculated as the simple average of 180 trading days.

Murrin,[55] for example, suggest using the CAPM and Arbitrage Pricing Theory model, while Brigham and Gapenski[56], for example, recommend the CAPM, the DCF, and the Bond Yield Plus Risk Premium approaches. Since each model requires the use of considerable judgment regarding assumptions and the validity of proxy entities, it is prudent to use multiple methodologies to mitigate the effects of assumptions and inputs associated with any single approach. Based on the Commission's preference for the two-stage DCF model and in light of the capital market practices discussed above, the two-stage DCF, supported by the results of the Bond Yield Plus Risk Premium analyses, is a reasonable methodological approach to establish Sea Robin's cost of equity.

Q. Please describe the bond yield plus risk premium approach you employed.

A. This approach estimates the cost of equity as the sum of the estimated risk premium and the yield on a particular class of bonds. Since the equity risk premium is not directly observable, it typically is estimated using one of a variety of approaches that in itself must incorporate an estimate of the cost of equity in the analysis. Inasmuch as any such approach necessarily introduces an additional element of estimation error, an alternative approach is to use the actual authorized returns for natural gas pipelines as the historical measure of the cost of equity. Since both authorized returns and Treasury yields are observable, this approach substantially mitigates the estimation error that otherwise may be included in the analysis.

55 Tom Copeland, Tim Koller and Jack Murrin, *Valuation: Measuring and Managing the Value of Companies*, 3rd ed. (New York: McKinsey & Company, Inc., 2000) 214.

56 Eugene Brigham, Louis Gapenski, *Financial Management: Theory and Practice*, 7th Ed. (Orlando: Dryden Press, 1994) 341.

Q. Are there other analytical considerations that should be addressed in conducting this analysis?

A. Yes. In my view, it is important to recognize both academic and market evidence suggesting that the equity risk premium (as used in this approach) is inversely related to the level of interest rates. That is, as interest rates increase (decrease), the equity risk premium decreases (increases). Consequently, it is important to develop an analysis that (1) reflects the inverse relationship between interest rates and the equity risk premium and (2) is based on more recent market conditions. Such an analysis can be developed based on a regression of the risk premium as a function of Treasury yields. If we let allowed natural gas pipeline ROEs serve as the measure of required equity returns and define the yield on ten-year Treasury Notes as the relevant measure of interest rates, the risk premium simply would be the difference between those two points.[57]

Q. What did your bond yield plus risk premium analysis reveal?

A. As shown on Chart 8 (below), from 1992 through 2006 there was, in fact, a strong negative relationship between the equity risk premium and interest rates. To estimate that relationship, I conducted a regression analysis using the following equation:

$$RP = a + b(T_{10}) \quad [2]$$

where:

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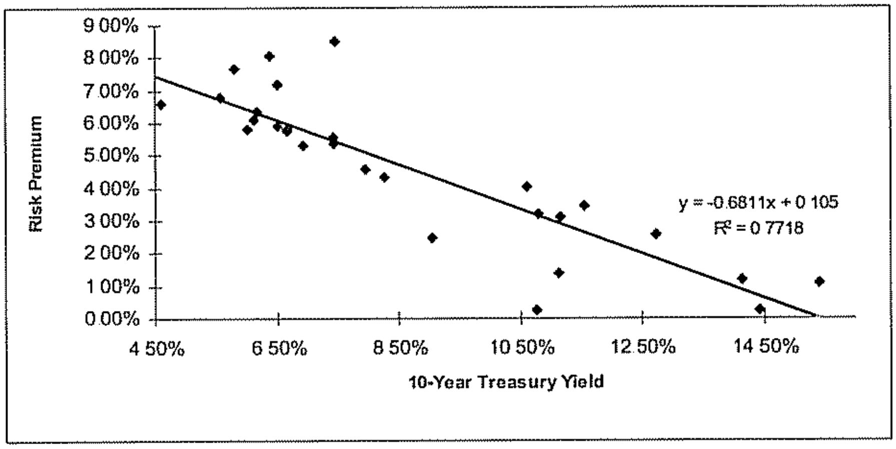
57 See for example, S. Keith Berry, *Interest Rate Risk and Utility Risk Premia during 1982-93*, Managerial and Decision Economics, Vol 19, No. 2 (March, 1998), in which the author used a methodology similar to the regression approach described below, including using allowed ROEs as the relevant data source, and came to similar conclusions regarding the inverse relationship between risk premia and interest rates. See also Robert S. Harris, *Using Analysts' Growth Forecasts to Estimate Shareholders Required Rates of Return*, Financial Management, Spring 1986, at 66

RP = Risk Premium (difference between allowed ROEs and 10-year Treasury yield)
a = Intercept Term
b = Slope Term
T_{10} = 10-year Treasury Bond Yield

Data regarding allowed ROEs was derived from 30 rate cases from 1976 through the fourth quarter of 2006. This equation and its coefficients were statistically significant, with an R^2 of 0.77.

Chart 8: Risk Premium vs. Interest Rates[58]



As shown in Exhibit No. SR-58, from 1976 through the fourth quarter of 2006 the average risk premium was approximately 6.96 percent. As shown in Exhibit No. SR-58, adding the risk premium to the Blue Chip forecasted risk-free rate results in an ROE of 12.16 percent, which is consistent with the median DCF results but does not reflect the additional business risks faced by Sea Robin.

[58] Source: Northwest Pipeline Corporation, Docket RP06-416, Prepared Direct Testimony of Charles Olson, Exhibit No. NWP-43; data provided in Dr. Olson's testimony were corroborated by reference to Commission Orders.

VII. SUMMARY AND CONCLUSIONS

Q. Please summarize your recommended ROE for Sea Robin

A. Based on all the factors discussed in my testimony, I find that the zone of reasonableness is from approximately 11.00 percent to approximately 13.60 percent. The median of that range, which is approximately 12.10 percent, represents the ROE for a natural gas pipeline of average risk. The 180-day stock price averaging convention results in a zone of reasonableness from approximately 11.00 percent to 13.70 percent, with a median of approximately 12.27 percent. As noted earlier, the Company's risk profile requires that a return at above the median results for the pipeline group. In my view, therefore the Company should be provided the opportunity to earn a return of 13.50 percent on its equity capital.

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

Commonwealth of Massachusetts }
} SS.
County of Middlesex }

BEFORE ME, the undersigned authority, on this day personally appeared Robert B. Hevert, who being by me first duly sworn, on oath deposes and says:

That he is the Robert B. Hevert, offering the foregoing prepared direct testimony and that all statements of fact contained therein are true and correct to the best of his knowledge, information and belief.

Robert B. Hevert

Subscribed and sworn to before me this 27th day of June, 2007.

Jessica Musumane
Notary Public

My Commission Expires:
12/8/11

JESSICA LYNN MUSUMANE
Notary Public
Commonwealth of Massachusetts
My Commission Expires
December 8, 2011

Robert B. Hevert, CFA
President

Mr. Hevert is an economic and financial consultant with broad experience in the energy industry. He has an extensive background in the areas of corporate strategic planning, energy market assessment, corporate finance, mergers, and acquisitions, asset-based transactions, asset and business unit valuation, market entry strategies, strategic alliances, project development, feasibility and due diligence analyses. Mr. Hevert has significant management experience with both operating and professional services companies.

REPRESENTATIVE PROJECT EXPERIENCE

Financial and Economic Advisory Services

Retained by numerous leading energy companies and financial institutions throughout North America to provide services relating to the strategic evaluation, acquisition, sale or development of a variety of regulated and non-regulated enterprises. Specific services have included: developing strategic and financial analyses and managing multi-faceted due diligence reviews of proposed corporate M&A counter-parties; developing, screening and recommending potential M&A transactions and facilitating discussions between senior utility executives regarding transaction strategy and structure; performing valuation analyses and financial due diligence reviews of electric generation projects, retail marketing companies, and wholesale trading entities in support of significant M&A transactions.

Specific divestiture-related services have included advising both buy and sell-side clients in transactions for physical and contractual electric generation resources. Sell-side services have included: development and implementation of key aspects of asset divestiture programs such as marketing, offering memorandum development, development of transaction terms and conditions, bid process management, bid evaluation, negations, and regulatory approval process. Buy-side services have included comprehensive asset screening, selection, valuation and due diligence reviews. Both buy and sell-side services have included the use of sophisticated asset valuation techniques, and the development and delivery of fairness opinions.

Specific corporate finance experience while a Vice President with Bay State Gas included: negotiation, placement and closing of both private and public long-term debt, preferred and common equity; structured and project financing; corporate cash management; financial analysis, planning and forecasting; and various aspects of investor relations.

Representative non-confidential clients have included:

- Conectiv generation asset divestiture
- Eastern Utilities Associates (prior to acquisition by National Grid, PLC) generation asset divestiture
- Niagara Mohawk – sale of Niagara Mohawk Energy
- Potomac Electric Company generation asset divestiture

Representative confidential engagements have included:

- Buy-side valuation and assessment of merchant generation assets in Midwestern US
- Buy-side due diligence and valuation of wholesale energy marketing companies in Eastern and Midwestern US
- Buy-side due diligence of natural gas distribution assets in Northeastern US
- Financial feasibility study of natural gas pipeline in upper Midwestern US
- Financial valuation of natural gas pipeline in Southwestern US

Regulatory Analysis and Ratemaking

On behalf of electric, natural gas and combination utilities throughout North America, provided services relating to energy industry restructuring including merchant function exit, residual energy supply obligations, and stranded cost assessment and recovery. Also performed rate of return and cost of service analyses for municipally owned gas and electric utilities. Specific services provided include: performing strategic review and development of merchant function exit strategies including analysis of provider of last resort obligations in both electric and gas markets; and developing value optimizing strategies for physical generation assets.

Representative engagements have included:

- Performing rate of return analyses for use in cost of service analyses on behalf of municipally owned gas and electric utilities in the Southeastern and Midwestern US
- Developing merchant function exit strategies for Northeastern US natural gas distribution companies
- Developing regulatory and ratemaking strategy for mergers including several Northeastern natural gas distribution companies

Litigation Support and Expert Testimony

Provided expert testimony and support of litigation in various regulatory proceedings on a variety of energy and economic issues including the proposed transfer of power purchase agreements, procurement of residual service electric supply, the legal separation of generation assets, and specific financing transactions. Services provided also included collaborating with counsel, business and technical staff to develop litigation strategies, preparing and reviewing discovery and briefing materials, preparing presentation materials and participating in technical sessions with regulators and intervenors.

Energy Market Assessment

Retained by numerous leading energy companies and financial institutions nationwide to manage or provide assessments of regional energy markets throughout the US and Canada. Such assessments have included development of electric and natural gas price forecasts, analysis of generation project entry and exit scenarios, assessment of natural gas and electric transmission infrastructure, market structure and regulatory situation analysis, and assessment of competitive position. Market assessment engagements typically have been used as integral elements of business unit or asset-specific strategic plans or valuation analyses.

Representative engagements have included:

- Managing assessments of the NYPOOL, NEPOOL and PJM markets for major North American energy companies considering entering or expanding their presence in those markets
- Assessment of ECAR, MAPP, MAIN and SPP markets for a large US integrated utility considering acquisition of additional electric generation assets
- Assessment of natural gas pipeline and storage capacity in the SERC and FRCC markets for a major international energy company

Resource Procurement, Contracting and Analysis

Assisted various clients in evaluating alternatives for acquiring fuel and power supplies, including the development and negotiation of energy contracts and tolling agreements. Assignments also have included developing generation resource optimization strategies. Provided advice and analyses of transition service power supply contracts in the context of both physical and contractual generation resource divestiture transactions.

Business Strategy and Operations

Retained by numerous leading North American energy companies and financial institutions nationwide to provide services relating to the development of strategic plans and planning processes for both regulated and non-regulated enterprises. Specific services provided include: developing and implementing electric generation strategies and business process redesign initiatives; developing market entry strategies for retail and wholesale businesses including assessment of asset-based marketing and trading strategies; and facilitating executive level strategic planning retreats. As Vice President, Energy Ventures, of Bay State was responsible for the company's strategic planning and business development processes, played an integral role in developing the company's non-regulated marketing affiliate, EnergyUSA, and managed the company's non-regulated investments, partnerships and strategic alliances.

Representative engagements have included:

- Developing and facilitating executive level strategic planning retreats for Northeastern natural gas distribution companies
- Developing organization and business process redesign plans for municipally owned gas/electric/water utility in the Southeastern US
- Reviewing and revising corporate merchant generation business plans for Canadian and US integrated utilities
- Advising client personnel in development of business unit level strategic plans for various natural gas distribution companies

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PROFESSIONAL HISTORY

Concentric Energy Advisors, Inc. (2002 – Present)
President

Navigant Consulting, Inc. (1997 – 2001)
Managing Director (2000 – 2001)

Director (1998 – 2000)

Vice President, REED Consulting Group (1997 – 1998)

REED Consulting Group (1997)
Vice President

Bay State Gas Company (1987 – 1997)
Vice President, Energy Ventures and Assistant Treasurer

Boston College (1986 – 1987)
Financial Analyst

General Telephone Company of the South (1984 – 1986)
Revenue Requirements Analyst

EDUCATION

M.B.A., University of Massachusetts at Amherst, 1984

B.S., University of Delaware, 1982

DESIGNATIONS AND PROFESSIONAL AFFILIATIONS

Chartered Financial Analyst, 1991

Association for Investment Management and Research

Boston Security Analyst Society

PUBLICATIONS/PRESENTATIONS

Has made numerous presentations throughout the United States and Canada on several topics, including:

- Generation Asset Valuation and the Use of Real Options
- Retail and Wholesale Market Entry Strategies
- The Use Strategic Alliances in Restructured Energy Markets
- Gas Supply and Pipeline Infrastructure in the Northeast Energy Markets
- Nuclear Asset Valuation and the Divestiture Process

AVAILABLE UPON REQUEST

Extensive client and project listings, and specific references.

EXPERT TESTIMONY OF ROBERT B. HEVERT

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Centerpoint Energy Resources Corp. D/B/A Centerpoint Energy Arkansas Gas	01/07	Centerpoint Energy Resources Corp. D/B/A Centerpoint Energy Arkansas Gas	Docket No. 06-161-U	Return on Equity
Xcel Energy	12/06	Public Service Company of Colorado	Docket No. 06S-__G	Return on Equity (gas)
Transwestern Pipeline Company	9/06	Transwestern Pipeline Company	Docket No. RP06-614-000	Return on Equity
Pepco Holdings, Inc.	9/06	Atlantic City Electric		Divestiture and Valuation of Electric Generating Assets
Columbia Gas Of Virginia, Inc.	6/06	Columbia Gas Of Virginia, Inc.	Case No. PUE-2005-00098	Merger Synergies
Xcel Energy	5/06	Southwestern Public Service	SOAH Docket No. 473-06-2536 Docket No. 32766	Return on Equity (electric)
Xcel Energy	4/06	Public Service Company of Colorado	Docket No. 06S-__E	Return on Equity (electric)
Green Mountain Power	4/06	Green Mountain Power		Return on Equity (electric)
Vermont Gas Systems, Inc.	12/05	Vermont Gas Systems	Docket No. 7109 and No. 7160 (Vermont)	Return on Equity (gas)
Pepco Holdings, Inc.	12/05	Atlantic City Electric	BPU Docket No. EM05121058	Market Value of Electric Generation Assets; Auction
Xcel Energy	11/05	NSP-Minnesota	Docket No. E002/GR-05-1428 (Minnesota)	Return on Equity (electric)
Xcel Energy	08/05	Public Service Company of Colorado	Advice Letter No. 94-Steam (Colorado)	Return on Equity (steam)
Xcel Energy	05/05	Public Service Company of Colorado	Docket No. 05-264G (Colorado)	Return on Equity (gas)
NSTAR Electric	09/04	NSTAR Electric	D.T.E 04-85 (Massachusetts)	Divestiture of Power Purchase Agreement

EXPERT TESTIMONY OF ROBERT B. HEVERT

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Xcel Energy	09/04	NSP Minnesota	G002/GR-04-1511 (Minnesota)	Cost of Capital (gas)
NSTAR Electric	08/04	NSTAR Electric	D.T.E 04-78 (Massachusetts)	Divestiture of Power Purchase Agreement
NSTAR Electric	07/04	NSTAR Electric	D.T.E 04-68 (Massachusetts)	Divestiture of Power Purchase Agreement
NSTAR Electric	07/04	NSTAR Electric	D.T.E 04-61 (Massachusetts)	Divestiture of Power Purchase Agreement
NSTAR Electric	06/04	NSTAR Electric	D.T.E 04-60 (Massachusetts)	Divestiture of Power Purchase Agreement
Unitil Corporation	01/04	Fitchburg Gas and Electric	D.T.E. 03-52 (Massachusetts)	Integrated Resource Plan; Gas Demand Forecast
Conectiv	06/03	Atlantic City Electric Company	BPU EO03020091 (New Jersey)	Market Value of Electric Generation Assets; Auction Process
Dominion Resources	10/01	Virginia Electric and Power Company	PUE000584 (Virginia)	Corporate Structure and Electric Generation Strategy
Niagara Mohawk Power Corporation	07/01	Niagara Mohawk Power Corporation	NY PSC Case 01-E	Power Purchase and Sale Agreement; Standard Offer Service Agreement
GPU International and Aquila	11/00	GPU International	EC01- (FERC)	Market Power Study
Northern Utilities, Inc.	07/95	Northern Utilities	Maine PUC	Gas Distribution System Expansion
Bay State Gas Company	01/93	Bay State Gas Company	DPU 93-14	Long Term Debt Financing
Bay State Gas Company	01/91	Bay State Gas Company	DPU 91-25	Long Term Debt Financing

EL PASO CORPORATION TWO-STAGE CONSTANT GROWTH DCF

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Company	Ticker	Annualized Dividend	Average Stock Price	Dividend Yield	Expected Dividend Yield	I/B/E/S Consensus Growth	GDP Growth	Weighted Average Growth Rate *	DCF
El Paso Corp	EP	$0.16	$14.87	1.08%	1.12%	8.00%	5.35%	7.12%	8.23%

Notes
[1] Source: Yahoo! Finance
[2] Source: Yahoo! Finance.
[3] Equals Col. [1]/Col. [2]
[4] Equals Col. [3] x (1+(.5 x Col. [5]))
[5] Source: Thomson Research
[6] Average of EIA AEO, and Blue Chip Forecast
[7] Equals Col [5] x (2/3)+ Col [6] x (1/3)

[8] Equals Col. [4] + Col. [7]

THE WILLIAMS COMPANIES TWO-STAGE CONSTANT GROWTH DCF

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Company		Annualized Dividend	Average Stock Price	Dividend Yield	Expected Dividend Yield	I/B/E/S Consensus Growth	GDP Growth	Weighted Average Growth Rate	DCF
Williams Companies	WMB	$0.40	2752.92%	1.45%	1.54%	11.50%	5.35%	9.45%	10.99%

Williams Weighted Average Cost of Debt	7.59%
Risk Premium	3.40%

Notes
[1] Source: Yahoo! Finance
[2] Source: Yahoo! Finance.
[3] Equals Col. [1]/Col. [2]
[4] Equals Col. [3] x (1+(.5 x Col. [5]))
[5] Source: Thomson Research
[6] Average of EIA AEO, and Blue Chip Forecast
[7] Equals Col [5] x (2/3)+ Col [6] x (1/3)
[8] Equals Col. [4] + Col. [7]

THE WILLIAMS COMPANIES WEIGHTED AVERAGE COST OF DEBT

	Interest Rate	Principal	% of Total Debt	Weighted Interest Rate
Secured (2)				
6.62%-9.45%, payable through 2016	8.00%	$ 171.70	2.14%	0.17%
Adjustable rate, payable through 2016	6.20%	$ 74.40	0.93%	0.06%
Capital lease obligations	9.30%	$ 2.50	0.03%	0.00%
Unsecured				
5.5%-10.25%, payable through 2033	7.60%	$ 7,690.40	95.96%	7.29%
Adjustable rate, due 2008	6.70%	$ 75.00	0.94%	0.06%
Other, payable through 2007	6.00%	$ 0.10	0.00%	0.00%
Total Long-term debt, including current portion		$ 8,014.10	100.00%	7.59%

Notes:
Source: WMB 2006 SEC FORM 10-K

PROXY GROUP SCREENING CRITERIA

	Ticker	Dividends	Covered by More than 1 Analyst	Owns 100% of major FERC-regulated natural gas pipeline	% Regulated natural gas transmission net income to total regulated net income	Merger	% NG Pipeline Revenue, Op Income and Assets	25% Natural Gas Transmission Assets, Op Income and Revenue
Boardwalk Pipeline Partners LP	BWP	Yes	Yes	Yes	Yes	No	Yes	Yes
Buckeye Partners LP	BPL	Yes	Yes	No	No	No	No	No
Cabot Oil and Gas	COG	Yes	Yes	No	No	No	No	No
Chesapeake Energy	CHK	Yes	Yes	No	No	No	No	No
Devon Energy	DVN	Yes	Yes	No	No	Yes	No	No
Dynegy Inc	DYN	No	Yes	No	No	Yes	No	No
El Paso Corp	EP	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Enbridge Energy Partners LP	EEP	Yes	Yes	Yes	No	No	Yes	Yes
Enbridge Inc	ENB	Yes	Yes	No	No	No	No	No
Energen Corporation	EGN	Yes	Yes	No	No	No	No	No
Enterprise Products Partners LP	EPD	Yes	Yes	Yes	Yes	No	Yes	Yes
EOG Resources	EOG	Yes	Yes	No	No	No	No	No
Equitable Resources, Inc.	EQT	Yes	Yes	Yes	No	Yes	No	No
Kinder Morgan Energy Partners, L.P.	KMP	Yes	Yes	Yes	Yes	No	Yes	Yes
Magellan Midstream Partners LP	MMP	Yes	Yes	No	No	No	No	No
MarkWest Energy Partners, L.P.	MWE	Yes	Yes	Yes	Yes	No	Yes	Yes
National Fuel Gas Company	NFG	Yes	Yes	Yes	Yes	No	No	Yes
Newfield Exploration	NFX	No	Yes	No	No	Yes	No	No
OneOK Partners, L.P.	OKS	Yes	Yes	Yes	Yes	No	Yes	Yes
OneOK, Inc	OKE	Yes	Yes	No	No	No	No	No
Questar Corporation	STR	Yes	Yes	Yes	Yes	No	No	No
Southwestern Energy	SWN	No	Yes	No	No	No	No	No
Spectra Energy	SE	Yes	No	Yes	Yes	Yes	Yes	Yes
TC PipeLines L.P.	TCLP	Yes	Yes	No	Yes	Yes	No	Yes
TEPPCO Partners	TPP	Yes	Yes	Yes	No	Yes	Yes	Yes
Williams Companies	WMB	Yes	Yes	Yes	Yes	No	Yes	Yes
XTO Energy, Inc	XTO	Yes	Yes	No	No	Yes	No	No

GAS PIPELINE COMPANIES OWNED BY PROXY GROUP CANDIDATE COMPANIES

Proxy Group Company	Gas Transportation Companies/Pipelines	% Ownership	Capacity	Capacity units	Length (miles)
Williams Companies	Gulfstream	50%	1	MMdt/d	691
	Northwest Pipeline Corporation	100%	3	Bcf/d	3.900
	Transcontinental Gas Pipeline Corporation	100%	8	Bcf/d	10,500
Enterprise Products Partners, L.P.	San Juan Gathering System	100%	1.100	MMcf/d	5,404
	Permian Basin System	100%	490	MMcf/d	1.477
	High Island Offshore System	100%	1,800	MMcf/d	204
	NGL Pipelines				
	Mid-American Pipeline System	100%			7,378
	Dixie Pipeline	74%			1,370
	Seminole Pipeline	90%			1,326
	EPD South Texas NGL System	100%			1,039
	Louisiana Pipeline System	Various			612
	Promix NGL Gathering System	50%			362
	DEP South Texas NGL Pipeline System	100%			286
	Houston Ship Channel	100%			266
	Lou-Tex NGL	100%			204
	Other (5 Systems)	Various			452
	Onshore Natural Gas Pipelines				
	Texas Intrastate System	100%	5.155	MMcf/d	8.140
	Jonah Gathering System	14%	1.750	MMcf/d	643
	Piceance Creek Gathering System	100%	1.600	MMcf/d	48
	San Juan Gathering System	100%	1.200	MMcf/d	6.065
	Acadian Gas System	Various	954	MMcf/d	1.042
	Permian Basin System	100%	490	MMcf/d	1.387
	Alabama Intrastate System	100%	200	MMcf/d	408
	Encinal Gathering System	100%	143	MMcf/d	452
	Other (5 Systems)	Various			704
	Offshore Natural Gas Pipelines				
	VESCO Gathering System	13%	800	MMcf/d	260
	Manta Ray Offshore Gathering System	26%	206	MMcf/d	250
	High Island Offshore System	100%	1.800	MMcf/d	204
	Viosca Knoll Gathering System	100%	1.000	MMcf/d	164
	Green Canyon Laterals	Various	649	MMcf/d	136
	Anaconda Gathering System	100%	550	MMcf/d	136
	Independence Trail	100%	1,000	MMcf/d	134
	Nautilus System	26%	154	MMcf/d	101
	East Breaks System	100%	400	MMcf/d	85
	Phoenix Gathering System	100%	450	MMcf/d	78
	Nemo Gathering System	34%	102	MMcf/d	24
	Falcon Natural Gas Pipeline	100%	400	MMcf/d	14

GAS PIPELINE COMPANIES OWNED BY PROXY GROUP CANDIDATE COMPANIES

Proxy Group Company	Gas Transportation Companies/Pipelines	% Ownership	Capacity	Capacity units	Length (miles)
Kinder Morgan Energy Partners, L.P.	Kinder Morgan Interstate Gas Transmission	100%	169	MDth/d	5.100
	Rockies Express Pipeline	51%	1.800	MMcf/d	1.662
	Trailblazer Pipeline Company	100%	846	MMcf/d	436
	Pacific Operations	100%	1	Mbpd	
	West Line	100%			515
	East Line	100%			420
	San Diego Line	100%			135
	CALNEV Line	100%			303
	North Line	100%			864
	Bakersfield Line	100%			100
	Oregon Line	100%			114
	Plantation Pipeline Company	51%	555.060	Mbpd	3.100
	Central Florida Pipeline	100%	112.000	bpd	110
	North System	100%	8	Mbpd	1,600
	Cochin Pipeline System	50%	124.000	bpd	1.900
	Cypress Pipeline	100%	30,000	bpd	104
	Southeast Terminals	100%	347.000	bpd	
	Kinder Morgan Southeast Terminals	100%			
	Guilford County Terminal Co.	100%			
	Texas Intrastate Natural Gas Pipeline Group	100%			
	Kinder Morgan Texas Pipeline	100%	5,200	MMcf/d	6.000
	Kinder Morgan Tejas Pipeline	100%	300	MMcf/d	97
	Mierr-Monterrey Mexico Pipeline	100%	735	MMcf/d	95
	Kinder Morgan North Texas Pipeline	100%	325	MMcf/d	86
	TransColorado Gas Transmission Company	100%	869	MMcf/d	300
	Kinder Morgan Louisiana Pipeline	100%	3.200	MMcf/d	133
	Casper and Douglas Natural Gas	100%	185	MMcf/d	
	Red Cedar Gathering Company	49%	250	MMcf/d	
	Thunder Creek Gas Services	25%	240	MMcf/d	549
	Trailblazer Pipeline Company	100%	730	MMcf/d	436
	Rockies Express Pipeline	51%	1.500	MMcf/d	1.662
Boardwalk Pipeline Partners, L.P.	Texas Gas Transmission Company	100%	3	Bcf/d	5,900
	Gulf South Pipeline	100%	4	Bcf/d	7.570
Enbridge Energy Partners, L.P.	Enbridge Pipelines (AlaTenn)	100%	200	MMcf/d	218
	Enbridge Pipelines (Midla)	100%	200	MMcf/d	405
	Enbridge Pipelines (KPC)	100%	160	MMcf/d	1.120
	Enbridge Offshore Pipelines (UTOS)	100%	1,200	MMcf/d	30
OneOK Partners, L.P.	Northern Border Pipeline Company	50%	2,374	MMcf/d	1.249
	Midwestern Gas Transmission Company	100%	1.125	MMcf/d	350
	Viking Gas Transmission Company	100%	496	MMcf/d	578
	Guardian Pipeline	33 1/3%	750	MMcf/d	143
Boardwalk Pipeline Partners, L.P.	Texas Gas System	100%	3	Bcf/d	5.900
	Gulf South System	100%	4	Bcf/d	7.500
	Expansion Projects (projects under construction)				
	Carthage to Keatchie Loop	100%	120	MMcf/d	25
	East Texas to Mississippi	100%	2	Bcf/d	242
	Gulf Crossing Project		2	Bcf/d	355
	Southeast Expansion	100%	2	Bcf/d	112
	Fayetteville Shale	100%	800	MMcf/d	165
Enbridge Energy Partners	Crude Oil				
	Lakehead System	100%	350.000	Bpd	3.300
	Mid-Continent System	100%	244.000	Bpd	480
	North Dakota System	100%	95.000	Bpd	950
	Natural Gas				
	East Texas System		1,300	MMcf/d	2,900
	Anadarko System		440	MMcf/d	1.200
	North Texas System		1.800	MMcf/d	4,200

GAS PIPELINE COMPANIES OWNED BY PROXY GROUP CANDIDATE COMPANIES

Proxy Group Company	Gas Transportation Companies/Pipelines	% Ownership	Capacity	Capacity units	Length (miles)
MarkWest Energy Partners LP	Southwest Business Unit				
	East Texas	100%	401.400	MMcf/d	
	Forest Lake	100%	95.200	MMcf/d	
	Woodford	100%	51.200	MMcf/d	
	Grimes	100%	12.700	MMcf/d	
	Northeast Business Unit				
	Appalachia	100%	203.400	MMcf/d	
	Michigan	100%	6.000	MMcf/d	
	Gulf Coast Business Unit				
	Javelina	100%	2.800	NGLs/d	
	Starfish Pipeline Company	50%			
Chesapeake Energy Corp.	Mid-Continent/Appalachian region	100%			8.000
Buckeye Partners L.P.	Buckeye Pipe Line Company, L P	100%			2.463
	Laurel Pipe Line Company, L P	100%			345
	Wood River Pipe Lines LLC	100%			925
	Buck Eye Pipe Line Transportation	100%			478
	Everglades Pipe Line Company, L P	100%			37
	Buckeye NGL Pipe Lines LLC	100%			350
	Buckeye Pipe Line Holdings, L P.	100%			574
	Buckeye and Norco Pipe Line Company, LLC				
Enbridge, Inc.	Olympic Pipe Line	65%	290.000	Bpd	400
	Alliance Pipeline	100%	1	Bcf/d	1,875
	Vector Pipeline	100%	2	Bcf/d	348
	Enbridge Offshore Pipelines	100%	2	Bcf/d	1,500
Magellan Midstream Partners L.P.					8,500

PROXY GROUP BUSINESS SEGMENTS

Williams Companies

		Total	Power	Gas Pipeline	Exploration and Production	Midstream Gas and Liquids	Other	Eliminations
	2006	11,813	7,462	1,348	1,488	4,125	27	(2,636.0)
Williams Co.	2005	12,583.6	9,093.9	1,412.8	1,269.1	3,232.7	27.2	(2,452.1)
Segment Revenues	2004	12,461.3	9,272.4	1,362.3	777.6	2,882.6	32.8	(1,866.4)
Williams Co.	2006	1,369.4	(224)	430	530	631	2	
Segment Operating	2005	1,326.0	(236.8)	542.2	568.4	446.6	5.6	
Income	2004	1,405.7	86.5	557.6	223.9	552.2	(14.5)	
	2006 YTD	25,604,400	9,719,800	8,095,600	7,671,800	5,349,000	3,617,400	(8,849,200)
Williams Co.	2005	39,849.8	14,989.2	7,581.0	8,672.0	4,677.7	3,929.9	
Segment Assets	2004	28,228.0	8,204.1	7,651.8	3,576.4	4,211.7	2,584.0	

Power	Gas Pipeline	Exploration and Production	Midstream Gas and Liquids	Other	Eliminations	Total
63%	11%	13%	35%	0%	-22%	100%
72%	11%	10%	26%	0%	-19%	100%
74%	11%	6%	23%	0%	-15%	100%
-16%	31%	39%	46%	0%	0%	100%
-18%	41%	43%	34%	0%	0%	100%
6%	40%	16%	39%	-1%	0%	100%
38%	32%	30%	21%	14%	-35%	100%
38%	19%	22%	12%	10%	0%	100%
29%	27%	20%	15%	9%	0%	100%
32%	25%	22%	28%	4%	-10%	100%

Enterprise Products Partners, L.P.

		Total	Offshore Pipelines and Services	Onshore Pipelines and Services	NGL Pipelines and Services	Petrochemical Services	Adjustments and Eliminations
	2006	23,251,651	147,542	1,812,027	14,321,719	2,340,022	4,630,341
Enterprise Segment	2005	19,705,259	112,149	1,577,178	12,358,182	1,933,600	3,724,150
Revenues	2004	8,321,202	33,061	816,359	8,166,045	1,655,360	(2,349,423)
	2006	1,362,449	103,407	333,399	752,548	173,095	-
Enterprise Segment	2005	1,136,347	77,505	353,076	579,706	126,060	-
Operating Income	2004	623,166	36,478	90,977	374,196	121,515	-
	2006	9,832,547	734,659	3,611,974	3,249,486	502,345	1,734,083
Enterprise Segment	2005	8,689,024	632,222	3,622,318	3,075,048	504,841	854,595
Assets	2004	7,831,467	648,181	3,729,650	2,753,934	469,327	230,375

Offshore Pipelines and Services	Onshore Pipelines and Services	NGL Pipelines and Services	Petrochemical Services	Adjustments and Eliminations	Total
1%	8%	62%	10%	20%	0%
1%	8%	63%	10%	19%	0%
0%	10%	98%	20%	-28%	0%
8%	24%	55%	13%	0%	0%
7%	31%	51%	11%	0%	0%
6%	15%	60%	19%	0%	0%
7%	37%	33%	5%	18%	0%
7%	42%	35%	6%	10%	0%
8%	48%	35%	6%	3%	0%
5%	25%	55%	11%	5%	0%

Kinder Morgan Energy Partners, L.P.

		Total	Products Pipelines	Natural Gas Pipelines	CO_2	Terminals
Kinder Morgan	2006	16,732,183	776,268	6,577,661	736,524	8,641,730
Energy Partners	2005	9,787,128	711,886	7,718,384	657,594	699,264
Segment Revenues	2004	7,932,861	645,249	6,252,921	492,834	541,857
Kinder Morgan	2006	1,542,863	404,900	509,140	295,231	333,592
Energy Partners	2005	1,300,398	287,503	438,386	318,980	255,529
Operating Income	2004	1,208,299	370,321	364,872	234,258	238,848
Kinder Morgan	2006	12,055,622	3,910,612	3,942,786	1,838,223	2,364,001
Energy Partners	2005	11,839,121	3,873,939	4,139,969	1,772,756	2,052,457
Segment Assets	2004	10,447,257	3,651,657	3,691,457	1,527,810	1,576,333

Products Pipelines	Natural Gas Pipelines	CO_2	Terminals	Total
5%	39%	4%	52%	100%
7%	79%	7%	7%	100%
8%	79%	6%	7%	100%
26%	33%	19%	22%	100%
22%	34%	25%	20%	100%
31%	30%	19%	20%	100%
32%	33%	15%	20%	100%
33%	35%	15%	17%	100%
35%	35%	15%	15%	100%
22%	44%	14%	20%	100%

Boardwalk Pipeline Partners, L.P.

		Total	Gas Transportation	Parking and Lending	Gas Storage	Other
	2006	607,642	508,241	49,163	32,396	17,842
Boardwalk Segment	2005	560,466	505,148	21,426	21,667	12,225
Revenues	2004	263,621	253,488	-	7,289	2,844
	2006	2,403,143	1,828,636		195,800	378,707
Boardwalk Segment	2005	1,881,350	1,407,055		129,274	345,001
Assets	2004	1,871,924	1,407,055		129,274	355,575

	Gas Transportation	Parking and Lending	Gas Storage	Other	Total
	84%	8%	5%	3%	100%
	90%	4%	4%	2%	100%
	96%	0%	3%	1%	100%
	76%	0%	8%	16%	100%
	75%	0%	7%	18%	100%
	74%	0%	7%	19%	100%
[1]	84%	2%	5%	8%	100%

[1] Average excludes Operating income and 2005 Segment assets

Exhibit No. SR-50
Page 1
Docket No. RP07-____-000

PROXY GROUP BUSINESS SEGMENTS

Enbridge Energy Partners, L.P.

	Year	Total	Liquids	Natural Gas	Marketing	Corporate
Enbridge Segment Revenues	2006	9,099.2	512.8	5,404.1	3,182.3	
	2005	9,247.3	418.0	4,945.1	3,884.2	
	2004	5,986.3	409.3	2,890.1	2,686.9	
Enbridge Operating Income	2006	386.9	199.8	133.9	56.1	(2.9)
	2005	195.1	127.3	110.5	(42.4)	(0.4)
	2004	237.2	139.1	98.1	3.6	(3.6)
Enbridge Segment Assets	2006	5,223.8	1,816.4	2,797.3	366.9	243.2
	2005	4,428.4	1,664.0	2,145.9	512.3	106.2
	2004	3,770.7	1,639.8	1,717.2	313.7	100.0

Oil and Natural Gas Liquids Transportation	Natural Gas (Gathering, Transportation and Storage)	Marketing	Corporate	Total
6%	59%	35%	0%	100%
5%	53%	42%	0%	100%
7%	48%	45%	0%	100%
52%	35%	14%	-1%	100%
65%	57%	-22%	0%	100%
65%	57%	-22%	0%	100%
35%	54%	7%	5%	100%
38%	48%	12%	2%	100%
38%	48%	12%	2%	100%
34%	51%	14%	1%	100%

OneOK Partners, L.P.

	Year	Total	Interstate Natural Gas Pipeline	Natural Gas Gathering and Processing	Coal Slurry Pipeline	Natural Gas Liquids	Pipelines and Storage	Other
OneOK Partners Segment Revenues	2006	5,328,348	$ 94,743	$ 1,476,090		$ 3,492,976	$ 264,539	
	2005	678,560	$ 378,701	$ 275,287	$ 24,572	$ -	$	
	2004	590,383	$ 383,625	$ 184,738	$ 22,020	$	$	
OneOK Partners Operating Income	2006	535,357	$ 158,505	$ 180,242		$ 88,691	$ 107,919	
	2005	256,768	$ 214,168	$ 44,714	$ 5,186	$ -	$	$ (7,300)
	2004	253,385	$ 231,027	$ 28,278	$ 3,446	$ -	$	$ (9,366)
OneOK Partners Segment Assets	2006	5,035,356	1,041,259	1,616,119		1,645,474	1,120,029	(387,525)
	2005	2,527,766	1,888,980	594,379	16,410	-		27,997
	2004	2,514,690	1,904,689	576,497	18,268			15,236

Interstate Natural Gas Pipeline	Natural Gas Gathering and Processing	Coal Slurry Pipeline	Natural Gas Liquids	Pipelines and Storage	Other	Total
2%	5%	0%	66%	5%	0%	77%
56%	41%	4%	0%	0%	0%	100%
65%	31%	4%	0%	0%	0%	100%
30%	34%	0%	17%	20%	0%	100%
83%	17%	2%	0%	0%	-3%	100%
91%	11%	1%	0%	0%	-4%	100%
21%	32%	0%	33%	22%	-8%	100%
75%	24%	1%	0%	0%	1%	100%
76%	23%	1%	0%	0%	1%	100%
55%	24%	1%	13%	5%	-1%	97%

Markwest Energy

	Year	Total	Starfish Pipeline
Markwest Segment Revenues	2006	$ 32,078	$ 32,078
	2005	$ 19,343	$ 19,343
Markwest Operating Income	2006	$ 9,190	$ 9,190
	2005	$ (728)	$ (728)
Markwest Segment Assets	2006	$ 147,177	$ 147,177
	2005	$ 104,072	$ 104,072

Starfish Pipeline	Total
100%	100%
100%	100%
100%	100%
100%	100%
100%	100%
100%	100%
100%	100%

ANALYSIS OF BOOK VALUE PER UNIT FOR THE MLP GROUP

	Name	Source / Calculation		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2012
	Boardwalk Pipeline Partners, LP														
1	Earnings per Unit	ValueLine									-	1.85	1.90	2.05	2.70
2	Cash Flow Per Unit	ValueLine									1.66	2.53	2.45	2.75	3.75
3	Distributions per Unit	ValueLine									0.18	1.32	1.74	1.86	2.42
4	Units Outstanding (millions)	ValueLine									101.35	108.25	118.00	120.00	126.00
5	Avg Annual P/E Ratio	ValueLine	(a)								19.7	13.3	16.0	16.0	16.0
6	Market Value Per Unit	[1] x [5]										24.61	30.40	32.60	43.20
7	Market to Book Ratio	[6] / [12]										1.70	2.03	2.06	2.55
8	Newly Issued Shares	$[8]_{(t+1)} - [8]_{(t)}$	(b)								101.35	6.90	9.75	2.00	6.00
9	Partners Capital per Value Line (millions)	ValueLine								1,092.9	988.7	1,272.5	1,450.0	1,600.0	2,350.0
10	Partners Capital Adjusted to Base Year (millions)	$[10]_{(t-1)} + ([8]\times[6])/[7] - ([4]_{(t-1)}\times[3]_{(t-1)}) + ([4]\times[2])$	(c)							1,092.9		355.7	647.7	804.2	1,155.2
11	Book Value per Unit	[9] / [4]									14.87	14.50	14.95	15.95	16.95
12	Adjusted Book Value per Unit	[10] / [4]										3.29	5.49	6.70	9.17
	Buckeye Partners														
1	Earnings per Unit	ValueLine		2.05	2.41	2.38	2.56	2.65	2.64	2.76	2.69	2.64	3.00	3.15	4.00
2	Cash Flow Per Unit	ValueLine		2.66	3.06	3.04	3.29	3.41	3.39	3.15	3.58	3.72	4.20	4.45	5.50
3	Distributions per Unit	ValueLine		2.10	2.18	2.40	2.45	2.50	2.54	2.64	2.83	3.03	3.23	3.43	3.90
4	Units Outstanding (millions)	ValueLine		26.99	27.04	27.09	27.16	27.18	28.97	34.53	38.16	39.70	42.00	42.00	42.00
5	Avg Annual P/E Ratio	ValueLine	(a)	13.9	11.3	11.5	13.5	13.9	14.8	15.0	16.9	16.5	12.0	12.0	12.0
6	Market Value Per Unit	[1] x [5]		28.50	27.23	27.37	34.56	36.84	39.07	41.40	45.46	43.56	36.00	37.80	48.00
7	Market to Book Ratio	[6] / [12]		2.58	2.32	2.12	2.66	2.80	3.00	2.36	2.29	2.14	1.74	1.80	2.24
8	Newly Issued Shares	$[8]_{(t+1)} - [8]_{(t)}$	(b)	0.00	0.05	0.05	0.07	0.02	1.79	5.56	3.63	1.54	2.30	0.00	0.00
9	Partners Capital per Value Line (millions)	ValueLine		298.5	317.0	349.4	352.9	357.4	377.4	605.4	758.6	809.6	870.0	880.0	900.0
10	Partners Capital Adjusted to Base Year (millions)	$[10]_{(t-1)} + ([8]\times[6])/[7] - ([4]_{(t-1)}\times[3]_{(t-1)}) + ([4]\times[2])$	(c)	298.5	325.1	349.2	374.5	400.9	454.4	567.1	704.7	775.8	879.6	930.8	1,017.7
11	Book Value per Unit	[9] / [4]		11.06	11.72	12.90	12.99	13.15	13.03	17.53	19.88	20.39	20.71	20.95	21.43
12	Adjusted Book Value per Unit	[10] / [4]		11.06	12.02	12.89	13.79	14.75	15.69	17.00	18.47	19.54	20.94	22.16	24.23
	Enbridge Energy														
1	Earnings per Unit	ValueLine		3.07	2.48	1.78	0.98	1.76	1.93	2.06	0.77	3.62			
2	Cash Flow Per Unit	ValueLine		4.68	4.41	3.88	3.12	3.55	3.86	4.38	3.19	5.41			
3	Distributions per Unit	ValueLine		3.36	3.49	3.50	3.50	3.63	3.70	3.70	3.70	3.70			
4	Units Outstanding (millions)	ValueLine		26.20	28.90	28.90	32.97	44.46	54.14	59.11	65.56	77.60			
5	Avg Annual P/E Ratio	ValueLine	(a)	15.6	17.3	21.6	45.9	24.5	24.5	23.4	67.1	12.7			
6	Market Value Per Unit	[1] x [5]		47.89	42.90	38.45	44.98	43.12	47.29	48.20	51.67	45.97			
7	Market to Book Ratio	[6] / [12]		2.53	2.12	2.07	2.30	1.93	1.95	2.04	2.48	1.75			
8	Newly Issued Shares	$[8]_{(t+1)} - [8]_{(t)}$	(b)	0.00	2.70	0.00	4.07	11.49	9.68	4.97	6.45	12.04			
9	Partners Capital per Value Line (millions)	ValueLine		495.0	586.1	535.9	644.2	991.6	1,313.3	1,397.9	1,363.8	2,043.4			
10	Partners Capital Adjusted to Base Year (millions)	$[10]_{(t-1)} + ([8]\times[6])/[7] - ([4]_{(t-1)}\times[3]_{(t-1)}) + ([4]\times[2])$	(c)	495.0	589.2	600.4	681.7	980.4	1,262.8	1,438.9	1,563.5	2,057.8			
11	Book Value per Unit	[9] / [4]		18.89	20.28	18.54	19.54	22.30	24.26	23.65	20.80	26.33			
12	Adjusted Book Value per Unit	[10] / [4]		18.89	20.39	20.78	20.68	22.05	23.32	24.34	23.85	26.52			

ANALYSIS OF BOOK VALUE PER UNIT FOR THE MLP GROUP

Enterprise Products Partners

1	Earnings per Unit	ValueLine		0.31	0.82	1.32	1.39	0.54	0.58	0.87	0.91	1.14	1.20	1.45	1.80
2	Cash Flow Per Unit	ValueLine		0.42	1.08	1.55	1.69	1.11	1.09	1.27	2.16	2.35	2.65	3.15	3.50
3	Distributions per Unit	ValueLine		0.16	0.90	1.05	1.16	1.33	1.44	1.54	1.66	1.80	1.92	2.06	2.65
4	Units Outstanding (millions)	ValueLine		133.93	133.93	168.87	174.21	172.95	216.98	368.77	389.86	432.41	446.00	450.00	458.00
5	Avg Annual P/E Ratio	ValueLine	(a)	28.2	11.1	8.8	14.7	39.2	37.5	25.9	28.4	23.1	24.0	24.0	24.0
6	Market Value Per Unit	[1] x [5]		8.74	9.10	11.62	20.43	21.17	21.75	22.53	25.84	26.33	28.80	34.80	43.20
7	Market to Book Ratio	[6] / [12]		2.08	1.54	2.10	3.10	3.05	2.77	1.56	1.77	1.76	1.89	2.24	2.47
8	Newly Issued Shares	$[8]_{(n+1)} - [8]_{(n)}$	(b)	0.00	0.00	34.94	5.34	-1.28	44.03	151.79	21.09	42.55	13.59	4.00	8.00
9	Partners Capital per Value Line (millions)	ValueLine		562.5	789.5	836.0	1,146.9	1,200.9	1,706.0	5,328.8	5,679.3	6,480.2	6,800.0	7,000.0	8,000.0
10	Partners Capital Adjusted to Base Year (millions)	$[10]_{(n-1)}$ + ([8]x[6])/[7] - ($[4]_{(n-1)}$)x$[3]_{(n-1)}$) + ([4]x[2])	(c)	562.5	685.7	1,020.6	1,172.8	1,154.0	1,506.7	3,855.9	4,437.4	5,444.0	6,054.8	6,678.2	7,493.9
11	Book Value per Unit	[9] / [4]		4.20	5.89	5.54	6.58	6.94	7.86	14.45	14.57	14.99	15.25	15.56	17.47
12	Adjusted Book Value per Unit	[10] / [4]		4.20	5.12	6.04	6.73	6.67	6.94	10.46	11.38	12.59	13.58	14.84	16.36

EOG Resources, Inc.

1	Earnings per Unit	ValueLine		0.18	0.67	1.62	1.60	0.40	1.83	2.42	5.21	4.83	4.90	5.25	6.00
2	Cash Flow Per Unit	ValueLine		1.21	2.62	3.23	3.28	2.09	3.44	4.50	7.92	8.44	9.05	9.70	11.15
3	Distributions per Unit	ValueLine		0.06	0.06	0.07	0.08	0.08	0.09	0.12	0.15	0.24	0.36	0.40	0.52
4	Units Outstanding (millions)	ValueLine		307.45	249.46	233.81	233.81	229.44	249.46	237.85	242.07	243.74	245.00	247.00	250.00
5	Avg Annual P/E Ratio	ValueLine	(a)	52.1	14.4	9.6	12.3	47.4	11.2	11.8	10.9	14.3	15.0	15.0	15.0
6	Market Value Per Unit	[1] x [5]		9.38	9.65	15.55	19.68	18.98	20.50	28.56	56.79	69.07	73.50	78.75	90.00
7	Market to Book Ratio	[6] / [12]		2.25	2.13	2.63	2.78	2.60	2.30	2.31	3.18	3.01	2.90	2.86	2.05
8	Newly Issued Shares	$[8]_{(n+1)} - [8]_{(n)}$	(b)	0.00	-57.99	-15.65	0.00	-4.37	20.02	-11.61	4.22	1.67	1.26	2.00	3.00
9	Partners Capital per Value Line (millions)	ValueLine		1,280.3	1,129.6	1,380.9	1,652.7	1,672.4	2,223.4	2,945.4	4,316.3	5,599.7	6,200.0	6,800.0	11,000.0
10	Partners Capital Adjusted to Base Year (millions)	$[10]_{(n-1)}$ + ([8]x[6])/[7] - ($[4]_{(n-1)}$)x$[3]_{(n-1)}$) + ([4]x[2])	(c)	1,280.3	1,652.8	2,300.7	3,051.2	3,480.2	4,498.4	5,402.5	7,366.4	9,425.6	11,616.2	13,979.0	16,799.7
11	Book Value per Unit	[9] / [4]		4.16	4.53	5.91	7.07	7.29	8.91	12.38	17.83	22.97	25.31	27.53	44.00
12	Adjusted Book Value per Unit	[10] / [4]		4.16	6.63	9.84	13.05	15.17	18.03	22.71	30.43	38.67	47.41	56.60	67.20

Kinder Morgan Energy Partners

1	Earnings per Unit	ValueLine		1.05	1.22	1.34	1.56	1.96	2.00	2.22	2.37	1.98	1.70	2.05	3.15
2	Cash Flow Per Unit	ValueLine		1.30	1.43	2.00	2.38	2.84	3.17	3.52	3.88	3.76	3.85	4.00	5.10
3	Distributions per Unit	ValueLine		1.19	1.39	1.60	2.08	2.36	2.58	2.81	3.07	3.26	3.44	3.65	4.40
4	Units Outstanding (millions)	ValueLine		97.63	118.27	135.03	165.80	180.91	189.04	207.01	220.24	224.62	235.00	245.00	255.00
5	Avg Annual P/E Ratio	ValueLine	(a)	16.8	16.1	16.0	21.8	17.0	20.1	20.0	20.7	23.5	16.5	16.5	16.5
6	Market Value Per Unit	[1] x [5]		17.64	19.64	21.44	34.01	33.32	40.20	44.40	49.06	46.53	28.05	33.83	51.98
7	Market to Book Ratio	[6] / [12]		1.27	1.31	1.37	1.78	1.76	2.16	2.36	2.99	2.60	1.50	1.74	2.19
8	Newly Issued Shares	$[8]_{(n+1)} - [8]_{(n)}$	(b)	0.00	20.64	16.76	30.77	15.11	8.13	17.97	13.23	4.38	10.38	10.00	10.00
9	Partners Capital per Value Line (millions)	ValueLine		1,360.7	1,774.8	2,117.1	3,159.0	3,415.9	3,510.9	3,896.5	3,613.7	4,021.7	4,385.0	4,770.0	6,040.0
10	Partners Capital Adjusted to Base Year (millions)	$[10]_{(n-1)}$ + ([8]x[6])/[7] - ($[4]_{(n-1)}$)x$[3]_{(n-1)}$) + ([4]x[2])	(c)	1,360.7	1,723.4	2,091.8	2,856.6	3,310.9	3,634.2	4,213.4	4,703.3	4,950.1	5,316.3	5,682.6	6,325.7
11	Book Value per Unit	[9] / [4]		13.94	15.01	15.68	19.05	18.88	18.57	18.82	16.41	17.90	18.66	19.47	23.69
12	Adjusted Book Value per Unit	[10] / [4]		13.94	14.57	15.49	17.23	18.30	19.22	20.35	21.36	22.04	22.62	23.19	24.81

ANALYSIS OF BOOK VALUE PER UNIT FOR THE MLP GROUP

Magellan Midstream Partners LP

1	Earnings per Unit	ValueLine					$ 0.95	$ 1.84	$ 1.66	$ 1.94	$ 2.03	$ 2.24	$ 2.40	$ 2.55	$ 3.00
2	Cash Flow Per Unit	ValueLine					$ 1.47	$ 2.47	$ 2.28	$ 2.48	$ 3.25	$ 3.82	$ 3.40	$ 3.60	$ 4.30
3	Distributions per Unit	ValueLine					$ 1.01	$ 1.36	$ 1.53	$ 1.76	$ 2.06	$ 2.34	$ 2.46	$ 2.65	$ 3.35
4	Units Outstanding (millions)	ValueLine					22.72	54.38	54.39	66.36	66.36	66.36	66.50	66.50	66.50
5	Avg Annual P/E Ratio	ValueLine	(a)				18.0	9.7	13.3	13.6	15.9	15.6	15.0	15.0	15.0
6	Market Value Per Unit	[1] x [5]					$ 17.10	$ 17.85	$ 22.08	$ 26.38	$ 32.28	$ 34.94	$ 36.00	$ 38.25	$ 45.00
7	Market to Book Ratio	[6] / [12]					1.73	2.15	2.41	2.22	2.65	2.88	2.90	3.01	3.33
8	Newly Issued Shares	$[8]_{n+1} - [8]_n$	(b)				22.72	31.66	0.01	11.97	0.00	0.00	0.14	0.00	0.00
9	Partners Capital per Value Line (millions)	ValueLine					$ 224.9	$ 451.6	$ 498.1	$ 789.1	$ 808.0	$ 806.5	$ 825.0	$ 845.0	$ 900.0
10	Partners Capital Adjusted to Base Year (millions)	$[10]_{n-1} + ([8]x[6])/[7] - ([4]_{n-1})x[3]_{n-1}) + ([4]x[2])$	(c)				$ 224.9	$ 599.3	$ 649.5	$ 873.1	$ 972.0	$ 1,088.8	$ 1,161.4	$ 1,237.2	$ 1,346.9
11	Book Value per Unit	[9] / [4]					$ 9.90	$ 8.31	$ 9.16	$ 11.89	$ 12.18	$ 12.15	$ 12.41	$ 12.71	$ 13.53
12	Adjusted Book Value per Unit	[10] / [4]					$ 9.90	$ 11.02	$ 11.94	$ 13.16	$ 14.65	$ 16.41	$ 17.46	$ 18.60	$ 20.25

Markwest Energy

1	Earnings per Unit	ValueLine						$ 2.42	$ 0.58	$ 0.66	$ 0.01	$ 2.44			
2	Cash Flow Per Unit	ValueLine						$ 3.00	$ 1.24	$ 1.37	$ 1.23				
3	Distributions per Unit	ValueLine						$ 0.36	$ 1.24	$ 1.49	$ 1.62				
4	Units Outstanding (millions)	ValueLine						8.94	11.63	21.28	25.74				
5	Avg Annual P/E Ratio	ValueLine	(a)					4.5	26.8	31.6	42.9	15.0			
6	Market Value Per Unit	[1] x [5]						$ 10.89	$ 15.54	$ 20.86	$ 0.43				
7	Market to Book Ratio	[6] / [12]						1.60	2.78	1.84	0.04				
8	Newly Issued Shares	$[8]_{n+1} - [8]_n$	(b)					8.94	2.69	9.65	4.46				
9	Partners Capital per Value Line (millions)	ValueLine						$ 60.9	$ 65.1	$ 241.1	$ 307.2				
10	Partners Capital Adjusted to Base Year (millions)	$[10]_{n-1} + ([8]x[6])/[7] - ([4]_{n-1})x[3]_{n-1}) + ([4]x[2])$	(c)					$ 60.9	$ 87.2	$ 211.2	$ 264.4				
11	Book Value per Unit	[9] / [4]						$ 6.81	$ 5.60	$ 11.33	$ 11.93				
12	Adjusted Book Value per Unit	[10] / [4]						$ 6.81	$ 7.49	$ 9.93	$ 10.27				

OneOK Partners

1	Earnings per Unit	ValueLine		$ 1.97	$ 2.70	$ 2.50	$ 2.15	$ 2.44	$ (2.27)	$ 2.81	$ 2.92	$ 4.00			
2	Cash Flow Per Unit	ValueLine		$ 3.54	$ 4.56	$ 4.37	$ 3.98	$ 4.34	$ 0.20	$ 4.92	$ 5.02	$ 5.94			
3	Distributions per Unit	ValueLine		$ 2.30	$ 2.44	$ 2.65	$ 2.99	$ 3.20	$ 3.20	$ 3.20	$ 3.20	$ 3.60			
4	Units Outstanding (millions)	ValueLine		29.35	29.35	31.50	41.62	43.81	46.40	46.40	46.40	82.89			
5	Avg Annual P/E Ratio	ValueLine	(a)	16.9	11.1	11.2	17.5	15.4	15.4	14.9	16.4	13.2			
6	Market Value Per Unit	[1] x [5]		$ 33.29	$ 29.97	$ 28.00	$ 37.63	$ 37.58	$ (34.96)	$ 41.87	$ 47.89	$ 52.80			
7	Market to Book Ratio	[6] / [12]		1.93	1.71	1.54	1.71	1.74	-2.03	2.46	2.90	2.00			
8	Newly Issued Shares	$[8]_{n+1} - [8]_n$	(b)	0.00	0.00	2.15	10.12	2.19	2.59	0.00	0.00	36.49			
9	Partners Capital per Value Line (millions)	ValueLine		$ 507.4	$ 513.3	$ 572.3	$ 915.0	$ 944.0	$ 800.6	$ 789.3	$ 765.6	$ 2,188.7			
10	Partners Capital Adjusted to Base Year (millions)	$[10]_{n-1} + ([8]x[6])/[7] - ([4]_{n-1})x[3]_{n-1}) + ([4]x[2])$	(c)	$ 507.4	$ 573.7	$ 678.8	$ 983.5	$ 1,096.4	$ 1,010.1	$ 1,090.0	$ 1,174.4	$ 2,481.8			
11	Book Value per Unit	[9] / [4]		$ 17.29	$ 17.49	$ 18.17	$ 21.98	$ 21.55	$ 17.25	$ 17.01	$ 16.50	$ 26.40			
12	Adjusted Book Value per Unit	[10] / [4]		$ 17.29	$ 19.55	$ 21.55	$ 23.63	$ 25.03	$ 21.77	$ 23.49	$ 25.31	$ 29.94			

Exhibit No. SR-51
Page 4
Docket No. RP07-____-000

ANALYSIS OF BOOK VALUE PER UNIT FOR THE MLP GROUP

TEPPCO Partners

1	Earnings per Unit	ValueLine		$ 1.61	$ 1.91	$ 1.89	$ 1.84	$ 1.79	$ 1.46	$ 1.61	$ 1.71	$ 1.77	$ 2.00	$ 2.10	$ 2.60
2	Cash Flow Per Unit	ValueLine		$ 2.52	$ 3.33	$ 3.03	$ 2.88	$ 3.24	$ 2.98	$ 3.40	$ 3.23	$ 2.60	$ 3.85	$ 4.35	$ 5.30
3	Distributions per Unit	ValueLine		$ 1.75	$ 1.85	$ 2.00	$ 2.15	$ 2.35	$ 2.50	$ 2.64	$ 2.68	$ 2.70	$ 2.74	$ 2.88	$ 3.15
4	Units Outstanding (millions)	ValueLine		29.66	29.00	32.70	40.45	53.81	63.00	63.00	69.96	89.80	92.00	94.00	98.00
5	Avg Annual P/E Ratio	ValueLine	(a)	17.1	12.4	12.2	16.0	16.8	23.6	24.3	23.7	21.1	16.0	16.0	16.0
6	Market Value Per Unit	[1] x [5]		$ 27.53	$ 23.68	$ 23.06	$ 29.44	$ 30.07	$ 34.46	$ 39.12	$ 40.53	$ 37.35	$ 32.00	$ 33.60	$ 44.80
7	Market to Book Ratio	[6] / [12]		3.59	2.99	2.39	2.19	1.81	1.96	2.41	2.36	2.54	2.03	2.04	2.25
8	Newly Issued Shares	$[8]_{(t+1)}$ - $[8]_{(t)}$	(b)	0.00	-0.66	3.70	7.75	13.36	9.19	0.00	6.96	19.84	2.20	2.00	4.00
9	Partners Capital per Value Line (millions)	ValueLine		$ 227.2	$ 229.8	$ 315.1	$ 543.2	$ 891.8	$ 1,109.3	$ 1,021.4	$ 1,201.4	$ 1,320.3	$ 1,450.0	$ 1,550.0	$ 1,950.0
10	Partners Capital Adjusted to Base Year (millions)	$[10]_{(t-1)}$ + ([8]x[6])/[7] - ($[4]_{(t-1)}$x$[3]_{(t-1)}$) + ([4]x[2])	(c)	$ 227.2	$ 266.6	$ 347.7	$ 502.9	$ 811.7	$ 1,034.8	$ 1,091.5	$ 1,270.7	$ 1,608.3	$ 1,754.8	$ 1,944.6	$ 2,272.8
11	Book Value per Unit	[9] / [4]		$ 7.66	$ 7.92	$ 9.64	$ 13.43	$ 16.57	$ 17.61	$ 16.21	$ 17.17	$ 14.70	$ 15.76	$ 16.49	$ 19.90
12	Adjusted Book Value per Unit	[10] / [4]		$ 7.66	$ 9.19	$ 10.63	$ 12.43	$ 15.08	$ 16.43	$ 17.33	$ 18.16	$ 17.91	$ 19.07	$ 20.69	$ 23.19

(a) P/E Ratio for 2006 and 2007 were not available and were estimated by taking the Value Line projected P/E for 2009-2011.
(b) Assume 0 shares issued in 1998
(c) Assume base year is 1998

Distribution Coverage Ratios

BOARDWALK PIPELINE PARTNERS

	2007	2008	2009	
Revenues	$ 632.1	$ 647.9	$ 664.1	
Other Operating Items:				
Costs and Operating	$ (165.5)	$ (169.6)	$ (173.9)	
Depreciation	(105.1)	(168.9)	(201.1)	
SG&A	(104.3)	(107.5)	(110.8)	
Other Costs	(30.1)	(28.1)	(27.9)	
Total Other Operating Items	$ (405.0)	$ (474.1)	$ (513.7)	
Other Income Adjustments	$ 41.3	$ 213.8	$ 446.5	
Operating Income	268.4	387.6	596.9	
EBITDA	$ 373.5	$ 556.5	$ 798.0	
Other Income (Expenses)				
Interest, net	$ (77.6)	$ (103.9)	$ (128.5)	
Other	10.9	8.0	8.0	
Total Other Income (Expense)	$ (66.7)	$ (95.9)	$ (120.5)	
Pretax Income	$ 201.7	$ 291.7	$ 476.4	
Income Tax	(0.2)	-	-	
Minority Interest	-	-	-	
Reported Net Income from Continuing Operations	$ 201.5	$ 291.7	$ 476.4	
Extraordinary Items/Discontinued Operations	-	-	-	
Income to General Partner	(8.8)	(40.0)	(113.3)	
Reported Net Income to Common Units	$ 192.7	$ 251.7	$ 363.1	
Non-recurring Items	$ 2.6	$ -	$ -	
Operatings Earnings to Common	$ 195.3	$ 251.7	$ 363.1	
Average units outstanding - Basic	114.5	127.7	132.1	
Average units outstanding - Diluted	114.5	127.7	132.1	
Earnings per Unit				
Reported EPU - Basic	$ 1.68	$ 1.97	$ 2.75	
Reported EPU - Diluted	$ 1.68	$ 1.97	$ 2.75	
Operating EPU - Diluted	$ 1.71	$ 1.97	$ 2.75	
Distributable Cash Flow				
Recurring Net Income to Common	$ 195.3	$ 251.7	$ 363.1	
Depreciation	105.1	168.9	201.1	
Other	0.8	2.8	11.1	
Maintenance Capital Spending	(51.4)	(60.0)	(88.9)	
Total Distributable Cash Flow	$ 249.8	$ 363.4	$ 486.4	
Distributable Cash Flow per Unit - Diluted	$ 2.18	$ 2.85	$ 3.68	
Ratios and other items				
Distribution per Unit	$ 1.86	$ 2.33	$ 2.83	
Total Unit Coverage	1.2	1.2	1.3	
Distribution Pay Out	85.3%	81.9%	76.9%	
Total Debt to Capital	54%	57%	52%	
Estimated Yield	5.53%	5.91%	5.15%	
Implied Price	$ 33.66	$ 39.42	$ 54.97	
Exp. P/E Ratio	20.00	20.00	20.00	Source: Value Line
Adjusted Yield (incl. payments to GP)	5.75%	6.71%	6.71%	
Assumed ROE	15.50%	15.50%	15.50%	Source: Value Line
Retenion Ratio	14.74%	18.12%	23.14%	
Estimated Growth	2.29%	2.81%	3.59%	
DCF	8.04%	9.51%	10.29%	

Distribution Coverage Ratios

ENBRIDGE ENERGY PARTNERS

		2007		2008		2009
Revenues	$	8,717.1	$	11.142.3	$	12.151.1
Other Operating Items:						
Costs and Operating	$	(597.8)	$	(711.2)	$	(817.2)
Depreciation		(155.9)		(202.3)		(232.9)
SG&A		(7,645.1)		(9,831.0)		(10,634.3)
Other Costs		-		-		-
Total Other Operating Items	$	(8,398.8)	$	(10.744.5)	$	(11.684.4)
Other Income Adjustments	$	-	$	-	$	-
Operating Income		318.3		397.8		466.7
EBITDA	$	162.4	$	195.5	$	233.8
Other Income (Expenses)						
Interest. net	$	(109.6)	$	(148.1)	$	(196.4)
Other		6.9		7.0		6.9
Total Other Income (Expense)	$	(102.7)	$	(141.1)	$	(189.5)
Pretax Income	$	215.6	$	256.7	$	277.2
Income Tax		(2.6)		(2.0)		(2.0)
Minority Interest		-		-		-
Reported Net Income from Continuing Operations	$	213.0	$	254.7	$	275.2
Extraordinary Items/Discontinued Operations		-		-		-
Income to General Partner		(30.1)		(33.7)		(41.9)
Reported Net Income to Common Units	$	182.9	$	221.0	$	233.3
Non-recurring Items	$	16.3	$	-	$	-
Operatings Earnings to Common	$	199.2	$	221.0	$	233.3
Average units outstanding - Basic		79.5		92.5		105.3
Average units outstanding - Diluted		79.5		92.5		105.3
Earnings per Unit						
Reported EPU - Basic	$	2.30	$	2.39	$	2.22
Reported EPU - Diluted	$	2.30	$	2.39	$	2.22
Operating EPU - Diluted	$	2.51	$	2.39	$	2.22
Distributable Cash Flow						
Recurring Net Income to Common	$	199.2	$	221.0	$	233.3
Depreciation		155.9		202.3		232.9
Other		(3.2)		(6.7)		(5.9)
Maintenance Capital Spending		(57.8)		(66.0)		(77.0)
Total Distributable Cash Flow	$	294.1	$	350.6	$	383.3
Distributable Cash Flow per Unit - Diluted	$	3.70	$	3.79	$	3.64
Ratios and other items						
Distribution per Unit	$	3.70	$	3.75	$	3.80
Total Unit Coverage		1.0		1.0		1.0
Distribution Pay Out		100.0%		98.9%		104.4%
Total Debt to Capital		55%		57%		52%
Estimated Yield		8.04%		7.85%		8.58%
Implied Price	$	46.01	$	47.78	$	44.31
Price/EBITDA		20.00		20.00		20.00

Source: Value Line

	2007	2008	2009	
Adjusted Yield (incl. payments to GP)	8.86%	8.61%	9.47%	
Assumed ROE	13.90%	13.90%	13.90%	Source: Value Line
Retenion Ratio	-0.02%	1.06%	-4.39%	
Estimated Growth	0.00%	0.15%	0.00%	
DCF	8.86%	8.76%	9.47%	

Distribution Coverage Ratios

KINDER MORGAN ENERGY PARTNERS

	2006	2007	2008	
Revenues	$ 8,954.6	$ 11,199.6	$ 15.365.5	
Other Operating Items:				
Costs and Operating	$ (6,976.7)	$ (9,008.5)	$ (12,718.3)	
Depreciation	(413.7)	(499.0)	(642.5)	
SG&A	(219.6)	(220.4)	(221.7)	
Other Costs	(118.8)	(112.0)	(153.7)	
Total Other Operating Items	$ (7,728.8)	$ (9.839.9)	$ (13,736.2)	
Other Income Adjustments	$ 100.8	$ 56.1	$ 56.1	
Operating Income	1,326.6	1,415.8	1,685.4	
EBITDA	$ 1,740.3	$ 1,914.8	$ 2,327.9	
Other Income (Expenses)				
Interest, net	$ (331.5)	$ (253.2)	$ (305.6)	
Other	-	-	-	
Total Other Income (Expense)	$ (331.5)	$ (253.2)	$ (305.6)	
Pretax Income	$ 995.1	$ 1,162.6	$ 1.379.8	
Income Tax	(19.0)	(28.7)	(31.1)	
Minority Interest	(15.0)	(13.0)	(15.3)	
Reported Net Income from Continuing Operations	$ 961.1	$ 1,120.9	$ 1,333.4	
Extraordinary Items/Discontinued Operations	-	-	-	
Income to General Partner	(513.0)	(560.4)	(666.8)	
Reported Net Income to Common Units	$ 448.1	$ 560.5	$ 666.6	
Non-recurring Items	$ 8.6	$ -	$ -	
Operatings Earnings to Common	$ 456.7	$ 560.5	$ 666.6	
Average units outstanding - Basic	224.8	238.7	261.2	
Average units outstanding - Diluted	224.8	238.7	261.2	
Earnings per Unit				
Reported EPU - Basic	$ 1.99	$ 2.35	$ 2.55	
Reported EPU - Diluted	$ 1.99	$ 2.35	$ 2.55	
Operating EPU - Diluted	$ 2.03	$ 2.35	$ 2.55	
Distributable Cash Flow				
Recurring Net Income to Common	$ 456.7	$ 560.5	$ 666.6	
Depreciation	413.7	499.0	642.5	
Other	(4.2)	(39.2)	(34.7)	
Maintenance Capital Spending	(125.5)	(150.0)	(170.0)	
Total Distributable Cash Flow	$ 740.7	$ 870.3	$ 1,104.4	
Distributable Cash Flow per Unit - Diluted	$ 3.29	$ 3.65	$ 4.23	
Ratios and other items				
Distribution per Unit	$ 3.26	$ 3.44	$ 3.80	
Total Unit Coverage	1.0	1.1	1.1	
Distribution Pay Out	98.9%	94.3%	89.9%	
Total Debt to Capital	52%	55%	52%	
Estimated Yield	8.18%	7.32%	7.44%	
Implied Price	$ 39.87	$ 46.96	$ 51.04	
Price/EBITDA	20.00	20.00	20.00	Source: Value Line
Distribution Yield	8.18%	7.32%	7.44%	
Assumed ROE	7.90%	6.90%	9.40%	Source: RBC
Retenion Ratio	1.06%	5.65%	10.13%	
Estimated Growth	0.08%	0.39%	0.95%	
DCF	8.26%	7.71%	8.40%	

Exhibit No. SR-52
Page 4
Docket No. RP07-___-000

CASH FLOWS FROM OPERATIONS VERSUS CAPITAL EXPENDITURES, DIVIDENDS AND DISTRIBUTIONS

	EQUITABLE RESOURCES			NATIONAL FUEL GAS			QUESTAR			
	2006	2005	2004	2006	2005	2004	2006	2005	2004	AVERAGE
Cash Flows from Operations	$ 619.3	$ (312.0)	$ 180.0	$ 471.1	$ 317.3	$ 437.1	$ 966.2	$ 695.1	$ 585.7	
Capital Expenditures	(404.5)	(275.8)	(201.8)	(294.2)	(219.5)	(172.3)	(916.1)	(712.7)	(446.5)	
Other Investing Activities	(3.2)	623.6	43.3	13.0	116.1	9.2	33.4	19.2	7.2	
Total Investing Activities	$ (407.7)	$ 347.8	$ (158.5)	$ (281.2)	$ (103.4)	$ (163.1)	$ (882.7)	$ (693.5)	$ (439.3)	
Dividends and Repurchases - Common Stock	$ (104.9)	$ (222.2)	$ (207.9)	$ (183.5)	$ (94.2)	$ (89.1)	$ (85.9)	$ (85.3)	$ (76.2)	
Other Cash Flows from Financing Activities	(181.7)	234.8	102.2	39.6	(121.1)	(180.7)	13.6	101.5	(80.4)	
Total Financing Activities	$ (286.6)	$ 12.6	$ (105.7)	$ (143.9)	$ (215.3)	$ (269.8)	$ (72.3)	$ 16.2	$ (156.6)	
Net Cash Flow (Operations, Investing, Financing)	$ (75.0)	$ 48.4	$ (84.2)	$ 46.0	$ (1.4)	$ 4.2	$ 11.2	$ 17.8	$ (10.2)	
Cash Flows from Operations less CAPEX and Dividends	$ 109.9	$ (810.0)	$ (229.7)	$ (6.6)	$ 3.6	$ 175.7	$ (35.8)	$ (102.9)	$ 63.0	
Capital Expenditures and Dividends/Cash Flows from Operations	-82.25%	159.62%	-227.61%	-101.40%	-98.87%	-59.80%	-103.71%	-114.80%	-89.24%	-109.71% [1]

Source: SEC Forms 10-K

[1] Excludes Equitable Resources 2005 data due to negative operating cash flows

Internal Growth Rate of Corporations

	Questar	Equitable	National Fuel Gas	Williams Companies	Average
2006 Earnings	$ 5.07	$ 1.77	$ 1.61	$ 0.55	
2006 Dividends	$ 0.93	$ 0.87	$ 1.18	$ 0.35	
Payout Ratio	18.34%	49.15%	73.29%	62.73%	50.88%
2005 Earnings	$ 3.74	$ 2.09	$ 2.23	$ 0.53	
2005 Dividends	$ 0.89	$ 0.82	$ 1.40	$ 0.25	
Payout Ratio	23.80%	39.23%	62.78%	47.17%	43.25%
2004 Earnings	$ 2.67	$ 2.37	$ 2.01	$ 0.18	
2004 Dividends Paid	$ 0.85	$ 0.72	$ 1.10	$ 0.08	
Payout Ratio	31.84%	30.38%	54.73%	44.44%	40.35%
Average Payout Ratio	24.66%	39.59%	63.60%	51.45%	44.82%
Average Retention Ratio	75.34%	60.41%	36.40%	48.55%	55.18%
DCF Result	9.75%	10.47%	8.01%	10.96%	9.80%
Internal Growth Rate	7.35%	6.32%	2.92%	5.32%	**5.48%**
I/B/E/S Growth Rate	8.50%	10.00%	5.00%	11.50%	**8.75%**
Difference	1.15%	3.68%	2.08%	6.18%	**3.27%**

QUESTAR CORPORATION TWO-STAGE CONSTANT GROWTH DCF

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Company		Annualized Dividend	Average Stock Price	Dividend Yield	Expected Dividend Yield	I/B/E/S Consensus Growth	GDP Growth	Weighted Average Growth Rate	DCF
Questar Corp.	STR	$0.98	$88.68	1.11%	1.15%	8.50%	5.35%	7.45%	9.75%

Notes
[1] Source: Yahoo! Finance
[2] Source: Yahoo! Finance.
[3] Equals Col. [1]/Col. [2]
[4] Equals Col. [3] x (1+(.5 x Col. [7]))
[5] Source: Thomson Research
[6] Average of EIA AEO, and Blue Chip Forecast
[7] Equals Col [5] x (2/3)+ Col [6] x (1/3)
[8] Equals Col. [4] + Col. [7]

EQUITABLE TWO-STAGE CONSTANT GROWTH DCF

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Company		Annualized Dividend	Average Stock Price	Dividend Yield	Expected Dividend Yield	I/B/E/S Consensus Growth	GDP Growth	Weighted Average Growth Rate	DCF
Equitable	EQT	$0.88	$45.76	1.92%	2.02%	10.00%	5.35%	8.45%	10.47%

Notes
[1] Source: Yahoo! Finance
[2] Source: Yahoo! Finance.
[3] Equals Col. [1]/Col. [2]
[4] Equals Col. [3] x (1+(.5 x Col. [7]))
[5] Source: Thomson Research
[6] Average of EIA AEO, and Blue Chip Forecast
[7] Equals Col [5] x (2/3)+ Col [6] x (1/3)
[8] Equals Col. [4] + Col. [7]

NATIONAL FUEL GAS TWO-STAGE CONSTANT GROWTH DCF

Company		[1] Annualized Dividend	[2] Average Stock Price	[3] Dividend Yield	[4] Expected Dividend Yield	[5] I/B/E/S Consensus Growth	[6] GDP Growth	[7] Weighted Average Growth Rate	[8] DCF
National Fuel Gas	NFG	$1.20	$42.48	2.83%	2.90%	5.00%	5.35%	5.12%	8.01%

Notes
[1] Source: Yahoo! Finance
[2] Source: Yahoo! Finance.
[3] Equals Col. [1]/Col. [2]
[4] Equals Col. [3] x (1+(.5 x Col. [7]))
[5] Source: Thomson Research
[6] Average of EIA AEO, and Blue Chip Forecast
[7] Equals Col [5] x (2/3)+ Col [6] x (1/3)
[8] Equals Col. [4] + Col. [7]

ANALYSIS OF TAXABLE INCOME UNDER CORPORATE SCENARIO AND MLP SCENARIO

ASSUMPTIONS

Purchase at end of Y0 of 1 unit/share	$ 100.00
Sale in Y4 of 1 unit/share for $200	$ 200.00
Growth	0%
Distributions	$ 20.00
Net Income	$ 5.00
Payout Ratio	100%

CORPORATION SCENARIO	Y0	Y1	Y2	Y3	Y4	Taxable Total		
Basis in Share of Stock	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00		Unit Selling Price	$ 200.00
Dividend		$ 5.00	$ 5.00	$ 5.00	$ 5.00	$ 20.00	Dividends Received	$ 20.00
Capital Gain					$ 100.00	$ 100.00	Less: Basis	$ (100.00)
Taxable to S/H, corporation	$ -	$ 5.00	$ 5.00	$ 5.00	$ 105.00	$ 120.00	Taxable Amount	$ 120.00

MLP SCENARIO	Y0	Y1	Y2	Y3	Y4	Taxable Total		
Basis in Partnership Unit	$ 100.00	$ 85.00	$ 70.00	$ 55.00	$ 40.00			
Distribution		$ 20.00	$ 20.00	$ 20.00	$ 20.00		Unit Selling Price	$ 200.00
Partnership Income	$ -	$ 5.00	$ 5.00	$ 5.00	$ 5.00	$ 20.00	Distributions Receivec	$ 80.00
Capital Gain					$ 160.00	$ 160.00	Less: Basis	$ (100.00)
Taxable to MLP Unit Holder		$ 5.00	$ 5.00	$ 5.00	$ 165.00	$ 180.00	Taxable Amount	$ 180.00

PROXY GROUP GROWTH RATES AND YIELDS

MLP Growth Rates and Yields

	Ticker	Valueline EPS	I/B/E/S	Yahoo First Call	Mean Growth Rate	Dividend Yield
Boardwalk Pipeline Partners LP	BWP	-	7.0%	7.0%	7.0%	4.96%
Enbridge Energy Partners LP	EEP	-	5.0%	5.0%	5.0%	6.84%
Enterprise Products Partners LP	EPD	11.0%	8.0%	8.00%	9.0%	6.20%
Kinder Morgan Energy Partners, L.P.	KMP	6.0%	7.0%	7.00%	6.7%	6.42%
MarkWest Energy Partners, L.P.	MWE	-	6.2%	6.20%	6.2%	6.24%
OneOK Partners, L.P.	OKS	-	5.0%	5.0%	5.0%	5.98%
Mean		**8.5%**	**-**	**6.4%**	**6.5%**	**6.1%**
Median		**8.5%**	**-**	**6.6%**	**6.4%**	**6.2%**

Corporate Growth Rates and Yields

Company	Ticker	Valueline EPS	I/B/E/S	Yahoo First Call	Mean Growth Rate	Dividend Yield
Williams Companies	WMB	18.5%	11.5%	11.50%	13.8%	1.43%

Monthly High and Low Stock Prices[1]
For Proxy Companies

Dates	Enbridge Energy Partners LP High	Enbridge Energy Partners LP Low	Enbridge Energy Partners LP Avg	El Paso Corp High	El Paso Corp Low	El Paso Corp Avg	Enterprise Products Partners LP High	Enterprise Products Partners LP Low	Enterprise Products Partners LP Avg	Equitable Resources, Inc. High	Equitable Resources, Inc. Low	Equitable Resources, Inc. Avg	Kinder Morgan Energy Partners, L.P. High	Kinder Morgan Energy Partners, L.P. Low	Kinder Morgan Energy Partners, L.P. Avg	MarkWest Energy Partners, L.P. High	MarkWest Energy Partners, L.P. Low	MarkWest Energy Partners, L.P. Avg
1-May-07	$ 60.39	$ 54.66	$ 57.53	$ 17.04	$ 14.95	$ 16.00	$ 32.88	$ 30.50	$ 31.69	$ 52.36	$ 50.29	$ 51.33	$ 56.65	$ 54.08	$ 55.37	$ 36.58	$ 33.80	$ 35.19
1-Apr-07	$ 61.82	$ 56.29	$ 59.06	$ 15.52	$ 14.66	$ 15.09	$ 33.15	$ 31.75	$ 32.45	$ 52.82	$ 48.46	$ 50.64	$ 56.96	$ 52.79	$ 54.88	$ 37.50	$ 34.00	$ 35.75
1-Mar-07	$ 56.05	$ 52.51	$ 54.28	$ 14.76	$ 13.76	$ 14.26	$ 32.60	$ 30.19	$ 31.40	$ 48.62	$ 41.19	$ 44.91	$ 53.36	$ 50.35	$ 51.86	$ 35.75	$ 32.98	$ 34.37
1-Feb-07	$ 53.33	$ 52.41	$ 52.87	$ 15.60	$ 14.35	$ 14.98	$ 30.59	$ 29.58	$ 30.09	$ 44.26	$ 42.35	$ 43.31	$ 51.65	$ 50.24	$ 50.95	$ 32.47	$ 30.56	$ 31.52
1-Jan-07	$ 52.91	$ 48.68	$ 50.80	$ 15.56	$ 14.42	$ 14.99	$ 29.80	$ 28.46	$ 29.13	$ 43.36	$ 39.67	$ 41.52	$ 50.72	$ 47.46	$ 49.09	$ 31.38	$ 28.78	$ 30.08
1-Dec-06	$ 50.67	$ 49.39	$ 50.03	$ 15.45	$ 14.56	$ 15.01	$ 29.80	$ 28.46	$ 29.13	$ 44.04	$ 41.75	$ 42.90	$ 48.58	$ 47.60	$ 48.09	$ 29.83	$ 28.53	$ 29.18
Average Price[2]			$ 54.09			$ 15.05			$ 30.65			$ 45.76			$ 51.70			$ 32.68

Dates	National Fuel Gas Company High	National Fuel Gas Company Low	National Fuel Gas Company Avg	OneOK, Inc High	OneOK, Inc Low	OneOK, Inc Avg	Williams Companies High	Williams Companies Low	Williams Companies Avg	10-Year Treasury High	10-Year Treasury Low	10-Year Treasury Avg	Spread High	Spread Low	Spread Avg
1-May-07	$ 47.49	$ 45.21	$ 46.35	$ 54.19	$ 48.69	$ 51.44	$ 32.19	$ 28.25	$ 30.22	4.89	4.63	4.76	2.48	2.40	2.44
1-Apr-07	$ 47.76	$ 44.14	$ 45.95	$ 48.41	$ 44.57	$ 46.49	$ 30.21	$ 28.20	$ 29.21	4.76	4.62	4.69	2.52	2.36	2.44
1-Mar-07	$ 43.54	$ 40.90	$ 42.22	$ 46.13	$ 40.12	$ 43.13	$ 28.94	$ 25.98	$ 27.46	4.66	4.49	4.58	2.49	2.27	2.38
1-Feb-07	$ 43.21	$ 40.89	$ 42.05	$ 43.76	$ 41.66	$ 42.71	$ 28.33	$ 26.94	$ 27.64	4.81	4.51	4.66	2.41	2.16	2.29
1-Jan-07	$ 40.89	$ 37.26	$ 39.08	$ 43.27	$ 41.48	$ 42.38	$ 27.15	$ 25.32	$ 26.24	4.89	4.66	4.78	2.44	2.26	2.35
1-Dec-06	$ 40.02	$ 38.41	$ 39.22	$ 44.26	$ 42.99	$ 43.63	$ 27.95	$ 26.12	$ 27.04	4.71	4.48	4.60	2.40	2.21	2.31
Average Price			$ 42.48			$ 44.96			$ 27.97			4.68			2.37

Notes
[1] Stock prices through 5/30/2007
[2] FERC averaging convention

PROXY GROUP TWO-STAGE CONSTANT GROWTH DCF

Company		[1] Annualized Dividend	[2] Average Stock Price	[3] Dividend Yield	[4] Expected Dividend Yield	[5] I/B/E/S Consensus Growth (Thomson)	[6] GDP Growth	[7] Weighted Average Growth Rate *	[8] DCF
PROXY GROUP NATURAL GAS TRANSPORTATION COMPANIES									
Boardwalk Pipeline Partners LP	BWP	$1.72	$33.29	5.17%	5.35%	7.00%	5.35%	6.45%	11.58%
Enbridge Energy Partners LP	EEP	$3.70	$53.03	6.98%	7.15%	5.00%	5.35%	5.12%	12.13%
Enterprise Products Partners LP	EPD	$1.90	$30.02	6.33%	6.58%	8.00%	5.35%	7.12%	13.56%
Kinder Morgan Energy Partners, L.P.	KMP	$3.32	$50.57	6.56%	6.79%	7.00%	5.35%	6.45%	13.09%
MarkWest Energy Partners, L.P.	MWE	$2.04	$31.30	6.52%	6.72%	6.20%	5.35%	5.92%	12.35%
OneOK Partners, L.P.	OKS	$3.96	$65.01	6.09%	6.24%	5.00%	5.35%	5.12%	11.24%
Williams Companies	WMB	$0.40	$27.53	1.45%	1.54%	11.50%	5.35%	9.45%	10.96%
			Proxy Group Mean		5.77%	7.10%		6.52%	12.13%
			Proxy Group Median		6.58%	7.00%		6.45%	12.13%

ZONE OF REASONABLENESS HIGH	13.56%
ZONE OF REASONABLENESS LOW	10.96%
ZONE OF REASONABLENESS MIDPOINT	12.26%

Notes
[1] Source: Yahoo! Finance
[2] Source: Yahoo! Finance.
[3] Equals Col. [1]/Col. [2]
[4] Equals (Col. [1] x (1+(.5 x Col. [7])))/Col. [2]
[5] Source: Thomson Research
[6] Average of EIA AEO, and Blue Chip Forecast
[7] Equals Col [9] x (2/3)+ Col [10] x (1/3)
[8] Equals Col. [4] + Col. [11]

180 DAY PROXY GROUP TWO-STAGE CONSTANT GROWTH DCF

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Company		Annualized Dividend	Average Stock Price	Dividend Yield	Expected Dividend Yield	I/B/E/S Consensus Growth (Thomson)	GDP Growth	Weighted Average Growth Rate *	DCF
PROXY GROUP NATURAL GAS TRANSPORTATION COMPANIES									
Boardwalk Pipeline Partners LP	BWP	$1.72	$33.29	5.17%	5.35%	7.00%	5.34%	6.45%	11.80%
Enbridge Energy Partners LP	EEP	$3.70	$53.03	6.98%	7.15%	5.00%	5.34%	5.11%	12.27%
Enterprise Products Partners LP	EPD	$1.90	$30.02	6.33%	6.58%	8.00%	5.34%	7.11%	13.70%
Kinder Morgan Energy Partners, L.P.	KMP	$3.32	$50.57	6.56%	6.79%	7.00%	5.34%	6.45%	13.24%
MarkWest Energy Partners, L.P.	MWE	$2.04	$31.30	6.52%	6.72%	6.20%	5.34%	5.91%	12.63%
OneOK Partners, L.P.	OKS	$3.96	$65.01	6.09%	6.24%	5.00%	5.34%	5.11%	11.36%
Williams Companies	WMB	$0.40	$27.53	1.45%	1.54%	11.50%	5.34%	9.45%	10.99%
			MEAN OF MIDPOINTS		5.77%	7.10%		6.51%	12.28%
			MEDIAN OF MIDPOINTS		6.58%	7.00%		6.45%	12.27%

ZONE OF REASONABLENESS HIGH	13.70%
ZONE OF REASONABLENESS LOW	10.99%
ZONE OF REASONABLENESS MIDPOINT	12.34%

Notes
[1] Source: Yahoo! Finance
[2] Source: Yahoo! Finance.
[3] Equals Col. [1]/Col. [2]
[4] Equals (Col. [1] x (1+(.5 x Col. [7])))/Col. [2]
[5] Source: Thomson Research
[6] Average of EIA AEO, and Blue Chip Forecast
[7] Equals Col [9] x (2/3)+ Col [10] x (1/3)
[8] Equals Col. [4] + Col. [11]

Exhibit No. SR-58
Page 1
Docket No. RP07-___-000

RISK PREMIUM ANALYSIS (10 YR TREASURY VERSUS FERC AUTHORIZED ROES IN CONTESTED CASES

	10 Year Treasury ^TNX	FERC Authorized ROEs ROES	Risk Premium vs Treasurys	Calculated Risk Premium Vs Treasurys using regression equation [0.11 + (Tyield x - 0.68105)]
Nov-73	6.69%	12.00%	5.31%	5.95%
Oct-76	7.42%	13.00%	5.58%	5.45%
Feb-77	7.45%	15.95%	8.50%	5.43%
Jul-77	7.42%	12.80%	5.38%	5.45%
Jan-78	7.94%	12.50%	4.56%	5.10%
May-79	9.06%	11.50%	2.44%	4.33%
Jan-80	11.13%	12.50%	1.37%	2.92%
Feb-80	12.72%	15.30%	2.58%	1.84%
Apr-80	10.76%	11.00%	0.24%	3.18%
Aug-80	11.55%	15.00%	3.45%	2.64%
Aug-81	15.41%	16.50%	1.09%	0.01%
Jan-82	14.14%	15.30%	1.16%	0.87%
Jun-82	14.44%	14.70%	0.26%	0.67%
Jan-83	10.80%	14.00%	3.20%	3.15%
Mar-83	10.62%	14.64%	4.02%	3.27%
Jan-85	11.17%	14.25%	3.08%	2.90%
Nov-90	8.26%	12.60%	4.34%	4.88%
Sep-92	6.37%	14.45%	8.08%	6.17%
Nov-93	5.80%	13.46%	7.66%	6.55%
Sep-95	6.16%	12.49%	6.33%	6.31%
Jan-96	5.58%	12.36%	6.78%	6.70%
Feb-96	6.11%	12.22%	6.11%	6.34%
Aug-96	6.94%	12.25%	5.31%	5.78%
Jan-97	6.50%	12.38%	5.88%	6.08%
May-97	6.66%	12.40%	5.74%	5.97%
Jun-97	6.50%	13.67%	7.17%	6.08%
Jan-00	6.67%	12.48%	5.81%	5.96%
Mar-00	6.02%	11.83%	5.81%	6.40%
Jul-03	4.47%	11.22%	6.75%	7.46%
Oct-06	4.61%	11.20%	6.59%	7.36%

Mar-07 10 Yr Treasury Treasurys		5.20%
Upper and Lower Bound based on 1 x Standard Error of Each Variable		
upper	7.98%	13.18%
Model calc	6.96%	12.16%
lower	5.95%	11.15%
Upper and Lower Bound of Equation based on 1 x Standard Error		
upper	8.11%	13.31%
Model calc	6.96%	12.16%
lower	5.81%	11.01%
Upper and Lower Bound of Equation based on 2 x Standard Error		
upper	9.27%	14.47%
Model calc	6.96%	12.16%
lower	4.66%	9.86%
Overall Maximum and Minimum Risk Premium of All Observations		
minimum	5.31%	10.51%
maximum	5.31%	10.51%

Regression Statistics	
Multiple R	0.878547478
R Square	0.771845671
Adjusted R S	0.76339551
Standard Err	0.011514166
Observations	29

ANOVA

	df	SS	MS	F	Significance F
Regression	1	0.012109619	0.012109619	91 34094965	3.71735E-10
Residual	27	0.003579552	0.000132576		
Total	28	0.015689172			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Jpper 95.0%
Intercept	0.105046107	0.006473948	16.22597238	1 89343E-15	0.091762663	0.118329552	0.091762663	0.11833
0.0669	-0.681050794	0.071260152	-9.557245924	3.71735E-10	-0.827264546	-0.534837042	-0.827264546	-0.534837

RESIDUAL OUTPUT

Observation	Predicted 0.0531	Residuals
1	0.054512138	0.001287862
2	0.054307823	0.030692177
3	0.054512138	-0.000712138
4	0.050970674	-0.005370674
5	0.043342905	-0.018942905
6	0.029245154	-0.015545154
7	0.018416446	0.007383554
8	0.031765042	-0.029365042
9	0.026384741	0.008115259
10	9.618E-05	0.01080382
11	0.008745525	0.002854475
12	0.006702373	-0.004102373
13	0.031492622	0.000507378
14	0.032718513	0.007481487
15	0.026972734	0.001827266
16	0.046791312	-0.005391312
17	0.061663172	0.019136828
18	0.065545161	0.011054839
19	0.063093378	0.000206622
20	0.067043473	0.000756527
21	0.063433904	-0.002333904
22	0.057781182	-0.004681182
23	0.060777806	-0.001977806
24	0.059688125	-0.002288125
25	0.060777806	0.010922194
26	0.059620019	-0.001520019
27	0.06404685	-0.00594685
28	0.074603137	-0.007103137
29	0.073649666	-0.007749666