

HILCO

Enterprise Valuation Services

Perspective

August 2007

■ Natural Gas and Fuel Distribution¹

Industry Overview

Natural gas is one of the least expensive forms of energy available to residential and industrial consumers. Approximately 23% of the energy consumption in the U.S. comes from natural gas. Natural gas is an essential raw material for many common products, such as paints, fertilizer, and plastics. In the industrial sector, natural gas is used in the production of a variety of items, including steel, glass, paper, clothing, and bricks. More than 62% of U.S. residential customers use natural gas to fuel stoves, furnaces, water heaters, clothes dryers, and other household appliances. Local distribution companies typically transport natural gas from delivery points along interstate and intrastate pipelines through thousands of miles of small-diameter distribution pipes. This extensive transportation infrastructure results in high distribution costs for small volume end users. There are approximately 560 enterprises and 2,330 establishments in this industry.

Revenue Structure

The natural gas distribution industry's revenue and economic value added for 2007 (2006 prices) are expected to be about \$74.2 billion and \$52.3 billion, respectively. The nature of the natural gas market is similar to that of other competitive commodity markets: prices reflect the ability of supply to meet demand at any given time. Firms engaged exclusively in natural gas distribution to final consumers earn the bulk of industry revenue (about 63%), followed by natural gas brokerage (27%), electricity sales and brokerage (8%), and other (2%). Depreciation is believed to absorb about 6% of industry revenue. The relatively high return to capital is one indication of the industry's capital intensive nature, as is the small share of revenue accruing to wages. The need to maintain key customer relationships and lists, access to distribution networks, and enforceable contracts with the government and local authorities is essential for continued business operations.

Key Factors Affecting the Natural Gas and Fuel Distribution Market

The Natural Gas and Fuel Distribution Industry is a mature industry and its product/service is well-established, as are the major industry participants. It is regulated at both the federal and state levels. Federal regulation deals with interstate and overseas trade in natural gas, while state regulations deal with intrastate trade. The natural gas distribution industry is not protected by tariffs or by non-tariff barriers to imports; however, imports can only arrive via pipeline or in the form of liquefied natural gas. Pumping, maintenance, and wages are the largest operating expenses incurred by firms in the Industry. This industry is very capital intensive and most of the industry's assets are in the form of pipes and other infrastructure.

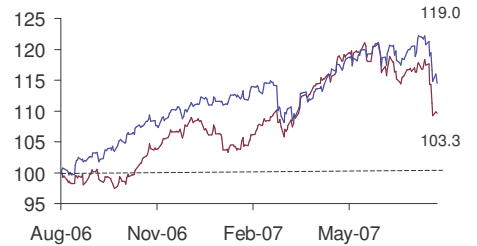
Natural Gas and Fuel Distribution Risk Factors

- The price of natural gas relative to competing fuels, such as oil and electricity, plays a role in determining the gas share of energy usage.
- The terms of the legislation under which gas utilities or other gas suppliers operate, particularly those related to pricing policies or allowable rates of return, have an impact on profitability.
- Trends in overall economic activity play a key role in setting the overall level of demand for energy.
- The construction of new gas pipelines or the extension of existing ones is usually associated with a surge in demand sufficiently large to push up prices.
- Demand for natural gas is cyclical and depends highly on the time of year, and changes from season to season.

At a Glance

Natural gas has a multitude of residential and industrial uses, ranging from being the key source of energy for consumers to providing the base ingredients for such varied products as plastic, fertilizer, anti-freeze, and fabrics.

Relative Stock Performance



— Natural Gas and Fuel Companies — S&P 500 index

Natural Gas and Fuel Companies – Comparison Data

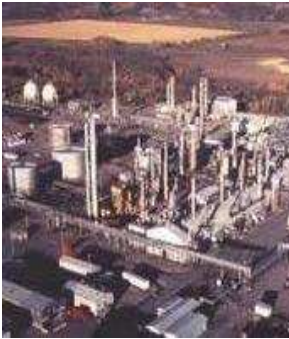
(\$ in millions)

Number of Comparable Companies	28
Median Equity Market Value:	\$ 1,478.7
Median Enterprise Value:	\$ 2,154.5
Median Total Assets:	\$ 1,867.9
Median LTM Revenue:	\$ 1,848.1
Median LTM EBITDA:	\$ 228.4

Hilco Enterprise Valuation Services, LLC is a leading provider of reliable opinions for lenders, investment firms and corporations on the realizable value of going concerns, intangible assets and other specialized business assets.

www.hilcoevs.com

¹ Sources: Capital IQ, IBIS World Industry Reports, www.naturalgas.org and www.eia.doe.gov



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Demand Drivers

Selected Market Statistics						
(\$ in millions, except stock prices)						
Company Name	Stock Price (8/15/2007)	Stock Price 52 Wk Low	Stock Price 52 Wk High	% of 52 Wk High	Equity Market Value	Enterprise Value ¹
AGL Resources Inc. (NYSE:ATG)	36.51	34.76	44.67	81.7%	2836.64	4742.64
AmeriGas Partners LP (NYSE:APU)	33.63	29.85	38.89	86.5%	1910.92	2839.37
Atmos Energy Corp. (NYSE:ATO)	26.69	23.87	33.47	79.7%	2379.68	4459.82
Chesapeake Utilities Corp. (NYSE:CPK)	28.73	28.00	37.25	77.1%	193.98	294.27
Delta Natural Gas Co. Inc. (NasdaqNM:DGAS)	24.60	23.89	26.08	94.3%	80.52	142.55
Energy Transfer Partners L.P. (NYSE:ETP)	49.56	40.50	64.00	77.4%	6788.79	10155.98
Energy West Inc. (NasdaqNM:EWST)	13.70	10.10	16.22	84.5%	39.15	54.29
Energysouth Inc. (NasdaqNM:ENSI)	48.48	32.21	54.18	89.5%	386.97	485.66
Equitable Resources Inc. (NYSE:EQT)	48.60	34.12	54.42	89.3%	5912.09	6706.83
Ferrellgas Partners LP (NYSE:FGP)	22.21	18.00	25.31	87.8%	1398.29	2419.57
Inergy LP (NasdaqNM:NRGY)	30.65	26.63	38.17	80.3%	1524.96	2154.46
Laclede Group Inc. (NYSE:LG)	30.49	28.84	37.51	81.3%	659.62	1121.64
National Fuel Gas Co. (NYSE:NFG)	42.44	35.02	47.87	88.7%	3545.86	4482.38
New Jersey Resources Corp. (NYSE:NJR)	48.26	45.50	56.45	85.5%	1354.32	1914.41
Nicor Inc. (NYSE:GAS)	40.21	37.80	53.66	74.9%	1814.03	2121.83
Northwest Natural Gas Co. (NYSE:NWN)	44.57	37.10	52.85	84.3%	1184.67	1738.87
Piedmont Natural Gas Co. Inc. (NYSE:PNY)	24.52	22.00	28.44	86.2%	1812.27	2656.43
Questar Corp. (NYSE:STR)	47.29	37.98	58.75	80.5%	8163.86	9282.26
RGC Resources Inc. (NasdaqNM:RGCO)	27.58	24.63	29.01	95.1%	59.88	87.88
SEMCO Energy Inc. (NYSE:SEN)	7.25	5.35	8.08	89.7%	260.28	712.96
South Jersey Industries Inc. (NYSE:SJI)	33.05	28.00	41.27	80.1%	975.40	1437.71
Southern Union Co. (NYSE:SUG)	28.33	25.83	35.50	79.8%	3400.19	6868.86
Southwest Gas Corp. (NYSE:SWX)	28.95	26.45	39.95	72.5%	1227.71	2540.69
Spectra Energy Partners, LP (NYSE:SEP)	26.95	24.65	30.99	87.0%	1785.94	NA
Star Gas Partners LP (NYSE:SGU)	4.03	2.17	5.00	80.6%	305.37	346.49
Suburban Propane Partners LP (NYSE:SPH)	43.84	32.21	49.58	88.4%	1432.43	1873.99
UGI Corp. (NYSE:UGI)	24.93	22.75	29.63	84.1%	2657.44	4825.74
WGL Holdings Inc. (NYSE:WGL)	31.39	29.79	35.91	87.4%	1547.84	2178.88

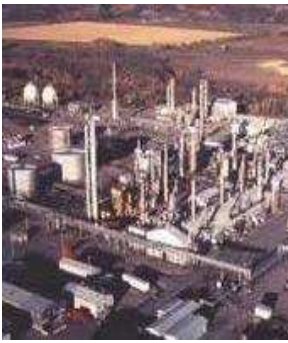
¹ Enterprise value = equity market value + net debt + preferred stock + minority interest
NA = Not Available

- Demand for natural gas depends upon both availability and economic growth. The natural gas demand across the board (displayed in percentage terms) increases with economic growth and is broken down by Industrial (30%), Commercial (13%), Household (20%), and Electricity (29%).
- Industrial and commercial production processes affect natural gas demand.
- The rate of household formation, a consequence of the affluence of U.S. society, results in increased demand.
- Oil and gas prices make up a large proportion of industry costs. Although higher prices have only a minimal effect on consumption in the short run, continued price rises lead to reductions in consumption over the medium and longer run as consumers shift to other heating methods, such as electricity.
- The availability of supply infrastructure affects natural gas demand.
- An important use for gas is as a heating fuel and, as a result, demand peaks during the colder months of the year. Extreme conditions can lead to large increases in demand and prices.

Selected Financial Statistics									
(\$ in millions)									
Company Name	LTM ¹ Date	Total Assets	Cash & Equiv.	Book Value	Net Debt ²	LTM			
						Revenue	EBITDA	EBIT	Net Inc. ³
AGL Resources Inc. (NYSE:ATG)	Jun-30-2007	5797.00	17.00	1672.00	1866.00	2581.00	674.00	533.00	215.00
AmeriGas Partners LP (NYSE:APU)	Jun-30-2007	1576.08	15.45	324.42	917.07	2252.12	288.46	213.95	142.04
Atmos Energy Corp. (NYSE:ATO)	Jun-30-2007	6055.81	350.38	1988.14	2080.14	5867.82	668.45	470.83	180.47
Chesapeake Utilities Corp. (NYSE:CPK)	Jun-30-2007	325.36	0.91	118.88	100.28	241.97	39.02	26.83	12.75
Delta Natural Gas Co. Inc. (NasdaqNM:DGAS)	Mar-31-2007	160.07	1.62	55.52	62.03	97.00	17.47	12.51	4.88
Energy Transfer Partners L.P. (NYSE:ETP)	May-31-2007	7569.35	95.61	3048.94	3367.19	6738.04	907.85	747.94	572.96
Energy West Inc. (NasdaqNM:EWST)	Mar-31-2007	58.60	1.15	21.67	15.13	69.04	8.69	6.48	3.18
Energysouth Inc. (NasdaqNM:ENSI)	Jun-30-2007	288.41	0.06	119.68	92.20	131.17	40.56	29.33	14.11
Equitable Resources Inc. (NYSE:EQT)	Jun-30-2007	3439.41	70.77	1026.03	794.73	1336.37	501.09	394.96	267.98
Ferrellgas Partners LP (NYSE:FGP)	Apr-30-2007	1535.99	23.83	306.14	1015.41	1994.63	228.42	141.40	35.15
Inergy LP (NasdaqNM:NRGY)	Jun-30-2007	1633.30	6.80	799.30	629.50	1452.06	202.22	123.30	64.91
Laclede Group Inc. (NYSE:LG)	Jun-30-2007	1503.89	36.37	434.88	461.40	1967.32	141.49	103.12	48.33
National Fuel Gas Co. (NYSE:NFG)	Jun-30-2007	3793.13	62.53	1551.86	936.52	2074.01	576.13	404.79	181.73
New Jersey Resources Corp. (NYSE:NJR)	Jun-30-2007	2231.13	5.72	671.55	560.09	2965.97	208.13	172.33	91.73
Nicor Inc. (NYSE:GAS)	Jun-30-2007	3916.40	156.60	916.30	307.20	3080.90	405.50	224.00	141.10
Northwest Natural Gas Co. (NYSE:NWN)	Jun-30-2007	1867.90	4.90	610.28	554.20	1029.14	217.61	151.21	71.08
Piedmont Natural Gas Co. Inc. (NYSE:PNY)	Apr-30-2007	2667.57	10.35	924.36	844.15	1728.90	326.56	232.21	103.29
Questar Corp. (NYSE:STR)	Jun-30-2007	5214.10	NA	2368.90	1118.40	2756.80	1140.80	780.00	479.90
RGC Resources Inc. (NasdaqNM:RGCO)	Jun-30-2007	113.61	NA	44.22	28.00	100.20	13.92	9.23	4.59
SEMCO Energy Inc. (NYSE:SEN)	Jun-30-2007	945.03	17.32	235.92	406.90	703.79	91.12	61.43	14.65
South Jersey Industries Inc. (NYSE:SJI)	Jun-30-2007	1485.49	5.12	470.78	461.88	945.13	182.85	149.46	72.60
Southern Union Co. (NYSE:SUG)	Jun-30-2007	6883.44	0.14	1923.21	3238.66	2608.90	740.81	570.58	82.15
Southwest Gas Corp. (NYSE:SWX)	Jun-30-2007	3383.06	20.74	954.11	1312.98	2137.17	394.46	218.05	85.40
Spectra Energy Partners, LP (NYSE:SEP)	Dec-31-2006	NA	NA	NA	NA	82.61	NA	78.72	63.83
Star Gas Partners LP (NYSE:SGU)	Jun-30-2007	616.38	132.84	244.65	41.12	1281.12	69.92	37.99	25.41
Suburban Propane Partners LP (NYSE:SPH)	Jun-30-2007	984.33	106.92	197.90	441.56	1506.69	210.38	179.95	138.34
UGI Corp. (NYSE:UGI)	Jun-30-2007	5223.00	170.90	1300.50	1967.30	5420.60	663.40	497.80	189.60
WGL Holdings Inc. (NYSE:WGL)	Jun-30-2007	2834.47	67.17	1008.87	602.87	2643.93	329.40	239.46	109.58

¹ LTM = latest twelve months
² Net debt = total debt less cash and cash equivalents
³ Net income excludes extraordinary items
NA = Not Available

¹ Sources: Capital IQ, IBIS World Industry Reports, www.naturalgas.org and www.eia.doe.gov



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Selected Operating Statistics

	LTM						Total Debt /		
	Gross Margin	EBITDA Margin	EBIT Margin	Net Income Margin	Current Ratio ¹	Return on Assets ²	Return on Equity ³	LTM EBITDA	Total Cap
Mean	26.4%	17.7%	15.7%	8.7%	1.2x	6.0%	17.2%	2.9x	0.5x
Median	21.6%	13.9%	10.6%	4.8%	1.1x	5.5%	12.2%	2.7x	0.5x

¹ Current ratio = current assets divided by current liabilities

² Return on assets = EBIT (excluding extraordinary items) * (1-taxes) divided by average total assets

³ Return on equity = net income (excluding extraordinary items) divided by average shareholder's equity

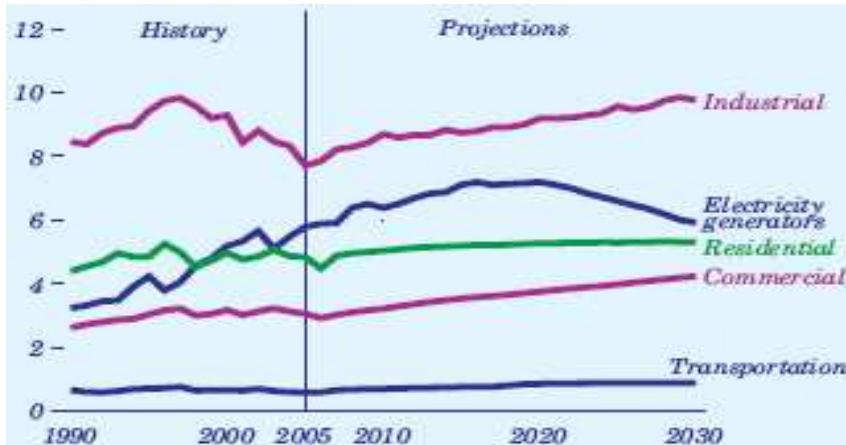
Selected Valuation Multiples

	Enterprise Value / LTM			Equity Value / Book Value	Price / Earnings ¹	
	Revenue	EBITDA	EBIT		CY	CY +1
Mean	1.5x	8.3x	11.6x	2.5x	19.5x	16.6x
Median	1.2x	7.9x	11.1x	1.9x	16.0x	15.2x

¹ Price/ earnings = price per share divided by diluted EPS excluding extraordinary items

CY = calendar year

Natural Gas Consumption by Sector, 1990-2030 (trillion cubic feet)

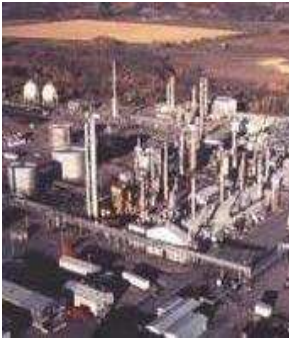


Source: U.S. Department of Energy, Energy Information Administration, Annual Energy Outlook 2007

Basis of Competition

- From an end user perspective, gas is one of a number of commodities competing for a share of the energy market. For most commercial, residential, and industrial customers, the only real alternative fuel is electricity, against which gas competes on the basis of price, convenience, and individual preferences. Electricity producers have a broader choice of fuels - gas, coal, oil, or nuclear - when determining the type of generating facility to be constructed. Considerations include: likely relative fuel prices over the long term, the nature of power plant required (base load, intermediate or peak load), emission controls, the potential for dual fuel use, and supply sources already in place. Once a generating plant has been constructed, the electricity producer is locked into the fuel chosen.
- From a supply viewpoint, various gas producers compete against each other to supply gas to particular markets.
- The fixed nature of natural gas pipelines limits competition between firms in the industry in the short and medium term. However, in the longer term, the potential for new pipelines acts as a competitive influence.

¹ Sources: Capital IQ, IBIS World Industry Reports, www.naturalgas.org and www.eia.doe.gov



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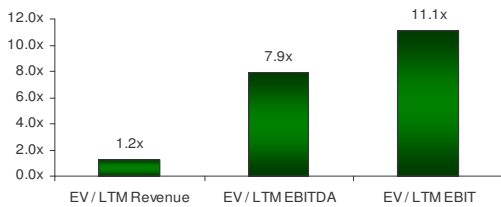
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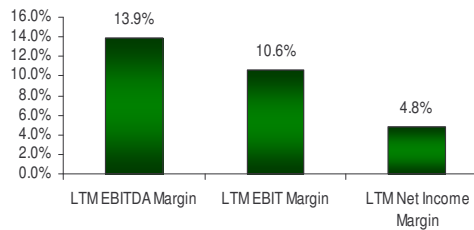
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Barriers to Entry

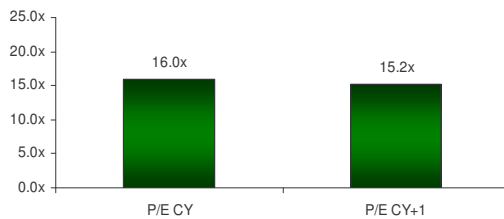
Enterprise Valuation Multiples



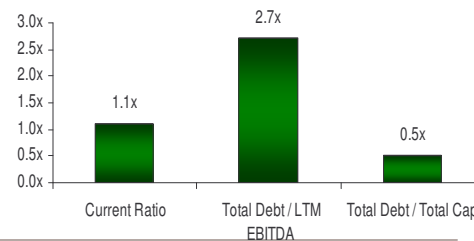
Financial Margins



Price to Earnings Multiples



Balance Sheet Statistics



Current Results

Industry consumption fell by about 2.7% in 2003 from 2002 due to a 4.9% decrease in demand. The decline is not surprising, given the 44% price rise faced by industrial users. Other categories of consumer also faced increases: 20% for households, 24% for commercial users and 51% for power generators. Consumption remained fairly flat in 2004, as declines in usage by households and the commercial sector were largely offset by increases in usage by industrial and power producers while prices continued to rise. Further declines in consumption occurred during 2005 and 2006, as consumers responded to rising prices (in 2005) and relatively warm weather (2006). Assuming normal weather conditions in 2007, consumption is expected to expand in response to lower real gas prices.

Outlook

The demand for natural gas in the U.S. is expected to expand through 2012. Rising industrial production is expected to underpin an increase not only in industrial demand for gas, but also in demand from power generators. The consumption of gas by end users is expected to reach 23,431 billion cubic feet by 2012. The perception of natural gas as a more greenhouse friendly fuel than other low-cost alternatives such as coal puts it in a strong position as a future energy source. The Energy Information Administration expects residential energy demand to increase by 25 percent between 2002 and 2025, while the commercial and industrial sectors are expected to grow at an annual rate of 1.7% and 1.2% per year, respectively, through 2025.

- Entry into markets is governed by the regulatory requirements at both the federal and state level. In particular, entry to particular state markets is limited to existing local gas distribution companies, at least for some categories of customer.
- Enterprises are issued with franchises, licenses and other authorizations, which generally provide a distributor with the exclusive right to supply a defined area.
- Due to the high risk nature of gas exploration, large sums of capital and expertise are required to establish a safe and profitable operation.
- Many of the major gas and fuel producers are vertically integrated firms, with interests in downstream operations such as petroleum refining and marketing. New entrants lacking such linkages may find it difficult to penetrate the market.
- Large initial contracts must be secured in order to make the pipeline viable.
- Opportunities to enter the industry arise usually as a result of either the construction of new pipelines or industry rationalization.

Hilco Enterprise Valuation Services, LLC

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¹ Sources: Capital IQ, IBIS World Industry Reports, www.naturalgas.org and www.eia.doe.gov