



Roger Conrad's

UTILITY FORECASTER

200TH ISSUE

Growth • Safety • Income • Reliability

Roger S. Conrad, Editor

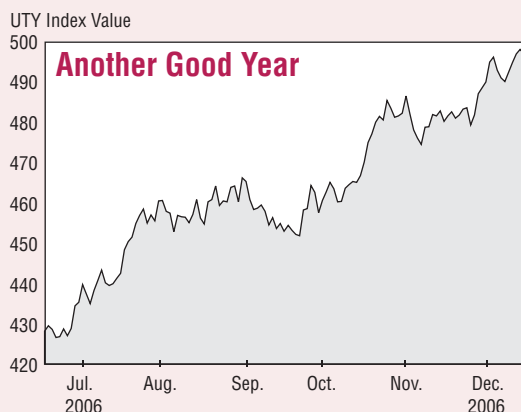
Will utilities score a fifth straight year of strong gains in 2007?

Supportive regulation, tightening core markets and strengthening balance sheets will again work in their favor. Even valuations have come down, as profit growth catches up with prices.

Last year, we scored solid gains in then-lagging limited partnerships and communications stocks, comeback utilities, selected foreign utes, merger candidates and conservative energy bets. This year's featured trends are highlighted in the feature article.

Utilities usually underperform during the early months of the year. So I'm sticking to conservative buy targets and recommending only real stars like Growth Spotlight **Duke Energy** and Income Spotlight **Windstream Corp.** On January 2, Duke will spin out its natural gas assets as *Spectra Energy*, which I'll be adding to the Income Portfolio.

The Portfolio section highlights my strategy and other selections. Utility Beat examines the latest on Canadian income trusts, foreign and domestic telecoms, and the Illinois rate freeze battle.



Daily action in the index of 20 electric utilities on the Philadelphia Stock Exchange. Source: Bloomberg

For weekly updates on the latest developments for *UF* Portfolio recommendations, subscribe to my complimentary e-zine *Utility & Income* at www.utilityandincome.com.

Roger S. Conrad

Where To Be In 2007

Not everything went according to plan last year. But with 50 of 52 Portfolio recommendations up for the last 12 months, not a lot went wrong either. And the limited partnerships, energy producers, comeback plays and foreign utilities recommended in the January 2006 feature article had banner years.

Unfortunately, it's nearly certain these investments won't perform as well this year. But there are always potential hot spots that can juice up your returns—and places to avoid like the plague.

January 2007 marks the 200th issue of *Utility Forecaster* and the 19th time I've laid out my forecasts for the coming year. Remember, these are based on my best analysis, not an infallible crystal ball. There's no substitute for sticking with high-quality investments.

No Respect

Utility stock prices are trading at values more than twice their late 2002 lows. Yet as the graph "Getting Credit" shows, the financial recovery powering those

gains isn't remotely reflected in credit ratings. In fact, S&P and Moody's issued almost as many downgrades as upgrades during the past two years.

Credit raters are paid to assess risk and should be skeptical. But the refusal to reward utilities for four years of dramatic progress is rooted in unwillingness to admit errors made in the wake of the *Enron* scandal.

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Saturday, Feb. 3, 2007: February 2007 issue available online



Dear Reader:

I'm very proud to say the January issue is the 200th edition of *Utility Forecaster*. I also want to personally thank you for continuing to subscribe to *UF*. During the 21 years I've been in this business, one of my favorite jobs has been answering your queries in person, via the phone, on the Internet and through the mail.

Both S&P and Moody's rated Enron investment grade right up until the company filed Chapter 11 in late 2001. They then created havoc in the market with a sector-wide wave of ratings cuts, even as utilities slashed debt and operating risk and repaired relations with regulators.

The good news is raters' refusal to respect the recovery means utility ratings are artificially low. That adds up to low-risk buying opportunities in sector bonds and preferred stocks.

The Income Portfolio Conservative holdings include 13 prospects, each backed by a company yet to convince credit raters of its real strength. Above-market yields limit risk to volatile interest rates, particularly coupled with the close-in maturities of the bonds. The result is an unbeatable combination of yield and safety that should stand up to anything the markets throw at us in 2007.

For speculators, the best bet in the utility universe is still the **Calpine Corp 8.25 Percent Senior Notes of 07/08/07** (CUSIP 131347AF3), which have surged nearly 20 percent in three months. Calpine's exit from Chapter 11 has been accelerated by the drop in natural gas prices, which has given it breathing room to sell assets. I expect the notes to be paid off at par (\$1,000), plus accrued interest, probably by summer. **In the meantime, the Calpine Corp 8.25 Percent Senior Notes of 07/08/07 are still a buy up to 90 (\$900).**

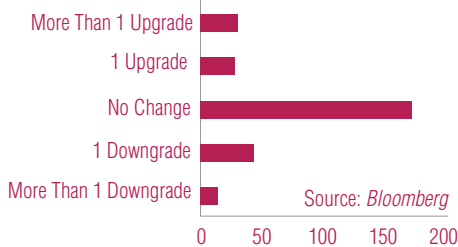
Going Green

Even if Democrats lose control of the Senate, regulation of carbon dioxide (CO₂) emissions looks inevitable. Last month, for example, **ExxonMobil** abandoned a decade of stiff opposition by calling for action to curb greenhouse gases.

CO₂ regulation presents immense opportunities as well as risks for utilities and energy companies. With the government extending the wind power tax credit for another year, already impressive growth should continue. (See the graph "Mighty Wind".)

If regulators approve its takeover of *Scottish Power* this year, Spain's *Iberdrola* will become the world's biggest wind electricity producer. My two favorite plays, however, are still **AES Corp** and **FPL Group**.

Getting Credit



Changes in US electric, gas, water and communications utilities' S&P and Moody's credit ratings in 2005 and 2006. Number indicates action by either credit agency. For example, 30 companies were upgraded 2 or more notches by either agency.

AES plans to invest \$3.5 billion by 2017 to expand its global wind portfolio tenfold. It's also pumping \$2.5 billion into liquefied natural gas and another \$2 billion to develop technology to control CO₂ emissions from fossil fuel plants. **On track for double-digit profit and cash flow growth for years to come, AES is now a buy up to 23.**

FPL Group is a bit expensive in the mid-50s. But the company's unregulated wind and nuclear plants will continue to generate many happy returns. **Buy FPL Group on a dip to 50 or lower.**

As for technology, **Vestas Wind's** sales are soaring, but its shares are at extreme levels on takeover speculation. **Speculators should take profits from Vestas Wind and invest a portion in Distributed Energy Systems.**

Distributed Energy's latest product is a system enabling plants to use less coal, oil and natural gas to produce the same power. Third quarter sales surged 20 percent and product backlog rose 20 percent from the prior quarter. **Distributed Energy shares are a buy again—for speculators only—up to 5.**

Coal power plant owners are on the losing end of CO₂ regulation. *Edison International's* Mission Energy unit, for example, will spend \$3 billion to clean emissions from its Illinois plants through 2018. That's money it's almost certain to recover in selling prices.

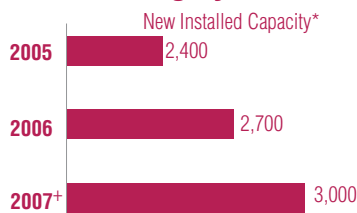
Duke Energy and Southern Company, meanwhile, are set to increase their rate bases by billions of dollars as they make environmental expenditures. And they've won federal tax credits to develop low-emissions technology as well.

Companies that combine tough regulatory climates with big prospective environmental expenditures are at risk over the next decade. That's a good reason to watch closely the likes of *Allegheny Energy* and *TXU*.

Comeback Kings

No industry can match utilities' track record for recovering from disaster. From *GPU* in the wake of the 1978 Three Mile Island disaster to the two dozen utilities nearly driven bankrupt by the 2001 collapse of Enron, buying the battered and holding on through recovery

Mighty Wind



*In megawatts. +Projected total.

Source: Bloomberg

Most important, I want to pledge to you now that I will continue to do my best to make *Utility Forecaster* the most comprehensive and invaluable resource for income and growth investing available.

Experience has taught me that I won't always be right. But I can promise integrity, 110 percent effort and, above all, the highest standards of quality. Here's to the next 200 issues!

Roger S. Conrad



has been a virtually fail-safe formula for monster gains.

The massive bargains we saw in late 2002 are long gone. But there's a handful of situations with big-gain potential.

CMS Energy and Sierra Pacific Resources took giant steps last year toward restoring investment grade credit ratings and dividends. This year, they're poised to complete their journey back. **Buy CMS and Sierra up to 17 for a move to the low 20s while you wait for the first check.**

Aquila shareholders will have to wait at least another year before dividends can be paid. But the conclusion of its restructuring effort—which included major asset sales and debt reduction in 2006—has made that a matter of “when,” not “whether.” **Buy Aquila up to 5.**

A low-teens price looks assured for Michigan-based gas utility **SEMCO Energy** as it cuts a massive debt load incurred to buy an Alaskan ute last decade. I look for an investment grade credit rating and dividend by late 2008 at the latest. **Patient investors can buy SEMCO up to 7.**

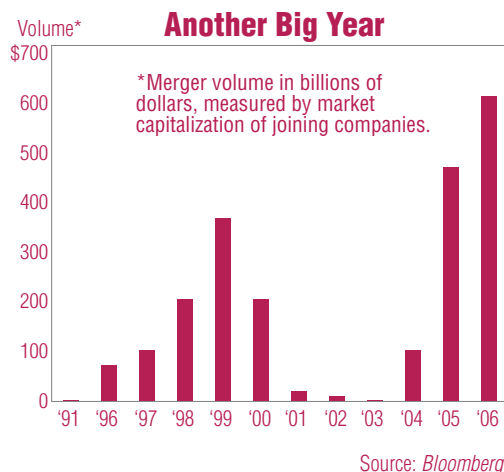
Gas Recovery

Mild weather made 2006 a bad year for natural gas. But even if the weather remains tepid, curtailed production is already impacting bloated inventories. As a result, 2007 is shaping up to be a good year for conservative producers.

Dominion Resources should to be a major beneficiary, as recovering gas prices push up the value of the Gulf of Mexico properties it plans to sell. **Buy Dominion Resources up to 84 if you haven't already.**

Battered by concerns about how they'll be taxed in 2011, Canadian royalty trusts **ARC Energy (buy up to 21)**, **Enerplus Resources (50)**, **Penn West Energy (33)** and **Provident Energy (12)** pay an average yield of 10 percent and will benefit directly from a recovery in gas. So will pure plays **Chesapeake Energy (33)** and **EOG Resources (70)**.

Until we see some combination of the factors that ended the 1970s energy bull market—real conserva-



tion, alternate energies, a North Sea-like discovery of conventional reserves and very likely a global recession—oil and gas prices are going to go higher from here.

Super Oils remain the surest way to play, but even **Chevron** looks a bit pricey at the moment. **Wait for a dip to buy Chevron.**

Meanwhile, investors should avoid **BP**, which has been increasingly targeted by US regulators for safety and environmental reasons.

Takeovers: Think Small

Last year saw a record \$3.1 trillion in global merger activity. Outside **AT&T/BellSouth**, however, the action in the US has shifted to smaller companies, which can be bought with fewer regulatory approvals and are generally less controversial.

My first rule for buying takeover targets is to stick with stocks you won't mind owning if no deal materializes. That way, you're never stuck holding junk.

Among the more attractive bets now is Carolinas-based **Progress Energy (buy up to 50)**, which would make an excellent fit with either Duke or Southern and is relatively cheap at 1.5 times book value.

TECO Energy, a buy up to 17, is increasingly attractive as it works its way back to health.

Alltel's pure cellular focus makes its ultimate takeover almost inevitable. Meanwhile, comeback bets **Cincinnati Bell** and **Qwest** are becoming increasingly attractive as they bundle products, upgrade networks and cut debt. **Buy Alltel up to 60, Cincinnati Bell up to 5 and Qwest up to 8.**

In water, the acquirers like **Aqua America** that profit most, buying otherwise good systems that are too small to meet clean water regulations on the cheap. But little **Artesian Water** would command a hefty premium if the ruling Taylor family ever decided to sell. So would **York Water**, which recently dramatically boosted water supplies with a massive investment. **Buy Aqua America up to 25, Artesian Water up to 20 and York Water up to 20.**

DIVERSIFIED ENERGY UTILITIES										
Company (symbol)	Phone	Yield	ROE/P/BV	Fuel Exp %	2-Yr S&P, Moody's Change	Sfty Rtnng	Type Ute		Comment	Advice
AES Corp (AES)	703-682-6336	0.0%	8.54%	16.8%	up 1,up 1	4	D		Plans \$10 bil renewable energy spending to 2017,including CO2 control.	Buy @23
Allegheny Energy (AYE)	800-648-8389	0.0	1.11	-2.0	up 3,up 3	3	D		Sells gas-fired plant to TVA for \$23 mil in continued streamlining.	Hold
Allete (ALE)	800-535-3056	3.1	0.99	21.6	none,none	8	D		Signs on metals plant in Minnesota as one of biggest industrial cust.	Hold
Alliant Energy (LNT)	800-255-4268	3.0	-0.17	18.7	none,up 2	6	D		Upgrading distribution service with software as sheds unreg ops.	Hold
American Elec Power (AEP)	800-551-1237	3.5	5.28	10.5	none,up 1	6	D		Buys plant from DPL,completes sale of LA plant to Dow Chemical.	Hold
Ameren Corp (AEE)!	800-255-2237	4.7	5.88	-2.4	down 2,down 1	3	D		IL rate freeze defeated in statehouse;Rate counterproposal is key.	SELL
Aquila Inc (ILA)	800-487-6661	0.0	-13.50	20.3	up 1,up 1	4	D		Loses bid to buy Calpine plant;Co signs onto CO2 reduction plan.	Buy @5
Black Hills Corp (BKH)	800-468-9716	3.5	2.81	-4.1	none,none	5	D		Announces new wind power sales to Cheyenne,WYO on 20 year contract.	Hold
Centerpoint Energy (CNP)	800-231-6406	3.6	6.37	20.7	none,up 1	7	R		Redeems more high cost debt;Sells stake in new pipeline to EP.	Buy @17
CLECO (CNL)	800-253-2652	3.5	17.72	4.8	none,none	8	R		Construction of new solid fuels plant on track and boosting rate base.	Buy @26
CMS Energy (CMS)	517-788-0550	0.0	-2.63	67.6	none,up 4	4	D		MI regs issue favorable rate order;Sells stake in Midland Cogen plant.	Buy @17
Constellation Energy (CEG)	800-258-0499	2.2	4.51	3.6	none,none	4	D		New Energy unit wins major customer;Forms LP for oil/gas production.	Hold
Dominion Resources (D)☛	800-552-4034	3.3	4.38	-39.6	down 1,up 1	7	T		Should earn credit rating boost after sale of Gulf oil and gas ops.	Buy @84
DP&L (DPL)	800-322-9244	3.6	3.78	15.7	up 2,up 3	6	D		Sells OH plant to AEP for \$102 mil,will take loss but cut debt.	Hold
DTE Energy (DTE)	866-388-8558	4.3	6.42	n/a	none,none	5	D		Raises dividend and lifts forecasts;Plans \$1 bil non-ute asset sales.	Hold
Duke Energy (DUK)	800-488-3853	3.8	6.92	67.5	none,down 1	6	D		Spinoff of Spectra on Jan 2 is tax-free;One half share per Duke share.	Buy @22
Edison Int'l (EIX)	800-347-8625	2.4	9.78	53.6	up 1,up 1	7	D		Boosts dividend 7.4%;S&P cuts Mission unit rating on enviro costs.	Buy @46
El Paso Elec (EE)☛	800-592-1634	0.0	3.23	-15.9	none,none	6	R		CEO to leave in 2009;Demand in cross border territory growing fast.	Hold
Empire District (EDE)	800-468-9716	5.2	3.92	-0.8	down 1,none	2	R		Customer growth and rate hikes offsetting drop in demand per customer.	SELL
Entergy Corp (ETR)☛	800-292-9960	2.3	4.96	17.7	none,none	5	D		Creditors may file competing plan for New Orleans to speed payoff.	Hold
Exelon Energy (EXC)	800-626-8729	2.6	2.29	-12.2	down 1,none	5	D		Boosts dividend 10%,expects big gain in '07 on higher power sales.	Buy @63
First Energy (FE)	800-736-3402	3.0	4.60	2.3	up 1,none	6	R		NJ regs OK rate hike to recover \$165.3 mil in deferred costs.	Hold
FPL Group (FPL)	888-218-4392	2.7	4.72	42.5	none,none	6	D		Co completes infrastructure upgrades to limit future storms' impact.	Hold
Great Plains Energy (GXP)	816-556-2312	5.1	6.77	11.6	none,down 2	4	D		Now expects retrofit project for plants to cost \$1.5 to \$1.6 bil.	SELL
Hawaiian Elec (HE)	808-532-5841	4.5	5.71	17.1	none,none	4	D		Rising oil prices take toll but operations still generally healthy.	Hold
IdaCorp (IDA)	208-388-2200	3.1	4.06	22.0	none,none	6	R		Hydro production remains key but regulators in IDA,WA more supportive.	Hold
KeySpan Corp (KSE)	718-403-1000	4.5	5.89	-17.9	none,none	5	D		Increases dividend 2.3% on core business grth;NGG merger needs NY OK.	Hold
Kinder Morgan (KMI)	713-369-9000	3.3	4.84	n/a	none,none	5	D		Management expects buyout to close Q1 2007 for \$108/share in cash.	Hold
MGE Energy (MGEE)	800-356-6423	4.0	4.70	-19.0	down 1,none	7	R		New coal-fired facilities planned to reduce dependence on purchases.	Hold
MDU Resources (MDU)	701-222-7900	2.0	6.92	-0.1	down 1,none	6	D		Expects 7-10% gas production boost in '07,flat overall earnings.	Buy @26
NiSource (NI)	888-884-7790	3.8	4.57	-5.7	none,down 1	7	R		Restructuring seemingly on hold as Chairman of Board steps down.	Hold
Northwestern Corp (NVEC)	605-978-2908	3.5	4.80	-5.9	up 14,up 15	6	R		South Dakota passes on takeover;Montana hearing to be in March '07.	Hold
OG&E Energy (OGE)	405-553-3000	3.3	6.71	-43.4	none,none	5	D		Arkansas deal will freeze rates and allow cost recovery;Div upped 1%.	Hold
ONEOK (OKE)	918-588-7158	2.8	14.50	-20.0	down 1,down 1	5	D		Boosts full-year '06 earnings forecast on major Kansas rate hike.	Buy @42
Otter Tail Corp (OTTR)	800-664-1259	3.7	7.19	-11.1	none,down 1	3	D		Several businesses could prove vulnerable to an economic slowdown.	Hold
Peoples Energy (PGL)	312-240-4000	4.9	-1.07	-21.4	none,down 2	1	T		Shareholders OK takeover for 0.825 shs WPS/sh;Illinois could be tough.	SELL
PG&E Corp (PCG)☛	800-719-9056	2.8	5.47	11.1	up 1,up 2	8	R		CA regs OK CO2 reduction deal,allows 2250 MW new capacity by 2009.	Hold
Pinnacle West (PNW)☛	800-457-2983	4.0	3.72	32.8	down 1,down 1	4	R		Co gears up anti-global warming and pollution drive in Arizona.	Hold
PNM Resources (PNM)	505-241-2700	2.7	3.46	1.1	none,down 1	7	D		Issues 5 mil shares to cut debt;Adds 5 yrs to power sale deal in NV.	Buy @32
PPL Corp (PPL)	610-774-5151	3.0	5.79	28.1	none,up 2	6	D		Co,EXC file settlement deal at FERC;Supply unit rated stable by S&P.	Hold
Progress Energy (PGN)	800-662-7232	4.9	5.71	18.4	none,none	6	D		Boosts dividend 0.8%,buys back \$550 mil debt;Says 80% payout on track.	Buy @50
P.S. Enterprise Group (PEG)	800-242-0813	3.4	4.61	-8.6	none,none	6	D		Co won't split up units;NJ regs moderate since rejecting EXC merger.	Hold
SCANA (SCG)	803-217-9000	4.0	7.27	6.1	none,none	6	D		Summer nuke performance is key to health;GA gas unit is stable.	Hold
Sempra Energy (SRE)	877-773-6772	2.1	8.39	-11.2	none,none	6	D		Files rate stability proposal to set returns for 2009-2013 in CA.	Buy @50
Southern Co (SO)	800-554-7626	4.2	6.26	6.3	none,none	7	D		Will benefit from tax credits to develop clean coal plants.	Buy @37
TECO Energy (TE)	800-650-9222	4.4	8.84	21.1	none,up 1	6	D		Beneficiary of clean coal tax credits;Continues to bring down debt.	Buy @17
TXU Corp (TXU)	800-828-0812	3.0	27.89	-30.8	down 1,none	4	D		Plan to build 11 coal-fired plants to be challenged in legislature.	SELL
UniSource (UNS)	520-571-4000	2.3	3.89	9.5	none,down 2	5	D		Need to clean up emissions,control CO2 could be a heavy burden.	Hold
Vectren Corp (VVC)	812-491-4209	4.2	6.29	-17.7	none,none	4	D		Issues '07 guidance of 1.65-1.80/sh including settlement of lawsuit.	Hold
Westar Energy (WR)☛	800-527-2495	3.7	6.19	28.1	none,up 2	5	R		Governance policies upgraded by watchdog group;Wave of insider sells.	Hold
Wisconsin Energy (WEC)	800-881-5882	1.9	5.95	31.3	none,none	6	D		Major construction program ongoing,depends on support of WI regs.	Hold
WPS Resources (WPS)	920-433-4901	4.3	8.79	-10.0	none,none	4	D		Shareholders OK share issue for Peoples' merger;IL regs may be tough.	Hold
Xcel Energy (XEL)☛	877-778-6786	3.8	5.75	3.9	none,none	7	R		Co collects CO2 tax in Boulder,CO;Green approach a winner in territory.	Buy @22
ENERGY DISTRIBUTION UTILITIES										
Stock (symbol)	Phone	Yield	ROE/P/BV	Fuel Exp %	2-Yr S&P/ Moody's Change	Sfty Rtnng	Type Ute		Comment	Advice
AGL Resources (ATG)	800-633-4236	3.8%	6.91%	-1.0%	none,none	7	D		Expansion of gas storage plant in TX won't hurt credit ratings.	Hold
Amerigas (APU)	610-337-7000	7.0	3.89	9.9	not rated,up 2	4	M		Maintenance capital spending hurts FY'06 net but should moderate.	Buy @32
Atmos Energy (ATO)	800-543-3038	3.9	5.69	-11.4	none,none	6	D		Uses \$191.9 mil stock offering to cut debt;EPA lauds CO2 efforts.	Buy @30
Avista Energy (AVA)	800-642-7365	2.2	3.81	-1.2	none,none	4	D		Will issue \$67.5 mil stock to buyback debt;Some insiders buying.	Hold
Buckeye Partners (BPL)	484-232-4000	6.5	6.48	0.0	none,none	6	D		Continues to push distribution higher as asset base is expanding.	Hold
Cascade Natural Gas (CGC)	888-269-8845	3.7	4.16	68.8	none,none	6	R		MDU merger still progressing;Customer grth,rate support are pluses.	Hold
Ctrl Vermont P.S. (CV)	802-773-2711	4.0	2.00	3.7	down 1,not rated	3	R		VT regs OK purchase of co-op's territory in south of state,rates.	Hold
Chesapeake Utilities (CPK)	888-742-5275	3.7	6.20	-1.0	not rated,not rated	5	R		Some insider buys;Stock issue is a success to pay down debt.	Hold

ENERGY DISTRIBUTION UTILITIES (CONT.)									
Stock (symbol)	Phone	Yield	ROE/P/BV	Fuel Exp %	2-Yr S&P/Moody's Change	Sfty Rtnng	Type Ute	Comment	Advice
CH Energy (CHG)🌱	845-486-5439	4.0%	5.39%	9.5%	none,none	4	D	Insiders buy stock;Fuel sales fate in winter will be key to results.	SELL
Consolidated Edison (ED)	800-522-5522	4.7	6.33	0.5	none,none	3	R	Cuts rates for retail energy marketing unit in MA;NY regs uncertain.	SELL
Delta Gas (DGAS)	859-744-6171	4.8	6.06	12.4	not rated,not rated	3	R	Stronger unregulated operations offsetting weaker regulated results.	Hold
DQE (DQE)	800-247-0400	5.0	7.97	12.2	none,down 1	4	R	Shareholders OK merger with Macquarie;Sells more unregulated ops.	Hold
Enbridge Partners (EEP)🌱	800-481-2804	7.4	5.29	-23.7	none,none	5	D	Moody's revises outlook to negative on massive capital spending.	Buy @52
Energy East (EAS)	800-542-7480	4.6	6.94	-1.7	none,none	5	R	Will recover some of the cost from Connecticut Yankee nuke funds.	SELL
EnergySouth (ENSI)🌱	800-736-3001	2.3	4.60	13.1	not rated,not rated	5	R	Bay State gas storage unit thriving;Share price nearly 3 times book.	SELL
Energy Transfer Part (ETP)	214-981-0700	4.7	9.68	-18.7	none,none	6	D	Will build major pipeline with KMP in Alabama as revs up midstream ops.	Buy @55
Energy West (EWST)	406-791-7500	3.1	7.27	-15.6	not rated,not rated	3	D	Some insider buys;Dividend has risen 200% plus in last 12 months.	Hold
Enterprise Partners (EPD)🌱	713-880-6500	6.1	3.90	17.7	none,not rated	5	D	Management says major expansion of nat gas liquids ops completed Jan 1.	Buy @30
Ferrell Gas (FGP)	816-792-1600	9.2	1.47	11.3	down 1,up 1	4	M	Lower propane sales,higher interest costs hurt cash flow in FY'06.	SELL
Florida Pub Utils (FPU)*	561-838-1729	3.2	5.66	N/A	not rated,not rated	7	R	Locks in gas purchases from BP;should help hold down fuel costs.	Hold
Green Mtn Power (GMP)	802-655-8418	3.3	6.78	-13.3	none,none	5	R	Takeover deal for co from Canada's Gaz Metro appears to be on track.	Hold
Kinder Morg En Part (KMP)	713-369-9490	6.6	7.47	-18.2	none,none	4	D	Expects to hike distribution 6% in FY'07 as asset base grows.	Buy @48
Laclede Group (LG)	800-884-4225	4.0	6.68	3.7	none,none	6	R	Some insider buys;Boosts distribution 2.8% as utility ops healthy.	Hold
Magellan Midstream Part (MMP)	877-934-6571	5.9	6.31	5.8	none,up 1	4	D	Will get \$35 mil payment from Williams deal;Infrastructure solid.	Hold
Maine Maritimes (MAM)*	207-760-2499	0.0	-0.88	0.0	not rated,not rated	1	D	ME regs OK deal for co to provide standard service,should lift '07.	Hold
New Jersey Resources (NJR)🌱	732-938-1480	2.9	6.61	-22.9	none,none	5	D	Cuts in gas cost portion of bill won't impact co's profits in qtr.	Hold
NICOR Inc (GAS)	630-305-9500	3.8	6.60	-20.0	none,down 1	6	D	US Department of Justice finally closes case on rate structure.	Hold
Northeast Utils (NU)	800-665-3249	2.6	-6.15	-10.3	down 1,down 1	7	D	Connecticut Yankee nuke plant deal a plus;Co now back to pure ute.	Hold
Northwest Nat Gas (NWN)	888-777-0321	3.2	5.05	14.0	up 2,none	7	R	Faces some manufactured gas cleanup costs;Stock at twice book value.	Hold
NSTAR (NST)	617-424-2000	3.5	5.64	19.0	up 1,none	8	R	Funds from Connecticut nuke settlement with govt a plus for finances.	Hold
ONEOK Partners (OKS)🌱	877-208-7318	5.5	7.65	NMF	down 2,none	4	D	Boosts '06 guidance but expects lower '07 on gathering results.	Hold
Pembina Pipe In (PMBIF, PIFUN)🌱	403-231-7500	7.2	4.21	0.0	none/not rated	5	D	Dividend increased 10% as asset base in oil sands,elsewhere grows.	Buy @14
Piedmont Nat Gas (PNY)	704-731-4438	3.4	5.02	5.0	none,none	7	R	Seasonal quarterly loss widens slightly but all ops running well.	Buy @25
Portland General (POR)	503-464-8000	3.2	3.64	19.3	up 19,up 18	5	R	Plans major wind power ramp up in Biglow Canyon;Should control costs.	Hold
PEPCO Holdings (POM)	866-254-6502	3.9	7.59	58.3	down 1,down 1	5	D	Requests 7.79% rate hike in DC,3.9% in MD;Regulators will scrutinize.	SELL
Puget Sound (PSD)	800-997-8438	3.9	6.03	1.9	none,none	5	D	Seeks to build solar plant in WA;Co offers green rates to customers.	Hold
RGC Energy (RGCO)	540-777-4427	4.7	6.69	-25.7	not rated,not rated	4	R	Earnings up 2% in FY'06 as bad debt expense falls,offsets weather.	Hold
SEMCO Energy (SEN)	810-987-2200	0.0	0.10	1.4	none,none	4	R	New line of credit should cut interest costs as ute recovery continues.	Buy @7
Sierra Pacific (SRP)	800-662-7575	0.0	3.11	-0.5	up 1,up 1	5	R	Deferred energy filing in Nevada to cut rates;Redeems high cost debt.	Buy @16
So Jersey Industries (SJI)🌱	609-561-9000	2.8	5.80	3.1	none,none	4	D	Raises dividend 9%,looks for annual earnings growth of 6-10%/yr.	Hold
Southern Union (SUG)	800-736-3001	1.0	0.15	NMF	down 1,none	4	D	Moody's affirms rating,keeps negative outlook due to expansion.	Hold
Southwest Gas (SWX)	800-331-1119	2.1	3.11	3.0	none,down 1	5	R	Strong customer growth continues and regulators better on costs.	Hold
Spectra (SE)	800-488-3853	7.3	NEW	NEW	new,new	6	D	Gas operations spinoff from Duke Energy starts with many advantages.	Buy @14
Suburban Propane (SPH)	973-887-5300	6.6	6.41	-10.5	up 1,none	4	M	Drop in natural gas input costs should help sales,control costs.	Hold
TEPPCO (TPP)	800-659-0059	6.5	6.26	2.9	down 1,none	5	D	Shareholders OK proposal to swap stock with management for fee cuts.	Buy @42
UGI Corp (UGI)	610-337-1000	2.5	6.32	-15.4	none,none	4	D	Wave of insider sales as shares rise;Propane revs look better in FY'07.	Hold
UIL Holdings (UIL)	800-722-5584	4.1	2.73	-4.7	none,none	6	R	Insiders sell stock;Asset sales,rate hikes improve health of co.	Hold
UNITIL (UTL)🌱	800-999-6501	5.5	5.87	26.5	none,none	4	R	Co and MA attorney general reach settlement on adequate rate hikes.	Hold
Valero LP (VLI)	972-699-4062	6.3	6.88	16.3	down 1,none	5	D	Offering of general partner interest a success,completes LA oil asset.	Buy @58
WGL Holdings (WGL)	703-750-2000	4.0	5.40	19.4	none,none	4	D	Slightly raises FY'06 profit to account for tax adjustment.	Hold

NATURAL RESOURCE UTILITIES									
Stock (symbol)	Phone	Yield	ROE/P/BV	Prod. Gr.	2-Yr S&P/Moody's Change	Sfty Rtnng	Type Ute	Comment	Advice
ARC Energy (AETUF, AET.UN)	888-272-4900	10.4%	8.97%	11.9%	none,not rated	2	M	Shares recovering slowly;Should follow energy prices from now on.	Buy @21
Atlantic Power (ATPWF, ATP.UN)	617-531-6370	9.6	-0.57	3.0	not rated,not rated	5	R	Path 15 powerline will contribute mightily to cash flow going forward.	Buy @10
Boralex Pwr Tr (BLXJF, BPT.UN)	514-363-5116	9.5	4.61	11.3	none,not rated	5	R	Plants appear to run well;Still draws high Dominion Bond Svc rating.	Buy @9
BP Plc (BP)🌱	442074964000	3.6	21.00	-0.2	none,none	4	M	Will pay US for oil leases inked in 1998-99;CFTC investigates pricing.	SELL
BP Prudhoe Bay (BPT)	212-815-6908	11.3	NMF	0.0	none,none	2	M	Rebound in oil prices a plus but '07 divs may be well below '06 level.	SELL
Calpine Corp (CPNLQ)	800-359-5115	0.0	NMF	-34.0	down -11,down -9	0	M	Falling nat gas prices boost value of plant sales and speed recovery.	SELL
Calpine Pwr Inc (CLWIF,CF.UN)	800-359-5115	9.0	5.03	16.1	not rated,not rated	2	M	Management says new power contract for plant enough to hold dividend.	Hold
Chesapeake Energy (CHK)🌱	405-848-8000	0.7	15.09	22.0	up 1,up 2	4	M	Issues 30 mil new shs;Plans major expansion in Barnett Shale region.	Buy @33
ChevronTexaco (CVX)	800-368-8357	2.7	11.06	6.0	none,none	6	M	Expects big rise in Brazil output;Plans to boost '07 CAPEX by 20%.	Buy @35
ConocoPhillips (COP)	800-814-0299	2.0	18.56	34.2	none,up 2	8	M	Plans to cut CAPEX 25% in '07 as plans for Russian spending dropped.	Buy @70
Devon Energy (DVN)	405-235-3611	0.6	11.33	1.0	none,none	3	M	2 production sharing projects in South China Sea with CNOOC a plus.	Buy @72
Dominion Warrior Trst (DOM)	800-365-6548	9.1	NMF	0.0	down 1,down 1	1	M	Dividend reduced again as falling sales prices crimp cash flows.	Hold
Dynegy (DYN)	713-507-6400	0.0	2.54	-9.5	none,down 2	2	M	Expects to swing to profit in '07 after purchase of LS Power closes.	Buy @8
El Paso Corp (EP)	713-420-2600	1.0	-7.85	1.1	down 5,down 4	4	D	Stake in Duke/Centerpoint powerline a plus;Gas production stabilizes.	Hold
Encana (ECA)	403-645-2000	0.7	9.15	-6.0	none,none	3	M	Total '07 output to be flat with '06 but more unconventional sources.	Hold
Energy Corp (EGN)	800-654-3206	0.9	6.76	3.7	down 1,none	7	D	Reaffirms guidance for FY'07 as 70% of output hedged for the year.	Buy @45
Enerplus Res (ERF)	403-298-2200	9.3	7.94	8.5	none,not rated	3	M	Expanding into US Baaken region,oil sands despite tax uncertainty.	Buy @50
EOG Resources (EOG)	877-363-3647	0.3	11.49	10.9	none,down 1	5	M	Plans aggressive CAPEX plan in '07,is bullish on nat gas prices.	Buy @70
Equitable Resources (EQT)	412-553-5700	2.0	6.97	3.7	down 1,none	4	D	Gets FERC approval for \$150 mil pipeline projects in east Kentucky.	Hold

NATURAL RESOURCE UTILITIES (CONT.)										
Stock (symbol)	Phone	Yield	ROE/P/BV	Prod. Gr.	2-Yr S&P/Moody's Change	Sfty Rtnng	Type Ute		Comment	Advice
ExxonMobil (XOM)🌱	800-252-1800	1.7%	8.76%	7.0%	none,none	5	M	Imperial unit will run Syncrude oil sands;Production still growing.		Hold
Gr Lakes Hydro (GLHIF, GLH.UN)	819-561-2722	6.4	2.85	29.6	none,not rated	5	R	Hydro production is key;Brookfield may kick off more assets.		Buy @16
Mirant Corp (MIR)	678-579-5000	0.0	NMF	N/A	up 12,up 11	1	M	Sells Philippine assets for \$3.4 bil,will book \$2.2 bil gain.		Hold
National Fuel Gas (NFG)	800-648-8166	2.9	4.46	-4.3	none,down 1	5	D	Files for settlement of complaint about pipeline policies at FERC.		Hold
NRG Energy (NRG)	609-524-4500	0.0	2.01	N/A	up 12,up 13	2	M	Buys back shares sold to buyout firms during the Texas Genco purchase.		Hold
Peabody Coal (BTU)	314-342-3400	0.6	4.47	-1.2	none,none	4	M	Moody's,S&P affirm ratings;Will supply coal to TVA over 10 years.		Buy @45
Penn-Virginia Res (PVR)🌱	610-687-8900	5.8	7.74	3.5	none,not rated	4	D	Some insider buys;General partner ownership interest sale successful.		Buy @26
Petrobras (PBR)	303-477-1350	4.0	15.56	3.0	not rated,up 8	5	M	Co says growth may be slowed after 2010 if Brazil govt leases stalled.		Hold
Penn West Res (PWE)🌱	866-318-1767	11.0	17.26	38.0	none,not rated	2	M	Tax pools would protect income from taxes in 2011 in current plan.		Buy @33
Provident En Trust (PVX)	800-587-6299	11.1	4.77	-8.7	none,not rated	3	M	Income from US operations will be exempted from Canadian taxes in '11.		Buy @12
Questar Corp (STR)	801-324-5497	1.1	6.16	16.0	down 2,down 4	6	D	CEO still bullish on natural gas prices;Production looks set to rise.		Hold
Reliant Res (RRI)	713-497-3000	0.0	-4.82	-3.3	down 1,down 1	1	M	NJ to sue EPA over allowing co plant;Texas retail ops doing well.		Hold
Royal Dutch Shell (RDS/A)	212-218-3112	3.7	25.26	3.0	down 1,up 1	2	M	Capitulates on Sakhalin project but should preserve most output.		Hold
Southwestern Energy (SWN)🌱	281-618-4700	0.0	3.99	19.0	down 2,none	3	D	Wave of insider sales as price has risen;Production levels strong.		Hold
Total Fina Elf (TOT)	3314-7444546	3.1	11.18	-5.8	none,up 1	5	M	African projects begin to come on stream;Enters Indonesian fuel market.		Buy @72
Williams Cos (WMB)	800-600-3782	1.3	2.25	27.0	up 1,up 2	4	D	Asset sale nets \$1.22 bil;Production of oil and gas still surging.		Buy @28

COMMUNICATIONS UTILITIES										
Stock (symbol)	Phone	Yield	ROE/P/BV	Cust Grth	2-Yr S&P/Moody's Change	Sfty Rtnng	Type Ute		Comment	Advice
Alltel (AT)🌱	877-446-3628	0.9%	8.00%	7.0%	down 1,none	7	D	Sells MN units to satisfy US regulation;Ramps up wireless broadband.		Buy @60
AT&T Corp (T)	800-351-7221	3.7	4.07	4.7	up 5,up 5	4	D	Continues to roll out television service;Boosts technical capacity.		Hold
BellSouth (BLS)	800-631-6001	2.5	4.23	6.5	none,none	4	D	Odds of merger with AT&T good, but 3rd FCC Republican unable to vote.		Hold
Cablevision (CVC)*	516-803-2300	0.0	NMF	0.4	none,up 2	1	D	Optimum Online services reaches 2 mil broadband cust;Ups prices 1.1%.		SELL
CenturyTel (CTL)	800-969-6718	0.6	6.33	-0.2	down 1,none	5	D	Some insider sells;Upselling advanced services offsets line losses.		SELL
Cincinnati Bell (CBB)	800-345-6301	0.0	NMF	-1.7	none,up 3	4	D	Deploys new software to upgrade system;Overall line loss slows.		Buy @5
Citizens Communications (CZN)	203-614-5600	7.0	3.59	-1.5	none,up 1	7	D	Expects to generate \$500-\$525 mil free cash flow in '06,for debt,divs.		Buy @14
Comcast (CMCSA)	866-281-2100	0.0	1.05	9.6	up 1,up 1	4	D	Disney alliance boosts content;Rebranding acquired Adelphia systems.		Buy @42
Covad (DVW)	800-462-6823	0.0	NMF	-8.1	not rated,not rated	1	M	Q4 loss looks in line as Earthlink alliance offsets other weakness.		SELL
Embarq (EQ)	913-323-4637	3.8	NEW	0.9	new,new	4	D	Focus in on increasing offerings to business to avoid customer loss.		SELL
IDEARC (IAR)	972-453-7000	0.0	NEW	-2.0	new,new	4	M	Yellow pages spinoff from Verizon should be steady cash generator.		Hold
IDT Communications (IDT)	973-438-1000	0.0	-15.04	-11.0	not rated,none	0	M	Sales off 6% in FYQ3 as retail business suffers sequential decline.		SELL
Iowa Telecom (IWA)	877-901-4692	8.2	7.52	0.5	none,none	5	D	Business steady but could face tough competition beginning in '07.		Hold
Level3 Communications (LVL3)	720-888-5085	0.0	NMF	6.0	up 1,up 3	0	M	Continues to refinance junk bonds;Buyout firm owns 22.3% of stock.		SELL
Otelco (OTT)	205-625-3574	7.2	0.25	53.4	not rated,not rated	4	D	Raises FY'07 EBITDA estimates,should bring down high payout ratio.		Hold
Qwest Communications (Q)	877-268-2263	0.0	NMF	2.8	none,up 5	4	D	Moody's boosts rating as cash flow expected to rise next 2 years.		Buy @8
RCN Corp (RCNI)	609-734-3700	0.0	-1.84	1.0	not rated,not rated	1	M	Enhances music and entertainment offerings for smaller cust base.		SELL
Sprint (S)	800-259-3755	0.5	5.05	-3.5	up 2,none	2	M	Rebranding costs for Nextel merger near \$1 bil and still rising.		SELL
Telephone & Data Syst (TDS)*	312-630-1900	0.7	3.76	N/A	down 2,down 2	2	D	AMEX gives co until Jan 22 to file financials;Takeover talk spurs stk.		SELL
Time Warner (TWX)🌱	866-463-6899	1.0	3.36	32.8	none,down 1	5	D	AOL lays off 450 workers in VA;Cable/broadband business is thriving.		Buy @22
Verizon Communications (VZ)	212-395-2121	4.4	8.35	7.4	down 1,none	6	D	3G wireless and FIOS expansion continue;IAR spinoff is 1-for-20 VZ shs.		Buy @38
Windstream Comm (WIN)	972-373-1000	7.0	1.08	1.2	new,new	7	D	Plans to spinoff/sell yellow pages unit;Moody's affirms rating.		Buy @15

UTE TECH										
Stock (symbol)	Phone	Yield	ROE/P/BV	Cash Grth	2-Yr S&P/Moody's Change	Sfty Rtnng	Type Ute		Comment	Advice
American Superconductor (AMSC)	508-836-4200	0.0%	-6.89%	-20.3%	not rated,not rated	3	M	Buys Windtec for \$12.4 mil to boost markets in China,India,Europe.		Buy @11
Ballard Power (BLDP)	604-412-3195	0.0	-8.65	57.0	not rated,not rated	0	M	No longer biggest maker of fuel cells;Gets NY tax contract.		Hold
Convergys (CVG)	800-344-3000	0.0	4.06	27.8	none,none	4	M	Deploys new software to improve efficiency of customer care unit.		Hold
Dist Energy Systems (DESC)🌱	203-678-2000	0.0	-8.63	-48.5	not rated,not rated	3	M	Beefs up board to improve selling power of hydrogen based systems.		Buy @5
Ericsson (ERIC)	212-685-4030	1.6	6.69	N/A	up 1,up 3	4	M	Competes for big orders after Marconi purchase;China,India key markets.		Hold
FuelCell Inc (FCEL)	203-825-6000	0.0	-13.09	14.1	not rated,not rated	2	M	Sierra Nevada brewing co plant buys fuel cells for backup power.		Buy @10
Insituform (INSU)🌱	636-530-8000	0.0	1.95	-2.5	not rated,not rated	3	M	Sewer problems worsen in US,promises to be a major long-term grth mrkt.		Hold
Juniper Networks (JNPR)🌱	888-586-4737	0.0	3.40	17.9	up 2,none	0	M	Joins forces with NEC to develop new solutions;Wins Chilean contract.		SELL
Lucent Technologies (LU)🌱	888-587-3686	0.0	5.89	-7.5	up 2,up 2	2	M	Now acquired by Alcatel for .1952 shares of Alcatel per Lucent share.		MERGED
Nortel Networks (NT)	888-901-7286	0.0	-15.28	-11.9	not rated,none	1	M	Still unable to file proper financials;Plans \$1.5 bil cost cuts.		SELL
Plug Power (PLUG)	518-782-7700	0.0	-39.65	96.7	not rated,not rated	1	M	New CFO will be key to managing cash flow as co tries to go commercial.		SELL
Power-One (POWER)	925-946-9432	0.0	-5.94	55.1	not rated,not rated	0	M	Makes deal to end lawsuit over power converter technology.		Buy @8
Sasol (SSL)	2711-4413111	3.1	N/A	N/A	none,none	5	M	Will spend \$6.43 bil over next three years to expand synfuels.		Buy @36
Vestas Wind (VWSYF)	4597-300000	0.0	-48.65	N/A	not rated,not rated	1	M	Should continue to win orders rapidly as US extends wind tax credits.		Hold

WATER										
Stock (symbol)	Phone	Yield	ROE/P/BV	Op Costs	2-Yr S&P/Moody's Change	Sfty Rtnng	Type Ute		Comment	Advice
American States Wtr (AWR)	909-394-0711	2.4%	4.41%	3.0%	none,none	7	R	Rate increases are key to keeping up with cost increases in water ops.		Hold
Aqua America (WTR)	610-527-8000	1.9	3.31	12.1	up 1,not rated	7	R	Purchase of system in Lehigh County,PA is 1st entry to growing area.		Buy @25
Artesian Resources Corp (ARTNA)	302-453-6900	3.2	4.64	7.1	none,not rated	6	R	Family-run company may want to stay independent but is a target.		Buy @20
BIW (BIW)🌱	203-735-1888	4.5	2.46	2.2	not rated,not rated	1	R	Wins 16.2 percent rate hike in CT and 10.2% return on equity.		Hold
California Water (CWT)	800-750-8200	2.8	3.28	12.0	none,none	5	R	Costs up sharply in Q3,will need future rate hikes to compensate.		Hold
Connecticut Water (CTWS)	800-428-3985	3.8	5.82	-1.6	none,not rated	4	R	Rate hike in CT a plus for dividend;New management is more aggressive.		SELL

WATER (CONT.) Stock (symbol)	Phone	Yield	ROE/ P/BV	Op Costs	2-Yr S&P/ Moody's Change	Sfty Rtnng	Type Ute	Comment	Advice
Middlesex Water (MSEX)	732-634-1500	3.7%	4.09%	3.8%	down 1,not rated	5	R	NJ,DE regs are allowing recovery of capital costs to shore up payout.	Hold
Pennichuck Corp (PNNW)	603-882-5191	3.3	0.69	14.0	not rated,not rated	2	R	Wins contract to manage Salisbury,MA;Nashua may make offer for co.	Hold
SJW Corp (SJW)	408-279-7800	1.5	3.55	7.4	not rated,not rated	6	R	Rising costs mean rate hikes in CA critical;Real estate sales a plus.	Hold
Southwest Water (SWWC)	213-929-1800	1.6	0.93	10.9	not rated,not rated	6	D	Boosts dividend 10% as cash flow from regulated,contract ops grows.	Buy @13
York Water (YORW)	717-845-3601	2.5	3.29	8.3	none,not rated	6	R	New water production assets will make co a big winner in hot summer.	Buy @ 20

FOREIGN COMMUNICATIONS Stock (symbol)	Phone	Yield	ROE/ P/BV	Currency	2-Yr S&P/ Moody's Change	Sfty Rtnng	Type Ute	Comment	Advice
America Movil (AMX)	525525814448	1.8%	4.97%	-15.5%	new,new	5	D	Shareholders OK merger with holding co to streamline operations.	Buy @45
BCE Inc (BCE)	800-561-0934	4.6	7.00	34.7	down 1,down 1	3	D	Boosts dividend 11% and abandons plan to become an income trust.	Hold
Bell Aliant (BA.UN, BLIAF)	902-487-4609	10.2	NEW	34.7	new,new	4	D	Bell Nordiq board recommends shareholders OK trust's takeover.	Buy @27
Bell Nordiq (BNQ.UN, BNDQF)	514-493-5531	7.5	6.98	34.7	none,not rated	4	D	Bell Aliant offer is 0.4113 shares plus CD4 per share in cash.	Hold
British Telecom (BT)	800-634-8366	3.8	110.51	34.2	down 1,not rated	3	D	Retail sales and profit beat forecast as powerful network holds users.	Buy @ 62
CANTV (VNT)	58-212-500-1831	7.9	3.02	-65.0	not rated,none	1	M	Will pay special \$1 dividend;Venez govt orders pension payments.	SELL
Chunghwa Telecom (CHT)	8862-23443691	7.0	8.08	5.7	new,new	4	D	Will build Taiwan's first wireless broadband network;Nov sales up.	Buy @20
Compania Tel de Chile (CTC)	562-691-2020	2.5	2.32	27.2	not rated,up 1	2	M	Still financially strong with a conservative business/dividend plan.	SELL
Deutsche Telecom (DT)	877-387-1273	5.2	10.08	44.7	up 1,up 1	2	D	Extreme cost cutting plan calls for EU5 bil in savings,firing execs.	SELL
Embratel (EMT)	55-212-121-6474	4.4	3.05	10.7	not rated,up 1	0	M	Telmex buying up remaining shares in offer to end February 7.	TENDER
France Telecom (FTE)	3314-444-2222	4.8	12.31	44.7	up 1,up 2	3	D	Buys software co to upgrade network;EU sues France on competition.	Hold
Nippon T&T (NTT)	813-525-0511	1.2	4.76	7.7	up 1,up 1	3	D	May boost stake in Philippine Long Distance;DoCoMo growth has slowed.	Hold
Philippine Long Distance (PHI)	632-814-3664	3.9	10.50	5.7	up 1,up 2	4	D	Continues to cut debt;Co attracting attention from bigger firms.	Hold
Portugal Telecom (PT)	351215001701	3.9	6.61	44.7	down 3,down 2	3	D	France Telecom owns 23.7% of Sonaecom,which continues hostile takeover.	Hold
Singapore Telecom (SGAPY)	656-228-0544	2.5	7.69	19.1	none,up 2	6	D	Singapore market steady but real growth is in India,rest of Asia.	Buy @20
South Korea Telecom (SKM)	822-2121-2114	4.1	12.30	38.8	up 1,up 1	4	D	S.Korean govt tightens rules on buying shs to restrict takeovers.	Hold
Telecom Italia (TI)	39-028-595-4131	6.1	8.75	44.7	none,none	4	D	May sell Brazil unit to Americas Movil,will buy AOL Germany.	Buy @31
Telecom of New Zealand (NZT)	888-BNY-ADRS	9.0	-2.78	65.1	none,none	3	D	Government may force division of co,would trigger additional costs.	SELL
Telefonica (TEF)	34-915-884-4700	2.9	7.81	44.7	down 2,down 1	6	D	Plans to boost China investment by 10% as global expansion continues.	Buy @65
Telefonos de Mexico (TMX)	52-555-222-1212	2.6	9.28	-15.5	none,up 1	5	D	May buy satellite co in Mexico,Colombia cable co;EMT nearly merged.	Hold
Vivo Participacoes (VIV)	55-115-105-1180	0.0	NMF	10.7	up 3,not rated	1	M	Invests \$321 mil to expand Brazilian wireless service in Minas Gerais.	SELL
Vivendi (EX FP)	3317171-1000	3.4	10.64	44.7	up 1,up 1	3	M	Profits expected to slow in FY'07;Buyout speculation lifts stock.	SELL
Vodafone (VOD)	212-269-5550	4.6	-19.30	34.2	up 1,up 1	4	D	May sell fixed wireless in Europe;Growth outside Europe accelerates.	Buy @30

FOREIGN UTILITIES Stock (symbol)	Phone	Yield	ROE/ P/BV	Currency	2-Yr S&P/ Moody's Change	Sfty Rtnng	Type Ute	Comment	Advice
CLP Holdings (CLPHY)	8522-678-8322	4.2%	8.99%	0.4%	down 1,down 1	6	D	Will build LNG facility in Hong Kong to spur growth,efficiencies.	Hold
Consolidated Water (CWCO)	345-945-4277	1.0	2.18	0.0	not rated,not rated	6	R	Closes successful offering of 1.725 mil shares to fund growth.	Buy @27
Endesa (ELE)	212-750-7200	5.8	9.54	44.7	none,none	5	D	Gas Natural's bid extended but EON's still the most attractive.	SELL
ENEL (EN)	390685-091783	3.7	7.76	44.7	none,up 1	6	D	Will bid for more plants in Russia,may look at Suez' divestitures.	Buy @50
Enersis (ENI)	562-638-0840	0.6	1.34	27.2	none,up 1	3	M	Moody's boosts rating to investment grade as cash flow/debt rises.	Hold
E.ON (EON)	211-457-9542	6.7	11.31	44.7	none,none	3	D	Plans EU25.3 bil investment in power plants over the next 3 years.	Hold
Huaneng Power (HNP)	8610-66491999	3.6	6.21	5.7	none,not rated	4	M	Major plant completes trial run;Will buy 25% stake in Shenzhen Energy.	Buy @35
Kelda Group (KELGF)	0870-162-3131	3.3	4.78	34.2	none,none	6	R	Will return \$1.45 bil of proceeds from sale of Aquarion to shareholders.	Hold
Korea Elec Pwr (KEP)	82234563114	2.8	9.35	38.8	none,none	5	D	Korean regs warn co about breaking relationship with contractor.	Hold
National Grid (NGG)	800-466-7215	3.6	25.77	34.2	none,none	6	R	Hires Morgan Stanley to aid wireless spinoff;Plans massive CAPEX grth.	Hold
RWE (RWE)	44-02-074-833-61252.0	5.01	44.7	none,none	4	D	Thames Water sold to Macquarie for \$9.3 bil as co refocused on energy.	SELL	
Scottish Power (SPI)	44-141-248-8200	3.3	8.15	34.2	none,none	5	R	Stock soars on Iberdrola takeover;Deal faces opposition in Scotland.	SELL
Suez (SZE)	212-850-5600	2.6	7.51	44.7	none,none	4	D	Will have to sell assets if Gas de France merger does win approval.	Hold
Transalta Utilities (TAC)	800-3874-0825	3.8	3.91	34.7	up 1,none	3	M	Takes charge for closure of coal mine,conversion to natural gas.	Hold
TransCanada Pipelines (TRP)	800-361-6522	3.2	6.85	34.7	none,down 1	5	D	Canada regs OK new tolling plan to pipeline;Plans buildout in Ontario.	Hold
United Utilities (UU)	01-92-523-7000	5.5	3.25	34.2	none,none	5	R	Higher rates push first half FY'07 sales up 12%,op income up 16%.	Hold
Veolia Environmental (VE)	33-17-175-0000	1.6	8.85	44.7	none,up 1	4	D	Wins Qatar wastewater project;Chinese water woes a major opportunity.	Buy @70

CHART KEY: * = Traded on American Stock Exchange. ✪ To order a free annual report, go to <http://kci-com.ar.willink> or call 800-654-2582; reports are mailed the next business day. **Southwest Water** pays a regular annual stock dividend. **Dividend Yields and Prices** as of 12/15/06 close. **Average Yields** as follows: Diversified Energy 3.2%, Energy Distribution 4.2%, Natural Resource 3.4%, Communications 2.2%, Ute Tech 0.3%, Water 2.8%, Foreign Communications 4.6% and Foreign Utilities 3.4%. **Buyer Return on Equity** is the current return on equity (ROE) divided by the price-to-book-value (P/BV) ratio. **ROE** is average net income for last three years divided by shareholders' equity. **P/BV** is price as of 12/15/06 close divided by book value (shareholders' equity) per share. N/A indicates figures unavailable. **Averages** for each utility group are as follows: Diversified Energy 5.51%, Energy Distribution 5.04%, Natural Resource 8.50%, Communications 2.65%, Ute Tech -9.60%, Water 3.32%, Foreign Communications 10.98% and Foreign Utilities 7.69%. **Fuel Cost Expense** shows the percentage increase or decrease in purchased energy costs over the past two months. **Averages** are: Diversified Energy 6.5% and Energy Distribution 3.1%. **% Production Growth** shows how much each Resource Utility's output of energy grew or shrank for the last 12 months. The average for companies covered is 5.3 percent, but note the wide variation. **% Customer Growth** shows the percentage gain or loss in revenue generating units for each US Communications company. Note a customer who takes a company's broad-

band and local phone service would be counted as two revenue generating units. Average growth for companies covered in last 12 months was 5.1 percent. **Cash Burn** shows whether each Technology Utility's cash grew or shrank in the third quarter and by how much. Negative numbers indicate cash is being used up, rather than replenished by operations. **Operating Cost Increase** shows percentage change in total operating expenses for water utilities during the past 12 months. The average increase is 7.2%, but note that some companies' expenses grew because they added customers with acquisitions. **Currency Change** shows the change in value of each Foreign Communications and Foreign Utility's home currency versus the US dollar for the five years ended 12/15/06. **Changes in S&P, Moody's Ratings** track the number of notches each utility's credit rating and credit outlook were changed by the two credit raters in 2005 and 2006. The first figure shows the number of notches "Up" or "Down" a credit rating changed over that time. "None" shows no change and "Not Rated" indicates companies without a two-year credit rating history. One notch cut for a credit rating, for example, could be from A to A-. Three notches up could be from BB+ to BBB+. **Safety Ratings** are based on 8 financial, operating and regulatory criteria: (1) **Payment Ratio** greater than 0 percent but less than 80 percent. (2) **No dividend cuts in at least the last 10 years**, showing ability to weather tough times. (3) **Less than 10 percent of earnings from unregulated operations**, ensuring consistency of earnings despite economic ups and downs. (4) **S&P Bond rating of**

BBB- (stable) or higher, ensuring an investment grade balance sheet that's likely to avoid a downgrade. (5) **Falling interest expense in last reporting period**, showing a balance sheet that's improving. (6) **Good regulatory relations**, with diversity and/or demonstrated cooperation with officials in key states or federal agencies. (7) **Fuel cost exposure neutral or positive (for energy) and free cash flow positive for other groups**, and (8) **Projected profit growth of at least 5 percent**, enabling earnings and dividends to beat inflation and buck the worst of any future rise in interest rates. Criteria vary slightly from sector to sector to allow for differences in fundamentals. One point is awarded for each criterion met. **To find the rating, add the number of criteria met.** For example, a utility meeting five criteria has a "5" rating. "8" is highest (safest), "0" is the lowest (riskiest). **Type of Utility:** "R" denotes companies whose businesses are all or nearly all Regulated, and are therefore steady in all environments in the way of traditional utilities. "D" indicates a **Diversified** utility, which combines regulated with unregulated operations. "M" denotes a **Merchant** utility, with all or almost all revenue coming from volatile unregulated businesses. "T" stands for **Transitioning** utility, companies that are dumping their unregulated operations to refocus on regulated ones. **M- and T-rated companies are generally riskiest.** **Comment:** Major factor affecting earnings and dividends. **Advice:** What to do now. Investors can continue participating in DRIP plans of stocks rated "Hold," provided their *UF* rating is at least 5.

UF Portfolios: Many Happy Returns

There were times last summer when it didn't seem possible. But after a strong second half, utility stocks posted a fourth consecutive strong year in 2006.

There are still a lot of positives going into 2007; Companies are cutting debt and operating risks, regulatory relations are generally favorable and basic service markets are tightening. I'm quite confident in my picks' ability to measure up to the challenges they

can control. In fact, all should continue to become more valuable as businesses.

There are, unfortunately, several risks outside companies' control that could severely impact returns this year. Interest rates have spiked during the spring each of the past four years and knocked utility stocks, bonds and preferred shares lower. And a recession would depress demand for communications and energy and could trigger pressure on regulators to lower rates in some states.

Macro risks are why I hold so many different kinds of securities in the UF Portfolios, including intermediate-term bonds and preferred shares of strengthening companies, Canadian utility trusts, limited partnerships, pure transmission and distribution utilities, nuclear power producers, pure wireless companies, Big Cable firms, Big Telecoms, water utilities, electric utilities, foreign utilities, foreign telecoms, rural telecoms, comeback utilities, mid-stream energy companies, Super Oils and alternative energy producers.

At any given time, some of these sectors will perform well while others lag. As a result, the overall Portfolio remains steady, even when disaster strikes one particular group. When Canadian trusts cracked in November, for example, the rest of the Portfolio benefited as investors fled for perceived safe havens.

As we enter the new year, I'm happy with the progress of all the Portfolio holdings.

Duke Energy's spin-off of its natural gas

INCOME PORTFOLIO

The goal of the Income Portfolio is high current yield, safety and ability for dividend growth to beat inflation.

CONSERVATIVE (65%)	Approx. Int./ Div. Dates*	12/15/06 Price	Yield+*	Total Return#	Advice
Aquila Sr Preferred (NYSE: ILD)	M, J, S, D—1	\$25.09	7.9%	49.7%	Buy @25
Boston Edison 7.8% Debs of 05/15/10	May, Nov—15	108.00	5.2	23.2	Buy @110
Cincinnati Bell Pref B (NYSE: CBB B)	J, A, J, O—3	46.00	7.3	15.6	Buy @47
Comcast 5.85% Notes of 01/15/10 *	Jan, July—15	101.58	5.3	20.1	Buy @102
Conn Light & Pwr \$3.24 Pref (OTC: CNLPL)	J, A, J, O—1	52.25	6.2	14.8	Buy @51.84
Dominion Res 8.125% Notes of 06/15/10 *	Jun, Dec—15	109.54	5.3	58.9	Buy @110
Montana Power 8.25% Notes of 02/01/07	Feb, Aug—1	100.30	5.4	7.5	Buy @100
Pacific G&E Pref B (AMEX: PCG B)	F, M, A, N—15	24.16	5.7	35.0	Buy @25
San Diego G&E 5% Pref A (AMEX: SDO A)	J, A, J, O—15	21.85	4.6	13.3	Buy @21
Southern Calif Ed 7.625% Notes of 01/15/10	Jan, July—15	106.68	5.2	19.7	Buy @107
TECO Energy 6.125% Notes of 05/01/07	May, Nov—1	99.63	6.2	9.3	Buy @100
Williams Cos 8.625% Notes of 06/01/10	Jun, Dec—1	104.92	6.8	10.6	Buy @107
Xcel Energy Pref E (NYSE: XEL E) *	J, A, J, O—15	83.50	5.0	28.5	Buy @84
AGGRESSIVE (35%)					
Atlantic Power Corp (TSX: ATP.UN, OTC: ATPWF)	monthly—30	\$9.30	9.6%	16.6%	Buy @10
Boralex Power Income (TSX: BPT.UN, OTC: BLXJF)	monthly—21	8.21	9.5	19.4	Buy @9
Buckeye Partners (NYSE: BPL)	F, M, A, N—30	46.60	6.5	58.7	Hold
Energy Transfer Partners (NYSE: ETP)	J, A, J, O—13	54.58	4.7	136.1	Buy @55
Enterprise Products Part (NYSE: EPD) *	F, M, A, N—8	29.65	6.1	262.8	Buy @30
KeySpan Energy (NYSE: KSE)	F, M, A, N—1	41.29	4.5	243.1	Hold
NiSource (NYSE: NI)	F, M, A, N—18	24.35	3.8	173.9	Hold
Pembina Pipeline (TSX: PIF.UN, OTC: PMBIF) *	monthly—13	13.74	7.2	33.7	Buy @14
Piedmont Natural Gas (NYSE: PNY)	J, A, J, O—14	27.86	3.4	80.6	Hold
TEPPCO Partners (NYSE: TPP)	F, M, A, N—7	41.44	6.5	66.9	Buy @42
Valero LP (NYSE: VLI)	F, M, A, N—3	55.80	6.3	0.0	Buy @58
Xcel Energy (NYSE: XEL) *	J, A, J, O—20	23.32	3.8	146.5	Buy @22
AVERAGE YIELD = 5.97%					

Spectra Energy will be added to the Income Portfolio Aggressive Holdings when its spinoff from Duke Energy is completed Jan. 2, 2007. *Approx. Int/Div. is approximate date dividends or interest are typically paid. +Yield-to-call or yield-to-maturity shown for fixed income, not current yield. #Total Return is capital gains plus dividends since original recommendation. *To order a free annual report, go to <http://kci-com.ar.wilink> or call 800-654-2582; reports are mailed on the next business day.



infrastructure operations as *Spectra Energy* will be completed January 2, at which time I'll add Spectra to the Growth Portfolio Aggressive Holdings.

The other spinoff is **Idearc**, the former yellow pages division of **Verizon**, which in late November distributed one share of Idearc for every 20 of its own. Idearc holds 22 percent of the US yellow pages market, with 1,218 directories in 35 states.

As part of the larger Verizon, Idearc was managed mainly as a cash cow. Now independent and with a solid management team, it's likely to follow the successful example of Canada's *Yellow Pages Income Fund*. The only drawback is there's no dividend. As a result, Idearc rates a hold, rather than a buy, and I'm not adding it to the Portfolio.

Of the new holds, the following are solid and would be buys again on dips to the numbers in parentheses: **Atmos Energy (30)**, **Buckeye (45)**, **Chevron (72)**, **FPL (50)**, **Kelda Group (16)**, **ONEOK (42)** and **Piedmont Natural Gas (25)**.

KeySpan trades very close to the \$42 per share cash value of *National Grid's* takeover offer, but would be a buy again if New York regulators reject the deal. The company increased its dividend 2.3 percent last month, reflecting still-solid business prospects.

Of the companies earning higher buy targets, **AT&T (buy up to 36)** and **Vodafone (buy up to 30)** are reviewed on p. 10, while **Duke (buy up to 22)** and **Windstream (buy up to 15)** are this month's Spotlight stocks (see p. 12).

Comcast (buy up to 42) continues to add customers and cash flow. Firming natural gas prices increase the odds **Dominion Resources (buy up to 84)** will fetch a premium price for its gas reserves and that **ARC Energy's (buy up to 21)** cash flows will remain robust this year.

GROWTH PORTFOLIO

The goal of the Growth Portfolio is to generate high total returns consistently. Core Holdings are generally held longer than Aggressive Holdings.

CORE HOLDINGS (85%)	Approx. Div. Date*	12/15/06 Price	Yield	Total Return ⁺	Advice
Alltel (NYSE: AT) [♣]	J, A, J, O—3	\$58.01	0.9%	1405.4%	Buy @60
Aqua America (NYSE: WTR)	M, J, S, D—1	23.73	1.9	692.9	Buy @25
Atmos Energy (NYSE: ATO)	M, J, S, D—12	32.25	3.9	70.6	Hold
AT&T Corp (NYSE: T)	F, M, A, N—1	35.66	3.7	8.7	Buy @36
Chevron (NYSE: CVX)	M, J, S, D—12	75.38	2.7	146.3	Hold
Comcast (NSDQ: CMCSA) [♣]	none	42.95	0.0	41.1	Buy @42
Consolidated Water (NSDQ: CWCO)	J, A, J, O—31	24.71	1.0	255.4	Buy @27
Dominion Resources (NYSE: D)	M, J, S, D—20	82.90	3.3	370.2	Buy @84
Duke Energy (NYSE: DUK) [#]	M, J, S, D—16	33.51	3.8	71.6	Buy @22
Entergy Corp (NYSE: ETR) [♣]	M, J, S, D—1	92.60	2.3	560.8	Hold
Exelon Corp (NYSE: EXC)	M, J, S, D—10	62.60	2.6	48.7	Buy @63
FPL Group (NYSE: FPL)	M, J, S, D—15	54.94	2.7	109.5	Hold
Kelda Group (OTC: KELGF)	Jan 6, Aug 26	18.05	3.3	179.1	Hold
MDU Resources (NYSE: MDU)	J, A, J, O—1	26.14	2.0	767.4	Buy @26
ONEOK (NYSE: OKE) [♣]	F, M, A, N—15	43.50	2.8	71.5	Hold
Southern Company (NYSE: SO)	M, J, S, D—6	36.97	4.2	764.2	Buy @37
Southwest Water (NSDQ: SWWC)	J, A, J, O—20	13.19	1.6	152.4	Buy @14
Verizon (NYSE: VZ) [^]	F, M, A, N—1	36.48	4.4	188.1	Buy @38
AGGRESSIVE HOLDINGS (15%)					
Amerigas Propane (NYSE: APU)	F, M, A, N—18	\$32.70	7.0%	21.8%	Buy @32
ARC Energy (TSX: AET.UN, OTC: AETUF)	monthly—27	20.00	10.4	53.2	Buy @21
CLP Holdings (OTC: CLPHY)	M, J, S, D—15	7.32	4.2	116.0	Hold
CMS Energy (NYSE: CMS)	none	16.68	0.0	88.0	Buy @17
ENEL (NYSE: EN)	Jun, Dec—2	51.59	3.7	27.5	Buy @50
Energen Corp (NYSE: EGN)	M, J, S, D—1	47.31	0.9	844.1	Buy @42
Sierra Pacific Res (NYSE: SRP)	none	17.35	0.0	85.7	Buy @17
Singapore Tel (OTC: SNGNY)	Aug—5	21.30	2.5	28.4	Buy @20
Vodafone (NYSE: VOD)	Feb, Aug—15	28.39	4.6	0.7	Buy @30
Windstream (NYSE: WIN)	J, A, J, O—15	14.35	7.0	30.3	Buy @15

*Approx. Div. Date shows day when quarterly dividends are typically paid out. ⁺Total Return is capital gains plus dividends since original recommendation. [#]Duke Energy buy price is post-Spectra spinoff. [^]Verizon cost basis has been adjusted downward by \$1.40 per share to reflect 1-20 spinoff of Idearc. [♣]To order a free annual report, go to <http://kci-com.ar.wilink> or call 800-654-2582; reports are mailed on the next business day.

Exelon (buy up to 63) now expects a massive boost in 2007 earnings, despite risks from Illinois regulation. Comeback efforts by **CMS Energy (buy up to 17)** and **Sierra Pacific (buy up to 17)** continue to progress. **Enterprise Products Partners (buy up to 30)** and **TEPPCO (buy up to 42)** have successfully completed a joint project that should boost both LPs' cash flows significantly.

UTILITY BEAT

Building Success

Build it and they will come—and stay. Even as British regulators squeezed margins on its traditional phone business, **BT Group** invested billions to build its country's best communications network. Last year, the bet paid off in spades. Each of its retail units reported solid growth for fiscal year 2006, and management expects at least low-teens growth in cash flow for 2007, three times the consensus Wall Street forecast just last summer. **BT Group again rates a buy up to 62.**

BT's success is a great sign for US giant **Verizon** and, to a lesser extent, **AT&T**. Verizon continues to lose traditional copper phone connections to rivals. But its fiber optic FiOS network is running well ahead of Wall Street's projections for expansion, customer growth and regulatory approvals. Dilution from the \$23 billion price tag is now expected to peak in the first quarter of 2007, and the network will be profitable on its own by 2009, both from rapid growth and from savings of as much as \$110 per line as customers convert from its traditional copper network.

The surest sign of Verizon's emerging success is AT&T's ramped-up spending on fiber, including a recently announced \$620 million allotment in Michigan alone. The Federal Communications Commission (FCC) is weighing in to support AT&T's efforts, and the US Supreme Court looks like it will throw out an antitrust case against the pair. As for AT&T, its proposed merger with *BellSouth* looks like a go, though the FCC's third Republican will no longer vote on it. Both stocks turned in a solid 2006 and should do more of the same this year. **Buy Verizon up to 38 and AT&T up to 36.**

In contrast, it's time to be cautious on European telecom giants (with the exception of BT). One reason is chief European Union regulator Viviane Reding's narrow focus on bringing down rates at any cost. New Zealand is moving in a similar direction with the proposal to split *Telecom New Zealand* into three parts despite heavy costs. And Venezuela is threatening to nationalize *CANTV* over a pension dispute.

The 11 foreign utilities featured in the February 2006 issue are up an average of 24.6 percent since, not including dividend yields as high as 11 percent. That's in large part due to their internal strengths but also because of US dollar weakness. With regulation worrisome, it's a good time for conservative investors to take some money off the table in these stocks.

Two foreign telecoms that still rate buys are **Vodafone** (buy up to 30) and **Telefonica** (65), both of which have huge investments outside Europe.

The Battle Of Illinois

Illinois utilities won a temporary reprieve last month as the legislature failed to pass a bill extending the state's rate freeze. The key now is whether a rate hike compromise passed by the Illinois Commerce Commission will convince enough legislators to reject the bill when it comes up again this month and needs fewer votes for approval.

Regulators last month approved a proposal by **Exelon** unit *Commonwealth Edison* to give customers the option of three annual 10 percent rate hikes, provided they pay 6.5 percent interest on the unpaid balance. **Ameren** has announced a similar plan that has received preliminary approval.

Of the two, Exelon is by far the least exposed to a rate freeze, with only a fraction of profit coming from Commonwealth. Management, which has said it won't hesitate to put Commonwealth into Chapter 11 if needed, raised the company's dividend 10 percent last month, even as it forecasted earnings growth of 20 to 35 percent in 2007. **Exelon rates a buy up to 63.**

Ameren's overall profits, in contrast, would be crippled and with a 102 percent payout ratio there's no room for error. **Sell Ameren.** In addition, **Peoples Energy** shares are vulnerable if Illinois regulators reject its proposed merger with *WPS*. **Sell Peoples.**

Canadian Recovery

The best Canadian income trusts have been recovering during the past month, as investors are differentiating on the basis of growth and likely liability if they're taxed as corporations. Last month, the country's government further clarified the rules for its proposed transition in a favorable way: allowing trusts to double their capital base over the next four years and affirming no tax penalty for converting back to a corporation.

There's still a strong possibility the phase out period for trusts will be extended well past 2011, that some groups will be exempt altogether from changes and even that the whole proposal will be killed off by growing political opposition. No matter what happens, however, the trusts I track in *Utility Forecaster* have the business strength to thrive, particularly those in the Portfolios.

to dozens of dividend cuts ahead of time.



Already pricing in the worst case for taxation—basically the government’s proposal—they’re buys below the prices in parentheses: **ARC (USD21)**, **Atlantic Power (USD10)**, **Boralex (USD9)** and **Pembina Pipeline (USD14)**. Note that Pembina increased its dividend by another 10 percent last month and Atlantic Power is exempt from the new rules entirely.

Partner Power

Last January, I recommended **Tortoise Energy Infrastructure** (NYSE: TYG), a closed-end fund holding limited partnerships (LPs). It’s returned more than 30 percent, even while paying out a yield of nearly 6 percent. The fund is still a good vehicle for holding LPs in IRAs because as it doesn’t require filing a K-1, and there’s no liability for unrelated business taxable income. Its portfolio is solid as well.

The premium to net asset value, however, has risen to double-digits. **If you want a fund of LPs, Tortoise is the best.** But you’ll do better buying individual LPs, such as the half dozen in the *UF* Portfolios.

My favorite direct stock purchase plans can be reached by calling the phone number in parentheses below: **AGL Resources** (800-633-4236, \$250 initial minimum investment), **Aqua America** (800-205-8314, \$500), **Atmos Energy** (800-543-3038, \$1,250), **AT&T Communications** (800-351-7221, \$500), **Chevron** (800-842-7629, \$250), **CMS Energy** (517-788-1868, \$250), **ConocoPhillips** (800-842-7629, \$250), **Consolidated Water** (877-390-3093, \$250), **Dominion Resources** (800-552-4034, \$350), **Duke Energy** (800-488-3853, \$250), **Edison International** (800-347-8625, \$1,000), **Energen** (888-764-5603, \$250), **Entergy** (800-225-1721, \$1,000), **MDU Resources** (800-813-3324, \$250), **ONEOK** (866-235-0232, \$250), **Piedmont Natural Gas** (800-937-5449, \$250), **Progress Energy** (866-290-4388, \$250), **Sempra Energy** (877-773-6772, \$500), **Southern Company** (800-554-7626, \$250), **Southwest Water** (800-842-7629, \$250), **Verizon Communications** (800-631-2355, \$500) and **Williams Companies** (800-317-4445).

Meet The Editor

I’m kicking off my 2007 schedule with InterShow’s Orlando Money Show (February 7-10). Call 800-970-4355 and refer to promotion code 007397 to attend as my guest.

On February 17, I’ll be speaking to the Washington, DC, chapter of the American Association of Individual Investors in Alexandria, Va. Send an e-mail to max.padua@hotmail.com to request more information.

DIVIDEND WATCH LIST

Progress Energy’s dividend boost and \$550 million debt repurchase are clear signs its payout is out of the woods. **Off the Watch List, Progress Energy is a buy up to 50.**

BIW may be close to an exit after winning a 16.2 percent rate increase in Connecticut. The boost amounted to two-thirds of its request but should be enough to bolster the dividend. **BIW stays on the Watch List as a hold until we see the impact on earnings.**

Central Vermont Public Service, which will realize efficiencies from the purchase of a system in the south of the state, is also a hold.

Dominion Black Warrior Trust cut its dividend again as lower prices for the coal seam gas produced from its royalty interests crimped cash flow. The decrease of just 1.5 percent from the prior quarter, however, is a clear sign business is stabilizing.

With gas supplies tightening due to lower production in Canada, odds are the next move for cash flow and dividends will be up. **Dominion Black Warrior is now a hold, though its lock-step relationship with energy prices means it will remain on the Watch List.**

Company	Payout Ratio*	Needed EPS Gain+	Proj. Growth#	UF Rating^
Ameren	102.0%	27.5%	3.8%	3
BIW	221.7	177.1	2.0	1
BP Prudhoe Bay	100.0	NMF	NMF	2
CANTV	201.1	275.3	0.0	1
Calpine Pwr Inc	119.2	50.3	0.0	2
Cent Vermont PS	161.4	101.8	2.0	3
Chile Telecom	108.5	35.4	43.0	2
Connecticut Wtr	102.4	28.0	2.0	4
Dominion Trust	100.0	NMF	NMF	1
Empire District	107.6	34.5	6.0	2
Ferrell Gas	103.1	28.9	3.0	4
Great Plains	58.0	0.0	2.2	4
Pennichuck Water	150.0	96.4	2.0	2
Peoples Energy	191.2	139.0	4.9	1
Pinnacle West	94.2	17.7	5.0	4
Telecom New Zealand	76.1	0.0	0.0	3
Transalta Corp	105.4	31.6	5.0	3
United Utilities	120.4	47.1	3.0	5
UNITIL	97.9	22.3	3.0	4

*Percentage of last 12 months’ earnings paid in dividends. +Profit gain needed to reach payout ratio of 80 percent. #Based on Wall Street estimates, next five years. ^UF Safety Ratings based on a 0 (riskiest) to 8 (safest) scale.

GROWTH SPOTLIGHT

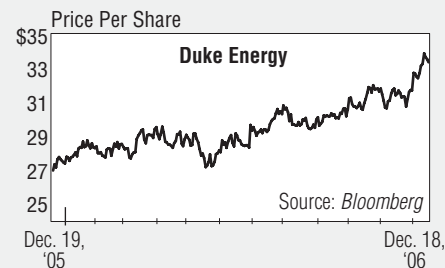
Duke Energy

Nearly a decade ago, blue chip Carolinas utility *Duke Power* merged with diversified natural gas player *PanEnergy*. On January 2, the combination will formally unwind, as **Duke Energy** spins off its gas assets as **Spectra Energy**.

Duke owners will get a half share of Spectra, which will be the largest pure-play midstream gas distribution, pipeline and processing system in North America. Two-thirds of income will come from fee-based businesses, and management plans to spend \$3 billion on 21 expansion projects to 2009. Spectra will initially pay a quarterly dividend of 22 cents a share, backed by a projected \$1.40 a share in annual earnings.

The rest of Duke will focus on regulated utilities in the Carolinas, Indiana, southern Ohio and Kentucky, 4,200 megawatts of primarily hydro plants in Latin America and 8,700 megawatts of unregulated capacity in the Midwest. The company should also generate considerable cash flow from a real estate venture with *Morgan Stanley* and plans to expand rate base with \$9 billion in new coal and nuclear plants and environmental improvements by 2009.

With a likely initial dividend of 80 cents a share, Duke shares should be worth about \$20, while Spectra should trade in the low 20s. **My initial buy target for Duke is 22, 25 for Spectra.**



Duke Energy

Exchange: Symbol	NYSE: DUK
Recent Price	\$33.51
Yield	3.8%
Price/Earnings	16.3
Projected Growth	8.0%
UF Safety Rating	6 (diversified)
Ex-Dividend Dates	M, J, S, D—16
S&P Bond Rating (outlook)	BBB (positive)
Phone	800-488-3853

Recent price as of 12/15/06 close.

Dividend reinvestment and direct purchase of initial shares available with \$250 minimum.

Information available at www.duke-energy.com.

INCOME SPOTLIGHT

Windstream Corp

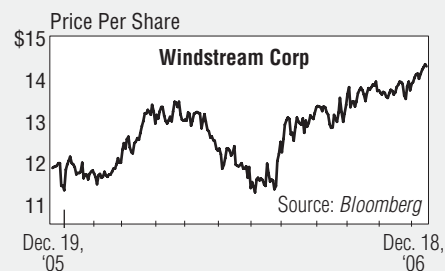
With limited competition and few capital costs, rural phone lines are the cash cows of the communications business. With 3.3 connections in 16 states, **Windstream Corp** is on track to dish out big returns for years to come.

Windstream was forged this summer by the spinoff of **Alltel's** wireline assets and subsequent merger with *Valor Communications*. Since then, robust upselling of broadband and advanced services has basically offset the loss of local phone lines. Third quarter earnings and revenue, which include Valor's results from July 17, were roughly flat.

Line losses are likely to moderate, thanks to limited competition from cable television providers and greater

stickiness of existing customers due to product bundling. A still-low broadband penetration rate of 18.2 percent means potential growth from upselling new services is immense. Windstream added a record 55,000-plus high-speed Internet accounts in the third quarter, while average revenue per customer rose 4 percent from last year's levels.

Future cash flow growth will also come from reducing shares outstanding and debt. The sale of the company's yellow pages unit to a private equity firm advances both causes by shaving off \$220 million in debt, retiring 4.2 percent of outstanding shares and netting \$30 million in cash. **Buy Windstream for high income and growth up to 15.**



Windstream Corp

Exchange: Symbol	NYSE: WIN
Recent Price	\$14.35
Yield	7.0%
Price/Distributable Cash Flow	13.3
Projected Growth	5.0%
UF Safety Rating	7 (diversified)
Ex-Dividend Dates	J, A, J, O—15
S&P Bond Rating (outlook)	BB+ (negative)
Phone	866-320-7922

Recent price as of 12/15/06 close.

Dividends fully qualified in the US. Dividend reinvestment not available.

Information available at www.windstream.com.