

- 2008 winners were safe spots in turbulent times.
- Was Berkshire Hathaway the big winner in U.S. energy utilities in 2008?
 - Some continued signs of increasing stability in the markets-
-wishful thinking?



January 5, 2009. Happy 2009, it's gotta be better than 2008! There were some winners for 2008, although not many. Only six of our index companies actually closed in positive territory for the full year. Four of the six were heavily regulated natural gas distribution utilities; Laclede, Piedmont Natural Gas, NJ Resources and South Jersey Industries. The other two, CH Energy Group and NStar are both heavily regulated electric and natural gas distribution utilities. Safe spots for turbulent times.

Leverage And Natural Gas Prices Are Still To Blame

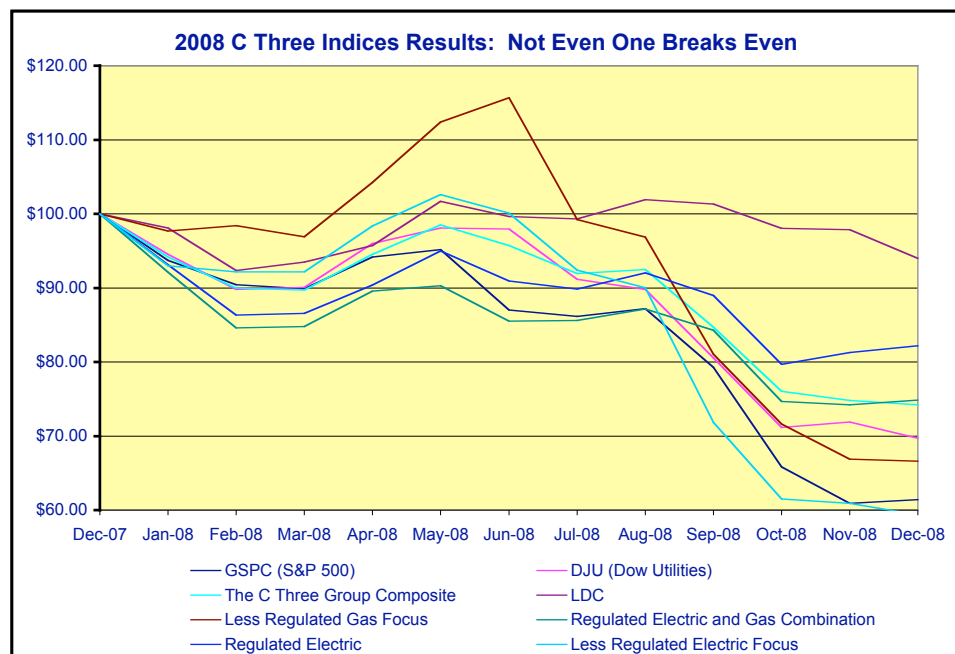
It almost goes without saying that the losers were dominated by those companies that were heavily leveraged in their non-regulated businesses or had exposure to natural gas prices. The former group includes **Reliant Resources, Constellation Energy, Dynegy, AES** and **Calpine**. The latter group includes **EI Paso, Southern Union, Energen** and **Williams**.

PNM of course is still dealing with its state regulatory issues that it cannot seem to get straight.

No Index Finished In The Black For The Year

None of the C Three indices finished 2008 in positive territory, not even the more heavily regulated pure natural gas distribution companies (**LDC**). However, as a group they finished much better than any of the other indices. The **Less Regulated Electric Focus** Group appears to not be able to find the bottom, closing the year out at less than \$60

Table 1: 2008 Winners and Losers			
Value of \$100 Invested on 1/1/2008 through Market Close 12/31/08			
C Three Composite Index \$74.33			
Top 10		Bottom 10	
LG (Laclede)	\$136.80	PNM (PNM)	\$46.99
PNY (Piedmont Natural Gas)	\$121.06	EGN (Energen)	\$45.66
NJR (New Jersey Resources)	\$118.67	EP (El Paso Energy)	\$45.42
CHG (CH Energy Group)	\$115.38	SUG (Southern Union)	\$44.41
SJI (South Jersey Industries)	\$110.42	CPN (Calpine)	\$43.08
NST (Nstar)	\$100.75	WMB (Williams)	\$40.47
WGL (WGL Holdings)	\$99.79	AES (AES Corp)	\$38.52
PSD (Puget Energy)	\$99.42	DYN (Dynegy)	\$28.01
CPK (Chesapeake Utilities)	\$98.84	CEG (Constellation Energy)	\$24.47
HE (Hawaiian Elec Ind Inc)	\$97.23	RRI (Reliant Resources)	\$22.03



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Buffett Wins Again

Warren Buffett, probably wearing a big smile, (technically *Berkshire Hathaway's MidAmerican Energy*) bowed out of the *Constellation Energy* deal deciding not to fight EdF's bid. The Maryland regulators were circling their wagons to figure out how to extract the most blood possible (probably by requiring some of the generation assets be moved back into the regulated business). Constellation's shareholders were not happy with what they saw as a low-ball deal. The EdF deal is supposed to fix both the regulatory issue (theoretically the EdF deal does not require Maryland regulatory approval) and the shareholder's pocketbook issue. And Constellation's CEO Shattuck gets to keep his job under the EdF deal. All that being said, there are still a number of hurdles that will have to be cleared for the EdF to close its deal for half of Constellation's nuclear assets, including a growing demand for a state regulatory review of the deal.

Buffett's deal with Constellation requires a \$175 million "termination" fee. Plus \$418 million in cash. Plus Constellation stock worth about \$460 million (10% of the company). So that's \$1.05 billion for less than four months' work - an annual rate of return above 300 percent. Buffett also gets back his original \$1 billion investment. It has been earning 8 percent since mid-September - an additional \$20 million or so. Now Constellation has to pay 14 percent until it can repay the money Buffett used to keep it afloat.

The Buffet biography, *The Snowball: Warren Buffett and the Business of Life* is worth the read and provides almost as much entertainment and gossip as it does a thorough understanding of who Buffett really is. Be prepared, it weighs in at almost 4 lbs and 969 pages. His Constellation maneuver certainly follows his life long pattern of investments--he generally wins either way a deal goes.

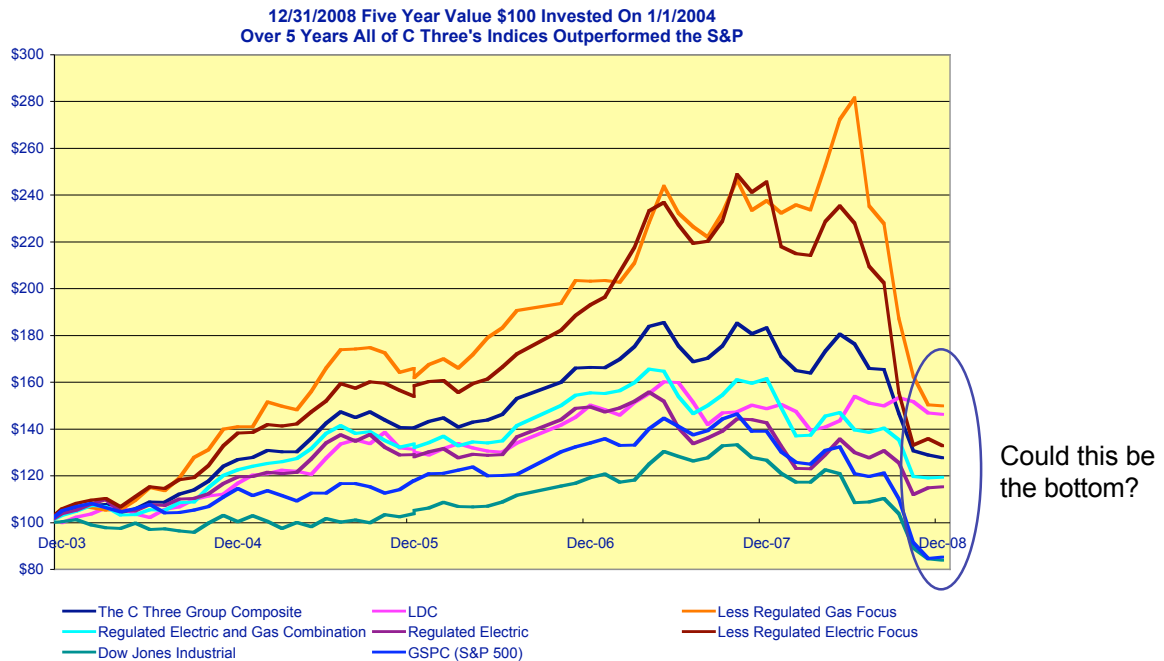
Are We Seeing The Bottom? December 2008 showed some continued stability with 42 (identical to November) of our index companies in positive territory, although the C Three Composite Index was still down slightly, -0.4% for the month. Some people are actually asking if we are seeing the bottom. Other analysts are saying that because of the infrastructure investments needed and the capital expenditures upcoming, that the industry has a long road ahead of it, irrespective of when this recession is deemed over.

December 2008 Winners and Losers: Table 1			
Percentage Change Market Open 12/1/08 to Market Close 12/31/08			
C Three Composite Index = -0.4%			
Top 10		Bottom 10	
CV (Central Vermont)	26.31%	WGL (WGL Holdings)	-9.4%
OTTR (Otter Trail Power)	24.16%	DYN (Dynergy)	-10.3%
CHG (CH Energy Group)	17.49%	WMB (Williams)	-10.7%
EWST (Energy West)	15.04%	LG (Laclede)	-11.1%
NWE (Northwestern Corp)	13.60%	VVC (Vectren)	-11.2%
FPU (Florida Public Utilities)	12.59%	NWN (Northwest Natural Gas)	-11.5%
PSD (Puget Energy)	11.40%	GAS (Nicor)	-14.8%
TAC (Transalta)	10.80%	FE (First Energy)	-17.1%
DPL (DPL Inc)	9.70%	CPN (Calpine)	-18.8%
AVA (Avista)	9.68%	HE (Hawaiian Elec Ind Inc)	-18.8%

Puget Energy: During the last week of December, Washington state regulators approved the Macquarie Group's acquisition of Puget Energy, sending Puget Energy's stock up almost 20%. Macquarie plans to take the company private. Macquarie acquired Duquesne Light Holdings in 2007. The Puget Energy deal should close in mid-January.

Surprised By Decreasing Per Capita Usage? Recently, some electric utilities are reporting decreasing per capita usage--and have expressed surprise. When gas was above \$4 per gallon, it was only natural that consumers would become more aware of ALL of their energy expenditures. EnergyStar appliances, compact fluorescent bulbs, increasing unemployment, underemployment, a recession, humm. The natural gas industry is well versed in these issues. It will be real interesting to see what marketing folks determine to be the real drivers.

The Five Year Snap Shot Indicates That Most Of The Gains Have Been Given Back But The Past Two Months Have Been “Relatively” Stable



Non-U.S. Ownership of U.S. Utilities: Less than 10 years ago, it seemed that U.S. utilities were on a march to acquire as many non-U.S. assets as possible. Most U.S. utilities dumped their non-U.S. assets in the post Enron balance sheet clean-up. In the meantime, non-U.S. companies have been slowly adding to their U.S. portfolios. The EdF and Puget deals follow the Iberdrola acquisition of EnergyEast in the fall of 2008. National Grid has continued to expand its presence in the U.S. with last year's acquisition of Keyspan Energy. Macquarie bought Duquesne in 2007. E.ON has owned Louisville Gas and Electric and Kentucky Utilities for a number of years. EMERA bought Bangor Hydro Electricity in 2001. Green Mountain Power was acquired by Gaz Mètro in 2007.

One tidbit of trivia; Puget Energy's current CEO, Steve Reynold's wife, Paula Rospud Reynolds (the former CEO of AGL Resources) is now AIG International's Chief Restructuring Officer.

We are certainly hoping, though not predicting, that the worst is behind us. Financiers and commercial bankers tend to be a gloomy bunch these days and I am starting to avoid them whenever possible. I had yet another investment banker tell me today how he knew this was coming and that the worst is far from over. Of course his firm did receive a substantial amount of the recent bailout and hindsight is certainly 20-20.

There are still some bright spots in the economy and many of them reside firmly within our industry. Renewable generation, storage technologies, electric cars, new transmission lines, new technologies in general-- infrastructure investments. Hopefully many of these will be more than campaign promises and that the credit markets will end up on firmer footings.

We would like to sincerely thank each of you for your business in 2008 and would truly appreciate your feedback on how we can make our products and services more valuable to you in 2009. Wishing you and yours a healthy, happy and prosperous 2009. Jean

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TABLE 3: December 31, 2008 (month end close) Value of \$100 Invested on January 1, 2008

Company	12 Month Value Through 12/31/2008	Rank	Company	12 Month Value Through 12/31/2008	Rank
LG (Laclede)	\$136.80	1	The C Three Group Composite	\$74.33	54
PNY (Piedmont Natural Gas)	\$121.06	2	FPL (FPL Group)	\$74.25	55
NJR (New Jersey Resources)	\$118.67	3	CNP (Centerpoint Energy)	\$73.67	56
CHG (CH Energy Group)	\$115.38	4	TE (Teco Energy)	\$71.76	57
SJI (South Jersey Industries)	\$110.42	5	LNT (Alliant)	\$71.71	58
NST (Nstar)	\$100.75	6	AEP (American Electric Power)	\$71.48	59
WGL (WGL Holdings)	\$99.79	7	OGE (OGE Energy)	\$71.04	60
PSD (Puget Energy)	\$99.42	8	EL Paso Electric EE	\$70.75	61
CPK (Chesapeake Utilities)	\$98.84	9	POR (Portland General)	\$70.09	62
HE (Hawaiian Elec Ind Inc)	\$97.23	10	Dow Utilities	\$69.72	63
DGAS (Delta Nat Gas)	\$96.04	11	ETR (Entergy)	\$69.55	64
SO (Southern Company)	\$95.48	12	SRE (Sempra Energy)	\$68.89	65
LDC	\$94.01	13	EXC (Exelon)	\$68.12	66
UNS (Unisource Energy)	\$93.06	14	OTTR (Otter Trail Power)	\$67.43	67
MGEE (MGE Energy)	\$93.04	15	FE (First Energy)	\$67.16	68
NWN (Northwest Natural Gas)	\$90.90	16	NFG (National Fuel Gas Co)	\$67.12	69
AVA (Avista)	\$89.97	17	Less Regulated Gas Focus	\$66.59	70
PCG (PG&E)	\$89.84	18	Dow Jones Industrial	\$66.26	71
FPU (Florida Public Utilities)	\$89.79	19	GXP (Great Plains Energy)	\$65.93	72
UGI (UGI)	\$89.61	20	OKE (Oneok Inc)	\$65.04	73
EWST (Energy West)	\$88.25	21	TCLP (TC Pipelines)	\$64.23	74
VVC (Vectren)	\$86.21	22	EQT (Equitable Resources)	\$62.97	75
WEC (Wisconsin Energy Corp)	\$86.18	23	S&P 500	\$61.39	76
KMP (Kinder Morgan Energy Partners)	\$84.74	24	AEE (Ameren)	\$61.35	77
SWX (Southwest Gas)	\$84.72	25	PEG (Public Services Enterprise Group)	\$61.31	78
ATO (Atmos)	\$84.52	26	BKH (Black Hills)	\$61.13	79
SCG (Scana Corp)	\$84.46	27	SE (Spectra Energy)	\$60.96	80
IDA (Idacorp)	\$83.62	28	POM (PEPCO)	\$60.55	81
ATG (AGL Resources)	\$83.29	29	NGG (National Grid)	\$60.47	82
Integrus Energy Group (TEG)	\$83.15	30	STR (Questar)	\$60.43	83
PGN (Progress Energy)	\$82.28	31	EIX (Edison Intl)	\$60.18	84
XEL (Xcel Energy)	\$82.19	32	TAC (Transalta)	\$59.77	85
Regulated Electric Gas Combination	\$82.18	33	Less Regulated Electric Focus	\$59.35	86
CNL (CLECO)	\$82.12	34	PPL (PPL)	\$58.92	87
GAS (Nicor)	\$82.03	35	NVE (NV Energy)	\$58.24	88
ALE (Allele)	\$81.53	36	CMS (CMS Energy)	\$58.17	89
RGCO (RGC Resources)	\$81.39	37	NI (NiSource)	\$58.07	90
UIL (UIL Holdings)	\$81.27	38	NRG	\$53.83	91
DTE (DTE Energy)	\$81.14	39	AYE (Allegheny)	\$53.23	92
ED (Consolidated Edison)	\$79.69	40	MIR (Mirant)	\$48.41	93
NWE (Northwestern Corp)	\$79.56	41	PNM (PNM)	\$46.99	94
WR (Westar)	\$79.07	42	EGN (Energen)	\$45.66	95
MDU (MDU Resources)	\$78.16	43	EP (El Paso Energy)	\$45.42	96
ITC Holdings	\$77.42	44	SUG (Southern Union)	\$44.41	97
CV (Central Vermont)	\$77.37	45	CPN (Calpine)	\$43.08	98
EDE (Empire District)	\$77.26	46	WMB (Williams)	\$40.47	99
DPL (DPL Inc)	\$77.03	47	AES (AES Corp)	\$38.52	100
NU (Northeast Utilities Service Co)	\$76.84	48	DYN (Dynergy)	\$28.01	101
PNW (Pinnacle West)	\$75.76	49	CEG (Constellation Energy)	\$24.47	102
D (Dominion Resources)	\$75.53	50	RRI (Reliant Resources)	\$22.03	103
Regulated Electric	\$74.84	51			
DUK (Duke)	\$74.42	52			
OKS (ONEOK Partners)	\$74.37	53			

TABLE 4: December 31, 2008 (month end close) Value of \$100 Invested on January 1, 2004

Company	5 Year Value Through 12/31/2008	5 Year Rank	Company	5 Year Value Through 12/31/2008	5 Year Rank
AYE (Allegheny)	\$314.98	1	UNS (Unisource Energy)	\$125.20	54
NRG	\$233.30	2	XEL (Xcel Energy)	\$121.72	55
EWST (Energy West)	\$230.73	3	Regulated Electric	\$119.41	56
SJI (South Jersey Industries)	\$215.17	4	SWX (Southwest Gas)	\$118.63	57
STR (Questar)	\$195.98	5	OGE (OGE Energy)	\$118.31	58
EXC (Exelon)	\$191.03	6	ATG (AGL Resources)	\$116.89	59
NJR (New Jersey Resources)	\$176.85	7	GAS (Nicor)	\$115.99	60
LG (Laclede)	\$173.48	8	KMP (Kinder Morgan Energy Partners)	\$115.76	61
ITC Holdings	\$171.83	9	Regulated Electric Gas Combination	\$115.37	62
EQT (Equitable Resources)	\$171.00	10	AVA (Avista)	\$114.95	63
FPL (FPL Group)	\$167.49	11	EP (El Paso Energy)	\$113.97	64
PEG (Public Services Enterprise)	\$167.26	12	SCG (Scana Corp)	\$113.63	65
EIX (Edison Intl)	\$166.08	13	VVC (Vectren)	\$112.66	66
ETR (Entergy)	\$165.99	14	DGAS (Delta Nat Gas)	\$111.39	67
PNY (Piedmont Natural Gas)	\$165.55	15	MGEE (MGE Energy)	\$109.67	68
NST (Nstar)	\$165.26	16	WR (Westar)	\$109.45	69
PPL (PPL)	\$159.59	17	CV (Central Vermont)	\$107.77	70
UGI (UGI)	\$158.67	18	IDA (Idacorp)	\$107.56	71
SRE (Sempra Energy)	\$158.53	19	NGG (National Grid)	\$106.19	72
OKE (Oneok Inc)	\$156.90	20	ED (Consolidated Edison)	\$105.82	73
WMB (Williams)	\$156.88	21	POM (PEPCO)	\$105.34	74
PCG (PG&E)	\$156.72	22	FPU (Florida Public Utilities)	\$105.29	75
NWN (Northwest Natural Gas)	\$155.47	23	HE (Hawaiian Elec Ind Inc)	\$104.29	76
EGN (Energen)	\$154.61	24	TE (Teco Energy)	\$104.13	77
TAC (Transalta)	\$154.40	25	IntegrYS Energy Group (TEG)	\$103.74	78
Less Regulated Gas Focus	\$149.88	26	ATO (Atmos)	\$103.22	79
FE (First Energy)	\$149.85	27	DTE (DTE Energy)	\$101.80	80
OKS (ONEOK Partners)	\$148.32	28	PGN (Progress Energy)	\$99.72	81
DJU (Dow Utilities)	\$148.06	29	MDU (MDU Resources)	\$95.61	82
WGL (WGL Holdings)	\$147.25	30	NWE (Northwestern Corp)	\$92.99	83
UIL (UIL Holdings)	\$146.85	31	AES (AES Corp)	\$92.90	84
ALE (Allete)	\$146.33	32	OTTR (Otter Trail Power)	\$92.36	85
NFG (National Fuel Gas Co)	\$145.99	33	EDE (Empire District)	\$90.72	86
DUK (Duke)	\$142.82	34	BKH (Black Hills)	\$89.63	87
NVE (NV Energy)	\$142.71	35	PNW (Pinnacle West)	\$88.24	88
RGCO (RGC Resources)	\$142.54	36	RRI (Reliant Resources)	\$88.11	89
LDC	\$142.02	37	GSPC (S&P 500)	\$85.36	90
CNL (CLECO)	\$139.38	38	Dow Industrials	\$83.95	91
CNP (Centerpoint Energy)	\$136.88	39	AEE (Ameren)	\$82.70	92
EL Paso Electric EE	\$135.51	40	TCLP (TC Pipelines)	\$79.95	93
CPK (Chesapeake Utilities)	\$135.17	41	SUG (Southern Union)	\$74.90	94
SO (Southern Company)	\$134.45	42	CEG (Constellation Energy)	\$69.89	95
WEC (Wisconsin Energy Corp)	\$134.12	43	MIR (Mirant)	\$67.30	96
Less Regulated Electric Focus	\$132.78	44	GXP (Great Plains Energy)	\$66.02	97
AEP (American Electric Power)	\$129.19	45	POR (Portland General)	\$66.00	98
D (Dominion Resources)	\$128.74	46	NI (NiSource)	\$56.87	99
CMS (CMS Energy)	\$128.14	47	PNM (PNM)	\$56.82	100
LNT (Alliant)	\$127.70	48	SE (Spectra Energy)	\$55.00	101
The C Three Group Composite	\$127.70	49	DYN (Dynergy)	\$50.00	102
CHG (CH Energy Group)	\$126.89	50	CPN (Calpine)	\$43.08	103
DPL (DPL Inc)	\$126.75	51			
PSD (Puget Energy)	\$126.66	52			
NU (Northeast Utilities Service Co)	\$125.77	53			

Methodology and Components of Each Index Tracked by The C Three Group

- **Less Regulated Electric Focus** = More than 50% of revenues come from non-state regulated sources and/or more than 33% of assets are non-state regulated.
- **Less Regulated Gas Focus** = More than 50% of revenues come from non-state regulated natural gas distribution and/or more than 33% of assets are non-state regulated.
- **Regulated Electric** = No more than 20% of revenues can come from natural gas distribution and no more than 49% of revenues and 33% of assets can be associated with non-regulated activities.
- **LDC** = No more than 20% of revenues can come from electric distribution or generation and no more than 50% of revenues and 33% of assets can be associated with non-regulated activities.
- **Regulated Electric and Gas Combination** = More than 20% of revenues derived from natural gas distribution, no more than 50% of revenues and 33% of assets from non-regulated activities.
- **The C Three Index** = the non-weighted average of each of the companies included in the groupings above.

The C Three Indices are developed based on a straightforward premise: if you invested \$100 in each of the stocks of the companies that we track, what would the value of those shares be worth after a certain time-frame? Historical share prices are adjusted for dividends, splits and spin-offs.

LDC	Regulated Electric	Regulated Electric and Gas Combo	Dow Jones Industrials
AGL Resources Atmos Energy Chesapeake Utilities Delta Natural Gas Energy West Laclede Group Nicor Nisource Northwest Natural Gas Piedmont Natural Gas RGC Resources South Jersey Industries Southwest Gas WGL Holdings	Allele Ameren American Electric Power Black Hills Central Vermont CLECO Dominion Resources DPL Duke Energy Edison International El Paso Electric Empire District FirstEnergy Great Plains Energy IdaCorp National Grid Northeast Utility Services Nstar PEPCO Pinnacle West Portland General Electric Progress Energy NV Energy Southern Company UIL Holdings Unisource Energy Westar	Alliant Avista Centerpoint Energy CH Energy Group CMS Energy Consolidated Edison DTE Energy Energy East Florida Public Utilities MGE Energy Northwestern Corp. PCG PNM Resources Puget Energy SCANA TECO Energy Vectren Wisconsin Energy Xcel Energy	Alcoa American Express AT&T Boeing Caterpillar Citigroup Coca Cola Dupont Exxon Mobil GE General Motors Home Depot Honeywell IBM Intel Johnson and Johnson JP Morgan Kraft Foods McDonalds Merck Microsoft P&G Pfizer United Technology Verizon WalMart Walt Disney
Less Regulated Gas	Less Regulated Electric	Dow Utility Average	C Three Index
El Paso Corp. Energen Equitable Resources National Fuel Gas NJ Resources Southern Union Oneok Questar UGI	AES Corp. Allegheny Energy Calpine Constellation Energy Dynegy Entergy Exelon FPL Group Hawaian Electric Intergrys ITC Holdings MDU Resources Mirant NRG OGE Energy Otter Tail Power PPL Corp. PS Enterprise Reliant Resources Sempra Energy	AEP AES CenterPoint Consolidated Edison Dominion Resoures Edison International Exelon FirstEnergy FPL Group NiSource PG&E PS Enterprise Group Southern Company Williams Co.	Is an unweighted average of each component from each of these groupings plus, El Paso Energy, Kinder Morgan Energy Partners, Oneok Partners, Spectra Energy, TC Pipelines, TransAlta and Williams. We may re-introduce a natural gas pipeline index later this year.