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June 20, 2008

Watching the Monthly Utility Bills

The first hit many consumers are experiencing as a result of the increase in commodity and energy prices is at the gasoline pump. According to the Department of Energy, Energy Information Administration, average U.S. regular gasoline prices are currently hovering around $4 per gallon and are projected to peak at $4.15 in August. To put that in perspective, on a year-over-year basis, average regular gasoline retail pump prices, including taxes, are expected to increase approximately 35%. For consumers, this prime pocketbook issue could initially cloud the fact that energy commodity prices are having an impact in other areas as well. Specifically, utility bills are expected to head higher.

Global fuel costs have increased, and fuel is the single-largest expense for many utilities. Prices for coal and natural gas have skyrocketed, and the two energy sources combined account for approximately 70% of U.S. electric power industry net generation. Nevertheless, the Energy Information Administration in its latest monthly publication, *Short Term Energy Outlook*, estimates electricity end-use prices for the residential sector to increase only 3.7% year over year on a cents-per-kilowatt-hour basis. Playing devil's advocate, we expect the number of utility rate requests for fuel price recoveries to increase significantly as commodity prices remain elevated for the near future. Going forward, we favor firms with capital recovery and expense recovery mechanisms in place and point to **ONEOK, Inc. (OKE-N-$49.01)**, a diversified energy company that operates in constructive regulatory markets. Founded in 1906, OKE is among the largest natural gas distributors in the United States, serving more than 2 million customers in Oklahoma, Kansas and Texas. As a utility, the company's natural gas distribution segment ranks among the top ten based on customers served and is the largest in Kansas and Oklahoma. Furthermore, the firm is the general partner and owns 47.7 percent of ONEOK Partners, L.P. (OKS-N-$58.60), one of the largest publicly traded limited partnerships involved in gathering, processing, storage and transportation of natural gas in the United States.

OKE targets a 50% payout ratio of earnings and currently has an indicated dividend yield of 3.1% compared to the S&P 500 average of 2.1%. Taking into consideration commodity prices and the firm's financial strength, as evidenced by a BBB investment grade credit ratings from Standard & Poor's, we believe OKE shares are appropriate for our clients looking for growth and income.

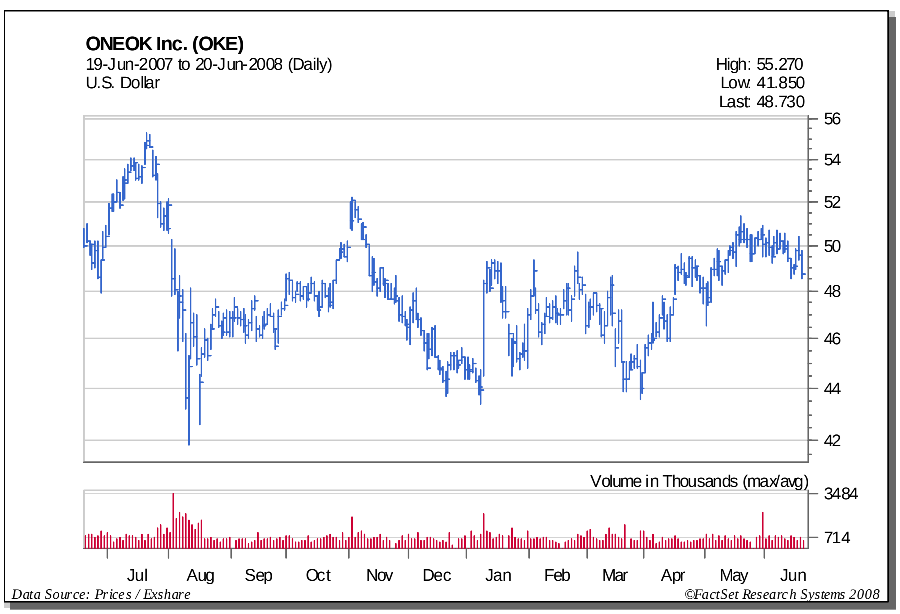

Chart Courtesy of FactSet

Chart Courtesy of StockVal

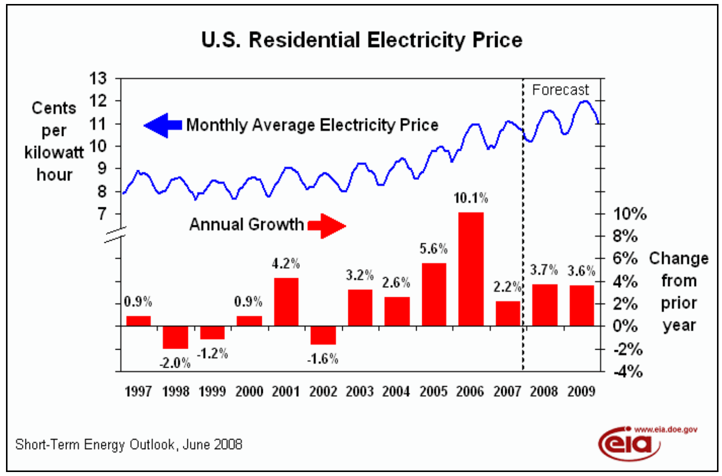

Chart Courtesy of the Energy Information Administration

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