

An Analyst's Perspective on the Natural Gas Industry

AGA Rate School

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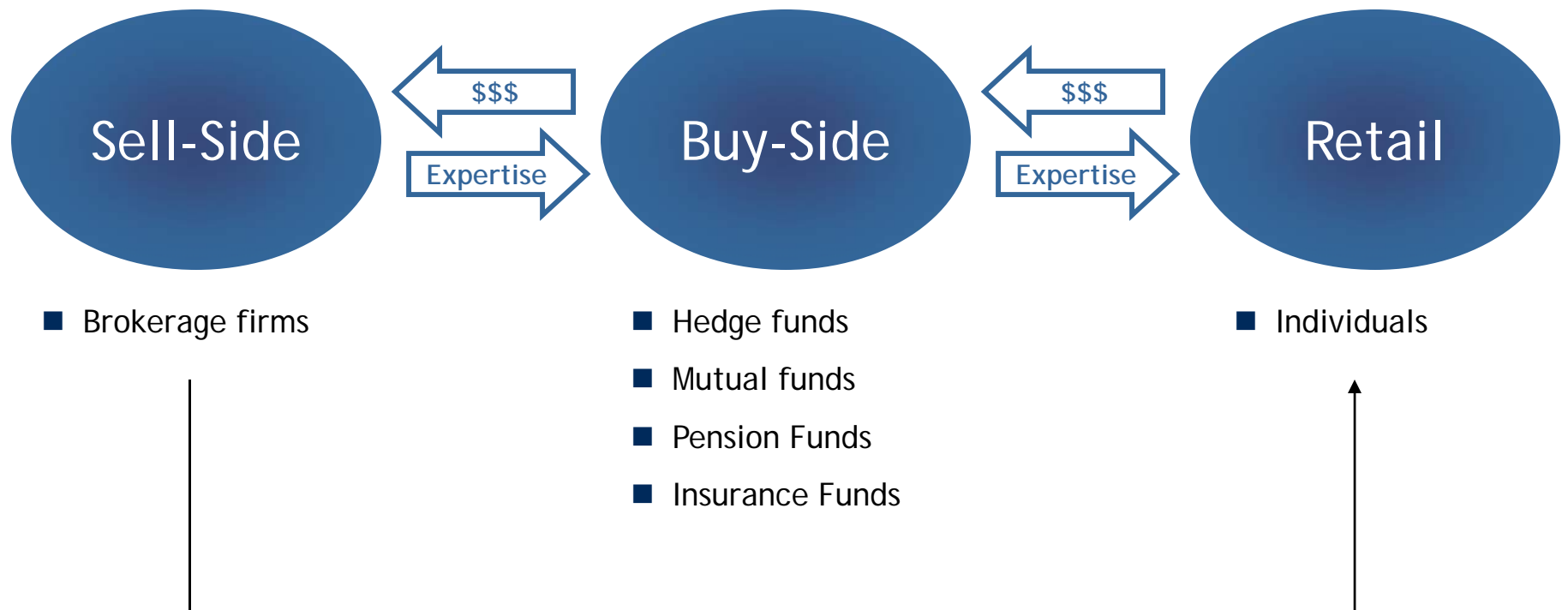
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Agenda

- How the industry works
- How analysts form opinions on stocks
- How rate making shapes opinions on stocks
- Current issues in rate making
- Current issues in the natural gas industry

How the Industry Works



What do Investors want from the Sell Side?

- Industry knowledge
- Integrity/professionalism
- Accessibility/responsiveness
- Management access
- Timely calls and visits
- Written reports and financial models
- An opinion!

How Analysts form Opinions

- Top-down vs. bottom-up approach
- Top-down attributes: Economic and industry outlook, industry returns, competitive positioning
- Bottoms-up attributes: Earnings growth, free cash flow generation, dividend growth, P/E ratios, balance sheet strength
- Historical performance
- Level of confidence in disclosure and predictability of performance
- Perception of management
- Word of mouth

Key attributes for this Analyst

- Quality of management
- A defined strategy
- Financial discipline
- Disclosure
- Predictability of earnings/cash flow and variability
- Valuation gap and ability to close the gap

How Rate Making Shapes Opinions on Stocks

- For regulated utility, rate department is viewed as the single most important segment of company
- Key - investors want certainty! Without certainty/predictability, investors will stay on the sidelines
- External regulatory environment/jurisdiction as important as internal company rate department
- Investors do not like conflict between regulators and companies!
- Significant under earning of allowed return is red flag

Current Issues in Rate Making

- Tough economic environment for regulators to grant increases
- Decoupling
- Trackers for steel pipe replacement
- Trackers to eliminate regulatory lag
- Low interest rate environment
- Regulatory claw back limits M&A

Current Issues in the Natural Gas Industry

- Shale, shale and more shale gas
- Downward pressure on commodity prices
- Dampening volatility
- Creating significant changes in pipeline flows
- Need for additional infrastructure; lowering utilization of some infrastructure
- Gas back in the sweet spot for long-term fuel of choice