Affordability and credit quality in the gas utility industry

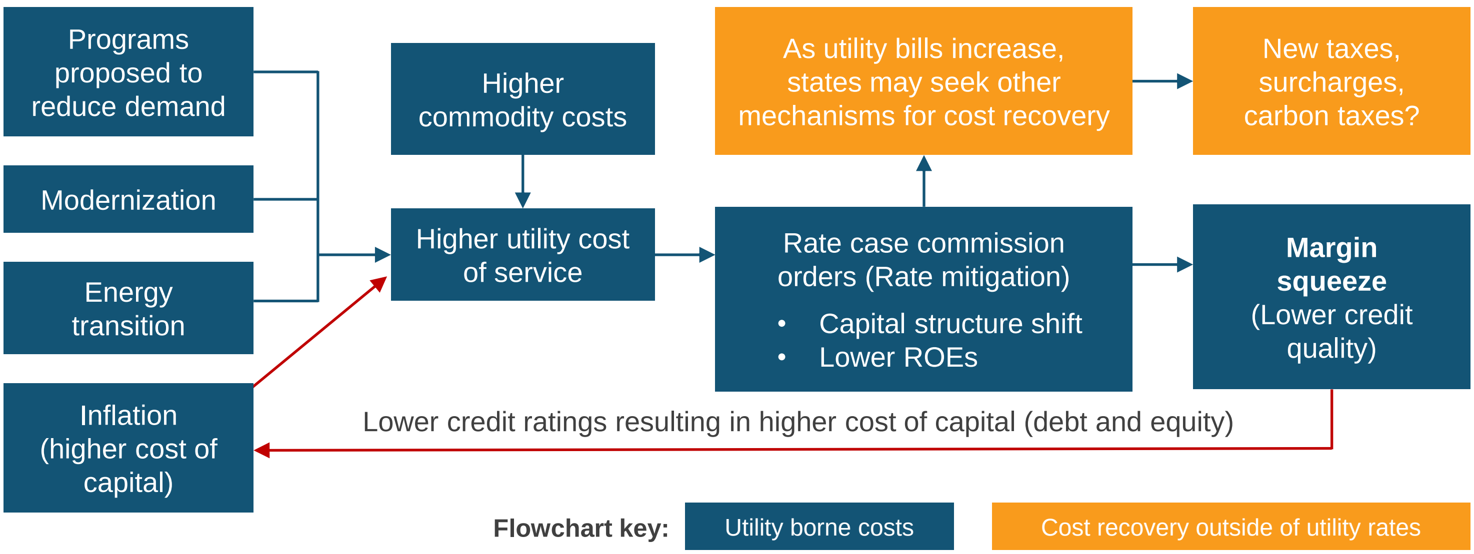
The gas utility industry and its regulators are facing unprecedented challenges to balance affordability and credit quality.

The "perfect storm"

- Increases in capital spending to support modernization and transition
- Programs proposed to reduce customer connections and demand
- Rising cost of capital - The 30-year Treasury rate has doubled over the past 12 months
- Higher commodity costs
- Rating agencies are monitoring current trends and have raised concerns regarding the breakdown of the "regulatory contract".[1]
- And all of this is being done under the context of demand (billing determinants) reductions.

The utility "debt" spiral – this is REAL and just beginning

In states with aggressive energy transition policies, costs may exceed what can be absorbed by consumers and additional recovery mechanisms could be instituted.



Even absent transition costs, utilities should consider whether their current business models support sustainable earnings growth or if new revenue mechanisms are required.

[1] The regulatory contract permits utilities to charge rates which are reasonable but allow for a return that provides economic access to capital markets.

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