



EMPOWERING INVESTORS AND MARKETS FOR 150 YEARS

What's on the Mind of the Rating Agencies?

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Standard & Poor's

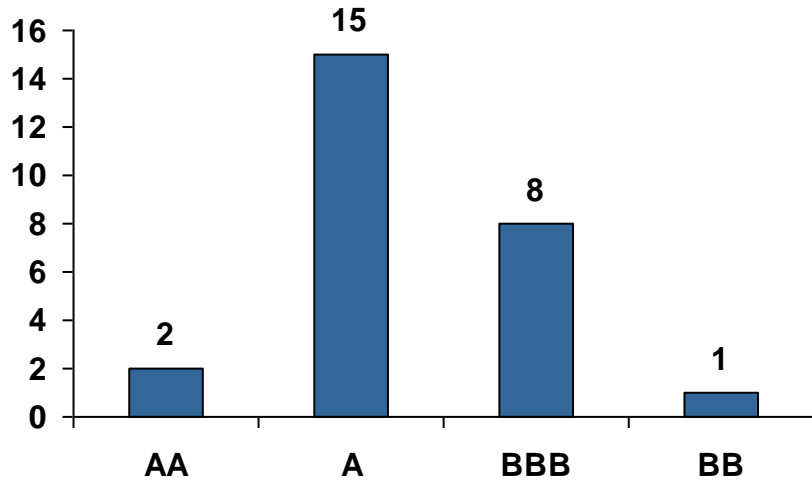
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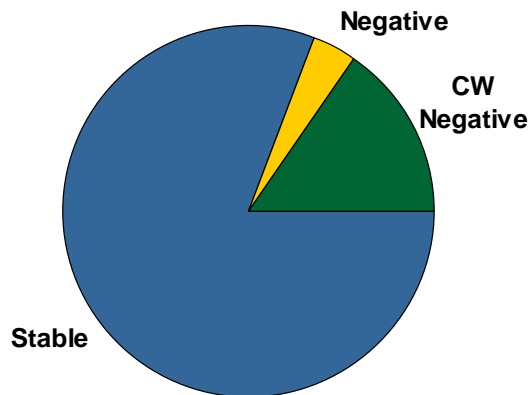
Natural Gas Local Distribution Companies

- # of Issuers: 26
- # of Ultimate Parent Cos: 16
- Total Rated Debt: \$30 Billion

Ratings Distribution by Issuer



Outlook Distribution by Issuer



Rating Changes (by Issuer) since 1/1/2011

Upgrades	1
Positive Outlook Revisions (Stable → Positive or Negative → Stable)	0
Downgrades	2
Negative Outlook Revisions (Stable → Negative or Positive → Stable)	1

Rating Changes

- Washington Gas Light Co.: AA-/Neg/A-1+ → A+/Stable/A-1+
- WGL Holdings: AA-/Neg/A-1+ → A+/Stable/A-1+
- Southwest Gas Corp.: BBB/Positive/-- → BBB+/Stable/--
- SEMCO Energy: BBB-/Stable/-- → BBB-/Negative/--

Positive Trends

- Supportive regulatory mechanisms
- Low working capital requirements

Negative Trends

- Growth of nonregulated business
- Weak fundamentals for certain nonregulated businesses

Expanding Non-Regulated Operations Raises Credit Risks

➤ **Increased Nonregulated Investments Can Result In Weaker Consolidated Credit Quality And Lower Ratings**

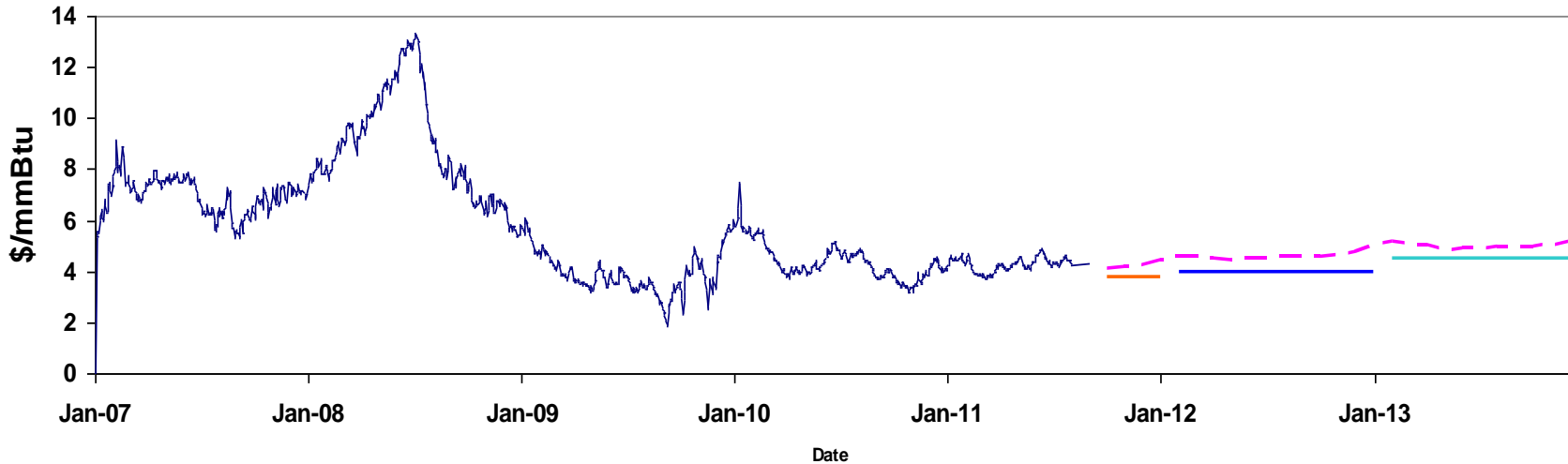
- Signal A Strategic Shift Or An Increased Tolerance For Risk
- Cash Flow Uncertainty
- Competitive Risks

➤ **Average Category Ratings By Subsector**

- Regulated Gas Utilities 'A'
- Natural Gas Pipelines 'BBB'
- Natural Gas Storage 'BB'

Low Natural Gas Prices

Henry Hub Prompt Month Natural Gas Prices



— Historical Price — Futures curve as of August 8th — S&P Pricing Assumptions

Credit Implications

- Low working capital requirements for gas LDC's
- Low basis differentials are translating into lower recontracting rates for gas pipelines

Natural Gas Pipelines – Stable, But Risk Increasing

- Majority of revenue from firm transportation contracts
- Typically multiyear contracts (average life of five to six years)
- “Demand pull” pipelines inherently less risky than “supply push”
- Re-contracting risk due to weak basis differentials
- High leverage placed on the assets
- More stringent regulation (PHMSA, FERC)

Pipeline	Rating/Outlook	Debt/EBTIDA			Avg. Contract Life (years)
		2009	2010	2011	
Boardwalk Pipeline Partners L.P.	BBB/Stable	6.3x	5.1x	4.5x	6
Florida Gas Transmission Co. LLC	BBB/Stable	4.9x	7.1x	5.5x	11
Gulf Stream Natural Gas System LLC	BBB/Stable	5.3x	4.9x	5.0x	18
Northern Border Pipeline Co*	BBB+/Stable	3.3x	2.6x	3.0x	3
NGPL PipeCo LLC*	BB+/Negative	4.5x	4.9x	6.3x	3
Panhandle Eastern Pipeline Co. LP	BBB-/CWD	4.9x	4.6x	4.4x	7
Rockies Express Pipeline LLC*	BBB-/Negative	12.3x	8.1x	5.7x	8
Southern Natural Gas Co.	BB/CWP	3.1x	2.6x	2.5x	7
Tennessee Gas Pipeline Co.	BB/CWP	3.8x	4.1x	4.0x	4
Texas Eastern Transmission LP	BBB+/Stable	2.5x	2.3x	2.5x	4
Transcontinental Gas Pipe Line Co. LLC	BBB-/CWP	2.4x	2.5x	2.5x	5

*Negative rating or outlook actions recently taken by Standard & Poor's.

Principle Credit Themes Affecting Regulated Utilities

- **The need for significant infrastructure spending related to aging plant, environmental mandates**
- **Cost recovery options include: base rates, rate surcharges, and cash flow support during environmental construction**
- **The dollar amount of the costs and the timeliness in recovering the environmental expenditures are important factors**
- **Stagnation and even decline in customer growth**
- **Opportunities outside the core business in the absence of satisfactory utility growth**

We Introduced New Liquidity Criteria Last Year

- **Standardizing descriptors: ‘Exceptional’, ‘Strong’, ‘Adequate’, ‘Less than Adequate’, ‘Weak’**
- Virtually all midstream companies have at least “adequate” liquidity

The two metrics: (‘A’ & ‘B’)

‘A’ (Issuer’s Overall Resources)	‘B’ (Issuer’s Uses)
Outstanding surplus cash	Near-term debt maturities
Outstanding long-term committed bank lines from creditworthy banks, provided headroom on any covenant is comfortable	FFO and working capital (at worst point of year, if seasonal), if negative
Our expectation of FFO	Maintenance capital expenditures and likely capital expansion driven outflows
Our expectation of working capital, if positive	Derivative and pension funding calls
Cash asset disposal proceeds	Contracted acquisitions and expected shareholder distributions

Questions & Answers



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