

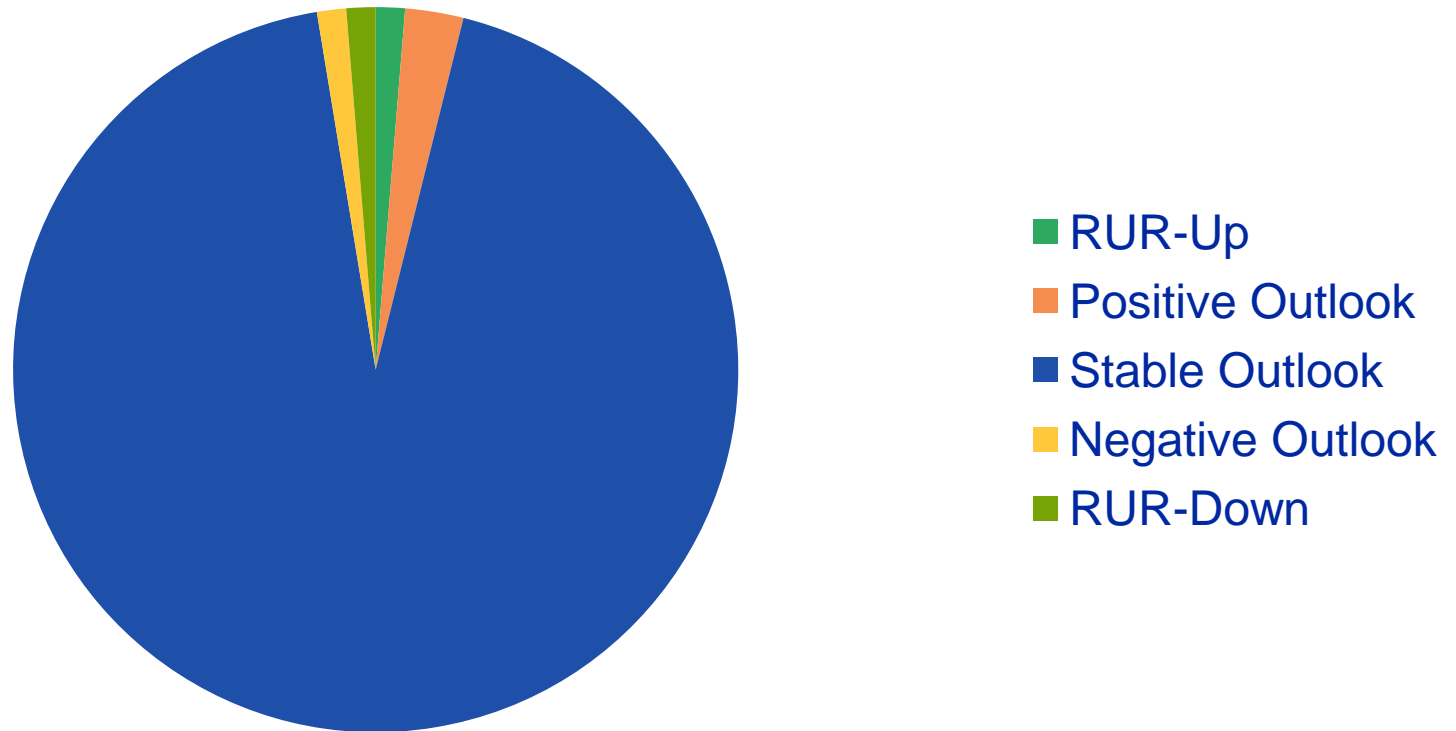
Moody's Perspective: What's on the Mind of Rating Agencies?

2011 AGA Treasurers' Workshop

Gas Sector Ratings Overwhelmingly Stable

77 Rated AGA Full Members, Baa1 Average Rating

Ratings & Outlooks



Regulated Gas Industry – Rating Factors

» Positives

- Well positioned in investment grade rating category
- Low-risk regulated business model, financed to defend investment grade rating
- Good access to capital markets, liquidity
- Constructive regulatory relations
- Slow pace of change (e.g., environmental capex, pipeline recontracting)

» Negatives

- Weak demand
- Mature business with limited organic growth
- Potential shift from back-to-basics to more aggressive growth strategies
 - » M&A, though recent utility mergers tend to be credit neutral
 - » Diversification into higher risk businesses
 - » MLPs and other financial engineering

Sector-Specific Credit Issues

- » LDCs – Baa1 average rating
 - Growing gas supplies positive for reliability, working capital, bad debt, regulatory relations
 - Secular decline in demand, but oil-gas price differentials spur conversions
 - Decoupling mechanisms more widespread

- » Combination Gas & Electric Companies – Baa1 average rating
 - Environmental spending
 - More frequent rate cases
 - Ability to increase rates amidst struggling economy

- » Pipelines – Baa2 average rating
 - Reduced contract quality
 - FERC Section 5 rate investigations
 - MLPs

Liquidity Remains Key Focal Point

- » Credit facility renewal within one year of scheduled expiration
- » No MAC
- » Same-day funding
- » Well planned refinancing strategy for near-term debt maturities

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