

**Fitch**Ratings

**2011 AGA Treasurer's Workshop**

**What's on the Mind of the Rating  
Agencies?**

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September 21, 2011

# What is on Our Mind

Safety

Shale Production

Demand Shift

Commodity Price

Regulation

# Safety

- San Bruno demonstrates that ratings can be impacted by a pipeline accident
- What will be the added cost to maintain systems from new legislation and regulations?
- For interstate pipelines, safety costs are expected to be manageable
- Will state regulators be motivated to approve LDC pipe replacement programs?

# Shale Production

- Adequacy and diversity of supply a plus for LDCs
- Infrastructure development will be needed to maximize resources and reach new markets

# Demand Shift

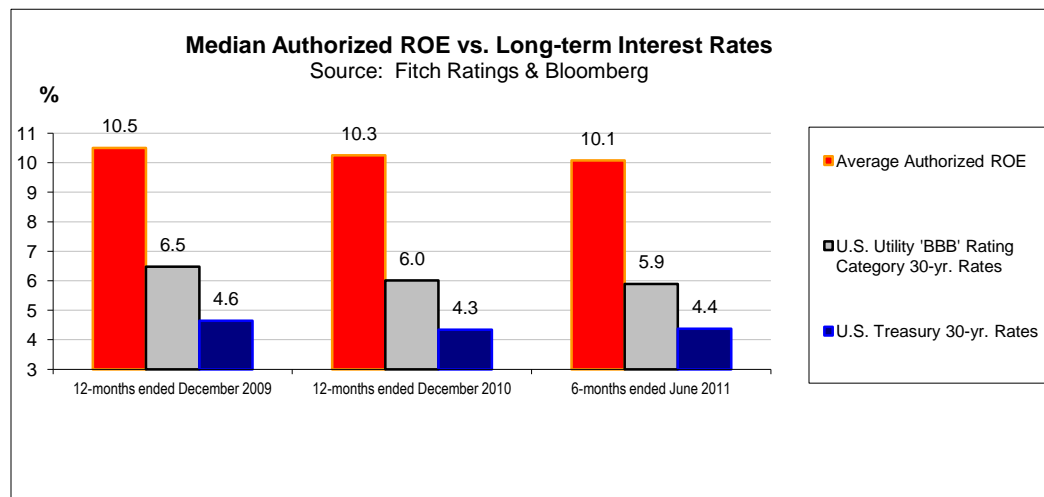
- Future demand increases driven by power generation load
- Will LDCs benefit from increased electric generation usage?

# Commodity Price

- Signs point towards relatively low natural gas prices over the next few years
- Low commodity prices combined with low borrowing costs have provided a favorable operating environment for LDCs
- Low commodity prices, limited price volatility and the collapse of basis differentials have reduced the value of certain storage assets

# Regulation

- State regulatory trends are credit neutral for utilities with authorized ROEs remaining above 10%
- Rate design changes assuring full and timely cost recovery lower risk
- FERC regulation of pipelines is expected to remain constructive. Future Section 5 rate case “over-earning” challenges likely to be limited



The logo for Fitch Ratings, featuring the word "Fitch" in a red serif font and "Ratings" in a black serif font.

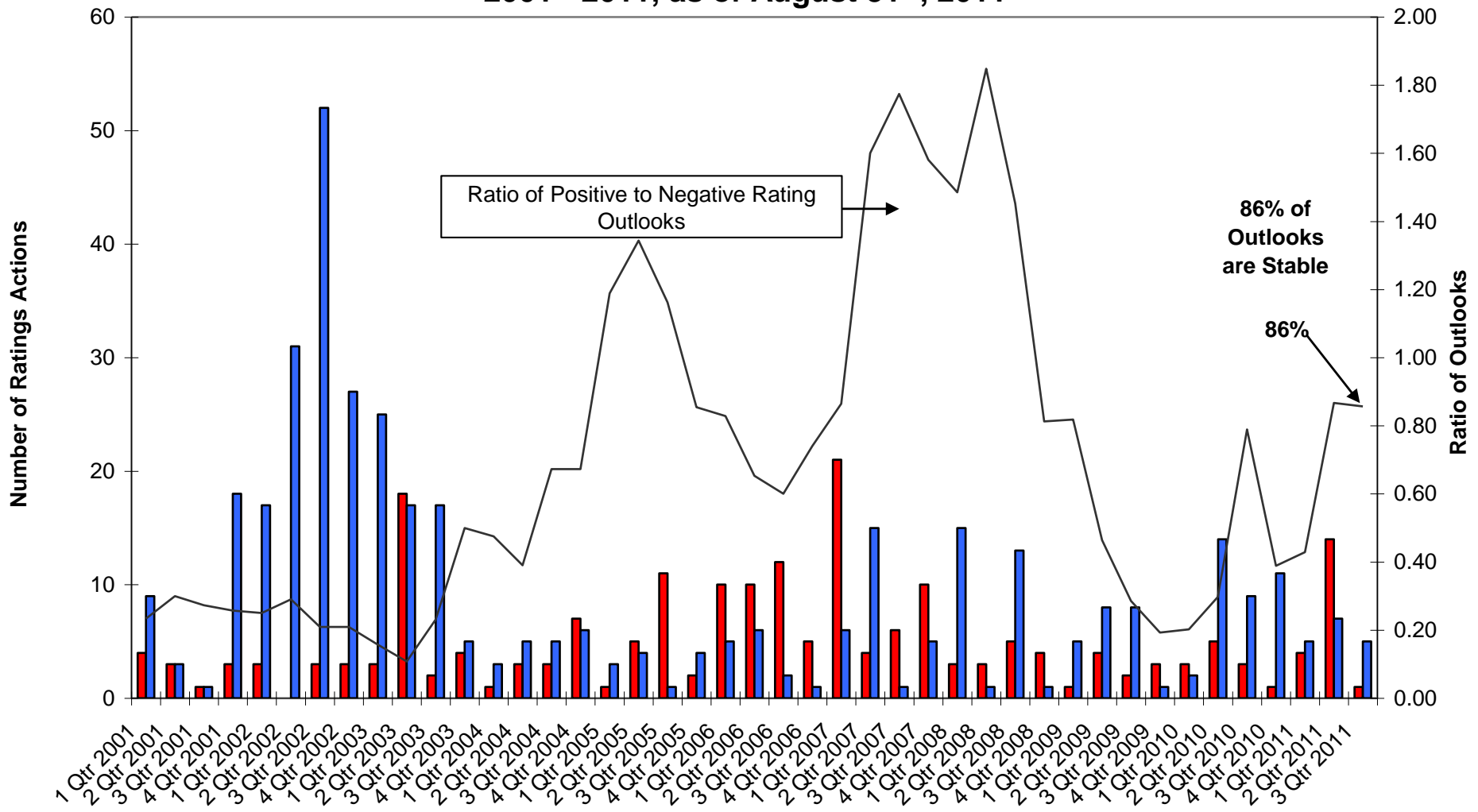
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**Rating Distribution Slides**

9/21/11

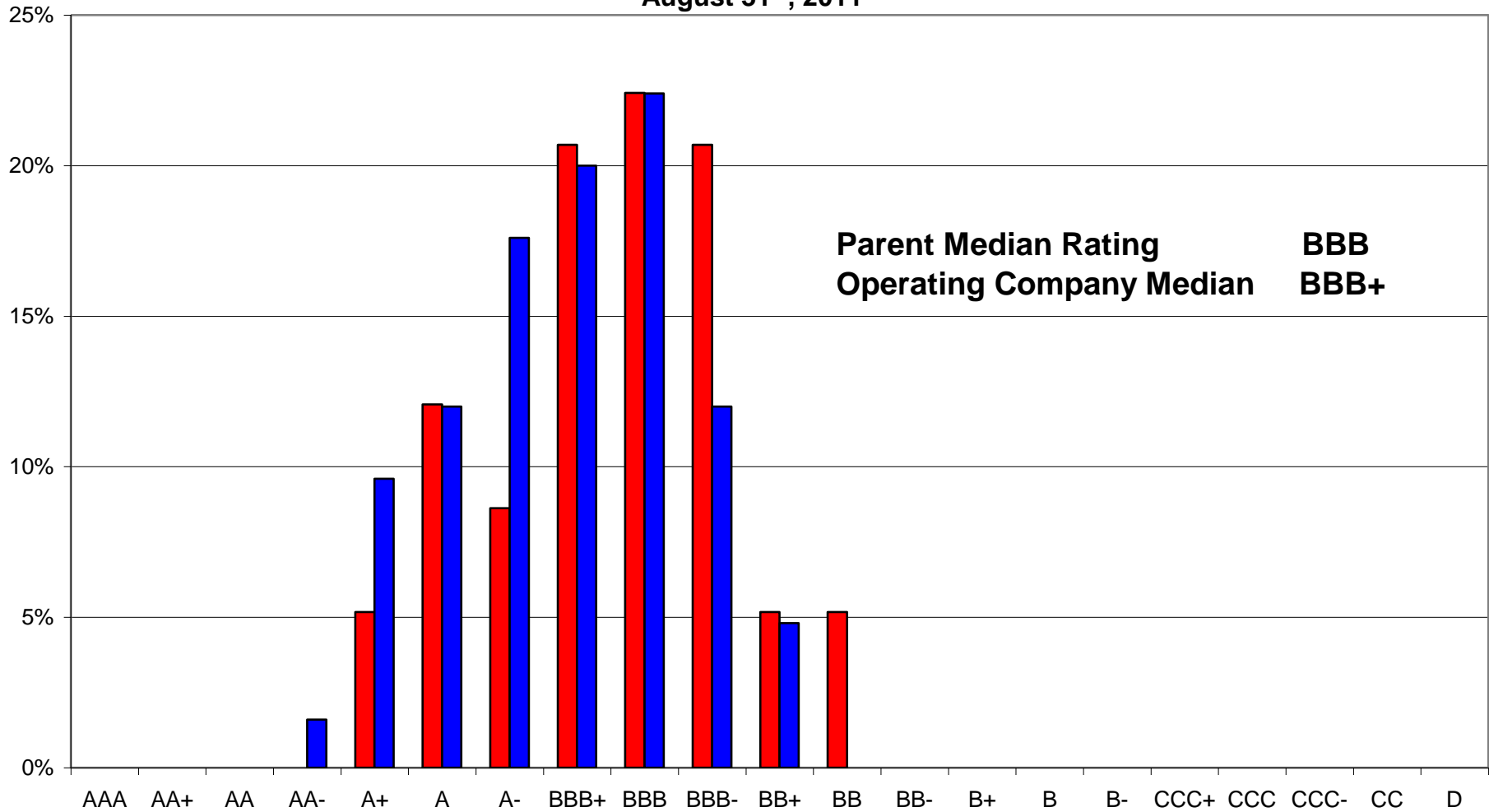
# Quarterly Upgrades & Downgrades and Ratio of Positive to Negative Outlooks

2001 - 2011, as of August 31<sup>st</sup>, 2011



# Ratings Distributions of Senior Unsecured Debt Corporate Parents Vs. Operating Companies

August 31<sup>st</sup>, 2011



■ Parent Senior Unsecured    
 ■ Operating Utilities Senior Unsecured

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