

# Energy Company Valuations

## “It’s all in there!”

Georgia State Economic Forecasting Conference  
May 25, 2005

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Executive Vice President  
and Chief Financial Officer

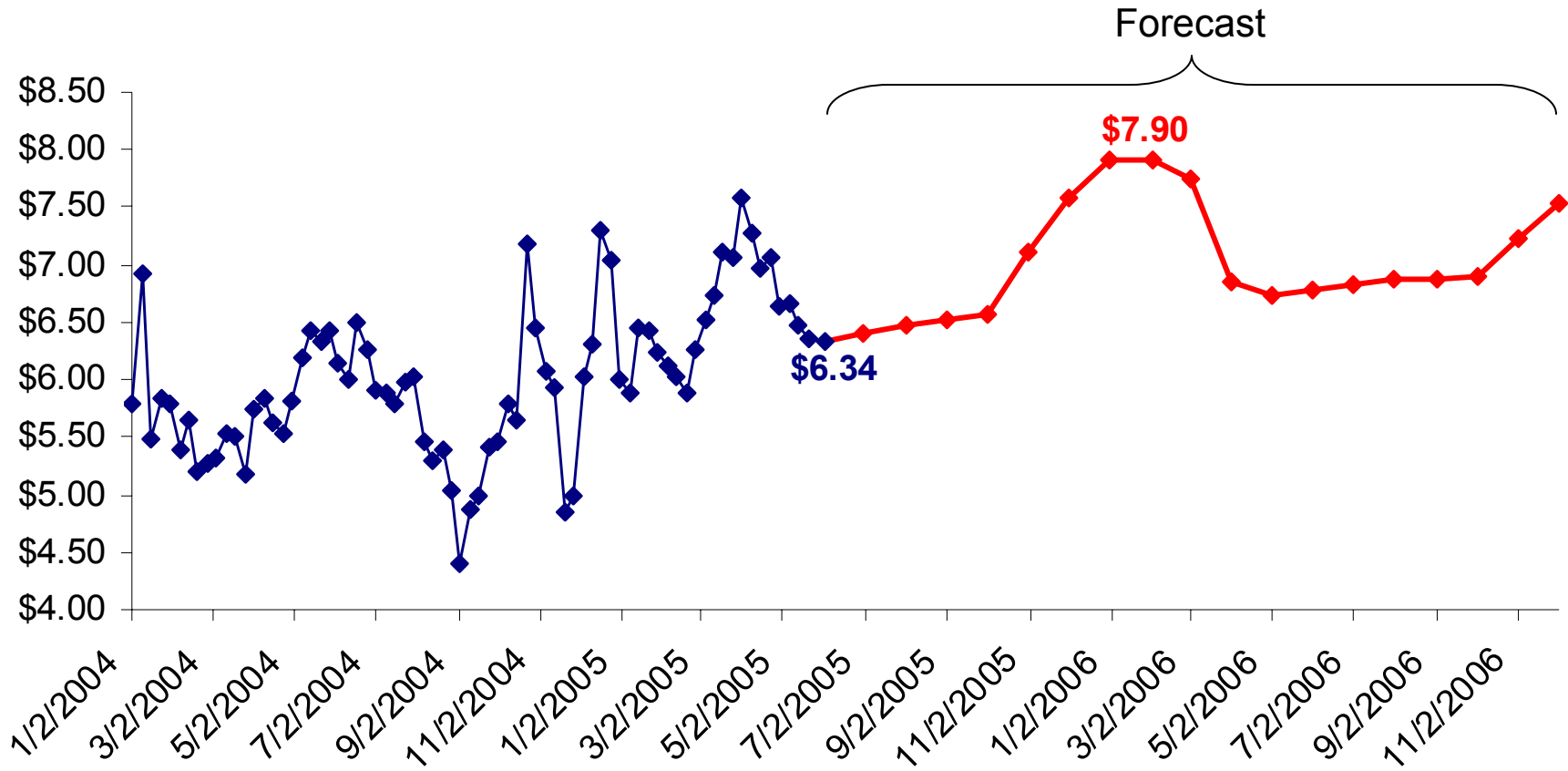


# Key Factors in LDC Equity Valuations

- Numerous macro-economic factors influence valuations of natural gas Local Distribution Companies (LDCs)
  - Natural gas prices
  - Interest rates
  - State government economic regulation
  - Federal income taxation policies
  - LDC industry consolidation – economies of scale?
  - Regional and state specific economic factors
  - Company specific variables and results obviously affect valuations

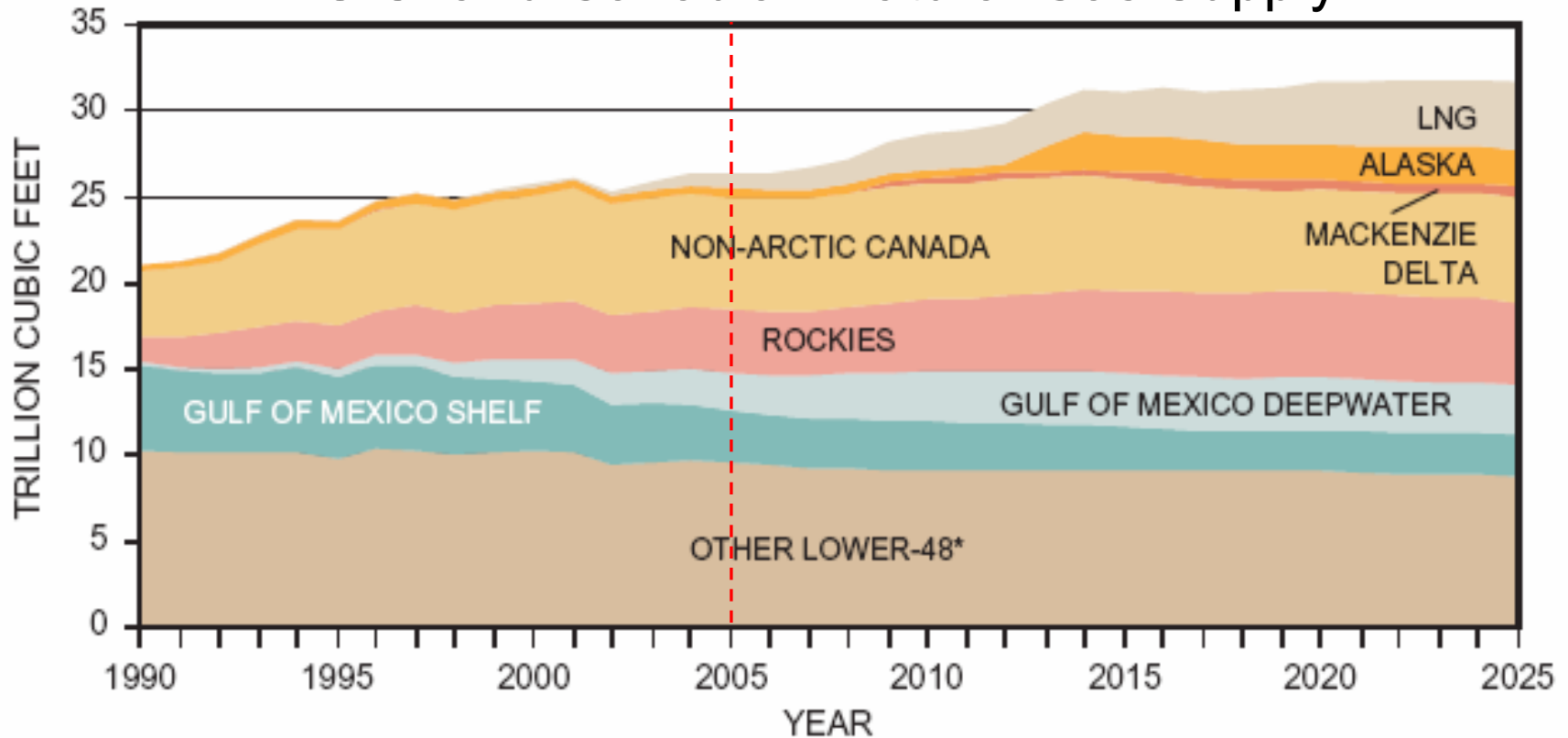
# Short-term Natural Gas Prices

## Henry Hub Natural Gas Prices (Jan 04 - Dec 06)



# Natural Gas Supply

## U.S. and Canadian Natural Gas Supply

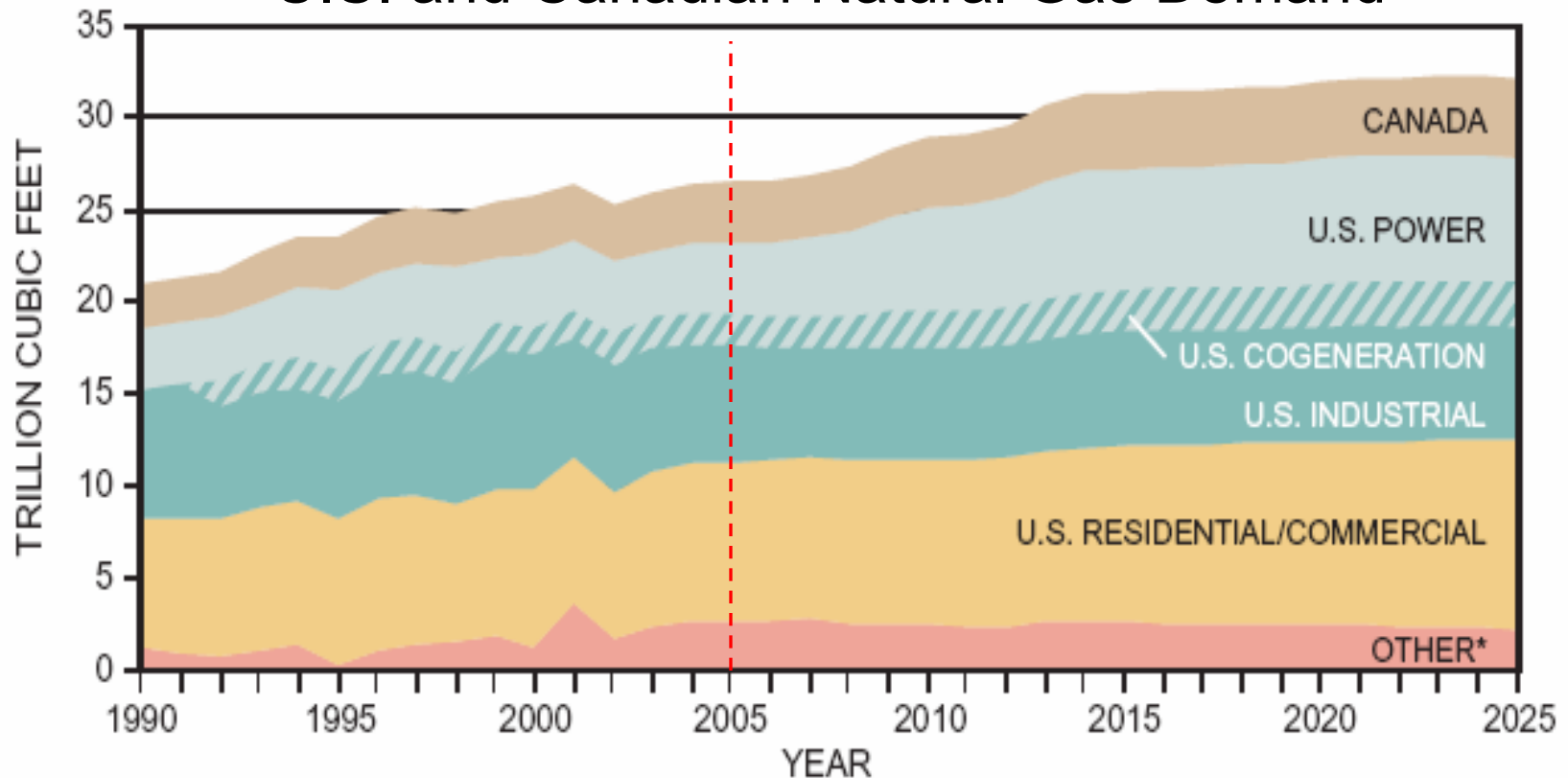


\* Includes lower-48 production, ethane rejection, and supplemental gas.

- Production from traditional basins remains strong but has plateaued; Rockies and deepwater Gulf of Mexico offset declines in other areas.
- Growth is driven by LNG imports and Arctic supply.

# Natural Gas Demand

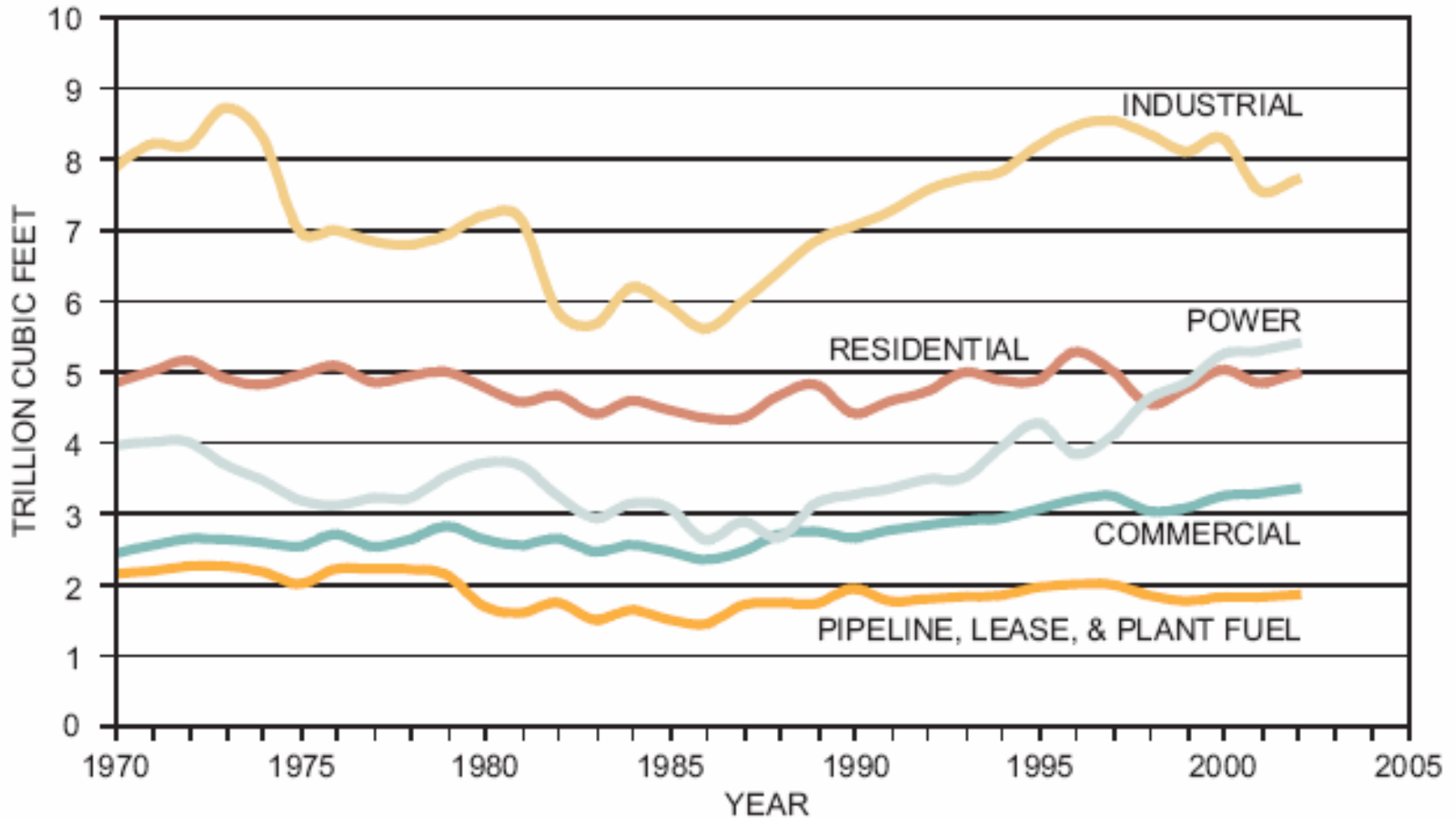
## U.S. and Canadian Natural Gas Demand



\*Includes net Mexico exports, lease/plant/pipeline fuel, and net storage.

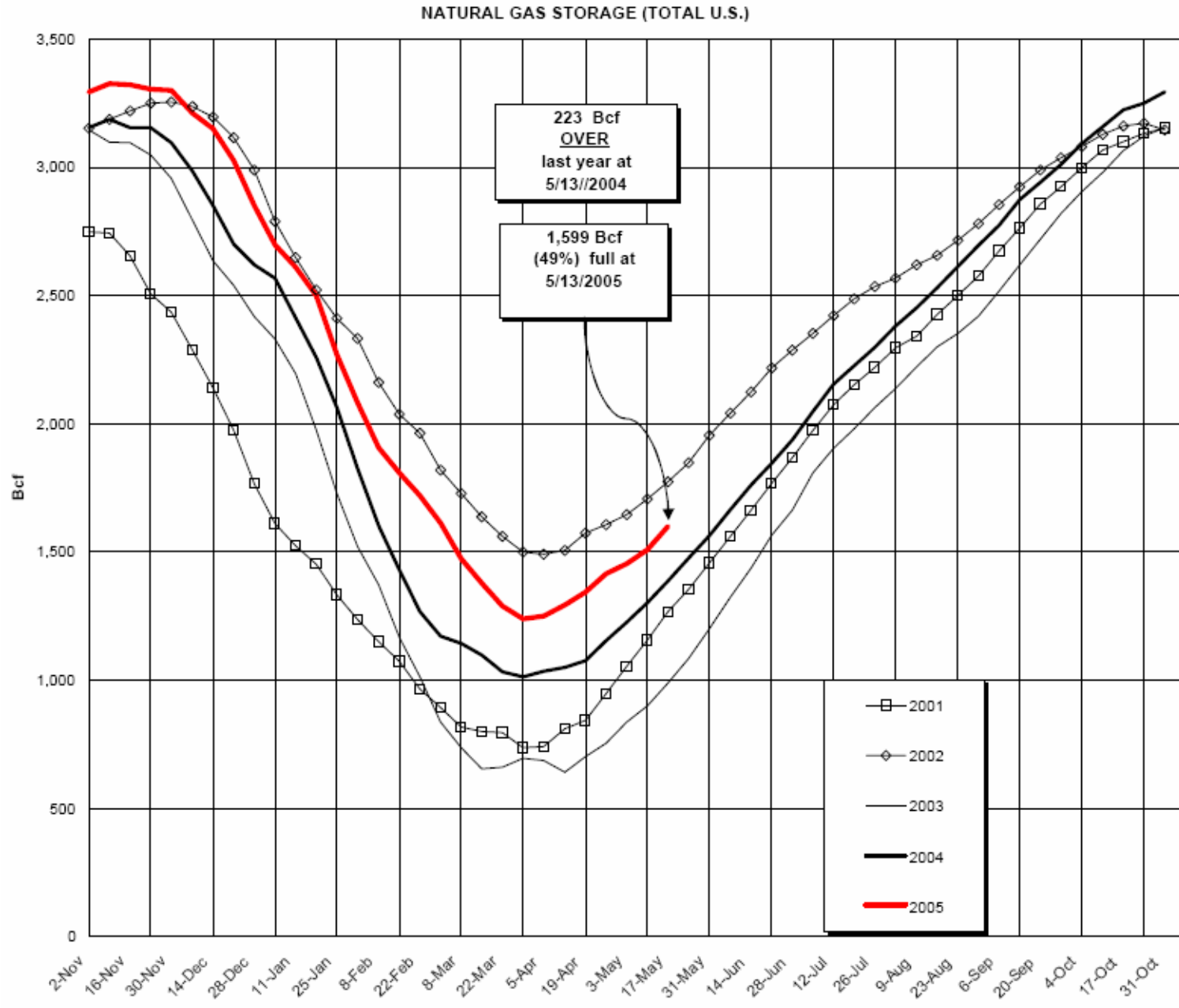
- Natural gas demand for power generation increases, reflecting future utilization of recent, significant additions of natural gas-fired generation.
- Natural gas use in the industrial sector erodes, illustrating projected losses in industrial capacity in the most gas-intensive industries.

# Natural Gas Consumed by Sector

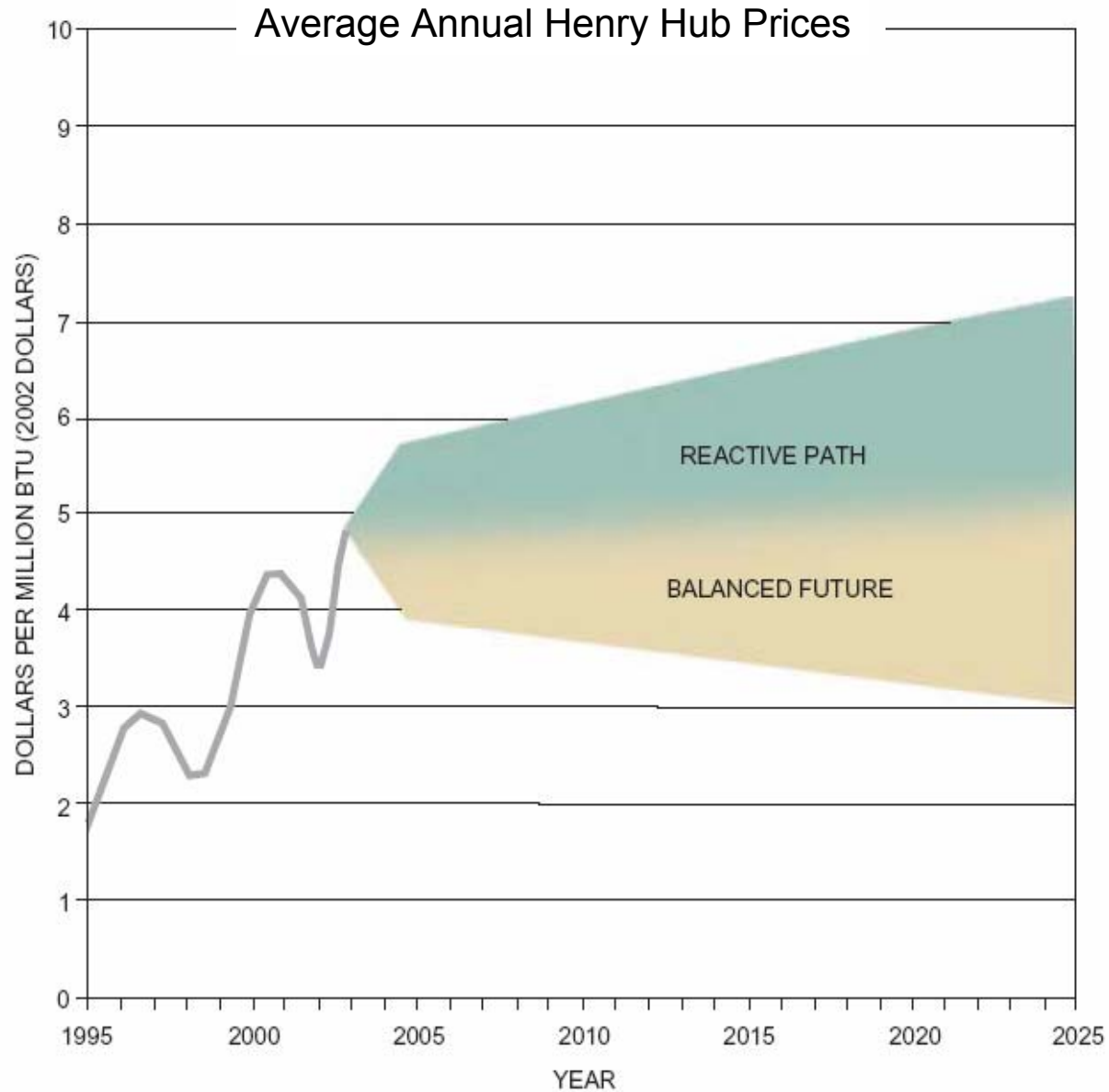


Source: National Petroleum Council

# Current Market – Natural Gas Storage Levels



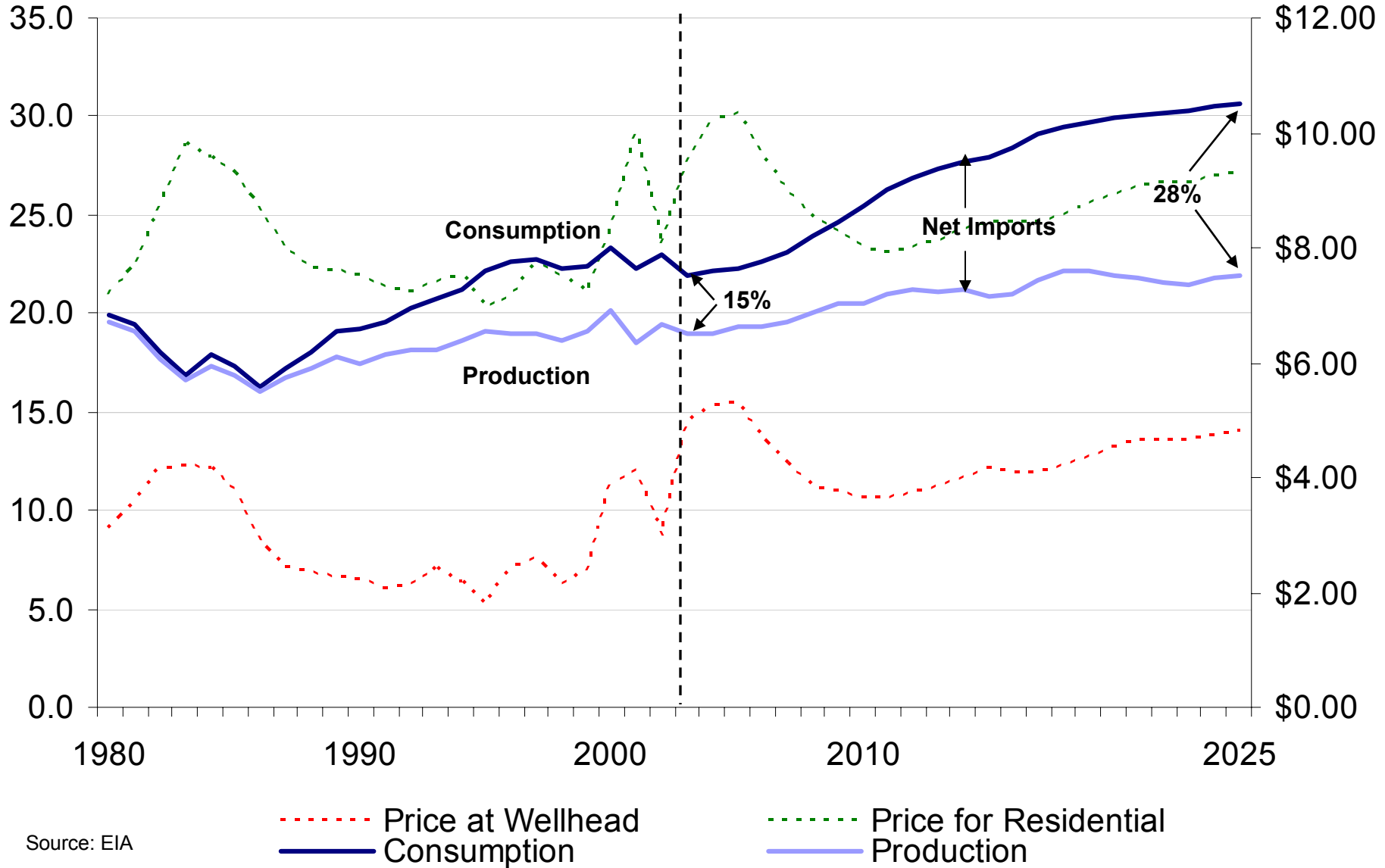
# Long-term Natural Gas Prices



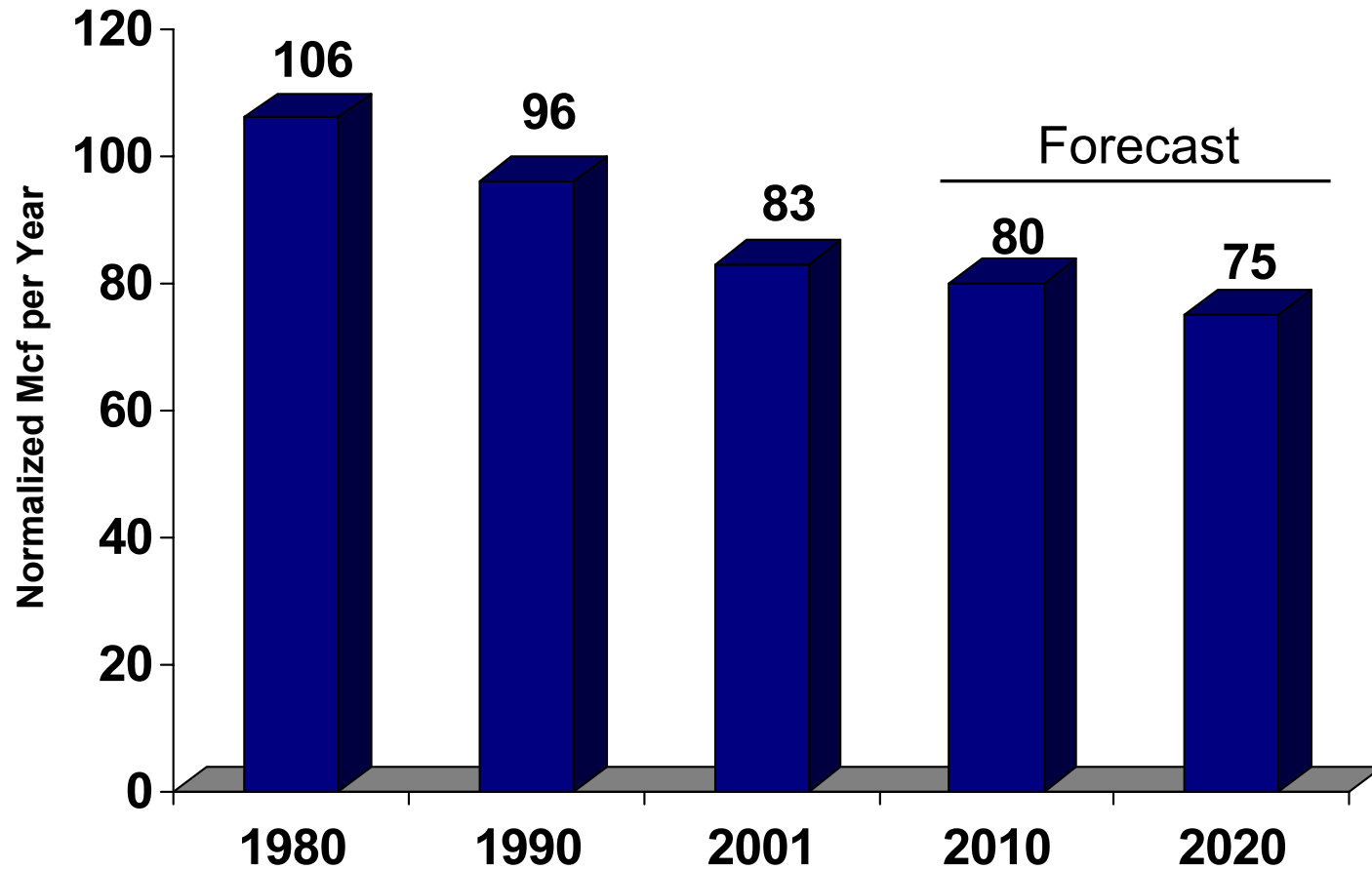
Note: Natural gas prices shown are average annual prices at Henry Hub, the reference/delivery point for NYMEX futures contracts. Prices on any given day and/or at different locations can vary significantly, due to variations in weather, national and local supply/demand factors, transportation and distribution costs, etc.



# Natural Gas Price Environment



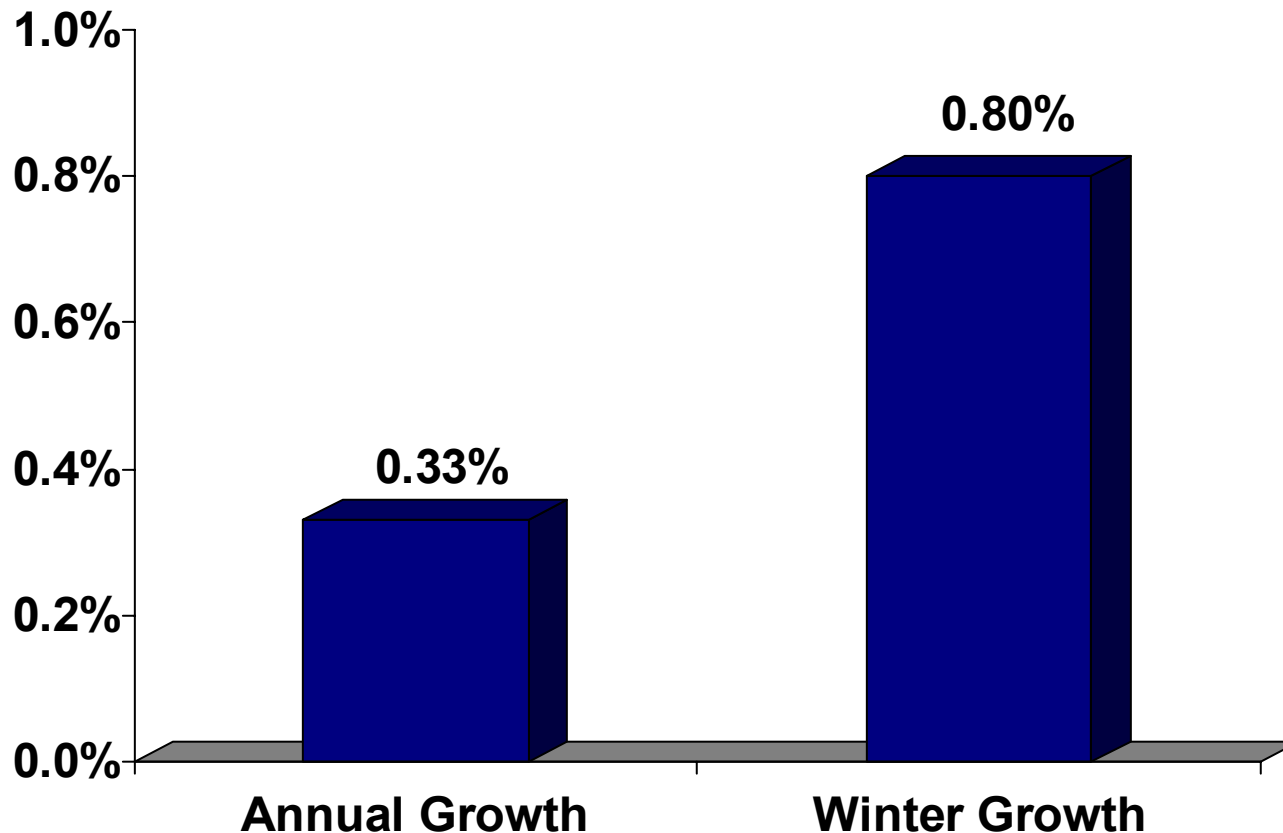
# Natural Gas Use Per Residential Customer



Source: *Patterns in Residential Natural Gas Consumption, 1980-2001*, American Gas Association, May 28, 2004

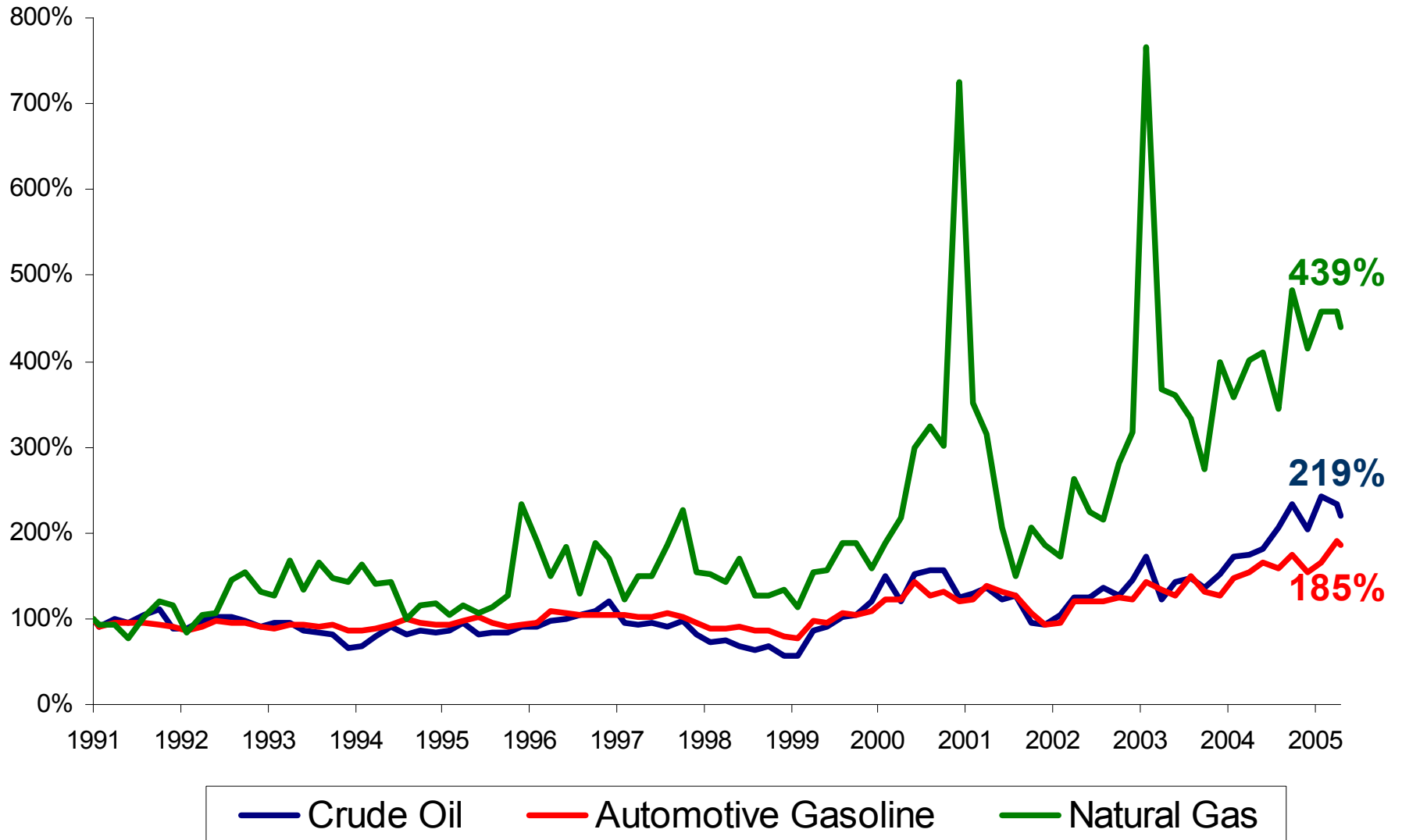
# Compound Annual Growth Rate of Gas Consumed (Residential and Commercial Customers)

**Since 1973, winter load (Dec-Feb) has been growing more than twice as fast as annual load.**



# Commodity Volatility

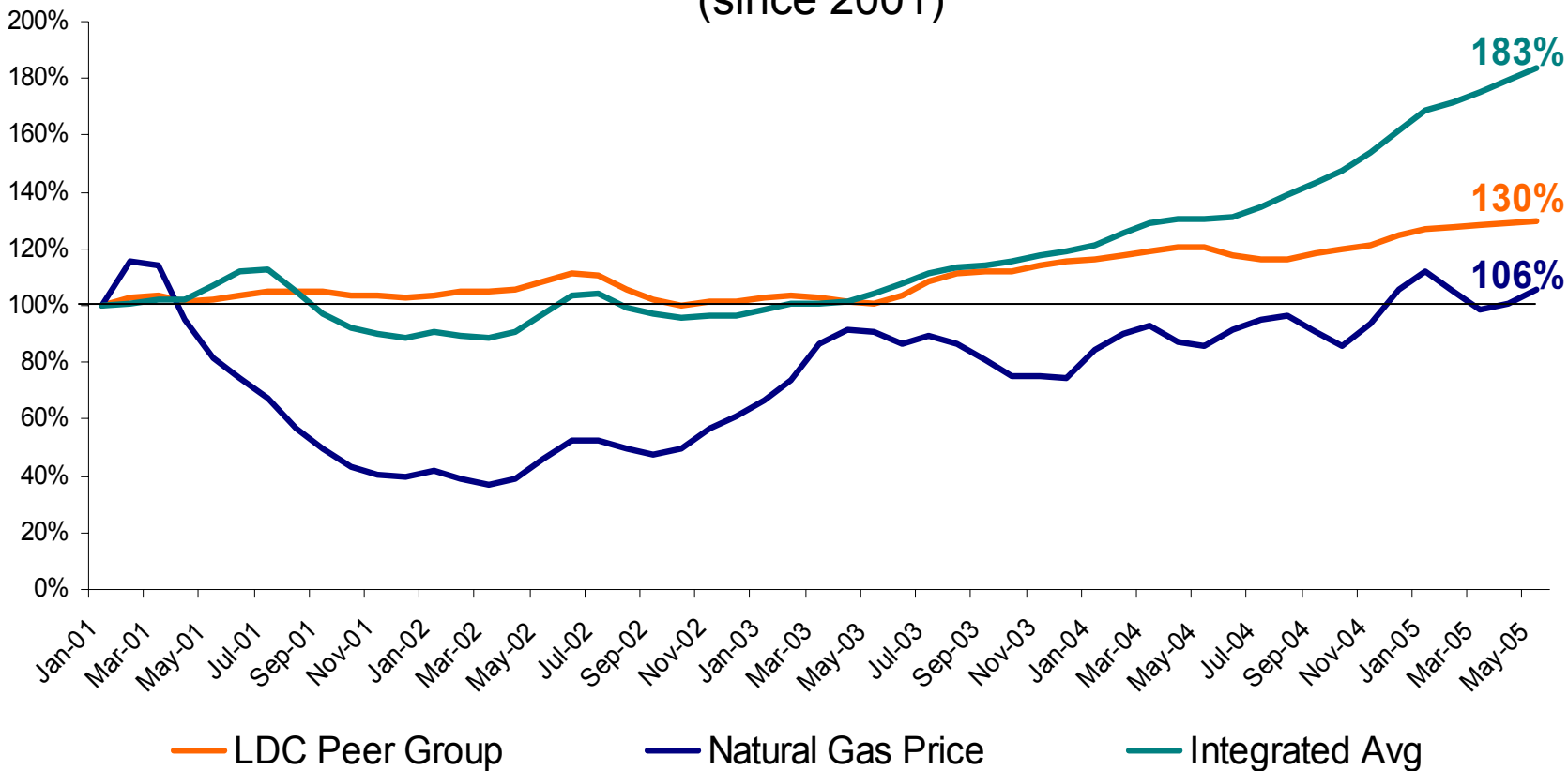
## Gas at the Pump vs. Natural Gas and Oil



# Commodity Volatility

## Do Gas Prices Impact LDC Valuations?

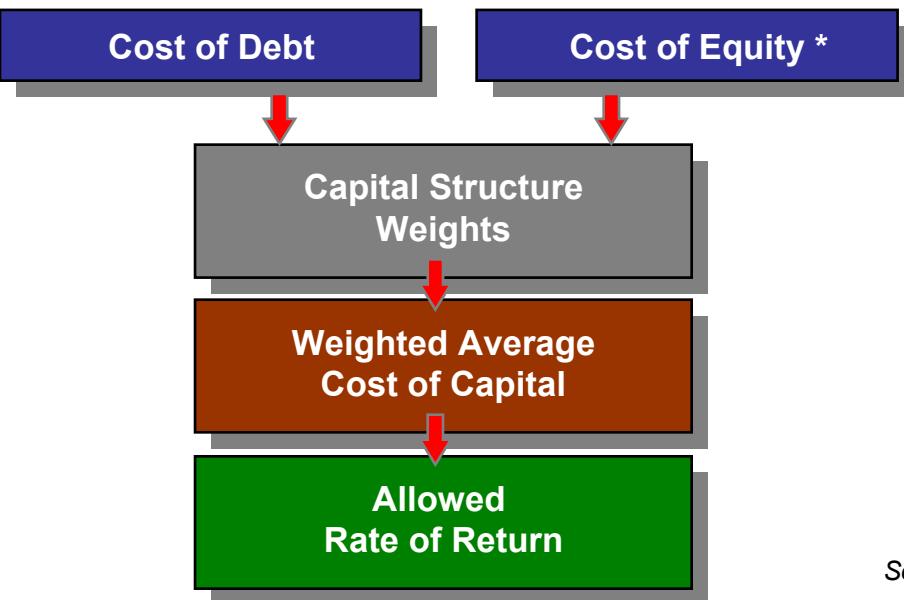
### Natural Gas Companies vs Gas Prices (since 2001)



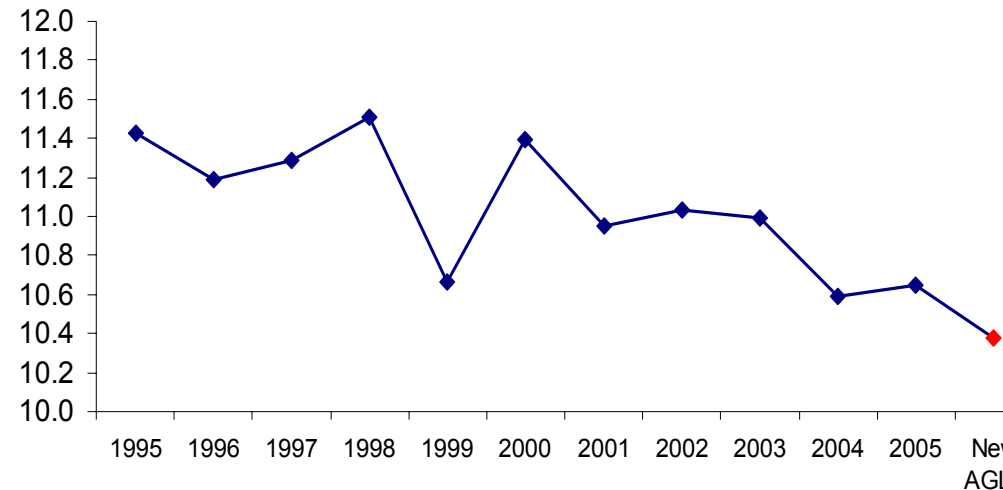
LDCs vs Natural Gas:	Correlation = $-.34$ ; $r^2 = .12$
Integrations vs Natural Gas:	Correlation = $.68$ ; $r^2 = .46$ (significant)

# Government Regulation – Utility Ratemaking

## Rate of Return Determination



## Average ROE Decisions



Source: Regulatory Research Associates

## Example:

### \*Cost of Equity Measurement

3 Principal Methodologies:

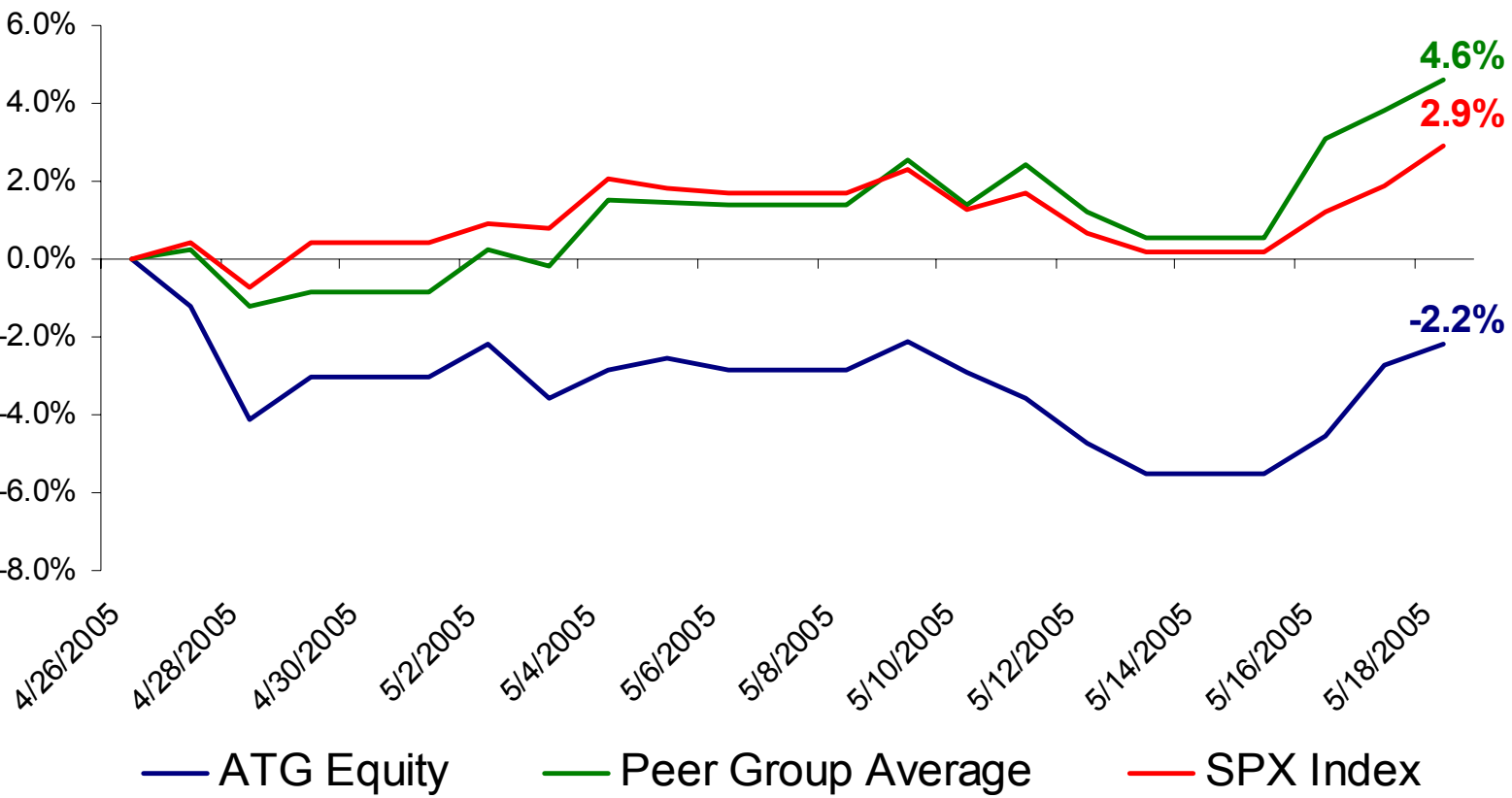
- Capital Asset Pricing Model (“CAPM”)
- Risk Premium
- Discounted Cash Flow (“DCF”)

Type of Capital	Amount	Allowed Return (Cost)	Proportion	Weighted Return (Cost)
Debt	\$521	6.35%	52.1%	3.3%
Equity	\$479	10.375%	47.9%	5.0%
<b>Allowed Return</b>				<b>8.3%</b>

# Government Regulation Matters

Current AGL ROE:	11.0%
Newly Proposed ROE:	10.375%

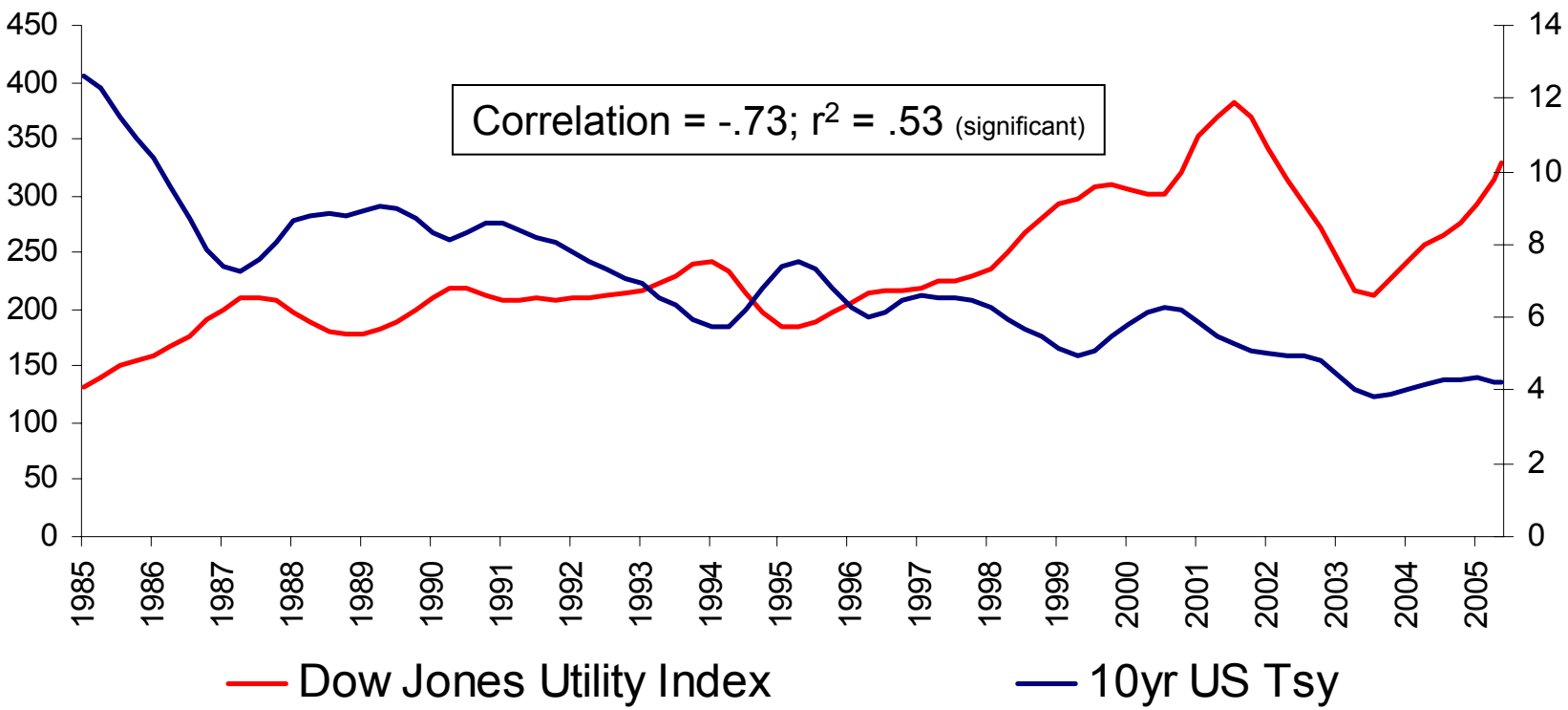
**Stock Price Change since 4/26/05  
(ATG, Peer Group and S&P 500)**



ATG lost **7%** of equity value (or **\$200MM**) relative to the LDC peers since initial rate case decision

# Interest Rates Play an Important Role in Utility Valuations

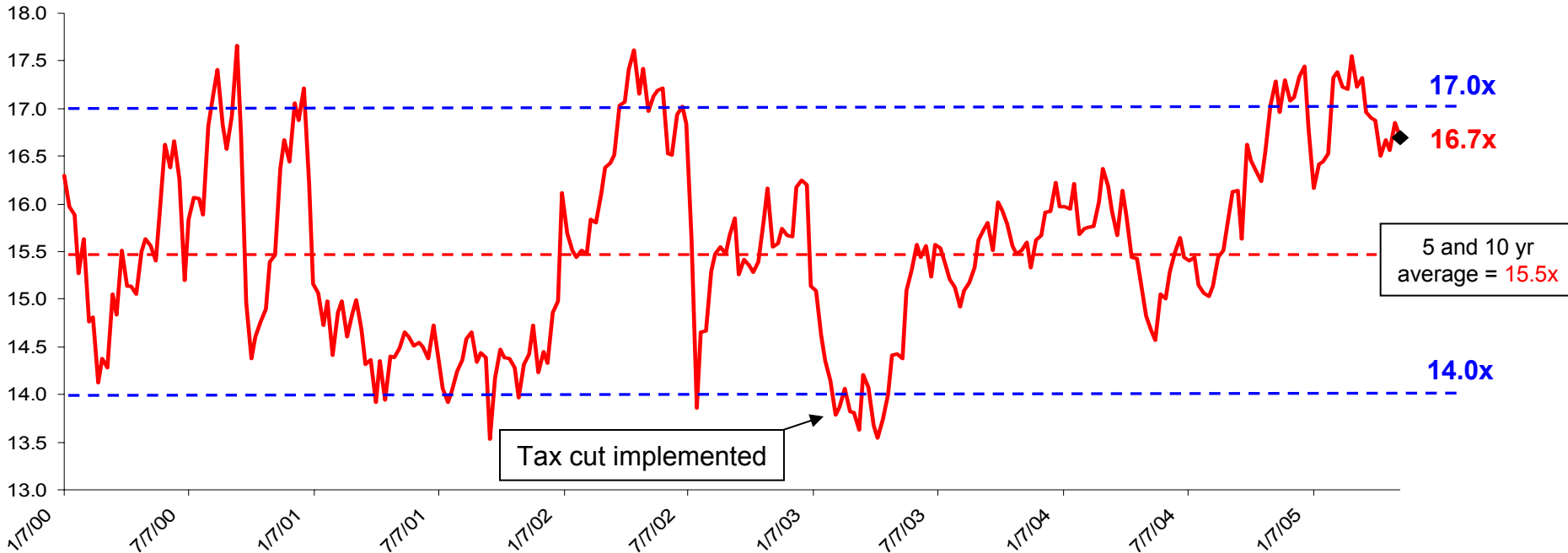
## Utility Index vs. 10yr Treasury Note (20 years)





# Importance of Dividend Tax Cut (cont.)

- LDC Peer Group currently trades at a premium to historical metrics

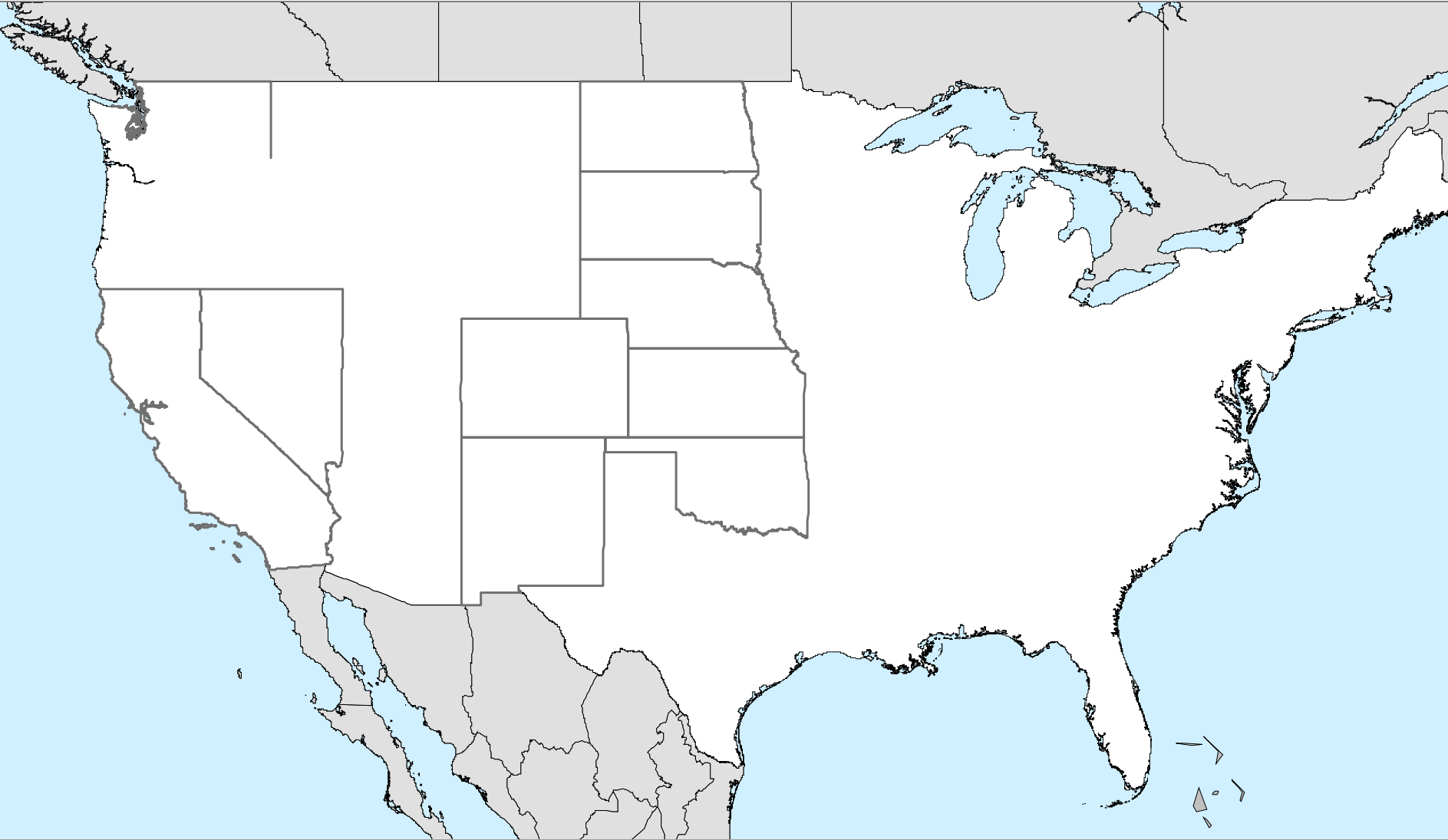


- After-tax Return illustration

30% tax bracket example

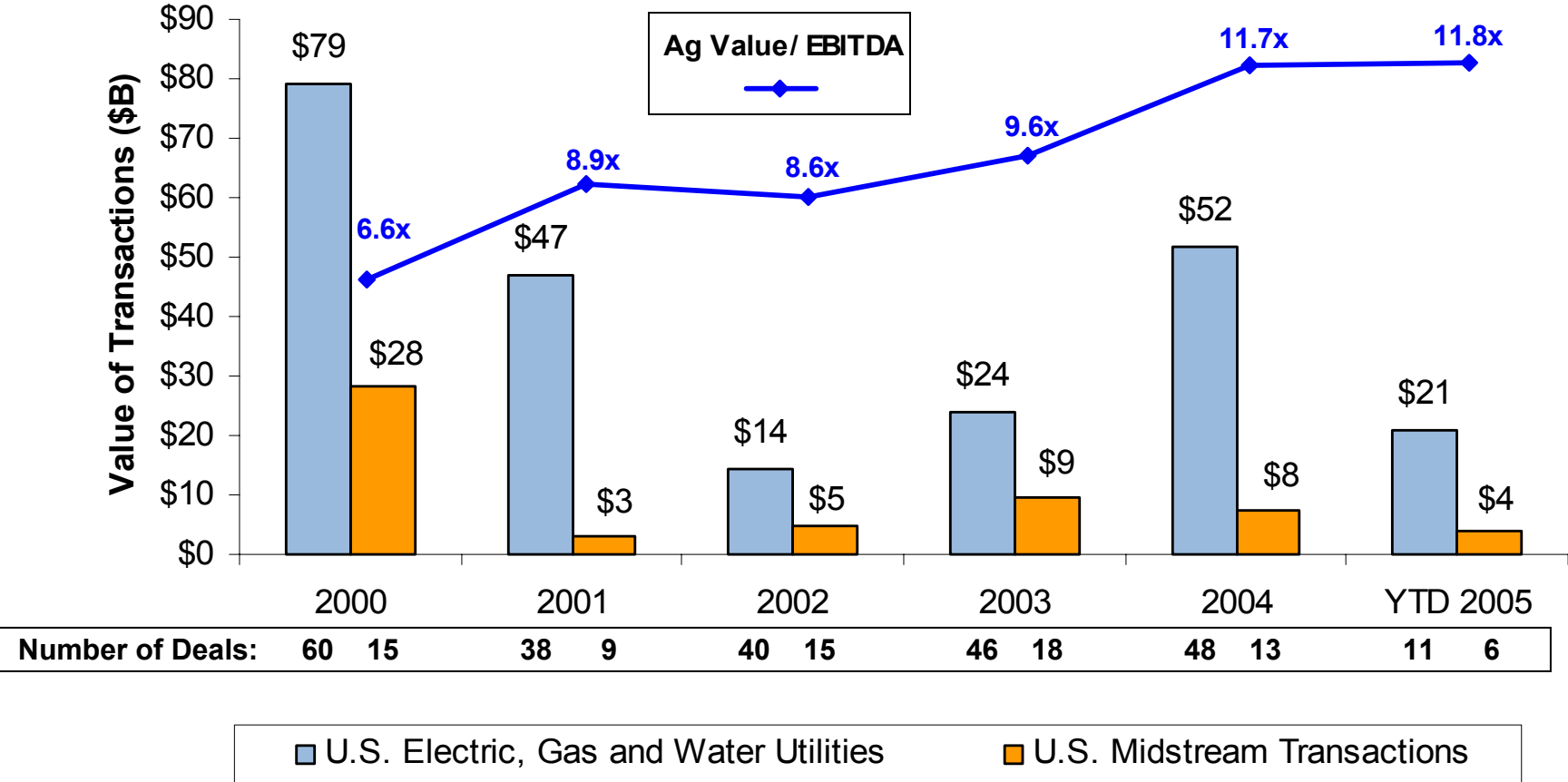
One-year Investment	Price Appreciation	Dividend Yield	Pre-tax Total Return	Pre 2003 tax cut After-tax Total Return*	Post 2003 After-tax Total Return*	Additional Income due to tax cut	Additional Return
\$10,000	7%	4%	11%	\$840	\$935	\$95	1.0%

\* Old Capital Gains Tax Rate was lowered from 20% to 15%; Old Dividend Tax Rate was lowered from 30% to 15%



# Very Few Utility Transactions Compared to the Market Size

## Utility and Midstream Transactions > \$100MM

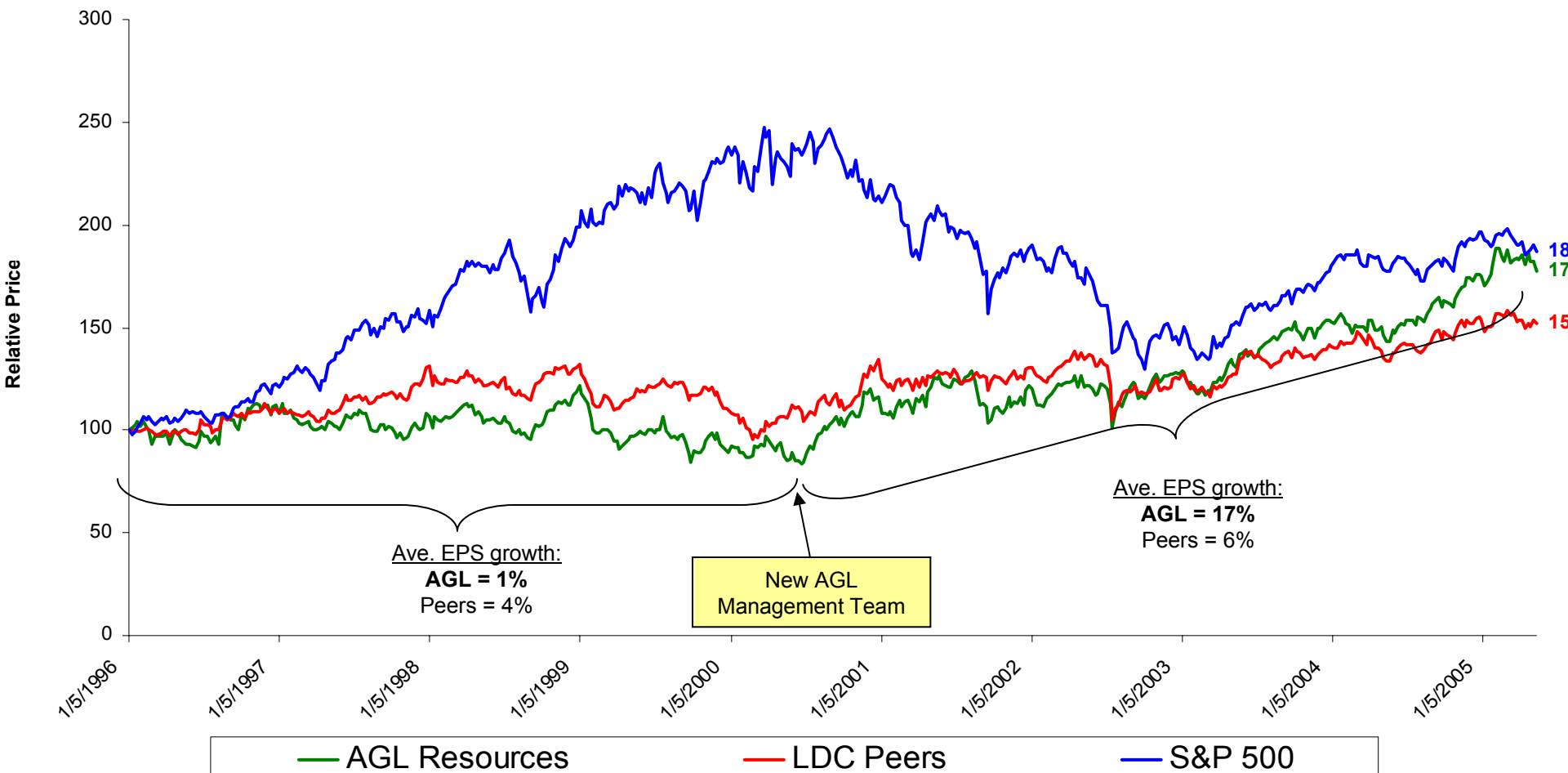


Source: Thompson Financial

# Do Earnings Correlate to Shareholder Value?

- AGL has averaged 9% EPS growth over the last 9 years while our LDC peers have averaged 5%\* growth

**AGL vs LDC Peers and S&P 500**  
(last 10 years)



# How Do We Create Shareholder Value?

## What the Company CAN control:

- Capital structure
  - how much leverage
  - % fixed/floating
- Commodity exposure – Open positions
- Dividend Payout Ratio
- Diversification
- Level of Capital Investment

## What the Company CAN'T control:

- Regulation
- Commodity prices
- Interest rates
- Demand
- Market fluctuations
- Natural Disasters

## AGL's Long-term Value Proposition

