Energy Company Valuations
“It’s all in there!”

Georgia State Economic Forecasting Conference
May 25, 2005
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)

Forecast
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.

Source: National Petroleum Council
Natural Gas Demand

U.S. and Canadian Natural Gas Demand

- 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.

Source: National Petroleum Council
Natural Gas Consumed by Sector

Source: National Petroleum Council
Current Market – Natural Gas Storage Levels

NATURAL GAS STORAGE (TOTAL U.S.)

- 223 Bcf OVER last year at 5/13/2004
- 1,599 Bcf (49%) full at 5/13/2005

Based on EIA Statistics
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.

Source: National Petroleum Council
Natural Gas Price Environment

Source: EIA
Natural Gas Use Per Residential Customer

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

Graph showing the volatility of Crude Oil, Automotive Gasoline, and Natural Gas from 1991 to 2005. The graph highlights significant spikes in 2001 and 2003, peaking at 439% for Natural Gas, 219% for Automotive Gasoline, and 185% for Crude Oil.
Commodity Volatility
Do Gas Prices Impact LDC Valuations?

Natural Gas Companies vs Gas Prices
(since 2001)

LDCs vs Natural Gas: Correlation = -.34; r² = .12
Integrateds vs Natural Gas: Correlation = .68; r² = .46 (significant)
**Government Regulation – Utility Ratemaking**

Rate of Return Determination

- **Cost of Debt**
- **Cost of Equity ***
- **Capital Structure Weights**
- **Weighted Average Cost of Capital**
- **Allowed Rate of Return**

*Cost of Equity Measurement*

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

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Example:

<table>
<thead>
<tr>
<th>Type of Capital</th>
<th>Amount</th>
<th>Allowed Return (Cost)</th>
<th>Proportion</th>
<th>Weighted Return (Cost)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>$521</td>
<td>6.35%</td>
<td>52.1%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Equity</td>
<td>$479</td>
<td>10.375%</td>
<td>47.9%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Allowed Return</td>
<td></td>
<td></td>
<td></td>
<td>8.3%</td>
</tr>
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</table>
Government Regulation Matters

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

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

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)

Correlation = -.73; $r^2 = .53$ (significant)
Importance of Dividend Tax Cut (cont.)

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

- After-tax Return illustration

<table>
<thead>
<tr>
<th>One-year Investment</th>
<th>Price Appreciation</th>
<th>Dividend Yield</th>
<th>Pre-tax Total Return</th>
<th>Pre 2003 tax cut After-tax Total Return*</th>
<th>Post 2003 After-tax Total Return*</th>
<th>Additional Income due to tax cut</th>
<th>Additional Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000</td>
<td>7%</td>
<td>4%</td>
<td>11%</td>
<td>$840</td>
<td>$935</td>
<td>$95</td>
<td>1.0%</td>
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</table>

* 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

Value of Transactions ($B)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value of Transactions</th>
<th>Ag Value/ EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$79</td>
<td>6.6x</td>
</tr>
<tr>
<td>2001</td>
<td>$47</td>
<td>8.9x</td>
</tr>
<tr>
<td>2002</td>
<td>$14</td>
<td>8.6x</td>
</tr>
<tr>
<td>2003</td>
<td>$24</td>
<td>9.6x</td>
</tr>
<tr>
<td>2004</td>
<td>$52</td>
<td>11.7x</td>
</tr>
<tr>
<td>YTD 2005</td>
<td>$21</td>
<td>11.8x</td>
</tr>
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Number of Deals:

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>YTD 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deals</td>
<td>60</td>
<td>15</td>
<td>38</td>
<td>9</td>
<td>40</td>
<td>11</td>
</tr>
</tbody>
</table>

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

Ave. EPS growth:
- AGL = 1%
- Peers = 4%

New AGL Management Team

* Excludes outlying events
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

- 4-6% Year-to-Year earnings per share growth
- 4-6% Competitive dividend yield