



Financial Market Issues and the Impact on Utilities' Cost of Capital

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NARUC Committee on Gas
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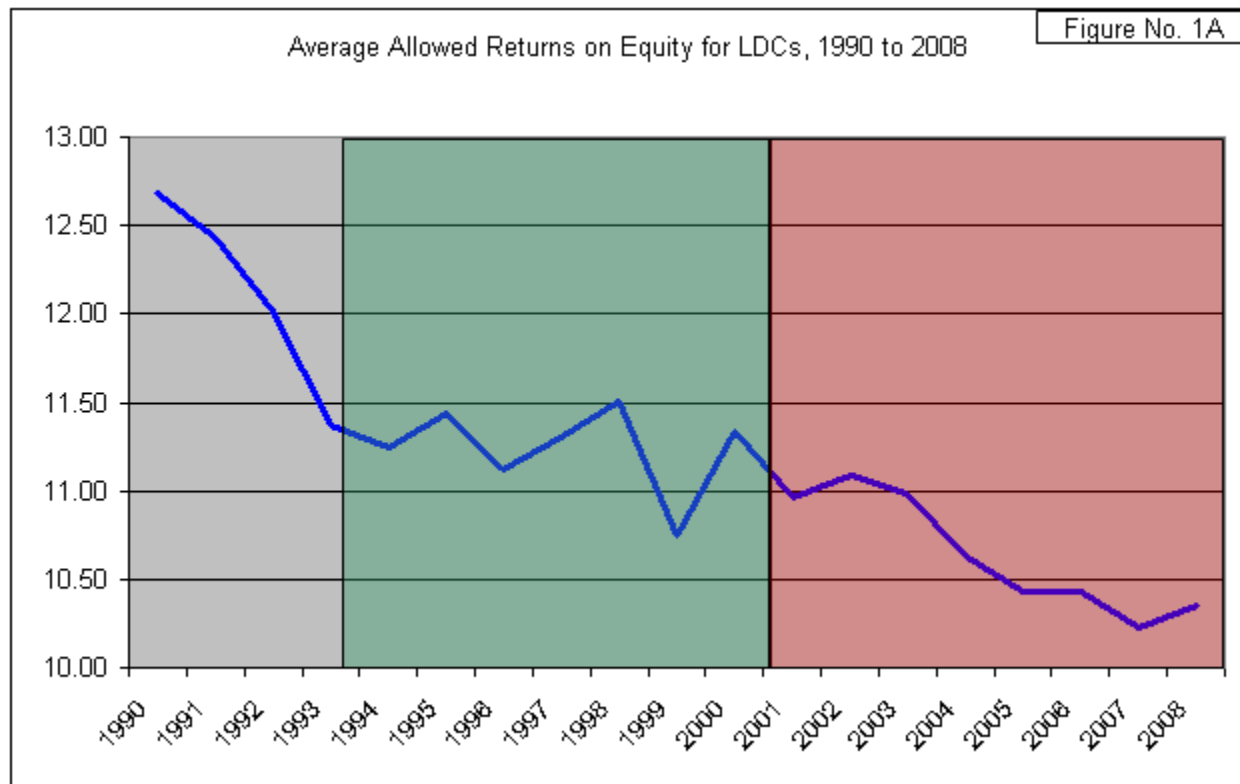
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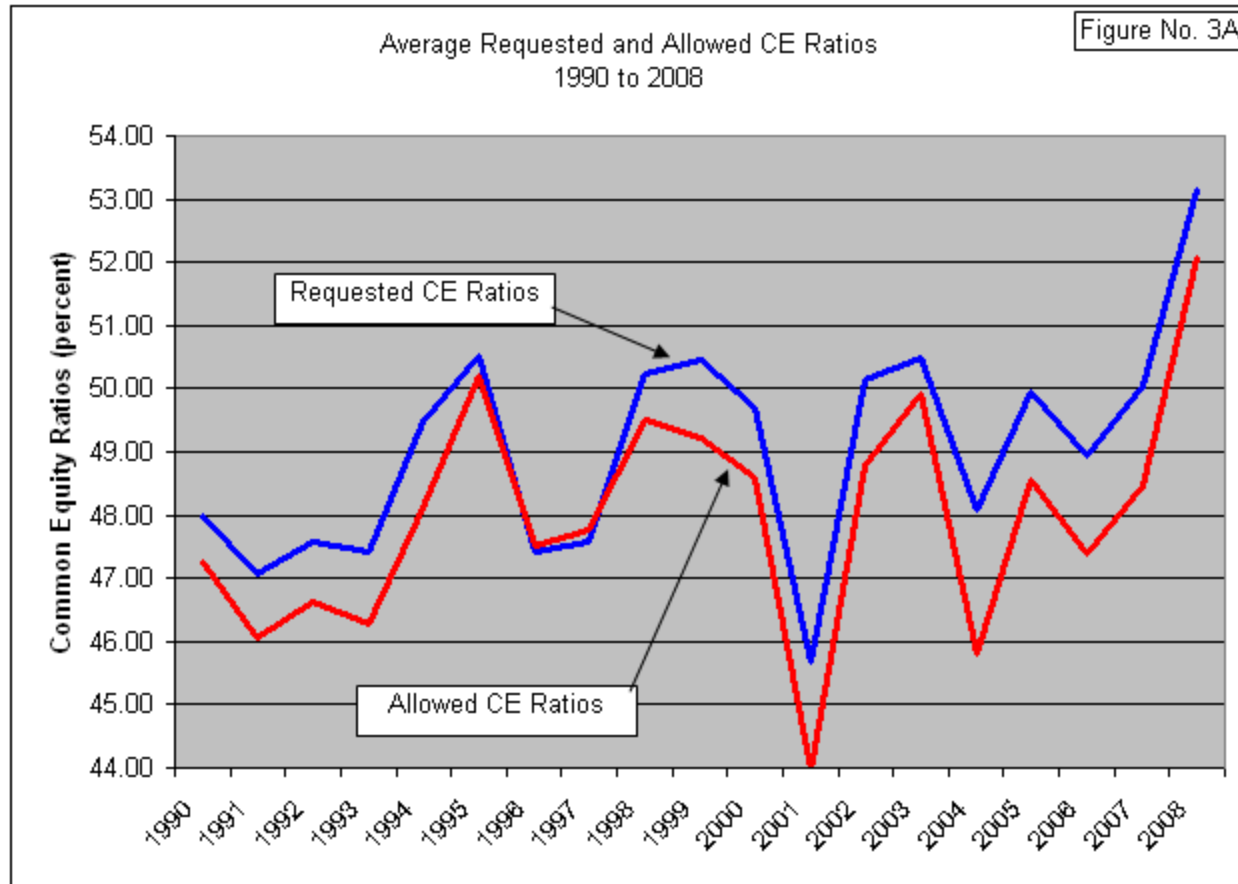
Regulatory Policy of Return on Equity
Review and Analysis of the Natural Gas Utility Sector

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What Happens in Tight Capital Markets?

- Discretionary investment declines
 - Infrastructure replacement
 - Service extensions
 - Operational enhancements, like storage and technological innovation

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The Changing Nature of Business Risk Facing Utilities

- Unfunded government mandates
- Increases in construction costs
- Gas price volatility
- Regulatory disallowances
- Asymmetric regulation of uncollected gas costs
- Bypass

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Each ROE Methodology Raises Concerns

- Discounted Cash Flow
- Equity risk premium
- Capital Asset Pricing Model



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