



## Regulatory Issues Overview

# RRA Presentation to NARUC's Gas Committee

July 13, 2015

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President

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# Who is RRA and what do we do?

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- ❖ Established in 1982
- ❖ Dedicated team of professionals each with up to 35 years of experience in the industry
- ❖ Identify financial trends shaping the industry
- ❖ Independent research and analysis -- allowing clients to make better investment decisions
- ❖ Two-Tiered Approach—
  - RRA Regulatory Focus
  - RRA Financial Focus
- ❖ Principles -- Timeliness, Accuracy, Comprehensiveness
- ❖ Visit us at  
<http://www.snl.com/interactivex/RRARHome.aspx>



# Regulatory Trends for 2015 and beyond

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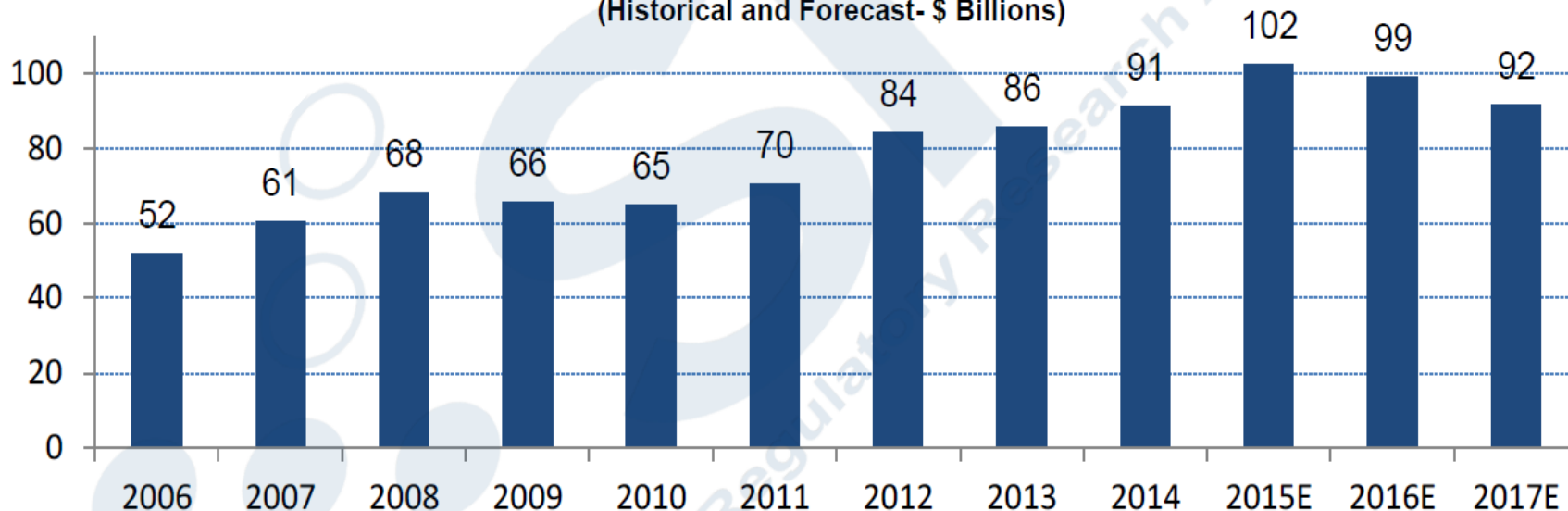
- ❖ **Capital Expenditures** – Focused on infrastructure
- ❖ **Rate Cases** – High level of activity
- ❖ **Earning the Authorized ROE** – Regulatory lag?
- ❖ **Riders** -- Scope and complexity continues to expand
- ❖ **Alternative Regulation** -- Streamline the regulatory process
- ❖ **Rate design** – Inter-/Intra-class rate subsidies--SFV
- ❖ **Settlements** -- To address complex/controversial issues
- ❖ **Mergers** -- Drivers changing
- ❖ **Effects of Shale Gas** -- Resource mix, new technology
- ❖ **Cyber Security** -- How to address?



# Capital Expenditure Trends

**Graph 1**

**Total Capital Expenditures for 45- Company Universe  
(Historical and Forecast- \$ Billions)**



Source: RRA / SNL Energy



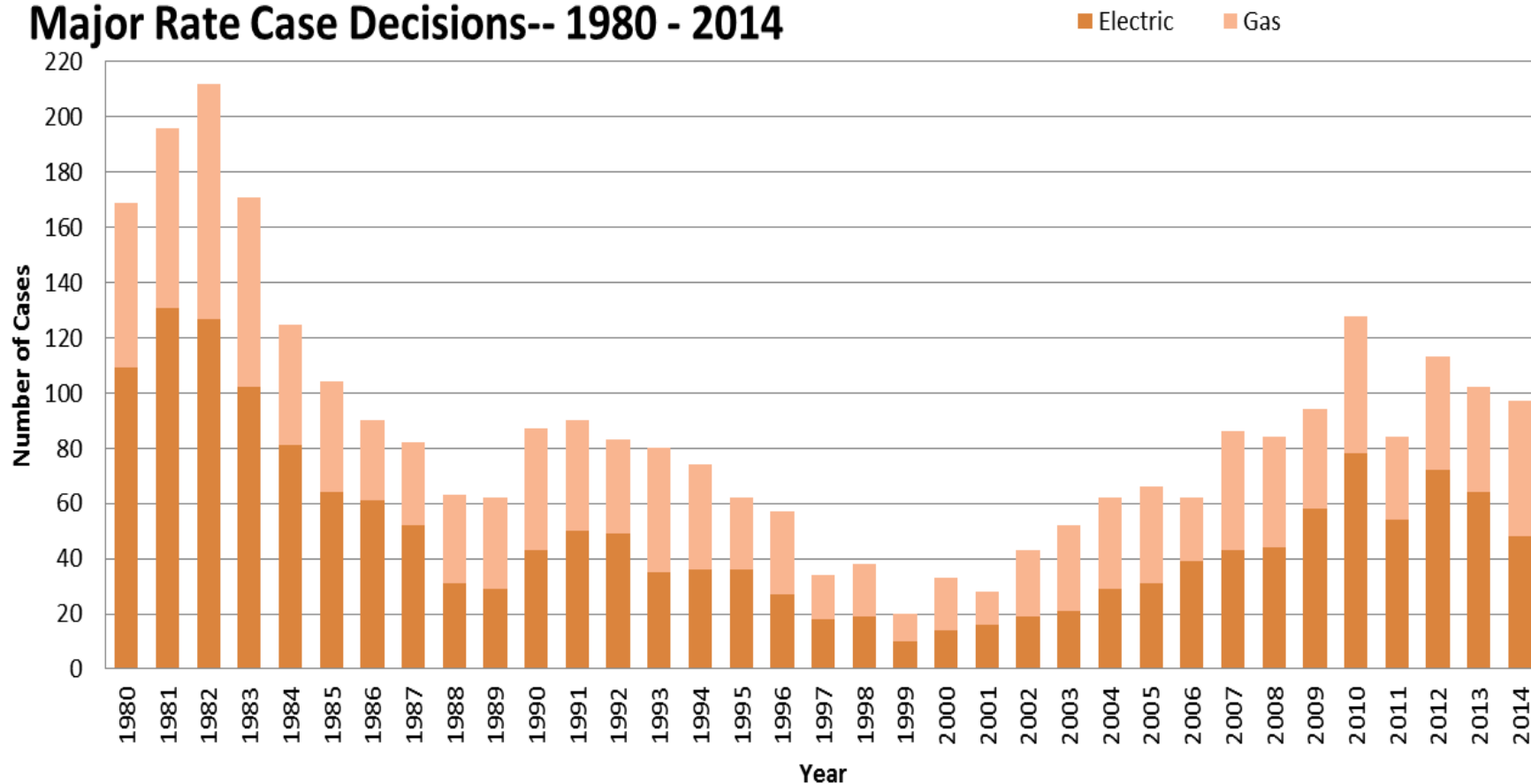
# Capital Expenditures—Gas Utilities

Total Capital Expenditures for Gas Utility Holding Companies												
Company	Actual									Estimated		
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
AGL RESOURCES	253	259	372	476	510	427	775	731	769	1,070	1,210	1,160
ATMOS ENERGY CORP.	425	392	472	509	543	623	733	845	835	950	1,000	1,050
CENTERPOINT ENERGY	1,007	1,114	1,020	1,160	1,509	1,303	1,212	1,286	1,372	1,472	1,418	1,424
INTEGRYS ENERGY	342	393	533	444	259	310	594	669	865	983	978	1,052
NISOURCE	627	787	1,300	777	801	1,123	1,499	1,880	2,029	2,342	2,462	2,847
ONE Gas	NA	NA	NA	NA	NA	NA	272	292	297	300	306	312
PIEDMONT NATURAL GAS CO.	204	135	181	129	199	244	530	600	460	585	680	625
SCANA CORP.	527	725	904	914	876	884	1,077	1,106	1,092	1,645	1,707	1,426
SEMPRA ENERGY	1,907	2,011	2,061	1,912	2,062	2,844	2,956	2,572	3,123	4,120	4,430	3,505
SOUTHWEST GAS	345	341	300	217	215	381	396	364	397	445	428	428
QUESTAR CORP.	916	1,398	322	300	320	368	371	399	319	370	385	400
VECTREN CORP.	281	335	391	432	277	321	366	393	448	405	395	360
WGL HOLDINGS	160	165	135	139	130	202	251	312	395	593	582	810
<b>Total (\$ Millions)</b>	6,995	8,054	7,991	7,410	7,702	9,029	11,031	11,451	12,401	15,280	15,980	15,399



# Rate Case Trends

## Major Rate Case Decisions-- 1980 - 2014



Source: Regulatory Research Associates  
As of Dec. 31, 2014



# Drivers of Cap Ex/Rate Case Activity

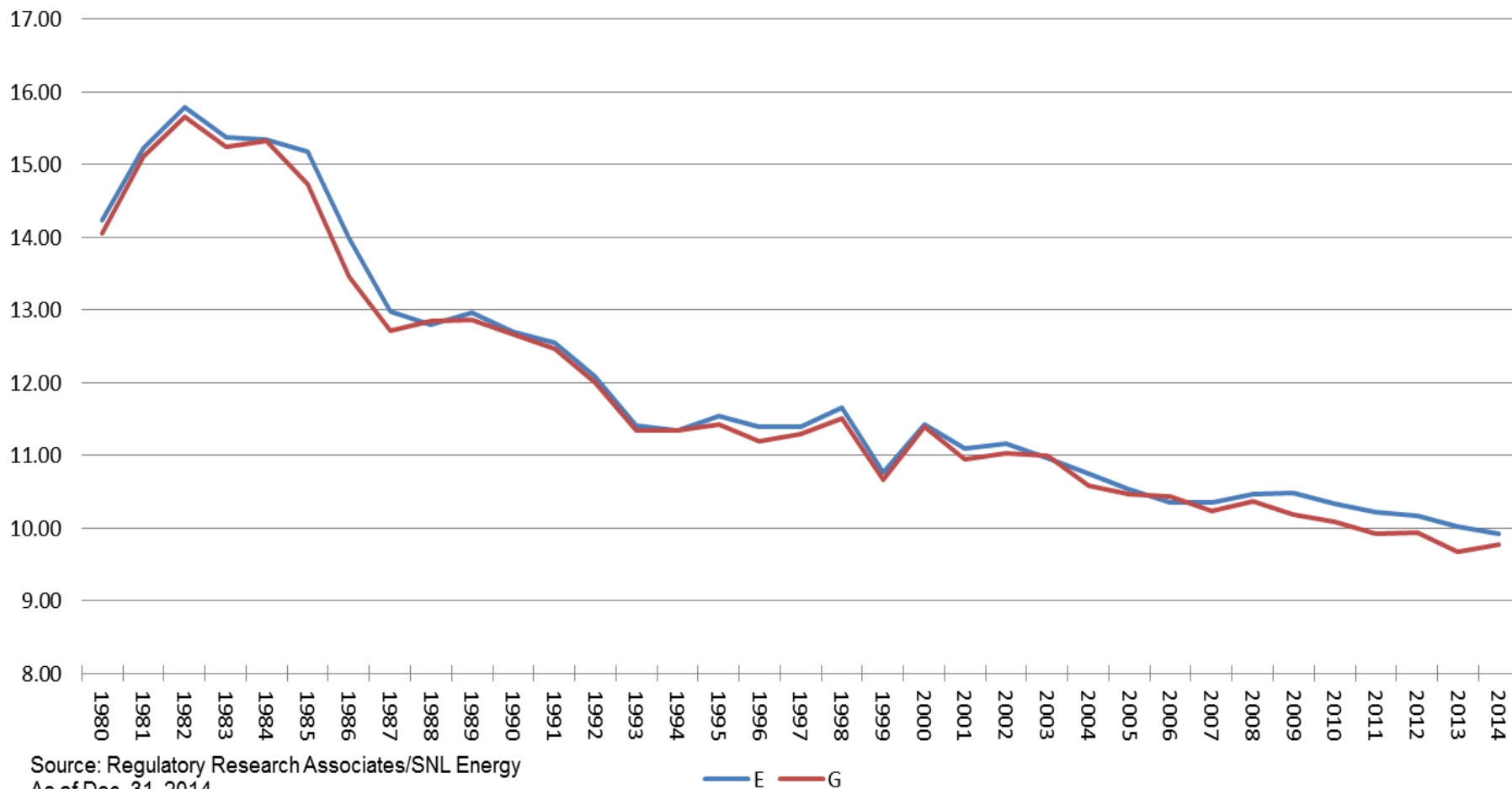
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- ❖ Remediating aging infrastructure
- ❖ Storm restoration costs
- ❖ Reliability- system hardening
- ❖ DSM/Energy conservation program mandates
- ❖ Environmental compliance
- ❖ Need for new generation
- ❖ Renewable Resource Requirements
- ❖ Transmission expansion
- ❖ -----
- ❖ Rising employee costs—pension and healthcare
- ❖ Weakness in (or lack of) sales growth



# Authorized Return on Equity

Average Authorized ROEs in the U.S.- 1980 - 2014

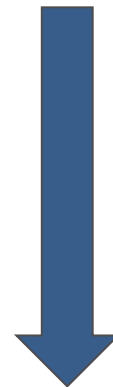






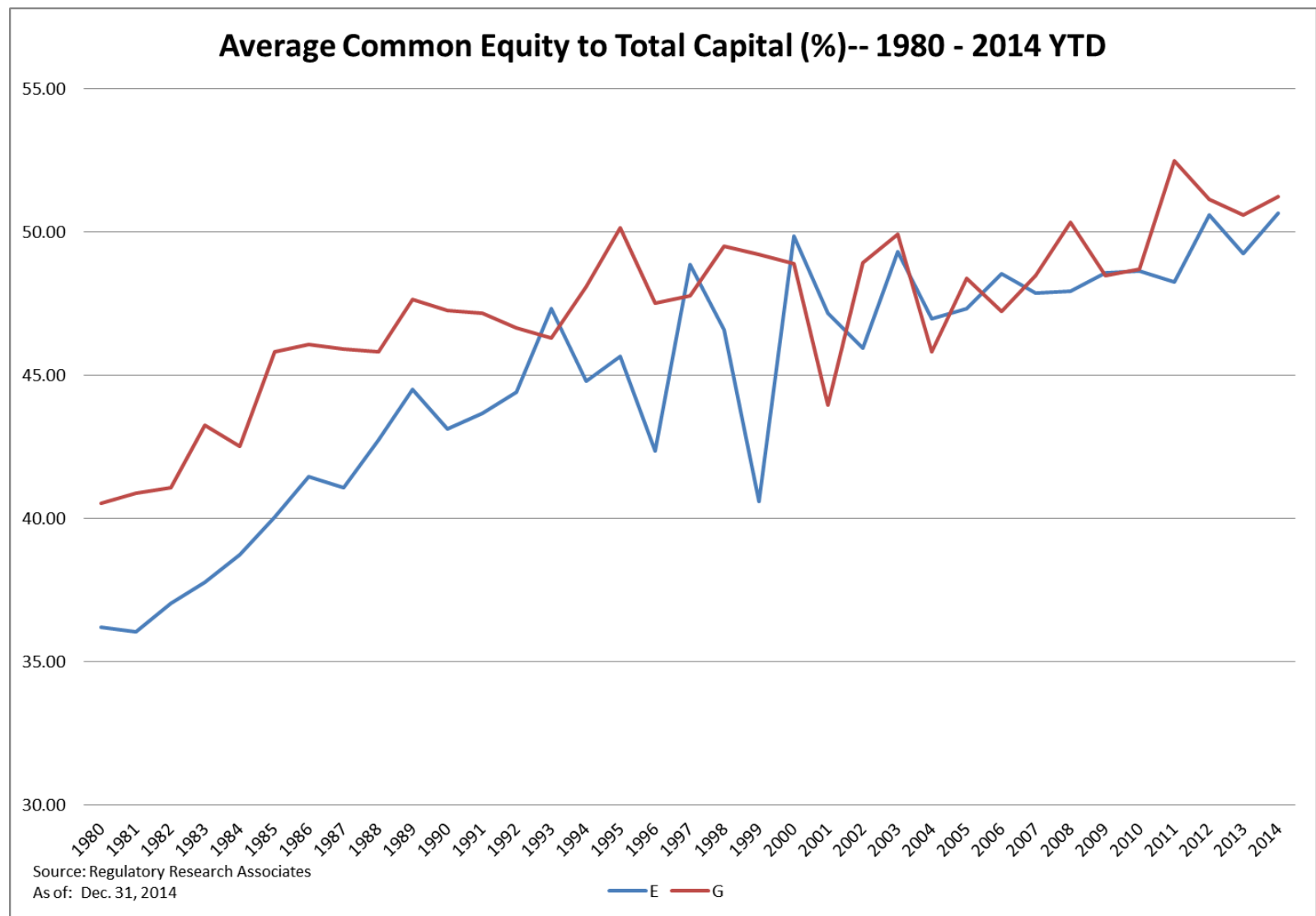
# Drivers of Authorized ROE

- ❖ Interest rates – near historical lows
- ❖ Impact/timing of quantitative easing??
- ❖ Economic hardship for customers
- ❖ “Risk-reducing” mechanisms
- ❖ Economic uncertainty for utilities
- ❖ Utility liquidity/Financial health
- ❖ Incentive ROE premiums

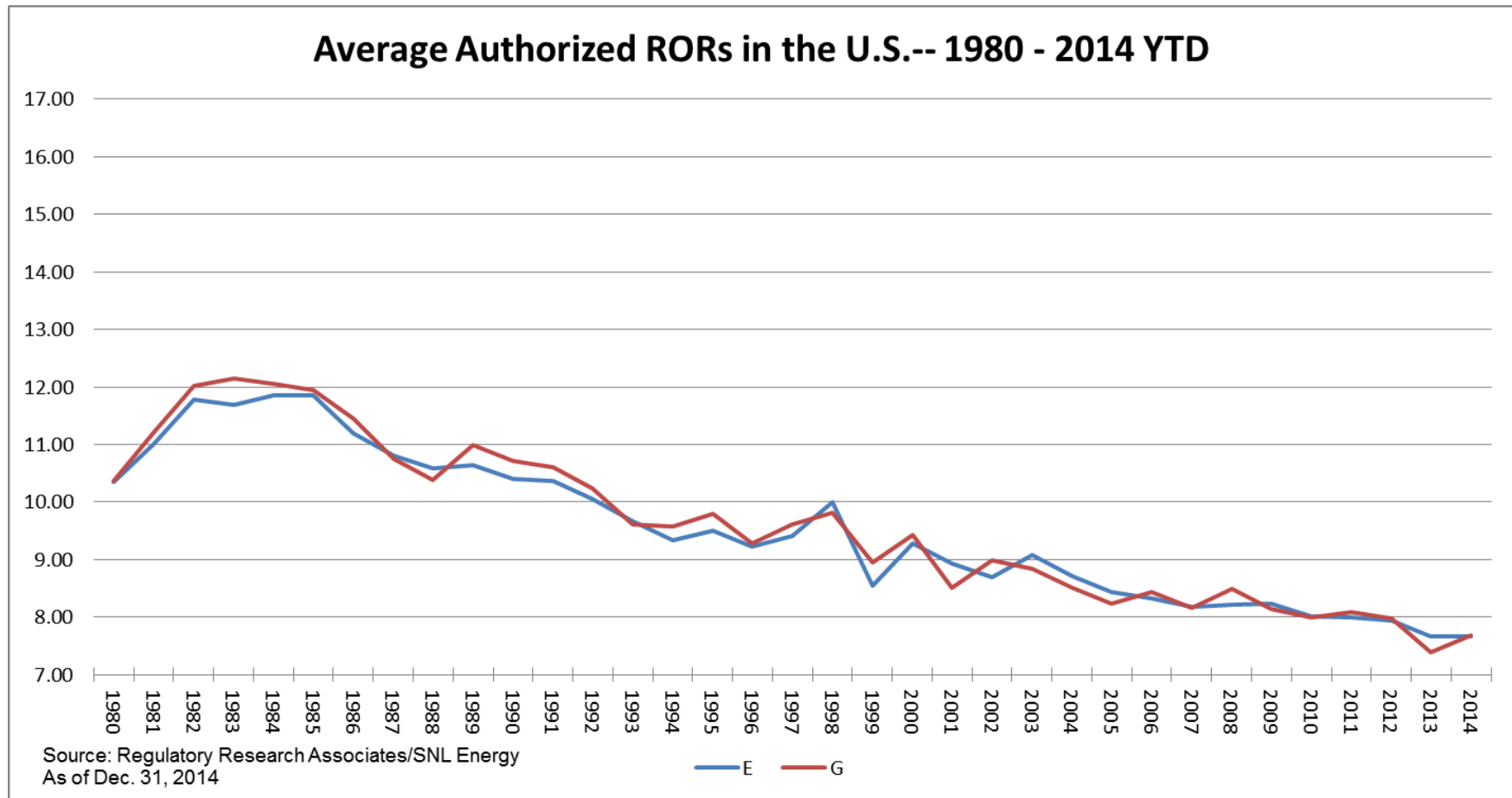




# Authorized Capital Structures



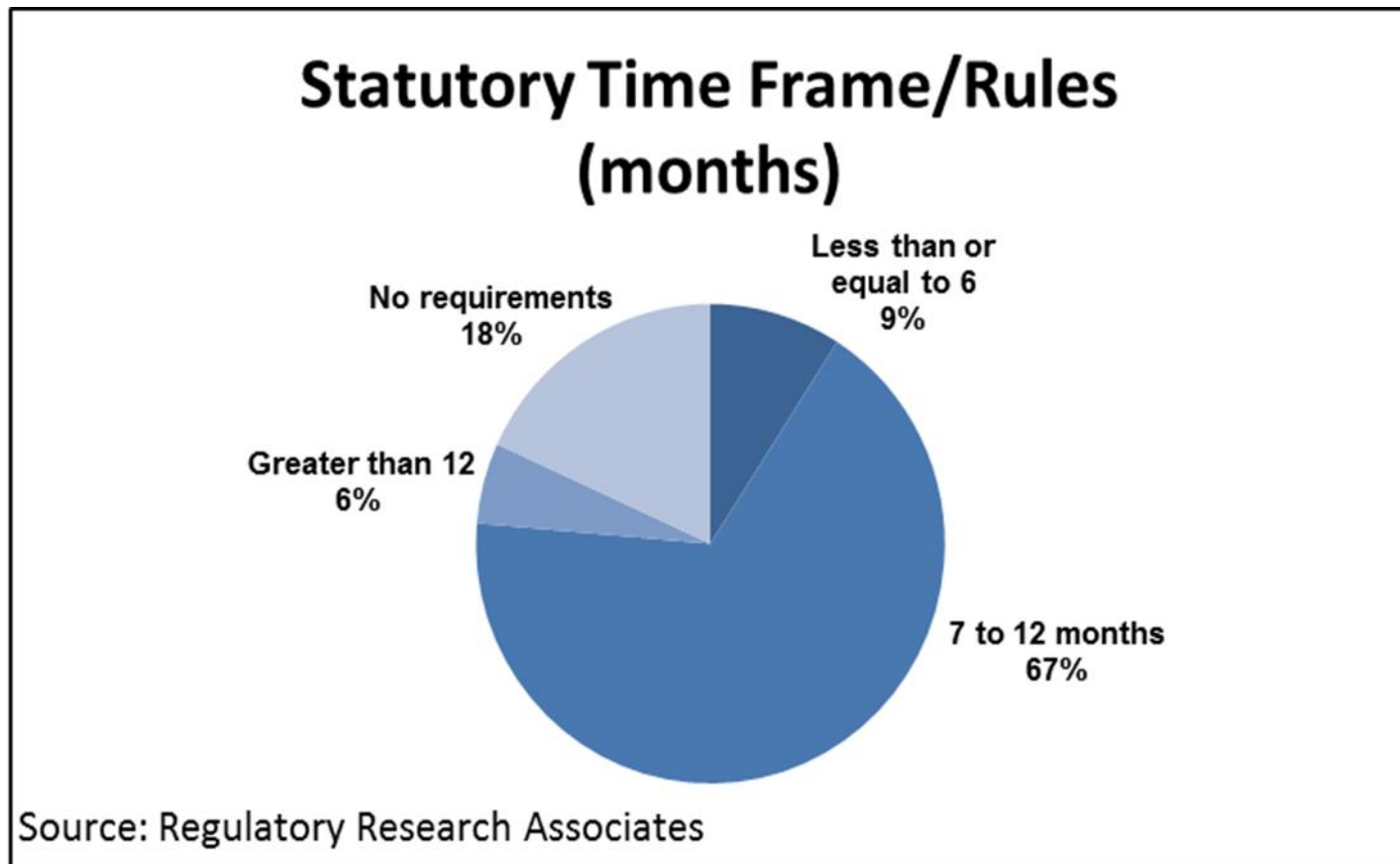
# Weighted Average Cost of Capital





# Earning the Authorized ROE—Regulatory Lag

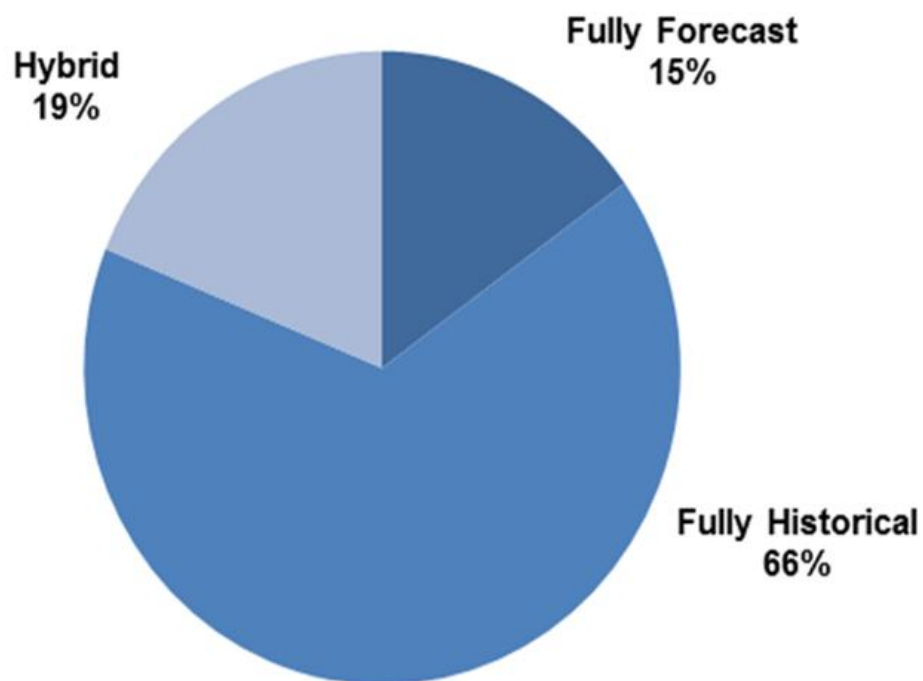
*More to it than the length of time to complete a rate case...*





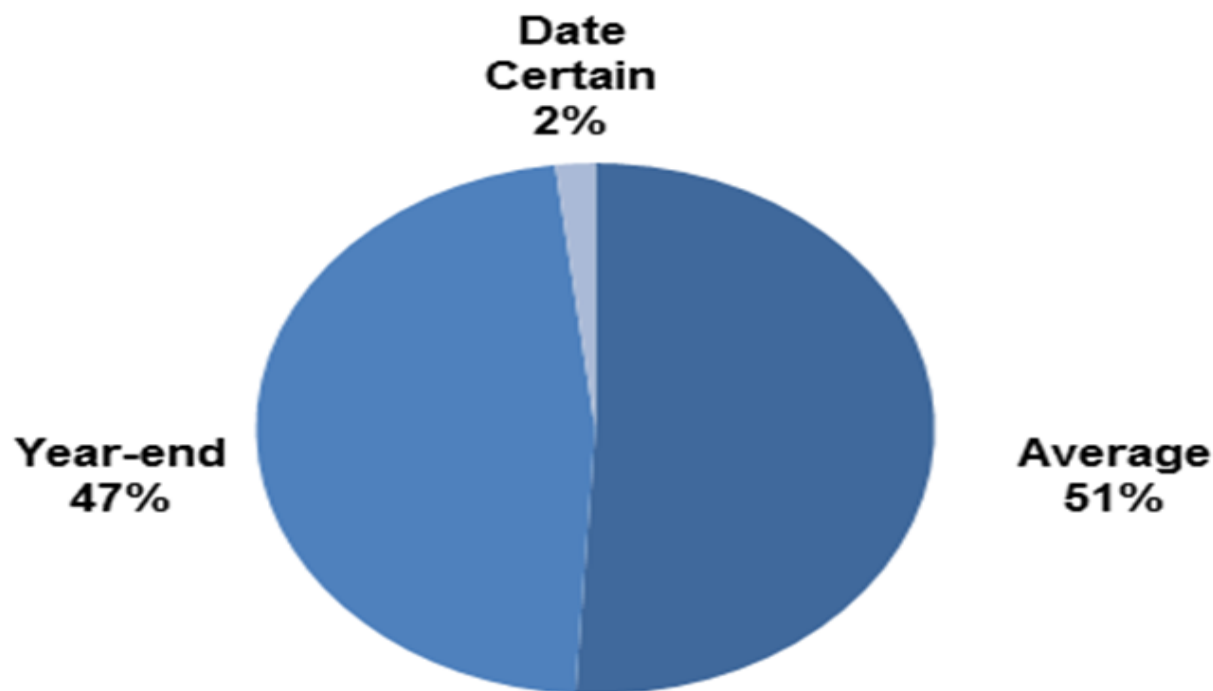
# Test Year

## Test Year (at filing)



Source: Regulatory Research Associates

# Rate Base Valuation Methodology



Source: Regulatory Research Associates



# Mitigation Approaches

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- ❖ CWIP in rate base vs. AFUDC
- ❖ Fully forecast vs. historical test years
- ❖ Post-test-year adjustments
- ❖ Interim rate increases
- ❖ Rider Mechanisms
- ❖ Alternative regulation plans
- ❖ Use of Settlements



# Rider Mechanisms

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## What are they being used for?

- ❖ Gas Commodity
- ❖ New capital investment
- ❖ Revenue Decoupling
- ❖ Conservation/DSM program costs
- ❖ Environmental compliance
- ❖ Extraordinary storm restoration costs
- ❖ Uncollectibles





# Alternative Regulation Plans

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- ❖ Formula-based rates and/or ROE
- ❖ Rate base additions
- ❖ Earnings sharing
- ❖ DSM/energy efficiency
- ❖ Fuel/gas procurement
- ❖ Service quality/management performance
- ❖ Merger savings sharing
- ❖ Capacity release/off-system sales
- ❖ Plant performance
- ❖ Renewables
- ❖ Emissions
- ❖ Energy trading



 QUESTIONS?



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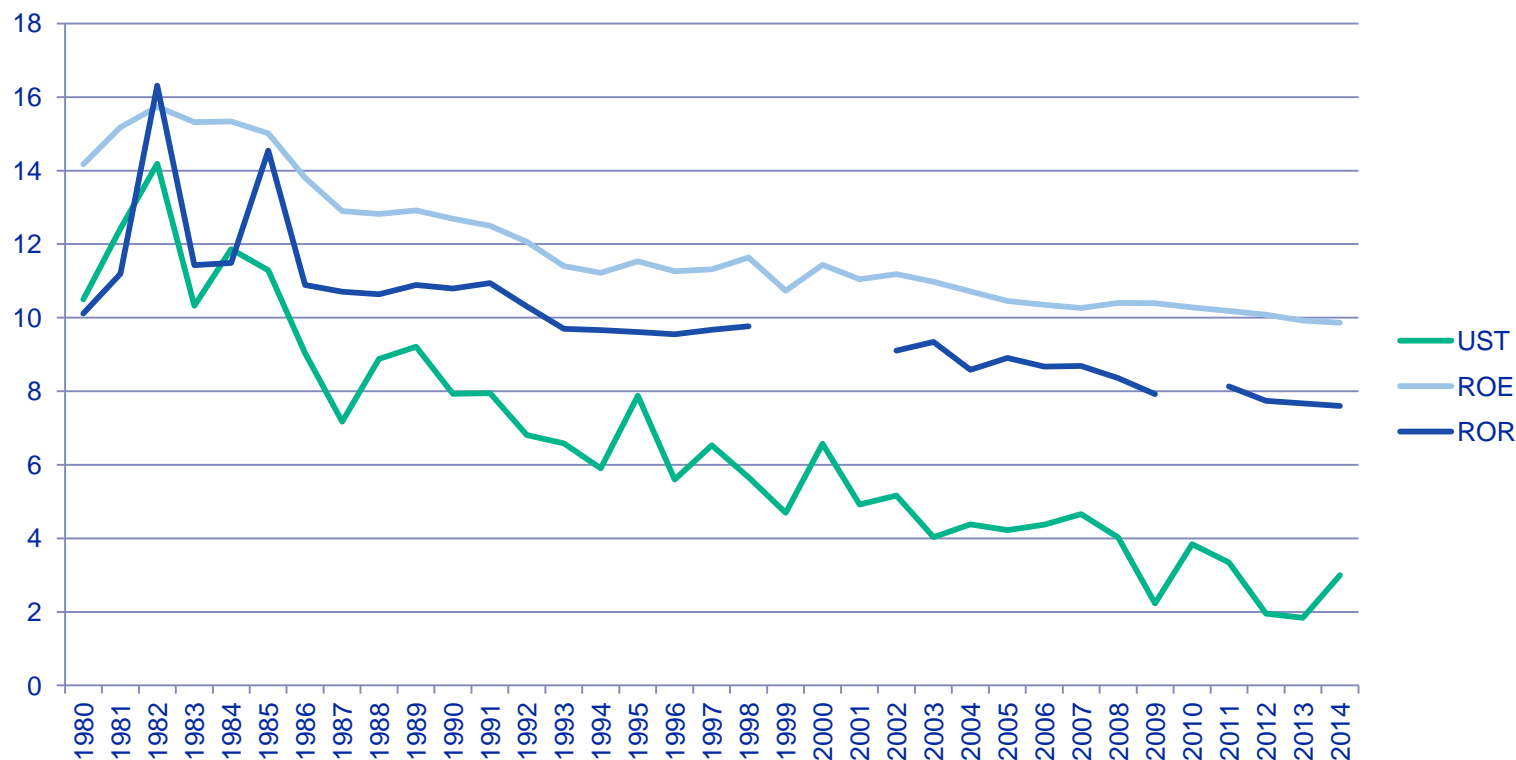




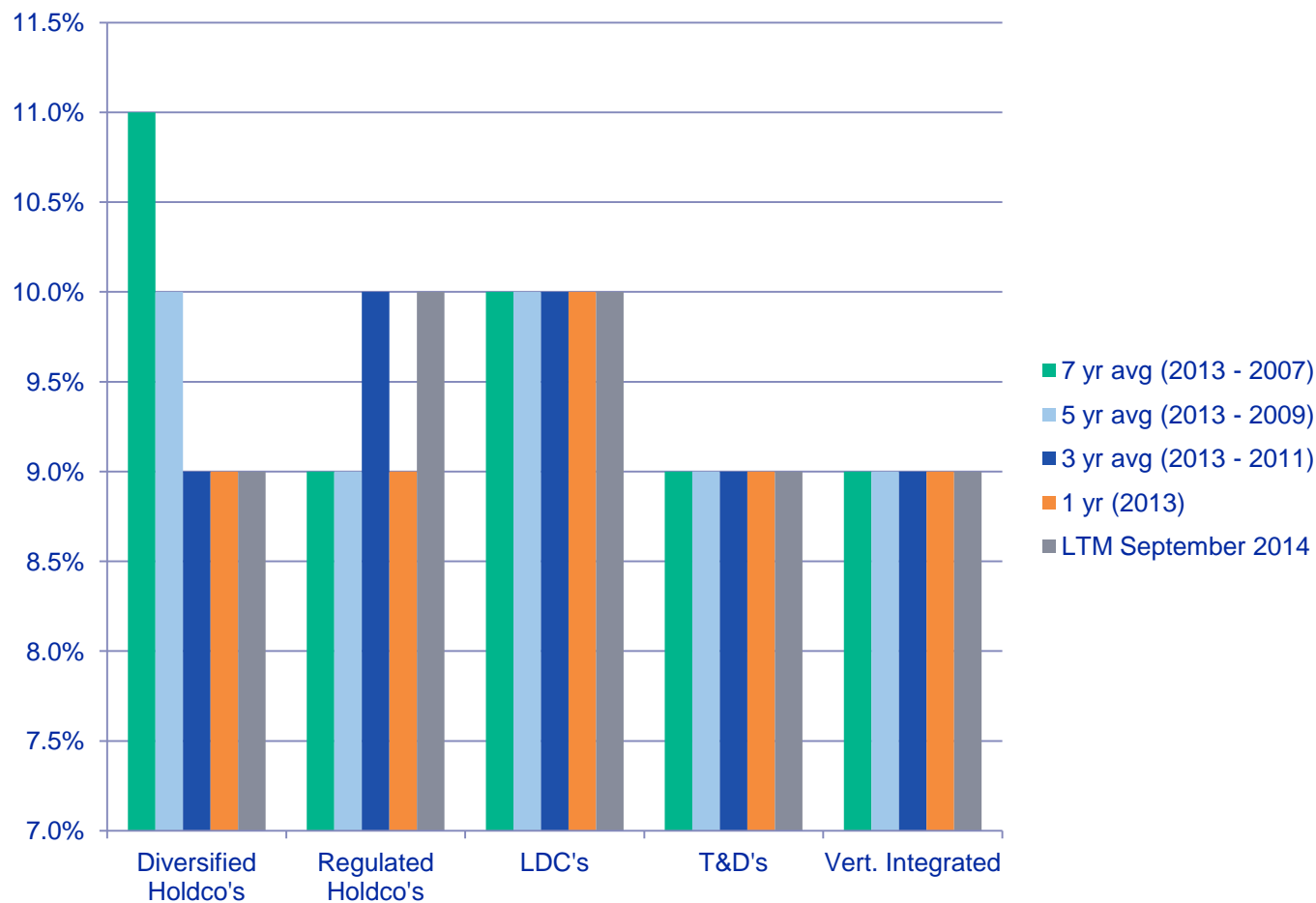
# **NARUC 2015 Summer Committee Meetings**

Committee on Gas ROE / Wall Street investment

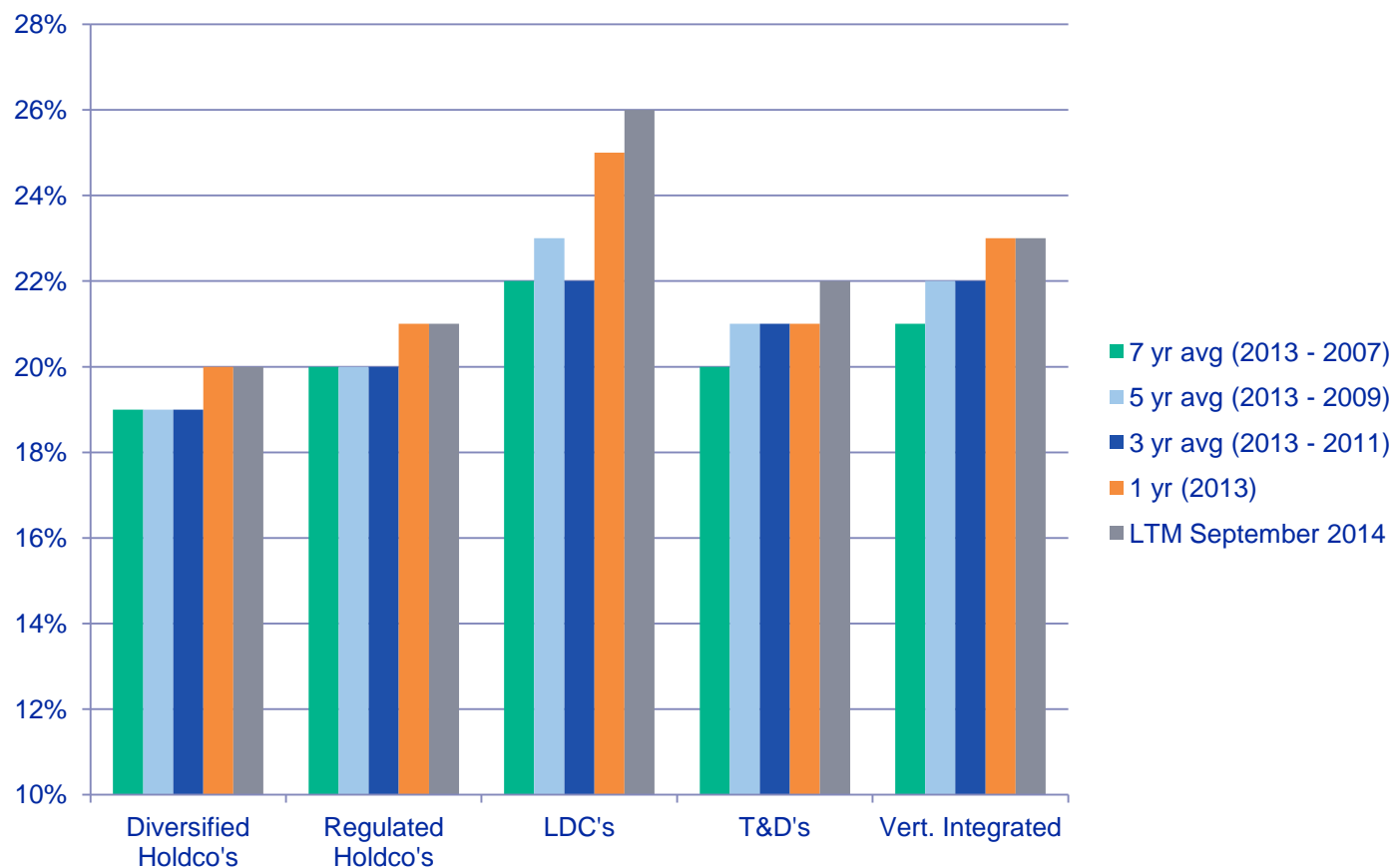
# Regulators hold up their end of bargain by limiting reduction in ROE and ROR when compared to decline in 10yr UST



# GAAP adjusted earned ROE's are flat, and low risk LDC's outperform



# FFO to debt is rising, but should reverse over time due to bonus depreciation / deferred taxes



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