# Federal Energy Regulatory Commission

Technical Conference on Public Utility Holding Company Act of 2005

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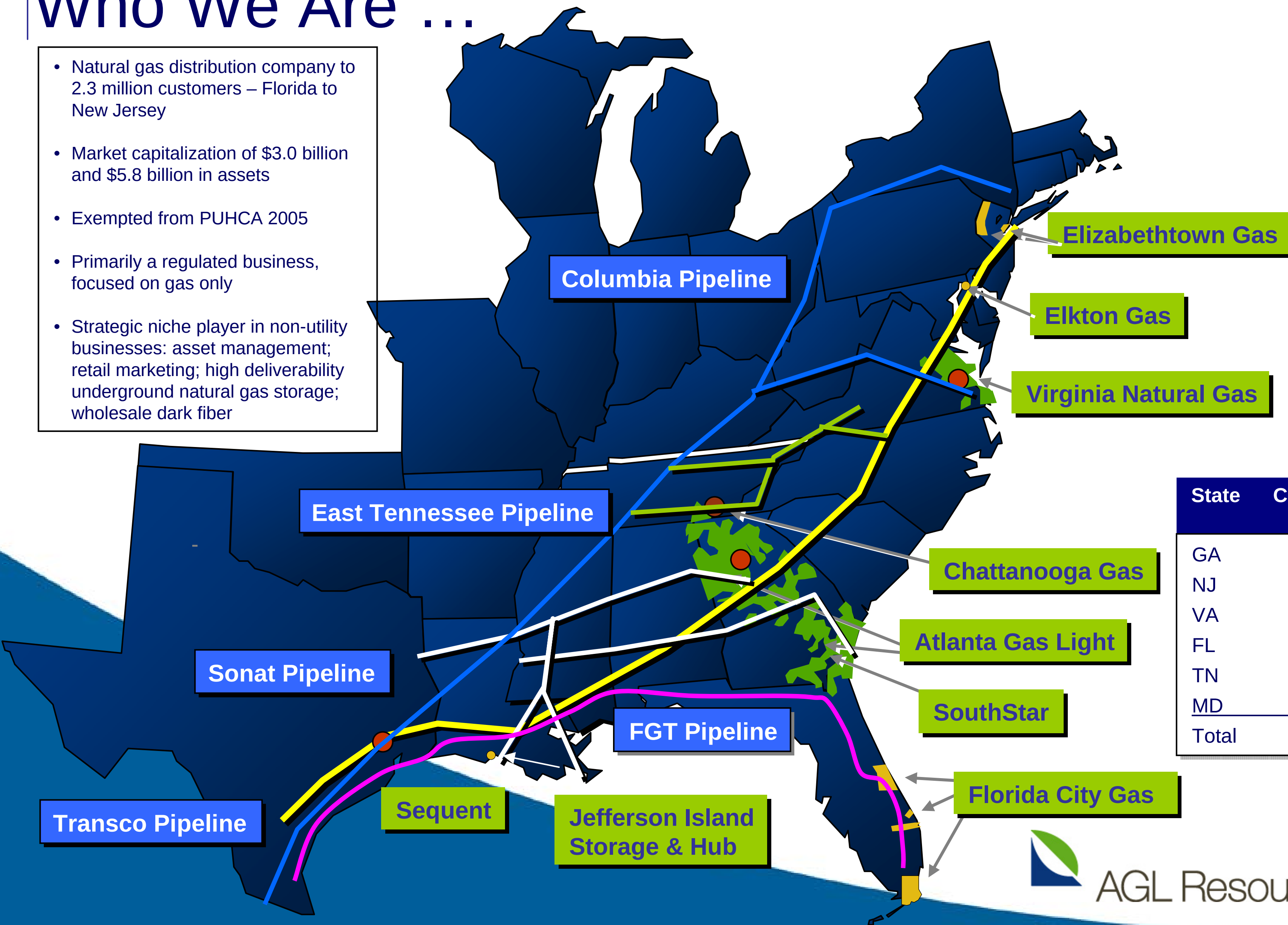
# Who We Are …

- Natural gas distribution company to 2.3 million customers – Florida to New Jersey
- Market capitalization of $3.0 billion and $5.8 billion in assets
- Exempted from PUHCA 2005
- Primarily a regulated business, focused on gas only
- Strategic niche player in non-utility businesses: asset management; retail marketing; high deliverability underground natural gas storage; wholesale dark fiber




| State | Customers (000s) |
|---|---|
| GA | 1,552 |
| NJ | 268 |
| VA | 264 |
| FL | 103 |
| TN | 61 |
| MD | 6 |
| Total | 2,254 |

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# Cross-Subsidization and Diversification

No additional rules regarding cross-subsidization and diversification are considered necessary due to

- Additional rules and policies would be in consistent with the repeal of PUHCA 1935 and of the related restrictions on holding company diversification contained therein
- Additional rules and policies would likely impede economic growth by limiting new capital investments in the utility industry
- “Ring-fencing” rules to isolate regulated utility assets from unregulated activities and to prevent cross subsidization are not necessary
- Any new rules and policies, if considered necessary by the Federal Energy Regulatory Commission (FERC or Commission), should be implemented collaboratively between Commission, state commission and industry participants in order to avoid extensive regulation at the individual state level, which could be burdensome and conflicting

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# Cash Management Rules

No additional rules regarding cash management are considered necessary due to

- Commission's existing cash management rules require public utilities and natural gas companies participating in cash management programs to file these agreements with the Commission
- Cash management agreements filed with the Commission would reflect terms of holding company's or non-utility subsidiary's participation in the cash management program, if applicable
- AGL Resources like some other holding company systems maintain separate utility and non-utility cash management programs to eliminate the possibility of cross-subsidization

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# Cost Allocations

Review of cost allocations should also be available to natural gas utilities and natural gas companies as it would

- Provide a procedure through which to resolve potential conflicting state commission views on appropriate cost allocation methods
- Enable holding companies with gas utilities in multiple states to operate economically and effectively
- Ensure that service company costs are not trapped due to conflicting state regulation

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# Cost Allocations (Continued)

Adopt the “At Cost” standard for cost allocations, not the “Lower of Cost or Market” (LCOM) standard

- At cost standard is the most appropriate means to prevent cross subsidization
- At cost standard transfers goods or services between affiliates at a fully loaded cost and eliminates profit motives from transactions
- Value is neither created nor lost in at cost transactions
- LCOM standard for purchases, and the “Higher of Cost or Market” (HCOM) standard for sales creates windfalls for regulated utilities but produces cross-subsidization through an asymmetrical pricing structure
- LCOM and HCOM standards impede achieving economies of scale in certain transactions

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# Reporting Requirements

No additional reporting requirements are considered necessary due to

- FERC currently obtains information necessary to regulate public utilities and natural gas companies on FERC Forms 1 and 2
- FERC needs for holding company information can be obtained by reviewing regular Securities and Exchange Commission (SEC) Reports – 10K, 10Q, 8-K and Proxy
- FERC needs for service company cost allocation information is only necessary when holding company or state commission elects to have the commission review and approve cost allocations
- Commission does not have ratemaking authority over gas utility companies. State commissions have such authority and have their own reporting requirements to monitor rates and to protect against inappropriate cross-subsidization.

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