American Gas Foundation Releases Study on the Regulatory Policy of Return on Equity

Washington, DC— The continued success of the utility sector to deliver natural gas safely and reliably depends upon a strong and viable infrastructure that will meet growing customer demands of local natural gas utilities. The ongoing financial crisis, combined with downward historical trends in regulatory allowances, is causing the financial community to express concern over the ability of the industry to generate the necessary investment. In fact, according to a study released today by the American Gas Foundation (AGF), equity analysts have suggested that when allowed rates of return on equity drift below 10 percent, that financial markets see that as a “red flag” that could negatively impact investment in the industry.

The study, Regulatory Policy of Return on Equity: Review and Analysis of the Natural Gas Utility Sector, was commissioned to examine the current processes utilized by the state public utility commissions to establish allowed returns on equity (ROE) for natural gas utilities— in an effort to determine if ROEs being approved are sufficient to address U.S. pipeline and distribution infrastructure needs. The study was prepared by Navigant Consulting’s energy practice. Navigant’s energy practice is an independent practice that delivers expertise in regulatory processes, pricing, supply and demand dynamics, market design, fuel sourcing, financing, technologies and operations.

“Allowed returns for local natural gas utilities have experienced a phenomenal decline, especially in the last eight years,” said Rick Smead of Navigant Consulting. “We found that a number of risks facing the industry have increased, including unfunded government mandates, as well as increases in the costs of raw materials and labor.” Smead went on to note that various rate-design changes, in particular “decoupling,” could provide some stabilization of revenues, if properly applied.

The executive summary and complete Regulatory Policy of Return on Equity: Review and Analysis of the Natural Gas Utility study are available on the AGF web site at www.gasfoundation.org. For a hard copy of the study, contact Kelly Batte at (202) 824-7026.

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Founded in 1989, the AGF is a 501(c)(3) organization focused on being an independent source of information research and programs on energy and environmental issues that affect public policy, with a particular emphasis on natural gas. Overseen by a board of trustees, the AGF has delivered numerous key public policy reports since 2000 and has sponsored executive level forums and events focusing on energy supply. For more information, please visit www.gasfoundation.org.