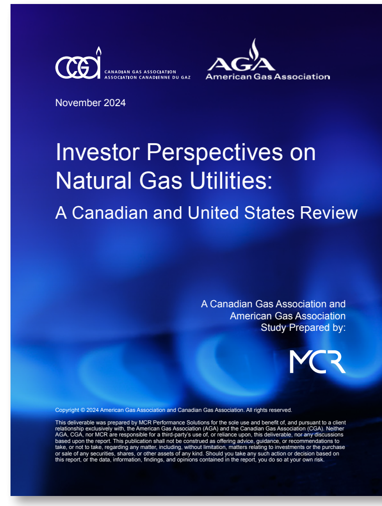
Investor Perspectives on Natural Gas Utilities:

A Canadian and United States Review

November 2024



The American Gas Association (AGA) and the Canadian Gas Association (CGA) commissioned MCR Performance Solutions LLC (MCR) to update and enhance their 2022 study, "Investor Expectations on North American Gas Utilities." The research project was carried out between April 2024 and October 2024 and had two key objectives:

1) Update and expand foundational research on how allowed regulatory utility returns are set and contrast that with how capital is priced and allocated in competitive markets.

2) Conduct a series of discussions with capital market participants familiar with utilities to gain their perspective on gas local distribution company (LDC) market positioning and what currently drives LDC-related investment decision-making.

Working with a Steering Committee of AGA and CGA member companies, MCR updated the 2022 foundational research, rolled the data forward, and targeted a wider group of equity and debt capital market participants to inform the investor perspective discussions. The expanded group of participants included sell-side analysts, buy-side portfolio managers, investment bankers, and credit rating agencies as well as some AGA and CGA member company CEOs, CFOs, and investor relations and treasury executives. To promote candor, confidentiality and non-attribution were strictly maintained.

Key conclusions:

1) While rising interest rates and bond yields have mitigated the risk of lower regulatory allowed ROE, the latter have begun an upward inflection after many years of gradual decline. As of June 2024, average allowed ROEs stand at 9.83% for U.S. gas utilities and 9.28% for Canadian utilities.

2) Markets hold a consensus view that natural gas and related infrastructure will play a vital role in energy supply, security, and resilience for decades to come.

3) Investors allocate capital based on perceived risk and reward and "vote with their feet." To attract investment, utility regulatory returns need to exceed alternative investment opportunities—referred to as the opportunity cost of capital.

4) So-called "gas bans" and environmental, social, and governance (ESG) considerations that dampened investor interest in gas utilities five years ago have been reshaped by geopolitical and other events that have put energy security, access, and affordability at center stage.

5) Rising energy demand, including for electricity, presents an opportunity for gas utilities to play a key role in keeping North American energy secure, reliable, resilient, and affordable.

Click on or scan the QR code to access the full report and/or executive summary.

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