

Smart. Focused. Done Right.

Natural Gas Benchmarking

Overview and Example Report

July 2015

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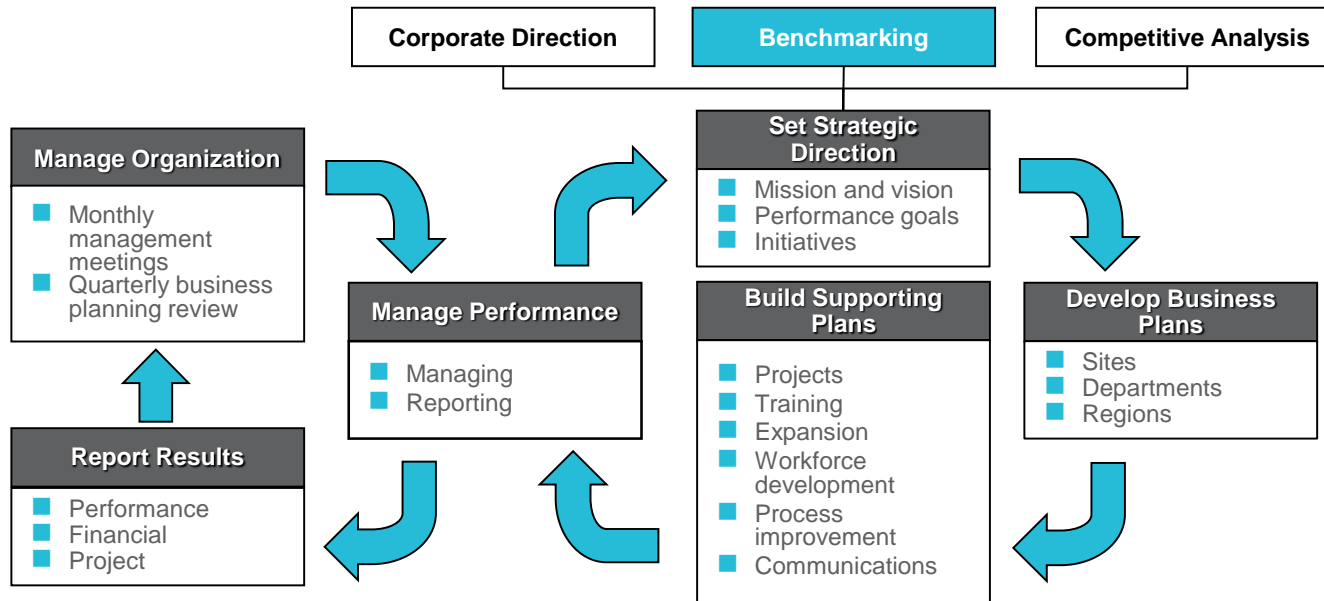
Why Engage in Benchmarking



Why Engage in Benchmarking?

Energy companies face increasing challenges

- Aging infrastructure
- Declining ROE and increasing regulatory scrutiny
- Ongoing cost control pressure
- Industry uncertainty
- Growth potential
- Environmental compliance demands
- Aging labor force
- External impacts on business operations



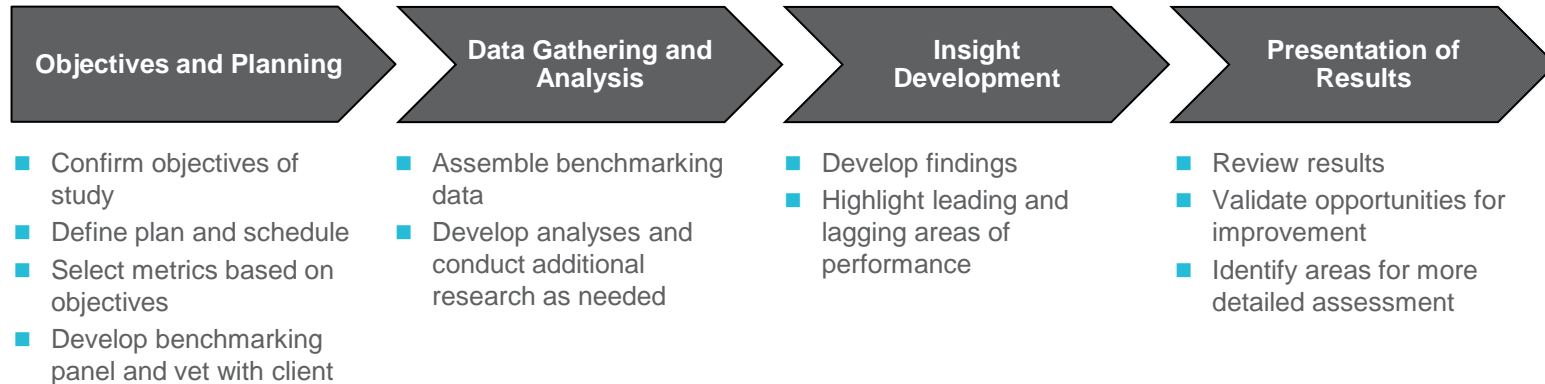
Assessing business performance through benchmarking can help identify performance gaps and improvement opportunities. Benchmarking is a key part of the business management process.

Benefits

- Provides insight on performance and helps identify improvement opportunities
- Enables companies to set stretch goals and learn from best performers through external, objective reviews
- Serves as an integral part of managing the business

Our Benchmarking Approach

Our benchmarking analysis is based on publicly available data with metrics and peer groups developed based on ScottMadden insight and client input



The analysis can take three to six weeks to complete depending on the level of client involvement and input needed. We tailor the schedule to our clients' requirements. An illustrative timeline is below.

Phase	Week 1	Week 2	Week 3	Week 4
Objectives and Planning	■			
Data Gathering and Analysis		■		
Insight Development			■	
Presentation of Results				■

Typical fees for this effort are approximately \$25,000

Example Report



Report Contents

- Introduction
- Summary of Initial Observations
- Overview of Panel Companies
- Financial Performance
- Operational Performance
- Potential Improvement Opportunities

An example report with illustrative data follows

Introduction

Overview

- The objective of this review is to provide high-level financial and operating comparisons that will help the Company* management identify potential opportunities for improvement
- While benchmarking can point to good practices and best-of-class results, it is not “the answer.” Instead, the benchmarking process itself provides a platform for dialogue about key management questions:
 - What are the appropriate measures of performance?
 - Where do we stand relative to those measures, and who are the “best”?
 - What are others doing, and what should we be doing to improve?
 - How will we institute those improvement initiatives, and how will we measure success?



Approach

- A panel of 12 natural gas companies, including the Company, was selected as the benchmarking peer group for comparison purposes
 - Company size, location, and system characteristics are the primary considerations for peer companies
- This report is focused on key measures that provide a snapshot of financial and operational performance compared to peers
 - Financial metrics were obtained from FERC Form 2 reports or annual reports submitted to state commissions
 - Operational data (e.g., miles of main, number of services, leaks repaired) were obtained from Department of Transportation (DOT) annual operator reports
- Potential focus areas for improvement can be derived from the benchmarking results
 - Where applicable, key industry trends, compiled from ScottMadden observations and research, provide context to the benchmarking comparison

* “The Company” is the subject of the benchmarking effort

Summary of Initial Observations*

- Revenue (net of production) per customer is slightly below comparable peers. While customer growth is relatively flat, the Company is keeping pace with the peer companies
- The Company is near the median in terms of level of investment in its system
- Results for Operation and Maintenance (O&M) expenses are mixed
 - Non production O&M expense is relatively high on a per customer basis but relatively low on a per mile and per employee basis
 - Administrative and General (A&G) expense per customer is relatively high while Distribution expenses are low when compared to the peer panel
- The Company's distribution system is ranked high in the peer panel, with its relatively high percentage of protected steel and plastic mains and services

* The initial observations throughout this report are typically refined after discussion with management to better understand the context

Overview of Panel Companies

- A group of comparable peer utilities was selected based on similarities in scale, region, organization structure, and other system operational and design characteristics (e.g., multiple operating companies under one holding company, whether or not the service territories were contiguous, whether or not they own upstream assets, pipe constructed of one predominant material, etc.) to the degree possible to ensure a like-in-kind basis of comparison for the benchmarking analysis

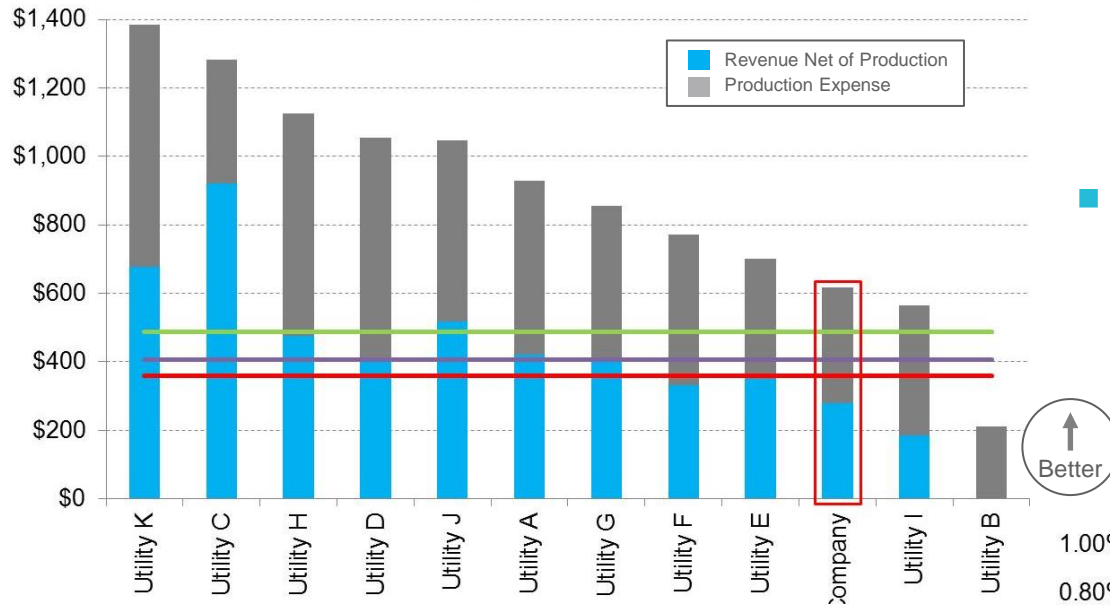
Company	Customers	Throughput (Mcf 000s)	Operating Revenue (\$000s)
Utility A	694,391	68,938	644,474
Utility B	1,198,791	70,562	241,798
Utility C	918,283	80,535	1,178,102
Utility D	1,471,249	191,566	1,550,240
Utility E	544,205	48,138	380,935
Utility F	1,048,626	101,729	808,334
Utility G	431,181	12,656	369,353
Utility H	427,483	38,319	480,854
Utility I	1,881,576	210,244	1,064,301
Utility J	426,078	46,644	446,201
Utility K	656,743	79,349	909,192
The Company	686,256	85,644	424,256

NOTE: Customers, Throughput, and Operating Revenue reflect year-end 2014 data

Benchmarking Results – Revenue and Growth

Gas Revenue per Customer and Growth

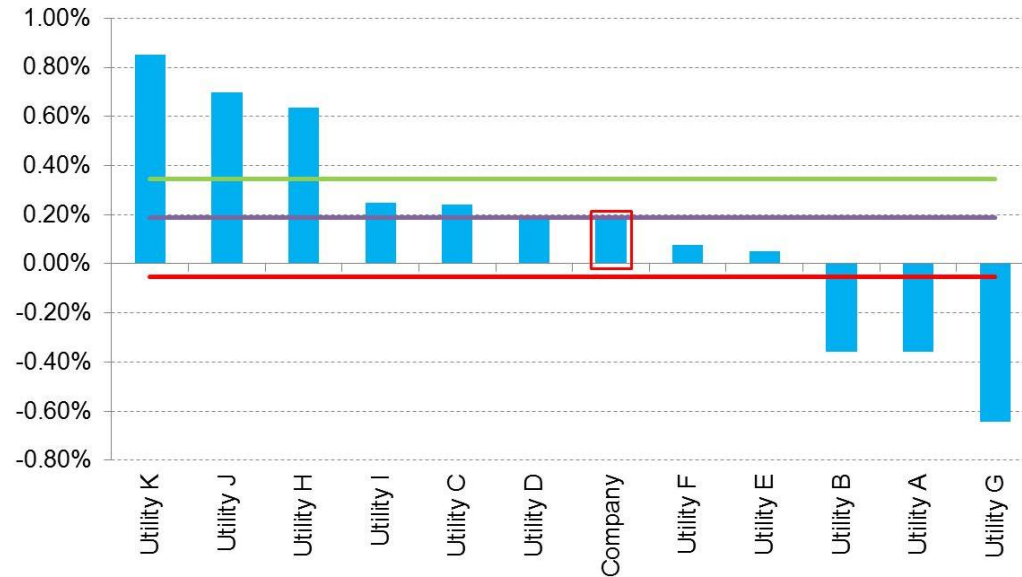
Revenue per Customer - 2014



- Revenue net of production reflects what is received for the delivery of gas; commodity costs have been removed from this number
 - Note: quartiles and median based on revenue net of production
- The Company was below most of the peer companies on a revenue net of production per customer basis

- Overall, growth rates for the panel companies are fairly flat, and reflect the challenging economy
- The customer growth rate for the Company is at the median of the panel (about 0.2%)

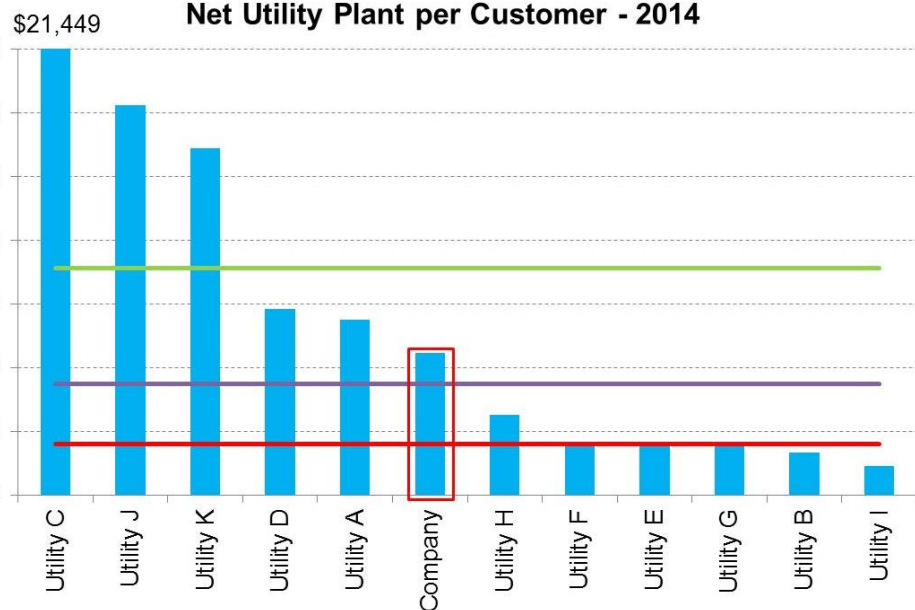
Customer Growth - 2014



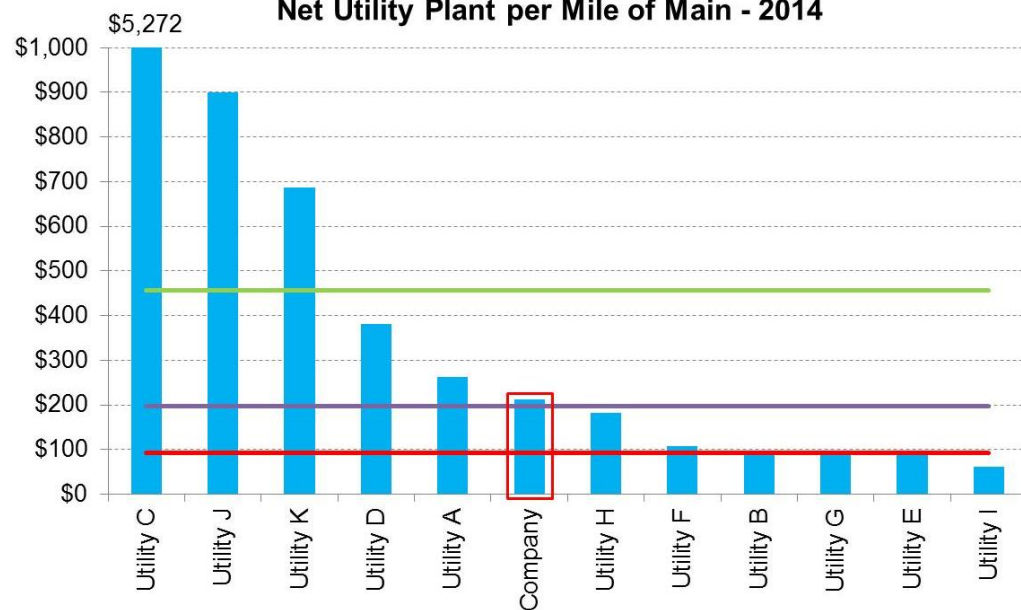
Benchmarking Results – Revenue and Growth

Net Utility Plant

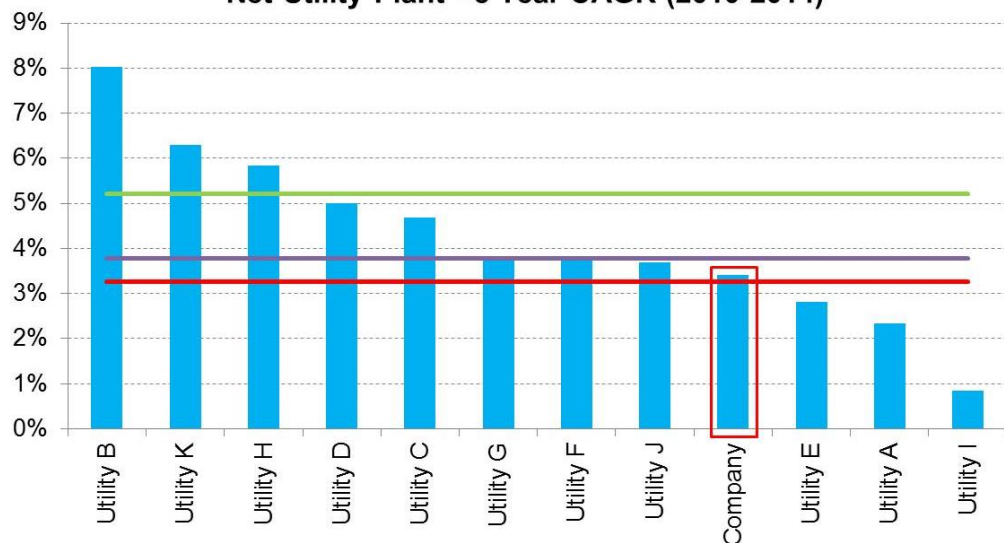
Net Utility Plant per Customer - 2014



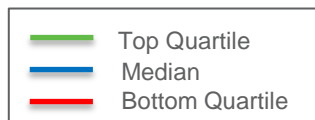
Net Utility Plant per Mile of Main - 2014



Net Utility Plant - 5 Year CAGR (2010-2014)



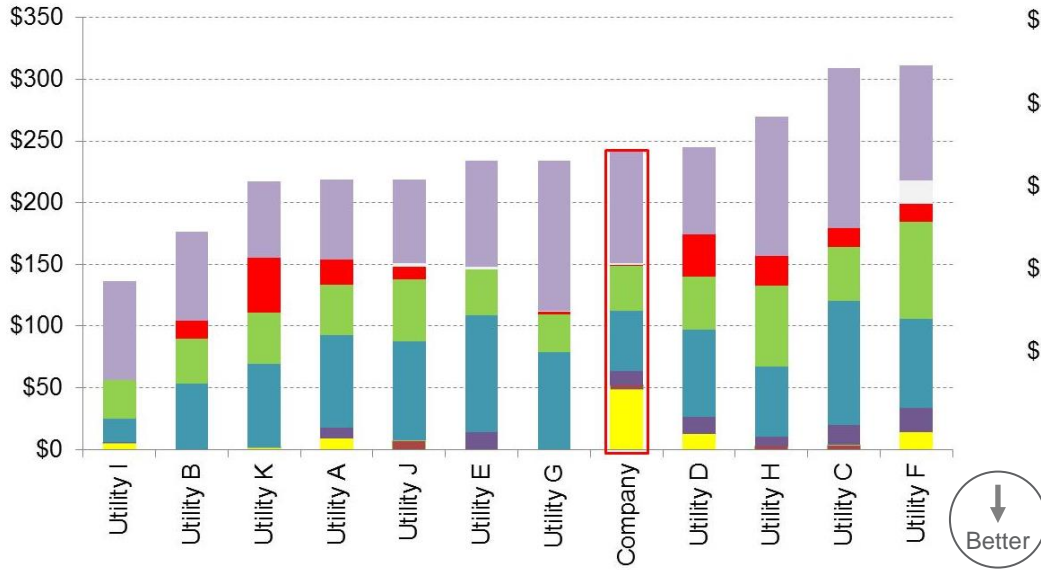
- Net utility plant reflects end-of-year total plant less accumulated depreciation expense
- The Company was slightly above comparable peers in net plant per mile of main and per customer
- The Company is just below the median for 5 Year CAGR, which indicates that the company has been investing less in its infrastructure than the peer panel



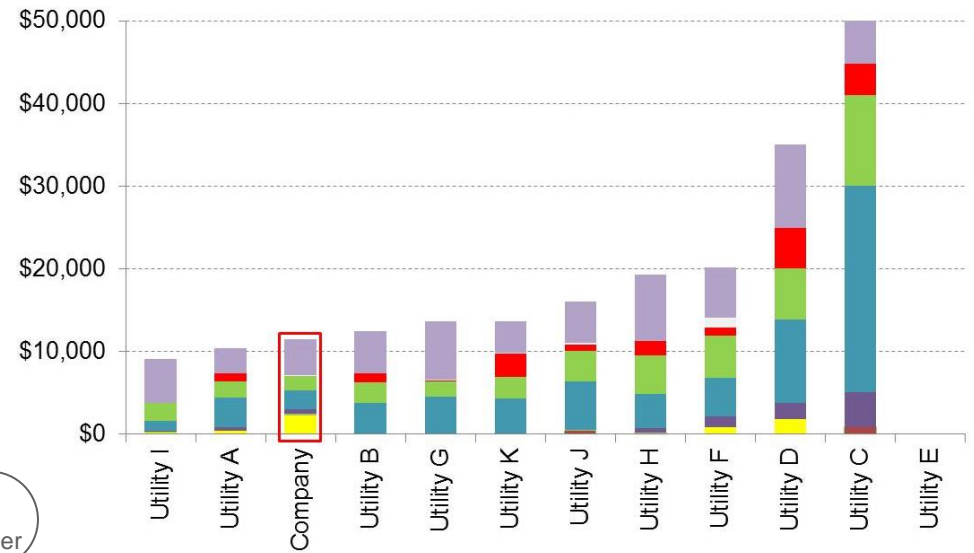
Benchmarking Results – Cost

Total Non-Production O&M

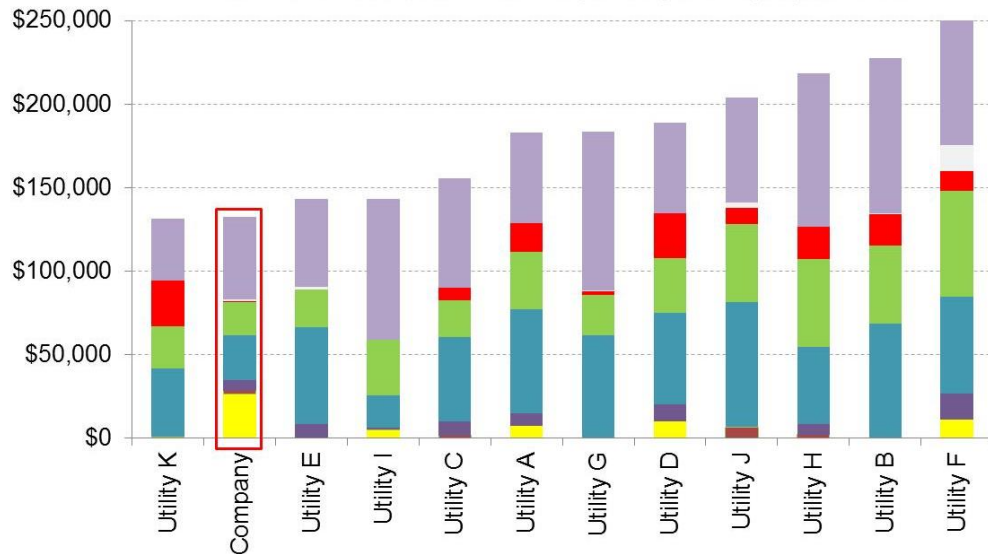
Total Non-Production O&M Expense per Customer - 2014



Total Non-Production O&M Expense per Mile of Main - 2014



Total Non-Production O&M Expense per Employee - 2014



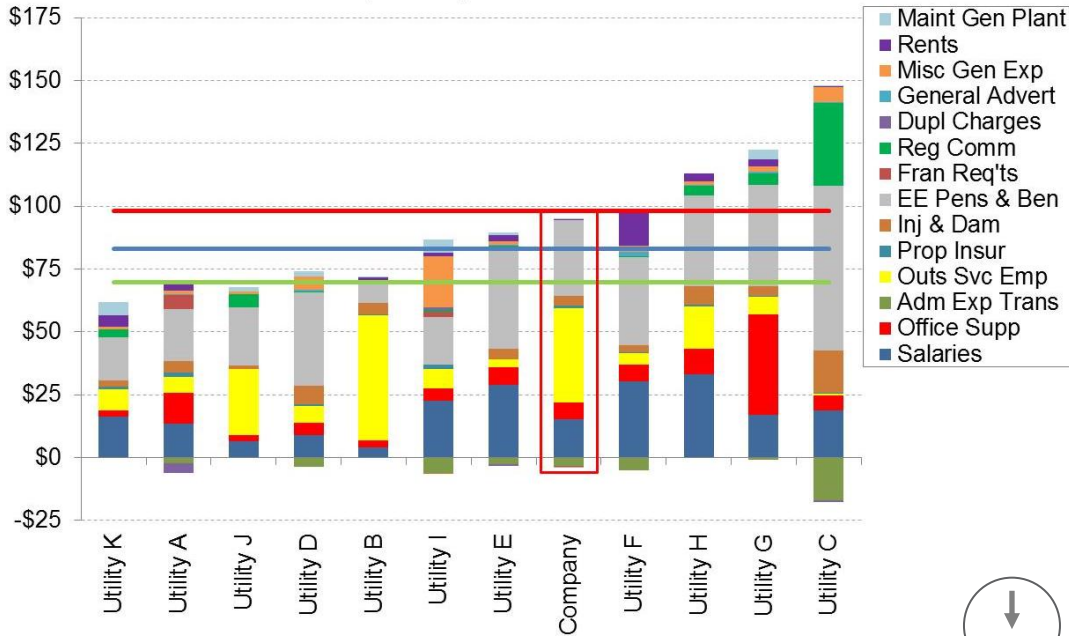
- The Company was above most comparable peers based on total non-production O&M expense per customer. A&G cost appears to be a driver for this metric
- However, the Company was below most comparable peers on a per mile of main basis
- The Company was one of the lowest to comparable peers based on total non-production O&M expense per employee



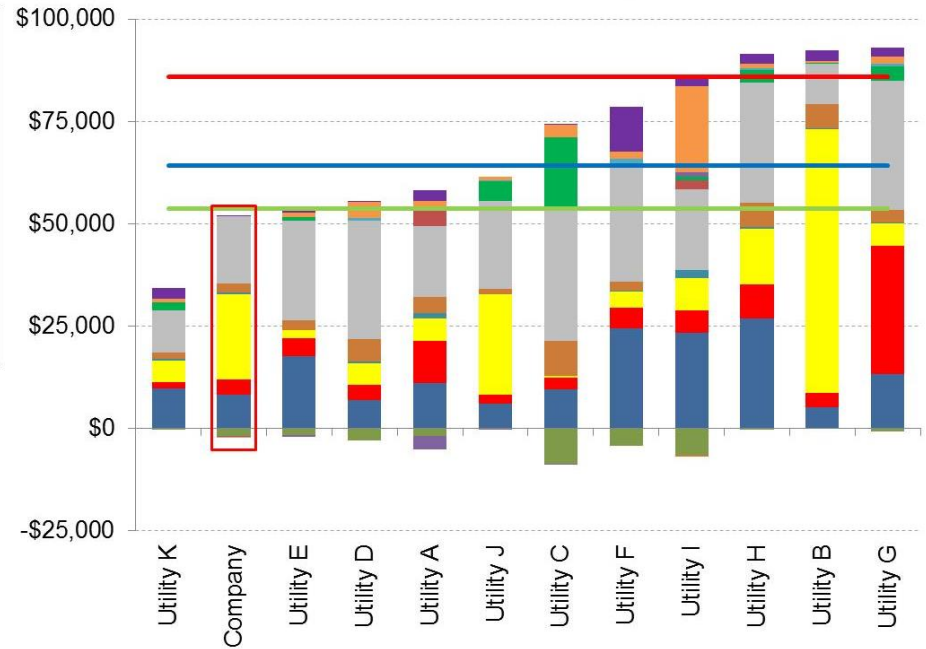
Benchmarking Results – Cost

Administrative and General O&M

A&G Expense per Customer - 2014

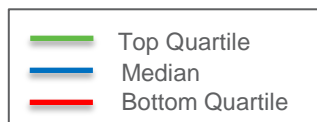


A&G Expense per Employee - 2014



Note: Administrative Expenses Transferred and Duplicate Charges are recorded as credits

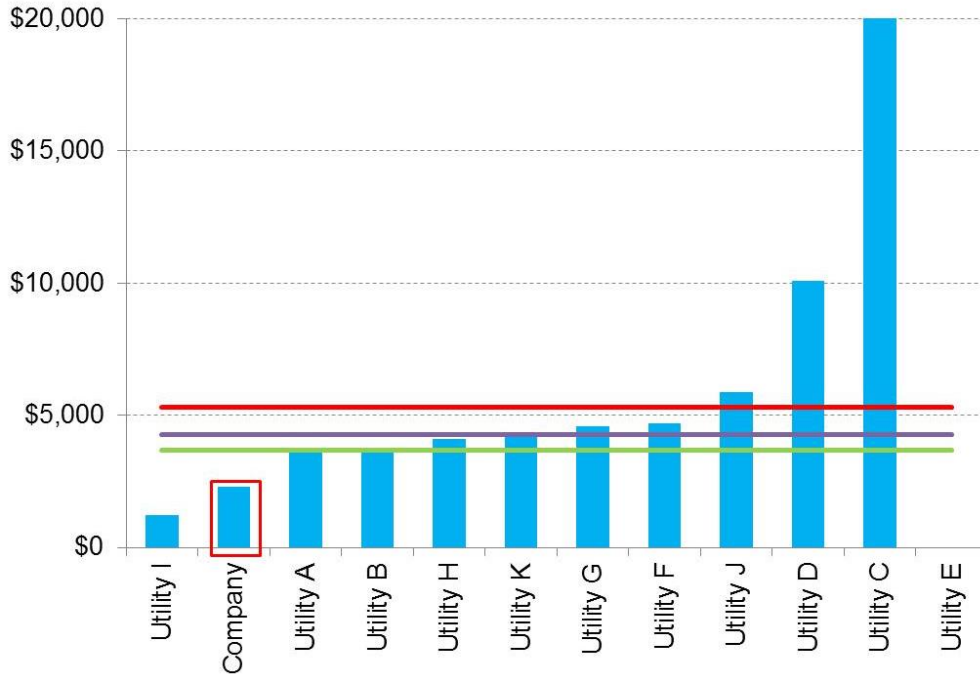
- We provide more detailed analyses of Administrative and General (A&G) expenses, as this is one of the largest components of total non production O&M. These charts break down total A&G expense by FERC line item
- The relatively high A&G expense per customer for the Company is driven primarily by Employee Pensions and Benefits, Outside Services, and Salaries
- Administrative and General O&M expense per employee for the Company was considerably below the median and comparable peers



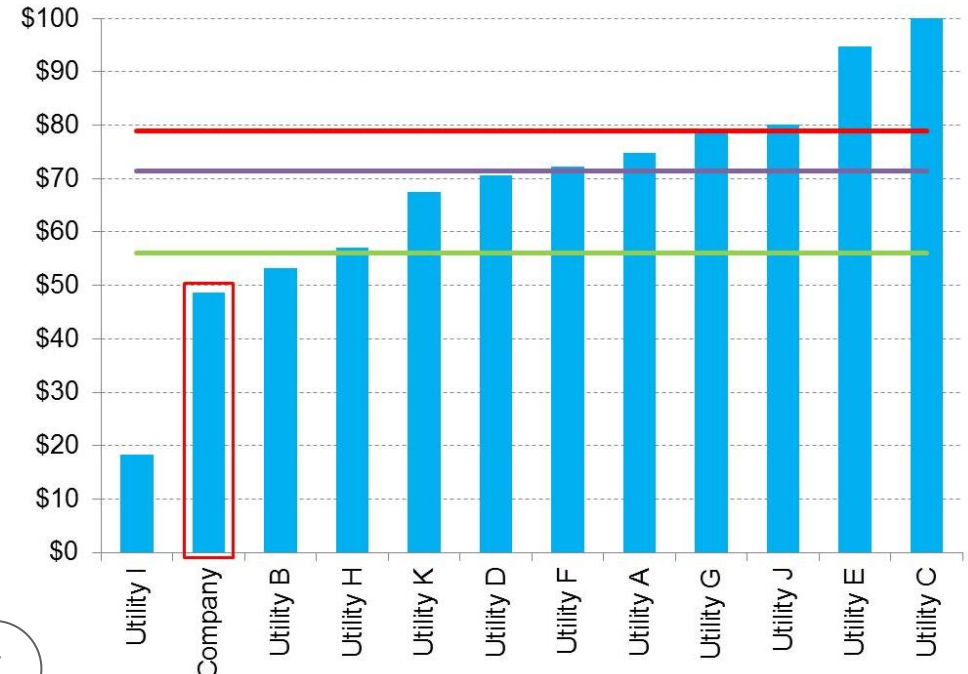
Benchmarking Results – Cost

Distribution O&M

Distribution O&M Expense per Mile of Main - 2014



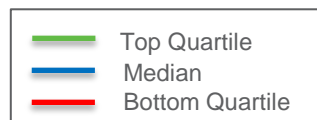
Distribution Expense per Customer - 2014



Note: Main data was not available for Company E

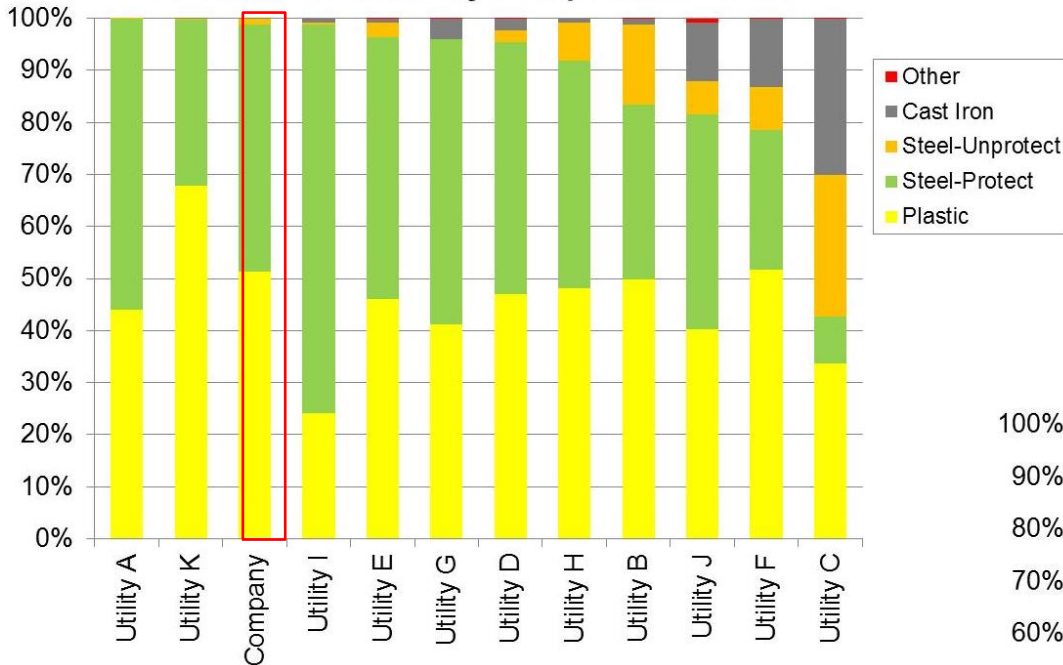


- Distribution is another major component of non-production O&M expense
- The Company's distribution O&M expense per mile of main and per customer are lower than the majority of the panel, likely because of the company's high percentage of newer pipe (see following page)



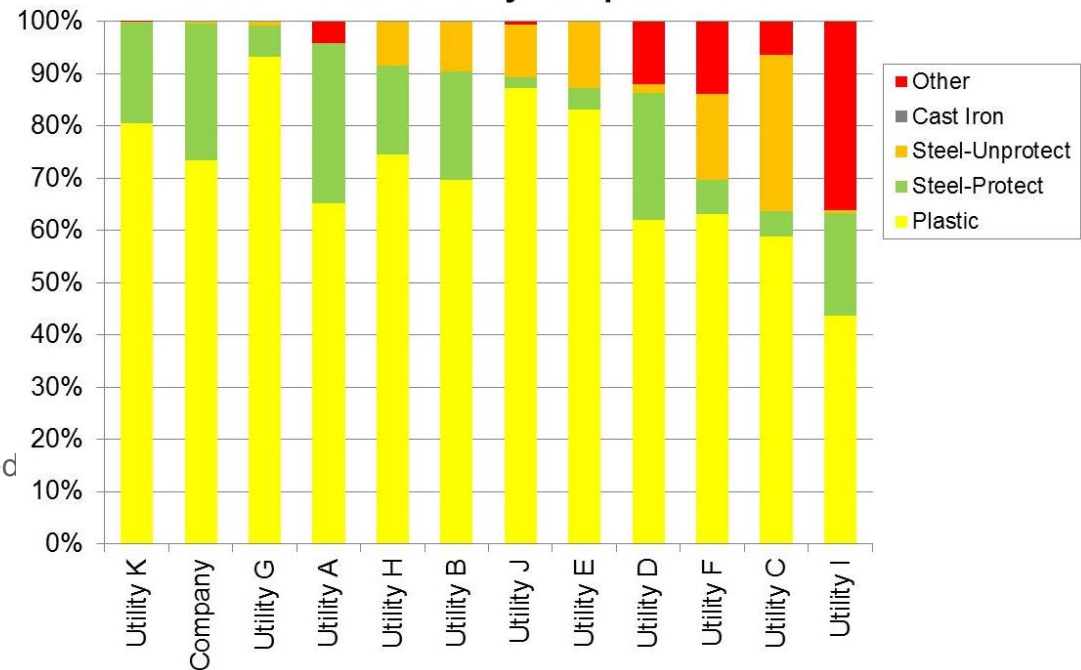
Composition of Gas Distribution System

Distribution Mains by Composition - 2014



- The Company has a high percentage of plastic and protected steel. The Company has no cast iron and very little unprotected steel, indicating that its system is relatively new
- The composition of distribution mains can drive system performance and maintenance expenses (leaks, etc.)

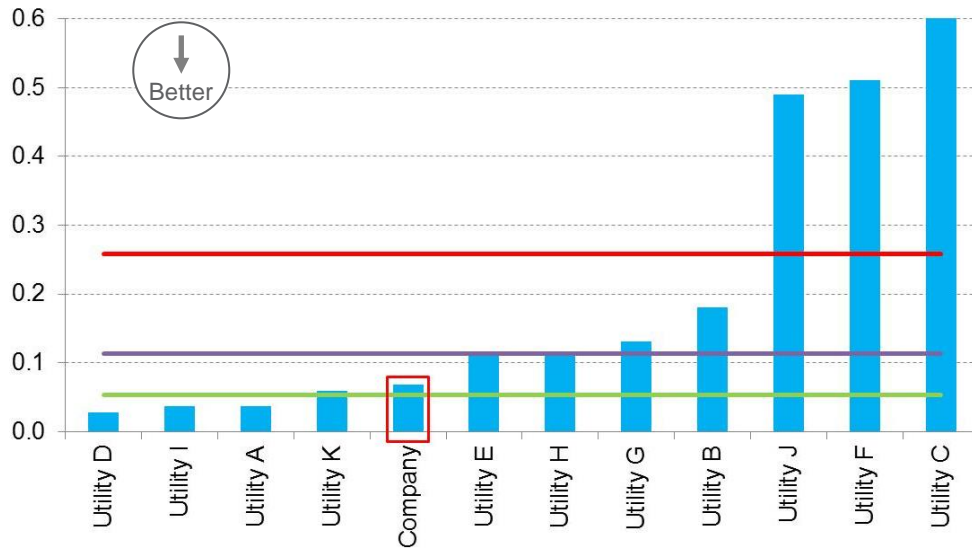
Distribution Services by Composition - 2014



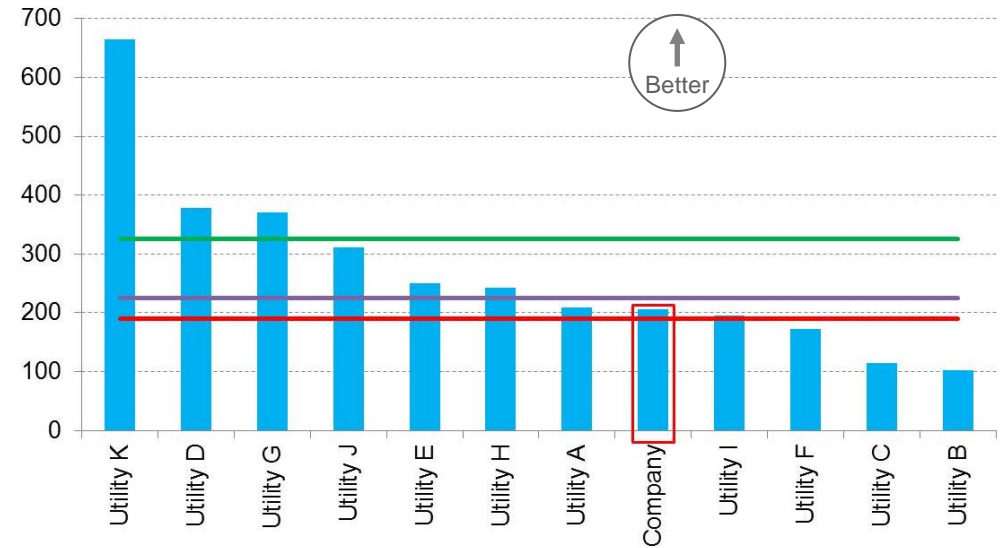
- The Company also ranks high in the peer panel for services. Virtually all of its services are made up of plastic and protected steel
- Like mains, the composition of services is a determinant of system performance and maintenance expenses

Leaks Repaired and Scheduled for Repair

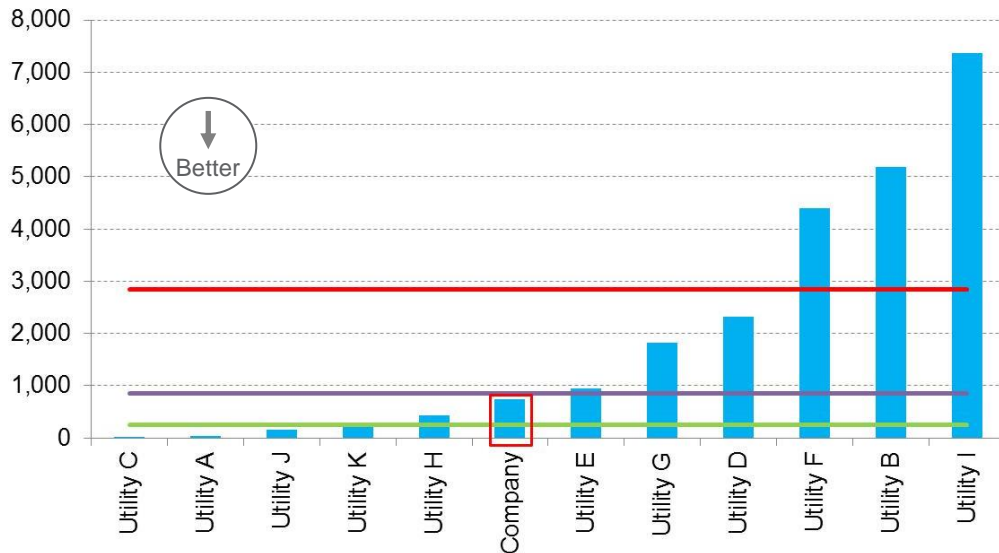
Main Leaks Repaired per Mile of Main - 2014



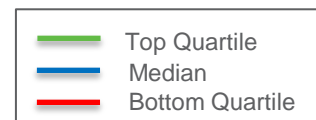
Services per Service Leak Repaired - 2014



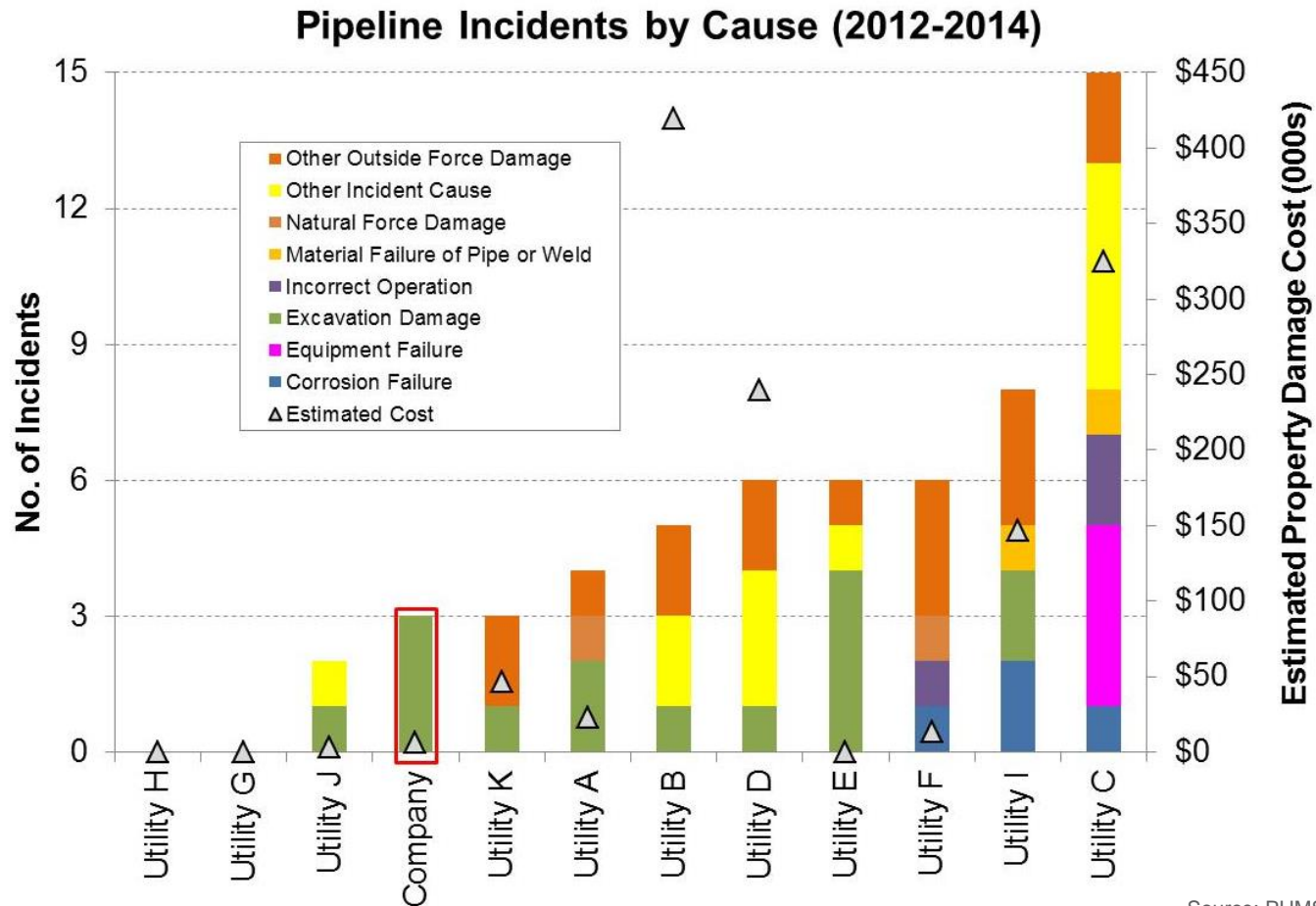
System Leaks Scheduled for Repair - 2014



- The Company is close to the median in each measure related to leaks
- The Company's position in the peer panel is relatively high, given that its distribution system has one of the highest percentages of plastic and protected steel



Pipeline Incidents by Cause



NOTE: Significant incidents meet one or more of the following criteria

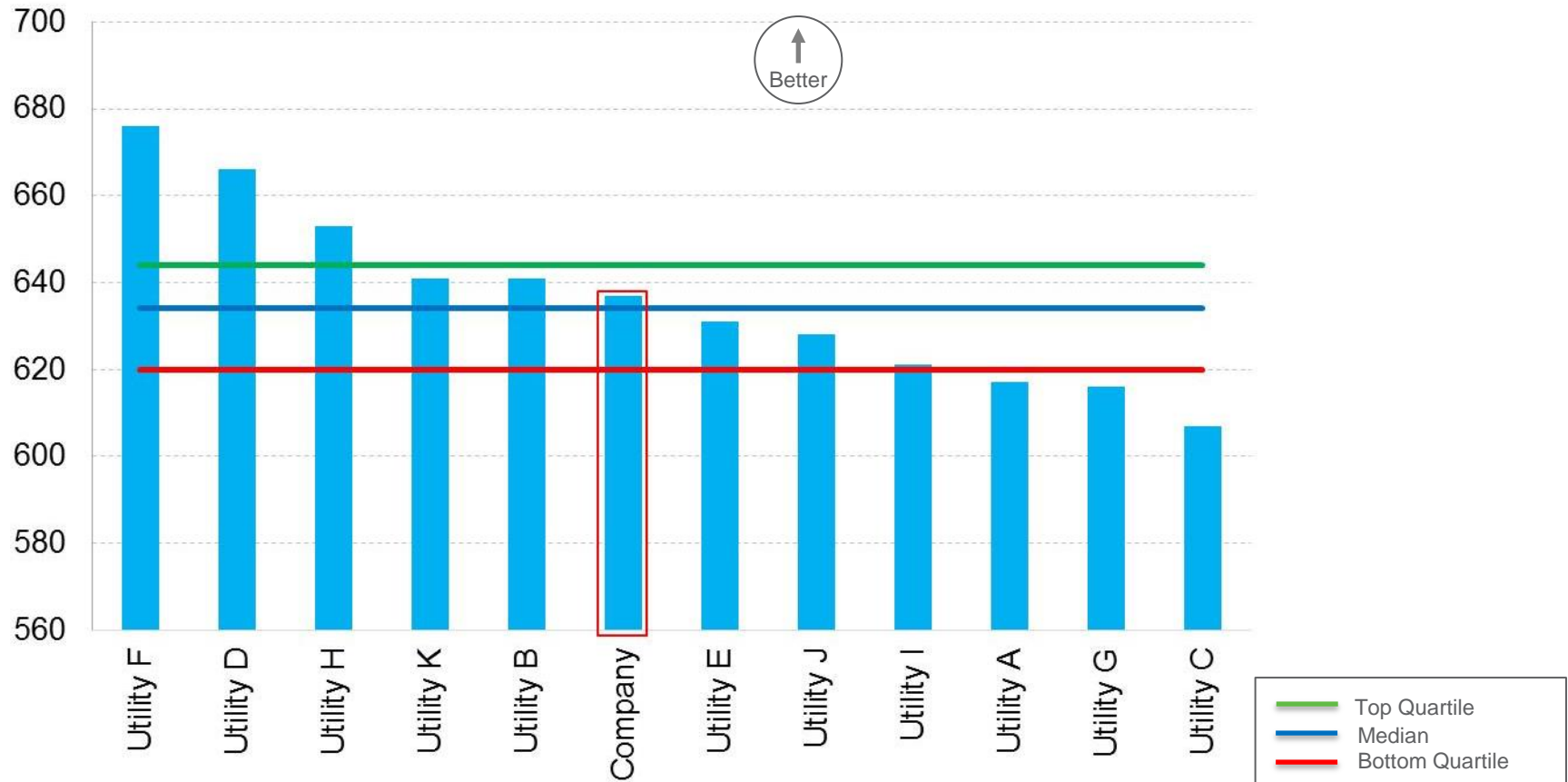
- Fatality or injury requiring in-patient hospitalization
- \$50,000 or more in total costs
- Highly volatile liquid releases of five barrels or more or other liquid releases of 50 barrels or more
- Liquid releases resulting in an unintentional fire or explosion

Source: PHMSA

■ The Company experienced three significant incidents during this period while Utility H and Utility G did not experience any

J.D. Power Customer Satisfaction

J.D. Power Gas Utility Customer Satisfaction Index - 2014



■ The Company's customer satisfaction rating is just above the median among the peer panel companies

Next Steps

- Review results with management and key stakeholders
- Validate opportunities for improvement (e.g., identify gaps with leading practices)
- Identify areas for more detailed assessment

ScottMadden – Who We Are



Who We Are

ScottMadden is a management consulting firm with more than 30 years of deep, hands-on experience.

We deliver a broad array of consulting services—from strategic planning through implementation—across many industries, business units, and functions.

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W E D O

**WHAT IT TAKES
TO GET IT DONE
RIGHT**

.....

ENERGY

- More than 2,400 projects
- More than 300 clients including 20 of the top 20 energy utilities
- Every business unit, every function

CORPORATE & SHARED SERVICES

- More than 1,100 projects
- Clients range from entertainment to energy to high tech
- Unmatched experience with more clients and more solutions

CLEAN TECH & SUSTAINABILITY

- Unique perspective built on 30 years of energy experience
- Solutions for clean and renewable sources of energy, smart energy management, and sustainability

Representative Capabilities



- Strategic planning
- Business planning
- Operational excellence and best practices
- Playbook and management model
- Process improvement
- Organization design and staffing
- Smart Grid
- Renewables
- Environmental
- Regulatory
- M&A
- Benchmarking
- Corporate and shared services
- Clean tech and sustainability

“I’ve used many consulting services during my career, and no other firm ever delivered on the promises they made better than ScottMadden.”

GENERATION COMPANY
PRESIDENT

Areas of Focus



GENERATION

Our practical expertise in nuclear, fossil, and renewables helps clients **implement leading practices** for fleets and individual plants to improve and sustain results.



VERTICALLY INTEGRATED UTILITIES/PUBLIC POWER, MUNICIPALS, AND COOPERATIVES

We have performed **numerous projects** for leading players in **every area of the business**.



TRANSMISSION

We provide broad, deep energy expertise coupled with practical business acumen to help companies **navigate transmission challenges** with **solid business advice**.



REGULATION AND RATES

We offer extensive experience in addressing the strategic and operational challenges posed by energy regulation to **help our clients succeed** in today's turbulent times.



DISTRIBUTION/SMART GRID

We help our clients manage their distribution businesses in this changing environment with a continued focus on **managing cost** and **ensuring reliability**.

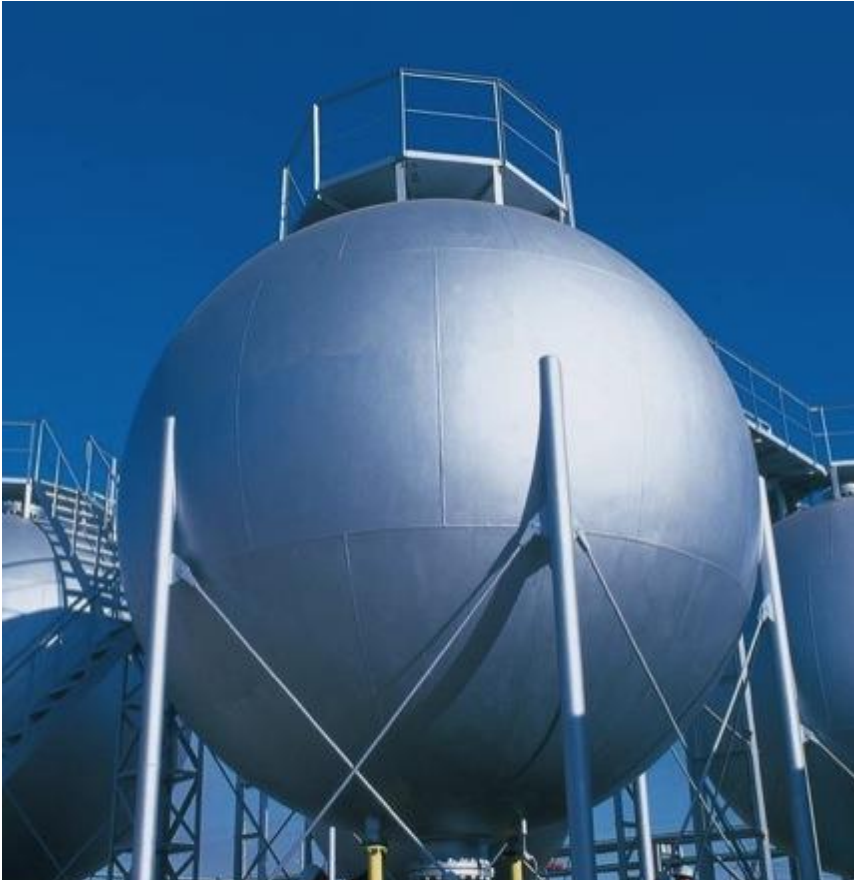


GAS

We help companies adapt to rapid change in the natural gas industry by providing **strategic** and **operational improvements** that **deliver value** to clients.

Representative Qualifications

Gas



GAS

Diversified Utility

Gas Industry Briefing and Benchmarking Analysis

ScottMadden worked with a diversified utility after a recent acquisition of three LDCs to develop an executive primer on the natural gas industry and the business model for a typical LDC. This engagement also involved a detailed benchmarking analysis that compared the acquired LDCs to regional and national peer panels.

Multiple Gas LDCs

Business Process Improvement

ScottMadden managed large multi-team projects to assess LDCs' current state processes, functions, and organizations and led teams through developing future state designs and business cases to support implementation. ScottMadden provided the methodology, supported project management, facilitated and performed analysis, offered best practices, supported communications and change management, and helped to develop deliverables. Projects improved business results, service levels, and operating efficiencies, increased employee engagement, and helped develop a new culture of continuous improvement. The project was cited in the client's subsequent Wall Street analyst presentations and annual reports.

Gas LDC

Organization Analysis

ScottMadden conducted an organizational structure analysis for a large gas LDC by comparing current state practices to best practice benchmarks, including spans of control, layers, and cost to manage. The analysis resulted in identification of potential areas of improvement. These opportunities would result in a structure aligned with corporate strategy, efficient decision making, clear accountabilities, increased morale, and the potential for significant savings.

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