



Southern Company Gas

That's the new name for AGL Resources now that the holding company for a number of gas utilities, including Atlanta Gas Light and Nicor, has been recently acquired by the Southern Company. Under this new business unit half interest has also been purchased in the Southern Natural Gas interstate pipeline owned by Kinder Morgan.

Since Southern Company is the largest, and growing, consumer of natural gas in the Southeast, the acquisition makes much more sense than the buying of scattered gas-buying local distribution companies.

Debt, Credit Ratings and Double-Talk

Southern Company's huge move into the natural gas business is financed mostly by increased debt. This is by no means an implication the Company is in shaky financial condition. The irony here is Southern's oh-umm attitude about the lowering of its credit ratings. Both Georgia Power and Atlanta Gas Light act like credit ratings are sacred when seeking revenue increases before the Georgia Public Service Commission. In all rate cases the utilities hire impressively-credentialed, high-priced witnesses to tell the Commission how important it is for the utility to have a good credit rating, allegedly for the benefit of customers. Their solution is for the Commission to give the utility a high return on equity. This in turn, claim the witnesses, will allow the utility to reduce its interest payments. During rate cases the credit rating agencies do their part by saying the company in question's rating is being reviewed. Yet in the downgrades of the holding company's debt the agencies cite the degree of leverage instead of profitability. This makes sense. Lenders are much more concerned about downside risk which could affect them rather than a borrower's profitability which has no benefit for them.

Richard Kinder Entrepreneur

Rich Kinder was the number two man at Enron and slated to be the successor for Ken Lay. As long as Kinder was around Enron's financial house was in order. In a surprise move Lay named Jeff Skilling as his replacement. Kinder left to form his own company, while Skilling crashed Enron. Kinder went on to become a multi-billionaire and largest player in the midstream oil and gas business. Honest, publicity-shy, innovative and a savvy investor, Kinder's success is a model free-market phenomena.

The Saga of Palmetto Pipeline

In the initial press release on the Southern Natural purchase it was stressed that the two Southern companies would work together to expand energy infrastructure. Since big electricity holding company Southern Company has no expertise in laying pipe, clearly their contribution will be their extraordinary political clout they possess. This brings us to the

Palmetto Pipeline scandal. Here Kinder Morgan proposed to run a petroleum pipeline to terminals in South Carolina. The path through Georgia would cross the property of owners with powerful political connections. These cronies of the Governor wanted the pipeline stopped, so a state agency declared the pipeline was not necessary and had no benefits for Georgia. Imagine that! Here we have flunky bureaucrats telling one of the foremost investors of our time that his project was a bad investment.

We await with interest to see how the sleazy opponents of Palmetto Pipeline fare against the Godzilla of Southeastern politics.

Jim Clarkson
www.rsmenergy.com