SEC
STAND ENERGY CORPORATION

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JUL 29 2010
PUBLIC SERVICE
COMMISSION

July 29, 2010

VIA HAND-DELIVERY

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

Re: Case No. 2010-00146 - Requests For Information

Dear Mr. Derouen:

Enclosed for filing in the above-captioned matter with the Commission are the original and ten (10) copies of Stand Energy Corporation's Responses to Requests for Information from the following parties to this case:

1. PSC Staff
2. Duke Energy Kentucky, Inc.
3. Louisville Gas & Electric, Inc.
4. AARP

Thank you for your prompt attention to this filing. If you have any questions about this filing, please contact me at (513) 621-1113.

Sincerely,

John M. Dosker

John M. Dosker
General Counsel

Encls.

cc: All parties of record

CERTIFICATE OF SERVICE

I hereby certify that I served true and accurate copies of the Responses of Stand Energy Corporation to Information Requests from PSC Staff; Duke Energy Kentucky; Louisville Gas & Electric Company; and AARP this 29st day of July, 2010 by regular U.S. Mail upon the following parties of record and their representatives or counsel:

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John M. Dosker

John M. Dosker

RECEIVED
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PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:	)	
AN INVESTIGATION OF NATURAL GAS	)	**Case No. 2010-00146**
RETAIL COMPETITION PROGRAMS	)	

STAND ENERGY CORPORATION'S RESPONSES TO REQUESTS FOR INFORMATION FROM THE PSC STAFF

Intervenor, Stand Energy Corporation ("SEC"), by and through counsel, submits the following responses to requests for information from the Kentucky PSC Staff:

1. The Testimonies of John M. Dosker ("Dosker Testimony") and Mark Ward ("Ward Testimony") address some, but not all, of the 15 elements contained on pages 14 and 15 of the Commission's Order of April 19, 2010 which the Kentucky General Assembly directed the Commission to consider. Explain whether the Commission should consider Stand Energy's silence on the elements not addressed to mean that Stand Energy has no stated position on these elements. If no, then Stand Energy should state its position. The 15 elements have been reproduced here for convenience.

Response: **Responder: John Dosker**. Stand Energy has positions on each and every one of the 15 elements. We further believe that these topics would be best addressed in a collaborative process with all interested parties invited to participate rather than attempting to address the issues through the exchange of written data requests. However, because very few of these 15 elements are germane to Stand Energy's suggestion to expand gas transportation programs, we have summarized our positions.

- The role of the Commission in a competitive marketplace;

  Response: The Commission should exercise jurisdiction in all ways necessary and appropriate to encourage competition in retail natural gas and promote a level-playing field for all competitors. However, Affiliates of utilities should not be allowed to engage in the marketing and sale of natural gas within the territory of the affiliate's parent company. Utility-owned affiliates have too many advantages over marketers and too much daily contact with the utility to be effectively regulated. Stand Energy supports the legislative mandate contained in KRS 278.507(1) since 1984 to *"facilitate greater utilitization of the natural gas produced or available for production within the state, where this can be done without detriment to customers of utilities under jurisdiction of the commission."*

- The obligation to serve;

  Response: No marketer should be required to serve any particular customer except as required by contract, just as no customer should be required to take service from any marketer except by contract. Competitive natural gas for Commercial, Industrial and Governmental customers is a contract-based relationship. Both parties must be willing and agree to enter into a written contract.

- The supplier of last resort;

  Response: The incumbent utility is the supplier of last resort.

- Alternative commodity procurement procedures;

  Response: Unclear what this is referring to. The incumbent utility does not acquire the commodity supplied by marketers to customers under traditional gas transportation programs in Kentucky or any other state Stand Energy does business in. Expanding existing Gas Transportation programs in Kentucky is the position that Stand Energy has consistently advocated.

- Non-discriminatory access to services offered;

  Response: Non-discriminatory access to contract-based services.

- Codes of conduct for marketers and affiliates of regulated utilities;

  Response: No code of conduct has ever been required for marketers supplying natural gas to Kentucky customers under existing gas transportation programs. The regulated utilities each have their own credit and other legal requirements that must be met before marketer gas flows to customers. Stand Energy opposes allowing utility-owned affiliates of regulated utilities to serve customers behind the parent regulated utility at any time for any reason. Affiliates have too many advantages over marketers and too much daily contact with the utility to be effectively regulated.

- Billing which should include the desirability of the purchase of receivables;

  Response: Stand Energy is not aware of a purchase of receivables program for large commercial, industrial, educational or governmental accounts served under traditional gas transportation programs. If residential service by marketers is approved for other territories in addition to Columbia, billing issues should address the desirability for the purchase of receivables for residential customers. However, public institutions participating in any CHOICE program should be excluded from the purchase of receivables guarantee for the simple reason that public institutions pay their bills so there is no reason to discount those gas supplies by 2%. A marketer supplying a public institution should receive 100% of the amount of the invoice submitted to that customer. Currently, the 2% cost is passed on to customers. There is no reason to discount the receivables of public institutions. There is no risk of default or non-payment by the customer.

- Certification of suppliers;

  Response: Stand Energy Corporation and other marketers have been supplying natural gas to customers in Kentucky for many years under traditional gas transportation programs, without any certification requirements and without incident. Compliance with a new certification bureaucracy at the Kentucky Public Service Commission would create new disincentives to competition and increase costs to customers.

- Transition costs;

  Response: Transition costs should not be an issue with Stand Energy's proposal to expand existing gas transportation programs.

- Stranded costs;

  Response: Stranded costs should not be an issue with Stand Energy's proposal to expand gas transportation programs.

- Uncollectibles;

  Response: Stand Energy routinely performs its own billing and is responsible for its own uncollectible accounts. Collections are the supplier's responsibility in all of the

Kentucky Utility's gas transportation programs. Stand Energy does not propose to alter or change that collection responsibility. The only exception is the Columbia Gas of Kentucky CHOICE program which has a purchase of receivables programs that charges suppliers 2% of every dollar of gas delivered. Stand Energy submits that public institutions should be exempt from the Columbia 2% purchase of receivables payment since the risk of default is almost non-existent and the cost is passed to customers.

- Disconnections;

  Response: Only the supplier of last resort can completely disconnect customers from a supply of natural gas and only then within the rules promulgated by the PSC. Stand Energy does not propose to change the disconnection rules.

- Steps necessary to maintain system integrity;

  Response: Existing gas transportation programs do not "threaten system integrity" in any Kentucky LDC to our knowledge. Expanding the pool of large commercial, industrial and governmental customers who are eligible to transport should also not affect system integrity, if the program is properly designed and implemented.

- Access to pipeline storage capacity;

  Response: Suppliers should have pro rata access to incumbent utility pipeline storage capacity (paid for by ratepayers) in direct proportion to the percentage of LDC gas load served by that supplier. E.g., a supplier providing 5% of the LDC's "core"/firm natural gas load should be entitled to use 5% of the utilities' pipeline storage assets. Otherwise, "core"/firm customers served by suppliers are paying for assets (through utility delivery charges) that they would not receive any benefit from.

- Impacts of new natural gas retail competition programs on existing utility services and customers.

Response: Stand Energy is not proposing any new retail competition programs. Stand Energy's proposal is to expand existing gas transportation programs to allow more commercial, industrial, educational and governmental customers to select their own gas supplier which should have no affect on existing utility services and customers.

2. Provide:

a. A list of the states in which Stand Energy provides small-volume customers with gas supply.

Response: **Responder: Mark Ward.** There is no definition of "small volume customers" nor does that term have a standard definition in the natural gas industry known to Stand Energy. Stand Energy supplies natural gas to customers in the following states. Illinois, Indiana, Kentucky, Michigan, North Carolina, New York, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia and West Virginia.

b. The utilities in whose service territories Stand Energy is active in each state.

Response: **Responder: Mark Ward.** Illinois (Illinois Power, Nicor); Indiana (Citizens, NIPSCO, NIFL, Sycamore and Vectren); Kentucky (Columbia, Delta, Duke, LG&E, Richmond Utilities Shawnee); Michigan (Consumers Michigan Consolidated), North Carolina (Public Service Co.); New York (Corning, National Fuel, NYSEG, Orange and Rockland), Ohio (AMP Ohio Columbia, Duke, Dominions, Limestone, Ohio Gas, Pike, Union Rural, Vectren, Waterville); Pennsylvania (Columbia, Dominion, National Fuel);

South Carolina (Piedmont), Tennessee (Atmos), Virginia (Atmos, Columbia, City of Richmond, Virginia Natural, Washington Gas & Light) and West Virginia (Bluefield, Dominion Hope, Equitable, Mountaineer).

c. The number of customers of each utility identified in b. above, and the number of customers served by Stand Energy within the utility's service territory.

Response: **Responder: Mark Ward.** **Objection**. The number of customers served by Stand Energy Corporation in a given local distribution company service territory is confidential, proprietary, and competitive information that Stand Energy protects from disclosure and will not provide in any regulatory proceeding without the entry of a protective order due to the participation in this case by numerous competitors to Stand Energy Corporation which would be entitled to receive a copy of our responses hereto. Furthermore, Stand Energy submits that the requested information is not relevant, necessary or appropriate to any proper area of inquiry in this proceeding.

John M. Dosker

John M. Dosker, Attorney

d. The length of time Stand Energy has served customers in each utility's service territory.

Response: **Responder: Mark Ward.** Stand Energy Corporation has been in business for over 25 years since 1984 serving mainly commercial, industrial, and governmental customers. The date of Stand Energy's first entry into each local distribution service territory is unknown.

e. The experience of Stand Energy's customer growth (or decline) in each utility's service territory.

Response: **Responder: Mark Ward.** Stand Energy does not track customer growth or decline by service territory and is not able to provide that specific data. Stand Energy has consistently grown in the volume of natural gas delivered to customers since its inception.

f. For each response to items a. through e. above, indicate the mix of residential and commercial customers served by Stand Energy.

Response: **Responder: Mark Ward.** Stand Energy serves very few residential customers in any state. Our "mix" of customers is 99% commercial, industrial and governmental. Stand Energy serves less than 1% of our total annual natural gas deliveries to residential customers.

3. Columbia Gas of Kentucky ("Columbia") filed the most recent annual report on its Choice Program with the Commission on June 4, 2010. The last paragraph on page 2 of the report indicates that, since the inception of the program through the most recent month available when the report was filed, participants in the program had paid $17,280,299 more than "[i]f they had not opted to be supplied by a marketer in the first place." Explain whether Stand Energy considers Columbia's Choice Program to be successful, from a customer perspective, based on the absence of customer savings.

<u>Response:</u> Responder: Mark Ward. Stand Energy has recently participated in Phase II of Columbia Gas of Kentucky's Choice program. Stand can only evaluate the benefits to Stand's customers. Stand's customers have paid <u>less</u> on the Choice program than they would have paid had they purchased their gas supplies from Columbia.

4. Does Stand Energy serve any residential customers through Columbia's Choice Program? Has Stand Energy made any offerings to residential customers in Columbia's Choice Program? If not, why?

<u>Response</u>: Responder: Mark Ward. Stand is serving residential customers in Columbia of Kentucky's territory under Columbia's Small Volume Gas Transportation Program. Service to these residential accounts is in conjunction with a contract that Stand has to serve the Commonwealth of Kentucky's large accounts under Columbia's Delivery Service (Gas Transportation) tariff. The "residential customers" served by Stand Energy include the Governor's Mansion and the Old Governors Mansion and the Berry Hill Mansion. As far as offerings to residential customers please see the response to Staff's question #5 below.

5. Refer to the Ward Testimony starting at the bottom of page 2 and continuing through the sixth line of text on page 3. Confirm whether Stand Energy is interested in serving residential customers as part of expanded retail unbundling in Kentucky.

<u>Response</u>: Responder: Mark Ward. Stand Energy's current business plan does not include mass marketing to residential customers in any of the LDCs that offer a Choice program to residential customers. Stand is willing to provide gas service to any Kentucky residential customer that comes to Stand and requests service; however, Stand is not going to participate in mass marketing i.e. door-to-door solicitation, mass mailings, media advertising or telemarketing to residential customers.

6. Refer to page 5 of the Ward Testimony. Provide the workpapers and/or spreadsheets which show the derivation of the reported savings that have been provided to the Commonwealth of Kentucky via its service to facilities located in Frankfort and to the LaGrange reformatory.

Response: **Responder: Mark Ward.** **Objection**. Stand Energy's Customer Privacy Policy does not allow the release of specific customer information unless the release is specifically approved by an authorized Customer representative in writing or pursuant to a duly issued subpoena. Without waiving the objection, Stand Energy states that it regularly provides written savings analyses to the Commonwealth of Kentucky. The Commission can obtain this information from our customer, the Commonwealth of Kentucky or issue a subpoena which Stand Energy will forward to the Kentucky Attorney General to review and address. The LaGrange reformatory has not been included in savings reports provided to the Commonwealth because the reformatory performs its own gas purchasing separate from the Commonwealth.

John M. Dosker

John M. Dosker, Attorney

7. Refer to the bottom portion of page 11 of the Ward Testimony continuing on page 12.

a. Mr. Ward refers to Kentucky-produced gas creating employment and economic development in Kentucky and bringing in tax revenue to Kentucky. Explain whether Mr.

Ward is implying that this occurs only when a Kentucky Local Distribution Company ("LDC") or gas marketer participating in a retail choice program in Kentucky purchases Kentucky-produced gas.

Response: **Responder: Mark Ward.** It is a fact that increasing natural gas purchases from Kentucky producers by either the LDCs or by marketers would create employment, economic development and tax revenue for the state of Kentucky. The statement had nothing to do with a retail choice program. The statement was made in support of Stand Energy's proposal to increase the number of customers eligible to participate in existing gas transportation programs by lowering the annual usage requirements to qualify and other changes.

b. Referencing hurricanes such as Katrina, Mr. Ward states that Stand Energy has experienced that local gas supplies are more reliable than Gulf Coast gas supplies. Explain whether Mr. Ward is aware of any of Kentucky's large LDCs losing their gas supply as a result of hurricanes in recent years.

Response: **Responder: Mark Ward.** The attached power point slides from Wood Mackenzie October 2005 (one of the most comprehensive sources of knowledge about the world's energy industry), details that the volume of shut-in gas reached 6.0 Bcf per day or 11% of the US gas supply as a result of the referenced hurricanes. It can reasonably be assumed that any Kentucky LDCs getting their gas supplies from the Gulf of Mexico were impacted by these shut-ins.

As far as the specific impact to Kentucky LDCs, this question should be directed to the individual utilities in Kentucky. Stand Energy Corporation obviously has no way of obtaining or providing confidential utility gas supply information. Even if marketers were routinely permitted to intervene in Kentucky gas utility rate cases, this information would not likely be made available to the marketer.

8. Refer to the Dosker Testimony at page 8, lines 5-8. Describe the predatory behavior and the utilities involved therein that Stand Energy reports to have observed.

Response: **Responder: John Dosker.** Predatory and anti-competitive behavior can take many forms. In order to transport natural gas on a utility, a marketer must sometimes first disclose the identity of the specific customer to the distribution utility to obtain necessary utility and customer-specific information. Stand Energy has lost such sales either because the distribution utility immediately sent out a utility sales person to "negotiate" a rate with the customer, or the unregulated affiliate can be made aware that a customer is considering purchasing gas supply from Stand Energy and then the unregulated affiliate can magically show up and offer a contract to the customer at a lower price. Sales lost to unregulated affiliates almost always involve statements stressing the utility "brand" thereby suggesting greater reliability over a mere marketer. It is for these anti-competitive reasons that Stand Energy is adamant in its position that Kentucky should **NOT** permit unregulated affiliates to operate within the territory of their regulated parent utility under any circumstances.

A specific example of predatory pricing we encountered several years ago when bidding to serve the U.S. Army Facility at Ft. Knox, Kentucky within the LG&E service territory. The contract was ultimately awarded to Atmos Energy Marketing, the unregulated affiliate of Atmos

Energy Corporation. Upon receiving notice that we were not the successful bidder, Stand Energy submitted a Freedom of Information Act (FOIA) request to Ft. Knox. Stand Energy received the winning bid terms and discovered that Atmos Energy Marketing won the contract with a total price lower than Stand Energy's cost to serve. The only way this would be possible would be for Atmos Energy Marketing to sell natural gas, transportation and storage below cost because these items were already paid for by Atmos ratepayers. (Atmos Energy Marketing was "managing the assets" of its regulated parent company the utility Atmos Energy Corporation, and probably other LDC's, when this event occurred).

Depending upon how predatory pricing is defined, a customer with facilities that qualify for gas transportation service in both Cincinnati, Ohio (Duke Energy Ohio) and Northern Kentucky (Duke Energy Kentucky) might reasonably ask why he or she is charged $430 a month more in Kentucky for administrative and other "services", including meter reading, associated with the provision of gas transportation service. The Duke gas transportation services provided to Kentucky and Ohio customers are housed in the same building utilizing what we reasonably assume are the same or similar employees. The monthly charges to customers should be similar in both jurisdictions. This is a fundamental issue of fairness and reasonableness.

9. Refer to page 9 of the Dosker Testimony at lines 10-17. Clarify whether the reference to Atmos Energy Corporation ("Atmos") is merely an example of such a relationship between a utility and a non-regulated affiliate or if Mr. Dosker is contending that Atmos Energy Marketing has not successfully managed the transportation assets of Atmos.

Response: **Responder: John Dosker**. See response to question number 8, above. Whether Atmos Energy Marketing has "successfully managed the transportation assets of Atmos" the utility depends on your point of view. From the point of view of the stockholders of Atmos Energy Marketing, I suspect managing assets has been profitable or Atmos Energy Marketing would cease to manage assets owned by others. From the point of view of Atmos Energy Corporation, as long as the net revenue received by the utility from the asset manager is roughly comparable to the net revenue received when the utility managed its own system - asset management is probably viewed as a success because it reduces the number of utility employees required to perform those functions. However, from the point of view of the Atmos ratepayer and competitive marketers - asset management does not appear capable of maximizing the return on those assets to the ratepayers or as providing any competitive options to commercial, industrial and governmental customers for natural gas supply. It does not benefit ratepayers or competitive marketers (or competition for that matter) to have Atmos Energy Marketing utilizing gas, transportation or storage paid for by Atmos Energy Corporation ratepayers (or other ratepayers) to supply customers in other LDC's (LG&E in the last example). Whatever fee is being paid for the "management of the LDC assets" it is costing the competitive marketplace and ratepayers far more.

10. Refer to page 11 of the Dosker Testimony at lines 13-1 7. Explain whether Mr. Dosker can state unequivocally that the Commission Staff's discussion of customer choice in response to Stand Energy's raising the issue of expanded transportation service reflects a misunderstanding of the difference between the two topics, or whether it might be that the Commission Staff is concerned about marketers being permitted to serve certain types of customers without also taking on the responsibility of offering transportation service to all small-volume customers, including residential customers.

Response: **Responder John Dosker**. I cannot "unequivocally" state whether the Commission's Staff misunderstands Stand Energy's position or whether the Commission's Staff intentionally misrepresented Stand Energy's position to legislators and the Editors of Kentucky's major newspapers. Regardless, Stand Energy's position has been consistent - Stand Energy advocates the expansion of existing gas transportation programs.

11. Refer to page 12 of the Dosker Testimony at lines 15-21. Identify the relevance to this proceeding of the extent to which the Commission's website is or is not user-friendly.

Response: **Responder: John Dosker**. The existence of a user-friendly website is absolutely relevant and essential to every single case that comes before the Kentucky Public Service Commission. Without a user-friendly website, it is impossible for members of the public and parties who do not reside in or near Frankfort, Kentucky to monitor regulatory proceedings before the Commission. The Commission Staff appears more concerned with protecting regulatory proceedings from the light of day than it is with encouraging participation by interested parties and transparency of the process.

12. Refer to the discussion starting at line 9 on page 13 and continuing to line 21 on page 14 of the Dosker Testimony.

a. At lines 14-15 on page 13, Mr. Dosker states that "[t]he Kentucky PSC Staff routinely challenges intervention by gas marketers in natural gas utility rate cases." As an example of the Staffs routinely challenging such intervention, Mr. Dosker cites Case

No. 2009-00141. Explain how the events in a single case can be construed as evidence of something that occurs routinely.

Response: **Responder: John Dosker.** Stand Energy can only speak from the treatment it has received from the Kentucky PSC in this and other proceedings and the treatment we have observed other marketers receiving at the hands of the Commission Staff. We don't think there really is any legitimate debate about the Commission Staff's desire to conduct the public's business in private. If there was a "search" function on the PSC website, we could simply conduct a search of all motions for intervention and then view the results of those motions. This is another example of the Commission Staff criticizing Stand Energy for not having access to information under the dominion and control of the PSC and which is not easily accessible to the public.

b. At lines 18-20 on page 14, referring to Case No. 2009-00141, Mr.
Dosker states, "By the time the PSC ruled on Stand Energy Corporation's revised Motion to intervene, the deadline for filing testimony in that case had passed - effectively silencing Stand Energy." The procedural schedule in that case called for intervenor testimony to be filed by July 26, 2009. The Commission's Order denying Stand Energy's initial motion to intervene was issued July 15, 2009. Stand Energy filed its revised motion to intervene on July 30, 2009, four days after the date for filing intervenor testimony, and the Commission granted the revised motion on July 31, 2009. The Commission responded to the revised motion one day after it was filed. Explain whether Mr. Dosker knows why Stand Energy required 15 days from the date of the Commission's denial Order to file its revised motion to

intervene and why Stand Energy filed the revised motion after the due date for filing intervenor testimony.

Response: **Responder: John Dosker**. The retention of an expert witness, providing that expert with necessary documents to review and the generation of expert testimony could not have been accomplished competently within the few weeks time available. Stand Energy filed a revised motion to intervene, when the owners of the company authorized the filing in order to continue to monitor the proceedings.

Rather than encouraging the participation by Stand Energy (which had factually unique information and expertise to provide according to a Motion filed by Kentucky Attorney General's Office of Rate Intervention), the Commission Staff supported Columbia's position to deny intervention by the Stand Energy Customer Group. This is notwithstanding the fact that Columbia has never objected to participation by a Customer Group in its cases before the Ohio PUCO and ignores the reality that Stand Energy's participation in any proceeding is also for the benefit of its Kentucky customers. The fact that it took over 5 weeks for our Motion to Intervene (filed on June 9, 2009) to be ruled upon by the PSC (denied), was further support for our decision to scale back our participation in that case and merely monitor the proceedings.

c. Explain why, concurrent with the filing of its revised motion, Stand Energy did not seek an extension of time or deviation from the procedural schedule and request that it be permitted to file testimony at the time it filed its revised motion.

Response: **Responder: John Dosker**. See answer above. Stand Energy did not seek extraordinary relief for a variety of reasons but mainly related to the obvious fact that we were not remotely welcome to participate in the proceedings. Stand Energy reasonably determined that any testimony provided by Stand Energy would be discounted or ignored by the Commission Staff.

John M. Dosker

John M. Dosker

Mark T. Ward

Mark T. Ward

STATE OF OHIO
COUNTY OF HAMILTON

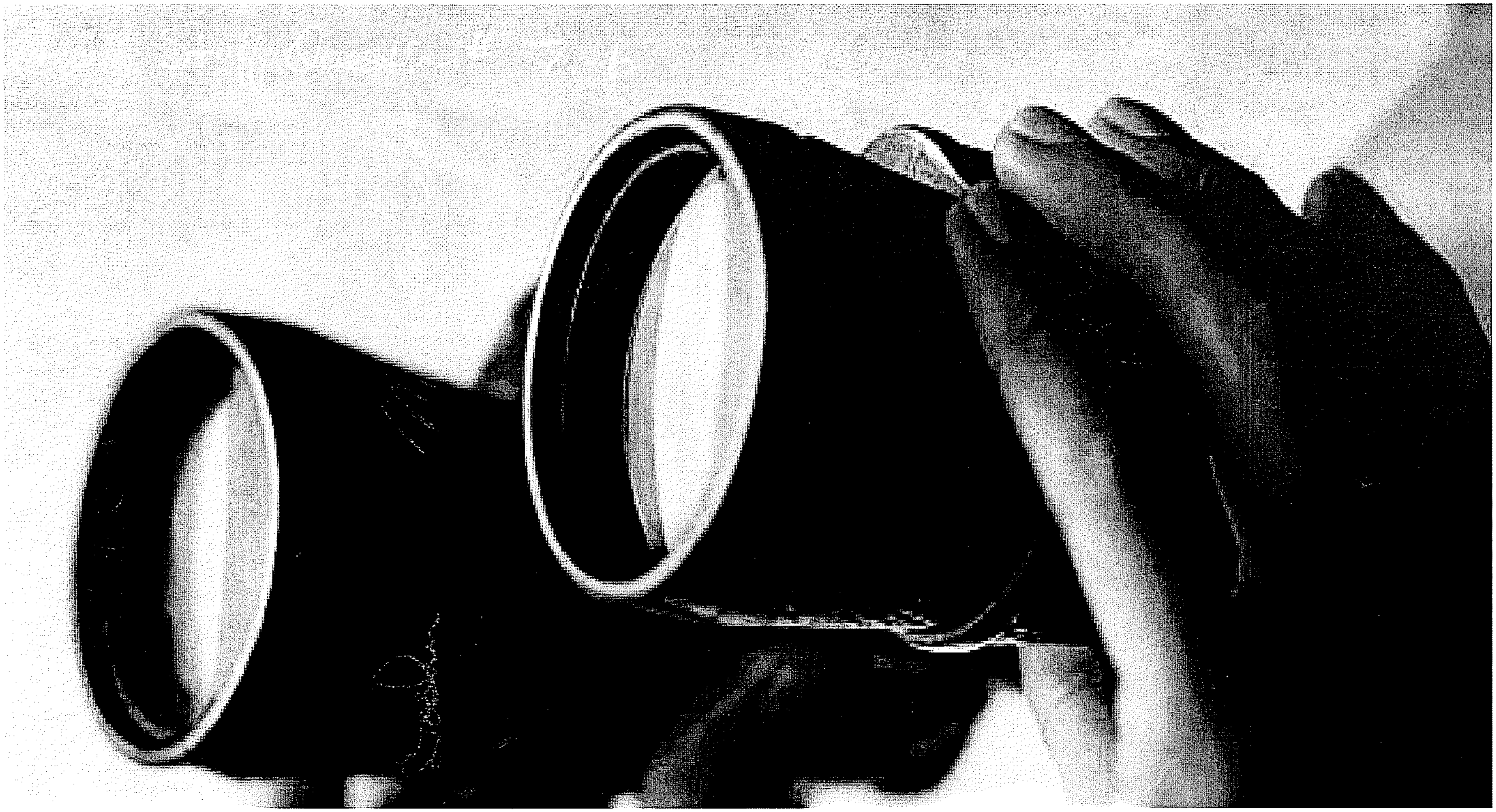
Signed and sworn to before me, a Notary Public for the State of Ohio by John M. Dosker and Mark T. Ward, personally known to me, who stated that these responses were prepared by them on behalf of Stand Energy Corporation and that the responses are true and accurate to the best of their knowledge, information and belief formed after a reasonable inquiry.

My commission expires: 2-7-2011.

Kathy L. Kellems

NOTARY PUBLIC STATE-AT-LARGE.

KATHY L. KELLEMS
Notary Public, State of Ohio
My Commission Expires
February 7, 2011



Wood Mackenzie Fall Energy Outlook

October 13, 2005

Wood Mackenzie

energy@woodmac.com
www.woodmac.com

After the Storms?

Or Is the Real Storm Yet to Come…

Gas Markets—Tight and Tightening

- In Natural Gas Markets, supply was tight and markets climbing during the hot summer season
- Katrina and Rita pushed gas markets up to new peaks, with no relief in sight for gas markets this winter

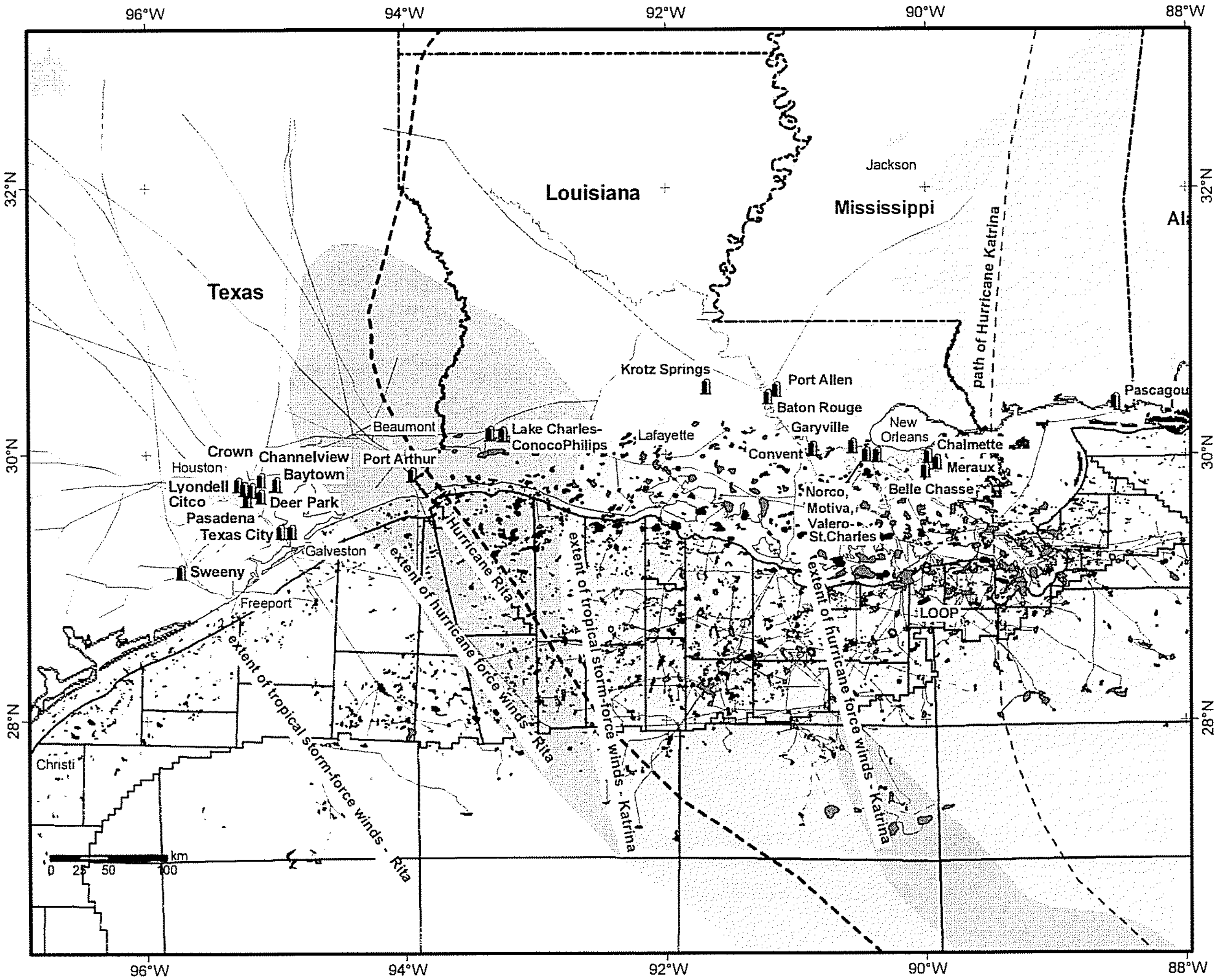
Oil Markets—Fear Factor

- Oil Markets remain edgy, fearful and high
- Although oil markets held pre-storm levels after Katrina and Rita, gasoline and heating oil (products) markets are up due to reduced refining capacity.

Power Markets—High by Association

- Power markets in general remain well-supplied, but high natural gas prices are translating into significant pressure on wholesale and retail power prices.
- Katrina and Rita intensified that pressure, and could also cause some complications in regional power markets due to processing outages.

The Path of Devastation—Katrina and Rita

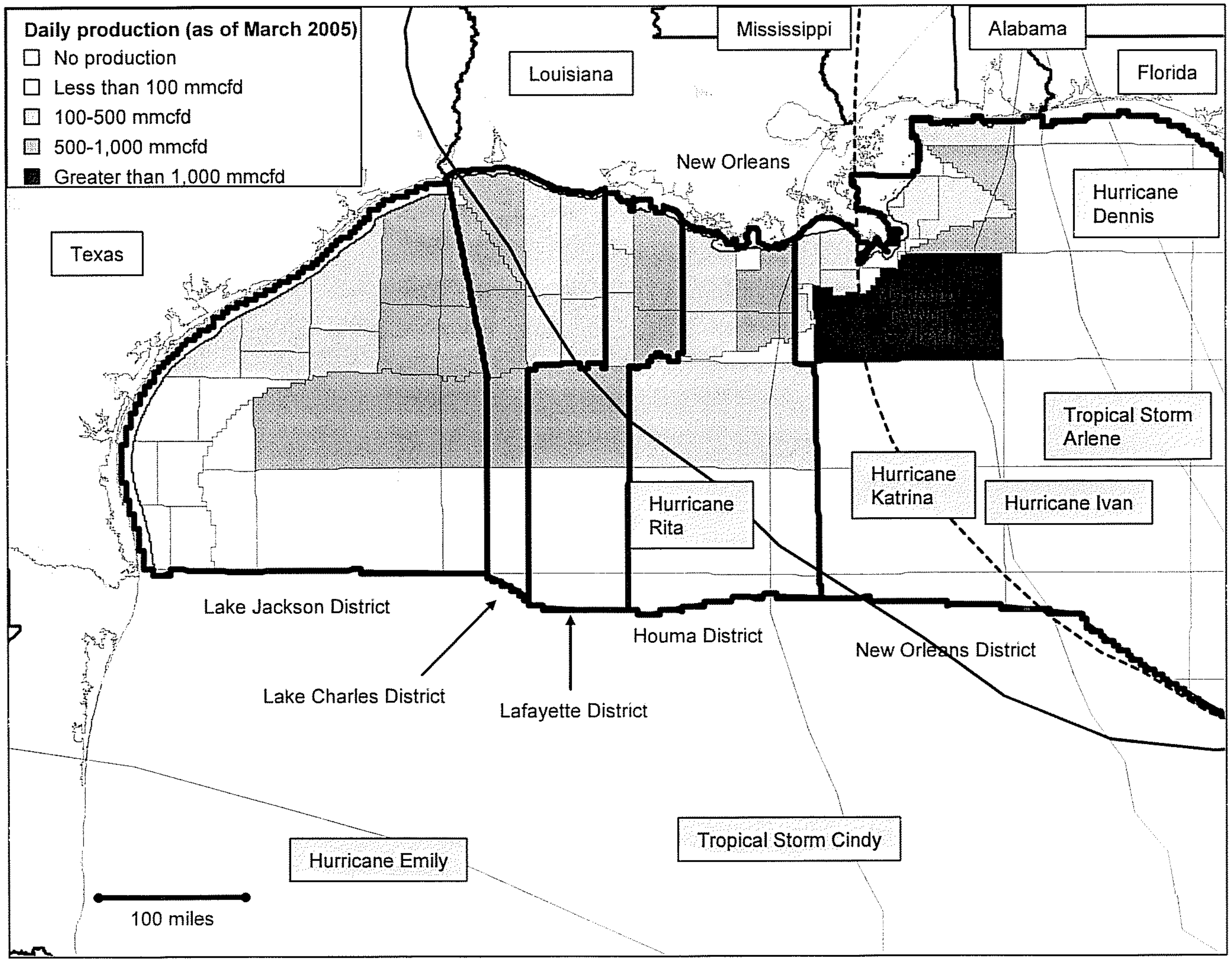


- Two devastating Hurricanes, first Katrina, and then its unwelcome sister Rita entered the Gulf of Mexico (GoM) as potent Category 5 hurricanes.
- With both Rita and Katrina, nearly all links in the energy value chain have been affected—upstream, processing, pipelines, and support infrastructure required to maintain these links.
- The GoM currently supplies 22% of US gas, and is 2nd only to the onshore Gulf Coast.

Katrina and Rita's Legacy

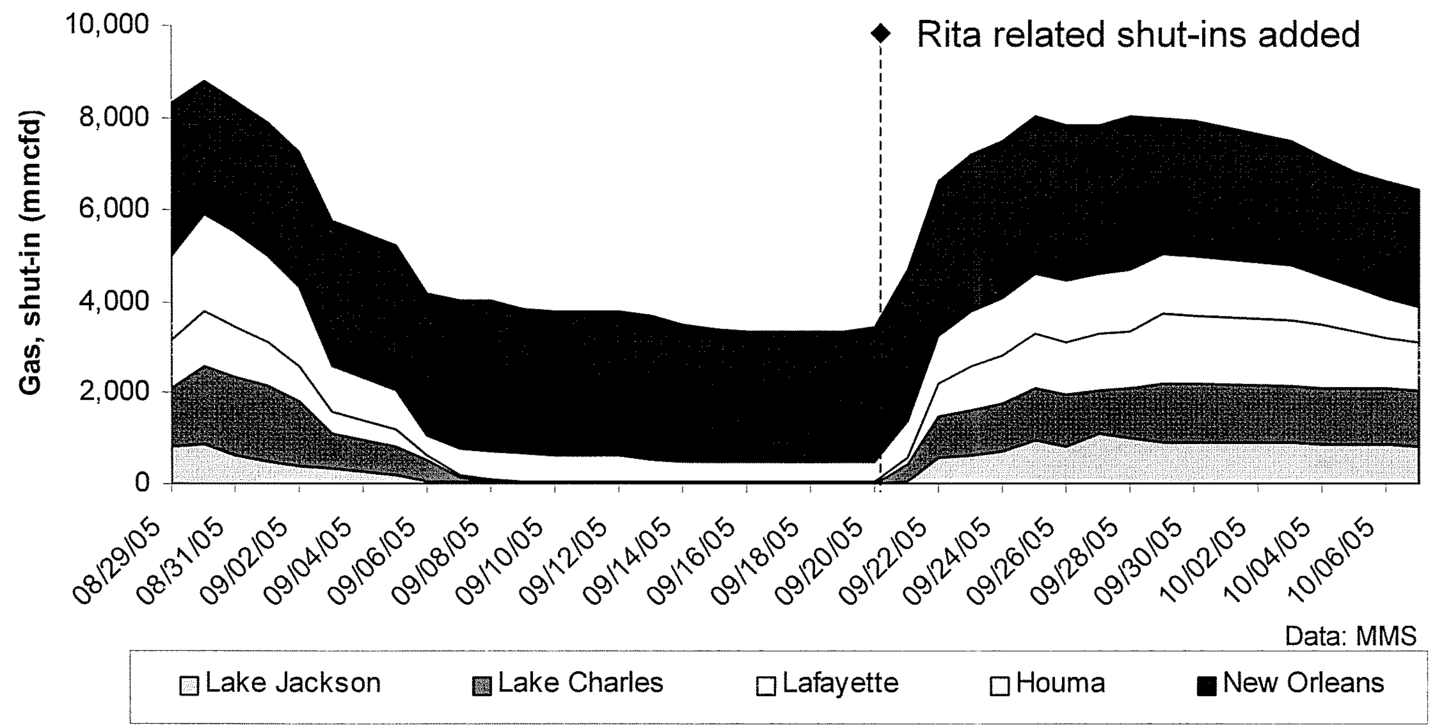
- In the wake of these two storms, 6.0 bcfd of gas supply is currently shut-in in the GOM, this represents 11% of US gas supply
- The storage position is weakening with little time before heating season to make up the lost injections, winter prices rose from $9.00/mmbtu to $14/mmbtu
- In gas markets, a cold winter could mean a shortfall in supplies, with interruptible LDC customers at risk, and under an extremely cold weather scenario LDC curtailment procedures could come into play for the first time in years
- Under any scenario, winter prices are expected to hold between $10 and $16/mmbtu
- Oil markets are also feeling the pinch, with reduced US refining capacity impacting products markets
- Power markets will, by association, feel the effects of the twin storms

2005 GoM Hurricane Season: Record Destruction



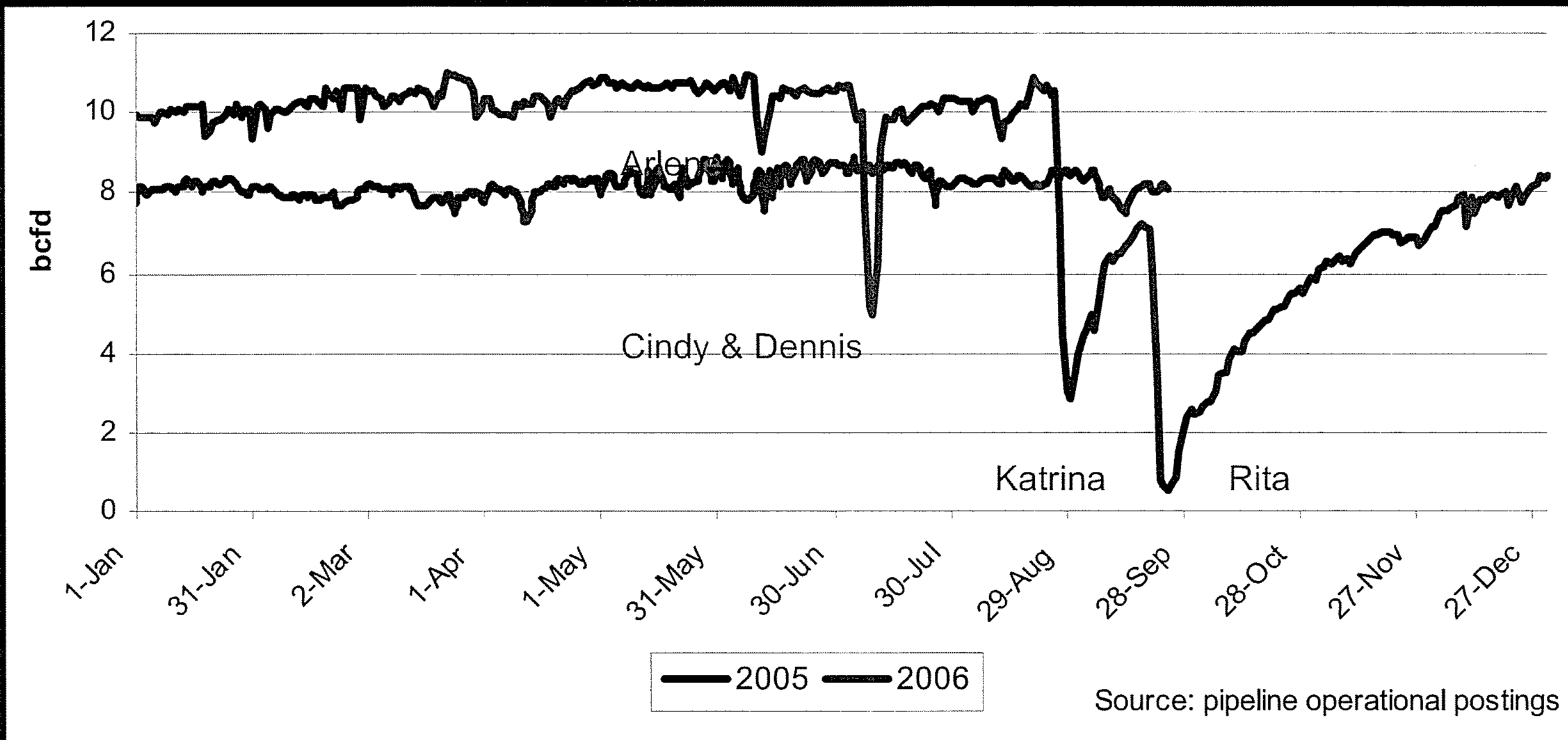
- With memories of Hurricane Ivan just a year ago, the 2005 hurricane season has been one of the most active and is already the most destructive season on record.
- Following the devastation of Katrina, its unwelcome sister Rita entered the GoM) as an equally potent hurricane.
- Katrina and Rita damaged nearly all links in the energy value chain have been affected: upstream, processing, pipelines, and support infrastructure required to maintain these links.
- The GoM currently supplies 21% of US gas, and is 2nd only to the onshore Gulf Coast in terms of US gas supply.

Shut-in Gas Volumes due to Hurricane Katrina/Rita



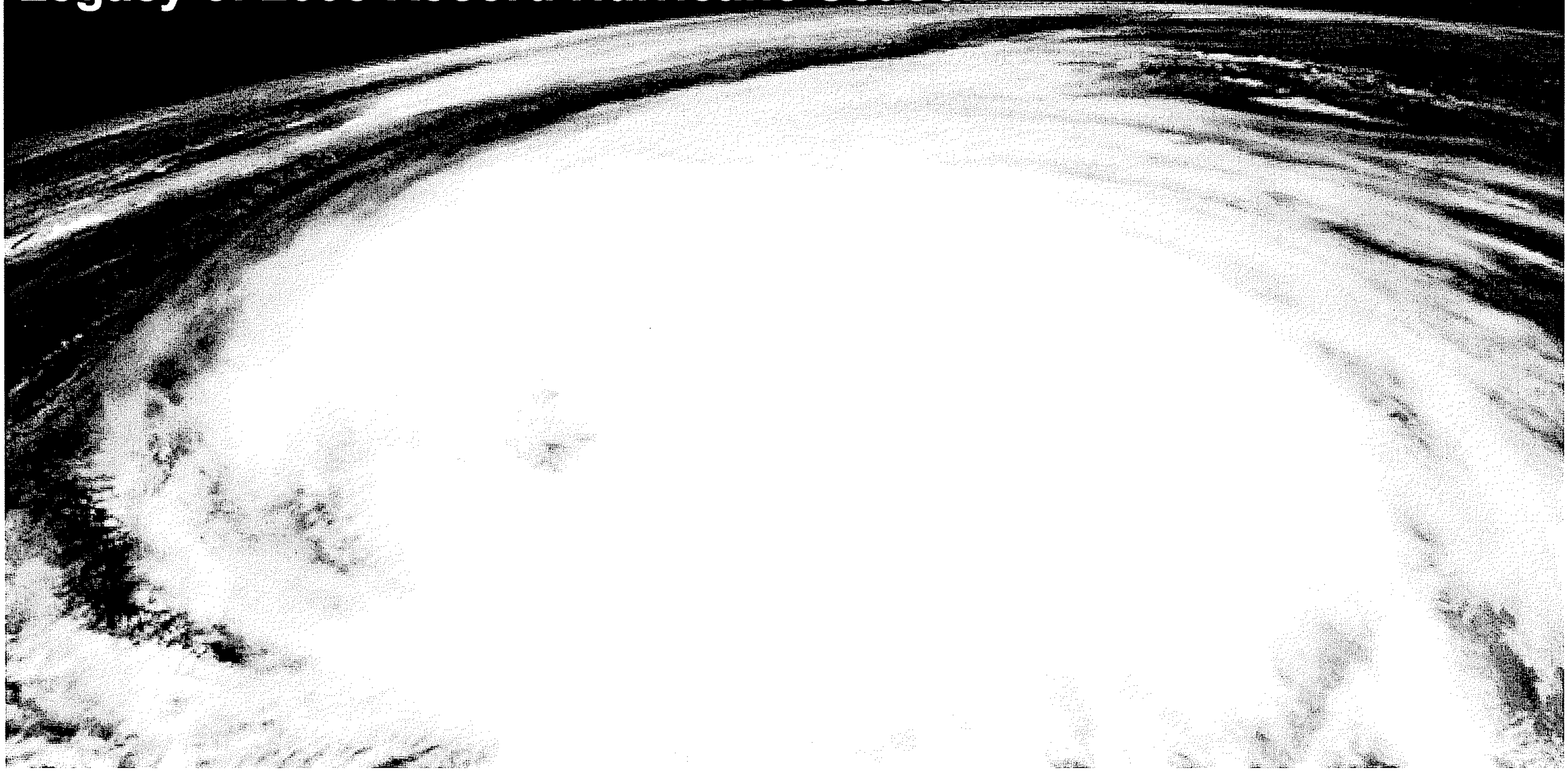
- Katrina related shut-in gas volumes had reached a plateau at around 3.4 bcfd before Rita and after more than 3 weeks since first shut-ins were reported, as several links within the GoM energy chain were creating a bottleneck.
- Post-Rita shut-in volumes have increased and have been slow to recover as logistical, assessment, and repair resources have been further out stretched.

A New Offshore GoM Production Level?



- Significant long term GoM shut-ins (>~850 bcf) have resulted due to the record 2005 hurricane season. Slow and gradually restoration of production has occurred through 2006.
- Although the GoM was producing approximately 10 bcfd prior to the record 2005 hurricane season, pipeline operational postings indicate that a new production level of 8-8.5 bcfd has been established. Almost all of the reported damaged offshore facilities have been restored to pre-storm levels. Has 1.5-2 bcfd of GoM supply been lost?

Legacy of 2005 Record Hurricane Season



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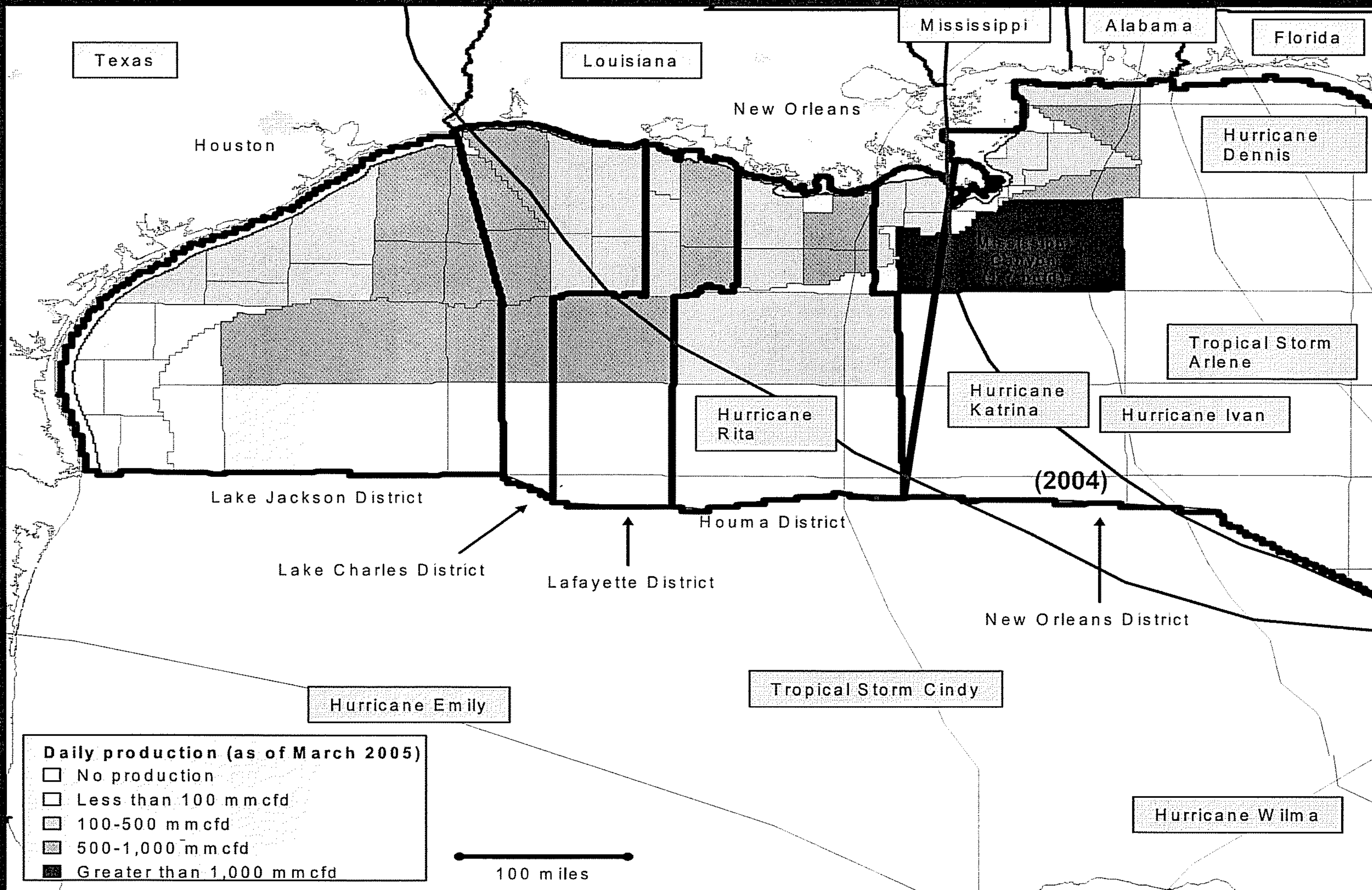
2005 GoM Hurricane Season: Record Destruction



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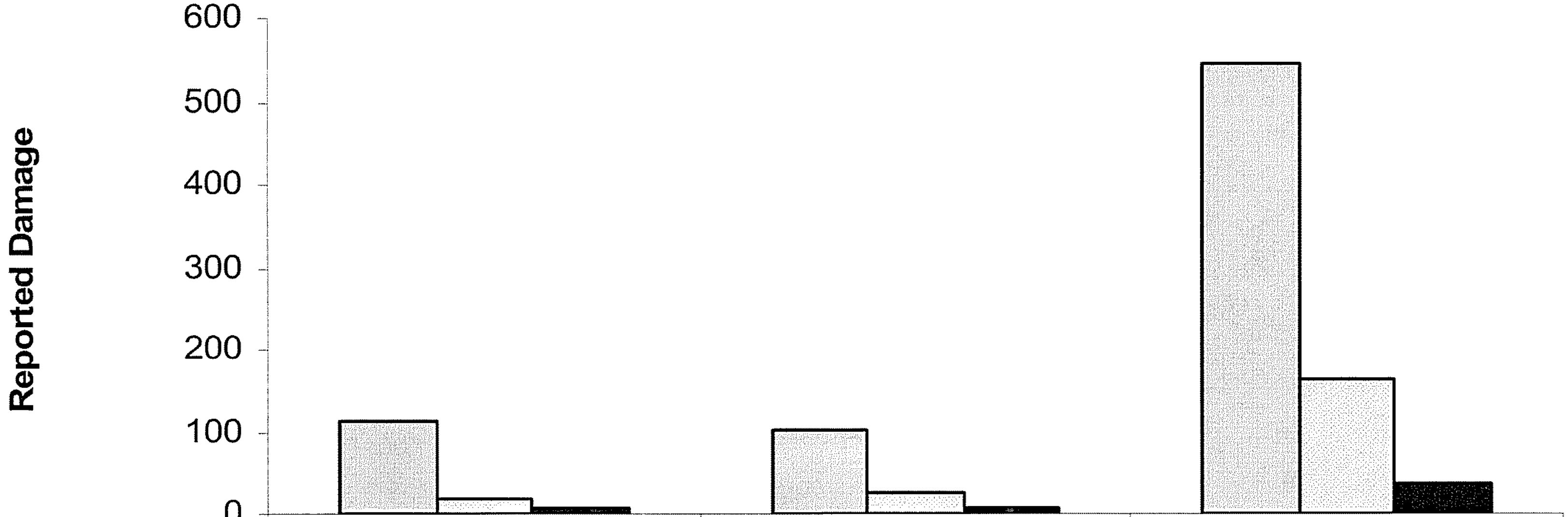
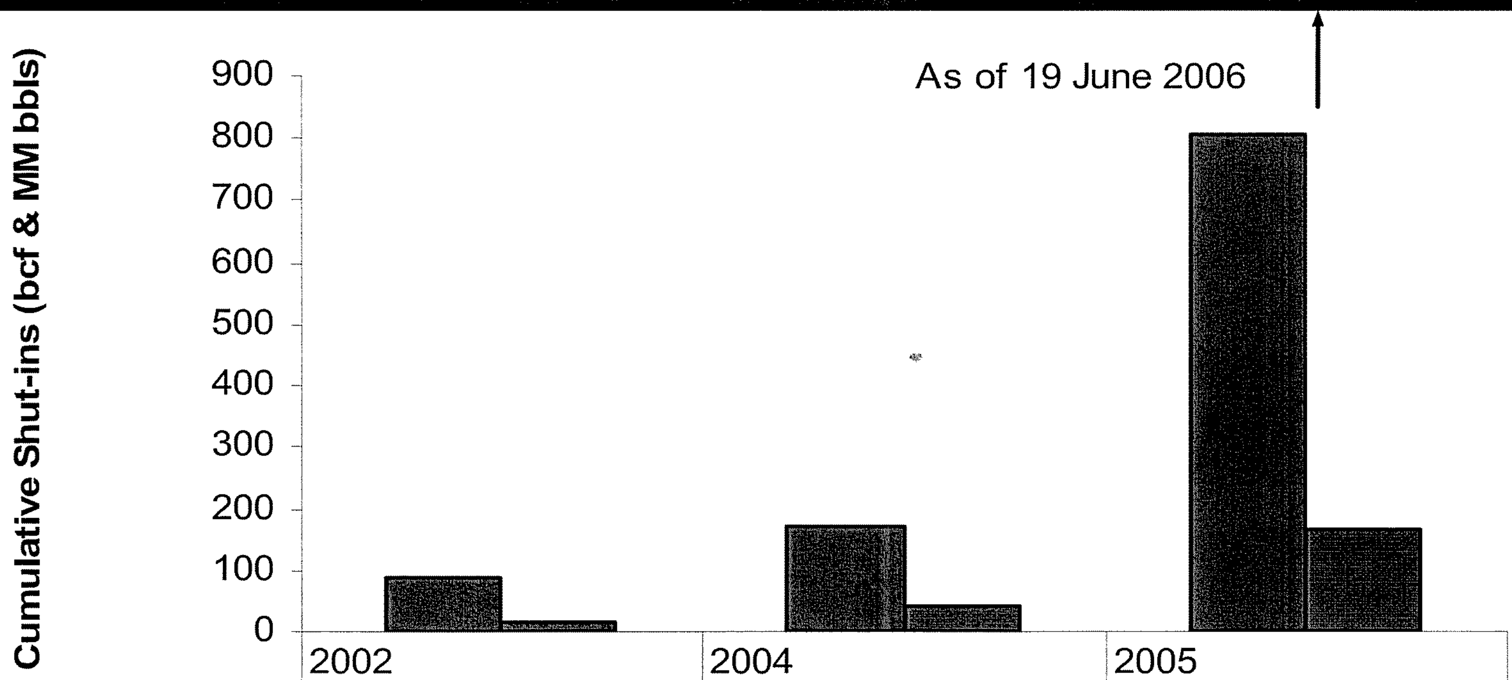
Damage Comparison with Recent Major Storms



	2002 Isidore/Lili	2004 Ivan	2005 Katrina/Rita/Wilma
Pipelines	114	102	545
Platforms	17	27	165
Rigs	8	7	36

Source: MMS, RigLogix

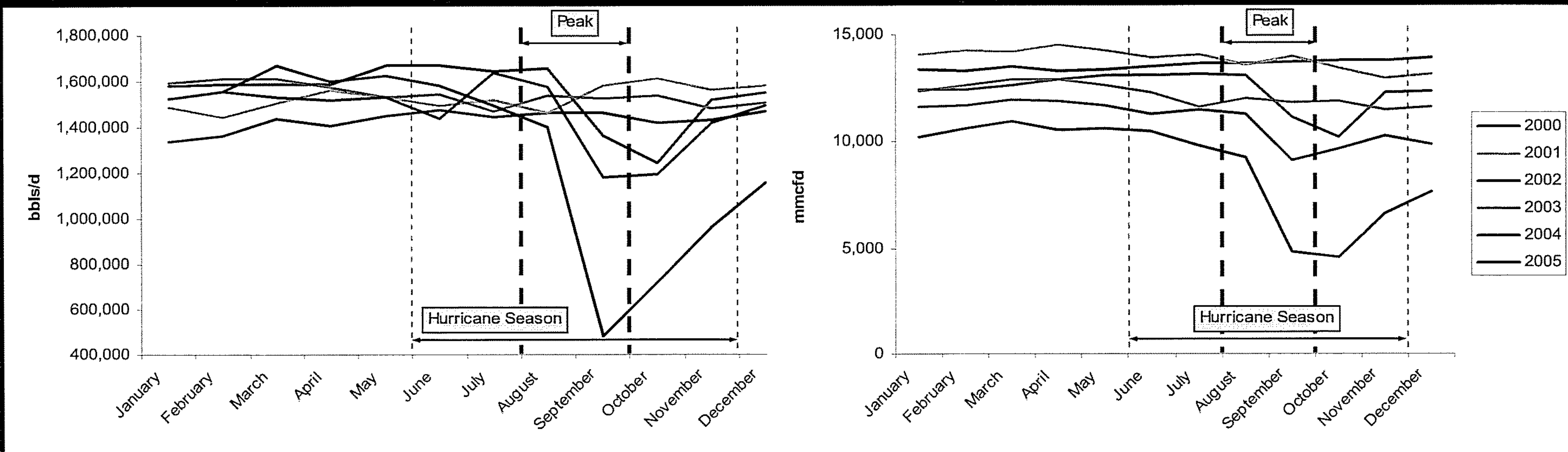
Cumulative Shut-in Comparison with Recent Major Storms



	Isidore/Lili	Ivan	Katrina/Rita/Wilma
Cum. Shut-ins (bcf)	89	172	804
Cum. Shut-ins (MM bbls)	14	44	166

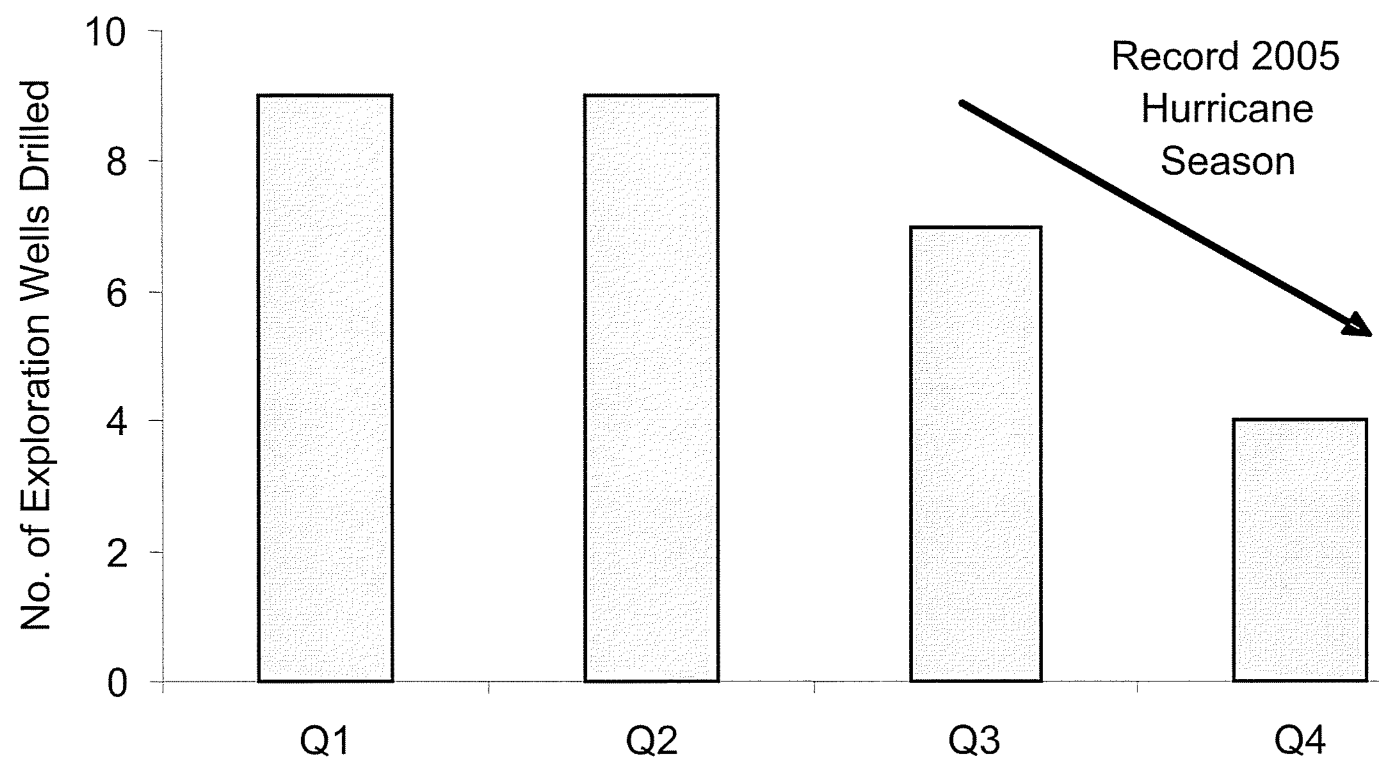
Source: MMS

Unprecedented Loss of Supply (2000-2005)



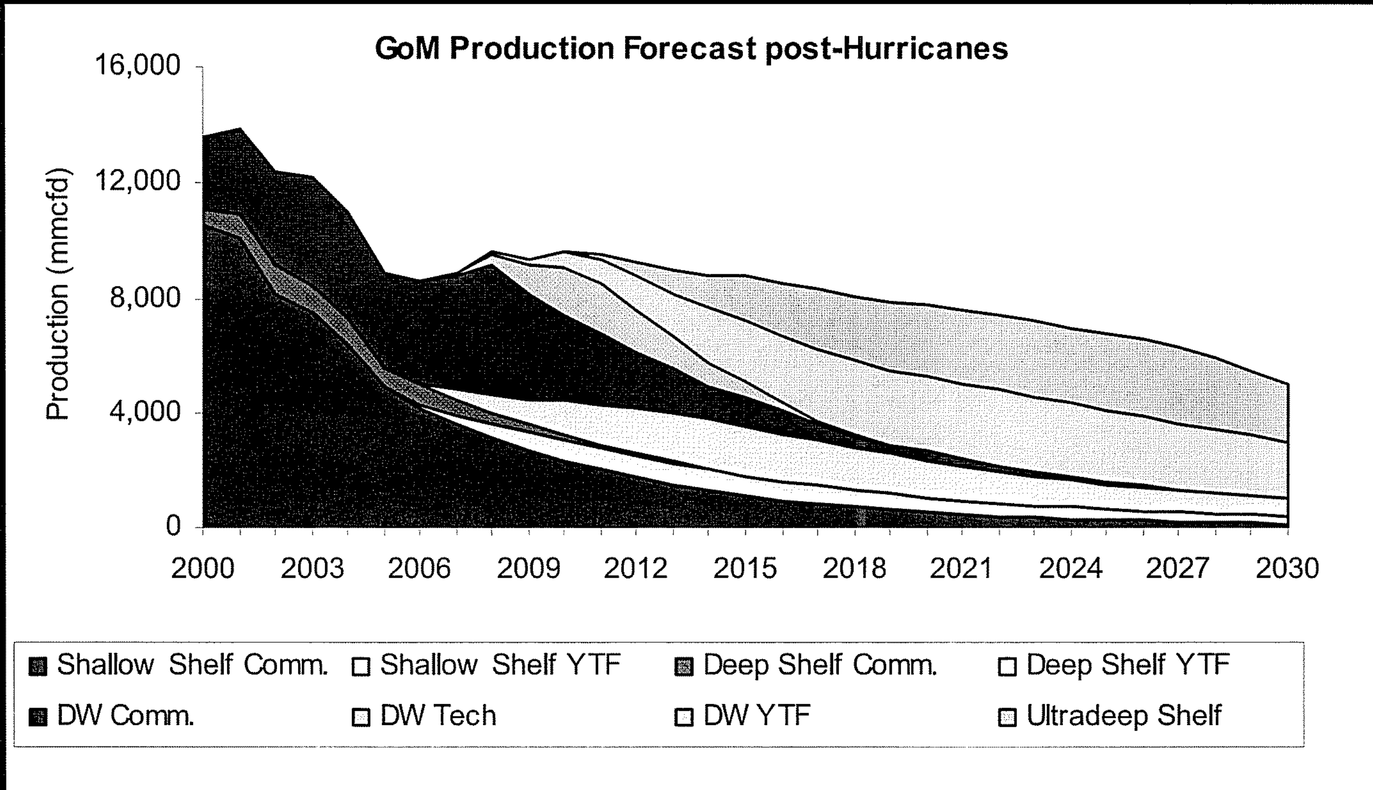
- As of 19 June, according to the Minerals Management Service (MMS), these storms have accounted for cumulative shut-in oil and gas volumes totalling approximately 173 million barrels (31.6% of annual GoM oil production) and 833 bcf (22.8% of annual GoM gas production), respectively. Moreover, 180,000 b/d (12%) and 936 mmcfd (9.4%) of pre-storm GoM oil and gas production remains shut-in and the pace of recovery has slowed considerably. Steady, but slow recovery of GoM oil and gas production is expected through the 4Q 2006.

Effect on Deepwater GoM Exploratory Activity



Source: Wood Mackenzie Deepwater GoM Upstream Service

GOM Production Outlook—Direct Loss of Supply, Delays and Exploration Lags Drag Down the Outlook



The Hurricane Risk Will Add a Premium to the Winter NYMEX Strip

- At Wood Mackenzie, we've typically modeled winter price expectations
- In a tight market the risk is typically on the high side, that is cold weather pushes prices up more than warm weather offers downside
- As a result, we've developed a model to capture "expected value," and the difference between a normal weather price outcome and the expected value offers a measure of the risk premium

Henry Hub Expected Price Path With and Without Hurricane Interruption—As of August