

NATURAL GAS PURCHASING, WHAT YOU NEED TO KNOW

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NG CONTRACTING

COST COMPONENTS

- Commodity
 - Physical NG
 - NYMEX Futures Priced at Henry Hub
- Basis
 - Transportation Cost to a Delivery Point
- Distribution
 - Utility Costs from City Gate to Meter

NG CONTRACTING

Smaller Accounts (< 7,000 dth/year)

- “Customer Choice” or “DCQ” accounts
- Supplier pricing based on “*utility-provided*” customer usage data (weather normalized)
- Full requirements
 - Supplier assumes risk of over/under usage
- Switching to/from suppliers relatively easy

NG CONTRACTING

Larger Accounts

- “Transportation” or “Contract Quantity” accounts
- Transportation agreement with utility
 - Maximum Daily Quantity (MDQ)
 - Greater delivery/usage restrictions
 - Higher probability of curtailments/interruptions
- Supplier pricing based on “*customer-provided*” usage

UTILITY TRANSPORTATION AGREEMENTS

Questions to ask yourself

- Do we have a Transportation Agreement?
 - Where is the Agreement?
- Do we have a utility account representative?
 - Who is my utility account representative?
- When was the last time someone reviewed the agreement?
 - When does it expire? Does it auto-renew?
 - What is my MDQ? Is it accurate

DELMARVA POWER AND LIGHT (DPL) TARIFF

**Service Classification: Medium Volume Firm Transportation Service
("MVFT")**

Availability

- Monthly Usage > 2,000 MCF
- Maximum Daily Quantity ("MDQ") < 500
- "...subject to availability of adequate gas transmission and distribution system capabilities"

DELMARVA POWER AND LIGHT (DPL) TARIFF

Rates and Charges

- Customer Charge - \$757 per month
- **Demand Charge** - \$16.14 per MCF of Billing MDQ
- Delivery Charge - \$0.518 per MCF
- Balancing Fee - \$0.3388 per MCF of Imbalance Volumes
- Environmental Surcharge - \$0.01215 per MCF

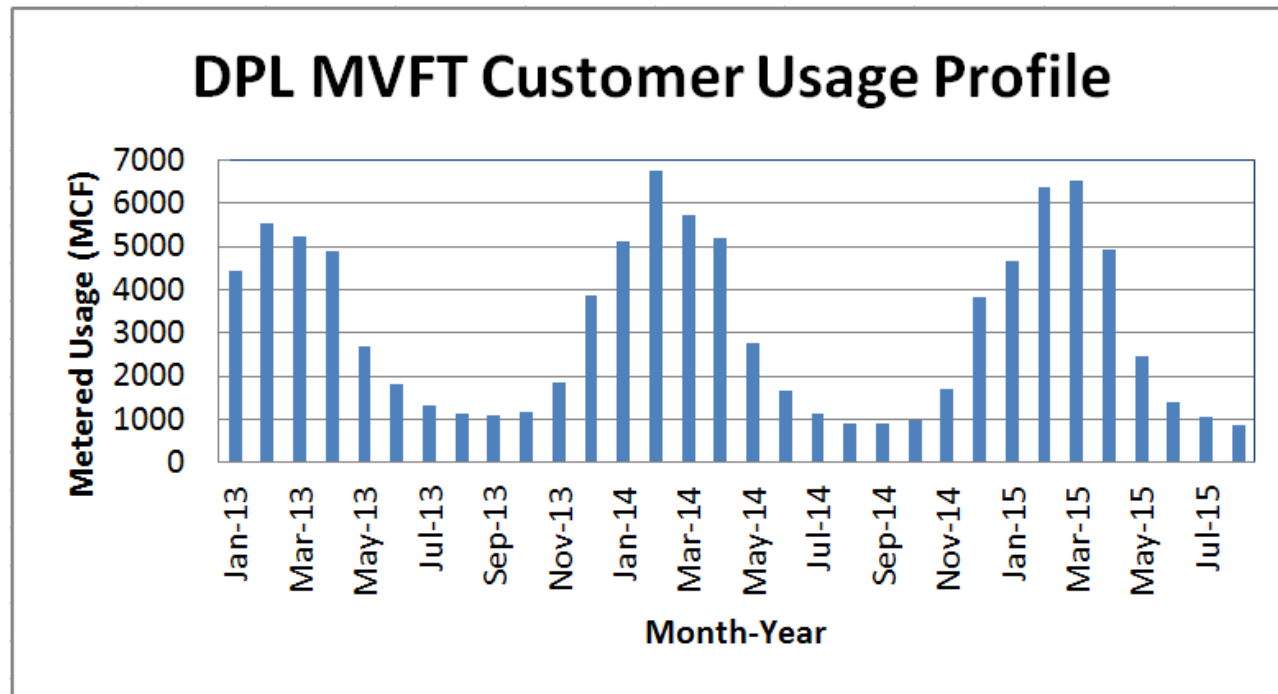
DELMARVA POWER AND LIGHT (DPL) TARIFF

Rates and Charges

- In addition, the Customer will pay all applicable delivery charges, authorized and unauthorized overrun charges, imbalance cash-out charges, balancing fees, taxes and any surcharges that may apply.

MVFT SERVICE AGREEMENT

Existing firm sales customer, executed agreement February 2007



MVFT SERVICE AGREEMENT

Contract Term - 1 year, renews unless 90 days prior notice given

Transition Charge - \$15,000

Contract MDQ - 450 MCF

➤ **\$72,600/yr**

“Customer hereby agrees that if Customer exceeds its Contract MDQ during the months of October through March, the Contract MDQ shall be adjusted to equal the highest daily take in such period. Customer further agrees that other changes to increase or decrease Contract MDQ shall be made as provided in the Gas Service Tariff.”

DELMARVA POWER AND LIGHT (DPL) TARIFF

“The Customer's Contract Maximum Daily Quantity (“Contract MDQ”) shall be set initially at the Customer's MDQ in effect as of April 1, 2003.”

“The Company will consider written requests to reduce Contract MDQ based upon evidence of a permanent change in the Customer's process or facility loads which, in the sole judgement of the Company, indicate a material reduction in demand likely to continue for three years after considering an extrapolation of the Customer's recorded load and growth history to the Company's design weather conditions.”

DELMARVA POWER AND LIGHT (DPL) TARIFF

“Once Contract MDQ is reduced, any subsequent instances in which the Customer exceeds Contract MDQ or any request for an increase in Contract MDQ will not automatically result in an allocation of additional capacity. No firm capacity will be offered unless it is available, and if Contract MDQ is not increased the Customer will be liable for all penalties that may be associated with exceeding Contract MDQ.”

“The Company will have no obligation to provide an increase to Contract MDQ if, in the Company's sole judgment, the system-wide firm capacity projected to be available to the Company during the following three heating seasons is inadequate to support both such higher Contract MDQ and to supply the requirements of all existing customers and expected growth in requirements from existing and new residential and other high-priority customers”.

CONCLUSIONS

- **DPL's gas tariff and transportation agreements clearly favor the utility.**
 - Increases in MDQ's are automatic.
 - There are no automatic decreases in MDQ's (even if they are deserved).
- **Many companies have no idea how MDQs are developed, or how/when they can be modified.**
- **Legacy successfully petitioned DPL to reduce the MDQ to 280 MCF, savings customer \$30,000/yr.**

CONCLUSIONS

In some states, utilities are required to

- Review customer usages and update MDQ's once a year
- Review customer usages annually to insure they are on the appropriate utility tariff rate

Even though they are required, some utilities do not comply

- We identified customers whose contract demands had not changed in five years, even though their usages were significantly below their MDQ

OPERATIONAL FLOW ORDERS

An Operational Flow Order is a mechanism to protect the operational integrity of the pipeline.

- High or low pipeline inventory.

Require shippers to take action to balance their supply with their customers' usage.


- on a daily basis
- specified tolerance band

Shippers may deliver additional supply or limit supply delivered to match usage




CONTRACTING WITH NG SUPPLIERS

Define Procurement Objectives

- Contract term (start month – end month)
 - Contract volume (dth/month)
 - Contract type
 - Basis
 - Fixed Price (basis and commodity)
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CONTRACTING WITH NG SUPPLIERS

Define hedging strategy

- % to hedge now
 - % to hedge later
 - Set triggers for “automatic lock in”
 - Deadline for executing supply contract
 - Deadlines for executing hedges
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REALISTIC EXPECTATIONS

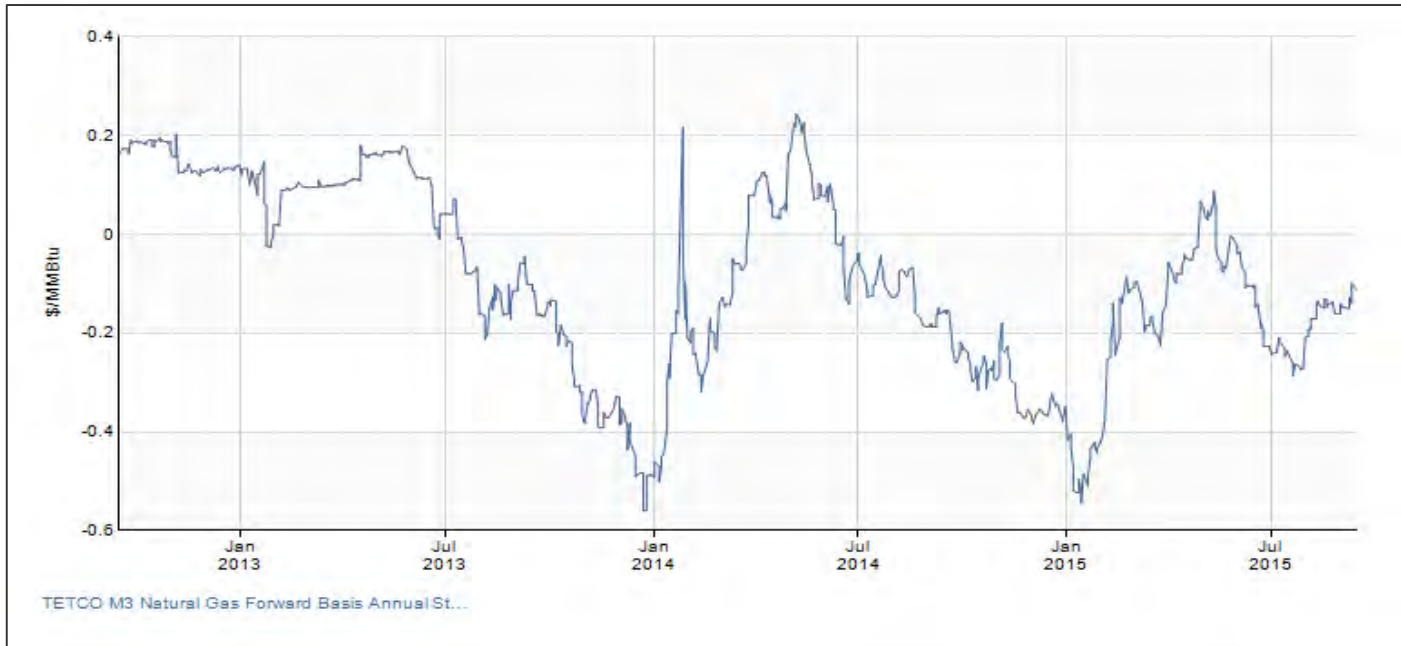
Hedges Never Go As Planned

- “Overly Conservative”, locked in
 - *Too much gas,*
 - *Too high a price,*
 - *Too far out* (in the future)

- “Procrastinator” or “Bottom Feeder”
 - Put off making decision, or
 - Waited for bottom of market
 - Ended up in the spot market

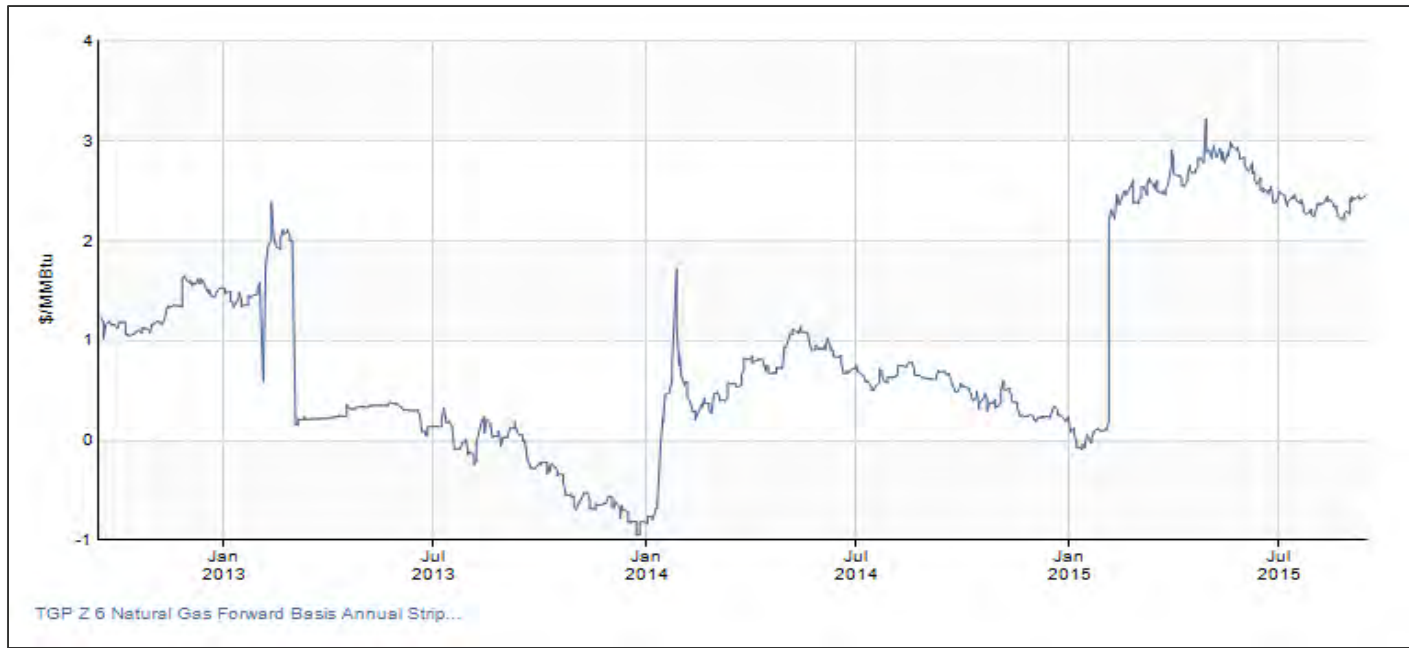
TODAY'S GAS MARKET

Paradigm Shift Has/Is Occurring....



TODAY'S GAS MARKET

Not All Locations Benefitting



RISKS STILL ABOUND

Don't Be in Spot Gas in Winter

Avoid Hedging Winter Gas at High Basis Prices

Go Long At The Right Time

What Should I Do?

