
NiSource Energy Supply Services

The Utility Gas Buyer

Karl Stanley

Energy USA – TPC Spring Conference

March 7, 2007



The Utility Statute

- Use a diverse portfolio of services to secure a reliable firm gas supply at the lowest cost reasonably possible to meet the Company's current and anticipated customer requirements.

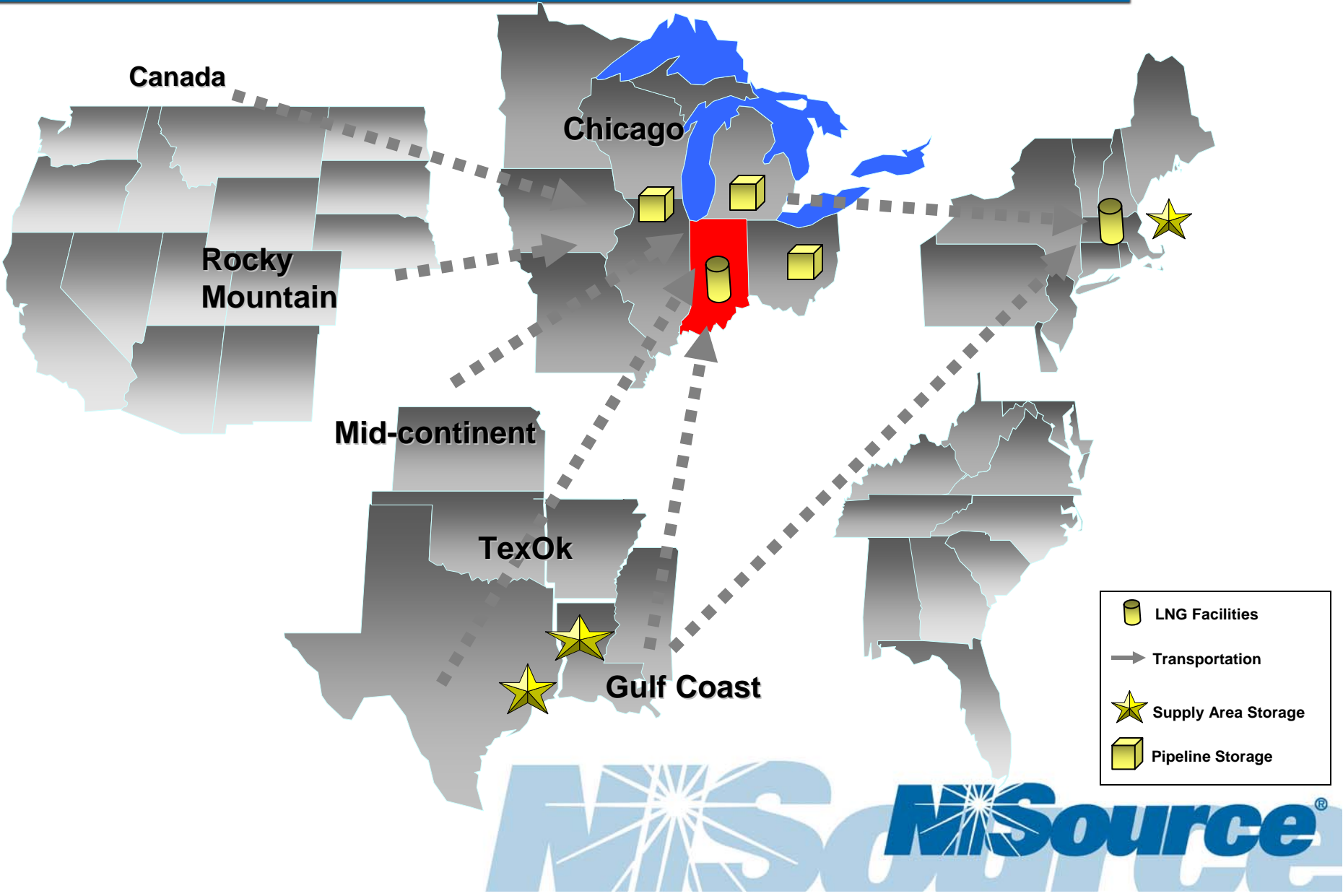


Reliable Supply – Operational Fit

- **A utility serves as supplier of last resort so its source of supply must be reliable**
 - Diversity of Supply Basins
 - Distribution System Requirements
 - Logistics
- **National infrastructure plays a critical role in successfully meeting this requirement**
 - Prior reliance on Gulf Coast supply
 - Growing influence of interior supply sources



Diversity of Supply

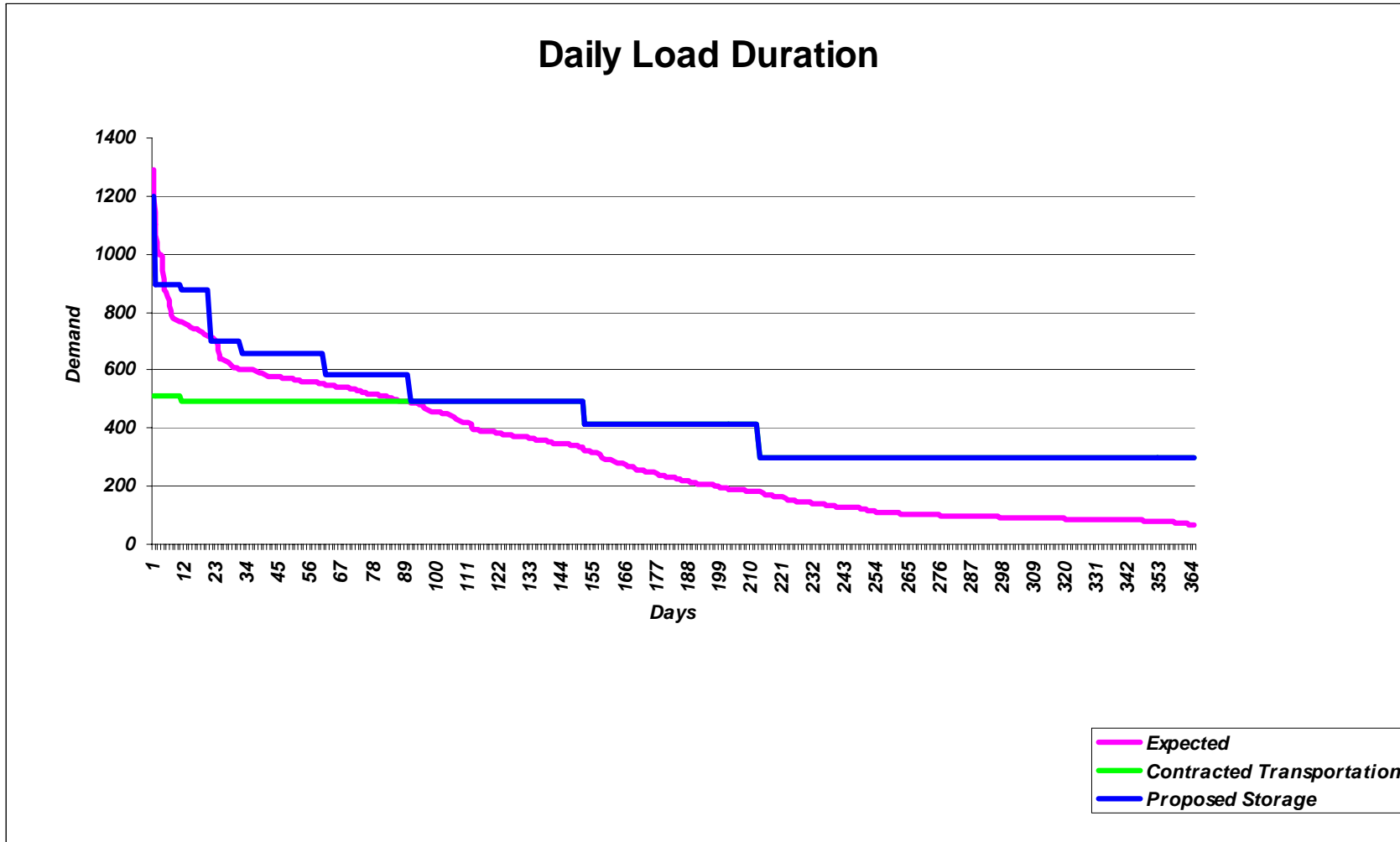


Reliable Supply – Peak Day Planning

- **A utility serves as supplier of last resort so its asset portfolio must be modeled to serve peak day requirements**
 - Transportation
 - Storage
 - Peaking Supplies
- **Planning for peak day flow does not always guarantee high asset utilization rates**



Peak Day Planning – Asset Portfolio



Lowest Reasonable Cost

- **Market based real time pricing**
 - Most utilities will purchase gas at index because those pricing benchmarks are considered market
 - Hindsight review limits aggressive risk taking
 - Risks of hindsight review can not justify limited reward
 - Analogy to Mutual Fund performance
- **The more real time the purchase price, the greater the level of volatility**
 - Peaks and Valleys are more severe
 - Consumers more cognizant of severe change

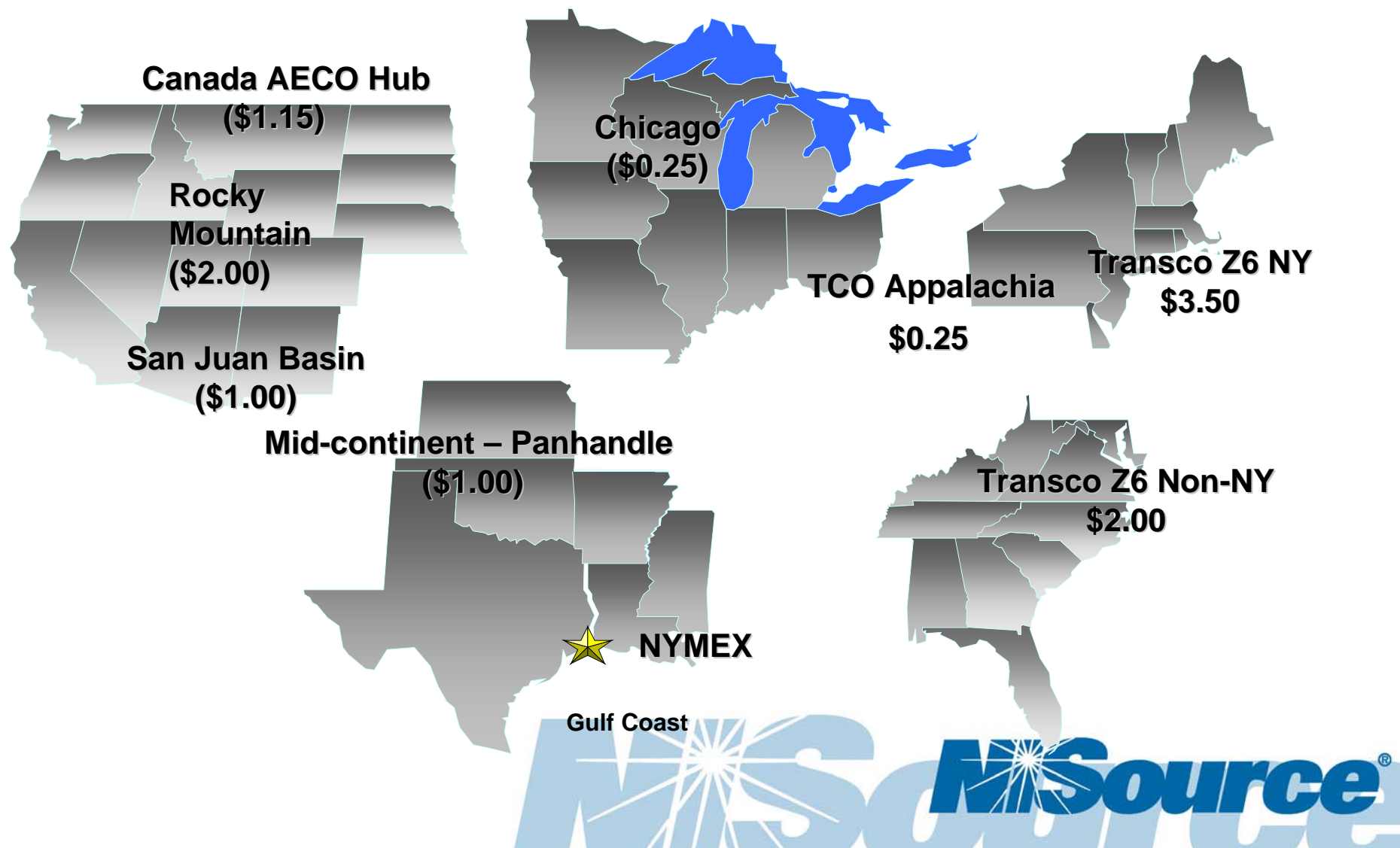


Lowest Reasonable Cost

- **A balanced supply and pricing portfolio approach can minimize the volatility of gas costs**
 - Diversity of Supply Basins
 - Storage inventory
 - Recommended/Approved/Filed Volatility Mitigation Programs
- **There is a cost to balance the supply demand equation but the payoff is reduced customer bill volatility and thus reduced customer price shocks**

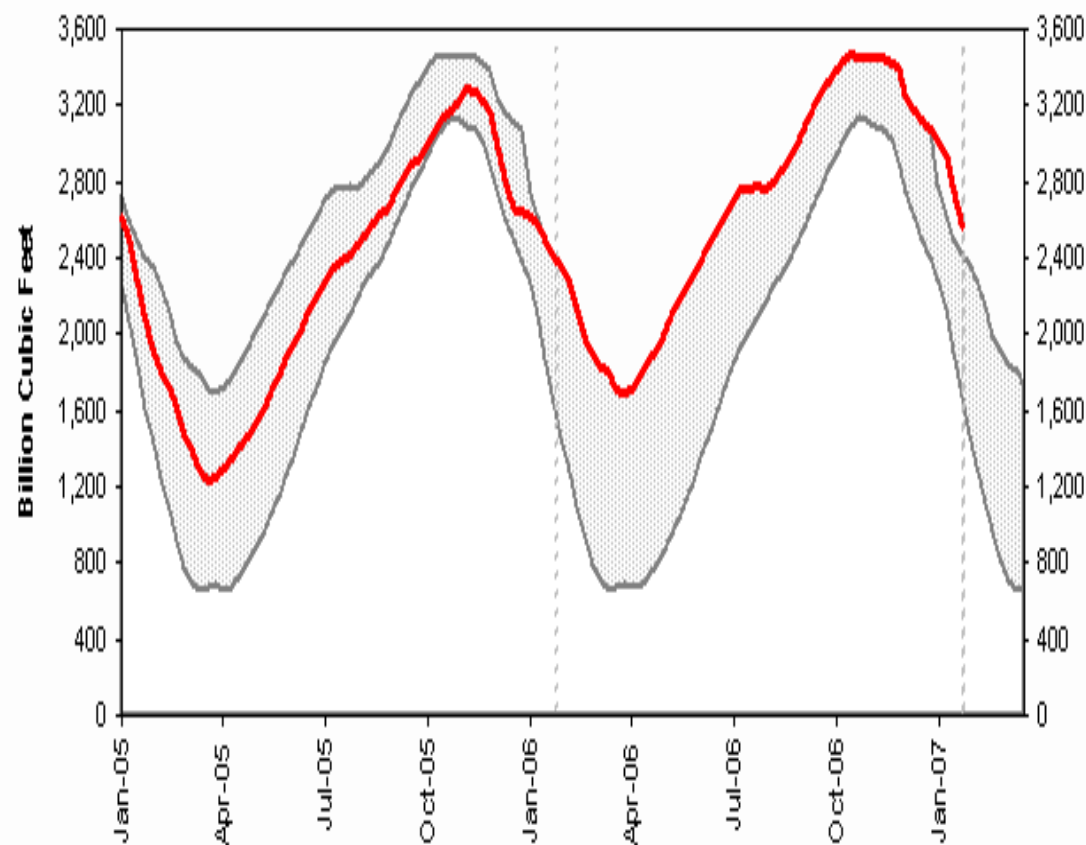


Diversity of Supply – Winter Basis Differentials



Storage Refill

- **Ratable Injections**
 - Operational Constraints
 - Veiled Volatility Mitigation Program
 - Summer Hedging Conundrum
- **Asset Optimization**
 - Value Proposition
 - 3rd Party optimization

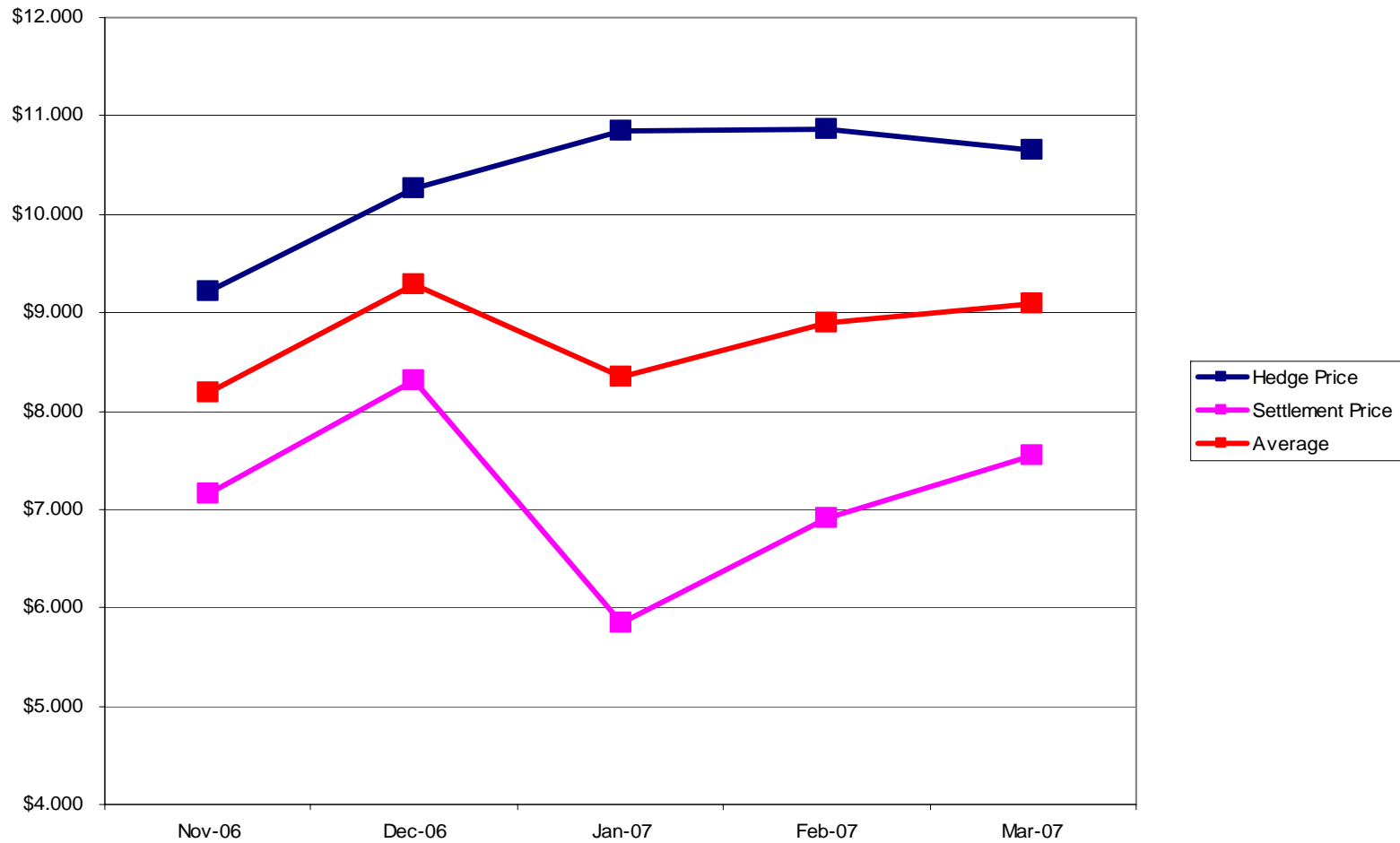


Volatility Mitigation Programs

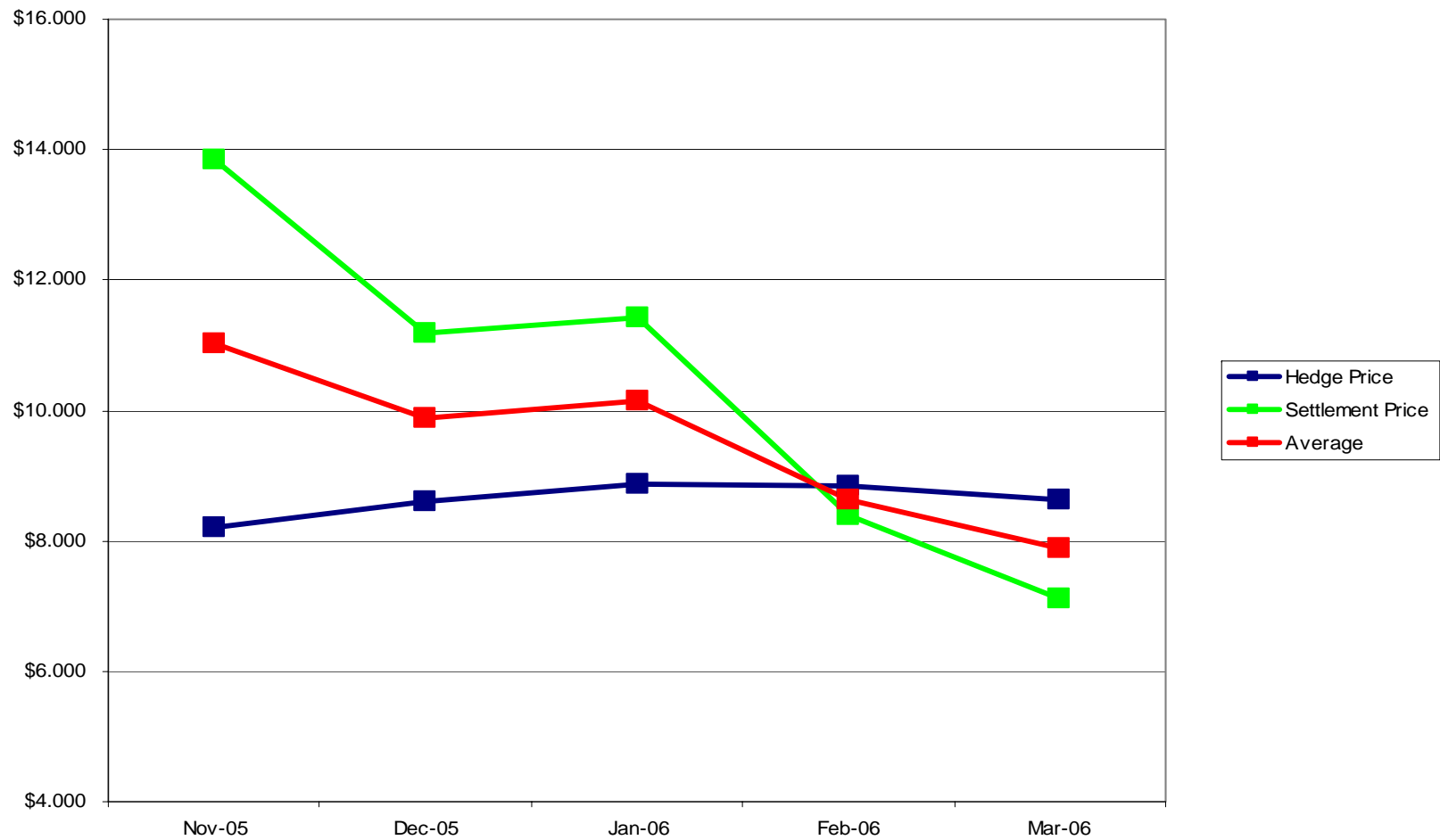
- **Dollar Cost Averaging Methodology**
 - A hedge that will be placed on a certain day at a certain time for a certain volume so that any market timing is taken out of the hedging decision
 - The length of time between your first monthly hedge and the ultimate month of flow can vary depending on the plan
 - The longer the hedging window, the more smoothing that should occur
- **Trigger Cost Methodology**
 - If the price falls to a certain level, a certain volume will be hedged at that price level
 - If the price falls to an even lower level, additional volumes will be hedged at this lower price level
 - These price triggers can be based on any number of factors including historical performance, technical indicators, forward strips, and the list goes on...



Volatility Mitigation – Winter 2006 - 2007



Volatility Mitigation – Winter 2005 - 2006

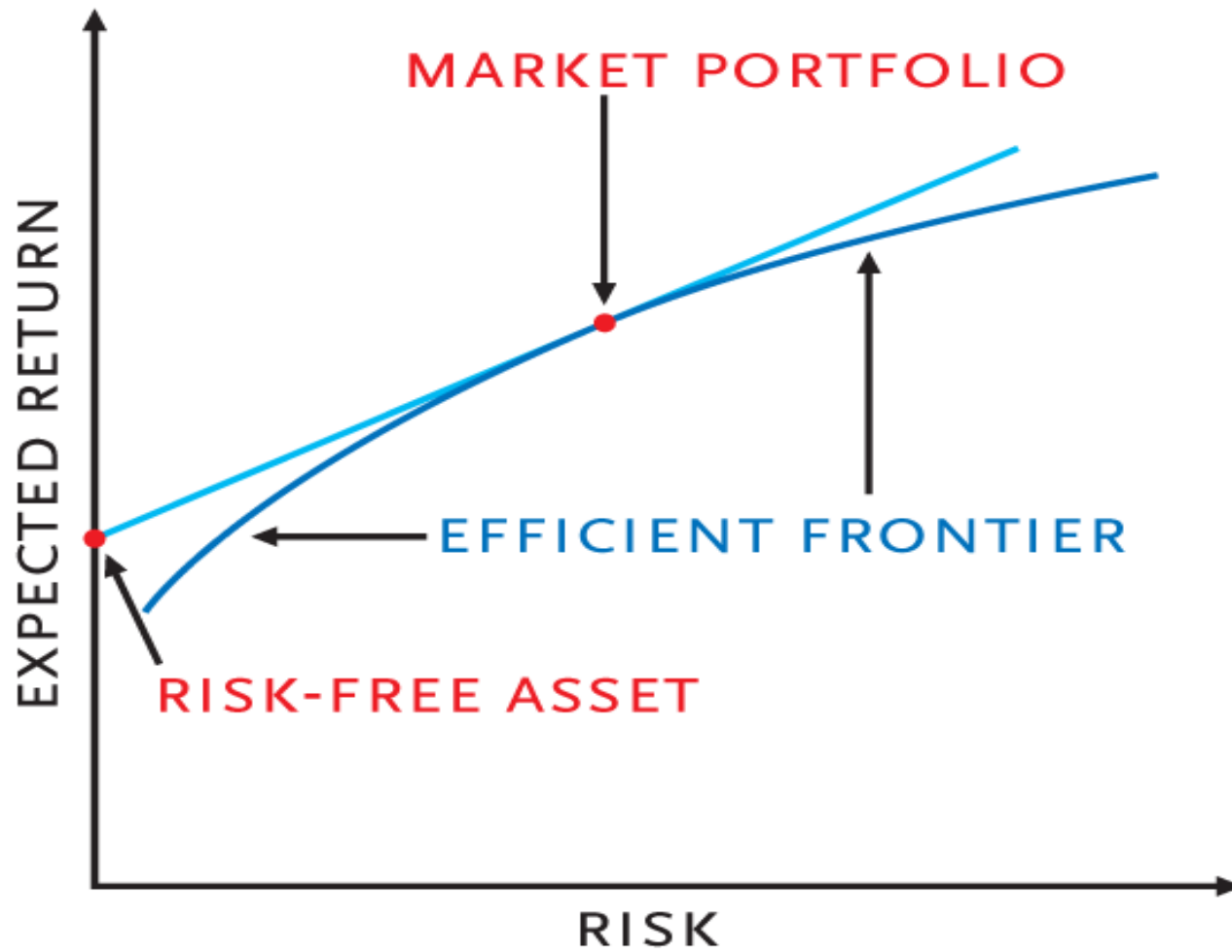


Lowest Reasonable Cost

- **Physical limitations on the flow of gas**
 - Variance in load can lead to balancing difficulties
 - To sell or not to sell
 - Reliance on flexible storage arrangements
- **Balancing First of Month (FOM) purchases with daily purchases**
 - Ease operational constraints
 - Additional volatility mitigation
 - Cut down on chasing the market



The Efficient Frontier



The Efficient Frontier

- **Every consumer, producer, and investor has a tolerance for risk and uncertainty up to a certain level.**
 - The Fear factor
 - The Pain factor
- **When an incremental movement in risk matches each incremental movement in reward you have reached the “efficient frontier”**
- **What level of uncertainty and risk would be acceptable to the average utility customer?**
 - 100% fixed, 0% floating
 - 50% fixed, 50% floating
 - 0% fixed, 100% floating



The GCA/GCR Pricing Factor

- **GCR/GCA factors must be made in advance of the billing cycle because of regulatory review**
 - Lag time develops between the creation of GCR/GCA factors and actual month of flow
 - If market volatility is significant, the greater the variance between filed rates and actual gas costs
 - Variances are captured in subsequent filings
 - Summer filings remove storage injections
 - Winter filings add storage injections
- **Regulatory agencies have begun to build market updates in to the regulatory process to more closely capture current market pricing**



Current and Anticipated Customer Requirements

- **The evolving nature of the pipeline and storage infrastructure within the U.S. will profoundly influence how utilities plan to meet the reliability requirement**
- **The role of retail choice and other customer options will be a driving force in the level of commitment provided by utilities to further infrastructure development**
- **The efficiency gains of the past few years have had a noticeable impact on declining usage per degree day but the jury is still out if the pace of those gains will continue**

