Good morning, my presentation will be related to your natural gas buying plan. My objective is to present some information that will hopefully further enhance your ability to, not only understand the steps you need to be thinking about in order to come up with a plan, but also think about what kind of plan is right for you.

I'd like to begin with a story. This fellow is looking to buy a saw to cut down some trees in his back yard. He goes to a chainsaw shop and asks about various chainsaws. The dealer tells him, "Look, I have a lot of models, but why don't you save yourself a lot of time and aggravation and get the top-of-the-line model. This chainsaw will cut a hundred cords of wood for you in one day."

So, the man takes the chainsaw home and begins working on the trees. After cutting for several hours and only cutting two cords, he decides to quit. He thinks there is something wrong with the chainsaw. "How can I cut for hours and only cut two cords?" the man asks himself. "I will begin first thing in the morning and cut all day," the man tells himself. So, the next morning the man gets up at 4 am in the morning and cuts and cuts, and cuts till nightfall, and still he only manages to cut five cords.

The man is convinced this is a bad saw. "The dealer told me it would cut one hundred cords of wood in a day, no problem. I will take this saw back to the dealer," the man says to himself.

The very next day the man brings the saw back to the dealer and explains the problem. The dealer, baffled by the man's claim, removes the chainsaw from the case. The dealer says, "Hmm, it looks fine."

Then the dealer starts the chainsaw, to which the man responds, "What's that noise?" The moral here is you have tools, but if you don't use them properly, they won't help you to reach your goals. Today I'm going to spend a few minutes talking about some tools that can help you with your task of buying and managing natural gas.

By the end of this presentation you will have things to think about that will either verify you are on the right track with your current gas buying or that you may need to make a course correction. So let's get started.
Here’s our agenda for the presentation. We’ll start out with a brief discussion about the importance of having a natural gas plan for your business.

We’ll start with the components of your natural gas bill -- focusing on the control you have of the different segments. We’ll also talk about the framework for a natural gas buying plan…
Here’s a map of the key NG points. Your UG piece is the transport across the UG franchise area to your burner tip. The upstream, or BT portion of your gas bill is largely the TCPL portion. Most of you have a BT contract with two components—landed gas at Parkway and a Western component where you hold TCPL pipe. AECO is the main western Canadian supply location and the place where most of the gas is purchased.
Here are the three components of your natural gas bill – LDC delivery, upstream delivery and the molecule.

First is Union Gas delivery. It will represent 5-10% of your cost. It will depend largely on the contract you are on (firm or interruptible) and how you utilize the contract you have. The more you utilize the contract demand in your contract, the lower your cost. This is generally a factor of how flat your load curve is.

We’re regulated by the OEB and they along with interveners on your behalf, ensure you don’t pay too much here.

Second is TCPL. Tolls here affect what you pay for upstream charges, as well your landed Parkway price is strongly tied to the value of TCPL. Good new is that the value of TCPL has been going down from a high point of about $1.25 a few years ago to .93 cents today +fuel. Like Union Gas, it is a regulated cost where you don’t have much control.

Finally, there’s the molecule portion of your bill. As illustrated on the map, most of your gas is purchased at AECO and this supply hub is tied to the NYMEX price as gas is still largely a North American supply, and influenced by North American factors.

The key is that it is non regulated. It is also the largest portion of your gas bill. In the end, how you buy your gas is in your control.
Step one
• Determine your price exposure
• Determine your price environment
• What is the price outlook?

Step two
• Establish your goals and objectives
  • S.M.A.C.T.

Step three
• Execute Strategy

Over the next few slides, we’re going to lay out the framework for a natural gas plan. The first step is getting a handle on price. What is the price exposure; what is your price environment, and what is the natural gas price outlook.

The next stop is the establishment of your goals and objectives. We’ll talk a little SMACT and then we’ll pull it all together with your execution -- not you, but your plan.
Your price exposure is directly tied to how much energy you consume. You all consume a lot, otherwise you wouldn’t be here, but it’s all relative.

It’s important to know what percentage of the budget your natural gas costs represent. Of course, the percentage is a factor of natural gas prices -- which is why it’s getting more attention these days.

Once again, the fact that you’re all here taking a half a day is a good indicator that natural gas for your business is at least important. It may even be that it’s critical to the success of your business.
We’re not going to spend a lot of time on these factors as they’ve already been discussed.

Here are the physical factors – storage, weather, drilling, Liquefied Natural Gas (LNG).

LNG will be more a factor here going forward.

**Question:** Can anyone tell me what percentage LNG represents to North American supply today?

Right -- it’s 3%, so while it is growing, that means 97% remains domestic supply.

NYMEX is a funny thing … prices will do things in contrast to what physical factors indicate.

Technical traders move the market. They like volatility and it’s how $$ are made trading these contracts. What they do can be just as important as any physical factor, the problem is, you just don’t know what they do from day to day.

Bruce illustrated some expected price ranges. There are a lot of experts that will provide these ranges and I would encourage you to understand them. I’d like to add a caution – something like Katrina will not fit into any projection. I’d also like to think that the odds of that happening are pretty low – but anything is possible.
Once we have an understanding of where your company is today in this current price environment, we can begin to work toward establishing some goals around your gas buying plan.

What is it you want to do? Does it meet budget? We’d all like to do that.

Is it buy at the market? That’s the goal of Union Gas, as part of our mandate for our system supply customers. Our WACOG is supposed to be reflective of market pricing.

Is it price stability? Example One of my customers last spring locked everything up for 5 years. They wanted price stability, no surprises, and no variance from the budget. It didn’t hurt that they were very creditworthy.

Is it to beat the market? Example Last summer one of my customers saw the price start running up, and they sold some gas they had contracted at $6.50/GJ. They made a couple dollars on this, and do you know what their new price target was from management? It was $5.50/GG.

Clearly their management had a goal of beating the market. It may not have been reasonable or realistic, but it was still a goal.

**Question:** If gas is at $8 GJ and you want $5.50, how do you buy your gas?

**Answer:** Fully indexed or month to month. The problem is you can move toward that price target, or like what happened last summer for this customer, you can start moving further away from it. It’s a double-edged sword.

So, what are your wins and losses?

What are your wins. Reducing stress/aggravation? Budget meetings w/o variance explanations? Promotions? Keeping your job?

What about your boss. What are his wins. Are they the same as yours?

Finally your company. This comes down to understanding your company’s philosophy. Is the organization risk averse? Is it a risk taker?

If gas doubles in price, are you still in business? If it goes to $3.50, does that mean greater profits?

Understanding the wins will help you to establish your gas buying goals. It may mean you have to ask some questions, of yourself, your boss, and maybe others in the organization. I would suggest it’s a worthwhile exercise.
Earlier, I told you we’d talk about getting SMACT. Wouldn’t suggest you tell your boss he needs to…never mind.

But when establishing your goals these components need to be taken into consideration.

- Specific
- Measurable
- Achievable
- Compatible (with overall business goals)
- Time frame

This works for any goal you may have. A few years ago we decided to renovate the kitchen. Just the kitchen?? Yes, this is not something that will carry on to the rest of the house. What is it that needs to get done? Sink needs to go, new faucet, new counter tops, under the counter lighting and some cupboard enhancements.

What’s the budget? Well we’ve got $3,000 to spend. Is it specific. Sure we’ve listed what we wanted to get done. Measurable. Sure. Is it Achievable? Well getting the counter done with a standard material is going to be doable. If there was any thought to having marble counter tops, that’s not achievable. Is the kitchen redo compatible with the overall household goal. Can we still put some $$ in RRSPs? Take a holiday? Get the kids registered for hockey and buy that $200 stick they insist they cannot do without? Well maybe not that, but you get the idea.

The last component is time frame. Gotta be done for Christmas. Having a family over. Gotta cook the turkey and can’t do it if the kitchen’s torn apart.

Your gas plan is like that. The difference is it needs to be continually managed.

Time frame could be your budgetary time frame.

When you’re establishing these SMACT goals, one of the underlying factors -- more than just the desire to lay off some risk by securing longer term deals -- is the ability of your organization to accept risk.

Your energy marketer should be able to work with you to help you understand what you can and can’t do.
Once you’ve got a plan, the toughest part is executing your strategy.

**Question**  Remember the options you choose are directed by your risk tolerance and **credit**.

What’s the most risky gas buying plan?

Fully indexed.

What is the most secure?

Fully hedged.

When looking at gas prices, the CGPR is the industry standard.

What is gas price in Jan of 07?

Where? How long? What price are you using?

It’s always a good thing to make sure you’re aligned with your supplier or marketer…that way there’s no surprises.
Let’s take a few minutes and take a look at the real world. What happened when gas went to $15?

I have another customer, who I knew had a hedging strategy in place and when I asked that person, they said they were fully indexed.

What happened? “Mark, I got away from my plan.” Gas price last year was high, and I just kept waiting and waiting for it to come down. Then Katrina hit and then I had to stay indexed.

He was doing those two bullets up there. Hoping and I’m guessing he had his fingers crossed.

I wonder if this scenario is familiar?

We’re now out of the winter that never was. If we had to have a warm winter, this was the time to have it. I think we dodged a bullet.

There were prediction of gas potentially going to $20. When gas came down, how did you react? Did it change your plans? Did it change the way you think about buying gas?

What are the future prices?

Next year?

Further out?

Interestingly gas prices next winter are X, 2008 are Y and 2009 are Z. Cash price today is A

As we’ve said, it’s a higher priced environment. Are all your price triggers below the market?
Up to this point we talked about having a plan for your regular gas purchases.

DCQ is the gas you bring in – Firm Even Daily’s (FED) and it’s based on your forecasted consumption. February checkpoint was a floor, many of you here likely got the action messages in your inbox.

If you were tracking above forecast, you quite likely had an idea back in Dec that you may need to bring in some gas BUT gas is $15.

Maybe that quote is what some of you were thinking.

“Oh my!- if gas would only go below $10, I would buy all my requirements!”

Now it’s Jan 20th. Price has come off.

Is that your new reaction?

I think it’s important to put things in relative terms.

Pocket your winnings. You didn’t buy at at $15 but you could have.

No matter how good you are, you’ll never get the bottom of the market unless you’re really lucky.

So grab some gas for balancing when it makes sense for your company to do so.
So, what can you take away from all of this?
The first is we are in a constantly changing environment, particularly with regard to natural gas prices.
In a world filled with competition, it is often the survival of the fittest, and having a sound NG plan is a part of your company’s health.
There is a wealth of knowledge available to you to help you make good decisions.
Your energy marketer, your union gas rep, reading material.
Once you have the knowledge it’s a matter of applying that knowledge to your strategy and EXECUTING
Finally, unlike your gas transportation bills, NG is a controllable cost. We may not always like what the costs are, but they are controllable.
In summary

- Having a plan is the most important factor
- Putting a strategy in place to meet goals and objectives is critical
- Executing the plan is the hardest part
- “The journey of a thousand miles begins with a single step.”
  - Mao Tse Tung

Having a plan that fits

1) your gas budget.
2) your company’s risk tolerance
3) Your credit

Put a strategy in place. Think SMACT.
Pull it all together and EXECUTE.
I’ll leave you with a quote from Mao Tse Tung

“The journey of a thousand miles begins with a single step.”

I think it’s good advice.
I’d be happy to answer any questions you might have.