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**Managing Risk to Control Gas Costs**

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***TENASKA MARKETING VENTURES***

# Physical Factors Influencing Supply Cost

- Purchasing Practices
- Price volatility
- Supply reliability
- Weather fluctuations
- Cost of storage and transportation
- Regulatory risks
- Cost of balancing

# Purchasing Practices

- Avoid speculation on price direction or market timing
- Limit downside with financial and weather options
- Diversify supply portfolio
- Use physical risk management strategies

# Reducing the Impact of Price Volatility

- Purchase the right to call on firm supply at a fixed price from storage
- Purchase the right to increase or decrease physical delivery at known pricing
- These mechanisms will reduce price volatility while improving supply reliability

# Reducing the Cost of Storage and Transportation

- Buy bundled services that only provide the services needed to serve company requirements
- Use the newly approved Asset Management Agreements (AMA's) to maximize the value of utilized and unutilized assets
- Use a mix of firm and interruptible services. Interruptible service can offer significant discounts to firm services.

# Bundled Services

- Utilities or endusers can purchase a deferred delivery service that is tailored to their load profile and avoid purchasing excess services
- Many of these services can be bundled at locations that are not served by conventional storage and transportation providers
- The cost of bundled services can be significantly less than the cost of one enduser attempting to create their own group of assets

# Asset Management Agreements (AMA's)

- AMA's were approved by the FERC under Order 712 effective July 30, 2008
- Order 712 Allows a utility or enduser to capacity release an asset or group of transportation and storage assets to a manager
- FERC has waived the buy/sell rule and tying rule to facilitate AMA's. This allows the manager to fully manage the endusers portfolio while complying with FERC regulations.
- This mechanism allows utilities or endusers to gain additional value from their transportation and storage assets while simultaneously serving their needs and maintaining control

# Regulatory Risks

- Monitor Rate Proceeding developments
- Monitor the reduction of services which can increase costs
- Cost of service pipeline rates can change with little warning
- The Enduse market must stay involved

# Methods of Reducing Balancing Costs

- Find arrangements which share the cost of balancing services
- Purchase bundled services from parties other than the direct transportation provider
- Endusers should avoid relying too heavily on daily transactions. A reduction of daily liquidity can significantly increase supply cost.