Exhibit No.:	
Issue:	*Affiliated Transaction*
Witness:	*David M. Sommerer*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*GR-2008-0364*
Date Testimony Prepared:	*March 12, 2010*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

DAVID M. SOMMERER

ATMOS ENERGY CORPORATION

CASE NO. GR-2008-0364

Jefferson City, Missouri
March 2010

** **Denotes Highly Confidential Information** **

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DIRECT TESTIMONY OF

DAVID M. SOMMERER

DIRECT TESTIMONY

OF

DAVID M. SOMMERER

ATMOS ENERGY CORPORATION

CASE NO. GR-2008-0364

Q. Please state your name and business address.

A. David M. Sommerer, P.O. Box 360, Jefferson City, MO. 65102.

Q. By whom are you employed and in what capacity?

A. I am the Manager of the Procurement Analysis Department with the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. In May 1983, I received a Bachelor of Science degree in Business and Administration with a major in Accounting from Southern Illinois University at Carbondale, Illinois. In May 1984, I received a Master of Accountancy degree from the same university. Also, in May 1984, I sat for and passed the Uniform Certified Public Accountants examination. I am currently a licensed CPA in Missouri. Upon graduation, I accepted employment with the Commission.

Q. What has been the nature of your duties while in the employ of the Commission?

A. From 1984 to 1990, I assisted with audits and examinations of the books and records of public utilities operating within the state of Missouri. In 1988, the responsibility for conducting the Actual Cost Adjustment (ACA) audits of natural gas utilities was given to the Accounting Department (now referred to as the Auditing Department). I assumed responsibility for planning and implementing these audits and trained available Staff on the requirements and conduct of the audits. I participated in most of the ACA audits from early 1988 to early 1990. On November 1, 1990, I transferred to the Commission's Energy Department. Until November of 1993, my duties consisted of reviews of various tariff proposals by electric and gas utilities, Purchased Gas Adjustment (PGA) reviews, and tariff reviews as part of a rate case. In November of 1993, I assumed my present duties of managing a newly created department called the Procurement Analysis Department. This Department was created to more fully address the emerging changes in the gas industry especially as they impacted the utilities' recovery of gas costs. My duties have included managing the five member staff, reviewing ACA audits and recommendations, participating in the gas integrated resource planning project, serving on the gas project team, serving on the natural gas commodity price task force, and participating in matters relating to natural gas service in the state of Missouri. In July of 2006, the Federal Issues/Policy Analysis Section was transferred to the Procurement Analysis Department. That group analyzes filings made before the Federal Energy Regulatory Commission (FERC).

Q. What knowledge, skill, experience, training or education do you have in these matters?

A. I have been assigned and testified in many PGA and ACA proceedings. I have reviewed numerous ACA filings and have evaluated the purchasing practices of various Local Gas Distribution Companies (LDC) in Missouri. I have also attended conferences and seminars related to the natural gas futures market and other natural gas issues.

Q. Have you previously testified before this Commission?

A. Yes. A list of cases and issues in which I have filed testimony is included as **Schedule 1** of my testimony.

Q. Did you make an examination and analysis of the books and records of Atmos Energy Corporation (Company or Atmos) in regard to matters raised in this case?

A. Yes. I have examined these records in the context of the issues I am addressing in this case.

BACKGROUND

Q. Please provided a background for this case.

A. The Procurement Analysis Department (Staff) reviewed Atmos Energy Corporation's (Atmos or Company or LDC) 2007-2008 Actual Cost Adjustment (ACA) filings, in Case No. GR-2008-0364, for the former territories of Associated Natural Gas (ANG), (Areas B, K and S), United Cities Gas (Areas P and U) and Greeley Gas (Area G). In the context of this testimony, the term Local Distribution Company or LDC is referring to Atmos Energy Corporation, the regulated utility. Staff's analysis consisted of a review and evaluation of the Company's billed revenues and its natural gas costs for the period of September 1, 2007, to August 31, 2008. A comparison of billed revenue recovery with actual costs will yield either an over-recovery or under-recovery of the ACA costs.

Staff performed an examination of Atmos' gas purchasing practices to determine the prudence of the Company's purchasing decisions. Staff also conducted a hedging review to determine the reasonableness of the Company's hedging plans for this ACA period. Staff conducted a reliability analysis of the Company's estimated peak day requirements and capacity levels to meet those requirements. Staff's Recommendation in Atmos Energy

Corporation's 2007-2008 Actual Cost Adjustment was filed December 28, 2009. Please refer to the "Definition of Terms" in the attached Schedule 2.

EXECUTIVE SUMMARY

Q. Please provide an executive summary.

A. The issues in this case have been resolved with the exception of Staff's proposed disallowance regarding Atmos' transactions with its affiliated marketing company. Staff proposes an adjustment of ($349,015) for the Hannibal area and an adjustment of ($13,964) for the Butler area related to the affiliated transactions between Atmos Energy Corporation (Atmos or Company or LDC) and Atmos Energy Marketing, LLC (AEM). Affiliate transactions require greater scrutiny because they are not arms-length transactions. The gas supply transactions that Atmos entered into with its unregulated marketing affiliate, AEM, have raised serious doubts as to their reasonableness and prudency.

Atmos Corporate Structure

Atmos operates in many different state jurisdictions and aggregates its various state operations into larger divisions. The Missouri LDC operations are part of Atmos' Mid-States division and its Colorado-Kansas division. Atmos is the sole owner of Atmos Energy Holdings, Inc. which in turn is sole owner of AEM. See Diagram 1 below, illustrating the structure. The profits of AEM flow to its parent, Atmos, which has ultimate decision making control over its LDC's operations as well as its subordinate affiliates, including AEM.

Atmos' ability and incentive to maximize profits of its unregulated operations

Because Atmos may allege a fiduciary duty to maximize its profits for its shareholders, including the profits of unregulated affiliate AEM, there exists a built-in conflict between Atmos' duty to maximize shareholder profits and its obligation to prudently obtain reasonably priced gas supplies for its regulated LDC operations. Transactions between Atmos and its unregulated affiliate AEM are governed by the Commission's Affiliate Transaction rules 4 CSR 240-40.015 and 40.016.

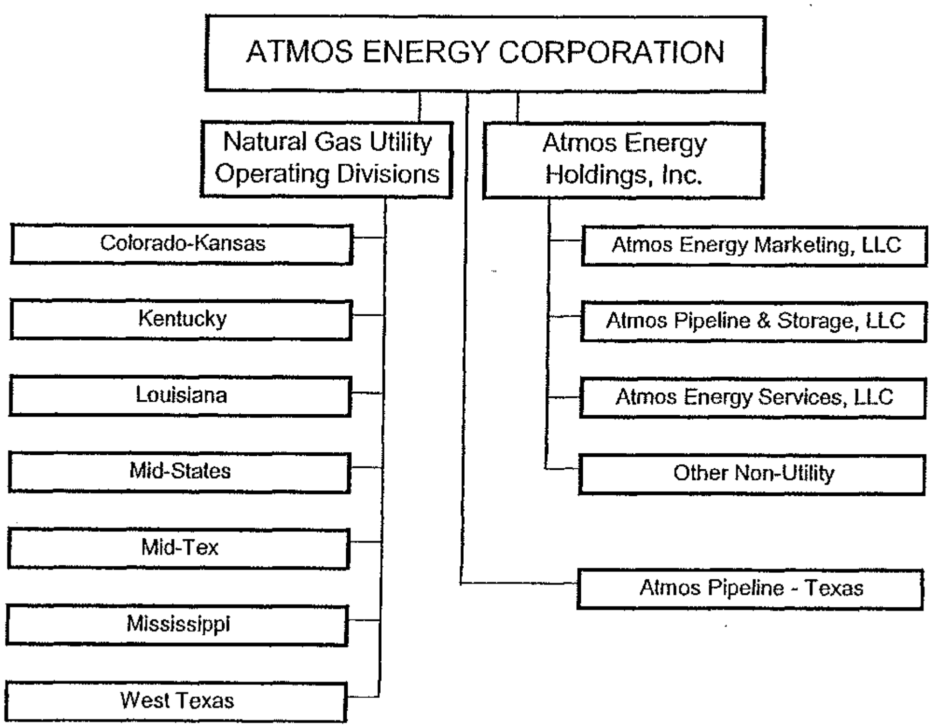

Diagram 1

The affiliate transactions rule

In its review of transactions between Atmos, the LDC, and its unregulated affiliate AEM, Staff must consider whether such transactions provided a financial advantage to the affiliated entity, to the detriment of customers of Atmos the LDC. While the Commission's Affiliate Transaction Rule, 4 CSR 240-40.015, Section (2)(A), is not the only basis for determining prudency of transactions, the Commission's rule states that a regulated gas corporation shall <u>not</u> provide a financial advantage to an affiliated entity. It further defines how such transactions are to be priced to prevent giving a financial advantage to an affiliate. This pricing requires the regulated entity to compensate the affiliate for goods or services at the lesser of the fair market price or the fully distributed cost to the regulated gas corporation to provide the goods or services for itself. When the Staff considers Atmos' (the LDC) fair market value for a particular portfolio of supply, it is reasonable and necessary for Staff to question why the LDC's fair market value would be any different than AEM's fair market value.

Q. Please explain Staff's adjustment in this case.

A. The reason the Staff made the adjustment in this case is that the customers in the Hannibal and Butler areas should not have to pay for more than "fair market value" for their gas. While the fair market value could normally be determined by review of an arms-length transaction, when the purchase is from an affiliate, a request-for-proposal (RFP) process does not necessarily mean the result is the true fair market value.

Staff determined the amount of the disallowance based upon an AEM opinion of how much profit AEM made on its gas supply transactions with Atmos the LDC. The AEM spreadsheet showing AEM's profit calculation was adjusted by the Staff for what Staff believes to be a reasonable alternative to the AEM profit calculation. The main difference between AEM's assessment of profits and Staff's recalculation of those profits relates to how daily gas profits are considered in the calculation. The Staff supports this disallowance because it brings the costs passed through the ACA to a level that better reflects a reasonable fair market value which is composed of AEM's costs for whatever types of supply and transportation combinations that AEM has decided to use to fulfill its firm sales contract with

Atmos the LDC. Please refer to the attached Highly Confidential Schedule 3 for Staff's adjustments.

The reason Staff chose to quantify a disallowance when additional discovery is necessary is partly because of Staff's experience with its previous discovery in Atmos' prior (2006-2007) ACA period. Questions surrounding these transactions were also asked in the 2006-2007 ACA case. In several instances, Atmos objected. The Staff did not pursue the additional AEM information because the 2006-2007 case settled for a monetary amount. Had the parties not settled, the Staff would have pursued further discovery, though it could have been a long and difficult process.

The Staff does not believe that its discovery rights in this contested case are cut off at the time ordered by the Commission for the Staff to file its ACA recommendation, just as Staff's discovery rights do not end after Staff files Direct testimony. The Company has ultimate control over all of its documents and the Staff can timely file its recommendation based only on the information the Company chooses to provide in response to Staff's data requests. The Staff has raised the question of the prudency and the reasonableness of Atmos' gas supply transactions with its unregulated affiliate AEM. At the time the Company filed its ACA and the Staff subsequently filed its recommendation, the Company had not attested to or provided any testimony on any of its gas costs. In the process of making its ACA recommendation, the Staff has identified and raised the issue of the prudency and reasonableness of Atmos' affiliate transactions. Now, the Company needs to come forward with evidence to defend its gas costs through direct testimony with full recognition that further discovery by any party to the case may be forthcoming.

SUMMARY OF STAFF'S ACA RECOMMENDATION REGARDING AFFILIATED TRANSACTIONS

Q. Please summarize Staff's ACA recommendation regarding affiliate transactions.

A. For the 2007-2008 ACA period ending August 2008 Atmos had the following affiliated supply and Asset Management Arrangements (AMA). These agreements were executed between Atmos Energy Corporation (Atmos) and Atmos Energy Marketing, LLC (AEM).

1. The Piedmont system AMA effective 11-1-06 to 10-31-07.
2. The Hannibal/Canton supply-only agreement effective 4-1-07 to 3-31-08 and 4-1-08 to 3-31-09.
3. The Greeley AMA effective 4-1-07 to 3-31-09.
4. The Butler system supply-only agreement effective 11-1-07 to 10-31-08.

The Staff's proposed adjustments are for affiliated transactions between Atmos and AEM in the Hannibal area and the Butler area.

The Hannibal/Canton supply agreement was effective during the entire ACA period. The Butler supply agreement was effective during the last 10 months of the ACA period. These are supply-only agreements, meaning that AEM provided the entire supply during the effective dates, but did not use the transportation or storage contracts under its Asset Management Agreements.

Atmos issued a Request For Proposal (RFP) for its gas supply needs for the Actual Cost period under review. Atmos awarded contracts to its affiliate Atmos Energy Marketing (AEM) in several Missouri service areas. In addition to the prudence standard, the Staff applied the affiliate transaction costing standards as required by the Commission's Affiliate Transaction Rules. These costing standards require Atmos the LDC to buy services from its affiliate at the lesser of fair market value or the LDC's fully distributed cost (4 CSR 240-40.015, Affiliate Transactions).

Atmos' position is that a RFP process sets the fair market value for a particular transaction. Staff contends that its inquiry into the fair market value of what AEM paid for its gas supply and/or transportation is relevant to determining Atmos' fair market value.

The Staff had requested underlying supporting documentation for these transactions. AEM provided some but not all of the requested information. AEM, through its parent Atmos, provided Staff with an analysis of its Profit and Losses (P&L) for the Hannibal and Butler areas. This analysis provided the underlying gas packages procured by AEM for serving Atmos the LDC. However, this analysis only included the profits and losses for baseload packages of gas that Atmos provided in its documents. Staff's analysis expands on AEM's P&L statement and includes the P&L for additional gas volumes provided by AEM to Atmos (daily and/or swing volumes) for the Hannibal and Butler areas. AEM's P&L calculation did not include the additional gas it supplied to Atmos. AEM's P&L spreadsheet misstated a December 2007 index price and Staff corrected the misstatement in Staff's calculation. AEM also assessed demand charges as expenses in its P&L statements that Staff then restated as profits. Based on these corrections, Staff proposed an adjustment of ($349,015) for the Hannibal area and an adjustment of ($13,964) for the Butler area. These adjustments account for the profits earned by AEM on its gas supply deal with Atmos the LDC. Profits are disallowed because LDC's do not mark up the price of gas to their customers. What is to be passed through in the PGA charge is the actual invoiced cost of gas. If Atmos had purchased the gas itself, instead of through its affiliate, the actual cost of the gas, without profit, would be the basis for the Purchased Gas Adjustment charge to customers.

The AEM information that Atmos provided to Staff was mainly limited to a spreadsheet that showed AEM's characterization of the revenues and costs associated with the Missouri affiliated gas deals. The chief reason why Staff has inquired into the fair market value of the gas supplies that AEM provided to Atmos (the LDC) is that it is possible for AEM to use high risk interruptible or spot gas, in addition to interruptible transportation, to fulfill its firm service obligation with Atmos the LDC. Staff can not discern from AEM's analysis whether AEM's obligations to Atmos were fulfilled by firm or interruptible supplies to the LDC.

Q. Why do you make this distinction?

A. The fair market value for <u>firm</u> gas supplies is different from the market value for interruptible or spot gas supplies with interruptible transportation.

One of Staff's concerns in this ACA case is the large number of transactions between Atmos (the LDC) and its unregulated marketing affiliate AEM. Though SEMO is the largest district, Atmos did not award most of its business to AEM. That is not, however, the case with most of the other Atmos Missouri service areas (Butler, Greeley, Hannibal/ Canton).

The end result of Atmos' RFP process is that Atmos awarded the majority of its Missouri gas purchasing business to AEM. Further serious doubt regarding the prudence of the transactions between Atmos and AEM is raised by AEM's P&L spreadsheet because it shows AEM's fair market value for gas supply was <u>less</u> than what it charged its regulated parent Atmos. This means that AEM has profited Atmos' shareholders to the detriment of Atmos' captive ratepayers.

Q. Why do arms-length transactions presumed to show fair market value but affiliate transactions do not?

A. Arms-length transactions are between two separate entities each with their own interests driving the transaction. In contrast, the transactions between Atmos and AEM are not "arms-length" transactions. AEM and Atmos share limited resources on access to liquidity and counterparty credit exposures. The same cannot be said for unaffiliated transactions. At some point in Atmos' organizational structure, there is common oversight of both Atmos the LDC operations and the operations of AEM. These companies share a corporate parent that is interested in benefitting the unregulated operations. The same cannot be said of unaffiliated transactions. For example, unlike dealings between Atmos and an unaffiliated third party such as BP, Conoco Phillips, or some other supplier, the nature and design of compensation and bonuses can have a bearing on both Atmos and AEM's common transactions. For example, the time and quantity of day to day nominations can influence the profitably of affiliated AEM and Atmos transactions. That is not the case with unaffiliated transactions. Because affiliate transactions are not done at "arms length", Atmos must provide to Staff more thorough and clearly identified documentation in support of the deals Atmos made with AEM and the deals AEM made with its suppliers. This documentation would allow Staff to more thoroughly evaluate the fair market value of those transactions. Based upon Staff's experience with discovery in this and the previous case, it became apparent that extraordinary measures are going to be required to obtain additional AEM information regarding the affiliated transactions. As in the previous case, the Staff based its disallowance in this case on the best information it had available at the time it filed its recommendation. Staff intends to conduct further inquiry of these affiliated transactions based on Atmos' direct testimony.

Q. How are issues of pay structure and executive compensation relevant to this case?

A. The issue regarding the alignment of Atmos and AEM management interests through a common compensation structure is illustrated by EXCERPTS from Atmos Energy Corporation's.2009 Proxy Statement. As it relates to this testimony, Atmos describes in its Proxy Statement that earnings are a key driver in setting incentive compensation for Atmos executive management and that AEM earnings impact Atmos earnings.

> Annual Incentive Compensation. We believe it is important to provide our named executive officers with a <u>financial incentive</u> to maximize the Company's financial performance each year. Through our Annual Incentive Plan for Management ("Incentive Plan"), we provide our named executive officers, along with other officers, division presidents and other key management employees, an opportunity to earn an annual bonus based upon the Company's actual financial performance each year. The Incentive Plan, which has been designed to comply with Section 162(m) of the Internal Revenue Code, <u>is based on our ability to achieve a target level of earnings per share ("EPS") each year</u>. <u>The EPS performance measurement is the lynchpin of both our annual and long-term compensation programs</u>. The HR Committee believes that <u>EPS is the most appropriate measurement of our financial performance both on an annual and long-term basis, as it reflects the growth of both our regulated and nonregulated operations</u>. EPS is also one of the most well-known measurements of overall financial performance, which is commonly used by financial analysts as well as the investing public. The committee believes that utilization of this measurement as the basis for <u>our incentive compensation programs aligns the interests of the participants in the Incentive Plan</u> and the LTIP, including our named executive officers, with the interests of our shareholders (*emphasis added*).

> <u>The target EPS goal also took into account earnings expected from our nonregulated operations</u>, including earnings from the provision of natural gas management and marketing services to municipalities, other local gas distribution companies and industrial customers <u>as well as the provision of natural gas transportation and storage services to certain of our natural gas distribution divisions</u> and third parties (*emphasis added*).

There can be no doubt that Atmos management has a strong interest in maximizing the profits of its non-regulated operations that provide gas supply services to its regulated LDC operations

Q. Are you aware of whether Atmos conducts affiliated transactions with AEM in other states?

A. Yes. In addition the Staff has monitored recent Atmos' transactions with AEM in the states of Tennessee, Georgia, Kansas, Virginia, and Illinois where Atmos provides regulated gas service.

FAIR MARKET VALUE AND CHOICE OF TYPES OF GAS SUPPLY

Q. Are there any other issues regarding how Atmos chooses its gas supply and the implications of those decisions on fair market value?

A. A major policy issue related to Atmos' RFP process and the determination of fair market value is the question of how AEM's choice of gas suppliers and types of supply, and the risk inherent in those types of supply, may impact the prices paid by Atmos' customers. This raises serious questions upon examining the prudence of these decisions. For example, are the AEM suppliers the same suppliers that lost the bid in the original Atmos RFP process? If the AEM suppliers are different than the suppliers bidding into the Atmos RFP process, then why is that? Without answers to these questions, then Staff's examination of the prudence of Atmos' gas supply decisions is thwarted and incomplete.

As an illustration, consider the following example. Assume that suppliers A, B, and C, are simply not bidding into Atmos' RFP, but they routinely supply AEM. Are those suppliers not on Atmos' approved list as creditworthy suppliers? Are those suppliers on AEM's creditworthy counterparty list? In examining the prudence of Atmos purchases, Staff can not overlook that Atmos' gas supply department and AEM brokers are dealing with the same gas suppliers and the same transportation markets. AEM makes money on buying gas more cheaply than it sells it. AEM's profits go to Atmos' shareholders. In turn, Atmos (the LDC) passes its gas costs to the ratepayer. Staff's concern becomes whether Atmos and AEM are truly dealing fairly so that the captive ratepayers are assured Atmos makes its best efforts to obtain the lowest possible cost for firm gas supplies for consumers.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of PGA/ACA filing of Atmos Energy Corporation for the West Area (Old Butler), West Area (Old Greeley), Southeastern Area (Old SEMO), Southeastern Area (Old Neelyville), Kirksville Area, and in the Northeastern Area	))))))	Case No. GR-2008-0364

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David M. Sommerer, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 14 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

David M. Sommerer

David M. Sommerer

Subscribed and sworn to before me this 12th day of March, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin

Notary Public

CASES WHERE TESTIMONY WAS FILED

DAVID M. SOMMERER

COMPANY	CASE NO.	ISSUES
Missouri Gas Energy	GR-2009-0355	PGA tariff
Laclede Gas Company	GT-2009-0026	Tariff Proposal, ACA Process
Missouri Gas Utility	GR-2008-0060	Carrying Costs
Laclede Gas Company	GR-2007-0208	Gas Supply Incentive Plan, Off-system Sales, Capacity Release
Laclede Gas Company	GR-2005-0284	Off-System Sales/GSIP
Laclede Gas Company	GR-2004-0273	Demand Charges
AmerenUE	EO-2004-0108	Transfer of Gas Services
Aquila, Inc.	EF-2003-0465	PGA Process, Deferred Gas Cost
Missouri Gas Energy	GM-2003-0238	Pipeline Discounts, Gas Supply
Laclede Gas Company	GT-2003-0117	Low-Income Program
Laclede Gas Company	GR-2002-356	Inventory, Off-System Sales
Laclede Gas Company	GR-2001-629	Inventory, Off-System Sales
Laclede Gas Company	GR-2001-387	ACA Price Stabilization
Missouri Gas Energy	GR-2001-382	ACA Hedging/Capacity Release
Laclede Gas Company	GT-2001-329	Incentive Plan
Laclede Gas Company	GO-2000-394	Price Stabilization
Laclede Gas Company	GT-99-303	Incentive Plan
Laclede Gas Company	GC-99-121	Complaint PGA
Laclede Gas Company	GR-98-297	ACA Gas Cost
Laclede Gas Company	GO-98-484	Price Stabilization
Laclede Gas Company	GR-98-374	PGA Clause
Missouri Gas Energy	GC-98-335	Complaint Gas Costs

COMPANY	CASE NO.	ISSUES
United Cities Gas Company	GO-97-410	PGA Clause
Missouri Gas Energy	GO-97-409	PGA Clause
Missouri Gas Energy	GR-96-450	ACA Gas Costs
Missouri Public Service	GA-95-216	Cost of Gas
Missouri Gas Energy	GO-94-318	Incentive Plan
Western Resources Inc.	GR-93-240	PGA tariff, Billing Adjustments
Union Electric Company	GR-93-106	ACA Gas Costs
United Cities Gas Company	GR-93-47	PGA tariff, Billing Adjustments
Laclede Gas Company	GR-92-165	PGA tariff
United Cities Gas Company	GR-91-249	PGA tariff
United Cities Gas Company	GR-90-233	PGA tariff
Associated Natural Gas Company	GR-90-152	Payroll
KPL Gas Service Company	GR-90-50	Service Line Replacement
KPL Gas Service Company	GR-90-16	ACA Gas Costs
KPL Gas Service Company	GR-89-48	ACA Gas Costs
Great River Gas Company	GM-87-65	Lease Application
Grand River Mutual Tel. Company	TR-87-25	Plant, Revenues
Empire District Electric Company	WR-86-151	Revenues
Associated Natural Gas Company	GR-86-86	Revenues, Gas Cost
Grand River Mutual Telephone	TR-85-242	Cash Working Capital
Great River Gas Company	GR-85-136	Payroll, Working Capital
Missouri-American Water Company	WR-85-16	Payroll

DEFINITION OF TERMS

Some basic terminology is necessary to explain the AEM calculation and Staff's subsequent adjustments to the AEM worksheet.

AMA or Asset Management Agreement often means a contract where the Local Distribution Company turns over its gas transportation and storage contracts to an outside vendor with the goal of maximizing the use of the idle capacity.

Supply-only agreement typically means an outside vendor has agreed to provide supply, sometimes the entire supply, but is not borrowing the LDCs transportation and storage contracts.

Baseload gas generally refers to gas that is pre-ordered and flows every day of the month on an equal basis.

Daily gas usually means gas that is sought out on short notice and may only flow for one or a few days.

Swing gas usually means gas that can be called upon on short notice and may only flow for a few days, if at all.

Spot gas often means gas that is purchased day to day, with little advance notice and may or may not be available.

First of Month (FOM) index pricing usually refers to a practice of setting a gas price based upon a monthly published price that is in effect for an entire month. The price itself is usually composed a sample of actual monthly transactions.

Gas Daily Average (GDA) index pricing typically refers to a published price that is applicable to a particular day.

NYMEX price refers to a price set by the futures market as traded on the New York Mercantile Exchange.

Demand Fee or charge often refers to a fixed fee that is paid to reserve gas supply and might be based upon the maximum daily quantity of gas reserved.

Field Zone transportation usually refers to the part of an interstate pipeline's transportation system that is close to the wellhead or supply basins.

Market Zone transportation refers to the part of an interstate pipeline system that is closer to the market or demand areas that a pipeline serves.

Upstream and Downstream refers to how close to the production or supply area the pipeline is. The upstream part of a pipeline is closer to the production area or field zone area, while the downstream part of a pipeline generally refers to the market area.

P&L – Profit & Loss of a particular deal or transaction. Revenues minus costs

WACOG – Weighted Average Cost of Gas, usually meaning various packages of gas at various prices weighted by their associated volumes.

HAVEN – A demarcation between the field zone and the market zone on the Panhandle Eastern Pipeline Company (PEPL) system.

NAESB – North American Energy Standards Board, a gas standards developer for many of the common contracting and transportation standards used in the gas industry

NAESB base agreement – standardized contract developed by NAESB

Firm Service – This is a form of gas or transportation service that is higher in priority than interruptible, and usually is the last to be curtailed.

Interruptible Service – A form of gas or transportation service that is usually less expensive that firm service and is a lower priority of service.

Basis – A price difference between different gas supply areas.

Supply Basin – A gas supply area or region

SCHEDULE 3

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY