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UNKNOWN MALE	(UM)
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PAULA RIEKER	(RIEKER)
UNKNOWN FEMALE	(UF)

(Recording starts, then is cancelled)

UF: Welcome to, (then gets cut off)

BALIGA: ...and stocks and ah, ah, how does it work in terms of ah, like if you're bidding for, like you mention the New York side, ah.....

SKILLING: Right.

BALIGA:for he's bid, who are you, you bidding against in terms of getting the logistics ah, network.

SKILLING: Well it would be a way by the competitors and ah, a number of other merchants of natural gas, um, at the time or early on and, and still today the local distribution company might be a competitor for delivering gas, ah, energy companies, producers of oil and gas could have potentially been competitors but there's a whole range of different competitors and the range of assets over time has gotten even more diverse. Ah, early in, early on to provide the liability delivery, delivery to a customer, you really needed to have ah, a lot of term ah, capacity arrangements. You know, we, we'd go to a pipeline carrier who, and we might contract for five years or ten years a firm capacity on that system to deliver to a customer. As time has gone on and as the liquidity and the markets has gotten better, ah, we have been able to reduce the percentage of firm entitlements in the portfolio in favor of temporary or spot entitlements and, and I think the best way of thinking about this is if you can create enough liquidity and so for example deliver gas into New York, I'd probably have

any of several thousand different alternatives to deliver gas into New York, ah, because I have so many alternatives, ah, I'd diversified away the non-systematic risk of delivery and non-systematic risk in our business is basically a, a supply interruption so I can use more ah, spot transportation arrangements per unit of the reliability than my competitors can because I have more alternatives, I've more options for delivering and more roots, more logistic roots then I can choose to deliver the product, ah, on the producer (inaudible).....

BALIGA: (Inaudible) do you have variable cost?

SKILLING: I'm sorry?

BALIGA: The costs have actually gone from fixed costs to variable costs?

SKILLING: Yeah, so that, so that instead of in the old days if I wanted to sell ah, 30 million cubic feet of gas a day into New York City I'd probably would have needed to get 25 million a day of firm capacity you know? In the old days on a pipeline network that probably would have cost me from the Gulf Coast maybe \$1.10, \$1.25. Ah, today to, to give that same degree of reliability, I'd probably only need to purchase two or three million cubic feet a day as an absolute backup system and I can go into the temporary or cash markets and, you know, usually there's some distressed capacity floating around and I might be able to pick that up for 20 or 25 cents, ah.....

NORDBY: Per (inaudible)

SKILLING: Per million.

NORDBY: So what, can I just ah, ah, ask you on this point, the implication is that you would be less dependent upon the actual commodity price at price volatility if I'm understanding this right, is, is that correct or not?

SKILLING: Yeah, the underlining commodity price has absolutely zero impact on our income. Zero. Ah, ah, ah, you can look at correlations of this profitability, particularly look at our Wholesale business, if you look at correlations of profitability to price you'll get an R square of zero. Ah, what really impacts us is the ability to find the lowest cost sourcing and the more alternatives we have the ah, more profit we make. Now volatility does enter into it, ah, Dan, and the reason volatility enters into it is in periods of high volatility, ah, those different alternatives are more valuable. You know, for example, ah, in Southern California gas prices, ah, bounced from \$3.25 up to in some cases \$60.00 a million BTUs, ah, in January and February. Well, ah, when you have that kind of a jump and you're obviously scouring the world for the lowest cost ways of delivering ah, product into that market place, the volatility helps. Volatility is good in those cash markets, now, I will say and, and, and this

