



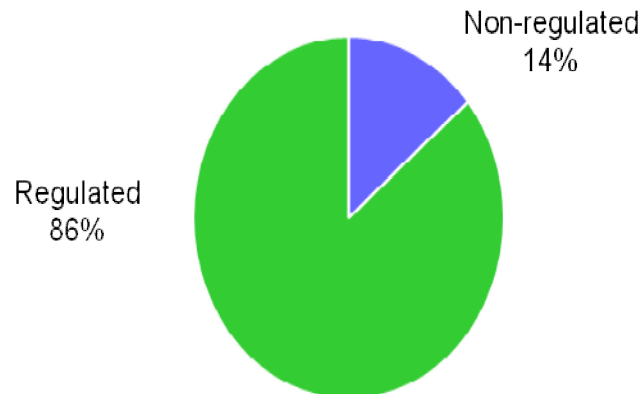
Natural Gas Role In Carbon Reduction

October 25, 2007

WHO WE ARE

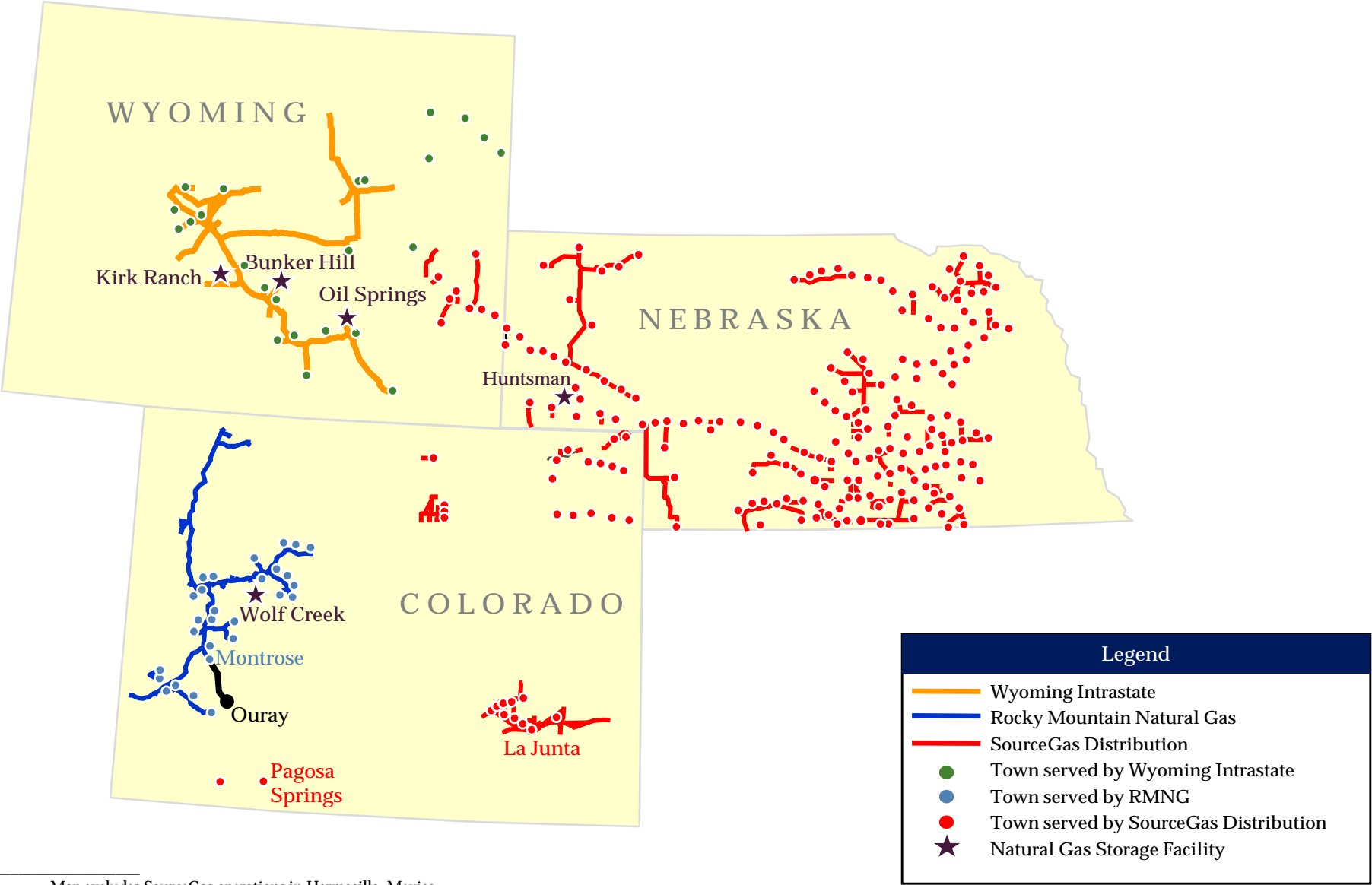
SourceGas is an established gas utility business

- 4 regulated utilities:
 - 3 local gas distribution companies (LDCs)
 - One intrastate gas transmission company
- 250,000 customers in Colorado, Nebraska and Wyoming, and 15,000 customers in Hermosillo, Mexico (including a Ford Motor plant)
- 12,000 miles of pipelines and associated compression
- 88 Million cubic feet per day of gas storage capacity
- Non-regulated services and gas marketing



86% of gross margin is from regulated business

SourceGas Operations Map ⁽¹⁾⁽²⁾



(1) Map excludes SourceGas operations in Hermosillo, Mexico.
 (2) SourceGas leases storage capacity at Huntsman.

Natural Gas Role In Carbon Reduction

➤ Use NG to reduce carbon footprint

- The most effective consumer solutions include both NG and Electricity
 - NG and Electric providers should be partners in this effort
 - Eliminate improper uses of NG & Electricity
 - ◆ Whether generated by coal, oil or natural gas, 73% of the total energy involved in generating and transmitting electricity is lost before it reaches an electrical outlet¹
 - Only renewable fuels such as wind and solar have fewer emissions than NG
- NG/Electric partnership has suffered from efforts to maximize sales rather than “best use” & carbon impact

• ¹AGA, “A Comparison of Carbon Dioxide Emissions Attributable to New Natural Gas and All-Electric Homes,” October 31, 1990.

Natural Gas Role In Carbon Reduction

- **Current discussions focus on increasing renewables such as solar and wind**
 - Relative to carbon emissions, they are the cleanest forms of energy
 - Good goals for our future; however after 15 years of federal research and development funding support they still meet the same percentage of America's energy needs- less than 2%¹
 - Replacing appropriate residential electric appliances with high-efficiency gas models can reduce these appliances' greenhouse gas emissions by 20-50% depending on the generation mix of the electric utility²

➤ ¹"American Gas" August/September 2007 pg. 4

➤ ² NW Natural of Oregon examination listed in "American Gas" August/Sept 2007 pg. 36

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➤ Renewables cont'd

- NG used in key appliances can lessen electric demand increases, the supply for which largely coming from new coal & natural gas power plants
- Buying wind and solar credits still may require power back-up from the grid when those renewable supplies are not available
- Until renewables meet their promise America must rely on the “blue bridge” - the direct use of natural gas (NG) in high-efficient appliances

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➤ Public Policy Changes

- Promote residential gas usage at state & local level
 - Only 10% of total energy is lost in transmitting NG to the end user
 - Direct use of NG can help reduce carbon dioxide emissions¹
 - ◆ NG produces 117 lbs. of CO² per MMBtu
 - ◆ Propane averages 139 lbs. of CO² per MMBtu
 - ◆ Coal averages 215 lbs. of CO² per MMBtu
 - Greater direct use of NG can reduce the rate of increase in demand for electric supplies
 - ◆ Help delay the need for new electric generating plants
 - ◆ Allow percentage of energy from renewables to climb
- Promote reduction in use per customer through efficiencies
- ¹EIA Fuel and Energy Source Codes and Emission Coefficients website <http://www.eia.doe.gov/oiaf/1605/factors.html>

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- **Align utilities to promote these policy changes**
 - **Decoupling of rates: cost recovery needs to be neutral to volumes**
 - “Nothing about decoupling alters the basic regulatory compact, where ratepayers compensate the utilities who invest to provide them with service by paying for prudently-incurred costs.”¹
 - **Both gas & electric utilities**
 - **Programs to help customers replace low-efficiency appliances**
 - **Utility monies spent on efficiency programs must be a recoverable cost**
 - **DSM Managers should insist on these changes**

➤ ¹“Decoupling for Gas Distributors” Jeff Makhholm, PhD Sr. VP, NERA

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- SourceGas - Nebraska PSC Approved Program
 - (HEAT) High-Efficiency Assistance Tool
 - Rebates of \$300-900 depending on heating appliance input BTU's
 - Replacing mostly 60% efficiency heating appliances
 - Approved rebate checks sent directly to customer
 - Appliances must be rated as high-efficiency
 - 40K BTU's or larger
 - Customer can purchase from any vendor
 - Proof of purchase required

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Colorado

- Last LDC rate case settled in 1993
- Currently involved in PUC rulemaking on gas utility DSM programs
 - Programs may include energy efficiency incentives for customers

Wyoming

- Recent rate case settled in 2006
- Rates restructured to recover higher percentage of costs through fixed monthly charges
- Currently evaluating filing of energy efficiency incentive program for customers

Nebraska

- Recent rate case settled in 2006
- PSC approved energy efficiency incentive program for customers (HEAT)
- Rates restructured to recover higher percentage of costs through fixed monthly charges

Natural Gas Role In Carbon Reduction

➤ Next step in decoupling

- As customers use less energy the utility must be allowed to true-up or normalize volumes to make cost recovery neutral
- Ultimately the utility would only recover the cost of the gas itself through the variable portion of the rate

➤ DSM Programs

- DSM program managers cannot work in a vacuum
- They must lead the charge internally to design programs that are integrated with the utilities core objectives/business goals
- If DSM programs result in meaningful reduction in usage, utility cost recovery must be maintained