

MINUTES OF THE JOINT MEETING OF THE HOUSE COMMITTEE ON UTILITIES AND THE SENATE COMMITTEE ON UTILITIES.

The meeting was called to order by Senate Utilities Chairman Stan Clark at 9:05 a.m. on January 23, 2001 in Room 313-S of the Capitol.

All members were present except: Rep. Ward Loyd
Rep. Don Myers
Rep. Dixie Toelkes

Committee staff present: Lynne Holt, Legislative Research
Mary Torrence, Revisor of Statutes
Jo Cook, Committee Secretary

Conferees appearing before the committee: Kevan Vick, Farmland Industries
Sandra Hazlett, Dept. of Social and Rehabilitation Services
Richard Crum, Department of Revenue
Kim Gulley, League of Kansas Municipalities
Walker Hendrix, Citizen's Utility Ratepayers Board

Others attending: See Attached List

Chairman Clark welcomed Kevan Vick, General Manager of Nitrogen Manufacturing with Farmland Industries, Inc. (Attachment 1). Mr. Vick spoke about the current natural gas prices' impact on the nitrogen fertilizer industry. He explained that anhydrous ammonia is the source of nearly all nitrogen fertilizer and natural gas, both as a feedstock and energy source, is the major cost component in it's production.

Ms. Sandra Hazlett, Director of Economic and Employment Support for the Department of Social and Rehabilitation Services, provided information about SRS's Low Income Energy Assistance Program (LIEAP) (Attachment 2).

Richard Cram, appearing on behalf of the Office of Policy & Research for the Kansas Department of Revenue, addressed the joint committees (Attachment 3). Mr. Cram spoke about the estimates of fiscal year 2001 increases to the state general fund from mineral and sales taxes attributed to the natural gas price increases and about the increases to gas leasehold assessed values for 2000 and 2001.

Kim Gulley, Director of Policy Development & Communications for the League of Kansas Municipalities, spoke about the effects of higher energy costs on the cities in Kansas (Attachment 4). Ms. Gulley stated that this recent dramatic increase in natural gas rates has had a serious negative impact on the budgets in many Kansas communities.

Conferees from the previous days' meeting and those appearing today responded to questions from the joint committee members.

Walker Hendrix, Consumer Counsel for the Citizens' Utility Ratepayer Board, addressed the concerns of consumers regarding high prices for natural gas (Attachment 5).

Senator Barone distributed a memorandum from Joseph White, Director of Utilities for the Kansas Corporation Commission, regarding gas price differential concerns (Attachment 6).

Conferees responded to additional questions from the committee members.

Chairman Holmes reminded those in attendance of the joint meeting to be held Wednesday evening and that it would be a public forum for consumers to express their views and concerns about the natural gas pricing issue.

Meeting adjourned at 10:58 a.m.

House Utilities next regular meeting will be Wednesday, January 24, 2001 at 9:00 a.m.

JOINT MEETING SENATE & HOUSE COMMITTEES ON UTILITIES GUEST LIST

DATE: January 23, 2001

NAME	REPRESENTING
Kim Gulley	LKM
Kerri Spielman	Sen May Lar's Office
Ron Gaches	CBBA
Lisa Taylor	KDA
Sandra Haylett	SRS
Kathy Valeriani	SRS
Kevin Ellens	The Salvation Army
JAMES LUNWIG	WESTERN RESOURCES
J. C. LONG	Utilicorp United Inc.
John Fraterick	Boeing
Lee Eisenbauer	Propane Marketers Assoc of KS
Jennifer Davenport	Dennis Peyle
Ellen Sexton	Judy Morrison
Nina Skidmore	North Topeka Baptist Church - Topeka
Scott Mink	Kansas Geological Survey
Tim Carr	Kansas Geological Survey

Testimony

By

Kevan Vick, General Manager

Nitrogen Manufacturing

Farmland Industries, Inc.

Joint Meeting

of the

Senate and House Utilities Committees

"Natural Gas Usage"

January 23, 2001

HOUSE UTILITIES

DATE: 01-23-01

ATTACHMENT 1

On behalf of the farmer-owned Farmland System, thank you Chairman Clark, Chairman Holmes and the members of both committees for providing an opportunity to discuss the issue of current natural gas prices and the adverse impact it is currently having on the nitrogen fertilizer industry. I am Kevan Vick, General Manager of Nitrogen Manufacturing for Farmland Industries, Inc. and I work and live in Lawrence, Kansas.

Farmland Industries, Inc., is a diversified farmer-owned cooperative focused on meeting the needs of its local cooperative- and farmer-owners.

Headquartered in Kansas City, Missouri, Farmland, with its joint venture partners, manufactures and distributes to local cooperatives, those agricultural inputs necessary for both crop and livestock production by our farmer-owners. These products include petroleum and energy products, plant nutrients (fertilizers), crop protection materials, animal feed and health products, training, technology, information, and financial assistance.

Farmland also provides both domestic and international marketing opportunities for our farmer-owners' agricultural outputs. Farmland adds value to these outputs through the production of ethanol, processed wheat products, beef, pork and catfish processing. Farmland markets these products in all 50 states and more than 60 countries.

Farmland is committed to serving the needs of its member-owners and the consumers who buy their products. Farmland's mission statement is: ***To be a global, consumer-driven, producer-owned 'farm-to-table' cooperative system.***

Farmland has nitrogen fertilizer plants in Lawrence, KS; Coffeyville, KS; Dodge City, KS; Pollock, LA; Beatrice, NE; Ft. Dodge, IA; and Enid, OK. These facilities, along with our cooperative partnerships, serve our nearly 1,700 member cooperatives throughout 26 states.

Farmland is the largest producer of ammonia in the United States and the only nitrogen fertilizer producer in the state of Kansas.

Anhydrous ammonia is the source of nearly all nitrogen fertilizer made in the United States. In addition to being a product farmers apply directly to the soil, it is also the basic building block of other nitrogen fertilizers. Such nitrogen fertilizers include ammonium nitrate, urea, UAN solutions and ammonium sulfate as well as phosphate fertilizers such as diammonium phosphate (DAP) and monoammonium phosphate (MAP).

Natural gas, used as both a feedstock and a source of energy, is the major cost component in ammonia production. Typically, natural gas accounts for 70-75% of the total production cost. As you are well aware, natural gas

prices increased more than 300% in 2000, and currently exceed 90% of our cost of production.

The recent rise in natural gas prices has increased production costs to such high levels that most producers can no longer sell at prices enabling them to recoup even their cash production costs. As a result, the U.S. nitrogen producers are being forced to either idle capacity and/or significantly curtail production.

Last month, the industry as a whole operated at an estimated 54% of total capacity. This compares to an average operating rate over the last ten years of almost 95 percent.

Consequently, farmers are faced with an uncertain supply, and rapidly escalating prices. Increases in fertilizer prices have far exceeded any increase in grain prices.

The Cooperative System, in an effort to support our producer-owners and to provide nitrogen fertilizers this spring, is operating at 85% of last year's anhydrous ammonia capacity. We are also producing more UAN than last year and an equal amount of urea.

Furthermore, Farmland has taken steps to reduce our exposure to the volatile domestic natural gas market by building a coke gasification plant in Coffeyville. The gasification plant uses coke, a byproduct from our Coffeyville refinery, and processes it into anhydrous ammonia. This facility is unique in the domestic fertilizer industry. Because this operation is just coming on line, it will not make a significant contribution to the nitrogen fertilizer supply this planting season. However, in the future, it will help the Cooperative System provide nitrogen fertilizer to our producer-owners with less risk and lower cost.

My comments have been a very brief summary of the condition of the industry in general, and the steps Farmland is taking to ensure our producer-owners have a reliable, economical supply of crop nutrient products. I'll be glad to address any questions that the committee members may have about this situation.

Kansas Department of Social and Rehabilitation Services
Janet Schalansky, Secretary



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for additional information, contact:

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Diane Duffy, Deputy Secretary

Office of Budget
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Joint Committee on Utilities

Tuesday, January 23, 2001

Low Income Energy Assistance Program (LIEAP)

Integrated Service Delivery Division

Sandra C. Hazlett

785.296.6750

HOUSE UTILITIES

DATE: 01-23-01

ATTACHMENT 2

Kansas Department of Social and Rehabilitation Services
Janet Schalansky, Secretary

Joint Committee on Utilities
Tuesday, January 23, 2001

LOW INCOME ENERGY ASSISTANCE PROGRAM (LIEAP)

Mister Chairman and Members of the Committee, thank you for the opportunity to appear before you today. I am Sandra Hazlett, Director of Economic and Employment Support, Department of Social and Rehabilitation Services. I am here to summarize the Low Income Energy Assistance Program (LIEAP), a federally funded block grant program which began in 1981.

Anticipated extreme cold weather and escalating fuel costs have renewed interest in LIEAP. For FY2001 we have received additional federal monies through LIEAP emergency and contingency grants, in addition to the regular LIEAP block grant that brings our total LIEAP funding for benefits to approximately \$16 million. Benefits for FY2001 have been set up to allow for an increase in the number of households served as well as to provide a larger benefit to allow for escalating costs. Our goal is to target households having the most limited funds and help them keep their heat on. We have also targeted those households with rising gas costs, by increasing the benefit to gas customers

LIEAP helps households pay home energy costs through the issuance of an annual benefit. The benefit is to assist households in the purchase of home heating and cooling energy. In order to be eligible, applicants must meet the following criteria:

- Combined income of all persons living at the address must fall below 130% of the federal poverty level;
- An adult household member must be personally responsible for paying fuel costs at the current residence, payable either to the landlord or to the fuel vendor;
- The household must demonstrate a recent history of payments toward purchase of the primary heating energy; and
- The household must meet citizenship or lawful residency requirements.

Applications for the annual benefit are being accepted January 16th through March 30th, 2001. Eligibility is determined by temporary staff hired especially for the program in each of the SRS Area offices. In order to locate needy households, the agency implements various outreach efforts. Applications are mailed to prior year LIEAP recipients, and other targeted households. Utilities, the Kansas Corporation Commission, Department on Aging, and community helping agencies assist in providing outreach. SRS press releases, posters, and a toll-free information line (1-800-432-0043) are also utilized to help the public learn about the available assistance. Households may return their completed applications by mail with no interview required.

The gross income (before deductions) of all persons living at the residence address is considered in determining household income. The following eligibility limits are set at **130%** of the federal poverty level:

<u>Number in Household</u>	<u>100 % of Federal Poverty Level</u>	<u>Annual Income at 130% of Poverty Level</u>	<u>Three Months' Income at 130% of Poverty Level</u>
1	\$ 8,350	\$10,855	2,714
2	11,250	14,625	3,656
3	14,150	18,395	4,599
4	17,050	22,165	5,541
5	19,950	25,935	6,484
6	22,850	29,705	7,426
7	25,750	33,475	8,369

The federal funding levels fluctuate annually, requiring that benefits be adjusted according to the available funds. LIEAP benefit levels are targeted according to the following factors:

- Household income
- Number of people living at the address
- Type of dwelling
- Type of heating fuel
- Utility rates charged by the fuel provider

Applicants do not receive increased benefit levels for being in a utility disconnect situation, although benefit issuance is prioritized in these instances, as well as for applicants who have exhausted their primary heating fuel supply.

Households have the option of directing all of their benefit to the fuel provider, or splitting the benefit between their electric utility and the fuel provider. Payments are paid to the utilities and fuel providers either electronically or in the form of a two party check payable to both the consumer and the provider. In a few cases, payments are made directly to the consumers when their rent includes utility costs.

2-3

The \$16 million available in FY 2001 for LIEAP program benefits is a significant increase over the \$9.3 million received in FY 2000. We are anticipating serving approximately 31,000 households this year compared to 26,143 households last year, an 18.6% increase. The average benefit level is also expected to increase by more than 31% to \$519 compared to \$355 benefit the prior year.

In addition to the \$16 million available for benefits, approximately 15% of the total block grant amount, or \$3.9 million, is available to the Kansas Department of Commerce and Housing to supplement the Weatherization Program funding.

An additional \$11,850 of the block grant was forwarded to the United Tribes of Kansas and SE Nebraska because the Tribe administers its own energy assistance program to members. Other Tribes in Kansas choose not to administer a program, and their eligible members are served through SRS.

The chart below reflects program expenditures and consumers served over the past several years.

Table 1. LIEAP Caseload and Expenditures

Fiscal Year	Households Served	Percent Change	Benefit per Household	Total Expenditures
1994	37,132	-5.6%	240	8,905,871
1995	33,715	-9.2%	246	8,289,102
1996	31,131	-7.7%	203	6,325,660
1997	27,491	-11.7%	268	7,376,263
1998	23,815	-13.4%	305	7,260,503
1999	25,227	5.9%	278	7,023,044
2000	26,143	3.6%	355	9,291,582
2001 est	31,000	18.6%	519	16,084,907

Footnotes:

- The maximum income limit was increased in 1999 from 110% of the federal poverty level to 125%.
- The maximum income limit was increased in 2000 from 125% of the federal poverty level to 130%.

Thank you for the opportunity to provide this program summary. If you need additional information, I would be glad to answer questions.

2-4

STATE OF KANSAS

Bill Graves, Governor

DEPARTMENT OF REVENUE

Stephen S. Richards, Secretary

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Richard L. Cram, Director
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Topeka, KS 66625



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Office of Policy & Research

**To: Senator Stan Clark, Chair
Senate Utilities Committee
Representative Carl Holmes, Chair
House Utilities Committee**

From: Richard L. Cram

**Re: Estimate of FY 2001 Increase to State Receipts from Mineral Tax and Sales Tax
Attributable to Natural Gas Price Increases**

**Estimate of Increase to Gas Leasehold Assessed Values for 2000 and 2001
Attributable to Natural Gas Price Increases**

Date: January 23, 2001

**Estimate of FY 2001 Increase to State Receipts from Mineral Tax on Natural Gas
Production:**

Attached is a spreadsheet prepared by Steve Stotts, mineral tax research analyst for the Department, setting forth actual State General Fund (SGF) mineral tax receipts for both oil and natural gas production for fiscal years 1998, 1999 and 2000, and the November 2000 Consensus Estimate for those receipts for fiscal year 2001. Also listed are the actual mineral tax receipts to date during the current fiscal year (as of November 2000) and a comparison to the Consensus Estimate for receipts for that time period.

The spreadsheet indicates that SGF mineral tax receipts for gas production for fiscal year 2001 are estimated to increase by \$ 27 million (\$ 42.2 million in FY 2000 to estimated \$ 69.2 million in FY 2001). Actual mineral tax receipts for gas production for fiscal year 2001 so far track with the Consensus Estimate.

Estimate of Increase to State Receipts from State Sales Tax on Non-exempt Sales of Natural Gas:

Sale of natural gas is generally subject to sales tax pursuant to K.S.A. 2000 Supp. 79-3603(c). Sales of natural gas for residential or agricultural use or for severing oil are exempt

HOUSE UTILITIES

DATE: 01-23-01

ATTACHMENT 3

from state sales tax, pursuant to K.S.A. 2000 Supp. 79-3606 (w). Steven Brunkan, the Department's sales tax research analyst, estimates that SGF state sales tax receipts for non-exempt sales of natural gas will increase in FY 2001 by approximately \$ 4 million.

Estimate of Increase to Gas Leasehold Assessed Values for 2000 and 2001 Attributable to Natural Gas Price Increases:

Kirby Stegman, the Department's property valuation research analyst, estimates that tax year 2001 total assessed value for gas leaseholds in Kansas will increase by approximately \$ 191 million to equal \$ 1.147 billion. This is based on the assumption that the assessed value increased by 6% from 1999 to 2000 and will increase again by 20% from 2000 to 2001. A number of factors may influence the assessed value of gas leaseholds, such as price, production, valuation guide changes in the present worth factor, well expenses, and others. The above figures therefore must be viewed with caution as only rough estimates. The actual assessed value for gas leaseholds in Kansas for tax year 1999 was \$ 901,665,975. The actual assessed value figure for tax year 2000 is not yet available. However, based on the assumption that it would increase 6% from the 1999 value, the Department estimates the 2000 value to be approximately \$ 955.8 million. This would be a \$ 54.1 million increase over the 1999 value figure.

The assessed value for gas leaseholds in Kansas has fluctuated over the past few years. For example, the assessed value for gas leaseholds increased from \$992,051,505 in 1996 to \$1,311,204,712 in 1997, an increase of 32.17%. The assessed value for gas leaseholds decreased 4.18% in 1998 to \$1,256,435,979. The assessed value decreased in 1999 by 28.24% to \$901,665,975.

The effect of a substantial increase in assessed value for a given tax year will not be reflected in property tax receipts until the property taxes for that year come due.

C-9

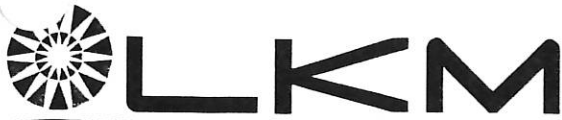
**Kansas Department of Revenue
Mineral Tax Statistics**

	Fiscal Years				Actual	Estimated
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001(EST.)</u>	FYTD <u>2001 (Nov.)</u>	FYTD <u>2001 (Nov.)</u>
Oil						
Gross Production (barrels in thousands)	38,800	34,200	33,500	33,000	14,100	
Taxable Production (barrels in thousands)	22,800	18,600	13,000	16,500	6,700	
Price	\$ 16.64	\$ 10.86	\$ 21.99	\$ 28.00	\$ 29.10	
Consensus Estimates (millions)	\$ 14.5	\$ 8.5	\$ 14.3	\$ 15.2	\$ 4.7	4.7
Adjusted Estimates (millions)			\$ 10.8	\$ 18.7		
Gas						
Gross Production (MCF)	649,265	589,684	556,079	520,000	220,000	
Taxable Production (MCF)	611,793	528,945	506,036	491,400	202,100	
Price	\$ 1.94	\$ 1.58	\$ 2.09	\$ 3.50	\$ 3.27	
Consensus Estimates (millions)	\$ 48.1	\$ 32.4	\$ 38.7	\$ 72.7	\$ 29.6	29.6
Adjusted Estimates (millions)			\$ 42.2	\$ 69.2		
Total Consensus SGF Receipts	\$ 62.6	\$ 40.9	\$ 53.0	\$ 87.9	\$ 34.3	\$ 34.3

Adjusted Estimates:

Fiscal Year 2000 and 2001 figures for oil and gas are modified for a transfer made in fiscal year 2001 to correct an accounting error made during fiscal year 2000.

Approximately \$3.5 million was incorrectly credited to oil mineral tax during fiscal year 2000.



League of Kansas Municipalities

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To: Senate & House Utilities Committees
From: Kim Gulley, Director of Policy Development & Communications
Date: January 23, 2001
Re: High Energy Costs

Thank you for giving me the opportunity to talk with you today concerning the impact of the recent increase in energy costs on cities in Kansas. As consumers of energy, as custodians of public rights of way, and as representatives of our citizens, cities are very concerned with energy policy in the state. At a meeting of the LKM Water & Environment Committee last Thursday, January 18th, city officials discussed the importance of active involvement in the development of statewide energy policy. In order to better define the issues and investigate possible solutions and recommendations, the Committee has decided to establish a sub-committee to begin wrestling with these very important issues. LKM and our member cities stand ready to provide whatever assistance we can as you consider policy options at the state level.

Cities have been affected in two key areas by the recent, dramatic increase in the cost of natural gas:

Cities as Consumers

City governments are significant consumers of energy. The recent dramatic increase in natural gas rates has had a serious negative impact on the budgets in many communities. The following examples are illustrative of the type of increases that cities are seeing:

- *Prairie Village.* The bill received by the city for gas services in city hall in January 2001 totaled \$1,460.73 for one month. This is compared to a total of \$2,743.50 for the entire year in 2000.
- *Mulvane.* Gas at the EMS building went from approximately \$300 per month to over \$1,200 per month. The City Administrator also noted that his wife is the librarian at the grade school and she has been instructed to stop purchasing books and periodicals in order to have enough money to pay the gas bill.
- *Hesston.* At the city buildings and shops they are reporting an increase of 272% over last year.
- *Mission.* City has reported a monthly increase from \$976.25 the previous year to \$2,289.89 in December 2000.

City governing bodies are faced with tough choices in order to meet these increases. Unless the city has a significant reserve fund, they must choose between cutting services and increasing taxes in order to make up for additional utility expenditures.

Franchise Fees

K.S.A. 12-2001 *et seq.* requires companies that utilize public rights of way for private purposes to pay a fee for the use of the public property. Such payments are made pursuant to franchise ordinances that are adopted by each city. State law allows such payment to be calculated based upon gross receipts or any other method that results in reasonable compensation to the public for the private use of their property.

In the situation where a franchise fee is calculated based upon gross receipts, an increase in the cost of natural gas to consumers also results in an increase in the amount of franchise fee that is paid to the city. However, it is important to note that such increases are offset to some degree by the increase in utility expenditures paid by the city itself.

Over the past several years, cities have been encouraged to convert their franchise agreements to a volumetric charge. This change was driven in large part by deregulation in the gas industry. The volumetric charge allows cities to charge the same fee for all gas that is transported through the use of city rights of way regardless of the who is the end user or the provider of the energy. In cities that have converted to a volumetric franchise fee, an increase in the cost of natural gas would have no impact on the franchise fees received by the city.

Again, thank you for allowing me to appear today and I look forward to working with both committees to address these and any other issues of mutual concern. I would be happy to answer questions at the appropriate time.

**JOINT HEARING OF THE SENATE AND HOUSE
UTILITIES COMMITTEES**

BY THE CITIZENS' UTILITY RATEPAYER BOARD

Walker Hendrix, Consumer Counsel

January 23, 2001

Explanations for the cost of natural gas this winter heating season have been addressed by all the speakers who have appeared prior to this presentation. No short term solutions appear to be available for policy makers in Kansas. This is somewhat disconcerting given the shrill cry from consumers who are experiencing record high prices for the natural gas they consume. Allegations of price gouging and an artificial shortage are frequently echoed by consumers.

In Kansas, public officials have attempted to deal with the natural gas crisis by assuring funds for low income assistance. These efforts should be commended and expanded if possible. The average citizen, however, will not be assisted. The cost of natural gas is simply extending the budgets of most Kansans.

As you are aware, the price of natural gas started rising at the end

of last years heating season. The price rose to more than \$7 an MMBtu by December. Towards the end of December the price crept above \$10. Unlike past situations, the price has remained high for a prolonged period of time.

Natural gas inventories have declined by 14 percent over the amount of natural gas which was available over the previous five year period. Consumption is up due to cold weather and greater demand for natural gas as a clean burning fuel. Prices are likely to remain high and volatile for the next year or so. Residential consumption on a national level is up by 10 percent. Industrial consumption has increased by 7.4 percent during 2000. Finally, because the federal government has discouraged other fuels, gas fired electric generation is expected to rise by as much as 19 percent.

Imports have increased, but have stabilized as a result of pipeline capacity. Increased drilling activity has yet to make up for reduced supplies of domestically produced natural gas. The only event which promises relief is the prospect of warmer weather. Demand may slow in part because of high prices, but EIA still anticipates the demand for industrial gas to rise during the next 12 months.

Consumers consequently could pay as much as 50% more for natural gas during the entire winter heating season. EIA projects that the price of natural gas will drop by only a \$1 per thousand cubic feet during the next winter heating season. If you have checked the cost of gas on your latest bill, it will reflect charges in excess of \$11 per Mcf. This is due to the fact that monthly prices are established for the most part during the previous month, usually during the last week in the previous month. As you will remember the price at the end of December was at a record level. The price for the most part will not be readjusted until next month.

The long term forecast for natural gas is an increased demand of 62 percent by 2020. Domestic production will not keep pace with this demand and will have to be supplemented by imports. The long term projections for natural gas is that the price will stabilize around \$5 per Mcf. A good recitation of these issues is contained in the testimony of Mark J. Mazur, Acting Administrator for the Energy Information Administration before the U.S. Senate Committee on Energy and Natural Resources (December 12, 2000) which is attached as Exhibit "A".

Although several theories have been propounded by the various speakers who have come before you, an interesting issue was identified

by Bob Krehbiel on behalf of the Kansas Independent Oil and Gas Association. Referring to attachment "K" of Mr, Krehbiel's testimony, he highlights the price differential between well head prices and end users. (See, attachment "K" as CURB Exhibit "B". Obviously, some of the increase is associated with processing the natural gas, transportation, storage and delivery. Yet, given the rapid rise in the price of natural gas, consumers are questioning whether some of the price increases are due to hidden charges and the marketing activities of companies affiliated with the distribution and pipeline companies.

Is it coincidental that the revenues of the marketing and trading companies have increased exponentially over the same time frame in which the price of natural gas has skyrocketed? Has trading activity where merchants have sold natural gas into the futures market to third party middlemen increased the price of natural gas to the ultimate consumer? Has this trading activity lead to ever escalating prices in a tight market?

Although no detailed study of the trading activities of affiliated marketing companies has been made, you may find the attached articles to be of some interest. (CURB Exhibit "C" consists of articles from the internet which highlight the earnings for Williams Companies, Oneok,

5-4

Acquilla and Enron.) These articles highlight how lucrative the business of trading energy futures is. Williams announced that it expects to beat earlier Wall Street estimates. It indicates that its trading investments are generating exceptional returns through “structured deal flow.” Williams also believes it “can generate a minimum of \$500 million per year in segment profit under most market conditions.” Forward-price commodity trading is sighted as the basis for Williams not losing money in the California electric market in the face of potential bankruptcies by PG&E and Southern California Edison.

Oneok indicated in November that it would increase net income for the Third Quarter by 460 percent. A significant portion of this increase is tied to natural gas marketing and trading activities. The article states that “Oneok’s strategy is to market and trade around its operating assets.”

Aquila Energy, currently an affiliate of Utilicorp, is proposing an IPO on the strength of its marketing ventures. One analyst notes: “While traditional utilities that sell directly to consumers trade at low earnings and revenue multiples, partly because regulators still limit the amount they can charge customers, their unregulated wholesale units are seen as high-growth businesses. The wholesale units are able to

5-5

arbitrage deals in tight commodity markets that are unregulated, making them great spin-off candidates.” Because of Aquila Energy, Utilicorp expects full year earnings per share to be up 74 percent.

One of the largest energy trading companies announced yesterday that its earnings will increase dramatically. Enron announced that its earnings would increase by 25 percent. Its net income would increase by 32 percent.

Although this may be a prescription for success on the New York Stock Exchange, it means consumers will be paying much higher prices for energy related services. The specter of affiliated deals is troublesome to consumers and many policy makers. We need to have greater oversight over affiliate transactions.

Moreover, we need to review contracting practices. For the most part, gas purchase contracts reflect commodity exchange indices. Only a small portion of our gas supply however is actually traded. In a tight market, you have only a few transaction dictating the price for everyone else, because most gas contracts escalate automatically. Even if your supplier has all the gas your company needs, the price increases to reflect the price of those companies which have not availed themselves of a supply. The consumer then has to bear the price which is established under extreme conditions. Meanwhile, in a volatile market,

the traders are able to gain huge profits. This is not fair to the consuming public.

Thank you for your attention.

EXHIBIT A

**STATEMENT OF
MARK J. MAZUR
ACTING ADMINISTRATOR
ENERGY INFORMATION ADMINISTRATION
DEPARTMENT OF ENERGY
BEFORE THE
COMMITTEE ON ENERGY AND NATURAL RESOURCES
U.S. SENATE
DECEMBER 12, 2000**

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before you today to discuss the views of the Energy Information Administration (EIA) on natural gas supply and demand.

EIA is an independent statistical and analytical agency within the Department of Energy. We are charged with providing objective, timely, and relevant data, analysis, and projections for the use of the Energy Department, other agencies, the Congress, and the public. We do not take positions on policy issues, but we do produce data and analysis reports that are meant to help policymakers decide energy policy. Because we have an element of statutory independence with respect to the analyses that we publish, our views are strictly those of EIA. We do not speak for the Department, nor for any particular point of view with respect to energy policy, and our views should not be construed as representing those of the Department or the Administration.

Today, we will focus on the recent surge in natural gas prices, discussing some of the potential reasons for this rapid price movement. We also will consider what this price increase means for American consumers of natural gas and how we expect markets to respond to this runup in prices.

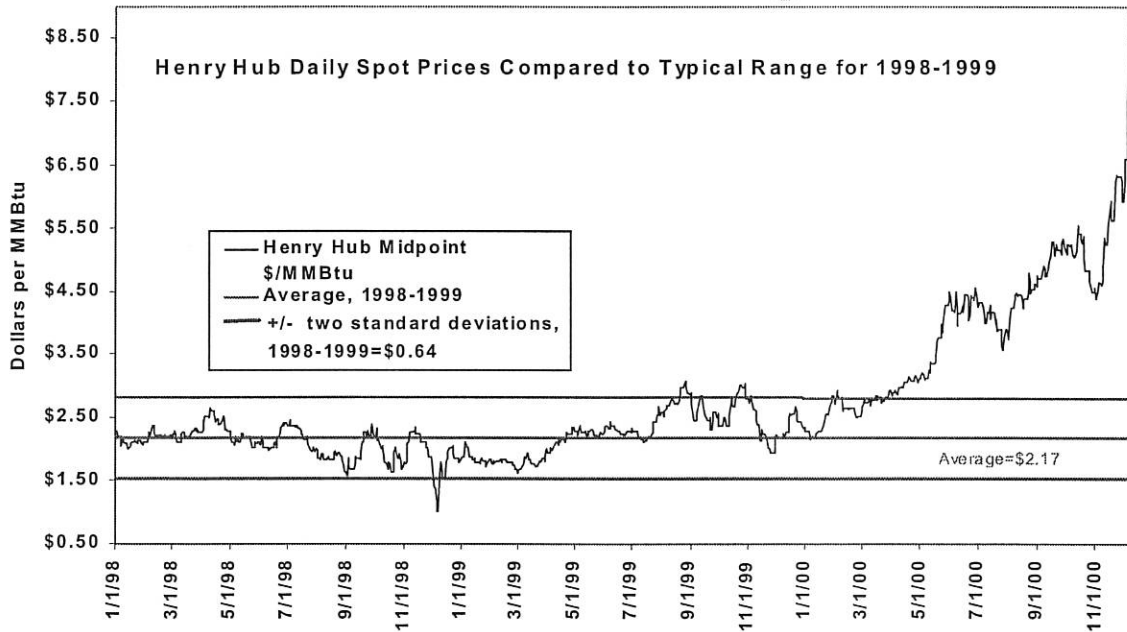
Since late May 2000, spot wellhead prices generally have been above \$4 per MMBtu (million Btu) at the Henry Hub. For most of September through early December, these prices have been above \$5 per MMBtu, more than double the price of one year ago, and recently spot prices approached \$9 per MMBtu. Spot gas prices for the past 8 months therefore have consistently exceeded the normal range exhibited in 1998 and 1999, which generally was below \$3 per MMBtu (Figure 1).

In late November, gas spot prices surged past \$6 per MMBtu, reaching \$8.86 per MMBtu on December 6, 2000. Although spot prices at certain cash markets have been at comparable levels in the past, the present experience is unusual in that gas prices previously had not remained this high for a sustained period of time.

In addition to higher prices nationally, California has been experiencing particularly high natural gas spot prices (more than four times as high as recent national averages). High demand for gas-fired

5-10

Figure 1. Current Natural Gas Prices: Well Above the Recent Price Range



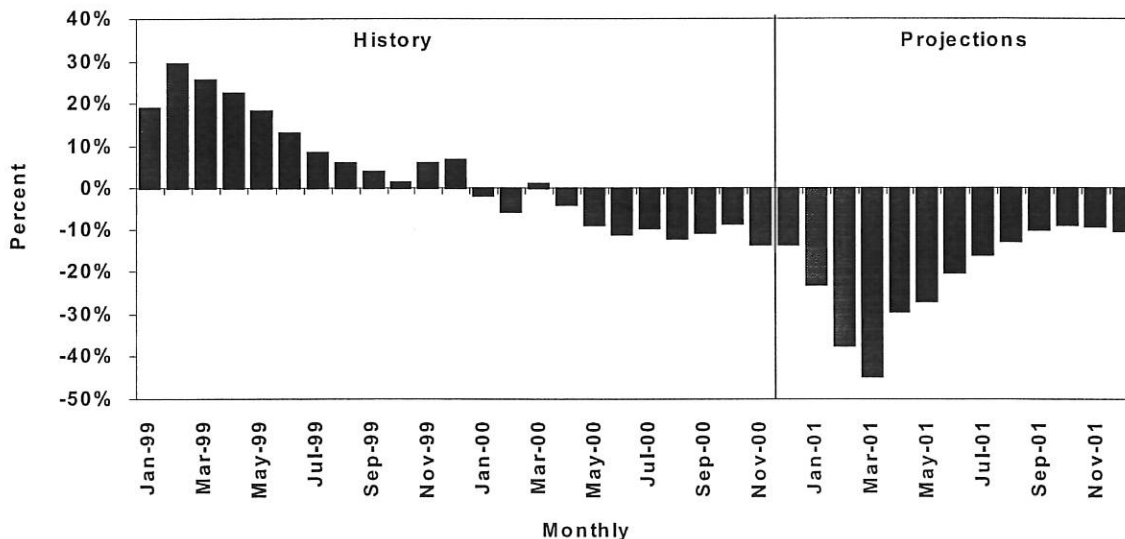
Source: Gas Daily

electricity generation and for heating, coupled with low storage levels and low hydro and nuclear generation output, have severely strained the system in that State. Available supplies of gas from outside the State to meet strong gas demand are limited due to lingering operational difficulties along the El Paso system entering southern California, and the lack of available capacity along pipeline routes from the Canadian border in the State of Washington and from the Rocky Mountain producing areas. The El Paso system is constrained below normal flow levels while it is recovering from the pipeline rupture in August. The limited spare capacity into California elsewhere is because these systems typically have run at high rates of utilization.

Recent surges in natural gas demand underscore the importance of gas in storage as part of the U.S. supply picture. The American Gas Association (AGA) estimated net withdrawals at 73 Bcf for the week ended Friday, December 1. Based on these withdrawals, nationwide natural gas inventories are at an EIA-estimated 2,414 Bcf, which is 394 bcf or 14 percent below EIA's average of 2,808 Bcf for this point during the previous 5 years (1995-1999) (Figure 2). While this withdrawal estimate

5-11

Figure 2. U.S. Working Gas in Storage
(Percent Difference from Previous 5-year Average)



Sources: History: EIA; Projections: *Short-Term Energy Outlook*, December 2000.



is half the amount from the previous week, it is nonetheless relatively large for this point in the year. It was driven largely by the heavy gas-consuming East region, where estimated withdrawals were 57 Bcf—the second largest draw for that region in this particular week of the heating season over the past 5 years. As of December 1, East region stocks were 7.3 percent below the 5-year average (1,714 Bcf), while the 254 and 571 Bcf in the West region and the producing region stocks are 31 and 21 percent below normal.

EIA expects that high and volatile gas prices will prevail until significantly more gas supplies enter the market, although the likelihood of that in the near future is not high. Natural gas consumption this winter (October 2000 through March 2001) is expected to be 5.9 percent greater than last winter's level, assuming normal temperatures in the remainder of the season. Normal weather implies an 11 percent rise in gas-weighted heating degree-days compared with last winter, which was much warmer than normal. Under normal weather assumptions, estimated residential and commercial sector consumption would be up by around 10 percent over the same period last year. Natural gas

5-12

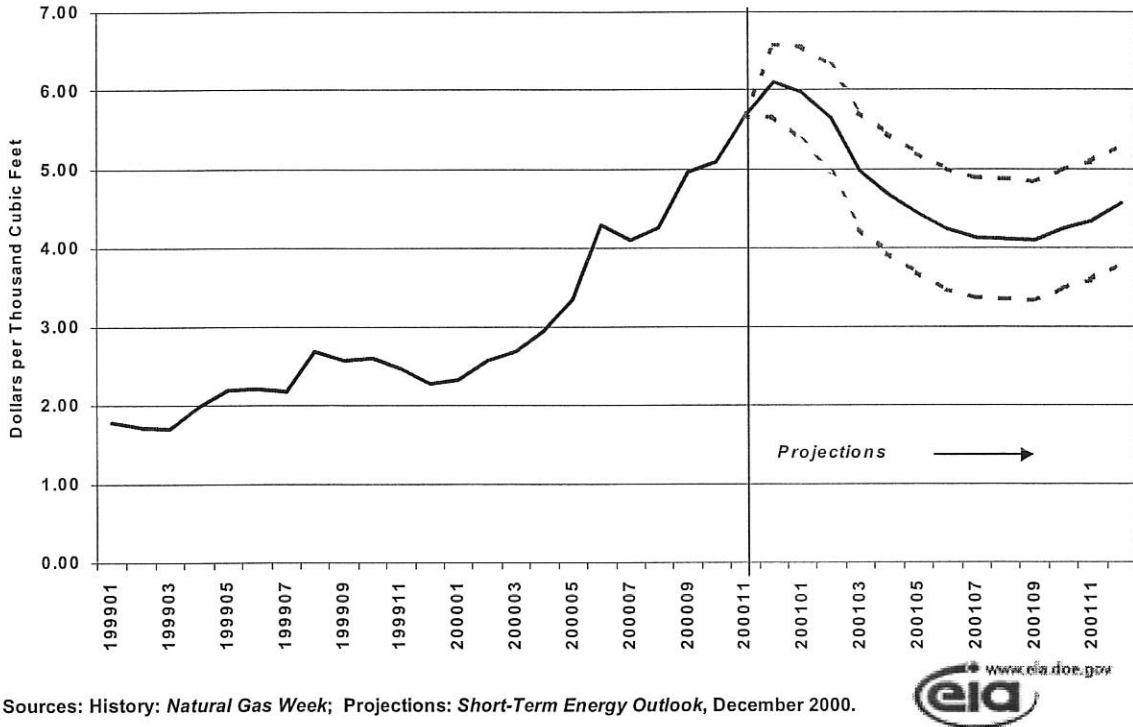
demand in the industrial sector is expected to increase by 7.4 percent in 2000, with gas-fired electricity generation by merchant plants and cogenerators combined expected to be up by 18.6 percent. Electric utility gas demand is expected to remain about level with consumption rates seen in 2000. This distinction is due in part to sales of electric generating plants by electric utilities to unregulated generating companies, fuel consumption that currently is recorded by EIA in the industrial sector.

During the winter months, net imports of natural gas are about 10 percent higher than during the rest of the year and usually increase to full pipeline capacity. While it is unlikely that export capacity will be fully utilized this winter, EIA expects net imports to rise by 7.3 percent over last winter's imports. The Alliance Pipeline began carrying gas from western Canada to the Midwest on December 1. Even if Alliance is near capacity at mid winter, it is highly likely that a substantial portion of the volumes contracted for delivery on the system will have been redirected from other systems, particularly the TransCanada Pipeline System. Thus, the Alliance pipeline may not add significantly to total gas supply from Canada this winter.

Assuming normal weather for the remainder of the heating season, EIA is projecting that natural gas prices at the wellhead this winter (October-March) will average about \$5.60 per thousand cubic feet, more than double the price of last winter (Figure 3). Cold weather for prolonged periods this winter would strain supplies and could result in even higher spot prices. Given the recent variability in the natural gas spot market, spot prices of natural gas are likely to hit or breach the upper level of the uncertainty bands of the forecast (shown as dotted lines in Figure 3) if the cold weather in the gas consuming regions of the country turns out to be unexpectedly severe. On the other hand, the market experience in October shows that spot gas prices could still plunge sharply if the weather turns warm for any lengthy period of time in the gas consuming regions. In addition to expected supply and demand conditions this winter, continued increases in natural gas demand from new gas generating plants next year will probably prolong the much-above-normal price environment through 2001, even if further gains in U.S. and Canadian production materializes for 2001, which EIA anticipates.

In 2001, utility gas-fired electricity demand is expected to remain about flat, while industrial gas-fired electricity generation growth continues at 5.1 percent, down from the 7.4 percent expected to

Figure 3. Natural Gas Spot Prices: Base Case and 95% Confidence Interval



Sources: History: *Natural Gas Week*; Projections: *Short-Term Energy Outlook*, December 2000.

be realized in 2000. These reduced growth rates next year represent the net effect of increased growth in gas-fired capacity being offset by the reversal in prices of natural gas relative to oil and a slowing in the growth rate of electricity demand.

Gas supplies available to U.S. markets are expected to expand by 1.3 trillion cubic feet (Tcf) between 2000 and 2001. Domestic gas production for 2000 and 2001 is expected to increase as production begins to respond to the high rates of drilling experienced over the past year, during which the number of rigs drilling gas wells have hit record levels (running in excess of 800 rigs since the end of August 2000, versus a low of 362 in the third week of April 1999). Annual production is projected to rise by 0.7 percent in 2000 but by a significantly higher 3.9 percent rate in 2001. Net imports of natural gas are projected to rise by about 16 percent in 2001, from 3.5 to 4.0 Tcf.

5-14

For the entire year 2000, the average wellhead price for natural gas is projected to average \$3.60 per thousand cubic feet, an increase of 73 percent from the previous year. Higher end-use prices will

Figure 4. Consumer Natural Gas Winter Heating Costs

<i>Average Midwest Household Consumption, U.S. Prices</i>				
	97-98	98-99	99-00	00-01
	Actual	Actual	Actual	Base Fcst
<i>Mcf</i>	<i>82.4</i>	<i>84.5</i>	<i>81.7</i>	<i>90.6</i>
<i>(\$/Mcf)</i>	<i>\$6.56</i>	<i>\$6.27</i>	<i>\$6.61</i>	<i>\$9.21</i>
<i>Cost (\$)</i>	<i>\$541</i>	<i>\$530</i>	<i>\$540</i>	<i>\$834</i>

Source: Energy Information Administration



result from higher projected wellhead prices. Given the EIA base case projections, residential prices for natural gas this winter would be about 40 percent higher than last year during that period. Expected average winter residential prices averaging about \$9.21 per thousand cubic feet, combined with temperature-driven higher consumption rates, would result in an increase in gas-heated household heating bills for the typical consumer of around 50 percent this winter (Figure 4).

Prices in the spring of next year should descend from their winter highs by about \$1 per thousand cubic feet as the weather-related demand recedes. EIA expects a continued price decline through the summer. Nevertheless, for the year 2001, assuming continued normal weather and slightly higher world oil prices, EIA does not expect gas wellhead prices to drop below \$4 per thousand cubic feet.

5-15

Increases in production and imports of natural gas needed to keep pace with the rapidly growing demand for natural gas will result, at least in the short-term, in more expensive supplies for gas because of rising production costs and capacity constraints on the pipelines.

The current short-term supply difficulties are expected to be resolved over the longer term, moving the market back toward an improved demand and supply balance, yielding wellhead prices closer to long-term historical trends. In EIA's *Annual Energy Outlook (AEO2001)* reference case, average natural gas wellhead prices are projected to return to the historical trend by 2004 and gradually increase thereafter, driven by natural gas demand growth, particularly in electric generation, and the natural progression of the discovery process from larger and more profitable fields to smaller, more costly ones. However, available natural gas resources in the United States combined with supplies from foreign sources are believed to be adequate to meet demand increases expected through 2020. In addition, continued improvements in exploration and production technologies to aid in the discovery and development in resources—particularly offshore deepwater and onshore unconventional gas (tight sands, coalbed methane, and gas shales) fields—are expected to help keep wellhead prices from rising rapidly. Wellhead prices for natural gas in the lower 48 States (in 1999 dollars) are projected to reach \$3.13 per thousand cubic feet in 2020 (1999 dollars) or \$5.03 in nominal dollars.

Domestic consumption is expected to increase at a faster rate than domestic production over the 20-year forecast period, with imports making up the difference. Natural gas consumption is projected to increase from 21.4 trillion cubic feet in 1999 to almost 35 trillion cubic feet by 2020 (a 62 percent increase) and production is projected to increase from 18.8 trillion cubic feet in 1999 to 29.1 trillion cubic feet in 2020 (an increase of 55 percent). Natural gas imports, particularly from Canada, have been rising significantly in recent years, and in percentage terms they are expected to outpace domestic production over the forecast period. Net natural gas imports are projected to grow from 3.4 trillion cubic feet in 1999 to 5.8 trillion cubic feet by 2020, an increase of more than 70 percent. Imports from Canada are projected to remain competitive with U.S. domestic supplies in the outlook because most Canadian gas producing regions are less mature than those in the United States, so they benefit from a better potential for additional low-cost production. Net imports from

Canada increase from 3.3 trillion cubic feet in 1999 to 5.5 trillion cubic feet in 2020 at an average annual rate of 2.4 percent.

Expected Alaskan natural gas production in the EIA long-term outlook does not include gas from the North Slope, which primarily is being reinjected to support oil production. Alaskan gas is not expected to be transported to the lower 48 States because the projected prices in the mid- to long-term forecast period are not believed to be high enough to support the required transport system. A sustained U.S./Canada border price of about \$4 per thousand cubic feet in 1999 dollars is assumed to be necessary to bring natural gas from the North Slope to the lower 48 States. Production from the North Slope could be substantial and, if transported by pipeline to the lower 48 States, would most likely displace future expected Canadian imports.

Resources in restricted areas (where drilling is presently constrained or prohibited) also are not included in the natural gas resource base underlying the *AEO2001* projections. An estimated 551 trillion cubic feet of the remaining untapped natural gas resource base in the United States underlies Federally-owned lands and approximately 215 trillion cubic feet of that gas is estimated to be unavailable for development due to moratoria and/or restrictions. The Rocky Mountain region has significant resources from unconventional sources that are currently restricted. An estimated 45 percent of the technically recoverable unconventional gas resource base in the Rocky Mountain region, or roughly 108 trillion cubic feet, is off limits due to environmental and access constraints. Increased access to these areas could provide new fields to replace older fields and serve to mitigate future natural price increases. However, the importance of these resources should not be overstated, as many of these technically recoverable resources are expected to be quite costly to develop.

Conclusion

Natural gas spot prices have been sustained at extraordinarily high levels in November after a taste of winter weather arrived in major heating demand areas, and they have surged to even higher levels in December. Several factors have combined to push spot prices up since early this year, including:

- increased natural gas demand driven by new electric generation capacity and the expanding economy;

- relatively flat domestic gas production for the past several years;
- expectations for normal winter weather that would be colder than in recent years, resulting in greater winter demand for heating;
- below normal gas storage levels; and
- tight supply conditions in alternative fuel markets (e.g., distillate fuel oil).

EXHIBIT B

02-5

PRODUCERS – TRANSPORTERS/AFFILIATES – CONSUMERS
 YTD 2000 Wellhead price is through November 2000. YTD 2000 City Gate & Residential price is through September 2000. YTD 2000 Industrial and Commercial is through August 2000.

Mineral Owners/Royalty Owners
 1999 – 1/8th of \$2.17
 YTD - 1/8th of \$3.35

1999 – 7/8 of \$2.17 less gathering & compression
 YTD 2000 – 7/8 of \$3.35 less gathering & compression
SMALL PRODUCERS & LARGE PRODUCERS

AFFILIATES

Producer Affiliates	Gathering or Field Services
Gas Storage Affiliates	Gas Processing Affiliates
Marketing Affiliates	Electric Generation Affiliates

LOCAL DISTRIBUTION PIPELINE COMPANIES
 1999 City Gate - \$3.16
 YTD 2000 - \$3.97

Gathering Pipelines

Interstate Pipelines
 National & Multinational Corporations

Direct Sales

Electric Generation
 1999 - \$2.62
 YTD - \$3.64

Industrial
 1999 - \$3.10
 YTD - \$3.87

Commercial
 1999 - \$5.33
 YTD - \$5.54

Residential
 1999 - \$6.69
 YTD - \$7.13

Consumer

Consumer

Consumer

EXHIBIT B

EXHIBIT C

5-21

WILLIAMS EXPECTS TO MEET OR EXCEED 2001
WALL STREET ESTIMATES

5-22

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Wednesday January 3, 8:02 am Eastern Time

Press Release

SOURCE: Williams

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delayed 20 mins - [disclaimer](#)**Williams Expects to Meet or Exceed 2001 Wall Street Estimates**

TULSA, Okla., Jan. 3 /PRNewswire/ -- Williams (NYSE: [WMB](#) - [news](#)) said today that expanding earnings capacity in marketing and trading combined with the growth of its other energy businesses should enable the company to meet or exceed Wall Street's 2001 estimates of \$1.26 per share for consolidated and \$1.73 per share for energy-only results.

Keith E. Bailey, chairman, president and chief executive officer, said the forecast of consolidated recurring results does not include the impact of the potential tax-free spin-off of Williams Communications to Williams' shareholders, which continues to be evaluated. Energy-only earnings reflect recurring consolidated performance excluding the after-tax results of Williams Communications.

"What 2000 made clear is that we have successfully transformed our energy business to take greater advantage of opportunities that exist in unregulated or lightly regulated parts of the industry," Bailey said. "This now represents the majority of our income growth potential, even in light of the strong and continued improving performance of our natural gas pipeline group.

"The shift toward higher growth potential lines of business, of course, brings with it the chance for greater volatility in our financial results," he said. "Barring significant shifts in our industry's business environment, we believe we have the potential to build on the success we enjoyed in 2000.

"Our proprietary trading investments are generating exceptional returns through record structured deal flow -- highlighting our ability to capture value across nearly every energy market," Bailey said. "We've built our base business to the point where we believe it will generate a solid and sustainable level of earnings from which to grow our trading portfolio. It should also be the fastest growing part of our mix of energy businesses."

Steve Malcolm, president and chief executive officer of Williams Energy Services, said he believes the marketing and trading company, "can generate a minimum of \$500 million per year in segment profit under most market conditions. And, if we achieve our growth goals for our power portfolio, we have the potential to significantly exceed that level of performance."

Bailey said, "As well as marketing and trading is performing, it should not overshadow the superior performance we are achieving across nearly all of our energy portfolio, which we also continue to selectively grow in a way that is consistent with our investment strategy. And, our communications business enters the year building on accomplishing two major objectives -- completing a new, next-generation national fiber-optic network on time and growing a significant book of business to ride on it."

5-23

Pending board approval later this month, Bailey said he expects the 2001 capital budget to be approximately \$2.4 billion for energy and \$2.2 billion for communications.

Bailey also provided the following roundup of developments that may impact 2001 and beyond:

Williams Energy Services, which provides a full range of traditional and leading edge energy products and services that are unregulated or lightly regulated, reported it:

- Is actively working to double the company's 8,900-megawatt electric power portfolio in 2001, with a five-year goal to manage approximately 40,000 megawatts. This business already is a top-10 domestic power marketer, the nation's third largest natural gas liquids marketer and trades nearly every energy commodity from its trading floor in Tulsa.
- Acquired TransCanada's western Canadian natural gas liquids assets, expanding into a new key producing basin in western Canada.
- Won major new deep-water, western Gulf of Mexico business to gather oil and natural gas, which will include the construction of a 300 million cubic foot per day gas processing plant, to be completed in the fourth quarter.
- Completed in mid-2000 a \$123 million, 20,000-barrel-per-day expansion of the Memphis refinery.
- Formed Williams Energy Partners L.P. master limited partnership to acquire, own and operate energy assets, principally for storage, transportation, and distribution of refined petroleum products and ammonia.
- Formed, with several industry partners, TradeSpark, LP, an electronic energy trading marketplace.
- Increased petroleum product storage capacity through the acquisition of six terminals, bringing the totals to 40 independent and 40 on-system terminals.

Williams Gas Pipeline, the nation's second largest which provides transportation and storage services while delivering from 17 to 20 percent of the country's daily demand for natural gas, said it:

- Received Federal Energy Regulatory Commission (FERC) authorization to phase construction of the MarketLink expansion to provide 296,000 dekatherms per day of additional firm natural gas transportation capacity to markets in the northeastern United States. Construction should begin in first-quarter 2001.
- Filed an application with the FERC to add 124,500 dekatherms per day firm transportation service to the Kern River system into southern California. Proposed in-service date is May 1, 2002.
- Completed the SouthCoast expansion, increasing capacity on the Transco system by 204,099 dekatherms per day to serve Alabama and Georgia markets.
- Announced plans to purchase, with Duke Energy, the Coastal Gulfstream natural gas system to expedite entry into growing Florida energy markets.
- Announced plans for several expansion projects, including Cross Bay in New Jersey, Georgia Strait in the Northwest, Sundance in the Southeast, and Western Frontier in the Rockies and MidContinent.
- Purchased Cove Point LNG Limited Partnership from Columbia Energy Group. The facility is the largest LNG import facility in the United States, with a daily send-out capacity of 1 billion cubic feet.
- Acquired Duke Energy's 9.8 percent interest in Alliance Pipeline. Williams already owned a 4.8 percent stake in the pipeline, which will transport Canadian gas to growth markets in the midwestern and eastern United States.

Williams Communications, which includes a leading-edge broadband network, single-source communications systems integration and multiple technology applications for businesses, expects to produce 2001 network-related revenue that will be approximately \$1.3 billion, more than double that of recurring 2000 network revenues. Network EBITDA (earnings before interest, taxes, depreciation and amortization) is expected to be positive on a run-rate basis by year-end 2001.

The communications division also reported:

- It generated more than \$3 billion in new network business in 2000, effectively doubling its network

5-24

customer base.

- Williams further strengthened its alliances with SBC Communications, which began offering long-distance service in Texas on the Williams network, and KDDI America, the largest Internet service provider in Japan.
- Extended network connectivity to 125 domestic cities, becoming the nation's largest next-generation network.
- Led the next generation of optical networking by offering OC-192 optical wave service to customers and accelerating the development of an intelligent optical Internet Protocol network and a comprehensive suite of IP-based services.
- Extended its international reach, establishing interests in undersea communications between China and Japan, expanding European and Canadian capabilities; and establishing major broadband fiber-optic network links to Australia, Argentina and Chile.
- Expanded its vision for business-to-business broadband media services with Vyvx Services' MediaXtranet initiatives, delivering the first-run movie "Bounce" over the Williams network from Los Angeles to a theater in New York City.

About Williams

Williams, through its subsidiaries, connects businesses to energy and communications. The company delivers innovative, reliable products and services through its extensive networks of energy-distributing pipelines and high-speed fiber-optic cables. Williams information is available at www.williams.com.

Portions of this document may constitute "forward-looking statements" as defined by federal law. Although the company believes any such statements are based on reasonable assumptions, there is no assurance that actual outcomes will not be materially different. Any such statements are made in reliance on the "safe harbor" protections provided under the Private Securities Reform Act of 1995. Additional information about issues that could lead to material changes in performance is contained in the company's annual reports filed with the Securities and Exchange Commission.

SOURCE: Williams

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5-25

WILLIAMS EXPECTS TO TOP PROFIT FORECASTS,
SEES LITTLE RISK FROM CALIFORNIA

5-26

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THE WALL STREET JOURNAL

Williams Expects to Top Profit Forecasts, Sees Little Risk From California Utilities

By Alexei Barrionuevo

Staff Reporter of The Wall Street Journal

Williams Cos. said buoyant profits from its energy trading and marketing operations should help it "substantially exceed" analysts' fourth-quarter earnings projections.

Williams also discounted concerns that it faced significant credit risks after California's major utilities warned that they may be forced to seek bankruptcy-court protection because of turmoil in that state's power markets.

As a provider of power to the troubled California market, Williams has seen its stock hurt by concerns that the state's two biggest electric utilities, PG&E Corp.'s Pacific Gas & Electric Co. unit and Edison International Inc.'s Southern California Edison Co., could run out of funds to pay for power for their customers. The two utilities were given some breathing room by Wall Street late last week, when ratings concerns held off on deciding whether to drop their debt ratings below investment grade.

But Williams, a Tulsa, Okla., energy and pipeline concern, said it isn't at risk, because its direct exposure to the California utilities isn't significant.

Williams shares jumped \$4.56, or 14%, to \$37.44 as of 4 p.m. in New York Stock Exchange composite trading Tuesday.

Williams said the vast majority of its energy sales in California were into the futures markets, where the energy was purchased by middlemen before being sold to utilities. Indeed, until about two weeks ago, the state's

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5-27

Indeed, until about two weeks ago, the state's utilities could buy power only on the spot market, not in futures markets. Thus, Williams's direct dealings with the utilities were minimal, the company said.

"The fact that the utilities were prohibited from engaging in forward-price commodity trading means by inference that we were not selling to them directly," a Williams spokesman said.

Analysts and officials from other big wholesalers said it is unclear how other energy-marketing companies are positioned relative to the troubled California utilities. "That's the question on everybody's minds right now," said a spokesman for Enron Corp., which also sells into the California market. "In our case, I am certain our exposure to any credit difficulties in the California market is well within any credit limits we have established."

Profits from volatile trading in California and elsewhere are largely responsible for lifting Williams's profit expectations for the fourth quarter. The company was expected to earn 17 cents a share, according to First Call/Thomson Financial. Williams didn't provide a specific forecast for its earnings.

Marketing and trading has become a huge part of Williams's earnings, making up 45% of its third-quarter profit before interest and taxes, up from less than 5% in the same quarter of 1999. Profit from trading operations will reach an estimated total of \$575 million for 2000, up from \$105 million in 1999, according to Dain Rauscher Wessels.

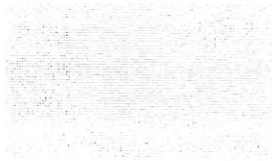
"In general the whole [energy-marketing] group is going to have pleasant earnings surprises," said Ron Barone, an analyst with UBS Warburg. "Trading will be a major part of that, because of the cold weather. And it's nationwide, not just in California."

Williams said it expects to report fourth-quarter results on Jan. 31.

Write to Alexei Barrionuevo at alexei.barrionuevo@wsj.com



5-28



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5-29

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Tuesday December 26, 8:25 am Eastern Time

Press Release

SOURCE: Williams

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Williams Expects Fourth Quarter Results to Substantially Exceed Expectations

TULSA, Okla., Dec. 26 /PRNewswire/ -- Citing the continued improved performance within many areas of its energy businesses, Williams (NYSE: [WMB](#) - [news](#)) announced today it expects consolidated fourth quarter financial results to substantially exceed the current First Call estimate of 17 cents per share.

More specific earnings guidance is not immediately available. Williams plans to report year-end and fourth-quarter earnings on Jan. 31.

Keith E. Bailey, chairman, president and chief executive officer of Williams, said the company elected to make today's disclosure, in part, to address apparent investor concerns related to publicity surrounding the California electricity market, which is experiencing short supply and resulting higher prices.

"The driver of our better-than-expected earnings performance is coming from our energy businesses, which we expect to substantially exceed current Wall Street estimates," Bailey said. "The improvement is occurring in many areas of our energy businesses, but is primarily because of higher trading results. This is due in large part to price volatility in the forward energy markets that is occurring throughout the nation."

Much of Williams' California electric energy position has been sold into forward markets in which that state's utilities, until recently, could not participate. Consequently, Williams -- which continues to serve California's wholesale energy markets -- does not expect material creditworthiness issues in the fourth quarter.

About Williams

Williams, through its subsidiaries, connects businesses to energy and communications. The company delivers innovative, reliable products and services through its extensive networks of energy-distributing pipelines and high-speed fiber-optic cables. Williams' information is available at www.williams.com.

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5-30

SOURCE: Williams

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5-31

ONEOK REPORTS 460 PERCENT INCREASE IN THIRD QUARTER NET INCOME

5-32



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Wednesday November 1, 6:30 pm Eastern Time

Press Release

SOURCE: ONEOK, Inc.

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ONEOK Reports 460 Percent Increase in Third Quarter Net Income

TULSA, Okla., Nov. 1 /PRNewswire/ -- ONEOK, Inc., (NYSE: [OKE](#) - [news](#)) today reported net income of \$10.1 million for the third quarter ended September 30, 2000, compared with \$1.8 million for the same period a year ago.

David Kyle, president, chief executive officer and chairman of ONEOK, said, "I am very pleased with the value we continue to grow for ONEOK shareholders. The third quarter has traditionally been a loss quarter because of the lack of heating sales coming from our regulated businesses during the warmer months of July, August and September. But now for two years in a row it has been a positive quarter thanks primarily to the diversification of our growing non-regulated energy operations."

Earnings available to common shareholders are \$811,000 for the third quarter, which yields three cents of basic and diluted earnings per share of common stock, compared with a loss of \$7.5 million, or a loss of 24 cents one year ago. The earnings per diluted share reflect the exclusion of 20 million shares of convertible preferred shares, which were antidilutive for both periods.

For the nine months ended September 30, 2000, net income was \$100.3 million, or \$2.04 per diluted share, an increase of 21 cents per share over the six-month period ended June 30, 2000, as compared with \$71.7 million, or \$1.39 per diluted share for the nine-month period one year ago.

Operating income was \$49.1 million for the third quarter compared with \$19.6 million for the same quarter one year ago. The increase includes the impact of two major midstream acquisitions, which include gathering, processing, transmission and storage assets and a natural gas marketing and trading operation. Most of the increase came from marketing and gathering and processing operations. Interest costs for the third quarter increased compared to one year ago due primarily to financing of acquisitions and higher gas costs.

For the nine months ending September 30, operating income was \$233.8 million compared with \$159.2 million one year ago.

Marketing Operations

Marketing operations include the natural gas marketing and trading activities of ONEOK in 25 states. ONEOK's strategy is to market and trade around all its operating assets.

Operating income from marketing operations more than tripled for the third quarter of 2000 to \$11.2 million compared with \$3.5 million one year ago. Marketing operations experienced a 165 percent

5-33

increase in sales volumes for the third quarter resulting primarily from the recent acquisitions, increased access to storage, and the volatility of energy prices. Operating income was also favorably impacted as a result of marking energy contracts to market.

Gathering and Processing Operations

Gathering and processing operations include 20 gas processing plants and related gathering pipelines. This segment also has partial ownership interests in four other gas processing plants. Total capacity is over two billion cubic feet per day.

Operating income for the third quarter increased to \$32.7 million compared with \$6.9 million one year ago. Growth in this segment resulted from strong prices for natural gas and natural gas liquids combined with the favorable impact of acquisitions.

Transportation and Storage Operations

Transportation and storage operations include intrastate transmission pipelines and natural gas storage facilities in Kansas, Oklahoma and West Texas. The company owns five storage facilities in Oklahoma, two in Kansas and three in Texas with a working capacity of approximately 58 billion cubic feet.

Operating income for the transportation and storage operations was \$15.6 million for the third quarter compared with \$17.4 million one year ago. Storage revenues and volumes transported increased substantially due to the recent acquisitions. Transportation revenues decreased due to reduced transportation rates. Costs increased during the third quarter resulting from the operations of the acquired assets and increased fuel costs.

Distribution Operations

Distribution operations include Oklahoma Natural Gas Company, the major gas utility in Oklahoma, and Kansas Gas Service Company, the major gas utility in Kansas. The two distribution companies serve more than 1.4 million customers.

Operating loss for the third quarter was \$12.3 million compared with a loss of \$11.1 million one year ago. The third quarter normally reflects a loss in gas distribution operations because there is less gas heating sales than any other quarter of the year. The increased loss was caused by a rate reduction in Oklahoma partially offset by reduced transportation costs paid to an affiliate.

Production Operations

The production operation includes ONEOK's ownership and development of natural gas and oil reserves. The company has proved reserves of 258 billion cubic feet of natural gas and four million barrels of oil located primarily in Oklahoma and Kansas.

Operating income for the production operation was \$4.2 million for the third quarter compared to \$4.4 million one year ago. Although natural gas prices have been strong during 2000, the company hedged production through December 2000.

Earnings Outlook

As the company moves into the beginning of the fourth quarter, management believes earnings for fiscal year 2000 should be in the range of \$2.94 to \$3.04 per diluted share of ONEOK common stock. And at this time it is likely the diluted earnings per share will be 20 percent higher for fiscal year 2001. Among the potential factors impacting fiscal 2001 earnings are higher gas prices, the completion of a 300-megawatt power plant in June of 2001 and weather normalized rates granted in Kansas to be effective December 1, 2000.

Earnings Conference Call

5-34

A conference call will be hosted by the company at 10:00 a.m. Eastern Time, and 9:00 a.m. Central Time, November 2, 2000. Those who wish to may join the conference on the ONEOK web site at www.oneok.com or call 800-289-0493.

ONEOK, Inc., is an energy company involved in natural gas production processing, gathering, storage and transmission in the mid-continent areas of the United States. The company's energy marketing operations provide service to customers in 25 states. The company is also the largest natural gas distributor in Kansas and Oklahoma, operating as Kansas Gas Service and Oklahoma Natural Gas Company, serving 1.4 million customers.

Any statements contained in this release that may include company expectations or predictions may be considered forward-looking statements intended to be covered by the safe harbor provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. Forward-looking statements are based on management's beliefs and assumptions based on information currently available. It is important to note that actual results could differ materially from those projected in such forward-looking statements. Factors that may impact forward-looking statements include, but are not limited to, the following:

- the effects of weather and other natural phenomena on sales and prices;
- increased competition from other energy suppliers as well as alternative forms of energy;
- the capital intensive nature of the Company's business;
- further deregulation, or "unbundling" of the natural gas business;
- competitive changes in the natural gas gathering, transportation and storage business resulting from deregulation, or "unbundling," of the natural gas business;
- the profitability of assets or businesses acquired by the Company;
- risks of hedging and marketing activities as a result of changes in energy prices;
- economic climate and growth in the geographic areas in which the Company does business;
- the uncertainty of gas and oil reserve estimates;
- the timing and extent of changes in commodity prices for natural gas, natural gas liquids, electricity, and oil;
- the effects of changes in governmental policies and regulatory actions, including income taxes, environmental compliance, and authorized rates;
- the results of litigation related to the Company's previously proposed acquisition of Southwest Gas Corporation or to the termination of the Company's merger agreement with Southwest; and
- the other factors listed in the reports the Company has filed and may file with the Securities and Exchange Commission, which are incorporated by reference.

Accordingly, while the Company believes these forward-looking statements to be reasonable, there can be no assurance that they will approximate actual experience or that the expectations derived from them will be realized. When used in Company documents, the words "anticipate," "expect," "projection," "goal" or similar words are intended to identify forward-looking statements.

Additional information about ONEOK is available on the ONEOK web site at www.oneok.com.

ONEOK, Inc. and Subsidiaries
 CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2000	1999	2000	1999
	(Thousands of Dollars)			
Operating Revenues	\$1,754,790	\$480,257	\$3,970,390	\$1,417,751
Cost of gas	1,578,981	354,026	3,379,272	944,839
Net Revenues	175,809	126,231	591,118	472,912

5-35

Operating Expenses				
Operations				
and maintenance	75,421	64,014	210,198	184,507
Depreciation, depletion,				
and amortization	36,068	32,115	107,556	98,375
General taxes	15,239	10,540	39,594	30,791
Total Operating Expenses	126,728	106,669	357,348	313,673
Operating Income	49,081	19,562	233,770	159,239
Other income				
and (expenses)	(1,629)	1,646	10,135	1,646
Interest expense	32,337	17,704	82,665	44,623
Income taxes	5,029	1,705	63,085	44,532
Income before				
cumulative effect				
of a change in				
accounting principle	10,086	1,799	98,155	71,730
Cumulative effect of				
a change in accounting				
principle, net of tax	---	---	2,115	---
Net Income	10,086	1,799	100,270	71,730
Preferred Stock Dividends	9,275	9,276	27,825	27,907
Income Available				
for Common Stock	\$811	\$(7,477)	\$72,445	\$43,823
Earnings Per Share				
of Common Stock				
Basic	\$0.03	\$(0.24)	\$2.48	\$1.40
Diluted	\$0.03	\$(0.24)	\$2.04	\$1.39
Average Shares of				
Common Stock (Thousands)				
Basic	29,200	31,030	29,214	31,414
Diluted	29,204	31,058	49,163	51,461

ONEOK, Inc.
INFORMATION AT A GLANCE

(Unaudited)	Three Months Ended		Nine Months Ended	
	September 30, 2000	September 30, 1999	September 30, 2000	September 30, 1999
	(Millions of Dollars)			
Marketing				
Gross margin on gas sales	\$15.3	\$5.4	\$60.1	\$22.8
Net Revenues	\$15.9	\$6.2	\$61.7	\$23.9
Depreciation, depletion,				
and amortization	\$0.2	\$0.2	\$0.7	\$0.5
Operating Income	\$11.2	\$3.5	\$49.7	\$16.4
Natural gas volumes (MMcf)	285,783	107,873	721,198	306,519
Margin (Mcf)	\$0.05	\$0.05	\$0.08	\$0.07
Capital expenditures	\$11.9	\$7.6	\$31.6	\$8.5
Total assets	---	---	\$2,690.8	\$274.2
Gathering and Processing				
Total Revenues	\$357.5	\$51.7	\$648.9	\$87.1
Gross margin	\$70.9	\$15.0	\$145.1	\$29.8
Depreciation, depletion,				
and amortization	\$6.8	\$1.8	\$15.5	\$3.5
Operating Income	\$32.7	\$6.9	\$69.6	\$15.4
Total gas gathered				
(Mcf/D)	1,374,549	513,497	1,107,522	391,387
Total gas processed				
(Mcf/D)	1,300,758	394,106	1,021,011	305,501
Natural gas liquids				
sales (MGal)	254,125	98,392	606,318	182,283
Gas Sales (MMcf)	36,178	7,004	81,352	11,263
Capital expenditures	\$8.6	\$5.8	\$18.9	\$11.9

5-36

Total assets	---	---	\$1,394.5	\$348.9
Transportation and Storage				
Gross margin on gas sales	\$0.2	\$---	\$4.8	\$---
Net Revenues	\$40.0	\$30.1	\$108.9	\$84.1
Depreciation, depletion, and amortization	\$4.6	\$3.7	\$13.8	\$10.6
Operating Income	\$15.6	\$17.4	\$46.8	\$48.5
Volumes transported (MMcf)	154,077	73,187	396,484	262,722
Capital expenditures	\$10.9	\$16.2	\$25.3	\$35.0
Total assets	---	---	\$631.1	\$371.4
Distribution				
Gross margin on gas sales	\$39.2	\$46.3	\$216.2	\$236.3
Net Revenues	\$55.4	\$62.7	\$271.6	\$293.1
Depreciation, depletion, and amortization	\$16.1	\$18.1	\$51.5	\$57.1
Operating Income	\$(12.3)	\$(11.1)	\$57.1	\$64.9
Number of customers	1,409,349	1,406,841	1,437,737	1,418,924
Capital expenditures	\$26.5	\$27.0	\$78.2	\$128.8
Total assets	---	---	\$1,716.2	\$1,718.0
Natural gas volumes (MMcf)				
Gas Sales	11,855	11,491	104,792	111,720
Pipeline capacity leases and end-use customer transportation	47,752	47,757	147,527	151,195
Production				
Net Revenues	\$18.4	\$17.9	\$56.7	\$57.1
Depreciation, depletion, and amortization	\$7.7	\$7.8	\$24.2	\$25.8
Operating Income	\$4.2	\$4.4	\$14.6	\$15.6
Proved reserves				
Gas (MMcf)	---	---	258,310	254,229
Oil (MBbls)	---	---	4,151	4,187
Production				
Gas (MMcf)	6,705	6,485	20,573	21,956
Oil (MBbls)	88	100	314	346
Average realized price				
Gas (Mcf)	\$2.28	\$2.23	\$2.28	\$2.16
Oil (Bbls)	\$17.59	\$18.70	\$18.20	\$14.52
Capital expenditures	\$7.3	\$5.5	\$25.2	\$21.7
Total assets	---	---	\$353.9	\$357.1

SOURCE: ONEOK, Inc.

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5-37

AQUILA ENERGY, LOOKS TO WARM FROZEN IPO MARKET

5-38

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IPO NEWS

Aquila Energy looks to warm frozen IPO market

By **Tom Davey**
Redherring.com, December 20, 2000

As power shortages grip parts of the nation, energy utilities are seizing big financing opportunities that were once the domain of Internet and computer technology companies.



Last week, for example, Utilicorp United (NYSE: UCU), a regulated gas and electric utility, filed to spin off Aquila Energy, an unregulated wholesale energy unit that markets natural gas and electricity.

Current comparison chart
Quote & Chart for: UCU
NRG SO

Energy wholesalers and traders such as Aquila comprise a rapidly growing new niche within the power industry that sprang up after deregulation in many states. While traditional utilities that sell directly to consumers trade at low earnings and revenue multiples, partly because regulators still limit the amount they can charge customers, their unregulated wholesale units are seen as high-growth businesses. The wholesale units are able to arbitrage deals in tight commodity markets that are unregulated, making them great spin-off candidates.

The difference between this wave of utility spin-offs and the unsuccessful attempts of their Internet relatives is the huge revenue base of the wholesalers coupled with a profitable bottom line. A stand-alone Aquila would have dwarfed its parent. Of Utilicorp's \$23 billion in revenue over the trailing 12 months ended in September, Aquila accounted for \$21.4 billion. Over that period, Utilicorp netted \$200 million, \$67 million of which was attributable to Aquila.

STRING OF LIGHTS

Other recent examples of energy companies spinning off their wholesale units include NRG Energy (NYSE: NRG), which in May spun off from Xcel Energy (NYSE: XEL); Southern Energy, which in September spun off from Southern Company (NYSE: SO); and Orion Power Holdings (NYSE: ORN), which last month spun off from Constellation Energy Group (NYSE: CEG). Duke Energy (NYSE: DUK) has discussed similar spin-off plans for its wholesale unit.

To be sure, these spin-offs have been handsomely rewarded by

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Energy trading companies hit pay dirt with deregulation and the Internet.

Electricity wholesaler Orion shot for the IPO stars recently.

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Did Intel blow it?

To be sure, these spin-offs have been handsomely rewarded by investors. NRG, probably the closest comparable to Aquila, trades at about 25 times this year's estimated earnings and is expected to achieve a 26 percent earnings growth rate over the next few years. Southern Energy, a larger company, trades at 26 times estimated 2000 earnings, and a smaller Orion trades at a relatively hefty 41 times projected 2000 earnings.

For the foreseeable future, analysts expect demand to stay higher than supply in many energy markets. For instance, California has not added any new power plants in the last decade despite a growing population that continues to use more electricity. The state is currently suffering shortages, and its two biggest energy retailers, PG&E (NYSE: PCG) and Edison International (NYSE: EIX), are caught in the squeeze. Both companies had to divest their power holdings when the state's utilities were deregulated in 1996, but regulators limit the amount the utilities can charge their retail customers.

LIGHT YEARS' DIFFERENCE

This environment is reflected in the difference between projected growth rates of retailers and wholesalers. For instance, analysts expect PG&E to grow long term about 8 percent annually. By contrast, Calpine (NYSE: CPN), a California energy wholesaler, is expected to grow 41 percent long term.

As a result, many of the wholesalers have seen spectacular appreciation in their stock prices this year, even while the rest of the stock market has sagged. Analysts who follow the industry are long-term bulls. But even they don't suggest that the future will be nearly as good as it was this year.

Utility wholesalers are certainly not without risks. Trading in any futures business is loaded with potential hazards, one of which is the threat of legislation that would put regulatory restraints on the industry. Analysts say they'll be watching state regulators closely next year.

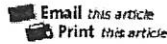
Meanwhile, as stocks in many industries have fallen to bargain prices, some wholesale energy companies still look cheap despite their big run-ups. After all, there aren't many industries where you can find companies whose 2000 earnings multiples are at the level of their projected five-year growth rates. Unfortunately, lead manager Lehman Brothers has yet to set pricing terms for the company's proposed \$425 million IPO, making it impossible to know whether it's going to be a good deal.

Discuss energy trends in the new economy in the ongoing [energy industry moves forward discussion forum](#), or check out [forums](#), [video](#), and [events](#) at the [discussions home page](#).

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540



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541

UTILICORP REPORTS RECORD THIRD QUARTER RESULTS, WITH EARNINGS
PER SHARE UP 74 PERCENT

5-42



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Thursday November 9, 6:01 am Eastern Time

Press Release

UtiliCorp Reports Record Third Quarter Results, With Earnings Per Share Up 74 Percent

Expects Full-Year Earnings Growth of About 20 Percent

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KANSAS CITY, Mo.--(BUSINESS WIRE)--Nov. 9, 2000--UtiliCorp United (NYSE:UCU - [news](#)) today announced that for the 2000 third quarter, earnings available for common shares were \$74.9 million, reflecting increased contributions from Aquila Energy and international businesses.

Earnings available for common shares a year earlier were \$42.5 million. Earnings per fully diluted common share were \$.80 in this year's quarter, up 74 percent from \$.46 in the 1999 quarter. The company expects that for the full year 2000 earnings per share will be about 20 percent higher than the \$1.75 earned in 1999.

Sales for the quarter were \$8.1 billion, up 25 percent from \$6.5 billion a year earlier. Sales for the 12 months ended September 30, 2000, were \$23.0 billion, up 31 percent from \$17.5 billion in the prior 12 months. The quarter was an all-time record for UtiliCorp in sales, earnings before interest and taxes (EBIT), net income and earnings per share.

"Aquila's results continue to be very strong," said Richard C. Green, Jr., UtiliCorp chairman and chief executive officer. "All of its business units had an excellent third quarter this year."

"We continue to unleash value embedded in our international networks," said Robert K. Green, UtiliCorp president and chief operating officer. "The successful initial public offering of our telecommunications business in Australia is the latest in a series of transactions which highlight our strategy of unbundling our international network companies and realizing the embedded value in those businesses."

UtiliCorp's earnings before interest and taxes for the 2000 third quarter were \$162.9 million, up 42 percent from \$114.6 million a year earlier.

Average diluted common shares outstanding in the quarter were approximately 93.9 million compared to 92.5 million in the 1999 period.

A discussion of results by business segment follows:

Energy Merchant

In the third quarter, the Aquila subsidiary achieved record financial performance, with EBIT of \$50.1

543

million, an 85 percent increase over the 1999 quarter.

Commodity Services

Aquila's Commodity Services earned \$22.5 million in the third quarter, a 116 percent increase versus the 1999 quarter. EBIT benefited from a 52 percent rise in structured term transactions compared to the prior year's quarter, reflecting strong demand for Aquila's GuaranteedWeather® and GuaranteedGeneration(SM) products. Strong demand for power marketing also helped boost EBIT for the quarter.

The Intercontinental Exchange (ICE), which is partially owned by Aquila, recently began trading natural gas and power. IntercontinentalExchange is an internet-based electronic marketplace founded in March of this year by leading U.S. and European financial institutions and energy and natural resource firms. In its first week of trading ending October 25, 2000, ICE executed online transactions totaling \$6 billion in gross value.

Capacity Services

Capacity Services had EBIT of \$16.0 million, 13 percent higher than in the 1999 quarter. New contractual capacity in the Southeast more than offset lower earnings from independent power projects resulting from the 1999 sale of a project investment.

Capital Services

Capital Services had EBIT of \$11.6 million in the third quarter, up 364 percent compared to a year earlier. The demand for investment in energy-related infrastructure has continued to accelerate this year. This year to date, Capital Services has originated more than \$1.5 billion in transactions. In the third quarter it closed on a \$321 million prepaid gas contract, Aquila's largest single transaction to date.

Networks

United States

UtiliCorp's U.S. energy networks had EBIT of \$45.3 million in the 2000 third quarter, about even with EBIT of \$45.0 million in the 1999 period. The effect of a Kansas rate reduction was more than offset by reduced operating costs resulting from cost control measures.

Australia

EBIT from Australia was \$54.2 million, a 426 percent increase over the 1999 quarter. The successful initial public offering of Uecom Limited, the telecommunications business launched by United Energy in 1997, added \$44 million to EBIT for the quarter. Other operations in Australia continued to perform well.

New Zealand

The net income contribution from New Zealand increased about \$1.7 million over the 1999 quarter despite unfavorable currency exchange rates and the sell-down of UtiliCorp's interest in UnitedNetworks from 79 percent to 62 percent on June 30, 2000. These were offset by the contribution of the Orion gas network properties which UnitedNetworks purchased in April 2000.

Canada

EBIT in the 2000 third quarter was \$9.8 million compared to \$5.2 million a year earlier. UtiliCorp's \$480 million purchase of the Alberta network operations of TransAlta closed September 1, 2000. This increased the EBIT contribution of Canadian operations for the quarter by \$4.1 million. Additionally, the company's 2000 Revenue Requirements Application, approved by the British Columbia Utilities

544

Commission, provided a 4.9 percent rate increase effective January 1, 2000.

Services

Third quarter EBIT from UtiliCorp's Services segment was \$7.9 million. This segment includes investments in the broadband telecommunications business, as well as an equity investment in the contracting business Quanta Services, Inc. UtiliCorp increased its stake in Quanta in late April 2000, bringing its beneficial ownership to approximately 36 percent. The company made its first investments in Quanta in the third quarter of 1999.

The fiber-optic build-out projects undertaken to date by UtiliCorp Communications Services are confirming the assumptions behind its telecom strategy. UtiliCorp plans to provide more guidance in February 2001 regarding future capital expenditures by this business unit.

Outlook

Based on results to date, UtiliCorp expects earnings per share for the year to show an increase of about 20 percent compared to the \$1.75 per share earned in 1999. This growth is being driven by the results of the Aquila subsidiary and increased contributions from UtiliCorp's international operations.

The company's senior officers will discuss third quarter results today, Thursday, November 9, at 9:30 a.m. Eastern Time in a live audio webcast that can be viewed in the investor relations section of the company's website at www.utilicorp.com. The webcast will also be archived at that site for replay through Friday, November 17.

Based in Kansas City, UtiliCorp United is an international electric and gas company with energy customers and operations across the U.S. and in Canada, the United Kingdom, New Zealand, and Australia. Its Aquila Energy subsidiary is a wholesaler of electricity and natural gas across North America. Aquila also operates in the U.K., Scandinavia, Germany and Spain. Additional information is available on the World Wide Web at www.utilicorp.com.

``Safe Harbor'' Statement under the Private Securities Litigation Reform Act of 1995

The statements made with respect to UtiliCorp's earnings and outlook for the future contain some forward-looking information. Naturally all forward-looking statements involve risk and uncertainty and actual results or events could be materially different. Although UtiliCorp United believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved. Important factors that could cause actual results to differ include weather conditions; financial market conditions, including changes in exchange rates, interest rates, and commodity prices; prices of natural gas, natural gas liquids, and electricity; future economic conditions in our regional, national, and international markets; our ability to enter new markets successfully and to capitalize on growth opportunities in non-regulated businesses; changing competition, including the deregulation of the U.S. electric utility industry and the entry of new competitors; and adverse changes in applicable laws, regulations or rules governing environmental, tax or accounting matters. In light of these risks, uncertainties, and assumptions, the forward-looking events discussed might not occur. Please review the company's latest annual report on Form 10-K, quarterly report on Form 10-Q, and current reports on Form 8-K for other important factors that could cause results to differ materially from those in any such forward-looking statements. Information in these archived materials may not be current and may be superseded by more recent information published by UtiliCorp United.

UTILICORP UNITED INC.

Earnings Before Interest and Taxes (EBIT)

Quarter Ended September 30,

In millions except
per share

2000

1999

Favorable
(Unfavorable)

5-45

Energy Merchant:			
Commodity Services	\$22.5	\$10.4	\$12.1
Capacity Services	16.0	14.2	1.8
Capital Services	11.6	2.5	9.1
Total Energy Merchant	50.1	27.1	23.0
Networks:			
United States	45.3	45.0	.3
Australia	54.2	10.3	43.9
New Zealand (see note) (a)	10.3	23.9	(13.6)
Canada	9.8	5.2	4.6
Total Networks	119.6	84.4	35.2
Services	7.9	3.7	4.2
Corporate and Other	(14.7)	(.6)	(14.1)
Total EBIT	\$162.9	\$114.6	\$48.3
Diluted EPS	\$.80	\$.46	\$.34

(a) Note: New Zealand operations were deconsolidated effective June 30, 2000. The resulting decrease in EBIT did not significantly reduce net income due to corresponding decreases in interest expense and income taxes.

UTILICORP UNITED INC.

Consolidated Condensed Statements of Income

In millions except per share	3 Months Ended September 30		9 Months Ended September 30	
	2000	1999	2000	1999
Sales	\$8,085.5	\$6,464.2	\$18,606.3	\$14,235.4
Cost of sales	7,817.7	6,175.1	17,697.5	13,390.2
Gross profit	267.8	289.1	908.8	845.2
Operating expenses	197.1	200.2	654.5	580.8
Other (income) expense	(92.2)	(25.7)	(144.5)	(47.4)
EBIT	162.9	114.6	398.8	311.8
Interest expense and minority interests in income of partnership and trusts	54.5	50.6	163.7	134.2
Income taxes	33.5	21.5	76.5	58.4
Earnings Available for Common Shares	\$ 74.9	\$ 42.5	\$ 158.6	\$ 119.2
Weighted Average Shares				

5-46

Outstanding -- Diluted	93.9	92.5	93.7	92.1
Earnings Per Share				
-- Diluted	\$.80	\$.46	\$1.69	\$1.30

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547

UTILICORP EXPECTS HIGHER THIRD QUARTER RESULTS TO
REFLECT CONTINUED STRONG WHOLESALE MERCHANT PERFORMANCE
AND INTERNATIONAL BUSINESSES

5-48



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Wednesday October 25, 8:15 am Eastern Time

Press Release

UtiliCorp Expects Higher Third Quarter Results to Reflect Continued Strong Wholesale Merchant Performance and International Businesses

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KANSAS CITY, Mo.--(BUSINESS WIRE)--Oct. 25, 2000--UtiliCorp United (NYSE:UCU - [news](#)) today announced that it expects results for its 2000 third quarter to reflect continued strong results from its Aquila Energy subsidiary and an increased contribution from international businesses.

The company estimates this year's third quarter earnings per share to be 70 to 75 percent higher than quarterly results of \$.46 a year ago.

"The energy merchant business continues to be strong," said Richard C. Green, Jr., UtiliCorp chairman and chief executive officer. "Aquila's performance and the continued unleashing of value in our international businesses resulting from the initial contribution of our recent electric network acquisition in Canada and the successful initial public offering of our telecom business in Australia enabled us to exceed last year's third quarter results."

UtiliCorp will conduct a conference call for financial analysts at 9:30 a.m. (EST) on Thursday, November 9, to discuss third quarter earnings and to provide a general business update. Investors, the news media and the public may listen to a live Internet broadcast of the UtiliCorp analyst call at www.utilicorp.com by clicking on the appropriate audio link. The analyst call will also be available for replay on the Internet for 10 days. Briefing materials will be posted at the same Web site at 7:30 a.m. on Thursday, November 9.

Green and UtiliCorp's Chief Financial Officer Peter Lowe will present a general company overview at the Edison Electric Institute's Financial Conference in San Francisco on Tuesday, October 31, at 7:30 a.m. (PST). A live webcast of that presentation can be viewed at www.eei.org. The presentation will also be archived at that site for 10 days.

Based in Kansas City, UtiliCorp United is an international electric and gas company with energy customers and operations across the U.S. and in Canada, the United Kingdom, New Zealand, and Australia. Its Aquila Energy subsidiary is ranked among the largest wholesalers of electricity and natural gas in North America. Aquila also provides wholesale energy services in the U.K. and in 1999 established a presence in Scandinavia, Germany and Spain. At June 30, 2000, UtiliCorp had total assets of \$8.8 billion and 12-month sales of \$21.4 billion. Additional information is available on the World Wide Web at www.utilicorp.com.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: The statements made with respect to UtiliCorp's earnings and outlook for the future contain some forward-looking information. Naturally, all forward-looking statements involve risk and uncertainty and actual results or

5-49

events could be materially different. Although UtiliCorp United believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved. Important factors that could cause actual results to differ include: weather conditions; financial market conditions, including changes in exchange rates, interest rates, and commodity prices; prices of natural gas, natural gas liquids, and electricity; future economic conditions in our regional, national, and international markets; our ability to enter new markets successfully and to capitalize on growth opportunities in non-regulated businesses; changing competition, including the deregulation of the U.S. electric utility industry and the entry of new competitors; and adverse changes in applicable laws, regulations or rules governing environmental, tax or accounting matters. In light of these risks, uncertainties, and assumptions, the forward-looking events discussed might not occur. Please review the company's latest annual report on Form 10-K, quarterly report on form 10-Q, and current reports on Form 8-K for other important factors that could cause results to differ materially from those in any such forward-looking statements. Information in these archived materials may not be current and may be superseded by more recent information published by UtiliCorp United.

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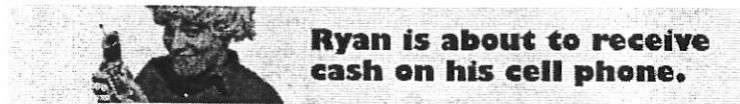
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5-50

ENRON REPORTS RECURRING ANNUAL EARNINGS OF \$1.47 PER DILUTED
SHARE IN 2000 AND FOURTH QUARTER EARNINGS OF \$0.41

5-51



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Monday January 22, 7:01 am Eastern Time

Press Release

SOURCE: Enron Corp.

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Enron Reports Recurring Annual Earnings of \$1.47 Per Diluted Share In 2000 and Fourth Quarter Earnings of \$0.41

HOUSTON, Jan. 22 /PRNewswire/ -- Enron Corp. (NYSE: [ENE](#) - [news](#)) announced today record financial and operating results for the full year 2000, including:

- a 25 percent increase in earnings per diluted share to \$1.47;
- a 32 percent increase in net income to \$1.3 billion;
- a 59 percent increase in marketed energy volumes to 52 trillion British

thermal unit equivalents per day (TBtue/d); and an almost doubling of new retail energy services contracts to \$16.1 billion.

"Our strong results reflect breakout performances in all of our operations," said Kenneth L. Lay, Enron's chairman and CEO. "Our wholesale services, retail energy and broadband businesses further expanded their leading market positions, as reflected in record levels of physical deliveries, contract originations and profitability. Our shareholders had another excellent year in 2000, as Enron's stock returned 89 percent, significantly in excess of any major investment index."

Enron also announced a very successful fourth quarter of 2000, generating recurring earnings of \$0.41 per diluted share, an increase of 32 percent from \$0.31 a year ago.

The above financial results exclude nonrecurring after-tax charges of \$287 million primarily related to Enron's portion of asset impairments recorded by Azurix Corp.

FULL YEAR PERFORMANCE SUMMARY

Enron's businesses are reported as Wholesale Services, Retail Energy Services, Transportation and Distribution, and Broadband Services.

Wholesale Services: Income before interest, minority interests and taxes (IBIT) of the wholesale group increased 72 percent in 2000 to \$2.3 billion. Enron's wholesale group consists of two lines of business: Commodity Sales and Services (marketing energy commodities and services and managing the associated contract portfolios) and Assets and Investments (investing in, developing, constructing and operating energy-related and other assets).

Commodity Sales and Services: The 160 percent increase to \$1.6 billion in Commodity Sales and Services IBIT for 2000 reflects Enron's broad-based success in building energy franchises across North America and Europe. For the full year, Enron's North American natural gas business led the group's

5-52

increase both in volume levels and profitability.

In 2000, Enron completed its first full year of deploying EnronOnline, which quickly became the world's largest web-based Ecommerce site. During the year, Enron executed 548,000 transactions online with 3,000 customers, totaling \$336 billion of gross value. In addition to expanding the market reach of 1,200 wholesale commodity products, EnronOnline's internal features have enabled very significant expansion in scale, efficiency, information and liquidity. These sustainable competitive advantages contributed to both the expansion of Enron's existing wholesale businesses as well as the growth of new businesses.

Physical volumes in 2000 increased for gas and power in every major region where Enron operates, including:

- Total Wholesale:
- a 59 percent total increase in wholesale volumes to 51.7 TBtue/d;
- an 82 percent increase in natural gas volumes to 28.3 TBtue/d; and
- a 62 percent increase in power volumes to 633 million megawatt hours.
- North America:
- a 77 percent increase in natural gas volumes to 24.7 TBtue/d; and
- a 52 percent increase in power volumes to 579 million megawatt hours.
- Europe and Other:
- a 131 percent increase in natural gas volumes to 3.6 TBtue/d; and
- a 372 percent increase in power volumes to 55 million megawatt hours.

Assets and Investments: The Wholesale Assets and Investments business reported \$889 million IBIT compared to \$850 million last year. The earnings reflect contributions from Enron's asset operations comparable to 1999 levels. Relative to last year, Enron experienced an increase in the total value of its merchant investments and lower gains from sales of energy assets.

Retail Energy Services: Enron Energy Services offers comprehensive products to reduce energy costs for business customers in North America and Europe. Enron Energy Services reported \$103 million of recurring IBIT during 2000 compared to a loss of \$68 million in 1999. Revenues increased 155 percent to \$4.6 billion in 2000. Enron Energy Services executed \$16.1 billion of new contracts during 2000, representing customers' future expenditures for natural gas, power and energy services, which is almost double the \$8.5 billion contracting level in 1999. Enron continues as the leader in the energy outsource market and now manages almost 30,000 facilities worldwide. Major long-term energy management agreements announced during 2000 include new contracts with Chase, IBM, Quebecor, Starwood Hotels and Sonoco and expanded contracts with Compaq and Simon Properties.

Transportation and Distribution: This group includes Enron's Transportation Services Group and Portland General Electric. Both businesses continue to provide strong earnings and cash flow, generating 2000 IBIT of \$732 million compared to \$685 million last year. Each of Enron's major natural gas pipelines produced strong financial results in 2000.

Broadband: Enron Broadband Services reported a \$60 million IBIT loss for 2000. Results reflect startup costs to build this new business. Other positive developments included the sale of excess dark fiber to balance capacity in key regions, increases in the value of Enron's broadband investments and successful monetization of a portion of Enron's broadband delivery platform.

Enron's low cost, flexible and scalable broadband network is substantially complete. Compared to an initial target of 13 for the year, 25 pooling points in the U.S. and Europe were completed in 2000, creating the first broadband network with wide connectivity potential. Enron significantly advanced its broadband intermediation activities during the year, executing over 320 transactions, and exceeded its annual target with 5,209 DS-3 month equivalents of capacity delivered. Also during 2000, Enron completed initial rollout in select areas of four U.S. markets of its content-on-demand product, which delivers TV-quality video for mass market viewing of premium broadband content.

Corporate and Other: Corporate and Other reported an IBIT loss of \$289 million for 2000, related to

5-53

reduced earnings from Enron's equity investment in Azurix Corp. and increased information technology, employee compensation and corporate-wide expenses.

FOURTH QUARTER RESULTS

Enron earned \$0.41 per diluted share in the fourth quarter of 2000, an increase of 32 percent from \$0.31 last year. Results for the fourth quarter of 2000 were led by:

- * a threefold increase in the Wholesale Services' IBIT to \$777 million;
 - Commodity Sales and Services IBIT was \$538 million compared to \$151 million last year, driven by the very strong North American natural gas business. In addition, the value of new businesses, such as pulp and paper, contributed to the earnings growth. Physical volumes increased 90 percent from last year to 65 TBtue/d, led by significant increases across all regions of North America and Europe.
 - Assets and Investments IBIT increased to \$309 million during the quarter from \$149 million last year, primarily due to the increased value of Enron's merchant energy investments and monetization of certain European energy operations.
- * an almost fivefold increase in Retail Energy Services IBIT to \$33 million compared to \$7 million a year ago;
 - Enron Energy Services signed total contracts of \$4.5 billion during the quarter, a 73 percent increase over the prior year.

In addition, Enron Broadband Services reported a \$32 million IBIT loss. These results include costs associated with building this new business, partially offset by the monetization of a portion of Enron's broadband delivery platform.

Enron Broadband Services delivered 2,393 DS-3 month equivalents of capacity, representing a 71 percent increase over the third quarter of 2000. In addition, transaction levels also significantly increased to 236 transactions in the fourth quarter, compared to 59 transactions in the third quarter of 2000.

Corporate and Other reported an IBIT loss of \$134 million, primarily related to increased expenses associated with corporate-wide growth.

The above financial results exclude nonrecurring items.

RESULTS INCLUDING NONRECURRING ITEMS

For the full year 2000, Enron reported \$1.12 of earnings per diluted share compared to \$1.10 in 1999, after nonrecurring items. In the fourth quarter of 2000, Enron reported \$0.05 earnings per diluted share after such items versus \$0.31 in 1999.

Enron's 2000 results included net nonrecurring charges of \$0.35 per diluted share recorded in the fourth quarter. These items included \$39 million of after-tax income, or \$0.05 per diluted share, reflecting the issuance of stock by The New Power Company partially offset by certain costs of Enron's retail energy business. A nonrecurring after-tax charge of \$326 million, or \$0.40 per diluted share, principally reflects Enron's portion of impairments recorded by Azurix Corp. related to assets in Argentina.

The results for 1999 included nonrecurring charges totaling \$0.08 per diluted share. After-tax income of \$345 million, or \$0.45 per diluted share, reflected Enron's gain on the sale of its ownership in Enron Oil & Gas Company. Offsetting after-tax charges included \$278 million and \$131 million, or \$0.36 and \$0.17 per diluted share, respectively, related to Enron's MTBE asset and the cumulative effect of accounting changes.

OTHER INFORMATION

5-54

A live audio webcast of a conference call with Enron management regarding 2000 and fourth quarter performance will be conducted today at 10:00 a.m. EST and may be accessed through the Investor Relations page at www.enron.com.

Please see attached tables for additional financial information.

This press release includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Although Enron believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved. Important factors that could cause actual results to differ materially from those in the forward looking statements herein include success in marketing natural gas and power to wholesale customers; the ability to penetrate new retail natural gas and electricity markets, including the energy outsource market, in the United States and Europe; development of Enron's broadband network and customer demand for intermediation and content services; and conditions of the capital markets and equity markets during the periods covered by the forward looking statements.

CONTACT: Mark Palmer
(713) 853-4738

ENRON CORP.
Table 1 - Earnings Summary
(Unaudited: in millions, except per share data)

	Quarter Ended		Year Ended	
	December 31,		December 31,	
	2000	1999	2000	1999
Revenues				
Transportation and Distribution:				
Transportation Services	\$ 198	\$ 181	\$ 699	\$ 653
Portland General	699	377	2,256	1,379
Wholesale Services	39,213	9,936	94,906	36,287
Retail Energy Services	1,657	555	4,615	1,807
Broadband Services	63	--	408	--
Exploration and Production (a)	--	--	--	526
Corporate and Other (including intercompany eliminations)	(1,079)	(76)	(2,095)	(540)
Total Revenues	\$40,751	\$10,973	\$100,789	\$40,112
After tax results				
Net income excluding nonrecurring items	\$ 347	\$ 259	\$ 1,266	\$ 957
Non-recurring items:				
Charge to reflect impairment by Azurix	(326)	--	(326)	--
Gain on The New Power Company, net	39	--	39	--
Gain on sale of EOG stock	--	--	--	345
Charge to reflect impairment of MTBE asset	--	--	--	(278)
Cumulative effect of accounting changes	--	--	--	(131)
Net income	\$ 60	\$ 259	\$ 979	\$ 893
Earnings per share (diluted) (b) (c)				
EPS (diluted) excluding nonrecurring items	\$0.41	\$0.31	\$1.47	\$1.18

Non-recurring items:				
Charge to reflect impairment by				
Azurix	(0.41)	--	(0.40)	--
Gain on The New Power Company, net	0.05	--	0.05	--
Gain on sale of EOG stock	--	--	--	0.45
Charge to reflect impairment of				
MTBE asset	--	--	--	(0.36)
Cumulative effect of accounting				
changes	--	--	--	(0.17)
EPS (diluted)	\$0.05	\$0.31	\$1.12	\$1.10
Average shares outstanding (diluted)				
(b) (c)	787.7	779.1	813.9	769.0

- (a) Reflects results of Enron Oil & Gas through August 16, 1999, date of share exchange transaction.
- (b) Shares outstanding and EPS amounts have been restated to reflect the two-for-one common stock split effective August 13, 1999.
- (c) The Second Preferred Stock and the Series B Preferred Stock are assumed to be converted in periods where they are dilutive.

Fourth Quarter 2000

ENRON CORP.

Table 2a - Results by Segment
(Unaudited: in millions, except per share amounts)

	Recurring	Non- Recurring	Total
IBIT:			
Transportation and Distribution:			
Transportation Services	\$103	\$ --	\$103
Portland General	100	--	100
Wholesale Services	777	--	777
Retail Energy Services	33	62	95
Broadband Services	(32)	--	(32)
Corporate and Other	(134)	(326)	(460)
IBIT	847	(264)	583
Interest and Related Charges, net	234	--	234
Dividends on Preferred Securities			
of Subsidiaries	18	--	18
Minority Interests	45	--	45
Income Tax Expense	203	23	226
Net Income	347	(287)	60
Preferred Dividends (a):			
Second Preferred Stock	4	--	4
Series B Preferred Stock	17	--	17
Earnings on Common Stock	\$326	\$(287)	\$ 39
Average Number of Shares Used:			
Basic			747.8
Diluted (a)	787.7	787.7	787.7
Earnings per Common Share:			
Basic			\$0.05
Diluted	\$0.41	\$(0.36)	\$0.05

- (a) The Second Preferred Stock and the Series B Preferred Stock are both antidilutive in the fourth quarter of 2000 and therefore have been excluded from the calculation of diluted earnings per share.

5-56

Fourth Quarter 1999

ENRON CORP.
Table 2b - Results by Segment
(Unaudited: in millions, except per share amounts)

	Recurring	Non- Recurring	Total
IBIT:			
Transportation and Distribution:			
Transportation Services	\$ 97	\$ --	\$ 97
Portland General	105	--	105
Wholesale Services	263	--	263
Retail Energy Services	7	--	7
Broadband Services	--	--	--
Corporate and Other	1	--	1
IBIT	473	--	473
Interest and Related Charges, net	119	--	119
Dividends on Preferred Securities of Subsidiaries	19	--	19
Minority Interests	41	--	41
Income Tax Expense	35	--	35
Net Income Before Cumulative Accounting Changes	259	--	259
Cumulative Effect of Accounting Changes, net of tax	--	--	--
Net Income	259	--	259
Preferred Dividends:			
Second Preferred Stock	4	--	4
Series B Preferred Stock (a)	20	--	20
Earnings on Common Stock	\$235	\$ --	\$235
Average Number of Shares Used:			
Basic			715.3
Diluted	779.1	779.1	779.1
Earnings per Common Share:			
Basic			\$0.33
Diluted	\$0.31	\$ --	\$0.31

(a) The Series B Preferred Stock is antidilutive in the fourth quarter of 1999 and therefore has been excluded from the calculation of diluted earnings per share.

2000 Year

ENRON CORP.
Table 2c - Results by Segment
(Unaudited: in millions, except per share amounts)

	Recurring	Non- Recurring	Total
IBIT:			
Transportation and Distribution:			
Transportation Services	\$ 391	\$ --	\$ 391
Portland General	341	--	341
Wholesale Services	2,260	--	2,260
Retail Energy Services	103	62	165
Broadband Services	(60)	--	(60)
Corporate and Other	(289)	(326)	(615)

5-57

IBIT	2,746	(264)	2,482
Interest and Related Charges, net	838	--	838
Dividends on Preferred Securities of Subsidiaries	77	--	77
Minority Interests	154	--	154
Income Tax Expense	411	23	434
Net Income (Loss)	1,266	(287)	979
Preferred Dividends (a):			
Second Preferred Stock	17	--	17
Series B Preferred Stock	66	--	66
Earnings (Loss) on Common Stock	\$1,183	\$ (287)	\$896
Average Number of Shares Used:			
Basic			736.2
Diluted (a)	813.9	813.9	813.9
Earnings (Loss) per Common Share:			
Basic			\$1.22
Diluted	\$1.47	\$ (0.35)	\$1.12

(a) The Series B Preferred Stock is antidilutive in 2000 and therefore has been excluded from the calculation of diluted earnings per share.

1999 Year

ENRON CORP.
Table 2d - Results by Segment
(Unaudited: in millions, except per share amounts)

	Recurring	Non-Recurring	Total
IBIT:			
Transportation and Distribution:			
Transportation Services	\$ 380	\$ --	\$ 380
Portland General	305	--	305
Wholesale Services	1,317	--	1,317
Retail Energy Services	(68)	--	(68)
Broadband Services	--	--	--
Exploration and Production (a)	65	--	65
Corporate and Other	(17)	13	(4)
IBIT	1,982	13	1,995
Interest and Related Charges, net	656	--	656
Dividends on Preferred Securities of Subsidiaries	76	--	76
Minority Interests	135	--	135
Income Tax Expense	158	(54)	104
Net Income Before Cumulative Accounting Changes	957	67	1,024
Cumulative Effect of Accounting Changes, net of tax	--	(131)	(131)
Net Income (Loss)	957	(64)	893
Preferred Dividends:			
Second Preferred Stock	17	--	17
Series A and Series B Preferred Stock (b)	49	--	49
Earnings (Loss) on Common Stock	\$ 891	\$ (64)	\$ 827
Average Number of Shares Used (c):			
Basic			705.3
Diluted	769.0	769.0	769.0
Earnings (Loss) per Common Share (c):			

558

Basic			\$1.17
Diluted	\$1.18	\$(0.08)	\$1.10

- (a) Reflects results of Enron Oil & Gas through August 16, 1999, date of share exchange transaction.
- (b) The Series A and Series B Preferred Stock are antidilutive in 1999 and therefore have been excluded from the calculation of diluted earnings per share.
- (c) Shares outstanding and EPS amounts have been restated to reflect the two-for-one common stock split effective August 13, 1999.

ENRON CORP.
Table 3a - Business Highlights
(Unaudited)

	Quarter Ended		Year Ended	
	December 31, 2000	1999	December 31, 2000	1999
Transportation Services				
(In Millions)				
Net Revenues	\$ 182	\$ 176	\$ 650	\$ 626
Operating Expenses	76	74	280	264
Depreciation and Amortization	18	14	67	66
Equity in Earnings	18	8	63	38
Other Income, net	(3)	1	25	46
IBIT	\$ 103	\$ 97	\$ 391	\$ 380
Total Volumes Transported (BBtu/d) (a)				
Northern Natural Gas	3,728	3,738	3,529	3,820
Transwestern Pipeline	1,715	1,460	1,657	1,462
Florida Gas Transmission	1,270	1,538	1,501	1,495
Northern Border Pipeline	2,460	2,406	2,443	2,405
Portland General				
(In Millions)				
Revenues	\$ 699	\$ 377	\$2,256	\$1,379
Purchased Power and Fuel	485	179	1,461	639
Operating Expenses	82	81	321	304
Depreciation and Amortization	59	44	211	181
Other Income, net	27	32	78	50
IBIT	\$ 100	\$ 105	\$ 341	\$ 305
Retail Customers (end of period, thousands)	725	719	725	719
Electricity Sales (Thousand MWh)				
Residential	2,148	2,004	7,433	7,404
Commercial	1,922	1,879	7,527	7,392
Industrial	1,259	1,198	4,912	4,463
Total Retail	5,329	5,081	19,872	19,259
Wholesale	3,655	3,300	18,548	12,612
Total Sales	8,984	8,381	38,420	31,871

- (a) Reflects 100% of each entity's throughput volumes.

ENRON CORP.
Table 3b - Business Highlights
(Unaudited)

	Quarter Ended		Year Ended	
	December 31, 2000	1999	December 31, 2000	1999

5-59

Wholesale Services

(In Millions)

Commodity Sales and Services	\$ 538	\$ 151	\$1,630	\$ 628
Assets and Investments	309	149	889	850
Unallocated Expenses	(70)	(37)	(259)	(161)
IBIT	\$ 777	\$ 263	\$2,260	\$1,317

Commodity Sales and Services

Physical Volumes (BBtue/d) (a)

Gas:

United States	21,417	10,219	17,674	8,982
Canada	6,993	4,406	6,359	4,398
Europe and Other	4,866	1,630	3,637	1,572
	33,276	16,255	27,670	14,952
Transport Volumes	925	693	649	575
Total Gas Volumes	34,201	16,948	28,319	15,527
Crude Oil and Liquids	7,406	6,824	6,088	6,160
Electricity (b)	23,068	10,306	17,308	10,742
Total Physical Volumes (BBtue/d) (a)	64,675	34,078	51,715	32,429

Electricity Volumes (Thousand MWh)

United States	188,832	88,254	578,787	380,518
Europe and Other	23,389	6,564	54,670	11,576
Total	212,221	94,818	633,457	392,094

Financial Settlements

(Notional) (BBtue/d)	276,865	109,872	196,148	99,337
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Retail Energy Services

Revenues (in millions)	\$1,657	\$ 555	\$4,615	\$1,807
IBIT - recurring (in millions)	\$ 33	\$ 7	\$ 103	\$ (68)
Total Contract Value (in billions) (c)	\$ 4.5	\$ 2.6	\$ 16.1	\$ 8.5

Broadband Services

Revenues (in millions)	\$ 63	\$ --	\$ 408	\$ --
IBIT (in millions)	\$ (32)	\$ --	\$ (60)	\$ --
Total Contract Value (in millions) (c)	\$ 86	\$ --	\$1,155	\$ --
DS-3 Months Delivered (d)	2,393	--	5,209	--

- (a) Includes third-party transactions of Enron Energy Services.
- (b) Represents electricity volumes, converted to BBtue/d.
- (c) Represents customers' estimated future expenditures.
- (d) Digital service, level 3 (DS-3) is equal to 28 T-1 channels and operates at 45 megabits per second.

SOURCE: Enron Corp.

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5-60

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5-61



Kansas Corporation Commission

Bill Graves, Governor John Wine, Chair Cynthia L. Claus, Commissioner Brian J. Moline, Commissioner

MEMORANDUM

FROM: Joseph M. White, Director of Utilities *gms*
DATE: January 17, 2001
SUBJECT: Response to Gas Price Differential Concerns

*FYI
Senator Jim Lawrence*

With a colder than normal winter, the escalating natural gas prices have generated concerns and comparisons in prices and are being questioned within Kansas and the surrounding states. Differences in prices often create a misrepresentation of fairness or profiteering and unfortunately may be an overreaction to timing differences or management policy.

The first misunderstanding is that the Local Distribution Companies (LDCs) make a profit on the increased gas costs. This is untrue. The purchased gas costs are flowed through to customers on a dollar for dollar basis. These costs are separately identified on customers' bills separate from the company's recovery of operating costs and margins. Because there are differences in these gas costs not only between LDCs in Kansas but also with surrounding states, there is a perceived difference, sometimes large, in the price.

Natural gas is an integrated and volatile commodity that spans the whole country. With relatively easy access to the transmission, market prices can be driven by the weather or large metropolitan areas with non-local suppliers located several states away and seemingly unrelated to Kansas in general. My first concern was whether the current natural gas prices on the spot market were relatively the same throughout the region. Essentially, the natural gas spot market east of the Rockies is the same with prices that change continuously and sometimes more than \$1 within a 24 hour period.

HOUSE UTILITIES

DATE: 01-23-01

ATTACHMENT 6

My next concern was to determine why there are differences in the prices of natural gas on the individual customer bills both within Kansas and compared with surrounding states. I found two compelling reasons for these differences. The first was in supply mix and the second was the timing differences of the flow through of gas costs to the customer.

The supply mix or average cost of the supplies of natural gas sold to customers is a real pricing difference and involves management policy and risk to both the company and consumer. There is great debate whether long term contracts or purchasing supply on the spot market is best. Actually, both methods are prudent and weigh heavily on the impossible task to predict future prices and the weather. In Attachment 1 we see a comparison of monthly gas costs flowed through to Kansas customers in March 1997 and January 2001. There are differences in prices both then and now even though the open market prices in both periods were even between the companies. In a period of low or declining prices companies who used the spot market for a greater portion of their supply would generate a lower average cost of gas versus companies who guaranteed their supply by paying a slight premium. This is reflected in the prices of March 1997.

On the other hand, in a period of increasing prices, the open market will be demand driven and produce higher prices for those companies who choose to purchase a larger portion of their supply on the spot market. This is reflected more in the average costs in January 2001.

Each of these models are based on prudent management decisions which over the longer period will be fairly even as prices go up and down. Before any costs are allowed to be flowed through, they are thoroughly reviewed by the KCC staff and, in many cases, costs which were deemed imprudent were disallowed. It is easy with 20/20 hindsight to ask "Why didn't you purchase on the spot market at lower rates?" or "Why didn't you enter into long term contracts?" The answer is not easy. In the mid to late 80's, many companies were stuck with "take or pay" contracts entered into when there was fear of a natural gas shortage that never developed. This led to companies successfully avoiding that risk for years purchasing supplies on the spot market and saving customers on gas costs until this year when prices drastically increased and their supply mix had a greater percentage of higher cost gas.

The timing differences of the flow through of gas cost can cause the most confusion and glaring differences. Gas costs are flowed through to customers on a dollar for dollar basis in Kansas and surrounding states. As stated before, these costs are relatively the same except for possible differences in supply mix as was explained. The general method for flowing through these costs are through a cost of gas adjustment (COGA) or a Purchased Gas Adjustment (PGA). Different states have different periods for these adjustments. Kansas has a monthly COGA. This will reflect costs associated with the current period and use. This method also allows customers to react, where possible, to usage patterns. Other states have a delayed or deferred PGA period which keeps rates artificially low (or high) and spreads their recovery (or refund) over a future period. This has an advantage for the customer in leveling out the costs, but does not allow the consumer to react to costs by lowering usage. Deferrals also include a carrying cost which is an additional small charge for deferring these flow throughs. Attachment 2 is an example of how different these gas costs can look when they are essentially the same. I also prepared a schedule which shows the average Kansas Gas Costs for the last three months.

In summary, the gas costs in Kansas are not any higher than those throughout the region. The KCC monitors and reviews all Cost of Gas Adjustment filings and makes every effort to see only fair and equitable charges are flowed through to Kansas customers. I hope this will help answer your questions and explain some of the dynamics of gas costs and flow through in this difficult period of supply, historically cold weather and increasing spot market prices.

JW/bs

attachments

Attachment 3

**COST OF GAS COMPARISONS
BY MONTH**

	<u>November 2000</u>	<u>December 2000</u>	<u>January 2001</u>
Greeley Gas (K.V.)	\$ 5.0911	\$ 5.3222	\$ 7.6539
Kansas Gas Service (K)	\$ 6.7385	\$ 7.1385	\$ 8.6814
Kansas Gas Service (T)	\$ 6.2181	\$ 6.6181	\$ 8.1610
Midwest Energy (M)	\$ 3.0925	\$ 3.0925	\$ 7.3772
Midwest Energy (K)	\$ 7.7000	\$ 7.7000	\$ 7.7000
United Cities Gas	\$ 5.9930	\$ 5.9930	\$ 9.1548
UtiliCorp United	\$ 5.5401	\$ 7.2756	\$10.98

November Monthly Average	\$ 5.7677
December Monthly Average	\$ 6.1629
January Monthly Average	\$ 8.5298

Three Month Average	\$ 6.8202
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**COST OF GAS COMPARISONS
OF KANSAS LOCAL DISTRIBUTION COMPANIES**

	<u>March 1997</u>	<u>January 2001</u>
Greeley Gas (K.V.)	\$ 2.70	\$ 7.6539
KN Energy RS-2	\$ 5.11	
Kansas Gas Service (K)	\$ 4.30	\$ 8.6814
Kansas Gas Service (T)	\$ 3.52	\$ 8.1610
Kansas Public Service	\$ 2.57	
Midwest Energy	\$ 3.35	\$ 7.7000
United Cities	\$ 3.37	\$ 9.1548
UtiliCorp United	\$ 2.75	\$10.98
Monthly Average	\$ 3.46	\$ 8.5298

6-4

Attachment 2

DIFFERENCES CAUSED BY TIMING

Kansas

Average January Price	\$ 8.5298
Average of Last Three Monthly Prices	\$ 6.8202

Iowa PGA Adjusted Annually September 1, 2000, effect January 1, 2001

September 1, 2000 Price	\$ 7.11
January 1, 2001 Price	\$11.31

Arkla Gas Adjusted on Two Month Lag

January 1, 2001 based on October 2000 Prices	\$ 5.20
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* Kansas November 2000 average price was only \$5.7677

Colorado Peoples Natural Gas Quarterly PGA

October 1, 2000 Price	\$ 5.7374
January 1, 2001 Price	\$10.78

6-5