NATURAL GAS PREPAYMENTS

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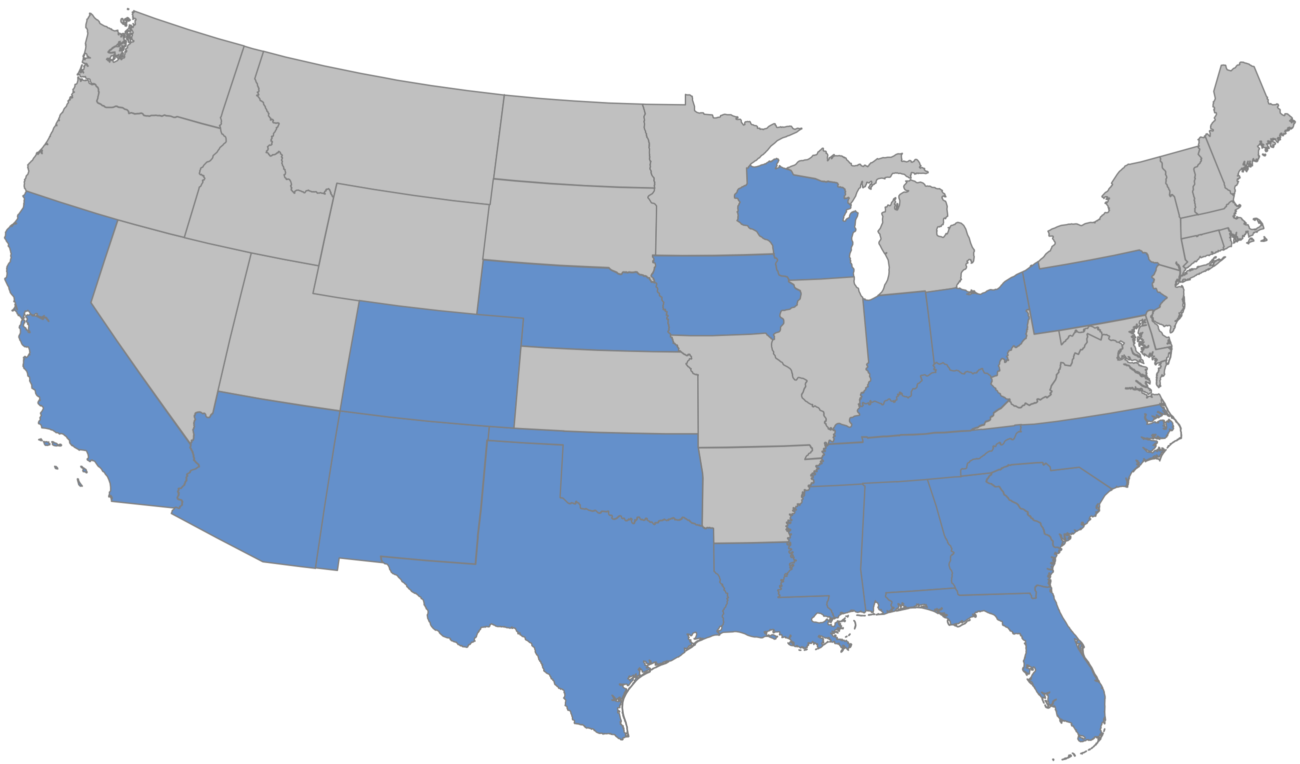
Municipal prepayment market

Why do municipal utilities prepay for natural gas?

- Long-term, firm gas supply
- Index-based, take-and-pay supply contract with industry standard terms
- Monthly price discounts and annual rebates
- No bond or financial swap obligations

Broad geographic municipal utility interest

- Since 2003…
  - 34 natural gas prepayment transactions
  - Covering 21 states
  - Supplying over 350 utility systems
  - $25 Billion in total prepayments
  - Estimated 4,500 Bcf of gas prepaid



Completed deals

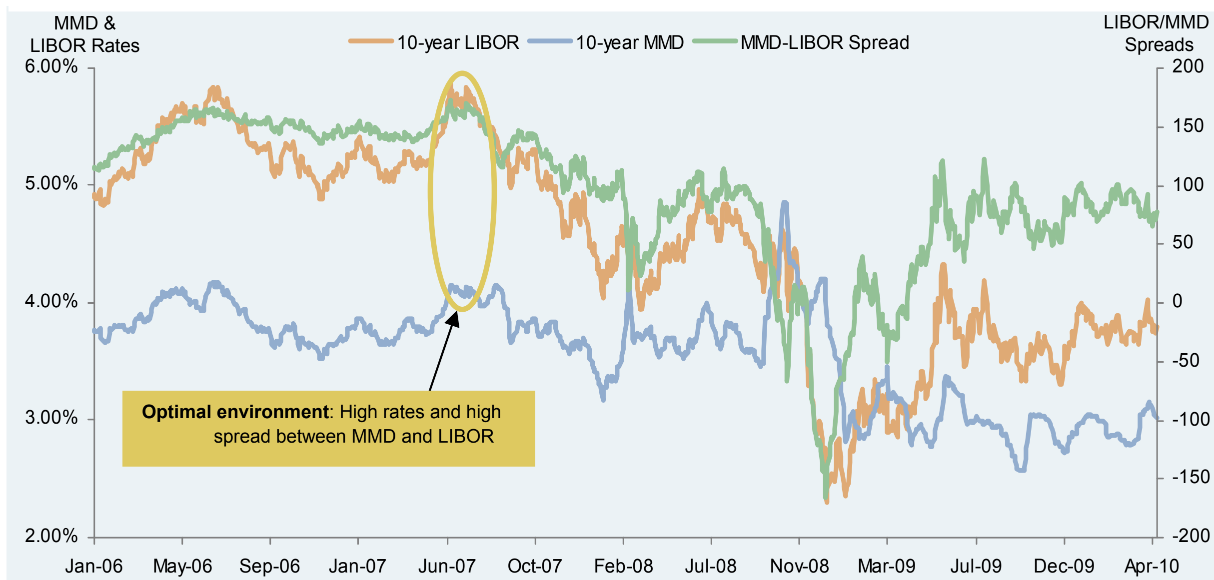
Credit cycle sharply impacted viability of tax-exempt prepayments, but recent market trends are positive

- Credit crisis impacted investor demand
  - Prepaid suppliers were investment banks, thus tax-exempt investor demand weakened with the sharp decline in financial institution stocks
  - Sell off in prepay bonds contributed to significant investor writedowns further dampening demand
  - Many historical prepayment buyers sidelined by lack of access to credit/leverage
  - Taxable/tax-exempt spread very narrow to negative

Municipal gas prepayments ($millions)

- Recent credit market improvement is encouraging
  - Tax-exempt vs. taxable ratios generally improving
  - Prepay bond credit spreads have narrowed
  - Better investor tone/dialogue around prepays
  - However, taxable funding spreads outperforming prepay spreads

Historical 10-year AAA MMD vs. 10-year LIBOR[1]



[1]Source: MorganMarkets; reflects market conditions as of April 20, 2010

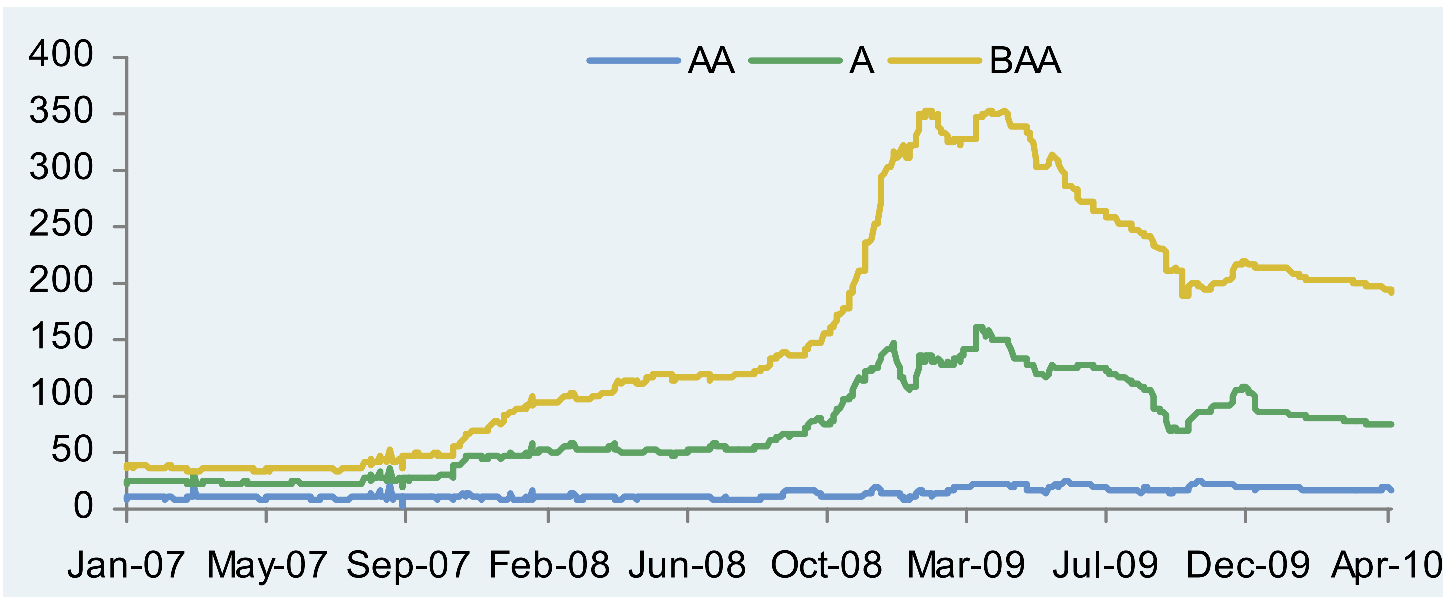
Each project is unique, but certain value drivers are consistently important

Interest Rates	?	▪ General consensus is for interest rates to rise over 2010 ▪ Increase in interest rates likely to produce greater savings ▪ Rising rates typically results in widening MMD vs. LIBOR spread ▪ MMD vs. LIBOR relationship has significantly improved since last year
Credit Markets	?	▪ After seeing sharp increases from 2007 thru early 2009, supplier credit spreads have tightened over the past year ▪ Tax-exempt prepayment bond spreads have also narrowed, but correlation with supplier credit spreads still unclear ▪ Investor demand for prepayments has improved as tax-exempt market becomes more credit driven and absolute rates have remained low
Natural Gas Prices	✓	▪ Lower gas prices have increased the relative value of prepayments, but higher prices drive greater absolute value ▪ Lower near-term pricing and less backwardation support prepayment savings
Tenor	✓	▪ Longer prepayments typically result in greater savings by capturing more of the taxable vs. tax-exempt differential ▪ However, savings are not always linear across tenors which could make shorter term deals relatively more attractive
Prepaid Gas Volumes	✓	▪ Seasonal sculpting can increase savings ▪ Increasing prepaid volume later in the project can also improve savings (backloading)

Market improvements may attract new suppliers to prepayment market

- Maturing secondary market has increased understanding of prepayments among investors
- Prepayment bonds still cheap relative to other similarly rated credits giving investors opportunity to pick up yield
- Greater appetite for lower rated credits as evidenced by spread compression
- All of these trends support opportunity for new gas suppliers behind municipal prepayments

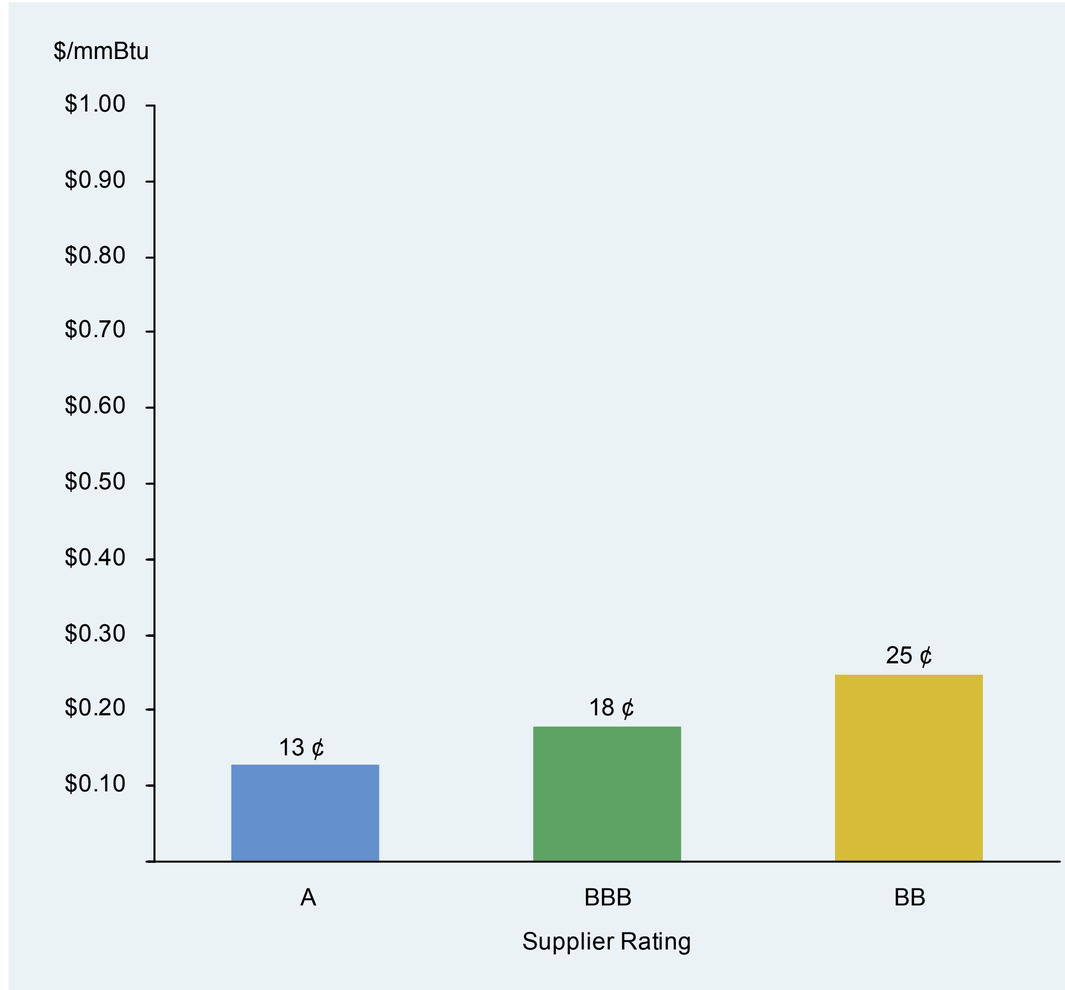
Generic secondary municipal market credit spreads (10Y)



Source: J.P. Morgan DataQuery, as of April 20, 2010

However, ultimately the supplier must want to do the deal

- Supplier credit rating will be a primary driver of economics
- Investors view of each supplier will be important and make each deal different
- Economics can be volatile, so being prepared to execute a transaction is ideal
- Thus, initial supplier discussions might be focused around the concept vs. the economics



Assumes 15 year project with backloaded volumes using fixed rate bonds; indicative as of 4/21/2010

Where do we go from here?

- Investor demand
  - A continued active secondary market for prepayment bonds will influence primary market pricing for new deals
  - Investor demand for certain lower rated suppliers may present pockets of opportunity in 2010
- Interest rates
  - If rates trend higher, taxable/tax-exempt ratios should widen, thus increasing the value of prepayments
  - A more credit driven market should support prepayments, particularly if absolute rates remain low
- Gas markets
  - Contango in the forward natural gas curve is positive for prepayments
  - Any increase in absolute gas prices would also benefit prepayments
- Other factors
  - Value proposition for suppliers may vary
    - Cash funding targets vs. long term physical supply agreements
  - Municipals view of value
    - Portfolio approach (more projects, but smaller size)?
    - Lower savings thresholds?
  - Build America Bonds
    - Will direct-pay BABs get extended and will it include an expanded use of proceeds?
    - Will tax-credit BABs get greater traction with investors?

Build America Bonds could be positive for prepayment viability

Assumes 15 year backloaded deal with BAB structure premium of 50 bps; indicative as of 4/21/2010

Summary

- Prepayment bonds were severely impacted by the credit crisis and turmoil in the financial sector
- Dynamics of investor demand for prepaid gas bonds has changed given that the market has matured
- Investor demand has improved and is beginning to revive opportunities, albeit limited at this point
- Some opportunities may be oriented around new prepaid gas suppliers
- While certain value drivers are more encouraging, conditions remain challenging for a broad, robust prepayment market
  - Taxable vs. tax-exempt rates improving
  - Disconnect remains between taxable vs. tax-exempt credit spreads
- Opportunities in 2010 likely driven by individual circumstances and likely to be very supplier specific
- Build America Bond legislation could provide a new funding mechanism for prepayments