

2008 Pipeline Capacity Release Market Tops 6 Billion Dollars LDC Performance Lags Market

Boston, MA, March 2, 2009: – Capacity Center (www.capacitycenter.com) released today 2008 Annual Trading figures in the interstate natural gas pipeline capacity release markets. The total of transportation capacity traded in 2008 was over 20 Tcf with storage capacity adding another 4.4 Tcf in trades. The traded capacity total transaction value for 2008 was \$6.2 Billion Dollars. Of this, \$5.96 Billion was transport and \$266 Million was storage.

A total of 28,428 capacity trades occurred in 2008. Of these, 31% were done at discounts to max rates, 3% at premiums to max rates and 66% at max rates. On an annual basis, the 3% of all deals that were above max deals generated 10% of the total market value traded. Retail Aggregators continued to dominate the secondary market with just over 60% of the deals traded.

Since FERC Order 712, which eliminated the cap on capacity trading prices in August 1, 2008, there have only been 12 LDCs that have profited from above max rate deals while 46 non LDC sellers have profited. The total dollar disparity, with LDCs generating \$16 Million and non LDCs generating \$75 Million is significant. Of the LDC \$16 Million, \$10 was generated by just 3 LDCs.

When evaluating overall recovery rates for capacity trades done since August 1, Non LDC capacity sellers recovered over 93% of max rate value on those trades, while during the same time period LDCs recovered just 72% of max rate value. According to Greg Lander, Capacity Center President, “given that most capacity is owned and released by LDCs in the first place, I would have expected that they would be the biggest winners, but the data shows otherwise. It is obvious that a lot of money is being made, but it appears it is not yet going to LDCs or their rate payers.”

Transaction duration has also been impacted by FERC Order 712. Average release time frames for storage in 2008 was 5 months and for transportation capacity was 111 days. However, measuring duration for deals that became effective after Order 712, transport trades have stretched to 163 days duration, an increase of nearly 50%. “This indicates a substantial forward-market is evolving in transport capacity which is something you would expect when price controls are removed. Also striking is that the market perception from years past that the capacity release market is highly discounted, is no longer reality.” said Greg Lander.

In the Asset Management segment of the capacity market, it is estimated that at least \$221 Million worth of such deals were transacted without any “award rate,” which makes it more difficult to track actual value and performance. Of the \$221 Million of these apparent “no-rate” asset management deals, more than 84% were done with LDCs and over 90% of them occurred after Order 712 became effective.

Reflecting on the dramatic difference between recovery rates for LDC and Non-LDC sellers Lander said, “One has to wonder if the LDCs were caught flat footed in preparing for the lift in max rates by FERC. Higher prices and profits are clearly being captured by Non LDC market participants and presumably by Asset Management arrangements. A serious question arises as to why LDC cost recovery (a.k.a. “profits”) lag the overall market.” Lander went on to say that “State regulators will no doubt have an increasing interest in knowing what impact this has on ratepayers.”

About the Company: Capacity Center captures all capacity related data from all 56 interstate pipelines and provides capacity release bid alerts and awards data to subscribers of all types, shippers and non shippers alike. In addition the company assists market participants with natural gas strategies, due diligence preparation, rate case filings and provides capacity audits and compliance services to state and federal regulatory agencies. Capacity Center is a wholly owned subsidiary of Skipping Stone.

For more information go to www.capacitycenter.com

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