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# Creating Value for the Gas Purchaser

## GasMart 2008

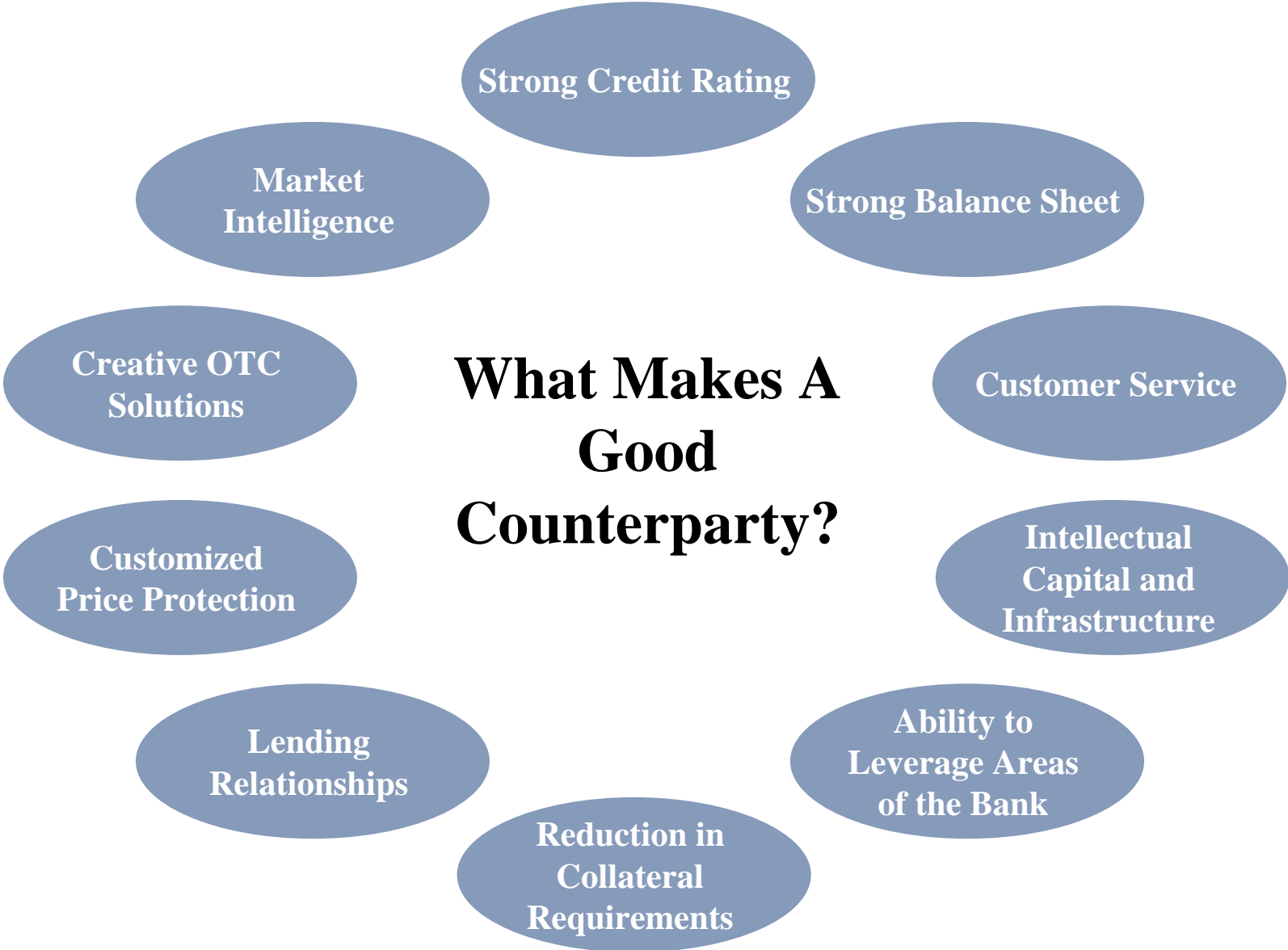
May 21, 2008



*"On the Internet, nobody knows you're a dog."*

# WACHOVIA

**How Do You Differentiate?**



## Customer Service and Convenience

### Customer Service

- **Relationships**
- **Accountability**
- **Marketer availability – No voice mail**

### Convenience

- **Timely Responses**
- **Accurate Confirms**
- **Automated monthly Mark-to-Market Reports**

## Counterparty Strength

### Strong Balance Sheet & Credit Rating

- **Will they be there to hold up their part of the deal?**
- **Counterparty comfort with AA rating**
- **FAS 157**

### Infrastructure & Intellectual Capital

- **Customer focused with links among clients**
- **Effective and timely pricing**
- **Front/Back/Middle office staff**

## Reduction in Collateral Requirements

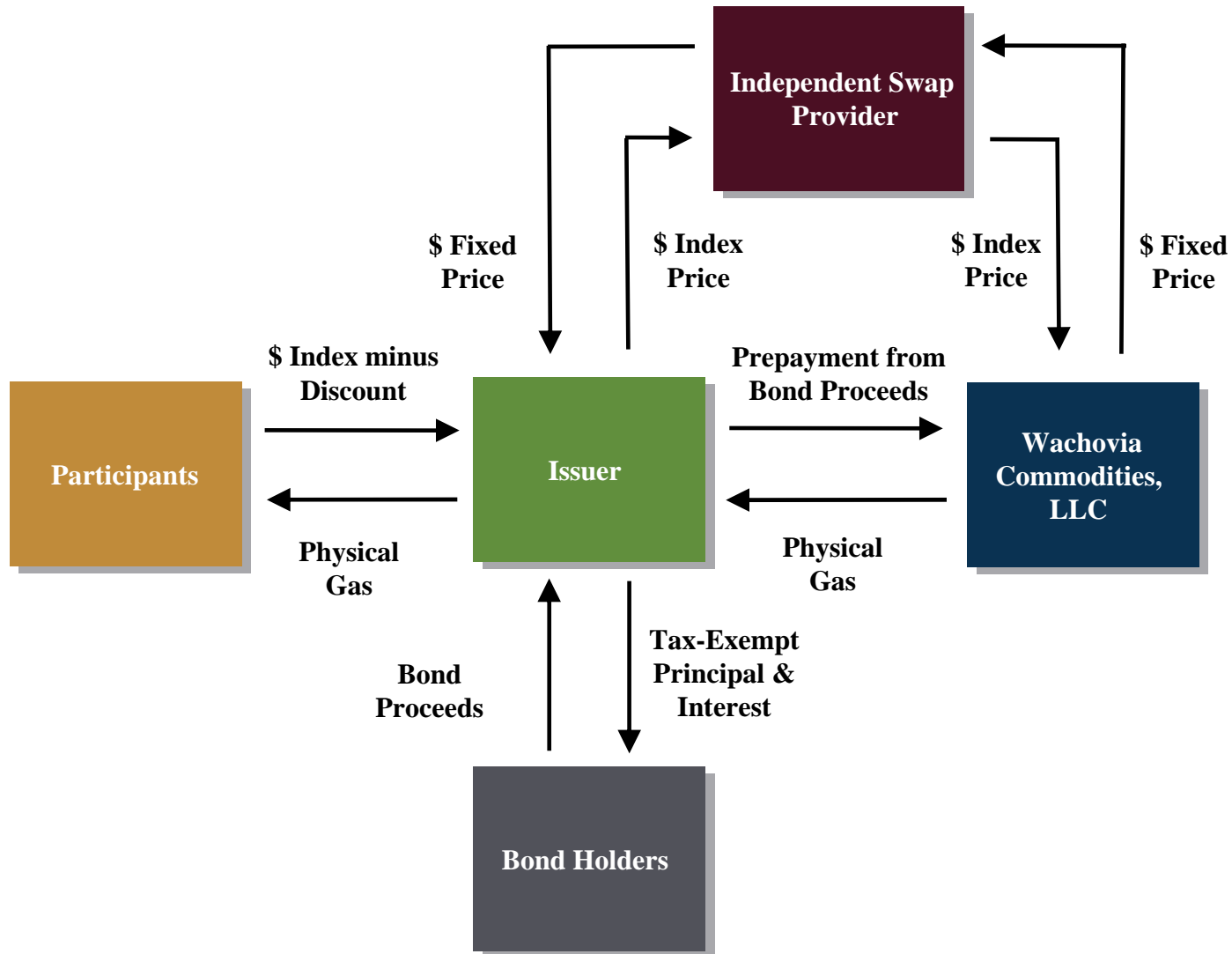
### Fund Margin Requirements

- **Revolver to fund “maintenance” margin calls**
- **LC to cover “initial” margin, as an approved NYMEX liquidity provider**

### Extend Credit Line for Hedging

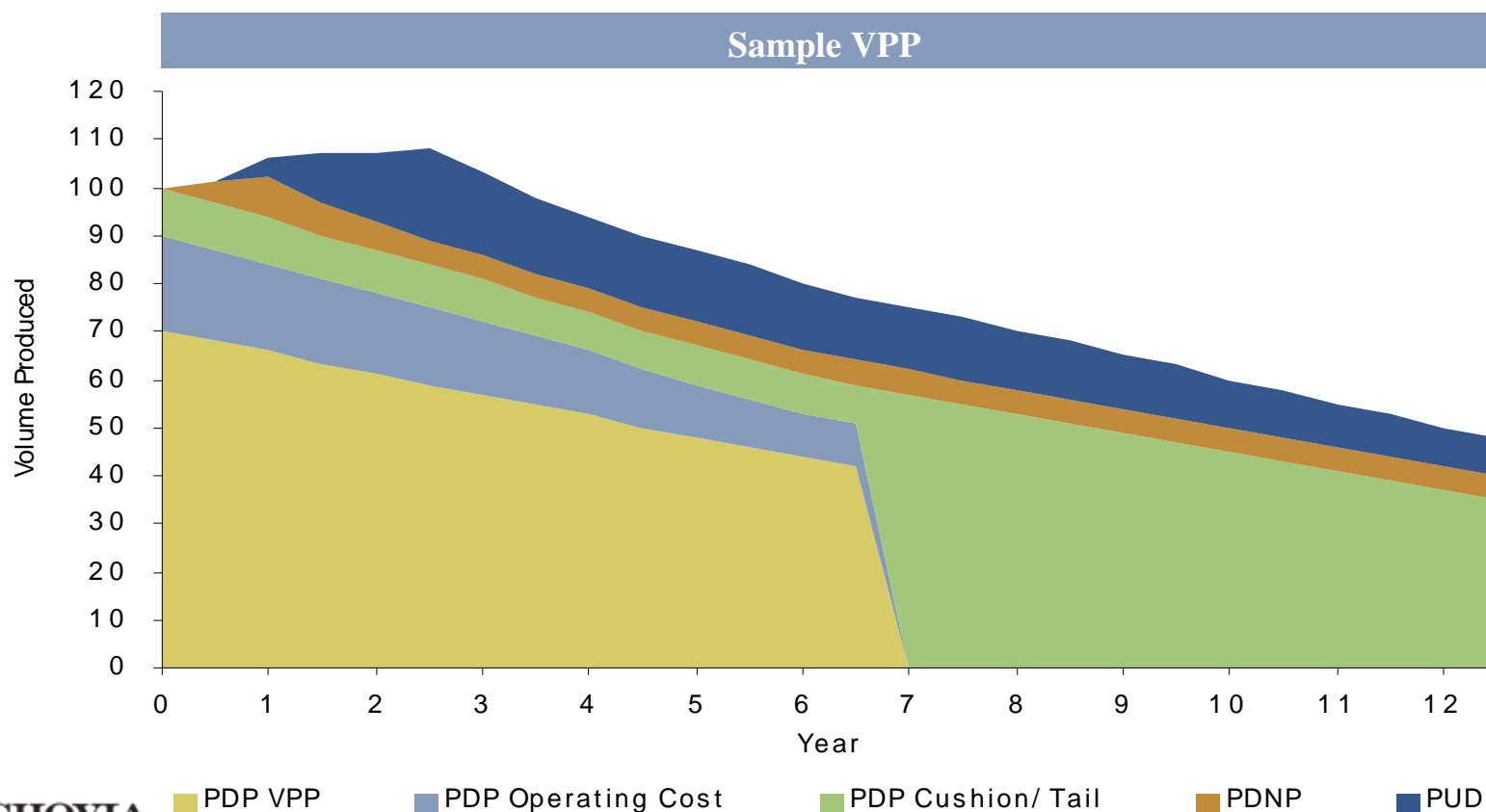
- **Parri passu ranking to secured loan, CSA often not required**
- **Unsecured credit line with Threshold in CSA**
- **Cross commodity exposure netting**

# Muni Pre-pay Structure

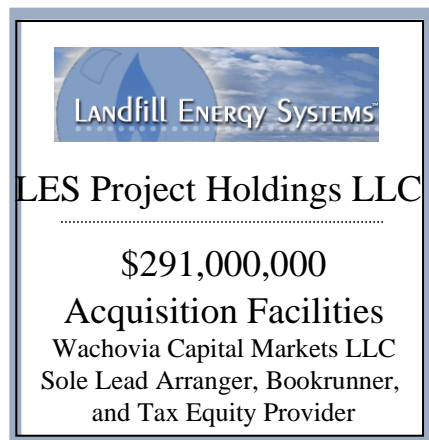


## Structured Asset Finance: Volumetric Production Payments

- A VPP can be used to monetize production
- Producer retains operational control, upside and tail volumes
- The VPP entitles purchaser to a first priority interest in a specific volumes



## Project Finance Capabilities



**Transaction:**

|                    |   |
|--------------------|---|
| <b>Sponsor:</b>    | <b>Energy Investors Funds (“EIF”), USPF III</b>   |
| <b>Issuer:</b>     | <b>LES Project Holdings LLC</b>   |
| <b>Issue:</b>      | <b>Senior Acquisition Loan, Tax Equity Investment</b>   |
| <b>Size:</b>       | <b>\$190,000,000 Senior Term Loan<br/>\$5,000,000 Letter of Credit Facility<br/>\$5,000,000 Working Capital Facility<br/>\$91,000,000 Tax Equity Investment</b> |
| <b>Maturity:</b>   | <b>3 year bridge loan</b>   |
| <b>Spread:</b>     | <b>L + 125bps, with step-ups</b>  |
| <b>Close Date:</b> | <b>January 2008</b>   |

**Key Deal Points:**

- **Financing for Energy Investor Funds (“EIFs”) \$320MM acquisition of LES Project Holdings (“LES”). LES owns 16 landfill gas-to-energy projects in 6 different states.**
- **Sole lead arranger and bookrunner for the issuance of \$200 million of senior acquisition financing**
- **The transaction included a \$190MM acquisition bridge, \$10MM working capital/LC facility and a \$91MM tax equity commitment. In addition, global rates executed a deal contingent forward starting swap which will be unwound upon closing of the permanent financing, expected to be a private placement. The tax equity investment was made by Wachovia’s Structured Lease Financing group**

## Creative and Customized OTC Solutions

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*"Never, ever, think outside the box."*

## Benefits of Hedging Over the Counter with Wachovia

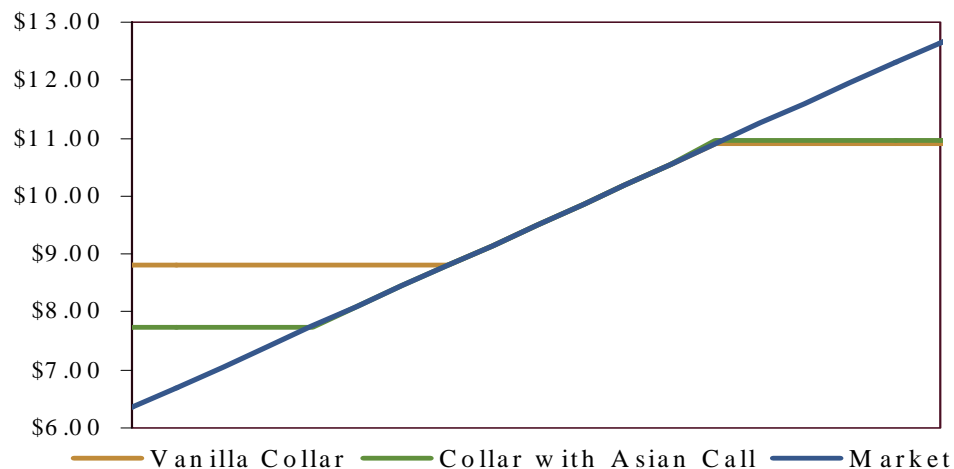
- **Flexible Maturities**
- **Customized Payment Schedule**
- **No Commissions or Fees**
- **Wachovia Provided Trading Lines: No Margin Requirement!**
- **Customized to Location**
- **Wachovia Provided Mark to Market Reporting**
- **Large Number of Products Available for Hedging**

## Applying Asian Call Settles to Create Value in Collars

### Characteristics

- Hedge against adverse price movements above the cap
- Allows participation in price decreases down to the lower floor strike
- No upfront fee
- Cap settles annually
- Cap strike settles vs. average for year; therefore, observances above the cap may be offset by those below
- Put strike can be lower to allow for additional downside benefit

Trade Structure

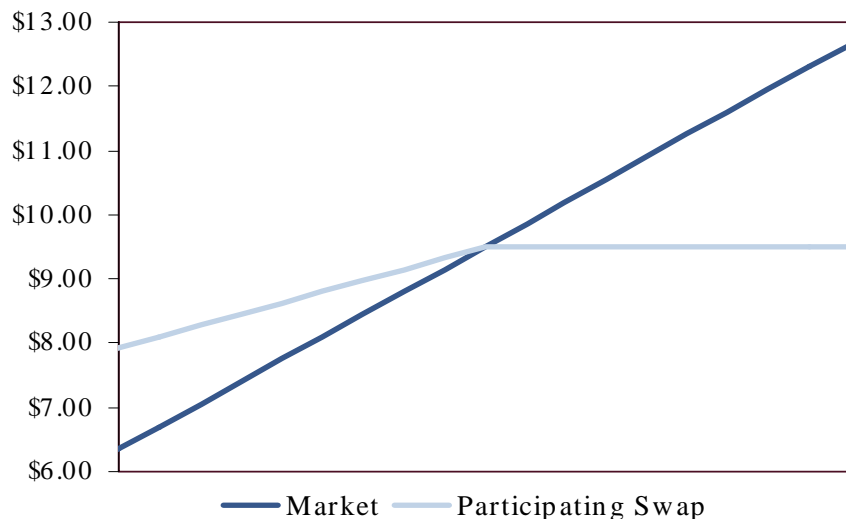


## Participating Swaps







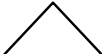

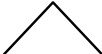
### Characteristics

- Provides 100% upside protection at a slightly higher price than swap
- Downside participation for a percentage of the volume
- No upfront fee, imbeds call premium into swap strike (bank finances call)
- Guarantees against worst-case, maintaining ability to participate in favorable price move

### Trade Structure

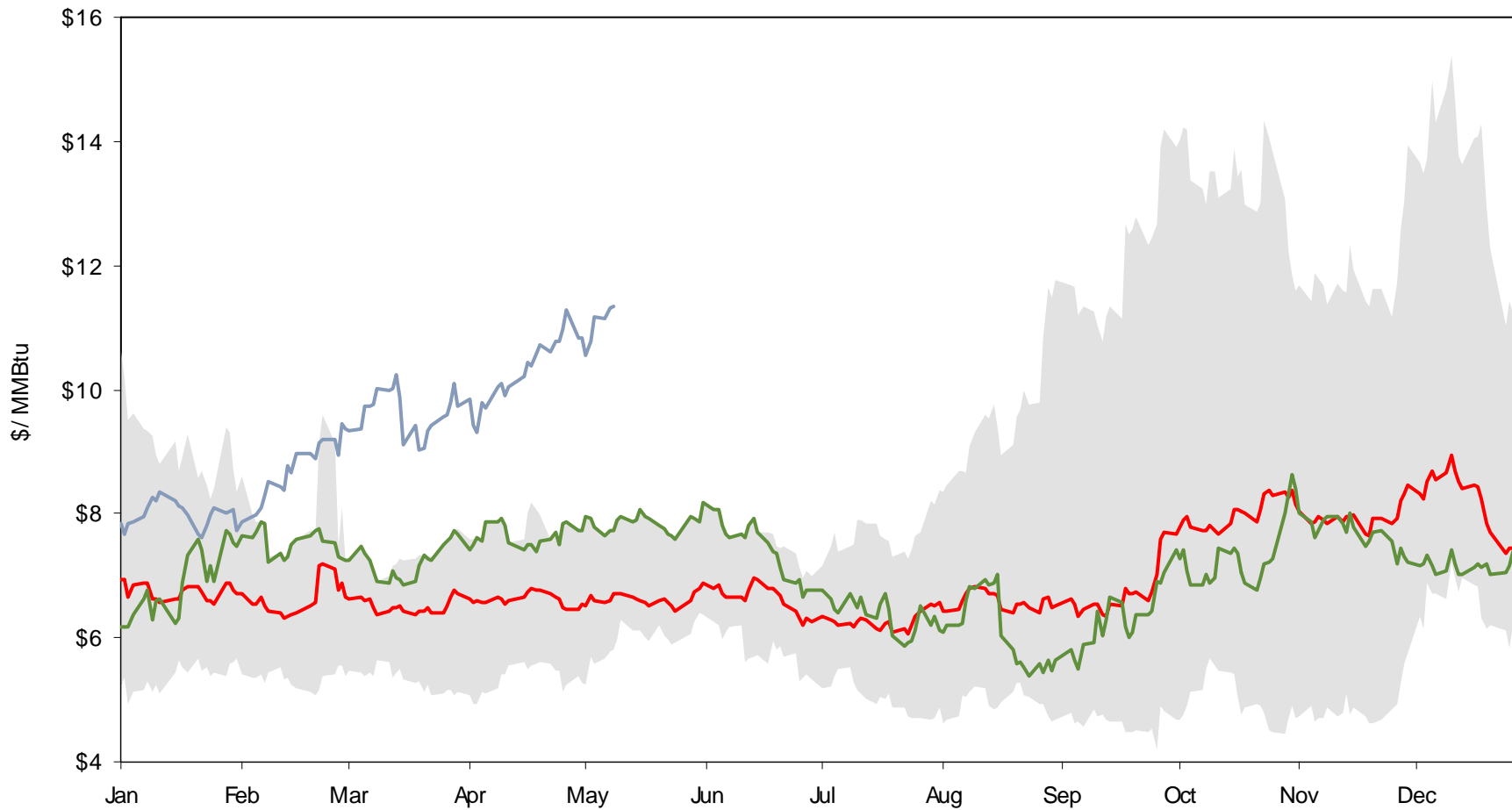


## Natural Gas Summary:

| Indicator   | Bullish   | Bearish  |
|---|---|--|
| Natural Gas Storage Inventories <ul style="list-style-type: none"> <li>· 16.51% below 2007</li> <li>· 0.76% below 5 year avg</li> </ul> |    |  |
| Hedge Funds Net Short   |    |  |
| Summer Cooling Season Approaching   |   |   |
| Lower Canadian Exports to the United States; Canadian Rig Counts Down   |    |  |
| Crude Oil Complex   |    |  |
| Global Coal Scarcity  |    |  |
| Nuclear Power Generation Maintenance, Drought Conditions  |    |  |
| Sabine Pass and Freeport LNG Terminals Coming Online  |   |  |
| LNG Imports at Low Levels: High International Demand  |  |  |
| <b>EXPECTED TREND: BULLISH</b>  |   |  |

### Historical Nymex Henry Hub Natural Gas Prices

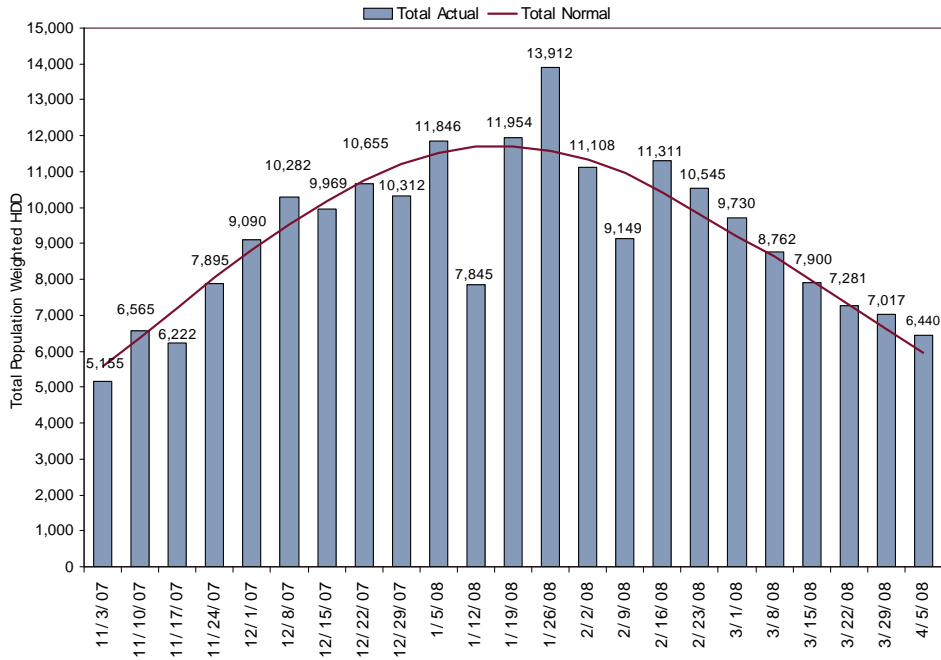
5-Yr Range 5-Yr Average 2007 2008



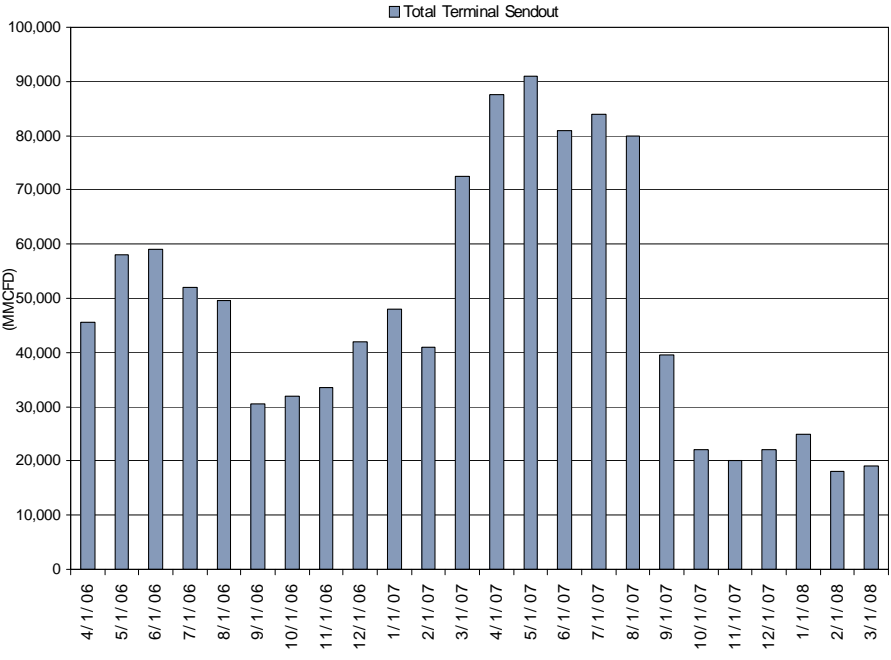
Natural gas storage is over 16% below last year's inventory level after coming off record highs of 3.5Tcf in November due to the following fundamental factors influencing large withdrawals:

- A colder than expected winter with February and March
- Lower LNG imports to the United States due to high international demand for cargoes
- Lower Canadian imports to the United States as production slows

## Total HDDs



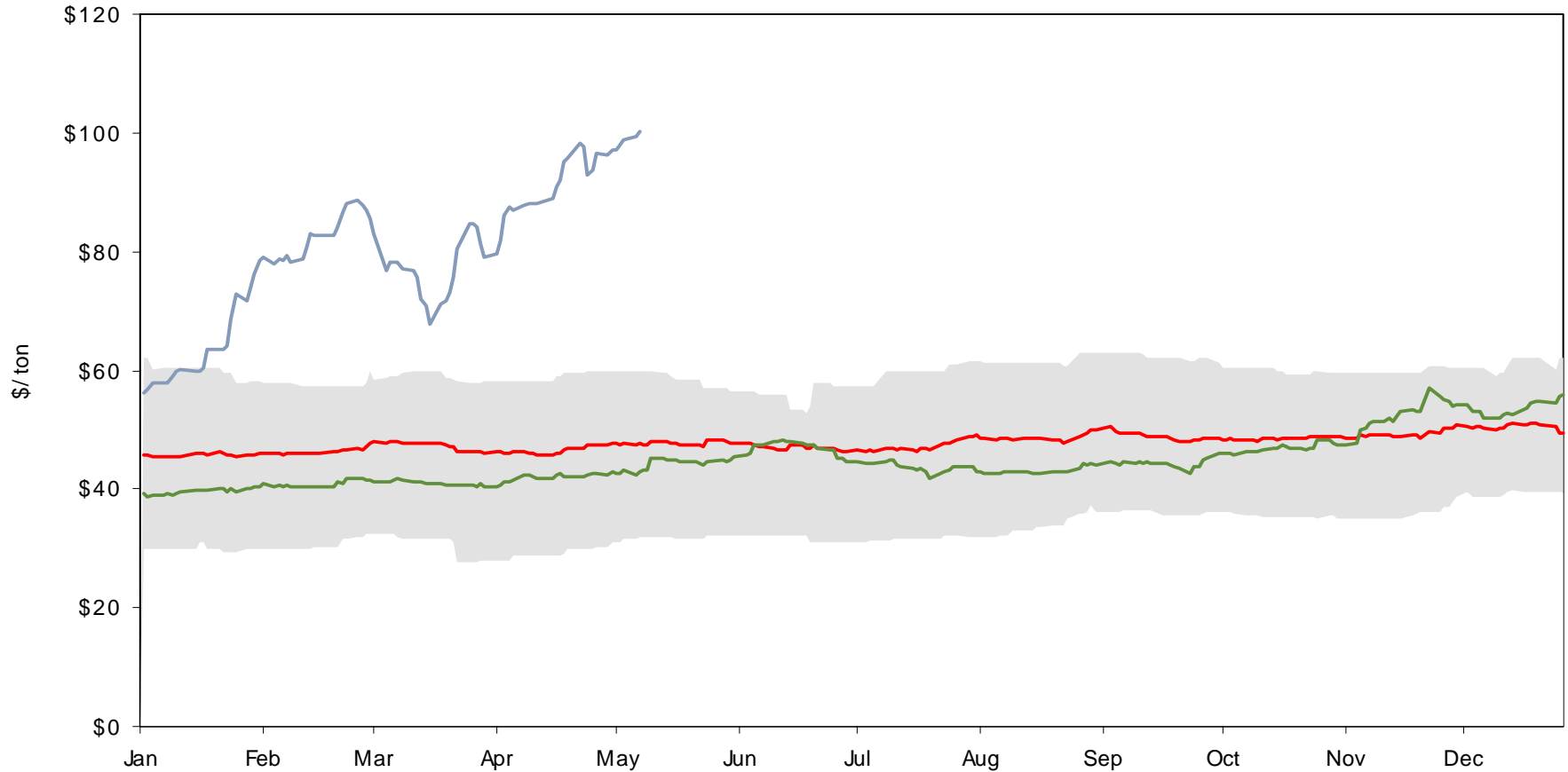
## LNG Monthly Sendouts



- Global coal supply constraints have led to higher NYMEX Central Appalachian coal prices domestically.

## Historical NYMEX Central Appalachian Coal Prices

5-Yr Range 5-Yr Average 2007 2008





**WACHOVIA**