

1 evaluating the benefits of the GPAA?

2 MR. MULROY: I guess I have to object to the form
3 of the question.

4 You can answer it if you understand it.

5 BY MR. BRADY:

6 Q. Do you want me to --

7 A. If you could clarify that a bit...

8 Q. How did the team from Peoples go about
9 evaluating the GPAA prior to entering into the
10 agreement?

11 A. This wasn't a direct response to a specific
12 RFP that outlined a number of terms that were maybe
13 suitable for economic evaluation. This was a
14 negotiated contract based on a number of contracts
15 that we had done in the past.

16 I think this is something covered pretty
17 extensively by Mr. Ware in his testimony and answers
18 to data requests.

19 He was one of the major parties
20 participating on our team and certainly had the
21 responsibility for the area that would subsequently
22 manage under this particular deal.

1 Q. Thank you.

2 A. It might be more suitable for him.

3 Q. In the course of this -- of the negotiating
4 the GPAA, how did the Peoples team or how did --
5 actually, let's just say -- let's speak from just
6 your perspective.

7 How did you know that this was a good
8 deal or agreement?

9 A. My staff who I trust who negotiated the deal
10 certainly told me that they felt this was the best
11 aggregation of a number of components that they were
12 seeking.

13 Q. Do you recall more specifically what those
14 components were?

15 A. Well, I mean the deal itself has any number
16 of components, from term to no supply or firm
17 reservation charges, opportunity to put gas back to
18 them.

19 There is dozens of provisions of the
20 agreement and the summation of all those were
21 satisfactory to our team and what they felt was a
22 good competitive agreement.

1 Q. My mistake. I thought you had meant other
2 components that would have been outside the terms
3 that were in the agreement.

4 A. No. No. It all would have been within the
5 agreement.

6 Q. Okay. Do you recall the review of any
7 economic studies by the Peoples team?

8 A. No. I don't recall any.

9 Q. Was there a reason why an economic study --
10 do you know if an economic study was -- let me
11 rephrase that.

12 Did the Peoples team ask for an economic
13 study to be performed?

14 A. Did the Peoples team ask? Or did you ask
15 did the Peoples team perform? I'm not sure what you
16 mean.

17 Q. Did the Peoples team ask for someone within
18 the Peoples organization to perform an economic
19 analysis?

20 A. I would not -- not to my knowledge. The
21 Peoples team negotiating was the gas supply group,
22 and if they felt that an evaluation was appropriate,

1 taken your total capacities and calculating that
2 back in and coming up with what is a fair index
3 minus number.

4 Q. Were there any -- do you know if there were
5 any discussions about -- in relation to the finding
6 here in this document?

7 MR. MULROY: Object to the form of the question.
8 Discussions.

9 BY MR. BRADY:

10 Q. If you understand my question -- I can
11 restate it.

12 A. Well, just be a little more specific on the
13 question.

14 Q. Do you know if there were -- or were you
15 involved in -- after this document -- after you
16 finished this document, were you involved in any
17 discussions about your findings?

18 A. Yes.

19 Q. Did any of those discussions talk about
20 the -- whether the -- whether this would be a
21 prudent hedge?

22 A. There's that word prudent, and as you

1 state -- as it relates to -- -- the word prudent, I
2 don't -- what do you mean by the word --

3 Q. Well, let me -- we'll take out the prudent
4 and say, did you have any discussions about the
5 hedging?

6 A. As it relates to --

7 Q. As it was --

8 A. -- capacity value stated? Per my last
9 statement, right?

10 Q. Correct.

11 A. I mean, that's what you're -- you're trying
12 get to, the summary --

13 Q. Correct.

14 A. -- specifically?

15 There were discussions on the -- kind of
16 the assumptions on the capacity, things like that.
17 We didn't come to a -- any kind of agreement, you
18 know, across -- you know, within the group. All I
19 was doing was saying here's another way of looking
20 at this deal. Do with it as you may.

21 Q. Do you recall who was involved with those
22 discussions?

1 A. Yeah, I mean, you know, I would be guessing
2 on who was there.

3 You're asking me who attended the
4 meeting that I went through this --

5 Q. Exactly.

6 A. -- is that your question?

7 Normally, in -- since, again, I work for
8 risk management, I was just kind of a person kind
9 of reviewing and giving kind of a recommendation or
10 whatever you want to call it.

11 In most cases, you know, people from the
12 gas supply department at the utility attends
13 these -- a meeting such as this. So in that
14 meeting, you would have people like, you know,
15 Dave Wier, you know, Raleigh DeLara and, like, a
16 Charlie Blanchett (phonetic), things like -- people
17 like that, you know.

18 Q. What about Mr. DeLara's supervisors,
19 Mr. Maro (phonetic), was he at the meeting?

20 A. I don't remember if he was there or not.

21 Q. And do you recall whether the discussions
22 found your review to be favorable such that you

1 should go forward with the gas purchase, the GPAA?

2 A. You know, I don't know what they were
3 thinking. So I don't know what -- you know, I
4 wasn't in the department.

5 And what discussions they had
6 afterwards, I was not involved -- you know, I was
7 not involved. You know, whether they said, I agree
8 with Roy's agreements (sic) or, you know, I think
9 Roy doesn't know what he's doing, I don't know what
10 they said. You know. He's an idiot. No, don't
11 type that.

12 But at that time, I mean, I think they
13 were having an idea that they were -- if you
14 notice, this was done, you know, mid-September. I
15 think they were already, you know, planning on
16 doing this contract.

17 And so this was just another piece of
18 information just to use to, you know, to analyze
19 whether it was a good deal or not.

20 Q. Who asked you to perform the
21 Aruba Analysis?

22 A. Actually, I kind of took it upon myself in

1 Q. Was the non-tariff inventory levels
2 something you would have had one of your
3 subordinates look into on a regular basis?

4 A. Again, during the reconciliation period, I
5 don't know if that was something that I routinely
6 had someone look into.

7 Q. Have you heard of the Gas Purchase and
8 Agency Agreement? Or you might be familiar with it
9 as GPAA?

10 A. If you're referring to a gas supply
11 agreement between Peoples Gas, Light and Coke
12 Company and Enron North America, yes.

13 Q. Were you involved in the negotiations for
14 that agreement?

15 A. I'm not quite sure what you mean by
16 negotiations. I was responsible for developing
17 some of the operational characteristics of the
18 contract, but not its commercial terms.

19 Q. Thank you. That got to where I would like
20 you to go. Have you heard of an economic analysis
21 named ARUBA analysis?

22 A. Yes.

23 Q. I'm sure you're familiar with it because of
24 it coming up in this docket, and you producing

1 documents in this docket, correct?

2 A. That's correct.

3 Q. Were you aware of it prior to this period
4 of time?

5 A. My recollection is that the first time I
6 saw it was during this proceeding.

7 Q. Do you know who actually performed that
8 analysis?

9 A. Again, through the process of this
10 proceeding, I think it's been acknowledged that
11 Mr. Rodriguez authored that analysis and that's the
12 only reason that I have come to know that.

13 Q. Did you ever rely upon the ARUBA analysis
14 in your evaluation of the operational
15 characteristics for the GPAA agreement?

16 A. No.

17 Q. Thank you. Were there other people that
18 you were working with in evaluating the operational
19 characteristics of the GPAA?

20 A. Yes.

21 Q. Do you know if they reviewed the ARUBA
22 analysis in conjunction with your work together in
23 evaluating the operational characteristics of the
24 GPAA?

1 your department?

2 A As I recall, somebody close to enovate
3 operation would provide that information.

4 Q And what would your department do with that
5 information?

6 MR. MULROY: I object. You are asking him
7 another hypothetical question, if revenue was
8 generated and if it was reported to his department,
9 what would his department do, its a hypothetical
10 question and it's vague.

11 THE WITNESS: If income was reported to us, we
12 would record a general ledger entry.

13 BY MR. KAMINSKI:

14 Q Referring back to Deposition Exhibit
15 No. 19, the statement that was read earlier referring
16 to the 9.7 million on Page 31, how did you confirm
17 that number was correct?

18 A It would have simply been -- the document
19 would have been reviewed and it would have been
20 looked -- tied out to the general ledger.

21 Q When you refer to "the document," are you
22 referring to Cross Exhibit 19?

1 A That's correct.

2 Q If the general ledger does not agree with
3 the 10-Q document, how would that be resolved?

4 A At what point in the process do you mean it
5 doesn't agree? Are you saying today?

6 Q I'm saying at the time that this document
7 refers to.

8 A I'm confused. At this date and time?

9 MR. MULROY: Ask him for clarification if you
10 are confused.

11 THE WITNESS: I'm confused. Please clarify.

12 BY MR. KAMINSKI:

13 Q I asked you earlier how would you confirm
14 that information, the 97 million information for
15 equity investment income from enovate was --

16 MR. MULROY: 9.7

17 BY MR. KAMINSKI:

18 Q -- 9.7 million was correct, you stated that
19 you would refer to the general ledger.

20 My follow-up question to that was:

21 How would you resolve a disparity between the general
22 ledger and that \$9.7 million?

1 A If in my review of a draft I found that
2 there was a difference in the number of the draft
3 versus the general ledger, I would talk to the person
4 responsible for controlling the document to correct
5 the number.

6 Q Who would be responsible for controlling
7 the document?

8 A It would have been someone on my staff at
9 the time.

10 Q Who on your staff?

11 A Let me think.

12 MR. MULROY: What document are we talking
13 about? Exhibit 19?

14 MR. KAMINSKI: Correct.

15 THE WITNESS: It may have been Katie Kelly, it
16 may have been Sandy Jibb (phonetic), it may have been
17 Lynn Hausty (phonetic) or someone else.

18 BY MR. KAMINSKI:

19 Q What if the general ledger information was
20 incorrect and the number in the draft of the 10-Q was
21 correct?

22 MR. MULROY: I don't think that's a question

1 but maybe you can read it back.

2 BY MR. KAMINSKI:

3 Q How would you address that problem?

4 A Are we reading it back?

5 MR. MULROY: If you want it read back we will.

6 THE WITNESS: Please read it back.

7 (Record read as requested.)

8 MR. MULROY: I object to yet another
9 hypothetical.

10 THE WITNESS: The process would be to take the
11 general ledger information and put it into this
12 document. I would not know if the general ledger
13 information was correct or this number was correct.
14 I would just know that they're different. So my
15 responsibility was to make sure that they were the
16 same.

17 BY MR. KAMINSKI:

18 Q You stated earlier that the information
19 regarding any income coming from enovate would come
20 from someone close to the enovate operation and that
21 would come into your department, that's where you
22 would get the information; correct?

1 A That's correct.

2 Q And what I am asking is if that
3 information -- the information you got from the
4 entity close to the enovate operation disagreed with
5 the general ledger, how would you address that
6 problem?

7 A I wouldn't know if it disagreed. They
8 provide the information, we'd book the entry.

9 Q Have there been any times in which the
10 monthly or annual financial reporting or closing of
11 the books was delayed, either at the individual
12 operating unit level or at the consolidated level?

13 A Has there ever been a time closing --

14 MR. MULROY: Do you need clarification?

15 THE WITNESS: Please clarify.

16 MR. MULROY: Or are you answering?

17 THE WITNESS: I'm answering, I think. Yes,
18 it's been delayed.

19 BY MR. KAMINSKI:

20 Q Involving which entities?

21 A I can't say for sure which entity it would
22 cause a delay.

1 Q During what time period?

2 A During what time period that I can't
3 determine there was a delay, I don't know. Delays
4 happen. It's part of the process.

5 Q How often would you say delays happen?

6 A A rough guess would be 50 percent of the
7 top.

8 Q Have there been any times in which the
9 general ledgers of individual units were reopened
10 after a reporting period was supposed to have
11 closed so that adjustments to the results could be
12 made?

13 A Clarify "reopen". I don't understand what
14 you mean by that.

15 Q Have there been any times in which the
16 general ledger of individual units that had been
17 closed, the books had been closed, have been reopened
18 after the reporting period so that adjustments to the
19 results could be made?

20 MR. MULROY: I think you just reread the same
21 question. The witness asked for a clarification.

22

1 BY MR. KAMINSKI:

2 Q You can answer the question if you wish.

3 MR. MULROY: I thought that was one of the
4 rules you guys were going by. If he was confused,
5 you'd clarify.

6 MS. SATTER: There were differences in the
7 question.

8 MR. MULROY: Could you read it back, please?

9 (Record read as requested.)

10 MR. MULROY: What was his question before that?

11 BY MR. KAMINSKI:

12 Q I'm sorry, wait. Can you answer the
13 question you just heard?

14 MR. MULROY: I have an objection pending here,
15 I'd like to follow it through. He asked you for a
16 clarification --

17 MR. KAMINSKI: You can note an objection for
18 the record.

19 MR. MULROY: Let me just finish my sentence.
20 He asked for clarification, you didn't give it to
21 him. I want to see if this with a question was
22 changed like your co-counsel said.

1 MS. SATTER: Unless you are directing him not
2 to answer --

3 MR. KAMINSKI: He can answer the question.

4 MS. SATTER: -- we are using up time on a
5 tangent.

6 MR. MULROY: I want to hear both questions,
7 please.

8 (Record read as requested.)

9 MR. MULROY: It's an identical question.

10 THE WITNESS: Could you define what you mean by
11 "closed"?

12 BY MR. KAMINSKI:

13 Q You stated earlier that when you were
14 talking about -- talking with Counsel for Staff that
15 you stated that if there are material changes to
16 entries in the ledger after the books were closed, if
17 there are material changes that should be made, that
18 Miss Kallas would reopen them. Do you recall that
19 statement?

20 A I do.

21 Q How often would that occur?

22 A Your question asked about business units.

1 involving the gas commodity owned by Peoples Gas?

2 A The gas commodity that's part of the gas
3 charge?

4 Q Yes.

5 A Yes.

6 Q Do you distinguish midstream services from
7 trades involved in the gas commodity?

8 A Yes.

9 Q Okay. Could you define for me what you
10 include in midstream services?

11 A Well, first of all, I'm not -- much of
12 midstream service is on the unregulated side so I
13 couldn't define it for you really well, but hub
14 revenues are categorized within midstream services.

15 Q At the risk of getting lost, let me put an
16 X right there.

17 You said hub, and frankly I was a
18 little confused by your discussion with Mr. Weging
19 earlier.

20 You said the hub is a part of Peoples
21 Gas, in response to one of his questions.

22 Now, exactly what is the hub?

23 A The hub generally utilizes excess -- the
24 hub is primarily -- its primary assets of the hub are

1 the storage, Manlove Storage Field, and somewhat the
2 Mohamet Pipeline, and so the hub utilizes excess
3 capacity of those assets.

4 Q Trying to be a little bit more specific.

5 Is the hub the storage facilities or
6 is the hub sort of a functional unit that uses the
7 storage facilities?

8 A The hub is more a functional unit that uses
9 piece of storage facilities.

10 Q Is it a separate department or a section in
11 some department?

12 A It's a separate section. I guess --
13 clarify. It is a separate department.

14 Q It's its own department?

15 A Yes.

16 Q And do you know where that department
17 reports upward?

18 A It now reports to me.

19 Q Do you know where it reported in the
20 reconciliation period?

21 A I believe during the reconciliation
22 period -- again this was before I was in gas
23 supply -- but I believe during the reconciliation,
24 the commercial aspects of the hub were within PERC,

RESPONSIBLE WITNESS: WEAR

6. REQUEST:

Please provide any other documents concerning Project Aruba.

RESPONSE:

Respondent objects to this data request as overbroad and vague. The term "Project Aruba" was coined and used by Enron. Respondent does not know the full range of potential transactions to which Enron may have applied that term. Moreover, to the extent "Project Aruba" is construed to mean transactions other than gas supply transactions involving Peoples Gas, information about such transactions is beyond the scope of this proceeding, which is the reconciliation of Peoples Gas' recoverable gas costs and revenues for the reconciliation period. However, without waiving the foregoing objections, see the attachments to this data request. Also see the responses to Staff data requests POL 15.004 and 15.005. In addition to the executed agreement, Peoples Gas provided documents concerning the Gas Purchase and Agency Agreement with Enron North America Corporation in prior data requests in this proceeding. (See, for example, the responses to Staff data requests ENG 2.068 and POL 1.007)



Enron North America Corp.
P.O. Box 1188
Houston, TX 77251-1188

September 16, 1999

Peoples Energy Corporation
130 East Randolph Drive
Chicago, Illinois 60601

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Re: *Letter of Intent*

Gentlemen:

This letter will evidence (a) as set forth in Article I hereof, the proposal (the "Proposed Transaction") being considered by Enron North America Corp. or its designee ("Enron") and Peoples Energy Corporation or its designee ("Peoples") (collectively, "the Parties") regarding (i) certain business transactions as described in Article I ("Transactions") to be pursued by the Parties, and (ii) the formation of a new company and/or other business relationships or alliances ("Business") in which to pursue and close such Transactions generally in accordance with the terms and conditions set forth herein, and (b) certain binding agreements, as set forth in Article II hereof, relating to the Proposed Transaction.

ARTICLE I PROPOSED TRANSACTION

Section 1.01 Transactions. The Transactions to be considered consist primarily of but are not limited to (a) Hub and marketing services to the Chicago wholesale gas marketplace, including the development, marketing and transacting of parking, balancing, exchange and title tracking services and other new services into the Chicago marketplace, and the development and marketing of internet products and services in support thereof, (b) risk management and structuring services in conjunction with the Transactions, (c) asset optimization services to Peoples and its affiliates, (d) wholesale bundled services to PESC in power and gas, and (e) investment in and the monetization of capital improvements to Peoples' Chicago physical infrastructure.

Section 1.02 Formation of Business. The Parties anticipate the formation of a Business or other applicable relationship for a minimum five (5) year term through the execution of the Definitive Agreements as defined hereafter upon determination of the Transactions to be pursued and the issues related thereto. The form of Business may be but is not limited to a limited liability company, limited partnership, other form of joint venture, alliance, or any combination of the foregoing.

Section 1.03 Terms of Definitive Agreements. The Definitive Agreements shall include terms and conditions satisfactory to the Parties regarding but not limited to capital structure, sharing of profit and losses, costs, scope of services, governance, name of entity, major decisions, operational decisions including budgets, performance benchmarks, credit restrictions, accounting method, included and excluded types of transactions, exclusions from

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liability, limitation of consequential damages, indemnification, termination and liquidation, buy-sells, deadlock breaking mechanisms, alternative dispute resolution, exit rights, enterprise valuation and methodology, transactions with affiliates, confidentiality, and representations and warranties, covenants, conditions precedent (including but not limited to any requisite regulatory approvals) and subsequent, and other usual and customary provisions for joint enterprises of the type contemplated hereby.

Section 1.04 Preliminary Activities. Enron shall provide (a) office space and start up costs for the Business, and (b) up to six (6) personnel knowledgeable in Enron controls, business philosophy, and trading and marketing expertise.

ARTICLE II. BINDING AGREEMENTS

Section 2.01 Business Plan. The Parties shall endeavor to develop and agree to a business plan for the Transactions no later than January 31, 2000 (the "Business Plan Date"). In the event the Parties are unable to agree to such business plan by the Business Plan Date, this letter shall be deemed terminated, and neither Party shall have any further obligation to the other, except as provided in this Article II.

Section 2.02 Definitive Agreements. If the Parties have agreed to a business plan as described above on or before the Business Plan Date, the Parties shall endeavor to execute Definitive Agreements no later than March 31, 2000 (the "Closing Date"). In the event the Parties are unable to execute the Definitive Agreements by the Closing Date, this letter shall be deemed terminated, and neither Party shall have any further obligation to the other, except as provided in this Article II.

Section 2.03 Confidentiality. The existence of this letter and its contents are intended to be confidential and are not to be discussed with or disclosed to any third party, except (a) with the express prior written consent of the other Party to this letter, (b) as may be required or appropriate in response to any summons, subpoena or discovery order or to comply with any applicable law, order, regulation or ruling or (c) as either Party, or their designees and representatives, reasonably deem appropriate in order to conduct due diligence or other investigations relating to the Proposed Transaction.

Section 2.04 Expenses. Each Party shall pay their respective legal fees, professional fees and other transaction costs incurred in the evaluation and negotiation of the Proposed Transaction and the Definitive Agreements, whether or not there is final agreement thereto.

Section 2.05 Management Approval. In addition to the other conditions herein, the closing of the Proposed Transaction and the Definitive Agreements contemplated hereby are subject to the internal management approvals of the Parties, which approvals have not yet been obtained.

Section 2.06 Non-binding Nature. The matters set forth in Article I of this letter do not constitute a binding and enforceable contract between the Parties with respect to the Proposed Transaction or otherwise, or a duty on the part of either Party to negotiate in good faith toward a business plan or a binding contract, and may not be relied upon by either Party as the basis for a contract by estoppel or otherwise. An agreement and binding commitment and contract

Peoples Energy Corporation
September 16, 1999
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will only occur upon execution of definitive written agreements by the Parties enabling each Party to participate in the form of Business agreed to by the Parties and only under the terms of all written agreements executed by the Parties ("Definitive Agreements"). Neither Party shall be obligated to enter into any Definitive Agreements. This letter of intent is solely an expression of the Parties' present intentions so that negotiations and due diligence may commence but either Party may cease negotiations or due diligence in connection therewith at any time in its sole discretion. Neither Party may bring any claim or action against the other Party as a result of a failure to agree on or enter into the Definitive Agreements as contemplated in Article I hereof. The matters set forth in Article II of this letter, however, constitute binding agreements between the Parties.

Section 2.07 No Oral Agreements. Subject to the foregoing, this letter sets out the Parties understanding as of this date, and there are no other written or oral agreements or understandings among the Parties. This letter may be amended or modified only by written agreement of the Parties.

Section 2.08 Representations and Warranties. The Parties hereto hereby represent and warrant to each other that this letter: (a) has been validly executed and delivered, (b) has been duly authorized by all corporate action necessary for the authorization hereof, and (c) with respect to the matters set forth in Article II only, constitutes a binding and enforceable obligation of such party, enforceable in accordance with its terms.

Section 2.08 Illinois Law. This letter of intent and Enron's and Peoples' rights and obligations hereunder shall be governed by and construed in accordance with the internal (not conflicts of laws) law of the State of Illinois.

If the terms and conditions of this letter are in accord with your understanding, please sign where provided below.

Very truly yours,

Enron North American Corp.

By: Dave Delainey
Dave Delainey
Managing Director

AGREED:

Peoples Energy Corporation

By: William E. Morrow
William E. Morrow
Vice President

DRAFT 9/14/00

September 14, 2000

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Peoples Energy Corporation
130 East Randolph Drive
Chicago, Illinois 60601
Attn: Mr. William E. Morrow
Vice President

Dear Mr. Morrow:

This letter (this "Letter") memorializes the general agreement of Enron MW, L.L.C. ("Enron") and Peoples Energy Corporation ("Peoples") concerning the sharing of profits from certain joint initiatives described in Paragraphs 5 (a) and (b) herein (the "Proposed Transactions"). This Letter further evidences the agreement of Enron and Peoples as to responsibility for confidentiality, exclusivity, the Party's respective share of profits, expenses, and certain other matters relating to the Proposed Transactions, as set forth in this Letter.

This Agreement is not intended to impose a duty on the part of either party or any of their affiliates to enter into a particular individual transaction, but rather evidences the parties' binding agreement only as to the matters relating to the overall allocation of profits from the various types of Proposed Transactions. Any binding contract to enter into a particular transaction is conditioned upon, in addition to other matters which such party may deem important, the results of due diligence reviews to the parties' satisfaction, which due diligence reviews have not yet been completed, each party's satisfaction with and resolution of all legal and regulatory issues, approval of each party's board of directors (and other management as required), which approvals have not yet been obtained, negotiation and execution of mutually acceptable binding, definitive agreements ("Definitive Agreements"), and satisfaction of all conditions precedent to the effectiveness of the Definitive Agreements. The parties acknowledge and understand that the Definitive Agreements may require regulatory approvals, and the effectiveness of some of the Definitive Agreements would be contingent upon regulatory approval in form and substance satisfactory to the Parties, in addition to the satisfaction of other conditions precedent.

Enron and Peoples are sometimes referred to individually as a "Party" and collectively as the "Parties".

1. Exclusivity. Until the earlier of (a) the execution of Definitive Agreements, or (b) October 31, 2004 (the "Termination Date"), in consideration of the substantial expenditures of time, effort and expenses undertaken and to be undertaken by the Parties in order to conduct their due diligence, prepare documents and perform other tasks and undertakings, the Parties (x) shall negotiate exclusively with each other with respect to the Definitive Agreements (y) shall not solicit, make or accept any offers or proposals by third parties to undertake or enter into the Proposed Transactions.

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2. **Confidentiality.** This Letter, any documents or proposals developed pursuant to this Letter, and any other information provided by a Party to the other Party relating to the various transactions are confidential, and are deemed Confidential Information within the meaning of the previously executed confidentiality agreements executed by the Parties and/or their affiliates, including the confidentiality agreement dated December 27, 1999, the terms of which are incorporated herein by reference. Neither Party shall issue a news release nor other public disclosure concerning this Letter or the Proposed Transactions without the written approval of the other party, except as required by law.

3. **Expenses.**

(a) Unless otherwise agreed in writing, each Party shall bear its own internal expenses relating to evaluation of the Proposed Transactions, negotiation of the Definitive Agreements, and other matters related to the Proposed Transactions. Expenses for the goods or services of third party vendors, consultants or advisors shall be shared by the Parties on a 50/50 basis, subject to the approval of both Parties prior to the expense being incurred.

(b) Enron and Peoples shall approve all contracts and engagements of vendors, contractors, consultants and advisors to furnish goods or perform services prior to engagement of such parties. Neither Party will have any authority to act as agent of the other Party to contract for such goods and services and may not bind the other Party to pay for such goods or services without the prior written approval of the other Party.

4. **Relationship of the Parties.** Neither this Agreement nor any Definitive Agreement will constitute nor be construed or implied to constitute the parties or their respective affiliates as partners, joint venturers, agents or representatives of one another, nor as fiduciaries or trustees for one another, nor as having any duties or obligations to one another other than those contractual duties expressly provided for in this Agreement or the Definitive Agreements. Neither party will have the legal or equitable power or authority, express or implied, to act on behalf of, or to bind, the other party or its affiliates without such other party's or affiliates' prior written consent and instruction to take a specific action on its or their behalf.

5. **Profit Allocation.** Notwithstanding anything else to the contract in Limited Liability Company Agreement between the parties (dated April 26, 2000) ("the LLC Agreement"), it is agreed that profit shall be allocated as described below. Profit will be determined in accordance with generally accepted accounting principles, based on mark to market accounting whenever possible. The Definitive Agreements shall give full force and effect to the terms of this Letter.

(a) Hub Services. Hub Services include (a) transactions entered into by the PGL Hub or MEH (as its agent) which are subject to the Peoples Hub FERC or state commission approved operating statements, and (b) all physical transactions which require the use of the Manlove or Mahomet fields (also known as "exchange" or "enhanced hub" services).

The profit from Hub Services shall be split as follows:

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- For transactions entered into between February 15, 2000 through September 30, 2000, the profit shall be shared on a 50/50 basis.
- For transactions entered into from October 1, 2000 to September 30, 2001 (and successive years until September 30, 2004), Peoples will receive the first \$4 million in profit (cumulative, not annual), and Enron will receive the next \$1million in profit. Peoples and Enron will share any additional profit on a 50/50 basis.

This arrangement excludes all agency fees paid to MEH. These fees will be shared 50/50 from the beginning.

All internal costs incurred in the normal course of business will be borne by the party incurring same. All third party costs will be shared equally, and require MEH board approval.

(b) Peaking Agreement. Peoples has contracts with PGL and with NICOR relating to the ethane/propane peaking facility. The two existing contracts pay a total of \$2million (approximate or exact) in demand charges annually. Any profit exceeding \$2 million in a year will be shared by Peoples and Enron on a 50/50 basis.

If either of these contracts is extended in any form other than the current form, then Peoples and Enron will share the demand charge and the profit on a 50/50 basis.

(c) Other Transactions. Peoples and Enron will split the profit from any transactions other than those described above on a 50/50 basis.

6. Term of Definitive Agreements. The Parties agree Definitive Agreements shall be effective until October 31, 2004 years, subject to the termination rights described therein.

7. Excluded Transactions. The gas storage monetization initiative (as generally described in the Parties' Letter of Intent dated September ____, 2000) is separate, and excluded from the terms of this letter of intent.

8. Representations and Warranties. Each party hereby represents and warrants to the other party that (a) this Agreement has been validly executed and delivered, (b) has been duly authorized by all action necessary for the authorization hereof, and (c) is the legal, valid and binding obligation of each party, enforceable in accordance with its terms.

9. Entire Agreement. This Agreement constitutes the entire agreement of the parties relating to the subject matter hereof and supersedes all prior discussions, agreements or understandings, whether oral or written, relating to the Proposed Transactions. There are no other written or oral agreements or understandings between the parties relating to the subject matter hereof.

10. **Assignment.** This Letter may not be assigned by either Party without the written consent of the other; however, it is acknowledged that the Definitive Agreements may include affiliates, lenders, investors, and designees of the Parties as necessary to give full effect to the intent of this Letter.

11. **Survival.** The provisions of Paragraphs 1, 2 and 3 survive the termination of this Letter, unless the Parties release each other from the referenced terms in writing.

12. **Governing Law.** THIS LETTER SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS-OF-LAWS.

To evidence Peoples' acceptance of this Agreement, please execute all of the enclosed originals of this Agreement in the space provided below, retain one fully-executed original, and return the other original to Enron, to the attention of the undersigned, by 5:00 p.m. (Houston, Texas time) on or before September 21, 2000.

This Agreement may be executed in counterparts, with each counterpart being deemed to be an original instrument, but all such counterparts together shall constitute but one agreement. The effective date of this Agreement is agreed to be _____, 2000 (the "Effective Date").

ENRON MW, L.L.C.

By: _____
Laura L. Luce
Vice President

Acknowledged, Agreed to and Accepted
this ____ day of September 2000:

PEOPLES ENERGY CORPORATION

By: _____
Name: _____
Title: _____



Press Release

[Close Window](#) [Print Page](#)

04/26/00

Peoples, Enron Form Midwest Energy Hub, L.L.C

CHICAGO, April 26 /PRNewswire/ -- Peoples Energy (NYSE: PGL) and Enron North America, a wholly owned subsidiary of Enron Corp. (NYSE: ENE), announce the formation of Midwest Energy Hub, L.L.C. The previously announced entity will expand and enhance Peoples' existing natural gas market hub and provide natural gas marketing, transportation and storage services to the 1.1 trillion cubic feet Chicago market.

Midwest Energy Hub offers the following key services:

- Balancing and fuel management services for gas-fired power generators
- Hourly winter and summer peaking services
- Seasonal arbitrage products and storage management
- Location swaps to and from the Chicago area
- Transportation management
- Market aggregation services such as pooling and title transfer

"Midwest Energy Hub combines Enron's transactional and marketing expertise with Peoples Energy's assets and local infrastructure in this key regional market," said Tom Patrick, president and COO of Peoples Energy. "Enron has assembled an excellent team, drawn from both companies. We are confident that this venture is positioned for success."

"By combining the skills of Peoples Energy and Enron, this new company will offer creative wholesale gas solutions to the Chicago market," said Cliff Baxter, chairman and CEO of Enron North America. "We continue to enjoy the opportunity to build on our strategic alliance with Peoples Energy in both the natural gas and power markets."

Midwest Energy Hub will act as the marketing agent for the existing Peoples natural gas hub. The hub interconnects with international pipelines, six major interstate pipelines and Peoples' Mahomet Pipeline. Additionally, Midwest Energy Hub will tailor systems and services for Chicago-area customers, including development of an hourly market for natural gas services, which will address the increasing need for gas balancing. This growing need is the result of regional pipeline capacity expansion and an increasing number of merchant, gas fired power plants being constructed in the Chicago area.

Peoples Energy is a diversified energy company comprised of five primary business segments: Gas Distribution, Power Generation, Midstream Services, Retail Energy Services, and Oil and Gas Production. The Gas Distribution business serves about 1 million retail customers in Chicago and northeastern Illinois. Visit the Peoples Energy web site at www.PeoplesEnergy.com

Enron Corp. is one of the world's leading electricity, natural gas and communications companies. The company, which owns approximately \$34 billion in energy and communications assets, produces electricity and natural gas, develops, constructs and operates energy facilities worldwide, delivers physical commodities and financial and risk management services to customers around the world, and is developing an intelligent network platform to facilitate online business. Enron's Internet address is www.enron.com. The stock is traded under the ticker symbol, "ENE."

Midwest Energy Hub is located at 150 North Michigan Ave. Chicago, Illinois 60601. The toll-free phone number is 877-630-3095. SOURCE Peoples Energy

57-96 199

CONTACT: Media, Luis Diaz-Perez, 312-240-4567, or Investor Relations, William Reynolds, 312-240-4288, both of Peoples Energy//

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this press release regarding Peoples Energy Corp.'s business which are not historical facts are "forward-looking statements" that involve risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in the Company's Annual Report or Form 10-K for the most recently ended fiscal year.

ST-96 200



Media Contact:

**Rodrigo Sierra
(312) 240-4567**

**130 E. Randolph Dr.
Chicago, Illinois 60604**

**Deferred For Release
October 4, 1999**

PEOPLES ENERGY AND ENRON ANNOUNCE CHICAGO ALLIANCE ACTIVITIES

Chicago and Houston - Peoples Energy Corp. (NYSE: PGL) and Enron North America Corp. (ENA), a wholly owned subsidiary of Enron Corp. (NYSE: ENE) announced today that the companies have entered into three agreements to pursue common interests in the Chicago energy market.

Enron and Peoples have signed a letter of intent to form a joint entity that will expand and enhance Peoples' existing natural gas market hub and provide marketing services to the 1.1 trillion cubic feet Chicago marketplace. Under the proposal, the new entity will jointly optimize approximately 10 to 20 billion cubic feet (Bcf) per year of Chicago area storage capacity and related transportation, which will enable providing physical and financial product and service offerings, such as balancing, storage, exchange, and title tracking for hub customers. The Chicago-based new entity plans to invest in the area's natural gas infrastructure to augment the flexibility inherent in Peoples' Chicago Hub. The entity is expected to be operational in early 2000.

"This alliance provides for essential asset optimization and the further development of hub services," said Richard E. Terry, chairman and CEO, Peoples Energy. "Working with Enron allows us to make significant progress on our long term strategy of enhancing our utilities and growing our diversified energy businesses."

"By combining Enron's experience in marketing and risk management with Peoples Energy's regional expertise, we have a unique opportunity to develop and offer creative wholesale gas solutions to the Chicago marketplace," said Kenneth L. Lay, chairman and CEO of Enron.

In addition, Enron will provide natural gas supply for Peoples Energy utilities, Peoples Gas and North Shore Gas, for a period of five years, commencing October 1, 1999. Under the agreements, Enron will optimize a major share of the utilities' natural gas transportation and provide an average of 100 Bcf per year of natural gas supply.

-more-

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Peoples Energy and Enron, page 2

"As the leading marketer of natural gas in North America, Enron has the scope and expertise necessary to work with Peoples to optimize its natural gas transportation assets and to provide reliable and flexible natural gas supply to Peoples Energy's utilities, Lay said.

The companies have also signed a letter of intent whereby Enron would provide wholesale electric supply and risk management services to Peoples Energy Services Corporation (PESC). PESC is the retail division of Peoples and markets power to end-use customers in Illinois. PESC will be participating in the retail electric market as one of only six companies that has been certified to do so in Illinois.

"Combining Peoples Energy's known name and local operations with Enron North America's outstanding wholesale electricity capabilities will create a strong value proposition for customers," said Terry.

Enron is one of the world's leading electricity, natural gas and communications companies. The company, which owns approximately \$34 billion in energy and communications assets, produces electricity and natural gas, develops, constructs and operates energy facilities worldwide, delivers physical commodities and financial and risk management services to customers around the world and is developing a nationwide Internet-based communications network. Enron's Internet address is www.enron.com, and the stock is traded under the ticker symbol, "ENE."

Peoples Energy is a diversified energy company. Its core operations are two natural gas utilities, Peoples Gas and North Shore Gas, serving about 1 million customers in Chicago and northeastern Illinois. The company's diversified energy businesses focus on power generation, oil and gas production, asset-based wholesale services and retail energy services. Peoples Energy's Internet address is www.pecorp.com and the stock is traded under the ticker symbol "PGL."

Media Contacts:

Rodrigo A. Sierra	Peoples Energy	312/240-4587
Traci Warner	Enron	713/853-3242

Analyst Contacts:

William Reynolds	Peoples Energy	312/240-4288
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Forward-Looking Information. This press release contains 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, such as expectations of business development and growth arising out of Enron's and Peoples Energy's alliance activities. Actual results could differ materially from such expectations, because of many uncertainties, including, but not limited to: general U.S. and Illinois economic conditions; business and competitive conditions resulting from deregulation and consolidation of the energy industry; the timing and extent of changes in energy commodity prices and interest rates; and regulatory developments in the U.S., Illinois and other states where Peoples Energy has investments. Some of the uncertainties that may affect future results are discussed in more detail under "Item 1 - Business" of the Peoples Energy's Form 10-K for the year ended September 30, 1998. All forward-looking statements included in this press release are based upon information presently available, and Peoples Energy assumes no obligation to update any forward-looking statements.

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**Project Aruba
Peoples Gas
Internal Q&A**

Gas Supply Deal

Updated Oct 6, 1999, 2:00 pm

- 1. What are the components of "gas supply services"?**
Enron North America will work with Peoples/North Shore to optimize a portion of its transportation and gas supply. ENA will provide Peoples/North Shore firm gas supply, while optimizing the value of Peoples'/North Shore's resources in the national marketplace.
- 2. What are the terms of the supply management deal?**
Specific terms and conditions of the agreement are confidential and cannot be disclosed.
- 3. How is Enron being compensated for their services? Is Enron's compensation paid to the detriment to Chicago consumers?**
Enron will not receive any management fees under the agreement. The benefit to Enron is linked to its ability to increase the value of the assets/resources released in this gas supply agreement. Peoples'/North Shore benefit by receiving gas, at attractive prices, which is flowed through to Peoples'/North Shore ratepayers. This benefit to Enron does not adversely affect Peoples'/North Shore customers.
- 4. Why can ENA provide these services more efficiently than Peoples could do on its own?**
ENA is national in scope and it can attain additional cost efficiencies using Peoples'/North Shore's gas supply arrangements outside of their service territories.
- 5. Why would Peoples do this deal?**
Enron has greater assets available to it to capture and/or create value from Peoples' natural gas assets. Peoples'/North Shore customers benefit because Peoples'/North Shore will be purchasing gas from Enron at attractive prices.
- 6. Is the deal subject to regulatory approvals?**
No. This is a standard gas supply agreement between Peoples/North Shore and Enron and does not require regulatory pre-approval. The Illinois Commerce Commission does not require approval of contracts between its gas utilities and suppliers of gas and related services. However, the gas supply agreement would be subject to prudence review in a Purchased Gas Adjustment proceeding before the Commission at a point in time after the actual contract execution.

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7. **Both Enron and Peoples have retail affiliates. How will this agreement affect competition between the two retail affiliates?**

Enron North America is Enron Corp.'s wholesale marketing affiliate and operates independently from Enron Energy Services (EES), Enron's retail affiliate. The agreement between ENA and Peoples has no impact on EES or Peoples Energy Services (Peoples' retail affiliate, which purchases its gas supply independently of Peoples/North Shore.)

8. **Will Peoples continue to own its assets?**

Yes, Enron is only providing a service to Peoples by providing an assured delivered gas supply. Peoples will continue to own the assets during the contract as well as after the contract has expired.

9. **Is Enron going to take over Peoples?**

In general, Peoples do not comment on Merger and Acquisitions (M&A) matters.

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Joint Entity

1. What is the strategic objective of Peoples creating a joint entity with Enron?

Dynamic changes to the market place create the need for new, expanded wholesale hub and marketing services in the Chicago area. Peoples' existing Hub operations must be expanded to address significant changes occurring in the market place:

- 2 Bcf/day of new pipeline capacity into Chicago (Northern Border, Alliance)
- 2 Bcf/day of pipeline capacity away from Chicago (Vector, Guardian, TriState, Horizon)
- Gas and electric deregulation
- Expansion of merchant owned gas fired power plants create the need for daily and intraday balancing

Peoples is taking a proactive step with Enron in this alliance to develop services that fill the emerging market's needs.

2. Given that Peoples Gas already operates its Chicago Hub, what additional assets will Enron provide to the entity? What additional resources will Peoples provide?

The specific contribution of each party to the joint entity is still in development. Enron brings to the joint entity its trading and risk management expertise plus other storage capacity it now controls separately. Peoples brings to the joint entity its regional knowledge of the marketplace and its expertise in management of the existing Hub. Enron and Peoples will contribute significant resources to jointly develop and offer expanded Hub services to the Chicago wholesale energy marketplace.

Employees from both companies will staff the new entity.

3. Will Enron open a Chicago office?

Enron has operated a business out of its Hinsdale, Illinois office for over fourteen years. Enron is currently considering the logistics of opening an office in the Chicago area.

4. What are Hub services?

The term is relatively new to the industry. Hubs are centers or focal points of financial and physical trading activity where buyers and sellers negotiate price and delivery of the gas. Fundamentally, there are two kinds of hubs. Supply hubs, such as the Henry Hub, are important market exchanges, for producers and marketers who direct gas down the supply line. Market hubs, such as the Chicago market hub, are close to market (near the end of the supply line), and are nearest to the actual gas customers.

5. What services will this hub offer?

The Chicago market hub interconnects with six major interstate pipelines and will be a center of activity for the Chicago gas market. Through the new entity, Enron and Peoples will jointly optimize approximately 10-20 billion cubic feet per year of Chicago area storage capacity and related transportation.

This preeminent hub will develop, market and transact numerous services including parking, balancing, exchange and title tracking.

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These services will become increasingly valuable as new gas infrastructure and gas-fired generation are built in the Chicago market area.

6. **Does this hub have access to supply basins, pipelines, and storage?**
Located near the 1.1 TCF annual Chicago marketplace, this hub will have access to multiple supply basins, pipelines (6 major interstate pipelines), storage, and will be able to offer wholesale customers the flexibility to complete their transactions successfully.

7. **How do customers of Peoples Gas benefit from the operation of the Market Hub?**
Peoples' customers will benefit because the natural gas market will become increasingly competitive and more liquid. Liquidity means that wholesalers of gas and related services will be able to more easily buy and sell gas in the Chicago area. This means that suppliers will be more likely to transact business at the Chicago Hub than at other midwest trading points and, in turn, more gas will be available for purchase. Moreover, new products and services available at the hub can benefit customers.

Wholesale Power and Gas

1. **Are Enron and Peoples going to be competing in Illinois' deregulated electricity market?**
Enron Energy Services Inc., Enron's retail affiliate will be competing in the deregulated Illinois electricity marketplace.

Peoples Energy Services, the retail subsidiary of Peoples will be a competitor in that marketplace. Enron North America and Peoples have signed a letter of intent whereby they will enter into an agreement under which ENA will supply PESC wholesale power.

2. **Doesn't this conflict with Enron Energy Services operations in Illinois?**
No. These are two entirely different businesses for Enron. (Wholesale vs Retail) Enron North America is the largest wholesale provider of electricity in the U.S. ENA supplies wholesale power to hundreds of customers, many of which are utilities. Enron's retail arm, Enron Energy Services, will be providing retail electric services in Illinois, and will face competition from PESC.

Docket 01-0707
The Peoples Gas Light and Coke Company's
Responses to Staff's 16th Set of POL Data Requests

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Questions POL 16.13 through POL 16.26 relate to the documents attached to the Company's response to POL 15.17 ("enovate audit documents").

POL 16.15 With respect to Finding #1 on page 2 of 7 of the August 24, 2001 departmental correspondence with a subject line "Review of enovate (5740)", provide the following:

- a) a detailed description of the transactions between PEC and Enron that were the subject of Finding #1, including, but not limited to any types of purchases or sales of gas or exchanges or any hub services;
- b) an explanation of the revenue sharing arrangement, as it was understood by the PEC senior management identified in POL 16.13;
- c) the amount of revenue that was shared for each of the years FY00 and FY01 and the amount of revenue that was allocated to each party from the revenue sharing agreement for each of those years;
- d) the journal entries that Peoples Gas recorded on its books in FY00 and FY01 for the revenue transfers from enovate that were referred to in the audit response by PERC/enovate;
- e) the journal entries recorded by PERC for FY00 and FY01 for the revenue transfers from enovate that were referred to in the audit response;
- f) the journal entries recorded on enovate's books in FY00 and FY01 for the revenue transfers referred to in Finding #1 to PERC or an affiliate and to Enron MW or an affiliate;
- g) the details of any revenue transfers occurring subsequent to FY01 not indicated in c) through f);
- h) the information requested in b) through f) for FY02 and FY03, if any revenue transfers were made in FY02 or FY03;
- i) list the follow up actions that Peoples Gas has taken to date with respect to Finding #1;
- j) revenue sharing agreements between PEC and Enron that have been reduced to writing.

Response: Respondent objects to these requests to the extent that they seek information that is beyond the scope of this proceeding.

Further objecting, Respondent states that it was not a member of and had no interest in enovate, L.L.C. ("enovate"). As such, the requested information has

Docket 01-0707
The Peoples Gas Light and Coke Company's
Responses to Staff's 16th Set of POL Data Requests

CONFIDENTIAL

no bearing on the issue of gas costs and revenues that are the subjects of this litigation.

As an affiliate of Peoples Gas whose predecessor had an indirect interest in enovate, Peoples Energy Resources Company, LLC ("PERC") provides certain of the following in response to this data request, which Respondent, without waiving the foregoing objections, now forwards. As the parent corporation of Respondent and the interest parent of enovate, Peoples Energy Corporation ("PEC") provides certain of the following in response to this data request, which Respondent, without waiving the foregoing objections, now forwards. Subsection (i) is directed to Peoples Gas and Peoples Gas provides that response.

Also, see documents produced in response to previous Staff and intervenor data requests, as well as additional documents provided in response to the Citizens Utility Board's 13th set of data requests and Staff's POL 16th set of data requests for the period January 1, 1999 - September 30, 2001.

a. PEC states that its Internal Audit area reviewed enovate's financial activity for the period January 1, 2001 through March 31, 2001. It interviewed enovate management and determined that certain revenue sharing agreements were not in writing. As part of Internal Audit's review, the following transactions were documented in the workpapers:

1. The annuity trade that occurred on March 31, 2001, transferring quarterly earnings from Enron MW, L.L.C. ("EMW") to enovate; and
2. The October 24, 2000, Master Consulting Agreement between PERC and EMW.

b. PERC states that there were two sharing arrangements that were discussed with PEC's audit department in response to one of PEC's questions in the preparation of the August 2001 audit. These sharing arrangements evolved as a function of the partnership struggling to become fully established.

PERC further states that it was the intent of both parties to the partnership to complete the appropriate written agreements; the intent of the oral sharing arrangement was to provide a bridge until written documents, acceptable to all parties, could be negotiated, executed and approved.

Senior management's understanding of the sharing arrangements were as follows. There were two such arrangements: (1) revenue sharing between PERC and EMW calculated with reference to a baseline level of revenue from Peoples Gas' hub, and (2) revenue sharing related to the activities of EMW.

Docket 01-0707
The Peoples Gas Light and Coke Company's
Responses to Staff's 16th Set of POL Data Requests

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- c. PERC states that Peoples MW, LLC booked in fiscal 2000 \$216,821 for its share of enovate's equity income and in fiscal 2001 \$11,348,272 for its share of enovate's equity income. Some portion of this was due to the revenue sharing arrangement described in the response to subquestion (b).
- d. None.
- e. None.
- f. See documents produced in response to the Citizens Utility Board's 13th set of data requests and Staff's POL 16th set of data requests for the period January 1, 1999 - September 30, 2001.
- g. PERC states that Peoples MW LLC booked in fiscal 2002 \$1,296,721 for its share of enovate's equity income, and some portion of this was attributable to the revenue sharing arrangement described in the response to subquestion (b). enovate was dissolved at the end of fiscal 2002.
- h. See the response to subquestion (g) above.
- i. The Peoples Gas Light and Coke Company, Respondent in this proceeding, states that it took no actions with respect to any element of the internal audit of enovate, L.L.C.
- j. See the Limited Liability Company of Midwest Energy Hub, L.L.C., provided in the response to Staff data request POL 15.6, for the written revenue sharing agreement between the members of enovate. PERC states that, in response to the audit, there were no revenue sharing agreements between PEC and Enron that were reduced to a written agreement.

Docket 01-0707
The Peoples Gas Light and Coke Company's
Responses to Staff's 16th Set of POL Data Requests

Questions POL 16.36 through POL 16.39 relate to the document provided in the Company's response to POL 15.6 entitled "Letter of Intent", which was signed by William Morrow and Dave Delainey, and dated September 16, 1999 ("1999 Letter of Intent").

POL 16.36 Was it Mr. Morrow's understanding or the understanding of any other executive officer of Peoples Gas or PEC, prior to Peoples Gas entering in to the GPAA or the Letter of Intent, that either the GPAA or the 1999 Letter of Intent was conditional upon the other being signed?

Response: Respondent objects to this request to the extent that it seeks information that is beyond the scope of this proceeding. Without waiving the foregoing objection, Respondent states that signing the Gas Purchase and Agency Agreement was not conditioned on signing the September 16, 1999 Letter of Intent nor *vice versa*.

The Peoples Gas Light and Coke Company
Docket 01-0707
Responses to Staff Data Requests

Questions POL 18.1 through POL 18.29 refer to 01 PGL 047931-047960 and 01 PGL 0579003-0579007.

POL 18.005

Who decided not to provide any of these documents to Staff in response to numerous inquiries about Peoples Gas' economic analysis of the GPAA? Explain why.

Response

For purposes of this response, Respondent assumes that references to documents with the Bates identification of 01 PGL 0579003 - 0579007, which do not exist, are intended to refer to documents identified as 01 PGL 059003 - 059007. Respondent objects to this request in that it (1) is not reasonably calculated to lead to the discovery of relevant information, (2) is beyond the scope of this proceeding, and (3) assumes that an individual "decided" not to provide these documents. No person made a decision not to provide the referenced documents.

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**REFINERY GAS SALE AND PURCHASE AGREEMENT
BETWEEN
THE UNO-VEN COMPANY AND
THE PEOPLES GAS LIGHT AND COKE COMPANY**

Docket 01-0707
ATTACHMENT
ENG 2.126 (a)
1 of 4

This Agreement is entered into as of the 1st day of October, 1995, by and between The UNO-VEN Company (hereafter called "UNO-VEN"), an Illinois general partnership with a business address of 3850 North Wilke Road, Arlington Heights, Illinois 60004, and THE PEOPLES GAS LIGHT AND COKE COMPANY (hereafter called "Peoples"), an Illinois corporation with a business address of 130 East Randolph Drive, Chicago, Illinois 60601.

WHEREAS, UNO-VEN anticipates that its Refinery at Lemont, Illinois will produce Surplus Refinery Fuel Gas (hereafter "RFG") which UNO-VEN desires to sell; and

WHEREAS, Peoples indicates a desire to purchase RFG to use as a blend component in its natural gas delivery system; and

WHEREAS, UNO-VEN and Peoples have previously entered into an Agreement for the Sale and Purchase of RFG dated October 1, 1994, which, by its terms, terminated effective September 30, 1995;

NOW, THEREFORE, in consideration of the premises and mutual covenants and agreements hereinafter set forth, UNO-VEN and Peoples hereby agree as follows:

REDACTED
SF-PG 212

1. **ESTIMATED VOLUME.**

This Paragraph 1 applies to transactions other than those described in Paragraph 2. The volume of RFG that UNO-VEN is able to make available for sale will vary and is dependent in part upon the following factors: Type of crude oil being processed; volume of crude oil being processed; number of refinery units operating and level at which they are operating; time of year; and weather conditions.

The volume of RFG that Peoples is able to utilize in its operations will vary and is dependent in part upon the following factors: composition of RFG received; gas demand by Peoples' customers, which in part is a function of weather conditions; and non-routine operating conditions affecting Peoples' system.

Appendix II (attached hereto and made a part hereof) sets forth, for both the winter and summer seasons during the term of this Agreement, the estimated "peak", "normal", and "minimum" daily availability of RFG for delivery by UNO-VEN to Peoples at normal refinery throughputs with existing facilities. During the identified seasons, Peoples shall, subject to the further provisions of this Paragraph 1 and Paragraph 10, be obligated to accept all daily volumes offered by UNO-VEN up to 50% of the estimated "normal" level indicated for such season and shall use reasonable efforts to accept volumes up to the indicated

estimated "peak" level for such season. However, if despite the use of reasonable efforts, and for reasons beyond its reasonable control, UNO-VEN is unable to deliver (e.g., because of unavailability of RFG) or Peoples is unable to receive and use RFG in its system (e.g., because said RFG is "off-specification", force majeure, or the utilization of RFG is expected to cause unreliable or unsafe operations), then UNO-VEN or Peoples, as the case may be, shall have the right at its sole discretion to suspend performance hereunder. The right of either party to suspend performance hereunder shall not be based on the availability of alternate sources or customers for RFG at more favorable prices. The party suspending performance shall notify the other of such suspension and use reasonable efforts to provide as much advance notice as possible to the other (24 hours' telephone notice, if possible, then confirmed in writing). In the event of such suspension, the parties agree that there will be no liability on the part of either party, except for the obligation to pay any amounts due and owing.

2. PEAKING SERVICE.

On any day during the period [REDACTED] during the term of this Agreement when the O'Hare Daily Average Temperature (12:00 noon to 12:00 noon basis) is reasonably predicted by Peoples to fall below

[REDACTED] Peoples may nominate to UNO-VEN for delivery of up to [REDACTED]

[REDACTED] of RFG. For purposes of this Paragraph 2 (Peaking Service),

under no circumstances will UNO-VEN be required to provide RFG for more than [REDACTED] in any contract year. Peoples must make its nomination, by telephone and confirmed by telefax by both parties, at least twenty-four (24) hours prior to the period for which deliveries are nominated. UNO-VEN shall deliver the nominated quantity. The price for the RFG delivered will be based on the Gas Day on which the RFG is delivered. For the purposes of this Paragraph 2 a "Gas Day" is defined as the twenty-four (24) hour period commencing at 12:00 noon Central Standard Time. The price per MSCF shall be the higher of the following prices:

[REDACTED] of the spot market natural gas price determined by the average $((\text{high} + \text{low}) / 2)$ Chicago LDC Citygate price as published in Gas Daily for the Gas Day the RFG was delivered. If this is not available then the price will be [REDACTED] the contract price 'F' as defined in Paragraph 9.

or

The [REDACTED] determined by taking the average daily price $((\text{high} + \text{low}) / 2)$ for [REDACTED] as published in the [REDACTED] plus published tariff rates from [REDACTED] and actual [REDACTED] If the daily average price is

not available then the average of the [REDACTED]
[REDACTED] for the week of the nomination will be
used. If UNO-VEN's actual average sales price for [REDACTED] in
the month of nominated gas delivery is greater than the price
calculated above, then the actual sales price plus actual handling
costs will be used.

Example:

[REDACTED]

3. QUALITY.

The RFG provided by UNO-VEN to Peoples shall be composed as
described in Appendix I (attached hereto and made a part hereof), but subject to
the following maximum criteria:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

4. PRODUCT SPECIFICATION.

UNO-VEN and Peoples expect that the RFG delivered under this Agreement will meet the specifications described in Paragraph 3 and Appendix I. UNO-VEN agrees to use reasonable efforts throughout the term of this Agreement to supply RFG within such specifications.

If UNO-VEN, despite exercising reasonable efforts, discovers that the RFG will not meet the specifications contained in Paragraph 3 and Appendix I (i.e., will be "off-specification"), UNO-VEN shall immediately give telephonic notice to Peoples' Gas Controller, confirmed later in writing, of the degree to which the specifications are exceeded and the estimated duration of that condition.

Peoples shall use reasonable efforts to utilize RFG which is determined by either UNO-VEN or Peoples to be off-specification. To the extent that Peoples cannot in its sole judgment use any quantity of such tendered off-specification RFG, Peoples shall have no obligation to accept or pay for such quantity of RFG. The foregoing shall be Peoples' sole remedy against UNO-VEN for UNO-VEN's failure to deliver RFG meeting the specifications set forth herein.