



UTILITY RESOURCE SOLUTIONS

[www.urslp.com](http://www.urslp.com)

October 15,2002  
Attn: SVT Supplier Agreement  
The Peoples Gas Light and Coke Company  
130 East Randolph Drive  
22<sup>nd</sup> Floor  
Chicago, Illinois 60601

Attn: Gas Transportation Contract For Service Under Rider AGG Aggregation Service

Dear Sirs,

Please find attached the above referenced agreement for your review. We have also attached the required financial information. We anticipate the initial load profile to be 500 mmbtu's per day.

If you have any questions regarding this application please contact me at the number given below.

Sincerely,



Paul E. Jorjanyvaz

**GAS TRANSPORTATION CONTRACT  
FOR SERVICE UNDER RIDER AGG  
AGGREGATION SERVICE**

This Gas Transportation Contract for Service under Rider AGG, Aggregation Service ("Contract"), is entered into between Utility Resource Solutions, L.P. ("SVT Supplier") and The Peoples Gas Light and Coke Company ("Company").

For and in consideration of the covenants and agreements contained in this Contract, SVT Supplier and Company agree as follows:

1. Scope of Contract. Service under this Contract is provided pursuant to Rider AGG. Company shall receive, transport and deliver SVT Supplier-owned gas on behalf of SVT Supplier to the Rider SVT Customers in accordance with Rider AGG. SVT Supplier shall make available SVT Supplier-owned gas and pay for service in accordance with Rider AGG. Company's Schedule of Rates is incorporated in and made a part of this Contract by reference. In the event of a conflict between this Contract and the Schedule of Rates, the Schedule of Rates shall govern.
2. Definitions. The following terms, where used in this Contract, and in all forms, amendments, exhibits and appendices related to this Contract, shall have the following meanings:
  - a. "Central Time" shall mean the prevailing time in the Central Time Zone.
  - b. "Contract Year" shall mean the twelve-month period commencing each April 1 during the term of this Contract.
  - c. "Delivery Point" shall mean the outlet side of Company's meter on the premises of each Rider SVT Customer for which SVT Supplier delivers gas pursuant to Rider AGG, and each such premises shall be a Delivery Point.
  - d. "Receipt Point" shall mean any point of interconnection between Company's facilities and a Transporter's facilities.
  - e. "Rider AGG" shall mean Rider AGG, Aggregation Service, of Company's Schedule of Rates, as it may be revised from time to time.
  - f. "Rider SVT" shall mean Rider SVT, Small Volume Customer Transportation Service, of Company's Schedule of Rates, as it may be revised from time to time.
  - g. "Rider SVT Customer" shall mean a Customer of Record eligible for service under Rider SVT for which SVT Supplier will be delivering gas to Company and acting as such customer's sole agent for purposes of service under Riders SVT and AGG.

- h. "Schedule of Rates" shall mean Company's Schedule of Rates for Gas Service on file and in effect, as revised from time to time, with the Illinois Commerce Commission or any successor to that agency.
- i. "Transporter" shall mean the pipeline or pipelines that transport SVT Supplier-owned gas to the Receipt Point.
- j. "Transporter's Tariff" shall mean Transporter's FERC Gas Tariff on file and in effect, as revised from time to time, with the Federal Energy Regulatory Commission or any successor to that agency.

Capitalized terms used in this Contract but not defined in this Paragraph 2 shall have the meaning ascribed to such terms in Rider AGG.

3. Term of Contract. Subject to the terms and conditions of this Contract, this Contract shall be effective for an initial term commencing on the date it is signed by Company and ending on the first March 31 following such commencement date, **AND IT SHALL EXTEND FROM YEAR TO YEAR THEREAFTER SUBJECT TO THE RIGHT OF EITHER PARTY TO TERMINATE THIS CONTRACT AT THE END OF THE INITIAL TERM OR OF ANY YEAR TO YEAR EXTENSION OF SUCH INITIAL TERM BY WRITTEN NOTICE GIVEN NO LESS THAN THIRTY (30) DAYS PRIOR TO THE LAST DAY OF THE INITIAL TERM OR ANY YEAR TO YEAR EXTENSION OF SUCH INITIAL TERM.** The termination of service under this Contract shall not release SVT Supplier from the obligation to make payment of any amounts due or to become due in accordance with the terms of this Contract.

4. SVT Supplier Warranties.

- a. SVT Supplier warrants that it has obtained agreement with each Customer of Record for which it will be delivering gas to Company and acting as such customer's sole agent for purposes of service under Riders SVT and AGG.
- b. SVT Supplier warrants that it has obtained the necessary authority from Rider SVT Customers for which it is delivering gas and agrees to provide Company access to agency or other agreements and records, including telephone tapes, for purposes of auditing compliance with this Contract.
- c. SVT Supplier agrees to retain the documents and records needed to verify the warranties provided in this Paragraph 4 for no less than one (1) year after SVT Supplier ceases to provide service to the Rider SVT Customer to whom the documentation and records apply.

5. Obligations. SVT Supplier and Company each agree to comply with all applicable requirements, including those governing providing and paying for service, under Company's Schedule of Rates.

6. Adequate Assurances of Payment. On or before December 1 of each Contract Year, SVT Supplier shall provide adequate assurances of payment to Company in a form and amount determined by Company pursuant to Rider AGG and this Contract.

a. Letter of Credit. If such assurances are in the form of an irrevocable standby letter of credit, then the issuer of said letter of credit must be a commercial bank with offices in Chicago, Illinois. At a minimum, said letter of credit must provide that: (i) Company is the beneficiary; (ii) modification or revocation is allowed only with Company's consent; (iii) payment by the issuer is authorized if SVT Supplier is in payment default under a Rider AGG contract with Company; (iv) notice of default from Company to SVT Supplier is sufficient documentation for an issuer to honor a demand for payment; and (v) payment of a portion of the credit is authorized. The letter of credit shall not become effective until it is: (i) in writing; (ii) signed by the issuer; and (iii) the original of such letter of credit is received by Company.

b. Cash Deposit. If such assurances are in the form of a cash deposit, then it shall be provided to Company by check or wire transfer in immediately available funds. Company shall pay interest on such cash deposit at the rate established by the Illinois Commerce Commission pursuant to 83 Illinois Administrative Code Part 280. The parties agree that the cash deposit provided for in this Paragraph 6 is not a deposit as that term is used in the Commission's rules and regulations at 83 Illinois Administrative Code Part 280, and, except as to the applicable interest rate, such rules and regulations do not govern the manner in which the cash deposit is remitted and used pursuant to this Contract.

c. Parental Guaranty. If such assurances are in the form of a parental guaranty, then such parental guaranty shall be in a form and issued by a guarantor acceptable to Company in its reasonable judgment. If, at any time, the guarantor's rating of its long-term unsecured debt (unsupported by third party credit enhancement) falls below BBB as rated by Standard & Poor's Corporation or below Baa2 as rated by Moody's, then SVT Supplier must promptly substitute a cash deposit or letter of credit for the parental guaranty; provided, that in event of a split rating by Standard & Poor's Corporation and Moody's, only the lower of the two ratings shall be deemed to be guarantor's applicable rating.

7. Receipt Point. Company agrees to receive SVT Supplier-owned gas for the purpose of service under Rider AGG at any Receipt Point, subject to the Operational Integrity provision of Company's Schedule of Rates.

8. Delivery Point. SVT Supplier-owned gas transported by Company under this Contract shall be delivered to Rider SVT Customers by Company at the Delivery Point.
9. Rider SVT Customer Information. SVT Supplier acknowledges that it is required by Rider AGG to submit certain information to Company by electronic data transmission in a manner determined by Company. If any transmitted data are received in an unintelligible or garbled form, then Company shall notify SVT Supplier. SVT Supplier may then retransmit the data. Company shall not be liable for any consequences associated with or resulting from such unintelligible or garbled data, and Company shall have no responsibility to enroll any Customer of Record for service under Rider SVT until the necessary data are received in intelligible form.
10. Delivery Data. In order to establish the quantity of SVT Supplier-owned gas accepted into Company's system, the parties agree as follows:
  - a. Each Gas Day during the term of this Contract, SVT Supplier shall be required to deliver to Company a quantity of gas equal to the Required Daily Delivery Quantity.
  - b. If SVT Supplier elects to submit delivery data by facsimile, then no later than 10:30 a.m. Central Time one (1) day prior to the Gas Day for which SVT Supplier has scheduled deliveries by Transporter into Company's system, SVT Supplier shall provide Company a report in the format required by Company of any daily quantity to be delivered on SVT Supplier's behalf by Transporter to the Receipt Point. If SVT Supplier elects to submit delivery data using Company's electronic bulletin board, then the applicable deadline is 11:30 a.m. Central Time.
  - c. If the delivery quantity reported to Company by SVT Supplier for a particular Gas Day does not reconcile with the downstream or upstream quantity reported by a corresponding party, then Company, in its discretion, shall either accept the smaller quantity into Company's system or reject the nomination change if the discrepancy is not reconciled prior to 3:30 p.m. Central Time on the Gas Day prior to the effective Gas Day.
  - d. SVT Supplier agrees that delivery data provided in accordance with this Paragraph 10 shall be deemed final and binding as between SVT Supplier and Company for billing and all other purposes. When delivery data received by Company are insufficient to determine the quantity of SVT Supplier-owned gas delivered to Company, then, in addition to any other remedies available to it, Company may, by such reasonable method as it may choose, including by estimation, determine SVT Supplier's daily and monthly delivery quantity; such determination shall be final and

binding as between SVT Supplier and Company for billing and all other purposes. Company shall not be obligated to accept any retroactive changes in delivery data. Any imbalances, discrepancies or disputes relating to delivery data shall be resolved exclusively between Transporter and SVT Supplier.

e. Company may revise the deadlines set forth in this Paragraph 10 by prior written notice to SVT Supplier in order to conform to generally applicable deadlines in effect for Company's transportation customers.

11. Quality and Pressure. The SVT Supplier-owned gas delivered by Transporter at each Receipt Point shall meet the minimum quality and pressure specifications contained in Transporter's Tariff. The gas delivered by Company under this Contract shall meet the minimum quality and pressure specifications contained in Company's Schedule of Rates.
12. Measurement. SVT Supplier shall make gas available to Company, as nearly as practicable, at uniform hourly rates of flow. SVT Supplier-owned gas delivered to Company by Transporter at each Receipt Point shall be measured by Transporter in accordance with the terms of Transporter's Tariff and metering practices applicable to deliveries to Company. The gas delivered by Company to Rider SVT Customers in SVT Supplier's Pool(s) under this Contract shall be measured in accordance with Company's Schedule of Rates.
13. Billing Statement. Company shall issue to SVT Supplier a billing statement each month of the amount due for all service rendered under this Contract during the preceding billing period. The amount due under this Contract shall be determined in accordance with the measurements, computations and charges provided in this Contract. To the extent that actual data are unavailable for any portion of a billing period, Company may render its billing statement based on estimated data. Company shall mail the billing statement to SVT Supplier at the address set forth in Paragraph 17. For purposes of billing and payment, service under this Contract shall be deemed "non-residential" service.
14. Indemnity. SVT Supplier shall indemnify Company, its officers, directors, and employees and save each of them harmless from all suits, actions, debts, accounts, damages, costs, losses and expenses, including court costs and attorneys' fees, arising from or out of the purchase and transportation of SVT Supplier-owned gas prior to its receipt by Company at the Receipt Point, including, without limitation, balancing or scheduling charges or penalties on Transporter's system.
15. Control and Possession of Gas. As between the parties to this Contract, Company shall be deemed to be in control and possession of the gas deliverable to SVT Supplier under this Contract from the time of its receipt by Company at the Receipt Point until its delivery to the

Delivery Point(s). Company shall have no responsibility with respect to such gas prior to its receipt at the Receipt Point, at and after its delivery to the Delivery Point or on account of anything that may be done, happen or arise with respect to such gas prior to such receipt or after such delivery.

16. Title to Gas. As between Company and SVT Supplier, SVT Supplier shall at all times be deemed to have title to the gas delivered to Company at the Receipt Point. SVT Supplier warrants that it has good title to or the right to deliver all gas received by Company at the Receipt Point under this Contract, free and clear of all liens, encumbrances and claims whatsoever, and that it shall indemnify Company, its officers, directors, and employees and save each of them harmless from all suits, actions, debts, accounts, damages, costs, losses and expenses, including court costs and attorneys' fees, arising from or out of adverse claims of any or all persons to said gas or to royalties, taxes, license fees or charges thereon that are applicable prior to the receipt of such gas by Company.

17. Notices.

a. Company. Notices (except nominations) to Company shall be sent by facsimile or mail to:

The Peoples Gas Light and Coke Company 130 East Randolph Drive 22nd Floor Chicago, Illinois 60601	
Attn:	Gas Transportation Services, Choices For You <sup>sm</sup>
Telephone:	(312) 240-7546
Facsimile:	(312) 240-4704

Nominations shall be sent by facsimile or by use of Company's electronic bulletin board to:

The Peoples Gas Light and Coke Company 130 East Randolph Drive 22nd Floor Chicago, Illinois 60601	
Attn:	Gas Transportation Services
Telephone:	(800) 264-8026
Facsimile:	(312) 240-4704

b. SVT Supplier.

Notices to SVT Supplier shall be posted on Company's electronic bulletin board or sent by facsimile or mail to:

Utility Resource Solutions, L.P. 675 Bering, Suite 700 Houston, Texas 77057	
Attn:	KAREN PLETZER
Telephone:	713-977-4710
Facsimile:	713-977-7850
e-mail:	KAREN@URSLP.COM

Required Daily Delivery Quantity information shall be posted on Company's electronic bulletin board or sent by facsimile or e-mail to:

Attn:	Debbie INCOPERO
Telephone:	630-588-0520
Facsimile:	630-588-0530
e-mail:	dincopero@interaccess.com

Invoices shall be sent by mail to:

Utility Resource Solutions, L.P. 675 Bering, Suite 700 Houston, Texas 77057	
Attn:	KAREN PLETZER
Telephone:	713-977-4710
Facsimile:	713-977-7850

18. Government Regulation.

- a. If any regulatory body, governmental entity or agency having jurisdiction prohibits any of the transactions described in this Contract or otherwise conditions such transactions in a form that is unacceptable in the sole judgment of the party affected thereby, then the

party so affected may prospectively terminate this Contract immediately by written notice stating the date of such termination.

- b. This Contract and all provisions herein shall be subject to all applicable and valid statutes, rules, orders and regulations of any regulatory body, governmental entity or agency having jurisdiction over either party's facilities or services, this Contract or any provisions hereof. Neither party shall be held in default for failure to perform under this Contract if such failure is due to compliance with such statutes, rules, orders and regulations of any regulatory body, governmental entity or agency having jurisdiction.
  - c. Subject to Paragraph 18(a), should either party by statute, rule, order or regulation be ordered or required to do any act inconsistent with the provisions of this Contract, this Contract shall be deemed modified to conform with such statute, rule, order or regulation. Nothing in this Contract shall prevent either party from contesting the validity of any such statute, rule, order or regulation, nor shall anything in this Contract be construed to require either party to waive its right to assert the lack of jurisdiction of any regulatory body, governmental entity, or agency over this Contract or any party hereto.
19. Non-Waiver and Future Default. No waiver by either Company or SVT Supplier of any one or more defaults by the other in the performance of any provision of this Contract shall operate or be construed as a waiver of any future default or defaults, whether of a like or a different character.
20. Assignment of Contract. No party may assign this Contract except with the prior written consent of the other party.
21. Governing Law. This Contract shall be construed and enforced in accordance with the laws of the State of Illinois without regard to principles of conflicts of law. The parties agree that the forum of any litigation shall be before the Illinois Commerce Commission, or any successor to that agency, or in a state or federal court located in Cook County, in the State of Illinois.
22. Third Party Beneficiary. Company and SVT Supplier agree that there is no third party beneficiary of this Contract and that the provisions of this Contract do not impart enforceable rights to anyone who is not a party.
23. Entire Agreement of the Parties. This Contract constitutes the entire understanding of the parties. No amendment, modification or alteration shall be binding unless the same be in writing, including in the form of an amendment to this Contract signed by both parties or a revision to Company's Schedule of Rates approved or permitted to become effective by the Illinois Commerce Commission, or any successor to that agency and no course of dealing or course of performance between the parties shall be construed to alter the terms of this Contract.

Notwithstanding the foregoing, modifications pursuant to Paragraph 10(e) or changes to the information set forth in Paragraph 17 must be in writing but need not be signed by both parties.

24. Captions. The captions are inserted for convenience of reference only and shall not affect the construction or interpretation of this Contract.

IN WITNESS WHEREOF, the parties hereto have caused the Contract to be executed in duplicate by a duly authorized representative.

The Peoples Gas Light  
and Coke Company

By: WKM  
(signature)

By: \_\_\_\_\_  
(signature)

Name: W. KEITH MAXWELL  
(print or type)

Name: Desiree Rogers

Title: DIR OF OPERATIONS

Title: Senior Vice President

Date: 10/15/02

Date: \_\_\_\_\_

# ***Texex Energy Partners, Ltd.***

***Consolidated Financial Statements for the Years  
Ended December 31, 2001 and 2000 and  
Independent Auditors' Report***

Deloitte & Touche LLP  
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Houston, Texas 77002 4196

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**Deloitte  
& Touche**

## INDEPENDENT AUDITORS' REPORT

To the Partners of  
Texex Energy Partners, Ltd:

We have audited the accompanying consolidated balance sheets of Texex Energy Partners, Ltd. (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of income, partners' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Texex Energy Partners, Ltd. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

April 29, 2002

Deloitte  
Touche  
Tohmatsu

# TEXEX ENERGY PARTNERS, LTD.

## CONSOLIDATED BALANCE SHEETS, DECEMBER 31, 2001 AND 2000

ASSETS	2001	2000
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,710,425	\$ 5,683,427
Accounts receivable	5,066,306	15,025,465
Inventories	703,609	8,929
Assets from Price Risk Management Activities	8,400,349	
Other assets	3,719,955	
Total current assets	20,600,644	20,717,821
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	556,903	544,179
PROPERTY AND EQUIPMENT	33,233	46,136
TOTAL	<u>\$21,190,780</u>	<u>\$21,308,136</u>
<b>LIABILITIES AND PARTNERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 6,352,551	\$ 15,287,232
Liabilities from Price Risk Management Activities	4,228,524	
Loan Payable	2,000,000	
Accrued liabilities	475,686	2,907,027
Total current liabilities	13,056,761	18,194,259
PARTNERS' EQUITY	8,134,019	3,113,877
TOTAL	<u>\$21,190,780</u>	<u>\$21,308,136</u>

See notes to consolidated financial statements.

# TEXEX ENERGY PARTNERS, LTD.

## CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
SALES	\$ 164,293,950	\$ 136,011,951
COST OF SALES:		
Gas purchases	158,067,512	132,629,502
Transportation	930,503	1,652,889
Broker fees	147,000	307,000
Total cost of sales	159,145,015	134,589,391
Gross profit	5,148,935	1,422,560
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	1,262,728	915,028
Operating profit	3,886,207	507,532
OTHER INCOME:		
Equity income from unconsolidated affiliate	104,410	345,548
Interest income	94,167	154,598
Other	97,858	110,680
Total other income	296,435	610,826
NET INCOME	\$ 4,182,642	\$ 1,118,358

See notes to consolidated financial statements.

**TEXEX ENERGY PARTNERS, LTD.**

**CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	General Partners	Limited Partners	Total
BALANCE, DECEMBER 31, 1999	\$11,219	\$ 2,358,086	\$ 2,369,305
Capital contributions		900,000	900,000
Distributions to Partners		(1,273,786)	(1,273,786)
Net income	<u>11,184</u>	<u>1,107,174</u>	<u>1,118,358</u>
BALANCE, DECEMBER 31, 2000	22,403	3,091,474	3,113,877
Capital contributions	10,133	1,005,166	1,015,299
Distributions to Partners		(177,797)	(177,797)
Net income	<u>41,826</u>	<u>4,140,816</u>	<u>4,182,642</u>
BALANCE, DECEMBER 31, 2001	<u>\$74,362</u>	<u>\$ 8,059,659</u>	<u>\$ 8,134,021</u>

See notes to consolidated financial statements.

# TEXEX ENERGY PARTNERS, LTD.

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 4,182,642	\$ 1,118,358
Equity income from investment in unconsolidated affiliate	(104,410)	(345,548)
Depreciation and amortization	12,903	18,279
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities - changes in operating assets and liabilities:		
Decrease in accounts receivable	9,959,159	(8,759,038)
Increase in inventories	(694,680)	(5,514)
Increase in assets from price risk management activities	(8,400,349)	
Increase in other assets	(3,719,955)	
Decrease in accounts payable	(8,934,681)	9,324,420
Increase in liabilities from price risk management activities	4,228,524	
Decrease in accrued liabilities	<u>(2,431,341)</u>	<u>2,494,509</u>
Net cash (used in) provided by operating activities	<u>(5,902,188)</u>	<u>3,845,466</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Contributions to investments in unconsolidated affiliates	(125,288)	(73,872)
Distributions from investment in unconsolidated affiliates	<u>216,972</u>	<u>817,026</u>
Net cash provided by investing activities	<u>91,684</u>	<u>743,154</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Short-term borrowings	2,000,000	
Partners' contributions	1,015,299	900,000
Distributions to partners	<u>(177,797)</u>	<u>(1,273,786)</u>
Net cash provided by (used) in financing activities	<u>2,837,502</u>	<u>(373,786)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,973,002)	4,214,834
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>5,683,427</u>	<u>1,468,593</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 2,710,425</u>	<u>\$ 5,683,427</u>

See notes to consolidated financial statements.

## TEXEX ENERGY PARTNERS, LTD.

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

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#### 1. ORGANIZATION

Texex Energy Partners, Ltd. (the "Company") is a full-service marketing organization that purchases, transports, and sells natural gas primarily in the Gulf Coast, Midwest, East Coast, and New England markets. The Company was formed pursuant to the May 15, 1998 "Texas Revised Limited Partnership Act" and began operations on August 1, 1999 ("date of inception"). The Company received capital contributions from its partners of cash, property and equipment, and limited partnership interests.

On November 1, 2001, the Company was assigned a 99% partnership interest in Utilities Resource Solutions, Ltd. ("URS"). The result of operations of URS are included in the Company's financial statements from the date of assignment. Had the results of URS been included in the Company's consolidated financial statements from the date of inception of URS, the Company's revenues and net income would have been increased by \$7,452,075 and \$25,555 respectively. URS provides natural gas to end-use retail customers predominately in the Midwest and East Coast markets. URS was formed pursuant to the May 15, 1998 "Texas Revised Limited Partnership Act" and began operations on January 17, 2001. The Company purchases natural gas on behalf of URS from utility companies and URS sells to retail customers.

The partners share operating profits and losses in direct proportion to their respective ownership interests.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Cash and Cash Equivalents* - For purposes of the statement of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

*Investments in Unconsolidated Affiliates* - The Company invests as a limited partner in various partnerships. These investments are recorded at cost and subsequently carried at either the original recorded value or net realizable value, if lower. The equity method is used to account for the Company's investment in Engroup Resources, L.P. because the Company has the ability to exercise significant influence over the investee's operating and financial policies. All other investments are accounted for under the cost method because the Company does not have the ability to exercise significant influence over the investee's operating and financial policies.

*Property and Equipment* - Property and equipment consists of an automobile recorded at cost and will be depreciated using the straight-line method based on an estimated useful life of five years.

*Revenue Recognition* - Revenue is recognized by the Company using the following criteria: (a) persuasive evidence of an exchange arrangement exists, (b) delivery has occurred or services have been rendered, (c) the buyer's price is fixed or determinable, and (d) collectibility is reasonably assured. Utilizing these criteria, revenue is recognized when products are shipped or services are rendered. The Company's products and services are generally sold based upon signed contracts that have fixed or determinable prices and contain no right of return or significant post-delivery obligations. When the

contracts settle (i.e., services designated in the contract have been performed), a determination of the necessity of an allowance is made and recorded accordingly.

**Income Taxes** - The Company is classified as a partnership for federal income tax purposes. Therefore, income taxes are not levied at the Company level but, rather, on the individual owners ("Partners") of the Company. Accordingly, the accompanying financial statements do not include a provision for income taxes.

**Purchase and Sale Commitments** - The Company enters into various firm purchase and sale commitments for natural gas. Management does not anticipate that the execution of such transactions will result in any significant losses based on current market conditions.

**Accounting for Energy Contracts** - The Company follows the provisions of Emerging Issues Task Force Issue 98-10, "Accounting for Energy Trading and Risk Management Activities." The partnership utilizes mark to market accounting for its commodity contracts and derivative financial instruments. Under such method, these contracts and financial instruments are recorded at fair value based on estimates made at the discrete points in time based on relevant market information. Changes in the market value of these contracts are recognized in sales during the period of change. The resulting unrealized gains and losses are recorded as assets and liabilities from price risk management activities in the balance sheet. During the year ended December 31, 2001, the Company recognized trading gains of \$3,678,995. At December 31, 2001, trading assets and liabilities recognized on the balance sheet were \$8,400,349 and \$4,228,524, respectively.

**Reclassifications** - Certain reclassifications have been made to prior year's financial statements to conform to the current year presentation.

**Use of Estimates and Assumptions** - Use of estimates and assumptions by management that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period are required for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates.

**Fair Value of Financial Instruments** - The Partnership's financial instruments at December 31, 2000, consisted of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities. The carrying amounts of the partnership's financial instruments approximate their fair values because of the short-term maturities of such instruments.

### 3. CREDIT ARRANGEMENTS

The Company and URS have a combined letter-of-credit facility with a bank. This facility is used for the purchase of natural gas by securing payments to suppliers. The facility is secured by cash, accounts receivable, and other assets of the Company. The amount of letters of credit issued and outstanding for product purchases at December 31, 2001 and 2000 were \$15,409,764 and \$14,096,000, respectively.

No liability is recorded for such outstanding letters of credit unless they are drawn upon by the customers of the Company. As of December 31, 2001, the Company had \$2,000,000 drawn on the line of credit, payable in January 2002, with an interest rate of 5.75%. The Company repaid this borrowing during January 2002.

As of December 31, 2001, the Company believes it was in compliance with all debt covenants under the credit facility.

#### 4. RISK MANAGEMENT

*Commodity Risk Management* - The Company engages in the trading of natural gas and experiences open positions at any given date. The Company manages open positions with strict policies which limit its exposure to market risk. In addition, there is continuous day-to-day involvement by senior management in these activities. The average life of the Company's gas risk portfolio was approximately 5 months at December 31, 2001.

*Market and Credit Risk* - The Company is subject to the risks inherent in the industry in which it operates, primarily, fluctuating prices of natural gas. These prices are subject to fluctuations in response to changes in supply, market uncertainty, and a variety of additional factors that are beyond the control of the Company. The credit risk exposure from counterparty nonperformance on natural gas forward contracts is generally the amount of unrealized gains under the contracts.

#### 5. RECENT ACCOUNTING DEVELOPMENTS

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, will be required to be recorded on the balance sheet at fair value. Adoption of SFAS No. 133, as amended, has not had, nor is it expected to have a material impact on the Company's results of operations, financial position, or cash flows.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and broadens the criteria for recording intangible assets separate from goodwill. The adoption of SFAS No. 141 did not have an impact on the Company's historical results of operations or financial position. SFAS No. 142 provides for a nonamortization approach, whereby goodwill and certain intangibles with indefinite lives will not be amortized into results of operations, but instead will be reviewed periodically for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles with indefinite lives is more than its fair value. At December 31, 2001, there was no goodwill or other intangibles recorded on the Company's books; therefore, the adoption of SFAS No. 142 on January 31, 2002 is not expected to have any impact on the Company's results of operations or financial position.

\* \* \* \* \*

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Texas Limited Partnership

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