

Strategic Advantages

- **More control of total physical market (SC, SJ, Perm, WAHA, Katy, HSC)**
- **Valero assets provide 0.45 Bcf/day of deliverability to Waha/Permian, resulting in increased optionality for Valero capacity.**
- **Ability to influence the physical market to the benefit of any financial hedge/position.**
- **Various supply source options (e.g. Perm, S.J. Anadarko)**
- **Greater influence on intra-month spreads**
- **R.O.F.R. would act as hedge against future term deals.**
- **Transport with R.O.F.R. would enable us to be more aggressive in pursuing power plant/cogen deals.**

Challenges

- **5.5 Bcf of market being served by 7 Bcf of capacity - El Paso & Transwestern act as swing supply pipes**
- **Currently have minimal physical supply and market contracts**
- **Corporation does not lay off any risk if marketing takes over transport**
- **Don't know if there is sufficient financial liquidity to either hedge transport or to justify idling large blocks of transport**
- **Storage needed to help manipulate physical spreads, adding to overall transport/storage cost**
- **Will have to immediately bid financial spread to support the basis position**
- **Hire additional cash traders**