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

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.