

Martha Wyrsh

President and CEO / Duke Energy Gas Transmission

Remarks for Panel I: Katrina, Rita and the Winter Beyond

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Good morning and thank you for this opportunity to present to you today.

I am Martha Wyrsh, president and CEO of Duke Energy Gas Transmission.

We operate more than 17,500 miles of natural gas transmission pipelines from Texas to New England.

We own an interest in the Maritimes and Northeast pipeline which brings natural gas from eastern Canada to serve New England, and the Gulfstream pipeline which serves the expanding Florida market.

We own and operate approximately 250 billion cubic feet of natural gas storage capacity.

And we also own and operate two significant businesses in Canada—a natural gas gathering, processing, and transportation business in British Columbia and Alberta, and Union Gas, a local distribution business in Ontario.

Hurricanes Katrina and Rita have had a significant impact on the complex web of gathering lines, processing plants, pipelines and local distribution networks in North America that move natural gas from the well head to the customer and end user.

Impact on People

At the heart of our web of natural gas infrastructure is a team of people dedicated to delivering natural gas to markets every day. It is impossible to quantify the human pain and suffering that the twin storms have inflicted on people – including the people who run our natural gas systems.

Before I begin discussing the impacts that Katrina and Rita have had on supply and facilities, I want to take a moment to commend the resiliency and resourcefulness of all those who are working around the clock to get the Gulf Coast area back up on its feet.

I am especially proud of my colleagues at Duke Energy Gas Transmission.

I have spent time in the Gulf Coast visiting with our employees in areas hard hit by both hurricanes. These employees have put aside their personal needs and are focused and committed to getting the natural gas systems back to business as usual. I applaud their courage and their dedication.

Impact Rippled Across North America

The impacts of Katrina and Rita as they crossed directly over major zones of natural gas production, processing and transportation have been felt

far and wide in the Duke Energy Gas Transmission marketplace – spreading wider than the geographical area of their passage. Here are just a few examples of that ripple effect.

In our markets off of the Gulfstream pipeline in Florida, we saw a generating advisory issued in an effort to re-balance supply and demand. Florida was impacted by supply crunches in fuel oil, natural gas and coal.

In southeast New Mexico – as Rita drew near, we saw gathering and processing facilities shut-in because refineries and fractionators along the Gulf Coast were evacuating locations in the path of the storm, resulting in a lack of natural gas liquids take-away capacity.

In Ontario, regulators of our Union Gas distribution company are calling for utilities to demonstrate their readiness for tight supply access should we see a difficult winter.

Overview of Impact on the Industry

Let me try to describe some of the destruction that we are now coping with in the Gulf Coast region.

The MMS has told us that 3,050 of the 4,000 platforms that they administer were in the path of the storms. Almost all the gas pipeline and processing facilities in South Louisiana were impacted by one or both of the hurricanes.

Some of the damage was minor. But, some was more significant – offshore pipeline leaks, flooded processing plants, lost or damaged offshore platforms and power outages at locations with electric-driven compressors.

Overall, the natural gas industry is facing the reality that these two storms downed almost 80 percent of processing plant capacity and 50 percent of throughput from the Gulf of Mexico.

There are still short-term capacity restrictions on many pipes.

And supply won't pick up until shut-in offshore production is brought back online and the ability to process to pipeline specification is restored.

Damaged platforms may take many months to repair. And some processing plant repairs may not be completed this winter. Over the long-term, there will be supply reductions.

Impact on Duke Energy Gas Transmission

That's a big picture overview. Let me now focus for a minute on the impacts of these storms on DEGT's Texas Eastern Pipeline system and supply coming onto our system.

I'll start with Katrina.

Katrina impacted the offshore and onshore natural gas production system, gathering systems and a major processing plant, causing significant loss of offshore supply onto our Texas Eastern Pipeline. While Texas

Eastern's systems suffered relatively minor damage – primarily from wind – much of the infrastructure we rely upon to get gas into our pipeline was hard hit.

In particular, Dynegey's Venice Processing Plant was flooded in Katrina and re-flooded in Rita – and remains out of service. All of our volumes on systems upstream of Venice that require processing are still shut in, although we are told that production from offshore platforms along our South Pass offshore pipeline is near ready to flow and we are working to find other processing options to ensure we can take that gas when it ready.

Prior to Rita, the rest of our Texas Eastern system was operating normally.

As we took note of Rita's category 5 status and the possible path of destruction, we moved to protect the integrity of our systems and our assets.

Most of our compressor stations in Texas and Louisiana are manned locations and had to be shut in before the storm due to mandatory evacuations in the areas near the stations, resulting in the shut-in of onshore production of approximately 500 million cubic feet per day of production in Texas and Louisiana.

Although the impact of Rita on the industry was substantial, Duke was again fortunate as compared to many of our colleagues in the industry – our

facilities came through with relatively little damage, though our throughput is down substantially because production and processing is not yet fully operational.

The producers were impacted. EIA production data show that overall shut-in production in the Gulf is now at around 6.4 Bcf/d – about 64 percent of total Gulf production.

Gas processing was impacted. Two of the three key processing plants in the Gulf region which are utilized by Texas Eastern were damaged. The Iowa Processing Plant, which is partially owned by Duke, was flooded, but does not appear to have sustained major damage and should be running in the next few weeks. The Wilcox Processing Plant was not impacted by the storm and was able to restart shortly after. But as I said earlier, the Venice Plant was flooded – again – delaying cleanup and repair efforts.

We did have some damage to our pipelines from Hurricane Rita. On our Texas Eastern pipeline system, our Grand Chenier and Larose compressor stations were both flooded with several feet of water and we will require several weeks to complete repairs.

While power outages persist in southeast Texas and southwest Louisiana, all of our mainline compressor stations were able to quickly return to service with onsite emergency generators.

And we have seen supply coming back on. As of October 10, supply onto our Texas Eastern system was off 510 Mcf/d, primarily offshore production.

Having a half of a Bcf per day of production off is far better than the 1.13 Bcf per day of production which was off immediately after Hurricane Rita. However, it is important to recognize, as you hear these statistics, that a half of a Bcf of production per day accounts for approximately 12 percent of Texas Eastern's total deliveries in the Market area on peak delivery days. This is a shortfall that market area storage will not be able to fill.

Impact on Supply and Storage

The speed with which the shut-in production comes back online will be a significant factor for the upcoming winter. A review of recent history may give us some perspective.

In 2004, both oil and natural gas were impacted by Hurricane Ivan. But the recovery of operations was quick, and the industry resumed relatively normal operations within weeks. In fact, within two months systems had returned to normal levels.

We are not seeing that in the post Katrina and Rita environment.

The overall impact has been more severe and the lost production for both oil and natural gas is lasting longer. How quickly this can be reversed is the big question.

There is some good news, however. Storage inventories - both in market and supply areas – looks fairly healthy.

The difference between this year's EIA storage inventory and the high range of the five-year average is not that significant.

Our Dawn Storage field which is a 150 Bcf storage field provides market area storage to both Ontario and the northeast US is at 90% full, as compared to 88% in 2004.

We have seen an interesting dynamic in the market, however.

Working gas in storage was 2,929 Bcf as of Friday, September 30, 2005, according to EIA estimates. This represented a net increase of 44 Bcf from the previous week. Of this increase, 35 Bcf was in the East region while only 4 Bcf was in the Producing region. As Rita approached, Duke saw a significant pull from our supply area storage fields, as customers worked to fill their market area storage. The good news about this is that market area storage is now nearly full for winter (81% full) and our production areas salt cavern storage can refill within 30 days.

And, at 2,929 Bcf, total working gas is within the five-year historical range, and forecasters are predicting a November 1 inventory in the range of 3,125 Bcf.

As of September 30, storage stocks in the EIA's Producing Region were 9 Bcf above the five-year average of 778 Bcf, while stocks in the EIA's East region were 23 bcf above the 5 year average.

Our Texas Eastern inventories match last year's levels.

Impact on Price

Let's turn briefly to price – which is the ultimate indicator of value and the ultimate balancer of supply and demand. I won't spend too much time on this topic since it has already been discussed, but, I would like to mention a few points.

The hurricanes had an immediate impact on natural gas prices, as can be seen by looking at the January 2006 Henry Hub price. While the price for January 2006 increased throughout the year reflecting market concerns about the supply-demand balance, the price escalated dramatically after each of the Hurricanes to a level that is now approximately \$14 per MMbtu.

And with current prices near \$14 per MMBTU, the market has quantified the anxiety that exists about our ability to meet current demand with a supply chain that has been impacted by Hurricanes Katrina and Rita.

Supply and demand are meeting at a completely different price point these days.

In this environment of high prices and potentially tight supply, Texas Eastern will need to be proactive in monitoring and managing system imbalances to prevent loss of line pack due to market area deliveries exceeding receipts into the system.

To maintain this balance, Texas Eastern will issue operational flow orders as necessary. However, currently our OFO penalty is capped at \$25 per dth. In a high price environment this is not a deterrent, and we will be seeking a change in our penalty tariff provisions.

Industry Focus

As an industry, we are inter-connected and inextricably bound to one another. To minimize the adverse impact of these hurricanes, we need to coordinate our effects by prioritizing the work, so that all segments of our industry – producers, processors and transporters – are working together to get more natural gas flowing at the earliest possible date. On a real time basis, we will need to help our customers maximize their transportation rights as they seek to resource gas at alternate locations.

In this we need the help of the FERC. This is not the time to endeavor to conduct business on our electronic bulletin boards. Now is the time for person-to-person communication.

We are mindful and respectful of the need to ensure that information shared with one party be shared with all. However, in times like these the industry would benefit from knowing that critical conversations relating to repairs on a hurricane-damaged facility which occur between impacted producers, pipelines, processors and customers will be allowed to occur in a timely fashion and the level of detail needed to ensure quick recovery of a facility won't be compromised because people are unsure about whether such information must be made available through public postings. Under Order No 2004, the industry is at times paralyzed because of the severe penalties which can be brought – even when a disclosure is inadvertent and done for the purpose of getting gas back online quickly. Duke and other INGAA members will be glad to discuss affirmative steps that the Commission can take to address this problem.

Conclusion

I've had several people ask me what I am wishing for as the winter approaches.

I am wishing for a mild October and mild November so we can get storage completely filled and can avoid drawing on it until the heart of the winter season.

I am wishing for quick completion of repairs to the electric transmission and distribution infrastructure along the Gulf.

I am wishing for quick completion of repairs on those production and processing facilities directly hit by the storms, so that more pipeline quality gas is flowing from the Gulf by December 1.

I am wishing all of you who live on the east coast are playing golf in shirt sleeves on Thanksgiving Day.

Thank you.