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APRIL 1, 2009

TO: BOARD OF DIRECTORS

THROUGH: ROGER SNOBLE
CHIEF EXECUTIVE OFFICER

FROM: TERRY MATSUMOTO
CHIEF FINANCIAL SERVICES OFFICER AND TREASURER

SUBJECT: NATURAL GAS HEDGING PROGRAM

ISSUE

The Natural Gas Hedging Program (the "Hedging Program") requires that reports be provided to the Board quarterly in compliance with the Hedging Program guidelines and to report performance of the program.

DISCUSSION

The purpose of this report is to present the status of compliance and performance for the hedged portion of our compressed natural gas (CNG) budget. Operations related variances are presented in order to provide an overall perspective for CNG costs.

The objective of the Hedging Program is to provide "budget certainty" for fuel and to help establish the CNG budget in the upcoming year by locking in most of the cost in advance. Budget certainty is accomplished by utilizing a hedging instrument known as a commodity swap for most of the planned volume for each fiscal year.

As of December 31, 2008, we had executed all six planned hedge transactions for FY10. A summary of the currently outstanding hedge transactions is provided below. The positive/(negative) market values indicate the amount we would receive/(pay) on termination. The rates listed in the table reflect the hedge contract fixed rates and exclude the delivery cost and state mandated charges, which are currently $0.104 per therm.

Quarterly Summary of Outstanding Hedge Transactions
Valuation as of December 31, 2008

Period Hedged	Provider	Credit Ratings (S&P, Moody's, Fitch)	Contract Fixed Rate per Therm	Remaining Therms	Current Market Value*
FY09	JP Morgan/Bear Energy	A+/Aa2/AA- [1]	$0.8210	19,110,000	-$5,499,327
FY09	BP Corp.	AA/Aa2/----	$0.8165	10,101,000	-$2,865,377
FY09	Barclays Bank PLC	AA-/Aa1/AA [1]	$0.7410	10,527,000	-$2,271,643
FY10	Bank of America, N.A.	AA-/Aaa/AA- [1]	$0.8500	8,760,000	-$1,979,512
FY10	BP Corp.	AA/Aa2/----	$1.0120	8,760,000	-$3,297,539
FY10	BP Corp.	AA/Aa2/----	$1.0650	8,760,000	-$3,728,745
FY10	BP Corp.	AA/Aa2/----	$0.9420	8,760,000	-$2,728,021
FY10	RBC Capital Markets	AA-/Aaa/AA	$0.8265	8,760,000	-$1,788,317
FY10	BP Corp.	AA/Aa2/----	$0.6390	12,290,000	-$398,837
Total					-$24,557,322

*Monthly LIBOR rate used.

Compliance

As of the date of this report the Hedging Program is in compliance with all the specified limitations and requirements. The individual compliance items are listed on Attachment A.

Performance

For the quarter, CNG costs were $490,000 under budget as a result of a $1,023,000 unfavorable variance for hedge performance combined with a favorable $1,514,000 variance for unhedged purchases that resulted from purchasing less than the budgeted amount of therms. For the quarter 13,401,000 therms were hedged out of 14,158,000 actually consumed, for a hedge ratio of 94%. See Attachment B.

Hedge performance for the quarter was unfavorable by $1,023,000 because the variable rates received from the hedge were less than the monthly rates paid to the Gas Company. This difference is referred to as "basis variance". Hedge performance is our fixed rate payments to the hedge provider, plus actual payments for gas purchases, minus variable rate payments received from the hedge provider at the monthly index rates.

The budget for the quarter included 2,330,000 of unhedged therms while the actual amount of unhedged therms purchased was only 786,000. The unhedged therms were purchased at an average rate of $0.741 per therm versus $0.90 in the budget. The underrun of therms usage and lower rate provided a favorable variance of $1,543,000 for unhedged therms.

For information purposes only, if we had not hedged the CNG, the variance would have been a favorable $4,077,000, as opposed to a favorable $490,000. The difference is the result of the lower market rate of $0.676 during the quarter compared to the budgeted rate of

[1] See table in Attachment A, Counterparty Credit Ratings, for subsequent ratings changes.

$0.90. Therefore hedging produced a cost about 42% higher or $4,077,000 more than if we had not hedged.

For the 2nd quarter of FY09 the hedging program performed as intended and stabilized the actual rate per therm just over the budgeted rate of $0.90. During the quarter prices in the spot market ranged from $0.54 to $0.76 per therm.

NEXT STEPS

- Extend program for FY11 and take bids for hedges following Board action.

ATTACHMENTS

A. Program Compliance
B. Quarterly Summary of CNG Costs and Variances

Prepared by: Michael J. Smith, Assistant Treasurer

Attachment A

Program Compliance

Maximum Trade Maturity - was 24 months vs. policy max of 30

Hedge Ratio - is 94% vs. policy range of 90% to 100%

Maximum Trade Amount – All trade amounts have been in compliance with the Hedging Program guidelines. The two initial trades made in June 2007 were larger than the average directed by the policy because they included hedge amounts that would normally have been spread across multiple periods. The larger trades were necessary in order to get the program on schedule to have the rates locked in prior to the budget development process. The authorization for the Hedging Program provided an exception for the size and timing of the initial trades.

Frequency of Trades – Bids were taken six times per year for the FY10 hedges. The policy provides a range of two to six bids per year.

Timing of Trades – Timing will be equally spaced and occur approximately every other month.

Counterparty Credit Ratings – Credit ratings have been lowered for certain counterparties over the quarter.

Summary of Credit Ratings
(S&P/ Moody's / Fitch)

Provider	As of Last Report FY09-Q1	For Current Report FY09-Q2
Bank of America, N.A.	AA-/Aaa/AA-	A+/Aa3/AA-
Barclays Bank PLC	AA-/Aa1/AA	A+/A1/AA-
BP Corp. North America	AA/Aa2/----	AA/Aa2/----
JP Morgan/Bear Energy	A+/Aa2/AA-	A+/Aa3/AA-
RBC Capital Markets	AA-/Aaa/AA	AA-/Aaa/AA

Collateral Requirements – Requirements to post collateral are based on credit ratings of the counterparties. The threshold is $25 million for counterparties rated "A-/Aa3" or better. The current market values of the trades are under the $25 million threshold, so no collateral is required.

Re-Confirm Assumptions – Assumptions have been reconfirmed for factors that would affect the Gas Company's cost of gas and reduce the correlation between the Gas Company's cost and the pricing index the hedges are tied to. There have not been any changes that would cause us to change our assumptions.

Re-Confirmation of Therms - The officially planned amount of therms for FY09 and FY10 remain unchanged from the values provided by the Operations staff based on the projected service levels.

All information is as of 12/31/2008, unless otherwise specified.

Attachment B

Quarterly Summary of CNG Costs and Variances
FY 2009 Q2

	Budget	Actual	Difference Fav/(Unfav)
Hedged			
Therms	13,401,000	13,401,000	
Fixed Rate Payments	$ 12,060,900	$ 12,100,659	$ (39,759)
Cost of Gas		$ 9,007,299	
Variable Rate Payments Received		$ (8,023,662)	
Basis Variance	$ -	$ 983,637	$ (983,637)
Hedge Performance	$ 12,060,900	$ 13,084,296	$ (1,023,396)
Cost/Therm	$ 0.900	$ 0.976	$ (0.076)
Unhedged			
Therms	2,329,654	786,328	1,543,326
Cost of Gas	$ 2,096,689	582,882	$ 1,513,806
Cost/Therm	$ 0.900	$ 0.741	$ 0.981
Total			
Therms	15,730,654	14,187,328	1,543,326
Cost of Gas	$ 14,157,588	13,667,178	$ 490,410
Cost/Therm	$ 0.900	$ 0.963	$ 0.318
If No Hedging			
Therms	15,730,654	14,187,328	1,543,326
Cost of Gas	$ 14,157,588	$ 9,590,181	$ 4,567,407
Cost/Therm	$ 0.900	$ 0.676	$ 2.959
Hedged vs. Un-hedged Difference - Fav/(Unfav)		$ (4,076,997)	

Note: All per therm amounts include $0.104 for mandated fees and delivery costs