

Description and Timeline for SmartPortfolio for Natural Gas

SmartPortfolio proactively manages your full physical natural gas requirements through one simple, transparent and flexible strategy. Your total natural gas supply is managed through a combination of spot market pricing and time-diversified price locks. You can choose to have any amount of their SmartPortfolio volumes locked over time based on risk tolerance and volatility protection needs. Over 2,200 customers have enrolled in Constellations managed products with 180 million dekatherms of customer volumes managed in these programs.

The process, depending on availability of district officials and school board approval can take less than three weeks.

School District makes initial inquiry to Energy Alliances Inc.

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Initial meeting:

Representatives from District set appointment to meet with Energy Alliances Inc. (EAI) representative to accomplish the following:

Introduce the program and provide information as to how it functions. Provide copies of OASBO pre-negotiated legal documents to district. Collect gas usage information from district.

Second meeting: Within 2 weeks, depending on scheduling:

Evaluate proper start time for term based on existing terms and conditions with which the district must comply. Provide a detailed analysis to the district including a "backcast" comparing the Smartportfolio program to the existing program. Provide an indicative bid for the district based upon 25, 50, 75 or 100% of load. Provide, to the District, Constellation's estimates of the annual amount to be paid by the District under this arrangement, together with any assumptions or factors on which such estimates are based (to assist districts with their certification obligations).

Third meeting: Timing based upon district officials meeting and discussing proposal.

School officers will meet with their board and make a determination of how they would like to proceed based upon recommendation from EAI consultant.

Fourth meeting:

Sign contracts, determine who will be decision maker as to targets on remaining gas buys.

FAQ

Q: We have been told that Constellation will provide OASBO “pre-negotiated” legal documents. What does this mean?

A: Constellation has three standard forms for this program: (1) the Master Agreement, (2) a SmartPortfolio Rider, and (3) a SmartPortfolio Plus Rider. If you choose to participate in the program you will only use one of the two Riders (see below for a summary of the difference between the two), together with the Master Agreement.

Counsel engaged by OASBO conducted a general legal review of these documents. This included negotiating overall terms and conditions with the aim of achieving a balanced contract consistent with industry practice, as well as the general practices of and requirements applicable to Ohio school districts generally. This review did not consider the requirements, positions, factors, contractual expenditure caps, or supplemental certifications applicable to your school district specifically. Counsel and OASBO have not assessed the economic viability or commercial benefits of these arrangements. Each school district must still carefully review the documents and ought to obtain their own specific legal and business advice.

Please don't hesitate to ask for all information you require from Constellation or EAI to fully understand the arrangement being entered into.

Q: What is the difference between the “SmartPortfolio” and “SmartPortfolio Plus”?

A: SmartPortfolio Plus operates in the same way as SmartPortfolio, except that SmartPortfolio Plus gives the District the option to specify a portion of its gas requirements (up to 50%) that will be “Customer Managed” and therefore not subject to the SmartPortfolio strategy. This means that the District can negotiate a different price for that portion of its gas requirements for a specified period. For example, it could agree to purchase up to 50% of its requirements on a fixed price basis to get greater certainty around its costs. This is achieved by entering into a separate “Transaction Confirmation” with Constellation. If a Transaction Confirmation is not signed, gas that is “Customer Managed” will be automatically supplied by Constellation at market price.

Q: What is the “market price”?

The market price is the price to be paid to Constellation for all volumes used by the customer: (a) which are not being acquired under a Transaction Confirmation pursuant to the SmartPortfolio Plus program, and (b) have not otherwise been priced in accordance with the SmartPortfolio strategy. The market price is the applicable price at the time the gas is used, as reasonably determined by Constellation and informed by market conditions and certain third party costs. It includes: (i) commodity cost of gas , (ii) pipeline charges to deliver gas, and (iii) a reasonable market based margin.

Q: What is the SmartPortfolio Price?

A: The SmartPortfolio Price is not a fixed price or linked to a specified index, and it will always be subject to market conditions. The District’s requirements will be pooled with the requirements of all other customers enrolled in the SmartPortfolio program. Accordingly, Constellation will not be entering into transactions to source your gas separately and will not be able to provide transaction by transaction detail on the purchases of gas ultimately supplied to you. This arrangement is essentially one where the District is relying on the expertise and experience of Constellation’s SmartPortfolio managers to manage your gas supply and take advantage of favorable market conditions where available.

Constellation’s SmartPortfolio managers uses risk diversification strategies to smooth the customer’s price over time by buying a percentage of customer’s requirements each month in the period leading up to delivery (in order to achieve a weighted average price over time). This has the goal of protecting against price volatility over time (and ideally lowering overall average cost, but without a guarantee of doing so).

In addition to the price of the gas itself, customer also pays for transportation, distribution, applicable taxes and other charges.

Q: Gas will be purchased under the SmartPortfolio strategy over time, so we don’t know now what the price will be. How can we get information to assist us with the school district’s certification obligations?

A: Constellation will provide you with an estimate of the annual amount to be paid by the District under this arrangement. This is only an estimate. Gas prices are inherently difficult, if not impossible, to predict. If you haven’t received an estimate (or any other information your Board needs) prior to signing the documents, please don’t hesitate to ask us.

Q: What does “full requirements” mean?

A: SmartPortfolio (and SmartPortfolio Plus) is a full requirements contract. Constellation must, subject to certain limited exceptions, supply all gas required by the Facilities listed in the Rider. The District will not be penalized for taking more or

less gas than forecast. However, in return, you agree to Constellation being the sole and exclusive provider of natural gas to the Facilities listed for the term of the contract. Accordingly, whatever your requirements, they must be purchased from Constellation under this arrangement for the agreed term.

Q: What if the District requires more gas than it estimates?

Constellation must, subject to certain limited exceptions, supply those higher requirements. However, those volumes will likely not be covered by the volumes managed via the SmartPortfolio strategy. Rather such higher usage is likely going to be at market price.

Q: I am in a contract, how can I participate?

A: This program is specifically designed for customers already under contract with a gas supplier. The objective is for school districts to take advantage of attractive *future* natural gas pricing. The program is designed to work over a longer time frame – so school districts would be entering into the program now, but for deliveries of gas in the future, after the District’s existing obligations expire or can be properly terminated (if possible). School districts will need to carefully review their existing contractual obligations and align their participation in the program with those obligations.

Q: I am with an association that buys gas, what are my options?

A: While associations are sometimes helpful with bulk gas purchases, each district has a different usage profile, and you may be subsidizing another district. Additionally, Constellation Energy is large enough to provide all the purchase power your district needs. After considering the SmartPortfolio estimates and “backcast” provided to you for the District, as well as the benefits and limitations of the SmartPortfolio program, you can compare the arrangements and decide which is best for you.

Q: What does this cost, how much will my district have to pay upfront?

A: Once Energy Alliances Inc. gives you an analysis of your gas usage, you will get a quote based on the future gas purchase and the term. You will pay nothing upfront. You will pay your bills as usual, your supplier may change once the contract starts.

Q: If I only select 50% of the gas to be part of the SmartPortfolio strategy, who determines when I buy the rest?

A: Participation in the program requires the District to purchase all of its gas requirements for the identified Facilities from Constellation. A specified percentage of the district’s requirements will be subject to and priced in accordance with the SmartPortfolio strategy. Then, whatever percentage of gas is not included in the

SmartPortfolio strategy must still be purchased from Constellation. Districts who choose to participate in SmartPortfolio*Plus* can elect to negotiate the purchase of some or all of the remaining 50% on terms agreed with Constellation in a separate “Transaction Confirmation”. Any volumes that are not included in the SmartPortfolio strategy or agreed pursuant to a “Transaction Confirmation” will be automatically supplied by Constellation at market price (Constellation having determined when and how to purchase those volumes). In other words, there are three “types” or “buckets” of quantities of gas being supplied under a SmartPortfolio contract: (1) the volumes subject to the SmartPortfolio strategy, (2) volumes separately negotiated under a “Transaction Confirmation” (under the SmartPortfolio*Plus* program), and (3) all other volumes.

Q: Can I purchase 100% of the natural gas load? What percentage of my requirements will be subject to the “SmartPortfolio strategy”?

A: Yes. In fact, 100% of the District’s requirements for the specified Facilities must be purchased from Constellation under these SmartPortfolio contracts. (See above regarding “full requirements”.)

It is important to distinguish between (a) purchasing 100% of the District’s gas requirements (which is always the case when participating in this SmartPortfolio program) for the specified term of the SmartPortfolio contract, and (b) electing to have 100% of the District’s estimated requirements subject to the SmartPortfolio strategy.

The District should work together with EAI and Constellation to determine the appropriate percentage of the District’s estimated requirements which should be subject to the SmartPortfolio strategy. This percentage will then be specified in the Rider to be signed by Constellation and the customer. It is not always the case that 100% of usage should be (or even practically speaking, can be) subject to the SmartPortfolio strategy. This will depend on a number of factors, including how far into the future the proposed supply period is and the portion of the District’s requirements, if any, which will be purchase on a fixed-price or indexed-price basis.

Among the other factors to be considered is the customer’s liability (i) to pay for volumes the subject of a Transaction Confirmation even if not ultimately taken/used (as may be set out in any such Transaction Confirmation); and (ii) upon termination by Constellation for customer’s default, to pay for gas that has actually been purchased by Constellation for customer pursuant to the SmartPortfolio strategy and gas that is to be supplied pursuant to a Transaction Confirmation (as discussed below in relation to termination).

Q: Is there any credit issue?

A: No. Constellation works with every school district no matter their financial position. The contracts provide for prepayment in certain circumstances, if Constellation considers it necessary.

Q: If I want to get out of the program what is the district responsible for?

A: There is no unilateral right for the customer to terminate the contract. If the District defaults, and Constellation terminates the contract, the District will only be responsible for (a) any volumes for which the price has been fixed in accordance with SmartPortfolio strategy (through actual advance purchases), and (b) for any volumes separately contracted for under a Transaction Confirmation pursuant to a SmartPortfolio Plus Rider. The liability is calculated by reference to the difference between the contract value and the market value for these volumes.