

## CREDIT RISK

Credit risk is the risk of financial loss resulting from non-performance of contractual obligations by a counterparty. We have adopted the BHCCP that establishes guidelines, controls, and limits to manage and mitigate credit risk within risk tolerances established by the Board of Directors. In addition, our Executive Credit Committee, which includes senior executives, meets on a regular basis to review our credit activities and to monitor compliance with the adopted policies.

For our energy marketing, production, and generation activities, we seek to mitigate our credit risk by conducting a majority of our business with investment grade companies, setting tenor and credit limits commensurate with counterparty financial strength, obtaining netting agreements, and securing our credit exposure with less creditworthy counterparties through parental guarantees, prepayments, letters of credit, and other security agreements.

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current creditworthiness, as determined by our review of their current credit information. We maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issue that we have identified. While most credit losses have historically been within our expectations and provisions established, we cannot assure you that we will continue to experience the same credit loss rates that we have in the past or that an investment grade counterparty will not default sometime in the future.

At the end of the year, our credit exposure (exclusive of retail customers of our regulated utility segments) was concentrated primarily with investment grade companies. Approximately 70 percent of our credit exposure was with investment grade companies. Of the remaining 30 percent credit exposure with non-investment grade rated counterparties, approximately 48 percent of this exposure was supported through letters of credit or prepayments, and the remaining primarily unsecured.

## FOREIGN EXCHANGE CONTRACTS

Our natural gas and crude oil marketing subsidiary conducts its business in the United States and Canada. Transactions in Canada are generally transacted in Canadian dollars, which creates exchange rate risk. To mitigate this risk, we enter into forward currency exchange contracts to offset earnings volatility from changes in exchange rates between the Canadian and United States dollars. At December 31, 2006 and 2005, we had outstanding forward exchange contracts to sell approximately \$0 and \$29.0 million Canadian dollars, respectively. At December 31, 2006 and 2005, we also had outstanding forward exchange contracts to purchase approximately \$44.0 million and \$88.0 million Canadian dollars, respectively. These contracts had a fair value of \$(0.3) million and \$(1.0) million at December 31, 2006 and 2005, and have been recorded as Derivative assets/liabilities on the accompanying Consolidated Balance Sheets. All forward exchange contracts outstanding at December 31, 2006 settled by February 26, 2007.

## NEW ACCOUNTING PRONOUNCEMENTS

See Note 1 of our Notes to Consolidated Financial Statements in this Annual Report on Form 10-K for information on new accounting standards adopted in 2006 or pending adoption.

## Safe Harbor for Forward-Looking Information

This Annual Report on Form 10-K includes "forward-looking statements" as defined by the SEC. We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this Form 10-K that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. These forward-looking statements are based on assumptions which we believe are reasonable based on current expectations and projections about future events and industry conditions and trends affecting our business. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties that, among other things, could cause actual results to differ materially from those contained in the forward-looking statements, including without limitation the Risk Factors set forth in Item 1A. of this Form 10-K and the following:

- Our ability to obtain adequate cost recovery for our retail utility operations through regulatory proceedings and receive favorable rulings in periodic applications to recover costs for fuel and purchased power in our regulated utilities;
- Our ability to complete acquisitions for which definitive agreements have been executed;
- Our ability to obtain regulatory approval of acquisitions which, even if approved, could impose financial and operating conditions or restrictions that could impact our expected results;
- Our ability to successfully integrate and profitably operate any future acquisitions;
- The amount and timing of capital deployment in new investment opportunities or for the repurchase of debt or stock;
- Our ability to successfully maintain or improve our corporate credit rating;
- Our ability to complete the permitting, construction, start up and operation of power generating facilities in a cost-effective and timely manner;
- Our ability to meet production targets for our oil and gas properties, which may be dependent upon issuance by federal, state, and tribal governments, or agencies thereof, of drilling, environmental and other permits, and the availability of specialized contractors, work force, and equipment;
- Our ability to provide accurate estimates of proved oil and gas reserves, coal reserves and actual future production rates and associated costs;
- The extent of our success in connecting natural gas supplies to gathering, processing and pipeline systems;
- The timing and extent of scheduled and unscheduled outages of power generation facilities;
- The possibility that we may be required to take impairment charges to reduce the carrying value of some of our long-lived assets when indicators of impairment emerge;

- Changes in business and financial reporting practices arising from the enactment of the Energy Policy Act of 2005;
  - Our ability to remedy any deficiencies that may be identified in the review of our internal controls;
  - The timing, volatility and extent of changes in energy-related and commodity prices, interest rates, energy and commodity supply or volume, the cost and availability of transportation of commodities, and demand for our services, all of which can affect our earnings, liquidity position and the underlying value of our assets;
  - Our ability to effectively use derivative financial instruments to hedge commodity, currency exchange rate and interest rate risks;
  - Our ability to minimize defaults on amounts due from counterparties with respect to trading and other transactions;
  - The amount of collateral required to be posted from time to time in our transactions;
  - Changes in or compliance with laws and regulations, particularly those relating to taxation, safety and protection of the environment;
  - Changes in state laws or regulations that could cause us to curtail our independent power production;
  - Weather and other natural phenomena;
  - Industry and market changes, including the impact of consolidations and changes in competition;
  - The effect of accounting policies issued periodically by accounting standard-setting bodies;
  - The cost and effects on our business, including insurance, resulting from terrorist actions or responses to such actions or events;
  - The outcome of any ongoing or future litigation or similar disputes and the impact on any such outcome or related settlements;
  - Capital market conditions, which may affect our ability to raise capital on favorable terms;
  - Price risk due to marketable securities held as investments in benefit plans;
  - General economic and political conditions, including tax rates or policies and inflation rates; and
  - Other factors discussed from time to time in our other filings with the SEC.
- New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for us to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. We assume no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise.