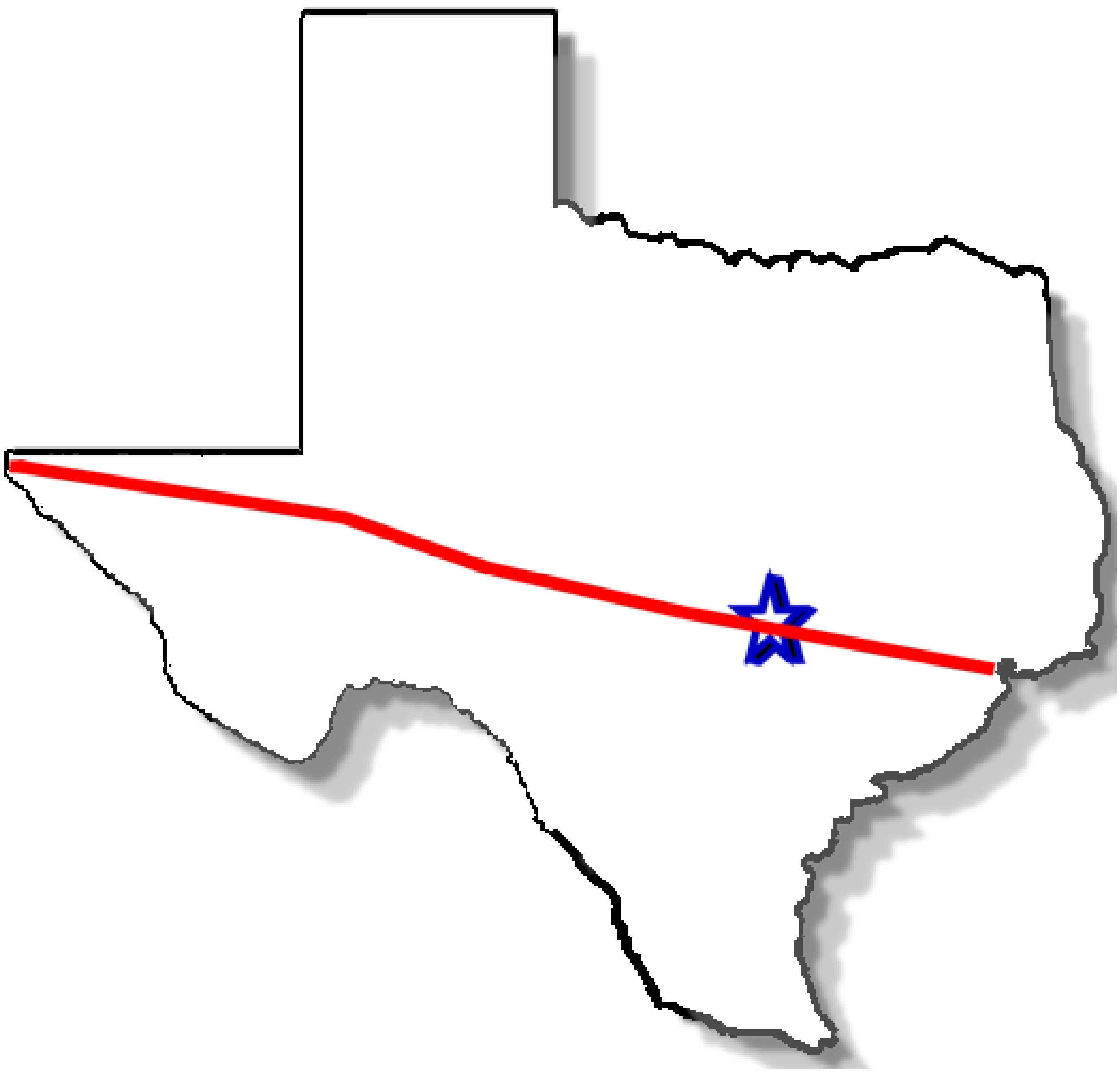
Longhorn Partners Pipeline:
A bankrupt company?

Background report by Stefan Wray
For the Austin Safe Pipeline Coalition



Austin Safe Pipeline Coalition

FEDERAL JUDGE SAM SPARKS: “The only thing that protects the public other than what assets the limited partnership or general partner might have is $15 million worth of insurance.”

LONGHORN PARTNERS PIPELINE ATTORNEY MR. CANNADAY: “Your Honor, the project itself, as you might imagine, has a significant value in -- well, it has significant value, your Honor.”

Source: July 12, 2002, Federal Court Hearing Transcript

WILLIAMS SPOKESWOMAN KELLY SWAN: "Yes, Williams is in a credit crunch. We're living within our means. We're doing everything we can right now to restore our credit."

Source: July 26. 2002, Austin American Statesman

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Prepared on July 28, 2002.
Stefan Wray, of Iconmedia, can be reached at swray@io.com.
Iconmedia, www.iconmedia.org, is producing a video documentary about the Longhorn Pipeline.

Summary of Findings

Longhorn Pipeline Partners attorneys said in Federal Court in July that despite a liability insurance cap of $15 million the company was well endowed with assets to cover the costs of a pipeline accident or leak. But now key partners' financial troubles raise questions about the viability of the Longhorn Pipeline.

- Key partners in Longhorn Partners Pipeline LP face serious financial trouble.

- Final phase of Longhorn Pipeline construction has been put on hold.

- Williams Co. Inc., 31.5% owner of pipeline debt downgraded to "junk" status.

- Williams stock value dipped below $1 per share.

- Beacon Energy Fund Investment Group owns 31.5% of Longhorn partnership.

- J. P. Morgan Chase is parent company of Beacon Energy Fund.

- J. P. Morgan Chase and subsidiaries debt status downgraded to "negative"

- J.P. Morgan Chase possibly linked to Enron debacle.

- UT Regent Vice Chair Woody L. Hunt plays role in J.P. Morgan Chase in Texas.

- In sum, 63% of ownership in Longhorn Partners Pipeline are in financial trouble.

Longhorn Pipeline Partners: A Bankrupt Company?

Williams Crash: Blow To Longhorn Pipeline?

While a federal judge couldn't stop Longhorn, maybe the economy will.

During the week of July 22 to 26, a key partner in the Longhorn Partners Pipeline, Williams Companies Inc., saw its stock value drop dramatically by between 75 and 80 percent, leaving the stock price hovering at around $1 per share. By the end of the week, it had dipped below $1.

The dive follows Williams' second quarter report released on July 22 that said the company's board of directors "approved a reduction of the third-quarter common stock dividend to one cent per share from 20 cents to conserve cash."

According to a July 24 Reuters report, Moody's Investors Service on Wednesday cut Williams Cos.' "credit ratings four notches to junk status on concern the energy trader won't generate enough cash to pay its debts."

Williams is a dominant partner in Longhorn Partners Pipeline. Williams owns 31.5% of the partnership and is responsible for the operation of the Longhorn Pipeline. (See Appendix 1)

Williams Pipeline Company	31.5%
Beacon Investment Group	31.5%
Exxon Mobil Corp.	20.0%
British Petroleum	15.0%
Chisholm	2.0%
	100.0%

Source: Exxon Mobil VP of Investor Relations

According to a July 24 Associated Press report, Moody's downgrade of Williams debt to "junk" status on Wednesday was the third such rating that week. On Monday Fitch rated it as "junk." Standard and Poor's did the same on Tuesday.

The same AP report stated that Williams reported that week the company has "$450 million cash and about $700 million in available credit. It owes $800 million in debt payments this month and next."

A brief glance at William's web site (http://www.williams.com) showed the company is trying to sell its Western Canada assets so it can concentrate on resources on its "core midstream positions in Wyoming, Colorado, New Mexico and the deepwater Gulf of Mexico."

What does this all mean for the Longhorn Pipeline?

According to a homeowner adjacent to the Longhorn Pipeline in Hays County this bad news for Williams could be good news for pipeline opponents.

In an email message sent Wednesday evening she wrote: "I was just told by our contact with Longhorn that the pipeline is dead for now and maybe for good. Williams went broke and nobody can bail them out."

This news came less than a week after a Federal judge in Austin, Sam Sparks, ruled in favor of Longhorn and did not rule that an Environmental Impact Statement was necessary before allowing gas to flow through the pipe.

At a hearing in federal court earlier in July, Longhorn attorneys argued that the partnership was financially secure and would be able to cover costs if held liable in a multi-million dollar accident.

But with Williams on the brink as it seems to be, will the other partners bail out Longhorn? Can they cover the cost of operating the pipeline? Can they be held financially responsible for pipeline leaks or explosions? Or is the company now vaporware?

This all begs the question as to who exactly are the other important partners.

J. P. Morgan Chase: Longhorn Partners Pipeline Other Key Owner

The other dominant partner in Longhorn Partners Pipeline - besides Williams - is Beacon Group Energy Investment Fund. This Fund, like Williams, owns 31.5% of Longhorn Partners Pipeline. The Beacon Group Energy Fund is a subsidiary of JP Morgan Partners.

According to the web site of Energy Venture Fair (www.energyventurefair.com):

> "The Beacon Group Energy Funds (the "Energy Funds"), an affiliate of JPMorgan Partners, is one of the largest private equity investors committed to the energy industry, with over $1.6 billion of capital. The Energy Funds, consisting of The Beacon Group Energy Investment Fund, L.P. ("EF-I") and The Beacon Group Energy Investment Fund II, L.P. ("EF-II"), are designed to make equity investments throughout the energy industry, embracing upstream, midstream and downstream segments, and including power generation and petrochemicals."
>
> "A primary emphasis of the Energy Funds has been strategic partnering. The Energy Funds have formed partnerships with many of the leading energy companies, including BP Amoco, ExxonMobil, Shell, The Williams Companies, Schlumberger and Bechtel. EF-I was formed in 1994 with $658 million of committed capital, all of which has been invested or committed to invest in 13 companies. The diverse portfolio of EF-I includes a Russian oil and gas company, an eastern U.S. coal company, a methanol project in Trinidad, a portfolio of oil tankers and a petroleum products pipeline. EF-II was formed in 1998 with approximately $950 million of committed capital. As of February 2001, EF-II has invested or committed to invest over $390 million in 16 companies. EF-II has a particular focus on energy and power technology, including distributed generation, power quality and storage, and e-commerce."

J. P. Morgan Chase received negative rating

J. P. Morgan Chase, parent company of Beacon Group Energy Investment Fund, a 31.5% owner in Longhorn Pipeline, has had its long-term rating downgraded by Moody's Investors Service from "stable" to "negative." (See Appendix 3)

A report on July 24 stated that the negative rating for JP Morgan Chase & Co., includes all its subsidiaries - which means it includes JP Morgan Partners, Beacon Group Energy Funds, and the Beacon Group Energy Investment Fund.

Williams and Beacon Group Energy Investment Fund (JP Morgan) together own 63 percent of Longhorn Partners Pipeline. With Williams facing near fatal losses and Beacon Energy Fund (JB Morgan) hurting, it raises serious questions about Longhorn Partners Pipeline's future viability.

UT Link To Longhorn Partners Pipeline?

The Vice Chairman of the University of Texas' Board of Regents, appointed by Bush in 1999, is Woody L Hunt, who also serves on the board of directors of Chase Bank of Texas, N.A., in Houston and Chase Bank of Texas in El Paso - on either end of the Longhorn Pipeline.

Chase Bank is part of J.P. Morgan Chase. And J.P. Morgan Chase is the parent company of the Beacon Energy Investment Group Fund, which owns 31.5 percent of Longhorn Partners Pipeline.

J.P. Morgan Chase lists Woody L. Hunt as serving on the company's Texas Regional Advisory Board, a 37 member board that also includes as members a number of CEOs and retired CEOs in the energy sector representing Conoco, Inc., PanEnergy Corp., Enron Oil & Gas Company, American Electric Power, Reliant Energy, and El Paso Energy Corporation. (See http://ar.jpmorganchase.com/ar/pdf/art/advisory.pdf)

Also listed as a member of J.P. Morgan Chase's Texas Regional Advisory Board is James Kennedy, Chairman and CEO of Cox Enterprises, Inc., the parent company of the Austin American Statesman. Gerald Ford is also on the board.

According to J.P. Morgan Chase's web site, "The Texas Board meets quarterly and advises management on business strategies and opportunities in that broad and diverse market."

One can presume that during the life span of Longhorn Partners Pipeline, since a J.P. Morgan subsidiary - Beacon Energy Investment Group Fund - owns almost a third of that partnership, that the Texas Regional Advisory Board has furnished some opinion and advice on the Longhorn Pipeline investment.

Especially now, since Williams, the lead partner and operator of the Longhorn Pipeline, has seen its stock value slip to under $1 per share, members of J.P. Morgan Chase's Texas board surely must be concerned.

Appendix 1: Exxon Mobil on Longhorn Partner Pipeline ownership

Exxon Mobil Corporation
5959 Las Colinas Boulevard
Irving, Texas 75039-2298

Patrick T. Mulva
Vice President, Investor Relations
Secretary

ExxonMobil

June 10, 2002

Ms. Pam Thompson
1410 C W 9th
Austin, TX 78703

Dear Ms. Thompson:

This letter is in response to your comments on the Longhorn Partners Pipeline made during the 2002 ExxonMobil Annual Meeting held on May 29.

As Mr. Raymond said during the meeting, ExxonMobil is only a minority owner and is not the operator of the pipeline. ExxonMobil's ownership interest is 20%. The operator, Williams, as such is responsible for the safe and reliable operation of the pipeline. To the extent laws are not being followed, as a minority owner, we would not support such activity and would express our concerns directly to the operator.

The remaining 80% ownership of the pipeline is held by Williams (31.5%), Beacon Investment Group (31.5%), British Petroleum (15%) and Chisholm (2%). You should direct your questions regarding the operation of the Longhorn Partners Pipeline to Mr. Carter Montgomery, President, at (214) 220-1080 or Mr. O. B. Harris, Vice President - Operations, at (713) 529-1555.

Regarding signage, all Exxon Pipeline Company marker signs along the pipeline right-of-way should have been removed when we ceased to be the operator in October 1997. We have been assured by Williams that all Exxon Pipeline Company signs will be removed, as soon as possible.

I hope this information is helpful.

Sincerely,

Appendix 2: Austin American Statesman article on Williams

Credit crunch will delay pipeline
While key partner in Longhorn project seeks financing, opponents raise safety questions
By Ralph K.M. Haurwitz
AMERICAN-STATESMAN STAFF
Friday, July 26, 2002

The startup date for the Longhorn gasoline pipeline has been delayed more than six weeks, until Oct. 1, as cash-flow problems force its backers to scramble for additional financing.

The delay comes less than a week after a federal judge ruled that additional environmental study was not needed, effectively clearing the way for Longhorn Partners Pipeline LP to begin operations. The partnership had planned to start filling the pipeline Aug. 15.

Officials from the Williams Cos. Inc., one of five partners in Longhorn, said the delay is a result of Williams' financial problems. The energy firm's stock closed Thursday at 88 cents a share, down from more than $30 a year ago, and some financial analysts are warning that the company could be headed for a bankruptcy court filing. In addition to owning 31.5 percent of Longhorn, Williams is responsible for operating it.

"Yes, Williams is in a credit crunch," said Kelly Swan, a spokesman for Williams. "We're living within our means. We're doing everything we can right now to restore our credit."

The pipeline, most of which is 52 years old, runs from Houston to West Texas, cutting through South Austin and other parts of Central Texas. Formerly used to ship crude oil, the line has been idle since 1995. Longhorn has spent about $60 million to refurbish and test it.

Most work on the pipeline was halted Wednesday. Allan Wolff, Williams' operations manager for the project, said the relatively little that remains to be done includes 5 miles of pressure testing with water in Blanco County and installation of a few check valves. He said work would resume when Longhorn lines up additional financing.

"It's frustrating that we're this close and something now comes up that we didn't really expect," Wolff said.

O.B. Harris, vice president of Longhorn, downplayed Williams' financial problems. He said the delay is largely a result of snags in lining up 1.1 million barrels of fuel, at a cost of about $35 million, to fill the pipeline. Longhorn is negotiating to secure the fuel, Harris said, but he declined to provide additional details.

Renea Hicks, a lawyer for two landowners and a Central Texas water district opposed to the pipeline, said Williams' balance sheet raises safety concerns.

"Somebody under financial pressure -- there's going to be some pressure to cut corners," Hicks said. "And if there is a problem in the future, they may not be around to clean up the mess."

Mary Jo Dees, who lives along Flat Creek in Blanco County, where Longhorn spilled drilling mud several weeks ago, said she hopes Williams' difficulties prove fatal to the project. Although state environmental officials say the spill poses no lasting hazard, Dees said she is "still afraid to get in the water."

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Appendix 3: J.P. Morgan Chase status downgraded to "negative"

July 24, 2002

J.P. MORGAN CHASE (Aa3) outlook changed to negative; asset quality raises concerns with heavy concentrations in telecoms, merchant energy

New York, July 25, 2002 -- Moody's Investors Service changed the outlook of all of the long-term ratings of J.P. Morgan Chase & Co. (senior unsecured at Aa3) and its subsidiaries to negative from stable.

The outlook change reflects Moody's concern about asset quality within J.P. Morgan Chase's wholesale banking portfolio. Credit risk concentrations may lead to increasing credit expense, potentially pressuring net income. Particularly worrisome concentrations are the troubled sectors of telecommunications, media and technology, and within the merchant energy industry.

J.P. Morgan Chase's management has pursued a strategy of leveraging its commercial banking franchise to build its position in investment banking. This strategy is falling short of expectations, as evidenced by relatively weak income performance by the investment bank in the second quarter. Given recent problems in financial markets, and the sharp downturn in wholesale activities, successful execution of this strategy will be even more challenging, the rating agency says.

Moody's says that J.P. Morgan Chase might also suffer damage to its image and reputation, as well as higher legal expenses and litigation settlement costs, resulting from its role in Enron and other high-profile corporate defaults. This may hinder the business momentum and ongoing profitability of the investment bank, even when markets recover.

Moody's says that J.P. Morgan Chase has ample liquidity at both the bank and the holding company. The credit, market, and liquidity risks of its derivatives business are also well controlled. J.P. Morgan Chase also maintains a substantial base of tangible common equity, and its Tier One ratio currently stands at 8.7%.

Moody's also notes that J.P. Morgan's other businesses - retail, investment management and securities processing - help cushion the volatility of earnings from investment banking and venture capital.

Moody's said that it would place particular analytical emphasis on J.P. Morgan's credit underwriting and portfolio management.
The following lists the principal subsidiaries and ratings that were assigned a negative outlook:

J.P. Morgan Chase & Co. - senior debt rating of Aa3; subordinated debt rating of A1; preferred stock rating of A2; preferred shelf of (P)A2; and an issuer rating of Aa3.

JPMorgan Chase Bank - long-term bank deposit rating of Aa2; subordinated debt rating of Aa3; long-term other senior obligations of Aa2; long-term issuer rating of Aa2; and a bank financial strength rating of B+.

Various Chase Capital Trusts, I-IX - backed preferred stock rating of A1.
J.P. Morgan Chase & Co. had assets of $697.8 billion and stockholder's equity of $41.7 billion at June 30, 2002.

Appendix 4: Did J.P. Morgan Conspire With Enron?

Source: http://www.thedailyenron.com/documents/20020625084840-48854.asp

Did J.P. Morgan Conspire With Enron?
Corporate Lawyers on Hot Seat
Loans to Enron Were a Gas

Back in the 1980's, in a rare display of candor, a Texas savings and loan crook disclosed his secret to "success."

"If you borrow a thousand dollars from a bank, the bank owns you," he said. "But, if you can convince that same bank to loan you $10 million, then you own the bank."

Enron must have hired that guy as a consultant. Among Enron's biggest lenders was the venerable J.P. Morgan Chase & Co. When Enron went bust, old J.P. was left with over $1 billion unpaid loans.

So, is old J.P. another Enron victim? Forget about it. According to eleven of the bank's insurers J.P. Morgan Chase & Co. actively conspired with Enron to disguise its loans as energy trades and to make Enron appear healthier than it really was.

When Enron failed, J.P. Morgan was hoping that their insurers would pick up any losses the bank might suffer from its Enron loans. But the issuers balked. When they looked at the underwriting files covering the loans they say they discovered more than a little bit of mutual skullduggery.

According to the insurer's counter claim Enron and J.P. Morgan used their offshore subsidiaries to disguise the real nature of the loans. Reportedly J.P. Morgan used its offshore subsidiary, "Mahonia," to purchase gas contracts from Enron. Enron then turned around and allegedly repurchased these contracts from the bank at a higher price. The difference, the insurance companies say, was supposed to represent interest payments to Enron to cover the bank's loans to Enron.

If the allegation is proven true, why go through such a complicated charade?

For the bank it might have been a way to hide its true loan exposure to Enron. Federal banking regulators get nervous when a federally insured bank has too much of its total loan portfolio exposed to a single customer. For Enron the roundtrip energy contract deals might have been booked as revenue - even though a repurchase agreement existed in one of its offshore affiliates.

The courts will now have to sort all this out.