IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MARYLAND
(Greenbelt Division)

In re:	*	
NATIONAL ENERGY & GAS TRANSMISSION, INC. (f/k/a PG&E NATIONAL ENERGY GROUP, INC.), ***et al.***	*	Case No.: 03-30459 (PM) and 03-30461 (PM) through 03-30464 (PM) and 03-30686 (PM) through 03-30687 (PM)
	*	Chapter 11
	*	
Debtors.	*	(Jointly Administered under Case No.: 03-30459 (PM))

* *

NOTICE OF STATUS OF LIQUIDATION OF NATIONAL ENERGY & GAS TRANSMISSION, INC. (Case No. 03-30459-PM)

PLEASE TAKE NOTICE that annexed hereto as Exhibit A is a Summary of Cash Sources and Uses, and a Summary of Estimated Creditor Recoveries (the "Financial Disclosures").

PLEASE TAKE FURTHER NOTICE that the Financial Disclosures are for information purposes only, and are subject to change. Actual results may vary significantly from the projected amounts based on one or more factors, including the factors listed on the last page of the Financial Disclosures.

Dated: August 2, 2005

WILLKIE FARR & GALLAGHER LLP
787 Seventh Avenue
New York, New York 10019
(212) 728-8000

and

WHITEFORD, TAYLOR & PRESTON L.L.P.

/s/ Dennis J. Shaffer
Dennis J. Shaffer, Bar No. 25680
Seven Saint Paul Street
Baltimore, Maryland 21202
(410) 347-8700

Co-Counsel for NEGT

1631718

Financial Disclosures to Creditors / Shareholders

As of July 2005

National Energy & Gas Transmission, Inc. ("NEGT" or the "Company") has prepared the following "Summary of Cash Sources and Uses" and "Summary of Estimated Creditor Recoveries" for the benefit of its creditors and shareholders. The analyses presented herein are for information purposes only, and are subject to change. Actual results may vary significantly from the projected amounts based on the factors discussed on the last page herein.

National Energy & Gas Transmission, Inc.
Financial Disclosure to Creditors / Shareholders
As of July 2005

Summary

- **Summary of Cash Sources & Uses:** Prior to July 2005, the Company approved creditor distributions of approximately $1,540 million in the form of note redemptions and Class 3 cash distributions (83% of these distributions have been paid to allowed claimholders and the remainder is being held by a third party trustee pending the resolution of disputed claims). Future distributions, which will be considered by the NEGT Board of Directors as excess cash becomes available, are expected to range from approximately $437 to $612 million depending on the resolution of several contingent issues.

- **Summary of Estimated Creditor Recoveries:** The Class 3 Creditor Recovery is expected to range from 47-62%. The range of potential recoveries is caused by the uncertainty of the amount of certain potential cash inflows and the impact of several unresolved claims, which include ET tolling guarantees and other disputed claims. The following table summaries the estimated creditor recovery ranges:

($ in 000s)	Unfavorable Scenario		Favorable Scenario
Distributions	**Expected Distribution Range**		
Actual Distributions (Through June 2005)	$1,540,000	-	$1,540,000
Projected Distributions (July 2005 & Thereafter)	437,413	-	612,413
Total Distributions	1,977,413	-	2,152,413
Class 3 Creditor Claims	**Expected Claims Range**		
Allowed Claims	3,464,864	-	3,464,864
Valid Claim / Contingent Amount	453,441	-	0
Disputed Claims	267,268	-	7,604
Total Claims	$4,185,574	-	$3,472,469
	Projected Creditor Recovery Range		
Total Class 3 Creditor Recovery	**47%**	-	**62%**
Distributions Received by Allowed Claimholders as of June 30, 2005	37%		

National Energy & Gas Transmission, Inc.
Summary of Cash Sources and Uses
As of July 2005

	Footnote Reference	Actuals: Nov 2004 - June 2005	Forecast: Q3 2005	Forecast: Q4 2005	Forecast: Q1 2006 & Thereafter	Total
Cash Sources						
GTN / N. Baja Sale	[a]	$ 1,094,771	$ -	$ 77,000	$ -	$ 1,171,771
IPP Sale	[b]	513,161	9,911	-	-	523,072
Hermiston Sale	[c]	47,619	-	-	-	47,619
Properties Sale	[d]	64,900	4,000	-	-	68,900
Spruce Power Sale	[e]	15,500	-	-	-	15,500
Sale of Miscellaneous Assets	[f]	-	2,250	500	-	2,750
Repayment of Intercompany Notes Receivable	[g]	24,381	729	-	-	25,110
Dividends from NEGT, Inc. Subsidiaries	[h]	125,813	5,245	-	-	131,058
Interest Income at NEGT, Inc.	[i]	6,116	1,257	1,315	1,507	10,195
PG&E Corporation Tax Settlement	[j]	-	20,000	-	-	20,000
Tax Payments from USGenNE	[k]	8,454	-	-	-	8,454
Bear Swamp Claim Recovery from USGenNE	[l]	-	71,160	-	-	71,160
USGenNE Remaining Distributions	[l]	-	-	50,000	23,400	73,400
Recovery of Allowed Claims against Energy Trading ("ET")	[m]	-	3,781	51,127	50,000	104,908
Recovery of ET Tolling Guarantees (Caledonia / Southaven)	[n]	-	-	-	-	-
Total Cash Sources		1,900,715	118,333	179,942	74,907	2,273,897
Cash Uses						
G&A (Net of Subsidiary Reimbursements)	[o]	(3,694)	(2,571)	(1,620)	(2,610)	(10,495)
Severance and Retention (Net of Subsidiary Reimbursements)	[p]	(5,782)	(3,881)	(897)	(1,235)	(11,794)
Professional Fees	[q]	(18,453)	(4,729)	(1,378)	(500)	(25,060)
Transaction / Emergence Costs	[r]	(22,292)	(900)	-	-	(23,192)
Estimated Tax Payments (State & Federal)	[s]	(24,896)	-	-	(10,000)	(34,896)
IRS Interest Expense	[t]	-	-	-	(12,400)	(12,400)
Interest on Notes	[u]	(8,556)	-	-	-	(8,556)
Total Cash Uses		(83,672)	(12,081)	(3,895)	(26,745)	(126,393)
Net Cash Flow Prior to Creditor / Shareholder Distributions		1,817,043	106,252	176,047	48,162	2,147,504

	Footnote Reference	Nov 2004 - June 2005	Q3 2005	Q4 2005	Q1 2006 & Thereafter	Total
Rollforward of Cash Balances						
NEGT, Inc. Beginning Cash Balance		29,909	306,952	257,517	226,745	29,909
Net Cash Flow Prior to Creditor / Shareholder Distributions		1,817,043	106,252	176,047	48,162	2,147,504
Note Redemptions (12/04)	[v]	(1,000,000)	-	-	-	(1,000,000)
2004 Payments to Class 3 Claimants / Shareholders	[w]	(130,000)	-	-	-	(130,000)
2005 Payments to Class 3 Claimants / Shareholders	[w]	(410,000)	(155,687)	(206,820)	-	(772,506)
2006 & Thereafter Payments to Class 3 Claimants / Shareholders	[w]	-	-	-	(74,907)	(74,907)
NEGT, Inc. Projected Ending Cash Balance	[x]	$ 306,952	$ 257,517	$ 226,745	$ 200,000	$ 200,000 *

Notes:

* Any residual cash would be paid to creditors / shareholders following the resolution of potential taxes and contingent liabilities.

Footnote Reference	Actuals (November 2004 – June 2005)	Forecast (July 2005 & Thereafter)
[a] GTN / N. Baja Sale	▪ In May 2004, the Bankruptcy Court approved the sale of NEGT's ownership interest in GTN, which included the N. Baja pipeline assets, to TransCanda Corporation ("TCPL"). The sale, which closed in November 2004, provided approximately $1,200 million of cash and the assumption of $500 million of debt by TCPL. ▪ The Summary of Cash Sources and Uses (the "Forecast") reflects approximately $1,095 million of net sale proceeds during the period based on the following: – Purchase price ($1,200 million) <u>less</u> – Required holdbacks ($241 million), <u>plus</u> – Cash dividends received from the subsidiary prior to the sale that would have otherwise been a favorable purchase price adjustment ($138 million), <u>less</u> – Final working capital adjustments ($2 million). ▪ Although the purchase agreement provided an indemnification right to the buyer for up to $120 million, TCPL did not assert any claims against NEGT prior to the May 2005 expiration.	▪ GTN sale proceeds of $241 million were being held in escrow until various GTN guarantees of NEGT and ET liabilities were released and/or settled. The guaranteed contingent liabilities are all subject to negotiation with third parties and, in some instances, are in arbitration. ▪ The Forecast reflects the release of $77 million related to GTN guarantees of claims made against the Energy Trading subsidiary ("ET") by several parties. ▪ The Forecast does not include the release of the Liberty holdback ($140 million) based on an arbitration panel's award to Liberty for $140 million plus interest and fees. Please see further discussion of this claim at the "Estimated Creditor Recoveries" section herein. ▪ The Forecast also does not reflect the release of the $24 million holdback related to the DTE Georgetown claim due to the uncertainty of pending litigation. If the funds are not released, there may be an opportunity for additional recovery from ET.
[b] IPP Sale	▪ In January 2005, NEGT completed the sale of its indirect equity interests in twelve power plants and a natural gas pipeline to GS Power Holding II LLC, which is a wholly-owned subsidiary of the Goldman Sachs Group. The sale resulted in gross sale proceeds of $656 million. ▪ The Forecast reflects net sale proceeds at closing of approximately $513 million based on the following: – Purchase price ($656 million) <u>less</u> – Adjustment for the separate sale of the Hermiston facility as outlined in Footnote [c] ($40 million), <u>less</u>	▪ The Forecast includes the release of approximately $9.9 million from the sale escrow account. The amounts, which were released in July 2005, are related to the purchase price adjustment escrow and the PG&E Corporation claim escrow. ▪ Due to the uncertainty regarding the resolution of the remaining escrow accounts, the Forecast does not reflect the additional release of approximately $8.5 million. It should be noted that this reflects a conservative estimate for cash flow forecasting purposes and NEGT will continue to pursue the full release of these escrow funds.

National Energy & Gas Transmission, Inc.
Footnotes - Summary of Cash Sources and Uses
As of July 2005

Footnote Reference	Actuals (November 2004 – June 2005)	Forecast (July 2005 & Thereafter)
	– Dividends received by NEGT from the IPP entities prior to the closing date as required by the sale agreement ($73 million), less – Contractually required escrow ($18 million) less – Other contractual adjustments for working capital and change of control provisions ($12 million).	
[c] Hermiston Sale	NEGT sold its equity interest in the Hermiston facility to a wholly-owned subsidiary of Sumitomo Corporation for approximately $47 million in November 2004. As a result of the sale, Hermiston's equity interest was removed from the IPP portfolio sold to GS Power Holdings and the total sale price was adjusted by $40 million as discussed in Footnote [b].	Not applicable.
[d] Properties Sale	▪ Represents the net proceeds from the sale of the Marengo and Conaway Ranches. The Marengo Ranch sale closed on November 18, 2004 and resulted in net proceeds of $8 million (including the impact of a $2 million indemnification holdback). The Conaway Ranch sale closed on December 15, 2004 and resulted in approximately $47 million of net proceeds (including the impact of a $2 million indemnification holdback). ▪ The Forecast also reflects approximately $10 million of cash on hand that was transferred from these subsidiaries to NEGT in conjunction with the sales.	The Forecast assumes that $4 million of sale holdbacks are released to NEGT in Q3 2005. Although NEGT does not expect any indemnification liability in conjunction with these sales, the claims period does not expire until August 16, 2005 and September 15, 2005 for the Marengo and Conaway sales, respectively.
[e] Spruce Power Sale	In March 2005, NEGT sold its common stock of Spruce Power Corporation to American Consumer Industries Inc. for $15.5 million. Spruce Power Corporation is an NEGT subsidiary that owns a 25% interest in Colstrip Energy Limited Partnership, a 37 MW waste coal fired facility located in Colstrip, Montana. There were no holdbacks associated with the sale.	Not applicable.
[f] Sale of Miscellaneous Assets	Not applicable.	Reflects the sale of two peaking facilities near San Diego, CA in Q3 2005 and the sale of Liberty Generating development site in

National Energy & Gas Transmission, Inc.
Footnotes - Summary of Cash Sources and Uses
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Footnote Reference	Actuals (November 2004 – June 2005)	Forecast (July 2005 & Thereafter)
		Q4 2005. The Forecast reflects the low range of potential sale values and there may be an opportunity to increase sale proceeds by an incremental $2 million.
[g] Repayment of Intercompany Notes from Subsidiaries	Reflects the repayment of intercompany notes from NEGT subsidiaries to NEGT Inc. These payments were authorized in order to transfer cash from the subsidiaries to NEGT Inc. for potential distribution to creditors pursuant to the NEGT Plan of Reorganization.	Not applicable.
[h] Dividends from NEGT Inc. Subsidiaries	Represents dividends that have been approved by various Boards of NEGT subsidiaries to NEGT Inc. These dividends were authorized in order to transfer cash from the subsidiaries to NEGT Inc. for potential distribution to creditors pursuant to the NEGT Plan of Reorganization.	Reflects the dividend of all residual cash from NEGT subsidiaries to NEGT Inc.
[i] Interest Income at NEGT Inc.	Represents interest earned on the cash balances held at NEGT Inc. as a result of its investments in money market funds and other short-term, conservative holdings.	Represents interest earned on the cash balances held at NEGT Inc. as a result of its investments in money market funds and other short-term, conservative holdings.
[j] PG&E Corporation Tax Settlement	Not applicable.	▪ Pursuant to the NEGT – PG&E Corporation ("PG&E") Tax Settlement, NEGT made representations regarding its 2004 taxable income prior to deconsolidation from PG&E (January – October 2004). If NEGT's taxable income exceeded the threshold, it would be required to make payments to PG&E based on the cash impact of the higher taxable income. ▪ Pursuant to the Tax Settlement, NEGT was required to reserve $20 million cash for a period that expires 60 days after the delivery of NEGT's 2004 tax statements. Based on the delivery of information to PG&E at the end of June 2005, the Company expects the full $20 million reserve to be released by the end of Q3 2005.
[k] Tax Payments from	Pursuant to the NEGT – USGenNE Tax Sharing Agreement	NEGT expects to utilize substantial tax losses from the final

Footnote Reference	Actuals (November 2004 – June 2005)	Forecast (July 2005 & Thereafter)
USGenNE	that was approved by the Bankruptcy Court, the parties agreed, among other things, that USGenNE would be a component of NEGT's consolidated tax return and that NEGT would reimburse USGenNE for any tax losses that it utilized from this subsidiary in the NEGT consolidated return. Alternatively, USGenNE agreed to reimburse NEGT its portion of taxable income that was included in the NEGT consolidated tax return. As a result of this agreement, USGenNE paid NEGT approximately $8 million for taxable income that it generated during the period.	write-off of this subsidiary that would cause payments due from NEGT to USGenNE in June 2006. Since these payments would result in a transfer of cash to USGenNE that would ultimately be returned to NEGT (due to the 100% recovery in the USGenNE bankruptcy), the parties do not expect such payments would be made.
[l] Bear Swamp Claim Recovery / USGenNE Remaining Distributions	Not applicable.	NEGT is forecast to receive a minimum of approximately $145 million for its allowed claim against USGenNE and for the remaining distributions to which it is entitled as USGenNE's indirect parent. Pursuant to the Bear Swamp Settlement Agreement, NEGT received an allowed claim against USGenNE for approximately $71 million, which was fully paid in July 2005. NEGT is also expected to receive residual cash from the USGenNE estate as disputed claim reserves are reduced through settlements and all allowed claims are paid. The Forecast is based on the mid-case recovery analysis for USGenNE, and there may be an opportunity to increase the final distributions received by NEGT from USGenNE based on the favorable settlement of several disputed claims.
[m] Recovery of Allowed Claims Against Energy Trading ("ET")	Not applicable.	▪ In October 2004, the Bankruptcy Court entered an order to approve the settlement of certain intercompany claims between NEGT and ET, including tax balances and guarantees / letters of credit issued by NEGT on behalf of ET. The court order established these balances as allowed claims in the respective bankruptcy cases. ▪ NEGT's expected reimbursement for the allowed claims are based on the recovery rates provided in the ET Plan of Reorganization (ET – Gas = 100% and ET – Power =

Footnote Reference	Actuals (November 2004 – June 2005)	Forecast (July 2005 & Thereafter)
		35%) and adjusted for certain provisions of the NEGT – ET settlement.
[n] Recovery of ET Tolling Guarantees (Caledonia / Southaven)	Not applicable.	Represents the potential recovery of amounts paid by NEGT on behalf of ET as a result of its guarantee of ET's tolling agreements with Caledonia and Southaven. These disputed claims are not expected to be resolved until Q4 2005 pursuant to an arbitration process and the final outcome cannot be accurately estimated at this time. Please see "Estimated Creditor Recoveries" section herein for further discussion of the ET tolling agreement litigation.
[o] G&A (Net of Subsidiary Reimbursement)	Reflects corporate level expenses for functions such as accounting, information technology, insurance, human resources, legal, tax and treasury. During the period, NEGT was able to recover a portion of these costs from its IPP, USGenNE and ET operating subsidiaries.	Represents the expected cost to complete the liquidation of NEGT and its subsidiaries. Significant items include employee costs, IT-related expenses, long-term storage, insurance and rent expense.
[p] Severance & Retention (Net of Subsidiary Reimbursement)	▪ Represents the court-approved severance and retention plan payments for the Company's corporate level employees. ▪ Severance payments equal to three to six months of salary were paid to approximately sixty terminated employees. Also, five executive officers received severance payments equal to one year salary as provided by their employment agreements. The severance payments also include each employee's pro-rata share of contractual incentive payments based on the number of months of service in the current fiscal year. ▪ Employees were also eligible to participate in the Company's court-approved retention plan. Under the program, employees received fractional quarterly retention payments with the majority of the award paid at the time of their severance. The awards, which began accruing in June 2004, range from 10-75% of annual salary and are based on	Represents the remaining payments for approximately 40 employees pursuant to the Company's severance and retention program. The cost per employee is higher in the Forecast period compared to the Actuals due to the longer accrual period for retention and incentive payout awards, which began accruing in June 2004. In addition, the Company will not receive reimbursement from its operating divisions for corporate level severance and retention costs, which were received prior to the various sales.

Footnote Reference	Actuals (November 2004 – June 2005)	Forecast (July 2005 & Thereafter)
	employees' expected level of responsibility in the liquidation efforts.	
[q] Professional Fees	Reflects professional fees for all ordinary course and bankruptcy professionals, including legal, financial advisors and audit services. These payments include approximately $4 million of fee holdbacks that were required by the Bankruptcy Court pending final approval of the invoices. In addition, there was a significant amount of payments related to pre-emergence professional fees that were paid during this period due to timing differences in the billing cycle.	Reflects professional fees for all professionals who will be required for the wind-up of NEGT operations, including legal, financial advisors and audit services.
[r] Transaction / Emergence Costs	Primarily reflects transaction fees paid upon emergence from bankruptcy and the closure of asset sales, as follows: Lazard ($15.0 million), Alvarez & Marsal ($5.1 million), Houlihan Lokey ($2.2 million).	The Forecast reflects the transaction / emergence cost fees paid to Alvarez & Marsal pursuant to its agreement with the NEGT Creditors' Committee.
[s] Estimated Tax Payments (State & Federal)	▪ NEGT generated taxable income in 2004 primarily due to gains from its asset sales during the year. The Company believes that it will be able to offset a majority, if not all, of the 2004 taxable income with tax losses generated in 2005. ▪ Through consultation with its tax advisor, NEGT has elected to adopt a Section 6164 extension whereby it was allowed to pay only the portion of its 2004 Federal taxes which is not expected to be offset by 2005 Federal tax losses (related to Federal AMT). ▪ As a result, NEGT remitted a tax payment of approximately $14 million for Federal AMT. Separately, NEGT remitted $11 million for state taxes in the first half of 2005.	The Forecast includes a $10 million estimate for 2005 state taxes which are expected to be paid in 2006.
[t] IRS Interest Expense	Not applicable.	Pursuant to the Section 6164 extension strategy outlined in Footnote [s] above, NEGT is required to pay interest on the unpaid federal tax balance of approximately $225 million until the 2005 tax return is filed in 2006. Based on an estimated IRS

National Energy & Gas Transmission, Inc.
Footnotes - Summary of Cash Sources and Uses
As of July 2005

Footnote Reference	Actuals (November 2004 – June 2005)	Forecast (July 2005 & Thereafter)
		interest rate of 6% per annum, NEGT would pay approximately $12 million of interest.
[u] Interest on Notes	Represents interest paid on the Tranche A/B Notes that were issued to Class 3 claimholders pursuant to the NEGT Plan of Reorganization.	Not applicable.
[v] Note Redemptions	Reflects the December 2004 redemption of the Tranche A/B Notes that were issued to Class 3 claimholders pursuant to the NEGT Plan of Reorganization.	Not applicable.
[w] Payments to Class 3 Claimants / Shareholders	Through June 30, 2005, NEGT has made $540 million of Class 3 creditor distributions. The Company estimates that approximately 83% of these funds have been paid to allowed Class 3 claimholders and the remainder is being held by a third party trustee pending the resolution of disputed claims ($267 million as of June 30, 2005).	Future distributions will be considered by the NEGT Board of Directors from the following sources: ▪ Distributions received from USGenNE, ▪ Payment from ET for allowed claims, ▪ Release of sale holdbacks and other escrows, ▪ Dividends of cash balances held by other NEGT subsidiaries, ▪ Potential reimbursement of NEGT payments for ET toll guarantees, and ▪ Reduction in contingency reserve that is discussed in Footnote [x] herein.
[x] NEGT Inc. Projected Ending Cash Balance	Not applicable.	The NEGT Board has authorized the establishment of a $200 million reserve for contingent liabilities identified by the Company. All residual cash that remains upon the resolution of these contingent claims will be distributed to the NEGT creditors / shareholders.

National Energy & Gas Transmission Inc.
Summary of Estimated Creditor Recoveries
As of July 2025

Claims	Footnote Reference	Expected Claims Range Unfavorable	Expected Claims Range Favorable
Allowed	[aa]	$ 3,464,864	$ 3,464,864
Valid Claim / Contingent Amount			
Caledonia	[bb]	250,000	0
Southaven	[bb]	176,209	0
Liberty	[cc]	20,447	0
All Other	[dd]	6,786	0
		453,441	0
Disputed Items			
Bear Swamp Claims	[ee]	0	0
USGenNE Committee Claim	[ee]	0	0
Attala Tax Indemnification	[ff]	240,091	7,604
All Other	[gg]	27,176	0
		267,268	7,604
Total Claims		4,185,574	3,472,469

Creditor Distributions		Expected Creditor Distribution Range	
Note Redemptions (Dec 2004)	[hh]	1,000,000	1,000,000
Actual Payments to Class 3 Claimants / Shareholders	[ii]	540,000	540,000
Future Payments to Class 3 Claimants / Shareholders	[jj]	437,413	612,413
Total Distributions		$ 1,977,413	$ 2,152,413

	Projected Creditor Recovery Range	
Total Class 3 Creditor Recovery	**47%**	**62%**

Memo: Distributions Received by Allowed Claimholders as of 6/30/05 37%

National Energy & Gas Transmission Inc.
Footnotes - Summary of Estimated Creditor Recoveries
As of July 2005

Footnote Reference	Comment
[aa] Allowed Claims	Represents claims which have been allowed by the Bankruptcy Court pursuant to the NEGT Plan of Reorganization and other approved settlements. Through June 30, 2005 holders of these claims have received distributions equal to approximately 37 cents for every claim dollar.
[bb] Caledonia / Southaven Claims	ET Power entered into separate Tolling Agreements (collectively, the "Agreements") with Southaven and Caledonia, dated as of June 1, 2000 and September 20, 2000, respectively. Pursuant to the Agreements, Southaven and Caledonia were to deliver and sell to ET Power, and ET Power was to purchase, all of the electrical capacity, ancillary services, fuel conversion services and various other products from electric generating facilities in Mississippi. NEGT guaranteed ET Power's obligations under the Agreements. On November 12, 2002, ET Power notified Southaven and Caledonia of an event of default as a result of their failure to meet certain requirements respecting the ability of the facility to inject output into the applicable control area. ET Power contended that Southaven and Caledonia were not able to cure their defaults within the period specified in the Agreements and, accordingly, on February 4, 2003, ET Power provided notice to Southaven and Caledonia of its termination of the Agreements. On February 7, 2003, Southaven and Caledonia filed emergency petitions against ET Power in the Circuit Court for Montgomery County, Maryland (the "State Court Action") to compel arbitration or, in the alternative, for a temporary restraining order. On March 3, 2003, Southaven and Caledonia obtained an order requiring ET Power to continue to perform its obligations under the Agreements. ET Power filed an appeal and, on March 24, 2003, ET Power commenced arbitration proceedings against Southaven and Caledonia. The arbitration and the State Court Action were stayed as of the Petition Date. The Agreements provide for damages in the event of material breach (*i.e.*, a termination payment), subject to a $500 million cap for each contract ($1 billion combined), against ET Power. As part of the Agreements, NEGT has provided payment guarantees of $250 million for Caledonia and approximately $176 million for Southaven. Determination of the termination payment is based on a formula that takes into account a number of factors, including such market conditions as the price of power and the price of fuel. Because of changes in market conditions over time, it is difficult to precisely quantify the amount of any potential termination payment. NEGT, by way of defense, has claimed that Caledonia and Southaven breached the tolling agreement by failing to provide adequate assurances of future performance (including failure to ensure interconnection) when such assurances were requested by ET Power starting in the fall of 2002. NEGT also asserts these parties failed to post a $50 million letters of credit as required by the Agreement, and they are, therefore, ineligible to receive a termination payment due to its default. Finally, as to the amount of the termination payment (should one be due), NEGT asserts that Southaven and Caledonia are using a methodology that overstates the amount under the terms of the tolling agreement.

National Energy & Gas Transmission Inc.
Footnotes - Summary of Estimated Creditor Recoveries
As of July 2005

Footnote Reference	Comment
	These disputed claims are currently in arbitration and are not expected to be resolved prior to Q4 2005. The final outcome of the arbitration cannot be accurately estimated at this time.
[cc] Liberty Claim	Liberty Electric Power, LLC ("Liberty") filed proofs of claim against ET Power and NEGT based on amounts allegedly owed with respect to a certain tolling agreement between ET Power and Liberty. NEGT and its former affiliate, Gas Transmission Northwest, Inc. ("GTN") guaranteed ET Power's obligations under the Tolling Agreement (the "Guarantee") for $140 million. Arbitration proceedings on the matter concluded and, pursuant to the arbitrator's decision, ET Power was found to be liable to Liberty in the amount of $140 million, plus interest. In accordance with the terms of the sale of GTN, the face amount of the Guarantee ($140 million) was reserved in escrow and held back from the purchase price, and this amount has been released to Liberty. However, Liberty has asserted that it can first apply the Guarantee to post-petition interest and legal fees (which would total approximately $20 million) and then to the $140 million award. Liberty would then assert claims for approximately $20 million against ET Power and NEGT for the unpaid balance of the $140 million award. NEGT and ET dispute that the funds can be allocated in such a manner, and maintain that under applicable law, the Liberty claim has been fully satisfied. A hearing on this matter was held before the Bankruptcy Court on May 12, 2005. Although no order has yet issued from the Bankruptcy Court, the court issued a memorandum decision indicating its agreement with Liberty as to the issue of interest, but finding that Liberty has no entitlement to legal fees. Once an order confirming the decision is entered on the docket, the parties will have an opportunity to appeal.
[dd] All Other	Represents several claims related to guarantees made by NEGT Inc. on behalf of its subsidiaries. Although the Company does not dispute the validity of these assertions, the claim amount is contingent on the outcome of settlement negotiations and creditor recoveries at the NEGT subsidiary level.
[ee] Bear Swamp Claims / USGenNE Committee Claim	Pursuant to the USGenNE Plan of Reorganization, the $205 million claim against NEGT by Bear Swamp claimants was expunged. Moreover, the USGenNE Creditors' Committee withdrew its $185 million against NEGT. NEGT released funds that were previously held in its Disputed Claims Reserve to its allowed claimholders on June 30, 2005 due to the reduction in the level of claims.
[ff] Attala Tax Indemnification	The Attala Facility was purchased in September 2000 by Attala Generating Company, LLC ("AGC"), an NEGT affiliate. In May 2002, AGC entered into two complex leveraged sale/leaseback transactions, which included multiple agreements between several different entities, which agreements included several NEGT guaranties. Ten proofs of claim related to the Attala Facility remain outstanding. The six claimants are VCC Attala OP LLC and TCC Attala OP LLC (the "Owner Participants"); VCC Attala OL LLC and TCC Attala OL LLC (the "Owner Lessors"); and BATCL-1987 II, Inc., and Newcourt Capital USA, Inc. (the "Sole Owners," together with the Owner Participants and Owner Lessors, the "Attala Owner Entities"). The two claims

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Footnotes - Summary of Estimated Creditor Recoveries
As of July 2005

Footnote Reference	Comment
	filed by each Owner Participant and Sole Owner relate primarily to a Tax Indemnity Agreement, which was guaranteed (with certain exceptions) in the Indemnity Guaranties from NEGT to the Owner Participants. The Owner Participant claims are related to the Tax Indemnity Agreement and total $240.1 million. The Owner Participants also seek $2.3 million for fees and expenses incurred as a result of AGC's alleged breaches under a general indemnity. The Sole Owners' claims duplicate the Owner Participant Claims and also seek $240.1 million under the Tax Indemnity Agreement and $2.3 million under a general indemnity. The remaining two claims, filed by the Owner Lessors, do not deal with the Tax Indemnity Agreement issues and are very similar to the resolved Attala claims. The Owner Lessors claim they are owed $300 million under a Tolling Guaranty. The Debtors filed objections to the claims of each Attala Owner Entity on January 27, 2005 (the "Attala Objections"). On April 4, 2005, the Attala Owner Entities filed a response to the Debtors' Attala Objections and Motion for Partial Summary Judgment. On June 1, 2005, the Debtors filed a Reply Brief in Further Support of their Attala Objections and a Response to the Attala Owner Entities' Motion for Partial Summary Judgment. The Attala Owner Entities filed a reply in support of their Motion on June 15, 2005. In the Attala Objections, NEGT objected to the Sole Owners' claims because they are entirely duplicative of the Owner Participants' claims and the Sole Owners are not parties to NEGT's Indemnity Guaranties. NEGT objected to the Owner Lessors' claims because they duplicate claims that were settled in the Attala Settlement and because the Owner Lessors have no standing to make a claim under the Tolling Guaranty. NEGT objected to the claims of the Owner Participants for several reasons, including but not limited to the facts that AGC's obligations under the TIA and/or NEGT's obligations under the Indemnity Guaranties have not been triggered; and, even if the obligations are triggered, the Owner Participants' calculations are improper and would result in a windfall. Management believes that if NEGT owed money under the TIA and Indemnity Guaranty, then it should be limited to the after-tax cash benefits that the equity lost, which are approximately $7.6 million. There is a hearing on the Motion for Partial Summary Judgment and a Status Hearing on the Attala Claims Objections scheduled for August 11, 2005. For the purposes of the Estimated Creditor Recovery calculation, NEGT does not reflect the duplicative claims discussed above and includes a range of potential claims from $7.6 million to $240.1 million.
[gg] All Other	Includes all other disputed claims. NEGT has objected to these claims and expects them to be resolved through the Bankruptcy Court.
[hh] Note Redemptions	Reflects the December 2004 redemption of the Tranche A/B Notes that were issued to Class 3 claimholders pursuant to the NEGT Plan of Reorganization. As of June 30, 2005, approximately 83% of these funds have been distributed to the allowed claimholders and the remainder is being held by a third party pending the resolution of certain contingent and disputed claims.

National Energy & Gas Transmission Inc.
Footnotes - Summary of Estimated Creditor Recoveries
As of July 2005

Footnote Reference	Comment
[ii] Actual Payments to Class 3 Claimants / Shareholders	Through June 30, 2005, NEGT has made $540 million of Class 3 creditor distributions. Approximately 83% of these funds have been distributed to the allowed claimholders and the remainder is being held by a third party in accordance with the NEGT Plan of Reorganization pending the resolution of certain contingent and disputed claims.
[jj] Future Payment to Class 3 Claimants / Shareholders	▪ Future distributions will be considered by the NEGT Board of Directors from the following sources: – Sale of miscellaneous assets, – Distributions received from USGenNE, – Payment from ET for allowed claims, – Release of sale holdbacks and other escrows, – Dividend of cash balances held by other NEGT subsidiaries, – Potential reimbursement of NEGT payments for ET toll guarantees, and – Unused portion of the contingency reserves authorized by the NEGT Board ▪ The incremental future payments in the Favorable Scenario are caused by the following assumptions: – The Favorable Scenario assumes that $150 million of the contingency reserve is released to the Class 3 claimants / shareholders. The Unfavorable Scenario assumes that the full reserve is used to fund contingent liabilities. – The Favorable Scenario also reflects the realization of an incremental $25 million from the potential opportunities that are identified throughout the Cash Sources and Uses analysis. These incremental cash sources include the sale of miscellaneous assets, distributions from USGenNE, the repayment of intercompany balances / guarantees with ET and the release of sale holdbacks and other escrows.

Forward-Looking Statements

The "Summary of Cash Sources and Uses" and "Summary of Estimated Creditor Recoveries" may contain "forward-looking statements". Such forward-looking statements may include, without limitation, statements about the Company's market opportunities, strategies, competition and expected activities and expenditures, and at times may be identified by the use of words such as "may", "will", "could", "should", "would", "project", "believe", "anticipate", "expect", "plan", "estimate", "forecast", "potential", "intend", "continue" and variations of these words or comparable words. Forward-looking statements inherently involve risks and uncertainties. Accordingly, actual results may differ materially from those expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, the following:

The outcome of various disputed claims in which the Company is litigating;

The inability to release certain sale holdbacks and other escrows;

The reduction in cash receipts from former subsidiaries in the form of allowed claims and other distributions;

The inability to complete asset sales that are included in the Forecast

The ability to achieve operating and financial targets;

The ability to retain qualified management and personnel;

Potential liabilities and other claims that may be asserted against the Company;

Changes in general economic conditions; and

The outcome of the Company's continuing efforts to monitor, maintain, and comply with appropriate laws, regulations, policies and procedures.