

Rates and Regulatory Affairs
Facsimile: 503.721.2532



November 1, 2007

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
550 Capitol Street N.W., Suite 215
P.O. Box 2148
Salem, OR 97308-2148

Attention: Filing Center

Re: Affiliated Interest Agreements Application

Northwest Natural Gas Company (“NW Natural”) hereby submits an application for Affiliated Interest Agreements between NW Natural and Palomar Gas Transmission, LLC, pursuant to Oregon Revised Statute (“ORS”) Section 757.495 and Oregon Administrative Code Section 860-027-0040 (“OAR”).

Some of the terms and conditions of the Precedent Agreements constitute trade secrets, and are subject to a confidentiality obligation set forth in Section 6(p) of the Precedent Agreements. This information has actual commercial value, and gives its user an opportunity to obtain a business advantage over competitors who do not know or use it. For this reason, NW Natural respectfully requests that certain portions of this Filing and the attached exhibits be treated confidentially in accordance with OAR 860-011-0080, and ORS Sections 192.501 and 192.502. Confidential information in this Filing has been marked confidential, and is printed on yellow paper and separately attached to this Filing. A redacted, public version of the document has also been provided.

Please direct any questions regarding this filing to Elisa Larson at (503) 220-2354.

Sincerely,

/s/ Inara Scott

Inara K. Scott
Manager, Regulatory Affairs

enclosure

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

Northwest Natural Gas Company)

Docket No. UI _____

**FILING OF AGREEMENTS BETWEEN NW NATURAL AND
AN AFFILIATED INTEREST**

Pursuant to Oregon Revised Statute (“ORS”) Section 757.495 and Oregon Administrative Code Section 860-027-0040 (“OAR”), Northwest Natural Gas Company (“NW Natural”) hereby makes this Filing of Agreements between NW Natural and an Affiliated Interest (the “Filing”) with the Public Utility Commission of Oregon (the “Commission”) regarding two interstate pipeline Precedent Agreements (as defined below) between NW Natural and Palomar Gas Transmission, LLC, a Delaware limited liability company (“PGT”), an affiliated interest. The Precedent Agreements are described more fully below.

Some of the terms and conditions of the Precedent Agreements constitute trade secrets, and are subject to a confidentiality obligation set forth in Section 6(p) of the Precedent Agreements. This information has actual commercial value, and gives its user an opportunity to obtain a business advantage over competitors who do not know or use it. For this reason, NW Natural respectfully requests that certain portions of this Filing and the attached exhibits be treated confidentially under the Public Records Law in accordance with OAR 860-011-0080, and ORS Sections 192.501 and 192.502.¹

¹ Confidential information in this Filing has been marked confidential, and is printed on yellow paper and separately attached to this Filing. A redacted, public version of the document has also been provided.

Pursuant to ORS Section 757.495, NW Natural respectfully requests that the Commission enter findings that the agreements are fair, reasonable and not contrary to the public interest, and also issue an order to this effect. In support of this Filing, NW Natural provides the following information:

I. BACKGROUND

A. STATUTORY REQUIREMENTS

ORS Section 757.495(1) requires that when a public utility, such as NW Natural, enters into any contract to make any payment, directly or indirectly, to any person or corporation having an affiliated interest, for items, including, services, which shall be recognized as an operating expense or capital expenditure in any rate valuation or any other hearing or proceeding, the contract shall be filed with the Commission within ninety (90) days of execution. Following the submission of such contract, the Commission is to promptly examine and investigate the contract. If, after such investigation, the Commission determines that the contract is fair and reasonable and not contrary to the public interest, sub-section (3) of the statute requires the Commission to enter such findings and an order to this effect and serve a copy thereof on the public utility, whereupon any expenses and capital expenditures incurred under such contract may be recognized in any rate valuation or other hearing or proceeding.

In this Filing, NW Natural is submitting two Precedent Agreements for interstate pipeline transportation service to the Commission as required under ORS Section 757.495. This Filing is required because under the Precedent Agreements, the counterparty and sponsor of the interstate pipeline project, PGT, is an affiliated interest of

NW Natural and any payments made by NW Natural under such Precedent Agreements would be recognized as an operating expense or capital expenditure, as appropriate. Additionally, OAR Section 860-027-0040 sets forth the Commission's specific requirements for a filing made under ORS 757.495 and NW Natural provides such specific information in Part II hereof.

B. THE PALOMAR PIPELINE PROJECT

1. General Background

PGT has proposed the construction and operation of a new pipeline known as the Palomar Pipeline, an approximately two hundred twenty (220) mile natural gas pipeline to be regulated by the Federal Energy Regulatory Commission ("FERC"). The pipeline route is expected to extend west and north from an interconnection with the Gas Transmission Northwest Corporation ("GTN") existing system near Madras, Oregon to an interconnection with NW Natural near Molalla, Oregon (the "Eastern Zone"). The Palomar Pipeline is then expected to extend from Molalla, Oregon to an interconnection with NW Natural (the "Nehalem Interconnection") in the vicinity of the Nehalem River proximate to the town of Mist, Oregon, and from the Nehalem Interconnection generally northward to an interconnection with the Bradwood Landing Pipeline or other mutually agreed upon delivery points (the "Western Zone") (collectively, the Eastern Zone and the Western Zone are referred to as the "Palomar Pipeline" or the "Palomar Project"). As described in more detail herein, PGT is a wholly owned subsidiary of Palomar Gas Holdings, LLC, a Delaware limited liability company ("Holdings"), of which NW Natural is a fifty percent (50%) member.

A pipeline system like the Palomar Pipeline is not a new idea. In fact, the concept of an interstate pipeline system across Oregon has existed for many years. For example, Portland General Electric Company (“PGE”) and NW Natural discussed extending a line from the GTN (then known as the Pacific Gas Transmission) line in the Bend-Redmond area across the Cascades to the Salem-Albany area, to serve PGE generating plants in the Willamette Valley. However, the plans for the extension were dropped in May of 1993.² On an off since 1993, NW Natural and GTN have explored the concept of an “Oregon Lateral” project. For NW Natural, adding a new direct connection with an alternate interstate pipeline to be used to transport natural gas to its Oregon core market has always made sense from a reliability and risk management perspective.

In more recent years and as discussed further in sub-section 2 below, NW Natural has emphasized the importance of developing an alternate interstate pipeline. NW Natural has identified dependence on a single pipeline as a significant risk in its 2006 annual report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”).³ Further, Standard & Poor’s Rating Services has identified NW Natural’s reliance on a single pipeline as a weakness among major credit rating factors.⁴

² See Jeanie Senior, *Piping South*, *The Oregonian*, July 7, 1993 at E09; Richard Colby, *NW Natural Gas, PGE Join to Bring New Energy to NW*, *The Oregonian*, January 26, 1993 at C08.

³ NW Natural stated in Item I-A, Risk Factors, of Form 10-K filed with the SEC on February 28, 2007, for the year ended December 31, 2006: “Single transportation pipeline. We rely on a single pipeline for the transportation of gas to our service territory. We are largely dependent on a single, bi-directional pipeline for transportation of gas into our service territory. Our results of operations may be negatively impacted if there is a rupture in the pipeline and we incur costs associated with actions taken to mitigate disruption of service.”

⁴ Standard & Poor’s Ratings Direct Research regarding NW Natural dated April 25, 2007.

PGT held an open season for the Palomar Pipeline, which open season commenced in September 2006 and extended through February 2007. During this time period, PGT solicited requests for firm transportation service on the proposed pipeline. NW Natural was among the potential shippers that expressed an interest in firm transportation service. Subsequent to the open season, NW Natural and PGT negotiated the Precedent Agreements, which were executed on August 3, 2007.

On September 4, 2007, FERC accepted PGT's request to initiate the National Environmental Policy Act ("NEPA") pre-filing review process, during which the environmental aspects of the proposed Palomar Pipeline will be reviewed.

2. Purpose and Need for the Palomar Pipeline

The Palomar Project will significantly improve the reliability of the natural gas transmission infrastructure serving NW Natural and its approximately 641,000 customers and will help respond to the growing demand for additional natural gas supplies in the Pacific Northwest. Nearly all of NW Natural's gas supply purchases made on behalf of its core distribution customers in Oregon and Washington are of gas produced in the Western Canadian Sedimentary Basin (British Columbia and Alberta), and the U.S. Rocky Mountains. Depending on the purchase location, NW Natural transports the gas into the Pacific Northwest region using one of two major U.S. interstate pipelines – GTN or Northwest Pipeline GP ("NWP"). However, because NWP is the only interstate pipeline directly connected to NW Natural's distribution system, NW Natural is entirely dependent upon NWP for the final transportation to its service territory of nearly all of its

core gas purchases (there is a small amount of Oregon native gas purchased that is not transported on any interstate pipeline).

This reliance on a single interstate pipeline transporter has been a concern of NW Natural from a reliability perspective for many years. For example, in 1995, 1996, 1997 and 1999, NWP experienced pipeline ruptures and compressor station outages in addition to the imposition of operational flow orders on NW Natural and other shippers that restricted or threatened to restrict their use of NWP. More recently, in 2003, NWP experienced pipeline failures that resulted in a Corrective Action Order being issued from the U.S. Department of Transportation and NWP's abandonment of two hundred sixty eight (268) miles of 26 inch pipeline between Sumas and Washougal, Washington.⁵ Thus, there is an important need for the Palomar Project, particularly because the creation of a second direct connection with an interstate pipeline diversifies NW Natural's interstate gas transportation options and will help improve reliability for its core customers.

Additionally, the Palomar Project maintains NW Natural's ability to access gas in different geographic supply regions of Canada or the U.S. Rockies, which access is expected to help NW Natural to mitigate price volatility. Overall, the Palomar Project is expected to assist NW Natural's ability to maintain highly-reliable service to its customers while expanding natural gas pipeline capacity into the region.

⁵ See, 112 FERC ¶ 61,269 (2005)

The Western Zone of the Palomar Project – between Molalla and Mist – is also important because it will enable NW Natural to move gas supplies received from the Palomar Project to other parts of its system (besides Molalla) where such gas supplies are needed. Additionally, this segment would allow NW Natural to receive LNG supplies in the event that an LNG project is built.

C. PRECEDENT AGREEMENTS

On August 3, 2007, NW Natural and PGT entered into a Precedent Agreement for Firm Natural Gas Transportation Service on the Eastern Zone (the “Eastern Zone Precedent Agreement”) and a Precedent Agreement for Firm Natural Gas Transportation Service on the Western Zone (the “Western Zone Precedent Agreement”) (collectively, the Eastern Zone Precedent Agreement and the Western Zone Precedent Agreement are referred to herein as the “Precedent Agreements”).

1. General Terms of the Precedent Agreements

Both Precedent Agreements set forth the terms upon which PGT will construct, operate and provide NW Natural with firm natural gas transportation service upon the Palomar Pipeline. More specifically in this regard, PGT commits to act in good faith and use commercially reasonable efforts to: (i) identify the preliminary project route within one hundred-twenty (120) days of execution of the Precedent Agreement in sufficient detail to support the initiation of the NEPA pre-filing process; (ii) file an application with FERC for a Certificate of Public Convenience and Necessity to construct and operate the Palomar Project within eighteen (18) months after execution of the Precedent Agreement; (iii) timely apply for all other necessary federal, state, and local permits and initiate

efforts to obtain landowner rights-of-way; (iv) cause completion of the project on or before the date NW Natural has requested service; and (v) obtain authority to provide the requested service on the terms and subject to the conditions in the Precedent Agreement.⁶ In addition, the Precedent Agreements describe the terms upon which NW Natural and PGT will execute a firm transportation service agreement(s) (each an “FTSA”) with respect to the Palomar Pipeline.⁷ Copies of the Eastern Zone Precedent Agreement and Western Zone Precedent Agreement are attached to this Filing as Exhibits A and B, respectively.

The Precedent Agreements essentially reflect an agreement by PGT and NW Natural to execute FTSA's for the Eastern Zone and Western Zone within thirty (30) days after PGT's receipt and acceptance of a FERC certificate for the Palomar Project, and thus do not obligate NW Natural to begin to make any pipeline transportation rate payments. The pipeline transportation rate payments documented by the Precedent Agreements would only commence after the FTSA's are executed between the parties and as provided for under the terms of the FTSA's. For illustrative purposes, in Section G of Part II, NW Natural sets forth an estimate of what the annual charge for service under the FTSA for the Eastern Zone could be if the maximum rate cap level under that FTSA is applicable.

⁶ Sections 2(a) of the Precedent Agreements.

⁷ Sections 2(b) of the Precedent Agreements.

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4. Credit Support

Additionally, both Precedent Agreements contain provisions regarding Credit Support that could require NW Natural to provide collateral to PGT if NW Natural's credit ratings fall below specified levels.³² However, at this time, given NW Natural's credit ratings, NW Natural does not anticipate that it will be required to post any collateral under these provisions.

D. AFFILIATE RELATIONSHIP WITH PGT

Effective as of August 3, 2007, NW Natural owns a fifty percent (50%) member interest in Holdings, which owns a one hundred percent (100%) member interest in PGT. GTN, a subsidiary of TransCanada Corporation, owns the other fifty percent (50%) member interest in Holdings. Because NW Natural intended to execute the Precedent Agreements with PGT as a shipper on the Palomar Pipeline, as well as to become an indirect, equal owner in PGT, NW Natural voluntarily implemented internal guidelines during the negotiations of the Precedent Agreements on behalf of its core customers in which NW Natural voluntarily imposed certain "Chinese walls" within the organization with respect to the negotiation of the "shipper" and "owner" documents. A copy of the "NWN Internal Guidelines Regarding the Palomar Gas Transmission System" dated January 2, 2007 is attached hereto as Exhibit F. Additionally, NW Natural personnel

³² See Sections 2(c) of the Precedent Agreements.

working on ownership aspects of the Palomar Project did not participate on behalf of PGT during the negotiations of the Precedent Agreements with NW Natural. NW Natural met with and briefed the Commission Staff during the negotiation process and also explained how it handled the negotiations of the Precedent Agreements.

Due to the fact that PGT is an indirect affiliate of NW Natural, NW Natural thus makes this Filing of the Precedent Agreements with the Commission pursuant to ORS Section 757.495 and OAR Section 860-027-0040. As described in this Filing, the Precedent Agreements are fair, reasonable and not contrary to the public interest.

II. INFORMATION REQUIRED TO BE PROVIDED BY OAR SECTION 860-027-0040(2)³³:

A. Applicant's exact name and the address of its principal business office:

Northwest Natural Gas Company
220 N.W. Second Avenue
Portland, Oregon 97209

³³ Subsection 3(b) of OAR Section 860-027-0040 provides that the rule is inapplicable to utilities seeking to purchase from an entity that is an affiliated interest under ORS 750.015 "any service provided under a rate or schedule rate which has been filed with an agency charged with the regulation of utilities and has been approved as just and reasonable or in compliance with another comparable standard, and is available to a broad class of customers." The rates ultimately charged to NW Natural by PGT under the FTSA's that may be executed as a result of the Precedent Agreements will be FERC-approved rates. However, the conditions of OAR Section 860-027-0040(3)(b) are inapplicable to the Precedent Agreement and therefore, NW Natural is providing the required information herein.

B. The name and address of the persons authorized, on the utility's behalf, to receive notices, inquiries, and communications regarding the information:

Elisa M. Larson
Associate Counsel
Northwest Natural Gas Company
220 N.W. Second Avenue
Portland, Oregon 97209
Telephone: (503) 220-2354
Facsimile: (503) 721-2516
Email: elisa.larson@nwnatural.com

Inara K. Scott
Manager, Rates & Regulatory Affairs
Northwest Natural Gas Company
220 N.W. Second Avenue
Portland, Oregon 97209
Telephone: (503) 721-2476
Facsimile: (503) 721-2532
Email: inara.scott@nwnatural.com

C. The relationship between NW Natural and PGT:

As stated above, each of NW Natural and GTN own a fifty percent (50%) member interest in Holdings, which owns a one hundred percent (100%) member interest in PGT. Because NWN Natural, a public utility, indirectly owns more than five percent (5%) ownership interest in PGT, NWN Natural and PGT are affiliated interests as defined in ORS 757.015(6).

D. The amount, kind, and ratio to total voting securities held, if applicable:

As stated above, NW Natural owns a fifty percent (50%) member interest in Holdings. PGT is managed by the Management Committee of Holdings. The Management Committee is comprised of two (2) members, one from NW Natural and one from GTN. The NW Natural Management Committee representatives are J. Keith White who is the Vice President of Business Development and Energy Supply and the Chief Strategic Officer of NW Natural, and Charlie Stinson, as the alternate. Mr. Stinson is not an officer of NW Natural, but is a Director in NW Natural's Project Development department.

E. A list of all officers and directors of the affiliated interest who are also officers of directors of Applicant:

PGT does not have any officers or directors. Please see NW Natural's answer to Part II(D) above for information regarding the management of PGT by the Management Committee.

F. The pecuniary interest, directly or indirectly, of any officer or director who is a party to the contract:

No officer or director is a party to the Precedent Agreements.

G. A description of the goods or services to be provided, the cost incurred in providing each of the goods or services, the market value of the goods or services if different from the costs, and the method or methods proposed for pricing those goods or services:

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H. An estimate of the amount the utility will pay annually for the goods or services and the accounts in which it will record the charges:

I. The reasons relied upon by the utility for procuring the proposed goods or services from the affiliate and benefits, if any, utility customers and the general public will derive from the provision of goods or services:

The reasons relied on by NW Natural for requesting the firm transportation services from PGT on the Eastern Zone in particular are discussed in some detail in Part I (B)(2) above. The capacity sought by NW Natural under the Eastern Zone Precedent Agreement will be beneficial to NW Natural's customers for several reasons. Currently, only one interstate pipeline serves the Pacific Northwest in the Willamette Valley and the Interstate 5 corridor in Oregon and southwest Washington. Additional infrastructure is needed to lessen the region's reliance on a single source of natural gas pipeline transportation services. Palomar Pipeline will diversify the delivery options and thus enhance service reliability to NW Natural's approximately 641,000 home, business and industrial customers. For NW Natural, 100% of the gas supplies that it purchases must be transported on the NWP system to reach its city gates. The Palomar Pipeline's direct interconnection with NW Natural's system will decrease its dependence on NWP. Such dependence is a concern particularly if NWP experiences future system outages. The

Palomar Pipeline thus provides pipeline diversity into the Portland metropolitan area and helps enhance the reliability of service for NW Natural's customers.

NW Natural also believes that the addition of a new interstate pipeline in the region will foster innovation and creativity among all of the interstate pipeline gas transportation service providers, will improve their customer service, and will create future gas transportation options.

J. A description of the procurement process and the reasons, in pertinent detail appropriate to the complexity of the procurement, relied upon by the utility for procuring the proposed goods or services without a competitive procurement process, if such a process is not used:

The typical procurement process for service on new interstate pipeline project, such as Palomar, is that first the project is announced followed by an open season process takes place in which the project sponsor solicits interest in firm transportation service on the project from potential shippers. Following the opening of the open season, NW Natural expressed interest in the receipt of firm transportation service on the Palomar Pipeline. During the months of February to August 3, 2007, representatives of NW Natural negotiated with representatives of Palomar (who were GTN and TransCanada employees), the terms and conditions and rates under which NW Natural would be interested in obtaining the firm transportation service. The parties came to an agreement and the Eastern Zone Precedent Agreement and the Western Zone Precedent Agreement were executed on August 3, 2007.

K. Transfer prices in contracts or agreements for the procurement of goods or services under competitive procurement shall presumed to be the market value, subject to the evaluation of the procurement process.

L. A copy of the proposed contract or agreement between the utility and the contracting entity:

Copies are attached as follows:

- Exhibit A PRECEDENT AGREEMENT FOR FIRM NATURAL GAS TRANSPORTATION SERVICE FOR THE EASTERN ZONE
- Exhibit B PRECEDENT AGREEMENT FOR FIRM NATURAL GAS TRANSPORTATION SERVICE FOR THE WESTERN ZONE
- Exhibit C EXTENSION OF TIME FOR TERMINATION WITHOUT PAYMENT OBLIGATION DATED AUGUST 28, 2007

Exhibit D EXTENSION OF TIME FOR TERMINATION
WITHOUT PAYMENT OBLIGATION DATED
OCTOBER 1, 2007

Exhibit E AMENDMENT TO PRECEDENT AGREEMENT FOR
FIRM NATURAL GAS TRANSPORTATION SERVICE
FOR THE WESTERN ZONE DATED OCTOBER 24,
2007

M. Copies of all resolutions of directors authorizing the proposed transactions and, if stockholders' approval has been obtained, copies of the resolutions approved by the stockholders.

Copies of the resolutions by the NW Natural Board of Directors authorizing the proposed transaction are attached as Exhibit H. No stockholders' approval was required.

III. CONCLUSION

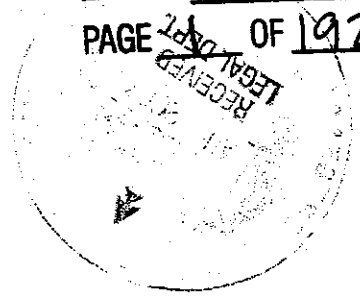
For the reasons set forth above, NW Natural respectfully submits this Filing and requests that the Commission determine that the Precedent Agreements are fair and reasonable and not contrary to the public interest, and that the Commission enter findings and an order to this effect.

Respectfully submitted,

Northwest Natural Gas Company

By: /s/ Gregg S. Kantor
Gregg S. Kantor
President and Chief Operating Office

DATED: November 1, 2007



**PRECEDENT AGREEMENT FOR
FIRM NATURAL GAS TRANSPORTATION SERVICE
FOR THE EASTERN ZONE**

This Precedent Agreement for Firm Natural Gas Transportation Service on the Eastern Zone (“**Eastern Zone Precedent Agreement**” or “**Eastern Zone FTFA**”) is entered into as of August 3, 2007, by and between Palomar Gas Transmission, LLC, a Delaware limited liability company (“**Sponsor**”), and Northwest Natural Gas Company, an Oregon corporation (“**Shipper**” or “**NW Natural**”). Sponsor and Shipper are referred to herein individually as “**Party**” and collectively as the “**Parties.**”

RECITALS

WHEREAS, Sponsor desires to design, engineer, permit, build and operate a new Federal Energy Regulatory Commission (“**FERC**”) regulated interstate pipeline extending west and north from an interconnection with Gas Transmission Northwest Corporation’s (“**GTN**”) existing system near Madras, Oregon to (i) an interconnection with NW Natural near Molalla, Oregon (the “**Eastern Zone**”) and (ii) from Molalla, Oregon to an interconnection with NW Natural (the “**Nehalem Interconnection**”) in the vicinity of the Nehalem River proximate to the town of Mist, Oregon, and from the Nehalem Interconnection generally northward to an interconnection with the Bradwood Landing Pipeline or other mutually agreed upon delivery points (the “**Western Zone**”; each of the Eastern Zone and the Western Zone being referred to herein as a “**Project Zone**” and collectively as the “**Project**”);

WHEREAS, Sponsor held an open season commencing during September 2006 and extending from time-to-time to run through February 2007, soliciting requests for capacity on the Project;

WHEREAS, Shipper desires to obtain firm transportation service on the Eastern Zone;

WHEREAS, the Parties desire to enter into a binding precedent agreement that: (i) sets forth the terms upon which Sponsor will construct and operate the Eastern Zone and provide Shipper with Service (as defined below); and (ii) sets forth the terms upon which the Parties will execute a firm transportation service agreement with respect to the Eastern Zone as described herein;

NOW, THEREFORE, in consideration of the understandings and mutual covenants herein assumed, and for other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

AGREEMENT

1. SERVICE; RATES; DURATION.

(a) Service. Subject to the conditions set forth herein, including without limitation the conditions set forth in Section 3, any applicable terms and conditions that may be imposed by the FERC, and the terms and conditions of Sponsor's FERC Gas Tariff, Shipper shall purchase, and Sponsor shall provide, the firm natural gas transportation service described on Exhibit A attached hereto (the "Service"). The Service shall be provided pursuant to a Firm Transportation Service Agreement for the Eastern Zone ("Eastern Zone FTSA"), as described in Section 2(b) below, entered into in accordance with the terms and conditions set forth below:

(b) Rates. The Transportation Rate ("Rate") Shipper shall pay for Service shall be either:

Option 1: The maximum recourse rate for firm service to Shipper on the Project plus any applicable surcharges; or

Option 2: A negotiated rate for the duration of the term of the Service as set forth in Exhibit C attached hereto.

Shipper has selected Option 2.

(c) Commencement Date. Subject to satisfaction or waiver of the conditions set forth in Section 3, Service under the Eastern Zone FTSA will commence on the commencement date for the Eastern Zone which shall be the later of: (i) the Requested Commencement Date for the Eastern Zone as defined on Exhibit A, or (ii) the date on which Sponsor constructs and places into service the Eastern Zone (as applicable, the "Commencement Date"). Service shall continue from the Commencement Date for the Term as set forth in Exhibit A. As of the Commencement Date, Sponsor shall stand ready to provide Service and Shipper shall be liable to Sponsor for all FERC-approved charges set forth hereunder and approved by FERC (if applicable) that are associated with the provision of such Service.

(d) Earlier Service. Notwithstanding the provisions of Section 1(c) above, if the Project is completed before the Requested Commencement Date, Shipper shall have the right, but not the obligation, to advance the Commencement Date to any date between the actual completion date and the Requested Commencement Date.

2. ADDITIONAL OBLIGATIONS OF PARTIES.

(a) Prosecution and Completion of Project; Provision of Service. Sponsor agrees to act in good faith using commercially reasonable efforts to:

(i) Within one hundred twenty (120) days after full execution of this Eastern Zone Precedent Agreement, identify to Shipper the preliminary route for the Project in sufficient detail to support the initiation of the NEPA pre-filing process.

(ii) Within eighteen (18) months after execution of this Eastern Zone Precedent Agreement, file an application, including pro forma tariff sheets and a request for a blanket certificate (“**FERC Application**”), for a Certificate of Public Convenience and Necessity to be issued by the FERC authorizing the construction and operation of the Project and providing initial rate and tariff approval, on the terms and conditions set forth herein (all referred to herein as the “**FERC Certificate**”);

(iii) Timely apply for any other necessary federal state, and local permits and initiate efforts to obtain landowner rights-of-way appropriate to the location of the Project;

(iv) Cause the completion of the Project on or before the Requested Commencement Date, and

(v) Obtain authority to provide the Service on the terms and subject to the conditions set forth herein.

(b) Execution of Firm Transportation Service Agreement. Within thirty (30) days after Sponsor’s receipt and acceptance of the FERC Certificate, in form and substance satisfactory to Sponsor in Sponsor’s sole discretion, but not materially or adversely different from the application and draft tariff filed with FERC and unless this Eastern Zone Precedent Agreement has been terminated by Sponsor in accordance with Section 4(b) or by Shipper in accordance with Section 4(c) or by Shipper according to the provisions in the attached Addendum, Exhibit C, the Parties shall execute a Firm Transportation Service Agreement (“**Eastern Zone FTSA**”) substantially similar to that form of transportation service agreement set forth in Exhibit D hereto (as may be modified by the FERC) incorporating the terms and conditions of this Eastern Zone Precedent Agreement including the Service set forth in Section 1; provided, however, that Sponsor may not use any rate, term, or condition of service that Sponsor sought as part of its FERC Application and which FERC accepted or approved as the basis for refusing to enter into the Eastern Zone FTSA.

(c) Credit Support. If at any time during the term of the Eastern Zone Precedent Agreement (or Eastern Zone FTSA) Shipper is not creditworthy (or ceases to be creditworthy) in accordance with the terms of Exhibit B, then at such times and on the basis set forth below, Shipper shall deliver to Sponsor Credit Support for its obligations hereunder. As used herein, “**Credit Support**” means, at Shipper’s option: (i) a guarantee of Shipper’s obligations under this Eastern Zone Precedent Agreement (with a minimum cap as set forth below) in a form and substance mutually acceptable to the Parties from an entity that meets the credit requirements set forth in Exhibit B, or (ii) an irrevocable

direct pay letter of credit issued by a bank or financial institution in form and substance acceptable to Sponsor and having a long term unsecured credit rating of at least "A" from Standard and Poor's and "A2" from Moody's, or (iii) cash collateral delivered to Sponsor, in an amount as set forth below (for the sake of clarity, each amount shown below supersedes and is not additive to, all prior amounts shown); provided, however, that, if at any time, the Parties are in dispute as to whether Shipper or its proposed parental guarantor is creditworthy, then until such time as such dispute is resolved, Shipper shall be required to provide the Credit Support contemplated in clause (ii) above (which shall be subject to immediate release in the event that the Parties mutually agree or it is finally determined that Shipper or its proposed parental guarantor is creditworthy):

Table of Credit Support, Timetable and Amounts

Table 1

The term "MDQ" shall mean the Shipper's requested Maximum Daily Quantity.

Shipper shall maintain its creditworthiness, either directly or through provision of Credit Support, for the term of this Eastern Zone Precedent Agreement. The Parties agree that Shipper's failure to supply or maintain Credit Support shall not (i) relieve Shipper of its other obligations under this Eastern Zone Precedent Agreement, or (ii) prejudice Sponsor's right to seek damages or performance under this Precedent Agreement. The Parties further agree that if, at any time, and from time-to-time, Shipper shall be determined creditworthy in accordance with the standards of Exhibit B, Section A hereof, Sponsor shall return to Shipper whatever form of Credit Support it then holds to secure Shipper's obligations hereunder.

The credit terms and conditions set forth in this Section 2 (c) and in Exhibit B will survive this Eastern Zone Precedent Agreement and, subject to FERC approval, will be applicable in the Eastern Zone FTSA.

For avoidance of doubt, the Parties acknowledge that, as of the date of execution of this Eastern Zone Precedent Agreement, Shipper is creditworthy in accordance with the terms of Exhibit B, and no further credit support is currently required.

(d) Cooperation. Each Party agrees to execute and deliver such other and additional instruments and documents and do such other acts as may be reasonably requested by the other Party to effectuate the terms and provisions of this Eastern Zone Precedent Agreement. Shipper expressly agrees to cooperate with, and, to file an intervention in support of the Project with FERC and cooperate with the efforts of Sponsor to obtain any regulatory or governmental approvals Sponsor deems necessary or

desirable to develop, permit, construct, own or operate the Project, in whole or in part, or otherwise to provide the Service, including without limitation the FERC Certificate, including providing any information that is reasonably requested by Sponsor in preparing applications for the federal permits or by any governmental or regulatory body in connection with such applications; provided in all cases that Sponsor is not acting in contravention of this Agreement; and provided further that Shipper has been given the opportunity for prior review.. Notwithstanding the foregoing, Shipper shall have the right to submit FERC filings, as it deems appropriate, on all rate and tariff issues and in other FERC proceedings.

(e) Reporting. As and when reasonably requested by Shipper, Sponsor shall update Shipper as to the status of the Project, and Sponsor's ability to meet its obligations hereunder and place the pipeline into service by the Requested Commencement Date. In addition and without request by Shipper, Sponsor shall (i) notify Shipper of proposed material changes to its FERC Gas Tariff and (ii) provide written notice and copies of any communications to or from Sponsor to or from third parties or governmental authorities that are reasonably likely to materially and adversely affect Sponsor's ability to complete the Project by the Requested Commencement Date or otherwise provide the Service as contemplated pursuant to the terms of this Eastern Zone Precedent Agreement.

(f) Open Season. Sponsor may, at any time, conduct an open season ("Open Season"), or modify the current Open Season, offering other parties an opportunity to acquire capacity on the Project incremental to the capacity for which Shipper has contracted under this Eastern Zone Precedent Agreement. Sponsor shall not be restricted by the terms of this Eastern Zone Precedent Agreement from constructing any size Project so long as Shipper is permitted to acquire the Service and the transportation capacity described in Exhibit A hereto at the rates prescribed herein. If Sponsor conducts an Open Season, then this Eastern Zone Precedent Agreement shall be deemed a qualified bid and Shipper shall be awarded the Service on the terms hereof.

(g) Tariff; Terms and Conditions of Service. Sponsor shall file for approval with its FERC Application a FERC Gas Tariff, substantially similar to that form of Tariff set forth in Exhibit D hereto and incorporating the terms and conditions of this Eastern Zone Precedent Agreement including the Service set forth in Section 1.

3. CONDITIONS PRECEDENT.

Notwithstanding the Parties' execution of this Eastern Zone Precedent Agreement or an Eastern Zone FTSA, Sponsor's obligation to construct and operate the Project and to provide the Service is expressly subject to the satisfaction or waiver (in the sole discretion of Sponsor) of the following conditions:

- (i) Corporate Approvals. Within sixty (60) days after the FERC Certificate is no longer subject to appellate review, Sponsor shall have obtained all corporate authorizations necessary for its

development and construction of the Project, and to provide the Service described in Section 1 hereof.

- (ii) Federal Certificate and Rights of Way. Sponsor shall have (i) received and accepted the FERC Certificate authorizing the Project; and (ii) have obtained the rights-of-way and construction permits necessary to construct the Project and provide the Service to Shipper, all in a form and substance satisfactory to Sponsor, or Sponsor shall have waived any objection to the form and substance of each of the same on or before _____; provided, however, that Sponsor may not use any rate, term, or condition of service that Sponsor sought as part of its FERC Application and which FERC accepted or approved as the basis for refusing to accept the FERC Certificate.
- (iii) Notice of Satisfaction. Sponsor shall promptly notify Shipper upon satisfaction, waiver or failure of the conditions set forth in Sections 3(i) and 3(ii) (the "Notice of Satisfaction").

4. TERM; TERMINATION.

(a) Term. Subject to the conditions precedent in Section 3 hereof and the terms in this Section 4, this Eastern Zone Precedent Agreement shall be effective as of the date first written above and shall remain in effect until the earlier of: (i) the Commencement Date for the Eastern Zone; (ii) the date on which this Eastern Zone Precedent Agreement is terminated in accordance with its terms; and or (iii)

(e) Effect of Termination. The termination of this Eastern Zone Precedent Agreement shall not relieve any Party hereto from any right, liability or other obligation, or any remedy or limitation of remedies, which has accrued or been incurred prior to the date of such termination, provided, however, neither party shall be liable for any damages to the other Party in the event of termination due to exercise by Sponsor of a condition precedent set out in Section 3. If this Eastern Zone Precedent Agreement is terminated following execution of the Eastern Zone FTSA, but prior to the date on which Sponsor commences Service for Shipper under the Eastern Zone FTSA, then the Eastern Zone FTSA shall automatically terminate upon termination of this Eastern Zone Precedent Agreement.

5. REPRESENTATIONS AND WARRANTIES.

Each Party represents and warrants to each other as follows:

(a) Such Party is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is in good standing in each other jurisdiction where the failure to so qualify would have a material adverse effect upon the business or financial condition of such Party.

(b) The execution, delivery and performance of this Eastern Zone Precedent Agreement by such Party has been, or as of the Commitment Date will be, duly authorized by all necessary action on the part of such Party in accordance with such Party's charter documents and do not and will not require the consent of any trustee or holder of any indebtedness or other obligation of such Party or any other party to any other agreement with such Party.

(c) This Eastern Zone Precedent Agreement constitutes the legal, valid, binding and enforceable obligation of such Party, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application relating to or affecting creditor's rights generally and by general equitable principles.

(d) No governmental authorization, approval, order, license, permit, franchise or consent, and no registration, declaration or filing with any governmental authority is required on the part of such Party in connection with the execution and delivery of this Eastern Zone Precedent Agreement.

(e) There is no pending or, to the best of such Party's knowledge, threatened action or proceeding affecting such Party before any court, government authority or arbitrator that could reasonably be expected to materially and adversely affect the financial condition or operations of such Party or the ability of such Party to perform its

obligations hereunder, or that purports to affect the legality, validity or enforceability of this Eastern Zone Precedent Agreement.

6. MISCELLANEOUS.

(a) Limitation of Liability/Exclusive Remedies. No Party shall be liable to any other Party under this Eastern Zone Precedent Agreement or under the Eastern Zone FTSA for any special, indirect, incidental, punitive or consequential damages of any nature, or for any lost profits, however arising even if such Party has been made aware of the possibility of such damages or lost profits. Whenever a remedy is specified in this Eastern Zone Precedent Agreement, the specified remedy shall be the sole remedy available to the Parties to the exclusion of any other rights, powers, privileges or remedies provided by law, unless it is specifically stated herein that such remedy is non-exclusive.

(b) Non-Exclusive Service. Sponsor is an open-access transporter, and is required to offer available capacity on a not unduly discriminatory basis on the Project (including extensions and/or expansions thereof) to other potential customers.

(c) Notices. All notices required or permitted under this Precedent Agreement shall be in writing and sent to:

Sponsor: Palomar Gas Transmission, LLC
1400 SW Fifth Avenue, Suite 900
Portland, Oregon 97201
Attention: General Manager
Fax No.: (503) 833-4954

And a copy to: Palomar Gas Transmission LLC
1400 SW Fifth Avenue, Suite 900
Portland, Oregon 97201
Attention: Legal Department
Fax No.: (503) 402-4004

Shipper: Northwest Natural Gas Company
220 NW Second Avenue
Attention: Director, Gas Supply
Portland, OR 97209
Fax No.: (503) 220-2421

And a copy of any termination notices, amendments or claims to:

Northwest Natural Gas Company
220 NW Second Avenue
Attention: Legal Department
Portland, OR 97209
Fax No.: (503) 721-2516

Any Party may change its address by written notice to that effect to the other Parties. Notices given hereunder shall be deemed to have been effectively given upon: (i) the first business day at the recipient's office following the day when the notice properly addressed and postpaid had been delivered to the recipient's address by registered U.S. mail, return receipt requested, or by a nationally recognized overnight courier, or (ii) the first business day at the recipient's office following the day when the sender of the notice received confirmation from its facsimile machine that such notice was successfully transmitted. It is expressly understood and agreed, however, that any notices referred to hereunder shall first be delivered by facsimile or other similar means, in accordance with the dates and time provided therein, and shall be mailed as soon as practicable thereafter.

(d) Entire Agreement. This Eastern Zone Precedent Agreement, including Exhibits A through D, sets forth all understandings and agreements between the Parties with respect to the subject matter hereof, and all prior agreements, understandings and representations, whether written or oral, with respect thereto are merged into and superseded by this Precedent Agreement.

(e) Modifications. This Eastern Zone Precedent Agreement may only be amended by an instrument in writing executed by all Parties.

(f) Governing Law. This Eastern Zone Precedent Agreement, and any actions, claims, demands or settlements hereunder shall be governed by and construed in accordance with the laws of the State of Oregon without reference to any conflicts of law principles, which might require the application of the laws of any other jurisdiction.

(g) Compliance with Law. This Eastern Zone Precedent Agreement and the obligations of the Parties hereunder are subject to all applicable laws, regulations, rules, and orders of all governmental and regulatory bodies having jurisdiction.

(h) Audit Right. Shipper shall have the right, upon reasonable notice, during business hours, and at its own cost, to inspect and audit the financial books and records and other financial data of Sponsor as reasonably required to confirm or verify, among

other things, any claimed Eastern Zone Project Costs, Shipper's Proportionate Share of the Project Costs, reconfiguration costs or other expenses claimed to have been incurred to remove Shipper's MDQ from the Project as described in Section 4(b) herein, payments by Shipper pursuant to Section 4(b) or (c) and reconfiguration costs.

(i) Dispute Resolution. Any disputes, controversies or claims that arise between the Parties (the "**Disputing Parties**") relating to this Eastern Zone Precedent Agreement (a "**Dispute**") shall be resolved by means of the following procedure:

(i) Notice of Dispute. Any Disputing Party shall give notice to the other Disputing Parties in writing that a Dispute has arisen ("**Dispute Notice**").

(ii) Informal Dispute Resolution. If the Disputing Parties have failed to resolve the Dispute within fifteen (15) business days after the Dispute Notice was given, the Disputing Parties shall seek to resolve the Dispute by negotiation between the executive officers of each Disputing Party. Such executive officers shall endeavor to meet and attempt to amicably resolve the Dispute. If the Disputing Parties are unable to resolve the Dispute through negotiation within thirty (30) business days after the Dispute Notice was given, then the Dispute shall be finally resolved through arbitration in accordance with provisions of clause (iii) below.

(iii) Arbitration. Any Dispute that is not settled pursuant to clause (ii) above shall be finally settled by arbitration in accordance with the Commercial Dispute Arbitration Rules of the American Arbitration Association (the "**AAA**") and the substantive law of the State of Oregon in effect at the time of the Dispute Notice (except as they may be modified herein or by mutual agreement of the Disputing Parties), as follows:

(1) The place of arbitration shall be Portland, Oregon and shall be conducted in the English language. The Disputing Party initiating recourse to arbitration shall give the other Disputing Party a notice of arbitration ("**Notice of Arbitration**") as provided under the AAA Rules.

(2) The arbitration proceeding shall be conducted by a tribunal (the "**Tribunal**") comprised of three (3) English-speaking arbitrators. Within fifteen (15) business days after receipt of the Notice of Arbitration, each Disputing Party shall nominate one arbitrator. Within thirty (30) business days after receipt of the Notice of Arbitration, the two appointed arbitrators shall appoint the third arbitrator, who shall serve as president of the Tribunal. If the third arbitrator is not appointed within such thirty (30) days, either party may request AAA to appoint such third arbitrator.

(3) After the statement of defense has been submitted and before any subsequent substantive submission, each Disputing Party shall

have the right to request the other Disputing Party and any nonparties to produce certain specified documents or categories of documents.

(4) Initially, and unless the Tribunal directs otherwise, each Disputing Party shall bear its own expenses in connection with any arbitration hereunder, including reasonable attorneys' fees, and shall share equally the costs of arbitration. As part of the arbitration award, the Tribunal shall decide how the Disputing Parties shall bear such costs of arbitration. Each party shall bear its own legal fees associated with the arbitration.

(j) Waiver. Unless otherwise specifically indicated herein, any waiver, consent or approval of any kind or character by a Party of any term or condition set forth in this Eastern Zone Precedent Agreement, or of any breach or default hereunder, shall be given or withheld in the sole discretion of the waiving, consenting or approving Party and all such waivers, consents or approvals shall be in writing. No delay or omission to exercise any right, power or remedy accruing to any Party as the result of any breach or default hereunder shall impair any such right, power or remedy, nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of any similar breach or default thereafter occurring, nor shall any waiver of any single breach or default be deemed or otherwise constitute a waiver of any other breach or default theretofore or thereafter occurring.

(k) Drafting. For the purposes of contractual interpretation, the terms, conditions and provisions of this Eastern Zone Precedent Agreement shall not be construed against any Party as a result of the preparation or drafting thereof.

(l) Filing. Either Party may file this Eastern Zone Precedent Agreement with the FERC and shall use commercially reasonable efforts to maintain confidential treatment with respect to this Eastern Zone Precedent Agreement in connection with any such filing.

(m) Exhibits. The following Exhibits and Schedules are attached hereto and expressly made part of this Eastern Zone Precedent Agreement:

Exhibit A: Terms of Service

Exhibit B: Credit Requirements

Exhibit C: Addendum

Exhibit D: Pro Forma Tariff

(n) Counterpart Execution. This Eastern Zone Precedent Agreement may be executed in counterparts, and all such executed counterparts shall form part of this

Eastern Zone Precedent Agreement. A signature delivered by facsimile shall be deemed to be an original signature for purposes of this Eastern Zone Precedent Agreement.

(o) Severability. In the event that any of the provisions of this Eastern Zone Precedent Agreement are held to be unenforceable or invalid by a court of competent jurisdiction, the Parties shall negotiate an equitable adjustment to the provisions of this Eastern Zone Precedent Agreement with a view toward effecting to the extent possible the original purpose of this Eastern Zone Precedent Agreement, and the validity and enforceability of the remaining provisions, or portions or applications thereof shall not be affected thereby.

(p) Confidentiality. This Eastern Zone Precedent Agreement and the terms set forth herein are confidential and the Parties agree not to disclose such terms other than as otherwise set forth in this Agreement and as required by applicable laws, regulations or any securities exchange; provided that, unless otherwise restricted by applicable law or regulations, each Party may disclose the terms hereof to each of their and their respective Affiliates' officers, employees, agents, lenders and other advisors that have a bona fide need to know such information and to potential assignees of their interests under this Eastern Zone Precedent Agreement that have agreed to use this information only for the purposes intended herein and who agree to keep such information confidential, provided further, that the disclosing party shall be responsible for any such breach of these confidentiality provisions by the parties to which it disclosed such information. The provisions of this Section 6(p) shall survive termination of this Eastern Zone Precedent Agreement until the date that is two (2) calendar years after the Corporate Approval Date, provided, however that the Parties acknowledge that Sponsor may file this Eastern Zone Precedent Agreement with the FERC as necessary or desirable to support its certificate application, and Shipper may file this Eastern Zone Precedent Agreement with the Public Utility Commission of Oregon ("OPUC") and the Washington Utilities and Transportation Commission ("WUTC") (or otherwise describe the Eastern Zone Precedent Agreement to the OPUC and the WUTC) as necessary or desirable to support regulatory approval to enter into this Eastern Zone Precedent Agreement; provided, however, that Shipper shall take all such action as reasonably possible to insure information regarding this Eastern Zone Precedent Agreement provided to the OPUC and WUTC remains confidential to the maximum extent possible.

(q) Publicity. The Parties agree to use reasonable efforts to cooperate and coordinate public announcements related to the Project and the development and announcement of any open season for the Project.

(r) Assignment. Subject to the provisions of this Section 6(r), this Eastern Zone Precedent Agreement shall be binding on Sponsor, Shipper and their respective successors and assigns. Shipper may not assign this Eastern Zone Precedent Agreement or any rights or obligation hereunder without first obtaining the prior written consent of Sponsor, which consent shall not be unreasonably withheld or delayed, provided, however, that Shipper may, without the consent of Sponsor, assign this Eastern Zone

Precedent Agreement to an affiliate, provided further that such affiliate meets the Credit Requirements as set forth in this Eastern Zone Precedent Agreement. Affiliate shall be defined as any company, partnership or corporation which (i) directly or indirectly controls such Party; (ii) is directly or indirectly controlled by such Party; or (iii) is directly or indirectly controlled by a company or corporation which directly or indirectly controls such Party; where "control" means the right to exercise votes attaching to more than fifty percent (50%) of the voting shares of the company, partnership or corporation in question. In no event shall the pipeline be rolled into an existing interstate or intrastate pipeline system without Shipper's prior written consent.

(s) Surviving Terms. The following provisions of this Eastern Zone Precedent Agreement shall survive termination of the Eastern Zone Precedent Agreement, and extend until termination of the Eastern Zone FTSA (unless otherwise specified):

- (i) Section 2(c), Credit Support
- (ii) Payment obligations, if any, with respect to Section 4, Term, Termination
- (iii) Section 6(i), Dispute Resolution
- (iv) Section 6(p), Confidentiality
- (v) Exhibit B
- (vi) Exhibit C

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Parties hereto executed this Eastern Zone
Precedent Agreement as of the first date hereinabove written.

Palomar Gas Transmission, LLC

Northwest Natural Gas Company

Signed: [Signature]
Name: Henry P. Weiss Sr
Title: GM

Signed: [Signature]
Name: Gregg S. Kantor
Title: President and COO

Exhibit A

Terms of Service

Term: 20 years with a requested commencement date (“**Requested Commencement Date**”) of November 1, 2011.

Zone(s)	Delivery Point	Receipt Point	Maximum Daily Quantity (Dth/D)
Eastern	Molalla	GTN mainline interconnection	100,000

Exhibit B

Credit Requirements

A Shipper will be considered creditworthy if it meets the following conditions:

A. Evidence that Shipper, or Shipper's guarantor, has an unenhanced senior unsecured debt ("SUD") rating of at least BBB- by Standard & Poor's, Baa3 by Moody's, or an equivalent rating as determined by Sponsor. In the event that a split rating occurs between rating agencies, Sponsor will rely upon the lower of the ratings. This rating must be a "foreign currency" rating if the participant is domiciled outside of the United States. "Local currency" ratings are unacceptable unless the participant's local currency is US Dollars (e.g. Puerto Rico). If Shipper, or Shipper's guarantor, does not have an SUD rating by a recognized service, Shipper may request an equivalent rating. In general, such equivalent rating will be based on the audited financial statements for the Shipper's two (2) most recent fiscal years, all interim reports, and any other relevant information; **or**

B. Sponsor and Shipper mutually agree to other credit arrangements. Such other credit arrangements shall be accepted on a nondiscriminatory basis; **and**

C. The absolute credit limit for the Shipper, or Shipper's guarantor, must be equal to or greater than the amount defined in Table 1 of this Eastern Zone Precedent Agreement under the "Minimum Cap for Credit Support through Guarantee or Rating". Sponsor will establish the absolute credit limit for the Shipper and promptly report to Shipper, in writing, this amount. The credit evaluation will use all relevant information, but will be heavily weighted by the Shipper's credit rating, tangible net worth, financial ratios (e.g., Debt/Equity, Debt service coverage ratio), and third party analysis (e.g., equity analysts, Moody's KMV, etc.). This absolute credit limit may be modified at anytime during the Eastern Zone Precedent Agreement and Eastern Zone FTSA contracting periods.

If at anytime the credit limit for the Shipper, or Shipper's guarantor, is insufficient to meet the Shipper's credit support requirement defined in Section 2 of this Eastern Zone Precedent Agreement, Sponsor may demand collateral assurances in an amount not to exceed the collateral amounts defined in Table 1 in this Eastern Zone Precedent Agreement.

Credit Information. Sponsor may require, prior to execution of the Eastern Zone Precedent Agreement, or at any future time as Sponsor deems necessary to conduct ongoing credit evaluations of Shipper, that the Shipper shall provide Sponsor with any or all of the following information and criteria to allow Sponsor to determine the Shipper's Creditworthiness:

1. Two (2) years of audited financial statements and annual reports from the Shipper or Guarantor.

2. Shipper shall provide a bank reference and at least two trade references. The results of reference checks and any credit reports submitted herein must show that Shipper's obligations are being paid on a reasonably prompt basis
3. List of Affiliates, Parent companies, and Subsidiaries.
4. Statement of Legal Composition.
5. Most recent filed statements with the Securities and Exchange Commission ("SEC").
6. For public entities, the most recent publicly available interim financial statements, with an attestation by its Chief Financial Officer, controller, or equivalent (CFO) that such statements constitute a true, correct, and fair representation of financial condition prepared in accordance with Generally Accepted Accounting Principles (GAAP) or equivalent.
7. For state-regulated utility local distribution companies, documentation from their respective state regulatory commission (or an equivalent authority) for an authorized gas supply cost recovery mechanism which fully recovers both gas commodity and transportation capacity costs and is afforded regulatory asset accounting treatment in accordance with GAAP or equivalent.
8. Shipper is required to provide written notice to Transporter within two days of filing a report (other than an annual or quarterly report) with the SEC or other equivalent foreign regulatory body that Shipper is required to file as a result of a material event or corporate change affecting its financial condition. Such notice shall include a general description of the nature and reason for the filing and to the extent such report is not available electronically, Shipper shall provide Transporter with a copy of the report. Shippers that are not subject to SEC reporting requirements, but have a parent that is, shall comply with respect to any such filing by their parent.
9. Shipper shall provide a list of owners and/or shareholders of entity, if privately held.

Exhibit C
Addendum

FERC GAS TARIFF
PRO FORMA ORIGINAL VOLUME NO. 1
OF
Palomar Gas Transmission, LLC
FILED WITH THE
FEDERAL ENERGY REGULATORY COMMISSION

Communications Concerning This Tariff
Should Be Addressed To:

John A. Roscher - Director
Rates and Regulatory Affairs
Palomar Gas Transmission, LLC
1400 SW Fifth Avenue, Suite 900
Portland, OR 97201

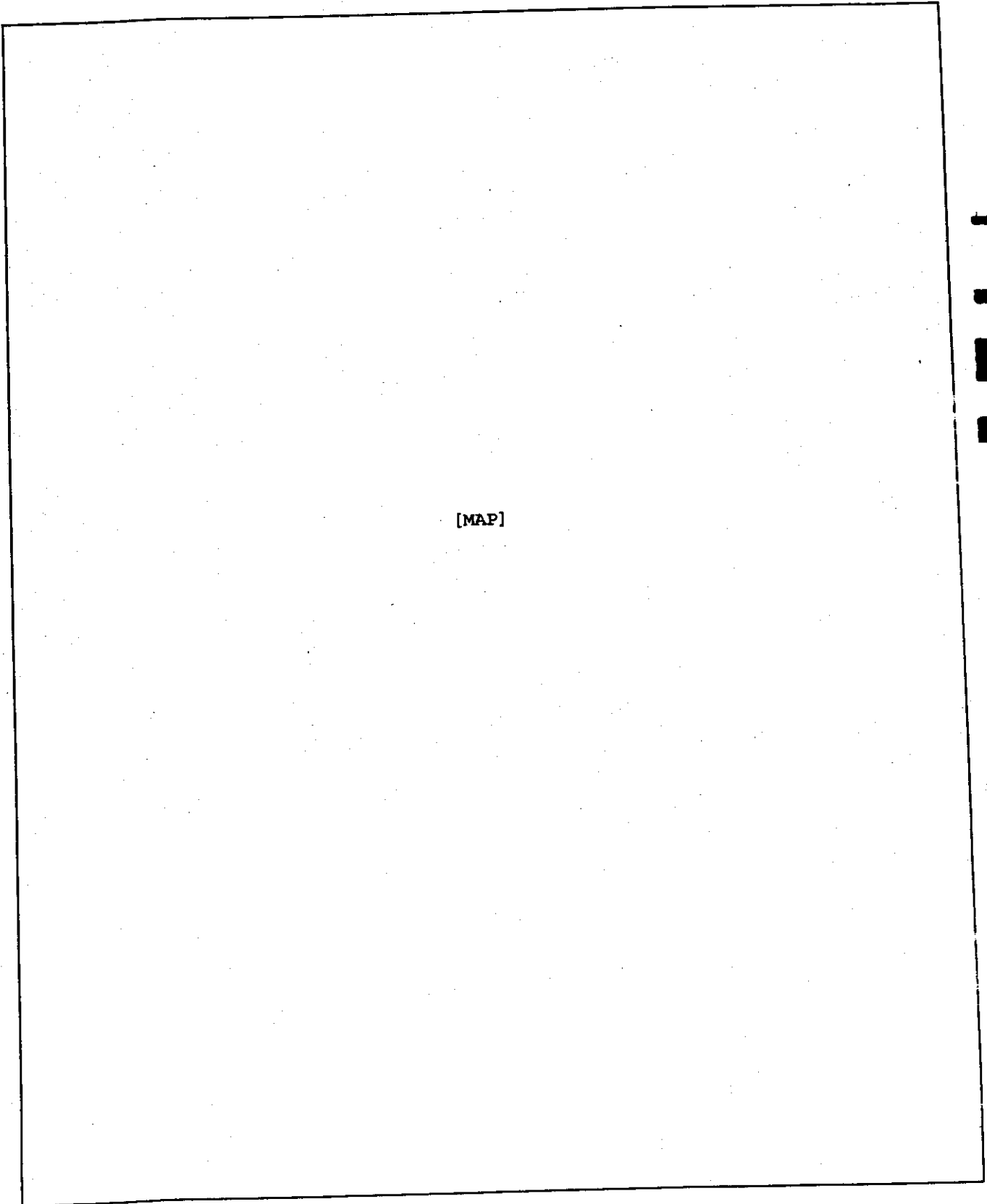
Telephone: (503) 833-4254
Facsimile: (503) 833-4918

PRELIMINARY STATEMENT

Palomar Gas Transmission, LLC ("Transporter") is a natural gas pipeline transportation system extending approximately 108 miles from an interconnection with the facilities of Gas Transmission Northwest Corporation near Madras, Oregon extending west and terminating at an interconnection with Northwest Natural Gas Company near Molalla, Oregon. Transporter offers open access transportation service under the laws and regulations of the United States and the Federal Energy Regulatory Commission ("FERC").

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet No. 3



[MAP]

Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:

STATEMENT OF EFFECTIVE RATES AND CHARGES

Rate Schedule	Maximum Rate per Dth	Minimum Rate per Dth
Rate Schedule FTS-1		
1. Capacity Reservation Rate per Day per Dth of MDQ	\$x.xxxxxx	\$x.xxxxxx
2. Delivery Rate per Dth	\$x.xxxxxx	\$x.xxxxxx
3. Fuel and Line Loss		
Maximum Volumetric Capacity Release Rate	\$x.xxxxxx	
Rate Schedule ITS-1		
1. Delivery Rate per Dth	\$x.xxxxxx	\$x.xxxxxx
2. Fuel and Line Loss		
ACA Surcharge /1		

STATEMENT OF EFFECTIVE RATES AND CHARGES

Notes:

- /1 ACA surcharge is not currently applicable, but will apply the year following Palomar's first year of operation.

STATEMENT OF EFFECTIVE RATES AND CHARGES

NEGOTIATED RATE AGREEMENTS UNDER RATE SCHEDULE FTS-1

SHIPPER	TERM OF CONTRACT	DTH/D	PRIMARY RECEIPT POINT	PRIMARY DELIVERY POINT	RATE
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STATEMENT OF EFFECTIVE RATES AND CHARGES

NEGOTIATED RATE AGREEMENTS UNDER RATE SCHEDULE FTS-1

Explanatory Footnotes for Negotiated Rates
Under Rate Schedule FTS-1

Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet No. 8

Reserved For Future Use

Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet No. 9

Reserved For Future Use

Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:

RATE SCHEDULE FTS-1
FIRM TRANSPORTATION SERVICE

1. AVAILABILITY

This rate schedule is available to any party (hereinafter called "Shipper") qualifying for service and who has executed a Firm Transportation Service Agreement with Transporter in the form contained in this FERC Gas Tariff Original Volume No. 1.

2. APPLICABILITY AND CHARACTER OF SERVICE

This rate schedule shall apply to firm gas transportation services performed by Transporter for Shipper pursuant to the executed Firm Transportation Service Agreement between Transporter and Shipper. Transporter shall receive from Shipper such daily quantities of gas up to the Shipper's Maximum Daily Quantity (MDQ) as specified in the executed Firm Transportation Service Agreement between Transporter and Shipper plus the required quantity of gas for fuel and line loss associated with service under this Rate Schedule FTS-1 and redeliver an amount equal to the quantity received less the required quantity of gas for fuel and line loss. Receipt and delivery of gas shall be made in evenly hourly rates up to a maximum hourly receipt and delivery quantity equal to one twenty-fourth (1/24th) of a Shipper's MDQ. This transportation service shall be firm and not subject to curtailment or interruption except as provided in the General Terms and Conditions of Service.

Firm transportation service shall be subject to all provisions of the executed Firm Transportation Service Agreement between Transporter and Shipper and the applicable General Terms and Conditions of Service.

3. RATES

Shipper shall pay Transporter each month the sum of the Reservation Charge, the Delivery Charge, plus any applicable Overrun Charge or surcharge for the quantities of natural gas delivered. The rate(s) set forth in Transporter's Statement of Effective Rates and Charges for Transportation of Natural Gas in this FERC Gas Tariff, Original Volume No. 1 are applied to transportation service rendered under this rate schedule.

3.1 Reservation Charge

The Reservation Charge shall be the Shipper's Maximum Daily Quantity multiplied by the Reservation Rate for service under this Rate Schedule as set forth on effective Tariff Sheet No. 4.

(Continued)

RATE SCHEDULE FTS-1
FIRM TRANSPORTATION SERVICE
(Continued)

3. RATES (Continued)

3.2 Delivery Charge

The Delivery Charge shall be the product of the quantities of gas delivered in the month (in Dth) and the Delivery Rate as set forth on effective Tariff Sheet No. 4.

3.3 Applicability of Surcharges

Shipper shall pay all reservation and usage surcharges applicable to the service provided to such Shipper as set forth in Transporter's FERC Gas Tariff, Original Volume No. 1; such surcharges shall be deemed to be part of Shipper's Reservation and Delivery Charges.

3.4 Discounts

Shipper shall pay the Maximum Reservation Charge and the Maximum Delivery Charge for service under this Rate Schedule unless Transporter offers to discount the Reservation Rate, the Delivery Rate or any discountable surcharges. If Transporter elects to discount any such rate, Transporter shall, by written notice, advise Shipper of the effective date of such charges and the quantity of gas so affected; provided, however, such discount shall not be anti-competitive or unduly discriminatory between individual shippers.

3.5 Negotiated Rates

Notwithstanding any provision of Transporter's Tariff to the contrary, Transporter and Shipper may mutually agree in writing to a Negotiated Rate (including a Negotiated Rate Formula) with respect to the rates, rate components, charges, or credits that are otherwise prescribed, required, established, or imposed by this Rate Schedule or by any other applicable provision of Transporter's Tariff. Such Negotiated Rate shall be set forth in Attachment B to the Shipper's Firm Transportation Service Agreement and Transporter shall make any filings with FERC necessary to effectuate such Negotiated Rate.

(Continued)

RATE SCHEDULE FTS-1
FIRM TRANSPORTATION SERVICE
(Continued)

3. RATES (Continued)

3.6 Backhauls

Backhauls (as defined in Paragraph 1.26 of the General Terms and Conditions of Service) shall be subject to the same charges as forward haul (as defined in Paragraph 1.25 of the General Terms and Conditions of Service) except that no gas shall be retained by Transporter for compressor station fuel, line loss and other unaccounted-for gas. Backhauls are subject to the operating conditions of Transporter's pipeline and will not be made available to Shipper if Transporter determines, in its sole discretion, that such transportation is operationally infeasible or otherwise not available.

3.7 Capacity Release

(a) Releasing Shippers:

Shipper shall have the option to release capacity pursuant to the provisions of Transporter's capacity release program as specified in the General Terms and Conditions of Service. Shipper may release its capacity, up to Shipper's MDQ under this rate schedule, in accordance with the provisions of Paragraph 19 of Transporter's General Terms and Conditions of Service of this FERC Gas Tariff, Original Volume No. 1. Shipper shall pay a fee associated with the marketing of capacity by Transporter (if applicable) in accordance with Paragraph 19 of the General Terms and Conditions of Service. This fee shall be negotiated between Transporter and the Releasing Shipper. A Shipper that releases capacity on a temporary basis remains liable for the payment of all rates and fees incurred under such service that are not paid by the Replacement Shipper.

(Continued)

RATE SCHEDULE FTS-1
FIRM TRANSPORTATION SERVICE
(Continued)

3. RATES (Continued)

3.7 Capacity Release (Continued)

(b) Replacement Shippers:

Shipper may receive released capacity service under this rate schedule pursuant to Paragraph 19 of the General Terms and Conditions of Service and is required to execute a service agreement in the form contained for capacity release under Rate Schedule FTS-1, in this FERC Gas Tariff, Original Volume No. 1.

Shipper shall pay Transporter each month for transportation service under this rate schedule and as set forth in Transporter's current Statement of Effective Rates and Charges for Transportation of Natural Gas in this FERC Gas Tariff, Original Volume No. 1. Charges to be paid shall be the sum of the Reservation Charge, Delivery Charge, and other applicable surcharges or penalties.

4. AUTHORIZED OVERRUNS

Quantities in excess of Shipper's MDQ shall be transported when capacity is available on the Transporter system and when the provision of such Authorized Overruns shall not affect any Shipper's rights on the Transporter system. Authorized Overruns are interruptible in nature. The rate charged shall be the same as the rates and charges for interruptible transportation under Rate Schedule ITS-1 as set forth on effective Tariff Sheet No. 4, and such Authorized Overruns shall be subject to the priority of service provisions of Paragraph 13 of the General Terms and Conditions of Service.

(Continued)

RATE SCHEDULE FTS-1
FIRM TRANSPORTATION SERVICE
(Continued)

5. FUEL AND LINE LOSS

For all Forward Hauls, Shipper shall furnish to Transporter quantities of gas for compressor station fuel, line loss and other utility purposes, plus other unaccounted for gas used in the operation of Transporter's pipeline system for the transportation quantities of gas delivered by Transporter to Shipper, based upon the effective fuel and line loss percentages set forth in this Tariff. No fuel charge shall apply to transactions that do not involve a forward haul movement of gas.

6. GENERAL TERMS AND CONDITIONS OF SERVICE

All of the General Terms and Conditions of Service are applicable to this rate schedule, unless otherwise stated in the executed Firm Transportation Service Agreement between Transporter and Shipper. Any future modifications, additions or deletions to said General Terms and Conditions of Service, unless otherwise provided, are applicable to firm transportation service rendered under this rate schedule, and by this reference, are made a part hereof.

Reserved For Future Use

RATE SCHEDULE ITS-1
INTERRUPTIBLE TRANSPORTATION SERVICE

1. AVAILABILITY

This rate schedule is available to any party (hereinafter called "Shipper") qualifying for service and who has executed an Interruptible Transportation Service Agreement with Transporter in the form contained in this FERC Gas Tariff, Original Volume No. 1.

2. APPLICABILITY AND CHARACTER OF SERVICE

This rate schedule shall apply to interruptible gas transportation services performed by Transporter for Shipper pursuant to the executed Interruptible Transportation Service Agreement between Transporter and Shipper. Transporter shall receive from Shipper such daily quantities of gas up to the Shipper's MDQ as specified in the executed Interruptible Transportation Service Agreement between Transporter and Shipper plus the required quantity of gas for fuel and line losses associated with service under this Rate Schedule ITS-1 and redeliver an amount equal to the quantity received less the required quantity for fuel and line loss. Receipt and delivery of gas shall be made in evenly hourly rates up to a maximum hourly receipt and delivery quantity equal to one twenty-fourth (1/24th) of a Shipper's MDQ. This transportation service shall be subject to curtailment of interruption as provided in the General Terms and Conditions of Service contained in this FERC Gas Tariff.

Interruptible transportation service shall be subject to all provisions of the executed Interruptible Transportation Service Agreement between Transporter and Shipper and the applicable General Terms and Conditions of Service contained in this FERC Gas Tariff.

3. RATES

3.1 Delivery Rates

Shipper shall pay Transporter, each month, for the transportation of quantities of natural gas delivered, the Delivery Charge, plus any applicable Overrun Charge and surcharges. The rate(s) set forth under Rate Schedule ITS-1 in Transporter's current Statement of Effective Rates and Charges for Transportation of Natural Gas in this FERC Gas Tariff, Original Volume No. 1 are applied to interruptible transportation service rendered under this rate schedule.

(Continued)

RATE SCHEDULE ITS-1
INTERRUPTIBLE TRANSPORTATION SERVICE
(Continued)

3. RATES (Continued)

3.2 Applicability of Surcharges

Shipper shall pay all surcharges applicable to the service provided to Shipper as set forth in Transporter's FERC Gas Tariff. Such surcharges shall be deemed to be part of Shipper's Delivery Charge.

3.3 Discounts

Shipper shall pay the Maximum Delivery Rate for service under this rate schedule unless Transporter offers to discount its rate to Shipper under this rate schedule. If Transporter elects to discount its rate, Transporter shall advise Shipper of the effective date of such charge and the quantity of gas so affected, provided, however, such discount shall not be anti-competitive or unduly discriminatory between individual Shippers. The rate for service under this rate schedule shall not be discounted below the Minimum Delivery Rate set forth on the Statement of Effective Rates and Charges for Transportation of Natural Gas.

3.4 Negotiated Rates

Notwithstanding any provision of Transporter's Tariff to the contrary, Transporter and Shipper may mutually agree in writing to a Negotiated Rate (including a Negotiated Rate Formula) with respect to the rates, rate components, charges, or credits that are otherwise prescribed, required, established, or imposed by this Rate Schedule or by any other applicable provision of Transporter's Tariff.

Such Negotiated Rate shall be set forth in Attachment B to the Interruptible Transportation Service Agreement and Transporter shall make any filings with the Commission necessary to effectuate such Negotiated Rate.

Shippers paying a Negotiated Rate which exceeds the maximum applicable tariff rate shall be considered to be paying the maximum applicable tariff rate for purposes of scheduling, curtailment, and interruption, and calculating the economic value of a request for available or unsubscribed capacity.

(Continued)

RATE SCHEDULE ITS-1
INTERRUPTIBLE TRANSPORTATION SERVICE
(Continued)

3. RATES (Continued)

3.5 Backhauls

Backhauls (as defined in Paragraph 1.26 of the General Terms and Conditions of Service) shall be subject to the same charges as forward haul (as defined in Paragraph 1.25 of the General Terms and Conditions of Service) except that no gas shall be retained by Transporter for compressor station fuel, line loss and other unaccounted-for gas. Backhauls are subject to the operating conditions of Transporter's pipeline and will not be made available to Shipper if Transporter determines, in its sole discretion, that such transportation is operationally infeasible or otherwise not available.

4. AUTHORIZED OVERRUNS

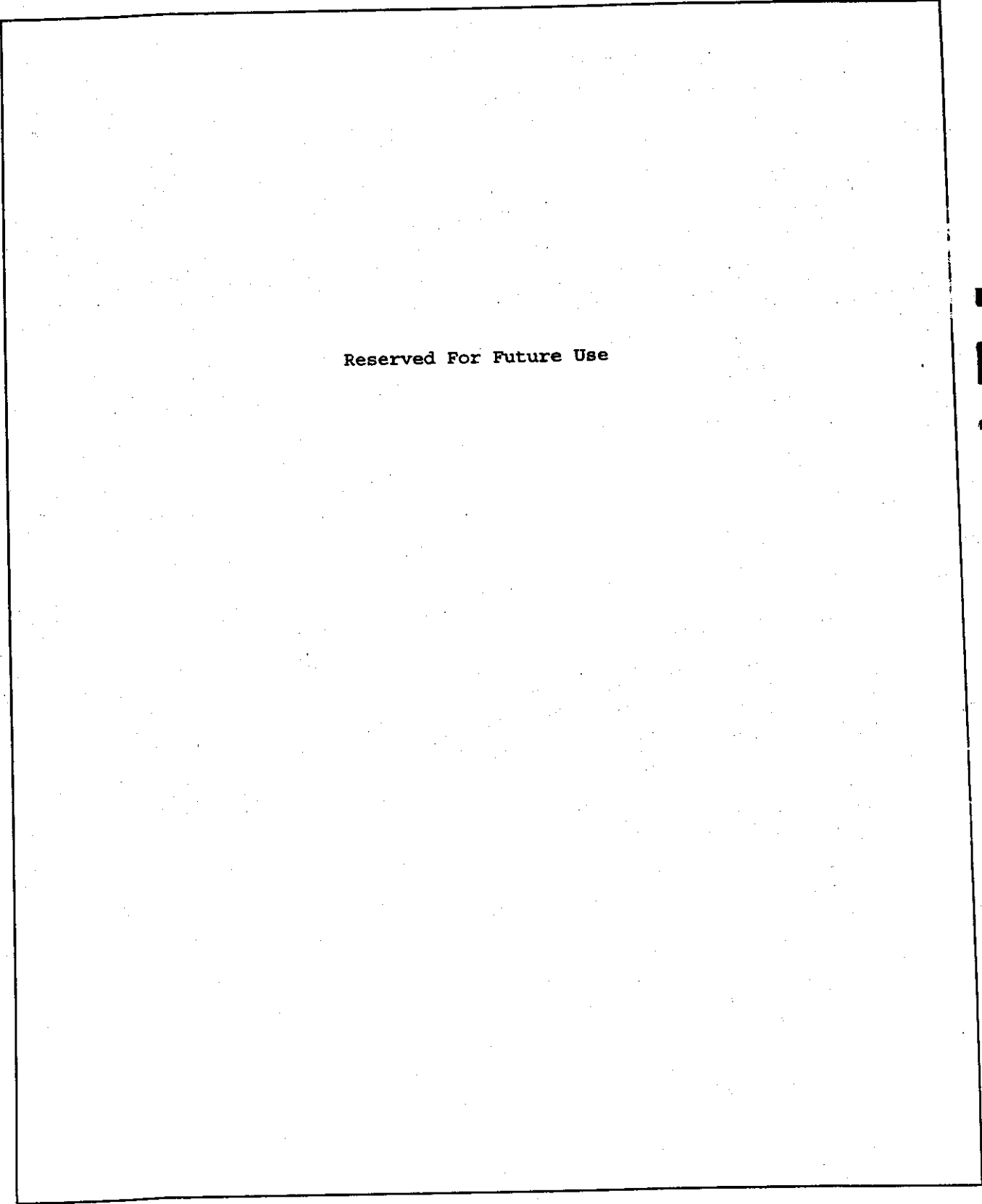
Quantities in excess of Shipper's MDQ shall be transported when capacity is available on the Transporter system and when the provision of such Authorized Overruns shall not affect any Shipper's rights on the Transporter system. Authorized Overruns are interruptible in nature. The rate charged shall be the rates and charges as specified in Paragraph 3 of this rate schedule. Authorized Overruns shall be subject to the priority of service provisions of Paragraph 13 of the General Terms and Conditions of Service.

5. FUEL AND LINE LOSS

For all Forward Hauls, Shipper shall furnish to Transporter quantities of gas for compressor station fuel, line loss and other utility purposes, plus other unaccounted for gas used in the operation of Transporter's pipeline system for the transportation quantities of gas delivered by Transporter to Shipper, based upon the effective fuel and line loss percentages set forth in this FERC Gas Tariff. No fuel charge shall apply to transactions that do not involve a forward haul movement of gas.

6. GENERAL TERMS AND CONDITIONS OF SERVICE

The General Terms and Conditions of Service are applicable to this rate Schedule, unless otherwise expressed in the executed Interruptible Transportation Service Agreement between Transporter and Shipper. Any future modifications, additions or deletions to said General Terms and Conditions of Service, unless otherwise provided, are applicable to interruptible transportation service rendered under this rate schedule, and, by this reference, are made a part hereof.



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Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet No. 30

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Issued on: Effective on:

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Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet No. 32

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Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

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FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet Nos. 35 - 99

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GENERAL TERMS AND CONDITIONS OF SERVICE

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GENERAL TERMS AND CONDITIONS OF SERVICE

1. DEFINITIONS

- 1.1 Gas Day: In accordance with NAESB Standard 1.3.1, Version 1.7, the term "Gas Day" shall mean 9:00 a.m. to 9:00 a.m. Central Clock Time (7:00 a.m. to 7:00 a.m. Pacific Clock Time).
- 1.2 Business Day: The term "Business Day" shall mean Monday through Friday, excluding U.S. Federal Banking Holidays for transactions in the United States and similar holidays for transactions occurring in Canada and Mexico.
- 1.3 Month: The word "month" shall mean a period extending from the beginning of the first day in a calendar month to the beginning of the first day in the next succeeding calendar month.
- 1.4 Maximum Daily Quantity: The term "Maximum Daily Quantity" or "MDQ" shall mean the maximum daily quantity in Dth of gas which Transporter agrees to deliver exclusive of an allowance for compressor station fuel, line loss and other unaccounted for gas and transport for the account of Shipper to Shipper's point(s) of delivery on each day during the term of Shipper's Transportation Service Agreement with Transporter.
- 1.5 Gas: The word "gas" shall mean natural gas.
- 1.6 Cubic Foot of Gas: The term "cubic foot of gas" is defined in accordance with NAESB Standard 2.3.9, Version 1.7, as that quantity of gas which measures one (1) cubic foot at standard conditions of 14.73 psia, 60 degrees F and dry. For gas volumes reported in cubic meters, the standard conditions are 101.325 kPa, 15 degrees C and dry. Standard 2.3.9, Version 1.7 states in full "Standardize the reporting basis for Btu as 14.73 psia and 60 degrees F (101.325 kPa and 15 degrees C, and dry). Standardize the reporting basis for gigacalorie as 1.035646 Kg/cm² and 15.6 degrees C and dry. Standardize the reporting basis for gas volumes as cubic foot at standard conditions of 14.73 psia, 60 degrees, F and dry. For gas volumes reported in cubic meters, the standard conditions are 101.325 kPa, 15 degrees C, and dry."
- 1.7 Mcf: The term "Mcf" shall mean one thousand (1,000) cubic feet of gas and shall be measured as set forth in Paragraph 4 hereof. The term "MMcf" shall mean one million (1,000,000) cubic feet of gas.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

1. DEFINITIONS (Continued)

- 1.8 Dekatherm: The term "Dekatherm" or "Dth" is the quantity of heat energy equivalent to one million (1,000,000) British Thermal Units (MMBtu). Dth is the standard quantity for Nominations, Confirmations and Scheduled Quantities in the United States. For purposes of this tariff and associated Service Agreements, the terms MMBtu and Dth are synonymous.
- 1.9 Btu: The term "Btu" shall mean British Thermal Unit. The term "MMBtu" shall mean one million (1,000,000) British Thermal Units. The reporting basis for Btu shall be standardized as 14.73 dry psia and 60 degrees (60°) Fahrenheit (101.325 kPa and 15.6 degrees C).
- 1.10 Gross Heating Value. The term "gross heating value" shall mean the number of Btus in a cubic foot of gas at a temperature of sixty degrees (60°) Fahrenheit, saturated with water vapor, and at an absolute pressure equivalent to thirty (30) inches of mercury at thirty-two degrees (32°) Fahrenheit.
- 1.11 Psig. The term "psig" shall mean pounds per square inch gauge.
- 1.12 Releasing Shipper: A firm transportation Shipper that intends to post its service to be released to a Replacement Shipper, has posted the service for release, or has released its service.
- 1.13 Replacement Shipper: A Shipper that has contracted to utilize a Releasing Shipper's service for a specified period of time.
- 1.14 Posting Period: The period of time during which a Releasing Shipper may post, or have posted by the pipeline, all or a part of its service for release to a Replacement Shipper.
- 1.15 Release Term: The period of time during which a Releasing Shipper intends to release, or has released all or a portion of its contracted quantity of service to a Replacement Shipper.
- 1.16 Bid Period: The period of time during which a Replacement Shipper may bid to contract for a parcel which has been posted for release by a Releasing Shipper.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

1. DEFINITIONS (Continued)

- 1.17 Parcel: The term utilized to describe an amount of capacity, expressed in Dth/d, from a specific receipt point to a specific delivery point for a specific period of time which is released and bid on pursuant to the capacity release provisions contained in Paragraph 19 of these General Terms and Conditions of Service.
- 1.18 Primary Release: The term used to describe the initial release of capacity by a Shipper to a Replacement Shipper.
- 1.19 Secondary Release: The term used to describe the release of capacity by a Replacement Shipper to a different Replacement Shipper.
- 1.20 Bid Reconciliation Period: The period of time subsequent to the Bid Period during which bids are evaluated by Transporter.
- 1.21 Match Period: The period of time subsequent to the Bid Reconciliation Period and before the notification deadline for awarding capacity for Prearranged Deals that require bidding. During this period the Prearranged Shipper may match any higher bids for the Parcel.
- 1.22 Nomination: The provision of information to Transporter necessary to effectuate a transportation transaction. Specific Nomination procedures are set forth in Paragraph 14 of these General Terms and Conditions of Service.
- 1.23 Intraday Nomination: A Nomination submitted after the Nomination deadline whose effective time is no earlier than the beginning of the Gas Day and runs through the end of the Gas Day.
- 1.24 North American Energy Standards Board Standards: The term "North American Energy Standards Boards Standards" or "NAESB Standards" shall mean the standardized business practices and electronic communication practices promulgated by the North American Energy Standards Board from time to time and incorporated in the Code of Federal Regulations by the Federal Energy Regulatory Commission.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

1. DEFINITIONS (Continued)

- 1.25 Forward Haul: The term "Forward Haul" shall refer to transportation service on Transporter's system in which the nominated direction of flow from receipt point to delivery point is in the same direction as physical gas flow on the Transporter system.
- 1.26 Backhaul: Transportation service on Transporter's system in the opposite direction of a Forward Haul as defined in Paragraph 1.25 above.
- 1.27 Primary Path: The transportation path established by the receipt and delivery points as set forth in Shipper's executed Service Agreement. A Shipper's Primary Path may be either a Forward Haul or a Backhaul as defined in Paragraphs 1.25 and 1.26 above.
- 1.28 Reverse Path: The transportation path that is in the opposite direction of that Shipper's Primary Path as defined in Paragraph 1.27 above. A Shipper's Reverse Path may be either a Forward Haul or a Backhaul as defined in Paragraphs 1.25 and 1.26 above. Reverse Path transactions rely upon secondary point rights and are subject to the operating conditions of Transporter's pipeline and will not be made available to Shipper if Transporter determines, in its sole discretion, that such transportation is operationally infeasible or otherwise not available.
- 1.29 Negotiated Rate: A rate (including a Negotiated Rate Formula) that Transporter and a Shipper have agreed will be charged for service under Rate Schedules FTS-1 or ITS-1 where, for all or a portion of the contract term, one or more of the individual components of such rate may exceed the maximum rate, or be less than the minimum rate, for such component set forth in Transporter's tariff for the given service. Any Agreement entered into after the effective date of this subsection which provides for a rate under Rate Schedules FTS-1 or ITS-1, other than the applicable maximum rate shall contain a provision setting out the mutual agreement of the parties as to whether the pricing terms represent a discounted rate or a negotiated rate.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

1. DEFINITIONS (Continued)

- 1.30 Negotiated Rate Formula: A rate formula that Transporter and a Shipper have agreed will apply to service under a specific contract under Rate Schedules FTS-1 or ITS-1, which results in a rate where, for all or a portion of the contract term, one or more of the individual components of such rate may exceed the maximum rate, or may be less than the minimum rate, for such component set forth in Transporter's Tariff for the given service.
- 1.31 Recourse Rate: The applicable maximum rate that would apply to a service but for the rate flexibility allowed under Paragraph 23 of this FERC Gas Tariff.
- 1.32 Commission: The Federal Energy Regulatory Commission.
- 1.33 Existing Capacity: Capacity that has been in-service beyond the initial terms of Agreements that originally supported the construction of such capacity. Existing Capacity additionally includes capacity that is still within such initial terms where Shipper Agreements pertaining to the capacity have been terminated by the pipeline. Existing Capacity additionally includes unsubscribed capacity created as part of a pipeline expansion project.
- 1.34 Expansion Capacity: Original system capacity or capacity that is added to the pipeline system as part of a system expansion project where such capacity is still within the initial contract term(s) of the Agreement(s) that originally supported the construction of such capacity. Expansion Capacity includes permanent releases of capacity that are within the initial term of an original Shipper's contract.
- 1.35 Cash Out Index Price: The price calculated as the average "Malin" price, as reported in Gas Daily's Daily Price Survey, for the month in which an imbalance occurs.
- 1.36 Energy Affiliate: The term "Energy Affiliate" shall have the meaning provided in Commission Order No. 2004, et seq.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

2. QUALITY OF GAS

2.1 Quality Standards: The gas which Shipper delivers to Transporter for redelivery shall at all times be merchantable gas that complies with the highest gas quality standards of all pipelines immediately downstream of Transporter. In no event shall the quality of gas delivered to Transporter be lower than the quality requirements set forth below. For avoidance of doubt, merchantable gas includes gas containing odorant provided that such gas otherwise meets the quality standards set forth herein.

(a) Heating Value: The gas shall have a gross heating value of not less than nine hundred ninety-five (995) Btus per standard cubic foot on a dry basis, but with the consent of Shipper, Transporter may deliver gas at a lower gross heating value.

(b) Freedom from Objectionable Matter: The gas:

- (1) Shall be commercially free from sand, dust, gums, crude oil, impurities and other objectionable substances which may be injurious to pipelines or which may interfere with its transmission through pipelines or its commercial utilization.
- (2) Shall not have a hydrocarbon dew-point in excess of fifteen degrees (15m) Fahrenheit at pressures up to eight hundred (800) psig.
- (3) Shall not contain more than one-quarter (1/4) grain of hydrogen sulfide per one hundred (100) standard cubic feet.
- (4) Shall not contain more than ten(10) grains of total sulphur per one hundred (100) standard cubic feet.
- (5) Shall not contain more than two percent (2%) by volume of carbon dioxide.
- (6) Shall not contain more than four (4) pounds of water vapor per one million (1,000,000) standard cubic feet.
- (7) Shall not exceed one hundred ten degrees (110m) Fahrenheit in temperature at the point of measurement.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

2. QUALITY OF GAS (Continued)

2.1 Quality Standards (Continued)

- (8) Shall be as free of oxygen as it can be kept through the exercise of all reasonable precautions, and shall not in any event contain more than four-tenths of one percent (0.4%) by volume of oxygen.

2.2 Quality Tests:

- (a) The quality specifications of the gas received by Transporter hereunder shall be determined by tests which Transporter shall cause to be made at the interconnection with the facilities of Gas Transmission Northwest Corporation near Madras, Oregon or such other locations on Transporter's system if required accordance with this Paragraph 3.2.
- (b) The gross heating value of gas delivered hereunder shall be determined from read-outs of continuously operating measuring instruments. The method shall consist of one or more of the following:
- (1) calorimeter
 - (2) gas chromatograph
 - (3) any other method mutually agreed upon by the parties.

Measurement of gross heating value with the calorimeters shall comply with the standards set forth in the American Society for Testing and Materials' ASTM D 1826. Analysis of gas with gas chromatograph shall comply with the standards set forth in ASTM D 1945. Calculation of the gross heating value from compositional analysis by gas chromatography shall comply with the standards set forth in ASTM D 3588.

Transporter or its agent shall calibrate and maintain the gross heating value measurement device at intervals as agreed upon by Transporter and Shipper. Shipper shall have access to Transporter's devices and shall be allowed to inspect the services and all charts or other records of measurement at any reasonable time.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

2. QUALITY OF GAS (Continued)

2.2 Quality Tests (Continued)

- (c) Tests shall be made to determine the total sulphur, hydrogen sulfide, carbon dioxide and oxygen content of the gas, by approved standard methods in general use in the gas industry, and to determine the hydrocarbon dew-point and water vapor content of such gas by methods satisfactory to the parties. Tests shall be made frequently enough to ensure that the gas is conforming continuously to the quality requirements. Shipper shall have the right to require Transporter to have remedied any deficiency in quality of the gas and, in the event such deficiency is not remedied, the right, in addition to all other remedies available to it by law, to refuse to accept such deficient gas until such deficiency is remedied.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

3. MEASURING EQUIPMENT

- 3.1 Installation: Unless Transporter and Shippers agree otherwise, all gas volume measuring equipment, devices and materials at the point(s) of receipt and/or delivery shall be furnished and installed by Transporter at Shipper's expense including the tax-on-tax effect, net of the present value of any prospective tax depreciation benefits. All such equipment, devices and materials shall be owned, maintained and operated by Transporter. Shipper may install and operate check-measuring equipment provided it does not interfere with the use of Transporter's equipment.
- 3.2 Testing Meter Equipment: The accuracy of either Transporter's or Shipper's measuring equipment shall be verified by test, using means and methods acceptable to the other party, at intervals mutually agreed upon, and at other times upon request. Notice of the time and nature of each test shall be given by the entity conducting the test to the other entity sufficiently in advance to permit convenient arrangement for the presence of the representative of the other entity. If, after notice, the other entity fails to have a representative present, the results of the test shall nevertheless be considered accurate until the next test. If any of the measuring equipment is found to be registering inaccurately in any percentage, it shall be adjusted at once to read as accurately as possible. All tests of such measuring equipment shall be made at the expense of the entity conducting the same, except that the other entity shall bear the expense of tests made at its request if the inaccuracy is found to be two percent (2%) or less.
- 3.3 Correction and Adjustment: If at any time any of the measuring equipment is registering inaccurately by an amount exceeding two percent (2%) at a reading corresponding to the average hourly rate of flow, the previous readings of such equipment shall be corrected to zero error for any period definitely known or agreed upon, or if not so known or agreed upon, the lesser of one-half (1/2) of the elapsed time since the last test or six (6) months from the production month with a three-month rebuttal period, provided, however, that this limitation shall not apply in the case of a deliberate omission or misrepresentation or mutual mistake of fact. The parties' other statutory or contractual rights shall not otherwise be diminished by this limitation. If the measuring equipment is out-of-service, the volume of gas delivered during such period shall be determined:

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

3. MEASURING EQUIPMENT (Continued)

3.3 Correction and Adjustment: (Continued)

- (a) By using the data recorded by any check measuring equipment accurately registering; or
- (b) If such check measuring equipment is not registering accurately but the percentage of error is ascertainable by a calibration test, by using the data recorded, corrected to zero error; or
- (c) If neither of the methods provided in (a) and (b) above can be used, by estimating the quantity delivered, by reference to deliveries under similar conditions during a period when the equipment was registering accurately.

No correction shall be made in the recorded volumes of gas delivered hereunder for measuring equipment inaccuracies of two percent (2%) or less, and in no event shall inaccuracies less than twenty-five (25) Mcf be considered for adjustment.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

4. MEASUREMENTS

4.1 Metering: The gas shall be metered by one or more orifice, turbine, ultrasonic, displacement or other-type meters, at the discretion of Transporter. All meters shall be installed and maintained, and volumes shall be measured, in accordance with applicable A.G.A. standards for the meter in question.

4.2 Specific Gravity: The specific gravity of the gas delivered hereunder shall be determined from the read-outs of continuously operating measuring instruments. The method shall consist of one of the following:

- (a) gravitometer
- (b) gas chromatography
- (c) other instruments acceptable to both parties

Analysis of chromatograph shall comply with the standards set forth in ASTM D 1945. Calculation of the specific gravity from compositional analysis by gas chromatography shall comply with the standards set forth in ASTM D 3588. Measurement of the specific gravity with a gravitometer shall comply with the standards set forth in ASTM D 1070.

4.3 Flowing Temperature: Flowing gas temperature shall be continuously measured and used in flow calculations.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

5. INSPECTION OF EQUIPMENT AND RECORDS

- 5.1 Inspection of Equipment and Data: Transporter and Shipper shall have the right to inspect equipment installed or furnished by the other, and the charts and other measurement or test data of the other, at all times during business hours; but the reading, calibration and adjustment of such equipment and changing of charts shall be done only by the entity installing or furnishing same. Unless Transporter and Shipper otherwise agree, each shall preserve all original test data, charts and other similar records in such party's possession, for a period of at least six (6) years.
- 5.2 Information for Billing: When information necessary for billing by Transporter is in the control of Shipper, Shipper shall furnish such information, estimated if actual is not available, to Transporter on or before the third (3rd) working day of the month following the month transportation service was rendered. If Shipper furnishes estimated information, the actual information shall be furnished to Transporter on or before the fifth (5th) working day of the month following the month transportation service was rendered.

Verification of Computations: Transporter and Shipper shall have the right to examine at reasonable times the books, records and charts of the other to the extent necessary to verify the accuracy of any statement, charge or computation made pursuant to these General Terms and Conditions of Service and to the rate schedules to which they apply, within twelve (12) months of any such statement, charge or computation. The time limitation for disputing allocations shall be six (6) months from the date of initial month-end allocation with a three-month rebuttal period, provided, however, that this limitation shall not apply in the case of a deliberate omission or misrepresentation or mutual mistake of fact, and shall not diminish the parties' other statutory or contractual rights. In accordance with NAESB Standard 2.3.11, Version 1.7, a meter adjustment or correction becomes a prior period adjustment after the fifth (5th) business day following the Business Month. Any measurement of prior period adjustments are taken back to the production month. These provisions are in accordance with NAESB Standard 2.3.7, Version 1.7, which establishes a cutoff for the closing of measurement of five (5) business days after business month.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

6. BILLING

6.1 Billing under all Rate Schedules: On or before the ninth (9th) Business Day of each month, Transporter shall render a bill to each Shipper under all applicable Rate Schedules for the service(s) rendered during the preceding month, which is in accordance with NAESB Standard 3.3.14, Version 1.7, which provides that the imbalance statement should be rendered prior to or with the invoice, and the transportation invoice should be prepared on or before the ninth business day after the end of the production month. Rendered is defined as postmarked, time-stamped, and delivered to the designated site.

6.2 Information for preparation of the bill: In the event that Transporter does not have the Receipt Quantities, the Shipper promises to furnish Transporter with all of the information and the material that the latter requires to calculate and verify the Receipt and Delivery Quantities.

If Transporter does not receive said information in sufficient time to be able to bill the Shipper as provided for in this Paragraph, said invoices shall be calculated based on the best estimate realized by Transporter of the Delivery Quantity provided by the Shipper. Any excess or insufficient charges resulting from the differences between the aforementioned estimates and the real amounts shall be adjusted on the subsequent bill without any interest thereon.

6.3 Third Party Charges. Shipper shall be responsible for delivering all gas to, and accepting redelivery of all Gas from, Transporter's system, and shall be free to contract with third party(ies) upstream or downstream of Transporter's system to achieve such result. If Shipper requests, and Transporter agrees, Transporter will contract with third party(ies) for the benefit of Shipper and Shipper shall pay Transporter an amount equal to the charges Transporter is obligated to pay such third party(ies), which charges may include, but are not limited to, reservation and/or usage charges and surcharges, fuel charges, compression fees, balancing or storage fees, measurement fees, processing fees, and/or facility charges. Such charges shall be set forth as separate items on billings rendered to Shipper.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

7. PAYMENT

7.1 Payment under all Rate Schedules: On or before the tenth day following the date Transporter's bill is rendered in accordance with Paragraph 6.1 of these General Terms and Conditions of Service, each Shipper under all applicable Rate Schedules shall pay to or upon the order of Transporter in lawful money of the United States at Transporter's office in Portland, Oregon, the amount of the bill rendered by Transporter. Payments in excess of \$50,000 shall be made in the form of Wire Transfer directed to a bank account designated by Transporter. In accordance with NAESB Standard 3.3.17, Version 1.7, party making payment should submit supporting documentation; party receiving payment should apply payment per supporting documentation provided by the paying party; and if payment differs from invoiced amount, remittance detail should be provided with the payment. In accordance with NAESB Standard 3.3.18, Version 1.7, Shippers shall identify invoice numbers on all payments. In accordance with NAESB Standard 3.3.19, Version 1.7, in the event a Shipper disputes any portion of the invoice, Shipper shall pay that portion of the invoice not in dispute and provide supporting documentation identifying the basis for the dispute.

7.2 Interest on Unpaid Amounts: Should Shipper fail to pay the amount of any bill rendered by Transporter when such amount is due, interest thereon shall accrue from the due date until paid at the rate of interest effective from time to time under 18 CFR Section 154.501(d).

7.3 Remedies for Failure to Pay: If a Shipper's failure to pay the undisputed portion of an invoice continues for thirty (30) days after payment is due, Transporter, in addition to any other remedy it may have, may suspend further delivery of gas until such amount is paid.

If Shipper's failure to pay extends beyond the thirty (30) day notice period, in addition to suspending service under Shipper's Transportation Service Agreement(s), Transporter shall have the right to provide notice to Shipper, the Commission, and any Replacement Shipper(s) that has obtained temporary release capacity from Shipper that if Shipper fails to make payment within fifteen (15) days, Transporter may terminate Shipper's Transportation Service Agreement(s) and may exercise any other remedy available to Transporter hereunder, at law or in equity.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

7. PAYMENT (Continued)

7.3 Remedies for Failure to Pay: (Continued)

However, if Shipper, in good faith, disputes the amount of any bill or part thereof and 1) promptly pays to Transporter the undisputed amount, and 2) furnishes to Transporter a good and sufficient letter of credit in an amount and with surety satisfactory to Transporter, or provides other assurance acceptable to Transporter guaranteeing payment to Transporter of the amount ultimately found due upon the bill after a final determination that may be reached either by agreement or by judgment of the courts, as may be the case, then Transporter shall not be entitled to automatically suspend or terminate service under the Transportation Service Agreement(s) unless and until a default is made in the conditions of the letter of credit or other assurance; provided further that should Shipper prevail on the dispute, Transporter shall reimburse Shipper up to the reasonable and customary costs of the letter of credit or other assurance provided.

7.4 Late Billing: If presentation of a bill by Transporter is delayed after the date specified in Paragraph 6.1 hereof, then the time for payment shall be extended correspondingly unless Shipper is responsible for such delay.

7.5 Adjustment of Billing Error: In accordance with NAESB Standard 3.3.15, Version 1.7, prior period adjustment time limits should be six (6) months from the date of the initial transportation invoice and seven (7) months from date of initial sales invoice with a three-month rebuttal period, excluding government-required rate changes. This standard shall not apply in the case of deliberate omission or misrepresentation or mutual mistake of fact. Parties' other statutory or contractual rights shall not otherwise be diminished by this standard.

7.6 Reservation Charge Credit (Force Majeure): As used in this Paragraph 7.6, Firm Daily Volume shall mean the volume of gas which Transporter is obligated to deliver on a firm basis at Shipper's firm delivery point(s) on a Gas Day, based on confirmable nominations for firm service within Shipper's Maximum Daily Quantity. If, due to an event of force majeure, Transporter is unable to deliver any portion of Shipper's Firm Daily Volume for a period greater than ten (10) consecutive days, then for each day beyond ten (10) days that Transporter so fails to provide service the applicable

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

7. PAYMENT (Continued)

7.6 Reservation Charge Credit (Force Majeure): (Continued)

reservation charges including applicable reservation-based surcharges shall not apply to the quantity of gas not delivered by Transporter within the Shipper's Firm Daily Volume; provided, however, that these charges shall not be eliminated to the extent that the shipper utilizes secondary point service.

7.7 Reservation Charge Credit (Non-Force Majeure): As used in this Paragraph 7.7, Firm Daily Volume shall mean the volume of gas which Transporter is obligated to deliver on a firm basis at Shipper's firm delivery point(s) on a Gas Day, based on confirmable nominations for firm service within Shipper's Maximum Daily Quantity. Except as provided for in Paragraph 7.6 of these General Terms and Conditions of Service, in the event Transporter fails to deliver on any Gas Day under any firm contract at least 98% of Shipper's Firm Daily Volume, then the applicable reservation charges including applicable reservation-based surcharges shall not apply to the quantity of gas not delivered by Transporter within the Shipper's Firm Daily Volume; provided, however, that these charges shall not be eliminated to the extent that the shipper utilizes secondary point service.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

8. AVAILABILITY OF TRANSPORTATION

8.1 Firm Transportation Service

The provisions of this Paragraph 8.1 shall be applicable to firm transportation service under Rate Schedule FTS-1 contained in this FERC Gas Tariff Original Volume No. 1.

- (a) Firm transportation service under this Tariff shall be provided when, and to the extent that, Transporter determines that firm capacity is available on Transporter's existing facilities. Transporter shall not be required to provide firm transportation service in the event firm capacity is unavailable or to construct new facilities to provide firm service.
- (b) A shipper receiving service under Rate Schedule FTS-1 that maintains compliance with Transporter's creditworthiness requirements may renew or extend its contract term pursuant to a rollover or evergreen provision of the Service Agreement. Transporter will offer rollover or evergreen provisions to similarly situated shippers on a nondiscriminatory basis.

8.2 Eligibility for Capacity

In order to be eligible for firm capacity, a party requesting service (requestor) must be deemed creditworthy per Paragraph 12.1 and submit a valid request in accordance with the provisions herein.

8.3 Available Firm Capacity

Transporter may determine from time to time that firm capacity is available on its system above amounts subject to prior firm contract. All such capacity will be posted on Transporter's Internet website. All such capacity will initially be offered through an Open Season as set forth in Paragraph 9 of the General Terms and Conditions of Service of this FERC Gas Tariff. All capacity not subscribed at the conclusion of the Open Season shall be sold on a nondiscriminatory basis.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

8. AVAILABILITY OF TRANSPORTATION (Continued)

8.4 Construction of New Firm Capacity

In the event Transporter receives requests for firm transportation service in excess of available firm capacity, or market circumstances otherwise indicate that additional capacity may be desired, Transporter may construct facilities necessary to meet additional market demand. Prior to constructing new capacity, Transporter shall hold an Open Season as set forth in Paragraph 9 below to solicit Requests for Service utilizing capacity that may be constructed. Transporter shall have no obligation to construct facilities if, in Transporter's sole determination, such facilities are not economically justifiable.

8.5 Interruptible Service

The provisions of this Paragraph 8.5 shall be applicable to interruptible transportation service under Rate Schedule ITS-1 contained in this FERC Gas Tariff Original Volume No. 1.

(a) Interruptible transportation service under this Tariff shall be provided when, and to the extent that, capacity is available on Transporter's existing facilities, which capacity is not subject to a prior claim under a pre-existing agreement pursuant to Rate Schedule FTS-1 or under another class of firm service.

(b) A shipper receiving service under Rate Schedule ITS-1 that maintains compliance with Transporter's creditworthiness requirements may renew or extend its contract term pursuant to a rollover or evergreen provision of the Service Agreement. Transporter will offer rollover or evergreen provisions to similarly situated shippers on a nondiscriminatory basis.

8.6 In the event that natural gas tendered by Shipper to Transporter at the receipt point(s) for transportation, or delivered by Transporter to Shipper (or for Shipper's account) at the delivery point(s), is commingled with other natural gas at the time of measurement, the determination of deliveries applicable to Shipper shall be made in accordance with operating arrangements satisfactory to Shipper, Transporter and any third party transporting to or from Transporter's system.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

9. OPEN SEASON PROCEDURES

9.1 Open Seasons for Existing Capacity

The provisions of this Paragraph 9.1 shall be applicable to firm transportation service under Rate Schedule FTS-1 contained in this Original Volume No. 1. Firm transportation service under this Original Volume No. 1 shall be provided when, and to the extent that, Transporter determines that firm capacity is available on Transporter's existing facilities. Transporter shall not be required to provide firm transportation service in the event firm capacity is unavailable or to construct new facilities to provide firm service.

For capacity that becomes available other than through the circumstances identified in Paragraphs 10 and 19, requests for firm capacity shall be accommodated in the following manner and subject to the following conditions and limitations:

- (a) In order to be eligible for firm capacity, a party requesting service (requestor) must be deemed credit-worthy per Paragraph 12.1 and submit a valid request in accordance with the provisions herein.
- (b) Pre-Arranged Capacity: Transporter may enter into a pre-arranged service agreement with any party for available unsubscribed capacity or capacity that will become available and is not subject to a right of first refusal; provided that Transporter will post the terms of the pre-arranged transaction and other parties will have an opportunity to bid on the capacity. At the time Transporter enters into a pre-arranged service agreement, Transporter will post a notice on its website indicating that the prearranged capacity will be subject to an open bidding process within three (3) business days, even if such capacity has already been subject to an open season bidding process and is currently posted as available capacity. If another party submits a bid with a higher incremental economic value, the pre-arranged Shipper will have a one-time right to match the higher bid in order to retain the capacity. If the prearranged Shipper elects not to match a higher competing bid, the capacity will be awarded to the highest creditworthy bidder in accordance with Paragraph 9.1(e). If there is an open season ongoing for certain capacity, Transporter will not enter into a pre-arranged deal for that capacity during the open season.

Transporter will not enter into pre-arranged service agreements with commencement dates more than three years, or thirty-six months, into the future. Transporter will

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

9. OPEN SEASON PROCEDURES (Continued)

9.1 Open Seasons for Existing Capacity (Continued)

(b) Pre-Arranged Capacity: (Continued)

separately identify on its Internet website all capacity that is anticipated to become available within the next thirty-six months. Transporter will not enter into any pre-arranged deals for capacity that has not previously been posted on its Internet website.

Capacity that is reserved under a pre-arranged deal will be made available for transportation service on an interim basis up to the commencement date of the pre-arranged service agreement.

For such interim service agreements, Transporter reserves the right to limit Shipper extension rights, including the right of first refusal, within the service agreement. Transporter will indicate in any open season posting of this capacity any limitations on extension rights that will apply to such interim transportation service.

(c) Available Capacity:

Transporter will post available capacity on its Internet website. A requestor that submits a valid request may submit a bid via the website for the available capacity subsequent to Transporter's posting of such capacity on the website. The Bid Period will be a minimum of 1 business day for capacity available for up to 1 month; a minimum of 3 business days for capacity available for greater than one month but less than one year; and a minimum of 5 business days for capacity available for one year or more. All bids not withdrawn prior to the close of the Bidding Period shall be binding. At the end of the Bidding Period, Transporter will evaluate the bids and determine the bid(s) having the greatest economic value as determined in Paragraph 9.1(e).

If Transporter determines that no bids satisfy the open season criteria, Transporter will post the capacity on its website as available unsubscribed capacity. Transporter will award such capacity on a first-come, first-served basis to shippers that offer the maximum recourse rate or an acceptable discounted or negotiated rate.

In addition to posting all currently available capacity, Transporter will separately identify on its Internet website all capacity that is anticipated to become available within the next thirty-six months.

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GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

9. OPEN SEASON PROCEDURES (Continued)

9.1 Open Seasons for Existing Capacity (Continued)

(d) After the close of the Bidding Period, Transporter may tender a Service Agreement for execution to the requestor(s) submitting the bid(s) having the greatest economic value for the capacity available, subject to the provisions of Paragraph 9.1(f).

(e) Valuation of Bids

Unless otherwise specified in its open season posting, the bid(s) with the greatest economic value will be the bid(s) with the highest net present value ("NPV") based on (1) the reservation charge and any proposed usage charge revenues guaranteed by a minimum volume commitment or otherwise that requestor(s) would pay at the rates the requestor(s) has bid, (2) the term of service specified in the request, as limited by Shipper's credit quality, and (3) Shipper's probability of default for the applicable bid term. If the economic values of separate bids are equal, then service shall be offered to such requestors on a pro-rata basis. The NPV is the discounted cash flow of the bid according to the following formula, net of revenues lost or affected by the request for service:

$$\text{Present Value per } = P * R * (1-PD) * \frac{(1+i)^n - 1}{i(1+i)}$$

where:

P = percent of the rate or charge that the Shipper is willing to pay.

R = rate or charge calculated as: the applicable maximum authorized reservation charge(s) per Dth in effect at the time of the bid for service.

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GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

9. OPEN SEASON PROCEDURES (Continued)

9.1 Open Seasons for Existing Capacity (Continued)

(d) Valuation of Bids (Continued)

PD = Shipper's probability of default for the applicable bid term. Unless otherwise specified in its open season posting, Transporter will use Standard & Poor's most recent fifteen-year "Cumulative Average Default Rates By Rating Modifier" table, as extrapolated to reflect the maximum bid term to be used for evaluation purposes, to quantify Shipper's probability of default.

i = FERC's annual interest rate divided by 12.

n = number of months for which the bidder wishes to contract.

The NPV formula will be affected by rate requested, the applicable bid term, and Shipper's probability of default. In the event Transporter intends to entertain bids for service under index-based or other Negotiated Rate Formulae, the future value of which cannot be determined at the time of the bidding, Transporter shall estimate the future revenues to be received under the Negotiated Rate Formula using currently available data.

As part of an open season posting, Transporter will provide a probability of default table and will identify any limits, based upon credit rating, to be placed on bid lengths. The probability of default table will define a bidder's probability of default based upon 1) the applicable bid term and 2) the credit rating of the shipper. Shipper credit ratings will be determined consistent with Paragraph 12.1 of these General Terms and Conditions.

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GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

9. OPEN SEASON PROCEDURES (Continued)

9.1 Open Seasons for Existing Capacity (Continued)

(e) Valuation of Bids (Continued)

The specific bid evaluation methodology to be used, including, where appropriate, the data to be used for evaluation of Negotiated Rate Formula bids, will be included as part of Transporter's open season posting under Paragraph 9.1(c) with sufficient specificity to allow a prospective shipper to calculate the value of its bid and duplicate Transporter's results.

Irrespective of whether a bid(s) has the highest NPV of the bids received, Transporter may reject bids for service that (i) may detrimentally impact the operational integrity of Transporter's system; (ii) do not satisfy all the terms of the specified posting; or (iii) contain terms and conditions other than those set forth in Transporter's FERC Gas Tariff.

If the NPV of any Negotiated Rate revenues would exceed the NPV of the revenue stream produced by paying the Maximum Rate over the same period of time, then the Shipper bidding the Negotiated Rate shall be considered to be paying the Maximum Rate for the purpose of determining the bid with the highest economic value.

(f) If Transporter accepts the winning bid(s) and tenders a Service Agreement, requestor(s) shall complete and return the Service Agreement on a timely basis.

(g) Except as provided in Paragraph 19, Transporter shall not be obligated to tender or execute a Service Agreement for service at any rate less than the Maximum Rate set forth in the Statement of Effective Rates and Charges for Transportation of Natural Gas applicable to the service requested.

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GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

9. OPEN SEASON PROCEDURES (Continued)

9.2 Open Seasons for New Capacity

In the event Transporter receives requests for firm transportation service in excess of Available Firm Capacity, or market circumstances otherwise indicate that additional capacity may be desired, Transporter may hold an open season to assess the viability of constructing facilities necessary to meet additional market demand.

An Open Season for New Capacity will comply with the requirements of Paragraph 9.1 above, with the following modifications.

- (a) Transporter will publish its intent to hold an open season for new capacity in relevant papers and trade press and on its Internet website.
- (b) Open Seasons for new capacity will have a minimum term of five (5) business days.
- (c) After receiving bids from prospective Shippers in an Open Season, Transporter will provide a rationalization period to allow existing holders of firm capacity an opportunity to meet market demand demonstrated in the Open Season.
- (d) Transporter will select bids on a nondiscriminatory basis, provided, however, Transporter reserves the right to select bids in a manner designed to produce an economic expansion.

9.3 Open Seasons Under Right of First Refusal

Under Transporter's Right of First Refusal procedures, open season bids will be evaluated consistent with the procedures set forth in Paragraph 9.1 above. Right of First Refusal procedures are set forth in Paragraph 10 of these General Terms and Conditions of Service.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

10. RIGHT OF FIRST REFUSAL UPON TERMINATION OF FIRM SHIPPER'S SERVICE AGREEMENT

Firm Shippers (original capacity holders) under Transporter's firm transportation rate schedules of this FERC Gas Tariff, Original Volume No. 1 who: (1) hold capacity for terms greater than or equal to one (1) year at the maximum authorized reservation charge or rate; or (2) hold multi-year seasonal contracts at the maximum authorized reservation charge or rate, shall have the right of first refusal at the expiration of their service agreements, subject to the following procedures. Original capacity holders must notify Transporter one (1) year prior to the primary expiration date of their service agreements whether they elect to terminate or not to terminate the service agreements.

One (1) year prior to the expiration of the service agreement, Transporter will post a notice on its Internet website that the original capacity holder's service agreement will expire and whether the original capacity holder has either elected or not elected to terminate pursuant to this paragraph.

10.1 In the event original capacity holder elects termination, original capacity holder shall no longer hold a right of first refusal and Transporter shall subject the capacity to a bidding process. Transporter will commence open bidding no later than three (3) months prior to the service agreement expiration. The bid period will be no less than five (5) business days in duration. Transporter will announce the bid winner(s) as soon as practicable after the close of the bid period, provided, however, that Transporter will have no obligation to accept any bid(s) at rates less than the maximum applicable rate in effect. Tied bids will be awarded on a pro rata basis. Winning Shipper(s) and Transporter must execute a new firm transportation service agreement prior to service commencement or within thirty (30) days of a capacity award, whichever is sooner.

10.2 In the event original capacity holder does not elect termination, Transporter will commence open bidding no later three (3) months prior to the service agreement expiration. The bid period will be no less than five (5) business days in duration. Transporter will notify the original capacity holder of any acceptable bid(s) as soon as practicable, provided, however, that Transporter will have no obligation to accept any bid(s) at rates less than the maximum applicable rate in effect. Acceptable bids will be those having the greatest economic value as determined in Paragraph 9.1(e) of these General Terms and Conditions of Service. In the event that Transporter does not receive any acceptable bids, the original capacity holder shall not be entitled to continue to receive transportation service upon

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GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

10. RIGHT OF FIRST REFUSAL UPON TERMINATION OF FIRM SHIPPER'S SERVICE
AGREEMENT (Continued)

10.2 (Continued)

the expiration of its contract except by agreeing to pay the maximum applicable tariff rate. If Transporter accepts any bid(s), the original capacity holder will have ten (10) business days from the date of notice to match the accepted bid(s) in order of economic value (highest to lowest), provided that the original capacity holder shall not have to match any bid rate higher than the maximum applicable rate. Transporter will announce the winning bid(s) as soon as practicable after the close of the match period. If the original capacity holder matches an accepted bid, the associated capacity is awarded to the original capacity holder. If the original capacity holder does not match an accepted bid, the capacity shall be awarded to the highest acceptable bid(s). If there is more than one equivalent winning bid, Transporter shall award capacity on a pro rata basis. New Shippers must execute a firm transportation service agreement with Transporter prior to service commencement or within 30 days of a capacity award, whichever is sooner. Original capacity holder is allowed to retain a portion of its capacity by matching price and term according to the procedure outlined in this provision, provided that the original contract path is maintained.

10.3 Bids shall be evaluated on the net present value incorporating price and term. The net present value of revenues to be received from a Shipper bidding a Negotiated Rate shall be calculated using the proposed reservation charge revenues and any proposed usage charge revenues guaranteed by a minimum volume commitment or otherwise. Where the Negotiated Rate is based on a Negotiated Rate Formula, the future value of which cannot be determined at the time of the bidding, Transporter shall estimate the future revenues to be received under the Negotiated Rate Formula using currently available data.

10.4 If there are no acceptable bids received, the rate and terms of continuing service is to be negotiated between original capacity holder and Transporter. Transporter and original capacity holder shall have twenty (20) business days from the end of the bid period to mutually agree to acceptable terms. In the event Transporter and original capacity holder do not mutually agree to continue service, original capacity holder shall no longer hold a right of first refusal and Transporter shall subject the capacity to a bidding process consistent with Section 10.8. However, if during this 20-day

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GENERAL TERMS AND CONDITIONS OF SERVICE
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10. RIGHT OF FIRST REFUSAL UPON TERMINATION OF FIRM SHIPPER'S SERVICE AGREEMENT (Continued)

10.4 (Continued)

period the original capacity holder agrees to pay the maximum authorized rate, the original capacity holder may determine the term it desires and Transporter must extend the original capacity holder's contract accordingly. Only term extensions of one (1) year or greater from the original termination date will allow the existing shipper to retain its right of first refusal.

10.5 Shippers who terminate their service agreements are not liable for any reservation charges or other charges applicable to the new Shipper contracting for this capacity.

10.6 Only valid bids will be accepted. In order for a bid to be considered valid, a bidder must be deemed creditworthy per Paragraph 12 of these General Terms and Conditions of Service by the close of the bid period. All bids not withdrawn prior to the close of the bid period shall be binding. At the end of the bid period, Transporter will evaluate the bids and determine the bid(s) having the greatest economic value as determined by:

$$\text{Present Value per} = P * R * \frac{(1+i)^n - 1}{i}$$

Where: P = percent of the rate or charge that the Shipper is willing to pay

R = Rate or charge calculated as: The applicable maximum authorized reservation charge(s) per Dth ineffect at the time of the bid for service.

i = FERC's annual interest rate divided by 12.

n = number of periods for which the bidder wishes to contract.

Bidders may submit valid bids for all or a portion of the capacity that is subject to a right of first refusal provided that the original contract path is maintained.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

10. RIGHT OF FIRST REFUSAL UPON TERMINATION OF FIRM SHIPPER'S SERVICE AGREEMENT (Continued)

- 10.7 Right of first refusal rights held by Shipper continue to apply following an election of termination pursuant to existing evergreen language contained in Shipper's Firm Transportation Service Agreement. A Shipper that holds evergreen rights in addition to a right of first refusal under a Firm Transportation Service Agreement must first elect termination under the evergreen provision in order to initiate the right of first refusal process. When either Transporter or Shipper elects termination under an evergreen provision, Transporter shall not be obligated to continue Shipper's evergreen rights on a contract extended through the right of first refusal process. Shippers may exercise their right of first refusal rights consistent with this Paragraph 10.
- 10.8 When a right of first refusal process has been completed and there has been no award of capacity, the capacity will be offered pursuant to General Terms and Conditions of Service Section 9.1, which governs Transporter's sale of generally available capacity where there is no shipper with right of first refusal rights.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

11. QUALIFYING FOR SERVICE

- 11.1 A prospective shipper desiring service on Transporter's system must fully complete the Service Request Form set out on Transporter's Internet website. Alternatively, a prospective shipper may request a hard-copy of the Service Request Form by contacting Transporter's Service and Contract Coordinator at the following location:

Palomar Gas Transmission
Services and Contract Coordinator
1400 SW Fifth Avenue, Suite 900
Portland, OR 97201
Phone: 503/833-4300, Option 2

- 11.2 If Shipper requests service under Section 311(a), Shipper must provide a certification that the service qualifies under 18 C.F.R. §284.102. To enable Transporter to verify that the requested transportation service will qualify under 18 C.F.R. §284.102, the certification must provide facts showing that:

- (a) the "On Behalf Of" party will have physical custody of and transport the natural gas at some point; or
- (b) the "On Behalf Of" party will hold title to the natural gas at some point, which may occur prior to, during, or after the time that the gas is transported by Transporter, for a purpose related to the "On Behalf Of" party's status and function as an intrastate pipeline or its status and function as a local distribution company; or
- (c) the gas will be delivered to a customer that is either located in the "On Behalf Of" party's service area, if the "On Behalf Of" party is a local distribution company, or is physically able to receive direct deliveries of gas from the "On Behalf Of" party, if the "On Behalf Of" party is an interstate pipeline, and the "On Behalf Of" party has certified that it is on its behalf that Transporter will be providing the requested transportation service.

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GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

11. QUALIFYING FOR SERVICE (Continued)

11.3 Submission of this Service Request Form will allow Transporter to begin processing Shipper's request for service, but does not guarantee service will be available. Transporter will not provide service until Shipper has executed a Service Agreement. Shipper also shall be required to meet other provisions of this FERC Gas Tariff, including the creditworthiness requirements set forth in Paragraph 12 of this FERC Gas Tariff. Pro forma Service Agreements for each service offered by Transporter are set out in the Form of Service Agreement portion of this Tariff.

Shipper shall not be entitled to receive transportation service under this Tariff if Shipper is not current in its payments to Transporter for any charge, rate or fee authorized by the Commission for transportation service; provided, however, if the amount not current pertains to a bonafide dispute, including but not limited to force majeure claims relating to this Tariff, Shipper shall be entitled to receive or continue to receive transportation service if Shipper posts a bond satisfactory to Transporter to cover the payment due Transporter.

11.4 Form: Shipper shall enter into a contract with Transporter utilizing Transporter's appropriate standard form of Transportation Service Agreement.

Term: The term of the Transportation Service Agreement shall be agreed upon between Shipper and Transporter at the time of the execution thereof.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

12. CREDITWORTHINESS

12.1 Creditworthiness

(A) Creditworthiness for Firm Transportation Service

- (1) Transporter shall not be required to perform or to continue transportation service under this FERC Gas Tariff, Original Volume No. 1, on behalf of any Shipper who, after Transporter's request, fails to establish or confirm creditworthiness. If Shipper is found by Transporter to be non-creditworthy, Transporter will, upon request, inform Shipper in writing as to the reasons Shipper has been deemed non-creditworthy.

If Shipper's credit standing ceases to meet Transporter's credit requirements during the period of service, then Transporter has the right to require security as specified herein. Upon notification by Transporter that Shipper no longer meets Transporter's creditworthiness standards, Shipper must, within five (5) business days, pay for one month of service in advance to continue service. Shipper must, within thirty (30) days, provide an acceptable guarantee or either a three-month cash security deposit or letter of credit, consistent with Transporter's creditworthiness standards for Existing Capacity shippers. For shippers utilizing Expansion Capacity on lateral facilities, the security that must be provided within thirty (30) days will not be greater than a shipper's pro rata share of the total facilities costs, and such security will be reduced over time in proportion to the shipper's contract term. If Shipper fails to provide one of the credit alternatives within these time periods, Transporter may suspend service immediately (Shippers are not responsible for reservation charges after service is suspended) and may provide simultaneous written notice to Shipper, the Commission, and any replacement Shipper(s) that service will be terminated in thirty (30) days. Transporter also may exercise any other remedy available to it hereunder, at law or in equity.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(2) Determining Creditworthiness

A Shipper seeking new service shall initially provide financial statements, evidence of debt and/or credit ratings, and other such information as is reasonably requested by Transporter to establish Shipper's qualification for service. Within three (3) business days, or such later date acceptable to Transporter, an existing Shipper shall provide such information as is reasonably requested by Transporter to confirm Shipper's qualification for service.

- (a) Creditworthiness must be evidenced by 1) a rating for unenhanced senior unsecured debt of at least BBB- by Standard & Poor's, Baa3 by Moody's, or an equivalent rating as determined by Transporter, and 2) a credit limit as defined in Section 12.1(F). In the event that a split rating occurs between rating agencies, Transporter will rely upon the lower of the ratings. An equivalent rating may be obtained in one of two ways:
- (i) If Shipper's debt is not rated by a recognized debt rating service, Shipper may request an equivalent rating as determined by Transporter, based on the financial rating methodology, criteria and ratios for the industry of the Shipper as published by the above rating agencies from time to time. In general, such equivalent rating will be based on the audited financial statements for the Shipper's two (2) most recent fiscal years, all interim reports, and any other relevant information.
 - (ii) If Shipper's debt is not rated by a recognized debt rating service, Shipper may, at its own expense, obtain a private rating from a recognized debt rating service acceptable to Transporter, or request that an independent accountant or financial advisor, mutually acceptable to Transporter and the Shipper, prepare an equivalent evaluation based on the financial rating methodology, criteria, and ratios for the industry of the Shipper as published by the above rating agencies. (Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(A) Creditworthiness for Firm Transportation Service

(2) (Continued)

- (b) Shipper will be deemed to be non-creditworthy if 1) it is rated below a BBB-/Baa3 equivalent standard by any rating agency or if its credit limit is insufficient to cover Shipper's total contractual obligation, as described in Paragraph 12.1 (G) of these Transportation General Terms and Conditions of Service, or 2) if Shipper's credit limit as determined by Transporter is insufficient to cover Shipper's total contractual obligation. Transporter will inform Shipper in writing as to the reasons Shipper has been deemed non-creditworthy.

If Shipper does not establish or maintain creditworthiness as described above, Shipper has the option of receiving transportation service under this FERC Gas Tariff by providing to Transporter a guarantee acceptable to Transporter, collateral (i.e., cash or letter of credit), or other credit arrangement as described in (i) through (iv) below. Transporter may not unreasonably prevent a shipper from later switching the type of credit alternative that it provides.

- (i) Guarantee: Shipper may obtain a guarantee of financial performance in a form satisfactory to Transporter and for the term of the Gas Transportation Agreement from a corporate affiliate of the Shipper or a third party, either of which meets the creditworthiness standard discussed above. For these Shippers, the credit limit will be based upon the financials of the guarantor. A form of guarantee is available on Transporter's Internet website. If during the term of service the guarantor does not meet the creditworthiness standards discussed above, then Transporter may request additional alternatives as described in (i) through (iv) below.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(A) Creditworthiness for Firm Transportation Service (Continued)
(2) (b) (Continued)

- (ii) Cash Security Deposit: A Shipper may provide a cash security deposit for service via cleared check or wire transfer. For Existing Capacity, the deposit must be sufficient to cover up to the value of three months worth of reservation charges. For Expansion Capacity on lateral facilities, the pipeline will not require a deposit greater than Shipper's pro rata share of the total facilities costs, and such deposit will be reduced over time in proportion to Shipper's contract term, consistent with Paragraph 12.1(C) of these General Terms and Conditions. Transporter will accrue interest on cash security deposits not used to pay invoices at the applicable rate of interest for one-month commercial paper (non-financial) as published in the Federal Reserve Statistical Report H.15 for the month immediately ended. Interest will be paid by Transporter on an annual basis each September 15 or at the time Shipper's cash deposit is returned due to either a return to creditworthiness by Shipper or the expiration of Shipper's Agreement(s).
- (iii) Letter of Credit: Shipper may post a Letter of Credit (LC) in a form acceptable to Transporter. A form of LC is available on Transporter's Internet website. For Existing Capacity, the LC must be sufficient to cover up to the value of three months worth of reservation charges. For Expansion Capacity on lateral facilities, the pipeline will not require an LC greater than Shipper's pro rata share of the total facilities costs, and such LC will be reduced over time in proportion to Shipper's contract term, consistent with Paragraph 12.1(C) of these General Terms and Conditions.
- (iv) Any other credit arrangement mutually agreed upon by Shipper and Transporter. Such other credit arrangement shall be accepted on a nondiscriminatory basis. (Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(A) Creditworthiness for Firm Transportation Service (Continued)

(2) (Continued)

(c) Within five (5) business days of a Shipper notifying Transporter either in writing or by fax that it has returned to creditworthiness, as evidenced by a rating for unenhanced senior unsecured debt and consistent with Paragraph 12.1(A)(1)(a) herein, and provided that Shipper's credit limit is adequate to cover its contractual obligations, Transporter will return, with any applicable interest, Shipper's security held by Transporter along with reconciliations of interest calculations.

Upon the expiration of Shipper's Agreement(s), Transporter will return, with any applicable interest, Shipper's security associated with undisputed invoice amounts within five (5) business days of Shipper paying its final invoice. Any remaining security will be returned with interest after resolving any and all disputed invoice amounts under the expired Agreement(s). Transporter will provide Shipper with final billing reconciliations detailing interest calculations.

(B) Credit Standards for Capacity Release

(1) Long Term Capacity Release: The standards for Firm Transportation Service apply. However, pursuant to Paragraph 19.3 of this FERC Gas Tariff, a Releasing Shipper has the option of waiving the creditworthiness requirements for temporary releases of capacity for as long as the Releasing Shipper maintains compliance with Transporter's creditworthiness requirements.

(2) Short Term Capacity Release: The standards for Firm Transportation Service apply. However, pursuant to Paragraph 19.3 of this FERC Gas Tariff, a Releasing Shipper has the option of waiving the creditworthiness requirements for temporary releases of capacity for as long as the Releasing Shipper maintains compliance with Transporter's creditworthiness requirements. (Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(C) Security requirements for Expansion Capacity will be separately identified within the nondiscriminatory project requirements included as part of any open season for Expansion Capacity. The amount of security initially required for Expansion Capacity on lateral facilities will be determined by Transporter and may be up to the cost of the facilities to be constructed ("Maximum Allowable Security Requirement or MASR"). Where new lateral Facilities serve multiple shippers, an individual shipper's maximum security obligation will be for no more than its proportionate share of the MASR ("Shipper's Maximum Security Obligation or SMSO"). Subsequent to Expansion Capacity on lateral facilities being placed into service, the SMSO shall be reduced in proportion to contract term. Shipper's actual security requirement, as identified within the open season project requirements, may be equal to or less than the SMSO ("Shipper's Actual Security Obligation or SASO"). When the SMSO equals the SASO held by Transporter, Transporter shall thereafter return Shipper's security on either a monthly basis or as mutually agreed with Shipper consistent with the reduction in SMSO. Transporter is only permitted to recover the cost of Expansion Capacity on lateral facilities once through either transportation rates or, in the event of shipper default, by means of the security provided through this provision.

(D) Creditworthiness for Interruptible Transportation Service

(1) Transporter shall not be required to perform or to continue interruptible transportation service under this FERC Gas Tariff, Original Volume No. 1, on behalf of any Shipper who, after Transporter's request, fails to demonstrate creditworthiness. If Shipper is found by Transporter to be non-creditworthy, Transporter will, upon request, inform Shipper in writing as to the reasons Shipper has been deemed non-creditworthy.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(D) Creditworthiness for Interruptible Transportation Service
(Continued)

(1) (Continued)

If Shipper's credit standing ceases to meet Transporter's credit requirements during the period of service, then Transporter has the right to require security as specified herein. Upon notification by Transporter that Shipper no longer meets Transporter's creditworthiness standards, Shipper must, within five (5) business days, pay for one month of service in advance to continue service. Shipper must, within thirty (30) days, provide an acceptable guarantee or either a three-month cash security deposit or letter of credit, consistent with Transporter's creditworthiness standards. If Shipper fails to provide the required security within these time periods, Transporter may suspend service immediately and may provide simultaneous written notice to Shipper and the Commission that service will be terminated in thirty (30) days. Transporter also may exercise any other remedy available to it hereunder, at law or in equity.

(2) Determining Creditworthiness

A Shipper seeking new service shall initially provide financial statements, evidence of debt and/or credit ratings, and other such information as is reasonably requested by Transporter to establish Shipper's qualification for service. Within three (3) business days, or such later date acceptable to Transporter, an existing Shipper shall provide such information as is reasonably requested by Transporter to confirm Shipper's qualification for service.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(D) Creditworthiness for Interruptible Transportation Service
(Continued)

(2) (Continued)

Shipper's creditworthiness shall be determined by providing proof of one of the items listed below:

- (a) A rating for unenhanced senior unsecured debt of at least BB+ by Standard & Poor's or Baa1 by Moody's. In the event that a split rating occurs between rating agencies, Transporter will rely upon the lower of the ratings.
- (b) Audited financial statements for itself, or for its parent company if it is a subsidiary that is consolidated with its parent company for reporting purposes and does not issue stand-alone financial statements, for the two (2) preceding years that in Transporter's opinion demonstrate adequate financial strength.
- (c) An estimated financial strength rating by Dun and Bradstreet sufficient to cover the credit to be extended and a corresponding Dun and Bradstreet composite credit appraisal of "fair" or better.
- (3) Shipper's credit limit for interruptible transportation will be established by Transporter based upon the audited financial statements for the Shipper's two (2) most recent fiscal years, all interim reports, and any other relevant information. If Shipper does not establish or maintain creditworthiness as described above, or if Shipper's credit limit as determined by Transporter is insufficient to cover Shipper's contractual obligations, Shipper has the option of receiving interruptible transportation service under this FERC Gas Tariff by providing to Transporter a guarantee acceptable to Transporter, collateral (i.e., cash or letter of credit), or security as described in (a) through (e) below. Transporter may not unreasonably prevent a shipper from later switching the type of credit alternative that it provides.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(D) Creditworthiness for Interruptible Transportation Service (Continued)

(3) (Continued)

- (a) Guarantee: Shipper may obtain a guarantee of financial performance in a form satisfactory to Transporter from a corporate affiliate of the Shipper or a third party, either of which meets the creditworthiness standard discussed above. For these companies, the credit limit will be based upon the financials of the guarantor. A form of guarantee is available on Transporter's Internet website. If during the term of service the guarantor does not meet the creditworthiness standards discussed above, then Transporter may request additional alternatives as described in (a) through (e) below.
- (b) Cash Options: A Shipper may provide cash as security for service via cleared check or wire transfer. Shippers may provide either of the following forms of cash security:
 - (i) A cash security deposit up to the maximum amount of the services that may be provided in any three-month period under an interruptible Agreement. Such cash security deposit will remain in place to allow continued service under Shipper's IT Agreement(s). Transporter will accrue interest on cash security deposits not used to pay invoices at the applicable rate of interest for one-month commercial paper (non-financial) as published in the Federal Reserve Statistical Report H.15 for the month immediately ended. Interest will be paid by Transporter on an annual basis each September 15 or at the time Shipper's cash deposit is returned due to either a return to creditworthiness by Shipper or the expiration of Shipper's Agreement(s).
 - (ii) A prepayment equal to an amount defined by Shipper. Such defined balance prepayment will remain in place until Shipper exhausts its prepaid balance by utilizing interruptible transportation service. At the point Shipper's prepayment is exhausted, Transporter may suspend further activity under an interruptible Agreement collateralized by a prepayment. Shipper will not earn interest on defined balance prepayments. (Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(D) Creditworthiness for Interruptible Transportation Service
(Continued)

(3) (Continued)

- (c) Letter of Credit: Shipper may post a Letter of Credit (LC) in a form acceptable to Transporter. A form of LC is available on Transporter's Internet website. For interruptible service, the amount of the LC must be up to the maximum amount of the services that may be provided in any three-month period under an interruptible Agreement.
- (d) Flexible Credit Account: As an alternative to providing security for interruptible service based upon the maximum amount of service that may be provided in any three-month period, a Shipper may establish a flexible credit account by providing either a letter of credit or cash security deposit in an amount defined by Shipper. The minimum amount of security required under this option equals the maximum amount of service that may be provided in one day. Once Shipper has taken service up to the point where the security provided is insufficient to cover the maximum amount of service that may be provided in one day, Shipper will not be entitled to receive further interruptible service until Shipper 1) pays all or a portion of the amounts due for interruptible service or 2) Shipper provides Transporter with additional security. Firm Shippers may utilize security provided for firm transportation service that is in excess of the amount necessary to collateralize Shipper's Firm Transportation Service Agreement(s) in order to establish a flexible credit account. Cash security deposits under this security option, including excess firm security balances, will accrue interest at the applicable rate of interest for one-month commercial paper (non-financial) as published in the Federal Reserve Statistical Report H.15 for the month immediately ended. Interest will be paid by Transporter on an annual basis each September 15 or at the time Shipper's cash deposit is returned due to either a return to creditworthiness by Shipper or the expiration of Shipper's Agreement(s).

(Continued)

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(D) Creditworthiness for Interruptible Transportation Service
(Continued)

(3) (Continued)

(e) Any other credit arrangement mutually agreed upon by Shipper and Transporter. Such other credit arrangement shall be accepted on a nondiscriminatory basis.

(4) Within five (5) business days of a Shipper notifying Transporter either in writing or by fax that it has returned to creditworthiness consistent with Paragraph 12.1(D)(1)(a) or 12.1(D)(1)(c) herein, and provided that Shipper's credit limit is adequate to cover its contractual obligations, Transporter will return, with any applicable interest, Shipper's security held by Transporter along with reconciliations of interest calculations.

Upon the expiration of Shipper's Agreement(s), Transporter will return, with any applicable interest, Shipper's security associated with undisputed invoice amounts within five (5) business days of Shipper paying its final invoice. Any remaining security will be returned with interest after resolving any and all disputed invoice amounts under the expired Agreement(s). Transporter will provide Shipper with final billing reconciliations detailing interest calculations.

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(E) Creditworthiness for Imbalance Gas Owed to Transporter

The standards for Interruptible Transportation Service apply to negative imbalances under Transporter Rate Schedules. For negative imbalances, the security requirement under the cash and Letter of Credit options includes an amount to adequately account for the value of imbalance gas owed to Transporter. The amount of security necessary to collateralize imbalance gas will be determined as follows:

- (1) For existing Shippers that do not meet Transporter's creditworthiness standards, the security requirement shall be up to the product of a Shipper's largest monthly negative imbalance over the most recent twelve (12) month period and the average of NYMEX future prices for the available twelve (12) month period as such prices close on the day the credit requirement is determined.
- (2) For new Shippers that do not meet Transporter's creditworthiness standards, the security requirement shall be up to the product of ten (10) percent of a Shipper's estimated monthly usage (as estimated by Transporter) and the average of NYMEX future prices for the available twelve (12) month period as such prices close on the day the credit requirement is determined. This formula shall be used for the first twelve (12) months of service while a historical record is established; thereafter, security for such Shipper will be determined as specified for an existing Shipper that does not meet Transporter's creditworthiness standards.

(F) Creditworthiness for Firm and Interruptible Transportation Service

- (1) Transporter's credit appraisal procedures involve the establishment of dollar and term of service credit limits on a nondiscriminatory basis. Credit limits will either reflect an annual dollar amount and a maximum term, or an absolute credit limit which must cover all contractual obligations. If Shipper provides a guarantee, Transporter will set a credit limit for the shipper based upon a credit appraisal of the guarantor. Credit limits may be modified by Transporter when Shipper's financial conditions change.

(Continued)

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(F) Creditworthiness for Firm and Interruptible Transportation
Service (Continued)

- (2) Shipper's total contractual obligation is the present value of all firm contracts, plus the amount necessary to collateralize all of a Shipper's interruptible transportation agreements.
- (3) Shipper's total security requirement is the amount necessary to collateralize all of a Shipper's firm and interruptible transportation agreements.
- (4) Subject to the requirements of Section 7 of the Natural Gas Act, Transporter shall not be required to perform or to continue to perform service on behalf of any Customer who fails to demonstrate minimal creditworthiness as required under this FERC Gas Tariff; provided, however, such Customer may receive service if said Customer provides alternative credit as described within Paragraphs 12.1(A) (1), 12.1(D) (2), and 12.1(E) of these Transportation General Terms and Conditions.

(G) Creditworthiness for Bidding on Capacity

Any party desiring to submit a bid for firm or interruptible service, including released capacity under the provisions of Paragraph 19 of these General Terms and Conditions, must first pre-qualify by demonstrating that it meets the creditworthiness standards of Paragraph 12.1 of these General Terms and Conditions, including the posting of collateral, prior to the close of the bid period. For capacity release transactions, collateral must be posted prior to the initial award of capacity at 2:00 P.M. CCT (12:00 P.M. PCT).

Upon successful qualification, the bidder shall be placed on Pipeline's approved bidder list and shall be eligible to bid for capacity. An approved bidder shall remain on Pipeline's approved bidder list until such bidder: (1) notifies Transporter to the contrary; (2) in Transporter's sole judgement no longer meets the credit requirements of Paragraph 12.1; or (3) is suspended for failure to pay part or all of the amount of any bill for service from Transporter.

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(G) Creditworthiness for Bidding on Capacity (Continued)

Notwithstanding the creditworthiness provisions of Section 12.1(A) (2) and 12.1(D) (2), in no event shall Transporter require collateral to be posted based on a period corresponding to a time period longer than the duration of the capacity being bid on.

Prior to the next nomination opportunity after the capacity is awarded, Transporter will release any posted collateral to a non-winning non-creditworthy bidder(s) unless otherwise requested by such bidder(s). For cash forms of collateral, Transporter will release such collateral by wire transfer in accordance with the instructions provided by bidder. For non-cash forms of collateral, Transporter will release such collateral by depositing such documentation for delivery by overnight courier in accordance with the instructions provided by bidder.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

13. PRIORITY OF SERVICE

Firm service shall have the highest priority on Transporter's System. From time to time, Transporter may not have sufficient capacity to accommodate all nominations for firm service through a given segment of its pipeline, Receipt Point, or Delivery Point. In that event, Transporter shall schedule firm service using the following priorities.

13.1 Firm Scheduling Priorities Through Pipeline Segments

Transporter shall first schedule nominations for service within a Shipper's Primary Path. In the event Transporter has insufficient capacity to schedule all nominations for service within Shippers' Primary Paths, Transporter shall schedule service to Shippers nominating for service along Primary Paths on a pro rata basis in accordance with each Shipper's MDQ.

Transporter will next schedule nominations for service outside a Shipper's Primary Path. In the event Transporter has insufficient capacity to schedule all nominations for service outside of Shippers' Primary Paths, Transporter shall schedule service to Shippers nominating for service outside of their Primary Paths on a pro rata basis in accordance with each Shipper's MDQ.

Transporter will next schedule nominations for service within a Shipper's Reverse Path. In the event Transporter has insufficient capacity to schedule all nominations for service within Shippers' Reverse Paths, Transporter shall schedule service to Shippers nominating for service along Reverse Paths on a pro rata basis in accordance with each Shipper's MDQ.

13.2 Firm Scheduling Priorities Through Receipt Point Constraints

First, Transporter shall schedule service to those Shippers for whom the constrained receipt point is a Primary Receipt Point, up to each Shipper's MDQ at that point (plus an allowance for fuel). In the event full service cannot be provided to Shippers holding Primary Receipt Point rights, service will be scheduled on a pro rata basis based on each Shipper's primary MDQ at that point.

Transporter shall then schedule service to those Shippers for whom the constrained receipt point is a Secondary Receipt Point within that Shipper's Primary Path. In the event full service cannot be provided, service will be scheduled on a pro rata basis based on each Shipper's MDQ.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

13. PRIORITY OF SERVICE (Continued)

13.2 Firm Scheduling Priorities Through Receipt Point Constraints
(Continued)

Last, Transporter shall then schedule service to those Shippers for whom the constrained receipt point is a Secondary Receipt Point outside that Shipper's Primary Path. In the event full service cannot be provided, service will be scheduled on a pro rata basis based on each Shipper's MDQ.

13.3 Firm Scheduling Priorities Through Delivery Points

Transporter shall first schedule service to those Shippers for whom the constrained Delivery Point is a Primary Delivery Point, up to each Shipper's MDQ at that point. In the event full service cannot be provided to Shippers holding Primary Delivery Point rights, service will be scheduled on a pro rata basis based on each Shipper's MDQ at that point.

Transporter shall then schedule service to those Shippers for whom the constrained Delivery point is a Secondary Delivery Point within that Shipper's Primary Path. In the event full service cannot be provided, service will be scheduled on a pro rata basis based on each Shipper's MDQ.

Last, Transporter shall then schedule service to those Shippers for whom the constrained Delivery point is a Secondary Delivery Point outside that Shipper's Primary Path. In the event full service cannot be provided, service will be scheduled on a pro rata basis based on each Shipper's MDQ.

13.4 Scheduling Priority For Capacity Release

The Scheduling Priorities set out in Paragraph 13.1 above also apply for capacity released under Transporter's Capacity Release Program, and are subject to the terms and conditions as specified in an executed firm service agreement between Transporter and Shipper. All service under the capacity release program shall be considered firm for purposes of priority of service.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

13. PRIORITY OF SERVICE (Continued)

13.5 Priority of Interruptible Service

Interruptible transportation service under this FERC Gas Tariff Original Volume No. 1 shall be provided when, and to the extent that, capacity is available in Transporter's existing facilities, which capacity is not subject to a prior claim under a pre-existing contract, service agreement, certificate or under firm service. Transporter will provide interruptible service, as set forth in Paragraph 8.5 of these General Terms and Conditions of Service, first to shippers paying the highest Maximum Rate (or a Negotiated Rate equal to or in excess of the highest Maximum Rate). Transporter will next allocate capacity to Shippers paying a discounted or Negotiated Rate to the Shipper(s) paying the next highest rate until all capacity has been awarded. In the event of a tie, Transporter shall award capacity on a pro rata basis.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

14. SCHEDULING AND NOMINATIONS

14.1 Information to be Provided with Nomination

A Shipper may nominate for transportation service on Transporter electronically in accordance with Paragraph 36 of the General Terms and Conditions of Service. In accordance with NAESB Standard 1.3.5, Version 1.7, all nominations should include Shipper-defined begin dates and end dates. All nominations excluding intraday nominations should have roll-over options. Specifically, Shippers should have the ability to nominate for several days, months, or years, provided the nomination begin and end dates are within the term of Shipper's contract.

All nominations shall include, at a minimum:

- (a) a daily quantity of gas to be transported (expressed in Dth);
- (b) previously approved and valid receipt and delivery points; and
- (c) Shipper-defined begin dates and end dates.

Shipper shall provide as a component of its nomination such business conditional data sets as may be required by Transporter to enable it to identify, confirm and schedule the nomination. Shipper shall also prioritize nominated receipts and deliveries when there is more than one (1) supplier and more than one (1) Shipper, respectively. Shipper designated priorities will be used to allocate gas when upstream and downstream nominations vary from Transporter's Shipper nominations.

Shipper may nominate for any period of days, provided the nomination begin and end dates are within the term of the Shipper's Transportation Service Agreement. Such nominations shall be deemed "Standing Nominations." All types of Nominations must be clearly and separately identified so that priorities of service can be distinguished. As required by NAESB Standard 1.3.19, Version 1.7, overrun quantities should be requested on a separate transaction.

The receipt of the nomination is notice that all necessary regulatory approvals have been received and that valid upstream and downstream transportation and other contractual arrangements are in place.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

14. SCHEDULING AND NOMINATIONS (Continued)

14.2 Nomination Cycles

In accordance with NAESB Standard 1.3.2, Version 1.7, Transporter will utilize the following standard nomination cycles:

(a) THE TIMELY NOMINATION CYCLE:

11:30 a.m. (CCT) (9:30 a.m. PCT) nominations leave control of the nominating party;

11:45 a.m. (CCT) (9:45 a.m. PCT) receipt of nominations by Transporter;

12:00 noon (CCT) (10:00 p.m. PCT) Transporter sends Quick Response;

3:30 p.m. (CCT) (1:30 p.m. PCT) receipt of completed confirmations by Transporter from upstream and downstream connected parties;

4:30 p.m. (CCT) (2:30 p.m. PCT) receipt of scheduled quantities by Shipper and point operator (central clock time on the day prior to flow).

(b) THE EVENING NOMINATION CYCLE:

6:00 p.m. (CCT) (4:00 p.m. PCT) nominations leave control of the nominating party;

6:15 p.m. (CCT) (4:15 p.m. PCT) receipt of nominations by Transporter;

6:30 p.m. (CCT) (4:30 p.m. PCT) Transporter sends Quick Response;

9:00 p.m. (CCT) (7:00 p.m. PCT) receipt of completed confirmations by Transporter from upstream and downstream connected parties;

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

14. SCHEDULING AND NOMINATIONS (Continued)

14.2 Nomination Cycles (Continued)

(b) THE EVENING NOMINATION CYCLE: (Continued)

10:00 p.m. (CCT) (8:00 p.m. PCT) Transporter provides scheduled quantities to affected Shippers and point operators, and provides scheduled quantities and notice to bumped parties. Advance notice to bumped parties shall be provided by telephone, facsimile, or electronic mail, at the Shipper's option.

Scheduled quantities resulting from an Evening Nomination will be effective at 9:00 a.m. (CCT) (7:00 a.m. PCT) on the following gas day.

(c) THE INTRADAY 1 NOMINATION CYCLE:

10:00 a.m. (CCT) (8:00 a.m. PCT) nominations leave control of the nominating party;

10:15 a.m. (CCT) (8:15 a.m. PCT) receipt of nominations by Transporter;

10:30 a.m. (CCT) (8:30 a.m. PCT) Transporter sends Quick Response;

1:00 p.m. (CCT) (11:00 a.m. PCT) receipt of completed confirmations by Transporter from upstream and downstream connected parties;

2:00 p.m. (CCT) (12:00 noon PCT) Transporter provides scheduled quantities to affected Shippers and point operators, and provides scheduled quantities and notice to bumped parties. Advance notice to bumped parties shall be provided by telephone, facsimile, or electronic mail, at the Shipper's option.

Scheduled quantities resulting from Intraday 1 Nominations should be effective at 5:00 p.m. (CCT) (3:00 P.M. PCT) on gas day.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

14. SCHEDULING AND NOMINATIONS (Continued)

14.2 Nomination Cycles (Continued)

(d) THE INTRADAY 2 NOMINATION CYCLE:

5:00 p.m. (CCT) (3:00 p.m. PCT) nominations leave control of the nominating party;

5:15 p.m. (CCT) (3:15 p.m. PCT) receipt of nominations by Transporter;

5:30 p.m. (CCT) (3:30 p.m. PCT) Transporter sends Quick Response;

8:00 p.m. (CCT) (6:00 p.m. PCT) receipt of completed confirmations by Transporter from upstream and downstream connected parties;

9:00 p.m. (CCT) (7:00 p.m. PCT) Transporter provides scheduled quantities to affected Shippers and point operators.

Scheduled quantities resulting from Intraday 2 Nominations should be effective at 9:00 p.m. (CCT) (7:00 p.m. PCT) on gas day.

Firm intraday nominations during the Intraday 2 Nomination Cycle may not bump nominated and scheduled interruptible volumes.

- (e) For purposes of NAESB Standards 1.3.2 ii, iii, and iv (reflected in Paragraphs 14.2(b) through 14.2(d) above), "provide" shall mean, for transmittals pursuant to NAESB Standards 1.4.x, receipt at the designated site, and for purposes of other forms of transmittal, send or post.

Transporter shall, at the end of each business day, make available to each Shipper information containing scheduled quantities including scheduled intraday nominations and any other scheduling changes.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

14. SCHEDULING AND NOMINATIONS (Continued)

14.2 Nomination Cycles (Continued)

(e) (Continued)

Transporter shall have the discretion to accept nominations at such later times as operating conditions permit and without detrimental impact to other Shippers and upon confirmation that corresponding upstream and downstream arrangements in a manner satisfactory to Transporter have been made. In the event later nominations are accepted, Transporter will schedule those nominations after the nominations received before the nominations deadline, which is in accordance with NAESB Standard 1.3.6, Version 1.7, that states nominations received after nomination deadline should be scheduled after the nominations received before the nomination deadline.

14.3 Changes to Nominations

(a) Changes to Standing Nominations

In accordance with NAESB Standard 1.3.7, Version 1.7, all nominations should be considered original nominations and should be replaced to be changed. When a nomination for a date range is received, each day within that range is considered an original nomination. When a subsequent nomination is received for one or more days within that range, the previous nomination is superseded by the subsequent nomination only to the extent of the days specified. The days of the previous nomination outside the range of the subsequent nomination are unaffected. Nominations have a prospective effect only.

Such nominations must be received by Transporter's Transportation Department in accordance with the scheduling timelines set out in Paragraph 14.2.

In the event Transporter does not receive information of upstream or downstream adjustments, Transporter shall use the lesser of the new nomination or the previous nomination.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

14. SCHEDULING AND NOMINATIONS (Continued)

14.3 Changes to Nominations (Continued)

(b) Intraday Nominations

In accordance with NAESB Standard 1.3.8, Version 1.7, all transportation service providers should allow for intraday nominations. Requests to amend previously scheduled nominations may be accepted during the gas day, subject to operational conditions and, further that corresponding upstream and downstream adjustments in a manner satisfactory to Transporter can be confirmed. In accordance with NAESB Standard 1.3.11, Version 1.7, such intraday nominations can be used to request increases or decreases in total flow, changes to receipt points, or changes to delivery points of scheduled gas. A request to increase a nomination for firm transportation up to the MDQ specified in the Service Agreement will be accommodated to the extent operating conditions permit. Firm intraday nominations other than during the Intraday 2 Nomination Cycle shall have priority over nominated and scheduled interruptible volumes. A request to increase a nomination for interruptible transportation shall be permitted only to the extent that capacity is available and that no displacement of other interruptible transportation occurs. Such changes will become effective only when system-operating conditions, as determined by Transporter, permit changes to occur.

Intraday Nominations may not roll-over and will replace the Standing Nomination only for the duration of the Gas Day. Quantities for Intraday Nominations will be expressed in Dth, and represent the total quantities to be delivered prior to the end of the effective Gas Day.

- (c) In accordance with NAESB Standard 1.3.9, Version 1.7, all nominations, including Intraday Nominations, should be based on a daily quantity; thus, an Intraday Nominator need not submit an hourly nomination. Intraday nominations should include an effective date and time. The interconnected parties should agree on the hourly flows of the Intraday Nomination if not otherwise addressed in the Service Agreement or Tariff.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

14. SCHEDULING AND NOMINATIONS (Continued)

14.4 Information Reliability

Transporter shall be allowed to rely conclusively on the information submitted as part of the nomination in confirming the nomination for scheduling and allocation. Shipper must provide electronically to Transporter Shipper's current designated contact, after hours and emergency telephone numbers. Such information must be updated as often as changes to such information occurs. Transporter may rely solely upon the information provided by Shipper and will not be liable to Shipper if Shipper's contact information is outdated and communication attempts with such Shipper are unsuccessful.

14.5 Uniform Hourly Rates

Scheduled quantities will be received and delivered at a uniform hourly rate of confirmed quantity divided by 24.

14.6 North American Energy Standards Board Standards:

Nominations for service on Transporter shall be further governed by the following standards adopted by the North American Energy Standards Board. Unless otherwise specified, all standards are Version 1.7:

1.3.13; 1.3.14; 1.3.16; 1.3.22; and 1.3.23.

Palomar Gas Transmission, LLC
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Original Volume No. 1

Pro Forma Original Sheet No. 156

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Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

15. CURTAILMENT

Transporter shall have the right to curtail, interrupt, or discontinue Transportation Service on any portion of its system at any time for reasons of force majeure or when capacity, supply, or operating conditions so require or it is necessary or desirable to make modifications, repairs, or operating changes to its system. Transporter shall provide notice of such occurrences as is reasonable under the circumstances.

Capacity may become constrained at individual receipt points, delivery points or on segments of the pipeline. Transporter shall exercise this curtailment provision only at the point(s) or segment(s) of the pipeline affected by the constraint. When capacity is constrained or otherwise insufficient to serve all the transportation requirements which are scheduled to receive service, Transporter shall curtail Interruptible Service first and then Firm service.

Curtailment of Interruptible Service, if necessary, will be performed in the opposite order of scheduling set forth in Paragraph 13.5 of this FERC Gas Tariff.

Curtailment of firm service, if necessary, will be performed pro rata based on the MDQ across the contracts scheduled to use the capacity at the applicable receipt points, delivery point(s) or mainline segment(s) of pipeline.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

16. BALANCING

16.1 To the extent possible, imbalance information shall be based upon actual, real-time data. Balancing of thermally equivalent quantities of gas received and delivered by Transporter shall be achieved as nearly as feasible on a daily basis. Correction of imbalances shall be the responsibility of the Shipper whether or not notified by Transporter at the time of incurrence of the imbalance. Correction of imbalances shall be scheduled with Transporter using the nomination process as soon as an imbalance is known to exist based on the best available current data. Nominations to correct imbalances shall have the lowest priority for scheduling purposes and shall be subject to the availability of capacity and other operational constraints for imbalance correction. If on any day capacity is insufficient to schedule all imbalance nominations, all such nominations shall be prorated accordingly. To maintain the operational integrity of its system, Transporter shall have the right to balance any Shipper's account as conditions may warrant. Imbalances shall exist as defined below and be subject to the applicable charges and penalties if not corrected.

(a) Actual delivered quantity exceeds MDQ

Quantities in excess of Shipper's MDQ shall be transported, without penalty, when capacity is available on the Transporter system and when the provision of such Authorized Overruns shall not affect any Shipper's rights on the Transporter system. Authorized Overruns are interruptible in nature. The rate charged for Authorized Overruns shall be the same as the rates and charges for Interruptible Transportation under Rate Schedule ITS-1 as set forth on effective Tariff Sheet No. 4, and such Authorized Overruns shall be subject to the priority of service provisions of Paragraph 13 of the General Terms and Conditions of Service.

To the extent Transporter has facilities in place, Transporter may utilize flow control to limit shipper deliveries to contractual MDQ levels when Shipper has not requested Authorized Overrun Service.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

16. BALANCING (Continued)

16.1 (Continued)

(a) Actual delivered quantity exceeds MDQ (Continued)

An imbalance shall exist when Transporter has not authorized deliveries in excess of a Shipper's MDQ because the operational integrity of Transporter's system is threatened. Under these circumstances, Transporter may, without notice, adjust Shipper requests for confirmation from receipt or delivery markets on Transporter's system. In addition, Transporter may issue an Operational Flow Order consistent with Paragraph 18 of these General Terms and Conditions of Service, and Shipper will be subject to tolerances and penalties as provided for in Paragraph 18.5.

(b) Actual delivered quantity exceeds actual confirmed receipt quantity

A net negative imbalance shall exist if the difference between the quantity received (nominated, scheduled, and confirmed) and the quantity delivered, taking into account the reduction in quantity for compressor fuel use, yields a negative result. Commencing upon notification by Transporter of the existence of the negative imbalance, and to the extent that the Transporter system is not constrained or its integrity is not threatened and Transporter has not issued an Operational Flow Order, Shipper shall have three (3) days to correct the imbalance.

Remedies:

Where Transporter has facilities in place, Transporter may utilize flow control to limit shipper deliveries to even hourly rates equal to one twenty-fourth (1/24th) of a Shipper's Maximum Daily Quantity, consistent with Paragraph 14.5 of these General Terms and Conditions of Service. Shippers may schedule with Transporter using the nomination process to eliminate or reduce negative imbalances. In addition, in accordance with this Paragraph 16, Shipper may net or trade imbalances to eliminate or reduce negative imbalances.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
 (Continued)

16. BALANCING (Continued)

16.1 (Continued)

- (b) Actual delivered quantity exceeds actual confirmed receipt quantity (Continued)

If, at the end of the three (3) day period the difference between the actual quantity received and the delivered quantity is in excess of ten (10) percent of the delivered quantity or one thousand (1000) Dth, whichever is greater, the excess quantity shall be subject to a penalty equal to a charge of \$5/Dth applied to the excess quantities. If the imbalance is not corrected within forty-five (45) days of Transporter's notice of an imbalance, the imbalance shall be cashed-out at a premium to the Cash Out Index Price as follows:

(i)	Imbalance Percent	Cash Out Index Price Premium
	-----	-----
	0% - 5%	0%
	> 5% - 10%	10%
	>10% - 15%	15%
	>15% - 20%	20%
	>20%	25%

- (ii) Shipper's final imbalance on any Agreement shall be cashed out at a price calculated by multiplying the final imbalance by the applicable rate as determined above.
- (iii) Cash out amounts received by Transporter will be used to offset any purchases of linepack necessitated by Shipper's imbalance. Net cash will be credited to all shippers in accordance with Paragraph 16.1(d).

In the event the operational integrity of Transporter's system is threatened, Transporter may, without notice, adjust Shipper requests for confirmation from receipt or delivery markets on Transporter's system. In addition, Transporter may issue an Operational Flow Order consistent with Paragraph 18 of these General Terms and Conditions of Service, and Shipper will be subject to tolerances and penalties as provided for in Paragraph 18.5.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

16. BALANCING (Continued)

16.1 (Continued)

- (c) Actual confirmed receipt quantity exceeds actual delivered quantity

A net positive imbalance shall exist if the difference between the quantity received (nominated, scheduled, and confirmed) and the quantity delivered, taking into account the reduction in quantity for compressor fuel use, yields a positive result. Commencing upon notification by Transporter of the existence of the imbalance, and to the extent that the Transporter system is not constrained or its integrity is not threatened and Transporter has not issued an Operational Flow Order, Shipper shall have three (3) days to correct the imbalance.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

16. BALANCING (Continued)

16.1 (Continued)

- (c) Actual confirmed receipt quantity exceeds actual delivered quantity (Continued)

Remedies:

Shippers may schedule with Transporter using the nomination process to eliminate or reduce positive imbalances. In addition, in accordance with this Paragraph 16, Shipper may net or trade imbalances to eliminate or reduce positive imbalances.

If, at the end of the three (3) day period the difference between the actual quantity received and the delivered quantity is in excess of ten (10) percent of the delivered quantity or 1000 Dth, whichever is greater, the excess quantity shall be subject to a penalty equal to a charge of \$2/Dth applied to the excess quantities. If the imbalance is not corrected within 45 days of Transporter's notice of an imbalance, Transporter shall be able to retain the remaining imbalance quantity without compensation to the Shipper and free and clear of any adverse claim. Quantities retained by Transporter will be sold in accordance with Paragraph 38 of these Transportation General Terms and Conditions, and the proceeds from the sale of the confiscated gas will be credited to all shippers in accordance with Paragraph 16.1 (d).

In the event the operational integrity of Transporter's system is threatened, Transporter may, without notice, adjust Shipper requests for confirmation from receipt or delivery markets on Transporter's system. In addition, Transporter may issue an Operational Flow Order consistent with Paragraph 18 of these General Terms and Conditions of Service, and Shipper will be subject to tolerances and penalties as provided for in Paragraph 18.5.

Imbalance determinations as described above will be performed on a daily basis and each daily occurrence will constitute a separate incident. It is recognized and understood that in the event more than one penalty provision may apply to a single imbalance incident, only the most onerous penalty will apply.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

16. BALANCING (Continued)

16.1 (Continued)

- (c) Actual confirmed receipt quantity exceeds actual delivered quantity (Continued)

Imbalance and overrun penalties will be based on the lesser of the impact from operational or actual data. In the event that any penalty would otherwise be applicable under these provisions as a direct consequence of any action or failure to take action by Transporter or the failure of any facility under Transporter's control, or an event of force majeure as defined in these General Terms and Conditions of Service, said penalty shall not apply.

Interruptible Shippers will be notified whether penalties will apply on the day their volumes are reduced. Transporter shall waive non-critical penalties for bumped shippers on the day of the bump. Waiver of non-critical penalties shall not relieve the shipper from the obligation to take corrective action to eliminate ongoing imbalances.

The payment of a penalty in dollars pursuant to this Paragraph 16 shall under no circumstances be considered as giving any Shipper the right to deliver or take overrun quantities.

- (d) Crediting of Penalties

- (i) Applicability. Penalty Revenues net of costs incurred by Transporter and collected as a result of imposition of any penalty imposed under this Section 15 and as provided elsewhere in this FERC Gas Tariff will be refunded annually to all current Shippers with interest calculated in accordance with §154.501 of the Commission's regulations.
- (ii) Calculation of Credit Amount. Each current Shipper shall receive an allocation of penalty revenues based on the proportion of the revenues received during the 12-month period from each Shipper divided by the total revenue received from all current Shippers during such period.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

16. BALANCING (Continued)

16.1 (Continued)

(d) Crediting of Penalties (Continued)

(iii) Timing of Credits. Within forty-five (45) days after November 1st of each year, Transporter shall determine the total amount of the Net Penalty Revenues received during the previous 12-month period and the portion of such amount to be credited to each Shipper. Such credits shall be reflected as a credit billing adjustment on the next bills rendered to the Shippers. In the event that such credit billing adjustment would result in a net credit on the total bill to any Shipper, or in the event the Shipper is no longer a shipper on Transporter system, Transporter will pay to such Shipper its share of the Net Penalty Revenues within fifteen (15) days after determination of the amount of the credit due to the Shipper.

(iv) Minimum Credit Amount. Transporter shall not be obligated to issue penalty credits during any year in which Net Penalty Revenues are less than or equal to \$10,000.

(e) Imbalance Netting: A Shipper may net imbalances between its service agreements.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

16. BALANCING (Continued)

16.1 (Continued)

(f) Imbalance Trading:

- (i) A shipper, or its agent, may trade imbalances with other Shippers, their agents or other third-party firms that may conduct imbalance trading for Shippers.
- (ii) Any trading of imbalances must result in each Shipper's imbalance decreasing.
- (iii) Transporter shall process all imbalance trades at no additional administrative charge.
- (iv) Third party imbalance management services will be accommodated on a nondiscriminatory basis as long as these services comply with applicable NAESB standards and do not adversely impact the pipeline's system operations. Third party services will be required to comply with the NAESB Nominations and Confirmation Time Limits and meet Transporter credit requirements appropriate for the quantity of shipper imbalance gas for which such third party may be responsible.

(g) Posting Imbalance Trades:

- (i) Transporter shall provide free of charge an "Imbalance Trading" location on its Internet website to allow posting of imbalances to facilitate trading.
- (ii) Transporter shall post a Shipper's imbalance if the Shipper provides written authorization to Transporter authorizing it to post such imbalance information on the "Imbalance Trading" section of its Internet website.

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GENERAL TERMS AND CONDITIONS OF SERVICE
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17. MARKET CENTERS

The Market Center is defined as a point of interconnection between Transporter and other pipelines and local distribution companies. Transporter shall provide for Market Centers on the Transporter system. Parties wishing to use Market Centers on the Transporter system shall contact Transporter for this service. At these Market Centers, entities may trade gas quantities without actively shipping the gas either upstream or downstream of the Market Center. Such entities must nominate for the gas transactions in accordance with the nomination procedure of the General Terms and Conditions of Service of the FERC Gas Tariff, Original Volume No. 1. An entity's nomination for upstream supply and downstream delivery must match the corresponding upstream Shipper nomination and downstream customer receipt.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

18. OPERATIONAL FLOW ORDERS ("OFO")

- 18.1 Transporter, in its discretion, will have the right to issue OFOs when in its judgment it is necessary to maintain or restore the operational integrity of its system.
- 18.2 Whenever possible, Transporter will identify those Shipper(s) whose action(s) require Transporter to issue an OFO and will limit the applicability of the OFO to such Shipper(s). If Transporter is unable to identify those Shipper(s) whose action(s) require issuance of an OFO, or if issuance of an OFO to discrete Shipper(s) is insufficient to alleviate the conditions requiring the issuance of such OFO, Transporter may issue an additional OFO applicable to all Shippers on a nondiscriminatory basis.
- 18.3 All OFOs will be posted on Transporter's website, to be followed by a facsimile, written notice or other mutually agreeable means of electronic communication to affected Shippers that will set forth the causes or conditions necessitating the OFO. Transporter will issue an OFO as expeditiously as is reasonable and practicable in the circumstances. When practicable, Transporter will provide sufficient notice to customers to accommodate scheduling requirements on upstream pipelines. Each OFO will contain the following provisions:
- (a) time and date of issuance;
 - (b) time that OFO is considered to be effective (if no time is specified, the OFO will be effective immediately);
 - (c) duration of the OFO (if not specified, the OFO will be effective until further notice);
 - (d) the party or parties receiving the OFO;
 - (e) the quantity of gas required to remedy the operational condition requiring the issuance of the OFO; and
 - (f) any other term Transporter may reasonably require to ensure the effectiveness of the OFO.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

18. OPERATIONAL FLOW ORDERS ("OFO") (Continued)

18.3 (Continued)

Transporter will post information about the status of operational variables that will determine when an OFO will begin and end. Transporter will post a notice on its website informing Shipper(s) when any OFO in effect will be canceled. Following the issuance of an OFO, Transporter will post information on the factors that caused the OFO to be issued and then lifted as soon as it is available.

18.4 Except in cases where the curtailment of interruptible services would not alleviate the causes or conditions necessitating the issuance of an OFO, Transporter will, where practicable, curtail interruptible services prior to issuing an OFO. Transporter shall not be required to curtail interruptible services to individual Shippers when curtailment of service to those Shippers would not affect the OFO.

18.5 Upon the issuance of an OFO by Transporter, it shall be incumbent upon Shipper to adjust Gas supplies as directed within the time frame specified in the OFO. Failure to comply in a timely fashion with an OFO may result in an immediate interruption of all or a portion of Shipper's service and cause Shipper to incur a penalty of \$25 per Dth plus the Spot Index Price (equal to the Malin price as reported in Gas Daily's Daily Price Survey) per Dth for all quantities in excess of that allowed under the OFO. The payment of unauthorized overrun penalties does not create the right to exceed the levels established by an OFO.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

18. OPERATIONAL FLOW ORDERS ("OFO") (Continued)

- 18.6 In the event Shipper does not respond to the OFO and Transporter believes it is necessary to take actions such as buying or selling gas to maintain system integrity or to prevent interrupting service to another Shipper, Transporter shall have the right, but not the obligation, to take such remedial actions as it deems necessary. If Transporter takes these actions, it shall be made whole by the nonresponding Shipper for all costs that Transporter incurs either through retention of penalty revenues or by direct reimbursement by Shipper. Transporter shall not be liable for any costs incurred by any Shipper/Operator in complying with an OFO.
- 18.7 Transporter shall not be responsible for any damages that result from any interruption in Shipper's service that is a result of a Shipper's failure to comply promptly and fully with an OFO and the non-complying Shipper(s) shall indemnify Transporter against any claims of responsibility.
- 18.8 Notwithstanding the foregoing, when Gas supplies necessary to effectuate transportation deliveries are not flowing on the system, Transporter will not be responsible for backing up such supplies and the associated deliveries will be subject to interruption.
- 18.9 Where a nomination is required by Transporter to make an effective physical change necessary to comply with an OFO, unless critical circumstances dictate otherwise, an OFO penalty should not be assessed unless the Shipper is given the opportunity to correct the circumstance giving rise to the OFO and fails to do so, or the action(s) taken fails to do so. The opportunity to correct the critical circumstance should include the opportunity to:
- (a) make a nomination, which, once confirmed and scheduled would cure the circumstance giving rise to the OFO, or
 - (b) take other appropriate action which cures the circumstance giving rise to the OFO.

A Shipper's response to an OFO should not be constrained by restrictions on the submittal and processing of intra-day nominations.

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GENERAL TERMS AND CONDITIONS OF SERVICE
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19. CAPACITY RELEASE

19.1 Eligibility to Release

Any firm Shipper which contracts for firm transportation service under Part 284 of the Commission's regulations (Releasing Shipper) is eligible to release all or part of its capacity (Parcel) for use by another party (Replacement Shipper). Any Replacement Shipper, which has previously contracted for a Parcel, may also release its capacity to another party as a Secondary Release subject to the terms and conditions described herein.

Upon releasing a Parcel, consistent with the terms and conditions described herein, all Releasing Shippers shall remain ultimately liable for all reservation charges billable for the originally contracted service. The Releasing Shipper, whether a primary or secondary capacity holder, must post the capacity it seeks to release on Transporter's Internet website prior to the close of the Posting Period defined herein.

A Releasing Shipper may release all or a portion of its capacity for the remainder of the term of its contract on either a temporary or permanent basis. In the event of a permanent capacity release, the Right of First Refusal is conveyed to the Replacement Shipper for that portion permanently released. Further, Transporter may not unreasonably refuse to relieve the Releasing Shipper of liability under its contract and extinguish Releasing Shipper's contractual obligations to Transporter with respect to that portion permanently released provided that: 1) the Replacement Shipper is creditworthy pursuant to Transporter's credit standards; and 2) the rate paid by the Replacement Shipper is no less than the rate contracted between the Releasing Shipper and Transporter for the remaining term of the contract or the Releasing Shipper's maximum rate.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

19. CAPACITY RELEASE

19.2 Types of Release

A Releasing Shipper may release a Parcel for a term (Release Term) up to or equivalent to the remaining term under its service agreement with Transporter. Types of releases include:

NON-PREARRANGED - BIDDING REQUIRED

- (1) Greater than or equal to one (1) day, is not prearranged and requires bidding.

PREARRANGED RELEASES - BIDDING REQUIRED

- (1) Greater than thirty-one (31) days at a rate less than the maximum applicable tariff rate. This type of release is prearranged, allows for bidding up to the maximum applicable tariff rate and allows for the right of first refusal. Bidding is pursuant to the methodology selected by the Releasing Shipper.

PREARRANGED RELEASES - BIDDING NOT REQUIRED

- (1) Less than or equal to thirty-one (31) days at a rate less than the maximum applicable tariff rate. This type of release is prearranged and does not require bidding. This release cannot be rolled-over, renewed or otherwise extended beyond the term described above unless the Releasing Shipper follows the posting and bidding procedures that apply to the particular term sought contained in this Paragraph 19. The Releasing Shipper may not re-release this Parcel to the same Replacement Shipper until twenty-eight (28) days after the term of the initial release has ended. Rollovers are permitted without bidding or a waiting period provided the Prearranged Shipper agrees to pay the maximum rate and meet all the other terms and conditions of the release.
- (2) Greater than or equal to one day at the maximum applicable tariff rate. This type of release is prearranged and does not require bidding.
- (3) Permanent release of a long-term contract at the maximum applicable tariff rate when remaining term is less than three hundred and sixty-five (365) days.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

19. CAPACITY RELEASE (Continued)

19.3 Notice Requirements

Any Releasing Shipper electing to release capacity shall submit a notice via Transporter's Internet website that it elects to release firm capacity. The notice shall set forth the following information:

- (a) Releasing Shipper's legal name, contract number, and the name, title, address, telephone number, and fax number of the individual responsible for authorizing the release of capacity.
- (b) Rate schedule of the Releasing Shipper.
- (c) In accordance with NAESB Standard 5.3.26, Version 1.7, Releasing Shipper has the choice to specify dollars and cents or percents of maximum tariff rate in the denomination of bids and all transportation service providers should support this. Once the choice is made by the Releasing Shipper, the bids should comport with the choice. In accordance with NAESB Standard 5.3.27, Version 1.7, for purposes of bidding and awarding, maximum/minimum rates specified by the Releasing Shipper should include the tariff reservation rate and all demand surcharges, as a total number or as stated separately. If a volumetric rate is used, Releasing Shipper must indicate whether bids on a reservation charge basis will be accepted as well and if so must specify the method of evaluating the two types of bids. Releasing Shipper also should indicate whether bids will be accepted on a dollar basis or as a percentage of the Releasing Shipper's as-billed rate.
- (d) Daily quantity of capacity to be released, expressed in Dth/d, at the designated delivery point(s). (This must not exceed Releasing Shipper's maximum contract demand available for capacity release and shall state the minimum quantity expressed in Dth/d acceptable for release.)
- (e) The term of the release, identifying the date release is to begin and terminate. The minimum release term acceptable to Transporter shall be one (1) day.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

19. CAPACITY RELEASE (Continued)

19.3 Notice Requirements (Continued)

- (f) Whether the Releasing Shipper is willing to consider release for a shorter period of time than that specified in (e) above and if so, the minimum acceptable period of release.
- (g) The receipt and delivery point(s).
- (h) Whether Option 1, 2, or 3 shall be used to determine the highest valued bid (see Paragraph 19.7(a) for a description of bid evaluation Options 1, 2, and 3).
- (i) Whether the Releasing Shipper wants Transporter to market its released capacity.
- (j) Whether the Releasing Shipper requests to waive the creditworthiness requirements and agrees in such event to remain liable for all charges.
- (k) Whether Releasing Shipper is an energy affiliate or other affiliate of Transporter.
- (l) If release is a prearranged release, the Prearranged Shipper must be qualified pursuant to the criteria of Paragraph 19.6(a) unless waived above. Releasing Shipper shall include the Prearranged Shipper bid information pursuant to Paragraph 19.6(b) with its release information and shall indicate whether the Prearranged Shipper is affiliated with Transporter or the Releasing Shipper.
- (m) Any special nondiscriminatory terms and conditions applicable to the release, such as whether the Replacement Shipper will be prohibited from changing Primary Points.
- (n) Tie-breaker method preferred: (1) pro rata, (2) lottery, (3) order of submission (first-come/first-serve), (4) other. Other method must be objectively stated, administratively feasible as determined by Transporter and nondiscriminatory. If no method is selected, the system defaults to pro rata.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

19. CAPACITY RELEASE (Continued)

19.3 Notice Requirements (Continued)

- (o) Recall provisions. These provisions must be objectively stated, nondiscriminatory, and applicable to all bidders, operationally and administratively feasible as determined by Transporter and in accordance with Transporter's tariff.
- (p) The minimum rate (percentage of: reservation charge or a volumetric equivalent of the maximum reservation charge applicable to the Parcel on a one hundred percent (100%) load-factor basis) acceptable to Releaser for this Parcel. Releasing Shipper also should indicate whether bids will be accepted on a dollar basis or as a percentage of the Releasing Shipper's as-billed rate.
- (q) Whether the Releasing Shipper is willing to accept contingent bids that extend beyond the close of the Bid Period and, if so, any nondiscriminatory terms and conditions applicable to such contingencies including the date by which such contingency must be satisfied (which date shall not be later than the last day upon which Transporter must award capacity) and whether, or for what time period, the next highest bidder(s) will be obligated to acquire the capacity should the winning contingent bidder be unable to satisfy the contingency specified in its bid.
- (r) Whether the Releasing Shipper wants to specify a longer bidding period for its Parcel than specified at Paragraph 19.8.

19.4 Marketing of Capacity Fee

Transporter may act as a facilitator between a Releasing Shipper and a Replacement Shipper(s) that wishes to contract for that Releasing Shipper's capacity. All such Parcels must be posted on Transporter's Internet website initially. A posting of a Parcel facilitated by Transporter will include both the Parcel by the Releasing Shipper and the bid by the Prearranged Shipper. A marketing of capacity fee shall be negotiated between Transporter and Releasing Shipper in a nondiscriminatory manner. Such a fee will apply when: a Releasing Shipper requests Transporter to market released capacity, Transporter actively markets such capacity beyond posting on the Internet website, and such marketing results in capacity being released to a Replacement Shipper.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

19. CAPACITY RELEASE (Continued)

19.5 Posting of a Parcel

The posting of a Parcel constitutes an offer to release the capacity provided a willing Replacement Shipper submits a valid bid consistent with Transporter's General Terms and Conditions of Service. The posting must contain the information contained in Paragraph 19.3. Any specific conditions posted by the Releasing Shipper must be operationally feasible, nondiscriminatory to other shippers, and in conformance with Transporter's tariffs. If the Parcel is being released as a Secondary Release, then any recall provisions included in the primary release which may affect the re-release of this capacity must be included in the terms and conditions of the Secondary Release. Each Parcel will be reviewed by Transporter prior to posting on the Internet website for bidding. The receipt of a valid release will be acknowledged in the form of an email to the Releasing Shipper.

It is the Releasing Shipper's sole responsibility to provide release and Prearranged Shipper bid information in advance of the close of the Posting Period.

Releasing Shippers who elect to include, as part of their release, nondiscriminatory recall provisions and/or special terms and conditions are required to submit their request to release capacity by at least two (2) business days before the close of the Posting Period as stated in Paragraph 19.8. This is to ensure adequate time for Transporter to review and validate that any recall and/or special terms and conditions are not discriminatory.

All Prearranged Shipper bids are subject to the Prearranged Shipper(s) meeting the preliminary qualifications as defined in Paragraph 19.6(a) for Replacement Shippers.

A Parcel may be revised or withdrawn by the Releasing Shipper at any time prior to the close of the Posting Period. A Parcel cannot be revised after the close of the Posting Period. In accordance with NAESB Standard 5.3.14, Version 1.7, offers should be binding until written or electronic notice of withdrawal is received by the capacity release service provider.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
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19. CAPACITY RELEASE (Continued)

19.5 Posting of a Parcel (Continued)

Parcels may be withdrawn subsequent to the close of the Posting Period and up until the close of the Bid Period only in situations where the Releasing Shipper has an unanticipated need for the capacity. In such instances, Releasing Shipper shall notify Transporter electronically of its need to withdraw the Parcel due to an unanticipated need for the capacity. The withdrawal or revision of a Parcel will terminate all bids submitted for that Parcel to date. Replacement Shippers will need to resubmit their bids for the Parcel if the Parcel is resubmitted for release.

19.6 Bidding for a Parcel

(a) Preliminary Qualification

Replacement Shippers are required to pre-qualify in advance of bidding on capacity pursuant to Section 12.1(G). The pre-qualification process will authorize a pre-set maximum monthly financial exposure level for the Replacement Shipper. Such exposure levels may be adjusted by Transporter periodically re-evaluating a Replacement Shipper's credit-worthiness.

Releasing Shippers may exercise their option to waive the credit and pre-qualification requirements for any Replacement Shipper wishing to bid on a Parcel posted by that Releasing Shipper. Such waiver must be made on a nondiscriminatory basis. Transporter must be informed of such waiver via the Internet website before it will authorize such Replacement Shipper's participation with respect to that particular Parcel. In this instance, no pre-set maximum monthly financial exposure level is applicable.

Should a Releasing Shipper waive the credit requirements for a Replacement Shipper, the Releasing Shipper shall be liable for all charges incurred by the Replacement Shipper in the event such Replacement Shipper defaults on payment to Transporter for such capacity release service.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

19. CAPACITY RELEASE (Continued)

19.6 Bidding for a Parcel (Continued)

(a) Preliminary Qualification (Continued)

Any potential Replacement Shipper may submit a bid for parcels posted for release. Transporter will determine the highest valued bid, based on the bid evaluation method selected by the Releasing Shipper, and verify that the Shipper placing the bid meets Transporter's credit requirements, and has posted collateral, prior to the initial award of capacity at 2:00 P.M. CCT (12:00 P.M. PCT). Upon notification by Transporter of an award of a parcel, Transporter shall complete a new FTS-1 contract with the particulars of the awarded parcel and Replacement Shipper shall execute this new contract electronically through the use of an authorization code procedure on Transporter's Internet website.

Once a Replacement Shipper has acquired capacity, authority is granted to the Replacement Shipper to release that capacity, unless the Releasing Shipper has specified that the parcel cannot be re-released.

The execution of the FTS-1 service agreement will constitute an obligation on the part of the Replacement Shipper to be bound by the terms and conditions of Transporter's capacity release program as set forth in these General Terms and Conditions of Service.

(b) Submitting a Bid

All bids must be submitted through the use of Transporter's Internet website. Such bids shall be "open" for all participants to review. The particulars of all bids will be available for review but not the identity of bidders. Transporter will post the identity of the winning bidder(s) only.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

19. CAPACITY RELEASE (Continued)

19.6 Bidding for a Parcel (Continued)

(b) Submitting a Bid (Continued)

A Replacement Shipper cannot request that its bid be "closed", nor can a Releasing Shipper specify that "closed" bids be submitted on its releases. A Replacement Shipper may submit only one bid per Parcel posted at any one point in time. Bids received after the close of the Bid Period shall be invalid. The Replacement Shipper may bid for no more than the quantity of the Parcel posted by the Releasing Shipper. Simultaneous bids for more than one Parcel are permitted.

A valid bid to contract for a Parcel must contain the following information:

- (i) Replacement Shipper's legal name, address, telephone and fax numbers and the name and title of the individual responsible for authorizing the bid.
- (ii) The identification of the Parcel bid on.
- (iii) Term of service requested. The term of service must not exceed the term included in the Parcel.
- (iv) Percentage of the applicable maximum rate, as identified in the Parcel, that Replacement Shipper is willing to pay, or price in dollars and cents per Dth/d, as identified in the Parcel, that the Replacement Shipper is willing to pay. A Replacement Shipper may not bid below the minimum applicable charge or rate.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
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19. CAPACITY RELEASE (Continued)

19.6 Bidding for a Parcel (Continued)

(b) Submitting a Bid (Continued)

- (v) The quantity desired not to exceed the quantity contained in the Parcel, expressed on a Dth/d delivered basis and greater than the minimum quantity acceptable to Replacement Shipper.
- (vi) A statement as to whether or not Replacement Shipper is an affiliate of the Releasing Shipper.
- (vii) An affirmative statement that Replacement Shipper agrees to be bound by the terms and conditions of Rate Schedule FTS-1 and Transporter's capacity release provisions in its tariff.
- (viii) Whether the bid is a contingent bid and the contingencies which must be satisfied by the date specified by the Releasing Shipper in its posting of the Parcel.

(c) Confirmation of Bids

The receipt of a valid bid by Transporter will be acknowledged by the Issuance of a bid confirmation in the form of an email to the Replacement Shipper. It is the Replacement Shipper's sole responsibility to verify the correctness of the submitted bid and to take any corrective action necessary by resubmitting a bid when notified of an invalid or incomplete bid by Transporter via the Internet website. This must be done before the close of the Bid Period.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
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19. CAPACITY RELEASE (Continued)

19.6 Bidding for a Parcel (Continued)

(d) Withdrawal or Revision of Bids

A previously submitted bid may be withdrawn or revised and resubmitted at any time prior to the close of the Bid Period with no obligation on the Replacement Shipper's part. In accordance with NAESB Standard 5.3.15, Version 1.7, bids cannot be withdrawn after the bid period ends. Resubmitted bids must be equal to or greater in value than the initial bids. Lower valued bids will be invalid. In accordance with NAESB Standard 5.3.13, Version 1.7, bids should be binding until written or electronic notice of withdrawal is received by the capacity release service provider.

19.7 Allocation of Parcels

(a) Primary Allocation

In accordance with NAESB Standard 5.3.3, Version 1.7, winning bids for Parcels shall be awarded based on one of the following three (3) options to be selected by the Releasing Shipper when posting a Parcel:

Option 1 - Highest Rate Equivalent

Bids will be given priority based on the maximum rate bid as represented by (1) a Replacement Shipper's bid of the percentage of the Transporter's maximum authorized reservation charge or a volumetric equivalent of the maximum reservation charge applicable to the Parcel on a 100% load factor basis, or (2) a Replacement Shipper's bid in terms of absolute dollars and cents per Dth.

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GENERAL TERMS AND CONDITIONS OF SERVICE
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19. CAPACITY RELEASE (Continued)

19.7 Allocation of Parcels (Continued)

(a) Primary Allocation (Continued)

Option 2 - Present Value

Bids will be given priority based on the net present value per Dth for the term of the bid according to the following formula:

$$\text{Present Value per} = P * R * \frac{(1 + i)^n - 1}{i(1 + i)}$$

where:

P = percent of the rate or charge that the Replacement Shipper is willing to pay.

R = Rate or charge calculated as: The maximum authorized reservation charge (or a volumetric equivalent of the maximum reservation charge applicable to the Parcel on a one hundred percent (100%) load factor basis) in effect at the time of the bid for service from the same receipt point to the same delivery point under the Releasing Shipper's rate schedule.

i = FERC's annual interest rate divided by 12.

n = number of periods for which the bidder wishes to contract, not to exceed the maximum periods to be released by the Releasing Shipper. For releases greater than or equal to one (1) month, the period is the number of months. For releases less than one (1) month the period is the number of days.

A bid queue will be maintained for each individual Parcel.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
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19. CAPACITY RELEASE (Continued)

19.7 Allocation of Parcels (Continued)

(a) Primary Allocation (Continued)

Option 3 - Net Revenue. Bids will be given priority based on the net revenue for the term of the bid.

If Releasing Shipper does not specify an option for determining best bid, Option 2 will be the default option used.

Under all options, Transporter will evaluate and rank all bids for Parcels.

(b) Right of First Refusal

In the case of a Prearranged Shipper's bid for a Parcel with a term equal to one (1) month or greater, at a rate other than at the highest valued bid, pursuant to the methodology specified by the Releasing Shipper, if the bid submitted by a subsequent Replacement Shipper exceeds the value of the Prearranged Shipper's bid, the Prearranged Shipper will be allowed to match the higher valued bid. The Prearranged Shipper will be allowed a match period, as specified in Paragraph 19.8, to match the higher valued bid, otherwise, the allocation will be awarded to subsequent Replacement Shipper(s) in accordance with the primary and secondary allocation mechanisms.

(c) Secondary Allocation

To the extent there is more than one Replacement Shipper submitting a winning bid, the Parcel shall be allocated based on one of the following tie-breaker methodologies to be selected by the Releasing Shipper: pro rata, lottery, order of submission (first come/first serve), or by a method designated by the Releasing Shipper. Releasing Shipper's method must be objectively stated, applicable to all bidders, nondiscriminatory, administratively feasible as determined by Transporter and in accordance with Transporter's FERC Gas Tariff.

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GENERAL TERMS AND CONDITIONS OF SERVICE
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19. CAPACITY RELEASE (Continued)

19.8 Scheduling of Parcels, Bids and Notifications

In accordance with NAESB Standard 5.3.2, Version 1.7, the following timelines apply to capacity release transactions.

For biddable releases (less than one (1) year):

- offers should be tendered by 12:00 P.M. CCT (10:00 A.M. PCT) on a Business Day;
- open season ends no later than 1:00 P.M. CCT (11:00 A.M. PCT) on a Business Day (evaluation period begins at 1:00 P.M. CCT (11:00 A.M. PCT) during which contingency is eliminated, determination of best bid is made, and ties are broken);
- evaluation period ends and award posting if no match period is required at 2:00 P.M. CCT (12:00 P.M. PCT);
- match or award is communicated by 2:00 P.M. CCT (12:00 P.M. PCT);
- match response by 2:30 P.M. CCT (12:30 P.M. PCT);
- where match is required, award posting by 3:00 P.M. CCT (1:00 P.M. PCT);
- contract issued within one (1) hour of award posting (with a new contract number, when applicable); nomination possible beginning at the next available nomination cycle for the effective date of the contract.

For biddable releases (one (1) year or more):

- offers should be tendered by 12:00 P.M. CCT (10:00 A.M. PCT) four (4) Business Days before award;
- open season ends no later than 1:00 P.M. CCT (11:00 A.M. PCT) on the Business Day before timely nominations are due (open season is three (3) Business Days);
- evaluation period begins at 1:00 P.M. CCT (11:00 A.M. PCT) during which contingency is eliminated, determination of best bid is made, and ties are broken;
- evaluation period ends and award posting if no match is required at 2:00 P.M. CCT (12:00 P.M. PCT);
- match or award is communicated by 2:00 P.M. CCT (12:00 P.M. PCT);
- match response by 2:30 P.M. CCT (12:30 P.M. PCT);
- where match required, award posting by 3:00 P.M. CCT (1:00 P.M. PCT);
- contract issued within one (1) hour of award posting (with a new contract number, when applicable); nomination possible beginning at the next available nomination cycle for the effective date of the contract.

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GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

19. CAPACITY RELEASE (Continued)

19.8 Scheduling of Parcels, Bids and Notifications (Continued)

For non-biddable releases:

Timely Cycle

- posting of prearranged deals not subject to bid are due by 10:30 A.M. CCT (8:30 A.M. PCT);
- contract issued within one (1) hour of award posting (with a new contract number, when applicable); nomination possible beginning at the next available nomination cycle for the effective date of the contract.

Evening Cycle

- posting of prearranged deals not subject to bid are due by 5:00 P.M. CCT (3:00 P.M. PCT);
- contract issued within one (1) hour of award posting (with a new contract number, when applicable); nomination possible beginning at the next available nomination cycle for the effective date of the contract.

Intraday 1 Cycle

- posting of prearranged deals not subject to bid are due by 9:00 A.M. CCT (7:00 A.M. PCT);
- contract issued within one (1) hour of award posting (with a new contract number, when applicable); nomination possible beginning at the next available nomination cycle for the effective date of the contract.

Intraday 2 Cycle

- posting of prearranged deals not subject to bid are due by 4:00 P.M. CCT (2:00 P.M. PCT);
- contract issued within one (1) hour of award posting (with a new contract number, when applicable); nomination possible beginning at the next available nomination cycle for the effective date of the contract.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

19. CAPACITY RELEASE (Continued)

19.9 Capacity Recall

Releasing Shipper(s) may, to the extent permitted as a condition of the capacity release, recall released capacity (scheduled or unscheduled) at the Timely Nomination cycle and the Evening Nomination cycle, and recall unscheduled released capacity at the Intra-Day 1 and Intra-Day 2 Nomination cycles by providing notice to the Transporter by the following times for each cycle: 8:00 A.M. CCT (6:00 A.M. PCT) for the Timely Nomination cycle; 5:00 P.M. CCT (3:00 P.M. PCT) for the Evening Nomination cycle; 8:00 A.M. CCT (6:00 A.M. PCT) for the Intra-Day 1 Nomination Cycle; and 3:00 P.M. CCT (1:00 P.M. PCT) for the Intra-Day 2 Nomination cycle. In accordance with NAESB Standard 5.3.55, Version 1.7, recall quantities should be expressed in terms of adjusted total released capacity entitlements based upon the Elapsed Prorata Capacity. Notification to Replacement Shippers shall be provided by Transporter within one (1) hour of receipt of recall notification.

19.10 Capacity Reput

In accordance with NAESB Standard 5.3.7, Version 1.7, capacity that has been recalled by the Releasing Shipper may be reput to the Replacement Shipper in accordance with the reput provisions of the release (See Paragraph 19.3(o)). Shipper seeking to reput capacity shall notify Transporter of the reput by 8:00 A.M. CCT (6:00 A.M. PCT). It is the Releasing Shipper's obligation to notify and secure any necessary agreement by the Replacement Shipper to accept the reput under the term of the release prior to notifying Transporter.

19.11 In accordance with NAESB Standard 5.3.8, Version 1.7, reput method and rights should be specified at the time of the deal. Reput method and rights are individually negotiated between the Releasing Shipper and Replacement Shipper.

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GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

19. CAPACITY RELEASE (Continued)

19.12 Crediting, Billing Adjustments and Refunds

(a) Eligibility

Transporter shall provide revenue credits to any Releasing Shipper which releases capacity to a Replacement Shipper pursuant to the provisions of Paragraph 19. Transporter and Shipper may, in connection with a Negotiated Rate Agreement under a firm rate schedule, agree upon payment obligations and crediting mechanisms in the event of a capacity release that varies from, or are in addition to, those set forth in this Paragraph 19.12; provided, however, that terms and conditions of service may not be negotiated.

(b) Monthly Crediting Procedure

Revenue credits for released capacity shall be credited monthly as an offset to a Releasing Shipper's reservation charge (or the volumetric equivalent of the reservation charge on a one hundred percent (100%) load-factor basis applicable to the Releasing Shipper. This shall also be referred to in this Paragraph 19.12 as the equivalent volumetric rate) payable to Transporter under the applicable rate schedule for the service that has been released. Transporter shall credit each month to the Releasing Shipper's account one hundred percent (100%) of the revenues from the charges invoiced to the Replacement Shipper(s) for the reservation charge (or equivalent volumetric rate).

(c) Billing Adjustments

Transporter shall apply the revenues received from Replacement Shippers first to the reservation charge (or equivalent volumetric rate). Should Replacement shipper default on payment to Transporter of the reservation charge (or equivalent volumetric rate) Transporter shall bill Releasing Shipper for such unpaid charges and apply interest to such adjustments in accordance with the provisions of Paragraph 7 of these General Terms and Conditions of Service.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
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19. CAPACITY RELEASE (Continued)

19.12 Crediting, Billing Adjustments and Refunds (Continued)

(d) Excess Revenue Credits

Releasing Shipper is entitled to excess revenue credits resulting when the reservation charge (or equivalent volumetric rate) revenues actually received by Transporter from the Replacement Shipper(s) exceed the reservation charge (or equivalent volumetric rate) revenues which would have been received by Transporter from the Releasing Shipper if capacity was not released.

(e) Refunds

Transporter shall track all changes in its rates approved by the Commission. In the event the Commission orders refunds of any such rates charged by Transporter and previously approved, Transporter shall make corresponding refunds to all affected Shippers including Shippers receiving capacity release service.

In such instances when rates to Replacement Shippers are reduced, Transporter shall make corresponding adjustments to the crediting of revenues to Releasing Shippers for the period such refunds are payable.

(f) Non-Payment or Default by Releasing Shipper

In the event Releasing Shipper's Transportation Service Agreement is terminated due to non-payment or credit noncompliance, and notice of termination has been provided to Replacement Shipper(s) as discussed in Paragraphs 7 and 12 of these General Terms and Conditions of Service, a Replacement Shipper that currently holds temporary release capacity has the right to elect to contract with Transporter at the Replacement Shipper's MDQ for the remaining term of its release contract and at the lesser of (1) the Releasing Shipper's original contract rate, or (2) the maximum recourse rate, provided that the Replacement Shipper meets Transporter's creditworthiness standards for Firm Transportation Service.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

19. CAPACITY RELEASE (Continued)

19.12 Crediting, Billing Adjustments and Refunds (Continued)

(f) Non-Payment or Default by Releasing Shipper (Continued)

Transporter shall designate that the Election Period for Replacement Shipper(s) will be a minimum of one (1) business day for release capacity held for up to one (1) month; a minimum of three (3) business days for release capacity held for greater than one (1) month but less than one (1) year; and a minimum of five (5) business days for release capacity held for one (1) year or more.

If a Replacement Shipper does not elect to contract with Transporter at its replacement MDQ for the remaining term of its release contract and at the rate level that the Releasing Shipper originally contracted for, Transporter shall have the right to terminate the Replacement Shipper's Transportation Service Agreement and offer such capacity through an open season posting that will subject the capacity to competitive bidding. Transporter shall provide fifteen (15) days notice to Replacement Shipper(s) and the Commission that service will terminate pursuant to this paragraph. In the event Transporter terminates service, Transporter may exercise all remedies available to it hereunder, at law or in equity.

Replacement Shippers with prospective claims to temporary release capacity where the temporary release occurs at least one (1) year following the termination of the Releasing Shipper's contract will not have rights to such capacity. Prospective claims to permanent releases of capacity will be honored to the extent that a Replacement Shipper meets Transporter's creditworthiness standards for Firm Transportation Service.

19.13 Adoption of NAESB Capacity Release Standards

The following NAESB Standards are adopted by, and clarify, the capacity release provisions set forth in this Paragraph 19. Unless otherwise specified, all standards are Version 1.7:

5.3.1; 5.3.4; 5.3.5; 5.3.9; 5.3.11; 5.3.12; 5.3.16; and 5.3.19

(Continued)

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet No. 191

Reserved For Future Use

Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

20. NOTICE OF CHANGES IN OPERATING CONDITIONS

Transporter and Shipper shall each ensure that the other is notified from time to time as necessary of expected changes in the rates of delivery or receipt of gas, or in the pressures or other operating conditions, and the reason for such expected changes, so that they may be accommodated when they occur.

21. PLANNED TRANSPORTER CAPACITY CURTAILMENTS AND INTERRUPTIONS

- 21.1 When Transporter needs to temporarily curtail or interrupt service to any Shipper hereunder for the purpose of making planned alterations or repairs, Transporter shall give Shipper as much notice as possible of the process so that each Shipper's firm transportation requirements are taken into account in the planning process.
- 21.2 In the spring of each year Transporter shall publish on its Internet website a schedule of planned major maintenance and repairs which affect system capacity. The schedule shall show the estimated delivery point capacity for the next twelve (12) months.
- 21.3 On a daily basis Transporter shall post, on its Internet website capacity for each forthcoming Gas Day plus the estimated capacity for the next two (2) Gas Days.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

22. FLEXIBLE RECEIPT AND DELIVERY POINTS

22.1 Firm Service

(a) Addition of a Receipt Point

Any firm Shipper receiving service under Part 284 of the Commission's regulations is entitled to use the receipt point specified in its service agreement as a primary receipt point. A firm Shipper may add a secondary receipt point at any time during the life of the contract.

To the extent additional meter station capacity or other facilities are required to effect the receipt point change, Transporter will construct the additional capacity consistent with Paragraph 25.

(b) Changing a Receipt Point

A firm Shipper may change primary receipt points to a different receipt point provided sufficient receipt point capacity exists at the receiving meter station and subject to any operating constraints. To the extent additional meter station capacity or other facilities are required to effect the receipt point change, Transporter will construct the additional capacity at the firm Shipper's expense consistent with Paragraph 25.

(c) Addition of a Delivery Point

Each firm Shipper is entitled to an allocation of its MDQ to a delivery point(s) as its primary delivery point(s).

A firm Shipper may add secondary delivery points at any time during the life of the contract. To the extent additional meter station capacity is required to effect the delivery point(s) change, and subject to any operating constraints Transporter will construct the additional capacity consistent with Paragraph 25.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

22. FLEXIBLE RECEIPT AND DELIVERY POINTS (Continued)

22.1 Firm Service (Continued)

(d) Changing a Delivery Point

A firm Shipper may change primary delivery points to a different delivery point. A firm shipper may not change its Primary Delivery Point to a location that would change the direction of flow of the Shipper's Primary Path as defined in Paragraph 1.27 of this FERC Gas Tariff, although a Firm Shipper may initiate Reverse Path transactions which rely upon secondary point rights. Changes in delivery points will be permitted provided sufficient delivery point capacity exists at the delivery meter station. To the extent additional meter station and subject to any operating constraints capacity is required to effect the delivery point change, Transporter will construct the additional capacity at the firm Shipper's expense consistent with Paragraph 25.

(e) Returning to a Former Receipt or Delivery Point

A Firm Shipper that changes a Receipt or Delivery Point in accordance with this Paragraph 22 or that reacquires capacity that the Shipper had released shall be entitled to return to its original Receipt or Delivery Points provided sufficient capacity exists at such point and subject to any operating constraints. To the extent additional facilities are necessary to effectuate such a return, Transporter will construct additional capacity at the Firm Shipper's expense consistent with Paragraph 25.

22.2 Interruptible Service

An Interruptible Shipper may change receipt or delivery points by amending its contract.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

23. FORCE MAJEURE

- 23.1 If either party shall fail to perform any obligation imposed upon it by these General Terms and Conditions of Service or by an executed Transportation Service Agreement, and such failure shall be caused, or materially contributed to, by force majeure, such failure shall be deemed not to be a breach of the obligation of such party, but such party shall use reasonable diligence to put itself in a position to carry out its obligations. Force majeure means any acts of God, strikes, lockouts, or other industrial disturbances, acts of public enemies, sabotage, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, floods, storms, fires, washouts, extreme heat, cold or freezing weather, arrests and restraints of rulers and people, civil disturbances, explosions, breakage of or accident to machinery or lines of pipe, hydrate obstructions of lines of pipe, inability to obtain pipe, materials or equipment, legislative, administrative or judicial action which has been resisted in good faith by all reasonable legal means, any acts, omissions or causes whether of the kind herein enumerated or otherwise not reasonably within the control of the party invoking this paragraph and which by the exercise of due diligence such party could not have prevented, the necessity for making repairs to, replacing, or reconditioning machinery, equipment, or pipelines not resulting from the fault or negligence of the party invoking this paragraph. Nothing contained herein shall be construed to require either party to settle a strike or lockout by acceding against its judgment to the demands of the opposing parties.
- 23.2 No such cause as described in Paragraph 23.1 affecting the performance of either party shall continue to relieve such party from its obligation after the expiration of a reasonable period of time within which by the use of due diligence such party could have remedied the situation preventing its performance, nor shall any such cause relieve either party from any obligation unless such party shall give notice thereof in writing to the other party with reasonable promptness; and like notice shall be given upon termination of such cause.
- 23.3 No cause whatsoever, including without limitation the failure of Transporter to perform including the causes specified in Paragraph 23.1, shall relieve Shipper from its obligations to make payments due, including the payments of reservation charges for the duration of such cause.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

24. NEGOTIATED RATES

24.1 Availability. Notwithstanding anything to the contrary contained in this Tariff, including the provisions of the rate schedules contained herein, Transporter and Shipper may mutually agree to a Negotiated Rate under any Agreement, provided that Shipper has not acquired its capacity on a temporary basis under the capacity release provisions of Paragraph 19 of these General Terms and Conditions of Service. If a portion of the capacity under any existing Agreement is agreed to be priced at Negotiated Rates, the existing maximum or discounted tariff rates will continue to apply to the capacity not subject to the Negotiated Rates. As recourse to the Negotiated Rates, any Shipper may receive service at applicable maximum tariff rates, including surcharges. The Negotiated Rate may be less than, equal to, or greater than the maximum applicable tariff rate; may be based on a rate design other than straight-fixed variable; and may include a minimum quantity. Transporter's Recourse Rates shall be available to any Shipper that does not agree to a Negotiated Rate. Recourse rates are set forth on the Rate Sheets within this Tariff.

Transporter and a Shipper may agree to a Negotiated Rate for the entire term of a Transportation Service Agreement, or may agree to a negotiated rate for some portion of the term of a Transportation Agreement. Transporter and Shipper may agree to apply the Negotiated Rate to all or a portion of capacity under Shipper's Firm Transportation Service Agreement.

During the period a Negotiated Rate is in place, the Negotiated Rate shall govern and apply to the Shipper's service under the Negotiated Rate Agreement and the otherwise applicable rate, rate component, charge or credit which the parties have agreed to replace with the Negotiated Rate shall not apply to, or be available to, the Shipper. Only those rates, rate components, charges or credits identified by Transporter and Shipper in writing as being superseded by a Negotiated Rate shall be ineffective during the period that the Negotiated Rate is effective; all other rates, rate components, charges, or credits prescribed, required, established or imposed by this Rate Schedule or Tariff shall remain in effect. At the end of the period during which the Negotiated Rate is in effect, the otherwise applicable tariff rates or charges shall govern any service provided to Shipper.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

24. NEGOTIATED RATES (Continued)

- 24.2 Filing requirement. Unless Transporter executes and files a non-conforming agreement, Transporter will submit to the Commission on or before the commencement of service under a Negotiated Rate Contract a tariff sheet stating the exact legal name of the Shipper, Negotiated Rate, the rate schedule, the receipt and delivery points, the contract quantities and, where applicable, the Negotiated Rate Formula underlying a Negotiated Rate for any Negotiated Rate Agreement. The filing will contain a provision that the Negotiated Rate Agreement does not deviate in any material respect from the Form of Agreement in the tariff for the applicable rate schedule.
- 24.3 Rate Treatment. Transporter shall have the right to seek in future general rate proceedings discount-type adjustments in the design of its rates related to Negotiated Rate Agreements that were converted from pre-existing discount Agreements to Negotiated Rate Agreements. In those situations, Transporter may seek a discount-type adjustment based upon the greater of: (a) the Negotiated Rate revenue received; or (b) the discounted tariff rate revenues which otherwise would have been received.
- 24.4 Limitations. This Paragraph 24 does not authorize Transporter to negotiate terms and conditions of service.
- 24.5 Capacity Release. Negotiated Rates do not apply as the price cap for capacity release transactions. Further, capacity release bids must conform to Transporter's applicable tariff rates, as further described in Paragraph 19.6(b) (iv) of these General Terms and Conditions of Service.
- 24.6 Accounting Treatment. Transporter shall maintain separate records for all revenues associated with Negotiated Rate transactions. Transactions related to Negotiated Rate Agreements, which originated as a pre-existing discounted service and were subsequently converted, will be recorded separately from those originating as Negotiated Rate Agreements. Transporter shall record each volume transported, billing determinants, rate component, surcharge, and the revenue associated with its Negotiated Rates so that this information can be filed, separately identified, and separately totaled, as part of and in the format of Statements G, I, and J in Transporter's next general rate change application.

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet No. 198

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Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

25. FACILITIES CONSTRUCTION AND INTERCONNECTION POLICY

25.1 Transporter shall not be obligated to install additional facilities to provide service under this FERC Gas Tariff provided, however, Transporter may install or Shipper may pay all of the expenses incurred for installing additional facilities on a nondiscriminatory basis and under terms that are mutually agreeable. In the event Transporter incurs the cost of installing additional facilities on behalf of a Shipper, Shipper shall pay, in addition to the rate(s) stated in the applicable rate schedule, the prorated (based on Transportation Contract Demand) cost of service attributable to any such additional facilities until such time as a different allocation procedure is specified by Commission order.

25.2 Interconnect Policy. Transporter will allow any entity to interconnect with its facilities on a nondiscriminatory basis, subject to the following conditions:

First, the party seeking the interconnection must be willing to bear the costs of the construction if Transporter performs that task. In the alternative, the party seeking the interconnection could construct the facilities itself in compliance with the pipeline's technical requirements.

Second, the proposed interconnection must not adversely affect the pipeline's operations.

Third, the proposed interconnection and any resulting transportation must not diminish service to Transporter's existing customers.

Fourth, the proposed interconnection must not cause Transporter to be in violation of any applicable environmental or safety laws or regulations with respect to the facilities required to establish an interconnection with Transporter's existing facilities.

Fifth, the proposed interconnection must not cause Transporter to be in violation of its right-of-way agreements or any other contractual obligations with respect to the interconnection facilities.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

25. FACILITIES CONSTRUCTION AND INTERCONNECTION POLICY (Continued)

25.3 Operational Balancing Agreements. For the purposes of minimizing operational conflicts between various natural gas facilities with respect to the delivery of gas to and from Transporter's facilities, Transporter may negotiate and execute Operational Balancing Agreements ("OBAs") with appropriate parties that operate natural gas facilities interconnecting with Transporter's system. Such OBAs shall specify the gas custody transfer procedures to be followed by Transporter and the interconnected party for the confirmation of scheduled quantities to be received by Transporter at Receipt Point(s) and delivered by Transporter at Delivery Point(s). Such OBA will provide that any variance between actual quantities and confirmed nomination quantities at the point where the OBA is in place for any Day shall be resolved pursuant to the terms of the OBA, and the interconnected party shall not be subject to balancing or scheduling penalties. OBAs are mandatory at all interconnections between Transporter and other interstate or intrastate pipelines. Transporter may, but shall not be required to enter into an OBA with other interconnected parties.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

26. WARRANTY OF ELIGIBILITY FOR TRANSPORTATION

Any Shipper transporting gas on the Transporter system under this FERC Gas Tariff, Original Volume No. 1 warrants for itself, its successors and assigns, that it will have at the time of delivery of the gas to Transporter hereunder good title to such gas and that it will retain good title to such gas during the time the gas is in possession of Transporter. Shipper further warrants for itself, its successors and assigns that all gas delivered to Transporter for transportation hereunder is eligible for the requested transportation in interstate commerce under applicable rules, regulations or orders of the FERC, or other agency having jurisdiction. Shipper will indemnify Transporter and hold it harmless from all suits, actions, damages, costs, losses, expenses (including reasonable attorney fees) and costs connected with regulatory proceedings, arising from breach of this warranty.

27. POSSESSION OF GAS AND RESPONSIBILITY

Transporter shall be deemed to be in control and possession of, and responsible for, all gas delivered from the time that such gas is received by it at the point of receipt to the time that it is delivered at the point of delivery.

28. INDEMNIFICATION

Shipper agrees to indemnify and hold harmless Transporter, its officers, agents, employees and contractors against any liability, loss or damage whatsoever occurring in connection with or relating in any way to the executed Transportation Service Agreement, including costs and attorneys' fees, whether or not such liability, loss or damage results from any demand, claim, action, cause of action, or suit brought by Shipper or by any person, association or entity, public or private, that is not a party to the executed Transportation Service Agreement, where such liability, loss or damage is suffered by Transporter, its officers, agents, employees or contractors as a direct or indirect result of any breach of the executed Transportation Service Agreement or sole or concurrent negligence or gross negligence or other tortuous act(s) or commission(s) by Shipper, its officers, agents, employees or contractors.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

32. ASSIGNABILITY

An executed Transportation Service Agreement shall bind and inure to the respective successors and assignees of Transporter and Shipper thereto, but no assignment shall release either party thereto from such party's obligations without the written consent of the other party, which consent shall not be unreasonably withheld; provided, however, nothing contained herein shall give Shipper the right to reassign or broker its right to ship the quantities of gas specified in the Transportation Service Agreement on Transporter's system to others. Further, nothing contained herein shall prevent either party from pledging, mortgaging or assigning its rights as security for its indebtedness and either party may assign to the pledgee or mortgagee (or to a trustee for the holder of such indebtedness) any money due or to become due under any service agreement.

33. EFFECT OF HEADINGS

The headings used throughout these General Terms and Conditions of Service, the rate schedules to which they apply, and the executed Transportation Service Agreements are inserted for reference purposes only and are not to be considered or taken into account in construing the terms and provisions of any paragraph nor to be deemed in any way to qualify, modify or explain the effects of any such terms or provisions.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

29. ARBITRATION

Any arbitration provided for or agreed to by Shipper and Transporter shall be conducted in accordance with the following procedures and principles: The arbitration shall be held under the auspices of the Arbitration Regulations of the International Arbitration Court of the International Chamber of Commerce. Any arbitration shall be conducted in the English language and shall occur in Portland, Oregon. The decision by the arbitrators on the questions submitted shall be in writing and become part of the agreement between the parties. No arbitration panel shall maintain continuing jurisdiction over the parties or the agreement after the decision has been rendered. Upon the written demand of either Transporter or Shipper and within ten (10) days from the date of such demand, each entity shall appoint an arbitrator and the two arbitrators so appointed shall promptly thereafter appoint a third. Unless otherwise determined by the arbitrators, the fees and expenses of the arbitrator named for each party shall be paid by that party and the fees and expenses of the third arbitrator shall be paid in equal proportion by both Transporter and Shipper.

30. GOVERNMENTAL REGULATIONS

These General Terms and Conditions of Service, the rate schedules to which they apply, and any executed Transportation Service Agreement are subject to valid laws, orders, rules and regulations of duly constituted authorities having jurisdiction.

31. WAIVER OF DEFAULT

No waiver by either Transporter or Shipper of any default by the other in the performance of any provisions of an executed Transportation Service Agreement shall operate as a waiver of any continuing or future default, whether of a like or different character.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

34. COMPLAINT PROCEDURES (Continued)

34.1 Any Shipper or potential Shipper may register a complaint regarding requested or provided transportation service. The complaint may be communicated to Transporter primarily by use of Transporter's Internet website and secondarily either orally, and/or in writing. Oral complaints should be made to Transporter's Director of Gas Control and Gas Transportation Services, telephone (503) 833-4300. Written complaints should be sent via registered or certified mail, facsimile (503) 833-4396, or hand delivered to:

Palomar Gas Transmission, LLC
1400 SW Fifth Avenue, Suite 900
Portland, OR 97201
Attention: Director of Gas Control and Gas Transportation Services

Oral, written and Internet website-submitted complaints must contain the following minimum information:

- Shipper or potential Shipper's name, address, and FAX and telephone numbers;
- Shipper or potential Shipper's contact representative;
- A clear, concise statement of the complaint.

Each complaint will be recorded in Transporter's Transportation Service Complaint Log maintained by Transporter's Gas Transportation and Services Department located in Portland, Oregon. Complaints will be logged by date and time received by Transporter.

34.2 Transporter will initially respond to each complaint within forty-eight (48) hours after Transporter receives it. Transporter will provide a written response to each complaint within thirty (30) days after Transporter receives it. Transporter's written response will be sent to Shipper or potential Shipper by certified or registered mail. If the complaint was filed via the Internet website, then Transporter shall respond via the Internet website. A copy of all complaints will be filed in the Transportation Service Complaint Log.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

35. EQUALITY OF TRANSPORTATION SERVICE

Transporter hereby states that the terms and conditions of service for all transportation services provided in Transporter's FERC Gas Tariff, Original Volume No. 1, are provided on a basis that is equal in quality for all Shippers. Furthermore, no preference shall be accorded to any affiliate of Transporter in transportation services provided by Transporter.

36. ELECTRONIC COMMUNICATIONS

- 36.1 Transporter maintains an Internet website at www.palomargastransmission.com. Any entity may access this site to review informational postings concerning Transporter's system.
- 36.2 Electronic Transactions. Any entity desiring to engage in electronic transactions with Transporter through its Internet website shall first execute an electronic transaction agreement. Copies of these agreements may be obtained by contacting Transporter's Gas Transportation Department at 503-833-4300.
- 36.3 Electronic Data Interface: Transporter shall maintain an electronic data interface ("EDI") as required by the standards for electronic delivery mechanisms promulgated by NAESB and incorporated in Paragraph 40 of this Tariff. EDI is available to any party with access to compatible equipment for electronic communication and transmission of data in accordance with the NAESB standards. A party desiring to utilize this EDI interface first shall execute an Electronic Data Interchange Agreement with Transporter. Such Agreement may be either the Standard Form Agreement developed by the NAESB or an alternate Agreement as may be agreed to by the parties. Access to Transporter's EDI system is obtained by contacting Transporter's Gas Transportation Department at 503-833-4300.

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FERC Gas Tariff
Original Volume No. 1

EXHIBIT A
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Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

38. SALES OF EXCESS GAS

Transporter may from time to time purchase or sell gas on an interruptible basis as necessary to manage system pressure and maintain system integrity.

39. DISCOUNT POLICY

39.1 Transporter may from time to time offer a discount to the maximum applicable rate for service under any service agreement governed by this FERC Gas Tariff.

39.2 Types of Discounts

From time to time, Transporter and Shipper may agree in writing on a level of discount of the otherwise applicable rates and charges in addition to a basic discount from the maximum rates. For example, Transporter may provide a specific discount rate based on:

- (a) achievement of specified quantity levels (including quantity levels above, below, or equal to a specified level);
- (b) specified time periods;
- (c) specified points of receipt, points of delivery, supply areas, defined geographic areas, or transportation paths; or
- (d) a specified relationship to the quantities actually transported (i.e., that the rates shall be adjusted in a specified relationship to the quantities transported).
- (e) a formula including, but not limited to, published index prices for specific receipt and/or delivery points or other agreed-upon published pricing reference points for price determination (such discounted rate may be based upon the differential between published index prices or arrived at by formula). Such discounted rate: (1) shall not change the underlying rate design; (2) shall not include any minimum bill or minimum take provision that has the effect of guaranteeing revenue; and (3) shall, in each service agreement entered into pursuant to Section 39.2(e), define the rate component(s) to be discounted.

In all circumstances the discounted rate shall be between the maximum rate and the minimum rate applicable to the service provided.

(Continued)

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Original Volume No. 1

Pro Forma Original Sheet No. 208

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GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

40. GAS INDUSTRY STANDARDS

In addition to the NAESB standards incorporated within the text of other provisions of this FERC Gas Tariff, Transporter incorporates by reference the following standards by level of compliance:

NAESB Version 1.5

1.3.63; 1.4.6; 5.4.1; 5.4.2; 5.4.3; 5.4.4; 5.4.7; 5.4.8; 5.4.9; 5.4.13; 5.4.14; 5.4.15; 5.4.18; and 5.4.19.

NAESB Version 1.6

1.4.1; 1.4.4; 1.4.5; 1.4.6; and 1.4.7.

2004 Annual Plan Item 2 FERC Order 2004

4.3.16; 4.3.18; 4.3.22; 4.3.23; 4.3.25; and 7.3.35.

2005 Annual Plan Item 8 FERC Order 2004

4.3.23

Recommendation R03035A

4.3.23; 4.3.89; 4.3.90; 4.3.91; and 4.3.92

NAESB Version 1.7

0.3.1; 0.3.2; 0.3.3; 0.3.4; 0.3.5; 0.3.6; 0.3.7; 0.3.8; 0.3.9; 0.3.10; 1.2.13; 1.2.14; 1.2.15; 1.2.16; 1.2.17; 1.2.18; 1.2.19; 1.3.3; 1.3.4; 1.3.15; 1.3.17; 1.3.18; 1.3.20; 1.3.21; 1.3.24; 1.3.25; 1.3.26; 1.3.27; 1.3.28; 1.3.29; 1.3.30; 1.3.31; 1.3.32; 1.3.33; 1.3.34; 1.3.35; 1.3.36; 1.3.37; 1.3.38; 1.3.39; 1.3.40; 1.3.41; 1.3.42; 1.3.43; 1.3.44; 1.3.45; 1.3.46; 1.3.47; 1.3.48; 1.3.49; 1.3.50; 1.3.51; 1.3.52; 1.3.53; 1.3.54; 1.3.55; 1.3.56; 1.3.57; 1.3.58; 1.3.59; 1.3.60; 1.3.61; 1.3.62; 1.3.64; 1.3.65; 1.3.66; 1.3.67; 1.3.68; 1.3.69; 1.3.70; 1.3.71; 1.3.72; 1.3.73; 1.3.74; 1.3.75; 1.3.76; 1.3.77; 1.3.79; 1.4.2; 1.4.3; 2.1.5; 2.2.2; 2.2.3; 2.3.1; 2.3.2; 2.3.3; 2.3.4; 2.3.5; 2.3.6; 2.3.8; 2.3.10; 2.3.12; 2.3.13; 2.3.15; 2.3.16; 2.3.17; 2.3.18; 2.3.19; 2.3.20; 2.3.21; 2.3.22; 2.3.23; 2.3.25; 2.3.26; 2.3.27; 2.3.28; 2.3.31; 2.3.32; 2.3.33; 2.3.34; 2.3.35; 2.3.40; 2.3.41; 2.3.42; 2.3.43; 2.3.44; 2.3.45; 2.3.46; 2.3.47; 2.3.48; 2.3.49; 2.3.50; 2.3.51; 2.3.52; 2.3.53; 2.3.54; 2.3.55; 2.3.56; 2.3.57; 2.3.58; 2.3.59; 2.3.60; 2.3.61; 2.3.62; 2.3.63; 2.3.64; 3.3.1; 3.3.2; 3.3.3; 3.3.4; 3.3.5; 3.3.6; 3.3.7; 3.3.8; 3.3.9; 3.3.10; 3.3.11; 3.3.12; 3.3.13; 3.3.16; 3.3.20; 3.3.21; 3.3.22; 3.3.23; 3.3.24; 3.3.25; 3.3.26; 4.2.20; 4.3.1; 4.3.2; 4.3.3; 4.3.5; 4.3.7; 4.3.8; 4.3.9; 4.3.10; 4.3.11; 4.3.12; 4.3.13; 4.3.14; 4.3.15; 4.3.17; 4.3.20; 4.3.22; 4.3.24; 4.3.26; 4.3.27; 4.3.28; 4.3.29; 4.3.30; 4.3.31; 4.3.32; 4.3.33; 4.3.34; 4.3.35; 4.3.36; 4.3.37; 4.3.38; 4.3.39; 4.3.40; 4.3.41; 4.3.42; 4.3.43; 4.3.44; 4.3.45; 4.3.46; 4.3.47; 4.3.48; 4.3.49; 4.3.50; 4.3.51; 4.3.52; 4.3.53; 4.3.54; 4.3.55; 4.3.56; 4.3.57; 4.3.58; 4.3.59; 4.3.60; 4.3.61;

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

40. GAS INDUSTRY STANDARDS (Continued)

NAESB Version 1.7 (Continued)

4.3.62; 4.3.64; 4.3.65; 4.3.66; 4.3.67; 4.3.68; 4.3.69; 4.3.70; 4.3.71;
4.3.72; 4.3.73; 4.3.74; 4.3.75; 4.3.76; 4.3.78; 4.3.79; 4.3.80; 4.3.81;
4.3.82; 4.3.83; 4.3.84; 4.3.85; 4.3.86; 4.3.87; 4.3.88; 5.3.10; 5.3.17;
5.3.18; 5.3.20; 5.3.21; 5.3.22; 5.3.23; 5.3.24; 5.3.25; 5.3.28; 5.3.29;
5.3.30; 5.3.31; 5.3.32; 5.3.33; 5.3.34; 5.3.35; 5.3.36; 5.3.37; 5.3.38;
5.3.39; 5.3.40; 5.3.41; 5.3.42; 5.3.43; 5.3.44; 5.3.45; 5.3.46; 5.3.47;
5.3.48; 5.3.49; 5.3.50; 5.3.51; 5.3.52; 5.3.53; 5.3.54; 5.3.56; 5.3.57;
5.3.58; 5.3.59; 5.3.60; 5.4.5; 5.4.6; 5.4.10; 5.4.11; 5.4.12; 5.4.16;
5.4.17; and 6.3.4.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

41. INFORMATIONAL POSTINGS

Transporter shall post on its Internet website its procedures for implementation of and compliance with the Commission's Standards of Conduct regulations. All information required to be posted pursuant to such regulations, including, but not limited to, organizational charts, information on shared facilities and shared operating personnel, discounts granted, and notices of waivers and/or exercises of discretion in the application of tariff provisions will be provided on Transporter's Internet website under "Informational Postings." Such information will be updated as required by applicable regulation(s) issued by the Commission.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

42. RESERVATION OF CAPACITY FOR EXPANSION PROJECTS

Transporter may elect to reserve, for future expansion projects, unsubscribed firm capacity or capacity under expiring or terminating firm transportation agreements where such agreements do not carry a right of first refusal or where Shipper does not exercise its right of first refusal. Transporter may only reserve capacity for a future expansion project for which an open season has been held or will be held within one (1) year of the date that Transporter posts such capacity as being reserved. Capacity reserved under this Section may be reserved for up to one year prior to Transporter filing for certificate approval for the proposed expansion, and thereafter until such expansion is placed into service. Capacity that is reserved for a future expansion will be made available for transportation service on an interim basis up to the in-service date of the expansion project. For such interim service agreements, Transporter reserves the right to limit Shipper extension rights, including the right of first refusal, within the service agreement. Transporter will indicate in any open season posting of this capacity any limitations on extension rights that will apply to such interim transportation service.

Prior to reserving capacity for future expansion projects under this Section, the subject capacity must have first been made available pursuant to Section 9.1(c) of these Transportation General Terms and Conditions. Capacity that remains available after the posting and bidding procedure outlined in Section 9.1(c) may be reserved by Transporter by means of a posting on Transporter's Internet website that shall include:

- (a) A description of the expansion project for which the capacity will be reserved;
- (b) The total quantity of capacity to be reserved;
- (c) The location of the proposed reserved capacity on Transporter's system;
- (d) When Transporter anticipates holding an open season or otherwise posting the capacity for bidding in connection with the expansion project;
- (e) The projected in-service date of the expansion project; and

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

42. RESERVATION OF CAPACITY FOR EXPANSION PROJECTS (Continued)

- (f) On an ongoing basis, how much of the reserved capacity has been sold on a limited-term basis.

If capacity that is reserved for an expansion project is insufficient to fully meet the needs of expansion shippers, the expansion open season posting will include a non-binding solicitation for turnback capacity from Transporter's existing Shippers to serve the expansion project. Transporter shall post, in the Informational Postings section of its website, a non-binding solicitation for expansion project related turnback capacity no later than 90 days after the close of an expansion project's open season specifying the minimum term for a response to the solicitation.

Any capacity reserved for a project that does not go forward for any reason shall be reposted as generally available within 30 days of the date the capacity becomes available.

GENERAL TERMS AND CONDITIONS
(Continued)

43. ADJUSTMENT MECHANISM FOR FUEL, LINE LOSS, AND OTHER UNACCOUNTED FOR GAS PERCENTAGES

The effective fuel and line loss percentages under Rate Schedules FTS-1 and ITS-1 shall be adjusted downward to reflect reductions and may be adjusted upward to reflect increases in fuel usage and line loss in accordance with this Section 43.

43.1 Computation of Effective Fuel and Line Loss Percentage

The effective fuel and line loss percentage shall be the sum of the current fuel and line loss percentage and the fuel and line loss surcharge percentage.

43.2 The Current Fuel and Line Loss Percentage

- (a) For each month, the current fuel and line loss percentage shall be determined in accordance with Section 43.2(c) hereof. The current fuel and line loss shall be effective from the first day of such month and shall remain in effect for the month.
- (b) The current fuel and line loss percentage to be applicable for the month shall be posted on Transporter's Internet website not less than seven (7) days prior to the beginning of the month.
- (c) The current fuel and line loss percentage for the month shall be determined on the basis of (1) the estimated quantities of gas to be received by Transporter for the account of Shippers during such month and (2) the projected quantities of gas that shall be required for fuel and line loss during such month, adjusted for overrecoveries or underrecoveries of fuel and line loss during such month preceding the month in which the current fuel and line loss percentage is posted; provided, that the percentage shall not exceed the maximum current fuel and line loss percentage and shall not be less than the minimum current fuel and line loss percentage set forth on the Statement of Effective Rates and Charges.

(Continued)

GENERAL TERMS AND CONDITIONS

(Continued)

43. ADJUSTMENT MECHANISM FOR FUEL, LINE LOSS AND OTHER UNACCOUNTED FOR GAS PERCENTAGES (Continued)

43.2 The Current Fuel and Line Loss Percentage (Continued)

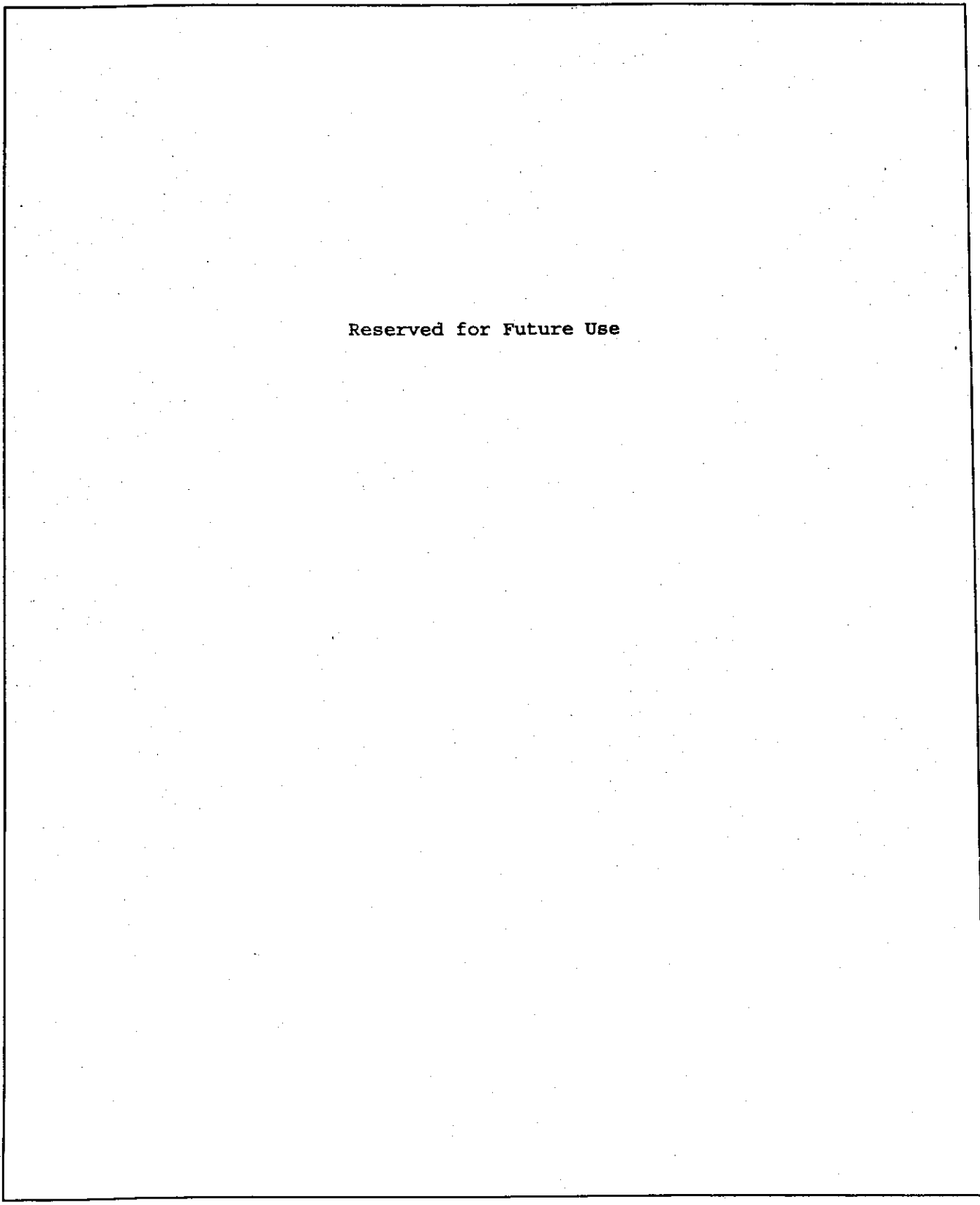
- (d) At least thirty (30) days prior to January 1, Transporter shall file with the Commission schedules supporting the current fuel and line loss percentages applicable during the twelve (12) months ending October 31.

43.3 The Fuel and Line Loss Surcharge Percentage

- (a) For each twelve (12) month period beginning January 1, the fuel and line loss surcharge percentage shall be determined in accordance with Section 43.3(c) hereof. The fuel and line loss surcharge percentage shall become effective on January 1 and shall remain in effect for the twelve (12) month period ending December 31.
- (b) At least thirty (30) days prior to each January 1, Transporter shall file with the Commission and post, as defined by Section 154.2(d) of the Commission's regulations, the fuel and line loss surcharge percentage, together with supporting documentation.
- (c) The fuel and line loss percentage shall be computed by quantifying Transporter's actual fuel and line loss over/under collection position at October 31 of each year and dividing the result by an estimate of the quantities of gas to be delivered by Transporter for the account of Shippers over the following twelve (12) month period. The over/under position will be quantified by (i) determining Transporter's actual fuel consumption and line losses for each month of the preceding twelve (12) month period and (ii) subtracting the quantities retained by Transporter during each month of the preceding twelve (12) month period. If the percentage so determined is +/- 0.0001%, the fuel and line loss surcharge percentage shall be deemed to be zero.

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Pro Forma Original Sheet No. 216



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Pro Forma Original Sheet No. 218

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Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:

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FORM OF SERVICE AGREEMENT - FIRM TRANSPORTATION

FORM OF SERVICE AGREEMENT

APPLICABLE TO FIRM TRANSPORTATION SERVICE
OFFERED BY PALOMAR GAS TRANSMISSION, LLC
UNDER RATE SCHEDULE FTS-1

THIS AGREEMENT is made and entered into this ____ day of _____, 20__, by and between Palomar Gas Transmission, LLC, a Delaware Limited Liability Company (hereinafter referred to as "Transporter"), and

_____, a corporation existing under the laws of the State or Province of _____, (hereinafter referred to as "Shipper"), on behalf of _____ (hereinafter referred to as _____).

WHEREAS, Transporter owns and operates a natural gas pipeline transmission system which extends from a point of interconnection with the pipeline facilities of Gas Transmission Northwest Corporation near Madras, Oregon and terminating at a point of interconnection with the pipeline facilities of Northwest Natural Gas Company near Molalla, Oregon; and

WHEREAS, Shipper desires Transporter, on a firm basis, to transport certain quantities of natural gas from _____ to _____; and

WHEREAS, Transporter is willing to transport certain quantities of natural gas for Shipper, on a firm basis,

NOW, THEREFORE, the parties agree as follows:

I
Governmental Authority

- 1.1 This Firm Transportation Agreement ("Agreement") is made pursuant to the regulations of the Federal Energy Regulatory Commission (FERC) contained in 18 CFR Part 284, as amended from time to time.
- 1.2 This Agreement is subject to all valid legislation with respect to the subject matters hereof, either state or federal, and to all valid present and future decisions, orders, rules, regulations and ordinances of all duly constituted governmental authorities having jurisdiction.

(Continued)

FORM OF SERVICE AGREEMENT - FIRM TRANSPORTATION (Continued)

1.3 Shipper shall reimburse Transporter for any and all filing fees incurred by Transporter specific to Shipper in seeking governmental authorization for the initiation of any new service or extension, or termination of service under this Agreement and Rate Schedule FTS-1. Shipper shall reimburse Transporter for such fees at Transporter's designated office within ten (10) days of receipt of notice from Transporter that such fees are due and payable. Additionally, Shipper shall reimburse Transporter for any and all penalty fees or fines assessed Transporter caused by the negligence of Shipper in not obtaining all proper domestic and Canadian import/export licenses, surety bonds or any other documents and approvals related to the domestic exportation and subsequent Canadian importation of natural gas transported by Transporter hereunder.

II

Quantity of Gas and Priority of Service

- 2.1 Subject to the terms and provisions of this Agreement and Transporter's General Terms and Conditions of Service applicable to Rate Schedule FTS-1, daily receipts of gas by Transporter from Shipper at the point(s) of receipt shall be equal to daily Deliveries of gas by Transporter to Shipper at the point(s) of delivery; provided, however, Shipper shall deliver to Transporter an additional quantity of natural gas at the point(s) of receipt as compressor station fuel, line loss and unaccounted for gas as specified in Transporter's FERC Gas Tariff. Any limitations of the quantities to be received from each point of receipt and/or delivered to each point of delivery shall be as specified on the Exhibit A attached hereto.
- 2.2 The maximum quantities of gas to be delivered by Transporter for Shipper's account at the point(s) of delivery are set forth in Exhibit A.
- 2.3 In providing service to its existing or new customers, Transporter will use the priorities of service specified in Paragraph 13 of Transporter's General Terms and Conditions of Service on file with the FERC.
- 2.4 Prior to initiation of service, Shipper shall provide Transporter with any information required by the FERC, as well as all information identified in Transporter's General Terms and Conditions of Service applicable to Rate Schedule FTS-1.

(Continued)

FORM OF SERVICE AGREEMENT - FIRM TRANSPORTATION (Continued)

III
Term of Agreement

- 3.1 This Agreement shall become effective _____, and shall continue in full force and effect until _____.

Thereafter, this Agreement shall continue in full force and effect for an additional term of _____ unless _____ gives at least _____ prior written notice of its desire to terminate this Agreement. Under this evergreen provision, parties capable of giving notice of termination may include only Shipper (unilateral evergreen) or may include both Shipper and Transporter (bilateral evergreen).

IV
Points of Receipt and Delivery

- 4.1 The point(s) of receipt of gas deliveries to Transporter is as designated in Exhibit A, attached hereto.
- 4.2 The point(s) of delivery of gas to Shipper is as designated in Exhibit A, attached hereto.
- 4.3 Unless otherwise agreed, Shipper shall deliver or cause to be delivered to Transporter the gas to be transported hereunder at pressures sufficient to deliver such gas into Transporter's system at the point(s) of receipt. Unless otherwise agreed, Transporter shall deliver the gas to be transported hereunder to or for the account of Shipper at the pressures existing in Transporter's system at the point(s) of delivery.

V
Operating Procedure

- 5.1 Shipper shall conform to the operating procedures set forth in Transporter's General Terms and Conditions of Service.
- 5.2 Transporter shall have the right to interrupt or curtail the transport of gas for the account of Shipper pursuant to Transporter's General Terms and Conditions of Service applicable to Rate schedule FTS-1.

VI
Rate(s), Rate Schedules,
and General Terms and Conditions of Service

- 6.1 Shipper shall pay Transporter each month for services rendered pursuant to this Agreement in accordance with Transporter's Rate Schedule FTS-1, or superseding rate schedule(s), on file with and subject to the jurisdiction of FERC. (Continued)

FORM OF SERVICE AGREEMENT - FIRM TRANSPORTATION (Continued)

In the event Transporter and Shipper agree on a Negotiated Rate, that rate, and any provisions governing such Negotiated Rate, shall be set forth in Exhibit B attached hereto.

- 6.2 Shipper shall compensate Transporter each month for line loss and other unaccounted for gas associated with this transportation service provided herein in accordance with Transporter's Rate Schedule FTS-1, or superseding rate schedule(s), on file with and subject to the jurisdiction of FERC.
- 6.3 This Agreement in all respects shall be and remains subject to the applicable provisions of Rate Schedule FTS-1, or superseding rate schedule(s) and to the applicable General Terms and Conditions of Service of Transporter's FERC Gas Tariff on file with the FERC, all of which are by this reference made a part hereof.
- 6.4 Transporter shall have the unilateral right from time to time to propose and file with FERC such changes in the rates and charges applicable to transportation services pursuant to this Agreement, the rate schedule(s) under which this service is hereunder provided, or any provisions of Transporter's General Terms and Conditions of Service applicable to such services. Shipper shall have the right to protest any such changes proposed by Transporter and to exercise any other rights that Shipper may have with respect thereto. Notwithstanding the foregoing, Transporter and Shipper agree not to initiate any proceeding before the FERC with respect to an increase or decrease in any negotiated rate set forth in Exhibit B hereto during the primary term.

VII
Miscellaneous

- 7.1 This Agreement shall be interpreted according to the laws of the State of Oregon.
- 7.2 Shipper warrants that upstream and downstream transportation arrangements are in place, or will be in place as of the requested effective date of service, and that it has advised the upstream and downstream Transporters of the receipt and delivery points under this Agreement and any quantity limitations for each point as specified on Exhibit A attached hereto.
- 7.3 Shipper agrees to indemnify and hold Transporter harmless for refusal to transport gas hereunder in the event any upstream or downstream Transporter fails to receive or deliver gas as contemplated by this Agreement.

(Continued)

FORM OF SERVICE AGREEMENT - FIRM TRANSPORTATION (Continued)

7.4 Unless herein provided to the contrary, any notice called for in this Agreement shall be in writing and shall be considered as having been given if delivered by registered mail with all postage or charges prepaid, to either Transporter or Shipper at the place designated below. Routine communications, including monthly statements and payment, shall be considered as duly delivered when received by ordinary mail, facsimile or email (return notification received). Unless changed, the addresses of the parties for legal notices are as follows:

"PALOMAR GAS TRANSMISSION, LLC"
1400 SW Fifth Avenue, Suite 900
Portland, OR 97201
Attention: Assistant General Counsel

"Shipper"

Attention: _____

Unless changed, the addresses for the parties for routine communications, including monthly statements and payments are as follows:

"PALOMAR GAS TRANSMISSION, LLC"
1400 SW Fifth Avenue, Suite 900
Portland, OR 97201
Attention: Accounting

- 7.5 All waivers shall be in writing, and such waiver by either party of any one or more defaults by the other hereunder shall not operate as a waiver of any future default or defaults, whether of a like or of a different character.
- 7.6 This Agreement may only be amended by an instrument in writing executed by both parties hereto. In no event shall this Agreement be modified by course of performance, course of dealing or usage of trade.
- 7.7 Nothing in this Agreement shall be deemed to create any rights or obligations between the parties hereto after the expiration of the term set forth herein, except that termination of this Agreement shall not relieve either party of the obligation to correct any quantity imbalances or Shipper of the obligation to pay any amounts due hereunder to Transporter.

(Continued)

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet No. 235

FORM OF SERVICE AGREEMENT - FIRM TRANSPORTATION (Continued)

7.8 This Agreement shall terminate upon the expiration of any transportation authority which is not superseded, for whatever reason, by permanent transportation authority.

7.9 Exhibit(s) ___ attached hereto is/are incorporated herein by reference and made a part hereof for all purposes.

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be executed as of the day and year first above written.

PALOMAR GAS TRANSMISSION, LLC

By: _____
Name: _____
Title: _____

SHIPPER

By: _____
Name: _____
Title: _____

FORM OF SERVICE AGREEMENT - FIRM TRANSPORTATION (Continued)

EXHIBIT A

TO THE FIRM TRANSPORTATION AGREEMENT

Dated _____

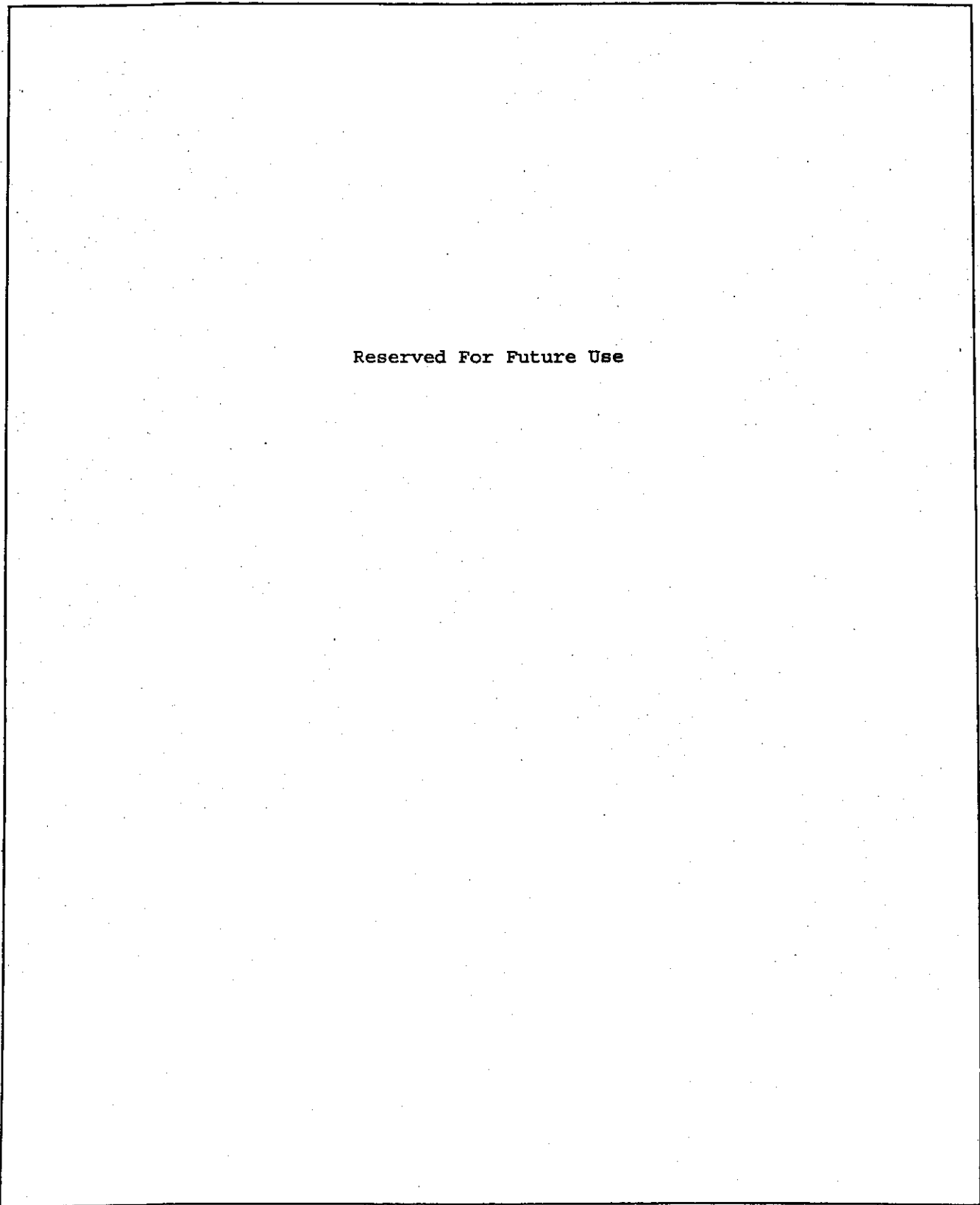
Between PALOMAR GAS TRANSMISSION, LLC,

and _____

Receipt Point	Delivery Point	Maximum Daily Quantity (Delivered) Dth/d
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Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet Nos. 237 - 249



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FORM OF SERVICE AGREEMENT - INTERRUPTIBLE TRANSPORTATION

FORM OF SERVICE AGREEMENT

APPLICABLE TO INTERRUPTIBLE TRANSPORTATION SERVICE
OFFERED BY PALOMAR GAS TRANSMISSION, LLC
UNDER RATE SCHEDULE ITS-1

THIS AGREEMENT is made and entered into this _____ day of _____, 20____, by and between Palomar Gas Transmission, LLC, a Delaware Limited Liability Company (hereinafter referred to as "Transporter"), and

_____, a corporation existing under the laws of the State or Province of _____, (hereinafter referred to as "Shipper"), on behalf of _____ (hereinafter referred to as _____).

WHEREAS, Transporter owns and operates a natural gas pipeline transmission system which extends from a point of interconnection with the pipeline facilities of Gas Transmission Northwest Corporation near Madras, Oregon and terminating at a point of interconnection with the pipeline facilities of Northwest Natural Gas Company near Molalla, Oregon; and

WHEREAS, Shipper desires Transporter, on an interruptible basis, to transport certain quantities of natural gas from _____ to _____; and

WHEREAS, Transporter is willing to transport certain quantities of natural gas for Shipper, on an interruptible basis,

NOW, THEREFORE, the parties agree as follows:

I
Governmental Authority

- 1.1 This Interruptible Transportation Agreement ("Agreement") is made pursuant to the regulations of the Federal Energy Regulatory Commission (FERC) contained in 18 CFR Part 284, as amended from time to time.
- 1.2 This Agreement is subject to all valid legislation with respect to the subject matters hereof, either state or federal, and to all valid present and future decisions, orders, rules, regulations and ordinances of all duly constituted governmental authorities having jurisdiction.

(Continued)

FORM OF SERVICE AGREEMENT - INTERRUPTIBLE TRANSPORTATION (Continued)

- 1.3 Shipper shall reimburse Transporter for any and all filing fees incurred by Transporter specific to Shipper in seeking governmental authorization for the initiation of any new service or extension, or termination of service under this Agreement and Rate Schedule ITS-1. Shipper shall reimburse Transporter for such fees at Transporter's designated office within ten (10) days of receipt of notice from Transporter that such fees are due and payable.

Additionally, Shipper shall reimburse Transporter for any and all penalty fees or fines assessed Transporter caused by the negligence of Shipper in not obtaining all proper Canadian and domestic import/export licenses, surety bonds or any other documents and approvals related to the Canadian exportation and subsequent domestic importation of natural gas transported by Transporter hereunder.

II

Quantity of Gas and Priority of Service

- 2.1 Subject to the terms and provisions of this Agreement and Transporter's General Terms and Conditions of Service applicable to Rate Schedule ITS-1, daily receipts of gas by Transporter from Shipper at the point(s) of receipt shall be equal to daily Deliveries of gas by Transporter to Shipper at the point(s) of delivery; provided, however, Shipper shall deliver to Transporter an additional quantity of natural gas at the point(s) of receipt as compressor station fuel, line loss and unaccounted for gas as specified in Transporter's FERC Gas Tariff. Any limitations of the quantities to be received from each point of receipt and/or delivered to each point of delivery shall be as specified on the Exhibit A attached hereto. The service under this Agreement shall be conditioned upon the availability of capacity sufficient to provide the service without detriment or disadvantage to those customers of Transporter that have a higher priority of service.
- 2.2 The maximum quantities of gas to be delivered by Transporter for Shipper's account at the point(s) of delivery are set forth in Exhibit A.
- 2.3 In providing service to its existing or new customers, Transporter will use the priorities of service specified in Paragraph 13 of Transporter's General Terms and Conditions of Service on file with the FERC.
- 2.4 Prior to initiation of service, Shipper shall provide Transporter with any information required by the FERC, as well as all information identified in Transporter's General Terms and Conditions of Service applicable to Rate Schedule ITS-1.

(Continued)

FORM OF SERVICE AGREEMENT - INTERRUPTIBLE TRANSPORTATION (Continued)

III
Term of Agreement

- 3.1 This Agreement shall become effective _____, and shall continue in full force and effect until _____.

IV
Points of Receipt and Delivery

- 4.1 The point(s) of receipt of gas deliveries to Transporter is as designated in Exhibit A, attached hereto.
- 4.2 The point(s) of delivery of gas to Shipper is as designated in Exhibit A, attached hereto.
- 4.3 Unless otherwise agreed, Shipper shall deliver or cause to be delivered to Transporter the gas to be transported hereunder at pressures sufficient to deliver such gas into Transporter's system at the point(s) of receipt. Unless otherwise agreed, Transporter shall deliver the gas to be transported hereunder to or for the account of Shipper at the pressures existing in Transporter's system at the point(s) of delivery.

V
Operating Procedure

- 5.1 Shipper shall conform to the operating procedures set forth in Transporter's General Terms and Conditions of Service.
- 5.2 Transporter shall have the right to interrupt or curtail the transport of gas for the account of Shipper pursuant to Transporter's General Terms and Conditions of Service applicable to Rate Schedule ITS-1.

VI
Rate(s), Rate Schedules,
and General Terms and Conditions of Service

- 6.1 Shipper shall pay Transporter each month for services rendered pursuant to this Agreement in accordance with Transporter's Rate Schedule ITS-1, or superseding rate schedule(s), on file with and subject to the jurisdiction of FERC. In the event Transporter and Shipper agree on a Negotiated Rate, that rate, and any provisions governing such Negotiated Rate, shall be set forth in Exhibit B attached hereto.

(Continued)

FORM OF SERVICE AGREEMENT - INTERRUPTIBLE TRANSPORTATION (Continued)

- 6.2 Shipper shall compensate Transporter each month for compressor station fuel, line loss and other unaccounted for gas associated with this transportation service provided herein in accordance with Transporter's Rate Schedule ITS-1, or superseding rate schedule(s), on file with and subject to the jurisdiction of FERC.
- 6.3 This Agreement in all respects shall be and remains subject to the applicable provisions of Rate Schedule ITS-1, or superseding rate schedule(s) and to the applicable General Terms and Conditions of Service of Transporter's FERC Gas Tariff on file with the FERC, all of which are by this reference made a part hereof.
- 6.4 Transporter shall have the unilateral right from time to time to propose and file with FERC such changes in the rates and charges applicable to transportation services pursuant to this Agreement, the rate schedule(s) under which this service is hereunder provided, or any provisions of Transporter's General Terms and Conditions of Service applicable to such services. Shipper shall have the right to protest any such changes proposed by Transporter and to exercise any other rights that Shipper may have with respect thereto. Notwithstanding the foregoing, Transporter and Shipper agree not to initiate any proceeding before the FERC with respect to an increase or decrease in any negotiated rate set forth in Exhibit B hereto during the primary term.

VII
Miscellaneous

- 7.1 This Agreement shall be interpreted according to the laws of the State of Oregon.
- 7.2 Shipper warrants that upstream and downstream transportation arrangements are in place, or will be in place as of the requested effective date of service, and that it has advised the upstream and downstream Transporters of the receipt and delivery points under this Agreement and any quantity limitations for each point as specified on Exhibit A attached hereto.
- 7.3 Shipper agrees to indemnify and hold Transporter harmless for refusal to transport gas hereunder in the event any upstream or downstream Transporter fails to receive or deliver gas as contemplated by this Agreement.

(Continued)

FORM OF SERVICE AGREEMENT - INTERRUPTIBLE TRANSPORTATION (Continued)

7.4 Unless herein provided to the contrary, any notice called for in this Agreement shall be in writing and shall be considered as having been given if delivered by registered mail with all postage or charges prepaid, to either Transporter or Shipper at the place designated below. Routine communications, including monthly statements and payment, shall be considered as duly delivered when received by ordinary mail, facsimile or email (return notification received). Unless changed, the addresses of the parties for legal notices are as follows:

"PALOMAR GAS TRANSMISSION, LLC"
1400 SW Fifth Avenue, Suite 900
Portland, OR 97201
Attention: Assistant General Counsel

"Shipper"

Attention: _____

Unless changed, the addresses for the parties for routine communications, including monthly statements and payments are as follows:

"PALOMAR GAS TRANSMISSION, LLC"
1400 SW Fifth Avenue, Suite 900
Portland, OR 97201
Attention: Accounting

7.5 All waivers shall be in writing, and such waiver by either party of any one or more defaults by the other hereunder shall not operate as a waiver of any future default or defaults, whether of a like or of a different character.

7.6 This Agreement may only be amended by an instrument in writing executed by both parties hereto. In no event shall this Agreement be modified by course of performance, course of dealing or usage of trade.

(Continued)

FORM OF SERVICE AGREEMENT - INTERRUPTIBLE TRANSPORTATION (Continued)

- 7.7 Nothing in this Agreement shall be deemed to create any rights or obligations between the parties hereto after the expiration of the term set forth herein, except that termination of this Agreement shall not relieve either party of the obligation to correct any quantity imbalances or Shipper of the obligation to pay any amounts due hereunder to Transporter.
- 7.8 This Agreement shall terminate upon the expiration of any transportation authority which is not superseded, for whatever reason, by permanent transportation authority.
- 7.9 Exhibit(s) ___ attached hereto is/are incorporated herein by reference and made a part hereof for all purposes.

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be executed as of the day and year first above written.

PALOMAR GAS TRANSMISSION, LLC

By: _____
Name: _____
Title: _____

SHIPPER

By: _____
Name: _____
Title: _____

FORM OF SERVICE AGREEMENT - INTERRUPTIBLE TRANSPORTATION (Continued)

EXHIBIT A

TO THE INTERRUPTIBLE TRANSPORTATION AGREEMENT

Dated _____

Between PALOMAR GAS TRANSMISSION, LLC,

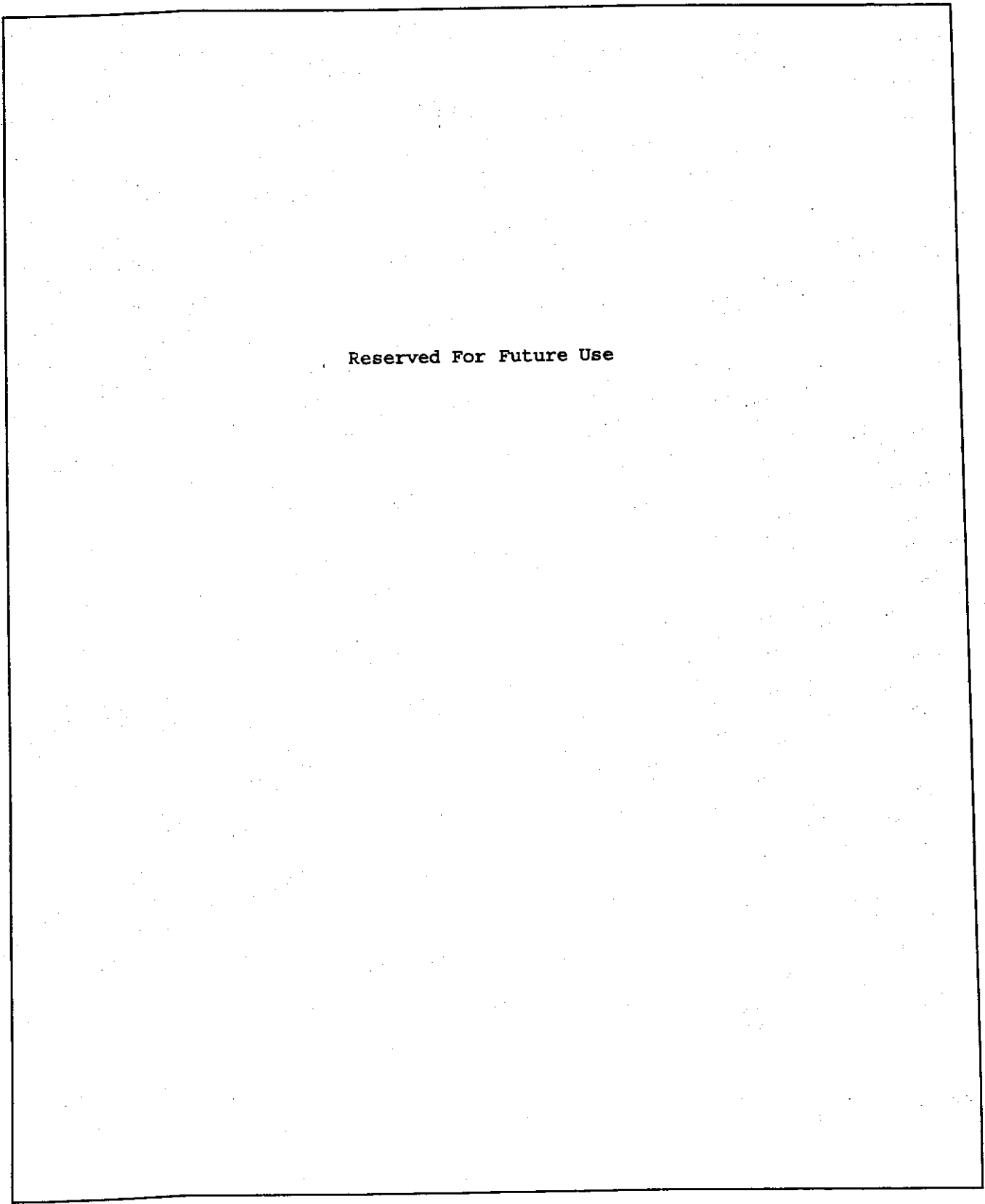
and _____

Receipt Point	Delivery Point	Maximum Daily Quantity (Delivered) Dth/d
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Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet Nos. 257 - 269

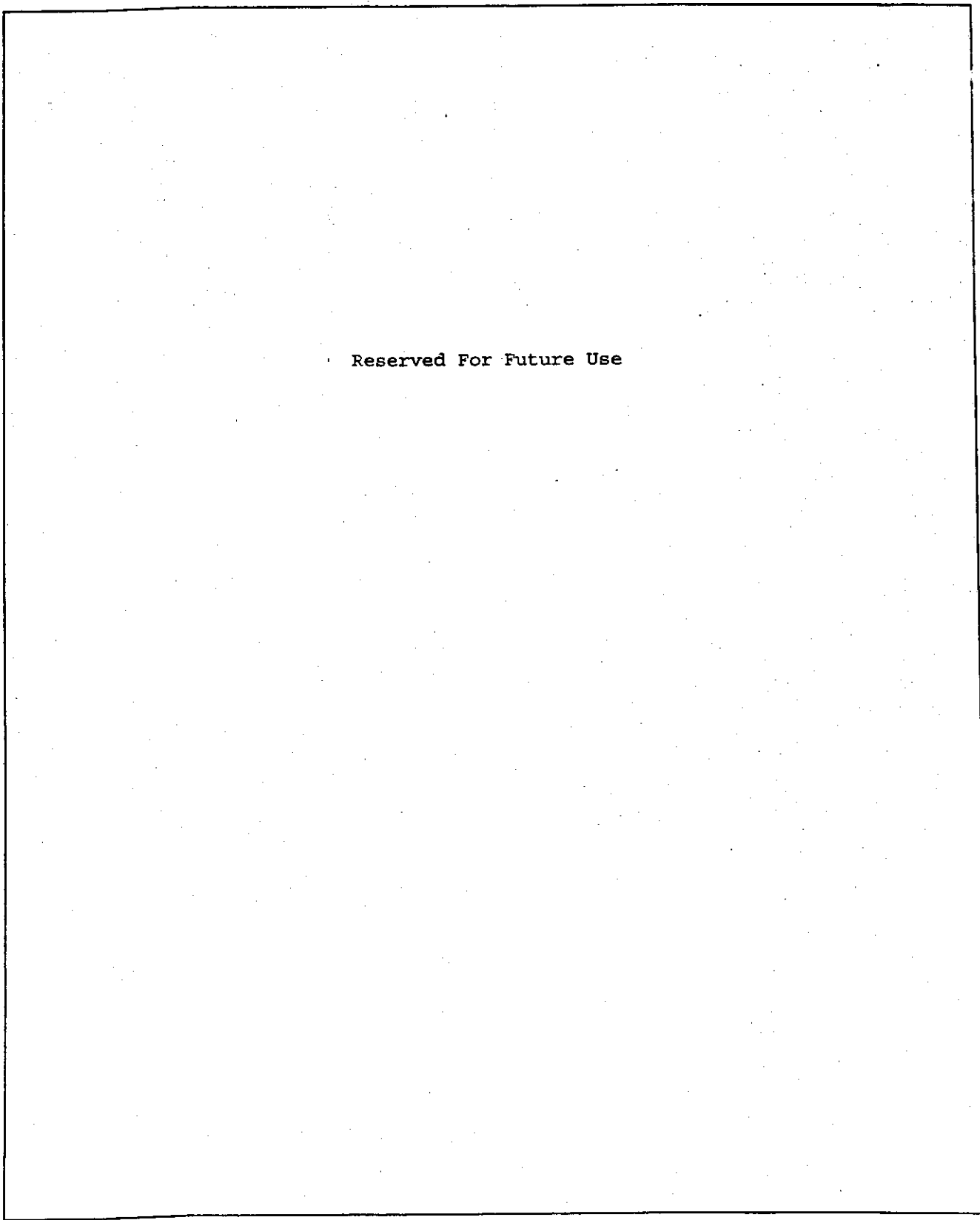
Reserved For Future Use



Reserved For Future Use

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet No. 272



Reserved For Future Use

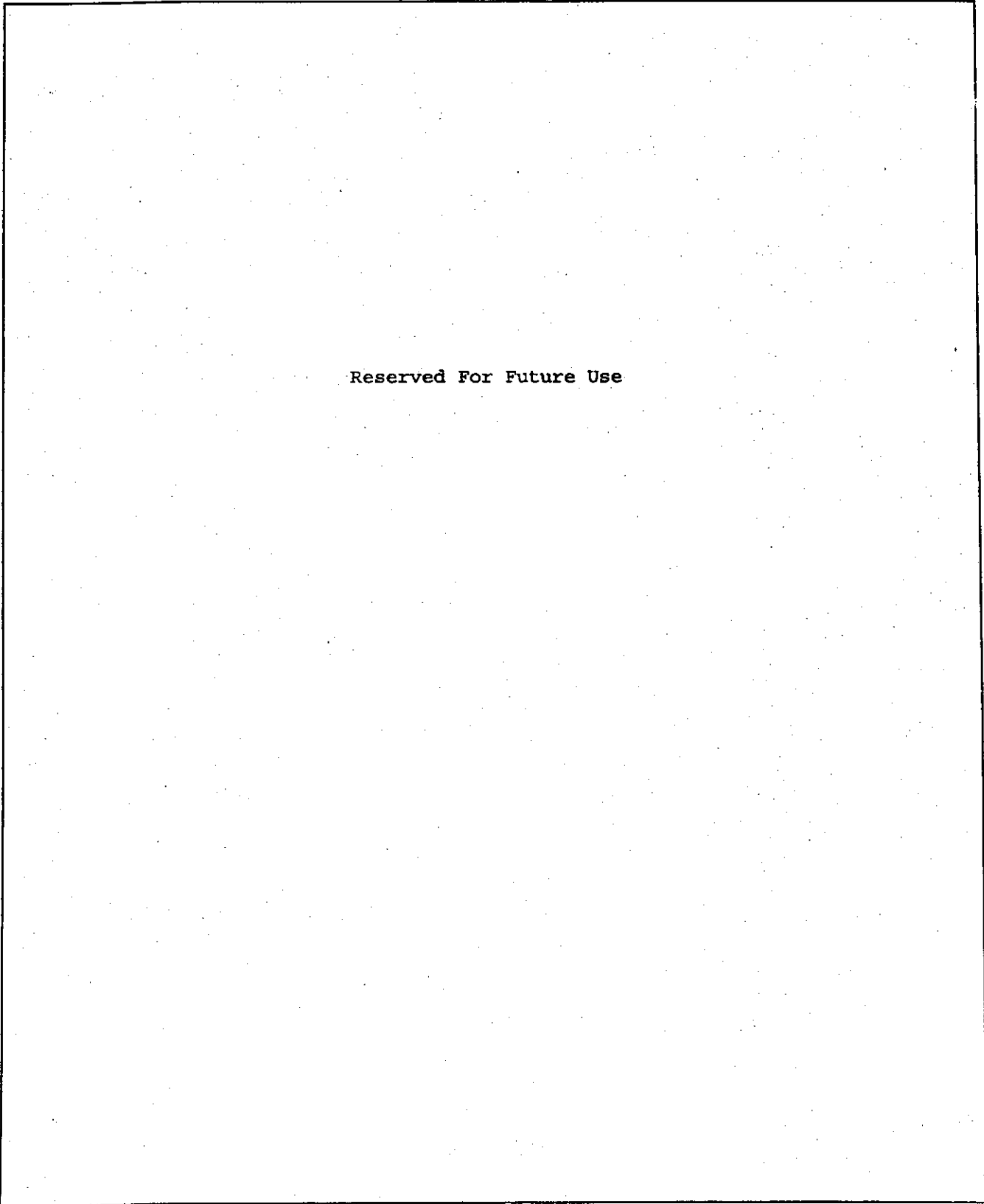
Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Reserved For Future Use

Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet No. 274



Reserved For Future Use

Reserved For Future Use

**PRECEDENT AGREEMENT FOR
FIRM NATURAL GAS TRANSPORTATION SERVICE
FOR THE WESTERN ZONE**

This Precedent Agreement for Firm Natural Gas Transportation Service on the Western Zone (“**Western Zone Precedent Agreement**” or “**Western Zone FTPA**”) is entered into as of August 3, 2007, by and between Palomar Gas Transmission LLC, a Delaware limited liability company (“**Sponsor**”), and Northwest Natural Gas Company, an Oregon corporation (“**Shipper**” or “**NW Natural**”). Sponsor and Shipper are referred to herein individually as “**Party**” and collectively as the “**Parties.**”

RECITALS

WHEREAS, Sponsor desires to design, engineer, permit, build and operate a new Federal Energy Regulatory Commission (“**FERC**”) regulated interstate pipeline extending west and north from an interconnection with Gas Transmission Northwest Corporation’s (“**GTN**”) existing system near Madras, Oregon to (i) an interconnection with NW Natural near Molalla, Oregon (the “**Eastern Zone**”) and (ii) from Molalla, Oregon to an interconnection with NW Natural (the “**Nehalem Interconnection**”) in the vicinity of the Nehalem River proximate to the town of Mist, Oregon, and from the Nehalem Interconnection generally northward to an interconnection with the Bradwood Landing Pipeline or other mutually agreed upon delivery points (the “**Western Zone**”; each of the Eastern Zone and the Western Zone being referred to herein as a “**Project Zone**” and collectively as the “**Project**”);

WHEREAS, Sponsor held an open season commencing during September 2006 and extending from time-to-time to run through February 2007, soliciting requests for capacity on the Project;

WHEREAS, Shipper desires to obtain firm transportation service on the Western Zone;

WHEREAS, Shipper and Sponsor have executed an August 3, 2007 Precedent Agreement for Firm Natural Gas Transportation Service for the Eastern Zone (the “**Eastern Zone Precedent Agreement**”);

WHEREAS, the Parties desire to enter into a binding precedent agreement that: (i) sets forth the terms upon which Sponsor will construct and operate the Western Zone and provide Shipper with Service (as defined below); and (ii) sets forth the terms upon which the Parties will execute a firm transportation service agreement with respect to the Western Zone as described herein;

NOW, THEREFORE, in consideration of the understandings and mutual covenants herein assumed, and for other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

AGREEMENT

1. SERVICE; RATES; DURATION.

(a) Service. Subject to the conditions set forth herein, including without limitation the conditions set forth in Section 3, any applicable terms and conditions that may be imposed by the FERC, and the terms and conditions of Sponsor's FERC Gas Tariff, Shipper shall purchase, and Sponsor shall provide, the firm natural gas transportation service described on Exhibit A attached hereto (the "Service"). The Service shall be provided pursuant to a Firm Transportation Service Agreement for the Western Zone ("Western Zone FTSA"), as described in Section 2(b) below, entered into in accordance with the terms and conditions set forth below:

(b) Rates. The Transportation Rate ("Rate") Shipper shall pay for Service shall be either:

Option 1: The maximum recourse rate for firm service to Shipper on the Project plus any applicable surcharges; or

Option 2: A negotiated rate for the duration of the term of the Service as set forth in Exhibit C attached hereto.

Shipper has selected Option 1.

(c) Commencement Date. Subject to satisfaction or waiver of the conditions set forth in Section 3, Service under the Western Zone FTSA will commence on the commencement date for the Western Zone which shall be the later of: (i) the Requested Commencement Date for the Western Zone as defined on Exhibit A, or (ii) the date on which Sponsor constructs and places into service the Western Zone (as applicable, the "Commencement Date"). Service shall continue from the Commencement Date for the Term as set forth in Exhibit A. As of the Commencement Date, Sponsor shall stand ready to provide Service and Shipper shall be liable to Sponsor for all approved charges set forth hereunder and approved by FERC (if applicable) that are associated with the provision of such Service.

(d) Earlier Service. Notwithstanding the provisions of Section 1(c) above, if the Project is completed before the Requested Commencement Date, Shipper shall have the right, but not the obligation, to advance the Commencement Date to any date between the actual completion date and the Requested Commencement Date.

2. ADDITIONAL OBLIGATIONS OF PARTIES.

(a) Prosecution and Completion of Project; Provision of Service. Sponsor agrees to act in good faith using commercially reasonable efforts to:

(i) Within one hundred twenty (120) days after full execution of this Western Zone Precedent Agreement, identify to Shipper the preliminary route for

the Project in sufficient detail to support the initiation of the NEPA pre-filing process.

(ii) Within eighteen (18) months after execution of this Western Zone Precedent Agreement, file an application, including pro forma tariff sheets and a request for a blanket certificate ("**FERC Application**"), for a Certificate of Public Convenience and Necessity to be issued by the FERC authorizing the construction and operation of the Project and providing initial rate and tariff approval, on the terms and conditions set forth herein (all referred to herein as the "**FERC Certificate**");

(iii) Timely apply for any other necessary federal, state, and local permits;

(iv) Cause the completion of the Project on or before the Requested Commencement Date, and

(v) Obtain authority to provide the Service on the terms and subject to the conditions set forth herein.

(b) Execution of Firm Transportation Service Agreement. Within thirty (30) days after Sponsor's receipt and acceptance of the FERC Certificate, in form and substance satisfactory to Sponsor in Sponsor's sole discretion, but not materially or adversely different from the application and draft tariff filed with FERC and unless this Western Zone Precedent Agreement has been terminated by Sponsor in accordance with Section 4(b) or by Shipper in accordance with Section 4(c), the Parties shall execute a Firm Transportation Service Agreement ("**Western Zone FTSA**") substantially similar to that form of transportation service agreement set forth in Exhibit D hereto (as may be modified by the FERC) incorporating the terms and conditions of this Western Zone Precedent Agreement including the Service set forth in Section 1; provided, however, that Sponsor may not use any rate, term, or condition of service that Sponsor sought as part of its FERC Application and which FERC accepted or approved as the basis for refusing to enter into the Western Zone FTSA.

(c) Credit Support. If at any time during the term of the Western Zone Precedent Agreement (or "**Western Zone FTSA**") Shipper is not creditworthy (or ceases to be creditworthy) in accordance with the terms of Exhibit B, then at such times and on the basis set forth below, Shipper shall deliver to Sponsor Credit Support for its obligations hereunder. As used herein, "**Credit Support**" means, at Shipper's option: (i) a guarantee of Shipper's obligations under this Western Zone Precedent Agreement (with a minimum cap as set forth below) in a form and substance mutually acceptable to the Parties from an entity that meets the credit requirements set forth in Exhibit B, or (ii) an irrevocable direct pay letter of credit issued by a bank or financial institution in form and substance acceptable to Sponsor and having a long term unsecured credit rating of at least "A" from Standard and Poor's and "A2" from Moody's, or (iii) cash collateral delivered to Sponsor, in an amount as set forth below (for the sake of clarity, each amount shown below supersedes and is not additive to, all prior amounts shown); provided, however, that, if at any time, the Parties are in dispute as to whether Shipper or its proposed

parental guarantor is creditworthy, then until such time as such dispute is resolved, Shipper shall be required to provide the Credit Support contemplated in clause (ii) above (which shall be subject to immediate release in the event that the Parties mutually agree or it is finally determined that Shipper or its proposed parental guarantor is creditworthy):

Table of Credit Support, Timetable and Amounts

Table 1

The term "MDQ" shall mean the Shipper's requested Maximum Daily Quantity.

Shipper shall maintain its creditworthiness, either directly or through provision of Credit Support, for the term of this Western Zone Precedent Agreement. The Parties agree that Shipper's failure to supply or maintain Credit Support shall not (i) relieve Shipper of its other obligations under this Western Zone Precedent Agreement, or (ii) prejudice Sponsor's right to seek damages or performance under this Precedent Agreement. The Parties further agree that if, at any time, and from time-to-time, Shipper shall be determined creditworthy in accordance with the standards of Exhibit B, Section A hereof, Sponsor shall return to Shipper whatever form of Credit Support it then holds to secure Shipper's obligations hereunder.

The credit terms and conditions set forth in this Section 2(c) and in Exhibit B will survive this Western Zone Precedent Agreement and, subject to FERC approval, will be applicable in the Western Zone FTSA.

For avoidance of doubt, the Parties acknowledge that, as of the date of execution of this Western Zone Precedent Agreement, Shipper is creditworthy in accordance with the terms of Exhibit B, and no further credit support is currently required.

(d) Cooperation. Each Party agrees to execute and deliver such other and additional instruments and documents and do such other acts as may be reasonably requested by the other Party to effectuate the terms and provisions of this Western Zone Precedent Agreement. Shipper expressly agrees to cooperate with, and, to file an intervention in support of the Project with FERC and cooperate with the efforts of Sponsor to obtain any regulatory or governmental approvals Sponsor deems necessary or desirable to develop, permit, construct, own or operate the Project, in whole or in part, or otherwise to provide the Service, including without limitation the FERC Certificate, including providing any information that is reasonably requested by Sponsor in preparing applications for the federal permits or by any governmental or regulatory body in connection with such applications; provided in all cases that Sponsor is not acting in contravention of this Agreement; and provided further that Shipper has been given the opportunity for prior review. Notwithstanding the foregoing, Shipper shall have the right to submit FERC filings, as it deems appropriate, on all rate and tariff issues and in other FERC proceedings.

(e) Reporting. As and when reasonably requested by Shipper, Sponsor shall update Shipper as to the status of the Project, and Sponsor's ability to meet its obligations hereunder and place the pipeline into service by the Requested Commencement Date. In addition and without request by Shipper, Sponsor shall (i) notify Shipper of proposed material changes to its FERC Gas Tariff and (ii) provide written notice and copies of any communications to or from Sponsor to or from third parties or governmental authorities that are reasonably likely to materially and adversely affect Sponsor's ability to complete the Project by the Requested Commencement Date or otherwise provide the Service as contemplated pursuant to the terms of this Western Zone Precedent Agreement.

(f) Open Season. Sponsor may, at any time, conduct an open season ("Open Season"), or modify the current Open Season, offering other parties an opportunity to acquire capacity on the Project incremental to the capacity for which Shipper has contracted under this Western Zone Precedent Agreement. Sponsor shall not be restricted by the terms of this Western Zone Precedent Agreement from constructing any size Project so long as Shipper is permitted to acquire the Service and the transportation capacity described in Exhibit A hereto at the rates prescribed herein. If Sponsor conducts an Open Season, then this Western Zone Precedent Agreement shall be deemed a qualified bid and Shipper shall be awarded the Service on the terms hereof.

(g) Tariff, Terms and Conditions of Service. Sponsor shall file for approval with its FERC Application a FERC Gas Tariff, substantially similar to that form of Tariff set forth in Exhibit C hereto and incorporating the terms and conditions of this Western Zone Precedent Agreement including the Service set forth in Section 1.

3. CONDITIONS PRECEDENT.

A. Sponsor's Conditions Precedent. Notwithstanding the Parties' execution of this Western Zone Precedent Agreement or an Western Zone FTSA, Sponsor's obligation to construct and operate the Project and to provide the Service is expressly subject to the satisfaction or waiver (in the sole discretion of Sponsor) of the following conditions:

- (i) Corporate Approvals. Within sixty (60) days after the FERC Certificate is no longer subject to appellate review, Sponsor shall have obtained all corporate authorizations necessary for its development and construction of the Project, and to provide the Service described in Section 1 hereof.
- (ii) Federal Certificate and Rights of Way. Sponsor shall have (i) received and accepted the FERC Certificate authorizing the Project; and (ii) have obtained the rights-of-way and construction permits necessary to construct the Project and provide the Service to Shipper, all in a form and substance satisfactory to Sponsor, or Sponsor shall have waived any objection to the form and substance of each of the same on or before _____; provided, however, that Sponsor may not use any rate, term, or condition of service

that Sponsor sought as part of its FERC Application and which FERC accepted or approved as the basis for refusing to accept the FERC Certificate.

- (iii) Notice of Satisfaction. Sponsor shall promptly notify Shipper upon satisfaction, waiver or failure of the conditions set forth in Sections 3(i) and 3(ii) (the "Notice of Satisfaction").

B. Shipper's Conditions Precedent. Notwithstanding the Parties' execution of this Western Zone Precedent Agreement or a Western Zone FTSA, Shipper's obligations under this Western Zone Precedent Agreement are expressly subject to the satisfaction or waiver (in the sole discretion of Shipper) of the following conditions:

(i) Receipt of FERC Certificate. Sponsor shall have received and accepted the FERC Certificate authorizing the Project, including, but not limited to the Western Zone, and the rights of way and construction permits necessary to construct and provide the Service to Shipper on the Western Zone, and generally consistent with Sponsor's Certificate Application on or before _____ and such FERC Certificate authorizes construction and operation of the Project on terms that, in Shipper's judgment, are not materially and adversely different from those described in this Western Zone Precedent Agreement and approval of the draft FERC Gas Tariff provided to Shipper that was filed with the FERC Application is also obtained.

(ii) Shipper Regulatory Approvals. Shipper shall have received its necessary state regulatory approvals, diligently sought, to enter into the Western Zone FTSA contemplated by this Western Zone Precedent Agreement no later than _____ after issuance of the FERC Certificate;

(iii) Eastern Zone Service. Either or both of the Eastern Zone Precedent Agreement or the Eastern Zone FTSA continue in effect; or

4. TERM; TERMINATION.

(a) Term. Subject to the conditions precedent in Section 3 hereof and the terms in this Section 4, this Western Zone Precedent Agreement shall be effective as of the date first written above and shall remain in effect until the earlier of: (i) the Commencement Date; (ii) the date on which this Western Zone Precedent Agreement is terminated in accordance with its terms; or (iii)

(e) Effect of Termination. The termination of this Western Zone Precedent Agreement shall not relieve any Party hereto from any right, liability or other obligation, or any remedy or limitation of remedies, which has accrued or been incurred prior to the date of such termination, provided, however, neither party shall be liable for any damages to the other Party in the event of termination due to exercise by Sponsor of a condition precedent set out in Section 3. If this Western Zone Precedent Agreement is terminated following execution of the Western Zone FTSA, but prior to the date on which Sponsor commences Service for Shipper under the Western Zone FTSA, then the Western Zone FTSA shall automatically terminate upon termination of this Western Zone Precedent Agreement.

5. REPRESENTATIONS AND WARRANTIES.

Each Party represents and warrants to each other as follows:

(a) Such Party is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is in good standing in each other jurisdiction where the failure to so qualify would have a material adverse effect upon the business or financial condition of such Party.

(b) The execution, delivery and performance of this Western Zone Precedent Agreement by such Party has been, or as of the Commitment Date will be, duly authorized by all necessary action on the part of such Party in accordance with such Party's charter documents and do not and will not require the consent of any trustee or holder of any indebtedness or other obligation of such Party or any other party to any other agreement with such Party.

(c) This Western Zone Precedent Agreement constitutes the legal, valid, binding and enforceable obligation of such Party, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application relating to or affecting creditor's rights generally and by general equitable principles.

(d) No governmental authorization, approval, order, license, permit, franchise or consent, and no registration, declaration or filing with any governmental authority is

required on the part of such Party in connection with the execution and delivery of this Western Zone Precedent Agreement.

(e) There is no pending or, to the best of such Party's knowledge, threatened action or proceeding affecting such Party before any court, government authority or arbitrator that could reasonably be expected to materially and adversely affect the financial condition or operations of such Party or the ability of such Party to perform its obligations hereunder, or that purports to affect the legality, validity or enforceability of this Western Zone Precedent Agreement.

6. MISCELLANEOUS.

(a) Limitation of Liability/Exclusive Remedies. No Party shall be liable to any other Party under this Western Zone Precedent Agreement or under the Western Zone FTSA for any special, indirect, incidental, punitive or consequential damages of any nature, or for any lost profits, however arising even if such Party has been made aware of the possibility of such damages or lost profits. Whenever a remedy is specified in this Western Zone Precedent Agreement, the specified remedy shall be the sole remedy available to the Parties to the exclusion of any other rights, powers, privileges or remedies provided by law, unless it is specifically stated herein that such remedy is non-exclusive.

(b) Non-Exclusive Service. Sponsor is an open-access transporter, and is required to offer available capacity on a not unduly discriminatory basis on the Project (including extensions and/or expansions thereof) to other potential customers.

(c) Notices. All notices required or permitted under this Precedent Agreement shall be in writing and sent to:

Sponsor: Palomar Gas Transmission, LLC
1400 SW Fifth Avenue, Suite 900
Portland, Oregon 97201
Attention: General Manager
Fax No.: (503) 833-4954

And a copy to: Palomar Gas Transmission LLC
1400 SW Fifth Avenue, Suite 900
Portland, Oregon 97201
Attention: Legal Department
Fax No.: (503) 402-4004

Shipper: Northwest Natural Gas Company
220 NW Second Avenue
Attention:
Portland, OR 97209
Fax No.: (503) 220-2421

And a copy of any termination notices, amendments or claims to:

Northwest Natural Gas Company
220 NW Second Avenue
Attention: Legal Department
Portland, OR 97209
Fax No.: (503) 721-2516

Any Party may change its address by written notice to that effect to the other Parties. Notices given hereunder shall be deemed to have been effectively given upon: (i) the first business day at the recipient's office following the day when the notice properly addressed and postpaid had been delivered to the recipient's address by registered U.S. mail, return receipt requested, or by a nationally recognized overnight courier, or (ii) the first business day at the recipient's office following the day when the sender of the notice received confirmation from its facsimile machine that such notice was successfully transmitted. It is expressly understood and agreed, however, that any notices referred to hereunder shall first be delivered by facsimile or other similar means, in accordance with the dates and time provided therein, and shall be mailed as soon as practicable thereafter.

(d) Entire Agreement. This Western Zone Precedent Agreement, including Exhibits A through D, sets forth all understandings and agreements between the Parties with respect to the subject matter hereof, and all prior agreements, understandings and representations, whether written or oral, with respect thereto are merged into and superseded by this Precedent Agreement.

(e) Modifications. This Western Zone Precedent Agreement may only be amended by an instrument in writing executed by all Parties.

(f) Governing Law. This Western Zone Precedent Agreement, and any actions, claims, demands or settlements hereunder shall be governed by and construed in accordance with the laws of the State of Oregon without reference to any conflicts of law principles, which might require the application of the laws of any other jurisdiction.

(g) Compliance with Law. This Western Zone Precedent Agreement and the obligations of the Parties hereunder are subject to all applicable laws, regulations, rules, and orders of all governmental and regulatory bodies having jurisdiction.

(h) Audit Right. Shipper shall have the right, upon reasonable notice, during business hours, and at its own cost, to inspect and audit the financial books and records and other financial data of Sponsor as reasonably required to confirm or verify, among other things, any claimed Western Zone Project Costs, Shipper's Proportionate Share of

the Project Costs, reconfiguration costs or other expenses claimed to have been incurred to remove Shipper's MDQ from the Project as described in Section 4(b) herein, payments by Shipper pursuant to Section 4(b) or (c) and reconfiguration costs.

(i) Dispute Resolution. Any disputes, controversies or claims that arise between the Parties (the "Disputing Parties") relating to this Western Zone Precedent Agreement (a "Dispute") shall be resolved by means of the following procedure:

(i) Notice of Dispute. Any Disputing Party shall give notice to the other Disputing Parties in writing that a Dispute has arisen ("Dispute Notice").

(ii) Informal Dispute Resolution. If the Disputing Parties have failed to resolve the Dispute within fifteen (15) business days after the Dispute Notice was given, the Disputing Parties shall seek to resolve the Dispute by negotiation between the executive officers of each Disputing Party. Such executive officers shall endeavor to meet and attempt to amicably resolve the Dispute. If the Disputing Parties are unable to resolve the Dispute through negotiation within thirty (30) business days after the Dispute Notice was given, then the Dispute shall be finally resolved through arbitration in accordance with provisions of clause (iii) below.

(iii) Arbitration. Any Dispute that is not settled pursuant to clause (ii) above shall be finally settled by arbitration in accordance with the Commercial Dispute Arbitration Rules of the American Arbitration Association (the "AAA") and the substantive law of the State of Oregon in effect at the time of the Dispute Notice (except as they may be modified herein or by mutual agreement of the Disputing Parties), as follows:

(1) The place of arbitration shall be Portland, Oregon and shall be conducted in the English language. The Disputing Party initiating recourse to arbitration shall give the other Disputing Party a notice of arbitration ("Notice of Arbitration") as provided under the AAA Rules.

(2) The arbitration proceeding shall be conducted by a tribunal (the "Tribunal") comprised of three (3) English-speaking arbitrators. Within fifteen (15) business days after receipt of the Notice of Arbitration, each Disputing Party shall nominate one arbitrator. Within thirty (30) business days after receipt of the Notice of Arbitration, the two appointed arbitrators shall appoint the third arbitrator, who shall serve as president of the Tribunal. If the third arbitrator is not appointed within such thirty (30) days, either party may request AAA to appoint such third arbitrator.

(3) After the statement of defense has been submitted and before any subsequent substantive submission, each Disputing Party shall have the right to request the other Disputing Party and any nonparties to produce certain specified documents or categories of documents.

(4) Initially, and unless the Tribunal directs otherwise, each Disputing Party shall bear its own expenses in connection with any arbitration hereunder, including reasonable attorneys' fees, and shall share equally the costs of arbitration. As part of the arbitration award, the Tribunal shall decide how the Disputing Parties shall bear such costs of arbitration. Each party shall bear its own legal fees associated with the arbitration.

(j) Waiver. Unless otherwise specifically indicated herein, any waiver, consent or approval of any kind or character by a Party of any term or condition set forth in this Western Zone Precedent Agreement, or of any breach or default hereunder, shall be given or withheld in the sole discretion of the waiving, consenting or approving Party and all such waivers, consents or approvals shall be in writing. No delay or omission to exercise any right, power or remedy accruing to any Party as the result of any breach or default hereunder shall impair any such right, power or remedy, nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of any similar breach or default thereafter occurring, nor shall any waiver of any single breach or default be deemed or otherwise constitute a waiver of any other breach or default theretofore or thereafter occurring.

(k) Drafting. For the purposes of contractual interpretation, the terms, conditions and provisions of this Western Zone Precedent Agreement shall not be construed against any Party as a result of the preparation or drafting thereof.

(l) Filing. Either Party may file this Western Zone Precedent Agreement with the FERC and shall use commercially reasonable efforts to maintain confidential treatment with respect to this Western Zone Precedent Agreement in connection with any such filing.

(m) Exhibits. The following Exhibits and Schedules are attached hereto and expressly made part of this Western Zone Precedent Agreement:

Exhibit A: Terms of Service

Exhibit B: Credit Requirements

Exhibit C: Pro Forma Tariff

(n) Counterpart Execution. This Western Zone Precedent Agreement may be executed in counterparts, and all such executed counterparts shall form part of this Western Zone Precedent Agreement. A signature delivered by facsimile shall be deemed to be an original signature for purposes of this Western Zone Precedent Agreement.

(o) Severability. In the event that any of the provisions of this Western Zone Precedent Agreement are held to be unenforceable or invalid by a court of competent jurisdiction, the Parties shall negotiate an equitable adjustment to the provisions of this Western Zone Precedent Agreement with a view toward effecting to the extent possible the original purpose of this Western Zone Precedent Agreement, and the validity and

enforceability of the remaining provisions, or portions or applications thereof shall not be affected thereby.

(p) Confidentiality. This Western Zone Precedent Agreement and the terms set forth herein are confidential and the Parties agree not to disclose such terms other than as otherwise set forth in this Agreement and as required by applicable laws, regulations or any securities exchange; provided that, unless otherwise restricted by applicable law or regulations, each Party may disclose the terms hereof to each of their and their respective Affiliates' officers, employees, agents, lenders and other advisors that have a bona fide need to know such information and to potential assignees of their interests under this Western Zone Precedent Agreement that have agreed to use this information only for the purposes intended herein and who agree to keep such information confidential, provided further, that the disclosing party shall be responsible for any such breach of these confidentiality provisions by the parties to which it disclosed such information. The provisions of this Section 6(p) shall survive termination of this Western Zone Precedent Agreement until the date that is two (2) calendar years after the Corporate Approval Date, provided, however that the Parties acknowledge that Sponsor may file this Western Zone Precedent Agreement with the FERC as necessary or desirable to support its certificate application, and Shipper may file this Western Zone Precedent Agreement with the Public Utility Commission of Oregon ("OPUC") and the Washington Utilities and Transportation Commission ("WUTC") (or otherwise describe the Western Zone Precedent Agreement to the OPUC and the WUTC) as necessary or desirable to support regulatory approval to enter into this Western Zone Precedent Agreement; provided, however, that Shipper shall take all such action as reasonably possible to insure information regarding this Western Zone Precedent Agreement provided to the OPUC and WUTC remains confidential to the maximum extent possible.

(q) Publicity. The Parties agree to use reasonable efforts to cooperate and coordinate public announcements related to the Project and the development and announcement of any open season for the Project.

(r) Assignment. Subject to the provisions of this Section 6(r), this Western Zone Precedent Agreement shall be binding on Sponsor, Shipper and their respective successors and assigns. Shipper may not assign this Western Zone Precedent Agreement or any rights or obligation hereunder without first obtaining the prior written consent of Sponsor, which consent shall not be unreasonably withheld or delayed, provided, however, that Shipper may, without the consent of Sponsor, assign this Western Zone Precedent Agreement to an affiliate, provided further that such affiliate meets the Credit Requirements as set forth in this Western Zone Precedent Agreement. Affiliate shall be defined as any company, partnership or corporation which (i) directly or indirectly controls such Party; (ii) is directly or indirectly controlled by such Party; or (iii) is directly or indirectly controlled by a company or corporation which directly or indirectly controls such Party; where "control" means the right to exercise votes attaching to more than fifty percent (50%) of the voting shares of the company, partnership or corporation in question. In no event shall the pipeline be rolled into an existing interstate or intrastate pipeline system without Shipper's prior written consent.

(s) Surviving Terms. The following provisions of this Western Zone Precedent Agreement shall survive termination of the Western Zone Precedent Agreement, and extend until termination of the Western Zone FTSA (unless otherwise specified):

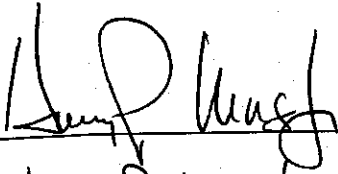
- Termination
- (i) Section 2(c), Credit Support
 - (ii) Payment obligations, if any, with respect to Section 4, Term;
 - (iii) Section 6(i), Dispute Resolution
 - (iv) Section 6(p), Confidentiality
 - (v) Exhibit B

[SIGNATURES ON NEXT PAGE]

IN WITNESS WHEREOF, the Parties hereto executed this Western Zone Precedent Agreement as of the first date hereinabove written.

Palomar Gas Transmission, LLC

Northwest Natural Gas Company

Signed: 
Name: Henry P. Mason Sr
Title: GM

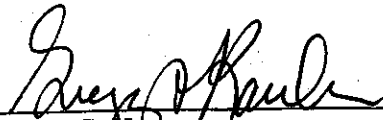
Signed: 
Name: Gregg S. Kantor
Title: President and COO

Exhibit A

Terms of Service

Term: 20 years with a requested commencement date ("**Requested Commencement Date**") of November 1, 2011.

Zone(s)	Delivery Point	Receipt Point	Maximum Daily Quantity (Dth/D)
Western	Bradwood Landing Pipeline	Molalla	100,000

Exhibit B

Credit Requirements

A Shipper will be considered creditworthy if it meets the following conditions:

A. Evidence that Shipper, or Shipper's guarantor, has an unenhanced senior unsecured debt ("SUD") rating of at least BBB- by Standard & Poor's, Baa3 by Moody's, or an equivalent rating as determined by Sponsor. In the event that a split rating occurs between rating agencies, Sponsor will rely upon the lower of the ratings. This rating must be a "foreign currency" rating if the participant is domiciled outside of the United States. "Local currency" ratings are unacceptable unless the participant's local currency is US Dollars (e.g. Puerto Rico). If Shipper, or Shipper's guarantor, does not have an SUD rating by a recognized service, Shipper may request an equivalent rating. In general, such equivalent rating will be based on the audited financial statements for the Shipper's two (2) most recent fiscal years, all interim reports, and any other relevant information; or

B. Sponsor and Shipper mutually agree to other credit arrangements. Such other credit arrangements shall be accepted on a nondiscriminatory basis; and

C. The absolute credit limit for the Shipper, or Shipper's guarantor, must be equal to or greater than the amount defined in Table 1 of this Western Zone Precedent Agreement under the "Minimum Cap for Credit Support through Guarantee or Rating". Sponsor will establish the absolute credit limit for the Shipper and promptly report to Shipper, in writing, this amount. The credit evaluation will use all relevant information, but will be heavily weighted by the Shipper's credit rating, tangible net worth, financial ratios (e.g., Debt/Equity, Debt service coverage ratio), and third party analysis (e.g., equity analysts, Moody's KMV, etc.). This absolute credit limit may be modified at anytime during the Western Zone Precedent Agreement and Western Zone FTSA contracting periods.

If at anytime the credit limit for the Shipper, or Shipper's guarantor, is insufficient to meet the Shipper's credit support requirement defined in Section 2 of this Western Zone Precedent Agreement, Sponsor may demand collateral assurances in an amount not to exceed the collateral amounts defined in Table 1 in this Western Zone Precedent Agreement.

Credit Information. Sponsor may require, prior to execution of the Western Zone Precedent Agreement, or at any future time as Sponsor deems necessary to conduct ongoing credit evaluations of Shipper, that the Shipper shall provide Sponsor with any or all of the following information and criteria to allow Sponsor to determine the Shipper's Creditworthiness:

1. Two (2) years of audited financial statements and annual reports from the Shipper or Guarantor.

2. Shipper shall provide a bank reference and at least two trade references. The results of reference checks and any credit reports submitted herein must show that Shipper's obligations are being paid on a reasonably prompt basis
3. List of Affiliates, Parent companies, and Subsidiaries.
4. Statement of Legal Composition.
5. Most recent filed statements with the Securities and Exchange Commission ("SEC").
6. For public entities, the most recent publicly available interim financial statements, with an attestation by its Chief Financial Officer, controller, or equivalent (CFO) that such statements constitute a true, correct, and fair representation of financial condition prepared in accordance with Generally Accepted Accounting Principles (GAAP) or equivalent.
7. For state-regulated utility local distribution companies, documentation from their respective state regulatory commission (or an equivalent authority) for an authorized gas supply cost recovery mechanism which fully recovers both gas commodity and transportation capacity costs and is afforded regulatory asset accounting treatment in accordance with GAAP or equivalent.
8. Shipper is required to provide written notice to Transporter within two days of filing a report (other than an annual or quarterly report) with the SEC or other equivalent foreign regulatory body that Shipper is required to file as a result of a material event or corporate change affecting its financial condition. Such notice shall include a general description of the nature and reason for the filing and to the extent such report is not available electronically, Shipper shall provide Transporter with a copy of the report. Shippers that are not subject to SEC reporting requirements, but have a parent that is, shall comply with respect to any such filing by their parent.
9. Shipper shall provide a list of owners and/or shareholders of entity, if privately held.

Exhibit C
Pro Forma Tariff

FERC GAS TARIFF
PRO FORMA ORIGINAL VOLUME NO. 1
OF
Palomar Gas Transmission, LLC
FILED WITH THE
FEDERAL ENERGY REGULATORY COMMISSION

Communications Concerning This Tariff
Should Be Addressed To:

John A. Roscher - Director
Rates and Regulatory Affairs
Palomar Gas Transmission, LLC
1400 SW Fifth Avenue, Suite 900
Portland, OR 97201

Telephone: (503) 833-4254
Facsimile: (503) 833-4918

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Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet No. 2

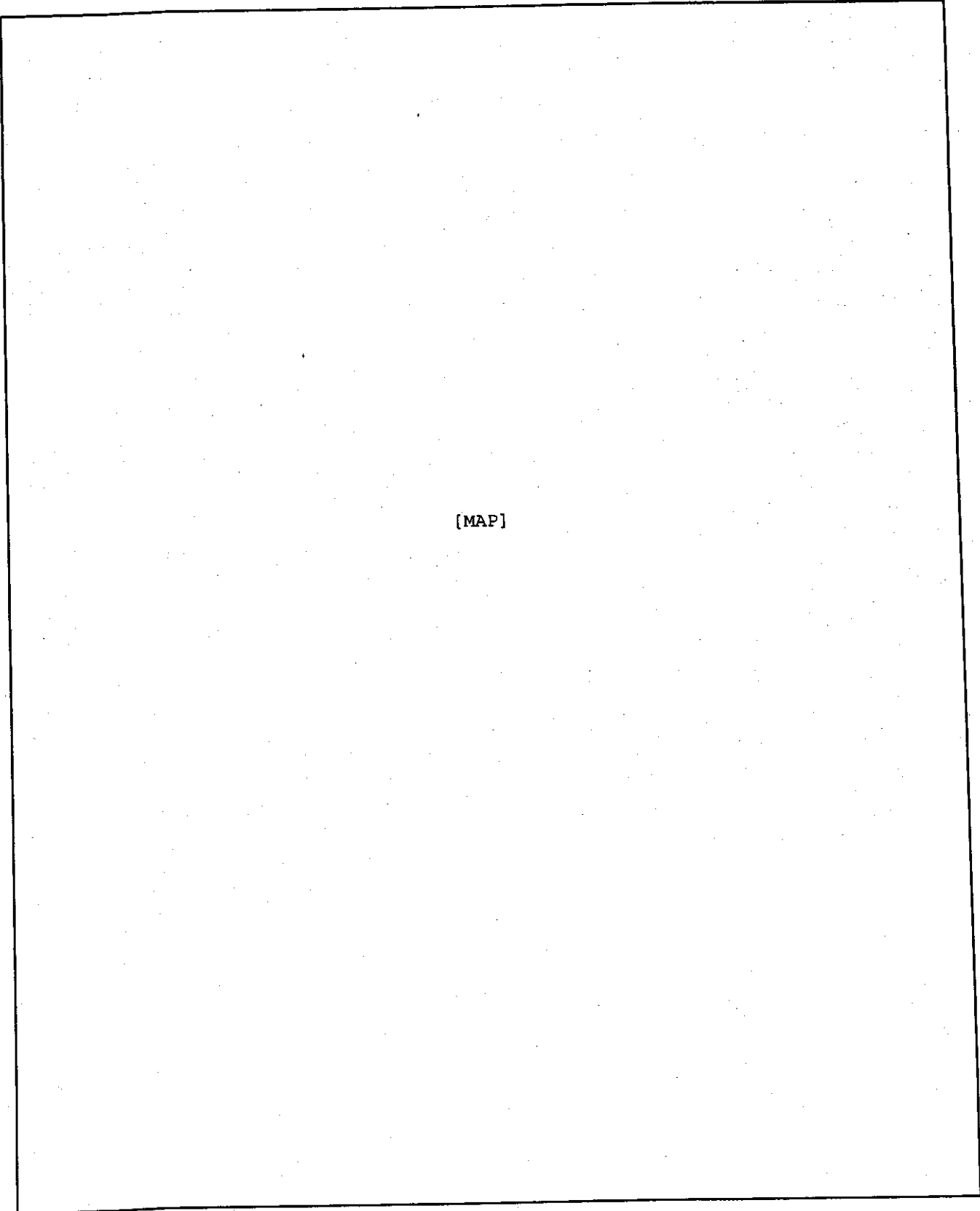
PRELIMINARY STATEMENT

Palomar Gas Transmission, LLC ("Transporter") is a natural gas pipeline transportation system extending approximately 108 miles from an interconnection with the facilities of Gas Transmission Northwest Corporation near Madras, Oregon extending west and terminating at an interconnection with Northwest Natural Gas Company near Molalla, Oregon. Transporter offers open access transportation service under the laws and regulations of the United States and the Federal Energy Regulatory Commission ("FERC").

Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet No. 3



[MAP]

Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:

Palomar Gas Transmission, LLC
 FERC Gas Tariff
 Original Volume No. 1

Pro Forma Original Sheet No. 4

STATEMENT OF EFFECTIVE RATES AND CHARGES		
Rate Schedule	Maximum Rate per Dth	Minimum Rate per Dth
Rate Schedule FTS-1		
1. Capacity Reservation Rate per Day per Dth of MDQ	\$x.xxxxx	\$x.xxxxx
2. Delivery Rate per Dth	\$x.xxxxx	\$x.xxxxx
3. Fuel and Line Loss		
Maximum Volumetric Capacity Release Rate	\$x.xxxxx	
Rate Schedule ITS-1		
1. Delivery Rate per Dth	\$x.xxxxx	\$x.xxxxx
2. Fuel and Line Loss		
ACA Surcharge /1		

Issued by: John A Roscher, Director of Rates & Regulatory Affairs
 Issued on: Effective on:

STATEMENT OF EFFECTIVE RATES AND CHARGES

Notes:

/1 ACA surcharge is not currently applicable, but will apply the year following Palomar's first year of operation.

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet No. 6

STATEMENT OF EFFECTIVE RATES AND CHARGES

NEGOTIATED RATE AGREEMENTS UNDER RATE SCHEDULE FTS-1

SHIPPER	TERM OF CONTRACT	DTH/D	PRIMARY RECEIPT POINT	PRIMARY DELIVERY POINT	RATE
---------	---------------------	-------	-----------------------------	------------------------------	------

Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:

STATEMENT OF EFFECTIVE RATES AND CHARGES

NEGOTIATED RATE AGREEMENTS UNDER RATE SCHEDULE FTS-1

Explanatory Footnotes for Negotiated Rates
Under Rate Schedule FTS-1

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet No. 8

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Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet No. 9

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Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:

RATE SCHEDULE FTS-1
FIRM TRANSPORTATION SERVICE

1. AVAILABILITY

This rate schedule is available to any party (hereinafter called "Shipper") qualifying for service and who has executed a Firm Transportation Service Agreement with Transporter in the form contained in this FERC Gas Tariff Original Volume No. 1.

2. APPLICABILITY AND CHARACTER OF SERVICE

This rate schedule shall apply to firm gas transportation services performed by Transporter for Shipper pursuant to the executed Firm Transportation Service Agreement between Transporter and Shipper. Transporter shall receive from Shipper such daily quantities of gas up to the Shipper's Maximum Daily Quantity (MDQ) as specified in the executed Firm Transportation Service Agreement between Transporter and Shipper plus the required quantity of gas for fuel and line loss associated with service under this Rate Schedule FTS-1 and redeliver an amount equal to the quantity received less the required quantity of gas for fuel and line loss. Receipt and delivery of gas shall be made in evenly hourly rates up to a maximum hourly receipt and delivery quantity equal to one twenty-fourth (1/24th) of a Shipper's MDQ. This transportation service shall be firm and not subject to curtailment or interruption except as provided in the General Terms and Conditions of Service.

Firm transportation service shall be subject to all provisions of the executed Firm Transportation Service Agreement between Transporter and Shipper and the applicable General Terms and Conditions of Service.

3. RATES

Shipper shall pay Transporter each month the sum of the Reservation Charge, the Delivery Charge, plus any applicable Overrun Charge or surcharge for the quantities of natural gas delivered. The rate(s) set forth in Transporter's Statement of Effective Rates and Charges for Transportation of Natural Gas in this FERC Gas Tariff, Original Volume No. 1 are applied to transportation service rendered under this rate schedule.

3.1 Reservation Charge

The Reservation Charge shall be the Shipper's Maximum Daily Quantity multiplied by the Reservation Rate for service under this Rate Schedule as set forth on effective Tariff Sheet No. 4.

(Continued)

RATE SCHEDULE FTS-1
FIRM TRANSPORTATION SERVICE
(Continued)

3. RATES (Continued)

3.2 Delivery Charge

The Delivery Charge shall be the product of the quantities of gas delivered in the month (in Dth) and the Delivery Rate as set forth on effective Tariff Sheet No. 4.

3.3 Applicability of Surcharges

Shipper shall pay all reservation and usage surcharges applicable to the service provided to such Shipper as set forth in Transporter's FERC Gas Tariff, Original Volume No. 1; such surcharges shall be deemed to be part of Shipper's Reservation and Delivery Charges.

3.4 Discounts

Shipper shall pay the Maximum Reservation Charge and the Maximum Delivery Charge for service under this Rate Schedule unless Transporter offers to discount the Reservation Rate, the Delivery Rate or any discountable surcharges. If Transporter elects to discount any such rate, Transporter shall, by written notice, advise Shipper of the effective date of such charges and the quantity of gas so affected; provided, however, such discount shall not be anti-competitive or unduly discriminatory between individual shippers.

3.5 Negotiated Rates

Notwithstanding any provision of Transporter's Tariff to the contrary, Transporter and Shipper may mutually agree in writing to a Negotiated Rate (including a Negotiated Rate Formula) with respect to the rates, rate components, charges, or credits that are otherwise prescribed, required, established, or imposed by this Rate Schedule or by any other applicable provision of Transporter's Tariff. Such Negotiated Rate shall be set forth in Attachment B to the Shipper's Firm Transportation Service Agreement and Transporter shall make any filings with FERC necessary to effectuate such Negotiated Rate.

(Continued)

RATE SCHEDULE FTS-1
FIRM TRANSPORTATION SERVICE
(Continued)

3. RATES (Continued)

3.6 Backhauls

Backhauls (as defined in Paragraph 1.26 of the General Terms and Conditions of Service) shall be subject to the same charges as forward haul (as defined in Paragraph 1.25 of the General Terms and Conditions of Service) except that no gas shall be retained by Transporter for compressor station fuel, line loss and other unaccounted-for gas. Backhauls are subject to the operating conditions of Transporter's pipeline and will not be made available to Shipper if Transporter determines, in its sole discretion, that such transportation is operationally infeasible or otherwise not available.

3.7 Capacity Release

(a) Releasing Shippers:

Shipper shall have the option to release capacity pursuant to the provisions of Transporter's capacity release program as specified in the General Terms and Conditions of Service. Shipper may release its capacity, up to Shipper's MDQ under this rate schedule, in accordance with the provisions of Paragraph 19 of Transporter's General Terms and Conditions of Service of this FERC Gas Tariff, Original Volume No. 1. Shipper shall pay a fee associated with the marketing of capacity by Transporter (if applicable) in accordance with Paragraph 19 of the General Terms and Conditions of Service. This fee shall be negotiated between Transporter and the Releasing Shipper. A Shipper that releases capacity on a temporary basis remains liable for the payment of all rates and fees incurred under such service that are not paid by the Replacement Shipper.

(Continued)

RATE SCHEDULE FTS-1
FIRM TRANSPORTATION SERVICE
(Continued)

3. RATES (Continued)

3.7 Capacity Release (Continued)

(b) Replacement Shippers:

Shipper may receive released capacity service under this rate schedule pursuant to Paragraph 19 of the General Terms and Conditions of Service and is required to execute a service agreement in the form contained for capacity release under Rate Schedule FTS-1 in this FERC Gas Tariff, Original Volume No. 1.

Shipper shall pay Transporter each month for transportation service under this rate schedule and as set forth in Transporter's current Statement of Effective Rates and Charges for Transportation of Natural Gas in this FERC Gas Tariff, Original Volume No. 1. Charges to be paid shall be the sum of the Reservation Charge, Delivery Charge, and other applicable surcharges or penalties.

4. AUTHORIZED OVERRUNS

Quantities in excess of Shipper's MDQ shall be transported when capacity is available on the Transporter system and when the provision of such Authorized OVERRUNS shall not affect any Shipper's rights on the Transporter system. Authorized OVERRUNS are interruptible in nature. The rate charged shall be the same as the rates and charges for interruptible transportation under Rate Schedule ITS-1 as set forth on effective Tariff Sheet No. 4, and such Authorized OVERRUNS shall be subject to the priority of service provisions of Paragraph 13 of the General Terms and Conditions of Service.

(Continued)

RATE SCHEDULE FTS-1
FIRM TRANSPORTATION SERVICE
(Continued)

5. FUEL AND LINE LOSS

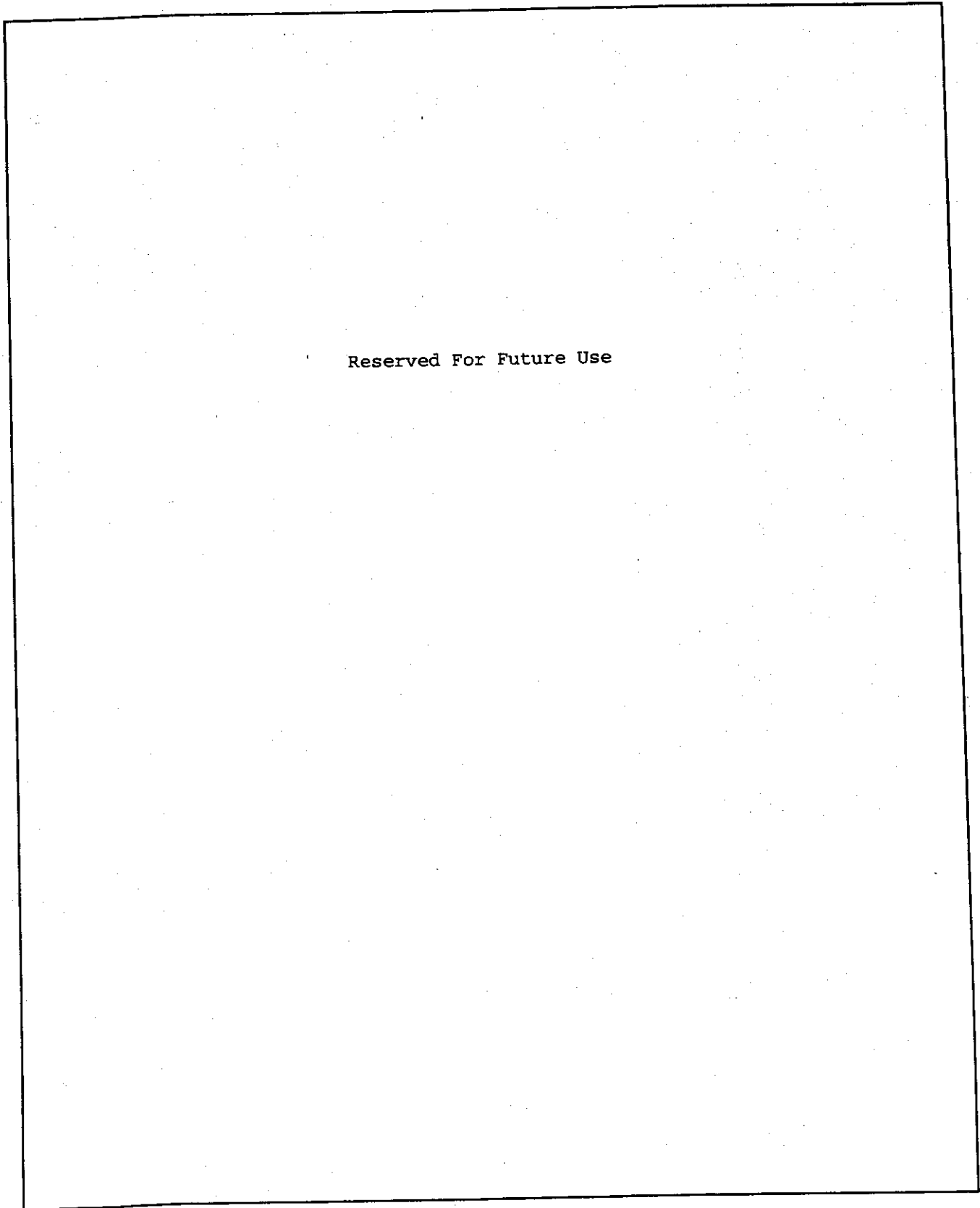
For all Forward Hauls, Shipper shall furnish to Transporter quantities of gas for compressor station fuel, line loss and other utility purposes, plus other unaccounted for gas used in the operation of Transporter's pipeline system for the transportation quantities of gas delivered by Transporter to Shipper, based upon the effective fuel and line loss percentages set forth in this Tariff. No fuel charge shall apply to transactions that do not involve a forward haul movement of gas.

6. GENERAL TERMS AND CONDITIONS OF SERVICE

All of the General Terms and Conditions of Service are applicable to this rate schedule, unless otherwise stated in the executed Firm Transportation Service Agreement between Transporter and Shipper. Any future modifications, additions or deletions to said General Terms and Conditions of Service, unless otherwise provided, are applicable to firm transportation service rendered under this rate schedule, and by this reference, are made a part hereof.

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet Nos. 15 - 19



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Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:

RATE SCHEDULE ITS-1
INTERRUPTIBLE TRANSPORTATION SERVICE

1. AVAILABILITY

This rate schedule is available to any party (hereinafter called "Shipper") qualifying for service and who has executed an Interruptible Transportation Service Agreement with Transporter in the form contained in this FERC Gas Tariff, Original Volume No. 1.

2. APPLICABILITY AND CHARACTER OF SERVICE

This rate schedule shall apply to interruptible gas transportation services performed by Transporter for Shipper pursuant to the executed Interruptible Transportation Service Agreement between Transporter and Shipper. Transporter shall receive from Shipper such daily quantities of gas up to the Shipper's MDQ as specified in the executed Interruptible Transportation Service Agreement between Transporter and Shipper plus the required quantity of gas for fuel and line losses associated with service under this Rate Schedule ITS-1 and redeliver an amount equal to the quantity received less the required quantity for fuel and line loss. Receipt and delivery of gas shall be made in evenly hourly rates up to a maximum hourly receipt and delivery quantity equal to one twenty-fourth (1/24th) of a Shipper's MDQ. This transportation service shall be subject to curtailment of interruption as provided in the General Terms and Conditions of Service contained in this FERC Gas Tariff.

Interruptible transportation service shall be subject to all provisions of the executed Interruptible Transportation Service Agreement between Transporter and Shipper and the applicable General Terms and Conditions of Service contained in this FERC Gas Tariff.

3. RATES

3.1 Delivery Rates

Shipper shall pay Transporter, each month, for the transportation of quantities of natural gas delivered, the Delivery Charge, plus any applicable Overrun Charge and surcharges. The rate(s) set forth under Rate Schedule ITS-1 in Transporter's current Statement of Effective Rates and Charges for Transportation of Natural Gas in this FERC Gas Tariff, Original Volume No. 1 are applied to interruptible transportation service rendered under this rate schedule.

(Continued)

RATE SCHEDULE ITS-1
INTERRUPTIBLE TRANSPORTATION SERVICE
(Continued)

3. RATES (Continued)

3.2 Applicability of Surcharges

Shipper shall pay all surcharges applicable to the service provided to Shipper as set forth in Transporter's FERC Gas Tariff. Such surcharges shall be deemed to be part of Shipper's Delivery Charge.

3.3 Discounts

Shipper shall pay the Maximum Delivery Rate for service under this rate schedule unless Transporter offers to discount its rate to Shipper under this rate schedule. If Transporter elects to discount its rate, Transporter shall advise Shipper of the effective date of such charge and the quantity of gas so affected, provided, however, such discount shall not be anti-competitive or unduly discriminatory between individual Shippers. The rate for service under this rate schedule shall not be discounted below the Minimum Delivery Rate set forth on the Statement of Effective Rates and Charges for Transportation of Natural Gas.

3.4 Negotiated Rates

Notwithstanding any provision of Transporter's Tariff to the contrary, Transporter and Shipper may mutually agree in writing to a Negotiated Rate (including a Negotiated Rate Formula) with respect to the rates, rate components, charges, or credits that are otherwise prescribed, required, established, or imposed by this Rate Schedule or by any other applicable provision of Transporter's Tariff.

Such Negotiated Rate shall be set forth in Attachment B to the Interruptible Transportation Service Agreement and Transporter shall make any filings with the Commission necessary to effectuate such Negotiated Rate.

Shippers paying a Negotiated Rate which exceeds the maximum applicable tariff rate shall be considered to be paying the maximum applicable tariff rate for purposes of scheduling, curtailment, and interruption, and calculating the economic value of a request for available or unsubscribed capacity.

(Continued)

RATE SCHEDULE ITS-1
INTERRUPTIBLE TRANSPORTATION SERVICE
(Continued)

3. RATES (Continued)

3.5 Backhauls

Backhauls (as defined in Paragraph 1.26 of the General Terms and Conditions of Service) shall be subject to the same charges as forward haul (as defined in Paragraph 1.25 of the General Terms and Conditions of Service) except that no gas shall be retained by Transporter for compressor station fuel, line loss and other unaccounted-for gas. Backhauls are subject to the operating conditions of Transporter's pipeline and will not be made available to Shipper if Transporter determines, in its sole discretion, that such transportation is operationally infeasible or otherwise not available.

4. AUTHORIZED OVERRUNS

Quantities in excess of Shipper's MDQ shall be transported when capacity is available on the Transporter system and when the provision of such Authorized Overruns shall not affect any Shipper's rights on the Transporter system. Authorized Overruns are interruptible in nature. The rate charged shall be the rates and charges as specified in Paragraph 3 of this rate schedule. Authorized Overruns shall be subject to the priority of service provisions of Paragraph 13 of the General Terms and Conditions of Service.

5. FUEL AND LINE LOSS

For all Forward Hauls, Shipper shall furnish to Transporter quantities of gas for compressor station fuel, line loss and other utility purposes, plus other unaccounted for gas used in the operation of Transporter's pipeline system for the transportation quantities of gas delivered by Transporter to Shipper, based upon the effective fuel and line loss percentages set forth in this FERC Gas Tariff. No fuel charge shall apply to transactions that do not involve a forward haul movement of gas.

6. GENERAL TERMS AND CONDITIONS OF SERVICE

The General Terms and Conditions of Service are applicable to this rate Schedule, unless otherwise expressed in the executed Interruptible Transportation Service Agreement between Transporter and Shipper. Any future modifications, additions or deletions to said General Terms and Conditions of Service, unless otherwise provided, are applicable to interruptible transportation service rendered under this rate schedule, and, by this reference, are made a part hereof.

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet Nos. 23 - 29

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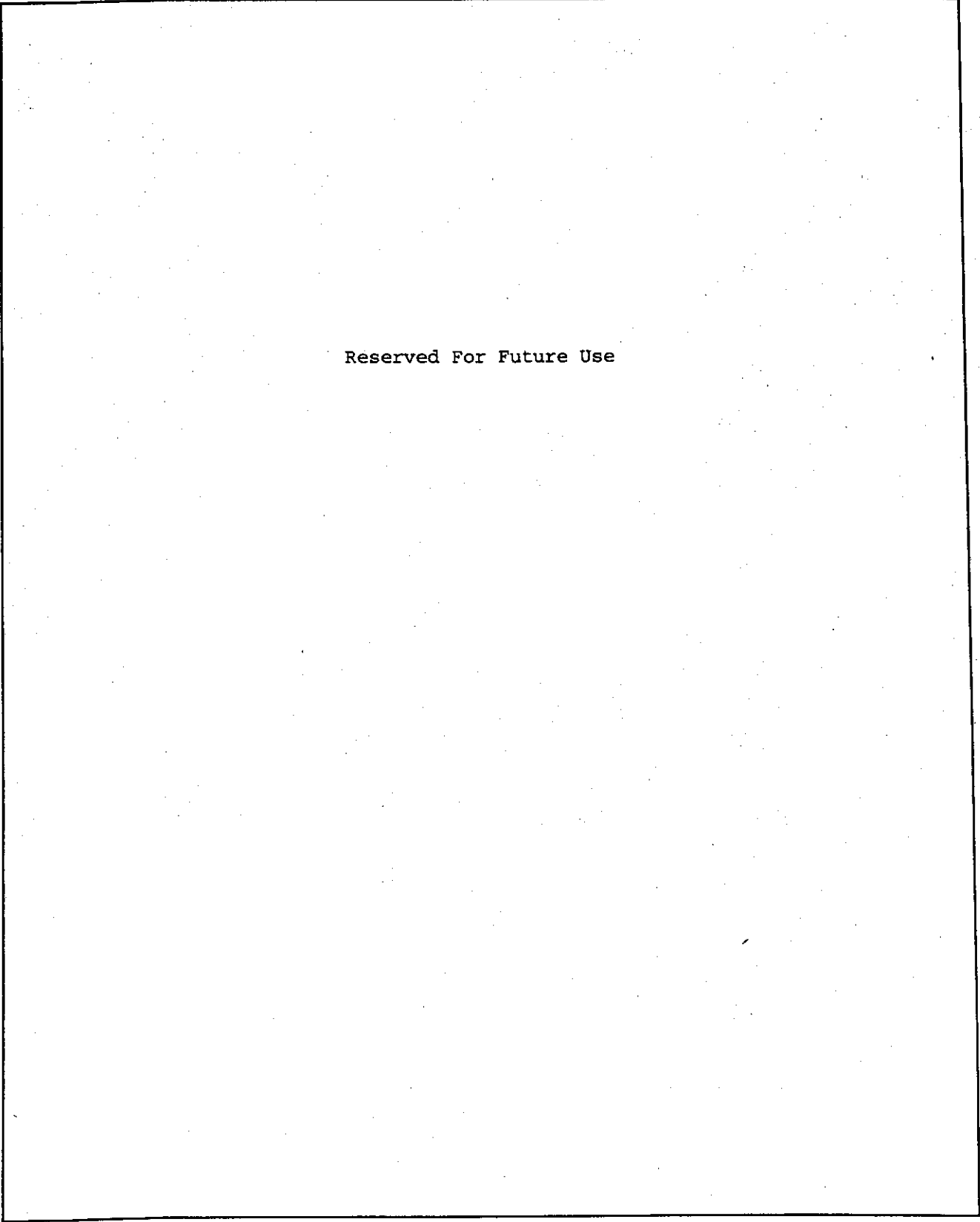
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GENERAL TERMS AND CONDITIONS OF SERVICE

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GENERAL TERMS AND CONDITIONS OF SERVICE

1. DEFINITIONS

- 1.1 Gas Day: In accordance with NAESB Standard 1.3.1, Version 1.7, the term "Gas Day" shall mean 9:00 a.m. to 9:00 a.m. Central Clock Time (7:00 a.m. to 7:00 a.m. Pacific Clock Time).
- 1.2 Business Day: The term "Business Day" shall mean Monday through Friday, excluding U.S. Federal Banking Holidays for transactions in the United States and similar holidays for transactions occurring in Canada and Mexico.
- 1.3 Month: The word "month" shall mean a period extending from the beginning of the first day in a calendar month to the beginning of the first day in the next succeeding calendar month.
- 1.4 Maximum Daily Quantity: The term "Maximum Daily Quantity" or "MDQ" shall mean the maximum daily quantity in Dth of gas which Transporter agrees to deliver exclusive of an allowance for compressor station fuel, line loss and other unaccounted for gas and transport for the account of Shipper to Shipper's point(s) of delivery on each day during the term of Shipper's Transportation Service Agreement with Transporter.
- 1.5 Gas: The word "gas" shall mean natural gas.
- 1.6 Cubic Foot of Gas: The term "cubic foot of gas" is defined in accordance with NAESB Standard 2.3.9, Version 1.7, as that quantity of gas which measures one (1) cubic foot at standard conditions of 14.73 psia, 60 degrees F and dry. For gas volumes reported in cubic meters, the standard conditions are 101.325 kPa, 15 degrees C and dry. Standard 2.3.9, Version 1.7 states in full "Standardize the reporting basis for Btu as 14.73 psia and 60 degrees F (101.325 kPa and 15 degrees C, and dry). Standardize the reporting basis for gigacalorie as 1.035646 Kg/cm² and 15.6 degrees C and dry. Standardize the reporting basis for gas volumes as cubic foot at standard conditions of 14.73 psia, 60 degrees, F and dry. For gas volumes reported in cubic meters, the standard conditions are 101.325 kPa, 15 degrees C, and dry."
- 1.7 Mcf: The term "Mcf" shall mean one thousand (1,000) cubic feet of gas and shall be measured as set forth in Paragraph 4 hereof. The term "MMcf" shall mean one million (1,000,000) cubic feet of gas.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

1. DEFINITIONS (Continued)

- 1.8 Dekatherm: The term "Dekatherm" or "Dth" is the quantity of heat energy equivalent to one million (1,000,000) British Thermal Units (MMBtu). Dth is the standard quantity for Nominations, Confirmations and Scheduled Quantities in the United States. For purposes of this tariff and associated Service Agreements, the terms MMBtu and Dth are synonymous.
- 1.9 Btu: The term "Btu" shall mean British Thermal Unit. The term "MMBtu" shall mean one million (1,000,000) British Thermal Units. The reporting basis for Btu shall be standardized as 14.73 dry psia and 60 degrees (60°) Fahrenheit (101.325 kPa and 15.6 degrees C).
- 1.10 Gross Heating Value. The term "gross heating value" shall mean the number of Btus in a cubic foot of gas at a temperature of sixty degrees (60°) Fahrenheit, saturated with water vapor, and at an absolute pressure equivalent to thirty (30) inches of mercury at thirty-two degrees (32°) Fahrenheit.
- 1.11 Psig. The term "psig" shall mean pounds per square inch gauge.
- 1.12 Releasing Shipper: A firm transportation Shipper that intends to post its service to be released to a Replacement Shipper, has posted the service for release, or has released its service.
- 1.13 Replacement Shipper: A Shipper that has contracted to utilize a Releasing Shipper's service for a specified period of time.
- 1.14 Posting Period: The period of time during which a Releasing Shipper may post, or have posted by the pipeline, all or a part of its service for release to a Replacement Shipper.
- 1.15 Release Term: The period of time during which a Releasing Shipper intends to release, or has released all or a portion of its contracted quantity of service to a Replacement Shipper.
- 1.16 Bid Period: The period of time during which a Replacement Shipper may bid to contract for a parcel which has been posted for release by a Releasing Shipper.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

1. DEFINITIONS (Continued)

- 1.17 Parcel: The term utilized to describe an amount of capacity, expressed in Dth/d, from a specific receipt point to a specific delivery point for a specific period of time which is released and bid on pursuant to the capacity release provisions contained in Paragraph 19 of these General Terms and Conditions of Service.
- 1.18 Primary Release: The term used to describe the initial release of capacity by a Shipper to a Replacement Shipper.
- 1.19 Secondary Release: The term used to describe the release of capacity by a Replacement Shipper to a different Replacement Shipper.
- 1.20 Bid Reconciliation Period: The period of time subsequent to the Bid Period during which bids are evaluated by Transporter.
- 1.21 Match Period: The period of time subsequent to the Bid Reconciliation Period and before the notification deadline for awarding capacity for Prearranged Deals that require bidding. During this period the Prearranged Shipper may match any higher bids for the Parcel.
- 1.22 Nomination: The provision of information to Transporter necessary to effectuate a transportation transaction. Specific Nomination procedures are set forth in Paragraph 14 of these General Terms and Conditions of Service.
- 1.23 Intraday Nomination: A Nomination submitted after the Nomination deadline whose effective time is no earlier than the beginning of the Gas Day and runs through the end of the Gas Day.
- 1.24 North American Energy Standards Board Standards: The term "North American Energy Standards Boards Standards" or "NAESB Standards" shall mean the standardized business practices and electronic communication practices promulgated by the North American Energy Standards Board from time to time and incorporated in the Code of Federal Regulations by the Federal Energy Regulatory Commission.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

1. DEFINITIONS (Continued)

- 1.25 Forward Haul: The term "Forward Haul" shall refer to transportation service on Transporter's system in which the nominated direction of flow from receipt point to delivery point is in the same direction as physical gas flow on the Transporter system.
- 1.26 Backhaul: Transportation service on Transporter's system in the opposite direction of a Forward Haul as defined in Paragraph 1.25 above.
- 1.27 Primary Path: The transportation path established by the receipt and delivery points as set forth in Shipper's executed Service Agreement. A Shipper's Primary Path may be either a Forward Haul or a Backhaul as defined in Paragraphs 1.25 and 1.26 above.
- 1.28 Reverse Path: The transportation path that is in the opposite direction of that Shipper's Primary Path as defined in Paragraph 1.27 above. A Shipper's Reverse Path may be either a Forward Haul or a Backhaul as defined in Paragraphs 1.25 and 1.26 above. Reverse Path transactions rely upon secondary point rights and are subject to the operating conditions of Transporter's pipeline and will not be made available to Shipper if Transporter determines, in its sole discretion, that such transportation is operationally infeasible or otherwise not available.
- 1.29 Negotiated Rate: A rate (including a Negotiated Rate Formula) that Transporter and a Shipper have agreed will be charged for service under Rate Schedules FTS-1 or ITS-1 where, for all or a portion of the contract term, one or more of the individual components of such rate may exceed the maximum rate, or be less than the minimum rate, for such component set forth in Transporter's tariff for the given service. Any Agreement entered into after the effective date of this subsection which provides for a rate under Rate Schedules FTS-1 or ITS-1, other than the applicable maximum rate shall contain a provision setting out the mutual agreement of the parties as to whether the pricing terms represent a discounted rate or a negotiated rate.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

1. DEFINITIONS (Continued)

- 1.30 Negotiated Rate Formula: A rate formula that Transporter and a Shipper have agreed will apply to service under a specific contract under Rate Schedules FTS-1 or ITS-1, which results in a rate where, for all or a portion of the contract term, one or more of the individual components of such rate may exceed the maximum rate, or may be less than the minimum rate, for such component set forth in Transporter's Tariff for the given service.
- 1.31 Recourse Rate: The applicable maximum rate that would apply to a service but for the rate flexibility allowed under Paragraph 23 of this FERC Gas Tariff.
- 1.32 Commission: The Federal Energy Regulatory Commission.
- 1.33 Existing Capacity: Capacity that has been in-service beyond the initial terms of Agreements that originally supported the construction of such capacity. Existing Capacity additionally includes capacity that is still within such initial terms where Shipper Agreements pertaining to the capacity have been terminated by the pipeline. Existing Capacity additionally includes unsubscribed capacity created as part of a pipeline expansion project.
- 1.34 Expansion Capacity: Original system capacity or capacity that is added to the pipeline system as part of a system expansion project where such capacity is still within the initial contract term(s) of the Agreement(s) that originally supported the construction of such capacity. Expansion Capacity includes permanent releases of capacity that are within the initial term of an original Shipper's contract.
- 1.35 Cash Out Index Price: The price calculated as the average "Malin" price, as reported in Gas Daily's Daily Price Survey, for the month in which an imbalance occurs.
- 1.36 Energy Affiliate: The term "Energy Affiliate" shall have the meaning provided in Commission Order No. 2004, et seq.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

2. QUALITY OF GAS

2.1 Quality Standards: The gas which Shipper delivers to Transporter for redelivery shall at all times be merchantable gas that complies with the highest gas quality standards of all pipelines immediately downstream of Transporter. In no event shall the quality of gas delivered to Transporter be lower than the quality requirements set forth below. For avoidance of doubt, merchantable gas includes gas containing odorant provided that such gas otherwise meets the quality standards set forth herein.

(a) Heating Value: The gas shall have a gross heating value of not less than nine hundred ninety-five (995) Btus per standard cubic foot on a dry basis, but with the consent of Shipper, Transporter may deliver gas at a lower gross heating value.

(b) Freedom from Objectionable Matter: The gas:

- (1) Shall be commercially free from sand, dust, gums, crude oil, impurities and other objectionable substances which may be injurious to pipelines or which may interfere with its transmission through pipelines or its commercial utilization.
- (2) Shall not have a hydrocarbon dew-point in excess of fifteen degrees (15m) Fahrenheit at pressures up to eight hundred (800) psig.
- (3) Shall not contain more than one-quarter (1/4) grain of hydrogen sulfide per one hundred (100) standard cubic feet.
- (4) Shall not contain more than ten (10) grains of total sulphur per one hundred (100) standard cubic feet.
- (5) Shall not contain more than two percent (2%) by volume of carbon dioxide.
- (6) Shall not contain more than four (4) pounds of water vapor per one million (1,000,000) standard cubic feet.
- (7) Shall not exceed one hundred ten degrees (110m) Fahrenheit in temperature at the point of measurement.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

2. QUALITY OF GAS (Continued)

2.1 Quality Standards (Continued)

- (8) Shall be as free of oxygen as it can be kept through the exercise of all reasonable precautions, and shall not in any event contain more than four-tenths of one percent (0.4%) by volume of oxygen.

).

2.2 Quality Tests:

- (a) The quality specifications of the gas received by Transporter hereunder shall be determined by tests which Transporter shall cause to be made at the interconnection with the facilities of Gas Transmission Northwest Corporation near Madras, Oregon or such other locations on Transporter's system if required accordance with this Paragraph 3.2.
- (b) The gross heating value of gas delivered hereunder shall be determined from read-outs of continuously operating measuring instruments. The method shall consist of one or more of the following:
- (1) calorimeter
 - (2) gas chromatograph
 - (3) any other method mutually agreed upon by the parties.

Measurement of gross heating value with the calorimeters shall comply with the standards set forth in the American Society for Testing and Materials' ASTM D 1826. Analysis of gas with gas chromatograph shall comply with the standards set forth in ASTM D 1945. Calculation of the gross heating value from compositional analysis by gas chromatography shall comply with the standards set forth in ASTM D 3588.

Transporter or its agent shall calibrate and maintain the gross heating value measurement device at intervals as agreed upon by Transporter and Shipper. Shipper shall have access to Transporter's devices and shall be allowed to inspect the services and all charts or other records of measurement at any reasonable time.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

2. QUALITY OF GAS (Continued)

2.2 Quality Tests (Continued)

- (c) Tests shall be made to determine the total sulphur, hydrogen sulfide, carbon dioxide and oxygen content of the gas, by approved standard methods in general use in the gas industry, and to determine the hydrocarbon dew-point and water vapor content of such gas by methods satisfactory to the parties. Tests shall be made frequently enough to ensure that the gas is conforming continuously to the quality requirements. Shipper shall have the right to require Transporter to have remedied any deficiency in quality of the gas and, in the event such deficiency is not remedied, the right, in addition to all other remedies available to it by law, to refuse to accept such deficient gas until such deficiency is remedied.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

3. MEASURING EQUIPMENT

- 3.1 Installation: Unless Transporter and Shippers agree otherwise, all gas volume measuring equipment, devices and materials at the point(s) of receipt and/or delivery shall be furnished and installed by Transporter at Shipper's expense including the tax-on-tax effect, net of the present value of any prospective tax depreciation benefits. All such equipment, devices and materials shall be owned, maintained and operated by Transporter. Shipper may install and operate check-measuring equipment provided it does not interfere with the use of Transporter's equipment.
- 3.2 Testing Meter Equipment: The accuracy of either Transporter's or Shipper's measuring equipment shall be verified by test, using means and methods acceptable to the other party, at intervals mutually agreed upon, and at other times upon request. Notice of the time and nature of each test shall be given by the entity conducting the test to the other entity sufficiently in advance to permit convenient arrangement for the presence of the representative of the other entity. If, after notice, the other entity fails to have a representative present, the results of the test shall nevertheless be considered accurate until the next test. If any of the measuring equipment is found to be registering inaccurately in any percentage, it shall be adjusted at once to read as accurately as possible. All tests of such measuring equipment shall be made at the expense of the entity conducting the same, except that the other entity shall bear the expense of tests made at its request if the inaccuracy is found to be two percent (2%) or less.
- 3.3 Correction and Adjustment: If at any time any of the measuring equipment is registering inaccurately by an amount exceeding two percent (2%) at a reading corresponding to the average hourly rate of flow, the previous readings of such equipment shall be corrected to zero error for any period definitely known or agreed upon, or if not so known or agreed upon, the lesser of one-half (1/2) of the elapsed time since the last test or six (6) months from the production month with a three-month rebuttal period, provided, however, that this limitation shall not apply in the case of a deliberate omission or misrepresentation or mutual mistake of fact. The parties' other statutory or contractual rights shall not otherwise be diminished by this limitation. If the measuring equipment is out-of-service, the volume of gas delivered during such period shall be determined:

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

3. MEASURING EQUIPMENT (Continued)

3.3 Correction and Adjustment: (Continued)

- (a) By using the data recorded by any check measuring equipment accurately registering; or
- (b) If such check measuring equipment is not registering accurately but the percentage of error is ascertainable by a calibration test, by using the data recorded, corrected to zero error; or
- (c) If neither of the methods provided in (a) and (b) above can be used, by estimating the quantity delivered, by reference to deliveries under similar conditions during a period when the equipment was registering accurately.

No correction shall be made in the recorded volumes of gas delivered hereunder for measuring equipment inaccuracies of two percent (2%) or less, and in no event shall inaccuracies less than twenty-five (25) Mcf be considered for adjustment.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

4. MEASUREMENTS

4.1 Metering: The gas shall be metered by one or more orifice, turbine, ultrasonic, displacement or other-type meters, at the discretion of Transporter. All meters shall be installed and maintained, and volumes shall be measured, in accordance with applicable A.G.A. standards for the meter in question.

4.2 Specific Gravity: The specific gravity of the gas delivered hereunder shall be determined from the read-outs of continuously operating measuring instruments. The method shall consist of one of the following:

- (a) gravitometer
- (b) gas chromatography
- (c) other instruments acceptable to both parties

Analysis of chromatograph shall comply with the standards set forth in ASTM D 1945. Calculation of the specific gravity from compositional analysis by gas chromatography shall comply with the standards set forth in ASTM D 3588. Measurement of the specific gravity with a gravitometer shall comply with the standards set forth in ASTM D 1070.

4.3 Flowing Temperature: Flowing gas temperature shall be continuously measured and used in flow calculations.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

5. INSPECTION OF EQUIPMENT AND RECORDS

- 5.1 Inspection of Equipment and Data: Transporter and Shipper shall have the right to inspect equipment installed or furnished by the other, and the charts and other measurement or test data of the other, at all times during business hours; but the reading, calibration and adjustment of such equipment and changing of charts shall be done only by the entity installing or furnishing same. Unless Transporter and Shipper otherwise agree, each shall preserve all original test data, charts and other similar records in such party's possession, for a period of at least six (6) years.
- 5.2 Information for Billing: When information necessary for billing by Transporter is in the control of Shipper, Shipper shall furnish such information, estimated if actual is not available, to Transporter on or before the third (3rd) working day of the month following the month transportation service was rendered. If Shipper furnishes estimated information, the actual information shall be furnished to Transporter on or before the fifth (5th) working day of the month following the month transportation service was rendered.

Verification of Computations: Transporter and Shipper shall have the right to examine at reasonable times the books, records and charts of the other to the extent necessary to verify the accuracy of any statement, charge or computation made pursuant to these General Terms and Conditions of Service and to the rate schedules to which they apply, within twelve (12) months of any such statement, charge or computation. The time limitation for disputing allocations shall be six (6) months from the date of initial month-end allocation with a three-month rebuttal period, provided, however, that this limitation shall not apply in the case of a deliberate omission or misrepresentation or mutual mistake of fact, and shall not diminish the parties' other statutory or contractual rights. In accordance with NAESB Standard 2.3.11, Version 1.7, a meter adjustment or correction becomes a prior period adjustment after the fifth (5th) business day following the Business Month. Any measurement of prior period adjustments are taken back to the production month. These provisions are in accordance with NAESB Standard 2.3.7, Version 1.7, which establishes a cutoff for the closing of measurement of five (5) business days after business month.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

5. INSPECTION OF EQUIPMENT AND RECORDS (Continued)

5.2 (Continued)

In accordance with NAESB Standard 2.3.14, Version 1.7, measurement data corrections should be processed within six (6) months of the production month with a three-month rebuttal period. This standard shall not apply in the case of deliberate omission or misrepresentation or mutual mistake of fact. Parties' other statutory or contractual rights shall not otherwise be diminished by this standard.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

6. BILLING

6.1 Billing under all Rate Schedules: On or before the ninth (9th) Business Day of each month, Transporter shall render a bill to each Shipper under all applicable Rate Schedules for the service(s) rendered during the preceding month, which is in accordance with NAESB Standard 3.3.14, Version 1.7, which provides that the imbalance statement should be rendered prior to or with the invoice, and the transportation invoice should be prepared on or before the ninth business day after the end of the production month. Rendered is defined as postmarked, time-stamped, and delivered to the designated site.

6.2 Information for preparation of the bill: In the event that Transporter does not have the Receipt Quantities, the Shipper promises to furnish Transporter with all of the information and the material that the latter requires to calculate and verify the Receipt and Delivery Quantities.

If Transporter does not receive said information in sufficient time to be able to bill the Shipper as provided for in this Paragraph, said invoices shall be calculated based on the best estimate realized by Transporter of the Delivery Quantity provided by the Shipper. Any excess or insufficient charges resulting from the differences between the aforementioned estimates and the real amounts shall be adjusted on the subsequent bill without any interest thereon.

6.3 Third Party Charges. Shipper shall be responsible for delivering all gas to, and accepting redelivery of all Gas from, Transporter's system, and shall be free to contract with third party(ies) upstream or downstream of Transporter's system to achieve such result. If Shipper requests, and Transporter agrees, Transporter will contract with third party(ies) for the benefit of Shipper and Shipper shall pay Transporter an amount equal to the charges Transporter is obligated to pay such third party(ies), which charges may include, but are not limited to, reservation and/or usage charges and surcharges, fuel charges, compression fees, balancing or storage fees, measurement fees, processing fees, and/or facility charges. Such charges shall be set forth as separate items on billings rendered to Shipper.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

7. PAYMENT

- 7.1 Payment under all Rate Schedules: On or before the tenth day following the date Transporter's bill is rendered in accordance with Paragraph 6.1 of these General Terms and Conditions of Service, each Shipper under all applicable Rate Schedules shall pay to or upon the order of Transporter in lawful money of the United States at Transporter's office in Portland, Oregon, the amount of the bill rendered by Transporter. Payments in excess of \$50,000 shall be made in the form of Wire Transfer directed to a bank account designated by Transporter. In accordance with NAESB Standard 3.3.17, Version 1.7, party making payment should submit supporting documentation; party receiving payment should apply payment per supporting documentation provided by the paying party; and if payment differs from invoiced amount, remittance detail should be provided with the payment. In accordance with NAESB Standard 3.3.18, Version 1.7, Shippers shall identify invoice numbers on all payments. In accordance with NAESB Standard 3.3.19, Version 1.7, in the event a Shipper disputes any portion of the invoice, Shipper shall pay that portion of the invoice not in dispute and provide supporting documentation identifying the basis for the dispute.
- 7.2 Interest on Unpaid Amounts: Should Shipper fail to pay the amount of any bill rendered by Transporter when such amount is due, interest thereon shall accrue from the due date until paid at the rate of interest effective from time to time under 18 CFR Section 154.501(d).
- 7.3 Remedies for Failure to Pay: If a Shipper's failure to pay the undisputed portion of an invoice continues for thirty (30) days after payment is due, Transporter, in addition to any other remedy it may have, may suspend further delivery of gas until such amount is paid.

If Shipper's failure to pay extends beyond the thirty (30) day notice period, in addition to suspending service under Shipper's Transportation Service Agreement(s), Transporter shall have the right to provide notice to Shipper, the Commission, and any Replacement Shipper(s) that has obtained temporary release capacity from Shipper that if Shipper fails to make payment within fifteen (15) days, Transporter may terminate Shipper's Transportation Service Agreement(s) and may exercise any other remedy available to Transporter hereunder, at law or in equity.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

7. PAYMENT (Continued)

7.3 Remedies for Failure to Pay: (Continued)

However, if Shipper, in good faith, disputes the amount of any bill or part thereof and 1) promptly pays to Transporter the undisputed amount, and 2) furnishes to Transporter a good and sufficient letter of credit in an amount and with surety satisfactory to Transporter, or provides other assurance acceptable to Transporter guaranteeing payment to Transporter of the amount ultimately found due upon the bill after a final determination that may be reached either by agreement or by judgment of the courts, as may be the case, then Transporter shall not be entitled to automatically suspend or terminate service under the Transportation Service Agreement(s) unless and until a default is made in the conditions of the letter of credit or other assurance; provided further that should Shipper prevail on the dispute, Transporter shall reimburse Shipper up to the reasonable and customary costs of the letter of credit or other assurance provided.

7.4 Late Billing: If presentation of a bill by Transporter is delayed after the date specified in Paragraph 6.1 hereof, then the time for payment shall be extended correspondingly unless Shipper is responsible for such delay.

7.5 Adjustment of Billing Error: In accordance with NAESB Standard 3.3.15, Version 1.7, prior period adjustment time limits should be six (6) months from the date of the initial transportation invoice and seven (7) months from date of initial sales invoice with a three-month rebuttal period, excluding government-required rate changes. This standard shall not apply in the case of deliberate omission or misrepresentation or mutual mistake of fact. Parties' other statutory or contractual rights shall not otherwise be diminished by this standard.

7.6 Reservation Charge Credit (Force Majeure): As used in this Paragraph 7.6, Firm Daily Volume shall mean the volume of gas which Transporter is obligated to deliver on a firm basis at Shipper's firm delivery point(s) on a Gas Day, based on confirmable nominations for firm service within Shipper's Maximum Daily Quantity. If, due to an event of force majeure, Transporter is unable to deliver any portion of Shipper's Firm Daily Volume for a period greater than ten (10) consecutive days, then for each day beyond ten (10) days that Transporter so fails to provide service the applicable

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

7. PAYMENT (Continued)

7.6 Reservation Charge Credit (Force Majeure): (Continued)

reservation charges including applicable reservation-based surcharges shall not apply to the quantity of gas not delivered by Transporter within the Shipper's Firm Daily Volume; provided, however, that these charges shall not be eliminated to the extent that the shipper utilizes secondary point service.

- 7.7 Reservation Charge Credit (Non-Force Majeure): As used in this Paragraph 7.7, Firm Daily Volume shall mean the volume of gas which Transporter is obligated to deliver on a firm basis at Shipper's firm delivery point(s) on a Gas Day, based on confirmable nominations for firm service within Shipper's Maximum Daily Quantity. Except as provided for in Paragraph 7.6 of these General Terms and Conditions of Service, in the event Transporter fails to deliver on any Gas Day under any firm contract at least 98% of Shipper's Firm Daily Volume, then the applicable reservation charges including applicable reservation-based surcharges shall not apply to the quantity of gas not delivered by Transporter within the Shipper's Firm Daily Volume; provided, however, that these charges shall not be eliminated to the extent that the shipper utilizes secondary point service.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

8. AVAILABILITY OF TRANSPORTATION

8.1 Firm Transportation Service

The provisions of this Paragraph 8.1 shall be applicable to firm transportation service under Rate Schedule FTS-1 contained in this FERC Gas Tariff Original Volume No. 1.

- (a) Firm transportation service under this Tariff shall be provided when, and to the extent that, Transporter determines that firm capacity is available on Transporter's existing facilities. Transporter shall not be required to provide firm transportation service in the event firm capacity is unavailable or to construct new facilities to provide firm service.
- (b) A shipper receiving service under Rate Schedule FTS-1 that maintains compliance with Transporter's creditworthiness requirements may renew or extend its contract term pursuant to a rollover or evergreen provision of the Service Agreement. Transporter will offer rollover or evergreen provisions to similarly situated shippers on a nondiscriminatory basis.

8.2 Eligibility for Capacity

In order to be eligible for firm capacity, a party requesting service (requestor) must be deemed creditworthy per Paragraph 12.1 and submit a valid request in accordance with the provisions herein.

8.3 Available Firm Capacity

Transporter may determine from time to time that firm capacity is available on its system above amounts subject to prior firm contract. All such capacity will be posted on Transporter's Internet website. All such capacity will initially be offered through an Open Season as set forth in Paragraph 9 of the General Terms and Conditions of Service of this FERC Gas Tariff. All capacity not subscribed at the conclusion of the Open Season shall be sold on a nondiscriminatory basis.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

8. AVAILABILITY OF TRANSPORTATION (Continued)

8.4 Construction of New Firm Capacity

In the event Transporter receives requests for firm transportation service in excess of available firm capacity, or market circumstances otherwise indicate that additional capacity may be desired, Transporter may construct facilities necessary to meet additional market demand. Prior to constructing new capacity, Transporter shall hold an Open Season as set forth in Paragraph 9 below to solicit Requests for Service utilizing capacity that may be constructed. Transporter shall have no obligation to construct facilities if, in Transporter's sole determination, such facilities are not economically justifiable.

8.5 Interruptible Service

The provisions of this Paragraph 8.5 shall be applicable to interruptible transportation service under Rate Schedule ITS-1 contained in this FERC Gas Tariff Original Volume No. 1.

(a) Interruptible transportation service under this Tariff shall be provided when, and to the extent that, capacity is available on Transporter's existing facilities, which capacity is not subject to a prior claim under a pre-existing agreement pursuant to Rate Schedule FTS-1 or under another class of firm service.

(b) A shipper receiving service under Rate Schedule ITS-1 that maintains compliance with Transporter's creditworthiness requirements may renew or extend its contract term pursuant to a rollover or evergreen provision of the Service Agreement. Transporter will offer rollover or evergreen provisions to similarly situated shippers on a nondiscriminatory basis.

8.6 In the event that natural gas tendered by Shipper to Transporter at the receipt point(s) for transportation, or delivered by Transporter to Shipper (or for Shipper's account) at the delivery point(s), is commingled with other natural gas at the time of measurement, the determination of deliveries applicable to Shipper shall be made in accordance with operating arrangements satisfactory to Shipper, Transporter and any third party transporting to or from Transporter's system.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

9. OPEN SEASON PROCEDURES

9.1 Open Seasons for Existing Capacity

The provisions of this Paragraph 9.1 shall be applicable to firm transportation service under Rate Schedule FTS-1 contained in this Original Volume No. 1. Firm transportation service under this Original Volume No. 1 shall be provided when, and to the extent that, Transporter determines that firm capacity is available on Transporter's existing facilities. Transporter shall not be required to provide firm transportation service in the event firm capacity is unavailable or to construct new facilities to provide firm service.

For capacity that becomes available other than through the circumstances identified in Paragraphs 10 and 19, requests for firm capacity shall be accommodated in the following manner and subject to the following conditions and limitations:

- (a) In order to be eligible for firm capacity, a party requesting service (requestor) must be deemed credit-worthy per Paragraph 12.1 and submit a valid request in accordance with the provisions herein.
- (b) Pre-Arranged Capacity: Transporter may enter into a pre-arranged service agreement with any party for available unsubscribed capacity or capacity that will become available and is not subject to a right of first refusal; provided that Transporter will post the terms of the pre-arranged transaction and other parties will have an opportunity to bid on the capacity. At the time Transporter enters into a pre-arranged service agreement, Transporter will post a notice on its website indicating that the prearranged capacity will be subject to an open bidding process within three (3) business days, even if such capacity has already been subject to an open season bidding process and is currently posted as available capacity. If another party submits a bid with a higher incremental economic value, the pre-arranged Shipper will have a one-time right to match the higher bid in order to retain the capacity. If the prearranged Shipper elects not to match a higher competing bid, the capacity will be awarded to the highest creditworthy bidder in accordance with Paragraph 9.1(e). If there is an open season ongoing for certain capacity, Transporter will not enter into a pre-arranged deal for that capacity during the open season.

Transporter will not enter into pre-arranged service agreements with commencement dates more than three years, or thirty-six months, into the future. Transporter will

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

9. OPEN SEASON PROCEDURES (Continued)
9.1 Open Seasons for Existing Capacity (Continued)

(b) Pre-Arranged Capacity: (Continued)

separately identify on its Internet website all capacity that is anticipated to become available within the next thirty-six months. Transporter will not enter into any pre-arranged deals for capacity that has not previously been posted on its Internet website.

Capacity that is reserved under a pre-arranged deal will be made available for transportation service on an interim basis up to the commencement date of the pre-arranged service agreement.

For such interim service agreements, Transporter reserves the right to limit Shipper extension rights, including the right of first refusal, within the service agreement. Transporter will indicate in any open season posting of this capacity any limitations on extension rights that will apply to such interim transportation service.

(c) Available Capacity:

Transporter will post available capacity on its Internet website. A requestor that submits a valid request may submit a bid via the website for the available capacity subsequent to Transporter's posting of such capacity on the website. The Bid Period will be a minimum of 1 business day for capacity available for up to 1 month; a minimum of 3 business days for capacity available for greater than one month but less than one year; and a minimum of 5 business days for capacity available for one year or more. All bids not withdrawn prior to the close of the Bidding Period shall be binding. At the end of the Bidding Period, Transporter will evaluate the bids and determine the bid(s) having the greatest economic value as determined in Paragraph 9.1(e).

If Transporter determines that no bids satisfy the open season criteria, Transporter will post the capacity on its website as available unsubscribed capacity. Transporter will award such capacity on a first-come, first-served basis to shippers that offer the maximum recourse rate or an acceptable discounted or negotiated rate.

In addition to posting all currently available capacity, Transporter will separately identify on its Internet website all capacity that is anticipated to become available within the next thirty-six months. (Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
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9. OPEN SEASON PROCEDURES (Continued)

9.1 Open Seasons for Existing Capacity (Continued)

(d) After the close of the Bidding Period, Transporter may tender a Service Agreement for execution to the requestor(s) submitting the bid(s) having the greatest economic value for the capacity available, subject to the provisions of Paragraph 9.1(f).

(e) Valuation of Bids

Unless otherwise specified in its open season posting, the bid(s) with the greatest economic value will be the bid(s) with the highest net present value ("NPV") based on (1) the reservation charge and any proposed usage charge revenues guaranteed by a minimum volume commitment or otherwise that requestor(s) would pay at the rates the requestor(s) has bid, (2) the term of service specified in the request, as limited by Shipper's credit quality, and (3) Shipper's probability of default for the applicable bid term. If the economic values of separate bids are equal, then service shall be offered to such requestors on a pro-rata basis. The NPV is the discounted cash flow of the bid according to the following formula, net of revenues lost or affected by the request for service:

$$\text{Present Value per} = P * R * (1-PD) * \frac{(1+i)^{-n} - 1}{i(1+i)}$$

where:

P = percent of the rate or charge that the Shipper is willing to pay.

R = rate or charge calculated as: the applicable maximum authorized reservation charge(s) per Dth in effect at the time of the bid for service.

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GENERAL TERMS AND CONDITIONS OF SERVICE
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9. OPEN SEASON PROCEDURES (Continued)

9.1 Open Seasons for Existing Capacity (Continued)

(d) Valuation of Bids (Continued)

PD = Shipper's probability of default for the applicable bid term. Unless otherwise specified in its open season posting, Transporter will use Standard & Poor's most recent fifteen-year "Cumulative Average Default Rates By Rating Modifier" table, as extrapolated to reflect the maximum bid term to be used for evaluation purposes, to quantify Shipper's probability of default.

i = FERC's annual interest rate divided by 12.

n = number of months for which the bidder wishes to contract.

The NPV formula will be affected by rate requested, the applicable bid term, and Shipper's probability of default. In the event Transporter intends to entertain bids for service under index-based or other Negotiated Rate Formulae, the future value of which cannot be determined at the time of the bidding, Transporter shall estimate the future revenues to be received under the Negotiated Rate Formula using currently available data.

As part of an open season posting, Transporter will provide a probability of default table and will identify any limits, based upon credit rating, to be placed on bid lengths. The probability of default table will define a bidder's probability of default based upon 1) the applicable bid term and 2) the credit rating of the shipper. Shipper credit ratings will be determined consistent with Paragraph 12.1 of these General Terms and Conditions.

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GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

9. OPEN SEASON PROCEDURES (Continued)

9.1 Open Seasons for Existing Capacity (Continued)

(e) Valuation of Bids (Continued)

The specific bid evaluation methodology to be used, including, where appropriate, the data to be used for evaluation of Negotiated Rate Formula bids, will be included as part of Transporter's open season posting under Paragraph 9.1(c) with sufficient specificity to allow a prospective shipper to calculate the value of its bid and duplicate Transporter's results.

Irrespective of whether a bid(s) has the highest NPV of the bids received, Transporter may reject bids for service that (i) may detrimentally impact the operational integrity of Transporter's system; (ii) do not satisfy all the terms of the specified posting; or (iii) contain terms and conditions other than those set forth in Transporter's FERC Gas Tariff.

If the NPV of any Negotiated Rate revenues would exceed the NPV of the revenue stream produced by paying the Maximum Rate over the same period of time, then the Shipper bidding the Negotiated Rate shall be considered to be paying the Maximum Rate for the purpose of determining the bid with the highest economic value.

(f) If Transporter accepts the winning bid(s) and tenders a Service Agreement, requestor(s) shall complete and return the Service Agreement on a timely basis.

(g) Except as provided in Paragraph 19, Transporter shall not be obligated to tender or execute a Service Agreement for service at any rate less than the Maximum Rate set forth in the Statement of Effective Rates and Charges for Transportation of Natural Gas applicable to the service requested.

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GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

9. OPEN SEASON PROCEDURES (Continued)

9.2 Open Seasons for New Capacity

In the event Transporter receives requests for firm transportation service in excess of Available Firm Capacity, or market circumstances otherwise indicate that additional capacity may be desired, Transporter may hold an open season to assess the viability of constructing facilities necessary to meet additional market demand.

An Open Season for New Capacity will comply with the requirements of Paragraph 9.1 above, with the following modifications.

- (a) Transporter will publish its intent to hold an open season for new capacity in relevant papers and trade press and on its Internet website.
- (b) Open Seasons for new capacity will have a minimum term of five (5) business days.
- (c) After receiving bids from prospective Shippers in an Open Season, Transporter will provide a rationalization period to allow existing holders of firm capacity an opportunity to meet market demand demonstrated in the Open Season.
- (d) Transporter will select bids on a nondiscriminatory basis, provided, however, Transporter reserves the right to select bids in a manner designed to produce an economic expansion.

9.3 Open Seasons Under Right of First Refusal

Under Transporter's Right of First Refusal procedures, open season bids will be evaluated consistent with the procedures set forth in Paragraph 9.1 above. Right of First Refusal procedures are set forth in Paragraph 10 of these General Terms and Conditions of Service.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

10. RIGHT OF FIRST REFUSAL UPON TERMINATION OF FIRM SHIPPER'S SERVICE AGREEMENT

Firm Shippers (original capacity holders) under Transporter's firm transportation rate schedules of this FERC Gas Tariff, Original Volume No. 1 who: (1) hold capacity for terms greater than or equal to one (1) year at the maximum authorized reservation charge or rate; or (2) hold multi-year seasonal contracts at the maximum authorized reservation charge or rate, shall have the right of first refusal at the expiration of their service agreements, subject to the following procedures. Original capacity holders must notify Transporter one (1) year prior to the primary expiration date of their service agreements whether they elect to terminate or not to terminate the service agreements.

One (1) year prior to the expiration of the service agreement, Transporter will post a notice on its Internet website that the original capacity holder's service agreement will expire and whether the original capacity holder has either elected or not elected to terminate pursuant to this paragraph.

10.1 In the event original capacity holder elects termination, original capacity holder shall no longer hold a right of first refusal and Transporter shall subject the capacity to a bidding process. Transporter will commence open bidding no later than three (3) months prior to the service agreement expiration. The bid period will be no less than five (5) business days in duration. Transporter will announce the bid winner(s) as soon as practicable after the close of the bid period, provided, however, that Transporter will have no obligation to accept any bid(s) at rates less than the maximum applicable rate in effect. Tied bids will be awarded on a pro rata basis. Winning Shipper(s) and Transporter must execute a new firm transportation service agreement prior to service commencement or within thirty (30) days of a capacity award, whichever is sooner.

10.2 In the event original capacity holder does not elect termination, Transporter will commence open bidding no later three (3) months prior to the service agreement expiration. The bid period will be no less than five (5) business days in duration. Transporter will notify the original capacity holder of any acceptable bid(s) as soon as practicable, provided, however, that Transporter will have no obligation to accept any bid(s) at rates less than the maximum applicable rate in effect. Acceptable bids will be those having the greatest economic value as determined in Paragraph 9.1(e) of these General Terms and Conditions of Service. In the event that Transporter does not receive any acceptable bids, the original capacity holder shall not be entitled to continue to receive transportation service upon

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

10. RIGHT OF FIRST REFUSAL UPON TERMINATION OF FIRM SHIPPER'S SERVICE AGREEMENT (Continued)

10.2 (Continued)

the expiration of its contract except by agreeing to pay the maximum applicable tariff rate. If Transporter accepts any bid(s), the original capacity holder will have ten (10) business days from the date of notice to match the accepted bid(s) in order of economic value (highest to lowest), provided that the original capacity holder shall not have to match any bid rate higher than the maximum applicable rate. Transporter will announce the winning bid(s) as soon as practicable after the close of the match period. If the original capacity holder matches an accepted bid, the associated capacity is awarded to the original capacity holder. If the original capacity holder does not match an accepted bid, the capacity shall be awarded to the highest acceptable bid(s). If there is more than one equivalent winning bid, Transporter shall award capacity on a pro rata basis. New Shippers must execute a firm transportation service agreement with Transporter prior to service commencement or within 30 days of a capacity award, whichever is sooner. Original capacity holder is allowed to retain a portion of its capacity by matching price and term according to the procedure outlined in this provision, provided that the original contract path is maintained.

10.3 Bids shall be evaluated on the net present value incorporating price and term. The net present value of revenues to be received from a Shipper bidding a Negotiated Rate shall be calculated using the proposed reservation charge revenues and any proposed usage charge revenues guaranteed by a minimum volume commitment or otherwise. Where the Negotiated Rate is based on a Negotiated Rate Formula, the future value of which cannot be determined at the time of the bidding, Transporter shall estimate the future revenues to be received under the Negotiated Rate Formula using currently available data.

10.4 If there are no acceptable bids received, the rate and terms of continuing service is to be negotiated between original capacity holder and Transporter. Transporter and original capacity holder shall have twenty (20) business days from the end of the bid period to mutually agree to acceptable terms. In the event Transporter and original capacity holder do not mutually agree to continue service, original capacity holder shall no longer hold a right of first refusal and Transporter shall subject the capacity to a bidding process consistent with Section 10.8. However, if during this 20-day

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GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

10. RIGHT OF FIRST REFUSAL UPON TERMINATION OF FIRM SHIPPER'S SERVICE AGREEMENT (Continued)

10.4 (Continued)

period the original capacity holder agrees to pay the maximum authorized rate, the original capacity holder may determine the term it desires and Transporter must extend the original capacity holder's contract accordingly. Only term extensions of one (1) year or greater from the original termination date will allow the existing shipper to retain its right of first refusal.

10.5 Shippers who terminate their service agreements are not liable for any reservation charges or other charges applicable to the new Shipper contracting for this capacity.

10.6 Only valid bids will be accepted. In order for a bid to be considered valid, a bidder must be deemed creditworthy per Paragraph 12 of these General Terms and Conditions of Service by the close of the bid period. All bids not withdrawn prior to the close of the bid period shall be binding. At the end of the bid period, Transporter will evaluate the bids and determine the bid(s) having the greatest economic value as determined by:

$$\text{Present Value per} = P * R * \frac{(1+i)^n - 1}{i}$$

Where: P = percent of the rate or charge that the Shipper is willing to pay

R = Rate or charge calculated as: The applicable maximum authorized reservation charge(s) per Dth ineffect at the time of the bid for service.

i = FERC's annual interest rate divided by 12.

n = number of periods for which the bidder wishes to contract.

Bidders may submit valid bids for all or a portion of the capacity that is subject to a right of first refusal provided that the original contract path is maintained.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

10. RIGHT OF FIRST REFUSAL UPON TERMINATION OF FIRM SHIPPER'S SERVICE AGREEMENT (Continued)

- 10.7 Right of first refusal rights held by Shipper continue to apply following an election of termination pursuant to existing evergreen language contained in Shipper's Firm Transportation Service Agreement. A Shipper that holds evergreen rights in addition to a right of first refusal under a Firm Transportation Service Agreement must first elect termination under the evergreen provision in order to initiate the right of first refusal process. When either Transporter or Shipper elects termination under an evergreen provision, Transporter shall not be obligated to continue Shipper's evergreen rights on a contract extended through the right of first refusal process. Shippers may exercise their right of first refusal rights consistent with this Paragraph 10.
- 10.8 When a right of first refusal process has been completed and there has been no award of capacity, the capacity will be offered pursuant to General Terms and Conditions of Service Section 9.1, which governs Transporter's sale of generally available capacity where there is no shipper with right of first refusal rights.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

11. QUALIFYING FOR SERVICE

11.1 A prospective shipper desiring service on Transporter's system must fully complete the Service Request Form set out on Transporter's Internet website. Alternatively, a prospective shipper may request a hard-copy of the Service Request Form by contacting Transporter's Service and Contract Coordinator at the following location:

Palomar Gas Transmission
Services and Contract Coordinator
1400 SW Fifth Avenue, Suite 900
Portland, OR 97201
Phone: 503/833-4300, Option 2

11.2 If Shipper requests service under Section 311(a), Shipper must provide a certification that the service qualifies under 18 C.F.R. §284.102. To enable Transporter to verify that the requested transportation service will qualify under 18 C.F.R. §284.102, the certification must provide facts showing that:

- (a) the "On Behalf Of" party will have physical custody of and transport the natural gas at some point; or
- (b) the "On Behalf Of" party will hold title to the natural gas at some point, which may occur prior to, during, or after the time that the gas is transported by Transporter, for a purpose related to the "On Behalf Of" party's status and function as an intrastate pipeline or its status and function as a local distribution company; or
- (c) the gas will be delivered to a customer that is either located in the "On Behalf Of" party's service area, if the "On Behalf Of" party is a local distribution company, or is physically able to receive direct deliveries of gas from the "On Behalf Of" party, if the "On Behalf Of" party is an interstate pipeline, and the "On Behalf Of" party has certified that it is on its behalf that Transporter will be providing the requested transportation service.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

11. QUALIFYING FOR SERVICE (Continued)

11.3 Submission of this Service Request Form will allow Transporter to begin processing Shipper's request for service, but does not guarantee service will be available. Transporter will not provide service until Shipper has executed a Service Agreement. Shipper also shall be required to meet other provisions of this FERC Gas Tariff, including the creditworthiness requirements set forth in Paragraph 12 of this FERC Gas Tariff. Pro forma Service Agreements for each service offered by Transporter are set out in the Form of Service Agreement portion of this Tariff.

Shipper shall not be entitled to receive transportation service under this Tariff if Shipper is not current in its payments to Transporter for any charge, rate or fee authorized by the Commission for transportation service; provided, however, if the amount not current pertains to a bonafide dispute, including but not limited to force majeure claims relating to this Tariff, Shipper shall be entitled to receive or continue to receive transportation service if Shipper posts a bond satisfactory to Transporter to cover the payment due Transporter.

11.4 Form: Shipper shall enter into a contract with Transporter utilizing Transporter's appropriate standard form of Transportation Service Agreement.

Term: The term of the Transportation Service Agreement shall be agreed upon between Shipper and Transporter at the time of the execution thereof.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

12. CREDITWORTHINESS

12.1 Creditworthiness

(A) Creditworthiness for Firm Transportation Service

- (1) Transporter shall not be required to perform or to continue transportation service under this FERC Gas Tariff, Original Volume No. 1, on behalf of any Shipper who, after Transporter's request, fails to establish or confirm creditworthiness. If Shipper is found by Transporter to be non-creditworthy, Transporter will, upon request, inform Shipper in writing as to the reasons Shipper has been deemed non-creditworthy.

If Shipper's credit standing ceases to meet Transporter's credit requirements during the period of service, then Transporter has the right to require security as specified herein. Upon notification by Transporter that Shipper no longer meets Transporter's creditworthiness standards, Shipper must, within five (5) business days, pay for one month of service in advance to continue service. Shipper must, within thirty (30) days, provide an acceptable guarantee or either a three-month cash security deposit or letter of credit, consistent with Transporter's creditworthiness standards for Existing Capacity shippers. For shippers utilizing Expansion Capacity on lateral facilities, the security that must be provided within thirty (30) days will not be greater than a shipper's pro rata share of the total facilities costs, and such security will be reduced over time in proportion to the shipper's contract term. If Shipper fails to provide one of the credit alternatives within these time periods, Transporter may suspend service immediately (Shippers are not responsible for reservation charges after service is suspended) and may provide simultaneous written notice to Shipper, the Commission, and any replacement Shipper(s) that service will be terminated in thirty (30) days. Transporter also may exercise any other remedy available to it hereunder, at law or in equity.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(2) Determining Creditworthiness

A Shipper seeking new service shall initially provide financial statements, evidence of debt and/or credit ratings, and other such information as is reasonably requested by Transporter to establish Shipper's qualification for service. Within three (3) business days, or such later date acceptable to Transporter, an existing Shipper shall provide such information as is reasonably requested by Transporter to confirm Shipper's qualification for service.

- (a) Creditworthiness must be evidenced by 1) a rating for unenhanced senior unsecured debt of at least BBB- by Standard & Poor's, Baa3 by Moody's, or an equivalent rating as determined by Transporter, and 2) a credit limit as defined in Section 12.1(F). In the event that a split rating occurs between rating agencies, Transporter will rely upon the lower of the ratings. An equivalent rating may be obtained in one of two ways:
- (i) If Shipper's debt is not rated by a recognized debt rating service, Shipper may request an equivalent rating as determined by Transporter, based on the financial rating methodology, criteria and ratios for the industry of the Shipper as published by the above rating agencies from time to time. In general, such equivalent rating will be based on the audited financial statements for the Shipper's two (2) most recent fiscal years, all interim reports, and any other relevant information.
 - (ii) If Shipper's debt is not rated by a recognized debt rating service, Shipper may, at its own expense, obtain a private rating from a recognized debt rating service acceptable to Transporter, or request that an independent accountant or financial advisor, mutually acceptable to Transporter and the Shipper, prepare an equivalent evaluation based on the financial rating methodology, criteria, and ratios for the industry of the Shipper as published by the above rating agencies. (Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(A) Creditworthiness for Firm Transportation Service

(2) (Continued)

(b) Shipper will be deemed to be non-creditworthy if 1) it is rated below a BBB-/Baa3 equivalent standard by any rating agency or if its credit limit is insufficient to cover Shipper's total contractual obligation, as described in Paragraph 12.1 (G) of these Transportation General Terms and Conditions of Service, or 2) if Shipper's credit limit as determined by Transporter is insufficient to cover Shipper's total contractual obligation. Transporter will inform Shipper in writing as to the reasons Shipper has been deemed non-creditworthy.

If Shipper does not establish or maintain creditworthiness as described above, Shipper has the option of receiving transportation service under this FERC Gas Tariff by providing to Transporter a guarantee acceptable to Transporter, collateral (i.e., cash or letter of credit), or other credit arrangement as described in (i) through (iv) below. Transporter may not unreasonably prevent a shipper from later switching the type of credit alternative that it provides.

(i) Guarantee: Shipper may obtain a guarantee of financial performance in a form satisfactory to Transporter and for the term of the Gas Transportation Agreement from a corporate affiliate of the Shipper or a third party, either of which meets the creditworthiness standard discussed above. For these Shippers, the credit limit will be based upon the financials of the guarantor. A form of guarantee is available on Transporter's Internet website. If during the term of service the guarantor does not meet the creditworthiness standards discussed above, then Transporter may request additional alternatives as described in (i) through (iv) below.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
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12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(A) Creditworthiness for Firm Transportation Service (Continued)
(2) (b) (Continued)

- (ii) Cash Security Deposit: A Shipper may provide a cash security deposit for service via cleared check or wire transfer. For Existing Capacity, the deposit must be sufficient to cover up to the value of three months worth of reservation charges. For Expansion Capacity on lateral facilities, the pipeline will not require a deposit greater than Shipper's pro rata share of the total facilities costs, and such deposit will be reduced over time in proportion to Shipper's contract term, consistent with Paragraph 12.1(C) of these General Terms and Conditions. Transporter will accrue interest on cash security deposits not used to pay invoices at the applicable rate of interest for one-month commercial paper (non-financial) as published in the Federal Reserve Statistical Report H.15 for the month immediately ended. Interest will be paid by Transporter on an annual basis each September 15 or at the time Shipper's cash deposit is returned due to either a return to creditworthiness by Shipper or the expiration of Shipper's Agreement(s).
- (iii) Letter of Credit: Shipper may post a Letter of Credit (LC) in a form acceptable to Transporter. A form of LC is available on Transporter's Internet website. For Existing Capacity, the LC must be sufficient to cover up to the value of three months worth of reservation charges. For Expansion Capacity on lateral facilities, the pipeline will not require an LC greater than Shipper's pro rata share of the total facilities costs, and such LC will be reduced over time in proportion to Shipper's contract term, consistent with Paragraph 12.1(C) of these General Terms and Conditions.
- (iv) Any other credit arrangement mutually agreed upon by Shipper and Transporter. Such other credit arrangement shall be accepted on a nondiscriminatory basis. (Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(A) Creditworthiness for Firm Transportation Service (Continued)

(2) (Continued)

(c) Within five (5) business days of a Shipper notifying Transporter either in writing or by fax that it has returned to creditworthiness, as evidenced by a rating for unenhanced senior unsecured debt and consistent with Paragraph 12.1(A)(1)(a) herein, and provided that Shipper's credit limit is adequate to cover its contractual obligations, Transporter will return, with any applicable interest, Shipper's security held by Transporter along with reconciliations of interest calculations.

Upon the expiration of Shipper's Agreement(s), Transporter will return, with any applicable interest, Shipper's security associated with undisputed invoice amounts within five (5) business days of Shipper paying its final invoice. Any remaining security will be returned with interest after resolving any and all disputed invoice amounts under the expired Agreement(s). Transporter will provide Shipper with final billing reconciliations detailing interest calculations.

(B) Credit Standards for Capacity Release

(1) Long Term Capacity Release: The standards for Firm Transportation Service apply. However, pursuant to Paragraph 19.3 of this FERC Gas Tariff, a Releasing Shipper has the option of waiving the creditworthiness requirements for temporary releases of capacity for as long as the Releasing Shipper maintains compliance with Transporter's creditworthiness requirements.

(2) Short Term Capacity Release: The standards for Firm Transportation Service apply. However, pursuant to Paragraph 19.3 of this FERC Gas Tariff, a Releasing Shipper has the option of waiving the creditworthiness requirements for temporary releases of capacity for as long as the Releasing Shipper maintains compliance with Transporter's creditworthiness requirements. (Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(C) Security requirements for Expansion Capacity will be separately identified within the nondiscriminatory project requirements included as part of any open season for Expansion Capacity. The amount of security initially required for Expansion Capacity on lateral facilities will be determined by Transporter and may be up to the cost of the facilities to be constructed ("Maximum Allowable Security Requirement or MASR"). Where new lateral Facilities serve multiple shippers, an individual shipper's maximum security obligation will be for no more than its proportionate share of the MASR ("Shipper's Maximum Security Obligation or SMSO"). Subsequent to Expansion Capacity on lateral facilities being placed into service, the SMSO shall be reduced in proportion to contract term. Shipper's actual security requirement, as identified within the open season project requirements, may be equal to or less than the SMSO ("Shipper's Actual Security Obligation or SASO"). When the SMSO equals the SASO held by Transporter, Transporter shall thereafter return Shipper's security on either a monthly basis or as mutually agreed with Shipper consistent with the reduction in SMSO. Transporter is only permitted to recover the cost of Expansion Capacity on lateral facilities once through either transportation rates or, in the event of shipper default, by means of the security provided through this provision.

(D) Creditworthiness for Interruptible Transportation Service

(1) Transporter shall not be required to perform or to continue interruptible transportation service under this FERC Gas Tariff, Original Volume No. 1, on behalf of any Shipper who, after Transporter's request, fails to demonstrate creditworthiness. If Shipper is found by Transporter to be non-creditworthy, Transporter will, upon request, inform Shipper in writing as to the reasons Shipper has been deemed non-creditworthy.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(D) Creditworthiness for Interruptible Transportation Service
(Continued)

(1) (Continued)

If Shipper's credit standing ceases to meet Transporter's credit requirements during the period of service, then Transporter has the right to require security as specified herein. Upon notification by Transporter that Shipper no longer meets Transporter's creditworthiness standards, Shipper must, within five (5) business days, pay for one month of service in advance to continue service. Shipper must, within thirty (30) days, provide an acceptable guarantee or either a three-month cash security deposit or letter of credit, consistent with Transporter's creditworthiness standards. If Shipper fails to provide the required security within these time periods, Transporter may suspend service immediately and may provide simultaneous written notice to Shipper and the Commission that service will be terminated in thirty (30) days. Transporter also may exercise any other remedy available to it hereunder, at law or in equity.

(2) Determining Creditworthiness

A Shipper seeking new service shall initially provide financial statements, evidence of debt and/or credit ratings, and other such information as is reasonably requested by Transporter to establish Shipper's qualification for service. Within three (3) business days, or such later date acceptable to Transporter, an existing Shipper shall provide such information as is reasonably requested by Transporter to confirm Shipper's qualification for service.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(D) Creditworthiness for Interruptible Transportation Service
(Continued)

(2) (Continued)

Shipper's creditworthiness shall be determined by providing proof of one of the items listed below:

- (a) A rating for unenhanced senior unsecured debt of at least BB+ by Standard & Poor's or Bal by Moody's. In the event that a split rating occurs between rating agencies, Transporter will rely upon the lower of the ratings.
 - (b) Audited financial statements for itself, or for its parent company if it is a subsidiary that is consolidated with its parent company for reporting purposes and does not issue stand-alone financial statements, for the two (2) preceding years that in Transporter's opinion demonstrate adequate financial strength.
 - (c) An estimated financial strength rating by Dun and Bradstreet sufficient to cover the credit to be extended and a corresponding Dun and Bradstreet composite credit appraisal of "fair" or better.
- (3) Shipper's credit limit for interruptible transportation will be established by Transporter based upon the audited financial statements for the Shipper's two (2) most recent fiscal years, all interim reports, and any other relevant information. If Shipper does not establish or maintain creditworthiness as described above, or if Shipper's credit limit as determined by Transporter is insufficient to cover Shipper's contractual obligations, Shipper has the option of receiving interruptible transportation service under this FERC Gas Tariff by providing to Transporter a guarantee acceptable to Transporter, collateral (i.e., cash or letter of credit), or security as described in (a) through (e) below. Transporter may not unreasonably prevent a shipper from later switching the type of credit alternative that it provides.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(D) Creditworthiness for Interruptible Transportation Service (Continued)

(3) (Continued)

(a) Guarantee: Shipper may obtain a guarantee of financial performance in a form satisfactory to Transporter from a corporate affiliate of the Shipper or a third party, either of which meets the creditworthiness standard discussed above. For these companies, the credit limit will be based upon the financials of the guarantor. A form of guarantee is available on Transporter's Internet website. If during the term of service the guarantor does not meet the creditworthiness standards discussed above, then Transporter may request additional alternatives as described in (a) through (e) below.

(b) Cash Options: A Shipper may provide cash as security for service via cleared check or wire transfer. Shippers may provide either of the following forms of cash security:

(i) A cash security deposit up to the maximum amount of the services that may be provided in any three-month period under an interruptible Agreement. Such cash security deposit will remain in place to allow continued service under Shipper's IT Agreement(s). Transporter will accrue interest on cash security deposits not used to pay invoices at the applicable rate of interest for one-month commercial paper (non-financial) as published in the Federal Reserve Statistical Report H.15 for the month immediately ended. Interest will be paid by Transporter on an annual basis each September 15 or at the time Shipper's cash deposit is returned due to either a return to creditworthiness by Shipper or the expiration of Shipper's Agreement(s).

(ii) A prepayment equal to an amount defined by Shipper. Such defined balance prepayment will remain in place until Shipper exhausts its prepaid balance by utilizing interruptible transportation service. At the point Shipper's prepayment is exhausted, Transporter may suspend further activity under an interruptible Agreement collateralized by a prepayment. Shipper will not earn interest on defined balance prepayments. (Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(D) Creditworthiness for Interruptible Transportation Service
(Continued)

(3) (Continued)

- (c) Letter of Credit: Shipper may post a Letter of Credit (LC) in a form acceptable to Transporter. A form of LC is available on Transporter's Internet website. For interruptible service, the amount of the LC must be up to the maximum amount of the services that may be provided in any three-month period under an interruptible Agreement.
- (d) Flexible Credit Account: As an alternative to providing security for interruptible service based upon the maximum amount of service that may be provided in any three-month period, a Shipper may establish a flexible credit account by providing either a letter of credit or cash security deposit in an amount defined by Shipper. The minimum amount of security required under this option equals the maximum amount of service that may be provided in one day. Once Shipper has taken service up to the point where the security provided is insufficient to cover the maximum amount of service that may be provided in one day, Shipper will not be entitled to receive further interruptible service until Shipper 1) pays all or a portion of the amounts due for interruptible service or 2) Shipper provides Transporter with additional security. Firm Shippers may utilize security provided for firm transportation service that is in excess of the amount necessary to collateralize Shipper's Firm Transportation Service Agreement(s) in order to establish a flexible credit account. Cash security deposits under this security option, including excess firm security balances, will accrue interest at the applicable rate of interest for one-month commercial paper (non-financial) as published in the Federal Reserve Statistical Report H.15 for the month immediately ended. Interest will be paid by Transporter on an annual basis each September 15 or at the time Shipper's cash deposit is returned due to either a return to creditworthiness by Shipper or the expiration of Shipper's Agreement(s).

(Continued)

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(D) Creditworthiness for Interruptible Transportation Service
(Continued)

(3) (Continued)

(e) Any other credit arrangement mutually agreed upon by Shipper and Transporter. Such other credit arrangement shall be accepted on a nondiscriminatory basis.

- (4) Within five (5) business days of a Shipper notifying Transporter either in writing or by fax that it has returned to creditworthiness consistent with Paragraph 12.1(D)(1)(a) or 12.1(D)(1)(c) herein, and provided that Shipper's credit limit is adequate to cover its contractual obligations, Transporter will return, with any applicable interest, Shipper's security held by Transporter along with reconciliations of interest calculations.

Upon the expiration of Shipper's Agreement(s), Transporter will return, with any applicable interest, Shipper's security associated with undisputed invoice amounts within five (5) business days of Shipper paying its final invoice. Any remaining security will be returned with interest after resolving any and all disputed invoice amounts under the expired Agreement(s). Transporter will provide Shipper with final billing reconciliations detailing interest calculations.

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(E) Creditworthiness for Imbalance Gas Owed to Transporter

The standards for Interruptible Transportation Service apply to negative imbalances under Transporter Rate Schedules. For negative imbalances, the security requirement under the cash and Letter of Credit options includes an amount to adequately account for the value of imbalance gas owed to Transporter. The amount of security necessary to collateralize imbalance gas will be determined as follows:

- (1) For existing Shippers that do not meet Transporter's creditworthiness standards, the security requirement shall be up to the product of a Shipper's largest monthly negative imbalance over the most recent twelve (12) month period and the average of NYMEX future prices for the available twelve (12) month period as such prices close on the day the credit requirement is determined.
- (2) For new Shippers that do not meet Transporter's creditworthiness standards, the security requirement shall be up to the product of ten (10) percent of a Shipper's estimated monthly usage (as estimated by Transporter) and the average of NYMEX future prices for the available twelve (12) month period as such prices close on the day the credit requirement is determined. This formula shall be used for the first twelve (12) months of service while a historical record is established; thereafter, security for such Shipper will be determined as specified for an existing Shipper that does not meet Transporter's creditworthiness standards.

(F) Creditworthiness for Firm and Interruptible Transportation Service

- (1) Transporter's credit appraisal procedures involve the establishment of dollar and term of service credit limits on a nondiscriminatory basis. Credit limits will either reflect an annual dollar amount and a maximum term, or an absolute credit limit which must cover all contractual obligations. If Shipper provides a guarantee, Transporter will set a credit limit for the shipper based upon a credit appraisal of the guarantor. Credit limits may be modified by Transporter when Shipper's financial conditions change.

(Continued)

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(F) Creditworthiness for Firm and Interruptible Transportation
Service (Continued)

- (2) Shipper's total contractual obligation is the present value of all firm contracts, plus the amount necessary to collateralize all of a Shipper's interruptible transportation agreements.
- (3) Shipper's total security requirement is the amount necessary to collateralize all of a Shipper's firm and interruptible transportation agreements.
- (4) Subject to the requirements of Section 7 of the Natural Gas Act, Transporter shall not be required to perform or to continue to perform service on behalf of any Customer who fails to demonstrate minimal creditworthiness as required under this FERC Gas Tariff; provided, however, such Customer may receive service if said Customer provides alternative credit as described within Paragraphs 12.1(A)(1), 12.1(D)(2), and 12.1(E) of these Transportation General Terms and Conditions.

(G) Creditworthiness for Bidding on Capacity

Any party desiring to submit a bid for firm or interruptible service, including released capacity under the provisions of Paragraph 19 of these General Terms and Conditions, must first pre-qualify by demonstrating that it meets the creditworthiness standards of Paragraph 12.1 of these General Terms and Conditions, including the posting of collateral, prior to the close of the bid period. For capacity release transactions, collateral must be posted prior to the initial award of capacity at 2:00 P.M. CCT (12:00 P.M. PCT).

Upon successful qualification, the bidder shall be placed on Pipeline's approved bidder list and shall be eligible to bid for capacity. An approved bidder shall remain on Pipeline's approved bidder list until such bidder: (1) notifies Transporter to the contrary; (2) in Transporter's sole judgement no longer meets the credit requirements of Paragraph 12.1; or (3) is suspended for failure to pay part or all of the amount of any bill for service from Transporter.

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

12. CREDITWORTHINESS (Continued)

12.1 Creditworthiness (Continued)

(G) Creditworthiness for Bidding on Capacity (Continued)

Notwithstanding the creditworthiness provisions of Section 12.1(A)(2) and 12.1(D)(2), in no event shall Transporter require collateral to be posted based on a period corresponding to a time period longer than the duration of the capacity being bid on.

Prior to the next nomination opportunity after the capacity is awarded, Transporter will release any posted collateral to a non-winning non-creditworthy bidder(s) unless otherwise requested by such bidder(s). For cash forms of collateral, Transporter will release such collateral by wire transfer in accordance with the instructions provided by bidder. For non-cash forms of collateral, Transporter will release such collateral by depositing such documentation for delivery by overnight courier in accordance with the instructions provided by bidder.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

13. PRIORITY OF SERVICE

Firm service shall have the highest priority on Transporter's System. From time to time, Transporter may not have sufficient capacity to accommodate all nominations for firm service through a given segment of its pipeline, Receipt Point, or Delivery Point. In that event, Transporter shall schedule firm service using the following priorities.

13.1 Firm Scheduling Priorities Through Pipeline Segments

Transporter shall first schedule nominations for service within a Shipper's Primary Path. In the event Transporter has insufficient capacity to schedule all nominations for service within Shippers' Primary Paths, Transporter shall schedule service to Shippers nominating for service along Primary Paths on a pro rata basis in accordance with each Shipper's MDQ.

Transporter will next schedule nominations for service outside a Shipper's Primary Path. In the event Transporter has insufficient capacity to schedule all nominations for service outside of Shippers' Primary Paths, Transporter shall schedule service to Shippers nominating for service outside of their Primary Paths on a pro rata basis in accordance with each Shipper's MDQ.

Transporter will next schedule nominations for service within a Shipper's Reverse Path. In the event Transporter has insufficient capacity to schedule all nominations for service within Shippers' Reverse Paths, Transporter shall schedule service to Shippers nominating for service along Reverse Paths on a pro rata basis in accordance with each Shipper's MDQ.

13.2 Firm Scheduling Priorities Through Receipt Point Constraints

First, Transporter shall schedule service to those Shippers for whom the constrained receipt point is a Primary Receipt Point, up to each Shipper's MDQ at that point (plus an allowance for fuel). In the event full service cannot be provided to Shippers holding Primary Receipt Point rights, service will be scheduled on a pro rata basis based on each Shipper's primary MDQ at that point.

Transporter shall then schedule service to those Shippers for whom the constrained receipt point is a Secondary Receipt Point within that Shipper's Primary Path. In the event full service cannot be provided, service will be scheduled on a pro rata basis based on each Shipper's MDQ.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

13. PRIORITY OF SERVICE (Continued)

13.2 Firm Scheduling Priorities Through Receipt Point Constraints
(Continued)

Last, Transporter shall then schedule service to those Shippers for whom the constrained receipt point is a Secondary Receipt Point outside that Shipper's Primary Path. In the event full service cannot be provided, service will be scheduled on a pro rata basis based on each Shipper's MDQ.

13.3 Firm Scheduling Priorities Through Delivery Points

Transporter shall first schedule service to those Shippers for whom the constrained Delivery Point is a Primary Delivery Point, up to each Shipper's MDQ at that point. In the event full service cannot be provided to Shippers holding Primary Delivery Point rights, service will be scheduled on a pro rata basis based on each Shipper's MDQ at that point.

Transporter shall then schedule service to those Shippers for whom the constrained Delivery point is a Secondary Delivery Point within that Shipper's Primary Path. In the event full service cannot be provided, service will be scheduled on a pro rata basis based on each Shipper's MDQ.

Last, Transporter shall then schedule service to those Shippers for whom the constrained Delivery point is a Secondary Delivery Point outside that Shipper's Primary Path. In the event full service cannot be provided, service will be scheduled on a pro rata basis based on each Shipper's MDQ.

13.4 Scheduling Priority For Capacity Release

The Scheduling Priorities set out in Paragraph 13.1 above also apply for capacity released under Transporter's Capacity Release Program, and are subject to the terms and conditions as specified in an executed firm service agreement between Transporter and Shipper. All service under the capacity release program shall be considered firm for purposes of priority of service.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

13. PRIORITY OF SERVICE (Continued)

13.5 Priority of Interruptible Service

Interruptible transportation service under this FERC Gas Tariff Original Volume No. 1 shall be provided when, and to the extent that, capacity is available in Transporter's existing facilities, which capacity is not subject to a prior claim under a pre-existing contract, service agreement, certificate or under firm service. Transporter will provide interruptible service, as set forth in Paragraph 8.5 of these General Terms and Conditions of Service, first to shippers paying the highest Maximum Rate (or a Negotiated Rate equal to or in excess of the highest Maximum Rate). Transporter will next allocate capacity to Shippers paying a discounted or Negotiated Rate to the Shipper(s) paying the next highest rate until all capacity has been awarded. In the event of a tie, Transporter shall award capacity on a pro rata basis.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

14. SCHEDULING AND NOMINATIONS

14.1 Information to be Provided with Nomination

A Shipper may nominate for transportation service on Transporter electronically in accordance with Paragraph 36 of the General Terms and Conditions of Service. In accordance with NAESB Standard 1.3.5, Version 1.7, all nominations should include Shipper-defined begin dates and end dates. All nominations excluding intraday nominations should have roll-over options. Specifically, Shippers should have the ability to nominate for several days, months, or years, provided the nomination begin and end dates are within the term of Shipper's contract.

All nominations shall include, at a minimum:

- (a) a daily quantity of gas to be transported (expressed in Dth);
- (b) previously approved and valid receipt and delivery points; and
- (c) Shipper-defined begin dates and end dates.

Shipper shall provide as a component of its nomination such business conditional data sets as may be required by Transporter to enable it to identify, confirm and schedule the nomination. Shipper shall also prioritize nominated receipts and deliveries when there is more than one (1) supplier and more than one (1) Shipper, respectively. Shipper designated priorities will be used to allocate gas when upstream and downstream nominations vary from Transporter's Shipper nominations.

Shipper may nominate for any period of days, provided the nomination begin and end dates are within the term of the Shipper's Transportation Service Agreement. Such nominations shall be deemed "Standing Nominations." All types of Nominations must be clearly and separately identified so that priorities of service can be distinguished. As required by NAESB Standard 1.3.19, Version 1.7, overrun quantities should be requested on a separate transaction.

The receipt of the nomination is notice that all necessary regulatory approvals have been received and that valid upstream and downstream transportation and other contractual arrangements are in place.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

14. SCHEDULING AND NOMINATIONS (Continued)

14.2. Nomination Cycles

In accordance with NAESB Standard 1.3.2, Version 1.7, Transporter will utilize the following standard nomination cycles:

(a) THE TIMELY NOMINATION CYCLE:

11:30 a.m. (CCT) (9:30 a.m. PCT) nominations leave control of the nominating party;

11:45 a.m. (CCT) (9:45 a.m. PCT) receipt of nominations by Transporter;

12:00 noon (CCT) (10:00 p.m. PCT) Transporter sends Quick Response;

3:30 p.m. (CCT) (1:30 p.m. PCT) receipt of completed confirmations by Transporter from upstream and downstream connected parties;

4:30 p.m. (CCT) (2:30 p.m. PCT) receipt of scheduled quantities by Shipper and point operator (central clock time on the day prior to flow).

(b) THE EVENING NOMINATION CYCLE:

6:00 p.m. (CCT) (4:00 p.m. PCT) nominations leave control of the nominating party;

6:15 p.m. (CCT) (4:15 p.m. PCT) receipt of nominations by Transporter;

6:30 p.m. (CCT) (4:30 p.m. PCT) Transporter sends Quick Response;

9:00 p.m. (CCT) (7:00 p.m. PCT) receipt of completed confirmations by Transporter from upstream and downstream connected parties;

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

14. SCHEDULING AND NOMINATIONS (Continued)

14.2 Nomination Cycles (Continued)

(b) THE EVENING NOMINATION CYCLE: (Continued)

10:00 p.m. (CCT) (8:00 p.m. PCT) Transporter provides scheduled quantities to affected Shippers and point operators, and provides scheduled quantities and notice to bumped parties. Advance notice to bumped parties shall be provided by telephone, facsimile, or electronic mail, at the Shipper's option.

Scheduled quantities resulting from an Evening Nomination will be effective at 9:00 a.m. (CCT) (7:00 a.m. PCT) on the following gas day.

(c) THE INTRADAY 1 NOMINATION CYCLE:

10:00 a.m. (CCT) (8:00 a.m. PCT) nominations leave control of the nominating party;

10:15 a.m. (CCT) (8:15 a.m. PCT) receipt of nominations by Transporter;

10:30 a.m. (CCT) (8:30 a.m. PCT) Transporter sends Quick Response;

1:00 p.m. (CCT) (11:00 a.m. PCT) receipt of completed confirmations by Transporter from upstream and downstream connected parties;

2:00 p.m. (CCT) (12:00 noon PCT) Transporter provides scheduled quantities to affected Shippers and point operators, and provides scheduled quantities and notice to bumped parties. Advance notice to bumped parties shall be provided by telephone, facsimile, or electronic mail, at the Shipper's option.

Scheduled quantities resulting from Intraday 1 Nominations should be effective at 5:00 p.m. (CCT) (3:00 P.M. PCT) on gas day.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

14. SCHEDULING AND NOMINATIONS (Continued)

14.2 Nomination Cycles (Continued)

(d) THE INTRADAY 2 NOMINATION CYCLE:

5:00 p.m. (CCT) (3:00 p.m. PCT) nominations leave control of the nominating party;

5:15 p.m. (CCT) (3:15 p.m. PCT) receipt of nominations by Transporter;

5:30 p.m. (CCT) (3:30 p.m. PCT) Transporter sends Quick Response;

8:00 p.m. (CCT) (6:00 p.m. PCT) receipt of completed confirmations by Transporter from upstream and downstream connected parties;

9:00 p.m. (CCT) (7:00 p.m. PCT) Transporter provides scheduled quantities to affected Shippers and point operators.

Scheduled quantities resulting from Intraday 2 Nominations should be effective at 9:00 p.m. (CCT) (7:00 p.m. PCT) on gas day.

Firm intraday nominations during the Intraday 2 Nomination Cycle may not bump nominated and scheduled interruptible volumes.

- (e) For purposes of NAESB Standards 1.3.2 ii, iii, and iv (reflected in Paragraphs 14.2(b) through 14.2(d) above), "provide" shall mean, for transmittals pursuant to NAESB Standards 1.4.x, receipt at the designated site, and for purposes of other forms of transmittal, send or post.

Transporter shall, at the end of each business day, make available to each Shipper information containing scheduled quantities including scheduled intraday nominations and any other scheduling changes.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

14. SCHEDULING AND NOMINATIONS (Continued)

14.2 Nomination Cycles (Continued)

(e) (Continued)

Transporter shall have the discretion to accept nominations at such later times as operating conditions permit and without detrimental impact to other Shippers and upon confirmation that corresponding upstream and downstream arrangements in a manner satisfactory to Transporter have been made. In the event later nominations are accepted, Transporter will schedule those nominations after the nominations received before the nominations deadline, which is in accordance with NAESB Standard 1.3.6, Version 1.7, that states nominations received after nomination deadline should be scheduled after the nominations received before the nomination deadline.

14.3 Changes to Nominations

(a) Changes to Standing Nominations

In accordance with NAESB Standard 1.3.7, Version 1.7, all nominations should be considered original nominations and should be replaced to be changed. When a nomination for a date range is received, each day within that range is considered an original nomination. When a subsequent nomination is received for one or more days within that range, the previous nomination is superseded by the subsequent nomination only to the extent of the days specified. The days of the previous nomination outside the range of the subsequent nomination are unaffected. Nominations have a prospective effect only.

Such nominations must be received by Transporter's Transportation Department in accordance with the scheduling timelines set out in Paragraph 14.2.

In the event Transporter does not receive information of upstream or downstream adjustments, Transporter shall use the lesser of the new nomination or the previous nomination.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

14. SCHEDULING AND NOMINATIONS (Continued)

14.3 Changes to Nominations (Continued)

(b) Intraday Nominations

In accordance with NAESB Standard 1.3.8, Version 1.7, all transportation service providers should allow for intraday nominations. Requests to amend previously scheduled nominations may be accepted during the gas day, subject to operational conditions and, further that corresponding upstream and downstream adjustments in a manner satisfactory to Transporter can be confirmed. In accordance with NAESB Standard 1.3.11, Version 1.7, such intraday nominations can be used to request increases or decreases in total flow, changes to receipt points, or changes to delivery points of scheduled gas. A request to increase a nomination for firm transportation up to the MDQ specified in the Service Agreement will be accommodated to the extent operating conditions permit. Firm intraday nominations other than during the Intraday 2 Nomination Cycle shall have priority over nominated and scheduled interruptible volumes. A request to increase a nomination for interruptible transportation shall be permitted only to the extent that capacity is available and that no displacement of other interruptible transportation occurs. Such changes will become effective only when system-operating conditions, as determined by Transporter, permit changes to occur.

Intraday Nominations may not roll-over and will replace the Standing Nomination only for the duration of the Gas Day. Quantities for Intraday Nominations will be expressed in Dth, and represent the total quantities to be delivered prior to the end of the effective Gas Day.

- (c) In accordance with NAESB Standard 1.3.9, Version 1.7, all nominations, including Intraday Nominations, should be based on a daily quantity; thus, an Intraday Nominator need not submit an hourly nomination. Intraday nominations should include an effective date and time. The interconnected parties should agree on the hourly flows of the Intraday Nomination if not otherwise addressed in the Service Agreement or Tariff.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

14. SCHEDULING AND NOMINATIONS (Continued)

14.4 Information Reliability

Transporter shall be allowed to rely conclusively on the information submitted as part of the nomination in confirming the nomination for scheduling and allocation. Shipper must provide electronically to Transporter Shipper's current designated contact, after hours and emergency telephone numbers. Such information must be updated as often as changes to such information occurs. Transporter may rely solely upon the information provided by Shipper and will not be liable to Shipper if Shipper's contact information is outdated and communication attempts with such Shipper are unsuccessful.

14.5 Uniform Hourly Rates

Scheduled quantities will be received and delivered at a uniform hourly rate of confirmed quantity divided by 24.

14.6 North American Energy Standards Board Standards:

Nominations for service on Transporter shall be further governed by the following standards adopted by the North American Energy Standards Board. Unless otherwise specified, all standards are Version 1.7:

1.3.13; 1.3.14; 1.3.16; 1.3.22; and 1.3.23.

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet No. 156

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Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

15. CURTAILMENT

Transporter shall have the right to curtail, interrupt, or discontinue Transportation Service on any portion of its system at any time for reasons of force majeure or when capacity, supply, or operating conditions so require or it is necessary or desirable to make modifications, repairs, or operating changes to its system. Transporter shall provide notice of such occurrences as is reasonable under the circumstances.

Capacity may become constrained at individual receipt points, delivery points or on segments of the pipeline. Transporter shall exercise this curtailment provision only at the point(s) or segment(s) of the pipeline affected by the constraint. When capacity is constrained or otherwise insufficient to serve all the transportation requirements which are scheduled to receive service, Transporter shall curtail Interruptible Service first and then Firm service.

Curtailment of Interruptible Service, if necessary, will be performed in the opposite order of scheduling set forth in Paragraph 13.5 of this FERC Gas Tariff.

Curtailment of firm service, if necessary, will be performed pro rata based on the MDQ across the contracts scheduled to use the capacity at the applicable receipt points, delivery point(s) or mainline segment(s) of pipeline.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

16. BALANCING

16.1 To the extent possible, imbalance information shall be based upon actual, real-time data. Balancing of thermally equivalent quantities of gas received and delivered by Transporter shall be achieved as nearly as feasible on a daily basis. Correction of imbalances shall be the responsibility of the Shipper whether or not notified by Transporter at the time of incurrence of the imbalance. Correction of imbalances shall be scheduled with Transporter using the nomination process as soon as an imbalance is known to exist based on the best available current data. Nominations to correct imbalances shall have the lowest priority for scheduling purposes and shall be subject to the availability of capacity and other operational constraints for imbalance correction. If on any day capacity is insufficient to schedule all imbalance nominations, all such nominations shall be prorated accordingly. To maintain the operational integrity of its system, Transporter shall have the right to balance any Shipper's account as conditions may warrant. Imbalances shall exist as defined below and be subject to the applicable charges and penalties if not corrected.

(a) Actual delivered quantity exceeds MDQ

Quantities in excess of Shipper's MDQ shall be transported, without penalty, when capacity is available on the Transporter system and when the provision of such Authorized OVERRUNS shall not affect any Shipper's rights on the Transporter system. Authorized OVERRUNS are interruptible in nature. The rate charged for Authorized OVERRUNS shall be the same as the rates and charges for Interruptible Transportation under Rate Schedule ITS-1 as set forth on effective Tariff Sheet No. 4, and such Authorized OVERRUNS shall be subject to the priority of service provisions of Paragraph 13 of the General Terms and Conditions of Service.

To the extent Transporter has facilities in place, Transporter may utilize flow control to limit shipper deliveries to contractual MDQ levels when Shipper has not requested Authorized Overrun Service.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

16. BALANCING (Continued)

16.1 (Continued)

(a) Actual delivered quantity exceeds MDQ (Continued)

An imbalance shall exist when Transporter has not authorized deliveries in excess of a Shipper's MDQ because the operational integrity of Transporter's system is threatened. Under these circumstances, Transporter may, without notice, adjust Shipper requests for confirmation from receipt or delivery markets on Transporter's system. In addition, Transporter may issue an Operational Flow Order consistent with Paragraph 18 of these General Terms and Conditions of Service, and Shipper will be subject to tolerances and penalties as provided for in Paragraph 18.5.

(b) Actual delivered quantity exceeds actual confirmed receipt quantity

A net negative imbalance shall exist if the difference between the quantity received (nominated, scheduled, and confirmed) and the quantity delivered, taking into account the reduction in quantity for compressor fuel use, yields a negative result. Commencing upon notification by Transporter of the existence of the negative imbalance, and to the extent that the Transporter system is not constrained or its integrity is not threatened and Transporter has not issued an Operational Flow Order, Shipper shall have three (3) days to correct the imbalance.

Remedies:

Where Transporter has facilities in place, Transporter may utilize flow control to limit shipper deliveries to even hourly rates equal to one twenty-fourth (1/24th) of a Shipper's Maximum Daily Quantity, consistent with Paragraph 14.5 of these General Terms and Conditions of Service. Shippers may schedule with Transporter using the nomination process to eliminate or reduce negative imbalances. In addition, in accordance with this Paragraph 16, Shipper may net or trade imbalances to eliminate or reduce negative imbalances.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

16. BALANCING (Continued)

16.1 (Continued)

- (b) Actual delivered quantity exceeds actual confirmed receipt quantity (Continued)

If, at the end of the three (3) day period the difference between the actual quantity received and the delivered quantity is in excess of ten (10) percent of the delivered quantity or one thousand (1000) Dth, whichever is greater, the excess quantity shall be subject to a penalty equal to a charge of \$5/Dth applied to the excess quantities. If the imbalance is not corrected within forty-five (45) days of Transporter's notice of an imbalance, the imbalance shall be cashed-out at a premium to the Cash Out Index Price as follows:

(i)	Imbalance Percent	Cash Out Index Price Premium
	-----	-----
	0% - 5%	0%
	> 5% - 10%	10%
	>10% - 15%	15%
	>15% - 20%	20%
	>20%	25%

- (ii) Shipper's final imbalance on any Agreement shall be cashed out at a price calculated by multiplying the final imbalance by the applicable rate as determined above.
- (iii) Cash out amounts received by Transporter will be used to offset any purchases of linepack necessitated by Shipper's imbalance. Net cash will be credited to all shippers in accordance with Paragraph 16.1(d).

In the event the operational integrity of Transporter's system is threatened, Transporter may, without notice, adjust Shipper requests for confirmation from receipt or delivery markets on Transporter's system. In addition, Transporter may issue an Operational Flow Order consistent with Paragraph 18 of these General Terms and Conditions of Service, and Shipper will be subject to tolerances and penalties as provided for in Paragraph 18.5.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

16. BALANCING (Continued)

16.1 (Continued)

- (c) Actual confirmed receipt quantity exceeds actual delivered quantity

A net positive imbalance shall exist if the difference between the quantity received (nominated, scheduled, and confirmed) and the quantity delivered, taking into account the reduction in quantity for compressor fuel use, yields a positive result. Commencing upon notification by Transporter of the existence of the imbalance, and to the extent that the Transporter system is not constrained or its integrity is not threatened and Transporter has not issued an Operational Flow Order, Shipper shall have three (3) days to correct the imbalance.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

16. BALANCING (Continued)

16.1 (Continued)

- (c) Actual confirmed receipt quantity exceeds actual delivered quantity (Continued)

Remedies:

Shippers may schedule with Transporter using the nomination process to eliminate or reduce positive imbalances. In addition, in accordance with this Paragraph 16, Shipper may net or trade imbalances to eliminate or reduce positive imbalances.

If, at the end of the three (3) day period the difference between the actual quantity received and the delivered quantity is in excess of ten (10) percent of the delivered quantity or 1000 Dth, whichever is greater, the excess quantity shall be subject to a penalty equal to a charge of \$2/Dth applied to the excess quantities. If the imbalance is not corrected within 45 days of Transporter's notice of an imbalance, Transporter shall be able to retain the remaining imbalance quantity without compensation to the Shipper and free and clear of any adverse claim. Quantities retained by Transporter will be sold in accordance with Paragraph 38 of these Transportation General Terms and Conditions, and the proceeds from the sale of the confiscated gas will be credited to all shippers in accordance with Paragraph 16.1 (d).

In the event the operational integrity of Transporter's system is threatened, Transporter may, without notice, adjust Shipper requests for confirmation from receipt or delivery markets on Transporter's system. In addition, Transporter may issue an Operational Flow Order consistent with Paragraph 18 of these General Terms and Conditions of Service, and Shipper will be subject to tolerances and penalties as provided for in Paragraph 18.5.

Imbalance determinations as described above will be performed on a daily basis and each daily occurrence will constitute a separate incident. It is recognized and understood that in the event more than one penalty provision may apply to a single imbalance incident, only the most onerous penalty will apply.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

16. BALANCING (Continued)

16.1 (Continued)

- (c) Actual confirmed receipt quantity exceeds actual delivered quantity (Continued)

Imbalance and overrun penalties will be based on the lesser of the impact from operational or actual data. In the event that any penalty would otherwise be applicable under these provisions as a direct consequence of any action or failure to take action by Transporter or the failure of any facility under Transporter's control, or an event of force majeure as defined in these General Terms and Conditions of Service, said penalty shall not apply.

Interruptible Shippers will be notified whether penalties will apply on the day their volumes are reduced. Transporter shall waive non-critical penalties for bumped shippers on the day of the bump. Waiver of non-critical penalties shall not relieve the shipper from the obligation to take corrective action to eliminate ongoing imbalances.

The payment of a penalty in dollars pursuant to this Paragraph 16 shall under no circumstances be considered as giving any Shipper the right to deliver or take overrun quantities.

- (d) Crediting of Penalties

(i) Applicability. Penalty Revenues net of costs incurred by Transporter and collected as a result of imposition of any penalty imposed under this Section 15 and as provided elsewhere in this FERC Gas Tariff will be refunded annually to all current Shippers with interest calculated in accordance with §154.501 of the Commission's regulations.

(ii) Calculation of Credit Amount. Each current Shipper shall receive an allocation of penalty revenues based on the proportion of the revenues received during the 12-month period from each Shipper divided by the total revenue received from all current Shippers during such period.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

16. BALANCING (Continued)

16.1 (Continued)

(d) Crediting of Penalties (Continued)

(iii) Timing of Credits. Within forty-five (45) days after November 1st of each year, Transporter shall determine the total amount of the Net Penalty Revenues received during the previous 12-month period and the portion of such amount to be credited to each Shipper. Such credits shall be reflected as a credit billing adjustment on the next bills rendered to the Shippers. In the event that such credit billing adjustment would result in a net credit on the total bill to any Shipper, or in the event the Shipper is no longer a shipper on Transporter system, Transporter will pay to such Shipper its share of the Net Penalty Revenues within fifteen (15) days after determination of the amount of the credit due to the Shipper.

(iv) Minimum Credit Amount. Transporter shall not be obligated to issue penalty credits during any year in which Net Penalty Revenues are less than or equal to \$10,000.

(e) Imbalance Netting: A Shipper may net imbalances between its service agreements.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

16. BALANCING (Continued)

16.1 (Continued)

(f) Imbalance Trading:

- (i) A shipper, or its agent, may trade imbalances with other Shippers, their agents or other third-party firms that may conduct imbalance trading for Shippers.
- (ii) Any trading of imbalances must result in each Shipper's imbalance decreasing.
- (iii) Transporter shall process all imbalance trades at no additional administrative charge.
- (iv) Third party imbalance management services will be accommodated on a nondiscriminatory basis as long as these services comply with applicable NAESB standards and do not adversely impact the pipeline's system operations. Third party services will be required to comply with the NAESB Nominations and Confirmation Time Limits and meet Transporter credit requirements appropriate for the quantity of shipper imbalance gas for which such third party may be responsible.

(g) Posting Imbalance Trades:

- (i) Transporter shall provide free of charge an "Imbalance Trading" location on its Internet website to allow posting of imbalances to facilitate trading.
- (ii) Transporter shall post a Shipper's imbalance if the Shipper provides written authorization to Transporter authorizing it to post such imbalance information on the "Imbalance Trading" section of its Internet website.

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GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

17. MARKET CENTERS

The Market Center is defined as a point of interconnection between Transporter and other pipelines and local distribution companies. Transporter shall provide for Market Centers on the Transporter system. Parties wishing to use Market Centers on the Transporter system shall contact Transporter for this service. At these Market Centers, entities may trade gas quantities without actively shipping the gas either upstream or downstream of the Market Center. Such entities must nominate for the gas transactions in accordance with the nomination procedure of the General Terms and Conditions of Service of the FERC Gas Tariff, Original Volume No. 1. An entity's nomination for upstream supply and downstream delivery must match the corresponding upstream Shipper nomination and downstream customer receipt.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

18. OPERATIONAL FLOW ORDERS ("OFO")

- 18.1 Transporter, in its discretion, will have the right to issue OFOs when in its judgment it is necessary to maintain or restore the operational integrity of its system.
- 18.2 Whenever possible, Transporter will identify those Shipper(s) whose action(s) require Transporter to issue an OFO and will limit the applicability of the OFO to such Shipper(s). If Transporter is unable to identify those Shipper(s) whose action(s) require issuance of an OFO, or if issuance of an OFO to discrete Shipper(s) is insufficient to alleviate the conditions requiring the issuance of such OFO, Transporter may issue an additional OFO applicable to all Shippers on a nondiscriminatory basis.
- 18.3 All OFOs will be posted on Transporter's website, to be followed by a facsimile, written notice or other mutually agreeable means of electronic communication to affected Shippers that will set forth the causes or conditions necessitating the OFO. Transporter will issue an OFO as expeditiously as is reasonable and practicable in the circumstances. When practicable, Transporter will provide sufficient notice to customers to accommodate scheduling requirements on upstream pipelines. Each OFO will contain the following provisions:
- (a) time and date of issuance;
 - (b) time that OFO is considered to be effective (if no time is specified, the OFO will be effective immediately);
 - (c) duration of the OFO (if not specified, the OFO will be effective until further notice);
 - (d) the party or parties receiving the OFO;
 - (e) the quantity of gas required to remedy the operational condition requiring the issuance of the OFO; and
 - (f) any other term Transporter may reasonably require to ensure the effectiveness of the OFO.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

18. OPERATIONAL FLOW ORDERS ("OFO") (Continued)

18.3 (Continued)

Transporter will post information about the status of operational variables that will determine when an OFO will begin and end. Transporter will post a notice on its website informing Shipper(s) when any OFO in effect will be canceled. Following the issuance of an OFO, Transporter will post information on the factors that caused the OFO to be issued and then lifted as soon as it is available.

18.4 Except in cases where the curtailment of interruptible services would not alleviate the causes or conditions necessitating the issuance of an OFO, Transporter will, where practicable, curtail interruptible services prior to issuing an OFO. Transporter shall not be required to curtail interruptible services to individual Shippers when curtailment of service to those Shippers would not affect the OFO.

18.5 Upon the issuance of an OFO by Transporter, it shall be incumbent upon Shipper to adjust Gas supplies as directed within the time frame specified in the OFO. Failure to comply in a timely fashion with an OFO may result in an immediate interruption of all or a portion of Shipper's service and cause Shipper to incur a penalty of \$25 per Dth plus the Spot Index Price (equal to the Malin price as reported in Gas Daily's Daily Price Survey) per Dth for all quantities in excess of that allowed under the OFO. The payment of unauthorized overrun penalties does not create the right to exceed the levels established by an OFO.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

18. OPERATIONAL FLOW ORDERS ("OFO") (Continued)

- 18.6 In the event Shipper does not respond to the OFO and Transporter believes it is necessary to take actions such as buying or selling gas to maintain system integrity or to prevent interrupting service to another Shipper, Transporter shall have the right, but not the obligation, to take such remedial actions as it deems necessary. If Transporter takes these actions, it shall be made whole by the nonresponding Shipper for all costs that Transporter incurs either through retention of penalty revenues or by direct reimbursement by Shipper. Transporter shall not be liable for any costs incurred by any Shipper/Operator in complying with an OFO.
- 18.7 Transporter shall not be responsible for any damages that result from any interruption in Shipper's service that is a result of a Shipper's failure to comply promptly and fully with an OFO and the non-complying Shipper(s) shall indemnify Transporter against any claims of responsibility.
- 18.8 Notwithstanding the foregoing, when Gas supplies necessary to effectuate transportation deliveries are not flowing on the system, Transporter will not be responsible for backing up such supplies and the associated deliveries will be subject to interruption.
- 18.9 Where a nomination is required by Transporter to make an effective physical change necessary to comply with an OFO, unless critical circumstances dictate otherwise, an OFO penalty should not be assessed unless the Shipper is given the opportunity to correct the circumstance giving rise to the OFO and fails to do so, or the action(s) taken fails to do so. The opportunity to correct the critical circumstance should include the opportunity to:
- (a) make a nomination, which, once confirmed and scheduled would cure the circumstance giving rise to the OFO, or
 - (b) take other appropriate action which cures the circumstance giving rise to the OFO.

A Shipper's response to an OFO should not be constrained by restrictions on the submittal and processing of intra-day nominations.

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GENERAL TERMS AND CONDITIONS OF SERVICE
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19. CAPACITY RELEASE

19.1 Eligibility to Release

Any firm Shipper which contracts for firm transportation service under Part 284 of the Commission's regulations (Releasing Shipper) is eligible to release all or part of its capacity (Parcel) for use by another party (Replacement Shipper). Any Replacement Shipper, which has previously contracted for a Parcel, may also release its capacity to another party as a Secondary Release subject to the terms and conditions described herein.

Upon releasing a Parcel, consistent with the terms and conditions described herein, all Releasing Shippers shall remain ultimately liable for all reservation charges billable for the originally contracted service. The Releasing Shipper, whether a primary or secondary capacity holder, must post the capacity it seeks to release on Transporter's Internet website prior to the close of the Posting Period defined herein.

A Releasing Shipper may release all or a portion of its capacity for the remainder of the term of its contract on either a temporary or permanent basis. In the event of a permanent capacity release, the Right of First Refusal is conveyed to the Replacement Shipper for that portion permanently released. Further, Transporter may not unreasonably refuse to relieve the Releasing Shipper of liability under its contract and extinguish Releasing Shipper's contractual obligations to Transporter with respect to that portion permanently released provided that: 1) the Replacement Shipper is creditworthy pursuant to Transporter's credit standards; and 2) the rate paid by the Replacement Shipper is no less than the rate contracted between the Releasing Shipper and Transporter for the remaining term of the contract or the Releasing Shipper's maximum rate.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

19. CAPACITY RELEASE

19.2 Types of Release

A Releasing Shipper may release a Parcel for a term (Release Term) up to or equivalent to the remaining term under its service agreement with Transporter. Types of releases include:

NON-PREARRANGED - BIDDING REQUIRED

- (1) Greater than or equal to one (1) day, is not prearranged and requires bidding.

PREARRANGED RELEASES - BIDDING REQUIRED

- (1) Greater than thirty-one (31) days at a rate less than the maximum applicable tariff rate. This type of release is prearranged, allows for bidding up to the maximum applicable tariff rate and allows for the right of first refusal. Bidding is pursuant to the methodology selected by the Releasing Shipper.

PREARRANGED RELEASES - BIDDING NOT REQUIRED

- (1) Less than or equal to thirty-one (31) days at a rate less than the maximum applicable tariff rate. This type of release is prearranged and does not require bidding. This release cannot be rolled-over, renewed or otherwise extended beyond the term described above unless the Releasing Shipper follows the posting and bidding procedures that apply to the particular term sought contained in this Paragraph 19. The Releasing Shipper may not re-release this Parcel to the same Replacement Shipper until twenty-eight (28) days after the term of the initial release has ended. Rollovers are permitted without bidding or a waiting period provided the Prearranged Shipper agrees to pay the maximum rate and meet all the other terms and conditions of the release.
- (2) Greater than or equal to one day at the maximum applicable tariff rate. This type of release is prearranged and does not require bidding.
- (3) Permanent release of a long-term contract at the maximum applicable tariff rate when remaining term is less than three hundred and sixty-five (365) days.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

19. CAPACITY RELEASE (Continued)

19.3 Notice Requirements

Any Releasing Shipper electing to release capacity shall submit a notice via Transporter's Internet website that it elects to release firm capacity. The notice shall set forth the following information:

- (a) Releasing Shipper's legal name, contract number, and the name, title, address, telephone number, and fax number of the individual responsible for authorizing the release of capacity.
- (b) Rate schedule of the Releasing Shipper.
- (c) In accordance with NAESB Standard 5.3.26, Version 1.7, Releasing Shipper has the choice to specify dollars and cents or percents of maximum tariff rate in the denomination of bids and all transportation service providers should support this. Once the choice is made by the Releasing Shipper, the bids should comport with the choice. In accordance with NAESB Standard 5.3.27, Version 1.7, for purposes of bidding and awarding, maximum/minimum rates specified by the Releasing Shipper should include the tariff reservation rate and all demand surcharges, as a total number or as stated separately. If a volumetric rate is used, Releasing Shipper must indicate whether bids on a reservation charge basis will be accepted as well and if so must specify the method of evaluating the two types of bids. Releasing Shipper also should indicate whether bids will be accepted on a dollar basis or as a percentage of the Releasing Shipper's as-billed rate.
- (d) Daily quantity of capacity to be released, expressed in Dth/d, at the designated delivery point(s). (This must not exceed Releasing Shipper's maximum contract demand available for capacity release and shall state the minimum quantity expressed in Dth/d acceptable for release.)
- (e) The term of the release, identifying the date release is to begin and terminate. The minimum release term acceptable to Transporter shall be one (1) day.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

19. CAPACITY RELEASE (Continued)

19.3 Notice Requirements (Continued)

- (f) Whether the Releasing Shipper is willing to consider release for a shorter period of time than that specified in (e) above and if so, the minimum acceptable period of release.
- (g) The receipt and delivery point(s).
- (h) Whether Option 1, 2, or 3 shall be used to determine the highest valued bid (see Paragraph 19.7(a) for a description of bid evaluation Options 1, 2, and 3).
- (i) Whether the Releasing Shipper wants Transporter to market its released capacity.
- (j) Whether the Releasing Shipper requests to waive the creditworthiness requirements and agrees in such event to remain liable for all charges.
- (k) Whether Releasing Shipper is an energy affiliate or other affiliate of Transporter.
- (l) If release is a prearranged release, the Prearranged Shipper must be qualified pursuant to the criteria of Paragraph 19.6(a) unless waived above. Releasing Shipper shall include the Prearranged Shipper bid information pursuant to Paragraph 19.6(b) with its release information and shall indicate whether the Prearranged Shipper is affiliated with Transporter or the Releasing Shipper.
- (m) Any special nondiscriminatory terms and conditions applicable to the release, such as whether the Replacement Shipper will be prohibited from changing Primary Points.
- (n) Tie-breaker method preferred: (1) pro rata, (2) lottery, (3) order of submission (first-come/first-serve), (4) other. Other method must be objectively stated, administratively feasible as determined by Transporter and nondiscriminatory. If no method is selected, the system defaults to pro rata.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE

(Continued)

19. CAPACITY RELEASE (Continued)

19.3 Notice Requirements (Continued)

- (o) Recall provisions. These provisions must be objectively stated, nondiscriminatory, and applicable to all bidders, operationally and administratively feasible as determined by Transporter and in accordance with Transporter's tariff.
- (p) The minimum rate (percentage of: reservation charge or a volumetric equivalent of the maximum reservation charge applicable to the Parcel on a one hundred percent (100%) load-factor basis) acceptable to Releaser for this Parcel. Releasing Shipper also should indicate whether bids will be accepted on a dollar basis or as a percentage of the Releasing Shipper's as-billed rate.
- (q) Whether the Releasing Shipper is willing to accept contingent bids that extend beyond the close of the Bid Period and, if so, any nondiscriminatory terms and conditions applicable to such contingencies including the date by which such contingency must be satisfied (which date shall not be later than the last day upon which Transporter must award capacity) and whether, or for what time period, the next highest bidder(s) will be obligated to acquire the capacity should the winning contingent bidder be unable to satisfy the contingency specified in its bid.
- (r) Whether the Releasing Shipper wants to specify a longer bidding period for its Parcel than specified at Paragraph 19.8.

19.4 Marketing of Capacity Fee

Transporter may act as a facilitator between a Releasing Shipper and a Replacement Shipper(s) that wishes to contract for that Releasing Shipper's capacity. All such Parcels must be posted on Transporter's Internet website initially. A posting of a Parcel facilitated by Transporter will include both the Parcel by the Releasing Shipper and the bid by the Prearranged Shipper. A marketing of capacity fee shall be negotiated between Transporter and Releasing Shipper in a nondiscriminatory manner. Such a fee will apply when: a Releasing Shipper requests Transporter to market released capacity, Transporter actively markets such capacity beyond posting on the Internet website, and such marketing results in capacity being released to a Replacement Shipper.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

19. CAPACITY RELEASE (Continued)

19.5 Posting of a Parcel

The posting of a Parcel constitutes an offer to release the capacity provided a willing Replacement Shipper submits a valid bid consistent with Transporter's General Terms and Conditions of Service. The posting must contain the information contained in Paragraph 19.3. Any specific conditions posted by the Releasing Shipper must be operationally feasible, nondiscriminatory to other shippers, and in conformance with Transporter's tariffs. If the Parcel is being released as a Secondary Release, then any recall provisions included in the primary release which may affect the re-release of this capacity must be included in the terms and conditions of the Secondary Release. Each Parcel will be reviewed by Transporter prior to posting on the Internet website for bidding. The receipt of a valid release will be acknowledged in the form of an email to the Releasing Shipper.

It is the Releasing Shipper's sole responsibility to provide release and Prearranged Shipper bid information in advance of the close of the Posting Period.

Releasing Shippers who elect to include, as part of their release, nondiscriminatory recall provisions and/or special terms and conditions are required to submit their request to release capacity by at least two (2) business days before the close of the Posting Period as stated in Paragraph 19.8. This is to ensure adequate time for Transporter to review and validate that any recall and/or special terms and conditions are not discriminatory.

All Prearranged Shipper bids are subject to the Prearranged Shipper(s) meeting the preliminary qualifications as defined in Paragraph 19.6(a) for Replacement Shippers.

A Parcel may be revised or withdrawn by the Releasing Shipper at any time prior to the close of the Posting Period. A Parcel cannot be revised after the close of the Posting Period. In accordance with NAESB Standard 5.3.14, Version 1.7, offers should be binding until written or electronic notice of withdrawal is received by the capacity release service provider.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

19. CAPACITY RELEASE (Continued)

19.5 Posting of a Parcel (Continued)

Parcels may be withdrawn subsequent to the close of the Posting Period and up until the close of the Bid Period only in situations where the Releasing Shipper has an unanticipated need for the capacity. In such instances, Releasing Shipper shall notify Transporter electronically of its need to withdraw the Parcel due to an unanticipated need for the capacity. The withdrawal or revision of a Parcel will terminate all bids submitted for that Parcel to date. Replacement Shippers will need to resubmit their bids for the Parcel if the Parcel is resubmitted for release.

19.6 Bidding for a Parcel

(a) Preliminary Qualification

Replacement Shippers are required to pre-qualify in advance of bidding on capacity pursuant to Section 12.1(G). The pre-qualification process will authorize a pre-set maximum monthly financial exposure level for the Replacement Shipper. Such exposure levels may be adjusted by Transporter periodically re-evaluating a Replacement Shipper's credit-worthiness.

Releasing Shippers may exercise their option to waive the credit and pre-qualification requirements for any Replacement Shipper wishing to bid on a Parcel posted by that Releasing Shipper. Such waiver must be made on a nondiscriminatory basis. Transporter must be informed of such waiver via the Internet website before it will authorize such Replacement Shipper's participation with respect to that particular Parcel. In this instance, no pre-set maximum monthly financial exposure level is applicable.

Should a Releasing Shipper waive the credit requirements for a Replacement Shipper, the Releasing Shipper shall be liable for all charges incurred by the Replacement Shipper in the event such Replacement Shipper defaults on payment to Transporter for such capacity release service.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

19. CAPACITY RELEASE (Continued)

19.6 Bidding for a Parcel (Continued)

(a) Preliminary Qualification (Continued)

Any potential Replacement Shipper may submit a bid for parcels posted for release. Transporter will determine the highest valued bid, based on the bid evaluation method selected by the Releasing Shipper, and verify that the Shipper placing the bid meets Transporter's credit requirements, and has posted collateral, prior to the initial award of capacity at 2:00 P.M. CCT (12:00 P.M. PCT). Upon notification by Transporter of an award of a parcel, Transporter shall complete a new FTS-1 contract with the particulars of the awarded parcel and Replacement Shipper shall execute this new contract electronically through the use of an authorization code procedure on Transporter's Internet website.

Once a Replacement Shipper has acquired capacity, authority is granted to the Replacement Shipper to release that capacity, unless the Releasing Shipper has specified that the parcel cannot be re-released.

The execution of the FTS-1 service agreement will constitute an obligation on the part of the Replacement Shipper to be bound by the terms and conditions of Transporter's capacity release program as set forth in these General Terms and Conditions of Service.

(b) Submitting a Bid

All bids must be submitted through the use of Transporter's Internet website. Such bids shall be "open" for all participants to review. The particulars of all bids will be available for review but not the identity of bidders. Transporter will post the identity of the winning bidder(s) only.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE

(Continued)

19. CAPACITY RELEASE (Continued)

19.6 Bidding for a Parcel (Continued)

(b) Submitting a Bid (Continued)

A Replacement Shipper cannot request that its bid be "closed", nor can a Releasing Shipper specify that "closed" bids be submitted on its releases. A Replacement Shipper may submit only one bid per Parcel posted at any one point in time. Bids received after the close of the Bid Period shall be invalid. The Replacement Shipper may bid for no more than the quantity of the Parcel posted by the Releasing Shipper. Simultaneous bids for more than one Parcel are permitted.

A valid bid to contract for a Parcel must contain the following information:

- (i) Replacement Shipper's legal name, address, telephone and fax numbers and the name and title of the individual responsible for authorizing the bid.
- (ii) The identification of the Parcel bid on.
- (iii) Term of service requested. The term of service must not exceed the term included in the Parcel.
- (iv) Percentage of the applicable maximum rate, as identified in the Parcel, that Replacement Shipper is willing to pay, or price in dollars and cents per Dth/d, as identified in the Parcel, that the Replacement Shipper is willing to pay. A Replacement Shipper may not bid below the minimum applicable charge or rate.

(Continued)

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19. CAPACITY RELEASE (Continued)

19.6 Bidding for a Parcel (Continued)

(b) Submitting a Bid (Continued)

- (v) The quantity desired not to exceed the quantity contained in the Parcel, expressed on a Dth/d delivered basis and greater than the minimum quantity acceptable to Replacement Shipper.
- (vi) A statement as to whether or not Replacement Shipper is an affiliate of the Releasing Shipper.
- (vii) An affirmative statement that Replacement Shipper agrees to be bound by the terms and conditions of Rate Schedule FTS-1 and Transporter's capacity release provisions in its tariff.
- (viii) Whether the bid is a contingent bid and the contingencies which must be satisfied by the date specified by the Releasing Shipper in its posting of the Parcel.

(c) Confirmation of Bids

The receipt of a valid bid by Transporter will be acknowledged by the Issuance of a bid confirmation in the form of an email to the Replacement Shipper. It is the Replacement Shipper's sole responsibility to verify the correctness of the submitted bid and to take any corrective action necessary by resubmitting a bid when notified of an invalid or incomplete bid by Transporter via the Internet website. This must be done before the close of the Bid Period.

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GENERAL TERMS AND CONDITIONS OF SERVICE
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19. CAPACITY RELEASE (Continued)

19.6 Bidding for a Parcel (Continued)

(d) Withdrawal or Revision of Bids

A previously submitted bid may be withdrawn or revised and resubmitted at any time prior to the close of the Bid Period with no obligation on the Replacement Shipper's part. In accordance with NAESB Standard 5.3.15, Version 1.7, bids cannot be withdrawn after the bid period ends. Resubmitted bids must be equal to or greater in value than the initial bids. Lower valued bids will be invalid. In accordance with NAESB Standard 5.3.13, Version 1.7, bids should be binding until written or electronic notice of withdrawal is received by the capacity release service provider.

19.7 Allocation of Parcels

(a) Primary Allocation

In accordance with NAESB Standard 5.3.3, Version 1.7, winning bids for Parcels shall be awarded based on one of the following three (3) options to be selected by the Releasing Shipper when posting a Parcel:

Option 1 - Highest Rate Equivalent

Bids will be given priority based on the maximum rate bid as represented by (1) a Replacement Shipper's bid of the percentage of the Transporter's maximum authorized reservation charge or a volumetric equivalent of the maximum reservation charge applicable to the Parcel on a 100% load factor basis, or (2) a Replacement Shipper's bid in terms of absolute dollars and cents per Dth.

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GENERAL TERMS AND CONDITIONS OF SERVICE
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19. CAPACITY RELEASE (Continued)

19.7 Allocation of Parcels (Continued)

(a) Primary Allocation (Continued)

Option 2 - Present Value

Bids will be given priority based on the net present value per Dth for the term of the bid according to the following formula:

$$\text{Present Value per} = P * R * \frac{(1 + i)^n - 1}{i (1 + i)^n}$$

where:

P = percent of the rate or charge that the Replacement Shipper is willing to pay.

R = Rate or charge calculated as: The maximum authorized reservation charge (or a volumetric equivalent of the maximum reservation charge applicable to the Parcel on a one hundred percent (100%) load factor basis) in effect at the time of the bid for service from the same receipt point to the same delivery point under the Releasing Shipper's rate schedule.

i = FERC's annual interest rate divided by 12.

n = number of periods for which the bidder wishes to contract, not to exceed the maximum periods to be released by the Releasing Shipper. For releases greater than or equal to one (1) month, the period is the number of months. For releases less than one (1) month the period is the number of days.

A bid queue will be maintained for each individual Parcel.

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GENERAL TERMS AND CONDITIONS OF SERVICE
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19. CAPACITY RELEASE (Continued)

19.7 Allocation of Parcels (Continued)

(a) Primary Allocation (Continued)

Option 3 - Net Revenue. Bids will be given priority based on the net revenue for the term of the bid.

If Releasing Shipper does not specify an option for determining best bid, Option 2 will be the default option used.

Under all options, Transporter will evaluate and rank all bids for Parcels.

(b) Right of First Refusal

In the case of a Prearranged Shipper's bid for a Parcel with a term equal to one (1) month or greater, at a rate other than at the highest valued bid, pursuant to the methodology specified by the Releasing Shipper, if the bid submitted by a subsequent Replacement Shipper exceeds the value of the Prearranged Shipper's bid, the Prearranged Shipper will be allowed to match the higher valued bid. The Prearranged Shipper will be allowed a match period, as specified in Paragraph 19.8, to match the higher valued bid, otherwise, the allocation will be awarded to subsequent Replacement Shipper(s) in accordance with the primary and secondary allocation mechanisms.

(c) Secondary Allocation

To the extent there is more than one Replacement Shipper submitting a winning bid, the Parcel shall be allocated based on one of the following tie-breaker methodologies to be selected by the Releasing Shipper: pro rata, lottery, order of submission (first come/first serve), or by a method designated by the Releasing Shipper. Releasing Shipper's method must be objectively stated, applicable to all bidders, nondiscriminatory, administratively feasible as determined by Transporter and in accordance with Transporter's FERC Gas Tariff.

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GENERAL TERMS AND CONDITIONS OF SERVICE
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19. CAPACITY RELEASE (Continued)

19.7 Allocation of Parcels (Continued)

(d) Confirmation of Allocation

Upon each completion of an allocation, the successful Replacement Shipper(s) will be notified of the terms under which they have contracted for the awarded Parcel. The notification will be provided in the form of an e-mail to the Replacement Shipper(s). Such notification will be sent within one (1) hour of completion of the allocation. The notice will include the Replacement Shipper's Rate Schedule FTS-1 service agreement number and the pertinent terms of the Replacement Shipper's bid as well as any additional terms specified by the Releasing Shipper. The Releasing Shipper will be notified of the terms under which its Parcel has been awarded. The notification will be provided in the form of an email to the Releasing Shipper. The notification will include all of the pertinent terms of the Releasing Shipper's Parcel.

(e) Purging of Expired Bids

All unfulfilled bids, as well as any unfulfilled portions of bids, which receive a partial award, will become ineffective as of the completion of bid reconciliation and the close of the Bid Period. Each unsuccessful Replacement Shipper that has bid shall receive a notice by email indicating the ineffectiveness of the bid.

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GENERAL TERMS AND CONDITIONS OF SERVICE
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19. CAPACITY RELEASE (Continued)

19.8 Scheduling of Parcels, Bids and Notifications

In accordance with NAESB Standard 5.3.2, Version 1.7, the following timelines apply to capacity release transactions.

For biddable releases (less than one (1) year):

- offers should be tendered by 12:00 P.M. CCT (10:00 A.M. PCT) on a Business Day;
- open season ends no later than 1:00 P.M. CCT (11:00 A.M. PCT) on a Business Day (evaluation period begins at 1:00 P.M. CCT (11:00 A.M. PCT) during which contingency is eliminated, determination of best bid is made, and ties are broken);
- evaluation period ends and award posting if no match period is required at 2:00 P.M. CCT (12:00 P.M. PCT);
- match or award is communicated by 2:00 P.M. CCT (12:00 P.M. PCT);
- match response by 2:30 P.M. CCT (12:30 P.M. PCT);
- where match is required, award posting by 3:00 P.M. CCT (1:00 P.M. PCT);
- contract issued within one (1) hour of award posting (with a new contract number, when applicable); nomination possible beginning at the next available nomination cycle for the effective date of the contract.

For biddable releases (one (1) year or more):

- offers should be tendered by 12:00 P.M. CCT (10:00 A.M. PCT) four (4) Business Days before award;
- open season ends no later than 1:00 P.M. CCT (11:00 A.M. PCT) on the Business Day before timely nominations are due (open season is three (3) Business Days);
- evaluation period begins at 1:00 P.M. CCT (11:00 A.M. PCT) during which contingency is eliminated, determination of best bid is made, and ties are broken;
- evaluation period ends and award posting if no match is required at 2:00 P.M. CCT (12:00 P.M. PCT);
- match or award is communicated by 2:00 P.M. CCT (12:00 P.M. PCT);
- match response by 2:30 P.M. CCT (12:30 P.M. PCT);
- where match required, award posting by 3:00 P.M. CCT (1:00 P.M. PCT);
- contract issued within one (1) hour of award posting (with a new contract number, when applicable); nomination possible beginning at the next available nomination cycle for the effective date of the contract.

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GENERAL TERMS AND CONDITIONS OF SERVICE
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19. CAPACITY RELEASE (Continued)

19.8 Scheduling of Parcels, Bids and Notifications (Continued)

For non-biddable releases:

Timely Cycle

- posting of prearranged deals not subject to bid are due by 10:30 A.M. CCT (8:30 A.M. PCT);
- contract issued within one (1) hour of award posting (with a new contract number, when applicable); nomination possible beginning at the next available nomination cycle for the effective date of the contract.

Evening Cycle

- posting of prearranged deals not subject to bid are due by 5:00 P.M. CCT (3:00 P.M. PCT);
- contract issued within one (1) hour of award posting (with a new contract number, when applicable); nomination possible beginning at the next available nomination cycle for the effective date of the contract.

Intraday 1 Cycle

- posting of prearranged deals not subject to bid are due by 9:00 A.M. CCT (7:00 A.M. PCT);
- contract issued within one (1) hour of award posting (with a new contract number, when applicable); nomination possible beginning at the next available nomination cycle for the effective date of the contract.

Intraday 2 Cycle

- posting of prearranged deals not subject to bid are due by 4:00 P.M. CCT (2:00 P.M. PCT);
- contract issued within one (1) hour of award posting (with a new contract number, when applicable); nomination possible beginning at the next available nomination cycle for the effective date of the contract.

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GENERAL TERMS AND CONDITIONS OF SERVICE
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19. CAPACITY RELEASE (Continued)

19.9 Capacity Recall

Releasing Shipper(s) may, to the extent permitted as a condition of the capacity release, recall released capacity (scheduled or unscheduled) at the Timely Nomination cycle and the Evening Nomination cycle, and recall unscheduled released capacity at the Intra-Day 1 and Intra-Day 2 Nomination cycles by providing notice to the Transporter by the following times for each cycle: 8:00 A.M. CCT (6:00 A.M. PCT) for the Timely Nomination cycle; 5:00 P.M. CCT (3:00 P.M. PCT) for the Evening Nomination cycle; 8:00 A.M. CCT (6:00 A.M. PCT) for the Intra-Day 1 Nomination Cycle; and 3:00 P.M. CCT (1:00 P.M. PCT) for the Intra-Day 2 Nomination cycle. In accordance with NAESB Standard 5.3.55, Version 1.7, recall quantities should be expressed in terms of adjusted total released capacity entitlements based upon the Elapsed Prorata Capacity. Notification to Replacement Shippers shall be provided by Transporter within one (1) hour of receipt of recall notification.

19.10 Capacity Reput

In accordance with NAESB Standard 5.3.7, Version 1.7, capacity that has been recalled by the Releasing Shipper may be reput to the Replacement Shipper in accordance with the reput provisions of the release (See Paragraph 19.3(o)). Shipper seeking to reput capacity shall notify Transporter of the reput by 8:00 A.M. CCT (6:00 A.M. PCT). It is the Releasing Shipper's obligation to notify and secure any necessary agreement by the Replacement Shipper to accept the reput under the term of the release prior to notifying Transporter.

19.11 In accordance with NAESB Standard 5.3.8, Version 1.7, reput method and rights should be specified at the time of the deal. Reput method and rights are individually negotiated between the Releasing Shipper and Replacement Shipper.

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GENERAL TERMS AND CONDITIONS OF SERVICE
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19. CAPACITY RELEASE (Continued)

19.12 Crediting, Billing Adjustments and Refunds

(a) Eligibility

Transporter shall provide revenue credits to any Releasing Shipper which releases capacity to a Replacement Shipper pursuant to the provisions of Paragraph 19. Transporter and Shipper may, in connection with a Negotiated Rate Agreement under a firm rate schedule, agree upon payment obligations and crediting mechanisms in the event of a capacity release that varies from, or are in addition to, those set forth in this Paragraph 19.12; provided, however, that terms and conditions of service may not be negotiated.

(b) Monthly Crediting Procedure

Revenue credits for released capacity shall be credited monthly as an offset to a Releasing Shipper's reservation charge (or the volumetric equivalent of the reservation charge on a one hundred percent (100%) load-factor basis applicable to the Releasing Shipper. This shall also be referred to in this Paragraph 19.12 as the equivalent volumetric rate) payable to Transporter under the applicable rate schedule for the service that has been released. Transporter shall credit each month to the Releasing Shipper's account one hundred percent (100%) of the revenues from the charges invoiced to the Replacement Shipper(s) for the reservation charge (or equivalent volumetric rate).

(c) Billing Adjustments

Transporter shall apply the revenues received from Replacement Shippers first to the reservation charge (or equivalent volumetric rate). Should Replacement shipper default on payment to Transporter of the reservation charge (or equivalent volumetric rate) Transporter shall bill Releasing Shipper for such unpaid charges and apply interest to such adjustments in accordance with the provisions of Paragraph 7 of these General Terms and Conditions of Service.

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19. CAPACITY RELEASE (Continued)

19.12 Crediting, Billing Adjustments and Refunds (Continued)

(d) Excess Revenue Credits

Releasing Shipper is entitled to excess revenue credits resulting when the reservation charge (or equivalent volumetric rate) revenues actually received by Transporter from the Replacement Shipper(s) exceed the reservation charge (or equivalent volumetric rate) revenues which would have been received by Transporter from the Releasing Shipper if capacity was not released.

(e) Refunds

Transporter shall track all changes in its rates approved by the Commission. In the event the Commission orders refunds of any such rates charged by Transporter and previously approved, Transporter shall make corresponding refunds to all affected Shippers including Shippers receiving capacity release service.

In such instances when rates to Replacement Shippers are reduced, Transporter shall make corresponding adjustments to the crediting of revenues to Releasing Shippers for the period such refunds are payable.

(f) Non-Payment or Default by Releasing Shipper

In the event Releasing Shipper's Transportation Service Agreement is terminated due to non-payment or credit noncompliance, and notice of termination has been provided to Replacement Shipper(s) as discussed in Paragraphs 7 and 12 of these General Terms and Conditions of Service, a Replacement Shipper that currently holds temporary release capacity has the right to elect to contract with Transporter at the Replacement Shipper's MDQ for the remaining term of its release contract and at the lesser of (1) the Releasing Shipper's original contract rate, or (2) the maximum recourse rate, provided that the Replacement Shipper meets Transporter's creditworthiness standards for Firm Transportation Service.

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GENERAL TERMS AND CONDITIONS OF SERVICE
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19. CAPACITY RELEASE (Continued)

19.12 Crediting, Billing Adjustments and Refunds (Continued)

(f) Non-Payment or Default by Releasing Shipper (Continued)

Transporter shall designate that the Election Period for Replacement Shipper(s) will be a minimum of one (1) business day for release capacity held for up to one (1) month; a minimum of three (3) business days for release capacity held for greater than one (1) month but less than one (1) year; and a minimum of five (5) business days for release capacity held for one (1) year or more.

If a Replacement Shipper does not elect to contract with Transporter at its replacement MDQ for the remaining term of its release contract and at the rate level that the Releasing Shipper originally contracted for, Transporter shall have the right to terminate the Replacement Shipper's Transportation Service Agreement and offer such capacity through an open season posting that will subject the capacity to competitive bidding. Transporter shall provide fifteen (15) days notice to Replacement Shipper(s) and the Commission that service will terminate pursuant to this paragraph. In the event Transporter terminates service, Transporter may exercise all remedies available to it hereunder, at law or in equity.

Replacement Shippers with prospective claims to temporary release capacity where the temporary release occurs at least one (1) year following the termination of the Releasing Shipper's contract will not have rights to such capacity. Prospective claims to permanent releases of capacity will be honored to the extent that a Replacement Shipper meets Transporter's creditworthiness standards for Firm Transportation Service.

19.13 Adoption of NAESB Capacity Release Standards

The following NAESB Standards are adopted by, and clarify, the capacity release provisions set forth in this Paragraph 19. Unless otherwise specified, all standards are Version 1.7:

5.3.1; 5.3.4; 5.3.5; 5.3.9; 5.3.11; 5.3.12; 5.3.16; and 5.3.19

(Continued)

Reserved For Future Use

GENERAL TERMS AND CONDITIONS OF SERVICE
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20. NOTICE OF CHANGES IN OPERATING CONDITIONS

Transporter and Shipper shall each ensure that the other is notified from time to time as necessary of expected changes in the rates of delivery or receipt of gas, or in the pressures or other operating conditions, and the reason for such expected changes, so that they may be accommodated when they occur.

21. PLANNED TRANSPORTER CAPACITY CURTAILMENTS AND INTERRUPTIONS

- 21.1 When Transporter needs to temporarily curtail or interrupt service to any Shipper hereunder for the purpose of making planned alterations or repairs, Transporter shall give Shipper as much notice as possible of the process so that each Shipper's firm transportation requirements are taken into account in the planning process.
- 21.2 In the spring of each year Transporter shall publish on its Internet website a schedule of planned major maintenance and repairs which affect system capacity. The schedule shall show the estimated delivery point capacity for the next twelve (12) months.
- 21.3 On a daily basis Transporter shall post, on its Internet website capacity for each forthcoming Gas Day plus the estimated capacity for the next two (2) Gas Days.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

22. FLEXIBLE RECEIPT AND DELIVERY POINTS

22.1 Firm Service

(a) Addition of a Receipt Point

Any firm Shipper receiving service under Part 284 of the Commission's regulations is entitled to use the receipt point specified in its service agreement as a primary receipt point. A firm Shipper may add a secondary receipt point at any time during the life of the contract.

To the extent additional meter station capacity or other facilities are required to effect the receipt point change, Transporter will construct the additional capacity consistent with Paragraph 25.

(b) Changing a Receipt Point

A firm Shipper may change primary receipt points to a different receipt point provided sufficient receipt point capacity exists at the receiving meter station and subject to any operating constraints. To the extent additional meter station capacity or other facilities are required to effect the receipt point change, Transporter will construct the additional capacity at the firm Shipper's expense consistent with Paragraph 25.

(c) Addition of a Delivery Point

Each firm Shipper is entitled to an allocation of its MDQ to a delivery point(s) as its primary delivery point(s).

A firm Shipper may add secondary delivery points at any time during the life of the contract. To the extent additional meter station capacity is required to effect the delivery point(s) change, and subject to any operating constraints Transporter will construct the additional capacity consistent with Paragraph 25.

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GENERAL TERMS AND CONDITIONS OF SERVICE
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22. FLEXIBLE RECEIPT AND DELIVERY POINTS (Continued)

22.1 Firm Service (Continued)

(d) Changing a Delivery Point

A firm Shipper may change primary delivery points to a different delivery point. A firm shipper may not change its Primary Delivery Point to a location that would change the direction of flow of the Shipper's Primary Path as defined in Paragraph 1.27 of this FERC Gas Tariff, although a Firm Shipper may initiate Reverse Path transactions which rely upon secondary point rights. Changes in delivery points will be permitted provided sufficient delivery point capacity exists at the delivery meter station. To the extent additional meter station and subject to any operating constraints capacity is required to effect the delivery point change, Transporter will construct the additional capacity at the firm Shipper's expense consistent with Paragraph 25.

(e) Returning to a Former Receipt or Delivery Point

A Firm Shipper that changes a Receipt or Delivery Point in accordance with this Paragraph 22 or that reacquires capacity that the Shipper had released shall be entitled to return to its original Receipt or Delivery Points provided sufficient capacity exists at such point and subject to any operating constraints. To the extent additional facilities are necessary to effectuate such a return, Transporter will construct additional capacity at the Firm Shipper's expense consistent with Paragraph 25.

22.2 Interruptible Service

An Interruptible Shipper may change receipt or delivery points by amending its contract.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

23. FORCE MAJEURE

- 23.1 If either party shall fail to perform any obligation imposed upon it by these General Terms and Conditions of Service or by an executed Transportation Service Agreement, and such failure shall be caused, or materially contributed to, by force majeure, such failure shall be deemed not to be a breach of the obligation of such party, but such party shall use reasonable diligence to put itself in a position to carry out its obligations. Force majeure means any acts of God, strikes, lockouts, or other industrial disturbances, acts of public enemies, sabotage, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, floods, storms, fires, washouts, extreme heat, cold or freezing weather, arrests and restraints of rulers and people, civil disturbances, explosions, breakage of or accident to machinery or lines of pipe, hydrate obstructions of lines of pipe, inability to obtain pipe, materials or equipment, legislative, administrative or judicial action which has been resisted in good faith by all reasonable legal means, any acts, omissions or causes whether of the kind herein enumerated or otherwise not reasonably within the control of the party invoking this paragraph and which by the exercise of due diligence such party could not have prevented, the necessity for making repairs to, replacing, or reconditioning machinery, equipment, or pipelines not resulting from the fault or negligence of the party invoking this paragraph. Nothing contained herein shall be construed to require either party to settle a strike or lockout by acceding against its judgment to the demands of the opposing parties.
- 23.2 No such cause as described in Paragraph 23.1 affecting the performance of either party shall continue to relieve such party from its obligation after the expiration of a reasonable period of time within which by the use of due diligence such party could have remedied the situation preventing its performance, nor shall any such cause relieve either party from any obligation unless such party shall give notice thereof in writing to the other party with reasonable promptness; and like notice shall be given upon termination of such cause.
- 23.3 No cause whatsoever, including without limitation the failure of Transporter to perform including the causes specified in Paragraph 23.1, shall relieve Shipper from its obligations to make payments due, including the payments of reservation charges for the duration of such cause.

GENERAL TERMS AND CONDITIONS OF SERVICE
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24. NEGOTIATED RATES

24.1 Availability. Notwithstanding anything to the contrary contained in this Tariff, including the provisions of the rate schedules contained herein, Transporter and Shipper may mutually agree to a Negotiated Rate under any Agreement, provided that Shipper has not acquired its capacity on a temporary basis under the capacity release provisions of Paragraph 19 of these General Terms and Conditions of Service. If a portion of the capacity under any existing Agreement is agreed to be priced at Negotiated Rates, the existing maximum or discounted tariff rates will continue to apply to the capacity not subject to the Negotiated Rates. As recourse to the Negotiated Rates, any Shipper may receive service at applicable maximum tariff rates, including surcharges. The Negotiated Rate may be less than, equal to, or greater than the maximum applicable tariff rate; may be based on a rate design other than straight-fixed variable; and may include a minimum quantity. Transporter's Recourse Rates shall be available to any Shipper that does not agree to a Negotiated Rate. Recourse rates are set forth on the Rate Sheets within this Tariff.

Transporter and a Shipper may agree to a Negotiated Rate for the entire term of a Transportation Service Agreement, or may agree to a negotiated rate for some portion of the term of a Transportation Agreement. Transporter and Shipper may agree to apply the Negotiated Rate to all or a portion of capacity under Shipper's Firm Transportation Service Agreement.

During the period a Negotiated Rate is in place, the Negotiated Rate shall govern and apply to the Shipper's service under the Negotiated Rate Agreement and the otherwise applicable rate, rate component, charge or credit which the parties have agreed to replace with the Negotiated Rate shall not apply to, or be available to, the Shipper. Only those rates, rate components, charges or credits identified by Transporter and Shipper in writing as being superseded by a Negotiated Rate shall be ineffective during the period that the Negotiated Rate is effective; all other rates, rate components, charges, or credits prescribed, required, established or imposed by this Rate Schedule or Tariff shall remain in effect. At the end of the period during which the Negotiated Rate is in effect, the otherwise applicable tariff rates or charges shall govern any service provided to Shipper.

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GENERAL TERMS AND CONDITIONS OF SERVICE
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24. NEGOTIATED RATES (Continued)

- 24.2 Filing requirement. Unless Transporter executes and files a non-conforming agreement, Transporter will submit to the Commission on or before the commencement of service under a Negotiated Rate Contract a tariff sheet stating the exact legal name of the Shipper, Negotiated Rate, the rate schedule, the receipt and delivery points, the contract quantities and, where applicable, the Negotiated Rate Formula underlying a Negotiated Rate for any Negotiated Rate Agreement. The filing will contain a provision that the Negotiated Rate Agreement does not deviate in any material respect from the Form of Agreement in the tariff for the applicable rate schedule.
- 24.3 Rate Treatment. Transporter shall have the right to seek in future general rate proceedings discount-type adjustments in the design of its rates related to Negotiated Rate Agreements that were converted from pre-existing discount Agreements to Negotiated Rate Agreements. In those situations, Transporter may seek a discount-type adjustment based upon the greater of: (a) the Negotiated Rate revenue received; or (b) the discounted tariff rate revenues which otherwise would have been received.
- 24.4 Limitations. This Paragraph 24 does not authorize Transporter to negotiate terms and conditions of service.
- 24.5 Capacity Release. Negotiated Rates do not apply as the price cap for capacity release transactions. Further, capacity release bids must conform to Transporter's applicable tariff rates, as further described in Paragraph 19.6(b)(iv) of these General Terms and Conditions of Service.
- 24.6 Accounting Treatment. Transporter shall maintain separate records for all revenues associated with Negotiated Rate transactions. Transactions related to Negotiated Rate Agreements, which originated as a pre-existing discounted service and were subsequently converted, will be recorded separately from those originating as Negotiated Rate Agreements. Transporter shall record each volume transported, billing determinants, rate component, surcharge, and the revenue associated with its Negotiated Rates so that this information can be filed, separately identified, and separately totaled, as part of and in the format of Statements G, I, and J in Transporter's next general rate change application.

Reserved For Future Use

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25. FACILITIES CONSTRUCTION AND INTERCONNECTION POLICY

25.1 Transporter shall not be obligated to install additional facilities to provide service under this FERC Gas Tariff provided, however, Transporter may install or Shipper may pay all of the expenses incurred for installing additional facilities on a nondiscriminatory basis and under terms that are mutually agreeable. In the event Transporter incurs the cost of installing additional facilities on behalf of a Shipper, Shipper shall pay, in addition to the rate(s) stated in the applicable rate schedule, the prorated (based on Transportation Contract Demand) cost of service attributable to any such additional facilities until such time as a different allocation procedure is specified by Commission order.

25.2 Interconnect Policy. Transporter will allow any entity to interconnect with its facilities on a nondiscriminatory basis, subject to the following conditions:

First, the party seeking the interconnection must be willing to bear the costs of the construction if Transporter performs that task. In the alternative, the party seeking the interconnection could construct the facilities itself in compliance with the pipeline's technical requirements.

Second, the proposed interconnection must not adversely affect the pipeline's operations.

Third, the proposed interconnection and any resulting transportation must not diminish service to Transporter's existing customers.

Fourth, the proposed interconnection must not cause Transporter to be in violation of any applicable environmental or safety laws or regulations with respect to the facilities required to establish an interconnection with Transporter's existing facilities.

Fifth, the proposed interconnection must not cause Transporter to be in violation of its right-of-way agreements or any other contractual obligations with respect to the interconnection facilities.

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GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

25. FACILITIES CONSTRUCTION AND INTERCONNECTION POLICY (Continued)

25.3 Operational Balancing Agreements. For the purposes of minimizing operational conflicts between various natural gas facilities with respect to the delivery of gas to and from Transporter's facilities, Transporter may negotiate and execute Operational Balancing Agreements ("OBAs") with appropriate parties that operate natural gas facilities interconnecting with Transporter's system. Such OBAs shall specify the gas custody transfer procedures to be followed by Transporter and the interconnected party for the confirmation of scheduled quantities to be received by Transporter at Receipt Point(s) and delivered by Transporter at Delivery Point(s). Such OBA will provide that any variance between actual quantities and confirmed nomination quantities at the point where the OBA is in place for any Day shall be resolved pursuant to the terms of the OBA, and the interconnected party shall not be subject to balancing or scheduling penalties. OBAs are mandatory at all interconnections between Transporter and other interstate or intrastate pipelines. Transporter may, but shall not be required to enter into an OBA with other interconnected parties.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

26. WARRANTY OF ELIGIBILITY FOR TRANSPORTATION

Any Shipper transporting gas on the Transporter system under this FERC Gas Tariff, Original Volume No. 1 warrants for itself, its successors and assigns, that it will have at the time of delivery of the gas to Transporter hereunder good title to such gas and that it will retain good title to such gas during the time the gas is in possession of Transporter. Shipper further warrants for itself, its successors and assigns that all gas delivered to Transporter for transportation hereunder is eligible for the requested transportation in interstate commerce under applicable rules, regulations or orders of the FERC, or other agency having jurisdiction. Shipper will indemnify Transporter and hold it harmless from all suits, actions, damages, costs, losses, expenses (including reasonable attorney fees) and costs connected with regulatory proceedings, arising from breach of this warranty.

27. POSSESSION OF GAS AND RESPONSIBILITY

Transporter shall be deemed to be in control and possession of, and responsible for, all gas delivered from the time that such gas is received by it at the point of receipt to the time that it is delivered at the point of delivery.

28. INDEMNIFICATION

Shipper agrees to indemnify and hold harmless Transporter, its officers, agents, employees and contractors against any liability, loss or damage whatsoever occurring in connection with or relating in any way to the executed Transportation Service Agreement, including costs and attorneys' fees, whether or not such liability, loss or damage results from any demand, claim, action, cause of action, or suit brought by Shipper or by any person, association or entity, public or private, that is not a party to the executed Transportation Service Agreement, where such liability, loss or damage is suffered by Transporter, its officers, agents, employees or contractors as a direct or indirect result of any breach of the executed Transportation Service Agreement or sole or concurrent negligence or gross negligence or other tortuous act(s) or commission(s) by Shipper, its officers, agents, employees or contractors.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

29. ARBITRATION

Any arbitration provided for or agreed to by Shipper and Transporter shall be conducted in accordance with the following procedures and principles: The arbitration shall be held under the auspices of the Arbitration Regulations of the International Arbitration Court of the International Chamber of Commerce. Any arbitration shall be conducted in the English language and shall occur in Portland, Oregon. The decision by the arbitrators on the questions submitted shall be in writing and become part of the agreement between the parties. No arbitration panel shall maintain continuing jurisdiction over the parties or the agreement after the decision has been rendered. Upon the written demand of either Transporter or Shipper and within ten (10) days from the date of such demand, each entity shall appoint an arbitrator and the two arbitrators so appointed shall promptly thereafter appoint a third. Unless otherwise determined by the arbitrators, the fees and expenses of the arbitrator named for each party shall be paid by that party and the fees and expenses of the third arbitrator shall be paid in equal proportion by both Transporter and Shipper.

30. GOVERNMENTAL REGULATIONS

These General Terms and Conditions of Service, the rate schedules to which they apply, and any executed Transportation Service Agreement are subject to valid laws, orders, rules and regulations of duly constituted authorities having jurisdiction.

31. WAIVER OF DEFAULT

No waiver by either Transporter or Shipper of any default by the other in the performance of any provisions of an executed Transportation Service Agreement shall operate as a waiver of any continuing or future default, whether of a like or different character.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

32. ASSIGNABILITY

An executed Transportation Service Agreement shall bind and inure to the respective successors and assignees of Transporter and Shipper thereto, but no assignment shall release either party thereto from such party's obligations without the written consent of the other party, which consent shall not be unreasonably withheld; provided, however, nothing contained herein shall give Shipper the right to reassign or broker its right to ship the quantities of gas specified in the Transportation Service Agreement on Transporter's system to others. Further, nothing contained herein shall prevent either party from pledging, mortgaging or assigning its rights as security for its indebtedness and either party may assign to the pledgee or mortgagee (or to a trustee for the holder of such indebtedness) any money due or to become due under any service agreement.

33. EFFECT OF HEADINGS

The headings used throughout these General Terms and Conditions of Service, the rate schedules to which they apply, and the executed Transportation Service Agreements are inserted for reference purposes only and are not to be considered or taken into account in construing the terms and provisions of any paragraph nor to be deemed in any way to qualify, modify or explain the effects of any such terms or provisions.

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

34. COMPLAINT PROCEDURES (Continued)

34.1 Any Shipper or potential Shipper may register a complaint regarding requested or provided transportation service. The complaint may be communicated to Transporter primarily by use of Transporter's Internet website and secondarily either orally, and/or in writing. Oral complaints should be made to Transporter's Director of Gas Control and Gas Transportation Services, telephone (503) 833-4300. Written complaints should be sent via registered or certified mail, facsimile (503) 833-4396), or hand delivered to:

Palomar Gas Transmission, LLC
1400 SW Fifth Avenue, Suite 900
Portland, OR 97201
Attention: Director of Gas Control and Gas Transportation Services

Oral, written and Internet website-submitted complaints must contain the following minimum information:

- Shipper or potential Shipper's name, address, and FAX and telephone numbers;
- Shipper or potential Shipper's contact representative;
- A clear, concise statement of the complaint.

Each complaint will be recorded in Transporter's Transportation Service Complaint Log maintained by Transporter's Gas Transportation and Services Department located in Portland, Oregon. Complaints will be logged by date and time received by Transporter.

34.2 Transporter will initially respond to each complaint within forty-eight (48) hours after Transporter receives it. Transporter will provide a written response to each complaint within thirty (30) days after Transporter receives it. Transporter's written response will be sent to Shipper or potential Shipper by certified or registered mail. If the complaint was filed via the Internet website, then Transporter shall respond via the Internet website. A copy of all complaints will be filed in the Transportation Service Complaint Log.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

35. EQUALITY OF TRANSPORTATION SERVICE

Transporter hereby states that the terms and conditions of service for all transportation services provided in Transporter's FERC Gas Tariff, Original Volume No. 1, are provided on a basis that is equal in quality for all Shippers. Furthermore, no preference shall be accorded to any affiliate of Transporter in transportation services provided by Transporter.

36. ELECTRONIC COMMUNICATIONS

- 36.1 Transporter maintains an Internet website at www.palomargastransmission.com. Any entity may access this site to review informational postings concerning Transporter's system.
- 36.2 Electronic Transactions. Any entity desiring to engage in electronic transactions with Transporter through its Internet website shall first execute an electronic transaction agreement. Copies of these agreements may be obtained by contacting Transporter's Gas Transportation Department at 503-833-4300.
- 36.3 Electronic Data Interface: Transporter shall maintain an electronic data interface ("EDI") as required by the standards for electronic delivery mechanisms promulgated by NAESB and incorporated in Paragraph 40 of this Tariff. EDI is available to any party with access to compatible equipment for electronic communication and transmission of data in accordance with the NAESB standards. A party desiring to utilize this EDI interface first shall execute an Electronic Data Interchange Agreement with Transporter. Such Agreement may be either the Standard Form Agreement developed by the NAESB or an alternate Agreement as may be agreed to by the parties. Access to Transporter's EDI system is obtained by contacting Transporter's Gas Transportation Department at 503-833-4300.

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

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Issued on: Effective on:

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

38. SALES OF EXCESS GAS

Transporter may from time to time purchase or sell gas on an interruptible basis as necessary to manage system pressure and maintain system integrity.

39. DISCOUNT POLICY

39.1 Transporter may from time to time offer a discount to the maximum applicable rate for service under any service agreement governed by this FERC Gas Tariff.

39.2 Types of Discounts

From time to time, Transporter and Shipper may agree in writing on a level of discount of the otherwise applicable rates and charges in addition to a basic discount from the maximum rates. For example, Transporter may provide a specific discount rate based on:

- (a) achievement of specified quantity levels (including quantity levels above, below, or equal to a specified level);
- (b) specified time periods;
- (c) specified points of receipt, points of delivery, supply areas, defined geographic areas, or transportation paths; or
- (d) a specified relationship to the quantities actually transported (i.e., that the rates shall be adjusted in a specified relationship to the quantities transported).
- (e) a formula including, but not limited to, published index prices for specific receipt and/or delivery points or other agreed-upon published pricing reference points for price determination (such discounted rate may be based upon the differential between published index prices or arrived at by formula). Such discounted rate: (1) shall not change the underlying rate design; (2) shall not include any minimum bill or minimum take provision that has the effect of guaranteeing revenue; and (3) shall, in each service agreement entered into pursuant to Section 39.2(e), define the rate component(s) to be discounted.

In all circumstances the discounted rate shall be between the maximum rate and the minimum rate applicable to the service provided.

(Continued)

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GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

40. GAS INDUSTRY STANDARDS

In addition to the NAESB standards incorporated within the text of other provisions of this FERC Gas Tariff, Transporter incorporates by reference the following standards by level of compliance:

NAESB Version 1.5

1.3.63; 1.4.6; 5.4.1; 5.4.2; 5.4.3; 5.4.4; 5.4.7; 5.4.8; 5.4.9; 5.4.13; 5.4.14; 5.4.15; 5.4.18; and 5.4.19.

NAESB Version 1.6

1.4.1; 1.4.4; 1.4.5; 1.4.6; and 1.4.7.

2004 Annual Plan Item 2 FERC Order 2004

4.3.16; 4.3.18; 4.3.22; 4.3.23; 4.3.25; and 7.3.35.

2005 Annual Plan Item 8 FERC Order 2004

4.3.23

Recommendation R03035A

4.3.23; 4.3.89; 4.3.90; 4.3.91; and 4.3.92

NAESB Version 1.7

0.3.1; 0.3.2; 0.3.3; 0.3.4; 0.3.5; 0.3.6; 0.3.7; 0.3.8; 0.3.9; 0.3.10; 1.2.13; 1.2.14; 1.2.15; 1.2.16; 1.2.17; 1.2.18; 1.2.19; 1.3.3; 1.3.4; 1.3.15; 1.3.17; 1.3.18; 1.3.20; 1.3.21; 1.3.24; 1.3.25; 1.3.26; 1.3.27; 1.3.28; 1.3.29; 1.3.30; 1.3.31; 1.3.32; 1.3.33; 1.3.34; 1.3.35; 1.3.36; 1.3.37; 1.3.38; 1.3.39; 1.3.40; 1.3.41; 1.3.42; 1.3.43; 1.3.44; 1.3.45; 1.3.46; 1.3.47; 1.3.48; 1.3.49; 1.3.50; 1.3.51; 1.3.52; 1.3.53; 1.3.54; 1.3.55; 1.3.56; 1.3.57; 1.3.58; 1.3.59; 1.3.60; 1.3.61; 1.3.62; 1.3.64; 1.3.65; 1.3.66; 1.3.67; 1.3.68; 1.3.69; 1.3.70; 1.3.71; 1.3.72; 1.3.73; 1.3.74; 1.3.75; 1.3.76; 1.3.77; 1.3.79; 1.4.2; 1.4.3; 2.1.5; 2.2.2; 2.2.3; 2.3.1; 2.3.2; 2.3.3; 2.3.4; 2.3.5; 2.3.6; 2.3.8; 2.3.10; 2.3.12; 2.3.13; 2.3.15; 2.3.16; 2.3.17; 2.3.18; 2.3.19; 2.3.20; 2.3.21; 2.3.22; 2.3.23; 2.3.25; 2.3.26; 2.3.27; 2.3.28; 2.3.31; 2.3.32; 2.3.33; 2.3.34; 2.3.35; 2.3.40; 2.3.41; 2.3.42; 2.3.43; 2.3.44; 2.3.45; 2.3.46; 2.3.47; 2.3.48; 2.3.49; 2.3.50; 2.3.51; 2.3.52; 2.3.53; 2.3.54; 2.3.55; 2.3.56; 2.3.57; 2.3.58; 2.3.59; 2.3.60; 2.3.61; 2.3.62; 2.3.63; 2.3.64; 3.3.1; 3.3.2; 3.3.3; 3.3.4; 3.3.5; 3.3.6; 3.3.7; 3.3.8; 3.3.9; 3.3.10; 3.3.11; 3.3.12; 3.3.13; 3.3.16; 3.3.20; 3.3.21; 3.3.22; 3.3.23; 3.3.24; 3.3.25; 3.3.26; 4.2.20; 4.3.1; 4.3.2; 4.3.3; 4.3.5; 4.3.7; 4.3.8; 4.3.9; 4.3.10; 4.3.11; 4.3.12; 4.3.13; 4.3.14; 4.3.15; 4.3.17; 4.3.20; 4.3.22; 4.3.24; 4.3.26; 4.3.27; 4.3.28; 4.3.29; 4.3.30; 4.3.31; 4.3.32; 4.3.33; 4.3.34; 4.3.35; 4.3.36; 4.3.37; 4.3.38; 4.3.39; 4.3.40; 4.3.41; 4.3.42; 4.3.43; 4.3.44; 4.3.45; 4.3.46; 4.3.47; 4.3.48; 4.3.49; 4.3.50; 4.3.51; 4.3.52; 4.3.53; 4.3.54; 4.3.55; 4.3.56; 4.3.57; 4.3.58; 4.3.59; 4.3.60; 4.3.61;

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

40. GAS INDUSTRY STANDARDS (Continued)

NAESB Version 1.7 (Continued)

4.3.62; 4.3.64; 4.3.65; 4.3.66; 4.3.67; 4.3.68; 4.3.69; 4.3.70; 4.3.71;
4.3.72; 4.3.73; 4.3.74; 4.3.75; 4.3.76; 4.3.78; 4.3.79; 4.3.80; 4.3.81;
4.3.82; 4.3.83; 4.3.84; 4.3.85; 4.3.86; 4.3.87; 4.3.88; 5.3.10; 5.3.17;
5.3.18; 5.3.20; 5.3.21; 5.3.22; 5.3.23; 5.3.24; 5.3.25; 5.3.28; 5.3.29;
5.3.30; 5.3.31; 5.3.32; 5.3.33; 5.3.34; 5.3.35; 5.3.36; 5.3.37; 5.3.38;
5.3.39; 5.3.40; 5.3.41; 5.3.42; 5.3.43; 5.3.44; 5.3.45; 5.3.46; 5.3.47;
5.3.48; 5.3.49; 5.3.50; 5.3.51; 5.3.52; 5.3.53; 5.3.54; 5.3.56; 5.3.57;
5.3.58; 5.3.59; 5.3.60; 5.4.5; 5.4.6; 5.4.10; 5.4.11; 5.4.12; 5.4.16;
5.4.17; and 6.3.4.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

41. INFORMATIONAL POSTINGS

Transporter shall post on its Internet website its procedures for implementation of and compliance with the Commission's Standards of Conduct regulations. All information required to be posted pursuant to such regulations, including, but not limited to, organizational charts, information on shared facilities and shared operating personnel, discounts granted, and notices of waivers and/or exercises of discretion in the application of tariff provisions will be provided on Transporter's Internet website under "Informational Postings." Such information will be updated as required by applicable regulation(s) issued by the Commission.

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

42. RESERVATION OF CAPACITY FOR EXPANSION PROJECTS

Transporter may elect to reserve, for future expansion projects, unsubscribed firm capacity or capacity under expiring or terminating firm transportation agreements where such agreements do not carry a right of first refusal or where Shipper does not exercise its right of first refusal. Transporter may only reserve capacity for a future expansion project for which an open season has been held or will be held within one (1) year of the date that Transporter posts such capacity as being reserved. Capacity reserved under this Section may be reserved for up to one year prior to Transporter filing for certificate approval for the proposed expansion, and thereafter until such expansion is placed into service. Capacity that is reserved for a future expansion will be made available for transportation service on an interim basis up to the in-service date of the expansion project. For such interim service agreements, Transporter reserves the right to limit Shipper extension rights, including the right of first refusal, within the service agreement. Transporter will indicate in any open season posting of this capacity any limitations on extension rights that will apply to such interim transportation service.

Prior to reserving capacity for future expansion projects under this Section, the subject capacity must have first been made available pursuant to Section 9.1(c) of these Transportation General Terms and Conditions. Capacity that remains available after the posting and bidding procedure outlined in Section 9.1(c) may be reserved by Transporter by means of a posting on Transporter's Internet website that shall include:

- (a) A description of the expansion project for which the capacity will be reserved;
- (b) The total quantity of capacity to be reserved;
- (c) The location of the proposed reserved capacity on Transporter's system;
- (d) When Transporter anticipates holding an open season or otherwise posting the capacity for bidding in connection with the expansion project;
- (e) The projected in-service date of the expansion project; and

(Continued)

GENERAL TERMS AND CONDITIONS OF SERVICE
(Continued)

42. RESERVATION OF CAPACITY FOR EXPANSION PROJECTS (Continued)

- (f) On an ongoing basis, how much of the reserved capacity has been sold on a limited-term basis.

If capacity that is reserved for an expansion project is insufficient to fully meet the needs of expansion shippers, the expansion open season posting will include a non-binding solicitation for turnback capacity from Transporter's existing Shippers to serve the expansion project. Transporter shall post, in the Informational Postings section of its website, a non-binding solicitation for expansion project related turnback capacity no later than 90 days after the close of an expansion project's open season specifying the minimum term for a response to the solicitation.

Any capacity reserved for a project that does not go forward for any reason shall be reposted as generally available within 30 days of the date the capacity becomes available.

GENERAL TERMS AND CONDITIONS
(Continued)

43. ADJUSTMENT MECHANISM FOR FUEL, LINE LOSS, AND OTHER UNACCOUNTED FOR GAS PERCENTAGES

The effective fuel and line loss percentages under Rate Schedules FTS-1 and ITS-1 shall be adjusted downward to reflect reductions and may be adjusted upward to reflect increases in fuel usage and line loss in accordance with this Section 43.

43.1 Computation of Effective Fuel and Line Loss Percentage

The effective fuel and line loss percentage shall be the sum of the current fuel and line loss percentage and the fuel and line loss surcharge percentage.

43.2 The Current Fuel and Line Loss Percentage

- (a) For each month, the current fuel and line loss percentage shall be determined in accordance with Section 43.2(c) hereof. The current fuel and line loss shall be effective from the first day of such month and shall remain in effect for the month.
- (b) The current fuel and line loss percentage to be applicable for the month shall be posted on Transporter's Internet website not less than seven (7) days prior to the beginning of the month.
- (c) The current fuel and line loss percentage for the month shall be determined on the basis of (1) the estimated quantities of gas to be received by Transporter for the account of Shippers during such month and (2) the projected quantities of gas that shall be required for fuel and line loss during such month, adjusted for overrecoveries or underrecoveries of fuel and line loss during such month preceding the month in which the current fuel and line loss percentage is posted; provided, that the percentage shall not exceed the maximum current fuel and line loss percentage and shall not be less than the minimum current fuel and line loss percentage set forth on the Statement of Effective Rates and Charges.

(Continued)

GENERAL TERMS AND CONDITIONS

(Continued)

43. ADJUSTMENT MECHANISM FOR FUEL, LINE LOSS AND OTHER UNACCOUNTED FOR GAS PERCENTAGES (Continued)

43.2 The Current Fuel and Line Loss Percentage (Continued)

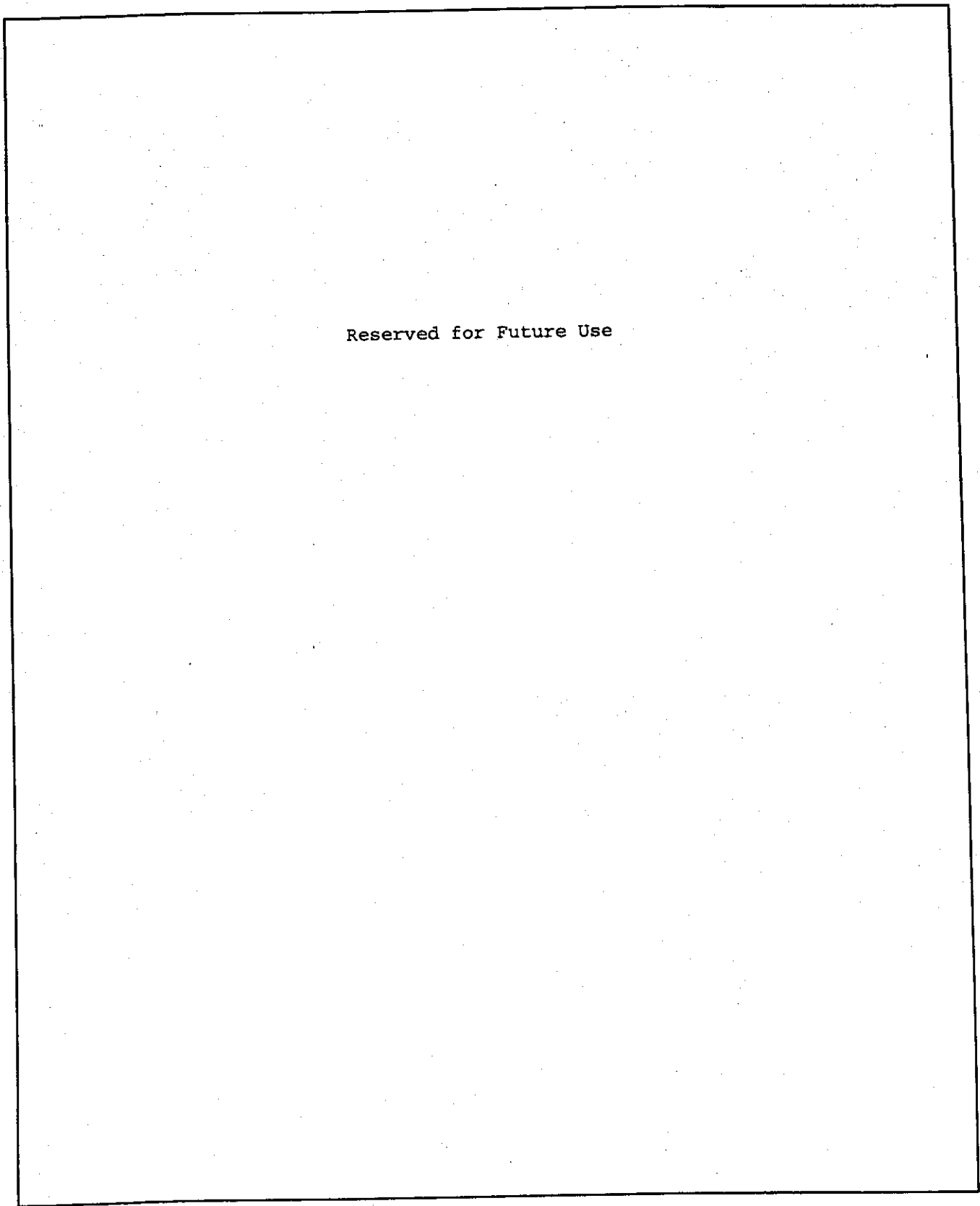
- (d) At least thirty (30) days prior to January 1, Transporter shall file with the Commission schedules supporting the current fuel and line loss percentages applicable during the twelve (12) months ending October 31.

43.3 The Fuel and Line Loss Surcharge Percentage

- (a) For each twelve (12) month period beginning January 1, the fuel and line loss surcharge percentage shall be determined in accordance with Section 43.3(c) hereof. The fuel and line loss surcharge percentage shall become effective on January 1 and shall remain in effect for the twelve (12) month period ending December 31.
- (b) At least thirty (30) days prior to each January 1, Transporter shall file with the Commission and post, as defined by Section 154.2(d) of the Commission's regulations, the fuel and line loss surcharge percentage, together with supporting documentation.
- (c) The fuel and line loss percentage shall be computed by quantifying Transporter's actual fuel and line loss over/under collection position at October 31 of each year and dividing the result by an estimate of the quantities of gas to be delivered by Transporter for the account of Shippers over the following twelve (12) month period. The over/under position will be quantified by (i) determining Transporter's actual fuel consumption and line losses for each month of the preceding twelve (12) month period and (ii) subtracting the quantities retained by Transporter during each month of the preceding twelve (12) month period. If the percentage so determined is +/- 0.0001%, the fuel and line loss surcharge percentage shall be deemed to be zero.

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Pro Forma Original Sheet No. 216



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FORM OF SERVICE AGREEMENT - FIRM TRANSPORTATION

FORM OF SERVICE AGREEMENT

APPLICABLE TO FIRM TRANSPORTATION SERVICE
OFFERED BY PALOMAR GAS TRANSMISSION, LLC
UNDER RATE SCHEDULE FTS-1

THIS AGREEMENT is made and entered into this ____ day of _____, 20__, by and between Palomar Gas Transmission, LLC, a Delaware Limited Liability Company (hereinafter referred to as "Transporter"), and

_____, a corporation existing under the laws of the State or Province of _____, (hereinafter referred to as "Shipper"), on behalf of _____ (hereinafter referred to as _____).

WHEREAS, Transporter owns and operates a natural gas pipeline transmission system which extends from a point of interconnection with the pipeline facilities of Gas Transmission Northwest Corporation near Madras, Oregon and terminating at a point of interconnection with the pipeline facilities of Northwest Natural Gas Company near Molalla, Oregon; and

WHEREAS, Shipper desires Transporter, on a firm basis, to transport certain quantities of natural gas from _____ to _____; and

WHEREAS, Transporter is willing to transport certain quantities of natural gas for Shipper, on a firm basis,

NOW, THEREFORE, the parties agree as follows:

I
Governmental Authority

- 1.1 This Firm Transportation Agreement ("Agreement") is made pursuant to the regulations of the Federal Energy Regulatory Commission (FERC) contained in 18 CFR Part 284, as amended from time to time.
- 1.2 This Agreement is subject to all valid legislation with respect to the subject matters hereof, either state or federal, and to all valid present and future decisions, orders, rules, regulations and ordinances of all duly constituted governmental authorities having jurisdiction.

(Continued)

FORM OF SERVICE AGREEMENT - FIRM TRANSPORTATION (Continued)

1.3 Shipper shall reimburse Transporter for any and all filing fees incurred by Transporter specific to Shipper in seeking governmental authorization for the initiation of any new service or extension, or termination of service under this Agreement and Rate Schedule FTS-1. Shipper shall reimburse Transporter for such fees at Transporter's designated office within ten (10) days of receipt of notice from Transporter that such fees are due and payable. Additionally, Shipper shall reimburse Transporter for any and all penalty fees or fines assessed Transporter caused by the negligence of Shipper in not obtaining all proper domestic and Canadian import/export licenses, surety bonds or any other documents and approvals related to the domestic exportation and subsequent Canadian importation of natural gas transported by Transporter hereunder.

II

Quantity of Gas and Priority of Service

- 2.1 Subject to the terms and provisions of this Agreement and Transporter's General Terms and Conditions of Service applicable to Rate Schedule FTS-1, daily receipts of gas by Transporter from Shipper at the point(s) of receipt shall be equal to daily Deliveries of gas by Transporter to Shipper at the point(s) of delivery; provided, however, Shipper shall deliver to Transporter an additional quantity of natural gas at the point(s) of receipt as compressor station fuel, line loss and unaccounted for gas as specified in Transporter's FERC Gas Tariff. Any limitations of the quantities to be received from each point of receipt and/or delivered to each point of delivery shall be as specified on the Exhibit A attached hereto.
- 2.2 The maximum quantities of gas to be delivered by Transporter for Shipper's account at the point(s) of delivery are set forth in Exhibit A.
- 2.3 In providing service to its existing or new customers, Transporter will use the priorities of service specified in Paragraph 13 of Transporter's General Terms and Conditions of Service on file with the FERC.
- 2.4 Prior to initiation of service, Shipper shall provide Transporter with any information required by the FERC, as well as all information identified in Transporter's General Terms and Conditions of Service applicable to Rate Schedule FTS-1.

(Continued)

FORM OF SERVICE AGREEMENT - FIRM TRANSPORTATION (Continued)

III
Term of Agreement

3.1 This Agreement shall become effective _____, and shall continue in full force and effect until _____.

Thereafter, this Agreement shall continue in full force and effect for an additional term of _____ unless _____ gives at least _____ prior written notice of its desire to terminate this Agreement. Under this evergreen provision, parties capable of giving notice of termination may include only Shipper (unilateral evergreen) or may include both Shipper and Transporter (bilateral evergreen).

IV
Points of Receipt and Delivery

- 4.1 The point(s) of receipt of gas deliveries to Transporter is as designated in Exhibit A, attached hereto.
- 4.2 The point(s) of delivery of gas to Shipper is as designated in Exhibit A, attached hereto.
- 4.3 Unless otherwise agreed, Shipper shall deliver or cause to be delivered to Transporter the gas to be transported hereunder at pressures sufficient to deliver such gas into Transporter's system at the point(s) of receipt. Unless otherwise agreed, Transporter shall deliver the gas to be transported hereunder to or for the account of Shipper at the pressures existing in Transporter's system at the point(s) of delivery.

V
Operating Procedure

- 5.1 Shipper shall conform to the operating procedures set forth in Transporter's General Terms and Conditions of Service.
- 5.2 Transporter shall have the right to interrupt or curtail the transport of gas for the account of Shipper pursuant to Transporter's General Terms and Conditions of Service applicable to Rate schedule FTS-1.

VI
Rate(s), Rate Schedules,
and General Terms and Conditions of Service

- 6.1 Shipper shall pay Transporter each month for services rendered pursuant to this Agreement in accordance with Transporter's Rate Schedule FTS-1, or superseding rate schedule(s), on file with and subject to the jurisdiction of FERC.

(Continued)

FORM OF SERVICE AGREEMENT - FIRM TRANSPORTATION (Continued)

In the event Transporter and Shipper agree on a Negotiated Rate, that rate, and any provisions governing such Negotiated Rate, shall be set forth in Exhibit B attached hereto.

- 6.2 Shipper shall compensate Transporter each month for line loss and other unaccounted for gas associated with this transportation service provided herein in accordance with Transporter's Rate Schedule FTS-1, or superseding rate schedule(s), on file with and subject to the jurisdiction of FERC.
- 6.3 This Agreement in all respects shall be and remains subject to the applicable provisions of Rate Schedule FTS-1, or superseding rate schedule(s) and to the applicable General Terms and Conditions of Service of Transporter's FERC Gas Tariff on file with the FERC, all of which are by this reference made a part hereof.
- 6.4 Transporter shall have the unilateral right from time to time to propose and file with FERC such changes in the rates and charges applicable to transportation services pursuant to this Agreement, the rate schedule(s) under which this service is hereunder provided, or any provisions of Transporter's General Terms and Conditions of Service applicable to such services. Shipper shall have the right to protest any such changes proposed by Transporter and to exercise any other rights that Shipper may have with respect thereto. Notwithstanding the foregoing, Transporter and Shipper agree not to initiate any proceeding before the FERC with respect to an increase or decrease in any negotiated rate set forth in Exhibit B hereto during the primary term.

VII
Miscellaneous

- 7.1 This Agreement shall be interpreted according to the laws of the State of Oregon.
- 7.2 Shipper warrants that upstream and downstream transportation arrangements are in place, or will be in place as of the requested effective date of service, and that it has advised the upstream and downstream Transporters of the receipt and delivery points under this Agreement and any quantity limitations for each point as specified on Exhibit A attached hereto.
- 7.3 Shipper agrees to indemnify and hold Transporter harmless for refusal to transport gas hereunder in the event any upstream or downstream Transporter fails to receive or deliver gas as contemplated by this Agreement.

(Continued)

FORM OF SERVICE AGREEMENT - FIRM TRANSPORTATION (Continued)

7.4 Unless herein provided to the contrary, any notice called for in this Agreement shall be in writing and shall be considered as having been given if delivered by registered mail with all postage or charges prepaid, to either Transporter or Shipper at the place designated below. Routine communications, including monthly statements and payment, shall be considered as duly delivered when received by ordinary mail, facsimile or email (return notification received). Unless changed, the addresses of the parties for legal notices are as follows:

"PALOMAR GAS TRANSMISSION, LLC"
1400 SW Fifth Avenue, Suite 900
Portland, OR 97201
Attention: Assistant General Counsel

"Shipper"

Attention: _____

Unless changed, the addresses for the parties for routine communications, including monthly statements and payments are as follows:

"PALOMAR GAS TRANSMISSION, LLC"
1400 SW Fifth Avenue, Suite 900
Portland, OR 97201
Attention: Accounting

- 7.5 All waivers shall be in writing, and such waiver by either party of any one or more defaults by the other hereunder shall not operate as a waiver of any future default or defaults, whether of a like or of a different character.
- 7.6 This Agreement may only be amended by an instrument in writing executed by both parties hereto. In no event shall this Agreement be modified by course of performance, course of dealing or usage of trade.
- 7.7 Nothing in this Agreement shall be deemed to create any rights or obligations between the parties hereto after the expiration of the term set forth herein, except that termination of this Agreement shall not relieve either party of the obligation to correct any quantity imbalances or Shipper of the obligation to pay any amounts due hereunder to Transporter.

(Continued)

FORM OF SERVICE AGREEMENT - FIRM TRANSPORTATION (Continued)

7.8 This Agreement shall terminate upon the expiration of any transportation authority which is not superseded, for whatever reason, by permanent transportation authority.

7.9 Exhibit(s) ___ attached hereto is/are incorporated herein by reference and made a part hereof for all purposes.

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be executed as of the day and year first above written.

PALOMAR GAS TRANSMISSION, LLC

By: _____
Name: _____
Title: _____

SHIPPER

By: _____
Name: _____
Title: _____

FORM OF SERVICE AGREEMENT - INTERRUPTIBLE TRANSPORTATION

FORM OF SERVICE AGREEMENT

APPLICABLE TO INTERRUPTIBLE TRANSPORTATION SERVICE
OFFERED BY PALOMAR GAS TRANSMISSION, LLC
UNDER RATE SCHEDULE ITS-1

THIS AGREEMENT is made and entered into this ____ day of _____, 20__, by and between Palomar Gas Transmission, LLC, a Delaware Limited Liability Company (hereinafter referred to as "Transporter"), and

_____, a corporation existing under the laws of the State or Province of _____, (hereinafter referred to as "Shipper"), on behalf of _____ (hereinafter referred to as _____).

WHEREAS, Transporter owns and operates a natural gas pipeline transmission system which extends from a point of interconnection with the pipeline facilities of Gas Transmission Northwest Corporation near Madras, Oregon and terminating at a point of interconnection with the pipeline facilities of Northwest Natural Gas Company near Molalla, Oregon; and

WHEREAS, Shipper desires Transporter, on an interruptible basis, to transport certain quantities of natural gas from _____ to _____; and

WHEREAS, Transporter is willing to transport certain quantities of natural gas for Shipper, on an interruptible basis,

NOW, THEREFORE, the parties agree as follows:

I
Governmental Authority

- 1.1 This Interruptible Transportation Agreement ("Agreement") is made pursuant to the regulations of the Federal Energy Regulatory Commission (FERC) contained in 18 CFR Part 284, as amended from time to time.
- 1.2 This Agreement is subject to all valid legislation with respect to the subject matters hereof, either state or federal, and to all valid present and future decisions, orders, rules, regulations and ordinances of all duly constituted governmental authorities having jurisdiction.

(Continued)

FORM OF SERVICE AGREEMENT - INTERRUPTIBLE TRANSPORTATION (Continued)

- 1.3 Shipper shall reimburse Transporter for any and all filing fees incurred by Transporter specific to Shipper in seeking governmental authorization for the initiation of any new service or extension, or termination of service under this Agreement and Rate Schedule ITS-1. Shipper shall reimburse Transporter for such fees at Transporter's designated office within ten (10) days of receipt of notice from Transporter that such fees are due and payable.

Additionally, Shipper shall reimburse Transporter for any and all penalty fees or fines assessed Transporter caused by the negligence of Shipper in not obtaining all proper Canadian and domestic import/export licenses, surety bonds or any other documents and approvals related to the Canadian exportation and subsequent domestic importation of natural gas transported by Transporter hereunder.

II

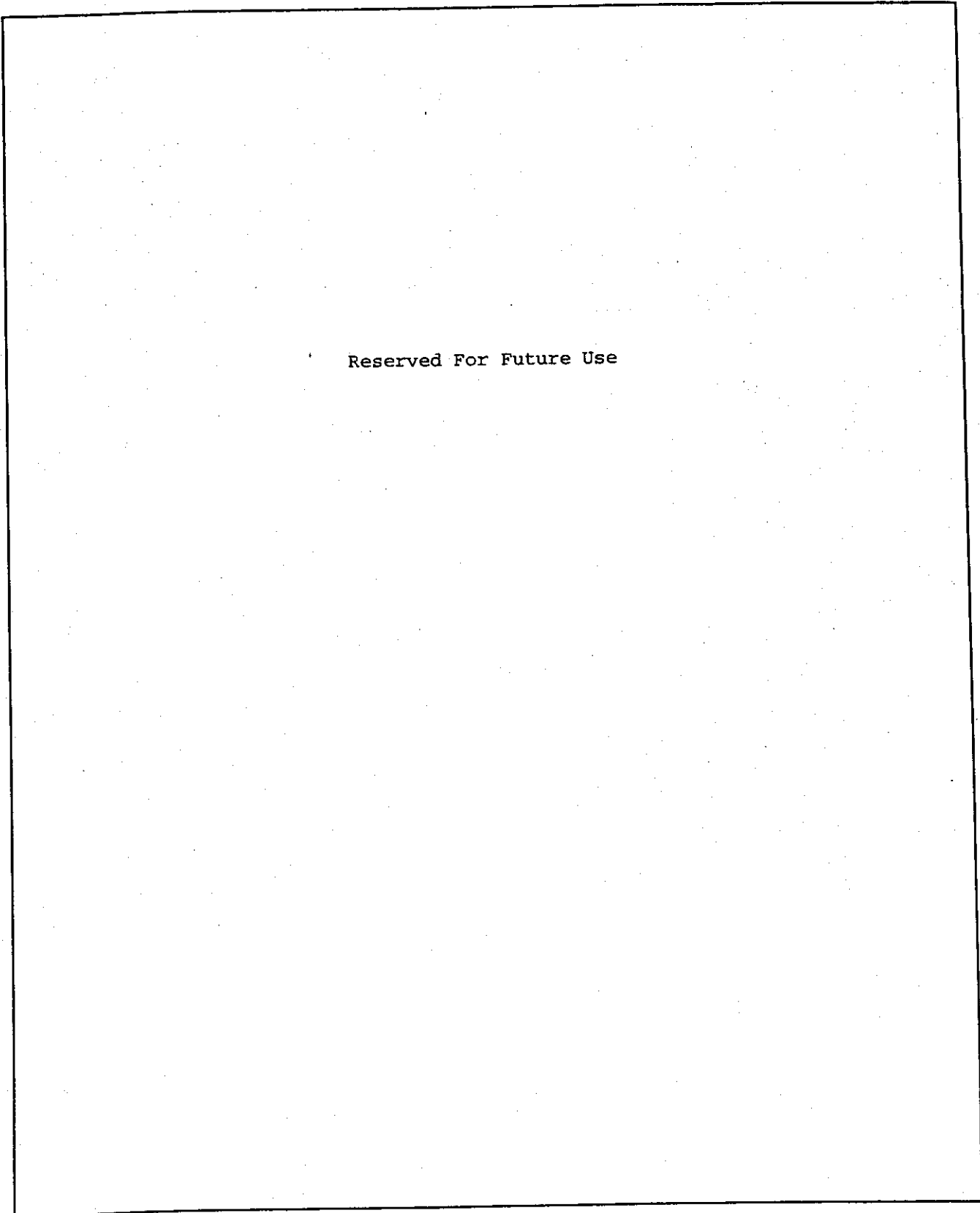
Quantity of Gas and Priority of Service

- 2.1 Subject to the terms and provisions of this Agreement and Transporter's General Terms and Conditions of Service applicable to Rate Schedule ITS-1, daily receipts of gas by Transporter from Shipper at the point(s) of receipt shall be equal to daily Deliveries of gas by Transporter to Shipper at the point(s) of delivery; provided, however, Shipper shall deliver to Transporter an additional quantity of natural gas at the point(s) of receipt as compressor station fuel, line loss and unaccounted for gas as specified in Transporter's FERC Gas Tariff. Any limitations of the quantities to be received from each point of receipt and/or delivered to each point of delivery shall be as specified on the Exhibit A attached hereto. The service under this Agreement shall be conditioned upon the availability of capacity sufficient to provide the service without detriment or disadvantage to those customers of Transporter that have a higher priority of service.
- 2.2 The maximum quantities of gas to be delivered by Transporter for Shipper's account at the point(s) of delivery are set forth in Exhibit A.
- 2.3 In providing service to its existing or new customers, Transporter will use the priorities of service specified in Paragraph 13 of Transporter's General Terms and Conditions of Service on file with the FERC.
- 2.4 Prior to initiation of service, Shipper shall provide Transporter with any information required by the FERC, as well as all information identified in Transporter's General Terms and Conditions of Service applicable to Rate Schedule ITS-1.

(Continued)

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet Nos. 237 - 249



Reserved For Future Use

FORM OF SERVICE AGREEMENT - FIRM TRANSPORTATION (Continued)

EXHIBIT A

TO THE FIRM TRANSPORTATION AGREEMENT

Dated _____

Between PALOMAR GAS TRANSMISSION, LLC,

and _____

Receipt Point	Delivery Point	Maximum Daily Quantity (Delivered) Dth/d
------------------	-------------------	---

FORM OF SERVICE AGREEMENT - INTERRUPTIBLE TRANSPORTATION (Continued)

III
Term of Agreement

- 3.1 This Agreement shall become effective _____, and shall continue in full force and effect until _____.

IV
Points of Receipt and Delivery

- 4.1 The point(s) of receipt of gas deliveries to Transporter is as designated in Exhibit A, attached hereto.
- 4.2 The point(s) of delivery of gas to Shipper is as designated in Exhibit A, attached hereto.
- 4.3 Unless otherwise agreed, Shipper shall deliver or cause to be delivered to Transporter the gas to be transported hereunder at pressures sufficient to deliver such gas into Transporter's system at the point(s) of receipt. Unless otherwise agreed, Transporter shall deliver the gas to be transported hereunder to or for the account of Shipper at the pressures existing in Transporter's system at the point(s) of delivery.

V
Operating Procedure

- 5.1 Shipper shall conform to the operating procedures set forth in Transporter's General Terms and Conditions of Service.
- 5.2 Transporter shall have the right to interrupt or curtail the transport of gas for the account of Shipper pursuant to Transporter's General Terms and Conditions of Service applicable to Rate Schedule ITS-1.

VI
Rate(s), Rate Schedules,
and General Terms and Conditions of Service

- 6.1 Shipper shall pay Transporter each month for services rendered pursuant to this Agreement in accordance with Transporter's Rate Schedule ITS-1, or superseding rate schedule(s), on file with and subject to the jurisdiction of FERC. In the event Transporter and Shipper agree on a Negotiated Rate, that rate, and any provisions governing such Negotiated Rate, shall be set forth in Exhibit B attached hereto.

(Continued)

FORM OF SERVICE AGREEMENT - INTERRUPTIBLE TRANSPORTATION (Continued)

- 6.2 Shipper shall compensate Transporter each month for compressor station fuel, line loss and other unaccounted for gas associated with this transportation service provided herein in accordance with Transporter's Rate Schedule ITS-1, or superseding rate schedule(s), on file with and subject to the jurisdiction of FERC.
- 6.3 This Agreement in all respects shall be and remains subject to the applicable provisions of Rate Schedule ITS-1, or superseding rate schedule(s) and to the applicable General Terms and Conditions of Service of Transporter's FERC Gas Tariff on file with the FERC, all of which are by this reference made a part hereof.
- 6.4 Transporter shall have the unilateral right from time to time to propose and file with FERC such changes in the rates and charges applicable to transportation services pursuant to this Agreement, the rate schedule(s) under which this service is hereunder provided, or any provisions of Transporter's General Terms and Conditions of Service applicable to such services. Shipper shall have the right to protest any such changes proposed by Transporter and to exercise any other rights that Shipper may have with respect thereto. Notwithstanding the foregoing, Transporter and Shipper agree not to initiate any proceeding before the FERC with respect to an increase or decrease in any negotiated rate set forth in Exhibit B hereto during the primary term.

VII
Miscellaneous

- 7.1 This Agreement shall be interpreted according to the laws of the State of Oregon.
- 7.2 Shipper warrants that upstream and downstream transportation arrangements are in place, or will be in place as of the requested effective date of service, and that it has advised the upstream and downstream Transporters of the receipt and delivery points under this Agreement and any quantity limitations for each point as specified on Exhibit A attached hereto.
- 7.3 Shipper agrees to indemnify and hold Transporter harmless for refusal to transport gas hereunder in the event any upstream or downstream Transporter fails to receive or deliver gas as contemplated by this Agreement.

(Continued)

FORM OF SERVICE AGREEMENT - INTERRUPTIBLE TRANSPORTATION (Continued)

7.4 Unless herein provided to the contrary, any notice called for in this Agreement shall be in writing and shall be considered as having been given if delivered by registered mail with all postage or charges prepaid, to either Transporter or Shipper at the place designated below. Routine communications, including monthly statements and payment, shall be considered as duly delivered when received by ordinary mail, facsimile or email (return notification received). Unless changed, the addresses of the parties for legal notices are as follows:

"PALOMAR GAS TRANSMISSION, LLC"
1400 SW Fifth Avenue, Suite 900
Portland, OR 97201
Attention: Assistant General Counsel

"Shipper"

Attention: _____

Unless changed, the addresses for the parties for routine communications, including monthly statements and payments are as follows:

"PALOMAR GAS TRANSMISSION, LLC"
1400 SW Fifth Avenue, Suite 900
Portland, OR 97201
Attention: Accounting

7.5 All waivers shall be in writing, and such waiver by either party of any one or more defaults by the other hereunder shall not operate as a waiver of any future default or defaults, whether of a like or of a different character.

7.6 This Agreement may only be amended by an instrument in writing executed by both parties hereto. In no event shall this Agreement be modified by course of performance, course of dealing or usage of trade.

(Continued)

FORM OF SERVICE AGREEMENT - INTERRUPTIBLE TRANSPORTATION (Continued)

- 7.7 Nothing in this Agreement shall be deemed to create any rights or obligations between the parties hereto after the expiration of the term set forth herein, except that termination of this Agreement shall not relieve either party of the obligation to correct any quantity imbalances or Shipper of the obligation to pay any amounts due hereunder to Transporter.
- 7.8 This Agreement shall terminate upon the expiration of any transportation authority which is not superseded, for whatever reason, by permanent transportation authority.
- 7.9 Exhibit(s) ___ attached hereto is/are incorporated herein by reference and made a part hereof for all purposes.

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be executed as of the day and year first above written.

PALOMAR GAS TRANSMISSION, LLC

By: _____
Name: _____
Title: _____

SHIPPER

By: _____
Name: _____
Title: _____

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

EXHIBIT B
PAGE 185 OF 192

Pro Forma Original Sheet Nos. 257 - 269

Reserved For Future Use

Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:

FORM OF SERVICE AGREEMENT - INTERRUPTIBLE TRANSPORTATION (Continued)

EXHIBIT A

TO THE INTERRUPTIBLE TRANSPORTATION AGREEMENT
Dated _____

Between PALOMAR GAS TRANSMISSION, LLC,

and _____

Receipt Point	Delivery Point	Maximum Daily Quantity (Delivered) Dth/d
------------------	-------------------	---

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

EXHIBIT B
PAGE 187 OF 192

Pro Forma Original Sheet No. 271

Reserved For Future Use

Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

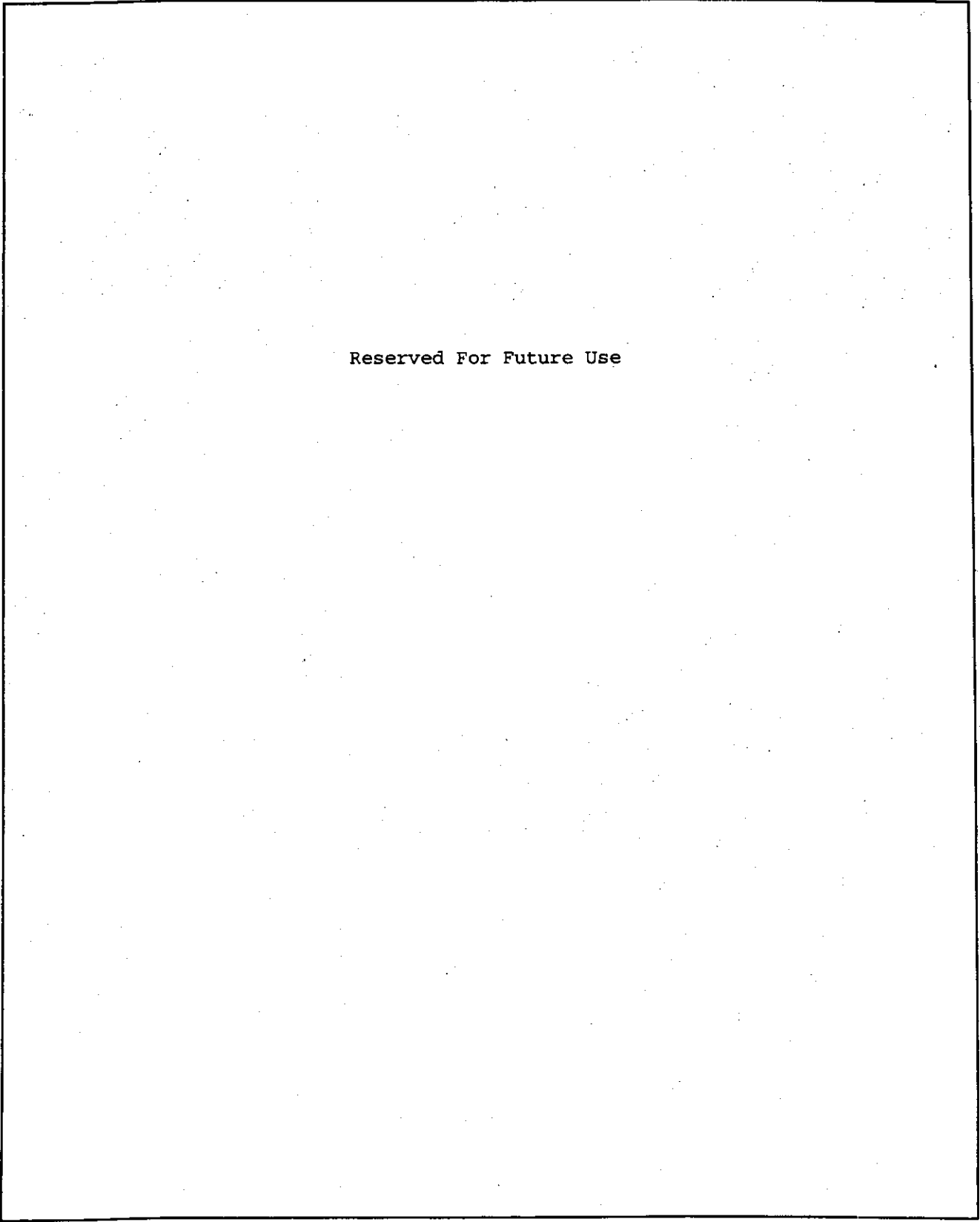
Pro Forma Original Sheet No. 270

Reserved For Future Use

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet No. 273

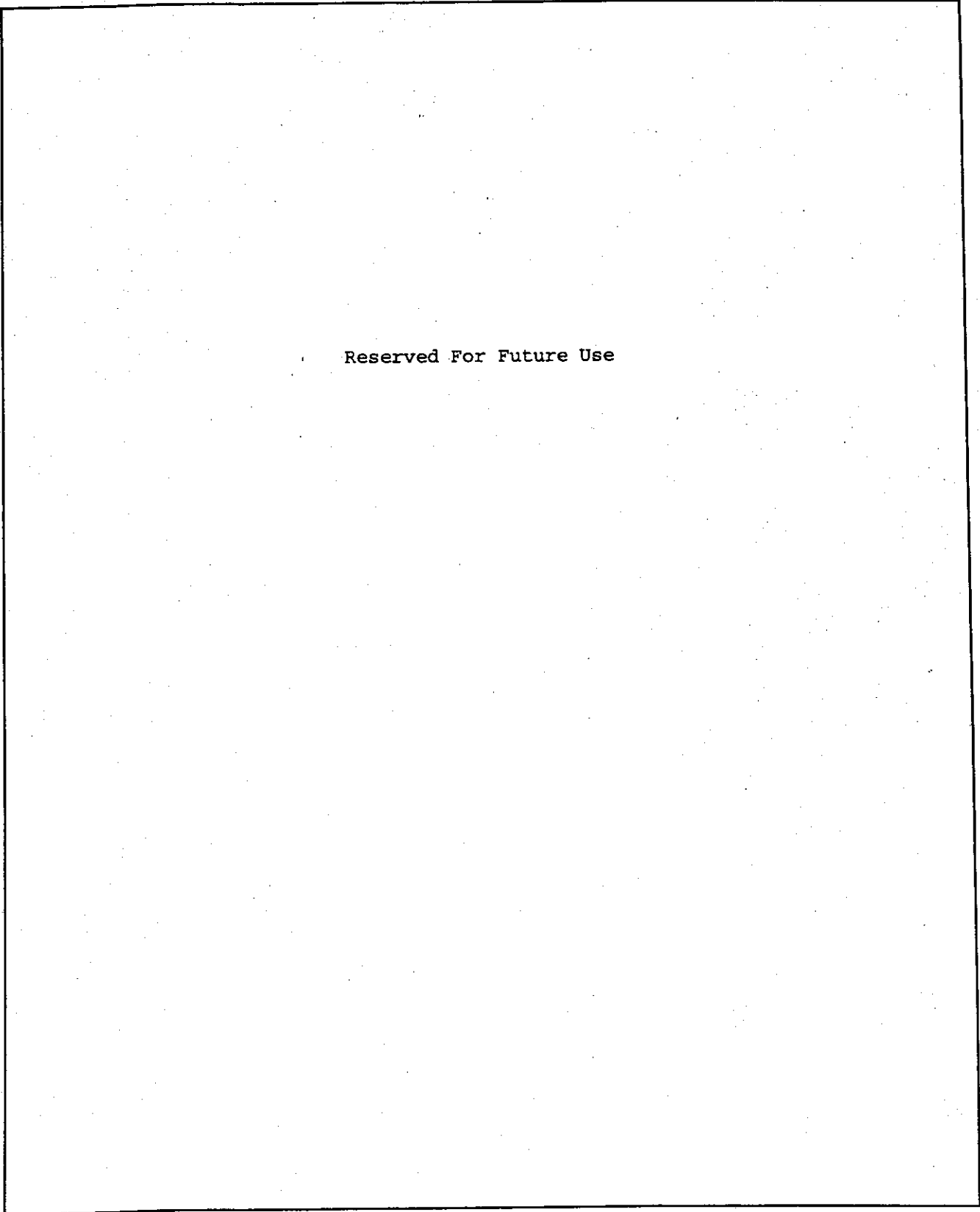
Reserved For Future Use



Reserved For Future Use

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

Pro Forma Original Sheet No. 275



Reserved For Future Use

Palomar Gas Transmission, LLC
FERC Gas Tariff
Original Volume No. 1

EXHIBIT B
PAGE 192 OF 192
Pro Forma Original Sheet No. 274

Reserved For Future Use

Issued by: John A Roscher, Director of Rates & Regulatory Affairs
Issued on: Effective on:



Henry P. Morse, Jr.
General Manager

1400 SW Fifth Avenue, Suite 900
Portland, Oregon 97201

Tel: 503.833.4108
Fax: 503.833.4954

Henry_Morse@transcanada.com

August 28, 2007

Gregg S. Kantor
President and COO
Northwest Natural Gas Company
229 NW Second Avenue
Portland, OR 97209

RE: Extension of Time for Termination without Payment Obligation

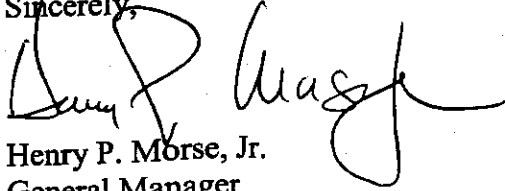
Dear Mr. Kantor,

Palomar Gas Transmission, LLC and Northwest Natural Gas Company are parties to a certain August 3, 2007 Precedent Agreement for Firm Natural Gas Transportation Service for the Western Zone (the "Western Zone PA"). Capitalized terms used herein not otherwise defined shall have the meaning set forth in the Western Zone PA.

8/28/07
Page 2

Please indicate that this Letter Agreement accurately and completely sets forth the Agreement of the Parties with respect to the matter set forth above by having an appropriate officer of Northwest Natural execute two originals of this Letter Agreement, returning one copy to me for our files.

Sincerely,



Henry P. Morse, Jr.
General Manager

Northwest Natural Gas Company

Signed:

Name:

Title:

Margaret D. Kivlepa-Med

Margaret D. Kivlepa-Med

Vice President - General Counsel



Henry P. Morse, Jr.
General Manager

1400 SW Fifth Avenue, Suite 900
Portland, Oregon 97201

Tel: 503.833.4108
Fax: 503.833.4954

Henry_Morse@transcanada.com

October 1, 2007

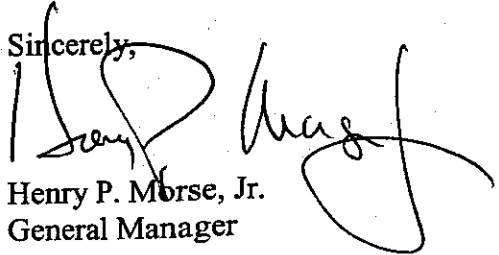
Gregg S. Kantor
President and COO
Northwest Natural Gas Company
229 NW Second Avenue
Portland, OR 97209

RE: Extension of Time for Termination without Payment Obligation


Dear Mr. Kantor,

Palomar Gas Transmission, LLC and Northwest Natural Gas Company are parties to a certain August 3, 2007 Precedent Agreement for Firm Natural Gas Transportation Service for the Western Zone (the "Western Zone PA"). Capitalized terms used herein not otherwise defined shall have the meaning set forth in the Western Zone PA.

Please indicate that this second Letter Agreement accurately and completely sets forth the Agreement of the Parties with respect to the matter set forth above by having an appropriate officer of Northwest Natural execute two originals of this Letter Agreement, returning one copy to me for our files.

Sincerely,

Henry P. Morse, Jr.
General Manager

Northwest Natural Gas Company

Signed: 
Name: Greg Kanton
Title: Pres. : COO

**AMENDMENT TO PRECEDENT AGREEMENT
FOR FIRM NATURAL GAS TRANSPORTATION SERVICE
FOR THE WESTERN ZONE**

This AMENDMENT TO PRECEDENT AGREEMENT ("the **Amendment**") is entered into as of October 24, 2007, by and between Palomar Gas Transmission LLC ("**Sponsor**") and Northwest Natural Gas Company ("**Shipper**"). Sponsor and Shipper are referred to herein individually as "**Party**" and collectively as the "**Parties**". Capitalized terms will have the meanings ascribed to them in the **Western Zone Precedent Agreement** unless otherwise defined herein.

RECITALS

WHEREAS, the Parties entered into that certain Precedent Agreement for Firm Natural Gas Transportation Service For the Western Zone ("**Western Zone Precedent Agreement**") on August 3, 2007, regarding the Western Zone portion of the **Project**;

WHEREAS, the Parties have had further discussions regarding construction, operation and service to be provided on the Western Zone of the **Project**, and

WHEREAS, the Parties desire to amend certain provisions of the **Western Zone Precedent Agreement** through the addition of an **Exhibit C** to the **Western Zone Precedent Agreement**.

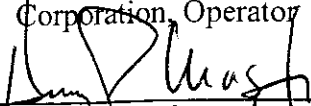
NOW THEREFORE, in consideration of the premises and the mutual covenants and agreements set forth herein, the receipt and sufficiency of which are hereby acknowledged, the **Parties** agree as follows:

1. **Exhibit C** attached hereto is hereby added to the **Western Zone Precedent Agreement**.
2. Except as modified by this **Amendment**, the **Western Zone Precedent Agreement** will remain in full force and effect as written.

IN WITNESS WHEREOF, the duly authorized representatives of the Parties have executed this **Amendment** as of the day and date first written above.

**PALOMAR GAS
TRANSMISSION LLC**

By: Gas Transportation Northwest
Corporation, Operator

By: 
Name: Henry P. Morse
Title: GM

**NORTHWEST NATURAL GAS
COMPANY**

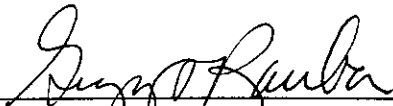
By: 
Name: Gregg S. Kantor
Title: President & COO

EXHIBIT C

Exhibit C
Precedent Agreement for Firm Natural Gas Transportation Service for the Western Zone
between Palomar Gas Transmission, LLC and Northwest Natural Gas Company,
dated August 3, 2007

**NWN INTERNAL GUIDELINES REGARDING THE
PALOMAR GAS TRANSMISSION SYSTEM
DATED JANUARY 2, 2007**

1. A NWN employee(s) should be designated with the responsibility for the negotiation of the terms for a NWN affiliate's ownership interest in Palomar Gas Transmission (Palomar), which will be a FERC-regulated interstate pipeline. Such employee can use the assistance of a "team" comprised of other NWN employees that provide services that may be shared.
2. A different NWN employee(s) should be designated with the responsibility to negotiate the terms of a Firm Transportation Precedent Agreement and a Firm Transportation Service Agreement on the Palomar system for the use of Palomar by NWN as an LDC anchor shipper. Such employee can use the assistance of a "team" comprised of other NWN employees that provide services that may be shared. The development of strategies or decision-making regarding shipper issues should be made solely within this team.
3. The NWN employee designated with responsibilities regarding the negotiation of the NWN affiliate's ownership interest in Palomar should not be the same employee as the NWN employee designated with responsibilities regarding the negotiation of the NWN shipper agreements. The employees may each separately report to the same NWN executive or other executives who ultimately report to Mark Dodson. It is anticipated that the ownership interest team will report to the CFO regarding financial hurdle sign offs and the shipper interest team will report to the Executive Vice President for rate matters, otherwise both teams will report to the Vice President, Business Development and Energy Supply. That executive should not personally engage in the negotiations of either team. Ultimate decisions to proceed either as an owner or shipper on Palomar may be considered by the larger NWN Officer Team for approval.
4. The NWN employees working on the Palomar project for each interest team do not need to be physically separated or walled off from each other, but the employees should generally follow good ethical business practices and proceed with integrity regarding the best interests of NWN or NWN's affiliate, as applicable, in their individual negotiations. The designated employees and other shared employees working on negotiations for each interest should exercise care not to share information related to the specifics of the negotiations or influence the decision-making of the other interest. Each "team" should follow their own individual set of ownership or customer principles as they pursue their respective negotiations.
5. Members of the NWN Officer Team and any shared employees (as noted below) should not be a conduit for sharing non-public information from one team to the other. Specifically, if any non-public information about the project is shared by the NWN owner team with the NWN Officer Team and any shared employees, such information should not then be shared with the NWN shipper team by such officers or shared employees. The NWN shipper team, however, may obtain the same information, but it should come from the GTN owner representatives directly and not from any NWN owner representatives, NWN officers, or NWN shared employees. Additionally, this guideline should not be interpreted as prohibiting the disclosure of non-public information by and between the GTN owner representatives and the NWN shipper team that may occur in the context of the negotiations between them.

6. The employees responsible for performing ownership and shipper negotiations currently are designated as follows:

General reporting except as indicated to:

Keith White

Vice President, Business Development and Energy Supply

¹ For financial terms sign off, report only to:

David Anderson

Senior Vice President and Chief Financial Officer

² For rate term sign off, report only to:

Gregg Kantor

Executive Vice President

Palomar Development/Ownership:¹

Denny Henderson

Director of Business Development

NWN Shipper on Palomar:²

Randy Friedman

Director of Gas Supply

Allowed Shared Employees:

Engineering Staff

Rates & Regulatory Staff

Financial Analysts

Legal

7. Once the LLC is created, the NWN employees designated to be members on the Ownership Committee should function separately from the NWN operating personnel in the Gas Supply Department, who are effectively the shippers on the Palomar system. Further, when separation is ultimately required, either upon issuance of the Palomar certificate or upon in-service of Palomar, discussions regarding the ownership of Palomar in the presence of Randy Friedman (representing NWN as the shipper) would need to be limited to the kind of information that could be shared with any other shipper or information that is publicly available. Otherwise, non-public ownership discussions should take place without the Director of Gas Supply's presence. On occasion, Gas Supply Department LDC operational information can be heard by the Palomar owner representatives.
8. These guidelines may be periodically updated as necessary, including any updates to address any required changes in FERC requirements.
9. **Mist interstate storage marketing.** At this pre-development stage of Palomar project development, the Director of Business Development may continue to market firm Mist interstate storage capacity generally as well as to potential Palomar customers AND work with GTN regarding getting parties to subscribe for transportation capacity on the Palomar project. In all respects, the Mist interstate storage services should continue to be offered and provided to customers on a non-discriminatory and non-preferential basis. Once any actual standards of conduct apply to NWN regarding its affiliation with Palomar (or once the decision to proceed with the construction of Palomar is made), the Director of Business Development may continue to market Mist interstate storage so long as he is no longer involved in the marketing of Palomar transportation capacity. Additionally, after the pre-development stage, the NWN representative on the Palomar owner committee should not have marketing responsibilities for NWN.

**Estimated NW Natural Rate Cap Calculation for Palomar Transmission, LLC - EZPA
(Dollars Per Dth)**



CERTIFIED COPY OF RESOLUTIONS

I, Richelle T. Luther, the duly elected and acting assistant secretary of Northwest Natural Gas Company, a corporation organized and existing under the laws of the State of Oregon, HEREBY CERTIFY that the following is a true and complete copy of resolutions adopted by the Board of Directors of said Corporation at a meeting thereof duly convened and held on the 26th day of July 2007, relating to the authorization of capital expenditures for the Palomar pipeline; and that said resolutions are in full force and effect as of the date of this certificate, namely:

WHEREAS, the Board of Directors of Northwest Natural Gas Company (the "Company") believes it is in the best interests of the Company to proceed with the development of a pipeline ("Palomar pipeline") for the purpose of diversifying NW Natural's gas delivery options and enhancing reliability for the Company's customers; and

WHEREAS, the Board has previously authorized capital expenses up to \$7.5 million for purposes of investment in developing the Palomar pipeline; and

WHEREAS, in connection with certain Palomar pipeline development activities, the Board desires to ratify certain actions taken by management and to provide management with the ability to commit to capital expenditures over a two-year period;

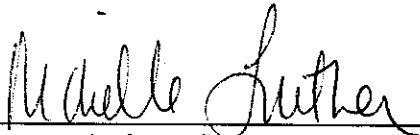
THEREFORE BE IT RESOLVED, that the Board ratifies, approves and confirms the actions of the officers of the Company taken to date, including actions in negotiating and arranging, on behalf of the Company, certain agreements relating to the development of the Palomar pipeline; and further

RESOLVED, that the Board approves an increase in the authorization of the Company's capital expenditures for the Palomar pipeline project such that the total authorized budget is \$15 million; and further

RESOLVED, that the officers of the Company are authorized and directed, in the Company's name and behalf, to execute and deliver such instruments and documents, and any amendments or restatements thereto, and to do or cause to be done any and all such acts and things as they may deem to be necessary or desirable in order to carry out the purposes of the foregoing resolutions with respect to the Company's development of the Palomar pipeline.

WITNESS my hand and the seal of Northwest Natural Gas Company this 26th day of

October 2007.


Assistant Secretary

(SEAL)