

WN U-3

CASCADE NATURAL GAS CORPORATION

RULES & REGULATIONS

**RULE 20- UNBUNDLED DISTRIBUTION SYSTEM TRANSPORTATION SERVICE RULES**

**PURPOSE:**

The purpose of this provision is to define the operating obligations and conditions for those Customers utilizing unbundled distribution system transportation services under Schedule 663 of this tariff.

**OPERATING OBLIGATIONS AND CONDITIONS:**

1. Customer served on Schedule 663 must have secured the purchase and delivery of gas supplies, which may include supplies secured from an authorized supplier/agent of its choosing. Customer must provide to the Company, in writing, the name(s) and telephone numbers of its authorized marketer/supplier/agent(s) that will have authority to nominate natural gas supplies on Company's distribution system for delivery on customer's behalf. Nominations of customer-owned gas will be made in accordance with the Company's nominations procedures. Unless otherwise agreed to by the Company and the customer, a customer shall select one supplier for each account at any given time. In those instances when a customer who is receiving supplier service from an existing supplier initiates such service with a new supplier, the Company shall send the date for customer's change in supplier service to the existing supplier. (N)

The supplier is the designated representative to satisfy or undertake the customer's following transportation duties and obligations: submitting and/or receiving notices on behalf of a customer; making nominations on behalf of a customer; arranging for trades of imbalances on behalf of a customer as permitted under these Terms and Conditions; and, performing operational and transportation-related administrative tasks on behalf of a customer as permitted by the Company. Under no circumstances will the appointment of a designated representative relieve a customer of the responsibility to make full and timely payment to the Company for all distribution service provided under these Terms and Conditions.

Each supplier must meet any applicable registration and licensing requirements established by law or regulation. The Company shall have the right to establish reasonable financial and non-discriminatory credit standards for qualifying suppliers. Accordingly, in order to serve customers on the Company's system, the supplier shall provide the Company, on a confidential basis, with audited balance sheet and other financial statements, such as annual reports to shareholders and 10-K reports, for the previous three (3) years, as well as two (2) trade and two (2) banking references. To the extent that such annual reports and 10-K reports are not publicly available, the supplier shall provide the Company with a comparable list of all corporate affiliates, parent companies and subsidiaries. The supplier shall also provide its most recent reports from credit reporting and bond rating agencies. The supplier shall be subject to a credit investigation by the Company. The Company will review the supplier's financial position periodically.

If the supplier fails to comply with or perform any of the obligations on its part established in these tariffs (e.g., but not limited to, failure to deliver gas or late payment of bills rendered or failure to execute a capacity assignment), the Company maintains the right to terminate the supplier's eligibility to act as a supplier on the Company's system. (K)

2. Customer served on Schedule 663 is required to report estimated gas supply requirements for the upcoming month at least by the 15th day of the current month, in order to provide the Company with information for gas supply acquisition purposes. Such estimate shall include any scheduled down time or increased production time. (T)

Customer served on Schedule 663 is required to report estimated gas transportation requirements daily to the Company's gas scheduling department at least thirty-two (32) hours prior to the beginning of each gas day, unless other arrangements are agreed upon in writing with the Company. Such estimated requirement shall be considered as customer's daily nomination. The gas day shall be as defined in Company Rule 2. Such daily nomination will separately identify gas quantities, if any, pursuant to obligations 3 and 4 below, as well as customer's current estimated gas requirement at customer's facility, (excluding gas provided to the transporting pipeline for compression and line loss "fuel".) In the event the Company determines that customer's actual consumption is out of balance with customer's nomination, the Company shall inform customer of the adjustments necessary to get back in balance. Changes to a customer's daily nomination are allowed during the gas day provided the change is communicated to the Company (2) hours prior to the upstream pipeline's re-nomination deadline. (T)

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(K) Denotes material moved to Sheet No. 24-A

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TITLE Director  
Regulatory Affairs

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RULES & REGULATIONS

**RULE 20- UNBUNDLED DISTRIBUTION SYSTEM TRANSPORTATION SERVICE RULES (continued from previous page)**

**OPERATING OBLIGATIONS AND CONDITIONS (continued)**

Company shall have the right to adjust a customer's daily nominations when, in the Company's judgment, such action is necessary to bring into balance its system nominations as a receiving party on a pipeline system, or otherwise to maintain operational control or maintain the integrity of the Company's distribution system. The Company accepts gas purchased by customer at the receipt point subject to customer's warranty that at the time of the Company's receipt, customer has good title to all gas received, free and clear from all liens, encumbrances and claims. Customer shall indemnify and hold Company harmless should a third party make any claims regarding customer's title to gas transported under this schedule. The supplier shall warrant that it has or will have entered into the necessary arrangements for the purchase of gas supplies which it desires the Company to transport to its customers, and that it has or will have entered into the necessary upstream transportation arrangements for the delivery of these gas supplies to the designated receipt point. The supplier shall warrant to the Company that it has good title to or lawful possession of all gas delivered to the Company at the designated receipt point on behalf of the supplier or the supplier's customers. The supplier shall indemnify the Company and save it harmless from all suits, actions, debts, accounts, damage, costs, losses, taxes, and expenses arising from or out of any adverse legal claims of third parties to or against said gas supply.

The supplier shall be responsible for making all necessary arrangements and securing all required regulatory or governmental approvals, certificates or permits to enable gas to be delivered to the Company's system.

Customer shall be deemed to be in control and possession of gas purchased by customer until it has been accepted by the Company at the receipt point. Company shall be deemed to be in control or possession of gas purchased by customer until the equivalent terms are delivered to customer at the delivery point.

Failure to report estimated gas transportation requirements or comply with the written arrangements shall be considered as a zero (0) nomination for such gas day and may result in the penalties described in No. 6, below.

3. Customer served on Schedule 663 is required to notify the Company's gas management scheduling department in advance of operating changes that would cause actual gas day consumption to vary, either up or down, by 10% or more from the reported gas day estimate. Such notification may mitigate potential penalties but will not indemnify customer from the responsibility for penalties described in No. 6, below.

4. Each customer served on Schedule 663 shall be required to satisfy any monthly imbalance condition. Upon notification by the Company that customer has an imbalance greater than 5%, the customer will have 45 non-entitlement days to eliminate any such imbalance. The Company will bill the customer an imbalance penalty if the customer has not completely satisfied such imbalance condition. These non-entitlement penalties are \$10.00 per MMBtu on the imbalance over-the allowed tolerance on a monthly basis.

Under any agency established hereunder, the Company shall rely upon information concerning the applicable customer's distribution service which is provided by the designated representative. All such information shall be deemed to have been provided by the customer. Similarly, any notice or other information provided by the Company to the designated representative concerning the provision of distribution service to such customer shall be deemed to have been provided to the customer. The customer shall rely upon any information concerning distribution service that is provided to the designated representative as if that information had been provided directly to the customer.

5. Company shall determine customer's daily gas supply entitlement based upon customer's gas requirements forecast and resulting nomination after Company has considered any curtailment of pipeline or distribution system capacity constraints and gas supply constraints. Such daily gas supply entitlements shall include the summation of all gas supply options and optional balancing service daily volumetric level contracted for by customer. Company shall notify supplier and/or customer in the event that the gas supply entitlement is less than customer's gas nomination(s).

6. Penalties incurred by Company from an upstream pipeline as a result of nomination imbalance or an unauthorized overrun, will be passed on directly to those customer(s) or groups of customers whose take levels contribute to the imposition of the penalty. Such penalty shall be allocated among such customers, including Company's system supply customers, in proportion to the nomination imbalance or unauthorized overrun associated with each customer or group of customers.

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(M) Denotes material moved from Sheet No. 24

(K) Denotes material moved to Sheet No. 24-B

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CASCADE NATURAL GAS CORPORATION

RULES & REGULATIONS

**RULE 20- UNBUNDLED DISTRIBUTION SYSTEM TRANSPORTATION SERVICE RULES** (continued from (N) previous page)

**OPERATING OBLIGATIONS AND CONDITIONS** (continued)

- 7. The Company shall designate the daily volume of gas delivered to the customer under this schedule in the following sequence as applicable, unless other sequencing has been agreed to in writing by the Company:
  - a) First - The volume of system supplies which are scheduled to be made a portion of customer's gas supply nomination, if any.
  - b) Second - If customer is providing a portion of its gas supply requirement with customer owned gas supplies, the volume of banked customer owned gas supplies, if any, shall be delivered prior to any other non system supply.
  - c) Third - The volume of optional firm gas supply scheduled to be delivered, if any.
  - d) Fourth - The volume of spot market gas supply scheduled to be delivered, if any.
  - e) Fifth - The volume of customer purchased supplies scheduled for delivery, if any.

(M)

**AUTOMATIC ASSIGNMENT TO THE COMPANY OF GAS SUPPLY TO SERVE PRIORITY 1 AND 2 CUSTOMERS:**

In the event of a curtailment situation under which the Company is required to curtail System Supply firm customers, Company may automatically take assignment of customer-owned gas supplies in order to protect service to the Company's priority 1 and 2 customers, as defined in Rule 17. In the event of such assignment, Company shall compensate customer with a credit equal to the Gas Daily-midpoint price at the source of the supply for all volumes assigned plus a penalty credit of \$0.60 per therm on all but the 1st 5% of customer's daily entitlement under this schedule.

(M)

**UNAUTHORIZED USE OF GAS DURING CURTAILMENTS OR ENTITLEMENT PERIOD:**

(T)

The Company may declare an Entitlement Period on any day the Company, in its sole discretion, reasonably determines a critical operational condition warrants the need. During a Declared Entitlement Period, the total physical quantity of gas taken by customers served under Rate Schedule 663 from transporter exceeds or is less than the total quantity of gas which customer is entitled to take on such day as defined below, then all gas taken in excess of such entitlement or not taken within said entitlement shall constitute unauthorized overrun or underrun volume. Each general system or customer-specific Declared Entitlement Period shall be specified as either an overrun or an underrun entitlement for customers such that only one penalty condition may exist at one time.

(N)

Customers served under Rate Schedule 663 shall pay Company for all unauthorized overrun or underrun quantities, as defined above, that exceed the percentage specified by the Company in its Declared Entitlement. For a general system or customer-specific Declared Entitlement Period, such percentage will be: (i) in the Company's sole discretion 3 percent, or, in the case of a Declared Overrun Entitlement Period announced on the day it is to be in effect, 5 percent for that day (Stage I), 8 percent (Stage II) or 13 percent (Stage III) of customers entitlement as set forth in paragraph 7 above, with respect to unauthorized overrun quantities, and (ii) 5 percent of customer's entitlement with respect to underrun volumes.

(N)

In the event of failure of customer's supplies or if capacity is preempted for service entitled to higher priorities than service to customer, Company may curtail deliveries to customer or issue a system entitlement. Gas taken by customer by reason of customer's failure to comply with Company's curtailment or entitlement order shall be considered as an unauthorized overrun volume. The overrun charge that will be applied during any Overrun Entitlement period will equal the greater of \$1.00 per therm or 150% of the highest midpoint price for the day at NW Wyoming Pool, NW south of Green River, Stanfield Oregon, NW Canadian Border (Sumas), Kern River Opal, or El Paso Bondad supply pricing points (as published in "Gas Daily"), converted from dollars per dekatherms to dollars per Therm by dividing by ten. The overrun charge will be in addition to the incremental costs of any supplemental gas supplies the Company may have had to purchase to cover such unauthorized use, in addition to the regular charges incurred in the RATE section and those charges directly assignable under Operating Obligations and Conditions, Item No. 6 of this schedule and the regular charges incurred in the RATE section of the distribution system transportation rate schedule. The payment of an overrun penalty shall not under any circumstances be considered as giving customer the right to take unauthorized overrun gas or to exclude any other remedies which may be available to the Company to prevent such overrun. The charge that will apply during any Underrun Entitlement period will be \$1.00 per therm for any underrun imbalances.

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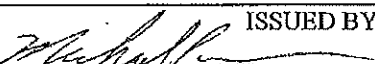
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