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October 20, 2004

Via Hand Delivery

Office of Fuels Programs
Fossil Energy
U.S. Department of Energy
Forrestal Building
1000 Independence Avenue, S.W.
Docket Room 3F-056, FE-50
Washington, D.C. 20585

04-107

Re: Application of Cascade Natural Gas Corporation for
Extension of Long Term Authorization to Import Natural
Gas from Canada, FE Docket No. 92-18-NG

Dear Sir or Madam:

Pursuant to Section 3 of the Natural Gas Act ("NGA"), 15 U.S.C. § 717b, and Part 590 of the Administrative Procedures of the Department of Energy ("DOE"), Office of Fossil Energy ("FE"), 10 C.F.R. Part 590 (1999), Cascade Natural Gas Corporation ("Cascade") hereby submits an original and five (5) copies of its Application for a four-year extension of Cascade's current long-term import authorization as authorized by the DOE/FE in Opinion and Order No. 664 on September 9, 1992. Cascade requests this extension in order that long-term gas supplies will continue to be available to Cascade to serve its markets in the States of Washington and Oregon. Cascade's requested four-year extension would commence on November 1, 2004, and run through November 1, 2008.

Cascade is herein seeking waiver of the thirty (30) day advance filing requirement set forth in § 590.201(b) of DOE's regulations, and maintains that good cause exists for granting such a waiver. Due to an administrative oversight, its

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Application was not filed thirty days in advance of November 1, 2004, as set forth in the regulations. However, because the instant Application only seeks a four-year extension of the import authorization previously found by DOE/FE to be in the public interest, Cascade submits that waiver of § 590.201(b) would be appropriate in this instance. Cascade requests DOE action on the instant Application on or before October 31, 2004, the date on which its current long-term import authorization will expire.

In accordance with DOE's regulations, Cascade is herein enclosing the applicable filing fee in the amount of \$50.00 payable to the Treasury of the United States.

Thank you in advance for your attention to this matter. Any questions may be directed to the undersigned.



Mary Ann Walker

Counsel for **Cascade Natural Gas Corporation**

Enclosures

cc: Manager, Natural Gas Regulation

UNITED STATES OF AMERICA
BEFORE THE
DEPARTMENT OF ENERGY
OFFICE OF FOSSIL ENERGY

Cascade Natural Gas Corp.)

FE Docket No. 92-18-NG

APPLICATION OF
CASCADE NATURAL GAS CORP. FOR EXTENSION OF LONG TERM
IMPORT AUTHORIZATION

Pursuant to Section 3 of the Natural Gas Act ("NGA"), 15 U.S.C. § 717b, Department of Energy ("DOE") Delegation Order Nos. 0204-111 and 0204-127¹, 49 *Fed. Reg.* 6684 (Feb. 22, 1984) and 54 *Fed. Reg.* 11,436 (Mar. 20, 1989), respectively, and Section 590.201 *et seq.*, of the Administrative Procedures of the DOE, Office of Fossil Energy ("FE"), 10 C.F.R. § 590.201, *et seq.* (1999), Cascade Natural Gas Corp. ("Cascade") hereby submits this Application to allow it to extend the long-term import authorization granted by the Department of Energy in DOE/FE Opinion and Order No. 664 on September 9, 1992 for an additional four year period through an including November 1, 2008. Cascade requests a four year extension of its current authorization to ensure that competitively-priced natural gas supplies will continue to be available to U.S.

¹ On January 6, 1989, the authority to regulate natural gas imports and exports was transferred from the Department of Energy's Economic Regulatory Administration to the Assistant Secretary for Fossil Energy. DOE Delegation Order No. 0204-127 specifies the transferred functions. 54 F.R. 11436 (Mar. 20, 1989). The Order authorizes the Assistant Secretary for Fossil Energy to "[r]egulate natural gas imports and exports, pursuant to the Natural Gas Act, in accordance with Delegation Order No. 0204-111." 54 F.R. 11437.

consumers in the Western region of the United States. Cascade also seeks to decrease the total amount authorized for import during the four-year period covered by this Application from 33,210 Mcf per day to 20, 000 Mcf per day, or approximately 7.5 Bcf per year.

Cascade respectfully requests waiver of § 590.201(b) of DOE's regulations, and maintains that good cause exists for granting such a waiver. Due to an administrative oversight, this Application was not filed thirty (30) days in advance of October 31, 2004, as set forth in the regulations. However, because the instant Application only seeks an extension of the import authorization previously found by DOE/FE to be in the public interest, Cascade submits that waiver of § 590.201(b) would be appropriate in this instance.

In further support of its Application, Cascade states the following:

I.

Communications concerning this Application should be addressed to the following persons:

Ms. Patricia A. Grable
Sn. Director, Gas Supply
Cascade Natural Gas Corp.
222 Fairview Avenue North
Seattle, Washington 98109-5312
(206) 381-6829

and

Mary Ann Walker, Esq.
416 Prince Street
Alexandria, Virginia 22314
(703) 549-9048

II.

The exact legal name of Cascade is Cascade Natural Gas Corporation. A copy of Cascade's Restated Articles of Incorporation and Restated ByLaws are attached as Exhibit 1. Cascade is a corporation organized and existing under the laws of the State of Washington. Cascade is a local distribution company engaged in the retail sale of natural gas in the states of Washington and Oregon. The proposed imports are within the corporate power of Cascade, as the attached Opinion of Counsel demonstrates (See: Exhibit 2).

III.

Pursuant to the authorization requested herein, Cascade intends to continue to purchase natural gas from Nexen, the current supplier to Cascade under the authorization granted in Order 664. In that Order, DOE/FE granted authorization to transfer authority to import natural gas from Canada under the Kingsgate Gas Sales Agreement ("Kingsgate Agreement") dated September 23, 1960, as amended August 15, 1989 from Northwest Pipeline Corporation ("Northwest") to Cascade, among others. Over the years the suppliers of record under the Kingsgate Agreement have changed due to corporate re-organizations and assignments. The most recent assignment, which resulted in a change in underlying suppliers of Canadian natural gas supplies, occurred on August 1, 2004 when the supply agreement underlying the authorization granted in Order 664 was assigned to Nexen. A copy of the contract documents reflecting the

subsequent assignments, as well as the current Gas Transaction Agreement are attached as Exhibit 3. During the four-year period sought here for approval, Cascade will continue to purchase natural gas from Nexen at competitive terms and conditions to meet the demands of Cascade's customers in the states of Washington and Oregon.

DOE regulations relating to the import and export of natural gas, 10 C.F.R. Part 590, set forth several considerations which an Applicant must describe in order to provide the Office of Fossil Energy with sufficient information to examine the competitiveness of the import, the need for natural gas, and the security of supply. In order to satisfy these requirements and to demonstrate that the requested import authorization is not inconsistent with the public interest, Cascade states as follows:

A. Scope of the Project

The extension of import authorization requested herein will permit Cascade to import volumes of natural gas provided by Nexen for sale to Cascade for its system supply. Cascade requests authorization to import up to a maximum of 20,000 Mcf per day, commencing on November 1, 2004 and termination on November 1, 2008. Imports are requested to be authorized near Sumas, Washington, which is the interconnection point of Duke Energy Transmission ("Duke") and Northwest at the U.S.-Canadian international boundary, with an alternate point of delivery at the point of interconnection between Duke and Cascade near Sumas, Washington. The requested extension of import authorization will not require the construction of any new pipeline facilities.

B. Source and Security of Supply

Cascade has entered into a Gas Transaction Agreement (“Agreement”) for the extension of the underlying supply of Canadian natural gas, as authorized in Order 664 (See: Exhibit 3). This Agreement, which was assigned to Nexen effective August 1, 2004, became effective on November 1, 2003 (with Engage Energy Canada, L.P. as the supplier) and continues in effect until November 1, 2008. Under the terms of the Agreement, the original volumes authorized in Order 664 have been decreased from 33,210 Mcf per day to 20,000 Mcf per day. In addition, the terms of the contract provide that the original delivery point in the Kingsgate Agreement be changed from the international border near Kingsgate, British Columbia to a point near Sumas, Washington where there is an interconnection between the Canadian pipeline facilities currently owned by Duke and the U.S. pipeline facilities owned by Northwest. Upon delivery of the natural gas at Sumas, Washington, Cascade will make arrangements for delivery of the imported natural gas to its facilities in a reliable, convenient, and economical manner, or will take delivery directly into its facilities. The Agreement binds Cascade with respect to all price and related terms for this import, and can be relied upon by DOE/FE to demonstrate the security and competitiveness of the import.

C. Identity of Participants

Cascade is organized and exists under the laws of the State of Washington and, pursuant to the licenses obtained from the States of Washington and Oregon, respectively, Cascade is duly authorized to do business in those states. Cascade is the “Buyer” under the Agreement.

Nexen, is a corporation organized under the laws of Alberta, Canada, and maintains its principal offices in the City of Calgary, Alberta. Nexen is registered to do business in the Province of British Columbia, Canada, and is the “Seller” under the Agreement.

Duke will provide for shipment of Seller’s natural gas within British Columbia to the point of delivery at the international boundary between Canada and the United States, and Northwest will provide transportation on its system from the point of delivery to Buyer’s interconnection with Northwest. Alternatively, Cascade will import the gas directly into its system at the international boundary.

D. Terms of the Transaction

The effective date of the Agreement is November 1, 2003 and it continues in effect until November 1, 2008. In this respect, Cascade notes that it is currently importing natural gas under Cascade’s import authorization issued in DOE/FE Order 664 (September 9, 1992). However, since the Agreement extends the term of the underlying supply contract until November 1, 2008, Cascade is seeking the requested extension of import authorization. The terms of this long term gas supply transaction are set forth in detail in the Agreement (See: Exhibit 3), including provisions governing price, daily quantity, receipt and delivery points, etc.

E. Need for the Natural Gas

Consistent with the authorization sought and the policy approach of the Secretary of Energy need for the gas is evidenced by the fact that Cascade, a local distribution company, has an established market for the gas. Pursuant to DOE/FE Order 664, Cascade has been importing Canadian natural gas to supply its customers on a long-term basis. Cascade anticipates a continuing long-term need for this important source of gas supply. Moreover, the Secretary of Energy's "Policy Guidelines Relating to the Regulation of Imported Natural Gas" indicates that imported gas marketed at competitive prices over the term of the contract is subject to a rebuttable presumption that such gas is needed.²

F. Environmental Impact

Cascade intends to utilize existing facilities of U.S. and Canadian pipelines for the transportation and delivery of its imported gas suppliers. The imports for which authorization is requested herein do not contemplate the construction of any new facilities. Thus, Cascade anticipates that no environmental impact will result from this authorization.

² Delegation Order 0204-111, February 15, 1984, 49 Fed. Reg. 6684, 6687 (Feb. 22, 1984).

G. Statement Regarding the Public Interest

Cascade's request to continue its authorized importation of Canadian natural gas will provide a competitively priced and secure gas supply that will serve the public interest. Under Section 3 of the NGA, 15 U.S.C. § 717b, importation of natural gas is to be authorized unless there is a finding that it "will not be consistent with the public interest". In this case, Cascade's Application for an extension of its current long-term authority to import natural gas is clearly consistent with the public interest as set forth in Section 201 of The Energy Policy Act of 1992, 15 U.S.C. § 717b(c). Section 201 states in pertinent part:

[T]he importation of the natural gas referred to in subsection (b) of this section, or the exportation of natural gas to a nation with which there is an effect a free trade agreement requiring national treatment for trade in natural gas, shall be deemed to be consistent with the public interest, and applications for such importation or exportation shall be granted without modification or delay.

15 U.S.C. § 717b(c).

Cascade submits that in DOE/FE Order 664, DOE/FE found that Cascade's requested long-term import authority met the public interest requirements of Section 3 of the NGA. By approving the instant Application, DOE/FE will allow gas consumers in the Pacific Northwest expanded access to competitively priced Canadian gas supplies. Accordingly, Cascade requests that the DOE find the instant Application to extend an existing long-term import authorization to be in the public interest.

LIST OF EXHIBITS

In support of this Application, and pursuant to 10 C.F.R. Section 590, the following Exhibits are attached:

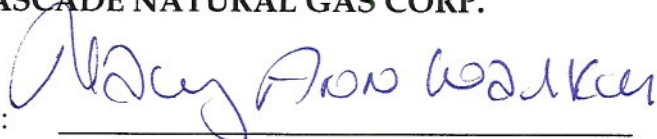
- Exhibit 1:** Certified copies of the Restated Articles of Incorporation and ByLaws of Cascade Natural Gas Corporation
- Exhibit 2:** Opinion of Counsel
- Exhibit 3:** Long Term Gas Supply Agreement, and preceding assignments of supply obligation under DOE/FE Order No. 664
- Exhibit 4:** Verification

WHEREFORE, Cascade submits that the granting of this import Application will allow it to continue to meet the long-term needs of its customers in the States of Washington and Oregon, as it currently has been doing under DOE/FE Order 664. Therefore, the instant Application satisfies the public interest requirements set forth at Section 3 of the Natural Gas Act and Section 201 of the Energy Policy Act of 1992. The current authorization granted in Order 664 expires on October 31, 2004. Therefore, Cascade requests that DOE/FE act expeditiously to issue an order granting

the extension of import authorization requested in the instant Application to be effective November 1, 2004.

Respectfully submitted,

CASCADE NATURAL GAS CORP.

By: 

Mary Ann Walker, Esq.
416 Prince Street
Alexandria, Virginia 22314
(703) 549-9048

Counsel for **Cascade Natural Gas Corp.**

Dated: October 20, 2004

EXHIBIT 1

**Certified copies of the most recent Restated Articles of
Incorporation and ByLaws of Cascade Natural Gas
Corporation**

CASCADE NATURAL GAS CORPORATION

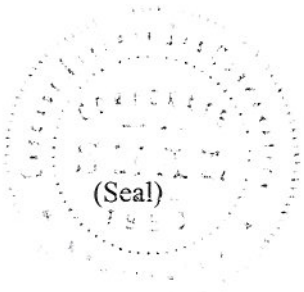
Certificate of Restated Articles of Incorporation Adopted

I, Larry C. Rosok, Corporate Secretary of CASCADE NATURAL GAS CORPORATION, a Washington corporation (hereinafter called the "Corporation"), DO HEREBY CERTIFY that the "Restated Articles of Incorporation of Cascade Natural Gas Corporation" annexed hereto are true and correct copies of the Restated Articles of Incorporation executed on March 28, 1996; and that said Articles of Incorporation have not been amended or otherwise changed and remain in full force and effect on the date hereof.

IN WITNESS WHEREOF, I have hereunto signed my name and affixed the seal of the Corporation as of this 19th day of October, 2004.



Larry C. Rosok
Corporate Secretary



March 28, 1996

Restated Articles of Incorporation of Cascade Natural Gas Corporation

We, the undersigned, RALPH E. BOYD and LARRY C. ROSOK, President and Secretary respectively, of Cascade Natural Gas Corporation do hereby on behalf of said Corporation restate in a single document the entire text of its Articles of Incorporation, as previously amended, supplemented or restated to the date hereof:

ARTICLE I

The name of this Corporation shall be Cascade Natural Gas Corporation.

ARTICLE II

The objects and purposes for which this Corporation is formed are and shall be as follows:

1. To manufacture, produce, buy, sell, transport and in all other respects dispose of and deal in all forms and types of natural and/or manufactured gas, oil, petroleum and all forms and types of residual products thereof; to supply natural and/or manufactured gas and/or related petroleum products for lights, heating, power and all other domestic and industrial uses, and to furnish the same to public or private consumers both within and without the State of Washington; to construct pipelines for the transportation of natural and/or manufactured gas and other petroleum products and to buy, operate, lease and sell the same; to acquire, construct, erect, lay down, maintain, enlarge, alter, work and use all lands, buildings, easements, pipelines, machinery, plants, stocks, motors, fittings, meters, other apparatus materials and things and to supply all materials, products and things that may be necessary, incident or convenient in connection with the production, transportation, use, storage, regulation, measurement, supply and distribution of any of the products of the Company; to engage in the transportation of natural and/or manufactured gas, oil, petroleum and related products, either produced by this Corporation or other persons or corporations by means of pipelines, railroads, boats, barges, or other conveyances and to lease or sublease all or any part thereof to or from other persons or corporations for the like purpose; to acquire by purchase or otherwise, or by the right of exercise of eminent domain, rights-of-way for natural and/or manufactured gas or other petroleum products pipelines and to construct and maintain such pipelines for the carriage and transportation of such products on its own behalf and hire; to buy, acquire, sell, retain, deal in or otherwise dispose of, natural gas and other petroleum properties and interest and any right, title or interest therein; to carry on such other business pertaining to natural and manufactured gas, oil, petroleum and similar products as may be found necessary or desirable or such as is generally engaged in by a corporation of this kind and to do all other acts and things required to be done in connection therewith, either within or without the State of Washington, U.S.A.
2. To manufacture, purchase or otherwise acquire, own, mortgage, pledge, sell, assign and transfer, or otherwise dispose of, to invest, trade, deal in and deal with, goods, wares and merchandise and real and personal property of every class and description.
3. To acquire by purchase, assignment or otherwise, letters patent of the United States and the Territorial and other rights and licenses which may be of value or advantage in the carrying out of the above mentioned objects, and to dispose of the same by sale, license, assignment or otherwise.
4. To acquire, and pay for in cash, stock or bonds of this Corporation, or otherwise, the good will, rights, assets and property, and to undertake or assume the whole or any part of the obligations or liabilities of any person, firm, association or corporation.
5. To guarantee, purchase, hold, sell, assign, transfer, mortgage, pledge or otherwise dispose of shares of the capital stock of, or any bonds, securities or evidence of indebtedness created by any other corporation or corporations organized under the laws of this State, or any other state, country, nation or government, and while the owner thereof to exercise all rights, powers and privileges of ownership.
6. To issue bonds, debentures, or obligations of this Corporation from time to time, for any of the objects or purposes of the Corporation, and to secure the same by mortgage, pledge, deed of trust, or otherwise.

7. To have one or more officers; to carry on all or any of its operations and business and without restriction or limit as to amount, to purchase or otherwise acquire, own, hold, mortgage, sell, convey or otherwise dispose of real and personal property of every class and description, in any of the states, districts, territories or colonies of the United States, and in any and all foreign countries, subject to the laws of such states, district, territory, colony or country.

8. To carry on in general any other business in connection with the foregoing, whether manufacturing or otherwise, and to have and exercise all the powers conferred by the laws of Washington upon corporations and to do any or all of the things thereinbefore set forth to the same extent as natural persons might or could do.

9. The foregoing clauses shall be construed both as objects and powers, and it is specifically provided that the foregoing enumeration of specific powers shall not be held to limit or restrict in any manner the powers of this Corporation.

ARTICLE III

The time of the existence of this Corporation shall be perpetual.

ARTICLE IV

The office and principal place of business of this Corporation shall be 222 Fairview Avenue North, Seattle, King County, Washington 98109.

ARTICLE V

The capital of this Corporation shall consist of a total of sixteen million ninety-six thousand five hundred sixty, (16,096,560) shares, divided into ninety six thousand five hundred sixty (96,560) shares of 55¢ Cumulative Preferred Stock, without nominal or par value (hereinafter referred to as "Preferred Stock"), one million (1,000,000) shares of Preferred Stock, with a par value of \$1.00 per share (hereinafter referred to as the "\$1.00 Preferred Stock"), and fifteen million (15,000,000) shares of Common Voting Stock with a par value of \$1.00 per share (hereinafter referred to as "Common Stock").

The designations, preferences, privileges, voting power, restrictions, and qualifications of shares of each class of stock are as follows:

1. The 55¢ Preferred Stock consists of - 0 - shares of Series A, 31,500 shares of Series B and 65,060 shares of Series C. All shares of all series of 55¢ Preferred Stock are alike in every particular, except as to the dates from which dividends commenced to accrue and the commencement of the period for establishment of sinking funds for redemption of shares, and all shares of 55¢ Preferred Stock are of equal rank and have the same powers, preferences and rights, and are subject to the same qualifications, limitations, and restrictions, without distinction between the shares of different series thereof.

2. The holders of the 55¢ Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors, dividends from the surplus or net profits of the Corporation at the rate of 55¢ per annum and no more, payable quarterly on the first days of February, May, August, and November. Such dividends shall be paid to or set apart for the holders of 55¢ Preferred Stock before any Common Stock of the Corporation or any other class of securities of the Corporation junior to the 55¢ Preferred Stock as to dividends or assets ("Other Securities") shall be purchased, retired, or otherwise acquired for valuable consideration by the Corporation or any dividends shall be paid upon, or set apart for any of the Common Stock or Other Securities of the Corporation, and shall be cumulative, so that if in any quarterly dividend period, the dividend installment computed at the rate of 55¢ per share per annum shall not have been paid upon or set apart for the 55¢ Preferred Stock, the deficiency (without interest) shall be fully paid or set apart for payment before any Common Stock or Other Securities of the Corporation shall be purchased, retired, or otherwise acquired for valuable consideration by the Corporation or any dividends shall be paid upon, or set apart for the Common Stock or Other Securities.

3. In the event of voluntary liquidation, dissolution, or winding up of the Corporation, the holders of the 55¢ Preferred Stock shall be entitled, after the debts of the Corporation shall have been paid, to receive out of the assets remaining, the then current redemption or call price per share thereof, determined in accordance with the provisions hereinbelow concerning optional redemption of 55¢ Preferred Stock, together with all dividends thereon accrued or in arrears, whether or not earned or declared, before any payment is made or assets set apart for the payment to the holders of the Common Stock or Other Securities, and shall be entitled to no further payments or distribution. In the event of the involuntary liquidation, dissolution, or winding up of the Corporation, the holders of the 55¢ Preferred Stock shall be entitled, after the debts of the Corporation shall have been paid, to receive out of the assets remaining, \$10.00 per share,

together with all dividends thereon accrued or in arrears, whether or not earned or declared, before any payment is made or assets set apart for payment to the holders of the Common Stock or Other Securities, and shall be entitled to no further payments or distribution. If the assets remaining after payment of the corporate debts be insufficient to pay the full amounts as hereinabove provided, such assets as remain shall be divided among the holders of 55¢ Preferred Stock in proportion to the number of shares of 55¢ Preferred Stock held.

4. The Corporation may, at any time and from time to time, at the option of the Board of Directors, unless prevented from doing so by law or by applicable restrictive provisions herein, or in any mortgage or deed of trust or loan agreement of the Corporation, redeem the whole or any part of the outstanding 55¢ Preferred Stock on any dividend payment date after the issuance thereof, upon not less than 30 days' previous notice to the holders of record of the 55¢ Preferred Stock to be redeemed, at a redemption or call price for each share thereof equal to the sum of Ten Dollars (\$10.00) plus all dividends accrued or in arrears thereon, plus a premium of Ten Cents (10¢) per share as to shares of Series C. No premium shall be payable on redemption with respect to redemption of shares of Series A or shares of Series B, at any time, or with respect to shares of Series C redeemed after June 25, 1994; provided, however, that if such redemption is effected with funds set apart for the 55¢ Preferred Stock redemption sinking fund as provided herein, then the same may be effected at a price per share equal to the sum of Ten Dollars (\$10.00) plus all dividends accrued or in arrears thereon and without the payment of any premium. If less than all the shares of 55¢ Preferred Stock are to be redeemed, the shares to be redeemed shall be selected in such manner as the Board of Directors may determine. No shares of 55¢ Preferred Stock shall be purchased, redeemed, or otherwise acquired for a valuable consideration unless full cumulative dividends on the 55¢ Preferred Stock for all past quarterly dividend periods shall have been paid, or declared and a sum sufficient for the payment thereof set apart. The holders of shares of 55¢ Preferred Stock called for redemption shall not, from and after the date fixed in such notice for the redemption of such stock, possess or exercise any rights as stockholders of the Corporation except the right to receive from the Corporation the redemption price of such shares together with all unpaid accrued dividends thereon, without interest, upon the surrender thereof, unless default shall be made by the Corporation in providing funds at the time and place specified in such notice for payment of the redemption price.

5. While any shares of 55¢ Preferred Stock remain outstanding, within each twelve (12) month period ending November 1, the Corporation, unless prevented from doing so by law or by applicable restrictive provisions herein or in any mortgage or deed of trust or loan agreement of the Corporation, shall establish a sinking fund out of surplus or may establish a sinking fund out of capital, and shall acquire therewith, either by the redemption thereof or by the purchase thereof in such manner as the Board of Directors may determine from time to time at not exceeding the sinking fund redemption price thereof, and shall retire not less than the lesser of 17,948 shares of Series A, 10,500 shares of Series B, and 14,500 shares of Series C or all remaining shares of each series, respectively, of 55¢ Preferred Stock.

Provided, however, that if the Corporation shall be prevented by law or by applicable restrictive provisions herein, or in any mortgage or deed of trust or loan agreement of the Corporation, or for any other reason, from acquiring during any twelve (12) month period the number of shares of 55¢ Preferred Stock which, in the absence of such restriction it would be required to acquire during such period, the aggregate deficit shall be made good in the first succeeding twelve (12) month period in which the Corporation shall not be prevented by such restrictions from retiring shares of 55¢ Preferred Stock. Any shares of 55¢ Preferred Stock which in any such twelve (12) month period are redeemed by the Corporation at the optional redemption price hereinabove set forth, or are purchased by the Corporation but not applied to meet the Corporation's sinking fund obligation for such twelve month periods may be credited on the amount required to be acquired in any one or more of the next following twelve (12) month periods which the Corporation may designate. Shares of 55¢ Preferred Stock of the Corporation redeemed or purchased shall not be reissued. So long as any share of 55¢ Preferred Stock shall remain outstanding, no dividends, whether in cash, stock, or otherwise, shall be paid or declared or any distribution be made with respect to the Common Stock or Other Securities, nor shall any Common Stock or Other Securities be purchased, retired or otherwise acquired for a valuable consideration by the Corporation unless on or before the preceding November 1, the Corporation shall have acquired the number of shares of 55¢ Preferred Stock required to have been acquired by such date.

6. Except as otherwise provided herein or as otherwise made mandatory by law, the holders of the 55¢ Preferred Stock shall have no right to vote for the election of directors or for any other purpose and shall not be entitled receive notice of any meeting of stockholders and all voting rights shall be vested exclusively in the holders of the Common Stock and, to the extent applicable, holders of Other Securities. If and whenever six full quarterly dividends on 55¢ Preferred Stock shall be unpaid, then the holders of the 55¢ Preferred Stock shall be entitled, voting separately as a class and to the exclusion of the holders of the Common Stock and Other Securities, to vote for the election of three of the directors of the Corporation until all arrears and dividends on the 55¢ Preferred Stock shall have been paid in full, and thereupon the voting right for the election of three directors shall be divested from the holders of the 55¢ Preferred Stock and revested in the holders of the Common Stock and, to the extent applicable, holders of Other Securities, subject to revesting in the

event of each and every other subsequent such default. While any 55¢ Preferred Stock is outstanding, the Corporation, without first obtaining the consent, by the affirmative vote at a meeting called for that purpose, of the holders of at least two thirds of the total number of shares of 55¢ Preferred Stock then outstanding, shall not:

- a. Increase the authorized number of shares of 55¢ Preferred Stock or authorize or issue any stock having priority or preference over, or ranking on a parity with, the 55¢ Preferred Stock as to dividends or assets; or
- b. Amend the provisions hereof so as to affect adversely any of the preferences or other rights hereby given to the 55¢ Preferred Stock; or
- c. Merge or consolidate with or into any other corporation or corporations or sell or transfer all or substantially all of its assets as an entity.

7. After full cumulative dividends have been paid or declared and set apart for payment upon issued and outstanding 55¢ Preferred Stock, as hereinabove provided, and after the provisions herein or as established by the Board of Directors with respect to any sinking fund for redemption of 55¢ Preferred Stock have been complied with, holders of the Common Stock or Other Securities shall be entitled to receive such further dividends as may from time to time be declared by the Board of Directors of the Corporation out of any remaining surplus or net profits. The term "full cumulative dividend" whenever used in this article with reference to the 55¢ Preferred Stock of any series shall be deemed to mean (whether or not in any dividend period or any part thereof in respect of which such term is used there shall have been surplus or net profits of the Corporation legally available for the payment of such dividends) that amount which shall be equal to cumulative dividends at the prescribed rate to date from the date of cumulation for such series (including an amount equal to a dividend at such rate for the elapsed portion of the current dividend period) less, in each case, the amount of all cumulative dividends paid or deemed paid, upon the 55¢ Preferred Stock. The term "date of cumulation" as used in this article with respect to 55¢ Preferred Stock of any series means the date on which the dividend period during which shares of 55¢ Preferred Stock of such series are first issued shall begin or the date on which such shares are first issued when such issue is made on a date on which a dividend period begins.

8. A consolidation, reorganization, or merger of the Corporation with any other corporation or corporations shall not be considered a dissolution, liquidation, or winding up of the Corporation within the meaning of such terms as used herein.

9. The \$1.00 Preferred Stock may be issued from time to time in one or more series in any manner permitted by law and the provisions of these Restated Articles of Incorporation of the Corporation, as determined from time to time by the Board of Directors and stated in the resolution or resolutions providing for the issuance thereof, prior to the issuance of any shares thereof. The Board of Directors shall have the authority to fix and determine, subject to the provisions of this Article V, the rights and preferences of the shares of any series so established. Unless otherwise provided in the resolution or resolutions establishing a series of shares of \$1.00 Preferred Stock, prior to the issue of any shares of a series so established or to be established, the Board of Directors may, by resolution, amend the relative rights and preferences of the shares of such series, and, after the issue of shares of a series whose number has been designated by the Board of Directors, the resolution or resolutions establishing the series may be amended by the Board of Directors to decrease (but not below the number of shares of such series then outstanding) the number of shares of that series.

The 7.85% Preferred Stock, \$1.00 par value was authorized by the Board of Directors on December 20, 1991. The rights and preferences of the 7.85% Preferred Stock are attached as Exhibit A.

The Series Z Junior Participating Preferred Stock, \$1.00 par value, was authorized by the Board of Directors on March 19, 1993. The rights and preferences of the Series Z Preferred Stock are attached as Exhibit B.

ARTICLE VI

The amount of paid-in capital with which this Corporation shall begin to do business shall be Five Hundred Dollars (\$500.00) payable in cash or other property taken at a fair valuation.

ARTICLE VII

The directors shall be nine (9) in number, but the number of directors may be increased to any number not exceeding eleven (11) or decreased to any number not less than three (3) at any annual meeting of the shareholders, or at any special meeting of the shareholders called for that purpose, or by a two-thirds vote of the then directors of the Corporation at any regular meeting of the directors, or at any special meeting of the directors called for that purpose.

The names and post office addresses of the directors of the Corporation in office at the time of the adoption of these Restated Articles and on the date hereof, who shall serve until the 1996 Annual Meeting of Shareholders, and until their successors are elected and qualify are as follows:

Carl Burnham, Jr.	P. O. Box 5 Ontario, Oregon 97914
Melvin C. Clapp	3608 S.W. 328 th Street Federal Way, Washington 98023
David A. Ederer	4919 N.E. Laurel Crest Lane Seattle, Washington 98105
Howard L. Hubbard	5320 N.W. Edgebrook Place Portland, Oregon 97229-1974
W. Brian Matsuyama	222 Fairview Avenue No. Seattle, Washington 98109
Larry L. Pinnt	15306 N.E. 190 th Woodinville, Washington 98072
Brooks G. Ragen	Suite 4300 999 Third Avenue Seattle, Washington 98104
Andrew V. Smith	1600 Bell Plaza, Room 1802 Seattle, Washington 98191
Mary A. Williams	1234 McGilvra Boulevard E. Seattle, Washington 98112

ARTICLE VIII

The Board of Directors of this Corporation shall have the authority to make and alter By-Laws not inconsistent with the law or with the Articles of Incorporation and subject to the power of the shareholders to change or repeal such By-Laws.

ARTICLE IX

Except as may be otherwise provided by law, or by applicable restrictive provisions of Article V hereof, as amended, or any mortgage, deed of trust or loan agreement of the Corporation, the shares of stock of this Corporation, whether Preferred or Common, may be issued by it from time to time without the consent of any holder of any share thereof, in such manner, or amount of shares of each said class of stock, and for such consideration in labor, services, money or property, as from time to time may be fixed and determined by the Board of Directors of this Corporation, and, except as so restricted, the right, power and authority of said Board of Directors from time to time so to authorize and order the issuance by this Corporation of the said shares of each class of said stock and such number or amount of shares and for such consideration in labor, services, money or property as from time to time said Board of Directors may fix and determine, is hereby absolutely reserved to said Board of Directors.

No holder of shares of the capital stock of any class of this Corporation shall have any preemptive or preferential right of subscription to any shares of any class of stock of this Corporation, whether now or hereafter authorized, or to any obligations convertible into stock of this Corporation, which may be issued or sold, nor any right of subscription other than such, if any, as the Board of Directors in its discretion may from time to time determine and at such price as the Board of Directors from time to time may fix.

Payment or delivery to, or receipt by this Corporation of such consideration as may be fixed and determined by the Board of Directors for the issuance of any share or shares of its capital stock, as hereinbefore provided, shall operate and be construed, deemed and held: (a) to discharge, release and satisfy fully and absolutely all liability to the Corporation and/or to its creditors now or at any time hereafter existing, of any subscriber for and/or holder of any such share or shares so authorized to be issued in any way on account of, founded upon, or arising out of any subscription for and/or purchase of, and/or issuance of such share or shares, and (b) to constitute such share or shares fully paid stock of the Corporation.

ARTICLE X

LIMITATION ON DIRECTOR LIABILITY

To the fullest extent permitted by Washington law at the time this Article becomes effective or as may thereafter be in effect, a director of this Corporation shall not be liable to this Corporation or its shareholders for the monetary damages for his or her conduct as a director. Any amendment to or repeal of this Article X shall not adversely affect any right of a director of this Corporation hereunder with respect to any acts or omissions of such director occurring prior to such amendment or repeal.

ARTICLE XI

INDEMNIFICATION OF DIRECTORS

To the fullest extent permitted by Washington law at the time this Article becomes effective or as may be thereafter in effect, this Corporation is authorized to indemnify any director of this Corporation. The Board of Directors shall be entitled to determine the terms of such indemnification, including advance of expenses, and to give effect thereto through the adoption of By-Laws, approval of agreements, or by any other manner approved by the Board of Directors. Any amendment to or repeal of this Article XI shall not adversely affect any right of a director of this Corporation hereunder with respect to any right to indemnification that arises prior to such amendment or repeal.

ARTICLE XII

BUSINESS COMBINATIONS / FAIR PRICE PROVISIONS

A. The following definitions shall apply for purposes of this Article XII:

1. The terms "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 under the Securities Exchange Act of 1934 and the rules and regulations thereunder (the "Act") (or any subsequent provisions replacing such Act, rules, or regulations) as in effect on March 24, 1992 (the term "registrant" in said Rule 12b-2 meaning in this case the Corporation).

2. The term "Beneficially Own," when used with respect to a person's interest in shares of capital stock, shall mean that said person has or shares (or has the right to acquire under any option, warrant, conversion right or other right), directly or indirectly, the power to vote, the power to dispose of, the power to direct the voting or disposition of, or the right to enjoy the economic benefits of such shares.

3. The term "Business Combination" shall mean (a) any merger or consolidation of the Corporation or a Subsidiary of the Corporation with or into an Interested Shareholder (or an Affiliate or Associate of an Interested Shareholder) or any merger of an Interested Shareholder (or an Affiliate or Associate of an Interested Shareholder) into the Corporation or a Subsidiary of the Corporation, (b) any sale, lease, exchange, transfer, encumbrance or other disposition of Substantial Assets either of the Corporation (including without limitation any securities of a Subsidiary) or of a Subsidiary of the Corporation, to an Interested Shareholder (or an Affiliate or Associate of an Interested Shareholder), (c) the issuance of any securities of the Corporation or a Subsidiary of the Corporation to an Interested Shareholder (or an Affiliate or Associate of an Interested Shareholder), (d) any reclassification, exchange of shares or other recapitalization that would have the effect of increasing the proportion of shares of Common Stock or other capital stock of the Corporation or a Subsidiary of the Corporation Beneficially Owned by an Interested Shareholder, or (e) any agreement, contract, or other arrangement providing for any of the foregoing transactions.

4. The term "Continuing Director" shall mean a director who was a member of the Board of Directors of the Corporation immediately prior to the time that the Interested Shareholder involved in a Business Combination became an Interested Shareholder and who is not the Interested Shareholder or an Affiliate or Associate of the Interested Shareholder.

5. "Fair Market Value" means (a) in the case of cash, the amount of such cash; (b) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the composite tape for New York Stock Exchange Listed Stocks, or, if such stock is not quoted on the composite tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Act on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any similar system then in use, or if no quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Continuing Directors in good faith; and (c) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined in good faith by a majority of the Continuing Directors.

6. The term "Interested Shareholder" shall mean any person (other than the Corporation or any Subsidiary and other than any profit-sharing, employee stock ownership or other employee benefit plan of the Corporation or any Subsidiary or any trustee or fiduciary with respect to any such plan when acting in such capacity) who is or has announced or publicly disclosed a plan or intention to become the beneficial owner of Common Stock representing ten percent (10%) or more of the votes entitled to be cast by the holders of all then outstanding shares of Common Stock.

7. The term "person" shall mean any individual, firm, company, or other entity and shall include any group comprised of any person and any other person with whom such person or any Affiliate or Associate of such person has any agreement, arrangement, or understanding, directly or indirectly, for the purpose of acquiring, holding, voting, or disposing of Common Stock.

8. The term "Subsidiary" means any company of which a majority of any class of equity security is Beneficially Owned by the Corporation; provided, however, that for the purposes of the definition of Interested Shareholder set forth in paragraph 6 of this section A, the term "Subsidiary" shall mean only a company of which a majority of each class of equity security is Beneficially Owned by the Corporation.

9. The term "Substantial Assets" shall mean assets with a Fair Market Value in excess of five percent (5%) of the total assets of the Corporation as reported in the consolidated financial statements of the Corporation as of the end of its most recent fiscal year ending prior to the time the determination is made.

B. In addition to any vote or approval required by law, any Business Combination shall require the affirmative vote of the holders of not less than eighty percent (80%) of the outstanding shares of capital stock of the Corporation which are not Beneficially Owned by the Interested Shareholder and its Affiliates or Associates involved in the Business Combination; provided, however, that such eighty percent (80%) voting requirement shall not apply if:

1. The Business Combination is a merger, consolidation or exchange of shares involving the Corporation which provides for the conversion of the shares of Common Stock of the Corporation into cash, securities or other property with a Fair Market Value per share of Common Stock not less than the highest per share consideration (appropriately adjusted for stock splits, stock dividends and other like charges) paid or given by the Interested Shareholder and any of its Affiliates or Associates for any of their shares of Common Stock; or

2. The Business Combination was approved by the Board of Directors of the Corporation; provided that a majority of the Board of Directors consisted of Continuing Directors and at least two-thirds of the Continuing Directors voted to approve the Business Combination.

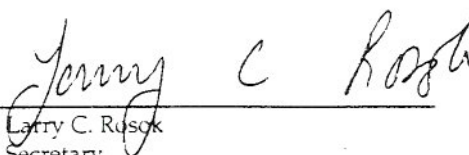
C. The provisions set forth in this Article XII may not be repealed or amended in any respect unless such repeal or amendment is approved by the affirmative vote of the holders of not less than eighty percent (80%) of the outstanding shares of capital stock of the Corporation which are not Beneficially Owned by an Interested Shareholder.

Restated Articles of Incorporation of Cascade Natural Gas Corporation, are herein executed in duplicate by said Corporation, pursuant to the provisions of RCW 23B.10.070, and correctly set forth without change the corresponding provisions of the Articles of Incorporation as previously stated and amended and supersede the original Articles of Incorporation and all amendments to said Articles of Incorporation of Cascade Natural Gas Corporation.

IN WITNESS WHEREOF, the undersigned officers of Cascade Natural Gas Corporation have hereby executed in duplicate these Restated Articles of Incorporation, and have hereunto set their hands this 28th day of March, 1996.

CASCADE NATURAL GAS CORPORATION

By 
Ralph E. Boyd
President

By 
Jerry C. Rusok
Secretary

CASCADE NATURAL GAS CORPORATION
STATEMENT OF RIGHTS AND PREFERENCES
OF THE 7.85% CUMULATIVE PREFERRED STOCK

1. Preference.

The preferences of each share of 7.85% Preferred with respect to dividend payments and distributions of the Corporation's assets upon voluntary or involuntary liquidation, dissolution or winding up of the Corporation shall be equal to the preferences of every other share of 7.85% Preferred from time to time outstanding in every respect and, except for Priority Stock and Parity Stock, prior in right to such preferences of all other equity Securities of the Corporation, whether now or hereafter authorized.

2. Voting Rights.

The Holders of 7.85% Preferred shall not, by virtue of their ownership thereof, be entitled to vote upon any matter except as otherwise provided herein or by law.

3. Liquidation Rights.

If the Corporation shall be voluntarily or involuntarily liquidated, dissolved or wound up, at any time when any 7.85% Preferred shall be outstanding, each then outstanding share of 7.85% Preferred shall entitle the Holder thereof to a preference against the Property of the Corporation available for distribution to the Holders of the Corporation's equity Securities equal to the sum of \$100 plus an amount equal to all unpaid dividends accrued on such share to the date of payment of such preference, whether or not earned, whether or not funds of the Corporation are legally available for the payment of dividends and whether or not such dividends have been declared by the Board (the "Liquidation Amount"); provided, however, that if liquidation, dissolution or winding up occurs within 120 days subsequent to an issuance of Excess Preferred, the Liquidation Amount, in lieu of the amount set forth above, shall instead be the amount that would be payable pursuant to Section 6.A(ii) hereof if the 7.85% Preferred were redeemed pursuant to that Section.

All of the preferential amounts to be paid to the Holders of 7.85% Preferred in connection with the liquidation, dissolution or winding up of the Corporation as provided in this Section 3 shall be paid or set apart for payment in cash (a) after the payment or setting apart for payment of all preferential amounts to be paid or set apart for payment with respect to Priority Stock, whether now or hereafter authorized, (b) simultaneously with preferential amounts to be paid or set apart for payment with respect to Parity Stock, whether now or hereafter authorized, and (c) before the payment or setting apart for payment of any amount with respect to Junior Stock, whether now or hereafter authorized, or the distribution of any Property of the Corporation other than cash with respect to such Junior Stock. A consolidation, reorganization or merger of the Corporation with any other corporation or corporations shall not be considered a dissolution, liquidation or winding up of the Corporation within the meaning of such terms as used herein.

4. Dividends.

Commencing on the date of issuance, so long as any 7.85% Preferred shall be outstanding, each Holder of outstanding 7.85% Preferred shall be entitled to receive dividends in cash at the rate of \$7.85 per annum per share thereof, out of any funds legally available therefor, payable on the first day of February, May, August and November of each year as and when declared by the Board. Such dividends shall be cumulative on each such share from the date of issuance thereof, whether or not earned, whether or not funds of the Corporation are legally available for the payment of dividends, and whether or not declared by the Board, so that if the full dividends in respect of any previous quarterly dividend period shall not have been paid on the 7.85% Preferred at the time outstanding, whether or not earned, whether or not funds of the Corporation are legally available for the payment of dividends, and whether or not declared by the Board, the deficiency shall be fully paid on or declared and set apart for such shares (without interest) before any dividend or other distribution shall be paid on or declared or set apart for any other equity Securities of the Corporation, whether now or hereafter authorized, other than dividends on Parity Stock paid, declared or set apart in the manner permitted by Section 12(E) hereof, or dividends on Priority Stock, and before any redemption, retirement, purchase or other acquisition of any other equity Securities of the Corporation, whether now or hereafter authorized, other than a redemption, retirement,

purchase or other acquisition of Parity Stock made in the manner permitted by Section 12(E) hereof or a redemption, retirement, purchase or other acquisition of Priority Stock.

5. Mandatory Redemption.

The Corporation shall make a mandatory redemption in cash of all outstanding shares of the 7.85% Preferred on November 1, 1999, in accordance with the procedures set forth in this Section 5 and in Section 7 hereof, at a redemption price equal to the Liquidation Amount.

The Corporation shall mail a notice ("Mandatory Redemption Notice") not later than September 15, 1999 of a redemption pursuant to this Section 5 to each Holder of 7.85% Preferred by registered or certified mail, postage prepaid, to such Holder's address as shown on the books and records of the Corporation. The Notice shall state (i) the Redemption Date, which is November 1, 1999, and (ii) the redemption price, accompanied by the calculation of such price set out in reasonable detail.

6. Redemption at the Option of the Holder.

A. Optional Redemption. Notwithstanding any other provision contained herein, after the occurrence of a Redemption Event, each Holder of outstanding 7.85% Preferred shall have the right, in accordance with the procedures set forth in this Section 6 and in Section 7 hereof, to require the Corporation to redeem all shares of 7.85% Preferred held by such Holder for the following price:

(i) if the Redemption Event is a Ratings Downgrade, Dividend or Redemption Shortfall or Restrictive Arrangement, at a price per share equal to the Liquidation Amount;

(ii) if the Redemption Event is Excess Preferred, at a price per share as set forth below, together with an amount equal to dividends accrued and unpaid thereon to the date of payment, whether or not earned, whether or not funds of the Corporation are legally available for the payment of dividends, and whether or not declared by the Board:

<u>If the Redemption Event Occurs During the Twelve Months Ended</u>	<u>Price Per Share</u>
December 31, 1992	\$107.85
December 31, 1993	\$106.73
December 31, 1994	\$105.61
December 31, 1995	\$104.49
December 31, 1996	\$103.36
December 31, 1997	\$102.24
December 31, 1998	\$101.12
December 31, 1999	\$100.00

B. Form of Optional Redemption Notice. Within 7 days after the occurrence of a Redemption Event, the Corporation shall mail a notice ("Optional Redemption Notice") to each Holder of 7.85% Preferred by registered or certified mail, postage prepaid, to such Holder's address as shown on the books and records of the Corporation. The Notice shall state that a Redemption Event has occurred, describe the Redemption Event in reasonable detail, and offer to redeem all shares of 7.85% Preferred owned by such Holder at the appropriate price, as set forth in Section 6.A hereof. The Notice shall also state (i) the Redemption Date, which shall be a date not less than 30 nor more than 90 days after the date of the Optional Redemption Notice, and (ii) the redemption price, accompanied by the calculation of such price set out in reasonable detail. The Notice shall request that such Holder notify the Corporation in writing not more than 20 days after such Holder receives the Notice whether or not such Holder elects to have the Corporation redeem all of the shares of 7.85% Preferred held by such Holder at the redemption price. The Notice shall also inform such Holder that failure to respond to the redemption offer within such 20 day period shall be deemed to be a rejection of the offer. Redemptions made pursuant to Section 6 hereof shall be of all and not a part of the shares of 7.85% Preferred held by a Holder, and no Holder shall be entitled to cause such Holder's shares of 7.85% Preferred to be redeemed unless all nominees and Affiliates of such Holder, if any, which are Holders of shares of 7.85% Preferred have elected to have the Corporation redeem all shares of 7.85% Preferred held by them.

7. Provisions Applicable to All Redemptions.

A. **Manner of Redemption.** On the Redemption Date, the Corporation shall pay in cash to each Holder of 7.85% Preferred with respect to each share of 7.85% Preferred held by such Holder an amount equal to the redemption price in effect on the Redemption Date, such payment to be made by Fedwire transfer of immediately available funds or by certified or official bank check transmitted to such Holder by registered or certified mail, postage prepaid, to such Holder's address as shown on the books and records of the Corporation.

B. **Effect of Payment.** If on the Redemption Date funds necessary for the redemption of all the 7.85% Preferred then outstanding, if the redemption occurs pursuant to Section 5 hereof, or funds necessary for the redemption of the 7.85% Preferred then held by Holders electing to have such shares redeemed, if the redemption occurs pursuant to Section 6 hereof, shall have been paid as provided for in Section 7.A hereof, then from and after the Redemption Date, the shares of 7.85% Preferred with respect to which such payment has been made shall be deemed to be redeemed, and the Holders of such shares of 7.85% Preferred shall cease to be Stockholders of the Corporation with respect to such shares of 7.85% Preferred, and shall have no rights with respect thereto from and after the Redemption Date. Surrender of the certificate or certificates evidencing 7.85% Preferred shall not be required in connection with the redemption thereof.

C. **No Reissuance of 7.85% Preferred.** All shares of 7.85% Preferred redeemed as hereinabove required shall be retired and cancelled and shall not be reissued; **provided, however,** that each such share, after being retired and cancelled, shall be restored to the status of an authorized but unissued share of Preferred Stock without designation as to series and may thereafter be issued as a share of Preferred Stock not designated 7.85% Preferred.

8. Limitation on Additional Issuance of Preference Stock.

Subject to the terms and conditions of this Statement of Rights and Preferences the Corporation may from time to time authorize and issue additional shares of Preference Stock unless Earnings Available for Payment of Interest Charges and Dividends for the twelve consecutive calendar months immediately preceding the calendar month in which such Stock is issued is less than 150% of the aggregate of (i) all interest paid or accrued on Indebtedness of the Corporation during the twelve consecutive calendar months immediately preceding the calendar month in which such Stock is issued, plus (ii) the dividends paid or accrued on all shares of all classes and series of Preference Stock during the twelve consecutive calendar months immediately preceding the calendar month in which such Stock is issued, for such purpose treating such Stock as having been outstanding throughout such twelve-month period (the "Dividend Coverage Test"). Prior to authorizing or issuing any additional shares of Preference Stock, the Chief Financial Officer or Treasurer of the Corporation shall certify that the Dividend Coverage Test has been met as of the date of issuance of the additional shares of Preference Stock, and such certification shall be sent to each Holder of 7.85% Preferred, by registered or certified mail, postage prepaid, to such Holder's address as shown on the books and records of the Corporation.

9. Contingent Voting Rights.

If at any time any Voting Right Event shall occur, each outstanding share of 7.85% Preferred shall entitle the Holder thereof to one vote and each outstanding share, if any, of Parity Stock then entitled to vote for the election of directors shall entitle the Holder thereof to that number of votes per such share as is calculated by dividing the original issue price of such share by 100, and the Holders of 7.85% Preferred and the Holders of such Parity Stock shall as a class be entitled to elect three directors of the Corporation, and the Holders of other equity Securities of the Corporation then entitled to vote for the election of directors shall be entitled to elect the remaining members of the Board. At such time as the Voting Right Event which gave rise to the exercise of the voting rights provided for in this Section 9 has been cured by waiver, payment or otherwise, and all other events creating a Voting Right Event, if any, shall have been cured by waiver, payment or otherwise, the right of the Holders of 7.85% Preferred and such Parity Stock so to vote as provided in this Section 9 shall cease, subject to renewal from time to time upon the same terms and conditions. Notwithstanding anything herein to the contrary, the Holders of 7.85% Preferred and Parity Stock shall not have the aforesaid voting rights at any time that the Holders of Senior Preferred have elected three directors to the Board pursuant to Article V, Section 6 of the Restated Articles of Incorporation; **provided, however,** that at such time as either the right to elect directors by the Holders of Senior Preferred ceases or the Holders of Senior Preferred shall decline to elect three directors to the Board, if a Voting Right Event is then in existence the Holders of 7.85% Preferred and Parity Stock shall be entitled to exercise the rights contained in this Section 9, and **provided, further,** that if at any time that a Voting Right Event is in existence the Holders of Senior Preferred have elected one or two directors to the Board pursuant to such Article V, Section 6, the Holders of 7.85% Preferred and Parity Stock shall be entitled to elect a number of directors to the Board equal to the difference between three and the number of directors elected by the Holders of Senior Preferred, subject to removal if the Holders of Senior Preferred thereafter seek to fully exercise their right to elect directors.

At any time after the voting power to elect members of the Board shall have become vested in the Holders of 7.85% Preferred as provided in this Section 9, either alone or as a class with the Holders of Parity Stock then entitled to vote for the election of directors, if any, the Secretary of the Corporation may, and, upon the written request of the record Holders of that number of outstanding shares of 7.85% Preferred which equal, in the aggregate, to at least twenty percent of the number of shares of 7.85% Preferred then outstanding, addressed to him at the principal office of the Corporation shall, call a special meeting of the Holders of 7.85% Preferred and the Holders of such Parity Stock, to be held at the principal office of the Corporation and upon not more than fifteen days notice. If such meeting shall not be so called within five days after personal service of the request, or within ten days after mailing of the same by registered or certified mail, postage prepaid, within the United States of America, then the record Holders of that number of outstanding shares of 7.85% Preferred which equal, in the aggregate, at least ten percent of the number of shares of 7.85% Preferred then outstanding may designate in writing one of their number to call such meeting, and the Person so designated may call such meeting at the place above provided and upon not less than ten days notice and for that purpose shall have access to the stock books of the Corporation. The Persons elected as directors by the Holders of 7.85% Preferred and the Holders of such Parity Stock at such meeting and the Persons so elected as directors at each subsequent annual meeting of the Corporation's stockholders, together with such individuals, if any, as may from time to time be elected as directors by the Holders of the other equity Securities of the Corporation then entitled to vote for the election of directors, shall constitute the duly elected directors of the Corporation. Any vacancy which shall arise for any reason with respect to a director elected by the Holders of such Parity Stock and the Holders of 7.85% Preferred shall be filled by action of the remaining directors so elected, or if there be none, by the Holders of Parity Stock entitled to vote for the election of directors at the time that such vacancy arises, if any, and the Holders of 7.85% Preferred at a meeting called in the manner set forth hereinabove and voting in the manner set forth hereinabove.

Whenever the voting power of the Holders of 7.85% Preferred has ceased as hereinabove in this Section 9 is provided, the term of office of the Persons, if any, who are at the time directors of the Corporation who were elected by the Holders of 7.85% Preferred and the Holders of Parity Stock in accordance with the preceding provisions of this Section 9 shall terminate.

10. Restricted Payment Limitation.

If at any time any Restricting Event shall occur, the Corporation shall not declare or make any Restricted Payments. At the time such Restricting Event has been cured by waiver, payment or otherwise, and all other events creating a Restricting Event, if any, shall have been cured by waiver, payment or otherwise, the prohibition provided for in this Section 10 shall cease, subject to renewal from time to time upon the same terms and conditions.

11. Pre-emptive Rights.

The Holders of 7.85% Preferred shall not have any pre-emptive rights upon the issuance or sale of shares of Stock of the Corporation of any class or series, whether now or hereafter authorized, or any Securities exchangeable for or convertible into such Stock.

12. Protective Provisions.

As long as any shares of 7.85% Preferred are outstanding, the Corporation shall not, without the approval by the vote or written consent of the Holders of not less than 66-2/3% (or more if required by law or such other amount as is stated herein) of the outstanding shares of 7.85% Preferred:

(A) Amend or repeal any provision of, or add any provision to, the Restated Articles of Incorporation or By-Laws if such action would alter or change the 7.85% Preferred or the powers, preferences, rights, qualifications, limitations and/or restrictions of the 7.85% Preferred;

(B) Amend or repeal any provision of, or add any provision to, this Statement of Rights and Preferences (except that the approval of the Holders of not less than 100% of the outstanding shares of 7.85% Preferred shall be required for amendments, repeals or additions affecting the dividend rate of the 7.85% Preferred, cumulation of the dividend of the 7.85% Preferred, the mandatory redemption of all then outstanding shares of 7.85% Preferred on November 1, 1999 at the redemption price stated in Section 5 hereof, or the redemption of 7.85% Preferred at the option of a Holder due to a Redemption Event at the redemption prices set forth in Section 6.A hereof);

(C) Issue any shares of Senior Preferred or reclassify any shares of any Security into shares of Senior Preferred;

(D) Issue any shares of Priority Stock other than Senior Preferred or reclassify any shares of any Security into shares of Priority Stock other than Senior Preferred if the effect of such issuance or reclassification would be to increase the

stated value, as reflected in the Corporation's capital account, of all outstanding Priority Stock, or the aggregate preference payable upon the voluntary or involuntary liquidation, dissolution or winding up of the Corporation with respect to all outstanding Priority Stock, to an amount in excess of \$2,400,000 (including issuances or reclassifications of any shares of Priority Stock pursuant to a consolidation or merger of the Corporation with any Person, calculated on a pro forma basis combining the consolidated or merged entities (other than a merger with another corporation in which the Corporation is the surviving corporation which does not result in any reclassification or change — other than a change in par value, or from par value to no par value, or from no par value to par value — of outstanding shares of the Corporation's Stock of any class or series, whether now or hereafter authorized)); **provided, however**, that if the Corporation proposes to issue any shares of Stock that the Board deems to be Preference Stock but that the Holders of not less than a majority of the outstanding shares of 7.85% Preferred deem to be Priority Stock, then such Holders shall notify the Corporation of their determination, specifying the particular terms of such shares they believe cause such shares to be Priority Stock, pursuant to the procedures set forth in Section 13 hereof, and if the Corporation, by action of the Board, amends this Statement of Rights and Preferences to incorporate such particular terms then, subject to the approval of the Holders of not less than a majority of the outstanding shares of 7.85% Preferred of the text of such amendment to this Statement of Rights and Preferences, which shall not be unreasonably withheld, the proposed issue of Stock may be issued, except that, unless approved by the Holders of not less than 100% of the outstanding shares of 7.85% Preferred, no substitution shall be made with respect to the dividend rate of the 7.85% Preferred, cumulation of the dividend of the 7.85% Preferred, the mandatory redemption of all then outstanding shares of 7.85% Preferred on November 1, 1999 at the redemption price stated in Section 5 hereof, or the redemption of 7.85% Preferred at the option of a Holder due to a Redemption Event at the redemption prices set forth in Section 6.A hereof;

(E) Make any payments to the Holders of, or with respect to any, Parity Stock, by means of dividends or mandatory redemption payments,

(1) unless all such payments and all payments in connection with optional redemptions pursuant to Section 6 hereof then due on the 7.85% Preferred have been made in full, or

(2) if any such payment or any payment in connection with optional redemptions pursuant to Section 6 hereof is then due on the 7.85% Preferred but has not been made in full, or if any such payment is then due on Parity Stock but has not been made in full, unless partial payments are made on the 7.85% Preferred and on Parity Stock so that, with respect to each of the 7.85% Preferred and Parity Stock, such partial payments are identical fractions of the amounts then due;

(F) Make any optional redemptions of any Parity Stock, unless, in each such case,

(1) all redemptions of 7.85% Preferred required to be made pursuant to Section 5 or 6 hereof to the date of such optional redemption of Parity Stock have been made, and

(2) all dividends accrued on the 7.85% Preferred payable thereon to the date of such optional redemption of Parity Stock, whether or not earned or declared, whether or not funds are legally available for the payment of dividends, and whether or not declared by the Board, have been paid in full; or

(G) Consolidate or merge with any other Person unless immediately following the consummation of such consolidation or merger the Corporation, on a pro forma basis combining the consolidated or merged entities, would be able to issue at least one share of Preference Stock in addition to all then outstanding Preference Stock without violation of the Dividend Coverage Test.

13. Substitution Procedures Pursuant to Section 12.D hereof.

In the event the Corporation proposes to issue any additional shares of Preference Stock, the Corporation shall send a written notice to each Holder of 7.85% Preferred by certified or registered mail, postage prepaid, to such Holder's address as shown on the books and records of the Corporation, at least 30 days prior to the proposed issuance of the additional shares of Preference Stock. The notice shall set forth in reasonable detail the powers, preferences, rights, qualifications, limitations and/or restrictions of the Preference Stock proposed to be issued. If the Holders of not less than a majority of the outstanding shares of 7.85% Preferred deem such shares to be Priority Stock they shall so notify the Corporation in written notices sent to the Corporation at its principal office, or such other place as may be designated in the notice sent by the Corporation pursuant to this Section 13, by certified or registered mail, postage prepaid, within 20 days after transmittal by the Corporation of its notice, such notices sent by such Holders to specify which particular terms

of such shares they believe cause such shares to be Priority Stock, and the Corporation thereupon shall either (i) by action of the Board amend this Statement of Rights and Preferences (subject to the provisions of Section 12.D hereof and to the approval of the Holders of not less than a majority of the outstanding shares of 7.85% Preferred of the text of such amendment, which shall not be unreasonably withheld) to incorporate such particular terms and, within 10 days after notice of such approval is received at the place specified above, to file an amendment to the Statement of Rights and Preferences pertaining to the 7.85% Preferred setting forth such amendment of this Statement of Rights and Preferences with the Secretary of State of Washington, or (ii) not so amend this Statement of Rights and Preferences and not issue the proposed additional shares of Stock. Within 45 days after transmittal by the Corporation of its notice, the Corporation shall notify all Holders of outstanding shares of 7.85% Preferred of the action taken by a notice sent to each such Holder by certified or registered mail, postage prepaid, to such Holder's address as shown on the books and records of the Corporation, and if such action is as set forth in clause (i), such notice shall be accompanied by a copy of the amendment to the Statement of Rights and Preferences of the 7.85% Preferred certified by the Secretary of State of Washington as having been filed.

14. Covenant Regarding Redemption.

Following the issuance of the first share of 7.85% Preferred pursuant to this Statement of Rights and Preferences, the Corporation will not, and will not permit any Subsidiary to, become a party to or bound by any indenture, agreement, instrument, Indebtedness, charter provision or security, under the terms of or pursuant to which the Corporation's obligation to redeem any of the 7.85% Preferred pursuant to Sections 5 or 6 hereof will in any way be restricted or eliminated, nor will the Corporation modify or amend or permit any Subsidiary to modify or amend any such indenture, agreement, instrument, Indebtedness, charter provision or security existing at the time of such issuance to add any provision restricting or eliminating such obligation or to make any such provision contained therein more restrictive.

15. Definitions.

The following definitions shall apply for the purposes of this Statement of Rights and Preferences:

"Affiliate" shall mean as to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with such Person. For purposes of this definition, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of any Person, whether through the ownership of voting securities or by contract or otherwise.

"Board" shall mean the Board of Directors of the Corporation.

"By-Laws" shall mean the By-Laws of the Corporation, as amended.

"Common" shall mean the Corporation's Common Stock, par value \$1.00 per share, and any Stock into which such Common Stock may hereafter be changed.

"Corporation" shall mean Cascade Natural Gas Corporation.

"Dividend Coverage Test" is defined in Section 7 hereof.

"Dividend or Redemption Shortfall" shall mean that the funds available to the Corporation as of the close of business on each December 31 on which any shares of 7.85% Preferred are outstanding for the payment of dividends on and the redemption of all then outstanding shares of 7.85% Preferred, Priority Stock and Parity Stock under the terms of any then outstanding indenture, agreement, instrument, security or Indebtedness of or binding upon the Corporation or any Subsidiary are less than the aggregate of (i) the amount of all dividends that, by the respective terms of such Stock, will be payable or will accrue on such Stock as dividends between such date and November 1, 1999, plus (ii) the greatest amount (whether due to premiums payable upon redemption or otherwise) that, by the respective terms of such Stock, may be payable to redeem such Stock on or prior to November 1, 1999 (other than redemptions at the option of the Corporation). The computation of the amount of funds so available shall be made by the Chief Financial Officer or Treasurer of the Corporation, and a written statement setting forth such computation in reasonable detail shall be sent by April 10 of the immediately succeeding year to each Holder of 7.85% Preferred by certified or registered mail, postage prepaid, at the Holder's address as shown on the books and records of the Corporation.

"Earnings Available for Payment of Interest Charges and Dividends" for any period shall mean the lesser of (i) the maximum amount available for the payment of dividends on and the redemption of Preference Stock imposed by the terms of any indenture, agreement, instrument, security or Indebtedness of or binding upon the Corporation or

any Subsidiary, or (ii) the income before interest charges and income taxes of the Corporation, determined in accordance with generally accepted accounting principles. In calculating the amount described in clause (ii), no adjustment shall be made for (a) profits or losses from sales of Property carried in plant or investment accounts of the Corporation or any Subsidiary, or from the reacquisition of any Securities, or taxes on, in respect of, or measured by such profits or losses, (b) charges for the elimination, retirement or amortization of utility plant adjustment or acquisition accounts or other intangibles, (c) gains from non-utility operations, (d) the write-up of assets, (e) extraordinary gains or (f) adjustments to earned surplus (including tax adjustments required by generally accepted accounting principles) applicable to any prior period.

"Excess Preferred" means that the Corporation has issued shares of Priority Stock or Parity Stock following the issuance of the first share of 7.85% Preferred pursuant to this Statement of Rights and Preferences, and, by virtue of any indenture, agreement, instrument, security or Indebtedness of or binding upon the Corporation or any Subsidiary in existence or outstanding as of the date of the issuance of such Priority Stock or Parity Stock, the funds available to the Corporation as of the date of issuance of such shares of Priority Stock or Parity Stock for the payment of dividends on and the redemption of all then outstanding shares of Preference Stock, including, without limitation, the 7.85% Preferred, are less than the aggregate of (i) the amount of all dividends that, by the respective terms of such Preference Stock, will be payable or will accrue on such Preference Stock as dividends between such date of issuance and November 1, 1999, plus (ii) the greatest amount (whether due to premiums payable upon redemption or otherwise) that, by the respective terms of such Stock, may be payable to redeem such Stock on or prior to November 1, 1999 (other than redemptions at the option of the Corporation). The computation of the amount of funds so available shall be made by the Chief Financial Officer or Treasurer of the Corporation as of the date of each issuance of Priority Stock or Parity Stock following the issuance of the first share of 7.85% Preferred pursuant to this Statement of Rights and Preferences, and a written statement setting forth such computation in reasonable detail shall be sent within ten days after the date of each such issuance by certified or registered mail, postage prepaid, at the Holder's address as shown on the books and records of the Corporation.

"Holders" shall mean the Persons who shall, from time to time, own, of record or beneficially, any Security. The term "Holder" shall mean one of the Holders.

"Indebtedness" of any corporation, shall mean the principal of (and premium, if any) and unpaid interest on:

- (i) indebtedness which is for money borrowed from others;
- (ii) indebtedness guaranteed, directly or indirectly, in any manner by such corporation, or in effect guaranteed, directly or indirectly, by such corporation through an agreement, contingent or otherwise, to supply funds to or in any other manner invest in the debtor or to purchase indebtedness, or to purchase Property or services primarily for the purpose of enabling the debtor to make payment of the indebtedness or of assuring the owner of the indebtedness against loss;
- (iii) all indebtedness secured by any mortgage, lien, pledge, charge or other encumbrance upon Property owned by such corporation, even if such corporation does not in any manner become liable for the payment of such indebtedness;
- (iv) all indebtedness of such corporation created or arising under any conditional sale, lease or other title retention agreement with respect to Property acquired by such corporation even though the rights and remedies of the seller, lessor or lender under such agreement or lease in the event of default are limited to repossession or sale of such Property; and
- (v) renewals, extensions and refundings of any such indebtedness.

"Junior Stock" shall mean any shares of any class of Stock of the Corporation having preference or priority as to dividends or Property junior to any such preference or priority of the 7.85% Preferred, or any voting right with respect to the election of directors which, if exercised, would not restrict or eliminate any such voting right of the 7.85% Preferred, and any instrument or Security convertible into or exchangeable for Junior Stock.

"Liquidation Amount" is defined in Section 3 hereof.

"Mandatory Redemption Notice" is defined in Section 5 hereof.

"Optional Redemption Notice" is defined in Section 6.B hereof.

"Parity Stock" shall mean any shares of any class of Stock of the Corporation having any preference or priority as to dividends or Property on a parity with any such preference or priority of the 7.85% Preferred, or any voting right with respect to the election of directors which, if exercised, would be on a parity with any such voting right of the 7.85% Preferred, and any instrument or Security convertible into or exchangeable for Parity Stock.

"Person" shall mean any individual, partnership, corporation, trust, unincorporated organization or governmental organization or any agency or political subdivision thereof.

"Preference Stock" shall mean any class or series of Stock of the Corporation having any preference or priority as to dividends or Property senior to any such preference or priority of the Common and any instrument or Security convertible into or exchangeable for Preference Stock.

"Preferred Stock" is defined in the recitals hereof.

"Priority Stock" shall mean any shares of any class of Stock of the Corporation having any preference or priority as to dividends or Property senior to any such preference or priority of the 7.85% Preferred, or any voting right with respect to the election of directors which, if exercised, would restrict or eliminate any such voting right of the 7.85% Preferred, and any instrument or Security convertible into or exchangeable for Parity Stock. Priority Stock includes but is not limited to Senior Preferred.

"Property" shall mean any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"Ratings Downgrade" shall mean that as a result of any exchange of Stock, consolidation or merger of the Corporation (other than a merger with another corporation in which the Corporation is the surviving corporation and which does not result in any reclassification or change — other than a change in par value, or from par value to no par value, or from no par value to par value — of outstanding shares of the Corporation's Stock of any class or series, whether now or hereafter authorized), the rating on any debenture, note or bond of the Corporation outstanding immediately following the consummation of such exchange of Stock, consolidation or merger is reduced to below Baa3 by Moody's Investors Service Inc. or below BBB- by Standard and Poor's Corporation. A Ratings Downgrade shall be deemed to occur on the day either of the two rating agencies notifies the Corporation of the aforementioned reduction.

"Redemption Date" shall mean November 1, 1999, in the case of mandatory redemption pursuant to Section 5 hereof, or a date which is not less than 30 nor more than 90 days after the date of the Optional Redemption Notice, in the case of redemption at the option of a Holder pursuant to Section 6 hereof.

"Redemption Event" means either a Ratings Downgrade, a Dividend or Redemption Shortfall, Excess Preferred, or a Restrictive Arrangement.

"Redemption Notice" shall mean either the Mandatory Redemption Notice, the Optional Redemption Notice, or both.

"Restated Articles of Incorporation" shall mean the restated articles of incorporation of the Corporation, as amended.

"Restricted Payment" shall mean:

- (i) any payment of cash dividends on any of the Corporation's Stock other than the 7.85% Preferred, Priority Stock or Parity Stock;

- (ii) any purchase, redemption or retirement of any of the Corporation's Stock other than the 7.85% Preferred, Priority Stock or Parity Stock made directly or indirectly by the Corporation or through any Subsidiary; and

- (iii) any other cash distribution made directly or indirectly by the Corporation or through any Subsidiary in respect of the Corporation's Stock other than 7.85% Preferred, Priority Stock or Parity Stock.

"Restricting Event" shall mean the following:

- (i) failure to set aside and pay in full, on any date specified in Section 4 hereof, the amount therein specified to the Holders of the 7.85% Preferred;
- (ii) failure to set aside and pay in full, on any Redemption Date, the amount required to be paid on that date, pursuant to Section 5 or Section 6 hereof, to redeem shares of 7.85% Preferred in accordance with the provisions of such Sections; or
- (iii) violation by the Corporation of any provision of Sections 8, 12 or 14 hereof.

"Restrictive Arrangements" shall mean that the Corporation or any Subsidiary, following the issuance of the first share of 7.85% Preferred pursuant to this Statement of Rights and Preferences, becomes a party to, bound by or issues any indenture, agreement, instrument, security or Indebtedness, or modifies or amends any indenture, agreement, instrument, security or Indebtedness of or binding upon the Corporation or any Subsidiary existing at the time of the issuance of the first share of 7.85% Preferred pursuant to this Statement of Rights and Preferences and, as of the date of any such action following such issuance, by virtue of any such indenture, agreement, instrument, security and Indebtedness then in existence or outstanding, the funds available to the Corporation for the payment of dividends on and the redemption of all shares of Preference Stock, including, without limitation, the 7.85% Preferred outstanding on the date of any such action, are less than the aggregate of (i) the amount of all dividends that, by the respective terms of such Stock, will be payable or will accrue on such Stock as dividends between such date and November 1, 1999, plus (ii) the greatest amount (whether due to premiums payable upon redemption or otherwise) that, by the respective terms of such Stock, may be payable to redeem such Stock on or prior to November 1, 1999 (other than redemptions at the option of the Corporation). The computation of the amount of funds so available shall be made by the Chief Financial Officer or Treasurer of the Corporation, and a written statement setting forth such computation in reasonable detail shall be sent within ten days after such effective date to each Holder of 7.85% Preferred by certified or registered mail, postage prepaid, at the Holder's address as shown on the books and records of the Corporation.

"Securities" shall mean any debt or equity securities of the Corporation, whether now or hereafter authorized, and any instrument convertible into or exchangeable for Securities or a Security. "Security" shall mean one of the Securities.

"Senior Preferred" shall mean the Corporation's 55¢ Cumulative Preferred Stock, without nominal or par value, Series A, B and C.

"7.85% Preferred" shall mean 60,000 shares of \$1.00 Preferred Stock designated as 7.85% Cumulative Preferred Stock.

"Stock" shall include any and all shares, interests or other equivalents (however designated) of, or participations in, corporate stock.

"Subsidiary" shall mean any corporation at least 50% of whose outstanding voting stock shall at the time be owned by the Corporation or by one or more Subsidiaries of the Corporation or by the Corporation and one or more Subsidiaries of the Corporation.

"Voting Right Event" shall mean failure to set aside and pay in full on six or more of the dates specified in Section 4 hereof, consecutively, the amounts therein specified to the Holders of the 7.85% Preferred, until such date as all accrued unpaid dividends on the outstanding 7.85% Preferred have been paid in full.

**CASCADE NATURAL GAS CORPORATION
STATEMENT OF RIGHTS AND PREFERENCES OF THE
SERIES Z JUNIOR PARTICIPATING PREFERRED STOCK, \$1.00 PAR VALUE**

Section 1. Designation and Amount. There shall be a series of Preferred Stock of the Corporation which shall be designated as "Series Z Junior Participating Preferred Stock, \$1.00 par value" (the "Series Z Preferred Stock"), and the number of shares constituting such series shall be 110,000. Such number of shares may be increased or decreased by Articles of Amendment adopted by the Board of Directors without shareholder action; provided, however, that no decrease shall reduce the number of shares of Series Z Preferred Stock to a number less than the shares outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Corporation.

Section 2. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the Series Z Preferred Stock with respect to dividends, the holders of shares of Series Z Preferred Stock, in preference to the holders of shares of Common Stock, \$1.00 par value ("Common Stock") of the Corporation and of any other junior stock which may be outstanding, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, (i) quarterly dividends payable in cash on the last day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series Z Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$1.00 per share (\$.01 per one one-hundredth of a share), or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series Z Preferred Stock, and (ii) subject to the provision for adjustment hereinafter set forth, quarterly distributions (payable in kind) on each Quarterly Dividend Payment Date in an amount per share equal to 100 times the aggregate per share amount of all noncash dividends or other distributions (other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock, by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date, or with respect to the first Quarterly Dividend Payment Date since the first issuance of any share or fraction of a share of Series Z Preferred Stock. In the event the Corporation shall at any time after March 19, 1993 (the "Rights Declaration Date"), declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series Z Preferred Stock are entitled under clauses (i)(b) or (ii) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series Z Preferred Stock as provided in Section 2(A) immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$1.00 per share (\$.01 per one one-hundredth of a share) on the Series Z Preferred Stock shall nevertheless be payable, out of funds legally available for such purpose, on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series Z Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series Z Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue and be cumulative from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series Z Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly

Dividend Payment Date. Accrued but unpaid dividends shall cumulate but shall not bear interest. Dividends paid on the shares of Series Z Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series Z Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 30 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of shares of Series Z Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series Z Preferred Stock shall entitle the holder thereof to 100 votes (and each one one-hundredth of a share of Series Z Preferred Stock shall entitle the holder thereof to one vote) on all matters submitted to a vote of the shareholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series Z Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided in the Articles of Incorporation or in this amendment thereof or by law, the holders of shares of Series Z Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of the shareholders of the Corporation.

(C) Except as otherwise provided in the Articles of Incorporation or in this amendment thereof or by law, holders of Series Z Preferred Stock shall have no special voting rights and their consent shall not be required for taking any corporate action.

Section 4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series Z Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series Z Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, make any other distributions on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series Z Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series Z Preferred Stock, except dividends paid ratably on the Series Z Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) with the Series Z Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series Z Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series Z Preferred Stock, or any share of stock ranking on a parity with the Series Z Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under Section 4(A), purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares. Any shares of Series Z Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. The Corporation shall take all such action as is necessary so that all such shares shall after their cancellation become authorized but unissued shares of Preferred Stock, without designation as to series, and may be reissued as part of a new series of Preferred Stock to be created by Articles of Amendment adopted by the Board of Directors without shareholder action, subject to the conditions and restrictions on issuance set forth herein.

Section 6. Liquidation, Dissolution or Winding Up. Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (A) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series Z Preferred Stock, unless, prior thereto, the holders of shares of Series Z Preferred Stock shall have received the higher of (i) \$1.00 per share (\$.01 per one one-hundredth of a share), plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, or (ii) an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of Common Stock; nor shall any distribution be made (B) to the holders of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series Z Preferred Stock, except distributions made ratably on the Series Z Preferred Stock and all other such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Corporation shall at any time after the Rights Declaration Date declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series Z Preferred Stock are entitled under clause (A)(ii) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, or otherwise changed, then in any such case the shares of Series Z Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series Z Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. No Redemption. The shares of Series Z Preferred Stock shall not be redeemable. Notwithstanding the foregoing, the Corporation may acquire shares of Series Z Preferred Stock in any other manner permitted by law, the Articles of Incorporation or this amendment thereof.

Section 9. Rank. Unless otherwise provided in the Articles of Incorporation or an amendment thereof relating to a subsequent series of Preferred Stock of the Corporation, the Series Z Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock, including, without limitation, the Corporation's 55¢ Preferred Stock and 7.85% Preferred Stock referred to in Article V of the Articles of Incorporation, as to the payment of dividends and the distribution of assets on liquidation, dissolution or winding up, and senior to the Common Stock of the Corporation.

Section 10. Amendment. The Articles of Incorporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series Z Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least a majority of the outstanding shares of Series Z Preferred Stock, voting separately as a class.

Section 11. Fractional Shares. Series Z Preferred Stock may be issued in one-hundredths of a share or other fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series Z Preferred Stock.

I, Larry C. Rosok, Secretary of Cascade Natural Gas Corporation, a corporation organized and existing under the laws of the State of Washington (the "Corporation"), hereby certify that the attached is a full, true and correct copy of the Bylaws of the Corporation, duly and regularly adopted in all respects as required by law and the Bylaws of the Corporation on July 28, 2004 and amended on September 29, 2004, where a quorum of the Board of Directors of the Corporation was present and the requisite number voted in favor of said resolutions adopting and amending the Bylaws.

IN WITNESS WHEREOF, I have hereunto set my hand as Secretary of the Corporation, and affixed the corporate seal of the Corporation, on October 7, 2004.

**SECRETARY OF CASCADE NATURAL GAS
CORPORATION**

By: *Larry C Rosok*

Name: Larry C. Rosok
Vice President, Human Resources
& Corporate Secretary

(Affix Corporate Seal Here)



**Restated Bylaws
of
Cascade Natural Gas Corporation**

September 28, 2004

ARTICLE I — OFFICES

Sec. 1. The principal office shall be in the City of Seattle, County of King, State of Washington.

Sec. 2. The corporation may also have offices at such other places as the board of directors may from time to time appoint or the business of the corporation may require.

ARTICLE II — SEAL

Sec. 1. The corporation seal shall have inscribed thereon the name of the corporation, the year of its organization and the words, "Corporate Seal, Washington." Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ARTICLE III — SHAREHOLDERS' MEETINGS

Sec. 1. Meetings of the shareholders may be held within or without the State of Washington. The annual meeting of shareholders shall be held at a place and time on a day designated by the board of directors not less than sixty days nor more than one hundred eighty days after October 1 of each year, when they shall elect by a plurality vote, by ballot, a board of directors, and transact such other business as may properly be brought before the meeting. In the election of directors, every shareholder of record shall have the right to multiply the number of votes to which he or she may be entitled by the number of directors to be elected, and he or she may cast all such votes for one candidate or distribute them among any two or more candidates.

Sec. 2. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person, or represented by proxy, shall be requisite to, and shall constitute, a quorum at all meetings of the shareholders for the transaction of business, except as otherwise provided by law, by the Articles of Incorporation or by these bylaws. If, however, such majority shall not be present or represented at any meeting of the shareholders, the shareholders entitled to vote thereat, present in person or by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until the requisite amount of voting stock shall be present, except that any meeting at which directors are to be elected shall be adjourned only from day to day until such directors have been elected. At such adjourned meeting at which the requisite amount of voting stock shall be represented, any business may be transacted which might have been transacted at the meeting as originally notified.

Sec. 3. The shareholders present at a duly organized meeting can continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Sec. 4. At each meeting of the shareholders every shareholder having the right to vote shall be entitled to vote in person or by proxy. A shareholder or the shareholder's agent or attorney-in-fact may appoint a proxy to vote or otherwise act for the shareholder by (i) executing a writing authorizing another person or persons to act for the shareholder as a proxy, or (ii) authorizing another person or persons to act for the

shareholder by transmitting or authorizing the transmission of an electronic transmission to the person who will be the holder of the proxy or to such person's agent. Appointments shall comply with and be governed by the provisions of the Washington Business Corporation Act. The appointment shall bear a date not more than eleven months prior to said meeting, unless said appointment provides for a longer period, not exceeding three years (unless said proxy is coupled with an interest). The revocation of a proxy shall not be effective until notice thereof has been given to the secretary. Each shareholder shall have one vote for each share of capital stock registered in his or her name on the books of the corporation. The vote for directors, and, upon the demand of any shareholder, the vote upon any question before the meeting, shall be by ballot. All elections shall be had and all questions decided by a plurality vote except where a greater vote is required by law, the Articles of Incorporation, or these bylaws.

Sec. 5. A complete list of the shareholders entitled to vote at the ensuing election, arranged in alphabetical order, with the residence of each, and the number of voting shares held by each, shall be prepared by the secretary and filed in the registered office of the corporation, at least ten days before every election, and shall at all times during the usual hours for business, and during the whole time of said election, be open to the examination of any shareholder.

Sec. 6. Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called at any time by the chairman of the board, president, secretary or board of directors. If more than eighteen months are allowed to elapse without the annual shareholders' meeting being held, any shareholder may call such meeting to be held at the registered office of the corporation. At any time, upon written request of any director, or of any shareholder or shareholders holding in the aggregate one-tenth of the voting power of all shareholders, it shall be the duty of the secretary to call a special meeting of shareholders to be held at the registered office at such time as the secretary may fix, not less than ten nor more than thirty-five days after the receipt of said request, and if the secretary shall neglect or refuse to issue such call, the director or shareholder or shareholders making the request may do so. Such request shall state the purpose or purposes of the proposed meeting.

Sec. 7. (a) Written notice stating the place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten (or in the case of an amendment to the Articles of Incorporation, a plan of merger or share exchange, a proposed sale, lease exchange, or other disposition of all or substantially all of the assets of the corporation other than in the usual or regular course of business, or the dissolution of the corporation, twenty) nor more than sixty days before the date of the meeting, either personally or by mail, by or at the direction of the chairman, the president, the secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the shareholder at his or her address as it appears on the stock transfer books of the corporation, with postage thereon prepaid.

(b) A shareholder may waive any notice required by law or these bylaws before or after the date and time of the meeting that is the subject of the notice, and such waiver shall be equivalent to giving such notice. Waiver of notice of a meeting of shareholders shall be effective upon receipt of a written waiver by the corporation.

Sec. 8. Nominations for the election of directors may be made by the board of directors, the governance, nominating and compensation committee of the board of directors, or by any shareholder entitled to vote in the election of directors. However, any shareholder entitled to vote in the election of directors may nominate one or more persons for election as directors at a meeting only if written notice of the shareholder's intent to make the nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the secretary of the corporation not later than (i) with respect to an election to be held at an annual meeting of shareholders, on the date established for nominations in the proxy statement of the corporation, or if no such date is established one hundred twenty days in advance of such meeting, and (ii) with respect to an election to be held at a special meeting of shareholders for the

election of directors, the close of business on the seventh day following the date on which notice of such meeting is first mailed to the shareholders of the corporation. Each such notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the shareholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholders; (d) such other information regarding each nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the nominee been nominated, or intended to be nominated, by the board of directors or the governance, nominating and compensation committee of the board of directors; and (e) the written consent of each nominee to serve as a director of the corporation if so elected. The chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

Sec. 9. Tabulation of votes for election of directors shall be conducted by an inspector or judge, who may or may not be a stockholder, appointed by the presiding officer of the meeting. The inspector or judge shall certify to the returns in writing. No person who is a candidate for the office of director shall be an inspector or judge.

ARTICLE IV — DIRECTORS

Sec. 1. The property and business of this corporation shall be managed by its board of directors, nine in number, but the number of directors may be decreased to any number not less than three at any annual meeting of the shareholders, or at any special meeting of the shareholders called for that purpose, or by a two-thirds vote of the then directors of the corporation at any regular meeting of such directors, or at any special meeting of said directors called for that purpose; provided that no decrease shall shorten the term of any director then in office..

Sec. 2. The number of directors of the corporation may likewise be increased in the same manner as they may be decreased, from three to not more than eleven directors.

Sec. 3. The directors shall be elected at the annual meeting of the shareholders, and each director shall be elected to serve until his or her successor shall be elected and shall qualify.

Sec. 4. The entire board of directors or any individual director may, at any special meeting of the shareholders called for that purpose in the manner provided by Section 6 of Article III hereof, be removed from office by a vote of shareholders entitled to a vote at an election of directors. In case the board or any one or more directors be so removed, new directors may be elected at the same meeting. If less than the entire Board is removed, no individual director shall be removed in case the votes of a sufficient number of shares are cast against the resolution for his or her removal which, if cumulatively voted at an election of the whole board, would be sufficient to elect one or more directors.

Sec. 5. In addition to the powers and authorities by these bylaws expressly conferred upon them, the board may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the Articles of Incorporation or by these bylaws directed or required to be exercised or done by the shareholders.

Sec. 6. In addition to reimbursement for reasonable expenses incurred in attending meetings or otherwise in connection with attention to the affairs of the corporation and in addition to remuneration as a member of any committee of the board of directors, each director as such shall be entitled to receive such remuneration as may be fixed from time to time by the board of directors.

Sec. 7. (a) The board of directors shall meet at a time and place, as fixed by resolution of the board of directors, on the same date as the annual meeting of shareholders of the corporation for the purpose of organization or otherwise, and no notice of such meeting shall be necessary in order legally to constitute a meeting if it is held at such time, provided that a majority of the whole board shall be present.

(b) Regular meetings of the board of directors may be held at such place, whether in this state or elsewhere, as a majority of the directors may from time to time appoint.

(c) Regular meetings of the board of directors may be held without notice of the date, time, place, or purpose of the meetings. Special meetings of the board of directors must be preceded by at least two days' notice of the date, time, and place of the meeting.

(d) A director may waive any notice required by law or these bylaws before or after the date and time of the meeting that is the subject of the notice, and such waiver shall be equivalent to giving such notice. Waiver of notice shall be effective upon receipt of a written waiver by the corporation.

Sec. 8. If the office of any director becomes vacant by reason of death, resignation, retirement, disqualification, removal from office or otherwise, a majority of all of the remaining directors, though less than a quorum, shall elect a successor or successors, who shall hold office for the unexpired term of his or her predecessor in office and until his or her successor is elected by the shareholders who may make such election at the next annual meeting of the shareholders, or at any special meeting called for that purpose and held prior thereto.

ARTICLE V — OFFICERS

Sec. 1. The officers of the corporation shall be chosen by the board of directors, and shall be a chairman of the board, a vice chairman of the board, a president, a chief operating officer, a chief financial officer, one or more vice presidents, a secretary, a controller, and, if appointed, a treasurer, one or more assistant secretaries, assistant controllers, and assistant treasurers, such assistants to have such powers and duties of the secretary and treasurer, respectively, as shall from time to time be assigned to them by the board of directors. The same person may hold more than one office.

Sec. 2. The board of directors, at its first meeting after each annual meeting of shareholders, shall choose a chairman and vice chairman of the board from their own number, and a president, a chief operating officer, a chief financial officer, and one or more vice presidents, a secretary and a controller, who need not be members of the board.

Sec. 3. The board may appoint such other officers, vice presidents, assistant secretaries, assistant treasurers, managers and agents as shall be deemed necessary by it, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board.

Sec. 4. The board of directors shall by resolution fix the salaries and the manner and time of payment thereof of all of the officers of this corporation.

Sec. 5. Any officer, manager or agent elected or appointed by the board of directors may be removed at any time by the affirmative vote of a majority of the whole board of directors, whenever in their judgment

the best interest of the corporation will be served thereby, such removal, however, to be without prejudice to the contract rights, if any, of the person so removed.

Sec. 6. If any office becomes vacant for any reason, the vacancy may be filled by the board of directors.

Sec. 7. The chairman of the board shall, if present, preside at all meetings of directors (including executive sessions of the board of directors), and shall assure that the oversight responsibilities of the board of directors are effectively carried out. The chairman of the board may designate another director or officer of the corporation to conduct meetings of directors, in his or her discretion.

Sec. 8. The president shall be the chief executive officer of the corporation; he or she shall preside at all meetings of the shareholders, and shall have general and active management of the business of the corporation, under the direction of the board of directors, and shall see that all orders and resolutions of the board are carried into effect.

Sec. 9. The chief operating officer, chief financial officer and controller shall have such duties as may be determined from time to time by the board of directors.

Sec. 10. (a) The secretary shall, personally or with the assistance of others, prepare and keep minutes of meetings of the board of directors and shareholders, authenticate all records of the corporation, attest all certificates of stock in the name of the corporation, and keep a record of the issuance of certificates of stock and stock transfers. The secretary shall give, or cause to be given, notice of all meetings of the shareholders and of the board of directors, and shall perform such other duties as may be prescribed by the board of directors. The secretary shall keep in safe custody the seal of the corporation, and affix the same to any instrument requiring it.

(b) The assistant secretaries, if any, shall, in the absence or disability of the secretary, perform the duties and exercise the powers of the secretary, and shall perform such other duties as the board of directors shall prescribe.

Sec. 11. In case of the absence of any officer of the corporation, or for any reason that the board may deem sufficient, the board of directors may delegate, for the time being, the powers or duties, or any of them, of such officer to any other officer, or to any director.

ARTICLE VI — CONSIDERATION FOR STOCK

Sec. 1. (a) Without the consent of any holder of any share of the capital stock of this corporation, the shares of stock of this corporation may be issued by it from time to time in such number or amount of shares of said stock, and for such consideration in labor or services actually performed for the corporation, money or property, as from time to time may be fixed and determined by the board of directors of this corporation at any annual meeting or any special meeting called for said purpose, and the right, power and authority of said board of directors from time to time so to authorize and order the issuance by this corporation of the said shares of said stock, in such number or amount of shares, and for such consideration in labor or services actually performed for the corporation, money or property, as from time to time said board may fix and determine, is hereby absolutely reserved to said board of directors.

(b) Payment or delivery to, or receipt by this corporation of such consideration as may be so fixed and determined by its board of directors for the issuance of any share or shares of its said stock, as hereinbefore in this Section provided, shall operate and be construed, deemed and held to constitute such share or shares fully paid and non-assessable stock of the corporation.

ARTICLE VII — CERTIFICATES OF STOCK

Sec. 1. The certificates for shares of the common stock and each series of preferred stock of the Corporation shall be separately numbered and shall be entered in the books of the corporation as they are issued. They shall exhibit the holder's name and number of shares and shall be signed by the president or a vice president and the secretary or an assistant secretary (if any). Where, however, such certificates are countersigned by a transfer agent and registered by a registrar, at least one of which shall be other than the corporation itself or an employee thereof, the signatures of such officers may be facsimile.

Sec. 2. Shares of stock to be transferred may be transferred by endorsement of the certificate and its surrender to the secretary for cancellation, whereupon the new certificate shall issue to the transferee.

ARTICLE VIII — FIXING RECORD DATE

Sec. 1. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive payment of any distribution, the board of directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than seventy days and, in case of a meeting of shareholders, not less than ten (or in case of an amendment to the Articles of Incorporation, a plan of merger or share exchange, a proposed sale, lease, exchange, or other disposition of all or substantially all of the assets of the corporation other than in the usual or regular course of business, or the dissolution of the corporation, twenty) days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken.

Sec. 2. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a distribution, the date on which the resolution of the board of directors declaring such distribution is adopted or the close of business on the day before the date on which notice of the meeting is mailed, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this Article, such determination shall apply to any adjournment thereof.

ARTICLE IX — REGISTERED SHAREHOLDERS

Sec. 1. The corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and accordingly shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the laws of Washington.

ARTICLE X — LOST CERTIFICATES

Sec. 1. Any person claiming a certificate of stock to be lost or destroyed, shall make an affidavit or affirmation of that fact and advertise the same in such manner as the board of directors may require, and the board of directors may, in its discretion, require the owner of the lost or destroyed certificate, or his or her legal representative, to give the corporation a bond, in such sum as they may direct, not exceeding double the value of the stock, to indemnify the corporation against any claim that may be made against it on account of the alleged loss of any such certificate. A new certificate of the same tenor and for the same number of shares as the one alleged to be lost or destroyed may be issued without requiring any bond, when, in the judgment of the directors, it is proper to do so.

ARTICLE XI — CORPORATE BOOKS AND RECORDS; INSPECTION

Sec. 1. The corporation shall keep a copy of the following records at its principal office: (a) the Articles of Incorporation or Restated Articles of Incorporation and all amendments to them currently in effect; (b) the bylaws or restated bylaws, and all amendments to them currently in effect; (c) the minutes of all shareholders' meetings, and records of all actions taken by shareholders without a meeting, for the past three years; (d) its financial statements for the past three years, including balance sheets showing in reasonable detail the financial condition of the corporation as of the close of each fiscal year, and an income statement showing the results of its operations during each fiscal year; (e) all written communications to shareholders generally within the past three years; (f) a list of the names and business addresses of its current directors and officers; (g) its most recent annual report delivered to the Secretary of State, and (h) such other records as may be required under Washington law.

Sec. 2. Any shareholder of the corporation may inspect and copy, during regular business hours at the corporation's principal office, any of the records of the corporation specified in Sec. 1 (a) through (g) of this Article, provided the shareholder gives the corporation written notice of the shareholder's demand at least five business days before the date on which the shareholder wishes to inspect and copy such records.

Sec. 3. A shareholder of the corporation is entitled to inspect and copy, during regular business hours at a reasonable location specified by the corporation, any of the following records of the corporation provided the shareholder gives the corporation written notice of the shareholder's demand at least five business days before the date on which the shareholder wishes to inspect and copy such records and the shareholder's demand is made in good faith and for a proper purpose, the shareholder describes with reasonable particularity the shareholder's purpose and the records the shareholder desires to inspect, and the records are directly connected with the shareholder's purpose: (a) excerpts from minutes of any meeting of the board of directors, records of any action of a committee of the board of directors while exercising the authority of the board of directors, minutes of any meeting of the shareholders (other than those subject to inspection under Section 1 of this Article XI), and records of action taken by the shareholders or the board of directors without a meeting; (b) accounting records of the corporation; and (c) the record of shareholders.

ARTICLE XII — FISCAL YEAR

Sec. 1. The fiscal year shall begin the first day of October in each year.

ARTICLE XIII — DISTRIBUTIONS

Sec. 1. Distributions upon the capital stock of the corporation, subject to the provisions of the Articles of Incorporation, may be declared by the board of directors, in its discretion, at any regular or special meeting, to the extent permitted by applicable law (including without limitation RCW 23B.06.400 and any amendments thereto). Distributions may be paid in cash, in property, or in shares of the capital stock.

ARTICLE XIV — REPRESENTATION OF SHARES OF OTHER CORPORATIONS

Sec. 1. The chairman, the president, and the secretary, or any assistant secretary, of the corporation are authorized to vote, represent and exercise on behalf of the corporation all rights incident to any and all shares of other corporations standing in the name of the corporation. Said authority may be exercised by such officers either in person or by proxy or power of attorney duly executed by any of said officers.

ARTICLE XV — INDEMNIFICATION OF DIRECTORS AND OFFICERS

Sec. 1. Each person who was or is made a party or is threatened to be made a party to or is involved (including, without limitation, as a witness) in any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative, formal or informal, by reason of the fact that he or she is or was a director or officer of the corporation or, being or having been such a director or officer, he or she is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent or in any other capacity, shall be indemnified and held harmless by the corporation to the full extent permitted by applicable law as then in effect, against all expense, liability and loss (including, without limitation, attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts to be paid in settlement) actually or reasonably incurred or suffered by such person in connection therewith. Such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that no indemnification shall be provided under this Article to any such person to the extent that such indemnification would not be consistent with the Washington Business Corporation Act or other applicable law as then in effect; provided further, however, that except as provided in Sec. 2 of this Article with respect to proceedings seeking to enforce rights to indemnification, this corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors of this corporation. The right to indemnification conferred in this Article shall be a contract right and shall include the right to be paid by the corporation the expense incurred in defending any such proceeding in advance of its final disposition; provided, however, that the payment of such expenses in advance of the final disposition of a proceeding shall be made to or on behalf of a director or officer only upon delivery to the corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Article or otherwise.

Sec. 2. If a claim under Sec. 1 of this Article is not paid in full by this corporation within sixty days after a written claim has been received by this corporation (except in the case of a claim for expenses incurred in defending a proceeding in advance of its final disposition, in which case the applicable period shall be twenty days) the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, to the extent successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. The claimant shall be presumed to be entitled to indemnification hereunder upon submission of a written claim (and, in an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition, where the required undertaking has been tendered to this corporation), and thereafter this corporation shall have the burden of proof to overcome the presumption that the claimant is not so entitled. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to this corporation) that the claimant has not met the standards of conduct which make it permissible hereunder or under the Washington Business Corporation Act for this corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on this corporation. Neither the failure of this corporation (including its board of directors, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such action that indemnification of or reimbursement or advancement of expenses to the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth herein or in the Washington Business Corporation Act nor an actual determination by this corporation (including its board of directors, independent legal counsel, or its shareholders) that the claimant is not entitled to indemnification or to the reimbursement or advancement of expenses shall be a defense to the action or create a presumption that the claimant is not so entitled.

Sec. 3. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Articles of Incorporation, bylaws, agreement, vote of shareholders or disinterested directors or otherwise.

Sec. 4. The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the Washington Business Corporation Act. The corporation may enter into contracts with any director or officer of the corporation in furtherance of the provisions of this Article and may create a trust fund, grant a security interest or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Article.

Sec. 5. The corporation may, by action of its board of directors from time to time, provide indemnification and pay expenses in advance of the final disposition of a proceeding to employees and agents of the corporation with the same scope and effect as the provisions of this Article with respect to the indemnification and advancement of expenses of directors and officers of the corporation or pursuant to rights granted pursuant to, or provided by, the Washington Business Corporation Act or otherwise.

ARTICLE XVI — AMENDMENTS

Sec. 1. These bylaws may be altered or amended by the affirmative vote of a majority of the stock issued and outstanding and entitled to vote thereat, at any regular or special meeting of the shareholders if notice of the proposed alteration or amendment be contained in the notice of the meeting, or by the affirmative vote of a majority of the board of directors, subject to the power of the shareholders to change or repeal such bylaws.

ARTICLE XVII — MISCELLANEOUS STATUTORY RESTRICTIONS

Sec 1. The corporation shall have the right to acquire its own shares, and shares so acquired shall constitute authorized but unissued shares. Any such acquisition shall constitute a distribution by the corporation and shall be subject to the limitations on distributions imposed by applicable law.

Sec. 2. No loans shall be made by the corporation to its officers or directors unless permitted by and in compliance with applicable law (including without limitation section 402 of the Sarbanes-Oxley Act of 2002 and RCW 23B.08.700 through .08.730).

ARTICLE XVIII — MISCELLANEOUS PROCEDURAL PROVISIONS

Sec. 1. All meetings of shareholders and directors shall be conducted in the manner determined by the person acting as chairman of the meeting, to the extent not inconsistent with the Articles of Incorporation, bylaws or special rules of order of the corporation.

ARTICLE XIX — COMMITTEES OF THE BOARD OF DIRECTORS

Sec. 1. The board of directors may, by resolution or resolutions, passed by a majority of the whole board, designate an executive committee of five directors. Said committee may meet at stated times, or on notice

to all by any of their number. During the intervals between meetings of the board such committee shall advise with and aid the officers of the corporation in all matters concerning its interests and the management of its business, and generally perform such other duties and exercise such powers as may be directed or delegated by the board of directors from time to time. The board may delegate to such committee authority to exercise all the powers of the board, except such powers as are denied to committees under RCW 23B.08.250(5) as such statute shall be amended from time to time.

Sec. 2. The board of directors shall designate three or more of their number as an audit committee. All members of the audit committee shall be "independent," and at least one member shall be a "financial expert," both as defined by applicable regulations of the U.S. Securities and Exchange Commission. The audit committee shall have such duties as are set forth from time to time in its charter, as adopted by the board of directors.:

Sec. 3. The board of directors shall designate three or more of their number to serve the corporation as a governance, nominating and compensation committee. The governance, nominating and compensation committee shall have such duties as are set forth from time in its charter, as adopted by the board of directors.:

Sec. 4. The board of directors, by resolution adopted by a majority of the full board of directors, may designate one or more additional committees of the board of directors which shall have two or more members and which shall have such duties and exercise such powers as may be directed or delegated by the board of directors from time to time. Vacancies in the membership of any committee shall be filled by the board of directors. Each committee shall keep regular minutes of its proceedings and report the same to the board of directors when required.

ARTICLE XX — DESIGNATED ENGINEER

Sec. 1 The Designated Engineer, named in a resolution adopted by the Board of Directors as being in responsible charge or an engineer under the Designated Engineer's direct supervision, has full authority to and, shall make all engineering decisions pertaining to engineering activities in the State of Washington.

EXHIBIT 2

OPINION OF COUNSEL

LAW OFFICES OF
MARY ANN WALKER
416 PRINCE STREET
ALEXANDRIA, VA 22314
TEL: 703-549-9048
FAX: 703-549-9047

October 19, 2004

Director of the Office of Natural Gas
Office of Fuels Programs
Fossil Energy
Forrestal Building
1000 Independence Avenue, S.W.
Washington, D.C. 20585

Re: Application of Cascade Natural Gas Corp. for Extension of Long
Term Authorization To Import Natural Gas from Canada,
FE Docket No. 92-18-NG

Dear Sirs:

Pursuant to Section 590.202(c) of the Administrative Procedures of the Department of Energy, 10 C.F.R. § 590.202(c), I am hereby providing my legal opinion with respect to the corporate power of Cascade Natural Gas Corp. to import Canadian natural gas.

I have has examined Cascade's Articles of Incorporation and its Bylaws. Based upon the review of these two documents, it is my opinion that Cascade is a duly organized and validly existing corporation under the laws of the State of Washington. Furthermore, it is my opinion that Cascade is not precluded by its Articles of Incorporation or its Bylaws from importing natural gas.

Respectfully submitted,



Mary Ann Walker

EXHIBIT 3

**GAS TRANSACTION AGREEMENT AND
ASSIGNMENT DOCUMENTS**

August 11, 2004



Cascade Natural Gas Corporation
222 Fairview Avenue North
Seattle, Washington
98109

NEXEN MARKETING

1700 801 - 7th Ave SW Calgary AB Canada T2P 3P7
T 403 699.4400 F 403 699.5707 www.nexeninc.com

Attn: Ms. Patricia Grable

Dear Sirs:

Re: Assignment and Novation Agreement dated June 24, 2004 between Engage Energy Canada, L.P. (the "Assignor"), Nexen Marketing (the "Assignee") and Cascade Natural Gas Corporation (the "Third Party")

Pursuant to the letter you received from Duke Energy ("Duke") dated July 23, 2004 notifying you of the Closing between Duke and Nexen Marketing on July 22, 2004 to be Effective August 1, 2004, please find attached one (1) fully executed copy of the above-referenced Assignment for your records.

If you have any further questions or concerns, please contact the undersigned at 699-5724.

Yours truly,

A handwritten signature in black ink, appearing to read "D. Robinson", written in a cursive style.

Debbie L. Robinson
Senior Gas Contract Administrator

Encls.

ASSIGNMENT AND NOVATION AGREEMENT

This Assignment and Novation Agreement dated the 24th day of June, 2004.

AMONG:

ENGAGE ENERGY CANADA L.P., a partnership formed under the laws of Alberta, Canada, by its general partner, Engage Energy Canada (the "Assignor")

- and -

NEXEN MARKETING, a partnership organized under the laws of Alberta, Canada (the "Assignee")

- and -

CASCADE NATURAL GAS CORPORATION
(the "Third Party")

WHEREAS the Assignor and the Third Party are parties to one or more master agreements and/or general terms and conditions, each as described in Schedule "A" (collectively, the "Duke Master Agreement") and to those gas sales transactions entered into pursuant to the Duke Master Agreement, copies of the confirmations evidencing such transactions being attached hereto in Schedule "A" (such transactions being hereinafter called the "Assigned Transactions").

AND WHEREAS the Assignor has agreed to assign and convey unto the Assignee its entire right, title, estate and interest in and to the Assigned Transactions but, for certainty, will not otherwise assign to the Assignee the Duke Master Agreement itself, any other transaction(s) that may be outstanding pursuant to the terms of the Duke Master Agreement or any of its rights, title, estate or interest therein.

AND WHEREAS the completion of the transaction pursuant to which the Assignor will assign and convey its entire, right, title estate and interest in the Assigned Transactions to the Assignee (the "Closing") is conditional upon the satisfaction of certain conditions precedent, which conditions precedent include obtaining the prior consent of a significant number of third parties (including the Third Party) to the assignment of certain transactions (including the Assigned Transactions).

AND WHEREAS the Third Party is willing to consent to the assignment and conveyance of the Assigned Transactions by the Assignor to the Assignee, and to recognize and accept the Assignee as a party to the Assigned Transactions in the place and stead of the Assignor provided that the Closing occurs not later than 90 days following the date hereof.

- 2 -

AND WHEREAS the Assignee and the Third Party have agreed that the Assigned Transactions shall be and be deemed to be severed from the Duke Master Agreement and made subject to and form part of Master Sales and Purchase Agreement dated June 24, 2004 between the Assignee and the Third Party (the "Nexen Master Agreement").

NOW THEREFORE, for good and valuable consideration (receipt and sufficiency of which are hereby acknowledged), and provided that the Closing occurs not later than 90 days following the date hereof, the parties hereto mutually covenant and agree as follows:

1. Assignment. The Assignor hereby assigns, transfers, and conveys unto the Assignee: (i) effective as and from the commencement of the first day of the calendar month following the calendar month in which the Assignor has given to the Third Party written notice of the occurrence of the Closing, provided that such notice is received by the Third Party on a day not later than 6 days prior to the end of a calendar month; or (ii) if notice of the Closing is received by the Third Party on a day which is less than 6 days prior to the end of a calendar month, effective as and from the commencement of the first Day of the second calendar month after the Third Party receives notice of the occurrence of the Closing (in either case, the "Effective Time"), its entire right, title, estate and interest in and to the Assigned Transactions, for the Assignee's sole use and benefit absolutely, subject nevertheless to the terms and conditions of the Assigned Transactions.
2. Acceptance by Assignee. The Assignee hereby accepts the aforesaid assignment to it effective as of and from the Effective Time, and covenants and agrees with the Assignor and the Third Party that from and after the Effective Time it will be bound by, observe and perform, carry out and fulfil all covenants and agreements required to be observed and performed by the Assignor under the terms of the Assigned Transactions arising from and after the Effective Time.
3. Acceptance by Third Party. Effective as of and from the Effective Time, the Third Party hereby accepts the Assignee as the party to perform the Assigned Transactions under the terms and conditions of the Assigned Transactions and the terms and conditions of the Nexen Master Agreement, and the Third Party agrees that it shall not make any claim against the Assignee (including by way of set-off or termination of the Assigned Transactions) as a consequence of or relating to (i) any default, breach or non-performance attributable to the Assignor under the Assigned Transactions, the Duke Master Agreement or any other transaction entered into pursuant to the Duke Master Agreement which default, breach or non-performance arises or has arisen prior to the Effective Time, and (ii) the observance and performance of the covenants, representations and agreements under the Assigned Transactions, the Duke Master Agreement or any other transaction entered into pursuant to the Duke Master Agreement prior to the Effective Time.
4. No Known Default, Breach or Non-Performance. Each of the Assignor and the Third Party represent and warrant to each other and to the Assignee that, to the best of its knowledge, there is no event, occurrence or circumstance pursuant to which it would have a claim for damages against the Third Party or Assignor, as applicable, or a right to terminate any of the Assigned Transactions pursuant to the terms and conditions of the Assigned Transactions or the Duke Master Agreement, in each case in respect of the period prior to the Effective Time.
5. Release.

- 3 -

- (a) Effective as of and from the Effective Time, the Third Party hereby releases and forever discharges the Assignor and any party guaranteeing its obligations, if applicable, of and from any and all liability as a consequence of or relating to all manner of action and actions, cause or causes of action, suits, debts, dues, sums of money, claims and demands whatsoever at law or in equity arising out of, or which are in any way related to the Assigned Transactions after the Effective Time; provided that, for certainty, the foregoing shall not release or discharge the Assignor or any party guaranteeing its obligations, if applicable, in respect of the settlement, payment or performance of any liabilities or obligations arising or accruing prior to the Effective Time but which have not been settled, paid or performed as of the Effective Time.
- (b) Effective as of and from the Effective Time, the Assignor hereby releases and forever discharges the Third Party and any party guaranteeing its obligations, if applicable, of and from any and all liability as a consequence of or relating to all manner of action and actions, cause or causes of action, suits, debts, dues, sums of money, claims and demands whatsoever at law or in equity, arising out of or which are in any way related to, the Assigned Transactions after the Effective Time; provided that, for certainty, the foregoing shall not release or discharge the Third Party or any party guaranteeing its obligations, if applicable, in respect of the settlement, payment or performance of any liabilities or obligations arising or accruing prior to the Effective Time but which have not been settled, paid or performed as of the Effective Time.
6. Further Assurances. The Assignor agrees that it shall, from time to time and at all times hereafter, execute such further assurances and do all such acts and things as may be reasonably required for the purpose of vesting in the Assignee the rights of the Assignor in the Assigned Transactions.
7. Confirmation Under Nexen Master Agreement. Immediately upon the Effective Time, the Assignee and the Third Party agree that the Assigned Transactions, for all purposes whatsoever, are and are deemed to be subject to, form part of, and confirmed pursuant to the terms and conditions of the Nexen Master Agreement on the same basis as if the confirmations for such Assigned Transactions between the Assignor and the Third Party under the Duke Master Agreement had, with effect from and after the Effective Time, been entered into between the Assignee and the Third Party under the Nexen Master Agreement.
8. No Assignment of Master Agreement. The Assignor and the Third Party confirm and agree that neither the Duke Master Agreement nor any right, title, estate or interest therein (other than the Assigned Transactions) are assigned to the Assignee and such Duke Master Agreement, other than the Assigned Transactions, remains in full force and effect between the Assignor and the Third Party, unaffected by this Assignment.
9. Address for Notices.

The address for the Assignee for notices under the Assigned Transactions shall be:

Nexen Marketing
1700, 801 - 7th Avenue S.W.
Calgary, AB T2P 3P7
Attention: Contracts Administrator
Telephone: 403.699.4088 or 403.699.5724

- 4 -

Facsimile: 403.699.5707

10. Enurement. This Assignment shall enure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.
11. Counterpart Execution. This Assignment may be executed in separate counterparts and delivered by facsimile, each of which when so executed and delivered shall constitute the one and the same original document.

- 5 -

12. Governing Law. This Assignment will be governed by and construed in accordance with the laws of the Province of Alberta, Canada, without giving effect to principles of conflicts of laws.

THIS ASSIGNMENT executed effective as of the day and year first above written.

ASSIGNOR:

ENGAGE ENERGY CANADA L.P., a partnership formed under the laws of Alberta, Canada, by its general partner, Engage Energy Canada

By: W. Hall
Name: W. Hall *mc*
Title: CFO - O&A

ASSIGNEE:

NEXEN MARKETING

By: Janet E. Vellutini
Name: Janet E. Vellutini
Title: Vice President,
Natural Gas Marketing

By: Susan L. Schull
Name: Susan L. Schull
Title: Associate General Counsel

THIRD PARTY:

CASCADE NATURAL GAS CORPORATION

By: Jon T. Stoltz
Name: Jon T. Stoltz
Title: Senior Vp Regulatory & Gas Supply

SCHEDULE "A"

to the Assignment and Novation Agreement dated June 24, 1994
among ENGAGE ENERGY CANADA L.P., a partnership formed under the laws of Alberta, Canada, by its general partner,
Engage Energy Canada ("Assignor"), NEXEN MARKETING ("Assignee")
and CASCADE NATURAL GAS CORPORATION ("Third Party")

Duke Master Agreement

Gas Transaction Agreement dated July 1, 1994 between Engage Energy Canada L.P. and Cascade Natural Gas Corporation

Assigned Transactions

S-CASCADENAT -0009-001-B1-SC

PM

The Assigned Transactions are attached to this Schedule "A", which has ___ pages, including this page.



November 21, 2001

Cascade Natural Gas Corporation
222 Fairview Avenue North
Seattle, Washington
98109

Attention: Pattie Grable

Dear Pattie:

Re: Gas Transaction Confirmation ("GTC") dated November 21, 2001
between Cascade Natural Gas Corporation ("Cascade")
and Engage Energy Canada, L.P. ("Engage")

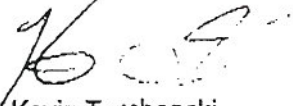
With reference to Subsection E of the letter agreement entitled, "Offer of Westcoast Energy Inc. T-South Capacity Assignment" as executed by Cascade and Engage, dated May 25, 2001, the provisions of the attached GTC will confirm the essential commercial terms and conditions pursuant to which Engage will supply natural gas to Cascade, commencing on November 1, 2003:

Attached for your review are two copies of our GTC dated November 21, 2001 covering the period November 1, 2003 to November 1, 2008.

If you are in agreement with the terms, please indicate your acceptance by signing both copies of this letter in the space provided below and return one copy to Engage for our files. Please note our offices moved in July and our new address is as shown below. If you have any questions, please give me a call at (403) 699-1036.

Yours truly,

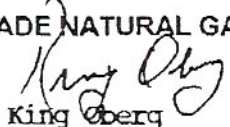
ENGAGE ENERGY CANADA, L.P.


Kevin Turchanski,
Vice President, Natural Gas
West Region

Att.

Accepted and Agreed to this 3rd day of APRIL, 2001. ² 4/3/02 ¹⁰

CASCADE NATURAL GAS CORPORATION

Per: 
King Oberg

Title: Vice President, Gas Supply



GAS TRANSACTION CONFIRMATION

Contract No. 1872

1. BUYER: Cascade Natural Gas Corporation		SELLER: Engage Energy Canada, L.P.		GAS TRANS. AG. EFF. DATE: July 1, 1994	DATE FORM DELIVERED: November 21, 2001			
2. DETAILS OF TRANSACTIONS:								
Trans. Nos.	Start Date/Time	End Date/Time	Quantity/Day (MMBtu, GJ, cu. metres, or mcf)	Price (C\$ or US\$)	Qual. Of Service (Int, Firm or EFP)	Delivery Point	Delivery Pipe	Rec. Pipe
40852	Nov.01/03	Nov.01/08	See attached Schedule A	See attached Schedule A	See attached Schedule A	See attached Schedule A	WEI	WEI
3. SPECIAL PROVISIONS INCLUDING PRICE DETAILS (if any): See attached Schedule A. Terms defined in that Schedule will have the meaning first given in the May 25, 2001 T-South Capacity Assignment letter agreement between the Parties (the "Capacity Assignment Letter").								
4. ADDRESSES, OPERATIONS AND BILLINGS AND PAYMENT INFORMATION:								
Engage Energy Canada, L.P. ("Engage") 2200, 425 - 1 st Street S.W. Calgary, Alberta. 2P 3L8					Cascade Natural Gas Corporation ("Customer") 222 Fairview Avenue North Seattle, WA 98109 USA			
Marketing Representative Name: Kevin Turchanski Phone: (403) 699-1036 Fax: (403) 221-8643					Marketing Representative Name: Pattie Grable Phone: (206) 381-6829 Fax: (206) 624-7215			
Accounting Contact: Trevor Gibb Phone: (403) 699-1039 Fax: (403) 221-8643					Accounting Contact: Phone: (206) Fax: (206)			
Operations Contact: Shelley Langdon Phone: (403) 699-1050 Fax: (403) 221-8643					Operations Contact: Phone: (206) Fax: (206)			
Wire Transfer Acct:					Wire Transfer Acct:			
5. (a) The above are the essential binding terms of the transaction in question. If a formal master physical agreement is in effect between the parties, then the above confirmation terms are subject to that agreement. In the event of any conflict between this transaction and the terms of the formal agreement, the terms above prevail. If no formal agreement exists, then the parties will finalize and sign one, failing which this transaction remains binding on the parties. Upon finalizing that agreement, the above transaction will form a part of, and be subject to, that formal agreement. (b) If the customer notes any discrepancy between the provisions as orally agreed to and the above, please notify Engage within two (2) Business Days of delivery of this form. After that, all provisions will be presumed to be correct. (c) Any currency conversions shall be done using the Bank of Canada noon rate on the 10th calendar day of the invoice month (or the Bank of Canada noon rate on the immediately previous business day if the 10th calendar day falls on a non-business day). (d) For "Firm" Quality of Service, the Replacement Market Price will be equal to the published index price appearing on the next immediate Business Day after the day or days of the Basic Performance Default.								

Engage Energy Canada, L.P. 1100, 421 7th Ave. S.W., Calgary, Alberta, Canada T2P 4K9

c:\engage-1\gtc112101kmtsbn2.doc

Phone: (403) 297-0333 Fax: (403) 269-5909

Schedule A

To the Gas Transaction Confirmation
Between Cascade Natural Gas Corporation ("Buyer")
and Engage Energy Canada, L.P. ("Seller")
Effective November 1, 2001
(for the Term November 1, 2003 to October 31, 2008)

1. Transaction Term:

The initial gas supply term shall be for five years commencing on the Capacity Commencement Date, being 0700 hours PST November 1, 2003, and expiring at the same time on November 1, 2008 (the "Gas Transaction Term"). With reference to the preferential supply status of Engage as mentioned in Subsection 2 A of the Capacity Assignment Letter, on the first Business Day of the sixth month prior to the end of the Gas Transaction Term, Buyer and Seller shall commence negotiations to agree upon the terms and conditions of gas supply arrangements for the remaining period of the Capacity Term.

2. Daily Quantity:

The daily quantity of gas (the "Daily Quantity") to be purchased and sold at the Delivery Point during the Gas Transaction Term shall be the metric volumetric equivalent of 20,000 Mcf/day, plus Westcoast Energy Inc. ("WEI") applicable fuel quantities as set out in the applicable tariff and toll provisions of WEI.

3. Delivery Point:

The Delivery Point shall be the point specified in the WEI tariff at which the facilities of WEI's T-North system interconnect with those of the WEI T-South system, commonly referred to as the Compressor Station #2 ("Station 2") transfer point.

4. Commodity Charges:

The total commodity costs and charges to be paid by Buyer for all quantities delivered by Seller during a delivery month of the Gas Transaction Term shall be the sum of the following amounts:

- (a) the Daily Quantity of gas delivered to and received at the Delivery Point during a day of the delivery month **MULTIPLIED BY** the number of calendar days for the delivery month **MULTIPLIED BY** an index price determined for such delivery month, which price shall be the average price appearing in the Aeco "C" & N.I.T. "One Month" Spot column in the table entitled "Canadian Natural Gas Supply Prices", in the publication entitled *Canadian Gas Price Reporter*, and which index price, published initially in C\$/GJ shall be converted to US\$/MMBtu using the Bank of Canada average noon rate, for the 10th calendar day of the month next following gas delivery month (the "Conversion Factor"); **PLUS**
- (b) US\$0.035/MMBtu, **MULTIPLIED BY** the MMBTU equivalent of 20,000 MCF/day **MULTIPLIED BY** the number of calendar days for the delivery month; **PLUS**

- (c) all unit Nova "FSD" demand, commodity, fuel and other transportation costs and charges for Nova FSD service pursuant to the Nova tolls and tariffs in effect and as amended from time to time and converted to \$US/MMBTU using the Conversion Factor **MUTLIPLIED BY** the MMBTU equivalent of 20,000 Mcf/day **MULTIPLIED BY** the number of calendar days for the delivery month; **PLUS**
- (d) all unit WEI "Zone B" demand and T-North demand, commodity fuel and other transportation costs and charges for WEI Firm service pursuant to the WEI tolls and tariffs in effect and as amended from time to time, and converted to \$US/MMBTU using the Conversion Factor **MULTIPLIED BY** the MMBtu equivalent of 20,000 Mcf/day **MULTIPLIED BY** the number of calendar days for the delivery month; **PLUS**
- (e) all federal and provincial goods and services and other sales tax amounts applicable to or required to be billed for the actual quantity of gas purchased and received at the Delivery Point for the delivery month which are applicable or are required to be billed and paid for by Buyer at the Delivery Point.

5. **Fixed Price Conversion:**

- (a) At any time during the Gas Transaction Term, Buyer may request that Seller convert the Aeco monthly index price set out in Subsection 4 (a) above to a monthly fixed price or an Aeco basis differential. If the Parties mutually agree to the terms and conditions of the conversion, including the requirement for financial assurances with respect to the conversion, then the conversion shall occur and the fixed price/basis differential will be based upon the offer side of the financial market price at the time of conversion. The use of the converted price shall commence on the first day of the month in which the Parties agree to the terms of the conversion. The request to convert the index price to a fixed price/basis differential must be received no later than eight (8) Business Days prior to the beginning of the delivery month upon which the conversion is to take effect.
- (b) Buyer may also request the conversion of the Nova and WEI transportation unit charges set out in Subsections 4(c) and (d) above, respectively, and upon the Parties mutual agreement, the conversion will occur otherwise in accordance with the provisions of Subsection (a) above.

6. **Delivery and Receipt Obligations:**

For the Gas Transaction Term, subject to the Force Majeure provisions of the Gas Transaction Agreement and Section 8 below, Seller shall deliver and sell to Buyer one hundred (100%) percent of the Daily Quantity each day on a Firm basis. During that period, Buyer shall be obligated to nominate and take one hundred (100%) percent of the Daily Quantity each day on a Firm basis.

7. **Nomination Services:**

Seller as an independent contractor during the Gas Transaction Term will provide to Buyer nomination services to communicate with WEI for the transportation each day of the Daily Quantity from the Delivery Point to the WEI Huntingdon Pool ("Redelivery Point"). Buyer will do all reasonable things to confirm with WEI that Engage is acting in such a capacity, and will make itself available on a timely basis to receive from and deliver to Engage ordinary course communications with respect to such nomination services. Further, Buyer will indemnify and

save harmless Seller from and against any and all losses, costs, or charges suffered or incurred by Seller, unless any or all of them were due to the gross negligence or wilful misconduct of Seller acting in such capacity

8. **Firm Purchase Obligation Mitigation:**

- (a) During the Gas Transaction Term, if after having used all best efforts to take delivery of the full Daily Quantity on any day Buyer is unable to do so, then Seller agrees to repurchase from Buyer, each day, the quantity of gas which is the difference between the Daily Quantity MINUS the actual quantity Buyer indicates to Seller that it can take delivery of on that day at the Delivery Point or Redelivery Point, that point to be mutually agreed to by the Parties (the difference being the **"Repurchase Quantities"**). For all such Repurchase Quantities based on that mutual agreement, Seller will pay Buyer a repurchase price (the **"Repurchase Price"**) which will shall be either:
 - (i) Ninety-eight (98%) percent of the **"Daily Midpoint"** index as quoted in **"Gas Daily's Daily Price Survey"** under the heading **"Canadian Gas, NW Sumas"**; if the point agreed to is the Redelivery Point, or
 - (ii) Ninety-eight (98%) of the **"Daily Midpoint"** index as quoted in **"Gas Daily's Daily Price Survey"** under the heading **"Canadian Gas, Westcoast Station #2"**, if the point agreed to is the Delivery Point.
- (b) If the Repurchase Price as so calculated is less than the index commodity price set out in Subsection 4(a) above, then Buyer will pay to Seller the positive difference between those two prices. If the Repurchase Price is greater than that index commodity price, then the positive difference shall be credited to Buyer by Seller. All such Repurchase Quantities and related pricing shall be accounted for in the invoice next following the delivery month during which the repurchases actually occurred, and the set off and net out rights as set out in the Gas Transaction agreement shall apply.

Effective Date: 01-Jul-94
Engage Contract No: 1872
Cust. Contract No:

GAS TRANSACTION AGREEMENT

THIS IS AN AGREEMENT to buy and sell natural gas. It is entered into and effective on the date specified immediately above (the "Effective Date").

IT IS BETWEEN:

CASCADE NATURAL GAS CORPORATION, a corporation in good standing under the laws of the state of Washington (referred to as the "Customer").

AND:

ENGAGE ENERGY CANADA, L.P., (successor in interest to Westcoast Gas Services Inc.) a partnership in good standing under the laws of Alberta (referred to as "Engage").

The Customer and Engage desire to enter into one or more natural gas purchase or sale transactions (each is a "Transaction"). This agreement is a written document which includes all of the provisions under which those Transactions will occur.

1. TRANSACTION DETAILS

- (a) The details of each Transaction initially may be orally agreed upon as documented in a recorded telephone conversation between the parties. The oral offer and acceptance forming an agreement will be reduced to a written "GAS TRANSACTION CONFIRMATION" document in the attached Form 1, to be delivered by Engage. All Transactions promptly will be so reduced to writing by Engage. All essential provisions for each Transaction as set out in Section 2 below must be agreed to, for that Transaction to be binding and enforceable. The parties are free to enter into as many Transactions as they choose under this Agreement.
- (b) Every Transaction includes the "GENERAL TERMS AND CONDITIONS" attached as Form 2. Each Transaction is separately valid and legally enforceable, and the Gas Transaction Confirmation form is a valid written document evidencing the Transaction. The authorized signature of each of the parties appearing below is a sufficient signature under this Agreement and for each Transaction for all legal purposes under common law or statute. The tapes of a Transaction, the Gas Transaction Confirmation form and the GENERAL TERMS AND CONDITIONS constitute the Transaction memorandum between the parties. The orally agreed to provisions govern if there is any conflict with the Gas Transaction Confirmation form, or with any of the GENERAL TERMS AND CONDITIONS.

2. QUANTITY AND QUALITY OF SERVICE OBLIGATIONS

For each Transaction, Customer and Engage must agree upon at least the following essential provisions:

- (i) designate who is to be Buyer and Seller;
- (ii) agree to a quantity of natural gas to be purchased and sold;

- (iii) commit to a "QUALITY OF SERVICE" obligation in respect of the purchase and sale of that gas;
- (iv) specify a start date and time and end date and time for the Transaction;
- (v) specify the price under the Transaction; and
- (vi) designate a Delivery Point for the Transaction.

Those provisions, and any related details for the Transaction, will be recorded in a Gas Transaction Confirmation form.

3. TERM

This is a basic agreement, providing the general provisions under which specific Transactions may be entered into. It will commence on the Effective Date, and continue in effect until one of the parties terminates it, by giving the other party thirty (30) days' advance written notice. However, each Transaction is effective only for the agreed upon period as documented in its Gas Transaction Confirmation form, commencing on the "Start Date and Time" specified in the form. If any Transaction period is longer than the termination date for this Agreement, then this Agreement will stay in effect until the "End Date and Time" specified for the Transaction.

4. PRICE

The gas commodity price which is to be paid for gas deliveries under a Transaction will be the price agreed to for the particular Transaction, as documented in the Gas Transaction Confirmation form. As well, other costs and charges, as agreed to by the parties, may be specified for the Transaction and documented in the form.

5. SPECIAL PROVISIONS

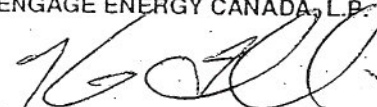
In addition to basic purchase and sale provisions, the parties are free to first orally agree on special provisions for a Transaction, which then will be documented in writing in the Gas Transaction Confirmation form.

6. NOTICES AND COMMUNICATIONS

All notices and communications between the parties will be sent and delivered under the addresses and related specifications set out in the Gas Transaction Confirmation form.

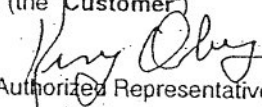
THE FOLLOWING SIGNATURES BY THE AUTHORIZED REPRESENTATIVES CONFIRM that Customer and Engage are authorized to enter, and in fact are entering, into this Agreement and into any resulting Transactions, and will perform and remain bound by them under the agreed upon provisions, commencing on the Effective Date:

ENGAGE ENERGY CANADA, L.P. ("Engage")


Authorized Representative

Title Kevin Turchanski
Vice President, Natural Gas
West Region

CASCADE NATURAL GAS CORPORATION
(the "Customer")


Authorized Representative

Title Vice President, Gas Supply

3

(Form 1)
GAS TRANSACTION CONFIRMATION

"Sample Only"

1. BUYER:		SELLER:		GAS TRANS. AGT. #1872 EFF. DATE: 01-Jul-94		DATE FORM DELIVERED:		
2. DETAILS OF TRANSACTIONS:								
Trans No.	Start Date/Time	End Date/Time	Quantity/day (MMBtu, GJ, cu. metres, or mcf)	Commodity Price & Currency (C\$ or US\$) (See 3. below)	Qual. of Service (Int, Firm or EFP)	Del. Point	Del. Pipe	Rec. Pipe
1.								
2.								
3.								
3. Special Provisions, Including Price Details (if any):								
4. Addresses, Operations AND Billings and Payment Information:								
Engage Energy Canada, L.P. ("Engage") 1100, 421 - 7 th Avenue S.W. Calgary, Alberta T2P 4K9				Cascade Natural Gas Corporation ("Customer") 222 Fairview Avenue North Seattle, WA 98109				
Marketing Representative Name: Jeff Thompson Phone: (403) 297-1838 Fax: (403) 269-5909				Marketing Representative Name: Phone: Fax:				
Operations Contact: Shelley Nord Phone: (403) 297-0381 Fax: (403) 269-5909				Operations Contact: Phone: Fax:				
Accounting Contact: Judy Rafuse Phone: (403) 297-0386 Fax: (403) 269-5909				Accounting Contact: Phone: Fax:				
Wire Transfer Acct:				Wire Transfer Acct:				
5. (a) The above are the essential binding terms of the transaction in question. If a formal master physical agreement is in effect between the parties, then the above confirmation terms are subject to that agreement. In the event of any conflict between this transaction and the terms of the formal agreement, the terms above prevail. If no formal agreement exists, then the parties will finalize and sign one, failing which this transaction remains binding on the parties. Upon finalizing that agreement, the above transaction will form a part of, and be subject to, that formal agreement.								
(b) If the customer notes any discrepancy between the provisions as orally agreed to and the above, please Engage within two (2) Business Days of delivery of this form. After that, all provisions will be presumed to be correct.								
(c) Any currency conversions shall be done using the Bank of Canada noon rate on the 10 th calendar day of invoice month (or the Bank of Canada noon rate on the immediately previous business day if the 10 th calendar day falls on a non-business day).								

FORM 2ENGAGE ENERGY CANADA, L.P.GAS TRANSACTION AGREEMENT:GENERAL TERMS AND CONDITIONS**1.01 QUALITY OF SERVICE**

One of the following "Quality of Service" definitions must be entered for each Transaction on a "Gas Transaction Confirmation" form, establishing the quality of service for the Transaction:

- (a) An "Interruptible" designation means the obligation to purchase and sell may be partially curtailed, or completely interrupted for any reason at either party's sole discretion with no obligation to perform and without the necessity to declare any form of "Force Majeure".
- (b) A "Firm" designation means the obligation to purchase and sell on any day is unconditional. The only exception to this obligation standard is when it is suspended due to an event defined as a "Force Majeure" event in Section 11.01 below. Any other failure to meet the obligation is a wrongful breach of the basic condition to perform, and the indemnities under Section 5.01 and other remedies under Section 10.02 below are available to the non defaulting party.
- (c) An "EFP" designation means, under NYMEX rules and contract specifications, an "exchange for physical" firm obligation for the delivery and purchase of physical gas from one party to the other, and a concomitant assumption of equal and opposite NYMEX gas futures positions by the parties. This Agreement contains the provisions governing the physical side of an EFP Transaction.

2.01 GENERAL DEFINITIONS

These additional definitions apply in interpreting this Agreement:

- (a) "Business Day" means any calendar day starting at 0800 Hours Mountain Time ("MT") and finishing at 1630 Hours MT, but Saturdays, Sundays, and provincial or federal statutory holidays are not business days.
- (b) "Buyer" means the party to a Transaction who will be purchasing and taking delivery of gas under the terms of the Transaction.
- (c) "Buyer's Transportation" means Buyer's transportation agreements with the Receiving Pipeline, allowing for sufficient capacity to enable any Transaction nominated amount to be received by Buyer under the Transaction at the designated Delivery Point.
- (d) "Delivering Pipeline" means the gas pipeline or local distribution company designated in a Gas Transaction Confirmation form, which has facilities connecting to the designated Receiving Pipeline at the designated Delivery Point, if that Delivery Point is not a wellhead location owned or controlled by Seller.
- (e) "Delivery Point" means a gas delivery point, as designated in a Gas Transaction Confirmation form for the specific Transaction.
- (f) "EFP" means an "exchange of futures for physical" gas Transaction, under NYMEX rules.
- (g) "Material Adverse Financial Change" means a material, negative change in a party's financial position.
- (h) "NYMEX" means the New York Mercantile Exchange.
- (i) "Prime Rate" means the variable rate of interest, for Canadian dollar corporate loans to customers in Canada, used from time to time by the Canadian Imperial Bank of Commerce at Calgary, Alberta.
- (j) "Receiving Pipeline" means the gas pipeline or local distribution company designated in a Gas Transaction Confirmation form, which has facilities connected to the designated Delivering Pipeline at the designated Delivery Point.
- (k) "Replacement Market Price" means the fair price for a replacement sale or purchase arrangement, as the case may be, at the Delivery Point or an alternate delivery point if need be, but if the original price under a Transaction is agreed to be set at a point other than the Delivery Point, then the Replacement Market Price is the price determined at that pricing point.

- (l) "Seller" means the party to a Transaction who will be selling and delivering gas under the terms of the Transaction.
- (m) "Seller's Transportation" means Seller's transportation agreements with the Delivering Pipeline, allowing for sufficient capacity to enable any Transaction nominated amount to be delivered by Seller under the Transaction at the designated Delivery Point, if that Delivery Point is not a wellhead location owned or controlled by Seller.
- (n) "Term" means the period of time during which gas may be purchased and sold under the provisions of this Agreement, as documented in specific Gas Transaction Confirmation forms.

3.01 DAILY NOMINATIONS AND NOMINATION CHANGES

- (a) For each Transaction, Buyer must nominate gas to the Delivering Pipeline and to Seller on a timely basis, based on the deadlines specified by the Delivering and Receiving Pipelines. Nominations will remain in effect until Seller receives a new nomination from Buyer in accordance with the Transaction terms. The new nomination becomes effective if it is received by Seller and is in compliance with the deadlines for nomination changes specified by the pipelines. Seller will dispatch and deliver gas in compliance with the nomination then in effect.
- (b) The nomination and dispatching procedures under each Transaction in general must comply with the tariff and other published procedures of both the Receiving and Delivering Pipelines.

4.01 QUALITY AND MEASUREMENT

- (a) Seller warrants that the gas to be delivered to Buyer at the Delivery Point for a Transaction satisfies the tariff and other published quality and pressure requirements at that point, as set out by the Receiving Pipeline. Those standards are the gas quality and pressure standards which Seller must meet in delivering gas under that Transaction. Seller must pay an indemnity to Buyer in the amount of any damages suffered by Buyer if any gas delivered by Seller under the Transaction does not meet those standards. In addition, Buyer may refuse deliveries of nonconforming gas until the nonconformance is corrected.
- (b) The Receiving Pipeline will measure the quantity and energy content of the gas delivered at the Delivery Point under its tariff and other published measurement standards. The parties agree those measurements are binding for the Transaction in question.

5.01 "FIRM" or "EFP" QUALITY OF SERVICE INDEMNITIES

- (a) If the "Quality of Service" is designated "Firm" or "EFP" in the Gas Transaction Confirmation form for any Transaction, and if for any day Seller fails to deliver or Buyer fails to receive the specified Transaction quantity without excuse as allowed for under the Transaction or these GENERAL TERMS AND CONDITIONS, then the failure is a basic performance default (the "Basic Performance Default").
- (b) If the Basic Performance Default is a failure by Seller, then Buyer is entitled to an indemnity amount from Seller. That amount, calculated as liquidated damages, will be the total of all of the following:
 - (i) an amount equal to the difference between the Transaction quantity nominated on that day and the quantity actually delivered by Seller (that quantity difference is "Seller Default Gas"), MULTIPLIED BY the positive difference, if any, obtained by subtracting the specified Transaction gas commodity price from the Replacement Market Price at which Buyer purchases a gas quantity equal to the Seller Default Gas quantity; plus
 - (ii) all transportation costs or penalties for which Buyer is liable as a result of Buyer's Transportation capacity left unutilized due to the Basic Performance Default; plus
 - (iii) all additional transportation costs for which Buyer is liable under alternate transportation arrangements that Buyer has been required to make, to take delivery of Seller Default Gas quantities at an alternate supply delivery point due to the Basic Performance Default; plus
 - (iv) an amount to cover Buyer's administrative expenses related to the Basic Performance Default, deemed to be equal to five cents (\$0.05) for every MMBtu or GJ, as the case may be, of Seller Default Gas, payable in the currency designated in the Gas Transaction Confirmation for the Transaction in question.
- (c) If the Basic Performance Default is a failure by Buyer, then Seller is entitled to an indemnity amount from Buyer. That amount, calculated as liquidated damages, will be the total of all of the following:
 - (i) an amount equal to the difference between the Transaction quantity delivered under a nomination on that day and the quantity actually taken by Buyer (that quantity difference is "Buyer Default Gas"), MULTIPLIED BY the positive difference, if any, obtained by subtracting from the specified Transaction gas commodity price the Replacement Market Price at which Seller resells the quantity equal to the Buyer Default Gas quantity; plus

Page 6

- (ii) all transportation costs or penalties for which Seller is liable as a result of Seller's Transportation capacity left unutilized under Seller's Transportation due to the Basic Performance Default; plus
- (iii) all additional transportation costs for which Seller is liable under alternate transportation arrangements that Seller has been required to make to deliver Buyer Default Gas quantities to an alternate sales delivery point due to the Basic Performance Default; plus
- (iv) an amount to cover Seller's administrative expenses related to the Basic Performance Default, deemed to be equal to five cents (\$0.05) for every MMBtu or GJ, as the case may be, of Buyer Default Gas, payable in the currency designated in the Gas Transaction Confirmation for the Transaction in question.
- (d) For a Basic Performance Default, the non defaulting Party may calculate the Replacement Market Price based on the settlement or closing-out prices at the time of liquidation or cancellation of NYMEX gas futures or forward contracts, or bona fide gas prices quoted by at least three (3) leading bona fide dealers in representative energy swap markets.
- (e) The non defaulting party is to do everything commercially reasonable to mitigate the effect of the Basic Performance Default, but is not compelled to act to its economic detriment. The indemnity amounts are to be itemized and delivered in an indemnity invoice as soon as all information is known, or can be estimated with reasonable accuracy. The total amount must be paid by the defaulting Party within two (2) Business Days after delivery of the indemnity invoice, and the parties subsequently must adjust and settle accounts between them once any actual information is known in substitution of any reasonably estimated information.
- (f) The damages and remedies limitations under Section 15.01 below apply to a Basic Performance Default.

6.01 TRANSPORTATION AND REGULATORY ARRANGEMENTS

- (a) Prior to the "Start Date and Time" for a Transaction:
 - (i) Buyer will have completed Buyer's Transportation and necessary regulatory approval arrangements to enable service to commence on that date;
 - (ii) Seller will have completed Seller's Transportation and necessary regulatory approval arrangements to enable service to commence on that date.
- (b) Each party must acquire and hold transportation service and regulatory approval arrangements of a quality equivalent to the "Quality of Service" commitment made for the Transaction, and must keep all such arrangements in good standing for as long as that Transaction is in effect. The shipper of record is responsible for all costs and charges under its transportation arrangements, unless a provision of these GENERAL TERMS AND CONDITIONS or the particular Transaction specifies otherwise.

7.01 TITLE AND RISK TRANSFER

- (a) Seller has legal title to the gas and possession of it under a Transaction until title and possession are passed to Buyer at the specified Delivery Point. The party having title and possession also has the inherent risks associated with the gas.
- (b) Seller must pass good title to Buyer at the Delivery Point, ensuring it remains free and clear of any security interest, other lien or any legitimate title claims, which could be detrimental to Buyer in any manner.
- (c) For a Transaction, if there is any challenge to good title, or Seller's authority to sell the gas, then Buyer is entitled to take the following actions to protect itself financially:
 - (i) Buyer may suspend its obligations to pay for gas already delivered under the Transaction, without interest, but only in an amount reasonably estimated by Buyer to cover any damages to Buyer due to the challenge. The suspension will be for as long as it takes to finally resolve the challenge in court or through settlement, or until Seller gives Buyer a form of sufficient security which may be drawn upon if the challenge is resolved in a manner which causes damages to Buyer; or
 - (ii) Given the legal nature of the challenge, Buyer may pay the amount into a neutral interest bearing trust or escrow account, or into court if under the circumstances such a course of action is fair and reasonable.
- (d) An indemnity amount as set out in an indemnity invoice must be paid to Buyer in the amount of direct damages to Buyer due to the failure of Seller to pass good title to or have proper authority, as mentioned in Subsection (c) above.

8.01 DELIVERY AND PAYMENT OF INVOICES

- (a) In the next month following the month during which gas under a Transaction has been purchased and sold, Buyer will deliver to Seller a gas deliveries invoice (the "Invoice"). Subsequent to an event under which an indemnity amount is to be paid, an indemnity invoice is to be prepared and delivered by the party entitled to an indemnity amount under this Agreement. The Invoice must be based on information and knowledge available from the pipelines, and be consistent

with confirmed nominations and deliveries as at the time of Invoice preparation. Unless otherwise agreed, the Invoice must be delivered during a Business Day which is a day on or before the twentieth (20th) day of the Invoice month, either by courier or fax. It must contain details of the quantities of gas delivered at the Delivery Points, the Transaction prices paid for deliveries, any wire transfer, remittance or account instructions, and any indemnity amounts not otherwise accounted for which may be set off against amounts owing under this Agreement.

- (b) Unless otherwise agreed, Buyer must pay to Seller the amount specified in the Invoice, no later than the twenty-fifth (25th) day of the Invoice month, but Buyer must have five (5) clear calendar days to make payment, starting from the day the Invoice was received. If the payment due date falls on a non Business Day, then that due date is the Business Day closest to and prior to the twenty-fifth (25th) day of the month. Buyer may make payment by cheque or electronic wire transfer to Seller's account as set out in the Gas Transaction Confirmation form. If wire transfer account information is not specified, payment is to be by cheque.
- (c) If any actual data necessary to complete an Invoice is not available from its source at the time an Invoice is to be delivered, then Seller with Buyer's cooperation as required may use reasonably accurate data estimates based upon the information actually confirmed at the time. On the Invoice for the first month when all actual information is finally confirmed, Invoice entries previously made based on data estimates will be adjusted to account for actual data then confirmed, and Buyer will receive a credit or a debit, as the case may be, in an amount equal to the difference between the estimated and confirmed amounts.
- (d) A party required to make any gas delivery payment or indemnity payment under this Agreement will pay interest charges on late payments, calculated beginning on the Invoice due date and continuing until the date payment is made. The rate of interest is: (i) the Prime Rate PLUS two percent (2%); or (ii) the maximum rate of interest which lawfully may be charged, whichever is less, on the Business Day the Invoice first is delivered.
- (e) Each party may set off and net out any and all Transaction payment and indemnity obligations against each other, and against payment obligations under any other gas purchase or sale arrangements, in addition to those under this Agreement, which are in effect between the parties at the time a need for set off arises.

8.02 CURRENCY OF TRANSACTION AND CONVERSION FACTOR

The currency of payment for each Transaction will be as designated on the Gas Transaction Confirmation form. If any price deduction or revenue component initially is specified in Canadian dollars or United States dollars, requiring conversion to dollars in the agreed upon currency as set out in the Gas Transaction Confirmation form, then the component will be converted from one currency to the other at the average Bank of Canada daily spot exchange rate as at 1200 Hours Eastern Standard Time. With respect to Section 8.01(a) above, the rate so utilized will be the one which is in effect on the Business Day immediately prior to the date an Invoice is delivered during the Invoice Month.

9.01 FINANCIAL ASSURANCES

- (a) If a party (the "Requesting Party") at any time during the term of this Agreement makes a reasonable request, the other party (the "Assurance Party") must assist in the Requesting Party's reasonable financial review, including delivery as promptly as possible of an annual report which contains the financial statements for the last completed fiscal year of the Assurance Party, as certified by independent chartered accountants and prepared under generally accepted accounting principles, plus the most recent unaudited quarterly financial statement in effect as of the date of the request, plus any other reasonable documentation as might be requested.
- (b) As a precondition to the obligation to commence or continue any Transaction performance under this Agreement, based on the Requesting Party's reasonable financial review which might include a review of the documentation requested under Subsection (a) above, the Requesting Party may require the Assurance Party to provide a form of financial assurances (the "Financial Assurances") of that performance. If a written guarantee (the "Guarantee") of performance by a third party is the form of Financial Assurances to be implemented, then the third party guarantor also must satisfy the Requesting Party's reasonable financial review, including prompt delivery of the guarantor's financial statements or other reasonable documentation as might be requested. The form of Guarantee must be signed and delivered prior to the date specified by the Requesting Party. Financial Assurances also may be required of a Defaulting Party under Section 10.01 below.

10.01 GENERAL DEFAULT EVENTS

Any one of the following events of failure or default of one or more fundamental conditions (a "General Default") by a party (the "Defaulting Party") entitles the other party who is continuing to perform (the "Performing Party") to the remedies under Section 10.02 below:

- (i) The Defaulting Party fails to make a gas deliveries payment due under Section 8.01 within a five (5) day period after the payment due date, or fails to pay an indemnity under this Agreement within the specified payment period;
- (ii) The Defaulting Party has committed a Basic Performance Default under Section 5.01 each day for seven (7) consecutive days;

- (iii) The Defaulting Party has defaulted under any other fundamental condition of this Agreement, and does not cure the default within seven (7) days of the date the non-defaulting party delivered a notice of default to the Defaulting Party;
- (iv) The Defaulting Party or its Guarantor has a property asset receiver or trustee appointed, makes an assignment to or arrangements with creditors, is bankrupt, has creditor protection proceedings commenced against it, becomes insolvent, defaults under the payment or other fundamental condition of any loan or security agreement or arrangement to borrow money, or otherwise cannot pay its debts as they are due;
- (v) Financial Assurances are not provided as requested under Section 9.01 (b), or a Material Adverse Financial Change occurs in the reasonable opinion of the Performing Party and the Defaulting Party does not provide Financial Assurances as security in relation to the latter occurrence;
- (vi) The Guarantor has defaulted under the provisions of the Guaranty and the default continues beyond any cure period specified in that document, or, if, in the reasonable opinion of the Performing Party, the guarantor under a Guarantee will not be able to financially perform the Guarantee obligations, if called upon, and with respect to this latter occurrence the Defaulting Party does not provide alternative Financial Assurances within five (5) days of being notified by the Performing Party of the requirement to do so.

10.02 GENERAL DEFAULT REMEDIES

- (a) Within seven (7) days of the day the Performing Party has delivered a notice of default to the Defaulting Party and after the end of any cure period specified in this Agreement, if the General Default remains outstanding, then the Performing Party may suspend performance of all Transactions, or terminate and liquidate all Transactions. The Performing Party first must give two (2) days' prior written notice to the Defaulting Party specifying that either the Performing Party's Transaction performance will be suspended, or all Transactions will terminate and be liquidated, unless prior to the notice expiry day the Defaulting Party provides a form of Financial Assurances acceptable to the Performing Party. These may be in addition to any form of Financial Assurances in place at the time of the notice. However, if the Performing Party becomes aware that any event of the nature described in Section 10.01(iv) is involved, it may immediately terminate and liquidate all existing Transactions.
- (b) Also, if the Performing Party proceeds to termination and liquidation, the Defaulting Party must pay an indemnity amount to the Performing Party, calculated as liquidated damages (the "Agreement Liquidated Damages"). That amount will be equal to the cumulative present value of the economic loss of all Transactions existing at the time of the termination notice. This will be the deemed economic loss suffered by the Performing Party due to early termination.
- (c) More specifically, the Agreement Liquidated Damages for any Transaction will be the economic loss, if any, which results from calculating the difference between:
 - (i) the total amount the Performing Party would pay or receive from, as the case may be, a third party in an arms length transaction for the supply of gas under a replacement transaction, on terms substantially the same as the Transaction in question, and calculated for a period of the time equal to the remaining period of the Transaction, commencing on the early termination date; MINUS
 - (ii) the total amount the Performing Party would have paid to, or received from, as the case may be, the Defaulting Party for the supply of gas under the Transaction had it not been terminated, and calculated for a period of time equal to the remaining period of the Transaction commencing on the early termination date.

The Performing Party may calculate a replacement transaction price based on the settlement prices of NYMEX gas futures contracts, or bona fide prices quoted by at least three (3) leading bona fide dealers in the energy swap markets.

- (d) The Agreement Liquidated Damages must be paid by the Defaulting Party no later than two (2) Business Days after an indemnity invoice for them is received from the Performing Party.
- (e) The present value for the Agreement Liquidated Damages will be calculated by applying a discount rate of the Prime Rate PLUS three percent (3%), as in effect on the early termination date.
- (f) The right of a Performing Party to be paid Agreement Liquidated Damages is in addition to Basic Performance Default liquidated damages, but the indemnifying party will not be required to indemnify twice for the same default incident.

11.01 Force Majeure

- (a) If an event specified under Section 11.01(b) below occurs which is not within the control of a party, and causes that party to fail to perform all or part of an obligation under a Transaction, then the party (the "Claiming Party") may claim "Force Majeure", but only to the extent that event directly and substantially causes the Claiming Party to fail to perform all or part of that obligation under the affected Transaction. Such a claim suspends performance of the obligation of the Claiming Party and any related obligation of the other party, except for the obligation of Buyer to pay for gas already delivered, or for an indemnifying party to pay indemnities. The suspension period is in effect for so long as the event causes the failure to perform. However, the Claiming Party must do everything commercially reasonable to restore performance as soon as possible.
- (b) An event of "Force Majeure" specifically means, and is limited to, only an event of:
- (i) curtailment, reallocation or pro-rationing of firm transportation service under Seller's Transportation or Buyer's Transportation, as authorized by the published tariff, policies or procedures of the respective pipeline company, and regardless of whether or not the pipeline company has issued a formal notice of force majeure;
 - (ii) an order of any court, regulatory tribunal or government body, the effect of which is to make the continued part or entire performance by one or both parties under this Agreement illegal or prohibited.

No other events are force majeure or frustration events under this Agreement.

11.02 WHEN FORCE MAJEURE NOT AVAILABLE

For greater certainty, a Claiming Party may not claim Force Majeure protection if:

- (i) the event resulting in the Transaction performance failure was caused by a negligent act, omission or by a contract breach by the Claiming Party;
- (ii) the Claiming Party did not do everything commercially reasonable to avoid the Transaction performance failure or to restore performance as soon as possible;
- (iii) the event of Force Majeure is a failure to pay an amount due under this Agreement;
- (iv) Seller fails to deliver under the Transaction due to depletion of its proprietary gas supplies or reserves, or due to scheduled maintenance of Seller's gas facilities when Buyer has not consented to that maintenance interruption as relieving Seller of its delivery obligation;
- (v) Seller fails to deliver under the Transaction due to its failure to maintain or neglect in maintaining sufficient well, gathering or processing systems, or other such gas production facilities, to a standard and capacity ensuring it can meet its delivery obligations under all Transactions;
- (vi) the reason for the performance failure under a Transaction is that the Claiming Party can obtain more favourably priced market terms for the gas;
- (vii) Buyer does not take delivery because it lost its ability to resell the gas into resale markets;
- (viii) the performance failure results from lack of finances; or
- (ix) Force Majeure notice requirements under this Agreement are not complied with.

11.03 Notice Requirements

Notice by the Claiming Party must be given to the other party as soon as possible once a Force Majeure event has occurred. Oral notice should be given if possible, but written notice must be given, containing all details necessary to describe the event, how long it will last, the obligations affected, and the time and date performance is expected to be restored. Force Majeure protection will not be available if written notice is not given in a timely fashion.

11.04 CURTAILMENT PRIORITIES

During an event of Force Majeure, the Claiming Party must cease interruptible deliveries to other markets, if it is Seller, and purchases from interruptible supply sources, if it is Buyer, prior to suspending the performance obligation under the Firm Transaction in question. The Claiming Party then must treat the other party equitably with its other Firm customers on a proportionate basis with regard to the remaining supply available for market, if it is Seller, and to remaining market availability, if it is Buyer.

12.01 Duty to Maintain Balances

- (a) The parties must do everything commercially reasonable to avoid transportation service imbalance penalties. They must cooperate to eliminate energy and volumetric imbalances prior to a pipeline imposing tariff or other penalties on one party or the other.
- (b) If an imbalance penalty is about to be imposed by a pipeline, the party subject to it once notified must in turn notify the party causing the imbalance (the "Imbalance Party"). The Imbalance Party then must be given the opportunity to remedy the imbalance, to the extent reasonably possible under the circumstances. If a remedy is not possible, then the Imbalance Party must pay an indemnity amount to the other party. That amount, calculated as liquidated damages, will be equal to the tariff imbalance penalty amount payable by the other party under the pipeline transportation arrangements in question.
- (c) Imbalance indemnity amounts must be settled in cash, unless there is agreement otherwise. Cash settlements to the account of the Imbalance Party may be settled by the other party by means of a set off under this Agreement.

13.01 Laws GOVERNING THIS AGREEMENT

- (a) This Agreement and all Transactions are contracts under Alberta and Canadian laws and will be enforced and interpreted accordingly. Those laws govern the contract rights and duties of the parties under this Agreement. The proper forum for determining any Agreement dispute, breach or claim is the applicable court of Alberta.
- (b) This Agreement will be performed and interpreted in a manner consistent with all laws, including statute and regulatory laws, common laws and rulings or orders issued from a court or regulatory body with jurisdiction. If an interpretation conflict exists between a provision of this Agreement and any one of those laws, the Agreement provision will govern, to the extent the law will allow.
- (c) If a new law is created or an old one is changed resulting in an economic hardship on one of the parties with regard to a particular Transaction, then both parties must use all reasonable commercial efforts to deal with hardship in a manner that is fair and equitable, taking into account the basic value each party has bargained for under that Transaction. If they cannot agree, then they must agree to a fair and equitable binding arbitration process, with instructions to the arbitrator to allocate the hardship in the most equitable manner, while preserving the Transaction.

14.01 GENERAL CLAUSES

- (a) Seller is responsible to account for and pay all forms of taxes and royalties on or related to the gas up to the moment that title and possession passes to Buyer at the Delivery Point. From and after the Delivery Point, taxes and royalties on the gas becomes Buyer's responsibility. Buyer is liable for Goods and Services Tax payments on the gas under federal and any provincial legislation, but that tax levy is not part of any Transaction commodity price calculation. Buyer will indemnify Seller and hold Seller harmless from all GST-related claims and penalties which result from Seller incurring or being responsible for a GST liability, due to Buyer not being charged GST by Seller in the first instance for gas sold under this Agreement and which Buyer represented or otherwise indicated to Seller was destined for export from Canada, but ultimately was not so exported or was reimported into Canada under circumstances where Seller incurred the liability referred to above.
- (b) There are no other enforceable terms or collateral representations, other than as written in this Agreement. The written terms of any Transaction and this Agreement are the expression of the agreement of the parties.
- (c) This Agreement may only be amended by a written amendment signed by both parties, but Transaction specific provisions as orally agreed to and documented in a Gas Transaction Confirmation take precedence over any other provisions of this Agreement. Transaction amendments may be agreed to orally, to be confirmed by Engage issuing a Gas Transaction Confirmation revised form.
- (d) This Agreement was negotiated and prepared by both parties. It should not be interpreted against one party by reason of that party having been responsible for the preparation of the Agreement, or any Gas Transaction Confirmation form.
- (e) This Agreement is binding on the successors of a party, or any person to whom it is assigned. The non assigning party is entitled to consent to any form of assignment of this Agreement, or a Transaction.
- (f) The parties must keep the provisions of each Transaction confidential as between them, except for those provisions which must be revealed to a regulatory agency, a transporting pipeline, an arbitration panel or a court of law.

15.01 DAMAGES LIMITATIONS

- (a) The parties agree the indemnity amounts to be paid as set out in this Agreement are genuine and commercially reasonable pre-estimates, calculated as liquidated damages. The indemnity payments are the agreed commercial remedies, and are the only ones available to the non-defaulting party unless a provision of this Agreement, or of a specific Transaction, specifies otherwise.
- (b) Neither party is liable to the other for any indirect, consequential or special damages of any nature, except as specifically expressed in this Agreement. The prohibition includes those in the nature of:
 - (i) economic loss, or loss of profits;
 - (ii) claims by any third parties;
 - (iii) claims based on any theory of contract, negligence, or statutory imposition; or
 - (iv) equitable claims, or claims based on a form of implied condition, warranty or collateral representation.

16.01 TAPED TRANSACTIONS

- (a) The oral offer and acceptance recorded on Engage's Transaction electronic taping system forms an agreement between the parties, and they are legally bound to perform under the Transaction from the moment the terms have been so orally agreed to.
- (b) The tape of the Transaction is agreed by the parties to be a document under which the Transaction is evidenced in tangible form.
- (c) Each party consents to the recording of conversations by its employees which occur while discussing or entering into Transactions under this Agreement. The conversations as so recorded may be submitted in evidence to any court or in any regulatory or arbitration proceeding as evidence of the provisions of the Transaction.
- (d) Engage at its expense will maintain recording equipment and facilities at its offices, and will retain the Transaction tapes in strict confidence as between the parties, secured from improper access. No Transaction will be null and void if the taping system malfunctions, as it then will be evidenced by the Gas Transaction Confirmation form and any related collateral written records and documentation.
- (e) The parties agree not to assert any legal defence as to the validity or enforceability of a Transaction verbally agreed to as evidenced by the Transaction tape, including any assertion that the Transaction agreement is not in writing or signed by a party or both parties.

17.01 INDEPENDENT ASSESSMENTS

Each party agrees that:

- (i) the other party is not acting as a fiduciary, advisor or agent to it with respect to any Agreement or Transaction matters;
- (ii) it is not relying upon the advice, assurances or representations of that other party, except for those stated representations set out in this Agreement;
- (iii) it fully understands and has assessed the economic and other risks of entering into and performing Transactions under this Agreement, and has made its own independent judgments about, and is capable of assuming, those risks.

18.01 NOTICES

- (a) Unless specified otherwise in this Agreement, every nomination, notice or statement to be delivered by one party to the other must be in writing.
- (b) Every such communication may be delivered by personal delivery, courier service, prepaid registered mail or fax. The address for all forms of deliveries to the recipient is as documented on the Gas Transaction Confirmation form. Each party must give the other a written notice when its address for notices is changed.
- (c) The communication will be deemed to be received by the recipient:
 - (i) upon the sender effecting courier or personal delivery, as the case may be;
 - (ii) at 0800 Hours Mountain Time on the fifth (5th) Business Day after the date of registration by the sender, in the

case of prepaid registered mail; and

- (iii) on written confirmation to the sender that the communication was received by the recipient. In the case of fax transmittals, the confirmation will be in the form of the sender's telecopy records. If that confirmation is not received, then the communication will be deemed to be received by the recipient:
 - (A) at 0800 Hours Mountain Time on the next immediate Business Day, if the day of transmission is not a Business Day;
 - (B) at 1700 Hours Mountain Time on the Business Day the fax was sent, if the transmission day is a Business Day.
- (d) Prepaid registered mail delivery may not be used if a mail service disruption is in effect or imminent.

19.01 TERMINATION OF PRIOR GAS TRANSACTION AGREEMENT AND CONTINUATION OF SPECIFIC TRANSACTIONS

- (a) Upon the date of full execution of this Agreement by both Customer and Engage, any prior Gas Transaction Agreement between them, whether fully executed or otherwise, is deemed terminated but each Transaction which formed a part of that prior Agreement will be governed by this Agreement. Each Transaction therefore will be deemed a Transaction under a Gas Transaction Confirmation form for the purposes of this Agreement, and therefore continues in full force and effect under its terms.
- (b) **Existing Transactions.** Engage and Customer may have entered into Transactions (the "Existing Transactions") dating back to the Effective Date of this Agreement and evidenced by a Gas Transaction Confirmation. Upon execution of this Agreement, all Existing Transactions will be deemed Transactions as defined in this Agreement and will be governed by this Agreement.

**GasEDI BASE CONTRACT FOR SHORT-TERM SALE AND PURCHASE OF NATURAL GAS
COVER SHEET**

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October 26, 2000

**GasEDI BASE CONTRACT FOR
SHORT-TERM SALE AND PURCHASE OF NATURAL GAS
COVER SHEET**

This Base Contract is entered into as of the following date: (date)

The parties to this Base Contract are the following:

PARTY A		PARTY B ("Counterparty")
Engage Energy Canada, L.P. ("Engage")	Party	
2200, 425 - 1 st Street S.W.	Address	
Calgary	City	
Alberta	State / Province	
T2P 3L8	Zip / Postal Code	
	Address #2	
	Base Contract #	
25-399-6177	Duns #	
	US Federal Tax ID #	
R890034986	Canadian GST #	
(see Exhibit B)	Bank	
(see Exhibit B)	Branch	
(see Exhibit B)	Account	
	NOTICES	
Contract Administration	Contact	
(403) 699-1099	Phone	
(403) 216-0208	Fax	
debbie.robinson@engageenergy.com	Email	
	24 HOUR OPERATIONS	
Operations	Contact	Operations
(403) 699-1000	Phone	
(403) 269.5909	Fax	
	Email	
	INVOICES & PAYMENTS	
Manager, Commodities, Gas	Contact	Accounting
(403) 699-1000	Phone	
(403) 269.5909	Fax	
	Email	

GasEDI BASE CONTRACT FOR SHORT-TERM SALE AND PURCHASE OF NATURAL GAS
COVER SHEET

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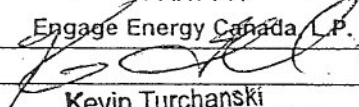
This Base Contract incorporates by reference for all purposes the General Terms and Conditions of the GasEDI Base Contract for Short-Term Sale and Purchase of Natural Gas as published by GasEDI. The parties hereby agree to the following provisions offered in said General Terms and Conditions (select only one from each box, but see "Note" relating to Section 3.2.):

Section 2: Confirm Deadline ☒ 2 Business Days after receipt (default) ☐ _____ Business Days after receipt	Section 6: Taxes ☒ Buyer Pays At and After Delivery Point ☐ Seller Pays Before and At Delivery Point
Section 2: Confirming Party ☐ Seller ☐ Buyer ☒ Engage Energy Canada L.P.	Section 7.2: Payment Date <u>25th</u> date of Month following Month of delivery
Section 3.2: Performance Obligation ☒ Spot Price Standard ☐ Cover Standard Note: The following Spot Price Publication applies to both of the immediately preceding Standards and must be filled in after a Standard is selected: _____	Section 7.2: Method of Payment ☐ Automated Clearinghouse – Credit Only (ACH) ☐ Cheque ☒ Electronic Funds Transfer (EFT) ☐ Financial Electronic Data Interchange (FEDI) ☒ Wire Transfer (WT)
Section 13.5: Choice of Jurisdiction: <u>Alberta</u>	Section 13.10: Dispute Resolution: ☐ Included (default). or ☒ Excluded
☒ Special Provisions: Section 10.1.b: Credit Support Provider for Engage: Westcoast Energy Inc. for Counterparty: Section 10.6.b: Specified Entity For Engage: (to be discussed) For Counterparty: (to be discussed)	
☒ Special Provisions: Number of Sheets Attached _____	

IN WITNESS WHEREOF, the parties hereto have executed this Base Contract in duplicate.

PARTY A

Engage Energy Canada L.P.



Kevin Turchanski

Vice President, Natural Gas

West Region

April 19, 2002

Party

Signature

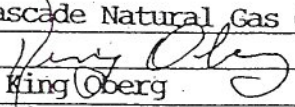
Name

Title

Date

PARTY B

Cascade Natural Gas Corporation



King Oberg

Vice President, Gas Supply

April 3, 2002

DISCLAIMER: The purposes of this Contract are to facilitate trade, avoid misunderstandings and make more definite the terms of contracts of sale, purchase or exchange of natural gas. This Contract is intended for interruptible transactions or firm transactions of one year or less and may not be suitable for transactions of longer than one year. Further, GasEDI does not mandate the use of this Contract by any party. GasEDI DISCLAIMS AND EXCLUDES, AND ANY USER OF THIS CONTRACT ACKNOWLEDGES AND AGREES TO GasEDI's DISCLAIMER OF, ANY AND ALL WARRANTIES, CONDITIONS OR REPRESENTATIONS, EXPRESS OR IMPLIED, ORAL OR WRITTEN, WITH RESPECT TO THIS CONTRACT OR ANY PART THEREOF, INCLUDING ANY AND ALL IMPLIED WARRANTIES OR CONDITIONS OF TITLE, NON-INFRINGEMENT, MERCHANTABILITY, OR FITNESS OR SUITABILITY FOR ANY PARTICULAR PURPOSE (WHETHER OR NOT GasEDI KNOWS, HAS REASON TO KNOW, HAS BEEN ADVISED, OR IS OTHERWISE IN

COVER SHEET

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October 26, 2000

FACT AWARE OF ANY SUCH PURPOSE), WHETHER ALLEGED TO ARISE BY LAW, BY REASON OF CUSTOM OR USAGE IN THE TRADE, OR BY COURSE OF DEALING. EACH USER OF THIS CONTRACT ALSO AGREES THAT UNDER NO CIRCUMSTANCES WILL GasEDI BE LIABLE FOR ANY DIRECT, SPECIAL, INCIDENTAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES ARISING OUT OF ANY USE OF THIS CONTRACT.

**SPECIAL PROVISIONS
To the
GasEDI Contract**

These Special Provisions for (the "Special Provisions") attached to and forming a part of the Base Contract for Short-Term Sale and Purchase of Natural Gas dated _____ (the "Base Contract" or "Contract") by and between Engage Energy Canada, L.P. ("ENGAGE") and _____ (the "Counterparty").

SPECIAL PROVISIONS INTERPRETATION

1. If the terms of these Special Provisions conflict with the terms of the Base Contract, then the terms of these Special Provisions shall prevail. Any definitions used in the Base Contract shall have the same meaning in these Special Provisions. Sections referenced in these Special Provisions refer to a Section of the General Terms and Conditions of the Base Contract, unless stated otherwise.
2. Any reference to a Section in these Special Provisions refers to a Section of the General Terms and Conditions attached to the Base Contract.
3. Notwithstanding the provisions of the Base Contract, prices may be quoted in Canadian dollars, volumes of Gas may be measured in cubic metres and quantities of Gas may be measured in gigajoules.

SECTION 1 – PURPOSE AND PROCEDURES

Sections 1.2. is deleted in its entirety and replaced with the following:

1.2.a The parties will use the following Transaction procedure. Any Gas purchase and sale Transaction will be effectuated in an oral telephone conversation, with the offer and acceptance of all essential terms constituting the agreement of the parties. The parties will be legally bound from the time they so agree to such Transaction terms. Any such Transaction will be considered a "writing" and to have been "signed". The oral offer and acceptance will be recorded on Engage's electronic taping system.

1.2.b Notwithstanding the foregoing sentence, the parties agree that the Confirming Party will confirm a telephonic Transaction by sending the other party a Transaction Confirmation by facsimile, or by mutually agreeable electronic means, no later than 5:00p.m. of the 3rd Business Day after the date of the oral offer and acceptance.

1.2.c If the Confirming Party's Transaction Confirmation is materially different from the receiving party's understanding of the oral agreement referred to in Section 1.2.a, then the receiving party will notify the Confirming Party via facsimile by the Confirm Deadline. The failure of the receiving party to so notify the Confirming Party by the Confirm Deadline constitutes further evidence of the receiving party's agreement to the terms of the Transaction as described in the Confirmation.

1.2.d The entire agreement between the parties for the particular Transaction in question will be those provisions contained in: (i) the oral or electronic agreement of the parties, (ii) the Base Contract, (iii) the Transaction Confirmation, and (iv) these General Terms and Conditions. In the event of a conflict between the oral or electronic agreement of the parties and a complete, delivered and effective Transaction Confirmation, the latter prevails. In the event of a conflict among the terms of: (i) such an effective Transaction Confirmation, (ii) the Base Contract, and (iii) these General Terms and Conditions, the terms of the documents will govern in the priority listed in this sentence.

1.2.e All tape recordings of Transactions referenced in Section 1.3 below will be retained by Engage in strict confidence as between the parties, secured from improper access. No Transaction

will be null and void if the taping system malfunctions, as it then will be evidenced by the Transaction Confirmation form and any related collateral written records and documentation."

SECTION 10 – FINANCIAL RESPONSIBILITY, DEFAULTS AND REMEDIES

Sections 10.1 is deleted in its entirety and replaced with the following Sections 10.1:

10.1.a If a party (the "Requesting Party") at any time during the term of the Contract has reasonable grounds for insecurity regarding the payment, performance or enforceability of any obligation under the Contract, then upon written notice or oral notice on a taped line from the Requesting Party, the other party (the "Assurance Party") must assist in the Requesting Party's reasonable financial review of the Assurance Party. The review may include, without limitation, the delivery by the Assurance Party to the Requesting Party as promptly as possible, but in any event no later than five (5) Business days after the date of the request, of annual reports which contain the financial statements for the last completed fiscal year of the Assurance Party, as certified by independent chartered accountants and prepared under generally accepted accounting principles, plus the most recent unaudited quarterly financial statements in effect as of the date of the request, plus any corporate restructuring, reorganization, merger, consolidation, amalgamation applicable to the Assurance Party or any other reasonable documentation and records as might be requested by the Requesting Party.

10.1.b As a precondition to the obligation of the Requesting Party to commence or continue Transaction performance under this Contract, based on the Requesting Party's reasonable grounds for insecurity referred to in Subsection 10.1(a) above and which may result from a review of the materials requested under that Subsection, the Requesting Party may require the Assurance Party to provide a form of Performance Assurance of that performance. If the Performance Assurance form required is a written guarantee of performance (the "Guarantee") or any other form of credit support by a third party (the "Credit Support Provider"), then the Credit Support Provider also must satisfy the Requesting Party's reasonable financial review and approval, which may include prompt delivery of the Credit Support Provider's financial statements or other reasonable documentation or records as might be requested. Each Credit Support Provider must be specified in the Special Provisions on the Cover sheet to the Contract, and any form of Guarantee or other form of credit support documentation must be authorized, signed and delivered prior to the date specified by the Requesting Party.

10.1.c The failure of Assurance Party to provide the assistance referred to in Subsection 10.1.a above shall be deemed to an Event of Default in the nature of a failure to perform a material obligation under the Contract pursuant to Subsection (v) of the Event of Default definition, entitling the Requesting Party to the rights and remedies set out in Section 10.2 below.

10.1.d Without limiting the generality of Subsections (a) and (b) above, the following provisions establish a Credit Limit, as defined below, for each party. If at any time the Exposure of a party (the "Exposed Party") is greater than a Credit Limit established for the other party (the "Posting Party"), then the Posting Party will, within a three (3) Business Days after written demand by the Exposed Party, provide a form of additional Performance Assurance in the amount of such Exposure, and take such steps as may be necessary to perfect a security interest in favor of the Exposed Party.

10.1.e As used in this Section 10:

- (i) "Exposure" means the amount equal to the Total Termination Payment that would be due to the Exposed Party if there were to be an Event of Default with respect to the Posting Party and the Exposed Party was to require a Total Termination Payment.
- (ii) "Credit Limit" means:
 - (A) For Engage, the amount equal to the amount of Performance

Assurance then in effect and delivered to the Counterparty by Engage or its Credit Support Provider;

- (B) For the Counterparty, the amount equal to the amount of Performance Assurance then in effect and delivered to Engage by the Counterparty or its Credit Support Provider;

but upon the occurrence of an Event of Default or a Material Adverse Change with respect to a Posting Party or its Credit Support Provider, the Credit Limit for the Posting Party shall be zero (\$0).

- (iii) "Material Adverse Change" with respect to:

- (A) Engage, means the downgrading of any unsecured, long-term, senior debt of its Credit Support Provider, such that the debt is rated "BBB-", its equivalent, or below, by Standard & Poors or "Baa3", its equivalent, or below, by Moody's Investors Service, Inc.;
- (B) Counterparty, means the downgrading of any unsecured, long-term, senior debt of its Credit Support Provider, such that the debt is rated "BBB-", its equivalent, or below, by Standard & Poors or "Baa3", its equivalent, or below, by Moody's Investors Service, Inc.;

Section 10.6 is deleted in its entirety and replaced with the following:

10.6.a. Each party under the Contract and in equity reserves to itself all set off, counterclaims, combination of accounts, and other remedies and defenses with respect to any and all Transaction payments, receivables, liquidated sums, accounts, Total Termination Payment and Liquidation Amounts, or any other form of payment or crystallized indemnify obligations under this Contract and any and all Transactions, and under any other form of energy commodity or forward contract or agreement between the parties.

10.6.b The parties may agree that the provisions of this Section 10 will apply to one or more selected designated affiliates or subsidiaries of an Assurance Party (the "Specified Entity"). If the parties so mutually agree, then:

- (i) Each Specified Entity will be designated in the Special Provisions of the Cover sheet of Contract;
- (ii) The Non Defaulting Party will have the rights specified in this Section 10 if the Specified Entity or its Credit Support Provider commits or causes any act in the nature of an Event of Default under any form of agreement with the Non Defaulting Party or its Specified Entity.

10.6.c The parties acknowledge and confirm that the Contract, any and all Transactions and any Guarantees or other Credit Support Provider documentation, each and together constitute an "eligible financial contact" under any and all interpretations and applications related and with respect to the Bankruptcy and Insolvency Act (Canada), the Companies' Creditors Arrangement Act (Canada), and the Winding-up and Restructuring Act (Canada), as may be amended, restated, replaced or re-enacted from time to time, and will be treated as such under those statutes and in any and all proceedings under the authority of those statutes or otherwise, related to any bankruptcy, insolvency or any other such applicable laws, or any related or forthcoming ruling, order, directive or pronouncement."

SECTION 11 – FORCE MAJEURE

Section 11.2 is deleted in its entirety and replaced with the following:

"11.2. "Force Majeure" means and is limited to one or more of the following events beyond the control of a party, and which causes that party to be unable to perform one or more Transaction obligations under this Contract:

- (i) interruption, curtailment or prorationing of firm transportation and/or storage by a Transporter, whether or not the Transporter formally declares force majeure in accordance with the provisions of any applicable transportation capacity tariff, or general terms and conditions;
- (ii) the implementation as of the effective date of a court order, law, statute, ordinance, or regulation by a governmental or regulatory authority having jurisdiction.

Seller and Buyer shall make reasonable efforts to avoid the adverse impacts of a Force Majeure event and to resolve the event or occurrence once it has occurred in order to resume performance. A event of Force Majeure is the only excuse under the Contract and any Transaction for non performance of a Firm obligation, and all other excuses or events at law or in equity are waived."

EXHIBIT A – TRANSACTION CONFIRMATION

Exhibit "A" attached to the General Terms and Conditions is deleted in its entirety and replaced with the Exhibit "A" attached to these Special Provisions.



**EXHIBIT A
GAS TRANSACTION CONFIRMATION**

1. BUYER:			SELLER:			GAS AGT. # TRANS. EFF. DATE:	DATE FORM DELIVERED:	
2. DETAILS OF TRANSACTIONS:								
Trans No.	Start Date/Time	End Date/Time	Quantity/day (MMBtu, GJ, cu. metres, or mcf)	Commodity Price & Currency (C\$ or US\$) (See 3. Below)	Qual. of Service (Int, Firm or EFP)	Del. Point	Del. Pipe	Rec. Pipe
1.								
2.								
3.								
3. Special Provisions, Including Price Details (if any):								
4. Addresses, Operations AND Billings and Payment Information:								
Engage Energy Canada, L.P. ("Engage") 2200, 425 – 1 st Street S.W. Calgary, Alberta T2P 3L8					("Customer")			
Marketing Representative Name: Phone: Fax:					Marketing Representative Name: Phone: Fax:			
Operations Contact: Phone: Fax:					Operations Contact: Phone: Fax:			
Accounting Contact: Phone: Fax:					Accounting Contact: Phone: Fax:			
Wire Transfer Acct:					Wire Transfer Acct:			
5. (a) The above are the essential binding terms of the transaction in question. If a formal master physical agreement is in effect between the parties, then the above confirmation terms are subject to that agreement. In the event of any conflict between this transaction and the terms of the formal agreement, the terms above prevail. If no formal agreement exists, then the parties will finalize and sign one, failing which this transaction remains binding on the parties. Upon finalizing that agreement, the above transaction will form a part of, and be subject to, that formal agreement. (b) If the customer notes any discrepancy between the provisions as orally agreed to and the above, please Engage within two (2) Business Days of delivery of this form. After that, all provisions will be presumed to be correct. (c) Any currency conversions shall be done using the Bank of Canada noon rate on the 10th calendar day of invoice month (or the Bank of Canada noon rate on the immediately previous business day if the 10th calendar day falls on a non-business day).								

EXHIBIT B



Engage Energy Canada, L.P.
2200, 425 - 1st Street S.W.
Calgary, AB T2P 3L8

BANKING INSTRUCTIONS

CANADIAN DOLLARS

S.W.I.F.T

Intermediary Bank: Royal Bank of Canada, Toronto
SWIFT CODE: ROYCCAT2
Beneficiary Bank: Bank One Canada
SWIFT CODE: NBDDCATT
ABA No.: 07172 100 001 7
Beneficiary Account Name: Engage Energy Canada, L.P.
Beneficiary Account No.: 4653708

ELECTRONIC FUNDS TRANSFER (EFT)

Bank One Canada
BCE Place P.O Box 613
Suite 4240, 161 Bay Street
Toronto Ontario M5J 2S1

Transit / Bank Number: 0270 00012
Beneficiary Account Name: Engage Energy Canada, L.P.
Beneficiary Account No.: 4653708

UNITED STATES DOLLARS

VIA US FED WIRE

Bank One N.A. - Chicago, IL
ABA No.: 071000013
Beneficiary Account Name: Engage Energy Canada, L.P.
Beneficiary Account No.: 1037159

VIA INTERNATIONAL SWIFT

Bank One N.A. - Chicago, IL
SWIFT CODE: FNBC US44 (For foreign wires only- i.e. originating outside of the US)
Beneficiary Account Name: Engage Energy Canada, L.P.
Beneficiary Account No.: 1037159

WESTCOAST GAS SERVICES INC.

COPY

4

AMENDED AND RESTATED
NATURAL GAS SALES AGREEMENT

DATED AUGUST 17, 1994

BETWEEN

WESTCOAST GAS SERVICES INC. ("SELLER")

AND

CASCADE NATURAL GAS CORPORATION ("BUYER")

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AMENDED AND RESTATED
NATURAL GAS SALES AGREEMENT

THIS AGREEMENT is made as of August 17, 1994.

BETWEEN:

WESTCOAST GAS SERVICES INC., a body corporate with an office in the City of Calgary, in the Province of Alberta (herein referred to as "Seller")

OF THE FIRST PART

AND

CASCADE NATURAL GAS CORPORATION, a body corporate with an office in the City of Seattle, in the State of Washington (herein referred to as "Buyer")

OF THE SECOND PART

WHEREAS, Westcoast Energy, Inc. ("WEI") and Northwest Pipeline Corporation ("Northwest") are parties to a gas sales agreement dated September 23, 1960, as amended (the "Kingsgate Gas Sales Agreement");

AND WHEREAS, Northwest purchased gas under the Kingsgate Gas Sales Agreement for resale to customers including Buyer;

AND WHEREAS, Seller is the successor by amalgamation to CHMI;

AND WHEREAS, the Kingsgate Gas Sales Agreement has been assigned to Canadian Hydrocarbons Marketing Inc. ("CHMI") by Westcoast Energy Marketing Limited ("WEML"), after WEI had assigned it to WEML, and those assignments have been consented to by Northwest;

AND WHEREAS, pursuant to an Assignment and Amendment of the Kingsgate Gas Sales Agreement dated September 30, 1991 (the "Kingsgate Assignment"), Northwest assigned to Buyer a 21.849% share of the Kingsgate Gas Sales Agreement subject to Northwest's acceptance of a FERC Certificate Order authorizing the abandonment of Northwest's currently authorized sales service agreements and the granting of a DOE/OFE approval of, either, the assignment of Northwest's import authority to Buyer, or Buyer's application for an import authorization;

AND WHEREAS, the conditions in the recital immediately above have now been satisfied such that the assignment to Buyer has become effective;

AND WHEREAS, the Kingsgate Assignment under Section 9 allowed for the renegotiation of certain provisions under the Kingsgate Gas Sales Agreement;

AND WHEREAS, pursuant to the implementation of measures by Northwest in compliance with Order 636 and the related abandonment of Northwest's merchant sales service function, Buyer and Seller have reached an agreement for the direct sale of gas from Buyer to Seller, which agreement will replace and substitute for the Kingsgate Gas Sales Agreement;

NOW THEREFORE, THIS AGREEMENT WITNESSES THAT in consideration of the premises and the mutual covenants and conditions contained in it, the parties agree as follows:

ARTICLE 1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement, including the recitals, the following words and terms shall have the following meanings ascribed thereto:

- a. "AAA" shall mean the American Arbitration Association or any successor thereto;
- b. "ANG" means Alberta Natural Gas Company Ltd. or any successor thereto;
- c. "ANG Transportation Agreement" shall mean the Amending Service Agreement made and entered into between WEI and ANG dated July 1, 1991, under which ANG on behalf of WEI agreed to transport through its pipeline facilities on a firm basis up to $4,523 \times 10^3 \text{ m}^3$ of gas per day;
- d. "ANG Commodity Charges" shall mean the total ANG variable charge amounts, as more particularly defined and determined in accordance with Section 7.5 below;
- e. "ANG Commodity Rate" shall mean the variable per unit monthly rate payable to ANG in respect of the transportation of gas under the ANG Transportation Agreement, from the Nova Delivery Point to the Delivery Point;
- f. "ANG Demand Charges" shall mean the total demand charge amounts related to the ANG Transportation Agreement, as more particularly defined and determined in accordance with Section 7.4 below;
- g. "ANG Heating Value" shall mean the average monthly heating value, as determined by ANG and converted to $\text{MMBtu}/10^3 \text{ m}^3$, of all gas which is delivered at the Delivery Point, as that heating value is published by ANG in its monthly allocation statement;
- h. "Affiliates" shall mean, in regard to either party, any person directly or indirectly controlling, controlled by or under common control with the party; and the term "control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the person, whether through ownership of voting securities, by contract or otherwise;
- i. "Agreement" shall mean this contract between the parties;

- j. "Arbitral Institution" shall mean either the AAA or the BCICAC as determined pursuant to the provisions of Section 16.2 below, or 17.2 in the case of Final Offer Arbitration;
- k. "BCICAC" shall mean the British Columbia International Commercial Arbitration Centre or any successor thereto;
- l. "British thermal unit" or "Btu" shall mean the amount of energy required to raise the temperature of one pound of distilled water one degree Fahrenheit (1°F) from sixty degrees Fahrenheit (60°F) to sixty-one degrees Fahrenheit (61°F) at a constant absolute pressure of fourteen and seventy-three one hundredths (14.73) pounds per square inch;
- m. "Business Day" shall mean any day exclusive of Saturdays and Sundays and days that are statutory or legal holidays under the laws of either the Province of Alberta or the State of Washington;
- n. "Canadian Regulatory Authorities" shall mean each governmental agency or other governmental authority in Canada, which now has, or in the future may have, jurisdiction over the matter in question, relating to the production, movement, sale, removal or export of gas to be sold and purchased hereunder, including without limitation, the NEB, the ERCB, the Federal Governor in Council and the Alberta Minister of Energy;
- o. "Contract Year" shall mean a period of twelve (12) consecutive months, beginning at 07:00 hours Pacific Standard Time on November 1st and ending at 07:00 hours Pacific Standard Time on the November 1st next following, except the first Contract Year shall mean the period commencing at 0700 hours Pacific Standard Time on the Date of First Delivery and ending on the next following November 1st;
- p. "Converted Monthly Sales Quantity" shall mean, for calculating the demand charge payment amounts due for any month, the quantity of gas expressed in 10^3m^3 's which Seller sold and delivered to Buyer hereunder during that month, calculated by dividing the Monthly Sales Quantity by the ANG Heating Value for that month;
- q. "cubic foot" shall mean that volume of gas which at a temperature of sixty degrees Fahrenheit (60°F) and at an absolute pressure of fourteen and seventy-three hundredths (14.73) pounds per square inch, occupies one (1) cubic foot of space;
- r. "cubic metre" or " m^3 " shall mean that volume of gas which at a temperature of fifteen degrees Celsius (15°C) and at an absolute pressure of one hundred and one and three hundred and twenty-five thousandths (101.325) kilopascals, occupies one (1) cubic metre of space;
- s. "Daily Contract Quantity" or "DCQ" shall mean the daily quantity of gas, equal to 27,037 MMBtu per day;
- t. "Date of First Delivery" shall mean the day and date upon which the purchase and sale of gas under this Agreement is to commence, as more particularly specified under Subsection 11.1 c. below;

- u. "day" shall mean a period of twenty-four (24) consecutive hours beginning at the hour, as may be agreed to, from time to time, by ANG and PGT for the commencement of a day for gas export deliveries to PGT on one day and ending at the same hour on the following day, which currently is 7:00 a.m. Pacific Standard Time. The reference for any day shall be the calendar date upon which the twenty-four hour period shall commence;
- v. "Delivery Point" shall mean the point of interconnection between the pipeline facilities of ANG and PGT located on the international boundary between British Columbia and the State of Idaho near Kingsgate, British Columbia;
- w. "DOE" shall mean the United States Department of Energy, Office of Fossil Energy;
- x. "ERCB" shall mean the Alberta Energy Resources Conservation Board or any successor thereto;
- y. "Exchange Rate" shall mean the daily spot exchange rate, expressed as \$U.S./\$1.00 Cdn., as applicable to the exchange of Canadian dollars for U.S. dollars, in effect at noon Calgary time, as quoted by the Canadian Imperial Bank of Commerce, Bow Valley Square 2 Branch, Calgary, Alberta;
- z. "Field Receipt Points" shall mean the upstream field receipt points on the Nova system under the Nova Transportation Agreements, where gas is delivered into the facilities of Nova;
- aa. "Final Offer Arbitration" shall mean any arbitration proceedings respecting the redetermination of the Gas Commodity Price conducted in accordance with Article 17 below;
- ab. "gas" shall mean natural and/or residue gas which complies with the quality specifications of ANG for delivery into that pipeline system at the Delivery Point;
- ac. "Gas Commodity Charges" shall mean the total gas commodity charge amounts determined in accordance with Section 7.7 below;
- ad. "Gas Commodity Price" shall mean the per unit gas commodity price determined in accordance with Sections 7.8, or 7.14 below, as applicable;
- ae. "gigajoule" or "GJ" shall mean one billion (1,000,000,000) joules;
- af. "GST" shall mean any taxes as provided for in the Excise Tax Act, R.S.C. 1985 c. E-15, as amended or any successor or parallel provincial or Canadian federal legislation that is intended to impose a tax on the recipient of goods or services which may be supplied under this Agreement;
- ag. "Inflation Index" shall mean the Consumer Price Index published by Statistics Canada for the period referenced;
- ah. "Invoice Date" shall mean, for each month, the Business Day which is closest to the fifteenth (15th) day of that month, and if two Business Days are equally close to the

- fifteenth (15th) day of that month the Invoice Date shall be the earlier Business Day;
- ai. "joule" or "J" shall mean the amount of work done when the point of application of a force of one (1) newton is displaced a distance of one (1) metre in the direction of the force;
 - aj. "Kingsgate Administration Charges" shall mean the administration charge amounts determined in accordance with Section 7.11 below;
 - ak. "Kingsgate Administration Fee" shall mean the per unit administration fee amount specified in Section 7.12 below, and recalculated from time to time in accordance with Section 7.13 below;
 - al. "megajoule" or "MJ" shall mean one million (1,000,000) joules;
 - am. "MMBtu" shall mean one million (1,000,000) British thermal units;
 - an. "month" shall mean a period commencing at 0700 hours Pacific Standard Time on the first day of a calendar month and ending at the same time on the first day of the next succeeding calendar month;
 - ao. "Monthly Sales Quantity" shall mean, for any month, the quantity of gas, expressed in MMBtu's, which Seller sold and delivered to Buyer hereunder during that month;
 - ap. "NEB" shall mean the National Energy Board of Canada or any successor thereto;
 - aq. "Northwest" shall mean Northwest Pipeline Corporation or any successor thereto;
 - ar. "Nova" shall mean NOVA Corporation of Alberta or any successor thereto;
 - as. "Nova Commodity Charges" shall mean the total Nova variable charge amounts, as more particularly defined and determined in accordance with Section 7.3 below;
 - at. "Nova Commodity Rate" shall mean the variable per unit monthly rate payable to Nova in respect of the transportation of gas under the Nova Transportation Agreements from the Field Receipt Points to the Nova Delivery Point;
 - au. "Nova Delivery Point" shall mean the point of interconnection between the pipeline facilities of Nova and ANG located at or near Coleman, Alberta;
 - av. "Nova Demand Charges" shall mean the total demand charge amounts related to the Nova Transportation Agreements, as more particularly defined and determined in accordance with Section 7.2 below;
 - aw. "Nova Transportation Agreements" shall mean the firm receipt point ("FSR") and non-prorateable delivery point ("FSD") service agreements with Nova, entered into by Seller, Seller's Suppliers, Pan-Alberta, or suppliers to any or all of them, which will allow for the firm transportation on the Nova system from the Field Receipt Points to the Nova Delivery Point of a daily quantity of gas at least equal to the DCQ;

- ax. "Pan-Alberta" shall mean Pan-Alberta Gas Ltd. or any successor thereto, as the principal Seller Supplier as of the date hereof, under the Pan-Alberta Agreement;
- ay. "Pan-Alberta Agreement" shall mean the Gas Purchase Agreement between Seller and Pan-Alberta dated August 17, 1994, under which Seller purchases gas from Pan-Alberta at the Nova Delivery Point for redelivery to Buyer under this Agreement;
- az. "party" or "parties" shall, as the context required, mean Seller, or Buyer, or both of them;
- ba. "Payment Due Date" shall mean, for each month, the later of the date which is ten (10) days following the day on which Buyer receives an invoice in that month, or the twenty fifth (25th) day of that month, but if either of those dates is not a Business Day then the Payment Due Date shall be the Business Day immediately prior to the date;
- bb. "person" shall include an individual, a body corporate, a partnership, an unincorporated syndicate, an unincorporated organization, an unincorporated association or a government, or any agency or political subdivision of any of them;
- bc. "PGT" shall mean Pacific Gas Transmission Company or any successor thereto;
- bd. "Prime Rate" shall mean the variable rate of interest, expressed as a percentage per annum, used from time to time by the Canadian Imperial Bank of Commerce, Bow Valley Square 2 Branch, Calgary, Alberta, as a reference rate then in effect for determining rates of interest charged on U.S. dollar commercial loans to customers in Canada;
- be. "Producer Support Authorizations" shall mean the support and consent required to be obtained by Seller, or Pan-Alberta, pursuant to the provisions of the Alberta Natural Gas Marketing Act S.A. C.N-2.8 or any successor legislation, for the sale and provincial removal of gas to Seller and for ultimate resale and delivery of gas by Seller to Buyer under this Agreement;
- bf. "Seller's Suppliers" shall mean suppliers of gas to Seller for redelivery to Buyer under this Agreement, and includes Pan-Alberta under the provisions of the Pan-Alberta Agreement;
- bg. "Supplier Demand Charges" shall mean the demand charge amounts determined in accordance with Section 7.09 below;
- bh. "Supplier Demand Fee" shall mean the per unit demand charge amount, determined in accordance with Section 7.10 below, which is a unitized proxy for the costs incurred by Seller's Suppliers to construct and operate the gas gathering and processing facilities, necessary for the continued deliveries of gas under this Agreement;
- bi. "Supply Failure" shall mean the failure of Seller to deliver the quantity of gas nominated by Buyer on any day up to the DCQ, and for which Seller was obligated to deliver, except to the extent that the failure to deliver occurred due to an event of Force Majeure as defined in this Agreement, or due to the suspension of deliveries by Seller as the exercise of Seller's rights for Buyer's failure to pay, as referenced in subsection 13.4(b) below;

- bj. "Term" shall mean the period of time gas is to be purchased and sold under this Agreement, as specified in Subsection 11.1 b. below;
- bk. "U.S. Regulatory Authorities" shall mean each Federal or State governmental agency or other governmental authority in the United States which now has, or in the future may have, jurisdiction over the movement, sale, transportation or import of gas sold and purchased hereunder, including without limitation, the Federal Energy Regulatory Commission and the DOE; and
- bl. "10³m³" shall mean one thousand (1,000) cubic metres.

1.2 Headings

The division of this Agreement into Articles, Sections, Subsections and Paragraphs or any other divisions, and the inclusion of the various headings, are for convenience of reference only and shall not affect the interpretation or construction of this Agreement.

1.3 Interpretation

Whenever the singular or masculine or neuter is used in this Agreement the same shall be construed as meaning plural, or feminine, or body politic, or corporate and vice versa where the context or the parties hereto so require.

1.4 Hereof, etc.

References to "Articles", "Sections", "Subsections" or "Paragraphs" are references to the Articles, Sections, Subsections and Paragraphs of this Agreement. Words such as "hereunder", "hereto" and "herein" and similar expressions shall refer to the whole of this Agreement and not to any particular Article, Section, Subsection or Paragraph hereof.

1.5 Industry Usage

Any word, phrase or expression that is not defined in this Agreement and that has a generally accepted meaning in the custom and usage in the natural gas industry in North America shall have that meaning in this Agreement.

1.6 Currency

Unless indicated otherwise, all references to "dollars" or "\$" in this Agreement shall be references to amounts expressed in United States currency.

ARTICLE 2 LONG TERM AUTHORIZATIONS

2.1 ERCB Long Term Removal Permit

Seller represents and warrants that Pan-Alberta is the permittee under long term Gas Removal Permit No. GR87-236 issued by the ERCB, which remains in full force and effect and

in good standing, and authorizes Pan-Alberta to remove gas from Alberta and sell and deliver it to Seller under the Pan-Alberta Agreement at the Nova Delivery Point for resale and redelivery to Buyer at the Delivery Point.

2.2 NEB Long Term Export Licence

Seller represents and warrants that:

- a. it was the licence holder under long term Export Licence No. GL-131 issued by the NEB which authorized Seller to export gas from Canada at the Delivery Point under the Kingsgate Gas Sales Agreement;
- b. by NEB order No. RO-GL-131 issued January 5, 1994, Export Licence No. GL-131 has been revoked, and new Export Licence No. GL-226 has been issued to Seller authorizing Seller to export gas from Canada at the Delivery Point to Buyer.

2.3 Long Term Import Authorization

Buyer represents and warrants that it has been granted an assignment of a pro rata portion of Northwest's rights under DOE long term import authorization Order No. 664 dated September 9, 1992, which remains in full force and effect and in good standing and authorizes Buyer to import gas into the United States at the Delivery Point under the Kingsgate Gas Sales Agreement.

2.4 Further Applications

- a. Seller represents and warrants that it will make, or cause Pan-Alberta to make, applications to the ERCB and the Government of Alberta, required to amend, renew or appropriately replace long term Gas Removal Permit No. GR87-236, as may be necessary to authorize the sale and removal of gas by Seller at the Nova Delivery Point for resale and redelivery to Buyer under this Agreement for the Term.
- b. Seller represents and warrants that it will make, or cause to be made, applications to the NEB and the Government of Canada, required to obtain any applicable NEB consents related to, or amendments of Export Licence No. GL-226, as may be necessary to enable the sale and export of gas to be made to Buyer under this Agreement for the Term.
- c. Buyer represents and warrants that it will make applications to the DOE required to obtain any consents related to, or amendments of, import authorization Order No. 664, as may be necessary to enable the purchase and import of gas to be made by Buyer under this Agreement for the Term.

2.5 Producer Support

- a. Buyer and Seller acknowledge that, pursuant to the provisions of the Pan-Alberta Agreement, Pan-Alberta is required to obtain the requisite long term producer support for, and the approval of, the sale and removal of gas to Seller under the Pan-Alberta Agreement for resale to Buyer under this Agreement.

- b. Seller represents and warrants that it will cause Pan-Alberta to make all requisite submissions to its pool producers, seeking for the Term that support and approval for the sale and removal of gas to Seller for resale to Buyer under this Agreement.

2.6 Diligent Efforts

Each party shall at its own expense use diligent efforts, to the extent that it is within its power, to make the applications required by Sections 2.4 and 2.5 above, and shall keep the other party advised as to their progress. Seller and Buyer shall cooperate with each other so as to assist each other in obtaining the required renewed or amended authorizations. Each party shall, at the request of the other, provide reasonable technical assistance and support in the preparation of any applications, and shall supply qualified personnel to provide supportive evidence before any regulatory proceeding in respect of the subject market and transportation arrangements.

2.7 Prior Review

Prior to applying for or amending any long-term certificate, permit, licence or authorization necessary for the transactions contemplated by this Agreement, each party shall allow the other party the opportunity to review and comment on the application if so desired. If a party desiring such review fails to provide any comments within 15 days of receipt of an application draft, it shall be deemed to have approved the application text. Any comments received from a reviewing party within the 15 day period shall be incorporated to the extent reasonably possible, if in the opinion of the applicant the comments do not adversely impact upon such application.

2.8 Approval of Authorizations

Upon receipt by either party, on terms and conditions satisfactory to the applicant party, of any required renewal or amendment of its respective long-term certificates, permits, licences or authorizations referred to in Section 2.4 or Section 2.5, that party (the "Transmitting Party") shall promptly transmit to the other party (the "Receiving Party") a copy of the applicable long-term certificate, permit, licence or authorization. If the terms and conditions of the long-term certificate, permit, licence or authorization are, for any reason, not satisfactory to the Receiving Party acting reasonably, then within fifteen (15) days of its receipt the Receiving Party shall so notify the Transmitting Party, setting forth its reasons for the terms and conditions not being satisfactory. Failure of the Receiving Party to so respond to the Transmitting Party shall be deemed to be an acceptance by the Receiving Party of the subject terms and conditions. Either party's determination as to whether or not a long-term certificate, permit, licence or authorization or any of its terms or conditions is satisfactory shall be determined by that party in its sole discretion, acting reasonably.

2.9 Denial of Authorization

If any application made by either party for the renewal or amendment of a long-term certificate, permit, licence or other authorization referred to in Section 2.4 or Section 2.5 is denied, that party shall promptly so notify the other party.

2.10

Termination of Agreement

If, by November 1, 1994, all long-term authorizations specified in Sections 2.4 and 2.5 above have not been obtained, then the parties shall use all reasonable efforts to perform the sale and purchase of gas under this Agreement pursuant to short term or interim authorizations pending the obtainment of the last of any outstanding long-term authorization. If, by January 1, 1995 the last of the outstanding long-term authorizations have not been obtained, then this Agreement shall terminate, unless the parties agree to continue the sale of any purchase of gas under this Agreement pursuant to the subject short term or interim authorizations, which then shall be maintained and renewed from time to time on a timely basis. In the event of termination of this Agreement pursuant to this Section 2.10, the parties shall continue to be bound by the provisions of the Kingsgate Gas Sales Agreement, subject to the amendment or renewal of any authorizations required to be obtained from any applicable Canadian Regulatory Authorities or U.S. Regulatory Authorities.

2.11

Maintenance of Authorizations

Subsequent to the obtainment of an authorization, the applicant party shall use all reasonable efforts to maintain or renew it as applicable, or cause it to be so maintained and renewed, in good standing and in full force and effect to enable gas to be purchased and sold for the Term under this Agreement.

ARTICLE 3 TRANSPORTATION MATTERS

3.1

Seller's Arrangements

Seller hereby represents and warrants to Buyer that:

- a. the Nova Transportation Agreements have been entered into which will allow for the firm transportation on the Nova system to the Nova Delivery Point, of a daily quantity of gas at least equal to the DCQ; and
- b. it is shipper in the first instance, or made sufficient contractual arrangements with WEI, which will allow for the firm transportation on the ANG system, from the Nova Delivery Point to the Delivery Point, of a daily quantity of gas at least equal to the DCQ.

During the Term, Seller agrees to cause Pan-Alberta and Seller's other Seller's Suppliers to always maintain sufficient Nova firm transportation service, and Seller agrees to always maintain sufficient ANG firm transportation service, each of which will allow for the firm transportation of a quantity of gas at least equal to the DCQ from the Field Receipt Points to the Delivery Point for the benefit of Buyer.

3.2

Buyer's Arrangements

Buyer hereby represents and warrants to Seller that it has entered into and will maintain during the Term, firm transportation agreements with PGT and any other transporters which will allow for the firm transportation from the Delivery Point to the facilities of Buyer, of a daily quantity of gas at least equal to the DCQ.

3.3

Use of Seller's Transportation Arrangements

In the event of a Supply Failure, Buyer shall have the first right to utilize that portion of the ANG Transportation Agreement and the "FSD" delivery point portion of the Nova Transportation Agreements in respect to the quantities which Seller could not supply to Buyer as a result of the Supply Failure, and to the extent that such utilization is permitted by Canadian Regulatory Authorities, by ANG, and by Nova, as applicable. The portion which Buyer will be entitled to utilize on any day during a Supply Failure shall be the percentage determined in accordance with the following formula:

$$\frac{\text{Percentage of Firm Service - Available to Buyer}}{\text{A} - \text{B}} \times 100\%$$

where: "A" is the quantity of gas, expressed in MMBtu's, equal to the quantity that Seller was obligated to deliver on the day, which was nominated by Buyer on that day;

"B" is the quantity of gas, expressed in MMBtu's supplied by Seller on that day.

Buyer shall pay Seller for all ANG and Nova transportation charges associated with the capacity so utilized by Buyer, including without limitation all demand, commodity, taxes and fuel gas costs and charges. In determining the amount of the ANG and Nova transportation charges for which Buyer is to pay Seller, all ANG and Nova demand charges shall be converted to a pure volumetric amount by utilizing an assumed load factor of one hundred percent (100%).

3.4

Change in Transportation Tolls and Tariffs

If from time to time the method of determining any applicable Nova or ANG transportation tolls is changed, or any actual toll, cost or charge amount under tariff is revised, as finally approved by the government agency having jurisdiction, then to the extent applicable to the Nova Transportation Agreements or the ANG Transportation Agreement, as the case may be, the parties shall make all adjustments to calculations under, or amendments to, this Agreement, as necessary to incorporate the change or revision. Under the provisions of Article 7 below, Buyer shall pay for any toll cost or charge increases and similarly shall be entitled to any toll cost or charge rebates as billed to Seller by the applicable pipeline whether on a prospective or retroactive basis, and as finally approved by the government agency having jurisdiction. However, nothing under this section shall prevent Buyer from intervening in any agency proceedings and to object to or protest any toll cost or charge increases ultimately which will be to the account of Buyer under this Agreement.

3.5 Transportation Penalties

Any tariff penalties payable to Nova, ANG or PGT for any reason, including but not limited to a failure to purchase gas nominated or a failure to supply gas so nominated, shall be borne by the party causing that penalty to be incurred. If both parties have caused the penalty to be incurred, the penalty shall be allocated based on each party's proportional share of the causation. Nothing in this Section 3.5 waives or compromises either party's right to contest or defend any proposed penalty assessed by Nova, ANG, Northwest or PGT.

ARTICLE 4 QUANTITY OF GAS

4.1 Obligation to Sell and Deliver

Subject to the provisions of this Agreement, Seller represents and warrants to Buyer that, commencing on the Date of First Delivery and continuing each day for the Term, Seller will sell and deliver to Buyer on a firm basis, at the Delivery Point, the quantity of gas which Buyer requests Seller to deliver on that day up to the DCQ, except if Seller cannot make such deliveries as a result of a claim of Force Majeure by Seller. Subject to the provisions of this Agreement, Buyer agrees to purchase from Seller on a firm basis the quantities of gas so nominated and received by Buyer and delivered by Seller at the Delivery Point.

4.2 Nominations

- a. Buyer shall provide a notice to PGT of its nomination of the quantity of gas which PGT, on behalf of Buyer, will request ANG, on behalf of Seller, to deliver on any day under this Agreement. Subject to tariff minimum notice requirements, a nomination received at least two (2) hours prior to the time at which final nominations are accepted by ANG on the day prior to the specified day the nomination is to be effective shall be a valid and applicable nomination for that specified day. A nomination not received as above shall be effective at the commencement of the day next following the specified day. Nominations may be delivered orally and subsequently confirmed by written notice.
- b. Any quantity nominated for purchase by Buyer for any particular day shall remain the standing nomination of the quantity of gas to be requested by Buyer on subsequent days until the nomination is changed by Buyer pursuant to subsection 4.2(a) above.

4.3 Minimum Purchase Quantity

- a. During the period from August 17, 1994 to November 1, 1994, and for each Contract Year commencing on November 1, 1994, Buyer shall purchase from Seller at the Delivery Point, or if not purchased and taken, shall nevertheless pay for at the Gas Commodity Price specified in Section 7.10 as in effect on the last day of the period, a minimum quantity of gas which shall be equal to:

- (i) 865,184 MMBtu, for the August 17, 1994 to November 1, 1994 period; and

(ii) 4,136,661 MMBtu for each subsequent Contract Year during the Term.

- b. The positive difference, if any, between the minimum quantity specified in each clause of Subsection (a) above and the quantity actually purchased and taken by Buyer during the specified period shall be paid for by Buyer within sixty (60) days following the last day of the specified period, at the Gas Commodity Price as in effect on the last day of that period.

ARTICLE 5 QUALITY AND MEASUREMENT

5.1 ANG Quality and Pressure Standards

The gas to be delivered hereunder shall meet or exceed all gas quality standards of ANG for gas delivered at the Delivery Point, including without limitation, minimum heating value, delivery pressure, temperature, and all other similar quality standards and specifications as set out in ANG's tariff, as amended from time to time.

5.2 Delivery in a Common Stream

Buyer and Seller each recognize that the gas to be sold and purchased at the Delivery Point will be from a commingled stream of gas being transported on the pipeline system facilities of Nova and ANG, for redelivery in to the PGT pipeline system.

5.3 ANG Measurements

All gas to be delivered hereunder shall be measured as to volume, quality, total number of MMBtu and heating value by ANG in accordance with the provisions set out in its tariff, as amended from time to time, at the meters installed, operated and maintained by ANG at the Delivery Point. The heating value of the delivered gas shall be the ANG Heating Value, determined by the instruments operated by ANG. These measurements and all other volume, quality and heating value measurements as made by ANG shall be final and binding upon the parties and utilized for all purposes of this Agreement.

5.4 Measurement Standards

The standards of measurement and the meter testing procedures shall be those of ANG as set out in its tariff, as amended from time to time. Upon the request of Buyer, Seller shall exercise its rights under the ANG Transportation Agreement to witness tests to be conducted by ANG to verify the accuracy of ANG's measuring equipment, or to request ANG to conduct tests to verify the accuracy of such equipment. Buyer shall reimburse Seller for any expense associated with such request to the extent that Seller is obligated to reimburse ANG. Upon the request of Buyer, Seller shall request of ANG that a representative of Buyer be allowed to witness any such tests.

5.5 Unit Conversions

All conversions to be done for or any way in relation to this Agreement from Imperial units of measurement to metric units or vice versa, shall be done utilizing the conversions utilized by ANG, from time to time which have been agreed upon between ANG and PGT as

conversions applicable to deliveries from ANG to PGT at the Delivery Point. Such conversions as provided for in the ANG tariff shall include the conversion from MMBtu units to 10^3m^3 units for the purpose of determining the Converted Monthly Contract Quantity and the related demand charge payment calculations under this Agreement.

ARTICLE 6 POSSESSION, TITLE AND WARRANTY

6.1 Transfer of Title

Delivery of gas by Seller to Buyer shall be at the Delivery Point. Possession and title to the gas so delivered shall pass from Seller to Buyer at the Delivery Point. Seller shall be responsible for making all arrangements necessary to transport and deliver gas to the Delivery Point and Buyer will be responsible for making all arrangements necessary to receive and transport gas from the Delivery Point. Other than as contemplated herein, all costs and expenses of delivering the gas to the Delivery Point shall be paid by Seller and all costs and expenses of transporting the gas beyond the Delivery Point shall be borne by Buyer.

6.2 Risk

As between the parties, Seller shall be deemed to be in exclusive control and possession of the gas to be sold hereunder and responsible for any loss, damage or injury caused thereby until the gas is delivered at the Delivery Point, at which time and point Buyer shall be deemed to be in exclusive control and possession of the gas and thereafter responsible for any loss, damage or injury caused by it.

6.3 Title and Indemnity

Seller hereby warrants and represents to Buyer that, at the point where title is to pass to Buyer, Seller shall have a legal or equitable right to all gas to be sold hereunder and shall sell gas to Buyer at that point free and clear of all liens, encumbrances and adverse claims whatsoever. Seller agrees to indemnify Buyer and save it harmless from all suits, claims, actions, debts, accounts, costs, losses, expenses or damages arising from or out of any adverse claims by any or all persons to the gas delivered hereunder which relate to matters occurring prior to possession and title to the gas passing to Buyer. Buyer agrees to indemnify Seller and save it harmless against all suits, claims, actions, debts, accounts, costs, losses, expenses or damages arising from or out of any adverse claims by any or all persons to the gas which relate to matters occurring after possession and title to the gas passes to Buyer.

ARTICLE 7 GAS SALES REVENUES

7.1 Total Amounts to be Paid to Seller

The total amounts for a month to be paid by Buyer to Seller for the quantity of gas sold and delivered by Seller to Buyer under this Agreement for the immediately preceding month shall be the sum of: the Nova Demand Charges, the ANG Demand Charges, the Nova

Commodity Charges, the ANG Commodity Charges, the Gas Commodity Charges, the Supplier Demand Charges and the Kingsgate Administration Charges, all of which are set forth in this Article.

7.2 Nova Demand Charges

The transportation service monthly demand charges amounts to be paid by Buyer to Seller in respect of the Nova Transportation Agreements (the "Nova Demand Charges") shall be equal to the sum of:

- i. the quantity of receipt point ("FSR") contract demand capacity, equal to the Daily Contract Quantity, multiplied by one hundred and forty percent (140%), multiplied by the Nova receipt point ("FSR") firm service monthly demand charge calculated under Nova's toll schedules of its tariff, as amended from time to time (the "Nova Toll Schedule"); plus
- ii. the quantity of delivery point ("FSD") contract demand capacity, equal to the Daily Contract Quantity, multiplied by the Nova delivery point ("FSD") firm service monthly demand charge calculated under the Nova Toll Schedule.

7.3 Nova Commodity Charges

The transportation service monthly commodity charge amounts to be paid by Buyer to Seller in respect of the Nova Transportation Agreements (the "Nova Commodity Charges") shall be equal to the Nova Commodity Rate multiplied by the Converted Monthly Sales Quantity.

7.4 ANG Demand Charges

The transportation service monthly demand charge amounts to be paid by Buyer to Seller in respect of the ANG Transportation Agreement (the "ANG Demand Charges") shall be equal to the product of the monthly demand charge calculated under the ANG rates and charges schedules of its tariff multiplied by the Daily Contract Quantity.

7.5 ANG Commodity Charges

The transportation service monthly commodity charge amounts to be paid by Buyer to Seller in respect of the ANG Transportation Agreement (the "ANG Commodity Charges") shall be equal to the ANG Commodity Rate multiplied by the Converted Monthly Sales Quantity.

7.6 Demand Charges Payment

Subject to the provisions of this Agreement, the Nova Demand Charges, the Supplier Demand Charges and the ANG Demand Charges are to be paid each month, regardless of whether or not Buyer is nominating or has nominated gas under this Agreement for the month, and regardless of whether or not the reason for which Buyer is or has not so nominated is due to an event of Force Majeure as claimed by Buyer.

7.7

Gas Commodity Charges

The Gas Commodity Charges, to be paid each month, shall be an amount determined in accordance with the following formula:

$$\text{Gas Commodity Charges} = \text{Gas Commodity Price} \times \text{Monthly Sales Quantity}$$

7.8

Gas Commodity Price

- a. The Gas Commodity Price to be paid for gas delivered each month of the period commencing on the Date of First Delivery and expiring on October 31, 1995 shall be calculated as a percentage price determined under Subsection c below, of the arithmetic average of the published index prices for the month (the "Index Price") for deliveries of gas from the "Rocky Mountain" and "Canadian Border" designated supply sources into the Northwest pipeline system, as those prices are provided in the publication entitled, "Inside F.E.R.C.'s Gas Market Report" in the table entitled, "PRICES OF SPOT GAS DELIVERED TO PIPELINES.....(per MMBtu dry), under the "Northwest Pipeline Corp" entry.
- b. The reference publication issue to determine the Gas Commodity Price for a month shall be the first issue which is published after the first day of the month.
- c. The percentage of the Index Price shall be determined based on the quantity of gas purchased by Buyer under this Agreement during a specified period, in accordance with the following table.

"INDEX PRICE" PERCENTAGE TABLE

<u>Period</u>	<u>Quantity of Gas Purchased During Period</u>	<u>Applicable Percentage of "Index Price"</u>
Aug. 17, 1994 to Nov. 1, 1994	0 to 865,184	95%
	865,185 to 2,487,404	85%
Nov. 1, 1994 to Nov. 1, 1995	0 to 4,136,661	95%
	4,136,662 to 7,029,620	85%
	7,029,621 to 9,868,505	80%

7.9

Supplier Demand Charges

The Supplier Demand Charges for each month, commencing with the month of the Date of First Delivery, shall be determined in accordance with the following formula: —

$$\text{Supplier Demand Charges} = \text{Supplier Demand Fee} \times [\text{number of days in the month}] \times \text{DCQ}$$

7.10

Supplier Demand Fee

The Supplier Demand Fee shall be an amount equal to ten cents per MMBtu (\$0.10/MMBtu). For each subsequent Contract Year, the Supplier Demand Fee shall be increased by the percentage amount of the Inflation Index applicable for the immediately preceding Contract Year.

7.11

Kingsgate Administration Charges

The Kingsgate Administration Charges, for each month, shall be an amount determined in accordance with the following formula:

$$\text{Kingsgate Administration Charge} = \text{Kingsgate Administration Fee} \times \text{Monthly Sales Quantity}$$

7.12

Kingsgate Administration Fee

The Kingsgate Administration Fee for the period commencing on the Date of First Delivery and expiring on October 31, 1997 shall be two and one quarter cents (\$0.02¼)/MMBtu. The Kingsgate Administration Fee for the five (5) year period commencing November 1, 1997 and for the two (2) year period commencing November 1, 2002 shall be expressed in \$U.S./MMBtu and shall be determined in accordance with Section 7.13 below.

7.13

Redetermination of Kingsgate Administration Fee

The Kingsgate Administration Fee shall be recalculated in accordance with the following:

- a. for the period November 1, 1997 to October 31, 2002:

$$\text{Kingsgate Administration Fee} = \text{two and one quarter cents} (\$0.02\frac{1}{4}) / \text{MMBtu} \times \frac{A}{B}$$

where: "A" is the sum of the Inflation Index applicable to each month in the period November 1, 1992 to September 1, 1997, divided by the number of months in that period;

where: "B" is the Inflation Index for the month of the Date of First Delivery.

- b. for the period November 1, 2002 to October 31, 2004:

$$\text{Kingsgate Administration Fee} = \text{Kingsgate Administration Fee calculated under Subsection (a) above} \times \frac{C}{D}$$

where: "C" is the sum of the Inflation Index applicable to each month in the period November 1, 1997 to September 1, 2002 divided by the sum of months in that period;

where: "D" is the Inflation Index for November 1997.

7.14

Redetermination of Gas Commodity Price

- a. Buyer and Seller shall commence negotiations, on or before July 1st in each Contract Year, other than the first Contract Year, and attempt, in good faith, to reach agreement as to a redetermined Gas Commodity Price to apply for gas to be delivered during the Contract Year commencing the immediately following November 1st. Seller may request that Pan-Alberta or any other Seller Supplier be a party to the negotiations and Buyer shall consent to that request, to the extent that it is fair and reasonable. The parties shall attempt to agree on a Gas Commodity Price which reflects the following "Pricing Criteria":

The Gas Commodity Price, expressed in \$U.S. per MMBtu, shall be redetermined at a level which will reasonably ensure that the total delivered price of gas under this Agreement shall remain reasonably equivalent to the total delivered prices to be paid effective the following November 1 for other supplies of natural gas which are being sold and delivered off the Northwest and/or PGT systems to purchasers which are local distribution utilities in the States of Washington and Oregon by either pipeline companies or direct sellers; provided that, such reasonably equivalent prices must be paid pursuant to contracts which have terms and conditions substantially similar to the terms and conditions of this Agreement, including without limitation provisions such as quantity, initial term length and load factor. For the purposes of relevant comparison, any reasonably equivalent price in a comparative contract must be adjusted as warranted to take into account the provision differences, if any, between that contract and this Agreement.

- b. If the parties reach agreement as to a redetermined Gas Commodity Price, and document their agreement in a letter executed by both parties by the August 1st immediately following the commencement of negotiations, then subject to Section 7.15 below, the redetermined Gas Commodity Price shall apply throughout the Contract Year commencing the following November 1. If the parties have not documented their agreement as to a redetermined Gas Commodity Price in a letter executed by both parties by the August 1st date, or the requisite producer support referred to in Section 7.15 below is not obtained by the following September 1st, then no later than the following November 1st either party may invoke Final Offer Arbitration pursuant to Article 17 to determine the appropriate Gas Commodity Price for the Contract Year commencing the following November 1st.

- c. If the Final Offer Arbitration procedure is so invoked, but not completed by the November 1st deadline, then the same Gas Commodity Price which was in effect during the previous Contract Year shall continue in effect until such time as the Final Offer Arbitration decision is rendered. Upon such decision being rendered, the redetermined Gas Commodity Price set out in the Final Offer Arbitration decision shall be effective as of the first day of the month following the date of the decision and the parties shall make all

appropriate adjustments to reflect the nature of that decision, including appropriate amendments to this Agreement.

- d. If the Final Offer Arbitration procedure is not invoked prior to the November 1st immediately following the commencement of negotiations then the Gas Commodity Price which was in effect for the previous Contract Year shall continue in effect throughout the Contract Year commencing such November 1st.

7.15 Requisite Producer Support

- a. Buyer acknowledges and agrees that the effective November 1st implementation of a redetermined Gas Commodity Price for a Contract Year is first subject to Seller or Pan-Alberta, as the case may be, obtaining the requisite Producer Support Authorizations for, and approval of, the continued sale and removal of gas to Seller under Pan-Alberta Agreement for resale to Buyer under this Agreement. Promptly upon the documentation of the agreement as to a redetermined Gas Commodity Price, Seller shall, with all due diligence and reasonable efforts, cause Pan-Alberta to obtain the requisite Producer Support Authorizations, no later than the following September 1st.
- b. If the requisite Producer Support Authorizations are not obtained, then either Buyer or Seller may invoke the Final Offer Arbitration procedure and Seller, Pan-Alberta and Pan-Alberta's participating pool producers shall be bound by and shall deliver gas under the redetermined Gas Commodity Price set out in the Final Offer Arbitration decision.

ARTICLE 8 SECURITY OF SUPPLY

8.1 Source of Gas Supply

Although Seller contemplates that the gas to be delivered hereunder shall be purchased by it pursuant to the Pan-Alberta Agreement and other Seller's Supplier contracts, Seller may supply gas to Buyer under this Agreement which originates from any sources without prior notice to and at no additional cost to Buyer.

ARTICLE 9 SUPPLY FAILURE INDEMNITY AND MITIGATION

9.1 Notice of Supply Failure and Seller Mitigation Efforts

If, on any day a Supply Failure occurs, then Seller immediately shall provide notice of the Supply Failure to Buyer. Seller shall also employ commercially reasonable efforts to secure alternate supplies of gas from sources, other than Seller's Supplier contracts, in order to mitigate the Supply Failure, and shall bear the additional costs of obtaining that replacement gas if so obtained. In the event and to the extent that Seller is unsuccessful in obtaining those alternate supplies, then Buyer may obtain gas from other sources, and the provision of Section 9.2 below shall apply.

9.2

Seller's Delivery Failure Indemnity

If, on any day a Supply Failure occurs, then, subject to Section 9.1 above, Buyer shall have the right to purchase the shortfall in the delivery of gas from other sources. If Buyer obtains gas from other sources to replace Supply Failure quantity on that day, then Seller agrees to indemnify Buyer for all of Buyer's reasonable incremental direct costs which it incurs in respect of Buyer purchasing such replacement quantities of gas from other sources, rather than purchasing such gas from Seller pursuant to this Agreement. Such incremental costs of Buyer shall include the reasonable incremental cost of obtaining and transporting the gas quantity which Buyer procures in lieu of the Supply Failure gas quantity. However, Seller shall only be required to indemnify Buyer:

- i. for a maximum of sixty (60) consecutive days of daily Supply Failures, commencing on the day an initial Supply Failure event has occurred; and
- ii. in any event, for a cumulative maximum of ninety (90) days of daily Supply Failures during any one Contract Year.

After the indemnity period has expired, Buyer may exercise its termination rights under Section 9.5 in accordance with the provisions of that Section.

9.3

Buyer to Mitigate

Buyer shall use all reasonable efforts to mitigate any incremental costs and expenses which Seller is obligated to indemnify Buyer for pursuant to this Article, and should Buyer elect to purchase replacement gas Buyer shall attempt to find replacement gas with the lowest cost.

9.4

Delivery Make Up Rights

In the event of a failure to deliver by Seller, either due to a Supply Failure or an event of Force Majeure as declared by Seller, and upon mutual agreement of Buyer and Seller, Buyer may make up the quantities so received by nominating on any day in a future month an amount in excess of the DCQ.

9.5

Termination Rights for Extended Supply Failure

In the event during a Contract Year:

- i. A Supply Failure occurs on any day, whereby the Supply Failure was such that Seller failed to deliver at least eighty percent (80%) of the quantity nominated by Buyer on that day; and
- ii. such Supply Failures have occurred on days during a Contract Year for either a period equal to a total of:
 - a. sixty (60) consecutive days; or
 - b. ninety (90) non-consecutive days;

then in addition to its indemnification rights under Section 9.2, Buyer may, no later than thirty (30) days following the last day of the applicable period, give notice to the Seller that Buyer is electing to terminate this Agreement on thirty (30) days' prior notice, and this Agreement then shall terminate at the expiry of that notice period. Upon that termination, Seller shall have no further liability to Buyer under this Agreement except as expressly so stated, and particularly as so stated for indemnifying Buyer as set forth in this Article for the Supply Failures during the Supply Failure period.

9.6

Notice of Anticipated Supply Failure

If, at any time during the Term, Seller becomes aware of any circumstance or matter by which it expects a Supply Failure to arise, then Seller shall use reasonable efforts to provide Buyer with prior notice of the anticipated Supply Failure as soon as is reasonably possible under the circumstances.

9.7

DCQ Reduction Rights for Extended Supply Failure

- a. In the event during a Contract Year a Supply Failure occurs on any day or days, whereby the Supply Failure is such that Seller fails to deliver at least eighty percent (80%) of the quantity nominated by Buyer on the days in question, then Buyer may reduce the DCQ by written notice to Seller.
- b. To effect a DCQ reduction, the written notice must be served no later than ten (10) days after the expiry of a ninety (90) day period which commences on the first day that a Supply Failure occurs. The ninety (90) day period first must expire before notice may be served.
- c. The DCQ reduction amount shall be no greater than the amount determined by the following formula:

$$\text{Maximum Amount of DCQ Reduction} = \frac{A}{90}$$

where: "A" is the total quantity of gas, expressed in MMBtu, that was nominated by Buyer during the 90 day period, but was not delivered by Seller due to the Supply Failures occurring during that period.

9.8

Demand Charge Reduction Upon Supply Failure

- a. The ANG Demand Charges, Nova Demand Charges and Supplier Demand Charges for any month will be reduced if for any day during that month:
 - i. a Supply Failure has occurred; or
 - ii. A period of Force Majeure under Article 12 is in effect as declared by Seller, for any reason other than due to the curtailment, stoppage or pro-ration of firm service under the ANG Transportation Agreement or the Nova Transportation Agreements, as applicable.

- b. If either event occurs, the ANG Demand Charges, Nova Demand Charges and Supplier Demand Charges, for the month will be reduced by an amount determined as follows:

$$\text{Demand Charges Reduction} = \text{Demand Charges} \times \frac{A}{DCQ \times B}$$

where: "Demand Charges" is the total amount of ANG Demand Charges, Nova Demand Charges and Supplier Demand Charges payable for the month under this Agreement;

where: "A" is the sum of the daily quantities of gas, expressed in MMBtu's, which Buyer nominated on the day or days in question in accordance with this Agreement, but which Seller failed to deliver due to either event set out in Subsection (a) above;

where: "B" is the number of days in the month.

- c. The invoice for the month to be delivered by Seller in accordance with Article 13 below shall include an itemization of any demand charges reduction amounts to be credited to Buyer under this Section.

9.9 Limitation on Seller's Liability

Buyer agrees that Seller's liability, whether in contract or tort or otherwise, for any Supply Failure shall be limited to the indemnities set out in Section 9.2 and the rights set forth in this Article, and Buyer's remedies for any such Supply Failure shall be limited to the aforesaid indemnities and rights.

9.10 Limitation on Parties' Liabilities

Except for Buyer's direct incremental costs incurred in purchasing replacement quantities of gas as set out in Section 9.2, or any other direct costs as specifically set forth as liquidated damages and indemnity amounts under this Agreement, neither party be liable to the other party for any indirect, consequential, punitive or special losses, damages or expenses of any nature whatsoever, that may be incurred by the other party, including without limitation, the loss of profits or income, the loss of business expectations, business interruptions, the loss of a party's contracts with any third party or any damage to third parties (except for obligations to Nova, ANG or PGT provided hereunder) arising in any way out of this Agreement or any breach thereof.

ARTICLE 10 TAXES

10.1 Payment of Taxes

- a. Seller shall pay or cause to be paid all royalties and all business transfer, severance, sales, value added, excise, GST and all other similar taxes, levies, assessments and charges that are validly exigible on the gas delivered or to be delivered hereunder prior to the sale of the gas at the Delivery Point.

- b. Buyer shall pay or cause to be paid all such taxes, levies, assessments and charges that are validly exigible on the gas after the sale thereof at the Delivery Point.
- c. In the event that any new tax, levy, assessment or charge is imposed on either party at the Delivery Point or in the event that the amount of any existing tax, levy, assessment or charge is increased (a "Border Charge") then either party may, within thirty (30) days of the effective date of the imposition of such Border Charge request that the Gas Commodity Price be renegotiated. The party requesting a renegotiation (the "Proposer") shall set out in a notice (the "Border Charge Notice") to the other party (the "Recipient") full details of the Border Charge as well as the adjustment to the current Gas Commodity Price which, in the Proposer's view, is appropriate to reflect the imposition of the Border Charge.
- d. Upon receipt of the Border Charge Notice the parties shall commence negotiations to determine what adjustment to the Gas Commodity Price may be appropriate. If the parties are unable to reach agreement within thirty (30) days of the receipt of the Border Charge Notice then either party may submit for arbitration pursuant to Article 16 the issue of what is an appropriate adjustment to the Gas Commodity Price to be made as a result of the imposition of the Border Charge which will be fair and equitable to both parties considering all relevant factors and circumstances. In the event that the arbitration decision indicates that an adjustment to the Gas Commodity Price is appropriate then the effective date of such adjustment shall be the date of the Recipient's receipt of the Border Charge Notice.

10.2

Prices Exclusive of Taxes

All dollar amounts stated in this Agreement and all amounts payable by Buyer under it are exclusive of any tax, levy or duty which may be imposed by any Federal or Provincial legislation, and which is required to be paid or collected by Seller which, without limiting the generality of the foregoing, shall include GST.

10.3

Goods and Services Tax

Buyer shall provide Seller with all appropriate authorizations and declarations as required so that the sale of gas may be zero-rated for GST purposes, if that rating is applicable to the sale of gas from Seller to Buyer.

ARTICLE 11 TERM OF AGREEMENT

11.1

Term

- a. This Agreement shall become effective as of August 17, 1994.
- b. The term of the purchase and sale of gas under this Agreement (the "Term") shall commence on the Date of First Delivery, and continue in effect until October 31st, 2004, and after that date from Contract Year to Contract Year, unless on October 31st, 2003 or any subsequent November 1st, either party gives the other party no less than twelve (12)

months advance written notice of termination, to be effective on the immediately following November 1st, in which case the Term shall expire on that immediately following November 1st.

- c. The Date of First Delivery shall be the later of August 17, 1994 and the date all authorizations under Sections 2.4 and 2.5 above are obtained. The parties anticipate the requisite producer support set out in Section 2.5 above will be obtained on an interim basis on August 17, 1994. If that occurs, the parties may commence the purchase and sale of gas under this Agreement using interim short term regulatory authorizations pending receipt of the authorizations referred to in Article 2.

11.2 Effect of Termination

Notwithstanding the termination of this Agreement pursuant its provisions, any provisions respecting liabilities and indemnities which have accrued prior to the date of termination, and provisions which are specifically stated to survive the termination of the Agreement shall continue in full force and effect in accordance with their terms. The parties shall use their reasonable efforts to make all adjustments and settle all accounts which are outstanding between the parties as of the date of termination as soon as possible.

ARTICLE 12 FORCE MAJEURE

12.1 Suspension

Subject to all other provisions of this Article 12, if either party is rendered unable by reason of a substantiated event of Force Majeure to perform in whole or in part any obligation or covenant set forth in this Agreement, with the exception of unpaid financial obligations, such failure shall be deemed not to be a breach of the particular obligation or covenant in question. The obligations of both parties under this Agreement shall be suspended to the extent directly affected and necessary during the continuation of the inability so caused by the Force Majeure event.

12.2 Definition of Force Majeure

For the purpose of this Agreement, the term "Force Majeure" shall mean: (i) any acts of God, including lightning, earthquakes, storms, washouts, landslides, fires, epidemics and floods; (ii) strikes, lockouts or other industrial disturbances; (iii) acts of the enemies of the State of a party, sabotage, wars, blockades, insurrections, riots, civil disturbances or arrests and restraints of rulers; (iv) fires, explosions, nuclear and radiation activity or fall out; (v) breakages of, hydrate obstructions of or accidents to, machinery or lines of pipe; (vi) inability to obtain materials, supplies, permits or labour; (vii) freezing of wells or delivery facilities or well blowouts; (viii) the laws, orders, rules, regulations, acts, or restraints of any court or governmental or regulatory authority, including the revocation or a materially adverse amendment to any permit, authorization or approval of any governmental or regulatory authority required to perform or comply with any obligation or condition of this Agreement, unless the revocation or amendment was caused by the negligence or violation of the terms thereof by the party claiming an event of Force Majeure; (ix) the failure of Seller's Supplier to deliver gas to Seller where the failure occurs as a result of any event or occurrence of the character defined in this Section as a Force Majeure event; (x) the curtailment, stoppage or

pro-ration of firm transportation service on Nova, ANG or PGT, whether or not NOVA, ANG or PGT is claiming an event of Force Majeure under the applicable service agreement; (xi) the failure on the part of a customer of Buyer to purchase substantial quantities of gas from Buyer as a direct result of any event or occurrence of the character defined in this Section as a Force Majeure event; (xii) or any other causes, whether of the kind stated above or otherwise, and not within the control of the party claiming suspension and which, by the exercise of due diligence, that party is unable to overcome. For the purposes of this Article 12, a party is deemed to have control over the actions or omissions of those persons for which it, its agents, contractors or employees have delegated, assigned or subcontracted its obligations and responsibilities.

12.3 Exceptions

Neither party shall be entitled to the benefit of the provisions of this Article under any of the following circumstances:

- a. to the extent that the failure was caused by the negligence or breach of contract of the party claiming suspension;
- b. to the extent that the failure was caused by the party claiming suspension having failed to diligently attempt to remedy the condition by taking all reasonable acts and to resume the performance of such covenants or obligations with reasonable dispatch;
- c. if the failure was caused by lack of funds or is in respect to the payment of any amount due under this Agreement;
- d. unless, as soon as possible after the happening of the Force Majeure event, or as soon as possible after determining that the occurrence was in the nature of Force Majeure and would affect the claiming party's ability to observe or perform any of its covenants or obligations under this Agreement, the party claiming suspension gives to the other party notice to the effect that the claiming party is unable, by reason of a particular specified event of Force Majeure to perform the particular covenants or obligations;
- e. to the extent the failure was due to an event or situation whereby the claiming party does not perform because continued performance would be economically disadvantageous or unprofitable, or because the claiming party has opportunities to deliver or purchase gas, as the case may be, under more attractive pricing terms as offered by third parties.

12.4 Resumption of Obligations

The party claiming suspension shall give notice to the other party, as soon as possible after the Force Majeure condition is remedied, to the effect that it has been remedied and that the claiming party has resumed, or is then in a position to resume, the performance of the subject covenants and obligations either in whole or in part.

12.5 Settlement of Industrial Disputes

Notwithstanding anything to the contrary in this Article 12, expressed or implied, the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the claiming party so involved, and that party may make settlement at a time and

on terms and conditions as it may deem to be advisable. No delay in making the settlement shall deprive the claiming party of the benefit of its right to claim Force Majeure under this Agreement.

12.6 Effect on Demand Charge Payment Obligations

- a. Notwithstanding anything to the contrary in this Article 12, but subject to its provisions and to the provisions of Section 9.8, any claim of Force Majeure by Buyer shall not in any way affect or reduce Buyer's obligation to pay the Nova Demand Charges, the ANG Demand Charges and the Supplier Demand Charges. If Buyer claims a Force Majeure, then Seller shall use its reasonable efforts to mitigate for Buyer the portion of the Nova Demand Charges and the ANG Demand Charges which is attributable to the quantities not taken during any month as a result of Buyer's claim of Force Majeure.
- b. To the extent that during the Force Majeure period Seller is successful in mitigating the demand charge payment obligations of Buyer by utilizing any of the subject ANG and Nova transportation capacity which otherwise would have been unused as a result of Buyer's Force Majeure claim, then Buyer shall be allocated a credit amount. The credit amount, if any, for a month during which the Force Majeure event occurred, shall be equal to the sum of the Daily Usage Credits for certain days of that month, determined for each day in accordance with the following formula:

$$\text{"Daily Usage Credits"} = A \times \frac{B}{\text{Number of Days in the month}}$$

where: "A" shall mean the quantity of gas, expressed in 10^3m^3 , owned or controlled by Seller which was transported by Seller under the ANG Transportation Agreement and the Nova Transportation Agreements capacity on a day which Buyer declared Force Majeure, and which capacity otherwise would have been used to transport the quantity of gas to be purchased by Buyer but for the Force Majeure claim by Buyer;

"B" shall mean the sum of the ANG Demand Charges and the Nova Demand Charges, allocable to the daily quantity deemed to have been nominated by Buyer, which quantity is equal to the arithmetic average daily quantity of gas nominated by Buyer under this Agreement for the full month immediately prior to the commencement of the Force Majeure period.

For greater certainty, no Daily Usage Credits shall apply if Buyer is not taking gas for any reason other than an event of Force Majeure as first claimed by Buyer.

- c. If during a month Seller or a Seller's Supplier:
 - i. declares Force Majeure due to the curtailment, stoppage or proration of Nova or ANG firm service under the ANG Transportation Agreement or the Nova Transportation Agreements, as applicable; and
 - ii. is entitled to receive a form of contractual or tariff credit from the pipeline because of the pipeline's non-performance during the Force Majeure period,

which credit is to be applied against the obligation to pay the demand charges as shipper under the applicable firm service agreement;

then Seller shall allocate to Buyer an amount equal to the total credit so received, to be applied against Buyer's ANG Demand Charges and Nova Demand Charges payment obligations under this Agreement for that Month.

12.7 Termination for Extended Force Majeure Period

If for any Contract Year either party claims an event of Force Majeure which results in the total suspension of gas deliveries, or receipts, as applicable for either a period equal to a total of:

- i. forty-five (45) consecutive days; or
- ii. seventy-five (75) non-consecutive days;

then the party not having originally claimed Force Majeure may, no later than thirty (30) days following the last day of the applicable period, give notice to the claiming party that the non-claiming party is electing to terminate this Agreement on thirty (30) days' prior notice, and this Agreement then shall terminate at the expiry of that notice period.

12.8 Alternative Supplies During Force Majeure Period

If Seller claims Force Majeure and therefore cannot deliver gas as originally contemplated under this Agreement, then Seller shall use its commercially reasonable efforts to locate supplies of gas from other persons which may be available at any delivery point on the Nova system. If Seller is successful in locating such alternative gas supplies, which could make up the shortfall either in whole or in part, then Seller will immediately advise Buyer of the quantity, price, and other pertinent terms of the alternate gas supply. If Buyer approves, then Seller shall use its reasonable efforts to obtain that supply for resale to Buyer under this Agreement, and if so obtained Buyer shall reimburse Seller for all incremental costs incurred by Seller in so obtaining the alternate gas supply.

12.9 Pro Rata Treatment

- a. If Seller declares Force Majeure, then commencing on the day of declaration and for each and every Force Majeure day, Seller shall:
 - i. first curtail and cease delivering interruptible gas to all of its interruptible markets at the Delivery Point on that day, to the extent necessary to enable Seller to satisfy its delivery obligation under this Agreement for that day, but only if that interruptible gas supply could physically replace gas which would have been purchased under this Agreement at the Delivery Point, but for the Force Majeure;
 - ii. next ensure that the amount of firm gas supply available from Seller's Suppliers during any day of the Force Majeure period is delivered on an equitable and pro rata share basis among Seller's distributor customers under contract for firm

deliveries at the Delivery Point. For the purposes of this Section "pro rata share" means a percentage share equal to 21.849% of the available Seller's Suppliers gas supply for the day.

- b. If Buyer declares Force Majeure, then commencing on the day of declaration and for each and every Force Majeure day, Buyer shall:
 - i. first curtail and cease purchasing gas from all of its interruptible suppliers at the Delivery Point on that day, to the extent necessary to enable Buyer to satisfy its purchase obligations under this Agreement for that day, but only if that interruptible gas supply could be physically replaced by gas which would have been purchased under this Agreement at the Delivery Point, but for the Force Majeure;
 - ii. next ensure that the amount of firm gas purchase curtailment under this Agreement is no greater than an equitable and pro rata share of the total amount Buyer is unable to purchase due to the Force Majeure event. That pro rata share shall be based on the DCQ under this Agreement compared to the total of all daily quantity amounts under Buyer's firm gas purchase contracts having a term equal to or in excess of thirty (30) days.

12.10 No Extension to Term

No claim of Force Majeure by either Seller or Buyer shall operate to extend the term of this Agreement.

ARTICLE 13 BILLINGS AND PAYMENTS

13.1 Monthly Invoice

- a. On or before the Invoice Date, for each month, Seller shall submit to Buyer a statement for the preceding month showing the daily amounts of gas delivered hereunder, the ANG Heating Value thereof, the Monthly Sales Quantity, and an invoice with respect to all amounts owing in respect of the preceding month. All amounts hereunder which are initially calculated in Canadian dollars shall be converted to a U.S. dollar amount for the purposes of invoicing, utilizing the Exchange Rate in effect on the Business Day immediately prior to the date that the invoice was prepared. Each statement shall contain information which sets out in reasonable detail how all invoice amounts were determined.
- b. If, by the Invoice Date in any month, Seller has not received any of the actual figures required to determine the amount due to it, then it shall be entitled to use its best estimate of the figures. Any variance between the estimate and the actual figure shall be adjusted and accounted for as soon as possible on a subsequent invoice.

13.2 Payment Due Date

Buyer shall pay To Seller the amount due to Seller, by means of a wire transfer of U.S. funds, on or before the Payment Due Date. The wire transfer shall be made to Seller's credit at a bank or deposit taking institution in Canada or the United States in accordance with Seller's written instructions.

13.3 Examination of Records

It is the intent of the parties to cooperate with one another to verify the accuracy of any statement or invoice made under or pursuant to the provisions of this Agreement.

13.4 Remedies for Non-Payment

- a. If Buyer fails to pay all of the amount of any invoice as herein provided when such amount is due, then interest shall accrue on the unpaid part of the invoice from the Payment Due Date until the date payment is made, at an annual rate equal to the Prime Rate plus two percent (2%), calculated and compounded monthly, but in no event to exceed the maximum interest rate permitted by law, and shall be payable both before and after judgment. All such interest shall be payable by Buyer to Seller without demand of Seller to Buyer. The provisions of this subsection. 13.4(a) shall survive the termination of this Agreement.
- b. If any failure to pay continues for a period of five (5) days after the Payment Due Date, then Seller may, in addition to all other remedies that it may have under the terms of this Agreement, but only upon providing at least five (5) days' notice to Buyer, suspend any further deliveries of gas hereunder until the overdue amount, including interest, is paid. During the period of suspension Seller shall be relieved of all obligations to deliver gas to Buyer under this Agreement. The suspension of deliveries by Seller shall not in any way relieve Buyer of its obligation to pay the Nova Demand Charges, the ANG Demand Charges, the Supplier Demand Charges and the Kingsgate Administration Charges.
- c. Notwithstanding the provisions of subsection 13.4(b), if Buyer in good faith disputes all or any portion of the amount payable, pays to Seller the amounts as Buyer concedes to be correct, and opens an interest bearing escrow account and on or before the Payment Due Date and deposits funds into the account equal to the amount which is in dispute, then Seller shall not be entitled to suspend further delivery of gas hereunder because of such non-payment unless and until Buyer defaults in making payments to Seller or into the escrow account, as the case may be.
- d. When the dispute is resolved either by agreement or the judgment of the Courts, as the case may be, then the funds in the escrow account shall be paid to the party or parties in accordance with the resolution of the dispute. Interest at the rate specified in Subsection a. above accumulated in the escrow account shall also be paid to the party or parties, in the same proportions as the principal amount is to be paid to the party or parties.

- e. If Buyer does not in good faith dispute the payment of the amount in accordance with subsection 13.4 c. above, or fails to deposit the required funds into the escrow account, then Seller may, in addition to any other remedies that it may have under the terms of this Agreement, at law or in equity, but only upon providing at least five (5) days' notice to Buyer which notice may only be given by Seller after a period of thirty (30) days after the Payment Due Date has expired, elect to terminate this Agreement effective the end of such notice period. This Agreement then shall terminate at the end of that period, unless Buyer has made payment of the overdue amount, including interest, and all other amounts then due.

13.5

Adjustments

- a. If it is found that at any time Buyer has been overcharged by Seller in relation to this Agreement and Buyer actually has paid the statement containing the overcharge, then within thirty (30) days after a final determination of the overcharge has occurred, Seller shall refund the amount of the overcharge. If the overcharge was the result of Seller's error, then interest at an annual rate equal to the Prime Rate plus two percent (2%), calculated and compounded monthly, but in no event to exceed the maximum interest rate permitted by law, shall be paid by Seller on the amount in question from the date the overcharge was paid to the date that Buyer is reimbursed for the overcharge. If any such overcharge is not a result of an error on the part of Seller, then no interest shall be charged to Seller.
- b. If it is found that at any time Buyer has been undercharged in relation to this Agreement, then within thirty (30) days after the final determination the undercharge has occurred, Buyer shall pay the amount undercharged. No interest shall be payable by Buyer on the amount of any undercharge unless Buyer fails to pay the amount of it within the thirty (30) day period, in which event interest shall be calculated and payable from the first day after the thirty (30) day period to the date of payment of the undercharge by Buyer, at an annual rate equal to the Prime Rate plus two percent (2%), calculated and compounded monthly, but in no event to exceed the maximum interest rate permitted by law.
- c. Either party discovering an overcharge or undercharge shall promptly notify the other party. The provisions of this Section 13.5 shall survive the termination of this Agreement.

13.6

Limitation on Disputes

Notwithstanding anything herein contained to the contrary, neither party shall be entitled to dispute the quantity of gas delivered, or the amount paid or payable with respect thereto, unless any such issue is raised by notice to the other party within two (2) years after the end of the month in question. The provisions of this Section 13.6 shall survive the termination of this Agreement.

ARTICLE 14 NOTICE

14.1 Service of Notice

All notices, communications, invoices and statements required or permitted under this Agreement shall be in writing except as set out specifically in this Agreement. Any notice to be given hereunder shall be deemed to be served properly if served in any of the following modes:

- a. if personally or by courier, then by delivering the notice to the attention of the person specified below and leaving it with that person or a director, officer, office manager or other responsible employee of the party at that party's address for service, or any other location to which the party has removed itself and for which it has not given formal notice. Personally served notices shall be deemed received by the addressee when actually so delivered, but delivery shall be during normal business hours, on a Business Day. If a notice is not delivered during the addressee's normal business hours, the notice shall be deemed to have been received by such party at the commencement of the next Business Day following the date of delivery;
- b. if by telecopier, then by directing it to the addressee at that receiving party's number. A notice so served shall be deemed received by the addressee when actually received by it, if received within normal business hours on a Business Day, or at the commencement of the next ensuing Business Day following transmission, if the notice is not received during normal business hours;
- c. if by mail, then by mailing it first class registered post, postage prepaid, directed to the receiving party at that party's address for service listed below. If postal service is interrupted or operating with unusual or imminent delay, notice shall not be served by such mail during that period. Notices served by mail shall be deemed to be received by the addressee at noon, local time, on the fifth (5th) Business Day following the mailing.

Notwithstanding the foregoing, payments shall not be so deemed delivered until actually received.

14.2 Addresses and Numbers for Notices

The address and numbers for service of notices and communications for each of the parties shall be as follows:

- a. to Seller:

Westcoast Gas Services Inc.
3520, 150 - 6th Avenue S.W.
Calgary, Alberta
T2P 3Y7

i. General Notices

Attention: Director, Marketing (Pacific Northwest Region)
 Telephone: (403) 297-1838
 Telecopy: (403) 297-8643

ii. Nominations/Operations

Attention: Operations Representative (Pacific Northwest Region)
 Telephone: (403) 297-0337
 Telecopy: (403) 297-8643

b. to Buyer:

Cascade Natural Gas Corporation
 222 Fairview Avenue North
 Seattle, Washington, 98109

i. General Notices

Attention: Vice President, Gas Supply
 Telephone: (206) 624-3900
 Telecopy: (206) 624-7215

ii. Nominations/Operations

Attention: Manager, Gas Management
 Telephone: (206) 624-3900
 Telecopy: (206) 624-7215

14.3 Right to Change Address and Numbers

Any party may change its address, telephone number, telecopy number or the person specified above by notice to the other party and any such change subsequently shall be effective for all purposes of this Agreement.

ARTICLE 15
 ASSIGNMENT

15.1 No Assignment of Agreement Without Consent

Either party may assign its interest under this Agreement without the consent of the other party, to an Affiliate whose performance the assignor guarantees or to any person which may succeed, by purchase, merger, consolidation or other transfer, to substantially all of the assignor's assets. In the event of any such assignment or disposition, the successor shall be entitled to the rights and shall be subject to the obligations of its predecessor. Except as otherwise provided in this Article, neither party shall have the right to assign this Agreement or any of its rights, benefits, duties and obligations hereunder without the prior written consent of the other party, which consent

shall not be unreasonably withheld.

15.2 Assignments By Way of Security

The requirement in Section 15.1 to obtain prior written consent from the non-assigning party shall not apply to an assignment made by way of security for the assignor's present or future indebtedness or liabilities (whether contingent, direct or indirect and whether financial or otherwise), the issue of the bonds or debentures of a corporation or the performance of the obligations of the assignor as guarantor under a guarantee. In the event that the security is enforced by sale or foreclosure, Section 15.1 shall apply.

15.3 Enurement

Subject to this Article 15, the terms, covenants and conditions hereof shall be binding upon and enure to the benefit of the parties hereto and on their respective successors and permitted assigns.

ARTICLE 16 ARBITRATION

16.1 Submissions

Any dispute, controversy, claim, difference or question between the parties arising out of or connected with the Agreement in respect to which the parties have both agreed to have resolved by arbitration, except where the Final Offer Arbitration procedure is to be used, shall be resolved by arbitration in accordance with the provisions of this Article 16.

16.2 Selection of Arbitral Institution

The parties may need the services of an arbitral institution from time to time in connection with arbitration proceedings carried out in accordance with the provisions of this Article 16. The parties agree to use the AAA and the BCICAC for this purpose and will alternate the use of the AAA and the BCICAC with the BCICAC chosen for the first arbitration. The choice of the Arbitral Institution shall alternate for subsequent arbitrations carried out in accordance with the provisions of Article 16 each time an arbitration proceeds as far as the selection of a single arbitrator (the "Arbitrator") or the three arbitrators (the "Board") under this Article 16.

16.3 Commencement of Proceedings

Either party (the "Initiating Party") may commence an arbitration proceeding by serving notice on the other party (the "Receiving Party"), which notice shall contain: the name of one (1) arbitrator who would either function as a single arbitrator if the Receiving Party consents, or as one of a panel of three arbitrators if the Receiving Party does not so consent; a statement of the matters in dispute; a request for relief; and the grounds therefor. Within twenty-one (21) days after receipt of such notice, the Receiving Party shall serve notice on the Initiating Party, which notice shall contain: either a consent to the Initiating Party's arbitrator functioning as a single arbitrator; or the name of a second arbitrator to function as a member of an arbitration board; a

statement answering the Initiating Party's statement of the matters in dispute and specifying other matters that may also be in dispute, if any; a counter request for relief, if applicable; and the grounds therefor.

16.4 Appointment of Arbitrators

If the Receiving Party fails either to consent to a single arbitrator or to name a second arbitrator, then the Initiating Party's arbitrator shall function as a single arbitrator. If both parties appoint their own arbitrator, the two arbitrators so appointed shall name a third arbitrator or, if they fail to do so within fourteen (14) days of the second arbitrator's appointment, the parties shall promptly meet and shall attempt to agree upon and to appoint such third arbitrator. If the parties are unable to agree within a further fourteen (14) days on the choice of a third arbitrator, then upon application by either party, the third arbitrator shall be appointed by the applicable Arbitral Institution.

16.5 Experience

The Arbitrator or the Board appointed hereunder shall be generally knowledgeable in the areas of gas production, transportation, marketing and distribution, shall be qualified by education or experience to decide the particular matters in dispute, shall be a disinterested party or parties and shall not be employees or agents of either party or of any of their Affiliates. Any arbitrator must be Canadian or American.

16.6 Location of Arbitration Hearing

Unless otherwise agreed to by the parties, the place of any arbitration hearing shall be Vancouver, British Columbia, if the BCICAC is the applicable Arbitral Institution or Seattle, Washington, if the AAA is the applicable Arbitral Institution. The exact location of any hearing shall be determined by the applicable Arbitral Institution.

16.7 Hearing

The Arbitrator or the Board, as the case may be, shall promptly hear and determine the matters in dispute after giving the parties due notice of hearing and a reasonable opportunity to be heard.

16.8 Decision

The Arbitrator or the Board (or a majority thereof), as the case may be, shall render a decision within forty-five (45) days after the hearing has commenced, subject to any reasonable delay due to unforeseen circumstances. The decision of the Arbitrator, or the decision of the Board (or a majority thereof), as the case may be, shall be made in writing and shall be final and binding upon the parties as to the matters submitted to arbitration and the parties shall abide by and comply with the decision. There shall be no appeal from such decision and an order confirming the decision or judgment may be entered in any Court having jurisdiction. The parties agree that the decision of the Arbitrator or the Board (or a majority thereof), as the case may be, shall be the sole and exclusive remedy between them regarding the issue in dispute and that any costs or fees incidental to enforcing the decision shall, to the maximum extent permitted by law, be charged against the party resisting such enforcement. The parties shall execute, acknowledge and

deliver all such documents or assurances as may be necessary to implement the decision. The written decision of the Arbitrator or the Board (or a majority thereof), as the case may be, may be issued with or without a written opinion. Either party may request a written opinion with regard to a decision and, if a request is made, a written opinion shall be issued expeditiously; provided that, implementation of and compliance with the decision shall not be delayed pending the issuance of a written opinion.

16.9 Costs

Each party shall bear the expense of prosecuting its own case and each party shall pay the compensation and expenses of its named arbitrator when a Board is selected. The compensation and expenses of an Arbitrator or a third arbitrator and all administration costs of the arbitration, including the fees of the applicable Arbitral Institution, shall be paid in equal portions by the parties.

16.10 Failure to Participate

The failure of either party to participate in any arbitration proceeding as scheduled by the Arbitrator or the Board, as the case may be, shall not delay the proceeding. Notwithstanding a party's failure to participate, the Arbitrator or the Board, as the case may be, shall proceed to consider submissions, to take evidence, and to issue a decision as though such party were a participant in the arbitration proceeding and the decision shall be final and binding on such non-participating party in accordance with Section 16.8.

16.11 Provisional Remedies

The Arbitrator or the Board (or a majority thereof), as the case may be, may grant such provisional remedies as it deems necessary and appropriate in its sole discretion.

16.12 Arbitration Procedures

Except as herein otherwise expressly provided, all arbitration proceedings conducted pursuant to Article 16 shall be conducted pursuant to the rules of the applicable Arbitral Institution which apply to international commercial arbitrations and which are in effect at the commencement of the arbitration proceedings. In the event of conflict, the provisions of this Agreement shall prevail and govern.

16.13 Continuation of Operations

Whenever there is an arbitration proceeding under this Article, operations under this Agreement shall continue in the same fashion as they were conducted before the arbitration proceeding was commenced, without prejudice to either party, pending a decision in the arbitration proceeding.

16.14 Modification of Certain AAA Rules

In addition to the express provisions of this Article, the parties agree to further modify the AAA rules as follows:

- a. The Expedited Procedures under the AAA Rules shall not apply to any matter submitted for arbitration under this Agreement.
- b. A party appointed arbitrator may be disqualified for the reasons set forth in Section 19 of the AAA Rules as such may be amended from time to time.
- c. Notice of the date and time of the hearing will be provided to the parties by the AAA at least forty-five (45) days in advance of the hearing.

ARTICLE 17 FINAL OFFER ARBITRATION

17.1 Submissions

In the event that the parties have not documented their agreement on a redetermined Gas Commodity Price in a letter executed by both parties by the deadline set out in Section 7.14 b above, or the requisite producer support referred to in Section 7.15 above is not obtained by the following September 1st, and either party subsequently initiates Final Offer Arbitration pursuant to Section 7.14 b, then any redetermination of the Gas Commodity Price shall be resolved by Final Offer Arbitration proceedings conducted in accordance with the provisions of this Article 17.

17.2 Selection of Arbitral Institution

The parties may need the services of an arbitral institution from time to time in connection with Final Offer Arbitration proceedings conducted in accordance with the provisions of this Article 17. The parties agree to use the AAA and the BCICAC for this purpose, and will alternate the use of the AAA and the BCICAC, with the BCICAC chosen for the first Final Offer Arbitration. The choice for the Arbitral Institution shall alternate for subsequent Final Offer Arbitrations each time a Final Offer Arbitration proceeds as far as the selection of the single arbitrator (the "Arbitrator") under this Article 17.

17.3 Commencement of Proceeding

Pursuant to the provisions of Section 7.14 b, either party (the "Initiating Party") may commence a Final Offer Arbitration proceeding by serving notice on the other party (the "Receiving Party"), which notice shall contain the name of one (1) arbitrator who would function as the single gas price arbitrator. Within seven (7) days after receipt of the notice, the Receiving Party shall serve written reply to the Initiating Party, which reply shall contain either a consent to the Initiating Party's arbitrator functioning as the single arbitrator, or the name of an alternate person to function as the gas price arbitrator.

17.4 Appointment of Arbitrators

If the Receiving Party fails either to consent to the Initiating Party's single arbitrator or to name an alternate arbitrator, then the Initiating Party's arbitrator shall function as the single arbitrator. If the parties are unable to agree on a single arbitrator within seven (7) days of the

Receiving Party's reply, then the arbitrator shall be appointed by the applicable Arbitral Institution.

17.5 Experience

The Arbitrator shall be generally knowledgeable in the areas of gas production, transportation, marketing and distribution as they relate to the Pacific Northwest, shall be qualified by education or experience to decide the particular matters in dispute, shall be a disinterested party and shall not be an employee or agent of either party or of any of their Affiliates. The arbitrator must be Canadian or American.

17.6 Location of Final Offer Arbitration

Unless otherwise agreed to by the parties, the place of arbitration shall be Vancouver, British Columbia, if the BCICAC is the applicable Arbitral Institution, or Seattle, Washington, if the AAA is the applicable Arbitral Institution.

17.7 Final Offers

Both parties shall independently submit to the Arbitrator within seven (7) days of his appointment, a one time written price offer ("Final Offer") which will set out that party's proposed Gas Commodity Price for the Contract Year in dispute. After the Arbitrator has received each party's Final Offer, each party shall be provided with a copy of the other party's Final Offer. The Arbitrator shall consider the two Final Offers and shall only have authority to select the one Final Offer which the Arbitrator believes most fairly reflects the Pricing Criteria set forth in Section 7.14 above.

17.8 No Hearing on Final Offer Arbitration

- a. The parties acknowledge and confirm that Final Offer Arbitration is governed by the written submissions of the parties to the Arbitrator, and accordingly, there shall be no hearing for the parties in front of the Arbitrator.
- b. In addition to the Final Offer written submission, each party may prepare and submit to the Arbitrator a brief statement in support of the Final Offer price calculation, which statement principally shall speak to the Pricing Criteria set forth in Section 7.14 above and how, in the view of the submitter, its Final Offer price calculation most appropriately satisfies that criteria.

17.9 Decision

The Arbitrator shall select a Final Offer within thirty (30) days after the deadline date for Final Offer submissions, subject to any reasonable delay due to unforeseen circumstances. The selection by the Arbitrator shall be made in writing and shall be final and binding upon the parties as to the determination of a Gas Commodity Price, and the parties shall abide by and comply with the selection. There shall be no appeal from the selection and an order confirming the selection or judgment may be entered in any Court having jurisdiction. The parties agree that the Final Offer selection by the Arbitrator shall be the sole and exclusive remedy between them.

regarding the determination of the Gas Commodity Price, and that any costs or fees incidental to enforcing the selection shall, to the maximum extent permitted by law, be charged against the party resisting the enforcement. The parties shall execute, acknowledge and deliver all such documents or assurances as may be necessary to implement the selection. The written selection of the Arbitrator may be issued with or without written elaboration. Either party may request written elaboration with regard to a selection and, if a request is made, a written elaboration shall be issued expeditiously, but implementation of and compliance with the selection shall not be delayed pending the issuance of a written elaboration.

17.10 Costs

Each party shall bear its own Final Offer Arbitration expenses. The compensation and expenses of the Arbitrator and all administration costs of the Final Offer Arbitration, including any applicable fees of the applicable Arbitral Institution, shall be paid in equal portions by the parties.

17.11 Failure to Participate

The failure of either party to participate in any Final Offer Arbitration selection process shall not delay that process. If a party fails to participate, the Arbitrator shall select the participating party's Final Offer, and issue a selection confirmation as though the non-participating party were a participant in the Final Offer Arbitration proceeding, and the decision shall be final and binding on the non-participating party in accordance with Section 17.9.

17.12 Final Offer Arbitration Procedures

Except as otherwise expressly provided in this Article which otherwise prevail in the event of conflict, all Final Offer Arbitration proceedings conducted pursuant to the provisions of Article 17 shall be conducted pursuant to the rules of the applicable Arbitral Institution which apply to international commercial arbitrations and which are in effect at the commencement of the arbitration proceedings.

17.13 Continuation of Operations

Whenever there is a Final Offer Arbitration proceeding under this Article, operations under this Agreement shall continue in the same fashion as they were conducted before the Final Offer Arbitration proceeding was commenced, without prejudice to either party, pending a Final Offer Arbitration price selection.

**ARTICLE 18
GENERAL**

18.1 Proper Law

This Agreement and all matters arising directly in relation to it, including without limitation the capacity, form, essentials and performance of this Agreement, shall be governed by and construed in accordance with the laws of the State of Washington. In the event that any legal action is brought under or in relation to this Agreement, venue shall be proper in the

County of King, in the State of Washington.

18.2 Attornment

Each of the parties, by the execution and delivery of this Agreement, irrevocably and unconditionally, with respect to any matter or thing arising out of or pertaining to this Agreement, attorns and submits to and accepts, for itself and in respect of its assets, the jurisdiction of the courts of the State of Washington.

18.3 Compliance with Law

This Agreement and the rights and obligations of the parties to it are subject to all applicable present and future valid laws, regulations, orders, directives, and rules of any legislative body or regulatory authority having jurisdiction over the parties or the subject matter of this Agreement.

18.4 Time

Time shall be of the essence in this Agreement.

18.5 No Amendment Except in Writing

No amendment or variation of the provisions of this Agreement shall be effective or binding upon the parties unless it is set forth in writing and has been duly executed by each of the parties by its respective proper officers or authorized representatives in that behalf.

18.6 Entire Agreement

This Agreement constitutes the entire agreement between the parties relative to the expressed matters and there are no other written or verbal representations, warranties or covenants in respect thereto. Subject to the provisions of Article 2 above, this Agreement supersedes all prior or contemporaneous discussions, negotiations, representations or agreements relating to the subject matter of this Agreement including, without limiting the generality of the foregoing, the Kingsgate Gas Sales Agreement.

18.7 Further Assurances

Each of the parties shall, from time to time and at all times hereafter, do all such further acts and execute and deliver all such further deeds and documents as shall be reasonably required in order to fully perform and to more effectively implement and carry out the terms of this Agreement.

18.8 Severability

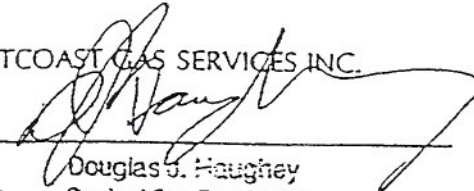
The intention of the parties is to comply fully with all laws, and this Agreement shall be construed consistently with all laws. In the event that any one or more terms or provisions of this Agreement are found to be void or unenforceable for any reason the subject terms and provisions shall be considered, at such time, to be deleted from this Agreement and this Agreement

limited to the following: employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. Seller agrees to post in conspicuous places, available to American employees and applicants for employment, notices to be provided by the Seller setting forth the provisions of this non-discrimination clause.

- b. Seller will, in all solicitations or advertisements for American employees placed by or on behalf of Seller, state that all qualified applicants will receive consideration for employment without regard to race, colour, religion, sex, or national origin.
- c. Seller will send to each labour union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labour union or workers' representative of the Seller's commitments under section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to American employees and applicants for employment.
- d. Seller will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labour as applicable to its American employees.
- e. Seller will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labour, or pursuant thereto, and will permit access to his books, records, and accounts by Seller and the Secretary of Labour for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
- f. In the event of the Seller's non-compliance with the non-discrimination clauses of this Section or with any of such rules, regulations, or orders, this Agreement may be cancelled, terminated or suspended in whole or in part and Seller may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labour, or as otherwise provided by law.
- g. Seller will include the provisions of Subsections a. through f. in every American subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labour issued pursuant to section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. Seller will take such action with respect to any American subcontract or purchase order as may be directed by the Secretary of Labour as a means of enforcing such provisions including sanctions for non-compliance: provided, however, that in the event Seller becomes involved in, or is threatened with, litigation with an American subcontractor or vendor as a result of such direction, Seller may request the United States to enter into such litigation to protect the interests of the United States.

IN WITNESS WHEREOF the parties hereto have duly executed and delivered this Agreement under the signatures of their respective proper officers duly authorized in that behalf as of the day, month and year first above written.

WESTCOAST GAS SERVICES INC.

Per: 

Douglas J. Haughey

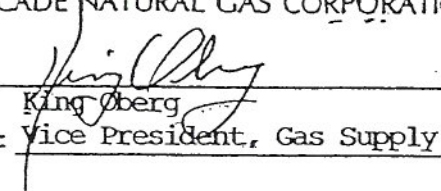
Title: Senior Vice President

Per: 

J.A. THOMPSON

Title: Director, Marketing

CASCADE NATURAL GAS CORPORATION

Per: 

King Oberg

Title: Vice President, Gas Supply

Per: _____

Title: _____

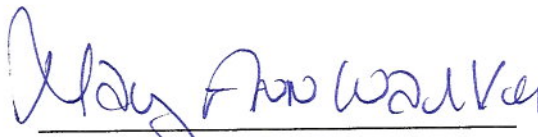
THIS IS PAGE 42 TO THE AMENDED AND RESTATED GAS SALES AGREEMENT BETWEEN WESTCOAST GAS SERVICES INC. ("SELLER") AND CASCADE NATURAL GAS CORPORATION ("BUYER")

EXHIBIT 4
VERIFICATION

VERIFICATION

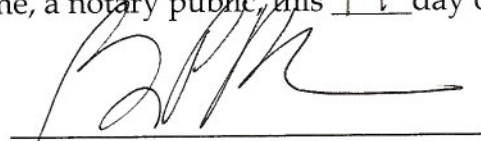
City of Alexandria)
State of Virginia) ss:

Mary Ann Walker, being first duly sworn, on oath states that she is a duly authorized representative of Cascade Natural Gas Corporation, and is authorized to make this verification; that she has read the foregoing document and is familiar with the contents thereof; that the statements contained therein are true and accurate to the best of her knowledge, information, and belief; that she is authorized to file this document with the Department of Energy, Office of Fossil Energy; and that, to the best of her knowledge, information and belief, the same or a related matter is not being considered by any other part of the Department of Energy, including the Federal Energy Regulatory Commission, or any other Federal agency or department.



Mary Ann Walker

Subscribed and sworn to me, a notary public, this 19th day of October, 2004.



Notary Public

My Commission expires: 6/30/05