

cc: Mr. Wayne R. Gould (w/encl.)

Encls.

REN/sm

Puget Sound Energy, Inc.
Assistant General Counsel
Robert E. Neate

[Handwritten signature]
Respectfully submitted,

Based upon the foregoing, I am of the opinion that the Application of PSE for Authorization to Import Natural Gas to and from Canada is legal, proper and within the corporate powers and authority of PSE.

- (1) The Articles of Incorporation and the By-Laws of PSE, as amended;
- (2) Other documents deemed relevant for this opinion.

The undersigned has reviewed the following documents in regard to the within opinion:

Pursuant to Section 3 of the Natural Gas Act of 1938 (15 U.S.C. § 717b), DOE Delegation Order Nos. 0204-111 and 2404-127, and the Regulations of the Department of Energy set forth in 10 C.F.R. Part 590, Puget Sound Energy, Inc. ("PSE") hereby submits for filing an original and fifteen (15) copies of its Amended Application for Long Term Authorization to Import and Export Natural Gas from and to Canada. In connection with this submittal, also enclosed is a check in the amount of \$50.00.

To Whom it May Concern:

Re: Application of Puget Sound Energy, Inc. for Long-Term Authorization to Import and Export Natural Gas from and to Canada
FE Docket No. 05-107-M6-

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

DOE/OFE/NGR
NOV 14 2005
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Puget Sound Energy, Inc.
P.O. Box 97034
Bellevue, WA 98009-9734
November 4, 2005



RECEIVED
NOV 14 2005
DOE/OFE/NGR

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

In the Matter of

Puget Sound Energy, Inc.

APPLICATION OF PUGET SOUND
ENERGY, INC. FOR LONG-TERM
AUTHORIZATION TO IMPORT AND
EXPORT NATURAL GAS FROM AND
TO CANADA

FE Docket No. 05-107-NG

Pursuant to Section 3 of the Natural Gas Act of 1938 (15 U.S.C. §717b), DOE

Delegation Order Nos. 0204-111 and 2404-127, and the Regulations of the Department of

Energy set forth in 10 C.F.R. Part 590, Puget Sound Energy, Inc. ("PSE") hereby applies to

the United States Department of Energy ("DOE") for a Long-Term Authorization to Import

and Export Natural Gas to and from Canada.¹ PSE requests authorization to import and

export a combined total of up to 20,000 MMBTU units of natural gas per day term beginning

on February 1, 2006 and ending on October 31, 2008. Currently, these Canadian gas supplies

are reported under PSE's existing Blanket Authorization FE 04-03-NG.

In support of this request, PSE shows the following:

¹ PSE's Application for Blanket Authorization to Import Natural Gas from Canada in FE Docket No. 04-03-NG was granted on January 30, 2004.

Utilizing the Blanket Authorization issued in Order No. 1936, issued in FE Docket No. 04-03-NG (and previous Blanket Authorizations), PSE has purchased and imported interruptible short-term supplies of Canadian gas at the U.S.-Canadian border since 1991 and has exported short-term supplies of natural gas since 2002. PSE desires to continue the

AUTHORIZATION REQUESTED

III

The exact legal name of the applicant is Puget Sound Energy, Inc. Puget Sound Energy, Inc., ("PSE") is a corporation organized and existing under the laws of the State of Washington and is a subsidiary of Puget Energy, Inc. PSE is a public service company furnishing electric and natural gas service within a 6,000 square mile territory, principally in the Puget Sound region of western Washington. As of December 31, 2004, PSE provided electric service to approximately 1 million electric customers and 672,000 natural gas customers. PSE transports firm supply natural gas for its distribution operations on Northwest Pipeline Corporation ("Northwest"). PSE also receives significant quantities of firm storage service from Northwest.

BACKGROUND

II

Puget Sound Energy, Inc. Attn: Wayne R. Gould, Director Natural Gas Resources P.O. Box 97034 Bellevue, WA 98009-9734 telephone: (425) 462-3429	Puget Sound Energy, Inc. Attn: Robert E. Neate Assistant General Counsel P.O. Box 97034 Bellevue, WA 98009-9734 telephone: (425) 456-2444
---	--

communications in regard to this application are to be addressed are:

The names, titles and mailing addresses of the persons to whom correspondence and

GENERAL

I

The Energy Policy Act provides that the importation and exportation of natural gas from or to a nation with which there is in effect a free trade agreement shall be deemed to be within the public interest, and that applications for such importation and exportation shall be

PUBLIC INTEREST

IV

arrangements approved by DOE.

The Commissioner's policies and directives in restructuring the natural gas industry create a nationwide natural gas market, composed of many suppliers and purchasers operating in an openly competitive environment. Accordingly, PSE can engage in natural gas marketing activities beyond its existing distribution territories. Therefore, if the opportunity exists, PSE intends to use its Long-Term Authorization to purchase and import and sell and export gas for its own account as well as for the account of its Canadian or U.S. suppliers and its Canadian or U.S. purchasers. The subject application is similar to other blanket import and export

the gas to PSE or, for its account, to others. construction will be required to receive the gas at or deliver the gas to the border or to deliver gas to the point of exportation and to deliver gas supplies to PSE's markets; no new utilize existing pipeline capacity to receive the gas at the point of importation, to deliver the competitive market prices. Any imports and exports under the requested authorization will export transaction will be established in the contract and/or determined by prevailing following the approval thereof by the Department of Energy. The price for each import and PSE will report purchases and sales under this contract effective the first of the month this contract as part of its blanket authorizations. opportunities to meet its business needs. Historically PSE has reported its transactions under authority to export natural gas to Canada because of enhanced storage and market

per day of natural gas from and to Canada; and

2. That PSE be authorized to import a total quantity of 20,000 MMBTU units inconsistent with the public interest;

Natural Gas from and to Canada pursuant to Section 3 of the Natural Gas Act is not issuance of a Long-Term Authorization as requested in this Application to Import and Export

1. That the Assistant Secretary for Fossil Energy or his delegate find that the respectfully requests:

WHEREFORE, in consideration of the foregoing premises, Puget Sound Energy, Inc. extension of Authorization requested in this Application.

PSE agrees to file quarterly reports of its import and export activities pursuant to the

REPORTING REQUIREMENTS

VI

impact statement or environmental assessment is not required.

National Environmental Policy Act, 42 U.S.C. § 4321, et seq. Therefore, an environmental action significantly affecting the quality of the human environment within the meaning of the and exportation of natural gas. Consequently, granting this Application will not be a federal

No new facilities will be constructed in the United States for the proposed importation

ENVIRONMENTAL IMPACT

V

free trade agreement, PSE submits that its Application is within the public interest.

exportation of natural gas from and to Canada, a nation with which the United States has a granted without modification or delay. Because PSE's application is for the importation and

APPLICATION OF PUGET SOUND ENERGY, INC.
FOR LONG-TERM AUTHORIZATION TO
IMPORT AND EXPORT NATURAL GAS FROM
AND TO CANADA - 5

Robert E. Neate
Assistant General Counsel
Puget Sound Energy, Inc.
P.O. Box 97034
Bellevue, WA 98009-9734

By _____

Respectfully submitted,

DATED: November 7, 2005.

Canada as proposed in this application.

as may be necessary to authorize importation and exportation of natural gas from and to

3. That such other and further authority be granted to Puget Sound Energy, Inc.

APPLICATION OF PUGET SOUND ENERGY, INC.
FOR LONG-TERM AUTHORIZATION TO
IMPORT AND EXPORT NATURAL GAS FROM
AND TO CANADA - 5

3. That such other and further authority be granted to Puget Sound Energy, Inc. as may be necessary to authorize importation and exportation of natural gas from and to Canada as proposed in this application.

DATED: November 7, 2005.

Respectfully submitted,

By

Robert E. Neate
Assistant General Counsel
Puget Sound Energy, Inc.
P.O. Box 97034
Bellevue, WA 98009-9734



My commission expires: 7-5-08
residing at Strommen, WA
Notary Public in and for the State of Washington,
Print Name: Michelle D. Burgoyne

SUBSCRIBED AND SWORN TO before me this 7th day of November, 2005.

[Signature]
Robert E. Neate

the same with the Department of Energy.
the best of his information, knowledge and belief; and that he is authorized to execute and file
contents thereof; that all the statements and matters contained therein are true and correct to
Authorization to Import and Export Natural Gas from and to Canada and is familiar with the
Counsel of Puget Sound Energy, Inc.; that he has read the foregoing Application for
Robert E. Neate, being first sworn, deposes and says that he is Assistant General

) COUNTY OF KING
) ss.
) STATE OF WASHINGTON



Terra Transaction Confirmation
Natural Gas

Confirmation ID: 23339
Version: T1

This Transaction Confirmation is subject to the most recent Master Purchase and Sale Agreement entered into between the Buyer and Seller. The Terms of this Transaction Confirmation are binding unless disputed in writing within 2 Business Days of receipt.

Buyer: Puget Sound Energy, Inc.
411 - 108th Avenue NE OBC - 14E
One Bellevue Centre Building
Bellevue, Washington
USA, 98004-5515
Attention: Gas Trading, Kevin Foley
Phone: (425) 462-3103
Fax: (425) 462-3836

Seller: Anadarko Canada Corporation
Suite 4000, Fifth Ave. Place
425-1st Street SW
Calgary, Alberta
Canada, T2P 4V4
Attention: Trade Administration
Phone:
Fax: (403) 231-0555

Legal Entity	Anadarko Canada Corporation	Trade Date	5-Dec-03	Business Associate	Puget Sound Energy, Inc.	Perform. Obligation	Firm
Transaction	Delivery (Sale)						
Price	Delivery Point	Deal Start	Deal End	Base Price	Price Adj.	Price \$	Units
NGTL	Nova Inventory Transfer	01-Nov-2004	31-Oct-2008	Month-CGPR AECCO Index (USD/MMBtu)	0.010 USD	MMBtu	20,000
						Total	

as the right to convert to a fixed price, on the understanding the Buyer and Seller agree on the fixed price, for a term of 1 year, or less upon 5 business days notice prior to the commencement of the delivery period for which the fixed price is requested. Puget can make multiple elections during the term of the contract.

Deal Start and Deal End refer to the transaction day not gas day.

Base Price Descriptions:

Fixed: Fixed price as specified in the "Price Adj." column.
 Daily - CGPR AECCO CNLT: "Daily Spot Gas Price at AECCO C & Nova Inventory Transfer" weighted average price in CAD/GJ (no weekends) as per Canadian Gas Price Reporter
 Daily - Gas Station #2: as per Plains Gas Daily "Westcoast, stations" Midpoint price in CAD/GJ
 Daily - Gas Station #1: as per Plains Gas Daily "Westcoast, stations" Midpoint price in CAD/GJ
 Daily - GasD Chicago City by use: as per Plains Gas Daily "Chicago city-gas" Midpoint price in USD/MMBtu
 Month - CGPR AECCO A1 Ave. (inc. weekends): "Daily Spot Gas Price at AECCO C & Nova Inventory Transfer" 2a (*) in CAD/GJ as per Canadian Gas Price Reporter
 Month - CGPR AECCO A1 Ave. (inc. weekdays): "Daily Spot Gas Price at AECCO C & Nova Inventory Transfer" 1a (*) in CAD/GJ as per Canadian Gas Price Reporter
 Month - CGPR AECCO CNLT (7A): "Alberta Spot Price - AECCO CNLT (7A)" in USD/MMBtu as per Canadian Gas Price Reporter
 Month - CGPR AECCO Index (USD/MMBtu): Canadian Domestic Gas Price, Alberta Spot Price - AECCO CNLT (7A) in CAD/GJ as per Canadian Gas Price Reporter
 Month - CGPR NYMEX 3-Day Ave. (inc. weekends): "Daily Spot Gas Price at AECCO C & Nova Inventory Transfer" 1 (*) in CAD/GJ as per Canadian Gas Price Reporter
 Month - CGPR NYMEX 3-Day Ave. (inc. weekdays): "Daily Spot Gas Price at AECCO C & Nova Inventory Transfer" 1 (*) in CAD/GJ as per Canadian Gas Price Reporter
 Month - Chicago: as per NGFA Bid week Survey, Midwest "Chicago City-gas" Bid week price in USD/MMBtu
 Month - Sumes Index (FERC): as per Plains Gas Daily "FERC" Gas Market Report "Northwest Pipeline Corp. - Canadian border" Index Price in USD/MMBtu

Agreed to and accepted by:

Buyer: Puget Sound Energy, Inc.
Signature: *Eric M. Markell*
Name: ERIC M. MARKELL
Title: Sr. Vice President
Date: 12.18.03

Seller: Anadarko Canada Corporation
Signature: *Ben Curry*
Name: BEN CURRY
Title: Market Development Manager
Date: Monday, December 15, 2003

Puget Sound Energy
Energy Supply
NOV 13 2001



Master Purchase and Sales Agreement
between
Anadarko Canada Corporation
and
Puget Sound Energy, Inc.

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This MASTER PURCHASE AND SALE AGREEMENT (this "Agreement") dated as of October 30, 2001 is made and entered into by and between ANADARKO CANADA CORPORATION, a body corporate incorporated pursuant to the laws of Canada and continued into the Province of Alberta ("Anadarko"), and PUGET SOUND ENERGY, INC., a Washington corporation ("PSE"). Each of PSE and Anadarko is sometimes referred to in this Agreement as "Party"; both of PSE and Anadarko are sometimes referred to in this Agreement together as "Parties."

The Parties agree as follows:

ARTICLE 1. DEFINITIONS

1.1. Usage and Definitions

All references to Articles and Sections are to those set forth in this Agreement unless otherwise stated in this Agreement. The following terms as used in or with respect to this Agreement shall have the meanings set forth below unless the context clearly requires otherwise.

"**Affected Party**" has the meaning set forth in Section 10.3.

"**Affiliate**" means, with respect to any Person, any other Person (other than an individual) that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person. For purposes of the foregoing, "control" means the direct or indirect ownership of more than fifty percent (50%) of the outstanding capital stock or other equity interests having ordinary voting power.

"**Agreement Period**" has the meaning set forth in Section 14.2.

"**Alternate Spot Price Index**" means the Gas pricing index or methodology determined in accordance with the procedures set forth in Section 6.9.

"**Btu**" means the amount of energy required to raise the temperature of one pound of pure water one degree Fahrenheit (1°F) from fifty-nine degrees Fahrenheit (59°F) to sixty degrees Fahrenheit (60°F).

"**Business Day**" means any day which both of the Parties observe as a working day.

"**Buyer**" means the Party to a Transaction under this Agreement that is obligated to purchase Gas during the applicable Period of Delivery.

"**Buyer's Deficiency Default**" has the meaning set forth in Section 6.7.

"**Buyer's Deficiency Quantity**" has the meaning set forth in Section 6.7.

"**Buyer's Requested Quantity**" has the meaning set forth in Section 6.1.

"**Confirmation Letter**" has the meaning set forth in Section 5.1.

"**Contract Price**" means, with respect to any Transaction, the price per unit of Gas for the purchase or sale of Gas set forth in the Confirmation Letter for such Transaction.

"**Daily Contract Quantity**" ("DCQ") means, with respect to any Transaction, the daily quantity of Gas to be purchased or sold as set forth in the Confirmation Letter for such Transaction.

"Day" means a period of twenty-four (24) consecutive hours beginning at 7:00 a.m. Pacific Clock Time on any calendar day and ending at 7:00 a.m. Pacific Clock Time on the following calendar day.

"Delivery Point" means, with respect to any Transaction, each of the point of delivery set forth in the Confirmation Letter for such Transaction.

"Dollars" (and the symbol "\$") means dollars in the lawful currency of the United States of America.

"Early Termination Date" has the meaning set forth in Section 10.1.

"Effective Date" means the date by which this Agreement is executed and delivered by each of the Parties.

"Force Majeure" has the meaning set forth in Sections 13.2 and 13.3.

"GAAP" means generally accepted accounting principles.

"Gas" means methane and other gaseous hydrocarbons meeting the quality standards and specifications of Buyer's Transporter.

"Gas Daily" means the publication Gas Daily published daily by Pasha Publications, Inc. or any successor publication thereto.

"Imbalances" has the meaning set forth in Section 15.1.

"Interest Rate" means an annual rate of interest, calculated on the basis of a 365-day year and actual number of days elapsed, equal to the annual rate of interest announced from time to time as the "Time Rate" for commercial loans by Citibank, N.A. as established by the administrative body of such bank charged with the responsibility of establishing such rate plus two percent (2%); provided, "Interest Rate" shall at no time be greater than the maximum rate permitted by applicable law.

"Letter of Credit" means an irrevocable standby letter of credit issued or confirmed by a commercial bank acceptable to the Party for whose benefit it is issued and in form and substance reasonably satisfactory to such Party.

"Liquidated Damages" has the meaning set forth in Section 10.2.

"Load Factor Percentage" means, with respect to any Transaction, the number between zero (0) and one (1), set forth in the Confirmation Letter for such Transaction, used to calculate MinMQ, if applicable, for such Transaction.

"Market Price" means the arithmetic average of the prices (excluding the highest and lowest prices) quoted for a Replacement Swap by four leading dealers in the energy swap market, two selected by each Party in good faith, within five (5) days of receipt of notice from the other Party, from among dealers of the highest credit standing, which satisfy all the criteria that such Party applies generally at the time in deciding whether to offer or to make an extension of credit.

"Material Adverse Change" means (i) with respect to PSE, that PSE shall have long-term debt unsupported by third party credit enhancement that (a) if rated by Standard & Poors, is rated by Standard & Poors below BBB-, or (b) if not rated by Standard & Poors, shall have long-term debt unsupported by third party credit enhancement that (a) if rated by Standard & Poors, is rated by Standard & Poors below BBB-, or (b) if not rated by Standard & Poors, would reasonably be determined to be the equivalent of a rating by Standard & Poors below BBB-, or (ii) with PSE below BBB-, or (b) if not rated by Standard & Poors, has a debt coverage ratio or a cash flow ratio that is not supported by third party credit enhancement that (a) if rated by Standard & Poors, is rated by Standard & Poors below BBB-, or (b) if not rated by Standard & Poors, shall have long-term debt unsupported by third party credit enhancement that (a) if rated by Standard & Poors, is rated by Standard & Poors below BBB-, or (b) if not rated by Standard & Poors, shall have long-term debt unsupported by third party credit enhancement

& Pools, has a debt coverage ratio or a cash flow ratio that would reasonably be determined to be the equivalent of a rating by Standard & Pools below BBB-

"MaxDQ" means, with respect to any Transaction, the maximum quantity of Gas (if any) that Seller is required to make available per Day as set forth in the Confirmation Letter for such Transaction.

"Maximum Daily Delivery Point Quantity" or "MDDPQ" has the meaning set forth in Section 7.5.

"MinMQ" means, for any Month during the term of any Transaction, the minimum quantity of Gas (if any) that the Buyer is obligated to purchase and receive during such Month if tendered by Seller, all as set forth in the Confirmation Letter for such Transaction, except to the extent that such receipt is excused under terms of this Agreement. Such quantity shall be calculated as (i) the product of the MaxDQ volume multiplied by the Load Factor Percentage, both as set forth in the Confirmation Letter for such Transaction, multiplied by (ii) the number of Days in such Month, or by such other means of calculation as may be mutually agreed to in writing by the Parties.

"MMBtu" means one million Btus.

"Month" means the period beginning at 7:00 a.m. Pacific Clock Time on the first day of any calendar month and ending at 7:00 a.m. Pacific Clock Time on the first day of the following calendar month.

"New Taxes" means any Taxes enacted and effective after the Effective Date, including any increase in Taxes or New Taxes.

"Notifying Party" has the meaning set forth in Section 10.1.

"NYMEX" means the New York Mercantile Exchange and any successor thereto.

"NYMEX Contract" means, with respect to any Month, the NYMEX natural gas futures contract for such Month.

"Period of Delivery" means, with respect to any Transaction, the period commencing on the Day deliveries are to commence under a Transaction to the Day deliveries are to terminate under such Transaction, all as set forth in the Confirmation Letter for such Transaction.

"Person" means any individual, corporation, partnership, limited liability company, trust, association or other entity or organization, including any governmental or political subdivision or any agency or instrumentality thereof.

"Pipeline" means a company authorized to ship Gas on behalf of itself or others on physical Gas transmission facilities.

"Replacement Price Differential" means, with respect to any Transaction, (i) in the event of a Seller's Deficiency Default (as defined in Section 6.3) under such Transaction, the positive difference, if any, obtained by subtracting the Contract Price from the greater of (a) the reasonable cost to Buyer, including incremental transportation costs and location or basis adjustments, to purchase in good faith and without unreasonable delay a quantity of Gas to replace Seller's Deficiency Quantity (as defined in Section 6.3) or (b) the Spot Price for the Day in which Seller's Deficiency occurred (or if a MinMQ is applicable to the Transaction, the average of the Daily Spot Prices for the Month in which Buyer's Deficiency Default occurred); and (ii) in the event of a Buyer's Deficiency Default (as defined in Section 6.7) under such Transaction, the positive difference, if any, obtained by subtracting from the Contract Price the lesser of (a) the price per unit of Gas obtained by Seller in an incremental, arms-length sale in good faith and in a commercially reasonable manner to a third party of a quantity of Gas equal to Buyer's Deficiency Quantity (as defined in Section 6.7) less incremental transportation

charges to Seller, and including location or basis adjustments, or (b) the Spot Price for the Day in which Buyer's Deficiency Default occurred (or if a MinMQ is applicable to the Transaction, the average of the Daily Spot Prices for the Month in which Buyer's Deficiency Default occurred). For purposes of this paragraph, "good faith" means honesty in fact and the observance of reasonable commercial standards of fair dealing in the gas industry.

"Renegotiation Date" has the meaning set forth in Section 6.9.

"Replacement Swap" means the energy price swap described in Section 10.2.

"Responsible Party" has the meaning set forth in Section 15.2.

"Scheduling" or "Schedule" means (i) when used in reference to Seller, to make Gas available, or cause Gas to be made available, at the Delivery Point(s) for delivery to or for the account of Buyer, including making all necessary Pipeline nominations in a timely manner, and (ii) when used in reference to Buyer, to take delivery of, and to cause Buyer's Transporter to make available at the Delivery Point(s) transportation capacity sufficient to permit Buyer's Transporter to receive on a firm basis, the quantities of Gas that Seller has made available at such Delivery Point(s), including making all necessary Pipeline nominations in a timely manner. Gas shall be deemed to have been Scheduled when tendered at the Delivery Point(s) or confirmed by Buyer's Transporter.

"Seller" means the Party to a Transaction under this Agreement that is obligated to sell Gas during the applicable Period of Delivery.

"Seller's Deficiency Default" has the meaning set forth in Section 6.3.

"Seller's Deficiency Quantity" has the meaning set forth in Section 6.3.

"Spot Price" means, for any Transaction, the price set forth in Gas Daily® in the column "Daily Price Survey" applicable to the geographic location set forth in the Confirmation Letter for such Transaction for the relevant Day, or the price otherwise specified in the Confirmation Letter for such Transaction. If there is no single price published for that particular Day, but there is published a range of prices under the above column and listing, then the Spot Price shall be the arithmetic average of the high and low prices so set forth. In the event that no price or range of prices is published for that particular Day, then the Spot Price shall be the arithmetic average of the following:

(i) the price (determined as stated above) for the first Day immediately preceding the Day in which the default occurred for which a Spot Price can be determined, and

(ii) the price (determined as stated above) for the Day immediately following the Day in which such default occurred for which a Spot Price can be determined.

"Taxed Party" has the meaning set forth in Section 14.2.

"Taxes" means any or all *ad valorem*, property, occupation, severance, production, gross production, production gathering, extraction, conservation, Btu or energy, gathering, pipeline, utility, gross receipts, gas or oil revenue, gas or oil import, privilege, sales, use, consumption, excise, lease, transaction, and other or new taxes, governmental charges, licenses, fees, permits and assessments, or increases therein, or taxes based on net income or net worth, in each case as applicable to the Gas purchased and sold under this Agreement.

"Transaction" means any transaction for the purchase or sale of Gas entered into by both of Buyer and Seller pursuant to the terms and conditions of this Agreement and the applicable Confirmation Letter for such transaction.

"Transporter" means the Pipeline either delivering or receiving Gas at a Delivery Point in any Transaction.

"Triggering Event" has the meaning set forth in Section 10.3.

ARTICLE 2. TERM

2.1 Term

This Agreement shall become effective on the Effective Date and shall, unless earlier terminated pursuant to this Agreement, remain in effect for a term of five (5) years following the Effective Date (the "primary term"). Following the primary term, this Agreement shall remain in effect from Month to Month unless and until terminated by either Party by written notice of such termination to the other Party not less than thirty (30) days prior to the date of such termination. Notwithstanding any termination of this Agreement, all of the provisions of this Agreement shall remain in full force and effect with respect to each Transaction entered into by Anadarko and PSE prior to the date of termination of this Agreement until such Transaction is completed or terminated pursuant to this Agreement or otherwise. Termination of this Agreement shall in all instances be subject to the provisions of Section 16.2.

ARTICLE 3. REPRESENTATIONS AND WARRANTIES

3.1 Representations

Each Party, with respect to itself, hereby represents and warrants to the other Party that as of the Effective Date and as of the date on which each Transaction is entered into:

(i) it is a corporation duly incorporated and validly existing under the laws of the state or province of its incorporation, and it has the legal right, power, authority and qualifications to conduct its business, and to sign and deliver this Agreement and perform its obligations under this Agreement;

(ii) the making and performance by it of this Agreement and of the Transactions contemplated by this Agreement are within its corporate powers, have been duly authorized by all necessary corporate action on its part, and do not and will not violate any provision of law or any rule, regulation, order, writ, judgment, decree or other determination presently in effect applicable to it or its governing documents; and

(iii) this Agreement constitutes a legal, valid, and binding act and obligation of such Party, enforceable against it in accordance with its terms, subject, however, to bankruptcy, insolvency, reorganization and other laws affecting creditors' rights generally, and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law); and there are no bankruptcy, insolvency, reorganization, receivership or other arrangement proceedings pending, or being contemplated by it or, to its knowledge, threatened against it.

3.2 Warranty

Seller in any Transaction warrants title to all Gas to be delivered by Seller to Buyer, the right to sell such Gas, and that such Gas is free from all liens and adverse claims, and agrees, if notified by Buyer, to indemnify Buyer, its officers, directors, employees, agents and legal representatives, from and against all suits, actions, debts, accounts, damages, costs, losses, and expenses (including reasonable attorney's fees) arising from or out of any adverse legal claims of any and all Persons regarding title to such Gas. Seller agrees to pay, or cause to be paid



or delivered in kind to the parties entitled thereto, all royalties, overriding royalties or like charges against said Gas or the value thereof. In the event any adverse claim is asserted regarding title to any of such Gas, as security for the performance of Seller's obligations with respect to such claim, Buyer may suspend its obligation to pay for Gas under such Transaction and may suspend payments therefor (without interest) up to the amount of such claim until (i) such claim has been finally determined, or (ii) Seller shall have furnished a bond to Buyer in an amount and with sureties reasonably satisfactory to Buyer, conditioned for the protection of Buyer with respect to such claim.

3.3 Regulatory Matters

Each of Anadarko and PSE warrants that it has and, subject to Section 10.5, covenants that it will maintain all of the regulatory authorizations, certificates and documentation as may be necessary and legally required to transport, buy or make sales for resale of Gas sold or purchased under this Agreement in international or interstate commerce. Each of Anadarko and PSE warrants that it is engaged in the direct commercial use of Gas in the ordinary course of its business as producer, processor, merchant or consumer.

3.4 Financial Information

If requested by either Party, the other Party shall deliver as soon as available, and in any event within one hundred twenty (120) days following the end of each fiscal year, a copy of its annual report, containing consolidated financial statements including balance sheets, profit/loss statement, statement of cash flows, and accompanying footnotes and auditors' report for such fiscal year as certified by independent certified public accountants and prepared in accordance with GAAP. Further, if requested by either Party, the other Party will provide within sixty (60) Days after the end of each of its first three (3) fiscal quarters of each fiscal year, copies of its quarterly reports containing unaudited consolidated financial statements for such fiscal quarter prepared in accordance with GAAP.

ARTICLE 4. SCOPE OF AGREEMENT

4.1 Scope of Agreement

Anadarko and PSE may enter into Transactions for the firm sale and delivery and purchase and receipt of Gas at the Delivery Point(s). Each Transaction shall be evidenced by a Confirmation Letter, which Confirmation Letter for such Transaction shall constitute an integral part of this Agreement. Each Confirmation Letter for any Transaction shall be read and construed as one with this Agreement; any discrepancy between this Agreement and any Confirmation Letter for a Transaction shall be resolved in favor of such Confirmation Letter.

ARTICLE 5. TRANSACTIONS

5.1 Confirmation Letter Procedure

From time to time, the Parties may orally agree upon all terms of a proposed Transaction, which may include, as applicable, without limitation, determination of Buyer and Seller, Contract Price, Spot Price, DCO, MaxDO, MinMQ, Load Factor Percentage, Period of Delivery, Delivery Point(s) and other conditions applicable to such Transaction. Upon reaching such oral agreement, Seller shall promptly send to Buyer by facsimile or other mutually acceptable means a written notice in the form set forth in Exhibit B (each such notice, a "Confirmation Letter") documenting the terms of the proposed Transaction. Buyer shall verify the accuracy of the terms of such proposed Transaction detailed in such Confirmation Letter. If Buyer does not object to the accuracy of any

of the terms of such proposed Transaction as set forth in such Confirmation Letter, Buyer shall sign and return such Confirmation Letter to Seller within two (2) days following receipt. If Buyer does object to the accuracy of any of the terms of such proposed transaction as set forth in such Confirmation Letter, Buyer shall notify Seller in writing of such objection within two (2) days following receipt of such Confirmation Letter. If Buyer fails to notify Seller in writing of such objection within such two-day period, such Confirmation Letter shall be deemed to have been signed by Buyer and returned to Seller. Each Transaction shall be entered into by Buyer and Seller only if Buyer signs and returns by facsimile or by any other mutually acceptable means (or, pursuant to this Section 5.1, if Buyer is deemed to have signed and returned) the Confirmation Letter to Seller. The Confirmation Letter shall specify whether the Transaction is based upon DCC quantity obligations or Minimum quantity obligations, in which case the applicable alternative definitions and provisions set forth in this Agreement shall apply.

ARTICLE 6. QUANTITY OBLIGATIONS

6.1 Seller's Sales Obligation

Subject only to the terms and conditions of this Agreement, Seller shall Schedule, or cause to be Scheduled, at the Delivery Point(s), on a firm basis each Day during the term of a Transaction, a quantity of Gas equal to the quantity properly requested by Buyer under the provisions of Article 7 up to the DCC or the MaxDQ, if applicable ("Buyer's Requested Quantity"). It is expressly agreed that Seller's obligation to Schedule Gas under this Section 6.1 shall be limited to the Delivery Point(s) designated for such Transaction. Nothing herein shall be interpreted to require Seller to Schedule Gas to Buyer or to require Buyer to Schedule Gas from Seller at a point not specified as a Delivery Point; provided, however, that Gas may be Scheduled at substitute delivery points upon mutual consent of the Parties.

6.2 Quantity Reduction/Seller

Seller's obligation to Schedule Buyer's Requested Quantity on any Day shall be reduced to the extent that Buyer, or Buyer's Transporter, does not accept at a Delivery Point for any reason including *Force Majeure* (but excluding Seller's failure to comply with any of its obligations under this Agreement), any quantity of Gas which Seller tenders for delivery at the Delivery Point. Any reference to the quantity that Seller is obligated to Schedule under this Agreement shall reflect any such reduction.

6.3 Seller's Failure to Schedule

Except to the extent that Seller's obligation to Schedule is excused or reduced by another provision of this Agreement, if on any Day Seller fails to Schedule Buyer's Requested Quantity for such Day, then such failure shall constitute a "Seller's Deficiency Default" and "Seller's Deficiency Quantity" shall be the difference between Buyer's Requested Quantity for such Day and the quantity of Gas Scheduled by Seller on such Day. In the event of a Seller's Deficiency Default, Seller shall pay Buyer on the date set forth in Section 6.4, an amount equal to the sum of: (i) an amount equal to the product of the Seller's Deficiency Quantity multiplied by the Replacement Price Differential; plus (ii) an amount equal to \$0.15 multiplied by Seller's Deficiency Quantity, to cover Buyer's administrative and operational costs and expenses. During any Month in which any such failure by Seller to Schedule occurs during three (3) Days, Buyer may also elect, without liability, not to recommence Scheduling Gas under this Agreement for the remainder of such Month (but for no longer period).

6.4 Seller's Payment

Subject to offset pursuant to Section 6.8, payment to Buyer under Section 6.3 shall be made no later than fifteen (15) Days after receipt by Seller of Buyer's invoice therefor. Buyer shall have the right to (i) suspend performance with respect to the applicable Transaction until such amounts plus interest have been paid, and/or (ii) exercise any remedy available at law, in equity or otherwise to enforce payment of such amount plus interest pursuant to Section 9.3; provided, if Seller, in good faith, disputes the amount of any such invoice or part thereof and pays to Buyer such amounts as it concedes to be correct, Buyer shall continue to purchase and receive Gas as provided under this Agreement. Buyer shall promptly investigate the dispute and shall submit an adjusted invoice, if necessary, to Seller. If Seller has underpaid the amount actually due, Seller shall remit any amount due plus interest at the Interest Rate within thirty (30) days after Seller's receipt of an adjusted invoice from Buyer. If Seller has overpaid amounts actually due, Buyer shall remit to Seller any necessary refund within thirty (30) days after determination of such overpayment. Interest on the refund shall accrue at the Interest Rate from the date of overpayment.

6.5 Buyer's Purchase Obligation

Subject only to the terms and conditions of this Agreement, Buyer shall Schedule, or cause to be Scheduled, at the Delivery Point(s), on a firm basis each Day during the term of a Transaction, a quantity of Gas equal to the DCCQ; provided, if the MinMQ is applicable to a Transaction, Buyer shall Schedule, or cause to be Scheduled, at the Delivery Point(s), on a firm basis each Month, a minimum quantity of Gas equal to the MinMQ.

6.6 Quantity Reduction/Buyer

Buyer's obligation to Schedule Gas under this Agreement on any Day shall be reduced to the extent that Seller, or Seller's Transporter, fails to deliver at a Delivery Point for any reason including *Force Majeure* (but excluding Buyer's failure to comply with its obligations under this Agreement) any quantity of Gas which Buyer stands ready to receive at the Delivery Point. Any reference to the quantity that Buyer is required to Schedule under this Agreement shall reflect any such reduction.

6.7 Buyer's Failure to Schedule

Except to the extent that Buyer's obligation to Schedule is excused or reduced by another provision of this Agreement, if on any Day Buyer fails to Schedule the DCCQ for such Day, then such failure shall constitute a "Buyer's Deficiency Default" and "Buyer's Deficiency Quantity" shall be the difference between the DCCQ for such Day and the quantity of Gas Scheduled by Buyer on such Day; provided, if the MinMQ is applicable to a Transaction, (i) the Buyer's Deficiency Default shall occur if Buyer fails to Schedule the MinMQ for any Month, and (ii) the Buyer's Deficiency Quantity shall be the difference between the MinMQ for such Month and the quantity of Gas Scheduled by Buyer during such Month. In the event of a Buyer's Deficiency Default, Buyer shall pay Seller on the date referred to in Section 6.8, an amount equal to the sum of (a) the product of Buyer's Deficiency Quantity multiplied by the Replacement Price Differential, plus (b) an amount equal to \$0.15 multiplied by Buyer's Deficiency Quantity, to cover Seller's administrative and operational costs and expenses. With respect to DCCQ obligations, during any Month in which any such failure by Buyer to Schedule occurs during three (3) Days, Seller may elect, without liability, not to recommence Scheduling Gas under this Agreement for the remainder of such Month (but for no longer period).

6.8 Buyer's Payment/Offset

Payment to Seller under Section 6.7 shall be made in accordance with Section 9.2. In the event that Buyer and Seller are each billed or invoiced for amounts required to be paid to the other in the same Month under Section 6.3 and Section 6.7 or under Section 6.3 and Section 9.2, then such amounts with respect to each Party shall be aggregated and the Parties shall discharge their obligations to pay through offset, in which case the Party owing the greater aggregate amount shall pay to the other the difference between the amounts owed for such Month.

6.9 Alternate Spot Price Index

If any or all of the indices used to determine the Spot Price are not available in the future for the determination of the Spot Price, the Parties agree to promptly and in good faith negotiate a mutually satisfactory alternate index or methodology for determining the Spot Price (the "Alternate Spot Price Index"). If the Parties do not agree on a substitute methodology or index by the end of the first Month for which the Spot Price could not be determined, then Anadarko and PSE shall each in good faith prepare a list of up to five alternate published reference postings or prices representative of spot prices for Gas delivered in the same geographic area. Each list shall be set forth in that Party's priority order with the highest priority index listed first. Each Party shall submit its list to the other within ten (10) days after the end of the first Month for which the price could not be determined as set forth above. The first listed index appearing in Anadarko's list that also appears in PSE's list shall constitute the Alternate Spot Price Index. If either Party fails to provide a list of that Party's alternative published references within such ten-day period, such Party's list shall not be considered, and the first listed index appearing in the other Party's submitted list shall constitute the Alternate Spot Price Index. From and after the "Renegotiation Date", which shall be the date the indices used to determine the Spot Price are no longer available, until the Alternate Spot Price Index is determined, the Spot Price shall be deemed to be the average of the Spot Price(s) in effect during the twelve (12) Months preceding the Month in which the Renegotiation Date occurred, which shall be effective until the effective date of the Alternate Spot Price Index determined as set forth above. Upon determination of a new Alternate Spot Price Index, the Spot Price accordingly will be adjusted retroactively to the Renegotiation Date.

ARTICLE 7. OPERATIONS AND DELIVERY

7.1 Buyer's Initial Request

Not later than twenty-four (24) hours prior to the nomination deadline of either Buyer's Transporter or Seller's Transporter, whichever occurs earlier, for the first Day of each Month during any Period of Delivery, Buyer shall provide Seller facsimile notice of the quantities Buyer requests Seller to Schedule for each Day of such Month.

7.2 Transportation

Seller in a Transaction shall obtain transportation to the Delivery Point(s), and Buyer in a Transaction shall obtain transportation from the Delivery Point(s). The Seller in a Transaction shall be responsible for obtaining, and shall pay for, all gathering, processing, and other transportation arrangements required to process, transport, and deliver the Gas to the Delivery Point(s). The Buyer in a Transaction shall be responsible for obtaining, and shall pay for, all transportation arrangements required to transport and deliver the Gas from the Delivery Point(s).

7.3 Scheduling Requests

Buyer shall communicate its Scheduling requests to Seller at Seller's telephone number, and Buyer shall confirm its Scheduling requests by facsimile to Seller's facsimile number, in each case as set forth in Exhibit A.

7.4 Gas Quality, Temperature and Pressure

All Gas to be delivered under this Agreement shall meet or exceed the requirements of Buyer's Transporter, including, but not limited to, requirements regarding quality, temperature and pressure.

7.5 Multiple Delivery Point Utilization

In the event any Confirmation Letter contains more than one Delivery Point, such Confirmation Letter shall specify a "Maximum Daily Delivery Point Quantity" for each Delivery Point. The Delivery Points to be utilized for delivery of Gas under any Transaction and the quantities of Gas to be Scheduled for each of such Delivery Points under such Transaction shall be determined by Seller in its sole discretion, unless otherwise specified in the Confirmation Letter for such Transaction; provided, unless otherwise agreed by the Parties, that neither Seller nor Buyer shall be obligated to Schedule, at any Delivery Point for any Day, a quantity which exceeds the Maximum Daily Delivery Point Quantity applicable to such Delivery Point. Seller shall provide to Buyer a list of such Delivery Points and quantities determined by Seller within a period of time necessary to permit Buyer to make appropriate nominations to its Transporter.

ARTICLE 8. POSSESSION AND TITLE

8.1 Title Transfer

As between the Parties, Seller shall be deemed to be in exclusive control and possession of the Gas deliverable under this Agreement and to be responsible for any damage or injury caused thereby prior to the time such Gas shall have been delivered to Buyer. After delivery of Gas to Buyer at the Delivery Point(s), Buyer shall be deemed to be in exclusive control and possession thereof and responsible for any damage or injury caused thereby. Title to the Gas delivered under this Agreement shall pass from Seller to Buyer at the applicable Delivery Point(s).

8.2 Risk of Loss

Each of Seller and Buyer assumes full responsibility and liability for and shall indemnify, defend and hold harmless the other Party, its officers, directors, employees, agents and legal representatives, from and against all liability and expense on account of any and all damages, claims or actions, including injury to and death of persons, arising from any act or incident occurring when title to the Gas is vested in the indemnifying Party.

ARTICLE 9. BILLING AND PAYMENT

9.1 Invoice Date and Charges

By the tenth (10th) Day of each Month following the Month in which Gas was Scheduled under a Transaction, Seller shall provide Buyer with a written statement setting forth amounts due under this Agreement with respect to service during the preceding Month, and other charges due Seller, including, without limitation, any amounts

payable to Seller on account of Buyer's Deficiency Default pursuant to Article 6. Billing and payment will be based on quantities Scheduled by Seller pursuant to this Agreement. The difference, if any, between Scheduled and actual quantities delivered or accepted shall be treated as Imbalances (as defined in Section 15.1) in accordance with Article 15.

9.2 Payment Date

Buyer shall remit any amounts due by the twenty-fifth (25th) Day of the Month in which the statement was received, or if such day is not a Business Day, the next Business Day. If Buyer's receipt of the written statement is after the tenth (10th) Day of such Month, the due date for Buyer's payment shall be extended for an equivalent period.

9.3 Late Payment

If Buyer or Seller should fail to remit in full any amounts when due and owing as required under this Agreement, interest on the amounts not paid when due and owing shall accrue at a rate equal to the Interest Rate from (and including) the date on which such amount was due to (but excluding) the date on which such amount is actually paid. Any payment adjustments made under this Agreement, including, but not limited to, adjustments as a result of the conclusion of any audits or as a result of the resolution of any billing dispute, shall be deemed to be amounts not paid when due and owing as required under this Agreement.

9.4 Suspension of Performance

If Buyer fails to make timely payment under Section 9.2 and such failure is not remedied within five (5) Business Days after Seller gives Buyer written notice of such failure, Seller, in addition to any other remedy it may have under this Agreement or otherwise, may suspend further sale and delivery of Gas until such amount, including interest at the Interest Rate, is paid; provided, if Buyer, in good faith, disputes the amount of any such billing or part thereof and pays to Seller such amounts as it concedes to be correct, Seller shall continue to sell and deliver Gas as provided under this Agreement. Seller shall promptly investigate the dispute and submit an adjusted statement, if necessary, to Buyer. If Buyer has underpaid the amount actually due, Buyer shall remit any amount due plus interest at the Interest Rate within thirty (30) days after Buyer's receipt of an adjusted billing statement from Seller. If Buyer has overpaid amounts actually due, Seller shall remit to Buyer any necessary refund within thirty (30) days after determination of such overpayment. Interest on the refund shall accrue at the Interest Rate from the date of overpayment.

9.5 Billing/Payment Address

Each of the payments under this Agreement shall be made, unless otherwise mutually agreed by the Parties, by wire transfer of immediately available funds (in Dollars) to the account specified for the recipient of such payment in Exhibit A. Each billing statement and invoice provided under this Agreement shall be sent to the address specified for the recipient of such billing statement or invoice in Exhibit A.

ARTICLE 10. DEFAULTS AND REMEDIES

10.1 Early Termination

If a Triggering Event (as defined in Section 10.3) occurs with respect to either Party at any time during the term

of this Agreement, the other Party (the "Notifying Party") may, no later than sixty (60) days after the occurrence of the Triggering Event, provide written notice to the first Party of the termination of this Agreement and all Transactions under this Agreement. Such notice shall specify the date, not earlier than five (5) Business Days following the date of such notice, upon which this Agreement and all Transactions under this Agreement will, subject to the provisions of Section 16.2, terminate ("Early Termination Date"). Notwithstanding the foregoing, if a Triggering Event occurs, the Notifying Party may in its sole discretion (without waiving any of its rights to later declare an Early Termination Date within the sixty-day period referred to above in this Section 10.1), before proceeding with any Transaction pursuant to this Agreement, agree to accept (i) the posting of a Letter of Credit for the benefit of the Notifying Party, (ii) cash prepayments with respect to any of the Transactions or (iii) other security in form and substance acceptable to the Notifying Party.

10.2 Liquidated Damages

If an Early Termination Date occurs as provided in this Agreement, the Notifying Party shall in good faith calculate its Liquidated Damages (as defined below) resulting from the termination of each Transaction entered into pursuant to this Agreement. For purposes of this Agreement, "Liquidated Damages" means, with respect to the Notifying Party, the present value of the economic gain, if any, deemed to have been suffered by the Notifying Party in securing a replacement contract as a result of the termination of the Parties' obligations under such Transaction(s). Any economic loss deemed to have been suffered by the Notifying Party resulting from the termination of the Parties' obligations under each Transaction will be determined by subtracting the value of (a) the remaining term, quantities and prices under the Transaction had it not been terminated from (b) the equivalent quantities and relevant market prices for the remaining term either quoted by a bona fide third party offer or which are reasonably expected to be available in the market under a replacement contract for the Transaction. To ascertain the relevant market prices of a replacement contract, the Notifying Party may consider, among other valuations, the settlement price of NYMEX Contracts, the Market Price, and bona fide third-party offers, adjusted as appropriate for the length of the remaining term and the basis differential in the event prices are calculated at delivery points that vary from the Delivery Point(s) under the relevant Transaction. If the calculation of Liquidated Damages results in a net gain due to the Affected Party, such damages shall be deemed to be zero. The Notifying Party shall give the Affected Party (as defined in Section 10.3) notice of the amount of the Notifying Party's Liquidated Damages, if any, accompanied by a statement in reasonable detail stating how such amount was calculated. In the event the Affected Party disagrees with either the present value calculation of the economic gain or loss under this Agreement or the value of any replacement contract, the issue shall be submitted to mediation in accordance with Article 17. The Affected Party shall pay such Liquidated Damages to the Notifying Party within ten (10) days of receipt of such notice. At the time for payment of any amount due under this Article 10, each Party shall pay the other Party all additional amounts payable by it pursuant to this Agreement, but all such amounts shall be aggregated and netted against any Liquidated Damages payable under this Agreement.

10.3 Triggering Event

"Triggering Event" means, with respect to a Party (the "Affected Party"):

- (i) the failure by the Affected Party to make, when due, any payment required under this Agreement if such failure is not remedied with five (5) Business Days after written notice of such failure is given by the other Party to the Affected Party, provided the payment is not the subject of a good faith dispute as described in Section 9.4;

- (ii) any representation or warranty made by the Affected Party in this Agreement which proves to have been false or misleading in any material respect when made or deemed to be repeated;

(iii) the failure by the Affected Party to perform (unless such performance is excused by *Force Majeure* pursuant to Section 13.1) any covenant or other agreement set forth in this Agreement (other than its obligations to make any payment or obligations which are otherwise specifically treated in this Section as a separate Triggering Event), and such failure is not cured within five (5) Business Days after notice to the Affected Party from the other Party;

(iv) an assignment or transfer by the Affected Party in violation of Article 12;

(v) the Affected Party (a) makes an assignment of substantially all of its assets or any general arrangement for the benefit of creditors; (b) files a petition or otherwise commences, authorizes or acquiesces in the commencement of a proceeding or cause under any bankruptcy or similar law for the protection of creditors, or has such petition filed against it and such proceeding remains undismissed for sixty (60) days; (c) otherwise becomes bankrupt or insolvent (however evidenced); or (d) is unable to pay its debts as they fall due;

(vi) if Seller is the Affected Party, Seller's unexcused failure to Schedule under Section 6.1 Buyer's Requested Quantity for either (a) a period of five (5) consecutive Days or (b) a cumulative number of ten (10) or more Days in any twelve (12)-consecutive-Month period;

(vii) if Buyer is the Affected Party, Buyer's unexcused failure to Schedule under Section 6.7 the DCC for either (1) a period of five (5) consecutive Days or (2) a cumulative number of ten (10) or more Days in any 12-consecutive-Month period, or, (b) if applicable to a Transaction, the MinMQ for a period of three (3) Months in any 12-consecutive-Month period;

(viii) the occurrence of a Material Adverse Change with respect to the Affected Party; provided, that such Material Adverse Change shall not be considered to be a Triggering Event if the Affected Party establishes, and maintains for so long as such Material Adverse Change is continuing, a Letter of Credit (naming the Notifying Party as the beneficiary thereof) in an amount equal to the greater of (a) the Notifying Party's Liquidated Damages or (b) if the Notifying Party is the Seller, the aggregate of the amounts Seller is entitled to receive under each Transaction for Gas Scheduled by Seller during the sixty (60) Day period preceding the Material Adverse Change. The amount of said Letter of Credit shall be adjusted quarterly, if necessary, to cover the Notifying Party's Liquidated Damages at that point in time; or

(ix) the Affected Party fails to establish, maintain, extend or increase the amount of a Letter of Credit when required pursuant to this Agreement or any Exhibit, or after reasonable notice fails to replace the issuing bank with another bank reasonably acceptable to the Notifying Party.

10.4 Set-Off

Each Party reserves to itself all rights, set-offs, counterclaims and other remedies consistent with Section 16.1 and defenses which such Party is or may be entitled to arising from or out of this Agreement. All outstanding Transactions and the obligations to make payment in connection therewith or under this Agreement may be set off or recouped against each other.

10.5 Regulatory Change

This Agreement is subject to all rules, regulations, orders and other requirements of each governmental and regulatory authority having jurisdiction over this Agreement, the Parties or either of them. If the Affected Party's activities under this Agreement are or become subject to regulation of any kind whatsoever under any law (other than respect to New Taxes) to a greater or different extent than that existing on the date of initial

deliveries of Gas under this Agreement (or thereafter as such regulation may have changed and been acquiesced to under this Agreement by such Party) and such greater or different regulation either (i) renders this Agreement illegal or unenforceable, or (ii) materially adversely affects the business of the Affected Party, with respect to its financial position or otherwise, then in the case of (i) above, either Party, and in the case of (ii) above, only the Affected Party, shall at such time have the right to declare an Early Termination Date in accordance with the provisions of this Agreement; provided, notwithstanding the rights of the Parties to declare an Early Termination Date as above stated, the Affected Party shall be liable to the other Party for the payment of Liquidated Damages as provided in Section 10.2.

ARTICLE 11. NOTICES

11.1 Notices

Any notice, confirmation and other communication ("Notice") pursuant to this Agreement shall be made in person, by certified U.S. mail, by overnight mail or courier or by facsimile and shall be addressed as specified in Exhibit A. All Notices under this Agreement sent by facsimile shall be deemed to have been delivered upon confirmation of the transmission by the facsimile machine of the sending Party if transmitted during the Business Day of the receiving Party; otherwise, at the start of the next Business Day or such earlier time as is confirmed by the receiving Party. Any other Notice under this Agreement shall be deemed to have been delivered by the close of the Business Day on which such Notice was received by the receiving Party or by such earlier time as is confirmed by the receiving Party.

ARTICLE 12. SUCCESSION AND ASSIGNMENT

12.1 Transfer or Assignment

Subject to the provisions of this Article 12, this Agreement shall inure to and be binding upon the respective successors and permitted assigns of the Parties. Neither Party shall assign this Agreement without the prior written consent of the other Party, which consent shall not be unreasonably withheld; provided, that either Party may assign its interest under this Agreement (i) to any Affiliate or (ii) as security to the holder of any indebtedness, present or future, of such Party, without the prior written approval of the other Party, but no such assignment shall operate to relieve the assigning Party of any of its obligations under this Agreement. Any Party's transfer or assignment in violation of this Article 12 shall be void.

ARTICLE 13. FORCE MAJEURE

13.1 Suspension for Force Majeure

Except with regard to Buyer's or Seller's obligations to make any payment due under this Agreement, in the event either Party is rendered unable, in whole or in part, by Force Majeure to carry out its obligations under this Agreement, it is agreed that upon such Party's giving notice and full particulars of such Force Majeure to the other Party as soon as reasonably possible (with such notice to be confirmed in writing), the obligations of the other Party giving such notice, from the inception of the Force Majeure shall be suspended and excused during the continuance of any inability so caused for a period of sixty (60) Days in the aggregate during any 12-consecutive-Month period, but for no longer period. The obligations shall be suspended and excused for such time, only to the extent they are affected by such Force Majeure. Upon the expiration of such 60-Day period, the related Force Majeure event shall no longer excuse performance under this Agreement, and failure of performance thereafter shall be considered a Triggering Event pursuant to Section 10.3(iii). The cause of the Force Majeure shall as far as possible be remedied with all reasonable diligence and dispatch; provided, that no

provision of this Agreement shall be interpreted to require Seller to deliver, or Buyer to receive, quantities of Gas at points other than the Delivery Point(s) or to deliver or receive on any Day, at any Delivery Point, a quantity in excess of the DCQ, the Maximum Daily Delivery Point Quantity, the MinMQ or the MaxDQ, as applicable.

13.2 Meaning of Force Majeure

The term "Force Majeure" shall mean acts of God; strikes, lockouts, or other industrial disturbances, epidemics; landslides; lightning; earthquakes; fires; storms; floods; washouts; arrests and restraints of rulers and people; arrests and restraints of Government, whether Federal, State or Provincial; inability of any Party to obtain necessary materials, supplies (other than Gas), or permits due to existing or future rules, orders, laws of governmental authorities (whether Federal, State or Provincial); civil disturbances; explosions; sabotage; breakage or accident to machinery or lines of pipe; freezing of lines of pipe; and any other causes whether of the kind herein enumerated or otherwise, which were not anticipated at the time of Agreement, which are not within the control of the Party claiming suspension and which by the exercise of due diligence such Party is unable to avoid or overcome. It is expressly agreed by the Parties that none of (i) Buyer's loss of markets (unless the result of a Force Majeure above described) or inability economically to use or resell Gas purchased under this Agreement nor (ii) Seller's loss of supply (unless a result of a Force Majeure above described) or ability to sell Gas to a market at a more advantageous price nor (iii) depletion of Seller's reserves shall constitute a Force Majeure.

13.3 Third-Party Force Majeure

The term "Force Majeure" shall also include any Force Majeure, as defined in Section 13.2 occurring with respect to the facilities or service of PSE's or Anadarko's third-party Transporter(s) delivering or receiving Gas at the Delivery Point(s), but shall not include curtailments or interruption of either firm or interruptible service by such third party Transporter(s), unless such curtailment or interruption was a result of a Force Majeure as described in Section 13.2.

13.4 Labor Disputes

It is understood and agreed that the settlement of any strike, lockout or other labor dispute shall be entirely within the discretion of the Party affected, and that the above requirement of the use of diligence and dispatch in restoring normal operational conditions shall not require the settlement of strikes, lockouts or other labor disputes when such course is inadvisable in the discretion of the Party affected.

ARTICLE 14. TAXES

14.1 Allocation of and Indemnity for Taxes

The Contract Price paid under this Agreement includes full reimbursement for, and Seller is liable for and shall pay, or cause to be paid, or reimburse Buyer if Buyer has paid, all Taxes applicable prior to the Delivery Point(s). In the event Buyer is required to remit such Tax, the amount thereof shall be deducted from any sums becoming due to Seller under this Agreement. Seller shall indemnify, defend and hold harmless Buyer from any liability against all such Taxes. The Contract Price does not include reimbursement for, and the Buyer is liable for and shall pay, or cause to be paid, or reimburse Seller if Seller has paid, all Taxes applicable at or after the Delivery Point(s), including any Taxes imposed or collected by a taxing authority with jurisdiction over the Buyer. Buyer shall indemnify, defend and hold harmless Seller from any liability against all such Taxes.

14.2 New Taxes

Prior to the initial Agreement Period (below defined) invoked under this Section 14.2, New Taxes shall be allocated as if they were Taxes as provided in Section 14.1. If (i) a New Tax occurs, (ii) either Buyer or Seller would be responsible for such New Tax if it were a Tax under Section 14.1, and (iii) such New Tax is, due to laws or regulations in effect as of the effective date of the New Tax, of the type which cannot be passed directly or indirectly through to, or be reimbursed by, a Person or entity in the chain of Gas supply or usage (other than Buyer or Seller), such responsible Buyer or Seller, as the case may be (the "Taxed Party"), shall be entitled to declare an Early Termination Date in accordance with the provisions of this Agreement, subject to the following:

(i) the Taxed Party must give the other Party at least thirty (30) days prior written notice (the "Agreement Period") of its intent to declare an Early Termination Date, and such notice shall be given no later than ninety (90) Days after the effective date of the relevant New Tax, and prior to the proposed Early Termination Date Buyer and Seller shall attempt to reach a mutual agreement as to sharing of the payment of the New Tax;

(ii) if a mutual sharing agreement is not reached, the other, non-Taxed Party shall have the right, but not the obligation, upon written notice to the Taxed Party within the Agreement Period, to pay the New Tax for any continuous period it so elects on a Month-to-Month basis, and in such case the Taxed Party shall not have the right during such continuous period to declare the Early Termination Date on the basis of such New Tax;

(iii) should the other, non-Taxed Party at its election agree to pay the New Tax on a Month-to-Month basis, then upon thirty (30) days prior written notice to the Taxed Party of its election to cease payment of such New Tax, the Taxed Party shall then be liable for the payment of the New Tax and the Parties shall again be subject to this Section 14.2 as if the New Tax had an effective date as of the date the other, non-Taxed Party ceases payment of such New Tax;

(iv) if a mutual sharing agreement is not reached and the other, non-Taxed Party does not elect to pay the New Tax for any period of time after the Agreement Period, the Early Termination Date shall take effect and all Transactions thereupon shall be terminated and shall be subject to the same Early Termination Date;

(v) the Early Termination Date shall be effected as if a Triggering Event had occurred and Liquidated Damages calculated as set forth in Section 10.2 shall be payable; provided, that both Seller and Buyer pursuant to Section 10.2 shall calculate their respective Liquidated Damages resulting from the termination of all Transactions as if they each were a Notifying Party, and provided, further, that if the calculation of Liquidated Damages results in either the non-Taxed Party's or the Taxed Party's having either a gain or loss (after netting aggregated gains and losses from all terminated Transactions under this Agreement), the Parties shall share equally such net gain due, or be responsible to pay to the Party having the net loss, one-half of the Liquidated Damages; and

(vi) such Liquidated Damages shall be payable otherwise as provided in Section 10.2 and the calculation thereof shall be subject to mediation as provided in Article 17.

14.3 Cooperation

Both Parties shall use reasonable efforts to administer this Agreement and implement the provisions in accordance with their intent to minimize Taxes. Upon request, a Party shall provide a certificate of exemption or other reasonably satisfactory evidence of exemption from any Taxes and each Party agrees to cooperate with the other Party in obtaining any such exemption.

Upon the day of termination or expiration of the Parties' respective delivery and purchase obligations under this Agreement, any monies or penalties due and owing Seller shall be paid pursuant to the terms hereof, and any

16.2 Winding Up Arrangements

For breach of any provision for which an express remedy or measure of damages is provided herein, such express remedy or measure of damages shall be the sole and exclusive remedy under this Agreement, and the obligor's liability shall be limited as set forth in such provision, and all other remedies or damages are waived. If no remedy or measure of damages is expressly provided herein, the obligor's liability shall be limited to direct actual damages only, and such direct actual damages shall be the sole and exclusive remedy under this Agreement, and all other remedies or damages are waived. In no other event shall either Party be liable for consequential, incidental, punitive, special, exemplary or indirect damages, in tort, strict liability, warranty, contract or otherwise. With respect to any payment required to be made pursuant to Article 10 or Article 14 as Liquidated Damages, the Parties acknowledge that the damages are difficult or impossible to determine and that such payment constitutes a reasonable approximation of the amount of damages and does not constitute a penalty.

16.1 Limitation of Liability and Damages

ARTICLE 16. MISCELLANEOUS

In the event of any failure by Seller to perform any of its obligations to deliver Gas under this Agreement, Seller's delivery obligation shall remain in effect. In the event of such failure not excused by *Force Majeure*, Buyer may secure other sources of Gas as necessary and may use Seller's transportation or capacity rights on upstream Pipelines, to transport said Gas to the applicable Delivery Point(s). Seller shall release such transportation or capacity rights to Buyer in accordance with applicable Transporter tariff provisions. Buyer shall be responsible for all actual upstream Pipeline demand charges incurred to deliver the replacement Gas and Seller shall be responsible for all unabsorbed demand charges, if any.

15.3 Taking Transportation Capacity

In the event of (i) any Imbalance on Buyer's Transporter's system caused by Seller's or Seller's Transporter's delivery of less or more than the Scheduled quantity for any Day (in which case Seller shall be deemed to be the "Responsible Party"), or (ii) any Imbalance on Seller's Transporter's system caused by Buyer's or Buyer's Transporter's receipt of more or less than the quantity Scheduled by Seller for any Day (in which case Buyer shall be deemed to be the "Responsible Party"), the Responsible Party shall be liable to the other Party for any associated penalties or cashouts or similar liabilities of such other Party.

15.2 Penalties or Cashouts

Differences between quantities Scheduled by Seller and actual quantities delivered and received ("Imbalances") will be corrected or adjusted in cash (calculated at the Spot Price applicable on the Day the Imbalance occurred) except to the extent that the Parties mutually agree to correct or adjust Imbalances in Gas. Any correction or adjustment of Imbalances in Gas shall be in accordance with applicable Transporter tariff provisions.

15.1 Correction of Imbalance

ARTICLE 15. TRANSPORTATION AND BALANCING



corrections or adjustments to payments previously made shall be determined and any refunds due Buyer made at the earliest possible time, and in no event later than sixty (60) days past the day of such termination or expiration. Any Imbalances in receipts or deliveries shall be corrected to a zero balance within sixty (60) Days following such termination or expiration. The Parties' respective delivery and purchase obligations, as provided in this Agreement, shall remain in effect solely for the purpose of complying with this section until the obligations under this section have been fulfilled.

16.3 Effect of Waiver or Consent

No waiver or consent by either Party, express or implied, of any one or more defaults by the other Party in the performance of any of the provisions of this Agreement shall operate or be construed as a waiver or consent to any other default or defaults of a like kind or different nature. Failure of a Party to complain of any act of the other Party or to declare the other Party in default with respect to this Agreement, irrespective of how long that failure continues, does not constitute a waiver by the Party of any of its rights with respect to that default until the applicable statute of limitations period has run.

16.4 Applicable Law

THIS AGREEMENT AND EACH TRANSACTION AND THE RESPECTIVE RIGHTS AND DUTIES OF THE PARTIES ARISING OUT OF THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED, ENFORCED, AND PERFORMED IN ACCORDANCE WITH THE LAWS OF THE STATE OF WASHINGTON, WITHOUT REGARD TO CHOICE OF LAW PRINCIPLES.

16.5 No Implied Warranties

Buyer acknowledges that it has entered into this Agreement and is contracting for the goods and services to be supplied by Seller based solely on the express representations and warranties set forth in this Agreement and subject to such representations and warranties, accepts such goods and services "AS IS," "WHERE IS" and "WITH ALL FAULTS." SELLER DOES NOT MAKE, AND SELLER EXPRESSLY NEGATES, ANY OTHER REPRESENTATION OR WARRANTY, WRITTEN OR ORAL, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, ANY REPRESENTATION OR WARRANTY WITH RESPECT TO (a) CONFORMITY TO MODELS OR SAMPLES, (b) MERCHANTABILITY, OR (c) FITNESS FOR ANY PARTICULAR PURPOSE.

16.6 Merged Document

This Agreement, the Exhibits hereto, and each Confirmation Letter for any Transaction pursuant to this Agreement constitute the entire agreement between the Parties relating to the subject matter contemplated by this Agreement. There are no prior or contemporaneous agreements or representations (whether written or oral) affecting such subject matter. No amendment, modification or change to this Agreement shall be enforceable, except as specifically provided for in this Agreement, unless reduced to writing and hereafter signed by both Parties.

16.7 Exclusion of Third Party Rights

The provisions of this Agreement shall not impart rights enforceable by any Person (other than any Person



indemnified under Section 3.2, 8.2 or 14.1) not a Party or not bound as a Party, or not a successor or permitted assignee of a Party bound to this Agreement.

16.8 Severability

Except as otherwise stated in this Agreement, any provision, article or section declared or rendered unlawful by a court of law or regulatory agency with jurisdiction over the Parties or deemed unlawful because of a statutory change will not otherwise affect the lawful obligations that arise under other provisions, articles and sections of this Agreement.

16.9 Heading and Exhibits

The headings for the articles and sections of this Agreement are for convenience of reference only and shall in no way affect the meaning or interpretation of any of the provisions of this Agreement. All Exhibits referenced in this Agreement are by this reference incorporated into this Agreement for all purposes.

16.10 Audit Rights

For a period of two (2) years following the end of a Period of Delivery, a Party or any third party representative of such Party, shall have the right, upon reasonable notice and during normal business hours, to examine the books and records of the other Party to the extent reasonably necessary to verify the accuracy of any billing statement, payment demand, charge, payment or computation made under this Agreement.

16.11 Preparation

This Agreement was negotiated and prepared by both Parties with the advice of counsel to the extent deemed necessary by each Party, and was not prepared by any Party to the exclusion of the other, and, accordingly, shall not be construed against either Party by reason of its preparation.

16.12 Counterparts

This Agreement may be executed in several counterparts, each of which when so executed shall be deemed to be an original, and all of which taken together shall constitute one and the same instrument.

ARTICLE 17. ALTERNATE DISPUTE RESOLUTION

17.1 Mediation

Any dispute or need of interpretation arising out of this Agreement pertaining to the calculation of Liquidated Damages shall be submitted to non-binding mediation before a single mediator with at least eight years of professional experience in commodity markets and in the Gas industry and who has not previously been employed by either Party, and who does not have a direct or indirect interest in either Party or the subject matter of the mediation. This requirement cannot be waived except by an explicit written waiver signed by the each of the Parties. Any dispute arising out of this Agreement pertaining to billing and payment may, upon mutual agreement of the Parties, be submitted to non-binding mediation before a single mediator with over eight years of professional experience in Gas industry accounting and purchasing and who has not previously been

<p>By: <u><i>[Signature]</i></u> Title: <u>Market Development Manager</u> Date: <u>November 5, 2001</u></p>	<p>By: <u><i>[Signature]</i></u> Title: <u>William A. Gaines</u> Date: <u>October 1, 2000</u></p>
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PUGET SOUND ENERGY, INC.

ANADARKO CANADA CORPORATION

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed in multiple counterparts on this 5 day of November, 2001

employed by either Party, and who does not have a direct or indirect interest in either Party of the subject matter of the mediation. Any mediation under this Agreement shall be subject to the Commercial Mediation Rules of the American Arbitration Association, except as otherwise set forth in this paragraph. An officer of each of the Parties having full authority to settle the dispute must attend any mediation session. To the extent there are other parties in interest, such as Transporters, their representatives, with full authority to settle the dispute, shall also attend any mediation session. Unless the Parties mutually agree in writing otherwise, all unresolved disputes shall be considered at a single mediation session. Each of the Parties shall use its best efforts to complete any mediation under this Agreement within thirty (30) days following the initiation of mediation pursuant to the Commercial Mediation Rules of the American Arbitration Association.



EXHIBIT A

NOTICES AND COMMUNICATIONS

NOTICES TO Anadarako

NOTICES TO PSE

OFFICE LOCATION:

OFFICE LOCATION:
 Puget Sound Energy, Inc.
 One Bellevue Center Building
 411 108th Avenue N.E. OBC-14E
 Bellevue, WA 98004-5515

MAIL:

MAIL:
 Puget Sound Energy, Inc.
 P.O. Box 97034 OBC-14E
 Bellevue, WA 98009-9734

NOMINATIONS & CONFIRMATIONS:

NOMINATIONS & CONFIRMATIONS:
 Attention: Gas Trading
 Fax: (425) 462-3836
 Voice (425) 462-3103

AFTER HOURS OR EMERGENCIES:

AFTER HOURS OR EMERGENCIES:
 Operations Dispatch
 Voice: (206) 624-5440

PAYMENTS BY WIRE TRANSFER:

PAYMENTS BY WIRE TRANSFER:
 Bank: Bank of America, N.A.
 ABA: 125000024
 Account: 5111414
 BNF: Puget Sound Energy, Inc.
 OBI: Gas Sales

PAYMENTS BY CHECK:

PAYMENTS BY CHECK:
 Puget Sound Energy, Inc.
 Energy Supply Department OBC-14E
 P.O. Box 97034
 Bellevue, WA 98009-9734
 Please reference the invoice number on your check.



EXHIBIT B
CONFIRMATION LETTER
NO. _____

VIA FACSIMILE:

Energy Trading Department
Puget Sound Energy, Inc.
Attention: Gas Trading
411 108th Avenue N.E. OBC-14E
Bellevue, WA 98004-5515

This Confirmation Letter (this "Letter") shall confirm and effectuate the proposed agreement reached on _____ between Puget Sound Energy, Inc. ("PSE") and Anadarako Canada Corporation ("Anadarako") regarding the firm purchase and sale of Gas under the following terms and conditions:

[Buyer] [Seller]: PUGET SOUND ENERGY, INC.,
[Seller] [Buyer]: ANADARAKO CANADA CORPORATION

DAILY CONTRACT QUANTITY ("DCQ"):	_____
MaxDQ (if applicable):	_____
LOAD FACTOR PERCENTAGE (if applicable):	_____
MinMQ (if applicable):	_____
DELIVERY POINT(S) and MDDPQ(S):	_____
PERIOD OF DELIVERY:	_____
CONTRACT PRICE:	_____
SPOT PRICE INDEX (location):	_____
OTHER CONDITIONS (if applicable):	_____

This Confirmation Letter is provided pursuant to and in accordance with the Master Purchase and Sale Agreement dated as of October 1, 2000 between PSE and Anadarako, and constitutes part of and is subject to all of the terms and provisions of such agreement. Please confirm that the terms stated herein accurately reflect the proposed agreement reached on _____ between PSE and Anadarako by returning a signed copy of this Letter by facsimile to [Seller]. Your response should reflect the appropriate person in your organization who has the authority to enter into this Transaction, and should be received by [Seller] no later than 5:00 p.m. Pacific Time on the second (2nd) Business Day following the date this Confirmation Letter was received by [Buyer].

ANADARAKO CANADA CORPORATION
PUGET SOUND ENERGY, INC.

By: _____
Title: _____
Date: _____
By: _____
Title: Director of Gas Supply Operations
Date: _____
Clay Riding