

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

Encls.

REN/sm

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

Respectfully submitted,

authority of PSE.

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

- (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 \$50,000.

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. 05-108-NG

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

DCE/OFE/NGR

NOV 14 2005

RECEIVED

November 4, 2005

Puget Sound Energy, Inc.
P.O. Box 97034
Bellevue, WA 98009-9734

RECEIVED
NOV 14 2005
DOE/OFE/NGR

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

FE Docket No. *05-108-NG*
APPLICATION OF PUGET SOUND
ENERGY, INC. FOR LONG-TERM
AUTHORIZATION TO IMPORT AND
EXPORT NATURAL GAS FROM AND
TO CANADA

In the Matter of
Puget Sound Energy, Inc.

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 10,000 MMBTU units of natural gas per day term beginning

on February 1, 2006 and ending on October 31, 2009. 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.



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P.O. Box 97034
Bellevue, WA 98009-9734

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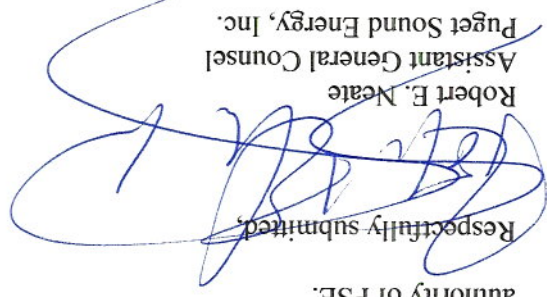
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Based upon the foregoing, I am of the opinion that the Application of PSE for Authorization to Import Natural Gas to and from Canada is legal, proper and within the corporate powers and authority of PSE.

Respectfully submitted,

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

REN/sm

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UNITED STATES OF AMERICA
BEFORE THE
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FE Docket No. 05-108-NG

APPLICATION OF PUGET SOUND
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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

The names, titles and mailing addresses of the persons to whom correspondence and communications in regard to this application are to be addressed are:

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

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

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 10,000 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

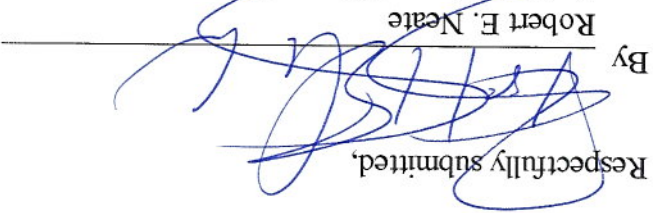
V

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

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



TD Commodity & Energy Trading Inc.
 800 Home Oil Tower
 324 - 8th Avenue SW
 Calgary, Alberta T2P 2Z2

Gas Supply Term Sheet

Date: February 10, 2004
Buyer: Puget Sound Energy, Inc. ("PSE")
Seller: TD Commodity & Energy Trading Inc. ("TDCET")
Delivery Point: DEGT Station #2
Term: November 1, 2004 – October 31, 2009
Volume: 10,000 MMBtu/day
Delivery Service: Firm Physical Gas
Price: Canadian Gas Price Reporter ("CGPR") AECO Index (7A) as quoted in US\$/MMBtu plus Market Adjustment plus Premium.

Market Adjustment (MA):

(1) Each year, the MA payable by PSE to TDCET will be established by way of a Market Survey.
 (2) The Market Survey will involve the collection, every other Wednesday (between close of the NYMEX and the end of the business day on any given Wednesday) during the Market Survey Period ("Observation Day"), of three (3) broker, marketer or electronic exchange quotes for the bid and offer for winter (November – March) and summer (April – October) differentials to the CGPR monthly AECO index (7A) in CAD/GJ at the Delivery Point for the next contract year starting November 1st and ending October 31st.
 (3) Each contract year, during the month of June, both PSE and TDCET shall agree on the three survey sources from whom the above-mentioned quotes are to be gathered. For the first contract year, PSE and TDCET agree to use Natsource, BP Amoco and Sempra Energy. If the parties are unable to agree on three survey sources for any subsequent contract year, PSE and TDCET agree to use the same three survey sources as were used in the previous contract year.
 (4) The Market Survey Period will begin July 1st and conclude October 31st in any given contract year. The first Observation Day in a contract year will be the first Wednesday of July.
 (5) The MA payable will be the arithmetic average of the differentials (Bid/Ask) quoted by each of the three sources for each Observation Day and the weighted average of the winter



(November - March) and summer (April - October) strips. For greater clarity, the formula and an illustrative example are attached as Appendix "A"

\$0.15 USD/MMBtu

(1) Monthly settlement between PSE and TDCET shall occur in US currency in accordance with the terms of the NAESB.

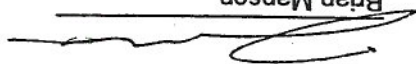
(2) For greater clarity, the MA, which will be quoted in CAD/GJ, will be converted to USD/MMBtu for settlement purposes using the Bank of Canada noon day exchange rate on the first business day of each month of delivery.

(3) If the CGPR methodology of converting the monthly index from CAD/GJ to USD/MMBtu using the 1st of the month Bank of Canada noon day exchange rate changes, the parties agree that the methodology to be used for currency conversion of the MA and the Premium shall also change such that it is always consistent with the methodology used by CGPR. If the CGPR AECO (7A) index is no longer quoted in USD/MMBtu, for purposes of monthly settlement, the parties agree to use the same conversion mechanism to convert the CGPR AECO (7A) index as they are using to convert the MA and the Premium for settlement purposes.

Additional Provisions:

- (a) TDCET and PSE shall enter into both an oral and a written confirmation, executed by both parties, of the above transaction, as contemplated in the NAESB Base Contract for the Sale and Purchase of Natural Gas between PSE and TDCET dated July 15, 2003 (the "NAESB"), following which such transaction shall be governed by the NAESB.
- (b) PSE shall have the right to request fixed price conversion on all or a portion of the Volume for various time periods within the terms of the foregoing deal. Acceptance by TDCET of such request is subject to
- (i) availability within TDCET's internal credit exposure limits; and
 - (ii) TDCET's ability to price such conversion competitively;
- (c) The foregoing transaction shall become binding upon approval of both PSE and TDCET's senior management

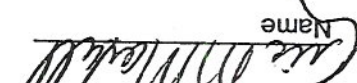
TD Commodity & Energy Trading Inc.



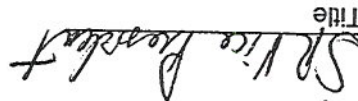
Brian Manson

President and Chief Executive Officer

Puget Sound Energy, Inc.



Name



Title

Appendix "A"

Gas Supply Term Sheet

Dated February 10, 2004

Between Puget Sound Energy, Inc. and TD Commodity & Energy Trading Inc.

Market Adjustment Survey Formula

[(Average of AECO basis two way winter*(5/12)) * ((Average of AECO basis two way summer)* (7/12))] = Annual Market Adjustment

Example
(Only for Illustrative Purposes)

AECO Monthly Index (November 2004) = \$4.50 US/MMBtu

Survey Results First Observation Day (i.e. July 7th 2004 for first contract year)

Source One: Winter (.04/.05 CAD/GJ), Summer (-.03/-.02 CAD/GJ)
 Source Two: Winter (.04/.045 CAD/GJ), Summer (-.025/-.02 CAD/GJ)
 Source Three: Winter (.035/.05 CAD/GJ), Summer (-.03/-.015 CAD/GJ)

Survey Results Second Observation Day (i.e. July 21st, 2004 for first contract year)

Source One: Winter (.045/.055 CAD/GJ), Summer (-.025/-.02 CAD/GJ)
 Source Two: Winter (.045/.05 CAD/GJ), Summer (-.025/-.02 CAD/GJ)
 Source Three: Winter (.04/.055 CAD/GJ), Summer (-.03/-.02 CAD/GJ)

Observations will be gathered for every second Wednesday following these two examples above until October 31st and will be averaged as follows:

Average of Two Ways:

[[(.04+.05+.04+.045+.035+.05)/6+(.045+.055+.045+.05+.04+.055)/6]/2] = Winter Average Basis
 [[(-.03-.02-.02-.025-.02-.03-.015)/6+(-.025-.02-.025-.02-.03-.02)/6]/2] = Summer Average Basis

Average Winter Basis = (\$.04333 + \$.04833)/2 = \$.04583 CAD/GJ
 Average Summer Basis = (\$.02333-.02333)/2 = \$-.02333 CAD/GJ

[.04583*(5/12)] + [-.02333*(7/12)] = [0.0191 - 0.0136] = \$0.0055 CAD/GJ

One Year Market Adjustment = \$0.0055 CAD/GJ

Converted to US\$/MMBtu (using first of the month Bank of Canada noon rate) each month

Noon Rate = \$1.35

One Year Market Adjustment in USD/MMBtu = \$0.0055 * (1/1.35) * 1.055056 = \$0.0042***
 US/MMBtu (***) MA calculations to be rounded to the fourth decimal point.)

Contract Price = AECO Monthly Index + MA + Premium = 4.50 + .0042 + .015 = \$4.5192 US/MMBtu

Base Contract for Sale and Purchase of Natural Gas

This Base Contract is entered into as of the following date: July 15, 2003. The parties to this Base Contract are the following:

Buyer: Puget Sound Energy, Inc.
 P.O. Box 97034 PSE-11N
 Bellevue WA 98009-9734
 Duns Number: 00794-2113
 Contract Number:
 U.S. Federal Tax ID Number: 91-037-4630

Seller: Puget Sound Energy, Inc.
 Attn: Contract Administration
 Steve Morus, Senior Contract Administrator
 Phone: 425 462-3688
 Fax: 425 462-3175

Buyer: Puget Sound Energy, Inc.
 Attn: Melanie Fricke
 Gas Confirmations
 Phone: 425 462-3220
 Fax: 425 462-3175

Seller: Puget Sound Energy, Inc.
 Attn: Jeff Shillcutt
 Invoices and Payments:
 Phone: 425 462-3197
 Fax: 425 462-3175

Buyer: Puget Sound Energy, Inc.
 Attn: Jeff Shillcutt
 Invoices and Payments:
 Phone: 425 462-3197
 Fax: 425 462-3175

Other Details: Please notify PSE Treasury @ 425-462-3257

This Base Contract incorporates by reference for all purposes the General Terms and Conditions for Sale and Purchase of Natural Gas published by the North American Energy Standards Board. The parties hereby agree to the following provisions offered in said General Terms and Conditions. In the event the parties fail to check a box the specified default provision shall apply. Select only one box from each section.

Section 1.2	Transaction Procedure	<input checked="" type="checkbox"/> Oral (default)	<input type="checkbox"/> Written
Section 2.5	Confirm	<input type="checkbox"/> 2 Business Days after receipt (default)	<input checked="" type="checkbox"/> 5 Business Days after receipt
Section 2.6	Confirming Party	<input type="checkbox"/> Seller (default)	<input type="checkbox"/> Buyer
Section 3.2	Performance Obligation	<input checked="" type="checkbox"/> Cover Standard (default)	<input type="checkbox"/> Spot Price Standard
Section 3.2	Performance Obligation	<input checked="" type="checkbox"/> Cover Standard (default)	<input type="checkbox"/> Spot Price Standard
Note: The following Spot Price Publication applies to both of the immediately preceding.			
Section 2.26	Spot Price Publication	<input checked="" type="checkbox"/> Gas Daily Midpoint (default)	<input type="checkbox"/>
Section 6	Taxes	<input checked="" type="checkbox"/> Buyer Pays At and After Delivery Point (default)	<input type="checkbox"/> Seller Pays Before and At Delivery Point
Section 14.10	Confidentiality	<input checked="" type="checkbox"/> Confidentiality applies (default)	<input type="checkbox"/> Confidentiality does not apply
Section 14.5	Choice Of Law	Alberta	
Section 10.3.2	Setoffs	<input checked="" type="checkbox"/> Other Agreement Setoffs Apply (default)	<input type="checkbox"/> Other Agreement Setoffs Do Not Apply
Section 10.3.1	Damages	<input checked="" type="checkbox"/> Early Termination Damages Apply (default)	<input type="checkbox"/> Early Termination Damages Do Not Apply
Section 7.1	Netting	<input checked="" type="checkbox"/> Netting applies (default)	<input type="checkbox"/> Netting does not apply
Section 7.2	Method of Payment	<input checked="" type="checkbox"/> Wire transfer (default)	<input type="checkbox"/> Automated Clearinghouse Credit (ACH)
Section 7.2	Payment Date	<input checked="" type="checkbox"/> 25 th Day of Month following Month of delivery (default)	<input type="checkbox"/> Day of Month following Month of delivery

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

D Commodity & Energy Trading Inc.
 By: [Signature]
 Name: HENRY SCHUBERT & DIRECTOR
 Title: VICE PRESIDENT & DIRECTOR
 TREASURY CREDIT

Pugot Sound Energy, Inc.
 By: [Signature]
 Name: JULIA M. RYAN
 Title: VICE PRESIDENT
 ENERGY PORTFOLIO MANAGEMENT

General Terms and Conditions
Base Contract for Sale and Purchase of Natural Gas

SECTION 1. PURPOSE AND PROCEDURES

1.1. These General Terms and Conditions are intended to facilitate purchase and sale transactions of Gas on a Firm or Interruptible basis. "Buyer" refers to the party receiving Gas and "Seller" refers to the party delivering Gas. The entire agreement between the parties shall be the Contract as defined in Section 2.7.

The parties have selected either the "Oral Transaction Procedure" or the "Written Transaction Procedure" as indicated on the Base Contract.

<p>1.2. The parties will use the following Oral Transaction Procedure:</p> <p>The parties shall be legally bound from the time they so agree to transaction terms and may each rely thereon. Any such transaction shall be considered a "writing" and to have been "signed". Notwithstanding the foregoing sentence, the parties agree that Confirming Party shall and the other party may, confirm a telephonic transaction by sending the other party a Transaction Confirmation by facsimile, EDI or mutually agreeable electronic means within three Business Days of a transaction covered by this Section 1.2 (Oral Transaction Procedure) provided that the failure to send a Transaction Confirmation shall not invalidate the oral agreement of the parties. Confirming Party adopts its confirming letterhead, or the like, as its signature on any Transaction Confirmation as the authentication and authentication of Confirming Party. If the Transaction Confirmation contains any provisions other than those relating to the commercial terms of the transaction (i.e., price, quantity, performance obligation, delivery point, period of delivery and/or transportation conditions), which modify or supplement the Base Contract or General Terms and Conditions of this Contract (e.g., arbitration or additional representations and warranties), such provisions shall not be deemed to be accepted pursuant to Section 1.3 but must be expressly agreed to by both parties; provided that the foregoing shall not invalidate any transaction agreed to by the parties.</p>
<p>1.2. The parties will use the following Written Transaction Procedure:</p> <p>Gas purchase and sale transaction for a particular Delivery Period, the Confirming Party shall, and the other party may, record that agreement on a Transaction Confirmation and communicate such Transaction Confirmation by facsimile, EDI or mutually agreeable electronic means, to the other party by the close of the Business Day following the date of agreement. The parties acknowledge that their agreement will not be binding until the exchange of nonconflicting Transaction Confirmations or the passage of the Confirming Deadline without objection from the receiving party, as provided in Section 1.3.</p>

1.3. If a sending party's Transaction Confirmation is materially different from the receiving party's understanding of the agreement referred to in Section 1.2, such receiving party shall notify the sending party via facsimile, EDI or mutually agreeable electronic means by the Confirming Deadline, unless such receiving party has previously sent a Transaction Confirmation to the sending party. The failure of the receiving party to so notify the sending party in writing by the Confirming Deadline constitutes the receiving party's agreement to the terms of the transaction described in the sending party's Transaction Confirmation. If there are any material differences between timely sent Transaction Confirmations governing the same transaction, then neither Transaction Confirmation shall be binding until or unless such differences are resolved including the use of any evidence that clearly resolves the differences in the Transaction Confirmations. In the event of a conflict among the terms of (i) a binding Transaction Confirmation pursuant to Section 1.2, (ii) the oral agreement of the parties which may be evidenced by a recorded conversation, where the parties have selected the Oral Transaction Procedure of the Base Contract, (iii) the Base Contract, and (iv) these General Terms and Conditions, the terms of the documents shall govern in the priority listed in this sentence.

1.4. The parties agree that each party may electronically record all telephone conversations with respect to this Contract between their respective employees, without any special or further notice to the other party. Each party shall obtain any necessary consent of its agents and employees to such recording. Where the parties have selected the Oral Transaction Procedure in Section 1.2 of the Base Contract, the parties agree not to contest the validity or enforceability of telephonic recordings entered into in accordance with the requirements of this Base Contract. However, nothing herein shall be construed as a waiver of any objection to the admissibility of such evidence.

SECTION 2. DEFINITIONS

The terms set forth below shall have the meaning ascribed to them below. Other terms are also defined elsewhere in the Contract and shall have the meanings ascribed to them herein.

- 2.7. "Alternative Damages" shall mean such damages, expressed in dollars or dollars per MMBtu, as the parties shall agree upon in the Transaction Confirmation, in the event either Seller or Buyer fails to perform a Firm obligation to deliver Gas in the case of Seller or to receive Gas in the case of Buyer.
2. "Base Contract" shall mean a contract executed by the parties that incorporates these General Terms and Conditions by reference; that specifies the agreed selections of provisions contained herein; and that sets forth other information required herein and any Special Provisions and addendum(s) as identified on page one.
- 2.3. "British thermal unit" or "Btu" shall mean the International BTU, which is also called the Btu (IT).
- 2.4. "Business Day" shall mean any day except Saturday, Sunday or Federal Reserve Bank holidays.
- 2.5. "Confirm Deadline" shall mean 5:00 p.m. in the receiving party's time zone on the second Business Day following the Day a Transaction Confirmation is received or, if applicable, on the Business Day agreed to by the parties in the Base Contract; provided, if the Transaction Confirmation is time stamped after 5:00 p.m. in the receiving party's time zone, it shall be deemed received at the opening of the next Business Day.
- 2.6. "Confirming Party" shall mean the party designated in the Base Contract to prepare and forward Transaction Confirmations to the other party.
- 2.7. "Contract" shall mean the legally-binding relationship established by (i) the Base Contract, (ii) any and all binding Transaction Confirmations and (iii) where the parties have selected the Oral Transaction Procedure in Section 1.2 of the Base Contract, any and all binding Transaction Confirmations that the parties have entered into through an EDI transmission or by telephone, but that have not been confirmed in a binding Transaction Confirmation.
- 2.8. "Contract Price" shall mean the amount expressed in U.S. Dollars per MMBtu to be paid by Buyer to Seller for the purchase of Gas as agreed to by the parties in a transaction.
- 2.9. "Contract Quantity" shall mean the quantity of Gas to be delivered and taken as agreed to by the parties in a transaction.
- 2.10. "Cover Standard" as referred to in Section 3.2, shall mean that if there is an unexcused failure to take or deliver any quantity of Gas pursuant to this Contract, then the performing party shall use commercially reasonable efforts to (i) if Buyer is the performing party, obtain Gas, (or an alternate fuel if elected by Buyer and replacement Gas is not available), or (ii) if Seller is the performing party, sell Gas, in either case, at a price reasonable for the delivery or production area, as applicable, consistent with the amount of notice provided by the nonperforming party; the immediacy of the Buyer's Gas consumption needs or Seller's Gas sales requirements, as applicable; the quantities involved; and the anticipated length of failure by the nonperforming party.
11. "Credit Support Obligation(s)" shall mean any obligation(s) to provide or establish credit support for, or on behalf of, a party to a Contract such as an irrevocable standby letter of credit, a margin agreement, a prepayment, a security interest in an asset, a performance bond, guaranty, or other good and sufficient security of a continuing nature.
- 2.12. "Day" shall mean a period of 24 consecutive hours, coextensive with a "day" as defined by the Receiving Transporter in a particular transaction.
- 2.13. "Delivery Period" shall be the period during which deliveries are to be made as agreed to by the parties in a transaction.
- 2.14. "Delivery Point(s)" shall mean such point(s) as are agreed to by the parties in a transaction.
- 2.15. "EDI" shall mean an electronic data interchange pursuant to an agreement entered into by the parties, specifically relating to the communication of Transaction Confirmations under this Contract.
- 2.16. "EFP" shall mean the purchase, sale or exchange of natural Gas as the "physical" side of an exchange for physical transaction involving gas futures contracts. EFP shall incorporate the meaning and remedies of "Firm", provided that a party's excuse for nonperformance of its obligations to deliver or receive Gas will be governed by the rules of the relevant futures exchange regulated under the Commodity Exchange Act.
- 2.17. "Firm" shall mean that either party may interrupt its performance without liability only to the extent that such performance is prevented for reasons of Force Majeure; provided, however, that during Force Majeure interruptions, the party invoking Force Majeure may be responsible for any Imbalance Charges as set forth in Section 4.3 related to its interruption after the nomination is made to the Transporter and until the change in deliveries and/or receipts is confirmed by Transporter.
- 2.18. "Gas" shall mean any mixture of hydrocarbons and noncombustible gases in a gaseous state consisting primarily of methane.
- 2.19. "Imbalance Charges" shall mean any fees, penalties, costs or charges (in cash or in kind) assessed by a Transporter for failure to satisfy the Transporter's balance and/or nomination requirements.
- 2.20. "Interruptible" shall mean that either party may interrupt its performance at any time for any reason, whether or not caused by an event of Force Majeure, with no liability, except such interrupting party may be responsible for any Imbalance Charges as set forth in Section 4.3 related to its interruption after the nomination is made to the Transporter and until the change in deliveries and/or receipts is confirmed by Transporter.
- 2.21. "MMBtu" shall mean one million British thermal units, which is equivalent to one dekatherm.
2. "Month" shall mean the period beginning on the first Day of the calendar month and ending immediately prior to the commencement of the first Day of the next calendar month.

SECTION 4. TRANSPORTATION, NOMINATIONS, AND IMBALANCES

1. Seller shall have the sole responsibility for transporting the Gas to the Delivery Point(s). Buyer shall have the sole responsibility for transporting the Gas from the Delivery Point(s).

4.2. The parties shall coordinate their nomination activities, giving sufficient time to meet the deadlines of the affected Transporter(s). Each party shall give the other party timely prior Notice, sufficient to meet the requirements of all Transporter(s) involved in the transaction, of the quantities of Gas to be delivered and purchased each Day. Should either party become aware that actual deliveries at the Delivery Point(s) are greater or lesser than the Scheduled Gas, such party shall promptly notify the other party.

4.3. The parties shall use commercially reasonable efforts to avoid imposition of any imbalance Charges. If Buyer or Seller receives an invoice from a Transporter that includes imbalance Charges, the parties shall determine the validity as well as the cause of such imbalance Charges. If the imbalance Charges were incurred as a result of Buyer's receipt of quantities of Gas greater than or less than the Scheduled Gas, then Buyer shall pay for such imbalance Charges or reimburse Seller for such imbalance Charges paid by Seller. If the imbalance Charges were incurred as a result of Seller's delivery of quantities of Gas greater than or less than the Scheduled Gas, then Seller shall pay for such imbalance Charges or reimburse Buyer for such imbalance Charges paid by Buyer.

SECTION 5. QUALITY AND MEASUREMENT

All Gas delivered by Seller shall meet the pressure, quality and heat content requirements of the Receiving Transporter. The unit of quantity measurement for purposes of this Contract shall be one MMBtu dry. Measurement of Gas quantities hereunder shall be in accordance with the established procedures of the Receiving Transporter.

SECTION 6. TAXES

The parties have selected either "Buyer Pays At and After Delivery Point" or "Seller Pays Before and At Delivery Point" as indicated on the Base Contract.
Buyer Pays At and After Delivery Point:
Seller shall pay or cause to be paid all taxes, fees, levies, penalties, licenses or charges imposed by any government authority ("Taxes") on or with respect to the Gas prior to the Delivery Point(s). Buyer shall pay or cause to be paid all Taxes on or with respect to the Gas at the Delivery Point(s) and all Taxes after the Delivery Point(s). If a party is required to remit or pay Taxes that are the other party's responsibility hereunder, the party responsible for such Taxes shall promptly reimburse the other party for such Taxes. Any party entitled to an exemption from any such Taxes or charges shall furnish the other party any necessary documentation thereof.
Seller Pays Before and At Delivery Point:
Seller shall pay or cause to be paid all taxes, fees, levies, penalties, licenses or charges imposed by any government authority ("Taxes") on or with respect to the Gas prior to the Delivery Point(s) and all Taxes at the Delivery Point(s). Buyer shall pay or cause to be paid all Taxes on or with respect to the Gas after the Delivery Point(s). If a party is required to remit or pay Taxes that are the other party's responsibility hereunder, the party responsible for such Taxes shall promptly reimburse the other party for such Taxes. Any party entitled to an exemption from any such Taxes or charges shall furnish the other party any necessary documentation thereof.

SECTION 7. BILLING, PAYMENT, AND AUDIT

7.1. Seller shall invoice Buyer for Gas delivered and received in the preceding Month and for any other applicable charges, providing supporting documentation acceptable in industry practice to support the amount charged. If the actual quantity delivered is not known by the billing date, billing will be prepared based on the quantity of Scheduled Gas. The invoiced quantity will then be adjusted to the actual quantity on the following Month's billing or as soon thereafter as actual delivery information is available.

7.2. Buyer shall remit the amount due under Section 7.1 in the manner specified in the Base Contract in immediately available funds, on or before the later of the Payment Date or 10 Days after receipt of the invoice by Buyer, provided that if the Payment Date is not a Business Day, payments due on the next Business Day following that date. In the event any payments are due Buyer hereunder, payment to Buyer shall be made in accordance with this Section 7.2.

7.3. In the event payments become due pursuant to Sections 3.2 or 3.3, the performing party may submit an invoice to the nonperforming party for an accelerated payment setting forth the basis upon which the invoiced amount was calculated. Payment from the nonperforming party will be due five Business Days after receipt of invoice.

7.4. If the invoiced party, in good faith, disputes the amount of any such invoice or any part thereof, such invoiced party will pay such amount as it concedes to be correct; provided, however, if the invoiced party disputes the amount due, it must provide supporting documentation acceptable in industry practice to support the amount paid or disputed. In the event the parties are unable to resolve such dispute, either party may pursue any remedy available at law or in equity to enforce its rights pursuant to this Section.

7.5. If the invoiced party fails to remit the full amount payable when due, interest on the unpaid portion shall accrue from the date due until the date of payment at a rate equal to the lower of (i) the then-effective prime rate of interest published under "Money Rates" by The Wall Street Journal, plus two percent per annum; or (ii) the maximum applicable lawful interest rate.

7. Unless the parties have elected on the Base Contract not to make this Section 7.7 applicable to this Contract, the parties shall net undisputed amounts due and owing, and/or past due, arising under the Contract such that the party owing the greater amount shall make a single payment of the net amount to the other party in accordance with Section 7; provided that no payment required to be made pursuant to the terms of any Credit Support Obligation or pursuant to Section 7.3 shall be subject to netting under this Section. If the parties have executed a separate netting agreement, the terms and conditions therein shall prevail to the extent inconsistent herewith.

SECTION 8. TITLE, WARRANTY, AND INDEMNITY

8.1. Unless otherwise specifically agreed, title to the Gas shall pass from Seller to Buyer at the Delivery Point(s). Seller shall have responsibility for and assume any liability with respect to the Gas prior to its delivery to Buyer at the specified Delivery Point(s). Buyer shall have responsibility for and assume any liability with respect to said Gas after its delivery to Buyer at the Delivery Point(s).

8.2. Seller warrants that it will have the right to convey and will transfer good and merchantable title to all Gas sold hereunder and delivered by it to Buyer, free and clear of all liens, encumbrances, and claims. EXCEPT AS PROVIDED IN THIS SECTION 8.2 AND IN SECTION 14.8, ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING ANY WARRANTY OF MERCHANTABILITY OR OF FITNESS FOR ANY PARTICULAR PURPOSE ARE DISCLAIMED.

8.3. Seller agrees to indemnify Buyer and save it harmless from all losses, liabilities or claims including reasonable attorneys' fees and costs of court ("Claims"), from any and all persons, arising from or out of claims or title, personal injury or property damage from said Gas or other charges thereon which attach before the passes to Buyer. Buyer agrees to indemnify Seller and save it harmless from all Claims, from any and all persons, arising from or out of claims regarding payment, personal injury or property damage from said Gas or other charges thereon which attach after the passes to Buyer.

8.4. Notwithstanding the other provisions of this Section 8, as between Seller and Buyer, Seller will be liable for all Claims to the extent that such arise from the failure of Gas delivered by Seller to meet the quality requirements of Section 5.

SECTION 9. NOTICES

9.1. All transaction confirmations, invoices, payments and other communications made pursuant to the Base Contract ("Notices") shall be made to the addresses specified in writing by the respective parties from time to time.

9.2. All Notices required hereunder may be sent by facsimile or mutually acceptable electronic means, a nationally recognized overnight courier service, first class mail or hand delivered.

9.3. Notice shall be given when received on a Business Day by the addressee. In the absence of proof of the actual receipt date, the following presumptions will apply. Notices sent by facsimile shall be deemed to have been received upon the sending party's receipt of its facsimile machine's confirmation of successful transmission. If the day on which such facsimile is received is not a Business Day or is after five p.m. on a Business Day, then such facsimile shall be deemed to have been received on the next following Business Day. Notice by overnight mail or courier shall be deemed to have been received on the next Business Day after it was sent or such earlier time as is confirmed by the receiving party. Notice via first class mail shall be considered delivered five Business Days after mailing.

SECTION 10. FINANCIAL RESPONSIBILITY

10.1. If either party ("X") has reasonable grounds for insecurity regarding the performance of any obligation under this Contract (whether or not then due) by the other party ("Y") (including, without limitation, the occurrence of a material change in the creditworthiness of Y), X may demand Adequate Assurance of Performance. Adequate Assurance of Performance shall mean sufficient security in the form, amount and for the term reasonably acceptable to X, including, but not limited to, a standby irrevocable letter of credit, a prepayment, a security interest in an asset or a performance bond or guaranty (including the issuer of any such security).

10.2. In the event (each an "Event of Default") either party (the "Defaulting Party") or its guarantor shall (i) make an assignment or any general arrangement for the benefit of creditors; (ii) file a petition or otherwise commence, authorize, or acquiesce in the commencement of a proceeding or case under any bankruptcy or similar law for the protection of creditors or have such petition filed or they fall due; (v) have a receiver, provisional liquidator, conservator, custodian, trustee or other similar official appointed with respect to it or substantially all of its assets; (vi) fail to perform any obligation to the other party with respect to any Credit Support Obligations relating to the Contract; (vii) fail to give Adequate Assurance of Performance under Section 10.1 within 48 hours but at least one Business Day of a written request by the other party; or (viii) not have paid any amount due the other party hereunder on or before the second Business Day following written Notice that such payment is due; then the other party (the "Non-Defaulting Party") shall have the right, at its sole election, to immediately withhold and/or suspend deliveries or payments upon Notice and/or to terminate and liquidate the transactions under the Contract, in the manner provided in Section 10.3, in addition to any and all other remedies available hereunder.

10.3. If an Event of Default has occurred and is continuing, the Non-Defaulting Party shall have the right, by Notice to the Defaulting Party, to designate a Day, no earlier than the Day such Notice is given and no later than 20 Days after such Notice is given, as an early termination date (the "Early Termination Date") for the liquidation and termination pursuant to Section 10.3.1 of all transactions under the Contract, each a "Terminated Transaction". On the Early Termination Date, all transactions will terminate, other than those Copyright © 2002 North American Energy Standards Board, Inc. All Rights Reserved.

transactions, if any, that may not be liquidated and terminated under applicable law or that are, in the reasonable opinion of the Non-Defaulting Party, commercially impracticable to liquidate and terminate ("Excluded Transactions"), which Excluded Transactions must be liquidated and terminated as soon thereafter as is reasonably practicable, and upon termination shall be a Terminated Transaction and be valued consistent with Section 10.3.1 below. With respect to each Excluded Transaction, its actual termination date shall be the Early Termination Date for purposes of Section 10.3.1.

The parties have selected either "Early Termination Damages Apply" or "Early Termination Damages Do Not Apply" as indicated on the Base Contract.

10.3.1. As of the Early Termination Date, the Non-Defaulting Party shall determine, in good faith and in a commercially reasonable manner, (i) the amount owed (whether or not then due) by each party with respect to all Gas delivered and received between the parties under Terminated Transactions and Excluded Transactions on and before the Early Termination Date and all other applicable charges relating to such deliveries and receipts (including without limitation any amounts owed under Section 3.2), for which payment has not yet been made by the party that owes such payment under this Contract. The Non-Defaulting Party shall determine, in a commercially reasonable manner, (ii) the Market Value, as defined below, of each Terminated Transaction. The Non-Defaulting Party shall (x) liquidate and accelerate each Terminated Transaction at its Market Value, so that each amount equal to the difference between such Market Value and the Contract Value, as defined below, of such Terminated Transaction(s) shall be due to the Buyer under the Terminated Transaction(s) if such Market Value exceeds the Contract Value and to the Seller if the opposite is the case; and (y) where appropriate, discount each amount then due under clause (x) above to present value in a commercially reasonable manner as of the Early Termination Date (to take account of the period between the date of liquidation and the date on which such amount would have otherwise been due pursuant to the relevant Terminated Transactions).

For purposes of this Section 10.3.1, "Contract Value" means the amount of Gas remaining to be delivered or purchased under a transaction multiplied by the Contract Price, and "Market Value" means the amount of Gas remaining to be delivered or purchased in a commercially reasonable manner. To ascertain the Market Value, the Non-Defaulting Party may consider, among other valuations, any or all of the settlement prices of NYMEX Gas futures contracts, quotations from leading dealers in energy swap contracts or physical gas trading markets, similar sales or purchases and any other bona fide third party offers, all adjusted for length of the term and differences in transportation costs. A party shall not be required to enter into a replacement transaction(s) in order to determine the Market Value. Any extension(s) of the term of a transaction to which parties are not bound as of the Early Termination Date (including but not limited to "evergreen provisions") shall not be considered in determining Contract Values and Market Values. For the avoidance of doubt, any option pursuant to which one party has the right to extend the term of a transaction will be considered in determining Contract Values and Market Values. The rate of interest used in calculating net present value shall be determined by the Non-Defaulting Party in a commercially reasonable manner.

10.3.1. As of the Early Termination Date, the Non-Defaulting Party shall determine, in good faith and in a commercially reasonable manner, the amount owed (whether or not then due) by each party with respect to all Gas delivered and received between the parties under Terminated Transactions and Excluded Transactions on and before the Early Termination Date and all other applicable charges relating to such deliveries and receipts (including without limitation any amounts owed under Section 3.2), for which payment has not yet been made by the party that owes such payment under this Contract. The parties have selected either "Other Agreement Setoffs Apply" or "Other Agreement Setoffs Do Not Apply" as indicated on the Base Contract.

10.3.2. The Non-Defaulting Party shall net or aggregate, as appropriate, any and all amounts owing between the parties under Section 10.3.1, so that all such amounts are netted or aggregated to a single liquidated amount payable by one party to the other (the "Net Settlement Amount"). At its sole option and without prior Notice to the Defaulting Party, the Non-Defaulting Party may setoff (i) any Net Settlement Amount owed to the Non-Defaulting Party against any margin or other collateral held by it in connection with any Credit Support Obligation relating to the Contract or (ii) any Net Settlement Amount payable to the Defaulting Party against any amount(s) payable by the Defaulting Party to the Non-Defaulting Party under any other agreement or arrangement between the parties.

10.3.2. The Non-Defaulting Party shall net or aggregate, as appropriate, any and all amounts owing between the parties under Section 10.3.1, so that all such amounts are netted or aggregated to a single liquidated amount payable by one party to the other (the "Net Settlement Amount"). At its sole option and without prior Notice to the Defaulting Party, the Non-Defaulting Party may setoff any Net Settlement Amount owed to the Non-Defaulting Party against any margin or other collateral held by it in connection with any Credit Support Obligation relating to the Contract.

10.3.3. If any obligation that is to be included in any netting, aggregation or setoff pursuant to Section 10.3.2 is unascertained, the Non-Defaulting Party may in good faith estimate that obligation and net, aggregate or setoff, as applicable, in respect of the estimate, subject to the Non-Defaulting Party accounting to the Defaulting Party when the obligation is ascertained. Any amount not included in any netting, aggregation or setoff pursuant to Section 10.3.2 shall be discounted to net present value in a commercially reasonable manner determined by the Non-Defaulting Party.

10:4. As soon as practicable after a liquidation, Notice shall be given by the Non-Defaulting Party to the Defaulting Party of the Net Settlement Amount, and whether the Net Settlement Amount is due to or due from the Non-Defaulting Party. The Notice shall include a written statement explaining in reasonable detail the calculation of such amount, provided that failure to give such Notice shall not affect the validity or enforceability of the liquidation or give rise to any claim by the Defaulting Party against the Non-Defaulting Party. The Net Settlement Amount shall be paid by the close of business on the second Business Day following such Notice, which date shall not be earlier than the Early Termination Date. Interest on any unpaid portion of the Net Settlement Amount shall accrue from the date until the date of payment at a rate equal to the lower of (i) the then-effective prime rate of interest published under "Money Rates" by The Wall Street Journal, plus two percent per annum; or (ii) the maximum applicable lawful interest rate.

10:5. The parties agree that the transactions hereunder constitute a "forward contract" within the meaning of the United States Bankruptcy Code and that Buyer and Seller are each "forward contract merchants" within the meaning of the United States Bankruptcy Code.

10:6. The Non-Defaulting Party's remedies under this Section 10 are the sole and exclusive remedies of the Non-Defaulting Party with respect to the occurrence of any Early Termination Date. Each party reserves to itself all other rights, setoffs, counterclaims and other defenses that it or may be entitled to arising from the Contract.

10:7. With respect to this Section 10, if the parties have executed a separate netting agreement with close-out netting provisions, the terms and conditions therein shall prevail to the extent inconsistent herewith.

SECTION 11. FORCE MAJEURE

11:1. Except with regard to a party's obligation to make payment(s) due under Section 7, Section 10:4, and Imbalance Charges under Section 4, neither party shall be liable to the other for failure to perform a Firm obligation, to the extent such failure was caused by Force Majeure. The term "Force Majeure" as employed herein means any cause not reasonably within the control of the party claiming suspension, as further defined in Section 11:2.

11:2. Force Majeure shall include, but not be limited to, the following: (i) physical events such as acts of God, landslides, lightning, earthquakes, fires, storms or storm warnings, such as hurricanes, which result in evacuation of the affected area, floods, washouts, explosions, breakage or accident or necessity of repairs to machinery or equipment or lines of pipe; (ii) weather related events affecting an entire geographic region, such as low temperatures which cause freezing or failure of wells or lines of pipe; (iii) interruption and/or curtailment of Firm transportation and/or storage by transporters; (iv) acts of others such as strikes, lockouts or other industrial disturbances, riots, sabotage, insurrections or wars; and (v) governmental actions such as necessity for compliance with any court order, law, statute, ordinance, regulation, or policy having the effect of law promulgated by a governmental authority having jurisdiction. Seller and Buyer shall make reasonable efforts to avoid the adverse impacts of a Force Majeure and to resolve the event or occurrence as it has occurred in order to resume performance.

11:3. Neither party shall be entitled to the benefit of the provisions of Force Majeure to the extent performance is affected by any or all of the following circumstances: (i) the curtailment or interruption of secondary Firm transportation unless primary, in-path, Firm transportation is also curtailed; (ii) the party claiming excuse failed to remedy the condition and to resume the performance of such covenants or obligations with reasonable dispatch; or (iii) economic hardship, to include, without limitation, Seller's ability to sell Gas at a higher or more advantageous price than the Contract Price, Buyer's ability to purchase Gas at a lower or more advantageous price than the Contract Price, or a regulatory agency disallowing, in whole or in part, the pass through of costs resulting from this Agreement; (iv) the loss of Buyer's market(s) or Buyer's inability to use or resell Gas purchased hereunder, except in either case, as provided in Section 11:2; or (v) the loss or failure of Seller's gas supply or depletion of reserves, except in either case, as provided in Section 11:2. The party claiming Force Majeure shall not be excused from its responsibility for imbalance charges.

11:4. Notwithstanding anything to the contrary herein, the parties agree that the settlement of strikes, lockouts or other industrial disturbances shall be within the sole discretion of the party experiencing such disturbance.

11:5. The party whose performance is prevented by Force Majeure must provide Notice to the other party. Initial Notice may be given orally, however, written Notice with reasonably full particulars of the event or occurrence is required as soon as reasonably possible. Upon providing written Notice of Force Majeure to the other party, the affected party will be relieved of its obligation, from the onset of the Force Majeure event, to make or accept delivery of Gas, as applicable, to the extent and for the duration of Force Majeure, and neither party shall be deemed to have failed in such obligations to the other during such occurrence or event.

11:6. Notwithstanding Sections 11:2 and 11:3, the parties may agree to alternative Force Majeure provisions in a Transaction Confirmation, executed in writing by both parties.

SECTION 12. TERM

This Contract may be terminated on 30 Days written Notice, but shall remain in effect until the expiration of the latest Delivery Period of any transaction(s). The rights of either party pursuant to Section 7, 6 and Section 10, the obligations to make payment hereunder, and the obligation of either party to indemnify the other, pursuant hereto shall survive the termination of the Base Contract or any transaction.

SECTION 13. LIMITATIONS

FOR BREACH OF ANY PROVISION FOR WHICH AN EXPRESS REMEDY OR MEASURE OF DAMAGES IS PROVIDED, SUCH EXPRESS REMEDY OR MEASURE OF DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY. A PARTY'S LIABILITY HEREUNDER SHALL BE LIMITED AS SET FORTH IN SUCH PROVISION, AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. IF NO REMEDY OR MEASURE OF DAMAGES IS EXPRESSLY PROVIDED HEREIN OR IN A TRANSACTION, A PARTY'S LIABILITY SHALL BE LIMITED TO DIRECT ACTUAL DAMAGES ONLY. SUCH DIRECT ACTUAL DAMAGES SHALL BE THE SOLE AND EXCLUSIVE

REMEDY, AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. UNLESS EXPRESSLY HEREIN PROVIDED, NEITHER PARTY SHALL BE LIABLE FOR CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES, LOST PROFITS OR OTHER BUSINESS INTERRUPTION DAMAGES, BY STATUTE, IN TORT OR CONTRACT, UNDER ANY DEMERIT PROVISION OR OTHERWISE. IT IS THE INTENT OF THE PARTIES THAT THE LIMITATIONS HEREIN IMPOSED ON THE NEGLIGENCE OF ANY PARTY, WHETHER SUCH NEGLIGENCE BE SOLE, JOINT OR CONCURRENT, OR ACTIVE OR PASSIVE TO THE EXTENT ANY DAMAGES REQUIRED TO BE PAID HEREUNDER ARE LIQUIDATED, THE PARTIES ACKNOWLEDGE THAT THE DAMAGES ARE DIFFICULT OR IMPOSSIBLE TO DETERMINE, OR OTHERWISE OBTAINING AN ADEQUATE REMEDY IS INCONVENIENT AND THE DAMAGES CALCULATED HEREUNDER CONSTITUTE A REASONABLE APPROXIMATION OF THE HARM OR LOSS.

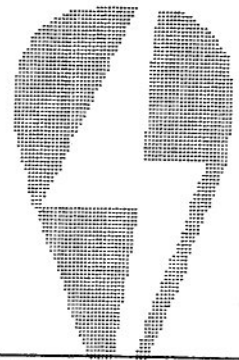
SECTION 14. MISCELLANEOUS

- 14.1. This Contract shall be binding upon and inure to the benefit of the successors, assigns, personal representatives, and heirs of the respective parties hereto, and the covenants, conditions, rights and obligations of this Contract shall run for the full term of this Contract. No assignment of this Contract, in whole or in part, will be made without the prior written consent of the non-assigning party (and shall not relieve the assigning party from liability hereunder), which consent will not be unreasonably withheld or delayed; provided, either party may (i) transfer, sell, pledge, encumber, or assign this Contract or the accounts, revenues, or proceeds hereof in connection with any financing or other financial arrangements, or (ii) transfer its interest to any parent or affiliate by assignment, merger or otherwise without the prior approval of the other party. Upon any such assignment, transfer and assumption, the transferor shall remain principally liable for and shall not be relieved of or discharged from any obligations hereunder.
- 14.2. If any provision in this Contract is determined to be invalid, void or unenforceable by any court having jurisdiction, such determination shall not invalidate, void, or make unenforceable any other provision, agreement or covenant of this Contract.
- 14.3. No waiver of any breach of this Contract shall be held to be a waiver of any other or subsequent breach.
- 14.4. This Contract sets forth all understandings between the parties respecting each transaction subject hereto, and any prior contracts, understandings and representations, whether oral or written, relating to such transactions are merged into and superseded by this Contract and any effective transaction(s). This Contract may be amended only by a writing executed by both parties.
- 14.5. The interpretation and performance of this Contract shall be governed by the laws of the jurisdiction as indicated on the Base Contract, excluding, however, any conflict of laws rule which would apply the law of another jurisdiction.
- 14.6. This Contract and all provisions herein will be subject to all applicable and valid states, rules, orders and regulations of any governmental authority having jurisdiction over the parties, their facilities, or Gas supply, this Contract or transaction or any provisions thereof.
- 14.7. There is no third party beneficiary to this Contract.
- 14.8. Each party to this Contract represents and warrants that it has full and complete authority to enter into and perform this Contract. Each person who executes this Contract on behalf of either party represents and warrants that it has full and complete authority to do so and that such party will be bound thereby.
- 14.9. The headings and subheadings contained in this Contract are used solely for convenience and do not constitute a part of this Contract between the parties and shall not be used to construe or interpret the provisions of this Contract.
- 14.10. Unless the parties have elected on the Base Contract not to make this Section 14.10 applicable to this Contract, neither party shall disclose directly or indirectly without the prior written consent of the other party the terms of any transaction to a third party (other than all of employees, leaders, royalty owners, counsel, accountants and other agents of the party, or prospective purchasers of all or substantially all of a party's assets or of any rights under this Contract, provided such persons shall have agreed to keep such terms confidential) except (i) in order to comply with any applicable law, order, regulation, or exchange rule, (ii) to the extent necessary for the enforcement of this Contract, (iii) to the extent necessary to implement any transaction, or (iv) to the extent such information is delivered to such third party for the sole purpose of calculating a published index. Each party shall notify the other party of any proceeding of which it is aware which may result in disclosure of the terms of any transaction (other than as permitted hereunder) and use reasonable efforts to prevent or limit the disclosure. The existence of this Contract is not subject to this confidentiality obligation. Subject to Section 13, the parties shall be entitled to all remedies available at law or in equity to enforce, or seek relief in connection with this confidentiality obligation. The terms of any transaction hereunder shall be kept confidential by the parties hereto for one year from the expiration of the transaction.
- 14.11. In the event that disclosure is required by a governmental body or applicable law, the party subject to such requirement may disclose the material terms of this Contract to the extent so required, but shall promptly notify the other party, prior to disclosure, and shall cooperate (consistent with the disclosing party's legal obligations) with the other party's efforts to obtain protective orders or similar restraints with respect to such disclosure at the expense of the other party.
- 14.12. The parties may agree to dispute resolution procedures in Special Provisions attached to the Base Contract or in a Transaction Confirmation executed in writing by both parties.

DISCLAIMER: The purposes of this Contract are to facilitate trade, avoid misunderstandings and make more definite the terms of contracts of purchase and sale of natural gas. Further, NAESB does not mandate the use of this Contract by any party. NAESB DISCLAIMS AND EXCLUDES, AND ANY USER OF THIS CONTRACT ACKNOWLEDGES AND AGREES TO NAESB'S DISCLAIMER OF, ANY AND ALL WARRANTIES, CONDITIONS OR REPRESENTATIONS.

WARRANTY

®



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 NAESB KNOWS, HAS REASON TO KNOW, HAS BEEN ADVISED, OR IS OTHERWISE IN 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 NAESB BE LIABLE FOR ANY DIRECT, SPECIAL, INCIDENTAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES ARISING OUT OF ANY USE OF THIS CONTRACT.

Date: _____ Transaction Confirmation #: _____		Letterhead/Logo	
<p>This Transaction Confirmation is subject to the Base Contract between Seller and Buyer dated _____. The terms of this Transaction Confirmation are binding unless disputed in writing within 2 Business Days of receipt unless otherwise specified in the Base Contract.</p>			
BUYER:		SELLER:	
Attn: _____ Phone: _____ Fax: _____ Base Contract No. _____ Transporter: _____ Transporter Contract Number: _____		Attn: _____ Phone: _____ Fax: _____ Base Contract No. _____ Transporter: _____ Transporter Contract Number: _____	
Contract Price: \$ _____ /MMBtu or _____		Delivery Period: Begin: _____ End: _____	
Performance Obligation and Contract Quantity: (Select One) <input type="checkbox"/> Firm (Fixed Quantity): _____ MMBtus/day <input type="checkbox"/> Firm (Variable Quantity): _____ MMBtus/day Minimum _____ MMBtus/day Maximum _____ <input type="checkbox"/> Interruptible: _____ MMBtus/day Up to _____ MMBtus/day <input type="checkbox"/> subject to Section 4.2 at election of Buyer or Seller			
Delivery Point(s): _____ (If a pooling point is used, list a specific geographic and pipeline location)		Special Conditions: _____	
Seller: _____ By: _____ Title: _____ Date: _____		Buyer: _____ By: _____ Title: _____ Date: _____	

(b) The Confirming Party shall, and the other party may, record the terms and conditions agreed to by the parties in the applicable EDI transmission or telephone conversation on a Transaction Confirmation and communicate such Transaction Confirmation by facsimile, EDI or mutually agreeable electronic means to the other party by the close of the Business Day following the date of oral agreement. The Confirming Party adopts its confirming letterhead, or the like, as its signature on any Transaction Confirmation as the identification and authentication of Confirming Party. If the receiving party has not received from the Confirming Party the

(a) Any Gas purchase and sale transaction may be effectuated in an EDI transmission or telephone conversation on a tape recorded system with the offer and acceptance constituting the agreement of the parties for that particular transaction. The parties shall be legally bound from the time they so agree to the terms of such transaction (and shall be bound only to such terms as have been actually agreed to by the parties in such EDI transmission or telephone conversation), provided that within a reasonable time after such agreement is entered into (but in any event not longer than five (5) Business Days) a writing in confirmation of such agreement is executed, or is otherwise deemed to be agreed to pursuant to this Section 1.2, by the parties. Neither the Confirming Party nor the other party shall set forth terms and conditions in such writing that are different from the terms and conditions agreed to by the parties in the applicable EDI transmission or telephone conversation. The parties agree that in no event shall any transaction effectuated in an EDI transmission or telephone conversation be considered a "writing" or to have been "signed," unless delivery, payment and other evidence of performance of the particular transaction in question has occurred. The parties further agree that, notwithstanding the foregoing, no offer and acceptance concerning any Gas purchase and sale transaction effectuated in an EDI transmission or telephone conversation shall be legally binding unless during such EDI transmission or telephone conversation, the parties specifically, audibly and clearly agree upon the Contract Quantity, Delivery Period, Contract Price, Delivery Points and quality (i.e., Firm or Interruptible) for the Gas to be purchased and sold in such transaction.

1.2 The parties will use the following Transaction Confirmation procedure:

"Oral Transaction Procedure:

1.1. Section 1.2, "Oral Transaction Procedure," is deleted in its entirety and the following is inserted in lieu thereof:

SECTION 1 PURPOSE AND PROCEDURE

This AMENDING AGREEMENT ("Agreement") is made and entered into as of July 15, 2003, by and between Puget Sound Energy, Inc. ("PSE") and TD Commodity and Energy Trading Inc. ("TD C&ET") to amend the Base Contract for Sale and Purchase of Natural Gas, dated July 15, 2003, between PSE and TD C&ET ("Base Contract"), and the General Terms and Conditions of the North American Energy Standards Board, Inc. ("General Terms and Conditions"), which are by reference incorporated into the Base Contract. Capitalized terms used in this Agreement, unless otherwise defined in this Agreement, have the meanings set forth in the General Terms and Conditions.

TD Commodity and Energy Trading Inc. and Puget Sound Energy, Inc.

between

dated July 15, 2003

for Sale and Purchase of Natural Gas (NAESB)
Amending Agreement to Base Contract

EXHIBIT B

Transaction Confirmation within two (2) Business Days after the applicable EDI transmission or telephone conversation, the receiving party shall notify the Confirming Party of such non-receipt.

1.2.

Section 1.3 is deleted in its entirety and the following is inserted in lieu thereof:

"1.3 If the Confirming Party's Transaction Confirmation is different from the agreement referred to in Section 1.2, the receiving party shall notify the sending party via facsimile, EDI or mutually agreeable electronic means by the Confirm Deadline. The receiving party may so notify the sending party only if a difference actually exists between the Confirming Party's Transaction Confirmation and the agreement referred to in Section 1.2, the existence of such difference to be determined with reference to the applicable legally binding EDI transmission or recorded telephone conversation between the parties recorded pursuant to Section 1.2(b). The failure of the receiving party to so notify the Confirming Party in writing by the Confirm Deadline constitutes the receiving party's agreement to the terms of the transaction described in the Confirming Party's Transaction Confirmation. In the event of a conflict among the terms of (i) a binding Transaction Confirmation pursuant to Section 1.2, (ii) the Base Contract, and (iii) these General Terms and Conditions, the terms of the Transaction Confirmation shall have priority over the terms of the Base Contract and these General Terms and Conditions and the terms of the Base Contract shall have priority over the terms of these General Terms and Conditions.

1.3.

The following new Section 1.5 is added to the Agreement as follows:

"1.5 The parties acknowledge that they have entered in to this Agreement as a master agreement and will be entering into all Transactions in reliance on the fact that all Transactions taken together constitute a single integrated agreement between the parties and not a series of separate agreements between the parties. The parties further acknowledge and agree that:

(i) each party shall be entitled to set off amounts to be paid by it under all of the Transactions against amounts owed to it under such Transactions so that the parties can reduce the overall exposure each may have to the other;

(ii) the credit which each party is willing to extend to the other under the Transactions, and the credit risks which each party is willing to assume thereunder, is based on the entitlement to such set-off rights;

(iii) the price which each of the parties has agreed to for the sale and purchase of gas is based on the entitlement to such set-off rights;

(iv) any amounts owing for the sale and purchase of delivered gas may be set-off against any losses or damages arising from any breach of, or termination of further obligations arising under or related to, the Agreement including, without limitation any Net Settlement Amount; and

(v) it would be inherently unfair for any trustee, monitor or receiver of a party to receive any amount for a portion of the obligations under the Agreement, whether performed or not, without set-off or deduction for any other outstanding obligations under or related to the Agreement."

SECTION 2 DEFINITIONS

Section 2.0 is added to the Section, as follows:

2.1.

"2.0 "Affiliate" of TD C&ET means TD Bank, TD Securities Inc. and TD Texas, Inc."

2.2. Section 2.9.1 is added to the Section, as follows:
"2.9.1 "Costs" mean all reasonable costs, legal fees and expenses incurred by the Non Defaulting Party to replace a Transaction or in connection with termination of any Transactions pursuant to Section 10.

2.3. The definition of "Credit Support Obligation(s)" in Section 2.11 is amended by deleting "a margin agreement, a prepayment," and replacing "a security interest in an asset" with "a security interest in one or more assets".

2.4. Section 2.25.1 is added to the Section, as follows:
"2.25.1 "Specified Indebtedness" means any obligation (whether present or future, contingent or otherwise, as principal or surety or otherwise) for the payment or repayment of borrowed money except that, "Specified Indebtedness" shall not include deposits received in the ordinary course of a party's banking business to the extent repayment of such deposits is prevented by governmental, judicial or regulatory action unless such action is taken when such party is insolvent."

2.5. Section 2.26.1 is added to the Section, as follows:
"2.26.1 "Threshold Amount" means: (a) with respect to TD C&ET Energy, an amount equal to 2% of the shareholders equity of The Toronto-Dominion Bank and (b) with respect to PSE, USD 25 Million."

SECTION 3 PERFORMANCE OBLIGATION

3.1. Section 3.2 "Cover Standard" is amended by inserting "for all or any part of the Gas" between "sale" and "is", in the tenth line.

SECTION 7 BILLING, PAYMENT AND AUDIT

4.1. The first sentence of Section 7.1 is amended by deleting "applicable" and inserting "payable by Buyer pursuant to the Base Contract" after "charges".

SECTION 8 TITLE, WARRANTY AND INDEMNITY

5.1. Section 8.1 is amended by: (a) inserting "Except as otherwise provided in Section 6," at the beginning of the second sentence, and (b) inserting "assume" before "any liability" in the third sentence.

5.2. Section 8.3 is amended by: (a) inserting " , its officers, directors, employees, agents and legal representatives," after "Buyer" in the first line and after "Seller" in the third line, and (b) deleting "it" in the first and third lines and inserting "each of them" in lieu thereof.

SECTION 9 NOTICES

6.1. Section 9.1 is amended by inserting " , notices" immediately after "payments."
6.2. Section 9.3 is amended by: (a) deleting "given" in the first line and replacing it with "deemed to be delivered"; (b) deleting the third occurrence of "is" in the third sentence and replacing it with "if such is received"; (c) adding "at nine a.m." after "been received" in the fourth line and after "delivered" in the last sentence; and (d) adding "at two p.m." after "been received" in the fifth line.

SECTION 10 FINANCIAL RESPONSIBILITY

7.1. The second sentence of Section 10.1 is deleted and the following is inserted in lieu thereof:
"Adequate Assurance of Performance" shall mean sufficient security in any of the following forms, and in an amount and for the term reasonably acceptable to X: (a) standby irrevocable letter of credit in form and substance reasonably acceptable to X; (b) a performance bond or guaranty (including the issuer of any such security) of a creditworthy entity, each in form and substance reasonably satisfactory to X; or (c) security as authorized and specified in the attached Margining Annex."

7.2. Section 10.2 is amended by:
(a) adding "of all or substantially all of its assets" after "assignment" in Subsection (i);
(b) deleting "48" and replacing it with "72" in subsection (vii);
(c) deleting the remainder of the sentence following "sole election," and replacing it with the following:
(A) withhold and/or suspend deliveries or payment under the Base Contract subject to "in addition to any and all other remedies available hereunder, to either immediately the Event of Default, or (B) terminate the Base Contract subject to the Event of Default."
(d) adding the following new Subsection (ix):
" (ix) by reason of any default, event of default or other similar condition or event, any Specified Indebtedness (being Specified Indebtedness of an amount which is in aggregate equal to or in excess of the Threshold Amount) of a party or any guarantor of the obligations of such party hereunder:
(A) is not paid on the due date therefor and remains unpaid after any applicable grace period has elapsed, or
(B) becomes actually due and payable under agreements or instruments evidencing such Specified Indebtedness before it would otherwise have been due and payable thereunder."

"10.9 Notwithstanding any other provision of the Agreement to the contrary, each obligation of a party ("X") under the Base Contract, including, without limitation, to make any payment, or to deliver any Gas, is subject to the following preconditions:

7.5. Section 10.9 is added to the Section, as follows:

7.4. Section 10.6 is amended by (a) inserting "Except as otherwise provided in the Base Contract," at the beginning of the second sentence and (b) deleting "other" wherever it appears in the second sentence.

If any such sum or obligation is unascertained, the Non Defaulting Party may in good faith estimate the sum or obligation and set off in respect of that estimate, subject to an accounting to the Defaulting Party when that sum or obligation is ascertained. The Non-Defaulting Party shall not be required to pay the Defaulting Party any amount under the Base Contract until the Non-Defaulting Party or any of its Affiliates receives confirmation satisfactory to it in its sole discretion that all other obligations of any kind whatsoever of the Defaulting Party or its Affiliates have been fully and finally performed."

(ii) any Net Settlement Amount payable to the Defaulting Party against any sum or obligation, whether matured or unmatured, to the Defaulting Party with respect to any and all Transaction payments, receivables, liquidated sums, accounts or any other form of payment amount under the Base Contract or any non-executory agreement between the Non-Defaulting Party and the Defaulting Party; or (iii) any Net Settlement Amount payable to the Defaulting Party against any such sum or obligation, under any form of swap, derivative or hedging transaction or agreement, payable by an Affiliate of the Non-Defaulting Party to the Defaulting Party.

7.3. Section 10.3.2 ("Other Agreement Setoffs Apply") is amended by deleting clause (ii) of the second sentence and replacing it with the following:

"Any dispute of a payment amount as referenced in Subsection (viii) must be documented in writing with all detailed particulars and delivered to the Non Defaulting Party no later than one (1) Business Day after Notice of the Event of Default has been served. The parties must use all good faith commercially reasonable and expeditious efforts to resolve any bona fide dispute by mutual agreement of the senior financial officers of each party, no later than three (3) Business Days after receipt of the payment dispute notice. If after such 3-Business Day period the dispute is not resolved, the Non Defaulting Party may elect to proceed to terminate the Transaction or Transactions that have been the subject of the dispute, and may pursue any other rights and remedies available to it under and in accordance with the provisions of the Base Contract."

(f) adding the following sentence to the end of the Section:

"; provided, however, that an Event of Default shall not be deemed to have occurred or continuing under the Base Contract so long as the Defaulting Party is disputing in good faith with the Non-Defaulting Party that any payment amount subject to such dispute is then due;"

(e) under Subsection (viii), after the word "due", adding the words,

11.1. Section 14.1 is amended by replacing "approval" with "consent" in the sixth line.

SECTION 14. MISCELLANEOUS

10.1. The fifth sentence of Section 13 is amended by deleting "UNLESS EXPRESSLY HEREIN PROVIDED" and replacing them with "EXCEPT FOR ANY LIABILITY ARISING UNDER SECTION 8.3 AND, IF APPLICABLE, SECTION 14.10 AND AS OTHERWISE SPECIFICALLY PROVIDED HEREIN", UNDER ANY INDEMNITY PROVISION.

SECTION 13. LIMITATIONS

9.1. The first sentence of Section 12 is amended by inserting "Base" before "Contract."

SECTION 12. TERM

11.7. Seller and Buyer will each make reasonable efforts to avoid the adverse impacts of a Force Majeure and to resolve the event or occurrence once it has occurred in order to resume performance. Without limiting the generality of the foregoing, a Force Majeure event must directly and materially cause the claiming party to fail to perform under one or more Transactions under the Base Contract. If the Force Majeure event partially restrains one party from performing its delivery or receipt obligations under any Transaction at the specified Delivery Point, then the restrained party will continue to deliver to or receive from the other party, as the case may be, on a pro rata basis, as determined among the other party and all of the other firm customers of the restrained party transacting at the applicable Delivery Point. The pro rata determination specifically will have regard for the daily firm volumetric delivery obligations then owed to the other party and each other firm customer, but without regard to the price paid under any transaction by the other party and the other firm customers."

8.1. Section 11.1 is amended by inserting "and that such party is not able to avoid through reasonable diligence" at the end of the second sentence
8.2. Section 11 is amended by adding the following new Section 11.7:

SECTION 11. FORCE MAJEURE

- (i) no Event of Default has occurred and is continuing with respect to the other party;
- (ii) no Early Termination Date for which any unsatisfied payment obligation exists has occurred or been designated as the result of an Event of Default with respect to the other party;
- (iii) no event of default or event or circumstance analogous to those set forth in subparagraphs (i) and (ii) above shall have occurred and be continuing with respect to the other party or any of its Affiliates under or pursuant to any agreement or instrument between (A) X and/or any of its Affiliates and (B) the other party and/or any of its Affiliates."

Section 14.7 is amended by inserting "other than each of the parties indemnified under Section 8.3" at the end of such sentence

11.2.

11.3. Section 14.8 is deleted in its entirety and the following is inserted in lieu thereof:
Each party represents to the other party (which representations will be deemed to be repeated by each party on each date on which a Transaction is entered into) that:

- (i) *Status*. It is duly organised and validly existing under the laws of the jurisdiction of its organisation or incorporation and, if relevant under such laws, in good standing;
- (ii) *Powers*. It has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and any other documentation relating to this Base Contract that it is required by this Agreement to deliver and to perform its obligations under this Agreement and has taken all necessary action to authorise such execution, delivery and performance;
- (iii) *No Violation or Conflict*. Such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgement of any court or other agency of government applicable to it or any of its assets or any material contractual restriction binding on or affecting it or any of its assets;

(iv) *Consents*. All governmental and other consents that are required to have been obtained by it with respect to this Agreement have been obtained and are in full force and effect and all conditions of any such consents have been complied with;

(v) *Obligations Binding*. Its obligations under this Agreement constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms, subject to applicable bankruptcy, reorganisation, insolvency, moratorium or similar 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);

(vi) *Absence of Certain Events*. No Event of Default or potential Event of Default with respect to it has occurred and is continuing;

(vii) *Non-Reliance*. It is acting for its own account, and it has made its own independent decisions to enter into that Transaction and as to whether that Transaction is appropriate or proper for it based upon its own judgement and upon advice from such advisors as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into that Transaction; it being understood that information and explanations related to the terms and condition of a Transaction shall not be considered investment advice or a recommendation to enter into that Transaction. It has not received from the other party any assurance or guarantee as to the expected results of that Transaction;

(viii) *Evaluation and Understanding*. It is capable of evaluating and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of that Transaction. It is also capable of assuming, and assumes, the financial and other risks of that Transaction;

(ix) *Status of Parties*. The other party is not acting as a fiduciary or an advisor for it in respect of that Transaction.

11.4. Section 9.2 of the Base Contract is amended by adding "in the United States or standard Lettermail in Canada" after "first class mail".

11.5. Section 6.3.1 of the "Canadian Addendum" is amended by deleting "possible" in the second sentence and replacing it with "practicable."

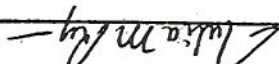
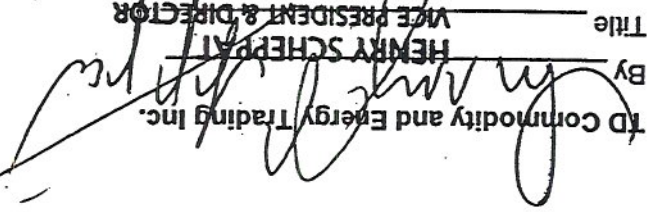
11.6. This Agreement is subject to the rules, regulations, orders and other requirements, now or hereafter in effect, of all governmental and regulatory authorities having jurisdiction over this Agreement, hereafter in effect, of governmental and regulatory authorities that are required to be incorporated in agreements of this character are by this reference incorporated in this Agreement.

11.7. Except as expressly provided in this Agreement, all of the terms and conditions of the Base Contract and the General Terms and Conditions shall remain unchanged and in full force and effect and all such terms and conditions of the Base Contract and the General Terms and Conditions are by this reference incorporated into this Agreement with the same force and effect as if fully set forth herein.

11.8. The parties to this Agreement agree that the disclaimer statement appearing at the bottom of the General Terms and Conditions is entirely for the benefit of the North American Energy Standards Board, Inc. and that as between the parties to this Agreement such disclaimer shall not affect the meaning, interpretation or construction of this Agreement.

11.9. The section headings contained in this Agreement are for convenience of reference only and shall not be used in any way to affect, interpret or construe any of the provisions of this Agreement.

11.10. This Agreement shall be effective upon execution and delivery by each of PSE and TD C&ET.

By		By	
	JULIA M. RYAN		HENRY SCHEPAT
Title	VICE PRESIDENT	Title	VICE PRESIDENT & DIRECTOR
Date	8/6/03		ENERGY PORTFOLIO MANAGEMENT
			TREASURY CREDIT

Puget Sound Energy, Inc.

TD Commodity and Energy Trading Inc.

Exhibit C

MARGINING ANNEX

TO THE BASE CONTRACT
FOR THE SALE AND PURCHASE OF NATURAL GAS (NAESB)

BETWEEN

TD COMMODITY AND ENERGY TRADING INC. ("TD C&E")

AND

PUGET SOUND ENERGY, INC. ("Counterparty")

DATED July 15, 2003 (the "Base Contract")

SECTION 1 - BASE CONTRACT SUPPLEMENT AND ADDENDUM, AND INTERPRETATION

1.1 These credit terms and conditions (the "Margining Annex") are attached to and form a part of the Base Contract between TD C&E and the Counterparty. The Base Contract is amended and supplemented in accordance with the following terms and conditions.

1.2 Capitalized terms not otherwise defined in this Margining Annex have the meanings specified in the Base Contract, and all references in this Margining Annex to Sections are to Sections in this Margining Annex unless otherwise specified to be references to Sections of the Base Contract.

1.3 In the event of any inconsistency between this Margining Annex and the provisions of the Base Contract, the provision of this Margining Annex will prevail.

SECTION 2 - DEFINITIONS

2.1 The following terms when used in this Margining Annex have the following meanings:

"Cash" means the lawful currency of Canada or the United States of America.

"Contract Exposure" means:

(i) the dollar amount determined pursuant to Section 10 of the Base Contract that would be payable from the Providing Party to the Requesting Party as if a Early Termination Date had been declared pursuant to that Section 10, (notwithstanding whether or not a Event of Default has actually occurred), and all Transactions had been terminated and reduced to one liquidated sum owing as the Total Termination Payment; PLUS

(ii) the net amount of all other payments due and owing by the Providing Party but not yet paid to the Requesting Party for performance already provided pursuant to all Transactions under the Base Contract; MINUS

(iii) the total dollar amount of any and all forms of Eligible Collateral then held by TD C&E as posted by the Counterparty, but subject to Section 7 below.

"Credit Event" has the meaning set out in Section 6.1 below.

"Credit Support Provider" means a third party providing a guaranty for a Party pursuant to this Margining Annex, as such third party (if any) is specified on the Cover Sheet to the Base Contract.

"Defaulting Party" has the meaning set forth in Section 10.2 of the Base Contract.

"Dollars" (and the symbol "\$") means, unless otherwise specified, dollars in the lawful currency of Canada or the United States of America.

"Party" means a party to the Base Contract and this Margining Annex.

"Eligible Collateral" means collateral in the form of Cash, negotiable debt obligations issued by the US Treasury Department or Government of Canada, Letters of Credit, or other security mutually agreed upon by the Providing Party and the Requesting Party, acceptable to the Requesting Party at its sole discretion.

"Letter of Credit" means an irrevocable, transferable, standby letter of credit from a Qualified Institution and utilizing a form acceptable to the Requesting Party.

"Material Adverse Change" means an event in the nature of a paragraph (iv) Event of Default under the Base Contract has occurred with respect to indebtedness of a Party or its Credit Support Provider, that has resulted in an acceleration of such indebtedness in an aggregate amount in excess of the Threshold Amount as defined in the Base Contract.

"Non-Defaulting Party" has the meaning set forth in Section 10.2 of the Base Contract.

"Obligation" means all present and future obligations under the Base Contract and any other contractual arrangements between the Providing Party and the Requesting Party in connection with the Base Contract.

"Providing Party" means the a party to the Base Contract, when that Party:

- (i) receives a demand for and is required to transfer and post Eligible Collateral under this Margining Annex; or
- (ii) has actually transferred and posted Eligible Collateral.

"Requesting Party" means a Party to the Base Contract, when that Party:

- (i) makes a demand for and is entitled to receive Eligible Collateral under this Margining Annex; or
- (ii) holds or is deemed to hold posted Eligible Collateral.

"Qualified Institution" means the domestic office of a commercial bank or trust company (which is not an Affiliate of the Counterparty):

- (i) organized under the laws of United States or any one of its states, or Canada or any one of its provinces;
- (ii) having assets of at least \$10 Billion; and
- (iii) having a Credit Rating of at least A- by S&P and at least A3 by Moody's.

"Security Threshold" means:

- (a) for the Counterparty, on any date of determination, the lowest of:
 - (i) CAD 5,000,000, and
 - (ii) zero, if a Material Adverse Change or an Event of Default has occurred and is continuing with respect to that Party or its Credit Support Provider;

- 5.1 Eligible Collateral provided in the form of a Letter of Credit shall be subject to the following provisions. The Providing Party shall:
 - (i) renew or cause the renewal of each outstanding Letter of Credit on a timely basis as provided for in the relevant Letter of Credit;
 - (ii) if the Qualified Institution that issued an outstanding Letter of Credit has indicated its intent not to renew the Letter of Credit, provide a substitute Letter of Credit at least thirty (30) Business Days prior to the expiration of that outstanding Letter of Credit.
- 5.2 If a Qualified Institution issuing a Letter of Credit fails to honor the Requesting Party's properly documented request to draw on an outstanding Letter of Credit, then the Providing Party shall provide and post for the benefit of the Requesting Party:
 - (i) a substitute Letter of Credit, that is issued by a Qualified Institution acceptable to the Requesting Party, other than the one that failed to honor the outstanding Letter of Credit; or
 - (ii) other Eligible Collateral;

SECTION 5 - LETTER OF CREDIT PROVISIONS

- 4.1 In order to secure all Obligations of TD C&ET hereunder, TD C&ET shall cause its Credit Support Provider to execute and deliver to Counterparty a guaranty agreement in a form and substance reasonably satisfactory to Counterparty. The guaranty shall be executed and delivered concurrently with the execution and delivery of the Base Contract.

SECTION 4 - CREDIT SUPPORT PROVIDER GUARANTY

- 3.1 If at any time, and from time to time during the term of the Base Contract, the Base Contract Exposure for the Providing Party exceeds the Security Threshold, then the Requesting Party may request that the Providing Party provide Eligible Collateral in an amount equal to the amount by which the Providing Party's Base Contract Exposure exceeds its Security Threshold.
- 3.2 On any Business Day (but no more frequently than once a business week with respect to Letters of Credit and daily with respect to Cash), the Providing Party, at its sole cost, may request that the amount of Eligible Collateral be reduced based upon a decrease in the Base Contract Exposure as calculated on such Business Day. All communications regarding delivery or return of Eligible Collateral must be delivered on a taped telephone line, and confirmed in writing by Fax or E-mail correspondence.
- 3.3 Any Eligible Collateral being provided or returned shall be delivered within two (2) Business Days of the date of such request. The amount of Eligible Collateral being provided by the Providing Party or returned by the Requesting Party shall be rounded to the next multiple of \$100,000.

SECTION 3 - SECURITY THRESHOLD

- (b) for TD C&ET, on any date of determination, the lowest of:
 - (i) CAD 10,000,000, and
 - (ii) zero, if a Material Adverse Change or an Event of Default has occurred and is continuing with respect to that Party or its Credit Support Provider.

in each case within one(1) Business Day after the Providing Party receives notice of such refusal.

5.3 A Letter of Credit shall provide that the Requesting Party may draw upon the Letter of Credit in an amount (up to the face amount for which the Letter of Credit has been issued) that is equal to all amounts that are due and owing from the Providing Party, but have not been paid to the Requesting Party within the applicable time allowed, notice period or grace or cure period for such payments under the Base Contract or this Margining Annex.

5.4 A Letter of Credit shall provide that a drawing be made on the Letter of Credit upon submission to the Qualified Institution issuing the Letter of Credit of one or more certificates specifying the amounts due and owing to the Requesting Party in accordance with the specific requirements of the Letter of Credit.

5.5 If the Providing Party fails to renew, substitute, or sufficiently increase the amount of an outstanding Letter of Credit, or establish one or more additional Letters of Credit, or otherwise provide sufficient Eligible Collateral, and as a result of such failure the Base Contract Exposure for that Providing Party exceeds the Security Threshold, then the Requesting Party may draw upon the entire, undrawn portion of any outstanding Letter of Credit upon submission to the Qualified Institution of one or more certificates specifying the amount due and owing to the Requesting Party in accordance with the specific requirements of the Letter of Credit. The Providing Party shall remain liable for any amounts due and owing to the Requesting Party and remaining unpaid after the application of the Letter of Credit amounts so drawn by the Requesting Party.

5.6 In all cases, the costs and expenses (including but not limited to reasonable costs, expenses, and external attorney's fees of the Requesting Party) of establishing, renewing, substituting, canceling, increasing, and reducing the amount of (as the case may be) one or more Letters of Credit shall be borne by the Providing Party.

SECTION 6 - SECURITY INTEREST

6.1 The Providing Party and a pledgor of Eligible Collateral other than Cash, hereby pledges to the Requesting Party and a secured party, as security for its Obligations, and grants to the Requesting Party a first and continuing security interest in, lien on and right of set off against all Eligible Collateral transferred to or received by the Requesting Party hereunder.

6.2 Upon the return transfer by the Requesting Party to the Providing Party of any such Eligible Collateral, the security interest and lien granted hereunder on that posted Eligible Collateral will be released immediately and, to the extent possible, without any further action by either Party.

6.3 If there is the occurrence and continuance of an Event of Default with respect to the Providing Party, then, unless the Providing Party has satisfied in full all of its payment and performance obligations under the Base Contract that are then due, the Requesting Party may effect any or all of the following remedies:

- (i) exercise any of the rights and remedies of a secured party under applicable law with respect to all Eligible Collateral then held by the Requesting Party;
- (ii) in accordance with Section 10 of the Base Contract, exercise setoff and net out of amounts determined under that Section 10 against any and all such Eligible Collateral;
- (iii) draw on any Letter of Credit issued for its benefit; and
- (iv) otherwise liquidate all Eligible Collateral then posted by the Providing Party and held by the Requesting Party, free from any claim or right of any nature whatsoever of the Providing Party.

6.4 The Requesting Party may elect to either:

9.1 This Margining Annex may only be assigned concurrently with the Base Contract, and otherwise in accordance with the assignment provisions of Section 14.1 of the Base Contract.

SECTION 9 - ASSIGNMENT

8.1 The following events (each, a "Credit Event") shall be additional Events of Default under the Base Contract and the Non-Defaulting Party shall have the right to exercise any of the remedies provided for under Section 10 of the Base Contract upon the occurrence of any such Credit Event:

- (i) the failure of a Party to establish, maintain, extend or increase Eligible Collateral when required pursuant to this Margining Annex; or
- (ii) the failure of a Party's Credit Support Provider to perform or honor any covenant set forth in any guaranty agreement delivered pursuant to this Margining Annex.

SECTION 8 - ADDITIONAL CREDIT RELATED EVENTS OF DEFAULT

7.2 The Providing Party is entitled to the repayment of the amount of any such Cash so posted only as provided for in this Margining Annex. Although no security interest is created in any such Cash posted as Eligible Collateral, the Providing Party hereby pledges to the Requesting Party, as security for its performance and obligations under the Base Contract and this Margining Annex, and grants to the Requesting Party a first priority continuing security interest in, lien on, and right of set off against the obligation of the Requesting Party to repay the amount of such Eligible Collateral posted as Cash. The Requesting Party's repayment obligations shall not be included in determining the value of Eligible Collateral, although the value of any such Cash shall be included in determining such value.

7.1 With respect to Eligible Collateral posted as Cash and notwithstanding Section 6 above, the Parties agree that the relationship between the Requesting Party and Providing Party is a relationship of creditor and debtor, respectively, and that all right, title and interest in any Eligible Collateral so posted as Cash is transferred absolutely by the Providing Party to the Requesting Party. For greater certainty, no security interest in such Cash is intended to be created by the Base Contract and this Margining Annex.

SECTION 7 - CASH COLLATERAL

(i) apply the proceeds of any Eligible Collateral realized upon exercise of such rights or remedies to reduce the Providing Party's obligations under the Base Contract, in such order as it elects, and the Providing Party shall remain liable for any amounts owing to the Requesting Party after such application; or

(ii) hold such proceeds as collateral security for the Providing Party's obligations under the Base Contract.

AMENDING CONTRACT

BETWEEN

PUGET SOUND ENERGY, INC.

AND

TD COMMODITY & ENERGY TRADING INC.

WHEREAS the parties entered into a NAESB Base Contract dated as of July 15, 2003, as may be amended from time to time (the "Contract") under which the parties intend to enter or have entered into one or more Transactions Confirmation(s) (as defined in the Contract).

AND WHEREAS the parties desire to amend the Contract

NOW THEREFORE FOR VALUABLE CONSIDERATION the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Any capitalized terms used herein unless specifically defined in this Amending Contract shall have the meanings given them in the Contract.

2. Exhibit C to the Contract shall be amended by deleting the definition of "Security Threshold" in Section 2.1 and replacing it as follows:

"Security Threshold" means:

(a) for the Counterparty, on any date of determination, the lowest of:

(i) USD 10,000,000, and

(ii) zero, if a Material Adverse Change or an Event of Default has occurred and is continuing with respect to that Party or its Credit Support Provider,

and

(b) for TD C&ET, on any date of determination, the lowest of:

(i) USD 10,000,000, and

(ii) zero, if a Material Adverse Change or an Event of Default has occurred and is continuing with respect to that Party or its Credit Support Provider.

3. Section 2.1 of Exhibit C to the Contract shall be amended by adding the following definitions:

"Business Day" means, for the purposes of Exhibit C, a day on which commercial banks are open for business in Toronto, New York and the State of Washington.

"Interest Amount" means, with respect to an Interest Period, the aggregate sum of the amounts of interest calculated for each day in that Interest Period on the principal amount of Eligible Collateral in the form of Cash held by the Requesting Party on that day, determined by the Requesting Party for each such day as follows:

- (a) the amount of that Cash on that day, multiplied by
- (b) the Interest Rate in effect for that day, divided by
- (c) 360, or 365, as applicable.

"Interest Period" means the period from (and including) the last Business Day on which an Interest Amount was transferred (or, if no Interest Amount has yet been transferred, the Business Day on which Eligible Collateral in the form of Cash was transferred to or received by the Requesting Party) to (but excluding) the Business Day on which the current Interest Amount is to be transferred.

The "Interest Rate" for any day means the "Federal Funds (Effective)" rate in effect for such day, as published in the weekly statistical release designated as H.15 (519) (or any successor publications) by the Board of Governors of the Federal Reserve System or as published in another source mutually agreed by the parties.

4. Section 3 shall be deleted and replaced as follows:

"SECTION 3 - SECURITY THRESHOLD

3.1 If at any time, and from time to time during the term of the Base Contract, the Base Contract Exposure for the Providing Party exceeds the Security Threshold by an amount equal to or greater than the Providing Party's Minimum Transfer Amount then the Requesting Party may request that the Providing Party provide Eligible Collateral in an amount equal to the amount by which the Providing Party's Base Contract Exposure exceeds its Security Threshold.

3.2 On any Business Day (but no more frequently than once a business week with respect to Letters of Credit and daily with respect to Cash), the Providing Party, at its sole cost, may request that the amount of posted Eligible Collateral be reduced based upon a decrease in the Base Contract Exposure as calculated on such Business Day, if the value of Eligible Collateral that would be returned to the Providing Party is equal to or greater than the Requesting Party's Minimum Transfer Amount. All communications regarding delivery or return of Eligible Collateral must be delivered on a taped telephone line, and confirmed in writing by fax or e-mail correspondence.

3.3 Any Eligible Collateral being provided or returned shall be delivered within two (2) Business Days of the date of such request. The amount of Eligible Collateral being provided by the Providing Party or returned by the Requesting Party shall be rounded up or down respectively to the next multiple of USD10,000.

3.4 The Minimum Transfer Amount applicable to both parties shall be USD 100,000."

5. SECTION 7 - Cash Collateral is amended by adding the following new subsections 7.3 and 7.4:

"7.3 Where the Eligible Collateral held by the Requesting Party is Cash, the Requesting Party shall transfer the Interest Amount to the Providing Party as follows:

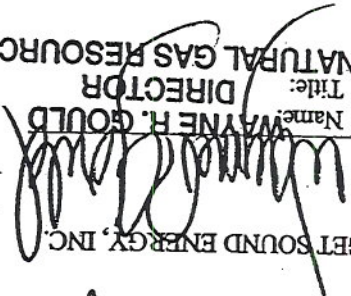
(i) Transfer in arrears. The transfer of the Interest Amount will be made in arrears on the last Business Day of each calendar month and on any Business Day that Eligible Collateral in the form of Cash is transferred to the Providing Party.

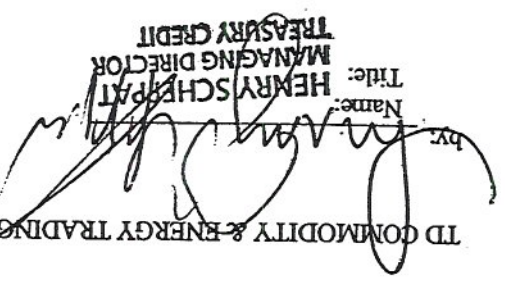
(ii) Compounding Interest. The Interest Amount will compound on each Business Day.

7.4 Overnight Posted Collateral Transfer. Counterparty agrees with TD C&E that when TD C&E acts as Requesting Party, all Eligible Collateral in the form of Cash will, at the end of each Business Day, be invested in a deposit at the Cayman Island branch of The Toronto-Dominion Bank until the following Business Day. Such deposits at the Cayman Island branch shall earn interest at the Interest Rate as more fully described herein. Payment of the principal and interest on any such deposit at the Cayman Island branch may be demanded only at the Cayman Island branch. Unless otherwise instructed by Counterparty, amounts deposited in the Cayman Island branch will be credited to Counterparty's collateral account at the beginning of business on the Business Day following the Local Business Day on which the funds were deposited in the Cayman Islands branch, provided that, notwithstanding anything hereinabove to the contrary, Counterparty shall earn interest on any such Eligible Collateral in the form of Cash from (and including) the date of transfer thereof by Counterparty to The Toronto-Dominion Bank's New York branch."

- 6. The execution of this Amending Contract effectively amends the Contract and the terms and conditions contained therein. Except as amended herein, the parties hereby confirm that in all other respects the terms, covenants and conditions of the Contract remain unchanged, unmodified, and in full force and effect.
- 7. This Amending Contract shall be interconnective and form part of the Contract and shall be binding on and ensure to the benefit of the parties and their respective successors and assigns.
- 8. This Amending Contract shall be governed and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein.

Dated as of this 18th day of August, 2004

by: 
 Name: WAYNE H. GOULD
 Title: DIRECTOR
 NATURAL GAS RESOURCES

TD COMMODITY & ENERGY TRADING INC.
 by: 
 Name: HENRY SCHEPAT
 Title: MANAGING DIRECTOR
 TREASURY CREDIT



"Base Contract Exposure" means:

- (B) by deleting the definition of "Contract Exposure" in its entirety and replacing it with the following:
 - (i) zero, if a Material Adverse Change or an Event of Default has occurred and is continuing with respect to that Party or its Credit Support Provider.
 - (ii) USD 30,000,000, and
 - (b) for TD C&ET, on any date of determination, the lower of:
 - (i) USD 30,000,000, and
 - (ii) zero, if a Material Adverse Change or an Event of Default has occurred and is continuing with respect to that Party or its Credit Support Provider,
- (A) for the Counterparty, on any date of determination, the lower of:
 - (i) USD 30,000,000, and
 - (ii) zero, if a Material Adverse Change or an Event of Default has occurred and is continuing with respect to that Party or its Credit Support Provider,

"Security Threshold" means:

- (A) By deleting the definition of "Security Threshold" and replacing it with the following:

Section 2.1 of Exhibit C to the NAESB shall be amended as follows:

1. Any capitalized terms used herein unless specifically defined in this Second Amending Contract shall have the meanings given them in the NAESB.

acknowledged, the parties hereto agree as follows:

NOW THEREFORE FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby

AND WHEREAS the parties desire to amend the NAESB as set forth herein,

WHEREAS the parties hereto entered into a NAESB Base Contract dated as of July 15, 2003, as amended by the Amending Contract dated as of August 10, 2004 between the parties hereto and as may be further amended from time to time (the "NAESB") under which the parties intend to enter, or have entered into, one or more Transaction (s) Confirmation (as defined in the NAESB);

TD COMMODITY & ENERGY TRADING INC.

AND

PUGET SOUND ENERGY, INC.

BETWEEN

SECOND AMENDING CONTRACT

TD Commodity & Energy Trading Inc.
800 Home Oil Tower
324 - 8th Avenue SW
Calgary, Alberta T2P 2Z2



(i) the Net Settlement Amount determined pursuant to Section 10.3.2 of the Base Contract, as if an Early Termination Date had been declared on any given Day during the term of the Base Contract (notwithstanding whether or not an Event of Default has actually occurred); PLUS

(ii) the net amount of all other payments due and owing by the Providing Party but not yet paid to the Requesting Party for performance already provided pursuant to all transactions under the Contract MINUS

(iii) the total dollar amount of any and all forms of Eligible Collateral then held by a Requesting Party as posted by the Providing Party.

(C) by deleting the reference to "Section 6.1" in the definition of "Credit Event" and replacing it with the words "Section 8.1"; and

(D) by deleting the reference to "Counterparty" in the second line of the definition of "Qualified Institution" and replacing it with "TD C&ET."

3. In Section 3.2, delete the reference to "daily" in the second line and replace it with the words "once in a Business Day".

4. In Section 5.5, add the following words to the fourth line between the words "Security Threshold" and ", then the Requesting Party": "by an amount equal to or greater than the Minimum Transfer Amount".

5. The execution of this Second Amending Contract amends the NAESB and the terms and conditions contained therein. Except as amended hereby, the parties confirm that in all other respects the terms and conditions and conditions of the NAESB remain unchanged, unmodified and in full force and effect.

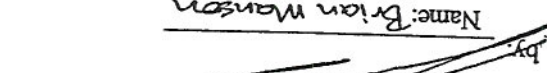
6. This Second Amending Contract shall be interconnective, shall form part of the NAESB and shall be binding on and ensure to the benefit of the parties and their respective successors and assigns.

7. This Second Amending Contract shall be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein.

8. This Second Amending Contract may be executed in any number of counterparts and by the parties in separate counterparts (including facsimile transmission), each of which, when so executed will be deemed to be an original and all of which taken together will constitute one and the same instrument.

Dated as of this 4th day of October 2004.

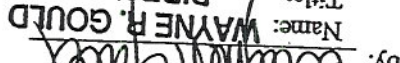
TD COMMODITY & ENERGY TRADING INC.

by: 

Name: Brian Manson

Title: President + Chief Executive Officer

PUGET SOUND ENERGY, INC.

by: 

Name: WAYNE R. GOULD

Title: DIRECTOR

NATURAL GAS RESOURCES