PRIVILEGED INFORMATION ENCLOSED - DO NOT RELEASE

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June 5, 2001

ALMATY BEIJING

Office of Fuels Programs Fossil Energy United States Department of Energy FE-50 Forrestal Building 1000 Independence Avenue, S.W. Washington, DC 20585

100 -5 A II:

Re:

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LOS ANGELES

SALT LAKE CITY

SAN FRANCISCO

WASHINGTON, D.C.

Application of H.O. Energy Services (U.S.) Inc. for Long-Term Authority to Import Natural Gas

Dear Sir or Madam:

Pursuant to Part 590 of the Regulations of the Department of Energy ("DOE"), 10 C.F.R. Part 590 (2001), H.Q. Energy Services (U.S.) Inc. ("HQUS") hereby submits an original and fifteen (15) copies of the "Application of H.Q. Energy Services (U.S.) Inc. for Long Term Authority to Import Natural Gas From Canada," together with a check in the amount of fifty dollars (\$50.00) payable to the "Treasury of the United States" as required by Section 590.207 of the DOE's regulations. Attached to the Application as required by the DOE's regulations are: (i) a notarized verification; (ii) an opinion of counsel as required by Section 590.202(c) of the DOE's regulations; and (iii) a redacted version of the natural gas agreement (the "Agreement") for placement in the public files maintained by the DOE's Office of Fuels Programs, Fossil Energy ("DOE/FE").

Pursuant to Section 1004.11(e) of the DOE's regulations, as incorporated by Section 590.202(e), HQUS hereby provides one copy of an original un-redacted version of the Agreement for DOE/FE's review. HQUS requests confidential treatment of the original version of the Agreement, which is being provided in a separate sealed package clearly marked on both the package and the document itself with the following notation: "CONTAINS PRIVILEGED INFORMATION - DO NOT RELEASE."

In accordance with Section 1004.11(f) of the DOE's regulations, HQUS states as follows:

- (1) The information contained in the un-redacted version of the Agreement is held in confidence by HQUS and Marketing d'Énergie HQ Inc. ("MEHQ"), the two parties to the Agreement.
- (2) The information that HQUS seeks to keep confidential is of the type customarily held in confidence by the person to whom it pertains and there is a reasonable basis for holding the redacted terms of the Agreement in confidence. The redacted information is commercially sensitive and relates to the financial terms of the Agreement. HQUS and MEHQ are whollyowned subsidiaries of Hydro-Québec, a Crown corporation in the right of Québec. The information contained in the Agreement therefore relates both to the commercial terms of a private business agreement and concerns an agreement between two wholly-owned subsidiaries of a foreign governmental entity.
- (3) HQUS is expressly providing the un-redacted version of the Agreement to the DOE/FE in confidence pursuant to Section 1004.11(e) of the DOE's Regulations in order to assist the DOE/FE in its determination that the information redacted from the public version of the Agreement is subject to exemption from disclosure pursuant to the Freedom of Information Act, 5 U.S.C. § 552(b)(5).
- (4) The disclosure of the redacted information is likely to cause substantial harm to the competitive position of HQUS. HQUS resells the imported natural gas to Bucksport Energy, LLC ("Bucksport"), which owns and operates a natural gas-fired cogeneration facility. HQUS has also agreed to purchase the uncommitted electricity from Bucksport for sale to third parties at negotiated, market-based rates. Thus, the disclosure of the redacted terms of the Agreement would provide competitors with information about their fuel costs and supply arrangements.
- (5) The disclosure of the information also would adversely affect the competitive position of HQUS and MEHQ when negotiating agreements with other parties for natural gas purchases or sales.

HQUS requests that the appropriate DOE/FE staff persons review the confidential version of the Agreement and after the review process is completed, return the confidential version to the following person:

André McManus Hydro-Québec 75 René-Lévesque Boulevard, 17th floor Montreal, Québec H2Z 1A4

Please contact the undersigned if you have any questions concerning this application or the request for confidential treatment. In addition, to the extent that the DOE/FE may consider denying the request for confidential treatment and plans to release the confidential materials to

Office of Fossil Fuels June 5, 2001 Page 3

the public pursuant to Section 1004.11(e) of the DOE's regulations, please provide notice of such a determination to both Mr. McManus and to the undersigned.

Respectfully submitted,

Lija Mores

H. Liza Moses

Counsel for HQ Energy Services (U.S.) Inc.

Enclosures

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

REC'D DOE/FE 2001 JOY -5 A II:

H.Q. ENERGY SERVICES (U.S.) INC.)	Docket No. FE01- $\underline{\mathcal{I}}$ - NG
)	

APPLICATION OF H.Q. ENERGY SERVICES (U.S.) INC. FOR LONG TERM AUTHORITY TO IMPORT NATURAL GAS FROM CANADA

Pursuant to Section 3 of the Natural Gas Act (15 U.S.C. § 717b), Section 590.201 et seq. of the Regulations of the Department of Energy, Office of Fossil Energy ("DOE/FE") (10 C.F.R. § 590.201, et seq.) and Section 201 of the Energy Policy Act of 1992 (the "Energy Policy Act"), 15 U.S.C. § 717b(c), H.Q. Energy Services (U.S.) Inc. ("HQUS" or "Applicant") hereby requests long-term authorization to import natural gas from Canada. In support of this Application, HQUS respectfully states as follows:

I. COMMUNICATIONS

All correspondence and communications regarding this application should be addressed to the following:

Pierre F. de Ravel d'Esclapon, Esq. H. Liza Moses, Esq. LeBoeuf, Lamb, Greene & MacRae, L.L.P. 125 W. 55th Street New York, New York 10019 212-424-8224 lmoses@llgm.com

Paul M. Charbonneau, Avocat Marchand, Lemieux 75 René-Lévesque Boulevard, 4th floor Montreal, Québec H2Z 1A4

Andre McManus Hydro-Québec 75 René-Lévesque Boulevard, 17th floor Montreal, Québec H2Z 1A4 514-289-3688

II. BACKGROUND

The exact legal name of the Applicant is H.Q. Energy Services (U.S.) Inc. HQUS is a corporation organized and existing under the laws of the State of Delaware. HQUS is a marketer of electricity and natural gas. Its principal place of business is located at Airport Office Park Building Five, 345 Rouser Road, Coraopolis, Pennsylvania. HQUS is a wholly owned indirect subsidiary of Hydro-Québec, a Crown corporation in the right of Québec, Canada.

HQUS is obligated to supply natural gas to Bucksport Energy, LLC ("Bucksport"), which has constructed a 185 MW (maximum net output) natural gas-fired cogeneration facility near Bucksport, Maine. The facility commenced operations January 29, 2001. HQUS also will purchase all of the electrical output of Bucksport's facility which is not committed to other purposes and will resell the electricity at negotiated rates. Affiliates of HQUS hold 49.9 percent of the ownership interests in Bucksport.

In order to satisfy its natural gas supply obligations to Bucksport, HQUS has entered into a Natural Gas Sales Agreement (the "Agreement") with Marketing d'Énergie HQ Inc. ("MEHQ"), a body corporate incorporated under the laws of Québec and a wholly-owned subsidiary of Hydro-Québec. MEHQ intends to supply natural gas to HQUS from the Sable Offshore Energy Project (the "Sable Project") in the Sable Island area off the coast of Nova Scotia, Canada. MEHQ has arranged for firm transportation service on Maritimes and Northeast Pipeline Project ("Maritimes and Northeast Pipeline") from the Sable Project to the U.S. border.

HQUS will purchase natural gas from MEHQ at the interconnection point between St-Stephen in New Brunswick, Canada and Calais, Maine on the Maritimes and Northeast Pipeline. HQUS has arranged for firm transportation service on the Maritimes and Northeast Pipeline from the U.S. border to a connection with the system of Bangor Gas Company, a local distribution company, which provides delivery service on behalf of HQUS to Bucksport's facility.

III. AUTHORIZATION REQUESTED

HQUS hereby requests long-term authority to import from Canada up to 48,500 Mcf per day¹ for a period of fifteen (15) years, a total of 266 Bcf, commencing as of the date of first delivery of natural gas to HQUS under the Agreement.

IV. THE NATURAL GAS AGREEMENT

The Agreement between HQUS and MEHQ is dated as of July 15, 1999. The initial term of the Agreement is five years, which commenced as of December 15, 2000. The Agreement may be renewed by either party for up to two subsequent five-year terms upon written notice to the other party one year prior to the expiration of the then-current five-year term. Each renewal term is subject to the availability of transportation on the Maritimes and Northeast Pipeline and mutual agreement by the parties with respect to the commodity price and the transportation rate.

HQUS is obligated to take and purchase, and MEHQ is obligated to deliver, the quantity of natural gas nominated by HQUS. The Agreement provides for a maximum quantity of 48,500 MMBtu per day on a firm basis. Certain daily and annual minimum take requirements apply.

Converted using the assumption that 1,000 Btu = 1 cubic foot.

The commodity rate to be paid by HQUS in the initial five-year term is based on a base rate and components reflecting published natural gas price indices for Canada, New England and NYMEX Henry Hub prices, plus MEHQ's transportation costs on Maritimes Northeast Pipeline from Goldboro, Nova Scotia to the U.S. border.

V. PUBLIC INTEREST

HQUS submits that the requested long-term import authorization, if granted, will be consistent with the public interest, as required by Section 3 of the Natural Gas Act. 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 in the public interest, and that applications for such importation and exportation shall be granted without modification or delay. Because this Application is for the importation of natural gas from Canada, a nation with which the United States has a free trade agreement, Applicant submits that this application is in the public interest.

VI. ENVIRONMENTAL IMPACT

No new facilities will be constructed in the United States by Applicant for the proposed importation of natural gas. Consequently, granting this application will not be a federal action significantly affecting the quality of the human environment within the meaning of the National Environmental Policy Act, 42 U.S.C. § 4321, et seq. Therefore, an environmental impact statement or environmental assessment is not required.

VII. REPORTING REQUIREMENTS

With respect to all imports made pursuant to the authorization requested herein, HQUS commits to comply with the reporting requirements of the DOE/FE. Commencement of imports under the Agreement was reported in the report submitted by HQUS for calendar quarter ending December 31, 2000 pursuant to short-term import authorization granted in FE Docket No. 98-31-NG

VIII. CONCLUSION

WHEREFORE, for the foregoing reasons, HQUS respectfully requests that the DOE/FE expeditiously consider the instant application pursuant to Section 3 of the Natural Gas Act and Section 201 of the Energy Policy Act and grant its request for long-term authorization to import natural gas from Canada to the United States.

Respectfully submitted,

By:

Pierre F. de Ravel d'Esclapon

H. Liza Moses

LeBoeuf, Lamb, Greene & MacRae, L.L.P.

125 W. 55th Street

New York, New York 10019

212-424-8224

Attorneys for H.Q. Energy Services (U.S.) Inc.

Dated: June 4, 2001

VERIFICATION

STATE OF NEW YORK)
COUNTY OF NEW YORK)

Pierre F. de Ravel d'Esclapon, being duly sworn, deposes and says that he is counsel for H.Q. Energy Services (U.S.) Inc., that he has read the foregoing document, that he is familiar with the contents thereof, that the statements contained therein are true and correct to the best of his knowledge, information and belief, and that he is authorized to execute and file the same with the Office of Fossil Energy of the U.S. Department of Energy.

Pierre F. de Ravel d'Esclapon

Subscribed and sworn to before me this 4th day of June, 2001

NOTARY PUBLIC

My Commission expires: $\frac{9/35/01}{}$

DIANE SAWICIO
NOTARY PUBLIC, State of New York
No. 41-4813535
Qualified in Queens County
Commission Expires Sept. 30, 2001

LEBOEUF, LAMB, GREENE & MACRAE

L.L.P.

A LIMITED LIABILITY PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

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WRITER'S DIRECT DIAL:

June 4, 2001

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моѕсом

RIYADH

(AFFILIATED OFFICE)

TASHKENT

BISHKEK

ALMATY

BEIJING

Office of Fuels Programs
Fossil Energy
United States Department of Energy
FE-50
Forrestal Building
1000 Independence Avenue, S.W.
Washington, DC 20585

Re: Application of H.Q. Energy Services (U.S.) Inc. for Long-Term Authority to

Import Natural Gas

Dear Sir or Madam:

We have acted as special counsel to H.Q. Energy Services (U.S.) Inc., a Delaware corporation (the "Company"), in connection with the application of the Company for authorization to import natural gas from Canada on a long-term basis (the "Application"). Pursuant to Section 590.202 of the Regulations of the United States Department of Energy ("Department of Energy"), 10 C.F.R. § 590.202 (2000), we are providing our opinion regarding the corporate powers of the Company to import natural gas from Canada.

In connection with rendering the opinions expressed below, we have examined the originals, or copies certified or otherwise identified to our satisfaction as being the true and correct copies, of the certificate of good standing of the Company issued by the Secretary of the State of Delaware dated as of June 4, 2001 and such corporate records, agreements, and instruments of the Company, and such matters of law, as we have deemed necessary as a basis for the opinions hereafter expressed.

Where the opinions and other matters set forth herein are based on "our knowledge," the word "knowledge" means the actual present knowledge of the attorneys at our firm who have devoted substantive attention to the transactions contemplated by the Application. Except as otherwise stated herein, we have

Department of Energy June 4, 2001 Page 2

undertaken no independent investigation or verification of any such matters, including without limitation any inquiry or investigation of governmental records or court dockets.

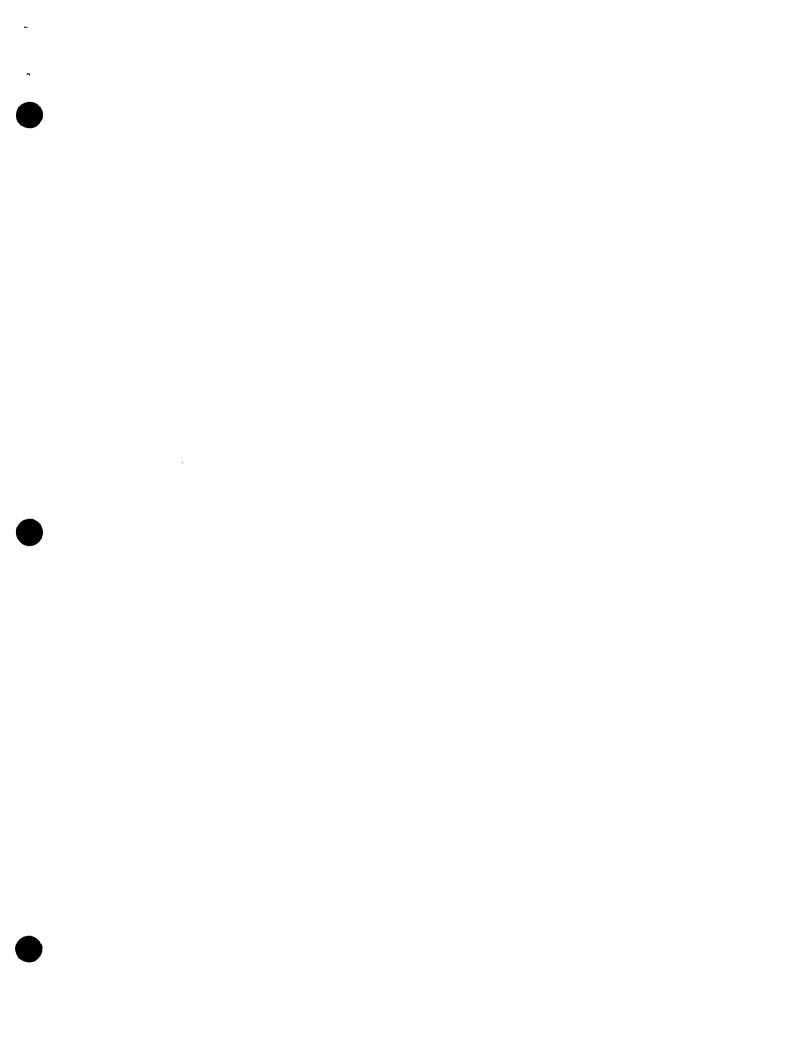
In connection with this opinion we have assumed, without having made any independent inquiry, the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to authentic originals of all documents submitted to us as certified or photostatic copies.

Based upon and subject to the foregoing, and subject to the additional qualifications set forth below, it is our opinion that the Company (i) is a corporation validly existing and in good standing under the General Corporation Law of the State of Delaware (the "GCL"), with the requisite corporate power under the charter, by-laws and the GCL to enter into the Application, to perform its obligations thereunder and to consummate the transactions contemplated thereby, and (ii) that it is empowered to import natural gas from Canada pursuant to Section 3 of the Natural Gas Act, 15 U.S.C. § 717b, and the regulations of the Department of Energy promulgated thereunder.

This opinion is rendered to you as of the date hereof, and is to be limited in its use to reliance by you in accordance with and for the purposes contemplated in the Application. No other person or entity may rely or claim reliance upon this opinion for any purpose without our prior written consent in each instance.

Very truly yours,

Le Beuf, Lamb, Evene, MacRae, L.L.P.



PUBLIC VERSION

NATURAL GAS SALES AGREEMENT

BETWEEN

MARKETING D'ÉNERGIE HQ INC.

AND

H.Q. ENERGY SERVICES (U.S.) INC.

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NATURAL GAS SALES AGREEMENT BETWEEN

MARKETING D'ÉNERGIE HO INC.

AND

H.Q. ENERGY SERVICES (U.S.) INC.

THIS AGREEMENT is made as of this 15th day of July, 1999 between Marketing d'Énergie HQ Inc. a body corporate incorporated under the laws of Québec, (the «MEHQ»), and H.Q. Energy Services (U.S.) INC., a body corporate, duly incorporated and regulated by the laws of Delaware («HQUS»), collectively referred to herein as the «Parties» and individually as a «Party».

WHEREAS Shell is a participant in the Sable Offshore Energy Project («SOEP») and, as such, has reserves of natural gas in the Sable Island area offshore of the Province of Nova Scotia from which it has signed a Natural Gas Sales Agreement with MEHQ; and

WHEREAS Bucksport Energy, LLC («Bucksport») is a limited liability company duly formed in the State of Delaware, having its principal place of business at Bucksport, Maine, USA, and is an Affiliate of MEHQ; and

WHEREAS Bucksport plans to construct a natural gas-fired Cogeneration Facility in or near Bucksport, Maine, USA; and

WHEREAS HQUS has signed a Natural Gas Supply Agreement with Bucksport Energy, LLC dated December 15, 1998, for the supply of natural gas to and for use at Bucksport's Cogeneration Facility; and

WHEREAS MEHQ wishes to sell to HQUS and HQUS wishes to purchase from MEHQ at the Point of Delivery the supply of natural gas required for resale by HQUS to Bucksport Energy, LLC; and

WHEREAS certain conditions precedent must be fulfilled with respect to MEHQ and HQUS before MEHQ will be obligated to deliver and sell natural gas hereunder and before HQUS will be obligated to take and purchase natural gas hereunder.

NOW THEREFORE in consideration of the mutual covenants and agreements contained herein and for other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged by each Party, the Parties agree as follows:

ARTICLE I

DEFINITIONS

- 1.1 The following words and terms when used in this Agreement shall have the following meanings:
 - (a) «Affiliate» or «Subsidiary» shall mean any «Person» (defined as an individual, partnership, corporation or other entity of whatsoever nature) which shall include without limitation, Hydro-Quebec, but shall exclude the Government of Québec, which directly or indirectly controls or is controlled by or is under common control with a Party, where «control» with respect to any Person means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person through the ownership of voting securities, by contract or otherwise.
 - (b) "British Thermal Unit (Btu)" means the amount of heat required to raise the temperature of 1 pound of distilled water from a temperature of 58.5° Fahrenheit to 59.5° Fahrenheit at a constant pressure of 14.73 pounds per square inch.
 - (c) «Bucksport» means Bucksport Energy, LLC as defined in the second recital at the beginning of this Agreement.
 - (d) «Champion» means Champion International Corp., a New York corporation with its principal office in Stamford, Connecticut.
 - (e) "Cogeneration Facility" means Bucksport's natural gas-fired cogeneration facility to be constructed and located at Champion's manufacturing facilities in or near Bucksport, Maine, USA.
 - (f) «Commodity Charge» means the Commodity Rate multiplied by the number of MMBtus of natural gas delivered to HQUS.
 - (g) «Commodity Rate» shall have the meaning given to it in Article VII hereunder.
 - (h) «Contract Year» shall mean a period beginning 9:00 a.m. Central Time on the First Delivery Date or any anniversary of the First Delivery Date and ending 9:00 a.m. Central Time on the same date in the following calendar year.
 - (i) «Daily Contract Quantity» or «DCQ» shall have the meaning given to it in Article VI hereunder.
 - (j) «Date of Commercial Operation» shall mean the date reasonably determined by SOEP, that the SOEP Facilities after construction, testing and start-up shall have commenced commercial operations in accordance with applicable governmental and regulatory requirements and the applicable SOEP agreements for construction, ownership and operation of the SOEP Facilities, which shall include the requirement that the SOEP Facilities shall have operated at a minimum of 90% capacity for at least 10 consecutive Days.

- (k) «Day» means a period of 24 consecutive hours, beginning and ending at 9:00 am Central Time.
- (1) «Escalating Fixed Price» or «EFP» shall have the meaning given to it in Section 7.1 and «Base E. P» shall have the meaning given to it in the same section.
- (m) «Event of Default» shall have the meaning given to it in Article XIV
- (n) «First Delivery Date» shall have the meaning given to it in Article IV.
- (0) «Force Majeure» shall have the meaning given to it in Article XIII.
- (p) «Maritimes and Northeast Pipeline Project" or "MNPP" means both the Canadian and United States portions of Maritimes and Northeast Pipeline Project mainline natural gas pipeline which will receive the SOEP natural gas, including the natural gas sold by MEHQ to HQUS hereunder.
- (q) «Minimum Annual Take Obligation» or «MATO» shall have the meaning given to it in Article VI.
- (r) «Minimum Daily Take Obligation» or «MDTO» shall have the meaning given to it in Article VI.
- (s) «MMBtu» shall mean 1,000,000 British Thermal Units and 1 MMBtu equals 1 dekatherm (1 «Dth»).
- (t) «Month» means a period beginning at 9:00 a.m. Central Time on the first Day of a calendar Month and ending at 9:00 a.m. Central Time on the first Day of the next succeeding calendar Month.
- (u) «Natural Gas» or «natural gas» shall mean a mixture of hydrocarbons in a gaseous state consisting primarily of methane.
- (v) «Netback Price», for the purposes of Section 6.5, means that price per MMBtu at the Point of Delivery, which results when the price received for natural gas sold to a market is reduced by both the total cost of transportation per MMBtu and out-of-pocket costs per MMBtu, if any, where the cost of transportation shall be all applicable firm demand costs calculated at 100% load factor, commodity transportation costs, any applicable surcharges, interruptible tolls, fuel costs and any associated taxes incurred with respect to such natural gas, and where out-of-pocket costs are any cash costs necessary to market such natural gas, but shall not include either the cost of transportation or any general and administrative costs of Shell.
- (w) «Nominated Quantity» shall have the meaning given to it in Article VI.
- (x) «NYMEX» shall mean the New York Mercantile Exchange.



- (y) «Point of Delivery» shall mean the interconnection point between St-Stephen, in the province of New-Brunswick and Calais, in the state of Maine on the MNPP pipeline system.
- wPrime Rate» means, at any time, the per annum rate of interest then designated by the main branch of the Bank of Montreal in Calgary, Alberta as its reference rate of interest in Canadian dollars for commercial loans made in Canada and which is announced by such bank as its prime rate. A rate of interest payable pursuant to this Agreement shall change automatically without notice to any Party on each occasion upon which the Prime Rate is varied. Interest accruing due under this Agreement shall be calculated, rounding the rate applied to the nearest hundredth of a percentage, and shall be compounded monthly.
- (aa) «Right of Renewab» shall have the meaning given to it in Article III.
- (bb) «SOEP» means the Sable Offshore Energy Project, a joint venture formed to develop certain natural gas fields in the Sable Island area off the coast of Nova Scotia, of which Shell is a partner.
- (cc) «SOEP Facilities» means the facilities which the SOEP members/producers require in order to produce, gather, process and deliver natural gas and co-products from the Sable offshore fields to and including the outlet of the natural gas processing plant (the «SOEP Natural Gas Processing Plant») located at Goldboro, Nova Scotia.
- (dd) «Take Payment» shall have the meaning given to it in Article VI.
- (ee) «Term» means the period during which this Agreement is operational as provided by Article III.
- (ff) «Termination Date» shall have the meaning given to it in Article II.
- (gg) «Testing Period» shall have the meaning given to it in Article V.
- (hh) "Total Heating Value" shall at any time have the meaning given to it in the then applicable tariff of MNPP at the Point of Delivery.
- (ii) «Transportation Cap Price» shall have the meaning given to it in Article VIII.
- (jj) «Transportation Release Agreements» shall have the meaning given to it in Article VIII.

ARTICLE II

CONDITIONS PRECEDENT

2.1 MEHQ's obligations to commence delivery and sale of natural gas and HQUS's obligations to commence receipt and purchase of natural gas pursuant to this Agreement

are subject to the satisfaction of all the conditions set forth below; provided however, that any such condition may be waived in writing by the Party(s) for whose benefit the condition is imposed.

- 2.2 Condition precedent for benefit of MEHQ to be satisfied by October 1, 2001:
 - (a) Completion of construction of MNPP and MNPP being capable of taking full SOEP production (up to 530,000 MMBtu per Day) at the Point of Delivery and being placed into service.
- 2.3 Condition precedent for benefit of MEHQ to be satisfied on or prior to the later of July 1, 2000, or that date which is 60 Days after the satisfaction of the condition precedent referred to in Section 2.2(a):
 - (a) Completion by the SOEP producers of construction of the SOEP Facilities and the obtaining of all necessary authorizations to place and the SOEP producers placing such SOEP Facilities into service, and the Date of Commercial Operation occurring.
- 2.4 Conditions precedent for benefit of HQUS to be satisfied by July 1, 1999:
 - (a) Receipt by HQUS on terms acceptable to HQUS, acting reasonably, of all governmental and regulatory authorizations, approvals, permits, exemptions, certificates and other authorizations necessary to allow HQUS to purchase and to re-sell electricity generated by the Cogeneration Facility;
 - (b) Conclusion by HQUS, on terms acceptable to HQUS, acting reasonably, of a natural gas transportation agreement with a licensee having natural gas distribution rights in the territory covered by the Cogeneration Facility;
 - (c) Approval by the Board of Directors of Bucksport to proceed with the construction of the Cogeneration Facility;
 - (d) Receipt by Bucksport on terms acceptable to HQUS, acting reasonably, of all government and regulatory authorizations, approvals, permits, exemptions, certificates and other authorizations necessary to construct the Cogeneration Facility.
- 2.5 Condition precedent for the benefit of HQUS to be satisfied by October 1, 2001:
 - (a) Completion of construction of MNPP and MNPP being capable of taking full SOEP production (up to 530,000 MMBtu per Day) at the Point of Delivery and being placed into service.
- 2.6 The conditions set out in Sections 2.2 and 2.3 are for the sole benefit of MEHQ and can only be waived in writing by MEHQ. The conditions set out in Sections 2.4 and 2.5 are for the sole benefit of HQUS and can only be waived in writing by HQUS. Any waiver of a condition as aforesaid may be a waiver of the entire condition or a part of the condition.

- 2.7 Each Party for whose benefit a condition precedent operates will act in good faith and use all reasonable efforts under the relevant circumstances to endeavor to see to the fulfillment of each of the foregoing conditions set out in Sections 2.2, 2.3, 2.4 and 2.5 prior to the dates set out therein. Where satisfaction of a condition precedent depends on an Affiliate or Subsidiary which is not a Party to this Agreement, the Party for whose benefit the condition operates shall cause that Affiliate or Subsidiary to act in good faith and use all reasonable efforts under the relevant circumstances to endeavor to see to the fulfillment of each of the foregoing conditions as set out in Sections 2.2, 2.3, 2.4 and 2.5 prior to the dates set out therein.
- 2.8 The Parties shall keep each other advised, at least on a quarterly basis, as to the status of and their progress towards satisfying, and forthwith when they have satisfied, each of the foregoing conditions as set out in Sections 2.2, 2.3, 2.4 and 2.5. The foregoing obligations as set out in Section 2.7 and in this Section 2.8 of each Party shall continue after the dates set out above, up until the Termination Date, regardless of whether a notice to terminate has been given by either Party as set out below. If the foregoing conditions have not been met by the dates set out in Sections 2.2, 2.3, 2.4 or 2.5, the Party for whose benefit the condition operates may within 30 Days after such applicable date, serve notice on the other Party of its intention to terminate this Agreement without liability, except as set forth in Section 2.10, on a date 30 Days after such notice is given ("Termination Date"). The failure to provide such notice within such time period shall constitute a waiver of such condition precedent.
- 2.9 This Agreement will terminate on the Termination Date unless, after the termination notice has been served but prior to the Termination Date, the applicable condition precedent is satisfied or waived or the Parties otherwise agree, in which case the aforementioned termination notice will be void and this Agreement will remain in full force and effect in accordance with its terms.

2:10



ARTICLE III

TERM AND TERMINATION OF AGREEMENT

- 3.1 Subject to the other provisions of this Agreement, this Agreement shall be effective from the date of this Agreement, and the initial Term of this Agreement shall commence on the First Delivery Date and continue until the earlier of:
 - (a) the 15th Day of December, 2005; or
 - (b) the fifth anniversary of the First Delivery Date.
- 3.2 Subject to Section 3.3, the Parties have the right, exercisable prior to the end of the initial Term and again prior to the end of one subsequent 5 year Term if such subsequent 5 year Term is mutually agreed upon, to request an extension of the then existing Term on the same terms and conditions as embodied in this Agreement for a subsequent 5 year Term, provided however that the Agreement shall conclude not later than fifteen 15 years after the First Delivery Date («Right of Renewab»). A party intending to exercise its Right of Renewal shall notify the other Party at least 1 year prior to the expiration of the then existing Term.
- 3.3 The Right of Renewal is subject to transportation availability on MNPP (Shell and its Affiliate will use all commercially reasonable efforts to obtain any necessary extensions to their respective transport contracts on MNPP) and to mutual agreement by the Parties with respect to the Commodity Rate and the Transportation Cap Price which will apply in each subsequent 5 year Term. If the Parties fail to reach mutual agreement with respect to the Commodity Rate and the Transportation Cap Price for a prospective subsequent Term, the Agreement will terminate at the end of the then existing Term.

3.4

- 3.5 This Agreement is subject to early termination pursuant to the following provisions:
 - (a) in accordance with the provisions of Article II;
 - (b) in accordance with the provisions of Section 3.6;
 - (c) in accordance with the provisions of Section 13.2;
 - (d) in accordance with the provisions of Article XIV.
- 3.6 Either Party in its sole discretion may terminate this Agreement without recourse, obligation or liability by either Party against the other, in the event that First Delivery Date has not occurred prior to December 31, 2001, provided however, that if a Party shall have failed to act in good faith and use all reasonable efforts under the circumstances to

see that the First Delivery Date occurs on or before December 31, 2001, then such Party shall not have the right to terminate this Agreement as aforesaid.

ARTICLE IV

FIRST DELIVERY DATE

- 4.1 The First Delivery Date shall be the earlier of:
 - (a) The later of:
 - (i) the date by which all of the conditions precedent set forth in Article II have been satisfied or waived in writing, or deemed waived, by the Party(s) for whose benefit the condition was imposed; or

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- that the construction of the Cogeneration Facility has been substantially completed and that all required performance tests (including the Testing Period) of the Cogeneration Facility with respect to natural gas and Fuel Oil No. 2 respectively, have been completed to the satisfaction of Bucksport, acting reasonably; or
- (b) The later of:
 - (i) The 15th Day of December, 2000; or
 - (ii) The date by which all of the conditions precedent set forth in Article II have been satisfied or waived in writing, or deemed waived, by the Party(s) for whose benefit the condition was imposed; or
 - (iii) 60 Days after the connection of an operational natural gas pipeline from the MNPP to the Cogeneration Facility.
- 4.2 HQUS shall act in good faith and use all reasonable efforts under the circumstances to see that an operational natural gas pipeline from MNPP to the Cogeneration Facility is connected and that the Cogeneration Facility is constructed and operational prior to December 31, 2001.

ARTICLE V

TESTING PERIOD

Subject to Section 5.5, prior to the First Delivery Date and during the Testing Period, MEHQ and HQUS will make arrangements such that HQUS's requirements for natural gas up to the DCQ will be delivered and sold by MEHQ at the interconnection of MNPP

with the pipeline lateral to the Cogeneration Facility. Subject to Section 5.4, the Testing Period shall commence on the later of:

- s) first fire of the Cogeneration Facility; or
- b) the first Day of July, 2000,

And shall conclude at the earlier of:

- a) 90 days from its commencement; or
- b) the First Delivery Date.
- In respect of each Day during the Testing Period HQUS will advise MEHQ 24 hours prior to the daily nomination deadline of MNPP of the quantity of natural gas HQUS will request for delivery on that Day. In the event that no new nomination is so received in respect of a Day, the nomination for such Day will be deemed to be zero.
- 5.3 Upon receipt of notice as provided for in Section 5.2, MEHQ will deliver into MNPP the quantity of natural gas that HQUS advises will be requested and that has been nominated during the Testing Period provided however that in no case shall MEHQ be obligated to deliver an amount of natural gas in excess of the DCQ.
- 5.4 The commencement of the Testing Period is subject to the Date of Commercial Operation having occurred and the MNPP being operational and able to provide service to the Parties.
- The price to be charged for natural gas delivered during the Testing Period shall be mutually agreed between MEHQ and HQUS no less than 3 Months prior to the commencement of the Testing Period. Such price shall be linked to an index of the daily spot market or such price as mutually agreed upon and shall include transportation costs and obligations incurred directly or indirectly by MEHQ. Failing such agreements on price, MEHQ will have no obligation to deliver gas during the Testing Period and no natural gas will be delivered during the Testing Period.

ARTICLE VI DAILY CONTRACT QUANTITY

- 6.1 The Daily Contract Quantity («DCQ») shall be MMBtu per Day, subject to the following adjustments:
 - During the Testing Period and at least five (5) Days prior to the First Delivery Date, HQUS upon notice to MEHQ may revise the DCQ by any amount (rounded to the nearest 100 MMBtu per Day) to a maximum of MMBtu per Day or to minimum of MMBtu per Day. Such revised quantity will become the DCQ five (5) Days following HQUS's notice to MEHQ, provided however that if

no such revision takes effect prior to the First Delivery Date, the DCQ shall remain MMBtu per Day.

- (b) If it can be demonstrated, by a qualified independent engineering firm agreed upon by both parties, that a performance variation of at least 1% exists in the maximum rate of natural gas consumption by the Cogeneration Facility, then by no later than the first Day of July, 2001 HQUS may provide notice to revise the DCQ to equal such new maximum rate (rounded to the nearest 100 MMBtu per day) provided however that the DCQ may not be revised by more than plus 5% or less than minus 5%, such revised DCQ to commence on the first day of November, 2001 and continue for the remainder of the Term.
- 6.2 HQUS's Minimum Daily Take Obligation («MDTO») shall be of the DCQ. Commencing on the First Delivery Date, and on each Day thereafter during the Term, HQUS shall nominate, take and purchase natural gas in a quantity equal to or greater than the MDTO but not in excess of the DCQ. Such nomination shall be referred to as the Nominated Quantity. HQUS's Minimum Annual Take Obligation («MATO») shall be of the DCQ multiplied by 365.
- Subject to the provisions of Section 6.5, on each Day after the First Delivery Date, HQUS shall take and purchase the Nominated Quantity in accordance with its MDTO and MATO obligations, and MEHQ shall deliver the Nominated Quantity of natural gas to HQUS, provided however that MEHQ shall not be obligated to deliver on any Day a quantity of natural gas which exceeds the DCQ. The Parties' respective delivery and take obligations under this Agreement shall apply on a firm, non-interruptible basis, on every Day of each Contract Year.
- 6.4 HQUS shall request the Nominated Quantity in respect of any Day pursuant to the General Terms and Conditions of the approved tariff of MNPP at the Point of Delivery and at least 2 hours prior to the deadline for such nominations established by MNPP. HQUS will also notify MEHQ of any new nomination, and if no new nominations are received, MEHQ will be entitled to rely on the last nomination received from HQUS. HQUS shall at all times in accordance with the terms of this Agreement pay for all natural gas nominated for by it and delivered to HQUS by MEHQ at the Point of Delivery.
- Ouring periods in which and to the extent that HQUS fails on any Day, other than for events of force majeure, or as a result of MEHQ's failure to make available the Nominated Quantity up to the DCQ, to take and purchase natural gas up to the MDTO, or up to the DCQ once the aggregate quantity of natural gas not so taken by HQUS in any Contract Year exceeds of the DCQ multiplied by 365, HQUS shall, in accordance with Article IX and subject to Section 6.5(c) and (d), pay to MEHQ an amount (the "Take Payment") equal to the DCQ less the actual quantity of the natural gas taken and purchased on that Day, multiplied by the Commodity Rate payable hereunder on natural gas taken and purchased on that Day, or, where no natural gas was taken and purchased, the Commodity Rate

which would have been payable hereunder had such natural gas been taken and purchased.

- HQUS may remarket, to a third party, gas taken and purchased from MEHQ or, where HQUS fails to take and purchase gas, if requested to do so by HQUS, MEHQ will make reasonable efforts to remarket, directly or indirectly, the natural gas not taken and purchased by HQUS. Such remarketing is subject to the availability of transportation on terms acceptable to MEHQ, acting reasonably, and without any liability whatsoever on MEHQ's part with regard to the remarketing price obtained by MEHQ's or if MEHQ fails to remarket such natural gas. MEHQ will advise HQUS of the geographical market area and the price received by MEHQ in the market area in which MEHQ remarkets such natural gas.
- (c) To the extent MEHQ remarkets any natural gas under this Section 6.5, and so long as the Netback Price received by MEHQ is equal to or less than the Commodity Rate which would otherwise be payable hereunder had such natural gas been taken and purchased, MEHQ shall reduce the Take Payment by an amount equal to the product of the Netback Price received by MEHQ for sales of remarketed natural gas multiplied by the quantity of such sales.
- (d) If the Netback Price from sales of remarketed natural gas is greater than the Commodity Rate otherwise payable hereunder, MEHQ will credit HQUS of the difference between the Netback Price and the Commodity Rate multiplied by the quantity not taken, and HQUS will not be required to make any Take Payment to MEHQ in respect of such natural gas, provided however, that this provision shall not in any way relieve the HQUS of liability in respect of a Take Payment on any natural gas other than that to which this Section 6.5(d) applies.
- In the event that MEHQ fails on any Day, other than for events of force majeure, to deliver the Nominated Quantity up to the DCQ, as provided for in this Agreement, HQUS shall be entitled to recover from MEHQ a dollar amount equal to the positive difference obtained by subtracting the product obtained by multiplying the Commodity Rate times the quantity of MMBtu's of natural gas not delivered from the product obtained by multiplying the purchase price in US\$ per MMBtu of replacement natural gas times the quantity of MMBtus of replacement natural gas purchased by HQUS. If HQUS does not purchase replacement natural gas on such Day, then HQUS shall be entitled to recover from MEHQ an amount equal to any unutilized demand charges incurred by HQUS with respect to the natural gas pipeline lateral between the MNPP and the Cogeneration Facility with respect to such Day.
- 6.7 HQUS's liability for any failure to take and purchase natural gas will be limited to the amount determined as set forth in Section 6.5. MEHQ's liability for any failure to deliver and sell natural gas will be limited to the amount determined as set forth in Section 6.6. In no event will HQUS or MEHQ have any other liability to the other party, including without limitation any liability for indirect or consequential damages.

ARTICLE VII PRICE AND TAXES

7.1

In the event that any of the published indices used with regard to the determination of the Commodity Rate in this Section 7.1 cease to be published, then the Parties shall agree on a replacement index within sixty (60) Days. In the interim, the Commodity Rate shall be determined using the remaining indices. If the Parties cannot agree within such sixty (60) Day period, the matter shall be resolved by arbitration, in Toronto, pursuant to the applicable Ontario arbitration legislation, with the purpose of the arbitration to determine the best available substitute index to preserve the economic effect of the index being replaced. The arbitration decision shall be retroactive to the date at which a replacement index was first needed and payments made in the interim shall be adjusted as appropriate.

7.2 HQUS shall pay MEHQ each Month the Commodity Charge which shall be equal to the product obtained by multiplying the Commodity Rate by the MMBtu equivalent of the

sum of all natural gas quantities delivered by Shell and purchased by HQUS under this Agreement during the delivery Month.

- MEHQ shall pay or cause to be paid, and shall be solely responsible for, all royalties, overriding royalties and ayments out of production, together with applicable federal, provincial, municipal and local taxes, levies or surcharges imposed by authorities that are applicable to the natural gas before title to such natural gas passes to HQUS at the Point of Delivery. HQUS shall pay or cause to be paid and shall be solely responsible for the above enumerated payments, royalties, taxes, levies or surcharges that are applicable on natural gas delivered hereunder on or after title to such natural gas passes to HQUS at the Point of Delivery.
- 7.4 The values shown for prices, payments, penalties, expenses, premiums, or other amounts indicated in this Agreement and its schedules do not include any taxes or levy and such taxes or levy must be applied where applicable and paid by the Party who is responsible for them.
- 7.5 In the event either Party shall have paid any tax which is the responsibility of the other Party, such Party, upon submission of proper documentary support, shall be entitled to a prompt reimbursement from the other Party.
- 7.6 If either Party hereto (in this Section referred to as the "Payor") is required to make a payment or forfeit an amount, or reduce or extinguish, without payment, all or part of the amount of a debt or obligation (in this Section referred to as the "Forfeiture Amount") as a consequence of the breach, modification or termination of this Agreement, to or for the benefit of the other Party (in this Section referred to as the "Other Party"), and:
 - (a) the Payor is the vendor of the supply, then the Payor will also pay to the Other Party the amount of taxes required to be collected by the Other Party in respect of that payment; or
 - (b) the Payor is not the vendor of the supply, then the Payor shall pay to the Other Party an amount (in this Section the total of this amount and the Forfeiture Amount is referred to as the "Gross Amount") such that the Other Party will be entitled to the benefit of the Forfeiture Amount, after taking into account the payment of the taxes it is obligated to remit to the appropriate Government in respect of the Gross Amount.
- 7.7 If at any time during the Term of this Agreement there is a quoted index or reference price for Sable Island natural gas at the outlet of the SOEP Natural Gas Processing Plant or there is established a new index or reference price(s) regularly published in a recognized natural gas trade journal, and such index or reference price(s) are generally recognized by the Canadian east coast natural gas industry, the Parties may mutually agree to substitute one or more of such new index or reference price(s), for all or part of the volumes, for all of the remainder of the term of the Agreement, such substitution to be effective on the first day of the next occurring Month of November. Neither party may request such price substitution less than 12 Months prior to the end of the then current

Term. If the new index is at a point other than at the outlet of the SOEP Natural Gas Processing Plant and the Parties agree to substitute such new index then the Parties shall mutually agree on a transportation adjustment in order to determine the new Commodity Rate. If the parties do not mutually agree to substitute such new index or reference price, or if the Parties do not mutually agree on a transportation adjustment, the Commodity Rate will remain unchanged.

ARTICLE VIII TRANSPORTATION

8.1

8.2

8.3

ARTICLE IX

BILLINGS AND PAYMENTS

- 9.1 MEHO shall invoice HOUS by fax on or before the 15th Day of each Month for natural gas delivered in the preceding Month. The invoice will show the Monthly Commodity Charge (based on the actual daily and total quantity of natural gas delivered and the Total Heating Value), and, if applicable, the Take Payment (Section 6.5) and any credits related to the Transportation Cap Price (Section 8.3). If the actual daily and total quantity of natural gas delivered or the Total Heating Value are unavailable, MEHO may substitute MEHQ's best estimate of such quantity or value. Immediately following the calculation of the total amount payable by HOUS for such Month where such estimates quantities or values are used, the estimated quantities or values will be replaced with the actual quantities or values when available. On the subsequent Monthly invoice, the difference. if any, obtained by subtracting the estimated amount payable from the actual total amount payable will, if positive, be debited against HOUS and, if negative, be credited to HOUS. Each Party shall provide to the other Party, on a timely basis as required, all information in the possession of or known to the one Party, which is necessary for the other Party to prepare or confirm any invoices or statements, hereunder.
- 9.2 HQUS shall pay MEHQ the amount of such invoice on or before the (10th) Day following receipt of MEHQ's invoice. In the event that the payment due date falls on a Saturday or on a bank holiday falling on a Friday, the payment must be made on the next business Day preceding the due date. In the event that the payment due date falls on a Sunday or on a bank holiday falling on a week day other than Friday, the payment must be made on the next business Day following the due date. In the event HQUS, in good faith, disputes the amount payable in any invoice rendered, HQUS shall nonetheless pay the amount, if any, not in dispute to MEHQ pending resolution of the dispute. If the dispute is not settled in favor of HQUS, HQUS shall pay on the next Monthly invoice due date that amount, plus late payment credit charges from the original due date of the disputed invoice, as set forth in Section 9.4.
- 9.3 (a) HQUS shall pay the invoice by wire transfer to the account of MEHQ at the following bank account:

(b) In the event any payments are payable from MEHQ to HQUS, MEHQ shall remit such amounts by wire transfer to the account of HQUS at the following bank account:



- 9.4 If HQUS or MEHQ fails to make payment in accordance with this Article IX, a late payment charge shall be imposed, equal to the improperly unpaid amount multiplied by the Prime Rate plus one percentage point. In addition to all other available remedies, MEHQ shall have the right, upon 2 Days notice to HQUS, to suspend deliveries of natural gas hereunder until the undisputed amount due is paid. Once the undisputed amount due has been paid, subject to the conditions contained in Section 9.8, MEHQ shall promptly resume natural gas deliveries hereunder. Where both principal and late payment charges are due, any payments received shall first be applied to late payment charges due.
- 9.5 If any overcharge or undercharge in any amount whatsoever is found within a period of 24 Months from the end of the calendar month for which the invoice was issued, and the invoice therefor has been paid, the amount of the overcharge will be credited to HQUS or the amount of the undercharge will be debited against HQUS on the next invoice after the final determination thereof.
- 9.6 (a) Upon 10 business Days prior written notice, either MEHQ or HQUS shall, at its sole cost and expense, have the right to conduct an independent audit, by an independent qualified Chartered Accountant, Certified General Accountant, Certified Management Accountant or a recognized national accounting firm (the «Auditor»), during reasonable business hours, to examine those books, accounts, records and charts of the other Party, which are necessary to verify the accuracy of any invoice, charge, payment, calculation or determination made under or pursuant to this Agreement. It is further provided that any such audit shall be restricted to documents and records relating solely to performance under the terms of this Agreement and the sale and purchase of natural gas hereunder. The right to audit shall extend for a period of 24 Months from the end of the calendar month in question.
 - (b) If any such audit shall reveal, or if either Party discovers, any error or inaccuracy in its own or in the other Party's documents, invoices, charges, payments, calculations or determinations, then that Party shall promptly notify the other Party. The notified Party shall have 30 business Days to investigate and respond to such alleged error or inaccuracy. Any correction or adjustment thereof or any payment resulting therefrom shall be made within 30 Days after final determination, whether such determination is achieved by negotiation, acceptance of the audit or by court judgment, of the correct quantities or amounts involved, provided however, that if no such errors or inaccuracies are reported to MEHQ or HQUS, as applicable, within 24 Months from the end of the calendar month in which such errors or inaccuracies occurred, the same shall be conclusively deemed to be correct.
 - (c) Each Party shall only be entitled to receive its Auditor's report verifying the accuracy of any invoice, charge, payment, calculation or determination made

under or pursuant to this Agreement or indicating any error or inaccuracy in any invoice, charge, payment, calculation or determination and shall not be entitled to receive any other information set out in the other Party's books, accounts, records and charts.

- (d) Such audits shall be conducted under conditions of strict confidentiality. The Auditor employed by MEHQ or HQUS shall be obliged to enter a confidentiality agreement with the Party whose records are being audited, on such reasonable terms as that Party may require, prior to the exercise of any audit rights herein. Any information provided by one Party to the other Party's Auditor pursuant to this Section 9.6 shall be subject to the confidentiality provisions of such agreements, thus ensuring that the terms of MEHQ's or HQUS's individual contracts will not be revealed by the Auditor to the Party requesting the audit.
- 9.7 A suspension of deliveries by MEHQ in accordance with Section 9.4 shall not constitute a breach of this Agreement by MEHQ or a failure by MEHQ to deliver natural gas under Sections 6.3 or 6.6 of this Agreement, nor shall it constitute grounds for termination of this Agreement by HQUS.

ARTICLE X

QUALITY

- 10.1 The quality of natural gas delivered under this Agreement will meet or exceed the quality specifications and will be at the line pressure required by MNPP in the Pipeline Tariffs, at the Point of Delivery, as filed with and approved by the applicable regulatory authority from time to time. MEHQ agrees to take all necessary steps to see that the natural gas delivered under this Agreement complies with the quality specifications.
- In the event that MEHQ fails to meet the quality specifications set forth in Section 10.1, MEHQ shall, commencing on the date of HQUS's notice to MEHQ of the failure, proceed with due diligence to remedy the quality failure and HQUS shall not be obligated to purchase such natural gas pending correction by MEHQ. HQUS's obligations to purchase natural gas on each Day pursuant to Article VI shall be credited with the total volume of quality deficient natural gas refused by HQUS, specifically, the nominated portion of DCQ not taken for each Day that HQUS does not accept delivery because MEHQ is unable to deliver natural gas meeting the appropriate quality specifications. In addition, to the extent that HQUS purchases replacement gas for the gas which failed to meet the quality specifications of the Pipeline Tariffs and was rejected, MEHQ shall/be liable under Section 6.6.

ARTICLE XI

MEASUREMENT OF NATURAL GAS

- The natural gas to be supplied and delivered under this Agreement will be measured as to quantity, quality and Total Heating Value by MNPP at the Point of Delivery in accordance with the Pipeline Tariffs, as filed with and approved by the appropriate regulatory authority from time to time. The policies and procedures in MNPPs transportation agreement and the Pipeline Tariffs shall govern verification of measurement and correction of errors.
- 11.2 MEHQ will be responsible for all costs and charges associated with the measurement and testing as aforesaid of the natural gas delivered to the Point of Delivery. HQUS is responsible for all measurement and testing costs thereafter.

ARTICLE XII

POSSESSION, TITLE AND WARRANTY

- Possession of and title to the natural gas delivered hereunder will pass from MEHQ to HQUS at the Point of Delivery. Until the natural gas reaches the Point of Delivery, MEHQ will be deemed to be in control of and have title to and possession of and be responsible for such natural gas. Thereafter, HQUS will be deemed to be in control of and possession of and have title to and be responsible for such natural gas.
- MEHQ warrants that it will at the time of delivery, at Point of Delivery, have good title to all natural gas sold by it to HQUS hereunder, free and clear of all liens, encumbrances and claims whatsoever. MEHQ will indemnify HQUS and save it harmless from all suits, actions, debts, accounts, damages, costs, losses and expenses arising from or out of adverse claims of any or all persons to the said natural gas or to royalties, taxes, levies, license fees or charges thereon, which are applicable before and at the time the title to the said natural gas passes to HQUS.

ARTICLE XIII

FORCE MAJEURE

- 13.1 Subject to the other provisions of this Article, if either MEHQ or HQUS fails by reason of force majeure, as described, to perform in whole or in part any obligation or covenant set forth in this Agreement, the obligations under this Agreement of the Parties, insofar as they are affected by such force majeure, other than obligations to make payments of moneys then due, shall be suspended to the extent necessary for the period of the force majeure condition, but for no longer period and such cause of force majeure will as far as possible be remedied with all reasonable dispatch. A period of force majeure shall have a duration of 1 Day or an integral multiple thereof.
- 13.2 If, however, any single event of force majeure continues over any 365 consecutive Day period, and as a result of such force majeure, the quantity of natural gas sold and

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delivered and purchased and taken hereunder is less than 75% of the product of the DCQ existing immediately prior to the event of force majeure multiplied by 365, the Party not claiming suspension due to the event of force majeure shall have the right but not the obligation to terminate this Agreement on providing 15 Days written notice to the other Party.

- 13.3 The Party claiming suspension shall give notice promptly after the occurrence of the cause relied on or promptly after determining that the occurrence of the cause was in the nature of force majeure and would affect the claiming Party's ability to observe or perform any of its covenants or obligations under this Agreement. Such Party claiming suspension will give notice and full particulars of such force majeure to the other Party, first verbally and then in writing within 5 working Days of the verbal notice. Notwithstanding the foregoing, if the notice of force majeure is not promptly given, the Party invoking force majeure shall be entitled to the provisions of this Article, only for such time after giving such notice.
- 13.4 The Party claiming suspension shall give notice, as soon as possible, after the force majeure condition has been remedied to the effect that it has been remedied and that the Party has resumed, or is then in a position to resume, the performance of the covenants or obligations pursuant to this Agreement.
- 13.5 For the purposes of this Agreement, the term «force majeure» shall mean any causes not within the reasonable control of the Party claiming suspension and which, by the exercise of due diligence, the Party is unable to prevent or overcome, which shall include but not be limited to any acts of God, acts of the Queen's enemy, strikes, lockouts or other industrial disturbances, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, civil disturbances, explosions, breakage or accident to machinery or lines of pipe or facilities, freezing of wells or lines of pipe, inability to obtain materials, supplier, permits or labor, any laws, orders, rules, regulations, acts or restraints of any governmental body or authority, force majeure invoked by MEHQ's natural gas supplies and any interruption of firm transportation service on a transporter of natural gas to or for MEHQ or HQUS, which is caused by an event of the nature herein characterized as force majeure, and that results in a failure or partial failure by either Party to deliver or take natural gas pursuant to this Agreement.
- 13.6 Notwithstanding anything to the contrary in this Article, express or implied, the Parties agree that the settlement of any strike or lockout shall be entirely within the discretion of the particular Party involved and the Party may make settlement of it at the time and on terms and conditions as it may deem to be advisable and no delay in making settlement shall deprive the Party of the benefits of this Article.
- 13.7 Neither Party shall be entitled to the relief provided for in Section 13.1 under any of the following circumstances:
 - (a) to the extent that the failure was caused by the negligence or willful misconduct of the Party claiming suspension;

- (b) to the extent that the failure was caused by the Party claiming suspension having failed to diligently attempt to remedy the condition and to resume the performance of the covenants or obligations with reasonable dispatch;
- to the extent that the failure was caused by lack of finances by th. Party claiming suspension;
- (d) to the extent that the failure was caused by the depletion of Shell's natural gas reserves or a decline in reservoir deliverability;
- (e) to the extent that failure was caused by changes in the market price for natural gas or electricity or a lack of a market for natural gas or electricity; or
- (f) to the extent that the failure was caused by a planned shutdown (i.e. normal turnaround) of facilities.
- 13.8 If an event of force majeure causes MEHQ's natural gas supplier to reduce but not fully cease its production of natural gas from SOEP, then MEHQ shall be obliged to deliver to HQUS and HQUS shall be obliged to take on each Day during the subsistence of such event of force majeure a volume of natural gas equal to the product obtained when the DCQ in effect at the commencement of such event of force majeure is multiplied by a fraction the numerator of which is the full quantity of natural gas which can be delivered from Shell's interest in SOEP and the denominator of which is the sum of the daily contract quantities of all existing firm natural gas sales contracts under which MEHQ resells natural gas from SOEP. For the purposes of this clause, an «existing firm natural gas sale contract» means a contract which:
 - (a) is for the sale of natural gas by MEHQ's natural gas supplier from SOEP;
 - (b) was entered into on or before the occurrence of the event of force majeure, provided however, that if the term of any such contract expires after the occurrence of the event of force majeure it may be extended, renewed or renegotiated during the continuance of the event of force majeure, so long as such extension, renewal or renegotiation does not result in the denominator of the above referenced fraction being larger than it was when the force majeure event first occurred; and
 - (c) MEHQ must perform its obligations under such contract on a firm noninterruptible basis unless prevented from doing so by force majeure.
- 13.9 If an event of force majeure causes HQUS to reduce but not fully cease its receipt of natural gas at the Point of Delivery, then HQUS shall be obliged to take from MEHQ and MEHQ shall be obliged to deliver on each Day during the subsistence of such event of force majeure a volume of natural gas equal to the full quantity of natural gas which can be taken by HQUS at the Point of Delivery, up to the DCQ.

ARTICLE XIV

DEFAULT

- 14.1 Upon the occurrence and during the continuance of an "Event of Default", the Party not in default shall have the right, without prejudice to any other remedies the Party may have under this Agreement or at law, to terminate this Agreement upon 5 Days written notice to the defaulting Party. The occurrence at any time with respect to a Party of any one or more of the following events shall constitute an Event of Default under this Agreement if such Party:
 - fails to make, when due, payment under this Agreement and such failure is not remedied on or before the 30th Day after notice of such failure is given to the Party; or
 - (b) fails to fully perform or comply with any of its material covenants, obligations or undertakings under this Agreement (other than failure to pay any sum referred to in (a) above) and (i) such failure is not remedied on or before the 30th Day after notice of such failure is given to the Party or (ii) if within such 30 Day period the non-performing Party commences and proceeds with due diligence to cure the failure and the failure is not remedied on or before the 60th Day after notice of such failure is given to the Party; or
 - (c) voluntarily suspends the transaction of business; or
 - (d) becomes bankrupt or insolvent or suffers any act of bankruptcy or insolvency, is placed in receivership or a receiver/manager or person filling that role is appointed with respect to its property, seeks debtor relief protection under applicable legislation.

ARTICLE XV

LAWS AND REGULATORY BODIES

- 15.1 This Agreement and the rights and obligations of the Parties hereunder are subject to all applicable present and future laws, rules, regulations and orders of any regulatory or legislative body or other duly constituted authority having jurisdiction over MEHQ or HQUS.
- 15.2 This Agreement will be construed in accordance with the laws of Quebec and the courts of Quebec, shall have exclusive jurisdiction with respect to any legal proceedings arising in connection with this Agreement.

ARTICLE XVI

ASSIGNMENT

- Any entity which succeeds, whether by way of purchase of all or substantially all of the assets of a Party, or amalgantation or merger with a Party, will be entitled to the rights of and will be subject to the obligations of its predecessor in title under this Agreement. Either Party may without relieving itself of its obligations under this Agreement, assign any of its rights hereunder to an Affiliate, and in MEHQ's case to any Affiliate. Otherwise, except as provided for by Section 16.3, no assignment by a Party of its rights, duties or obligations under this Agreement will be made without the prior written consent of the other Party being first obtained, which consent shall not be unreasonably withheld. It is agreed, however, that nothing in this Article will prevent either Party to this Agreement from pledging or mortgaging its rights under this Agreement as security for its indebtedness, or for the financing of the Cogeneration Facility provided that, prior to making such assignment, the assigning Party will obtain from the secured parties their agreement that they will be bound by and perform the terms and provisions of this Agreement in the event of a realization or enforcement by them of their security.
- 16.2 If a Party assigning its interest under this Agreement, as contemplated by Section 16.1, wishes to be relieved of its obligations hereunder, such assignment shall then be subject to the prior written consent of the other Party being first obtained, which consent shall not be unreasonably withheld, and such assignment shall be done on terms acceptable to the non-assigning Party, acting reasonably, and such Party must produce to the non-assigning Party an enforceable agreement by the assignee of the interest in this Agreement to be bound by and to assume and perform any and all obligations of HQUS or MEHQ, as the case may be, arising or accruing hereunder from and after the effective date of the assignment.
- 16.3 A Party shall not, for the purposes of this Article XVI, be considered as having unreasonably withheld its consent to an assignment by the other Party of its rights and/or obligations under this Agreement if any assignee of a Party's rights and obligations under this Agreement, or the assignee of a successor in interest to a Party, cannot be demonstrated, to the reasonable satisfaction of the non-assigning Party, to be as creditworthy as the assigning Party and if, in such circumstances, the assigning Party does not unconditionally guarantee the performance of all of the obligations of such assignee.
- 16.4 Upon an Event of Default by HQUS under this Agreement, which is caused by an event of default by HQUS under (i) the Power Purchase Agreement dated December 15, 1998 and signed between HQUS and Bucksport pursuant to which HQUS purchases and Bucksport sells electricity or (ii) the Natural Gas Supply Agreement dated December 15, 1998 and signed between HQUS and Bucksport pursuant to which Bucksport purchases and HQUS sells the quantity of natural gas required to produce the electrical and thermal output of the Cogeneration Facility, this Agreement as well as any related Transportation Release Agreement shall be assignable to Bucksport and the lender(s) for the Cogeneration Facility, provided that Bucksport and such lender(s) shall fully cure the

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Event of Default on behalf of HQUS and shall agree in writing to be bound by and to assume and perform the terms and conditions of the Agreement and any related Transportation Release Agreement and any and all obligations of HQUS hereunder and thereunder. For such purpose the Parties agree that a consent to assignment, if it is on terms and conditions accep able to MEHQ, shall be executed in due time but in no event later than the financial closing of the Cogeneration Facility, in favour of Bucksport and the lender(s) for the Cogeneration Facility.

ARTICLE XVII

MISCELLANEOUS PROVISIONS

- 17.1 The headings used throughout this Agreement are inserted for reference purposes only, and are not to be considered or taken into account in construing the terms or provisions of any Article or section hereof nor to be deemed in any way to qualify, modify or explain the effect of any such provisions or terms.
- 17.2 Every notice, statement or invoice provided for in this Agreement will be in writing directed to the Party to whom given, made or delivered at such Party's address as follows:

HOUS:

All matters:

H.Q. Energy Services (U.S.) Inc. Airport Office Park Building Five

345, Rouser Road

Coraopolis, Pennsylvania 15108

Attention:

President of H.Q. Energy Services (U.S.) Inc.

Telephone: (412) 262-2648

Fax: (412) 262-2640

With a copy to:

H.Q. Energy Services (U.S.) Inc. 75, René-Lévesque Blvd., 20th floor

Montreal (Quebec)

H2Z 1A4

Attention:

Secretary of H.Q. Energy Services (U.S.) Inc.

Telephone: (514) 289-3409

Fax: (514) 289-3317

MEHQ:

All matters:

Marketing D'Énergie H.Q. Inc. 1010, rue Sainte-Catherine ouest

8° étage

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Montreal, Quebec H3C 4S7

Attention:

<u>.</u> a

President

Telephone: (514) 392-5652

Fax: (514) 392-3278

With a copy to:

Vice President, Marketing

1010, rue Sainte-Catherine ouest

6° étage

Montreal, Quebec

H3C 4S7

Telephone: (514) 392-8922

Fax: (514) 392-8926

Either Party may change its address, telephone or fax numbers from time to time by giving written notice of such change to the other Party. Any notice, statement or invoice or other document made, given or delivered hereunder shall be delivered by hand delivery, courier or fax. Notice by hand delivery shall be deemed to have been received when delivered. Notices sent by fax shall be deemed received at the time reflected in the confirmation of receipt received by the sender in the return transmission from the recipient's fax machine, provided that notice sent by fax received by recipient after its normal business hours on a business Day of the recipient shall be deemed to be received on the following business Day of the recipient or such earlier time confirmed by the receiving Party. Notice by courier shall be deemed to have been received on the date that such courier delivery is effected or its delivery is attempted, if delivery is refused or rejected, or such earlier time confirmed by the receiving Party.

Where, in this Agreement, a time period is established within which a Party must respond, elect or otherwise communicate with respect to a notice, statement, invoice or other document, the time shall commence to run when the notice, statement, invoice or other document is deemed to be received as provided above. Where such time period is less than or equal to 48 hours, Days which are not normal business Days shall not be included when determining the running of such time period.

- 17.3 This Agreement constitutes the entire agreement between the Parties relating to the subject matter hereof and supersedes any other agreements, written or oral, between the Parties concerning such subject matter.
- 17.4 The terms of this Agreement and any information provided by one Party to the other under this Agreement, will remain strictly confidential and except as it may be necessary to file or otherwise disclose such terms or information under any applicable government or regulatory statute, such terms and information shall not be disclosed by any Party to any third party without the other Party's prior written consent. Notwithstanding the foregoing any Party shall be entitled to disclose the terms of this Agreement and confidential information to any of its Affiliates (plus Shell Canada Limited with respect

to MEHQ, and Bucksport and Champion with respect to HQUS) who have a need to know such terms or information, provided that prior to such disclosure such parties agree to be bound by the confidentiality requirements of this Agreement.

- 17.5 No amendments nor variation of this Agreement shall be effective or binding on the Parties unless it is set forth in writing and has been duly executed by each of the Parties by their respective proper officers or authorized representatives in that regard.
- 17.6 All waivers between the Parties shall be in writing. No waiver by MEHQ or HQUS of any default by the other under this Agreement shall operate as a waiver of a future default whether of like or difference character.
- 17.7 If any term or provision of this Agreement or the interpretation or application of any term or provision to any prior circumstance is held to be unenforceable, unlawful or invalid by a court or agency of competent jurisdiction, the remainder of this Agreement and the interpretation or application of all other terms or provisions to persons or circumstances other than those which are unenforceable, unlawful or invalid shall not be affected thereby, and each term and provision shall be valid and be enforced to the fullest extent permitted by law.
- 17.8 MEHQ and the HQUS shall execute, acknowledge and deliver such further and other instruments and take such further and other actions as may be reasonably necessary to fulfill their respective obligations under this Agreement.
- 17.9 This Agreement shall be binding upon and shall enure to the benefit of the Parties hereto and their respective successors and permitted assigns.
- 17.10 This Agreement may be executed in separate counterparts and all executed counterparts shall together constitute one Agreement.
- 17.11 Time shall be of the essence.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed in separate counterparts, each of which will be deemed an «original» hereof, but all of which will constitute one and the same instrument, by the hands of their proper officers duly authorized in that behalf as of the Day and year first above written.

MARKETING D'ÉNERGIE HQ INC.

H.Q. ENERGY SERVICES (U.S.) INC.

Per: __

Michel Gourdeau

President

Witness:

Dfigitte Sauvé

Michel Gourdeau

Chairman of the board

Witness:

Brigitte Sauvé

Natural gas Sales Agreement

Marketing D'Énergie HQ Inc. and H.Q. Energy Services (U.S.) Inc.

APPENDIX I



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UNITED STATES OF AMERICA

REC'D DOE/FE 2001 JUN 25 P 4: 39

DEPARTMENT OF ENERGY

OFFICE OF FOSSIL ENERGY

H.Q. ENERGY SERVICES (U.S.) INC.	FE DOCKET NO. 01-28-NG

ORDER GRANTING LONG-TERM AUTHORIZATION TO IMPORT NATURAL GAS FROM CANADA

DOE/FE ORDER NO. 1694

JUNE 25, 2001

I. DESCRIPTION OF REQUEST

On June 5, 2001, H.Q. Energy Services (U.S.) Inc. (HQUS) filed an application with the Office of Fossil Energy of the Department of Energy (DOE), under section 3 of the Natural Gas Act (NGA)^{1/2} and DOE Delegation Order Nos. 0204-111 and 0204-127, requesting authorization to import from Canada up to 48,500 thousand cubic feet of natural gas per day for a period of fifteen years beginning on the date of first import delivery. HQUS, a marketer of natural gas and electricity, is a Delaware corporation with its principal place of business in Coraopolis, Pennsylvania.

Pursuant to the terms of a natural gas sales agreement (Agreement) with Marketing d'Energie HQ Inc.(MEHQ), dated July 15, 1999, HQUS will purchase natural gas from MEHQ at the interconnection point between St. Stephen in New Brunswick, Canada and Calais, Maine for delivery to Bucksport Energy, LLC via the Maritime and Northeast Pipeline where it will be used to fuel a 185 MW natural gas-fired cogeneration facility near Bucksport, Maine. The initial term of the Agreement is five years, which commenced as of December 15, 2000. The Agreement may be renewed by either party for up to two subsequent five-year terms upon written notice to the other party one year prior to the expiration of the then-current five-year term. The commodity rate to be paid by HQUS in the initial five-year term is based on a base rate and components reflecting natural gas price indices for Canada, New England and NYMEX Henry Hub prices, plus MEHQ's transportation costs on Maritimes Northeast Pipeline from Goldboro, Nova Scotia to the U.S. border.

II. FINDING

The application filed by HQUS has been evaluated to determine if the proposed import arrangement meets the public interest requirements of section 3 of the NGA, as amended by section 201 of the Energy Policy Act of 1992 (Pub. L. 102-486). Under section 3(c), the importation of natural gas from a nation with which there is in effect a free trade agreement requiring national treatment for trade in natural gas is deemed to be consistent with the public interest and must be granted without modification or delay. The authorization sought by HQUS to import natural gas from Canada, a nation with which a free trade agreement is in effect, meets the section 3(c) criterion and, therefore, is consistent with the public interest.

ORDER

Pursuant to section 3 of the Natural Gas Act, it is ordered that:

A. H.Q. Energy Services (U.S.) Inc. (HQUS) is authorized to import from Canada up to 48,500 thousand cubic feet (Mcf) per day of natural gas for a beginning on the date of first import delivery and extending through December 14, 2005, pursuant to the terms of a natural gas sales agreement (Agreement) dated July 15, 1999, between HQUS and Marketing d'Energie HQ Inc.(MEHQ). This natural gas may be imported from Canada at the interconnection point between St. Stephen in New Brunswick, Canada and Calais, Maine.

- B. This authorization will automatically renew for two additional five year terms providing that HQUS files a copy of the renewed Agreement with this Office at the time of issuance.
- C. Within two weeks after deliveries begin, HQUS shall provide written notification to the Office of Natural Gas & Petroleum Import & Export Activities of the date that the first import of natural gas authorized in Ordering Paragraph A above occurred.
- D. With respect to the natural gas imports authorized by this Order, HQUS shall file with the Office of Natural Gas & Petroleum Import & Export Activities, within 30 days following each calendar quarter, a report indicating by month the volumes and prices of natural gas imported pursuant to this Order. If no imports have been made, a report of "no activity" for that calendar quarter must be filed. If imports have occurred, HQUS must report total monthly volumes in Mcf and the average purchase price of gas in U.S. dollars per MMBtu delivered at the international border, and paid to MEHQ. The monthly price information shall itemize separately the monthly demand and commodity charges, fuel charges, and, if applicable, reservation fees. HQUS shall provide, to the extent possible, a breakdown of the import volumes showing the amount sold to its customer.
- E. The first quarterly report required by Ordering Paragraph D of this Order is due not later than July 30, 2001, and should cover the period from the date of this Order until the end of the second calendar quarter, June 30, 2001.

F. The notification and reports required by Ordering Paragraphs C and D of this Order shall be filed with the Office of Natural Gas & Petroleum Import & Export Activities, Fossil Energy, Room 3E-042, FE-34, Forrestal Building, 1000 Independence Avenue, S.W., Washington, D.C., 20585.

Issued in Washington, D.C., on June 25, 2001.

Clifford P. Tomaszewski

Manager, Natural Gas Regulations
Office of Natural Gas & Petroleum

Import & Export Activities

Office of Fossil Energy

HQEnergyServices US

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June 29, 2001

H.Q. Energy Services (U.S.) Inc. Airport Office Park, Building 5 345 Rouser Road Coraopolis, PA 15108

Phone: (412) 262-2648 Fax: (412) 262-2640

U.S. Department of Energy
Office of Natural Gas & Petroleum
Import & Export Activities
Fossil Energy
Room 3E-042, FE-34
Forrestal Building
1000 Independence Avenue, S.W.
Washington, DC 20585

RE: H.Q. Energy Services (U.S.) Inc.

Notice of first import delivery

Order No. 1694 and FE Docket No. 01-28-NG

Pursuant to subparagraph (C) of the order issued June 25th, 2001 in the FE Docket No. 01-28-NG, please be advised that H.Q. Energy Services (U.S.) Inc.'s first gas import took place on December 15th, 2000. Commencement of imports was reported in the quarterly report for the period ending December 31th, 2000 submitted by H.Q. Energy Services (U.S.) Inc. pursuant to short-term import authorization granted in FE Docket No. 98-31-NG.

Christopher J. Anderson

Respectfully/submitted

President