

TEXARKANA, TEXAS SERVICE AREA

Original

Sheet No. 1-3.1/36

Replacing:

Sheet No.

CenterPoint Energy Arkla, a division of
CenterPoint Energy Resources Corp.

(Name of Company)

Kind of Service: Natural Gas Class of Service: Large Commercial

PART I - Rate Schedule No. 3

Title: LARGE COMMERCIAL FIRM SERVICE (LCS-1)

Effective: June 12, 2003

3. LARGE COMMERCIAL FIRM SERVICE (LCS-1)

3.1. AVAILABILITY

3.1.1. This rate schedule is available at points of adequate capacity and suitable pressure on the Company's existing facilities. This rate schedule is available to any customer at a particular facility owned or operated by customer who enters into a large volume commercial service agreement ("Agreement") with Company, on terms and conditions acceptable to the Company, for delivery of gas at the facility, provided such facility has experienced, or anticipates, an average daily demand of more than 100 MMBtu per day during the preceding or succeeding twelve (12) months, respectively.

For the purpose of establishing eligibility for the Transportation Supply Option ("TSO") defined in this rate schedule, customers experiencing or anticipating an average daily demand of 75 MMBtu per day during the preceding or succeeding twelve months will be eligible for the TSO. The TSO eligibility threshold will be lowered to an average daily demand of 50 MMBtu on April 30, 2003 and 25 MMBtu on April 30, 2004. Customers experiencing average daily demand of less than 100 MMBtu, remain under their originating commercial rate schedules, and are additionally subject to any specific rates, charges or riders specific to the TSO.

3.1.2. Company has historically allowed the volume usage of meters at facilities under common ownership and subject to other commercial rate schedules to be aggregated for the sole purpose of establishing eligibility for transportation. The TSO eligible customers qualifying under such aggregation provision prior to September 21, 2002, will remain unchanged with respect to existing and new locations. Future aggregation for the purpose of qualification, except as otherwise referenced herein, is prohibited. Each individual account of historically qualified customers

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shall be treated as a separate account and shall be subject to the same rates and charges under the originating rate schedule, and are additionally subject to any specific rates, charges or riders specific to the TSO.

3.1.3. Customers under this rate schedule may choose between two sources of supply, as follows:

(A) System Supply Option (“SSO”) - under which customer will be delivered natural gas supply designated as general system supply of Company.

(B) Transportation Supply Option (“TSO”) - under which customer will be delivered natural gas supply received for customer’s account at points of receipt on Company’s distribution facilities.

3.1.4. The customer’s election between the two supply options under this rate schedule shall be set forth in the requisite Agreement which will specify the term (duration) of this customer election. Under no circumstances shall the Company be obligated to (a) deliver natural gas volumes to a customer under this rate schedule from a supply source other than the one reflected in customer’s election embodied in the Agreement or (b) enter into an agreement with a term of less than one year. LCS customers failing to execute the requisite agreement setting forth the supply option election, shall default to the System Supply Option, and shall remain until such time that an agreement setting forth the alternative supply option is executed.

3.1.5. If customer has human needs requirements, or other requirements necessary for the preservation of life, health or physical property, the Company will require customer to certify, document, and update in

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writing annually prior to October 1, any material change to the level of said requirements to Company.

3.1.6. Additionally, if customer has human needs requirements under the TSO, the Company will require customer to certify and document to Company that it:

(A) has made firm pipeline capacity and gas supply arrangements sufficient to ensure non-interruptible deliveries to satisfy its level of human needs requirements. This certification will consist of an affidavit from the appropriate executive officer. This documentation will include written acknowledgement from the upstream pipeline that firm, primary delivery point capacity is under contract for the appropriate location that will service customer, and that such capacity is under contract for the entire November through March time period; or,

(B) has one or more alternative energy back-up systems in place to provide for continuous energy to satisfy the total human needs requirements that otherwise would be met by natural gas. In such instance, there will be no requirement to meet this firm pipeline capacity and gas supply provision, provided that customer provides an affidavit from the appropriate executive officer.

3.1.7. Customers converting from sales service to transportation service shall bear the supply-related cost shifts or additional costs resulting from that conversion, including existing pipeline commitments, existing gas supply costs, and additional administrative costs. The Company shall maintain adequate records to demonstrate such costs and to substantiate that this result has been achieved, and shall make such information available to the converting customer upon request.

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3.1.8. Seasonal Transportation. Customer facilities experiencing more than 80% of annual load during the months April through October, and who experience or anticipate an average daily demand of more than 75 MMBtu per day during any consecutive 30-day period of the preceding or succeeding April through October, are eligible to transport on a seasonal basis. Customers meeting the aforementioned criteria, may elect the TSO option and choose a subsequent return to the SSO option only once during the calendar year. Customers electing the TSO option on a seasonal basis, pursuant to notice given prior to May 31st or thirty days prior to commencement of service, whichever is earlier, may receive transportation service for a continuous period of at least 30 days between April 1 and October 31. Customers electing the TSO option on a seasonal basis are subject to the TSO contract administration fee. Additionally, each participating location shall pay a \$300 set-up fee upon initial election and upon any subsequent return to transportation service.

3.2. MAXIMUM QUANTITIES

3.2.1. Company and customer shall agree upon a Maximum Daily Winter Quantity (“MDWQ”) applicable to the period from November through March each year and a Maximum Daily Summer Quantity (“MDSQ”) applicable to the period from April through October each year, both of which will be reflected in the Agreement, and shall establish the maximum MMBtu that the Company will be obligated to deliver on a firm basis on any given day to customer’s point of delivery until such maximum quantity is revised pursuant to Part 3.2.4.

3.2.2. Company and customer shall agree upon an Annual Volume Limitation (“AVL”), which will be reflected in the Agreement, and shall establish the maximum MMBtu which the Company shall be obligated to deliver on a firm basis during the contract year, consisting of twelve consecutive billing periods specified in the Agreement.

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3.2.3. Under no circumstances is Company required to agree to an MDWQ, MDSQ, AVL, or other quantity-related obligation under this rate schedule that it finds inconsistent with actual expected operating outcomes or load requirements based on observed historical operating data, the level and nature of currently installed natural gas facilities, equipment and appliances, or other relevant, reasonable and appropriate information or data.

3.2.4. Unless agreed otherwise, should customer deliveries exceed the MDWQ during the period from November through March, then delivery demand set on that day shall reestablish the MDWQ. Should customer deliveries exceed the MDSQ during the period April through October, then delivery demand set on that day shall reestablish the MDSQ. Should annual deliveries exceed previously established levels, for any prior 12-month period, then the AVL will be reestablished for the annual period. The new MDWQ, MDSQ or AVL, respectively, become effective on the first day of the month after which the excess occurred, and continue for the remaining term of the contract or until such time that a replacement MDWQ, MDSQ or AVL is established via the provision cited herein.

3.3. CAPACITY DEMAND

3.3.1. Each individually metered point of delivery under this rate schedule shall have a capacity demand ("CD"), equal to the higher of :

(A) The MDWQ specified in customer's Agreement with Company, subject to the maximum quantities provision herein, or as reestablished pursuant to the provisions of Part 3.2.4.

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(B) The AVL specified in customer's Agreement with Company, subject to the maximum quantities provision herein divided by 365, or as reestablished pursuant to the provisions of Part 3.2.4.

3.3.2. This CD shall be the billing determinant for both distribution demand charges and Fixed Storage Charges, Fixed Gas Supply Charges and Fixed Transportation Charges (GSR Demand) under the Gas Supply Rate Rider. The CD initially established shall remain in place until such time as maximum quantities are revised pursuant to the provisions of Part 3.2.4. During the course of the contract term, the CD established as billing determinant shall be the higher of the CD initially established under the contract or any CD reestablished during the previous 12-month period. Unless agreed upon otherwise, if during the course of a multi-year contract, the revised CD established pursuant to Part 3.2.4., or any revised daily demand number higher than the initial CD established in the contract does not re-occur during any prior 12-month period, then effective the first day of the following month the initial CD established in the contract becomes the replacement CD. On the first of any month during a contract term, the CD shall be equal to the higher of the CD cited in the initial contract or any maximum quantity or delivery demand observed during the immediately preceding twelve month period.

3.4. RATES

3.4.1. Each customer receiving service under this rate schedule, other than small commercial firm sales service customers historically qualified under the Part 3.1.2. aggregation provision, shall be charged the sum of (a), (b), (c) and (d) as follows:

(a) Distribution Customer Charge - \$290.00 per month. The monthly customer charge shall be pro-rated in the months that the customer initiates and terminates gas service.

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- (b) Distribution Demand Charge per MMBtu of CD per month:
 - (i) \$5.5790 per MMBtu of CD up to 400 MMBtu of CD plus, if applicable
 - (ii) \$0.4000 per MMBtu of CD over 400 MMBtu of CD.
- (c) Distribution Rate - All MMBtu consumed at \$0.0196 per MMBtu.
- (d) Gas Supply Rate Rider :
 - (i) SSO - The Gas Supply Rate will be calculated and adjusted periodically as defined in the Company's Gas Supply Rate Rider.
 - (ii) TSO - The customer will be required to provide the appropriate LUFG-in-Kind as described in the Company's Gas Supply Rate Rider. Volumes provided as LUFG-in-Kind will not be considered in the calculation of Capacity Demand and shall not be subject to Distribution Charges.

3.4.2. Monthly charges applicable to customers under the TSO described in Part 3.1.3. of this rate schedule, including small commercial firm sales service customers historically qualifying under the Part 3.1.2. aggregation provision of this rate schedule or qualifying for transportation under the SCS rate schedule, are as follows:

- (a) Contract Administration Fees:

TSO - \$350.00 per month.

3.5. MINIMUM CHARGE

The sum of (a), (b), and (c) if applicable:

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- (a) Distribution Customer Charge - \$290.00 per month. The monthly customer charge shall be pro-rated in the months that the customer initiates and terminates gas service.
- (b) Distribution Demand Charge - per MMBtu of CD per month:
 - (i) \$5.5790 per MMBtu of CD up to 400 MMBtu of CD plus, if applicable
 - (ii) \$0.4000 per MMBtu of CD over 400 MMBtu of CD
- (c) Contract Administration Fee – TSO - \$350.00 per month.

3.6. TELEMETERING EQUIPMENT

3.6.1. Telemetering is required under the TSO described in Part 3.1.3. of this rate schedule, including customers qualifying under Part 3.1.2. of the aggregation provision of this rate schedule. If Company does not have telemetry at customer's point of delivery, upon execution of the Agreement, Company shall install telemetry equipment of standard make and manufacture to determine hourly and daily flow of gas at customer's point of delivery. Customer will reimburse Company for the full, installed cost of such telemetry.

3.6.2. Customer shall be responsible for installing and maintaining telecommunications lines. Should customer fail to maintain or repair telecommunications lines required to communicate with telemetry equipment, Company shall have the right to bill customer all labor and expense required to manually read the meter, at whatever intervals the Company may deem necessary.

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3.7. RIDERS

3.7.1 The Gas Supply Rate Rider is applicable to service under this rate schedule.

3.7.2. Service will be rendered under this rate schedule until service is discontinued to customer, the customer qualifies for service under the small commercial firm sales service rate schedule, or the schedule is superseded.

3.8. RULES AND REGULATIONS GOVERNING UTILITY SERVICE

3.8.1. The Commission's Special Rules of Practice and Procedure and Substantive Rules and the Company's Standard Rules and Regulations, as the same may from time to time be changed in accordance with the law, shall be applicable to service under this rate schedule.

3.9. BILLING AND PAYMENT

3.9.1. Customer's bills will be based on the quantity of MMBtu's delivered to customer at the delivery point. Such bills shall be rendered promptly after the close of each billing period and shall be paid within fourteen (14) days after the date the bill is mailed. Company shall have the right to bill customer each month hereunder on the basis of nominated quantities or estimated quantities, provided that adjustments shall be made to such quantities in subsequent months' billings based on actual quantities delivered. The Company shall not discontinue service to customer for violation of its rates and policies nor for non-payment of bills, without first having diligently tried to induce the customer to comply with its rates and policies, or to pay amounts due the Company. Company may suspend service to customer after written notice shall have been given to the customer by the Company in the manner provided for in the Commission's Rules. Company may require as a condition of recommencement or continuation of service the maximum refundable deposit or bond allowed

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by the Commission to secure payment of bills. Interest at such rates as are required by the Commission shall be paid on any such deposit amount.

3.10. DEFINITIONS

3.10.1. The following terms when used herein shall be construed to have the following meaning, except where the context of their use clearly indicates another meaning:

3.10.2. The term "Large Volume Commercial Customer Agreement" (Agreement) shall mean a written and fully executed agreement between Company and customer which provides for service under the applicable supply option of this rate schedule.

3.10.3. The term "customer" shall mean the party so identified in the Agreement, or its designee.

3.10.4. The term "day" or "daily" shall mean a period of twenty-four (24) consecutive hours, beginning and ending as near as practicable to 9:00 a.m., Central Standard Time, at the point at which delivery of gas is made.

3.10.5. The term "month," "Service Month," or "monthly" shall mean the period beginning at or as near as practicable to 9:00 a.m., Central Standard Time, on the first day of the calendar month and ending as near as practicable to 9:00 a.m. on the first day of the next succeeding calendar month.

3.10.6. The term "year" or "service year" shall mean a period of three hundred sixty-five (365) consecutive days beginning on the date specified in the Agreement for the commencement of the term of service or any anniversary thereof; provided, however, that any year which contains a

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date of February 29, shall consist of three hundred sixty-six (366) consecutive days.

- 3.10.7. The term "cubic foot" shall mean the volume of gas which occupies one (1) cubic foot when said gas is at a temperature of sixty degrees (60 degrees) Fahrenheit, and at a pressure of 14.73 pounds per square inch absolute.
- 3.10.8. The term "Mcf" shall mean one thousand (1,000) cubic feet of gas.
- 3.10.9. The term "Btu" shall mean British Thermal Unit.
- 3.10.10. The term "MMBtu" shall mean one million (1,000,000) Btu's.
- 3.10.11. The term "gas supply" as it relates to purchased gas costs shall mean the charge for the product known as natural gas, and does not include any charges associated with delivery of the product by Company or any supplier pipeline of the Company.
- 3.10.12. The term "balancing" shall mean the service provided by Company when quantities of gas received by Company at the Point(s) of Receipt differ at any time from the quantities of gas delivered by Company at the Point(s) of Delivery under the Agreement.
- 3.10.13. The term "Maximum Daily Quantity" or "MDQ" shall mean the total maximum MMBtu which Company shall be obligated to receive or deliver on a firm basis on any given day on behalf of customer. The contractual Maximum Daily Winter Quantity ("MDWQ") shall be controlling during the period from November through March each year and the Maximum Daily Summer Quantity ("MDSQ") shall be controlling during the period from April through October each year.

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3.10.14. The term "Point(s) of Receipt" shall mean the point or points specified in the Agreement where Company agrees to receive gas for transportation for the account of customer.

3.10.15. The term "Point(s) of Delivery" shall mean the point or points specified in the Agreement where Company agrees to deliver gas transported for the account of customer.

3.10.16. The term "imbalance" shall mean the difference in the MMBtu's of natural gas which customer takes at the Point(s) of Delivery and the MMBtu's which customer provides for transportation at the Point(s) of Receipt.

3.10.17. The term "annual volume limitation" or "AVL" means the maximum MMBtu which the Company shall be obligated to deliver on a firm basis during the contract year consisting of twelve consecutive billing periods specified in Agreement.

3.10.18. The term "Maximum Hourly Quantity" or "MHQ" shall mean the maximum MMBtu Company is obligated to deliver or receive for customer's account in any single hour. Company shall not be obligated to agree to a maximum hourly quantity greater than 1/15 of MDQ, MDWQ or MDSQ.

3.11. GOVERNMENTAL REGULATIONS

3.11.1. Service hereunder shall be subject to all relevant present and future local, state and federal laws and all rules, regulations and orders of regulatory authorities having jurisdiction over any of the parties, as applicable, and the obligations of all parties hereunder are subject to obtaining whatever regulatory approvals and authorizations are necessary for the lawful implementation of the Agreement, on continuing conditions satisfactory to

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the party affected. Customer shall cooperate with the Company by providing promptly all information and in making whatever reports or filings are necessary in regard to service rendered under this rate schedule. Neither party shall be held in default for failure to perform hereunder if such failure is due to good faith compliance with the requirements of any such laws, orders, rules and regulations. Should any governmental body having jurisdiction impose on the Company or the services provided hereunder or otherwise require service hereunder on terms and conditions that are unacceptable to Company, in its sole discretion, then Company may terminate service hereunder at any time thereafter upon notice to customer. Customer shall also reimburse Company, or cause Company to be reimbursed, for any fees, taxes (other than income and property taxes) or other charges levied or paid by Company to any governmental authorities in connection with or attributable to the services provided hereunder.

3.12. MEASUREMENT

3.12.1. Except as may be otherwise provided elsewhere herein or required by law, the measurement and testing of gas received and delivered hereunder shall be done by Company, or its designee, as measuring party in accordance with the following:

3.12.2. The gas received by Company hereunder shall be measured as follows:

3.12.2.A. The unit of volume shall be 1,000 cubic feet of gas (Mcf) at a temperature base of 60 degrees Fahrenheit and at a pressure base of 14.73 pounds per square inch absolute. Whenever the actual conditions of pressure and temperature of the particular gas stream being measured differ from the above standard, conversion of the volume from such actual conditions to the above standard conditions shall be made in accordance with

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the Ideal Gas Laws corrected for super-compressibility in accordance with the method customarily used by the measuring party.

3.12.2.B. Measurements of gas shall always be in accordance with requirements of law, and if the procedures, bases, or standards herein contemplated to be used in the determination of gas volumes are changed by law or regulatory action, the applicable rates shall be appropriately modified and adjusted to the extent necessary to the end that calculations to determine sums of money due hereunder after the change will reach the same end result in dollars and cents as would have been reached in the absence of such change.

3.12.2.C. The temperature of the gas at each point of receipt shall be (i) determined by a recording thermometer, (ii) determined by taking the average of the daily readings of an indicating thermometer, or (iii) assumed by mutual agreement to be 60 degrees Fahrenheit, provided that, if a recording thermometer is not being used, customer shall have the right, by reimbursing the cost of the equipment and its installation, to require the use of a recording thermometer. The Btu content of the gas per cubic foot shall be determined on a dry basis in accordance with good engineering practice in a manner reasonably calculated to result in a fair and accurate determination.

3.12.2.D. The specific gravity of the gas shall be determined in accordance with good engineering practice as often as found necessary in operation.

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3.12.2.E. Standard type measuring and testing equipment necessary to measure and determine quantities hereunder shall be installed, operated and maintained in a workmanlike manner. Readings, calibrations, tests, repairs and adjustments of said equipment, and changing of charts, shall be done only by employees or agents of measuring party and in accordance with good engineering practice as often as found necessary in operation. Orifice meters, if used, shall be installed and operated, and volumes computed, in accordance with the latest version of the American Gas Association Gas Measurement Committee Report and Appendices thereto, and such amendments thereof as measuring party may place in use on its system for transactions of this type. Customer shall have access to the measuring and testing equipment at reasonable times, and shall have the right to have a representative present at tests, calibrations and adjustments thereof. Upon request by customer for a special test of any meter or auxiliary equipment, the accuracy of same shall be verified promptly, provided that the cost of such special test shall be borne by customer unless the percentage of inaccuracy is found to be more than two percent (2%), then previous readings shall be corrected to zero error for the period of time during which the equipment was known to be inaccurate, or if not known then to the shorter of six (6) months or the last date that the meter was tested; if said total inaccuracy is not more than two percent (2%), then previous reading shall be considered correct but the equipment shall be adjusted to read correctly. Measuring party shall not be required to verify the accuracy of such equipment more than once in any 90-day period, unless

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customer has a specific and verifiable reason to believe that the equipment is inaccurate by more than 2%.

- 3.12.2.F. If any meter or auxiliary equipment is out of service or out for repair for a period of time so that the quantity of gas delivered cannot be ascertained or computed from the reading thereof, then the quantity delivered during such period shall be estimated upon the basis of the best data available, using the first of the following methods which is feasible: (i) by correcting the error if the percentage of error is ascertainable by calibration, test, or mathematical calculations; (ii) by using the registration of any check equipment installed and accurately registering, or (iii) by estimating the volume on the basis of deliveries during preceding periods under similar conditions when the equipment was registering accurately.
- 3.12.2.G. Upon request, measurement charts and records shall be submitted to customer for examination, the same to be returned within twenty (20) days. The measurement charts and records for a given accounting month shall be conclusively presumed correct if no written objection thereto is served on Company within the 12-month period following the given accounting month. All test data, meter charts and similar records shall be preserved for a period of at least one (1) year.
- 3.12.2.H. The formal measurement and testing of gas hereunder shall only be by the equipment operated by measuring party, but customer may install, operate and maintain, at customer's own cost, risk and expense and in the same manner as is required for the primary equipment hereunder, check measuring and testing equipment of standard type, provided that the same

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does not interfere with the operation of the primary equipment. Company shall have the same rights with respect to check equipment as customer has with respect to the primary equipment.

3.12.2.I. If Company causes any or all of the foregoing measurements and testing procedures to be done by a third-party designee, then in such event:

3.12.2.I(1) Customer's rights hereunder with respect to the third-party's equipment and procedures will be subject to reasonable arrangements by Company with such third party; and

3.12.2.I(2) If the third party's usual and customary procedures differ in particular respects from the detailed procedures set out above, then the third-party's procedures, and measured quantities resulting therefrom shall be acceptable and used hereunder so long as they are consistent with good engineering practice in the industry.

3.12.2.J. The gas delivered by Company to customer after transportation shall be measured in the same manner as are volumes sold by Company to customers of similar size as customer under Company's sales rate schedules.

3.13. FORCE MAJEURE

3.13.1. Neither customer nor Company shall be liable to the other for failure to perform their respective obligations under the Agreement (other than to make any and all payments thereunder) due to acts or conditions beyond

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the reasonable control of the parties affected. The obligations of the affected party to perform shall be suspended so long as and to the extent that performance is prevented by the occurrence of such acts or conditions. Such acts or conditions shall be deemed to include, but not be limited to, fire, labor disputes, acts of God, the elements, wars, epidemics, riots, civil disturbances, explosions, breakdown of equipment, test and repairs of pipeline facilities, freezing of wells or pipelines, requirements of local, state or federal authorities, failure of any intermediate transporters relied upon by Company to transport the gas for any reason, failure of appropriate regulatory approvals or lack of sufficient capacity, the inability of Company to obtain or maintain such regulatory authorizations as may be necessary for the lawful performance of the service contemplated hereby on continuing conditions satisfactory to Company, the curtailment of service by Company in accordance with Company's curtailment plan as effective from time to time, failure of gas supply and any other cause, similar or dissimilar, not within the reasonable control of the party claiming relief. The party affected shall notify the other promptly and shall remedy the cause of suspension with reasonable diligence, retaining to such party unqualified discretion in settling labor disputes.

3.14. OPERATING INFORMATION AND FORECASTS

3.14.1. Customer, upon request, shall furnish or cause to be furnished to Company from time to time such reasonable data as in Company's judgment is necessary for the proper analysis of the daily and annual gas load requirements of customer for this service. Customer at all times shall keep Company informed of anticipated significant changes in the size and character of such load requirements.

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(Name of Company)

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3.15. USE

3.15.1. All gas delivered to customer under the Agreement shall be for customer's own use and shall not be resold.

3.16. NON-SYSTEM SUPPLY: TERMS AND CONDITIONS

3.16.1. Customer transactions operating under the SSO described in Part 3.1.3. of this rate schedule shall be governed by Company's other generally applicable rates and policies. The operating terms and conditions of service provided hereinafter, in addition to the Company's other generally applicable rates and policies not consistent therewith, shall apply to customer transactions under the TSO of this rate schedule.

3.17. NOTICES

3.17.1. Notices, requests, demands, statements, or bills provided for under this rate schedule and the Agreement (other than those related to nomination, scheduling and other operational issues having immediate operational consequence and requiring shorter notice that either Company or customer may desire to give the other, as provided for under Part 3.32.1.) shall be in writing and if delivered shall be considered as duly delivered when mailed by registered or certified mail to the post office address of Company or customer as indicated in the Agreement, or at such other address as either shall designate by formal written notice to the other. Routine, non-operational communications, including monthly statements and payments if received, shall be considered as duly delivered when mailed by either registered, certified or ordinary mail.

3.18. RECEIPT OF GAS FOR TRANSPORT

3.18.1. The customer must tender the gas for transportation hereunder at a mutually agreeable point or points as specified in the Agreement at whatever pressure is necessary to effect deliveries of the gas against the fluctuating working pressures maintained in Company's system at that

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point from time to time. Company will not be obligated to accept any gas into such system for transportation that does not meet the quality specifications required to be met by Company's suppliers when delivering gas to Company for sales to Company's customers.

3.18.2. Company will be responsible for installing and operating the necessary tap and measurement facilities at each point of receipt to receive and measure the gas delivered for transportation hereunder. If Company agrees to provide new or additional facilities to perform the services requested by customer, upon Company's request, customer shall reimburse Company, or cause Company to be reimbursed, for all costs of construction, installation and/or acquisition of such facilities.

3.19. DELIVERY OF GAS BY COMPANY AFTER TRANSPORTATION

3.19.1. Except as may be otherwise specified elsewhere herein, the gas shall be tendered for delivery after transportation at the working pressures maintained from time to time by the delivering party at the designated point of delivery as specified in the Agreement from time to time. It is recognized that the gas delivered to customer after transportation will not be the same gas that Company received for transportation, but that the gas delivered after transportation will meet the quality specifications applicable to gas that Company sells on its system from its general system supply. Company will use its best efforts consistent with the prudent operation of its system to deliver gas meeting such specifications but shall not be liable in damages for failure to do so. If the gas tendered by Company fails at any time to conform to any of said specifications, then customer shall notify Company of such deficiency and thereupon may, at customer's option, refuse to accept delivery pending correction by Company.

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3.19.2. The point where responsibility for the gas shall pass to customer after transportation shall be at the outlet of the delivery facilities at the designated point of delivery. Customer shall provide reasonable access to the premises at the point of delivery for any purpose connected with this service.

3.19.3. Company shall install, operate and maintain whatever facilities are necessary to deliver the gas at the point or points of delivery hereunder and shall indemnify customer and hold it harmless from and against any and all claims, actions, suits, damages, liabilities, penalties, costs and expenses arising out of use, possession or presence of the gas before it passes the point of delivery. If Company agrees to provide new or additional facilities to perform services requested by customer, upon Company's request, customer shall reimburse Company, or cause Company to be reimbursed, for all costs of construction, installation and/or acquisition of such facilities.

3.19.4. Customer shall install, operate and maintain at its own expense whatever facilities are necessary to safely receive and utilize the gas at and beyond the point of delivery hereunder, and shall indemnify Company and hold it harmless from and against any and all claims, actions, suits, damages, liabilities, penalties, costs and expenses arising out of the use, possession, or presence of the gas at and after it passes the point of delivery.

3.19.5. If the services of one or more other transporters are necessary for Company to provide the service herein contemplated, Company's obligations hereunder shall be subject to the availability of such services by others on continuing terms and conditions acceptable to Company, and in such event, customer agrees that Company may act as agent for customer in arranging for such services, including execution of the necessary agreements therefore and administering same, and arranging

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and confirming capacity release transactions necessary to facilitate the transaction, provided that, unless otherwise provided elsewhere, any costs and/or charges or penalties associated with such services by a third party to the point of delivery hereunder shall be borne by customer.

3.20. SCHEDULING AND NOMINATIONS

3.20.1. Nominations for gas flow shall be submitted by customer to Company no later than 10:00 a.m. Central Standard Time the day prior to gas flow; provided however, if a change in the nomination level is desired on a weekend or Company holiday, then nominations shall be submitted by customer to Company no later than 10:00 a.m. Central Standard Time the last business day immediately prior to such weekend or holiday. Nominations shall be submitted via the Company's internet based nomination system. Company and customer may agree on other means of submitting nominations from time to time. Nomination quantities shall be expressed in MMBtu. Company shall not be required to confirm a nomination that is: (A) inconsistent with the recently observed deliveries or projected deliveries for the Service Month; or (B) higher than the MDWQ or MDSQ in the applicable season; or (C) not confirmed by the upstream pipeline. For these purposes, the projected deliveries for the Service Month shall be equal to the arithmetic average of the number of observed deliveries within the Service Month to date multiplied by the number of days in the Service Month. Once a nomination is made and confirmed by the Company, that nomination will remain in effect through the end of the month or until changed by the customer. Company shall confirm nominated volume to Pipeline.

3.20.2. Company will require customer to comply with the scheduling and nominating procedures as set forth in customer's upstream pipeline supplier's transportation tariffs as on file with and approved by the Federal Energy Regulatory Commission. Customer shall be liable for and shall

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compensate Company for any costs imposed upon Company as a result of customer's scheduling and nomination deviations or non-compliance.

3.21. BALANCING

3.21.1. General Intent: These balancing provisions are in recognition of the fact that Company's upstream transportation, storage and no-notice service capacity is reserved for the exclusive use by Company for transactions related to its system supply.

3.21.1.A. SSO transactions are allocated costs associated with the Company's upstream transportation, storage and no-notice service capacity. Therefore, SSO transactions have defined relative rights to those upstream services.

3.21.1.B. TSO transactions are not allocated any costs associated with the Company's upstream transportation, storage and no-notice services or associated capacity. Therefore, TSO transactions carry no explicit or implicit right to make use of the Company's upstream services or associated capacity.

3.21.1.C. Encroachment upon Company's upstream transportation, storage, or no-notice services or associated capacity on interstate pipelines, for natural gas volumes other than those for which Company takes title, are subject to the capacity release regulations established by the FERC and embodied in Part 284 of the Code of Federal Regulations. It is expressly understood that the level of balancing tolerances offered under this tariff is conditioned upon the Company not being required to achieve said tolerances through operation of Part 284 capacity release arrangements nor other certificate authority from the Federal Energy Regulatory Commission.

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- 3.21.2. Customers shall be obligated to: (i) conform their takes each day at delivery points with their deliveries to Company at receipt points on the same day and thereby avoid imbalances; and (ii) to correct any such imbalances as soon as practical.
- 3.21.3. Company shall not be obligated to receive or deliver more than the maximum hourly quantity. If customer takes gas in excess of the specified MHQ at the point of delivery without the approval of Company, and such excess flow causes harm to the Company, its other customers or its facilities, then customer shall reimburse Company for the actual cost of damages or harm or repairs to its facilities, plus overhead expenses, within 15 days after the date of Company's invoice to customer for such damages.
- 3.21.4. Company shall make available electronically daily imbalance information which shall notify customer of any imbalance under an Agreement in the current Service Month, based on the best information then available to Company, including, but not limited to data such as nominations, allocations, electronic measurement data, and meter observations. The provision of such information shall not relieve customer of its obligations under this tariff to avoid, correct or eliminate actual imbalances.
- 3.21.5. Company shall monitor the accumulation of daily imbalances by customer and shall have the right to take corrective action pursuant to this tariff, as required, to eliminate customer encroachment upon upstream transportation, storage, or no-notice service capacity held by Company for general system supply.
- 3.21.5.A. If customers' receipts and deliveries are not in balance during a day, or are projected to be out of balance on a future day,

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and if Company determines in its reasonable judgment that such imbalances inhibit Company's ability to maintain the operational integrity of the distribution system, or the economic integrity of the Company's system supply acquisition processes, then the Company shall declare a Critical Period Event. The Critical Period Event can be either: (i) an Excess Flow Event (receipts exceed deliveries); or, (ii) a Deficient Flow Event (deliveries exceed receipts). Additionally, the Company's declaration of a Critical Period Event can be location-specific, and the Company is not required to apply the Critical Period Event where corrective action would not be curative of the critical situation. A Critical Period Event may be called for operational purposes relating to a physical event causing or threatening a system failure and/or existence of an Operational Flow Order (OFO) on the upstream pipeline. Company may also declare a Critical Period Event in order to protect the economic integrity of the Company's system supply acquisition processes. A Critical Period Event declared for economic purposes shall be applicable only to customers with an annual average customer delivery of 100 MMBtu or less. Critical Period Events declared for economic purposes may be declared only on days when other Gas Daily price differs by more than \$.50 per MMBtu from the Inside FERC REGT First of the Month Index. The Company shall notify affected customers verbally of the critical situation and customers shall have a minimum of four (4) hours to bring receipts and deliveries into balance, or other longer time periods as deemed applicable by the Company. If, after the specified notice period indicated in Company's notice to customer of critical situation, customer

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has not balanced receipts and deliveries, Company shall have the right to balance deliveries and receipts. Company shall not be obligated to redeliver a greater volume of gas to the point of delivery than it received at the point of receipt for customer's account, as indicated by the upstream delivering pipeline, until such time as Company determines that the critical situation no longer exists. An imbalance that occurs during such critical situation, after the expiration of the notice period, may not be carried forward for clearing during the month, but instead may, at the Company's option, be cashed out based on the "Critical Period Price."

- (i) The Critical Period Price shall be the applicable regional posting for the upstream pipeline expressed in (\$/MMBtu) for the day of delivery as found in the publication Gas Daily under the heading "Daily Price Survey" and under the subheading "Midpoint."
- (ii) If, on any day during a critical situation, after the expiration of the notice period, customer delivers to Company volumes of gas that are greater than customer's gas requirements at the point of delivery then Company can purchase such over-delivered volumes at the point of delivery from customer at the following rates per MMBtu. The first 6% of over-delivered volumes will be cashed out at the Critical Period Price. Amounts greater than 6% will be cashed out at a rate equal to 50% of the Critical Period Price.

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- (iii) If, on any day during a critical situation, after the expiration of the notice period, customer delivers to Company volumes of gas that are less than customer's gas requirements at the point of delivery, then Company may require customer to purchase such deficiency at the point of delivery from Company at the following rates per MMBtu. The first 6% of under-delivered volumes will be cashed out at the Critical Period Price. Amounts greater than 6% will be cashed out at a rate equal to 150% of the Critical Period Price for the day in which the deficiency occurred.
- (iv) Any Critical Period imbalance incurred of 10 MMBtu or less shall not be subject to Critical Period cash-out pricing. Such imbalances will be deferred until the end of the month, and will be cashed out in accordance with the terms of Part 3.21.8.
- (v) Company shall make a reasonable effort to provide 24 hours' notice of the issuance of a CPE. Upon issuance of notice of a CPE, Company will allow shipper to submit revised nominations to the extent permitted by the upstream pipeline declaring an OFO, in an attempt to minimize imbalance activity on the Company's system. During any CPE, Company shall remain obligated to deliver all natural gas supplies that it receives on behalf of each individual shipper.

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3.21.5.B. For any multi-day period measured from the beginning of the first day of the Month where a cumulative imbalance is equal to or greater than 6% of the projected deliveries for the Service Month, Company may at its option, eliminate, through an intra-month cash-out action, all or part of said cumulative imbalance. For these purposes, the projected deliveries for the Service Month shall be equal to the arithmetic average of the number of observed deliveries within the Service Month to date multiplied by the number days in the Service Month. The "cash-out" price applicable to such intra-month cash-out transactions for cash out quantities that are 3% or less of deliveries shall be equal to 75% of the Critical Period Price for cash-out purchases by Company from customer and 125% of Critical Period Price for cash-out purchases required of customer from Company. The "cash-out" price applicable to such intra-month cash-out transactions for cash out quantities that are in excess of 3% of deliveries shall be equal to 50% of the Critical Period Price for cash-out purchases by Company from customer and 150% of Critical Period Price for cash-out purchases required of customer from Company. As a prerequisite to any such intra-month cash-out action, Company shall warn customer during the business day prior to the day on which the Company projects customer will be in violation of the 6% threshold, based on the information available to Company at the time said warning is issued. Once such warning is issued to customer in any Service Month, no additional warnings from Company will be required during that same Service Month, prior to an intra-month cash-out action by Company on customer's then cumulative imbalance.

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- 3.21.6. Company shall not be obligated under any circumstances: (i) to deliver more gas to customer during any given day or month than it shall have received for the account of customer during said period ; or (ii) to receive or deliver during any given Day a total quantity of gas in excess of the MDWQ or MDSQ as applicable.
- 3.21.7. Customer will be responsible for its allocable share of any incremental costs associated with Company's upstream transportation, storage, or no-notice services attributable to nomination and scheduling activities of customer, including but not limited to incremental overrun charges, commodity charges, daily demand charges, and penalties. The responsibility provided for herein shall not relieve customer of its obligations under this rate schedule or the tariffs of Company's upstream service providers to avoid, correct or eliminate nomination or scheduling errors.
- 3.21.8. At the end of each Service Month, remaining customer Imbalances to the extent the receipts do not equal deliveries under customer's Agreement shall be cashed out. To the extent customer owes natural gas volumes to Company (deliveries exceeded receipts) customer will purchase said volumes at the applicable cash-out price described below. To the extent Company owes natural gas volumes to customer (receipts exceeded deliveries), Company will purchase said volumes at the applicable cash-out price described below.

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	Overage	Underage
Imbalance Level	The Company Pays Customer	Customer Pays the Company
From 0% to 5%	100%	100%
From 5% to 10%	80%	120%
From 10% to 15%	70%	130%
From 15% to 20%	60%	140%
Greater than 20%	50%	150%

Overages in all tiers will be priced, using the applicable percentage, at the lesser of: Index (Inside FERC REGT East) or the Company's Cost of Gas Sold component. Underages in other tiers will be priced, using the applicable percentage, at the greater of: Index (Inside FERC REGT East) or the Company's Cost of Gas Sold charges under the Gas Supply Rate Rider.

3.21.9. The imbalances incurred due to customers reliance on imbalance data that differ materially from subsequently corrected data will be assumed to fall into the 0% to 5% range for the determination of the applicable cash-out price.

3.22. PREDETERMINED ALLOCATION

3.22.1. Should customer elect service under this rate schedule under more than one of the two supply options, such that gas delivered by

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Company at any single delivery point will involve supply under more than one of the two options, Company and customer shall enter into a predetermined allocation agreement ("PDA"). This PDA will establish the allocation of deliveries, which can be relied upon by either party in the conduct and performance under the Agreement. The method of allocation can be: (i) ranked (order through the meter); (ii) pro rata; (iii) fixed percentage; (iv) swing; or (v) any other method to which both Company and customer agree. Each PDA shall be effective for at least one Service Month and shall remain in effect until superceded by a new PDA.

3.23. POOLING SERVICE

3.23.1 The Company shall make Pooling Service available to any party (hereinafter referred to as Pool Manager) that requests Pooling Service from Company when:

- (i) Company has received, reviewed and accepted a credit application from Pool Manager, and Pool Manager has been deemed creditworthy.
- (ii) Company and Pool Manager have executed a Pooling Service Agreement in the form acceptable to Company.
- (iii) Pool Manager has submitted formal documentation of agency for customers subject to aggregation under this service.
- (iv) Pool Manager complies with all applicable provisions of this rate schedule.

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Pooling service shall be subject to interruption, in whole or in part, at any time, and shall be available subject to capacity constraints and operational and economic conditions.

3.23.2. Pooling shall consist of the aggregation of the Receipt Point(s) available to customers subject to the Pooling Service Agreement and deliveries made at Delivery Point(s) delivered subject to the Pooling Service Agreement. The Pool Manager, having documented agency authority, shall submit nominations and allocation information for all customers subject to the Pooling Service Agreement, to Company, in accordance with Part 3.20.

Company shall not have any liability to a Pool Manager or customer as a result of Company's reliance on the performance of Pool Manager.

3.23.3. Imbalances in a Pool will be calculated by determining the difference between total aggregated receipts into the Pool and the total deliveries allocated out of the Pool to end users. Imbalance tolerances outlined in Part 3.21.5.A., 3.21.5.B. and 3.21.8. shall apply to the aggregated imbalance total, unless and until Pooling rights are interrupted for a specified period.

3.23.4. Imbalances incurred subject to Parts 3.21.5.A., 3.21.5.B. and 3.21.8. will be billed as specified in the Pooling Service Agreement. In the event that the Pool Manager fails to pay invoices, customer will remain liable for payment of all charges, as acknowledged in the Pooling Service Agreement.

Should Pool Manager fail to pay invoices calculated at the aggregated level, upon default to the individual customer invoice, the invoice shall be

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recalculated at the individual customer level, without benefit of the aggregated tolerance.

3.24. WARRANTY OF TITLE

3.24.1. Customer shall have title to and shall warrant its title to all gas delivered to Company under the TSO of this rate schedule, and such gas shall be delivered to Company free and clear of all liens, claims and encumbrances. Customer shall indemnify Company against all suits, actions, debts, accounts and damages arising out of any adverse claims to, against or in respect of such gas. Customer shall also indemnify Company and hold it harmless from and against any and all claims, actions, suits, costs, liabilities and expenses caused by or arising out of possession or presence of such gas before it is delivered into Company's facilities. Customers entering into Agreements as specified in Part 3.1.1. shall have the right to deliver volume for redelivery, available exclusively for customers' own use. Such delivery rights shall not be resold to or shared with third parties.

3.25. ASSIGNMENT

3.25.1. Customer shall not assign the Agreement in whole or in part, nor shall customer agree to provide services to others by use of any capacity contracted for under the Agreement, without Company's prior written consent. In addition to all other rights and remedies, Company may terminate the Agreement immediately if it is assigned by customer or if customer subcontracts its transportation capacity to others without such prior consent, whether the assignment be voluntary or by operation of law or otherwise. Subject to the above, the respective rights and obligations of the parties under the Agreement shall extend to and be binding upon their heirs, successors, assigns and legal representatives.

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3.26. TRANSPORTATION REGULATIONS

3.26.1. With regard to all aspects of the transportation service, it is recognized that Company operates a local distribution system, and, accordingly, all provisions hereof having to do with transportation of gas and the charge therefor, including Company's obligation to transport gas at all, are subject and subordinate to the provisions of any certificates and rate schedules issued by or filed with the Commission or successor authority, as well as any and all local, state and federal laws, orders, rules and regulations, to the extent applicable to the transportation of gas by Company, as contemplated hereby. To the extent that any local, state or federal authorization and/or approval is required to provide such transportation service, Company will proceed with due diligence to seek to obtain same as and when necessary in such manner as Company considers to be appropriate, provided that due diligence will not obligate Company to accept conditions or rates otherwise unacceptable to Company.

3.27. UNACCEPTABLE QUANTITIES

3.27.1. Company shall have the right to refuse at any time, and from time to time, to receive at any receipt point or to deliver at any delivery point a quantity of gas that Company determines, in its reasonable judgment, to be unduly burdensome from an operating or administrative standpoint.

3.28. LIMITATION OF LIABILITY

3.28.1. In no event shall Company be liable (in contract or in tort, including actions based on claims of negligence) to customer or any other claimant for special, indirect, incidental, or consequential damages, including, but not limited to, lost profits and any part of the expense incurred in securing alternative services which exceeds the amount customer would have paid hereunder, resulting from Company's performance, nonperformance or delay in performing its obligations hereunder.

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3.29. FACILITIES POLICY

3.29.1. Unless otherwise provided by Company's rates and policies or the applicable Agreement, when gas is connected to a new facility, customer will reimburse Company the cost of all facilities necessary to effect receipts or deliveries within thirty (30) days after receipt of Company's statement following completion of installation. This payment shall be non-refundable and accounted for by Company as a "Contribution in Aid of Construction." The term "facilities" includes the pipeline, the connecting meter run, separator, regulator and all related facilities necessary to receive or deliver the gas in accordance with the provisions hereof. The term "cost" includes the cost of pipe, materials, equipment and other facilities, cost of right of way, and cost of installation and other related costs. Customer's payment to Company under this paragraph shall not operate to give customer any right, title or interest, in or to Company's facilities installed for the service and Company's said facilities shall be and remain the sole property of Company.

3.30. SALES SERVICE

3.31.0. Company shall only be obligated to provide sales service to customer if and to the extent it is purchased and contracted for by customer pursuant to one of Company's filed rate schedules. In those circumstances in which customer elects to purchase sales service offered by Company during periods of full or partial interruption of transportation service by customer's upstream pipeline transporter, customer shall pay Company the total applicable cost of providing such emergency sales service.

3.31. OPERATIONAL NOTICES AND COMMUNICATIONS

3.31.1. Company shall make available scheduling personnel on a twenty-four (24) hour basis. Customer shall provide, and update as necessary, the name, address, and telephone number of an operational contact person or persons who will be available on a twenty-four (24) hour basis to receive or

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PART I - Rate Schedule No. 3

Title: LARGE COMMERCIAL FIRM SERVICE (LCS-1)

Effective: June 12, 2003

provide communications involving receipts, deliveries, curtailment and for any other purposes relating to customer's service under this rate schedule. Company shall be entitled to rely on such contact person's actions and communications for all purposes and shall have no liability for doing so, and if customer fails to designate such person or such person is unavailable to Company at any time, customer may be liable and shall indemnify and hold Company harmless from and against losses, damages and other expenses which Company or any other person may suffer or for which Company may be liable which are attributable to such failure or unavailability.