

Bay Gas Storage Company, Ltd.
Statement of Operating Conditions
for Storage and Transportation Services

STATEMENT OF OPERATING CONDITIONS
FOR STORAGE AND TRANSPORTATION SERVICES

OF

BAY GAS STORAGE COMPANY, LTD.

FILED WITH THE

FEDERAL ENERGY REGULATORY COMMISSION

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Communications Concerning This Statement
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1.0 Rate Summary for NGPA Section 311 (a)(2) Services

1.1 Transportation Services

Mainline Facilities (Maximum Transportation Rates):

\$2.4247 per Dth per month for FT service 1/
\$0.0797 per Dth per day for IT service 1/

Whistler Spur Facilities (Maximum Transportation Rates):

\$1.2186 per Dth per month for FT service 1/
\$0.0401 per Dth per day for IT service 1/

Transco Facilities (Maximum Transportation Rates):

\$1.2186 per Dth per month for FT service 1/
\$0.0401 per Dth per day for IT service 1/

Mainline, Whistler Spur and Transco Facilities (Minimum Transportation Rates):

\$0.0000 per Dth per month for FT service 1/
\$0.0000 per Dth per day for IT service 1/

Wheeling and Hub Services:

Provided at Market Based Rates 2/

1.2 Storage Services

Firm Storage Services:

Provided at Market Based Rates²

Interruptible Storage Services:

Provided at Market Based Rates²

¹ Shippers being provided these transportation services are charged a Company Use Percentage determined pursuant to the provisions of Section 12.2.4 of Bay Gas' Statement of Operating Conditions.

² Market based rates for these services were continued to be authorized and authorized by Letter Order of the Director, Division of Tariffs and Market Development – East, on April 18, 2008, in *Bay Gas Storage Company, Ltd.*, Docket Nos. PR08-7-000 and PR08-7-001.

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2.0 Introduction

Bay Gas Storage Company, Ltd. (“Bay Gas”), a natural gas storage public utility that qualifies as an intrastate pipeline company providing services within the meaning of the Natural Gas Policy Act of 1978 (“NGPA”) Section 2 (16) and Section 284.1 (a) of the Federal Energy Regulatory Commission's (“Commission”) regulations, files this amended Statement of Operating Conditions for NGPA Section 311 (a)(2) Gas Storage and Transportation Services, pursuant to the Commission's regulations. 18 C.F.R. § 284.123 (e). Firm and interruptible gas storage and transportation-only services, on terms and conditions authorized by the Commission and accepted by Bay Gas, shall be provided by Bay Gas pursuant to NGPA Section 311 (a)(2), 15 U.S.C. §3371 (a)(2), and the Commission's implementing Orders, Rules and Regulations, to qualified Shippers that comply with the conditions set forth in this Statement and with the terms and conditions contained in Bay Gas' Storage or Transportation Service Agreement executed with Shipper.

3.0 Basic Status and Function

Bay Gas is a gas storage public utility, certificated by the Alabama Public Service Commission and subject to regulation by the Alabama Public Service Commission, which qualifies as an intrastate pipeline company providing storage and transportation services within the meaning of NGPA Section 2 (16) and Section 284.1 (a) of the Commission's regulations. Any such NGPA Section 311 (a)(2) services that Bay Gas provides will be consistent with, and shall not infringe on, Bay Gas' status and function as a non-Federal-jurisdictional intrastate pipeline, and shall not subject Bay Gas to this Commission's Natural Gas Act jurisdiction. 18 C.F.R. § 284.3.

4.0 Qualified Shippers

Besides other conditions contained in this Statement, Bay Gas' services are available only to a Shipper that enters into a Service Agreement mutually acceptable to Bay Gas and Shipper. All transactions for storage or transportation of gas that has flowed, or will flow, in interstate commerce must qualify under NGPA Section 311 (a)(2) and 18 C.F.R. Part 284 of Subchapter I. If, in the opinion of Bay Gas' counsel, such qualified status of Shipper or its proposed transaction is in doubt, then Shipper must apply for and receive a final, non-appealable ruling from this Commission, or successor agency thereto, affirming such qualifying status of Shipper and its proposed transaction, prior to commencement of services by Bay Gas.

5.0 Capacity Availability, Scheduling and Allocations, and Curtailments

5.1 Capacity Availability

5.1.1 Storage service shall be conditioned on availability of sufficient injection rate capacity, field storage capacity and withdrawal rate capacity (collectively called “Capacity,” and including pipeline transportation service capacity) to perform the service in accordance with the terms and conditions set forth in this Statement of Operating Conditions without detriment or disadvantage to services by or for the account of Bay Gas. Transportation service shall be conditioned on availability of sufficient Capacity to perform the service in accordance with the terms and

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conditions set forth in this Statement of Operating Conditions without detriment or disadvantage to services by or for the account of Bay Gas. Bay Gas reserves all rights to retain sufficient Capacity for its intrastate, non-Federal-jurisdictional firm and interruptible services and for its operational swings attributable to firm and interruptible storage services prior to making Capacity available by contract to NGPA Section 311 (a)(2) Shippers. Once Capacity is made available to NGPA Section 311 (a)(2) Shippers, such Capacity shall be scheduled, allocated or curtailed only as set forth in Sections 5.1.2 and 5.1.3 hereof.

- 5.1.2 Storage service availability further shall be conditioned on Bay Gas receiving an acceptable market value, in Bay Gas' sole judgment, for such storage services, determined when a request for storage service is received. Bay Gas reserves all rights to refuse a request for storage service that, in Bay Gas' sole judgment, might provide less than market value. Apart from such Bay Gas judgment as to market value, Bay Gas' judgment shall be exercised on a non-discriminatory basis.
- 5.1.3 Criteria applied to requests for NGPA Section 311 (a)(2) services shall be the same as criteria applied to requests for intrastate, non-Federal-jurisdictional services.
- 5.1.4 Shipper shall be responsible for making all arrangements for its transportation of gas to be injected into or withdrawn from storage through Bay Gas' storage services. Bay Gas reserves all rights to refuse storage service for any otherwise qualified Shipper if Bay Gas determines that such storage would be detrimental to Bay Gas' storage operations in any way, including, without limitation, Bay Gas' storage compression and affected processing operations.

5.2 Scheduling and Allocations

Bay Gas shall schedule contracted services according to these principles:

- 5.2.1 Nomination deadlines shall be as prescribed in Bay Gas' General Terms and Conditions.
- 5.2.2 Bay Gas will be under no obligation to schedule the injection of gas into storage or the withdrawal of gas from storage until Bay Gas has confirmed the availability of Shipper's transportation service to or from Bay Gas' storage services for the gas concerned. Subject to the foregoing subsection 5.2.1 and this subsection 5.2.2, firm storage and transportation services shall be scheduled before interruptible services in all instances, regardless of the relative service rates to be paid.
- 5.2.3 In-field transfer of title (transfer of gas balances in the storage field between storage service agreements) may be made only with Bay Gas' approval.
- 5.2.4 Interruptible storage service Shippers paying a higher Unit Rate, as defined in Bay Gas' General Terms and Conditions, shall be scheduled ahead of

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interruptible storage service Shippers paying a lower Unit Rate. If, because of changes in available Capacity at any time, Bay Gas is required to reschedule interruptible Shippers that are injecting, storing or withdrawing gas and are paying the same Unit Rate, then the Capacity shall be rescheduled *pro rata* based on applicable contract quantities for said Shippers.

- 5.2.5 Bay Gas reserves the right to interrupt service to an interruptible Shipper injecting, storing or withdrawing gas, in order to enable Bay Gas to provide service to another, bumping, interruptible Shipper injecting, storing or withdrawing gas, if such Shipper is paying a higher Unit Rate to Bay Gas.
- 5.2.6 All overrun volumes in excess of a storage service Shipper's contract quantities nominated for delivery by Shipper shall be scheduled according to Sections 5.2.4 and 5.2.5. only after all other storage service Shippers' nominated volumes equal to or less than each Shippers' Maximum Daily Injection Quantity or Maximum Daily Withdrawal Quantity are scheduled.
- 5.2.7 Bay Gas may reschedule Capacity on a daily basis, or on such other periodic basis as is necessary for Bay Gas to recognize the priority of new storage or transportation service Shippers or any changes in the priorities of existing such Shippers, and to conform to its storage system operational requirements. Such priorities or changes will include, but will not be limited to, those instances involving a storage service Shipper paying a higher Unit Rate for interruptible service and firm storage service Shippers changing volumes within their Maximum Daily Injection Quantity or Maximum Daily Withdrawal Quantity. However, such changes in scheduling shall not at any time bump any existing firm Shipper.

5.3 Curtailments

5.3.1 General

If curtailment of storage or transportation service is required, volumes shall be curtailed in the reverse order of the priority in effect at the time of curtailment established during scheduling as set forth in Section 5.2 above. Intrastate, non-Federal-jurisdictional firm and interruptible services shall be curtailed in a manner determined solely by Bay Gas, but in no event shall such curtailments have a different priority than similar types of services for NGPA Section 311 (a)(2) Shippers.

5.3.2 Reduction of Services

Without limitation to the foregoing, Bay Gas shall have the right to reduce receipts, deliveries, injections or withdrawals of gas on any day below a storage service Shipper's Maximum Daily Injection Quantity or Maximum Daily Withdrawal Quantity, or below the storage rights applicable, for repair, overhaul, replacement or construction of pipelines, compressors, metering, regulating or other production, gathering and transmission facilities and equipment, or to

maintain system integrity; *provided*, however, that with respect to routine repair and maintenance, Bay Gas will implement restrictions for scheduling purposes only, not for curtailment, and will attempt to schedule such activity during a period when it will not result in limitation of firm service or when such limitation will be minimized, and after consulting with the Shippers that could be affected.

5.3.3 Notice of Curtailment

For shippers under all firm services, Bay Gas shall provide notice of any curtailment as far in advance as feasible. Services reserved by Bay Gas for system operations shall be curtailed last, in consideration of the need to preserve system integrity. If capacity is curtailed and two or more firm Shippers have the same priority according to this Section 5.3, firm Shippers shall be allocated their *pro rata* share of capacity based on their Maximum Daily Injection Quantity or Maximum Daily Withdrawal Quantity or Maximum Daily Transportation Quantity, as applicable. If firm Shippers nominate fewer than their respective curtailment period entitlements, the difference shall be allocated *pro rata* among those firm Shippers with unsatisfied nominations. All non-firm Shippers shall be allocated their *pro rata* share of Capacity based on their nominations in effect at the time of the curtailment.

5.3.4 Limitation of Firm Services

While firm services are not ordinarily interrupted by nominations for firm service within Shipper's Maximum Daily Injection Quantity or Maximum Daily Withdrawal Quantity or Maximum Daily Transportation Quantity, Bay Gas may decline to schedule firm service for any of the following reasons:

- a. if Shipper tenders gas which does not conform to applicable pressure requirements of the Storage or Transportation Service Agreement,
- b. if Shipper tenders gas which does not conform to the gas quality requirements of both the upstream and downstream entities' gas quality requirements,
- c. for reasons of *force majeure*,
- d. due to routine repair and maintenance to be reasonably determined by Bay Gas,
- e. due to delinquency in payment by Shipper,
- f. to rectify imbalances or to conform physical flows to nominations,
- g. to maintain system integrity, or
- h. if there is a dispute over title, ownership or right to tender, receive or deliver gas.

6.0 Receipt and Delivery

Bay Gas shall have sole operational control over the injection of gas into, the retention of gas within, and the withdrawal of gas from, Bay Gas' system storage facilities. A Shipper seeking to direct gas into storage shall nominate "Storage" as the Point of Delivery on Bay Gas' system and shall identify the number of the Storage Service Agreement to be used for the receipt of such gas into storage. A Shipper seeking to withdraw gas from storage shall nominate "Storage" as the Point of Redelivery from Bay Gas' system and shall identify the number of the Storage Service Agreement under which the gas is to be withdrawn from storage. Bay Gas shall have sole operational control over the transportation of gas on Bay Gas' system from the Point of Delivery to the Point of Redelivery. For transportation service, "Delivery" shall mean the act of causing gas to be transported to the Points of Delivery, and "Redelivery" shall mean the transportation of gas from the Points of Delivery to the Points of Redelivery.

7.0 Incorporation of General Terms and Conditions

Section 12 of this Statement of Operating Conditions sets forth the general terms and conditions applicable to Bay Gas' storage and transportation services. Shipper's failure to comply with the provisions in Section 12.2 shall relieve Bay Gas of its obligation to perform services, and, if such failure to comply unreasonably interferes, in Bay Gas' judgment, with Bay Gas' control over its system facilities, then Bay Gas may, at its option, cease services and terminate any related Service Agreements or other agreements, without limitation of Bay Gas' rights or remedies at law or in equity.

8.0 Right to Terminate Services

Bay Gas reserves the right to discontinue, on a non-discriminatory basis, all services that subject Bay Gas to the non-discriminatory access requirements of 18 C.F.R. Part 284, and any subsequent Commission Orders, Rules or Regulations applicable to such services. Bay Gas may cancel the affected Service Agreements at any time on ninety (90) days prior written notice to Shippers if Bay Gas has no other reasonable options available that will allow the continuation of such Service Agreements. Bay Gas shall be relieved of all obligations and liabilities on the effective date of such notice of discontinuance and cancellation. Bay Gas additionally reserves the right to terminate any interruptible Service Agreement if the Shipper either has not executed the Service Agreement within thirty (30) days of receiving such Agreement, or has failed to nominate service under such Agreement within one (1) year after execution of the Agreement.

9.0 Compliance with Law and Survivability

If any part of this Statement of Operating Conditions conflicts with, or violates, any Commission or other Judicial, Governmental or Regulatory Body's Orders, Rules or Regulations, such part shall be deemed void, but shall not affect the remaining provisions of this Statement. Bay Gas shall not be liable to any party with a Service Agreement subject to this Statement that loses priority status or any other rights enumerated in this Statement because of the issuance by the Commission or other Judicial, Governmental or Regulatory Body of any Orders, Rules or Regulations affecting this Statement of Operating Conditions.

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10.0 Changes to this Statement of Operating Conditions

Bay Gas reserves the right to add to, delete or modify the conditions in this Statement without prior notice.

11.0 Authority of Statement of Operating Conditions

This Statement of Operating Conditions, and the incorporated General Terms and Conditions set forth in Section 12 hereof take precedence over conflicting language in any of Bay Gas' Service Agreements or amendments thereto.

12.0 General Terms and Conditions

12.1 Definitions

12.1.1 The term "gas" as used herein shall mean natural gas as produced in its natural state that meets the quality standards contained in these General Terms and Conditions.

12.1.2 The term "new taxes" as used herein shall mean any tax, license, fee or charge hereafter levied, assessed or made by any governmental authority on the gas itself or on the act, right or privilege of producing, severing, gathering, storing, transporting, handling, selling or delivering gas which is measured by the volume, value, or sales price of the gas.

12.1.3 The term "cubic foot of gas" as used herein for the purpose of measurement of the gas delivered hereunder is the amount of gas necessary to fill a cubic foot of space when the gas is at an absolute pressure of fourteen and seventy-three hundredths (14.73) pounds per square inch and at a base temperature of sixty (60) degrees Fahrenheit.

12.1.4 The term "BTU" as used herein shall mean British Thermal Unit and, where appropriate, the plural thereof, and the term "MMBtu" shall mean one million (1,000,000) BTU.

12.1.5 The term "MCF" as used herein shall mean one thousand (1,000) cubic feet of gas.

12.1.6 The term "day" as used herein shall mean a period of twenty-four (24) consecutive hours beginning and ending at 9:00 a.m. Central Clock Time.

12.1.7 The term "thermally equivalent" as used herein shall mean an equal amount of heating value, expressed in BTU and measured under the specifications and conditions contained hereunder.

12.1.8 The term "month" as used herein shall mean a period beginning on, and including, the first (1st) day of the calendar month and extending to but not including the first (1st) day of the following calendar month.

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- 12.1.9 The term “Storage Service Agreement” as used herein shall mean an agreement for the provision by Bay Gas of firm or interruptible storage services; and the term “Transportation Service Agreement” as used herein shall mean an agreement for the provision by Bay Gas of firm or interruptible transportation services.
- 12.1.10 The term “Maximum Daily Injection Quantity” as used herein shall mean the maximum volume of gas that Bay Gas will accept for injection into storage for Shipper in any one day, as provided for in the Storage Service Agreement.
- 12.1.11 The term “Maximum Daily Withdrawal Quantity” as used herein shall mean the maximum volume of gas that Bay Gas will deliver from storage for Shipper in any one day, as provided for in the Storage Service Agreement.
- 12.1.12 The term “Maximum Storage Quantity” as used herein shall mean the maximum volume of gas that Bay Gas will store for Shipper at any one time, as provided for in the Storage Service Agreement.
- 12.1.13 The term “Maximum Daily Transportation Quantity” as used herein shall mean the maximum volume of gas that Bay Gas will take delivery of, and transport for redelivery, in any one day, as provided for in the Transportation Service Agreement.
- 12.1.14 The term “processed gas” as used herein shall mean natural gas from which gas liquids have been extracted.
- 12.1.15 The term “Unit Rate” as used herein shall be defined for interruptible storage service Shippers as follows:
- a. The Monthly Demand Charge (“MDC”) times the Interruptible Maximum Storage Quantity (“IMSQ”) times (ii.),
 - b. the lesser of 12 or the number of months specified as the Primary Term (“PT”) of the Agreement. The product of (i.) and (ii.) then added to (iii.).
 - c. All other storage revenues excluding Fuel Charges assessed for interruptible services for the last 12 billed months (“Rev.”),
 - d. the result of (iii.) divided by the IMSQ.
- (i.e., Unit Rate = {[MDC x IMSQ x (12 or PT if < 12)] + Rev.} / IMSQ)
- 12.1.16 The term “Interruptible Transportation Wheeling Service” as used herein shall mean interruptible transportation service(s) whereby Bay Gas uses its interconnection facilities between multiple pipelines to facilitate either displacement transfers of gas or physical transfers of gas from one pipeline to another. It involves physical transfers of specified volumes of gas by Shipper

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to Bay Gas at a physical Point of Delivery transfer point where Bay Gas interconnects with pipeline(s), and Bay Gas' subsequent redelivery of thermally equivalent volumes of gas at a physical Point of Redelivery transfer point where Bay Gas interconnects with pipeline(s), subject to Bay Gas' Statement of Operating Conditions, General Terms and Conditions, and applicable Transportation Service Agreement(s).

12.1.17 The term "work day" or "working day" as used herein shall mean the days Monday through Friday inclusive but excluding any federal holidays.

12.2 Nominations, Balancing, and Excess Deliveries

12.2.1 Nominations

Shipper shall furnish to Bay Gas a nomination on a form acceptable to Bay Gas. All quantities shall be expressed in MMBtu per Day and shall separately state Points of Receipt, Points of Delivery or Points of Redelivery.

- a. The Timely Nomination Cycle: Shipper must deliver the nominations to Bay Gas by 11:30 A.M. Central Clock Time the working day prior to gas flow. Scheduled quantities resulting from a Timely Nomination should be effective at 9:00 A.M. Central Clock Time on the day of gas flow.
- b. The Evening Nomination Cycle: Shipper must deliver the nominations to Bay Gas by 6:00 P.M. Central Clock Time the working day prior to gas flow. Scheduled quantities resulting from an Evening Nomination should be effective at 9:00 A.M. Central Clock Time on the day of gas flow.
- c. The Intraday 1 Nomination Cycle: Shipper must deliver the nominations to Bay Gas by 10:00 A.M. Central Clock Time on the day of gas flow. Scheduled quantities resulting from Intraday 1 Nominations should be effective at 5:00 P.M. Central Clock Time on the day of gas flow.
- d. The Intraday 2 Nomination Cycle: Shipper must deliver the nominations to Bay Gas by 5:00 P.M. Central Clock Time on the day of gas flow. Scheduled quantities resulting from Intraday 1 Nominations should be effective at 9:00 P.M. Central Clock Time on the day of gas flow.
- e. The parties intend that the volumes of gas received or delivered or redelivered will be equal to the confirmed nominations. To the extent that gas quantities actually received or delivered or redelivered may be greater than or less than the confirmed nominations, the parties intend that such variance will be treated in accordance with an Accounting Allocation Agreement entered into between the parties.
- f. Nominations made in accordance with this Section 12.2 shall not become effective until Bay Gas has confirmed the nominated storage receipts (injections) and deliveries (withdrawals), or transportation deliveries and

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redeliveries, with upstream and downstream parties. Shipper shall designate the appropriate person(s) with authority to confirm nominations and to resolve allocation issues on a 24-hour-basis.

- g. Bay Gas shall not be obligated, during any hour, to receive or to deliver or to redeliver a total volume of gas in excess of one twenty-fourth (1/24th) of the lesser of (a) Shipper's aggregate Maximum Daily Injection Quantity or Maximum Daily Withdrawal Quantity, or Maximum Daily Transportation Quantity or (b) Shipper's accepted nomination volumes. The parties intend that from time to time Shipper and Bay Gas may mutually agree to a flow rate above or below a uniform hourly rate.

12.2.2 Balancing

Bay Gas will accept for storage injection or deliver for withdrawal, or for transportation delivery and redelivery, on a daily basis, volumes thermally equivalent to volumes nominated and scheduled, less appropriate compressor fuel and lost-and-unaccounted-for gas (collectively called "Company Use") charges, unless otherwise mutually agreed to in writing. Company Use reimbursement quantities are volumes of gas delivered to Bay Gas for any transportation-only service (such as firm or interruptible transportation) that are retained by Bay Gas as compensation for costs of Company Use compressor fuel or lost-and-unaccounted-for gas. To recover such Company Use costs separately from any other transportation service rate or charge, Bay Gas will redeliver transportation-only volumes less Company Use reimbursement quantities, which shall be calculated by applying a Company Use Charges Reimbursement Percentage to all volumes nominated to Bay Gas on behalf of Shipper, as measured at Points of Delivery to Bay Gas. All imbalances between actual and nominated injection volumes or withdrawal volumes, or between delivery volumes and redelivery volumes, shall be treated as imbalance under, and received in accordance with, the Storage or Transportation Service Agreement(s) under which the gas in question is delivered to or from the storage or transportation facilities. Gas delivered to Bay Gas for withdrawal or redelivery hereunder on each day shall be at constant uniform rates as practicable throughout such day.

- a. If Shipper is advised by any upstream third party of the need to reduce or suspend deliveries of gas scheduled for delivery to or from storage, or for transportation delivery and redelivery, Shipper shall immediately notify Bay Gas orally, and shall confirm such notification in writing, of such reduction or suspension.
- b. Nothing in this Section 12.3 shall limit Bay Gas' right to take action as may be required to adjust injections or withdrawals of gas, including suspending storage services or to adjust deliveries and redeliveries, including suspending transportation services, in order to alleviate conditions that threaten the integrity of its system.

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- c. In the absence of an executed Accounting Allocation Agreement between Shipper and Bay Gas, balancing procedures shall be as specified in this Section 12.3. If an Accounting Allocation Agreement is in effect between Shipper and Bay Gas, such Agreement shall take precedence over the provisions specified in this Section 12.3.
- d. If there is more than one supply source (whether at a single or at multiple Points of Receipt or Delivery) nominated to be received for Storage or Transportation, the nomination will identify how and which supply source(s) should be allocated by means of a Receipt Pre-Determined Allocation (“RPDA”) specified in the nomination. In accounting for the volumes delivered or redelivered by Bay Gas, in circumstances where multiple services are provided at any Point of Delivery or Redelivery, the sequence of volumes delivered shall be determined by the Delivery Pre-Determined Allocation (“DPDA”) specified by Shipper in its most recent nomination. The nomination will identify which supply source(s) should be allocated in the event gas is not or cannot be delivered or redelivered as nominated.
- e. To the extent feasible, all volumes received by or delivered to Bay Gas at a Point of Receipt or Delivery shall be allocated in accordance with the confirmed nominations for that point. In the event the actual volumes received by Bay Gas do not equal the confirmed nominations for that point, any underage or overage will be allocated as follows:
 - (i) First, in accordance with the effective RPDAs submitted by Shipper (or Shipper’s suppliers). Shipper agrees that such an allocation is binding on Shipper.
 - (ii) Then, if there is no effective RPDA, pro rata to the extent applicable based on confirmed nominations, as applicable. Shipper agrees that such an allocation is binding on Shipper.
- f. To the extent feasible, all volumes delivered or redelivered by Bay Gas at a Point of Delivery or Redelivery shall be allocated in accordance with the confirmed nominations for that point. In the event the actual volumes delivered by Bay Gas do not equal the confirmed nominations for that point, any underage or overage will be allocated as follows:
 - (i) First, in accordance with the effective DPDAs submitted by Shipper (or Shipper’s suppliers). Shipper agrees that such an allocation is binding on Shipper.
 - (ii) Then, if there is no effective DPDA, *pro rata* to the extent applicable based on confirmed nominations, as applicable. Shipper agrees that such an allocation is binding on Shipper.
- g. Each Shipper shall be responsible for ensuring that its suppliers submit Pre-Determined Allocations (“PDAs”, which include RPDAs or DPDAs) as

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provided herein using a form acceptable to Bay Gas. Unless otherwise agreed, all PDAs must be submitted to Bay Gas via facsimile or other agreed upon electronic means on or before the date the PDA is to be effective. Such PDA shall specify how any underage or overage from the confirmed nominated volumes should be allocated among the entities listed on the PDA. Bay Gas shall acknowledge receipt and acceptance of the PDA by returning acknowledgment of the PDA to Shipper via mutually agreeable means. Bay Gas acceptance is contingent on Bay Gas being able to administer the allocation submitted by the Shipper.

- h. To the extent that actual injections or actual withdrawals, or actual deliveries or actual redeliveries, for each Shipper do not exactly match confirmed nominations for any day, Bay Gas will attempt to balance any such differences among Bay Gas and the upstream or downstream entities, without impacting Shipper, whenever possible. If an upstream or downstream entity requires a Balancing Agreement for which any fee is required, Shipper agrees to reimburse Bay Gas for any incurred expenses.

- i. Storage Balance Reconciliation

To the extent Shipper and Bay Gas agree, in writing, that imbalances may be accounted for under the Shipper's Storage Service Agreement, and to the extent Shipper has sufficient storage capacity, Bay Gas will issue a formal storage balance notice to Shipper by the 20th of the month following the injection/withdrawal month ("the Notice Month"), reflecting the effect of Shipper's storage balance or any imbalance. Shipper understands and agrees to contact or cause to be contacted, the parties that deliver injection volumes to Bay Gas, or receive withdrawal volumes from Bay Gas, for the Shipper's account to confirm any imbalance.

Following the termination of the Storage Service Agreement, Shipper shall be required to either (a) transfer title to any volumes of gas in storage to a third party with whom Bay Gas has a Storage Service Agreement, with such transfer to be subject to any injection conditions or charges applicable to such third party, or (b) withdraw such volumes from storage within a sixty (60) day balancing period after the determination by Bay Gas that any such volumes exist, or within such longer period of time mutually agreed upon by Shipper and Bay Gas. Shipper agrees that at the end of the above sixty (60) day balancing period, Bay Gas will, for any storage volumes not withdrawn, take title to such gas and such title is to pass automatically without cost to Bay Gas.

12.2.3 Excess Deliveries

In the event that Shipper, from time to time, desires to have injected into or withdrawn from storage, or to have transported, quantities of gas in excess of the Maximum Daily Injection Quantity or Maximum Daily Withdrawal Quantity, or Maximum Daily Transportation Quantity, respectively, which Bay Gas is

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obligated to accept or deliver or redeliver under storage or transportation arrangements for Shipper on any day under a Storage or Transportation Service Agreement, Shipper may request injection or withdrawal or transportation of such excess gas, and Bay Gas in its sole discretion may accept or deliver or redeliver all or any part of such gas subject to the restrictions of these General Terms and Conditions.

12.2.4. Company Use Charges Reimbursement Percentage

Bay Gas' Company Use charges reimbursement percentage ("Company Use Percentage") shall be based on the 12-month period, January through December, of the year preceding its filing at the Commission. In no event, however, shall the effective Company Use Percentage be less than zero (0). Any Company Use quantities that would cause this Section 12.2.4 tracking methodology to be negative will be carried forward until the next annual filing. This methodology will be limited to recovery of LAUF volumes, including LAUF volumes from Mainline and Whistler spur Shippers, unless and until compression is installed on Bay Gas' Mainline and the FERC approves recovery of compressor fuel volumes. Bay Gas will file annually to revise the Company Use Percentage to be effective on March 1. LAUF charges shall be stated separately from compressor fuel charges. Such a tracking methodology shall contain a revised percentage component, and a true-up component, to determine the effective Company Use Percentage, as follows:

- a. The revised percentage component shall be determined by separately accumulating actual Company Use Compressor Fuel and LAUF quantities during the 12-month period. Such Company Use Compressor Fuel and LAUF quantities shall be separately divided by total book volume (MMBtu) flows on the Bay Gas system (including both transportation-only service volumes actually delivered to Bay Gas, and storage-related hub and transportation service volumes, and Interruptible Transportation Wheeling Service volumes) for the 12-month period. Compressor fuel volumes, if any, shall be included in such Company Use quantities. The resulting percentage shall be rounded to the nearest 0.01 percent.
- b. The true-up component shall be determined by separately accumulating Company Use Compressor Fuel and LAUF reimbursement quantities retained by Bay Gas during the 12-month period. Such quantities shall be subtracted from actual allocated transportation-only Company Use Compressor Fuel and LAUF quantities attributable to total throughput or total book volume flows for the 12-month period, resulting in a true-up quantity. Dividing the true-up quantity by projected transportation-only volumes for the year of filing shall determine the true-up component. The true-up component shall be added to the revised percentage component to determine the effective Company Use Percentage, either positive or negative, for either LAUF charges or compressor fuel charges. Any Company Use quantities that would cause the tracking methodology to be negative, for

either LAUF charges or compressor fuel charges, will be carried forward until the next annual filing.

12.3 Construction of Facilities

Under no circumstances shall Bay Gas be obligated to construct or add facilities to receive or deliver or redeliver gas under a Storage or Transportation Service Agreement, or to increase the capacity of Bay Gas' pipeline system or storage or transportation facilities. Upon Shipper's written request to evaluate connections of new facilities, Bay Gas will prepare and submit to Shipper a construction cost estimate. All new or additional facilities that may be required for the delivery of acceptable gas to Bay Gas or for the delivery or redelivery of gas to the receiving party or parties will be constructed, maintained, owned and operated by Bay Gas, except as may otherwise be expressly agreed in writing. The design and installation of all facilities shall be in accordance with the specifications then used by Bay Gas for like or similar facilities. Shipper shall bear the cost of all such new connections, unless otherwise mutually agreed.

12.4 Rate Adjustment

Bay Gas reserves the right to seek authorization from the Federal Energy Regulatory Commission ("FERC") or other appropriate agency to increase, decrease or restructure the rates (including market based rates), and Company Use charges in effect at any time as may be found necessary to assure Bay Gas' right to charge and collect fair and equitable rates within the meaning of Section 311 (a)(2) of the Natural Gas Policy Act of 1978 ("NGPA") and the FERC's rules and regulations thereunder. Nothing herein contained shall be construed to deny any Shipper any rights which it may have under FERC rules and regulations, including the right to participate fully in rate proceedings by intervention or otherwise to contest changes in rates and Company Use charges in whole or part. In addition to the rates above, Shipper shall pay in advance all applicable state and federal filing, reporting and application fees incurred by Bay Gas for providing such services.

Bay Gas may at any time provide firm or interruptible storage services at different rates from the market based rates approved by the FERC for Bay Gas' NGPA Section 311(a)(2) services. Nothing herein shall obligate or require, or be construed to obligate or require, Bay Gas to offer or continue such different rates.

12.5 Regulatory Requirements

Bay Gas' interstate services shall be in accordance with and subject to the requirements of Section 311(a)(2) of the NGPA and the rules and regulations of the FERC thereunder. Bay Gas' intrastate services shall be in accordance with and subject to the laws, rules and regulations of the State of Alabama.

Bay Gas agrees to proceed with reasonable diligence during the term of the Storage or Transportation Service Agreement with the filing for and prosecution of any authorizations as may be required for the storage or transportation of the gas hereunder or the rate(s) charged therefore. Bay Gas reserves the right to pursue any necessary

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regulatory filings with FERC and any other governmental or regulatory body having jurisdiction in such matter as it deems to be in its best interest, including the right to file whatever pleadings and motions it deems desirable. In the event Bay Gas has obtained such necessary regulatory authorization, but the terms and conditions are significantly different than those terms originally filed with the regulatory agency, or in the event FERC rejects or modifies Bay Gas' Statement of Operating Conditions for NGPA Section 311(a)(2) Gas Storage and Transportation Services, as same may be amended by Bay Gas from time to time, Bay Gas shall pursue other reasonable options to continue providing such services or, at Bay Gas' option, shall terminate such services as provided in Section 8 hereof.

12.6 Pressures

Bay Gas shall operate its storage facilities at pressures which will accommodate the withdrawal of gas in accordance with Bay Gas' outstanding firm service storage commitments. Bay Gas shall operate its transportation facilities at pressures which will accommodate the redelivery of gas in accordance with Bay Gas' outstanding firm service transportation commitments. Shipper shall be obligated to deliver gas for injection or for transportation, at a pressure sufficient for Bay Gas to transport such gas to and inject into its storage facility, or to transport such gas for redelivery, recognizing that the amount of such pressure will vary based on the operation of the Bay Gas pipeline.

12.7 Measurement

- 12.7.1 The gas received for injection or delivered for withdrawal at the storage facilities, or delivered or redelivered at the transportation facilities, shall be measured with meters constructed and installed, and whose computations of volume are made, in accordance with the provisions of ANSI-API 2530-AGA-3, latest revision as adopted by Bay Gas.
- 12.7.2 The temperature of the gas shall be determined by a recording thermometer so installed that it will record the temperature of the gas flowing through the meters. The average of the record to the nearest one degree (1^o) Fahrenheit, obtained while gas is being delivered, shall be the applicable flowing gas temperature for the period under consideration. For all measurement of gas required in this Section, the BTU content per cubic foot shall be determined for a cubic foot of gas at a temperature of sixty degrees (60^o) Fahrenheit, at an absolute pressure of fourteen and seventy-three hundredths (14.73) pounds per square inch on a dry basis.
- 12.7.3 The BTU, specific gravity, carbon dioxide, and nitrogen content of the gas shall be determined by the use of an on-line chromatograph or by a chromatographic analysis of the gas obtained by a continuous sample or spot sampling method. The results of any sample taken with an on-line chromatograph shall be applied to the month in which the sample was taken.

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12.7.4 Adjustment for the effect of supercompressibility shall be made according to the provisions of the latest version of either NX-19 or AGA Committee Report No. 8, as required by Paragraph A. of this Section and as adopted by Bay Gas, for the average conditions of pressure, flowing temperature, and specific gravity at which the gas was measured during the period under consideration and with the proportionate values of carbon dioxide and nitrogen in the gas delivered included in the computation of the applicable supercompressibility factors.

12.7.5 If at any time during the term hereof a new method or technique is developed with respect to gas measurement or the determination of the factors used in such gas measurement, such new method or technique may be substituted for the gas measurement set forth in this Section on the date such method or technique is adopted by Bay Gas.

12.8 Measuring Equipment and Testing

12.8.1 General

The construction, ownership, operation and maintenance of any measuring equipment necessary to accomplish the storage receipt of gas for injection by Bay Gas for the account of Shipper and the delivery of gas withdrawn by Bay Gas for the account of Shipper, or the transportation delivery of gas to Bay Gas for the account of Shipper and the redelivery of gas by Bay Gas for the account of shipper shall be the responsibility of Bay Gas. Shipper shall at all reasonable times have access to the premises of Bay Gas for inspections, insofar as such premises are connected with any matter or thing covered hereby. The operation of measuring equipment and changing of charts shall be done only by the employees or agents of Bay Gas.

12.8.2 Testing and Repair of Equipment

- a. Bay Gas shall keep its own measuring equipment accurate and in repair, making periodic tests to verify the condition of meter tubes, orifice plate, and chart recorder or flow computer. Bay Gas agrees to give Shipper(s) seven (7) calendar days notice prior to such tests of the measuring equipment so that, if desired, Shipper(s) may have its representative present. Shipper(s) shall have the right to challenge the accuracy of Bay Gas' equipment, and when challenged, the equipment shall be tested, calibrated and, if required, repaired by Bay Gas, the cost of such special test to be borne by Bay Gas if the percentage of the inaccuracy is found to be more than two percent (2%), but if the percentage of inaccuracy is found to be two percent (2%) or less, the cost of such special test shall be borne by the Shipper(s). If upon any test the percentage of inaccuracy is found to be in excess of two percent (2%), registrations thereof shall be corrected for a period extending back to the time such inaccuracy occurred, if such time is ascertainable, and if not ascertainable, then back one-half (1/2) of the time elapsed since the last date of calibration. Any measuring equipment found to be measuring inaccurately by one percent (1%) or more shall be adjusted at once to read accurately.

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- b. If, for any reason, the meter(s) are out of service or out of repair so that the amount of gas received or delivered cannot be ascertained or computed from the readings thereof, the gas received or delivered during the period such meter(s) are out of service or out of repair shall be estimated and agreed upon by the parties hereto by the use of the first applicable of the following methods:
 - (i) By comparative utilization of any like check measuring equipment if such check measuring equipment can be proven and verified to be measuring accurately; or
 - (ii) By computing the error if the percentage of error is ascertainable by calibration, test or mathematical calculation; or
 - (iii) By estimating the quantity received or delivered by reference to actual receipts or deliveries during preceding periods under similar conditions when Bay Gas' measuring equipment was registering accurately.
- c. Inspection of Charts and Records. The charts and records from the measuring equipment shall remain the property of Bay Gas and shall be kept on file for a period of time not less than two (2) years from the end of the calendar year in which the charts and records were generated or prepared. At any time within such period, upon written request by Shipper, records or charts from the measuring equipment, together with calculations therefrom, will be submitted for Shipper's inspection and verification subject to return to Bay Gas within thirty (30) days from receipt thereof. All inquiries regarding this Section 12.8, including but not limited to, measurement charts, records or audits of charts and records, shall be directed to Bay Gas.

12.9 Quality

The gas delivered by either party to the other hereunder shall meet or exceed the quality specifications of the transporting pipeline which receives or delivers such gas to the other party hereunder. FERC gas quality policies, including its 2006 Policy Statement on Provisions Governing Natural Gas Quality and Interchangeability in Interstate Natural Gas Pipeline Company Tariffs, apply to such interconnecting, interstate natural gas pipeline company transporting pipelines, and to Bay Gas. 115 FERC ¶ 61,325 (para. ("P") 44). Gas quality is concerned with the non-methane hydrocarbon impact on safe and efficient operation of pipelines, distribution facilities, and end-user equipment. *Id.*, P 5. Gas interchangeability is the extent to which a substitute gas safely and efficiently can replace gas normally used by an end-use customer in a combustion application. *Id.*, P 7. Gas delivered by either party to the other hereunder shall meet or exceed the gas quality and interchangeability specifications (*id.*, PP 29-38) effective in a FERC-approved tariff for the interconnecting interstate transporting pipeline receiving or delivering such gas to the other party hereunder. Such gas quality and interchangeability specifications should be flexible, including enough flexibility to allow transportation of out-of-specification gas if that can be done without jeopardizing system operating conditions. Bay Gas has

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discretion to waive strict gas quality and interchangeability specifications and limits when system operating conditions allow, and also, when system operating conditions require stricter measures, to enforce such specifications and limits, in a not unduly discriminatory manner. *Id.*, PP 39-41.

12.10 Billing, Accounting, Taxes, and Reports

20.10.1 Billings and Payments

- a. For the purpose of billing and accounting for the gas delivered hereunder, the day shall begin at 9:00 a.m. Central Clock Time and extend to 9:00 a.m. the following day, and the month (hereinafter called "billing month") shall begin at 9:00 a.m. Central Clock Time on the first (1st) day of the calendar month and extend to 9:00 a.m. on the first (1st) day of the following calendar month.
- b. On or before the fifteenth (15th) day of each calendar month, Bay Gas shall render or cause to be rendered, by mail or facsimile, to all Shippers an invoice of the amount due for the preceding month setting forth the applicable demand charges, and the total quantity of gas (1) received by Bay Gas from Shipper for injection into the storage facilities, or delivered by shipper to Bay Gas for transportation; (2) delivered by Bay Gas to Shipper for withdrawal from the storage facilities, or redelivered by Bay Gas to Shipper after transportation; (3) gas balance at the beginning and end of the injection/withdrawal, or transportation, month and (4) the rates and charges for storage or transportation services hereunder during such billing month. Billings for volumes transported shall be determined on a dry basis.
- c. Within ten (10) days from the date of the invoice, Shipper shall pay Bay Gas the total amounts due for demand charges, all gas injected, withdrawn or stored, or transported, by Bay Gas for the account of Shipper during the injection/withdrawal, or transportation, month. Payments to Bay Gas shall be made either by wire transfer or by check such that funds are available to Bay Gas on or before the tenth (10th) day after the date of the invoice. If rendering of an invoice by Bay Gas is delayed after the fifteenth day of the month, then the time of payment shall be extended accordingly unless Shipper is responsible for such delay.

12.10.2 Late Payment

In the event Shipper shall fail to pay any amount due Bay Gas when the same is due, Bay Gas shall have the option of accruing interest at a varying rate per annum (based on a year of 365 or 366 days, as the case may be) which shall be one hundred fifteen percent (115%) of the prime rate charged by the AmSouth Bank of Alabama to its largest and most creditworthy commercial borrowers on ninety (90) day commercial loans (but in no event greater than the maximum rate of interest permitted by law) with adjustments in such rate, for

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any period during which the same shall be overdue, such interest to be paid when the amount past due is paid. Shipper shall not be required to pay interest on any amount billed which is in good faith disputed in writing by Shipper and is ultimately determined to be in error; *provided*, however, interest shall be due if such amount billed is found not to be in error. If a portion of an invoice is disputed, Shipper shall pay when due the portion of the invoice not in dispute. If such failure to pay continues for thirty (30) days after the payment due date, Bay Gas may suspend deliveries of gas, subject to Bay Gas providing forty-eight (48) hours written notice, during normal working hours, of such intention to suspend deliveries; *provided*, however, that if Shipper, in good faith, disputes the amount of any such bill or part thereof and pays to Bay Gas such amounts as Shipper concedes to be correct, and furnishes and maintains a good and sufficient surety bond in an amount, and with sureties satisfactory to Bay Gas, conditioned upon the payment of any amounts ultimately found due upon such bills after a final determination, then Bay Gas shall not be entitled to suspend further delivery due to failure to pay such bills. In the event Shipper's financial position significantly deteriorates from that on the execution date of the Storage or Transportation Service Agreement, advance cash payments or acceptable security (including but not limited to an irrevocable letter of credit from a financial institution in an amount acceptable to Bay Gas) shall be given by Shipper upon demand of Bay Gas. Bay Gas may, without waiving any other rights or remedies it may have, withhold further delivery until such payment is received. In the event Bay Gas pursues collection on late payment, Shipper shall be liable for all expenses and costs, including court costs and attorneys' fees, incurred as a result of such failure to pay on time.

12.10.3 Tax Reimbursement

Shipper agrees to reimburse Bay Gas for all new taxes (federal, state, local or other) that may be levied upon or paid by Bay Gas, with respect to the services performed hereunder.

12.10.4 Examination of Books, Records and Charts

Each party shall have the right during reasonable working hours to examine the books, records and charts of the other party to the extent necessary to verify the accuracy of any statement, payment calculations or determinations made pursuant to the provisions contained herein. If any such examination shall reveal, or if either party shall discover, any error in its own or the other party's statements, payment calculations or determinations, then proper adjustment and correction thereof shall be made as promptly as practicable thereafter. The accuracy of any statement, payment calculations or determinations made pursuant to the provisions contained herein shall be conclusively presumed to be correct after two (2) years from the end of the calendar year in which the charts and records were generated or prepared if not challenged in writing prior thereto.

12.11 Possession and Non-odorization of Gas

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As between Shipper and Bay Gas, Shipper shall be in exclusive control and possession of the gas deliverable and responsible for any damage or injury caused thereby until the same shall have been received by Bay Gas for injection at the storage facilities, or until delivered at the transportation facilities, and after delivery of the gas for the account of Shipper for withdrawal at the storage facilities, or after redelivery for the account of Shipper at the transportation facilities. After delivery of gas for injection or transportation by Shipper to Bay Gas, and until delivery by Bay Gas to Shipper or Shipper's designee upon withdrawal or until redelivery after transportation, Bay Gas shall be in exclusive control and possession thereof and responsible for any injury or damage caused thereby. Neither Bay Gas nor Shipper assumes any obligation to odorize any gas delivered to the other.

12.12 Warranty

Shipper warrants that it will have and maintain good and marketable title or the right to deliver for a third party owning good and marketable title all gas tendered for injection, storage and withdrawal under a Storage Service Agreement, and all gas delivered for transportation under a Transportation Service Agreement, and that such gas shall be free and clear of all liens and adverse claims; and each party agrees, with respect to the gas delivered by it, to indemnify the other against all suits, actions, debts, accounts, damages, costs (including attorney's fees), losses and expenses arising from or out of any adverse claims of any and all persons to or against said gas.

12.13 Government Regulations

12.13.1 All of the provisions of any Storage or Transportation Service Agreement are hereby expressly made subject to all present and future applicable federal or state laws, orders, rules and regulations of governmental authorities having jurisdiction. Except as otherwise provided herein, in the event any provision of a Storage or Transportation Service Agreement or of these General Terms and Conditions is found to be inconsistent with or contrary to any such law, order, rule or regulation, the latter shall be deemed to control, and the Storage or Transportation Service Agreement and these General Terms and Conditions, to the extent possible, shall be regarded as modified accordingly and as so modified shall continue in full force and effect.

12.13.2 The parties hereto recognize that a Storage or Transportation Service Agreement has been entered into by Bay Gas in the good faith understanding that all acts, obligations and services performed by Bay Gas hereunder, and the charges therefore, are exempt from the regulation of FERC or any successor federal governmental authority, except as presently provided by Section 311(a) (2) of the NGPA and FERC's relevant regulations thereunder. Bay Gas reserves the right to terminate a Storage or Transportation Service Agreement immediately if, in the opinion of counsel for Bay Gas, any act shall occur or be seriously threatened which is in any way inconsistent with such understanding.

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12.13.3 Equal Employment Opportunity. Bay Gas and Shipper agree to comply with any and all applicable executive orders and acts pertaining to equal employment opportunity.

12.14 Force Majeure

12.14.1 In the event of either party being rendered unable, wholly or in part, by reason of *force majeure* to carry out its obligations under any Storage or Transportation Service Agreement (other than the obligation to make payment of amounts due hereunder), it is agreed that such party shall give notice and reasonably full particulars of such *force majeure*, in writing or by facsimile, to the other party within a reasonable time after the occurrence of the cause relied on, and the obligations of the party giving such notice, so far as they are affected by such *force majeure*, shall be suspended during the continuance of any inability so caused, but for no longer period, and such cause shall, so far as possible, be remedied with all reasonable dispatch.

12.14.2 The term "*force majeure*" as employed herein shall mean acts of God; strikes, lockouts, or other industrial disturbances; conditions arising from a change in governmental laws, orders, rules or regulations; acts of public enemy; wars; blockades; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; storms; floods; washouts; arrests and restraints of governments and people; civil disturbances; explosions; breakage or accident to machinery or lines of pipe; the necessity for making repairs, tests or alterations to machinery or lines of pipe; freezing of wells or lines of pipe; partial or entire failure of wells, processing or gasification and gas manufacturing facilities; and any other causes, whether of the kind herein enumerated or otherwise, not within the control of the party claiming suspension, and which by the exercise of due diligence, such party is unable to prevent or overcome. Such term shall likewise include: (a) those instances where either Bay Gas or Shipper is required to obtain servitudes, rights-of-way, grants, permits or licenses to enable such party to fulfill its obligations under a Storage or Transportation Service Agreement; the inability of such party in acquiring, at reasonable costs, and after the exercise of reasonable diligence, such servitudes, rights-of-way, grants, permits or licenses, and (b) those instances where either Bay Gas or Shipper is required to furnish materials and supplies for the purpose of constructing or maintaining facilities or is required to secure permits or permissions from any governmental agency to enable such party to fulfill its obligations under a Storage or Transportation Service Agreement; the inability of such party to acquire, or the delays on the part of such party in acquiring, at reasonable costs, and after the exercise of reasonable diligence, such materials and supplies, permits and permissions. *Force majeure* shall not include failure of gas supply due to pricing considerations.

12.14.3 It is understood and agreed that the settlement of strikes or lockouts shall be entirely within the discretion of the party having the difficulty, and that the above requirement that any *force majeure* shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts by acceding to

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the demands of the opposing party when such course is inadvisable in the discretion of the party having the difficulty.

12.15 Notices

Except as herein otherwise provided, any communication, notice, request, demand, statement or bill provided for in a Storage or Transportation Service Agreement which any party may desire to give to any other party shall be made in writing and mailed by first class mail to the post office address of the party intended to receive the same, as the case may be, at the addresses each respective party shall designate in the Storage or Transportation Service Agreement or change by subsequent formal written notice to the other. Routine communications, including monthly statements and payments, may be mailed by either certified or ordinary first class mail.

12.16 Creditworthiness

Bay Gas shall not be required to commence service or, subject to the following timing provisions, to continue to provide service under a Storage or Transportation Service Agreement with any Shipper, that (a) is or has become insolvent; (b) has applied for bankruptcy under Chapter 11 of the Bankruptcy Code, or which is subject to similar proceedings under state or federal law; or (c) when requested by Bay Gas to demonstrate creditworthiness, fails to do so in Bay Gas' reasonable judgment, in light of previous payment experience and the prudent credit analysis of information available; *provided*, however, that: (i) any such Shipper that is receiving or will receive service through Bay Gas' existing facilities will receive or continue to receive service if such Shipper provides Acceptable Security (as hereinafter defined) in an amount equal to that payable by Shipper for three (3) months of service at the full Maximum Daily Withdrawal Quantity, or the full Maximum Daily Transportation Quantity, including the amount of Shipper's current gas imbalance, plus an amount equal to the three (3) highest cash out payments, if any, incurred during the previous twelve months; and (ii) any such Shipper that is receiving or will receive service through new facilities constructed by Bay Gas will receive or continue to receive service if such Shipper provides Acceptable Security in an amount not to exceed such Shipper's share of the cost of such new facilities, as determined by Bay Gas in its reasonable discretion. As used herein, "Acceptable Security" means a cash deposit by Shipper or other good and sufficient security, which may include an acceptable standby letter of credit, or monthly prepayment agreement or other security as reasonably determined by Bay Gas, of a continuing nature. If a Shipper fails to meet the credit requirements set forth herein during the period that such Shipper is receiving service from Bay Gas, such Shipper shall have a period of 10 days after being notified by Bay Gas of such failure to provide Acceptable Security. If Acceptable Security is not received within such 10 day notice period, Bay Gas may, without waiving any rights or remedies it may have, suspend further service for a period of ten (10) days. If such payment on account or a payment security is not received within such ten (10) day suspension period, then Bay Gas shall no longer be obligated to continue to provide service to such Shipper. Further, if such payment on account or a payment security is not received within sixty (60) days after the end of such suspension period, Bay Gas may terminate its obligations to provide service under all agreements between Shipper and

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Bay Gas, which termination shall not affect any of Bay Gas' claims or remedies it may have under any Storage or Transportation Service Agreement.

12.17 Miscellaneous

12.17.1 Headings and Subheadings

The headings and subheadings contained in the Storage or Transportation Service Agreement are used solely for convenience and do not constitute a part of the Storage or Transportation Service Agreement between the parties hereto, nor should they be used to aid in any manner in construing the Storage or Transportation Service Agreement.

12.17.2 Successors and Assigns

The Storage or Transportation Service Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of the parties hereto, but no assignment shall relieve any party of its obligations hereunder unless such party is expressly released in writing from said obligations by the party to which it is obligated.

12.17.3 Entire Agreement

The Storage or Transportation Service Agreement, the Statement of Operating Conditions for NGPA Section 311(a)(2) for Gas Storage and Transportation Services, and these General Terms and Conditions constitute the entire agreement of the parties hereto as to the matters contained herein, and there are no oral promises, agreements or warranties affecting same.

12.17.4 Non-Waiver

The waiver of any default or right to require performance under a Storage or Transportation Service Agreement shall not operate as a waiver of any future default or right to require performance, whether of like or different character or nature.

12.17.5 Jurisdiction and Venue

The parties agree that a Storage or Transportation Service Agreement shall be governed by and construed in accordance with the laws of the State of Alabama, excluding any conflicts of law, rule or principle that might refer such construction to the laws of another state and that venue shall be in the State of Alabama for services performed in Alabama, with respect to any cause of action brought under or with respect to a Storage or Transportation Service Agreement.