IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

40-7580

In re	)	Chapter 11
	)	
FANSTEEL, INC., et al.,	)	Case No. 02-CV-44(JJF)
et al.,	)	
	)	(Jointly Administered)
Debtors.	)	
	)	
	)	
	)	
	)	

DECLARATION OF ROBERT S. BETONTE
IN SUPPORT
OF
MOTION BY SOUTHERN CALIFORNIA GAS COMPANY FOR DETERMINATION OF ENTITLEMENT TO ADDITIONAL ASSURANCES OF PAYMENT FOR FUTURE UTILITY SERVICE IN ACCORDANCE WITH ORDER UNDER 11 U.S.C. § 366 (i) PROHIBITING UTILITY COMPANIES FROM ALTERING, REFUSING, OR DISCONTINUING SERVICE; (ii) FINDING ADEQUATE ASSURANCE OF PAYMENT FOR FUTURE UTILITY SERVICE; AND (iii) ESTABLISHING PROCEDURES FOR DETERMINING REQUESTS FOR ADDITIONAL ASSURANCES

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DECLARATION OF ROBERT S. BETONTE

I, Roberts S. Betonte, hereby declare and state as follow:

1. I am the Credit Manager, Major Markets Credit & Collection of Southern California Gas Company ("SoCalGas"), a public utility. I am authorized to, and do make this declaration concerning the matters set forth herein below. Portions of the following are based upon knowledge acquired from reviewing the records and documents of SoCalGas which are maintained in the ordinary course of its business. I have possession or control over such documents and records on which the facts set forth herein are based. I have personal knowledge of all other facts not taken from such business documents, and if called as a witness in this action, I could and would competently testify to all matters set forth herein of my knowledge. I am making this declaration in support of the "Motion by Southern California Gas Company for Determination of Entitlement to Additional Assurances of Payment for Future Utility Service in Accordance With Order Under 11 U.S.C. § 366 (i) Prohibiting Utility Companies From Altering, Refusing, or Discontinuing Service; (ii) Finding Adequate Assurance of Payment for Future Utility Service; and (iii) Establishing Procedures for Determining Requests for Additional Assurances" (hereafter, the "Motion").

2. One of the debtors herein, Fansteel, Inc., aka Fansteel California Drop Forge ("Debtor") is a party to a Master Services Contracts with SoCalGas dated as of May 12, 1993 and a Master Services Contract Schedule A Intrastate Transmission Service dated as of June 13, 2001 (collectively, the "MSC"). (A copy of the MSC is attached hereto as Exhibit "1.") Pursuant to the MSC, as opposed to ordinary gas utility service, the customer, in this case the Debtor, is obligated to deliver the gas that it will use to SoCalGas' pipeline facilities for transportation to the Debtor. Normally, the Debtor is obligated to purchase and obtain the quantity of natural gas to meet its requirements from a third party, either a contracted marketer or an agent (the difference between the two being which party is liable to SoCalGas for obtaining

the gas transported over SoCalGas' system), which entity delivers the necessary gas to SoCalGas' pipeline.

3. Pursuant to the MSC, either the marketer, if the customer uses a contracted marketer, or the customer, if the customer uses an agent or is itself responsible for procuring the required amounts of gas, is subject to monthly imbalance charges if it fails to deliver sufficient gas to cover its usage and, during the winter months, daily imbalance charges if it fails to deliver into the SoCalGas pipeline system certain minimum volumes of gas sufficient to cover the customer's daily usage requirements at its facility, at the rates set forth in the applicable tariff Schedule No. G-IMB. Schedule No. G-IMB is on file with the California Public Utilities Commission ("PUC")." SoCalGas then transports such gas on SoCalGas' system. To the extent that all of the gas used by the customer is furnished by its agent or marketer, SoCalGas' charges to the customer are limited to charges for transportation and related charges. Per Schedule No. G-IMB, the price paid for natural gas that SoCalGas delivers to the Debtor in the event that it does not obtain its natural gas from its agent is described therein as the "standby procurement charge." That charge is applied to the Debtor's negative transportation imbalance.[3] The imbalance charges and daily balancing purchase charges both are required by the PUC.

4. As set forth in Schedule No. G-IMB, "the Standby Procurement Charge is posted at least one day in advance of each corresponding imbalance trading period for

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[3] As provided in Schedule No. G-IMB, during the winter months of November through March, transportation customers are required to deliver (flowing supply and firm storage withdrawal) at a minimum of 50% of burn during a five-day period. As explained in SoCalGas' Tariff Rule No. 30, "burn" means usage as defined therein. Volumes not in compliance with the 50% five day minimum delivery are purchased by the customer at the daily standby rate. The daily balancing standby rate, according to Schedule No. G-IMB, as revised as of March 29, 2002 is calculated as "150% of the highest Southern California border price during the five-day period as published in 'NGI's *Daily* Gas Price Index' including authorized franchise fees and, for retail customers, uncollectible expenses (F&U), and an authorized brokerage fee." (Different customer delivery requirements are increased to between 70% and 90% daily, as opposed to based upon a five-day period, as SoCalGas' total storage inventory declines through the winter months per Schedule No. G-IMB.) (Any gas which the customer purchases from SoCalGas under the Daily Balancing Purchases during the winter months is credited back to the customer and treated as gas delivered by the customer for purposes of determining the monthly imbalance and the imbalance charge is billed only for the remaining underdelivery after subtracted gas sold pursuant to the daily balancing purchases. As a result, the Standby Procurement Charge and Daily Balancing Purchase charges each apply to different portions of the gas purchased by the customer and are not duplicative.)

noncore/wholesale and core transport agents (CTAs). It is calculated at 150% of the highest daily border price index at the Southern California border beginning on the first day of the month that the imbalance is created to five days prior to the start of each corresponding imbalance trading period plus a Brokerage Fee of 0.266¢ per therm for noncore retail service and all wholesale service, and .201¢ per therm for core retail service. The highest daily border price index is an average of the highest prices from 'NGI's Daily Gas Price Index - Southern California Border Average' and 'Gas Daily's Daily Price Survey - SoCal gas, large pkgs Midpoint.'" The monthly imbalance charges and daily balancing standby purchase charges both are required by the PUC.

5. While a monthly imbalance results from the underdelivery of gas into the SoCalGas pipeline system (as compared to the customer's usage at its facility) during a particular month, there is no charge or obligation payable by the customer unless and until the customer fails to trade the transportation imbalances within the permitted time under the tariff. The act which results in a charge is the customer's failure to trade its incurred monthly imbalance. Monthly imbalance charges are not billed and payable until the beginning of the second month after the end of the month in which usage took place. This is because imbalances are calculated and appear on the bill issued following the end of the month in which usage took place and thereafter the customer has an "imbalance trading window" between day 25 and day 30 (day 28 in the case of February in a non-leap year) of that second month to trade the imbalance. It is only after the 30th day of that second month that monthly imbalance charges can arise and a bill requiring payment of the resulting monthly imbalance charges is issued. In contrast, it is important to recognize that incurred daily imbalances in winter months are not subject to trading during a subsequent imbalance trading window period. Any incurred daily imbalance charges in winter months are due and payable in the immediately succeeding billing month. (Pursuant to the MSC, the Debtor is a "noncore transportation customer" of SoCalGas.)

6. SoCalGas previously was informed that the Debtor currently has in effect a contract with Coral Energy Resources, L.P. ("Coral Energy"), a marketer in SoCalGas'

contracted marketer program, pursuant to which Coral Energy acts as the Debtor's marketer. (In conversations between SoCalGas' counsel and the Debtors' counsel during the week of March 25th, counsel for the Debtors informed SoCalGas' attorney that, in fact, the Debtor's contracted marketer presently is Sierra Southwest Cooperative.) SoCalGas also is informed and believes that such contract is terminable by either party. . To the extent that the Debtor has an effective contract with a contracted marketer participating under contract with SoCalGas in SoCalGas' contracted marketer program, SoCalGas would have recourse against such contracted marketer in the event that the required amounts of gas are not delivered on the Debtor's behalf and that monthly imbalance charges or winter daily balancing purchase charges are payable. Accordingly, the risk to SoCalGas for which only the Debtor is responsible in that circumstance would be limited to transportation and related charges. To the extent that the Debtor does not have a contracted marketer agreement in effect, SoCalGas' only recourse would be against the Debtor for any imbalance charges and daily balancing purchase charges in the winter months resulting from underdeliveries, as well as for transportation charges. When a contracted marketer is engaged, although the customer remains liable for any imbalance and daily balancing purchase charges, the contracted marketer also is contractually obligated to SoCalGas for such charges and, as a result, SoCalGas' recourse is not limited to its ability to collect from the Debtor.

7. In addition to its account as a noncore transportation customer of SoCalGas pursuant to the MSC, the Debtor also obtains natural gas service from SoCalGas under a regular, core customer account with respect to which the Debtor purchases natural gas from SoCalGas and incurs charges in accordance with tariff rates for such service. The account number assigned by SoCalGas to the Debtor's noncore transportation services was 18-6537-079-251-1 for prepetition services which account number was changed to 18-8888-001-422-2 for postpetition services. The Debtor's account number for core utility service was 064-919-4200, which account number was changed to 069-919-4201.

8. Attached hereto as Exhibit "2" is a printout of the computer stored account transaction records maintained by SoCalGas in the ordinary course of its business with respect to the Debtor which disclosed that, for the 12 month period prior to January 15, 2002, the Debtor's payments were overdue for 7 of those 12 months (i.e., paid more than 19 days after that month's bill was mailed) and in 3 of the 12 months, the Debtor's payments were made more than 28 days after that month's bill was mailed and that, for those months (identified as "collect or close" on Exhibit "2"), the payments were made after expiration of the period after which SoCalGas was entitled to terminate services to the Debtor under the applicable tariff rules.

9. SoCalGas has determined that the cash deposit required to provide adequate assurance of payment with respect to the Debtor's noncore transportation account pursuant to the MSC and provided that Coral Energy or Sierra Southwest Cooperative remains in place as the Debtor's contracted marketer, is $25,170. This amount was calculated based upon two months of transportation and related charges for the Debtor's non-core transportation account in the sum of $25,000 plus two months of charges for the Debtor's core meter account in the sum of $170. In the event that the Debtor's contracted marketer, whether Coral Energy or any other contracted marketer with which the Debtor enters into a contract respecting the Debtor's facilities to which gas services are provided by SoCalGas, terminates its contract with the Debtor, is no longer eligible as a contracted marketer approved to participate in SoCalGas' contracted marketer program or ceases supplying the required amount of gas that the Debtor is obligated to deliver for the Debtor's use as its contracted marketer use in accordance with the MSC for any reason (including the Debtor's termination of its contract with such contracted marketer or the Debtor's breach of its obligations to such contracted marketer), or the Debtor's gas delivery requirements are not covered by a contracted marketer for any other reason, SoCalGas requires that the security deposit amount be increased by the Debtor furnishing to SoCalGas an additional $245,000 deposit bringing the total security to $270,170 on or before the upon the effective date of such termination, ineligibility or cessation of the supply of required gas as a condition to continued utility service. This increased amount includes two months of

transportation charges plus applicable imbalance and daily balancing tariff charges assuming that all of the Debtor's required deliveries of gas would be purchased from SoCalGas at the rates set forth in Schedule No. G-IMB.[4] Copies of Tariff Schedule No. G-IMB and Tariff Rule No. 30 are attached hereto as Exhibits "3" and "4" respectively, and also are available on SoCalGas's web site at www.socalgas.com.

10. The amounts which SoCalGas has calculated as the required security in this case are based upon the fact that, under SoCalGas' tariff rules, a bill to the Debtor is not delinquent until 19 days after its issuance. Thereafter, SoCalGas is not entitled to terminate services unless the Debtor has received a one week termination notice. As a result, during the one month period between delinquency and termination another month of charges will be accrued leaving SoCalGas with two months of outstanding charges before service is terminated. This period is extended even more in the case of imbalance charges when the Debtor does not have a contracted marketer covering its requirements.

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4 Two months of charges are necessary in order to secure SoCalGas since imbalance and daily balancing purchase charges are not billed and payable until the beginning of the second month (the 31st day) after the end of the month in which usage took place. (This is because imbalances are calculated and appear on the bill issued following the end of the month in which usage took place and thereafter the customer has an "imbalance trading window" between day 25 and day 30 (day 28 in the case of February in a non-leap year) of that second month to trade the imbalance. It is only after the 30th day of that second month that a bill requiring payment of the resulting imbalance charge is issued.) In addition, under the applicable tariffs, bills issued to customers such as the Debtor are delinquent, and SoCalGas cannot take any action to terminate service based upon nonpayment, until 19 days following the date of the invoice. Termination then follows a seven day notice. Since bills include charges for service provided during the previous month and SoCalGas will have continued to provide service during the following approximately two months before termination takes place, SoCalGas asserts that any cash deposit under 11 U.S.C. § 366(b) must be sufficient to cover the estimated charges for at least a two month period. The amount calculated requested by SoCalGas in the event that the Debtor no longer has a contracted marketer providing all of its gas requirements is based upon a "worst case" basis. That "worst case" is one under which the Debtor is unable, either for credit or any other reasons, to obtain any of the gas volume that it normally is required to deliver to SoCalGas' pipeline during a two month period and is required buy that quantity of gas from SoCalGas by paying monthly imbalance charges and, during the winter, daily balancing purchase charges in addition to transportation charges payable even if the Debtor obtains all of the required gas from a third parties. Based upon the average charges for a two month period based upon the amount of gas required to be delivered for the Debtor in the past, that amount would be $270,000 (twice the monthly average for such charges based upon the Debtor's delivery requirements of $135,000 per month). For adequate assurance purposes, SoCalGas must utilize a "worst case" scenario since SoCalGas has no control over whether the Debtor's gas requirements or seasonal minimum requirements are delivered due to the Debtor's inability to procure gas from its sources of supply for credit or any other reasons.

11. The Debtor furnished to SoCalGas a cash security deposit from the Debtor prepetition in the sum of $34,700. Out of this deposit, plus interest earned thereon, the sum of $16,843.09 would remain after application to all outstanding, unpaid prepetition charges.

I declare under penalty of perjury under the laws of the United States of America and the State of California that the foregoing is true and correct.

Executed on this 3rd day of April, 2002 at Los Angeles, California.

Robert S. Betonte

ROBERT S. BETONTE

Exhibit 1

PRO FORMA

MASTER SERVICES CONTRACT

ACCOUNT NO. 18-6537-079-251-1

TAXPAYER I.D. (S) 361058780

ORDER CONTROL CODE(S) F20

This Contract is entered into by and between Southern California Gas Company ("Utility") and FANSTEEL CALIFORNIA DROP FORGE ("Customer") as of the 12th day of MAY, 1993

NOW THEREFORE, in consideration of the promises and mutual undertakings set forth herein, the pa

Section 1 - Scope

This Contract sets forth the general terms and conditions under which Utility will provide ga pursuant to the applicable Tariff Rate Schedules and Tariff Rules which have been filed with the Publ of the State of California ("CPUC"), as in effect from time to time. Such services shall be lim specified by Customer from time to time under Section 2 hereof and for which Customer qualifie Contract shall commence on AUGUST 1st, 1993 ("Effective Date") and continue thereafter so lon attached Schedules referenced in Section 2 remain in effect. This Contract shall also remain i "winding up" occurring thereafter (e.g., billing and payment reconciliations, correction of gas i enforce or satisfy any obligations arising prior to the end of the Contract.

Section 2 - Applicable Services

Utility offers the following "menu" of gas services:

A.	Intrastate Transportation Service.	(X)
B.	Marketer/Core Aggregator/Use or Pay Aggregator Service.	(_)
C.	GasSelect Service.	(_)
D.	Basic Storage Service.	(_)
E.	Auction Storage Service.	(_)
F.	Long Term Storage Service.	(_)
G.	Gas Swap Storage Service.	(_)
H.	Extended Balancing Storage Service.	(_)
I.	Other Services:	(_)

_____

_____

_____

Customer has as of the Effective Date requested and agreed to pay for those services checked above. Utility has determined that Customer qualifies for such service(s). Additional services may be requested by Customer from time to time consistent with Utility's Tariff Rate Schedules and Tariff Rules and any publicly-announced bidding, offering or operating procedures of Utility, and this Contract may be supplemented as appropriate.

The agreement(s) specifying the terms and conditions for any or all of the above services requested by Customer shall be attached to the Contract as a "Schedule" (and incorporated herein by reference) using the alphabetical designation provided above. To the extent a particular service is not selected initially (or if terminated subsequently), a Schedule shall be attached stating that such service is "not applicable." To the extent that for any reason Customer desires to obtain the above services on a facility-by-facility basis, separate agreements shall be attached as separate Schedules and designated, e.g., "Schedule A-1," "Schedule A-2," etc., depending on the service applicable.

Although the various services are compiled under this Contract for administration and other considerations, each service provided by Utility to Customer is separate and independent from all other services. Thus, the breach of the agreement for one service under a Schedule attached hereto shall not result in the breach of, or excuse performance under, another agreement for another service attached as a Schedule to this Contract. Likewise, there shall be no offset between any amounts claimed to be payable or due under one Schedule against amounts claimed to be payable or due under another Schedule.

Section 3 - Interpretation

In the event of any conflict between the provisions of this Contract and the provisions of any Schedule, the provisions of such Schedule shall be deemed to control; provided, however, notwithstanding the foregoing, this Contract and the Schedules attached hereto shall at all times be subject to (a) Utility's Tariff Rate Schedules and Tariff Rules, (b) all rules, regulations, decisions and orders of the CPUC, and (c) all other governmental laws, regulations, and decisions (including by a court) applicable to this Contract and/or the Schedules attached hereto, as each of the foregoing may be in effect from time to time.

Section 4 - Billing/Payments

All bills rendered by Utility shall be paid by Customer within nineteen (19) days after the billing date to Utility's depository specified below (which may be changed by Utility on ten (10) days prior written notice). One master billing may be made by Utility for all services provided under this Contract (including all Schedules attached hereto) after 1993 as mutually agreed. Such billing shall be sent to Customer at the following location:

FANSTEEL CALIFORNIA DROP FORGE
1033 ALHAMBRA AV
LOS ANGELES, CA 90012
Attn : ACCOUNTING DEPARTMENT

Additional copies of billings shall also be sent to the following facility location(s) of Customer:

_____
_____
_____
Attn : _____

The parties recognize that billings may be subject to adjustment in subsequent periods during the term hereof or after the expiration of this Contract (or any Schedule) to reflect subsequent reconciliations with the records of interstate transporters or third parties delivering gas in California for Customer.

All payments by Customer shall be made for the account of Utility to the following address:

Southern California Gas Company
P. O. BOX C
MONTEREY PARK, CA 91756
_____

Section 5 - Notices/Information

All notices, requests or demands by either party shall be given in writing as specified in the effective Schedules attached hereto except that notices of changes to Section 4 shall be sent to the Master Billing Address of Customer for changes in Utility's depository and to Utility at the address provided below for changes in the Master Billing Address:

Southern California Gas Company
9240 E FIRESTONE BLVD
DOWNEY, CA 90241
Attn : JOSEPH L. SKOGLUND, ACCT. EXECUTIVE

Section 6 - Legal Provisions

(A) Interpretation - The interpretation and performance of any contracts for gas service shall be in accordance with the laws of the State of California, and the orders, rules and regulations of the Public Utilities Commission of the State of California, in effect from time to time.

(B) Amendment or Modification - Except as required to conform with California law and the orders, rules and regulations of the Public Utilities Commission of the State of California (which retains continuing jurisdiction over this Contract and the Schedules attached hereto), no amendment or modification shall be made to this Contract except by an instrument in writing executed by all parties thereto, and no amendment or modification shall be made by course of performance, course of dealing or usage of trade.

(C) Waiver - No waiver by any party of one or more defaults under this Contract shall operate or be construed as a waiver of any other default or defaults, whether of a like or different character.

(D) Damages - No party under this Contract shall be assessed any special, punitive, consequential, incidental, or indirect damages, whether in contract or tort, for any actions or inactions arising from or related to this Contract.

(E) Assignment - This Contract (or any rights or obligations related thereto) shall not be assigned without the prior written consent of Utility, which consent shall not be withheld unreasonably (but Utility may require that any assignee confirm in writing its assumption of the rights and obligations of its predecessor).

(F) Hinshaw Exemption - In the event that any governmental entity (including a court) issues an order or rule which would result in the loss of Utility's Hinshaw Exemption from Federal regulations if this Contract entered into by Utility remains in effect, Utility may terminate this Contract.

The foregoing provisions (A) through (F) shall be superseded to the extent such matters are covered by Utility's Tariff Rule 4, as in effect from time to time.

IN WITNESS WHEREOF, the authorized representatives of the parties have executed this Contract in two (2) duplicate original copies.

FANSTEEL CALIFORNIA DROP FORGE	Southern California Gas Company
By :	By :
Title :	Title : M.F. GAINES SPECIAL MKT. ACCTS. SUPV.

MASTER SERVICES CONTRACT

SCHEDULE A

INTRASTATE TRANSMISSION SERVICE

ACCOUNT NUMBER 18-6537-079-251-1

This Agreement is entered into by and between Southern California Gas Company ("Utility") and **PANSTEEL CALIFORNIA DROP FORGE** ("Customer") as of the **13th** day of **JUNE, 2001.** This Agreement shall be attached to and incorporated as a Schedule in the Master Services Contract ("MSC") executed by the Parties.

NOW THEREFORE, in consideration of the promises and mutual undertakings set forth herein, the parties agree as follows:

Section 1 - Scope

A. Intent

This Agreement sets forth the general terms and conditions under which Utility will transport gas, or transport and procure gas, for customer in California pursuant to Utility's applicable Tariff Rate Schedules and Tariff Rules ("Tariffs") on file with Public Utilities Commission of the State of California ("CPUC"), as each are in effect from time to time.

To the extent not inconsistent herewith, the provisions of MSC are incorporated by reference in this agreement. All transmission services by Utility shall be paid for by Customer at the rates specified in the applicable Tariffs, except as otherwise specified herein. Nothing in this Agreement shall be construed as preventing Utility and Customer from mutually agreeing to conditions which are more stringent than set forth in the Tariffs.

B. Effective Date/Term

(1) The Effective Date of this Agreement shall be as of 6:00 AM on **AUGUST 1st, 2001**.

(2) The initial term of this Agreement shall end on **AUGUST 1st, 2003**. At the end of the initial term, this Agreement shall continue thereafter on a month to month basis unless terminated by written notice from one party to the other given not less than twenty (20) days prior to the last day of the initial term of any month thereafter.

Section 2 - Services Provided and Redelivery Locations

Customer has requested and agreed to pay for, and Utility has determined that Customer is qualified for transmission services to the following locations (the data provided will be utilized by Utility in determinations regarding curtailment) and any special sequencing of redelivery conditions should be noted in Section 9(E):

Facility A

Facility Name : FANSTEEL CALIFORNIA DROP FORGE

Account Number : 18-6537-079-251-1

Address : 1033 ALHAMBRA AV.
LOS ANGELES, CA 90012

SIC Code : 3462 Iron and steel forgings

Mail copy of Bill to this Facility: NO

Supplemental Facility Account Number(s):

18-6537-079-225-1

Full Requirements YES (Noncore only)

Facility Customer Contacts

Operations		Emergency	
Name	Mr. Robert Giroux	Name	Mr. Daniel M. Verdugo
Title	Director of Operations	Title	Controller
Address	1033 ALHAMBRA AV. LOS ANGELES, CA 90012	Address	1033 ALHAMBRA AV. LOS ANGELES, CA 90012
Tel. No	(323) 221-1134	Tel. No	(323) 363-2486
Fax No	(323) 222-6768	Fax No	(323) 343-0473

Customer shall notify Utility in the event of any change in the gas requirements or notification designations for this facility. If Customer receives its full requirements under Core Subscription in the event during any month Customer utilizes gas in excess of the following monthly scheduled quantity, such usage shall be treated as reserved capacity for the entire year.

Sequence 01

BILLING SCHEDULE				
Rate Schedule	Priority	Net Billed	Transmission Rates Tariff/Negotiated	Otherwise Applicable Rate
GT-F3	FIRM	N/A	-TARIFF-	
Term: 2 YEARS				

MONTHLY SCHEDULED QUANTITY (THERMS)			
Jan	234,546	Jul	236,127
Feb	242,846	Aug	227,447
Mar	262,942	Sep	228,780
Apr	224,910	Oct	237,305
May	211,451	Nov	210,630
Jun	201,870	Dec	243,226

Annual Quantity 2,762,080 Use or Pay Aggregator NO
(Only applies to firm rates under partial requirements)

Customer's regular days for operations under this sequence are:

M x T x W x Th x F x Sat x Sun x

Section 3 - Other Existing Transportation/Exchange Arrangements

(1) Customer has existing intrastate transportation/exchange arrangements with Utility : _____

(2) Date of Arrangement: _____

(3) Term of Arrangement: _____

(4) This Agreement shall have no impact on such existing arrangement except: _____

Section 4 - Transportation Delivery Locations

Customers "Order Control Code" (OCC) for gas transportation by Utility is : P20.

A. Transportation Delivery Points

Gas may be delivered to Utility for transportation for Customer's account at the following interconnection delivery points on Utility's pipeline facilities.

Gaviota Gas Plant Intertie with SoCalGas near outlet of the Chevron onshore treating facility
South Coles Levee Intertie with SoCalGas at point near the outlet of the South Co les Levee Plant
3p Gasoline Extraction Plant Intertie with SoCalGas at Kettleman Hills
PG and E Intertie with SoCalGas at Kern River Station
El Paso Natural Gas Intertie with SoCalGas at Topock
PG and E Intertie with SoCalGas at Kettleman
PG and E Intertie with SoCalGas at Elk Hills
PG and E Intertie with SoCalGas at Topock
El Paso Natural Gas Intertie with SoCalGas at Blythe
PG and E Intertie with SoCalGas at Elk Pisgah
Transwestern Intertie with SoCalGas at Needles
Carpenteria Gas Plant Intertie with SoCalGas and junction of Carpenteria Ave. and U.S. Hwy 101
Kern/Mojave Intertie with SoCalGas at Wheeler Ridge

Priority of access to any Delivery Point shall be as set forth in the Tariffs or as otherwise established by the CPUC.

B. Operations

All nominations, confirmations, and other operating procedures for transportation services shall be subject to the rules and conditions established therefor by Utility. Customer shall be responsible for obtaining, and subject to any liability or loss regarding, any upstream transportation prior to the receipt of gas by Utility for Customer's account, except for core and core-subscription usage. Customer's failure to obtain firm upstream transportation rights to ensure delivery to Utility shall not be deemed to be a condition of Force Majeure.

Any deviations from a standard 5 or 7 day week should be noted in Section 9(E).

Section 5 - Service Interruption Credit

The firm transportation services by Utility under this Agreement may be subject to the applicable "Service Interruption Credit" as set forth in Utility's Tariffs.

Section 6 - Billing and Payment

Billing and Payment for services hereunder shall be as provided in Utility's applicable Tariffs, with payment due from Customer to Utility not later than 19 days following the date of Utility's invoice. Any special billing instructions should be noted in Section 9(E).

Section 7 - Imbalances

Utility shall provide Customer with an imbalance service in connection with transportation of gas hereunder pursuant to Tariff Rate Schedule G-IMB, as in effect from time to time (or any successor thereto). Any applicable imbalance charges shall be charged to Account Number: 18-2122-200-834-1.

For any Customer utilizing the services of a Contracted Marketer, a summary of transactional activities shall be provided to the following designated account: 18-6537-079-251-1.

Section 8 - Transfer of Rights

Subject to Section 9(A), this Agreement and the rights and obligations hereunder shall only be transferred or assigned with the prior written consent of Utility which shall not be withheld unreasonably, provided that any successor first established its "creditworthiness" and assumes such contractual rights and obligations in writing.

Section 9 - Miscellaneous

A. Representatives - Customer shall utilize the services of:

(1) Contracted Marketer : SEMPRA ENERGY SOLUTIONS, LLC

Authorized to access Customer's meter usage: YES

Will nominate on Customer's behalf : YES

Will trade on Customer's behalf : YES

(2) Agent : WESTERN RETAIL ENERGY CO.

Authorized to access Customer's meter usage: YES

Will nominate on Customer's behalf : YES

Will trade on Customer's behalf : YES

(3) Use or Pay Aggregator: N/A

Aggregators will automatically be authorized to access Customer's meter usage. To the extent applicable, appropriate authorization by Customer (including the the terms and conditions thereof) have been attached to MSC and are incorporated by reference (as supplemented from time to time) in this Agreement.

If Customer designates a Marketer or Agent, any communications made by such Marketer/Agent shall be binding on Customer and shall prevail in any conflict during the period such authorization remains in effect. Such authorization shall remain in effect for the term of this Agreement unless otherwise specified in the initial authorization, or unless terminated pursuant to notification received written by the Utility. In order for a Marketer/Agent to nominate on Customer's behalf, such designated Marketer/Agent must be so designated by the 20th of month preceding any particular nomination.

B. Contacts/Notices:

All day to day contacts with Customer shall be as specified for each Facility above. Operating contacts to be used by Customer with Utility shall be:

Operations/Emergency		Customer Service	
Contact Title:	GAS SCHEDULING & OPS.	Contact Title:	Sr. Account Executive
Telephone No :	(213) 244-3900	Telephone No :	(562) 803-7333
Fax No :	N/A	Fax No :	(562) 803-7544

Any written notices from one party to the other affecting this Agreement shall be sent to the following locations (unless changed by seven days prior written notice):

Customer	Utility
FANSTEEL CALIFORNIA DROP FORGE	Southern California Gas Company
1033 ALHAMBRA AV.	9240 E. FIRESTONE BLVD., ML ERC6
LOS ANGELES, CA 90012	DOWNEY, CA 90241-5388
Attn: MR. Daniel W. Murphy	Attn: MR. Joseph L. Skoglund
Title: General Manager	Title: Sr. Account Executive

C. Definitions: All definitions set forth in the Tariffs, including without limitation Utility Rule 1, are incorporated herein by reference as if set forth in full.

D. Miscellaneous Legal Provisions: The miscellaneous legal provisions in Section 6 of the MSC are incorporated by reference herein as if set forth in full, except to the extent such Section 6 is superseded by Utility's Tariff Rule 4.

E. Special Conditions : The following special conditions of service are applicable hereto:

N/A

IN WITNESS WHEREOF, the authorized representatives of the parties have executed two duplicate original copies hereof.

Customer	Utility
Name : FANSTEEL CALIFORNIA DROP FORGE	Name : Southern California Gas Company
By : Daniel W. Murphy Mr. Daniel W. Murphy	By : Clay E. Faber MR. Clay E. Faber
Title : General Manager	Title : C/I Market Sales Manager

Exhibit 2

169-821-2500 CLOSED BILLED READ ONLY

View Process Help

NONCORE

Credit Profile Last Notice OVERDUE NOTICE 01/08/02

Profile Process Help

Customer Name FANSTEEL CALIFORNIA DROP FORGE -BK-

Type NONRESIDENTIAL

Customer Establish Date 10/20/79

Bill Account Estab Date 10/20/79

Average Bill 13643.74

System Calculated Deposit 27285.00

Work Phone (323)221-1134 ext.

Billing Cycle 99

Incident Report

Minimum Collection Amount 100.00

Credit Risk DEPOSIT

Overide N/A

Deposit Information

Requested	0.00
Paid	0.00
Balance Due	0.00

12 Months Notice/Extension Activity

Overdue	7	Off Nonpay	0	Bill Ext	0
48 Hour	0	Returned Checks	0	Denied Ext	0
Collect or Close	3	Unauthorized Usage	0	Returned Items	0

Search Clear Cancel Call

TP1SLA 2002/04/01-11:26:13

Exhibit 3

Schedule No. G-IMB
TRANSPORTATION IMBALANCE SERVICE

DESCRIPTION OF SERVICE

Utility will provide a Monthly Imbalance Service for individual customers, marketers and aggregators (referred to herein as "Customers") when their usag e differs from their transportation deliveries to the Utility's system or their targeted sales gas quantiti es purchased and delivered by Utility. The Monthly Imbalance Service provided hereunder has four compone nts: Imbalance Trading, a no-charge Balancing Service, Standby Procurement, and Buy-Back. U nder the Imbalance Trading Service, customers may locate other customers with offsetting imbalances a nd trade these quantities to avoid imbalance charges (Standby Procurement or Buy-Back). Imbalance Tr ading Service shall be facilitated either through GasSelect or through the Imbalance Trading Form as described in Special Conditions 2 and 4 of this Schedule and in Rule 33. Balancing Service w ill be provided without charge if the cumulative imbalance at the end of the monthly imbalance trad ing period is within 10 percent of the customer's usage (Tolerance Band) for the billing period. Any remaining cumulative imbalance within the tolerance band will be carried forward. Remaini ng imbalance quantities outside the tolerance band at the end of the imbalance trading period will be subj ect to a Standby Procurement Charge or Buy-Back as described under Rates.

Utility will require daily balancing during the winter operating period. From November through March, customers will be required to deliver (using a co mbination of flowing supply and firm storage withdrawal) at least 50% of burn over a five day pe riod. As the Utility's total inventory in storage declines to the peak day minimum + 20 Bcf, customer s will be required to deliver 70% of burn daily. As the Utility's total inventory in storage declines to the peak day minimum + 5 Bcf, customers will be required to deliver 90% of burn daily. Volumes not in compliance with the minimum delivery requirements will be purchased at the daily balancing standby rates described below. Imbalance trading and as-available withdrawal may not be used to off set the minimum delivery requirements. A complete description of the winter minimum delivery requirements is specified in Rule No. 30. T

APPLICABILITY

Applicable to core and noncore transportation service to end-use customers, marketers, and aggregators.

TERRITORY

Applicable throughout the service territory.

RATES

Imbalance quantities remaining at the end of the designated imbalance trading period and which are outside of the 10% tolerance band will be billed at the Standby Procurement Charge or purchased by Utility at the Buy-Back Rate.

(Continued)

Schedule No. G-IMB Sheet 2

TRANSPORTATION IMBALANCE SERVICE

(Continued)

RATES (continued)

Standby Procurement Charge

This charge is applied to customer's cumulative negative transportation imbalance (confirmed transportation deliveries less actual usage) exceeding the 10 percent tolerance band. The Standby Procurement Charge is posted at least one day in advance of each corresponding imbalance trading period for noncore/wholesale and core transport agents (CTAs). It is calculated at 150% of the highest daily border price index at the Southern California border beginning on the first day of the month that the imbalance is created to five days prior to the start of each corresponding imbalance trading period plus a Brokerage Fee of 0.266¢ per therm for noncore retail service and all wholesale service, and 0.201¢ per therm for core retail service. The highest daily border price index is an average of the highest prices from "NGI's Daily Gas Price Index – Southern California Border Average" and "Gas Daily's Daily Price Survey – SoCal gas, large pkgs Midpoint."

Core Retail Service:		
SP-CR Standby Rate, per therm		D
January, 2002	$0.39276	
February, 2002	$0.50976	
March, 2002	TBD*	T
Noncore Retail Service:		
SP-NR Standby Rate, per therm		D
January, 2002	$0.39341	
February, 2002	$0.51041	
March, 2002	TBD*	T
Wholesale Service:		
SP-W Standby Rate per therm		D
January, 2002	$0.39341	
February, 2002	$0.51041	
March, 2002	TBD*	T

* To be determined (TBD). Pursuant to Resolution G-3316, the March 2002 Standby Procurement Charge will be filed by separate advice letter at least one day prior to April 25, 2002. T T

Buy-Back Rate

This rate is applied to customer's cumulative positive transportation imbalance (confirmed transportation deliveries less actual usage) exceeding the 10 percent tolerance band. The Buy-Back Rate is established effective the last day of each month and will be the lower of 1) the lowest incremental cost of gas purchased by Utility during the month the excess imbalance was incurred; or 2) 50% of the applicable core subscription procurement charge during the month such excess imbalance was incurred.

(Continued)

Schedule No. G-IMB
TRANSPORTATION IMBALANCE SERVICE

(Continued)

RATES (continued)

Buy-Back Rate (continued)

Retail Service:

BR-R Buy-Back Rate, per therm		D
January, 2002	11.322¢	
February, 2002	6.579¢	
March, 2002	7.446¢	I

Wholesale Service:

BR-W Buy-Back Rate, per therm		D
January, 2002	11.267¢	
February, 2002	6.547¢	
March, 2002	7.410¢	I

If the incremental cost of gas is the basis for the Standby or Buy-Back Rates, Utility will provide CPUC the necessary work papers for such cost. Such documentation will be provided under confidentiality pursuant to General Order 66-C and Section 583 of the Public Utilities Code.

Daily Balancing Standby Rates

During November through March customers are required to deliver (flowing supply and firm storage withdrawal) at a minimum of 50% of burn during a five-day period. Volumes not in compliance with the 50% five-day minimum delivery requirement are purchased at the daily standby rate. The daily balancing standby rate is calculated as 150% of the highest Southern California Border price during the five-day period as published in "NGI's *Daily* Gas Price Index" including authorized franchise fees and, for retail customers, uncollectible expenses (F&U), and an authorized brokerage fee.

When the Utility's total inventory in storage declines to the "peak day minimum + 20 Bcf trigger", the minimum daily delivery requirement increases to 70%. The five-day period no longer applies. The daily balancing standby rate is 150% of the highest Southern California Border price per NGI's *Daily* Gas Price Index for the day (including F&U and brokerage fee) and is applied to each day's deliveries which are less than the 70% delivery requirement.

When the Utility's total inventory in storage declines to the "peak day minimum + 5 Bcf trigger", the minimum delivery requirement increases to 90% daily. Similar to the 70% regime, the five-day period no longer applies. The daily balancing standby rate is 150% of the highest Southern California Border price per NGI's *Daily* Gas Price Index for the day (including F&U and brokerage fee) and is applied to each day's deliveries which are less than the 90% delivery requirement.

(Continued)

Schedule No. G-IMB
TRANSPORTATION IMBALANCE SERVICE

(Continued)

RATES (continued)

Daily Balancing Standby Rates (continued)

Daily Balancing Standby Rate, per therm

March 2002 Day	Core Retail DB-CR	Noncore Retail DB-NR	Wholesale DB-W	
1	$0.38145	$0.38210	$0.38026	
2	$0.37992	$0.38057	$0.37874	
3	$0.37992	$0.38057	$0.37874	
4	$0.37992	$0.38057	$0.37874	
5	$0.39981	$0.40046	$0.39853	
Period 1 High	$0.39981	$0.40046	$0.39853	
6	$0.39522	$0.39587	$0.39396	
7	$0.38757	$0.38822	$0.38635	
8	$0.42736	$0.42801	$0.42594	
9	$0.44266	$0.44331	$0.44116	
10	$0.44266	$0.44331	$0.44116	
Period 2 High	$0.44266	$0.44331	$0.44116	
11	$0.44266	$0.44331	$0.44116	
12	$0.46102	$0.46167	$0.45943	
13	$0.46408	$0.46473	$0.46248	
14	$0.46255	$0.46320	$0.46096	
15	$0.45337	$0.45402	$0.45182	C
Period 3 High	$0.46408	$0.46473	$0.46248	C
16	$0.48244	$0.48309	$0.48075	C
17	$0.48244	$0.48309	$0.48075	|
18	$0.48244	$0.48309	$0.48075	|
19	$0.50692	$0.50757	$0.50511	|
20	$0.52834	$0.52899	$0.52643	C
Period 4 High	$0.52834	$0.52899	$0.52643	C

(Continued)

Schedule No. G-IMB
TRANSPORTATION IMBALANCE SERVICE

(Continued)

RATES (continued)

Daily Balancing Standby Rates (continued)

Daily Balancing Standby Rate, per therm (continued)

March 2002 Day	Core Retail DB-CR	Noncore Retail DB-NR	Wholesale DB-W	
21	$0.50845	$0.50910	$0.50663	
22	$0.49927	$0.49992	$0.49750	C
23	$0.54670	$0.54735	$0.54470	|
24	$0.54670	$0.54735	$0.54470	|
25	$0.54670	$0.54735	$0.54470	C
Period 5 High	$0.54670	$0.54735	$0.54470	C
26	$0.54058	$0.54123	$0.53861	C
27	$0.55588	$0.55653	$0.55383	|
28	$0.52222	$0.52287	$0.52034	|
29	$0.52222	$0.52287	$0.52034	|
30	$0.52222	$0.52287	$0.52034	|
31	$0.52222	$0.52287	$0.52034	C
Period 6 High	$0.55588	$0.55653	$0.55383	C

Note: During March 2002 the Utility's total inventory in storage continued above the "peak day minimum + 20 Bcf trigger" and therefore the five-day period applies.

Revision of Rates

The Standby Procurement Charge and the Buy-Back Rate shall be established effective the last day of each month. The Daily Balancing Standby Rate shall be established on NGI's *Daily* Gas Price Index. Utility may file the Daily Balancing Standby Rate weekly to become effective immediately. In any event, the Daily Balancing Standby Rate shall be filed on or before the fifth business day of each month.

SPECIAL CONDITIONS

1. Definitions of the principal terms used in this rate schedule are contained in Rule No. 1.

(Continued)

TRANSPORTATION IMBALANCE SERVICE

(Continued)

SPECIAL CONDITIONS (continued)

2. Imbalances will be calculated by combining all of a customer's meters served under the same order control code, not by account or individual delivery point. The order control code is used by Utility to group those facilities identified by the customer for determining the customer's imbalances. L

3. Customers may not use imbalance trading or as- available withdrawal during the period November 1- March 31 to offset minimum daily delivery requirements. L

4. Customers may trade their monthly imbalances with other customers. Customer's cumulative imbalances will be stated on the customer's monthly bill. The customer's bill will serve as notice of current imbalances. Beginning at 7:00 a.m., Pacific Clock Time (PCT), on the 25th calendar day in the month of notification, customers may enter GasSelect to trade imbalances with other customers. Customers within the tolerance band may trade any quantities so long as the 10% tolerance band is not exceeded. Customers outside the tolerance band may trade quantities up to a maximum of their excess imbalance (quantities outside of tolerance) plus the 10% tolerance band. Utility will notify participants through GasSelect or other notice once the trade is validated. The trading period will end at 11:59 p.m. PCT on the 30th calendar day of the same month. During the month of February, the trading period begins at 7:00 a.m. PCT on the 23rd of the month and ends at 11:59 p.m. PCT on the 28th calendar day of the month.

5. Imbalance trades may be submitted through GasSelect or by facsimile using the Imbalance Trading Agreement Form (Form No. 6544) and must be received by the Utility by the close of the trading period.

   To submit an imbalance trade by facsimile, both parties must complete and send by facsimile a copy of the Imbalance Trading Agreement Form to the Utility. The Utility will then confirm the trade and adjust the participants' imbalance accounts. A processing charge of $13.73 will be charged by the Utility for each imbalance trade submitted by facsimile using the Imbalance Trading Agreement Form. No processing charge will apply to a GasSelect subscriber for imbalance trades submitted by facsimile at a time the GasSelect system is unavailable for use by the subscriber.

6. Customers may use their storage account(s) to offset their imbalances or to trade with other customers under the conditions set forth in their applicable storage service rate schedule for unbundled storage service, or in Rule No. 32 for Aggregators.

   A storage customer may trade positive imbalances, i. e., overdeliveries, into its storage account only if its storage inventory capacity is available during the month that the imbalance occurred and at the time the imbalance trade takes place. Similarly, a storage customer may trade negative imbalances, i.e., underdeliveries, using its storage account only if there is sufficient gas in storage in the account during the month that the imbalance occurred and at the time the imbalance trade takes place. L

(Continued)

Schedule No. G-IMB
TRANSPORTATION IMBALANCE SERVICE

(Continued)

SPECIAL CONDITIONS (continued)

7. After the imbalance trading period, the Standby Procurement Charge or Buy-Back will be applied to all imbalance quantities in excess of the tolerance band. L

8. Standby Procurement service provided hereunder will be curtailed in accordance with the provisions of Rule 23. Penalties for violations of curtailment shall apply as set forth in Rule No. 23. Customers will not be allowed to trade negative imbalances incurred during periods of curtailment. L

9. When in the judgment of the Utility transportation nominations are in excess of system capacity, Buy-Back service hereunder shall be applied to daily periods as designated by the Utility in accordance with the provisions of Rule No. 30, Section F. Customers shall not be allowed to trade positive imbalances incurred during such daily periods. The Buy-Back Rate shall apply to all positive imbalances in excess of the 10% tolerance band for each such period. Standby service shall be provided for the regular monthly balancing period and shall not be restricted to the excess nominations periods.

10. Under this schedule, the responsible customer will reimburse the Utility for any penalties or charges incurred by the Utility under an interstate or intrastate supplier arrangement when such penalties or charges occur as a direct result of Utility's providing this imbalance service to customer.

11. If as the result of billing error, metering error, or transportation adjustments, customer trades an incorrect amount of imbalance quantities based on notification by Utility, Utility will not be liable for any financial losses or damages incurred by customer nor will Utility be financially liable to any of the customer's imbalance trading partners. If as a result of such error, Utility overbills customer, Utility shall refund the difference. If Utility underbills customer, the customer shall be liable for the undercharge including any associated penalty. The customer shall not be relieved of imbalance penalties when a subsequent billing adjustment is made by Utility. For the purpose of determining imbalances and any applicable charges hereunder, Utility will include subsequent billing adjustments for prior periods as part of the usage deemed to occur during the subsequent period unless the customer reimburses the Utility for the actual cost of gas incurred. Trades occurring in prior periods will not be affected by such billing adjustments. Utility may issue a bill for Daily Balancing Standby Rate charges on a weekly or fortnightly basis upon customer or marketer request or if a customer or marketer delivers into the system less than 50 percent of its usage. Otherwise, Daily Balancing Standby Rate charges shall be included in the regular monthly bill. N

Exhibit 4

Rule No. 30 Sheet 1 T

TRANSPORTATION OF CUSTOMER-OWNED GAS

The provisions of this Rule shall not apply to service until the date of full implementation of the CPUC's Capacity Brokering Rules set forth in Decision Nos. 91-11-025 and 92-07-025 and Resolution Nos. G-3023, G-3033 and G-3043.

The general terms and conditions applicable whenever the Utility transports customer-owned gas over its system are described herein.

A. General

1. Subject to the terms, limitations and conditions of this rule and any applicable CPUC authorized tariff schedule, directive, or rule, the customer will deliver or cause to be delivered to the Utility and accept on redelivery quantities of customer-owned gas which shall not exceed Utility's capability to receive or redeliver such quantities. Utility will accept such quantities of gas from the customer or its designee and redeliver to the customer on a reasonably concurrent basis an equivalent quantity, on a therm basis, to the quantity accepted.

2. The customer warrants to the Utility that the customer has the right to deliver the gas provided for in the customer's applicable service agreement or contract (hereinafter "service agreement") and that the gas is free from all liens and adverse claims of every kind. The customer will indemnify, defend and hold the Utility harmless against any costs and expenses on account of royalties, payments or other charges applicable before or upon delivery to the Utility of the gas under such service agreement.

3. The point(s) where the Utility will receive the gas into its intrastate system (point(s) of receipt, as defined in Rule No. 1) and the point(s) where the Utility will deliver the gas from its intrastate system to the customer (point(s) of delivery, as defined in Rule No. 1) will be set forth in the customer's applicable service agreement. Other points of receipt and delivery may be added by written amendment thereof by mutual agreement. The appropriate delivery pressure at the points of delivery to the customer shall be that existing at such points within the Utility's system or as specified in the service agreement.

B. Quantities

1. The Utility shall as nearly as practicable each day redeliver to customer and customer shall accept, a like quantity of gas as is delivered by the customer to the Utility on such day. It is the intention of both the Utility and the customer that the daily deliveries of gas by the customer for transportation hereunder shall approximately equal the quantity of gas which the customer shall receive at the points of delivery. However, it is recognized that due to operating conditions either (1) in the fields of production, (2) in the delivery facilities of third parties, or (3) in the Utility's system, deliveries into and redeliveries from the Utility's system may not balance on a day-to-day basis. The Utility and the customer will use all due diligence to assure proper load balancing in a timely manner.

(Continued)

TRANSPORTATION OF CUSTOMER-OWNED GAS

(Continued)

B. Quantities (continued)

2. The gas to be transported hereunder shall be de livered and redelivered as nearly as practicable at uniform hourly and daily rates of flow. Utility may refuse to accept fluctuations in excess of ten percent (10%) of the previous day's deliveries, from day to day, if in the Utility's opinion receipt of such gas would jeopardize other operations. Cu stomers may make arrangements acceptable to the Utility to waive this requirement.

3. The Utility does not undertake to redeliver to th e customer any of the identical gas accepted by the Utility for transportation, and all redelivery of gas to the customer will be accomplished by substitution on a therm-for-therm basis.

4. Transportation customers, contracted marketers, and aggregators will be provided monthly balancing services in accordance with the provisions of Schedule No. G-IMB.

5. Gas shall be transported hereunder for use only by the customer within the state of California, and not for delivery or resale to a third party unless authorized by the Commission.

C. GasSelect

1. SoCalGas prefers and encourages customers to use GasSelect to submit their transportation nominations to the Utility. Imbalance trades are to be submitted through GasSelect or by means of the Imbalance Trading Agreement Form (Form 6544). Charges for GasSelect are set forth in Rule No. 33 and are based upon the level of actual usage. Use of GasSelect is not mandatory for transportation only customers.

D. Operational Requirements

1. The customer must provide to the Utility the name(s) of its shipper(s) as well as any brokers or agents ("agent") used by the customer for deliv ery of gas to the Utility for transportation service hereunder and their authority to represent customer.

2. Transportation nominations may be subm itted manually or through GasSelect. For each transportation nomination submitted manually, (by means other than GasSelect such as facsimile transmittal), a processing charge of $11.87 shall be assessed. No processing charge will apply to a GasSelect subscriber for nominations submitted by fax at a time the GasSelect system is unavailable for use by the subscriber.

(Continued)

TRANSPORTATION OF CUSTOMER-OWNED GAS

(Continued)

D. Operational Requirements (continued)

3. Transportation nominations submitted via GasSelect for the Timely Nomination cycle must be received by the Utility by 9:30 a.m. Pacific Clock Time one day prior to the flow date. Nominations submitted via fax must be received by the Utility by 8:30 a.m. Pacific Clock Time one day prior to the flow date. Nominations received after the nomination deadline will be processed after the nominations received before the nomination deadline. All nominations are considered original nominations and should be replaced to be changed. T D

   Nominations submitted via GasSelect for the Evening Nomination cycle must be received by the Utility by 4:00 p.m. Pacific Clock Time one day prior to the flow date. Nominations submitted via fax must be received by the Utility by 3:00 p.m. Pacific Clock Time one day prior to the flow date. N

   Nominations submitted via GasSelect for the Intraday 1 Nomination cycle must be received by the Utility by 8:00 a.m. Pacific Clock Time on the flow date. Nominations submitted via fax must be received by the Utility by 7:00 a.m. Pacific Clock Time on the flow date.

   Nominations submitted via GasSelect for the Intraday 2 Nomination cycle must be received by the Utility by 3:00 p.m. Pacific Clock Time on the flow date. Nominations submitted via fax must be received by the Utility by 2:00 p.m. Pacific Clock Time on the flow date. N

   Evening and Intraday nominations may be used to request an increase or decrease to scheduled volumes or a change to receipt or delivery points. D,T D D

4. Where gas is transported by a shipper or agent to more than one customer of the Utility and the transporting pipeline's allocation to the shipper or agent is less than the shipper's or agent's requested quantity, such shipper or agent must allocate among its customers the total quantity of gas delivered each day to the Utility by the shipper or agent.

   An allocation ranking must be submitted to the Utility no later than 3:00 p.m. Pacific Clock Time on the date of flow. An allocation ranking should be received for each flow date from each shipper. Agent rankings should be submitted along with the nominations.

   If no allocation ranking is made by such shipper or agent by the due date and time, the Utility will use a pro rata allocation in allocating delivered quantities among the shipper's or agent's customers and the Utility's allocation of these quantities will prevail. The total quantity allocated among the customers of a shipper or agent during a month shall be adjusted by the Utility if necessary to match the actual monthly delivery to the Utility for the shipper or agent as reported by the transporting pipeline. L

(Continued)

TRANSPORTATION OF CUSTOMER-OWNED GAS

(Continued)

5. As between the customer and the Utility, the cu stomer shall be deemed to be in control and possession of the gas to be delivered hereunder and responsible for any damage or injury caused thereby until the gas has been delivered at the point(s) of receipt. The Utility shall thereafter be deemed to be in control and possession of the gas afte r delivery to the Utility at the point(s) of receipt and shall be responsible for any damage or inju ry caused thereby until the same shall have been redelivered at the point(s) of delivery, unless the da mage or injury has been caused by the quality of gas originally delivered to the Utility, for wh ich the customer shall remain responsible.

6. Any penalties or charges incurred by the Utility unde r an interstate or intrastate supplier contract as a result of accommodating transportation service sha ll be paid by the responsible customer.

7. Customers receiving service from the Utility for th e transportation of customer-owned gas shall pay any costs incurred by the Utility because of any failure by third parties to perform their obligations related to providing such service.

E. Interruption of Service

1. The customer's transportation service priority sh all be established in accordance with the definitions of Core and Noncore service, as set forth in Ru le No. 1, and the provisions of Rule No. 23, Continuity of Service and Interruption of Delivery. If the customer's gas use is classified in more than one service priority, it is the customer's res ponsibility to inform the Utility of such priorities applicable to the customer's service. Once estab lished, such priorities cannot be changed during a curtailment period.

2. The Utility shall have the right, without liability (except for the express provisions of the Utility's Service Interruption Credit as set forth in Rule No . 23), to interrupt the acceptance or redelivery of gas whenever it becomes necessary to test, alter, modify, enlarge or repair any facility or property comprising the Utility's system or otherwise relate d to its operation. When doing so, the Utility will try to cause a minimum of inconvenience to the cu stomer. Except in cases of unforeseen emergency, the Utility shall give a minimum of ten (10) days advance written notice of such activity.

F. Nominations in Excess of System Capacity

1. In the event the Utility determines that the tran sportation nominations received for a specific date of gas flow ("flow date") exceed its expected system capacity (including storage) on such flow date, the Utility shall apply Buy-Back service under Schedule No . G-IMB separately for each flow date that is overnominated. In such event, the Utility shall follo w the procedure set forth below. This procedure and the resulting periods of excess nominations sh all apply only to (1) all noncore transportation customers, and (2) all customers with usage exceeding 250,000 therms per year at each facility served under Schedule Nos. GT-10 and GT-NGV. D

(Continued)

Rule No. 30 Sheet 5

TRANSPORTATION OF CUSTOMER-OWNED GAS

(Continued)

F. Nominations in Excess of System Capacity (continued)

2. If the Utility determines that transportation nominations received for a specific flow date will result in a period of excess nominations, the Utility shall effectuate at such time a reduction of Hub services that would contribute to the overnomination event and as-available storage injection nominations made for service under Schedule No. G- AUC. Such reductions shall be made in the order of the as-available service queue. L L

3. If such reductions in nominations are inadequate in resolving the excess transportation nominations problem, Utility shall notify all applicable customers that an excess nominations period shall be instituted. The Utility shall provide such notice via its GasSelect system.

4. The excess nominations period shall begin on the flow date(s) indicated by the Utility. Nominations for customers without automated meter reading devices will be reduced to the maximum daily quantity specified for the customer. Customers shall be allowed to reduce their nominations in response to the Utility's notification. Such nominations reductions must be received by the Utility within two (2) business hours from the Utility's notification. If such voluntary reductions are adequate to bring the system into balance, the overnomination flow date will be canceled. Nomination reductions received after this deadline shall be considered received for the next day's nominations.

5. In the event customers fail to adequately reduce their transportation nominations, the Utility shall reduce the nominations of those customers that the Utility believes are causing the excess nominations problem. In making such nominations reductions, the Utility shall utilize the most recent and best available operating data at its disposal.

6. In cases where the Utility reduces a customer's nomination under the above procedure and, as a result of such reduction, the customer uses Standby Procurement service under Schedule No. G-IMB in excess of the 10% tolerance band, the customer shall be allowed to additionally carry over the lesser of (1) the negative imbalance for the month in excess of the tolerance band, or (2) the amount of the customer's total involuntary nominations reductions for the month. Such additional carryover shall be applied to the customer's imbalance account at the conclusion of the imbalance trading period for the month in which the involuntary reduction occurred.

7. In accordance with the provisions of Schedule No. G-IMB, Buy-Back service shall be applied separately to each excess nominations day. Customer meters subject to maximum daily quantity limitations will use the maximum daily quantity as a proxy for daily usage. For each such day, the Utility shall apply the applicable Buy-Back rate to all of the customer's deliveries, less any firm storage injections made on behalf of the customer, for the designated flow date that are in excess of 110% of the customer's actual usage. L

(Continued)

TRANSPORTATION OF CUSTOMER-OWNED GAS

(Continued)

F. Nominations in Excess of System Capacity (continued) L

8. Consistent with the requirements of Decision No. 92-07-025, the Utility's Gas Supply Department shall limit its deliveries into its system on behalf of its core sales market to no more than 110% of actual gas usage for the core (including firm storage injections on behalf of the core) during periods of excess transportation nominations. L

G. Winter Deliveries

The Utility requires that customers deliver (using a combination of flowing supply and firm storage withdrawal) at least 50% of burn over a five day period from November through March. As the Utility's total storage inventory declines through the winter, the delivery requirement becomes daily and increases to 70% or 90% depending on the level of inventory relative to peak day minimums.

1. From November 1 through March 31 customers are required to deliver (flowing supply and firm storage withdrawal) at a minimum of 50% of burn over a 5-day period. In other words, for each 5-day period, the Utility will calculate the total burn and the total delivery. If the total delivery is less than 50% of the total burn, a daily balancing standby charge is applied. The daily balancing standby rate is 150% of the highest Southern California Border price during the five day period as published by Natural Gas Intelligence in "NGI's *Daily* Gas Price Index," including authorized franchise fees and uncollectible expenses (F&U) and brokerage fees. Imbalance trading and as-available withdrawals may not be used to offset the delivery minimums. As an additional requirement, retail core and core aggregation will deliver a volume no less than 50% of their allocated firm interstate pipeline rights.

   a. "Burn" means usage and is defined as metered throughput or an estimated quantity such as Minimum Daily Quantity (MinDQ), as defined in Rule No. 1, for customers without automated meters.

   b. Example five-day periods are: Nov. 1 through Nov. 5, Nov. 6 through Nov. 10, Nov. 11 through Nov. 15 and so on. November with 30 days has six 5-day periods. December, January and March with 31 days have a 6-day period at the end of the month. February has a shortened 3 or 4-day period at the end of the month. The current 5-day period will run its course fully before the implementation of the 70% daily requirement. In the event that inventories rise above the 70% daily trigger levels by 1 Bcf, then a new, 5- day period will be implemented on the following day.

   c. Example calculations for determining volumes subject to the daily balancing standby rate are: if over 5 days, total burn is 500,000 therms and total deliveries (including firm withdrawal) are 240,000 therms, then 10,000 therms is subject to daily balancing standby rate. (50% times 500,000 minus 240,000 equals 10,000). L

(Continued)

TRANSPORTATION OF CUSTOMER-OWNED GAS

(Continued)

G. Winter Deliveries (continued)

1. (continued)

d. Example calculations in using NGI's Daily G as Price Index for determining the daily balancing standby rate are: If for Jan. 6 through Jan. 10 the NGI Southern California Border quoted price ranges are $2.36- 2.39, $2.36-2.44, $2.38-2.47, $2.36-2.42, and $2.37- 2.45, respectively, then the daily balancing standby rate becomes $3.71 ($2.47 times 150%). L

e. With the exception of weekends and holidays, the Utility will use quotes from the NGI publication dated on the same day as the flow date. Weekend or holiday flow dates will use the first available publication date after the weekend or holiday.

f. Under current capacity assignments, 50% of core (retail core plus core aggregation) interstate pipeline rights translates to 522 MMcfd. For aggregators this translates to 50% of the Daily Contract Quantity (DCQ) as defined in Rule No. 1.

2. When total inventory declines to the "peak day minimum + 20 Bcf trigger," the minimum daily delivery requirement increases to 70%. Customers are then required to be balanced (flowing supply plus firm storage withdrawal) at a minimum of 70% of burn on a daily basis. The 5-day period no longer applies since the system can no longer provide added flexibility. The daily balancing standby rate is 150% of the highest Southern California Border price per NGI's *Daily* Gas Price Index for the day (including authorized F&U and brokerage fees) and is applied to each day's deliveries which are less than the 70% requirement. In this regime as-ava ilable storage withdrawal is cut in half. All Hub activity contributing to the underdelivery situation (i.e., Hub deliveries greater than Hub receipts) is suspended.

a. Peak day minimums are calculated annually before November 1 as part of normal winter operations planning. The peak day minimum is th at level of total inventory that must be in storage to provide deliverability for the core 1-in-35 year peak day event, firm withdrawal commitments and noncore balancing requirement.

b. Example calculations in this regime for determining volumes subject to the daily balancing standby rates are: If on January 6 total burn is 500,000 therms, and total deliveries (including firm withdrawal) are 300,000 therms then 50,000 therms is subject to the daily balancing standby charge (70% times 500,000 minus 300,000 equals 50,000).

c. Example calculations in using NGI's Daily G as Price Index for daily balancing standby rates in this regime are: if for January 6 and January 7, the NGI Southern California Border quoted price ranges are $2.36-2.39 and $2.36-2.44, then the daily balancing standby rates become $3.59 (150% of 2.39) for January 6, and $3.66 (150% times 2.44) for January 7, respectively.

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TRANSPORTATION OF CUSTOMER-OWNED GAS

(Continued)

G. Winter Deliveries (continued)

3. When total inventories decline to the "peak day minimum + 5 Bcf trigger," the minimum daily delivery requirement increases to 90%. Customers are required to be balanced (flowing supply plus firm storage withdrawal) at a minimum of 90% of burn on a daily basis. Similar to the 70% regime the 5 day period no longer applies. The daily balancing standby rate is charged daily and is 150% of the highest Southern California Border price per NGI's *Daily* Gas Price Index for the day (including authorized F&U and brokerage fees). In this regime there are no as-available storage withdrawals. All Hub activity contributing to the underdelivery situation (i.e., Hub deliveries greater than Hub receipts) is suspended. L L L N N

4. Information regarding the established peak day minimums, daily balancing trigger levels and total storage inventory levels will be made available to customers on a daily basis via GasSelect and other customer notification media. L

5. If a wholesale customer so requests, the Utility will nominate firm storage withdrawal volumes on behalf of the customer to match 100% of actual usage assuming the customer has sufficient firm storage withdrawal and inventory rights to match the customer's supply and demand. L

6. The Utility will accept intra-day nominations to increase deliveries. T

7. In all cases, current BCAP rules for monthly balancing and monthly imbalance trading continue to apply. Volumes not in compliance with the 50%, 70% and 90% minimum delivery requirements, purchased at the daily balancing standby rate, are credited toward the monthly 90% delivery requirements. Daily balancing charges remain independent of monthly balancing charges. Daily balancing and monthly balancing charges go to the Purchased Gas Account (PGA). Schedule No. G-IMB provides details on monthly and daily balancing charges.

H. Accounting and Billing

1. The customer and the Utility acknowledge that on any operating day during the customer's applicable term of transportation service, the Utility may be redelivering quantities of gas to the customer pursuant to other present or future service arrangements. In such an event, the Utility and customer agree that the total quantities of gas shall be accounted for in accordance with the provisions of Rule No. 23. If there is no conflict with Rule No. 23, the quantities of gas shall be accounted for in the following order: L

(Continued)

TRANSPORTATION OF CUSTOMER-OWNED GAS

(Continued)

H. Accounting and Billing (continued)

1. (continued)

   a. First, to satisfy any minimum quantities under existing agreements.

   b. Second, after complete satisfaction of (a), then to any supply or exchange service arrangements with the customer.

   c. Third, after the satisfaction of (a) and (b), then to any subsequently executed service agreement.

2. The customer agrees that it shall accept and the Utility can rely upon, for purposes of accounting and billing, the allocation made by customer's shipper as to the quality and quantity of gas, expressed both in Mcf and therms, delivered at each point of receipt during the preceding billing period for the customer's account. If the shipper does not make such an allocation, the customer agrees to accept the quality and quantity as determined by the Utility. All quality and measurement calculations are subject to subsequent adjustment as provided in the Utility's tariff schedules or applicable CPUC rules and regulations. Any other billing correction or adjustment made by the customer or third party for any prior period shall be based on the rates or costs in effect when the event occurred and accounted for in the period they are reconciled.

3. The Utility shall render to the customer an invoice for the services hereunder showing the quantities of gas, expressed in therms, delivered to the Utility for the customer's account, at each point of receipt and the quantities of gas, expressed in therms, redelivered by Utility for the customer's account at each point of delivery during the preceding billing period. The Customer shall pay such amounts due hereunder within nineteen (19) calendar days following the date such bill is mailed.

4. Both the Utility and the customer shall have the right at all reasonable times to examine, at its expense, the books and records of the other to the extent necessary to verify the accuracy of any statement, charge, computation, or demand made under or pursuant to service hereunder. The Utility and the customer agree to keep records and books of account in accordance with generally accepted accounting principles and practices in the industry.

I. Gas Quality

1. The gas stream delivered by the customer into the Utility's system shall conform to the gas quality specifications as provided in any applicable agreements, contracts, service contracts and tariff schedules in effect between the delivering interstate or intrastate pipeline and the Utility at the time of the delivery. T

(Continued)

Rule No. 30 Sheet 10

TRANSPORTATION OF CUSTOMER-OWNED GAS

(Continued)

I. Gas Quality (continued)

2. All gas delivered into the Utility's system for the account of the customer for which there is no existing contract between the delivering pipeline and the Utility shall be at a pressure such that the gas can be integrated into the Utility's system at the point(s) of receipt and shall conform to the following minimum specifications:

a. Heating Value: The minimum heating value is nine hundred and seventy (970) Btu (gross) per standard cubic foot on a dry basis. The maximum heating value is one thousand one hundred fifty (1150) Btu (gross) per standard cubic foot on a dry basis. T,N N

b. Moisture Content or Water Content: For gas delivered at or below a pressure of eight hundred (800) psig, the gas shall have a water content not in excess of seven (7) pounds per million standard cubic feet. For gas delivered at a pressure exceeding of eight hundred (800) psig, the gas shall have a water dew point not exceeding 20F at delivery pressure. T | | T

c. Hydrogen Sulfide: The gas shall not contain more than twenty-five hundredths (0.25) of one (1) grain of hydrogen sulfide per one hundred (100) standard cubic feet. The gas shall not contain any entrained hydrogen sulfide treatment chemical (solvent) or its by-products in the gas stream.

d. Mercaptan Sulfur: The mercaptan sulfur is not to exceed three tenths (0.3) grains per hundred standard cubic feet.

e. Total Sulfur: The gas shall not contain more than seventy-five hundredths (0.75) of a grain of total sulfur compounds per one hundred (100) standard cubic feet. This includes COS and CS2, hydrogen sulfide, mercaptans and mono, di and poly sulfides.

f. Carbon Dioxide: The gas shall not have a total carbon dioxide content in excess of three percent (3%) by volume.

g. Oxygen: The gas shall not at any time have an oxygen content in excess of two-tenths of one percent (0.2%) by volume, and customer will make every reasonable effort to keep the gas free of oxygen.

h. Inerts: The gas shall not at any time contain in excess of four percent (4%) total inerts (the total combined carbon dioxide, nitrogen, oxygen and any other inert compound) by volume.

i. Hydrocarbons: For gas delivered at a pressure of 800 psig or less, the gas hydrocarbon dew point is not to exceed 45F at 400 psig or at the delivery pressure if the delivery pressure is below 400 psig. For gas delivered at a pressure higher than 800 psig, the gas hydrocarbon dew point is not to exceed 20F at a pressure of 400 psig. T | | T

(Continued)

TRANSPORTATION OF CUSTOMER-OWNED GAS

(Continued)

I. Gas Quality (continued)

2. (continued)

j. Dust, Gums and Other Objectionable Matter: The gas shall be commercially free from dust, gums and other foreign substances.

k. Hazardous Substances: The gas must not contain hazardous substances (including but not limited to toxic and/or carcinogenic substances and/or reproductive toxins) concentrations which would prevent or restrict the normal marketing of gas, be injurious to pipeline facilities, or which would present a health and/or safety hazard to Utility employees and/or the general public.

l. Delivery Temperature: The gas delivery temperature is not to be below 50F or above 105F.

m. Interchangeability: The gas shall meet American Gas Association's Wobbe Number, Lifting Index, Flashback Index and Yellow Tip Index interchangeability indices for high methane gas relative to a typical composition of gas in the Utility system near the points of receipt. Acceptable specification ranges are:

* Wobbe Number (W for receiving facility)
(WP for producer)
0.9 W <= WP< = 1.1 W T

* Lifting Index (IL)
IL <= 1.06

* Flashback Index (IF)
IF <= 1.2

* Yellow Tip Index (IY)
IY >= 0.8

* Specifications are in relation to a typical composition of gas serving the area to be supplied by the new source.

3. The Utility, at its option, may refuse to accept any gas tendered for transportation by the customer or on his behalf if such gas does not meet the specifications as set out in I. 1 and I. 2 above, as applicable.

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TRANSPORTATION OF CUSTOMER-OWNED GAS

(Continued)

J. Termination or Modification

1. If the customer breaches any terms and conditions of service of the customer's service agreement or the applicable tariff schedules and does not correct the situation within thirty (30) days of notice, the Utility shall have the right to cease service and immediately terminate the customer's applicable service agreement.

2. If the contract is terminated, either party has the right to collect any quantities of gas or money due them for transportation service provided prior to the termination.

K. Regulatory Requirements

1. Any gas transported by the Utility for the customer which was first transported outside the State of California shall have first been authorized under Federal Energy Regulatory Commission (FERC) regulations, as amended. Both parties recognize that such regulations only apply to pipelines subject to FERC jurisdiction, and do not apply to the Utility. The customer shall not take any action which would subject the Utility to the jurisdiction of the FERC, the Economic Regulatory Administration or any succeeding agency. Any such action shall be cause for immediate termination of the service arrangement between the customer and the Utility.

2. Transportation service shall not begin until both parties have received and accepted any and all regulatory authorizations necessary for such service. L

L. Warranty and Indemnification

1. The customer warrants to the Utility that the customer has the right to deliver gas hereunder and that such gas is free from all liens and adverse claims of every kind. Customer will indemnify, defend and save Utility harmless against all loss, damage, injury, liability and expense of any character where such loss, damage, injury, liability or expense arises directly or indirectly out of any demand, claim, action, cause of action or suit brought by any person, association or entity asserting ownership of or any interest in the gas tendered for transportation hereunder, or on account of royalties, payments or other charges applicable before or upon delivery of gas hereunder.

2. The customer shall indemnify, defend and save harmless Utility, its officers, agents, and employees from and against any and all loss, costs (including reasonable attorneys' fees), damage, injury, liability, and claims for injury or death of persons (including any employee of the customer or the Utility), or for loss or damage to property (including the property of the customer or the Utility), which occurs or is based upon an act or acts which occur while the gas is deemed to be in the customer's control and possession or which results directly or indirectly from the customer's performance of its obligations arising pursuant to the provisions of its service agreement and the Utility's applicable tariff schedules, or occurs based on the customer-owned gas not meeting the specifications of Section I of this rule.