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October 20, 2004

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DOE/OFE/NGR

Via Hand Delivery

Office of Fuels Programs
Fossil energy
U.S. Department of Energy
Forrestal Building
1000 Independence Avenue. S.W.
Docket Room 3E-033
Washington, D.C.

04-106

Re: Application of Cascade Natural Gas Corp. for Long
Term Authorization to Import Natural Gas from Canada,
DOE/FE Doc. No. 04-106 NG

Dear Sir or Madam:

Pursuant to Section 3 of the Natural Gas Act ("NGA"), 15 U.S. C. Section 717b, and Part 590 of the Administrative Procedures of the Department of Energy ("DOE"), Office of Fossil Energy ("FE"), 10 C.F.R. Part 590 (1999), Cascade Natural Gas Corporation ("Cascade") hereby submits an original and five (5) copies of its Application for a five year authorization to import natural gas supplies from Canada. Cascade requests this authorization in order that long-term gas supplies will be available to Cascade to serve its markets in the States of Washington and Oregon. Cascade's requested import authorization would commence on November 1, 2004 and run through October 31, 2009.

Cascade is herein seeking waiver of the thirty (30) day advance filing requirement set forth in Section 590.201(b) of DOE's regulations, and maintains that good cause exists for granting such a waiver. Due to an administrative oversight, its Application was not filed thirty (30) days in advance of November 1, 2004, as set forth in the regulations. However, because the instant Application seeks a five year authorization to import natural gas supplies from Canada, a

Mary Ann Walker, Esquire

October 20, 2004

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nation with which there is in effect a free trade agreement, Cascade submits that waiver of Section 590.201(b) would be appropriate in this instance. Cascade requests DOE action on the instant Application on or before November 1, 2004, the date on which the natural gas supply contract supporting this requested import authorization commences.

In accordance with DOE's regulations, Cascade is herein enclosing the applicable filing fee in the amount of \$50.00 payable to the Treasury of the United States.

Thank you in advance for your attention to this matter. Any questions may be directed to the undersigned.



Mary Ann Walker

Counsel for Cascade Natural Gas Corp.

Enclosures

cc: Manager, Natural Gas Regulation

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

Cascade Natural Gas Corp.

)

FE Docket No. 04-__- NG

APPLICATION OF
CASCADE NATURAL GAS CORP. FOR LONG TERM
IMPORT AUTHORIZATION

Pursuant to Section 3 of the Natural Gas Act ("NGA"), 15 U.S.C. § 717b, Department of Energy ("DOE") Delegation Order Nos. 0204-111 and 0204-127¹, 49 *Fed. Reg.* 6684 (Feb. 22, 1984) and 54 *Fed. Reg.* 11,436 (Mar. 20, 1989), respectively, and Section 590.201 *et seq.*, of the Administrative Procedures of the DOE, Office of Fossil Energy ("FE"), 10 C.F.R. § 590.201, *et seq.* (1999), Cascade Natural Gas Corp. ("Cascade") hereby submits this Application to authorize it to import natural gas . Cascade requests this long term import authorization in order to ensure that competitively-priced natural gas supplies will continue to be available to U.S. consumers in the Western region of the United States. Cascade respectfully requests waiver of § 590.201(b) of DOE's regulations, and maintains that good cause exists for granting such a waiver. Due to an

¹ On January 6, 1989, the authority to regulate natural gas imports and exports was transferred from the Department of Energy's Economic Regulatory Administration to the Assistant Secretary for Fossil Energy. DOE Delegation Order No. 0204-127 specifies the transferred functions. 54 F.R. 11436 (Mar. 20, 1989). The Order authorizes the Assistant Secretary for Fossil Energy to "[r]egulate natural gas imports and exports, pursuant to the Natural Gas Act, in accordance with Delegation Order No. 0204-111." 54 F.R. 11437.

administrative oversight, this Application was not filed thirty (30) days in advance of November 1, 2004, as set forth in the regulations. However, because the instant Application seeks authorization to import natural gas volumes from Canada, a nation with which there is in effect a free trade agreement with the United States, Cascade submits that waiver of § 590.201(b) would be appropriate in this instance.

In further support of its Application, Cascade states the following:

I.

Communications concerning this Application should be addressed to the following persons:

Ms. Patricia A. Grable
Sn. Director, Gas Supply
Cascade Natural Gas Corp.
222 Fairview Avenue North
Seattle, Washington 98109-5312
(206) 381-6829

and

Mary Ann Walker, Esq.
416 Prince Street
Alexandria, Virginia 22314
(703) 549-9048

II.

The exact legal name of Cascade is Cascade Natural Gas Corporation. A copy of Cascade's Restated Articles of Incorporation and Restated ByLaws are attached as Exhibit 1. Cascade is a corporation organized and existing under the laws of the State of Washington. Cascade is a local distribution company engaged in the retail sale of

natural gas in the states of Washington and Oregon. The proposed imports are within the corporate power of Cascade, as the attached Opinion of Counsel demonstrates (See: Exhibit 2).

III.

Pursuant to the authorization requested herein, Cascade intends to purchase natural gas in Canada from Enserco Energy, Inc. ("Enserco") at competitive terms and conditions to meet the demands of Cascade's customers in the states of Washington and Oregon. DOE regulations relating to the import and export of natural gas, 10 C.F.R. Part 590, set forth several considerations which an Applicant must describe in order to provide the Office of Fossil Energy with sufficient information to examine the competitiveness of the import, the need for natural gas, and the security of supply. In order to satisfy these requirements and to demonstrate that the requested import authorization is not inconsistent with the public interest, Cascade states as follows:

A. Scope of the Project

The long term import authorization requested herein will permit Cascade to import volumes of Canadian natural gas provided by Enserco for sale to Cascade for its system supply. Cascade requests authorization to import up to a maximum of 6.4 Bcf per year for a five year period commencing November 1, 2004 and continuing through October 31, 2009. A copy of the Base Contract and Transaction Confirmation between Cascade and Enserco are attached hereto as Exhibit 3. The imports are requested to be authorized at the international border near Kingsgate, British Columbia, which is the interconnection point of TransCanada Pipeline Company ("TransCanada")

and Gas Transmission Northwest ("GTN"). The requested long term import authorization will not require the construction of any new pipeline facilities.

B. Source and Security of Supply

Cascade has entered into a Base Contract for Sale and Purchase of Natural Gas and a Transaction Confirmation ("Agreement") with Enserco for the underlying supply of Canadian natural gas to support the instant request for long term import authorization (See: Exhibit 3). This Agreement will commence on November 1, 2004 and will continue through and including October 31, 2009. Under the terms of the Agreement, Enserco will provide Cascade with 6.4 Bcf of natural gas per year for each year of the contract term. The natural gas which Cascade purchase in Canada from Enserco will be delivered to the interconnection between the Canadian pipeline facilities currently owned by TransCanada and the U.S. pipeline facilities owned by GTN. Upon delivery of the natural gas at Kingsgate, British Columbia, Cascade will make arrangements for delivery of the imported natural gas to its distribution facilities in a reliable, convenient and economical manner, or will take delivery directly into its facilities. The Agreement binds Cascade with respect to all price and related terms for this import and can be relied upon by DOE/FE to demonstrate the security and competitiveness of the import.

C. Identity of Participants

Cascade is organized and exists under the laws of the State of Washington and, pursuant to the licenses obtained from the States of Washington and Oregon,

respectively; Cascade is duly authorized to do business in those states. Cascade is the “Buyer” under the Agreement.

Enserco is a U. S. corporation with its principal place of business in the State of Colorado. Enserco is a marketer of natural gas and acts as the natural gas procurement and administrative services agent for industrial end-users and local distribution companies in arranging for the purchase and transportation of natural gas supplies in the Western region of the United States. Enserco is the “Seller” under the Agreement.

TransCanada will provide for shipment of Seller’s natural gas within British Columbia to the point of delivery at the international boundary between Canada and the United States. GTN will provide transportation on its system from the point of delivery to Buyer’s interconnection with GTN or Buyer’s interconnection with Northwest Pipeline Corporation.

D. Terms of the Transaction

The effective date of the Agreement is November 1, 2004 and it continues in effect through and including October 31, 2009. The exact terms of this long term gas supply transaction are set forth in detail in the Agreement (See: Exhibit 3), including provisions governing price, daily quantity, receipt and delivery points, etc.

E. Need for the Natural Gas

Consistent with the authorization sought and the policy approach of the Secretary of Energy, the need for the gas is evidenced by the fact that Cascade, a local distribution company, has an established market for the gas. Cascade anticipates a continuing long-term need for this important source of gas supply. Moreover, the Secretary of Energy's "Policy Guidelines Relating to the Regulation of Imported Natural Gas" indicates that imported gas marketed at competitive prices over the term of the contract is subject to a rebuttable presumption that such gas is needed.²

F. Environmental Impact

Cascade intends to utilize existing facilities of U.S. and Canadian pipelines for the transportation and delivery of its imported gas suppliers. The imports for which authorization is requested herein do not contemplate the construction of any new facilities. Thus, Cascade anticipates that no environmental impact will result from this authorization.

² Delegation Order 0204-111, February 15, 1984, 49 Fed. Reg. 6684, 6687 (Feb. 22, 1984).

G. Statement Regarding the Public Interest

Cascade's request to import Canadian natural gas will provide a competitively priced and secure gas supply that will serve the public interest. Under Section 3 of the NGA, 15 U.S.C. § 717b, importation of natural gas is to be authorized unless there is a finding that it "will not be consistent with the public interest". In this case, Cascade's Application for an extension of its current long-term authority to import natural gas is clearly consistent with the public interest as set forth in Section 201 of The Energy Policy Act of 1992, 15 U.S.C. § 717b(c). Section 201 states in pertinent part:

[T]he importation of the natural gas referred to in subsection (b) of this section, or the exportation of natural gas to a nation with which there is an effect a free trade agreement requiring national treatment for trade in natural gas, shall be deemed to be consistent with the public interest, and applications for such importation or exportation shall be granted without modification or delay.

15 U.S.C. § 717b(c).

Cascade submits that in DOE/FE Order 664, DOE/FE found that Cascade's requested long-term import authority met the public interest requirements of Section 3 of the NGA. By approving the instant Application, DOE/FE will allow gas consumers in the Pacific Northwest expanded access to competitively priced Canadian gas supplies. Accordingly, Cascade requests that the DOE find the instant Application to extend an existing long-term import authorization to be in the public interest.

LIST OF EXHIBITS

In support of this Application, and pursuant to 10 C.F.R. Section 590, the following Exhibits are attached:

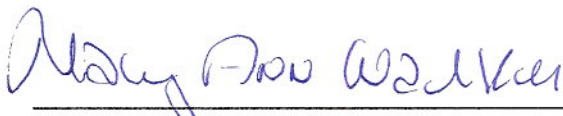
- Exhibit 1:** Certified copies of the Restated Articles of Incorporation and ByLaws of Cascade Natural Gas Corporation
- Exhibit 2:** Opinion of Counsel
- Exhibit 3:** Base Contract and Transaction Confirmation Between Cascade Natural Gas Corp. and Enserco Energy, Inc.
- Exhibit 4:** Verification

WHEREFORE, Cascade submits that the granting of this import Application will allow it to continue to meet the long-term needs of its customers in the States of Washington and Oregon. Therefore, the instant Application satisfies the public interest requirements set forth at Section 3 of the Natural Gas Act and Section 201 of the Energy Policy Act of 1992. Therefore, Cascade requests that DOE/FE act

expeditiously to issue an order granting the import authorization requested in the instant Application to be effective November 1, 2004.

Respectfully submitted,

CASCADE NATURAL GAS CORP.

By: 

Mary Ann Walker, Esq.
416 Prince Street
Alexandria, Virginia 22314
(703) 549-9048

Counsel for **Cascade Natural Gas Corp.**

Dated: October 20, 2004

EXHIBIT 1


**Certified copies of the most recent Restated Articles of
Incorporation and ByLaws of Cascade Natural Gas
Corporation**

CASCADE NATURAL GAS CORPORATION

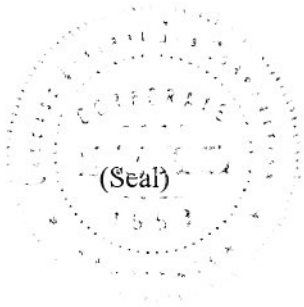
Certificate of Restated Articles of Incorporation Adopted

I, Larry C. Rosok, Corporate Secretary of CASCADE NATURAL GAS CORPORATION, a Washington corporation (hereinafter called the "Corporation"), DO HEREBY CERTIFY that the "Restated Articles of Incorporation of Cascade Natural Gas Corporation" annexed hereto are true and correct copies of the Restated Articles of Incorporation executed on March 28, 1996; and that said Articles of Incorporation have not been amended or otherwise changed and remain in full force and effect on the date hereof.

IN WITNESS WHEREOF, I have hereunto signed my name and affixed the seal of the Corporation as of this 19th day of October, 2004.



Larry C. Rosok
Corporate Secretary



March 28, 1996

Restated Articles of Incorporation of Cascade Natural Gas Corporation

We, the undersigned, RALPH E. BOYD and LARRY C. ROSOK, President and Secretary respectively, of Cascade Natural Gas Corporation do hereby on behalf of said Corporation restate in a single document the entire text of its Articles of Incorporation, as previously amended, supplemented or restated to the date hereof:

ARTICLE I

The name of this Corporation shall be Cascade Natural Gas Corporation.

ARTICLE II

The objects and purposes for which this Corporation is formed are and shall be as follows:

1. To manufacture, produce, buy, sell, transport and in all other respects dispose of and deal in all forms and types of natural and/or manufactured gas, oil, petroleum and all forms and types of residual products thereof; to supply natural and/or manufactured gas and/or related petroleum products for lights, heating, power and all other domestic and industrial uses, and to furnish the same to public or private consumers both within and without the State of Washington; to construct pipelines for the transportation of natural and/or manufactured gas and other petroleum products and to buy, operate, lease and sell the same; to acquire, construct, erect, lay down, maintain, enlarge, alter, work and use all lands, buildings, easements, pipelines, machinery, plants, stocks, motors, fittings, meters, other apparatus materials and things and to supply all materials, products and things that may be necessary, incident or convenient in connection with the production, transportation, use, storage, regulation, measurement, supply and distribution of any of the products of the Company; to engage in the transportation of natural and/or manufactured gas, oil, petroleum and related products, either produced by this Corporation or other persons or corporations by means of pipelines, railroads, boats, barges, or other conveyances and to lease or sublease all or any part thereof to or from other persons or corporations for the like purpose; to acquire by purchase or otherwise, or by the right of exercise of eminent domain, rights-of-way for natural and/or manufactured gas or other petroleum products pipelines and to construct and maintain such pipelines for the carriage and transportation of such products on its own behalf and hire; to buy, acquire, sell, retain, deal in or otherwise dispose of, natural gas and other petroleum properties and interest and any right, title or interest therein; to carry on such other business pertaining to natural and manufactured gas, oil, petroleum and similar products as may be found necessary or desirable or such as is generally engaged in by a corporation of this kind and to do all other acts and things required to be done in connection therewith, either within or without the State of Washington, U.S.A.
2. To manufacture, purchase or otherwise acquire, own, mortgage, pledge, sell, assign and transfer, or otherwise dispose of, to invest, trade, deal in and deal with, goods, wares and merchandise and real and personal property of every class and description.
3. To acquire by purchase, assignment or otherwise, letters patent of the United States and the Territorial and other rights and licenses which may be of value or advantage in the carrying out of the above mentioned objects, and to dispose of the same by sale, license, assignment or otherwise.
4. To acquire, and pay for in cash, stock or bonds of this Corporation, or otherwise, the good will, rights, assets and property, and to undertake or assume the whole or any part of the obligations or liabilities of any person, firm, association or corporation.
5. To guarantee, purchase, hold, sell, assign, transfer, mortgage, pledge or otherwise dispose of shares of the capital stock of, or any bonds, securities or evidence of indebtedness created by any other corporation or corporations organized under the laws of this State, or any other state, country, nation or government, and while the owner thereof to exercise all rights, powers and privileges of ownership.
6. To issue bonds, debentures, or obligations of this Corporation from time to time, for any of the objects or purposes of the Corporation, and to secure the same by mortgage, pledge, deed of trust, or otherwise.

7. To have one or more officers; to carry on all or any of its operations and business and without restriction or limit as to amount, to purchase or otherwise acquire, own, hold, mortgage, sell, convey or otherwise dispose of real and personal property of every class and description, in any of the states, districts, territories or colonies of the United States, and in any and all foreign countries, subject to the laws of such states, district, territory, colony or country.

8. To carry on in general any other business in connection with the foregoing, whether manufacturing or otherwise, and to have and exercise all the powers conferred by the laws of Washington upon corporations and to do any or all of the things thereinbefore set forth to the same extent as natural persons might or could do.

9. The foregoing clauses shall be construed both as objects and powers, and it is specifically provided that the foregoing enumeration of specific powers shall not be held to limit or restrict in any manner the powers of this Corporation.

ARTICLE III

The time of the existence of this Corporation shall be perpetual.

ARTICLE IV

The office and principal place of business of this Corporation shall be 222 Fairview Avenue North, Seattle, King County, Washington 98109.

ARTICLE V

The capital of this Corporation shall consist of a total of sixteen million ninety-six thousand five hundred sixty, (16,096,560) shares, divided into ninety six thousand five hundred sixty (96,560) shares of 55¢ Cumulative Preferred Stock, without nominal or par value (hereinafter referred to as "Preferred Stock"), one million (1,000,000) shares of Preferred Stock, with a par value of \$1.00 per share (hereinafter referred to as the "\$1.00 Preferred Stock"), and fifteen million (15,000,000) shares of Common Voting Stock with a par value of \$1.00 per share (hereinafter referred to as "Common Stock").

The designations, preferences, privileges, voting power, restrictions, and qualifications of shares of each class of stock are as follows:

1. The 55¢ Preferred Stock consists of - 0 - shares of Series A, 31,500 shares of Series B and 65,060 shares of Series C. All shares of all series of 55¢ Preferred Stock are alike in every particular, except as to the dates from which dividends commenced to accrue and the commencement of the period for establishment of sinking funds for redemption of shares, and all shares of 55¢ Preferred Stock are of equal rank and have the same powers, preferences and rights, and are subject to the same qualifications, limitations, and restrictions, without distinction between the shares of different series thereof.

2. The holders of the 55¢ Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors, dividends from the surplus or net profits of the Corporation at the rate of 55¢ per annum and no more, payable quarterly on the first days of February, May, August, and November. Such dividends shall be paid to or set apart for the holders of 55¢ Preferred Stock before any Common Stock of the Corporation or any other class of securities of the Corporation junior to the 55¢ Preferred Stock as to dividends or assets ("Other Securities") shall be purchased, retired, or otherwise acquired for valuable consideration by the Corporation or any dividends shall be paid upon, or set apart for any of the Common Stock or Other Securities of the Corporation, and shall be cumulative, so that if in any quarterly dividend period, the dividend installment computed at the rate of 55¢ per share per annum shall not have been paid upon or set apart for the 55¢ Preferred Stock, the deficiency (without interest) shall be fully paid or set apart for payment before any Common Stock or Other Securities of the Corporation shall be purchased, retired, or otherwise acquired for valuable consideration by the Corporation or any dividends shall be paid upon, or set apart for the Common Stock or Other Securities.

3. In the event of voluntary liquidation, dissolution, or winding up of the Corporation, the holders of the 55¢ Preferred Stock shall be entitled, after the debts of the Corporation shall have been paid, to receive out of the assets remaining, the then current redemption or call price per share thereof, determined in accordance with the provisions hereinbelow concerning optional redemption of 55¢ Preferred Stock, together with all dividends thereon accrued or in arrears, whether or not earned or declared, before any payment is made or assets set apart for the payment to the holders of the Common Stock or Other Securities, and shall be entitled to no further payments or distribution. In the event of the involuntary liquidation, dissolution, or winding up of the Corporation, the holders of the 55¢ Preferred Stock shall be entitled, after the debts of the Corporation shall have been paid, to receive out of the assets remaining, \$10.00 per share,

together with all dividends thereon accrued or in arrears, whether or not earned or declared, before any payment is made or assets set apart for payment to the holders of the Common Stock or Other Securities, and shall be entitled to no further payments or distribution. If the assets remaining after payment of the corporate debts be insufficient to pay the full amounts as hereinabove provided, such assets as remain shall be divided among the holders of 55¢ Preferred Stock in proportion to the number of shares of 55¢ Preferred Stock held.

4. The Corporation may, at any time and from time to time, at the option of the Board of Directors, unless prevented from doing so by law or by applicable restrictive provisions herein, or in any mortgage or deed of trust or loan agreement of the Corporation, redeem the whole or any part of the outstanding 55¢ Preferred Stock on any dividend payment date after the issuance thereof, upon not less than 30 days' previous notice to the holders of record of the 55¢ Preferred Stock to be redeemed, at a redemption or call price for each share thereof equal to the sum of Ten Dollars (\$10.00) plus all dividends accrued or in arrears thereon, plus a premium of Ten Cents (10¢) per share as to shares of Series C. No premium shall be payable on redemption with respect to redemption of shares of Series A or shares of Series B, at any time, or with respect to shares of Series C redeemed after June 25, 1994; provided, however, that if such redemption is effected with funds set apart for the 55¢ Preferred Stock redemption sinking fund as provided herein, then the same may be effected at a price per share equal to the sum of Ten Dollars (\$10.00) plus all dividends accrued or in arrears thereon and without the payment of any premium. If less than all the shares of 55¢ Preferred Stock are to be redeemed, the shares to be redeemed shall be selected in such manner as the Board of Directors may determine. No shares of 55¢ Preferred Stock shall be purchased, redeemed, or otherwise acquired for a valuable consideration unless full cumulative dividends on the 55¢ Preferred Stock for all past quarterly dividend periods shall have been paid, or declared and a sum sufficient for the payment thereof set apart. The holders of shares of 55¢ Preferred Stock called for redemption shall not, from and after the date fixed in such notice for the redemption of such stock, possess or exercise any rights as stockholders of the Corporation except the right to receive from the Corporation the redemption price of such shares together with all unpaid accrued dividends thereon, without interest, upon the surrender thereof, unless default shall be made by the Corporation in providing funds at the time and place specified in such notice for payment of the redemption price.

5. While any shares of 55¢ Preferred Stock remain outstanding, within each twelve (12) month period ending November 1, the Corporation, unless prevented from doing so by law or by applicable restrictive provisions herein or in any mortgage or deed of trust or loan agreement of the Corporation, shall establish a sinking fund out of surplus or may establish a sinking fund out of capital, and shall acquire therewith, either by the redemption thereof or by the purchase thereof in such manner as the Board of Directors may determine from time to time at not exceeding the sinking fund redemption price thereof, and shall retire not less than the lesser of 17,948 shares of Series A, 10,500 shares of Series B, and 14,500 shares of Series C or all remaining shares of each series, respectively, of 55¢ Preferred Stock.

Provided, however, that if the Corporation shall be prevented by law or by applicable restrictive provisions herein, or in any mortgage or deed of trust or loan agreement of the Corporation, or for any other reason, from acquiring during any twelve (12) month period the number of shares of 55¢ Preferred Stock which, in the absence of such restriction it would be required to acquire during such period, the aggregate deficit shall be made good in the first succeeding twelve (12) month period in which the Corporation shall not be prevented by such restrictions from retiring shares of 55¢ Preferred Stock. Any shares of 55¢ Preferred Stock which in any such twelve (12) month period are redeemed by the Corporation at the optional redemption price hereinabove set forth, or are purchased by the Corporation but not applied to meet the Corporation's sinking fund obligation for such twelve month periods may be credited on the amount required to be acquired in any one or more of the next following twelve (12) month periods which the Corporation may designate. Shares of 55¢ Preferred Stock of the Corporation redeemed or purchased shall not be reissued. So long as any share of 55¢ Preferred Stock shall remain outstanding, no dividends, whether in cash, stock, or otherwise, shall be paid or declared or any distribution be made with respect to the Common Stock or Other Securities, nor shall any Common Stock or Other Securities be purchased, retired or otherwise acquired for a valuable consideration by the Corporation unless on or before the preceding November 1, the Corporation shall have acquired the number of shares of 55¢ Preferred Stock required to have been acquired by such date.

6. Except as otherwise provided herein or as otherwise made mandatory by law, the holders of the 55¢ Preferred Stock shall have no right to vote for the election of directors or for any other purpose and shall not be entitled receive notice of any meeting of stockholders and all voting rights shall be vested exclusively in the holders of the Common Stock and, to the extent applicable, holders of Other Securities. If and whenever six full quarterly dividends on 55¢ Preferred Stock shall be unpaid, then the holders of the 55¢ Preferred Stock shall be entitled, voting separately as a class and to the exclusion of the holders of the Common Stock and Other Securities, to vote for the election of three of the directors of the Corporation until all arrears and dividends on the 55¢ Preferred Stock shall have been paid in full, and thereupon the voting right for the election of three directors shall be divested from the holders of the 55¢ Preferred Stock and revested in the holders of the Common Stock and, to the extent applicable, holders of Other Securities, subject to revesting in the

event of each and every other subsequent such default. While any 55¢ Preferred Stock is outstanding, the Corporation, without first obtaining the consent, by the affirmative vote at a meeting called for that purpose, of the holders of at least two thirds of the total number of shares of 55¢ Preferred Stock then outstanding, shall not:

- a. Increase the authorized number of shares of 55¢ Preferred Stock or authorize or issue any stock having priority or preference over, or ranking on a parity with, the 55¢ Preferred Stock as to dividends or assets; or
- b. Amend the provisions hereof so as to affect adversely any of the preferences or other rights hereby given to the 55¢ Preferred Stock; or
- c. Merge or consolidate with or into any other corporation or corporations or sell or transfer all or substantially all of its assets as an entity.

7. After full cumulative dividends have been paid or declared and set apart for payment upon issued and outstanding 55¢ Preferred Stock, as hereinabove provided, and after the provisions herein or as established by the Board of Directors with respect to any sinking fund for redemption of 55¢ Preferred Stock have been complied with, holders of the Common Stock or Other Securities shall be entitled to receive such further dividends as may from time to time be declared by the Board of Directors of the Corporation out of any remaining surplus or net profits. The term "full cumulative dividend" whenever used in this article with reference to the 55¢ Preferred Stock of any series shall be deemed to mean (whether or not in any dividend period or any part thereof in respect of which such term is used there shall have been surplus or net profits of the Corporation legally available for the payment of such dividends) that amount which shall be equal to cumulative dividends at the prescribed rate to date from the date of cumulation for such series (including an amount equal to a dividend at such rate for the elapsed portion of the current dividend period) less, in each case, the amount of all cumulative dividends paid or deemed paid, upon the 55¢ Preferred Stock. The term "date of cumulation" as used in this article with respect to 55¢ Preferred Stock of any series means the date on which the dividend period during which shares of 55¢ Preferred Stock of such series are first issued shall begin or the date on which such shares are first issued when such issue is made on a date on which a dividend period begins.

8. A consolidation, reorganization, or merger of the Corporation with any other corporation or corporations shall not be considered a dissolution, liquidation, or winding up of the Corporation within the meaning of such terms as used herein.

9. The \$1.00 Preferred Stock may be issued from time to time in one or more series in any manner permitted by law and the provisions of these Restated Articles of Incorporation of the Corporation, as determined from time to time by the Board of Directors and stated in the resolution or resolutions providing for the issuance thereof, prior to the issuance of any shares thereof. The Board of Directors shall have the authority to fix and determine, subject to the provisions of this Article V, the rights and preferences of the shares of any series so established. Unless otherwise provided in the resolution or resolutions establishing a series of shares of \$1.00 Preferred Stock, prior to the issue of any shares of a series so established or to be established, the Board of Directors may, by resolution, amend the relative rights and preferences of the shares of such series, and, after the issue of shares of a series whose number has been designated by the Board of Directors, the resolution or resolutions establishing the series may be amended by the Board of Directors to decrease (but not below the number of shares of such series then outstanding) the number of shares of that series.

The 7.85% Preferred Stock, \$1.00 par value was authorized by the Board of Directors on December 20, 1991. The rights and preferences of the 7.85% Preferred Stock are attached as Exhibit A.

The Series Z Junior Participating Preferred Stock, \$1.00 par value, was authorized by the Board of Directors on March 19, 1993. The rights and preferences of the Series Z Preferred Stock are attached as Exhibit B.

ARTICLE VI

The amount of paid-in capital with which this Corporation shall begin to do business shall be Five Hundred Dollars (\$500.00) payable in cash or other property taken at a fair valuation.

ARTICLE VII

The directors shall be nine (9) in number, but the number of directors may be increased to any number not exceeding eleven (11) or decreased to any number not less than three (3) at any annual meeting of the shareholders, or at any special meeting of the shareholders called for that purpose, or by a two-thirds vote of the then directors of the Corporation at any regular meeting of the directors, or at any special meeting of the directors called for that purpose.

The names and post office addresses of the directors of the Corporation in office at the time of the adoption of these Restated Articles and on the date hereof, who shall serve until the 1996 Annual Meeting of Shareholders, and until their successors are elected and qualify are as follows:

Carl Burnham, Jr.	P. O. Box 5 Ontario, Oregon 97914
Melvin C. Clapp	3608 S.W. 328 th Street Federal Way, Washington 98023
David A. Ederer	4919 N.E. Laurel Crest Lane Seattle, Washington 98105
Howard L. Hubbard	5320 N.W. Edgebrook Place Portland, Oregon 97229-1974
W. Brian Matsuyama	222 Fairview Avenue No. Seattle, Washington 98109
Larry L. Pinnt	15306 N.E. 190 th Woodinville, Washington 98072
Brooks G. Ragen	Suite 4300 999 Third Avenue Seattle, Washington 98104
Andrew V. Smith	1600 Bell Plaza, Room 1802 Seattle, Washington 98191
Mary A. Williams	1234 McGilvra Boulevard E. Seattle, Washington 98112

ARTICLE VIII

The Board of Directors of this Corporation shall have the authority to make and alter By-Laws not inconsistent with the law or with the Articles of Incorporation and subject to the power of the shareholders to change or repeal such By-Laws.

ARTICLE IX

Except as may be otherwise provided by law, or by applicable restrictive provisions of Article V hereof, as amended, or any mortgage, deed of trust or loan agreement of the Corporation, the shares of stock of this Corporation, whether Preferred or Common, may be issued by it from time to time without the consent of any holder of any share thereof, in such manner, or amount of shares of each said class of stock, and for such consideration in labor, services, money or property, as from time to time may be fixed and determined by the Board of Directors of this Corporation, and, except as so restricted, the right, power and authority of said Board of Directors from time to time so to authorize and order the issuance by this Corporation of the said shares of each class of said stock and such number or amount of shares and for such consideration in labor, services, money or property as from time to time said Board of Directors may fix and determine, is hereby absolutely reserved to said Board of Directors.

No holder of shares of the capital stock of any class of this Corporation shall have any preemptive or preferential right of subscription to any shares of any class of stock of this Corporation, whether now or hereafter authorized, or to any obligations convertible into stock of this Corporation, which may be issued or sold, nor any right of subscription other than such, if any, as the Board of Directors in its discretion may from time to time determine and at such price as the Board of Directors from time to time may fix.

Payment or delivery to, or receipt by this Corporation of such consideration as may be fixed and determined by the Board of Directors for the issuance of any share or shares of its capital stock, as hereinbefore provided, shall operate and be construed, deemed and held: (a) to discharge, release and satisfy fully and absolutely all liability to the Corporation and/or to its creditors now or at any time hereafter existing, of any subscriber for and/or holder of any such share or shares so authorized to be issued in any way on account of, founded upon, or arising out of any subscription for and/or purchase of, and/or issuance of such share or shares, and (b) to constitute such share or shares fully paid stock of the Corporation.

ARTICLE X

LIMITATION ON DIRECTOR LIABILITY

To the fullest extent permitted by Washington law at the time this Article becomes effective or as may thereafter be in effect, a director of this Corporation shall not be liable to this Corporation or its shareholders for the monetary damages for his or her conduct as a director. Any amendment to or repeal of this Article X shall not adversely affect any right of a director of this Corporation hereunder with respect to any acts or omissions of such director occurring prior to such amendment or repeal.

ARTICLE XI

INDEMNIFICATION OF DIRECTORS

To the fullest extent permitted by Washington law at the time this Article becomes effective or as may be thereafter in effect, this Corporation is authorized to indemnify any director of this Corporation. The Board of Directors shall be entitled to determine the terms of such indemnification, including advance of expenses, and to give effect thereto through the adoption of By-Laws, approval of agreements, or by any other manner approved by the Board of Directors. Any amendment to or repeal of this Article XI shall not adversely affect any right of a director of this Corporation hereunder with respect to any right to indemnification that arises prior to such amendment or repeal.

ARTICLE XII

BUSINESS COMBINATIONS / FAIR PRICE PROVISIONS

A. The following definitions shall apply for purposes of this Article XII:

1. The terms "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 under the Securities Exchange Act of 1934 and the rules and regulations thereunder (the "Act") (or any subsequent provisions replacing such Act, rules, or regulations) as in effect on March 24, 1992 (the term "registrant" in said Rule 12b-2 meaning in this case the Corporation).

2. The term "Beneficially Own," when used with respect to a person's interest in shares of capital stock, shall mean that said person has or shares (or has the right to acquire under any option, warrant, conversion right or other right), directly or indirectly, the power to vote, the power to dispose of, the power to direct the voting or disposition of, or the right to enjoy the economic benefits of such shares.

3. The term "Business Combination" shall mean (a) any merger or consolidation of the Corporation or a Subsidiary of the Corporation with or into an Interested Shareholder (or an Affiliate or Associate of an Interested Shareholder) or any merger of an Interested Shareholder (or an Affiliate or Associate of an Interested Shareholder) into the Corporation or a Subsidiary of the Corporation, (b) any sale, lease, exchange, transfer, encumbrance or other disposition of Substantial Assets either of the Corporation (including without limitation any securities of a Subsidiary) or of a Subsidiary of the Corporation, to an Interested Shareholder (or an Affiliate or Associate of an Interested Shareholder), (c) the issuance of any securities of the Corporation or a Subsidiary of the Corporation to an Interested Shareholder (or an Affiliate or Associate of an Interested Shareholder), (d) any reclassification, exchange of shares or other recapitalization that would have the effect of increasing the proportion of shares of Common Stock or other capital stock of the Corporation or a Subsidiary of the Corporation Beneficially Owned by an Interested Shareholder, or (e) any agreement, contract, or other arrangement providing for any of the foregoing transactions.

4. The term "Continuing Director" shall mean a director who was a member of the Board of Directors of the Corporation immediately prior to the time that the Interested Shareholder involved in a Business Combination became an Interested Shareholder and who is not the Interested Shareholder or an Affiliate or Associate of the Interested Shareholder.

5. "Fair Market Value" means (a) in the case of cash, the amount of such cash; (b) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the composite tape for New York Stock Exchange Listed Stocks, or, if such stock is not quoted on the composite tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Act on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any similar system then in use, or if no quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Continuing Directors in good faith; and (c) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined in good faith by a majority of the Continuing Directors.

6. The term "Interested Shareholder" shall mean any person (other than the Corporation or any Subsidiary and other than any profit-sharing, employee stock ownership or other employee benefit plan of the Corporation or any Subsidiary or any trustee or fiduciary with respect to any such plan when acting in such capacity) who is or has announced or publicly disclosed a plan or intention to become the beneficial owner of Common Stock representing ten percent (10%) or more of the votes entitled to be cast by the holders of all then outstanding shares of Common Stock.

7. The term "person" shall mean any individual, firm, company, or other entity and shall include any group comprised of any person and any other person with whom such person or any Affiliate or Associate of such person has any agreement, arrangement, or understanding, directly or indirectly, for the purpose of acquiring, holding, voting, or disposing of Common Stock.

8. The term "Subsidiary" means any company of which a majority of any class of equity security is Beneficially Owned by the Corporation; provided, however, that for the purposes of the definition of Interested Shareholder set forth in paragraph 6 of this section A, the term "Subsidiary" shall mean only a company of which a majority of each class of equity security is Beneficially Owned by the Corporation.

9. The term "Substantial Assets" shall mean assets with a Fair Market Value in excess of five percent (5%) of the total assets of the Corporation as reported in the consolidated financial statements of the Corporation as of the end of its most recent fiscal year ending prior to the time the determination is made.

B. In addition to any vote or approval required by law, any Business Combination shall require the affirmative vote of the holders of not less than eighty percent (80%) of the outstanding shares of capital stock of the Corporation which are not Beneficially Owned by the Interested Shareholder and its Affiliates or Associates involved in the Business Combination; provided, however, that such eighty percent (80%) voting requirement shall not apply if:

1. The Business Combination is a merger, consolidation or exchange of shares involving the Corporation which provides for the conversion of the shares of Common Stock of the Corporation into cash, securities or other property with a Fair Market Value per share of Common Stock not less than the highest per share consideration (appropriately adjusted for stock splits, stock dividends and other like charges) paid or given by the Interested Shareholder and any of its Affiliates or Associates for any of their shares of Common Stock; or

2. The Business Combination was approved by the Board of Directors of the Corporation; provided that a majority of the Board of Directors consisted of Continuing Directors and at least two-thirds of the Continuing Directors voted to approve the Business Combination.

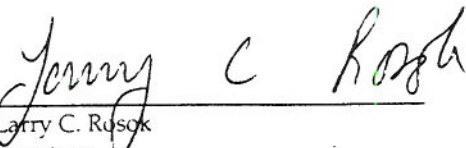
C. The provisions set forth in this Article XII may not be repealed or amended in any respect unless such repeal or amendment is approved by the affirmative vote of the holders of not less than eighty percent (80%) of the outstanding shares of capital stock of the Corporation which are not Beneficially Owned by an Interested Shareholder.

Restated Articles of Incorporation of Cascade Natural Gas Corporation, are herein executed in duplicate by said Corporation, pursuant to the provisions of RCW 23B.10.070, and correctly set forth without change the corresponding provisions of the Articles of Incorporation as previously stated and amended and supersede the original Articles of Incorporation and all amendments to said Articles of Incorporation of Cascade Natural Gas Corporation.

IN WITNESS WHEREOF, the undersigned officers of Cascade Natural Gas Corporation have hereby executed in duplicate these Restated Articles of Incorporation, and have hereunto set their hands this 28th day of March, 1996.

CASCADE NATURAL GAS CORPORATION

By 
Ralph E. Boyd
President

By 
Larry C. Rosok
Secretary

**CASCADE NATURAL GAS CORPORATION
STATEMENT OF RIGHTS AND PREFERENCES
OF THE 7.85% CUMULATIVE PREFERRED STOCK**

1. Preference.

The preferences of each share of 7.85% Preferred with respect to dividend payments and distributions of the Corporation's assets upon voluntary or involuntary liquidation, dissolution or winding up of the Corporation shall be equal to the preferences of every other share of 7.85% Preferred from time to time outstanding in every respect and, except for Priority Stock and Parity Stock, prior in right to such preferences of all other equity Securities of the Corporation, whether now or hereafter authorized.

2. Voting Rights.

The Holders of 7.85% Preferred shall not, by virtue of their ownership thereof, be entitled to vote upon any matter except as otherwise provided herein or by law.

3. Liquidation Rights.

If the Corporation shall be voluntarily or involuntarily liquidated, dissolved or wound up, at any time when any 7.85% Preferred shall be outstanding, each then outstanding share of 7.85% Preferred shall entitle the Holder thereof to a preference against the Property of the Corporation available for distribution to the Holders of the Corporation's equity Securities equal to the sum of \$100 plus an amount equal to all unpaid dividends accrued on such share to the date of payment of such preference, whether or not earned, whether or not funds of the Corporation are legally available for the payment of dividends and whether or not such dividends have been declared by the Board (the "Liquidation Amount"); provided, however, that if liquidation, dissolution or winding up occurs within 120 days subsequent to an issuance of Excess Preferred, the Liquidation Amount, in lieu of the amount set forth above, shall instead be the amount that would be payable pursuant to Section 6.A(ii) hereof if the 7.85% Preferred were redeemed pursuant to that Section.

All of the preferential amounts to be paid to the Holders of 7.85% Preferred in connection with the liquidation, dissolution or winding up of the Corporation as provided in this Section 3 shall be paid or set apart for payment in cash (a) after the payment or setting apart for payment of all preferential amounts to be paid or set apart for payment with respect to Priority Stock, whether now or hereafter authorized, (b) simultaneously with preferential amounts to be paid or set apart for payment with respect to Parity Stock, whether now or hereafter authorized, and (c) before the payment or setting apart for payment of any amount with respect to Junior Stock, whether now or hereafter authorized, or the distribution of any Property of the Corporation other than cash with respect to such Junior Stock. A consolidation, reorganization or merger of the Corporation with any other corporation or corporations shall not be considered a dissolution, liquidation or winding up of the Corporation within the meaning of such terms as used herein.

4. Dividends.

Commencing on the date of issuance, so long as any 7.85% Preferred shall be outstanding, each Holder of outstanding 7.85% Preferred shall be entitled to receive dividends in cash at the rate of \$7.85 per annum per share thereof, out of any funds legally available therefor, payable on the first day of February, May, August and November of each year as and when declared by the Board. Such dividends shall be cumulative on each such share from the date of issuance thereof, whether or not earned, whether or not funds of the Corporation are legally available for the payment of dividends, and whether or not declared by the Board, so that if the full dividends in respect of any previous quarterly dividend period shall not have been paid on the 7.85% Preferred at the time outstanding, whether or not earned, whether or not funds of the Corporation are legally available for the payment of dividends, and whether or not declared by the Board, the deficiency shall be fully paid on or declared and set apart for such shares (without interest) before any dividend or other distribution shall be paid on or declared or set apart for any other equity Securities of the Corporation, whether now or hereafter authorized, other than dividends on Parity Stock paid, declared or set apart in the manner permitted by Section 12(E) hereof, or dividends on Priority Stock, and before any redemption, retirement, purchase or other acquisition of any other equity Securities of the Corporation, whether now or hereafter authorized, other than a redemption, retirement,

purchase or other acquisition of Parity Stock made in the manner permitted by Section 12(E) hereof or a redemption, retirement, purchase or other acquisition of Priority Stock.

5. Mandatory Redemption.

The Corporation shall make a mandatory redemption in cash of all outstanding shares of the 7.85% Preferred on November 1, 1999, in accordance with the procedures set forth in this Section 5 and in Section 7 hereof, at a redemption price equal to the Liquidation Amount.

The Corporation shall mail a notice ("Mandatory Redemption Notice") not later than September 15, 1999 of a redemption pursuant to this Section 5 to each Holder of 7.85% Preferred by registered or certified mail, postage prepaid, to such Holder's address as shown on the books and records of the Corporation. The Notice shall state (i) the Redemption Date, which is November 1, 1999, and (ii) the redemption price, accompanied by the calculation of such price set out in reasonable detail.

6. Redemption at the Option of the Holder.

A. Optional Redemption. Notwithstanding any other provision contained herein, after the occurrence of a Redemption Event, each Holder of outstanding 7.85% Preferred shall have the right, in accordance with the procedures set forth in this Section 6 and in Section 7 hereof, to require the Corporation to redeem all shares of 7.85% Preferred held by such Holder for the following price:

- (i) if the Redemption Event is a Ratings Downgrade, Dividend or Redemption Shortfall or Restrictive Arrangement, at a price per share equal to the Liquidation Amount;
- (ii) if the Redemption Event is Excess Preferred, at a price per share as set forth below, together with an amount equal to dividends accrued and unpaid thereon to the date of payment, whether or not earned, whether or not funds of the Corporation are legally available for the payment of dividends, and whether or not declared by the Board:

<u>If the Redemption Event Occurs During the Twelve Months Ended</u>	<u>Price Per Share</u>
December 31, 1992	\$107.85
December 31, 1993	\$106.73
December 31, 1994	\$105.61
December 31, 1995	\$104.49
December 31, 1996	\$103.36
December 31, 1997	\$102.24
December 31, 1998	\$101.12
December 31, 1999	\$100.00

B. Form of Optional Redemption Notice. Within 7 days after the occurrence of a Redemption Event, the Corporation shall mail a notice ("Optional Redemption Notice") to each Holder of 7.85% Preferred by registered or certified mail, postage prepaid, to such Holder's address as shown on the books and records of the Corporation. The Notice shall state that a Redemption Event has occurred, describe the Redemption Event in reasonable detail, and offer to redeem all shares of 7.85% Preferred owned by such Holder at the appropriate price, as set forth in Section 6.A hereof. The Notice shall also state (i) the Redemption Date, which shall be a date not less than 30 nor more than 90 days after the date of the Optional Redemption Notice, and (ii) the redemption price, accompanied by the calculation of such price set out in reasonable detail. The Notice shall request that such Holder notify the Corporation in writing not more than 20 days after such Holder receives the Notice whether or not such Holder elects to have the Corporation redeem all of the shares of 7.85% Preferred held by such Holder at the redemption price. The Notice shall also inform such Holder that failure to respond to the redemption offer within such 20 day period shall be deemed to be a rejection of the offer. Redemptions made pursuant to Section 6 hereof shall be of all and not a part of the shares of 7.85% Preferred held by a Holder, and no Holder shall be entitled to cause such Holder's shares of 7.85% Preferred to be redeemed unless all nominees and Affiliates of such Holder, if any, which are Holders of shares of 7.85% Preferred have elected to have the Corporation redeem all shares of 7.85% Preferred held by them.

7. Provisions Applicable to All Redemptions.

A. Manner of Redemption. On the Redemption Date, the Corporation shall pay in cash to each Holder of 7.85% Preferred with respect to each share of 7.85% Preferred held by such Holder an amount equal to the redemption price in effect on the Redemption Date, such payment to be made by Fedwire transfer of immediately available funds or by certified or official bank check transmitted to such Holder by registered or certified mail, postage prepaid, to such Holder's address as shown on the books and records of the Corporation.

B. Effect of Payment. If on the Redemption Date funds necessary for the redemption of all the 7.85% Preferred then outstanding, if the redemption occurs pursuant to Section 5 hereof, or funds necessary for the redemption of the 7.85% Preferred then held by Holders electing to have such shares redeemed, if the redemption occurs pursuant to Section 6 hereof, shall have been paid as provided for in Section 7.A hereof, then from and after the Redemption Date, the shares of 7.85% Preferred with respect to which such payment has been made shall be deemed to be redeemed, and the Holders of such shares of 7.85% Preferred shall cease to be Stockholders of the Corporation with respect to such shares of 7.85% Preferred, and shall have no rights with respect thereto from and after the Redemption Date. Surrender of the certificate or certificates evidencing 7.85% Preferred shall not be required in connection with the redemption thereof.

C. No Reissuance of 7.85% Preferred. All shares of 7.85% Preferred redeemed as hereinabove required shall be retired and cancelled and shall not be reissued; **provided, however**, that each such share, after being retired and cancelled, shall be restored to the status of an authorized but unissued share of Preferred Stock without designation as to series and may thereafter be issued as a share of Preferred Stock not designated 7.85% Preferred.

8. Limitation on Additional Issuance of Preference Stock.

Subject to the terms and conditions of this Statement of Rights and Preferences the Corporation may from time to time authorize and issue additional shares of Preference Stock unless Earnings Available for Payment of Interest Charges and Dividends for the twelve consecutive calendar months immediately preceding the calendar month in which such Stock is issued is less than 150% of the aggregate of (i) all interest paid or accrued on Indebtedness of the Corporation during the twelve consecutive calendar months immediately preceding the calendar month in which such Stock is issued, plus (ii) the dividends paid or accrued on all shares of all classes and series of Preference Stock during the twelve consecutive calendar months immediately preceding the calendar month in which such Stock is issued, for such purpose treating such Stock as having been outstanding throughout such twelve-month period (the "Dividend Coverage Test"). Prior to authorizing or issuing any additional shares of Preference Stock, the Chief Financial Officer or Treasurer of the Corporation shall certify that the Dividend Coverage Test has been met as of the date of issuance of the additional shares of Preference Stock, and such certification shall be sent to each Holder of 7.85% Preferred, by registered or certified mail, postage prepaid, to such Holder's address as shown on the books and records of the Corporation.

9. Contingent Voting Rights.

If at any time any Voting Right Event shall occur, each outstanding share of 7.85% Preferred shall entitle the Holder thereof to one vote and each outstanding share, if any, of Parity Stock then entitled to vote for the election of directors shall entitle the Holder thereof to that number of votes per such share as is calculated by dividing the original issue price of such share by 100, and the Holders of 7.85% Preferred and the Holders of such Parity Stock shall as a class be entitled to elect three directors of the Corporation, and the Holders of other equity Securities of the Corporation then entitled to vote for the election of directors shall be entitled to elect the remaining members of the Board. At such time as the Voting Right Event which gave rise to the exercise of the voting rights provided for in this Section 9 has been cured by waiver, payment or otherwise, and all other events creating a Voting Right Event, if any, shall have been cured by waiver, payment or otherwise, the right of the Holders of 7.85% Preferred and such Parity Stock so to vote as provided in this Section 9 shall cease, subject to renewal from time to time upon the same terms and conditions. Notwithstanding anything herein to the contrary, the Holders of 7.85% Preferred and Parity Stock shall not have the aforesaid voting rights at any time that the Holders of Senior Preferred have elected three directors to the Board pursuant to Article V, Section 6 of the Restated Articles of Incorporation; **provided, however**, that at such time as either the right to elect directors by the Holders of Senior Preferred ceases or the Holders of Senior Preferred shall decline to elect three directors to the Board, if a Voting Right Event is then in existence the Holders of 7.85% Preferred and Parity Stock shall be entitled to exercise the rights contained in this Section 9, and **provided, further**, that if at any time that a Voting Right Event is in existence the Holders of Senior Preferred have elected one or two directors to the Board pursuant to such Article V, Section 6, the Holders of 7.85% Preferred and Parity Stock shall be entitled to elect a number of directors to the Board equal to the difference between three and the number of directors elected by the Holders of Senior Preferred, subject to removal if the Holders of Senior Preferred thereafter seek to fully exercise their right to elect directors.

At any time after the voting power to elect members of the Board shall have become vested in the Holders of 7.85% Preferred as provided in this Section 9, either alone or as a class with the Holders of Parity Stock then entitled to vote for the election of directors, if any, the Secretary of the Corporation may, and, upon the written request of the record Holders of that number of outstanding shares of 7.85% Preferred which equal, in the aggregate, to at least twenty percent of the number of shares of 7.85% Preferred then outstanding, addressed to him at the principal office of the Corporation shall, call a special meeting of the Holders of 7.85% Preferred and the Holders of such Parity Stock, to be held at the principal office of the Corporation and upon not more than fifteen days notice. If such meeting shall not be so called within five days after personal service of the request, or within ten days after mailing of the same by registered or certified mail, postage prepaid, within the United States of America, then the record Holders of that number of outstanding shares of 7.85% Preferred which equal, in the aggregate, at least ten percent of the number of shares of 7.85% Preferred then outstanding may designate in writing one of their number to call such meeting, and the Person so designated may call such meeting at the place above provided and upon not less than ten days notice and for that purpose shall have access to the stock books of the Corporation. The Persons elected as directors by the Holders of 7.85% Preferred and the Holders of such Parity Stock at such meeting and the Persons so elected as directors at each subsequent annual meeting of the Corporation's stockholders, together with such individuals, if any, as may from time to time be elected as directors by the Holders of the other equity Securities of the Corporation then entitled to vote for the election of directors, shall constitute the duly elected directors of the Corporation. Any vacancy which shall arise for any reason with respect to a director elected by the Holders of such Parity Stock and the Holders of 7.85% Preferred shall be filled by action of the remaining directors so elected, or if there be none, by the Holders of Parity Stock entitled to vote for the election of directors at the time that such vacancy arises, if any, and the Holders of 7.85% Preferred at a meeting called in the manner set forth hereinabove and voting in the manner set forth hereinabove.

Whenever the voting power of the Holders of 7.85% Preferred has ceased as hereinabove in this Section 9 is provided, the term of office of the Persons, if any, who are at the time directors of the Corporation who were elected by the Holders of 7.85% Preferred and the Holders of Parity Stock in accordance with the preceding provisions of this Section 9 shall terminate.

10. Restricted Payment Limitation.

If at any time any Restricting Event shall occur, the Corporation shall not declare or make any Restricted Payments. At the time such Restricting Event has been cured by waiver, payment or otherwise, and all other events creating a Restricting Event, if any, shall have been cured by waiver, payment or otherwise, the prohibition provided for in this Section 10 shall cease, subject to renewal from time to time upon the same terms and conditions.

11. Pre-emptive Rights.

The Holders of 7.85% Preferred shall not have any pre-emptive rights upon the issuance or sale of shares of Stock of the Corporation of any class or series, whether now or hereafter authorized, or any Securities exchangeable for or convertible into such Stock.

12. Protective Provisions.

As long as any shares of 7.85% Preferred are outstanding, the Corporation shall not, without the approval by the vote or written consent of the Holders of not less than 66-2/3% (or more if required by law or such other amount as is stated herein) of the outstanding shares of 7.85% Preferred:

(A) Amend or repeal any provision of, or add any provision to, the Restated Articles of Incorporation or By-Laws if such action would alter or change the 7.85% Preferred or the powers, preferences, rights, qualifications, limitations and/or restrictions of the 7.85% Preferred;

(B) Amend or repeal any provision of, or add any provision to, this Statement of Rights and Preferences (except that the approval of the Holders of not less than 100% of the outstanding shares of 7.85% Preferred shall be required for amendments, repeals or additions affecting the dividend rate of the 7.85% Preferred, cumulation of the dividend of the 7.85% Preferred, the mandatory redemption of all then outstanding shares of 7.85% Preferred on November 1, 1999 at the redemption price stated in Section 5 hereof, or the redemption of 7.85% Preferred at the option of a Holder due to a Redemption Event at the redemption prices set forth in Section 6.A hereof);

(C) Issue any shares of Senior Preferred or reclassify any shares of any Security into shares of Senior Preferred;

(D) Issue any shares of Priority Stock other than Senior Preferred or reclassify any shares of any Security into shares of Priority Stock other than Senior Preferred if the effect of such issuance or reclassification would be to increase the

stated value, as reflected in the Corporation's capital account, of all outstanding Priority Stock, or the aggregate preference payable upon the voluntary or involuntary liquidation, dissolution or winding up of the Corporation with respect to all outstanding Priority Stock, to an amount in excess of \$2,400,000 (including issuances or reclassifications of any shares of Priority Stock pursuant to a consolidation or merger of the Corporation with any Person, calculated on a pro forma basis combining the consolidated or merged entities (other than a merger with another corporation in which the Corporation is the surviving corporation which does not result in any reclassification or change — other than a change in par value, or from par value to no par value, or from no par value to par value — of outstanding shares of the Corporation's Stock of any class or series, whether now or hereafter authorized)); **provided, however**, that if the Corporation proposes to issue any shares of Stock that the Board deems to be Preference Stock but that the Holders of not less than a majority of the outstanding shares of 7.85% Preferred deem to be Priority Stock, then such Holders shall notify the Corporation of their determination, specifying the particular terms of such shares they believe cause such shares to be Priority Stock, pursuant to the procedures set forth in Section 13 hereof, and if the Corporation, by action of the Board, amends this Statement of Rights and Preferences to incorporate such particular terms then, subject to the approval of the Holders of not less than a majority of the outstanding shares of 7.85% Preferred of the text of such amendment to this Statement of Rights and Preferences, which shall not be unreasonably withheld, the proposed issue of Stock may be issued, except that, unless approved by the Holders of not less than 100% of the outstanding shares of 7.85% Preferred, no substitution shall be made with respect to the dividend rate of the 7.85% Preferred, cumulation of the dividend of the 7.85% Preferred, the mandatory redemption of all then outstanding shares of 7.85% Preferred on November 1, 1999 at the redemption price stated in Section 5 hereof, or the redemption of 7.85% Preferred at the option of a Holder due to a Redemption Event at the redemption prices set forth in Section 6.A hereof;

(E) Make any payments to the Holders of, or with respect to any, Parity Stock, by means of dividends or mandatory redemption payments,

(1) unless all such payments and all payments in connection with optional redemptions pursuant to Section 6 hereof then due on the 7.85% Preferred have been made in full, or

(2) if any such payment or any payment in connection with optional redemptions pursuant to Section 6 hereof is then due on the 7.85% Preferred but has not been made in full, or if any such payment is then due on Parity Stock but has not been made in full, unless partial payments are made on the 7.85% Preferred and on Parity Stock so that, with respect to each of the 7.85% Preferred and Parity Stock, such partial payments are identical fractions of the amounts then due;

(F) Make any optional redemptions of any Parity Stock, unless, in each such case,

(1) all redemptions of 7.85% Preferred required to be made pursuant to Section 5 or 6 hereof to the date of such optional redemption of Parity Stock have been made, and

(2) all dividends accrued on the 7.85% Preferred payable thereon to the date of such optional redemption of Parity Stock, whether or not earned or declared, whether or not funds are legally available for the payment of dividends, and whether or not declared by the Board, have been paid in full; or

(G) Consolidate or merge with any other Person unless immediately following the consummation of such consolidation or merger the Corporation, on a pro forma basis combining the consolidated or merged entities, would be able to issue at least one share of Preference Stock in addition to all then outstanding Preference Stock without violation of the Dividend Coverage Test.

13. Substitution Procedures Pursuant to Section 12.D hereof.

In the event the Corporation proposes to issue any additional shares of Preference Stock, the Corporation shall send a written notice to each Holder of 7.85% Preferred by certified or registered mail, postage prepaid, to such Holder's address as shown on the books and records of the Corporation, at least 30 days prior to the proposed issuance of the additional shares of Preference Stock. The notice shall set forth in reasonable detail the powers, preferences, rights, qualifications, limitations and/or restrictions of the Preference Stock proposed to be issued. If the Holders of not less than a majority of the outstanding shares of 7.85% Preferred deem such shares to be Priority Stock they shall so notify the Corporation in written notices sent to the Corporation at its principal office, or such other place as may be designated in the notice sent by the Corporation pursuant to this Section 13, by certified or registered mail, postage prepaid, within 20 days after transmittal by the Corporation of its notice, such notices sent by such Holders to specify which particular terms

of such shares they believe cause such shares to be Priority Stock, and the Corporation thereupon shall either (i) by action of the Board amend this Statement of Rights and Preferences (subject to the provisions of Section 12.D hereof and to the approval of the Holders of not less than a majority of the outstanding shares of 7.85% Preferred of the text of such amendment, which shall not be unreasonably withheld) to incorporate such particular terms and, within 10 days after notice of such approval is received at the place specified above, to file an amendment to the Statement of Rights and Preferences pertaining to the 7.85% Preferred setting forth such amendment of this Statement of Rights and Preferences with the Secretary of State of Washington, or (ii) not so amend this Statement of Rights and Preferences and not issue the proposed additional shares of Stock. Within 45 days after transmittal by the Corporation of its notice, the Corporation shall notify all Holders of outstanding shares of 7.85% Preferred of the action taken by a notice sent to each such Holder by certified or registered mail, postage prepaid, to such Holder's address as shown on the books and records of the Corporation, and if such action is as set forth in clause (i), such notice shall be accompanied by a copy of the amendment to the Statement of Rights and Preferences of the 7.85% Preferred certified by the Secretary of State of Washington as having been filed.

14. Covenant Regarding Redemption.

Following the issuance of the first share of 7.85% Preferred pursuant to this Statement of Rights and Preferences, the Corporation will not, and will not permit any Subsidiary to, become a party to or bound by any indenture, agreement, instrument, Indebtedness, charter provision or security, under the terms of or pursuant to which the Corporation's obligation to redeem any of the 7.85% Preferred pursuant to Sections 5 or 6 hereof will in any way be restricted or eliminated, nor will the Corporation modify or amend or permit any Subsidiary to modify or amend any such indenture, agreement, instrument, Indebtedness, charter provision or security existing at the time of such issuance to add any provision restricting or eliminating such obligation or to make any such provision contained therein more restrictive.

15. Definitions.

The following definitions shall apply for the purposes of this Statement of Rights and Preferences:

"Affiliate" shall mean as to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with such Person. For purposes of this definition, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of any Person, whether through the ownership of voting securities or by contract or otherwise.

"Board" shall mean the Board of Directors of the Corporation.

"By-Laws" shall mean the By-Laws of the Corporation, as amended.

"Common" shall mean the Corporation's Common Stock, par value \$1.00 per share, and any Stock into which such Common Stock may hereafter be changed.

"Corporation" shall mean Cascade Natural Gas Corporation.

"Dividend Coverage Test" is defined in Section 7 hereof.

"Dividend or Redemption Shortfall" shall mean that the funds available to the Corporation as of the close of business on each December 31 on which any shares of 7.85% Preferred are outstanding for the payment of dividends on and the redemption of all then outstanding shares of 7.85% Preferred, Priority Stock and Parity Stock under the terms of any then outstanding indenture, agreement, instrument, security or Indebtedness of or binding upon the Corporation or any Subsidiary are less than the aggregate of (i) the amount of all dividends that, by the respective terms of such Stock, will be payable or will accrue on such Stock as dividends between such date and November 1, 1999, plus (ii) the greatest amount (whether due to premiums payable upon redemption or otherwise) that, by the respective terms of such Stock, may be payable to redeem such Stock on or prior to November 1, 1999 (other than redemptions at the option of the Corporation). The computation of the amount of funds so available shall be made by the Chief Financial Officer or Treasurer of the Corporation, and a written statement setting forth such computation in reasonable detail shall be sent by April 10 of the immediately succeeding year to each Holder of 7.85% Preferred by certified or registered mail, postage prepaid, at the Holder's address as shown on the books and records of the Corporation.

"Earnings Available for Payment of Interest Charges and Dividends" for any period shall mean the lesser of (i) the maximum amount available for the payment of dividends on and the redemption of Preference Stock imposed by the terms of any indenture, agreement, instrument, security or Indebtedness of or binding upon the Corporation or

any Subsidiary, or (ii) the income before interest charges and income taxes of the Corporation, determined in accordance with generally accepted accounting principles. In calculating the amount described in clause (ii), no adjustment shall be made for (a) profits or losses from sales of Property carried in plant or investment accounts of the Corporation or any Subsidiary, or from the reacquisition of any Securities, or taxes on, in respect of, or measured by such profits or losses, (b) charges for the elimination, retirement or amortization of utility plant adjustment or acquisition accounts or other intangibles, (c) gains from non-utility operations, (d) the write-up of assets, (e) extraordinary gains or (f) adjustments to earned surplus (including tax adjustments required by generally accepted accounting principles) applicable to any prior period.

"Excess Preferred" means that the Corporation has issued shares of Priority Stock or Parity Stock following the issuance of the first share of 7.85% Preferred pursuant to this Statement of Rights and Preferences, and, by virtue of any indenture, agreement, instrument, security or Indebtedness of or binding upon the Corporation or any Subsidiary in existence or outstanding as of the date of the issuance of such Priority Stock or Parity Stock, the funds available to the Corporation as of the date of issuance of such shares of Priority Stock or Parity Stock for the payment of dividends on and the redemption of all then outstanding shares of Preference Stock, including, without limitation, the 7.85% Preferred, are less than the aggregate of (i) the amount of all dividends that, by the respective terms of such Preference Stock, will be payable or will accrue on such Preference Stock as dividends between such date of issuance and November 1, 1999, plus (ii) the greatest amount (whether due to premiums payable upon redemption or otherwise) that, by the respective terms of such Stock, may be payable to redeem such Stock on or prior to November 1, 1999 (other than redemptions at the option of the Corporation). The computation of the amount of funds so available shall be made by the Chief Financial Officer or Treasurer of the Corporation as of the date of each issuance of Priority Stock or Parity Stock following the issuance of the first share of 7.85% Preferred pursuant to this Statement of Rights and Preferences, and a written statement setting forth such computation in reasonable detail shall be sent within ten days after the date of each such issuance by certified or registered mail, postage prepaid, at the Holder's address as shown on the books and records of the Corporation.

"Holders" shall mean the Persons who shall, from time to time, own, of record or beneficially, any Security. The term "Holder" shall mean one of the Holders.

"Indebtedness" of any corporation, shall mean the principal of (and premium, if any) and unpaid interest on:

- (i) indebtedness which is for money borrowed from others;
- (ii) indebtedness guaranteed, directly or indirectly, in any manner by such corporation, or in effect guaranteed, directly or indirectly, by such corporation through an agreement, contingent or otherwise, to supply funds to or in any other manner invest in the debtor or to purchase indebtedness, or to purchase Property or services primarily for the purpose of enabling the debtor to make payment of the indebtedness or of assuring the owner of the indebtedness against loss;
- (iii) all indebtedness secured by any mortgage, lien, pledge, charge or other encumbrance upon Property owned by such corporation, even if such corporation does not in any manner become liable for the payment of such indebtedness;
- (iv) all indebtedness of such corporation created or arising under any conditional sale, lease or other title retention agreement with respect to Property acquired by such corporation even though the rights and remedies of the seller, lessor or lender under such agreement or lease in the event of default are limited to repossession or sale of such Property; and
- (v) renewals, extensions and refundings of any such indebtedness.

"Junior Stock" shall mean any shares of any class of Stock of the Corporation having preference or priority as to dividends or Property junior to any such preference or priority of the 7.85% Preferred, or any voting right with respect to the election of directors which, if exercised, would not restrict or eliminate any such voting right of the 7.85% Preferred, and any instrument or Security convertible into or exchangeable for Junior Stock.

"Liquidation Amount" is defined in Section 3 hereof.

"Mandatory Redemption Notice" is defined in Section 5 hereof.

"Optional Redemption Notice" is defined in Section 6.B hereof.

"Parity Stock" shall mean any shares of any class of Stock of the Corporation having any preference or priority as to dividends or Property on a parity with any such preference or priority of the 7.85% Preferred, or any voting right with respect to the election of directors which, if exercised, would be on a parity with any such voting right of the 7.85% Preferred, and any instrument or Security convertible into or exchangeable for Parity Stock.

"Person" shall mean any individual, partnership, corporation, trust, unincorporated organization or governmental organization or any agency or political subdivision thereof.

"Preference Stock" shall mean any class or series of Stock of the Corporation having any preference or priority as to dividends or Property senior to any such preference or priority of the Common and any instrument or Security convertible into or exchangeable for Preference Stock.

"Preferred Stock" is defined in the recitals hereof.

"Priority Stock" shall mean any shares of any class of Stock of the Corporation having any preference or priority as to dividends or Property senior to any such preference or priority of the 7.85% Preferred, or any voting right with respect to the election of directors which, if exercised, would restrict or eliminate any such voting right of the 7.85% Preferred, and any instrument or Security convertible into or exchangeable for Parity Stock. Priority Stock includes but is not limited to Senior Preferred.

"Property" shall mean any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"Ratings Downgrade" shall mean that as a result of any exchange of Stock, consolidation or merger of the Corporation (other than a merger with another corporation in which the Corporation is the surviving corporation and which does not result in any reclassification or change — other than a change in par value, or from par value to no par value, or from no par value to par value — of outstanding shares of the Corporation's Stock of any class or series, whether now or hereafter authorized), the rating on any debenture, note or bond of the Corporation outstanding immediately following the consummation of such exchange of Stock, consolidation or merger is reduced to below Baa3 by Moody's Investors Service Inc. or below BBB- by Standard and Poor's Corporation. A Ratings Downgrade shall be deemed to occur on the day either of the two rating agencies notifies the Corporation of the aforementioned reduction.

"Redemption Date" shall mean November 1, 1999, in the case of mandatory redemption pursuant to Section 5 hereof, or a date which is not less than 30 nor more than 90 days after the date of the Optional Redemption Notice, in the case of redemption at the option of a Holder pursuant to Section 6 hereof.

"Redemption Event" means either a Ratings Downgrade, a Dividend or Redemption Shortfall, Excess Preferred, or a Restrictive Arrangement.

"Redemption Notice" shall mean either the Mandatory Redemption Notice, the Optional Redemption Notice, or both.

"Restated Articles of Incorporation" shall mean the restated articles of incorporation of the Corporation, as amended.

"Restricted Payment" shall mean:

(i) any payment of cash dividends on any of the Corporation's Stock other than the 7.85% Preferred, Priority Stock or Parity Stock;

(ii) any purchase, redemption or retirement of any of the Corporation's Stock other than the 7.85% Preferred, Priority Stock or Parity Stock made directly or indirectly by the Corporation or through any Subsidiary; and

(iii) any other cash distribution made directly or indirectly by the Corporation or through any Subsidiary in respect of the Corporation's Stock other than 7.85% Preferred, Priority Stock or Parity Stock.

"Restricting Event" shall mean the following:

- (i) failure to set aside and pay in full, on any date specified in Section 4 hereof, the amount therein specified to the Holders of the 7.85% Preferred;
- (ii) failure to set aside and pay in full, on any Redemption Date, the amount required to be paid on that date, pursuant to Section 5 or Section 6 hereof, to redeem shares of 7.85% Preferred in accordance with the provisions of such Sections; or
- (iii) violation by the Corporation of any provision of Sections 8, 12 or 14 hereof.

"Restrictive Arrangements" shall mean that the Corporation or any Subsidiary, following the issuance of the first share of 7.85% Preferred pursuant to this Statement of Rights and Preferences, becomes a party to, bound by or issues any indenture, agreement, instrument, security or Indebtedness, or modifies or amends any indenture, agreement, instrument, security or Indebtedness of or binding upon the Corporation or any Subsidiary existing at the time of the issuance of the first share of 7.85% Preferred pursuant to this Statement of Rights and Preferences and, as of the date of any such action following such issuance, by virtue of any such indenture, agreement, instrument, security and Indebtedness then in existence or outstanding, the funds available to the Corporation for the payment of dividends on and the redemption of all shares of Preference Stock, including, without limitation, the 7.85% Preferred outstanding on the date of any such action, are less than the aggregate of (i) the amount of all dividends that, by the respective terms of such Stock, will be payable or will accrue on such Stock as dividends between such date and November 1, 1999, plus (ii) the greatest amount (whether due to premiums payable upon redemption or otherwise) that, by the respective terms of such Stock, may be payable to redeem such Stock on or prior to November 1, 1999 (other than redemptions at the option of the Corporation). The computation of the amount of funds so available shall be made by the Chief Financial Officer or Treasurer of the Corporation, and a written statement setting forth such computation in reasonable detail shall be sent within ten days after such effective date to each Holder of 7.85% Preferred by certified or registered mail, postage prepaid, at the Holder's address as shown on the books and records of the Corporation.

"Securities" shall mean any debt or equity securities of the Corporation, whether now or hereafter authorized, and any instrument convertible into or exchangeable for Securities or a Security. "Security" shall mean one of the Securities.

"Senior Preferred" shall mean the Corporation's 55¢ Cumulative Preferred Stock, without nominal or par value, Series A, B and C.

"7.85% Preferred" shall mean 60,000 shares of \$1.00 Preferred Stock designated as 7.85% Cumulative Preferred Stock.

"Stock" shall include any and all shares, interests or other equivalents (however designated) of, or participations in, corporate stock.

"Subsidiary" shall mean any corporation at least 50% of whose outstanding voting stock shall at the time be owned by the Corporation or by one or more Subsidiaries of the Corporation or by the Corporation and one or more Subsidiaries of the Corporation.

"Voting Right Event" shall mean failure to set aside and pay in full on six or more of the dates specified in Section 4 hereof, consecutively, the amounts therein specified to the Holders of the 7.85% Preferred, until such date as all accrued unpaid dividends on the outstanding 7.85% Preferred have been paid in full.

CASCADE NATURAL GAS CORPORATION
STATEMENT OF RIGHTS AND PREFERENCES OF THE
SERIES Z JUNIOR PARTICIPATING PREFERRED STOCK, \$1.00 PAR VALUE

Section 1. Designation and Amount. There shall be a series of Preferred Stock of the Corporation which shall be designated as "Series Z Junior Participating Preferred Stock, \$1.00 par value" (the "Series Z Preferred Stock"), and the number of shares constituting such series shall be 110,000. Such number of shares may be increased or decreased by Articles of Amendment adopted by the Board of Directors without shareholder action; provided, however, that no decrease shall reduce the number of shares of Series Z Preferred Stock to a number less than the shares outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Corporation.

Section 2. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the Series Z Preferred Stock with respect to dividends, the holders of shares of Series Z Preferred Stock, in preference to the holders of shares of Common Stock, \$1.00 par value ("Common Stock") of the Corporation and of any other junior stock which may be outstanding, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, (i) quarterly dividends payable in cash on the last day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series Z Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$1.00 per share (\$.01 per one one-hundredth of a share), or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series Z Preferred Stock, and (ii) subject to the provision for adjustment hereinafter set forth, quarterly distributions (payable in kind) on each Quarterly Dividend Payment Date in an amount per share equal to 100 times the aggregate per share amount of all noncash dividends or other distributions (other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock, by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date, or with respect to the first Quarterly Dividend Payment Date since the first issuance of any share or fraction of a share of Series Z Preferred Stock. In the event the Corporation shall at any time after March 19, 1993 (the "Rights Declaration Date"), declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series Z Preferred Stock are entitled under clauses (i)(b) or (ii) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series Z Preferred Stock as provided in Section 2(A) immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$1.00 per share (\$.01 per one one-hundredth of a share) on the Series Z Preferred Stock shall nevertheless be payable, out of funds legally available for such purpose, on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series Z Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series Z Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue and be cumulative from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series Z Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly

Dividend Payment Date. Accrued but unpaid dividends shall cumulate but shall not bear interest. Dividends paid on the shares of Series Z Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series Z Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 30 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of shares of Series Z Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series Z Preferred Stock shall entitle the holder thereof to 100 votes (and each one one-hundredth of a share of Series Z Preferred Stock shall entitle the holder thereof to one vote) on all matters submitted to a vote of the shareholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series Z Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided in the Articles of Incorporation or in this amendment thereof or by law, the holders of shares of Series Z Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of the shareholders of the Corporation.

(C) Except as otherwise provided in the Articles of Incorporation or in this amendment thereof or by law, holders of Series Z Preferred Stock shall have no special voting rights and their consent shall not be required for taking any corporate action.

Section 4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series Z Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series Z Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, make any other distributions on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series Z Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series Z Preferred Stock, except dividends paid ratably on the Series Z Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) with the Series Z Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series Z Preferred Stock;
or

(iv) purchase or otherwise acquire for consideration any shares of Series Z Preferred Stock, or any share of stock ranking on a parity with the Series Z Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under Section 4(A), purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares. Any shares of Series Z Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. The Corporation shall take all such action as is necessary so that all such shares shall after their cancellation become authorized but unissued shares of Preferred Stock, without designation as to series, and may be reissued as part of a new series of Preferred Stock to be created by Articles of Amendment adopted by the Board of Directors without shareholder action, subject to the conditions and restrictions on issuance set forth herein.

Section 6. Liquidation, Dissolution or Winding Up. Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (A) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series Z Preferred Stock, unless, prior thereto, the holders of shares of Series Z Preferred Stock shall have received the higher of (i) \$1.00 per share (\$.01 per one one-hundredth of a share), plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, or (ii) an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of Common Stock; nor shall any distribution be made (B) to the holders of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series Z Preferred Stock, except distributions made ratably on the Series Z Preferred Stock and all other such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Corporation shall at any time after the Rights Declaration Date declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series Z Preferred Stock are entitled under clause (A)(ii) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, or otherwise changed, then in any such case the shares of Series Z Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series Z Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. No Redemption. The shares of Series Z Preferred Stock shall not be redeemable. Notwithstanding the foregoing, the Corporation may acquire shares of Series Z Preferred Stock in any other manner permitted by law, the Articles of Incorporation or this amendment thereof.

Section 9. Rank. Unless otherwise provided in the Articles of Incorporation or an amendment thereof relating to a subsequent series of Preferred Stock of the Corporation, the Series Z Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock, including, without limitation, the Corporation's 55¢ Preferred Stock and 7.85% Preferred Stock referred to in Article V of the Articles of Incorporation, as to the payment of dividends and the distribution of assets on liquidation, dissolution or winding up, and senior to the Common Stock of the Corporation.

Section 10. Amendment. The Articles of Incorporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series Z Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least a majority of the outstanding shares of Series Z Preferred Stock, voting separately as a class.


Section 11. Fractional Shares. Series Z Preferred Stock may be issued in one-hundredths of a share or other fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series Z Preferred Stock.

CASCADE NATURAL GAS CORPORATION

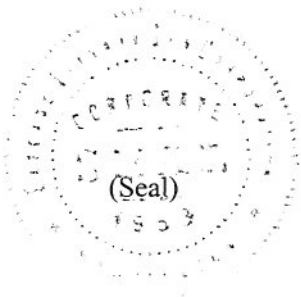
Certificate of Restated Bylaws Adopted

I, Larry C. Rosok, Corporate Secretary of CASCADE NATURAL GAS CORPORATION, a Washington corporation (hereinafter called the "Corporation"), DO HEREBY CERTIFY that the "Restated Bylaws of Cascade Natural Gas Corporation" annexed hereto are true and correct copies of the Restated Bylaws adopted by the Board of Directors of the Corporation duly executed on September 29, 2004 at meeting where a quorum was present and acted throughout; and that said Bylaws have not been amended or otherwise changed and remain in full force and effect on the date hereof.

IN WITNESS WHEREOF, I have hereunto signed my name and affixed the seal of the Corporation as of this 19th day of October, 2004.



Larry C. Rosok
Corporate Secretary



**Restated Bylaws
of
Cascade Natural Gas Corporation**

September 29, 2004

ARTICLE I — OFFICES

Sec. 1. The principal office shall be in the City of Seattle, County of King, State of Washington.

Sec. 2. The corporation may also have offices at such other places as the board of directors may from time to time appoint or the business of the corporation may require.

ARTICLE II — SEAL

Sec. 1. The corporation seal shall have inscribed thereon the name of the corporation, the year of its organization and the words, "Corporate Seal, Washington." Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ARTICLE III — SHAREHOLDERS' MEETINGS

Sec. 1. Meetings of the shareholders may be held within or without the State of Washington. The annual meeting of shareholders shall be held at a place and time on a day designated by the board of directors not less than sixty days nor more than one hundred eighty days after October 1 of each year, when they shall elect by a plurality vote, by ballot, a board of directors, and transact such other business as may properly be brought before the meeting. In the election of directors, every shareholder of record shall have the right to multiply the number of votes to which he or she may be entitled by the number of directors to be elected, and he or she may cast all such votes for one candidate or distribute them among any two or more candidates.

Sec. 2. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person, or represented by proxy, shall be requisite to, and shall constitute, a quorum at all meetings of the shareholders for the transaction of business, except as otherwise provided by law, by the Articles of Incorporation or by these bylaws. If, however, such majority shall not be present or represented at any meeting of the shareholders, the shareholders entitled to vote thereat, present in person or by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until the requisite amount of voting stock shall be present, except that any meeting at which directors are to be elected shall be adjourned only from day to day until such directors have been elected. At such adjourned meeting at which the requisite amount of voting stock shall be represented, any business may be transacted which might have been transacted at the meeting as originally notified.

Sec. 3. The shareholders present at a duly organized meeting can continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Sec. 4. At each meeting of the shareholders every shareholder having the right to vote shall be entitled to vote in person or by proxy. A shareholder or the shareholder's agent or attorney-in-fact may appoint a proxy to vote or otherwise act for the shareholder by (i) executing a writing authorizing another person or persons to act for the shareholder as a proxy, or (ii) authorizing another person or persons to act for the

shareholder by transmitting or authorizing the transmission of an electronic transmission to the person who will be the holder of the proxy or to such person's agent. Appointments shall comply with and be governed by the provisions of the Washington Business Corporation Act. The appointment shall bear a date not more than eleven months prior to said meeting, unless said appointment provides for a longer period, not exceeding three years (unless said proxy is coupled with an interest). The revocation of a proxy shall not be effective until notice thereof has been given to the secretary. Each shareholder shall have one vote for each share of capital stock registered in his or her name on the books of the corporation. The vote for directors, and, upon the demand of any shareholder, the vote upon any question before the meeting, shall be by ballot. All elections shall be had and all questions decided by a plurality vote except where a greater vote is required by law, the Articles of Incorporation, or these bylaws.

Sec. 5. A complete list of the shareholders entitled to vote at the ensuing election, arranged in alphabetical order, with the residence of each, and the number of voting shares held by each, shall be prepared by the secretary and filed in the registered office of the corporation, at least ten days before every election, and shall at all times during the usual hours for business, and during the whole time of said election, be open to the examination of any shareholder.

Sec. 6. Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called at any time by the chairman of the board, president, secretary or board of directors. If more than eighteen months are allowed to elapse without the annual shareholders' meeting being held, any shareholder may call such meeting to be held at the registered office of the corporation. At any time, upon written request of any director, or of any shareholder or shareholders holding in the aggregate one-tenth of the voting power of all shareholders, it shall be the duty of the secretary to call a special meeting of shareholders to be held at the registered office at such time as the secretary may fix, not less than ten nor more than thirty-five days after the receipt of said request, and if the secretary shall neglect or refuse to issue such call, the director or shareholder or shareholders making the request may do so. Such request shall state the purpose or purposes of the proposed meeting.

Sec. 7. (a) Written notice stating the place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten (or in the case of an amendment to the Articles of Incorporation, a plan of merger or share exchange, a proposed sale, lease exchange, or other disposition of all or substantially all of the assets of the corporation other than in the usual or regular course of business, or the dissolution of the corporation, twenty) nor more than sixty days before the date of the meeting, either personally or by mail, by or at the direction of the chairman, the president, the secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the shareholder at his or her address as it appears on the stock transfer books of the corporation, with postage thereon prepaid.

(b) A shareholder may waive any notice required by law or these bylaws before or after the date and time of the meeting that is the subject of the notice, and such waiver shall be equivalent to giving such notice. Waiver of notice of a meeting of shareholders shall be effective upon receipt of a written waiver by the corporation.

Sec. 8. Nominations for the election of directors may be made by the board of directors, the governance, nominating and compensation committee of the board of directors, or by any shareholder entitled to vote in the election of directors. However, any shareholder entitled to vote in the election of directors may nominate one or more persons for election as directors at a meeting only if written notice of the shareholder's intent to make the nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the secretary of the corporation not later than (i) with respect to an election to be held at an annual meeting of shareholders, on the date established for nominations in the proxy statement of the corporation, or if no such date is established one hundred twenty days in advance of such meeting, and (ii) with respect to an election to be held at a special meeting of shareholders for the

election of directors, the close of business on the seventh day following the date on which notice of such meeting is first mailed to the shareholders of the corporation. Each such notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the shareholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholders; (d) such other information regarding each nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the nominee been nominated, or intended to be nominated, by the board of directors or the governance, nominating and compensation committee of the board of directors; and (e) the written consent of each nominee to serve as a director of the corporation if so elected. The chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

Sec. 9. Tabulation of votes for election of directors shall be conducted by an inspector or judge, who may or may not be a stockholder, appointed by the presiding officer of the meeting. The inspector or judge shall certify to the returns in writing. No person who is a candidate for the office of director shall be an inspector or judge.

ARTICLE IV — DIRECTORS

Sec. 1. The property and business of this corporation shall be managed by its board of directors, nine in number, but the number of directors may be decreased to any number not less than three at any annual meeting of the shareholders, or at any special meeting of the shareholders called for that purpose, or by a two-thirds vote of the then directors of the corporation at any regular meeting of such directors, or at any special meeting of said directors called for that purpose; provided that no decrease shall shorten the term of any director then in office..

Sec. 2. The number of directors of the corporation may likewise be increased in the same manner as they may be decreased, from three to not more than eleven directors.

Sec. 3. The directors shall be elected at the annual meeting of the shareholders, and each director shall be elected to serve until his or her successor shall be elected and shall qualify.

Sec. 4. The entire board of directors or any individual director may, at any special meeting of the shareholders called for that purpose in the manner provided by Section 6 of Article III hereof, be removed from office by a vote of shareholders entitled to a vote at an election of directors. In case the board or any one or more directors be so removed, new directors may be elected at the same meeting. If less than the entire Board is removed, no individual director shall be removed in case the votes of a sufficient number of shares are cast against the resolution for his or her removal which, if cumulatively voted at an election of the whole board, would be sufficient to elect one or more directors.

Sec. 5. In addition to the powers and authorities by these bylaws expressly conferred upon them, the board may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the Articles of Incorporation or by these bylaws directed or required to be exercised or done by the shareholders.

Sec. 6. In addition to reimbursement for reasonable expenses incurred in attending meetings or otherwise in connection with attention to the affairs of the corporation and in addition to remuneration as a member of any committee of the board of directors, each director as such shall be entitled to receive such remuneration as may be fixed from time to time by the board of directors.

Sec. 7. (a) The board of directors shall meet at a time and place, as fixed by resolution of the board of directors, on the same date as the annual meeting of shareholders of the corporation for the purpose of organization or otherwise, and no notice of such meeting shall be necessary in order legally to constitute a meeting if it is held at such time, provided that a majority of the whole board shall be present.

(b) Regular meetings of the board of directors may be held at such place, whether in this state or elsewhere, as a majority of the directors may from time to time appoint.

(c) Regular meetings of the board of directors may be held without notice of the date, time, place, or purpose of the meetings. Special meetings of the board of directors must be preceded by at least two days' notice of the date, time, and place of the meeting.

(d) A director may waive any notice required by law or these bylaws before or after the date and time of the meeting that is the subject of the notice, and such waiver shall be equivalent to giving such notice. Waiver of notice shall be effective upon receipt of a written waiver by the corporation.

Sec. 8. If the office of any director becomes vacant by reason of death, resignation, retirement, disqualification, removal from office or otherwise, a majority of all of the remaining directors, though less than a quorum, shall elect a successor or successors, who shall hold office for the unexpired term of his or her predecessor in office and until his or her successor is elected by the shareholders who may make such election at the next annual meeting of the shareholders, or at any special meeting called for that purpose and held prior thereto.

ARTICLE V — OFFICERS

Sec. 1. The officers of the corporation shall be chosen by the board of directors, and shall be a chairman of the board, a vice chairman of the board, a president, a chief operating officer, a chief financial officer, one or more vice presidents, a secretary, a controller, and, if appointed, a treasurer, one or more assistant secretaries, assistant controllers, and assistant treasurers, such assistants to have such powers and duties of the secretary and treasurer, respectively, as shall from time to time be assigned to them by the board of directors. The same person may hold more than one office.

Sec. 2. The board of directors, at its first meeting after each annual meeting of shareholders, shall choose a chairman and vice chairman of the board from their own number, and a president, a chief operating officer, a chief financial officer, and one or more vice presidents, a secretary and a controller, who need not be members of the board.

Sec. 3. The board may appoint such other officers, vice presidents, assistant secretaries, assistant treasurers, managers and agents as shall be deemed necessary by it, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board.

Sec. 4. The board of directors shall by resolution fix the salaries and the manner and time of payment thereof of all of the officers of this corporation.

Sec. 5. Any officer, manager or agent elected or appointed by the board of directors may be removed at any time by the affirmative vote of a majority of the whole board of directors, whenever in their judgment

the best interest of the corporation will be served thereby, such removal, however, to be without prejudice to the contract rights, if any, of the person so removed.

Sec. 6. If any office becomes vacant for any reason, the vacancy may be filled by the board of directors.

Sec. 7. The chairman of the board shall, if present, preside at all meetings of directors (including executive sessions of the board of directors), and shall assure that the oversight responsibilities of the board of directors are effectively carried out. The chairman of the board may designate another director or officer of the corporation to conduct meetings of directors, in his or her discretion.

Sec. 8. The president shall be the chief executive officer of the corporation; he or she shall preside at all meetings of the shareholders, and shall have general and active management of the business of the corporation, under the direction of the board of directors, and shall see that all orders and resolutions of the board are carried into effect.

Sec. 9. The chief operating officer, chief financial officer and controller shall have such duties as may be determined from time to time by the board of directors.

Sec. 10. (a) The secretary shall, personally or with the assistance of others, prepare and keep minutes of meetings of the board of directors and shareholders, authenticate all records of the corporation, attest all certificates of stock in the name of the corporation, and keep a record of the issuance of certificates of stock and stock transfers. The secretary shall give, or cause to be given, notice of all meetings of the shareholders and of the board of directors, and shall perform such other duties as may be prescribed by the board of directors. The secretary shall keep in safe custody the seal of the corporation, and affix the same to any instrument requiring it.

(b) The assistant secretaries, if any, shall, in the absence or disability of the secretary, perform the duties and exercise the powers of the secretary, and shall perform such other duties as the board of directors shall prescribe.

Sec. 11. In case of the absence of any officer of the corporation, or for any reason that the board may deem sufficient, the board of directors may delegate, for the time being, the powers or duties, or any of them, of such officer to any other officer, or to any director.

ARTICLE VI — CONSIDERATION FOR STOCK

Sec. 1. (a) Without the consent of any holder of any share of the capital stock of this corporation, the shares of stock of this corporation may be issued by it from time to time in such number or amount of shares of said stock, and for such consideration in labor or services actually performed for the corporation, money or property, as from time to time may be fixed and determined by the board of directors of this corporation at any annual meeting or any special meeting called for said purpose, and the right, power and authority of said board of directors from time to time so to authorize and order the issuance by this corporation of the said shares of said stock, in such number or amount of shares, and for such consideration in labor or services actually performed for the corporation, money or property, as from time to time said board may fix and determine, is hereby absolutely reserved to said board of directors.

(b) Payment or delivery to, or receipt by this corporation of such consideration as may be so fixed and determined by its board of directors for the issuance of any share or shares of its said stock, as hereinbefore in this Section provided, shall operate and be construed, deemed and held to constitute such share or shares fully paid and non-assessable stock of the corporation.

ARTICLE VII — CERTIFICATES OF STOCK

Sec. 1. The certificates for shares of the common stock and each series of preferred stock of the Corporation shall be separately numbered and shall be entered in the books of the corporation as they are issued. They shall exhibit the holder's name and number of shares and shall be signed by the president or a vice president and the secretary or an assistant secretary (if any). Where, however, such certificates are countersigned by a transfer agent and registered by a registrar, at least one of which shall be other than the corporation itself or an employee thereof, the signatures of such officers may be facsimile.

Sec. 2. Shares of stock to be transferred may be transferred by endorsement of the certificate and its surrender to the secretary for cancellation, whereupon the new certificate shall issue to the transferee.

ARTICLE VIII — FIXING RECORD DATE

Sec. 1. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive payment of any distribution, the board of directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than seventy days and, in case of a meeting of shareholders, not less than ten (or in case of an amendment to the Articles of Incorporation, a plan of merger or share exchange, a proposed sale, lease, exchange, or other disposition of all or substantially all of the assets of the corporation other than in the usual or regular course of business, or the dissolution of the corporation, twenty) days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken.

Sec. 2. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a distribution, the date on which the resolution of the board of directors declaring such distribution is adopted or the close of business on the day before the date on which notice of the meeting is mailed, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this Article, such determination shall apply to any adjournment thereof.

ARTICLE IX — REGISTERED SHAREHOLDERS

Sec. 1. The corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and accordingly shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the laws of Washington.

ARTICLE X — LOST CERTIFICATES

Sec. 1. Any person claiming a certificate of stock to be lost or destroyed, shall make an affidavit or affirmation of that fact and advertise the same in such manner as the board of directors may require, and the board of directors may, in its discretion, require the owner of the lost or destroyed certificate, or his or her legal representative, to give the corporation a bond, in such sum as they may direct, not exceeding double the value of the stock, to indemnify the corporation against any claim that may be made against it on account of the alleged loss of any such certificate. A new certificate of the same tenor and for the same number of shares as the one alleged to be lost or destroyed may be issued without requiring any bond, when, in the judgment of the directors, it is proper to do so.

ARTICLE XI — CORPORATE BOOKS AND RECORDS; INSPECTION

Sec. 1. The corporation shall keep a copy of the following records at its principal office: (a) the Articles of Incorporation or Restated Articles of Incorporation and all amendments to them currently in effect; (b) the bylaws or restated bylaws, and all amendments to them currently in effect; (c) the minutes of all shareholders' meetings, and records of all actions taken by shareholders without a meeting, for the past three years; (d) its financial statements for the past three years, including balance sheets showing in reasonable detail the financial condition of the corporation as of the close of each fiscal year, and an income statement showing the results of its operations during each fiscal year; (e) all written communications to shareholders generally within the past three years; (f) a list of the names and business addresses of its current directors and officers; (g) its most recent annual report delivered to the Secretary of State, and (h) such other records as may be required under Washington law.

Sec. 2. Any shareholder of the corporation may inspect and copy, during regular business hours at the corporation's principal office, any of the records of the corporation specified in Sec. 1 (a) through (g) of this Article, provided the shareholder gives the corporation written notice of the shareholder's demand at least five business days before the date on which the shareholder wishes to inspect and copy such records.

Sec. 3. A shareholder of the corporation is entitled to inspect and copy, during regular business hours at a reasonable location specified by the corporation, any of the following records of the corporation provided the shareholder gives the corporation written notice of the shareholder's demand at least five business days before the date on which the shareholder wishes to inspect and copy such records and the shareholder's demand is made in good faith and for a proper purpose, the shareholder describes with reasonable particularity the shareholder's purpose and the records the shareholder desires to inspect, and the records are directly connected with the shareholder's purpose: (a) excerpts from minutes of any meeting of the board of directors, records of any action of a committee of the board of directors while exercising the authority of the board of directors, minutes of any meeting of the shareholders (other than those subject to inspection under Section 1 of this Article XI), and records of action taken by the shareholders or the board of directors without a meeting; (b) accounting records of the corporation; and (c) the record of shareholders.

ARTICLE XII — FISCAL YEAR

Sec. 1. The fiscal year shall begin the first day of October in each year.

ARTICLE XIII — DISTRIBUTIONS

Sec. 1. Distributions upon the capital stock of the corporation, subject to the provisions of the Articles of Incorporation, may be declared by the board of directors, in its discretion, at any regular or special meeting, to the extent permitted by applicable law (including without limitation RCW 23B.06.400 and any amendments thereto). Distributions may be paid in cash, in property, or in shares of the capital stock.

ARTICLE XIV — REPRESENTATION OF SHARES OF OTHER CORPORATIONS

Sec. 1. The chairman, the president, and the secretary, or any assistant secretary, of the corporation are authorized to vote, represent and exercise on behalf of the corporation all rights incident to any and all shares of other corporations standing in the name of the corporation. Said authority may be exercised by such officers either in person or by proxy or power of attorney duly executed by any of said officers.

ARTICLE XV — INDEMNIFICATION OF DIRECTORS AND OFFICERS

Sec. 1. Each person who was or is made a party or is threatened to be made a party to or is involved (including, without limitation, as a witness) in any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative, formal or informal, by reason of the fact that he or she is or was a director or officer of the corporation or, being or having been such a director or officer, he or she is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent or in any other capacity, shall be indemnified and held harmless by the corporation to the full extent permitted by applicable law as then in effect, against all expense, liability and loss (including, without limitation, attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts to be paid in settlement) actually or reasonably incurred or suffered by such person in connection therewith. Such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that no indemnification shall be provided under this Article to any such person to the extent that such indemnification would not be consistent with the Washington Business Corporation Act or other applicable law as then in effect; provided further, however, that except as provided in Sec. 2 of this Article with respect to proceedings seeking to enforce rights to indemnification, this corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors of this corporation. The right to indemnification conferred in this Article shall be a contract right and shall include the right to be paid by the corporation the expense incurred in defending any such proceeding in advance of its final disposition; provided, however, that the payment of such expenses in advance of the final disposition of a proceeding shall be made to or on behalf of a director or officer only upon delivery to the corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Article or otherwise.

Sec. 2. If a claim under Sec. 1 of this Article is not paid in full by this corporation within sixty days after a written claim has been received by this corporation (except in the case of a claim for expenses incurred in defending a proceeding in advance of its final disposition, in which case the applicable period shall be twenty days) the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, to the extent successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. The claimant shall be presumed to be entitled to indemnification hereunder upon submission of a written claim (and, in an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition, where the required undertaking has been tendered to this corporation), and thereafter this corporation shall have the burden of proof to overcome the presumption that the claimant is not so entitled. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to this corporation) that the claimant has not met the standards of conduct which make it permissible hereunder or under the Washington Business Corporation Act for this corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on this corporation. Neither the failure of this corporation (including its board of directors, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such action that indemnification or reimbursement or advancement of expenses to the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth herein or in the Washington Business Corporation Act nor an actual determination by this corporation (including its board of directors, independent legal counsel, or its shareholders) that the claimant is not entitled to indemnification or to the reimbursement or advancement of expenses shall be a defense to the action or create a presumption that the claimant is not so entitled.

Sec. 3. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Articles of Incorporation, bylaws, agreement, vote of shareholders or disinterested directors or otherwise.

Sec. 4. The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the Washington Business Corporation Act. The corporation may enter into contracts with any director or officer of the corporation in furtherance of the provisions of this Article and may create a trust fund, grant a security interest or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Article.

Sec. 5. The corporation may, by action of its board of directors from time to time, provide indemnification and pay expenses in advance of the final disposition of a proceeding to employees and agents of the corporation with the same scope and effect as the provisions of this Article with respect to the indemnification and advancement of expenses of directors and officers of the corporation or pursuant to rights granted pursuant to, or provided by, the Washington Business Corporation Act or otherwise.

ARTICLE XVI — AMENDMENTS

Sec. 1. These bylaws may be altered or amended by the affirmative vote of a majority of the stock issued and outstanding and entitled to vote thereat, at any regular or special meeting of the shareholders if notice of the proposed alteration or amendment be contained in the notice of the meeting, or by the affirmative vote of a majority of the board of directors, subject to the power of the shareholders to change or repeal such bylaws.

ARTICLE XVII — MISCELLANEOUS STATUTORY RESTRICTIONS

Sec. 1. The corporation shall have the right to acquire its own shares, and shares so acquired shall constitute authorized but unissued shares. Any such acquisition shall constitute a distribution by the corporation and shall be subject to the limitations on distributions imposed by applicable law.

Sec. 2. No loans shall be made by the corporation to its officers or directors unless permitted by and in compliance with applicable law (including without limitation section 402 of the Sarbanes-Oxley Act of 2002 and RCW 23B.08.700 through .08.730).

ARTICLE XVIII — MISCELLANEOUS PROCEDURAL PROVISIONS

Sec. 1. All meetings of shareholders and directors shall be conducted in the manner determined by the person acting as chairman of the meeting, to the extent not inconsistent with the Articles of Incorporation, bylaws or special rules of order of the corporation.

ARTICLE XIX — COMMITTEES OF THE BOARD OF DIRECTORS

Sec. 1. The board of directors may, by resolution or resolutions, passed by a majority of the whole board, designate an executive committee of five directors. Said committee may meet at stated times, or on notice

to all by any of their number. During the intervals between meetings of the board such committee shall advise with and aid the officers of the corporation in all matters concerning its interests and the management of its business, and generally perform such other duties and exercise such powers as may be directed or delegated by the board of directors from time to time. The board may delegate to such committee authority to exercise all the powers of the board, except such powers as are denied to committees under RCW 23B.08.250(5) as such statute shall be amended from time to time.

Sec. 2. The board of directors shall designate three or more of their number as an audit committee. All members of the audit committee shall be "independent," and at least one member shall be a "financial expert," both as defined by applicable regulations of the U.S. Securities and Exchange Commission. The audit committee shall have such duties as are set forth from time to time in its charter, as adopted by the board of directors.:

Sec. 3. The board of directors shall designate three or more of their number to serve the corporation as a governance, nominating and compensation committee. The governance, nominating and compensation committee shall have such duties as are set forth from time in its charter, as adopted by the board of directors.:

Sec. 4. The board of directors, by resolution adopted by a majority of the full board of directors, may designate one or more additional committees of the board of directors which shall have two or more members and which shall have such duties and exercise such powers as may be directed or delegated by the board of directors from time to time. Vacancies in the membership of any committee shall be filled by the board of directors. Each committee shall keep regular minutes of its proceedings and report the same to the board of directors when required.

ARTICLE XX — DESIGNATED ENGINEER

Sec. 1 The Designated Engineer, named in a resolution adopted by the Board of Directors as being in responsible charge or an engineer under the Designated Engineer's direct supervision, has full authority to and, shall make all engineering decisions pertaining to engineering activities in the State of Washington.

EXHIBIT 2
OPINION OF COUNSEL

LAW OFFICES OF
MARY ANN WALKER
416 PRINCE STREET
ALEXANDRIA, VA 22314
TEL: 703-549-9048
FAX: 703-549-9047

October 20, 2004

Director of the Office of Natural Gas
Office of Fuels Programs
Fossil Energy
Forrestal Building
1000 Independence Avenue, S.W.
Washington, D.C. 20585

Re: Application of Cascade Natural Gas Corp. for Long
Term Authorization To Import Natural Gas from Canada,
FE Docket No. 04- - NG

Dear Sirs:

Pursuant to Section 590.202(c) of the Administrative Procedures of the Department of Energy, 10 C.F.R. § 590.202(c), I am hereby providing my legal opinion with respect to the corporate power of Cascade Natural Gas Corp. to import Canadian natural gas.

I have has examined Cascade's Articles of Incorporation and its Bylaws. Based upon the review of these two documents, it is my opinion that Cascade is a duly organized and validly existing corporation under the laws of the State of Washington. Furthermore, it is my opinion that Cascade is not precluded by its Articles of Incorporation or its Bylaws from importing natural gas.

Respectfully submitted,



Mary Ann Walker

EXHIBIT 3

**BASE CONTRACT AND TRANSACTION
CONFIRMATION BETWEEN CASCADE
NATURAL GAS CORP. AND ENSERCO ENERGY,
INC.**

Base Contract for Sale and Purchase of Natural Gas

This Base Contract is entered into as of the following date: September 12, 2002. The parties to this Base Contract are the following:

Cascade Natural Gas Corporation
 222 Fairview Avenue North Seattle, WA 98109
 Duns Number: 7942584
 Contract Number: _____
 U.S. Federal Tax ID Number: 91-0599090

and **Enserco Energy Inc**
 350 Indiana Street, Suite 400 Golden, CO. 80401
 Duns Number: 95-7194541
 Contract Number: _____
 U.S. Federal Tax ID Number: 84-1354639

Notices:
 222 Fairview Avenue North Seattle, WA 98109
 Attn: Pattie Grable
 Phone: 206.381.6829 Fax: 206.654.4039

350 Indiana Street, Suite 400 Golden, CO. 80401
 Attn: Contract Administration
 Phone: 303.568.3242 Fax: 303.568.3250

Confirmations:
 222 Fairview Avenue North Seattle, WA 98109
 Attn: Confirmations
 Phone: 206.381.6788 Fax: 206.654.4039

350 Indiana Street, Suite 400 Golden, CO. 80401
 Attn: Confirmations
 Phone: 303.568.3227 Fax: 303.568.3250

Invoices and Payments:
 222 Fairview Avenue North Seattle, WA 98109
 Attn: Gas Accounting
 Phone: 206.381.6788 Fax: 206.654.4039

350 Indiana Street, Suite 400 Golden, CO. 80401
 Attn: Gas Accounting
 350 Indiana Street, Suite 400 Golden, CO. 80401
 Phone: 303.568.3228 Fax: 303.568.3250

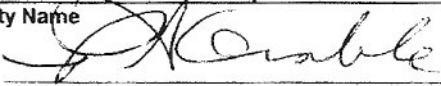
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 Other Details: _____

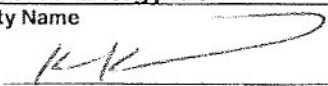
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 ACCT: 103-657-535-433
 Other Details: _____

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

<p>Section 1.2 <input checked="" type="checkbox"/> Oral (default) Transaction Procedure <input type="checkbox"/> Written</p>	<p>Section 7.2 <input checked="" type="checkbox"/> 25th Day of Month following Month of delivery (default) Payment Date <input type="checkbox"/> _____ Day of Month following Month of delivery</p>
<p>Section 2.5 <input checked="" type="checkbox"/> 2 Business Days after receipt (default) Confirm Deadline <input type="checkbox"/> _____ Business Days after receipt</p>	<p>Section 7.2 <input checked="" type="checkbox"/> Wire transfer (default) Method of Payment <input type="checkbox"/> Automated Clearinghouse Credit (ACH) <input type="checkbox"/> Check</p>
<p>Section 2.6 <input checked="" type="checkbox"/> Seller (default) Confirming Party <input checked="" type="checkbox"/> Buyer <input type="checkbox"/> _____</p>	<p>Section 7.7 <input checked="" type="checkbox"/> Netting applies (default) Netting <input type="checkbox"/> Netting does not apply</p>
<p>Section 3.2 <input checked="" type="checkbox"/> Cover Standard (default) Performance Obligation <input type="checkbox"/> Spot Price Standard</p> <p>Note: The following Spot Price Publication applies to both of the immediately preceding.</p> <p>Section 2.26 <input checked="" type="checkbox"/> Gas Daily Midpoint (default) Spot Price Publication <input type="checkbox"/> _____</p>	<p>Section 10.3.1 <input checked="" type="checkbox"/> Early Termination Damages Apply (default) Early Termination Damages <input type="checkbox"/> Early Termination Damages Do Not Apply</p> <p>Section 10.3.2 <input checked="" type="checkbox"/> Other Agreement Setoffs Apply (default) Other Agreement Setoffs <input type="checkbox"/> Other Agreement Setoffs Do Not Apply</p> <p>Section 14.5 Choice Of Law Colorado</p>
<p>Section 6 <input checked="" type="checkbox"/> Buyer Pays At and After Delivery Point (default) Taxes <input type="checkbox"/> Seller Pays Before and At Delivery Point</p>	<p>Section 14.10 <input checked="" type="checkbox"/> Confidentiality applies (default) Confidentiality <input type="checkbox"/> Confidentiality does not apply</p>
<p><input type="checkbox"/> Special Provisions Number of sheets attached: <u>None</u></p> <p><input type="checkbox"/> Addendum(s): <u>None</u></p>	

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

Cascade Natural Gas Corporation
 Party Name _____
 By 
 Name: **Pattie Grable**
 Title: **Senior Director of Gas Supply**

Enserco Energy Inc
 Party Name _____
 By 
 Name: **Kurt Kittleson**
 Title: **Senior Vice President**

General Terms and Conditions

Base Contract for Sale and Purchase of Natural Gas

SECTION 1. PURPOSE AND PROCEDURES

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

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

Oral Transaction Procedure:

1.2. The parties will use the following Transaction Confirmation procedure. Any Gas purchase and sale transaction may be effectuated in an EDI transmission or telephone conversation with the offer and acceptance constituting the agreement of the parties. The parties shall be legally bound from the time they so agree to transaction terms and may each rely thereon. Any such transaction shall be considered a "writing" and to have been "signed". Notwithstanding the foregoing sentence, the parties agree that Confirming Party shall, and the other party may, confirm a telephonic transaction by sending the other party a Transaction Confirmation by facsimile, EDI or mutually agreeable electronic means within three Business Days of a transaction covered by this Section 1.2 (Oral Transaction Procedure) provided that the failure to send a Transaction Confirmation shall not invalidate the oral agreement of the parties. Confirming Party adopts its confirming letterhead, or the like, as its signature on any Transaction Confirmation as the identification and authentication of Confirming Party. If the Transaction Confirmation contains any provisions other than those relating to the commercial terms of the transaction (i.e., price, quantity, performance obligation, delivery point, period of delivery and/or transportation conditions), which modify or supplement the Base Contract or General Terms and Conditions of this Contract (e.g., arbitration or additional representations and warranties), such provisions shall not be deemed to be accepted pursuant to Section 1.3 but must be expressly agreed to by both parties; provided that the foregoing shall not invalidate any transaction agreed to by the parties.

Written Transaction Procedure:

1.2. The parties will use the following Transaction Confirmation procedure. Should the parties come to an agreement regarding a Gas purchase and sale transaction for a particular Delivery Period, the Confirming Party shall, and the other party may, record that agreement on a Transaction Confirmation and communicate such Transaction Confirmation by facsimile, EDI or mutually agreeable electronic means, to the other party by the close of the Business Day following the date of agreement. The parties acknowledge that their agreement will not be binding until the exchange of nonconflicting Transaction Confirmations or the passage of the Confirm Deadline without objection from the receiving party, as provided in Section 1.3.

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

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

SECTION 2. DEFINITIONS

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

2.1. "Alternative Damages" shall mean such damages, expressed in dollars or dollars per MMBtu, as the parties shall agree upon in the Transaction Confirmation, in the event either Seller or Buyer fails to perform a Firm obligation to deliver Gas in the case of Seller or to receive Gas in the case of Buyer.

2.2. "Base Contract" shall mean a contract executed by the parties that incorporates these General Terms and Conditions by reference; that specifies the agreed selections of provisions contained herein; and that sets forth other information required herein and any Special Provisions and addendum(s) as identified on page one.

2.3. "British thermal unit" or "Btu" shall mean the International BTU, which is also called the Btu (IT).

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

of such high and low prices. If no price or range of prices is published for such Day, then the Spot Price shall be the average of the following: (i) the price (determined as stated above) for the first Day for which a price or range of prices is published that next precedes the relevant Day; and (ii) the price (determined as stated above) for the first Day for which a price or range of prices is published that next follows the relevant Day.

2.27. "Transaction Confirmation" shall mean a document, similar to the form of Exhibit A, setting forth the terms of a transaction formed pursuant to Section 1 for a particular Delivery Period.

2.28. "Termination Option" shall mean the option of either party to terminate a transaction in the event that the other party fails to perform a Firm obligation to deliver Gas in the case of Seller or to receive Gas in the case of Buyer for a designated number of days during a period as specified on the applicable Transaction Confirmation.

2.29. "Transporter(s)" shall mean all Gas gathering or pipeline companies, or local distribution companies, acting in the capacity of a transporter, transporting Gas for Seller or Buyer upstream or downstream, respectively, of the Delivery Point pursuant to a particular transaction.

SECTION 3. PERFORMANCE OBLIGATION

3.1. Seller agrees to sell and deliver, and Buyer agrees to receive and purchase, the Contract Quantity for a particular transaction in accordance with the terms of the Contract. Sales and purchases will be on a Firm or Interruptible basis, as agreed to by the parties in a transaction.

The parties have selected either the "Cover Standard" or the "Spot Price Standard" as indicated on the Base Contract.

Cover Standard:

3.2. The sole and exclusive remedy of the parties in the event of a breach of a Firm obligation to deliver or receive Gas shall be recovery of the following: (i) in the event of a breach by Seller on any Day(s), payment by Seller to Buyer in an amount equal to the positive difference, if any, between the purchase price paid by Buyer utilizing the Cover Standard and the Contract Price, adjusted for commercially reasonable differences in transportation costs to or from the Delivery Point(s), multiplied by the difference between the Contract Quantity and the quantity actually delivered by Seller for such Day(s); or (ii) in the event of a breach by Buyer on any Day(s), payment by Buyer to Seller in the amount equal to the positive difference, if any, between the Contract Price and the price received by Seller utilizing the Cover Standard for the resale of such Gas, adjusted for commercially reasonable differences in transportation costs to or from the Delivery Point(s), multiplied by the difference between the Contract Quantity and the quantity actually taken by Buyer for such Day(s); or (iii) in the event that Buyer has used commercially reasonable efforts to replace the Gas or Seller has used commercially reasonable efforts to sell the Gas to a third party, and no such replacement or sale is available, then the sole and exclusive remedy of the performing party shall be any unfavorable difference between the Contract Price and the Spot Price, adjusted for such transportation to the applicable Delivery Point, multiplied by the difference between the Contract Quantity and the quantity actually delivered by Seller and received by Buyer for such Day(s). Imbalance Charges shall not be recovered under this Section 3.2, but Seller and/or Buyer shall be responsible for Imbalance Charges, if any, as provided in Section 4.3. The amount of such unfavorable difference shall be payable five Business Days after presentation of the performing party's invoice, which shall set forth the basis upon which such amount was calculated.

Spot Price Standard:

3.2. The sole and exclusive remedy of the parties in the event of a breach of a Firm obligation to deliver or receive Gas shall be recovery of the following: (i) in the event of a breach by Seller on any Day(s), payment by Seller to Buyer in an amount equal to the difference between the Contract Quantity and the actual quantity delivered by Seller and received by Buyer for such Day(s), multiplied by the positive difference, if any, obtained by subtracting the Contract Price from the Spot Price; or (ii) in the event of a breach by Buyer on any Day(s), payment by Buyer to Seller in an amount equal to the difference between the Contract Quantity and the actual quantity delivered by Seller and received by Buyer for such Day(s), multiplied by the positive difference, if any, obtained by subtracting the applicable Spot Price from the Contract Price. Imbalance Charges shall not be recovered under this Section 3.2, but Seller and/or Buyer shall be responsible for Imbalance Charges, if any, as provided in Section 4.3. The amount of such unfavorable difference shall be payable five Business Days after presentation of the performing party's invoice, which shall set forth the basis upon which such amount was calculated.

3.3. Notwithstanding Section 3.2, the parties may agree to Alternative Damages in a Transaction Confirmation executed in writing by both parties.

3.4. In addition to Sections 3.2 and 3.3, the parties may provide for a Termination Option in a Transaction Confirmation executed in writing by both parties. The Transaction Confirmation containing the Termination Option will designate the length of nonperformance triggering the Termination Option and the procedures for exercise thereof, how damages for nonperformance will be compensated, and how liquidation costs will be calculated.

SECTION 4. TRANSPORTATION, NOMINATIONS, AND IMBALANCES

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

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

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

SECTION 5. QUALITY AND MEASUREMENT

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

SECTION 6. TAXES

The parties have selected either "Buyer Pays At and After Delivery Point" or "Seller Pays Before and At Delivery Point" as indicated on the Base Contract.

Buyer Pays At and After Delivery Point:

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

Seller Pays Before and At Delivery Point:

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

SECTION 7. BILLING, PAYMENT, AND AUDIT

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

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

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

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

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

7.6. A party shall have the right, at its own expense, upon reasonable Notice and at reasonable times, to examine and audit and to obtain copies of the relevant portion of the books, records, and telephone recordings of the other party only to the extent reasonably necessary to verify the accuracy of any statement, charge, payment, or computation made under the Contract. This right to examine, audit, and to obtain copies shall not be available with respect to proprietary information not directly relevant to transactions under this Contract. All invoices and billings shall be conclusively presumed final and accurate and all associated claims for under- or overpayments shall be deemed waived unless such invoices or billings are objected to in writing, with adequate explanation and/or documentation, within two years after the Month of Gas delivery. All retroactive adjustments under Section 7 shall be paid in full by the party owing payment within 30 Days of Notice and substantiation of such inaccuracy.

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

SECTION 8. TITLE, WARRANTY, AND INDEMNITY

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

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

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

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

SECTION 9. NOTICES

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

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

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

SECTION 10. FINANCIAL RESPONSIBILITY

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

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

10.3. If an Event of Default has occurred and is continuing, the Non-Defaulting Party shall have the right, by Notice to the Defaulting Party, to designate a Day, no earlier than the Day such Notice is given and no later than 20 Days after such Notice is given, as an early termination date (the "Early Termination Date") for the liquidation and termination pursuant to Section 10.3.1 of all transactions under the Contract, each a "Terminated Transaction". On the Early Termination Date, all transactions will terminate, other than those transactions, if any, that may not be liquidated and terminated under applicable law or that are, in the reasonable opinion of the Non-Defaulting Party, commercially impracticable to liquidate and terminate ("Excluded Transactions"), which Excluded Transactions must be liquidated and terminated as soon thereafter as is reasonably practicable, and upon termination shall be a Terminated Transaction and be valued consistent with Section 10.3.1 below. With respect to each Excluded Transaction, its actual termination date shall be the Early Termination Date for purposes of Section 10.3.1.

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

Early Termination Damages Apply:

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

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

Early Termination Damages Do Not Apply:

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

The parties have selected either "Other Agreement Setoffs Apply" or "Other Agreement Setoffs Do Not Apply" as indicated on the Base Contract.

Other Agreement Setoffs Apply:

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

Other Agreement Setoffs Do Not Apply:

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

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

10.4. As soon as practicable after a liquidation, Notice shall be given by the Non-Defaulting Party to the Defaulting Party of the Net Settlement Amount, and whether the Net Settlement Amount is due to or due from the Non-Defaulting Party. The Notice shall include a written statement explaining in reasonable detail the calculation of such amount, provided that failure to give such Notice shall not affect the validity or enforceability of the liquidation or give rise to any claim by the Defaulting Party against the Non-Defaulting Party. The Net Settlement Amount shall be paid by the close of business on the second Business Day following such Notice, which date shall not be earlier than the Early Termination Date. Interest on any unpaid portion of the Net Settlement Amount shall accrue from the date due until the

date of payment at a rate equal to the lower of (i) the then-effective prime rate of interest published under "Money Rates" by The Wall Street Journal, plus two percent per annum; or (ii) the maximum applicable lawful interest rate.

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

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

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

SECTION 11. FORCE MAJEURE

11.1. Except with regard to a party's obligation to make payment(s) due under Section 7, Section 10.4, and Imbalance Charges under Section 4, neither party shall be liable to the other for failure to perform a Firm obligation, to the extent such failure was caused by Force Majeure. The term "Force Majeure" as employed herein means any cause not reasonably within the control of the party claiming suspension, as further defined in Section 11.2.

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

11.3. Neither party shall be entitled to the benefit of the provisions of Force Majeure to the extent performance is affected by any or all of the following circumstances: (i) the curtailment of interruptible or secondary Firm transportation unless primary, in-path, Firm transportation is also curtailed; (ii) the party claiming excuse failed to remedy the condition and to resume the performance of such covenants or obligations with reasonable dispatch; or (iii) economic hardship, to include, without limitation, Seller's ability to sell Gas at a higher or more advantageous price than the Contract Price, Buyer's ability to purchase Gas at a lower or more advantageous price than the Contract Price, or a regulatory agency disallowing, in whole or in part, the pass through of costs resulting from this Agreement; (iv) the loss of Buyer's market(s) or Buyer's inability to use or resell Gas purchased hereunder, except, in either case, as provided in Section 11.2; or (v) the loss or failure of Seller's gas supply or depletion of reserves, except, in either case, as provided in Section 11.2. The party claiming Force Majeure shall not be excused from its responsibility for Imbalance Charges.

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

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

11.6. Notwithstanding Sections 11.2 and 11.3, the parties may agree to alternative Force Majeure provisions in a Transaction Confirmation executed in writing by both parties.

SECTION 12. TERM

This Contract may be terminated on 30 Day's written Notice, but shall remain in effect until the expiration of the latest Delivery Period of any transaction(s). The rights of either party pursuant to Section 7.6 and Section 10, the obligations to make payment hereunder, and the obligation of either party to indemnify the other, pursuant hereto shall survive the termination of the Base Contract or any transaction.

SECTION 13. LIMITATIONS

FOR BREACH OF ANY PROVISION FOR WHICH AN EXPRESS REMEDY OR MEASURE OF DAMAGES IS PROVIDED, SUCH EXPRESS REMEDY OR MEASURE OF DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY. A PARTY'S LIABILITY HEREUNDER SHALL BE LIMITED AS SET FORTH IN SUCH PROVISION, AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. IF NO REMEDY OR MEASURE OF DAMAGES IS EXPRESSLY PROVIDED HEREIN OR IN A TRANSACTION, A PARTY'S LIABILITY SHALL BE LIMITED TO DIRECT ACTUAL DAMAGES ONLY. SUCH DIRECT ACTUAL DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY, AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. UNLESS EXPRESSLY HEREIN PROVIDED, NEITHER PARTY SHALL BE LIABLE FOR CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES, LOST PROFITS OR OTHER BUSINESS INTERRUPTION DAMAGES, BY STATUTE, IN TORT OR CONTRACT, UNDER ANY INDEMNITY PROVISION OR OTHERWISE. IT IS THE INTENT OF THE PARTIES THAT THE LIMITATIONS HEREIN IMPOSED ON REMEDIES AND THE MEASURE OF DAMAGES BE WITHOUT REGARD TO THE CAUSE OR CAUSES RELATED THERETO, INCLUDING THE NEGLIGENCE OF ANY PARTY, WHETHER SUCH NEGLIGENCE BE SOLE, JOINT OR CONCURRENT, OR ACTIVE OR PASSIVE.

TO THE EXTENT ANY DAMAGES REQUIRED TO BE PAID HEREUNDER ARE LIQUIDATED, THE PARTIES ACKNOWLEDGE THAT THE DAMAGES ARE DIFFICULT OR IMPOSSIBLE TO DETERMINE, OR OTHERWISE OBTAINING AN ADEQUATE REMEDY IS INCONVENIENT AND THE DAMAGES CALCULATED HEREUNDER CONSTITUTE A REASONABLE APPROXIMATION OF THE HARM OR LOSS.

SECTION 14. MISCELLANEOUS

14.1. This Contract shall be binding upon and inure to the benefit of the successors, assigns, personal representatives, and heirs of the respective parties hereto, and the covenants, conditions, rights and obligations of this Contract shall run for the full term of this Contract. No assignment of this Contract, in whole or in part, will be made without the prior written consent of the non-assigning party (and shall not relieve the assigning party from liability hereunder), which consent will not be unreasonably withheld or delayed; provided, either party may (i) transfer, sell, pledge, encumber, or assign this Contract or the accounts, revenues, or proceeds hereof in connection with any financing or other financial arrangements, or (ii) transfer its interest to any parent or affiliate by assignment, merger or otherwise without the prior approval of the other party. Upon any such assignment, transfer and assumption, the transferor shall remain principally liable for and shall not be relieved of or discharged from any obligations hereunder.

14.2. If any provision in this Contract is determined to be invalid, void or unenforceable by any court having jurisdiction, such determination shall not invalidate, void, or make unenforceable any other provision, agreement or covenant of this Contract.

14.3. No waiver of any breach of this Contract shall be held to be a waiver of any other or subsequent breach.

14.4. This Contract sets forth all understandings between the parties respecting each transaction subject hereto, and any prior contracts, understandings and representations, whether oral or written, relating to such transactions are merged into and superseded by this Contract and any effective transaction(s). This Contract may be amended only by a writing executed by both parties.

14.5. The interpretation and performance of this Contract shall be governed by the laws of the jurisdiction as indicated on the Base Contract, excluding, however, any conflict of laws rule which would apply the law of another jurisdiction.

14.6. This Contract and all provisions herein will be subject to all applicable and valid statutes, rules, orders and regulations of any governmental authority having jurisdiction over the parties, their facilities, or Gas supply, this Contract or transaction or any provisions thereof.

14.7. There is no third party beneficiary to this Contract.

14.8. Each party to this Contract represents and warrants that it has full and complete authority to enter into and perform this Contract. Each person who executes this Contract on behalf of either party represents and warrants that it has full and complete authority to do so and that such party will be bound thereby.

14.9. The headings and subheadings contained in this Contract are used solely for convenience and do not constitute a part of this Contract between the parties and shall not be used to construe or interpret the provisions of this Contract.

14.10. Unless the parties have elected on the Base Contract not to make this Section 14.10 applicable to this Contract, neither party shall disclose directly or indirectly without the prior written consent of the other party the terms of any transaction to a third party (other than the employees, lenders, royalty owners, counsel, accountants and other agents of the party, or prospective purchasers of all or substantially all of a party's assets or of any rights under this Contract, provided such persons shall have agreed to keep such terms confidential) except (i) in order to comply with any applicable law, order, regulation, or exchange rule, (ii) to the extent necessary for the enforcement of this Contract, (iii) to the extent necessary to implement any transaction, or (iv) to the extent such information is delivered to such third party for the sole purpose of calculating a published index. Each party shall notify the other party of any proceeding of which it is aware which may result in disclosure of the terms of any transaction (other than as permitted hereunder) and use reasonable efforts to prevent or limit the disclosure. The existence of this Contract is not subject to this confidentiality obligation. Subject to Section 13, the parties shall be entitled to all remedies available at law or in equity to enforce, or seek relief in connection with this confidentiality obligation. The terms of any transaction hereunder shall be kept confidential by the parties hereto for one year from the expiration of the transaction.

In the event that disclosure is required by a governmental body or applicable law, the party subject to such requirement may disclose the material terms of this Contract to the extent so required, but shall promptly notify the other party, prior to disclosure, and shall cooperate (consistent with the disclosing party's legal obligations) with the other party's efforts to obtain protective orders or similar restraints with respect to such disclosure at the expense of the other party.

14.11 The parties may agree to dispute resolution procedures in Special Provisions attached to the Base Contract or in a Transaction Confirmation executed in writing by both parties.

DISCLAIMER: The purposes of this Contract are to facilitate trade, avoid misunderstandings and make more definite the terms of contracts of purchase and sale of natural gas. Further, NAESB does not mandate the use of this Contract by any party. **NAESB DISCLAIMS AND EXCLUDES, AND ANY USER OF THIS CONTRACT ACKNOWLEDGES AND AGREES TO NAESB'S DISCLAIMER OF, ANY AND ALL WARRANTIES, CONDITIONS OR REPRESENTATIONS, EXPRESS OR IMPLIED, ORAL OR WRITTEN, WITH RESPECT TO THIS CONTRACT OR ANY PART THEREOF, INCLUDING ANY AND ALL IMPLIED WARRANTIES OR CONDITIONS OF TITLE, NON-INFRINGEMENT, MERCHANTABILITY, OR FITNESS OR SUITABILITY FOR ANY PARTICULAR PURPOSE (WHETHER OR NOT NAESB KNOWS, HAS REASON TO KNOW, HAS BEEN ADVISED, OR IS OTHERWISE IN FACT AWARE OF ANY SUCH PURPOSE), WHETHER ALLEGED TO ARISE BY LAW, BY REASON OF CUSTOM OR USAGE IN THE TRADE, OR BY COURSE OF DEALING. EACH USER OF THIS CONTRACT ALSO AGREES THAT UNDER NO CIRCUMSTANCES WILL NAESB BE LIABLE FOR ANY DIRECT, SPECIAL, INCIDENTAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES ARISING OUT OF ANY USE OF THIS CONTRACT.**

TRANSACTION CONFIRMATION
FOR IMMEDIATE DELIVERY

EXHIBIT A

Letterhead/Logo	Date: _____, Transaction Confirmation #: _____			
This Transaction Confirmation is subject to the Base Contract between Seller and Buyer dated _____. The terms of this Transaction Confirmation are binding unless disputed in writing within 2 Business Days of receipt unless otherwise specified in the Base Contract.				
SELLER: _____ _____ Attn: _____ Phone: _____ Fax: _____ Base Contract No. _____ Transporter: _____ Transporter Contract Number: _____	BUYER: _____ _____ Attn: _____ Phone: _____ Fax: _____ Base Contract No. _____ Transporter: _____ Transporter Contract Number: _____			
Contract Price: \$ _____/MMBtu or _____				
Delivery Period: Begin: _____, _____ End: _____, _____				
Performance Obligation and Contract Quantity: (Select One) <table style="width:100%; border: none;"> <tr> <td style="width:33%; vertical-align: top;"> Firm (Fixed Quantity): _____ MMBtus/day <input type="checkbox"/> EFP </td> <td style="width:33%; vertical-align: top;"> Firm (Variable Quantity): _____ MMBtus/day Minimum _____ MMBtus/day Maximum subject to Section 4.2. at election of <input type="checkbox"/> Buyer or <input type="checkbox"/> Seller </td> <td style="width:33%; vertical-align: top;"> Interruptible: Up to _____ MMBtus/day </td> </tr> </table>		Firm (Fixed Quantity): _____ MMBtus/day <input type="checkbox"/> EFP	Firm (Variable Quantity): _____ MMBtus/day Minimum _____ MMBtus/day Maximum subject to Section 4.2. at election of <input type="checkbox"/> Buyer or <input type="checkbox"/> Seller	Interruptible: Up to _____ MMBtus/day
Firm (Fixed Quantity): _____ MMBtus/day <input type="checkbox"/> EFP	Firm (Variable Quantity): _____ MMBtus/day Minimum _____ MMBtus/day Maximum subject to Section 4.2. at election of <input type="checkbox"/> Buyer or <input type="checkbox"/> Seller	Interruptible: Up to _____ MMBtus/day		
Delivery Point(s): _____ (If a pooling point is used, list a specific geographic and pipeline location):				
Special Conditions: 				
Seller: _____ By: _____ Title: _____ Date: _____	Buyer: _____ By: _____ Title: _____ Date: _____			



Date: May 18, 2004

Transaction Confirmation #: _____

This Transaction Confirmation is subject to the Base Contract between Seller and Buyer dated Sept 12, 2002. The terms of this Transaction Confirmation are binding unless disputed in writing within 2 Business Days of receipt unless otherwise specified in the Base Contract.

SELLER:

Enserco Energy Inc. (Enserco)
350 Indiana Street, Suite 400
Golden, Colorado 80401
Attn: Cathy Sapp
Phone: 303-568-3244
Fax: 303-568-3250
Base Contract No. 10041
Transporter: _____
Transporter Contract Number: _____

BUYER:

Cascade Natural Gas Corp (CNG)
222 Fairview Ave
North Seattle, Washington 98109
Attn: Pattie Grable
Phone: 206-381-6829
Fax: 206-654-4039
Base Contract No. _____
Transporter: _____
Transporter Contract Number: _____

Commodity Price: The price per MMBtu for natural gas shall be equal to the "Aeco C, NIT", *Canadian Gas Price Reporter*, "one month spot US\$ index"

Transport Capacity Release: Buyer shall for the term, release to Seller the full path of capacity on Nova, ANG and PGT to accommodate ultimate delivery of 17,500 MMBtu/d of supply gas from Aeco C, NIT to Buyer at Delivery Point(s). These releases will be completed at rates equal to the full firm pipeline demand rate as per the Nova, ANG and PGT tariffs respectively.

Transport Sales Price: Buyer shall reimburse Seller an amount equal to the Transport Capacity Release plus the variable costs to accomplish delivery of 17,500 MMBtu from Supply Point to Delivery Point(s).

Delivery Period: Begin: November 1, 2004

End: October 31, 2009

Firm (Variable Quantity): Seller will cause 17,500 MMBtu/d of Aeco C, NIT supply to be delivered to Buyer, net of fuel losses, via firm interstate pipeline capacity on Nova, ANG and PGT pipelines. Notwithstanding any failure to deliver due to curtailment or interruption of said firm transport.

Supply Point: Seller shall supply 17,500 MMBtu/d to buyer at Aeco C NIT.

Delivery Point(s): Mutually agreeable delivery points on Buyer's system off of PGT and/or off of PGT onto Buyer's transport on NWPL.

Special Conditions: Subject to parties working out mutually agreeable transport release arrangements.

Seller: Enserco Energy Inc.

By: 
Kurt Kittleson
Senior Vice President

Date: 6/2/04

Buyer: Cascade Natural Gas Corporation

By: 
Senior VP Regulatory & Gas Supply

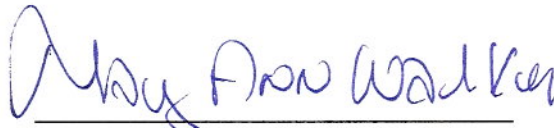
Date: June 16, 2004

EXHIBIT 4
VERIFICATION

VERIFICATION

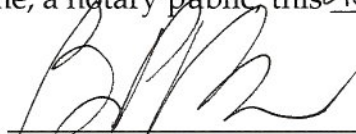
City of Alexandria)
State of Virginia) ss:

Mary Ann Walker, being first duly sworn, on oath states that she is a duly authorized representative of Cascade Natural Gas Corporation, and is authorized to make this verification; that she has read the foregoing document and is familiar with the contents thereof; that the statements contained therein are true and accurate to the best of her knowledge, information, and belief; that she is authorized to file this document with the Department of Energy, Office of Fossil Energy; and that, to the best of her knowledge, information and belief, the same or a related matter is not being considered by any other part of the Department of Energy, including the Federal Energy Regulatory Commission, or any other Federal agency or department.



Mary Ann Walker

Subscribed and sworn to me, a notary public, this 20th day of October, 2004.



Notary Public

My Commission expires: 6/30/05

UNITED STATES OF AMERICA
DEPARTMENT OF ENERGY
OFFICE OF FOSSIL ENERGY

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OFFICE OF FOSSIL ENERGY
U.S. DEPARTMENT OF ENERGY

CASCADE NATURAL GAS CORPORATION)
_____)

FE DOCKET NO. 04-106-NG

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

DOE/FE ORDER NO. 2045

NOVEMBER 16, 2004

I. DESCRIPTION OF REQUEST

On October 21, 2004, Cascade Natural Gas Corporation (Cascade) filed an application with the Office of Fossil Energy of the Department of Energy (DOE), under section 3 of the Natural Gas Act (NGA),^{1/} and DOE Delegation Order Nos. 0204-111 and 0204-127, for authorization to import from Canada up to 6.4 Bcf of natural gas annually. The term of the authorization would begin November 1, 2004, and extend through October 31, 2009. Cascade is a Washington corporation engaged in the retail sale of natural gas in the States of Washington and Oregon.

Cascade will purchase the gas from Enserco Energy, Inc. (Enserco) under the terms of a Base Contract and Transaction Confirmation (Base Contract) with Enserco. The gas would be imported near Sumas, Washington, at the interconnect of TransCanada Pipelines Company and Gas Transmission Northwest (GTN). The requested authorization will not require the construction of new pipeline facilities.

The price of the gas under the Base Contract is a market-sensitive index price based at the Alberta Energy Company Hub with no demand component. The index price changes monthly based on industry surveys and as reported in the *Canadian Gas Price Reporter*.

II. FINDING

The application filed by Cascade has been evaluated to determine if the proposed import arrangement meets the public interest requirement of section 3 of the NGA, as amended by section 201 of the Energy Policy Act of 1992 (Pub. L. 102-486). Under section 3(c), the import of natural gas from a nation with which there is in effect a free trade agreement requiring national treatment for trade in natural gas is deemed to be consistent with the public interest and must be

^{1/} 15 U.S.C. § 717b.

granted without modification or delay. The authorization sought by Cascade to import natural gas from Canada, a nation with which a free trade agreement is in effect, meets the section 3(c) criterion and, therefore, is consistent with the public interest.

ORDER

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

A. Cascade Natural Gas Corporation (Cascade) is authorized to import up to 6.4 Bcf of natural gas annually from Canada in accordance with the "Base Contract and Transaction Confirmation" between Cascade and Enserco Energy, Inc., dated June 16, 2004. This natural gas may be imported from Canada near Sumas, Washington.

B. The term of this authorization began November 1, 2004, and extends through October 31, 2009.

C. With respect to the natural gas imports authorized by this Order, Cascade shall file with the Office of Natural Gas Regulatory Activities, within 30 days following each calendar quarter, reports indicating whether imports of natural gas have been made. Quarterly reports must be filed whether or not initial deliveries have begun. If no imports of natural gas have been made, a report of "no activity" for that calendar quarter must be filed. If imports have occurred, Cascade must report total monthly volumes in Mcf and the average purchase price of gas per MMBtu delivered at the international border.

D. The first quarterly report required by this Order is due not later than January 30, 2005, and should cover the period from November 1, 2004, until the end of the fourth calendar quarter, December 31, 2004.

E. The quarterly reports shall be filed with the U.S. Department of Energy, Office of Natural Gas Regulatory Activities, FE-34, P.O. Box 44375, Washington, D.C. 20026-4375.

Issued in Washington, D.C., on November 16, 2004.



R. F. Corbin
Manager, Natural Gas Regulatory Activities
Office of Global Supply and Security
Office of Fossil Energy