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ATTACHMENT B

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application by Sacramento Natural Gas Storage, LLC for a Certificate of Public Convenience and Necessity for Construction and Operation of Natural Gas Storage Facilities and Requests for Related Determinations	Application No. 07-04-013 (filed April 9, 2007)

STIPULATION OF SACRAMENTO NATURAL GAS STORAGE, LLC AND PACIFIC GAS AND ELECTRIC COMPANY

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Date: January 8, 2009

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application by Sacramento Natural Gas Storage, LLC for a Certificate of Public Convenience and Necessity for Construction and Operation of Natural Gas Storage Facilities and Requests for Related Determinations	Application No. 07-04-013 (filed April 9, 2007)

STIPULATION OF SACRAMENTO NATURAL GAS STORAGE, LLC AND PACIFIC GAS AND ELECTRIC COMPANY

I. INTRODUCTION

Sacramento Natural Gas Storage, LLC ("Applicant" or "SNGS") and Pacific Gas and Electric Company ("PG&E") enter into the stipulations herein set forth to resolve all issues raised in PG&E's Protest of SNGS's Application, which PG&E filed with the California Public Utilities Commission ("Commission") in this proceeding on May 29, 2007.

II. STIPULATIONS

A. Computer System and Engineering Modeling Costs

SNGS agrees to pay PG&E in full the documented costs of adjusting PG&E's computer system and modeling program to add the SNGS natural gas storage facility for the purpose of customer nominations and other business transactions. Prior to PG&E beginning these computer system changes, SNGS will pay PG&E a cash advance for the estimated costs of the required computer system changes. After PG&E has completed adjusting its computer system and modeling program, PG&E will bill or pay (as applicable) SNGS the difference between the

estimated costs and the actual costs. Any final payment owed by SNGS to PG&E will be made prior to nominations or gas flow from PG&E to SNGS.

B. Winters Meter Station Upgrade

In order to accommodate the additional volumes of gas load at its primary interconnection point at the Sacramento Municipal Utility ("SMUD") Winters meter station, and to obtain necessary metering accuracy and reliability, the Winters meter station will be upgraded with an industry standard ultrasonic meter and controls in accordance with the design details specified in the letter agreement dated as of November 3, 2008, executed by SNGS, SMUD, and PG&E. The upgrades to the meter station will be completed prior to gas flow from PG&E to SNGS at the Winters meter station.

C. Operational Balancing Agreement Between SNGS and PG&E

SNGS and PG&E shall execute an Operational Balancing Agreement ("OBA") in the form of the OBA attached hereto and incorporated by reference as **Exhibit A**, which sets forth the terms and conditions for nominations and gas flow to or from SNGS at the Winters Meter Station.

D. Balancing Agreement Between SNGS and SMUD

SNGS shall have a Balancing Agreement with SMUD to account for and resolve any imbalances between the SNGS facility and the SMUD pipeline. Any imbalance issues between SMUD and SNGS will be the responsibility of SMUD and SNGS to clear. All volumes scheduled between SNGS and PG&E shall be deemed to be delivered at the Winters meter station as first gas through the meter with no resulting imbalance between SNGS and PG&E.

E. Additional Interconnections to SNGS

SNGS shall abide by applicable PG&E tariffs, including those applicable to customer and

producer connections to independent gas storage service providers as set forth in the September 30, 2005 Independent Storage Provider Interconnections Settlement Agreement, approved by the CPUC in Gas OIR, R.04-01-025, for direct connections to its storage facilities.

F. Bypass, Accounting and Auditing Procedures

SNGS shall not engage in or facilitate bypass of PG&E's duly authorized transportation rates and charges, public purpose program surcharges, and other charges. When nominating gas for delivery onto the PG&E gas system, SNGS will confirm, subject to audit, that the gas originated on the PG&E system before being placed into the storage field, prior to withdrawal. In addition, in order to properly bill SMUD under PG&E's applicable gas rules, tariffs or other applicable agreements between SMUD and PG&E, SNGS shall provide all data applicable to its direct connection with SMUD. These data shall include any gas quantities transferred from an SNGS customer's storage inventory account to the inventory account(s) of SMUD. These data will provide necessary information to determine what rate to charge SMUD for deliveries to its facilities since the various PG&E delivery rates charged to SMUD are dependent on the original transportation contract delivery of the gas to Winters.

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G. Nominations to/from SNGS

In order to provide all necessary information to PG&E for the correct billing of SMUD and other customers under PG&E's applicable gas rules and tariffs, and to report SNGS storage activity to the market, all nominations to or from SNGS shall also be placed to and from PG&E's system, including all nominations by SMUD into or out of SNGS.

Respectfully submitted,

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Sacramento Natural Gas Storage, LLC

Dated: January 8, 2009

EXHIBIT A
TO
STIPULATION
OF
SACRAMENTO NATURAL GAS STORAGE, LLC
AND
PACIFIC GAS AND ELECTRIC COMPANY

OPERATIONAL BALANCING AGREEMENT

BETWEEN

PACIFIC GAS AND ELECTRIC COMPANY

AND

SACRAMENTO NATURAL GAS STORAGE, LLC

DATED

____, 2009

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PG&E/SNGS
OPERATIONAL BALANCING AGREEMENT

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OPERATIONAL BALANCING AGREEMENT

THIS OPERATIONAL BALANCING AGREEMENT (Agreement) is made and entered into this _____ day of _____2009_, by and between Sacramento Natural Gas Storage, LLC ("SNGS"), a California limited liability corporation, and PACIFIC GAS AND ELECTRIC COMPANY ("PG&E"), a California corporation. PG&E and SNGS shall also be hereinafter referred to individually as a "Party" and jointly as the "Parties."

RECITALS

WHEREAS, SNGS has filed an application with the California Public Utilities Commission (CPUC) for a Certificate of Public Convenience and Necessity (CPCN) to receive authority (1) to own, develop, construct, and operate an underground natural gas storage facility and appurtenant pipeline facilities in Sacramento County, California and to physically connect its SNGS Facilities (defined herein) to the Sacramento Utility Municipal District ("SMUD") pipeline, and (2) to offer storage services to Shippers (defined herein) in accordance with CPUC authorized tariffs and subject to the jurisdiction of the CPUC; and

WHEREAS, PG&E Facilities (defined herein) and the SMUD pipeline physically interconnect at a point on PG&E's backbone transmission system on Line 401 at or near milepoint 255.24 referred to as the Winters Interconnect Point (defined herein); and

WHEREAS, SNGS and SMUD have executed operating, balancing, and other agreements between themselves that (1) permit the "indirect interconnection" of the SNGS Facilities to the PG&E transmission system at the Winters Interconnect Point, and (2) determine the terms and conditions whereby SNGS and SMUD shall operate and balance their respective systems for the purpose of the delivery of gas by SNGS to or from PG&E at the Winters Interconnect Point; and

WHEREAS, PG&E shall transport Gas to and from (by displacement) the Winters Interconnect Point on behalf of Shippers in accordance with PG&E's Gas rules, tariffs, processes, and this Agreement.

NOW, THEREFORE, in consideration of the promises and mutual benefits and covenants herein contained, PG&E and SNGS hereby agree as follows:

1. DEFINITIONS

Except in those instances where this Agreement expressly states another meaning, the following capitalized terms, when used in this Agreement, shall have the following meanings.

1.0 CPUC - The Public Utilities Commission of the State of California or any successor regulatory body.

1.1 Decatherm - One million (1,000,000) Btu.

1.2 FERC - The Federal Energy Regulatory Commission or any successor regulatory body.

1.3 Gas Day - A period of twenty-four (24) consecutive hours beginning at 7:00 a.m. Pacific Time (PT) on any day, such Gas Day to be identified by the calendar day on which it commences.

1.4 Natural Gas and Gas - Any mixture of hydrocarbons or of hydrocarbons and non-combustible gases, in a gaseous state, consisting essentially of methane.

1.5 PG&E Facilities - The pipelines, land rights, measurement, gas quality, valves, data acquisition and other appurtenant equipment owned or operated by PG&E in

Northern and Central California, and more particularly, where the context requires, at and on PG&E's side of the Winters Interconnect Point.

1.6 SNGS Facilities - The storage reservoir, connecting pipeline, land rights, valving, compression, dehydrator, odorizing, flow control, regulation, communication, and other appurtenant equipment owned and operated by SNGS and connected to the SMUD pipeline downstream of the Winters Interconnect Point.

1.7 Scheduled Quantity - The quantity of Gas, expressed in Decatherms, for each Shipper of Gas on PG&E's Facilities scheduled by PG&E, or under certain circumstances set forth herein scheduled and subsequently reduced, for delivery to or receipt (by displacement) from SNGS, provided that each Shipper has nominated such Gas quantities to PG&E and SNGS has submitted a corresponding nomination to PG&E confirming such Gas quantities shall physically flow to or from SNGS, and further provided, that in the case of a PG&E delivery to SNGS, there is confirmation by the applicable Gas supply source, or, in the case of a PG&E receipt from SNGS, a confirmation from the applicable delivery destination.

1.8 Shipper(s) - A third party for whose account Gas is transported on a firm or interruptible basis by PG&E to or from the Winters Interconnect Point, under PG&E transportation agreements.

1.9 Trading Imbalance - The resulting quantity of Gas, expressed in Decatherms, when Shipper's trade into SNGS storage accounts are netted against Shipper's trades out of SNGS storage accounts under PG&E's Schedule G-BAL, or successor rate schedule or tariff.

1.10 Winters Interconnect Point - The point at which PG&E Facilities interconnect with the SMUD pipeline at or near milepoint 255.24 on PG&E's Line 401

in Sacramento County, and PG&E delivers gas and receives gas (by displacement) on behalf of SNGS and its customers, in addition to gas deliveries from PG&E to SMUD.

2. TERM AND TERMINATION

2.1 This Agreement shall become effective pursuant to the effective date of the CPUC approval of the SNGS CPCN and, unless it is terminated in accordance with Paragraph 2.2 or Paragraph 8.5, shall remain in effect for as long as the SNGS Facilities have rights to use the SMUD owned and operated pipelines that connect to the PG&E gas transmission facilities at the Winters Interconnect Point.

2.2 This Agreement may be terminated by PG&E if (a) SNGS ceases to have access to those SMUD pipelines that permit the "indirect interconnection" of the SNGS Facilities to the PG&E gas transmission system; or (b) SNGS materially breaches this Agreement.

2.3 If this Agreement is terminated pursuant to Paragraph 2.2 or Paragraph 8.5, PG&E may, without liability to SNGS or to any SNGS customer, cease to accept gas nominations for SNGS for deliveries of gas to or from SNGS at the Winters Interconnect Point.

3. DELIVERY OF GAS AND EQUIPMENT

3.1 PG&E shall effectuate delivery of Gas to SNGS at the Winters Interconnect Point by physical delivery in accordance with its tariffs. SNGS shall effectuate delivery of Gas to PG&E at the Winters Interconnect Point by displacement. SNGS delivery of gas to PG&E at the Winters Interconnect Point by displacement shall be equal to or less than total forward flow from PG&E to the Winters Interconnect Point, up to the maximum SNGS certificated withdrawal quantity.

3.2 Subject to paragraphs 4.2 and 4.4 hereof, and PG&E's Gas rules and tariffs, PG&E shall use reasonable efforts to deliver Gas to and receive Gas from SNGS at the

Winters Interconnect Point, provided, however, the Gas is a) delivered or received on behalf of PG&E Shippers pursuant to PG&E's rate schedules, tariffs, Gas rules and applicable service agreements, or is b) delivered or received pursuant to the provisions of this Agreement at section 5 providing for the reduction or elimination of Trading Imbalances.

3.3 PG&E shall use reasonable efforts to schedule maintenance of PG&E Facilities, to minimize interruptions of Scheduled Quantities to or from SNGS. For maintenance scheduled in advance which will foreseeably result in an outage lasting more than 12 consecutive hours, PG&E shall use reasonable efforts to give approximately 30 days notice. Notwithstanding the above, PG&E may interrupt deliveries or receipts of Gas at the Winters Interconnect Point in order to test, alter, modify, enlarge, repair or improve any part of PG&E Facilities. In such cases, as circumstances will permit, PG&E shall give prior notice to SNGS, and shall complete such tests, alterations, modifications, enlargements, repairs or improvements as soon as practicable and with the least inconvenience to SNGS.

3.4 Risk of loss of all Gas shall pass at the Winters Interconnect Point. PG&E shall not be responsible to any Shipper, third party, SNGS or SNGS customer for any Gas losses or delays (due to operating conditions or constraints, *force majeure* or otherwise) or damages occurring or arising on the SNGS side of the Winters Interconnect Point, and SNGS shall not be responsible to any Shipper, third party, or PG&E for Gas losses or delays (due to operating conditions or constraints, *force majeure* or otherwise) for damages occurring or arising on PG&E's side of the Winters Interconnect Point. Each Party shall hold harmless, defend and indemnify the other Party pursuant to paragraph 8 in the event a claim, suit or proceeding is brought against the other Party for such losses or delays on the first (indemnifying) Party's side of the Winters Interconnect Point.

4. NOMINATIONS AND SCHEDULING

4.1 The Parties acknowledge that PG&E has entered into, or may enter into, one or more agreements with Shippers for the transportation of Gas to or from SNGS at the Winters Interconnect Point. PG&E shall accept nominations for, and schedule and transport such Shipper Gas to or from SNGS at the Winters Interconnect Point pursuant to sections 3 and 5 and paragraphs 4.2 and 4.4 hereof, and applicable Shipper transportation agreements.

4.2 Nominations for and scheduling of quantities on PG&E Facilities to or from SNGS at the Winters Interconnect Point shall be pursuant to PG&E's normal nominating and scheduling rules, tariffs, process, and timelines, as may be revised from time to time, including prioritizing those nominations that, when cumulated with other nominations, exceed the nomination limitations.

4.3 The Parties acknowledge that subject to storage capacity, operating conditions or constraints on SNGS Facilities, and obligations to eliminate Trading Imbalances as set forth herein, SNGS may accept storage service requests for each Gas Day from its customers. To confirm that Gas shall be delivered by PG&E or received by PG&E from SNGS at the Winters Interconnect Point, SNGS shall submit nominations to PG&E which correspond to nominations PG&E has received from Shippers pursuant to paragraph 4.1 for transport of such Gas to or from SNGS. SNGS shall submit such corresponding nominations to PG&E through PG&E's electronic nominating system INSIDEtracc, or its successor, pursuant to PG&E's normal nominating and scheduling rules.

4.4 Subject to paragraph 4.2, and applicable and executed Shipper transportation agreements, operating conditions or constraints on PG&E's Facilities, and obligations to eliminate Trading Imbalances as set forth herein, PG&E shall accept nominations from Shippers and corresponding confirming nominations from SNGS each Gas Day. Pursuant to paragraph 4.2 and 4.3 these nominations shall become Scheduled

Quantities on PG&E Facilities provided that, in the case of PG&E delivery to SNGS there is confirmation to PG&E by the applicable gas supply source, or in the case of a PG&E receipt from SNGS, confirmation at the delivery destination.

4.5 PG&E may temporarily interrupt the delivery of Gas to or from SNGS at the Winters Interconnect Point in the event of projected or actual capacity constraints or projected or actual supply shortages on PG&E Facilities and may reduce Scheduled Quantities pursuant to the provisions of PG&E's tariffs. PG&E shall use reasonable efforts to inform and co-ordinate such interruptions with SNGS.

4.6 Each Gas Day PG&E shall provide SNGS a report of Confirmed and Scheduled Quantities of Gas utilizing PG&E's electronic nominating system INSIDEtracc, or its successor.

5. GAS BALANCING

5.1 In entering into this Agreement, each Party intends to deliver Gas to or from the other Party such that, for each Gas Day, there is no imbalance between PG&E and SNGS. For PG&E Shipper Gas accounting and billing purposes, all Scheduled Quantities for a given Gas Day shall be deemed to be transported on PG&E's Facilities and delivered to or from SNGS on behalf of said Shipper. In addition, PG&E will account for all SNGS Scheduled Quantities as delivered to or received from SNGS at the Winters Interconnect Point as the first gas through the meter. SNGS and SMUD shall have a separate operating and balancing agreement in place which determines and addresses all terms and conditions between SNGS and SMUD concerning any and all imbalances between SNGS Scheduled Quantities and actual deliveries to or from SNGS Facilities on the SMUD pipeline.

5.2 The Parties recognize that a physical gas imbalance between PG&E and SNGS may arise from time to time due to PG&E Shipper imbalance trades into or out of SNGS storage accounts pursuant to PG&E's Schedule G-BAL, as revised from time to

time. Such trades shall be approved by SNGS prior to final acceptance by PG&E on behalf of the affected Shipper(s).

5.3 SNGS and PG&E shall cooperate with one another, and shall communicate with one another on a daily basis as appropriate, to discuss and reach agreement on the elimination or reduction of a Trading Imbalance as provided in this Agreement.

(a) The trades described in paragraph 5.2 may create, at the end of each Trading Period (as that term is described in Schedule G-BAL), a Trading Imbalance between SNGS and PG&E. A Trading Imbalance results when there is a net trade into SNGS storage accounts (a positive Trading Imbalance); or a net trade out of SNGS storage accounts (a negative Trading Imbalance).

(b) Such trades shall be subject to load balancing and operational constraints on PG&E's Facilities. Prior to the implementation of each Trading Period PG&E shall inform SNGS of the maximum allowable Trading Imbalance PG&E will accept for that month's Trading Period.

(c) Each month, after the close of the Trading Period, PG&E shall deliver to SNGS, via INSIDEtracc, or its successor, a statement (Trading Imbalance Account Statement) which shall contain the resulting Trading Imbalance for the month (Monthly Trading Imbalance). In addition, the Trading Imbalance Account Statement shall include the Trading Imbalance Account quantity which is to be reduced to zero pursuant to paragraph 5.3(d), and which consists of the Monthly Trading Imbalance for the month, plus any prior Trading Imbalance described in 5.3(e) and not reduced to zero.

(d) Within 30 days after the Trading Imbalance Account Statement is delivered to SNGS the Parties shall reduce the Trading Imbalance Account to zero, on a best efforts basis.

(i) Each day the Parties shall agree to the quantity of gas to be delivered for the following Gas Day and shall confirm such quantities in writing delivered by facsimile or other electronic data exchange;

(ii) When the Trading Imbalance Account is positive, SNGS shall nominate the agreed upon quantity for the Gas Day from the Trading Imbalance Account to SNGS;

(iii) When the Trading Imbalance Account is negative, SNGS shall nominate the agreed upon quantity for the Gas Day from SNGS to the Trading Imbalance Account.

(e) In the event that the Trading Imbalance Account is not reduced to zero by the end of said 30 day period, any remaining amount shall be used in the calculation and determination of the next maximum allowable Trading Imbalance pursuant to paragraph 5.3(b).

5.4 For purposes of this Agreement, delivery of Gas by one Party to the other Party to reduce or eliminate a Trading Imbalance shall not be subject to sales or transportation charges by either Party.

5.5 The Parties may resolve, or seek resolution of, any disagreement as to a Trading Imbalance or their calculation hereunder in accordance with Paragraph 12. Pending resolution of any such disagreement, the affected Trading Imbalance Statement shall be presumed to be correct and the provisions of this Agreement providing for elimination of such imbalances shall continue thereto. A Party's elimination or reduction of any disputed imbalance(s) shall not be deemed to be a waiver of that Party's rights to recoup or recalculate any such imbalance amount.

6. REGULATORY

6.1 This Agreement is subject to all valid applicable local, state and federal laws, orders, rules, and regulations of any governmental body, agency, or official having jurisdiction.

6.2 Nothing in this Agreement shall be interpreted to require either Party to take any action that would be inconsistent with its applicable tariffs or violate any governmental regulation or authority.

6.3 PG&E shall not be required to take any action hereunder, including but not limited to entering into any contracts with Shippers or other parties transporting Gas to or from SNGS, which, in the good-faith and reasonable exercise of PG&E's judgment, may jeopardize PG&E's retention of its "Hinshaw Exemption" under the Natural Gas Act.

6.4 SNGS shall not be required to take any action hereunder, including, but not limited to, entering into contracts with Shippers or other parties transporting Gas on PG&E's facilities, which, in the good-faith and reasonable exercise of SNGS's judgment, may cause SNGS to be subject to the jurisdiction of the FERC.

6.5 Notwithstanding any other provisions of this Agreement, if at any time during the term hereof, any court or governmental authority having jurisdiction shall propose to take any action whereby either Party's delivery, receipt, and/or use of Gas hereunder shall be proscribed or subjected to terms, conditions, regulations, restraints, or limits that in the reasonable judgment of that Party prevents it from acting in a reasonable manner to fulfill the terms of this Agreement, such Party shall forthwith notify the other party including full particulars of the action proposed to be taken in order to give that party the opportunity to intervene or protest such action being taken. If such court or governmental authority shall take any such action which in the reasonable judgment of the Party that is directly affected by that action prevents it from acting in a

reasonable manner to fulfill the terms of this Agreement, such Party shall have the unilateral right to terminate this Agreement at any time upon twelve (12) months, unless the circumstances reasonably support a shortened time period to terminate, written notice to the other Party, without further liability hereunder, except as to redelivery of any outstanding Gas Trading Imbalances. Prior to exercising such right of termination, both Parties herein shall enter into good faith negotiations in an effort to reach mutual agreement to modify this Agreement as reasonably required in order to avoid such termination.

6.6 Nothing herein shall be construed as a dedication by either Party of its respective facilities to the other Party. Both PG&E and SNGS may each construct additional facilities on their respective Facilities as they may deem necessary or appropriate in their sole discretion. Nothing herein shall obligate either Party to construct any additional facilities or to modify any existing facilities to provide for the receipt or delivery of Gas. Required new facilities and necessary modifications for the delivery of Gas to SNGS at the Winters Interconnect Point have been addressed separately in other agreements and as set forth in the SNGS CPCN.

7. REMEDIES

Each Party agrees that its sole remedies for nonperformance, breach or other default by the other Party in the performance of its obligations under this Agreement shall be as specified in this Agreement. Both Parties agree to use commercially best efforts and actions to correct any such nonperformance, breach or default in a timely manner.

8. INDEMNIFICATION

8.1 Indemnity - Each Party shall be solely responsible for and shall indemnify, defend and hold harmless the other Party, its parent and affiliates including its officers, Board of Directors, agents, contractors, and employees thereof against losses, costs and expenses (including in-house and outside attorneys' fees), claims, enforcement actions,

judgments or other obligations or liabilities, resulting from physical injury to property or person, or a violation of a local, state or federal common law, statute or representation, arising from the indemnifying Party's performance or nonperformance of its obligations under this Agreement; *provided*, however, that neither Party shall be obligated to indemnify the other Party against any losses, however caused, to the extent the same arise from the negligence, gross negligence, or willful or criminal misconduct of the indemnitee.

8.2 Limitation of Liability - Notwithstanding any other provision hereof, neither Party shall be liable to the other party, or assessed pursuant to Section 12 or otherwise, for any special, punitive, consequential, incidental, or indirect damages from this Agreement, whether in contract or tort, for any actions or inactions related hereto.

9. ASSIGNMENT

This Agreement shall be binding upon and inure to the benefit of each of the Parties and their respective successors and assigns; provided, however, that no Party may assign or transfer this Agreement or any part thereof, or any right or obligation hereunder, without the written consent of the other Party, which may not be unreasonably withheld. Any such assignment which requires written consent hereunder, but which is made without such written consent, shall be null and void. Notwithstanding the above, any assignment of the entire interest and obligations of the assigning Party may be made to a parent or affiliate of such assigning Party, or to an entity succeeding to all or substantially all of the business properties and assets of the assigning Party, following written notice to the other Party; provided that, such assignee has agreed in writing to be bound by and to abide by the provisions of this Agreement.

10. INFORMATION

Each Party shall have the right to request that the other Party provide information that is sufficient to verify the accuracy of any computation contemplated under this Agreement. All reasonable efforts shall be made by the Parties to resolve any disputed

computations. Unresolved disputed computations may be submitted by either Party for resolution as described in paragraph 12 of this Agreement. Notwithstanding the above, neither Party shall be required to provide the other Party with information that is confidential, proprietary, or in violation of the rules and regulations of either the FERC or CPUC.

11. FORCE MAJEURE

11.1 In the event either Party is rendered unable, wholly or in part, by force majeure (as defined in paragraph 11.2) to carry out its respective obligations under this Agreement, it is agreed that, upon such Party giving notice and reasonably full particulars of such force majeure in writing or by telecopy or by telephone (and confirmed in writing within seventy-two [72] hours), to the other Party within a reasonable time after the occurrence of the cause relied on, then the obligations of the Party giving such notice, so far as they are affected by such force majeure, shall be suspended during the continuance of the effects of the cause, and the Party subject to such cause shall remedy it so far as possible with all reasonable dispatch.

11.2 The term "force majeure," as employed herein, shall mean an event or events beyond the reasonable control of a Party and which could not be avoided by the exercise of due diligence by the party claiming force majeure and shall include, but not be limited to, acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, high water, washouts, arrests and restraints of governments and people, civil disturbances, explosions, breakage or accident to machinery or lines of pipe, freezing lines of pipe, acts of civil or military authority (including, but not limited to, courts, or administrative or regulatory agencies). The term “force majeure” shall likewise include (i) those instances where any Party hereto is required to obtain servitudes, rights-of-way, grants, permits or licenses to enable such Party to fulfill its obligations hereunder, and such Party is unable to so acquire, is delayed in acquiring at reasonable costs and after the exercise of reasonable diligence,

such servitudes, rights-of-way, grants, permits, certificates or licenses; and (ii) those instances where any Party hereto is required to furnish materials and supplies for the purpose of constructing or maintaining facilities or is required to secure permits, or certificates of permission from any governmental agency to enable such Party to fulfill its obligations hereunder, and such Party is unable to so acquire, or is delayed in acquiring, at reasonable costs and after the exercise of reasonable diligence, such materials and supplies, permits and permissions. Failure of an administrative agency to authorize recovery of costs shall not constitute force majeure. It is understood and agreed that the settlement of strikes or lockouts shall be entirely within the discretion of the Party having the difficulty, and the above requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts by acceding to the demands of the opposing party or others when such course is inadvisable in the discretion of the Party having the difficulty.

12. DISPUTE RESOLUTION

12.1 Within thirty (30) days of written notice from either Party to the other that there is a dispute, claim, or need for interpretation arising out of or relating to this Agreement, the Parties shall meet and attempt to reach an amicable settlement by management-level negotiation. If the matter is not resolved within thirty (30) days of such meeting, the matter shall be resolved in the manner set forth in paragraphs 12.2 and 12.3, which shall be in lieu of litigation before any regulatory agency or state or federal courts.

12.2 At either Party's request, the Parties shall attempt to resolve their dispute through non-binding mediation utilizing a mutually agreed-upon mediator. The Parties may establish ground rules for the mediation at least fourteen (14) days in advance of the mediation meeting. The mediation shall be held in San Francisco, California and shall commence within thirty (30) days of a Party's request for mediation and an officer for each Party shall participate therein. Each Party shall bear its own mediation costs. The costs and expenses of the mediator shall be divided equally between the Parties.

12.3 If no settlement is reached as a result of the procedures prescribed in paragraph 12.2, the matter shall be submitted to binding arbitration pursuant to the Commercial Arbitration Rules of the American Arbitration Association (AAA) (including any rules for expedition of the hearing process); provided, however, such rules shall be modified as necessary to reflect the following:

(a) Unless the Parties otherwise agree, the arbitration panel shall be composed of three persons. Each Party shall nominate one arbitrator, and the two arbitrators so appointed shall appoint a third, who shall act as the presiding arbitrator or chair of the panel. Such third arbitrator shall have at least 10 years experience as a lawyer or lawyer and judge and shall have significant experience in the natural gas pipeline industry. If either Party fails to nominate an arbitrator within thirty (30) days of receiving notice of the nomination of an arbitrator by the other Party, such (second) arbitrator shall be appointed by the AAA at the request of the first Party. If the two arbitrators so selected fail to select a third presiding arbitrator, the third arbitrator shall be appointed by the AAA. Should a vacancy occur on the panel, it shall be filled by the method by which that arbitrator was originally selected.

(b) The arbitration shall be held at a location to be agreed by the Parties, or, failing such an agreement, at San Francisco, California.

(c) The arbitrators shall hold a preliminary meeting with the Parties within thirty (30) days of the appointment of the third arbitrator for the purpose of determining or clarifying the issues to be decided in the arbitration, the specified procedures to be followed, and the schedule for briefing and/or hearings. The arbitrators shall hold a hearing and, within one hundred and thirty (130) days of the matter having been submitted for decision shall issue a written decision and include findings of fact and conclusions of law.

(d) Such decision shall thereafter be deemed to be part of this Agreement and incorporated by reference herein.

(e) Pending such decision, the Parties shall continue to operate under the Agreement; however, the decision by the arbitrators should consider specifically the appropriateness of retroactive adjustments to the date the dispute first arose.

(f) The United States District Court for the Northern District of California or the Superior Court of the State of California in and for the City and County of San Francisco may enter judgment upon the panel's decision, either by confirming the decision or by vacating, modifying, or correcting the decision. The Court may vacate, modify, or correct any such decision only: (i) if there exists any of the grounds therefore referred to in the United States Arbitration Act, or (ii) to the extent that the panel's conclusions of law are erroneous.

(g) The cost of the arbitrator appointed by or for SNGS shall be paid for by SNGS; the cost of the arbitrator appointed by or for PG&E shall be paid for by PG&E; and the cost of the third arbitrator and any attendant cost shall be borne equally by the Parties.

(h) Neither Party shall be assessed any punitive damages.

(i) In the event it is necessary to enforce an arbitration award, all costs of enforcement, including reasonable attorney fees (for in-house and outside counsel), shall be payable to the prevailing Party.

13. NOTICE

13.1 Any notice, request, demand, or statement provided for in this Agreement shall be in writing and deemed given when deposited in the United States mail, postage prepaid, directed to the post office address of the Parties as follows:

AGREEMENT NOTICES AND OTHER CORRESPONDENCE

Sacramento Natural Gas Storage, LLC
8031 Fruitridge Road, Suite B
Sacramento, CA 95820
Telephone: 916 388 2088
Telecopier: 916 388 2087
Attn:

Pacific Gas and Electric Company
77 Beale, Room 1611, B16A
P.O. Box 770000
San Francisco, CA 94177
Telephone: (415) 973-2152
Telecopier: (415) 973-0750
Attn: Director, Gas System Operations

DISPATCHING AND NOMINATIONS

Sacramento Natural Gas Storage, LLC
8031 Fruitridge Road, Suite B
Sacramento, CA 95820
Telephone: 916 388 2088
Telecopier: 916 388 2087
Attn:

Pacific Gas and Electric Company
77 Beale Street, Room 1643, B16A
P.O. Box 770000
San Francisco, CA 94177
Dispatch Telephone: (415) 973-3214
Nominations: (415) 973-2424
Telecopier: (415) 973-0649

13.2 Either Party may from time-to-time change or designate another address, or telephone or facsimile number for such purposes upon thirty (30) calendar days prior written notice by the Party requesting such change.

13.3 Notices, requests, and demands may also be delivered by facsimile or other electronic transmittal provided that such facsimile or electronically conveyed notice, request or demand is confirmed in writing delivered as provided in paragraph 13.1 within three (3) business Days of receipt of facsimile or other electronic notice. Notices regarding routine operations may be exclusively communicated by facsimile or other electronic means. All nominations and confirmations may be communicated by facsimile or via electronic data exchange when such systems are operational.

14. ADDITIONAL PROVISIONS

14. 1 No consent, waiver, or acquiescence, expressed or implied, by either Party of any breach or default by the other Party in the performance of its obligations hereunder shall be deemed or construed to be a consent to or waiver of any other breach or default in the performance of any such obligation or any other obligation of the other

Party. Failure on the part of either Party to complain of any act or failure to act by the other Party or to declare the other Party in default, regardless of how long such failure continues, shall not constitute a waiver by such Party of any of its rights hereunder.

14. 2 This Agreement supersedes all prior agreements, representations and understandings, written or oral, pertaining to the subject matter.

14. 3 This agreement and the obligation of the parties hereunder shall be interpreted, construed and controlled by the laws of the state of California.

14.4 This Agreement was jointly negotiated, and any ambiguities or uncertainties in the wording of this Agreement shall not be construed for or against either Party, but shall be construed in a manner which most accurately reflects the intent of the Parties when this Agreement was executed.

14.5 This Agreement may be amended only by an instrument in writing executed by both Parties hereto.

14.6 Each Party shall do all necessary acts and make, execute, and deliver such written instruments as shall from time to time be reasonably necessary to carry out the terms of this Agreement.

14.7 Whenever the context may require, the singular form of nouns, pronouns and verbs shall include the plural and vice versa.

14.8 The descriptive headings of all paragraphs of this Agreement are formulated and used for convenience only and shall not be deemed to affect the meaning or construction of any such paragraphs.

14.9 Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of that prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of that provision in any other jurisdiction.

14.10 Any changes ordered by the CPUC to any of the procedures established under this agreement shall be entered in writing as an amendment within sixty (60) days of such CPUC order(s).

14.11 This Agreement is intended solely for the benefit of the Parties and their permitted successors and assigns and, except as may be specifically set forth herein, is not intended to and shall not confer rights or benefits upon any other party.

14.12 Unless expressly noted, references to "PG&E" in the Agreement shall not be to PG&E's Core Procurement Department or PG&E's Electric Fuels Supply Department (or successor departments), which purchase gas and transports gas as a Shipper on interstate pipelines and in PG&E's gas service territory.

IN WITNESS WHEREOF, the Parties have, through their duly authorized officers or employees, executed this Agreement as of the date herein above written.

PACIFIC GAS AND ELECTRIC COMPANY	SACRAMENTO NATURAL GAS STORAGE, LLC
By: _____	By: _____
Director, Gas System Operations	Jim Fossum Chairman of the Board
Date: _____	Date: _____

CERTIFICATE OF SERVICE

I hereby certify that I have this day served by electronic mail to each person listed on the attached service list, and by U.S. Mail to the Assigned Commissioner, in accordance with Rules 1.9 and 1.10 of the Commission's Rules of Practice and Procedure, the **STIPULATION OF SACRAMENTO NATURAL GAS STORAGE, LLC AND PACIFIC GAS AND ELECTRIC COMPANY** as submitted for electronic filing in proceeding A.07-04-013 on January 9, 2009.

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

Dated January 9, 2009, at Sacramento, California.

Alfred F. Jahns

CPUC Home

CALIFORNIA PUBLIC UTILITIES COMMISSION
Service Lists

PROCEEDING: A0704013 - SACRAMENTO NATURAL G
FILER: SACRAMENTO NATURAL GAS STORAGE, LLC
LIST NAME: LIST
LAST CHANGED: JANUARY 5, 2009

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(End of Attachment B)