ORIGINAL NEW APPLICATION

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BEFORE THE ARIZONA CORPORATION COMMISSION

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BARRY WONG

| | |
|---|---|
| IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR PRE-APPROVAL OF COST RECOVERY FOR PARTICIPATION IN THE TRANSWESTERN PIPELINE PHOENIX PROJECT. | G-04204A-06-0627<br>DOCKET NO. G-04204A-06-______<br><br>**APPLICATION** |

UNS Gas, Inc. ("UNS Gas"), through undersigned counsel, respectfully applies to the Arizona Corporation Commission ("Commission") for pre-approval of the cost recovery associated with UNS Gas' participation in the Transwestern Pipeline Phoenix Expansion Project ("Phoenix Project") as follows:[1]

## I. BACKGROUND.

On December 18, 2003 the Commission issued its "Policy Statement Regarding New Natural Gas Pipeline and Storage Costs." The policy stated that the Commission recognizes the need for developing new gas infrastructure in Arizona to serve the growing gas demand of the State. The policy further stated that in order to encourage this infrastructure development in Arizona, the Commission would consider pre-approval of cost recovery for utilities. Pursuant to this policy, UNS Gas files this application for pre-approval of its cost recovery related to its participation in the Phoenix Project. UNS Gas proposes to recover these costs through its existing Purchased Gas Cost Adjustment ("PGA") mechanism.

[1] The Commission has already approved similar applications by Southwest Gas Corporation and Arizona Public Service Company. See Decision Nos. 68753 and 68597.

UNS Gas believes that the facts and circumstances set forth in this application demonstrate that pre-approval of UNS Gas' cost recovery is in the public interest.

## II. TRANSWESTERN PIPELINE, LLC ("TRANSWESTERN") AND THE PHOENIX PROJECT.

Transwestern operates a 2,400 mile pipeline that transports natural gas from the San Juan, Anadarko, and Permian Basins to markets in the Midwest, Texas, Arizona, New Mexico, Nevada, and California. Originating in the Permian Basin, Transwestern's mainline runs Northwest across New Mexico, then traverses the northern portion of Arizona, parallel with the El Paso Natural Gas Company ("El Paso") northern mainline, through the heart of UNS Gas' service territory, and terminates at the California Border near Topock, Arizona. At Gallup, New Mexico, Transwestern's mainline interconnects with a large lateral that extends northward to the San Juan Basin. UNS Gas has an existing contract with Transwestern on its mainline and San Juan lateral that, along with El Paso, provides for diversity in the delivery of gas supplies to UNS Gas' Kingman and Flagstaff service areas.

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The Phoenix Project, which was filed with the Federal Energy Regulatory Commission ("FERC") in Docket No. CP06-459, will use a mix of new and existing Transwestern facilities to serve central Arizona. Originating in the San Juan Basin, the project will use existing San Juan Lateral capacity, San Juan Lateral capacity currently under construction as part of Transwestern's San Juan Expansion Project, and incremental capacity proposed under further expansion of the San Juan Lateral. Existing mainline facilities will transport supplies from the San Juan Lateral to the new Phoenix Lateral at a point near the community of Ash Fork in Yavapai County, Arizona. The Phoenix Lateral will consist of approximately 258 miles of new pipeline extending south from the Transwestern mainline near Flagstaff, through UNS Gas' service territory in Yavapai County, to delivery points in and around the Phoenix area. The Phoenix Project would provide an additional 500,000 Dth/day without compression and up to 1,200,000 Dth/day with compression facilities. Transwestern does not anticipate including compression in the initial phase. The entire 500,000 Dth/day will have primary San Juan receipt point rights. The in-service date is projected to be summer 2008. Proposed interconnections for the project include: UNS Gas in Yavapai County and Southwest Gas, Salt River Project, Redhawk Power Plant, Mesquite Power Plant, Arlington Valley Power Plant, Gila River Power Plant and El Paso's southern mainline in the Phoenix area.

On April 20, 2006, in Docket No. CP06-57, the FERC approved El Paso's purchase of the Santan Expansion Lateral from Salt River Project ("SRP") to reinforce its system in the east valley. As part of the sales agreement, SRP will retain an option to repurchase a portion of the lateral which could be assigned to Transwestern as part of its Phoenix Project and will avoid duplication of facilities.

## III. PHOENIX PROJECT AGREEMENT.

On September 14, 2006, UNS Gas entered into the Phoenix Project Expansion Agreement ("Expansion Agreement") with Transwestern. The Expansion Agreement defines the nature of the project and establishes the conditions and prerequisites that must be met before UNS Gas ultimately acquires capacity on the Phoenix Project. The substance and format of the Expansion Agreement is substantially the same as that entered into by SWG and filed with their pre-approval filing in February. Once all of the prerequisites are met, UNS Gas will execute a Firm Natural Gas Transportation Agreement ("Transportation Agreement"). A copy of the Expansion Agreement is included as Attachment A. The Transportation Agreement is included as an attachment to the Expansion Agreement. The initial term of the Transportation Agreement begins once the Phoenix Project has been placed in service and continues for a term of 15 years.

## IV. PROPOSED SERVICE FROM TRANSWESTERN.

Based on Transwestern's proposed route through UNS Gas' service territory in Yavapai County, there are three potential interconnection points between UNS Gas' distribution system and the Phoenix Project. A general map of these interconnections and a Tranwestern press release showing the route through Yavapai county are attached as Attachment B. The capacity commitments to Transwestern associated with each of these points are shown in the table below:

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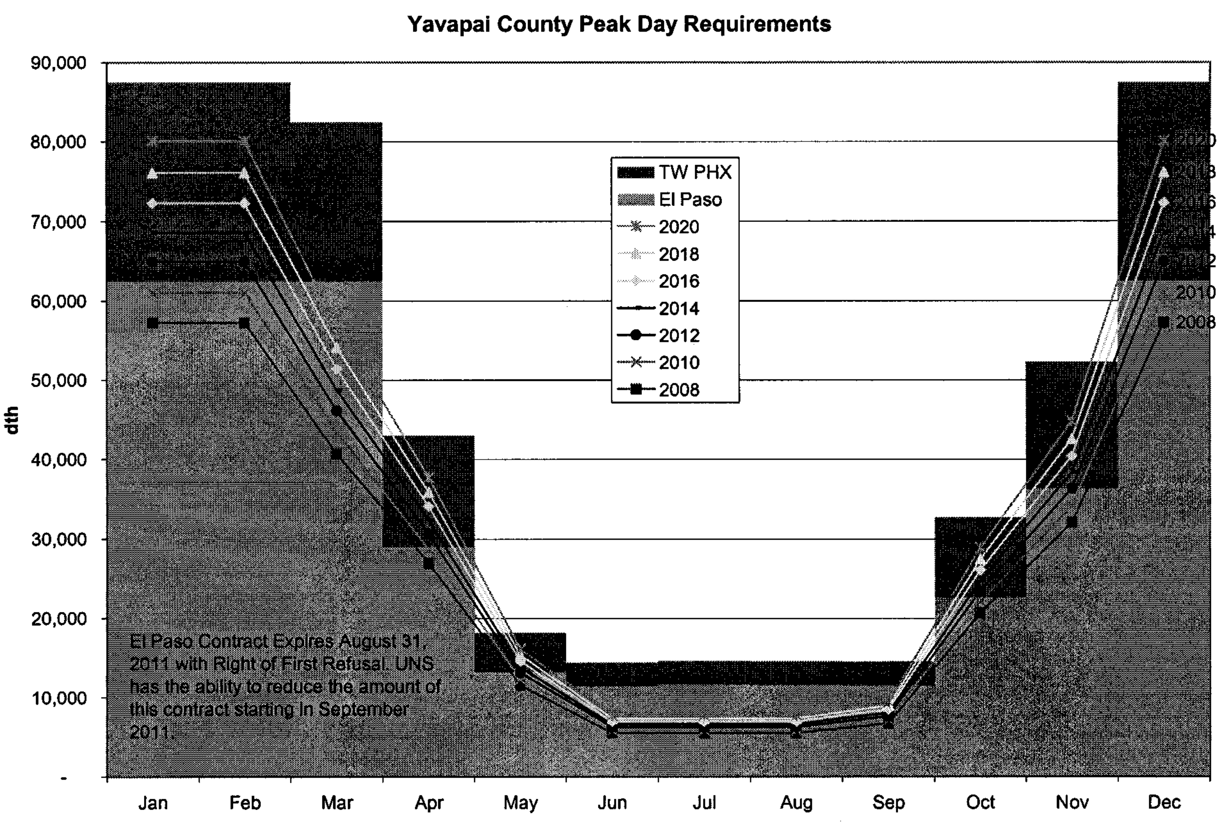
Table 1. UNS Capacity Commitments

| Station | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Contract MDQ (dth) | | | | | | | | | | | |
| Prescott South | 16,000 | 16,000 | 12,800 | 9,000 | 3,200 | 1,900 | 1,900 | 1,900 | 1,900 | 6,400 | 10,300 | 16,000 |
| Airport Station | 6,400 | 6,400 | 5,100 | 3,600 | 1,300 | 800 | 800 | 800 | 800 | 2,600 | 4,100 | 6,400 |
| Chino Valley | 2,600 | 2,600 | 2,100 | 1,400 | 500 | 300 | 300 | 300 | 300 | 1,000 | 1,600 | 2,600 |
| Total | 25,000 | 25,000 | 20,000 | 14,000 | 5,000 | 3,000 | 3,000 | 3,000 | 3,000 | 10,000 | 16,000 | 25,000 |

By acquiring this capacity, UNS Gas estimates that it will have sufficient capacity in the Yavapai County area through 2020. The forecasted peak demand in this area, along with both the existing EPNG and Phoenix Project capacity through 2020 is shown below in Figure 1. These capacity requirements are based on forecasted growth assumptions.

Figure 1.




It is clear that additional capacity is needed in the fast growing portion of UNS Gas' service territory. As can be seen in Figure 1, the addition of the Phoenix Project capacity in 2008 provides some excess capacity in the first few years of the project. Given the long development

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and construction timelines of pipeline projects, it is necessary to have periods of excess capacity to insure future minimum capacity needs are met.

UNS Gas' existing El Paso contract has a primary term ending August 31, 2011. Participation in the Phoenix Project will provide UNS Gas the ability weigh the pros and cons of service on the two competing pipelines, including the new restrictive operational limitations on El Paso, in the Yavapai area when determining its post-2011 capacity needs. UNS Gas already has this ability in the Flagstaff and Kingman areas where it receives service on both El Paso and Transwestern pipelines. This could potentially allow UNS Gas to turn back portions of its El Paso capacity in 2011 and contract for more Phoenix Project capacity.

## V. PHOENIX PROJECT RISKS.

The primary risks resulting from participation in the Phoenix Project are as follows:

1. **Project Completion**. There is no guarantee that the Phoenix Project will be completed. Transwestern has the option to cancel the project if it deems that it is no longer economical to construct. Transwestern also has the ability to cancel the project if SRP, SWG or APS cancel their respective Expansion Agreements.
2. **Delayed Project Completion**. While UNS Gas has the ability to cancel its agreement if the project is not in commercial operation by April 30, 2010 (see Section 7 of the Attachment A), a shorter delay that does not trigger this option could potentially cause UNS Gas to expend capital resources to reinforce its distribution system that would not otherwise be required.
3. **Future UNS Gas Growth**. Expected future demand growth in the UNS Gas' territory served by the Phoenix Project may not occur as forecasted. Consequently, it may take longer for UNS Gas to fully utilize the capacity. Tempering this risk is the ability to turn back El Paso capacity in 2011.

In addition, the following risks are potentially mitigated by the Expansion Agreement:

1. **Volatile Rate Increases**. The Expansion Agreement provides fixed rates through the entire 15 year term of the Transportation Agreement.

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2. **Operational Changes**. The Expansion Agreement provides defined service flexibility and an Operational Balancing Agreement (See Attachment C to the Expansion Agreement). This allows a defined amount of flexibility that cannot be removed by the pipeline for the term of the Transportation Agreement.

## VI. PROJECT COSTS AND ECONOMICS.

The daily reservation rate for UNS Gas for this project is $0.415/dth, fixed for the term of the Transportation Agreement. UNS Gas' rate is discounted from the rate that Phoenix Shippers pay due to the shorter distance transportation service required. If UNS Gas uses its capacity to transport gas to Phoenix on an alternate basis, it will be required to pay the full filed Phoenix daily reservation rate ($0.55/dth).

At the $0.415/dth rate, UNS Gas estimates the total cost for the annual contract reservations in Table 1 to be $1.9 million starting in mid 2008. This would represent an increase of 2% in total gas and transportation costs based on the 12 months ending July, 2006 actual costs ($88 million).

The economics of participation in this project for UNS Gas is straightforward. Table 2 below shows the comparable costs of equivalent service on Transwestern and El Paso for the Yavapai County Interconnection points. El Paso currently only has additional capacity available into the Phoenix market from the Permian basin. The analysis below uses a conservative estimate of a $0.10 premium of Permian above San Juan gas cost. The analysis is based on El Paso's filed rates for NNTH-16 service which is equivalent to the service being offered by Transwestern under the Transportation Agreement and Operating and Balancing Agreement. While El Paso's rates may be lower after its rate case is complete, UNS Gas does not believe any potential rate reduction will make service on El Paso cheaper than Transwestern. In fact, the reduction from the filed rate would have to be approximately 30% to be competitive with the equivalent Transwestern service under these assumptions.

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Table 2. TW Phoenix & El Paso Comparable Costs.

| | El Paso | TW PHX |
|---|---|---|
| Reservation Rate ($/dth) | $ 0.4322 | $ 0.415 |
| Basin | Permian | San Juan |
| Commodity ($/dth) | $ 7.0000 | $ 6.9000 |
| Fuel | 2.66% | 2.50% |
| **Delivered Cost $/dth)** | **$ 7.6235** | **$ 7.4919** |

The reservation rate savings for the Transwestern capacity for which UNS Gas has subscribed is approximately $80,000 per year. The savings from the San Juan price and fuel difference is an additional savings of $260,000 per year assuming a 50% capacity utilization for the new Transwestern capacity.

An additional economic consideration that must be taken into account is the ability to shape UNS Gas' capacity commitments with Transwestern on a monthly basis, whereas these services must be committed to on a seasonal basis with EPNG. Table 3 below shows the additional savings associated with this ability to shape the Transwestern capacity even assuming liberal shoulder month (April and October) sculpting from El Paso. The savings from this shaping ability is approximately $290,000 per year.

Table 3. Capacity Shaping Annual Savings

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TW Phoenix | 25,000 | 25,000 | 20,000 | 14,000 | 5,000 | 3,000 | 3,000 | 3,000 | 3,000 | 10,000 | 16,000 | 25,000 |
| El Paso | 25,000 | 25,000 | 25,000 | 14,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 10,000 | 25,000 | 25,000 |
| Shaping Savings | - | - | (5,000) | - | - | (2,000) | (2,000) | (2,000) | (2,000) | - | (9,000) | - |
| El Paso Rate | 0.4322 | 0.4322 | 0.4322 | 0.4322 | 0.4322 | 0.4322 | 0.4322 | 0.4322 | 0.4322 | 0.4322 | 0.4322 | 0.4322 |
| Days per month | 31 | 28 | 31 | 30 | 31 | 30 | 31 | 31 | 30 | 31 | 30 | 31 |
| **Shaping Savings** | **$ -** | **$ -** | **$ (66,991)** | **$ -** | **$ -** | **$ (25,932)** | **$ (26,796)** | **$ (26,796)** | **$ (25,932)** | **$ -** | **$ (116,694)** | **$ -** |

The total annual savings of this project, compared to similar service on El Paso is shown in Table 4 below.

Table 4. Total Annual Transwestern Savings vs. El Paso Service

| | | |
|---|---|---|
| Rate Savings | $ | 79,137 |
| San Juan/Fuel Savings | $ | 263,177 |
| Shaping Savings | $ | 289,142 |
| **Total Savings** | **$** | **631,456** |

## VII. OTHER ECONOMIC CONSIDERATIONS.

Additionally, Transwestern is including the cost of all three taps and the Prescott South meter station as part of the Phoenix Project. The laterals to connect UNS Gas' distribution system to Prescott South and Chino Valley are the same whether UNS Gas interconnects with the Phoenix Project or El Paso's existing lateral due to the close proximity of the two pipelines at those points. Due to the routing of the Phoenix Project in the airport station area, the lateral will be approximately 3 miles longer. This will add an additional $850,000 of capital expense to receive service from the Phoenix Project.

A net present value (NPV) analysis was used to compare the value of participating in the Phoenix Project versus taking similar service from El Paso and its sensitivity to key assumptions. The two main assumptions varied in the analysis were the San Juan discount and the El Paso comparable rate. UNS Gas has further conservatively assumed that El Paso would provide the same taps and meter station if UNS Gas contracted for this capacity from El Paso so that the only capital expenditure difference is the additional $850,000 to connect to the Phoenix Project at the airport station. All of the cases analyzed show a positive NPV as shown in Table 5 below.

Table 5. Phoenix Project Net Present Value

| Assumption | NPV |
|---|---|
| As assumed. 10 cent SJ discount, El Paso as-filed rates | $ 3,904,536 |
| No SJ Discount | $ 2,173,056 |
| 10% Lower EP Rate | $ 2,233,079 |
| No SJ Discount, 10% Lower EP Rate | $ 501,599 |

## VIII. PUBLIC INTEREST.

In the case of a new project such as the Phoenix Project, it is necessary to achieve a critical mass of contract commitments to reach the economies of scale for the project to move forward. While UNS Gas' commitments are small relative to other Phoenix Shippers and may not affect the ultimate viability of the project, UNS Gas feels that its participation at this time is in the best interest of its customers and Arizona utility customers in general. UNS Gas not only expects the project to have a positive economic effect for its customers as outlined above, but is also helping

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send a message to the natural gas industry that encourages natural gas infrastructure development in Arizona. This will bring the benefits of increased pipeline competition, greater reliability and flexibility, access to cheaper gas supplies, and more efficient use of existing infrastructure, all of which can ultimately lead to lower costs to our customers.

UNS Gas is experiencing high growth in Yavapai County and must procure additional transportation capacity in the near future to serve the demand. The proposed route allows UNS Gas to serve this growing demand using natural gas from the historically less expensive San Juan basin. While there are no guarantees that this gas will remain the cheapest option in the region, the benefit of pipeline competition and the additional service reliability from a second pipeline alone would make UNS Gas' participation in this project necessary.

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## IX. IMPACT ON CUSTOMERS.

For the 12 month period ending June, 2006, UNS Gas' retail sales volume was approximately 110 million therms. Recovery of the estimated $1.9 million in reservation charges for the Transwestern project would increase UNS Gas' gas cost rate by approximately 1.7 cents per therm. A residential customer that consumes an average of 50 therms per month would pay 85 cents per month ($10.20 per year) for the proposed Transwestern capacity commitment.

## X. RECOMMENDED COST/RATE RECOVERY AND MECHANISM.

Currently, pipeline transportation costs are recovered from UNS Gas' customers through its PGA mechanism, which is filed monthly with the Commission. UNS Gas requests that the new pipeline transportation charges associated with participating in the Phoenix Project also be recovered through the PGA mechanism in its current form or whatever form or mechanism the Commission may utilize to replace the existing PGA mechanism in the future[2].

## XI. CONCLUSION.

UNS Gas has demonstrated herein the benefits of its participation in Transwestern's Phoenix Project. These benefits go beyond sound economic considerations and include increased

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[2] UNS Gas has filed for changes to certain aspects of the PGA mechanism which have been consolidated into its current rate case, ACC Docket No. G-04204A-06-0463.

system reliability and future infrastructure development in Arizona. As demonstrated herein, UNS Gas' participation in the Phoenix Project is reasonable, prudent and in the public interest. Pursuant to the Commission's "Policy Statement Regarding New Natural Gas Pipeline and Storage Costs", the Commission should pre-approve recovery of UNS Gas' costs from its customers through its existing PGA mechanism.

WHEREFORE, for all the foregoing reasons, UNS Gas respectfully requests that the Commission issue an order finding that UNS Gas' costs associated with the Phoenix Project are just, reasonable and prudent and ordering that such costs are approved for recovery from customers through the UNS Gas PGA mechanism.

RESPECTFULLY SUBMITTED this 29th day of September 2006.

UNS Gas, Inc.

By ______________________

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Original and 13 copies of the foregoing
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# ATTACHMENT

# "A"

# PHOENIX PROJECT
# EXPANSION AGREEMENT

This Expansion Agreement is entered into this 14th day of September, 2006, between Transwestern Pipeline Company, LLC, a Delaware limited liability company ("Transwestern") and UNS Gas, Inc., an Arizona corporation ("Shipper").

WITNESSETH:

**WHEREAS,** Transwestern proposes to offer transportation services by (i) constructing a new 36" pipeline lateral ("Phoenix Lateral") from an interconnection with Transwestern's mainline in Yavapai County, Arizona to various points of interconnection in the Phoenix, Arizona area, (ii) constructing pipeline facilities that will result in a 375,000 Dth/day increase in the capacity of Transwestern's existing San Juan Lateral that extends from a point in San Juan County, New Mexico to an interconnection with Transwestern's mainline in McKinley County, New Mexico ("San Juan Expansion II"), and (iii) utilizing unsubscribed capacity on the San Juan Lateral and on Transwestern's mainline that (together with the San Juan Expansion II capacity) will result in sufficient total capacity to transport Shipper's MAXDTQ (as defined below) to the interconnection of Transwestern's mainline and the Phoenix Lateral ("Available Upstream Capacity"). Collectively, the Phoenix Lateral, San Juan Expansion II, and Available Upstream Capacity shall be referred to herein as the "Phoenix Project";

**WHEREAS,** Shipper desires to obtain firm natural gas transportation service utilizing a portion of the capacity that the Phoenix Project will make available;

**WHEREAS,** this Expansion Agreement has been executed as evidence of the agreement between Transwestern and Shipper that, subject to the termination rights of the parties set forth below, the parties will enter into a Firm Natural Gas Transportation Agreement providing for firm transportation service to be provided by Transwestern for Shipper that is estimated to begin on or about April 30, 2008.

**NOW, THEREFORE,** in consideration of the premises and mutual covenants set forth herein, Transwestern and Shipper agree as follows:

## 1. Services

Subject to the terms and conditions set forth herein, Transwestern agrees to provide Shipper with firm transportation service ("Transportation Service") under a new Rate Schedule FTS-5 of Transwestern's FERC Gas Tariff ("Tariff"), pursuant to the Form of Firm Natural Gas Transportation Agreement attached hereto as Attachment A ("Transportation Agreement").

Shipper shall have, and may exercise, any rights provided under the Tariff and the Natural Gas Act to request changes in the terms and conditions of service that Shipper shall receive under the Transportation Agreement; provided, however, that Shipper shall not seek changes in the Reservation Rate during the term of the Transportation Agreement.

2. **Effective Date and Term**

This Expansion Agreement shall become effective on the date of its execution by both parties and, unless sooner terminated by the exercise by either Shipper or Transwestern of its termination rights hereunder, shall remain in effect until the execution by Shipper and Transwestern of the Transportation Agreement; provided, however, that upon the execution by Shipper and Transwestern of the Transportation Agreement, the provisions of Sections 7(a) and 7(b) of this Agreement shall continue in full force and effect until the actual in-service date of the Phoenix Project.

3. **Rates**

Commencing with the actual in-service date of the Phoenix Project, Shipper shall pay for the Transportation Service a negotiated reservation rate ("UNS Reservation Rate") equal to $0.4150 per dekatherm of firm transportation capacity for volumes received on the San Juan Lateral and delivered to Shipper's primary delivery points set forth on Attachment A or for volumes received at a primary receipt point on that portion of Transwestern's pipeline system that is east of the interconnection at Thoreau, New Mexico of the San Juan Lateral and Transwestern's mainline ("East of Thoreau Area") and delivered to Shipper's primary delivery points set forth on Attachment A. In addition to the UNS Reservation Rate Shipper shall pay the applicable commodity rate and applicable surcharges and shall provide a fuel and use quantity as specified in the Tariff; provided, however, that the fuel rate shall not exceed 2.5% for volumes transported from a primary receipt point on the San Juan Lateral or 3.5% for volumes transported from a primary receipt point in the East of Thoreau Area.

To the extent Shipper utilizes delivery points within its original path on the Phoenix Lateral on either a primary or alternate basis, then Shipper shall pay the UNS Reservation Rate. To the extent Shipper utilizes delivery points outside its original path on Transwestern's mainline west of Thoreau on an alternate basis, then Shipper shall pay the greater of (1) the UNS Reservation Rate or (2) the applicable maximum tariff rate on Transwestern's FTS-4 rate schedule. To the extent Shipper changes its primary delivery points to points outside its original path on Transwestern's mainline west of Thoreau on an alternate basis, then Shipper shall pay the greater of (1) the UNS Reservation Rate, or (2) Shipper's bid rate in any bid solicitation pursuant to Section 24 of the General Terms and Conditions of the Tariff. To the extent Shipper utilizes delivery points downstream of its original path on the Phoenix Lateral, on either a primary or alternate basis, then Shipper shall pay a negotiated reservation rate ("Reservation Rate") equal to $.55 per dekatherm.

4. **Volume, Term, Receipt and Delivery Points**

The contract maximum daily transportation quantity ("MAXDTQ") is stated in Attachment A of this Expansion Agreement. The primary term of the Transportation Service shall be fifteen (15) years. The term specified and the payment of reservation charges will begin with the actual date the Phoenix Project is placed in service. The

Primary Receipt Point(s) and Primary Delivery Point(s) for the Transportation Service are as set forth on Attachment A.

During the term of the Transportation Agreement, Shipper shall have the right to change the primary receipt points designated on Attachment A, subject to the availability of capacity at the time that Shipper seeks to implement such change, subject to the reservation rate provisions in Section 3, and provided further that if Shipper requests a change in a primary delivery point to a point on Transwestern's mainline located west of Thoreau, New Mexico, such request shall be subject to the bid solicitation requirements set forth in Section 24 of the General Terms and Conditions of the Tariff. For purposes of such bid solicitation, Shipper shall bid a rate at least equal to the UNS Reservation Rate. If the rate bid by Shipper is in excess of the UNS Reservation Rate, and Shipper is awarded the capacity as a result of such bid, Shipper shall pay, in addition to the UNS Reservation Rate such excess amount bid.

Shipper shall be entitled to utilize any alternate receipt points on Transwestern's system and any alternate delivery points subject to the rate provisions in Section 3.

Shipper shall have a right of first refusal at the expiration of the primary term of the Transportation Agreement, in accordance with the Tariff.

## 5. Shipper's Obligations

(a) Shipper agrees that it will execute the Transportation Agreement within 15 days following the delivery to Shipper by Transwestern of the Transportation Agreement, which delivery will occur no earlier than the acceptance by Transwestern of a certificate from FERC authorizing the construction and operation of the Phoenix Project and no later than the date of commencement of construction of the Phoenix Project; and

(b) Shipper agrees to support the filings made by Transwestern with the FERC, or with any other governmental agency, to obtain any necessary authorizations to construct and operate the Phoenix Lateral and San Juan Expansion II facilities and the Available Upstream Capacity, including support for the certificate applications.

(c) During the term of this Expansion Agreement, Shipper shall demonstrate and maintain creditworthiness in accordance with the provisions set forth on Attachment B attached hereto.

(d) Shipper agrees to make a formal application to the Arizona Corporation Commission, or other applicable governing body, on or before October 1, 2006, seeking approval for the recovery by Shipper for ratemaking purposes of the costs to be incurred by Shipper under the Transportation Agreement.

## 6. Timing of Construction

(a) Transwestern anticipates having the Phoenix Project ready for service by April 30, 2008, conditioned, among other things, upon receipt of all necessary regulatory and other approvals by July 31, 2007. Transwestern shall have no liability of any nature to Shipper if the project is not ready for service by the date specified in the preceding sentence, provided that if Transwestern is unable to commence the transportation service as contemplated hereunder by such date, Transwestern will proceed with due diligence to commence the transportation service for Shipper at the earliest practicable date thereafter. Transwestern shall provide Shipper at least thirty (30) days notice prior to the date the Phoenix Project is placed in-service.

(b) Within 30 days following execution of this Expansion Agreement, Transwestern shall provide Shipper with a written schedule that outlines in reasonable detail the plan for development and initiation of operation of the Phoenix Project by April 30, 2008. Thereafter, on a quarterly basis during the term of this Expansion Agreement, Transwestern shall provide Shipper, on or before the last day of each calendar quarter, with a written status report ("Quarterly Report") that shall describe in reasonable detail the progress made by Transwestern through the date of such Quarterly Report in developing the Phoenix Project and achieving project milestones, an analysis of whether the Phoenix Project remains on schedule and on budget, whether Transwestern anticipates any requirement to adjust the projected in-service date (and, if so, what the length of any such adjustment is estimated to be), and a description of future milestones and a schedule for the achievement of such milestones. The significant milestones for the Phoenix Project are expected to include the application for, and receipt of, all necessary FERC and other governmental and regulatory approvals, the ordering and receipt of necessary pipe and other materials, and the acquisition of rights-of-way.

7. **Termination Rights**

(a) Shipper shall have the right to terminate this Expansion Agreement (or the Transportation Agreement, if the Transportation Agreement has been executed by both Shipper and Transwestern as of the date of such termination) and elect not to execute the Transportation Agreement or proceed to take transportation service thereunder if:

(i) Transwestern shall not have filed an application with FERC pursuant to Section 7(c) of the Natural Gas Act seeking authorization to construct and operate the Phoenix Project upon terms consistent with this Expansion Agreement ("Certificate Application") on or prior to October 31, 2006;

(ii) FERC fails to issue a certificate in response to the Certificate Application ("FERC Certificate") on or prior to December 31, 2007;

(iii) Transwestern has not, on or before August 31, 2007, ordered the steel pipe necessary to construct the Phoenix Lateral;

(iv) construction of the Phoenix Project shall not have commenced on or prior to April 30, 2008;

(v) the Arizona Corporation Commission has not issued an order on or prior to March 1, 2007 authorizing the recovery by Shipper for ratemaking purposes of the costs to be incurred by Shipper under the Transportation Agreement; or

(vi) Transwestern has not completed and placed the Phoenix Project in service on or prior to April 30, 2010.

Any such termination by Shipper shall be effected by delivery by Shipper of written notice to Transwestern within 15 business days after the relied upon occurrence. The failure of Shipper to give notice of any event giving rise to a right to terminate this Expansion Agreement, or the waiver by Shipper of any such event, shall not constitute a waiver on the part of Shipper with respect to any subsequent event that would give rise to a right to terminate.

(b) Transwestern shall have the right to terminate this Expansion Agreement (or the Transportation Agreement, if the Transportation Agreement has been executed by both Shipper and Transwestern as of the date of such termination) and elect not to execute the Transportation Agreement (or provide transportation service thereunder) if:

(i) on or before September 28, 2006, the Phoenix Project Expansion Agreement between Transwestern and Arizona Public Service Company("APS") dated December 14, 2005 is terminated and APS does not participate in the Phoenix Project; or on or before September 28, 2006 the Phoenix Project Expansion Agreement between Transwestern and Salt River Project Agricultural Improvement and Power District ("SRP") dated December 14, 2005 is terminated and SRP does not participate in the Phoenix Project; or on or before September 28, 2006 the Phoenix Project Expansion Agreement between Transwestern and Southwest Gas Corporation ("SWG"), dated February 14, 2006 is terminated; and SWG does not participate in the Phoenix Project.

(ii) the terms of any final FERC Certificates are such that (A) the estimated costs of constructing and/or operating the Phoenix Project increase by at least five percent as compared to the estimated costs as of the date of this Expansion Agreement, (B) the aggregate estimated revenues to be derived by Transwestern from the Phoenix Project decrease by at least five percent as compared to the estimated revenues as of the date of this Expansion Agreement, or (C) such terms are inconsistent with the terms of this Expansion Agreement and/or the Transportation Agreement;

(iii) Transwestern has not, for any reason, received all governmental and/or regulatory authorizations and all rights-of-way and other rights necessary to construct and operate the Phoenix Project on terms reasonably acceptable to Transwestern on or prior to April 30, 2008; unless such failure is the result of any intentional failure by Transwestern, its employees, agents or contractors to apply for or pursue such permits; or

(iv) Shipper fails, at any time during the term of this Expansion Agreement, to demonstrate and maintain creditworthiness in accordance with the provisions set forth on Attachment B hereto.

Any such termination by Transwestern shall be effected by delivering written notice to Shipper within 15 business days after the relied upon occurrence. The failure of Transwestern to give notice of any event giving rise to a right to terminate this Expansion Agreement, or the waiver by Transwestern of any such event, shall not constitute a waiver on the part of Transwestern with respect to any subsequent event that would give rise to a right to terminate.

(c) Any termination by Shipper or Transwestern of this Expansion Agreement in accordance with the terms to this Paragraph 7 shall be without any liability of the terminating party to the other party; except, however, that to the extent that the termination occurs by reason of Shipper's failure to maintain creditworthiness, Shipper shall, notwithstanding such termination, be liable to Transwestern for (i) a proportionate share (based upon the Shipper's MDQ) of any out-of-pocket costs or other expenses actually incurred by Transwestern or that Transwestern has committed to incur (without the ability to reasonably mitigate) in connection with the Phoenix Project as of the time of the termination notice, provided that Transwestern shall use all reasonable efforts to mitigate such costs and expenses, and (ii) any other remedies that may be available to Transwestern under applicable law.

8. **Operational Balancing Agreement**

At the time of execution of the Transportation Agreement, Shipper and Transwestern shall both execute the Operational Balancing Agreement in the form set forth in Attachment C hereto, provided, however, that the parties may mutually agree to change the points of interconnection subject to such Operational Balancing Agreement.

9. **Confidentiality**

Neither Shipper nor Transwestern shall disclose the terms of this Expansion Agreement without prior notice to, and the consent of, the other party; provided, however, that: (i) Transwestern may without prior notice or consent of Shipper, file this Expansion Agreement and the Transportation Agreement as part of any necessary filings with FERC or any other governmental or regulatory authority, and may disclose such information regarding this Expansion Agreement and the Transportation Agreement as is necessary to comply with FERC's transactional posting requirements and the requirements pertaining to negotiated rates; and (ii) Shipper may file this Expansion Agreement with the Arizona Corporation Commission as part of a proceeding to determine whether Shipper shall be entitled to recover from its customers the costs associated with the Phoenix Project. Transwestern may also disclose the terms of this Expansion Agreement and the Transportation Agreement for the purpose of obtaining financing of, or an investment by a third party in, the Phoenix Project. In addition to the foregoing, either Shipper or Transwestern may disclose the terms of this Expansion Agreement and/or the Transportation Agreement to the extent required by applicable law, regulation, court order or subpoena.

10. <u>Authorities</u>

**Performance hereunder shall be subject to all valid laws, orders, decisions, rules and regulations of duly constituted governmental authorities having jurisdiction or control of the matter related hereto. Should either of the parties, by force of any such law, order, decision, rule or regulation, at any time during the term of this Expansion Agreement be ordered or required to do any act inconsistent with the provisions hereof, then for the period during which the requirements of such law, order, decision, rule or regulation are applicable, this Expansion Agreement shall be deemed modified to conform with the requirement of such law, order, decision, rule or regulation; provided, however, nothing herein shall alter, modify or otherwise affect the respective rights of the parties to cancel or terminate this Expansion Agreement under the terms and conditions hereof.**

11. <u>Assignment</u>

This Expansion Agreement, in whole or in part, may be assigned by Transwestern, without the consent of Shipper, to an Affiliate (as defined below) of Transwestern established for the purpose of financing the Phoenix Project and/or facilitating the investment by one or more third parties in the Phoenix Project. Shipper may assign this Expansion Agreement without the consent of Transwestern to an Affiliate of Shipper that satisfies the creditworthiness requirements set forth on Attachment B hereto. No other assignment of this Expansion Agreement shall be allowed by either Transwestern or Shipper without the prior written consent of the other party, such consent not to be unreasonably withheld or delayed. As used in this Expansion Agreement, the term "Affiliate" means, with respect to either Transwestern or Shipper, an entity that is under common control with, or is controlled by, Transwestern or Shipper, with "control" meaning the ownership of 50% or more of all voting securities of such entity.

12. <u>**Choice and Conflict of Law**</u>

**THIS EXPANSION AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED, INTERPRETED AND ENFORCED IN ACCORDANCE WITH, THE SUBSTANTIVE LAWS OF THE STATE OF ARIZONA WITHOUT REFERENCE TO ARIZONA'S CONFLICT OF LAWS RULES.**

13. **Further Assurances**

Transwestern and Shipper shall enter into such additional agreements as may be reasonably necessary in furtherance of this Expansion Agreement.

14. **Limitations of Liability**

**In no event shall either Shipper or Transwestern be liable to the other for any special, punitive, exemplary, consequential, incidental or indirect losses or damages (in tort, contract or otherwise) under or in respect of this Expansion Agreement or the Transportation Agreement; provided, however, that in the event of a breach or other non-performance by Shipper of its obligations under this Expansion Agreement, Transwestern shall to the extent permitted under applicable law be entitled to recover Shipper's proportionate share of any otherwise unrecovered out-of-pocket costs or other expenses reasonably incurred by Transwestern or that Transwestern has reasonably committed to incur (without the ability to cancel) in connection with the Phoenix Lateral or San Juan Expansion II facilities.**

**IN WITNESS WHEREOF,** the parties hereto have caused this Expansion Agreement to be executed as of the date first written above.

| TRANSWESTERN PIPELINE COMPANY, LLC | | UNS GAS, INC. | |
|---|---|---|---|
| By: | [signature] | By: | [signature] |
| Name: | Robert O. Bond | Name: | David G. Hutchens |
| Title: | President | Title: | General Manager Fuels & Wholesale Power |

**ATTACHMENT A**
**to**
**EXPANSION AGREEMENT**
**DATED August _____, 2006**

**Firm Natural Gas Transportation Agreement**
**Rate Schedule FTS-5**

Date: ____________

Shipper's Name and Address for Notices and Invoices: Address for Invoice (If different)

______________________________________ ______________________

______________________________________ ______________________

Attn:__________________________________ Attn:____________________

Contract No: ______________

Term: 15 years from the in-service date of the pipeline facilities authorized in Federal Energy Regulatory Commission ("FERC") Docket No. CP______ ("Phoenix Project Facilities"), subject to the Right of First Refusal as set forth in the Tariff.

Rate: Transwestern shall charge Shipper the rates and charges set forth on Appendix A hereto.

This transportation shall be provided pursuant to Subpart G of Part 284 of FERC's regulations.

The contract maximum daily transportation quantities and primary receipt and delivery points are set forth on Appendix B, attached hereto and incorporated herein.

Other: At all times during the term of this Agreement, Shipper shall satisfy the credit requirements set forth on Appendix C attached hereto.

Any notice, statement, or bill provided for in this Agreement shall be in writing and shall be considered as having been given if delivered personally, or if mailed by United States mail, postage prepaid, or if sent by express mail, overnight delivery, telex, telecopy or other mutually agreeable means of electronic transmission, to Shipper when sent to the address set forth on this Agreement and to Transwestern when sent to the following:

**All Notices/Accounting Matters:**
**Transwestern Pipeline Company, LLC.**
PO Box 4967
Houston, TX 77210-4967
Attn: Market Services

**Payments to Designated Depository:**
**Transwestern Pipeline Company, LLC**
Account No. 304153427
ABA No. 021000021
Bank: JP Morgan Chase, NY

This Agreement shall incorporate and, except for the requirements set forth in Appendix C hereto that are applicable if Shipper fails to maintain creditworthiness, in all respects shall be subject to the "General Terms and Conditions" and the applicable Rate Schedule(s) set forth in Transwestern's FERC Gas Tariff, as may be revised from time to time. Transwestern may file and seek Commission approval under Section 4 of the Natural Gas Act (NGA) at any time and from time to time to change any rates, charges or other provisions set forth in the applicable Rate Schedule(s) and the "GENERAL TERMS AND CONDITIONS" in Transwestern's FERC Gas Tariff, and Transwestern shall have the right to place such changes in effect in accordance with the NGA, and this Transportation Service Agreement shall be deemed to include such changes and any changes which become effective by operation of law and Commission Order, without prejudice to Shipper's right to protest the same; provided, however, that Shipper's Reservation Rate during the 15 year term of this Agreement will remain fixed during the 15 year term.

Until the in-service date of the Phoenix Project Facilities, this Agreement shall be subject to the termination rights set forth in Sections 7(a) and 7(b) of the Expansion Agreement dated ________ __, 2006, between Shipper and Transwestern.

IN NO EVENT (EXCEPT IN THE CASE OF INTENTIONAL MISCONDUCT OR GROSS NEGLIGENCE BY TRANSWESTERN) SHALL TRANSWESTERN BE LIABLE TO SHIPPER FOR ANY CONSEQUENTIAL, SPECIAL, OR PUNITIVE DAMAGES BASED UPON THE LIABILITY OF TRANSPORTER FOR BREACH OF THIS AGREEMENT OR UPON ANY LIABILITY UNDER ANY OTHER LEGAL THEORY BASED ON ANY BREACH OR ALLEGED BREACH OF ANY OBLIGATION CREATED UNDER THIS AGREEMENT. SUCH EXCLUDED DAMAGES INCLUDE, BUT ARE NOT LIMITED TO, LOST PROFITS.

| Transwestern Pipeline Company, LLC | UNS Gas, Inc. |
|---|---|
| By:____________________________ | By:____________________________ |
| Title:__________________________ | Title:__________________________ |
| Date:__________________________ | Date:__________________________ |

APPENDIX A

to

GAS TRANSPORTATION AGREEMENT

BETWEEN

TRANSWESTERN PIPELINE COMPANY

and

UNS GAS, INC.

Commencing with the actual in-service date of the Phoenix Project, Shipper shall pay for the Transportation Service a negotiated reservation rate ("UNS Reservation Rate") equal to $0.4150 per dekatherm of firm transportation capacity for volumes received on the San Juan Lateral and delivered to Shipper's primary delivery points set forth on Appendix B or for volumes received at a primary receipt point on that portion of Transwestern's pipeline system that is east of the interconnection at Thoreau, New Mexico of the San Juan Lateral and Transwestern's mainline ("East of Thoreau Area") and delivered to Shipper's primary delivery points set forth on Appendix B. In addition to the UNS Reservation Rate Shipper shall pay the applicable commodity rate and applicable surcharges and shall provide a fuel and use quantity as specified in the Tariff; provided, however, that the fuel rate shall not exceed 2.5% for volumes transported from a primary receipt point on the San Juan Lateral or 3.5% for volumes transported from a primary receipt point in the East of Thoreau Area.

To the extent Shipper utilizes delivery points within its original path on the Phoenix Lateral on either a primary or alternate basis, then Shipper shall pay the UNS Reservation Rate. To the extent Shipper utilizes delivery points outside its original path on Transwestern's mainline west of Thoreau on an alternate basis, then Shipper shall pay the greater of (1) the UNS Reservation Rate or (2) the applicable maximum tariff rate on Transwestern's FTS-4 rate schedule. To the extent Shipper changes its primary delivery points to points outside its original path on Transwestern's mainline west of Thoreau on an alternate basis, then Shipper shall pay the greater of (1) the UNS Reservation Rate, or (2) Shipper's bid rate in any bid solicitation pursuant to Section 24 of the General Terms and Conditions of the Tariff. To the extent Shipper utilizes delivery points downstream of its original path on the Phoenix Lateral, on either a primary or alternate basis, then Shipper shall pay a negotiated reservation rate ("Reservation Rate") equal to $.55 per dekatherm.

During the term of the Transportation Agreement, Shipper shall have the right to change the primary receipt points designated on Appendix B, subject to the availability of capacity at the time that Shipper seeks to implement such change, and subject to the reservation rate provisions set forth above, provided further that if Shipper requests a change in a primary delivery point to a point on Transwestern's mainline located west of Thoreau, New Mexico, such request shall be subject to the bid solicitation requirements set forth in Section 24 of the General Terms and Conditions of the Tariff. For purposes of such bid solicitation, Shipper shall bid a rate at least equal to the UNS Reservation Rate. If the rate bid by Shipper is in excess of the UNS Reservation Rate, and Shipper is awarded the capacity as a result of such bid, Shipper shall pay, in addition to the UNS Reservation Rate such excess amount bid.

APPENDIX B

To

GAS TRANSPORTATION AGREEMENT

BETWEEN

TRANSWESTERN PIPELINE, LLC

and

UNS GAS, INC. ("Shipper")

Date Range: April 1, 2008 to April 30, 2008

MAXIMUM DAILY TRANSPORTATION QUANTITY (MAXDTQ): 14,000 Dth

| Primary Point of Receipt (1) | Maximum Daily Receipt Quantity |
|---|---|
| Blanco Hub (POI # 56498) | 14,000 Dth |

| Primary Point of Delivery (1) | Maximum Daily Delivery Quantity |
|---|---|
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near Prescott South (POI #______) | 9,000 Dth |
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near the Airport Station (POI #______) | 3,600 Dth |
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near Chino Valley (POI #______) | 1,400 Dth |

**(1) Shipper agrees to tender, or cause to be tendered, gas for transportation at the Point(s) of Receipt identified above at pressures sufficient to effect delivery into Transporter's facilities not to exceed the maximum allowable operating pressure; provided, however, Transporter shall have no obligation to provide compression and/or alter its system operation to enable Shipper to effectuate said deliveries.**

**(2) Aggregate may not exceed MAXDTQ as shown above.**

**(3) Transporter agrees to transport and deliver gas to Shipper, or for Shipper's account, at the above Point(s) of Delivery; provided, however, Transporter shall have no obligation to provide compression and/or alter its system operation to effectuate said deliveries.**

**(4) Maximum Hourly Delivery Quantity:**
**During no more than 16 hours of any gas day, Shipper shall have the ability to schedule and receive gas at an hourly rate equal to no more than 6.25% of its MAXDTQ; provided that the total quantity of gas scheduled and received by Shipper during such gas day shall in no event exceed the MAXDTQ.**

APPENDIX B

to

GAS TRANSPORTATION AGREEMENT

BETWEEN

TRANSWESTERN PIPELINE, LLC

and

UNS GAS, INC. ("Shipper")

Date Range: May 1, 2008 to May 31, 2008

MAXIMUM DAILY TRANSPORTATION QUANTITY (MAXDTQ): 5,000 Dth

| Primary Point of Receipt (1) | Maximum Daily Receipt Quantity |
|---|---|
| Blanco Hub (POI # 56498) | 5,000 Dth |

| Primary Point of Delivery (1) | Maximum Daily Delivery Quantity |
|---|---|
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near Prescott South (POI #______) | 3,200 Dth |
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near the Airport Station (POI #______) | 1,300 Dth |
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near Chino Valley (POI #______) | 500 Dth |

**(1) Shipper agrees to tender, or cause to be tendered, gas for transportation at the Point(s) of Receipt identified above at pressures sufficient to effect delivery into Transporter's facilities not to exceed the maximum allowable operating pressure; provided, however, Transporter shall have no obligation to provide compression and/or alter its system operation to enable Shipper to effectuate said deliveries.**

**(2) Aggregate may not exceed MAXDTQ as shown above.**

**(3) Transporter agrees to transport and deliver gas to Shipper, or for Shipper's account, at the above Point(s) of Delivery; provided, however, Transporter shall have no obligation to provide compression and/or alter its system operation to effectuate said deliveries.**

**(4) Maximum Hourly Delivery Quantity:**
**During no more than 16 hours of any gas day, Shipper shall have the ability to schedule and receive gas at an hourly rate equal to no more than 6.25% of its MAXDTQ; provided that the total quantity of gas scheduled and received by Shipper during such gas day shall in no event exceed the MAXDTQ.**

APPENDIX B

to

GAS TRANSPORTATION AGREEMENT

BETWEEN

TRANSWESTERN PIPELINE, LLC

and

UNS GAS, INC. ("Shipper")

Date Range: June 1, 2008 to September 30, 2008

MAXIMUM DAILY TRANSPORTATION QUANTITY (MAXDTQ): 3,000 Dth

| Primary Point of Receipt (1) | Maximum Daily Receipt Quantity |
|---|---|
| Blanco Hub (POI # 56498) | 3,000 Dth |

| Primary Point of Delivery (1) | Maximum Daily Delivery Quantity |
|---|---|
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near Prescott South (POI #______) | 1,900 Dth |
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near the Airport Station (POI #______) | 800 Dth |
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near Chino Valley (POI #______) | 300 Dth |

**(1) Shipper agrees to tender, or cause to be tendered, gas for transportation at the Point(s) of Receipt identified above at pressures sufficient to effect delivery into Transporter's facilities not to exceed the maximum allowable operating pressure; provided, however, Transporter shall have no obligation to provide compression and/or alter its system operation to enable Shipper to effectuate said deliveries.**

**(2) Aggregate may not exceed MAXDTQ as shown above.**

**(3) Transporter agrees to transport and deliver gas to Shipper, or for Shipper's account, at the above Point(s) of Delivery; provided, however, Transporter shall have no obligation to provide compression and/or alter its system operation to effectuate said deliveries.**

**(4) Maximum Hourly Delivery Quantity:**
**During no more than 16 hours of any gas day, Shipper shall have the ability to schedule and receive gas at an hourly rate equal to no more than 6.25% of its MAXDTQ; provided that the total quantity of gas scheduled and received by Shipper during such gas day shall in no event exceed the MAXDTQ.**

APPENDIX B

to

GAS TRANSPORTATION AGREEMENT

BETWEEN

TRANSWESTERN PIPELINE, LLC

and

UNS GAS, INC. ("Shipper")

Date Range: October 1, 2008 to October 31, 2008

MAXIMUM DAILY TRANSPORTATION QUANTITY (MAXDTQ): 10,000 Dth

| Primary Point of Receipt (1) | Maximum Daily Receipt Quantity |
|---|---|
| Blanco Hub (POI # 56498) | 10,000 Dth |

| Primary Point of Delivery (1) | Maximum Daily Delivery Quantity |
|---|---|
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near Prescott South (POI #______) | 6,400 Dth |
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near the Airport Station (POI #______) | 2,600 Dth |
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near Chino Valley (POI #______) | 1,000 Dth |

**(1) Shipper agrees to tender, or cause to be tendered, gas for transportation at the Point(s) of Receipt identified above at pressures sufficient to effect delivery into Transporter's facilities not to exceed the maximum allowable operating pressure; provided, however, Transporter shall have no obligation to provide compression and/or alter its system operation to enable Shipper to effectuate said deliveries.**

**(2) Aggregate may not exceed MAXDTQ as shown above.**

**(3) Transporter agrees to transport and deliver gas to Shipper, or for Shipper's account, at the above Point(s) of Delivery; provided, however, Transporter shall have no obligation to provide compression and/or alter its system operation to effectuate said deliveries.**

**(4) Maximum Hourly Delivery Quantity:**
**During no more than 16 hours of any gas day, Shipper shall have the ability to schedule and receive gas at an hourly rate equal to no more than 6.25% of its MAXDTQ; provided that the total quantity of gas scheduled and received by Shipper during such gas day shall in no event exceed the MAXDTQ.**

APPENDIX B

to

GAS TRANSPORTATION AGREEMENT

BETWEEN

TRANSWESTERN PIPELINE, LLC

and

UNS GAS, INC. ("Shipper")

Date Range: November 1, 2008 to November 30, 2008

MAXIMUM DAILY TRANSPORTATION QUANTITY (MAXDTQ): 16,000 Dth

| Primary Point of Receipt (1) | Maximum Daily Receipt Quantity |
|---|---|
| Blanco Hub (POI # 56498) | 16,000 Dth |

| Primary Point of Delivery (1) | Maximum Daily Delivery Quantity |
|---|---|
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near Prescott South (POI #______) | 10,300 Dth |
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near the Airport Station (POI #______) | 4,100 Dth |
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near Chino Valley (POI #______) | 1,600 Dth |

**(1) Shipper agrees to tender, or cause to be tendered, gas for transportation at the Point(s) of Receipt identified above at pressures sufficient to effect delivery into Transporter's facilities not to exceed the maximum allowable operating pressure; provided, however, Transporter shall have no obligation to provide compression and/or alter its system operation to enable Shipper to effectuate said deliveries.**

**(2) Aggregate may not exceed MAXDTQ as shown above.**

**(3) Transporter agrees to transport and deliver gas to Shipper, or for Shipper's account, at the above Point(s) of Delivery; provided, however, Transporter shall have no obligation to provide compression and/or alter its system operation to effectuate said deliveries.**

**(4) Maximum Hourly Delivery Quantity:**
**During no more than 16 hours of any gas day, Shipper shall have the ability to schedule and receive gas at an hourly rate equal to no more than 6.25% of its MAXDTQ; provided that the total quantity of gas scheduled and received by Shipper during such gas day shall in no event exceed the MAXDTQ.**

APPENDIX B

to

GAS TRANSPORTATION AGREEMENT

BETWEEN

TRANSWESTERN PIPELINE, LLC

and

UNS GAS, INC. ("Shipper")

Date Range: December 1, 2008 to February 28, 2009

MAXIMUM DAILY TRANSPORTATION QUANTITY (MAXDTQ): 25,000 Dth

| Primary Point of Receipt (1) | Maximum Daily Receipt Quantity |
|---|---|
| Blanco Hub (POI # 56498) | 25,000 Dth |

| Primary Point of Delivery (1) | Maximum Daily Delivery Quantity |
|---|---|
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near Prescott South (POI #______) | 16,000 Dth |
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near the Airport Station (POI #______) | 6,400 Dth |
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near Chino Valley (POI #______) | 2,600 Dth |

**(1) Shipper agrees to tender, or cause to be tendered, gas for transportation at the Point(s) of Receipt identified above at pressures sufficient to effect delivery into Transporter's facilities not to exceed the maximum allowable operating pressure; provided, however, Transporter shall have no obligation to provide compression and/or alter its system operation to enable Shipper to effectuate said deliveries.**

**(2) Aggregate may not exceed MAXDTQ as shown above.**

**(3) Transporter agrees to transport and deliver gas to Shipper, or for Shipper's account, at the above Point(s) of Delivery; provided, however, Transporter shall have no obligation to provide compression and/or alter its system operation to effectuate said deliveries.**

**(4) Maximum Hourly Delivery Quantity:**
**During no more than 16 hours of any gas day, Shipper shall have the ability to schedule and receive gas at an hourly rate equal to no more than 6.25% of its MAXDTQ; provided that the total quantity of gas scheduled and received by Shipper during such gas day shall in no event exceed the MAXDTQ.**

APPENDIX B

to

GAS TRANSPORTATION AGREEMENT

BETWEEN

TRANSWESTERN PIPELINE, LLC

and

UNS GAS, INC. ("Shipper")

Date Range: March 1, 2009 to March 31, 2009

MAXIMUM DAILY TRANSPORTATION QUANTITY (MAXDTQ): 20,000 Dth

| Primary Point of Receipt (1) | Maximum Daily Receipt Quantity |
|---|---|
| Blanco Hub (POI # 56498) | 20,000 Dth |

| Primary Point of Delivery (1) | Maximum Daily Delivery Quantity |
|---|---|
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near Prescott South (POI #______) | 12,800 Dth |
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near the Airport Station (POI #______) | 5,100 Dth |
| The proposed point of interconnect between Transwestern's Phoenix lateral and Shipper's distribution system near Chino Valley (POI #______) | 2,100 Dth |

**(1) Shipper agrees to tender, or cause to be tendered, gas for transportation at the Point(s) of Receipt identified above at pressures sufficient to effect delivery into Transporter's facilities not to exceed the maximum allowable operating pressure; provided, however, Transporter shall have no obligation to provide compression and/or alter its system operation to enable Shipper to effectuate said deliveries.**

**(2) Aggregate may not exceed MAXDTQ as shown above.**

**(3) Transporter agrees to transport and deliver gas to Shipper, or for Shipper's account, at the above Point(s) of Delivery; provided, however, Transporter shall have no obligation to provide compression and/or alter its system operation to effectuate said deliveries.**

**(4) Maximum Hourly Delivery Quantity:**
**During no more than 16 hours of any gas day, Shipper shall have the ability to schedule and receive gas at an hourly rate equal to no more than 6.25% of its MAXDTQ; provided that the total quantity of gas scheduled and received by Shipper during such gas day shall in no event exceed the MAXDTQ.**

APPENDIX C

to

GAS TRANSPORTATION AGREEMENT

BETWEEN

TRANSWESTERN PIPELINE COMPANY

and

UNS GAS, INC.

Shipper shall establish and, at all times during the term of this Agreement, maintain creditworthiness as determined by Transwestern in accordance with the standard set forth in the General Terms and Conditions of Transwestern's Tariff.

If Shipper is unable, at any time during the term of this Agreement, to establish and/or maintain creditworthiness in accordance with such standard, then, within 10 days of Shipper's receipt of written notice from Transwestern that Shipper has failed to maintain creditworthiness, Shipper shall either: (a) provide one of the following forms of credit support (each hereinafter referred to as "Credit Support"): (i) an irrevocable standby letter of credit issued by a bank acceptable to Transwestern and containing terms acceptable to Transwestern, or (ii) a cash prepayment; or (b) provide to Transwestern a guaranty in a form acceptable to Transwestern of Shipper's obligations under this Agreement, executed by an entity that satisfies such creditworthiness standard.

The amount of any Credit Support to be provided by Shipper shall be determined based on (a) Shipper's proportionate share (based on MAXDTQ) of the cost of the Phoenix Project, with such amount decreased by 6.7% each year during the term of this Agreement, less (b) the present value of the reservation revenue that would be collected if the capacity were resold for the remainder of the term, as determined by an open season held during the 10 day period referenced above and in accordance with Section 24 of Transwestern's tariff ("Mitigation Value").

For illustrative purposes only, assuming that the cost of the Phoenix Project is $500 million, a shipper with a MAXDTQ of 150,000 MMBtu/day which fails to maintain creditworthiness during the eighth year of service would need to provide credit support of $75 million, less the Mitigation Value as determined pursuant to an open season as described above.

**ATTACHMENT B**
**to**
**EXPANSION AGREEMENT**
**DATED __________ 2006**

Shipper shall establish and, at all times during the term of this Agreement, maintain creditworthiness as determined by Transwestern in accordance with the standard set forth in the General Terms and Conditions of Transwestern's Tariff.

If Shipper is unable, at any time during the term of this Agreement, to establish and/or maintain creditworthiness in accordance with such standard, then, within 10 days of Shipper's receipt of written notice from Transwestern that Shipper has failed to maintain creditworthiness, Shipper shall either: (a) provide one of the following forms of credit support (each hereinafter referred to as "Credit Support"): (i) an irrevocable standby letter of credit issued by a bank acceptable to Transwestern and containing terms acceptable to Transwestern, or (ii) a cash prepayment; or (b) provide to Transwestern a guaranty in a form acceptable to Transwestern of Shipper's obligations under this Agreement, executed by an entity that satisfies such creditworthiness standard.

The amount of any Credit Support to be provided by Shipper shall be determined based on (a) Shipper's proportionate share (based on MAXDTQ) of the cost of the Phoenix Project, with such amount decreased by 6.7% each year during the term of this Agreement, less (b) the present value of the reservation revenue that would be collected if the capacity were resold for the remainder of the term, as determined by an open season held during the 10 day period referenced above and in accordance with Section 24 of Transwestern's tariff ("Mitigation Value").

For illustrative purposes only, assuming that the cost of the Phoenix Project is $500 million, a shipper with a MAXDTQ of 150,000 MMBtu/day which fails to maintain creditworthiness during the eighth year of service would need to provide credit support of $75 million, less the Mitigation Value as determined pursuant to an open season as described above.

**ATTACHMENT C**

to
EXPANSION AGREEMENT
DATED___________2006

OPERATIONAL BALANCING AGREEMENT

between

Transwestern Pipeline Company, LLC

and

UNS Gas, Inc.

Contract: ____________________

THIS AGREEMENT ("OBA" or "Agreement") made and entered into by and between TRANSWESTERN PIPELINE COMPANY, LLC ("Transporter") and UNS GAS, INC. ("Company"), (collectively the "Parties" or individually as "Party"), this day of ________________, 2008.

WITNESSETH

WHEREAS, the facilities operated or to be operated by Transporter and Company interconnect at a point or points specified in the Exhibit 1 attached hereto and incorporated herein by this reference (hereinafter referred to as "Interconnect Point, whether one or more"); and

WHEREAS, Transporter and/or Company (at times hereinafter referred to as the "Parties" or individually as a "Party") may have entered into one or more agreements with third party shippers (hereinafter referred to as "Shipper" or "Shippers") for the transportation of gas to or from the Interconnect Point(s) on their respective systems (said agreements hereinafter referred to as "Shipper Agreements"); and

WHEREAS, from time to time, the quantities of gas confirmed by Company and scheduled by Transporter to be delivered to or received from the Interconnect Point (said quantities hereinafter referred to as the "Scheduled Quantities") may be greater or lesser than the quantities of gas which are actually delivered at the Interconnect Point, resulting in inadvertent over- or under-deliveries relative to Scheduled Quantities; and

WHEREAS, the Parties desire to implement a balancing agreement in order to facilitate more efficient operations, accounting, and systems management at the Interconnect Point and on the Parties' respective systems.

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, the Parties agree as follows:

1. Prior to the effective date of Shipper nominations at each Interconnect Point, the Parties shall reconcile and confirm nominations received by each Party from Shippers for whom the Parties will be delivering or receiving gas at that point. Such reconciliation and confirmation between the Parties shall be made verbally with subsequent confirmation in writing, unless otherwise mutually agreed to by the Parties. Except as provided in Section 3 below, any changes to such Scheduled Quantities during the month shall be effective only if requested by Shipper or Company and agreed to in writing by both Parties. Such written communication provided by the Parties regarding changes shall be substantially in the form set out on the attached Exhibit 2, or in any other form mutually agreeable to the Parties. All nominations and confirmations must be made in accordance with the requirements of Section 22 of the General Terms and Conditions of Transporter's Tariff. Provided further, the terms and provisions of this OBA shall be subject to Sections 1 - Definitions; 2 - Quality; 4 - Measurement;

and 5 - Measurement Stations, of the General Terms and Conditions of Transporter's FERC Gas Tariff, as may be revised from time to time.

2. The Parties intend that the volume of gas actually delivered and received each day at each Interconnect Point will equal the Scheduled Quantities (including Transport Fuel) for that point. Each Party will allocate volumes which are to be delivered and received at an Interconnect Point among the Shipper Agreements on its system pursuant to the Scheduled Quantities received for that point. Any Operational Imbalance created, when the actual physical flow is different than the Scheduled Quantities (on a monthly basis), will be the "Operational Imbalance," which will be the responsibility of the Parties to eliminate pursuant to this Agreement.

3. Estimated operating quantities flowing at each Interconnect Point shall be used on a daily basis during any current month to determine the estimated Operational Imbalance at such Interconnect Point, with physical flow adjustments to be made during that current month as mutually agreed to by both Parties to attempt to maintain or achieve an Operational Imbalance of zero at such point; provided, however, nothing herein shall affect Transporter's right to unilaterally re-schedule quantities upon 24-hour notice by Transporter to the Shipper (except in the case of operational distress) under Section 22.3 of the General Terms and Conditions of its FERC Gas Tariff, as may be revised from time to time.

4. a) The actual physical flow at each Interconnect Point each month will be determined and communicated in writing by the Interconnect Point Operator to the non- operating Party no later than the 12th of the succeeding month. The Interconnect Point Operator shall be the Party which operates the meter at each Interconnect Point ("Interconnect Point Operator"). Any Operational Imbalance for any calendar month shall be determined on a dekatherm basis, shall be dollar-valued as provided for in Section 5 herein, and shall be provided in the form set forth on Exhibit 3,

b) In the event the parties fail to resolve an Operational Imbalance within ninety (90) days from the end of the month in which the imbalance occurs, or within such other time period which has been mutually agreed to by the Parties, interest shall accrue on the dollar value of the Operational Imbalance from the first day of the first month after the imbalance occurred until the date of payment, in kind or in cash, at the interest rate set forth in 18 CFR 154.67(c)(2)(iii)(A), as may be amended from time to time; provided however, such interest charges shall not be assessed if Transporter is unable to schedule payback gas or Company is unable to receive payback gas from Transporter. Additionally, with respect to Operational Imbalances resulting from under-deliveries by Company which are not resolved within the time specified herein, all subsequent deliveries by Company to Transporter at the Interconnect Point may first be credited by Transporter to the existing Operational Imbalance, and thereafter, to Shippers' scheduled quantities. If the Party owing an Operational Imbalance does not resolve such Operational Imbalance within six months of the last day of the month during which such Operational Imbalance was incurred, then the other Party may, at any time after the expiration of such six month period, submit an invoice to the Party owing such Operational Imbalance for an amount equal to the Dollar Valued Operational Imbalance, as determined and adjusted pursuant to Section 5 below. Such invoice shall be payable in full in accordance with the billing and payment provisions set forth in the General Terms and Conditions.

5. Operational Imbalances shall be indexed to a price (hereinafter referred to as the "Monthly Index Price" or "MIP") which shall be calculated as follows, as may be amended from time to time:
(a) Transporter shall first determine any Operational Imbalance quantity for each month on a dekatherm basis. Transporter shall then determine a dollar equivalent utilizing the dekatherm quantity and the established MIP ("Dollar Valued Operational Imbalance").
(b) For Dollar-Valued Operational Imbalances remaining from previous month(s), the Dollar- Valued Operational Imbalance remaining from the previous month(s) will be added to the Dollar-Valued Operational
Imbalance amount for the Current Month and divided by the current month's MIP to get the volume applicable to the Operation Imbalance for the OBA.
(c) The MIP for each month shall equal the average of the daily prices for that month as reported in Gas Daily's table entitled "DAILY PRICE SURVEY" for "New Mexico- El Paso - San Juan Basin". (If a

range of prices is shown for any particular day, the midpoint of such range shall represent that day's price at a particular location.) If, for any reason, Gas Daily ceases to be available for a particular month, the MIP for that month will equal the average of the applicable daily prices for the above-described location for the applicable month as reported in any other generally accepted available industry publication chosen by Transporter.

(d) Prices used to calculate the MIP will be prices quoted "into the mainline" in order to eliminate inconsistencies due to varying gathering and treating charges. Transporter will post the MIP for each month on its Internet Website within one (1) business day following the end of the applicable month.

(e) Subject to the provisions of 4.b. above, Operational Imbalances that may arise from time-to-time may be resolved, on a not unduly discriminatory basis, by payment on an "in-kind" basis or by either Transporter or Company, as appropriate, purchasing volumes necessary to clear the entire Dollar-Valued Operational Imbalance. Transporter will accept nominations for and schedule the volumes necessary to resolve the Operational Imbalance subject to operational considerations.

6. Notwithstanding anything herein that may be interpreted to the contrary, in the event that the aggregate Operational Imbalance for all Interconnect Points in any month is outside a 10% tolerance level after completion of all netting and trading activity as outlined in Section 34 of the General Terms and Conditions of Transporter's FERC Gas Tariff (i.e., either exceeds 110% of the quantities scheduled, or is less than 90% of the quantities scheduled), and the Operational Imbalance exceeds 10,000dth, then Company shall be assessed a penalty as described below or Company and Transporter may agree that quantities may be transferred to Transporter's PNR
Service to the extent the Company has an effective PNR Agreement. Company shall be subject to all PNR charges. Company will be charged 30 cents per dekatherm (0.30/dth) for volumes outside the tolerance level, although Company will be granted an automatic waiver of such penalty for the first outside-tolerance month in any six-month period. In addition, if Company's deliveries or receipts are outside the tolerance level due to incorrect measurement data communicated to Company by Transporter, any such penalty will be waived. If any Operational Imbalance is due to an operational request of Transporter (which shall be confirmed in writing), or is otherwise caused by Transporter, no penalty shall be assessed. No imbalance penalty should be imposed when a prior period adjustment applied to the current period causes or increases a current month penalty.

7. The Dollar-Valued Operational Imbalances that may arise from time-to-time shall be resolved at the option of the Party owing such imbalance on either an "in-kind" basis (upon mutual agreement of the parties as to the timing and location of payback) or by "cash-out" (payment in cash), subject to the receipt of any necessary regulatory approval, by either Transporter or Company as appropriate, purchasing quantities necessary to clear the entire Dollar-Valued Operational Imbalance. Any quantities to be received or delivered by Transporter hereunder in order to resolve an Operational Imbalance must first be scheduled in accordance with Section 22 of the General Terms and Conditions of this Tariff.

8. In the event that a capacity constraint occurs on either Party's system which results in curtailment of quantities through an Interconnect Point, the Party on whose system the constraint has occurred shall determine the reallocation of quantities to the Shippers under the affected Shipper Agreements. Such change in Scheduled Quantities shall be confirmed in writing as required by Paragraph 1 above. If the constraint occurs at the Interconnect Point, the downstream Party shall determine the reallocation of quantities to the Shippers under the affected Shipper Agreements.

9. All quantities of gas hereunder shall be reported in dekatherms, and shall be determined by multiplying each Mcf of dry gas received and delivered by the dry heating value thereof. Any gas received and delivered to correct an Operational Imbalance shall be adjusted for variations in heating value. Unless otherwise mutually agreed, measurement of gas for all purposes hereunder shall be in accordance with the provisions set forth in Transporter's then-effective FERC Gas Tariff.

10. This Agreement is entered into in order to facilitate operations and accounting between the Parties, and shall have no effect upon the Shipper Agreements or upon the effectiveness of any Party's FERC Gas Tariff.

11. Company agrees to immediately notify Transporter upon temporary or permanent cessation of gas flow into Transporter at an Interconnect Point or upon acquisition of a new Interconnect Point, and the Parties agree to timely amend this Agreement to delete or add such Interconnect Points as may be appropriate, by revising Exhibit 1 hereto.

12. Any new Interconnect Points between Transporter and Company shall be added to this Agreement prior to the commencement of any gas flow, or shall otherwise be deemed to have been added to this Agreement upon any gas flow.

13. This Agreement shall become effective on the first day of the month following execution by both Parties and the in-service date of the facilities to be constructed, if any, and shall continue for a primary term of fifteen (15) years from the effective date and month to month thereafter; provided, however, either Party may terminate this Agreement at the end of the primary term, or thereafter by providing thirty (30) days prior written notice to the other Party.

14. Notwithstanding the termination of this Agreement, the Parties agree to reconcile and eliminate any remaining Operational Imbalance pursuant to the terms and conditions of this Agreement within ninety (90) days of termination of this Agreement or such other period of time which is mutually agreed to by the Parties.

15. This Agreement and the terms and conditions herein are subject to all present and future valid laws, orders, rules and regulations of duly constituted authorities having jurisdiction.

16. In the event a conflict exists or arises between this Agreement and Transporter's FERC Gas Tariff, as amended from time to time, it is agreed and understood that the latter shall control; provided, however, that Transporter shall not change Sections 2 or 6 of this Agreement without the prior consent of Company.

17. This Agreement is for accounting and system management purposes only, and is entered into by the Parties with the understanding that the balancing activities provided for hereunder will not subject any non-jurisdictional entity to regulation by the Federal Energy Regulatory Commission as a "natural gas company" under the provisions of the Natural Gas Act. If, at any time, it should be determined that such balancing activities do result in such regulation, then this Agreement shall immediately terminate, and any remaining Operational Imbalance shall be resolved by the Parties within ninety (90) days after termination of this Agreement.

18. Any entity which shall succeed by purchase, merger or consolidation to the properties, substantially as an entity, of either Party, shall be subject to the obligations of its predecessor to this Agreement. No other assignment of this Agreement or of any of the rights or obligations hereunder shall be made.

19. AS TO ALL MATTERS OF CONSTRUCTION AND INTERPRETATION, THIS AGREEMENT SHALL BE INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ARIZONA.

20. Any notice, request, or statement provided pursuant to this Agreement shall be in writing and shall be considered as having been given, if delivered personally, when delivered, or, if either mailed by United States mail, postage prepaid, sent by express mail, electronically mailed, or overnight delivery, or if telecopied to the other Party, then, when sent, to the following:

Transwestern Pipeline Company, LLC
Market Services
5444 Westheimer Road
P. O. Box 4967
Houston, TX 77056-5306

Fax No.: 713/989-1170

UNS Gas, Inc.
3950 East Irvington Road
P.O. Box 711
Tucson, AZ 85702
Fax No.: 520/571-4065

Changes to the above addresses shall be effectuated by a Party notifying the other Party in writing of the modification.

21. A waiver by either Party of any one or more defaults by the other Party hereunder shall not operate as a waiver of any future default or defaults, whether of like or different character.

22. Other Provisions:

IN WITNESS WHEREOF, the Parties hereto have executed duplicate originals of this Agreement on the date set forth hereinabove.

| | |
|---|---|
| TRANSWESTERN PIPELINE COMPANY, LLC | UNS GAS, INC. |
| By: ______________________ | By: ______________________ |
| Senior Vice President | Title: ______________________ |
| Date: ______________________ | Date: ______________________ |

**Exhibit 1**

**To the Operational Balancing Agreement**
**Between**
**TRANSWESTERN PIPELINE COMPANY, LLC**
**AND**
**UNS GAS, INC.**
**Dated: _________________, 2008**

Interconnect Point(s) UNS Gas, Inc.

| Company Meter No. | Transporter POI No. | Description |
|---|---|---|
| TBD | TBD | Prescott South |
| TBD | TBD | Airport Station |
| TBD | TBD | Chino Valley |

# Transwestern Pipeline Company, LLC

*5444 Westheimer Road, Houston, TX 77056-5396*
*P.O. Box 4967, Houston, TX 77210-4967*

*via fax. (520) 571-4065*

September 26, 2006

David G. Hutchens
General Manager, Fuels & Wholesale Power
UNS Gas, Inc.
3950 East Irvington Road
P.O Box 711
Tucson, AZ 85702

Re: Phoenix Project Expansion Agreement ("Agreement") between Transwestern Pipeline Company, LLC ("Transwestern"), and UNS Gas, Inc. ("UNS"), dated September 14, 2006

Dear David:

As you are aware, on September 15, 2006, Transwestern filed with the Federal Energy Regulatory Commission ("FERC") its Phoenix project application for a certificate of public convenience and necessity in Docket No. CP06-459-000 and Transwestern is very appreciative of UNS' continued support of the Phoenix project. Over the course of the past several months, Transwestern has amended its expansion agreements with other shippers to allow Transwestern additional time to identify an approach that would allow construction of the Phoenix project irrespective of the project cost increases. To conform UNS' Agreement to the structure of its other expansion agreements, Transwestern proposes the following amendment:

Section 7(b)(i) of the Agreement is hereby amended and restated by deleting it in its entirety and replacing it with the following:

(b) Transwestern shall have the right to terminate this Expansion Agreement (or the Transportation Agreement, if the Transporation Agreement has been executed by both Shipper and Transwestern as of the date of such termination) and elect not to execute the Transportation Agreement (or provide transportation service thereunder) if:

(i) the Phoenix Project Expansion Agreement between Transwestern and Arizona Public Service Company ("APS"), dated December 14, 2005 is terminated and APS does not participate in the Phoenix Project; or the Phoenix Project Expansion Agreement between Transwestern and Salt River Project Agricultural Improvement and Power District ("SRP"), dated December 14, 2005 is terminated and SRP does not participate in the

Phoenix Project; or the Phoenix Project Expansion Agreement between Transwestern and Southwest Gas Corporation ("SWG"), dated February 14, 2006 is terminated and SWG does not participate in the Phoenix Project.

Capitalized terms used herein and not defined herein shall have the same meaning as capitalized terms used in the Agreement.

Except as herein amended, the Agreement shall not otherwise be affected and shall remain in full force and effect pursuant to the terms thereof.

This amendment shall be effective as of the date written below.

If this amendment is acceptable to Shipper, please countersign this letter agreement and return an executed copy to me. Thank you for your assistance with this matter.

For Transwestern Pipeline Company, LLC

Shelley Corman, Senior Vice President
Dated: September 26, 2006

Accepted and agreed to by:

David G. Hutchens
For UNS Gas, Inc.
Dated: September 27, 2006

# ATTACHMENT

"B"

# *TRANSWESTERN PIPELINE COMPANY*
## Natural Gas Pipeline Expansion Proposed

On September 15, 2006, Transwestern Pipeline Company, LLC ("Transwestern") filed an application for a Certificate of Public Convenience and Necessity with the Federal Energy Regulatory Commission ("FERC") to construct and operate approximately 259 miles of new interstate natural gas pipeline via an interconnection with Transwestern's existing pipeline system, near Ash Fork, AZ and terminating near Coolidge, AZ. In addition, Transwestern will be constructing various customer laterals and meter stations as part of the overall project. The project has been designated as the Phoenix Pipeline Expansion Project and has been assigned Docket No. CP06-459-000 at the FERC.

***About Transwestern Pipeline Co., LLC***

Transwestern owns and operates 2,500 miles of interstate natural gas transmission lines. Transwestern's pipeline system extends from West Texas, Colorado and New Mexico through Arizona to theCalifornia border. Natural gas transportation services are provided to electric generators, industrial users and local distribution companies. We have an office in Houston, TX and regional offices along the pipeline system. Transwestern has been supplying natural gas needs for over 40 years through its reliable and comprehensive network of underground pipelines, and through the Phoenix Expansion, will continue to enhance service options in Arizona.

***The Phoenix Expansion Project***

Most of America's new energy needs are being fueled by clean burning natural gas. Energy producers have tapped new gas reserves in the San Juan Basin and the Rockies to help satisfy this increasing demand. The project will add new supply, reliability and flexibility to the rapidly growing Arizona market place, and new pipeline capacity is essential to bring these additional gas supplies into the expanding market areas. The Phoenix Expansion Project will add approximately 259 miles of new 42-inch and 36-inch pipeline in Arizona. We plan to begin construction in mid-2007 and place the project in-service during the early part of 2008.

***Planned construction in your area***

Please refer to the map on this page for a list of facilities to be constructed in your area. A copy of our FERC application, which also includes detailed maps, is available for viewing at the following locations:

- Ash Fork Public Library
  450 West Lewis Avenue
  Ash Fork, AZ 86320
- Prescott Valley Public Library
  7501 East Civic Circle
  Prescott Valley, AZ 87314
- Black Canyon Community Library
  34701 Old Black Canyon Highway
  Black Canyon City, AZ 85324
- R. H. Johnson Library
  13801 West Meeker Boulevard
  Sun City West, AZ 85375
- Casa Grande Public Library
  405 East 6th Street
  Casa Grande, AZ 85222

***How landowners are affected***

Property owners are entitled under law to receive compensation for having a pipeline on their property. Transwestern's goal is to negotiate directly with affected property owners to receive approval through a signed easement or consent for a grant of right-of-way for the needed property rights. First, we will review a valuation of the property and how the pipeline construction will affect a property. Qualified local real estate appraisers may be used by Transwestern to help make this assessment, and our recompense offer would be based on their appraisals. Our experience is that most property owners agree to participate in a pipeline project like this one by signing an easement or consent for a grant of right-of-way at the arranged price.

In a small number of cases, if an agreement cannot be reached, various legal options are available to the affected property owner and also to Transwestern. To the extent that Transwestern is unable to negotiate easement rights with landowners whose property the pipeline construction impacts, such easement rights may be determined in accordance with the Arizona eminent domain laws.

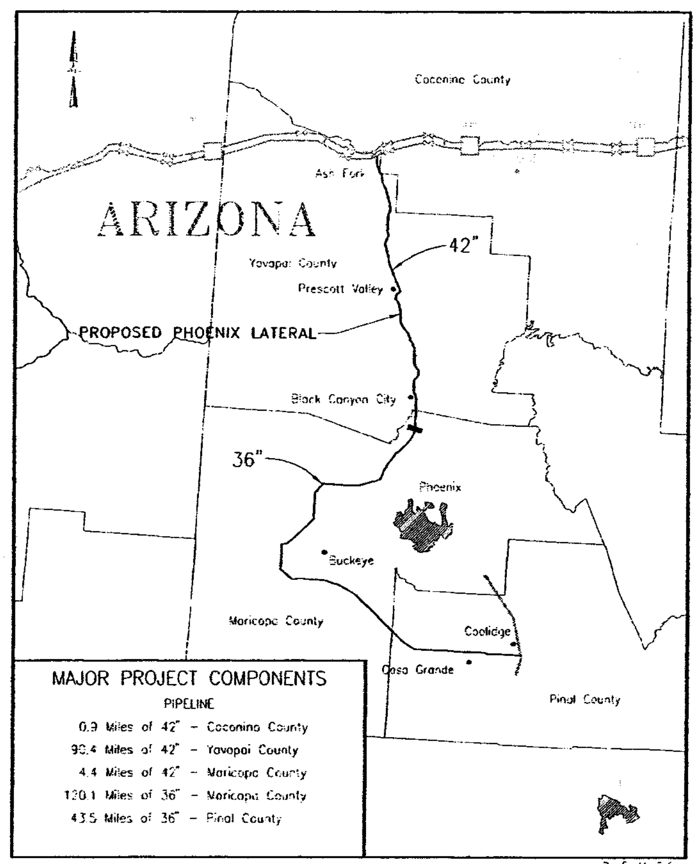
A pipeline normally requires a 50-foot wide right-of-way. During construction Transwestern will need an additional 50 to 70-foot workspace next to the permanent right-of-way. Temporary workspace in certain areas, such as road, railroad or stream crossings, may also be needed to accommodate certain construction related activities. In the majority of cases, property owners will still be able to use the pipeline right-of-way just as they did before construction. For example, agricultural activities such as growing crops and pasturing livestock can resume as soon as the construction has been completed. As expected, Transwestern will need to operate the pipeline safely, so some restrictions may apply, and the effect of these restrictions would be addressed as part of the right-of-way agreement with the landowner.

***How to get additional information***

Additional information including the application and a publication called *An Interstate Natural Gas Facility on My Land? What do I need to know?* is available through the FERC's website at http://www.ferc.gov using the "eLibrary" link and the "For Citizens" link, respectively. For assistance, please contact FERC Online Support at ferconlinesupport@ferc.gov or toll-free at (866) 208-3676. The FERC's Office of External Affairs can be contacted toll-free at (866) 208-3372.

A separate notice concerning the application is being mailed to affected landowners and government agencies involved in the project.

If you would like to learn more about the Phoenix Expansion project, please contact Tom Bray, Project Manager, Right-of-Way, toll free at (888) 998-1764 or log on to our website: www.crosscountryenergy.com/about/tw.shtml.




SUC1-033 Arizona Republic 7.687 x 10.5

# PROPOSED DELIVERY POINTS FROM TRANSWESTERN

UniSourceEnergy SERVICES