



GAS RULE NO. 25 Sheet 1
 GAS SERVICES-CUSTOMER CREDITWORTHINESS AND PAYMENT TERMS

A. GENERAL

This Rule applies to Customers (including, but not limited to, potential Customers, balancing agents and Core Transport Agents (CTAs)) who purchase or receive gas products and services from PG&E including, but not limited to, backbone transmission services, Balancing Service, or storage services pursuant to PG&E's gas rate schedules and agreements. Customers must meet the credit requirements set forth herein on a continuing basis in order to be eligible to receive such products and services. (T)

This Rule does not apply to Customers who purchase or receive only local transmission service or distribution service from PG&E; gas Rule 6 applies to those services. (T)

To receive gas products and services from PG&E, a Customer must either establish an unsecured credit line or provide security to PG&E sufficient to meet PG&E's total financial exposure, based on all products and services for which a Customer has contracted with PG&E. The amount of credit established for, or security required of a Customer is a function of that Customer's creditworthiness. (T)

PG&E will apply credit evaluation criteria and make decisions under this Rule on a non-discriminatory basis, subject, however, to the reasonable exercise of decision-making. PG&E may, from time to time, modify the creditworthiness requirements applicable to a Customer based on changes in that Customer's service requirements and/or overall financial condition.

A Customer requesting gas products and services must demonstrate creditworthiness before PG&E will execute a Gas Transmission Service Agreement (GTSA) (Form No. 79-866) or exhibits to the GTSA, a Noncore Balancing Aggregation Agreement (NBAA) (Form No. 79-869) or exhibits to the NBAA, or a Core Gas Aggregation Service Agreement (CTA Agreement) (Form No. 79-845) or exhibits to the CTA Agreement. Criteria for establishing creditworthiness are shown below. Failure to meet the credit standards on a continuous basis shall constitute an event of default. (N)

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B. ESTABLISHMENT OF CREDIT

1. APPLICATION FOR CREDIT

Each Customer shall complete, execute, and submit a California Gas Transmission Credit Application (Form No. 79-868). The following financial information must be provided to PG&E in order for PG&E to evaluate a Customer's creditworthiness. (T)

a. Customer's most recent annual report. (T)

b. Customer's most recent U.S. Securities and Exchange Commission (SEC) Form 10-K, or

1) If SEC Form 10-K is not available, substitute audited annual financial information (including a balance sheet, income statement, notes to the financial statements and cash flow statement). (T)

2) If audited statements are unavailable, substitute unaudited annual financial information (including a balance sheet, income statement, and cash flow statement) accompanied by an attestation by Customer's Chief Financial Officer that the information is true, correct and a fair representation of Customer's current and foreseeable future financial condition.

c. Customer's most recent quarterly SEC Form 10-Q and/or quarterly financial statements. (L)

d. A complete list of Customer's corporate affiliates, parent companies and subsidiaries. (T)

e. Other Customer financial information as may be required by PG&E. (T)

PG&E will use the information above to determine a Customer's maximum credit line, either secured or unsecured. (T)

A creditworthiness evaluation may be conducted by an outside credit analysis agency, to be determined by PG&E, with final credit approval granted by PG&E. Credit reports will remain strictly confidential between the credit analysis agency and PG&E. (D)

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B. ESTABLISHMENT OF CREDIT (Cont'd.)

2. CONTINUATION OF CREDITWORTHINESS

To assure the continued validity of an established credit line, a Customer shall submit complete financial statements satisfactory to PG&E at least annually and, upon PG&E's request, more frequently. If (a) PG&E determines, in its sole judgment, that a Customer has experienced a material financial change that has affected or could adversely affect that Customer's creditworthiness, or (b) a Customer does not provide financial information as requested by PG&E, or (c) a Customer fails, for whatever reason, to provide additional credit support in a form acceptable to PG&E upon PG&E's request, then PG&E may terminate that Customer's GTSA or exhibits to the GTSA, CTA Agreement or exhibits to the CTA Agreement, and/or NBAA or exhibits to the NBAA.

3. MINIMUM CREDITWORTHINESS CRITERIA FOR UNSECURED CREDIT

PG&E's approval of an unsecured credit line will be based upon the financial position of that Customer, and the amount of PG&E's potential financial exposure. A Customer (or a third party, on behalf of a Customer, providing acceptable security hereunder and executing PG&E's General Guarantee) meeting one of the following criteria will qualify for unsecured credit up to a maximum credit limit as determined by PG&E. (T)

- a. Long-term debt/bond rating of BBB or better for Standard & Poor's or Baa2 or better for Moody's.
- b. Dun & Bradstreet composite credit appraisal of "2" or better (i.e., good).
- c. Moody's rating [short-term] of P-2 or better.
- d. Standard & Poor's rating [short-term] of A-2 or better. (T)
- e. Audited financial statements, which demonstrate a Customer's creditworthiness.

Notwithstanding that a Customer may have previously qualified for unsecured credit, security may be requested at a future date if PG&E becomes aware of a material change in a Customer's payment pattern, financial position, or a change in a Customer's published debt ratings or expected change in debt ratings due to the issuances of a negative outlook by either Moody's or Standard & Poor's which would cause a Customer's long-term or short-term debt rating to be less than specified in these criteria, or if the provisions of this Rule are changed. (T)

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B. ESTABLISHMENT OF CREDIT (Cont'd.)

4. CREDIT STANDARDS UTILIZING SECURITY

If PG&E denies unsecured credit to a Customer, or if PG&E determines subsequently during the term of the service under PG&E's rate schedules, that a Customer no longer satisfies the criteria for unsecured credit, the Customer may still obtain credit approval if the Customer elects to provide security in a form and amount acceptable to PG&E. (T)

Additionally, a Customer may provide security in a form acceptable to PG&E in lieu of the creditworthiness evaluation, in which case, the security must be submitted to PG&E before PG&E will execute a Customer's GTSA, NBAA or CTA Agreement. Such security may not be used by a Customer as a means of or substitute for the timely payment of that Customer's regular monthly bills. (D)

After PG&E determines a Customer is eligible for credit, secured or unsecured, that Customer may be required, after service begins, to provide additional security to maintain its credit position if PG&E becomes aware of a material financial change that has affected, or could adversely affect that Customer's creditworthiness, or if the provisions of this Rule are changed. A Customer's failure, for whatever reason, to provide additional security within three (3) business days of PG&E's request therefore, in an amount required by PG&E to maintain that Customer's credit position, shall constitute an event of default. (T)

a. ACCEPTABLE FORMS OF SECURITY

1) Cash Deposit

A Customer providing a cash deposit grants to PG&E a security interest in the cash deposit to secure all of that Customer's obligation to PG&E. The amount of a deposit taken to establish credit may be subject to adjustment upon request by a Customer and/or upon review by PG&E. (L)

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B. ESTABLISHMENT OF CREDIT (Cont'd) (T)

4. CREDIT STANDARDS UTILIZING SECURITY (Cont'd.)

a. ACCEPTABLE FORMS OF SECURITY (Cont'd.)

1) Cash Deposit (Cont'd.)

PG&E will pay interest on deposits, except as provided below, calculated on a daily basis, and compounded at the end of each calendar month, from the date fully deposited to the date of refund by check or a credit to a Customer's account. The applicable interest rate may vary from month to month and shall be equal to the interest rate on non-financial commercial paper (3-month) for the previous month as reported in the Federal Reserve Statistical Release, H.15, or its successor publication; provided that when a refund is made within the first fifteen (15) days of a calendar month the interest rate applicable in the previous month shall be applied for the elapsed portion of the month in which the refund is made. No interest will be paid if services are terminated for nonpayment of bills. (T)

2) Letter of Credit

An irrevocable and renewable standby letter of credit in form, substance and amount satisfactory to PG&E and issued by a major financial institution acceptable to PG&E. PG&E's standard form of letter of credit shall be used for this purpose unless PG&E agrees to accept a substitute form.

3) Surety Bond

Renewable surety bonds in a form acceptable to PG&E, issued by a major insurance company acceptable to PG&E. PG&E's standard form of surety bond shall be used for this purpose unless PG&E agrees to accept a substitute form.

4) Guarantee

Execution of PG&E's General Guarantee by creditworthy guarantor (Refer to B.3., above).

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B. ESTABLISHMENT OF CREDIT (Cont'd.)

4. CREDIT STANDARDS UTILIZING SECURITY (Cont'd.)

a. ACCEPTABLE FORMS OF SECURITY (Cont'd.)

5) Prepayment for Products and Services Rendered (T)

Periodic prepayments on a mutually agreed-upon schedule will be based on the quantity and rate for products and services as specified in a Customer's GTSA and exhibits to the GTSA, CTA Agreement or NBAA exhibits to the CTA Agreement, and/or NBAA and exhibits to the NBAA and CTA, and must be agreed upon between a Customer and PG&E prior to commencement of services.

Prepayments and actual charges will be reconciled at month-end billing time unless otherwise agreed. If payment of reconciled actual charges is not received by 4:00 P.M. on the due date, PG&E will notify a Customer of non-payment. If payment is not received by close of business on the next business day, PG&E may terminate a Customer's GTSA or exhibits to the GTSA, CTA Agreement or exhibits to the CTA Agreement, and/or NBAA or exhibits to the NBAA. Any payment received after the due date will be considered past due and subject to the conditions described in Section C.3, below. (T)

6) Customer-Owned Gas in Storage. (N)

With PG&E's agreement, Customer-owned gas in park or storage accounts, may be used as collateral, in which case, PG&E has the right to sell such gas in order to satisfy that Customer's performance or financial obligations to PG&E. (N)

7) Other forms of security that PG&E may, at its sole discretion, find acceptable. (N)
(N)

b. AMOUNT OF SECURITY (L)

Where applicable, the amount of security must be equal to at least sixty (60) days of a Customer's maximum potential financial exposure to PG&E for all products and services contracted for by a Customer with PG&E, as estimated by PG&E. (T)

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GAS RULE NO. 25 Sheet 7
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B. ESTABLISHMENT OF CREDIT (Cont'd.)

4. CREDIT STANDARDS UTILIZING SECURITY (Cont'd.)

b. AMOUNT OF SECURITY (Cont'd) (L)

The type and amount of security determined by PG&E must be provided to PG&E before a Customer may begin receiving service.

All forms of security shall be retained as long as the GTSA, CTA Agreement, and/or NBAA are in effect, unless such security is otherwise reduced pursuant to Section B.4.c., below.

c. REDUCING SECURED CREDIT REQUIREMENTS (T)

If a Customer later qualifies for unsecured credit with PG&E, or Customer's creditworthiness requirement is otherwise reduced, PG&E will return the appropriate amount of security upon a Customer's request and/or upon review by PG&E. (T)

(D)

C. BILLING AND PAYMENT TERMS

1. BILLING

PG&E will provide a Customer with a bill including, but not limited to, transportation, storage, parking, lending, balancing charges or non-compliance charges pursuant to gas Rule 14. (T)
(T)

2. PAYMENT TERMS

Any bill issued to a Customer by PG&E is due and payable on the transmittal date on the bill. The bill will be considered past due and a Customer in default if the bill is not paid in full within fifteen (15) days after the transmittal date on the bill. (T)

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C. BILLING AND PAYMENT TERMS (Cont'd)

3. LATE PAYMENT (T)

a. Interest on any past due bill or portion of a past due bill shall accrue on a daily basis, beginning the day after any bill was due and payable and continuing until the day full payment of the past due bill or portion of a past due bill and all accrued interest thereon is received by PG&E. The applicable interest rate shall be equal to the interest rate on non-financial commercial paper (3-month) for the previous months as reported in the Federal Reserve Statistical Release, H.15, or its successor publication. (T)

b. If a bill issued to a Customer remains unpaid after fifteen (15) days, that Customer is in default and PG&E will issue a notice of payment default. If a bill issued to a Customer is still unpaid seven (7) days after the aforementioned notice of payment default is issued, PG&E may terminate that Customer's GTSA or exhibits to the GTSA, CTA Agreement or exhibits to the CTA Agreement, and/or NBAA or exhibits to the NBAA, without any further notice. (T)

4. COLLECTION (T)

PG&E will pursue normal collection activity with Customers for nonpayment of PG&E charges.

5. BILLING DISPUTES (T)

Billing disputes will be resolved in accordance with the terms and conditions in a Customer's service agreement(s) or applicable exhibit(s).

D. DEFAULT

1. EVENTS OF DEFAULT (N)

PG&E may declare an event of default under the following conditions and, if it elects to do so, may immediately terminate the defaulting Customer's agreements (GTSA, CTA Agreement, NBAA, and all exhibits thereto), and that Customer's right to conduct business with PG&E. Events of default include, but are not necessarily limited to:

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D. DEFAULT (Cont'd)

1. EVENTS OF DEFAULT

- The Customer's bill remains unpaid, or is not paid in full, seven (7) days after the a notice of payment default has been issued by PG&E;
- The Customer has filed a petition for bankruptcy protection; or
- The Customer has failed to meet credit criteria set forth herein within the specified timeframe.

2. REMEDIES FOR DEFAULT

In response to a default by a Customer, PG&E may:

- Declare an early termination date for all or some of the services provided to the Customer under all or some agreements;
- Accelerate all obligations under all agreements with the Customer;
- Move on all security previously provided by that Customer; and
- Sell customer's gas on PG&E's system may be sold to satisfy the Customer's obligations.

E. TERMINATION OF SERVICE

1. UPON TERMINATION OF A CUSTOMER'S GTSA, CTA AGREEMENT, AND/OR NBAA:

- a. A Customer shall remain responsible for all charges incurred, even if such charges may be identified after the termination becomes effective.
- b. Notice of such termination will be sent to that Customer's last known address;
- c. All fees, charges and other obligations of that Customer to PG&E shall be immediately due and payable without further notice of demand, and in the event payment in full is not made immediately to PG&E, that Customer shall be subject to all applicable interest and other charges for late payments.

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GAS RULE NO. 25 Sheet 10
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| | (L) |
| E. TERMINATION OF SERVICE (Cont'd.) | (T) |
| 2. If, at the time of termination, a Customer has an outstanding balance on a PG&E account, any security held on that Customer's account shall be treated as a pre-payment and shall be applied to any unpaid balance without further notice. | |
| 3. If collection efforts are required to recover unpaid account balances, a Customer will be liable for any costs, expenses and attorneys' fees incurred by PG&E as a result of such collection efforts. Payment by a Customer of all such costs, expenses and attorneys' fees will be a condition of future re-establishment of creditworthiness. | |
| 4. If a Customer has a physical shortfall (e.g., imbalance or outstanding Market Center obligation) at the time of termination, any gas that Customer has on the PG&E system may, at PG&E's election, become the property of PG&E and be used by PG&E to offset that shortfall. | |
| | (T) |
| | (D) |
| F. REESTABLISHMENT OF CREDIT | (L) (T) |
| 1. A Customer who previously has been a customer of PG&E and whose service agreements or applicable exhibits have been terminated, completely or in part, shall be required to reestablish credit in accordance with Sections A and B, above. | |
| 2. In the event PG&E becomes aware of a material change in a Customer's financial position, or if a Customer pays bills after they are due, that Customer may be required to reestablish credit, or may have its credit line reduced or may be subject to establishing secured credit in accordance with Sections A and B, above. | |