

Table of Contents

Original Title Sheet	2
Original Sheet No. 1	3
Original Sheet Nos. 2-3	4
Original Sheet No. 4	5
Original Sheet No. 5	6
12th Revised Sheet No. 6	7
Original Sheet No. 7	8
Original Sheet No. 8	9
Original Sheet No. 9	10
Original Sheet No. 10	11
Original Sheet No. 11	12
Original Sheet No. 12	13
Original Sheet No. 13	14
Original Sheet No. 14	15
Original Sheet Nos. 15-20	16
2nd Revised Sheet No. 21	17
Original Sheet Nos. 22-24	18
Original Sheet No. 25	19
Original Sheet No. 26	20
Original Sheet No. 27	21
Original Sheet No. 28	22
Original Sheet No. 29	23
Original Sheet No. 30	24
Original Sheet No. 31	25
Original Sheet No. 32	26
Original Sheet No. 33	27
Original Sheet No. 34	28
Original Sheet No. 35	29
Original Sheet No. 36	30
Original Sheet No. 37	31
Original Sheet No. 38	32
Original Sheet No. 39	33
Original Sheet No. 40	34

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Original Title Sheet Valero Interstate Transmission Company: First Revised Volume No. 2
Original Title Sheet : Superseded

F. E. R. C. GAS TARIFF
FIRST REVISED VOLUME NO. 2
OF
VALERO INTERSTATE TRANSMISSION COMPANY
FILED WITH
FEDERAL ENERGY REGULATORY COMMISSION

Communications Concerning this tariff
should be addressed to:

John M. Fernald, Director - Rates
Valero Interstate Transmission Company
P. O. Box 500
San Antonio, Texas 78292

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Original Sheet No. 1 Original Sheet No. 1 : Superseded

TABLE OF CONTENTS

	<u>Sheet No.</u>
Preliminary Statement.....	4
Map of System.....	5
Schedule of Rates - Sales For Resale.....	6
Purchase Gas Adjustment Clause.....	8
Annual Charge Adjustment Provision.....	21
Rate Schedules:	
S-3 Sales For Resale Applicable to El Paso Natural Gas Company.....	25

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Original Sheet Nos. 2-3 Original Sheet Nos. 2-3 : Superseded

Original Sheet Nos. 2 through 3 are reserved for future use.

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Original Sheet No. 4 Original Sheet No. 4 : Superseded

PRELIMINARY STATEMENT

Valero Interstate Transmission Company (Formerly South Texas Natural Gas Gathering Company) owns and operates a natural gas transmission pipe line, together with related facilities, extending from points in Hidalgo County, Texas to points in Jim Wells County, Texas. In addition, Valero Interstate Transmission Company ("Vitco") owns metering facilities necessary to make deliveries in LaSalle and Webb Counties.

Vitco performs gathering, transmission, sale, and transportation of natural gas under written contracts acceptable to the Company after consideration of its commitments to others, supplies of natural gas, delivery capacity, and other factors deemed pertinent by it.

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Original Sheet No. 5 Original Sheet No. 5 : Superseded

MAP OF SYSTEM

Effective Date: 12/01/1993 Status: Effective
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12th Revised Sheet No. 6 12th Revised Sheet No. 6 : Superseded
 Superseding: 11th Revised Sheet No. 6

SCHEDULE OF RATES - TO BE CHARGED

Each rate set forth in this tariff sheet is the currently effective rate pertaining to the particular rate schedule to which it is referenced. Each such rate is separate and independent and the change in any such rate shall not thereby effect a change in any other rate schedule. All rates set forth on this sheet are subject to the provisions of the PGA Clause beginning at Sheet No. 8 herein. All rates are stated per MMBtu.

RATE SCHEDULE	(TQ94-1-56)		PURCHASED GAS COST		RATE		GRI SUR CHG	OTHER ADJ. 2/	TOTAL ADJUSTED RATE
	RP89-226 BASE RATE	CURRENT ADJUSTMENT	CUMULATIVE ADJUSTMENT	AFTER CUMULATIVE ADJUSTMENT	SURCHARGE ADJUSTMENT				
S-3 -----									
Gas Purchased Cost	\$3.9048	\$0.0745	(\$1.5465)	\$2.3583 3/	\$0.2062	\$-	\$0.2883	\$2.8528	
Non-Gas Cost									
Reservation Charge									
D-1 1/	\$1.2848	\$ -	\$ -	\$1.2848	\$ -	\$-	\$ -	\$1.2848	
Commodity Charge 4/									
Fixed	0.0445	-	-	0.0445	-	-	-	0.0445	
Variable	0.0014	-	-	0.0014	-	-	0.0023	0.0037	
TOTAL Commodity	\$0.0459	-	-	\$0.0459	-	-	\$0.0023	\$0.0482	

1/ The D-1 Reservation Charge is a monthly rate. To determine the volumetric charge divide the D-1 rate by the number of days in the billing month.

2/ Pursuant to Annual Charge Adjustment (ACA) provisions set forth on Sheet No. 21 hereof and the Order 500 Take-or-Pay Commodity Rate Surcharge Clause in Docket No. RP90-187.

S-3

3/ Estimated average cost of gas in last scheduled PGA: \$2.3583
 Current estimated average cost of gas in latest PGA: \$2.3583

4/ Pursuant to the Gas Sales Agreement Dated September 1, 1990 under Rate Schedule S-3, the Commodity Rate shall be discounted by \$0.0400 per MMBtu, provided however that the Total Commodity Rate shall not be discounted below the Variable portion including the Currently Effective ACA Charge.

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Original Sheet No. 7 Original Sheet No. 7 : Superseded

Original Sheet No. 7 is reserved for future use.

PURCHASED GAS ADJUSTMENT CLAUSE

A. STATEMENT OF RATE

- (1) For all gas delivered each month under Rate Schedule S-3, the rates shall be set out on Sheet No. 6 hereto.
- (2) Throughout this notice of change in rate, the following abbreviated references are used:
 - a. Valero Interstate Transmission Company shall be referred to as "Vitco";
 - b. Each sale for resale customer under Rate Schedules S-3 shall be referred to as "buyer";
 - c. Producers, pipelines or marketers that sell gas to Vitco under contracts shall be referred to as "Vendors";
 - d. The Federal Energy Regulatory Commission shall be referred to as "FERC" or "Commission".

B. PURCHASED GAS COST RATE ADJUSTMENT ("PGA")

- (1) The rates and charges otherwise computed under Rate Schedule S-3 set forth on Sheet No. 6 hereof may be adjusted upward and shall be adjusted downward in accordance with the schedule and procedures set out in paragraph B(2) to reflect changes in Vitco's average cost of purchased gas under Vendor's contracts applicable to each Buyer under Rate Schedule S-3; provided that no adjustment shall be made unless the change in Vitco's average cost of purchased gas equals or exceeds one mill (\$.001) per MMBtu. The definition of terms used in describing the PGA provisions, unless otherwise indicated, shall be those contained in Section 154.302 of the Commission's Regulations.

PURCHASED GAS ADJUSTMENT CLAUSE

(continued)

(2) Notice:

Pursuant to Section 154.304(c), Vitco's scheduled effective dates are June 1 for annual filings and September 1, December 1, and March 1 for quarterly filings. Pursuant to Section 154.16 of the Commission's Regulations, at least sixty (60) days prior to the effective date of an Annual Filing and at least thirty (30) days prior to the effective date of a Quarterly Filing Vitco shall file with the Federal Energy Regulatory Commission and post a Notice of Purchased Gas Cost Adjustment Rate Change following the format prescribed for Annual and Quarterly PGA filings in Section 154.305 and 154.308, respectively, of the Commission's Regulations. In addition, Vitco may file an Interim Purchased Gas Cost rate adjustment in accordance with paragraph C hereof.

(3) PGA Period:

The PGA Period for the computation of the Purchased Gas Cost Rate Adjustment shall be the 3 month period commencing with the proposed effective date of a change filed pursuant to this provision provided that Purchased Gas Cost Rate Adjustments may be made within the effective PGA period pursuant to paragraph C hereof.

(4) Computation of Purchased Gas Cost Rate Adjustment

- (a.) Vitco's Purchased Gas Cost Rates to be used in computing the Purchased Gas Cost Rate Adjustment shall be the rates applicable to Vendors applicable to Rate Schedule S-3 as of the effective date of the rate adjustment, provided that such rate may reflect such changes during the PGA period as are permitted under the Natural Gas Policy Act of 1978 and other adjustments permitted pursuant to Section 154.305(c)(ii) of the Commissions Regulations.
- (b.) Computation of Purchased Gas Cost Rate Adjustment Vitco's Purchased Gas Volumes to be used in computing the change in Vitco's Purchased Gas Cost shall be the projected quantity of gas purchased for resale and use in providing service under Rate Schedule S-3 during the PGA period. The purchased gas volumes used in this provision shall be those under Vendors' contracts applicable to each Buyer.

PURCHASED GAS ADJUSTMENT CLAUSE

(continued)

- (c.) MMBtu Sales Quantity to be used in computing Vitco's Purchased Gas Cost under the unit-of-sales methodology, shall be the quantity of sales in MMBtu to Buyer and shrinkage, under Vitco's gas processing contract attributable to Vendors' gas, estimated for the PGA Period under Rate Schedule S-3.
 - (d.) Vitco's Purchased Gas Cost per MMBtu at the Effective Date shall be computed by first multiplying (1) the total volumes of gas purchased from each Vendor applicable to Rate Schedule S-3, as determined under paragraph 4(b) by; (2) the effective rates of each Vendor determined under paragraph 4(a). The total projected gas acquisition cost shall then be divided by the MMBtu sales quantity volumes as calculated in paragraph 4(c). The result is the average purchased gas cost per MMBtu under Vitco's elected unit-of-sales methodology and is shown on Sheet 6 hereof as the base cost of gas plus the cumulative adjustment.
 - (e.) The Current Change in Vitco's Purchase Gas Cost: shall be computed by subtracting (1) Vitco's Purchased Gas Cost per MMBtu, reflected in the previous scheduled or Interim PGA filing from (2) Vitco's Purchased Gas Cost per MMBtu at the Effective Date, as defined in paragraph 4(d). Vitco has elected the unit-of-sales methodology which shall be consistently used for computing the current adjustment and for determining the monthly deferrals to Account No. 191.
- (5) Unrecovered Purchased Gas Cost Account
-
- (a.) Beginning with the effective date of this Purchased Gas Cost Adjustment Clause, Vitco shall maintain for this tariff an Unrecovered Purchased Gas Cost Account No. 191 with appropriate subaccounts to record (1) monthly deferrals of under- or over recovered gas costs as determined in paragraph 5(b); (2) refunds received from Vitco's Vendors under contracts applicable to Buyer during the period of effectiveness of this Purchased Gas Adjustment Clause and applicable to this rate schedule pursuant to paragraph 5(c); (3) carrying charges computed pursuant to paragraph 5(d); (4) amortization of unrecovered purchased gas cost pursuant to paragraph 5(e) and; (5) any other amounts permitted under Section 154.305(g) of the Commissions Regulations.

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Original Sheet No. 11 Original Sheet No. 11 : Superseded

PURCHASED GAS ADJUSTMENT CLAUSE

(continued)

- (b.) Monthly Deferrals of Under or Over Recovered Purchased Gas Costs: The Unrecovered Purchased Gas Costs Account shall be debited or credited each month by Vitco with the deviation in monthly cost of purchased gas from Vendors under contracts applicable to Buyer. The Monthly deviation in cost of purchased gas (increase or decrease) shall be the difference obtained by subtracting (1) Vitco's total MMBtu sales quantity for each month times the Purchased Gas Cost Rate determined in accordance with paragraph (4) (d) from; (2) the actual net monthly Purchased Gas Costs as defined in Section 154.302(j), adjusted for exchange transactions and transportation imbalances as required under Section 154.305(j).
- (c.) Refunds: Following the procedures outlined under Section 154.305(i) Vitco shall (1) maintain a separate refund subaccount in which the jurisdictional portion of Vendors refunds, billing adjustments, and revenue credits are recorded; (2) compute carrying charges each month based on the prior month's subaccount balance of Account 191 using procedures specified in paragraph 5(d) herein; (3) make a lump sum disbursement to its jurisdictional customers within ninety (90) days of the end of the month when the refund subaccount balance reaches the refund disbursement level of the lesser of \$2 million, or one cent per MMBtu of the most recent 12 months of sales; (4) at the end of a deferral period the remaining amounts in the refund subaccount shall be disbursed either by making a cash refund or by transferring the amount to the current deferral subaccount balance to be amortized as part of the surcharge balance; (5) file an annual PGA refund report.

PURCHASED GAS ADJUSTMENT CLAUSE

(continued)

- (d.) Carrying Charges: (1) Shall be computed at a rate equal to the applicable calendar quarterly rate stated on an annual basis and carrying charges shall be compounded quarterly as specified in Section 154.67(c)(2)(iii) of the Commission Regulations; (2) The rate for computation of carrying charges shall be computed monthly following the procedures prescribed in Section 154.305(h)(4) of the Commission Regulation and; (3) The carrying charge base for computing monthly carrying charges shall be the prior months ending balance adjusted for any applicable deferred income taxes recorded consistent with Section 154.303(c)(3) of the Commission Regulations and; (4) any other applicable adjustments specified in Section 154.305(h)(3) provided however, that the carrying charge base is subject to the three percent (3%) assessment of past performance test specified in Section 154.306 of the Commission Regulations.
- (e.) Amortization of the Unrecovered Purchased Gas Cost Account Balance: The Unrecovered Purchased Gas Cost Account shall be debited or credited each month to reflect the amortization of the balance accumulated in the current deferral subaccount of Account 191 during Vitco's annual deferral period ending January 31st unless Section 154.310 is applicable. The amount of monthly amortization shall be equal to the product of (1) Vitco's MMBtu sales quantity to Buyer during the month and (2) the current Unrecovered Purchased Gas Cost Amortization rate defined in paragraph 5(f) herein. Account 191 shall be subdivided so that the accumulated Unrecovered Purchased Gas Cost for each period and the amortization thereof through the Purchase Gas Cost Amortization Rate will be accounted for separately. Any balance, positive or negative, of Unrecovered Purchased Gas Cost remaining at the end of the amortization period shall be transferred forward to the current accumulation period.

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Original Sheet No. 13 Original Sheet No. 13 : Superseded

PURCHASED GAS ADJUSTMENT CLAUSE

(continued)

- (f.) The Unrecovered Purchased Gas Cost Amortization Rate ("Surcharge Rate"): shall be determined by dividing (1) the deferrals accumulated in the current subaccount(s) of Account No. 191 at the end of Vitco's applicable deferral period by (2) the estimated sales volumes for the 12 month period beginning on Vitco's annual PGA effective date. The resulting amortization rate is set out on Sheet No. 6 under caption "Surcharge Adjustment". Provided however that the balance of the accumulated deferrals in (f)(1) herein is subject to the three percent (3%) assessment of past performance test specified in Section 154.306 of the Commission Regulations.

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Original Sheet No. 14 Original Sheet No. 14 : Superseded

PURCHASED GAS ADJUSTMENT CLAUSE

(continued)

C. INTERIM PURCHASED GAS COST RATE ADJUSTMENT

(1) Filing and Effective Date

In addition to an annual, quarterly, or fully supported out-of-cycle PGA filing, Vitco may at any time file an Interim Adjustment to its tariff rate(s) by filing a Revised Tariff Sheet No. 6 to reflect known and measurable changes in Vitco's cost of purchased gas reflected in its last effective PGA filing. The Revised Tariff Sheet No. 6 will provide a minimum of one (1) day notice to all affected customers, the FERC, and state commissions having an interest, and will become effective on the date which Vitco specifies in the filing or the second day after the date of filing with the FERC, whichever is later. Objections to Vitco's purchasing practices reflected in an Interim Adjustment filing may be raised at the time of Vitco's next annual PGA filing by all affected customers, the FERC, and state commissions having an interest; provided, however, that mathematical, typographical, or accounting errors that affect the correct computation of a rate adjustment in an interim adjustment filing may be challenged at the time of filing.

(2) Calculation of the Interim Adjustment

The Interim Adjustment shall be calculated using the same methodology used to compute the change in Vitco's Purchased Gas Cost in Paragraph B(4) (e) herein; provided that the average cost of gas underlying an interim adjustment may not exceed the projected average cost of gas established by Vitco's last scheduled PGA filing or a fully supported out-of-cycle PGA filing. The Interim Adjustment filing shall be based upon Vitco's estimates through the remainder of the current PGA period used to establish the current average cost of gas and shall contain the information required by Section 154.309(c) (2) of the FERC regulations.

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Original Sheet Nos. 15-20 Original Sheet Nos. 15-20 : Superseded

Original Sheet Nos. 15 through 20 are reserved for future use.

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2nd Revised Sheet No. 21 2nd Revised Sheet No. 21 : Superseded
Superseding: 1st Revised Sheet No. 21

ANNUAL CHARGE ADJUSTMENT CLAUSE (ACA)

A. Purpose

Annual charges are assessed against gas pipelines by the Federal Energy Regulatory Commission (FERC) under Part 382 of the Commission's Regulations prior to each fiscal year in order to cover the cost of the operation of the FERC. For the purpose of recovering annual charges, assessed Vitco by the FERC, this Section establishes pursuant to Section 154.38 (d) (6) of the Commission's Regulations an ACA unit rate to be applicable to quantities sold or transported under Vitco's Rate Schedule S-3. This ACA unit rate is in addition to any amounts otherwise payable to Vitco under said Rate Schedule. Vitco does not intend to recover any annual charges recorded in FERC Account No. 928 in a Natural Gas Act Section 4 rate case.

B. Basis of the Annual Charge Adjustment

The Rate Schedule S-3 specified in paragraph A hereof shall include an increment for an Annual Charge Adjustment (ACA) for the fiscal year ending September 30. Such increment shall be the unit charge, adjusted to Vitco's pressure base and heating value, if required, which has been established by the Federal Energy Regulatory Commission. The Annual Charge Adjustment is \$.0023 per MMBtu (\$.0026 per Mcf at 14.73 psia).

C. Filing Procedure

The Annual Charge Adjustment shall be filed by Vitco at least 30 days prior to the proposed effective date unless, for good cause shown, lesser periods are allowed by valid Commission Order.

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Original Sheet Nos. 22-24 Original Sheet Nos. 22-24 : Superseded

Original Sheet Nos. 22 through 24 are reserved for future use.

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Original Sheet No. 25 Original Sheet No. 25 : Superseded

RATE SCHEDULE NO. S-3

PARTIES TO AGREEMENT:	VALERO INTERSTATE TRANSMISSION COMPANY AND EL PASO NATURAL GAS COMPANY
DATE OF AGREEMENT:	SEPTEMBER 1, 1990
SERVICE RENDERED:	GAS SALES FOR RESALE

Effective Date: 11/01/1991 Status: Effective

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Original Sheet No. 26 Original Sheet No. 26 : Superseded

INDEX

ARTICLE		SHEET
-----		NO.

I	DEFINITIONS.....	28
II	RESERVATIONS OF INTERSTATE.....	29
III	VOLUMES.....	29
IV	QUALITY.....	30
V	POINT OF DELIVERY AND PRESSURE.....	31
VI	MEASUREMENT.....	32
VII	PRICE AND BILLING.....	34
VIII	GOVERNMENTAL REGULATIONS.....	36
IX	TERM.....	37
X	FORCE MAJEURE.....	37
XI	WARRANTY OF TITLE.....	38
XII	MISCELLANEOUS.....	39

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FERC Docket: GT91- 42-000

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GAS SALES AGREEMENT

THIS GAS SALES AGREEMENT ("Agreement"), entered into as of this 1st day of September, 1990 between VALERO INTERSTATE TRANSMISSION COMPANY, a Delaware corporation, hereinafter referred to as "Interstate", and EL PASO NATURAL GAS COMPANY, a Delaware corporation, hereinafter referred to as "Buyer".

W I T N E S S E T H:

WHEREAS, Interstate and Buyer have heretofore entered into a Gas Sales Contract dated January 28, 1981, whereby Buyer agrees to purchase and receive certain quantities of natural gas to be delivered and sold by Interstate from supplies of natural gas which it will acquire from various sources;

WHEREAS, Interstate owns and operates an interstate pipeline system which traverses a number of counties in South Texas and has available certain gas supplies and may acquire additional gas supply which it is willing and desires to continue to sell to Buyer;

WHEREAS, Buyer owns and operates an interstate pipeline system which is located in several states, but does not extend into South Texas, and desires to continue purchase gas supplies to be acquired by Interstate;

WHEREAS, Buyer will make arrangement for the continuation of the delivery of gas purchased hereunder to its pipeline system from the delivery point specified herein; and

WHEREAS, Buyer and Interstate desire to continue with the purchase and sale of gas covered by the prior contract, as modified herein;

WHEREAS, Buyer and Interstate have agreed to numerous changes in the prior contract, all for purpose of settlement of disputes among the parties and vendors under the January 28, 1981 contract, including resolution of Interstate's recovery of take-or-pay buy out and buy down costs paid to certain gas producers whose contracts were dedicated to Buyer under the January 28, 1981 Agreement,

WHEREAS, Buyer and Interstate agree to terminate the January 28, 1981 contract and substitute this contract for the purpose of effectuating the intent of the parties;

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Original Sheet No. 28 Original Sheet No. 28 : Superseded

WHEREAS, Interstate shall file an application to amend its certificate of public convenience and necessity in Docket No. CP81-168 to delete the requirement to make specific dedications of gas to Buyer, to increase the daily swing level from 31,250 Mcf/day to 50,000 MMBtu/day and to delete the existing delivery points and add a new delivery point;

WHEREAS, Interstate shall file this contract pursuant to Section 4 of the Natural Gas Act to modify its filed tariff governing service to Buyer;

WHEREAS, Buyer shall do all things necessary to support both the certificate and the rate filing;

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

ARTICLE 1

DEFINITIONS

For the purpose of this Agreement, unless the context of the instrument requires otherwise, the following definitions shall be applicable:

1. The word "day" shall mean a period of twenty-four (24) consecutive hours, beginning and ending at 7:00 o'clock a.m. local time.
2. The words "calendar month" shall mean a period beginning at 7:00 o'clock a.m. on the first day of a calendar month and ending at 7:00 o'clock a.m. on the first day of the next succeeding calendar month.
3. The words "calendar year" and "accounting year" shall mean a period of twelve (12) months beginning at 7:00 o'clock a.m. January 1, and ending at 7:00 o'clock a.m. on the following January 1.
4. The term "Mcf" shall mean one thousand (1,000) cubic feet of natural gas as determined on the measurement basis set forth in Article VI hereof.
5. The term "Btu" shall mean British Thermal Unit, and shall mean the amount of heat required to raise the temperature of one (1) pound of water one (1) degree Fahrenheit from fifty-nine (59) degrees Fahrenheit to sixty (60) degrees Fahrenheit.
6. The term "MMBtu" shall mean million British Thermal Units.
7. The term "psig" shall mean pounds per square inch gauge.

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Original Sheet No. 29 Original Sheet No. 29 : Superseded

8. The term "gas" or "natural gas" shall include casinghead gas produced with crude oil, natural gas from gas wells, and residue gas resulting from processing either or both casinghead gas or gas well gas.

9. The term "Interstate's facilities" shall mean such facilities as are required for Interstate to gather, and deliver to Buyer at the delivery points established under Article V hereof at the required delivery pressure, gas of the quality and in the quantities herein established.

10. The term "FERC" shall mean the Federal Energy Regulatory Commission or its successor agencies.

11. The term "Implementing Order(s)" shall mean that order or those orders issued by the FERC which 1) amend Interstate's certificate of public convenience and necessity issued under Section 7 of the Natural Gas Act in Docket No. CP81-168 to authorize all aspects of this agreement, 2) accept this agreement and any related filings as tariff sheets in Vitco's FERC Gas Tariff, First Revised Volume No. 2.

ARTICLE II

RESERVATIONS OF INTERSTATE

1. Interstate further reserves unto itself, all gas lost and unaccounted for and used for fuel in the operation of facilities operated by Interstate. The gas lost and unaccounted for and used as fuel shall be taken on a pro rata basis based on the ratio of the volume of gas sold hereunder and the total volume of gas being moved through Interstate's facilities.

2. Interstate may permit the extraction of helium and liquefiable hydrocarbons, other than methane, from the gas prior to delivery to Buyer hereunder, provided that such extraction shall not reduce the total heating value per cubic foot below nine hundred seventy-five (975) Btu's and provided that by such extraction the gas will not be rendered incapable of meeting any of the quality specifications set forth in Article IV hereof.

ARTICLE III

VOLUMES

1. Commencing on the effective date hereof, Buyer will purchase and Interstate will sell an average of 25,000 MMBtu per day during each of three (3) consecutive periods of twelve (12) months each beginning on the effective date of this Agreement.

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Original Sheet No. 30 Original Sheet No. 30 : Superseded

2. Buyer shall have the right to vary its daily purchase volumes from Interstate each month within the range of 5,000 MMBtu/day to 50,000 MMBtu/ day.

3. Buyer shall purchase an average daily volume of gas each month of each calendar quarter equal to the volume nominated in the Buyer's notice to Interstate which shall be provided to Interstate not less than thirty (30) days prior to the commencement of each calendar quarter during the term of this contract.

4. In the event Buyer does not purchase sufficient quantities of natural gas under the provisions of this Article to permit Interstate to receive reimbursement from Buyer for fifty percent (50%) of the take-or-pay buy out and buy down cost totalling \$15,740,000 including interest, through gas purchases over three (3) consecutive periods of twelve (12) months each, Buyer shall pay the remaining take-or-pay settlement sum to Interstate by lump sum payment in accordance with paragraph 2(b) of Article VII below.

ARTICLE IV

QUALITY

1. The gas delivered by Interstate to Buyer shall be of such quality that it shall meet the following specifications:

(a) Be commercially free of grease, dust, gum, gumforming constituents, and other foreign substances, and gasoline, and other solid and/or liquid matter that can be removed with dehydrators and ordinary field separators;

(b) Contain not more than one-quarter (.25) grain of hydrogen sulfide per one hundred (100) cubic feet, as determined by the cadmium sulfate quantitative test as presently prescribed by the regulations of the Railroad Commission of Texas;

(c) Contain not more than five (5) grains of total sulfur per one hundred (100) cubic feet;

(d) Contain not more than three percent (3%) by volume of a combined total of carbon dioxide and nitrogen;

(e) Contain not more than one percent (1%) by volume of oxygen;

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FERC Docket: GT91- 42-000

Original Sheet No. 31 Original Sheet No. 31 : Superseded

(f) Contain a gross heating value of at least nine hundred seventy-five (975) Btu per cubic foot, saturated with water vapor at a temperature of sixty (60) degrees Fahrenheit and at an absolute pressure equivalent to thirty (30) inches of mercury at thirty-two (32) degrees Fahrenheit;

(g) Have a temperature of not more than one hundred twenty (120) degrees Fahrenheit, nor less than forty (40) degrees Fahrenheit, when delivered to Buyer; and

(h) Contain not more than seven (7) pounds of water per one thousand (1,000) Mcf.

2. Buyer shall have the right to be represented and to participate in all tests of gas delivered hereunder and to inspect any equipment used in determining the nature or quality of the gas.

ARTICLE V

POINT OF DELIVERY AND PRESSURE

1. The Point of Delivery for all gas delivered hereunder shall be at the existing measurement facilities at the Falfurrias Measuring Station, Vitco to VT, L.P. (832-063), Jim Wells County, Texas, at which point Interstate will deliver the gas to Valero Transmission, L.P. for the account of the Buyer. Title to all gas delivered hereunder shall pass at said Point of Delivery.

2. Interstate shall be in exclusive control and possession of the gas deliverable hereunder, and responsible for any injury or damage caused thereby, until such gas is delivered to Buyer, or Buyer's designated agent for account of Buyer, at the above described point.

3. Interstate shall deliver gas at pressures at said Point of Delivery sufficient to enter the facilities of Valero Transmission, L.P. at such Delivery Point, but not in excess of one thousand thirty-five (1,035) psig.

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Original Sheet No. 32 Original Sheet No. 32 : Superseded

ARTICLE VI

MEASUREMENT

1. Except for the determination of heating value, the unit of volume for all measurement of gas delivered hereunder shall be one (1) cubic foot of gas at a base temperature of sixty (60) degrees Fahrenheit and at an absolute pressure of fourteen and sixty-five hundredths (14.65) pounds per square inch. Except as provided by law, all fundamental constants, observations, records and procedures involved in determining and/or verifying the quantity and other characteristics of gas delivered hereunder shall, unless otherwise specified herein, be in accordance with the standards prescribed in ANSI/API 2530 of the American National Standards Institute as now and from time to time amended or supplemented. All measurements of gas shall be determined by calculation into terms of such unit. All quantities given herein, unless otherwise expressly stated, are in terms of such unit.

2. Interstate shall own, install, maintain and operate, all measurement facilities or cause same to be owned, installed, maintained and operated, at the Point of Delivery, or at such other point as may be agreed upon by the Parties. Said facilities shall be so equipped with orifice meters, recording gauges, or other types of meter or meters of standard make and design, commonly acceptable in the industry, as to accomplish the accurate measurement of gas delivered hereunder. The changing of charts and the calibrating and adjusting of meters shall be done or caused to be done by Interstate.

3. Buyer may, at its option, install check meters for checking Interstate's measurement, and same shall be so installed as not to interfere with the operation of Interstate's facilities.

4. The temperature of the gas flowing through the meter or meters shall be determined by the continuous use of a recording thermometer installed by Interstate, so that it will properly record the temperature of the gas flowing through the meter or meters. The arithmetical average of the hourly temperatures recorded each day shall be used in computing measurements for that day.

5. The specific gravity of the gas flowing through the meter or meters shall be determined by means of a mechanical balance, or other accepted method, at monthly intervals. Specific gravities so determined will be used in calculating gas deliveries for the first day of the month in which the test is made, and for all following days until the next specific gravity test is made.

6. The Btu content of the gas will be determined by Interstate at monthly intervals from gas samples obtained at the Point of Delivery and deliveries for the first day of the month in which the test is made and for all following days until that day on which a new sample is taken.

7. Buyer shall have access at all reasonable times to metering equipment, including all other instruments used by Interstate in determining the measurement and quality of the gas delivered hereunder, but the reading, calibrating and adjusting thereof, and the changing of charts, shall be done only by employees, agents, or representatives of Interstate. Upon request by Buyer, Interstate shall submit to Buyer all monthly charts from such metering equipment, subject to return by Buyer within fifteen (15) days after the receipt thereof, after which the charts shall be kept on file for a period of two (2) years for the mutual use of all parties.

8. For measurement and meter calibration the atmospheric pressure shall be assumed to be fourteen and sixty-five one hundredth (14.65) pounds per square inch at the Falfurrias Delivery Point irrespective of variations in natural atmospheric pressure from time to time.

9. If, upon any test, the metering equipment in the aggregate is found to be inaccurate by one percent (1%) or more, registration thereof and any payments based upon such registrations, shall be corrected at the rate of such inaccuracy for any period of inaccuracy which is definitely known or agreed upon, or if not known or agreed upon, then for a period extending back one half of the time elapsed since the last day of calibration, not exceeding, however, fifteen (15) days. Following any test, any metering equipment found to be inaccurate to any degree shall be adjusted immediately to measure accurately. If, for any reason, any meter is not in service or is out of repair so that the quantity of gas so delivered during the period the meter is out of service or out of repair shall be estimated and agreed upon by the parties hereto upon the basis of the best available data, using the first of the following methods which is feasible:

(a) By using the registration of any check measuring equipment of Buyer, if installed and registering accurately;

(b) By correcting the error if the percentage of error is ascertainable by calibration, test, or mathematical calculation; and

(c) By estimation the quantity of deliveries by deliveries during preceding periods under similar conditions when the meter was registering accurately.

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FERC Docket: GT91-42-000

Original Sheet No. 34 Original Sheet No. 34 : Superseded

10. The measurement hereunder shall be corrected for deviation from Boyle's Law at the pressure and temperature under which gas is delivered hereunder.

ARTICLE VII

PRICE AND BILLING

1. Subject to the other provisions of this Agreement and in addition to the charges set forth in paragraph 2 below, Buyer shall pay Interstate a price equal to the sum of the following for quantities of gas delivered hereunder:

(a) A gathering and transportation charge at the maximum sales rate, exclusive of Gas Cost, allowed from time to time under Rate Schedule S-3 less a 4¢ per MMBtu discount (credit), provided, however, the discounted sales rate shall not be less than the minimum rate allowed under Rate Schedule S-3.

(b) An amount equal to Interstate's average cost of purchased gas, inclusive of production tax reimbursement, provided, however, that the prices shall not exceed three cents (3¢) above the arithmetic average of the "Average" quotes for Regional Spot Gas Prices, Delivered to Pipeline, 30-day Supply Transactions for Southern Texas, Interstate Pipelines, as quoted in all issues published during the applicable production month of Natural Gas Intelligence Gas Price Index for gas deliverable in the same month as the production month. The average cost of purchased gas shall be computed to the nearest one hundredth of a cent and shall be computed in accordance with the currently effective Purchased Gas Adjustment Clause set forth on Sheet Nos. 8 thru 14 of Valero Interstate Transmission Company's FERC Gas Tariff, First Revised Volume No. 2.

(c) A surcharge adjustment on Account 191-Current unrecovered purchase gas costs computed in accordance with Vitco's currently effective Purchased Gas Adjustment Clause plus the Account 191-Settlement surcharge as computed in accordance with the provisions filed as Exhibit (F) in Docket No. RP90-187-000.

(d) An annual charge adjustment computed in accordance with the Annual Charge Adjustment Clause in Vitco's FERC Gas Tariff, First Revised Volume No. 2.

2. With respect to its supply contracts which were in litigation or arbitration on March 31, 1989 Interstate shall bill and Buyer shall pay for take-or-pay buy out and buy down costs as follows:

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FERC Docket: GT91- 42-000

Original Sheet No. 35 Original Sheet No. 35 : Superseded

(a) Interstate shall directly bill Buyer in one lump sum, twenty-five percent (25%) of its take-or-pay buy-out and buy-down costs within fifteen (15) days following the date payment is made by Interstate. Buyer shall pay to Interstate this lump sum within fifteen (15) days of receipt of invoice from Interstate.

(b) Interstate shall bill Buyer, on a monthly basis over thirty-six (36) months a Take-or-Pay Commodity Rate Surcharge as defined in the provisions filed as Exhibit (E) in Docket No. RP90-187-000, which shall be calculated to recover fifty percent (50%) of Interstate's take-or-pay buy-out and buy-down costs. Such Commodity Rate Surcharge shall include carrying charges determined in accordance with Section 154.67 of the FERC's Regulations. Upon termination of thirty-six (36) months from the date of first delivery under this Agreement the then current unpaid balance of fifty percent (50%) of Interstate's take-or-pay buy-out and buy-down costs in the unrecovered take-or-pay cost account shall become due and payable 60 days after expiration of the thirty-six (36) month period. Buyer shall pay this amount within fifteen (15) days of receipt of invoice from Interstate. Such invoice shall include a statement showing the derivation of the unpaid balance.

3. On or before the twentieth (20th) day of each calendar month after deliveries of gas are commenced hereunder, Interstate shall render a statement to Buyer showing the volume of gas delivered during the preceding calendar month, and the amount due therefor. Buyer shall pay any amounts due prior to the first day of the following month.

4. If Buyer should fail to pay the full amount due Interstate when, the same is due, as herein provided, and Interstate incurs expenses resulting from the failure of Buyer to pay, then Buyer shall reimburse Interstate for the interest paid by Interstate arising from those expenses. If such failure to pay continues for sixty (60) days, Interstate may suspend deliveries of gas hereunder or cancel this Agreement, but the exercise of such right shall be in addition to any and all other remedies available to Interstate.

5. Each party shall have the right at all reasonable times to examine the books, records, and charts of the other party to the extent necessary to verify the accuracy of any statement, charge, computation, or demand made under or pursuant to any of the provisions of this Agreement.

Effective Date: 11/01/1991 Status: Effective
FERC Docket: GT91- 42-000

Original Sheet No. 36 Original Sheet No. 36 : Superseded

6. Interstate shall have the right from time to time to increase or decrease the rates hereunder by the filing with the Federal Energy Regulatory Commission, or any successor, of a new rate, to change the form of the applicable rate schedule and to take such other and further action with respect thereto without further consent by Buyer; provided, however, Buyer shall have the right to intervene in any proceeding to oppose any such higher rate, and in the case any such higher rate, is permitted, to seek relief therefrom in any regulatory agency or in any court having jurisdiction.

7. Notwithstanding anything in this Agreement to the contrary, in the event that pursuant to a determination by the Federal Energy Regulatory Commission, its successor or administrative agency or other governmental authority having jurisdiction in the premises, Buyer is not permitted to include the full price paid for gas delivered hereunder in its filed rates, then said price shall be reduced to a price level equal to that which is included, and prompt adjustments in amounts paid or to be paid shall be made between Buyer and Interstate to reflect any such reduction.

ARTICLE VIII
GOVERNMENTAL REGULATIONS

1. This Agreement shall be subject to all valid applicable state, federal and local laws, rules and regulations; provided that either party shall be entitled to regard all laws, rules and regulations issued by any federal or state regulatory body as valid and may act in accordance therewith until such time as the same may be invalid by final judgment in a court of competent jurisdiction.

2. Each Party hereto shall immediately make such filings with the Federal Energy Regulatory Commission, hereinafter referred to as Commission, for authorizations as may be required for the commencement of the deliveries contemplated by this Agreement, and thereafter will use due diligence to prosecute such filings to final decision, order or approval.

3. Each Party hereto shall submit copies of its filings or amendments to such filings made with the Commission to the other Party and shall promptly advise the other Party of any action taken by the Commission with respect thereto.

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FERC Docket: GT91- 42-000

Original Sheet No. 37 Original Sheet No. 37 : Superseded

ARTICLE IX

TERM

1. This Agreement shall become effective upon the first day of the month following the date when the Implementing Order(s) become final and nonappealable and shall remain in effect for a term of thirty-six (36) consecutive months.

2. The January 28, 1981 contract between Interstate and Buyer shall terminate effective upon the effective date of this contract. Neither Interstate nor Buyer shall have any further liability to the other under the January 28, 1981 contract.

ARTICLE X

FORCE MAJEURE

1. The parties to this Agreement shall be excused from performance hereunder because of any act, omission or circumstance occasioned by, or in connection with or as a consequence of the following occurrences to the parties hereto: any acts of God, strikes, lockouts, or other industrial disturbances, acts of the public enemy, sabotage, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, floods, storms, fires, washouts, arrests and restraints of rulers and peoples, civil disturbances, explosions, breakage or accident to machinery or lines of pipe, hydrate obstructions in lines of pipe, well blowouts, craterings, depletion of the gas reserves, partial or entire failure of gas wells and the binding order of any court or governmental authority, or any other cause, whether of the kind herein enumerated or otherwise, not within the control of the party claiming suspension and which by the exercise of due diligence such party is unable to prevent or overcome; but provided, however, that the settlement of strikes or lockouts shall be entirely within the discretion of the party having the difficulty, and that the above requirements that any force majeure shall be remedied with the exercise of diligence shall not require the settlement of strikes or lockouts by acceding to the demands of the opposing parties when such course is inadvisable in the discretion of the party having the difficulty.

2. Such causes or contingencies affecting the performance of this Agreement by any party hereto, however, shall not relieve such party of liability in the event of the concurring negligence or in the event of its failure to use due diligence to remedy the situation and remove the cause in an adequate manner and with all reasonable dispatch, nor shall such causes or contingencies affecting the performance of this Agreement relieve any party hereto from its obligations to make payments of amounts then due hereunder, nor shall such causes or contingencies relieve any party of liability unless such party shall give notice and full particulars of the same in writing or by telegraph to the other party as soon as reasonably possible after the occurrence relied on, and like notice shall be given upon termination of such force majeure conditions.

ARTICLE XI

WARRANTY OF TITLE

Interstate hereby warrants title to the gas sold hereunder; the right of Interstate to sell the same; and Interstate warrants that all such gas is owned by Interstate free from all liens and adverse claims, including liens to secure payment of production taxes, severance taxes, and other taxes. Interstate shall at all times have the obligation to make settlements with all persons having any interest in the gas sold hereunder, and Interstate agrees to indemnify Buyer and save it harmless from all suits, actions, debts, accounts, damages, costs, losses, and expenses arising from or out of adverse claims of any or all person to said gas or to royalties, taxes, license fees or charges thereon which are applicable before the title passes to Buyer or which may be levied and assessed upon the sale thereof to Buyer. In the event that any claim is asserted by any party or parties whomsoever to an interest in or title to such gas or any portion thereof adversely to Interstate, Buyer shall thereafter in each instance have the continuing right to withhold without interest any and all payments due or becoming due hereunder by Buyer and attributable to the interest in or title to such gas being claimed by such adverse claimant or claimants up to but not exceeding the amount of such claim or claims until such time as such claim or claims shall have been finally settled by litigation between or by agreement of the contesting parties, or until Interstate shall have furnished bond to Buyer conditioned for the protection of Buyer with respect to such claim.

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FERC Docket: GT91- 42-000

Original Sheet No. 39 Original Sheet No. 39 : Superseded

ARTICLE XII

MISCELLANEOUS

1. No waiver by either Buyer or Interstate of any default of the other under this Agreement shall operate as a waiver of any future default, whether of like or different character or nature.

2. If either party shall fail to perform any of the covenants or obligations imposed upon it under and by virtue of this Agreement (except where such failure shall be excused under any of the provisions of this Agreement), then in such event the other party may, at its Option (without waiving any other remedy for breach thereof) terminate this Agreement by proceeding as follows: The party not in default shall cause a written notice to be serviced on the party in default stating specifically the cause for terminating this Agreement and declaring it to be the intention of the party giving such notice to terminate the same; thereupon the party in default shall have thirty (30) days after receipt of the aforesaid notice in which to remedy or remove the cause or causes stated in the notice for terminating this Agreement, and if within said thirty (30) days the party in default does so remove or remedy said causes and fully indemnifies the party not in default for any and all consequences of such breach, then such notice shall be withdrawn and this Agreement shall remain in full force and effect. In case the party in default does not remedy and remove the cause or causes stated in such notice and/or does not indemnify the party not in default for any and all consequences of such breach within said thirty (30) days, then this Agreement shall become null and void from and after the expiration of said period. Any cancellation of this Agreement pursuant to the provisions of this Article shall be without prejudice to the right of the party not in default to collect any amounts then due it and without waiver of any other remedy to which the party not in default may be entitled for violation of this Agreement.

3. This Agreement shall bind and inure to the respective successors and assigns of each of the parties hereto, but no assignment shall be effective without notification to and consent by the non-assigning party; provided, however, either party hereto may assign its right, title and interest in, to and by virtue of this Agreement, including any and all extensions, renewals, amendments and supplements thereto, to a trustee or trustees, individuals or corporate, as security for bonds or other obligations or securities, without such trustee or trustees assuming or becoming in any respect obligated to perform any of the obligations of the assignor, and if any such trustee be a corporation, without its being required by the parties hereto to qualify to do business in the State of Texas, but no such assignment shall serve to relieve the assigning party of its obligations hereunder.

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FERC Docket: GT91- 42-000

Original Sheet No. 40 Original Sheet No. 40 : Superseded

IN WITNESS WHEREOF, this instrument is executed as of the day and year first above written.

VALERO INTERSTATE TRANSMISSION COMPANY

By: /s/ Herbert H. Young

Title: Vice President

EL PASO NATURAL GAS COMPANY

By: /s/ John M. Craig

Title: Sr. Vice President

STATE OF TEXAS)
)
COUNTY OF BEXAR)

Before me, the undersigned, a Notary Public in and for said County and State, on this day personally appeared Herbert H. Young, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of VALERO INTERSTATE TRANSMISSION COMPANY, a corporation, and that he executed the same for the purposes and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office this 3rd day of December, 1990.

Anne Simonson
Notary Public In and For
Bexar County, Texas

