

Atmos Energy Statement of Operating Conditions

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1. AVAILABILITY AND CONDITIONS PRECEDENT TO TRANSPORTATION SERVICE

Atmos Pipeline — Texas, herein referred to as "Atmos Pipeline — Texas," will provide transportation services under this Statement of Operating Conditions subject to the following conditions:

a) The transportation services available under this Statement of Operating Conditions and any related Transportation Agreement shall only be available on, upon or through the intrastate transmission facilities of Atmos Pipeline — Texas. Transportation services provided hereunder shall not be available on:

(i) any facility within the original jurisdiction (city limits) of a municipality, as that jurisdiction (city limits) exists on the earlier of:

-the date of initial deliveries of any transportation service to a delivery point under this Statement, as to service to that delivery point, or

-the date of commencement of construction of new metering facilities to provide service to a delivery point under this Statement, as to the service to that delivery point provided through those facilities; and

(ii) any facility downstream from a city gate of Atmos Pipeline — Texas, irrespective of whether or not the facility is within the original jurisdiction (city limits) of a municipality.

(b) The transportation of gas under this Statement of Operating Conditions shall be interruptible. Except to the extent Atmos Pipeline — Texas waives, in a manner which does not unduly discriminate against any party, interruption of transportation under this Statement in order to perform the following higher priority services, such interruptible transportation shall be provided after performance by Atmos Pipeline — Texas of the following higher priority services:

(i) service to all and/or any of the distribution systems and customers served by Atmos Pipeline — Texas, including existing customers and new customers that may be added from time to time;

(ii) sales to existing customers and sales to new customers that may be added from time to time;

(iii) transportation service to or on behalf of existing intrastate sales or transportation customers and transportation service to or on behalf of any such new intrastate customers that may be added from time to time; and

(iv) service with respect to other operations that may from time to time develop and any other service which Atmos Pipeline — Texas performs or may in the future perform because of its obligations as a gas utility under Tex. Civ.Stat.Ann.art. 1446(e) (Supp. 1995) (Gas Utility Regulatory Act); and

(v) any service provided under this Statement which has an earlier Priority Date.

(c) Atmos Pipeline — Texas will not transport gas on an interruptible basis for any qualified Shipper pursuant to the terms and conditions hereof, unless:

(i) Shipper has complied with the provisions of Section 5 herein concerning data required for valid Requests for transportation, Atmos Pipeline — Texas has notified Shipper, in writing, that Shipper's Request has been accepted, Shipper has executed a Transportation Agreement with Atmos Pipeline — Texas for transportation service; and

(ii) Shipper, Atmos Pipeline — Texas and any third-party transporters have obtained, as appropriate, or will obtain reasonably in advance of the commencement of service, unless waived by Atmos Pipeline — Texas, all State and Federal approvals for services to be provided by Shipper, Atmos Pipeline — Texas and any third-party(ies) related to the

services rendered by Atmos Pipeline — Texas, including services that are necessary for said gas to be received into and delivered from Atmos Pipeline — Texas' facilities; and

(iii) Atmos Pipeline — Texas is not obligated to construct additional pipeline, compression, metering (except as provided in 18 CFR Part 284) or treating facilities for the receipt, transportation, or delivery of gas hereunder; and

(iv) All facilities, of whatever nature, as are required to permit the receipt, measurement, transportation and delivery of natural gas under the Transportation Agreement have been installed and are in operating condition. In the event additional facilities are required for Atmos Pipeline — Texas to perform transportation service pursuant to NGPA Sec. 311(a)(2) and Atmos Pipeline — Texas elects to install such facilities, unless Atmos Pipeline — Texas anticipates recovery of the costs of such facilities through another arrangement and waives the construction agreement requirement, the terms upon which Shipper will reimburse Atmos Pipeline — Texas for the costs of such facilities (including any applicable federal income tax consequences) shall be set out in a separate construction agreement between Atmos Pipeline — Texas and Shipper. If Atmos Pipeline — Texas requires such a construction agreement, Atmos Pipeline — Texas shall not be required to commence construction of additional facilities prior to Shipper's execution, delivery and performance of the terms of such construction agreement, and

(v) Atmos Pipeline — Texas determines in its sole discretion that the requested service qualifies under Section 311(a)(2) of the NGPA and that such service can be provided subject to the performance of services described in Section 1(b) herein and without subjecting such operations or any services or facilities to the jurisdiction of the FERC under the Natural Gas Act of 1938; and

(vi) Shipper's Request (as described in Section 5 herein) meets Atmos Pipeline — Texas' minimum daily quantity transportation requirements of 2,000 MMBtu's at each Point of Receipt and 2,000 MMBtu's per Point of Delivery; and

(vii) Atmos Pipeline — Texas shall not be required to perform service on behalf of any Shipper which does not meet Atmos Pipeline — Texas' financial viability requirements contained in Section 8; and

(viii) Atmos Pipeline — Texas determines that it has sufficient excess capacity to provide the requested service, or Atmos Pipeline — Texas determines that it will have sufficient excess and/or incremental capacity to provide the requested service upon the completion, at Atmos Pipeline — Texas' election, of construction of additional facilities in accordance with Subsection 1(c)(iv). "Excess capacity" shall be that capacity available from time to time through Atmos Pipeline — Texas' existing facilities in excess of the capacity used by Atmos Pipeline — Texas to provide the service described in Section 1(b) of this Statement of Operating Conditions.

2. NATURE OF SERVICE AND PRIORITY OF REQUESTS

(a) Acceptance and delivery of gas by Atmos Pipeline — Texas shall be conditioned upon the existence of adequate capacity and redelivery capability on Atmos Pipeline — Texas' pipeline system as it exists at the time the acceptance and delivery are to be made. Because service provided hereunder is on a fully interruptible basis, Atmos Pipeline — Texas retains the right to immediately decrease, temporarily suspend, or with at least sixty (60) days written notice permanently discontinue the receipt and/or delivery of gas by terminating the Transportation Agreement, to the extent, in Atmos Pipeline — Texas' sole discretion, additional capacity is needed to render the higher priority service described in Section 1(b). Except to the extent waived by Atmos Pipeline — Texas in a manner which does not unduly discriminate against any party, Atmos Pipeline — Texas shall have no liability to lower priority Shippers during periods of service interruption caused by additional service needs of higher priority customers identified in item 1(b). Transportation service provided under this Operating Statement shall be performed only under Subpart C of Part 284 of the Commission's Regulations and within the terms and conditions of NGPA §311(a)(2).

(b) Atmos Pipeline — Texas will provide new open access transportation service through excess capacity on a first come, first served basis. Except as set forth herein, Atmos Pipeline — Texas shall contract for excess capacity among requesting Shippers by determining which Shipper's written request for transportation service (hereinafter referred to as Shipper's "Request") is prior in time. Except as specifically provided herein, if Atmos Pipeline — Texas receives between 8:00 a.m. and 5:00 p.m., C.S.T. or C.D.T. (whichever is applicable) ["C.T." herein] of any normal working day a Request for service which complies with the requirements of Section 5 herein (entitled "Data Required For Valid Request For Transportation") and the Request is received on a calendar day that is before the calendar day on which other Requests are received, such Request will be deemed prior in time. The date which is determined herein to be the date upon which Atmos Pipeline — Texas received Shipper's Request shall be deemed to be Shipper's "Priority Date." In the event more than one Request which meets the requirements of Section 5 hereof is received by Atmos Pipeline — Texas on the same calendar day between 8:00 a.m. and 5:00 p.m., such Requests shall receive priority in the order in which Atmos Pipeline — Texas received such Requests. Requests that meet the requirements of Section 5 hereof and are received after 5:00 p.m. on any day shall be deemed received on the next normal working day between 8:00 a.m. and 5:00 p.m.

(c) Atmos Pipeline — Texas reserves the right to establish separate prioritization queues for its various identifiable pipeline system segments and incremental capacity, including various combinations of receipt and delivery points requested by Shipper.

(d) Within thirty (30) days of Atmos Pipeline — Texas' entry of Shipper's Request in Atmos Pipeline — Texas' transportation log, Atmos Pipeline — Texas shall notify Shipper in writing of its acceptance or rejection of such Request based on the terms and provisions of this Statement of Operating Conditions. If Shipper's Request is rejected for any reason, Shipper must file a complete new Request as described herein if Shipper desires Atmos Pipeline — Texas to further consider any service.

(e) Unless waived by Atmos Pipeline — Texas in a manner which does not unduly discriminate against any party, Shipper's Request for transportation service will be invalid if a Transportation Agreement has not been executed by Shipper within thirty (30) days of Atmos Pipeline — Texas' written notice to Shipper of Atmos Pipeline — Texas' acceptance of Shipper's Request.

(f) Unless waived by Atmos Pipeline — Texas in a manner which does not unduly discriminate against any party, in order to retain its Priority Date a Shipper must commence deliveries to Atmos Pipeline — Texas and Atmos Pipeline — Texas must accept deliveries within 60 days of the date the Transportation Agreement is executed by both parties. In the event Shipper has not commenced deliveries within sixty (60) days of the date the Transportation Agreement is executed by both parties, Atmos Pipeline — Texas may, at its option, and upon ten days notice to Shipper, terminate the Transportation Agreement, and Shipper's Priority Date shall be vacated.

(g) Extensions by written amendment of the term of Transportation Agreements which are subject to this Statement of Operating Conditions shall retain the Priority Date of the original term of such Agreement. However, new Transportation Agreements for any service shall be subject to all the terms and conditions hereunder concerning Requests for new services.

3. CAPACITY ALLOCATION, PRIORITIZATION AND INTERRUPTION

(a) Excess capacity will be allocated on a first come, first served basis as described above in connection with requesting and contracting for interruptible transportation service.

(b) Atmos Pipeline — Texas may obligate itself to transport, on an interruptible basis, more gas than there may be at times excess capacity to transport and deliver in its pipeline facilities. As such "overbooking" may from time to time reduce Atmos Pipeline — Texas' ability to receive and deliver gas, then Atmos Pipeline — Texas shall receive and deliver gas on the basis described in Subsection (c) below, with no liability to Atmos Pipeline — Texas.

(c) In the event periods of time occur when sufficient excess capacity does not exist in Atmos Pipeline — Texas' existing facilities, or any portion thereof, as determined by Atmos Pipeline — Texas, to simultaneously perform any or all requested services, Atmos Pipeline — Texas shall perform services under this Statement of Operating Conditions as described in the system of priorities set out in Section 2 herein. A Request for service in compliance with Section 5 herein which is accepted by Atmos Pipeline — Texas in the form of a Transportation Agreement shall, with respect to day-to-day allocations of capacity, for the term of service so accepted, be unaffected by and shall have priority over subsequent Requests for service without regard to the date of commencement specified in such subsequent Request for service unless Atmos Pipeline — Texas determines that because of operating or other conditions affecting the pipeline system, or any portion thereof, such priority cannot be maintained. In such cases in which limited segments of Atmos Pipeline — Texas' pipeline system are affected by adverse or

favorable operating conditions and other segments are not so affected, Atmos Pipeline — Texas may provide service of a lower priority where such lower priority service does not directly interrupt higher priority service.

(d) In the event Shipper requests Atmos Pipeline — Texas to transport quantities of gas in excess of those maximum quantities defined in Shipper's Transportation Agreement, and Atmos Pipeline — Texas elects to transport such quantities, such transportation shall be performed on a non-prioritized, reasonable efforts basis.

(e) In the event (i) Shipper fails to (A) tender to Atmos Pipeline — Texas at each Point of Receipt or (B) cause to be received at each Point of Delivery for a full billing period, a quantity for each Point equal to at least seventy-five percent (75%) of the maximum daily quantity for such Point of Receipt for that period covered by Shipper's Transportation Agreement; and (ii) Shipper does not specifically have the right to vary the quantity of deliveries or receipts, or to store gas, in its Transportation Agreement or a separate storage agreement; and (iii) Shipper's failure to tender or cause to be received is not the fault of Atmos Pipeline — Texas; and (iv) during such billing period Atmos Pipeline — Texas could have utilized such unused capacity, then Shipper may lose its right to have the full maximum daily quantities transported. In such event, Atmos Pipeline — Texas may reduce Shipper's maximum daily quantity for each Point of Receipt or Point of Delivery, whichever is applicable, to the lesser of (i) the average daily quantity actually tendered at such Point of Receipt during such period or (ii) the average daily quantity delivered at the Point of Delivery during such period, as a new daily maximum. Any permanent reduction in maximum daily quantities pursuant to this paragraph will not be effective until 10 days after Atmos Pipeline — Texas notifies Shipper in writing of such reduction.

(f) As stated in Section 1(c)(v) above, Shipper is obligated to tender for transportation at each Point of Receipt and cause to be received at each Point of Delivery under this Statement of Operating Conditions the minimum quantities set forth in Section 1(c)(v) (Shipper's "minimum daily quantity"). Shipper's obligation in this paragraph to tender for transportation at each Point of Receipt or cause to be received at each Point of Delivery shall be suspended for the time and to the extent that Atmos Pipeline — Texas fails to accept quantities which Shipper tenders at the Point of Receipt or fails to tender the minimum daily quantities at the Point of Delivery for any reason beyond the control of Shipper. Shipper's obligation in this paragraph shall also be suspended during any period when Shipper has gas in storage; provided, however, the minimum Quantity Provision of Section 1(c)(v) shall apply to any receipt for storage or redelivery of gas withdrawn from storage. Except as stated above, in the event Shipper, for any full billing period, fails to (i) tender at each Point of Receipt, or (ii) cause to be accepted at each Point of Delivery a quantity of gas which is equal to or greater than the total of the minimum daily quantities for such billing period, then Atmos Pipeline — Texas shall have the right to cancel the Transportation Agreement as to such Point of Receipt and/or Point of Delivery at any time upon thirty (30) days written notice to Shipper.

(g) At least two but not more than ten normal business days prior to the beginning of each calendar month, Shipper or its duly authorized representative shall provide Atmos Pipeline — Texas with schedules of quantities to be delivered at each Point of Receipt and Delivery for the ensuing month. All pipeline capacity (up to the maximum quantities set out in Shipper's Transportation Agreement) for which Shipper fails to schedule deliveries or which Shipper fails to utilize may be allocated by Atmos Pipeline — Texas to other Shippers for such month. Shipper shall give Atmos Pipeline — Texas at least forty-eight (48) hours advance notice of significant deviations from the schedules provided by Shipper. The failure of Shipper to comply with such schedules shall relieve Atmos Pipeline — Texas of any obligation to perform transportation services.

4. RATE METHODOLOGY AND OTHER CHARGES

(a) For transportation service rendered in accordance with this Operating Statement, Atmos Pipeline — Texas shall charge a rate determined in accordance with Section 284.123(b)(1)(A) of the Commission's regulations implementing the NGPA. The rate in each Transportation Agreement shall be the rate determined as described above, unless Atmos Pipeline — Texas elects to discount the rate (i) to meet competition, or (ii) in consideration of other benefits to Atmos Pipeline — Texas' customers and/or ratepayers, or (iii) to improve system operating conditions.

(b) Shipper shall pay to Atmos Pipeline — Texas, upon receipt of Atmos Pipeline — Texas' invoice, all fees required by the Federal Energy Regulatory Commission and any other regulatory bodies related to service provided under this Operating Statement, including but not limited to filing, reporting, application and any other fees required by the applicable regulatory agencies.

(c) Shipper shall pay Atmos Pipeline — Texas, by way of reimbursement, all taxes, levied and imposed upon Atmos Pipeline — Texas with respect to the transport of gas and associated facilities related thereto. The term "Taxes" as used herein, shall mean all taxes (other than capital stock, income or excess profit taxes, general franchise taxes imposed on corporations on account of their corporate existence or on their right to do business within the state as a foreign corporation and similar taxes), including, but not limited to, gross receipts tax, street and alley rental tax, licenses, fees and other charges levied, assessed, or made by any governmental authority on the act, right or privilege of transporting, handling or delivering gas which is measured by the volume, heat content, value or sales price of the gas or transportation fee levied upon and/or paid by Atmos Pipeline — Texas with respect to the gas delivered hereunder. In the event Atmos Pipeline — Texas holds gas in storage pursuant to a Transportation Agreement or a separate storage agreement, Shipper shall reimburse Atmos Pipeline — Texas for ad valorem taxes, if any, levied and imposed upon Atmos Pipeline — Texas with respect to such gas.

(d) Shipper shall reimburse Atmos Pipeline — Texas for any charges which Atmos Pipeline — Texas incurs from other parties in rendering service for Shipper which

charges are related to the transportation service rendered to Shipper pursuant to this Statement.

(e) There shall be no minimum bill.

5. DATA REQUIRED FOR VALID REQUEST FOR TRANSPORTATION

Requests for transportation service shall be considered when the following information has been received in writing by Atmos Pipeline — Texas, attention Manager, Transportation Department, Atmos Pipeline — Texas, 301 South Harwood Street, Dallas, Texas 75201 or such other address(es) as may be designated on Atmos Pipeline — Texas' transportation request form from time to time by Atmos Pipeline — Texas.

(a) Name, address, telephone number, state of incorporation and principal place of business of the proposed Shipper.

(b) Gas Quantities - the estimated maximum, minimum, and average daily quantities to be received by Atmos Pipeline — Texas and delivered for the account of Shipper over the delivery period at each Point of Delivery and Point of Receipt.

(c) Point(s) of Receipt -

(1) The definitive description of the point of entry into Atmos Pipeline — Texas' facilities.

(2) The names of all parties from whom the gas is being received at each point of entry.

d) Destination of gas -

(1) A definitive description of Point(s) of Delivery by Atmos Pipeline — Texas; and

(2) Names of all parties to which Atmos Pipeline — Texas will deliver gas.

(e) Term of service

(1) Date service requested to commence; and

(2) Date service requested to terminate.

(f) A concise description of the transportation arrangements and how such arrangements qualify as a bona fide §311 transportation arrangement under the NGPA.

(g) Sufficient information for Atmos Pipeline — Texas to determine, in its sole discretion, if the gas which Shipper proposes to tender complies with Atmos Pipeline — Texas' minimum pressure and quality specifications.

6. RECEIPT AND DELIVERY

The Point(s) of Receipt and Delivery for all gas tendered to Atmos Pipeline — Texas for transportation hereunder shall be at the interconnection of Atmos Pipeline — Texas' and Shipper's (or any third-party's as may be applicable) facilities.

7. OPERATING CONDITIONS

(a) Shipper shall make all necessary arrangements with other parties at (or upstream of) the Point(s) of Receipt where it tenders gas to Atmos Pipeline — Texas for transportation and at (or downstream of) the Point(s) of Delivery where it receives gas from Atmos Pipeline — Texas. Atmos Pipeline — Texas' Gas Control Department shall be notified of all such arrangements at least 48 hours prior to Shipper's initial gas nomination.

(b) Atmos Pipeline — Texas shall not be required to provide service by displacement if to do so would require Atmos Pipeline — Texas to purchase new quantities of gas from any source or to increase or decrease purchases from existing suppliers in order to create capacity to perform such service.

(c) Atmos Pipeline — Texas shall store gas only if such service is specifically provided in the Transportation Agreement or a separate storage agreement.

(d) Atmos Pipeline — Texas shall not be required to perform service in the event any or all facilities necessary to render the requested service do not exist at the time the Request is made pursuant to Section 5 hereof. Except as otherwise provided, Atmos Pipeline — Texas will not be obligated to maintain and operate facilities used solely for the receipt, transportation, and delivery of gas under this Operating Statement.

(e) Atmos Pipeline — Texas shall not be required to perform services if said performance would affect or increase operational requirements of Atmos Pipeline — Texas with any suppliers or customers including, but not limited to, obligations of Atmos Pipeline — Texas with regard to drainage or with regard to statutory or contractual ratable takes of gas, nor will Atmos Pipeline — Texas be required to transport gas if, in Atmos Pipeline — Texas' sole discretion, such transportation would be detrimental to its operations in any way, including without limitation, its compression and processing operations.

(f) In the event Atmos Pipeline — Texas is unable to continue transportation services for any Shipper because of operational problems in Atmos Pipeline — Texas' pipeline system, Atmos Pipeline — Texas may, with ten (10) days notice to Shipper, terminate the Transportation Agreement; provided, however, suitable arrangements shall be made to redeliver any gas in storage.

(g) Atmos Pipeline — Texas shall not be required to perform service for or on behalf of any Shipper that is in arrears with Atmos Pipeline — Texas with respect to any charge, rate or fee; provided, however, if the amount in arrears pertains to a bona fide dispute, including but not limited to cessation of receipts and deliveries due to force majeure

claims, Shipper shall be entitled to continue to receive service if Shipper pays all charges, rates or fees so in dispute to Atmos Pipeline — Texas pending the resolution thereof.

(h) For each individual receipt and delivery point, Atmos Pipeline — Texas' maximum obligation to accept and deliver gas shall be specified in the Transportation Agreement between Shipper and Atmos Pipeline — Texas, but shall be subject to reduction as described in Section 3(e) herein.

(i) In the event the parties agree to add a new Point(s) of Delivery, any Request to add additional delivery point(s) shall be considered a Request for new service. Such Requests to add additional delivery points shall be individually subject to all the terms and conditions of this Operating Statement. In the event the parties agree to add a new Point(s) of Receipt, a written agreement or amendment reflecting such addition(s) shall be executed by the parties.

(j) Atmos Pipeline — Texas shall not be required to continue to perform service for any Shipper that fails to meet or comply with any and all of the terms of this Operating Statement and with the terms of Shipper's Transportation Agreement with Atmos Pipeline — Texas.

8. FINANCIAL VIABILITY OF SHIPPER

Atmos Pipeline — Texas shall not be required to perform or continue to perform service on behalf of any Shipper who has applied for bankruptcy under any chapter of the Bankruptcy Code or on behalf of any Shipper who, at Atmos Pipeline — Texas' discretion, fails to demonstrate creditworthiness; provided, however, such Shipper may receive service if said Shipper prepays for such service, or upon fifteen (15) days notice from Atmos Pipeline — Texas, furnishes good and sufficient surety, as determined in Atmos Pipeline — Texas' sole discretion, of a continuing nature, and in an amount equal to at least the cost of performing the transportation service requested by or provided to Shipper for a two (2) month period.

9. WARRANTY OF ELIGIBILITY FOR TRANSPORTATION AND CONTINUED §311 CLASSIFICATION

(a) Each Shipper must warrant for itself, its successors and assigns, that all gas delivered to Atmos Pipeline — Texas for transportation hereunder shall be eligible for transportation in interstate commerce under applicable rules, regulations, or orders of the FERC and that the service which it requests Atmos Pipeline — Texas to perform qualifies as a bona fide transportation service under §311(a)(2) of the NGPA and the related rules and will continue to qualify under such section for the entire term of the Transportation Agreement.

(b) It is understood that performance under this Statement shall be subject to all valid rules and regulations of duly constituted governmental authorities having jurisdiction or control over the matter related hereto including, without limitation, the provisions of

Subpart C of Part 284 of FERC's Regulations implementing Section 311(a)(2) of the NGPA (18 CFR Section 284.121, et seq).

(c) The parties hereto shall proceed with diligence in the preparation, filing, and prosecution of such applications, filings, and notices with federal or other governmental bodies, or both, as may be required for the initiation and continuation of the transportation service which is the subject of the Transportation Agreement. Each party shall fully support and cooperate with the other when necessary in regard to any regulatory filing or application and shall promptly provide the other party with a copy of all filings, notices, approvals, and authorizations in the course of the prosecution of its filings.

10. BALANCING

(a) Receipts and deliveries of gas under this Operating Statement shall be performed on an MMBtu basis.

(b) All gas shall be received by Atmos Pipeline — Texas and delivered to Shipper and received by Shipper as nearly as practical at uniform hourly and daily rates of flow.

(c) It is recognized that a day-to-day balance of gas received by Atmos Pipeline — Texas and delivered to Shipper (or for its account) may not be possible due to the inability of the parties to control precisely such receipts and deliveries. Except to the extent gas volumes are stored, Shipper shall endeavor to deliver at the Point of Receipt and Atmos Pipeline — Texas shall endeavor to deliver at the Point of Delivery each day on an MMBtu basis as stated above equivalent quantities of gas (less such quantities of gas retainage (if any) as are agreed upon by the parties). Atmos Pipeline — Texas shall retain such retainage as a percentage of the quantity of gas received from Shipper as compensation for normal gas lost, gas used as fuel and gas used in day-to-day operations.

(d) Unless storage is specifically provided under the Transportation Agreement or a separate storage agreement Atmos Pipeline — Texas shall never be required to accumulate transportation gas imbalances; i.e., Atmos Pipeline — Texas shall have the right (i) to refuse to receive quantities of gas which are greater than quantities of gas which it delivers and are received by Shipper on any day, and (ii) to refuse to deliver greater quantities of gas on any day than it receives from Shipper.

(e) Except to the extent gas volumes are stored, and except to the extent waived by Atmos Pipeline — Texas in a manner which does not unduly discriminate against any party, accumulated imbalances, if any, shall be eliminated in the month following the month in which they occur, (hereinafter "makeup month"), provided however, that Atmos Pipeline — Texas may at any time restrict or discontinue the receipt or delivery of gas received from or delivered to Shipper (or for its account) in order to correct or prevent an imbalance.

(f) In the event that Shipper, during any billing month, delivers at the Point(s) of Receipt a total quantity of gas which, through no fault of Atmos Pipeline — Texas, is less than the total quantity of gas which Atmos Pipeline — Texas delivers and Shipper receives at the Point(s) of Delivery (adjusted for any gas stored during the month in accordance with the provisions of the Transportation Agreement or a separate storage agreement), then Atmos Pipeline — Texas shall notify Shipper by the fifteenth (15th) day of the makeup month that an imbalance deficiency exists. Atmos Pipeline — Texas may notify Shipper to make up such deficiency during the makeup month. If such imbalance deficiency is not made up during the imbalance makeup month, when requested by Atmos Pipeline — Texas, except in such instances in which Atmos Pipeline — Texas is unable to accept such volumes, and except to the extent waived by Atmos Pipeline — Texas in a manner which does not unduly discriminate against any party, then Shipper shall pay Atmos Pipeline — Texas an amount per MMBtu equal to the quantities of the imbalance deficiency times one hundred ten percent (110%) of Atmos Pipeline — Texas' average cost of gas for the month in which the imbalance occurred, plus the applicable transportation fee; provided; however, Shipper shall not be required to pay Atmos Pipeline — Texas in the event the imbalance deficiency for any billing month is a result of correcting an imbalance excess from a prior month.

(g) In the event that Shipper, during any billing month, delivers a total quantity of gas at the Point(s) of Receipt which, through no fault of Atmos Pipeline — Texas, is in excess of one hundred ten percent (110%) of the total quantity of gas which Shipper receives at the Point(s) of Delivery, then Atmos Pipeline — Texas shall notify Shipper by the fifteenth (15th) day of the makeup month that such imbalance excess exists. Atmos Pipeline — Texas may at its sole discretion require Shipper to make up such imbalance excess during such month. If such imbalance excess is not made up during the imbalance makeup month when requested by Atmos Pipeline — Texas, except in such instances in which Atmos Pipeline — Texas could not deliver such volumes, and except to the extent waived by Atmos Pipeline — Texas in a manner which does not unduly discriminate against any party, then Shipper shall pay to Atmos Pipeline — Texas an amount per MMBtu equal to the average imbalance excess remaining in Atmos Pipeline — Texas' system during each such month thereafter times a rate of (\$0.900) per MMBtu. The "average imbalance excess" shall be calculated as the arithmetic average of the excess MMBtu's remaining in Atmos Pipeline — Texas' system on the first and last days of the month following the imbalance make-up month or successive month or months in the event the imbalance excess is not corrected during the first imbalance make-up month. Shipper shall not be required to pay Atmos Pipeline — Texas in the event the imbalance for any billing month is as a result of correcting an imbalance deficiency from a prior month. The foregoing paragraph shall not apply to the extent gas volumes are stored.

11. FORCE MAJEURE

(a) In the event either Atmos Pipeline — Texas or Shipper is rendered unable, wholly or in part, by force majeure to carry out its obligations under the Transportation Agreement (other than the obligation to pay monies due hereunder), it is agreed that, on such party's giving notice and reasonably full particulars of such force majeure, in writing or by telegraph, to the other party within a reasonable time after the occurrence of the cause

relied on, the obligations of the party giving such notice, so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused, but for no longer period, and such cause shall, so far as possible, be remedied with all reasonable dispatch.

(b) The term "force majeure", as employed herein, shall mean acts of God; strikes, lock outs or other industrial disturbances; acts of the public enemy, wars, blockades, insurrections, civil disturbances and riots, and epidemics; landslides, lightning, earthquakes, fires, storms, floods and washouts; arrests, orders, directives, restraints and requirements of the government and governmental agencies, either federal or state, civil and military; any application of governmental conservation rules and regulations; explosions, breakage or accident to machinery or lines of pipe; outages (shutdowns) of power plant equipment or lines of pipe for inspection, maintenance or repair; freezing of wells or lines of pipe; and any other causes, whether of the kind enumerated or otherwise, not reasonably within the control of the party claiming suspension. It is understood and agreed that the settlement of strikes or lockouts shall be entirely within the discretion of the party having the difficulty, and that the above reasonable dispatch shall not require the settlement of strikes or lockouts by acceding to the demand of the opposing party when such course is or is deemed to be inadvisable or inappropriate in the discretion of the party having the difficulty.

12. TERMINATION

(a) Subject to the other terms and provisions herein, for each Transportation Agreement, Atmos Pipeline — Texas' obligation to provide service, and Shipper's contractual right, or otherwise, to receive such service shall terminate on the earlier of the date provided in the applicable Transportation Agreement for the termination of said service or the date on which Atmos Pipeline — Texas determines on a nondiscriminatory basis to cease performing the class of transportation service applicable to Shipper's service pursuant to §311(a)(2) of the Natural Gas Policy Act of 1978.

(b) The Transportation Agreement may be terminated or renegotiated as to the applicable terms at any time by Shipper or Atmos Pipeline — Texas, each in its sole discretion, if the FERC or the Railroad Commission of Texas, whichever is applicable, determines that the rates provided in the Transportation Agreement are not in accordance with the FERC's or the Railroad Commission of Texas' regulations or governing statutes, or are not fair and equitable to each party to the Transportation Agreement. Should the appropriate regulatory agency find the rates provided in the Transportation Agreement to be unreasonable for any reason or in any way in violation of any provision of law, and determine a rate lower than that provided for therein, Atmos Pipeline — Texas may terminate the Transportation Agreement by giving Shipper two (2) days' prior written notice of such termination. Should the agency determine a rate higher than that provided for therein, Shipper may terminate the Transportation Agreement by giving Atmos Pipeline — Texas two (2) days' prior written notice of such termination. Shipper shall have no contractual remedies for transportation service related to periods subsequent to the termination of service as aforesaid.

(c) If at any time any federal governmental authority takes any action that results in the imposition upon the transportation services provided for hereunder of terms or conditions that are in Atmos Pipeline — Texas' sole opinion unduly burdensome and unacceptable or that are, with respect to or as a result of the transportation services provided for hereunder, designed to subject or otherwise subjects Atmos Pipeline — Texas or any of its pipelines or related facilities to any greater or different regulations or jurisdiction than that existing on the date of initial delivery of gas hereunder (or thereafter as such regulation or jurisdiction may have changed and been acceptable by the party affected), then upon written notice Atmos Pipeline — Texas may terminate this Agreement effective one (1) day prior to the effective date of such governmental action.

(d) In the event Shipper or any party involved in the transportation of the gas received and delivered by Atmos Pipeline — Texas under any Transportation Agreement subject to this Statement of Operating Conditions, takes any action or commits an act of omission which subjects Atmos Pipeline — Texas, the gas transported, or any facilities owned by Atmos Pipeline — Texas to the jurisdiction of the F.E.R.C. under the Natural Gas Act of 1938, Atmos Pipeline — Texas may cancel the Transportation Agreement effective the day before the date such action or act of omission occurred.

(e) In the event Shipper commits a material breach of the Transportation Agreement, Atmos Pipeline — Texas, at its option, may terminate such Agreement with ten (10) days notice to Shipper, provided, however, that Atmos Pipeline — Texas notified Shipper of such material breach and Shipper failed to remedy the breach within thirty (30) days of Atmos Pipeline — Texas' notice.

(f) Upon termination of either a Transportation Agreement under which gas has been stored, or a separate storage agreement, the Shipper shall have a period of ninety (90) days to withdraw from storage any gas stored under such Agreement, at the redelivery rates and conditions set forth in such Agreement. If Shipper does not withdraw its gas in storage within such ninety (90) day period, Shipper shall pay Atmos Pipeline — Texas an additional storage fee, subject to the provisions of Section 4(a) of this Statement of Operating Conditions, on any gas remaining in storage after such ninety (90) day period.

(g) Shipper shall have no contractual remedies for transportation service related to periods subsequent to the termination of service pursuant to the provisions of this Statement or the Transportation Agreement.

13. WAIVER OF BREACHES, DEFAULTS OR RIGHTS

No waiver by either party to the Transportation Agreement of any one or more breaches, defaults or rights under any provisions of the Agreement shall operate or be construed as a waiver of any other breaches, defaults or rights, whether of a like or of a different character. By providing written notice to the other party, either party may reassert any right not previously asserted under the Transportation Agreement or may reassert its right to object to a default not previously protested. Except as specifically provided in the Transportation Agreement, in the event of any dispute under the Agreement, the parties

shall, notwithstanding the pendency of such dispute, diligently proceed with the performance of the Agreement without prejudice to the rights of either party.

14. REMEDY FOR BREACH

Except as otherwise specifically provided herein, if either Atmos Pipeline — Texas or Shipper shall fail to perform any of the covenants or obligations imposed upon it in the Transportation Agreement (except where such failure be excused under the provisions of Force Majeure hereof), then, and in that event, the other party may, at its option (without waiving any other remedy for breach hereof), by notice in writing specifying wherein the default has occurred, indicate such party's election to terminate the Transportation Agreement by reason thereof, provided, however, that Shipper's failure to pay Atmos Pipeline — Texas within a period of ten (10) days following Shipper's receipt of written notice from Atmos Pipeline — Texas advising of such failure to make payment within the time specified herein, shall be a default which shall give Atmos Pipeline — Texas the right to terminate immediately the Transportation Agreement, unless such failure to make payment is the result of a bona fide dispute between the parties hereto regarding such payment thereunder, and, unless waived by Atmos Pipeline — Texas in a manner which does not unduly discriminate against any party, Shipper timely pays all amounts not in dispute. With respect to any other matters, the party in default shall have thirty (30) days from receipt of such notice to remedy such default and, unless waived by Atmos Pipeline — Texas in a manner which does not unduly discriminate against any party, to pay or indemnify the other party for all loss or damage incurred as a result thereof, and upon failure to do so, the Transportation Agreement shall terminate from and after the expiration of such thirty (30) day period. Any such termination shall be an additional remedy and shall not prejudice the right of the party not in default to collect any amounts due it thereunder for any damage or loss suffered by it and shall not waive any other remedy to which the party not in default may be entitled for breach of the Transportation Agreement.

15. MISCELLANEOUS

(a) Atmos Pipeline — Texas, in its sole discretion, shall have the right at any time and from time to time to amend, modify, or cancel any and all of the provisions of this Operating Statement without liability to or consent from any Shipper, except to the extent Atmos Pipeline — Texas waives this right in a manner which does not unduly discriminate against any party.

(b) No Shipper may assign any rights under any Transportation Agreement subject to this Statement of Operating Conditions, without the prior written consent of Atmos Pipeline — Texas. In the event of Shipper's noncompliance with this paragraph, Atmos Pipeline — Texas may terminate the Transportation Agreement.

(c) Transportation service described hereunder shall be subject to the terms of Appendix "A" concerning quality specifications of gas, Appendix "B" concerning delivery pressure of gas, and Appendix "C" concerning general terms and conditions, which Appendices are hereby incorporated by this reference.

(d) Transportation service shall also be subject to the "special" terms and conditions contained in the Transportation Agreement and any related agreements between Atmos Pipeline — Texas and Shipper.

(e) Except to the extent waived by Atmos Pipeline — Texas in a manner which does not unduly discriminate against any party, no Shipper shall be considered or deemed by interpretation of these operating conditions or any Transportation Agreement to have any capacity rights in, to or through Atmos Pipeline — Texas' system or facilities.

APPENDIX "A"

Quality Specifications

1. All gas tendered for delivery by Shipper to Atmos Pipeline — Texas at the Point(s) of Receipt must meet the following quality specifications:

a. Such gas must not contain more than five (5) grains of total sulphur consisting of no more than one-quarter (1/4) grain of hydrogen sulphide and one

(1) grain of mercaptan sulphur per one hundred (100) cubic feet of gas;

b. (i) Such gas must not have a Gross Heating Value of less than nine hundred fifty (950) Btus not more than eleven hundred (1,100) Btus under the conditions of measurement contained in the Transportation Agreement;

(ii) "Heating Value" or "Heat Content" shall mean the total heating value expressed in Btu per cubic foot (gross heating value) of the gas delivered under this Statement of Operating Conditions, and shall be determined at a temperature of sixty (60) degrees Fahrenheit, saturated with water vapor and under a pressure equivalent to that of thirty (30) inches of mercury at thirty-two (32) degrees Fahrenheit converted to base conditions of sixty (60) degrees Fahrenheit and an absolute pressure of fourteen and sixty-five one hundredths (14.65) pounds per square inch and adjusted to reflect actual water vapor content.

c. Such gas must not have a temperature greater than one hundred twenty (120) degrees Fahrenheit or less than forty (40) degrees Fahrenheit;

d. Such gas must not contain more than three (3) percent by volume of carbon dioxide not more than five one-hundredths of one percent (0.05%) oxygen;

e. Such gas must be of merchantable quality and commercially free of all water, hazardous substances, hydrocarbon liquids, bacteria and other objectionable fluids and from sand and other objectionable solids and gases;

f. Such gas must not contain more than seven (7) pounds of water vapor per one million (1,000,000) cubic feet; and

g. Such gas must be interchangeable with other gas in Atmos Pipeline — Texas' pipeline at the Point(s) of Receipt. Atmos Pipeline — Texas' determination of such interchangeability shall be based upon a factor which is equivalent to the quotient obtained by dividing the total heating value of such gas, expressed in BTU's by the square root of the specific gravity of such gas. Such factor must be within $\pm 7\%$ of the interchange factor established by Atmos Pipeline — Texas for its system at the Point(s) of Receipt.

h. Such gas must not contain more than six (6) percent by volume of non-hydrocarbon or inert gases, including carbon dioxide, nitrogen, oxygen, and helium.

i. Such gas must not have a hydrocarbon dew point greater than forty (40) degrees Fahrenheit.

2. All gas tendered for delivery hereunder by Atmos Pipeline — Texas to Shipper at the Point(s) of Delivery will meet the quality specifications as set forth herein.

3. If at any time the gas fails to meet the quality specifications enumerated herein, Atmos Pipeline — Texas shall notify Shipper in writing, and Shipper shall immediately correct such failure. Atmos Pipeline — Texas will have the right to refuse to accept such gas for so long as Shipper is unable to tender gas conforming to such specifications or may accept delivery of such gas or any part thereof during such period. Atmos Pipeline — Texas' acceptance of gas that does not conform to the quality specifications stated above will not constitute a waiver of such specifications by Atmos Pipeline — Texas with regard to gas tendered under the Transportation Agreement after such acceptance. In the event Shipper does not correct its failure to meet the quality specifications contained herein at any Point of Receipt within sixty (60) days of Atmos Pipeline — Texas' written notice of such failure, Atmos Pipeline — Texas shall have the continuing right to terminate the Transportation Agreement upon thirty (30) days written notice to Shipper.

APPENDIX "B"

Pressures

1. Shipper shall deliver gas or cause gas to be delivered to Atmos Pipeline — Texas at the Point(s) of Receipt at a pressure sufficient to allow the gas to enter Atmos Pipeline — Texas' pipeline as such pressure shall vary from time to time and from place to place. Such pressure will not exceed Atmos Pipeline — Texas' maximum allowable operating pressure. Atmos Pipeline — Texas shall not be required to compress transportation gas into its pipeline. At each Point(s) of Receipt, Shipper shall provide, or cause to be provided, equipment acceptable to Atmos Pipeline — Texas which will prevent overpressuring Atmos Pipeline — Texas' pipeline.

2. Atmos Pipeline — Texas shall deliver gas at each Point(s) of Delivery to or for the account of Shipper at the pressure which shall be available from time to time in Atmos Pipeline — Texas' pipeline after required measurement, flow control and/or regulation,

provided, however, that in no event will Atmos Pipeline — Texas be required to compress to effect such delivery.

APPENDIX "C"

General Terms and Conditions

1. Definitions

(a) "Gas shall mean natural gas produced from gas wells, vaporized natural gas liquids, gas produced in association with oil (casinghead gas) and/or the residue gas resulting from processing casinghead gas and/or gas well gas.

(b) "Central Time" ("C.T." herein) shall mean either C.S.T. or C.D.T., whichever is applicable.

(c) "Day" shall mean that period beginning at 7:00 a.m., C.T., on one calendar day and ending at 7:00 a.m., C.T., on the following calendar day.

(d) "Month" shall mean the period beginning at 7:00 a.m., C.T., on the first day of a calendar month and ending at 7:00 a.m., C.T., on the first day of the succeeding calendar month.

(e) "Year" shall mean a period of twelve (12) consecutive months beginning at 7:00 a.m., C.T., on the first day of a calendar month and ending at 7:00 a.m., C.T., on the same date of each succeeding year during the term hereof.

(f) "Mcf" shall mean one thousand (1,000) cubic feet.

(g) The term "Btu" as used herein, shall mean British Thermal Unit and, where appropriate, the plural thereof. The term "MMBtu" shall mean one million (1,000,000) Btu.

(h) "Psia" shall mean pounds per square inch absolute.

(i) "Psig" shall mean pounds per square inch gauge.

(j) "Point of Receipt" or "Receipt Point" shall mean a point where Atmos Pipeline — Texas receives gas delivered to it by Shipper or by the designee of Shipper for Shipper's account.

(k) "Point of Delivery" or "Delivery Point" shall mean a point where Atmos Pipeline — Texas delivers gas to Shipper or to others for Shipper's account.

(l) "Transportation Agreement" should mean the agreement(s) by and between Atmos Pipeline — Texas and Shipper providing for the transportation of gas by Atmos Pipeline — Texas pursuant to Section 311(a)(2) of the NGPA.

2. Measuring Equipment and Testing

(a) The meter and other measurement instruments and equipment shall be tested and adjusted for accuracy on a regular basis by the party metering the gas (the "Metering Party"). The gas delivered to Atmos Pipeline — Texas at the Receipt Point(s) shall be measured by means of measuring devices of a standard type which shall be installed, operated and maintained by the Metering Party, and gas delivered to Shipper (or for its account) at the Delivery Point(s) shall be measured by meters of standard type which shall be installed, operated and maintained by the Metering Party.

(b) Shipper and Atmos Pipeline — Texas recognize that a third party which is not a signatory to the Transportation Agreement may be designated as a Metering Party by either Shipper or Atmos Pipeline — Texas to provide measurement service at Point(s) of Receipt or Point(s) of Delivery. When the measurement standards observed by such third party Metering Party are different from the standards set forth herein, the results of such third party measurement shall be adjusted to the standards set forth herein for all settlements and computations under this Agreement.

(c) To the extent practicable each party or its agent shall have access to the Metering Party's metering equipment at all times, but the calibration and adjustment thereof shall be done only by the employees or agents of the Metering Party. Records from such metering equipment shall remain the property of the Metering Party and shall be kept on file by said party for a period of not less than two (2) years. However, upon request the Metering Party shall submit to such party records from its metering equipment, together with calculations therefrom, for inspection and verification, subject to return by such party to the Metering Party within thirty (30) days after receipt thereof.

(d) Each party may, at its option and expense, install and operate, in a manner which will not interfere with the Metering Party's equipment, meters, instruments and equipment to check the Metering Party's meters, instruments, and equipment, but the measurement of gas for the purpose of this Agreement shall be by the Metering Party's meter only, except as hereinafter specifically provided. The check meters, instruments, and equipment installed by each party shall be subject at all reasonable times to inspection or examination by the other party, but the calibration and adjustment thereof shall be done only by the party owning such facilities.

(e) Each party shall give to the other party, or the other party's agent, notice of the time of all tests of meters sufficiently in advance of such tests so that the other party may conveniently have its representatives present; provided, however, that if either party has given such notice to the other party and such other party is not present at the time specified, then the party giving the notice may proceed with the test as though the other party were present.

(f) Meter measurements computed by the Metering Party shall be deemed to be correct except where the meter is found to be inaccurate by as much as one percent (1%), fast or slow, or to have failed to register, in either of which cases the Metering Party shall repair

or replace the meter. The quantity of gas delivered while the meter was inaccurate or failed to register shall be determined by the readings of the other party's check meter, if installed and in good operating condition, or by correcting the error if the percentage of error is ascertainable by calibration or mathematical calculation. If not so ascertainable, then it shall be determined by estimating the quantity on a basis of deliveries under similar conditions when the meter was registering accurately. Such adjustments or corrections shall be made only for one-half (1/2) of the period which has elapsed since the previous test.

3. Measurements

(a) In gas measurement computations the Metering Party may use the findings and rules of the Railroad Commission; with respect to flowing temperature the Metering Party shall, at its expense, properly install and operate a device of standard make to continuously determine and record flowing temperature.

(b) The orifice meters for measurement of volumes at the Receipt Point(s) and Delivery Point(s) hereunder shall be installed and operated, and computations shall be made, as prescribed in Gas Measurement Committee Report No. 3 of the American Gas Association as last amended. The unit of measurement of gas shall be one thousand (1,000) cubic feet at a pressure base of fourteen and sixty-five one hundredths (14.65) pounds per square inch absolute and at a temperature base of sixty degrees (60°) Fahrenheit. Meter measurements shall be computed by the Metering Party into such units in accordance with the Ideal Gas Laws for volume variations due to metered pressure and corrected for deviation, using daily averages of recorded specific gravity and flowing temperature or by using the calculated specific gravity determined by the method mentioned in paragraph (c) below.

(c) The daily average heating value and specific gravity of the gas delivered hereunder by either party, may be determined by the use of BTU and specific gravity recording instruments of standard type, which may be installed and operated by the Metering Party at the metering point, or at such other point or points as is mutually agreeable to both parties; provided, however, if there is no BTU and/or specific gravity recording instrument at any particular point specified herein or agreed upon hereunder, then the heating value and/or specific gravity of the gas can be determined by "on-site" sampling and laboratory analysis or any other mutually agreeable method which is of standard industry practice.

(d) Only the time period during which such gas is actually flowing shall be used in determining daily averages of metered pressure, specific gravity, flowing temperature and heating value.

(e) Specific gravity shall be determined by "on-site" sampling and laboratory analyses or any other mutually agreeable method which is standard industry practice (provided, however, that either party may at its expense properly install and operate a recording

gravitometer of standard make and in this event the specific gravity as recorded shall be used).

4. Billing, Accounting and Reports

(a) On approximately the 15th day of each month, Atmos Pipeline — Texas shall render to Shipper a statement for the preceding month showing the Mcf and MMBtu delivered at the Receipt Point(s) and Delivery Point(s); the amount of compensation due to Atmos Pipeline — Texas hereunder, including tax reimbursement; and other reasonable and pertinent information which is necessary to explain and support same and any adjustments made by Atmos Pipeline — Texas in determining the amount billed.

(b) Shipper shall pay Atmos Pipeline — Texas, by the twenty-fifth (25th) day of the month or ten (10) days from the date that Atmos Pipeline — Texas' statement is deposited prepaid in the United States mail, whichever is later, for gas transported hereunder during the preceding month, or as to payment which is otherwise due hereunder or under any related agreement(s), according to the measurements, computations, and rates provided herein, in the Transportation Agreement, and in any related agreement(s). If the invoiced amount of any payment due is not paid when due, interest on all unpaid amounts shall accrue at the rate of one and one-half percent (1 1/2%) per month, or the highest rate allowed by law, whichever is less, from the date such amount is due Atmos Pipeline — Texas; provided, however, no interest shall accrue on unpaid amounts when failure to make payment is the result of a bona fide dispute between the parties hereto regarding such payment and Shipper pays all undisputed amounts.

(c) Shipper and Atmos Pipeline — Texas shall each have the right at all reasonable times to examine the measurement records and charts of the other to the extent necessary to verify the accuracy of any statement, charge, computation, or demand made under or pursuant to any of the provisions in the Transportation Agreement. If any such examinations reveal any inaccuracy in such billing theretofore made, the necessary adjustments in such billing and payment shall be made; provided, that no adjustments for any billing or payment shall be made for any inaccuracy claimed after the lapse of two (2) years from the rendition of the invoice relating thereto.