

**REGULATIONS FOR THE TRANSPORTATION OF HYDROCARBONS
VIA PIPELINES**

**TITLE I
GENERAL PROVISIONS
SOLE CHAPTER**

Article 1. The hydrocarbons transportation activity by pipelines is a service that has the character of public utility subject to the norms of Hydrocarbons Law N° 1689 of April 30, 1996, SIRESE Law N° 1600 of October 20, 1994, these regulations and other applicable legal norms.

Article 2. The activity of the hydrocarbons transportation by pipelines will be exercised by means of administrative concession granted by the Hydrocarbons Supervisory Board.

Article 3. This activity will be governed by the transparency principle. This principle forces the acts of the Hydrocarbons Supervisory Board, performed in compliance with the regulations in force, to be conducted publicly and impartially for the parties involved, the regulation acts are appropriate, the processing diligent and not costly. The transparency principle forces the concession holder to keep its documentation and accounting updated, making its operation systems, administration and costs accessible to the Hydrocarbons Supervisory Board. Access will be allowed to the information by the authority with jurisdiction or who accredits a legitimate interest and the management accounts will be rendered according to the applicable legal norms.

**TITLE II
DEFINITIONS AND DENOMINATIONS
SOLE CHAPTER**

Article 4. For the application of these regulations, in addition to those contained in Article 8 of the Hydrocarbon Law, the following definitions and denominations are established:

Assets are the tangible and intangible assets required by the concession holder, including all the expansions, additions, improvements, replacements, renovations and substitutions made on the assets throughout the duration of the concession, insofar as necessary to provide the service involved.

Working Capital consists of the funds in cash assigned to cover the operating costs for an average period of THREE (3) months, the costs of inventories of materials and

supplies for a period of SIX (6) months, plus the initial cost of the content of hydrocarbons essential for the operation and other applicable expenses according to the accounting manual.

Shipper is the party that contracts the transportation service, whether as producer, distributor, intermediary or direct consumer.

Capacity Charge is that which is based on the volumes contracted, associated with the capacity reserved by the shipper, in accordance with firm contracts.

Variable Charge is that associated with the volumes actually transported, in accordance with the contract.

Concession is the administrative act by which the Hydrocarbons Supervisory Board grants, in the name of the Bolivian State, to an individual or legal entity, either national or foreign, the right to construct and operate pipelines, stations and plants for the transport of hydrocarbons.

Concession Holder is the individual or legal entity, either national or foreign, who is granted a concession for the hydrocarbons transportation via pipelines and, for the purposes of implementation of these regulations, the operator of the oil pipeline for exports to Chile, from the Campero pumping station to the Arica terminal.

Direct Consumer is that who, according to the current standards, purchases liquid hydrocarbons and/or natural gas through direct negotiation with the producers.

Contract is the transportation service contract, signed between the concession holder and any shipper to realize the transportation of hydrocarbons via pipeline.

Days are every day of the year, except those declared as holidays by law, in accordance with Article 143 of the Code of Civil Procedure.

Distribution is the activity of receiving, transmitting, delivering and marketing the natural gas via networks to the end users in a geographically defined zone.

Pipeline consists of the pipe system and complementary facilities, intended for the transportation of hydrocarbons from the wellhead or the reception point to the delivery point, as well as any pipe system from the wellhead to a processing plant outside the contract area.

The gathering lines that are included in the definition of exploitation activity under the Hydrocarbon Law N° 1689, will not be considered within the hydrocarbon transportation activity via pipelines.

Dollar is the legal tender currency issued in the United States of America.

Gas pipeline is the pipeline used for natural gas transportation.

Unexpected impossibility event is the action of man or of the forces of nature that could not have been foreseen or which, if foreseen, could not have been avoided, wherein are also included the breakdowns and/or serious and untimely failures of facilities and equipment belonging to the shipper or to the concession holder, failures in the producers' facilities, emergency maintenance necessary in order to guarantee public safety, that may have a direct impact on the compliance with the obligations derived from a transportation service contract and that have not occurred due to duly proven negligence. This definition includes the action of a third party, which could not reasonably be resisted, including in this case strikes, civil strife or other events of a general nature that have a direct impact on compliance with the obligations derived from a transportation service contract.

Complementary facilities are those consisting of extensions, branches, expansions and other facilities fastened to the ground, including storage, pumping and compression stations, loading and unloading equipment, gathering infrastructure, means of communication, vehicles, computers, buildings and any other immovable assets, movable assets and tools that are used for hydrocarbons transportation by pipeline.

The term "extension" refers to the physical prolongation of the main pipeline, the term "branch line" will be understood as the bypasses and hook-ups from or to the main pipeline, and "expansion" will refer to the increase in the capacity of the main pipeline via the installation of additional power and/or construction of parallel lines (loops).

This designation does not include assets or facilities related to the exploitation, processing or refining of hydrocarbons, ports not linked with the transportation by pipelines, trucks, trains, tanker ships and any other means of transportation for hydrocarbons other than by pipelines.

Intermediary is the individual or legal entity, either national or foreign, that purchases and sells hydrocarbons on behalf of third parties, in accordance with the legal norms in effect.

Law is the Hydrocarbons Law N° 1689 of April 30, 1996.

Gathering Lines are the lines through which the producer gathers and moves its own hydrocarbons from one or more wells to the Wellhead, such as defined under the Law. This activity will not be reason for a concession and, therefore, will not be subject to compliance with the regulations set forth herein.

Oil Pipeline is the pipeline used for the transportation of petroleum and its derivatives.

Transition Period is the period of FOUR (4) years starting from the completion of the transportation unit capitalization process in which the capitalizing partner assumes full responsibility for management of the concession. During this FOUR (4) years period a

single average weighted tariff will apply in the whole country for each pipeline type or set of existing and new pipelines.

Products Pipeline is the pipeline used for the transportation of refined petroleum products, which will also be subject to the free access principle.

Producer is the title holder of a shared risk contract or the operation or association contractor producing hydrocarbons.

Delivery Point is the interconnection point between the transportation pipeline and the reception facilities used by the shipper.

Reception Point is the interconnection point between the hydrocarbons delivery facilities used by the shipper and the transportation pipeline.

Minimum Salary is determined annually by the Government of Bolivia for all the salaried workers in the national territory.

Secretariat is the Office of the National Energy Secretary.

Firm service is the transportation service that the concession holder provides to the shipper, by means of which this latter obtains the priority right to a daily flow of hydrocarbons without interruption up to the contracted volume, subject to the contract.

Interruptible Service is the service that the concession holder provides to the shipper, with the condition that the same can be discontinued at the discretion of the concession holder and/or the shipper, subject to the contract.

Petitioner is the individual or legal entity, either national or foreign, that processes a concession before the Supervisory Board.

Supervisory Board is the Hydrocarbons Supervisory Board.

Tariff is the charge billed by the concession holder for the services rendered according to the terms and conditions of the contract.

Initial Tariff is that which is determined considering the initially established investment costs and operation costs.

Two Tier Tariff is that which is determined considering the capacity cost plus the variable cost per volume transported.

Shared Tariff is that which is determined considering the costs necessary to expand and maintain the transport capacity, which costs will be shared by all the shippers.

Incremental Tariff is that which is determined considering the costs necessary in order to expand and maintain the transport capacity of specific shippers, and which will be charged through tariffs to those benefiting from said maintenance and/or expansion.

Uniform Tariff is that which is determined considering the capacity cost and the variable cost jointly.

**TITLE III
PARTIES SUBJECT TO THESE REGULATIONS
SOLE CHAPTER**

Article 5. The producers, concession holders, refiners, distributors, intermediaries and direct consumers are subject to these regulations.

**TITLE IV
POWERS OF THE SUPERVISORY BOARD
SOLE CHAPTER**

Article 6. The powers of the Supervisory Board are the following:

- a) Grant concessions
- b) Monitor the fulfillment of the obligations and rights of the concession holders.
- c) Protect the inherent rights of the consumers, shippers, concession holder and producers, within the framework of Law No. 1600 and the current regulations.
- d) Ensure that the activities meet the anti-monopolistic directives and the defense of the denoted subjects and take the necessary action to correct any non-compliance, in accordance with Title V of Law 1600.
- e) Ensure free non-discriminatory access to the pipelines, subject to the provisions of the Law.
- f) Ensure application of the principle of non-exclusivity in a concession.
- g) Promote the efficiency and the continuity of the hydrocarbon transportation service.

- h) Regulate the hydrocarbons transportation activity in accordance with Law 1600, the Law and these regulations.
- i) Regulate the transportation tariffs in the cases : 1) in which its participation is requested by the parties involved, 2) of existing pipelines and 3) of producers with a concession.
- j) Publish the maximum tariffs and other information on the transport activities.
- k) Approve transfers of control of the concession.
- l) Apply the penalties established herein.
- m) Declare or arrange for expiration or revocation of the concessions.
- n) Intervene with the concession holders in the cases of revocation, expiration and bankruptcy.
- o) Determine the aspects pertaining to quality, technical, economic and operating aspects in the definition of the conditions for application of the free access principle.
- p) Perform the acts necessary for the fulfillment of its functions according to the regulations in force.

TITLE V
CONCESSION FOR THE CONSTRUCTION AND OPERATION OF PIPELINES
CHAPTER I
GENERAL CONDITIONS

Article 7. The activity of hydrocarbons transportation will be subject to the following general conditions:

- a) None of the Concessions will be of an exclusive nature; therefore, the Supervisory Board may grant other concessions for the same route according to the provisions set forth in these regulations.
- b) The concessions referred to in Article 39 of the Law, will be granted for a maximum term of FORTY (40) years, counted from the date of the resolution by means of which the concession is granted.
- c) The expansions of capacity, improvements, substitutions, extensions and branches in the existing pipelines or new pipelines that are interconnected with these and that were

foreseen in the concession granted will not require the processing of a new concession; however, they shall fulfill the requirements established in chapter VI of this title.

d) The pipelines proposed as new projects, the expansions of capacity, improvements, substitutions, extensions and branches that are not related to the current pipelines and that were not foreseen in the concession granted, will require the processing of a concession according to Chapters II and III of this Title.

e) In the cases in which an express resolution is specified by the Supervisory Board, the latter is obligated to pronounce said resolutions within the periods of time established in these regulations. Delay thereof will give the parties involved the right to file a complaint with the General Supervisory Board after expiration of the TWENTY-FOUR (24) hours term.

CHAPTER II PRELIMINARY PHASE OF PROCESSING A CONCESSION

Article 8. For the administrative process of a concession the petitioner shall present a certificate of deposit which is non-reimbursable for the amount of TEN THOUSAND DOLLARS 00/100 (US\$ 10,000), as the Supervisory Board's fee.

Article 9. In the administrative process to obtain the respective concession with respect to the Supervisory Board, in its first phase, the petitioner will present the following documents via memorandum:

Legal and Administrative Aspects:

a) The petitioner's Identification:

a1) In the case of an individual:

- Identity card.

- Certificate on Proceedings with the State, issued by the Office of the Comptroller General of the Republic.

- Taxpayer's identification number (RUC).

- Certificate of registration with the General Division of the Commercial Registry and Stock Companies.

a2) In the case of a legal entity:

- Documentation that accredits the legal existence of the petitioner.
- Document which accredits the power of attorney of the Attorney-in-fact.
- Certificate on Proceedings with the State, issued by the Office of the Comptroller General of the Republic.
- Taxpayer's identification number (RUC).
- Certificate of registration with the General Division of the Commercial Registry and Stock Companies.

b) Specifications of the easements necessary.

c) Documentation which accredits the administrative, technical and financial capacity of the petitioner in order to execute the project.

d) Report issued by the Office of the Secretary which accredits that the project is not inconsistent with the sector plans and policies.

Technical Aspects:

e) Description of the project:

- Descriptive note, geographical location and proposed route.
- Established capacity of the pipeline for the hydrocarbons transportation.
- Principal and complementary facilities.
- Period of time proposed for the concession.

f) Program for execution of the works.

g) Total budget by investment category and cost centers.

h) The proposed timetable of financial and economic execution, including the investments committed by categories and cost centers for the implementation of the works and facilities.

i) The terms and conditions for the service, including the structure, class and type of tariff and the tariff levels which will be applied in the operation of the pipeline after the transition period, determined according to the provisions established in Titles IX and X of these regulations.

j) The estimated date for the start of service.

k) Description of the types of transportation services that will be provided and the potential markets.

The documentation presented in the request shall be for the use of the Supervisory Board, which may determine in consultation with the petitioner that part of the same will be available for third parties interested in the project.

Article 10. The Supervisory Board will respond to the petitioner within TEN (10) days following receipt of the concession petition, indicating whether or not it complies with the requirements of the preceding Article. If an answer is not obtained within this time frame, the acceptance by the Supervisory Board is presumed, and it should pass on to the evaluation of the project according to Article 13.

Article 11. If the petitioner does not fulfill the requirements of Article 9 of these regulations satisfactorily, the Supervisory Board, within the TEN (10) days following receipt of the documentation, must notify him with regard to the deficiencies of its petition. The petitioner will rectify such deficiencies within the following THIRTY (30) days, which may be extended upon request thereof. If the petitioner does not comply with the current regulations, the Supervisory Board will reject the demand by means of resolution and will proceed to the devolution of the documents presented.

Article 12. When the petitioner has fulfilled the requirements of Article 9 of these regulations, the Supervisory Board will communicate its agreement to the petitioner, and then proceed to evaluate the petition according to the following Article.

Article 13. The Supervisory Board will evaluate the project within the following SIXTY (60) days after having received the full petition according to the previous Article, taking into consideration:

- a) The petitioner's technical, administrative and financial capacity.
- b) The availability of supply sources and the conditions of the new potential demand.
- c) The effect of the proposed project on the existing pipelines; and
- d) The terms and conditions proposed for the service, including tariffs.

If in the evaluation of the project the Supervisory Board requires more time than initially foreseen, the term of the evaluation may be extended by an additional THIRTY (30) days.

Article 14. If the evaluation period has elapsed, and the Supervisory Board considers that defects or errors exist in one or more aspects of the project, it will notify the petitioner so that within THIRTY (30) calendar days it may rectify or amend the observed aspects. The petitioner may request the extension of this term. Once the modified project is received, the Supervisory Board has THIRTY (30) days for its evaluation and approval.

If a reply is not obtained within this term, approval on the part of the Supervisory Board is presumed since said Board should issue the resolution of approval within the following FIVE (5) days.

Once the term of THIRTY (30) days has expired, the Supervisory Board, within the FIVE (5) following days, will draft the resolution which approves the project and which authorizes proceeding with the second phase.

CHAPTER III SECOND CONCESSION PROCESSING PHASE

Article 15. Within the term of NINETY (90) extendable days, counted from the date of the resolution indicated in the preceding Article, the petitioner shall present, as final requisite:

- a) Certificate of compliance with the environmental regulations,
- b) Project in conformity with the technical and safety regulations in effect.

Article 16. Within the term of THIRTY (30) days after receipt of the documentation, the Supervisory Board will evaluate whether or not the project complies with the technical and safety regulations. If it is deemed not to conform, the petitioner shall be notified so that it may correct and/or amend the aspects observed.

Article 17. If the Supervisory Board considers that the documentation presented complies with the regulations in force, it shall issue a resolution of approval, ordering publication of an extract of the application, the study and certification of compliance with the environmental, technical and safety regulations and the resolutions pronounced, on a nationally distributed newspaper, one time only, the publication expenses being born by the petitioner.

CHAPTER IV OPPOSITION

Article 18. Individuals or legal entities, national or foreign, that may consider themselves harmed in their rights by the project, will be able to file opposition within THIRTY (30) days after the publication mentioned in the preceding Article, according to the following procedure:

- a) Petition with the name, address and general data of the opposing party, and if it is an entity accrediting their personal identification according to law, and indicating the facts and the law on which their opposition is based, with accompanying proofs.
- b) The opposition or oppositions that may be presented before the Supervisory Board, a copy or copies whereof will be transmitted to the petitioner within 48 hours and the latter must respond in the term of TEN (10) days from its notification.
- c) If the petitioner should not respond within the term or accept the opposition raised within the period previously indicated, the Supervisory Board, according to the proofs submitted, will direct a resolution declaring the opposition reasonable and will set forth that the petitioner modifies its petition or, failing that, reach a negotiated agreement with the opposing party or parties.
- d) If the petitioner answers by denying the opposition process either wholly or partially, the Supervisory Board will open the evidence phase of TWENTY (20) days, extendible for another equal period, in the event it is necessary either to perform inspections or expert reports are required. In this period the parties will present or propose the evidence that they consider pertinent. The inspection costs, expert reports and other items will be at the expense of the party submitting the petition or divided *pro rata* in the event that this is ordered by the Supervisory Board.
- e) Once the evidence period has expired, the Supervisory Board officially and without further processing will draft a direct resolution within the term of TEN (10) days declaring the opposition either warranted or unfounded.

Article 19. The party deemed to be affected by the resolution referred to in letter e) of the preceding Article may file the appeals established in Articles 22 and 23 of Law 1600, with the prior presentation of a bank bond for the term of NINETY (90) days, and renewable while the legal appeals last, equivalent to 0.5% of the project value in dollars, issued by a bank which is legally formed in the country, and is exigible, irrevocable and executable simply upon presentation.

Article 20. After the formalities of the appeals mentioned in the preceding Article have been completed, the Supervisory Board will issue the concession resolution on the basis of the results of the opposition proceedings.

Within the term of TWENTY (20) days from the resolution of the concession being published, the concession holder should present to the Supervisory Board a "Bank Bond Guaranteeing Performance of the Concession Holder's Obligations" for 0.5% of the project budget, in dollars, issued by a bank legally established in the country, and which is exigible, irrevocable and executable upon presentation, which will be collected to the favor of the General Treasury of the Nation in the event of non-fulfillment, with a validity equal to the term of the execution program up to the commissioning of the pipeline, which is extendible at the request of the parties. If the term of TWENTY (20) days is exceeded without presentation of the above-mentioned bank bond, the file will be

considered as not presented and the Supervisory Board will revoke the concession resolution.

CHAPTER V COMMITMENTS AND OBLIGATIONS OF THE CONCESSION HOLDER

Article 21. The construction of the pipelines by the concession holder will be inspected by the Supervisory Board from their start to their commissioning, monitoring the fulfillment of their work schedule, the technical and safety standards and, in their final phase, the respective operating license will be granted. The monitoring will be subject to the fees established by the Supervisory Board.

CHAPTER VI EXPANSIONS, EXTENSIONS, BRANCHES AND NEW PIPELINES FORESEEN IN A CONCESSION

Article 22. The expansions of capacity, improvements, substitutions, extensions and branches in the existing pipelines or new pipelines that are interconnected with these and that were foreseen in the concession granted will require the following for their approval before the Supervisory Board:

- a) Description of the proposed new facilities, explaining the cost and their location.
- b) Impact of the cost of the new facilities on the current tariffs, through an economical and financial analysis.
- c) Certificate of compliance with environmental norms and the documentation confirming compliance with the technical and safety norms.

Subject to verification of compliance with the regulations in effect, the Supervisory Board will approve the application through administrative resolution within THIRTY (30) days after receipt of said application. Should the approval not be granted within said term, the respective application will be considered approved and the Supervisory Board will be required to issue the resolution within the term of FIVE (5) days. Said resolution will be published, one time only, on a nationally distributed newspaper.

CHAPTER VII TENDER OF NEW PIPELINES

Article 23. In case the construction of a new pipeline is considered of public interest, the Supervisory Board at the request of the Secretary will proceed to the public tender for the construction and/or operation of the new pipeline, in accordance with Article 36 of the Law. The bidders must comply with the provisions of these regulations.

TITLE VI DECLARATION OF EXPIRATION OR ABROGATION OF A CONCESSION CHAPTER I GROUNDS

Article 24. Subject to completion of the procedures specified in this Title, the Supervisory Board may declare a concession lapsed or revoked in the case pointed out in Articles 40 and 67 of the Law. Cause b) of Article 67 must be based on repeated and severe noncompliance with the concession holder's obligations. For application of cause c) of this Article, the provisions of Article 85 of the Law must be considered, if applicable.

CHAPTER II DECLARATION OF EXPIRATION OR ABROGATION

Article 25. According to the preceding Article, the Supervisory Board, in order to declare a concession expired or abrogated, will notify the concession holder beforehand, with the opening of the proceedings, justifying the reasons of this possible declaration, so that the latter may assume its own defense and/or correct its conduct within the term of THIRTY (30) days, which may be extended upon request of the parties. Once the answer of the concession holder is received, the Supervisory Board, by evaluating the reasons and upon the documented request of the concession holder, may grant a peremptory term so that the latter may exercise the rights that the concession grants thereto or correct its conduct or, failing that, the Supervisory Board will draft the respective resolution declaring expiration or revocation of the concession within the following THIRTY (30) days.

Article 26. The administrative resolution which declares the expiration or abrogation of a concession will not be effective until the concession holder has exhausted the recourses provided in Articles 22 and 23 of Law 1600.

CHAPTER III PREVENTIVE INTERVENTION

Article 27. In cases of revocation, expiration and bankruptcy, the Supervisory Board, by means of public procedure and duly justified resolution, may order the preventive intervention of the concession, designating the inspector and granting him the corresponding powers, and establishing the term of the intervention and fixing the remuneration that said inspector will receive, to be borne by the concession holder. The intervention will be up to a term of one (1) year, and may be extendible a single time with the authorization of the General Supervisory Board of the Sector Regulation System.

When a legal or extrajudicial action, initiated by creditors of a concession holder places the normal provision of the service at risk, the creditors may ask the Supervisory Board for preventive intervention, through judicial resolution.

Article 28. The procedure for the preventive intervention, will be the following:

- a) The intervention resolution will be duly communicated to the concession holder.
- b) The concession holder will have a period of FIFTEEN (15) days starting from the notification in order to oppose the intervention, stating the arguments and contributing the proofs of discharge of duties.
- c) Once this period has expired, within the following TEN (10) days, the Supervisory Board will draft the respective resolution, ratifying and suspending or canceling the preventive intervention.
- d) In the event that the preventive intervention resolutions are ratified, the Supervisory Board will deliver these to the inspector who, effective from that time, will perform his duties.

Article 29. The preventive inspector will have the following powers to:

- a) Establish the measures which the concession holder should adopt in order to guarantee the normal supply of the service.
- b) Monitor the conservation of the assets.
- c) Monitor the fulfillment of the obligations established in the respective concession, as well as the provisions of these regulations.

d) Verify the revenues and expenditures.

e) Account to the Supervisory Board for any irregularity that may be noticed in the administration.

f) Report periodically to the Supervisory Board.

The Supervisory Board may expand or limit the functions established in the previous paragraphs.

Article 30. THIRTY (30) days prior to the expiration of the intervention period or when the inspector considers it appropriate, he will present to the Supervisory Board a report on the conclusions and recommendations.

The concession holder will not be released from the fulfillment of its obligations, contracts and contracted commitments.

The inspector will not have any administrative powers or powers to dispose of the concession holder's assets.

TITLE VII TRANSFER OF INTERESTS WITHIN A CONCESSION SOLE CHAPTER

Article 31. The transfer of interests in a concession will be carried out through the sale of shares and/or sale of interests in joint operations.

The transfer of shares which do not affect the effective control of the concession holder will be freely realized and will not require the approval of the Supervisory Board.

The transfer of shares which do affect the effective control of the concession require the approval of the Supervisory Board, via evaluation of the technical, administrative and financial capacity of the beneficiary of the transfer.

The Supervisory Board may establish the necessary procedures for implementation of this Title.

TITLE VIII EXPIRATION OF THE CONCESSION TERM CHAPTER I REQUIREMENTS

Article 32. Before expiration of the concession term the concession holder shall have complied with all its obligations established in the applicable laws and regulations.

CHAPTER II PUBLIC TENDER

Article 33. Not less than TWELVE (12) months prior to the end of the concession, the Supervisory Board will carry out a public tender procedure to award the concession.

The concession holder has the obligation to cooperate with the Supervisory Board during the whole tender process and the transfer of assets.

The concession holder is entitled to participate in the new public tender and may again be awarded the concession.

Article 34. The amount of the payment that the relinquishing concession holder receives for the assets of the concession will be the book value or that from the tender, whichever is less, in both cases deducting the costs incurred in the tender process with the prior fulfillment of Article 32 of these regulations.

CHAPTER III CONTINUITY OF THE SERVICE

Article 35. If the new concession cannot be signed before the expiration of the previous concession, the Supervisory Board may request from the concession holder of said previous concession the continuation of the service under the same terms and conditions as the concession, for a term not greater than TWELVE (12) months, counted from the date on which the previous concession is ended. This extension will be of a binding nature for the concession holder.

TITLE IX TERMS AND CONDITIONS OF THE SERVICE CHAPTER I GENERAL INFORMATION

Article 36. The concession holders of the hydrocarbons transportation pipelines are obligated to allow the free non-discriminatory access by third parties to the available transport capacity of their respective pipelines, subject to compliance with the firm and interruptible service contracts.

The right of free access will be subject to the provisions established in Article 37 of the Law and the standards that will be established by the Supervisory Board.

The available transport capacity is that part of the transport pipeline which is not committed to supply the contracted capacity.

Article 37. When significant changes are produced in the economic conditions of the project, the Supervisory Board may approve the modifications which may be necessary in the original timetable proposed by the concession holder according to paragraph h) of Article 9 of these regulations.

Article 38. The concession holder assumes the economic risks of the project, recovering the costs associated with the capacity for which contracts have been performed.

CHAPTER II TERMS AND CONDITIONS

Article 39. The concession holders, in consultation with the shippers, must establish the terms and conditions of the transport according to the provisions established in this title, except for the case established in Article 65 of these regulations.

Article 40. The terms and conditions which will govern the transport, including the contractual conditions that will prevail between the concession holder and the shippers, and any change proposed thereon, shall be submitted for the approval of the Supervisory Board.

Article 41. The Supervisory board will approve the contract model which shall include the following directives:

- Quality specifications of the hydrocarbons to be transported.
- Measurement criteria and systems.
- Receiving and delivery pressures.
- Imbalances and disagreements in the charges.
- Criteria for the determination and assignment of the losses and shortfalls.
- Transfer of custody, control, operative safety and interruptions and penalty system.
- Hydrocarbons used as fuel and other uses in the operation.

- Delivery obligations.
- Invoicing and payment procedures.
- Financial information.
- Unexpected impossibility event, compensations and other pertinent items.

Article 42. in the event of expansion of capacity of a pipeline, the concession holders should establish within the transport terms and conditions, the manner by which the expansion of capacity will be assigned between the shippers for new contracts, subject to the approval of the Supervisory Board.

Article 43. The concession holders are bound to respond affirmatively or negatively to any service requests within THIRTY (30) days counted starting from their presentation.

CHAPTER III ANALYSIS OF RATIONAL AND CONSERVATIVE COSTS

Article 44. For the purposes of calculation of the deferred account established in the following Article, the concession holder will present up-to-date information from its investment and operation budget, for review and approval by the Supervisory Board, pursuant to the following procedure:

a) Within FIVE (5) days after the beginning of the year, the concession holder will present to the Supervisory Board the estimate of new capital investments and the associated operating costs, which will be made known to the shippers within the following TWO (2) days. The shippers will have a period of TWENTY (20) days, not subject to extension, during which to submit their comments to the Supervisory Board. Once the comments are received, within the term of TEN (10) days, the regulating entity must approve a rational and prudent budget.

b) TWENTY (20) days after the end of the year, the concession holder will present to the Supervisory Board the executed budget for approval. The Supervisory Board will inform the shippers within the TWO (2) following days. These will have a period of TEN (10) days, not subject to extension, during which to submit their comments to the Supervisory Board. The entity in charge of the sector will approve the rational and prudent execution of the budget and the difference may be transferred to the deferred account.

Article 45. In order to offer an incentive to the concession holder to make investments in the modification and/or expansion of the transportation system during each period of FOUR (4) years, a deferred account will be established as follows:

a) Incremental Costs Account - This account will accumulate, on the basis of the above procedure: i) the capital differential of the new investments; ii) the differential operating costs associated with the new investments; and iii) the 7% annual cost of capital on items i) and ii).

b) Income Adjustment Account - This account will accumulate the revenues (deficit or surplus) obtained in connection with the projection used in the determination of the tariffs initially set for each period of FOUR (4) years.

c) Net Value Account - The account resulting from the net value obtained from accounts a) and b).

For calculation of the rates in the following periods, the positive or negative net value will be considered, such as obtained in accordance with paragraph c) as initial capital invested at the beginning of the following year, after the end of the prior FOUR (4) years period.

CHAPTER IV ADJUSTMENTS

Article 46. The transportation terms, conditions and tariffs shall be reviewed by the Supervisory Board every FOUR (4) years. This review shall be carried out ONE HUNDRED EIGHTY (180) days prior to the end of this period and shall be approved THIRTY (30) days prior to the expiration thereof.

Article 47. The criteria used for the determination of the long term tariffs and the contractual terms and conditions which are connected with the long term concept, may be maintained for longer periods of time than FOUR (4) years.

The tariffs may be adjusted within the FOUR (4) years as consequence of any change in the taxation system.

CHAPTER V REQUIREMENTS

Article 48. When the Supervisory Board deems it necessary and in the public interest, will request that the concession holder expand, construct lateral lines or improve its transportation facilities to supply the service to any individual or municipality adjacent to the main transportation pipeline covered by the concession, in accordance with the

provisions of Article 34 of the Law and the pertinent provisions established in these regulations.

Article 49. The concession holder, within the term of THIRTY (30) days, will respond affirmatively or negatively or, as the case may be, present an alternative project to that requested. If the answer is negative, the Supervisory Board will proceed with the corresponding public tender.

Article 50. When a shipper who requires access to the available transportation capacity is rejected by the concession holder, it may request the intervention of the Supervisory Board which, after listening to the parties, will resolve the dispute within THIRTY (30) days after receipt of the request.

CHAPTER VI TRANSFER OF CAPACITY

Article 51. The shippers may transfer their transport capacity rights directly to third parties, or they may authorize the concession holder to this effect.

Article 52. The transfer of the capacity rights means that the beneficiary must comply with all the terms and conditions of the service contained in the contract with the concession holder and the provisions established in these regulations.

Article 53. The shippers that have originally signed the contract, will always assume full liability before the concession holder, including the payment of tariffs established contractually.

CHAPTER VII MAINTENANCE AND OPERATION

Article 54. The concession holders will perform the maintenance of their facilities in order to assure a regular and continuous service to the consumers, subject to the provisions of these regulations and compliance with the technical, safety and environmental norms.

Article 55. The concession holder may purchase hydrocarbons from the shippers for its consumption as fuel in order to fill the capacity of the line required to start its operations and for other uses for the maintenance and operation of the pipelines themselves, and may at the same time dispose of any remaining and/or excess volume.

Article 56. The volumes and prices indicated in the previous Article will be verified by the Supervisory Board, and the shippers shall be responsible for the supply of the hydrocarbons necessary for the normal development of the concession holder's operations.

CHAPTER VIII INTERRUPTIONS

Article 57. The concession holders will not be responsible for the interruptions of the hydrocarbons transportation service, when this is due to unexpected impossibilities event.

Article 58. In accordance with Article 35 of the Law, the concession holders will not be able to suspend the transportation of hydrocarbons, without the prior authorization of the Supervisory Board, except for those services with interruptible contracts, and/or for cases of unexpected impossibility.

Article 59. When the service must be interrupted, restricted or modified, due to unexpected impossibilities, the shippers will be notified as soon as possible, establishing the extent and duration of the interruption or restriction, the date and time, and the affected areas.

Article 60. When the service has to be interrupted due to causes of scheduled maintenance, expansions or modifications of the facilities, the concession holder should notify shippers affected at least FORTY-EIGHT (48) hours beforehand.

Article 61. If the interruption is due to the unexpected impossibility event or to the reasons described in the previous Article and if the interruption is foreseen to last for more than SEVENTY-TWO (72) hours, the concession holder must present a contingency plan in order to minimize the difficulties for the shippers and it must describe the criterion that will be used for the possible necessity of assigning the pipeline capacity between the shippers; the same will also be made known to the Supervisory Board.

Article 62. The shippers may file their claims with the Supervisory Board with respect to the service interruptions, when the concession holder does not fulfill its obligations established under the terms and conditions of the transport service contract.

TITLE X TARIFFS CHAPTER I TARIFF PRINCIPLES

Article 63. The tariffs shall be determined on the basis of the principles established in Article 34 of the Law and the following provisions:

a) The tariffs will be equitable in their economic conception, both for the concession holder and for the shipper and, under similar circumstances and conditions with regard to the characteristics of the traffic and route, will be applied equally to all the shippers.

b) The concession holder will demonstrate before the Supervisory Board that the investments, operation costs and estimated earnings reflect competitive free market conditions, under a rational and prudent administration.

c) The Supervisory Board will determine the magnitude and the form in which the tariffs should vary as a result of the different locations, contract duration, type of service and any other reasonable distinction, which may be approved.

d) The concession holder will not charge tariffs greater than the maximum approved by the Supervisory Board.

e) In the calculation of the tariffs, different costs from those specified in Article 34, section b) of the Law will not be considered, such as payment of penalties, costs resulting from proven negligence and any other cost category which is not specified as such in the accounting manual.

f) The transport service costs assigned to a type of shipper should not be recovered through tariffs charged to another type of shipper.

g) In those cases in which a discount is negotiated on the tariff with specific shippers, the same should be based on the reduction of the rate of return and in no case on the reduction of the operating costs. When the agreement is made for a definite period of time, the concession holder may recover its revenues affecting solely the shipper benefiting from said reduction.

h) The tariffs for the transport must be expressed in dollars and paid in dollars. However, the parties may contractually agree that the tariffs be paid in national currency.

CHAPTER II NEGOTIATION

Article 64. Both in the preliminary phase of concession processing and for the duration of the operation phase, the petitioner or the concession holder may negotiate with the potential and/or existing shippers, the levels and the structures of the maximum transport tariffs, as well as the terms and conditions of the service, which will be presented to the Supervisory Board for information.

Where:

O = Annual operating costs

D = Annual depreciation of the fixed assets

F = Annual financing costs of the debt

I = Taxes

R = Maximum rate of return on the equity

P = Percentage of the equity in relation to the total capital

B = Balance of the total non-depreciated fixed assets

V = Annual volumes transported or contracted

The cost elements indicated will correspond to the criteria indicated in the accounting manual. When the concession holder has more than one pipeline in the same concession, the costs without a specific assignment will be appropriated according to the standards established in said manual.

The costs for environmental liabilities and/or abandonments will be considered in the costs of operation and/or of fixed assets.

Article 69. For computation of the annual tariffs, the following types may be considered:

- Basic tariffs of the pipeline without expansions, extensions or branches.
- Shared tariffs (Rolled In Tariffs)
- Incremental tariffs.

Article 70. For the previous classification, the following types of tariffs can be considered:

- Tariffs for firm service.
- Tariffs for interruptible service.

Article 71. For the previous types of tariff, the following types of methodologies can be considered:

- Uniform tariffs.

- Binomial (two tier) tariffs.
- Distance tariffs

For computation of the charge for capacity and of the variable charge, as well as for computation of the tariffs on the basis of the distance carried, the same costs and the rate of return used in the determination of the uniform tariff must be considered.

Article 72. The tariffs calculated annually will be reviewed in accordance with Article 46 of these regulations.

CHAPTER VI LONG TERM TARIFFS

Article 73. For determination of long term tariffs, the petitioner must present to the Supervisory Board, for review and approval, the duly justified cash flow that will include the period that comprises the construction phase and an operation period of 20 years, except for the case of specific projects whose contractual terms for the transportation service are for a period more or less than 20 years, the cash flow will be considered for the number of years specified in said terms.

The cash flow will be estimated taking into account the following concepts:

- a) The gross revenues as a result of the operations based on the proposed tariffs.
- b) The investments that should be realized.
- c) The operating, maintenance and administration costs.
- d) The financing costs.
- e) The applicable taxes and rates.

Article 74. For calculation of long term tariffs, the types, classes and methods for tariff determination indicated in Articles 69, 70 and 71 of these regulations shall be considered.

Article 75. The tariff shall be determined so that the rate of return on the equity in nominal dollars does not exceed the maximum levels established in accordance with these regulations. This rate of return on the equity shall be set for the entire period comprising the cash flow.

After including the investments in the cash flow in section b) of Article 73, the depreciation must not be incorporated in said flow, except when computing taxes.

Article 76. The long term tariffs will be reviewed by the Supervisory Board according to Articles 46 and 47 of these regulations, and in those cases in which significant extensions or expansions of the pipeline referred to in Article 22 of these regulations take place. In the revision of the tariffs according to the indicated Articles, the concession holder must recalculate its cash flow for every remaining period based on the new estimates on costs and anticipated volumes considering the experience obtained in the previous years.

The tariff will be reviewed and adjusted in such a way that the same rate of return is obtained indicated in the preceding Article such that the same trend toward initial long term analysis is reflected. Therefore, the concession holder has an incentive to improve its operations by reducing costs; any surplus or deficit obtained by the concession holder before the revision date of the tariffs will be at the expense of the concession holder. This surplus or deficit shall not be used in the determination of the tariffs of the following period.

CHAPTER VII CONTRACTS

Article 77. The structure of the tariffs for the natural gas transportation will be included in the firm type or interruptible type of transport service contracts.

Article 78. The tariff structure for the transportation pipelines for oil, derivatives and refined products, shall be included in the "firm" and "interruptible" transportation service contracts and shall reflect differences in the costs of transporting different types of liquid hydrocarbons.

CHAPTER VIII DEPRECIATION

Article 79. In the determination of the rate of depreciation for the calculation of the annual tariffs, the depreciation methodology will be applied on a linear basis, a useful lifetime period of 20 years should be considered for existing pipelines and 25 years for new pipelines. A shorter or longer period of useful life will be considered in cases in which the petitioner can demonstrate to the Supervisory Board a shorter or longer useful physical and/or economic life for the pipeline under consideration. The annual depreciation rates should be approved by the Supervisory Board.

The concession holder may use, for calculation of tariffs and bookkeeping, the previously established depreciation period, in addition to the depreciation period established for tax payment purposes.

CHAPTER IX RATE OF RETURN

Article 80. The rate of return on equity after taxes for new pipelines and for existing lines after the end of the period indicated in Article 82 of these regulations, according to Article 34 of the Law, will be approved by the Supervisory Board and determined in the following way:

- a) The rate of return on long term 10 year bonds of the United States Government Treasury, for which the average of the last FOUR (4) years will be used, plus;
- b) 5% for new investments and 3% for incremental investments. However, depending on significant variations of the country risk, the companies may propose another calculation methodology.
- c) A profitability premium on the equity taking into account the risks corresponding to the activity and that, jointly with a) and b), result in a sufficiently reasonable rate of return to attract capital investment to the hydrocarbon pipeline transportation activity in Bolivia and countries of the region.

Article 81. The interest rate paid by the concession holder with regard to its debt should not exceed the interest rate of the debt instruments of a similar nature and term to the ones existing in international financial markets for the activity of transport of hydrocarbons by pipelines, and should be approved by the Supervisory Board.

Article 82. For calculation of the annual and long term tariffs of the existing pipelines, extensions, expansions and branch lines proposed by the concession holder in its request for additional investments a rate of return on equity equal to TWELVE AND ONE HALF PERCENT (12.5%) for the following TEN (10) years shall be considered, plus the average rate of inflation of the dollar established by the International Monetary Fund (IMF) from the last FOUR (4) years, revisable every FOUR (4) years.

CHAPTER X DEBT/EQUITY RATIO

Article 83. For the existing pipelines and expansion, extension or new pipeline projects that will be performed as a result of the process of capitalization of the pipelines, according to the Capitalization Law 1544 of March 21, 1994 and the Law, also, for those concession holders that obtain concessions subsequent to this process, the maximum percentage of equity on the total capital will not be greater than that established according to the following cases:

- a) For the pipelines that have financing guaranteed by the Government of Bolivia, or by a foreign government or by a state company: 40%
- b) For the export pipelines that have transportation contracts based on long term sale-purchase contracts (15 years or more), with purchasers of high financial credibility: 40%
- c) For the existing pipelines which are used for export to Argentina and which will be used for the future export of natural gas to Brazil: 40%
- d) For the new export pipelines which do not have the conditions of paragraph b) above: 50%
- e) For pipelines intended for the domestic market: 50%.

When major changes occur in the financial market, the Supervisory Board may consider equity percentages different from those established in the above paragraphs.

Article 84. If the debt/equity ratio is greater than the percentages established in the preceding Article, the concession holders may make incremental investments under lower debt/equity ratios, to reach the percentages established in the preceding Article, including the possibility of making incremental investments with 100% equity.

**TITLE XI
ACCOUNTING PUBLICATIONS AND MANUALS
CHAPTER I
REGISTRATION, APPROVAL AND PUBLICATION**

Article 85. The concession holders should register with the Supervisory Board the maximum tariff tables that they propose to apply, ONE HUNDRED EIGHTY (180)days before the end of the period of FOUR (4) years, specifying the terms and conditions, for each type of service, the capacity used and the available capacity. Such tariff tables, once approved and registered, should be published by the Supervisory Board THIRTY (30) days before application. The publications will be carried out through a nationally distributed newspaper for THREE (3) consecutive days.

**CHAPTER II
MANUAL OF ACCOUNTING PRACTICES**

Article 86. The Supervisory Board will establish uniform criteria for the preparation of the accounting practices manual in accordance with internationally accepted accounting practices, which shall be used by all the concession holders. This manual must be approved by the Supervisory Board.

CHAPTER III OPERATIVE AND FINANCIAL AUDITS

Article 87. In compliance with Article 34 of the Law, the Supervisory Board will inspect the operations of the concession holder via periodic audits to assess the yield of the concession prior to having concluded the four years specified in Article 46 of these regulations. Also, the Supervisory Board may require annual internal and external audits on the financial statements of the concession holder.

TITLE XII INFORMATION REQUIREMENT CHAPTER I INFORMATION

Article 88. The concession holder will provide information to the Supervisory Board with regard to:

- a) The bases used in the calculation of tariffs, the rate of return, costs of the services and their location, both for the base year and for the projected period.
- b) Volumes of hydrocarbons transported and stored.
- c) Its accounting and financial statements.
- d) Contracts performed by the concession holder with regard to the provision of each type of services.
- e) Circumstances that affect or could affect the service provided.
- f) Installed, used and available capacity of the pipelines and corresponding location.
- g) Any other type of information that may be considered necessary by the Supervisory Board, according to its responsibilities conferred by the Law and these regulations.

In the cases indicated in paragraphs c) and d), the information supplied will be for the confidential use of the Supervisory Board and for third parties that have a legitimate interest.

**TITLE XIII
PENALTIES
SOLE CHAPTER**

Article 89. Any violation or noncompliance of the provisions specified in these regulations, will be penalized by the Supervisory Board, taking into account the gravity of such faults, as follows:

a) Due to defects or noncompliance in the presentation of the information required by the Supervisory Board in Articles 85, 86 or 88, and for noncompliance with the provisions specified in Articles 43, 60 or 64, the concession holder will be penalized with a fine from TWENTY (20) up to TWO HUNDRED (200) times the minimum wage.

b) For noncompliance with the provisions specified in Articles 61 or 66, the concession holder will be penalized with a fine from TWENTY (20) up to ONE THOUSAND (1,000) times the minimum wage.

c) For noncompliance with the provisions specified in Articles 40, 54, 58, 59 or paragraphs a), d) or f) of Article 63 of these regulations, the concession holder will be penalized with a fine from FIVE HUNDRED (500) up to TWO THOUSAND (2,000) times the minimum wage. In the event that the concession holder fails to comply with the mandate established in paragraph d) of Article 63, in addition to the penalty, the concession holder will pay twice the sum collected through application of a higher tariff than that approved.

d) For noncompliance with the provisions of the Law, Law No. 1600, these regulations and the resolutions of the Supervisory Board, which are not covered in the above paragraphs, these incidents will be penalized with a fine from TWENTY (20) up to TWO THOUSAND (2,000) times the minimum wage.

In the event of noncompliance with the various provisions covered in the above paragraphs, the penalties will be cumulative.

Article 90. For the imposition of one or more of the penalties indicated in the preceding Articles, the Supervisory Board will draft the respective administrative resolution, which will be communicated to the concession holder, so that it pays the penalty within the following THIRTY (30) days.

The funds which are obtained under the category of paying penalties will have as their destination the Regional Development Fund (FNDR) for purposes of energy projects.

**TITLE XIV
TRANSITORY PROVISIONS
CHAPTER I
GENERAL INFORMATION**

Article 91. The tariffs for the transportation of hydrocarbons will be determined during the transitional period, in accordance with the provisions established in this Title. After the transitional period has elapsed, the hydrocarbon transportation tariffs may be determined according to the provisions established in Title X of these regulations.

**CHAPTER II
ASSIGNMENT OF CAPACITY**

Article 92. Within THIRTY (30) days following the closing date of the capitalization process and the effectiveness of the concession, the new transportation company, after consulting with the shippers, will submit for the consideration of the Supervisory Board for approval the proposed assignment of the existing transportation capacity in the pipelines, both for those that are used in the domestic supply of hydrocarbons and for those connected with the natural gas export, according to Article 85 of the Law, and to the corresponding Regulations for the Marketing of Natural Gas.

The winning bidder of the transportation system shall be authorized to negotiate the assignment of capacities.

**CHAPTER III
TRANSITORY TARIFFS**

Article 93. During the transition period after the start of operations of the new transport company, as a result of the capitalization process, the tariffs that will be charged to all the pipelines will be solely for each set of pipelines, as is indicated:

a) Gas pipelines of the domestic market: 0.41 \$US/MCF

All the natural gas volumes transported and sold on the domestic market are considered, including the volumes for self-consumption by compression stations and consumption of refineries.

b) Gas pipelines for export to Argentina: 0.18 \$US/MCF

All the natural gas volumes transported and sold to the Republic of Argentina are considered.

c) Domestic oil pipelines: 1.05 \$US/Bbl

All liquid hydrocarbons produced and transported with the following destination are considered:

- The refineries as net volumes processed.
- The storage terminals for their marketing.
- Huayta, as export node.

d) Oil export pipeline: 1.55 US\$/Bbl

All the liquid hydrocarbons are considered for export in the Huayta-Sica Sica-Arica section.

e) Internal multi-product pipelines: 1.19 \$US/Bbl

All volumes of finished products obtained from the refining process and that are marketed on the domestic market are considered.

The above-stated transitory tariffs are the maximum permitted for the volumes to be transported during the transition period.

The tariffs may be calculated on the basis of the methodology used for the determination of uniform or binomial tariffs.

Article 94. For calculation of the deferred account established in the following Article, the concession holder shall present the information specified in detail in Article 44 of these regulations.

Article 95. As an incentive for the concession holder to make investments in the modification and/or expansion of the transportation system during the transition period, a deferred account will be established, in accordance with the procedure outlined in Article 45 of these regulations, incorporating in paragraph a) of said Article the differential cost resulting from the current costs approved by the Supervisory Board, less the costs used for calculation of the transitory tariffs.

CHAPTER IV
GRANTING OF EXTRAORDINARY CONCESSIONS

Article 96. The Supervisory Board is authorized to grant, without any need for the procedures established in these regulations, the administrative concessions necessary for pipeline transport of hydrocarbons to the individual or entity, either Bolivian or foreign, awarded the activities of the transport company, within the capitalization process of Yacimientos Petrolíferos Fiscales Bolivianos, according to the Capitalization Law 1544 of March 21, 1994.

Article 97. For the purposes of the gas pipeline for export to Brazil between the Rio Grande gas plant and the Brazilian - Bolivian Border, the Supervisory Board is authorized to grant the corresponding administrative concession subject to the fulfillment of paragraphs a) and b) of Article 15 of these regulations. This gas pipeline is subject to the terms and conditions of the contract and to these regulations, insofar as they are applicable.