



North American Energy Standards Board

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via email and posting

TO: NAESB WGQ Contracts Subcommittee Participants and Interested Parties

FROM: Suzanne Calcagno, UBS Warburg Energy and Keith Sappenfield, EnCana Corporation

RE: Wholesale Gas Quadrant Contracts Subcommittee Meeting Minutes – January 21, 2003

DATE: March 14, 2003

**NORTH AMERICAN ENERGY STANDARDS BOARD
WGQ CONTRACTS SUBCOMMITTEE MEETING
January 21, 2003, 9:00 a.m. to 4:00 p.m. CST**

1. Welcome & Administrative Items

Mr. Sappenfield welcomed meeting participants. Mr. Sappenfield gave the antitrust advice. Meeting participants discussed the agenda. Mr. Sappenfield added item under Other Business regarding the WEQ FTAA item on their annual plan. Mr. Sappenfield discussed upcoming ISDA call proposing a Gas Annex and Power Annex to the ISDA contract. Before NAESB could adopt an ISDA/NAESB Gas Annex it must be brought into NAESB process for development and ratification by NAESB. Mr. Sappenfield noted upcoming WEQ Contract committee meeting in Atlanta on January 28th to develop a work plan. Ms. Calcagno will participate in WEQ Contracts call and relay results of this meeting. Motion to adopt agenda by C. Cerria and seconded by R. Ishikawa. No objection to motion in room or on the phone. Agenda was adopted. Mr. Sappenfield asked for revisions to December 17, 2002 meeting minutes. There were no changes to page 1 and name corrections on page 2. Motion to adopt Maribeth Bedevian, seconded by Ellen Klecka. There was no objection to adoption of minutes.

2. Review and Discuss Comments on the DRAFT “Credit Annex”

Mr. Sappenfield opened discussion of Cinergy’s base documents that included “Special Provisions”, “Base Agreement” and “Credit Support Annex (CSA)”. Discussion continued as follows with Mr. Sappenfield recording changes to base documents.

Cinergy comments:

JannaLyn: formation of the special provisions:

- Recitals are administrative
- Set out order of priority in the event of disputes
- First priority security interests
- Ensure that default under the CSA would be considered a default under the NAESB

Calpine Comments on Cinergy Docs:

- Trying to distinguish adequate assurances from margining amounts

UBS Warburg Energy comments by Hodge:

- may want \$\$ in excess of collateral requirements to continue transacting



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AEP comments:

- May include limits on collateral postings to be negotiated
- Collateral threshold established; you get margined on that basis,
- Exposure calculated
- Adequate Assurances—define a cap in the doc that provides for a cap of 120% of exposure
- Concerned that the EEI CSA should be the basis for a NAESB CSA rather than trying to write a new doc

Questions and discussions about conforming the efforts of the WEQ and the WGQ—discussed the WEQ Contracts work plan. Sappenfield indicated that the group consensus was not to wait for the WEQ but to go ahead and begin work on documents.

- Indicated that all input is welcome, submit them in writing to NAESB Office

AEP—discussed the method in which they calculate adequate assurances, with a cap on overall posting.

Group agreed that a provision regarding the cap would be negotiated provision; independent amount would need to be defined (EEI CSA has 3 different definitions so group would have to identify what definition would be acceptable).

Cinergy suggested a schedule/cover sheet with credit elections; group agreed that there would be a new section (14?) to the SP that would become a cover sheet to the NAESB CSA; would be referenced in the cover sheet of the Base K.

Cinergy—order of priority of documents raises a concern as to what the order of documents would be—make a NAESB Credit Support Annex so that if you elect to use the CSA, those provisions would trump the base

Hess—link the CSA document to the NAESB Section 2.11 “Credit Support Obligations”

Would have 3 documents:

1. NAESB Base Agreement
2. Commercial Special Provisions
3. Credit Support Obligations Annex (tied to Base Agmt. Sec. 2.11)

Would need to identify in the language what the order of priority of the docs would be—either in the recitals or in the cover sheet to the NAESB Base

CSA:

Cover sheet w/Recitals

Base CSA

Credit Special Provisions

AEP/ Hess: distinguish adequate assurance of performance from margining requirement

AEP Example:

AEP has granted company C a \$2m threshold; AEP's exposure to company C is not exceeded by 700,000, giving them the ability to call for the \$700,000; company C's credit is downgraded, leading AEP to call for the full 2.7, plus an additional 300,000 to keep trading.

Idea: is to incorporate the calculation of exposure and adequate assurances into the margining/CSA: adequate assurances must be tied to exposure



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Cinergy: would agree to take out 10.1.2

NiSource: doesn't want a margining agreement/CSA to become the standard if it means that the supplying community can use it to call for collateral under the base NAESB

AEP/ Hess: explained that the CSA would be voluntary, would serve as a basis for those parties who elect to use it. Idea is to give the NAESB agreement the same credibility as the EEI / ISDA since they both have credit & margining agreements.

Cover Sheet: Lisa Groff from AEP will keep a running content of the cover sheet defining the optionality needed in the elections.

Credit Support Addendum

- Housekeeping changes recorded by KS; corrections to form
- Made changes to the CSA to reflect changes to recitals and conform to the SP document
- **Agreed to call the document "NAESB Credit Support Addendum"; Short hand to be the "Credit Support Addendum"
- agreed to consider adding a "Purpose" section to the CSA that mirrors the EEI CSA purpose language on page 1 of the EEI CSA that defines the intended use of the Credit Support Addendum

Definitions

- Credit Rating: may need EEI language to create the hierarchy of parent credit
- L/C Default: issuer shall be a "Qualified Institution": will adopt EEI definition of QI
- Credit Support Provider—remain a defined term; will become cover sheet item for election
- Current Value: strike definition, include concept in the definition of "Exposure"
- Exposure: define as the Current Value, as modified (old language), delete remainder of the section: read "shall mean the amount in a calculated in a commercially reasonable manner as if an early termination date had been set pursuant to section 10.3 of the base contract" (made conforming changes)
- Agree to use "Pledging" and "Secured"
- Eligible Collateral: cover sheet item—look to the EEI for definitions
- Exposure Threshold: cover sheet item;
- Qualified Institution—definition added from the EEI agreement; to be used for purposes of defining custodial parties qualified to hold margin payments in escrow

JannaLyn (Cinergy) volunteered to redraft the Sec. 3 Posted Collateral section using the language from the EEI MNA and will add a section relating to resolution of disputed calculations.

Mr. Sappenfield agreed to coordinate posting of the redrafts of the Base Document and the Cover Sheet for everyone's review to insure incorporation of everyone's comments in today's meeting.

3. Discuss and set dates times for next meeting or conference call

The group agreed to a short conference call on February 26, 2003 to discuss the redrafted Base Document and Cover Sheet. Primary purpose was to insure that all comments were



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incorporated and to set the date for receipt of comments on the redrafted documents and the next face to face meeting date and location.

4. Next Steps and Other Business

WEQ Contracts work on FTAA was discussed for possible joint development. Mr. Sappenfield would participate in WEQ FTAA work and advise the group on possible joint development. Mr. Sappenfield discussed the ISDA Gas Annex and possible inclusion in WGQ Contracts work plan. He requested group to review for possible vote on including the ISDA Gas Annex in the WGQ Contracts work plan at the next conference call.

5. Adjourn

Mr. Sappenfield adjourned the meeting at approximately 4:15 p.m. CST.

6. Meeting Attendees:

Name	Company	Notes
JannaLyn Allen	Cinergy	
Audrey Bragg	Washington Gas	Phone
Maribeth Bedevian	Cinergy	
Suzanne Calcagno	UBS Warburg Energy	Co-Chair
Josie Castrejana	American Electric Power	
Chuck Cerria	Amerada Hess	
Keith Chesnutt	CMS MST	
Pete Connor	NiSource Distribution Companies	
Miguel Correa	CMS Energy	
Lisa Cullen	Yankee Gas	Phone
Jennifer Deegan	Washington Gas Light Company	
Kevin Feeney	Niagara Mohawk	Phone
Paramy Graff	Apache Corp.	
Lisa Groff	American Electric Power	
Cheri Graham	Wisconsin Public Service	Phone
Dona Gussow	Florida Power & Light	Phone
Jeffrey Hodge	USB Warburg Energy	
Richard Ishikawa	Southern California Gas Company	
Alan Johnson	Mirant	Phone
Ellen Klecka	Cinergy	
Jane Lewis	American Gas Association	Phone
Sam Lofiaro	Apache Corp.	
Tracy McLaughlin	American Electric Power	
Brent Mishler	Southern California Gas Company	Phone
Mark Russell	Salt River Project	
Keith Sappenfield	EnCana Corporation	Co-chair
Tiffany Silvey	Calpine	
Tayet Storm	CMS Energy	
John Tesoriero	American Electric Power	