

VIA E-MAIL

March 24, 2002

TO: North American Energy Standards Board (NAESB) Office (naesb@aol.com); NAESB Wholesale Gas Quadrant Contracts Subcommittee Chairs, Keith Sappenfield (EnCana) and Suzanne Calcagno (UBS Warburg)

CC: Rae McQuade, NAESB Executive Director

FROM: Interested LDCs¹

RE: Comments of Interested LDCs Regarding Proposed "Credit Support Addendum" to NAESB Base Contract for Purchase and Sale of Natural Gas

Pursuant to the solicitation of comments regarding the proposed "*Credit Support Addendum*" to the *NAESB Base Contract for Sale and Purchase of Natural Gas* (Base Contract), the Interested LDCs hereby offer general and specific comments that present those concerns identified thus far. As part of these comments, attached is the proposed draft Credit Support Addendum, redlined with specific recommended modifications.

The Interested LDCs request that these comments be considered thoroughly by the Contracts Subcommittee during its upcoming meeting. The comments provided herein are intended to articulate those significant positions that are shared by the Interested LDCs; however, each individual participant retains the right to advocate different or additional positions in further NAESB proceedings.

GENERAL COMMENTS

- 1 Broader Industry Representation Necessary:** The Interested LDCs have significant concerns with the underlying proposition that this Credit Support Addendum (Addendum) is necessary or appropriate, and therefore, they LDC cannot support the proposed draft Addendum. Even if the Addendum were modified, it is unlikely that it will address the concerns or needs of local distribution companies. The Interested LDCs are concerned specifically that this effort has been undertaken in an expedited manner with unusually narrow industry representation in the deliberations thus far.

The low level of participation is due in part to involvement by stakeholders in several, simultaneous high-priority NAESB activities, one of which is the effort by the Wholesale Gas Quadrant (WGQ) Business Practices Subcommittee (BPS) to develop creditworthiness standards. Such standards would apply to all areas of the industry and are not exclusive to pipelines and their tariffs. Therefore, some issues within the Contracts Subcommittee also are present in the BPS, including timeline issues common to both the proposed creditworthiness standards and the proposed Credit Support Addendum.

For this reason and others discussed below, the NAESB Contracts Subcommittee should delay further work on any Credit Support Addendum until the BPS completes its work on creditworthiness standards. At the very least, a moderate pace should be adopted along with specific efforts to broaden industry participation to ensure that any final product will have taken into consideration the concerns and needs of all segments of the industry. There is no demonstrable reason to expedite this process; rather, if a Credit Support Addendum to the Base Contract is to be adopted by NAESB, it must be based on broader involvement and should have broad industry support.

- 2 Necessity of Credit Support Addendum Not Shown:** The Interested LDCs believe that it is a legitimate question to ask whether a Credit Support Addendum to the Base Contract is necessary or appropriate as an industry standard applicable to all segments. The Interested LDCs recognize that

¹ Interested LDCs: Baltimore Gas & Electric, Bay State Gas Company, Columbia Gas of Kentucky, Columbia Gas of Maryland, Columbia Gas of Ohio, Columbia Gas of Pennsylvania, Columbia Gas of Virginia, Energy East, Kokomo Gas & Fuel Company, National Fuel Gas Distribution Corporation, Northern Indiana Fuel & Light Company, Northern Indiana Public Service Company, Northern Utilities Inc., Northwest Natural, PECO Energy, San Diego Gas & Electric Company and Southern California Gas Company ("Sempra Utilities"), and Washington Gas Light Company

certain industry segments might benefit from such a Credit Support Addendum; however, they do not believe at this time that such an Addendum is needed or even beneficial for the local distribution segment, which utilizes the Base Contract quite substantially not to trade the natural gas or electricity commodity but generally to take physical delivery of natural gas to reliably serve its customers.

- 3 The Addendum is Not Applicable Broadly and Should Not be Standardized:** Credit support annexes traditionally have been negotiated between the parties and have been tailored to the specific business needs of the companies and their particular transactional arrangements. While some parties will find useful a standard template with well-defined requirements to supplement the basic credit provisions in the Base Contract, the question remains as to the appropriateness of standardizing this document across the industry particularly where the interests and objectives of market participants vary as significantly as they do here. Furthermore, this type of agreement is by no means so common, done in a singular fashion, or makes life more efficient for many parties across the industry to yet warrant becoming a NAESB standard that later is, deliberately, hard to change. Time is required to see if the need for such an Addendum develops for each of the industry segments and if a document can be developed to reflect any provisions common to many in the industry.

Overall, however, the Interested LDCs do not support a Credit Support Addendum to the Base Contract if it is to become the industry standard. If this document is intended as a voluntary option for transacting parties, then its language and format should make this very clear, allowing parties to continue to use the Special Provisions section of the Base Contract for supplemental credit support agreements, if required or desired. See recommendations below to address this concern.

- 4 Flexibility and Fairness:** Any Credit Support Addendum to the Base Contract should be fair and flexible. To satisfy these goals, the Credit Support Addendum would explicitly permit parties to either use the Addendum to the Base Contract, use the Base Contract without the Addendum, or negotiate their own credit support addendum. The document must also be more flexible, allowing parties to negotiate certain elements, such as dates and timelines. See recommendations below to that effect.
- 5 Consistency with NAESB Definitions and Standards:** NAESB has consistently strived to maintain congruence between its standards and definitions. As mentioned above, the NAESB WGQ Business Practices Subcommittee (BPS) is currently developing proposed standards on creditworthiness. While we recognize that the BPS' work has mainly to do with the regulated part of the industry and that the proposed Credit Support Addendum is a voluntary effort that is not linked to pipeline tariffs, this effort is not or should not be entirely independent of that of the BPS. We believe that the definitions proposed in the Addendum might permeate into the creditworthiness standards and definitions being proposed in the BPS. The terms "Credit Rating," "Letter of Credit," and "Collateral Threshold," which are provided as defined terms in the Definitions section of the Addendum, are some examples of such definitions.

Therefore, NAESB should delay work on the Credit Support Addendum until the BPS completes its work on creditworthiness standards to avoid conflicts that might arise as a result of the two efforts. At a minimum, there should be a review process of the proposed draft Credit Support Addendum to ensure that it does not conflict with proposed NAESB creditworthiness standards and definitions. The Interested LDCs also suggest that the NAESB WGQ Executive Committee examine this situation to determine how to address the possible overlap between the work of the two subcommittees.

SPECIFIC COMMENTS

Some, but not all, of the following comments are reflected in the attached redlined Credit Support Addendum (and some may be slightly different in the redlined document than those in the specific comments here).

- 1 We strongly recommend changing the title of the Credit Support Addendum and on the title sheet and in all references to the document to "NAESB Optional Credit Support Agreement."
- 2 All references to dates and deadlines should be replaced with blanks to be filled in by the parties, hence allowing them to negotiate such arrangements.
- 3 Section I. Definitions should be revised. Definitions should not include in the wording the very term that is being defined. Specifically:

a) The following terms should be redefined as follows:

“Event of Default” shall mean: (a) an occasion when a party fails to make, when due, any transfer of Eligible Collateral or interest amount, as applicable, required to be made by it; or (b) an occasion where a party fails to comply with or perform any material agreement or obligation provided for in this Credit Support Addendum.

In the definition of *“Qualified Institution,”* the amount of \$1B should be replaced with a blank.

b) The following terms should be defined as follows:

- *“Pledging Party”* requires it’s own concise definition, not a reference to where it is used elsewhere. Similarly, *“Secured Party”* requires it’s own concise definition.
- *“Credit Support Provider”*, *“Credit Support”*, *“Collateral Threshold”*, *“Eligible Collateral”*, *“Eligible Credit Support”*, and *“Rounding Amount”* should all have their own concise definitions and not be referred to “as used or set forth in some other section.”

c) The following terms should be deleted from the Definitions section:

- Credit Rating
- Letter of Credit
- Default Letter of Credit

4 Section III.

- Part (a) states that the amount of Credit Support shall be rounded up to the nearest integral multiple of the Rounding Amount. This would mean that if the Rounding amount is \$1M and the Exposure is \$500,000, then the amount required for Credit Support would be \$1M. This seems somewhat unfair especially when the Exposure is half that amount. This determination of the amount of Credit Support should be reconsidered.
- Page 4, lines 23: The time period of “second business day thereafter...” is a too short. We recommend extending this.

6 Section IV. (a), page 4, line 11-13: We are not certain what this means. It needs further explanation.

7 Section IV.

- Part (a), page 4, line 20: We can not understand why this clause is needed. It appears unreasonable to require the Pledging Party to have a Collateral requirement of zero in order to get a reduction in the amount of the Credit Support.
- Page 5, line 44: Insert “by a” between “issued bank”.
- Page 6, line 34: The term “if applicable” does not seem necessary.

The companies comprising the Interested LDCs group are active participants in NAESB and appreciate the opportunity to comment on the proposed draft Credit Support Addendum.

Respectfully submitted,

Baltimore Gas & Electric
Energy East
National Fuel Gas Distribution Corporation
NiSource Distribution Companies:
Bay State Gas Company
Columbia Gas of Kentucky
Columbia Gas of Maryland
Columbia Gas of Ohio
Columbia Gas of Pennsylvania
Columbia Gas of Virginia

Kokomo Gas & Fuel Company
Northern Indiana Fuel & Light Company
Northern Indiana Public Service Company
Northern Utilities Inc.
Northwest Natural
PECO Energy
Sempra Utilities:
San Diego Gas & Electric Company
Southern California Gas Company
Washington Gas Light Company

1 **NAESB OPTIONAL CREDIT SUPPORT ADDENDUM AGREEMENT**

2
3
4
5
6 This NAESB Optional Credit Support Agreement Addendum ("Credit Support Agreement Addendum") is entered into as of the
7 following date: _____.

8
9 The parties to this Credit Support Agreement Addendum are the following:

10 _____ and _____
11 _____
12 Duns Number _____ Duns Number _____
13 Base Contract Number _____ Base Contract Number _____
14 Base Contract Date _____ Base Contract Date _____
15 U.S. Federal Tax ID Number _____ U.S. Federal Tax ID Number _____
16

17
18 **Addendum:** This Credit Support Addendum Agreement, designed for non-physical transactions, constitutes an Addendum to
19 that certain Base Contract for Sale and Purchase of Natural Gas, as identified above, between the parties ("Base Contract"),
20 and supplements and amends the Base Contract affecting transactions thereunder. Unless amended herein, the terms of the
21 Base Contract continues to apply. Capitalized terms used in this Credit Support Addendum Agreement which are not herein
22 defined will have the meanings ascribed to them in the Base Contract. In the event of a conflict between the terms of this Credit
23 Support Addendum Agreement and the Base Contract, the terms of this Credit Support Addendum Agreement shall apply for the
24 purposes of this Credit Support Agreement.
25

26
27 This Credit Support Addendum Agreement sets forth the conditions under which a party, in connection with the Base
28 Contract, will be required to transfer Credit Support as well as the conditions under which a party will release such Credit
29 Support. (Someplace need the option for this to apply to only some confirmed transactions under the base contract and not
30 necessarily each an devery one.)

31 The terms set forth below shall have the meaning ascribed to them below. Other terms are also defined elsewhere in
32 the Base Contract and shall have the meanings ascribed to them therein.
33

34
35 **!!!!.** Definitions. As used in this Credit Support Addendum Agreement:

36
37 "Collateral Requirement" shall have the meaning attributed to it in Section II.

38
39 "Collateral Threshold" shall mean, with respect to a party, the collateral threshold amount, if any, set forth for such party
40 on the Credit Elections Cover Sheet, Section 3; provided, however, that the Collateral Threshold for a party shall be zero upon
41 the occurrence and during the continuance of an Event of Default or a Potential Event of Default with respect to that affected
42 party. (This definition fails to define what a collateral threshold is – is it an amount of exposure below which no collateral is
43 required?) The only place it is used in document is in calculation under Sec. II.
44

45 "Credit Elections Cover Sheet" shall mean the Credit Elections Cover Sheet attached hereto and incorporated herein
46 setting forth certain elections governing this Credit Support Addendum Agreement. There is no need to make the first page with
47 its blanks a separate cover sheet. Rather, like the Base Contract, the clanks should be the first page of the agreement. This
48 would eliminate the need to repeat all the party information on cover and first page.
49

50 "Credit Rating" shall mean, with respect to a party or entity, on any date of determination, the respective rating then
51 assigned to such entity's unsecured, senior long-term debt or deposit obligations (not supported by third-party credit
52 enhancement) by S&P, Moody's, or any other **specified rating agency or agencies**. (where can these additional agencies be
53 specified in the agreement?) If no rating is assigned to such entity's unsecured, senior long-term debt or deposit obligations by
54 such agency, then "Credit Rating" shall mean the general corporate credit rating or long-term issuer rating, as applicable,
55 assigned by such rating agency to such entity. (consider deleting definition entirely)
56

57 "Credit Support" shall mean Eligible Collateral and/or Eligible Credit Support.

58
59 "Credit Support Default" shall mean that an Event of Default will exist with respect to a party (such party shall be the
60 "Defaulting Party") if:
61

1 (a) a party fails (or fails to cause its Custodian, as herein defined) to make, when due, any transfer of Eligible
2 Collateral or the Interest Amount, as applicable, required to be made by it;

3
4 (b) a party fails to comply with or perform any material agreement or obligation provided for in this Credit
5 Support Addendum Agreement; or

6
7 (c) a Letter of Credit Default shall apply with respect to such Defaulting Party.

8
9
10 "Credit Support Provider" shall ~~mean the entity identified in Section 1 have the meaning set forth~~ on the Credit
11 Elections Cover Sheet ~~that and shall be pursuant agrees to provide to~~ a guaranty ~~in the amount provided by each party's Credit~~
12 Support Provider, if specified as applicable, in form and substance reasonably acceptable to the other party.

13
14 "Defaulting Party" shall have the meaning set forth in the definition of "Credit Support Default".

15
16 "Eligible Collateral" shall have the meaning as set forth on the Credit Elections Cover Sheet.

17
18 "Eligible Credit Support (there is no such blank on the cover sheet)" shall have the meaning as set forth on the Credit
19 Elections Cover Sheet.

20
21 "Event of Default" shall mean a Credit Support Default and/or a NAESB Event of Default.

22
23 "Exposure" shall mean the amount as calculated in good faith and in a commercially reasonable manner as if an Early
24 Termination Date has been set as provided for in Section 10.3 of the Base Contract.

25
26 "Independent Amount" shall have the meaning _____ **[ISDA concept to be discussed further.]**

27
28 "Interest Amount" shall mean with respect to an "Interest Period" (as defined herein), the aggregate sum of the
29 amounts of interest calculated for each day in that Interest Period on the principal amount of Cash held by the Secured Party on
30 that day, determined by the Secured Party for each such day as follows: (x) the amount of Cash on that day; multiplied by (y) the
31 Interest Rate (as defined herein) for that day: divided by (z) 360.

32
33 "Interest Period" shall mean the period from (and including) the last Business Day on which an Interest Amount
34 (interest amount is defined using interest period so interest cannot be defined using interest amount. Shouldn't the period be a
35 calculation of a period of time?) was Transferred (or if no Interest Amount has yet been Transferred, the Business Day on which
36 Cash was Transferred to the Secured Party) to (but excluding) the Business Day on which the current Interest Amount is to be
37 Transferred.

38
39 "Interest Rate" shall have the meaning at set forth on the Credit Elections Cover Sheet.

40
41 "Letter of Credit" means an irrevocable, [non-transferable] transferable, standby letter of credit, issued by (a) a major
42 U.S. commercial bank or the U.S. branch office of a major foreign bank assigned, in either case, a Credit Rating of at least (i)
43 "A-" by S&P and "A3" by Moody's, if such entity is rated by both S&P and Moody's or (ii) "A-" by S&P or "A3" by Moody's, if such
44 entity is rated by either S&P or Moody's but not both, or (b) any other entity designated on the Credit Elections Cover Sheet as a
45 Specified Letter of Credit Issuer, (is that the same as Credit Support Provider?) which letter of credit is reasonably acceptable to
46 the beneficiary. (consider deleting definition)

47
48 "Letter of Credit Default" shall mean with respect to an outstanding Letter of Credit, the occurrence of any of the
49 following events: (i) the issuer of such Letter of Credit shall fail to maintain a Credit Rating of at least "A-" by S&P and "A3" by
50 Moody's, if such entity is rated by both S&P and Moody's or "A-" by S&P or "A3" by Moody's, if such entity is rated by either S&P
51 or Moody's but not both, and is not designated on the Credit Elections Cover Sheet as a Specified Letter of Credit Issuer; (ii) the
52 issuer of the Letter of Credit shall fail to comply with or perform its obligations under such Letter of Credit if such failure shall be
53 continuing after the lapse of any applicable grace period; (iii) the issuer of such Letter of Credit shall disaffirm, disclaim,
54 repudiate or reject, in whole or in part, or challenge the validity of, such Letter of Credit; (iv) such Letter of Credit shall expire or
55 terminate, or shall fail or cease to be in full force and effect at any time during the term of the Contract; or (v) any event
56 analogous (? In the eye of the beholder?) to an event specified in Section 10.2 of the Base Contract shall occur with respect to
57 the issuer of such Letter of Credit; provided, however, that no Letter of Credit Default shall occur in any event with respect to a
58 Letter of Credit after the time such Letter of Credit is required to be canceled or returned to the Pledging Party in accordance
59 with the terms of this Credit Support Addendum Agreement. (consider deleting entirely)

60
61 "Minimum Transfer Amount" shall mean the amount, if any, set forth in the Credit Elections Cover Sheet for such Party.

62 "Moody's" shall mean Moody's Investors Services, Inc. or its successor.

1
2 "NAESB Event of Default" shall mean any event of default in Section 10.2 of the Base Contract.

3
4 "Notification Time" shall be as set forth on the Credit Elections Cover Sheet.

5
6 "Pledging Party" shall have the meaning attributed to it in Section II. (Sec. II does not provide meaning for the term)

7
8 "Posted Collateral" shall mean all ~~Credit Support~~ Credit Support, other property, and all proceeds thereof that have
9 been Transferred to or received by the Secured Party hereunder and not Transferred to the Pledging Party pursuant to Section
10 III or released by the Secured Party. Any Interest Amount or portion thereof not Transferred pursuant to Section VII(c) and any
11 Cash received and held by the Secured Party after drawing on any Letter of Credit will constitute Posted Collateral in the form of
12 Cash.

13
14 "Potential Event of Default" shall mean an event that would constitute an Event of Default with the lapse of time or
15 giving of Notice or both and shall only be applicable with respect to any provision of this agreement if so specified (where – no
16 section identified on cover sheet) on the Credit Elections Cover Sheet.

17
18 "Qualified Institution" unless otherwise agreed between the parties, shall mean a commercial bank or trust company
19 organized under the laws of the United States or a political subdivision thereof, (i) that has a Credit Rating of at least (a) "A-" by
20 S&P and "A3" by Moody's, if such entity is rated by both S&P and Moody's or (b) "A-" by S&P or "A3" by Moody's, if such entity
21 is rated by either S&P or Moody's but not both, (ii) having a capital and surplus of at least \$ 4,000,000,000 _____, and (iii) is not
22 affiliated with the Pledging Party.

23
24 "Reference Market Maker" shall mean a leading dealer in the relevant market that is not an Affiliate of either party
25 selected by a party determining any Disputed Calculation in a commercially reasonable manner from among dealers of the
26 highest credit standing which satisfy all the criteria that such party applies generally at the time in deciding whether to offer or to
make an extension of credit.

27
28 "Rounding Amount" shall have the meaning set forth on the Credit Elections Cover Sheet.

29
30 "S&P" shall mean the Standard & Poor's Rating Group (a division of McGraw-Hill, Inc.) or its successor.

31
32 "Secured Party" shall have the meaning attributed to it in Section II(2). (don't define if there is no defn)

33
34 "Specified Letter of Credit Issuer" shall have the meaning set forth on the Credit Elections Cover Sheet.

35
36 "Substitute Posted Collateral" shall have the meaning attributed to it in Section IX(b).

37
38 "Transfer" shall mean, with respect to any Credit Support, Posted Collateral, or Interest Amount, and in accordance
39 with the instructions of the appropriate party:

40 (i) in the case of Cash, payment or delivery by wire transfer in immediately available federal funds into
41 one or more bank accounts specified by the recipient;

42
43 (ii) in the case of Letters of Credit, delivery of the Letter of Credit or an amendment thereto to the
44 recipient, and

45
46 (iii) as otherwise specified by the parties on the Credit Elections Cover Sheet.

47
48 "Value" shall mean (a) with respect to Cash, the face amount thereof; and (b) with respect to all other Posted Collateral,
49 the Valuation Percentage multiplied by the stated amount thereof.

50
51 Calculation of Collateral Requirement.

52
53 On any Business Day, the "Collateral Requirement" for a party (the "Pledging Party") means the Exposure minus the
54 sum of:

55 (1) the Pledging Party's Collateral Threshold; plus


56 (2) the Value of all Posted Collateral held by the party other than the Pledging Party (the "Secured
57 Party"), and any accrued Interest Amount that has not yet been Transferred to the Pledging Party;

1 provided, however, that, the Collateral Requirement of the Pledging Party will be deemed to be zero (0) whenever the
2 calculation of such Pledging Party's Collateral Requirement yields a number less than zero (0).

3
4  Delivery of Credit Support.

5 (a) On any Calculation Date (never defined) on which (i) no Credit Support Default or Potential Credit Support Default with
6 respect to the Secured Party has occurred and is continuing, (ii) no NAESB Event of Default or Potential NAESB Event of
7 Default with respect to the Secured Party has occurred and is continuing, (c) no Early Termination Date has occurred or been
8 designated by the Pledging Party, and (d) the Pledging Party's Collateral Requirement equals or exceeds its Minimum Transfer
9 Amount, the Secured Party may demand, by Notice to the Pledging Party, that the Pledging Party Transfer to the Secured Party,
10 and the Pledging Party shall Transfer or cause to be Transferred to the Secured Party, Credit Support for the benefit of the
11 Secured Party having a Collateral Value on the date of Transfer at least equal to the Pledging Party's Collateral Requirement.
12 The amount of Credit Support required to be Transferred hereunder shall be rounded up to the nearest integral multiple of the
13 Rounding Amount. Unless otherwise agreed to in writing by the parties, (A) Credit Support demanded of a Pledging Party on or
14 before the Notification Time on a Business Day shall be provided to the Secured Party and/or its Custodian by 5:00 p.m. New
15 York time on the next Business Day and (B) Credit Support demanded of a Pledging Party after the Notification Time on a
16 Business Day shall be provided to the Secured Party and/or its Custodian by 5:00 p.m. New York time on the second Business
17 Day thereafter. Any Letter of Credit or other type of Credit Support (other than Cash) shall be Transferred to such address as
18 the Secured Party shall specify in its demand pursuant to this Section III, and any such demand made by the Secured Party
19 pursuant to this Section III shall specify wire transfer information for the account(s) to which Credit Support in the form of Cash
20 shall be Transferred. Notwithstanding anything to the contrary in this Credit Support Addendum Agreement, in the event of a
21 Credit Support Default, Potential Credit Support Default, NAESB Event of Default, or Potential NAESB Event of Default with
22 respect to the Pledging Party which gives rise to an obligation to Transfer Credit Support, the Pledging Party shall have no
23 obligation to provide such Credit Support if such event is cured or otherwise no longer exists prior to the time that such Credit
24 Support is required to be provided hereunder.

25 (b) Notwithstanding anything else in this Contract, if an Event of Default or a Potential Event of Default shall occur with
26 respect to a party (the "Affected Party"), the Affected Party shall immediately return all Posted Collateral it is holding on behalf of
27 the other party to the other party.

28
29  Reduction and Substitution of Credit Support. (see cover letter for LDC comments)

30 (a) On any Business Day (but no more frequently than weekly with respect to Letters of Credit and daily with respect to
31 Cash), a Pledging Party may demand, by Notice to the Secured Party, a reduction in the amount of Credit Support previously
32 provided by the Pledging Party for the benefit of the Secured Party, and the Secured Party shall comply with said demand,
33 provided that after giving effect to the demanded reduction in Credit Support, (i) the Pledging Party shall have a Collateral
34 Requirement of zero as of the date of such compliance; (ii) no Credit Support Default or Potential Credit Support Default with
35 respect to the Pledging Party has occurred and is continuing; (iii) no NAESB Event of Default or Potential NAESB Event of
36 Default with respect to the Pledging Party has occurred and is continuing; and (iv) no Early Termination Date has occurred or
37 been designated by the Secured Party. The amount of the Credit Support reduction hereunder shall be rounded down to the
38 nearest integral multiple of the Rounding Amount. In all cases, the cost and expense of reducing Credit Support (including, but
39 not limited to, the reasonable costs, expenses, and attorneys' fees incurred directly by the Secured Party in making the
40 reduction) shall be borne by the Pledging Party. If a permitted reduction in Credit Support is to be effected by the Transfer of
41 Cash to the Pledging Party, then unless otherwise agreed in writing by the Parties, (x) if the Pledging Party's reduction demand
42 is made on or before the Notification Time on a Business Day, then the Secured Party shall effect a permitted reduction in Credit
43 Support by 5:00 p.m. New York time on the next Business Day thereafter and (y) if the Pledging Party's reduction demand is
44 made after the Notification Time on a Business Day, then the Secured Party shall effect a permitted reduction in Credit Support
45 by 5:00 p.m. New York time on the second Business Day thereafter. If a permitted reduction in Credit Support is to be effected
46 by a reduction in the amount that may be drawn under an outstanding Letter of Credit previously issued for the benefit of the
47 Secured Party, the Secured Party shall promptly take such action as is reasonably necessary to cooperate with the Pledging
48 Party to effectuate such reduction.

49 (b) Except when (i) a Credit Support Default or Potential Credit Support Default with respect to the Pledging Party has
50 occurred and is continuing, (ii) a NAESB Event of Default or Potential NAESB Event of Default with respect to the Pledging
51 Party has occurred and is continuing, or (iii) an Early Termination Date has occurred or been designated by the Secured Party,
52 the Pledging Party may substitute new Credit Support for existing Credit Support of equal Collateral Value on the Business Day
53 following the Secured Party's receipt of written Notice thereof (provided that, if such Notice is made after the Notification Time,
54 the Pledging Party may not substitute Credit Support until the second Business Day thereafter; and provided further, however,
55 that if such substitute Credit Support is of a type not designated as Eligible Collateral or Eligible Credit Support in the Credit
56 Elections Cover Sheet, then the substitution may not occur unless the Secured Party consents to such substitution). Upon the
57 Transfer to the Secured Party and/or its Custodian of the substitute Credit Support, the Secured Party and/or its Custodian shall
58 Transfer the relevant replaced Credit Support to the Pledging Party by 5:00 p.m. New York time on the second Business Day
59 after such Transfer has been effected. Notwithstanding anything herein to the contrary, no such substitution shall be permitted
60 unless (x) the substitute Credit Support is Transferred to the Secured Party and/or its Custodian simultaneously with, or has
61 been Transferred to the Secured Party and/or its Custodian prior to, the release of the Credit Support to be returned to the

1 Pledging Party and the security interest in, and lien upon, such substituted Credit Support granted pursuant hereto in favor of
2 the Secured Party shall have been perfected as required by applicable law and shall constitute a first priority perfected security
3 interest therein and general first lien thereon, and (y) after giving effect to such substitution, the Collateral Value of such
4 substitute Credit Support shall equal the Collateral Value of the Credit Support which is being substituted. Each substitution of
5 Credit Support shall constitute a representation, warranty and agreement by the Pledging Party that the substituted Credit
6 Support shall be subject to and governed by the terms and conditions of this Credit Support Addendum Agreement, including
7 without limitation, the security interest in, general first lien on and right of offset against, such substituted Credit Support granted
8 pursuant to Section IX(a) in favor of the Secured Party.

9 (c) The Transfer of any Credit Support by the Secured Party and/or its Custodian to the Pledging Party in accordance with
10 this Section IV shall be deemed a release by the Secured Party of its security interest, general first lien and right of offset
11 granted pursuant to Section IX(a) hereof only with respect to such returned Credit Support. In connection with each Transfer of
12 any Credit Support to the Pledging Party pursuant to this Section IV, the Pledging Party will, upon request of the Secured Party,
13 execute a receipt showing the Credit Support Transferred to it.
14

15 V. Disputed Calculations.

16
17 (a) If the Pledging Party disputes the amount of Credit Support requested by the Secured Party and such dispute relates to
18 the amount of the Exposure as determined by the Secured Party, then the Pledging Party shall (i) notify the Secured Party of the
19 existence and nature of the dispute not later than the Notification Time on the first Business Day following the date that the
20 demand for Credit Support is made by the Secured Party pursuant to Section III, and (ii) provide Credit Support to or for the
21 benefit of the Secured Party in an amount equal to the Pledging Party's own determinations, made in a commercially reasonable
22 manner, of the Pledging Party's Collateral Requirement in accordance with Section II. In all such cases, the parties thereafter
23 shall promptly consult with each other in order to reconcile the two conflicting determinations. If the parties have not been able
24 to resolve their dispute on or before the second Business Day following the date that the demand is made by the Secured Party,
25 then the Secured Party's Exposure shall be recalculated with each party's requesting quotations from one (1) Reference Market-
26 Maker within two (2) Business Days (taking the arithmetic average of those quotations obtained to obtain the average current
27 mark-to-market value, provided, that, if only one (1) quotation can be obtained, then that quotation shall be used) for the
28 purpose of recalculating the current mark-to-market value of each Transaction in respect of which the Parties disagree as to the
29 current mark-to-market value thereof, and the Secured Party shall inform the Pledging Party of the results of such recalculation
30 in reasonable detail. Credit Support shall thereupon be provided, returned, or reduced, if necessary, on the next Business Day
31 in accordance with the results of such recalculation.
32

33 (b) If the Secured Party disputes the amount of Credit Support to be reduced by the Secured Party and such dispute
34 relates to the amount of the Exposure claimed by the Secured Party, then the Secured Party shall (i) notify the Pledging Party of
35 the existence and nature of the dispute not later than the Notification Time on the first Business Day following the date that the
36 demand to reduce Credit Support is made by the Pledging Party pursuant to Section IV, and (ii) effect the reduction of Credit
37 Support to or for the benefit of the Pledging Party in an amount equal to the Secured Party's own estimate, made in a
38 commercially reasonable manner, of the Pledging Party's Collateral Requirement in accordance with Section II. In all such
39 cases, the parties thereafter shall promptly consult with each other in order to reconcile the two conflicting amounts. If the
40 parties have not been able to resolve their dispute on or before the second Business Day following the date that the demand is
41 made by the Pledging Party, then the Secured Party's Exposure shall be recalculated by each party requesting quotations from
42 one (1) Reference Market-Maker within two (2) Business Days (taking the arithmetic average of those quotations obtained to
43 obtain the average Current Mark-to-Market Value; provided, that, if only one (1) quotation can be obtained, then that quotation
44 shall be used) for the purpose of recalculating the Current Mark-to-Market Value of each Transaction in respect of which the
45 parties disagree as to the Current Mark-to-Market Value thereof, and the Secured Party shall inform the Pledging Party of the
46 results of such recalculation in reasonable detail. Credit Support shall thereupon be provided, returned, or reduced, if
47 necessary, on the next Business Day in accordance with the results of such recalculation.
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50 VI. Letters of Credit. Posted Collateral provided in the form of a Letter of Credit shall be subject to the following provisions.

51
52 (a) Unless otherwise agreed in writing by the Parties, each Letter of Credit shall be provided in accordance with Section IV,
53 and each Letter of Credit shall be maintained for the benefit of the Secured Party. The Pledging Party shall (i) renew or cause
54 the renewal of each outstanding Letter of Credit on a timely basis as provided in the relevant Letter of Credit, (ii) if the bank that
55 issued an outstanding Letter of Credit has indicated its intent not to renew such Letter of Credit, provide either a substitute Letter
56 of Credit or other Eligible Collateral, in each case at least twenty (20) Business Days prior to the expiration of the outstanding
57 Letter of Credit, and (iii) if a bank issuing a Letter of Credit shall fail to honor the Secured Party's properly documented request
58 to draw on an outstanding Letter of Credit, provide for the benefit of the Secured Party either a substitute Letter of Credit that is
59 issued bank acceptable to the Secured Party or other Eligible Collateral, in each case within two (2) Business Days after such
60 refusal, provided that, as a result of the Pledging Party's failure to perform in accordance with (i), (ii), or (iii) above, the Pledging
61 Party's Collateral Requirement would be greater than zero.
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63 (b) As one method of providing Posted Collateral, the Pledging Party may increase the amount of an outstanding Letter of
64 Credit or establish one or more additional Letters of Credit.

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(c) Upon or at any time after the occurrence of an Event of Default with respect to the Pledging Party, the Secured Party may draw on the entire, undrawn portion of any outstanding Letter of Credit upon submission to the bank issuing such Letter of Credit in accordance with the specific requirements of the Letter of Credit. Cash proceeds received from drawing upon the Letter of Credit shall be deemed Posted Collateral as security for the Pledging Party's obligations to the Secured Party and the Secured Party shall have the rights and remedies set forth in Section IX(a) with respect to such cash proceeds. Notwithstanding the Secured Party's receipt of Cash under the Letter of Credit, the Pledging Party shall remain liable (i) for any failure to Transfer sufficient Posted Collateral or (ii) for any amounts owing to the Secured Party and remaining unpaid after the application of the amounts so drawn by the Secured Party.

(d) A Pledging Party may substitute a Letter of Credit for one or more other outstanding Letter(s) of Credit issued for the benefit of the Secured Party, provided that the Value of such substitute Letter of Credit shall be at least equal to the Value of the Letter(s) of Credit being replaced (determined in good faith and in a commercially reasonable manner by the Secured Party), and provided further that no Letter of Credit shall be canceled unless and until the Letter of Credit to be substituted therefor shall have been validly executed, issued and delivered for the benefit of the Secured Party in accordance with applicable law.

(e) Upon the occurrence of a Letter of Credit Default, the Pledging Party agrees to deliver to the Secured Party either a substitute Letter of Credit or other Eligible Collateral, in each case on or before the second Business Day after the occurrence thereof (or the fifth (5th) Business Day after the occurrence thereof if only clause (i) under the definition of Letter of Credit Default applies).

(f) In **all cases?**, the costs and expenses (including but not limited to the reasonable costs, expenses, and attorneys' fees incurred by the Secured Party) of establishing, renewing, substituting, canceling, and increasing the amount of (as the case may be) a Letter of Credit shall be borne by the Pledging Party. (Internal costs? Assessed by a trader/marketer on an LDC?)

VII. Cash. Posted Collateral provided in the form of Cash shall be subject to the following provisions.

(a) Eligibility to Hold Cash.

(i) The Secured Party will be entitled to hold Cash provided that the following conditions are satisfied: (1) it is not a Defaulting Party, (2) its Credit Support Provider has a Credit Rating from S&P and/or Moody's and the lowest Credit Rating for its Credit Support Provider is _____ or higher by S&P and/or _____ or higher by Moody's; and (3) Cash shall be held only in any jurisdiction within the United States. A party shall appoint a Qualified Institution (a "Custodian") in the event such party is not eligible or becomes ineligible to hold Cash in accordance with this Section VI(a)(i).

(ii) Upon Notice by the Secured Party to the Pledging Party of the appointment of a Custodian, the Pledging Party's obligations to make any Transfer will be discharged by making the Transfer to that Custodian. The holding of Cash by a Custodian will be deemed to be the holding of Cash by the Secured Party for which the Custodian is acting. The Secured Party will be liable for the acts or omissions of its Custodian to the same extent that the Secured Party would be liable hereunder for its own acts or omissions.

(b) Use of Cash. **Notwithstanding the provisions of applicable law-** (?) if the Secured Party is not a Defaulting Party and no Early Termination Date has occurred or been designated as a result of an Event of Default with respect to the Secured Party, then the Secured Party shall have the right to sell, pledge, rehypothecate, assign, invest, use, commingle or otherwise dispose of, or otherwise use in its business any Cash it holds, free from any claim or right of any nature whatsoever of the Pledging Party, including any equity or right of redemption by the Pledging Party.

(c) Interest Payments on Cash. So long as no Event of Default or Potential Event of Default, if applicable, with respect to the Pledging Party has occurred and is continuing, and no Early Termination Date (for which any unsatisfied payment obligations of the Pledging Party exist) has occurred or been designated as the result of an Event of Default with respect to the Pledging Party and to the extent that an obligation to deliver Posted Collateral would not be created or increased by the Transfer, the Secured Party will Transfer to the Pledging Party, in lieu of any interest or other amounts paid or deemed to have been paid with respect to the Cash (all of which may be retained by the Secured Party), the Interest Amount (as defined below) on the third Business Day of each calendar month. On or after the occurrence of an Event of Default with respect to the Pledging Party or an Early Termination Date as a result of an Event of Default with respect to the Pledging Party, the Secured Party shall retain any such Interest Amount as additional Eligible Collateral hereunder until the obligations of the Pledging Party under the Contract have been satisfied.

(d) Care of Cash. Without limiting the Secured Party's rights under Section VII(b), the Secured Party will exercise reasonable care to assure the safe custody of all Cash held by it as Posted Collateral to the extent required by applicable law, and in any event the Secured Party will be deemed to have exercised reasonable care if it exercises at least the same degree of

1 care as it would exercise with respect to its own property. Except as specified in the preceding sentence, the Secured Party will
2 have no duty with respect to Cash, including, without limitation, any duty to enforce or preserve any rights pertaining thereto.
3

4 VIII. Representations. Each party continuously represents and warrants to the other party that: (a) it has the power and
5 authority under the law of the jurisdiction of its organization or incorporation and under its organizational and constituent
6 documents to grant to the Secured Party a valid, enforceable, first-priority security interest in, and lien on, all Posted Collateral
7 (other than Letters of Credit) that it provides as the Pledging Party, and has taken all necessary actions to authorize the granting
8 and perfection of that security interest and lien; (b) as of each date on which it, as the Pledging Party, delivers Posted Collateral
9 to the Secured Party or to any agent of the Secured Party for the benefit of the Secured Party (or, in the case of after-acquired
10 Posted Collateral, at the time the Secured Party or its agent acquires rights therein), it will have title to, and will be the sole
11 owner of such Posted Collateral, free and clear of any security interest, lien, pledge, charge, encumbrance, or other interests or
12 restrictions other than the security interest granted to the Secured Party hereby; (c) the Secured Party will have a valid and
13 perfected first-priority security interest in, and lien on, all Posted Collateral (other than Letters of Credit) upon receipt thereof; (d)
14 the performance by it of its obligations under this Credit Support Addendum Agreement will not result in the creation of any
15 security interest, lien or other encumbrance on any Posted Collateral other than the security interest and lien granted pursuant
16 to this Credit Support Addendum Agreement; and (e) on each occasion that it, as the Pledging Party, causes the issuance,
17 renewal, substitution, or increase (as the case may be) of a Letter of Credit, such Letter of Credit will be the legal, valid, and
18 binding obligation of the issuer thereof, enforceable in accordance with its terms.
19

20 IX. Certain Rights and Remedies.

21
22 (a) Secured Party's Rights and Remedies. If at any time (i) an Event of Default with respect to the Pledging Party has
23 occurred and is continuing or (ii) an Early Termination Date has occurred or been designated as a result of an Event of Default
24 with respect to the Pledging Party, then the Secured Party may do any one or more of the following: (x) exercise any of the
25 rights and remedies of a secured party with respect to the Posted Collateral, including any such rights and remedies under law
26 then in effect; (y) exercise its rights of setoff against any and all property of the Pledging Party in the possession of the Secured
27 Party or its agent; and (z) draw on any outstanding Letter of Credit issued for its benefit. The Secured Party shall either (y)
28 apply the proceeds of the Posted Collateral realized upon the exercise of any such rights or remedies to reduce the Pledging
29 Party's obligations under the Contract or this Credit Support Addendum Agreement (the Pledging Party remaining liable for any
30 amounts owing to the Secured Party after such application), subject to the Secured Party's obligation to return any surplus
31 proceeds remaining after such obligations are satisfied in full or (z) hold such proceeds as collateral security for the Pledging
32 Party's obligations under the Contract or this Credit Support Addendum Agreement.
33

34 (b) Pledging Party's Rights and Remedies. If at any time an Early Termination Date has occurred or been designated as
35 the result of an Event of Default with respect to the Secured Party, then: (i) the Secured Party will be obligated immediately to
36 Transfer all Posted Collateral (other than Letters of Credit) and the Interest Amount, if any, to the Pledging Party; and (ii) the
37 Pledging Party may do any one or more of the following: (x) exercise any of the rights and remedies of a pledgor with respect to
38 the Posted Collateral (other than Letters of Credit), including any such rights and remedies under law then in effect; (y) to the
39 extent that the Posted Collateral (other than Letters of Credit) or the Interest Amount is not Transferred to the Pledging Party as
40 required in (i) above, setoff amounts payable to the Secured Party against the Posted Collateral (other than Letters of Credit)
41 held by the Secured Party or to the extent its rights to setoff are not exercised, withhold payment of any remaining amounts
42 payable by the Pledging Party, up to the value of any remaining Posted Collateral (other than Letters of Credit) held by the
43 Secured Party, until the Posted Collateral (other than Letters of Credit) is Transferred to the Pledging Party; and (z) exercise
44 rights and remedies available to the Pledging Party under the terms of any Letter of Credit.
45

46 X. General.

47
48 (a) Security Interest. To secure its obligations under the Contract and all outstanding transactions, each party hereby
49 grants to the other party a present and continuing first-priority security interest in, and lien on (and right of setoff against), all
50 Posted Collateral (other than Letters of Credit) whether now or hereafter held by, on behalf of, or for the benefit of, such other
51 party, and each party agrees to take such action as the other party reasonably requires in order to perfect or maintain the other
52 party's first-priority continuing security interest in, and lien on (and right of setoff against), such Posted Collateral.
53

54 (b) Substitutions.

55
56 (i) Upon Notice to the Secured Party specifying the items of Posted Collateral to be exchanged, the Pledging
57 Party may, on any Business Day, Transfer to the Secured Party Substitute Posted Collateral (the "Substitute Posted
58 Collateral"); and
59

60 (ii) Provided that no Event of Default or Potential Event of Default, if applicable, has occurred and is continuing
61 with respect to the Pledging Party and that no Early Termination Date has occurred or been designated as the result of
62 an Event of Default with respect to the Pledging Party, the Secured Party will Transfer to the Pledging Party the items
63 of Posted Collateral specified by the Pledging Party in its Notice not later than the Business Day following the date on
64 which the Secured Party receives the Substitute Posted Collateral; provided that the Secured Party will only be

1 obligated to Transfer Posted Collateral with a Value as of the date of Transfer of that Posted Collateral equal to the
2 Value as of that date of the Substitute Posted Collateral.

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4 (c) Expenses.

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6 (b) Except as expressly set forth in this Contract, each party will pay its own costs and expenses in connection
7 with performing its obligations under this Credit Support [Addendum Agreement](#) and neither party will be liable for any
8 costs or expenses incurred by the other party in connection herewith.

9
10 (c) The Pledging Party will promptly pay when due all taxes, assessments or charges of any nature that are
11 imposed with respect to Posted Collateral held by the Secured Party upon becoming aware of the same, regardless of
12 whether any portion of that Posted Collateral is subsequently disposed of under Section IX(b), except for those taxes,
13 assessments and charges that result from the exercise of the Secured Party's rights under Section IX(b).

14
15 (d) All reasonable costs and expenses incurred by or on behalf of the Secured Party or the Pledging
16 Party in connection with the liquidation and/or application of any Posted Collateral under Section IX will be payable, on
17 demand and pursuant to the Contract, by the Defaulting Party or, if there is no Defaulting Party, equally by the Parties.

18
19 (e) This Credit Support [Addendum Agreement](#) has been and is made solely for the benefit of the Parties and their permitted
20 successors and assigns, and no other entity shall acquire or have any right under or by virtue of this Credit Support
21 [Addendum Agreement](#).

22 (f) The Pledging Party shall pay on request and indemnify the Secured Party against any taxes (including without
23 limitation, any applicable transfer taxes and stamp, registration, or other documentary taxes), assessments, or charges that may
24 become payable by reason of the security interest, general first lien, and right of offset granted under this Credit Support
25 [Addendum Agreement](#) or the execution, delivery, performance, or enforcement of the Credit Support [Addendum Agreement](#), as
26 well as any penalties with respect thereto (including, without limitation, costs and reasonable fees and disbursements of
27 counsel).

28 (g) No failure or delay by either party hereto in exercising any right, power, privilege, or remedy hereunder shall operate as
29 a waiver thereof.

30 (h) The headings in this Credit Support [Addendum Agreement](#) are for convenience of reference only, and shall not affect
31 the meaning or construction of any provision thereof.

32
33 **COMPANY**

BY: _____
NAME: _____
TITLE: _____

COUNTERPARTY

BY: _____
NAME: _____
TITLE: _____