



USER'S GUIDE

To the

NAESB ~~Optional (TBD) Model~~¹ Credit Support Addendum (CSA) [®]

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¹ Cinergy and EnCana delete Optional, Interested LDCs insert Model.

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Introduction and DISCLAIMER

This Credit Support Addendum was completed using the North American Energy Standards Board, Inc.'s (NAESB) processes for standards development. The NAESB standards development process is open to all participants, members and non-members.

DISCLAIMER:

THIS CREDIT SUPPORT ADDENDUM (CSA) AND THIS USER'S GUIDE WERE DEVELOPED BY THE WHOLESALE GAS QUADRANT (WGQ) OF THE NORTH AMERICAN ENERGY STANDARDS BOARD, INC. (NAESB) AND ITS SUBCOMMITTEES AND ARE PROVIDED FOR THE CONVENIENCE OF NAESB MEMBERS AND ANY OTHER THIRD PARTIES. THE CSA AND THE USER'S GUIDE DO NOT REFLECT ANY POLICY ADOPTED BY NAESB OR ITS MEMBERS AND ARE **INTENDED TO PROVIDE AN OPTIONAL STARTING POINT** FOR PARTIES' NEGOTIATIONS. PARTIES MAY USE OTHER FORMS OF CREDIT ARRANGMENTS IN CONNECTION WITH NAESB'S *BASE CONTRACT FOR SALE AND PURCHASE OF NATURAL GAS* AND ARE **NOT REQUIRED TO USE THIS FORM**. PARTIES ARE FREE TO MODIFY THE CSA FORM FOR THEIR OWN USE. NAESB DOES NOT WARRANT THE LEGAL EFFICACY OF THE CSA OR THE USER'S GUIDE; NOR SHALL THE PROVISIONS OF THESE FORMS CONSTITUTE THE GIVING OF LEGAL ADVICE. PARTIES ARE ADVISED TO CONSULT WITH THEIR OWN LEGAL COUNSEL TO OBTAIN ADVICE CONCERNING USE OF THESE FORMS AND OTHERWISE TO ASSURE THE EFFICACY OF ANY CREDIT ARRANGEMENTS THEY MAY MAKE.

Purpose

The CSA is an **optional** special provision to the North American Energy Standards Board, Inc.'s (NAESB) Base Contract for Sale and Purchase of Natural Gas (Base Contract).

During the development of the CSA by members of the NAESB WGQ Contracts Subcommittee, members that Parties expressed interest in proceeding with the development of theing this CSA offered the following information to in support of the CSA development and its use.¹

1. CSA provides a basis for efficient administration of the transfer of collateral between counter parties.
2. CSA will be a neutral starting point for negotiation of a CSA between counter parties.
3. CSA and the User's Guide will provide each party with a check-list of terms and conditions that may be included in a CSA.
4. The CSA should expedite the negotiation of the final document(s).

Members that Parties expressed concerns on the CSA development and use of the CSA offered the following information to state on when the CSA could be consider as anmay not be an in appropriate special provision to the Base Contract.²

1. The CSA is probably not needed when a producer's primary purpose for the Base Contract is to sell natural gas to a counter party with little or no purchase of natural gas from the same counter party.
2. The CSA is probably not needed when a local distribution company's or end-user's primary purpose of the Base Contract is to buy natural gas from a counter party with little or no sale of natural gas to the same counter party.

² PECO concerns on language clarity. Rewrite suggestion is by EnCana.

3. The CSA is probably not needed when a pipeline or gathering system operator purchases or sells natural gas on a very infrequent basis.
4. The current credit support provision of the Base Contract (Section 10.1) may be adequate for such purposes between the counter parties for the specific Base Contract. For instance, a CSA to the Base Contract is not likely required when (1) the Base Contract between counter parties will be used for purchase or sale of natural gas for a term of one month or less, (2) there is no expectation of a long term contractual relationship between the counter parties, (3)

Credit Support Addendum (CSA) structure

This Credit Support Addendum was completed using the North American Energy Standards Board, Inc.'s (NAESB) processes for standards development. The structure of the CSA is a **optional** "Special Provision" to the Base Contract. The CSA is designed to be executed concurrently with the underlying Base Contract. If parties would like to add the CSA to an existing Base Contract they should consider using the pro forma special provision noted below for adding the CSA to an existing Base Contract.

Recitals

CSA Party Information

Identification of Party A and Party B

Party A and Party B should be the same Party A and Party B as set forth in the Base Contract.

Base Contract Date

Base Contract Date is the date of the underlying Base Contract that the CSA is added to as a special provision.

Base Contract Number

Base Contact Number is the contract number for the Base Contract that the CSA is added to as a special provision.

Credit Related Notices

Party A and Party B should identify persons in their respective companies that are authorized to receive notices pursuant to the CSA. These persons are typically credit managers or their equivalent.

Credit Related Invoices and Payments

Party A and Party B should identify persons or departments in their respective companies that are authorized to receive invoices or payments made pursuant to the CSA. These are typically credit managers or credit accounting personnel.

Wire Transfer or ACH Numbers

Party A and Party B should identify the specific accounts for receipt of funds transfer made by the counter party pursuant to the CSA.

Completing the "Elections"

General

All the blank election spaces for each party to the CSA should be completed or noted as "not applicable (N/A)". Some election spaces are required to be completed as noted below.

Credit Support Provider

Credit Support Provider - The entity that is evaluated from a credit standpoint i.e. based on financial statements and/or unsecured credit ratings. For example, a Credit Support Provider can be either the party's parent company or some other entity agreed upon by the parties.

Eligible Collateral

Eligible Collateral - Each party will specify the types of collateral that a party will deliver to the other party. The most common types of collateral are cash and letters of credit. Only what is specified on page 1 of the NAESB Credit Support Addendum shall be considered Eligible Collateral between the parties unless the parties agree otherwise.

Collateral Threshold

Collateral Threshold - This is the amount of unsecured credit that a party is willing to tolerate without holding any Eligible Collateral provided by the other party. This amount is often related to the credit quality of the party and may be set to vary depending upon the credit rating as well as the party's financial health. Once a party exceeds its set Collateral Threshold, the other party may request the first party to post Eligible Collateral to cover the difference between the party's Exposure and the Collateral Threshold. If a Threshold is not specified, it is deemed to be zero.

Eligibility Requirements to Hold Cash Collateral

Eligibility requirements to Hold Cash - Each party, as the Secured Party, is entitled to hold Cash, provided that it satisfies the conditions specified in the Agreement. The conditions can be based on external credit ratings given to a party by the various rating agencies, financial ratios based on the most recent financial statements or any other condition agreed to by both parties. If the party does not meet the conditions, such party must hold the Cash with a Custodian. ISDA typically sets this requirement as _____ . EEI MNA typically sets this requirement as _____ .

Interest Rate

Interest Rate - this is the rate that the parties agree will be applied to Posted Collateral in the form of Cash and, subject to certain conditions, paid to the Pledging Party by the Secured Party. A common interest rate election is "Federal Funds Effective Rate – the rate for that day opposite the caption 'Federal Funds (Effective)' as set forth in the weekly statistical release designated as H.15 (519), or any successor publication, published by the Board of Governors of the Federal Reserve

System.”

Minimum Transfer Amount

Minimum Transfer Amount – when a Party's Exposure exceeds the sum of the Posted Collateral of the Party, the amount that must be met before a transfer of additional Eligible Collateral is required OR when a Party's Exposure is less than the sum of the Posted Collateral of the Party, the amount that must be met before a return of Eligible Collateral is required. Default Minimum Transfer Amount = Zero (0).

Notification Time

Notification Time – the time by which the Secured Party must notify the Pledging Party, in writing, of any payment of a Collateral Requirement or Interest Payment, to be made to the Secured Party, in order to be able to require the Pledging Party to make payment on the next local business day. Default Notification Time = 1 p.m. Eastern Prevailing Time.

Rounding Amount

Rounding Amount – the amount to which each transfer of Eligible Collateral will be rounded for a Party. Default Rounding Amount = \$_____.

Custodian Requirements

Custodian Requirements – the minimum criteria which must be met by the Secured Party, or its designated Custodian, to hold Posted Collateral. ISDA typically sets this requirement as _____. EEI MNA typically sets this requirement as _____.

Special Provisions

Special Provisions – additional provisions agreed to between the Parties with respect to performance of the terms and conditions of this Credit Support Addendum. Since the CSA will usually be the starting point for negotiation of a document for credit support, it is highly probably³ that there will be at least one special provision added to the CSA.

CSA Special Provisions

The pro forma documents under this section are typical special provision language that members of the NAESB WGQ Contracts Subcommittee have found in their experience to be acceptable to counter parties. These are offered for information only as starting points for negotiation between the parties for the specific special provision noted below.

Pro Forma amendment to add Special Provisions

Pro Forma Special Provisions

³ [PECO](#)

Guaranty

Party A and Party B should identify their respective Credit Support Providers. If that Credit Support is to be in the form of a Guaranty, the parties may include a provision such as the following:

Each party agrees with the other that, so long as either party has or may have any obligation under this Base Contract, it will deliver or cause to be delivered and maintain:

(i) With respect to Party A, a Guaranty executed by Party A's Credit Support Provider in form and substance reasonably satisfactory to Party B.

(iii) With respect to Party B, a Guaranty executed by Party B's Credit Support Provider in form and substance reasonably satisfactory to Party A.

(iv) if any representation or warranty made by a Guarantor in connection with this Agreement is false or misleading in any material respect when made or when deemed made or repeated;

(v) the failure of a Guarantor's guaranty to be in full force and effect for purposes of this Agreement (other than in accordance with its terms) prior to the satisfaction of all obligations of such Party under each transaction to which such guaranty shall relate without the written consent of the other Party; or

(vi) a Guarantor shall repudiate, disaffirm, disclaim, or reject, in whole or in part, or challenge the validity of any guaranty.

[NOTE: these subsections (v) & (vi) need to be moved to the User's Guide because these subsections won't apply unless one or both of the parties has a Guarantor and should be included in the CSA on ly on an "as needed" basis.]⁴

Collateral Threshold using "Rating Table Matrix"

If the parties elect to use a Rating Table Matrix to define the Collateral Threshold, then they might elect to use one of the following options, which may be adapted to apply to Party A and Party B, or each party individually, as the parties agree.

- The amount set forth below under the heading "Party A Collateral Threshold" opposite the Credit Rating for [Party A][Party A's Credit Support Provider] on the relevant date of determination, or (b) zero if on the relevant date of determination [Party A][Party A's Credit Support Provider] does not have a Credit Rating from the rating agency specified below.

Party A

Collateral Threshold

[Rating Agency] Credit Rating

⁴ [Cinergy](#)

\$ _____ (or above)
 \$ _____
 \$ _____
 \$ _____
 \$ _____ Below _____

The amount set forth below under the heading "Party A Collateral Threshold" opposite the Credit Rating for [Party A][Party A's Credit Support Provider] on the relevant date of determination, and if [Party A's][Party A's Credit Support Provider's] Credit Ratings shall not be equivalent, the lower Credit Rating shall govern or (b) zero if on the relevant date of determination [Party A][its Credit Support Provider] does not have a Credit Rating from the rating agency(ies) specified below.

Party A
Collateral Threshold

[Rating Agency] Credit Rating

[Rating Agency] Credit Rating

\$ _____	_____ (or above)	_____ (or above)
\$ _____	_____	_____
\$ _____	_____	_____
\$ _____	_____	_____
\$ _____	Below _____	Below _____

The amount set forth below under the heading "Party A Collateral Threshold" opposite the ACRV for [Party A][Party A's Credit Support Provider] on the relevant date of determination.

"ACRV"⁵ means, with respect to any person, the average of the Numerical Values applicable to the Credit Ratings published (if any) for such person by any of S&P, Moody's and Fitch, as determined in accordance with the matrix below. In determining the ACRV, the average of the Numerical Values shall be rounded as follows: if the first decimal number is five (5) or below, the ACRV shall be rounded to the next lower integer, and if the first decimal number is six (6) or above, the ACRV shall be rounded up to the next highest integer.

⁵ [EnCana – Expand to set out what ECRV is an anachronism for?](#)

Party A

<u>Collateral Threshold</u>	<u>S&P Credit Rating</u>	<u>Moody's Credit Rating</u>	<u>Fitch Credit Rating</u>	<u>Numerical Value/ACRV</u>
\$ _____	AAA	Aaa	AAA	1
\$ _____	AA+	Aa1	AA+	2
\$ _____	AA	Aa2	AA	3
\$ _____	AA-	Aa3	AA-	4
\$ _____	A+	A1	A+	5
\$ _____	A	A2	A	6
\$ _____	A-	A3	A-	7
\$ _____	BBB+	Baa1	BBB+	8
\$ _____	BBB	Baa2	BBB	9
\$ _____	BBB-	Baa3	BBB1	10
\$ _____	BB+	Ba1	BB+	11
\$ _____	BB	Ba2	BB	12
\$ _____	BB-	Ba3	BB-	13
\$ _____	B+	B1	B+	14
\$ _____	B	B2	B	15
\$ _____	B-	B3	B-	16

If either S&P or Moody's withdraws a Credit Rating assigned to an entity (without assignment of a new Credit Rating), 16 shall be used as the Numerical Value from such rating agency for purposes of calculating the Average Credit Rating Value for such person. If Fitch withdraws a Credit Rating published with respect to a person, the ACRV shall be calculated as if Fitch had never provided a Credit Rating with respect to such person.

Independent Amount

If the parties elect to utilize the concept of an "Independent Amount", then they might choose to use one of the following options, which may be adapted to apply to Party A and Party B, or each party individually, as the parties agree.

- Party A shall have a Fixed Independent Amount of \$_____. If the Fixed Independent Amount option is selected for Party A, then Party A (which shall be a Pledging Party with respect to the Fixed Independent Amount Credit Support) will be required to Transfer or cause to be Transferred to Party B (which shall be a Secured Party with respect to the Fixed Independent Amount Credit Support) Eligible Collateral with a Value equal to the amount of such Independent Amount (the "Fixed IA Credit Support"). The Fixed IA Credit Support shall not be reduced for so long as there are any outstanding obligations between the Parties as a result of the Agreement, and shall not be taken into account when calculating Party A's Collateral Requirement pursuant to the Credit Support Addendum. Except as

expressly set forth above, the Fixed IA Credit Support shall be held and maintained in accordance with, and otherwise be subject to the Credit Support Addendum.

- Party A shall have a Full Floating Independent Amount of \$_____. If the Full Floating Independent Amount option is selected for Party A, then for purposes of calculating Party A's Collateral Requirement pursuant to Paragraph 3 of the Credit Support Addendum, such Full Floating Independent Amount for Party A shall be added by Party B to its Exposure.

- Party A shall have a Partial Floating Independent Amount of \$_____. If the Partial Floating Independent Amount option is selected for Party A, then Party A will be required to Transfer or cause to be Transferred to Party B Credit Support with a Value equal to the amount of such Independent Amount (the "Partial Floating IA Credit Support") if at any time Party A otherwise has a Collateral Requirement (not taking into consideration the Partial Floating Independent Amount) pursuant to Paragraph 3 of the Credit Support Addendum. The Partial Floating IA Credit Support shall not be reduced so long as Party A has a Collateral Requirement (not taking into consideration the Partial Floating Independent Amount). The Partial Floating Independent Amount shall not be taken into account when calculating a Party's Collateral Requirements pursuant to the Credit Support Annex. Except as expressly set forth above, the Partial Floating Independent Amount shall be held and maintained in accordance with, and otherwise be subject to, the Credit Support Addendum.

Rating Agency and Rating Agency Definition

The Parties may want to amend the definition of Credit Rating to include rating agencies other than S&P and Moody's. A typical provision to accomplish this is as follows:

In Paragraph 2. Definitions, the definition of "Credit Rating" shall be amended by adding "or X Rating Agency." after "by S&P, Moody's" in the third line of the definition and deleting "or any other specified rating agency or agencies."⁶

Specified Letter of Credit Issuers

Party A and Party B may choose to identify their specific Letter of Credit Issurer. If that is the case, the parties may include a provision such as the following:

- (i) With respect to Party A, Letters of Credit will be issued by [X Bank or other entity].

- (ii) With respect to Party B, Letters of Credit will be issued by [X Bank or other entity].

Pro Forma amendment to existing NAESB Purchase and Sale of Natural Gas Contract

⁶ [Consumers noted a need for this "Special Provision".](#)

Listing of references for other credit support documents

The members of the NAESB WGO Contracts Subcommittee used several documents or sections of documents as reference materials in development of the CSA. The principal documents were:

- The International Derivatives and Swaps Association, Inc.'s (ISDA) Credit Support Annex. <http://www.isda.org/index.html>
- Collateral annex to the Electric Edison Institute's (EEI) Master Power Purchase and Sale Agreement. <http://www.eei.org/issues/contract/provisions.htm>
- Collateral Annex to EEI's Master Netting, Setoff, and Security Agreement, version 1.1, published October 25, 2002. <http://www.eei.org/issues/contract/mna/legallandscape.htm>

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