

The Peoples Gas Light and Coke Company
North Shore Gas Company
Comments on Credit Support Addendum

The Peoples Gas Light and Coke Company's and North Shore Gas Company's
Comments on the Draft NAESB Credit Support Addendum

Pursuant to the April 22, 2003 Request for Comments, The Peoples Gas Light and Coke Company and North Shore Gas Company (collectively, "Peoples") submit the following comments on the revised draft NAESB Credit Support Addendum ("Addendum"). Peoples appreciates the opportunity to comment on the draft. For each item discussed in the "Specific Comments" section below, Peoples has marked its proposed revisions in the attached Word document. Peoples has also made some suggested editorial revisions that are shown in the attached Word document. The suggested editorial revisions are not discussed below. Finally, Peoples has some general thoughts about the Credit Support Addendum that are set forth in the "General Comments" section below.

SPECIFIC COMMENTS

1. Page 1 Elections: The first sentence assumes that the Addendum would be entered into on the same date as the Base Contract. Peoples does not believe that would necessarily be the case. As discussed below in the General Comments, Peoples agrees with the Interested LDCs' comments on the first draft that the Addendum should be optional. Parties may well opt to enter into the Base Contract and, at some later date, adopt the Addendum. Moreover, parties to existing Base Contracts may choose to add the Addendum after it is finalized by NAESB. Clearly, with respect to existing Base Contracts, any later adopted Addendum should show the date on which it is signed and cannot be presumed to have been entered into on the same date as the Base Contract.
2. Page 1 Elections: The revised draft added the concept of a guaranty as a type of credit support (Par. 10(a)(iv), (v) and (vi)). Peoples strongly supports this addition. However, Peoples believes that "Guaranty" should be added on page 1 as a type of Eligible Collateral, and the appropriate Valuation Percentage should be 100%.
3. General Terms and Conditions, Par. 2: As noted in comment 2, Peoples supports the addition of a guaranty as a type of credit support but believes that definitions of "Guarantor" and "Guaranty" would be appropriate.
4. General Terms and Conditions, Par. 2, "Transfer" or "Transferred": Subsection (iii) does not specifically describe the means of delivery for credit

support other than cash or a letter of credit. Also, this provision should address the delivery of a guaranty

5. General Terms and Conditions, Pars. 4, 5, 6 and 7: Peoples generally agrees with what it believes are the concerns of the Interested LDCs that the deadlines for taking various actions are apt to be the subject of negotiation. The Interested LDCs proposed leaving the deadlines open for negotiation and not including specific time frames. Notwithstanding those concerns, Peoples does not oppose including specific times as a default. However, Peoples believes that the deadlines included in the initial draft are too tight. Moreover, the proposed change of the default notification deadline to two hours later (from 11:00 a.m. eastern time to 1:00 p.m. eastern time) would make it impractical for many companies to meet those initial deadlines. Accordingly, in the attached Word document, Peoples has suggested deadlines that would serve as a default.

6. General Terms and Conditions, Par. 5(a): Peoples proposes adding “Guaranties” to the parenthetical language limiting the frequency with which a party can demand a reduction or substitution of Credit Support. Like a letter of credit, a request to reduce a Guaranty would be limited to no more frequently than weekly.

7. General Terms and Conditions, Par. 9(a): Peoples believes the presumptions of when notices are deemed received should all be tied to Business Days. Proposed subsection (iv) addressed this concern, but the other subsections used the term “date,” which could be construed to permit delivery to be deemed to have been made on a non-Business Day or outside of business hours.

8. General Terms and Conditions, Par. 10(a)(ii): The draft raised the question of whether a definition for “material agreement or obligation” is needed. Peoples agrees that a “materiality” standard can be a source of contention. However, Peoples does not believe that this concept would be susceptible to a meaningful definition. Moreover, the meaning of materiality may be a matter of state law and, thus, subject to the governing law agreed to by the parties under the Base Contract.

9. General Terms and Conditions, Par. 11: Guaranties should be included in the parenthetical because, as with a Letter of Credit, the Pledging Party cannot grant a security interest in a guaranty. The same comment applies to Par. 13.

GENERAL COMMENTS

1. **The Credit Support Addendum May Not Be Necessary.** Peoples generally concurs with the Interested LDCs’ comments on the first draft questioning the need for the Addendum. Peoples has not found the substantial

detail in the Addendum to be necessary for its gas supply transactions. For a transaction for a long term or a significant quantity of gas, Peoples has negotiated comprehensive credit requirements tailored to the transaction. Peoples would not have used the NAESB Base Contract for such a transaction, nor would it use the proposed Addendum. Even as Peoples has given greater consideration to credit-related issues in its contracts during the past two years, detailed and potentially cumbersome credit provisions of the sort included in the Addendum have not proved necessary for most transactions. It is also Peoples' understanding that one of its non-utility affiliates that uses the EEI Master Power Purchase & Sale Agreement has rarely been asked to use the EEI Credit Annex, which is similar to the proposed Addendum. Nonetheless, Peoples is submitting proposed revisions to the draft Addendum with the expectation that, if adopted by NAESB, counterparties may wish to use the Addendum or draw upon it to develop their own credit proposals.

2. The Credit Support Addendum, If Adopted, Should Be Optional.

Peoples strongly supports the Interested LDCs' comment that the Addendum should be optional. There is not and should not be anything in the Base Contract that requires the use of the proposed Addendum, and there are no pending proposals of which Peoples is aware that would modify the Base Contract to that end. Peoples would oppose any such proposal. The Addendum should be a contract document that requires the signature of each party to become effective. Similarly, the Base Contract should remain a stand alone document that does not incorporate by reference the Addendum. If the parties choose not to use the Addendum, that should have no effect on their use of the Base Contract. Likewise, if the parties choose to develop their own credit requirements as an amendment to the Base Contract, nothing in the Base Contract, the Addendum or the User's Guide should purport to restrict that approach.

Statements to this effect in the proposed User's Guide would be the appropriate vehicle for conveying these guidelines. Including language in the Addendum or the Base Contract purporting to define the optional nature of the Addendum could be confusing. For example, if parties elect to execute the Addendum, a statement in the Addendum to the effect that it is "optional" would not square with the parties' intent, as evidenced by their execution of the Addendum, to be bound by the Addendum. Similarly, parties that choose not to execute the Addendum are not bound by anything in the Addendum, including statements that describe it as an optional document.

3. The Credit Support Addendum Should Be a Model and Not a Standard.

Again citing the Interested LDCs' comments, Peoples believes the valid questions about the need for the Addendum, the importance of designating the Addendum as an optional document and the open questions about key provisions, such as deadlines for taking action to fulfill credit requirements, make it appropriate to categorize the Addendum as a "model," rather than a "standard"

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at this time. There are too many open questions and concerns to elevate the Addendum to the level of a “standard.”

4. The Effect, If Any, On Section 10 of the Base Contract, Should Be Addressed in the Addendum. It is not evident to Peoples that the Addendum is intended to replace or supersede Section 10 of the Base Contract. Indeed, the proposed Addendum includes references to Section 10, so this could not be the case. However, if it is the intent that Section 10 be modified in some way by the Addendum, this should be explicitly set forth in the Addendum. Peoples recommends that this not be handled in the Base Contract as this may imply that the Addendum is a necessary part of the Base Contract.

Respectfully submitted,
The Peoples Gas Light and Coke Company
North Shore Gas Company

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NAESB Credit Support Addendum

This NAESB Credit Support Addendum ("Credit Support Addendum") is entered into as of this day of , 200 e-Base Contract Date.

The parties to this Credit Support Addendum are the following:

Party A

Party B

_____ and _____

Base Contract Date: _____

Base Contract Date: _____

Base Contract Number: _____

Base Contract Number: _____

Credit Related Notices:

Attn: _____

Attn: _____

Phone: _____ Fax: _____

Phone: _____ Fax: _____

Credit Related Invoices and Payments:

Attn: _____

Attn: _____

Phone: _____ Fax: _____

Phone: _____ Fax: _____

Wire Transfer or ACH Numbers (if applicable):

BANK: _____

BANK: _____

ABA: _____

ABA: _____

ACCT: _____

ACCT: _____

Other Details: _____

Other Details: _____

This Credit Support Addendum is published by the North American Energy Standards Board, Inc. The parties hereby agree to the following provisions offered in said Credit Support Addendum.

Credit Support Provider	Party A : _____ Party B : _____	Interest Rate	_____ _____ _____																				
Eligible Collateral	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="text-align: right; font-weight: bold;">Valuation Percentage</td> </tr> <tr> <td>Party A: ? Cash</td> <td style="text-align: right;">100%</td> </tr> <tr> <td> ? Letters of Credit</td> <td style="text-align: right;">100%*</td> </tr> <tr> <td> ? <u>Guaranty</u></td> <td style="text-align: right;">100%</td> </tr> <tr> <td> ? Other _____</td> <td style="text-align: right;">____%</td> </tr> <tr> <td colspan="2"> </td> </tr> <tr> <td>Party B: ? Cash</td> <td style="text-align: right;">100%</td> </tr> <tr> <td> ? Letters of Credit</td> <td style="text-align: right;">100%*</td> </tr> <tr> <td> ? <u>Guaranty</u></td> <td style="text-align: right;">100%</td> </tr> <tr> <td> ? Other _____</td> <td style="text-align: right;">____%</td> </tr> </table>		Valuation Percentage	Party A: ? Cash	100%	? Letters of Credit	100%*	? <u>Guaranty</u>	100%	? Other _____	____%			Party B: ? Cash	100%	? Letters of Credit	100%*	? <u>Guaranty</u>	100%	? Other _____	____%	Minimum Transfer Amount	Party A: _____ Party B: _____
			Valuation Percentage																				
Party A: ? Cash	100%																						
? Letters of Credit	100%*																						
? <u>Guaranty</u>	100%																						
? Other _____	____%																						
Party B: ? Cash	100%																						
? Letters of Credit	100%*																						
? <u>Guaranty</u>	100%																						
? Other _____	____%																						
	* See Paragraph 7.	Notification Time	? 1 p.m. Eastern Prevailing Time ? Other _____ Eastern Prevailing Time																				
Collateral Threshold	Party A: _____ Party B: _____	Rounding Amount	Party A: _____ Party B: _____																				
Eligibility to Hold Collateral	Party A: TBD _____ Party B: TBD _____	Custodian Requirements	Party A: _____ Party B: _____																				

? **Special Provisions** Number of sheets attached: _____

IN WITNESS WHEREOF, the parties hereto have executed this Credit Support Addendum in duplicate.

Party A Name
 By _____
 Name: _____
 Title: _____

Party B Name
 By _____
 Name: _____
 Title: _____

**GENERAL TERMS AND CONDITIONS
To The
NAESB CREDIT SUPPORT ADDENDUM**

Paragraph 1. Purpose

This **Credit Support Addendum** constitutes an Addendum to that certain Base Contract for Sale and Purchase of Natural Gas, as identified above, between the parties ("Base Contract"), and supplements and amends the Base Contract affecting transactions thereunder. Capitalized terms used in this Credit Support Addendum that are not herein defined will have the meanings ascribed to them in the Base Contract. In the event of a conflict between the terms of this Credit Support Addendum and the Base Contract, the terms of this Credit Support Addendum shall apply for the purposes of this Credit Support Addendum.

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

Paragraph 2. Definitions.

As used in this Credit Support Addendum:

"Cash" shall mean United States Dollars.

"Collateral Requirement" shall have the meaning ~~attributed to it~~ set forth in Paragraph 3 herein.

"Collateral Threshold" shall mean, with respect to a party, the collateral threshold amount, if any, set forth for such party in this Credit Support Addendum; provided, however, that the Collateral Threshold for a party shall be zero upon the occurrence and during the continuance of an Event of Default with respect to the Defaulting Party.

"Credit Rating" shall mean, with respect to a party or entity, on any date of determination, the respective rating then assigned to such entity's unsecured, senior long-term debt (not supported by third-party credit enhancement) by S&P Standard & Poor's Rating Group (a division of McGraw-Hill, Inc.) or its successor, Moody's Investors Services, Inc. or its successor, or any other specified rating agency or agencies. If no rating is assigned to such entity's unsecured, senior long-term debt by such agency, then "Credit Rating" shall mean the general corporate credit rating or long-term issuer rating, as applicable, assigned by such rating agency to such entity.

"Credit Support Default" shall have the meaning set forth in Paragraph 10 herein.

"Credit Support Provider", if applicable, shall mean the entity specified herein that agrees to transfer a "Credit Support Obligation(s)" pursuant to Section 2.11 of the Base Contract.

"Custodian" shall mean an entity that meets the Custodian Requirements set forth in the elections on Page 1 herein.

"Defaulting Party" shall have the meaning set forth in Paragraph 10 herein.

"Eligible Collateral" shall have the meaning set forth in the elections on Page 1 herein.

"Event of Default" shall mean any Event of Default defined in Section 10.2 of the Base Contract.

"Exposure" shall mean the net amount as calculated in good faith and in a commercially reasonable manner as if an Early Termination Date has been set as provided for in Section 10.3 through and including Section 10.3.3 of the Base Contract.

"Guarantor" shall mean an entity, who shall be a Credit Support Provider, eligible to provide a Guaranty.

"Guaranty" shall mean a guaranty of payment, and not performance, issued by an entity and for an amount reasonably acceptable to the Secured Party.

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

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"Interest Period" shall mean the period from (and including) the last Business Day on which an Interest Amount was Transferred (or if no Interest Amount has yet been Transferred, the Business Day on which Cash was Transferred to the Secured Party) to (but excluding) the Business Day on which the current Interest Amount is to be Transferred.

"Interest Rate" shall have the meaning set forth in the elections on Page 1 herein.

"Letter of Credit" shall have the meaning set forth in Paragraph 7 herein.

"Letter of Credit Default" shall have the meaning set forth in Paragraph 7(b) herein.

"Minimum Transfer Amount" shall mean the amount, if any, set forth in the elections on Page 1 herein for a each party and the Pledging Party shall be required to Transfer Eligible Collateral; to the Secured Party only if the Collateral Requirement equals or exceeds the Minimum Transfer Amount.

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

~~"Event of Default" shall mean any Event of Default defined in Section 10.2 of the Base Contract. [move to alphabetical order]~~

"Notification Time" shall have the meanings ~~as~~ set forth in the elections on Page 1 herein.

"Pledging Party" shall have the meaning ~~attributed to it~~ set forth in Paragraph 3 herein.

"Posted Collateral" shall mean (1) all Eligible Collateral and all proceeds thereof that have been Transferred to or received by the Secured Party hereunder and not Transferred to the Pledging Party pursuant to Paragraph 4 or released by the Secured Party (2) any Interest Amount or portion thereof not Transferred pursuant to Paragraph 8(c) and (3) any Cash received and held by the Secured Party after drawing on any Letter of Credit.

"Reference Market Maker" shall mean a leading dealer in the relevant market that is not an affiliate of either party selected by a party determining any disputed calculations pursuant to Paragraph 6 herein in a commercially reasonable manner from among dealers 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.

~~"Rounding Amount" shall have mean the meaning amount, if any, set forth in the elections on Page 1 herein for each party, and integral multiples of such amount shall determine the amount of Eligible Collateral to be Transferred.~~

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

"Secured Party" shall have the meaning ~~attributed to it~~ set forth in Paragraph 3(b) herein.

"Transfer" or "Transferred" shall mean, with respect to any Eligible Collateral, Posted Collateral, or Interest Amount, and in accordance with the instructions of the appropriate party:

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

(ii) in the case of Letters of Credit, delivery of the Letter of Credit or an amendment thereto to the recipient; ~~and~~

(iii) in the case of Guaranties, delivery of the Guaranty or an amendment thereto to the recipient; and

(iv) in the event the parties indicate the use of other Eligible Collateral in the elections on Page 1 herein, delivery in a manner that allows the recipient to exercise rights with respect to such Eligible Collateral.

"Valuation Percentage" shall mean the percentage set forth in the elections on Page 1 herein for each form of Eligible Collateral.

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

Paragraph 3. Calculation of Collateral Requirement.

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

- (a) the Pledging Party's Collateral Threshold; plus
- (b) the Value of all Posted Collateral then held by the party other than the Pledging Party (the "Secured Party"), and any accrued Interest Amount that has not yet been Transferred to the Pledging Party;

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

Paragraph 4. Transfer of Eligible Collateral.

On any Business Day on which (i) no Credit Support Default with respect to the Secured Party has occurred and is continuing, (ii) no ~~NAESB~~ Event of Default with respect to the Secured Party has occurred and is continuing, (iii) no Early Termination Date has occurred or been designated by the Pledging Party, and (iv) the Pledging Party's Collateral Requirement equals or exceeds its Minimum Transfer Amount, the Secured Party may demand, by Notice to the Pledging Party, that the Pledging Party Transfer to the Secured Party, and the Pledging Party shall Transfer or cause to be Transferred to the Secured Party, Eligible Collateral for the benefit of the Secured Party having a Value on the date of Transfer at least equal to the Pledging Party's Collateral Requirement. The amount of Eligible Collateral required to be Transferred hereunder shall be rounded up to the nearest integral multiple of the Rounding Amount. Unless otherwise agreed to in writing by the parties, (A) Eligible Collateral demanded of a Pledging Party on or before the Notification Time on a Business Day shall be provided to the Secured Party and/or its Custodian by 5:00 p.m. Eastern Prevailing Time on the ~~TBD~~^{next} third Business Day and (B) Eligible Collateral demanded of a Pledging Party after the Notification Time on a Business Day shall be provided to the Secured Party and/or its Custodian by 5:00 p.m. Eastern Prevailing Time on the ~~TBD~~^{second} fourth Business Day thereafter. Any Letter of Credit or other type of Eligible Collateral (other than Cash) shall be Transferred to such address as the Secured Party shall specify in its demand pursuant to this ~~Paragraph 4~~^{Section III}, and any such demand made by the Secured Party pursuant to this Paragraph 4 shall specify wire transfer information for the account(s) to which Eligible Collateral in the form of Cash shall be Transferred. Notwithstanding anything to the contrary in this Credit Support Addendum, in the event of a Credit Support Default, or ~~NAESB~~ Event of Default, with respect to the Pledging Party which gives rise to an obligation to Transfer Credit Support, the Pledging Party shall have no obligation to ~~t~~ transfer such Credit Support if such event is cured or otherwise no longer exists prior to the time that such Credit Support is required to be provided hereunder. In any case in which Eligible Collateral is in the form of a Letter of Credit ~~or Guaranty~~, the deadlines set forth above may be met by providing a facsimile copy of the Letter of Credit ~~or Guaranty~~ with an original transmitted by overnight courier for delivery on the next Business Day.

Paragraph 5. Reduction and Substitution of Credit Support.

(a) On any Business Day (but no more frequently than weekly with respect to Letters of Credit ~~and Guaranties~~ and daily with respect to Cash), a Pledging Party may demand, by Notice to the Secured Party, a reduction in the amount of Credit Support previously provided by the Pledging Party for the benefit of the Secured Party, and the Secured Party shall comply with said demand, provided that after giving effect to the demanded reduction in Credit Support, (i) the Pledging Party shall have a Collateral Requirement of zero ~~(0)~~ as of the date of such compliance; (ii) no Credit Support Default with respect to the Pledging Party has occurred and is continuing; (iii) no ~~NAESB~~ Event of Default with respect to the Pledging Party has occurred and is continuing; and (iv) no Early Termination Date has occurred or been designated by the Secured Party. The amount of the Credit Support reduction hereunder shall be rounded down to the nearest integral multiple of the Rounding Amount. If a permitted reduction in Credit Support is to be effected by the Transfer of Cash to the Pledging Party, then unless otherwise agreed to in writing by the parties, (x) if the Pledging Party's reduction demand is made on or before the Notification Time on a Business Day, then the Secured Party shall effect a permitted reduction in Credit Support by 5:00 p.m. Eastern Prevailing Time on the ~~TBD~~^{next} third Business Day thereafter and (y) if the Pledging Party's reduction demand is made after the Notification Time on a Business Day, then the Secured Party shall effect a permitted reduction in Credit Support by 5:00 p.m. Eastern Prevailing Time on the ~~TBD~~^{second} fourth Business Day thereafter. If a permitted reduction in Credit Support is to be effected by a reduction in the amount that may be drawn under an outstanding Letter of Credit previously issued for the benefit of the Secured Party, the Secured Party shall promptly take such action as is reasonably necessary to cooperate with the Pledging Party to effectuate such reduction. In any case in which Credit Support is in the form of a Letter of Credit ~~or Guaranty~~, the deadlines set forth above may be met by providing a facsimile copy of the Letter of Credit ~~or Guaranty~~ with an original transmitted by overnight courier for delivery on the next Business Day.

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(b) Except when (i) a Credit Support Default with respect to the Pledging Party has occurred and is continuing, or (ii) a Event of Default with respect to the Pledging Party has occurred and is continuing, the Pledging Party may substitute new Credit Support for existing Credit Support of equal Value on the Business Day following the Secured Party's receipt of written Notice thereof (provided that, if such Notice is made after the Notification Time, the Pledging Party may not substitute Credit Support until the ~~TBD~~second Business Day thereafter; and provided further, ~~however,~~ that if such substitute Credit Support is of a type not designated as Eligible Collateral in the elections on Page 1 herein, then the substitution may not occur unless the Secured Party consents to such substitution). Upon the Transfer to the Secured Party and/or its Custodian of the substitute Eligible Collateral, the Secured Party and/or its Custodian shall Transfer the relevant replaced Eligible Collateral to the Pledging Party by 5:00 p.m. Eastern Prevailing Time on the second ~~TBD~~ Business Day after such Transfer has been effected. Notwithstanding anything herein to the contrary, no such substitution shall be permitted unless (x) the substitute Eligible Collateral is Transferred to the Secured Party and/or its Custodian simultaneously with, or has been Transferred to the Secured Party and/or its Custodian prior to, the release of the Eligible Collateral to be returned to the Pledging Party and ~~if applicable,~~ the security interest in, and lien upon, such substituted Eligible Collateral granted pursuant hereto in favor of the Secured Party shall have been perfected as required by applicable law and shall constitute a first priority perfected security interest therein and general first lien thereon, and (y) after giving effect to such substitution, the Value of such substitute Eligible Collateral shall equal the Collateral Value of the Eligible Collateral which is being substituted. Each substitution of Eligible Collateral shall constitute a representation, warranty and agreement by the Pledging Party that the substituted Eligible Collateral shall be subject to and governed by the terms and conditions of this Credit Support Addendum, including without limitation ~~and if applicable,~~ the security interest in, general first lien on and right of offset against, such substituted Eligible Collateral granted pursuant to Paragraph 12(a) in favor of the Secured Party. In any case in which Eligible Collateral is in the form of a Letter of Credit ~~or Guaranty,~~ the deadlines set forth above may be met by providing a facsimile copy of the Letter of Credit ~~or Guaranty~~ with an original transmitted by overnight courier for delivery on the next Business Day.

(c) The Transfer of any Eligible Collateral by the Secured Party and/or its Custodian to the Pledging Party in accordance with this Paragraph 5 shall be deemed a release by the Secured Party of its security interest, general first lien and right of offset granted pursuant to Paragraph 12(a) hereof only with respect to such returned Eligible Collateral. In connection with each Transfer of any Eligible Collateral to the Pledging Party pursuant to this Paragraph ~~5Section IV,~~ the Pledging Party will, upon request of the Secured Party, ~~execute/provide?~~ a receipt ~~in form and substance reasonably satisfactory to the Secured Party~~ showing the Eligible Collateral Transferred to it.

Paragraph 6. Disputed Calculations.

(a) If the Pledging Party disputes the amount of Eligible Collateral requested by the Secured Party and such dispute relates to the amount of the Exposure as determined by the Secured Party, then the Pledging Party shall (i) notify the Secured Party of the existence and nature of the dispute not later than the Notification Time on the ~~TBDfirst-second~~ Business Day following the date that the demand for Eligible Collateral is made by the Secured Party pursuant to Paragraph 4 ~~Section III,~~ and (ii) Transfer Eligible Collateral to or for the benefit of the Secured Party in an amount equal to the Pledging Party's own determinations, made in a commercially reasonable manner, of the Pledging Party's Collateral Requirement in accordance with Paragraph 3 ~~Section II.~~ In all such cases, the parties thereafter shall promptly consult with each other in order to reconcile the two conflicting determinations. If the parties have not been able to resolve their dispute on or before the second Business Day following the date that the ~~demand Pledging Party notifies the Secured Party that it disputes is made by~~ the Secured Party's ~~calculation,~~ then the Secured Party's Exposure shall be recalculated with each party requesting quotations from one (1) Reference Market-Maker within ~~TBDtwo~~ (2) Business Days (taking the arithmetic average of those quotations obtained to obtain the average Exposure, provided, that, if only one (1) quotation can be obtained, then that quotation shall be used) for the purpose of recalculating the Exposure of each transaction in respect of which the parties disagree as to the Exposure hereof. The Secured Party shall inform the Pledging Party of the results of such recalculation in reasonable detail. Eligible Collateral shall thereupon be provided, returned, or reduced, if necessary, on the ~~next~~ ~~second~~ Business Day ~~thereafter~~ in accordance with the results of such recalculation.

(b) If the Secured Party disputes the amount of Eligible Collateral to be reduced by the Secured Party and such dispute relates to the amount of the Exposure claimed by the Secured Party, then the Secured Party shall (i) notify the Pledging Party of the existence and nature of the dispute not later than the Notification Time on the ~~TBDfirst-second~~ Business Day following the date that the demand to reduce Eligible Collateral is made by the Pledging Party pursuant to Paragraph 5 ~~Section IV,~~ and (ii) effect the reduction of Eligible Collateral to or for the benefit of the Pledging Party in an amount equal to the Secured Party's own estimate, made in a commercially reasonable manner, of the Pledging Party's Collateral Requirement in accordance with Paragraph 3. In all such cases, the parties thereafter shall promptly consult with each other in order to reconcile the two conflicting amounts. If the parties have not been able to resolve their dispute on or before the ~~TBD~~second Business Day following the date that the ~~Secured Party notifies the Pledging Party that it disputes demand is made by~~ the Pledging Party's ~~calculation,~~ then the Secured Party's Exposure shall be recalculated by each party requesting quotations from one (1) Reference Market-Maker within ~~TBDtwo~~ (2) Business Days (taking the arithmetic average of those quotations obtained to obtain the average Exposure; provided, that, if only one (1) quotation can be obtained, then that quotation

shall be used) for the purpose of recalculating the Exposure of each transaction in respect of which the parties disagree as to the Exposure thereof. The Secured Party shall inform the Pledging Party of the results of such recalculation in reasonable detail. Eligible Collateral shall thereupon be provided, returned, or reduced, if necessary, on the ~~TBD~~next second Business Day thereafter in accordance with the results of such recalculation.

Paragraph 7. Letters of Credit. ~~[THIS PARAGRAPH 7 REPLACES THE FORMER DEFINITIONS.]~~

Posted Collateral provided in the form of a Letter of Credit shall be subject to the following provisions.

- (a) Letter of Credit shall be an irrevocable, standby letter of credit, issued by an entity and for an amount reasonably acceptable to the Secured Party.
- (b) Letter of Credit Default shall mean with respect to an outstanding Letter of Credit, which is required to be in effect hereunder, the occurrence of any of the following events: (i) the issuer of such Letter of Credit shall fail to maintain a Credit Rating as defined in Custodian Requirements in the elections on Page 1 herein; (ii) the 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 continuing after the lapse of any applicable grace period; (iii) the issuer of such Letter of Credit shall disaffirm, disclaim, 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 terminate, or shall fail or cease to be in full force and effect (other than in accordance with its terms) prior to the satisfaction of all obligations of the Pledging Party under each transaction to which such Letter of Credit shall relate without the written consent of the other party or (v) the Pledging Party or issuer of the Letter of Credit shall fail to Transfer the renewal or replacement Letter of Credit to the Secured Party at least twenty (20) Business Days prior to the expiration of such Letter of Credit; provided, however, that no Letter of Credit Default shall occur in any event with respect to a Letter of Credit after the time such Letter of Credit is required to be canceled or returned to the Pledging Party in accordance with the terms of this Credit Support Addendum.
- (c) Unless otherwise agreed in writing by the parties, each Letter of Credit shall be provided in accordance with this Paragraph 7 and each Letter of Credit shall be maintained for the benefit of the Secured Party. The Pledging Party shall (i) renew or cause 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 issued an outstanding Letter of Credit has indicated its intent not to renew such Letter of Credit, ~~it~~ transfer either a substitute Letter of Credit or other Eligible Collateral, in each case at least twenty (20) Business Days prior to the expiration of the outstanding Letter of Credit, and (iii) if a bank issuing a Letter of Credit shall fail to honor the Secured Party's properly documented request to draw on an outstanding Letter of Credit, ~~it~~ transfer for the benefit of the Secured Party either a substitute Letter of Credit that is issued by a bank acceptable to the Secured Party or other Eligible Collateral, in each case within ~~TBD~~three (3) Business Days after such refusal, provided that, as a result of the Pledging Party's failure to perform in accordance with (i), (ii), or (iii) above, the Pledging Party's Collateral Requirement would be greater than zero (0).
- (d) As one method of providing Posted Collateral, the Pledging Party may increase the amount of an outstanding Letter of Credit or establish one or more additional Letters of Credit.
- (e) 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 ~~??~~any outstanding Letter(s) of Credit issued with respect to the Transaction(s) to which an Event of Default has occurred 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 Paragraphs 8 and 12 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.
- (f) 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, 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 transferred for the benefit of the Secured Party in accordance with applicable law.
- (g) Upon the occurrence of a Letter of Credit Default, the Pledging Party agrees to transfer to the Secured Party either a substitute Letter of Credit or other Eligible Collateral, in each case on or before the ~~third~~second~~TBD~~ Business Day after the occurrence thereof (or the fifth ~~(5)~~TBD Business Day after the occurrence thereof if only clause (i) under the definition of Letter of Credit Default applies).

- (h) In all cases, the costs and expenses 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.

Paragraph 8. Care and Use of 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 meets the Eligibility to Hold Cash-Collateral requirements set forth in the elections on Page 1 herein; and (3) Cash shall be held only in any jurisdiction within the United States. A party shall appoint a Custodian in the event such party is not eligible or becomes ineligible to hold Cash in accordance with this Paragraph 8(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. 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 ~~Transfer~~ Posted Collateral would not be created or increased by the Transfer, the Secured Party will upon written request 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 on the ~~TBD~~ 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 Paragraph 8(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 care as it would exercise with respect to its own property. Except as specified in the preceding sentence, the Secured Party will have no duty with respect to Cash, including, without limitation, any duty to enforce or preserve any rights pertaining thereto.

Paragraph 9. Notices [THIS IS A NEW PARAGRAPH.]

(a) A Notice or other communication in respect of this Credit Support Addendum may be given in any manner set forth below to the address or number or in accordance with the electronic messaging system details provided on Page 1 of this Credit Support Addendum and will be deemed effective as indicated:

(i) if in writing and delivered in person or by courier, on the date-Business Day it is delivered;

(ii) if sent by facsimile transmission, on the date that transmission is received by a-responsible-employee-of the recipient in legible form (which may be evidenced by a transmission report generated by the sender's facsimile machine); unless the date of that receipt is not a Business Day or that communication is received after the close of business on a Business Day, in which case that communication shall be deemed given and effective on the first following Business Day;

(iii) if sent by certified or registered mail or the equivalent (return receipt requested), on the date-Business Day that mail is delivered or its delivery is attempted; or

(iv) if sent by electronic messaging system, on the date that electronic message is received; unless the date of that delivery (or attempted delivery) or that receipt, as applicable, is not a Business Day or that communication is delivered (or attempted) or received, as applicable, after the close of business on a Business Day, in which case that communication shall be deemed given and effective on the first following ~~day that is a~~ Business Day.

(b) Any other Notice, including but not limited to, Notice of an Event of Default, must be given pursuant to Section 9 of the Base Contract.

Paragraph 10. Credit Support Default

(a) "Credit Support Default" shall exist with respect to a party (the "Defaulting Party") if:

(i) a party fails (or fails to cause its Custodian, as applicable) to make, when due, any ~~t~~ransfer of Eligible Collateral or the Interest Amount, as applicable, required to be made by it, and such failure continues for one (1) Business Day after Notice of that failure is provided to that party;

(ii) a party fails to comply with or perform any material agreement or obligation ~~for this phrase??~~ definition needed for this phrase?? provided for in this Credit Support Addendum, and such failure continues for ~~TBD-five~~ (5) Business Days after Notice of that failure is provided to that party;

(iii) a Letter of Credit Default shall apply with respect to such Defaulting Party;

(iv) if any representation or warranty made by a Guarantor in connection with a Guaranty issued as Credit Support pursuant to this Agreement-Credit Support Addendum 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-Credit Support Addendum (other than in accordance with its terms) prior to the satisfaction of all obligations of such Party under each ~~t~~ransaction 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 issued as Credit Support pursuant to this Credit Support Addendum.

(b) Credit Support Default shall constitute and have the effect of an Event of Default set forth in Section 10.2 (vi) of the Base Contract.

Paragraph 11. Representations and Warranties.

Each party continuously represents and warrants to the other party that: (a) it has the power and authority under the law of the jurisdiction of its organization or incorporation and under its organizational and constituent documents to grant to the Secured Party a valid, enforceable, first-priority security interest in, and lien on, all Posted Collateral (other than Letters of Credit or Guaranties) that it transfers as the Pledging Party, and has taken all necessary actions to authorize the granting and perfection of that security interest and lien; (b) as of each date on which it, as the Pledging Party, transfers Posted Collateral 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 Posted Collateral, at the time the Secured Party or its agent acquires rights therein), it will have title to, and will be the sole owner of such Posted Collateral, free and clear of any security interest, lien, pledge, charge, encumbrance, or other interests or restrictions other than the security interest granted to the Secured Party hereby; (c) the Secured Party will have a valid and perfected first-priority security interest in, and lien on, all Posted Collateral (other than Letters of Credit or Guaranties) upon receipt thereof; and (d) the performance by it of its obligations under this Credit Support Addendum will not result in the creation of any security interest, lien or other encumbrance on any Posted Collateral other than the security interest and lien granted pursuant to this Credit Support Addendum.

Paragraph 12. Certain Rights and Remedies.

(a) Secured Party's Rights and Remedies. If at any time (i) an Event of Default with respect to the Pledging Party has occurred and is continuing or (ii) an Early Termination Date has occurred or been designated as a result of an Event of Default with respect to the Pledging Party, then the Secured Party may do any one or more of the following: (x) exercise any of the rights and remedies of a secured party with respect to the Posted Collateral, including any such rights and remedies under law then in effect; (y) exercise its rights of setoff against any and all

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North Shore Gas Company
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property of the Pledging Party in the possession of the Secured Party or its agent; and (z) draw on any outstanding Letter of Credit issued for its benefit under its terms and this Credit Support Addendum. The Secured Party shall either (y) apply the proceeds of the Posted Collateral realized upon the exercise of any such rights or remedies to reduce the Pledging Party's obligations under the Contract or this Credit Support Addendum (the Pledging Party remaining liable for any amounts owing to the Secured Party after such application), subject to the Secured Party's obligation to return any surplus proceeds remaining after such obligations are satisfied in full or (z) hold such proceeds as collateral security for the Pledging Party's obligations under the Base Contract or this Credit Support Addendum, subject to the Secured Party's obligation to return the proceeds after such obligations are satisfied in full.

(b) Pledging Party's Rights and Remedies. If at any time an Early Termination Date has occurred or been designated as the result of an Event of Default with respect to the Secured Party, then: (i) the Secured Party will be obligated immediately to Transfer all Posted Collateral and the Interest Amount, if any, to the Pledging Party; and (ii) the 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 the Posted Collateral, including any such rights and remedies under law then in effect; (y) to the extent that the Posted Collateral or the Interest Amount is not Transferred to the Pledging Party as required in (i) above, setoff amounts payable to the Secured Party against the Posted Collateral held by the Secured Party or to the extent its rights to setoff are not exercised, withhold payment of any remaining amounts payable by the Pledging Party, up to the value of any remaining Posted Collateral held by the Secured Party, until the Posted Collateral is Transferred to the Pledging Party; and (z) exercise rights and remedies available to the Pledging Party under the terms of any Letter of Credit.

Paragraph 13. General.

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

(b) Expenses.

(i) Each party will pay its own costs and expenses in connection with performing its obligations under this Credit Support Addendum and neither party will be liable for any costs or expenses incurred by the other party in connection herewith.

(ii) All reasonable costs and expenses incurred by or on behalf of the Secured Party or the Pledging Party in connection with the liquidation and/or application of any Posted Collateral under Paragraph 12 will be payable, on demand and pursuant to the Base Contract, by the Defaulting Party or, if there is no Defaulting Party, equally by the parties.

(d) This Credit Support Addendum has been and is made solely for the benefit of the parties and their permitted successors and assigns, and no other entity shall acquire or have any right under or by virtue of this Credit Support Addendum.

(e) The Pledging Party shall pay on request and indemnify the Secured Party against any taxes, assessments, or charges that may become payable by reason of the security interest, general first lien, and right of offset granted under this Credit Support Addendum or the execution, delivery, performance, or enforcement of the Credit Support Addendum, as well as any penalties with respect thereto (including, without limitation, costs and reasonable attorney fees and disbursements for enforcement).

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

(g) The headings in this Credit Support Addendum are for convenience of reference only, and shall not affect the meaning or construction of any provision thereof.

COMPANY-PARTY A

COUNTERPARTY-PARTY B

BY: _____

BY: _____

The Peoples Gas Light and Coke Company
North Shore Gas Company
Comments on Credit Support Addendum

|
NAME: _____

TITLE: _____

NAME: _____

TITLE: _____



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