

VIA E-MAIL

May 16, 2003

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 LDCs

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

NAESB has requested industry comments on the proposed draft "*Optional Credit Support Addendum*" to the *NAESB Base Contract for Sale and Purchase of Natural Gas*. Pursuant to this solicitation, the Interested LDCs hereby offer general and specific comments that present concerns that they have identified to date. On March 24, the Interested LDCs submitted comments to the NAESB Contracts Subcommittee on version 1.02 of the proposed draft Credit Support Addendum (from hereon referred to as "*Model Credit Support Agreement*" or "*Agreement*"), and they recognize the effort that has been made to incorporate several of the recommendations in the current version (2.01).

As part of these comments, attached is the proposed draft "*Optional Credit Support Addendum*" and "*User's Guide*," redlined with specific recommended modifications. The Interested LDCs request that these comments be considered thoroughly by the Contracts Subcommittee in the hope that their concerns are met or explained. While the comments provided herein are intended to articulate those significant positions (or principles) that are shared by the Interested LDCs, each individual participant retains the right to advocate different or additional positions in further NAESB proceedings. The comments provided herein and the attached redlined documents should be considered together as complements, and by no means should they be construed to represent an exhaustive set of comments or recommendations.

GENERAL COMMENTS

- 1 The Current Versions of the Proposed Model Credit Support Agreement and the User's Guide Are Not Ripe for Adoption.** The Interested LDCs commend the Contracts Subcommittee for adopting several of the recommendations that were presented in their comments of March 24—specifically, in agreeing that the proposed Agreement should be an optional document and in adding a User's Guide. However, the Interested LDCs continue to have some broad concerns and several specific comments, as provided herein and in the attached redlined version 2.01 of the proposed "*Model Credit Support Agreement*" and the "*User's Guide*."
- 2 The Model Credit Support Agreement Should Be Flexible, Fair, and Optional.** Any Model Credit Support Agreement should be fair and flexible. There is not and should not be anything in the NAESB Base Contract that requires the use of an addendum for credit support actions, and if there were such a proposal to modify the Base Contract, the Interested LDCs would vigorously oppose it. The proposed Agreement should be a contract document that requires the signature of each party to become effective. Similarly, the Base Contract should remain a standalone document that does not incorporate by reference the proposed Agreement. If the parties choose to not use the proposed Agreement, it 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 proposed Agreement or the proposed User's Guide should purport to restrict such an approach.

The proposed User's Guide would be the appropriate vehicle for emphasizing these principles in addition to identifying the proposed, currently named, "*Optional Credit Support Addendum*" as a Model Agreement rather than a standard or an addendum. It would be more confusing to include language

in the Model Credit Support Agreement or the Base Contract that purports to define the optional nature of the Agreement. For example, if parties elect to execute the Agreement, a statement in the Agreement regarding its optional nature would contradict the parties' intent to be bound by the Agreement. Similarly, parties that choose not to execute the Agreement are not bound by anything in the Agreement, including statements that describe it as an optional document.

To achieve fairness, the Model Credit Support Agreement would have to explicitly state that parties may use either of the following: 1) this Agreement; 2) the Base Contract without an Agreement; or 3) negotiate their own credit support agreement. The proposed Agreement must also be more flexible, allowing parties to negotiate certain elements, such as dates and timelines. (See recommendations below and in the attached redlined Agreement to this effect.)

- 3 **The Model Credit Support Agreement, If Adopted, Should Be a Model.** The valid questions about the need for a credit support agreement, the importance of designating the Model Credit Support Agreement as an optional document, and the open questions about key provisions (such as the deadlines for fulfilling credit requirements) make it appropriate at this time to categorize the proposed credit support document as a "model," rather than as a "standard." There are too many open questions and concerns to elevate the proposed Agreement to the level of a "standard." Furthermore, the designation of the proposed Agreement as a "model," rather than a "standard," points more towards its optional character.
- 4 **The User's Guide Should Be Carefully Edited and Developed.** The Interested LDCs applaud the addition of a User's Guide to the proposed Agreement. This important addition could serve as a very useful document; however it is far from complete or final and should be seriously bolstered with careful review and revisions. For instance, the proposed User's Guide should be the venue to clarify several issues in the proposed Agreement, such as, for example, what might constitute other types of Eligible Collateral or describe further the intent of Custodial Requirements. The Interested LDCs also, as mentioned above, strongly recommend that the User's Guide clearly address the optional nature of the proposed Agreement.
- 5 **The Model Credit Support Agreement Should Be Consistent with the Base Contract.** It is not clear how the proposed Agreement interacts with the Base Contract. When using the same terms in both documents, the definitions and usages should be identical. One example on usage: In paragraph 6 (Disputed Calculation), the term "reasonably commercial manner and in good faith" was replaced with "reasonably commercial manner." The Base Contract uses the former term. To avoid any potential conflicts or inconsistencies, there should be a review process of the proposed draft Model Credit Support Agreement to ensure that it is not inconsistent with the NAESB Base Contract.
- 6 **The Effect, If Any, On Section 10 of the Base Contract, Should Be Addressed in the Model Credit Support Agreement and in the User's Guide.** Paragraph 1 (Purposes) of the Agreement states that the proposed Agreement supplements and amends the NAESB Base Contract and that if there should be a conflict between the terms of the Agreement and those in the Base Contract, the Agreement should supersede. In the proposed document, it is not evident that the Agreement is intended to supplant Section 10 of the Base Contract. Rather, the many references to Section 10 indicate that the Agreement defers to Section 10. It is the opinion of the Interested LDCs that the Model Credit Support Agreement should not replace Section 10 of the Base Contract. Instead, they recommend that the proposed Agreement and User's Guide clearly explain the effect the Agreement would have on Section 10 of the Base Contract. Also, the Interested LDCs do not recommend that this matter be handled in the Base Contract as this may imply that the proposed Agreement is a necessary part of the Base Contract.
- 7 **The Definitions Section Should Be Revised.** While paragraph 2 can be useful to many, in its current state, it is confusing and circular in many areas (full of tautologies), defining terms by repeating the term or by referring to another section in the document that does not include a definition of the specified term.

SPECIFIC COMMENTS

- 1 Document Title: In the March 24 comments, the Interested LDCs recommended changing the title of the proposed "*Credit Support Addendum*" and all references to the document to "*NAESB Optional Credit Support Agreement*," to which the Contracts Subcommittee modified the name to "*Optional Credit Support Addendum*." While this change addresses some of our concerns, to satisfy the intent of having the proposed Agreement be an optional document, we recommend the following: 1) make the Agreement, if it is to be adopted, into a model rather than a standard; 2) change the name of the document, and all references to it, to "*Model Credit Support Agreement*;" 3) retain the requirement that the Agreement be signed by both parties; 4) do not include any language in the Base Contract that suggests that the Agreement is incorporated by reference in the Base Contract; and 5) state in the proposed User's Guide that the proposed Agreement is optional.
- 2 Page 1 Elections:
 - The first sentence assumes that the proposed Agreement would be entered into on the same date as the Base Contract, which is not necessarily true. Since the proposed Agreement is an optional document, parties may opt in or out of it or may adopt it at a later date after having signed the Base Contract. Also, if NAESB approves the proposed Agreement and existing signatories to the Base Contracts choose to add to it the Model Credit Support Agreement, the date of the Agreement would automatically be later than that of the Base Contract. Thus the date on the Agreement should indicate when it was entered into rather than when the Base Contract was signed.
 - Version 2.01 includes the concept of a guaranty as credit support type (Paragraph 10(a), subparts iv through vi). The Interested LDCs strongly support this addition, noting that a guaranty is a recognized form of credit support that may well eliminate the need for collateral.
- 3 Paragraph 2 (Definitions): Several definitions should be revised to include concise and clear language to describe a term and should not refer to a different section of the document, which lacks a definition of the term in question. Specifically:
 - a) The following terms should be defined as follows:
 - "*Guaranty*" shall mean "Guarantee from XYZ Corp (substantially) in the form attached" and the form would be negotiable.
 - "*Guarantor*" shall mean XYZ Corp.
 - b) The following terms should be redefined as follows:
 - The definition of "*Collateral Threshold*" does not read very well. We suggest changing the proviso to read, "provided, however, that the Collateral Threshold for a party that is a Defaulting Party should be zero upon the occurrence and during the continuance of an Event of Default."
 - The definition of "*Credit Rating*" should read as follows: "'Credit Rating' shall mean, with respect to a party on any date of determination, the higher of (a) the unsecured long-term debt rating (not supported by third party credit enhancements) or (b) general corporate credit rating or long-term issuer rating for such party—in all cases established by S&P, Moody's or any other specified rating agency." If a credit rating agency other than S&P or Moody's is desired or acceptable, this fact could be appropriately noted under the "Special Provisions" in the elections section on page 1.
 - The distinction, if any, between "*Minimum Transfer Amount*" and "*Rounding Amount*" is unclear and the definitions should clarify why both terms are needed.
 - The definition for "*Specified Letter of Credit Issuer*" should be added back to the document and should contain language that makes it clear that the issuer so specified is also acceptable to the parties concerned.
 - "*Transfer or Transferred*:" While the Interested LDCs believe that the means to transfer eligible credit supports should be the same for all credit support types, we recommend that part (iii)

parallel the structure in parts (i) and (ii) in describing the means of delivery for credit supports other than cash or letters of credit and that guaranties be mentioned here.

4 Deadline Dates (Paragraphs 4, 5, 6 and 7):

The Interested LDCs believe that there should not be default deadlines in the proposed Agreement. In the March 24 comments, the Interested LDCs expressed a concern with including specific deadlines for various actions, contending that these should be negotiable, and recommended replacing specific dates with blanks to be completed by the negotiating parties. Accordingly, in the attached redlined draft Agreement, the Interested LDCs have replaced specific dates with blanks. Even if the consensus shows a preference for including default deadlines, we find that those in the currently proposed Agreement are too tight.

5 Paragraph 5 (Reduction and Substitution of Credit Support):

Part (a): We propose adding "Guaranties" to the parenthetical language that limits the frequency with which a party can demand a reduction or substitution of Credit Support. Just as with a letter of credit, the frequency of requesting a reduction in a guaranty would be limited to weekly.

6 Paragraph 7 (Letters of Credit):

The Interested LDCs recommend restoring the definition of "*Specified Letter of Credit Issuer*" and including a place on the cover page for the parties to describe what type of entity would be an acceptable issuer. This would require that Paragraph 7(b)(i) be revised to remove the reference to "*Custodian Requirements*" as the standard for default and replace it with a reference to the standards applicable to a Specified Letter of Credit Issuer.

7 Paragraph 8 (Care and Use of Cash):

Part c (Interest Payments on Cash): Since the definition of "*Potential Event of Default*" has been deleted from the document, the phrase "or Potential Event of Default, if applicable" should be deleted here.

9 Paragraph 9 (Notices):

Part (a): The presumptions of when notices are deemed received should all be tied to Business Days. Proposed subsection (iv) addressed this; however, other subsections use the term "date," which could be misconstrued to permit delivery on a non-Business Day or outside of business hours.

10 Paragraph 10 (Credit Support Default):

Part (a), subpart (ii): The proposed Agreement raises the question of whether a definition for "material agreement or obligation" is needed. We agree that a "materiality" standard could be a source of contention; however, we do 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. Material events are captured in the document except for the following two examples:

- Party fails to comply with any restriction or prohibition specified in the Agreement with respect to the rights specified in Paragraph 8(b), and this failure continues for five local business days after notice of that failure is given to the party.
- Party fails to comply with or perform any agreement or obligation other than those specified in Paragraphs 10(a)(i) and 10(a)(ii), and this failure continues for 30 days after the notice of that failure is given to the party.

11 Paragraph 11 (Representations and Warranties):

- 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.
- Condition (c) states that "the Secured Party will have a valid and perfected first-priority security interest granted to the Secured Party," and thereby seems to require that the non-secured party—

rather than the Secured Party—do the perfecting. Has any legal research been done on the compatibility of this provision with Paragraph 8 (Care and Use of Cash)? This raises legal questions that are not readily answerable.

12 Paragraph 13 (General):

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 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,

AGL Resources
Baltimore Gas & Electric Company
Consumers Energy
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
Peoples Energy Corporation Utilities
 The Peoples Gas Light and Coke Company
 North Shore Gas Company
Washington Gas Light Company

Special Provisions for **Model Credit Support Agreement** 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 **OPTIONAL (TBD) MODEL CREDIT SUPPORT ADDENDUM AGREEMENT**

Paragraph 1. Purpose

This ~~Model Credit Support Addendum Agreement, designed for non-physical transactions~~ constitutes an optional Addendum agreement to that certain Base Contract for Sale and Purchase of Natural Gas, as identified above, between the parties ("~~Base Contract~~"), ~~and~~ and supplements ~~and amends~~ the NAESB Base Contract for Sale and Purchase of Natural Gas (Base Contract) affecting transactions there under. Capitalized terms used in this Model Credit Support Addendum Agreement 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 Model Credit Support Addendum Agreement and the Base Contract for Sale and Purchase of Natural Gas, the terms of this Model Credit Support Addendum Agreement shall apply for the purposes of this Credit Support Addendum Agreement. [A clear explanation is required here regarding the relationship between the Model Credit Support Agreement and the Base Contract.]

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 Model Credit Support Agreement 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 Model Credit Support Addendum Agreement; provided, however, that the Collateral Threshold for a party that is a Defaulting Party should shall be zero upon the occurrence and during the continuance of an Event of Default ~~with respect to the Defaulting Party~~. (There should be the option someplace for this to apply to only some confirmed transactions under the Base Contract and not necessarily each and every one.)

"Credit Rating" shall mean, with respect to a party ~~or entity~~, on any date of determination, the higher of (a) the unsecured long-term debt rating (not supported by third party credit enhancements) or (b) general corporate credit rating or long-term issuer rating for such party—in all cases established by respective rating then assigned to such entity's unsecured, senior long-term debt (not supported by third party credit enhancement) S&P Standard & Poor's Rating Group (a division of McGraw-Hill, Inc.) or its successor, Moody's Investor's Services, Inc. or its successor, or any other specified rating agency or agencies. [Where can these additional agencies be specified in this agreement?] ~~If no a credit rating agency other than S&P or Moody's is desired or acceptable, this fact could be appropriately noted under the "Special Provisions" in the elections section on page 1. 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. [Consider deleting definition entirely.]~~

"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.

~~"Guaranty" shall mean "Guarantee from XYX Corp. (substantially) in the form attached," and the form would be negotiable.~~

~~"Guarantor" shall mean XYZ Corp.~~

"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.

"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 be an irrevocable, standby letter of credit, issued by an entity meeting the requirements of a Specified Letter of Credit Issuer set forth in the elections on Page 1 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 party.

~~"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 correct placement in 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. But Para 3 never does define Pledging or Secured Party~~

"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 the meaning~~ set forth in the elections on Page 1 herein for each party.

~~"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.

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

"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 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 [~~“Credit support” is not defined in CSA. In the Base Contract, define Credit Support Obligation].~~

(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 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 ~~TBDnextthird~~ 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 ~~TBDsecondfourth~~ 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.

(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 ~~TBDsecond~~ 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 ~~secondTBD~~ 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~~ 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 good faith and in a commercially reasonable manner [consistent with Base Contract Sec. 10 standard], 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 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 ~~next~~ 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~~ 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 ~~TBDsecond~~ Business Day following the date that the demand is made by the Pledging Party 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 ~~TBDnext~~ 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 that meets the requirements of a Specified Letter of Credit Issuer set forth in the elections on Page 1 herein ~~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 meet the Specified Letter of Credit standards Requirements set forth 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, 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, 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 TBDthree (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 Paragraph 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 secondTBD 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. Internal costs? Assessed by a trader/marketer on an LDC?

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 CashCollateral 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. ~~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. [make sure this provision does not remove right of redemption and other rights of pledging party in the Amount of cash posted as collateral, as opposed to the specific cash, which is fungible, used by the secured party while it was held.]

(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 ~~T~~ransfer 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 [no "electronic messaging system details" are requested on page 1. Base contract addresses "electronic means"] 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 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 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. If e-mail or other electronic messages are to be used, must be specifically agreed to by the parties in writing.

(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 Transferor 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 [??definition needed for this phrase??] provided for in this Credit Support Addendum, and such failure continues for TBD Business Day 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 is false or misleading in any material respect when made or when deemed made or repeated;
 - (v) the failure of a Guarantor's Gguaranty 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 Gguaranty 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 Gguaranty 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 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. [Pledging Party should not be required to perfect all security interests on behalf of the Secured Party.]

(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

COUNTERPARTY

BY: _____

BY: _____

NAME: _____

TITLE: _____

NAME: _____

TITLE: _____

USER'S GUIDE

To the

NAESB ~~Optional (TBD) Model~~ Credit Support ~~Addendum~~
Agreement (MCSA)

April 2003

North American Energy Standards Board, Inc.

1301 Fannin Street, Suite 2350, Houston, Texas 77002

Telephone: (713) 356-0060

Description Page Number

Introduction and DISCLAIMER 3

Purpose 3

Model Credit Support Agreement Addendum (MCSA) structure

Recitals

MCSA Party Information

Identification of Party A and Party B

Base Contract Date

Base Contract Number

Credit Related Notices

Credit Related Invoices and Payments

Wire Transfer or ACH Numbers

Completing the "Elections"

General

Credit Support Provider

Eligible Collateral

Collateral Threshold

Eligibility to Hold Collateral

Interest Rate

Minimum Transfer Amount

Notification Time

Rounding Amount

Custodian Requirements

Special Provisions

MCSA Special Provisions

Pro Forma amendment to add Special Provisions

Pro Forma Special Provisions

Guaranty

Collateral Threshold using "Rating Table Matrix"

Independent Amount

Rating Agency and Rating Agency Definition

Specified Letter of Credit Issuers

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

Listing of references for other credit support documents

Introduction and DISCLAIMER

This Model Credit Support Addendum-Agreement 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 MODEL CREDIT SUPPORT ADDENDUM-AGREEMENT (MCSA) 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 MCSA AND THE USER'S GUIDE DO NOT REFLECT ANY POLICY ADOPTED BY NAESB OR ITS MEMBERS AND ARE **INTENDED TO PROVIDE A MODEL AS 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 MCSA 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 MCSA 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). Parties that desire to have a credit support document to administer The NAESB standards development process is open to all participants, members and non-members.

Model Credit Support Addendum-Agreement (MCSA) structure

This Model Credit Support Addendum-Agreement was completed using the North American Energy Standards Board, Inc.'s (NAESB) processes for standards development. The structure of the MCSA is set up as a "Special Provision" to the Base Contract. The MCSA is designed to be completed and execute concurrently with the underlying Base Contract. If parties would like to add the MCSA 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

MCSA 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 MCSA is added to as a special provision.

Base Contract Number

Base Contract Number is the contract number for the Base Contract that the MCSA 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 MCSA. 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 MCSA. 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 MCSA.

Completing the "Elections"

General

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

Credit Support Provider

Eligible Collateral

Collateral Threshold

Eligibility to Hold Collateral

Interest Rate

Minimum Transfer Amount

Notification Time

Rounding Amount

Custodian Requirements

Special Provisions

The special provision election blank should be completed when the parties agree to amend the MCSA. Since the MCSA will usually be the starting point for negotiation of a document for credit support, it is highly probably that there will be a special provision added to the MCSA.

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

Guaranty

Collateral Threshold using "Rating Table Matrix"

Independent Amount

Rating Agency and Rating Agency Definition

Specified Letter of Credit Issuers

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

Listing of references for other credit support documents

The NAESB WGQ Contracts Subcommittee used several documents or sections of documents as reference materials in development of the MCSA. List below are the principal documents:

- Credit Support Annex to the International Derivatives and Swaps Association, Inc.'s (ISDA) Master Agreement
- Collateral annex to the Electric Edison Institute's (EEI) Master Power Purchase and Sale Agreement, version _____ dated _____.
- Collateral Annex to EEI's Master Netting, Setoff, and Security Agreement, version ____, dated _____
- Collateral Annex to the Western Systems Power Pool Agreement