



**Jane J. Quin**  
Associate Counsel

June 23, 2003

Ms. Rae McQuade  
Executive Director  
North American Energy Standards Board  
1301 Fanin Street, Suite 2350  
Houston, Texas 77002

Subject: Credit Support Addendum to NAESB Base Contract  
for the Sale and Purchase of Natural Gas

Dear Ms. McQuade:

Consolidated Edison Company of New York, Inc. and Orange and Rockland Utilities, Inc. (collectively, “the Companies”) are supportive of the efforts of the North American Energy Standards Board (“NAESB”) to develop a form Credit Support Addendum for use with the NAESB Base Contract for Sale and Purchase of Natural Gas. Approval of a form Credit Support Addendum will help to minimize in the future the time and effort spent drafting and/or reviewing various creditworthiness additions and revisions to the Base Contract. In the interest of facilitating the process of finalizing an appropriate Credit Support Addendum, the Companies hereby submit the following comments on the current NAESB draft of the Addendum:

(1) The Companies support utilizing as a model for the Credit Support Addendum and the defined terms therein, to the maximum extent feasible, the Collateral Annex to the EEI Master Power Purchase and Sale Agreement. The EEI Collateral Annex represents a credit support addendum tailored to energy sales and purchases that the energy industry already has experience using. Unless required in order to conform the Credit Support Addendum to the NAESB Base Contract or to tailor the document to the gas industry, NAESB should endeavor to make as few changes as possible to the terms and conditions of the Collateral Annex. The Companies believe that in this case, “re-inventing the wheel” will have few advantages and could risk adding ambiguity to the terms and conditions of the Credit Support Addendum.

Ms. Rae McQuade  
June 23, 2003  
Page Two

(2) Initially and until the document achieves widespread industry acceptance, the Companies support entitling the document the "Model Credit Support Addendum." References in the title of the document and within the body of the document to its "Optional" nature should be eliminated. Once executed by the parties, the document is no longer "optional" and, therefore, these references are at best confusing and at worst misleading. The optional nature of the Addendum vis-à-vis the Base Contract can be addressed in the "User's Guide."

(3) The counter play between Section 10 of the Base Contract and the Credit Support Addendum requires greater attention. From the current draft, it is unclear how Section 10 interfaces with the Credit Support Addendum. Some areas of confusion include:

(a) Paragraph 10 of the Credit Support Addendum provides that a Credit Support Default constitutes and has the effect of an Event of Default under Section 10.2(vi) of the Base Contract, but the definition of Event of Default in the Credit Support Addendum does not expressly incorporate Credit Support Defaults;

(b) Paragraph 12 of the Credit Support Addendum defines a party's rights if an Event of Default or Early Termination occurs, but there is no cross-reference therein to the rights and remedies provided in Section 10 of the Base Contract;

(c) Similarly, Section 10.6 of the Base Contract provides that the "Non-Defaulting Party's remedies under this Section 10 are the **sole and exclusive remedies** of the Non-Defaulting Party with respect to the occurrence of any Early Termination Date," yet Section 12(a) of the Credit Support Addendum provides additional rights and remedies in the event of an Early Termination; and

(d) Section 2.11 of the Base Contract sets forth a definition for "Credit Support Obligation(s)," but this term has no use or meaning in the Credit Support Addendum.

(3) The Companies do not support limiting the Credit Support Addendum to "non-physical transactions" as proposed in the Comments of the "Interested LDCs." A party may want to use the Credit Support Addendum because of the type of pricing mechanism used for physical transactions under the Base Contract and, as such, it should not be presumed that the Addendum only has value for financial transactions.

(4) The various deadlines within the Credit Support Addendum, particularly for transferring, reducing or substituting Eligible Collateral or Credit Support, should be left blank and subject to negotiation by the parties.

Ms. Rae McQuade  
June 23, 2003  
Page Three

The Companies appreciate the opportunity to comment on the proposed draft Credit Support Addendum and look forward to the successful adoption of a Model Credit Support Addendum in the near future.

Respectfully submitted,

Consolidated Edison Company of  
New York, Inc. and

Orange and Rockland Utilities, Inc.

By: \_\_\_\_\_/S/\_\_\_\_\_  
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