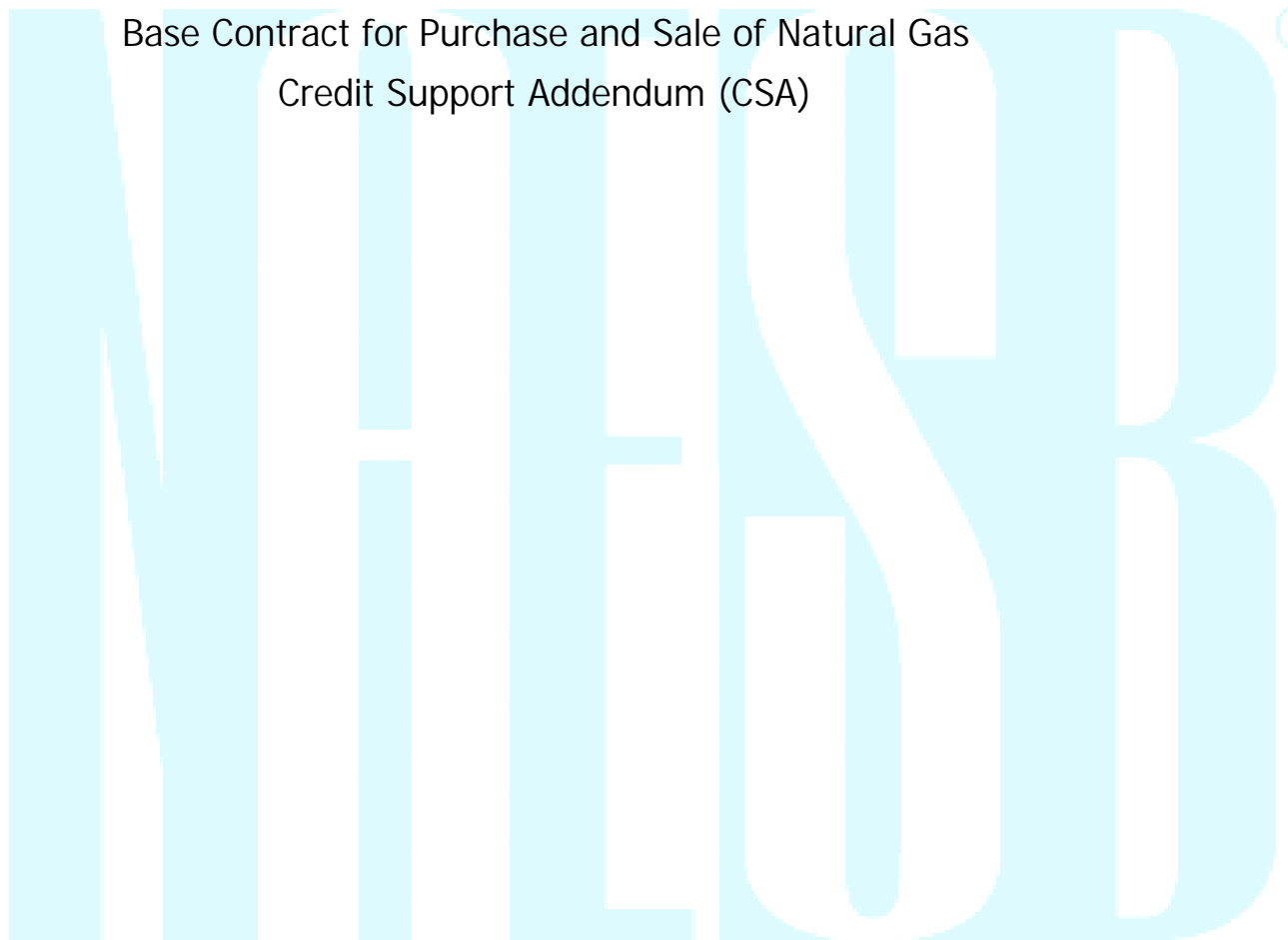




USER'S GUIDE

To the

Base Contract for Purchase and Sale of Natural Gas
Credit Support Addendum (CSA)



July 2003

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Introduction and DISCLAIMER

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

DISCLAIMER:

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

Purpose

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

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

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

Members that expressed concerns on the CSA development and use offered the following information to state when the CSA could be consider as an inappropriate special provision to the Base Contract.

1. The CSA is probably not needed when a natural gas producer's primary purpose for the Base Contract is to sell natural gas to a counter party and there is little or no purchase of natural gas by the natural gas producer from the same counter party.
2. The CSA is probably not needed when a local distribution company's or end-user's primary purpose of the Base Contract is to buy natural gas from a counter party and there is little or no sale of natural gas by the local distribution company or end-user to the same counter party.
3. The CSA is probably not needed when a pipeline or gathering system operator purchases or sells natural gas on a very infrequent basis.
4. The current credit support provision of the Base Contract (Section 10.1) may be adequate for such purposes between the counter parties for the specific Base Contract. For instance, a

CSA to the Base Contract is not likely required when (1) the Base Contract between counter parties will be used for purchase or sale of natural gas for a term of one month or less, (2) there is no expectation of a long term contractual relationship between the counter parties, or (3) where there is no expectation by either parties of reaching an agreement on the CSA terms.

In developing the CSA, the members prepared several timelines related to collateral transfers between the parties. Timelines for Collateral Demands, Return of Collateral and Substitution of Collateral are included in Appendix B. These timelines were specifically used to develop Paragraphs 4, 5 and 6 of the CSA. It is suggested that the timelines be reviewed to fully understand the timing and provisions for collateral transfers.

Credit Support Addendum (CSA) structure

The structure of the CSA is an optional "Special Provision" to the Base Contract. The CSA is designed to be executed concurrently with the underlying Base Contract. If parties would like to add the CSA to an existing Base Contract they should consider using the pro forma special provision noted below for adding the CSA to an prior existing Base Contract.

This CSA constitutes an Addendum to a Base Contract identified in the CSA and amends the Base Contract affecting transactions thereunder. Capitalized terms used in the CSA that are not defined will have the meanings ascribed to them in the Base Contract. In the event of a conflict between the terms of this CSA and the Base Contract, the terms of this CSA shall apply for the purposes of this CSA.

The CSA includes certain defined terms that have meanings ascribed to them in the CSA. Other terms are also defined elsewhere in the Base Contract and shall have the meanings ascribed to them therein. Noted below are certain material terms are either (1) not defined in the CSA and thus have the meanings ascribed to them in the Base Contract or (2) not included in the CSA or the Base Contract as explained below.

"Event of Default" – The CSA has no separate definition of Event of Default since the group believed the Event of Default under Section 10 of the Base Contract was adequate. Please note there is a definition for "Credit Support Default" under CSA Paragraph 10 and "Letter of Credit Default" under CSA Paragraph 7(b),

"Potential Event of Default" – The CSA does not include any reference or application of a "Potential Event of Default". The group believes that "Event of Default", "Credit Support Default" and "Letter of Credit Default" were sufficient for this Model Form of a CSA. This belief is based in part due to the group setting shorter time periods for

- (1) the Pledging Party to Transfer of Collateral after a demand from the Secured Party,
- (2) Secured Party's return of Posted Collateral after a demand for reduction in Posted Collateral by the Pledging Party,
- (3) dispute process for Secured Party's recalculation of Exposure, and
- (4) Pledging Party's opportunity to cure default.

Thus, if one party want to extend one or more of the time periods for the above items, the other party may want to consider including "Potential Event of Default" provision as default triggers in the CSA.

Limitations on Frequency of Transfer of Eligible or Posted Collateral - There was agreement to delete the following limitation on Transfers of Posted Collateral "(but no more frequently than weekly with respect to Letters of Credit and daily with respect to Cash)." The phrase was after the initial phrase "On any Business Day" in the first sentence of the first paragraph of **Paragraph 5. Reduction and Substitution of Posted Collateral**. In part, the group

believed the phrase could be deleted since the other limitations on Transfer of Collateral (e.g. "Minimum Transfer Amounts") may be sufficient for most parties. For parties wishing to reinstate this limitation, they may use the Model Pro Forma CSA Special Provision noted below to add the provision to the CSA.

CSA Party Information

Identification of Party A and Party B

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

Base Contract Date

Base Contract Date is the date of the underlying Base Contract that the CSA is added to as a Special Provision.

Base Contract Number

Base Contract Number is the contract number for the Base Contract that the CSA is added to as a Special Provision.

Credit Related Notices

Party A and Party B should identify person(s) in their respective companies that are authorized to receive notices, demands pursuant to the CSA. These persons are typically credit managers or their equivalent. If a Secured Party wants different persons to receive Eligible Collateral from a Pledging Party, the Secured Party's demand notice should include the name of such persons in the demand notice instructions. Likewise, if a Pledging Party wants a different person to receive returned Posted Collateral from the Secured Party, the Pledging Party's demand notice should include the name of such persons in the demand notice instructions. For electronic message systems such as Internet e-mail, each party should designate the e-mail address of its internal e-mail box or person(s) authorized to receive such notice in the "Credit Related Notices" election on Page 1 of the CSA. It is presumed that when a party includes the Internet e-mail address under the "Credit Related Notices" election on Page 1 of the CSA that such party is agreeing to use of Internet e-mail as a form of notice under the CSA. Each party should manage their own internal distribution of any notices received by Internet e-mail.

Wire Transfer or ACH Numbers

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

Completing the "Elections"

General

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

Credit Support Provider

Credit Support Provider - The entity that is evaluated from a credit standpoint i.e. based on financial statements and/or unsecured credit ratings. For example, a Credit Support Provider can be either the party's parent company or some other entity agreed upon by the parties. If an entity is identified as a Credit Support Provider, then the other party to the CSA will probably require a Letter of Credit or Guaranty.

Interest Rate

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

Eligible Collateral

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

Minimum Transfer Amount

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

Letter of Credit Issuer Requirements

Letter of Credit Issuer Requirements – the minimum criteria that must be met by a Letter of Credit Issuer to issue a Letter of Credit to the Secured Party. [A typical Letter of Credit Issuer Requirement is:](#)

["Major U.S. commercial bank or a U.S. branch office of a foreign bank, in either case, with a Credit Rating of at least \(a\) "A-" by S&P and "A3" by Moody's, if such entity is rated by both S&P and Moody's or \(b\) "A-" by S&P or "A3" by Moody's, if such entity is rated by either S&P or Moody's, but not both."](#)

[The above requirement is identical to that contained in the EEI Collateral Annex definitions.](#)

[A form of Letter of Credit is included in Appendix C, Pro Forma No. 10 "Letter of Credit Agreement". The above provision outlines the requirement for the issuer of the Letter of Credit. The use of this language and form should minimize later disputes and enable parties to safely meet the timelines outlined in the CSA with respect to the transfers of collateral.](#)

Transfer Method for Other Eligible Collateral

Transfer Method for Other Eligible Collateral – The CSA allows the parties to identify "Other" forms of Eligible Collateral under the elections above. When the parties agree to "Other" forms of Eligible Collateral each party should describe the method of transfer for such "Other" Eligible Collateral. For example, if parties identify "Guaranty" as an "Other" Eligible Collateral, the parties should include a

description such as "Guaranty shall be Transferred in the manner as set forth in the applicable Special Provisions attached hereto."

Notification Time

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

Collateral Threshold

Collateral Threshold - This is the amount of unsecured credit that a party is willing to tolerate without holding any Eligible Collateral provided by the other party. This amount is often related to the credit quality of the party and may be set to vary depending upon the credit rating as well as the party's financial health. Once a party exceeds its set Collateral Threshold, the other party may request the first party to post Eligible Collateral to cover the difference between the party's Exposure and the Collateral Threshold. If a Threshold is not specified, it is deemed to be zero (0). It is suggested that parties consider setting the Credit Threshold be set in excess of one (1) month receivables for transactions under the Base Contract(s) between the parties to insure that inadvertent late payments under the Base Contract does not trigger a collateral demand under the CSA. Further, if one party is a local distribution company or other regulated entity that is authorized to recover all its gas costs from their ratepayers under a Gas Cost Recovery (GSR) order (or its equivalent), the other party in setting the Credit Threshold amount should recognize the ability of the local distrubtion company to recovery all its gas costs and related transportation and storage costs in setting the Credit Threshold for the local distribution company. In this event, it is suggested that the local distribution company's Credit Threshold could equal the quantity of gas delivered to its customers during the relevant time period times the local distribution company's gas cost amount authorized under the GSR.

Rounding Amount

Rounding Amount – the amount to which each transfer of Eligible Collateral will be rounded for a Party.

Eligibility Requirements to Hold Cash

Eligibility requirements to Hold Cash - Each party, as the Secured Party, is entitled to hold Cash, provided that is satisfies the conditions specified in the Agreement. The conditions can be based on external credit ratings given to a party by the various rating agencies, financial ratios based on the most recent financial statements or any other condition agreed to by both parties. If the party does not meet the conditions, such party must hold the Cash with a Custodian. EEL's Collateral Annex includes the following optional language for eligibility to hold cash requirement:

"A party shall be entitled to hold Cash provided that the following conditions are satisfied: (1) it is not a Defaulting Party, (2) the party has a Credit Rating from (INSERT CREDIT RATING AGENCY) and the lowest Credit Rating for the party is (INSERT CREDIT RATING OF PARTY) or higher from (INSERT CREDIT RATING AGENCY ABOVE); (3) Cash shall be held only in any jurisdiction within the United States; and (4) [INSERT OTHER CONDITIONS, IF ANY]."

Custodian Requirements

Custodian Requirements – the minimum criteria which must be met by the Secured Party, or its designated Custodian, to hold Posted Collateral. EEL's Collateral Annex cover sheet includes the following definition for qualified institution that is applicable for Custodian Requirements:

"A commercial bank or trust company organized under the laws of the United States or a political subdivision thereof, with (i) a Credit Rating of at least (a) "A-" by S&P and "A3" by Moody's, if such entity is rated by both S&P and Moody's or (b) "A-" by S&P or "A3" by Moody's, if such entity is rated by either S&P or Moody's but not both, and (ii) having a capital and surplus of at least

\$1,000,000,000."

Special Provisions

Special Provisions – additional provisions agreed to between the Parties with respect to performance of the terms and conditions of the CSA. Since the CSA will usually be the starting point for negotiation of a document for credit support, it is highly probable that there will be at least one special provision added to the CSA. Parties are to check the box next adjacent to the Special Provisions box and insert a phrase describing the number of sheets attached to the CSA as CSA Special Provisions (e.g. "4 sheets of CSA Special Provisions are attached.").

Base Contract Special Provisions and CSA Special Provisions

The Model Pro Forma documents described 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 Provisions noted below.

Pro Forma Special Provision to add CSA to concurrent Base Contract

The CSA is a Special Provision to the Base Contract and both parties must agree to include the CSA as part of the Base Contract before the CSA terms and conditions would apply to the Base Contract. Model Pro Forma No. 1 below is a form of Base Contract Special Provision to add the CSA to a Base Contract that is executed contemporaneously with the CSA. There is no form for adding the CSA to a Base Contract that includes a Canadian Addendum. Special Provisions to the Canadian Addendum would be required to add the CSA to such a Base Contract.

Pro Forma Special Provision to add CSA to prior existing Base Contract

The CSA is a Special Provision to the Base Contract and both parties must agree to include the CSA as part of the Base Contract before the CSA terms and conditions would apply to the Base Contract. Model Pro Forma No. 2 below is a form of Base Contract Special Provision to add the CSA to an existing Base Contract that was executed materially in time prior to the CSA. There is no form for adding the CSA to an existing Base Contract that includes a Canadian Addendum. Special Provisions to the Canadian Addendum would be required to add the CSA to such a Base Contract.

CSA Pro Forma Special Provisions

Special Provisions to the CSA occur when both parties agree to include one or more new or different terms to the CSA. The NAESB WGQ Contracts Subcommittee during its discussions identified several Special Provisions that parties may desire to add to or revise the CSA. Listed below are such Special Provisions. The group drafted for parties' consideration Model Pro Forma documents for several of these items below as referenced therein.

Guaranty

Party A and Party B should identify their respective Credit Support Providers. If that Credit Support is to be in the form of a Guaranty, the parties may include a provision to identify the Guarantor and provisions related to the Transfer and requirements of the Guaranty and the obligations of the Pledging Party and Secured Party. See Pro Forma No. 3 for suggested form of Special Provisions.

Collateral Threshold using "Rating Table Matrix"

Party A or B may elect to use a Rating Table Matrix to define the Collateral Threshold. The use of the Rating Table Matrix may be adapted to apply to Party A and Party B, or each party individually, as the parties mutually agree. See Pro Forma No. 4 for suggested form of Special Provisions.

Independent Amount

The parties may elect to utilize the concept of an "Independent Amount" to address the lack of credit for either party. This concept is similar to a provision in the ISDA credit support documents. See Pro Forma No. 5 for suggested form of Special Provisions.

Rating Agency and Rating Agency Definition

The Parties may want to amend the definition of Credit Rating to include rating agencies other than S&P and Moody's. See Pro Forma No. 6 for suggested form of Special Provisions.

Specified Letter of Credit Issuers

Party A and Party B may choose to identify their specific Letter of Credit Issuer. A party will typically choose to identify a specific Letter of Credit Issuer to minimize any concerns of the other party, if and when such Letter of Credit Issuer issues a Letter of Credit. See Pro Forma No. 7 for suggested form of Special Provisions.

Exclusion of certain Base Contract transactions from inclusion in CSA

Party A and Party B may choose to exclude certain transactions of either Party A or Party B from all calculations for Exposure under the CSA. **The exclusion of transactions may be based on a party's desire to limit transaction to those transaction where natural gas is directly delivered into the party's facilities and not at a remote physical location. Also,** See Pro Forma No. 8 for suggested form of Special Provisions.

Limitations on Frequency of Transfer of Eligible or Posted Collateral

Party A and Party B may choose to limit the frequency of the Transfer of Eligible or Posted Collateral. See Pro Forma No. 9 for suggested form of Special Provisions.

APPENDIX A. Listing of references for other credit support documents

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

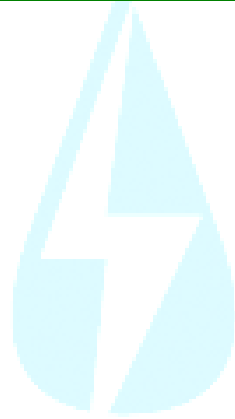
- The International Derivatives and Swaps Association, Inc.'s (ISDA) Credit Support Annex. <http://www.isda.org/index.html>
- Collateral annex to the Electric Edison Institute's (EEI) Master Power Purchase and Sale Agreement [including Paragraph 10, Cover Sheet. http://www.eei.org/issues/contract/provisions.htm](http://www.eei.org/issues/contract/provisions.htm)
- Collateral Annex to EEI's Master Netting, Setoff, and Security Agreement, version 1.1, published October 25, 2002. <http://www.eei.org/issues/contract/mna/legallandscape.htm>
- NAESB's Base Contract for Purchase and Sale of Natural Gas dated April 19, 2002.
- NAESB's Base Contract for Purchase and Sale of Natural Gas, Canadian Addendum dated April 19, 2002.

APPENDIX B-1 Timeline for Collateral Demands



NAESB[®]

APPENDIX B-2, Timeline for Return of Collateral



NAESB[®]

APPENDIX B-3: Timeline for Substitution of Collateral



NAESB[®]

APPENDIX C, Pro Forma Document Listing

1. Pro Forma No. 1 – Base Contract Special Provision to add CSA to concurrent Base Contract (two forms attached No. 1 a. and No.1 b.)
2. Pro Forma No. 2 – Base Contract Special Provision to add CSA to prior existing Base Contract (two forms attached: No. 2 a. and No. 2 b.)
3. Pro Forma No. 3 – CSA Special Provision to add Guaranty to CSA
4. Pro Forma No. 4 – CSA Special Provision to add Collateral Threshold using “Rating Table Matrix” to CSA
5. Pro Forma No. 5 – CSA Special Provision to add Independent Amount to CSA
6. Pro Forma No. 6 – CSA Special Provision to add Rating Agency and Rating Agency Definition to CSA.
7. Pro Forma No. 7 – CSA Special Provision to add Specified Letter of Credit Issuer to CSA.
8. Pro Forma No. 8 – CSA Special Provision to exclude certain Base Contract Transactions from the CSA.
9. Pro Forma No. 9 – CSA Special Provision to limit frequency of the Transfer of Eligible Collateral and Posted Collateral

10. Pro Forma No. 10 – Letter of Credit Agreement

11. Pro Forma No. 11 – Custodian Agreement

Pro Forma No. 1 a, Add CSA to concurrent Base Contract

Base Contract Special Provisions

| |
|---|
| Special Provisions to the Base Contract for Sale and Purchase of Natural Gas dated _____, 20__ between _____ ("Party A") and _____ ("Party B") (Base Contract). |
|---|

1. The Credit Support Addendum dated _____, 20__ between the parties (CSA) and the CSA's Special Provisions, attached hereto referencing the Base Contract, are incorporated into the Base Contract by reference as if set forth in full herein, and the parties shall have the rights and obligations specified therein.
2. **[Insert other specific non-CSA Special Provisions to the Base Contract in number paragraphs herein.]**
- 3.

PRO FORMA No. 1 b, Add CSA to concurrent Base Contract

SPECIAL PROVISIONS ("Special Provisions") attached to and forming a part of that certain NAESB Base Contract for Sale and Purchase of Natural Gas dated _____, 20____ ("the "Base Contract")

between

_____ (Party A) and _____ (Party B)

Capitalized terms used in these Special Provisions shall have the meanings ascribed to them in the Base Contract. Sections referenced in these Special Provisions refer to a Section of the General Terms and Conditions of the Base Contract, unless specified otherwise.

Section 2 – Definitions

1. In Section 2.11, the definition of "Credit Support Obligations" shall include the Credit Support Addendum dated _____, 2003 (CSA), including the CSA Special Provisions attached thereto, attached and incorporated by reference in full to the Base Contract. As provided in Paragraph 1 of the CSA, "In the event of a conflict between the terms of this CSA and the Base Contract, the terms of the CSA shall apply for the purposes of this CSA."

Section 7. – Billing, Payment, and Audit

2. In Section 7.7, any payments, Transfer of Eligible Collateral or Transfer of Posted Collateral under the CSA shall not be subject to netting under Section 7 of the Base Contract.

[End of Base Contract Special Provisions]

Pro Forma No. 2 a, Add CSA to prior existing Base Contract

Credit Support Addendum Special Provisions

Special Provisions to the Credit Support Addendum dated _____, 20__
(CSA) attached as a Special Provision to the Base Contract for Sale and Purchase of Natural
Gas dated _____, 20__ between _____ ("Party A") and
_____ ("Party B") (Base Contract).

1. The CSA Special Provisions set forth below are incorporated into the CSA by reference as if set forth in full therein, and the parties shall have the rights and obligations specified therein.
2. **[Insert specific CSA Special Provisions to the CSA to the Base Contract in numbered paragraphs herein.]**
- 3.

PRO FORMA No. 2 b, Add CSA to prior existing Base Contract

SPECIAL PROVISIONS ("CSA Special Provisions") attached to and forming a part of that certain Credit Support Addendum dated _____, 20__ ("CSA")

attached to and forming a part of that NAESB Base Contract for Sale and Purchase of Natural Gas dated _____, 20__ ("the "Base Contract")

between

_____ (Party A) and _____ (Party B)

Capitalized terms used in these CSA Special Provisions shall have the meanings ascribed to them in the CSA. Paragraphs referenced in this CSA Special Provisions refer to a Paragraph of the General Terms and Conditions of the CSA, unless specified otherwise.

[Insert new or revised specific revisions in consecutively numbered paragraphs under the appropriate numbered Paragraph(s) of the CSA.]

Elections on Page 1 of CSA

1.

Paragraph 2 – Definitions

2.

3.

Paragraph 3 – Calculation of Collateral Requirement

4.

[End of CSA Special Provisions]

PRO FORMA No. 3, Add Guaranty to CSA

SPECIAL PROVISIONS ("CSA Special Provisions") attached to and forming a part of that certain Credit Support Addendum dated _____, 20__ ("CSA")

attached to and forming a part of that NAESB Base Contract for Sale and Purchase of Natural Gas dated _____, 20__ ("the "Base Contract")

between

_____ (Party A) and _____ (Party B)

Capitalized terms used in these CSA Special Provisions shall have the meanings ascribed to them in the CSA. Paragraphs referenced in this CSA Special Provisions refer to a Paragraph of the General Terms and Conditions of the CSA, unless specified otherwise.

Elections on Page 1 of CSA

1. Party's A Credit Support Provider will provide a Guaranty to the Secured Party in accordance with the requirements set forth in this CSA.
2. Party's B Credit Support Provider will provide a Guaranty to the Secured Party in accordance with the requirements set forth in this CSA.
3. Add Guaranty as Other "Eligible Collateral" for both parties with a Valuation Percentage of 100%.

Paragraph 2 – Definitions

4. Add the following provisions to the defined terms in the CSA:
 "Guarantor" shall mean an entity who shall be a Credit Support Provider, eligible to provide a Guaranty in accordance with the requirements set forth herein."
 "Guaranty" shall mean a guaranty of payment and not performance, issued by a Guarantor and in form and for an amount reasonably acceptable to the Secured Party."
5. Under "Transfer" or "Transferred" deleted item (iv) and substitute therefor:
 "(iv) In any case in which Eligible Collateral or Posted Collateral is in the form of a Letter of Credit or Guaranty, the deadlines set forth for providing such collateral to the other party 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."
6. Add the following term under the definition of "Transfer" or "Transferred":
 "(v) in the case of Guaranties, Transfer of the Guaranty or an amendment thereto to the recipient."

Paragraph 10 – Credit Support Default

7. Delete the word "or" at the end of the sentence under Paragraph 10 (a) (ii).
8. Add the following terms under "Credit Support Default", Paragraph 10 (a):
 "(iv) any representation or warranty made by a Guarantor in connection with a Guaranty issued as Credit Support pursuant to this CSA or Base Contract 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 CSA (other than in accordance with its terms) prior to the satisfaction of all obligations of such Party under each Transaction to which such Guaranty shall relate without the written consent of the other Party;

- (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 CSA; or
- (vii) the failure of the Guarantor to make any payments required or to perform any other material covenant or obligation in any Guaranty made in connection with the Base Contract."

Paragraph 11 – Representations and Warranties

- 9. Delete the parenthetical phrase "(other than Letters of Credit)" on lines 5, 12 and 13 and substitute therefor the parenthetical phrase "(other than Letters of Credit or Guaranties)."

Paragraph 13 – General

- 10. Delete the parenthetical phrase "(other than Letters of Credit)" on lines 3 and 4 and substitute therefor the parenthetical phrase "(other than Letters of Credit or Guaranties)."

[End of CSA Special Provisions]

PRO FORMA No. 4, Add Collateral Threshold "Rating Table Matrix" to CSA

SPECIAL PROVISIONS ("CSA Special Provisions") attached to and forming a part of that certain Credit Support Addendum dated _____, 20__ ("CSA")

attached to and forming a part of that NAESB Base Contract for Sale and Purchase of Natural Gas dated _____, 20__ ("the "Base Contract")

between

_____ (Party A) and _____ (Party B)

Capitalized terms used in these CSA Special Provisions shall have the meanings ascribed to them in the CSA. Paragraphs referenced in this CSA Special Provisions refer to a Paragraph of the General Terms and Conditions of the CSA, unless specified otherwise.

Elections on Page 1 of CSA

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

Party A

| <u>Collateral Threshold</u> | <u>[Rating Agency] Credit Rating</u> |
|------------------------------------|---|
| \$ _____ | _____ (or above) |
| \$ _____ | _____ |
| \$ _____ | _____ |
| \$ _____ | _____ |
| \$ _____ | Below _____ |

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

Party A

| <u>Collateral Threshold</u> | <u>[Rating Agency] Credit Rating</u> | <u>[Rating Agency] Credit Rating</u> |
|------------------------------------|---|---|
| \$ _____ | _____ (or above) | _____ (or above) |
| \$ _____ | _____ | _____ |

\$ _____
 \$ _____
 \$ _____ Below _____ Below _____

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

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

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

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

[End of CSA Special Provisions]

PRO FORMA No. 5, Add Independent Amount to CSA

SPECIAL PROVISIONS (“CSA Special Provisions”) attached to and forming a part of that certain Credit Support Addendum dated _____, 20__ (“CSA”)

attached to and forming a part of that NAESB Base Contract for Sale and Purchase of Natural Gas dated _____, 20__ (“the “Base Contract”)

between

_____ (Party A) and _____ (Party B)

Capitalized terms used in these CSA Special Provisions shall have the meanings ascribed to them in the CSA. Paragraphs referenced in this CSA Special Provisions refer to a Paragraph of the General Terms and Conditions of the CSA, unless specified otherwise.

Paragraph 2 – Definitions

1. Add the following definition :

“Independent Amount” shall have the meaning as set forth in the elections below as agreed to by the parties;

- Party **[A or B]** shall have a Fixed Independent Amount of \$_____. If the Fixed Independent Amount option is selected for Party **[A or B]**, then Party **[A or B]** (which shall be a Pledging Party with respect to the Fixed Independent Amount Credit Support) will be required to Transfer or cause to be Transferred to the other (which shall be a Secured Party with respect to the Fixed Independent Amount Credit Support) Eligible Collateral with a Value equal to the amount of such Independent Amount (the “Fixed IA Credit Support”). The Fixed IA Credit Support shall not be reduced for so long as there are any outstanding obligations between the Parties as a result of the CSA, and shall not be taken into account when calculating Party **[A or B]**'s Collateral Requirement, as applicable, pursuant to the CSA. Except as expressly set forth above, the Fixed IA Credit Support shall be held and maintained in accordance with, and otherwise be subject to the CSA.
- Party **[A or B]** shall have a Full Floating Independent Amount of \$_____. If the Full Floating Independent Amount option is selected for Party **[A or B]**, then for purposes of calculating Party **[A or B]**'s Collateral Requirement, as applicable, pursuant to Paragraph 3 of the CSA, such Full Floating Independent Amount for Party **[A or B]** shall be added to the other party's Exposure.
- Party **[A or B]** shall have a Partial Floating Independent Amount of \$_____. If the Partial Floating Independent Amount option is selected for Party **[A or B]**, then Party **[A or B]** will be required to Transfer or cause to be Transferred to the other party Eligible Collateral with a Value equal to the amount of such Independent Amount (the “Partial Floating IA Credit Support”) if at any time Party **[A or B]** otherwise has a Collateral Requirement (not taking into consideration the Partial Floating Independent Amount) pursuant to Paragraph 3 of the CSA. The Partial Floating IA Credit Support shall not be reduced so long as Party **[A or B]** has a Collateral Requirement (not taking into consideration the Partial Floating Independent Amount). The Partial Floating Independent Amount shall not be taken into account when calculating a Party's Collateral Requirements pursuant to the CSA. Except as expressly set forth above, the Partial Floating Independent Amount shall be held and maintained in accordance with, and otherwise be subject to, the CSA.

[End of CSA Special Provisions]

PRO FORMA No. 6, Add new Rating Agency to CSA

SPECIAL PROVISIONS (“CSA Special Provisions”) attached to and forming a part of that certain Credit Support Addendum dated _____, 20__ (“CSA”)

attached to and forming a part of that NAESB Base Contract for Sale and Purchase of Natural Gas dated _____, 20__ (“the “Base Contract”)

between

_____ (Party A) and _____ (Party B)

Capitalized terms used in these CSA Special Provisions shall have the meanings ascribed to them in the CSA. Paragraphs referenced in this CSA Special Provisions refer to a Paragraph of the General Terms and Conditions of the CSA, unless specified otherwise.

Paragraph 2 – Definitions

1. Under the definition of “Credit Rating” delete the last phrase “or any other specified rating agency.” and substitute therefor:
“ or [Insert name of Rating Agency] .”

[End of CSA Special Provisions]

PRO FORMA No. 7, Add specified Letter of Credit Issuer to CSA

SPECIAL PROVISIONS (“CSA Special Provisions”) attached to and forming a part of that certain Credit Support Addendum dated _____, 20__ (“CSA”)

attached to and forming a part of that NAESB Base Contract for Sale and Purchase of Natural Gas dated _____, 20__ (“the “Base Contract”)

between

_____ (Party A) and _____ (Party B)

Capitalized terms used in these CSA Special Provisions shall have the meanings ascribed to them in the CSA. Paragraphs referenced in this CSA Special Provisions refer to a Paragraph of the General Terms and Conditions of the CSA, unless specified otherwise.

Elections on Page 1 of CSA

1. With respect to Party A, Letters of Credit issued by _____ [Insert name of Bank or other entity.] _____ in accordance with the applicable requirements of Paragraph 7 of the CSA comply with the Letter of Credit Issuer Requirements herein.

2. With respect to Party B, Letters of Credit Issued by _____ [Insert name of Bank or other entity.] _____ in accordance with the applicable requirements of Paragraph 7 of the CSA comply with the Letter of Credit Issuer Requirements herein.

[End of CSA Special Provisions]

PRO FORMA No. 8, exclude certain Base Contract transactions from CSA

SPECIAL PROVISIONS ("CSA Special Provisions") attached to and forming a part of that certain Credit Support Addendum dated _____, 20__ ("CSA")

attached to and forming a part of that NAESB Base Contract for Sale and Purchase of Natural Gas dated _____, 20__ ("the "Base Contract")

between

_____ (Party A) and _____(Party B)

Capitalized terms used in these CSA Special Provisions shall have the meanings ascribed to them in the CSA. Paragraphs referenced in this CSA Special Provisions refer to a Paragraph of the General Terms and Conditions of the CSA, unless specified otherwise.

Paragraph 2 – Definitions

1. Under the definition of "Exposures" at the end of the sentence after the phrase "between the bid price and the offer price" add the following phrase:
"; provided further, that the Net Settlement Amount shall not include any Transaction under the Base Contract designated by the Pledging Party to be excluded from the CSA as noted in the "Special Conditions" portion of the Base Contract's "Transaction Confirmation for Immediate Delivery" document"

[End of CSA Special Provisions]

PRO FORMA No. 9, add limits on frequency of Collateral Transfers to CSA

SPECIAL PROVISIONS (“CSA Special Provisions”) attached to and forming a part of that certain Credit Support Addendum dated _____, 20__ (“CSA”)

attached to and forming a part of that NAESB Base Contract for Sale and Purchase of Natural Gas dated _____, 20__ (“the “Base Contract”)

between

_____ (Party A) and _____(Party B)

Capitalized terms used in these CSA Special Provisions shall have the meanings ascribed to them in the CSA. Paragraphs referenced in this CSA Special Provisions refer to a Paragraph of the General Terms and Conditions of the CSA, unless specified otherwise.

Paragraph 5 – Reduction and Substitution of Posted Collateral

1. Under Paragraph 5 (a) after the beginning phrase “On any Business Day” in the first sentence insert the parenthetical phrase (but not more frequently than weekly for Letters of Credit **[Insert the phrase “and Guaranties” if applicable]** and daily with respect to Cash)”

[End of CSA Special Provisions]

PRO FORMA No. 10, Letter of Credit Agreement

IRREVOCABLE STANDBY LETTER OF CREDIT

DATE OF ISSUANCE: _____

[Address]

Re: Credit No. _____

We hereby establish our Irrevocable Transferable Standby Letter of Credit in your favor for the account of _____ (the "Account Party"), for the aggregate amount not exceeding _____ United States Dollars (\$_____), available to you at sight upon demand at our counters at (Location) on or before the expiration hereof against presentation to us of one or more of the following statements, dated and signed by your representative:

"An Event of Default (as defined in the Base Contract for Sale and Purchase of Natural Gas dated as of _____ between the beneficiary hereof and the Account Party, as the same may have been amended (the "Master Agreement")) has occurred and is continuing with respect to the Account Party under the Master Agreement. Wherefore, the undersigned beneficiary does hereby demand payment of the entire undrawn amount of the Letter of Credit."; or

"An Early Termination Date (as defined in the Base Contract for Sale and Purchase of Natural Gas dated as of _____ between the beneficiary hereof and the Account Party, as the same may have been amended (the "Master Agreement")) has occurred and is continuing with respect to the Account Party under the Master Agreement. Wherefore, the undersigned beneficiary does hereby demand payment of the entire undrawn amount of the Letter of Credit."

The amount which may be drawn by you under this Letter of Credit shall be automatically reduced by the amount of any drawings previously paid by us hereunder. Partial drawings are permitted hereunder.

This Letter of Credit shall expire _____ (____) Days from the date of issuance, but shall automatically extend without amendment for additional _____ (____)-Day periods from such expiration date and from subsequent expiration dates, if you, as beneficiary, and the Account Party have not received due notice of our intention not to renew ninety (90) Days prior to any such expiration date.

We hereby agree with you that drafts drawn under and in compliance with the terms of this Letter of Credit shall be duly honored upon presentation as specified.

This Letter of Credit shall be governed by the Uniform Customs and Practice for Documentary Credits, 1993 Revision, International Chamber of Commerce Publication No. 500 (the "UCP"), except to the extent that the terms hereof are inconsistent with the provisions of the UCP, in which case the terms of this Letter of Credit shall govern.

With respect to Article 13(b) of the UCP, the Issuing Bank shall have a reasonable amount of time, not to exceed three (3) banking Days following the date of its receipt of documents from the beneficiary hereof, to examine the documents and determine whether to take up or refuse the documents and to inform the beneficiary hereof accordingly.

In the event of an Act of God, riot, civil commotion, insurrection, war or any other cause beyond our control that interrupts our business (collectively, an "Interruption Event") and causes the place for presentation of this Letter of Credit to be closed for business on the last Day for presentation, the expiry date of this Letter of Credit will be automatically extended without amendment to a date thirty (30) calendar Days after the place for presentation reopens for business.

This Letter of Credit is transferable, and we hereby consent to such transfer, in connection with a permitted transfer under the Master Agreement but otherwise may not be amended, changed or modified without the express written consent of the beneficiary hereof, the Issuing Bank and the Account Party.

Typographical errors other than in amounts are not considered discrepancies.

[BANK SIGNATURE]

PRO FORMA No. 11, Custodian Agreement

CUSTODIAN AGREEMENT

DATE OF ISSUANCE: _____

[FORM OF CUSTODIAN AGREEMENT TO BE INSERTED HERE]

[CUSTODIAN SIGNATURE]

