



Gas Industry Standards Board

1100 LOUISIANA, SUITE 4925, HOUSTON, TEXAS, 77002
PHONE -- (713) 757-4175, FAX -- (713) 757-2491, email gisb@aol.com
Home Page www.gisb.org

July 21, 1997

TO: Chairs of the FTAA¹ Task Force for the Contracts Subcommittee, Posting on the GISB home page for interested industry participants
FROM: Rae McQuade, Executive Director
RE: July 21 Minutes from the meeting of FTAA Task Force

I. **Administrative**

The meeting opened with Rae McQuade welcoming the attendees, and Brian White covering housekeeping. Ms. McQuade gave antitrust advice. Mike Wallace asked for roll call. The agenda was adopted. The chairs, Mr. Wallace and Jeff Hodge, were confirmed.

2. **Brief overview of the GISB Base Contract for Short Term Purchases and Sales of Natural Gas**

Mr. Hodge briefly reviewed the contract terms, and noted that several participants in the meeting had participated in its creation and are actively using the GISB Base Contract for Short Term Purchases and Sales of Natural Gas ("base contract"). It was determined that no further discussion was needed as the meeting participants were sufficiently aware of the base contract terms.

3. **Review of Request R97063**

Ms. McQuade introduced the request and the GISB procedure by which it was processed to reach the FTAA Task Force. Christopher Freitas of the DOE went through a description of the request to add the FTAA to the base contract. The base contract is currently recognized by nine countries. The use of a standard FTAA will increase participation by small businesses in the natural gas industry. First use of the FTAA was by Visage Energy Corp. with Amoco and SoCal Gas.

Will Johnson of Visage Energy reviewed the request and explained the information flows between the banks, the WMBE² buyer and the producer or WMBE seller and the LDC, as depicted in exhibit 3 of the request. He has found several producers and LDCs to participate in the program using the FTAA and a fund transfer agent (FTA). Some companies have chosen not to use the FTAA and require a letter of agreement. Linda Craft noted that the FTAA shown in the request is an example, not a copy of an executed agreement. To date, Ms. Craft added that the FTAA's signed by Amoco have not used the base contract. Mr. Johnson noted that the contract has however been used with SoCal Gas, Natural Gas Clearinghouse, and is pending with El Paso Natural Gas. For contacts for use of the FTAA, Mr. Johnson added that Conoco and Vastar approached as have PG&E and BG&E. ConEd has also been contacted and approved the use of the FTAA.

Norma Rosner of Vastar noted that an area of concern is the transportation portion of the transaction that is not addressed in the FTAA. Mr. Johnson noted that gas cannot be delivered into a pool controlled by the WMBE entity, which should alleviate the concerns raised, and is noted in exhibit A. Carolyn Hazel added that the delivery point should be the physical entry point into the LDC and not into any point upstream, which would also address the concern raised. Mr. Freitas of the DOE noted that the DOE has accepted the FTAA for procurement which should provide some assurance.

¹ FTAA Task Force is the Funds Transfer Agent Agreement Task Force. The Funds Transfer Agent Agreement is proposed to be used with GISB Standard 6.3.1: The Base Contract for Short Term Purchases/Sales of Natural Gas.

² The abbreviation for Women and Minority Owned Business Enterprises is WMBE.



Gas Industry Standards Board

1100 LOUISIANA, SUITE 4925, HOUSTON, TEXAS, 77002
PHONE -- (713) 757-4175, FAX -- (713) 757-2491, email gisb@aol.com
Home Page www.gisb.org

Jerry Curry of Victoria International Ltd. described the FTAA as a formal description of the relationships between the banks, the WMBE buyer and the producer or WMBE seller and the LDC. With the formal description provided, he added that it may result in a standardization of the definitions of terms, all of which assist in streamlining the process. Ms. Hazel further pointed out that the use of the FTAA is more of a credit decision and requires education on what the benefits of the document are and how the document should be used.

Jeff Thorsen of SoCal Gas gave some background on the use of the FTAA. Approximately 15% of supply bought by SoCal Gas is bought from WMBE companies, and the use of the FTAA has simplified the process. SoCal Gas uses the FTAA as presented in the work papers and the GISB base contract -- with only a few words changed. Mr. Johnson added that NGC, SoCal Gas and Visage recently executed GISB base with an FTAA.

Allan Lee of Mees Pierson N.V. added that his bank has operated as a FTA, though most FTAA's specify Union Bank as the FTA. Banks function as facilitator of the transactions: contracts are matched; there is an assurance that there is a profit margin; and the bank functions more as an escrow account or lock box arrangement. The bank will not pay the supplier until buyer has provided funds. The FTAA was described as a financial mechanism to assist small companies as start up functions. With the FTAA, the bank did not go through its normal credit approval process which simplified the process, but the process is outside of the letter of credit procedure which adds administrative burden to the bank. It was noted that the risk of functioning as an FTA is relatively minor. It should be considered an interim step for the marketers as they develop their businesses.

For the Defense Fuel Supply Center (DFSC), Major Hailstone that the DFSC has discussed the agreement, and while it does not substitute for determination of credit worthiness, it does serve as a very good supply commitment document. The DFSC at this time does not intend to use the document in lieu of credit worthiness. In response to a question from Ms. Craft, Ms. Hazel noted that the FTAA could be used as an approved amendment to the contract, or a separate contract could be drafted incorporating the FTAA. Mr. Wallace and several others noted that we should develop the FTAA so that it could be easily adaptable to the electric market. It should be applicable to all small businesses, not just the WMBE companies. It was also noted that changes to the base contract should be avoided.

Mr. Wallace asked if there was support for the concept from the group and asked for a show of hands. There was further discussion of the need to develop an FTAA. There was no opposition noted to the development of the FTAA.

4. Development of the FTAA

Marcy Collins of Valero noted that the group should review the Koch Gateway decision on bankruptcy and the sanctity of line of credit as a related work paper. There was general concurrence to avoid any changes to the existing base contract. The FTAA would be an approved special provision to the base contract. There are two sets of attachments to be developed: one set between the WMBE and the LDC/buyer, and one set between the producer/seller and WMBE.

In further discussions, it was reviewed that for matching the two sides of the contract, the bank reviews four sets of information: the transportation point, the quantity, the price -- to ensure profitability, and the term. The agreements are one-to-one between the LDC/buyer and WMBE and Producer/Seller and WMBE for bank matching. A question was asked on how this could apply to day trading. Mr. Curry noted that this FTAA under development would probably not apply to day trading because of the length of the term of the FTAA. The FTAA would apply to 30 day transaction. All funds would go through the bank acting as the FTA.

The documents used are: (1) Special Provision - FTAA to be supplied on the first page of the existing base contract, and no changes are required to the base contract -- standard 6.3.1; and (2) the FTAA package. The FTAA package has four parts: (2a and b) the FTAA Package - two deal



Gas Industry Standards Board

1100 LOUISIANA, SUITE 4925, HOUSTON, TEXAS, 77002
PHONE -- (713) 757-4175, FAX -- (713) 757-2491, email gisb@aol.com
Home Page www.gisb.org

confirmations, (2c) FTAA Package - FTAA Agreement, and (2d) FTAA Package - Special Payments Provisions. For the parties to the FTAA package, for the LDC/buyer: (2a) Deal Confirmation, and (2d) special payment; and for the Supplier/Seller: (2b) deal confirmation, and (2c) the FTAA agreement, (the four page agreement referred to in the meeting materials and in the request R97063).

The nomenclature for the parties to the FTAA package were discussed. Payee, Payor were discussed as names to be used among others, and the group determined as an interim, FTA Seller and FTA Buyer would be used until other names could be determined. Review then began on the four documents for suggestions of changes.

5. Review of the FTA for Changes

As an overriding goal, the documents should be as simple as possible, with as few administrative burdens for the banks to ensure that there is competition for WMBE business by the banks. Some assurance should be given that the bank should be identified early in the agreement and not changed without notification.

Appendix A:

Introduction:

1. The "Appendix A" should be referred to as the "FTA Seller's Agreement" with conforming changes.
2. "Addendum" should be referred to as "Special Provisions" with conforming changes.
3. Add the date of the base contract which this is a special provision to the title.

Article 1

Aside: The responsibility of the confirmation transactions are the responsibility of the confirming party -- the WMBE company. Banks may be more apt to support WMBE transactions if the CRA (Community Reinvestment Act) passes as currently considered for California and New York.

4. Rename the reference to Exhibit A. Exhibit A has a separate meaning as confirmation in the industry with conforming changes.
5. Combine sections if possible for simplicity.

Article II

6. Notification of the the bank resignation should go to all parties involved -- both the buyer and the seller.
7. There is some concern on how the traders would know which agreement is active for a given transaction.
8. There should be one page to file -- keep the materials as simple as possible with considerable use of boiler plate language. Transaction specific language would be depicted on one page of the document to simply paper handling in offices. Eventually, the FTAA could become an electronic transaction.

Article IV

9. The base contract would not terminate if the FTAA terminates because the bank resigns. Another special provision could be put in place.
10. Notification of the the bank resignation should go to all parties involved -- both the buyer and the seller.
11. What is reasonable cause for termination? Christopher Freitas will check with the American Bankers Association. This issue is partially addressed through section 2.2.



Gas Industry Standards Board

1100 LOUISIANA, SUITE 4925, HOUSTON, TEXAS, 77002
PHONE -- (713) 757-4175, FAX -- (713) 757-2491, email gisb@aol.com
Home Page www.gisb.org

12. The 90 day notification in section 4.7 was specified due to the payment cycle -- to protect the payment to the seller, but it may be protected under section 2.2.

Ms. McQuade will have the GISB office retype the FTAA as Mr. Johnson's electronic copies may have wording changes. The FTAA will be put in normal drafting form, a copy will be sent to Ms. Hazel who will incorporate the changes discussed along with any necessary conforming changes. This draft form will be made available to the task force participants for a teleconference work session. After the work session, a meeting will be held. It is anticipated that a draft FTAA as a recommended standard will be prepared after three meetings.

5. **Next Meeting**

The next meeting will be held in Washington D.C. on August 25 from 9:00 a.m. to 4:00 p.m. Agendas, meeting announcements and relevant work papers will be distributed shortly and posted on the home page. A work session teleconference will be held prior to the August 25 meeting, on August 5 from 9:00 a.m. to noon. The teleconference arrangements will be published shortly.

6. **Adjourn**

The meeting adjourned at 5:00 p.m.

7. Attendees³

	<u>Name</u>	<u>Company</u>	<u>Phone/Fax</u> <u>Email</u>	<u>GISB</u> <u>Member</u>
Producers:	1. Linda Craft	Amoco Energy	281-366-3875/4934 linda_w_craft@amoco.com	✓
	2. Carolyn S. Hazel	Conoco	281-293-2939/3174 carolyn.s.hazel@conoco.dupont.com	✓
LDCs:	3. Jeff Thorsen	SoCal Gas	213-244-5622/8271	✓
	4. Richard Ishikawa	SoCal Gas	213-244-2844/8449 rishikawa@pacent.com	✓
	5. Susan Buhr	Peco Energy	610-832-6472/6499	✓
	6. David Beasten	UGI Utilities	610-796-3425/3495	✓
Services:	7. Brian White	American Gas Association	703-841-8496 bwhite@aga.com	⁴
	8. Bill Hebenstreit	El Paso Energy Marketing	713-757-1268/2180 hebenstreitb@epng.com	✗
	9. Will Johnson	Visage Energy Corp.	310-216-6887/none	✗
	10. Allan Lee	Mees Pierson N.V.	212-801-0425	✗
	11. Marcy Collins	Valero Natural Gas	713-951-2260/2275	✓
	12. Christa Morgan	Williams Energy Services		✓
	13. Jerry Curry	Victoria International Ltd.	703-790-3502/9511 vicintltd	✗
	14. Jeff Hodge	Enron Capital and Trade	713-853-6911/646-3480	✓
	15. Michael L. Wallace	NorAm Energy Services	713-654-5959/5513	✓
	End Users:	16. Maj. Mitch Hailstone	Defense Fuel Supply Center	713-767-8571
17. Laverne Tillson		Defense Fuel Supply Center	703-767-8562/8757 ltillson@dfsc.dla.mil	✓
Government:	18. Christopher Freitas	U.S. Department of Energy	202-586-1657/6221 christopher.freitas@hq.doe.gov	✓
GISB :	19. Rae McQuade			
	20. Laurie Paulson			

³ The attendees' names which appear in **BOLD** are committee chairs. The others are participants. One company representative from each company in attendance, regardless of membership status, is permitted to vote.

⁴ The American Gas Association is a formal trade liaison of GISB, and has sponsored many GISB activities.