

**SUMMARY OF COMMENTS OF ENCANA CORPORATION
ON RECOMMENDED CREDITWORTHINESS STANDARDS
Dated May 13, 2003**

Pursuant to the April 21, 2003, memorandum of Ms. Rae McQuade, Executive Director of the North American Energy Standards Board Inc. (NAESB), EnCana Corporation (EnCana) hereby comments on the creditworthiness standards developed by the Business Practices Subcommittee (BPS) and recommended to the Executive Committee (EC) for adoption as Wholesale Gas Quadrant (WGQ) standards.

Summary of Comments

Although EnCana does not oppose most of the proposed creditworthiness standards, it nonetheless believes that certain standards must be eliminated, revised, and/or supplemented to address deficiencies in two areas. First, due to a lack of time, resources, and consensus, the BPS was unable to define certain key terms and procedures in the standards, or to ensure that those terms and procedures are consistent with standard credit terminology and business practices of other industries. Second, the proposed standards fail to standardize certain overarching creditworthiness elements, in particular, collateral levels and parameters for evaluating creditworthiness. EnCana is attaching two sets of revisions intended to address these issues. EnCana requests that the EC adopt the proposed revisions in their entirety. Alternatively, the EC should view the proposed standards as merely a starting point to build upon after receiving further guidance from the Federal Energy Regulatory Commission (Commission).

Comments

The creditworthiness standards developed by the BPS are relatively narrow in scope. They cover issues associated with (i) the exchange of information related to creditworthiness, (ii) the alternatives that can be used when a shipper is found to be non-creditworthy, and (iii) certain creditworthiness issues that arise in the context of capacity release. The proposed standards do not, however, sufficiently standardize terms or address fundamental issues

regarding collateral levels or the criteria that pipelines are to use when evaluating creditworthiness. These two major shortcomings are discussed below.

A. Greater Standardization of Terminology is Required.

The proposed standards use a variety of terms and procedures that are generally undefined. Likewise, the standards use terms that have a precise meaning in other industries without explaining whether and to what extent those same meanings are equally applicable when applied by pipelines evaluating the creditworthiness of shippers. The result is a general lack of clarity and precision in the proposed standards.

Much of the lack of clarity can be traced to the Commission's recent creditworthiness orders, which have used collateral-related terms inconsistently and, in some cases, incorrectly. To illustrate, a number of the Commission's recent orders have defined collateral in terms of both (i) prepayments for service, and (ii) as security for the cost of constructing new facilities.¹ Not only does the Commission's apparent recognition of both types of collateral result in implementation problems,² the Commission's use of the term "collateral" is itself incorrect. A prepayment is not collateral at all. A "prepayment" is just that, "the payment of all or part of a debt prior to its due date."³ By contrast, collateral consists of "assets pledged by a borrower to secure a loan or other credit and subject to seizure in the event of default."⁴ Because a prepayment is not collateral and the issues associated with each vary considerably,⁵ the Commission's treatment of the two terms as synonyms is both mistaken and confusing.⁶

¹ See, e.g., *PG&E Gas Transmission, Northwest Corporation*, 103 FERC ¶ 61,137 at PP 31-35, 39 (2003).

² For example, the Commission has recognized limits on the prepayments that pipelines may require, while at the same time suggesting that other limits apply when collateral is calculated based on new facility costs. In some cases, the Commission has suggested that a 12-month prepayment may be required when new facilities are constructed, while other times inconsistently advising that security up to the cost of new facilities may be demanded.

³ See definition of "prepayment" from www.investorwords.com.

⁴ See definition of "collateral" from www.investorwords.com.

⁵ Typical prepayment issues consist of what amount of service must be paid for in advance and what happens if the service provider is unable to provide the prepaid service.

This is just one example of the inconsistent terminology used in the Commission's orders. The BPS lacked the resources and/or expertise to resolve these inconsistencies in the time allotted, or to ensure that the proposed standards are otherwise consistent with the credit practices followed in other industries (e.g. electric, banking, etc.). Consequently, such inconsistencies and ambiguities were largely carried over into the proposed standards. Proposed standard 0.3.zN, for example, lists three "credit alternatives," one of which is a type of collateral (letter of credit), one of which is a third-party guarantee, and one of which is a prepayment option. Lumping these three vehicles into a single category without acknowledging their differences or examining how and when those differences might be important does little to achieve NAESB's goal of efficiency through standardization.

B. The Proposed Standards Fail to Standardize Critical Issues Associated with Collateral Levels and Credit Evaluation Criteria.

In addition to the lack of terminology refinement cited above, the proposed standards also suffer from more substantive omissions. Even if the proposed standards included definitions for terms such as "prepayment" and "collateral," such terms would be meaningless without also specifying the level of prepayment and collateral that non-creditworthy shippers would be required to post in various circumstances. These substantive omissions extend to the two most important, overarching issues related to creditworthiness: (i) the criteria used to evaluate whether a shipper or potential shipper is creditworthy, and (ii) determining the appropriate level of collateral that must be paid when an entity is found to be non-creditworthy. Determining how these "big two" issues are defined is critical, and EnCana and others sought to

Conversely, typical collateral issues include the amount of collateral that must be posted, how collateral is protected while under the care of the lender, and under what circumstances collateral is returned to the borrower.

⁶ The Commission's intent appears to be for pipelines to calculate collateral based on the level of service charges a shipper may accrue over a period of time (maximum of 3 months, except in the case of expansions); if so, then a non-creditworthy shipper's payment of such amounts should be considered the posting or transfer of "cash collateral" and not a "prepayment" for service.

have the BPS develop standards providing such definitions.⁷ This suggestion was not followed, however, and the standards developed by the BPS intentionally avoid these critical creditworthiness components.

Collateral/Prepayment Levels - EnCana believes that it was a mistake to purposefully avoid the adoption of standards related to collateral levels. While EnCana superficially agrees with those BPS members who suggested that this is a policy issue, EnCana also believes that the “issue” has been resolved by the Commission. Over a decade’s worth of Commission orders have established a number of clear guidelines with regard to the amount of collateral that pipelines may demand from their shippers.⁸ That some in the industry did not like those guidelines or held out hope that the Commission would change its policies was not sufficient reason for NAESB to avoid the issue altogether. Nevertheless, recent orders issued by the Commission have resolved most of the so-called lingering “policy issues,” so EnCana suspects that NAESB will be afforded another opportunity to consider collateral level standards in the future.

Credit Evaluation Criteria - EnCana can appreciate why BPS members did not want to develop standards related to determining shipper creditworthiness. For one thing, the Commission has never clearly articulated a policy for determining whether a shipper is creditworthy. More fundamentally, however, such determinations are not easily standardized. All shippers are different and pipelines have varying degrees of risk tolerance. Attempting to draw absolute “lines in the sand” is problematic, as any rigid formula no matter how well-conceived will almost certainly result in the mischaracterization of some shippers’ credit risk. For example, strict adherence to credit-ratings ignores the possibility that a shipper with a

⁷ For example, on March 4, 2003, EnCana filed a motion seeking to have the BPS Creditworthiness Work Plan amended to address these two issues. EnCana also proposed standards language during the BPS discussions.

⁸ For example, the Commission has recognized that the “three-month prepayment amount has been the standard used throughout the natural gas industry in the past and in the new post-Order No. 636 industry.” *PG&E Gas Transmission, Northwest Corporation*, 103 FERC ¶ 61,137 at P 32 (2003).

below-investment-grade rating may, under certain circumstances, pose very little credit risk to a pipeline. Conversely, a shipper with an above-investment-grade rating may still present an unacceptable level of risk in some circumstances.

Thus, EnCana understands why pipelines and others are against rigid formulas or thresholds for determining creditworthiness – EnCana fully agrees with this sentiment – but there are other ways to “standardize” credit evaluation without resorting to such “hard triggers.” EnCana supports an approach whereby pipelines would have a measure of discretion when evaluating a shipper’s creditworthiness, provided such discretion is governed by legitimate factors and analysis. At baseline, creditworthiness must be judged in the context of whether a shipper has the ability to pay for the charges it incurs. Once the pipeline makes such a determination, the shipper must have an opportunity to challenge a pipeline's reasoning. To do so, the shipper must be provided with a sufficient written explanation that identifies the specific agreements, services, imbalances, rates, financial criteria, rankings, credit rating and financial ratios, if any, that the pipeline employed in determining the shipper's creditworthiness.⁹ Relying on this explanation, the shipper can then pursue its own alternatives, e.g. accept the explanation and provide other credit assurances, supply additional information, file a complaint at the Commission, etc.

EnCana believes that credit evaluation standards can (and should) be adopted to standardize this process. In fact, the recommended standards appear to endorse this type of an approach, but they omit key details. For example, the first set of proposed standards (0.3.zA through 0.3.zL) establishes an information exchange process by listing the information that can be requested of shippers, requiring the pipeline to provide written explanations when a shipper is found non-creditworthy, and affording the shipper opportunities to seek credit reevaluations. However, the proposed standards (0.3.zN through 0.3.zP) then skip ahead to the procedures that are to be followed when an entity is found non-creditworthy. There is virtually nothing in the

⁹ At the NAESB BPS meetings in Richmond, VA on February 5 and 6, 2003, a standard was proposed and discussed on this specific issue but was not passed by the members in attendance.

proposed standards regarding the actual determination of creditworthiness, except for the largely meaningless statement in proposed standard 0.3.zM that creditworthiness will be determined in accordance with the transportation service provider's tariff. Likewise, the proposed standards do not include dates and deadlines for the creditworthiness evaluation to be completed. Without these types of details, the proposed standards are of little value to shippers.

Conclusion and Recommendation

For creditworthiness standards to be meaningful they must (i) define terms and procedures (ii) in a way that informs shippers of the criteria and protocol that will be followed when evaluating creditworthiness, (iii) while specifying the collateral that will be demanded when a shipper is found to be non-creditworthy. The proposed standards are a good start, but they do not go far enough toward achieving these objectives. Consequently, further revisions are required.

To this end, EnCana is attaching two revised versions of the proposed standards. The first set of revisions address specific issues in the as-proposed standards, while the second set includes additional standards related to collateral levels and the criteria that pipelines should consider when evaluating creditworthiness. The intent of these revisions is to add clarity and precision, make the standards more worthwhile and useful, and ensure greater consistency with the credit terminology and business practices of other industries.

EnCana requests that the EC adopt EnCana's proposed revisions outright. If the EC is unwilling to do so, however, EnCana alternatively requests that the EC notify the Commission of the omissions in the proposed standards, request that the Commission provide further guidance where necessary, and be prepared to task the BPS with developing additional standards.

Respectfully Submitted,
Keith Sappenfield
EnCana Corporation
832-204-1247

STANDARDS LANGUAGE: [\[EnCana REVISIONS #1: Comments on specific standards. Dated May 13, 2003.\]](#)

Proposed Standard 0.3.zA

For credit evaluation purposes, the Service Requester (SR) should supply any of the following information as specified by the Transportation Service Provider (TSP):

Audited Financial Statements;

Annual Report;

Most recent filed statements with the Securities and Exchange Commission (or an equivalent authority) or such other publicly available information;

For public entities, the most recent publicly available interim financial statements, with an attestation by its Chief Financial Officer, Controller, or equivalent (CFO) that such statements constitute a true, correct, and fair representation of financial condition prepared in accordance with Generally Accepted Accounting Principles (GAAP) or equivalent;

For non-public entities, including those that are state-regulated utilities, the most recent available interim financial statements, with an attestation by its CFO that such statements constitute a true, correct, and fair representation of financial condition prepared in accordance with GAAP or equivalent;

For non-public entities, including those that are state-regulated utilities, an existing sworn filing, including the most recent available interim financial statements and annual financial reports filed with the respective regulatory authority, showing the SR's current financial condition;

For state-regulated utility local distribution companies, documentation from their respective state regulatory commission (or an equivalent authority) of an authorized gas supply cost recovery mechanism which fully recovers both gas commodity and transportation capacity costs and is afforded regulatory asset accounting treatment in accordance with GAAP or equivalent;

List of Affiliates, Parent Companies, and Subsidiaries;

Publicly Available Credit Reports from Credit and Bond Rating Agencies;

Private Credit Ratings, if obtained by the SR;

Bank References;

Trade References;

Statement of Legal Composition;

Statement of Length of Time Business has been in Operation;

Such other information as may be mutually agreed to by the parties; and

Such other information as the TSP may receive approval to include in its tariff or general terms and conditions.

Non-public information supplied by the SR should be treated by the TSP as confidential.

Proposed Standard 0.3.zB

If the Transportation Service Provider (TSP) requests additional information to be used for credit evaluation after the initiation of service, the TSP should provide its reason(s) for requesting the additional information to the Service Requester (SR). The TSP and the SR may mutually agree to waive the requirements of this standard.

Proposed Standard 0.3.zC

Upon receipt of a request from the Transportation Service Provider (TSP) for information to be used for credit [worthiness](#) evaluation, the Service Requester's (SR) authorized representative(s) should

acknowledge receipt of the TSP's request. The TSP and the SR may mutually agree to waive the requirements of this standard.

[EnCana believes this revision should be made to clarify that the evaluation is for a SR's "creditworthiness" and not general credit matters.]

Proposed Standard 0.3.zD

The Service Requester's (SR) authorized representative(s) should respond to the Transportation Service Provider's (TSP) request for credit information, as allowed by the TSP's tariff, on or before the due date specified in the request. The SR should provide all the credit information requested by the TSP or provide the reason(s) why any of the requested information was not provided.

Proposed Standard 0.3.zE

Upon receipt from the Service Requester (SR) of all credit information provided pursuant to NAESB WGQ Standard [0.3.zD], the Transportation Service Provider (TSP) should notify the SR's authorized representative(s) that it has received such information. The TSP and the SR may mutually agree to waive the requirements of this standard.

Proposed Standard 0.3.zF

The Service Requester (SR) should designate up to two representatives who are authorized to receive notices regarding the SR's creditworthiness pursuant to NAESB WGQ Standard [0.3.zE] and should provide to the Transportation Service Provider (TSP) the Internet e-mail addresses of such representatives prior to the initiation of service. The obligation of the TSP to provide creditworthiness notifications is waived until the above requirement has been met. The SR should manage internal distribution of any creditworthiness notices that are received.

Proposed Standard 0.3.zG

Upon the Transportation Service Provider's (TSP) determination that a Service Requester (SR) is non-creditworthy, the TSP should provide the SR with written notification that clearly states the reason(s) for the TSP's decision.

Proposed Standard 0.3.zH

At the time of its request for service and upon the Transportation Service Provider's (TSP) request at any time thereafter, the Service Requester (SR) should confirm to the TSP whether any of the following conditions exist:

- (1) that the SR has filed for bankruptcy protection and/or is operating under any chapter of the bankruptcy laws;
- (2) that the SR is subject to liquidation or debt reduction procedures under governing laws, such as an assignment for the benefit of creditors or any creditors' committee agreement; and/or
- (3) that the SR's credit rating has been downgraded by a credit rating agency within the last six months.

Proposed Standard 0.3.zI

Upon request of the Transportation Service Provider (TSP), the Service Requester should furnish the applicable information requested in NAESB WGQ Standards [0.3.zA] and [0.3.zH], including an explanation for any unavailable information, within three (3) ~~b~~Business ~~d~~Days or such later date acceptable to the TSP.

[This revision conforms to the NAESB Standard "Business Day". This was probably an oversight during the BPS review process.]

Proposed Standard 0.3.zJ

In complying with information requirements specified by the Transportation Service Provider (TSP) pursuant to NAESB WGQ Standards [0.3.zA] and [0.3.zH], the Service Requester (SR) should provide to the TSP the public documents that contain the required information. The public documents may be either the SR's public documents or, if the SR does not have the required documents, the public documents of the SR's parent company, to the extent that such documents contain the required information pertaining to the SR. If the SR provides its parent company's public documents to confirm the existence of an event specified in Standard [0.3.zH], the SR should specify where, in said public document, such information appears.

Proposed Standard 0.3.zK

At any time after the Service Requester (SR) is determined to be non-creditworthy by the Transportation Service Provider (TSP), the SR may initiate a credit ~~worthiness~~-status re-evaluation by the TSP. As part of the SR's re-evaluation request, the SR should either update or confirm in writing the prior information provided to the TSP related to the SR's credit ~~worthiness~~-status. Such update should include any substantial event(s) that the SR believes could lead to a change in the SR's credit ~~worthiness~~-status.

[EnCana believes these revisions should be made to clarify that the evaluation/re-evaluation is for a SR's "creditworthiness" and not general credit status.]

Proposed Standard 0.3.zL

After a Transportation Service Provider's (TSP) receipt of a Service Requester's (SR) request for ~~creditworthiness~~ re-evaluation, including all required information pursuant to NAESB WGQ Standard [0.3.zK] ("SR's Request"), within ~~five (5)~~~~[x]~~ Business Days, the TSP should provide a written response to the SR's Request. Such written response should include either a determination of creditworthiness-~~status~~, clearly stating the reason(s) for the TSP's decision, or an explanation supporting a future date by which a re-evaluation determination will be made. In no event should such re-evaluation determination exceed ~~twenty (20)~~~~[y]~~ Business Days from the date of the receipt of the SR's Request unless the parties mutually agree to some later date. ~~The values for [x] and [y] should be specified in the TSP's tariff.~~

[EnCana believes the first revision should be made to clarify that the evaluation is for a SR's "creditworthiness" and not a general re-evaluation.]

[EnCana believes that NAESB should set dates in this standard. EnCana recommends 5 Business Days for the first date on which a TSP should RESPOND to an SR's request for re-evaluation. It does not mean the the TSP must complete the re-evaluation, just RESPOND to the SR. For the final re-evaluation 20 Business Days should be more than sufficient for a TSP to re-evaluate an SR's credit worthiness. Presumably the TSP has previously evaluated the SR's creditworthiness, has been re-evaluating the SR's creditworthiness under the TSP's own credit practices, and to re-evaluate the SR upon the SR's request with the SR furnishing the updated information should not be a significant task taking longer than 20 Business Days which is equivalent to a most 30 calendar days.]

Proposed Standard 0.3.zM

For the Service Requester (SR) to receive initial service or to continue to receive service from a Transportation Service Provider (TSP), the SR should be

- (1) creditworthy in accordance with the TSP's tariff or provide credit alternative(s) in accordance with NAESB WGQ Standard [0.3.zN],
- (2) current on all undisputed payments to the TSP for service, and
- (3) otherwise in compliance with the TSP's tariff or service agreement.

Proposed Standard 0.3.zN

In the event that the Service Requester (SR) is determined to be non-creditworthy by the Transportation Service Provider (TSP), at the SR's option, the SR should provide one or more of the following forms of credit alternatives to receive initial service or continue to receive service:

- (1) guarantee;
- (2) an irrevocable letter of credit; or
- (3) prepayment of service.

Such credit alternative(s) should be acceptable to the TSP, provided that the TSP's acceptance should not be unreasonably withheld, and in accordance with standard industry practices. The TSP and SR may mutually agree that the SR will provide other forms of credit alternatives. In order for a guarantee or an irrevocable letter of credit to be accepted by the TSP, the entity that provides such guarantee or letter of credit must be creditworthy in accordance with the TSP's tariff.

Proposed Standard 0.3.zO

Except as to a Service Requester (SR) that subscribes to service in connection with construction, expansion, acquisition or lease of new facilities, the Transportation Service Provider's tariff should specify the maximum amount of alternative credit assurance that will be required of a SR that is not creditworthy.

[\[EnCana believes that "the amount of alternative credit assurance" is meaningless. What is important to standardize and set out in the TSP's tariff is "the MAXIMUM amount of alternative credit assurance" under the various circumstances identified by the TSP. Further, EnCana will support a standard that limits a SR's credit exposure to no more than "three months" of transportation costs for TSP's service for the SR during the term of the SR's agreement; provided the three month limitation will not be applicable to agreements for construction, expansion, acquisition or lease of new facilities. See New Proposed Standard 0.3.zM2 in EnCana's Revision #2 document.\]](#)

Proposed Standard 0.3.zP

If the Service Requester (SR) provides cash as a credit alternative required by the Transportation Service Provider (TSP) pursuant to NAESB WGQ Standard [0.3.zN], the TSP should pay interest to the SR on the cash principal amount held by the TSP on the total amount of the cash received by the TSP. This cash principal amount should exclude the SR's one-month advance payment to the TSP to continue service after the TSP determines the SR to be non-creditworthy pursuant to the TSP's tariff. At the TSP's sole option and in lieu of the TSP paying interest, the TSP may allow the SR to choose to deposit a cash form of credit alternative in an escrow account where the SR will receive the interest on such cash and the TSP will have access to the cash principal for the assurance of payments to the TSP for its services provided to the SR in the event the SR fails to make such payments.

Proposed Standard 5.3.zA

A Transportation Service Provider (TSP) can terminate any release if the original Service Requester's (SR) underlying service agreement is terminated due to default or failure to maintain creditworthiness, provided, however, that the release shall not terminate if the replacement shipper agrees to pay, for the remaining term of the replacement shipper's contract, one of the following:

- (1) the original SR's contract rate,
- (2) the maximum tariff rate applicable to the original SR's capacity, or
- (3) some other rate that is acceptable to the TSP.

The TSP should give the replacement shipper notice before terminating service, as specified in the TSP's tariff. This standard does not address re-releases, which should be governed by the TSP's tariff.

Proposed Standard 5.3.zB

With respect to non-permanent releases, the Transportation Service Provider (TSP) should evaluate the creditworthiness ~~status~~ of the replacement shipper(s) as if that replacement shipper(s) was applying for comparable capacity with the TSP outside of the capacity release process.

[EnCana believes this revision should be made to clarify that the evaluation is for a SR's "creditworthiness" and not a general credit status.]

Proposed Standard 5.3.zC

~~As a pre-condition to bid on posted capacity release offers, the Service Requester (SR) should seek to pre-qualify its status with the Transportation Service Provider (TSP) as a potential replacement shipper. Upon request by the SR, the TSP should determine whether a potential replacement shipper is pre-qualified up to a requested level taking into account all obligations from services that it receives and requests from the TSP, including any service represented by the capacity release. Pre-qualifications are subject to periodic re-evaluation by the TSP.~~

[EnCana believes this standard should be deleted in its entirety and does not propose to vote in favor of this standard. There should be no standard that mandates prequalification for bidders. The TSP and releasing shipper are sufficiently protected by Proposed Standard 5.3.zD where TSP should not award capacity release offers to an SR unless the SR meets the TSP's creditworthiness by the time the capacity is awarded. Prequalification of bidders for release capacity is a policy matter that to best of EnCana's knowledge has not been addressed by the FERC in any proceeding. Further, if a SR knows that he will not be awarded capacity if he does not meet the TSP's creditworthiness standards, the SR is probably going to take action to prequalify with the TSP so that the SR's successful bid will be awarded to the SR.]

Proposed Standard 5.3.zD

The Transportation Service Provider (TSP) should not award capacity release offers to the Service Requester (SR) until and unless the SR meets the TSP's creditworthiness requirements applicable to all services that it receives from the TSP, including the service represented by the capacity release.

Proposed Standard 5.3.zE

The Transportation Service Provider (TSP) should allow an existing Service Requester (SR) to permanently release capacity to a replacement shipper, under the same terms and conditions of the releasing shipper's contract, or other mutually agreeable terms and conditions, provided the replacement shipper meets the TSP's creditworthiness and other tariff provisions applicable to the TSP's qualification of a SR to receive service. Such permanent release should be pursuant to the rules, regulations, and policies of the Federal Energy Regulatory Commission (or an equivalent authority) regarding capacity release transactions.

Proposed Standard 5.3.zF

The Transportation Service Provider (TSP) should provide the releasing shipper with Internet E-mail notification reasonably proximate in time with the formal notice given to its replacement shipper(s), of the following:

- (1) Past due, deficiency, or default notice pursuant to the TSP's tariff;
- (2) Suspension of service notice;
- (3) Contract termination notice due to default or credit-related issues;
- ~~(4) Notice that a request for information has been initiated by the TSP for the purpose of credit evaluation, excluding routine communication related to credit maintenance or new service; and~~
- ~~(5)~~(4) Notice that a replacement shipper(s) is no longer creditworthy and has not provided credit alternative(s) pursuant to the TSP's tariff.

[\[EnCana believes this standard needs to delete the fourth event from the notification provision. Creditworthiness inquiries or any event \(such as information notices of any type\) related to creditworthiness evaluation between a TSP and a SR should be held in strict confidence. Releasing shippers are third parties that should not be privy to creditworthiness interactions between a TSP and a SR except as specifically ordered by the Federal Energy Regulatory Commission \(Commission\). EnCana is not aware of any order related to creditworthiness provisions where the Commission has authorized the TSP to provided the releasing shipper with a concurrent notice of a TSP's credit information request to a SR. Unless this provision is either removed from the standard or modified, EnCana will not vote in favor of this standard. \]](#)

Proposed Standard 5.3.zG

The releasing shipper should provide the Transportation Service Provider (TSP) with the Internet E-mail address of up to two authorized representatives who are designated to receive notification pursuant to NAESB WGQ Standard [5.3.zF]. The obligation of the TSP to provide notifications related to Standard [5.3.zF] is waived until the above requirement has been met. The releasing shipper should manage internal distribution of such notices that are received.

Proposed Standard 5.3.zH

In complying with the notifications pursuant to NAESB WGQ Standard [5.3.zF], the releasing shipper and the Transportation Service Provider may mutually agree to other forms of communication in lieu of Internet E-mail notification.

STANDARDS LANGUAGE: [\[EnCana REVISIONS #2; FOR CREDIT TERMINOLOGY AND BUSINESS PRACTICES. Dated May 13, 2003.\]](#)

Proposed Standard 0.3.zA

For credit evaluation purposes, the Service Requester (SR) should supply any of the following information as specified by the Transportation Service Provider (TSP):

Audited Financial Statements;

Annual Report;

Most recent filed statements with the Securities and Exchange Commission (or an equivalent authority) or such other publicly available information;

For public entities, the most recent publicly available interim financial statements, with an attestation by its Chief Financial Officer, Controller, or equivalent (CFO) that such statements constitute a true, correct, and fair representation of financial condition prepared in accordance with Generally Accepted Accounting Principles (GAAP) or equivalent;

For non-public entities, including those that are state-regulated utilities, the most recent available interim financial statements, with an attestation by its CFO that such statements constitute a true, correct, and fair representation of financial condition prepared in accordance with GAAP or equivalent;

For non-public entities, including those that are state-regulated utilities, an existing sworn filing, including the most recent available interim financial statements and annual financial reports filed with the respective regulatory authority, showing the SR's current financial condition;

For state-regulated utility local distribution companies, documentation from their respective state regulatory commission (or an equivalent authority) of an authorized gas supply cost recovery mechanism which fully recovers both gas commodity and transportation capacity costs and is afforded regulatory asset accounting treatment in accordance with GAAP or equivalent;

List of Affiliates, Parent Companies, and Subsidiaries;

Publicly Available Credit Reports from Credit and Bond Rating Agencies;

Private Credit Ratings, if obtained by the SR;

Bank References;

Trade References;

Statement of Legal Composition;

Statement of Length of Time Business has been in Operation;

Such other information as may be mutually agreed to by the parties; and

Such other information as the TSP may receive approval to include in its tariff or general terms and conditions.

Non-public information supplied by the SR should be treated by the TSP as confidential.

[NEW Proposed Standard 0.3.zA1](#)

[If the Service Requester \(SR\) furnishes a guarantee issued by another entity to support its credit, then the term "SR" and the obligations and responsibilities in the applicable NAESB WGQ creditworthiness standards should apply jointly to the SR and such entity. The guarantee issued by the entity should be in a form acceptable to the TSP, provided that the TSP's acceptance should not be unreasonably withheld, and in accordance with standard industry practices. In order for a guarantee to be accepted by the TSP, the entity that provides such guarantee must be creditworthy in accordance with the creditworthiness provisions applicable to the SR under the TSP's tariff.](#)

Proposed Standard 0.3.zB

If the Transportation Service Provider (TSP) requests additional information to be used for credit evaluation after the initiation of service, the TSP should provide its reason(s) for requesting the additional information to the Service Requester (SR). The TSP and the SR may mutually agree to waive the requirements of this standard.

Proposed Standard 0.3.zC

Upon receipt of a request from the Transportation Service Provider (TSP) for information to be used for credit [worthiness](#) evaluation, the Service Requester's (SR) authorized representative(s) should acknowledge receipt of the TSP's request. The TSP and the SR may mutually agree to waive the requirements of this standard.

Proposed Standard 0.3.zD

The Service Requester's (SR) authorized representative(s) should respond to the Transportation Service Provider's (TSP) request for credit information, as allowed by the TSP's tariff, on or before the due date specified in the request. The SR should provide all the credit information requested by the TSP or provide the reason(s) why any of the requested information was not provided.

Proposed Standard 0.3.zE

Upon receipt from the Service Requester (SR) of all credit information provided pursuant to NAESB WGQ Standard [0.3.zD], the Transportation Service Provider (TSP) should notify the SR's authorized representative(s) that it has received such information. The TSP and the SR may mutually agree to waive the requirements of this standard.

Proposed Standard 0.3.zF

The Service Requester (SR) should designate up to two representatives who are authorized to receive notices regarding the SR's creditworthiness pursuant to NAESB WGQ Standard [0.3.zE] and should provide to the Transportation Service Provider (TSP) the Internet e-mail addresses of such representatives prior to the initiation of service. The obligation of the TSP to provide creditworthiness notifications is waived until the above requirement has been met. The SR should manage internal distribution of any creditworthiness notices that are received.

Proposed Standard 0.3.zG

Upon the Transportation Service Provider's (TSP) determination that a Service Requester (SR) is non-creditworthy, the TSP should provide the SR with written notification that clearly states the reason(s) for the TSP's decision.

Proposed Standard 0.3.zH

At the time of its request for service and upon the Transportation Service Provider's (TSP) request at any time thereafter, the Service Requester (SR) should confirm to the TSP whether any of the following conditions exist:

- (1) that the SR has filed for bankruptcy protection and/or is operating under any chapter of the bankruptcy laws;
- (2) that the SR is subject to liquidation or debt reduction procedures under governing laws, such as an assignment for the benefit of creditors or any creditors' committee agreement; and/or
- (3) that the SR's credit rating has been downgraded by a credit rating agency within the last six months.

Proposed Standard 0.3.zI

Upon request of the Transportation Service Provider (TSP), the Service Requester should furnish the applicable information requested in NAESB WGQ Standards [0.3.zA] and [0.3.zH], including an explanation for any unavailable information, within three (3) business days or such later date acceptable to the TSP.

Proposed Standard 0.3.zJ

In complying with information requirements specified by the Transportation Service Provider (TSP) pursuant to NAESB WGQ Standards [0.3.zA] and [0.3.zH], the Service Requester (SR) should provide to the TSP the public documents that contain the required information. The public documents may be either the SR's public documents or, if the SR does not have the required documents, the public documents of the SR's parent company, to the extent that such documents contain the required information pertaining to the SR. If the SR provides its parent company's public documents to confirm the existence of an event specified in Standard [0.3.zH], the SR should specify where, in said public document, such information appears.

Proposed Standard 0.3.zK

At any time after the Service Requester (SR) is determined to be non-creditworthy by the Transportation Service Provider (TSP), the SR may initiate a credit [worthiness-status](#) re-evaluation by the TSP. As part of the SR's re-evaluation request, the SR should either update or confirm in writing the prior information provided to the TSP related to the SR's credit [worthiness-status](#). Such update should include any substantial event(s) that the SR believes could lead to a change in the SR's credit [worthiness-status](#).

Proposed Standard 0.3.zL

After a Transportation Service Provider's (TSP) receipt of a Service Requester's (SR) request for [creditworthiness](#) re-evaluation, including all required information pursuant to NAESB WGQ Standard [0.3.zK] ("SR's Request"), within [x] Business Days, the TSP should provide a written response to the SR's Request. Such written response should include either a determination of creditworthiness [status](#), clearly stating the reason(s) for the TSP's decision, or an explanation supporting a future date by which a re-evaluation determination will be made. In no event should such re-evaluation determination exceed [y] Business Days from the date of the receipt of the SR's Request unless the parties mutually agree to some later date. The values for [x] and [y] should be specified in the TSP's tariff.

Proposed Standard 0.3.zM

For the Service Requester (SR) to receive initial service or to continue to receive service from a Transportation Service Provider (TSP), the SR should be

- (1) creditworthy in accordance with the TSP's tariff or ~~transfer eligible collateral~~~~provide credit alternative(s)~~ in accordance with NAESB WGO Standard [0.3.zN],
- (2) current on all undisputed payments to the TSP for service, and
- (3) otherwise in compliance with the TSP's tariff or service agreement.

NEW Proposed Standard O.3.zM1

The Transportation Service Provider (TSP) should determine a credit threshold for a Service Requestor (SR) equal to (1) a credit level based on the information provided by the SR pursuant to NAESB WGO Standard [O.3.zA] and (2) the value of the eligible collateral transferred to the TSP pursuant to NAESB WGO Standard [O.3.zN] and held by the TSP.

NEW Proposed Standard O.3.zM2

The Transportation Service Provider (TSP) should determine a credit exposure for a Service Requestor (SR) equal to the total estimated transportation costs under all the SR's service agreements with the TSP for the term of the service under the agreement(s); provided for this credit exposure purpose no term of service should exceed three (3) months unless such limitation is waived by the Federal Energy Regulatory Commission (or equivalent) for construction, expansion, acquisition or lease of new facilities.

NEW Proposed Standard O.3.zM3

The Transportation Service Provider (TSP) should determine a Service Requestor (SR) to be creditworthy if the TSP determines that the TSP's credit exposure for the SR pursuant to NAESB WGO Standard [O.3.zM2] is less than or equal to the TSP's credit threshold for the SR pursuant to NAESB WGO Standard [O.3.zM1].

NEW Proposed Standard O.3.zM4

The Transportation Service Provider (TSP) should determine a Service Requestor (SR) to be non-creditworthy if the TSP determines that the TSP's credit exposure for the SR pursuant to NAESB WGO Standard [O.3.zM2] is greater than the TSP's credit threshold for the SR pursuant to NAESB WGO Standard [O.3.zM1].

Proposed Standard 0.3.zN

In the event that the Service Requester (SR) is determined to be non-creditworthy by the Transportation Service Provider (TSP), at the SR's option, the SR should ~~transfer~~~~provide~~ one or more of the following forms of ~~eligible collateral~~~~credit alternatives~~ to receive initial service or continue to receive service:

- (1) ~~guarantee~~;
an irrevocable letter of credit; or
- ~~(2) cash collateral~~~~prepayment of service~~.

Such ~~eligible collateral~~~~credit alternative(s)~~ should be acceptable to the TSP, provided that the TSP's acceptance should not be unreasonably withheld, and in accordance with standard industry practices. The TSP and SR may mutually agree that the SR will ~~transfer~~~~provide~~ other forms of ~~eligible collateral~~~~credit alternatives~~. In order for ~~a guarantee or~~ an irrevocable letter of credit to be accepted by the TSP, the entity that provides such ~~guarantee or~~ letter of credit must be creditworthy in accordance with the TSP's tariff.

Proposed Standard 0.3.zO

Except as to a Service Requester (SR) that subscribes to service in connection with construction, expansion, acquisition or lease of new facilities, the Transportation Service Provider's tariff should specify

the maximum amount of eligible collateral~~alternative credit assurance~~ that will be required of a SR that is not creditworthy.

Proposed Standard 0.3.zP

If the Service Requester (SR) provides cash collateral as eligible collateral~~a credit alternative~~ required by the Transportation Service Provider (TSP) pursuant to NAESB WGO Standard [0.3.zN], the TSP should pay interest to the SR on the cash collateral~~principal~~ amount held by the TSP on the total amount of the cash received by the TSP. This cash collateral~~principal~~ amount should exclude the SR's one-month advance payment to the TSP to continue service after the TSP determines the SR to be non-creditworthy pursuant to the TSP's tariff. At the TSP's sole option and in lieu of the TSP paying interest, the TSP may allow the SR to choose to deposit ~~a cash collateral~~~~form of credit alternative~~ in an escrow account where the SR will receive the interest on such cash collateral and the TSP will have access to the cash collateral~~principal~~ for the assurance of payments to the TSP for its services provided to the SR in the event the SR fails to make such payments.

Proposed Standard 5.3.zA

A Transportation Service Provider (TSP) can terminate any release if the original Service Requester's (SR) underlying service agreement is terminated due to default or failure to maintain creditworthiness, provided, however, that the release shall not terminate if the replacement shipper agrees to pay, for the remaining term of the replacement shipper's contract, one of the following:

- (1) the original SR's contract rate,
- (2) the maximum tariff rate applicable to the original SR's capacity, or
- (3) some other rate that is acceptable to the TSP.

The TSP should give the replacement shipper notice before terminating service, as specified in the TSP's tariff. This standard does not address re-releases, which should be governed by the TSP's tariff.

Proposed Standard 5.3.zB

With respect to non-permanent releases, the Transportation Service Provider (TSP) should evaluate the creditworthiness ~~status~~ of the replacement shipper(s) as if that replacement shipper(s) was applying for comparable capacity with the TSP outside of the capacity release process.

Proposed Standard 5.3.zC

~~As a pre-condition to bid on posted capacity release offers, the Service Requester (SR) should seek to pre-qualify its status with the Transportation Service Provider (TSP) as a potential replacement shipper. Upon request by the SR, the TSP should determine whether a potential replacement shipper is pre-qualified up to a requested level taking into account all obligations from services that it receives and requests from the TSP, including any service represented by the capacity release. Pre-qualifications are subject to periodic re-evaluation by the TSP.~~

[\[Delete standard per EnCana's Revision #1 comments.\]](#)

Proposed Standard 5.3.zD

The Transportation Service Provider (TSP) should not award capacity release offers to the Service Requester (SR) until and unless the SR meets the TSP's creditworthiness requirements applicable to all services that it receives from the TSP, including the service represented by the capacity release.

Proposed Standard 5.3.zE

The Transportation Service Provider (TSP) should allow an existing Service Requester (SR) to permanently release capacity to a replacement shipper, under the same terms and conditions of the releasing shipper's contract, or other mutually agreeable terms and conditions, provided the replacement shipper meets the TSP's creditworthiness and other tariff provisions applicable to the TSP's qualification of a SR to receive service. Such permanent release should be pursuant to the rules, regulations, and policies of the Federal Energy Regulatory Commission (or an equivalent authority) regarding capacity release transactions.

Proposed Standard 5.3.zF

The Transportation Service Provider (TSP) should provide the releasing shipper with Internet E-mail notification reasonably proximate in time with the formal notice given to its replacement shipper(s), of the following:

- (1) Past due, deficiency, or default notice pursuant to the TSP's tariff;
- (2) Suspension of service notice;
- (3) Contract termination notice due to default or credit-related issues;
- ~~(4) Notice that a request for information has been initiated by the TSP for the purpose of credit evaluation, excluding routine communication related to credit maintenance or new service; and~~
- ~~(5)~~(4) Notice that a replacement shipper(s) is no longer creditworthy and has not provided credit alternative(s) pursuant to the TSP's tariff.

[\[Revised standard in accordance with EnCana's Revision #1 comments\]](#)

Proposed Standard 5.3.zG

The releasing shipper should provide the Transportation Service Provider (TSP) with the Internet E-mail address of up to two authorized representatives who are designated to receive notification pursuant to NAESB WGQ Standard [5.3.zF]. The obligation of the TSP to provide notifications related to Standard [5.3.zF] is waived until the above requirement has been met. The releasing shipper should manage internal distribution of such notices that are received.

Proposed Standard 5.3.zH

In complying with the notifications pursuant to NAESB WGQ Standard [5.3.zF], the releasing shipper and the Transportation Service Provider may mutually agree to other forms of communication in lieu of Internet E-mail notification.