

# **GasEDI STANDARD CONTRACT**

## **BENEFITS OF A STANDARD CONTRACT**

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June 1, 2001

# Gas Contracts: >20 Years Ago

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- Gas sales contracts were typically for 20 or more years, often with automatic renewal.
- Need long, detailed, contract:
  - ◆ Must look to contract for guidance in event of dispute:
    - Original negotiators no longer available to advise “what they intended”.
  - ◆ What happens if “status” of parties changes:
    - Eg: bankruptcy.
- Contracts were, frequently, customized for each situation.
- Contracts were expensive and time consuming to negotiate.

# Gas Contracts: Current

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- Gas sales frequently for short periods:
  - ◆ Commonly 1 year or less.
  - ◆ Frequently 1 month or less.
  - ◆ Occasionally 1 day or less:
    - Matching up to power contracts - some power contracts are for 15 minutes.
- Need industry standard contract:
  - ◆ Can be “brief” - in event of dispute, can ask original negotiators “what they intended”.
  - ◆ Cannot afford time or expense of a long, customized, contract for small quantities.

# GasEDI Contract “Developers”

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- Alberta Energy Company
- Alliance Pipeline
- BP Canada Energy Company
- Blain & Company
- CXY Energy Marketing
- Engage Energy Canada
- Enron Canada
- Felesky Flynn
- Husky Energy
- Imperial Oil
- Midland Cogeneration Venture
- NrG Information Services
- Pan-Alberta Gas
- PanCanadian Petroleum
- Reliant Energy Services Canada
- Reliant Energy Services
- TransAlta Energy Marketing
- TransCanada Energy
- Unocal Canada Limited

# Why Use an Industry Standard Contract?

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- Consistency in contract terms:
  - ◆ Critical for “trading”.
- Enhance market liquidity:
  - ◆ Compare to effect of NYMEX energy contracts.
- Expedite negotiation:
  - ◆ Parties are already familiar with the basic contract provisions.
- Improve confirmation process:
  - ◆ Reduce risk and uncertainty associated with undocumented or poorly documented trades.
- Bi-lateral provisions balance negotiating power.

# Why Use an Industry Standard Contract?

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- Helps market participants keep up with the fast pace of gas trading and marketing.
- Reduce risk of being “squeezed” between different contracts.
- Use of a single contract with a netting provision for multiple transactions reduces current account exposure.
- Helps market participants manage credit risk:
  - ◆ Consistent risk management clauses apply to all transactions.
- Reduce legal costs.

# What is The GasEDI Contract?

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- Master Contract with:
  - ◆ Standard terms for physical delivery of natural gas.
  - ◆ Firm or interruptible sales, purchases or exchanges (including EFP transactions).
  - ◆ Plain language drafting.
  - ◆ Current account netting – ie: \$ payable under one transaction can be netted off against \$ receivable under another transaction.
  - ◆ Suitable credit assurance, default and termination provisions for longer-term transactions.
- Designed to be acceptable to a very broad range of gas sellers and buyers:
  - ◆ Very large to very small.

# Why Use the GasEDI Contract?

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- GISB contract was written for deals of 30 days or less in the USA:
  - ◆ Frequently negotiate lengthy Special Provisions with every new counterparty.
- GasEDI contract was drafted to standardize about 95% of the many Special Provisions to the GISB contract which various market participants were promoting:
  - ◆ Canadian units, tax issues, Business Days, etc.
  - ◆ Credit assurances.
  - ◆ Default.
  - ◆ Termination.
  - ◆ Other issues related to longer terms.



# Where Can the GasEDI Contract Be Used?

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- Canada.
- United States.
- Cross-border transactions:
  - ◆ Zero rating of exports (from Canada):
    - GST (Canadian Goods & Services Tax) issue.

# References

## GasEDI

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- GasEDI:
  - ◆ October 26, 2000, version.
- GISB 1996:
  - ◆ GISB Standard 6.3.1, dated May 13, 1996.

# Disclaimer

- Information herein has been developed for training purposes - such information should not be considered a comprehensive treatment of any subject:
  - ◆ Comments reflect the views of the author and are not intended to provide legal advice.
  - ◆ Readers should not act or rely on information provided herein without seeking specific legal advice.

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