Natural Gas Contracts in Alberta
Selected Contracting Issues

By
The Energy Group

Prepared for the Canadian Institute Conference:
"Managing High Energy Costs – The End-Users Forum"
November 26 & 27, 2001

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NATURAL GAS CONTRACTS IN ALBERTA

SELECTED CONTRACTING ISSUES

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Introduction

This paper has been written to provide a brief overview of current natural gas contracting issues (and solutions) as they pertain to Alberta buyers who are significant industrial, commercial or institutional end users with a particular emphasis on management of the end user's gas costs. The paper thereby also provides the basis for a comparison to the similar issues confronting electricity end users.

A preliminary note - very often seller will present buyer with a form of bilateral master trading agreement. In fact, this paper assumes that you will, as often as not, be using such a master agreement. These forms of agreements typically contain many provisions that are not particularly relevant to the needs of those parties who are predominantly buyers – these precedents have been refined by the large marketing and trading companies that, in many respects, dominate the natural gas industry. Little time or effort has been expended to modify these agreements into more pure buy/sell contracts. As these forms of contract are a fact of life, the well-advised buyer will familiarize itself with the concepts therein.

Choosing a Contracting/Pricing Strategy

When discussing contracting issues, it is vitally important to put them in the appropriate context. As this paper attempts to illustrate, gas can be purchased via any number of contract forms and pricing structures. One of the writer's themes is that often a blended or portfolio approach will yield the best method for buyer to manage costs. In order to plan a model portfolio, it is necessary for each end-user to analyze (or create) its corporate policy on gas input costs.

Market participants (both buyers and sellers) can be either "speculators" or "hedgers" depending upon their approach to price movements. Speculators either, are not particularly concerned with, or, welcome price movement, while hedgers, to a greater or lesser extent, desire to lock in certain or fixed pricing.

Speculators and hedgers can be further categorized as active or passive:

- The active speculator attempts to beat the market index by monitoring the market, anticipating price changes based on its analysis of market fundamentals, and trading as necessary. Larger gas and energy marketing companies typify the active speculator.

- The passive speculator does not employ any market analysis and simply takes the market price regardless of volatility and its effect on budget. Natural gas producing companies that deliberately choose to represent a pure commodity stock play are examples of passive speculators.

- The active hedger attempts to beat its budget while maintaining volatility to acceptable levels. It uses the same tools as the active speculator - monitoring the market, anticipating price changes based on its analysis of market fundamentals, and trading as necessary.

- The passive hedger has a predominant need to stay within its budget without exposure to volatility. A passive hedger might be an industrial manufacturer or a cogeneration facility that has a long term contract to supply a customer at a fixed price – accordingly, a long term fixed price contract might suit this company.

It would be incorrect to assume that a company that hedges its pricing is either more risk adverse than a speculator or that it has eliminated its risk. In fact, the hedger has simply replaced one type of risk (e.g. that prices may decrease and its budgeted revenues may not be achieved) for another (e.g. that it will miss out on the benefits of higher prices). The real issue is - what type of risk does the company prefer?

Buyers obviously want to pay the lowest commodity price possible. However, the price volatility of free markets means that sometimes the most that an end user can hope for over extended periods is stable pricing that is within budget. That is to say, the majority of end users are perhaps naturally inclined to be hedgers, except for those fortunate few who can simply pass through commodity costs to the ultimate consumers of their products.

The person negotiating and/or drafting gas contract terms must completely understand the client's objectives with respect to these issues and particular deals. Of course, a company's ability to enter into certain types of transaction will be limited, regardless of its desire to trade, by its own credit strength, the creditworthiness of potential counterparties, and the level of willingness among other market participants to counterparty the deals.

The Cost of Contract Flexibility

The model buyer will have a portfolio of contracts with varying durations, quantities, pricing structures and other contract terms. In the real world, a buyer must have a certain critical mass in order to justify the costs of implementing the program.

Structuring contract terms is not a simple or cost free process. The price negotiated between buyer and seller should bear a relationship to: (i) the flexibility afforded to either party to the

transaction; (ii) liability for non-performance; and, (iii) which party bears the cost of unanticipated events – force majeure.

Each desired flexibility that a buyer requests in respect of obligations to take will probably result in a corresponding demand - the value over time of contract options to take gas can be calculated based on forecast gas price volatility over the specified periods. Only the buyer can ultimately decide if the price justifies the benefit.

(A natural part of any portfolio approach would include financial commodity swaps, which can yield the same results as physical transactions. However, they can be time consuming and complex to negotiate, and any discussion of them is by necessity outside the purview of this paper.)

Contract Duration

The varying needs of market participants give rise to contracts of varying duration, which in turn, have a direct impact on pricing and contract structures. There is no industry-recognized standard for the distinction between short term and long term contracts and the use of such terms in this paper is only as a convenience to the discussion.

- Spot and short term contracts - transactions of six months or less.
- Long term contracts - transactions longer than six months.

Spot Contracts – Quantity, Price and Structure

Spot contracts require little analysis – almost without exception they have a fixed contract quantity, fixed (short) term and a simple pricing structure (i.e. a fixed price, or an index price, plus a premium or discount). In a spot contract, fixed pricing (i.e. using a set or stated price) is simple and poses relatively little risk. The expected variation of the fixed price from the market index during the short interval of the contract should be relatively insignificant.

Long Term Contracts - Contract Quantity

Baseload

A buyer that has an accurate forecast of the volume of gas that it expects to take on an ongoing basis may simply decide to purchase the bulk of its gas via a flat baseload agreement, e.g. 5,000/day. Amounts in excess of the baseload would be obtained by way of spot purchases. Buyer should be aware that a baseload agreement of this sort would provide buyer with little flexibility to deal with unexpected reductions in load caused by markets reduction or even scheduled outages/maintenance unless specifically negotiated. Buyer may be faced in such circumstances with either an obligation to pay liquidated damages for non-performance, or with a demand from seller for a higher contract price to compensate for the flexibility.

Minimum/Maximum

As an alternative approach to a baseload agreement, buyer may seek to negotiate a maximum quantity of gas to be taken over a certain period (typically a day) and the minimum aggregate quantity to be purchased over a longer period such as a month - the load factor. For example, buyer would have the flexibility, without penalty, to operate its facility at a 75% production level for the whole month or could operate flat-out for three weeks and shut down for one week in that month. Generally, the higher the load factor is, the lower the per unit price for gas.

If the period over which the minimum contract quantity may be purchased is relatively short, buyer will have less flexibility to reduce load for maintenance, market reductions and so on. So, for example if the minimum quantity is determined monthly, a 75% load factor contract would not permit buyer to shut down for two weeks in a month without incurring a take or pay obligation, whereas if the minimum quantity is determined quarterly, buyer could shut down for up to three weeks in the quarter and still meet the minimum quantity by operating flat-out for the other nine weeks of the quarter. For buyers with more than one facility, it may be possible to negotiate a minimum across all of buyer's facilities.

Swing/Optional

If buyer anticipates gas requirements on any given day in excess of any specified baseload or maximum amount, he may negotiate to purchase those volumes from the seller with which it is already dealing with rather than from other market players. Most likely, a different price will likely apply to these optional volumes. Since seller must reserve supply to meet buyer's maximum demand or risk paying an unbudgeted spot price to meet that swing demand in the future, a high maximum demand will generally come at a higher cost to buyer, either in the form of a higher contract price or a higher minimum purchase quantity. A buyer with a variable load may be better off to accept the spot price risk for its demand peaks, rather than paying higher overall prices to accommodate peaks.

Take or Pay

Under base load or min/max contracts, if takes are not sufficient, despite the best forecasts, what should occur? There are several options, e.g. paying damages for non-performance, shifting the obligation to take the deficit volume to a later period, or relying on a take or pay clause. In the last case, even if the required volumes were not taken, buyer would be required to pay for the minimum quantity in any event.

The rationale may be that seller has assumed long term transportation capacity in reliance on the take obligation. More likely, buyer will prefer that seller have the right (and perhaps obligation) to mitigate transportation charges by taking back unused gas and selling it to third parties.

If buyer takes less than the minimum contract quantity, it is not a given that the result should be take or pay. A buyer should ideally be able to negotiate a credit against the contract price to reflect the price that seller presumably received for the gas not taken. A buyer should carefully consider how the credit is calculated. It will likely be based on some spot price reference during the period in which buyer did not take the minimum. From buyer's perspective, basing the credit on the spot price for the days when buyer's load is actually reduced may give buyer some control over its costs. For example, if buyer is able to shut

down for non-critical maintenance during a period of high spot prices, the credit may eliminate any take or pay charge to buyer. Buyers should beware of significant administrative charges or other "adders" which penalize buyer for not taking the minimum contract quantity. The contract price for the minimum quantity, less any credit, should keep seller whole without the need for any significant additional charge.

Price-based Curtailment

If buyer is a significant consumer and has the ability to reduce load at its facility(ies) on relatively short notice, a demand buy back or price curtailment provision could be negotiated. If the spot price is high, buyer's load could be reduced over the expected period of high prices with the agreement setting out whether the price-based curtailment can be triggered by buyer, seller or by agreement of the parties. Usually seller and buyer would share the excess of the spot price received by seller over the contract price. In addition, if the price excursions do not materialize, allocation of any loss must be addressed in the agreement. A price-based curtailment provision should also tie into the minimum contract quantity. Generally, a buyer would wish a price-based curtailment to apply towards any minimum contract quantity.

Long Term Contracts - Pricing Structures

In reviewing the following, the reader is urged to remember that there is no set formula to pricing structures. Although some forms have acquired general acceptance through long usage, there is no reason to limit the manner in which these are used. They can be applied in any number of combinations or alternatives.

Fixed Pricing

In a longer-term contract, fixed pricing may diverge dramatically from the market price, and should be used, if at all, in conjunction with some of the other mechanisms discussed below that permit corrections over time.

Index Pricing

Barring market anomalies such as temporary basis differentials, the index (daily or monthly, as applicable) is the fair market price on any given day/month at a particular delivery point. In respect of longer-term transactions, the index can be used as the foundation of the contract, with other value-added items being negotiated as desired by the parties.

Two Part Pricing

Some long-term contracts utilize so-called two part pricing with the Contract Price consisting of a demand charge and a commodity charge.

A demand charge (also referred to as a reservation fee or guaranteed inventory charge ("GIC")) is payable each month in respect of a specified contract quantity of gas irrespective of the actual takes during the period. The demand charge can serve to ensure that at a minimum all of seller's transportation and/or other fixed costs are covered – The demand charge can also be treated as a premium paid by buyer to ensure that it has long term security of supply, i.e. seller might dedicate production from certain identified lands solely to the satisfaction of the particular gas contract.

The commodity component is a price payable per unit of gas actually taken and can be based on any of the other pricing structures discussed in this section, i.e. fixed, indexed, escalated, etc.

Replacement Index

The loss of the contract index can be significant in a longer-term contract. If not addressed adequately, the loss of the index may lead to the conclusion that the contract itself is unenforceable due to uncertainty of one of its fundamental terms. The issue is less important now that natural gas indexes are so well established. Note that the loss of an index can be treated very similarly to any other price redetermination or renegotiation clause.

Escalators

To avoid confusion, I distinguish between index pricing based on a published natural gas index, and pricing mechanisms that are based on other commodities indexes or consumer price indexes. The latter are treated as escalators. A typical use for escalator pricing would be a cogeneration project in which buyer is constrained to limit increases in gas prices to price increases for the electrical power produced.

Escalators are used to adjust contract prices periodically over the contract term according to some agreed standard. Escalators can be definite (a schedule of price rises, either by percentage or absolute terms), or indefinite (tied to an external variable reference standard such as the consumer price index or another commodity or basket of commodities). Once the basic escalator is set, the parties can add floors, ceilings or combinations (so-called "rails") as required.

Commodity Parity Pricing

The tying of gas prices to the price of another commodity was used historically in instances where the parties were unable to use any other reliable reference point. At the commencement of large scale Canadian gas export to U.S. markets, there was little gas-to-gas competition. The only way to value gas was by reference to the energy sources it replaced. The evolution of market indexes provided a more direct and simpler pricing mechanism. However, with the integration of the North American energy market and the emergence of market participants that straddle oil, gas and electricity industries, commodity parity pricing may again become more relevant.

Some consumers have the ability to switch between natural gas and electricity relatively easily. In those cases, they may negotiate their gas price so that they pay no more than the energy equivalent in electricity. Alternatively, they may look for the right to decrease purchases of gas so that they can in fact switch to electricity. Any trigger clause to permit such a switch should factor in the effect of use of any available pollution credits.

Redetermination / Renegotiation

The terms "redetermination" and "renegotiation" are often used inter-changeably. A redetermination clause may convey the sense of a mandatory re-opening of the contract price upon certain events. A renegotiation clause implies a greater discretion in the parties, both in the triggering events and also in the event that the parties cannot agree upon the new price. Rather than reproducing one of a large number of examples, I have listed below the main elements of such a clause together with some of the various choices available.

When drafting a price structure that can vary over time, it is important to ensure clarity as to which elements of the price are subject to revision. For example, if a price is to be predetermined according to alternate fuel sources, is it the entire price or just the commodity portion? Another issue might arise if the demand charge is drafted to ensure that seller obtains full recovery of transportation charges and the pipeline then changes its fundamental method of tolling, e.g. moving from postage stamp to zone based tolling. In this scenario, buyer or seller may be unfairly disadvantaged depending upon how the demand charge is defined and whether or not the gas must be sourced from any particular region.

Triggering Event

- Fixed dates, e.g. every anniversary date, or every second year
- At complete discretion
- Events of hardship
- Upon a certain dvergence from index or other standard for a certain sustained period

Parameters

- Adjust in accordance with market index or other escalator
- Minimum or maximum percentage or absolute change in Contract Price
- Price competitive with alternate fuel sources in buyer's market or seller's supply source (i.e. commodity parity)

seller's supply source (i.e. commodity parity)

- Floor - either constant or also changing in accordance with changes in the Contract Price
- Cap - either constant or also changing in accordance with changes in the Contract Price
- Rails - a combination of a floor and a cap
- Other gas contracts of similar duration, volume and other terms such as dedicated supply

Process

- Parties meet
- Parties negotiate in good faith
- Formal offer and counteroffer
- If no agreement within certain time, mediation or arbitration

Result

- New contract price pursuant to agreement or arbitration
- Termination
- Continuation of current price, or current price with minimum increase

Effective Date

- Upon date decided by arbitrators
- Date agreed by parties
- Date notice sent

- Triggering Event date

New Taxes

The imposition of new taxes by a government is a particular example of a triggering event for redetermination of the contract price discussed above.

Any such clause must be consistent with the contract provisions relating to federal GST and similar taxes that should be excluded from the price as they can generally be flowed through to ultimate consumer.

Governmental Price Regulation

Out of an abundance of caution, long-term contracts ought to include some provision addressing the possibility of governments enacting new price controls on the parties or certain types of transactions.

Non-Performance – Quantification of Damages

The quantification of liquidated damages where there has been an unexcused failure to perform is usually not contentious. The essential mechanism is to calculate the difference between the contract price and the market price for replacement or supply, as applicable, adjust for any transportation differentials and multiply the result by the quantity of gas not delivered or taken, as applicable.

There are minor variations on this theme. For example, is the replacement price deemed to be a previously agreed index or must the non-defaulting party actually go into the market and show the price at which it sold or bought? Should the amount of liquidated damages be paid in the normal course on the 25th of the following month or should payment be accelerated? Should there be an "administrative charge" of 5, 10 or 25 cents per GJ? In respect of this last point, there is a risk with higher charges that they are void at law as penalties.

An end user that does not have a large staff to deal with gas procurement may decide to insist on actual costs plus a significant administrative charge to reflect its costs, which are likely higher than a marketing company's in a similar situation.

Force Majeure

Force majeure is a concept that arises solely out of negotiation between the parties – it does not arise out of the common law or statute. It is intended to relieve one or both of the parties from the damages that would otherwise result from a contractual non-performance. It is therefore the responsibility of the parties to determine:

- those situations where force majeure should apply. Buyer should consider whether a broad definition of force majeure or a narrow one is in its interest, recognizing that it is difficult to negotiate a force majeure clause that is narrow for seller but broad for buyer.

- as between two 'innocent' parties, which should bear the risk of having to sell supply into, or obtain supply from, the spot market, with the risk being the difference between the contract price and the contract price

- the extent of any relief against contact quantities – would an event of force majeure count against the minimum quantity under a min/max contract, or would the term of the contract be extended to allow for the sale of the minimum quantity?

- if the event of force majeure continues for a certain consecutive period or an aggregate period over the term, can one or the other party terminate the contract?

The recent case law in Alberta strongly suggests that parties should <u>not</u> consider the force majeure provisions to be just 'boilerplate'. If the parties do not expressly allocate risk and responsibilities, the courts may do so on a "reasonable" basis – which may be quite contrary to the expectations of the parties.

The use of force majeure in the Alberta natural gas industry had changed markedly in the last decade. Traditionally, the events that constituted force majeure for seller related to plant outages, problems with gathering systems and wells on so on – seller's focus was on the upstream production facilities behind the connection to the NGTL system.

Buyer, for its part, would analyze its processes and markets and consider what could go wrong to disrupt them, which in turn would reduce its gas requirements. Conceivably, the list could include fires, explosions, storms and other Acts of God, strikes and labour shortages or transportation problems. Of course, strikes and other labour problems and financial issues are unlikely to be accepted under any circumstances.

Within Alberta, concurrent with the rise of truly liquid markets and commodity trading companies, the scope of force majeure clauses has tended to become more restrictive. It is common for force majeure under such master agreements to be limited to events directly affecting deliveries at the delivery point, which in many cases take place via inventory transfer on the pipeline system or at market hubs. Even in the situation where a substantial portion of seller's production was affected by catastrophe, the existence of inventory transfer and market hubs (and the high levels of liquidity at such points) meant that seller was well placed to obtain replacement supply. It makes some sense that the party that has the problem should be the one that is obligated to remedy such problem.

While the evolution of these types of system transfers made it more difficult for larger sellers and buyers to argue plausibly that problems in the field or at the plant should trigger a force majeure excuse, each party's individual circumstances must still be reviewed. If seller has provided field dedication for production (possibly extracting higher price therefore), how could buyer argue that a problem in the dedicated production should not lead to force majeure (except why would you pay a premium for interruptible deliveries. For a single facility user with no ability to take at an alternate delivery point and no "trading room", a problem at the plant remains a significant risk that should be addressed.

To the extent that a single facility end user's plant goes down and it does not have the administrative ability to sell the gas back into the spot market, complete relief may be

appropriate, but seller may require some corresponding benefit either by way of premium, the right to resell unused gas, or both.

Credit and Performance Assurances

Without much doubt, the contractual issue that typically receives the most attention in commodity contracts relates to credit and security for credit exposure. Most master agreements will contain such provisions, even those that are used primarily for spot transactions, such as the GasEDI agreement. Much of the vocabulary and concepts have migrated from the financial commodity swaps industry as the gas business became more influenced by marketing and trading companies. Interest has been increased as a result of the Blue Range case in Alberta (concerning setoff rights under Canadian insolvency legislation), the convergence of natural gas with electricity markets, and the spectacular failures and near failures of US companies.

Performance assurance clauses recognize that upon the occurrence of a failure to perform, the financial risk to the non-defaulting party is not simply limited to the result determined from multiplying the contract price by the remaining contract quantity. Market prices vary over time, so the cost of finding a replacement market or replacement supply may increase significantly. The difference between the market price and the contract price can be measured in different degrees of sophistication to provide a mark-to-market value or value-at risk. Calculation of value at risk at any point can suddenly cause the credit limit granted to the other party to be substantially exceeded. In the absence of a contractual provision requiring the other party to provide acceptable security to cover the credit gap, buyer has little in the way of immediate remedies to reduce its exposure – i.e. the financial risk that the market price will dramatically exceed the contract price.

Accordingly, regardless of the commodity traded, a credit and performance assurances clause should contain the following elements:

- A mechanism to establish for each party a “credit limit”, “collateral threshold” or “threshold amount”, or some similar definition, that corresponds to the amount of

open credit that each party is extended without security support. A key component in protecting buyer from credit exposure is knowing who seller is, not who seller's affiliates are. Many marketing entities, while affiliates of huge and financially strong energy companies, are not themselves creditworthy. A buyer should never assume that seller's parent company will support seller and a legally binding and enforceable guarantee is essential in order to rely on the credit of the parent, usually based on the guarantor's credit rating at the time of entering into the agreement.

- Provisions to establish a net "termination payment", "replacement value" or "settlement amount" for all transactions under the agreement as if they are terminated. (See discussion below under the heading "Termination Payment".)

- Agreement as to what constitutes acceptable security, collateral or performance assurance. By far the preferable performance assurance is an irrevocable letter of credit drawn on a major bank. Many agreements also provide for security to be provided by cash deposit, treasury bills or other securities. While cash or T-bills might sound like good security for the other party's obligations, there are personal property securities legislation filing and priority issues that strongly argue against permitting these forms of security.

- A formula for calculating a "delivery amount" – the dollar value of security that must be provided upon request at any particular time. The delivery amount is generally equal to the termination payment less the value of any security held, less the other party's credit limit. Failure to provide the performance assurance within a short period of time (often 48 hours) entitles the other party to declare a default and terminate the agreement.

The credit limit determined for a party will usually be reduced to as little as $0 in a number of circumstances, thus triggering the other party's right to ask for other security. Alternatively, an event of default of default will be triggered.

Events of Default

Gas purchase contracts of any degree of complexity have almost always contained express remedies for failure to deliver or accept gas. These would include the payment of damages (discussed above/below) suspension of further deliveries/takes, suspension of payment, and eventually termination of the contract.

The transformation of gas contracts into bilateral trading/commodity hedging instruments has also led to the import of more sophisticated default provisions. The hallmark of these provisions is the ability after default has occurred and termination has followed, to net the values of all outstanding transactions to arrive at a net termination or settlement amount payable by one party to the other. If such clauses find their way into a one-way end user contract, they may appear to be superfluous. However, you should be familiar with how they work.

Typical events of default may include the following, which exhibit some overlap:

- Extended periods of non-performance
- Bankruptcy of the party or its credit support provider
- Failure of security
- Failure to provide security when required under the agreement
- Material adverse change in the party or its credit support provider
- Downgrade in the credit rating of the party or its credit support provider
- Default in any material obligation other than physical non-performance
- Failure to pay any amount under the agreement

- Failure of the other party's affiliate or credit support provider to pay any amount to the party, its affiliates or credit support provider under any agreement

- Failure to pay any third party any amount in respect of borrowed money or amounts extended as credit under a commodity agreement

Several of the above relate to failure of security and related matters can be treated either as an event of default or merely as an event that permits the party to request further security within the mandated period (e.g. two business days) failing which an event of default will occur.

Other above items are indicators of financial problems that may not yet have affected physical performance. In such situations, a prudent buyer may be well advised to terminate its contract and obtain a source that is more robust.

Right to Terminate Upon Default

Typical contemporary master purchase and sale commodity contracts envision that upon the occurrence of an event of default, the various transactions under the contract may be terminated by the innocent party. Simply put, the rationale for the right to terminate (or liquidate) some or all of the outstanding transactions is that the occurrence of an event of default to a greater or lesser extent puts in doubt the defaulting party's ability to perform. The non-defaulting party wants certainty in its transactions. If it terminates the transactions, it can quantify the value of the agreements, receive or pay the net amount owing (see discussion below) and then go back into the market to replace (i.e. buy back) its positions.

Termination Payments

The calculation of termination payments is usually made on the same basis as the determination of the settlement amounts used to determine delivery and return of security, as discussed under the heading "Credit and Performance Asssurances". An amount (intended to represent its market value, either positive or negative) is determined for each terminated transaction.

The non-defaulting party is permitted to calculate its loss (the value of the remaining term to buyer if it is the non-defaulting party) in a commercially reasonable manner. The non-defaulting party will be obliged to use a forward market price or other market reference source for determining the defaulting party's mark to market exposure, if any. Buyer should expect that the default and termination provision would be mutual (and certainly not unilateral on the part of seller) so that if buyer defaults it would be liable to seller if the forward market price for the balance of the term were less than the contract price.

All termination payments are then set off against one another with a final net payment made by one party to the other.

It is quite possible that a non-defaulting party would have a net 'gain' on terminating and liquidating the sales agreement. Whether the non-defaulting party is obligated to pay the

amount of the gain to the defaulting party is a matter that the sales agreement should address.

Netting

The ability to net amounts owing under all transactions is critically important to many sellers. Netting these amounts (or setoff) has the status of quasi-security under Canadian insolvency legislation if the agreement is an "eligible financial contract". These provisions help protect against a potential disaster scenario if seller goes bankrupt, e.g. buyer would have to pay seller the full amounts it owes under the agreement but buyer's concurrent claim against seller for mark to market exposure or for amounts owing by seller under other agreements would be subject to pro-rating under bankruptcy rules. Often in this regard, the master agreement will contain a representation that the agreement is an "eligible financial contract".

Conclusion

The negotiation of contracts for natural gas must be conducted within the context of the buyer's identified commercial and financial needs. Building an appropriate portfolio of purchase transactions requires willingness to "horse trade" the various points of flexibility within the limits of your price points. As this paper has also attempted to illustrate, in today's market, contract negotiations also require a thorough understanding of credit and security.

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