

National Fuel Gas Distribution Corporation
Comments on NAESB Base Contract Proposed Revisions
Recommendation R05014 / WGQ Annual Plan Item 6
June 5, 2006

National Fuel Gas Distribution Corporation ("NFGD") supports the proposed package of changes to the NAESB Base Contract for Sale and Purchase of Natural Gas ("Base Contract") that were circulated and posted on April 27, 2006. NFGD participated in nearly all of the Contracts Subcommittee as well as some of the small topic oriented conference calls that provided input to the Subcommittee. Representatives from a wide cross-section of the industry participated in the development of the Proposed Revisions to the NAESB Base Contract and the resulting Recommendation reflects the give and take of the overall process.

As with any Recommendation, comments are submitted by industry participants that address topics already covered during subcommittee discussion. The Executive Committee is free to modify any subcommittee recommendation prior to its standards vote and NFGD believes there is good cause to give further consideration to the comments submitted here as well as those submitted by other industry participants. Some of these comments should lead to changes in the Base Contract simply because they fix flaws in the proposed language. Others may be more suitable for discussion in the supporting documentation such as the Frequently Asked Questions (FAQ) document. Other proposed revisions are more detailed and might be more suitable for a future set of proposed revisions to the Base Contract.

NFGD comments specifically on the following:

Section 2.2 – NFGD is concerned about the potential interplay between this definition and that included in the FERC Regulations Commission and generally the Affiliate Rules resulting from Order 2004, et. al. Standards of Conduct for Transmission Providers. Additionally, it is not impossible that control of an entity might be obtained with something less than 50 percent of voting power. Never the less, there is probably no one perfect definition for Affiliate and NFGD suggests that parties utilizing the Base Contract will often need to replace this definition with one more suitable to their business circumstances.

Section 2.10 – NFGD support FPL's observations concerning Severance Taxes and believe that EnCana's proposed revision more accurately reflects the intention of the Contracts Subcommittee, i.e. payment of taxes prior to delivery is a contract election.

Section 8.4 – NFGD appreciates that it's customs reporting proposal is included in the Proposed Recommendation. The last sentence of the Section 8.4 was added by the Subcommittee to address reciprocity concerns, if they exist. NFGD understands the intent of this sentence but believes that as drafted, the sentence is unintentionally overly broad. Inserting either the 'customs' or 'comparable' between the words 'any' and 'reporting' would more properly reflect any reciprocal obligation.

Section 10.2 – Development of an FAQ concerning Additional Events of Default would help to make perfectly clear that ix) won't apply if one checks the "No Additional Events of Default" box on page 2 of 10 (or checks no boxes in this section of the Cover Page, accepting the default).

Section 10.3.2, Triangular Setoff Option – See discussion on Section 2.2 above.

Peoples Natural Gas Company / Market Dislocation Event Language – As it did during Subcommittee discussion, NFGD continues to support this proposal. This is a complex topic but in a system where significant quantities of gas are priced off published indexes, it is critical that the integrity of the pricing mechanism be protected through provision of defenses against fraud, manipulation and inadvertent error. The Executive Committee should entertain further consideration of People's language, but NFGD believes certain modifications or alternative formulations are necessary to fully develop the proposal.

As a new term, 'Market Dislocation Event' appears to be unworkably subjective. Possibly insertion of the phrase "it is generally accepted" before "that such index has been unduly influenced..." would lessen the subjectivity. In the case of alleged manipulation, a more objective standard would be whether an investigation was opened consistent with FERC's Policy Statement On Enforcement¹ and/or Order 670, or in another established and suitable forum. Alternatively, including verification of the market dislocation event in the arbitration clause, which right now is limited to selection of the Alternative Floating Price, might provide another solution.

Submitted by,

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¹ Docket No. PL06-1-000, October 25, 2005