



April 20, 2012

Office of the Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 - 21st Street, N.W.
Washington, D.C. 20581

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Re: Natural Gas Exchange Inc. - Notification and self-certification of rule changes

In accordance with Regulation 40.6(a) of the Commodity Futures Trading Commission (the "Commission"), Natural Gas Exchange Inc. ("NGX") hereby submits amendments to its rulebook (the Contracting Party's Agreement or "CPA") for self-certification.

NGX is amending its rules as follows:

- (a) CFTC rule 39.13(h)(5), which becomes effective as of May 7, 2012, requires a DCO to adopt rules that require its clearing members to maintain current written risk management policies and procedures, ensure that the DCO has the authority to request and obtain information and documents from its clearing members regarding their policies and requiring the clearing members to make that information and documents available to the Commission upon request. NGX is proposing to adopt a new rule as part of its Risk Management Policy (section 8(a) of Schedule C to the CPA) which grants NGX the authority to request and obtain information and documents from clearing members regarding their risk management policies and procedures; and
- (b) CFTC rule 39.13(h)(1), which becomes effective as of May 7, 2012; requires a DCO to "impose risk limits on each clearing member ... in order to prevent a clearing member from carrying positions where the risk exposure of those positions exceeds a threshold set by the DCO relative to the clearing member's financial resources, the DCO's financial resources, or both". NGX is proposing to adopt a new rule as part of its Risk Management Policy (section 8(b) of Schedule C to the CPA) which prevents a Contracting Party's margin requirement from exceeding two times the Contracting Party's net worth, or two times the net worth of the Specified Entity where such entity has provided NGX with financial statements, as adjusted by NGX in its sole discretion.

The text of these amendments is attached as Appendix "A", with additions underlined and deletions struck out. NGX confirms that there were no substantive opposing views to the revisions.

NGX requests that the Office of the Secretary accept a delayed compliance date, the CPA requires NGX to give its participants six business days prior notice of the effective date of any amendments, such notice to be delivered upon the expiry of the Commission's ten-day rule review period. The amendments would become effective as of May 15, 2012. This rule certification will concurrently be posted on the NGX website (www.ngx.com) under the "News and Notices" section. Upon the expiry of the Commission's review period, specific contacts at each of NGX's participants will be advised via email notice of the upcoming CPA amendment, as required under the provisions of section 1.1(b) of the CPA, and a further news posting will go up on the NGX website.

NGX hereby certifies that these amendments comply with the Commodity Exchange Act and the regulations thereunder as applicable to NGX.

Please do not hesitate to contact myself (403-974-1705) or our Chief Legal Counsel, Cheryl Graden (416-947-4359) for any further information the Commission or its staff may require in connection with this rule amendment.

Yours truly,

A handwritten signature in black ink, appearing to read 'Peter Krenkel', written over a horizontal line.

Peter Krenkel
President & CEO, Natural Gas Exchange Inc.

cc: Cheryl Graden, NGX
CFTC Southwestern Regional Office

APPENDIX "A"

SCHEDULE "C" - RISK MANAGEMENT POLICY

1. DEFINITIONS

Words and phrases capitalized in this Risk Management Policy and not defined herein have the same meaning as in this Agreement.

In this Schedule "C", the following terms and phrases mean as follows:

- a. "Adjusted Risk Limit" has the meaning ascribed thereto in section 8(b)(ii);
- a-b. "Available Margin" means, for any Contracting Party, the difference between the value of the Collateral provided by such Contracting Party and available to Exchange and the Margin Requirement for such Contracting Party, each as calculated hereunder;
- b-c. "Current Month Accounts Net Payable " means
 - i. for a Contracting Party entering into Physical Gas Transactions, the accounts payable owing by Exchange to such Contracting Party less the accounts receivable owing by such Contracting Party to Exchange pursuant to all Physical Gas Transactions delivered to date during that current month; and
 - ii. for a Contracting Party entering into Physical Oil Transactions, up to 100% of the Discretionary Oil Delivery Credit;
- e-d. "Daily Swap Settlement Net Payable" means, for a Contracting Party, the total Daily Swap Settlement Amounts (as set forth in Schedule "E") owing by Exchange to such Contracting Party, less the total Daily Swap Settlement Amounts owing to Exchange by such Contracting Party, including any post settlement adjustments made in accordance with this Agreement;
- d-e. "Discretionary Oil Delivery Credit" means a discretionary credit of up to 100% of the accounts payable that will be owing by Exchange to such Contracting Party as at the next Physical Settlement Date less the accounts receivable that will be owing by such Contracting Party to Exchange as at the next Physical Settlement Date pursuant to all Physical Oil Transactions delivered during that current month;
- e-f. "Initial Margin" means, for each Contracting Party, an amount established by Exchange from time to time based on the applicable Initial Margin Rate for each Product and the aggregate of all Net Open Positions of such Contracting Party;
- f-g. "Initial Margin Rate" means, for each Product, an amount established by Exchange from time to time as published by Exchange on Exchange's Website;
- g-h. "Margin Limit" means, for each Contracting Party, an amount determined by Exchange which shall not exceed the value of the Collateral granted by such Contracting Party and available to Exchange, as calculated hereunder;
- h-i. "Margin Requirement" means, for each Contracting Party, an amount equal to the sum of the Previous Month Accounts Net Payable, Current Month Accounts Net Payable, Swap Settlement Net Payable, MTM Settlement Net Payable, Daily Swap Settlement Net Payable, Option Premium Amounts, Initial Margin and Variation Margin, as applicable, for such Contracting Party, as calculated hereunder;
- i-j. "Market Price" means, in respect of any Product, the price reflecting the current market conditions as determined by Exchange;

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j-k. "MTM Settlement Net Payable" means, for a Contracting Party, the total MTM Settlement Amounts (as set forth in Schedule "E") owing by Exchange to such Contracting Party, less the total MTM Settlement Amounts owing to Exchange by such Contracting Party, including any post settlement adjustments made in accordance with this Agreement;

k-l. "Net Open Position" means in respect of each Product, the volume calculated as the positive difference between the sum of all purchases or sales, as applicable, of such Product and the sum of all opposite sales or purchases as applicable.

l-m. "Option Premium Amount" has the meaning ascribed thereto in Section 1.2(xxxx) of the Terms and Conditions and is calculated in accordance with Schedule "E";

m-n. "Previous Month Accounts Net Payable" means, for a Contracting Party, the accounts payable owing by Exchange to such Contracting Party less the accounts receivable owing by such Contracting Party to Exchange pursuant to all Physical Transactions delivered during the previous calendar month;

o. "Risk Limit" has the meaning ascribed thereto in section 8(b)(i);

n-p. "Settlement Price" means, in respect of every Product for each Trading Day, the price as determined by Exchange, in its sole discretion, considering the reasonable estimation of the current Market Price using internal and external sources for each Product, such Settlement Price being determined no later than the end of every Business Day. Should the Contracting Party dispute such determination, Exchange will investigate and determine, in its sole discretion, whether or not a recalculation should be undertaken and will advise the Contracting Party of its decision as soon as reasonably practicable;

o-q. "Swap Settlement Net Payable" means, for a Contracting Party, the total Swap Clearing Amounts owing by Exchange to such Contracting Party, less the total Swap Clearing Amounts owing to Exchange by such Contracting Party; and

p-r. "Variation Margin" means, in respect of every Product for each trading day, a reasonable estimate of the market value of such Product as determined by Exchange, in its sole discretion, considering the reasonable estimation of the current market value using internal and external sources for each Product. Should the Contracting Party dispute such determination, Exchange will investigate and determine, in its sole discretion, whether or not a recalculation should be undertaken and will advise the Contracting Party of its decision as soon as reasonably practicable.

(May 15, 2012)

2. INITIAL MARGIN RATES

Exchange will determine the Initial Margin Rate applicable to each Product, from time-to-time, and such Initial Margin Rates will be determined at the sole discretion of Exchange.

3. DETERMINATION OF MARGIN LIMITS

a. Exchange will determine the Margin Limit for each Contracting Party based on Collateral provided by such Contracting Party and available to Exchange in the form and as valued by Exchange pursuant to this Schedule "C".

b. In the event that a Contracting Party wishes to increase its Margin Limit with Exchange, the Contracting Party will be required to provide additional Eligible Collateral Support with Exchange.

c. Exchange will determine each Contracting Party's Discretionary Oil Delivery Credit in conjunction with Exchange's insurance provider. Such Discretionary Oil Delivery Credit is subject to change. Exchange

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shall provide notice in writing of the maximum value of Discretionary Oil Delivery Credit that will be applied in the calculation of each Contracting Party's Margin Requirement.

- d. Exchange reserves the right to require certain Contracting Parties trading in Physical Oil Products to provide a guarantee from a guarantor to be specified by Exchange in an amount no less than the Discretionary Oil Delivery Credit in a form acceptable to Exchange prior to applying the Discretionary Oil Delivery Credit in the calculation of such Contracting Party's Margin Requirement.

4. UNSECURED CREDIT

Exchange will not provide unsecured credit to any Contracting Party.

5. ACTIVATION

- a. Prior to any Contracting Party being activated to trade on the NGX Trading System and/or NGX Clearing System, the Contracting Party must complete an Application and provide documentation satisfactory to Exchange that it meets: (i) the Minimum Qualification Requirement, as evidenced by its latest financial statements; and (ii) any other qualification requirements imposed by Exchange having regard to overall integrity and security of Exchange, including, without limitation, corporate structure, governance or information relating to creditworthiness.
- b. A Contracting Party that does not meet the Minimum Qualification Requirement by satisfying the net worth or tangible asset test contemplated thereby (the "Net Worth/Assets Test") on its own but meets the Minimum Qualification Requirement by having a majority of its voting shares owned directly or indirectly by one or more of any such business entities that satisfy the Net Worth/Assets Test will be required to provide a guarantee in an amount equal to or greater than \$5 million from a Credit Support Provider that meets the Net Worth/Assets Test, in addition to any other documentation requested by Exchange pursuant to Section 5(a) of this Schedule "C".
- c. If the Application is accepted by Exchange, Exchange will confirm to the Contracting Party that it believes the Contracting Party and, if applicable, its Credit Support Provider has satisfied the Minimum Qualification Requirement and any other fitness or financial requirements under this Section 5 or otherwise under this Agreement.
- d. A Contracting Party will be activated on the NGX Trading System and/or NGX Clearing System by Exchange after the Application has been accepted and all pre-requisite requirements have been satisfied under this Section 5 or otherwise under this Agreement and once Exchange has received Collateral which will be used to establish a Margin Limit for that Contracting Party.
- e. Exchange reserves the right to apply order size limits for each Contracting Party.
- f. At the discretion of Exchange, certain Contracting Parties will be allowed to sell only certain Physical Gas Products and provide Collateral to Exchange by utilizing Previous Month Accounts Net Payable and Current Month Accounts Net Payable payable by Exchange to such Contracting Parties.
- g. Exchange will activate designated persons for trading in specific Products on the NGX Trading System and/or NGX Clearing System based on instructions from the Administrator, and access by the Contracting Party to the applicable Transportation System pursuant to Section 2.6 of the Terms and Conditions.

6. VALUATION OF COLLATERAL

For the purposes of calculating the value of Collateral, Available Margin and Margin Requirement for a Contracting Party, Exchange shall value the Collateral of such Contracting Party as follows:

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- a. with respect to each letter of credit constituting Eligible Collateral Support, the undrawn portion of such letter of credit available to Exchange; provided that, no value shall be allocated to such letter of credit as and from 20 calendar days prior to the expiry of such letter of credit;
- b. with respect to cash, or interest bearing instruments contemplated by Section 3.2(k) of the Terms and Conditions, the full amount of cash or the face value of the instrument, as applicable;
- c. with respect to Previous Month Accounts Net Payable, the amount of such Contracting Party's Previous Month Accounts Net Payable; provided that, no positive value shall be allocated for such Contracting Party for such Previous Month Accounts Net Payable after the 20th day of the current month;
- d. with respect to Current Month Accounts Net Payable, the amount of such Contracting Party's Current Month Accounts Net Payable;
- e. with respect to Swap Settlement Net Payable, the amount of such Contracting Party's Swap Settlement Net Payable; provided that, no positive value shall be allocated for such Contracting Party for such Swap Settlement Net Payable after the last calendar day of the month immediately preceding the month when such Swap Settlement Net Payable is to be paid;
- f. with respect to MTM Settlement Net Payable, the amount of such Contracting Party's MTM Settlement Net Payable; provided that no positive value shall be allocated for such Contracting Party;
- g. with respect to Daily Swap Settlement Net Payable, the amount of such Contracting Party's Daily Swap Settlement Net Payable; provided that no positive value shall be allocated for such Contracting Party; and
- h. with respect to Variation Margin, the amount determined for such Contracting Party by Exchange, in its sole discretion; provided that, no positive value shall be allocated for such Contracting Party for such Variation Margin from and after it converts to a Current Month Accounts Net Payable.

7. **DAILY MARGIN LIMIT MONITORING**

- a. During each Trading Day, Exchange will monitor the Margin Requirement of each Contracting Party.
- b. If the Margin Requirement for a Contracting Party is equal to or greater than eighty percent (80%) of the lesser of such Contracting Party's Margin Limit and Adjusted Risk Limit, Exchange will advise the Contracting Party and may request that additional Eligible Collateral Support be provided to Exchange.
- c. If the Margin Requirement for a Contracting Party is equal to or greater than ninety percent (90%) of the lesser of such Contracting Party's Margin Limit and Adjusted Risk Limit, Exchange may halt such Contracting Party from entering orders for Products which will increase its Margin Requirement until the Contracting Party provides additional Eligible Collateral Support to the satisfaction of Exchange.
- d. If the Margin Requirement for a Contracting Party is equal to or greater than ninety-five percent (95%) of the lesser of such Contracting Party's Margin Limit, and Adjusted Risk Limit and Exchange does not have sufficient Collateral with respect to such Contracting Party, Exchange will be entitled to, without limitation to any of its other rights or remedies, invoke the Liquidation Procedure pursuant to Section 5.6 of the Terms and Conditions and the Close-out Procedure pursuant to Section 8.3 of the Terms and Conditions.
- e. If the Available Margin for a Contracting Party is less than:
 - (i) with respect to a Contracting Party that transacts in Option Products, \$2,000,000;
 - (ii) with respect to a Contracting Party that does not transact in Option Products, but transacts in Electricity Products and/or Oil Products, \$1,000,000; or

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- (iii) with respect to a Contracting Party that does not transact in either Option Products, Electricity Products or Oil Products, \$500,000,

Exchange will advise the Contracting Party and may request that additional Eligible Collateral Support be posted with Exchange. Exchange may halt such Contracting Party from entering orders for Products which will increase its Margin Requirement until the Contracting Party provides additional Eligible Collateral Support to the satisfaction of the Exchange.

(May 15, 2012)

8. RISK MANAGEMENT

a. Risk Management Policy

Where a Contracting Party qualifies as either a "swap dealer" or a "major swap participant" under the Commodity Exchange Act (United States) and the regulations of the Commodity Futures Trading Commission, the Contracting Party shall maintain a current written risk management policy. The Contracting Party shall from time to time, upon request by Exchange, provide Exchange with information and documents regarding its risk management policies, procedures and practices, including, but not limited to, information and documents concerning liquidity of the Contracting Party's financial resources and settlement procedures (the "Risk Management Documentation"), and make such information and documents available to Exchange's regulators upon their request. Exchange may, from time to time, conduct on-site audits of the Risk Management Documentation and the Contracting Party shall make reasonable efforts to facilitate any such audits.

b. Risk Limits.

- (i) Exchange shall set risk limits that prevent a Contracting Party's Margin Requirement from exceeding two times the Contracting Party's net worth, or two times the net worth of the Specified Entity where such entity has provided Exchange with financial statements, as adjusted by Exchange in its sole discretion (the "Risk Limit"). Exchange shall provide the Contracting Party with notification of its Risk Limit and any related updates that Exchange determines in its sole discretion are appropriate from time to time.
- (ii) Exchange may allow the Contracting Party to exceed the Risk Limit in an amount to be determined in Exchange's sole discretion, relative to the Collateral and in accordance with certain standards to be set by Exchange from time to time (the "Adjusted Risk Limit").

(May 15, 2012)

8.9. REQUEST FOR ELIGIBLE COLLATERAL SUPPORT BY EXCHANGE

- a. Upon a request by Exchange for additional Eligible Collateral Support from a Contracting Party in accordance with this Agreement, the Contracting Party agrees to provide such additional Eligible Collateral Support to Exchange within the next Business Day or, if the next Business Day is a day that is a Recognized Banking Holiday, then on the first Business Day that is not a Recognized Banking Holiday following any such request. The Contracting Party shall be responsible for any and all wire transfer fees applied or deducted by the Exchange's bank relating to the receipt, deposit or transfer of such Eligible Collateral Support.
- b. A Contracting Party may request a return of Eligible Collateral Support it has provided to Exchange in the form of cash ("Cash Collateral"), or a reduction of Eligible Collateral Support it has provided to Exchange in the form of a letter of credit as Collateral if:

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- (i) its Margin Requirement is less than eighty percent (80%) of the value of the Collateral that it has provided and is available to Exchange, all as calculated hereunder (the "Minimum Collateral Amount"); and
- (ii) no Default has occurred with respect to such Contracting Party.

Upon such a request, Exchange agrees to:

- (i) return an amount of Cash Collateral equal to the lesser of:
 - (1) the full amount of such Cash Collateral; or
 - (2) such portion of such Cash Collateral as would reduce the value of the Collateral of the Contracting Party to be retained by Exchange, as calculated hereunder, to the Minimum Collateral Amount,

such return of Cash Collateral to occur on the next Business Day or, if the next Business Day is a Recognized Banking Holiday, then on the first Business Day that is not a Recognized Banking Holiday, following such request; or

- (ii) accept a new or revised letter of credit where the value of the Collateral of the Contracting Party to be retained by Exchange, as calculated hereunder, meets or exceeds the Minimum Collateral Amount.

9.10. RISK TO EXCHANGE

Notwithstanding any provision of this Agreement, Exchange reserves the right at any time to: (a) decline to enter into any Transactions which, in Exchange's sole determination, increases the credit exposure or adds additional risk of loss to or otherwise affects the risk profile of Exchange; or (b) take any other reasonable actions to preserve the integrity and security of Exchange, the NGX Trading System and/or the NGX Clearing System (including, without limitation, making a request of a Contracting Party for additional Eligible Collateral Support), as determined in the sole discretion of Exchange.

10.11. SETTLEMENT

Exchange will settle all Transactions in accordance with this Agreement, including without limitation the Risk Management Policy for all Contracting Parties including the payment, deposit or transfer of Collateral to Exchange by the Contracting Parties to ensure the performance of all Transactions by the Contracting Parties.

11.12. AFFILIATE NETTING

Except as Exchange may otherwise agree, and without limitation to any other provision in this Agreement, Exchange will net the Transactions and related financial obligations of any Contracting Party and its Contracting Party Affiliates under this Agreement as follows:

- a. the Initial Margin will be determined on the aggregate of the Net Open Positions of the Contracting Party and its Contracting Party Affiliates;
- b. the Variation Margin applicable to all Transactions will be netted; and
- c. the accounts payable and accounts receivable for all Transactions will be netted.

The Contracting Party may elect not to continue to have its Physical Transactions, Swap Transactions and Option Transactions with Exchange netted with its Contracting Party Affiliates by agreement with Exchange. Exchange will

only agree after the Contracting Party and the Contracting Party Affiliate have provided to Exchange Collateral sufficient to cover the Margin Requirements for each party.

12. **DIVISIONS OR BUSINESS UNITS OF CONTRACTING PARTIES**

At the request of a Contracting Party, Exchange may agree to provide segregated reports, invoices, nominations and Collateral accounts for divisions or business units as designated by the Contracting Party. Such segregation is for administration purposes only and will not change the rights or remedies of Exchange under this Agreement or the obligations of any such Contracting Party to perform its obligations as specified under this Agreement.