

## **Proposal for administration of Cross Contracts Ranking Task Force (XKR)**

For consideration by the GISB Executive Committee on October 15, 1998

Chairs: Sylvia Munson, Donna Scott

Work Plan for the task force:

- 1 Immediately post the attached work paper on the GISB web site and request responses from GISB membership. Responses should be submitted to GISB no later than November 9, 1998 for inclusion in the first meeting of the Task Force. The purpose of the work paper is to inform industry participants of the issues raised in the November 1997 FERC NOPR and the varied responses that followed. Because of the wide range of responses, the task force must first determine the items that comprise XKR. The work paper requests a ONE to TWO page paper from industry participants describing their perspective on the scope of XKR.
- 2 The first meeting of the task force will be held on November \_\_\_\_, 1998 in Salt Lake City, Utah. At that meeting, the first portion of the day will be set aside for the respondents to Item 1 to present their paper. The amount of time allotted to each respondent will be dependent upon the number of responses received on time. The objective of the first meeting will be to determine the scope of the XKR task force.
- 3 Immediately after the scope of the task force is determined, a second request will be posted on the GISB web site asking for industry participants to define the tasks that must be addressed by XKR. These tasks should be identified concisely, should be stated as tasks, not standards and should be submitted to GISB no later than December 9, 1998 for inclusion in the second meeting of the task force.
- 4 The second meeting of the task force will be held on December \_\_\_\_, 1998 in New York, New York. The objective of the meeting will be to agree upon a set of tasks that must be addressed by XKR. Parties who submitted responses to item 3, above, will be invited to present their response. The amount of time allotted to each respondent will be dependent on the number of responses received on time.
- 5 Subsequent meetings of the task force will be scheduled at the end of the second meeting. It is expected that most of the meetings will be conducted via conference call. The task force will, as needed, meet face to face.
- 6 The target for completion of the standards related to Cross Contract Ranking, with a meeting schedule of 8 hours / month, is April, 1999.

For Immediate Posting

October 15, 1998

To: GISB participants interested in Cross Contract Ranking  
From: Sylvia Munson, Donna Scott  
Chairs, Cross Contract Ranking Task Force

RE: Request for papers

The first meeting of the GISB Cross Contract Ranking Task Force (XKR) will be held on November \_\_\_ in Salt Lake City, Utah. The attached work plan details the approach that will be utilized. The chairs are requesting all interested participants to submit to GISB a brief description of a proposed scope for the task force. These descriptions will be used to determine the scope of the task force in the first meeting.

When the FERC posed the issue of Cross Contract Ranking in the November, 1997 NOPR, the responses that were submitted by the industry were very broad and addressed many disparate concerns. The documents below are the excerpts from that NOPR and from Order 587-G regarding Cross Contract Ranking.

Participants are requested to familiarize themselves with the issues of the NOPR, Order and respondents and with the responses filed to this request prior to the first meeting of this task force.

If you have any questions, please contact the task force chairs

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## EXCERPT FROM NOPR dated November 1997 regarding Cross Contract Ranking:

### 1. Ranking Across Contracts (Disputed Standard No. 28B)

Disputed Standard No. 28B states that pipelines should permit rankings across contracts for the same service requester and location, when not in conflict with tariff-based rules. Gas package ranking refers to the ability of shippers to designate the amount of gas that will be allocated to particular markets or customers in the event the shipper's full nomination is not accepted. The standards adopted by the Commission already require pipelines to honor shipper "rankings when making reductions during the scheduling process when this does not conflict with tariff-based rules." 82/ For example, if a shipper nominates 1,000 MMBtus under one contract, it can specify how that 1,000 will be divided if the full 1,000 MMBtus is not confirmed. The disputed standard would specifically extend the pipelines' obligation to support ranking across contracts.

Shippers contend this standard is needed to give them the flexibility to manage their own gas supplies. 83/ They point out that shippers may be shipping under a variety of contracts, including their own firm and interruptible contracts as well as capacity release contracts which have their

81/ Disputed Standard No. 77A relating to intra-day nominations, Disputed Standard 85A relating to imbalance trading, and Disputed Standard No. 23 relating to notice of OFO's. See text accompanying notes 40, 46, and 61, *supra*.

82/ 18 CFR 284.10(b)(1)(i), Nominations Related Standards 1.3.23.

83/ Comments of Natural Gas Clearinghouse, at 23 (February 24, 1997); Energy Managers Association, at 15 (February 21, 1997).

own specific terms and conditions. They further note that a capacity release contract may contain a take-or-pay clause in which a shipper is required to pay a certain rate whether it moves gas or not. To maximize their use of transportation, shippers contend they should be able to determine how their transportation is allocated among their contracts.

The pipelines are not unified in their position on this standard.

Columbia Gas/Columbia Gulf support allowing shippers to use rankings across contracts. 84/ Enron Interstate Pipelines, however, is concerned about how such a provision would impact pipelines' tariff provisions establishing scheduling priority. 85/ They ask, for instance, whether a shipper would be able to rank an interruptible contract as having a higher priority than a firm contract.

The Commission's general policy is to allow shippers to manage their gas supplies and contracts in ways that are the most favorable to them as long as such management does not affect the operational integrity of the pipeline. The pipelines, therefore, should provide shippers with the ability to rank gas supplies across their contracts so long as the ranking does not adversely affect the operational integrity of the system. There are two potential scenarios identified by the comments: problems with the shipper's gas supply resulting in a reduction in a shipper's nomination; and transportation constraints resulting in the reduction.

If the reduction is related to a loss of supply, the Commission sees no reason why shippers should not be able to specify the contract under which the

84/ Comments of Columbia Gas Transmission Corporation and Columbia Gulf Gas Transmission Corporation, at 4 (February 21, 1997).

85/ Comments of Enron Interstate Pipelines, at 19 (February 21, 1997).

gas should flow. Such a determination is unrelated to any transportation issues on the pipeline, since there have been no cuts in transportation.

Even when the reduction is a result of transportation problems, allowing the shipper to rank its contracts does not appear to interfere with pipeline scheduling priorities. Suppose a shipper has nominated 100 MMBtus each on three contracts, firm primary, capacity release secondary, and interruptible, from the same receipt to the same delivery point, but the pipeline can schedule only the firm primary contract. Under normal priority rules, the shipper could receive only the 100 MMBtus of transportation represented by the firm primary contract. However, permitting the shipper to choose how to assign those 100 MMBtus among its contracts does not upset the transportation priority rules. The shipper still would receive only the 100 MMBtus represented by its firm primary contract even if it allocated gas to its secondary capacity release contract. If the shipper had nominated no primary firm transportation in this example, it would receive no transportation.

Since the business practices standards already require the pipelines to honor shipper rankings, no new standards are necessary. GISB and the industry should work on dataset changes, if necessary, to permit cross-contract ranking. Such standards should be filed by March 31, 1998 along with the title transfer tracking standards.

## EXCERPT from Order 587-G

### 2. Cross-Contract Ranking

Gas package ranking refers to the designation by a shipper of the amount of gas that will be allocated to particular markets or customers in the event the shipper's full nomination is not accepted. The standards adopted by the Commission already require pipelines to honor shipper "rankings when making reductions during the scheduling process when this does not conflict with tariff-based rules."<sup>1/</sup> For example, if a shipper nominates 1,000 MMBtus under one contract for several markets, it can specify how to divide gas between markets if the full 1,000 MMBtus is not confirmed.

Shippers had complained that, under this standard, pipelines were not permitting them to rank gas supplies across contracts. In the NOPR, the Commission concluded that pipelines should permit cross-contract ranking so long as it does not affect the operational integrity of the pipeline's system. The Commission asked GISB and the industry to submit any additional standards necessary to facilitate cross-contract ranking by March 31, 1998.

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<sup>1/</sup> 18 CFR 284.10(b)(1)(i) (1997), Nominations Related Standards 1.3.23.

Shippers and NGPL support cross-contract ranking.<sup>1/</sup> TransCapacity, while supporting the requirement, suggests that implementation may require some pipelines that handle nominations on a contract basis to change systems so that they become point based. It suggests that either the Commission provide further guidance on this point or allow GISB to try to develop a way for pipelines to implement the requirement without changing their systems. Most pipelines, with the exception of NGPL, oppose cross-contract ranking, contending that it adds too much complexity to the nominations process.<sup>1/</sup>

The Commission's policy is to provide shippers with the tools to enable them most effectively to manage their capacity. Shippers today may be shipping under a variety of contracts, including their own firm and interruptible contracts as well as capacity release contracts which have their own specific terms and conditions. Some pipelines permit cross-contract ranking or have structured their

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<sup>2/</sup> Comments by Altra, MGE, NGC, NGSA, Nicor Gas, PG&E, Piedmont, ProEnergy, SoCal Gas/SDG&E, TransCapacity.

<sup>3/</sup> Comments by K N Interstate Group (adds too much complexity on web based systems), NGT/MRT (make pipeline allocations unmanageable), SGPC (affects transportation priority rules and adds complexity), Viking (requires computer system upgrades and dataset revisions), Williston Basin (cause too many problems), WGP (should only be permitted between contracts or family of contracts of like priority and rate).

pooling to permit such ranking. The ability to allocate gas among these contracts gives shippers additional flexibility. As with title transfer tracking, a consensus of the industry supports the GISB 1998 Annual Plan in which cross-contract ranking standards will be developed by the fourth quarter of 1998, and the Commission, therefore, will expect the submission of such standards by GISB and others by December 31, 1998.

Several shippers and pipelines raise concerns about one aspect of the NOPR dealing with whether shipper rankings across contracts should apply when transportation constraints require pipelines to restrict transportation based on tariff-based service priorities.<sup>1/</sup> For example, if a shipper has nominated 100 units of gas under an interruptible contract and a 100 units under a firm contract, and the pipeline can schedule only the 100 units of firm transportation, which has a higher transportation

priority, should the shipper be able to allocate the 100 units to the interruptible contract.<sup>1/</sup>

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<sup>4/</sup> Comments by ECT, El Paso, Enron, NGPL, NGC, TransCapacity.

<sup>5/</sup> Even if the shipper in the example allocated the 100 units to the interruptible contract, it still could not receive more than the 100 units represented by its firm

Those opposing cross-contract ranking in this situation contend that permitting ranking in this case goes beyond what shippers were seeking in GISB and would improperly override scheduling priorities in pipeline tariffs. While the commenters recognize that permitting ranking would not completely obviate contractual priorities, they maintain it fudges the distinctions and priorities between contract types. NGC, one of the original and strongest proponents of cross-contract ranking, argues that ranking should not override transportation priorities. It argues that permitting such ranking could lead to gaming in which a shipper gains priority to a constrained point under a firm contract and then changes to an interruptible contract, thereby freeing up its firm capacity to gain access to another point, perhaps using an intra-day nomination. El Paso contends that permitting ranking to take precedence over scheduling allocations would cause confusion over which service should be billed as well as create confusion and problems during the confirmation process. On the other side, Altra, although its comment is not altogether clear, appears to contend that even when a cut occurs on the market side of the equation, shippers should be able to rank all contracts flowing into the market regardless of the

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capacity contract. If the shipper had nominated no firm service, it would be unable to allocate any gas to the interruptible contract.

contractual priority of the contract.

GISB should strive to develop mechanisms that provide shippers with the maximum flexibility to rank contracts for both supply and market cuts. GISB, however, should strive to develop a method for handling ranking that will not compromise the transportation priorities associated with firm and interruptible contracts.