BUSINESS PROCESS AND PRACTICES

A. Overview

Pre-Determined Allocation (PDA)

Actual flow of natural gas is allocated to the parties involved in the transaction. These parties can include producers, operators, transporters and shippers using various methodologies to allocate actual quantities. In order to manage the impact of actual quantities varying from scheduled quantities, the specification of the method to be used in allocating actual quantities prior to gas flow is imperative. PDA's accomplish this goal by securing the agreement of the allocating--and allocated--parties on the method to be used for computing the allocation, i.e. relating scheduled quantities to actual physical flow. The implementation of a PDA clarifies all parties' expectations and responsibilities prior to gas flow.

Allocation

The allocation data set will communicate the result of the allocation process at a point. Actual measured quantities are distributed to scheduled transactions at a location. The allocation process takes into account the actual measured quantities, the scheduled quantities and the predetermined allocation method in effect for the allocation period. Quantities are allocated on either a daily or monthly basis.

There are two basic types of allocation -- Single Level or Multiple Level. The Single Level allocation type indicates the location operator will allocate to the service requester level in one step. The Multiple Level allocation type indicates that allocations are performed at multiple levels in a hierarchical manner with parties specifying the allocation method for their purchasers or contracts. There is currently no established GISB standard concerning whether allocations are performed at a single level or multiple levels. Therefore, the allocation data set has been defined in such a way to accommodate either type of allocation. Accommodating both types requires varied usage of data elements dependent on the information being communicated. Information is always shared with the interconnecting operator of a location and limited information may be shared with other business parties (or their designated agents) who at some level may have ownership of gas quantities at the location. The interconnecting operator receives allocated information for the total quantity at the location. Other parties receive information that directly applies to their business transactions. The level of allocation is specified in the data set.

The Multiple Level allocation type is further complicated by the title tracking issue. There is currently no established GISB standard concerning title tracking. This data set should accommodate allocating parties that perform title tracking. The usage of the data elements does not fundamentally change in title tracking. However in title tracking, the terms upstream and downstream refer to the immediate supplier or receiving party relative to the service requester as opposed to the party taking or relinquishing custody at a physical location. Example: In title tracking at a receipt point, the service requester would only know the identity of their direct suppliers and markets and would provide this information on the nomination. The upstream party may not have ownership of gas upstream of the meter. If this is the case, the upstream party would also be providing a nomination to the allocating party identifying their direct supplier. All parties involved in a marketing chain would nominate and the service provider would ultimately be able to identify the true upstream party that has ownership on the upstream facility. An “Operator” allocation statement would identify the upstream party with ownership on the upstream facility. A “Marketer” allocation statement would identify the direct supplier to the recipient of the allocation statement.

The Allocation data set uses information from the nomination, confirmation, pre-determined allocation method and measurement processes. Information contained in the allocation data set will impact the imbalance and invoice processes.

Shipper Imbalance

Natural gas flows from source points to disposition points in accordance with the scheduled nominations made by various parties. The actual flow of gas is then allocated among the various parties to transactions, in accordance with pre-determined allocation methodologies. A shipper nominates a quantity of gas at a receipt point and contracts with a pipeline to transport this quantity of gas to a delivery point. However, allocated quantities at the receipt point and delivery point may not be the same. For example, with reductions for fuel quantities, over-delivery by the transportation service provider at the delivery point, or under delivery by the transportation requester at the receipt point, the quantities at the receipt point and delivery point may not be the same. The resulting difference is referred to as an imbalance.

Imbalances are reported by the allocating party to the affected parties involved in the transportation transaction. Imbalances may be reported on a daily or monthly basis. Imbalances may be resolved in a number of different ways.

The nomination starts the procedure, after which the allocation takes place. Gas is allocated at a location level and a contract level. The imbalance data set provides contract allocation information. The imbalance can be calculated using this information. This information can be a daily or a multi-day function, or it can be final closing data for an accounting period. The monthly imbalance should be monitored throughout the month, so the imbalance may be minimized.

Imbalance Netting and Trading

Shippers must authorize the transportation service provider to post their imbalances via the Authorization to Post Imbalances before such time as they may be included on the Posted Imbalances Download. Shippers, and other interested parties, request the Posted Imbalances Download by use of the Upload of Request for Download of Posted Datasets.

Once a potential trader has identified a desire trade, they must communicate their intentions to both the transportation service provider and the party with whom they wish to trade. The Request for Imbalance Trade is sent to the transportation service provider for this purpose. The transportation service provider will inform the **originating trader** of the acceptance of their request or of any errors through the use of the Request for Imbalance Trade Quick Response.

Communication with the **confirming trader** is intended to be accomplished via phone or fax. However, is would be possible to send the same Request for Imbalance Trade sent to the transportation service provider to the confirming trader to notify them that a trade has been requested.

After the originating trader has requested a trade, the transportation service provider must receive confirmation of the trade from the confirming trader before the close of the transportation service provider's imbalance trading period. Any trades not confirmed by the close of the transportation service provider's imbalance trading period will not be considered confirmed and will not occur.

The confirming trader's Imbalance Trade Confirmation must match the detail of the originating trader's Request for Imbalance Trade. Any discrepancies constitute a failure of the confirmation process and the trade will not occur.

The transportation service provider may choose to solicit an Imbalance Trade Confirmation from the confirming trader through the use of the Request for Confirmation of Imbalance Trade.

Upon successful confirmation of a requested trade, the transportation service requester will notify the originating trader and the confirming trader of the status of the trade by the Imbalance Trade Notification. Neither the originating trader nor the confirming trader can consider their trade confirmed until such time as they receive the Imbalance Trade Notification. If any quantity reductions have occurred in the trade since it's request and subsequent confirmation, the Imbalance Trade Notification will inform the originating trader and the confirming trader of the reductions through the use of reduction reason codes.

Measurement

The Measurement Information data set and the Measured Volume Audit Statement data set are both used to report gas measurement information in support of the allocation, imbalance and invoice processes. The Measured Volume Audit Statement also contains gas component data which is used for calculation and audit purposes.