

TO: GISB Executive Committee Members

FROM: Koch Gateway Pipeline Company
Mobile Bay Pipeline Company
Koch Midstream Services, Inc.

DATE: October 8, 1998

RE: Title Transfer Tracking Task Force ("TTTTF") Recommendation and Proposed Standards

Koch Gateway, Mobile Bay, and Koch Midstream (collectively "Koch") would like to thank all of the members of this task force for their time and effort in wrestling with many very difficult and time-consuming title tracking-related issues. As participants of this task force, Koch appreciates and commends the companies that have contributed volunteer resources, and it recognizes the importance of this issue to many in the industry.

However, Koch has a number of concerns with the recommendation being proffered for comment. Koch reminds the Executive Committee ("EC") that the Federal Energy Regulatory Commission ("FERC") does not require that pipelines perform title tracking. However, Koch supported, and continues to support, the alternative proposal presented in the last two meetings of the task force that requires the pipeline segment to either perform title tracking or be responsible for the performance of title tracking on their respective systems. Koch expected that the alternative would have had significant support from all segments because of this requirement.

The alternative and the current recommendation have several major elements in common, and Koch was hopeful that the alternative could be more fully fleshed out at the task force level. Unfortunately, it appeared that many task force members were unwilling to continue work on the alternative and, in an unprecedented move, voted to send the current recommendation to the EC without the support of the pipeline segment and without the recommendation being fully staffed. Koch was not able to formulate significant comments regarding the TTTTF recommendation to discuss at the task force level because of the large amount of time Koch spent working with others on the alternative proposal, and because this recommendation was both voted and reviewed for the last time in one meeting (the final meeting of the task force).

Global Concerns

First, Koch is concerned about an article that was published in the September, 1998 "GISB Review" publication issued by the GISB office, which states that the data elements and code values that were requested in three title transfer-related requests (R97019, R97043, and R97049) are part of the recommendation out for comment. The specifics of those requests were never discussed in-depth at the TTTTF level, other than to remind task force members that these requests were the impetus for the TTTTF's formation, and that they would eventually be addressed in the course of the TTTTF's work. EC members should also note that the recommendation itself does not indicate that any data elements or code values are to be added, as is usually the case when those elements or values are part of the recommendation (see "Type of Maintenance" on p. 1 of the recommendation). Koch considers the specifics in these requests to be within the purview of the Business Practices Subcommittee and/or the TTTTF, and the Information Requirements ("IR") Subcommittee, to which this recommendation has not be routed. Because the addition of these code values and data elements have not been discussed in detail by any of these GISB groups, Koch does not consider it appropriate to include the specifics of these three requests in the proposed recommendation, and Koch does not support the approval of the data elements and code values sought in those requests for this reason.

This recommendation is not fully staffed; that is, it has not been reviewed by any other task force or subcommittee aside from the TTTTF. This is an unusual GISB practice and one that has been avoided for a number of reasons. One of the most important reasons to recommend to the EC only fully staffed requests is to allow all parties to see "the big picture." It is very important for this particular recommendation to be fully staffed because of the impact it will have on all parties that will be using title tracking services. It is impossible for a company, particularly a regulated one subject to implementing this proposal, to support such an expansive proposal without first reviewing the proposed implementation together with the standards. Because this recommendation has not been reviewed by IR - even though there are many pages of "Instructions to IR" - Koch cannot adequately comment on or support this portion of the recommendation. Koch urges the EC to either carve out and ignore the "Instructions to IR" from this proposal, or, alternatively, refuse to vote on this recommendation until it is fully staffed.

Another global concern is that nearly all of the material in the "Instructions to IR" contains instructions about how to implement an optional process (according to the standards). Adopting standards for processes that are intended to be optional on the part of the regulated entity is not a practice that GISB should undertake. It is possible (in fact, some parties have indicated it will be probable) that the currently proposed "Instructions to IR" may become a part of the GISB Implementation Guides. (These Implementation Guides carry the same weight as standards as far as FERC is concerned.) Consequently, Koch does not feel that it may be clear to FERC or to pipeline customers what this proposal is really saying: the standards seem to require title tracking to be done in the nomination process, yet the implementation guides will likely contain instructions that indicate title tracking may be done in the confirmation process. Because this will prove to be confusing

to those attempting to utilize title tracking services, Koch asks the EC to eliminate any reference in the recommendation to title tracking occurring in the confirmation process.

Regarding the merits of performing title tracking in the confirmation process, Koch and other pipelines attempted to point out numerous times in the task force discussions that title tracking will be very difficult to implement in the confirmation process, particularly as it is proposed in this recommendation. The "Instructions to IR," which describe how title tracking can be done in the confirmations process, also contain an unprecedented amount of unusual information, such as numbered definitions. Koch does not feel it is necessary to re-examine the discussions had in the TTTTF in detail, but at a summary level, the EC should be aware that the "Instructions to IR" are extremely complex, and it is questionable as to whether they can actually be implemented by regulated entities and used in the confirmations process without causing those entities to become non-compliant with other GISB standards, such as the intraday timelines. Therefore, Koch cannot support title tracking occurring in the confirmations process. Koch again urges the EC to excise the "Instructions to IR" or at least the portions that make reference to title tracking in the confirmations process.

Specific Concerns Regarding the Proposed Standards

Koch will limit its comments to the major issues it sees in the recommendation.

The text of Proposed Standard S15 is:

At locations where an OBA is in effect and where Title Transfer Tracking (TTT) services do not exist at this location (logical or physical), Transportation Service Providers (TSPs) should, upon request establish pooling points at, or with respect to, these locations for the purpose of enabling TTT activity not related to transportation.

Proposed Standard S15 is unacceptable because it would allow any party to request a pooling point be established at any OBA point. Koch believes that if pipeline Service Requesters are interested in a pipeline establishing more pools on its system, those Service Requesters should discuss the reasons why they wish to establish a new pool with the pipeline and/or with FERC. This proposed standard, however, not only allows any party to request a pool, but also these same parties could require the pipeline to establish a pool without any evidence of need, other than "for the purpose of enabling TTT activity not related to transportation." Historically, the establishment of pools (or lack thereof) has been a matter of FERC policy, and Koch believes it should continue to be so.

Further, on many pipeline systems, pools have become increasingly liquid, with significant price transparency. Allowing pools to be established on pipelines essentially at random will diminish this liquidity and warp market signals, to the detriment of transportation customers.

The text of Proposed Standard S13 is:

A party to a transaction should nominate, or otherwise communicate, the identity of their transaction counterparty along with the applicable, associated nominations-related information to the appropriate Confirming Party or Title Transfer Tracking Service Provider (TTTSP), in a mutually agreeable manner. Failure to so act can result in the failure of the subject transaction to be scheduled. A Confirming Party may communicate with its party and/or the counterparty as to the existence and nature of a failure to communicate a transaction on the part of the applicable party. A TTTSP may communicate with its Account Holder(s) (AHs) and/or its AH(s)' counterparty(ies) as to the existence and nature of a failure to communicate a transaction on the part of the applicable party.

Proposed Standard S13 is quite obscure, and Koch requests the EC to strike it from the recommendation because of the confusion it creates. For example:

- The phrase "party to a transaction" is unclear - does this refer to the Account Holder ("AH")/Third Party Account Administrator ("3PAD") relationship, the 3PAD/TSP relationship, or some other relationship?
- What does "or otherwise communicate" mean? The other standards in the recommendation seem to indicate that the nomination process alone is the exclusive means of conducting title tracking.
- Who is "a transaction counterparty"? Upstream and downstream parties are already required data elements in the nomination data set - does this phrase envision some other data element/party? If so, why?
- What is meant by nominating in "a mutually agreeable manner"?
- Why is there any reference to "confirming party" in this standard? This sentence also seems to imply that a TSP (a "confirming party" in some situations) would be able to communicate to a "counterparty" of its Service Requester, information about "a failure to communicate a transaction on the part of the applicable party." To the extent this sentence refers to a TSP and a Service Requester, is this not the purpose of reduction reason codes? Does this sentence mean a TSP can now tell its customers' "counterparties" information it is currently forbidden to disclose to them? Does this require a TSP (as a "confirming party") to confirm with its Service Requester ("its party")?

The text of Proposed Standard S16 is:

When a reduction on a party's delivery side occurs at a location, and the Transportation Service Provider (TSP) does not keep the party whole, the TSP should pass the reduction to the appropriately ranked receipt transaction. When a reduction on a party's receipt side occurs at a location, and the TSP does not keep the party whole, the TSP should pass the reduction to the appropriately ranked delivery transaction.

Proposed Standard S16 is not related to title tracking and should be removed from the recommendation. Several parties in the task force believe this proposed standard will force parties that do not currently use rankings correctly to do so. If there is currently noncompliance with an existing standard regarding ranks, creating still another standard will not solve the problem. Instead, those parties with a grievance should request an

interpretation from GISB on the correct usage of ranks, or notify FERC of the noncompliance.

The text of Proposed Standard S17 is:

Where a Transportation Service Provider (TSP) determines to employ the confirmation process in its interactions with a Title Transfer Tracking Service Provider (TTTSP) including a TTTSP acting as the TSP's agent, if any, then the TSP should also offer to employ with other TTTSPs, and may at its discretion require that other TTTSPs employ the confirmation process in addition to the nomination on behalf of process for the purpose of coordinating activities at the TSP's locations with respect to Title Transfer Tracking.

Proposed Standard S17 is regarding an optional business practice - that is, when a TTTSP uses the confirmation process to perform title tracking. As stated above, Koch rejects the notion that GISB should create standards for optional business practices and urges the EC to do the same.

What is the item on the top of page 6 of the recommendation? A standard? Instructions to IR? Something else? Without more explanation, it will not make any sense to anyone who was not present at the last meeting of the task force.

Koch also has concerns with modifying existing Standard 1.3.2. (See discussion below.)

Other Specific Concerns

Koch also has concerns with what is not contained in the recommendation. Specifically, the recommendation does not address at what points TTTSPs may conduct title tracking on the pipeline. Koch believes the TTTTF intended that title tracking be performed only at pooling points (see proposed Standard S1) and at OBA locations (see proposed Standard S15). In addition to the objections Koch has to S15 discussed above, it also opposes having to support a 3PAD at a location other than an existing pooling point. Koch does not believe that there will be any interest in title tracking being performed at non-pooling points on its system, and it is economically unreasonable to require a pipeline to be capable of performing title tracking or supporting a third party performing title tracking at such points.

Koch is also concerned about 3PADs not taking title to the gas they are tracking. Pipeline tariffs require that all shippers on their respective systems take title to the gas; indeed, this is a FERC policy. The third parties that perform title tracking today do take title to the gas, and do not appear to have concerns about doing so. However, several potential 3PADs not currently performing the service have indicated in TTTTF discussions that they will not, under any circumstances, take title to the gas. Who, then, will be responsible to parties whose gas is cut or if there is some other mistake made in the title tracking process? Pipelines will not shoulder such liability as a result of merely dealing with a 3PAD performing title tracking. At a minimum, 3PADs should be required to enter into agreements with pipelines on which they perform title tracking that establish the 3PADs'

obligations and liabilities. Again, although there are no standards in the recommendation that address this issue, the issue of whether 3PADs should take title to the gas is a matter that should be closely examined by FERC, and is not a matter that should be addressed within GISB.

The text of Proposed Standard S7 is:

A Transportation Service Provider (TSP) should conduct business with any Title Transfer Tracking Service Provider (TTTSP) that operates in accordance with those GISB standards applicable to Title Transfer Tracking (TTT) and that performs according to the applicable contract between the TTTSP and the TSP. A TTTSP may perform the TTT service for its affiliates so long as it performs TTT service for non-affiliated parties as well.

The recommendation has no standard that delineates which parties may perform title tracking. This lack of requirement(s), along with the modification of the timelines in existing Standard 1.3.2, will allow any party to become a 3PAD merely by designating itself as such. Proponents of the recommendation feel that the second sentence of proposed Standard S7 will allay fears on the part of the pipelines that parties such as marketers will designate themselves 3PADs in an effort to delay their submission of nominations. Because IR has not yet determined how title tracking nominations will be different from transportation nominations, Koch is not comforted by claims that pipeline systems will not be "gamed." Furthermore, because both 3PADs and their Account Holders are not regulated entities, there is nothing to prevent these Account Holders from obtaining extra time (up to 20 minutes) from their respective 3PADs to submit their nominations to 3PADs, who will in turn submit them to TSPs that must accept them.

In summary, Koch feels that this recommendation is incomplete, at best, and Koch cannot support it in its present form. Koch urges the EC to refrain from voting on the recommendation at this time. The standards need further refinement, either by the EC or the task force. Also, further attempts should be made to ensure that this recommendation can be supported by all segments of GISB, particularly those that may be mandated to implement it. Finally, once the recommendation is complete, it should be sent to both IR and to the Technical Subcommittee for full staffing.

The EC needs to carefully consider how much more time and energy can be put into this issue before further work efforts of this task force should be suspended. Although significant progress has been made, significant work remains to be done, and given GISB's current workload, it may not be possible to continue at the pace this task force has been going.

Thank you for your consideration of these comments.