

Index-Based Capacity Release – LDC Segment Conceptual Workpaper  
August 29, 2007

General Approach

Of the issues raised by INGAA, bidding uncertainty and billing mechanics represent two significant challenges. Never the less, index-based releases can be processed within the existing NAESB constructs for capacity release with some degree of cooperation and mutual agreement amongst all parties involved. This does not mean that all standardization work will be complete by 11/1/2007, however, if releasing shippers, replacement shippers and TSPs communicate and at least temporarily, shift/share responsibility for certain business processes, there is no reason that a November 1, 2007 implementation date cannot be met. Subsequent standardization work would further enhance and standardize the business processes surrounding index-based releases.

Phased Standards Development and Implementation Strategy

Phase I – Baseline bidding and billing – The pipeline tracks bids and awards capacity pursuant to releasing shippers instructions provided in the offer. Releasing shipper would be responsible for tracking of index values and calculation of applicable rates. Pipeline provides volumetric data, as applicable, prior to billing in sufficient lead time for releasing shipper to provide a billing amount to the pipeline for inclusion on the invoices (invoice to replacement shipper and credit to releasing shipper).

Phase II – Full integration with pipeline business systems, e.g. customer activities website and billing system, including pipeline tracking of index values and calculation of applicable rates.

Concept: To ease data tracking and integration issues, Index Publishers would apply to have common codes assigned to index points and provide index pricing information to pipelines in a NAESB standard downloadable format.

Phase III – Full integration with capacity release data sets for EDI implementation.

Types of Index-based Capacity Releases

Much like the structure of discounted or some negotiated rate transportation transactions, index-based releases would most likely be based upon the difference (or spread) between published index prices at two locations or one location and a fixed value. The published index points could be first of the month prices or daily prices and could be applied to either a reservation based release or a volumetric based release. If daily index prices are referenced, weekend pricing would have to be addressed.

A relatively straightforward variation on a pure index-based release would be formula to capture a floor price, for example, the difference in the published index price for point A less for point B but at least x cents per Dth. Index-Based releases based upon the spread between more than one receipt point and/or delivery point, properly weighted or averaged, are another possibility.

Additionally, provided they could fit into this structure, the same logic would apply to capacity releases tied to published index prices for electricity.

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Bidding/Award issues

For general capacity release offers and pre-arranged deals subject to bidding, the releasing shipper should clearly indicate the offer is index-based and should specify a proxy value for each index point in the initial offer. At least initially, the proxy value(s) would be specified in the special terms and conditions. For bid evaluation purposes, the proxy value(s) will make the offer comparable to a traditional capacity release offer and therefore, suitable for evaluation under WGQ Standard No. 5.3.3. i.e. (1) highest rate; (2) net revenue; or (3) present value.

Consistent with WGQ Standard No. 5.3.26, the releasing shipper must choose whether bids are to be expressed in terms of a percentage of the maximum tariff rate or in dollars and cents. The proxy values would equate to a monetary value but would be interpreted in a different manner.

Assume for example that the maximum rate is \$1.00:

- Dollars and cents example - if the proxy prices create a dollar amount equal to 50 cents and a party bids 54 cents, they are bidding index differential plus 4 cents.
- Percentage example – the proxy of 50 cents creates an initial offer percentage of 50% of maximum rate. Bids can be more or less than 50%; a party bidding 54% is bidding 54/50ths of the index differential.

In either case, once a bid reaches a value such that when applied against the proxy, it produces a rate at or above the maximum rate, it is deemed to be a bid at maximum rate. In such a case, the indexed nature of the release disappears and the release is processed as if it was a traditionally priced bid at maximum rate.

Assuming the same example where the maximum rate is \$1.00:

- Dollars and cents example - if the proxy prices create a dollar amount equal to 50 cents and a party bids 100 cents, they are bidding at maximum rate.
- Percentage example – the proxy of 50 cents creates an initial offer percentage of 50% of maximum rate. Bids can be more or less than 50%; a party bidding 100% is bidding maximum rate.

If the release formula included a floor price or a fixed component, there would be some other percentage or differential that would produce the equivalent of a bid at maximum rate.

While not unduly complicated, it would not be unreasonable for a pipeline to require/request assistance from the releasing shipper. For example, a TSP could request that the releasing shipper provide a spreadsheet to calculate the winning bid.

Additionally, any formula provided should be determinable once the proxy has been provided, e.g. no circular reasoning.

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Rate calculation issues

At the end of the month, after all the applicable index values have been published and quantities, where applicable, are known, billing should be a function of multiplication, addition and subtraction. During Phase I, where a pipeline billing system is not capable of billing for an indexed based capacity release, the releasing shipper should provide the pipeline with the billing amount/capacity release credit. Alternatively, a TSP could request that the releasing shipper provide a spreadsheet to calculate the billing amount/capacity release credit.

In the case of volumetric releases, the pipeline should provide allocated quantities as soon as they are available. Further, a reasonable lead time should be established by which time the releasing shipper communicates the billing amount/capacity release credit to the pipeline. WGQ Standards 2.3.21, 3.3.10 and 3.3.14 all have an impact upon the provision of allocated quantities and should be reviewed and possibly modified/enhanced to facilitate provision of allocated quantities to the releasing shipper to accommodate volumetric index-based capacity release billing requirements.

The concept of a shipper calculating billing amounts and providing them to the TSP for inclusion on the bill is not unprecedented within NAESB. The Retail Gas Quadrant has the following Model Business Practices that could provide a conceptual starting point for WGQ standards development:

**RXQ.0.2.4 Bill Ready:** A Consolidated Billing practice in which the Billing Party receives the calculated charge amount(s) directly from the Non-Billing Party in lieu of the Billing Party calculating it directly from the rate.

**RXQ.3.3.1.5** Required metering data that are necessary to fulfill billing responsibilities should be made available to all appropriate party(s) via Uniform Electronic Transactions.

**RXQ.3.3.4.1** The Billing Party should receive the Non-Billing Party's billing information via Uniform Electronic Transaction within two (2) Business Days following the meter reading entity's transmission of valid usage information.

**RXQ.3.3.4.2** When the Non-Billing Party files are received, the Billing Party should acknowledge receipt of a file via Uniform Electronic Transaction within one (1) Business Day of receipt of the file.

**RXQ.3.3.4.3** If, upon examination, it is determined that the Non-Billing Party's file cannot be processed then the Billing Party should reject it. Rejection, accompanied by appropriate uniform error code(s), should be communicated via the appropriate Uniform Electronic Transaction within one (1) Business Day of receipt of the file.

**Other related Model Business Practices: RXQ.3.3.4.4 - RXQ.3.3.4.8**

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Other basic potential Phase I standards language:

**Proposed Standard 3.3.x1** - The Transportation Service Provider (TSP) may require the Releasing Shipper to submit a working computer spreadsheet (or equivalent) to the TSP to calculate rates for index-based capacity release transactions. Such computer spreadsheet should be compatible with TSP's Customer Activities Website. The TSP should post applicable standards relative to such computer spreadsheets on its Information Postings website, but it is the responsibility of the Releasing Shipper to develop and provide the computer spreadsheet. The Releasing Shipper shall warrant that the computer spreadsheet conforms to the index-based rate formula(s) in the Capacity Release offer.

**Proposed Definition 5.2.x1** – An Index-Based Capacity Release provides for rates based on published index prices for specific receipt or delivery points or other reference points (e.g. a Transportation Service Provider's tariff based cash out index) for price determination. Such rates may be based upon a price point differential and/or arrived at by formula. The capacity release offer should identify which rate component is a function of index.

**Proposed Standard 5.3.x1** – For Index-Based Capacity Release offers, the Releasing Shipper should provide proxy index value(s) to facilitate bid evaluation in the capacity release offer.

**Proposed Standard 5.3.x2** - The Transportation Service Provider (TSP) may require the Releasing Shipper to submit a working computer spreadsheet (or equivalent) to the TSP to evaluate Index-Based Capacity Release offers pursuant to WGQ Standard No. 5.3.3. Such computer spreadsheet should be compatible with TSP's Customer Activities Website. The TSP should post applicable standards relative to such computer spreadsheets on its Information postings Website, but it is the responsibility of the Releasing Shipper to develop and provide the computer spreadsheet. The Releasing Shipper shall warrant that the computer spreadsheet conforms to the bid evaluation procedure in the Index-Based Capacity Release offer.