



OFO Changes to be Filed for December 1, 2018

Customer WebEx
October 10, 2018



Agenda

- Type 3 OFO Provisions
 - Purpose
 - January 2018
- Type 3 OFO Changes



Operational Flow Order – Type 3

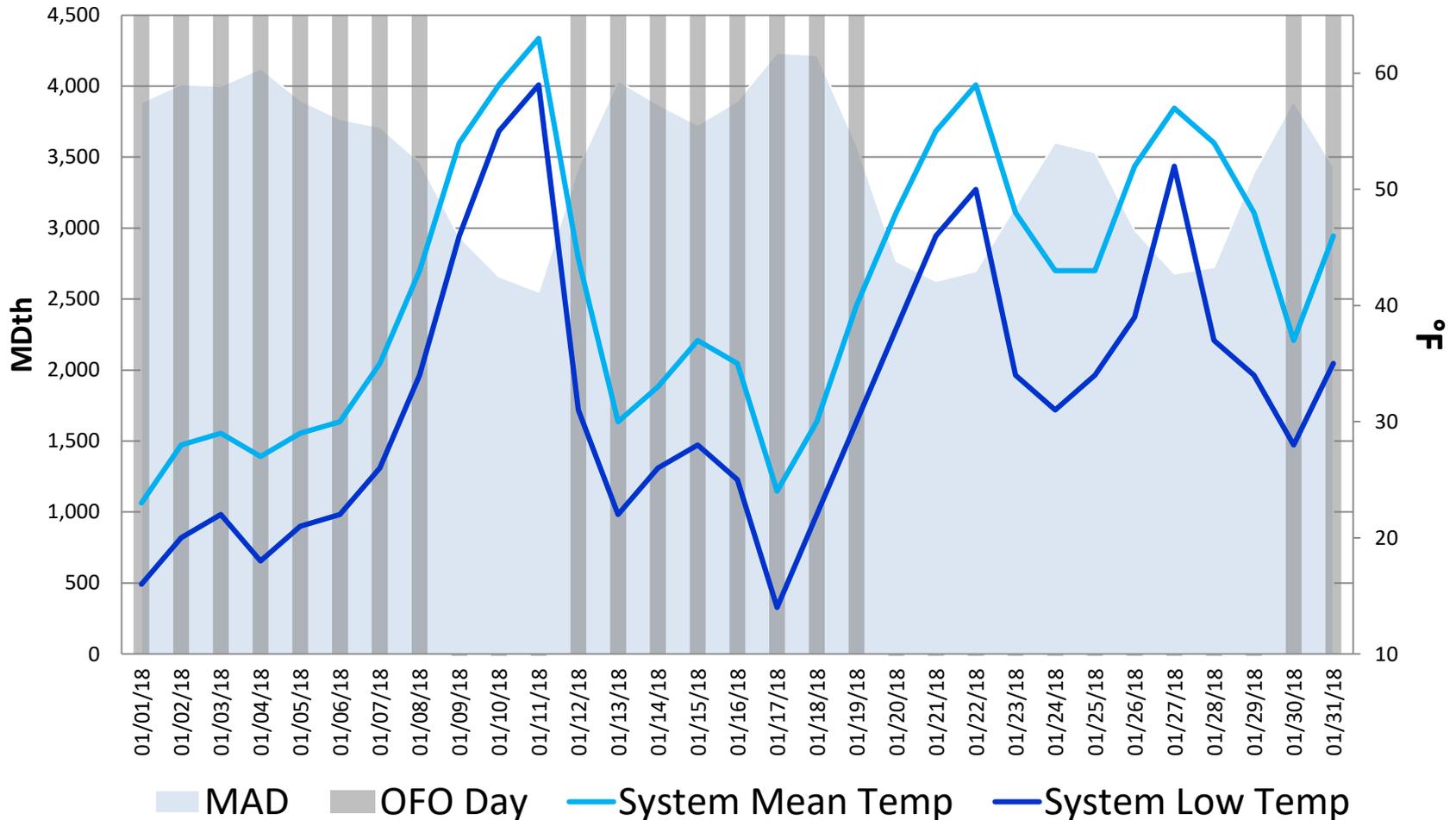
Type 3 OFO Factors

- Type 3 Operational Flow Orders (OFOs) are implemented when demand in an area of the system is forecasted to exceed capacity
 - OFOs are used to protect firm service
 - System conditions dictate the level of interruptible reductions and OFOs needed
- Factors SNG considers when evaluating whether Type 3 OFO penalties need to be implemented:
 - Weather Forecast – system means in the mid-40's and mid-80's are where demand starts to approach capacity
 - Day of week – weekday demand exceeds weekend/holiday demand
 - Expected duration of heavy demand
 - Recent history
 - Nominated deliveries
 - Actual takes from the system higher than entitlements

Winter Review – January 2018

- January 2018
 - New peak day record - January 17, 2018
 - Highest month on record
 - First extremely cold weather since SNG has been a pathed pipeline and shippers knew their priorities through each segment of the system
- Extended cold and system overtakes left limited time for system recovery
 - Line pack did not recover overnight despite good facility availability and performance
 - Storage assets were heavily utilized
 - Type 3 OFOs did not adequately deter overtakes especially when gas prices were higher than the penalty

System Demand / Temps / OFOs January 2018

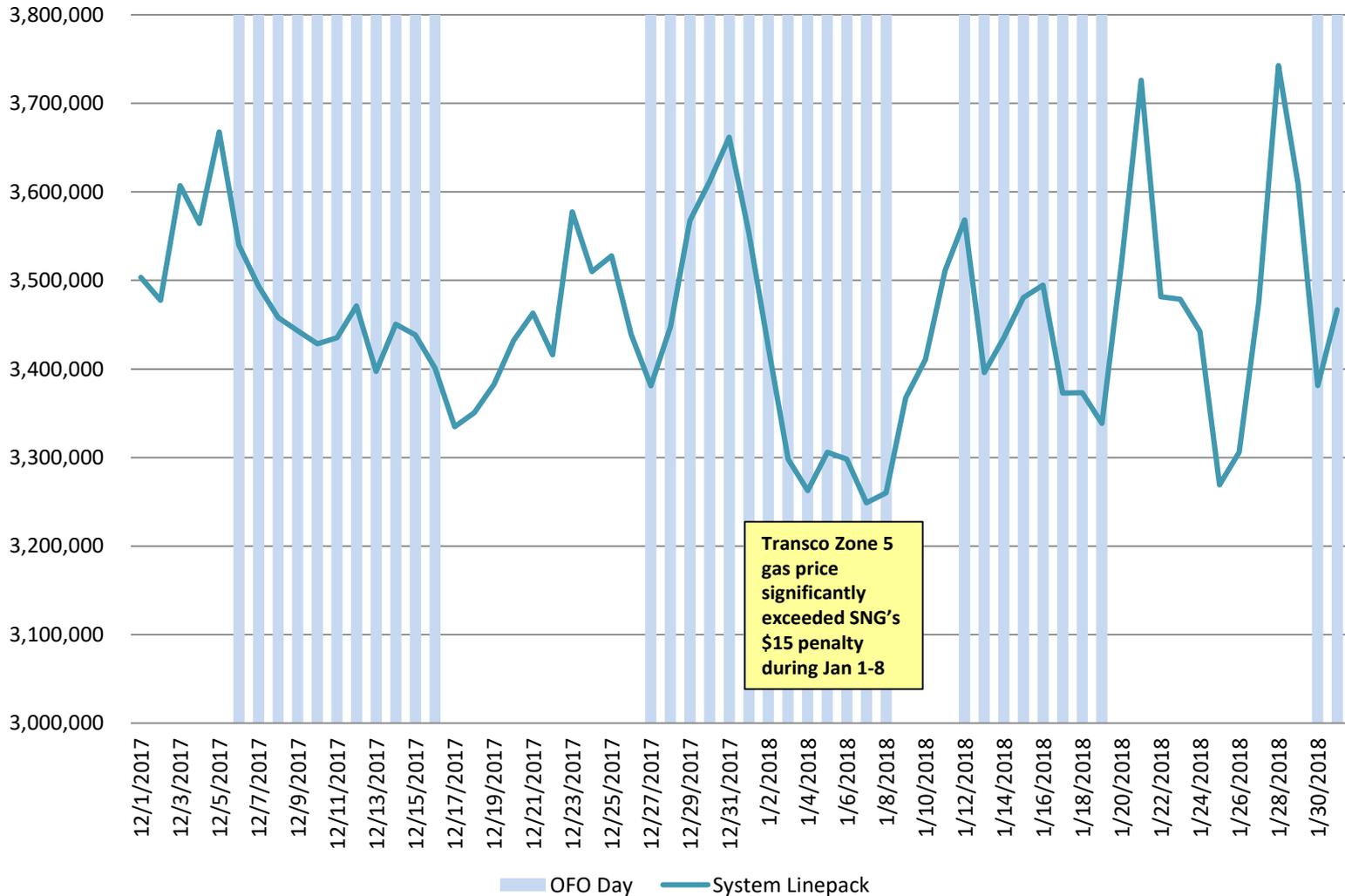


*MAD=Market Area Deliveries

SNG Was Unable to Maintain Linepack Due to Overtakes in January 2018



System Linepack



Protecting System Integrity

- SNG's objective is to provide reliable service by protecting scheduled service, available no-notice, firm contract pressures, and hourly rights
- SNG's Type 3 OFO penalty is assessed on daily quantities taken in excess of the Shipper's Daily Entitlement ("DE") + a tolerance
 - Daily Entitlement = scheduled services + available no-notice
 - Penalty is \$10 - \$15/dth
- SNG performs a series of checks to determine if the tolerance has been exceeded at the following aggregate levels before assessing any penalty
 - OFO group of delivery points
 - Operator level within the group or zone for systemwide operators
 - Nomination agent level within the group
 - Shipper level within the group
- All penalty dollars are credited to shippers through the SCRM surcharge/credit account

Protecting System Integrity (cont'd)

- We have evaluated activity from January 2018 to determine how best to protect system integrity when demand exceeds capacity
- Unlike other pipeline tariffs approved by FERC, SNG's current Type 3 OFO penalties for more serious conditions do not include the price of gas
 - This has undermined the system on critical days when adverse conditions lasted more than a day, unauthorized takes depleted line pack, and delivery of Daily Entitlements was threatened
 - Ex: Transco's penalty is the higher of \$50 or 3 X the Daily Midpoint Price
 - About 90% of SNG's supply now comes from interconnects, so regional pricing can influence gas purchasing decisions
 - With SNG's long-haul west to east capacity fully subscribed, available supply to meet needs downstream of constraints primarily is sourced from Transco receipts
 - Through new interconnects provided by the 2016 SNG expansion via Elba Express and the upcoming Fairburn expansion in 4Q 2018



January 2018 – Regional Pricing

Date	Sonat	Transco Z4	Transco Z5	OFO Day	Date	Sonat	Transco Z4	Transco Z5	OFO Day
1/1/2018	\$3.52	\$3.55	\$34.04	Yes	1/17/2018	\$4.47	\$4.76	\$13.36	Yes
1/2/2018	\$3.52	\$3.55	\$34.04	Yes	1/18/2018	\$3.58	\$3.96	\$8.99	Yes
1/3/2018	\$6.70	\$6.58	\$18.91	Yes	1/19/2018	\$3.30	\$3.45	\$4.01	Yes
1/4/2018	\$6.91	\$7.31	\$50.93	Yes	1/20/2018	\$3.18	\$3.24	\$3.33	
1/5/2018	\$4.28	\$4.46	\$127.57	Yes	1/21/2018	\$3.18	\$3.24	\$3.33	
1/6/2018	\$2.87	\$2.91	\$31.48	Yes	1/22/2018	\$3.18	\$3.24	\$3.33	
1/7/2018	\$2.87	\$2.91	\$31.48	Yes	1/23/2018	\$3.10	\$3.10	\$3.13	
1/8/2018	\$2.87	\$2.91	\$31.48	Yes	1/24/2018	\$3.41	\$3.43	\$3.65	
1/9/2018	\$2.85	\$2.91	\$3.29		1/25/2018	\$3.60	\$3.70	\$4.63	
1/10/2018	\$2.85	\$2.92	\$3.25		1/26/2018	\$3.50	\$3.57	\$3.65	
1/11/2018	\$3.04	\$3.09	\$3.17		1/27/2018	\$3.44	\$3.45	\$3.49	
1/12/2018	\$3.15	\$3.17	\$3.29	Yes	1/28/2018	\$3.44	\$3.45	\$3.49	
1/13/2018	\$3.88	\$4.32	\$19.30	Yes	1/29/2018	\$3.44	\$3.45	\$3.49	
1/14/2018	\$3.88	\$4.32	\$19.30	Yes	1/30/2018	\$3.60	\$3.77	\$9.04	Yes
1/15/2018	\$3.88	\$4.32	\$19.30	Yes	1/31/2018	\$3.58	\$3.71	\$5.38	Yes
1/16/2018	\$3.88	\$4.32	\$19.30	Yes					

Red indicates OFO days when Transco gas prices were higher than SNG’s Type 3, Level 2 OFO penalty of \$15.

Protecting System Integrity - Overview

- SNG's goal is to take a measured approach and establish positive incentives
- The goal is to encourage shippers to purchase gas supplies, or reduce takes of gas, and remove any economic incentive to take unauthorized gas
- Changes will include:
 - An increase to the Type 3 OFO, Level 2 penalty to include a gas price
 - A more effective Type 3 OFO, Level 3 penalty which is used to protect the system in the most extreme system conditions
 - Higher penalty than Level 2 and implementation on 4 hours notice if a pipeline or mechanical failure jeopardizes system integrity
 - Increases in the tolerances for minimum quantities to eliminate smaller penalty quantities
- No changes are proposed to the group, operator/systemwide, nomination agent, or shipper checks
- SNG will continue to monitor underperforming receipt locations and reduce nominations that exceed available flowing wellhead supply as necessary



Changes to OFO Type 3 to be Filed for December 1, 2018

Type 3 OFO - Current

Current Type 3 OFO Provisions:

Level	Notice	Tolerance	Penalty
1	24 hours	Greater of 190 dth or 5% of Daily Entitlement at delivery point or group of delivery points	\$10/dth over tolerance
2	20 hours	Greater of 75 dth or 2% of Daily Entitlement at delivery point or group of delivery points	\$15/dth over tolerance
3	4 hours or 20 hours*	Same as Level 2	\$15/dth over tolerance

*4 hrs if a Level 1 or 2 is in effect; 20 hrs if a pipeline or mechanical failure occur

- **Level 1** – system conditions warrant a correction to flow because a threat to system conditions exist such that Daily Entitlements (“DEs”) may be impaired
- **Level 2** - system conditions warrant a *prompt* correction to flow because an *imminent* threat to system conditions exist such that DEs may be impaired
- **Level 3** - system conditions warrant an *immediate* correction to flow because a an event is jeopardizing system conditions such that DEs may be impaired. Such event is either (i) a mechanical or pipeline failure upstream of a delivery point, or (ii) a Level 2 OFO is in place and system conditions continue to deteriorate.

Type 3 OFO - Changes

Type 3 OFO Changes to be Filed by SNG:

Level	Notice	Tolerance	Penalty Per Dth Over Tolerance
1	No change – 24 hrs	Greater of 190 500 dth or 5% of Daily Entitlement at delivery point or group of delivery points	\$10 (no change)
2	No change – 20 hrs	Greater of 75 200 dth or 2% of Daily Entitlement at delivery point or group of delivery points	\$15 + Highest Regional Daily Average Price
3	4 hours* or 20 hours	Greater of 75 200 dth or 2% of Daily Entitlement at delivery point or group of delivery points	\$15 \$25 + 2X Highest Regional Average Price

* Use 4 hours notice in all cases if a Level 3 event occurs

- **Highest Regional Daily Average Price** = For the applicable flow day, the highest AVG index price published in NGI’s Daily Gas Price Index for all pricing points for the Southern Natural Gas System, and for all Transcontinental Gas Pipeline System pricing points in the Southeast Area grouping (*i.e.*, Zones 4 and 5)

Clean-up Items

- Section 41.1(b) – change Notice Number to OFO Type
 - Conforms to how we refer to the OFOs
- Section 41.2(a) – remove telephone notice to change to or from a Type 3, Level 3 OFO
 - Email and EBB notice are the industry standard and ensure simultaneous receipt
- Section 17.1 – clarify that the Shipper is only charged the highest penalty in effect on a day if multiple penalties are in effect for that day
- Section 17.2 – remove outdated language from the penalty waiver section
 - State that only penalty waivers granted to marketing affiliates are posted on the EBB
 - Remove historic reference to a one-year review of waivers (which was completed as required)

In Summary

- SNG's responsibility is to protect scheduled service and available no-notice service (i.e., Daily Entitlements)
- The OFO Type 3, Level 2 penalty should include the price of gas plus a penalty so the right course of action is clear
- The OFO Type 3, Level 3 penalty should be a higher penalty than Level 2 because it is only used when system conditions deteriorate rapidly or continue to deteriorate
- It is critical to system integrity to act immediately on four hours notice in the event of an OFO Type 3, Level 3 which is consistent with the definition of a Level 3
- Our goal is to take a measured approach and simply tackle the pricing component of the penalty while not reducing tolerances or flexibility of controls at the OFO group or Operator/Shipper levels
- Next step
 - File tariff revisions at FERC in October with a proposed effective date of December 1, 2018



Questions?