



Southern Natural Gas  
Company, L.L.C.  
a Kinder Morgan operated company

October 16, 2018

Ms. Kimberly D. Bose, Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D. C. 20426

Re: Southern Natural Gas Company, L.L.C.  
Tariff Filing  
Docket No. RP19-\_\_\_\_\_

Dear Ms. Bose:

Pursuant to Section 4 of the Natural Gas Act (“NGA”) and Part 154 of the regulations of the Federal Energy Regulatory Commission (“Commission” or “FERC”), Southern Natural Gas Company, L.L.C. (“Southern”) hereby submits for filing and acceptance the following tariff records to its FERC Gas Tariff, Eighth Revised Volume No. 1 (“Tariff”) listed below:

Section 4.17 – GT&C – Penalties, Version 3.0.0  
Section 4.41 – GT&C – OFOs, Version 4.0.0

Southern requests that the Commission accept and approve the attached tariff records to be effective December 1, 2018.

### **Statement of Nature, Basis and Reasons for Proposed Tariff Changes**

The purpose of this filing primarily is to revise the Type 3 Operational Flow Order (“OFO”) penalty provisions in Section 41.2 of the General Terms and Conditions of Southern’s Tariff (“GT&C”). The Type 3 OFO, entitled Daily Market Demand Exceeds Capacity, is implemented when Southern determines in its reasonable judgment that system operations must be maintained within Shippers’ Daily Entitlements at each delivery point or group of delivery points specified in the Type 3 OFO Notice. A Shipper’s Daily Entitlement at a delivery point is the sum of the scheduled quantities and available no-notice service that the Shipper is authorized to take from the system at that delivery point on a gas day. The Type 3 OFO has 3 levels tailored for specific system conditions as set forth in Southern’s Tariff. To make its Type 3 OFO more effective to protect system conditions, Southern proposes herein to update its Type 3 OFO penalties set forth in Section 41 to implement incentives which are more reflective of current conditions in the natural gas market. In addition, such pricing changes reflect the fact that Southern has established more interconnectivity on its system with the gas markets on Transcontinental Gas Pipe Line Corporation (“Transco”) as a result of the SNG Zone 3 expansion which was placed in-service on December 1, 2016.<sup>1</sup>

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<sup>1</sup> Such interconnectivity with Transco will only increase when Southern places in service its new interconnection with Transco as part of the Fairburn Expansion in November, 2018.

In addition, Southern proposes some clean-up revisions to Section 17.1 Penalties – Limitation on Collection of Multiple Penalties to clarify that on a day if multiple penalties are in effect, a Shipper is only charged the highest applicable penalty in effect on that day. The existing language was not clear regarding the timing of the overlapping period and while Southern has implemented this provision consistent with the revisions, Southern’s review of its penalty provisions focused Southern on the fact that the language was less than clear. Also, Southern proposes to revise Section 17.2 Penalties to reflect the provisions of Section 358.7(i), which was amended under Order No. 717.<sup>2</sup>

The proposed changes to Section 41 of the GT&C are described below.

- A. Section 41.1(b) column heading “Notice Number” has been revised to “OFO Type”. This is a housekeeping change consistent with the nomenclature used by Southern when it posts OFOs and provides notice to its Shippers.
- B. Section 41.2(a) has been revised to eliminate the notice to Shippers by telephone for the implementation of a Type 3, Level 3 OFO based on the industry standard for notices to be provided more efficiently by email and by posting on the pipeline’s website to ensure simultaneous receipt. Additionally, another housekeeping change is to clarify that if the OFO is implemented for a group of delivery points, they are identified as an “OFO Group” in Southern’s OFO posting.
- C. Under a Type 3, Level 3 OFO, an event that jeopardizes system conditions is (1) any mechanical or pipeline failure on the Southern system upstream of a Delivery Point, or (2) when a Level 2 OFO is in place but system conditions continue to deteriorate. In Section 41.2(a) the notice for a Type 3, Level 3 OFO has been revised to make the notice period for both conditions the same. This synchronizes the notice provision to 4 hours for both types of events that jeopardize system conditions as specified by the Type 3, Level 3 OFO and which by definition requires an immediate correction in system conditions. As stated in Section 41.2(b), a Type 3, Level 3 OFO requires an immediate correction to flow because an event has occurred or is occurring that jeopardizes system conditions such that Daily Entitlements may be impaired. Under such extreme conditions, it is critical for Southern to be able to implement this penalty as soon as possible for the next gas day. Because Southern’s Tariff does not allow Southern to institute a penalty on an intraday basis, Southern needs to have the ability to issue a Type 3, Level 3 OFO at least 4 hours prior to the Gas Day in the event of a severe mechanical or pipeline failure, so that operators and shippers have the opportunity to react to the OFO as soon as possible. Twenty hours prior to the Gas Day is not enough time to protect the system from an unexpected mechanical or pipeline failure when immediate correction is required.<sup>3</sup>
- D. In Section 41.2(d) the minimum volume tolerance for a Type 3, Level 1 OFO has been revised to increase it from 190 Dth to 500 Dth. The tolerance will now be the greater of 500 Dth or 105% (no change in the percentage) of the Daily Entitlement at a delivery

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<sup>2</sup> Standard of Conduct for Transmission Providers, Order No. 717, FERC Stats. & Regs. ¶31,280 (2008); Order No. 717-A, 129 FERC ¶61,043.

<sup>3</sup> See, Section 41.1(a).

point or group of delivery points. The penalty for quantities taken in excess of the tolerance for Level 1 remains at the current \$10 per Dth.

- E. In Section 41.2(d) the minimum volume tolerance for a Type 3, Level 2 OFO has been revised to increase it from 75 Dth to 200 Dth. The tolerance will now be the greater of 200 Dth or 102% (no change in the percentage) of the Daily Entitlement at a delivery point or group of delivery points. The penalty for quantities taken in excess of the tolerance will increase from the current \$15 per Dth to \$15 plus the highest average index price published in Natural Gas Intelligence Daily Gas Price Index for all pricing points for the Southern Natural Gas System, and for Transco pricing points for Zone 4 and Zone 5 South for the applicable flow day (“Highest Regional Daily Average Price”) per Dth.
- F. In Section 41.2(d) the minimum volume tolerance for a Type 3, Level 3 OFO has been revised to increase it from 75 Dth to 200 Dth. The tolerance will now be the greater of 200 Dth or 102% (no change in the percentage) of the Daily Entitlement at a delivery point or group of delivery points. The penalty for quantities taken in excess of the tolerance will increase from the current \$15 per Dth to \$25 plus two times the Highest Regional Daily Average Price per Dth to better reflect the severity of the situation. Under Southern’s current tariff provision the Level 3 penalty is the same as the Level 2 penalty. This situation makes the Level 3 penalty ineffective to correct system deterioration which may be needed for immediate relief as intended. Under the current penalty structure, there was no meaningful distinction to incentivize Shipper behavior, except in the definition, between a Level 2 and a Level 3 Type 3 OFO, despite the fact that a Level 3 was intended to be implemented when a more severe system condition existed.

Southern considers these revisions to its OFO penalties to be necessary in light of current conditions in the natural gas market. In order for these OFOs to work as intended, the penalties must serve as an effective deterrent to behavior that may threaten operational integrity. In the current natural gas market, a fixed penalty of \$15 per Dth is not always an effective deterrent. Almost 90% of gas supplies on Southern’s system now come from pipeline interconnections instead of directly connected flowing supply. While this interconnectivity is positive for the natural gas industry and Southern’s system on a macro level, it can cause conflicting supply signals on peak days when gas prices spike above the penalty levels in effect. In that regard, Appendix A sets forth the daily index price for Transco Zone 5 South during this past January 2018 on days when Southern was under a Type 3, Level 2 OFO penalty. With the Southern Zone 3 expansion that went in service on December 1, 2016 (CP14-493) and the Southern Fairburn expansion (CP17-46) that is expected to go in service later this year, Southern has new interconnections with the Transco system where Shippers can purchase additional gas supply to be delivered into Southern. This supply is downstream of the west-to-east constraints on Southern’s system but is priced at Transco Zone 5 South prices during winter demand. As shown on Appendix A, the Transco Zone 5 South daily index price was above Southern’s \$15 penalty level on twelve of the eighteen Southern OFO days in January 2018. On seven of these twelve days, the Transco Zone 5 price was above \$30 per Dth (and as high as \$129.17).

As a result of the higher market prices described above which were higher than Southern's Type 3 OFO penalty, Southern experienced in January 2018 that its existing penalty provisions did not adequately deter conduct that threatened system integrity because they were not tied to the actual price of gas. During January, extended cold and system overtakes left Southern with limited time for system recovery even though Southern's facilities were fully available and performing as expected. In addition, at this time plenty of storage inventory was available. Accordingly, Southern was not able to deter Shippers from overtaking gas and its system conditions continued to deteriorate even in the face of the Type 3 OFO.

On days when protecting firm service and system integrity is necessary, Southern wants to ensure that all parties have the incentive to either purchase and schedule gas supply to match expected takes, or reduce the takes of natural gas to match the Daily Entitlements. It should never be a better choice for a shipper to pay the \$15 penalty rather than to purchase gas supply or reduce takes of natural gas in excess of the Daily Entitlement the shipper is authorized to take at each delivery point. OFOs must be effective to protect primary firm services and system integrity.

With the proposed revisions, Southern is taking a measured approach. Specifically, by tying the penalties to natural gas prices, there is inherent flexibility in that the penalty reflects the current market pricing. Also, the proposed penalty levels are not as high as some other pipeline penalty levels in Southern's service territory.<sup>4</sup> Finally, Southern proposes to increase the minimum volume tolerance levels in which Shippers will not have to pay a penalty.

It is important to note that Southern provides as much flexibility to its Delivery Point Operators and Shippers as operationally possible, even on an OFO day. Specifically, when applying a Type 3 OFO, Southern groups delivery points downstream of constraints into designated OFO Groups. The applicable OFO Groups subject to a penalty are stated in Southern's OFO posting. Grouping delivery points together in a manner consistent with system operations allows Southern to perform a series of checks to determine if the tolerance has been exceeded at aggregate levels, such as the OFO Group level, the Operator level within an OFO Group, a Nomination Agent level within an OFO Group, or the Shipper level within an OFO Group before imposing a penalty upon a Shipper.<sup>5</sup> These series of checks provide Operators and Shippers some additional flexibility among the delivery points within an OFO Group so long as their overtakes at a delivery point do not prevent another Shipper from receiving its Daily Entitlement. For example, if Southern applies a Type 3 OFO at a posted OFO Group consisting of 10 delivery points, then prior to assessing a penalty, Southern will total the quantities of gas taken at all 10 delivery points on the OFO day and compare that to the total Daily Entitlements plus the tolerance at the OFO Group level. This is the OFO Group check and if the total takes within the OFO Group do not exceed the total Daily Entitlements plus the tolerance, then no penalty is assessed even if some points within the group took more gas than was authorized. If the OFO Group check fails, then Southern will determine which Shipper caused the overtakes, but only after it determines which party exceeded its Daily Entitlements and tolerance within the OFO Group at the operator, nomination agent, and shipper levels, as applicable. Southern does not plan to take away this

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<sup>4</sup> Transcontinental Gas Pipeline Company, LLC's OFO penalty is the higher of \$50 or three times the applicable midpoint price published in Platts Gas Daily, "Daily Price Survey". Dominion Carolina Gas Transmission's OFO penalty is the higher of \$60 or \$15 plus three times the highest price shown among all the pricing points listed for Transco and the pricing point listed for South Louisiana-Southern Natural in the "AVG" column of the cash market price table published in NGI Daily Gas Price Index.

<sup>5</sup> See Section 41.2(e) of the GT&C.

unique series of checks it has provided for many years because it ensures that penalties are only assessed when (1) the total takes within the OFO Group exceed the total Daily Entitlements plus the tolerance, and (2) the party assessed the penalty exceeded its total Daily Entitlements plus the tolerance at all delivery points within the OFO Group.

Southern's goal is not to assess penalties but to protect system integrity with the right economic incentives. Commission precedent supports the use of index-based penalty levels and the revisions proposed in this filing are similar to other proposals approved by the Commission.<sup>6</sup> In addition, Southern has no incentive to collect penalties. Amounts collected through the imposition of any OFO penalties are not retained by Southern, but pursuant to Southern's Tariff are distributed back to Southern's Shippers in accordance with Section 14.2 of the GT&C. Also, Southern tries to give its Shippers notice on a timely basis of system conditions so that it can prepare for OFOs. Under Section 41.2(b) of the GT&C, Southern provides Shippers relevant information to prepare for a potential OFO and avoid penalty situations by posting daily a notice containing the current operating condition and the projected operating conditions at various key groups along its system, along with the likelihood of implementing a Type 3 OFO for the current gas day as well as the next four gas days. Attached hereto as Appendix B is an example of a recent posting.

### **Procedural Matters**

In accordance with the applicable provisions of Part 154.7 of the Commission's regulations, Southern submits an eTariff XML filing package, filed as a zip (compressed) file containing:

1. This transmittal letter; and
2. Clean and marked versions of the tariff sections in PDF format; and
3. Appendix A; and
4. Appendix B

As required by Section 154.208 of the Commission's Regulations, copies of this filing are being made available at Southern's offices in Birmingham, Alabama, and electronically mailed to Southern's customers and to interested state commissions.

The names, titles, and mailing addresses of the persons to whom communications concerning this filing are to be addressed and to whom service is to be made are as follows:

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<sup>6</sup> *Columbia Gas Transmission, LLC*, 149 FERC ¶ 61,092 (2014); *Transcontinental Gas Pipeline Corporation*, 113 FERC ¶ 61,224 (2005); *Carolina Gas Transmission Corporation*, 148 FERC ¶ 61,186 (2014).

Ms. Kimberly D. Bose, Secretary  
October 16, 2018  
Page 6

Respectfully submitted,

SOUTHERN NATURAL GAS COMPANY

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Enclosures

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all Southern's customers and interested state commissions.

Dated at Birmingham, Alabama this 16th day of October 2018.

/s/ T. Brooks Henderson  
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## **CLEAN VERSION OF TARIFF SECTIONS**



17. PENALTIES

17.1 Limitation on Collection of Multiple Penalties:

Notwithstanding the other provisions of COMPANY'S FERC Gas Tariff to the contrary, and subject to the provisions of Section 17.2 below, if in any month SHIPPER incurs penalty charges under its Service Agreement(s) pursuant to more than one of the following provisions: Sections 41.2, 41.3, or 41.4 of the General Terms and Conditions, COMPANY will bill, and SHIPPER shall be obligated to pay, only the total penalty charges accruing under the one provision from the foregoing sections which yields the largest dollar amount for the total penalty charges incurred under that provision by SHIPPER on any Gas Day under Penalty during the billing month.

17.2 Waiver:

In recognition of the fact that each penalty provision in this FERC Gas Tariff is intended to promote conscientious operations by the SHIPPER such that service to other SHIPPERS is not impaired in any way, COMPANY may waive any penalty charges incurred by SHIPPER if COMPANY determines, in its reasonable judgment, that SHIPPER was conducting its operations in a responsible manner at the time the penalty charges were incurred and that SHIPPER'S conduct did not impair service to another SHIPPER. COMPANY must grant waivers under this section on a non-discriminatory basis, but the waiver of any penalty charges shall not constitute an automatic waiver of any future penalty charges.

COMPANY shall maintain a record of all waivers granted under this Section 17.2 and shall, for any Company marketing affiliate, post on its Interactive Website information concerning such waivers, including the penalty date, penalty quantities waived, and the basis for each waiver.

#### 41. OPERATIONAL FLOW ORDERS (OFOs)

##### 41.1 Implementation of OFOs:

- (a) COMPANY shall attempt to minimize the use of OFOs and the declaration of critical periods and, when possible, to direct an OFO to the specific party(s) creating the operating condition and to the specific location of the system where the operating condition exists. Whenever COMPANY notifies affected parties that an OFO or critical period exists on its pipeline system under one of the provisions referenced below, such notice shall describe the condition and the specific responses required from the affected parties. COMPANY will release an OFO as soon as system conditions make such release feasible and COMPANY will not wait until the start of a gas day if release of the OFO is possible on an intraday basis. Each potential OFO condition set forth below contains the amount of notice COMPANY is required to give prior to implementing the OFO, if applicable, through its Interactive Website. COMPANY will not assess any penalties under the provisions set forth below on an intraday basis, even if the applicable notice becomes effective during the gas day.
- (b) The following provisions in COMPANY'S FERC Gas Tariff constitute OFOs or critical periods on COMPANY'S system:

<u>OFO Type</u>	<u>Short Description</u>	<u>Does a Penalty Apply?</u>	<u>Tariff Cite</u>
2	Hourly Market Demand Exceeds Capacity	No, but flow control can be installed	Sec. 10.3 – GT&C
3	Daily Market Demand Exceeds Capacity	Yes	Sec. 41.2 – GT&C
4	Daily Deliveries Create Imbalance That Threaten Capacity	Yes	Sec. 41.3 (a), (c), (d) - GT&C
5	Daily Receipts Create Imbalance That Threaten Capacity	Yes	Sec. 41.3 (a), (b), (d) – GT&C
6	Daily Shipper Imbalances Threaten System Integrity	Yes	Sec. 41.4 – GT&C

##### 41.2 Daily Market Demand Exceeds Capacity:

- (a) Whenever COMPANY determines in its reasonable judgment that system operations must be maintained within SHIPPERS' Daily Entitlements, consistent with the criteria set forth in Section 41.2(b) below, COMPANY shall notify SHIPPER that gas taken in excess of either (i) its Daily Entitlement for all of its Delivery Points, or (ii) the quantity of gas allocated for delivery to SHIPPER at a specific Delivery Point or group of Delivery Points at which it is a SHIPPER or a nomination agent or an operator will be subject to this Section 41.2. All SHIPPERS shall comply at any time of day with a notice to limit the taking of gas to the maximum quantity of gas permitted to be taken pursuant to the several provisions of this Section 41.2. The notices under this section shall be designated as being under one of three operating conditions: Level 1, Level 2 or Level 3 as further described below. When COMPANY implements an operational flow order under this Section or when COMPANY changes the level of the operating condition, COMPANY shall provide notice to its SHIPPERS by e-mail pursuant to Section 18 of these General Terms and Conditions and by posting such changes on its Interactive Website. Notices shall be given as soon as practicable but no shorter than the notice periods set forth below. The notice will clearly specify the Delivery Point or group of Delivery Points affected by the OFO ("OFO Group"); and, except as provided under Section 41.2(c)

below, any Delivery Points to be grouped will be grouped based on the current operating conditions on the System at the time the notice is issued.

An operational flow order under this Section 41.2 will not go into effect, however, until a notice is given as follows: (i) For Level 1 OFO notices: at least 24 hours prior to the beginning of the gas day in which the notice goes into effect; (ii) For Level 2 OFO notices: at least 20 hours prior to the beginning of the gas day in which the notice goes into effect; (iii) For Level 3 OFO notices: at least 4 hours prior to the beginning of the Gas Day in which the notice goes into effect. Such notice shall specify the beginning time of the operational flow order and such operational flow order shall remain in effect until cancelled by COMPANY. In the notice COMPANY shall specify the reason for the operational order and the expected conditions that would cause release of the order.

- (b) In order to determine an event which may give rise to an operational flow order under this Section, COMPANY shall evaluate the current status of the system, including, but not limited to, the line inventory, line pressures, equipment availability and outages, the level of inventory at the storage fields, the current imbalance status of the system, including no-notice nominations, the month to date imbalance status of the system, and the direction of change for any of these criteria. COMPANY shall then evaluate the forecasted demand and available capacity on the system based on these factors and the weather forecast for areas across the system and any other factors which could influence the level of usage or flow on the system, such as potential loss of supply, economic conditions relating to gas or oil prices and the status of competing pipelines. Based on an evaluation of current and forecasted system conditions, COMPANY shall post by 1:00 p.m. (CCT) each gas day the operating condition for the current gas day and the projected operating conditions, the likelihood of implementing an OFO under this section, and, if a likelihood exists, the criteria that will be monitored for the succeeding four gas days. Such operating conditions will be posted to be Normal, Level 1, Level 2, or Level 3. The operating conditions may be different for Delivery Points or groups of Delivery Points within the various geographic areas of Company's System. Normal Mode shall be implemented when system conditions do not warrant a correction in flow, and when no known threat to system conditions exists. A Level 1 OFO shall be implemented when system conditions warrant a correction in flow because a threat to system conditions exists such that daily entitlements may be impaired. A Level 2 OFO shall be implemented when system conditions warrant a prompt correction in flow because an imminent threat to system conditions exists such that daily entitlements may be impaired. A Level 3 OFO shall be implemented when system conditions warrant an immediate correction to flow because an event has occurred or is occurring that jeopardizes system conditions such that daily entitlements may be impaired. Under a Level 3 OFO, an event that jeopardizes system conditions shall be considered to be either (i) any mechanical or pipeline failure on the System upstream of a Delivery Point; or (ii) when a Level 2 OFO has been in a place and System conditions continue to deteriorate.
- (c) When giving a notice pursuant to Section 41.2 (a) that the quantity of gas taken in excess of the quantity of gas allocated for delivery at a specific Delivery Point or group of Delivery Points will be subject to Section 41.2(d), COMPANY shall recognize the right of a SHIPPER which owns and operates a system having multiple Delivery Points with COMPANY to take all or any portion of its Daily Entitlement at any Delivery Point or group of Delivery Points listed on the Exhibit B to its Service Agreement with COMPANY (up to the maximum meter capacity of the existing facilities and the capacity of the pipeline and laterals upstream of the meter).
- (d) All gas taken by a SHIPPER after receipt of a notice given pursuant to Section 41.2(a) under a Level 1 OFO, to the extent that the quantity of gas exceeds by both 500 dth/day and 105 percent either (i) its Daily Entitlement for all of its Delivery Points, as established either by an allocation order or orders given by the COMPANY pursuant to Section 16.2 above and/or through COMPANY'S confirmation of SHIPPER'S nominations in accordance with the provisions of Section 12 of these General Terms and Conditions, or (ii) the quantity of gas allocated for delivery to SHIPPER at a specific Delivery Point or group of Delivery Points pursuant to such procedures, shall be deemed to be Unauthorized Overrun Gas, and COMPANY shall bill and SHIPPER shall pay for such

Unauthorized Overrun Gas, in addition to the charges applicable under the respective rate schedules, a penalty of \$10.00 per Dth for quantities taken in excess of the tolerances set forth in this sentence above. All gas taken by a SHIPPER after receipt of a notice given pursuant to Section 41.2(a) under a Level 2 OFO, to the extent that the quantity of gas exceeds by both 200 dth/day and 102 percent either (i) its Daily Entitlement for all of its Delivery Points, as established either by an allocation order or orders given by the COMPANY pursuant to Section 16.2 above and/or through COMPANY'S confirmation of SHIPPER'S nominations in accordance with the provisions of Section 12 of these General Terms and Conditions, or (ii) the quantity of gas allocated for delivery to SHIPPER at a specific Delivery Point or group of Delivery Points pursuant to such procedures, shall be deemed to be Unauthorized Overrun Gas, and COMPANY shall bill and SHIPPER shall pay for such Unauthorized Overrun Gas, in addition to the charges applicable under the respective rate schedules, a penalty of \$15.00 plus the highest average index price published in Natural Gas Intelligence 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 Transco Zone 4 and Transco Zone 5 South Groupings for the applicable flow day ("Highest Regional Daily Average Price") per Dth for quantities taken in excess of the tolerances set forth in this sentence above. All gas taken by a SHIPPER after receipt of a notice given pursuant to Section 41.2(a) under a Level 3 OFO, to the extent that the quantity of gas exceeds by both 200 dth/day and 102 percent either (i) its Daily Entitlement for all of its Delivery Points, as established either by an allocation order or orders given by the COMPANY pursuant to Section 16.2 above and/or through COMPANY'S confirmation of SHIPPER'S nominations in accordance with the provisions of Section 12 of these General Terms and Conditions, or (ii) the quantity of gas allocated for delivery to SHIPPER at a specific Delivery Point or group of Delivery Points pursuant to such procedures, shall be deemed to be Unauthorized Overrun Gas, and COMPANY shall bill and SHIPPER shall pay for such Unauthorized Overrun Gas, in addition to the charges applicable under the respective rate schedules, a penalty of \$25.00 plus two times the Highest Regional Daily Average Price per Dth for quantities taken in excess of the tolerances set forth in this sentence above. The penalties set forth herein shall apply for any day in which the operational flow order is in effect.

It is provided, however, that if COMPANY has issued a penalty notice pursuant to Section 41.2(a) for (i) a Delivery Point where electronic measurement has not been installed or has not been installed to meter at least 75% of the volumes where the Delivery Point is comprised of more than one measurement station, or (ii) a group of Delivery Points where electronic measurement has not been installed to meter at least 75% of the volume from the Delivery Points, then the penalty assessed under this Section 41.2(d) shall be \$5.00 per Dth. For purposes of determining the 75% threshold, COMPANY shall use the volumes metered at each measurement station during the twelve-month period ending annually on March 31. Payments pursuant to this Section 41.2 shall not, under any circumstances, be considered as giving SHIPPER the right to take Unauthorized Overrun Gas; nor shall such payment exclude or limit any other remedies available to COMPANY or to another SHIPPER against SHIPPER for failure to limit its taking of gas to its Daily Entitlement.

- (e) Prior to application of the penalty set forth above in Section 41.2(d), if the total gas taken (i) at the group of Delivery Points described in Section 41.2(a) above, or (ii) by a SHIPPER or nomination agent or operator receiving service within the group of Delivery Points described in Section 41.2(a) above does not exceed the applicable tolerance set forth above, then COMPANY shall not assess the penalty for that group of Delivery Points or to that SHIPPER, respectively. Notwithstanding the above or Section 41.2(c) above, COMPANY may apply the penalty to any SHIPPER which takes gas in excess of the tolerance set forth in Section 41.2(d) above if such unauthorized takes prevent or limit another SHIPPER from receiving its scheduled and no-notice deliveries at any Delivery Point on COMPANY's system. In addition, COMPANY shall be entitled to separate any single Delivery Point from a group of Delivery Points under the notice hereunder if deliveries at the Delivery Point either (i) are consistently and materially in excess of daily entitlements after issuance of an OFO notice under this Section 41.2; or (ii) have repeatedly taken action which is contrary to the direction of an OFO issued under this Section.

41.3 Daily Receipts/Deliveries Exceed Capacity Due To Imbalances

- (a) If COMPANY is experiencing capacity constraints at certain Receipt or Delivery Points or operational difficulties because of the variance between SHIPPERS' scheduled nominations and actual receipts and/or deliveries for SHIPPERS' accounts or because the gas quality at the Receipt Point is not in conformance with the terms of Section 3.1(g) of these General Terms and Conditions, COMPANY will give SHIPPERS twenty-four (24) hours' notice prior to the start of the gas day to which the notice applies that it will assess the scheduling penalties set forth below in Sections 41.3(b) and/or 41.3(c). In such notice, COMPANY shall specify the direction in which the variance is prohibited as a result of the operational difficulty. It is provided, however that variances between SHIPPER'S nominations and actual receipts and/or deliveries which are attributable to no-notice service under Rate Schedule FT-NN shall not be subject to penalty under this Section 41.3. The notice shall list all Receipt and/or Delivery Points where the scheduling penalties will be assessed and will remain in effect until SHIPPERS are notified to the contrary.

- (b) If during any day of the month SHIPPER'S total scheduled quantities at a Receipt Point set forth in a notice given under (a) above vary by more than four (4) percent of the actual daily quantities received by COMPANY for SHIPPER'S account at the Receipt Point on that day, and such variance is in the direction prohibited in such notice, then a scheduling penalty shall be assessed; provided, however, that said scheduling penalty shall not be assessed if said variance occurs solely because of COMPANY'S inability to accept gas delivered to COMPANY for SHIPPER'S account and such inability to accept gas is not because the quality of the gas at the Receipt Point fails to meet the standards set forth in Section 3 of these General Terms and Conditions.

Notwithstanding the fact that SHIPPER's scheduled quantities and SHIPPER's actual receipts vary by more than the four (4) percent tolerance described above, if the total scheduled quantities (i) at the Receipt Point identified in the notice or (ii) at a group of Receipt Points identified in the notice set forth in Section 41.3(a) above, if applicable; or (iii) at those Receipt Points within the group of Receipt Points in (ii) above, having the same Point Operator as the Receipt Point at which SHIPPER has scheduled quantities, if applicable, do not vary by more than four (4) percent of the daily quantities received by COMPANY at the Receipt Point, the group level, or the operator level, respectively, then the scheduling penalty shall not be assessed hereunder. Subject to the provisions of Section 41.3(d) below, the scheduling penalty shall be equal to the maximum Transportation Charge under the IT Rate Schedule multiplied by the quantities in excess of the allowed variance, provided, however, that such penalty shall be waived for an interruptible SHIPPER whose scheduled quantities are bumped by a firm intra-day nomination but shall be waived only for the day that such bumping occurs.

- (c) If during any day of the month the actual quantities of gas delivered at each Delivery Point set forth in a notice given under (a) above by COMPANY for SHIPPER'S account vary by more than four (4) percent of SHIPPER's scheduled quantities, including any applicable no-notice entitlements for each Delivery Point, and such variance is in the direction prohibited in such notice, then a scheduling penalty shall be assessed. Notwithstanding the fact that SHIPPER's scheduled quantities and SHIPPER's actual deliveries vary by more than the four (4) percent tolerance described above, if the total scheduled quantities (i) at the Delivery Point identified in the notice or (ii) at a group of Delivery Points identified in the notice set forth in Section 41.3(a) above, if applicable; or (iii) at those Delivery Points within the group of Delivery Points in (ii) above, having the same Point Operator as the Delivery Point at which SHIPPER has scheduled quantities, if applicable, do not vary by more than four (4) percent of the daily quantities delivered by COMPANY at the Delivery Point, the group level, or the operator level, respectively, then the scheduling penalty shall not be assessed hereunder. Subject to the provisions of Section 41.3(d) below, the scheduling penalty shall be equal to the maximum Transportation Charge under the IT Rate Schedule multiplied by the quantities in excess of the allowed variance, provided, however, that such penalty shall be waived for an interruptible SHIPPER whose scheduled quantities are bumped by a

firm intra-day nomination but shall be waived only for the day that such bumping occurs.

- (d) If COMPANY has given notice that it is assessing one of the foregoing scheduling penalties under Section 41.3(b) or (c) at a Receipt or Delivery Point on a day when it is also limiting receipts or deliveries at such point, then COMPANY shall so specify in its notice. The scheduling penalty assessed on any such day shall be equal to \$15.00 per Dth multiplied by the quantities in excess of the allowed variance under the applicable provision above.

#### 41.4 DAILY IMBALANCE PENALTIES

- (a) For Rate Schedules IT, FT-NN, FT, and Supply Pool Balancing Agreements, if COMPANY determines in its reasonable judgment that any imbalance between the gas received by COMPANY for SHIPPER'S account and delivered by COMPANY for SHIPPER'S account threatens the physical or operational integrity of its pipeline system, which includes the ability to deliver to any other SHIPPER its Daily Entitlement, COMPANY shall have the right to interrupt or limit at any time, and from time to time, the quantities of gas it will receive for transportation or deliver for SHIPPER'S account to the extent COMPANY in its reasonable judgment deems necessary in order to maintain the physical or operational integrity of its pipeline system. Any notice to interrupt or limit the quantity of gas to be received or delivered by COMPANY shall be given four (4) hours in advance, or such shorter period of time as is required to prevent physical damage to or to maintain the operational integrity of COMPANY'S pipeline system, and shall be limited to an amount COMPANY reasonably estimates does not exceed the amount of the imbalance threatening the operational integrity of COMPANY'S pipeline system. Further, to the maximum extent practicable, COMPANY shall limit the scope and duration of any action or order to interrupt or limit the receipt and/or delivery of gas so that service to SHIPPER is maintained at the highest level consistent with maintaining the physical or operational integrity of COMPANY'S pipeline system.

If SHIPPER accrues an imbalance in violation of said limitation notice given by COMPANY, SHIPPER shall pay the following applicable penalty charges. Penalties on SHIPPER's imbalance shall be based on the following percentages of SHIPPER's allocated deliveries. SHIPPER's imbalance shall be defined as the difference of SHIPPER's allocated receipts and SHIPPER's allocated deliveries. Notwithstanding the above, the following activity by SHIPPER shall not cause SHIPPER to incur a penalty under this Section: (a)no-notice storage withdrawals made under Rate Schedule FT-NN where the notice above limits receipts (supply long imbalances); or (b)no-notice storage injections where the notice above limits deliveries(supply short imbalances).

Imbalance (Percentage of Allocated Deliveries)	Penalty (Per Dth)
0 - 2% or < 200 Dth	No Penalty
>2 - 5%	\$1.00
>5 - 8%	\$5.00
> 8%	\$15.00

Notwithstanding the above, in the event that the COMPANY has in effect such limitation notice and the actual overall system imbalance is opposite to the direction of the said notice, SHIPPER shall not be penalized.

- (b) Insofar as practicable, when COMPANY detects the development of a system imbalance that threatens the physical or operational integrity of its pipeline system as described in 41.4(a) above, COMPANY shall endeavor to identify those SHIPPERS making a significant contribution to the imbalance and to contact such SHIPPERS in an effort to reduce the system imbalance and avoid the necessity of imposing penalties as set forth in 41.4(a)above. It is recognized, however, that such prior notification may not be possible under all circumstances, e.g., when COMPANY must act quickly in order to protect the integrity of its system.

- (c) Based on an evaluation of current and forecasted system conditions, COMPANY shall post by 2:00 p.m. (CCT) each Friday, or, if Thursday or Friday is a recognized COMPANY holiday, then on the day before such recognized COMPANY holiday, the probability of implementing an OFO under this Section 41.4 for the succeeding Saturday, Sunday, and Monday and the Thursday and/or Friday during a recognized COMPANY holiday. If system conditions change, COMPANY shall update such posting periodically throughout the weekend.

## **MARKED VERSION OF TARIFF SECTIONS**



17. PENALTIES

17.1 Limitation on Collection of Multiple Penalties:

Notwithstanding the other provisions of COMPANY'S FERC Gas Tariff to the contrary, and subject to the provisions of Section 17.2 below, if in any month SHIPPER incurs penalty charges under its Service Agreement(s) pursuant to more than one of the following provisions: Sections 41.2, 41.3, or 41.4 of the General Terms and Conditions, COMPANY will bill, and SHIPPER shall be obligated to pay, only the total penalty charges accruing under the one provision from the foregoing ~~list sections~~ which yields the largest dollar amount for the total penalty charges incurred under that provision by SHIPPER on any Gas Day under Penalty during the ~~entire~~billing month.

17.2 Waiver:

In recognition of the fact that each penalty provision in this FERC Gas Tariff is intended to promote conscientious operations by the SHIPPER such that service to other SHIPPERS is not impaired in any way, COMPANY may waive any penalty charges incurred by SHIPPER if COMPANY determines, in its reasonable judgment, that SHIPPER was conducting its operations in a responsible manner at the time the penalty charges were incurred and that SHIPPER'S conduct did not impair service to another SHIPPER. COMPANY must grant waivers under this section on a non-discriminatory basis, but the waiver of any penalty charges shall not constitute an automatic waiver of any future penalty charges.

COMPANY shall maintain a record of all waivers granted under this Section 17.2 and shall, for any Company marketing affiliate, post on its Interactive Website information concerning such waivers, including the penalty date, penalty quantities waived, and the basis for each waiver. ~~and an indication of whether the waiver was granted to a COMPANY affiliate. The record of all waivers granted under this Section 17.2 shall be reviewed after this FERC Gas Tariff has been in effect for one year to determine whether this provision has operated as intended. After this review has been completed, any party may file with the Commission a proposal to change this Section 17.2 in such manner as appropriate to ensure that this Section promotes prudent and safe operations by these SHIPPERS using COMPANY'S pipeline system.~~

#### 41. OPERATIONAL FLOW ORDERS (OFOs)

##### 41.1 Implementation of OFOs:

- (a) COMPANY shall attempt to minimize the use of OFOs and the declaration of critical periods and, when possible, to direct an OFO to the specific party(s) creating the operating condition and to the specific location of the system where the operating condition exists. Whenever COMPANY notifies affected parties that an OFO or critical period exists on its pipeline system under one of the provisions referenced below, such notice shall describe the condition and the specific responses required from the affected parties. COMPANY will release an OFO as soon as system conditions make such release feasible and COMPANY will not wait until the start of a gas day if release of the OFO is possible on an intraday basis. Each potential OFO condition set forth below contains the amount of notice COMPANY is required to give prior to implementing the OFO, if applicable, through its Interactive Website. COMPANY will not assess any penalties under the provisions set forth below on an intraday basis, even if the applicable notice becomes effective during the gas day.
- (b) The following provisions in COMPANY'S FERC Gas Tariff constitute OFOs or critical periods on COMPANY'S system:

<u>NoticeOFO NumberType</u>	<u>Short Description</u>	<u>Does a Penalty Apply?</u>	<u>Tariff Cite</u>
2	Hourly Market Demand Exceeds Capacity	No, but flow control can be installed	Sec. 10.3 – GT&C
3	Daily Market Demand Exceeds Capacity	Yes	Sec. 41.2 – GT&C
4	Daily Deliveries Create Imbalance That Threaten Capacity	Yes	Sec. 41.3 (a), (c), (d) – GT&C
5	Daily Receipts Create Imbalance That Threaten Capacity	Yes	Sec. 41.3 (a), (b), (d) – GT&C
6	Daily Shipper Imbalances Threaten System Integrity	Yes	Sec. 41.4 – GT&C

##### 41.2 Daily Market Demand Exceeds Capacity:

- (a) Whenever COMPANY determines in its reasonable judgment that system operations must be maintained within SHIPPERS' Daily Entitlements, consistent with the criteria set forth in Section 41.2(b) below, COMPANY shall notify SHIPPER that gas taken in excess of either (i) its Daily Entitlement for all of its Delivery Points, or (ii) the quantity of gas allocated for delivery to SHIPPER at a specific Delivery Point or group of Delivery Points at which it is a SHIPPER or a nomination agent or an operator will be subject to this Section 41.2. All SHIPPERS shall comply at any time of day with a notice to limit the taking of gas to the maximum quantity of gas permitted to be taken pursuant to the several provisions of this Section 41.2. The notices under this section shall be designated as being under one of three operating conditions: Level 1, Level 2 or Level 3 as further described below. When COMPANY implements an operational flow order under this Section or when COMPANY changes the level of the operating condition, ~~from Level 1 to Normal, Level 1 to Level 2, Level 2 to Level 1 or Level 2 to Normal,~~ COMPANY shall provide notice to its SHIPPERS by e-mail pursuant to Section 18 of these General Terms and Conditions and by posting such changes on its Interactive Website. ~~Notices to change to or from a Level 3 OFO shall be delivered to SHIPPER by telephone.~~ Notices shall be given as soon as practicable but no shorter than the notice periods set forth

below. The notice will clearly specify the Delivery Point or group of Delivery Points affected by the OFO ("OFO Group") and, except as provided under Section 41.2(c) below, any Delivery Points to be grouped will be grouped based on the current operating conditions on the System at the time the notice is issued.

An operational flow order under this Section 41.2 will not go into effect, however, until a notice is given as follows: (i) For Level 1 OFO notices: at least 24 hours prior to the beginning of the gas day in which the notice goes into effect; (ii) For Level 2 OFO notices: at least 20 hours prior to the beginning of the gas day in which the notice goes into effect; (iii) ~~For Level 3 OFO notices: at least 4 hours prior to the beginning of the Gas Day in which the notice goes into effect. effective time of the notice if a Level 1 or Level 2 OFO is already in effect as provided above. If a Level 1 or Level 2 OFO is not already in effect, then COMPANY must give SHIPPERS at least 20 hours notice prior to the effective time of the notice to implement a Level 3 OFO.~~ Such notice shall specify the beginning time of the operational flow order and such operational flow order shall remain in effect until cancelled by COMPANY. In the notice COMPANY shall specify the reason for the operational order and the expected conditions that would cause release of the order.

- (b) In order to determine an event which may give rise to an operational flow order under this Section, COMPANY shall evaluate the current status of the system, including, but not limited to, the line inventory, line pressures, equipment availability and outages, the level of inventory at the storage fields, the current imbalance status of the system, including no-notice nominations, the month to date imbalance status of the system, and the direction of change for any of these criteria. COMPANY shall then evaluate the forecasted demand and available capacity on the system based on these factors and the weather forecast for areas across the system and any other factors which could influence the level of usage or flow on the system, such as potential loss of supply, economic conditions relating to gas or oil prices and the status of competing pipelines. Based on an evaluation of current and forecasted system conditions, COMPANY shall post by 1:00 p.m. (CCT) each gas day the operating condition for the current gas day and the projected operating conditions, the likelihood of implementing an OFO under this section, and, if a likelihood exists, the criteria that will be monitored for the succeeding four gas days. Such operating conditions will be posted to be Normal, Level 1, Level 2, or Level 3. The operating conditions may be different for Delivery Points or groups of Delivery Points within the various geographic areas of Company's System. Normal Mode shall be implemented when system conditions do not warrant a correction in flow, and when no known threat to system conditions exists. A Level 1 OFO shall be implemented when system conditions warrant a correction in flow because a threat to system conditions exists such that daily entitlements may be impaired. A Level 2 OFO shall be implemented when system conditions warrant a prompt correction in flow because an imminent threat to system conditions exists such that daily entitlements may be impaired. A Level 3 OFO shall be implemented when system conditions warrant an immediate correction to flow because an event has occurred or is occurring that jeopardizes system conditions such that daily entitlements may be impaired. Under a Level 3 OFO, an event that jeopardizes system conditions shall be considered to be either (i) any mechanical or pipeline failure on the System upstream of a Delivery Point; or (ii) when a Level 2 OFO has been in a place and System conditions continue to deteriorate.
- (c) When giving a notice pursuant to Section 41.2 (a) that the quantity of gas taken in excess of the quantity of gas allocated for delivery at a specific Delivery Point or group of Delivery Points will be subject to Section 41.2(d), COMPANY shall recognize the right of a SHIPPER which owns and operates a system having multiple Delivery Points with COMPANY to take all or any portion of its Daily Entitlement at any Delivery Point or group of Delivery Points listed on the Exhibit B to its Service Agreement with COMPANY (up to the maximum meter capacity of the existing facilities and the capacity of the pipeline and laterals upstream of the meter).
- (d) All gas taken by a SHIPPER after receipt of a notice given pursuant to Section 41.2(a) under a Level 1 OFO, to the extent that the quantity of gas exceeds by both ~~195~~500 dth/day and 105 percent either (i) its Daily Entitlement for all of its Delivery Points, as

established either by an allocation order or orders given by the COMPANY pursuant to Section 16.2 above and/or through COMPANY'S confirmation of SHIPPER'S nominations in accordance with the provisions of Section 12 of these General Terms and Conditions, or (ii) the quantity of gas allocated for delivery to SHIPPER at a specific Delivery Point or group of Delivery Points pursuant to such procedures, shall be deemed to be Unauthorized Overrun Gas, and COMPANY shall bill and SHIPPER shall pay for such Unauthorized Overrun Gas, in addition to the charges applicable under the respective rate schedules, a penalty of \$10.00 per Dth for quantities taken in excess of the tolerances set forth in this sentence above. All gas taken by a SHIPPER after receipt of a notice given pursuant to Section 41.2(a) under a Level 2 OFO, to the extent that the quantity of gas exceeds by both ~~75200~~ dth/day and 102 percent either (i) its Daily Entitlement for all of its Delivery Points, as established either by an allocation order or orders given by the COMPANY pursuant to Section 16.2 above and/or through COMPANY'S confirmation of SHIPPER'S nominations in accordance with the provisions of Section 12 of these General Terms and Conditions, or (ii) the quantity of gas allocated for delivery to SHIPPER at a specific Delivery Point or group of Delivery Points pursuant to such procedures, shall be deemed to be Unauthorized Overrun Gas, and COMPANY shall bill and SHIPPER shall pay for such Unauthorized Overrun Gas, in addition to the charges applicable under the respective rate schedules, a penalty of \$15.00 plus the highest average index price published in Natural Gas Intelligence 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 Transco Zone 4 and Transco Zone 5 South Groupings for the applicable flow day ("Highest Regional Daily Average Price") per Dth for quantities taken in excess of the tolerances set forth in this sentence above. All gas taken by a SHIPPER after receipt of a notice given pursuant to Section 41.2(a) under a Level 3 OFO, to the extent that the quantity of gas exceeds by both ~~75200~~ dth/day and 102 percent either (i) its Daily Entitlement for all of its Delivery Points, as established either by an allocation order or orders given by the COMPANY pursuant to Section 16.2 above and/or through COMPANY'S confirmation of SHIPPER'S nominations in accordance with the provisions of Section 12 of these General Terms and Conditions, or (ii) the quantity of gas allocated for delivery to SHIPPER at a specific Delivery Point or group of Delivery Points pursuant to such procedures, shall be deemed to be Unauthorized Overrun Gas, and COMPANY shall bill and SHIPPER shall pay for such Unauthorized Overrun Gas, in addition to the charges applicable under the respective rate schedules, a penalty of \$~~15.00~~25.00 plus two times the Highest Regional Daily Average Price per Dth for quantities taken in excess of the tolerances set forth in this sentence above. The penalties set forth herein shall apply for any day in which the operational flow order is in effect.

It is provided, however, that if COMPANY has issued a penalty notice pursuant to Section 41.2(a) for (i) a Delivery Point where electronic measurement has not been installed or has not been installed to meter at least 75% of the volumes where the Delivery Point is comprised of more than one measurement station, or (ii) a group of Delivery Points where electronic measurement has not been installed to meter at least 75% of the volume from the Delivery Points, then the penalty assessed under this Section 41.2(d) shall be \$5.00 per Dth. For purposes of determining the 75% threshold, COMPANY shall use the volumes metered at each measurement station during the twelve-month period ending annually on March 31. Payments pursuant to this Section 41.2 shall not, under any circumstances, be considered as giving SHIPPER the right to take Unauthorized Overrun Gas; nor shall such payment exclude or limit any other remedies available to COMPANY or to another SHIPPER against SHIPPER for failure to limit its taking of gas to its Daily Entitlement.

- (e) Prior to application of the penalty set forth above in Section 41.2(d), if the total gas taken (i) at the group of Delivery Points described in Section 41.2(a) above, or (ii) by a SHIPPER or nomination agent or operator receiving service within the group of Delivery Points described in Section 41.2(a) above does not exceed the applicable tolerance set forth above, then COMPANY shall not assess the penalty for that group of Delivery Points or to that SHIPPER, respectively. Notwithstanding the above or Section 41.2(c) above, COMPANY may apply the penalty to any SHIPPER which takes gas in excess of the tolerance set forth in Section 41.2(d) above if such unauthorized takes prevent or limit another SHIPPER from receiving its scheduled and no-notice deliveries at any

Delivery Point on COMPANY's system. In addition, COMPANY shall be entitled to separate any single Delivery Point from a group of Delivery Points under the notice hereunder if deliveries at the Delivery Point either (i) are consistently and materially in excess of daily entitlements after issuance of an OFO notice under this Section 41.2; or (ii) have repeatedly taken action which is contrary to the direction of an OFO issued under this Section.

41.3 Daily Receipts/Deliveries Exceed Capacity Due To Imbalances

- (a) If COMPANY is experiencing capacity constraints at certain Receipt or Delivery Points or operational difficulties because of the variance between SHIPPERS' scheduled nominations and actual receipts and/or deliveries for SHIPPERS' accounts or because the gas quality at the Receipt Point is not in conformance with the terms of Section 3.1(g) of these General Terms and Conditions, COMPANY will give SHIPPERS twenty-four (24) hours' notice prior to the start of the gas day to which the notice applies that it will assess the scheduling penalties set forth below in Sections 41.3(b) and/or 41.3(c). In such notice, COMPANY shall specify the direction in which the variance is prohibited as a result of the operational difficulty. It is provided, however that variances between SHIPPER'S nominations and actual receipts and/or deliveries which are attributable to no-notice service under Rate Schedule FT-NN shall not be subject to penalty under this Section 41.3. The notice shall list all Receipt and/or Delivery Points where the scheduling penalties will be assessed and will remain in effect until SHIPPERS are notified to the contrary.
- (b) If during any day of the month SHIPPER'S total scheduled quantities at a Receipt Point set forth in a notice given under (a) above vary by more than four (4) percent of the actual daily quantities received by COMPANY for SHIPPER'S account at the Receipt Point on that day, and such variance is in the direction prohibited in such notice, then a scheduling penalty shall be assessed; provided, however, that said scheduling penalty shall not be assessed if said variance occurs solely because of COMPANY'S inability to accept gas delivered to COMPANY for SHIPPER'S account and such inability to accept gas is not because the quality of the gas at the Receipt Point fails to meet the standards set forth in Section 3 of these General Terms and Conditions.

Notwithstanding the fact that SHIPPER's scheduled quantities and SHIPPER's actual receipts vary by more than the four (4) percent tolerance described above, if the total scheduled quantities (i) at the Receipt Point identified in the notice or (ii) at a group of Receipt Points identified in the notice set forth in Section 41.3(a) above, if applicable; or (iii) at those Receipt Points within the group of Receipt Points in (ii) above, having the same Point Operator as the Receipt Point at which SHIPPER has scheduled quantities, if applicable, do not vary by more than four (4) percent of the daily quantities received by COMPANY at the Receipt Point, the group level, or the operator level, respectively, then the scheduling penalty shall not be assessed hereunder. Subject to the provisions of Section 41.3(d) below, the scheduling penalty shall be equal to the maximum Transportation Charge under the IT Rate Schedule multiplied by the quantities in excess of the allowed variance, provided, however, that such penalty shall be waived for an interruptible SHIPPER whose scheduled quantities are bumped by a firm intra-day nomination but shall be waived only for the day that such bumping occurs.

- (c) If during any day of the month the actual quantities of gas delivered at each Delivery Point set forth in a notice given under (a) above by COMPANY for SHIPPER'S account vary by more than four (4) percent of SHIPPER's scheduled quantities, including any applicable no-notice entitlements for each Delivery Point, and such variance is in the direction prohibited in such notice, then a scheduling penalty shall be assessed. Notwithstanding the fact that SHIPPER's scheduled quantities and SHIPPER's actual deliveries vary by more than the four (4) percent tolerance described above, if the total scheduled quantities (i) at the Delivery Point identified in the notice or (ii) at a group of Delivery Points identified in the notice set forth in Section 41.3(a) above, if applicable; or (iii) at those Delivery Points within the group of Delivery Points in (ii) above, having the same Point Operator as the Delivery Point at which SHIPPER has scheduled quantities, if applicable, do not vary by more than four (4) percent of the daily quantities delivered by COMPANY at the Delivery Point, the group level, or the operator

level, respectively, then the scheduling penalty shall not be assessed hereunder. Subject to the provisions of Section 41.3(d) below, the scheduling penalty shall be equal to the maximum Transportation Charge under the IT Rate Schedule multiplied by the quantities in excess of the allowed variance, provided, however, that such penalty shall be waived for an interruptible SHIPPER whose scheduled quantities are bumped by a firm intra-day nomination but shall be waived only for the day that such bumping occurs.

- (d) If COMPANY has given notice that it is assessing one of the foregoing scheduling penalties under Section 41.3(b) or (c) at a Receipt or Delivery Point on a day when it is also limiting receipts or deliveries at such point, then COMPANY shall so specify in its notice. The scheduling penalty assessed on any such day shall be equal to \$15.00 per Dth multiplied by the quantities in excess of the allowed variance under the applicable provision above.

#### 41.4 DAILY IMBALANCE PENALTIES

- (a) For Rate Schedules IT, FT-NN, FT, and Supply Pool Balancing Agreements, if COMPANY determines in its reasonable judgment that any imbalance between the gas received by COMPANY for SHIPPER'S account and delivered by COMPANY for SHIPPER'S account threatens the physical or operational integrity of its pipeline system, which includes the ability to deliver to any other SHIPPER its Daily Entitlement, COMPANY shall have the right to interrupt or limit at any time, and from time to time, the quantities of gas it will receive for transportation or deliver for SHIPPER'S account to the extent COMPANY in its reasonable judgment deems necessary in order to maintain the physical or operational integrity of its pipeline system. Any notice to interrupt or limit the quantity of gas to be received or delivered by COMPANY shall be given four (4) hours in advance, or such shorter period of time as is required to prevent physical damage to or to maintain the operational integrity of COMPANY'S pipeline system, and shall be limited to an amount COMPANY reasonably estimates does not exceed the amount of the imbalance threatening the operational integrity of COMPANY'S pipeline system. Further, to the maximum extent practicable, COMPANY shall limit the scope and duration of any action or order to interrupt or limit the receipt and/or delivery of gas so that service to SHIPPER is maintained at the highest level consistent with maintaining the physical or operational integrity of COMPANY'S pipeline system.

If SHIPPER accrues an imbalance in violation of said limitation notice given by COMPANY, SHIPPER shall pay the following applicable penalty charges. Penalties on SHIPPER's imbalance shall be based on the following percentages of SHIPPER's allocated deliveries. SHIPPER's imbalance shall be defined as the difference of SHIPPER's allocated receipts and SHIPPER's allocated deliveries. Notwithstanding the above, the following activity by SHIPPER shall not cause SHIPPER to incur a penalty under this Section: (a)no-notice storage withdrawals made under Rate Schedule FT-NN where the notice above limits receipts (supply long imbalances); or (b)no-notice storage injections where the notice above limits deliveries(supply short imbalances).

Imbalance (Percentage of Allocated Deliveries)	Penalty (Per Dth)
0 - 2% or < 200 Dth	No Penalty
>2 - 5%	\$1.00
>5 - 8%	\$5.00
> 8%	\$15.00

Notwithstanding the above, in the event that the COMPANY has in effect such limitation notice and the actual overall system imbalance is opposite to the direction of the said notice, SHIPPER shall not be penalized.

- (b) Insofar as practicable, when COMPANY detects the development of a system imbalance that threatens the physical or operational integrity of its pipeline system as described in 41.4(a) above, COMPANY shall endeavor to identify those SHIPPERS making a significant contribution to the imbalance and to contact such SHIPPERS in an effort to

reduce the system imbalance and avoid the necessity of imposing penalties as set forth in 41.4(a)above. It is recognized, however, that such prior notification may not be possible under all circumstances, e.g., when COMPANY must act quickly in order to protect the integrity of its system.

- (c) Based on an evaluation of current and forecasted system conditions, COMPANY shall post by 2:00 p.m. (CCT) each Friday, or, if Thursday or Friday is a recognized COMPANY holiday, then on the day before such recognized COMPANY holiday, the probability of implementing an OFO under this Section 41.4 for the succeeding Saturday, Sunday, and Monday and the Thursday and/or Friday during a recognized COMPANY holiday. If system conditions change, COMPANY shall update such posting periodically throughout the weekend.

**SOUTHERN NATURAL GAS  
PIPELINE COMPANY, L.L.C.**

**APPENDIX A**

**OFO DAYS IN JANUARY 2018**



**Southern Natural Gas Pipeline Company, L.L.C.**  
**OFO Days in January 2018**

SNG OFO Days	Current SNG Penalty	Transco Zone 5 South Daily Index Price
1/1/2018	\$15.00	\$32.60
1/2/2018	\$15.00	\$32.60
1/3/2018	\$15.00	\$18.81
1/4/2018	\$15.00	\$51.30
1/5/2018	\$15.00	\$129.17
1/6/2018	\$15.00	\$31.50
1/7/2018	\$15.00	\$31.50
1/8/2018	\$15.00	\$31.50
1/12/2018	\$15.00	\$3.29
1/13/2018	\$15.00	\$19.27
1/14/2018	\$15.00	\$19.27
1/15/2018	\$15.00	\$19.27
1/16/2018	\$15.00	\$19.27
1/17/2018	\$15.00	\$13.36
1/18/2018	\$15.00	\$8.94
1/19/2018	\$15.00	\$4.01
1/30/2018	\$15.00	\$9.15
1/31/2018	\$15.00	\$5.41

**SOUTHERN NATURAL GAS  
PIPELINE COMPANY, L.L.C.**

**APPENDIX B**

**EXAMPLE OFO TYPE 3 PROBABILITY NOTICE**



## SNG Type 3 OFO Probability

This update is provided as a courtesy to Southern's Customers and Southern does not warrant the accuracy of any information provided below.

This information is not an OFO (Operational Flow Order) notice and should not be relied on by any customer in assessing its operational or gas requirements.

Shippers are obligated to stay within their daily entitlements regardless of the system conditions.

### Probability Codes

<u>Operating Condition (OC)</u>	<u>OFO-Type 3/4 (OFO3P/OFO4P)</u>
N - Normal	UL - Unlikely
L1- Level 1	TC - Too Close to Call
L2 - Level 2	L - Likely
L3 - Level 3	HL - Highly Likely
	OFO - OFO in effect

Date: Tuesday, 16 October, 2018

<b>Tue, Oct 16</b>	<b>JAN</b>	<b>BHM</b>	<b>GAD</b>	<b>MGM</b>	<b>CHA</b>	<b>ATL</b>	<b>MCN</b>	<b>CAE</b>	<b>ABY</b>	<b>SSI</b>	<b>SAV</b>	<b>TYS</b>	<b>HSV</b>
SMT 72 Mean	60	64	62	75	62	71	76	75	80	82	80	59	57
OC	N	N	N	N	N	N	N	N	N	N	N	N	N
OFO3P	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL
OFO4P	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL

<b>Wed, Oct 17</b>	<b>JAN</b>	<b>BHM</b>	<b>GAD</b>	<b>MGM</b>	<b>CHA</b>	<b>ATL</b>	<b>MCN</b>	<b>CAE</b>	<b>ABY</b>	<b>SSI</b>	<b>SAV</b>	<b>TYS</b>	<b>HSV</b>
SMT 64 Mean	58	58	56	67	57	61	68	67	73	81	77	53	55
OC	N	N	N	N	N	N	N	N	N	N	N	N	N
OFO3P	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL
OFO4P	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL

<b>Thu, Oct 18</b>	<b>JAN</b>	<b>BHM</b>	<b>GAD</b>	<b>MGM</b>	<b>CHA</b>	<b>ATL</b>	<b>MCN</b>	<b>CAE</b>	<b>ABY</b>	<b>SSI</b>	<b>SAV</b>	<b>TYS</b>	<b>HSV</b>
SMT 59 Mean	60	61	56	66	51	58	60	54	67	72	62	48	55
OC	N	N	N	N	N	N	N	N	N	N	N	N	N
OFO3P	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL
OFO4P	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL

<b>Fri, Oct 19</b>	<b>JAN</b>	<b>BHM</b>	<b>GAD</b>	<b>MGM</b>	<b>CHA</b>	<b>ATL</b>	<b>MCN</b>	<b>CAE</b>	<b>ABY</b>	<b>SSI</b>	<b>SAV</b>	<b>TYS</b>	<b>HSV</b>
SMT 63 Mean	70	65	60	68	59	59	61	62	69	75	71	56	63
OC	N	N	N	N	N	N	N	N	N	N	N	N	N
OFO3P	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL
OFO4P	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL

<b>Sat, Oct 20</b>	<b>JAN</b>	<b>BHM</b>	<b>GAD</b>	<b>MGM</b>	<b>CHA</b>	<b>ATL</b>	<b>MCN</b>	<b>CAE</b>	<b>ABY</b>	<b>SSI</b>	<b>SAV</b>	<b>TYS</b>	<b>HSV</b>
SMT 61 Mean	60	57	54	63	55	59	65	62	70	75	72	52	54
OC	N	N	N	N	N	N	N	N	N	N	N	N	N
OFO3P	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL
OFO4P	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL	UL

### For weather and OFO probability:

<b>JAN-</b>	Includes Zone 1
<b>BHM-</b>	Includes Birmingham Group, McConnells to Providence, McConnells West Zn2, Pell City to Bell Mills
<b>GAD-</b>	Includes Tarrant to Gadsden
<b>MGM-</b>	Includes South Main Zn 2
<b>CHA-</b>	Includes Chattanooga Line 170, Chattanooga Line 180
<b>ATL-</b>	Includes Atlanta Group North, North of Thomaston
<b>MCN-</b>	Includes Ellerslie to Thomaston, Thomaston to Ocmulgee
<b>CAE-</b>	Includes East of Wrens
<b>ABY-</b>	Includes Albany to Douglas, Albany to Pavo, Americus to Unadilla, Chattahoochee Valley, Holy Trinity to Albany, Jacksonville Line, Occidental to Florida Power, Pavo to Occidental Tap, Tallahassee Line
<b>SSI-</b>	Includes Brunswick Line, East South Main Zn3
<b>SAV-</b>	Includes Savannah Line, Cypress Line
<b>TYS-</b>	Includes East Tennessee
<b>HSV-</b>	Includes North AL Line