



**Northern Natural Gas
Tariff Working Group
August 25, 2020**

Carlton Introduction

Northern supports the current Carlton flow order tariff provisions, i.e., flow order quantities, customer-specific flow orders, Carlton surcharge and reimbursement to customers with flow requirements. Northern is open to discussing alternative assignments of flow order obligations that result in capacity neutrality as determined by Northern's capacity model and is a sustainable solution. No such proposal has been identified, nor has interest been expressed by the broader customer group in pursuing reallocation alternatives. Northern is not proposing any changes to the Carlton resolution other than the proposal below.

Carlton Penalty Waiver

Northern proposes to add a sentence, shown below, on sheet 263D to provide Northern the ability to waive Carlton penalties where appropriate, such as the situation where Northern is required to allocate receipts at the Carlton interconnect. Additionally, Northern agrees to post any such waived penalties.

Carlton Penalty Waiver Proposal: Northern reserves the right to waive Carlton penalties in a not unduly discriminatory manner.

DDVC/SMS/Penalties Introduction

All proposed modifications to the Daily Delivered Variance Charges (DDVC) and System Management Service (SMS) provisions are based on providing the highest level of system delivery reliability possible. The current structure and prices were developed in the early '90s; much has changed since then. The total MDQ on the pipeline system has increased by 50% since that time, significantly increasing the risk of daily scheduling variances, yet Northern's available resources to address such a variance have not changed (i.e., operational storage volumes remain at 14 Bcf).

This proposal is entirely based on providing system reliability. Northern makes no revenue from penalties, nor does it benefit in any way from the collection of any penalties. Any penalties collected are returned to shippers annually. Northern's concern is entirely about customers having the proper incentive to provide the supply required to meet their markets.

Scheduling Tolerance

The tariff currently provides a tolerance of five percent (5%) of scheduled volumes at the delivery point prior to the application of SMS or DDVCs if shippers have scheduled volumes below their MDQ.

Tolerance Proposal: Modify the allowed tolerance to four percent (4%) when a SOL has been called and three percent (3%) on a Critical Day.

SMS Availability

The tariff currently provides for SMS availability as follows:

- Standard days (no SUL/SOL or Critical Day): SMS is available above and below MDQ.
- SOL exception: SMS coverage may be available above MDQ if authorized by Northern via a website posting from 0-100%.
- Critical Day exception: SMS is not available above MDQ.
- SUL exception: SMS is available below the throughput scheduled and above the scheduled level.

SMS Proposal:

- **Additional SOL exception: At least 50% of SMS below transportation MDQ will be available. Depending upon operational conditions, SMS coverage may be allowed from 50% to 100% of SMS quantity below transportation MDQ if authorized by Northern via a website posting.**
- **Additional Critical Day exceptions:**
 - **At least 25% of SMS below transportation MDQ will be available. Depending upon operational conditions, SMS coverage may be allowed from 25% to 100% of SMS quantity below transportation MDQ if authorized by Northern via a website posting.**
 - **Depending upon operational conditions, SMS coverage may be available from 0% to 100% of SMS quantity above transportation MDQ if authorized by Northern via a website posting.**
- **Additional SUL exception: At least 50% of SMS quantity below throughput scheduled volumes will be available. Depending upon operational conditions, SMS coverage may be allowed from 50% to 100% of SMS quantity below throughput scheduled volumes if authorized by Northern via a website posting.**

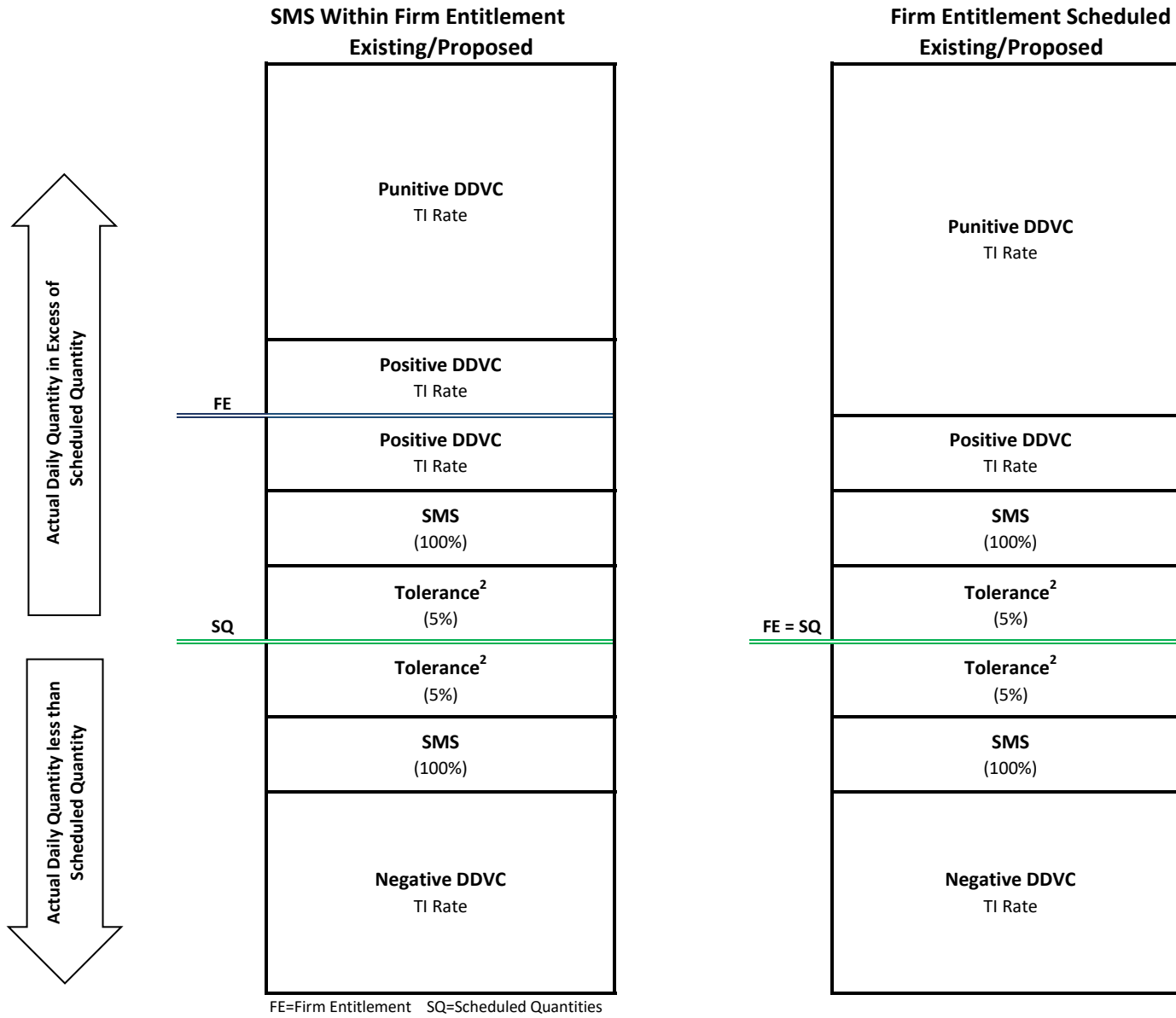
DDVC Penalties

The current tariff provides the fixed-rate penalties shown in the chart below. These fixed-rate penalties were established in the early '90s and are not reflective of current volatile pricing at either the next day trading block or subsequent intraday periods. Having the DDVCs reflect the Platts Gas Daily indices will provide market-relevant prices that are intended to incent the proper physical supplies on SOL, Critical and SUL days.

DDVC Proposal: On SOL, Critical Day and SUL, DDVC penalties are proposed to be the greater of 1) the current fixed-price penalties stated in Northern's tariff or 2) the index multiples shown in the table below using the existing tariff indices used to determine the Monthly Index Prices for the Market Area or Field Area using Platts Gas Daily Midpoint price, as appropriate.

Penalty	Greater of Fixed-Rate or Index Multiple	
	Current Tariff Fixed-Rate Penalty (no change proposed)	Proposed Index Multiple
Standard Days (no SOL, Critical Day or SUL) <ul style="list-style-type: none"> DDVC 	Maximum TI Rate	No Index Pricing
SOL <ul style="list-style-type: none"> Punitive Positive (5%) 	\$ 16.055 \$ 1.00	2.0x 1.25x
Critical Day <ul style="list-style-type: none"> Punitive Level II Punitive Level I (5%) Positive 3% Positive 2% 	\$113.00 \$ 56.50 \$ 22.00 \$ 15.00	3.0x 2.0x 1.75x 1.5x
SUL <ul style="list-style-type: none"> Negative 	\$ 1.00	1.25x
Proposed Indices		Proposed Indices (no change from Tariff Sheet No. 267)
Market Area		Northern-Demarcation and Northern-Ventura
Field Area		Panhandle, Tx-Okla and El Paso, Permian Basin

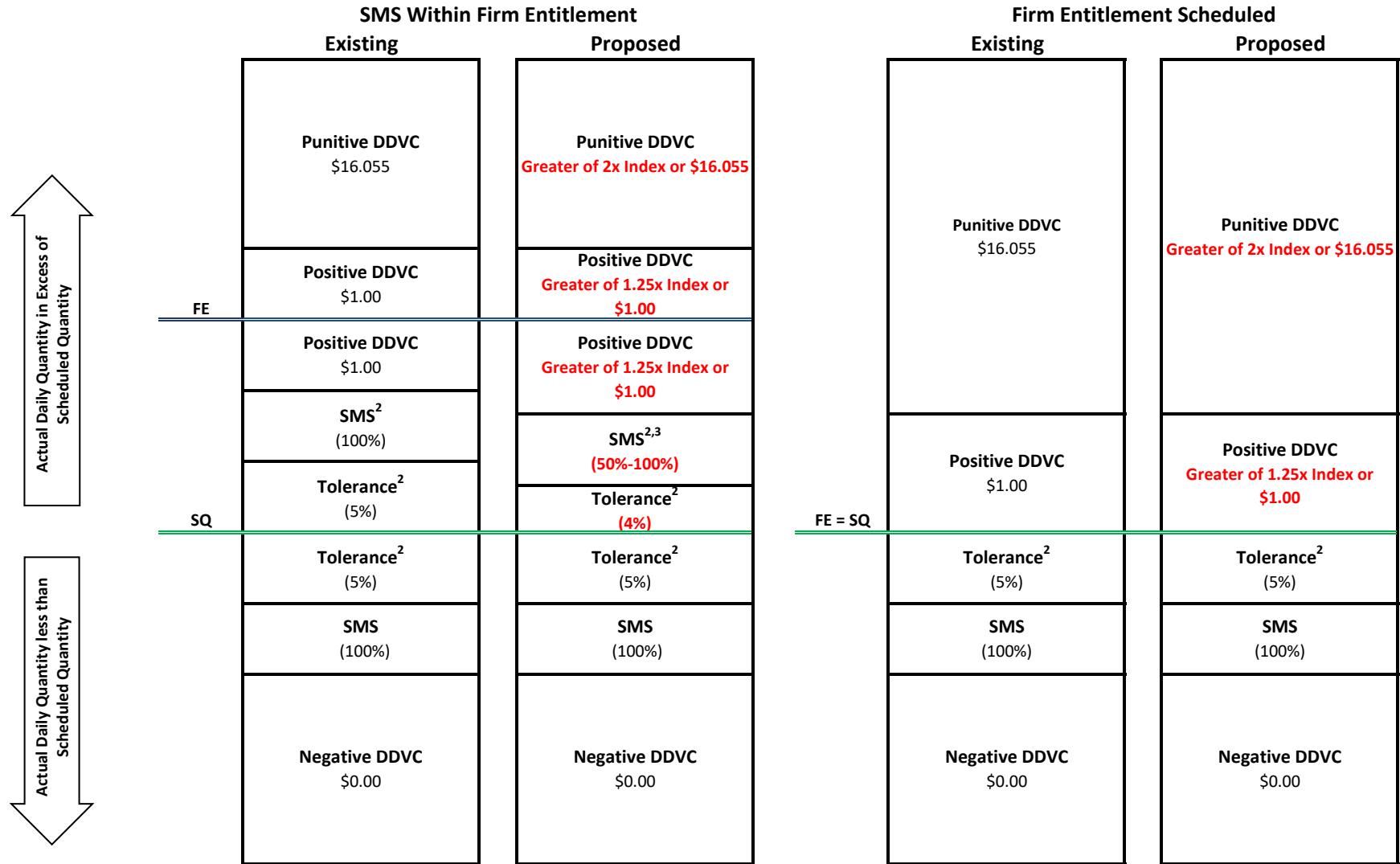
Standard Day - No SOL/SUL/Critical Day in Effect¹



¹ Other than Small Customer

² Tolerance percentage is 5% of scheduled volumes.

SOL in Effect¹



FE=Firm Entitlement SQ=Scheduled Quantities

1 Other than Small Customer

2 Cannot exceed firm entitlement. For existing, the tolerance is 5% of scheduled volumes. Proposed is 4% of scheduled volumes when actual quantities exceed scheduled quantities.

3 If below firm entitlement, NNG may limit SMSQ between 50% and 100%. NNG may limit SMSQ between 0% and 100% if above firm entitlement. Such availability will be posted on NNG's website.

Critical Day¹

		SMS Within Firm Entitlement		Firm Entitlement Scheduled	
		Existing	Proposed	Existing	Proposed
↑ Actual Daily Quantity in Excess of Scheduled Quantity	FE	Punitive/Critical DDVC Level II \$113.00	Punitive/Critical DDVC Level II Greater of 3x Index or \$113.00	Punitive/Critical DDVC Level II \$113.00	Punitive/Critical DDVC Level II Greater of 3x Index or \$113.00
		Punitive/Critical DDVC Level I \$56.50	Punitive/Critical DDVC Level I Greater of 2x Index or \$56.50	Punitive/Critical DDVC Level I \$56.50	Punitive/Critical DDVC Level I Greater of 2x Index or \$56.50
		Positive/Critical DDVC 3% \$22.00	Positive/Critical DDVC 3% Greater of 1.75x Index or \$22.00	Positive/Critical DDVC 3% \$22.00	Positive/Critical DDVC 3% Greater of 1.75x Index or \$22.00
		Positive/Critical DDVC 2% \$15.00	Positive/Critical DDVC 2% Greater of 1.5x Index or \$15.00	Positive/Critical DDVC 2% \$15.00	Positive/Critical DDVC 2% Greater of 1.5x Index or \$15.00
↓ Actual Daily Quantity less than Scheduled Quantity	SQ	Positive/Critical DDVC \$15.00	Positive/Critical DDVC Greater of 1.5x Index or \$15.00	Punitive/Critical DDVC Level I \$56.50	Punitive/Critical DDVC Level I Greater of 2x Index or \$56.50
		SMS ² (100%)	SMS ^{2,3} (25%-100%)	Positive/Critical DDVC 3% \$22.00	Positive/Critical DDVC 3% Greater of 1.75x Index or \$22.00
		Tolerance ² (5%)	Tolerance ² (3%)	Positive/Critical DDVC 2% \$15.00	Positive/Critical DDVC 2% Greater of 1.5x Index or \$15.00
		Tolerance (5%)	Tolerance (5%)	Tolerance 5%	Tolerance 5%
		SMS (100%)	SMS (100%)	SMS (100%)	SMS (100%)
		Negative DDVC \$0.00	Negative DDVC \$0.00	Negative DDVC \$0.00	Negative DDVC \$0.00



FE=Firm Entitlement SQ=Scheduled Quantities

1 Other than Small Customer

2 Cannot exceed firm entitlement. For existing, the tolerance is 5% of scheduled volumes. Proposed is 3% of scheduled volumes when actual quantities exceed scheduled quantities.

3 If below firm entitlement, NNG may limit SMSQ between 25% and 100%. NNG may limit SMSQ between 0% and 100% if above firm entitlement. Such availability will be posted on NNG's website.

SUL in Effect¹

		SMS Within Firm Entitlement		Firm Entitlement Scheduled	
		Existing	Proposed	Existing	Proposed
 <p>Actual Daily Quantity in Excess of Scheduled Quantity</p>	FE	Punitive DDVC \$0.00	Punitive DDVC \$0.00	Punitive DDVC \$0.00	Punitive DDVC \$0.00
		Positive DDVC \$0.00	Positive DDVC \$0.00	Positive DDVC \$0.00	Positive DDVC \$0.00
		Positive DDVC \$0.00	Positive DDVC \$0.00	Positive DDVC \$0.00	Positive DDVC \$0.00
	SQ	SMS (100%)	SMS (100%)	SMS (100%)	SMS (100%)
		Tolerance ² (5%)	Tolerance ² (5%)	Tolerance ² (5%)	Tolerance ² (5%)
		SMS (100%)	SMS ³ (50%-100%)	SMS (100%)	SMS ³ (50%-100%)
 <p>Actual Daily Quantity less than Scheduled Quantity</p>	Negative DDVC \$1.00	Negative DDVC Greater of 1.25X Index or \$1.00	Negative DDVC \$1.00	Negative DDVC Greater of 1.25X Index or \$1.00	

FE=Firm Entitlement SQ=Scheduled Quantities

¹ Other than Small Customer

² Tolerance percentage is 5% of scheduled quantities.

³ If daily scheduled quantity exceeds actual daily quantity, NNG may limit SMSQ between 50% and 100%. Such availability will be posted on NNG's website.