

Frequently Asked Questions – Reservation Charge Crediting

The purpose of this document is to provide customers an overview of the tariff provisions related to reservation charge crediting. Northern's highest priority is to provide reliable primary firm transportation service for its shippers. Every effort is made to minimize operational outages and their impact on firm transportation service. In the instance of an operational outage that impacts a shippers' ability to use its primary receipt to primary delivery points, Northern will work with shippers to use alternate point capacity so that shippers are able to serve their markets and effectively use their firm transportation capacity.

Q: What is reservation charge crediting?

R: Northern's tariff¹ provides that a shipper may be eligible for a reservation charge credit adjustment if Northern fails to provide primary firm service under a firm throughput service agreement due to an operational outage. An operational outage will be classified as either a *force majeure* or *non-force majeure* event with such determination being important for purposes of determining the reservation credit amount. To the extent a shipper uses its capacity through an alternate receipt point(s) and/or an alternate delivery point(s), no reservation charge credit will be applicable.

Q: How are primary deliveries defined for reservation charge crediting purposes?

R: Primary deliveries are defined as "Shipper's Nominated Quantities" from shipper's primary receipt point(s) to shipper's primary delivery point(s).

Q: How are Shipper's Nominated Quantities calculated?

R: If notification is provided before the deadline for submitting nominations in the Timely nomination cycle, the Shipper's Nominated Quantities are the lesser of:

A. The shipper's MDQ under the throughput service agreement associated with the primary points impacted by the operational outage, or;

B. The seven-day average of quantities delivered from the shipper's primary receipt points to the shipper's primary delivery points immediately prior to the operational outage. In the final order from the Federal Energy Regulatory Commission, Northern was ordered to remove the use of nominations by the shipper for determining the Shipper's Nominated Quantities. Therefore, in most situations the seven-day average quantities, as defined here, will be the Shipper's Nominated Quantity used for calculating the reservation charge credit.

In the situation where the operational outage continues beyond the current calendar month, then "B" above for the subsequent month is calculated as the average daily deliveries for the same calendar month of the previous year. If the shipper did not have any MDQ for the previous year, then the average will be the seven days immediately prior to the operational outage. In all cases, "B" above will be adjusted upward or downward proportionally for any increase or decrease in the MDQ of the affected primary point(s).

If notification of an outage is provided after the deadline for submitting nominations in the timely nomination cycle, the Shipper's Nominated Quantities for the first day are the quantities nominated by the shipper at the shipper's primary points affected by the outage (up to the shipper's MDQ). For the second day and each subsequent day of the outage, the Shipper's Nominated Quantities will be determined the same way as an event where

¹ Section 22 of the General Terms and Conditions.

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notification is given by Northern prior to the deadline for submitting nominations in the timely nomination cycle.

Q: Generally, how is a reservation charge credit calculated?

R: The reservation charge credit is calculated by multiplying quantities not delivered by Northern (“Undelivered Quantities”) by the applicable reservation rate under the contract.

Q: What are Undelivered Quantities?

R: “Undelivered Quantities” means the amount by which the Shipper’s Nominated Quantities exceed the quantities delivered by Northern to the affected primary delivery point(s) as a result of an event. In no event will Undelivered Quantities exceed the point MDQ and the Undelivered Quantities at all delivery point(s) in aggregate cannot exceed the total MDQ set forth in the shipper’s firm throughput service agreement. In most cases, the Undelivered Quantities will be the difference between the seven-day average quantities as described above and the quantities actually delivered by Northern.

Q. What is the applicable reservation rate?

R. In cases of *force majeure* event, Northern has adopted the “no-profit” method which means that if the shipper is paying the maximum tariff reservation rate (or greater in the event of a negotiated rate), the credit adjustment is equal to 26.38% of the maximum applicable tariff reservation rate per dekatherm per day (referred to as the “Profit”). If the rate paid by the shipper is less than the maximum tariff reservation rate, the credit adjustment is equal to the amount by which the Profit exceeds the amount of the maximum tariff reservation rate less the shipper’s rate.
In cases of non-*force majeure* event, the credit adjustment will be based on the reservation rate contractually payable by the shipper, up to the maximum tariff rate.

Q: How will shippers be notified of the type of event?

R: Northern posts on its website [under the informational posting/notices/planned service outage section](#) whenever any operational outage has the potential to impact deliveries. Postings indicate whether the operational outage is due to a *force majeure* or non-*force majeure* event. Northern refers to a non-*force majeure* event as a planned service outage.

Q: If notification of an event has been given before Timely Nominations are due, is a shipper required to nominate gas in order to be eligible for crediting?

R: No. Northern will calculate the Shipper’s Nominated Quantities based on historical usage.

Q: How does the operator confirmation process impact the calculation?

R: If an operator does not confirm a shipper’s quantities during the scheduling process, the Shipper’s Nominated Quantities do not include the quantities reduced as a result of the operator confirmation process.

Q: How does the failure to meet Northern’s gas quality specifications impact the calculation?

R: The Shipper’s Nominated Quantities do not include the quantities reduced as a result of failure to meet Northern’s gas quality specifications.

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Q: Are there any other general principles to consider when calculating the adjustment?

R: Yes. If, on any gas day, the sum of a shipper's Undelivered Quantities and the total firm nominations submitted by shipper and delivered by Northern at any and all points exceeds the MDQ in shipper's firm throughput service agreement, the quantities used to calculate the credit adjustment is the shipper's MDQ minus the quantities delivered by Northern.

Q: How do zone nominations impact the calculations if the operational outage is on a branch line or at a town border station (TBS)?

R: Shippers that nominate to the zone can continue to nominate to the zone and still be eligible for reservation crediting. Generally, when shippers nominate to the zone and the operational outage is on a branch line or at a TBS, Northern will calculate each Shipper's Nominated Quantities on the branch line or at the TBS by multiplying the shipper's total zone nomination by a percentage that uses each shipper's MDQ at the point(s) impacted and the shipper's total MDQ for the zone. If a shipper nominates directly to the point(s), on a primary to primary basis, that Nominated Quantity will be used. If more than one shipper with primary firm entitlement at an affected TBS is nominating to a zone on a primary basis and the swing methodology is assigned at the point, then delivered quantities at the TBS will be allocated to the non-operating shippers first, then to the operator that takes the swing.

Q: What rate is used for calculating the credit adjustment in cases of temporary capacity release?

R: If the replacement shipper's reservation rate is lower than the releasing shipper's reservation rate, Northern will credit the replacement shipper using the reservation rate being paid by the replacement shipper.

If the replacement shipper's reservation rate is higher than the releasing shipper's reservation rate, Northern will credit the replacement shipper based on the rate being paid by the releasing shipper. The replacement shipper will pay Northern the difference between the replacement shipper's rate and the releasing shipper's rate multiplied by the undelivered quantities (this amount is referred to in the tariff as "excess reservation charges"). Northern will credit the releasing shipper the amount of excess reservation charges paid to Northern by the replacement shipper.

If the replacement shipper is paying a volumetric rate, no adjustment is provided.

Q: How are segmented transactions treated?

R: Segmented transactions will be treated as one transaction for reservation crediting purposes. In no instance will the credit adjustment related to segmented transactions be greater than the credit adjustment if there had been no segmentation.

Q: Is there any impact to requests for firm service?

R: Northern reserves the right to reject requests for incremental firm service or realignments into an area impacted by an operational outage.

Q: How will the reservation charge credit adjustments to the invoices be processed?

R: Northern will calculate the adjustment to the shipper's invoice. If a shipper has a firm throughput service agreement with different rates in the areas impacted by the operational

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outage, the reservation charge credit adjustment will be calculated using the lowest rate first. The adjustment will be reflected in shipper's invoice in the following billing cycle after the commodity invoice for the month of the outage is finalized.

Q: Are operational outages due to compliance with Pipeline and Hazardous Materials Safety Administration (PHMSA) orders related to confirming a pipeline's maximum allowable operating pressure (MAOP) classified as *force majeure* or non-*force majeure*?

R: Operational outages due to compliance with PHMSA orders related to confirming a pipeline's MAOP (pursuant to section 60139(c) of Chapter 601 of Title 49 of the United States Code) are classified as *force majeure* events since these outages are not within the control of Northern.