



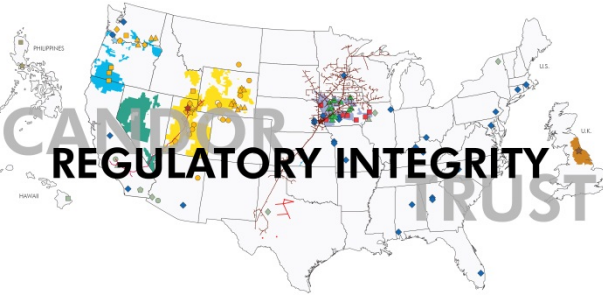
CUSTOMER SERVICE



EMPLOYEE COMMITMENT



ENVIRONMENTAL RESPECT



OPERATIONAL EXCELLENCE



**BERKSHIRE
FINANCIAL STRENGTH
OWNERSHIP**

**Docket No. RP19-1353
Tariff Working Group
Customer Call
July 16, 2020**



AGENDA

- Introduction – Kent Miller, Northern
- Rate case settlement provision – Kent Miller
- Carlton resolution discussion – Scott Moschea, WEC Energy
- DDVC and SMS – Kent Miller
- Next steps – Kent Miller

Rate Case Settlement – Tariff Working Group

Summary of settlement provisions:

- Purpose: To facilitate development of mutually agreeable Tariff changes to improve operations, enhance service for Northern's customers and improve system resiliency.
- Topics:
 - Carlton Operational Flow Order
 - Daily SMS, DDVC (including indexing of rates and tiering) and imbalance management
- Proposal: By September 10, 2020, a draft of the proposed tariff changes will be provided that have significant support from participating customers and Northern. Comments due by September 24, 2020. Final resolution is expected by September 30, 2020, so as to permit implementation for the 2020-21 winter heating season
- Possible Extension: To the extent additional time is necessary for the Tariff Working Group to further consider these items, the Parties may mutually agree to continue meetings of the Tariff Working Group into the 2020-21 winter heating season

Daily Delivery Variance Charges (DDVC) and System Management Service (SMS) Changes

- **Purpose of proposed changes:** To address current operational risks
- **Background:** Originally implemented in 1993. Since Northern's last rate case, significantly less system operational flexibility has occurred. Firm entitlement levels have increased, while the amount of available capacity has decreased
 - Northern's peak contracted capacity has increased from 4.5 Bcf/day to 6.0 Bcf/day since 2004
 - Results in a more constrained pipeline system without the operational flexibility that previously existed when the current DDVC and SMS structures were established
- **Proposal:** Northern proposes modifications to the DDVC and SMS structures to better manage the operational conditions of the system
 - Revised parameters more relevant to the current gas market
 - Update antiquated economic incentives for shippers to remain in-balance during SOL, Critical and SUL days
 - Align the applicability of charges to the variance between scheduled and actual volumes
 - Standardize SMS capabilities during SOL, Critical and SUL days
 - Simplified structure
- **Tariff:** *Pro Forma* Tariff Sheet Nos. 53, 148, 201B, 226, 290, 290A, 291, 291A, 292, 292A and 306

Commitment to Advanced Notifications and Stable Operations

- SOL, Critical and SUL days represent approximately 10% of days during an average year and are declared when adverse system conditions limit the ability to accommodate large imbalances
 - SOL, Critical and SUL days are called solely to address system balances
 - Not associated with transportation constraints, which are addressed through allocations of scheduled quantities based on shippers' nominations
- Northern commits to provide advanced notices allowing shippers to set up their business ahead of trading hours – No Surprises
 - Northern will continue to provide notices well in advance of tariff requirements barring unforeseen operational changes (e.g., upstream Force Majeure, etc.)
- Northern's commitment to advance notifications:
 - SOL and SUL guidance by 4 p.m. the day prior to the timely nomination deadline on weekdays
 - SOL and SUL guidance by 4 p.m. Thursday for Saturday through Monday (similar for holidays)
 - Maintain SOL and SULs through weekends and holidays
 - Avoid changes once guidance has been provided
 - Provide increased SMS flexibility as system conditions allow

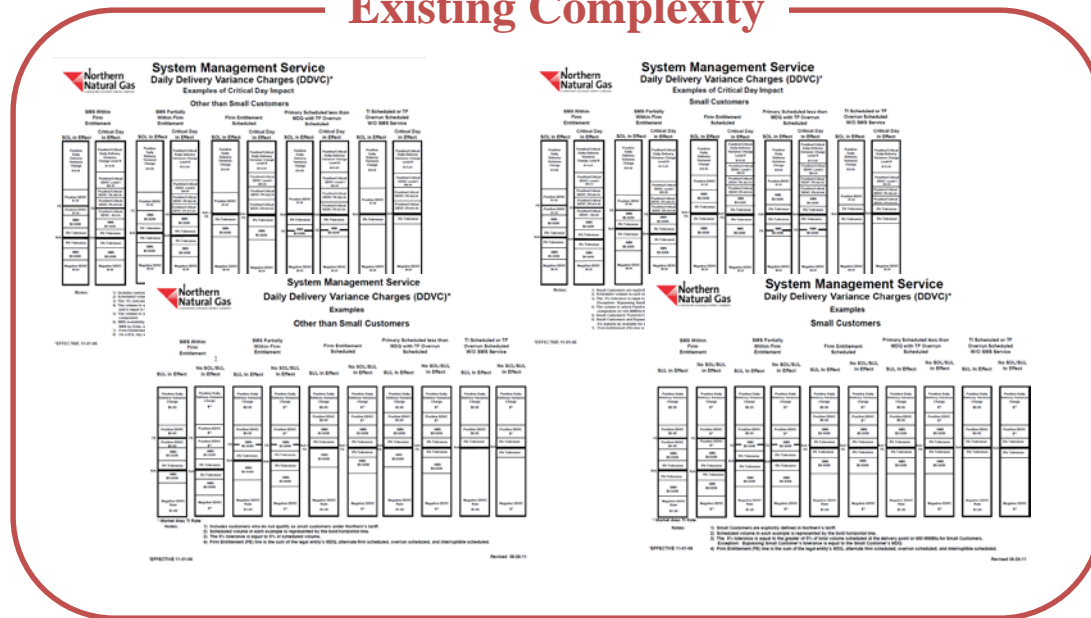
Notifications for System Overrun/Underrun Limitation (SOL/SUL) and Critical Day

- **Purpose of proposed changes:** To standardize the notification timelines and provide additional flexibility
- **Background:** Current static timing requirements were established prior to the recent NAESB grid-cycle timing changes
- **Proposal:** SOL and SUL notification timelines to be modified to allow either to be called up to two and one-half (2.5) hours prior to the NAESB Grid Cycle nomination deadlines of the Gas Day, matching the existing timeline for Critical Days
 - Northern will have the ability to declare a Critical Day without prior declaration of an SOL day
 - There is currently no minimum time requirement between the issuance of an SOL and a Critical Day
 - Penalties associated with an SOL, Critical or SUL will apply for the entire Gas Day
- **Benefits:** The changes provide the ability to react to unexpected changes in system conditions
 - Northern will continue its practice of providing notifications well in advance of normal gas trading except in the event of unexpected changes in system conditions

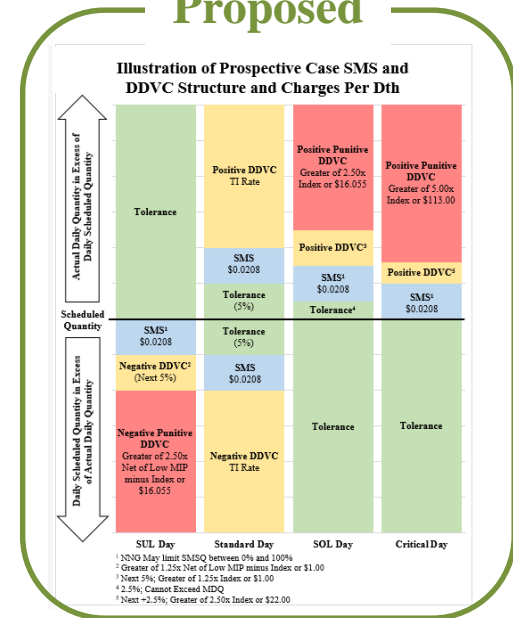
DDVC and SMS Changes: Simplified Structure; Enhanced Flexibility and Control

- **Purpose of proposed changes:** To simplify the DDVC structure while providing additional flexibilities and control of the system
- Examples include:
 - Simplification: Replacing zero-rate DDVCs with free tolerance
 - Flexibility: Potential to use SMS above firm entitlement on Critical Days
 - Control: Eliminate reference to MDQ for SMS applicability

Existing Complexity



Proposed



See separate [handout of diagram](#) showing proposed structure in detail

DDVC and SMS Changes: Index-Based Penalties Reduce Operational Risk

- **Background:** Intraday gas prices may exceed current fixed-price penalties placing the system at risk if shippers elect to incur penalties instead of maintaining appropriate supplies
- **Purpose of proposed changes:** To mitigate operational risk during an SOL, Critical or SUL day
- **Proposal:** Penalties include a multiple of 1.25 to 5.00 times the index price depending upon the imbalance level and apply only on SOL, Critical or SUL Days
 - Index equals the highest published Platts “Gas Daily” Midpoint price on the applicable Gas Day at any of the applicable index points of:
 - Market Area: Northern, Demarc; Northern, Ventura; Emerson, Viking; or MichCon
 - Field Area: Northern, Demarc; Panhandle, TX-OK; El Paso, Permian; Waha; or NGPL Midcontinent
 - Multipliers reflect the fact that intraday gas prices can vary significantly from published midpoint prices during periods of high price volatility
 - Volatility common during SOL, Critical and SUL Day
 - Intraday transactions may be required to maintain balance of receipts and deliveries
- **Benefit:** Ensure system reliability. The addition of index-based penalties improves the economic incentive for shippers to remain in balance during these operational conditions

DDVC and SMS Changes:

Updated SMS Limitations Reduce Operational Risk

- **Purpose of proposed changes:** To mitigate operational risk during an SOL, Critical or SUL day
 - During certain operational conditions, Northern's ability to accommodate physical deliveries significantly above or below the scheduled quantities within the Gas Day is severely limited because Northern's system is more constrained
- **Background:** Northern currently has the ability to limit SMS service above MDQ on SOL days, and zero SMS can be used above MDQ on Critical Days
 - Current limitations were intended to protect Northern's system from the risk that shippers with SMS service would rely on it as a supply source during times of operational stress
 - These limitations are ineffective as they only limit SMS usage above MDQ
 - Peak day MDQ is approximately 6 Bcf/day. Record peak day throughput is 5.6 Bcf/day, well below the aggregate MDQ
- **Proposal:** Allow Northern to limit the availability of SMS service between 0% and 100% of SMS Quantity (SMSQ) on SOL, Critical and SUL Days
 - On any day that Northern calls an SOL, Critical or SUL Day, Northern would concurrently post on its website the level of SMS service authorized
 - Proposal will allow shippers to utilize SMS service above their scheduled quantity, up to the amount authorized, during SOL and Critical Days
- **Benefit:** Proposal allows better management of the system during adverse operating conditions

DDVC and SMS Changes: Standard Day (~326 Days Per Year)

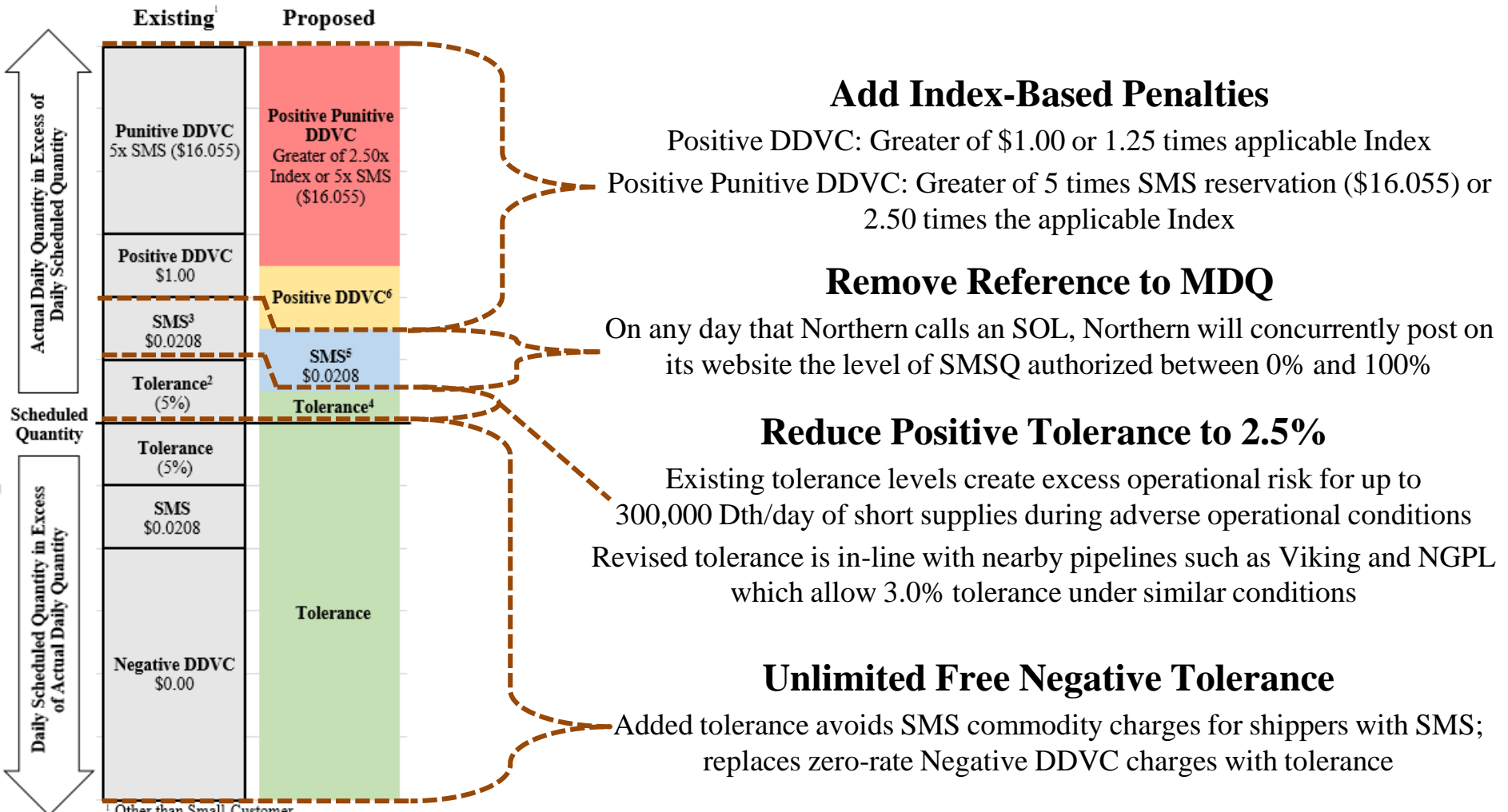
	Existing ¹	Proposed
Actual Daily Quantity in Excess of Daily Scheduled Quantity	Punitive DDVC TI Rate	Positive DDVC TI Rate
	Positive DDVC TI Rate	
Scheduled Quantity	SMS \$0.0208	SMS \$0.0208
	Tolerance (5%)	Tolerance (5%)
	Tolerance (5%)	Tolerance (5%)
	SMS \$0.0208	SMS \$0.0208
	Negative DDVC TI Rate	Negative DDVC TI Rate
	Daily Scheduled Quantity in Excess of Actual Daily Quantity	

Eliminate Punitive DDVC

Previously both the Positive DDVC and the Punitive DDVC were at Northern's TI Rate, making the distinction unnecessary

¹ Other than Small-Customer

DDVC and SMS Changes: SOL Day (~34 Days Per Year)



¹ Other than Small-Customer

² Cannot exceed firm entitlement

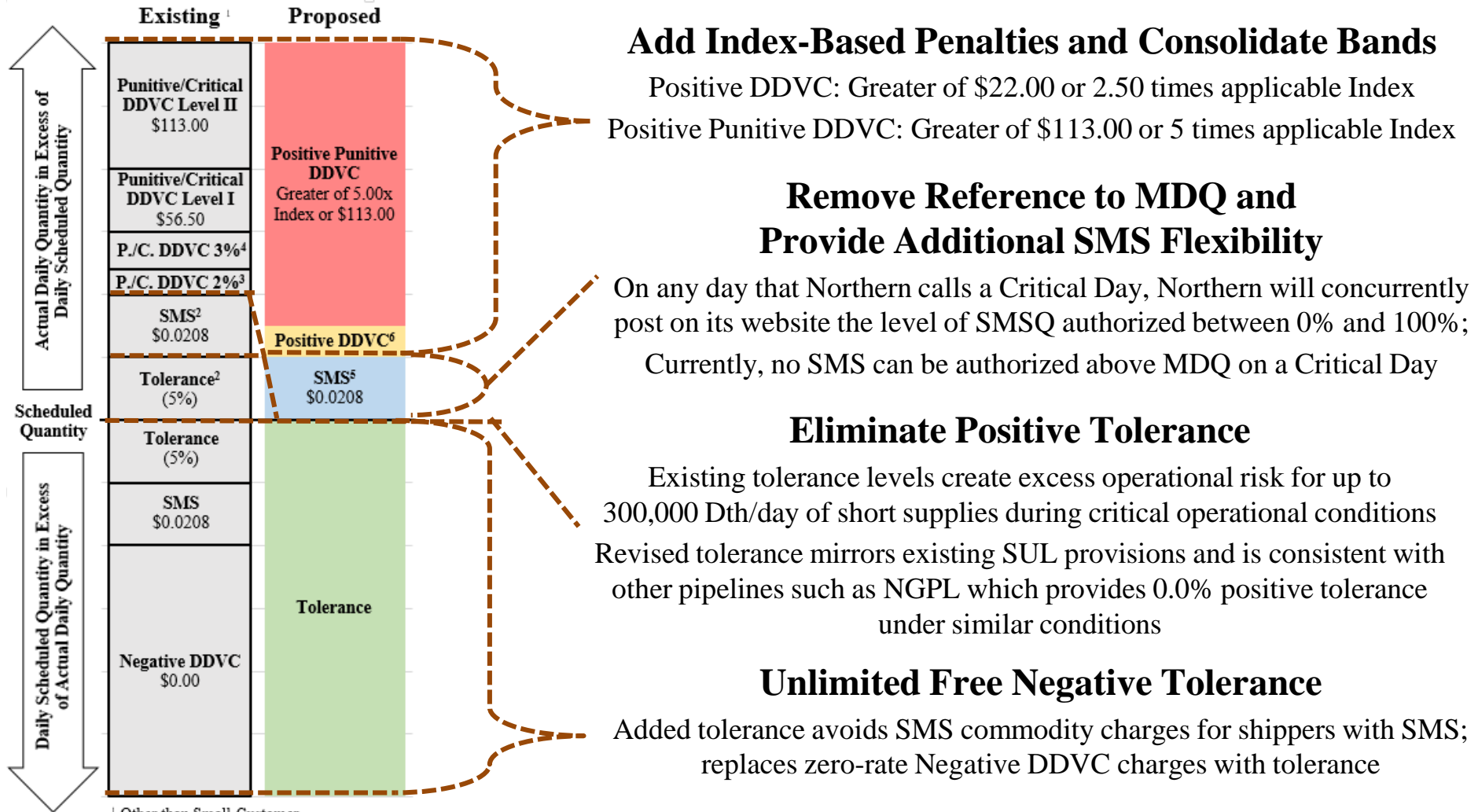
³ NNG may limit SMSQ above firm entitlement between 0% and 100%

⁴ 2.5%; cannot exceed MDQ

⁵ NNG may limit SMSQ between 0% and 100%

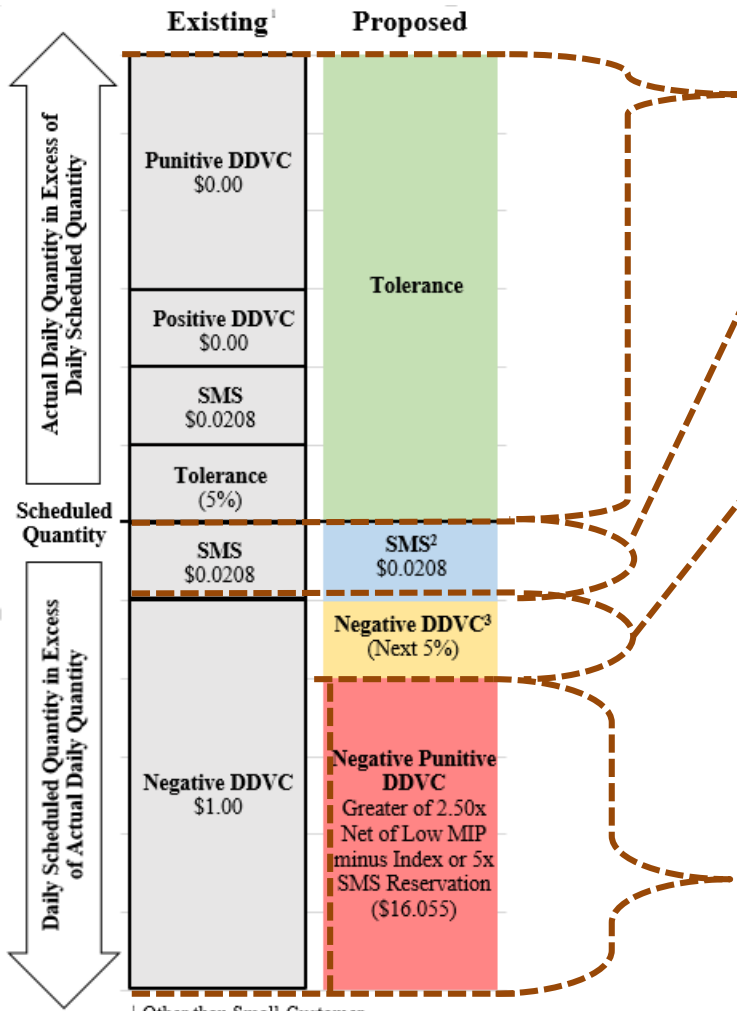
⁶ Next 5%; greater of 1.25x Index or \$1.00

DDVC and SMS Changes: Critical Day (~2 Days Per Year)



¹ Other than Small-Customer
² Cannot exceed firm entitlement
³ Positive/Critical DDVC 2%; \$15.00
⁴ Positive/Critical DDVC 3%; \$22.00
⁵ NNG may limit SMSQ between 0% and 100%
⁶ Next 2.5%; greater of 2.50x Index or \$22.00

DDVC and SMS Changes: SUL Day (~3 Days Per Year)



¹ Other than Small-Customer
² NNG may limit SMSQ between 0% and 100%
³ Greater of 1.25x Net of Low MIP minus Index or \$1.00

Unlimited Free Positive Tolerance

Added tolerance avoids SMS commodity charges for shippers with SMS; replaces zero-rate Positive DDVC and Punitive DDVC charges with tolerance

Add Limitations on SMS

On any day that Northern calls an SUL, Northern will concurrently post on its website the level of SMSQ authorized between 0% and 100%

Index-Based Penalties

Positive DDVC: Greater of \$1.00 or 1.25 times the net of the Low MIP minus the applicable Index

	Minimum Penalty	Index Based Penalty Calculation				Charged Penalty
		[Low MIP - Index]	X	Multiple	= Result	
Example 1	\$1.00	[\$1.50 - \$1.00]	X	1.25	= \$0.63	\$1.00
Example 2	\$1.00	[\$1.50 - \$0.50]	X	1.25	= \$1.25	\$1.25

Add Negative Punitive DDVC

Mirrors SOL structure to discourage excessive imbalances;
 Negative Punitive DDVC: Greater of 5 times SMS reservation (\$16.055) or 2.50 times the net of the Low MIP minus the applicable Index

	Minimum Penalty	Index Based Penalty Calculation				Charged Penalty
		[Low MIP - Index]	X	Multiple	= Result	
Example 1	\$16.055	[\$1.50 - \$1.00]	X	2.50	= \$1.25	\$16.055
Example 2	\$16.055	[\$1.50 - (\$5.30)]	X	2.50	= \$17.00	\$17.00

Next Steps

- Please provide overall comments, suggestions, etc. on the proposals discussed by sending an email to Kent.Miller@nngco.com
- Northern and WEC Energy will provide responses and recommendations prior to the next meeting
- Next meeting to be scheduled August 6, 2020