

In-Kind Payback Frequently Asked Questions

What is in-kind payback?

In-kind payback is as an option for resolution of monthly transportation imbalances that allows shippers to nominate physical payback, within specific parameters, to resolve all or a portion of their monthly transportation imbalance.

Where is in-kind payback defined in Northern's tariff?

In-kind payback is defined in Section 32 of the General Terms and Conditions, on Sheet No. 269, F. Resolution of Imbalances, (4) In-kind Resolution and Sheet No. 269A, (5) Blackout.

Are there any limitations for shippers utilizing in-kind payback?

Yes, In-kind (physical) payback may be used to resolve monthly transportation imbalances up to the greater of 3% of the shipper's monthly scheduled volumes, or 1,000 MMBtu. When a blackout period is called within the imbalance month, in-kind (physical) payback may be scheduled during the payback month only up to the greater of 1% of the shipper's monthly scheduled volumes or 1,000 MMBtu.

When is the payback month?

The payback month is the month after the election month (second month after the imbalance is created). For example, 1) imbalances incurred in May, 2) imbalance resolution elections in June to resolve May transportation imbalances, and 3) if elected, in-kind payback volume scheduled in July (payback month) as resolution of May transportation imbalance.

What is a blackout period?

Northern has the right to call in-kind payback blackout periods for the Market Area and the Field Area. Blackout periods result in limitations to use in-kind payback during the payback month. When a blackout period is called within the imbalance month, in-kind (physical) payback may be scheduled during the payback month only up to the greater of 1% of the shipper's monthly scheduled volumes (versus the normal 3% limitation), or 1,000 MMBtu. The decision to call a blackout period must be made and the pertinent information posted to Northern's web site by no later than the 20th calendar day of the imbalance (production) month. For example, if a Market Area blackout is called in May (imbalance production month), the blackout must have been called by May 20th and the scheduling of in-kind physical payback in July (payback month) would be limited to the greater of 1% of the shipper's monthly scheduled volumes for May, or 1,000 MMBtu.

Why would Northern call a blackout period?

In-kind payback is provided through the use of Northern's operational storage. If Northern's operational storage has a limited ability to accommodate the physical requirements of the higher level (imbalances of up to 3% of scheduled transportation quantities) that are normally available, then Northern may call a blackout period. This will reduce the physical requirements placed on the operational storage.

When would Northern expect to call blackout periods under normal operating and pricing conditions?

Under normal operating and pricing conditions, Northern would expect to call blackout periods for long imbalances that would be created in the months of September, October and November. Blackout periods for short imbalances would expect to be called for the months of December, January, February and March.

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How will Northern notify shippers of a blackout period?

Northern will post on its web site by the 20th day of the imbalance (production) month whether the month is an in-kind payback blackout period. The posting/notice will also include the following information about the blackout period:

- Area impacted by the blackout period: Market Area or Field Area
- Direction of imbalances affected by the blackout period: long or short. (Blackout periods are applicable to only one direction of imbalance (short or long during any one month).
- Market and operational conditions that required the calling of the blackout period including the intra-month price differentials.

Are there any restrictions on the number of blackout periods Northern can call?

Northern may call a maximum of ten blackout periods per calendar year in the Market Area and a maximum of five blackout periods per calendar year in the Field Area.

Are there other differences for blackout periods in the Field Area?

Yes, blackout periods in the Field Area will be limited as follows:

- Commencing January 1, 2005, and continuing through a trigger month, Northern may not call a blackout period in the Field Area.
- A trigger month is determined if Northern has called a blackout period for the Market Area, and Field Area transportation imbalances incurred at non-OBA points exceed 1% of the shippers' aggregated scheduled transportation volumes in the same direction (long or short) as the Market Area blackout, Northern's ability to call blackout periods in the Field Area will begin
- Each trigger month will allow for blackout periods to be called in the Field Area for a 12-month consecutive period thereafter.
- If during the 12-month period, another trigger month occurs, a new 12-month period will commence during which Northern shall have the right to call blackout periods in the Field Area.

What is the basis for calculating the 3% and 1% limitation?

The 3% (no blackout period) and the 1% (blackout period in effect) is calculated on the shipper's total monthly scheduled transportation volume for the imbalance month. Transportation volumes scheduled on TF, TFX and TI agreements, excluding Demarc to Demarc Deferred, Demarc to Demarc, Demarc Deferred to Demarc and Demarc Deferred to Demarc Deferred, will be included in this calculation.

Will I know when I am making my production month imbalance resolution selections if there is a blackout period in effect?

Yes, for example, during the December 2016, election period, when a shipper make its imbalance resolution selections for November 2016 transportation imbalances, the resolution screen will display the applicable volumetric limitation (3% (no blackout) or 1% (blackout in effect) of the shipper's monthly scheduled transportation volumes) for in-kind payback.

Can the shipper nominate in-kind payback on a firm transportation agreement?

Yes, a shipper can nominate in-kind payback on any of its active TF, TFX or TI transportation agreements.

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Is the shipper required to nominate in-kind payback evenly across the days of the month?

No, a shipper may schedule all of its elected in-kind volume during one day of the payback month, spread it evenly throughout the month, or sporadically throughout the month.

When can in-kind payback gas be nominated/scheduled?

Elected in-kind payback volumes must be scheduled during the payback month, which is the month following the election month. For example, transportation imbalances incurred in May (imbalance month), imbalance resolution elections in June (election month), and in-kind payback scheduled in July (payback month).

How will in-kind payback gas be nominated/scheduled?

Northern has established two in-kind payback points (POI's). These two POI's designate the imbalance area at either the *Field* or the *Market*. The Field in-kind payback POI is #78556, the Market area in-kind payback POI is #78557. If resolving a Field Area imbalance, the shipper nomination will need to reference the Field in-kind payback point 78556; likewise, if resolving a Market Area imbalance, the shipper nomination will need to reference the Market in-kind payback point 78557. Depending on the direction of the imbalance (short or long), the shipper nomination entry will need to reference a physical point delivering / receiving to the applicable in-kind payback point. Example: If the shipper imbalance is short (Due Northern) in the Market Area and the shipper has elected in-kind payback, the shipper would nominate from a receipt point on their transportation contract delivering to the Market Area in-kind payback point. If the shipper imbalance is long (Due Service Requester) in the Field Area and the shipper has elected in-kind payback, the shipper would nominate the receipt at the Field Area in-kind payback point to a delivery point on the transportation contract.

Can the in-kind payback points be used for nominating any activity other than imbalance resolution?

No, the two in-kind payback points are restricted to in-kind payback activity only. If a shipper nominates in-kind payback but they did not make an election to resolve all or a portion of its imbalance by in-kind payback, they will receive an error message ('An in-kind payback election is required to nominate in-kind payback.') and the nomination will be invalid.

Are there any restrictions on the amount of in-kind payback gas a shipper can nominate?

Yes, shippers cannot nominate in-kind payback in excess of their imbalance resolution in-kind payback election amount. If a shipper nominates an amount greater than the elected in-kind payback election amount, an error message will be provided – 'The nomination for in-kind payback exceeds the remaining in-kind payback election quantity by _____.'. Any nomination in excess of the remaining in-kind payback election will be invalid.

What upstream or downstream contract will shippers reference when nominating in-kind payback?

Northern has created an administrative storage contract 111675 to be referenced in the nomination process.

Will shipper's firm transportation agreements be amended to add the in-kind payback points?

No, shippers may use the in-kind payback points on any firm transportation agreement on an alternate basis without impacting any rate or discount provisions of the agreement. Northern has posted on its web site a notice to all shippers that provides for this accommodation. If any shipper

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specifically desires to formally amend their agreement, they may contact the account manager. All in-kind receipt and deliveries scheduled on firm transportation agreements at the in-kind payback points will have an alternate scheduling priority.

When nominating in-kind payback, do shippers need to use a specific transaction type?

Yes, the following transaction types have been established for in-kind payback:

- Current business in-kind payback – 111
- Overrun in-kind payback – 112

What is the scheduling priority for in-kind payback?

Transportation scheduling priorities for in-kind payback will follow the priority of the transportation agreement used to nominate and schedule the payback volumes.

Will daily scheduling allocations impact in-kind payback that is nominated?

Northern's administrative contract will be treated as interruptible storage for allocation purposes. If Northern is allocating daily storage services, the in-kind payback points will be included in the allocation and will have the same scheduling priority as maximum rate IDD and FDD Overrun.

Will fuel and UAF be charged on in-kind payback transactions?

Yes, as applicable. Fuel and UAF will be retained when a shipper is nominating in-kind payback to resolve a long (Due Svc Req) imbalance. In the example above, fuel would be retained when shipper imbalance is long (Due Service Requester) and they nominate a receipt at the in-kind payback point and the delivery at a point on the transportation contract being used. No transportation commodity or fuel will be charged to shippers scheduling in-kind payback to resolve a short imbalance (Due Northern).

If a shipper has a discount, will they lose that discount if they utilize the in-kind payback point as an alternate?

No, Northern has posted on its web site a notice that use of the In-kind payback points as an alternate receipt or delivery point on existing transportation contracts will not cause a shipper to lose its discount. New discounted firm contracts may include the in-kind payback points as available for use as an alternate point at the discounted rate.

Are there specific transportation commodity charges associated with in-kind payback?

When the in-kind payback is scheduled to resolve a long position (Northern owes the shipper), transportation commodity charges (firm or interruptible) related to the actual in-kind payback volumes would be billed on a current month basis (the month that the payback volumes are actually scheduled). Any applicable fuel and UAF would also be charged/retained. No transportation commodity or fuel will be charged to shippers scheduling in-kind payback to resolve a short imbalance (Due Northern).

Are volumes scheduled at the in-kind payback points part of the DDVC calculation?

In a long position (Northern owes the shipper) the volume is scheduled at a delivery point on the shipper's transportation contract and the in-kind payback volume is a part of the DDVC calculation. In a short position (shipper owes Northern), the in-kind payback volume has no impact on DDVC calculations.

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What charges are applicable if the shipper is unable to or does not schedule the total in-kind payback volume as elected to resolve the applicable monthly transportation imbalance?

Any residual imbalance volumes that were elected but were not resolved through in-kind payback will be cashed out at the applicable weekly high/low Market Area or Field Area MIP for the payback month. These volumes and associated charges will appear on the production month prior period imbalance cash in/out invoice.

If a shipper elected in-kind payback to resolve all or a portion of its monthly transportation imbalance, is the shipper required to nominate the gas?

Yes, similar to imbalance to storage, the expectation for in-kind payback is that the shipper will perform (nominate the in-kind payback volume) according to its imbalance resolution election. In the event the shipper is unable to schedule all of the elected in-kind payback volume, the remaining balance will be cashed in/out at the applicable weekly high/low MIP for the payback month.

What if a shipper elected imbalance trading and in-kind payback to resolve its monthly transportation imbalance but during the trading process the shipper was able to trade its entire imbalance?

The elected in-kind payback volume is not available for trading. Northern will reserve the elected in-kind payback volume from the shipper's total imbalance quantity and will hold that elected in-kind payback volume as an imbalance until the payback month.

Any residual imbalance volumes that were elected but were not resolved through in-kind payback will be cashed out at the applicable weekly high/low Market Area or Field Area MIP for the current accounting or payback month. Please see the following example for further clarification.

Total May production month imbalance to be resolved: 5,000 (Due shipper)

	ELECTED VOLUME	ACTUAL VOLUME	MAY IMBALANCE CASH IN/OUT INVOICE ADJUSTMENTS
<i>Shipper elects but does not schedule in-kind payback</i>			
Imbalance Trading	3,000	5,000	2,000 @ May Low
In-Kind Payback	2,000	0	2,000 @ July High
<i>Shipper elects and schedules in-kind payback</i>			
Imbalance Trading	3,000	5,000	2,000 @ May Low
In-Kind Payback	2,000	2,000	