

**RECOMMENDATION TO GISB EXECUTIVE COMMITTEE**

**Requester: Valero Natural Gas**

**Request No.: R95003(A)**

**1. Recommended Action:**

- Accept as requested
- Accept as modified below
- Decline

**Effect of EC Vote to Accept Recommended Action:**

- Change to Existing Practice
- Status Quo

**2. TYPE OF MAINTENANCE**

**Per Request:**

- Initiation
- Modification
- Interpretation
- Withdrawal
  
- Principle (x.1.z)
- Definition (x.2.z)
- Business Practice Standard (x.3.z)
- Document (x.4.z)
- Data Element (x.4.z)
- Code Value (x.4.z)
- X12 Implementation Guide
- Business Process Documentation
- Contract

**Per Recommendation:**

- Initiation
- Modification
- Interpretation
- Withdrawal
  
- Principle (x.1.z)
- Definition (x.2.z)
- Business Practice Standard (x.3.z)
- Document (x.4.z)
- Data Element (x.4.z)
- Code Value (x.4.z)
- X12 Implementation Guide
- Business Process Documentation
- Contract

**3. RECOMMENDATION**

The OBA Task Force's recommendation is to adopt the attached Operational Balancing Agreement (OBA) as a GISB Model.

**4. SUPPORTING DOCUMENTATION**

**a. Description of Request:**

Request for a GISB standard relating to the standardization of Operational Balancing Agreements.

**b. Description of Recommendation:**

**OBA Task Force - August 6, 1997  
Discussion of How to Proceed with R95003**

In discussing a course of action on how to proceed with processing PG&E's request R95003, it was determined that the meeting participants were not interested in pursuing work on a model pipeline to



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pipeline OBA as the majority of TSPs already have operational balancing type agreements in place. The participants are agreeable to work with others on a product who are so interested, but due to lack of participation by those parties, the meeting participants had no interest at this time in pursuing such. The consensus was to not move forward in developing a model base agreement without the input and active involvement from the other segments in the industry that have indicated a need to the Chair of the Contract Subcommittee for OBA's to meet their needs as they unbundle (the LDC's).

Cheryl Loewen, Chair of the Contracts Subcommittee, indicated that she didn't think that a model OBA agreement can be sent to the E.C. until it is thoroughly worked on and reviewed by a greater involvement from a wider range of industry participants. Since there is no deadline by when this has to be done, ideas were discussed on how to attract interested parties to get involved. Others expressed the fact that for those present to develop an agreement without this involvement would more than likely result in having to do it over again and this would be a poor utilization of resources.

After much discussion on various options, the consensus was to make a report at the August E.C. meeting, during the Subcommittee and Task Force Update Reports agenda item, which explained what the group had considered, what areas are not going to be discussed (imbalance resolution, operating tolerances and mandatory implementation) and the need for additional involvement by those parties desiring a model agreement. Whoever is interested on this work product should express specific interest prior to the October E.C. meeting and be willing to attend the meetings, in person or via conference call. An update report will be given to the E.C. at that time and if sufficient interest has been expressed, a meeting will be held in October to proceed.

### **OBA Task Force - March 30, 1998 Review of Request R95003**

Mr. Buccigross read GISB Request No. R95003, requesting the development of a standard OBA Agreement. Recent minutes showed that the participants had decided to not develop a standard OBA contract. Ms. McNeal noted that because the meeting were poorly attended, there was a general lack of interest in developing an OBA contract. Ms. Moseley supported Ms. McNeal's statements and further noted that interstate pipelines already operate under OBAs. Ms. Moseley added that pipelines would be willing to support other segments in development of a standard OBAs. Several participants noted that they saw no need for a standardized OBA contract, as OBAs have already been put in place. As other segments may need one, the pipelines would be willing to share their OBA contracts with them.

Ms. Unruh asked that if the OBA contract were to be developed, how would the compensation issues be addressed? Several noted that there would be no value to the effort to develop a standard OBA. Others noted the difficulty in standardizing an OBA contract. Procedurally, a recommendation would be drafted and then sent out for industry comment, after which it and the comments are forwarded to the Executive Committee for a vote. Mr. Buccigross noted that this will be placed on the next agenda for resolution.

### **OBA Task Force - April 23, 1998 Review of Request R95003 and Vote**

Mr. Hahn directed the group to page 39 and following of the FERC Order 587-G, in reference to the OBA issues. Specifically, he noted the ninety day deadline stated in the order. Ms. Unruh noted that in the prior

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BPS meeting, it was discussed that if GISB determines that a standard is not required, it does not necessarily conflict with the order.

A motion was made and seconded to recommend declining Request No. R95003, (develop a standardized OBA as stated in the request). Several noted their support for the recommendation to decline, and Mr. Buccigross and Ms. Munson noted that a model OBA would show benefit to the industry. While several were not in support of a standard, others noted that they might support a model or shell OBA development, depending on the laundry list of clauses. One participant noted that imbalance resolution should not be included in the model. Several participants noted that provisions important to have open, either for negotiation and listed on the model, or not listed all and contained in a section called "Other Provisions" would include operational flexibility, imbalance resolution and credit worthiness. The motion passed.

Ms. Moseley made a motion which was seconded to develop a model OBA as an amendment to Request No. R95003. Mr. Hahn noted that this item should be discussed later in the agenda. It will be discussed after agenda item III.

**Motion:** Recommend declining Request No. R95003.

**Sense of the Room:** April 23, 1998    16 In Favor    4 Opposed    4 Abstain

**Segment Check** (if applicable):

|            |                       |                  |                       |                       |                      |
|------------|-----------------------|------------------|-----------------------|-----------------------|----------------------|
| In Favor : | <u>    </u> End-Users | <u>    </u> LDCs | <u>15</u> Pipelines   | <u>    </u> Producers | <u>1</u> Services    |
| Opposed :  | <u>    </u> End-Users | <u>    </u> LDCs | <u>    </u> Pipelines | <u>    </u> Producers | <u>4</u> Services    |
| Abstain :  | <u>    </u> End-Users | <u>1</u> LDCs    | <u>2</u> Pipelines    | <u>1</u> Producers    | <u>    </u> Services |

**OBA Task Force - April 23, 1998**  
**Model OBA Development**

Ms. Moseley made a motion which was seconded to develop a model OBA as an amendment to Request No. R95003. Mr. Hahn noted that this item should be discussed later in the agenda. It will be discussed after agenda item III.

Ms. Moseley amended her previous motion which was seconded to work on developing a model OBA as an amendment to Request No. R95003, now renumbered Request No. R95003A. Ms. Corcoran noted that she has already developed a model OBA, which should be posted by April 24. The motion passed.

**Motion:** Develop a Model OBA as an amendment to Request No. R95003.

**Sense of the Room:** April 23, 1998    18 In Favor    2 Opposed    3 Abstain

**Segment Check** (if applicable):

|            |                       |                  |                     |                       |                      |
|------------|-----------------------|------------------|---------------------|-----------------------|----------------------|
| In Favor : | <u>    </u> End-Users | <u>1</u> LDCs    | <u>11</u> Pipelines | <u>2</u> Producers    | <u>4</u> Services    |
| Opposed :  | <u>    </u> End-Users | <u>    </u> LDCs | <u>2</u> Pipelines  | <u>    </u> Producers | <u>    </u> Services |
| Abstain :  | <u>    </u> End-Users | <u>    </u> LDCs | <u>3</u> Pipelines  | <u>    </u> Producers | <u>    </u> Services |

**RECOMMENDATION TO GISB EXECUTIVE COMMITTEE**

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**OBA Task Force - May 12, 1998**

**Model OBA Development**

**II. Review of Model OBA**

It was determined to begin with the model OBA submitted by Enron. Mr. King explained the model. There were no philosophical issues cited by the group with regard to the model. The draft was prepared for pipeline to pipeline interconnects, and discussion was held on the need to make the agreement more generic. A motion was made, seconded and approved to review the model for generic application. The OBA model offered by Duke Energy was withdrawn.

**Sense of the Room:** April 23, 1998 8 In Favor 4 Opposed 4 Abstain

**Segment Check** (if applicable):

|            |                       |                  |                    |                       |                      |
|------------|-----------------------|------------------|--------------------|-----------------------|----------------------|
| In Favor : | <u>    </u> End-Users | <u>    </u> LDCs | <u>7</u> Pipelines | <u>    </u> Producers | <u>1</u> Services    |
| Opposed :  | <u>    </u> End-Users | <u>    </u> LDCs | <u>4</u> Pipelines | <u>    </u> Producers | <u>    </u> Services |
| Abstain :  | <u>    </u> End-Users | <u>1</u> LDCs    | <u>3</u> Pipelines | <u>    </u> Producers | <u>    </u> Services |

The attached red-lined model shows the changes discussed during the meeting. Additional changes to the model should be considered that are not reflected in the red-lined version attached. They are:

1. Footnotes could be replaced with an instruction sheet detailing how the model could be filled out.
2. Examples represented in paragraph 3, Line Nos. 64-66 of the red-lined draft should be added to the instruction sheet.

**OBA Task Force - May 28, 1998**

**Model OBA Development**

**II. Review of Model OBA**

Review began page by page with the red-lined OBA dated May 12, 1998. The attached red-lined model shows the changes discussed during the meeting. Additional changes to the model should be considered that are not reflected in the red-lined version attached. They are:

1. Footnotes could be replaced with an instruction sheet detailing how the model could be filled out.
2. Examples represented in paragraph 3, Line Nos. 64-66 of the red-lined draft dated May 12 should be added to the instruction sheet.
3. Further instructions would be given on the instruction sheet/footnotes for clause 3.
4. Optional language should be provided on the instruction sheet for merger clauses.

For next steps, two versions of the OBA will be prepared and posted on or before June 5. The first version will be the red-lined version as a result of the discussions held today. The second version will have all red-line edits accepted and all footnotes removed and placed on an instruction sheet attached to the contract. The instruction sheet will be amended by Mr. Buccigross to add merger clause language.

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**OBA Task Force - June 15, 1998  
Model OBA Development**

**II. Review of Model OBA**

Several further grammatical and clarifying changes were made to the document. The motion was made to adopt the OBA as a model. The vote passed with one abstention and none in opposition. It will be presented to the Executive Committee in July.

**Sense of the Room:** June 15, 1998   19   In Favor   0   Opposed   1   Abstain

**Segment Check** (if applicable):

|           |                     |                   |                         |                     |                       |
|-----------|---------------------|-------------------|-------------------------|---------------------|-----------------------|
| In Favor: | <u>  </u> End-Users | <u>  1  </u> LDCs | <u>  16  </u> Pipelines | <u>  </u> Producers | <u>  2  </u> Services |
| Opposed:  | <u>  </u> End-Users | <u>  </u> LDCs    | <u>  </u> Pipelines     | <u>  </u> Producers | <u>  </u> Services    |
| Abstain : | <u>  </u> End-Users | <u>  </u> LDCs    | <u>  1  </u> Pipelines  | <u>  </u> Producers | <u>  </u> Services    |

**c. Business Purpose:**

Standardized Operational Balancing Agreement "OBA" to serve as a tool for pipelines to reconcile minor volume discrepancies which occur after nominations have been submitted and confirmed. The purpose of this agreement is to settle minor differences without involving shippers, saving time of both the shipper and transporter.

**d. Commentary/Rationale of Subcommittee(s)/Task Force(s):**

OBA Task Force: See relevant sections of meeting minutes in Supporting Documentation section above.

2 OPERATIONAL BALANCING AGREEMENT  
4 between

6 \_\_\_\_\_  
and  
\_\_\_\_\_

8 THIS AGREEMENT ("OBA" or "Agreement") made and entered into by and between  
10 \_\_\_\_\_ ("\_\_\_\_\_"), a \_\_\_\_\_  
with offices at \_\_\_\_\_ and \_\_\_\_\_  
12 ("\_\_\_\_\_"), a \_\_\_\_\_ with offices at  
14 \_\_\_\_\_ (collectively the "Parties" or individually as "Party"), this  
\_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

16 WITNESSETH

18 WHEREAS, the facilities operated or to be operated by \_\_\_\_\_ and  
\_\_\_\_\_ at a location(s) specified in the Exhibit 1 attached hereto and incorporated  
20 herein by this reference (hereinafter referred to as " Location," whether one or more); and

22 WHEREAS, \_\_\_\_\_ and/or \_\_\_\_\_ (at times hereinafter referred  
to as the "Parties" or individually as a "Party") have entered into one or more agreements with  
24 third party Service Requesters (hereinafter referred to as "Service Requester(s)") for the  
transportation of gas to or from the Location on their respective systems (said agreements  
26 hereinafter referred to as "Service Requester Agreements"); and

28 WHEREAS, from time to time, the quantities of gas confirmed and scheduled by the  
parties to be delivered to or received from the Location (said quantities hereinafter referred to  
30 as the "Scheduled Quantities") may be greater or lesser than the quantities of gas which are  
actually delivered at the Location, resulting in over-or under-deliveries relative to Scheduled  
32 Quantities; and

34 WHEREAS, the Parties desire to implement an operational balancing agreement in  
order to facilitate more efficient operations, accounting, and systems management at the  
36 Location and on the Parties' respective systems.

38 [Additional WHEREAS clauses as necessary]

40 NOW, THEREFORE, in consideration of the premises and mutual covenants contained  
herein, the Parties agree as follows:

- 42
- 44 1. Prior to the date and time of flow at each Location, the Parties shall confirm and  
schedule nominations which will be delivered or received at each Location.  
Such \_\_\_\_\_<sup>1</sup> between the Parties shall be made  
46 \_\_\_\_\_,<sup>2</sup> unless otherwise mutually agreed to by the Parties.

- 48 2. The Parties intend that the quantity of gas actually delivered and received each  
50 day at each Location will equal the Scheduled Quantities for that location. Each  
52 Party will allocate quantities which have been delivered and received at each  
54 Location among the Service Requester Agreements on its system pursuant to  
56 the Scheduled Quantities at such locations. Any imbalance created, when the  
58 actual physical flow is different than the Scheduled Quantities, will be the  
60 "Operational Imbalance," which will be the responsibility of the Parties to  
62 eliminate pursuant to this Agreement. [Parties may establish a maximum  
64 Operational Imbalance and procedures for immediate or accelerated resolution  
66 if such maximum is reached.]
- 68 3. Estimated operating quantities flowing at each Location shall be used  
70 \_\_\_\_\_<sup>3</sup> during any current period to determine the  
72 estimated Operational Imbalance at such Location, with physical flow  
74 adjustments to be made during that current period as mutually agreed to by  
76 both Parties to attempt to maintain or achieve an Operational Imbalance of zero  
78 at such point; \_\_\_\_\_<sup>4</sup> provided, however,  
80 \_\_\_\_\_<sup>5</sup>
- 82 4. a. The actual measured quantity of gas at the Location each month shall be  
84 determined and communicated by the measuring party ("Measuring Party") by  
86 facsimile, electronic interface system or in writing to the other Party in  
88 accordance with GISB Standard 2.3.7. The actual measured quantity shall be  
90 determined pursuant to the applicable provisions of the Measuring Party's Tariff  
or applicable measurement procedures. Operational Imbalances shall be  
calculated initially by Measuring Party and shall be agreed to \_\_\_\_\_<sup>5</sup>  
by the Parties prior to the \_\_\_\_\_ day of such period.
- b. Operational imbalances shall be resolved as follows:  
\_\_\_\_\_  
\_\_\_\_\_<sup>6</sup>
5. In the event that a capacity constraint occurs on either Party's system which  
results in curtailment of quantities through a Location,  
\_\_\_\_\_  
\_\_\_\_\_<sup>7</sup>
6. This Agreement is entered into in order to facilitate operations and accounting  
between the Parties, and shall have no effect upon the Service Requester  
Agreements or upon the effectiveness of any Party's Gas Tariff or General  
Terms and Conditions.<sup>8</sup>
7. [Establish a procedure by which locations are added to or deleted from this  
Agreement or Exhibit 1.]

92 8. Notwithstanding the termination of this Agreement, the Parties agree to  
94 reconcile and eliminate any remaining Operational Imbalance pursuant to the  
96 terms and conditions of this Agreement within \_\_\_\_\_ of termination  
of this Agreement or such other period of time which is mutually agreed to by  
the Parties.

98 9. This Agreement and the terms and conditions herein are subject to all present  
100 and future valid laws, orders, rules and regulations of duly constituted  
authorities having jurisdiction.

102 10. In the event a conflict exists or arises between this Agreement and Parties' Gas  
104 Tariff or General Terms and Conditions, as amended from time to time, it is  
agreed and understood that the latter shall control.

106 11. This Agreement is for accounting and system management purposes only, and  
108 is entered into by the Parties with the understanding that the balancing activities  
provided for hereunder will not subject any non-jurisdictional entity to regulation  
110 by the Federal Energy Regulatory Commission as a "natural gas company"  
112 under the provisions of the Natural Gas Act. If, at any time, it should be  
determined that such balancing activities do result in such regulation, then this  
114 Agreement shall immediately terminate, and any remaining Operational  
Imbalance shall be resolved by the Parties within \_\_\_\_\_ after  
termination of this Agreement.

116 12. Any entity which shall succeed by purchase, merger or consolidation to the  
118 properties, substantially as an entity, of either Party, shall be subject to the  
obligations of its predecessor to this Agreement. No other assignment of this  
120 Agreement or of any of the rights or obligations hereunder shall be made.

122 13. AS TO ALL MATTERS OF CONSTRUCTION AND INTERPRETATION, THIS  
124 AGREEMENT SHALL BE INTERPRETED IN ACCORDANCE WITH THE LAWS  
OF \_\_\_\_\_.

126 14. Any notice, request, or statement provided pursuant to this Agreement shall be  
128 in writing and shall be considered as having been given, if delivered personally,  
when delivered, or, if either electronically communicated, mailed, postage  
130 prepaid, sent by express mail, or overnight delivery, or if telecopied to the other  
Party, then, when sent, to the following:

132 \_\_\_\_\_  
134 \_\_\_\_\_  
136 \_\_\_\_\_  
\_\_\_\_\_

138 Changes to the above addresses shall be effectuated by a Party notifying the  
140 other Party in writing of the modification.



142 15. A waiver by either Party of any one or more defaults by the other Party  
hereunder shall not operate as a waiver of any future default or defaults,  
whether of like or different character.

144 16. [Additional provisions as necessary.]<sup>9</sup>

146 17. The Effective Date of this Agreement shall be \_\_\_\_\_, \_\_\_\_\_.

148 18. The primary term of this agreement shall be from the Effective Date until  
150 \_\_\_\_\_ and month to month thereafter unless cancelled upon  
152 \_\_\_\_\_ written notice or by other provisions herein.

154 IN WITNESS WHEREOF, the Parties hereto have executed duplicate originals of this  
Agreement on the date set forth hereinabove.

156

158 Company Name: \_\_\_\_\_ Company Name: \_\_\_\_\_

By: \_\_\_\_\_ By: \_\_\_\_\_

Printed Name: \_\_\_\_\_ Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_ Title: \_\_\_\_\_

Date: \_\_\_\_\_ Date: \_\_\_\_\_



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OPERATIONAL BALANCING AGREEMENT  
INSTRUCTION SHEET

1. For paragraph 1, the first insert: Possible inserts include but are not limited to, for example: "reconciliation and confirmation," "discussion," or "verification."
2. For paragraph 1, the second insert: Possible inserts include but are not limited to, for example "verbally," "verbally with subsequent confirmation in writing," "in writing" or "electronically."
3. For paragraph 3, the first insert: Possible inserts include but are not limited to, for example: "on a daily basis" or it may be left blank.
4. For paragraph 3, the second insert: Possible inserts include but are not limited to, for example: whatever the parties agree upon for rescheduling during the period.
5. For paragraph 4a, the insert: Possible inserts include but are not limited to, for example "verbally," "verbally with subsequent confirmation in writing," "in writing" or "electronically."
6. For paragraph 4b, the first insert: Possible inserts include but are not limited to, for example: procedures for in-kind balancing, procedures for cash out, procedures for a combination of the two, some other mutually agreed procedure, or as provided by regulatory or contractual provisions.
7. For paragraph 5, the insert: Possible inserts include but are not limited to, for example "the Party on whose system the constraint has occurred shall determine the confirmation of quantities to the Service Requester(s) under the affected Service Requester Agreements. Such change in Scheduled Quantities shall be confirmed \_\_\_\_\_ [see Instruction 2] as required by Paragraph 1 above. If the constraint occurs at the Location, the operator of the Location shall determine the confirmation of quantities to the Service Requester(s) under the affected Service Requester Agreements, unless otherwise mutually agreed."
8. For paragraph 6, this paragraph may be deleted if the Agreement is contained within the Party's Gas Tariff or General Terms and Conditions.
9. For paragraph 16, optional merger language may be added such as: "This Agreement and the Exhibit(s) constitute the complete agreement of the parties relating to the matters specified in this Agreement and supersede all prior representations or agreements, whether oral or written, with respect to such matters."
10. For Exhibit 1, the column entitled "Party Name" should include entries for each interconnected party, for example: "party 1" and "party 2."