C97009

Gas Industry Standards Board
Request For Clarification Or Interpretation

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GISB Standard Number: 2.3.16

Clarification or Interpretation Request:

Standard 2.3.16 states "List of allocation methodologies agreed upon: Ranked, Pro Rata, Percentage, and Swing".

So that these methodologies can be implemented on a consistent basis, GISB should clarify the application of each of these methodologies (similar to what was done in Interpretation C96020 for the Capacity Release Bid Evaluation Methodologies listed in Standard 5.3.3).

Possible Interpretations or Clarifications, if known:

The following represents a possible definition of terms that is consistent with prevailing industry practices and GISB terminology:

Ranked

Each scheduled line item is assigned a relative ranking to establish a priority order. Starting with the highest prioirity line item and continuing for as long as there is any remaining unallocated quantity, the scheduled quantity for each nomination line item is allocated to that line item and deducted from the total quantity to be allocated. If there is not enough remaining unallocated quantity to allocate the scheduled quantity to the next priority line item, all remaining unallocated quantity is allocated to that line item. Any line item with a lower prioirity than the last allocated line item is allocated no quantities. If after all line items have been allocated there still remains some unallocated quantities, all of the remaining unallocated quantities are allocated to the lowest priority line item.

Pro Rata

The total quantity to be allocated is multiplied by the ratio established by taking each individual scheduled line item and dividing it by the total of all scheduled line items applicable to the quantity to be allocated.

Percentage

The total quantity to be allocated is multiplied by a percentage applicable to the scheduled quantity line item being allocated to. The sum of the percentages used must total 100%.

Swing

One or more of the scheduled line items, or alternatively a separate contract, is designated as the "swing". All other scheduled line items are allocated the scheduled quantity. The line item(s) identified as "swing" are allocated the remaining difference between total quantity to be allocated and quantities allocated to non-swing line items, in accordance with instructions provided with the PDA.

***Note**: The above descriptions are based on the October 1993 COPAS White Paper entitled "Operator/Producer Roles & Responsibilities". Copy of applicable pages attached.*

Following are examples of the application of each methodology:

EXAMPLE I: Total Scheduled Quantity = 550; Total Quantity To Be Allocated = 620

	ASSUMPTIONS				ALLOCATION			
Scheduled Line Item	Sched Quantity	Ranking (1 = High)	Percent	Swing?	Ranked	Pro Rata	Percentage	Swing
A	100	1	20%	No	100	113	124	100
B	150	1	25%	No	150	169	155	150
C	200	2	30%	No	200	225	186	200
D	100	3	25%	Yes	220	113	155	220
	550				620	620	620	620

EXAMPLE II: Total Scheduled Quantity = 550; Total Quantity To Be Allocated = 400

	ASSUMPTIONS				ALLOCATION			
Scheduled Line Item	Sched Quantity	Ranking (1 = High)	Percent	Swing?	Ranked	Pro Rata	Percentage	Swing
A	100	1	20%	No	100	73	80	100
B	150	1	25%	No	150	109	100	150
C	200	2	30%	No	150	145	120	200
D	100	3	25%	Yes	0	73	100	(50)
	550				400	400	400	400

Other Background Information:

Following is additional background information regarding the GISB Executive Committee action regarding Standard 2.3.16.

Executive Committee Workshop - February 1996
The proposed standard that came to the Executive Committee from the Flowing Gas Task Force was numbered 2.1 and was worded as follows:

> "List of allocation methodology types agreed upon: Ranked, Pro Rata, Percentage, and Swing - which includes OBA contracts, other types of contracts and storage (can allocate negative volumes)."

In the EC Workshop, this proposed wording was considered and was modified to delete all language beginning with the hyphen after "Swing". A review of the industry comments on this proposed standard leading to the language approved by the EC and the GISB membership indicates that the deleted language was viewed to be inconsistent with a "listing" and "Standard" language.

Executive Committee Meeting - March 1996
The EC discussion of the proposed standard begins on page 304 of the transcript of the March 8th EC meeting. The transcript shows only a very brief tangential discussion regarding the wording coming out of the EC Workshop and then the proposed standard was approved by the EC.

Later in the meeting, beginning on page 342 of the transcript, there is a brief discussion regarding the allocation methods.

> MS. GARDINER: Then in 2.1, we talked about arranging a pro rata and a swing and a percentage. So there's another level of agreement that has to occur, is that what you're saying, in addition to that?
>
> MR. BRAY: Steve?
>
> MR. MEADOWS: I think what Carl is saying is that the predetermined agreement gives you the ways that you can allocate, and then every day or every week or every month, you say what allocation method you are going to use.
>
> MS. GARDINER: So a PDA is a process communicating the predetermined allocation methodology agreement?
>
> MR. MEADOWS: Method. PDA is being used, in my mind here, in kind of a loose context. A PDA is an agreement in my mind which specifies the way you can allocate gas. Every day, every week, or every month, you then go and say how you want to allocate that gas within the agreement that you signed long ago.
>
> MS. GARDINER: I'm just trying to get educated here. So, if you have an agreement that is going to be pro rata, for example --
>
> MR. CALDWELL: Wait. Can I back up? I guess really, in order to make it just clear, we agreed that ranking and pro rata would be listed as separate items. But really there's one

methodology, and even swing, for that matter -- really rank, pro rata, and swing are all one sort of methodology. And it's a ranking methodology.

If you want to execute a pro rata methodology, then you set all parties at the point with the same rank. You say they are all one. That means they get a pro rata allocation. If you get a ranking, then you are saying Shipper A, Baltimore Gas & Electric, gets number one; Shipper B, NISEG (sic), gets two. And you allocate the gas and you say "I'm going to give the first amount of gas that comes to the point to BG&E. Whatever is left over, I'm going to give to NISEG (sic), and if there's any other parties, et cetera."

If you have a swing type methodology, I guess you're assuming that there is some kind of an agreement at that point. That may take the allocation down below zero, or may allocate extra gas onto a contract that doesn't go anywhere.

The discussion then moved away from the list of allocation types.

producers, shippers, and marketers in addition to the operator and the pipeline.

4. COMMUNICATION

The guidelines also recommend that the upstream and downstream operators should communicate the PDA to the other upstream and downstream parties. For example, the property operator should communicate the PDA to other upstream operators and/or producers affected by the PDA.

B. TYPES OF PREDETERMINED ALLOCATION (PDA) METHODOLOGIES

There are several different types of disposition point allocation methodologies in common use in today's environment. Although changes between allocation methodologies available, or utilized by, operators at specific disposition points can be expected as a result of Order 636, few new and different generic types of disposition point allocation methodologies are expected to emerge.

These generic types of allocation methodologies are listed below.

1. PRO-RATA BASED ON CONFIRMED NOMINATIONS

The total metered volume at the disposition point is multiplied by the ratio established by taking each individual disposition confirmed nomination and dividing it by the sum of all the individual disposition confirmed nominations applicable at that point.

2. SWING BASED ON CONFIRMED NOMINATIONS

Each disposition at the disposition point is made equal to the confirmed nomination for that disposition, except that the total difference between the sum of the confirmed nominations and the total metered volume at that disposition point is assigned to a designated disposition (i.e. the swing disposition).

3. RANKED BASED ON CONFIRMED NOMINATIONS

Each disposition at the disposition point is assigned a relative ranking to establish a priority order (highest priority to lowest priority). Starting with the highest priority disposition and continuing for as long as there is any remaining unallocated volume, the confirmed nomination for each disposition is then allocated to that disposition and deducted from the total metered volume. If there is not enough remaining unallocated volume to allocate confirmed nominations to the next priority disposition, all remaining unallocated volume is allocated to that disposition. Any dispositions with a lower priority than the last allocated disposition is allocated no volumes. If after all dispositions have been allocated there still remains some unallocated volumes, all the unallocated volumes are allocated to the lowest priority disposition.

4. ENTITLEMENT

The total metered volume/quantity severed from a producing lease or property is multiplied by each producer's pure working interest percentage share in the producing lease or property. This method does not allow for producer imbalance makeup. In production commingling situations (gas plants, gathering systems, etc.) this method requires that entitlement allocations at the individual property level be completed prior to determining the allocation at a downstream disposition point.

5. RIGHT-TO-MARKET (RTM), or ADJUSTED ENTITLEMENTS

Each producer's pure working interest share in the producing lease or property is adjusted to allow for producer imbalance makeup and marketing strategy decisions (e.g. TIK, JOA sales, bank/store gas in the property). The total metered volume/quantity severed from a producing lease or property is then multiplied by each producer's adjusted working interest share. Otherwise similar to the Entitlement method.

A modification of this methodology is the ESTIMATED RIGHT-TO-MARKET methodology, where an operating estimate of the volume/quantity severed from a producing lease or property is used initially instead of an actual metered volume or quantity. This approach is most useful in commingled production situations. The estimated right-to-market allocations at the individual properties are summed and used to allocate the actual total metered volume at the downstream disposition point, when it is available.

6. OPERATOR OPERATIONAL BALANCING AGREEMENT (OBA)

Each disposition is allocated its confirmed nominations. The difference between the sum of all dispositions' confirmed nominations and the total metered volume at the disposition point is assigned to an imbalance between the operator of the production property and the transporter.

7. PRODUCER (OR OTHER NON-OPERATOR) OPERATIONAL BALANCING AGREEMENT (OBA)

An initial allocation (using any one of the first six allocation methodologies) is performed, resulting in a total volume allocated to an individual producer. Each of that producer's dispositions are allocated confirmed nominations, and the difference between the sum of the confirmed nominations for that producer's specific dispositions and the total volume allocated to that producer is assigned to an imbalance between that producer and the pipeline.