

Winter Preparedness for Your Natural Gas Supply Plan



Understanding and navigating high flow constraint events

During periods of extreme weather—such as deep freezes and extended cold temperatures—the natural gas utility/pipeline companies may issue **Operational Flow Orders (OFOs)**, also known as high flow constraint events. During an OFO event, suppliers like us are **required to flow gas as close to our customers' expected usage as possible** or as close to a certain percentage of their maximum daily (contract) quantity (MDQ/MDCQ) as possible. If we don't, we risk penalties.

Why are OFOs needed?

Because the quantity of gas flowing through the pipelines is closely tied to what the expected need is, **during cold weather, when everyone is burning large amounts of gas**, there is a risk that pipeline volumes could dip lower than the amount needed to maintain adequate pipeline pressure and could therefore compromise system stability and reliability. OFOs are a tool used by utilities/pipelines to help align gas deliveries with actual usage before system integrity is compromised.

What do these events mean for NRG?

When an OFO is in effect, **normal balancing rules** are temporarily replaced with **more stringent balancing requirements**. These are tighter requirements for more closely aligning deliveries with actual consumption.

During an OFO, **the amount of gas needed by our customers must closely match the amount of gas we scheduled to be delivered to our customers**, within a very small tolerance (or no tolerance) set by the LDC or pipeline. If the quantity of gas we procured for our customers is unexpectedly needed in a higher quantity during a cold weather event—**we risk monetary penalties from the utility, as well as impacts to delivery costs on those days**.

During cold snaps, some utilities may issue OFOs that last for *days or weeks*, which increases the chances for penalties and delivery cost impacts.

Insights on “balancing”

Balancing is essentially the alignment of how much gas a supplier schedules to be delivered for its customer base for any given month or day, and what its customer base actually consumes that month/day.

Monthly balancing, which is what happens during normal system conditions, smooths out usage fluctuations that may occur daily. When an OFO event is happening, balancing delivery quantities on a daily basis means that usage fluctuations become more impactful.



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What do these events mean to your business?

These events **could result in additional costs or increases in costs**, depending on your product structure/contract language. This can happen in a few ways:

- If you burn outside of contract quantity, you could be subject to penalties.
- If you burn outside your contract quantity during volatile pricing periods, your overburn could be settled at higher rates.

But there are ways **we can work together** to help limit your exposure to penalties and extraordinarily high gas settlement costs:

What we do

- Alert you when an OFO event is called*
- Assist you in planning for tightening conditions to ensure you stay as close to contract quantity as possible

What you can do

- **Alert us** if you are expecting deviations in your consumption when you receive the OFO alert

*Alerts are sent when we have a valid email address on file for you. You may contact your Account Executive to update or add contact information.

Contract language balances the risk of increased costs between our business and yours

In the past, NRG has absorbed the impact of OFO events and extreme weather conditions however there are increased financial risks associated with balancing gas flow on a daily basis during these events. In order to remain competitive on price, NRG has built in some protections from the impact extreme weather events can have on the cost to serve customers.

These protections include **contract language** that specifies we can and may pass through costs related to daily balancing that come about from OFOs and other utility/pipeline-mandated delivery changes. However, our approach here is **thoughtful and fair to our customers**:

- We typically only apply daily market-based pricing (as opposed to a monthly, smoothed out average price) to **volume above/below a customer's daily contract quantity (DCQ)** and typically don't apply these costs to baseload volume (unless specified in your contract).
- This is not a revenue-generating action but rather intended **solely to recover the costs incurred during the impacted days** according to a customer's particular consumption.

Consider your risk tolerance and product configuration

It's important to understand the risk of extreme weather events and the OFOs that can follow—and, even with bandwidth protections, you can still be impacted. Depending on your risk tolerance, you will want to consider this during the contracting process so that you can make an informed decision about your product structure, including bandwidth provisions. Contact your NRG Account Executive or energy broker for questions about your natural gas plan or plan options.