

purchases depends on (1) the gas price difference between the two markets; (2) the fixed and variable transportation costs; and (3) the quantities of gas that will be purchased and delivered relative to the transportation capacity. The relationship between actual utilization and maximum capacity defines the “load factor”.

When a large portion of the transportation cost is a fixed cost, load factor is particularly important. For example, if the fixed transportation cost is \$1.00/Dth and the transportation capacity is used at maximum throughout the year (i.e. at 100% load factor), adding transportation capacity reduces total costs if the average savings in gas commodity costs is at least \$1.00/Dth. However, if the capacity is only used the equivalent of 30 days per year (i.e. at load factor of 8.2%), the average commodity cost savings would need to be \$12.17/Dth in order to break even.<sup>12</sup>

In this case we know that the difference in fixed transportation costs between EnergyNorth’s existing Tennessee service from Dracut and the proposed service from Wright is [REDACTED] million per year. The existing transportation service from Dracut has an average of fixed cost \$0.304/Dth, which for 50,000 Dth/day of capacity translates to an annual cost of \$5.548 million. The proposed fixed rate for 50,000 Dth/day of incremental transportation service from Wright is [REDACTED] million per year. As discussed above, we also know that market area purchases backed by Tennessee transportation service from Dracut are required mainly for winter season supply, so that this supply source is used at a relatively low load factor over the year. The missing input to the analysis is the future relationship between New England gas prices and prices at Wright.

**Q. How is natural gas priced at Wright, NY today?**

Wright, NY is not a major gas trading point, so there is not a separate price index published for Wright. Pricing information for IGTS Zone 1, which includes Wright, shows that there is a close relationship between gas prices at Wright and prices at Waddington, which is the New York-Ontario border point where IGTS receives gas from TCPL. Wright typically trades at a small premium to Waddington because Wright is

<sup>12</sup> This simple example assumes no variable transportation costs and no remarketing of surplus off-peak capacity.