

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

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

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

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

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

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