Elenchus Report on Énergir Cost Allocation and Pricing

Working Session #1
John Todd
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Agenda

1. Key Preliminary Conclusions
   a) Conceptual Framework
   b) Three Tiers of Gas Supply
   c) Costs of the 3 Portfolio Tiers
   d) Sub-functions of Load Balancing

2. Additional Information Required
   a) Details of Inputs to Énergir's Cost Allocation Model

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Preliminary Conclusions: Conceptual Framework

➢ Traditional Conceptual Framework
- ➢ Allocate tools to customer classes
- ➢ Gas purchases, transportation, storage (LB)

➢ Énergir's Alternate Conceptual Framework
- ➢ Allocate functions to classes
- ➢ Gas supply at 100% load factor (LF)
- ➢ Load balancing (seasonal, day ahead, etc.)
- ➢ Operational flexibility (daily imbalances within day)

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Preliminary Conclusions: Three Tiers of Gas Supply

➢ **Tier 1:** The gas supply portfolio that would meet the forecast annual volumetric requirement of Énergir's customers at minimum cost (i.e., gas supply at 100% load factor).

➢ **Tier 2:** The gas supply portfolio that would meet the forecast annual volumetric requirement of Énergir's customers with load balancing at minimum cost (i.e., without accommodating operational flexibility).

➢ **Tier 3:** The actual gas supply portfolio that meet the forecast annual volumetric requirement and accommodates Énergir's load balancing needs as well as operational flexibility.

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Preliminary Conclusions: Cost of 3 Portfolio Tiers

- Tier 1: 100% load factor gas supply
  - Purchases & transport at average daily volume (no storage or interruptible)
  - Modify for season difference in cost of purchases (may require some storage to minimize cost)
- Tier 2: Gas supply with load balancing
  - Actual cost with operational flexibility (OF) removed
  - Requires estimate of premium to accommodate OF
- Tier 3: Gas supply with load balancing and operational flexibility
  - Actual gas supply portfolio cost
  - Assume actual portfolio minimizes cost
- Note: Cost causality could be based on planning cost drivers; hence, no need to reconcile for actual

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Preliminary Conclusions: LB Sub-functions

- Seasonal load balancing: Essentially winter vs. summer average daily volume (injection vs withdrawal seasons). Long term storage used; cost causality is degree-days (DD).

- Daily load balancing: Within season variances due to factors other than DD, such as weekday vs weekend/holidays, customer operations, etc.
  - May not require additional storage, but only adjust daily injections/withdrawals

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Additional Information Required

➢ The derivation of certain cost allocation model inputs were not available to Elenchus

➢ Elenchus presented its understanding of the Énergir evidence and background. My interpretation reflects my understanding – generally what make sense to me. Identification of areas where my interpretation is not what Énergir intended would be helpful (e.g., supply planning). Normally, I would have asked IRs seeking confirmation of my understanding.

➢ The Report includes numerous comments for consideration of Énergir and other parties although I have not made specific recommendations. These comments were made "for discussion purposes".

➢ Report p. 31-32,

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