

Mystic Cost of Service Agreement Audit of Monthly Fuel Supply Cost

Presentation to ISO-NE Markets Committee

Levitan & Associates, Inc.
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Agenda

- ❑ Background- Mystic Cost of Service Agreement
- ❑ Fuel Supply Agreement
- ❑ LAI Audit Scope
- ❑ Background – Everett Marine Terminal
- ❑ Sources of Information
- ❑ Audit Process
- ❑ Tank Management

Background – Mystic Cost of Service Agreement

- ❑ Mystic Cost of Service charge is the allocation of the Supplemental Capacity Payment paid to Mystic 8 and 9 retained for fuel security under the Cost of Service Agreement (COSA) from 6/1/2022 to 5/31/2024

$$\text{Supplemental Capacity Payment} = \text{Annual Fixed Revenue Requirement (AFRR)} + \text{Revenue Credit} + \text{Monthly Fuel Supply Cost}$$

Monthly Fuel Supply Cost is governed by the **Fuel Supply Agreement (FSA)** executed between Mystic and Constellation LNG
This is the subject of today's presentation

- ❑ More information about **AFRR** and **Revenue Credit** is located at: <https://www.iso-ne.com/committees/key-projects/implemented/forward-capacity-market--retain-resources-for-fuel> and not a subject of today's presentation

Fuel Supply Agreement (FSA)

- ❑ FSA is between Seller, Constellation LNG, LLC and Buyer, Constellation Mystic Power, LLC
- ❑ FSA charges are identified under Part 2 of Schedule 3 of the Amended and Restated COSA:
 - 91% of the Fixed O&M/Return on Investment Costs of Everett Marine Terminal
 - Variable O&M Costs of the Everett Marine Terminal, including port use costs
 - New Regulatory Costs
 - Administrative Services Fee (fixed over COSA term)
 - Credit and Collateral Costs
 - Pipeline Transportation Agreement Costs
 - Diversion Costs
 - Daily Gas Sales
 - Third-Party Sales Credit for Demand Charges
 - Actual Fuel Cost Adjustment
- ❑ Commodity burned at Mystic is priced at Weighted Average Cost Of Gas (WACOG) and paid for through the Stipulated Variable Cost under the COSA, and not through the FSA

LAI Audit Scope

- Levitan & Associates, Inc. (LAI) was engaged by ISO-NE in April 2022 to audit the Monthly Fuel Supply Cost under the COSA
 - LAI evaluates whether the Monthly Fuel Supply Costs are invoiced through the FSA properly accounted for and consistent with the COSA
and
 - LAI evaluates whether Constellation, based on the information available at the time, reasonably selected the lowest cost option for tank management.

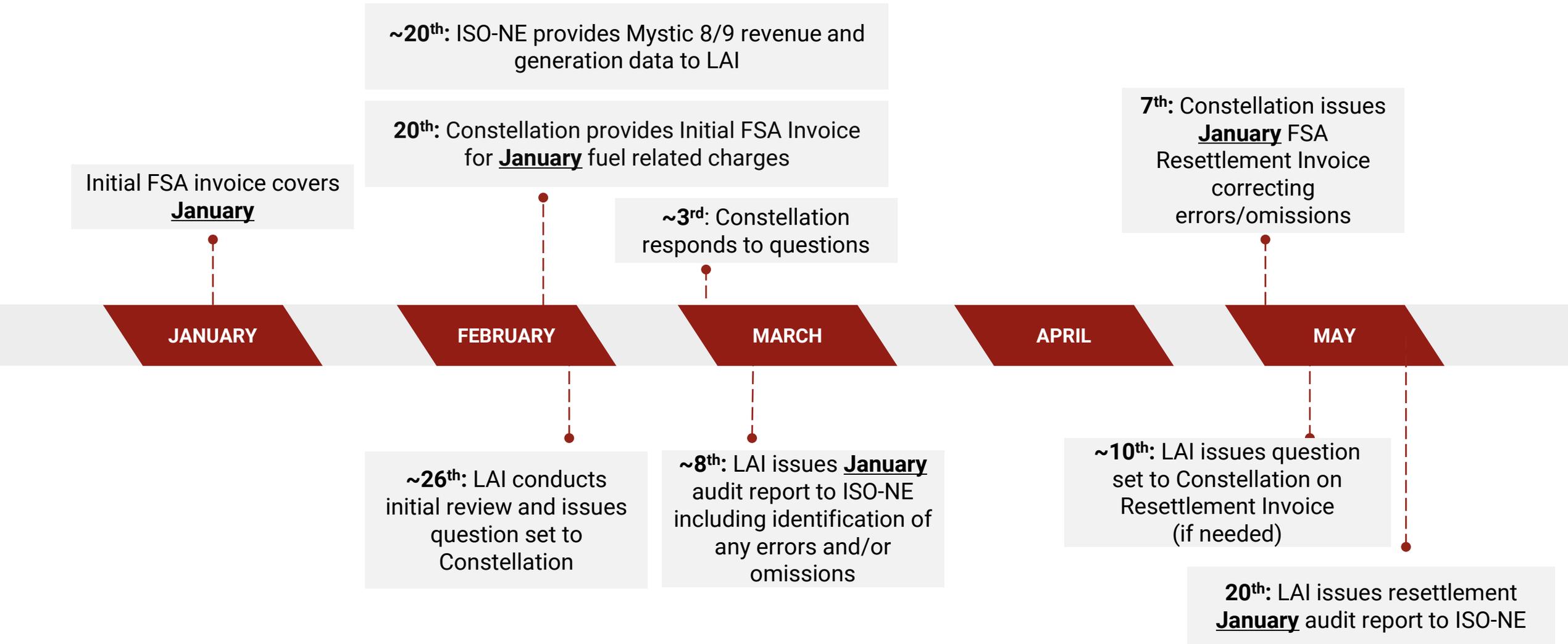
Background – Everett Marine Terminal

- ❑ Everett must procure LNG cargoes in advance
- ❑ Everett's tank has a storage capability of 3.4 Bcf, whereas a typical LNG tanker may contain 3.0 Bcf, meaning that the tank must be near empty in order to receive a full cargo
- ❑ Constellation has three options to manage the tank inventory:
 1. Self-schedule Mystic 8/9 to burn inventory
 2. Make spot sales of gas to third parties
 3. Divert all or part of an incoming cargo
- ❑ The COSA requires Constellation to exercise good utility practice in managing fuel supply arrangements for Mystic
- ❑ Constellation must reasonably believe the tank management action will reduce overall costs to the ratepayers. See COSA Section 3.5

Information Provided by Constellation

- ❑ Initial documents provided by Constellation to LAI
 - Contract between Constellation and LNG supplier
 - Copies of all third party contracts
 - Annual Delivery Program (cargo delivery schedule)
 - Unredacted copies of:
 - FSA
 - Everett Marine Terminal Agreement
 - COSA
 - Historical use of vapor to run Everett compressors
- ❑ Constellation provides LAI with the following documents on a monthly basis:
 - Initial FSA Invoice and Resettlement Invoice for prior months
 - Daily vapor sendout (MMBtu) to Mystic, Boston Gas, Algonquin, and Tennessee
 - Weekly projections of daily tank inventory
 - WACOG calculation
 - Narrative of discussions with LNG supplier regarding tank management options
 - Copies of invoices from LNG supplier to divert cargo
 - Copies of new contracts with third parties
 - Month end imbalance on each pipeline
 - Copies of all invoices supporting VOM (water/sewer, station service, industrial gases, port and harbor charges, gas quality testing)
- ❑ Nine informational sessions with Constellation between April 2022 and January 2023 to provide background information to LAI about Everett and Mystic operations and FSA administration

Illustrative Audit Timeline



LAI Audit Work

- Between June 2022 and April 2023, LAI staff spent between 99 and 238 hours per month conducting the audit
 - LAI audit team consisted of 5 to 8 members with different expertise

FSA Invoice Review

Monthly FSA Invoice Review

- ❑ Verify FOM/Return on Investment is consistent with current Informational Filing for applicable Calendar Year
- ❑ Verify VOM against backup invoices provided
- ❑ Verify LNG contract price
- ❑ Verify WACOG calculation
- ❑ Check reasonableness of vapor used to run boil-off compressors
- ❑ Verify third party contract charges and credits
 - Check sale price is consistent with contract terms
 - Mystic is credited for demand charge paid by third parties served by EMT
 - Mystic is credited for margins on third party sales of vapor from EMT
 - Mystic is credited for FT rights that are used for third party sales, including Constellation's market backed contracts that do not rely on EMT
- ❑ Review daily spot sales of boiloff and compander
 - Check reasonableness of nominated volumes against historical values
 - Compare spot sales cash price to Platts Gas Daily market survey
 - Verify applicable variable pipeline charges on NGrid, Algonquin, Tennessee
- ❑ Review tank management decision

Summary of LAI Questions to Constellation

- ❑ From June 2022 through April 2023
 - 21 question sets, including some follow-up questions
 - 194 total questions
- ❑ Topics covered
 - Tank management decisions
 - WACOG calculation
 - Variable O&M charges
 - Mystic operations
 - Third party contracts and sales
 - Spot sales
 - Pipeline charges
 - Pipeline imbalance
 - LNG supply contract
- ❑ Constellation forthcoming with information, including confidential material

Summary of Invoice Adjustments (June 2022 - April 2023)

- ❑ LAI identified 16 errors or omissions in initial FSA invoices:
 - 8 resulted in overbilling to Mystic
 - 8 resulted in underbilling to Mystic

- ❑ Types of errors or omissions identified that were subsequently corrected in resettlement:
 - Incorrect WACOG applied to spot sales
 - Incorrect port charges
 - Incorrect FT pipeline credit
 - Incorrect variable pipeline charges
 - Liquid sales incorrectly included
 - FOM update retroactively applied (per annual Informational Filing)
 - Error in recording third party sale(s)
 - Error in recording third party demand charge(s)
 - Error in recording daily spot sale(s)

Tank Management Review

Analysis of Tank Management Decisions

- ❑ Constellation has three options to manage the tank inventory:
 1. Self-schedule Mystic 8/9 to burn inventory
 2. Make spot sales of gas to third parties
 3. Divert all or part of an incoming cargo

- ❑ LAI reviews the reasonableness of the choice based on information available to Constellation at the time of the decision

- ❑ LAI compares costs and revenues under each option

Comparison of Tank Management Options

- ❑ Sell gas to market or burn it at Mystic 8/9
 - Compare gas value implied by day-ahead NEMA Boston pricing and Mystic 8/9 heat rate to market gas prices
 - Compare ISO-NE revenues when Mystic is self-scheduled to revenues that would have been received from selling the gas (or vice versa)

- ❑ Sell gas to market or sell back (divert) all or part of the cargo
 - Compare near-term market gas futures to sell back value of diverted cargo

- ❑ Burn gas at Mystic 8/9 or sell back (divert) all or part of the cargo
 - Compare gas value implied by near-term MassHub futures to sell back value of diverted cargo

- ❑ To date, LAI audits have confirmed that Constellation has chosen the least cost option to manage tank inventory

Conclusions

- ❑ Constellation has been responsive with respect to all LAI requests for information
- ❑ All errors and omissions identified by LAI in FSA invoices June 2022 through April 2023 have been reconciled in resettlement
- ❑ Constellation has made prudent decisions with respect to tank management

Next Steps

- ❑ May MC – LAI will present updates on its recent audits of the Monthly Fuel Supply Cost covering the initial settlement audits from May 2023 – November 2023 and the resettlement audits from March 2023 – September 2023
- ❑ August MC – LAI will present updates on its final audits of the Monthly Fuel Supply Cost covering the initial settlement audits from December 2023 – April 2024 and the resettlement audits from October 2023 – March 2024
 - As available, final audits and resettlement audits for April and May will also be covered

Questions?