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ASHBURN & MASON P.C.
LAWYERS
1227 WEST 9TH AVENUE, SUITE 200
ANCHORAGE, ALASKA 99501
TEL 907.276.4331 • FAX 907.277.8235

STATE OF ALASKA

BEFORE THE REGULATORY COMMISSION OF ALASKA

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| Before Commissioners: | Robert M. Pickett, Chairman<br>Kate Giard<br>Paul F. Lisankie<br>T. W. Patch<br>Janis W. Wilson |

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| In the Matter of the Revenue Requirement Designated as TA177-4 and the Request for an Interim and Refundable Rate Increase Designated as TA185-4 Filed by ENSTAR NATURAL GAS COMPANY, A DIVISION OF SEMCO ENERGY, INC. | Docket No. U-09-69 |
| In the Matter of the Rate Design Revision Designated as TA177-4 Filed by ENSTAR NATURAL GAS COMPANY, A DIVISION OF SEMCO ENERGY, INC. | Docket No. U-09-70 |

## STIPULATION BY ALL PARTIES TO SETTLE ALL ISSUES IN THE ENSTAR BASE RATE AND RATE DESIGN CASE

### INTRODUCTION

This stipulation (the "Stipulation") is an agreement among all of the parties to settle all of the issues in the above-captioned matters. The parties request that the Commission accept and approve this Stipulation, including the tariff sheets that contain the revised base rates agreed-to in this Stipulation. The parties respectfully request that the Commission approve this

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By: APS U-16-066
Northern Lights Realtime & Reporting, Inc.
(907) 337-2221

Under the particular facts of this case, the Parties agree that the fair and reasonable result is to initially allocate the cost of the South Peninsula Pipeline to rate classes G1 through G4 and not to the large transportation customers. When the next ENSTAR base rate case is filed, this issue can be re-examined in light of the then-current conditions.

**E. Conservation Should be Encouraged by Changing to the Coincident Peak Allocation Methodology.**

Many years ago, the Commission adopted what is known as the *Seaboard* methodology for allocating transmission-related costs. The *Seaboard* methodology, named for the case in which it was adopted, allocates costs based on a combination of average and peak system use.[17]

Coincident peak demand is defined as the level of demand of a customer or customer class at the time of the system's peak usage. Under the coincident peak demand method for cost allocation, capacity costs are apportioned to all customers who are using the system at the time of peak usage based upon their proportional usage of the system at that time.[18]

The parties agree the *Seaboard* method works well in fairly allocating costs when there is excess capacity but becomes more questionable as it becomes more difficult to meet peak demand for either gas supply or pipeline capacity. In either case it becomes more important to recognize in base rates the costs imposed on the system by those who use it at the time of peak usage. Allocating costs based on the coincident peak demand methodology does a better job

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[17] *See Atlantic Seaboard Corporation*, 11 FPC 43, n.21 (1952) ("[f]ixed costs or expenses are incurred for both peak use and annual use in respect to both demand and volumetric functions . . . . It is our opinion that these significant cost factors should be weighted equally, that is to say, 50 percent should be assigned to demand and 50 percent to commodity . . .).

[18] *See* Order U-83-38(6), at 5-6, dated February 14, 1984.

than the *Seaboard* methodology of matching the cost causer and the cost payer in such a situation. This change in methodology shifts $1,062,617 in pipeline related costs from the large transportation customers to general service customers. The Parties agree that this shifting of cost recovery among rate classes reflects the relatively higher use of ENSTAR's system at times of peak usage by customers in the G1 rate class. This cost allocation change should encourage conservation by sending these customers the correct, usage-based price signal.

**F. The Tariff for Providing Service to Fairbanks Natural Gas is Reasonable.**

The tariff sheet for service to FNG is attached as Sheet 206 in Attachment 2. FNG purchases gas from a third-party supplier and ships the gas on ENSTAR's Beluga Pipeline to FNG's LNG plant at Port MacKenzie. The rate design for service to FNG is unchanged, with a monthly customer charge and a rate for each Mcf transported. There were differences of opinion between FNG and ENSTAR about the costs which should be included in the rate, but the Parties agree that the rate resulting from this Stipulation is fair and reasonable for the service provided to FNG.

**G. Settlement of Docket U-09-113 as Proposed in This Docket is Reasonable.**

In Docket U-09-113, ENSTAR asked to recover certain costs related to negotiating and seeking Commission approval of gas supply contracts. ENSTAR and the AG are the only parties to that docket. ENSTAR and the AG agree that the revised base rates agreed-to in this Stipulation are sufficient to allow ENSTAR a fair opportunity to recover the costs it is asking to recover in Docket U-09-113. By settling the Docket U-09-113 issues as part of this Stipulation, the burden on scarce Commission time and resources from multiple proceedings is eliminated.

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