

ENSTAR's Closing Argument

U-16-066

June 23, 2017



Rates Set for Future Period When They Are Likely to Be in Effect

T-15 (Smith) at 13

1 16. Q. How do you evaluate whether rates are just and reasonable?

2 A. I consider whether proposed rates are based on costs that are
3 representative of what will be necessary to provide utility service in the
4 future. That same standard has been articulated by the Commission many
5 times. For example, on pages 6-7 of Order U-05-043(15)/U-05-044(15),
6 the Commission held that "The goal of cost-based ratemaking is not to
7 recover past costs but to predict the rates necessary to yield revenue
8 adequate to cover the utility's costs and provide the opportunity to earn a
9 reasonable return on investment during the future period when rates are
10 likely to be in effect . . . Only expenses reasonably incurred in providing
11 utility service to the public are allowed in the revenue requirement."
12
13

T-14 (Fairchild-Hamilton) at 5

1 8. Q. How do you evaluate whether rate setting objectives are met?

2 A. I consider whether proposed rates are based on costs that are
3 representative of what will be necessary to provide utility service in the
4 future. That same standard has been articulated by the Commission many
5 times. For example, on pages 6-7 of Order U-05-043(15)/U-05-044(15),
6 the Commission held that
7

8 The goal of cost-based ratemaking is not to recover
9 past costs but to predict the rates necessary to yield
10 revenue adequate to cover the utility's costs and
11 provide the opportunity to earn a reasonable return on
12 investment during the future period when rates are
likely to be in effect. . . . Only expenses reasonably
incurred in providing utility service to the public are
allowed in the revenue requirement.

Year End Rate Base

- Approx. \$70.5M of capital investment in 2014-2015
- Over \$40.7M investment in 2015 test year alone
 - CINGSA Lateral
 - Beluga River crossing exposure/replacement
 - Potter Gate station replacement
 - Addition of equipment to make the twin Turnagain Arm pipelines “piggable”
 - Replacement of other aged stations and pipe in accordance with integrity management requirements
 - Replacement of 50,000 Encoder Receiver Transmitters (ERTs)
 - Installation of new distribution mains and service lines

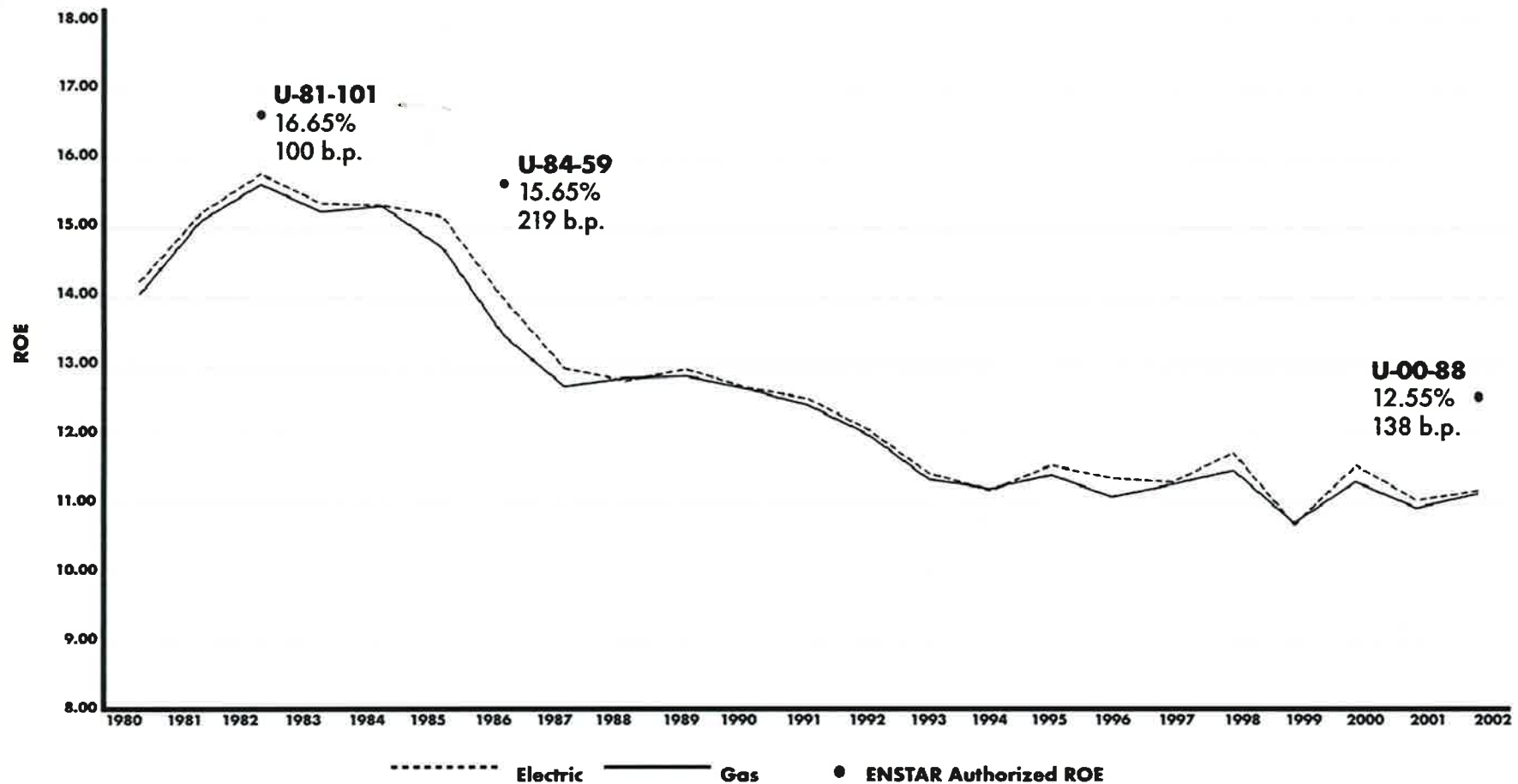
Year End Rate Base – All Relevant Factors

- **High levels of capital investment**
 - Over \$40.7M in new capital during the 2015 test year
- **Non-revenue producing investment**
 - Approximately \$34.7M of the 2015 investment (85%) is non-revenue producing
- **Abnormal investment (type / amount)**
 - Abnormal type because such a high percentage is non-revenue producing
 - Abnormal amount because \$40.7M is one of the highest levels of yearly investment in ENSTAR's history
- **Major system repairs**
 - Exposed pipeline replacement at Beluga River crossing; integrity management
- **Aging system**
 - Potter Gate station and Burnt Island upgrades; ERTs
- **Decreased customer demand**
 - Discussed in the testimonies of Mr. Hevert and Dr. Fairchild
- **Depressed economic conditions**
 - Discussed in the testimonies of Mr. Green and Mr. Hevert

ROE – ENSTAR/Alaska Factors

- Combined transmission and distribution operations
- Economic conditions risk
- Declining average use per customer risk
- Weather risk
- Structural regulatory lag risk
- Operating environment and size risk
- Gas supply risk

ENSTAR Adjudicated ROE vs. National Average

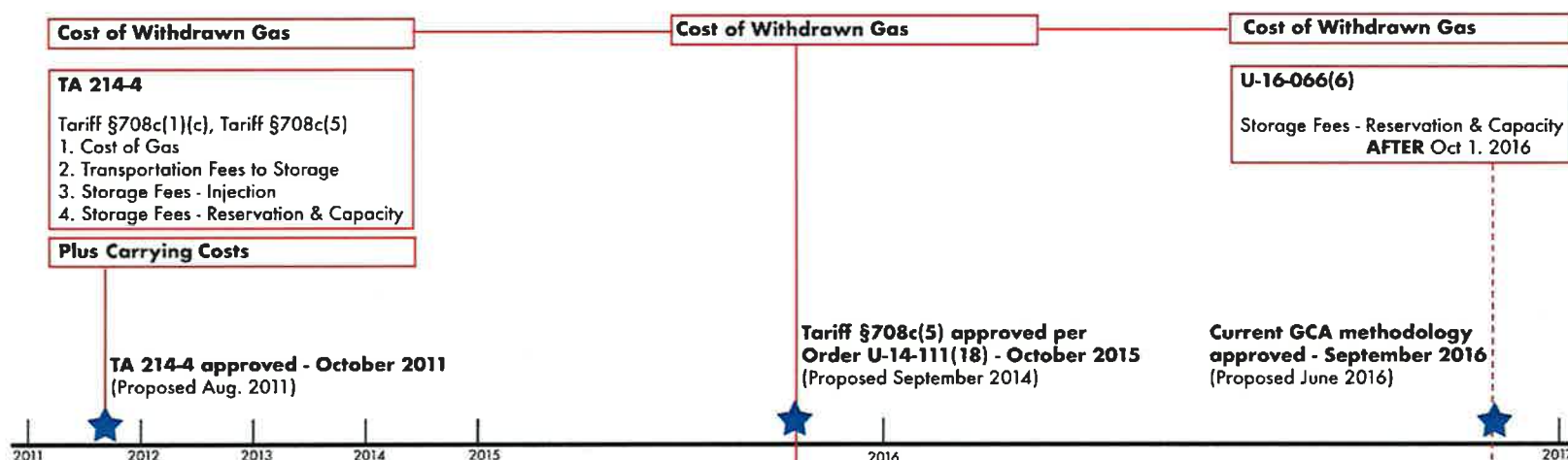


ENSTAR Natural Gas Company

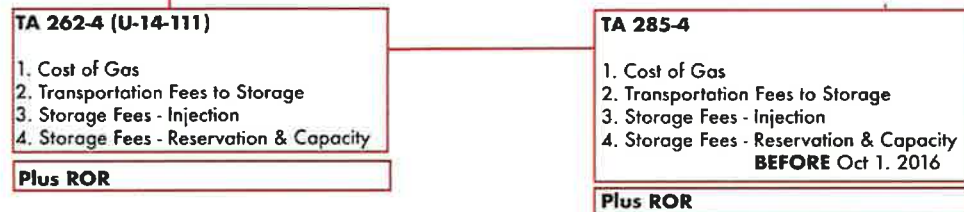
History of Storage Fee Recovery

★ Signifies Commission Action

GCA



RATE BASE



Incentive Compensation

- Salary surveys were obtained for test year salaried employees, based on market sources.
- Towers Watson's executive salary survey shows their total direct compensation is below market even with incentive compensation.
- ENSTAR salaries are not fully compensatory without incentive compensation.
- SEMCO's STIP and LTIP both prioritize safety and require:
 - Attaining individual performance goals
 - Attaining ENSTAR performance goals
 - Sufficient cash flows to pay
- ENSTAR's incentive compensation practices are reasonable and thoroughly supported
 - Mr. Sims' reply and live testimony [T-7]
 - ENSTAR's Policy on Total Compensation [T-7, Ex. JDS-4]
 - SEMCO LTIP [H-15]
 - SEMCO STIP [H-16]
 - AltaGas STIP [H-17]
 - Towers Watson's executive salary survey [H-21]
 - Employee salary surveys from market sources [H-33, H-34]
 - *See also* H-14, H-18 to H-20 & H-72

ENSTAR's Requested Revenue Requirement is Reasonable

- RAPA's proposed revenue requirement would return ENSTAR's rates to the level it proposed in 2009.
- ENSTAR already offers low rates – roughly 50% of the national average per Mcf based on its proposed revenue requirement.
- ENSTAR's distribution rates have only risen an average of 0.87% per year since 1985, far lower than the rate of inflation.
- ENSTAR already runs a lean operation – with a low ratio of employees per customer that favorably compares to other gas utilities and the parties in this case.