RAPA Closing Argument

Revenue Requirement

Cost-of-Service, Rate Design

Return on Equity

Rate Base: 13-month average v. year end
$2.9 Million

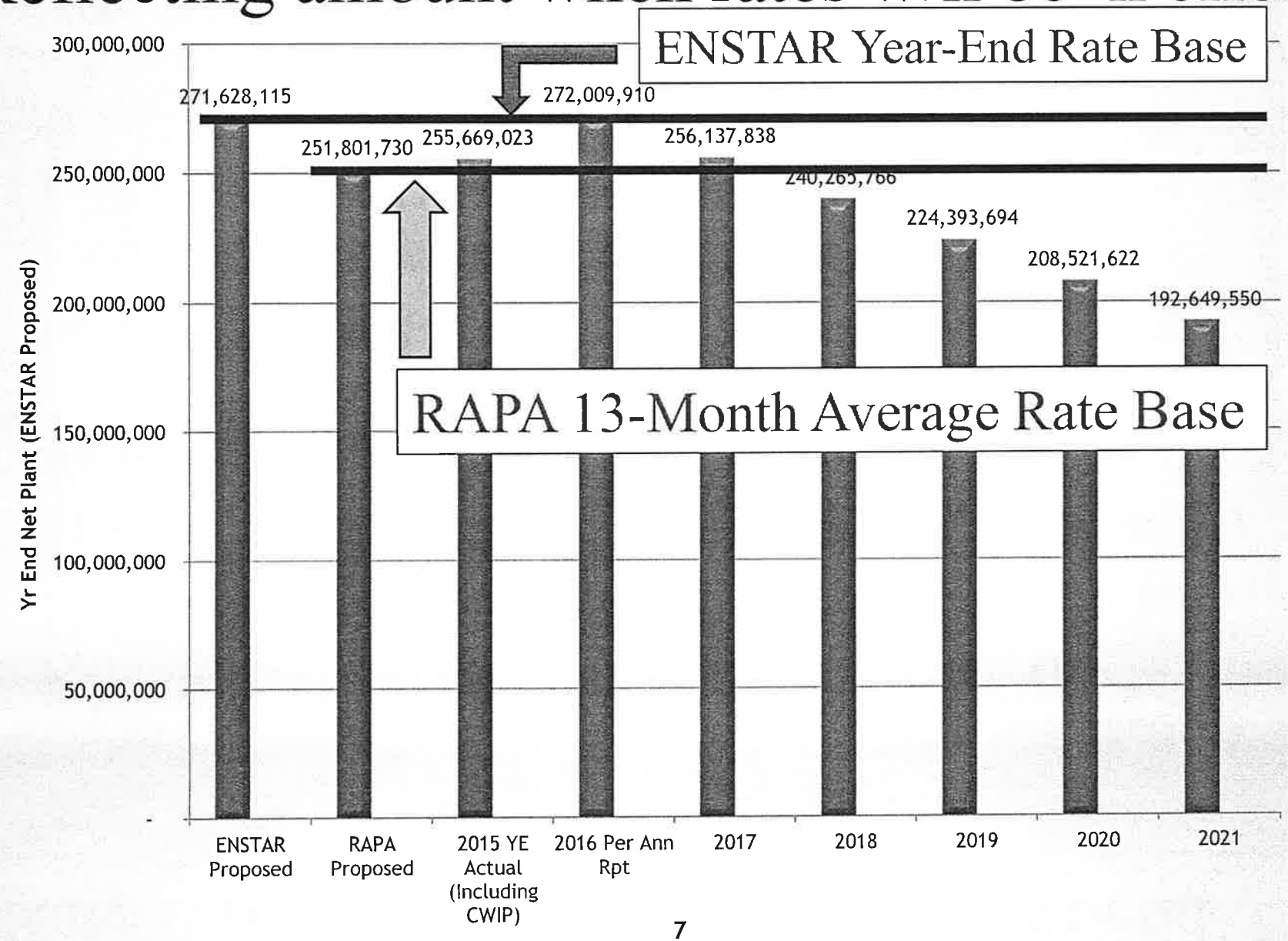
Order U-07-076(8)/U-07-077(8) at 39
Recognized Commission has made various modifications to historical precedent for year-end rate base.
But said:
"the first step of the analysis has always been an evaluation and conclusion that the change in ***net*** plant is abnormal. Only after this ***threshold test*** is met do the other operational factors…weigh in the equation to determine if the use of year-end rate base is appropriate." (emphasis added)

Rate Base: 13-month average v. year end
$2.9 Million

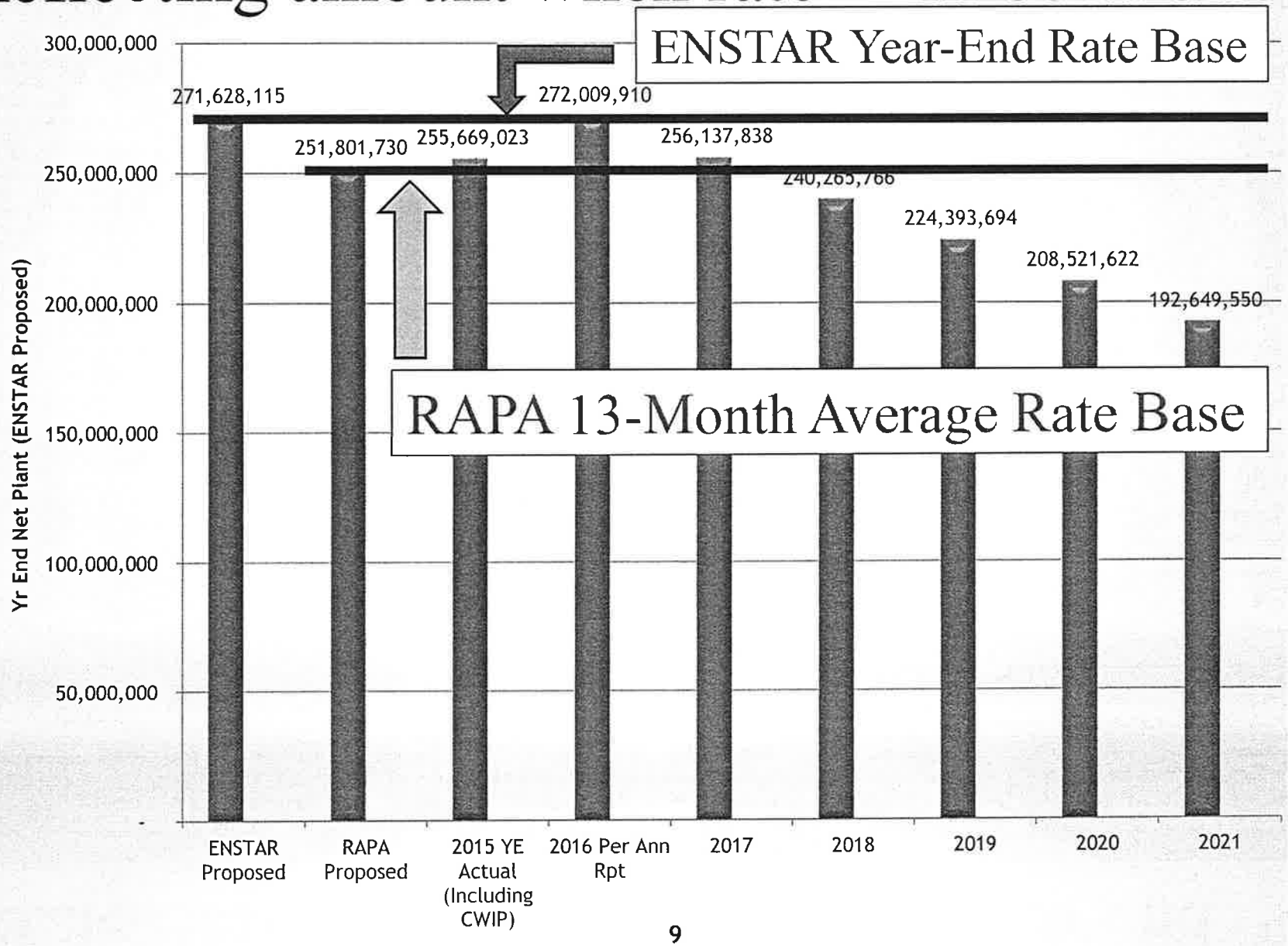
Fairchild-Hamilton at Q/A 27—Growth in net plant = $24,710,873 (Undisputed)

Growth in ***net*** plant = 10.15%

Reflecting amount when rates will be in effect



Reflecting amount when rates will be in effect



Rate Base: 13-month average v. year end

	(a)	(b)	(c)	d)	(e)	(f)	(g)
	Year	Utility Plant Per Annual Report Page 110, Line 2	Net Utility Plant Per Annual Report Page 110, Line 10	Increase Utility Plant Since Prior Rate Case TY	Increase Net Plant Since Prior Rate Case TY	% Increase in PIS Since last TY	% Increase in Net Plant Since last TY
1999 TY for U-00-088	1999	305,736,581	165,359,836				
	2000	319,143,393	170,374,322	13,406,812	5,014,486	4.39%	3.03%
	2001	328,080,939	170,165,217	22,344,358	4,805,381	7.31%	2.91%
	2002	336,714,597	169,915,937	30,978,016	4,556,101	10.13%	2.76%
	2003	345,359,316	169,777,314	39,622,735	4,417,478	12.96%	2.67%
	2004	361,543,507	178,216,898	55,806,926	12,857,062	18.25%	7.78%
	2005	381,068,664	187,225,365	75,332,083	21,865,529	24.64%	13.22%
	2006	395,064,903	191,445,920	89,328,322	26,086,084	29.22%	15.78%
	2007	401,838,777	190,974,764	96,102,196	25,614,928	31.43%	15.49%
2008 TY for U-09-69/70	2008	415,107,020	198,676,463				
	2009	425,906,366	197,051,166	10,799,346	(1,625,297)	2.60%	-0.82%
	2010	435,949,833	212,621,481	20,842,813	[illegible]	5.02%	7.02%
	2011	471,344,081	223,089,585	56,237,061	24,413,122	13.55%	12.29%
2013 TY for U-14-111	2013	500,025,591	229,199,028				
	2014	523,753,292	244,638,256	23,727,701	15,439,228	4.75%	6.74%
2015 TY for U-16-066	2015	555,449,998	268,404,445				
	2016	571,122,970	272,009,910	15,672,972	3,605,465	2.82%	1.34%

Rate Base: 13-month average v. year end
$2.9 Million
Regulatory Lag

ENSTAR asserts needs year-end rate base to combat regulatory lag.

Exhibit H-73: AG-ENSTAR-R2-1
Showed ENSTAR with plant balance increases more than Current case, but no filed rate case until years later.

Apparently regulatory lag not really a problem.

CINGSA reservation & capacity fees $2,258,230 disallowance

- No allow return-on-return

Exhibit H-73—ENSTAR responses to discovery Request AG-ENSTAR-R2-3(a) & (b)

(a) Asked ENSTAR to the amount of CINGSA's return component included in ENSTAR's stored gas account.
Answer: $7,769,628.

(b) Asked how much of the CINGSA return went to SEMCO.
Answer: $5,050,258.

CINGSA reservation & capacity fees $2,258,230 disallowance

- 2 alternatives the Commission could consider
  - The prior carrying costs

Mr. Dieckgraeff testified that the prior carrying cost was 3.25%

Not RAPA's position

But, something Commission can consider.

CINGSA reservation & capacity fees
$2,258,230 disallowance

- 2 alternatives the Commission could consider
  - Current carrying costs

Mr. Moses testified that parent company loaned ENSTAR funds to cover these fees. (beginning at 610:12—page:line)

Mr. Moses had explained that these are short-term loans. (beginning at 609:17)

> Well, we're precluded from charging when the utilities are in a borrowing position, we're precluding from charging anything different than what SEMCO would pay on its short-term credit facilities.

CINGSA reservation & capacity fees
$2,258,230 disallowance

- 2 alternatives the Commission could consider
  - Current carrying costs

Mr. Moses testified that parent company loaned ENSTAR funds to cover these fees. (beginning at 610:12—page:line)

Mr. Moses had explained that these are short-term loans. (beginning at 609:17)

Commission could consider allowing the 2.55% carrying cost on the CINGSA fees

Bonuses
$1,655,687

ENSTAR has burden to prove Bonuses should be in RR

Order U-83-053(32) at 31

Factors to consider:

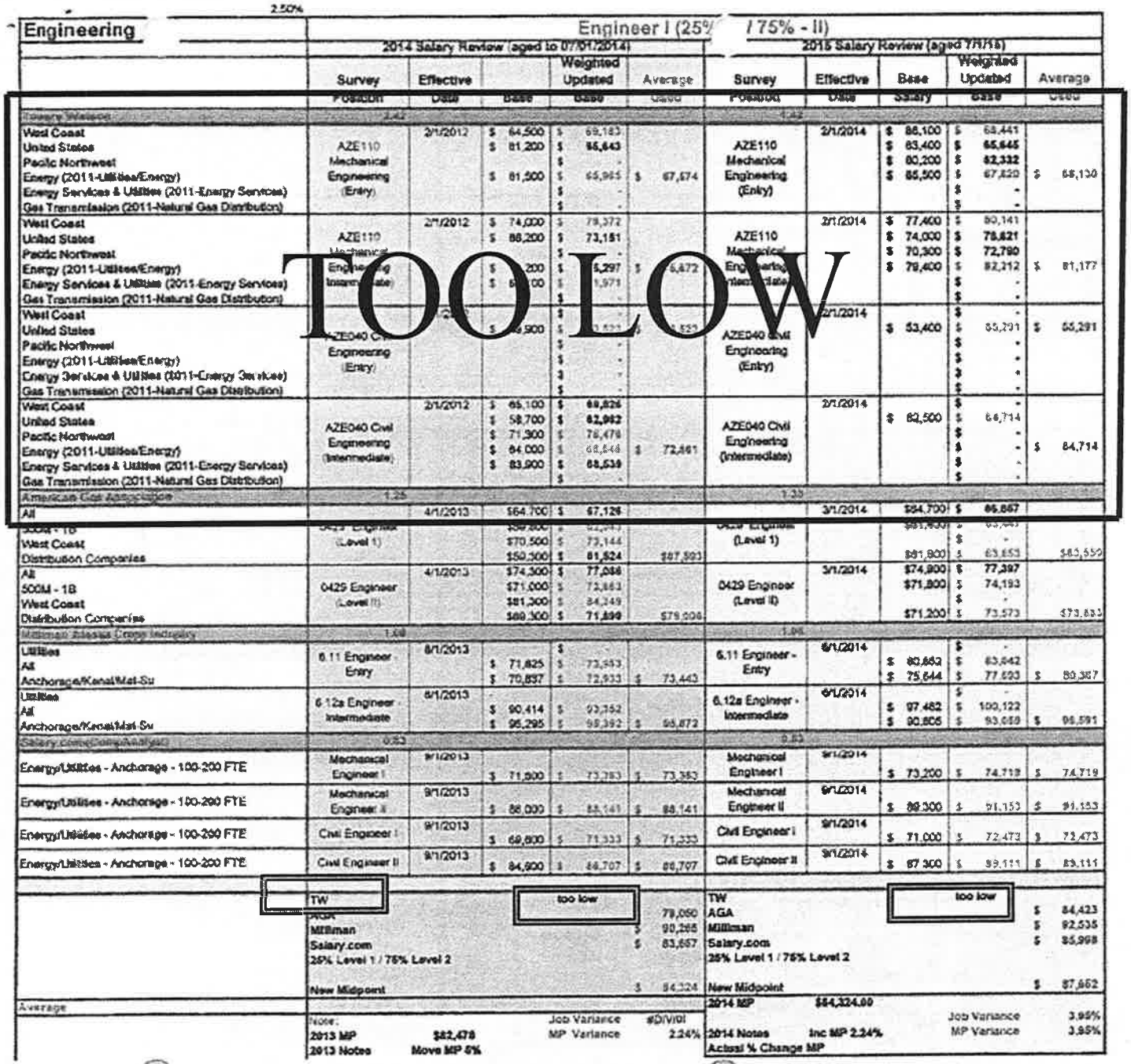
(1) whether salaries are not fully compensatory

(2) discretionary—scope & mechanics of incentive plan

(3) recurring—represent amount paid in future

(4) any bonuses an affiliate transaction—AS 42.05.511(c)

(5) are bonuses based on achieving over- or excessive-earnings



Engineering

Engineer I (25% / 75% - II)

	2014 Salary Review (aged to 07/01/2014)					2015 Salary Review (aged 7/1/15)				
	Survey Position	Effective Date	Base	Weighted Updated Base	Average Base	Survey Position	Effective Date	Base Salary	Weighted Updated Base	Average Base
Survey Weight	2.42					1.42				
West Coast	AZE110 Mechanical Engineering (Entry)	2/1/2012	$ 64,500	$ 69,183		AZE110 Mechanical Engineering (Entry)	2/1/2014	$ 86,100	$ 68,441	
United States			$ 81,200	$ 85,643				$ 83,400	$ 85,645	
Pacific Northwest				$ -				$ 80,200	$ 82,332	
Energy (2011-Utilities/Energy)			$ 81,500	$ 85,965	$ 87,574			$ 85,500	$ 87,820	$ 85,130
Energy Services & Utilities (2011-Energy Services)				$ -					$ -	
Gas Transmission (2011-Natural Gas Distribution)				$ -					$ -	
West Coast	AZE110 Mechanical Engineering (Intermediate)	2/1/2012	$ 74,000	$ 78,372		AZE110 Mechanical Engineering (Intermediate)	2/1/2014	$ 77,400	$ 80,141	
United States			$ 86,200	$ 73,151				$ 74,000	$ 76,621	
Pacific Northwest				$ -				$ 70,300	$ 72,790	
Energy (2011-Utilities/Energy)			$ 200	$ 5,297	$ 5,872			$ 79,400	$ 82,212	$ 81,177
Energy Services & Utilities (2011-Energy Services)			$ 00	$ 1,971					$ -	
Gas Transmission (2011-Natural Gas Distribution)				$ -					$ -	
West Coast	AZE040 Civil Engineering (Entry)			$ -		AZE040 Civil Engineering (Entry)	2/1/2014		$ -	
United States			$ 69,900	$ 73,691	$ 73,523			$ 53,400	$ 55,291	$ 55,291
Pacific Northwest				$ -					$ -	
Energy (2011-Utilities/Energy)				$ -					$ -	
Energy Services & Utilities (2011-Energy Services)				$ -					$ -	
Gas Transmission (2011-Natural Gas Distribution)				$ -					$ -	
West Coast	AZE040 Civil Engineering (Intermediate)	2/1/2012	$ 65,100	$ 68,626		AZE040 Civil Engineering (Intermediate)	2/1/2014		$ -	
United States			$ 58,700	$ 62,982				$ 82,500	$ 84,714	
Pacific Northwest			$ 71,300	$ 75,479					$ -	
Energy (2011-Utilities/Energy)			$ 64,000	$ 68,648	$ 72,661				$ -	$ 84,714
Energy Services & Utilities (2011-Energy Services)			$ 83,900	$ 88,539					$ -	
Gas Transmission (2011-Natural Gas Distribution)				$ -					$ -	
American Gas Association	1.25					1.33				
All		4/1/2013	$64,700	$ 67,126			3/1/2014	$84,700	$ 86,867	
500M - 1B	0429 Engineer (Level I)		$69,600	$ 72,241		0429 Engineer (Level I)		$81,900	$ 83,953	
West Coast			$70,500	$ 73,144					$ -	
Distribution Companies			$50,300	$ 81,524	$87,593			$81,900	$ 83,953	$83,559
All	0429 Engineer (Level II)	4/1/2013	$74,300	$ 77,056		0429 Engineer (Level II)	3/1/2014	$74,900	$ 77,397	
500M - 1B			$71,000	$ 73,663				$71,800	$ 74,193	
West Coast			$81,300	$ 84,349					$ -	
Distribution Companies			$69,300	$ 71,899	$79,006			$71,200	$ 73,573	$73,833
Milliman Bisalsa Comp Industry	1.00					1.00				
Utilities	6.11 Engineer - Entry	6/1/2013		$ -		6.11 Engineer - Entry	6/1/2014		$ -	
All			$ 71,825	$ 73,953				$ 80,662	$ 83,042	
Anchorage/Kenai/Mat-Su			$ 70,837	$ 72,933	$ 73,443			$ 75,644	$ 77,893	$ 80,367
Utilities	6.12a Engineer - Intermediate	6/1/2013		$ -		6.12a Engineer - Intermediate	6/1/2014		$ -	
All			$ 90,414	$ 93,052				$ 97,482	$ 100,122	
Anchorage/Kenai/Mat-Su			$ 96,295	$ 98,392	$ 98,872			$ 90,805	$ 93,069	$ 96,591
Salary.com/CompAnalyst	0.83					0.83				
Energy/Utilities - Anchorage - 100-200 FTE	Mechanical Engineer I	9/1/2013	$ 71,900	$ 73,283	$ 73,353	Mechanical Engineer I	9/1/2014	$ 73,200	$ 74,719	$ 74,719
Energy/Utilities - Anchorage - 100-200 FTE	Mechanical Engineer II	9/1/2013	$ 88,000	$ 89,141	$ 89,141	Mechanical Engineer II	9/1/2014	$ 89,300	$ 91,153	$ 91,153
Energy/Utilities - Anchorage - 100-200 FTE	Civil Engineer I	9/1/2013	$ 69,800	$ 71,333	$ 71,333	Civil Engineer I	9/1/2014	$ 71,000	$ 72,473	$ 72,473
Energy/Utilities - Anchorage - 100-200 FTE	Civil Engineer II	9/1/2013	$ 84,900	$ 86,707	$ 86,707	Civil Engineer II	9/1/2014	$ 87,300	$ 89,111	$ 89,111

TOO LOW

	TW			too low		TW		too low		
	AGA				$ 79,050	AGA			$	84,423
	Milliman				$ 90,265	Milliman			$	92,535
	Salary.com				$ 83,657	Salary.com			$	85,998
	25% Level 1 / 75% Level 2					25% Level 1 / 75% Level 2				
	New Midpoint				$ 84,324	New Midpoint			$	87,662
Average						2014 MP	$84,324.00			
	Note:			Job Variance	#DIV/0!			Job Variance		3.95%
	2013 MP	$82,478		MP Variance	2.24%	2014 Notes	Inc MP 2.24%	MP Variance		3.95%
	2013 Notes	Move MP 6%				Actual % Change MP				

H-33

Bonuses
$1,655,687

(1) whether salaries are not fully compensatory

H-33 and H-34—ENSTAR's best evidence to support its total compensation for its salaried employees.

ENSTAR purposefully excluded information that was "too low".

Bonuses

$1,655,687

(2) discretionary—**scope & mechanics** of incentive plan

Performance target metrics
Exhibit 16

CINGSA Operating Income
CINGSA CAPEX—benefit CINGSA ratepayers
which includes more than ENSTAR ratepayers
CINGSA Found gas, Obtain approval for, and sell
0.8 bcf of gas—100% benefit to CINGSA shareholders

Bonuses

$1,655,687

(2) discretionary—scope & mechanics of incentive plan

(5) are bonuses based on achieving over- or excessive-earnings

ENSTAR

Short-Term Incentive Plan
2015 Award Reconciliation

Metric	Upper Target $	Adjusted $	Variance $	% of Target
EBITDA	$141.5 M	$145.2 M	$3.7 M	102.6%
		Plan Payout for 102.6% Achievement of Target		150%

Job Title — President, ENSTAR Natural Gas

Mr. Green testified that this EBITDA was both Alaska and Michigan, and if either has not performed to meet their threshold, then no bonus is paid.
(beginning at 287:2)

So if Michigan does not meet its EBITDA requirement, then ENSTAR does not pay bonuses, even if bonuses were included by the Commission in ENSTAR's revenue requirement.

A phantom expense.

NOTE: Payments such as this STIP Award are taxed at the IRS-required 25% supplemental wage rate (federal taxes).

CONFIDENTIAL
Exhibit JKF-15
U-16-066
February 7, 2017
Page 1 of 1

Short-Term Incentive Plan
All salaried employees
Not just executives

ENSTAR

Short-Term Incentive Plan
2015 Award Reconciliation

Metric	Upper Target $	Adjusted $	Variance $	% of Target
EBITDA	$141.5 M	$145.2 M	$3.7 M	102.6%

Plan Payout for 102.6% Achievement of Target: **150%**

	President, ENSTAR Natural Gas
Base Salary	$250,432.00
STIP Eligibility Award %	35%
Plan Payout	150%

Key Metrics	Key Metric Award	Key Metric Ranking	Adjusted Key Metric Award	
Financial Metric(s) @ 33%	$43,825.60	100%	$43,825.60	(Financial metric ranking x award)
Customer Metric(s) @ 33%	$43,825.60	100%	$43,825.60	(Customer metric ranking x award)
		100%	$43,825.60	(Employee metric ranking x award)
			$131,476.79	(Total key metric award)

For this one employee
35% STIP of $250,432 = $87,651.20

Individual Performance Metric	Individual Performance Award	Individual Performance Ranking	Adjusted Individual Performance Award	
Individual Performance Ranking %	$131,476.79	100%	$131,476.79	(Individual performance ranking x award)
Individual Performance STIP Award Opportunity			$131,476.79	(Total individual performance award)

Total 2015 Award	***$131,476.80***	(The lesser value of Key Metric STIP Award Opportunity and Individual Performance STIP Award Opportunity)

NOTE: Payments such as this STIP Award are taxed at the IRS-required 25% supplemental wage rate (federal taxes).

CONFIDENTIAL
Exhibit JKF-15
U-16-066
February 7, 2017
Page 1 of 1

Bonuses
$1,655,687

(5) are bonuses based on achieving over- or excessive-earnings

During test year, STIP bonuses were paid at 150% because ENSTAR exceeded the upper target for earnings before interest, taxes, depreciation and amortization.

Exhibit H-18 shows STIP for 2015 test year of $1,050,231.71—includes the increased bonus because of achieved earnings above target

Weather Normalization
$1,825,504

Dr. Fairchild admitted that his calculation adds Declining use—extrapolated into the future

Declining use was hotly disputed in last rate case (U-14-111) where ENSTAR used a model from Dr. Brown

No declining use testimony in direct testimony in this case.

RAPA used actual test-year data

Insurance
$33,398

ENSTAR took December 2015 premium (the highest) and multiplied by 12

RAPA recommends using actual test-year amount

Dr. Fairchild admitted in cross examination that the adjustment was same as a Year-end rate base adjustment

Meaning it is based on the last (highest) amount.

Prepaid Expenses/CWC
$1,662,007

Dr. Fairchild testified lead/lag CWC same thing

His hypothetical to refute the double-count (Reply at 20:14 to 21:6) uses insurance as proof.

Exhibit H-37, AG-ENSTAR-7-7(e) asked if any insurance payments in the lead/lag.

ENSTAR discovery response: No insurance payments in lead/lag

Miscellaneous Expenses
$317,005

Pizza parties
BBQ
Donuts
Pies for celebrations
Ice Cream
Cake
Golf
811 Onesies
Lobbying

Miscellaneous Expenses
$317,005
Order U-00-088(12) at 17 & 18

ENSTAR referred to the GHU case—

But Ms. Fairchild-Hamilton explained that GHU's had shown that the employee appreciation expenditures had saved GHU $10,000 on its union employee contract. So, in that single case the Commission allowed the utility to include $10,000 in employee appreciation, etc., costs.

ENSTAR has made no such showing in the present case.

Credit Card Processing
$600,031

ENSTAR wants amount for 60% of customers—

$835,324

84,104 transactions per month

Commissioner Rokeberg noted that based on latest numbers only about 30% of customers are using credit card payment.

That is half of what ENSTAR requested.

Rate Case Expense

$1,800,000 + amount from U-14-111

Amortized 3 years: $729,680 per year

Disputed amount $366,664 per year

Plus $129,800 prior rate case expense

ENSTAR wants actual expense/true-up = guaranteed recovery

Rate Case Expense

$1,800,000 + amount from U-14-111

Amortized 3 years: $729,680 per year

Disputed amount $366,664 per year

Plus $129,800 prior rate case expense

Order U-00-088(12) at 24-25

The goal is to develop an estimate of future rate case cost, rather than recovering past rate case expenditures.

ENSTAR did not provide any trend analysis or an analysis Developing an estimate of future rate case expense. Rather, ENSTAR merely asks for its actual costs.

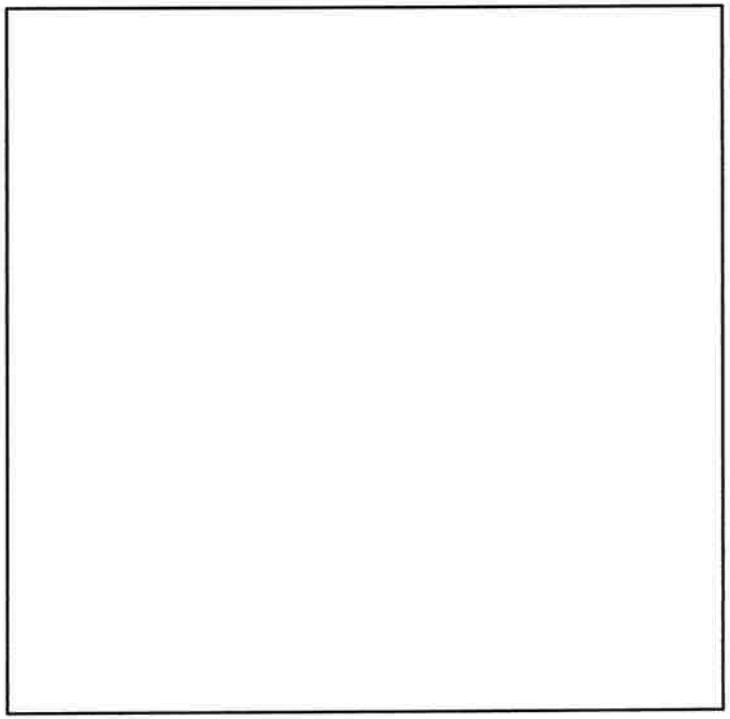
Economy Energy Revenue and Volumes

Economy energy sales adjust revenues and impact any revenue deficiency.

Volumes impact COSS/Rate Design

like it's -- looking at the audience, that sandwich is probably in the $100,000 range by now.

Is it a fact that you've just gone through the books and looked to find every kind of expense that you could put in a rate base and attempt to justify it here, and if the Commission allows it, we allow it; if we don't, we don't?



like it's -- looking at the audience, that sandwich is probably in the $100,000 range by now.

Is it a fact that you've just gone through the books and looked to find every kind of expense that you could put in a rate base and attempt to justify it here, and if the Commission allows it, we allow it; if we don't, we don't?

MR. SIMS: I don't know that that's entirely true. You know, our regulatory staff does the best job they can. You see the filing that we have. There are line items of expenses and those get submitted in the revenue requirement. They absolutely have taken out expenses, and I still think that the expenses that you see here are absolutely a part of doing business for this company.

"Loaded-up" Rate Case

First: During ENSTAR redirect, Mr. Dieckgraeff stated That $9 million from the 2016 capital budget (ERT program and Potter) were moved up, but that decision was made in August prior to acceptance of the U-14-111 stipulation.

On July 23, 2015, ENSTAR filed an unopposed motion to vacate hearing dates based upon the mediated settlement.

"Loaded-up" Rate Case

Third—Mr. Dieckgraeff stated repeatedly that the time period between ENSTAR rate cases is usually 3-5 years.

That means when ENSTAR began the capital projects in 2015 test year, it did not expect a rate case to recover those costs for 3 to 5 years (a 2018 to 2020 test year with 2019 to 2021 rate case).

Either ENSTAR rushed to complete projects in 2015 TY;
or
It did not expect to seek recovery until 2019 at soonest

Seaboard v. 3CP Rate Design
Cost of Service

FERC Cost of Service Manual
Seaboard

United—put 75% on transmission customers

Straight Fixed Variable

Return on Equity

Commissioner McAlpine raised the issue of whether a municipal-owned utility is less risky than an investor-owned.

RAPA asserted a similar argument in Docket U-06-045 ….and lost.

In Order U-06-045(7) at 27 the Commission refused to deviate from its "policy of establishing the cost of equity for municipally-owned utilities using the same methods [the Commission] use[s] for privately-owned utilities."

Return on Equity

Is Mr. Hevert's range inflated in the current Docket?

What came to light in the hearing:

- Mr. Hevert agreed in cross that the cost of capital had gone down for local distribution gas utilities since 2002
- He asserted that the cost of capital for a gas transmission utility had stayed flat.

Assuming 12.55% was correct in 2002
then the ROE should have come down to reflect
the reduction in cost of capital for LDC gas utilities.

But it did not.

Return on Equity

Is Mr. Hevert's range inflated in the current Docket?

What came to light in the hearing:

- He admitted that investors consider available information, but he did not include geometric mean in his analysis.
- He admitted that he was aware of the statement by Moody's as to SEMCO: "Supportive regulatory environments in both Michigan and Alaska provide a strong suite of cost recovery mechanisms."
- He admitted that he was aware of AltaGas' representation that it focuses on acquiring high-quality, low-risk, long term energy assets.

Regardless, the 12.55% ROE was not lowered.

Return on Equity

Mr. Parcell recommended an ROE of 9.825%

Mr. Lawton recommended an ROE of 10.00%