STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners: Robert M. Pickett, Chairman
Stephen McAlpine
Rebecca L. Pauli
Norman Rokeberg
Janis W. Wilson

In the Matter of the Tariff Revision Designated TA285-4 Filed by ENSTAR NATURAL GAS COMPANY, A DIVISION OF SEMCO ENERGY, INC.	Docket No. U-16-066

TESTIMONY OF ANTHONY M. IZZO

ON BEHALF OF MATANUSKA ELECTRIC ASSOCIATION, INC.

FEBRUARY 7, 2017

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I. INTRODUCTION

Q 1: PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.

A: My name is Anthony M. Izzo. I am the General Manager for Matanuska Electric Association, Inc., ("MEA"). My business address is 163 E. Industrial Way, Palmer, Alaska 99645.

Q 2: PLEASE DESCRIBE YOUR PRIOR WORK EXPERIENCE AND YOUR PRESENT JOB RESPONSIBILITIES AT MEA.

A: I started in the utility industry 36 years ago at New Jersey Natural Gas Company ("NJNG"). During my 16 years with NJNG I held numerous positions with increasing responsibility including General Manager of Distribution Operations. In 1996, SEMCO Energy, Inc. ("SEMCO"), recruited me for the position of Director of Operations at Battle Creek Gas Company in Michigan. I was promoted to City President of the Battle Creek Division of SEMCO until joining ENSTAR Natural Gas Company ("ENSTAR") as Vice President of Engineering & Operations in December 1999. I was named President of ENSTAR in March 2001 and served in that position until September 2006. From September 2006 through March 2012 I founded an energy consulting business with clients including, but not limited to, the State of Alaska, North Slope and Cook Inlet Oil & Gas producers, Railbelt electric utilities, and an Alaska Native Corporation. All these engagements were related to either gas or electric utility service, gas transmission pipelines, and liquefied natural gas ("LNG") export. In April 2012, I joined MEA as a full-

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time employee as Manager of Fuel Supply & Contracts. In that position, I was responsible for fuel procurement for MEA's generation facilities. These responsibilities required that I seek out reliable fuel supply and delivery for MEA facilities and negotiate contract terms, quantities, prices, and transportation for these fuel supplies on behalf of MEA. I became General Manager of MEA in January 2016. As General Manager, I am responsible for all aspects of operations at MEA including fuel supply and transportation.

Q 3: HAVE YOU PREVIOUSLY FILED TESTIMONY IN REGULATORY COMMISSION OF ALASKA ("RCA") PROCEEDINGS?

A: Yes, I have previously filed testimony in multiple matters before the RCA. These include a Gas Sales Agreement (U-06-002), an Application for Approval of the Transfer of Control of Alaska Pipeline Company ("APC"), CPCN No. 141 (U-03-091), and an investigation into the 2000 Revenue Requirement and Cost of Service Studies filed by ENSTAR and APC (U-00-088). In each of these referenced matters, I was President of ENSTAR and APC. I also filed testimony in ENSTAR's last rate case (U-14-111) as Manager of Fuel Supply & Contracts for MEA.

Q 4: ON WHOSE BEHALF ARE YOU FILING TESTIMONY IN THIS PROCEEDING?

A: I am testifying on behalf of MEA, an electric cooperative taking gas service through several customer class categories including transmission service as a Very Large Firm Transportation ("VLFT") customer of ENSTAR.

Q 5: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A: As the General Manager, I will be the MEA company witness in this proceeding. In this testimony, I address the following issues: (i) Description of MEA, (ii) MEA's Eklutna

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Generation Station ("EGS") dual fuel generation capability, (iii) MEA's VLFT agreement with ENSTAR, (iv) MEA's gas supply agreements with Hilcorp Alaska, LLC ("Hilcorp") (v) MEA as a VLFT customer, (vi) transport service quality and firmness of MEA's transport service, (vii) power and fuel pooling, and the proposed Anchorage Pool Firm Transportation ("APFT") tariff (viii), and separation of ENSTAR's transportation, distribution and gas supply or storage services. Lastly, I introduce the other MEA witnesses in this proceeding, Messrs. Daniel J. Lawton, and James F. Wilson, and describe the scope of their testimony on behalf of MEA.

Q 6: WHAT MATERIALS DID YOU REVIEW AND RELY ON FOR THIS TESTIMONY?

A: I have reviewed ENSTAR's direct testimony and application schedules, responses to interrogatories, and other information on file at the RCA or otherwise available in the public domain. I have also reviewed some materials from ENSTAR's last rate case (U-14-111).[1]

Q 7: PLEASE DESCRIBE MEA.

A: Officially formed on March 1, 1941, MEA became the first Rural Electrification Administration ("REA") cooperative in the then Territory of Alaska. Today, MEA as a vertically integrated utility, is the second largest cooperative in Alaska. MEA serves over 60,000 customers through more than 4,000 miles of power lines throughout the Mat-Su and Eagle River/ Chugiak areas.

To meet customer energy requirements and MEA's 148 MW peak demand, MEA

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completed the EGS in May 2015, a new 171 MW dual fuel power plant located in Eklutna, Alaska.

The EGS configuration consists of 10 Wartsila gensets, each with a 17.1 MW capacity. EGS has room to add two additional 17.1 MW gensets, increasing the capability of EGS by an added 34.2 MW's. EGS uses an advanced dual fuel technology that operates primarily on natural gas, but in case of interruption of the gas fuel supply the units can seamlessly switch to ultra-low sulfur diesel ("ULSD") fuel. Annual fuel demand for EGS could be as high as 7.6 billion cubic feet ("Bcf") for natural gas and 180,000 gallons of diesel fuel used for pilot fuel.

Q 8: PLEASE DESCRIBE HOW MEA SUPPLIES THE GAS FOR THE EGS POWER PLANT.

A: MEA's gas purchases for the EGS are made through a Gas Sale and Purchase Agreement ("GSA") between Hilcorp and MEA. Thus, MEA has a contract with Hilcorp to provide the full requirements of gas necessary for the operation of the EGS power plant to meet MEA's entire native load. MEA and Hilcorp have a multi-year firm gas sale agreement, which expires on March 31, 2018. A second gas sales agreement executed by MEA and Hilcorp in 2016 extends our gas supply with Hilcorp through March 31, 2023.[2]

The current GSA between MEA and Hilcorp contains all terms, conditions, and price

(. . . continued)

[1] (In the Matter of the Tariff Revision Designated as TA62-4 Filed by ENSTAR NATURAL GAS COMPANY, a division of SEMCO ENERGY, INC.)

[2] MEA-02-Gas Sale and Purchase Agreement between Hilcorp Alaska, LLC and Matanuska Electric Association, Inc. MEA-02 was approved by the Regulatory Commission of Alaska on May 31, 2016, in Letter Order L1600245.

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escalation provisions, and is on file at the RCA at the following link: http://rca.alaska.gov/RCAWeb/ViewFile.aspx?id=1ba3bad9-fd59-4c3a-9174-51a862c601d6. Included in the GSA are estimates of MEA's monthly contract volumes (in MMcf) for each month of the entire contract term.

II. MEA AND ENSTAR CUSTOMER RELATIONSHIP

Q 9: PLEASE DESCRIBE MEA AS A CUSTOMER OF ENSTAR.

A: MEA has been and is expected to continue to be a full service commercial end use gas customer of ENSTAR for its various offices.

In addition, MEA is a transport customer of ENSTAR/APC for delivery of gas to the EGS power plant, which is connected to ENSTAR's 20-inch West Side Beluga pipeline. ENSTAR provides firm transportation service to the EGS plant under a Firm Transportation Service Agreement ("Agreement") that calls for EGS to be served under the VLFT rate schedule.[3] MEA's initial firm transportation agreement with ENSTAR had a contracted peak demand 24,000 Mcf per day, which was reduced to 22,300 Mcf per day effective January 1, 2017. The following is a link to the Agreement: http://rca.alaska.gov/RCAWeb/ViewFile.aspx?id=8a9ce1ef-2bf7-4610-8614-032a3a6cc4a7 .

Q 10: PLEASE DESCRIBE THE VERY LARGE FIRM TRANPORTATION SERVICE (VLFT).

A: Customers on the VLFT tariff are served directly from the ENSTAR transmission pipeline

[3] ENSTAR tariff section 2150- Schedule VLFT- Very Large Firm Transportation Service

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and VLFT customers are to have a minimum contracted peak demand of 5,000 Mcf. In addition, VLFT customers must have an estimated load factor of 65 percent or greater. Billing under the VLFT tariff consists of (i) a monthly customer charge and administrative fee, (ii) a monthly demand charge applied to the contract demand amount, and (iii) a declining block volumetric charge applied to the monthly throughput volumes of gas transported. MEA is currently being billed under the VLFT tariff in the manner described above.

ENSTAR's tariff includes a substantial excess demand penalty for any gas delivered over the contracted peak demand.[4] ENSTAR also transports interruptible gas to EGS that is used for economy energy sales to other utilities. The interruptible gas is shipped under the VLFT agreement, but is not included as part of the contracted peak demand and therefore not subject to the excess demand penalty. The VLFT rates and excess demand penalty will be discussed later in my testimony and in the testimony of the other MEA witnesses.

Q 11: PLEASE DESCRIBE THE CHANGES TO THE TRANSPORTATION SERVICE RATES PROPOSED IN THIS PROCEEDING AND HOW MEA IS IMPACTED.

A: ENSTAR is proposing to eliminate the declining block volumetric rate and increase the demand and customer charges in the VLFT tariff rate. [5] The proposed increase to VLFT rates is substantially greater than the rates approved in ENSTAR's previous rate case. As an example, MEA's monthly billing (using MEA's actual January 2017 delivered

[4] ENSTAR tariff section 2150(c)

[5] ENSTAR Proposed tariff sheet No. 213 filed in TA285-4 Docket U-16-066

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volumes) under the proposed permanent rates would be 33% higher than under the approved rates in ENSTAR's last rate case.[6] Our members would be directly impacted by the increased rates. The increased transportation costs would be passed on to our members through MEA's Cost of Power Adjustment (COPA) rate.

The proposed rate changes will be further addressed in the testimonies of MEA witnesses Lawton and Wilson.

Q 12: DOES MEA, AS A VLFT CUSTOMER, HAVE AN IMPACT ON THE COSTS BORNE BY OTHER USERS OF THE ENSTAR SYSTEM?

Yes. MEA as a VLFT customer increases billing determinants and revenues on the ENSTAR pipeline system and reduces the costs imposed on other users of the ENSTAR system. MEA's gas transported on ENSTAR's pipeline represents a significant volume in a pipeline segment that has excess capacity. MEA has not increased ENSTAR's fixed costs (no additional facilities were constructed to serve the EGS load), so the revenues from serving EGS result in lower costs to other system customers.

III. MEA'S DUAL-FUEL GENERATION AND SERVICE PRIORTY

Q 13: DOES MEA AS A VLFT CUSTOMER PROVIDE OTHER BENEFITS FOR ENSTAR AND USERS OF THE ENSTAR SYSTEM?

A: Yes. The EGS power plant has the ability to switch all of its capacity from natural gas to diesel fuel seamlessly. ENSTAR's Tariff Section 1220a states, "In the case of shortage

[6] MEA's January 2017 volume delivered was approximately 687,914 Mcf. Source: ENSTAR Gas Producer report.

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of supply, capacity and other emergency situations, the Company will apportion the available Gas supply and/or capacity among its Customers in the most reasonable manner possible given the circumstances at the time." Further, given the priorities of gas service set forth in ENSTAR's Tariff Section 1220b(6), the first firm customers to be interrupted (at Priority 6) are: "Deliveries to Large End Users of Gas for boiler fuel or for other fuel users ***who can use alternate fuels or purchase wholesale electric power***." (emphasis added). Included in this category are power generation plants where an alternative electrical supply can be obtained from another source that does not exacerbate the shortage or emergency."[7] Given that the EGS power plant is a dual fuel facility and no other ENSTAR transport customers have full or complete dual fuel use for all generation,[8] MEA is clearly in Priority 6, and at the top of the list for interruption when necessary. Thus, the EGS power plant benefits other users of the ENSTAR system by providing a large load that can easily be interrupted. This provides added reliability to all other firm users of the system.

Q 14: <u>IN YOUR OPINION, IS MEA RECEIVING THE SAME QUALITY OF FIRM SERVICE AS OTHER FIRM SUPPLY OR TRANSPORTATION CUSTOMERS?</u>

A: No. First, as to the level or firmness of service for the G1 through G4 customer classes versus firm transport customer service in general, human needs end use customers have a service priority. The gas transport for power generation facilities specifically have differing and lower levels of firm service. Transport customers have an inferior level of

[7] ENSTAR Tariff Section 1120b(6)

[8] ML&P has two units - Unit 4 Plant 1 and Unit 7 Plant 2 - that are dual fuel capable

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firm service given the priorities of interruption provided in the ENSTAR tariff.[9] Second, transport customers with dual fuel use capability (such as the EGS power plant) have less firm service relative to other transport customers that lack the dual fuel use capability. While EGS as a dual-fuel generation plant is the most interruptible and least firm of the large volume power plants in the Railbelt region, MEA pays the same demand charge and other rates under the VLFT tariff.

Q 15: DOES MEA SEEK OR REQUIRE A HIGHER LEVEL OF FIRM SERVICE FOR THE EGS POWER PLANT?

A: No. MEA accepts that EGS, as a Priority 6, fully dual-fuel generating plant, will be the first large customer interrupted when needed, and will receive the least firm, firm service.

Q 16: IN YOUR OPINION, SHOULD THE LOWER LEVEL OF FIRM SERVICE PROVIDED TO MEA AS A DUAL FUEL TRANSPORT CUSTOMER BE REFLECTED IN THE RATES MEA PAYS?

A: Yes. While MEA has contracted to be a firm service customer and expects to be treated as a firm service customer, the realities are that the interruption priorities of the ENSTAR Tariff make MEA's service a lesser quality than all other firm customers on the ENSTAR system. As further discussed in the testimony of MEA witness Wilson, we recommend adding a second, discounted rate in the VLFT tariff for customers willing and able to commit to accepting up to 48 hours of interruption at any time when needed ("Contractual Priority 6 Customers").

[9] ENSTAR Tariff Section 1220 Interruption Program

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IV. POWER POOL AND APFT RATE SCHEDULE

Q 17: WHY HAS ENSTAR PROPOSED THE NEW APFT RATE SCHEDULE?

A: The proposed APFT rate schedule (APFT; tariff section 2160) would be available to electric utilities participating in a power pool. It is similar to the VLFT service, but with excess demand provisions that would reflect the pooling relationship.

Q 18: WHAT IS THE STATUS OF THE UTILITIES' EFFORTS TO FORM A POWER POOL?

A: The Anchorage and Mat-Su area electric utilities have identified potentially significant savings to their customers through pooled operations. On January 27, 2017, Chugach Electric Association, Inc., ("Chugach"), the Municipality of Anchorage d/b/a Municipal Light & Power ("ML&P"), and MEA entered into an Amended and Restated Power Pooling and Joint Dispatch Agreement ("Pool Agreement"), which was jointly filed with the Commission on January 30, 2017. As signatories to the Pool Agreement, MEA, Chugach, and ML&P would potentially receive service under the proposed APFT rate schedule.

Q 19: HOW DOES POWER POOLING AFFECT THE TRANSPORTATION SERVICES NEEDED BY THE ELECTRIC UTILITIES?

A: An integral component of maximizing pool benefits is the ability to move gas to the most efficient power plants that are dispatched on any day. In short, the electric utilities need to be able to exchange gas supplies amongst themselves upstream, and then deliver the gas to those power plants that have been dispatched on any day. This will require

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additional flexibility with regard to the receipt points for the gas to be delivered to participating power plants. In addition, Excess Demand penalties should be imposed only to the extent the pool exceeds the combined Contract Demand.

Q 20: PLEASE ELABORATE ON THE ISSUE REGARDING RECEIPT POINT FLEXIBILITY.

A: ENSTAR transportation contracts specify specific receipt points. However, under a power pooling arrangement, at times Utility A's electric load will be served partly by Utility B's power plant burning Utility A's natural gas. That is, Utility A's gas needs to be transferred to Utility B upstream, to then be transported to Utility B's power plant under Utility B's transportation agreement with ENSTAR. To achieve this, the utilities may need additional receipt points in their transportation contracts, and the ability to nominate supplies at these additional receipt points subject only to operational or capacity limitations.

Q 21: PLEASE ELABORATE ON THE ISSUE REGARDING EXCESS DEMAND PENALTIES.

A: The proposed APFT tariff allows for some volumetric pooling by electric utilities, specifically with respect to application of the excess demand penalties. However, more certainty is needed here. MEA witness Wilson further discusses the proposed APFT tariff excess demand provisions and provides some specific recommendations in that regard.

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V. ENSTAR CORPORATE SEPARATION

Q 22: ARE THERE ANY OTHER ISSUES ABOUT ENSTAR'S TRANSPORTATION SERVICE THAT YOU WOULD LIKE TO RAISE?

A: Yes. ENSTAR is simultaneously the pipeline, a distribution company, a gas supplier, and a storage operator. Under ENSTAR, the same company that transports MEA gas is also competing with MEA for gas supply in terms of both volumes and price.

ENSTAR has full knowledge of all past and forecast future volumes and sources for Railbelt electric utilities through its transport business, and this creates a competitive advantage for ENSTAR with respect to both purchasing and shipping gas for its distribution customers.

A similar inherent conflict of interest is present with respect to gas storage that is run by the same company that buys and ships natural gas as a competitor to storage customers. There are too many options for economic manipulation when the same company, operating under the same regulatory framework controls gas supply, transport, and storage.

These issues are further discussed in the testimony of MEA witness Wilson.

Q 23: WHAT DO YOU PROPOSE AS A SOLUTION TO THIS PROBLEM?

A: ENSTAR and APC should be regulated and operated as two separate and distinct entities. ENSTAR is a gas distribution utility and APC is a gas pipeline. (Note: the different State Statutes AS 42.05 is for utilities and AS 42.06 is for pipelines).

While MEA is not a storage customer, MEA also believes that Cook Inlet Natural Gas Storage Alaska ("CINGSA") should be both regulated and operated separately from ENSTAR's distribution and transportation operations.

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Q 24: WHAT ISSUES WILL THE ADDITIONAL MEA WITNESSES IN THIS PROCEEDING ADDRESS?

A: Mr. Daniel J. Lawton will address the ENSTAR revenue requirement, cost of service, allocation, and rate design issues. Mr. Lawton specifically addresses the test year revenues, expenses, rate base investment, rate of return and cost of capital request of ENSTAR in this case. Mr. Lawton then makes a recommended allocation of his revenue requirement estimates to the various customer classes. Lastly, Mr. Lawton recommends several revenue, expense, allocation, and rate base adjustments to the proposed rate filing.

Mr. James F. Wilson will discuss ENSTAR's VLFT and APFT services and rates, with some comparisons to the services available in competitive natural gas markets. He provides recommendations with regard to the lower priority firm service provided to EGS, and also with regard to support of the power pooling arrangements. Mr. Wilson also discusses the issue regarding the handling of confidential shipper information. Finally, Mr. Wilson provides some broader recommendations regarding the natural gas industry in the Railbelt region.

Q 25: DOES THIS CONCLUDE YOUR TESTIMONY?

A: Yes, it does.

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