

**STATE OF ALASKA**

**BEFORE THE REGULATORY COMMISSION OF ALASKA**

Before Commissioners:

Stephen A. McAlpine, Chairman  
Paul F. Lisankie  
Rebecca L. Pauli  
Robert M. Pickett  
Janis W. Wilson

In the Matter of the Petition filed by COOK )  
INLET NATURAL GAS STORAGE )  
ALASKA, LLC for Advance Determination )  
of Decisional Prudence and Assurance of )  
Cost Recovery for Redundancy Project )

Docket No. U-18-024

**CINGSA'S PETITION FOR ADVANCE DETERMINATION OF  
DECISIONAL PRUDENCE AND ASSURANCE OF COST RECOVERY  
FOR REDUNDANCY PROJECT AND PETITION TO CLASSIFY RECORDS AS  
CONFIDENTIAL**

**I. Introduction**

1. Cook Inlet Natural Gas Storage Alaska, LLC ("CINGSA")<sup>1</sup> requests that the Regulatory Commission of Alaska ("Commission") issue findings that CINGSA is acting prudently, in the public interest and consistent with its duties under AS 42.05, the Alaska Public Utilities Regulatory Act, by granting this Petition for Advance Determination of Decisional Prudence and Assurance of Cost Recovery for Redundancy Project ("Petition"). CINGSA is requesting the Commission issue assurances it will be able to recover the costs of the "Redundancy Project" described herein via a future rate filing consistent with the Commission's procedures. Advance approval will be beneficial to CINGSA and its customers by allowing the Redundancy Project to move forward and become operational by CINGSA's target date of December 31, 2019.

<sup>1</sup> CINGSA is a Commission-regulated public utility providing natural gas storage service. All correspondence to CINGSA relating to this docket may be directed to undersigned counsel.

2. CINGSA has become a critical asset in meeting the natural gas demands of Cook Inlet utilities, and its expansion is in the public interest. The Redundancy Project includes three components: (1) the drilling of two additional storage wells and addition of a velocity string in one existing well; (2) installation of an additional dehydration process train; and (3) installation of a new turbine compressor unit. CINGSA currently estimates the net aggregate cost of the Redundancy Project will be approximately \$41.0 million. CINGSA anticipates that construction will commence on January 1, 2019, and the project will be placed in service by December 31, 2019. Additional net incremental operation and maintenance costs are expected to be approximately \$320,000 per year associated with the additional equipment. The Redundancy Project will provide significant value to CINGSA's customers through the enhanced reliability and capability of CINGSA's facilities.

3. This Petition seeks regulatory findings regarding the prudence of this investment as well as future recovery in rates of its projected costs, subject to true-up and review. This Petition does not ask for approval of specific rates or treatment of costs; CINGSA recognizes that separate rate filing processes will be required to establish applicable rate levels that provide recovery of the actual costs associated with the Redundancy Project in future rates. CINGSA also recognizes its commitment to bring forward depreciation rates for Commission approval in advance of recovery in its natural gas storage service rates. CINGSA's intent is to gain approval for rate recovery so that it can begin recovery when the Redundancy Project is placed into service.

## **II. Supporting Materials and Relief Requested**

4. The Petition includes affidavits from Mr. John D. Sims, President of CINGSA and ENSTAR Natural Gas Company ("ENSTAR"), and Mr. John J. Lau, Vice President of Operations of CINGSA and ENSTAR. These affidavits explain the operational challenges

confronting CINGSA and Cook Inlet gas deliverability, the results of studies developed to assess those challenges, the steps proposed to address those challenges, and the estimated costs to address those challenges.

5. Included with Mr. Lau's affidavit are three studies that further support this filing:

a. Cook Inlet Gas Study – 2017 Update, dated November 2017 and prepared by Petrotechnical Resources of Alaska ("2017 Gas Study"), attached to Mr. Lau's affidavit as Exhibit JLL-2;

b. Cook Inlet Gas Deliverability Risk Analysis, dated April 2018 and prepared by Evoleap, LLC, a consultant hired through RPS Group ("Risk Report"), attached to Mr. Lau's affidavit as Exhibit JLL-3 (CONFIDENTIAL); and

c. CINGSA Storage Facility Redundancy Project White Paper, dated April 2018 and prepared by CINGSA ("Redundancy Project Whitepaper"), attached to Mr. Lau's affidavit as Exhibit JLL-4 (CONFIDENTIAL).

As explained below in Section VI, CINGSA is filing the Risk Report and Redundancy Project Whitepaper under seal and requests that they be treated confidentially.

6. Based on this Petition and these supporting materials, CINGSA requests that the Commission issue an order granting the specific findings and relief set forth below:

a. CINGSA's Petition and supporting materials demonstrate that CINGSA's proposal to construct and operate the Redundancy Project will benefit the public by increasing reliability and efficiency in CINGSA's service to its customers;

b. CINGSA's Petition and supporting materials demonstrate that CINGSA's proposal to construct and operate the Redundancy Project is both reasonable and prudent;

c. CINGSA's Petition and supporting materials demonstrate that the approximately \$41.0 million comprising CINGSA's estimated aggregate costs associated with the Redundancy Project are reasonable, prudent, and, subject to true-up and review, will be recoverable in future rates beginning at the time the Redundancy Project is placed in service; and

d. The costs determined to be prudent by the Commission in this proceeding will be includable in CINGSA's future gas storage service rates in accordance with established ratemaking principles.

7. CINGSA is not seeking authorization for specific ratemaking treatment, cost assignments or changes to current gas storage service rates in this Petition.

### **III. The Authority of the Commission**

8. The Commission has authority to issue this specific relief. CINGSA recognizes that the decision to build the Redundancy Project, like similar decisions other Alaska utilities face, is a management decision and prior Commission approval is not required.<sup>2</sup> Rather, this Petition requests a discretionary review by the Commission to reduce or eliminate regulatory uncertainty and to allow CINGSA to move forward with the project to make its benefits available to CINGSA's customers as promptly as possible.

9. CINGSA believes the Redundancy Project will provide tangible benefits to its customers and promote its ability under AS 42.05.291(a) to "furnish and maintain adequate,

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<sup>2</sup> See, e.g., *In the Matter of the Tariff Revisions, Designated as TA279-8 and TA288-8, Filed by Chugach Electric Association, Inc. for a Rate Increase and Rate Redesign*, Order U-06-134(21) at 16, lines 6-15.

efficient, and safe service and facilities” and provide service that is “reasonably continuous and without unreasonable interruption or delay.” The Commission’s affirmation of CINGSA’s prudence in pursuing the Redundancy Project will provide CINGSA’s storage customers in Southcentral Alaska with increased reliability and certainty.

10. There is ample statutory authority in AS 42.05 for the relief CINGSA now requests. For example, this authority is granted in AS 42.05.141(a), which provides that:

The Regulatory Commission of Alaska may do all things necessary and proper to carry out the purposes and exercise the powers expressly or reasonably implied in this chapter, including...

(3) make or require just, fair, and reasonable rates, ... and facilities for a public utility....

The relief requested by CINGSA in this Petition falls within this aspect of the Commission’s jurisdiction.<sup>3</sup>

11. In addition, AS 42.05.381 provides generally the broad authority for the Commission to set just and reasonable rates.<sup>4</sup> In interpreting the Commission’s authority, the Alaska Supreme Court has said:

The commission has implied powers. An organization like the commission “is an administrative agency that has whatever powers are expressly granted to it by the legislature or conferred upon it by implication as necessarily incident to the exercise of powers expressly granted.”<sup>5</sup>

These broad powers give the Commission the requisite authority to exercise jurisdiction over this matter and grant the relief requested herein.

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<sup>3</sup> See also AS 42.05.291(d) (granting Commission authority to prescribe facilities by order).

<sup>4</sup> See also AS 42.05.141(d)(2) (in considering whether a utility’s proposed rate to provide reliable gas supply for a reasonable price is in the public interest, requiring Commission to consider whether a utility could meet its responsibility to the public in a timely manner and without undue risk to the public if the Commission fails to approve a rate proposed by the utility).

<sup>5</sup> *Chugach Electric Association, Inc. v. RCA*, 49 P.3d 246, 251 (Alaska 2002) (footnote omitted).

12. The Commission has previously exercised such pre-approval authority. On June 30, 2010, Chugach Electric Association, Inc. (“Chugach”) requested a Commission order granting cost recovery assurance for its Southcentral Power Project (“SPP”) electric generation facility.<sup>6</sup> In evaluating Chugach’s petition, the Commission balanced the need for an early decision against the likelihood of disallowance of any portion of the proposed project following a future investigation.<sup>7</sup> The Commission granted Chugach’s request, and in so exercising its discretion, the Commission concluded that it “is in the public interest to provide cost recovery assurance to Chugach.”<sup>8</sup>

13. In the same docket, Chugach also sought an advance determination of prudence regarding the decision to build SPP. The Commission explained that it has the discretion to issue such pre-approval, but, at that particular time, elected against that course of action because Chugach filed its petition only after making irrevocable commitments to construct SPP.<sup>9</sup> Any such prudency finding would have been inconsequential under those circumstances. In contrast, CINGSA has not entered into any such binding commitments; a determination of decisional prudence in the instant proceeding will provide the basis for CINGSA to undertake the Redundancy Project and further provide significant benefits to its customers.

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<sup>6</sup> Docket U-10-041, *Chugach Electric Association, Inc.’s Petition for Advance Determination of Decisional Prudence and Assurance of Cost Recovery for Southcentral Power Project*, filed June 30, 2010.

<sup>7</sup> Order U-10-041(5), *Order Granting, in part, Petition for Advance Determination of Decisional Prudence and Assurance of Cost Recovery for Southcentral Power Project, Granting Motion for Withdrawal of Attorney and Substitution of Counsel, and Closing Docket*, at 11 (Oct. 5, 2010).

<sup>8</sup> *See id.* at 15.

<sup>9</sup> *Id.* at 11 (explaining that in other jurisdictions, preapproval requests for construction projects are generally sought before the utility has entered into contracts for the construction of the project) (citations omitted).

14. The Attorney General expressed concern over Chugach's requested 75-day timeline for a decision in Docket No. U-10-041,<sup>10</sup> and the Commission ultimately accommodated Chugach's request to expedite the proceeding by rendering a decision less than 100 days after Chugach filed its petition.<sup>11</sup> There should be no similar concern in this proceeding. CINGSA is requesting that the Commission review this Petition using a 180-day timeline under AS 42.05.175(i)<sup>12</sup> to provide the Commission with adequate time for review while enabling CINGSA the opportunity to complete the Redundancy Project by the fourth quarter of 2019.

15. The Commission would be acting well within its statutory authority in reviewing and granting CINGSA's Petition as set forth herein. In addition, the Commission clearly defined its authority in U-10-041(5) to issue the type of relief requested herein. Accordingly, the Commission can and should exercise its pre-approval authority here.

#### **IV. The Need for CINGSA's Redundancy Project**

##### **A. Background**

16. Historically, gas fields in the Cook Inlet held large volumes of gas under high pressure. As gas fields are depleted, however, the pressure of the fields drops. In 2009, the Alaska Department of Natural Resources performed a study of natural gas reserves in these fields and concluded that as a result of falling pressures, the deliverability of the fields during high demand periods had also sharply declined. The Cook Inlet no longer had peak deliverability capable of covering utility demands. The depletion of local gas supply and associated declining gas deliverability raised concerns about the ability of gas utilities and gas-fired electric generators in the Cook Inlet to meet the peak demand of commercial and

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<sup>10</sup> Docket No. U-14-041, *Brief of the Attorney General* at 10 (Aug. 31, 2010).

<sup>11</sup> *Id.* at 8-9.

<sup>12</sup> *See also* AS 42.05.175(a) (180-day timeline for CPCN proceeding).

residential customers. Natural gas storage was identified as a means of addressing the declining gas supply and deliverability and ensuring reliable gas service in Cook Inlet and surrounding areas. Sims Affidavit ¶ 5.

17. Recognizing the need for natural gas storage, in 2010, the Alaska Legislature enacted House Bill 280, the Cook Inlet Recovery Act (“CIRA”), which amended the Alaska statutory definition of a public utility in AS 42.05.990(6)(G) to include “furnishing the service of natural gas storage to the public for compensation.” The Alaska Legislature unanimously passed CIRA, making it clear that the Commission had the authority to regulate gas storage facilities as public utilities under AS 42.05, the Alaska Public Utilities Regulatory Act. Sims Affidavit ¶¶ 6-7. CIRA also provided tax credits and other incentives (1) to companies investing in natural gas exploration in the Cook Inlet, and (2) for the development of gas storage capacity. After passage of CIRA, ENSTAR was able to sign gas supply contracts with producers that had no presence in Alaska prior to CIRA’s enactment. Sims Affidavit ¶¶ 7-8. But, and more critical here, the legislation spurred the development of commercial gas storage in Alaska.

18. After passage of CIRA, CINGSA filed its application for, and the Commission ultimately granted, a certificate of public convenience and necessity (“CPCN”) to provide gas storage service.<sup>13</sup> CINGSA began permitting and construction in 2010, and the Commission approved inception rates on January 31, 2011.<sup>14</sup> CINGSA went into service on November 9, 2012, providing reliable natural gas storage to its customers. CINGSA is capable of delivering 150,000 thousand cubic feet per day (“Mcf/day”) of gas to its Southcentral Alaska customers. Sims Affidavit ¶ 9.

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<sup>13</sup> See Orders U-10-051(8) and U-10-051(9).

<sup>14</sup> See Order U-10-051(9).



19. Today, CINGSA's storage facility consists of an underground natural gas reservoir, the Cannery Loop Sterling C Pool (approximately 5,000 feet below the Kenai River and surrounding areas), subsurface natural gas injection and withdrawal wells, a surface well pad, and a surface operational facility. At the time CINGSA acquired it, the Sterling C Pool was a producing natural gas field in the Cannery Loop Unit. Sims Affidavit ¶ 10.

20. When the Legislature enacted CIRA, the Legislature observed, in CIRA's "Sponsor Statement,"<sup>15</sup> that residents of Southcentral Alaska had become concerned that there would not be sufficient natural gas production from Cook Inlet to meet their needs. The Legislature expressed the view that large-scale natural gas storage was crucial to meeting these needs. CINGSA has met that need. This criticality was exemplified on January 19, 2017, when recorded temperatures averaging -8 degrees Fahrenheit caused ENSTAR's system to experience record demand. Notwithstanding these conditions, CINGSA met 42 percent of the ENSTAR system needs that day, and more than 30 percent of the estimated gas demand in the entire Cook Inlet area. Sims Affidavit ¶ 11.<sup>16</sup>

### **B. The Challenge**

21. The behavior of CINGSA's customers differs from normal storage customers in the Lower 48. The Lower 48 has a substantial natural gas transportation system consisting of multitudes of production fields, interconnected pipelines, and robust gas storage facilities.

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<sup>15</sup> See House Bill 280, "The Cook Inlet Recovery Act," Sponsor Statement of Rep. Mike Hawker (Feb. 5, 2010), available at [http://www.akleg.gov/basis/get\\_documents.asp?session=26&docid=6404](http://www.akleg.gov/basis/get_documents.asp?session=26&docid=6404) (last visited Apr. 22, 2018)

<sup>16</sup> See also "ENSTAR Saw Record Gas Use During Recent Alaska Cold Spell," *Anchorage Daily News* (Jan. 29, 2017), available at <https://www.adn.com/business-economy/energy/2017/01/29/enstar-saw-record-gas-use-during-recent-alaska-cold-spell/> (last visited Apr. 20, 2018).

If a particular storage facility has a problem, it is a common event to call upon a different storage facility to provide the needed deliverability. Another difference is that in the Lower 48, storage customers primarily inject gas in the summer, when availability is high and costs are generally lower, and withdraw gas in the winter. CINGSA customers, on the other hand, use the facility for many purposes to fit their business needs. Unlike the Lower 48, it is not unusual for CINGSA customers to switch from injection to withdrawal and back again on a daily basis, or even during the course of a day. Lau Affidavit ¶¶ 14-15; Sims Affidavit ¶ 13.

22. As the deliverability of Cook Inlet producing wells has declined, reliance upon CINGSA as a peak day provider has increased. Sims Affidavit ¶¶ 14. CINGSA, at its current rated capacity of 150,000 Mcf/day, is capable of providing one-third of Cook Inlet peak day deliverability needs. Lau Affidavit ¶ 14. In addition, approximately 44 percent of CINGSA's peak well deliverability is provided by just one of its five wells, making area consumers heavily dependent on this single well. Lau Affidavit, Ex. JLL-4 (Redundancy Project Whitepaper) at 5, 11.

23. CINGSA has analyzed its customers' use of the CINGSA facility. This analysis shows that each customer uses the facility in different ways that fit the particular customer's business needs. Importantly, customers' use of CINGSA's storage facilities for injection and withdrawal has significantly changed from what was originally contemplated when CINGSA designed its facilities and initiated service. At that time, CINGSA anticipated that the customers would use storage service on a predictable seasonal basis by injecting in the summer months and withdrawing gas in the winter months to meet their peak demand requirements, consistent with usage in the Lower 48. However, as stated above,

many customers do not use their storage service in this perceptible seasonal pattern. Sims Affidavit ¶ 12.

24. The use pattern of CINGSA's customers affects the operation and efficiency of CINGSA's facilities, and in particular its compression facilities. Sims Affidavit ¶ 13. If customers nominate injections primarily in the summer, the compressors can be expected to operate close to capacity during this time, which increases their efficiency. Because the level of customer injections varies throughout the year, however, the compressors are used less efficiently. The injection and withdrawal activity that CINGSA experiences means that: (1) the compressors often have to run at a much lower capacity than is optimal; and (2) there is more wear and tear on the compressors. At the same time, CINGSA must nonetheless stand ready to meet its customers' firm injection and withdrawal nominations every day of the year. Lau Affidavit ¶ 23.

25. In view of the varying and unpredictable pattern of use of CINGSA's storage assets by CINGSA's customers and the degree of local utilities' reliance on CINGSA's facilities to meet the demand for natural gas in Cook Inlet, CINGSA became concerned about the potential impact of a failure of its facilities. Sims Affidavit ¶ 15.

### **C. The Risk Report**

26. Certainty of peak natural gas delivery is paramount to both CINGSA and ENSTAR, CINGSA's largest customer. Observation of CINGSA's storage well and surface facility performance over the initial five years of operations has triggered scrutiny as to risks affecting deliverability. It is important for a utility (both CINGSA and ENSTAR) to understand the implications of asset failure, along with the reliance on the service one provides, when calculating potential risks and future liabilities. Lau Affidavit ¶ 6.

Accordingly, CINGSA commissioned a study to evaluate scenarios under which gas consumers in the Cook Inlet region might experience a shortfall during a cold day that has actually occurred in the region's history (peak day), with scenarios evaluated for 2017 and 2020, respectively. RPS Group, a multinational energy resource group, in collaboration with Evoleap, LLC, was selected to conduct the Risk Report. Lau Affidavit ¶ 10.

27. The Risk Report examined various risks in the Cook Inlet region on a peak day, including the likelihood of failure, the consequence of failure, and an overall risk assessment for Cook Inlet. *See, e.g.*, Lau Affidavit, Ex. JLL-3 (Risk Report) at 3. Assets in the Cook Inlet region were broken into three major areas: (1) wells, which include production and storage wells; (2) fields, which include field and production equipment; and (3) the pipeline system, which includes the transmission pipeline network and available compression. The Risk Report analyzed the capability or capacity of this infrastructure to overcome a given failure scenario and relatively ranked consequences. The result of the analysis was a risk matrix that highlighted the most significant facilities having a critical impact on gas deliverability. Lau Affidavit ¶ 11.

28. The study showed adequate capacity in meeting a 400,000 Mcf peak day with current (2017) capabilities in the Cook Inlet. Lau Affidavit, Ex. JLL-3 (Risk Report) at 6. Projections of production capacity in 2020 present a different picture. Studies show that production from existing wells will decline at a rate of 10 to 20 percent per year across the different fields. Factoring in the well decline rate and assuming no new wells are drilled in the intervening years, the reduction in production capacity would be 110,000 Mcf/day which cannot be compensated by the excess capacity in existing storage wells. Lau Affidavit, Ex. JLL-3 (Risk Report) at 8. Offsetting this to some extent, however, is the likelihood that

additional production will be brought online during this period. *See, e.g.*, Lau Affidavit, Ex. JLL-2 (2017 Gas Study) at 11-12; Lau Affidavit, Ex. JLL-3 (Risk Report) at 9, 27.

29. To compensate for this decline in gas supply in a peak day scenario, the Risk Report increased flow rates from the storage wells. Under this assumption, all field equipment failures identified in the study will result in a peak day shortfall. The relative impact of well failures is medium-extreme for the top three wells and low for the other two wells. Lau Affidavit, Ex. JLL-3 (Risk Report) at 27.

30. Certain of CINGSA's production equipment, described in more detail in the RPS Study and Redundancy Project Whitepaper, pose the largest production risk identified in the Risk Report. Lau Affidavit, Ex. JLL-3 (Risk Report) at 29. If a critical failure of that unit—which is necessary for withdrawal and delivery of gas from storage—takes a significant amount of time to address on a cold day, a shortfall to one or more customers would likely result. Similarly, the failure of the highest performing well in Cook Inlet, located at CINGSA, would require all other Cook Inlet fields be ramped up to full capacity to compensate for the shortfall under the scenario studied. While it is theoretically possible to find the lost production from other wells and other fields, this would carry a high risk of a secondary failure. Lau Affidavit, Ex. JLL-3 (Risk Report) at 29-30.

31. Based on these findings, the Risk Report results in a recommendation to install an additional dehydration unit at CINGSA and to drill additional storage wells to provide added reliability for CINGSA and its customers. Lau Affidavit, Ex. JLL-3 (Risk Report) at 2. The Risk Report did not include evaluation of CINGSA's compressors within its scope because they are often offline during peak withdrawal days unless the storage wells fall below a certain pressure. Lau Affidavit, Ex. JLL-3 (Risk Report) at 11. This component

of the Redundancy Project will enhance efficiency and reliability as further explained below and in the supporting materials.

**D. The Redundancy Project**

32. The results and recommendation of the Risk Report have prompted CINGSA to propose its Redundancy Project. As set out in the Risk Report, certain events may occur that will significantly restrict peak delivery day gas supply to the Cook Inlet. The Redundancy Project is designed to address these issues by helping to mitigate the risk of being unable to meet the required deliverability on a peak day. As previously stated, the Redundancy Project consists of: (1) drilling two additional storage wells and adding a velocity string to an existing storage well; (2) installing an additional dehydration process train; and (3) installing a new turbine compressor unit.

**1. Storage Wells**

33. CINGSA's five storage wells, called for by CINGSA's original design, have attained the initially intended deliverability of 150,000 Mcf/day. But the wells do not perform uniformly. Rather, they range from 3,600 Mcf/day to 66,300 Mcf/day in terms of performance. The latter represents approximately 44 percent of CINGSA's deliverability and, should that well suffer an outage, the loss of deliverability will severely impact the system. *See* Lau Affidavit, Ex. JLL-4 (Redundancy Project Whitepaper) at 5, 11. For this reason, the Redundancy Project proposes drilling two additional wells, which CINGSA anticipates will add 30,000 Mcf/day of deliverability per well. Lau Affidavit at ¶¶ 17-18.

34. Additionally, CINGSA proposes to install a velocity string in one of its existing storage wells. This measure is intended to reduce well bore water accumulations and thereby improve performance of that well. Lau Affidavit ¶¶ 16, 18.

## **2. Dehydration Process Train**

35. Installing an additional dehydration process train would greatly reduce deliverability risk. As gas is withdrawn from storage, the gas must be dehydrated to ensure that it is within tariff and commercial specifications. Wet gas in a pipeline can cause a number of operational and safety issues. Ice may form within pressure control valves, measurement can be affected, filters can become clogged, and it can potentially cause pipe wall corrosion. During cold weather and peak flows it is of particular importance to ensure gas meets specifications as increases in the water content of the gas can cause problems with downstream customer equipment, including frozen regulators and meters. With the current equipment and configuration, the loss of the dehydration system on a peak winter day would likely mean a total loss of gas flow to customers. Lau Affidavit ¶ 19.

## **3. Turbine Compressor**

36. Currently, CINGSA operates with two reciprocating engines, each with 2,500 horsepower, driving reciprocating compressors. Engine and compressor maintenance is scheduled for the months of November and December. This time of year should allow uninterrupted engine and compressor maintenance since the station operating mode at the beginning of the heating season is typically designed for free-flow withdrawal. However, over the last four winters, CINGSA's customers have requested injection service on 61 percent of the days in November and December. Lau Affidavit ¶¶ 20-22.

37. The addition of a smaller horsepower, turbine-driven compressor will realize a number of operational advantages. Historical records show such a compressor would be able to meet CINGSA's operational requirements on 80 percent of the total annual injection days. Using the smaller, more efficient, compressor would result in less fuel gas use. Turbines

significantly reduce mechanical vibration on facilities compared to reciprocating compressors. This will reduce repairs and downtime. The electric power consumption for a turbine-driven compressor is significantly less than for the current reciprocating compressors. Annual carbon dioxide emissions will also be reduced with operation of a smaller compressor. Most importantly, a third compressor would ensure a backup unit is always available for either injection or withdrawal. Currently, if one of the two compressors is down for annual maintenance or repairs, there is no backup for the remaining on-line compressor. Lau Affidavit ¶ 24.

#### **4. Estimated Costs and Timeline**

38. CINGSA estimates that the Redundancy Project will cost approximately \$41.0 million. Lau Affidavit ¶ 26. Assuming pre-approval on the timeline proposed in this Petition, CINGSA estimates that construction of the Redundancy Project will begin in January 2019, with a projected in-service date by December 31, 2019. Lau Affidavit ¶ 28.

39. CINGSA estimates operation and maintenance (“O&M”) expenses will increase by approximately \$412,000 to operate and maintain the additional equipment and components added from the Redundancy Project. However, installing the turbine compressor is estimated to save approximately \$92,000 per year in O&M expenses, based on 1,200 hours per year of projected runtime. These savings are largely attributable to reduced compressor maintenance cost, electrical usage, fuel savings, and less vented natural gas. These compressor-related savings, netted against the additional \$412,000 in O&M expenses associated with the rest of the Redundancy Project, are expected to result in a net increase of \$320,000 to annual O&M expenses. Separate and apart from CINGSA’s expected O&M



expenses relating to the new compressor, CINGSA also expects the proposed turbine compressor would provide its customers annual fuel cost savings.<sup>17</sup> Lau Affidavit ¶¶ 25-27.

**E. The Benefits of Pre-Approval**

40. Pre-approval of the prudence of utility infrastructure construction expenditures has become commonplace in the United States as a result of the recognition that investors seek more certainty with respect to how expenditures will be treated by future regulators. A policy of pre-approval, in turn, can benefit customers by assuring adequacy of supply and increased system reliability.

41. The benefits of such pre-approval have been explicitly recognized in a prior Commission decision. As discussed in Section III of this Petition, in Docket No. U-10-041, Chugach sought and was granted a Commission order determining cost recovery assurance for new plant investment.<sup>18</sup>

42. Regulators in other jurisdictions have used both explicit statutory authority and general supervisory authority to implement various approaches to pre-approval designed to meet the needs of each jurisdiction. As just one recent example of administrative action outside of Alaska, the Maine Public Utilities Commission issued an order granting a utility's request for pre-approval of a long-term pipeline capacity contract, finding that the utility's decision to enter into the contract was prudent and its associated costs were recoverable in rates.<sup>19</sup>

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<sup>17</sup> Gas for compressor fuel use is provided in-kind by CINGSA's customers via a fuel use charge, which is currently 1.1% of injections. Lau Affidavit ¶ 25.

<sup>18</sup> U-10-041(5) at 11. A witness for Municipal Light & Power also previously endorsed pre-approval in Docket U-15-087. See Docket U-15-187, Transcript of Public Hearing at 768-70.

<sup>19</sup> *Northern Utilities, Inc. d/b/a UNITIL; Request for Approval of Atlantic Bridge Precedent Agreement*, Docket No. 2016-00229 (Maine PUC, Mar. 2, 2017) (evaluating and pre-approving utility request to enter into capacity agreement). See also Docket No. U-10-041, *Chugach's Second Verified*

43. Pre-approvals of utility expenditures provide tangible benefits, including encouraging investment in needed infrastructure and removing regulatory risks and uncertainty, which in turn facilitates financing and potentially reduces financing costs.

**V. The Need for Expeditious Review**

44. Expeditious review is needed to allow CINGSA to move forward with the Redundancy Project in a prompt manner. This will enable CINGSA to improve its facilities and provide materially greater assurance of continued natural gas service even on days when Southcentral Alaska's natural gas infrastructure faces great challenges. CINGSA therefore respectfully requests that the Commission review and process this docket within 180 days consistent with the timeline provided in AS 42.05.175(i). Such a timeline will afford a full and fair opportunity for all parties to review and comment on this filing while providing CINGSA an opportunity to meet its targeted operational date of December 31, 2019, for this project should the Commission issue the requested findings.

**VI. Petition for Confidential Treatment of Certain Documents**

45. The Risk Report and the Redundancy Project Whitepaper, Exhibits JLL-3 and JLL-4 to Mr. Lau's affidavit, contain information that is confidential and should not be publicly disclosed. The information contains risk assessments on an asset-by-asset basis that could put CINGSA, other Cook Inlet infrastructure, or Southcentral Alaskans themselves at risk. Pursuant to 3 AAC 48.040 and 48.045, CINGSA requests confidential treatment of these records and, in the interim, is filing unredacted versions of these documents under seal pending Commission determination of their confidentiality.

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*Brief Responding to Questions in Order No. 1* at 6-11 (Aug. 24, 2010) (citing various pre-approval cases from state regulatory commissions in the Lower 48).

46. Good cause exists to treat these documents confidentially. The redacted portions of these documents contain material that would be considered Critical Energy Infrastructure Information (“CEII”) under Federal Energy Regulatory Commission (“FERC”) regulations. *See* 18 C.F.R. § 388.113 (defining CEII). The CEII classification is useful in assessing whether similar information for Alaska utilities should be protected from unfettered public access. In this case, portions of both the Risk Report and the Redundancy Project Whitepaper contain detailed energy infrastructure information, including assessments of various assets’ criticality to meeting gas demand and providing continued reliable service to Southcentral Alaskas. Protection of such information is necessary and advisable for energy security purposes to prevent its widespread dissemination. Accordingly, CINGSA petitions the Commission to treat these documents confidentially.

## **VII. Conclusion and Request for Relief**


47. CINGSA was designed and installed to meet Cook Inlet’s challenging gas supply needs. The daily and seasonal utility of the facility can be updated through the Redundancy Project to address the identified deliverability risks and take advantage of efficiencies to better reflect customer use. The Commission’s expeditious pre-approval of the Redundancy Project, after thorough vetting, would provide assurance to CINGSA’s investors that the Commission and CINGSA’s stakeholders support CINGSA’s continued provision of its critical gas storage services to Southcentral Alaska. Sims Affidavit ¶ 19.

48. By expeditiously granting the specific relief requested in this Petition, the Commission will help ensure continued reliable service to CINGSA’s customers and the ratepayers of Southcentral Alaska. Accordingly, CINGSA respectfully requests that the Commission review this Petition and issue an order with the findings requested in Section II

herein within 180 days to allow completion of the Redundancy Project by the fourth quarter of 2019.

49.

Dated this 27 day of April, 2018, at Anchorage, Alaska.

By:  \_\_\_\_\_

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**ATTORNEYS FOR COOK INLET NATURAL GAS  
STORAGE ALASKA, LLC**

**Certificate of Service**

The undersigned certifies that on the 27 day of April, 2018, a copy of the foregoing Petition was served electronically on the following by electronic means authorized by the Commission or by an alternative method indicated below.

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\_\_\_\_\_  
Certification Signature

Cook Inlet Natural Gas Storage Alaska, LLC

Supporting Affidavits

Affidavit of John D. Sims, including:

Exhibit JDS-1: Resume

Affidavit of John J. Lau, including:

Exhibit JLL-1: Resume

Exhibit JLL-2: 2017 Gas Study

Exhibit JLL-3: Risk Report (CONFIDENTIAL)

Exhibit JLL-4: Redundancy Project Whitepaper (CONFIDENTIAL)