

STATE OF ALASKA

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**BEFORE THE REGULATORY COMMISSION OF ALASKA**

Before Commissioners:

Robert M. Pickett, Chairman  
Paul F. Lisankie  
T.W. Patch  
Norman Rokeberg  
Janis W. Wilson

In the Matter of the Consideration of the Revenue )  
Requirement Designated as TA262-4 Filed by )  
ENSTAR NATURAL GAS COMPANY, A ) Docket No. U-14-\_\_\_\_  
DIVISION OF SEMCO ENERGY, INC. )  
\_\_\_\_\_ )

**PREFILED DIRECT TESTIMONY  
OF  
M. COLLEEN STARRING**

**INTRODUCTION**

1 **Q. State your name, title, current employer, and business address.**

2 A. My name is M. Colleen Starring. I am President of the ENSTAR Natural Gas Division  
3 of SEMCO Energy, Inc. ("SEMCO"). I also serve as co-Chairman of SEMCO's Board  
4 of Directors. SEMCO is headquartered at 1411 Third Street – Suite A, Port Huron,  
5 Michigan 48060 and is a Michigan Corporation.

6 **Q. Describe your professional experience at SEMCO.**

7 A. I have worked for SEMCO since 1977 in various areas of the company including  
8 customer service, field operations, marketing, regulatory, and accounting. From 1999  
9 until 2003 I was Director of SEMCO's Western Operations and City President of Battle  
10 Creek Gas Company. In 2003, I assumed the role of Regional Vice President, Western  
11 Division, SEMCO Energy Gas Company. I was appointed Regional Vice President of  
12 ENSTAR and APC in 2007. In 2008, I was appointed President of ENSTAR. Since

PREFILED DIRECT TESTIMONY OF M. COLLEEN STARRING

Docket No. U-14-\_\_\_\_: September 5, 2014

Date: 6/15/17 Exh # 14-82  
**Regulatory Commission of Alaska**  
By: PL U-16-066  
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1 A. ENSTAR has a substantial construction program planned for the rate-effective period.  
2 Between 2014 and 2019, ENSTAR anticipates significant capital projects:

- 3 • In 2015, ENSTAR will conduct an in-line inspection on the Turnagain Arm twin  
4 ~~crossing; the two 50 plus-year-old subsea pipelines that transport gas from the Kenai~~  
5 Peninsula to Anchorage. This inspection may cost upwards of \$2 million.  
6 Depending on what the in-line inspection data concludes, ENSTAR estimates an  
7 investment of as much as approximately \$45 million in 2016 to repair or replace the  
8 twin crossings. Given the significant amount of this investment, ENSTAR will need  
9 some form of certainty regarding recovery and ratemaking treatment if it appears it  
10 will have to incur these extraordinary expenses.
- 11 • ENSTAR is currently developing a CINGSA to APC bypass pipeline. As discussed  
12 in more detail below, this new pipeline, which is estimated to cost \$10 million, will  
13 help reduce transportation rates for ENSTAR and CINGSA's customers, and will  
14 provide for more efficient compression of gas from CINGSA.
- 15 • In 2015, ENSTAR plans to implement an updated and expanded version of its  
16 Accounting and Finance software, J. D. Edwards. This update will allow company-  
17 wide improvements in procurement, financial reporting, and human resources. The  
18 total cost of this project has not yet been determined, but is expected to exceed \$1  
19 million. ENSTAR is not seeking recovery of these costs at this time, but anticipates  
20 that it may seek inclusion of these costs in its rate base and operating expenses in  
21 the future.
- 22 • Over each of the next five years, ENSTAR has budgeted significant capital  
23 expenditures to make various improvements to existing facilities. In addition to the

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1 CINGSA to APC bypass, and without taking into account the potential Turnagain  
2 Arm crossing costs, ENSTAR expects to spend approximately \$100 million in the  
3 next five years.

4 Q. Has ENSTAR raised all of the capital necessary for all of the above anticipated  
5 and/or budgeted projects?

6 A. No.

7 Q. How does this information relate to your point about ENSTAR capital  
8 expenditures during the rate effective period?

9 A. ENSTAR's annual capital budget focuses on ensuring that the Company continues to  
10 provide safe, reliable, and efficient natural gas service. With an aging pipeline system,  
11 these investments are required to ensure ongoing safety and reliability. However,  
12 making these investments is costly for ENSTAR and its investors.

13 Q. Why is this information about future projects relevant to the Commission's  
14 decision on what return on equity should be authorized for ENSTAR?

15 A. As discussed by Mr. Hevert, the future need for capital is the essence of the  
16 Commission's return on equity decision. With an appropriate authorized ROE and a  
17 fair opportunity to realize it, as well as an appropriate capital structure and allowed cost  
18 of debt, ENSTAR should be able to attract additional capital as it undertakes  
19 construction projects in 2015 and beyond. As Mr. Hevert points out, all of these capital  
20 cost components must together produce a fair end result.

21 Q. Are you asking the Commission to authorize investments in specific projects or  
22 certain cost recoveries now?

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“revenue-producing” activity, because new customers pay charges for natural gas service and thus increase the Company’s revenues.) Examples of non-revenue producing expenditures in this case are: (1) an upgrade and module addition to ENSTAR’s customer information system; and (2) the replacement of a portion of the Kenai to Anchorage pipeline that had become exposed in the Kenai National Moose Range. These nonrevenue expenditures are necessary to continuing to provide safe and reliable gas delivery to customers. As noted by Mr. Dieckgraeff, ENSTAR is including in rate base an additional \$1.9 million for five non-revenue producing projects that have been completed in 2014 or will be completed shortly.

**Q. Is there future plant that will be installed during the rate effective period that the Company wants to seek recovery for at this time?**

A. Yes. As noted, in 2015, ENSTAR plans to build an approximately four-mile pipeline to bypass Hilcorp’s Kenai-Nikiski Pipeline (“KNPL”) and directly connect ENSTAR’s pipelines to CINGSA (“Bypass Pipeline”). As currently configured, any of ENSTAR’s (or CINGSA’s other customers’) gas being injected or withdrawn from CINGSA must flow through KNPL. This configuration leads to compression inefficiencies. As Mr. Dieckgraeff explains, the KNPL operating pressures are limited by tariff to a minimum of 690 psig and a maximum of 750 psig. CINGSA must reduce its withdrawal delivery pressure by 400 to 600 psi or more to enter KNPL. The withdrawal gas must be compressed a second time after entering the ENSTAR system. The Bypass Pipeline would allow 1,000 psig gas to be delivered directly into the APC system, saving compression horsepower and increasing ENSTAR’s Kenai to Anchorage throughput capacity from 230-240 MMscf per day to 250-260 MMscf per day. The Bypass

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1 Pipeline will also save ENSTAR customers the transportation costs associated with gas  
2 flowing on KNPL. The KNPL rate has been relatively inexpensive in recent years.  
3 However, the KNPL rate is anticipated to increase during the rate-effective period as a  
4 result of the consolidation of the four Hilcorp pipelines. ENSTAR forecasts that the  
5 Bypass Pipeline will cost \$10 million to construct, and taking into account the proposed  
6 increased Hilcorp pipeline postage stamp rates, anticipates that the Bypass Pipeline  
7 costs will save CINGSA customers \$1.7 million annually in transportation fees on the  
8 Hilcorp pipelines.

9 **Q. Are you asking that the cost of the Bypass Pipeline be included without further**  
10 **Commission review, even though it is not fully known and measurable at this time?**

11 **A.** No. ENSTAR proposes that it be allowed to include the full estimated construction  
12 amount in its rates at this time. Following construction of the Bypass Pipeline,  
13 ENSTAR would file a "true-up" to reflect actual costs and adjust its rate calculation  
14 accordingly. The project is expected to be completed by the Fall of 2015, before this  
15 case is expected to be concluded.

16 **Q. Are there other adjustments you wish to discuss?**

17 **A.** Yes. The inclusion of average balance of stored gas in rate base. This is ENSTAR's  
18 first rate case since 2012, when CINGSA began service, and thus is ENSTAR's first  
19 rate case in which it has an investment in stored gas. As both Mr. Dieckgraeff and Dr.  
20 Fairchild discuss in their testimony, the average balance of stored gas is included in a  
21 utility's rate base under nationally-accepted ratemaking principles. It is a major  
22 investment for the utility. With the 13-month average balance of over \$53 million, it is  
23 a significant portion of ENSTAR's proposed rate base.

