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April 4, 2012

The Honorable Sean Parnell
Governor
State of Alaska
P.O. Box 110001
Juneau, Alaska 99811-0001

Date: 6/15/17 Exh # H-80
Regulatory Commission of Alaska
By: B U-16-066
Northern Lights Realtime & Reporting, Inc.
(907) 337-2221

Dear Governor Parnell,

ENSTAR has received inquiries surrounding its current tariffs and the work that has been completed for a possible natural gas pipeline extension to Homer and Kachemak. This letter attempts to provide background information for your consideration.

In 1997¹, ENSTAR received approval to modify its service territory and to include, among others, Homer and Kachemak as future service territories. The approval of the expansion included language that required securing an adequate supply of gas² and the ability to build a natural gas distribution system that would not place undue financial burden on the existing customer base.

In March of 2004, ENSTAR received approval from the Regulatory Commission of Alaska (RCA) to impose a \$1.00/Mcf surcharge on the expansion area if a natural gas pipeline was extended to serve the area. In the Order, the commission stated that "Homer ratepayers will directly bear some of the costs unique to serving Homer through the imposition of a \$1.00/Mcf surcharge. The surcharge permits a delayed recovery of the contribution customers must make for ENSTAR to build its line extension from Anchor Point to Homer."³ At that time, the \$1.00/Mcf surcharge was intended to recover the total costs associated with the pipeline over an estimated ten year period, calculated on 2003 forecasted growth, consumption information and engineering estimates. Since 2004, the economic feasibility of extending service and the availability of long term, reliable gas supply has impacted the ability to move the project forward.

Beginning in 2009, Armstrong Oil & Gas embarked on a drilling program that provided new, proven gas reserves. Subsequently, during 2010 and 2011, ENSTAR constructed the South Peninsula Pipeline which extended its transmission line from Ninilchik to Anchor Point to access the newly available Armstrong gas supply.



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At the onset of the South Peninsula Pipeline project, ENSTAR was approached by representatives from the Homer and Kachemak areas to discuss the possibility of utilizing state funds to support a natural gas pipeline extension. Over the past two years, per the request of Representative Seaton and representatives of Homer and Kachemak, ENSTAR has provided detailed engineering cost estimates for a gas line extension and distribution system scenarios. All of the entities have worked together and are currently re-evaluating the economic feasibility of the proposed project, relying on updated cost information.

If the project moves forward, two changes will be required to ENSTAR's filed tariff, Sheet No. 228. First, the tariff refers to the total actual costs, which is no longer applicable as only a portion of the total project cost would be collected through the surcharge. Utilizing 2011 customer growth assumptions, ENSTAR has calculated it would recover as a Contribution In Aid of Construction (CIAC) \$2.5 million dollars over a ten year period. The total estimated cost of the project is \$10.6 million dollars. Additionally, the definition of the Homer Service Area in ENSTAR's certificate and tariff includes Anchor Point Township and areas north of Anchor Point. Due to the recent system expansions, the Township and the areas north would not be participants in the new extension and therefore not required to pay the \$1.00/Mcf surcharge. With these modest tariff changes, ENSTAR would be able to support the \$1.00/Mcf surcharge as a CIAC.

Distribution system build out costs are currently being discussed by Homer and Kachemak. Both are evaluating the possibility of establishing a Utility Special Assessment District (USAD) or increasing the local mil rates to pay for their portion of the distribution system. To the best of my knowledge, plans have not been finalized; however, ENSTAR representatives are working diligently with local officials to identify an arrangement that will be economically viable and allow the project to move forward. It is ENSTAR's view that a combination of private investment, surcharge, USAD or mil rate contributions, and a grant will be needed in order to advance the project.



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ENSTAR has appreciated the efforts of local officials and representatives of Homer and Kachemak and remains committed to working with the communities to provide a long term reliable energy solution.

Sincerely,

A handwritten signature in cursive script that reads "Colleen Starring".

Colleen Starring
President, ENSTAR Natural Gas

Enclosures

Cc: Michael Nizich, Governor's Chief of Staff
Representative Paul Seaton

¹ Order U-96-108 (6)/U-96-109(6), dated November 3, 1997

² ENSTAR estimates the Homer service area will require approximately 0.5 Bcf of natural gas supply a year for a completely built out distribution system.

³ Cited from RCA order U-96-108(12)/U-03-84(7)

