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STATE OF ALASKA
BEFORE THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

Robert M. Pickett, Chairman
Kate Giard
Paul F. Lisankie
T. W. Patch
Janis W. Wilson

In the Matter of the Revenue Requirement)
Designated as TA177-4 and the Request for an)
Interim and Refundable Rate Increase Designated)
as TA185-4 Filed by ENSTAR NATURAL GAS)
COMPANY, A DIVISION OF SEMCO)
ENERGY, INC.)

Docket No. U-09-69

In the Matter of the Rate Design Revision)
Designated as TA177-4 Filed by ENSTAR)
NATURAL GAS COMPANY, A DIVISION OF)
SEMCO ENERGY, INC.)

Docket No. U-09-70

**STIPULATION BY ALL PARTIES TO SETTLE
ALL ISSUES IN THE ENSTAR BASE RATE AND RATE DESIGN CASE**

INTRODUCTION

This stipulation (the "Stipulation") is an agreement among all of the parties to settle all of the issues in the above-captioned matters. The parties request that the Commission accept and approve this Stipulation, including the tariff sheets that contain the revised base rates agreed-to in this Stipulation. The parties respectfully request that the Commission approve this

Date: 6-9-17 Exh # 4-47
Regulatory Commission of Alaska
By: APS U-16-066
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Docket Nos. U-07-069 and U-09-070; June 18, 2010

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Stipulation within 30 days of submission, as provided for in 3 AAC 48.166, with the revised base rates to be applied to billings on or after an effective date of August 2, 2010.¹

RECITALS

A. The parties to this Stipulation are: ENSTAR Natural Gas Company, a division of SEMCO Energy, Inc., and Alaska Pipeline Company, a subsidiary of SEMCO Energy, Inc. (collectively, "ENSTAR"); the Attorney General of the State of Alaska ("AG"); Fairbanks Natural Gas, LLC ("FNG"); Municipality of Anchorage, d/b/a Municipal Light & Power ("ML&P"); Union Oil Company of California ("Union"); and Marathon Alaska Production, LLC ("Marathon") (collectively, the "Parties" and each a "Party").

B. The Parties are all of the parties to the Dockets U-09-69/U-09-70 before the Regulatory Commission of Alaska (the "Commission"). ENSTAR and the AG are the only parties to the Docket U-09-113.

C. The Parties are represented by counsel of their own choosing, have their own experts or have retained experts for advice on the issues in these proceedings, and have filed testimony, expert testimony, or comments in some or all of these proceedings.

D. On June 1, 2009, ENSTAR filed TA177-4, requesting an increase in base rates and a change in rate design. TA177-4 was suspended by the Commission and split into two dockets: Docket U-09-69, to address ENSTAR's proposed revised base rates, and Docket

¹ An effective date at the beginning of a billing month is being requested for ease of administration and better customer understanding of this change in rates. ENSTAR requests approval within thirty days of the submission of the Settlement (which is close to two weeks before the requested effective date) in order to allow sufficient time to modify and test its billing programs.

U-09-70, to address ENSTAR's proposed revised rate design. On August 17, 2009, the AG filed a notice of election to participate in both dockets. By Order U-09-69(3)/U-09-70(3), dated October 27, 2009, the Commission granted the petitions to intervene filed by FNG, Marathon, Union,² and ML&P. On December 23, 2009, pursuant to a Commission order, ENSTAR re-submitted the prefilled testimony of George A. Schreiber, Jr., Charles E. Olson, Daniel M. Dieckgraeff, Bruce H. Fairchild, Steven W. Warsinske, and Paul H. Raab, its revenue requirement study (275(a) filing), cost of service studies (for existing customer classes and proposed customer classes), and tariff sheets reflecting the revised base rates and other proposals made by ENSTAR.

E. On February 23, 2010, ENSTAR filed TA185-4, requesting an interim and refundable base rate increase effective April 2, 2010. By Order U-09-69(8)/U-09-70(8), dated March 31, 2010, the Commission suspended TA185-4 for further investigation as part of Docket U-09-69, approved the proposed increase in base rates on an interim and refundable basis, effective April 2, 2010, and required ENSTAR to file a refund plan by April 30, 2010.³

F. On March 30, 2010: the AG filed the prefilled testimony of Ralph C. Smith, J. Richard Hornby,⁴ and J. Randall Woolridge; FNG filed the prefilled testimony of Ronald Cliff and Dan Britton; and Union filed the prefilled testimony of Donald A. Page and Gary Orr. ML&P filed the prefilled testimony of Robert R. Reagan on March 31, 2010.

² Union filed its petition to intervene in Docket U-09-70 only.

³ The refund plan was timely filed on April 30, 2010.

⁴ An Errata to Mr. Hornby's prefilled testimony was filed on April 7, 2010.

G. On May 21, 2010, ENSTAR filed an unopposed motion to vacate the prehearing procedural schedule pending submission of a final stipulation. The Commission granted ENSTAR's motion by Electronic Order on May 27, 2010.

H. The filings and documents referenced in Paragraphs D through F above, including all accompanying exhibits and attachments, are incorporated by reference into this Stipulation.

I. The Parties participated in mediation pursuant to the Commission's Alternate Dispute Resolution procedures. The mediator, Blythe Marston, met with the Parties individually beginning May 7 and through the week of May 10, and with all the Parties together on May 17 and 18, 2010.

J. The Parties have agreed to finally, completely, and irrevocably compromise, settle, and resolve all issues in the above-captioned dockets and Docket U-09-113 on the terms and conditions set forth in this Stipulation.

On the basis of the foregoing recitals, which the Parties certify are true and correct and which are material and incorporated into this Stipulation, the Parties stipulate and agree as follows:

AGREEMENT

I. ENSTAR's RATE CASE STIPULATION SUMMARY

A. Revised Revenue Requirement and Rates.

A two-step increase in ENSTAR's base rates is contemplated by this Stipulation. The first increase (Step I) is an increase in ENSTAR's base rates intended to produce an additional

\$7 million in annual base rate revenue, to be effective when the Commission approves this Stipulation. The Step I increase includes the \$3.4 million interim rate increase currently in effect, subject to refund, and the settlement of Docket U-09-113 discussed in paragraph G below. The second increase (Step II) is an increase in ENSTAR's base rates intended to produce an additional \$3,761,729 in annual base rate revenue (for a total base rate increase of \$10,761,729), to be effective when the new South Peninsula Pipeline is placed in service.⁵ ENSTAR will notify the Commission, in writing, and ENSTAR's customers will be notified, by bill insert, at least 30 days before the Step II increase takes effect. The South Peninsula Pipeline is scheduled to be placed in service by the third quarter of 2011.

The base rates for the Step I and Step II increases are shown on Attachment 1.⁶ In Step I residential customers in Rate Class G1 (see Rate Design, paragraph B below)⁷ will see an increase in the fixed customer charge and a decrease in the volumetric rate resulting in an overall average annual increase in their base rates of approximately 10% (based on test year data) which will result in a total bill increase of approximately 2.66% when the current cost of gas is considered. There will be an additional actual increase in their bills of 1.36% with the

⁵ For purposes of this Settlement "placed in service" with respect to the South Peninsula Pipeline shall mean when ENSTAR has purchased gas and that gas begins flowing for delivery to ENSTAR's customers through the new South Peninsula Pipeline.

⁶ The Step I increase agreed-to in this Settlement is higher than the increase generated by the interim and refundable rates approved by the Commission on April 2, 2010 and, thus, no refund is required. As stated in ENSTAR's interim rate request (TA185-4) and in the refund plan required by Order U-09-69(8), any refund liability would be calculated "using the final Commission-approved revenue requirement, without taking into account any changes in rate design that may be made by the Commission." See TA185-4 at 4, and ENSTAR's April 30, 2010 Interim Increase Refund Plan at 2.

⁷ The parties agreed to ENSTAR's proposal to change rate classes from A, B and C to G1 to G4. The new customer classes are based on the capacity of the metering equipment necessary to serve each group of customers. The customer impact percentages listed here reflect these changes.

Step II increase, for an overall increase of approximately 4%.⁸ Due to a change in the cost allocation formula used in setting their rates, large transportation customers,⁹ on average, will experience a total Step I decrease of 12.7%. Large transportation customers, experience no Step II increase for reasons discussed below. For large transportation customers, there is a new rate for interruptible service for delivery of gas to storage facilities. The rate charged FNG for transporting gas to its liquefaction plant in Port MacKenzie would increase 9.1% as a result of the Step I increase.

B. Rate Design.

The rate design for ENSTAR's general service customers¹⁰ is similar to ENSTAR's existing rate design (*i.e.*, there will be a fixed customer charge and a volumetric rate), using four rate classes (rather than three). The four rate classes for ENSTAR's general service customers are G1 through G4. These rate classes are based on the capacity of the metering equipment installed at that customer's location and not on the nature of the customer's use of gas such as "residential" or "commercial." Under the proposed tariff, more than 90% of ENSTAR's residential customers will be in the G1 rate class.

The rate design for large transportation customers is unchanged, but transmission costs will be allocated based on coincident peak demand in part to encourage conservation through

⁸ The Step I tariff sheets are provided in Attachment 2 and the Step II tariff sheets are provided in Attachment 3.

⁹ Large transportation customers are ML&P, FNG, and customers taking service under the Very Large Firm Transportation Service (VLFT), Interruptible Industrial Transportation Service (IIT), and the new Interruptible Transportation to Storage (ITS) rate schedules.

¹⁰ These are residential and commercial customers that are currently served under ENSTAR's A, B, and C rate schedules.

appropriate price signals, rather than the *Seaboard* methodology previously approved by the Commission.¹¹

C. Rate Base.

ENSTAR's rate base will be \$177 million until the South Peninsula Pipeline is placed in service. ENSTAR's rate base will increase to \$199 million when the new pipeline is placed in service (*i.e.*, at the time of the Step II increase in base rates).

D. Cost of Capital.

ENSTAR's overall cost of capital will be 9.25%. The capital structure will be ENSTAR's actual test year capital structure of 51.4% equity and 48.6% debt. ENSTAR's debt cost will be 5.75% and its cost of equity will be 12.55%.

E. Cost Allocation Methodology.

In the past, the Commission has viewed ENSTAR's gas transmission pipelines and distribution pipelines as an integrated system.¹² This has resulted in large transportation customers being allocated transmission plant and related costs, regardless of their location on ENSTAR's system. Under this Stipulation, an exception will be made for the South Peninsula Pipeline -- none of the costs of that pipeline will be allocated to large transportation customers because ENSTAR will be the only shipper on the pipeline when it is placed in service. Further, the South Peninsula Pipeline is connected to the Kenai Kachemak Pipeline (KKPL) and is not contiguous with ENSTAR's transmission system. During the period that the rates provided for

¹¹ *Atlantic Seaboard Corporation*, 11 F.P.C. 43 (1952); *see also* Order U-87-2(4), at 6 (July 20, 1987).

¹² *See, e.g.*, U-08-58(8), page 12 (October 31, 2008).

herein are to be in effect, the South Peninsula Pipeline will not be used as part of ENSTAR's transmission system in providing service to large transportation customers. As a result, a Step II increase will not be imposed on large transportation customers.

F. Future ENSTAR Base Rate Filing.

ENSTAR will file a base rate case no later than August 1, 2014 based on a test year ended December 31, 2013.¹³ The Parties agree it is appropriate for ENSTAR to file a base rate case in mid-2014 because ENSTAR's operations will likely be affected by numerous changes in and around Cook Inlet over the next three to four years, including the development of storage, continued efforts to secure long-term gas supplies, and the potential expansion of service to new customers.

G. Settlement of Docket U-09-113.

Docket U-09-113 was instituted to seek Commission approval of a Gas Supply Acquisition surcharge ("GSA surcharge") which would allow ENSTAR to pass certain costs associated with negotiating and seeking Commission approval of recent ENSTAR gas supply agreements directly through to ratepayers.

The parties agree that ENSTAR will forgo the implementation of the proposed GSA Surcharge, as recovery of costs ENSTAR requested in that docket is included in the revised base rates agreed-to herein.

¹³ None of the \$5.6 million in costs incurred by ENSTAR prior to 2010 related to Bullet Line development shall be recoverable through rates, whether directly or indirectly, based upon ENSTAR's 2013 test year revenue requirements filings, any filings made subsequent thereto, or rates otherwise effective thereafter. Nor shall the \$2.4 million in costs requested by ENSTAR in Docket U-09-113 be recoverable through rates, whether directly or indirectly, based upon ENSTAR's 2013 test year revenue requirements filings, its other filings made subsequent thereto, or rates otherwise effective thereafter.

II. THIS STIPULATION IS IN THE PUBLIC INTEREST AND CONSISTENT WITH LAW

The Commission has authority to approve this Stipulation under AS 42.05.191 and 3 AAC 48.166. The Commission has recently stated its policy in favor of “stipulations and settlements that narrow the scope or eliminate the need for litigation.”¹⁴ Commission approval of this Stipulation is in the public interest and is consistent with controlling law.¹⁵

A. The Parties’ Agreed Cost of Capital is Reasonable in This Case.

ENSTAR’s overall allowed return of 9.25%, with a debt cost of 5.75% (recommended by the AG’s witness in prefiled testimony) and a cost of equity of 12.55% (which was the allowed equity return in ENSTAR’s last rate case), is within the zone of reasonableness and approval of this stipulation is in the public interest..

B. The New Storage Tariff Will Improve the Use of Storage.

Gas is currently transported to storage under ENSTAR’s Interruptible Industrial Transportation Service (“IIT”) tariff. Prior to the interim increase in base rates, IIT service customers paid a monthly minimum charge of \$20,000 for transporting up to 100,000 thousand cubic feet (“Mcf”) and a declining block rate that began at 18 cents per Mcf for the next 100,000 Mcf of gas that is transported. The effective rate for the first 100,000 Mcf of gas transported was 20 cents per Mcf. The monthly minimum charge discouraged refilling non-utility storage when the volume of gas going into storage was less than 100,000 Mcf, because the effective rate per Mcf would be higher than 20 cents and could be much higher if the

¹⁴ Order No. U-06-135(15) at 5, n.30.

¹⁵ 3 AAC 48.166.

volume being transported were low. For example, if 100,000 Mcf were put into storage, the rate (before the interim increase) was 20 cents per Mcf. If only 25,000 Mcf were put into storage, the effective rate was 80 cents per Mcf. The new IIT rate, available only for the transportation of gas to storage, addresses this problem by imposing an annual minimum charge of \$20,000, with a declining block rate that begins at 22 cents per Mcf. Under the new rate, an impediment to filling storage at any time that gas is available is removed. The revised IIT tariff sheet is included as Sheet 218 in Attachment 2.¹⁶

C. The Rate Base Recommended in this Settlement and Stipulation Is a Fair and Reasonable Measure of the Assets Used and Useful in Providing Service.

The stipulated Step 1 rate base of \$177 million is \$11 million less than the rate base requested by ENSTAR. This reduction was the result of careful analysis by the Parties of ENSTAR's proposed adjustments to rate base. As part of the compromise represented by this Settlement and Stipulation, \$177 million is viewed by the Parties as a fair and reasonable measure of the assets that will be used and useful in providing service to ENSTAR's customers in the rate effective period.

¹⁶ As of the date of this filing, Unocal has not transported any gas to storage in 2010, but may before the new rates become effective. To avoid the possibility of double charging Unocal for the minimum bill in 2010, ENSTAR will delay charging a minimum bill for any months that Unocal transports gas to storage before the new rates become effective and will charge instead only the per Mcf rate (*i.e.*, the interim declining block rates beginning at 21.2 cents per Mcf for the first 100,000 Mcf) under the current tariff. At the end of 2010, Unocal will be given credit against the new minimum bill for all charges for transporting gas to storage (at the old per Mcf rates until the new rates become effective, and then at the new rates). If the total charges are less than the new annual minimum bill, Unocal will pay the difference. If the total charges exceed the new minimum, there will not be any additional charges.

The Step II rate base of \$199 million is the Step I rate base plus the \$22 million cost of the South Peninsula Pipeline. The most expensive component of that pipeline, the pipe itself, has been ordered, and construction of the pipeline is underway. It is expected that the pipeline will be in service no later than the third quarter of 2011. If possible, it will be placed in service earlier to provide gas needed by ENSTAR's gas sales customers.

D. South Peninsula Pipeline Costs Will Be Allocated to Rate Classes G1 Through G4 and not to Large Transportation Customers.

As discussed above regarding cost allocation methodology the Commission has in the past treated all of ENSTAR's transmission system pipelines as part of an integrated system. Such ratemaking treatment has resulted in slightly lower base rates for the residential and small commercial rate classes (the now redesigned G1 through G4 rate classes), because large transportation customers are allocated transmission plant and related costs regardless of where they take service on the system. Large transportation customers argue that they do not directly use ENSTAR's entire system and should be allocated costs accordingly.

The large transportation customers also correctly note that the South Peninsula Pipeline is being built, at least initially, to bring gas from a new supplier to ENSTAR's sales customers and that ENSTAR will be the only shipper on the pipeline when it is first placed in service. Further, the South Peninsula Pipeline is connected to the Kenai Kachemak Pipeline (KKPL) and is not contiguous with ENSTAR's transmission system. During the period that the rates provided for herein are to be in effect, the South Peninsula Pipeline will not be used as part of ENSTAR's transmission system in providing service to large transportation customers.

Under the particular facts of this case, the Parties agree that the fair and reasonable result is to initially allocate the cost of the South Peninsula Pipeline to rate classes G1 through G4 and not to the large transportation customers. When the next ENSTAR base rate case is filed, this issue can be re-examined in light of the then-current conditions.

E. Conservation Should be Encouraged by Changing to the Coincident Peak Allocation Methodology.

Many years ago, the Commission adopted what is known as the *Seaboard* methodology for allocating transmission-related costs. The *Seaboard* methodology, named for the case in which it was adopted, allocates costs based on a combination of average and peak system use.¹⁷

Coincident peak demand is defined as the level of demand of a customer or customer class at the time of the system's peak usage. Under the coincident peak demand method for cost allocation, capacity costs are apportioned to all customers who are using the system at the time of peak usage based upon their proportional usage of the system at that time.¹⁸

The parties agree the *Seaboard* method works well in fairly allocating costs when there is excess capacity but becomes more questionable as it becomes more difficult to meet peak demand for either gas supply or pipeline capacity. In either case it becomes more important to recognize in base rates the costs imposed on the system by those who use it at the time of peak usage. Allocating costs based on the coincident peak demand methodology does a better job

¹⁷ See *Atlantic Seaboard Corporation*, 11 FPC 43, n.21 (1952) ("[f]ixed costs or expenses are incurred for both peak use and annual use in respect to both demand and volumetric functions It is our opinion that these significant cost factors should be weighted equally, that is to say, 50 percent should be assigned to demand and 50 percent to commodity . . .").

¹⁸ See Order U-83-38(6), at 5-6, dated February 14, 1984.

than the *Seaboard* methodology of matching the cost causer and the cost payer in such a situation. This change in methodology shifts \$1,062,617 in pipeline related costs from the large transportation customers to general service customers. The Parties agree that this shifting of cost recovery among rate classes reflects the relatively higher use of ENSTAR's system at times of peak usage by customers in the G1 rate class. This cost allocation change should encourage conservation by sending these customers the correct, usage-based price signal.

F. The Tariff for Providing Service to Fairbanks Natural Gas is Reasonable.

The tariff sheet for service to FNG is attached as Sheet 206 in Attachment 2. FNG purchases gas from a third-party supplier and ships the gas on ENSTAR's Beluga Pipeline to FNG's LNG plant at Port MacKenzie. The rate design for service to FNG is unchanged, with a monthly customer charge and a rate for each Mcf transported. There were differences of opinion between FNG and ENSTAR about the costs which should be included in the rate, but the Parties agree that the rate resulting from this Stipulation is fair and reasonable for the service provided to FNG.

G. Settlement of Docket U-09-113 as Proposed in This Docket is Reasonable.

In Docket U-09-113, ENSTAR asked to recover certain costs related to negotiating and seeking Commission approval of gas supply contracts. ENSTAR and the AG are the only parties to that docket. ENSTAR and the AG agree that the revised base rates agreed-to in this Stipulation are sufficient to allow ENSTAR a fair opportunity to recover the costs it is asking to recover in Docket U-09-113. By settling the Docket U-09-113 issues as part of this Stipulation, the burden on scarce Commission time and resources from multiple proceedings is eliminated.

H. The Revised Base Rates are Reasonable and Accurately Reflect Expected Conditions During the Rate Effective Period.

The revised base rates recommended in this Stipulation are intended to give ENSTAR a fair opportunity to collect its revenue requirement. Rather than try to agree specifically on every component of ENSTAR's rate effective period revenue requirement, the Parties engaged in discussions resulting in an agreement on what ENSTAR's revenue requirement should be without account level agreement on every specific revenue requirement component. Revised base rates were then calculated to collect the agreed-upon ENSTAR revenue requirement.

The revised base rates agreed-to in this Stipulation are intended to collect an agreed-upon revenue requirement increase for Step I of \$7 million. This is less than half the amount requested by ENSTAR in its Step I filing and includes the \$3.4 million increase which has already been approved by the Commission and put into effect on an interim and refundable basis. The revised base rates agreed-to in this Stipulation are intended to collect an agreed-upon additional revenue requirement increase for Step II of approximately \$3.8 million. In total, revised Step I and Step II base rates are intended to collect a revenue requirement increase of approximately \$10.8 million.

The revised base rates are summarized on Attachment 1 and are shown in detail in the tariff sheets included in Attachments 2 and 3.¹⁹ The increase in base rates is modest, given the

¹⁹ The tariff sheets in Attachment 2, which show the Step I changes, include Sheets 5, 201 through 204, 206-208, 211 216 and 218. The tariff sheets in Attachment 3, which show the Step II changes, are only Sheets 201-204. The sheets in these attachments should replace all of the tariff sheets filed with TA177-4 and ENSTAR's compliance filing in this Docket made on December 23, 2009.

number of years since ENSTAR's rates were last increased by the Commission pursuant to Order U-00-88(22) (May 21, 2003).²⁰

I. The Rate Design Used to Calculate Revised Base Rates is Reasonable.

ENSTAR's current rate design for general service customers has two components: (1) a customer charge, which is a fixed dollar amount per month paid by each customer; and (2) a volumetric charge applied to the amount of gas consumed by the customer each month.²¹

ENSTAR proposed a rate design that that would "decouple" its rates from customer consumption. ENSTAR's took the position in its filing that because volumetric rates are used to collect its fixed costs, factors affecting the consumption of gas by customers (such as conservation due to the use of more efficient furnaces and water heaters, better insulation, and other energy-saving devices and techniques) would also affect ENSTAR's recovery of its fixed costs of providing service. The AG and others argued that another rate design would better satisfy conservation objectives; result in a fair allocation of costs to all rate classes and that there is insufficient data to support the Commission's adoption of a "fully decoupled" rate design at this time.

The Parties agree that ENSTAR should maintain its existing rate design structure (*i.e.*, a customer charge coupled with a volumetric rate), but move the customer charge toward actual cost as determined from the cost of service study. Any of the Parties may propose another rate

²⁰ Phased-in increases to residential base rates occurred through May 2005 pursuant to accepted stipulation.

²¹ Gas sales customers have a third component, the recovery of the cost of gas through ENSTAR's gas cost adjustment rate (the "GCA"), which is not an issue in this proceeding.

design in ENSTAR's next base rate filing when more data on changes in customer usage patterns will be available.

The rate design for the large transportation customers, FNG, and interruptible transportation of gas to storage is essentially unchanged from ENSTAR's current rate design.

J. The Parties Agree With Approval of the Step II Rate Increase in This Docket to Reflect the Inclusion of the South Peninsula Pipeline in Rate Base.

The South Peninsula Pipeline is being constructed to transport gas from the North Fork Unit on the Kenai Peninsula to ENSTAR's gas sales customers. The Commission has approved both the related gas supply agreement and the construction of the pipeline in TA180-4 and Docket U-09-107, respectively. In order to start serving customers using this pipeline, there must be rates in place to recover the costs of the pipeline, and those rates must be in effect when service starts. Typically, rates for major new construction projects are known as "inception rates" and are based on the budgeted costs for the new construction.²² ENSTAR knows the costs of this pipeline with reasonable certainty and the pipe, the major expense for this project, has been ordered. The actual costs will be known after construction is complete and the pipeline has been operated for a reasonable period. The Parties do not believe that it would be economic or more accurate for the Commission to wait to set inception rates for the

²² Chugach Electric Association, Inc. (CEA) received a Step II-type increase effective upon the commercial operation of a new generator that was being installed at CEA's Beluga power plant (Order U-81-52(24)/U-81-53(60), dated October 26, 1982). During that docket, the Commission Staff and CEA determined that ENSTAR would see a significant reduction in sales to CEA as a result of the installation of the new equipment. As a result, the Commission Staff proposed a Step II increase for ENSTAR in Order U-81-101(8), dated March 15, 1983.

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new pipeline. Because ENSTAR is required to file a rate case based on a 2013 test year, the Parties believe that any adjustments to rates for the new pipeline should be made then.

III. GOVERNING LAW, REGULATIONS AND OTHER TERMS

A. The Parties agree that this Stipulation has been reached in part to avoid the cost and expenses associated with the conduct of hearings and preparation to litigate issues raised in the above-captioned dockets and Docket U-09-113. The Parties believe that this Stipulation is in the public interest and consistent with controlling law, pursuant to AS 42.05.181 and 3 AAC 48.166. This Stipulation is supported by considering and weighing in totality all of the evidence in the record in the above-captioned dockets and Docket U-09-113 as set forth above.

B. The Parties enter into this Stipulation for the sole purpose of resolving all issues in the above-captioned dockets and Docket U-09-113. This Stipulation does not prevent the Parties from presenting or arguing their respective positions on the same or similar issues in future cases. This Stipulation also does not prevent the Parties from presenting or arguing their respective positions on issues in future cases that might have been raised in this case.

C. The Parties jointly stipulate the validity and enforceability of the agreements contained in this Stipulation are conditioned on the Commission's acceptance of this Stipulation in its entirety. If the Commission does not accept this Stipulation in its entirety, the Stipulation will have no force and effect, and the Parties reserve the right to present evidence to support all of their positions at a public hearing in both the above-captioned dockets and Docket U-09-113 as if this Stipulation and separate stipulation in Docket U-09-113 had not been entered into. Except as specifically noted this stipulation does not resolve individual issues, if rejected this stipulation shall be a nullity and nothing herein, submitted herewith, or

subsequently provided in support hereof, shall be construed as an admission or averment that the proposed resolution of any particular issue, or that the use of a particular methodology, is just, reasonable and appropriate under the circumstances. If rejected, this Stipulation may not be put into evidence, and no Party may use this Stipulation against any other Party in this docket or any other docket or proceeding.

D. Nothing in this Stipulation is intended upon approval to limit the Commission's powers as conferred by statute or to bind the Commission in a future proceeding to any position it accepts in this proceeding except that the \$2.4 million GSA acquisition costs and \$5.6 million Bullet Line development costs addressed herein shall not be recoverable through rates, whether directly or indirectly, based upon ENSTAR's 2013 test year revenue requirements filings, its filings made subsequent thereto, or rates otherwise effective thereafter.

E. This Stipulation is binding on the Parties for the purposes of the above-captioned dockets and Docket U-09-113 only and will have no binding or precedential effect and shall not be admissible in evidence in any other or future docket. This Stipulation is binding on the Parties, their successors or assigns.

F. The Parties agree that for purposes of AS 42.05.175, an order approving this Stipulation can be considered a "final order," and each Party expressly waives any right to claim such a resulting order is not a final order under this statute.

IV. REQUESTED APPROVALS

The Parties respectfully request that the Commission:

- Approve this Stipulation in its entirety without a hearing pursuant to AS 42.05.191;

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- Approve this Stipulation within 30 days of submission in accord with 3 AAC 48.166; and
- Approve the attached tariff sheets with an effective date of August 2, 2010.

V. CONCLUSION

This Stipulation is the result of the substantial time and effort the Parties spent analyzing the issues in the above-captioned dockets and the hours the Parties spent discussing and resolving these issues in mediation. The Parties have worked together to reach a resolution that all Parties believe is fair and equitable, is in the public interest, and is consistent with applicable law. The Commission has recently stated its policy in favor of "stipulations and settlements that narrow the scope or eliminate the need for litigation."²³ The Parties have successfully worked together to reach a settlement that eliminates the need for expensive and time-consuming litigation. The Parties thank the Commission for its time and attention and respectfully request that it approve this Stipulation in its entirety and grant the approvals specified above.

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DATED: 6/18/10

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²³ Order No. U-06-135(15) at 5 n.30.

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