RAPA Agrees

Homer Extension revenues--$598,237

Outside legal services--$14,882

Miscellaneous expenses--$39,661

Property Taxes--$180,398 (13-Month Avg)

ENSTAR agreed in Reply:

Reduce allowance for Test-year Payroll (spousal travel) $4,730
Still in dispute $1,272

Reduce allowance for Property Taxes $45,318
Still in dispute
If 13-Month rate base--zero
If year-end rate base--$180,398

Reduce allowance for Affiliated OpEx $13,533
Still in dispute $64,876

$5,000 in Misc. Expenses
Still in dispute $317,005

RAPA Opening U-16-066

Roadmap

- RAPA's Role
- The case in front of the Commission
- RAPA's Recommendations
- Ratemaking and Public Policy
  The Reason behind the Rule

RAPA's Role

- Public Advocate
- Not Consumer Advocate
- Not Anti-Utility

Investigate and make recommendations to the Commission

We seek the right answer:
Not the absolute possible lowest rate
Not the highest rate

ENSTAR has the Burden of Proof

AS 42.05.421(d) The utility has the burden of proving its proposals are reasonable. In Order U-99-130(13) the Commission stated at 8-9:

The burden of proving that rates charged or received by a utility are just and reasonable or that a revenue requirement is reasonable rests on the shoulders of the utility. This includes justifying costs of services that have been passed on to the consumer of services through rates.

Order U-99-130(13) cited two cases on this point: *Re Municipality of Anchorage d/b/a Anchorage Telephone Utility*, 12 APUC 384, 387 (1992), "Incurring a cost does not make the cost legitimate for rate making purposes; the burden of proof is on the utility to demonstrate that the costs are reasonable and appropriate." and *Re Municipality of Anchorage d/b/a Anchorage Telephone Utility*, 14 APUC 242, 245 (1993) "A utility has the burden of proving the reasonableness of its revenue requirement. The burden of proof, or burden of persuasion, does not shift from one party to another." The Commission explained that "[t]he burden of proving that rates are just and reasonable or that a revenue requirement is reasonable remains the same whether the utility is seeking a rate change or not."*See* Order U-99-130(13) at 9, n. 19.

The case in front of the Commission

- $83,288,932 Revenue Requirement
  U-14-111 (2013 Test Year)
- ENSTAR seeks $96,244,768
  Revenue Requirement (6/1/2016)
- RAPA recommends $78,992,064
  Revenue Requirement

Difference of $17,252,704

The Path?

RAPA Recommendations (28 Adjustments)

Rate Base—Adj 2-3
Bullet Line—Adj 4 (Order U-16-066(15))
Employee Compensation—Adj 5, 6 and 7
Payroll—Adj 8-9
Past and Current Rate Case Expense—Adj 10-11
Other Expenses—Adj 12, 13, 16-19
Credit Card Processing/Bad Debt—Adj 14-15
Homer Extension—Adj 20
CINGSA Fees—Adj 21
Weather Normalization—Adj 22
Prepaids and Debt—Adj 23
Affiliate Expense—Adj 24
CWC/Lead Lag—Adj 25
ADIT—Adj 26
Return and Taxes—Adj 27-28

Rate Base

ENSTAR wants year-end rate base

RAPA Recommends 13-month average

Year-End Rate Base

The Exception, not the Rule

The Rule—13-Month Average

3 AAC 48.275(a)(9)

Requires a schedule showing the computation of rate base using a 13-month average of all rate base components except cash working capital allowance, and using any other rate-base theory the utility considers appropriate
and supportable

Order U-07-076(8)/U-07-077(8) at 39
Recognized Commission has made various modifications to historical precedent for year-end rate base.
But said:
"the first step of the analysis has always been an evaluation and conclusion that the change in ***net*** plant is abnormal. Only after this threshold test is met do the other operational factors…weigh in the equation to determine if the use of year-end rate base is appropriate." (emphasis added)

21% growth—Order U-05-043(15)/U-05-044(15) at 38

But,

5.5% growth insufficient
Order U-07-076(8)/U-07-077(8) at 39-40.

ENSTAR
Growth in ***net*** plant = 10.15%
(Fairchild-Hamilton at Q/A 27)

If, threshold met, still not done—
then consider other factors.

Customer loss
Lack of customer growth
Sales vs. revenues
(Order U-07-076(8)/U-07/077(8) at 39

The Reason behind the Rule

- Year-end sets rate base at high level
- Return elevated based on higher rate base
- Stays that way until next rate case
  - Could be years
    - That is why it is the exception
- 13-Month Average
  - Not the opposite of year-end
    - That would be year-beginning RB
  - Recognizes additions/removals from RB

Reflecting amount when rates will be in effect

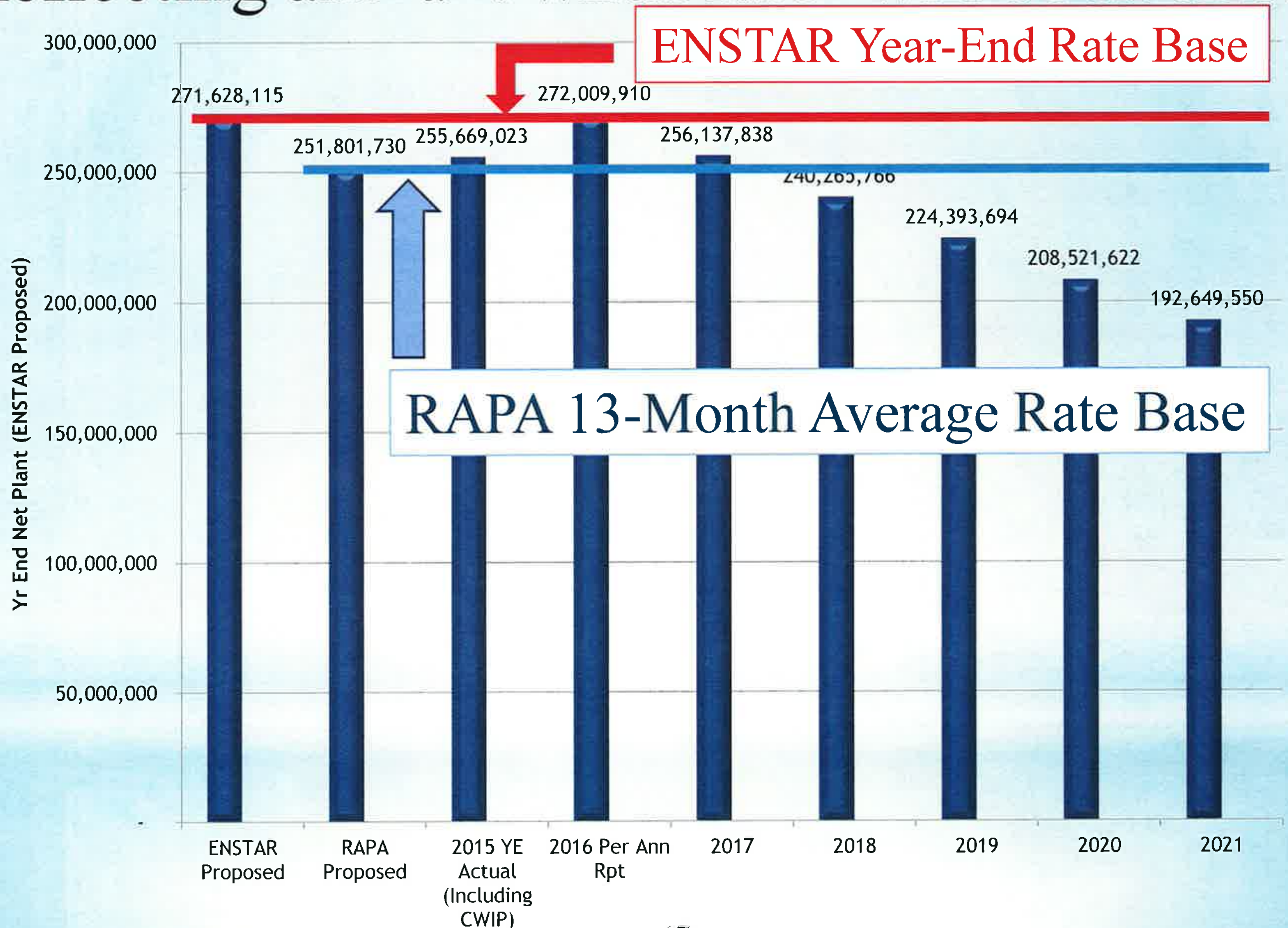
Year-end rate base—in this case means a higher amount

13-Month Average—

Not the highest

Not the lowest

Reflecting amount when rates will be in effect



Bonuses
$1,655,687

ENSTAR has burden to prove Bonuses should be in RR

Order U-83-053(32) at 31

Factors to consider:

(1) whether salaries are not fully compensatory

(2) discretionary—scope & mechanics of incentive plan

(3) recurring—represent amount paid in future

(4) any bonuses an affiliate transaction—As 42.05.511(c)

(5) are bonuses based on achieving over- or excessive-earnings

Bonuses
$1,655,687

Earnings—meeting/exceeding SEMCO's EBITDA

Earnings before interest, taxes, depreciation, amortizations

Upper target of $141.5 million

Not fully compensatory

Survey for base pay—shows in range

No survey for bonuses for bulk of employees paid bonuses

Management discretion/mechanics

CINGSA operating income

CINGSA CapEx

ENSTAR customer service--CINGSA Found Gas, obtain approval for and sell 0.8 bcf of gas

The Reason behind the Rule

No phantom expenses in RR

If bonuses not awarded, ratepayers paying rates that include phantom expense

Compensation should not be excessive in regulatory context

Need to be compared to market

If utility does not provide a comparison….

Shouldn't be rewarding management for achieving over- or excessive-earnings—at the expense of ratepayers

Benefits shareholders, not ratepayers

Other Compensation

Executive car allowance
Apartment rent for President
Gym fees

Rabbi Trust
SERP

CINGSA reservation & capacity fees $2,258,230

Dispute

Not about actual fees

RAPA agreed that ENSTAR could recover these fees as stored gas was cycled out of CINGSA and run through ENSTAR's GCA

ENSTAR wants to earn a return on these fees

CINGSA reservation & capacity fees $2,258,230

When it first started using CINGSA, ENSTAR included fees in the GCA as the were incurred with a 3.25% carrying charge

Then ENSTAR asked to include CINGSA fees in stored gas account and to add them to rate base (U-14-111)

ENSTAR learned that including CINGSA fees in stored gas account made stored gas too expensive

Now, ENSTAR want to add new fees to the GCA as they are incurred, plus add old fees to the GCA as gas is removed from storage, ***plus*** collect 8.92% return on the old fees

CINGSA reservation & capacity fees $2,258,230

ENSTAR requested deviation from standard practice for CINGSA fees—all other utilities run fees through COPA

Now, ENSTAR wants ratepayers to pay them a return for the fact that they have to recover these fees

That is particularly troubling when the fees also include a return component paid to an affiliate—CINGSA's ROR

The Reason behind the Rule

Ratepayers should not be required to pay a return on this type of deferred expense

Weather Normalization
$1,825,504

Order U-01-108(26) at 35

Must be reasonable, measurable, and must

(1) Demonstrate test year temperatures departed significantly from normal temperature fluctuations, and

(2) Demonstrate how variation correlates to sales.

Weather Normalization
$1,825,504

Test year one of the warmest winters on record

ENSTAR's parent company, AltaGas—
9.0% degree day variance from normal

ENSTAR Direct—no weather adjustment

ENSTAR Reply—forecast/speculative numbers

RAPA—actual test year data

The Reason behind the Rule

Earnings/revenues of utilities are affected by weather

Weather variations affect earnings/revenues

Weather normalization represents normal year

Normal revenues

Miscellaneous Expenses
$322,005

Pizza parties
BBQ
Donuts
Pies for celebrations
Ice Cream
Cake
Golf
811 Onesies
Lobbying

Miscellaneous Expenses
$322,005

Order U-99-130(13) at 7, 11, 13-14
Non-recurring cost are removed
Advertising removed
Contributions/donations

AS 42.05.381(a) no expense for lobbying

3 AAC 50.500
neither an electric utility nor a gas utility may recover through rates any direct or indirect expenditure by the utility for promotional, political, or goodwill advertising.

Miscellaneous Expenses $322,005

ENSTAR points to U-07-076(8) at 51

Commission capped allowance for incidental benefits to employees at $10,000—unique case for GHU/CUC

- retirement gifts
- coffee
- etc.

But not onesies

Reason behind the Rule

Do not provide a direct benefit to ratepayers

Not necessary for safe and reliable utility service

Non-recurring

Personal, Non-Business expenses for employees

Rate Case Expense

$1,800,000 + amount from U-14-111

Amortized 3 years: $729,680 per year

Disputed amount $366,664 per year

Plus $129,800 prior rate case expense

ENSTAR wants actual expense/true-up = guaranteed recovery

ENSTAR has to justify the allowance

For example, increased cost because number of attorneys

ENSTAR [AGAS] has been through this before

Order U-75-095(7) at 27

Commission said two attorneys was enough

And that was before utility had in-house personnel for regulatory procedures—Order U-75-095(7) at 28

Rate Case Expense

$1,800,000 + amount from U-14-111

Amortized 3 years: $729,680 per year

Disputed amount $366,664 per year

Plus $129,800 prior rate case expense

Order U-90-031(8) at 9-10

The purpose of an allowance for rate case expense is not to provide specific recovery of the dollars expended in a given case; instead, the purpose is to include in the revenue requirement an amount which represents the reasonable expectation of the average level of rate case expenses which will be incurred over time.

Rate Case Expense

$1,800,000 + amount from U-14-111
Amortized 3 years: $729,680 per year
Disputed amount $366,664 per year
Plus $129,800 prior rate case expense

Order U-00-088(12) at 24-25

Because developing an estimate of future rate case cost, rather than recovering past rate case expenditures is the normal goal of the revenue requirement process, we reject ENSTAR's proposed adjustments.

Reason behind the Rule

It’s an allowance in rates to reflect the prudently incurred expenses on a going-forward basis

It is not actual cost-recovery

It is not an open check book for the utility

Outside Services
$147,516

ENSTAR used a four-year average

"Averaging costs over selected years to establish a normalized test period is not likely to produce rates that will fairly represent future costs…."
Order P-03-004(34) at 12.

Reason behind the Rule

There is no process to determine whether the costs from the other years used in the average were prudently incurred

Cannot tell whether the costs from the other years should be amortized or matched with resulting savings from those other time periods.

Averaging can distort costs when major changes in operations occur or are contemplated

Does not consider whether costs from one of the Other years was abnormally high, or low

Insurance
$33,398

ENSTAR took December 2015 premium (the highest) and multiplied by 12

RAPA recommends using actual test-year amount

Reason behind the Rule

Insurance premiums increase (inflation) or
decrease (improved safety ratings, change providers,
change policies, change coverage,
lesser amount of claims made) over time

Last month of test-year no more representative
of expense than entire test year

Credit Card Processing
$600,031

ENSTAR wants amount for 60% of customers—
$835,324
84,104 transactions per month

Recent info—32,783 (4/17) to 41,081 (3/17)
transactions per month

ENSTAR asking for 51,321 to 43,023 more per month

Prepaid Expenses/CWC
$1,662,007

Double-count: Prepaid expenses in rate base
same in CWC

RAPA recommendation based on actual numbers

ENSTAR relies on hypothetical

Homer Extension
$1,143,412 Regulatory Asset
$101,992 return allowance

This is return and income tax ***allowance*** ENSTAR wants

But this is not return and income tax on actual revenues

ENSTAR points to Order U-03-084(7)/U-96-108(12)

But ENSTAR is asking to have that mechanism changed because not collecting enough

ENSTAR wants benefits of the old way (that wasn't working) and benefits of the new method

At expense of ratepayers

Return on Equity

15-year old ROE—12.55%

Same as last adjudicated rate case

U-00-088

Would have to have no changes to cost of capital from 2002 to today

"ENSTAR's system has been, and continues to be, functionally designed and operated as an integrated **delivery** network." Dieckgraeff Direct at 39 (emphasis added).

But Mr. Hevert included pipeline MLPs in proxy group

Mr. Hevert testimony does not address "integrated" system

Seaboard v. 3CP Rate Design

ENSTAR – Seaboard
RAPA – Seaboard with gradualism

ML&P does not want to be part of VLFT
Wants to stay in its own ML&P rate class

MEA wants 3CP, but rate lower than VLFT
because it is dual fuel

Titan wants distance rate—39 miles

HEA—no CINGSA lateral
wants actual costs of service used

Chugach wants 3CP

Seaboard v. 3CP Rate Design
Cost of Service

ML&P does not want to be part of VLFT
Wants to stay in its own ML&P rate class

MEA wants 3CP, but rate lower than VLFT because it is dual fuel

Titan wants distance rate—30 miles

HEA—no CINGSA lateral
wants actual costs of service used

Chugach wants 3CP

Residential
Commercial
Ratepayers

Seaboard v. 3CP Rate Design

RAPA – Seaboard with gradualism
If needed