

TARIFF ACTION MEMORANDUM

DATE: August 14, 2012

File No.: TA226-4

DATE Filed: July 11, 2012

Name of Utility: ENSTAR Natural Gas Company

Tariff Recommendation:

1. The Commission should approve Tariff Sheet No. 228, filed by ENSTAR Natural Gas Company on August 13, 2012, as shown on the attached side-by-side tariff sheets (Schedule JAK-2). The effective date of the approved tariff sheet should be August 16, 2012.

Reasons for the above indicated recommendation:

**SEE ATTACHED MEMORANDUM.**

Signed: James A. Keen Title: UEA IV

Signed: Tyler D. Clark Title: Utility Financial Analyst

Commission decision re this recommendation:

	DATE If different from 8/16/12	I CONCUR	I DO NOT CONCUR	I WILL WRITE A DISSENTING STATEMENT*
Patch		<u>[Signature]</u>		
Giard				
Lisankie		<u>[Signature]</u>		
Pickett		<u>[Signature]</u>		
Wilson		<u>[Signature]</u>		
Special Instructions to Staff:				

\*If this column is initiated, Staff will contact the Commissioner for the statement. Otherwise, the dissent will simply be noted at the close of the By Direction letter or order.

Date: 10-9-17 Exh # H-42  
Regulatory Commission of Alaska  
By: APS U-16-064  
Northern Lights Realtime & Reporting, Inc.  
(907) 337-2221

**MEMORANDUM**

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

DATE: August 14, 2012

FILE: TA226-4

FROM: James A. Keen, Utility Engineering Analyst  
Tyler D. Clark, Utility Financial Analyst

SUBJECT: Revisions to the Homer Extension Surcharge

**Recommendations**

1. The Commission should approve Tariff Sheet No. 228, filed by ENSTAR Natural Gas Company on August 13, 2012, as shown on the attached side-by-side tariff sheets (Schedule JAK-2). The effective date of the approved tariff sheet should be August 16, 2012.

**Background**

On July 11, 2012, ENSTAR Natural Gas Company (ENSTAR) filed TA226-4, whereby ENSTAR proposed certain revisions to its tariff to modify rules governing the Homer Extension Surcharge. The Homer extension is gas distribution pipeline, not yet constructed, intended to connect the City of Homer with Cook Inlet gas. ENSTAR proposed to revise the tariff rules regarding the surcharge provision, approved by the commission in Order U-03-084(7) and U-03-84(13). ENSTAR asserted that the surcharge revisions are necessary due to (1) changes in scope of the Homer Extension, including a change in length and cost; (2) an anticipated contribution in aid of construction to partially fund the Extension; and (3) a reduction of the portion of ENSTAR's Homer service area that will be subject to the surcharge.

ENSTAR asserted that there is no change to the amount of the surcharge itself, which is \$1.00 per mcf, which was approved by the Commission in 2004. ENSTAR expects that the surcharge will continue for approximately ten years once service commences.<sup>1</sup> ENSTAR also stated that only new gas sales and gas transportation customers that will be serviced via the Homer Extension, will be subject to the surcharge. No current customers will be subject to the surcharge.<sup>2</sup>

During Commission Staff's (Staff) review of the tariff revision, Staff noted an error in the description of the Homer Extension Surcharge service area. ENSTAR filed a revision to Tariff Sheet No. 228.<sup>3</sup>

#### Notice

Staff noticed TA226-4 for public comment on July 17, 2012, with a request that any comments in favor of, or in opposition to TA226-4, be filed by no later than August 15, 2012. As of the date of this memo, no comments were received.

#### Analysis

Efforts to bring gas to the city of Homer have been contemplated for some time. In 2004 the Commission approved a gas sales agreement (GSA) which was intended to bring Homer gas from the North Fork Field in Anchor Point.<sup>4</sup> ENSTAR proposed a rate of \$1.00 per Mcf to permit recovery of the contribution needed to be made in order to build the line. ENSTAR initially estimated that building the Homer Extension would cost \$3.5 million and span a distance of approximately 11 miles. However, ENSTAR's gas supplier never produced the North Fork field, the GSA was terminated, and the Homer

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<sup>1</sup> TA226-4, at 1.

<sup>2</sup> *Id.*

<sup>3</sup> ENSTAR (Supplement to TA226-4), filed August 13, 2012.

<sup>4</sup> Order U-03-84(7), dated March 23, 2004.

Extension was never constructed. Nevertheless, the \$1.00 surcharge continued to remain in ENSTAR's tariff since that time and is in place today.

A new producer subsequently acquired the North Fork Field and in 2009, entered into a new GSA with ENSTAR, which the Commission approved.<sup>5</sup> Ultimately the North Fork Field was developed, and gas was brought on line in a pipeline extension placed in service in 2011, which connected Ninilchik to Anchor Point. Once constructed, the Homer Extension will connect to this pipeline and serve Homer with natural gas.

When ENSTAR was approached by Homer's community leaders to reassess the costs to construct the Homer Extension, ENSTAR noted that the size and scope of the Extension had significantly changed and costs had increased. As initially contemplated the Homer Extension was estimated to cost \$3.5 million and span 11 miles. However, ENSTAR's revised plans noted that the Extension will now be 22 miles and cost in excess of \$10 million. The Alaska State Legislature was approached for assistance and a State Grant of \$8.15 million was allocated to offset the increased costs of the Extension. The grant was approved with the understanding that the remaining amount needed for the Extension would be funded by the \$1.00 surcharge already in ENSTAR's tariff.

ENSTAR stated that it expects to begin the permitting process on the Extension in 2012 with most of the construction to occur in 2013. Gas utility service to Homer is expected to be available in late 2013.

The revised tariff sheet contained in TA226-4 has two significant modifications. The first is to reflect the inclusion of the state grant in the tariff. The second revises the Homer Extension Surcharge Service Area to remove the portions already served from the existing system. Each is addressed as follows:

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<sup>5</sup> LO900557.

Surcharge Revision- Inclusion for Grant Funds

Tariff Sheet No. 228, as presently constituted, provides in §2403a that the surcharge will be applied to transportation bills for gas delivered “until the *total* costs associated with the Anchor Point to Homer pipeline (including constructing costs, rate of return and income taxes) are recovered.” The most significant change made in TA226-4 breaks §2403a into two pieces creating §2403b. In revised §2403a the sheet changes language from that of “total costs” to that of “*net* total costs”. Staff noted that the language in the revised §2403a tariff sheet still maintains that the surcharge will be in place until costs are recovered.

Then in §2403b the sheet defines what “net total costs” are which are, “net construction costs (direct costs, overheads, and AFUDC, less any contributions in aid from the State of Alaska or the City of Homer), rate of return, and taxes.” The intent of this language is to allow for the inclusion of grant funds to offset the additional contribution needed for construction. The total construction cost of the Extension, including direct costs, overhead, and AFUDC<sup>6</sup> is estimated to be at \$10.7 million and the difference between the actual total construction costs and the grant will be recovered from the \$1.00 per mcf Surcharge. ENSTAR stated that the amount received from the grant will be treated as non-refundable CIAC.

Staff noted that ENSTAR also made a new subsection, §2403c which appears to be a ministerial change to the way the \$1.00 surcharge was presented on its tariff sheet. In addition to displaying the Surcharge in \$/mcf, the

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<sup>6</sup> Allowance for Funds Used During Construction

sheet will now also display the same charge converted into \$/ccf as well, which is \$0.10 per ccf. This appears to be a textual change for clarity.

Staff believes these revised tariff provisions are reasonable because, aside from textual clarifications, they incorporate the inclusion of grant money from the State of Alaska (or other CIAC funded from the City of Homer) to help offset the increased costs of constructing the Extension. It is the sources of these grant funds that is preventing the Surcharge rate of \$1.00 from increasing. Furthermore, without the State grant, the project likely would not be economical. As such Staff believes it is in the public interest to approve §2403a, §2403b, §2403c as proposed.

Surcharge Revision-Service Area Modification

As stated above, ENSTAR is seeking to modify the description of the Homer Extension Surcharge Service Area to reflect the new area that will be served by the proposed line extension. Currently, Tariff Sheet No. 228 identifies the Homer Extension Surcharge Service Area as ENSTAR's Homer Service Area, which includes the communities of Homer, Kachemak, Anchor Point, and Nikolaevsk.

Alaska Pipeline Company (APLC) is an affiliate of ENSTAR and the gas transportation utility used by ENSTAR. APLC applied for and received approval to expand its service area southward from Ninilchik to the vicinity of Anchor Point to allow interconnection with the Anchor Point Energy, LLC (Anchor Point Energy) natural gas development.<sup>7</sup> As a consequence of this expansion, ENSTAR's facilities can now serve the approximately 1,800 residents of the Anchor Point area. Additionally the community of Nikolaevsk, which is essentially adjacent to the Anchor Point Energy pad, also has access to natural

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<sup>7</sup> Order U-09-107(2), *Order Approving Application to Expand Authorized Service Area*, issued April 12, 2010.

gas through ENSTAR. The Commission is currently addressing the interconnection agreement between ENSTAR and Anchor Point in a separate proceeding.<sup>8</sup>

The Homer Extension Surcharge is designed to recover ENSTAR's costs for extending service to the City of Homer and Kachemak City. When the original Homer Extension Surcharge service area was established, no service was available to Anchor Point and Nikolaevsk, therefore they would be required to pay for the Homer extension, which would benefit their community upon interconnection. As ENSTAR's facilities have already been extended to Anchor Point and Nikolaevsk, the extension to Homer will not benefit these communities.

The grant provided by the legislature is meant to fund the construction of the 22-mile line from Anchor Point to Homer/Kachemak City. It is therefore appropriate for the communities of Anchor Point and Nikolaevsk to be removed from the Homer Extension Surcharge Area. The map included as Attachment JAK-1 illustrates the existing and proposed Homer Extension Surcharge Area. Staff believes the reconfiguration of the surcharge area is appropriate given the change in circumstances since it was originally established.

#### Tariff Sheet

Based on the analysis above and the lack of opposing comments, Staff recommends that the Commission approve Tariff Sheet 228, Second Revision cancelling First, filed in First Supplement to TA226-4 on August 13, 2012. The revised tariff sheet should be made effective August 16, 2012. Staff

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<sup>8</sup> Docket P-12-011, *In the Matter of the Application for Approval of the Low Volume Interconnection Agreement Between ENSTAR Natural Gas Company, a Division of SEMCO Energy, Inc. and Anchor Point Energy, LLC at the North Fork Gate Connection and the Tariff Revision, Designated as TL2-734.*

has attached to this memorandum a copy of the revised sheet relative to the prior effective sheet in side-by-side format (see Schedule JAK-2).

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RCA No. 4      First      Sheet No. 228  
                          Cancelling  
                          Original      Sheet No. 228

RECEIVED

AUG 8 2003

State of Alaska  
 Regulatory Commission

**ENSTAR** ENSTAR Natural Gas Company

§2403 Homer Extension Surcharge

§2403a The Homer Extension Surcharge is a surcharge applied to all gas sales and transportation bills for gas delivered in the Homer Service Area until the total actual costs associated with the Anchor Point to Homer pipeline (including construction costs, rate of return and income taxes) are recovered. The rate of return used will be the most recent Commission determination of weighted average cost of capital of the Company.

§2403b Homer Extension Surcharge      \$1.00 per Mcf

§2403c The Utility shall file an annual accounting of the collection of the Surcharge at the same time that it files its annual report to the Commission.

Pursuant to U-03-84(7)/U-03-84(13)

Tariff Advice No. 125

Effective October 11, 2004

Issued By: ENSTAR Natural Gas Company, A Division of SEMCO ENERGY, Inc.

By:  Title: Manager, Finance and Rates  
 Daniel M. Dieckgraff

Attachment IAK-2

RCA No. 4      Second      Sheet No. 228  
                          Cancelling  
                          First      Sheet No. 228

**ENSTAR** ENSTAR Natural Gas Company

Rec'd 8/13/18

§2403 Homer Extension Surcharge

§2403a The Homer Extension Surcharge is a surcharge applied to all Gas Sales and Transportation Service bills for Gas delivered in the Homer Extension Surcharge Area until the Net Total Actual Costs associated with the Anchor Point to Homer pipeline (the "Homer Extension") are recovered.

§2403b The Net Total Actual Costs for the Homer Extension includes total net construction costs (direct costs, overheads and AFUDC, less any contributions in aid from the State of Alaska or the City of Homer), rate of return and income taxes. The rate of return used will be the most recent weighted average cost of capital for the Company approved or accepted by the Commission.

§2403c Homer Extension Surcharge      \$1.00 per Mcf  
    (\$0.10 Per Ccf)

§2403d The Utility shall file an annual accounting of the collection of the Surcharge at the same time that it files its annual report to the Commission.

§2403e The Homer Extension Surcharge Area is that portion of the Company's certificated service area (Area 6) more fully delineated as:

Township 4 South, Range 10 West, Sections:	30 and 31	C
Township 4 South, Range 11 West, Sections:	13 - 15, 20 - 28, and 33 - 36	C
Township 5 South, Range 11 West, Sections:	2 - 9 and 17 - 20	C
Township 5 South, Range 12 West, Sections:	7 - 35	C
Township 5 South, Range 13 West, Sections:	7 - 36	C
Township 5 South, Range 14 West, Sections:	13 - 36	C
Township 5 South, Range 15 West, Sections:	Those portions of 3 and 4 South and West of the Anchor River, 5, 8, 9, those portions of 10, 11 and 12 South and West of the Anchor River, 13 - 16, 21-27, and 35 - 36	C
Township 6 South, Range 12 West, Sections:	4 - 7	C
Township 6 South, Range 13 West, Sections:	1 - 12, 14 - 23, 26 - 29, and 34 - 36	C
Township 6 South, Range 14 West, Sections:	1 - 17, and 22 - 24	C
Township 6 South, Range 15 West, Sections:	1	C
Township 7 South, Range 13 West, Sections:	1 and 2	C

(All the above with reference to the Seward Meridian)

Tariff Advice No. 226-4

Effective

Issued By: ENSTAR Natural Gas Company, A Division of SEMCO ENERGY, Inc.

By: \_\_\_\_\_ Title: Director, Rates and Regulatory Affairs  
 Daniel M. Dieckgraff