

**STATE OF ALASKA**  
**BEFORE THE REGULATORY COMMISSION OF ALASKA**

Before Commissioners:

Robert M. Pickett, Chairman  
Stephen McAlpine  
Rebecca L. Pauli  
Norman Rokeberg  
Janis W. Wilson

In the Matter of the Consideration of the )  
Revenue Requirement Designated as TA )  
285-4 Filed by ENSTAR NATURAL GAS )  
COMPANY, A DIVISION OF SEMCO )  
ENERGY, INC. )

Docket No. U-16-\_\_\_\_

**PREFILED DIRECT TESTIMONY**  
**OF**  
**JILLIAN FAN**

Date: 6/2/17 Exh # T-4  
Regulatory Commission of Alaska  
By: [Signature]  
Northern Lights Realtime & Reporting, Inc.  
(907) 337-2221 U-16-066

**PREFILED DIRECT TESTIMONY  
OF  
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1 I. POSITION AND QUALIFICATIONS

2 Q. State your name, business address, and present position.

3 A. My name is Jillian Fan. My business address is Suite 1700, 355 4th Avenue S.W.,  
4 Calgary Alberta T2P 0J1, Canada. I am the Director, Regulatory Policy for AltaGas  
5 Ltd. ("AltaGas"). I am appearing in this proceeding on behalf of ENSTAR Natural  
6 Gas Company ("ENSTAR") and Alaska Pipeline Company ("APC"). ENSTAR is a  
7 division of SEMCO Energy Inc. ("SEMCO"), and APC is a subsidiary of SEMCO.  
8 For convenience, I will refer to ENSTAR Natural Gas Company and APC together as  
9 "ENSTAR" or the "Company."

10 Q. Briefly describe your professional experience and educational background.

11 A. I have been employed with AltaGas since 2008. I hold a Bachelor of Commerce  
12 degree (B.Comm.) in Accounting from the University of Calgary. I completed the  
13 Chartered Financial Analyst (CFA) program and the Certified Management  
14 Accountants of Alberta (CMA) professional program. I am an active member of both  
15 the CFA Institute and Chartered Professional Accountants of Alberta.

16 I have 23 years of experience in the energy and finance industries, including  
17 18 years in energy infrastructure financing, investment, and management. My resume  
18 is attached as Exhibit JF-1.

19 Q. Briefly describe your current professional responsibilities.

20 A. In my current position as Director, Regulatory Policy for AltaGas, my primary  
21 responsibilities include providing support in establishing the overall regulatory policy  
22 for AltaGas' utilities, power, and gas businesses. I also provide regulatory support  
23 for AltaGas' business development activities and corporate transactions as required.

1     **Q.     Have you previously testified before the Regulatory Commission of Alaska (the**  
2             **“RCA” or the “Commission”) or any other regulatory commission?**

3     A.     I have not previously testified before the RCA. I have testified before the Alberta  
4             Utilities Commission.

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5                     **II.     PURPOSE OF TESTIMONY AND BACKGROUND**

6     **Q.     What is the purpose of your direct testimony?**

7     A.     The purpose of my direct testimony is to describe the relationship of AltaGas to  
8             ENSTAR, describe the nature of certain corporate support services provided by  
9             AltaGas to ENSTAR, describe how these services are charged through SEMCO to  
10            ENSTAR, and support the associated costs of those services to ENSTAR in  
11            satisfaction of the applicable statutory standards by which such expenses are  
12            reviewed by the RCA. In his prefiled direct testimony, ENSTAR witness Mr. Mark  
13            A. Moses discusses how these AltaGas costs are charged by SEMCO to ENSTAR, as  
14            well as shared services (and associated costs) that are provided by SEMCO on behalf  
15            of ENSTAR.

16    **Q.     Please describe the relationship between AltaGas and ENSTAR.**

17    A.     AltaGas is an energy infrastructure business with a focus on natural gas, power, and  
18             regulated public utilities. AltaGas is a public company that is traded on the Toronto  
19             Stock Exchange. AltaGas has business operations in Canada and the United States.  
20             AltaGas Services (U.S.) Inc. (“ASUS”) is AltaGas’ holding company in the U.S. and  
21             is a direct, wholly owned subsidiary of AltaGas. SEMCO is an indirect, wholly  
22             owned subsidiary of ASUS, and ENSTAR is a division of SEMCO. Therefore,  
23             AltaGas is the indirect parent company of SEMCO of which ENSTAR is a division.



1 A simplified version of the AltaGas corporate organization is depicted in Exhibit JF-  
2 2.

3 **Q. Are AltaGas and ENSTAR “affiliates” under Alaska statute?**

4 A. Pursuant to AS 42.05.990(1), “affiliated interest” includes a person owning or holding  
5 directly or indirectly five percent or more of the voting securities of a public utility  
6 engaged in intrastate business in this state. AltaGas indirectly holds 100% ownership  
7 interest in SEMCO; SEMCO is a regulated utility; and ENSTAR is a division of  
8 SEMCO. On this basis, AltaGas considers ENSTAR an affiliate for ratemaking  
9 purposes. A true and correct copy of the relevant statute is attached as Exhibit JF-3.

10 **Q. During the test year, did ENSTAR receive services from an affiliated service**  
11 **provider?**

12 A. Yes, as described in the direct testimony of ENSTAR witness Mr. John D. Sims,  
13 ENSTAR relied on AltaGas to provide support for ENSTAR’s overall operations  
14 during the test year. These services have been provided since 2012, when AltaGas  
15 purchased SEMCO. These corporate support services (“Corporate Services”) are  
16 provided pursuant to written services agreements between ASUS and AltaGas, and  
17 between SEMCO and ASUS, to which ENSTAR is a beneficiary. A separate service  
18 agreement between ENSTAR and AltaGas does not exist because ENSTAR is a  
19 division of SEMCO and services are provided via the agreement described above.

20 **Q. Why are these activities performed by AltaGas instead of by ENSTAR?**

21 A. By centralizing these Corporate Services, AltaGas is able to share overhead costs and  
22 specific expertise across its businesses and achieve economies of scale and other  
23 efficiencies that could not be achieved by its business units or subsidiaries on a stand-

1 alone basis. This centralization also allows for improved employee technical  
2 expertise, specialization, work performance, and scheduling. In many cases, AltaGas  
3 employees have worked for, or served, utility and energy sector companies for  
4 decades and are highly knowledgeable and experienced in industry processes.

5 ENSTAR and its customers benefit from not only deep experience, but a broader  
6 industry perspective at a lower cost. In addition, consolidation of Corporate Services  
7 allows AltaGas to optimize the performance of its business units and subsidiaries  
8 because they can avoid redundant services and focus on achieving operational  
9 excellence and providing safe, reliable, and responsive services to their customers.  
10 Furthermore, some of these Corporate Services simply cannot reasonably be  
11 outsourced by ENSTAR to third parties, such as services provided by AltaGas' Board  
12 of Directors and its executive management team and officers.

13 **Q. Does ENSTAR incur costs associated with the Corporate Services provided by**  
14 **AltaGas?**

15 A. Yes. Pursuant to the service agreements described above, SEMCO, on behalf of  
16 ENSTAR, is periodically invoiced for its allocated portion of the costs incurred by  
17 AltaGas to perform the various Corporate Services.

18 **Q. What are the statutory requirements governing affiliate transactions in Alaska**  
19 **that are applicable to the Corporate Services provided by AltaGas to ENSTAR?**

20 A. There are two applicable statutory requirements that must be satisfied for ENSTAR to  
21 be able to include costs associated with affiliate transactions in rates, specifically, AS  
22 42.05.511(c) and 42.05.441(c). Attached as Exhibit JF-3 are true and correct copies  
23 of these statutes.

1 Pursuant to AS 42.05.511(c), ENSTAR has the burden to prove: (1) that  
2 services provided by AltaGas are necessary and consistent with the public interest; (2)  
3 payment made for those services is reasonably based, in part, on the cost incurred by  
4 AltaGas to provide those services; and (3) the payment is reasonably based, in part,  
5 on the estimated cost for ENSTAR to perform those services if it were to self-provide  
6 those services with its own personnel and capital.

7 Pursuant to AS 42.05.441(c), ENSTAR also has the burden to prove: (1) that  
8 payments made for the services provided by AltaGas were for services that were  
9 reasonably necessary for the operation of ENSTAR; and (2) the services were  
10 provided to ENSTAR at a cost that is competitive with the price at which ENSTAR  
11 could have obtained the services from an unaffiliated third party.

12 **III. CORPORATE SERVICES PROVIDED BY ALTAGAS TO ENSTAR**

13 **A. Description of Corporate Services**

14 **Q. What types of Corporate Services are provided by AltaGas on behalf, or for the**  
15 **benefit, of ENSTAR?**

16 **A.** As stated above, AltaGas provides various Corporate Services to ENSTAR. The  
17 services provided are generally strategic in nature and focus on business oversight,  
18 development of and exercise of corporate governance, and ensuring ENSTAR has  
19 appropriate access to capital. Specifically, AltaGas engages in activities in the  
20 following broad categories:

- 21 • Board of Directors;
- 22 • Executive Management;
- 23 • Finance;

- 1       •     Accounting and Tax;
  - 2       •     Legal and Compliance;
  - 3       •     Information Technology / Enterprise Resource Planning / Procurement; and
  - 4       •     Office Services and Corporate Resources.
- 

5       Each category of service provided by AltaGas to ENSTAR is briefly described below.

6   **Q.   Please describe the Corporate Services provided by the AltaGas Board of**  
7   **Directors for the benefit of ENSTAR.**

8   A.   The AltaGas Board of Directors (the “Board”) is ultimately responsible for the  
9       stewardship of AltaGas and all of its business units and subsidiaries, including  
10      ENSTAR. The Board supervises the business affairs of AltaGas and through periodic  
11      review of the strategic environment with management, is responsible for developing  
12      strategic direction of AltaGas. It is responsible for establishing Board policies and  
13      objectives, and developing standards and procedures, to ensure the operations of  
14      AltaGas meet a high standard of governance. In addition, the Board approves  
15      AltaGas’ consolidated financial statements and quarterly and annual securities  
16      disclosure submissions, appoints its Chief Executive Officer and other senior officers,  
17      and engages in succession planning, including senior management appointment, and  
18      training. The Board also reviews and monitors principal business risks and reviews  
19      and approves all transactions as required by AltaGas corporate governance, including  
20      acquisitions, divestitures, dividends, and other material transactions. The Board  
21      reviews AltaGas’ and its subsidiaries’ activities, with a view to ensuring its business  
22      affairs are conducted appropriately, with honesty, integrity, transparency, and  
23      accountability.

1     **Q.     Please describe the activities performed by Executive Management.**

2     A.     The AltaGas Executive Management team provides strategic management oversight  
3           to ensure corporate goals and objectives are met for all AltaGas business units. The  
4           AltaGas Executive Management team provides strategic direction to achieve  
5           corporate objectives, formulates strategy and provides guidance to operational  
6           leadership to optimize AltaGas' lines of business, and identifies complementary  
7           aspects of AltaGas' lines of business to achieve synergies where possible for the  
8           benefit of multiple stakeholders. Additionally, the Executive Management team also  
9           serves as the principal representative and spokesperson of AltaGas.

10                 In addition to strategic direction, the Executive Management team also  
11           establishes AltaGas' goals and objectives. The Executive Management team ensures  
12           AltaGas and its business units have systems in place to manage their respective  
13           principal business risks; develops strategies and goals for financial planning, capital  
14           access, and organizational structure; and establishes effective company-wide  
15           governance models, internal control standards, and procedures to drive efficiencies  
16           and cost effectiveness. The Executive Management team also establishes capital risk  
17           management strategies.

18     **Q.     Please describe the Corporate Services provided for ENSTAR by the Finance**  
19           **group.**

20     A.     The services provided by the Finance group include those associated with treasury,  
21           insurance services, commodity risk management, and investor relations and  
22           communications. The Finance group is charged with managing equity and debt  
23           financing for AltaGas, maintaining AltaGas' capital structure, providing cash flow

1 forecasts and liquidity management, and monitoring financial market intelligence.  
2 The Finance group implements risk management strategies and processes. It reviews  
3 insurance coverage on major contracts and distributes company-wide information on  
4 loss control to prevent or reduce claims. The Finance group also manages insurance  
5 for directors' and officers' fiduciary liability. Furthermore, the Finance group is  
6 entrusted with all investor relations and corporate communications activities,  
7 including managing analyst, investor, and shareholder communications, managing  
8 public and media relations, coordinating AltaGas' annual general meeting and  
9 quarterly conference calls, and preparing press releases and investor presentation  
10 materials.

11 **Q. Please describe the Accounting and Tax services provided to ENSTAR.**

12 A. The Accounting and Tax group prepares monthly, quarterly, and annual consolidated  
13 financial statements, and coordinates with external auditors for annual audit and  
14 quarterly reviews of AltaGas' consolidated financial statements. To satisfy securities  
15 disclosure requirements as a public issuer, the Accounting and Tax group prepares, on  
16 behalf of all its subsidiaries and business units, quarterly and annual consolidated  
17 financial statements with management discussions and analysis. It also assists in the  
18 preparation of the analysis of financial information required for securities filing  
19 documents, such as the annual information form and the management information  
20 circular. The Accounting and Tax group prepares and files AltaGas' corporate tax  
21 returns, engages in tax planning for the AltaGas group of companies, and ensures  
22 compliance with tax regulations. It also provides strategic tax perspectives into  
23 AltaGas' strategic planning process, coordinates corporate tax audits, and develops

1 and implements cross-border transfer pricing policies. To accomplish this  
2 responsibility, the Accounting and Tax group assists AltaGas' business units in their  
3 annual planning and budget cycle and ensures that business units forecasts are  
4 incorporated in strategic planning. In addition, the Accounting and Tax group  
5 implements and maintains the framework for strong internal controls and procedures  
6 to satisfy quarterly and annual disclosure certification requirements.

7 **Q. Please describe the Corporate Services provided to ENSTAR by the Legal and**  
8 **Compliance group.**

9 A. The Legal and Compliance group provides legal service and advice to AltaGas'  
10 various business functions. In that regard, the group maintains regular  
11 communications with these business functions to ensure effective management of  
12 legal matters, including, without limitation, management of external legal counsel  
13 where appropriate. The group also provides advice on AltaGas' corporate matters,  
14 including governance, compliance, disclosure, and registration requirements relating  
15 to AltaGas' status as a reporting issuer. In addition, the group provides corporate  
16 secretarial services to AltaGas and its subsidiaries, and coordinates all  
17 communications to, and the meetings of, the Boards of Directors of AltaGas and its  
18 affiliates. Further, the group maintains enterprise risk management policy and  
19 internal controls, and develops the annual internal audit plan to examine, evaluate,  
20 and report on the adequacy, effectiveness, and efficiency of the systems of internal  
21 controls across AltaGas operations.

1     **Q.     Please describe the Information Technology (IT), Enterprise Resource Planning,**  
2     **and Procurement services provided to ENSTAR.**

3     A.     AltaGas provides IT services and utilizes enterprise resource planning (“ERP”) tools  
4     to enable its employees to manage its business activities on a common platform. It  
5     provides training and day-to-day support to AltaGas employees on IT and ERP  
6     systems. It coordinates corporate as well as company-wide IT projects, including the  
7     development, design, testing, and implementation of the ERP system in 2015. It  
8     ensures subsidiary IT systems follow AltaGas corporate IT governance  
9     standards. This group develops company-wide IT strategy, identifies potential  
10    synergy opportunities through system standardization, and develops policies and  
11    practices around the use of IT and ERP systems to ensure that access to the  
12    company’s information assets are safeguarded.

13           AltaGas also establishes proper procurement procedures and practices to  
14    effectively secure supply of goods and services with quality vendors, mitigate  
15    commercial risks, and utilize procurement strategies to drive competitive tension and  
16    reduce price. This group also facilitates active collaboration among procurement  
17    leaders from across the organization on procurement activities where possible to  
18    leverage enterprise spend opportunities to realize more favorable terms and  
19    conditions.

20    **Q.     Please describe the Office Services and Corporate Resources services provided**  
21    **to ENSTAR.**

22    A.     This group maintains the corporate headquarters of AltaGas and provides a safe,  
23    secure workplace environment with the necessary facilities, policies, and programs



1 for AltaGas employees to perform the corporate functions as described above. This  
2 group manages savings initiatives to enable AltaGas' employees to benefit from the  
3 resulting economies of scale and facilitates employee outreach communication across  
4 all lines of AltaGas' businesses. It also provides support for union relationship  
5 management, collective bargaining, executives' and employees' compensation plan  
6 design, pension (including retirement savings) and benefits management, and  
7 enhances best practices in governance on these items, as well as environmental and  
8 occupational health and safety management across all business units. In addition, this  
9 group develops and administers many company-wide policies, including the  
10 company's code of business and ethics ("COBE") annual certification process to  
11 ensure all of AltaGas' employees conduct business affairs and operations with  
12 integrity and in an honest, fair, and responsible manner.

13 **Q. Are these services provided by AltaGas specifically for, or directly to, ENSTAR?**

14 A. No. AltaGas performs these services for the benefit of all its business units, which  
15 includes ENSTAR. None of these services are performed specifically for, or directly  
16 to, any specific business units. These are common services that AltaGas performs as  
17 a publicly traded organization for, and on behalf of, all its business units. In other  
18 words, if AltaGas does not perform these services, each business unit would need to  
19 provide these services on its own.

20 **Q. Are the services provided by AltaGas consistent with the services provided by**  
21 **other similar service companies?**

22 A. Yes. The services are common and necessary activities that are required as part of the  
23 ongoing management of a publicly traded organization and are relevant to more than

1 a single operating entity within the AltaGas corporate family. The related activities  
2 are performed in a centralized manner on behalf of all AltaGas operating entities, thus  
3 achieving economies of scale. In this case, AltaGas operates multiple business units  
4 across the energy industry with various operating characteristics such that these  
5 common activities can be shared, thus avoiding duplication within the individual  
6 operating entities and maximizing the utilization of resources dedicated to provide  
7 these activities across multiple business units.

8 **Q. Does SEMCO also provide corporate support services for ENSTAR?**

9 A. Yes.

10 **Q. Is there any duplication of services provided by AltaGas and SEMCO?**

11 A. No. There is no duplication in services or activities performed at the AltaGas level as  
12 compared with those performed at the SEMCO level. As a result, there is no  
13 duplication in costs associated with services performed by AltaGas. As defined and  
14 described in Mr. Moses' direct testimony, SEMCO performs certain "Shared  
15 Services" associated with various functions such as accounting, human resources, IT,  
16 and finance. Although these Shared Services have similar names as the Corporate  
17 Services provided by AltaGas, the nature and purpose of the SEMCO Shared Services  
18 are different than the Corporate Services performed by AltaGas, in the sense that the  
19 SEMCO Shared Services are more focused on the everyday administration and  
20 operations of ENSTAR, ensuring good business practices. On the other hand, the  
21 Corporate Services performed by AltaGas focus on corporate governance,  
22 management oversight, strategic advice, guidance and leadership, and providing

1 capital access. The AltaGas Corporate Services are therefore complementary to  
2 SEMCO's Shared Services.

3 AltaGas is responsible for strategic oversight of and integration among its  
4 utilities, gas, and power businesses as well as ensuring reliable capital access to its  
5 business units. To fulfill its responsibility to provide capital for its businesses,  
6 AltaGas performs Corporate Services and incurs costs to maintain its status as a  
7 publicly-traded company. The performance of these activities is necessary in order  
8 for its utilities (as well as other AltaGas businesses) to deliver safe and reliable  
9 services to their customers.

10 **Q. Does ENSTAR also self-provide administrative services?**

11 A. Yes, certain SEMCO employees who reside in and only work on assets located in  
12 Alaska also provide certain administrative services to ENSTAR. Consistent with the  
13 definition in Mr. Moses' direct testimony, I will refer to them as "ENSTAR  
14 employees."

15 For example, ENSTAR has its own general counsel who is responsible for the  
16 day-to-day legal duties associated with ENSTAR's operations and does not have  
17 responsibility for SEMCO or other AltaGas subsidiaries. Since these employees are  
18 fully dedicated to ENSTAR, costs associated with these employees are not allocated,  
19 but rather are directly charged to ENSTAR.

20 **Q. Is there any duplication of the Corporate Services provided by AltaGas and the  
21 services provided by ENSTAR employees?**

22 A. No. There is no duplication in services or activities performed at the AltaGas level as  
23 compared with those performed by ENSTAR employees. As a result, there is no

1 duplication in costs associated with services performed by AltaGas. The services  
2 provided by AltaGas to ENSTAR are complementary in nature to the services  
3 provided by ENSTAR employees directly. Please refer to the prefiled direct  
4 testimony of Mr. Sims for additional discussion regarding services that are performed  
5 directly by ENSTAR employees.

6 **B. Necessity and Public Interest**

7 **Q. Are the Corporate Services provided by AltaGas necessary?**

8 A. Yes. The services are common activities that are required as part of the ongoing  
9 management of a diversified, publicly-traded company. Many of these services are  
10 focused directly on corporate governance, legal mandates, regulatory compliance, and  
11 reducing financial, operational, and other types of risk. The remaining services are  
12 focused on management control, strategic planning, and operational execution. As  
13 previously stated, these services are necessary for AltaGas to maintain its public-  
14 issuer status to satisfy the capital needs of its business units, including ENSTAR, in a  
15 timely and efficient manner.

16 **Q. In addition to the Corporate Services being necessary, how do the Corporate**  
17 **Services provided by AltaGas benefit customers?**

18 A. The Corporate Services benefit customers in several ways. First, the AltaGas  
19 executive management team and Board have extensive utility management  
20 experience. They provide strategic input, oversight, and governance support to  
21 ENSTAR's management, assisting in areas where their industry experience and  
22 expertise can enhance near-term and long-term decisions for the ultimate benefit of  
23 ENSTAR and its customers, such as risk management development, collective

1 bargaining support, gas supply negotiation, enhancing governance, and ensuring best  
2 practices in ENSTAR's operations.

3 Second, ENSTAR has the benefit of access to energy infrastructure  
4 management experience and expertise across the entire organization. For instance,  
5 when ENSTAR explored the possibility of compressed or liquefied natural gas  
6 imports in 2012-2013, AltaGas provided business development expertise and  
7 assistance. This type of expertise simply did not exist at ENSTAR. Another example  
8 is AltaGas' extensive experience in delivering natural gas to remote communities.  
9 This is the very kind of expertise that will benefit ENSTAR as it evaluates future  
10 growth opportunities and expands its system to provide safe and reliable natural gas  
11 service to additional communities in Alaska.

12 Third, AltaGas provides improved access to capital for ENSTAR. With its  
13 established track record in capital market issuances, as well as access to bank credit  
14 facilities and the equity capital market, ENSTAR can rely on AltaGas as, and when, it  
15 requires capital to deliver safe and reliable gas utility services. The various Corporate  
16 Services performed by AltaGas, as described above, are necessary to maintain  
17 AltaGas' status as a publicly traded company and to support its continual access to  
18 capital markets.

19 Fourth, by consolidating the Corporate Services at AltaGas, ENSTAR is able  
20 to enjoy the benefits of cost efficiencies that cannot be achieved if it were to source  
21 the Corporate Services from third parties or replicate these services on its own.  
22 Consolidation of Corporate Services enables sharing of costs so that each business  
23 unit bears only a portion of these costs.

1     **Q.     Can you provide examples of how costs to customers are reduced by ENSTAR**  
2           **receiving Corporate Services from AltaGas?**

3     **A.     Yes. While not exhaustive, the following are examples that demonstrate how costs to**  
4           **customers are reduced.**

5           To illustrate, if AltaGas did not perform the Corporate Services needed to  
6           maintain its public-issuer status, ENSTAR would need to satisfy its legal mandates,  
7           compliance requirements, and capital requirement with its own personnel and  
8           resources. At a minimum, it would need to incorporate as a separate entity, recruit its  
9           own executive management team, establish an independent board of directors, set up  
10          its own treasury function, and expand its accounting function to satisfy securities  
11          disclosure requirements. Furthermore, in order to become a publicly-traded company  
12          and issue its own securities, there are numerous essential functions ENSTAR would  
13          need to perform. These include arranging for its own external audit, preparing its  
14          own quarterly and annual reports, maintaining communication with its debt and  
15          equity investors, maintaining its own credit rating, engaging in securities registration  
16          and stock exchange listing, and procuring directors and officers (also known as or  
17          “D&O”) liability insurance, to name just a few. ENSTAR would need an expanded  
18          staff and additional overhead, including office space, enhancement of IT hardware  
19          and software systems, as well as additional human resources employees, to support  
20          these incremental functions. It is not reasonable for ENSTAR to outsource its Board,  
21          executive management, and associated governance functions to third parties on a  
22          long-term basis; a market for these services simply does not exist.

1           To further illustrate, the total costs of Corporate Services included in the  
2           AltaGas Corporate Cost pool in 2015 were approximately \$31 million, of which  
3           about \$13.4 million (or around 43.4%) were third-party costs. "Third-party costs" are  
4           costs that are paid at arm's-length to unaffiliated third parties for services performed  
5           by such parties for the benefit of AltaGas and its business units. ENSTAR's allocated  
6           portion of these third-party costs was only \$1.24 million, yet it received the benefit of  
7           the entire suite of such services. As demonstrated in Section IV of my direct  
8           testimony, it would have cost ENSTAR significantly more than \$1.24 million if it  
9           were to source these services for itself. Furthermore, ENSTAR would need to  
10          employ additional personnel and incur more overhead costs in order to manage these  
11          additional functions. Thus, the prudent approach is for AltaGas to perform these  
12          Corporate Services on ENSTAR's behalf.

13   **Q.   Are the Corporate Services provided by AltaGas to, or for the benefit of,**  
14   **ENSTAR in the public interest?**

15   **A.   Yes. The Corporate Services provided under the service agreements discussed above**  
16   **are not only necessary to the operation of ENSTAR, but are also beneficial to**  
17   **customers. Economies of scale are realized by provision of Corporate Services by**  
18   **AltaGas that directly result in lower costs to ENSTAR's customers. For the reasons**  
19   **discussed above, the engagement is in the public interest.**

20           **IV.   COST ALLOCATION AND COMPETIVENESS OF COSTS**

21   **Q.   How are the costs of the Corporate Services charged to AltaGas' divisions and**  
22   **subsidiaries?**

23   **A.   Costs for Corporate Services are combined into one common cost pool for allocation.**

24          This cost pool is then allocated to AltaGas' business units and subsidiaries using the

1 Modified Massachusetts Formula (“MMF”). The MMF is an industry standard  
2 methodology that uses a simple average of three different cost allocator-bases (the  
3 “MMF Allocator”) of each business of the AltaGas consolidated group. The three  
4 bases used to establish the appropriate amount of costs to be allocated to the business  
5 units and subsidiaries are the (1) relative net revenue (or gross margin), (2) relative  
6 payroll costs, and (3) relative property (Plant, Property and Equipment, including  
7 construction work-in-progress, plus Materials and Supplies Inventories and Gas  
8 Inventories) of each business unit or subsidiary. The following table illustrates the  
9 2015 MMF Allocator used by AltaGas to allocate Corporate Services costs through  
10 ASUS to SEMCO:

**AltaGas Limited**  
**2015 MMF Allocator**  
Balances as of December 31, 2014

	<b>Total AltaGas (\$000s)</b>	<b>SEMCO (\$000s)</b>
<b>Property</b>		
PP&E (Net of Amortization)	4,857,043	665,164
Materials inventory	67,530	7,693
Gas inventory	118,286	113,234
Total Property	5,042,859	786,091
Property factor	100.00%	15.59%
<b>Payroll</b>		
2014 payroll	153,996	51,876
Payroll factor	100.00%	33.69%



**Gross margin**

Gross revenue	3,080,919	664,348
Cost of sales , O&M	<u>(2,475,260)</u>	<u>(533,748)</u>
Gross margin	605,658	130,600
Gross margin factor	100.00%	21.56%
<b><u>2015 Average Factor</u></b>		<b>23.61%</b>

1    **Q.    Does AltaGas allocate these costs to ENSTAR directly?**

2    A.    No. As I previously mentioned, ENSTAR is a division of SEMCO and SEMCO is an  
3        indirect, wholly owned subsidiary of AltaGas. ENSTAR receives an allocation of  
4        these costs through SEMCO.

5    **Q.    How does SEMCO allocate these costs to ENSTAR?**

6    A.    When SEMCO receives an allocation of corporate costs, it allocates those costs to its  
7        business units and subsidiaries using the MMF Allocator and methodology. The  
8        allocation of costs for Shared Services from SEMCO to ENSTAR is further discussed  
9        in Mr. Moses' direct testimony.

10   **Q.    Why does AltaGas choose to use the MMF to allocate the Corporate Services?**

11   A.    The MMF is commonly used in the utility industry to allocate shared costs that  
12        benefit multiple subsidiaries or business units. The MMF is not only commonly used,  
13        but is routinely accepted by utility regulators. In addition, by using the same  
14        allocation method from AltaGas to SEMCO and from SEMCO to ENSTAR, AltaGas  
15        maintains allocation consistency across its group of companies and avoids  
16        subsidization of one group or unit by another. SEMCO has also been using the MMF  
17        to allocate shared costs between its utility divisions in Michigan (SEMCO Gas) and

1 Alaska (ENSTAR) since 1999 and the methodology has consistently been deemed  
2 acceptable by the regulatory commission in Michigan and this Commission since that  
3 time.

4 As further explained in the direct testimony of Mr. Moses, SEMCO has what  
5 is called an Affiliated Transactions Policy Manual (“ATM”) that specifies how costs  
6 are charged to all SEMCO divisions. The MMF allocation is described in that  
7 manual. SEMCO and ENSTAR continue to use the ATM in accounting for the costs  
8 addressed here.

9 **Q. Does AltaGas charge a mark-up or profit of any kind on the cost it incurs to**  
10 **provide these Corporate Services?**

11 A. No. These Corporate Services are provided at cost. In other words, costs associated  
12 with the Corporate Services are allocated to business units with no mark-up or profit  
13 of any kind.

14 **Q. Has AltaGas implemented mechanisms to control costs associated with**  
15 **Corporate Services performed by AltaGas?**

16 A. Yes. AltaGas’ investors expect that costs incurred will be prudent and reasonable.  
17 Furthermore, managers are held accountable for expenses incurred in their business  
18 units, and a portion of employee compensation is linked to responsible cost  
19 management.

20 **Q. What were the total costs of the Corporate Services to AltaGas in 2015?**

21 A. As previously stated, in 2015, the total cost of the Corporate Services to AltaGas was  
22 approximately \$31 million.

1 Q. What were the allocated costs of the Corporate Services from AltaGas to  
2 ENSTAR in 2015?

3 A. The entire AltaGas corporate allocation to ENSTAR (through ASUS and SEMCO)  
4 was \$2.86 million in 2015, part of which was the \$1.24 million allocation of third-  
5 party costs to provide the services. The table below depicts the various service  
6 functions, associated costs, and resultant allocations of costs to ENSTAR in 2015.

	2015 AltaGas Actual (\$000s)	Total ENSTAR Allocation (\$000s)	Allocation of Third Party Costs (\$000s)
Board of Directors	659	61	61
Executive Management	4,920	455	65
Finance	2,710	250	92
Accounting & Tax*	6,582	608	129
Legal & Compliance	1,264	117	47
IT / ERP / Procurement	9,860	911	564
Office Services & Corp Resources	4,985	461	284
	30,979	2,863	1,242

\* Includes costs allocated from ASUS

7 Q. Has AltaGas incurred any costs for services that are not allocated to ENSTAR?

8 A. Yes. Costs incurred by AltaGas solely for its gas or power businesses, corporate and  
9 business development costs, corporate donation and promotion, supplemental  
10 executive retirement plan expense, share-based incentive expenses, and certain travel  
11 expenses are not allocated to ENSTAR. These costs are carved out from Corporate

1 Services cost pool as they are generally perceived to be not necessary for utility  
2 operations.

3 **Q. How do the costs of Corporate Services allocated to ENSTAR in 2015 compare**  
4 **to costs allocated from AltaGas to ENSTAR in the last ENSTAR rate case, which**  
5 **was based on a 2013 test year?**

6 A. Allocated costs associated with Corporate Services have remained generally flat since  
7 2013. While costs have either increased or decreased since 2013 in the various  
8 functional areas, the costs in the aggregate have increased approximately \$230,000  
9 between 2013 and 2015.

10 **Q. Has ENSTAR analyzed what the cost would be if it performed the Corporate**  
11 **Services with its own personnel and capital?**

12 A. Yes. In order to address AS 42.05.511(c), ENSTAR has undertaken an analysis to  
13 determine what it would cost to self-provide services currently provided by SEMCO  
14 and AltaGas. This hypothetical analysis demonstrates that the cost to self-provide the  
15 suite of services is much higher than the current methodology. In this analysis,  
16 ENSTAR has included some of the known third-party costs necessary to perform the  
17 services in addition to additional employee compensation costs. Taking into  
18 consideration market data, as well as AltaGas and SEMCO practices with regard to  
19 employee benefits and compensation, ENSTAR estimates that it would cost  
20 approximately \$7 million to employ just the people to perform the services performed  
21 by SEMCO and AltaGas. Additionally, ENSTAR conservatively estimates that it  
22 would also incur approximately \$4.9 million in third-party costs to self-provide the  
23 services performed by AltaGas and SEMCO on behalf of ENSTAR.

1           This analysis focuses on additional O&M costs that would be realized by  
2           ENSTAR if it were to self-provide these services. These costs do not include  
3           additional, significant capital costs as well as the return on and depreciation of the  
4           capital that would be passed on to rate payers. For example, ENSTAR would be  
5           required to purchase and implement some systems/hardware, which is estimated to  
6           cost approximately \$13 million. The depreciation expense associated with this capital  
7           cost would be approximately \$1.86 million. This analysis also does not take into  
8           consideration the significant years of management experience and expertise within  
9           the AltaGas organization or the loss of industry knowledge that is gained by being a  
10          part of a diversified energy company if ENSTAR were to self-provide these services.  
11          The AltaGas organization spans the entire spectrum of the energy industry from gas  
12          gathering and processing to delivery, which ENSTAR can (and does) call on given  
13          various circumstances and events facing ENSTAR. While a price may be hard to put  
14          on this advantage, there is no doubt the advantage would be lost if ENSTAR were a  
15          stand-alone company.

16               Attached to my testimony as Exhibit JF-4 is a summary of the analysis that I  
17          co-sponsor with ENSTAR witnesses Messrs. Sims and Moses, which depicts a  
18          hypothetical workforce and some of the associated third-party cost ENSTAR would  
19          incur if ENSTAR were to self-provide the services provided by SEMCO and  
20          AltaGas.

1     **Q.     Are the charges associated with the Corporate Services provided by AltaGas to**  
2           **ENSTAR competitive with costs that would be incurred if the services were**  
3           **provided by an unaffiliated third-party?**

4     **A.     Yes. The charges for the Corporate Services are competitive with costs that would be**  
5           incurred if the services were performed by an unaffiliated third-party. This is  
6           demonstrated in several ways.

7           First, the AltaGas corporate philosophy is to keep all costs for its entire  
8           corporate enterprise at a competitive level with its competitors and peers. AltaGas  
9           has obligations not only to its customers through its business units, but to its  
10          shareholders, to keep costs associated with all activities to a reasonable level and  
11          provision of Corporate Services is just one example of where that obligation applies.  
12          For example, all costs for Corporate Services are subject to strict budgeting and cost  
13          controls that are focused on keeping costs at reasonable levels as discussed above. As  
14          another example, the AltaGas hiring practices are designed to competitively  
15          compensate employees performing services, but are not designed to compensate  
16          employees above and beyond what market forces establish as fair and reasonable.  
17          The objective of AltaGas' compensation program is to offer competitive base salary  
18          compensation at approximately the median among its peer group.

19          Second, as previously discussed, a large portion of the costs being allocated to  
20          ENSTAR (approximately 43%) are associated with services performed by third  
21          parties and are competitive by definition. For example, during 2015, AltaGas  
22          retained Ernst & Young for auditing and other consulting work due to its experience  
23          and independence from AltaGas. Ernst & Young provides these types of services in a

1 very competitive market and was retained at arm's length. The amount paid to Ernst  
2 & Young was approximately \$2.3 million. A portion of these costs were charged to  
3 ENSTAR. While the Ernst & Young costs are allocated, they are actually costs billed  
4 by third-parties.

5 Third, ENSTAR is only receiving a fraction of the costs incurred by AltaGas  
6 for the Corporate Services. While the total amount of costs may be less for an  
7 organization the size of ENSTAR as compared to an organization the size of AltaGas,  
8 a large portion of the costs would be necessary regardless of the size of the company.  
9 For example, AltaGas incurred close to \$1 million in 2015 for securities listing  
10 registration, annual report preparation, annual general meetings, other forms of  
11 shareholder communications, and insurance for directors and officers. ENSTAR's  
12 allocation of these costs was less than \$100,000. If ENSTAR were to self-provide  
13 these services, ENSTAR would expect to pay approximately \$600,000, as some of  
14 these costs have no direct correlation to company size.

15 Also for example, a publicly traded company needs a board of directors, a  
16 chief executive officer ("CEO"), and a chief financial officer ("CFO"). These  
17 compensation costs alone amounted to approximately \$4.9 million for AltaGas in  
18 2015. For illustrative purposes, this figure compares favorably to the average  
19 bundled cost of a board of directors, a CEO, and a CFO of two other Alaska utilities  
20 (General Communication, Inc. ("GCI") and Alaska Communications Systems Group,  
21 Inc. ("ACS")), and three public utilities in the Northwestern part of the U.S.,  
22 including Avista Corporation ("Avista"), the parent company of Alaska Electric Light  
23 & Power ("AEL&P"); Northwest Natural Gas Company ("NW Natural"); and Puget

1 Energy, Inc. ("Puget"). The average bundled cost for the board of directors, the CEO,  
2 and the CFO for those five entities is approximately \$5.4 million. In stark contrast,  
3 ENSTAR was only allocated approximately \$516,000 of total costs (including both  
4 compensation and third-party costs) associated with AltaGas' Board and Executive  
5 Management in 2015. Also note that while the amount varies from company by  
6 company, between 30% and 50% of these amounts were share-based compensation  
7 that AltaGas carves out of the cost allocation to ENSTAR. If ENSTAR were to  
8 recruit its own CEO and CFO and establish its own board of directors, however, it  
9 would need to provide compensation consistent with customary market practice,  
10 which typically includes a share-based compensation component.

11 Fourth, any services provided by third-parties to ENSTAR will likely contain  
12 profit margins that simply are not assessed by AltaGas. While profit margins may  
13 differ depending on the type of service provided, it is fair to say that all services  
14 would be provided by third-parties at fully loaded costs, plus a profit margin. For  
15 these, and other reasons, the cost at which ENSTAR receives the Corporate Services  
16 from AltaGas are competitive with the cost at which such services could be received  
17 from a third party, if such services were even available.

18 **Q. Are the costs allocated to ENSTAR that are associated with the Corporate**  
19 **Services reasonable?**

20 **A.** Yes, the costs allocated from AltaGas are reasonable. The costs are directly  
21 associated with services that are necessary to the operation of ENSTAR, reflect a  
22 reasonable cost allocation methodology, are less than they would be if ENSTAR  
23 provided the services itself, and are competitive.



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**Jillian Fan**

**EMPLOYMENT**

AltaGas Ltd. 2013-Present

- Director Regulatory Policy

AltaGas Utility Group Inc. 2008-2012

- Director Strategic Development

Brookfield Asset Management 2005-2008

- Vice President

Darby Asia Investors Limited 1999-2004

- Vice President
- Associate

CIBC World Markets 1997-1999

- Associate

Canadian Imperial Bank of Commerce 1996-1997

- Financial Analyst

Numac Energy Inc. 1993-1996

- Treasury Analyst
- Financial Accountant

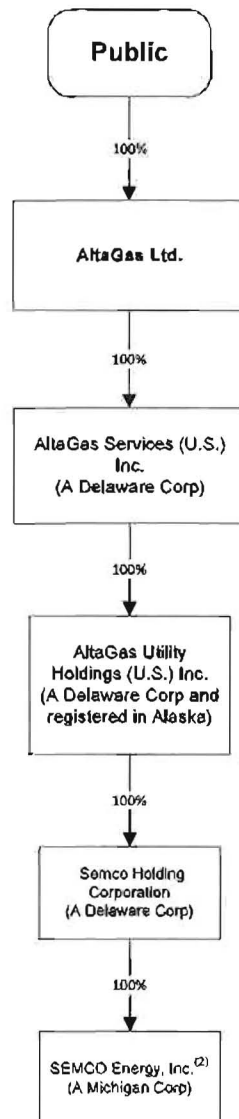
**EDUCATION**

University of Calgary: Bachelor of Commerce (distinction), Accounting, 1993

Certified Management Accountant / Chartered Professional Accountants of Alberta, 1996

Chartered Financial Analyst Institute, 1999

AltaGas Ltd. – US Structure Showing  
Ownership of ENSTAR<sup>(1)</sup>



(1) As at December 31, 2015.

(2) SEMCO Energy, Inc. conducts its Alaska natural gas distribution business under the name ENSTAR Natural Gas Company ("ENSTAR").

## Select Alaska Statutes

**AS 42.05.441(c):** For rate-making purposes, indebtedness, debt service, and payments by a regulated public utility to a person having an ownership interest of more than 70 percent in the utility shall be considered to be ownership equity, profits, or dividends except to the extent that there is a clear and convincing showing that

- (1) the indebtedness was incurred, or the payments made, for goods or services that were reasonably necessary for the operation of the utility; and
- (2) the goods or services were provided at a cost that was competitive with the price at which they could have been obtained from a person having no ownership interest.

**AS 42.05.511(c):** In a rate proceeding the utility involved has the burden of proving that any written or unwritten contract or arrangement it may have with any of its affiliated interests for the furnishing of any service or for the purchase, sale, lease, or exchange of any property is necessary and consistent with the public interest and that the payment made therefor, or consideration given is reasonably based, in part, upon the submission of satisfactory proof as to the cost to the affiliated interest of furnishing the service or property and, in part, upon the estimated cost the utility would have incurred if it furnished the service or property with its own personnel and capital.

**AS 42.05.990(1):** Affiliated interest includes

- (A) a person owning or holding directly or indirectly five percent or more of the voting securities of a public utility engaged in intrastate business in this state;
- (B) a person, other than those specified in (A) of this paragraph, in a chain of successive ownership of five percent or more voting securities, the chain beginning with the holder of the voting securities of such public utility;
- (C) a corporation five percent or more of whose voting securities are owned by a person owning five percent or more of the voting securities of the public utility or by a person in such a chain of successive ownership of five percent or more of the voting securities;
- (D) a corporation which has one or more officers or directors in common with a public utility;
- (E) a person with whom the public utility has a management or service contract;
- (F) a person who is an officer of such a public utility or of a corporation in a chain of successive ownership of five percent or more voting securities;
- (G) a corporation which has one or more officers or directors in common with a public utility;
- (H) a person or corporation who or which the commission determines as a matter of fact, after investigation and hearing, actually is exercising such

substantial influence over the policies and actions of a utility in conjunction with one or more other corporations or persons with whom they are related by ownership or blood, or by action in concert, that together they are affiliated with the utility within the meaning of this section even though none of them alone is so affiliated; or

- (I) a person or corporation who or which the commission determines as a matter of fact after investigation and hearing actually is exercising substantial influence over the policies and actions of a utility even though such influence is not based upon stockholdings, stockholders, officers or directors to the extent specified in this section.

## Summary of Costs to ENSTAR to Perform All Corporate and Shared Services Activities

ENSTAR's Cost for AltaGas Corporate and SEMCO Energy Shared Services Expenses				Estimated ENSTAR Cost if AltaGas Corporate and SEMCO Energy Shared Services Activities Were Performed Directly by ENSTAR				
Shared Services Function	SALARIES & BENEFITS	THIRD PARTY & OTHER EXPENSE	TOTAL	Shared Services Function	FTE REQUIRED	SALARIES & BENEFITS	THIRD PARTY & OTHER EXPENSE	TOTAL
Board of directors	\$ -	\$ 60,949	\$ 60,949	Board of directors	0	\$ -	\$ 1,568,715	\$ 1,568,715
Executive Management	389,407	65,320	454,727	Executive Management	2	3,339,423	560,159	3,899,582
Accounting / Tax	704,833	370,697	1,075,530	Accounting / Tax	8	1,050,896	241,605	1,292,501
Corporate Compliance & Communications & Records Maintenance	408,734	72,643	481,379	Corporate Compliance & Communications & Records Maintenance	2	540,622	192,332	732,954
Finance / Treasury	292,601	154,326	446,927	Finance / Treasury	5	965,276	635,423	1,601,699
Information Technology	588,539	848,518	1,437,058	Information Technology (1)	4	528,258	907,081	1,435,339
Human Resources	240,814	313,271	554,084	Human Resources (2)	3	346,285	29,625	376,509
Safety & Risk	81,662	15,282	96,944	Safety & Risk	1	182,280	640,282	822,562
Facilities	-	153,300	153,300	Facilities (2)	-	-	153,300	153,300
<b>TOTAL</b>	<b>\$ 2,706,591</b>	<b>\$ 2,054,307</b>	<b>\$ 4,760,898</b>	<b>TOTAL (3)</b>	<b>23</b>	<b>\$ 6,954,639</b>	<b>\$ 4,928,321</b>	<b>\$ 11,883,160</b>

(1) In addition to the O&M items identified in the ENSTAR standalone costs, ENSTAR would be required to implement some systems/hardware currently provided by SEMCO ENERGY, which is estimated to cost approximately \$13 million. The depreciation expense associated with this capital cost would be approximately \$1.86 million.

(2) This analysis does not include any requisite incremental capital or expense costs (O&M, depreciation and property taxes) specifically related to the additional 25 FTEs.

(3) Since ENSTAR is a division of SEMCO Energy, Inc. and not a legal entity, this analysis is hypothetical and represents a conservative estimate of the costs ENSTAR would bear to perform the activities currently provided by AltaGas Ltd. and SEMCO Energy Inc. on its behalf.