

ENSTAR Natural Gas Company
U-16-066
June 5, 2016



ENSTAR System Pipeline Map





BELUGA PIPELINE

Exposed pipe replacement in 2015.





Potter Gate

Regulator Station Upgrade in 2015.

ENSTAR Rate Filing Summary

- **\$70.5 million in new capital investment since the last test year.**
- **Over \$40.7 million in new capital investment during the 2015 test year.**
- **Approximately 85% non-revenue producing.**
- **\$3.7 million increase in annual operating expenses.**
- **\$11.8 million total annual increase.**
- **143,000 customers.**

Year End Rate Base Precedent Table

RCA Docket	Factors Considered	Examples of Factor as Applied in Docket U-16-066
U-05-043	All Relevant Factors	
U-05-043 U-07-076	Aging System	Potter Gate-Burnt Island/ERT
U-75-095 U-81-044 U-06-138 U-07-076	High Plant Growth/Investment	\$40.7 Million in 2015
U-75-095 U-06-045 U-06-138	High Customer Growth	Not Applicable
U-76-070	Decreased Demand	Hevert/Fairchild
U-76-070	Depressed Economic Conditions	Green/Hevert
U-05-043	Major Repairs	Beluga River Crossing
U-05-043	Non-Revenue Producing	\$34.7 Million/85%
U-81-044 U-07-076	Abnormal Investment	Unique/High
Post-Test Year Additions		
U-01-108 U-08-157 U-10-029	Plant in Service During Rate Effective Period/ Known and Measurable	Applicable to All Plant at Year-End

Ralph Smith Testimony, pg. 13 (left)

Janet Fairchild-Hamilton, pg. 5 (right)

1 16. Q. How do you evaluate whether rates are just and reasonable?

2 A. I consider whether proposed rates are based on costs that are
3 representative of what will be necessary to provide utility service in the
4 future. That same standard has been articulated by the Commission many
5 times. For example, on pages 6-7 of Order U-05-043(15)/U-05-044(15),
6 the Commission held that "The goal of cost-based ratemaking is not to
7 recover past costs but to predict the rates necessary to yield revenue
8 adequate to cover the utility's costs and provide the opportunity to earn a
9 reasonable return on investment during the future period when rates are
10 likely to be in effect . . . Only expenses reasonably incurred in providing
11 utility service to the public are allowed in the revenue requirement."
12
13

1 8. Q. How do you evaluate whether rate setting objectives are met?

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3 representative of what will be necessary to provide utility service in the
4 future. That same standard has been articulated by the Commission many
5 times. For example, on pages 6-7 of Order U-05-043(15)/U-05-044(15),
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9 past costs but to predict the rates necessary to yield
10 revenue adequate to cover the utility's costs and
11 provide the opportunity to earn a reasonable return on
12 investment during the future period when rates are
likely to be in effect. . . . Only expenses reasonably
incurred in providing utility service to the public are
allowed in the revenue requirement.

ROE ENSTAR/Alaska Factors

- Combined transmission and distribution system.
- Declining average use per customer.
- Weather risk.
- Enhanced regulatory lag risk.
- Operating environment challenges and size risk.
- Gas supply risk.

Ralph Smith Testimony (pg. 16)

II. BACKGROUND

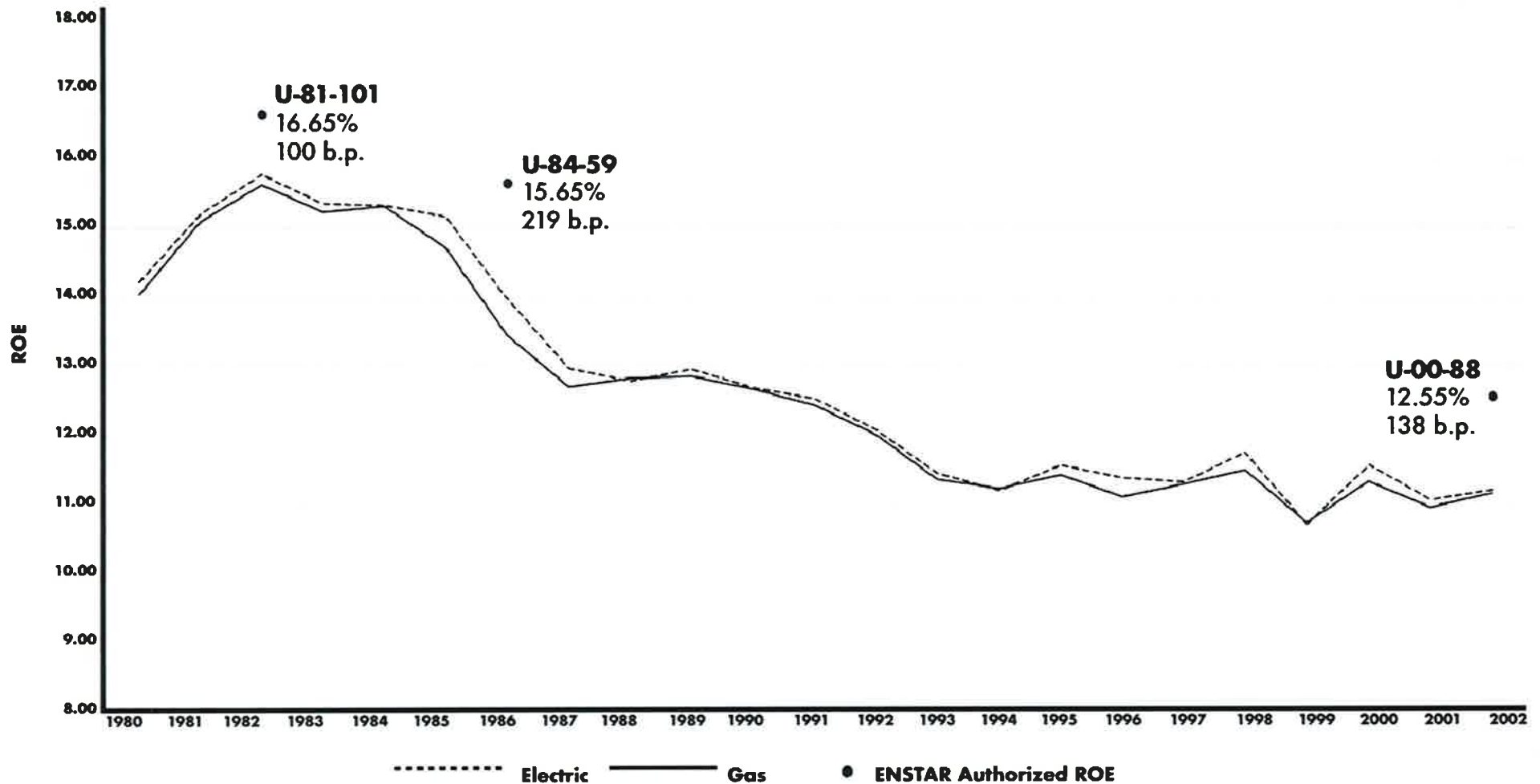
20. Q. Please provide some background on this company.

A. ENSTAR is a division of SEMCO Energy, Inc. (SEMCO). Alaska Pipeline Company (APC) is a subsidiary of SEMCO. APC owns and operates gas transmission pipelines and related facilities in Alaska. ENSTAR owns and operates a distribution-level pipeline and related facilities. For convenience, I will refer to ENSTAR and APC together as "ENSTAR" or "the Company" as ENSTAR does in its filings.

ENSTAR provides natural gas service to approximately 141,000 customers in Anchorage and the Cook Inlet area of Alaska. APC owns and operates 455 miles of transmission pipelines and related facilities needed to deliver natural gas from production areas in the Cook Inlet to the 2,966-mile ENSTAR distribution system and then to ENSTAR's customers at their homes and businesses.



ENSTAR Adjudicated ROE vs. National Average



ENSTAR Natural Gas Company

History of Storage Fee Recovery

★ Signifies Commission Action

GCA

Cost of Withdrawn Gas

TA 214-4

Tariff §708c(1)(c), Tariff §708c(5)

1. Cost of Gas
2. Transportation Fees to Storage
3. Storage Fees - Injection
4. Storage Fees - Reservation & Capacity

Plus Carrying Costs

TA 214-4 approved - October 2011
(Proposed Aug. 2011)

Cost of Withdrawn Gas

Tariff §708c(5) approved per
Order U-14-111(18) - October 2015
(Proposed September 2014)

Cost of Withdrawn Gas

U-16-066(6)

Storage Fees - Reservation & Capacity
AFTER Oct 1, 2016

Current GCA methodology
approved - September 2016
(Proposed June 2016)



RATE BASE

TA 262-4 (U-14-111)

1. Cost of Gas
2. Transportation Fees to Storage
3. Storage Fees - Injection
4. Storage Fees - Reservation & Capacity

Plus ROR

TA 285-4

1. Cost of Gas
2. Transportation Fees to Storage
3. Storage Fees - Injection
4. Storage Fees - Reservation & Capacity
BEFORE Oct 1, 2016

Plus ROR