

**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 ENSTAR Natural Gas Company's )  
Petition for Approval of Recovery of Gas Storage Costs )

Docket No. U-11-**003**

**ENSTAR NATURAL GAS COMPANY'S  
PETITION FOR AUTHORIZATION TO RECOVER GAS STORAGE COSTS**

**I. INTRODUCTION**

In Commission Docket No. U-10-51, as part of the Commission's review of Cook Inlet Natural Gas Storage Alaska, LLC's ("CINGSA's") application for a certificate of public convenience and necessity ("CPCN"), ENSTAR Natural Gas Company ("ENSTAR") has requested that the Commission's final order in that docket approve ENSTAR's recovery of Commission-approved CINGSA storage rates from ENSTAR's customers.<sup>1</sup> The Commission directed ENSTAR to request this approval in a separate filing.

The Commission has affirmed the urgent public need for natural gas storage in Order No. U-10-51(8), granting CINGSA's CPCN. Indeed, no party in Docket No. U-10-51 disputed the urgent need for storage. ENSTAR's intent to recover Commission-approved rates for gas

<sup>1</sup> ENSTAR believes that this approval will enable it to enter into a Firm Storage Services Agreement ("FSS Agreement") with CINGSA. The FSS Agreement is a special contract under AS 42.05.361(a), and the form of key terms of the FSS Agreement is included as an attachment to the Precedent Agreement submitted to the Commission in Docket U-10-51. When ENSTAR enters into the FSS Agreement, ENSTAR will submit the FSS Agreement as part of its filing requesting approval of the specific mechanism for ENSTAR recovery of Commission-approved CINGSA gas storage rates.

storage from its customers comports with Alaska law. Before any charges are recovered from customers, ENSTAR will submit to the Commission a detailed description of the specific methodology for recovery of those costs from its customers for approval. All CINGSA gas storage costs to be paid by ENSTAR will be subject to ongoing Commission review. The Commission should approve ENSTAR's request to recover these gas storage costs in its tariffed rate.

## II. ARGUMENT

### A. The Commission Should Authorize ENSTAR to Enter into an FSS Agreement

ENSTAR, as Southcentral Alaska's only natural gas utility, relies on the production of natural gas in Cook Inlet gas fields to serve its customers. Production from Cook Inlet fields is declining. Historically, Cook Inlet gas fields contained large volumes of gas under high pressure, ensuring easy deliverability of gas to ENSTAR's customers. However, as producers have extracted gas from these fields over the past 40 years, field pressures have fallen. As a result, ENSTAR's ability to readily deliver gas to consumers has sharply declined.<sup>2</sup>

Compounding its deliverability challenges is the fact that ENSTAR's customers' winter gas needs often occur in heavily concentrated periods of several hours or days. During these

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<sup>2</sup> The 2009 Alaska Department of Natural Resources ("DNR") study (*Preliminary Engineering and Geological Evaluation of Remaining Cook Inlet Gas Reserves*, State of Alaska, Department of Natural Resources, Division of Oil and Gas and Division of Geological and Geophysical Surveys-December 2009. See Exhibit T-3 and Exhibit MS-4 in Docket U-10-51) and the 2010 Cook Inlet Gas Study conducted by Petrotechnical Resources of Alaska (*Cook Inlet Gas Study – Analysis for Meeting the Natural Gas Needs of Cook Inlet Utility Customers*, March 2010, prepared by Petrochemical Resources of Alaska (the "Cook Inlet Gas Study"). See T-3 and Exhibit MS-5 in Docket U-10-51) concluded that potentially significant amounts of natural gas remain in Cook Inlet. Those studies refer, however, to gas reserves that have not yet been developed and may not be developed due to high costs and other factors affecting production decisions. Thus, the gas discussed in these studies is not available to ENSTAR for use by its customers. T-3, p. 7 and 9 in Docket U-10-51.

peak periods, ENSTAR’s customers demand up to 12 times the volume of gas they need during lower-use off-peak periods in the summer. In order to meet its customers’ needs during these peak swings in demand, ENSTAR must have access to large volumes of gas that it can readily deliver to its customers. As ENSTAR explained in its filings in the CINGSA CPCN docket, the storage services ENSTAR will purchase from CINGSA will provide some of this needed deliverability.<sup>3</sup>

The Commission has found that there is a public need for natural gas storage:

[a]fter considering the legislative record, the unanimous agreement of the parties in our hearing that gas storage services are needed, and the record presented in this docket, we find that natural gas storage service is required for the convenience and necessity of the public. We further find that CINGSA is fit, willing, and able to provide natural gas storage services subject to certain conditions.<sup>4</sup>

Under the terms of the Precedent Agreement between ENSTAR and CINGSA, ENSTAR contemplates purchasing significant storage capacity from CINGSA for a term of twenty years.<sup>5</sup> ENSTAR must enter into an FSS Agreement in order to secure that capacity. The FSS Agreement will include a twenty-year commitment by ENSTAR to purchase gas storage services. This commitment will enable CINGSA to secure the investment to build the storage facility. Before it enters into this long-term contractual commitment, ENSTAR needs assurance that it will have the financial ability to perform its obligations under the FSS Agreement. If ENSTAR cannot recover its storage costs from its customers, it will not be able to pay CINGSA for gas storage. That is why ENSTAR requires clear authorization from the

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<sup>3</sup> ENSTAR has fully developed a record supporting this need. *See, e.g.*, T-3, pp. 14-15; Tr. 532 (testimony filed in Docket U-10-51); *see also* Motion to Take Official Notice of ENSTAR Filings in Docket U-10-51.

<sup>4</sup> U-10-51(8) at 5-6.

<sup>5</sup> The Precedent Agreement was attached as Exhibit W to CINGSA’s CPCN Application.

Commission to enter into the FSS Agreement and to recover CINGSA's Commission-approved storage costs in ENSTAR's tariffed rate.

ENSTAR will recover from its customers only those gas storage fees actually paid to CINGSA. Pursuant to CINGSA's tariff and the FSS Agreement, in the event that CINGSA experiences a delay in service or a service interruption, neither ENSTAR nor any of CINGSA's other customers will incur any gas storage fees during the delay or service interruption.<sup>6</sup>

Because CINGSA's proposed natural gas storage facility is critical to meeting the demand from ENSTAR's customers and consumers in the Cook Inlet area, ready gas deliverability will be assured only if CINGSA and ENSTAR enter into the FSS Agreement. Accordingly, ENSTAR requests authorization from the Commission to enter into the FSS Agreement and recover CINGSA's Commission-approved rates, charges, and costs in ENSTAR's tariffed rate.

**B. Recovery of Gas Storage Costs Comports With Alaska Law**

Pursuant to AS 42.05.141(a)(3) the Commission must "make or require just, fair, and reasonable rates, classifications, regulations, practices, services, and facilities for a public utility."<sup>7</sup> Statutory amendments enacted by the Cook Inlet Recovery Act explicitly contemplate that the expense of natural gas storage may be included in "just and reasonable rate[s]"

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<sup>6</sup> See Tariff No. 1 of Cook Inlet Natural Gas Storage Alaska LLC at Sheet No. 17, § 4.6(e), and Sheet No. 74, § 34.2 (confirming that if CINGSA's services to customers are interrupted for a reason other than a *Force Majeure* Event for more than fifteen (15) consecutive days, customers will not pay for services during such interruption); Draft FSS Service Agreement Between Cook Inlet Natural Gas Storage Alaska, LLC and ENSTAR Natural Gas Company, Exhibit W to the Application of Cook Inlet Natural Gas Storage Alaska LLC for a Certificate of Public Convenience and Necessity, at p. 25 § I.2 (defining the "Commencement Date" of the FSS Agreement as three (3) Business Days following notice that the CINGSA Facility is "commercially available to provide firm injection service" to ENSTAR), and at p. 26 § III.1 (committing ENSTAR to pay CINGSA for gas storage services, in accordance with the rates contained in the tariff, only after the "Commencement Date").

<sup>7</sup> AS 42.05.141(a)(3); see also AS 42.05.381 ("Rates to be just and reasonable").

approved by the Commission for a natural gas utility, subject to certain limitations.<sup>8</sup> ENSTAR’s recovery request of natural gas storage costs comports with this statutory framework. The actual costs to be recovered will be determined by the Commission in its review of CINGSA’s rates. The precise mechanism by which they will be incorporated into ENSTAR’s rates has not yet been determined and will be subject to review by the Commission under a separate tariff filing. At this time, ENSTAR requests that the Commission approve its overall plan to flow Commission-approved CINGSA gas storage rates through to ENSTAR’s customers.

**C. Gas Storage Costs Paid by ENSTAR Will be Subject to Commission Review**

ENSTAR will not recover any gas storage costs from its customers without prior notice to and review by the Commission pursuant to AS 42.05.361 and .411.<sup>9</sup> At this time, ENSTAR only requests that the Commission affirm that it may recover CINGSA’s gas storage rates once those rates have been approved by the Commission. When the amount of these charges and the precise mechanism by which they will be incorporated into ENSTAR’s rates are known, the Commission will have the opportunity to fully review them and to determine whether to approve them.

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<sup>8</sup> See 2010 Alaska Laws Ch. 16 (H.B. 280); AS 42.05.381(k) (“The cost to the utility of storing gas in a gas storage facility *that is allowed in determining a just and reasonable rate* shall reflect the reduction in cost attributable to any exemption from a payment due under AS 38.05.180(u) and the value of a tax credit that the owner of the gas storage facility received under AS 43.20.046.”) (Emphasis added.)

<sup>9</sup> AS 42.05.361 (“every public utility shall file with the commission, within the time and in the form the commission designates, its complete tariff showing all rates, including joint rates, tolls, rentals, and charges collected and all classifications, rules, regulations, and terms and conditions under which it furnishes its services and facilities to the general public . . . .”); AS 42.05.411(a) (“A public utility may not establish or place in effect any new or revised rates, charges, rules, regulations, conditions of service or practices except after 45 days’ notice to the commission and 30 days’ notice to the public.”)

### III. CONCLUSION

The Commission has already concluded that natural gas storage is in the public interest and is in the process of approving CINGSA's inception rates. CINGSA needs to know that its largest customer is credit-worthy and ENSTAR needs to know that it will have a source of revenue with which to meet its purchase obligations to CINGSA. For that reason, ENSTAR is requesting that it be able to recover from its customers the rates the Commission approves for CINGSA. Inherent in permitting recovery of approved storage rates is authorization for ENSTAR to enter into an FSS Agreement. This recovery is in the public interest and is consistent with Alaska law.

### IV. PRAYER FOR RELIEF

ENSTAR respectfully requests that the Commission enter an order stating that:

1. ENSTAR is authorized to enter into a FSS Agreement with CINGSA; and
2. Upon approval by the Commission of CINGSA's storage rates, the Commission approves ENSTAR's recovery of those storage rates from ENSTAR's customers.

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**CERTIFICATE OF SERVICE**

I certify that a copy of the foregoing (with accompanying Affidavit and Proposed Order) will be served electronically and by hand-delivery on the 12th day of January 2011, on:

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