

STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners: Mark K. Johnson, Chair  
Kate Giard  
Dave Harbour  
James S. Strandberg  
G. Nanette Thompson

In the Matter of the Gas Sales Agreement )  
between ENSTAR Natural Gas Company, a )  
division of SEMCO ENERGY, INC. and ) U-03-084  
NORTHSTAR ENERGY GROUP, INC., )  
filed as TA125-4 )  
\_\_\_\_\_ )

REGULATORY COMMISSION OF ALASKA  
HEARING ROOM

January 14, 2004  
9:00 o'clock a.m.

VOLUME III  
PUBLIC HEARING

BEFORE: PATRICIA CLARK, HEARING EXAMINER

AND: KATE GIARD, COMMISSIONER, RCA  
DAVE HARBOUR, COMMISSIONER, RCA  
JAMES S. STRANDBERG, COMMISSIONER, RCA

APPEARANCES:

FOR ENSTAR NATURAL GAS CO: MR. A. WILLIAM SAUPE  
Ashburn & Mason  
Attorneys at Law  
1130 West Sixth Avenue  
Suite 100  
Anchorage, Alaska 99501

FOR NORTHSTAR ENERGY MS. HEATHER GRAHAME  
GROUP, INC.: Dorsey & Whitney  
Attorneys at Law  
1031 West Fourth Avenue  
Suite 600  
Anchorage, Alaska 99501

APPEARANCES (CONTINUED):

FOR THE ATTORNEY GENERAL:

MR. STEVE DeVRIES  
Assistant Attorney General  
State of Alaska  
Attorney General's Office  
1031 West Fourth Avenue  
Suite 200  
Anchorage, Alaska 99501

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1 (Oath Administered)

2 MR. FAIRCHILD: I do.

3 BRUCE H. FAIRCHILD

4 called as a witness on behalf of Enstar Natyry Gas Company,  
5 testified as follows on:

6 DIRECT EXAMINATION

7 COURT REPORTER: Thank you. You many be seated. Would  
8 you, please, state your full name for the record and spell your  
9 last?

10 A My name is Bruce H. Fairchild, F-a-i-r-c-h-i-l-d.

11 COURT REPORTER: Thank you.

12 HEARING EXAMINER CLARK: Mr. Saupe.

13 MR. SAUPE: I believe I've given copies of his prefiled  
14 testimony to the Court Reporter.

15 BY MR. SAUPE:

16 Q Do you have a copy of your prefiled testimony with you,  
17 Dr. Fairchild?

18 A Yes, sir, I do.

19 Q Are there any changes that you would like to make to it?

20 A None that I'm aware of.

21 Q And if you were to give it today, would it be your sworn  
22 testimony?

23 A Yes, it would be.

24 MR. SAUPE: The witness is available for cross exam.

25 HEARING EXAMINER CLARK: Would you like me to mark it for

1 identification?

2 MR. SAUPE: Yes, I would, please.

3 HEARING EXAMINER CLARK: The direct testimony first?

4 MR. SAUPE: Yes and then.....

5 HEARING EXAMINER CLARK: And then supplemental.

6 MR. SAUPE: Yes. And I do not believe he filed reply  
7 testimony.

8 HEARING EXAMINER CLARK: I don't have reply, okay. Direct  
9 testimony of Bruce H. Fairchild consisting of seven pages as  
10 well as attached appendix A six pages and Exhibit  
11 BHF one page -- BHF-1 one page has been marked for  
12 identification purposes as Exhibit T-4. The supplemental  
13 testimony of Bruce H. Fairchild consisting of seven pages has  
14 been marked for identification purposes as Exhibit T-5.

15 And Mr. Saupe already tendered this witness for cross  
16 examination. Any examination, Ms. Grahame?

17 (Exhibits T-4 and T-5 marked for identification)

18 MS. GRAHAME: None.

19 HEARING EXAMINER CLARK: Thank you. Any examination,  
20 Mr. DeVries?

21 MR. DeVRIES: Thank you.

22 BRUCE H. FAIRCHILD  
23 testified as follows on:

24 CROSS EXAMINATION

25 BY MR. DeVRIES:

1 Q Good afternoon, Dr. Fairchild?

2 A Mr. DeVries.

3 Q Can you turn to your direct testimony page 6?

4 A Yes, sir.

5 Q The question and answer there I believe -- or at least  
6 your answer in the first question is discussing the  
7 accounting for the pipeline and how that will be  
8 separately maintained, is that a fair summary?

9 A Yes, sir.

10 Q Other than the labor associated with the construction of  
11 the pipeline, will the labor or other costs associated  
12 with maintenance and upkeep be recovered through this  
13 surcharge?

14 A No, sir, those costs are anticipated to be included in the  
15 general O&M of the Enstar system.

16 Q Okay. So it would be basically something that the  
17 Commission could look forward to evaluating in the next  
18 rate case?

19 A Yes, sir.

20 Q Can you tell me -- let's assume for -- hypothetically that  
21 Enstar comes back in before the Commission within the 10  
22 year window that you're anticipating the surcharge will  
23 operate and it comes back to the Commission for a rate  
24 case, can you explain what ratemaking treatment, if any,  
25 will be given.....

1 A The -- the.....

2 Q .....to the pipeline plant?

3 A I apologize for interrupting. The only difference that  
4 would anticipate happening is that this -- a separate  
5 accounting would continue on, but for the fact that  
6 changes in the rate of return, any changes of income tax  
7 rates both state or federal. Basically whatever was  
8 authorized in the general rate case would be carried over  
9 to the separate accounting.

10 Q Well, would the pipeline plant go into rate base?

11 A No, sir. Again, --.....

12 Q So.....

13 A .....again, the -- the idea is, is that the cost of what  
14 I'll just call the Homer pipeline would always be carried  
15 as a separate accounting and until it was fully paid off  
16 at which time then it would be gone in its entirety.

17 Q So there's no return on rate base that's going to be  
18 attempted to be recovered in Enstar's next rate case for  
19 this particular pipeline?

20 A Other than the return that is incorporated into this  
21 recovery mechanism, that's correct.

22 Q So the surcharge, the dollar surcharge to the vehicle?

23 A Yes, sir.

24 Q Okay. And there won't be any depreciation factored into  
25 the -- Enstar's rates either, correct?

1 A No, sir.

2 Q Okay.

3 A There is implicit in this a recovery of the capital.

4 Q Okay.

5 MR. DeVRIES: I don't have anything else.

6 HEARING EXAMINER CLARK: We'll turn now to Commission  
7 inquiry. Commissioner Strandberg.

8 INQUIRY

9 BY COMMISSIONER STRANDBERG:

10 Q Dr. Fairchild,.....

11 A Commissioner Strandberg.

12 Q .....good afternoon to you, sir. I just have a few  
13 questions. I'd like to go to page 5 on your direct  
14 testimony.

15 A Yes, sir.

16 Q You start out on page 4 -- excuse me just a minute.

17 COMMISSIONER STRANDBERG: Suzie, can you hear me okay?

18 COURT REPORTER: Um-hum.

19 COMMISSIONER STRANDBERG: Okay.

20 Q You start out on page 4, you talk of the assumptions you  
21 must make when you developed the line extension surcharge.  
22 And this includes a capital carrying cost rate. Let me  
23 ask you this, please, is it appropriate for Enstar to loan  
24 the money basically to their customers for this addition  
25 of a distribution line, a large distribution line at their



1 weighted rate of return as opposed to the actual cost of  
2 debt?

3 A Yes, sir, because the financing that Enstar is doing of  
4 this is with its general corporate funds just as its  
5 loaning, if you will, the money that's invested in all of  
6 its other assets and that's the carrying -- capital  
7 carrying cost rate associated with that. That  
8 fundamentally Enstar is financing this three and a half  
9 million dollars with a combination of equity and debt just  
10 as it finances the rest of its assets with a combination  
11 of equity and debt so we simply use the same capital  
12 carrying charge cost in calculating the interest rate, if  
13 you will, associated with this investment.

14 Q I wonder if there is any rationality in considering this  
15 somewhat different from the addition of rate base, if you  
16 will, because you're foregoing a line extension cost which  
17 would normally be charged by a customer. Instead you are  
18 recovering that over a 10 year period or approximately a  
19 10 year period. Isn't that, kind of, like Enstar going  
20 into the finance business, but charging their own weighted  
21 weight of return?

22 A Yes, sir. On the other hand, many people argue that that  
23 is the way regulation works. There's a certain amount of  
24 that in terms of the utility putting in the investment and  
25 plant and then through the ratemaking process recovering

1 the original capital and a return on it, not dissimilar to  
2 what we're looking at here.

3 Q Okay. I wondered -- I just want to make sure I've got it  
4 firmly in mind and certainly we've talked with the  
5 previous witness about what a bill is actually going to  
6 look like from Enstar.

7 A Yes, sir.

8 Q My understanding is that we would have the gas cost  
9 adjustment as a separate surcharge on the bill. Would  
10 there be -- would you see this surcharge, if you will,  
11 being a separate line item on a bill?

12 A Yes, sir. I guess I would -- the bill I would see is -- a  
13 residential customer would see the same monthly customer  
14 charge that they currently -- that all of the customers  
15 would have. They would then have a -- what I would call a  
16 usage charge for the number of Mcfs at the same rate that  
17 all the other customers have. There would then be the  
18 WACOG or the cost of gas which would be the same as all  
19 other customers for the number of Mcfs that they use. And  
20 then the really only difference is that the Homer customer  
21 would see this dollar per Mcf surcharge for the Homer  
22 pipeline, but everything else would -- would look just the  
23 same to a Homer customer as it does for an Anchorage  
24 customer or Mat-Su customer.

25 Q Okay. Thank you very much, that's.....

1 A Yes, sir.

2 Q .....real good (ph).

3 HEARING EXAMINER CLARK: Commissioner Harbour.

4 INQUIRY

5 BY COMMISSIONER HARBOUR:

6 Q Good afternoon, sir.

7 A Good day, sir.

8 Q I was interested in Mr. DeVries' discussion with you and I  
9 confess after reading your direct testimony I was  
10 beginning to wonder how the surcharge would be accounted  
11 for and then it was answered on page 6.

12 A Yes, sir.

13 Q Tell me on this annual filing that would occur  
14 concurrently, I believe, with annually report filing, what  
15 would you envision that report to look like? Would it be  
16 in essence like a one page spreadsheet?

17 A Yes, sir, I would envision it to look somewhat like  
18 schedule BHF-1 where we basically would start out with the  
19 -- whatever the actual cost of the pipeline would be.  
20 Instead of three and a half million if it was, you know,  
21 some other number that's what it would be and then there  
22 would be a calculation and it (ph) might be done monthly  
23 instead of annually, but it would say here's the capital  
24 carrying charge plus the associated taxes. Then here's  
25 how much money was actually collected.

1 Q You helped me find it, that's all I needed and I  
2 thank.....

3 A Oh, okay, I'm -- I'm sorry,.....

4 Q No, I thank you.....

5 A .....I didn't mean to -- to go.....

6 Q I thank you kindly, that's all I have.

7 A Yes, sir.

8 HEARING EXAMINER CLARK: Commissioner Giard.

9 INQUIRY

10 BY COMMISSIONER GIARD:

11 Q Mr. Fairchild, when you established the \$3.5 million loan,  
12 if you will, which is paid back, did you answer  
13 Commissioner Strandberg's question that it's essentially  
14 the same as putting in your rate base?

15 A What it -- it is the financial equivalent of putting it in  
16 the rate base, but for the fact it's kept separate.

17 Q I understand that.

18 A And.....

19 Q But I didn't know if rate base had, like, income taxes  
20 'cause I know -- right?

21 A Where this differs is, is in the sense that this is a  
22 contribution of aid of construction so where the money is  
23 essentially being advanced to -- to customers and then  
24 recovered through the surcharge over time so that there's  
25 somewhat of a difference between that and the rate base

1 and in terms of how we have depreciation and accumulated  
2 depreciation and deferred income taxes, but the princi- --  
3 the underlying principle of basically fronting the money  
4 and then collecting it over time is the same.

5 Q Okay. So if we determine that we would put it in rate  
6 base rather than do it in the way you have suggested there  
7 wouldn't be a significant financial difference for Enstar?

8 A The -- no, there would not be. The principal difference  
9 is, is whether or not -- well, two differences. One if it  
10 were in general rate base it would be shared by all  
11 customers.....

12 Q Right.

13 A .....as opposed to just.....

14 A That's a good point.

15 Q .....the Homer customers.

16 Q Um-hum.

17 A There might also be a difference in terms of the  
18 depreciation life as opposed to the recover- --.....

19 Q Oh, great (ph).

20 A .....recovery period that we're looking at here.

21 Q Okay.

22 A Beyond that -- and then whatever the tax implications  
23 might be on the side which would be somewhat different,  
24 those would be the primary differences.

25 Q Okay. That's all the questions I have, thank you.

1 HEARING EXAMINER CLARK: Redirect, Mr. Saupe?

2 MR. SAUPE: No, I don't.

3 HEARING EXAMINER CLARK: Is there any objection to this  
4 witness being excused? Hearing none, you're excused, Dr.  
5 Fairchild. Thank you for your testimony.

6 A Thank you, Ma'am.

7 HEARING EXAMINER CLARK: Mr. Saupe.

8 MR. SAUPE: Yes, I would like to move admission of his  
9 testimony, please.

10 HEARING EXAMINER CLARK: Thank you. Exhibit T-5 is  
11 received without objection.

12 COMMISSIONER STRANDBERG: (Indiscernible) supplemental  
13 (indiscernible - away from microphone).....

14 HEARING EXAMINER CLARK: Without objection -- I'm sorry.

15 MR. SAUPE: Does T-5 include the direct and.....

16 HEARING EXAMINER CLARK: Yes.

17 MR. SAUPE: .....the supplemental?

18 HEARING EXAMINER CLARK: No, no, no. Thank you,  
19 Commissioner Strandberg. Exhibits T-4 and T-5 are received.  
20 And I'm saying without objection because no one is jumping up  
21 and screaming at me so they're received. We'll take a few  
22 moments off the record to -- and that concludes the  
23 presentation of Enstar's direct case?

24 (Exhibits T-4 and T-5 admitted)

25 MR. SAUPE: Yes, it does.