

STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners:

Sam Cotten, Chairman
Alyce A. Hanley
Dwight D. Ornquist
Tim Cook
James M. Posey

In the Matter of the Application by)
ENSTAR NATURAL GAS COMPANY To Amend) U-96-108
Its Natural Gas Public Utility)
Certificate of Public Convenience) ORDER NO. 6
and Necessity No. 4 To Include)
Additional Areas in and Around)
Homer and Seward)

In the Matter of the Application by)
HOMER GAS, a Division of HOMER) U-96-109
ELECTRIC ASSOCIATION, INC., for a)
Certificate of Public Convenience) ORDER NO. 6
and Necessity To Operate as a)
Natural Gas Public Utility in Homer)

**ORDER APPROVING ENSTAR'S APPLICATION FOR AMENDMENTS
TO CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY
NO. 4 TO ADD THE AREAS IN AND AROUND HOMER AND
SEWARD, SUBJECT TO CONDITIONS; REQUIRING PROVISION
OF SERVICE BY DECEMBER 31, 2000; DENYING HG-HEA'S
APPLICATION FOR A CERTIFICATE OF PUBLIC CONVENIENCE
AND NECESSITY TO OPERATE AS A NATURAL GAS PUBLIC
UTILITY IN HOMER; AND REQUIRING FILINGS**

BY THE COMMISSION:

Introduction

On October 30, 1996, Homer Gas, a division of Homer Electric Association, Inc.¹ (HG-HEA), filed an application for a

¹Later references to the parent entity will read "HEA."

certificate of public convenience and necessity (certificate) to operate as a natural gas public utility in Homer, Alaska. On October 31, 1996, ENSTAR NATURAL GAS COMPANY (ENSTAR) filed an application to amend its Certificate No. 4 to include the areas in and around Homer and Seward.²

Public notice of HG-HEA's application was issued November 18, 1996, with a closing date of December 18, 1996, for submission of statements in support of, or in opposition to, the application. Public notice of ENSTAR's application was issued November 18, 1996, with a closing date of December 18, 1996, for submission of statements in support of, or in opposition to, the application. Final applications, as provided for by 3 AAC 48.645(b) in competing application proceedings, were filed on February 18, 1997, by ENSTAR and on February 19, 1997, by HG-HEA.

²The Commission notes that the applications of both HG-HEA and ENSTAR were initially filed in competition with that of Alaska Intrastate Gas Company (AIGC), which had sought to provide natural gas public utility service in 19 communities in Alaska, including Homer and Seward. However, by Order U-95-82(8)/U-96-108(4)/U-96-109(4)/U-97-46(2), dated April 24, 1997, the Commission acknowledged AIGC's withdrawal of the portions of its application pertinent to service to Homer and Seward.

Docket U-95-82 is entitled: *In the Matter of the Application, as Supplemented, by ALASKA INTRASTATE GAS COMPANY for a Certificate of Public Convenience and Necessity To Operate as a Natural Gas Public Utility in the Communities of Homer and Seward, Alaska.*

The title of Docket U-97-46 is: *In the Matter of the Amended Application by ALASKA INTRASTATE GAS COMPANY for a Certificate of Public Convenience and Necessity To Operate as a Natural Gas Public Utility in 17 Communities in Alaska.*

A detailed procedural history of the proceeding in these consolidated Dockets is addressed in Order No. 1,³ dated January 21, 1997; Order No. 2,⁴ dated March 6, 1997; Order No. 3,⁵ dated March 18, 1997; Order No. 4,⁶ dated April 24, 1997; and Order No. 5,⁷ dated April 25, 1997. Therefore, that history will not be repeated in this Order.

A hearing was convened, as scheduled, on April 28, 29, 30, and May 2, 1997, to take testimony in the matter of the competing applications of HG-HEA and ENSTAR to serve the area of Homer. Additional testimony was taken as to ENSTAR's application to include the area in and around Seward in its service territory under Certificate No. 4.

HG-HEA offered testimony by Norman L. Story, General Manager of HEA; Harley R. Eckert, Jr., Manager of Finance at HEA; and John L. Heberling, Executive Engineer, R. W. Beck, Inc., a consulting firm. Testimony was taken on behalf of ENSTAR from Richard F. Barnes, President and Director of ENSTAR; Daniel

³That Order was issued as part of a joint decision published as Order U-95-82(5)/U-96-108(1)/U-96-109(1).

⁴That Order was issued as part of a joint decision published as Order U-95-82(6)/U-96-108(2)/U-96-109(2).

⁵That Order was issued as part of a joint decision published as Order U-95-82(7)/U-96-108(3)/U-96-109(3)/U-97-46(1).

⁶That Order was issued as part of a joint decision published as Order U-95-82(8)/U-96-108(4)/U-96-109(4)/U-97-46(2).

⁷That Order was issued as part of a joint decision published as Order U-96-108(5)/U-96-109(6).

Dieckgraef, Assistant Treasurer and Manager of ENSTAR; David W. Bredin, Manager of Distribution Operations of ENSTAR; and Bruce H. Fairchild, Principal, Financial Concepts and Applications, Inc., a consulting firm engaged in financial, economic, and policy consultations to business and government. The Commission Staff (Staff), a party to this proceeding, presented testimony by Nancy Martin, Utility Financial Analyst, and Donald Baxter, Utility Engineering Analyst.

Discussion

The provisions of AS 42.04.221(a) require that no public utility may operate and receive compensation for providing a utility service without first having obtained a certificate from the Commission. Accordingly, the Commission has jurisdiction to decide whether to issue a certificate or amend a current certificate and, in the case of competing applications for Homer, which applicant should be certificated for that area.

The provisions of AS 42.05.241 require that no certificate may be issued without a finding by the Commission that the services applied for are required for the public convenience and necessity. In this case, business and residential structures located in the communities of Homer and Seward are currently heated with oil, electricity, propane, wood, and coal. The provision of natural gas public utility service in those communities will allow both residential and business customers to realize several benefits, including: energy cost savings, improved air

quality, reduced soil and groundwater contamination, reduced furnace maintenance costs (since natural gas is cleaner than fuel oil), and a reduction in safety hazards that result from handling propane. Reduced energy costs will enhance the viability of existing businesses, stimulate economic development, and may result in more disposable income for the residents of those communities.

Therefore, the Commission finds that the public convenience and necessity require the provision of natural gas public utility service in the communities of Homer and Seward. The Commission is aware of the strong public desire for natural gas public utility service as has been demonstrated by the numerous letters submitted to the Commission by residents in both communities, by certain legislators, and by others in those communities. From its review of the letters from potential customers, the Commission believes that public preference for a gas utility provider in Homer does not favor one applicant over the other.

Additionally, AS 42.05.241 further provides that each applicant for certification must demonstrate it is fit, willing, and able to operate as a public utility. Based on its review of the record in this proceeding, the Commission finds that both HG-HEA and ENSTAR have met the threshold requirements for fitness, willingness, and ability to operate as a natural gas public utility in and around Homer.

The Commission observes that where competing applicants seek a certificate that may be issued to only one entity, as in the case of the applications to serve Homer, the Commission must select the applicant it considers the most fit, willing, and able of those who demonstrate threshold levels of fitness, willingness, and ability to serve. However, in the case of the provision of natural gas public utility service to the Seward area, where competing applications are not an issue, based on the evidence in the record, the Commission finds ENSTAR to be fit, willing, and able to provide that service.

The specific criteria by which the Commission assesses the relative qualifications of competing applicants have been articulated in prior Commission decisions and are based on at least a dozen court and commission decisions from other jurisdictions.⁸ The most important among the long list of criteria to be considered include financial backing; proposed technical facilities and equipment; expertise in operating a utility system; management and administrative expertise; proposed rates and rate design; track records to the extent available; demonstrated alertness to consumer needs and desires; consumer preferences, if any; local ownership and control; prior operations in the proposed service area, sometimes known as "first-in-the-field" status;

⁸See, for example, Ashbacker Radio Corp. v. Federal Communications Commission, 326 U.S. 327, 333 (1946).

quality of the application; and the cumulative impact of all the evidence.

Therefore, the Commission believes a discussion of the competing applications of HG-HEA and ENSTAR is appropriate at this time.

Anticipated Service Area Penetration From Both Applications

The total number of customers projected for the Homer area by each applicant is provided below:

	<u>Year of Operation</u>					
	1st	2nd	3rd	4th	5th	6th
HG-HEA	299	449	616	755	914	1,089

(The above data is from the final application filed by HG-HEA February 18, 1997.)

ENSTAR	347	695	954	1,092	1,192	1,272
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(The above data is from the initial application filed by ENSTAR October 30, 1996, and assumes the provision of service utilizing liquefied natural gas (LNG).)

ENSTAR	560	1,120	1,560	1,819	1,996	2,138
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(The above data is from the final application filed by ENSTAR February 19, 1997, and assumes the provision of service utilizing a natural gas pipeline.)

HG-HEA's Application

The proposed Homer service area requested by HG-HEA is bounded by Bluff Point to the west, Crossman Ridge to the north, Fritz Creek to the east, and Kachemak Bay to the south. HG-HEA has not operated as a gas utility in the past. HEA has, however,

operated as an electrical cooperative in the Homer area since the mid-1940s and is, therefore, intimately familiar with that community.

HG-HEA proposed to operate the gas-delivery enterprise within HEA, utilizing existing management and customer-service resources, thereby spreading the overall cost of the services over a larger customer base. HG-HEA asserted that no adverse impact would be expected with respect to HEA's rates or the services provided to its electric customers.

In its final application, HG-HEA proposed to provide gas service to its customers utilizing both gas and propane air. It proposed to utilize gas from a single well located in the North Fork Gas Field about 15 miles from Homer. The majority owner and operator of the North Fork Gas Field is Gas Pro Alaska, LLC (GPA). HG-HEA proposed for GPA gas to be delivered by pipeline to the Homer city gate.

According to HG-HEA, GPA's single well has yet to be developed to the point where it is producing, but HG-HEA asserted that the production potential of the well is projected to be adequate to supply the Homer system for the foreseeable future. HG-HEA acknowledged that one well alone would not provide sufficient reliability for the operation of a gas distribution utility. However, HG-HEA stated that its current operating plan contemplates using the GPA well as the primary source and

retaining a propane air supply system as proposed in HG-HEA's initial application to provide the necessary reliability. HG-HEA anticipated that the availability of GPA gas would allow a rate that would offer significant energy savings to consumers when compared to existing energy resources.

HG-HEA projected losses of \$239,000, \$127,000, and \$46,000 in its first, second, and third years of operations, respectively, and profits of \$22,000, \$94,000, \$177,000, in the fourth, fifth, and sixth years of operations, respectively. HG-HEA proposed charging \$4.80 per thousand cubic feet (Mcf) for gas service, in addition to a customer charge of \$5 per month. HG-HEA's application did not include a projected date to begin providing service.

ENSTAR's Application

Facts applicable to both Homer and Seward:

ENSTAR has over 35 years of experience designing, constructing, and operating natural gas local distribution centers in south-central Alaska and currently provides service to over 93,000 customers between Kenai and Wasilla. ENSTAR is a wholly-owned division of the Seagull Energy Corporation, which is a publicly-traded company listed on the New York Stock Exchange.

Initially, ENSTAR proposed construction of standard gas distribution systems in Homer and Seward and an LNG plant somewhere on its existing distribution system. ENSTAR stated that LNG would then be transported by truck from the LNG plant to Homer

and Seward where it would be stored in tanks prior to regasification and introduction into the distribution systems. The distribution systems would be fully compatible with future pipeline sources of supply.

ENSTAR stated that it occasionally purchases gas for supplying peak loads and that meeting peak needs has become more difficult and costly. Purchasing gas during off-peak periods, liquefying it, and storing it for use during peak periods is a common and viable alternative method of handling peak loads, particularly if the LNG would also be used to serve Homer and Seward. ENSTAR asserted that the addition of the two communities would enhance economies of scale for ENSTAR's LNG plant.

ENSTAR proposed to charge its existing tariffed rates for service with an additional \$.080 per Mcf surcharge that would apply only to those customers located in new areas served exclusively by LNG. ENSTAR claimed that application of the surcharge would be necessary to recover the costs incurred to handle, transport, and store LNG for those areas.

ENSTAR proposed a monthly customer charge for each customer class that would be the same as it is for the remainder of ENSTAR's system; that is: \$4.50 for residential, \$7.50 for small commercial, and \$40 for large commercial. Based on its estimate of the cost of gas at the time service would commence,

ENSTAR projected that the volumetric cost of gas would be approximately \$4.74 per Mcf for residential, \$4.57 per Mcf for small commercial, and \$4.20 per Mcf for large commercial. ENSTAR asserted that its extension policy in the new areas would follow its currently tariffed policy.

Initially, ENSTAR stated that it could provide service approximately three years after the date its application is approved by the Commission. ENSTAR asserted that the addition of the new service areas would have a positive impact on its current customers. According to ENSTAR, the additions would provide an increased customer base from which to recover joint costs, would result in better utilization of ENSTAR's existing staff, system, and fixed plant, and would reduce the swing rate of ENSTAR's system by utilizing LNG storage to help meet gas system peaks. Additionally, ENSTAR stated that its peak-demand ratio for the overall system would be reduced by the introduction of additional loads to its system.

ENSTAR stated that it has averaged in its existing service area 1,800 new customers each year over the past five years and projected an average increase of 200 new customers per year for the first five years of operation in Homer and Seward. ENSTAR asserted that new customers in both new areas would therefore constitute only 22 percent of its typical annual growth and only 0.2 percent of its existing customer base of 93,000. ENSTAR also claimed that no additional gas contracts would be

required for it to serve the increased load with LNG because its existing gas supply contracts are sufficient to serve Homer and Seward.

According to ENSTAR's final application, gas delivered directly by pipeline, rather than by LNG, would be a better and more economical supply source. Initially, ENSTAR had stated it had considered extending a pipeline to both Homer and Seward from its existing gas supplies and determined that the distance combined with the projected energy loads for each community do not justify the investment at this time. However, in its final application ENSTAR included the option of providing service to both Homer and Seward through natural gas delivered by pipeline, rather than through the use LNG.

Facts specific to the area in and around Homer:

ENSTAR's proposed Homer service area begins north of Ninilchik, follows the Sterling Highway south to Anchor Point, goes east to Nikolaebesk, south to Homer, and east along the shore of Kachemak Bay to Fritz Creek. It is approximately 267 square miles.

In its final application, ENSTAR indicated that there had been increased interest in gas exploration on the lower Kenai Peninsula, and a gas supply to serve Homer may soon be available, which would allow it to utilize a pipeline to deliver such gas. ENSTAR maintained that there are four firms planning exploration or development activities within the next year, three of which

would be willing to sell it gas. ENSTAR asserted that the cost of gas from those suppliers would be flowed through its gas cost adjustment account and is projected to be about the same as the utility currently pays for its system-wide gas supply. Pipeline service to Homer would be contingent upon the development of a suitable gas supply near that community.

Initially, ENSTAR projected that by utilizing LNG as a gas supply source to Homer it would suffer losses of \$52,300 and \$30,500, respectively, during the first and second years of operations and profits of \$20,200, \$83,900, \$107,600, and \$134,400, respectively, in the third through sixth years of operations. On the other hand, by utilizing a gas supply transported by pipeline, in its final application ENSTAR projected a loss of \$18,000 at the end of the first year of operations and profits in the second through sixth years of operations of \$13,400, \$85,200, \$153,500, \$198,500, and \$238,600, respectively.

Facts specific to the area in and around Seward:

The proposed Seward service area requested by ENSTAR includes the City of Seward and extends north to Bear Lake. It is approximately 71 square miles.

ENSTAR projected that, utilizing LNG as a gas supply source to Seward, it would suffer a loss of \$18,000 at the end of the first year of operations in Seward and experience profits of \$31,000, \$81,700, \$128,200, \$144,400, and \$164,200, respectively, in the second through sixth years of operations. On the other

hand, if it were utilizing a gas supply transported by pipeline during the first six years of operation, ENSTAR projected profits of \$149,500, \$278,400, \$348,100, \$416,000, \$474,400, and \$529,100, respectively.

ENSTAR proposed to serve Seward by a pipeline spur from its Kenai to Anchorage pipeline and stated that the pipeline would be economically feasible if a significant industrial load were developed in Seward. ENSTAR stated that its current supply of pipeline gas would be available to serve Seward.

The total number of customers projected by ENSTAR for the Seward area, assuming first-year penetration of 40 percent for residential and 60 percent for large and small commercial, is set out below:

	<u>Year of Operation</u>					
	1st	2nd	3rd	4th	5th	6th
324	654	883	1,002	1,075	1,128	

(The above data is taken from the initial application filed by ENSTAR October 30, 1996, and contemplates utilizing an LNG delivery method.)

373	708	931	1,018	1,082	1,134	
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(The above data is taken from the final application filed by ENSTAR February 19, 1997, and contemplates utilization of a gas pipeline delivery method.)

The Commission has reviewed the evidence in the record in this case in light of the factors to be considered in competitive, comparative application proceedings as discussed herein, as

well as the demeanor of all the witnesses at hearing. Based on that review, and upon an examination of the cumulative impact of the evidence in the record, the Commission finds that the service is required for the convenience and necessity of the public in Homer and that ENSTAR has shown itself to be the more fit, willing, and able applicant to provide natural gas public utility service to the areas in and around Homer. In reaching this finding, the Commission was persuaded by ENSTAR's experience, technical abilities, filing preparation, and prospects for procuring a secure supply of natural gas. Therefore, ENSTAR's application should be approved, and the application by HG-HEA must be denied.

Accordingly, the Commission concludes it is appropriate to approve the requested amendments to ENSTAR's Certificate No. 4 to include in its service territory the additional areas for which it applied in and around Homer and Seward, subject to conditions. The Commission believes that this decision represents its best, most informed judgment on the facts, premises, representations, and commitments established and advanced in the record by each applicant. In reaching this decision, the Commission has been guided by decades of decisions articulating factors for analysis, judgment as to the relative importance of those myriad factors, and the responsibility of the Commission to promote, protect, and accommodate the public interest of the residents of Homer.

The approval of ENSTAR's application is subject to the condition that ENSTAR must begin the provision of natural gas public utility service in the Homer and Seward service area extensions approved herein by December 31, 2000. Additionally, ENSTAR is required to file annual status reports, beginning one year from the date of this Order and continuing annually on that date until such service has been implemented. Each report shall address all aspects of ENSTAR's activities to bring natural gas public utility service to Homer and Seward and shall include the status of the following subjects: gas supply availability, marketing analysis, engineering studies, transportation modes, cost-of-service calculations, and permit acquisition.

Additionally, ENSTAR is required to file with the Commission the specific legal description of the extended service area and must also file revised tariff sheets to reflect the decisions in this Order. Accordingly, sixty days prior to commencement of operations in the Homer and/or Seward service areas ENSTAR shall file with the Commission appropriate amended service area maps and revised tariff sheets reflecting the modifications approved herein.

ORDER

THE COMMISSION FURTHER ORDERS:

1. As more fully discussed herein, the application filed by ENSTAR Natural Gas Company for an amendment to its Certificate of Public Convenience and Necessity No. 4, authorizing

it to provide natural gas public utility service, to include the additional areas in and around Homer and Seward, Alaska, is approved, subject to the conditions articulated in Ordering Paragraph Nos. 3, 4, and 5 of this Order.

2. The application filed by Homer Gas, a division of Homer Electric Association, Inc., for a certificate of public convenience and necessity to operate as a natural gas public utility in and around Homer, Alaska, is denied.

3. By December 31, 2000, ENSTAR Natural Gas Company shall begin the provision of natural gas public utility service to the areas in and around Homer and Seward, Alaska.

4. By November 1, 1998, and continuing annually until natural gas public utility service has been implemented to the areas in and around Homer and Seward, ENSTAR Natural Gas Company shall file with the Commission a status report addressing all significant aspects of the utility's activities related to the provision of that service. Such reports must include the status of gas availability, marketing analysis, engineering studies, transportation modes, cost-of-service calculations, and applicable permit acquisition.

5. By sixty days prior to commencement of natural gas public utility service operations in and around Homer and Seward,

Alaska, ENSTAR Natural Gas Company shall file with the Commission for its approval revised tariff sheets and service area maps reflecting the decisions in this Order.

DATED AND EFFECTIVE at Anchorage, Alaska this 3rd day of November, 1997.

BY DIRECTION OF THE COMMISSION
(Commissioner Sam Cotten, Chairman, dissenting,
with separate statement attached; Commissioner
Dwight D. Ornquist, not participating.)

(S E A L)