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 Application by ENSTAR NATURAL GAS COMPANY to Amend its Natural Gas Public Utility Certificate of Public Convenience and Necessity No. 4 to Include Additional Areas in and Around Homer and Seward	)	U-96-108 ORDER NO. 12
In the Matter of the Gas Sales Agreement between ENSTAR Natural Gas Company, a division of SEMCO ENERGY, INC. and NORTHSTAR ENERGY GROUP, INC. filed as TA125-4	)	U-03-84 ORDER NO. 7

ORDER CONDITIONALLY APPROVING GAS SALES AGREEMENT, INCLUSION OF COSTS OF GAS SALES AGREEMENT IN GAS COST ADJUSTMENT, AND HOMER AREA SURCHARGE; DENYING, WITHOUT PREJUDICE, THE REQUEST TO AMEND SERVICE AREA; VACATING PREVIOUS FILING REQUIREMENT; AND REQUIRING FILINGS

BY THE COMMISSION:

Summary

We approve the Gas Sales Agreement (Agreement)[1] between ENSTAR[2] and NorthStar Energy Group, Inc. (NorthStar) on the condition that the parties execute

[1]*Gas Sales Agreement between NorthStar Energy Group, Inc. and ENSTAR Natural Gas Company, a Division of SEMCO Energy, Inc.*, executed July 31, 2003.

[2]ENSTAR Natural Gas Company, a division of SEMCO Energy, Inc.

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and file an addendum to the Agreement that: (1) establishes a floor price of $2.75; (2) modifies the transportation rate to include a cap of $.30 per thousand cubic feet (Mcf); and (3) limits arbitrage to not more than 15 percent of the total volume of gas sold under the Agreement. We find that the Agreement, as submitted for our approval, is not in the public interest and require modifications to the Agreement that resolve our public interest concerns. We approve 1) the inclusion of the Agreement with the addendum in Section 708 of ENSTAR's tariff; 2) the inclusion of all costs related to the Agreement in ENSTAR's Gas Cost Adjustment (GCA); and 3) a line extension surcharge for the Anchor Point to Homer pipeline extension, subject to filing and approval of the addendum. We deny ENSTAR's request for an additional amendment to its service area. We also vacate Ordering Paragraph No. 2 of Order U-96-108(11).[3]

Background

Exploration in the area to the north of Homer has shown promise of yielding an adequate supply of natural gas that would make feasible a natural gas utility service in Homer. ENSTAR and others before have worked to bring gas supply to the City of Homer for the last twenty years to no avail.[4]

ENSTAR and NorthStar are before us with a proposed gas supply agreement to exploit gas reserves in the North Fork gas field, located north of Homer, and deliver this gas to Homer. This gas field is close enough to Homer to make

[3]*Order Acknowledging Filings, Granting Motion for Extension of Time, Requiring Filings and Vacating Filing Requirements*, dated August 28, 2003.

[4]The record shows there are potential alternative gas supplies to the north of Homer in Happy Valley, and further north at Ninilchik. At one time, there were plans to extend the Kenai Kachemak Pipeline (KKPL) to Anchor Point, but the Unocal Exploration program did not reveal commercial quantities of gas. ENSTAR indicates at some point in time Unocal gas may become available. However, ENSTAR considers these as alternatives to be pursued, if NorthStar is unable to fulfill its contract terms.

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transportation and distribution of gas to retail customers economically feasible, and the volumes appear adequate to supply Homer's needs for at least twenty years.

There is public support for natural gas service in Homer. ENSTAR surveyed 70 potential small and large commercial customers and 216 potential residential customers, and both groups indicated strong support for natural gas service in the Homer area. (T-3, p. 10.) Thomas Clark, a member of the public, testified during the hearing in support of gas service for the Lower Kenai Peninsula, and particularly for Anchor Point, where he lives.[5] Mr. Clark asserted that natural gas is a foundational mechanism for community growth. (Tr. 77.)

ENSTAR was granted a Certificate of Public Convenience and Necessity (Certificate), subject to certain conditions, to serve Homer, Alaska, on November 3, 1997.[6] The primary condition of certification was that ENSTAR provide natural gas service to Homer by December 31, 2000. (T-1, p. 3.) At ENSTAR's request, that deadline was extended to December 31, 2002,[7] and then to March 31, 2003.[8] On April 1, 2003, ENSTAR requested an additional extension until August 31, 2003, which we granted.[9] We also granted ENSTAR's most recent request to extend the deadline to January 2, 2004.[10]

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[5]Mr. Clark is also vice chair of the Kenai Peninsula Borough Planning Commission.

[6]Order U-96-108(6)/U-96-109(6), dated November 3, 1997.

[7]Order U-96-108(8), dated April 16, 2001.

[8]Order U-96-108(9), dated December 26, 2002.

[9]Order U-96-108(10), dated April 28, 2003.

[10]*See* n. 2.

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On August 8, 2003, ENSTAR filed a tariff revision, designated as TA125-4, which included the Agreement between ENSTAR and NorthStar. ENSTAR requested that we:

1) approve the Agreement between ENSTAR and NorthStar, which will provide a 20-year gas supply for Homer;

2) approve the addition of the Agreement to Section 708 of ENSTAR's tariff as a base supply contract;

3) include all costs related to the Agreement in ENSTAR's GCA; and

3) approve a line extension surcharge for Homer.

We suspended TA125-4 for investigation and scheduled a hearing.[11] The hearing was held on January 13, 14, and 15, 2004. ENSTAR presented the testimony of Dan Dieckgraeff, Manager, Finance and Rates, and Treasurer of ENSTAR; and Dr. Bruce Fairchild, consultant. NorthStar presented the testimony of Stephen J. Easley, Vice President for Corporate Development and External Affairs. The Attorney General (AG) presented the testimony of Dr. Arlon R. Tussing, consultant.

The Agreement provides that NorthStar will supply, and ENSTAR will purchase, all of the gas required to serve Homer for twenty years from the date of first delivery. (T-1, p. 5; T-6, p. 11.) The Agreement requires NorthStar to use the gas well at North Fork drilled in 1965, and to drill at least one additional well. (T-1, pp. 4-5; T-6, p. 8.) NorthStar must also prove up its gas reserves and establish, according to an independent petroleum engineer, that its leases constitute a commercial quality gas field. (T-1, p. 5.)

NorthStar proposes to construct a pipeline to transport gas from its leases to Anchor Point. (T-1, p. 5; T-6, p. 12.) ENSTAR will then construct a pipeline

[11]Order U-03-84(2), dated October 31, 2003.

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extension from Anchor Point to Homer and install local gas distribution facilities in Homer. (T-1, p. 5.) The local distribution facilities would be a part of ENSTAR's system-wide rate base. (T-1, p. 12.) Initially, these pipelines will not be interconnected with the existing gas pipeline network on the Kenai Peninsula. (T-1, p. 5.) However, NorthStar hopes to find sufficient gas reserves to exceed the gas volumes necessary to meet ENSTAR's load in Homer and to interconnect with the KKPL. (T-1, p. 5.) NorthStar would like to sell additional gas into the south-central market so it contemplates building a pipeline to Anchor Point large enough to accommodate both the gas necessary to serve ENSTAR plus additional volumes. (T-2, p. 9.) If the pipeline were built just to serve ENSTAR's load, it would need to be a 4-inch line. (T-2, p. 10.)

NorthStar asserted that it will spend between $8 and $12 million for expenses associated with drilling, completing, and testing wells that target new gas reserves and in constructing a pipeline. (T-6, p. 12.) NorthStar asserted that it must further spend in excess of $500,000 on technical staff salaries and in excess of $500,000 in lease rentals, seismic data, and potentially, additional land acquisition costs. (T-6, p. 12.)

Under the Agreement, the gas is priced annually using a 36-month daily trailing average of the Henry Hub index of natural gas futures prices. (T-1, p. 6.) The gas has a floor price of $3.00/Mcf adjusted for half of inflation using the Gross Domestic Product Implicit Price Deflator. (T-1, p. 6.)

ENSTAR will reimburse NorthStar for production costs and taxes, and ENSTAR will pay NorthStar's approved tariff rate for transportation costs once those are established. (T-1, p. 6.) The transportation costs are limited to payment for the pipeline and do not include drilling and production facilities. (Tr. 101-102.)

The Agreement also requires NorthStar to maintain clear title to its leases, demonstrate that its leases qualify as a commercial quality gas field, maintain financial

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and operational "fitness, willingness, and ability" to perform according to ENSTAR, construct necessary facilities and meet other ongoing obligations. (T-1, p. 6; T-6, p. 22.)

At hearing, ENSTAR requested an additional amendment to its service area. (Tr. 87-88.)

Discussion

In deciding whether to approve the Agreement, we are guided by our obligation to act in the public interest. Our primary concern is to ensure reliable and reasonably priced utility service. We will determine whether the Agreement is fair as a whole, and we make modifications to the Agreement to protect the public. We also review the rate methodologies that ENSTAR has proposed to recover the costs of providing gas to Homer customers.

Uncontested Issues

ENSTAR proposed the use of postage stamp rates for Homer customers and a Homer specific line extension surcharge. The AG did not oppose these rate methodologies.

We find that the rate structure proposed by ENSTAR is consistent with its historical rate methodology, and reasonable. We find that permitting ENSTAR to charge "postage stamp" rates and a line extension surcharge for service to Homer customers is just, fair, and reasonable. We find that ENSTAR should be permitted to recover the costs of the Agreement through its GCA.[12] The GCA will blend the cost of

[12]ENSTAR recovers its general non-gas revenue requirement, consisting of its capital accounts including depreciation and interest, under one track; while the second track consists of the costs of purchased gas, or a gas cost adjustment. ENSTAR's general revenue requirement is periodically reviewed in a general rate case, while the cost of gas is flowed through to customers on a dollar-for-dollar basis.

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NorthStar gas into ENSTAR's overall cost of gas, including the transportation charge, to be borne by all ratepayers.

Homer ratepayers will directly bear some of the costs unique to serving Homer through the imposition of a $1.00/Mcf surcharge. The surcharge permits a delayed recovery of the contribution customers must make for ENSTAR to build its line extension from Anchor Point to Homer, termed CIAC.[13] This CIAC is normally required to be paid before a customer can receive service under ENSTAR's current tariff.

ENSTAR proposed to collect the Homer surcharge only until the total actual capital costs associated with the pipeline (including construction costs, rate of return, and income taxes) are recovered. (T-1, p. 11.) ENSTAR estimates that it will be necessary to collect the Homer surcharge for approximately ten years. (T-4, p. 4; T-1, p. 11.) In order to track recovery of the cost of the line extension, we require ENSTAR to file yearly reconciliation of Homer surcharge collections. ENSTAR shall append the yearly accounting to its annual report.

Contested Issues

The AG argued that the fairness and reasonableness of the Agreement must be evaluated, as well as its consistency with the public interest. (T-8, p. 5.) Specifically, the AG expressed concern with the gas pricing methodology, price of gas, the treatment of arbitrage opportunities, and the term of the agreement and need for a market-out clause.

Gas Pricing Methodology

The AG argued there were two fundamental errors of principle incorporated in the Agreement and that these errors can create serious harm to the ratepayers and public interest. (T-8, p. 12.) According to the AG, the first error is the

[13] CIAC = Contribution in aid of construction.

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use of the 36-month trailing average of Henry Hub natural gas futures prices. The AG argued there is no logical or economic relationship between Southern Louisiana and the Cook Inlet natural gas markets.[14] The AG asserted that the second error is the link between Henry Hub futures prices and the purchase price computed by the Agreement. (T-8, p. 14.) The AG contended that this link is unorthodox, inconsistent with the customary language and practice of commerce, and is misleading. (T-8, p. 14.)

We do not find the use of the Henry Hub futures prices as an index inconsistent with customary language and practice of commerce. ENSTAR's current long-term gas supply agreements have typically included annual price adjustment clauses that are tied to various price indices. These include the 3-month average for Light Sweet Crude futures in addition to the Henry Hub futures.[15] We recently allowed use of the Henry Hub futures price as an index for the Unocal Gas Supply Contract.[16]

The AG further stated that the link greatly understates the true price of North Fork gas taken into the ENSTAR system and obscures the fact that it obligates ENSTAR to pay, and to pass on to its ratepayers, a cost of gas that is priced higher than Henry Hub prices. (T-8, p. 14.) The AG asserted that the Henry Hub price

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[14]The Henry Hub is a cluster of direct pipeline connections among thirteen natural gas pipelines in southern Louisiana that directly connect to thirteen other pipelines. (T-8, p. 12.) The dense network of pipelines results in gas prices that vary by only a few cents per unit and fluctuate in close formation. (T-8, p. 13.) The twenty-six pipelines that directly interconnect at Henry Hub connect with each other and with hundreds of other pipelines throughout North America. Altogether, these pipelines constitute a unified transport infrastructure that extends into every state except Alaska and Hawaii, into all but two Canadian provinces, and into much of Mexico. (T-8, p. 13.)

[15]Order U-03-84(1), dated September 18, 2003, at 9.

[16]Order U-01-7(8), dated October 25, 2001. Docket U-01-7 is titled *In the Matter of the Gas Sales Agreement Between ALASKA PIPELINE COMPANY, a Wholly-owned Subsidiary of SEMCO ENERGY, INC., of Which the ENSTAR NATURAL GAS COMPANY is a Division, and the UNION OIL COMPANY OF CALIFORNIA, Filed as TA117-4*.

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includes both production taxes and transport charges between the wellhead and the Henry Hub. Because the Agreement includes Alaska specific production taxes and transportation charges as a separate item, the AG asserted the ratepayer pays twice for these charges. (T-8, p. 14.)

We do not agree with the AG's allegation that ENSTAR will be paying for transportation fees and production taxes twice. (T-8, p.14.) We are persuaded that these costs are included in Henry Hub prices, but ENSTAR correctly points out that Henry Hub prices are market-driven auction prices that are not cost-based, but rather supply/demand driven. (Tr. 519.)

This Agreement was negotiated using a number of considerations that likely included cost, but not exclusively cost; therefore, we will not order the Agreement price to be changed to remove production taxes and transportation fees. Such a cost disallowance is not appropriate for the specific circumstances surrounding this Agreement.

Price of Gas

The AG argued that the Agreement was most comparable to the Moquawkie contract where the producer also developed a known field for production through an existing well and drilled a second well. (Tr. 137.) The pricing provision under the Moquawkie contract was a flat rate of $2.75/Mcf, adjusted for inflation. (Tr. 130-131.) The Moquawkie contract was entered into approximately six months before the Unocal contract, so the AG contended that it was contemporaneous with the Unocal contract. (Tr. 130.)

Under the Unocal contract, Unocal was required to explore for gas in new areas rather than develop existing gas fields. (Tr. 140.) The AG further argued that Unocal had a commitment to expend a minimum amount of funds on exploration

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whereas NorthStar does not. (Tr. 163-164.) Unocal actually expended $50 million last year and anticipates spending $60 million this year. (Tr. 166.)

The AG argued that because the North Star gas well development requirement is comparable to Moquawkie, the well head price should be $2.75/Mcf, without the Henry Hub pricing index.

In contrast, ENSTAR asserted the Agreement is more like the Unocal contract and proposed a $3.00/Mcf floor, and use of the Henry Hub pricing index. NorthStar must drill a new well and create a redundant gas supply, and address the risks associated with establishing a second commercial well where earlier drilling efforts had yielded dry holes. (T-6, p. 14.)

We agree with ENSTAR that employing the Henry Hub pricing index, as we did in the Unocal contract, is reasonable for this specific case given the risks associated with development of further proven reserves. First, the Moquawkie contract did not require additional drilling before gas deliveries could begin. (Tr. 155.) This is clearly not the case for this Agreement. ENSTAR and NorthStar established that under this Agreement, NorthStar would need to expend significant investment before it would have the opportunity to sell gas.[17] NorthStar must prove it has 14.5 billion cubic feet (Bcf), and the present proven reserves for the North Fork field are 12.0. (T-2, p. 2.) NorthStar must also drill a second "commercial quality gas field" well to provide a second gas well. (T-6, pp. 12, 14.)

The AG's assertions of similarity to Moquawkie are not persuasive, and we allow the Unocal pricing structure. However, we do not find adequate support to

[17]"They [NorthStar] have to spend whatever it takes to find the gas…that meets the qualification." (Tr. 162.)

"NorthStar does not have a contract unless they are successful." (Tr. 166.)

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allow the proposed $3.00/Mcf floor price, which is a $0.25/Mcf increase over the Unocal floor price. NorthStar arguments of inflation, higher costs of capital and current elevated costs of gas are not supported in the record. We therefore require that the contract floor price be set at $2.75/Mcf.

Arbitrage

ENSTAR asserted that a limit on arbitrage, the possibility that NorthStar could purchase less expensive gas from a third party and provide it to ENSTAR at the contract rate, was unnecessary. (T-2, p. 16.) ENSTAR contended this was because there are no other proven gas sources for NorthStar, there is value and security in NorthStar having the ability to "cover" with gas from other sources, if necessary, and the opportunity for a market may cause some other producer to drill in the area. (T-2, p. 16.) NorthStar stated that the potential for arbitrage was not a legitimate concern because there are no producers in the Cook Inlet with extra gas to sell to NorthStar. (T-6, p. 28.) NorthStar further argued that if there were such a producer, it would sell its gas directly to ENSTAR. (T-6, p. 28.) Finally, NorthStar argued that there would be no way to transport such gas to Homer. (T-6, pp. 29-30.) However, NorthStar did not oppose a limitation on arbitrage, if we decided to impose one. (Tr. 436.)

We conclude that at the present time there is little opportunity for NorthStar to engage in arbitrage because there are no alternate proven gas sources for NorthStar other than the North Fork field. However, NorthStar has indicated an interest in interconnecting with another pipeline in the future if there are gas reserves sufficient to meet ENSTAR requirements to serve the Homer market as well as other customers. Under these circumstances, we must be concerned with the possibility of arbitrage.

NorthStar did not oppose a limitation on arbitrage, so we condition our approval of the Agreement to an arbitrage limitation equivalent to the one approved in

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the Unocal contract; not more than 15 percent of the total gas volume sold under the Agreement may come from third party sources.

Term & Market-Out Clause

The AG asserted that the 20-year term of the Agreement is not, in itself, unreasonable. (T-8, p. 17.) However, the AG argued that the length of the Agreement, coupled with unprecedented high prices, an unprecedented high floor price, an indefinite price escalator unrelated to Alaska markets, and the total lack of downward flexibility, renders the Agreement unreasonable. (T-8, p. 17.)

NorthStar argued that a market-out provision was inconsistent with the risks inherent in a development contract. (T-7, p. 8.) NorthStar argued that before it committed its resources to undertake gas development, it must be reasonably assured that it has a market for the gas at a reasonable price over a long enough time period for the investment to make financial sense. (T-7, p. 8.) NorthStar further argued that investors and financiers must be reasonably assured that NorthStar would obtain sufficient revenues over a long enough period to justify investment. (T-7, p. 8.)

We conclude that twenty years is a reasonable contract term. This contract term ensures that there is a firm gas supply to meet the needs of the additional customers to be served in Homer. We also recognize that the Homer customers will have to bear the costs associated with retrofitting their current heating systems to accept an alternate fuel, natural gas. A twenty-year contract also ensures that there is sufficient gas for a reasonable period of pay-off for customers to recover retrofitting costs. It also provides for investors to reasonably anticipate a return of and a return on investment.

While we agree that it could be beneficial five years into this Agreement to provide a means to allow ENSTAR to secure gas from another available lower-cost provider, this is not appropriate under these circumstances. The AG worries that future

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discoveries could make this Agreement a windfall for NorthStar shareholders, to the detriment of ENSTAR ratepayers; however, there is nothing in the record to justify such a contract modification at this time. We must deal with current information, rather than speculate on the future. We therefore reject the AG's proposed market-out clause.

Contract Conditions

We conclude that the Agreement is not in the public interest as it was presented. As with the Unocal contract approval, we require certain provisions to be modified. First, ENSTAR did not support an increase in the floor price for gas in excess of the rate we approved in the Unocal contract. The Agreement should be modified to establish a $2.75/Mcf floor price.

In the Moquawkie contract, we established a flat rate transportation charge of $.15/Mcf. In the Unocal contract, we approved a $1.00/Mcf cap on any transportation charges approved in a separate tariff filing. In this case, ENSTAR and NorthStar also advocate establishing the transportation rate in a separate tariff. That tariff filing requires our approval before it may be implemented. We conclude that the NorthStar Agreement should also have a transportation rate cap. We find that a $.30/Mcf rate cap is reasonable because this pipeline is approximately one-third the length of the pipeline addressed in the Unocal contract and the diameter of the pipeline necessary to serve ENSTAR's projected Homer gas load is approximately one-third the diameter of the KKPL pipeline.

We limit NorthStar's ability to sell third party gas to not more than 15 percent of the total gas volume sold under the Agreement. ENSTAR must file an addendum to the Agreement reflecting these modifications by the deadline established in this Order.

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Transportation Rate

We also determine that we will not approve transportation rates on NorthStar's pipeline that are in excess of the charges necessary to support a 4-inch pipeline from North Fork to Anchor Point. We will determine the actual transportation rate after we have reviewed and approved NorthStar's future tariff filing on this issue once NorthStar becomes a certificated public utility and becomes dependent, in part, on the actual cost of the pipeline construction. The transportation rate will be recovered from all ratepayers as part of ENSTAR's GCA. (Tr. 188.)

We understand that NorthStar hopes to find sufficient gas reserves to meet ENSTAR's need and to serve third parties. As ENSTAR asserted, if NorthStar is successful ". . . the vast majority of the gas going through that line may be for other purposes and other people." (Tr. 185.) We find that it is not reasonable to include in ENSTAR's rates transportation charges on NorthStar's pipeline in excess of those necessary to support a pipeline of the length and diameter[18] necessary to serve the projected Homer gas load. We place NorthStar on notice that we will only approve transportation charges that recover the costs of a pipeline four inches in diameter from its leases to Anchor Point. With these limitations, we conclude that approval of the Agreement without known transportation charges is reasonable.

We are interested in ensuring that any contract that affects the public interest is the result of an arms-length transaction.[19] Because ENSTAR's affiliate, Alaska Pipeline Company, could be asked to build NorthStar's pipeline, we levy an additional condition on the contract to ensure that the public interest is protected. We

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[18]ENSTAR has projected that it will have approximately 1,500 customers in Homer after three years and that a pipeline four inches in diameter will be required.

[19]*See* Order U-01-7(7), dated August 9, 2001.

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place NorthStar on notice that its transportation tariff filing must demonstrate that a valid, reasonably advertised, competitive procurement process was undertaken for the construction of the NorthStar pipeline.[20]

Tariff

ENSTAR has asked us to approve the addition of the Agreement to ENSTAR's tariff, the inclusion of the costs of the Agreement in its GCA, and the addition of a surcharge. We find those requests reasonable, and we grant the requested approvals on the condition that ENSTAR files an addendum to the Agreement that complies with this Order. We require ENSTAR to make tariff filings implementing the requested approvals 90 days before gas is delivered. These tariff filings must include transportation rates, and terms and conditions, subject to the conditions for inclusion of Homer-specific transport costs.

Service Area Amendment

In supplemental testimony, ENSTAR proposed to revise its Homer service area boundaries. (T-2, p. 24.) ENSTAR asserted that it expected to file an application[21] to amend its Certificate to include the area along the KKPL so that it can provide service from the KKPL to those nearby communities.

In reply testimony, ENSTAR proposed an additional service area amendment to include some sections that were inadvertently excluded from the original service area in Docket U-96-108.

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[20]*See* Order U-01-7(1), dated January 18, 2001; Order U-01-7(7).

[21]ENSTAR anticipated filing the application approximately 60 days from the submission of its supplemental direct testimony on October 31, 2003.

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We deny ENSTAR's request to amend its service area. In this proceeding, we are only addressing ENSTAR's proposed Agreement with NorthStar. We will address ENSTAR's request to amend its service area concurrently in Dockets U-96-108 and U-04-31.[22]

Service to Homer

We originally approved ENSTAR's application to provide service to Homer, subject to conditions, including a requirement that it begin service to Homer by December 31, 2000. At ENSTAR's request, we extended that deadline several times, most recently to January 2, 2004, and required it to request an extension of time to provide service, if needed. ENSTAR did neither. While our decision in this case warrants vacating that requirement, we remind ENSTAR that it must comply with all Commission orders or seek appropriate relief. We will not issue a certificate for Homer until gas service begins. We reserve the right to re-impose conditions if there are significant delays.

This Order constitutes the final decision in this proceeding. This decision is appealable within thirty days of the date of this Order in accordance with AS 22.10.020(d) and the Alaska Rules of Court, Rules of Appellate Procedure, Rule 602(a)(2). In addition to the appellate rights afforded by the aforementioned statute, a party may file a petition for reconsideration in accordance with 3 AAC 48.105. In the

[22]On March 17, 2004, ENSTAR filed an amendment to its service area to serve communities along the KKPL in Docket U-04-31. In that filing, ENSTAR asserted that its Homer service area was already amended following a request presented in Docket U-03-84. The proceeding in Docket U-04-31 is titled *In the Matter of an Application filed by ENSTAR Natural Gas Company, a Division of SEMCO Energy, Inc., to Amend Certificate of Public Convenience and Necessity No. 4 to Extend its Service Area to Serve Communities along the Kenai Kachemak Pipeline (KKPL) and KKPL's Proposed Extension, Including Kasilof and Ninilchik*.

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event such a petition is filed, the time period for filing an appeal is then calculated in accordance with Alaska Rules of Court, Rules of Appellate Procedure, Rule 602(a)(2).

ORDER

THE COMMISSION FURTHER ORDERS:

1. The Gas Sales Agreement between ENSTAR Natural Gas Company, a division of SEMCO Energy, Inc., and NorthStar Energy Group, Inc., filed as TA125-4, is approved on the condition that an addendum is filed with the modifications set out in the body of this Order.

2. Inclusion by ENSTAR Natural Gas Company, a division of SEMCO Energy, Inc., of the Gas Sales Agreement filed as TA125-4 in Section 708 of its tariff, is approved on the condition that the addendum required by Ordering Paragraph No. 1 is filed and approved.

3. Inclusion by ENSTAR Natural Gas Company, a division of SEMCO Energy, Inc., of all costs of the Gas Sales Agreement filed as TA125-4 in its Gas Cost Adjustment, is approved on the condition that the addendum required by Ordering Paragraph No. 1 is filed and approved.

4. A surcharge of $1.00 per thousand cubic feet for the Homer service area is approved on the condition that the addendum required by Ordering Paragraph No. 1 is filed and approved.

5. The request to amend the service area of ENSTAR Natural Gas Company, a division of SEMCO Energy, Inc., is denied, without prejudice.

6. Ordering Paragraph No. 2 of Order U-96-108(11) requiring ENSTAR Natural Gas Company, a division of SEMCO Energy, Inc., to commence service to Homer, Alaska, or to file a motion for extension of time by January 2, 2004, is vacated.

7. By 4 p.m., April 23, 2004, the parties must file an executed addendum to the Gas Sales Agreement consistent with this Order.

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8. By 4 p.m., March 31 of each year, ENSTAR Natural Gas Company, a division of SEMCO Energy, Inc. must file an annual reconciliation of Homer surcharge collections, as set out in the body of this Order. ENSTAR Natural Gas Company, a division of SEMCO Energy, Inc. shall append the yearly accounting to its annual report.

DATED AND EFFECTIVE at Anchorage, Alaska, this 23rd day of March, 2004.

BY DIRECTION OF THE COMMISSION
(Commissioner Kate Giard, dissenting, in part, and Commissioners
Mark K. Johnson and G. Nanette Thompson, not participating.)

(S E A L)

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