

STATE OF ALASKA

OFFICE OF THE GOVERNOR

OFFICE OF MANAGEMENT AND BUDGET

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April 27, 2012

Ms. Colleen Starring
President
ENSTAR Natural Gas Company
3000 Spenard Road
Anchorage, AK 99503

Re: Homer – South Peninsula Natural Gas Pipeline

Dear Ms. Starring,

Thank you for your letter to Governor Parnell regarding the Homer – South Peninsula natural gas pipeline. I am pleased to have your commitment to the present approved tariff provision reaffirmed. Your letter makes clear that ENSTAR will honor, and not seek to change, the \$1.00/Mcf surcharge approved in 2004 by the Regulatory Commission of Alaska.

The \$1.00 Mcf surcharge affords all south peninsula residents the hope they may have gas delivered to them at a reasonable price. I am reassured by your letter, that if circumstances develop where gas is available in sufficient quantity for service of the south peninsula area, you are willing to undertake the construction of a line extension whereby additional customers may be served. I understand that ENSTAR will seek repayment of its costs by means of the surcharge over a sufficiently long period of time that the rate impact attributable to the line extension construction will be minimal.

The Governor has been clear that the presently approved tariff surcharge provision is an important component of the overall project and is necessary for State participation. Your letter confirms that ENSTAR is firmly committed to a \$1.00/Mcf surcharge as a Contribution in Aid of Construction. At present, it is estimated to recover \$2.5 million dollars over approximately ten years. I also understand that the distribution system build out costs for the area may involve securitization by increased local mil rates or by establishing a Utility Special Assessment District (USAD). As your letter outlines, a combination of private investment, the approved tariff surcharge, USAD or mil rate contributions, and the State grant will be needed to advance the project.

As you know, the regular session of the 27th Legislature has adjourned. The Governor was pleased with agreements reached on the overall spending level approved by the Legislature. Funding for this project was included in the capital budget for \$8.15 million. The appropriation bills will be sent to the Governor for review and final enactment. While we cannot commit to funding any one project over another until the budgets are signed, I believe that the efforts made by area residents, community leaders, and the commitment of ENSTAR will play a significant role in the funding decision.

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Again, we appreciate your input and for working alongside our administration to provide more affordable energy to Homer – South Peninsula residents.

Sincerely,

A handwritten signature in blue ink, appearing to read "K. Rehfeld".

Karen J. Rehfeld
Director