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July 11, 2012

Regulatory Commission of Alaska  
701 West Eighth Avenue, Suite 300  
Anchorage, Alaska 99501

Dear Commissioners:

Subject: Tariff Advice Letter 226-4

The tariff filing described below is transmitted to you for filing in compliance with Sections 3 AAC 48.200 – 3 AAC 48.430 of the Alaska Administrative Code:

<u>Tariff Sheet</u>		<u>Cancels Sheet</u>		<u>Schedule or Rule Number</u>
<u>Number</u>	<u>Revision</u>	<u>Number</u>	<u>Revision</u>	
228	Second	228	First	Homer Extension Surcharge

ENSTAR Natural Gas Company (ENSTAR) proposes to revise its Homer Extension Surcharge provision approved by the Commission in Orders U-03-84(7) and U-03-84(13). The revisions to this Surcharge provision are necessary due to: 1) changes in the scope of the Homer Extension, including a change in the project length and cost; 2) an anticipated contribution in aid of construction to partially fund the Extension; and 3) a reduction of the portion of ENSTAR’s Homer service area that will be subject to the Surcharge. There is no change to the amount of the Surcharge (\$1 per Mcf or \$0.10 per Ccf),<sup>1</sup> and ENSTAR still expects that the surcharge will continue for approximately 10 years once service commences.<sup>2</sup>

Only new gas sales and gas transportation customers that will be served via the Homer Extension, will be subject to the Homer Extension Surcharge. No current customers will be subject to this Surcharge.

**History**

In 2004,<sup>3</sup> the RCA granted ENSTAR’s rate proposal for its Homer area customers consisting of ENSTAR’s postage stamp rates and a Homer specific line extension surcharge. The Order noted that the \$1.00 per Mcf surcharge

<sup>1</sup> Mcf = Thousand cubic feet, Ccf = hundred cubic feet.

<sup>2</sup> See Attachment A, Development of Line Extension Surcharge.

<sup>3</sup> See Order U-03-84(7), dated March 23, 2004.

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**All Our Energy Goes Into Our Customers**

“...permits a delayed recovery of the contribution customers must make for ENSTAR to build its line extension from Anchor Point to Homer, termed CIAC. This CIAC is normally required to be paid before a customer can receive service under ENSTAR’s current tariff...”<sup>4</sup>

At that time, the line extension was expected to be an 11 mile long, 4-inch plastic line, with an estimated cost of \$3,500,000. Gas for the project was to be supplied from the North Fork Field. ENSTAR proposed to collect the Homer surcharge only until the total actual capital cost associated with the pipeline (including construction costs, rate of return and income taxes) were recovered. ENSTAR estimated that the surcharge would be in place approximately 10 years. Subsequently, ENSTAR’s gas supplier was unable to develop the North Fork Field, and the gas supply contract was canceled. As a result, the line from Anchor Point to Homer was not constructed.

The North Fork Field was acquired by a new producer, and in 2009 ENSTAR entered into a gas supply agreement (GSA) with that producer to provide gas for ENSTAR’s overall system supply beginning in 2011.<sup>5</sup> The GSA was approved by the Commission in Letter Order LO900557. Expansion of the gas transmission system to include construction of a pipeline from Ninilchik to Anchor Point was approved in U-09-107(2). That pipeline was constructed and placed into service in April, 2011.<sup>6</sup>

Subsequently, ENSTAR was approached by Homer community leaders and asked to prepare new estimates for a pipeline extension from Anchor Point to Homer and Kachemak City. ENSTAR’s updated construction cost estimate exceeded \$10,000,000. The Alaska State Legislature was approached for assistance in funding the extension. In May, 2012, Governor Parnell signed a capital budget bill that included a State Grant of \$8,150,000 for Homer’s South Peninsula Natural Gas Pipeline (State Grant), with the understanding that the remaining amount needed for the extension would be funded by the \$1.00 per Mcf Homer Extension Surcharge already in ENSTAR’s tariff.

### **Homer Extension**

The Homer Extension will be a 22 mile buried plastic pipeline transporting utility grade natural gas from the existing gas system at Anchor Point to and through Homer, terminating at the eastern boundary of Kachemak City. The pipeline from Anchor Point to Homer as now planned will consist of an 8-inch plastic main that extends approximately 17.2 miles along a route that first follows the Old Sterling Highway right-of-way, then the New Sterling Highway

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<sup>4</sup> Ibid, p.7.

<sup>5</sup> See TA 180-4.

<sup>6</sup> See TA 203-4.

right-of-way, and then traverses through Homer past the Homer High School. The pipeline from the Homer High School to East End Road will consist of a 6-inch diameter plastic main that extends approximately 3.5 miles. The final segment of the Homer Extension is expected to consist of a 4-inch diameter plastic main that extends approximately 1.6 miles along the East End Road right-of-way to a termination point at the eastern limit of Kachemak City.

The total construction cost of the Homer Extension, including direct costs, overheads and allowance for funds used during construction (AFUDC), is estimated at \$10,700,000. As noted above, Homer has obtained a State Grant from the State of Alaska that will partially pay the cost to construct the Homer Extension. The difference between the actual total construction costs and the State Grant will be recovered in accordance with the Homer Extension Surcharge. The amounts received from the State Grant and the Homer Surcharge to fund the Homer Extension will be treated as non-refundable Contributions in Aid of Construction for ratemaking purposes.

ENSTAR expects to commence work on the Homer Extension in 2012 by beginning to acquire the necessary permits, easements, and materials and conducting surveys. The majority of the construction is expected to occur in 2013. Gas utility service to Homer is expected to be available in the fall of 2013.

### **Revisions to the Homer Extension Surcharge Provision**

The Homer Extension Surcharge provision on the proposed Sheet 228 has two significant modifications. The first is to reflect the inclusion of the State Grant, so that the Surcharge is calculated to recover the “Net Total Actual Costs” of the Homer Extension (Total Actual Costs less the State Grant). Second, the portion of ENSTAR’s service area subject to the Surcharge<sup>7</sup> is revised to remove areas that will not be served from the Homer Extension because they are or will be served from the existing system. Additional revisions to the provision have been made to enhance clarity.

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<sup>7</sup> Subsection 2403e.

**Effective Date**

ENSTAR respectfully requests that the Commission approve the Second Revision of Sheet 228 at the conclusion of the standard notice and review period.

Very truly yours,

ENSTAR Natural Gas Company

A handwritten signature in black ink, appearing to read "Daniel M. Dieckgraeff", is written over a grey rectangular background.

Daniel M. Dieckgraeff  
Director, Rates and Regulatory Affairs

Enclosures:

Attachment A, Development of Line Extension Surcharge  
Second Revision of Sheet 228

ENSTAR Natural Gas Company  
Development of Line Extension Surcharge

<b>Assumptions:</b>	Funded by Surcharge	Funded by State Grant	Estimated Total Cost	
Cost of Pipeline	\$ 2,550,000	\$ 8,150,000	\$ 10,700,000	
Mcf Sales	As indicated			
Rate of Return	9.25%			2.79%
State Income Tax Rate	9.40%			6.45%
Federal Income Tax Rate	35.00%			9.25%
				4.50%
				1.000000
				1.697793
				(From U-09-69)
				Debt
				Common
				2.79%
				10.95%
				13.75%

Line Extension Surcharge = \$ 1.00

Year	Beginning Balance	Rate of Return @ 9.25%	Income Taxes @ 4.50%	Mcf Sales	Surcharge Receipts	Ending Balance
1	\$ 2,550,000	\$ 57,939	\$ 28,187	89,058	\$ (89,058)	\$ 2,547,068
2	2,547,068	224,086	109,015	249,043	(249,043)	2,631,124
3	2,631,124	226,820	110,345	358,029	(358,029)	2,610,261
4	2,610,261	221,069	107,547	440,646	(440,646)	2,498,231
5	2,498,231	207,332	100,864	513,598	(513,598)	2,292,830
6	2,292,830	186,091	90,531	562,060	(562,060)	2,007,392
7	2,007,392	158,595	77,154	585,701	(585,701)	1,657,440
8	1,657,440	125,254	60,934	606,695	(606,695)	1,236,932
9	1,236,932	85,860	41,770	617,426	(617,426)	747,136
10	747,136	40,482	19,694	618,984	(618,984)	188,328



**ENSTAR Natural Gas Company**

**§2403 Homer Extension Surcharge**

§2403a The Homer Extension Surcharge is a surcharge applied to all Gas Sales and Transportation Service bills for Gas delivered in the Homer Extension Surcharge Area until the Net Total Actual Costs associated with the Anchor Point to Homer pipeline (the "Homer Extension") are recovered. T  
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§2403b The Net Total Actual Costs for the Homer Extension includes total net construction costs (direct costs, overheads and AFUDC, less any contributions in aid from the State of Alaska or the City of Homer), rate of return and income taxes. The rate of return used will be the most recent weighted average cost of capital for the Company approved or accepted by the Commission. C  
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§2403c Homer Extension Surcharge \$1.00 per Mcf T  
(\$0.10 Per Ccf) T

§2403d The Utility shall file an annual accounting of the collection of the Surcharge at the same time that it files its annual report to the Commission. T

§2403e The Homer Extension Surcharge Area is that portion of the Company's certificated service area (Area 6) more fully delineated as: C  
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- Township 5 South, Range 11 West, Sections: 2 – 9 and 17 – 20 C
- Township 5 South, Range 12 West, Sections: 7 – 35 C
- Township 5 South, Range 13 West, Sections: 7 – 36 C
- Township 5 South, Range 14 West, Sections: 13 – 36 C
- Township 5 South, Range 15 West, Sections: Those portions of 3 and 4 South and West of the Anchor River, 5, 8, 9, those portions of 10, 11 and 12 South and West of the Anchor River, 13 – 16, 21-27, and 35 - 36 C  
C
- Township 6 South, Range 12 West, Sections: 4 – 7 C
- Township 6 South, Range 13 West, Sections: 1 – 12, 14 – 23, 26 -29, and 34 – 36 C
- Township 6 South, Range 14 West, Sections: 1 – 17, and 22 – 24 C
- Township 6 South, Range 15 West, Sections: 1 C
- Township 7 South, Range 13 West, Sections: 1 and 2 C

(All the above with reference to the Seward Meridian) C

Tariff Advice No. 226-4

Effective \_\_\_\_\_

Issued By: ENSTAR Natural Gas Company, A Division of SEMCO ENERGY, Inc.

By:   
Daniel M. Dieckgraeff

Title: Director, Rates and Regulatory Affairs