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April 16, 2021

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

Subject: Tariff Advice Letter 325-4

Dear Commissioners:

This filing is transmitted in compliance with 3 AAC 48.200-.430 and Order U-12-125(1) and seeks approval of the attached Fourth Amendment (“Fourth Amendment”)¹ to the gas sales agreement (“GSA”) by and between Alaska Pipeline Company (“APC”) and Furie Operating Alaska, LLC (“Furie”) dated February 26, 2016 (“Furie GSA”). As explained in more detail below, ENSTAR Natural Gas Company, a division of SEMCO Energy, Inc. (“ENSTAR”) is not seeking approval of any tariff sheets as part of this TA filing.

On April 25, 2016, the Commission issued LO# L1600193, approving the Furie GSA, which ENSTAR had filed for the Commission’s consideration in TA 282-4.² On October 31, 2017, the Commission issued LO# L1700450 approving an Amendment to the Furie GSA (“Amendment”), which ENSTAR had filed for the Commission’s consideration in TA 296-4. On December 23, 2019, the Commission issued LO# L1900468 approving the Second Amendment to the Furie GSA (“Second Amendment”), which ENSTAR had filed for the Commission’s consideration in TA315-4. On April 9, 2020, the Commission issued LO# L2000142 approving the Third Amendment to the Furie GSA (“Third Amendment”), which ENSTAR had filed for the Commission’s consideration in TA316-4. APC and Furie have agreed to further amend the GSA as detailed below. In light of the Commission’s direction in Order U-12-125(1), ENSTAR respectfully requests approval of the Fourth Amendment to the Furie GSA. The Amendment will help ENSTAR ensure reliable supply to its over 149,000 gas sales customers.

¹ See Attachment A, the Fourth Amendment to Gas Sales Agreement between Furie Operating Alaska, LLC and Alaska Pipeline Company.

² APC, not ENSTAR, is the party to the proposed GSA. The Commission regulates APC and ENSTAR as a single entity. The use of the name “ENSTAR” in this filing is intended to include both APC and ENSTAR, unless the context clearly requires otherwise.

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All Our Energy Goes Into Our Customers

BACKGROUND

Furie, a small producer in Cook Inlet, has expended significant resources to produce natural gas from the Kitchen Lights Unit (“KLU”), an offshore gas field development that required installation of a platform in Cook Inlet. In August 2019, following production and drilling challenges, Furie filed for Chapter 11 bankruptcy in the United States Bankruptcy Court for the District of Delaware (“Bankruptcy Court”). On June 30, 2020, Furie successfully emerged from a Chapter 11 bankruptcy re-organization under new Alaskan ownership and staffing with the support of the State of Alaska in the form of financial support from the Alaska Industrial Development and Export Authority (“AIDEA”). At all times during the Chapter 11 process and thereafter, Furie continued to reliably deliver Gas to ENSTAR under the terms of the GSA.

Since emerging from the bankruptcy, Furie has successfully returned the KLU A-4 well to natural gas production status. The KLU A-4 well was shut-in by prior ownership in December 2018 due to excessive water production, well-bore issues, and un-economic production costs. In February 2020 Furie obtained the necessary authorization from the State of Alaska, Alaska Department of Environmental Conservation (“AK DEC”) to construct a produced water treatment system on the Julius R. production platform. Furie has completed final engineering, design, procurement, fabrication and is currently in the process of installing the treatment system on the Julius R. platform. On April 1, 2021, Furie also secured authorization to discharge treated produced water from the Julius R. platform from the AK DEC. Seller will commence the final testing and processing of produced water during the spring of 2021.

Under the current GSA, Furie has an obligation in April 2021 to post a \$2.5 Million Letter of Credit (“LC”) to protect ENSTAR against potential defaults. The LC, which is fully collateralized by Furie, limits Furie’s ability to invest additional resources into the Kitchen Lights Unit for the purposes of increasing daily gas production and accessing previously un-producible gas reserves. In order to allow Furie to enhance production and offer ENSTAR purchase options for additional gas supply in a limited gas market, ENSTAR has agreed to eliminate the LC requirement from the GSA in order to allow Furie to re-allocate its financial resources towards its efforts to expand its production capabilities.

In LO# L1600193, the Commission stated, “ENSTAR, with the cooperation of Furie, is commended for meeting the intent of the legislature for diversified supply contracts and different pricing mechanisms. ENSTAR has adopted diversification policies to set aside or carve out an allocation of their supply portfolios to small independent producers in Cook Inlet. These provisions conform to legislative policy and the recommendations of the Commission as expressed in a concurring statement to TA242-4.” ENSTAR remains committed to the goal of securing a diversified supply portfolio.

KEY FEATURES OF THE AMENDMENT

The key provisions of the Fourth Amendment are summarized below. (Capitalized terms used but not defined herein have the meanings provided in the Furie GSA, Amendment, Second

Amendment, Third Amendment and Fourth Amendment.)

Effective Date

This Fourth Amendment shall be deemed effective as of the date on which the Commission approves the amendment.

Optional Right of First Refusal Gas (O-ROFR) (Section 2.2 a)

The Fourth Amendment adds a new Section 2.2 (a) that gives APC the right of first refusal for any available volumes in excess of Furie’s current commitments for Firm Daily Contract Quantities and ROFR Gas pursuant to Section 2.2 and as amended by the Third Amendment of this Agreement. ENSTAR will have a right but not an obligation to purchase this additional gas to meet its customers’ demand if the offered pricing and tendered volumes are favorable compared to market conditions.

Price: Cost Allocation (Section 3)

The Fourth Amendment adds a new pricing section for O-ROFR Gas and sets the floor and ceiling prices for this additional gas. This pricing structure will allow ENSTAR to purchase this optional gas at a more favorable price compared to other currently available gas purchase options. The ceiling price will protect ENSTAR’s customers during market conditions with high demand and low gas inventory.

<i>Volumes</i>	<i>Cost Per Mcf</i>	
	<i>Contract Year Beginning April 1, 2021</i>	<i>Contract Year Beginning April 1, 2022</i>
<i>Firm Gas (the “Firm Volume Price”)</i>	<i>\$6.71</i>	<i>\$6.85</i>
<i>ROFR Gas</i>	<i>\$6.71</i>	<i>\$6.85</i>
<i>Discretionary Gas</i>	<i>Not to Exceed \$9.85</i>	<i>Not to Exceed \$10.05</i>
<i>O-ROFR Gas</i>	<i>Not to Exceed \$9.85 Not less than \$7.00</i>	<i>Not to Exceed \$10.05 Not less than \$7.00</i>

Billing, Payment, and Records (Section 9.4)

This section removes a reference to the LC.

Creditworthiness (Section 12.1)

This section removes Furie’s obligation to provide the LC in exchange for Furie’s promise

to utilize these funds for the following items: (a) finalization of the Water System, (b) additional construction, installation, and operations necessary for Seller to enhance production, and (c) a promise to grant Buyer the O-ROFR set forth in Section 2.2(a). Furie also commits to provide a quarterly status report to verify that the encumbered funds were used solely and exclusively for such work.

COMMISSION APPROVAL

ENSTAR seeks Commission approval due to its direction in Order U-12-125(1), in which the Commission stated as follows:

We advise ENSTAR that any amendments, supplements, modifications, clarifications, or other agreements affecting a GSA subject to our approval must be filed for our approval before gas costs incurred under the affected GSA are included in ENSTAR's rates.

This language indicated to ENSTAR that any amendment of a GSA must be submitted for the Commission's approval before the Commission will approve cost recovery of gas purchased under the GSA in question.

ENSTAR is not seeking a revision of any tariff sheet in this filing. The Furie GSA is already listed in ENSTAR's Determination of Gas Cost Adjustment in Tariff Section 708e (Sheet 89). The effect of the amendment will be taken into account in ENSTAR's next Gas Cost Adjustment determination that is scheduled to be filed May 15, 2021.

ENSTAR respectfully requests that the Commission approve the Fourth Amendment at the conclusion of the standard notice and review period.

Sincerely,

ENSTAR Natural Gas Company



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Attachments:

Attachment A: Fourth Amendment to Gas Sale and Purchase Agreement between Furie Operating Alaska, LLC and Alaska Pipeline Company