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April 15, 2020

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

Subject: Tariff Advice Letter 317-4

Dear Commissioners:

This filing, transmitted in compliance with 3 AAC 48.200-.430 and Order U-12-125(1), seeks approval of the Amended and Restated Gas Sale and Purchase Agreement between Alaska Pipeline Company and Hilcorp Alaska, LLC (“Amended APL-14” or “Agreement”). As explained in more detail below, ENSTAR Natural Gas Company, a division of SEMCO Energy, Inc. (“ENSTAR”) is not seeking to modify its tariff in this filing.<sup>1</sup> Approval of the Amended APL-14 is necessary to meet the gas needs of ENSTAR’s 148,000 Southcentral Alaskan customers during the term. In summary, the Amended APL-14 amends and restates the existing APL-14’s termination date from March 31, 2023 to March 31, 2033, reduces gas costs to customers by approximately \$53.6 million for the period of June 1, 2020 through March 31, 2023, and enhances ENSTAR’s ability to manage its gas supply requirements and its ability to incorporate future contracts with gas producers, if and when economically available.

On April 13, 2016, the Commission issued LO L1600163, approving a gas sales agreement by and between Alaska Pipeline Company (“APC”) and Hilcorp Alaska, LLC (“Hilcorp”) dated December 23, 2015 (“APL-14”). ENSTAR had filed APL-14 for the Commission’s consideration in TA 280-4. APC and Hilcorp have agreed to amend and restate APL-14 as detailed below.

ENSTAR respectfully requests: (1) approval of the Amended APL-14<sup>2</sup> as an amendment to a base gas supply contract; (2) approval of the letter agreement governing gas purchases until the Commission acts on the Amended APL-14 (“Letter Agreement”)<sup>3</sup>; and (3) approval to recover all gas, transportation, and storage costs related to the Amended APL-14 through its gas cost balance account and gas cost adjustment (“GCA”). ENSTAR requests that the Commission

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<sup>1</sup> 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.

<sup>2</sup> See Attachment A, the Amended and Restated Gas Sale and Purchase Agreement between Alaska Pipeline Company and Hilcorp Alaska, LLC.

<sup>3</sup> See Attachment B, that Letter Agreement dated April 14, 2020.

approve the Amended APL-14 and Letter Agreement at the end of the standard 45-day tariff advice letter approval period, or June 1, 2020. Doing so will allow ENSTAR to begin delivering substantial savings to customers when the new GCA goes into effect on July 1, 2020, and will ensure gas supply certainty for the coming winter and beyond.

### **BENEFITS TO ENSTAR'S CUSTOMERS**

The proposed Amended APL-14 will provide significant benefits to ENSTAR's customers:

- **Savings to Customers.** Savings will accrue to ENSTAR customers as soon as purchases begin. Assuming deliveries under Amended APL-14 begin on June 1, 2020, ENSTAR customers will save approximately 7%, or \$53.6 million, in gas cost through the end of March 2023, when APL-14 is currently scheduled to expire.<sup>4</sup>
- **Assurance of gas supply.** Natural gas production in the Cook Inlet area has declined significantly in the last 15 years, as has the available deliverability from Cook Inlet producers.<sup>5</sup> Local producers have struggled to keep up with the high production costs associated with declining gas reserves, and several have declared bankruptcy. Hilcorp is committing to continue its development of gas reserves in order to supply firm gas to ENSTAR for the next thirteen years, to the Amended Termination Date of March 31, 2033. This gas supply certainty is vital in a time of growing scarcity.
- **Reliability.** Since it began operations in Cook Inlet in 2011, Hilcorp has proven to be a secure and reliable supplier with multiple gas production fields, as well as producer-owned gas storage fields. Hilcorp reliably delivered 82% of ENSTAR's gas requirements in 2019, and is anticipated to deliver 80% in 2020. This reliability was also evident during the 2020 heating season, when ENSTAR's service territory experienced record cold temperatures. Hilcorp reliably provided 60% to 70% of daily requirements during those months with no service interruptions.
- **Optionality.** In the Amended APL-14, ENSTAR negotiated for extensive gas purchase flexibility including call option provisions that, if exercised, will impose a firm obligation on Hilcorp to deliver additional gas on a daily and annual basis. While ENSTAR may purchase up to 97%, or 32.5 Bcf, of its customers' gas supply requirements under the Amended APL-

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<sup>4</sup> This calculation assumes gas purchases under normal weather.

<sup>5</sup> This decline is depicted on Attachment D to this TA letter, "Cook Inlet Gas Production-Average Daily Gas Production."

14, it may also reduce purchases to as low as 64%, or 21.7 Bcf. The Agreement provides ENSTAR flexibility in the overall management of its gas supply requirements: ENSTAR may decrease purchases to secure gas from reliable third-party producers, to the extent such additional supply is available or economical. Finally, ENSTAR may adjust its purchases and timely respond to changes in customer demand due to changing weather patterns and economic factors.

### **BACKGROUND**

For many decades, ENSTAR benefited from multi-year contracts that met all of ENSTAR customers' volumetric and deliverability needs. However, the early 2000s were marked by the departure of prominent Cook Inlet producers; reduced investment in gas production infrastructure; and producers' reluctance to negotiate long-term, firm gas contracts that met ENSTAR customers' complex demand. This instability and producers' unwillingness to commit to firm, long-term gas supply agreements left ENSTAR and its fellow Cook Inlet utilities searching for secure gas supply, even going so far as conducting extensive due diligence on the importation of liquefied natural gas from the west coast of the United States or Canada.

ENSTAR and Hilcorp have built a successful working relationship as parties to previous gas supply agreements, including APL-14. Hilcorp approached ENSTAR with an opportunity to enhance the current agreement, extend the term, and offer substantial benefits to ENSTAR's customers. ENSTAR is aware that Hilcorp, as the largest lease holder in Cook Inlet, is uniquely situated to offer the stability ENSTAR is seeking for its customers' gas supply. After evaluating alternative local gas supply options and assessing Hilcorp's offers, ENSTAR made the decision to proceed with the Amended APL-14. The parties engaged in negotiations for more than a year, during which ENSTAR sought to maximize benefits for its customers. Following these negotiations, the Parties entered into the Amended APL-14. The Agreement gives Hilcorp strong motivation to continue investing in Cook Inlet for an extended period of time, and to deliver reliable gas to ENSTAR's customers for the foreseeable future.

### **KEY AMENDED AND RESTATED FEATURES**

Many of the APL-14 terms and conditions that were approved by the Commission in LO L1600163 have not changed. The key provisions that have been amended and restated in the Amended APL-14 are summarized below.<sup>6</sup> For ease of reference, ENSTAR has also included a redline version of APL-14 to the Amended APL-14; this is attached as Attachment C.

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<sup>6</sup> Capitalized terms used but not defined herein have the meanings provided the Amended APL-14.

**Effective Date & Termination Date.** The Amended APL-14 covers the last three Contract Years of APL-14 and adds an additional 10 years to the Term. The Amended APL-14 is effective on the first day of the month following RCA Approval. Unless earlier terminated by the Parties, the Amended APL-14 terminates on March 31, 2033 (Section 4.1).

**Gas Volumes & Deliverability.** ENSTAR has flexibility under the Agreement to secure between 64% and 97% of ENSTAR's projected gas requirements from June 1, 2020 through March 31, 2033. The assumed base Firm Annual Contract Quantity for each Contract Year is 25 Bcf (Section 2.3(A)(1)). The Amended APL-14 increases annual Firm volumes by 2.9 Bcf compared to APL-14.

ENSTAR customers' demand can fluctuate significantly with the weather, which was especially evident during Contract Year 2 of APL-14 (2019-2020), when ENSTAR's service territory experienced record warm temperatures during the summer, and record prolonged cold temperatures during the winter months. To allow ENSTAR to manage winter demand and CINGSA storage inventory, the Amended APL-14 provides Daily Call Option gas volumes of 4 Bcf in each Contract Year. Daily Call Option Gas is available for purchase at ENSTAR's sole option. Furthermore, under the Amended APL-14, ENSTAR retained its ability to purchase an additional 20 MMcfpd of Needle Peak Call Option Gas on 25 days to manage extreme peaks in gas usage during the winter.

To allow ENSTAR greater flexibility to align its gas purchases with customers' demand, the Amended APL-14 provides for two mechanisms to adjust ENSTAR's Firm annual Gas purchases. First, Section 2.8(B) of the Amended APL-14 allows ENSTAR to deliver a Minor Adjustment Notice to Hilcorp, automatically decreasing the Firm ACQ that ENSTAR desires to purchase in the following year by up to 5% for reasons attributable to weather variability or customer conservation (but not to purchase gas from third parties). This Minor Adjustment mechanism is available to ENSTAR throughout the Term, though it is not cumulative—the Firm Annual Contract Quantity resets to 25 Bcf per year, unless otherwise modified as permitted under the contract.

Second, Section 2.8(A) also provides a mechanism for ENSTAR to either decrease Firm Gas purchases by up to 2.19 Bcf ("Turn-Down Option") or increase its Firm Gas purchases by up to 3 Bcf ("Turn-Up Option") on an annual basis provided notice is given 24 months prior to the start of the Contract Year when such volume adjustments will be in effect.<sup>7</sup> This optionality allows ENSTAR to continue to purchase firm gas supplies from Hilcorp if additional gas is needed or, alternatively, secure contracts with other gas suppliers, if available.

In addition to both mechanisms described above, ENSTAR maintains the ability to reduce annual Firm Gas purchases without penalty in the event customers initiate gas sales service with a third party ("Market Out"), and may negotiate to increase annual volumes if those customers return at a later date ("Market Return"). (Sec. 2.9.)

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<sup>7</sup> Hilcorp has agreed to reduce the notice requirement to 20 months for the 2022-2023 Contract Year. See Letter Agreement, Attachment B.

Firm Deliverability. The Amended APL-14 provides that the Firm Annual Contract Quantity will be delivered as the Firm Daily Contract Quantity (“DCQ”) on each Day during the Term of the agreement as set out in the following chart (Section 2.3(A)(2)). The Firm daily volumes increase three-fold during the heating season to meet ENSTAR customers’ increased demand. This represents an increase of 20 MMcfpd in maximum Firm DCQ compared to APL-14.

<b>Firm Daily Contract Quantity</b>	
<b>Months</b>	<b>MMcfpd</b>
April	45
May-October	40
November	90
December-February	120
March	90

Optional Deliverability. The Amended APL-14 provides two options that give ENSTAR the optional additional daily deliverability—a Daily Call Option and a Needle Peak Call Option. Both are optional to ENSTAR but firm for Hilcorp.

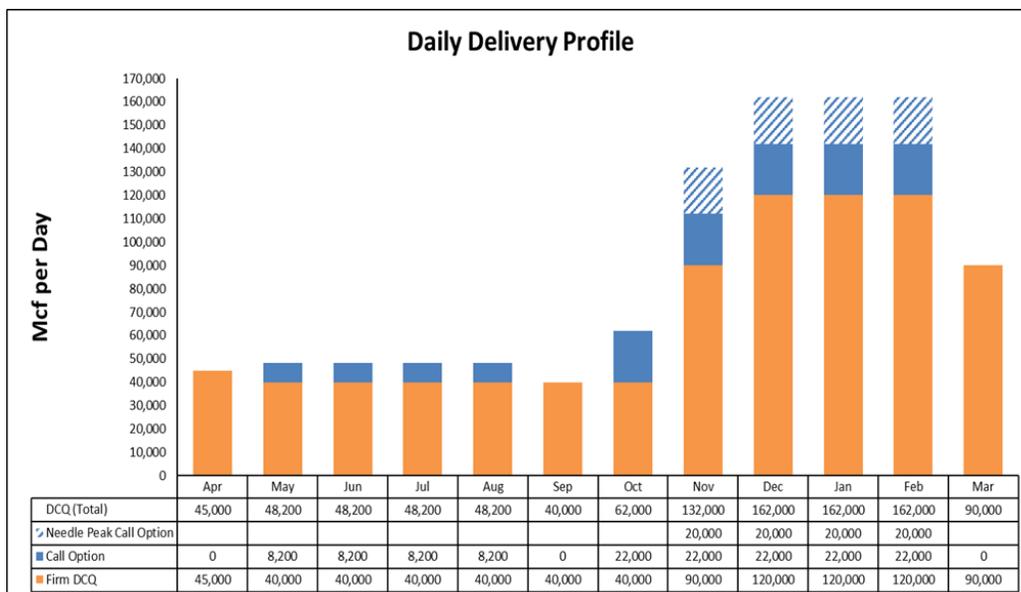
Daily Call Option under the Amended APL-14. APL-14 included a provision for Daily Call Option Gas. The Amended APL-14 also has this option, but the overall volume available is reduced from 4.695 Bcf to 4 Bcf to reflect the increase in Firm Gas available in the Amended APL-14. To accommodate ENSTAR’s need to purchase gas volumes during summer months, when ENSTAR typically injects gas into its storage account in CINGSA, 1 Bcf of Call Gas was shifted to May, June, July, and August. This change helps ensure that ENSTAR obtains summer gas, the availability of which has been constrained in recent years. ENSTAR has the option to purchase the Daily Call Option Gas at a Rate not to exceed the applicable Rate set forth in the chart below (Section 2.3(B)). ENSTAR will pay a nominal fee if it does not purchase at least 2 Bcf of Daily Call Option Gas in any given Contract Year.

<b>Daily Call Option</b>	
<b>Months</b>	<b>MMcfpd</b>
October-February	≤ 22
May-August	≤ 8.2

Needle Peak Call Option under the Amended APL-14. ENSTAR retained the Needle Peak Call Option under the Amended APL-14. Pursuant to this option, ENSTAR may call on up to 20 MMcfpd on up to 25 days from November to February of each Contract Year. Under the Amended APL-14, Needle Peak Call Option Gas is available for one month longer than was available under APL-14. The total annual amount of Needle Peak Call Gas is limited to .5 Bcf (Section

2.3(C)). During the Contract Years when ENSTAR increases annual and daily Gas volumes by exercising its Turn-Up Option, the delivery of Needle Peak Call Option Gas may be adjusted to keep the maximum delivery Rate under the “Seller’s Maximum Deliverability Rate” of 162 MMcfpd.

The combined available 12-month daily delivery profile is shown below and is depicted in Exhibit C to the Agreement.



Additional Volumes. Discretionary Gas may be available, on a firm or interruptible basis, at the discretion of the parties (Section 2.3(D)).

## Pricing.

### Sales Price

Gas sold under the Amended APL-14 will be priced at \$7.55/Mcf in the first Contract Year (Section 7.1(A)), and is subject to adjustment each subsequent year (Section 7.1(B)). The Sales Price will be adjusted each Contract Year depending on the performance of three defined Price Indexes, all of which are published monthly by the U.S. Bureau of Labor Statistics.<sup>8</sup> On an annual basis, the Sales Price cannot increase more than 1.5%, nor can it decrease more than 1%. Throughout the Term of the Amended APL-14, the Sales Price is further limited by a floor of \$7.55/Mcf and a ceiling of \$8.89/Mcf.

<sup>8</sup> Consumer Price Index U.S., Non-Seasonally Adjusted Producer Price Index Commodity, and Seasonally Adjusted Producer Price Index.

Calculating the annual change in Sales Price is performed by following the steps set forth below:

- (1) Determine how much each Price Index has changed, on average, in the two years prior to the Contract Year in question.
- (2) Determine the Annual Price Modifier by calculating the combined average of the Price Index Change Percentages calculated above.
- (3) Apply the collar, ensuring that the Annual Price Modifier stays within +1.5% and -1%.
- (4) Apply the Annual Price Modifier to the prior Contract Year's Sales Price.
- (5) Verify that the calculated Sales Price is within the Sales Price Floor of \$7.55/Mcf and the Sales Price Ceiling of \$8.89/Mcf.

In previous contracts with Hilcorp, ENSTAR has agreed to fixed inflation rates—in APL-12, the inflation rate was 4%, and in APL-14, the inflation rate was 2%. ENSTAR does not believe that an inflexible, always-positive inflation factor appropriately reflects how production costs increase and decrease over time. Consequently, ENSTAR and Hilcorp agreed to index the Sales Price to both consumer-driven and producer-driven inflation indexes. This ensures the producer is compensated when prices go up, but also allows customers to benefit from downward price pressures in the market.

### Fees

In addition to the Sales Price, the Amended APL-14 provides for payment of certain fees and charges. These are set forth below:

- *Needle Peak Reservation Fee*. If ENSTAR exercises its Needle Peak Call Option, it will pay a Needle Peak Reservation Fee of \$4 million per Contract Year. The Fee will be paid monthly based on deliveries of overall Firm DCQ (Section 7.1(E)). This fee approach differs from APL-14, where the Needle Peak Call Option cost of \$3 million per Contract Year was embedded in the Sales Price per Mcf of sold gas.
- *Call Gas Carrying Charge*. If ENSTAR does not purchase at least 2 Bcf of Daily Call Option Gas (“Minimum Call Commitment Gas”) during each Contract Year, it will pay the Call Gas Carrying Charge of \$1.00/Mcf for unpurchased Daily Call Option Gas volumes (Section 7.1(F)).

- *Firm Volume Adjustment Fees.* ENSTAR must pay certain fees in the event it decreases purchases from the base Firm Annual Contract Quantity of 25 Bcf pursuant to the options set forth below.
  - Minor Adjustment Fee. In a Contract Year in which Buyer only exercises a Minor Adjustment but not its Turn-Up or Turn-Down Option, a Minor Adjustment Fee of \$160,000 or \$330,000 will be charged, depending on the volume of the Minor Adjustment (Section 7.1(G)).
  - Turn-Down Option Fee. In a Contract Year in which Buyer exercises a Turn-Down Option, but no Minor Adjustment, a Turn-Down Option Fee of \$290,000 or \$570,000 will be charged, depending on the volume of the Turn-Down Option (Section 7.1(H)).
  - Adjusted Turn-Down Option Fee. In a Contract Year in which Buyer exercises a Turn-Down Option, and has also exercised a Minor Adjustment, an Adjusted Turn-Down Option Fee of \$450,000 or \$900,000 will be charged, depending on the volumes of the Turn-Down Option and the Minor Adjustment (Section 7.1(I)).
  - Adjusted Turn-Up Option Fee. In a Contract Year in which Buyer exercises a Turn-Up Option, and has also exercised a Minor Adjustment, an Adjusted Turn-Up Option Fee of \$200,000 or \$390,000 will be charged, depending on the volume of the Minor Adjustment (Section 7.1(J)).

Price Savings for the Remaining Term of APL-14.

Applying the difference in price between APL-14 and the Amended APL-14 to the volumes available under APL-14 from June 1, 2020 - March 31, 2023, customers will save approximately \$53.6 million assuming customer demand under normal weather conditions.<sup>9</sup>

To meet its customers' demand, ENSTAR requires a higher service level from producers than other utilities in Cook Inlet. Despite its complex requirements, ENSTAR negotiated a competitive Sales Price and market-consistent collars to ensure the stability of pricing for the upcoming thirteen years. This will add stability to the economy of Southcentral Alaska.

**Cook Inlet Natural Gas Storage Alaska (“CINGSA”) – Scheduled Shut-In Events.**

Hilcorp agrees to provide Firm Load-Following Gas to ENSTAR during Scheduled CINGSA Shut-In Events that occur between April 1-October 15 of any Contract Year. The two

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<sup>9</sup> ENSTAR used 10-year historical weather data to determine “normal weather conditions.”

parties will work together to meet ENSTAR customers' varying demand even when ENSTAR cannot inject gas into or withdraw gas from CINGSA (Section 2.6(D)).

### **Cybersecurity.**

The Parties added a cybersecurity provision to the Amended APL-14 in light of the growing risks posed to the energy sector by Cybersecurity Incidents. The Parties agree to follow industry standard practices to ensure that effective cybersecurity controls are used and to take reasonable steps to protect proprietary extraction, processing, transportation, distribution, and delivery technologies and processes from a Cybersecurity Incident. Parties also agree to carry a cybersecurity insurance policy. The Parties agree to provide Formal Notice within 24 hours to the other in the event of a Cybersecurity Incident and Regular and Operational Notices if such Cybersecurity Incident poses an immediate threat to Firm Gas Sales (Section 16.11).

### **ENSTAR-HILCORP 2020 TRANSITIONAL PURCHASE PLAN**

Contract Years under the Amended APL-14 are defined as April 1 - March 31. Since the Agreement was finalized after the commencement of the 2020-2021 Contract Year, the Parties entered into a letter agreement to address how Gas deliveries and pricing will be handled pending RCA Approval. This letter agreement is attached as Attachment B.

### **ENSTAR'S PROJECTED GAS REQUIREMENTS**

The Amended APL-14 provides ENSTAR considerable flexibility to meet its gas supply requirements. The table below summarizes ENSTAR's annual gas supply requirements through March 2025. ENSTAR has no firm gas commitments beyond 2023. Although the row labeled "Hilcorp - Amended APL-14 Firm" is listed as 25 Bcf, ENSTAR may reduce that amount by as much as 2.19 Bcf in Turn-Down Option each year, as well as an additional 5% for a Minor Adjustment. Conversely, ENSTAR may increase that amount by 3 Bcf in a Turn-Up Option each year. As such, this "Firm" amount ranges significantly. As a result, the optionality provided for in the Amended APL-14 allows ENSTAR to meet up to 97% of its customers' annual load, while simultaneously leaving opportunities for smaller producers to sell gas to ENSTAR.

To assist the Commission in its review, ENSTAR has also prepared graphs showing ENSTAR's 2020-2033 demand and supply forecast; peak day deliverability forecast; average daily deliverability under Amended APL-14; and the average daily gas production in Cook Inlet from 2004 to present. These additional graphs are attached as Attachment D.

<b><u>ENSTAR PROJECTED GAS REQUIREMENTS</u></b>
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<b>Volumes (Bcf)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Hilcorp - APL-14 Firm	11.19					
Hilcorp - APL-14 Call	2.21					
Hilcorp - Amended APL-14 Firm	12.54	25.00	25.00	25.00	25.00	25.00
Hilcorp - Amended APL-14 Call	2.02	4.00	4.00	4.00	4.00	4.00
Hilcorp - APL-14 Discretionary	0.75					
Furie - Firm Gas	3.89	2.07	1.28	0.29		
Furie - Interruptible [includes .25 Bcf of storage transfer gas per settlement]	0.41					
AIX Energy - Firm Gas	1.19	0.27				
AIX Energy - Interruptible	0.02					
BlueCrest - Interruptible	1.16					
Undetermined Supply	-	2.26	3.32	4.31	4.60	4.60
<b>Total Purchase Requirements</b>	<b>35.38</b>	<b>33.60</b>	<b>33.60</b>	<b>33.60</b>	<b>33.60</b>	<b>33.60</b>
Storage Injections	3.27	3.30	3.50	3.50	3.50	3.50
Storage Withdrawals	3.78	3.20	3.50	3.50	3.50	3.50
<b>Net Change in Storage</b>	<b>(0.50)</b>	<b>0.10</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Takes for System Supply</b>	<b>35.9</b>	<b>33.5</b>	<b>33.6</b>	<b>33.6</b>	<b>33.6</b>	<b>33.6</b>
Hilcorp Share	79%	86%	86%	86%	86%	86%

**STATUTORY PUBLIC INTEREST STANDARD**

The standard for approval of gas supply contracts is set forth in AS 42.05.141(d):

*When considering whether the approval of a rate or a gas supply contract proposed by a utility to provide a reliable supply of gas for a reasonable price is in the public interest, the commission shall:*

*(1) recognize the public benefits of allowing a utility to negotiate different pricing mechanisms with different gas suppliers and to maintain a diversified portfolio of gas supply contracts to protect customers from the risks of inadequate supply or excessive cost that may arise from a single pricing mechanism; and*

*(2) consider whether a utility could meet its responsibility to the public in a timely manner and without undue risk to the public if the commission fails to approve a rate or a gas supply contract proposed by the utility.*

In approving APL-14, the Commission considered the two-pronged analysis called for in AS 42.05.141(d), and concluded that approval of the contract was consistent with both prongs of this analysis. As to the first prong, the Commission stated that APL-14 allowed “ENSTAR the

option of procuring additional natural gas from other independent suppliers.” LO L1600163 at 2. The Commission further observed that “[t]his option provides ENSTAR with the flexibility to maintain a diversified portfolio of gas supply contracts to protect customers from the risks of inadequate supply or excessive costs that may arise from a single pricing mechanism.” *Id.*

ENSTAR has retained and, in some ways, enhanced its ability to diversify its gas supply portfolio in the Amended APL-14. The Agreement allows ENSTAR to obtain a firm supply of gas for the foreseeable future. Simultaneously, however, ENSTAR negotiated additional optionality in the form of the Turn-Up and Turn-Down Options that create concrete, transparent market signals for producers other than Hilcorp. The Amended APL-14 remains consistent with the legislature’s goal that utilities “maintain a diversified portfolio of gas supply contracts.” And by obtaining Hilcorp’s firm commitment for an additional ten-year term, ENSTAR has protected its customers from “the risk of inadequate supply.”

The Commission also found that the approval of APL-14 was consistent with the second prong of the statutory directive—“whether a utility could meet its responsibility to the public in a timely manner and without undue risk to the public.” In LO L1600163, the Commission stated that “ENSTAR’s ability to meet its responsibility to the public in a timely manner and without undue risk to the public could be compromised if we fail to approve APL-14.” *Id.* As shown in the table above, ENSTAR faces significant gaps in its gas supply portfolio in the years ahead. Approval of the Amended APL-14 will help ensure that ENSTAR may continue to meet its responsibility to the public in the years to come.

The Agreement strikes a balanced approach to securing gas volumes under reasonable terms and conditions of service over the contract period, with built-in flexibility that mitigates price and volume risk to ENSTAR and its gas supply customers. The Amended APL-14 meets the first prong of AS 42.05.141(d) because it leaves gaps in ENSTAR’s supply portfolio that are transparent and public, allowing for other producers to continue selling gas to ENSTAR in the future. The Agreement meets the second prong of AS 42.05.141(d) because ENSTAR has a firm source of gas supply going out an additional ten years beyond the existing supply horizon at a reasonable price. Without this firm gas supply, ENSTAR risks not being able to provide gas to its 148,000 Southcentral customers. By creating price stability over a longer term, approval of this Agreement will lend a measure of stability to Southcentral Alaska at a time of growing scarcity. For these reasons, ENSTAR seeks Commission approval of the Agreement and respectfully submits that the Amended APL-14 meets the standard set forth by the legislature in AS 42.05.141(d).

**COMMISSION APPROVAL**

ENSTAR seeks Commission approval pursuant 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 [gas sales agreement or “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 gas sales agreement 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. APL-14 is already listed in ENSTAR’s Determination of Gas Cost Adjustment in Tariff Section 708e (Sheet 89). The effect of the Amended APL-14 will be taken into account in ENSTAR’s next annual Gas Cost Adjustment revision required to be filed on or before May 15, 2020, to be effective July 1, 2020.

The proposed Amended APL-14 is intended to meet the majority of ENSTAR’s outstanding gas requirements through the first quarter of 2033, and to do so at a reasonable price and in a way that ensures ENSTAR the flexibility to adapt to changes in its customers’ demand. Importantly, with Commission approval of the Amended APL-14 and the associated letter agreement, ENSTAR can accomplish two simultaneous goals: (1) provide certainty of gas supply for the foreseeable future, and (2) create opportunities, based on transparent market signals, for other producers to continue selling gas to ENSTAR.

ENSTAR respectfully requests that the Commission approve the Amended APL-14 by June 1, 2020.

Sincerely,

ENSTAR Natural Gas Company



Chelsea Guintu  
Supervisor of Rates and Regulatory Affairs

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Attachments:

- Attachment A: Amended and Restated Gas Sale and Purchase Agreement between Alaska Pipeline Company and Hilcorp Alaska, LLC (“APL-14”)
- Attachment B: Letter Agreement dated April 14, 2020 between Alaska Pipeline Company and Hilcorp Alaska, LLC.
- Attachment C: Redlined comparison of APL-14 versus Amended APL-14
- Attachment D: ENSTAR’s 2020-2033 demand and supply forecast  
Peak day deliverability forecast  
Average daily deliverability under Amended APL-14  
Average daily gas production in Cook Inlet from 2004 to present