

Kenai Peninsula Borough Assembly

MEMORANDUM

TO: Wayne Ogle, Assembly President
Members, Kenai Peninsula Borough Assembly

FROM: Kelly Cooper, Assembly Member (B) for K.C.
Will Dunne, Assembly Member (B) for W.D.

DATE: April 4, 2019

RE: Resolution 2019-028, Authorizing the Kenai Peninsula Borough to Intervene in the Enstar Natural Gas Company Homer Extension Surcharge Tariff TA310-4 (Cooper, Dunne)

It recently came to our attention that Enstar has filed a tariff with the Regulatory Commission of Alaska ("RCA") proposing to revise its methodology for calculating the rate of return and income tax portion of the actual costs for the Homer Extension. This relates to the 22-mile distribution pipeline that Enstar finished constructing in 2013 which transports natural gas from Anchor Point through the City of Homer to the eastern boundary of Kachemak City. While a portion of the project was paid for with an Alaska state grant obtained by the City of Homer, the remaining costs were to be paid with a surcharge in the amount of \$1.00 per Mcf until the costs were recovered.

According to a letter filed by Enstar to the RCA the Homer Extension surcharge has not been sufficient to cover the carrying costs on Enstar's net investment in the Homer Extension; and, it does not appear that it will be enough to retire the remaining balance of the costs unless the surcharge amount or methodology are changed. Enstar attributes the failure to recover the costs to the volumes used being significantly less than originally forecast. They indicate that because the surcharge receipts did not recover the carrying costs the balance of the surcharge contribution in aid of construction has increased.

However, it appears that the \$1.8 million in surcharges paid since 2013 may have gone to return and taxes instead of paying down the construction costs and that unrealized returns and taxes have compounded on a monthly basis.

To the best of our knowledge Enstar has not informed the borough of the rapid accumulation of compounding debt which is now more than double the amount indicated to the RCA in Enstar's 2012 tariff filing.

Additionally, according to the City of Homer Enstar's documentation and new debt allocation indicates that the debt paid down over the first 26 months is only \$4,000 against the newly stated debt of \$3,560,421. While Enstar suggests that the entire debt may be recovered over a 30-year period using the new formula there is a lot of concern that the surcharge will remain in place for much longer than 30 years, and could even surpass the life of gas supplies available for distribution to the consumers.

This resolution would authorize the borough to intervene in this tariff to protect its interests against these increasing costs. The RCA issued an order inviting intervention with a deadline to intervene of April 22, 2019. The borough and school district own and operate numerous facilities in the impacted area which pay significant sums in surcharges to Enstar and this tariff would directly affect those costs. Your support of this would be appreciated.