

Regulatory Commission of Alaska
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STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

Anthony A. Price, Chairman
Kate Giard
Mark K. Johnson
Robert M. Pickett
Janis W. Wilson

In the Matter of the Tariff Revision, Designated as)
TA167-4, Regarding a Proposed Gas Sales)
Agreement Between ENSTAR NATURAL GAS)
COMPANY, A DIVISION OF SEMCO ENERGY,)
INC. and ConocoPhillips Alaska, Inc. and a)
Proposed Gas Sales Agreement Between)
ENSTAR NATURAL GAS COMPANY, A)
DIVISION OF SEMCO ENERGY INC. and)
MARATHON OIL COMPANY)

U-08-58

ORDER NO. 8

CONCURRING STATEMENT OF COMMISSIONER JANIS W. WILSON

The commission decides this case in epically uncertain times, both globally and locally. World economic conditions now engender anguish and fear. The Cook Inlet gas market has changed and changed again since the commission last looked at a gas supply contract for ENSTAR, only two years ago. Agrium has ceased operations. The LNG liquefaction plant will not close in 2009 as expected. Oil and gas prices, which formerly tracked each other, at least loosely, substantially diverged. Oil prices rose to unimaginable heights and have recently fallen precipitously. It seems that no one is now capable of saying the word "energy" without adding the word "independence" immediately after.

Heat to Alaskans is as vital as air and water. A good portion of heat in the Municipality of Anchorage and the Matanuska-Susitna and Kenai Peninsula Boroughs is made with gas. ENSTAR provides the means, and in most cases the gas, for that heat. It is essential that ENSTAR be able to buy the gas its customers must have.

1 An ENSTAR customer pays the same price for gas that ENSTAR pays
2 Cook Inlet gas producers, its suppliers. There is no add-on for ENSTAR. It retains
3 none of the money a customer pays for gas. That money goes straight to the producer
4 of the gas.

5 A customer pays ENSTAR money to deliver the gas. That money
6 ENSTAR does retain, for its operational costs and profit.

7 Under these circumstances it falls to the commission to balance
8 ENSTAR's absolute need for gas for its customers with customers' interest in paying no
9 more than necessary to keep the gas flowing and themselves warm—that is, the
10 market-clearing price. This is no easy task because the Cook Inlet gas market is no
11 easy market. There are few buyers and sellers, and there is no price transparency
12 except when sales are made to public utilities. ENSTAR is likely not a customer to
13 whom any producer would prefer to sell gas. ENSTAR takes little gas in the summer
14 and huge quantities in the winter. Gas wells produce best and yield most when
15 operated at a steady rate.

16 For forty years ConocoPhillips and Marathon have been exporting natural
17 gas from Cook Inlet to Japan. The American government recently extended the license
18 for those exports to March 31, 2011, finding that "local supplies are adequate to support
19 the proposed export as well as meet local demand requirements. . ." and further that
20 "benefits to the local economy from continuing the operations of the liquefaction plant is
21 [sic] likely to outweigh the impact of a marginal increase in the price of natural gas, if
22 any." One of the benefits noted was that "the liquefaction plant provides a peak-shaving
23 function that actually enhances deliverability during the coldest periods of the winter."

24 ConocoPhillips and Marathon offer up enough gas in these contracts to fill
25 ENSTAR's current gap in supply through 2013. ConocoPhillips and Marathon both offer
26 to curtail gas to the LNG liquefaction plant if ENSTAR needs the gas on cold winter

1 days. I find that promise very reassuring, with the early taste of winter this year. The
2 contracts offer different quantities of gas and contain different prices. They are not fixed
3 prices, which can be quoted. They are proxy prices. The base price of each contract is
4 derived from a basket of Lower 48 prices with add-ons representing ENSTAR's
5 seasonal demand swings.

6 ENSTAR must have the gas these contracts supply. While I would have
7 preferred to establish a fixed price cap with escalators for these contracts, I support this
8 order because in these volatile times a floating price cap is more palatable and, I think,
9 more likely to result in ENSTAR getting the gas. I do have some concern about
10 downside price risk for producers, not because of the prices the commission has
11 chosen for its basket but because of the uncertain times we live in. The contracts do
12 not contain floors to guarantee economic production. A floor would more certainly
13 assure that every Mcf of gas committed under each contract is delivered.

14 ENSTAR's customers should understand that exporting gas they could
15 burn is, counterintuitively, in their long-term interest. The local market, by itself, is too
16 small to merit extensive exploration efforts. New gas, if found in Cook Inlet, will be
17 found for the export market. The local market will benefit from new gas discoveries
18 because Cook Inlet will remain a production basin—with gas appropriately priced at
19 production basin prices. The action the commission takes in this order seeks to ensure
20 that the LNG liquefaction plant benefits rather than burdens Southcentral Alaska.

21 DATED AND EFFECTIVE at Anchorage, Alaska, this 31st day of October, 2008.

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25 Commissioner Janis W. Wilson
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