

State of Alaska
Department of Law

David Márquez
Attorney General
P.O. Box 110300
Juneau, Alaska 99811



Press Contact: Mark Morones

907-269-6393
FAX: 907-269-6305

FOR IMMEDIATE RELEASE

www.law.state.ak.us

PUBLIC ADVOCATE ADVISORY

FOR IMMEDIATE RELEASE: September 29, 2006

RCA Rejects Gas Supply Contract Proposed by Enstar

(Anchorage) - Yesterday the Regulatory Commission of Alaska (RCA) issued a decision rejecting the gas supply contract proposed by Enstar Natural Gas Co. with Marathon Oil Co. because Enstar did not meet its burden of proving that the contract provided for a sufficiently reliable gas supply at a reasonable price.

Enstar filed the proposed gas supply agreement (GSA) with Marathon for supply of natural gas from Marathon's proven reserves in the Cook Inlet beginning in 2009. The contract proposed to use a 12 month average of the Henry Hub Index (HHI) to price the gas. Last December Attorney General David Márquez elected to participate in the RCA proceeding to oppose the proposed rate increase in his capacity as the public advocate for regulated utility matters.

"Enstar's proposed GSA immediately raised concerns because it would have increased natural gas costs to the company's captive ratepayers – a topic of special concern for the Murkowski administration," said Márquez. "More problematic to me was the fact that Enstar sought to justify having consumers pay for gas supplied under this contract utilizing a pricing mechanism intended for use as an incentive to explore for new and undiscovered natural gas resources. Under the proposed Marathon contract, the gas to be sold is based on proven reserves".

"The result handed down by the RCA is consistent with our administration's stance on Henry Hub Index pricing as it relates to Alaska," said Murkowski. "I appreciate the RCA's decision, since it is good for Cook Inlet gas consumers."

This pricing mechanism, known as the Henry Hub Index (HHI) is used to establish natural gas prices for delivery of gas to a number of markets in the southeastern U.S. and, in particular, at the Henry Hub pipeline crossroad in Louisiana. The RCA has used the HHI as a pricing mechanism in previous rate cases as an exploration incentive, to offset the additional costs associated with exploration.

The case went to administrative hearing before the RCA this summer. Throughout the proceeding the Attorney General argued that Enstar must prove both the sufficient reliability of gas supply and the reasonableness of price. The Commission agreed and found an insufficient showing by Enstar on both counts.

More

(Enstar PAA, page 2 of 2)

In its 3-2 split decision, the RCA also adopted the Attorney General's argument that any reasonable market pricing index cannot include add-ons for transportation of the gas from the wellhead to the hub, or add-ons to pay for the seller's production taxes. The proposed Enstar contract included both of those additional increases to the HHI base price index.

Enstar passes its gas costs through directly to consumers by filing an annual gas cost adjustment with the Commission for approval. On the evidence presented in this gas supply case, the RCA rejected the proposed contract because it increased Enstar's current average cost of system gas without sufficient evidence that doing so was just and reasonable under the circumstances.

Enstar's current weighted average cost of gas for 2006 is approximately \$5.00/Mcf. The commission estimated that if Enstar were taking gas under the proposed contract today the price of gas would be approximately \$7.50/ Mcf plus production taxes.

A copy of the RCA's decision is available online at:
http://www.state.ak.us/rca/orders/utills/2006/u06002_15.pdf.

For additional information on this topic please contact Chief Assistant Attorney General Daniel Patrick O'Tierney, Supervisor for the Department of Law's Regulatory Affairs & Public Advocacy Section at (907) 269-5200.

###