

State of Alaska  
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## **PUBLIC ADVOCATE ADVISORY**

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### **Attorney General Asks the RCA to Investigate a Proposed Gas Supply Agreement Proposed by Enstar Natural Gas**

(Anchorage) - Attorney General David Márquez announced today that he has asked the Regulatory Commission of Alaska (RCA) to suspend approval of a proposed contract for natural gas supply submitted by Enstar pending further investigation and hearing. Enstar seeks approval from RCA of a gas sales agreement (GSA) with Marathon Oil Company beginning in 2009.

"The record before the commission is inadequate for approval," said Márquez. "The GSA that Enstar seeks to enter into with Marathon Oil raises significant public policy issues and will, if adopted, impact all of Enstar's captive ratepayers. A matter of special concern for this Administration is increased costs of natural gas for Alaska consumers."

In his formal Comments filed with the RCA Márquez identifies several areas of concern, including whether the terms of the proposed GSA are reasonable and whether the proposed transportation costs are appropriate under existing RCA regulations. The most significant area of concern identified is whether the price that Enstar would pay under the GSA is reasonable based on the proposed use of the Henry Hub index ("HHI") as a pricing proxy for the gas.

The HHI price is based upon the price of gas delivered to the Henry Hub Pipeline crossroad in Louisiana. The HHI is used to establish natural gas prices for delivery of that gas to a number of markets throughout the lower 48 states. In this case, the gas is produced in Cook Inlet for consumption in Alaska.

"Using the HHI as an incentive to encourage development may be appropriate in some circumstances," said Governor Frank H. Murkowski. "However, Enstar's attempt to have the Commission accept the use of HHI pricing in this GSA is unprecedented and unreasonable for a gas supply agreement based on proven reserves."

In approving previous GSAs the RCA has noted that the risks associated with natural gas exploration must be compensated or producers may explore elsewhere. The RCA approved these contracts noting that the HHI price structure is higher than previously approved contracts but that it is appropriate to balance the goal of insuring an adequate natural gas supply in the future against a higher costs to the consumer. A higher price for gas such as the HHI price may be necessary to attract exploration capital.

A copy of the attorney general's comments is available on the Department of Law website at: [www.law.state.ak.us](http://www.law.state.ak.us). For additional information on this topic please contact Assistant Attorney General for Regulatory Affairs & Public Advocacy Section Steve DeVries at (907) 269-5200.

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