



Senate Energy Committee

Development of a Natural Gas Distribution Utility

February 19, 2015

AltaGas

AltaGas
utilities

PNG *Pacific
Northern
Gas Ltd.*

Heritage  *Gas*

 **SEMCOENERGY**
GAS COMPANY

ENSTAR
Natural Gas Company

 *Inuvik
Gas Ltd.*

Agenda



- Overview and principles of Utility Rate Regulation for investor owned utilities
- Overview and highlights of the development of Heritage Gas
- Overview of ENSTAR's recent community expansions
- Questions

Principles of Utility Rate Regulation for Investor Owned Utilities



- Franchise certificate = Exclusive rights to distribute = Monopoly = Regulatory Commission approval of customer tariff
- Regulatory Commission Responsibility
 - Set just, fair, and reasonable rates
 - Regulate the service and safety of utility operations
- Regulatory Compact
 - Provide an investor owned public utility an opportunity to earn a fair return on its investment

Economics of a Rate-regulated Utility for Investor Owned Utilities



- Revenue is limited to:
 - Recovery of prudently incurred costs
 - Recovery of capital investment over time
 - Fair return on capital invested

**Revenue
Requirement**

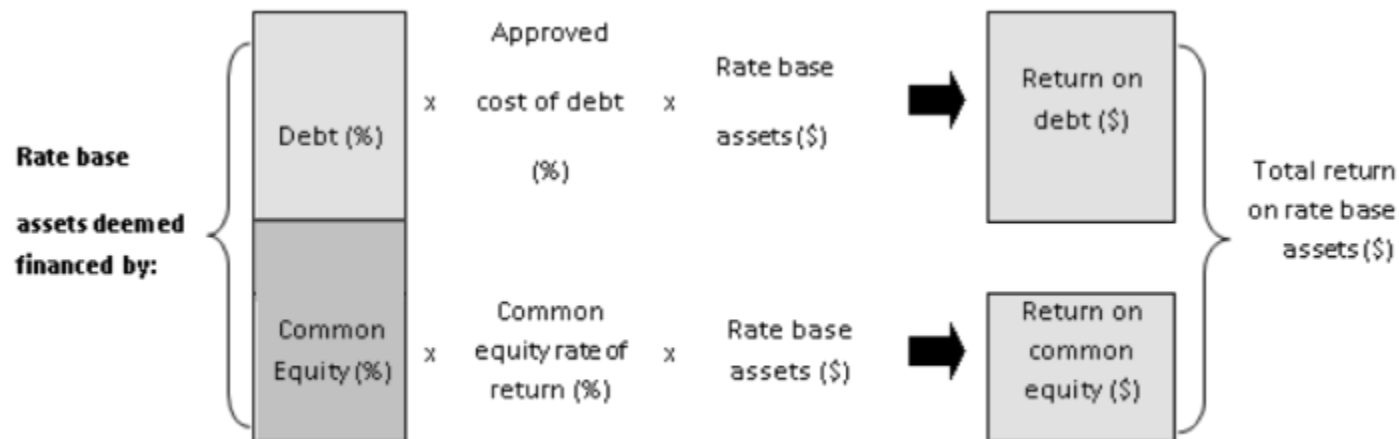
(\$)

Total return
Depreciation & amortization
Income taxes
Operating costs
Cost of natural gas to custody transfer point

Economics of a Rate-regulated Utility for Investor Owned Utilities



- Total Return:
 - Rate base is the investment upon which the utility is allowed an opportunity to earn a return
 - Rate base (the investment) is deemed to be financed in a fashion that an entity with a similar business risk profile would be capitalized



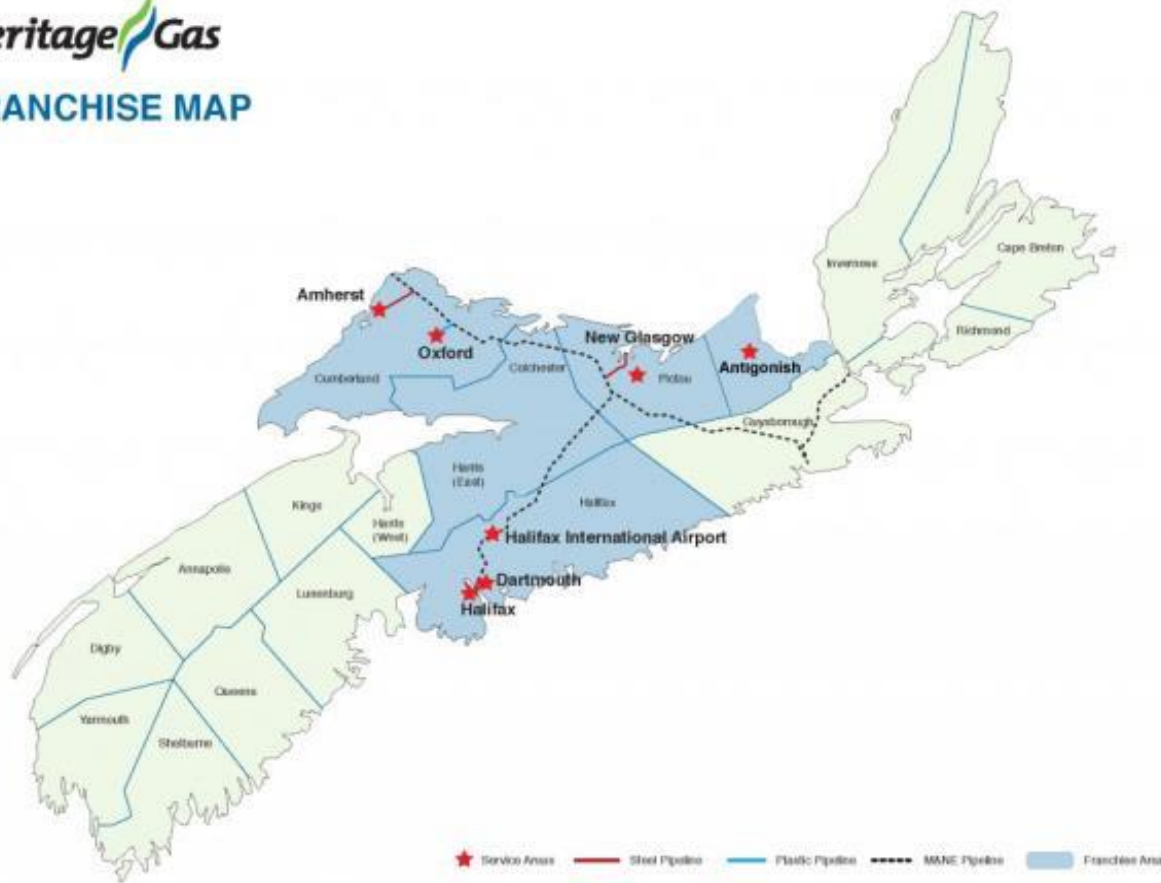
Tariff Setting for Investor Owned Utilities



- Setting customer tariff:
 - The utility's annual revenue requirement is split amongst its customers based on "cost causation"
 - Transmission capacity, mains, service lines, meters, administrative
 - Allocation of the revenue requirement for infant utilities can be burdensome on early customers
 - Revenue deferral mechanisms can protect the early customers from high early tariffs



Heritage Gas
FRANCHISE MAP



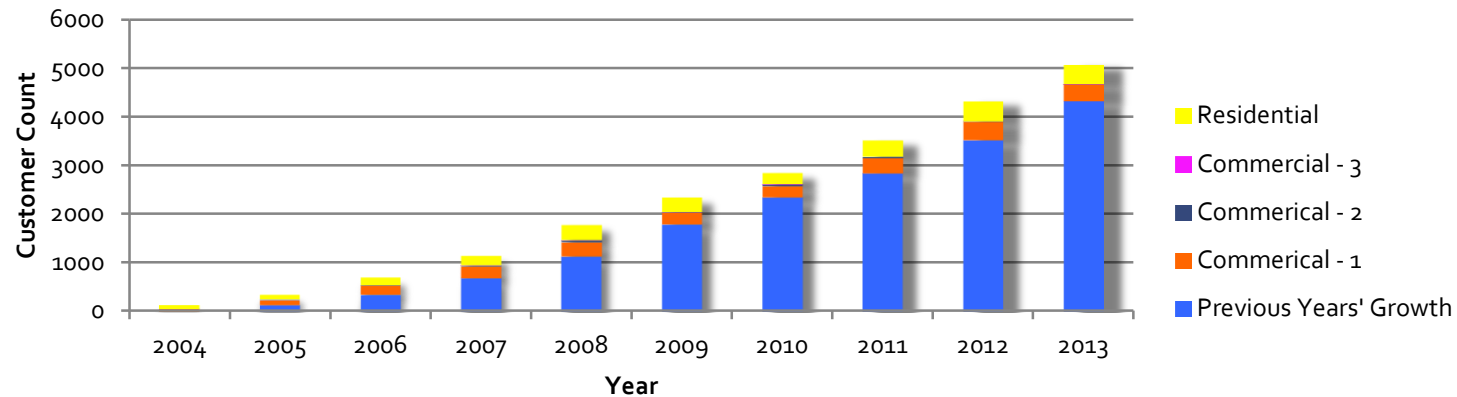


- Franchise awarded: 2003
- Total customers 2013: 5,057
- Total mains pipeline infrastructure 2013: 420 km (261 miles)
- Total potential customers with direct access to mains 2013: 11,000
- 2013 Heritage Gas rate base: \$220 million
- 2013 Volume: 6.2PJ (~6.6 bcf)
- 2013 Heritage Gas customer savings: \$73 million and 200,000 tonnes of greenhouse gas emissions
- Nova Scotia Population: 940,592

Customer Growth



Customer Growth - Heritage Gas



Penetration rates (%)	2013	2012	2011
Activated residential	37	32	29
Activated commercial	60	54	46
All customers	46	40	37



- Residential Customer Tariff (February 2015):
 - Fixed monthly: \$21.87
 - Distribution charge: \$8.615/GJ (\$8.04/Mcf)
 - Cost of gas: \$12.00/GJ (\$11.20/Mcf)

*Note: 1.0 GJ = ~ 1.071 Mcf

Compressed Natural Gas (CNG) Business



- Currently serves industrial customers
- Expanding to Antigonish in 2015, with 313 customers expected during first phase. (\$2.75/GJ rate rider for this CNG service)



ENSTAR Recent Expansions

- Homer
 - 22.7 mile trunk Line
 - Utility Special Assessment District (USAD)
 - 1,315 customers connected with 486 more customers signed up





Questions?