

**ALASKA STATE LEGISLATURE
SENATE JUDICIARY STANDING COMMITTEE**

November 25, 2008

9:03 a.m.

MEMBERS PRESENT

Senator Hollis French, Chair
Senator Charlie Huggins, Vice Chair
Senator Bill Wielechowski
Senator Gene Therriault

MEMBERS ABSENT

Senator Lesil McGuire

OTHER LEGISLATORS PRESENT

Representative Nancy Dahlstrom
Representative-elect Pete Peterson
Representative Les Gara

COMMITTEE CALENDAR

Hearing on Enstar/Aurora Power Customer Gas Supplies

PREVIOUS COMMITTEE ACTION

No previous action to record.

WITNESS REGISTER

MARTIN MARTENSEN
Continental Auto Group
Anchorage, AK

POSITION STATEMENT: Expressed extreme concern about having to find a new source for gas by January 1, 2009.

MIKE GORDON, President
JADON Inc., dba Chilkoot Charlies
Anchorage, AK

POSITION STATEMENT: Expressed extreme concern about having to find a new source for gas by January 1, 2009.

TOM TEIBER, representative
Northwest Airlines Cargo
Anchorage, AK

POSITION STATEMENT: Expressed extreme concern about having to find a new source for gas by January 1, 2009.

MARK SLAUGHTER, Manager
Gas Supply
Enstar Inc.
Anchorage, AK

POSITION STATEMENT: Responded to questions related to the letter that Enstar sent businesses about the possible need to arrange alternative gas supply service for 2009.

DAN DIECKGRAEFF, Manager
Rates and Regulatory Affairs
Enstar Inc.
Anchorage, AK

POSITION STATEMENT: Responded to questions related to the letter that Enstar sent businesses about the possible need to arrange alternative gas supply service for 2009.

BOB STOLLER, Assistant Attorney General
Civil Division
Commercial/Fair Business Section
Department of Law
Anchorage, AK

POSITION STATEMENT: Provided information about the RCA Order No. 8.

ERIC ISAACSON, Vice President
Commercial Assets
ConocoPhillips

POSITION STATEMENT: Read a statement and responded to questions related to Enstar's natural gas contracts.

Dan Clark, Manager
Cook Inlet Assets
ConocoPhillips

POSITION STATEMENT: Responded to questions related to Enstar's natural gas contracts.

CARRI LOCKHART, Manager
Production Operations
Marathon Oil in Alaska

POSITION STATEMENT: Read a statement related to Enstar's natural gas contracts.

STEVE DE VRIES, Assistant Attorney General
Civil Division

Regulatory Affairs and Public Advocacy (RAPA)
Department of Law
Anchorage, AK

POSITION STATEMENT: Responded to questions related to gas contracts and explained RAPA's role before the RCA.

CRAIG TILLERY, Deputy Attorney General
Civil Division, Department of Law
Anchorage, AK

POSITION STATEMENT: Was available for questions.

ACTION NARRATIVE

CHAIR HOLLIS FRENCH called the Senate Judiciary Standing Committee meeting to order at [9:03:07 AM](#). Present at the call to order were Senators Huggins, Wielechowski and French. Also present was Representative Dahlstrom and Representative-elect Peterson.

Enstar Gas Supply Hearing

CHAIR FRENCH stated that the Enstar gas supply hearing was called because of a letter that was sent to some Anchorage businesses advising that they would have to obtain gas from a source other than Enstar by January 1, 2009. Mr. Galindo, who owns Taco Loco, contacted him to ask how he is supposed to secure a new gas supply in a month. About a half dozen other businesses subsequently contacted him with the same problem. Come January 1, 2009 they won't have a supply of gas.

[9:04:03 AM](#)

CHAIR FRENCH said he views this as a sort of microcosm of what the larger Cook Inlet basin faces over the next four or five years as gas supplies get tighter. Thus, it seemed like a good time to: a) get to the bottom of the problem facing the affected Anchorage businesses and b) look at the longer term gas supply issues in the Cook Inlet basin. The agenda today is to hear from affected businesses, Enstar, a Department of Law representative for the RCA, ConocoPhillips and Marathon, and the Department of Law representative for regulatory affairs and public advocacy (RAPA).

[9:04:48 AM](#)

REPRESENTATIVE DAHLSTROM relayed that she too heard from constituents and last week she sent a letter to the RCA asking about a contingency plan. To date she hasn't received a response

or phone call from anyone. "I'm anxious to hear what they have to say."

CHAIR FRENCH noted that Representative-elect Peterson made gas supply issues a large part of his campaign and asked if he had anything to add.

REPRESENTATIVE-elect PETERSON replied he had come to follow the proceedings; he had no questions.

[9:05:41 AM](#)

CHAIR FRENCH called on Mr. Martensen to provide testimony.

MARTIN MARTENSEN, Continental Auto Group, thanked the committee for letting him testify. He said that he received the letter Senator French mentioned and he's concerned about where he will get gas for his four dealerships. "For the next five days we are customers of Aurora Power and then thereafter we'll be customers of Enstar for 31 days." Running his business is stressful enough, and figuring out where to get gas supplies to heat the business on a daily basis is the last thing he wants to worry about. Many people have great concern about what to do next. "We contacted Chevron, we contacted Conoco, we contacted Marathon as the letter suggested...and all of them said 'Well, we're not in the business of providing gas to a company as yourself.' We asked what to do and the suppliers said they didn't know." He said he'd like to know what the next step is and he appreciates legislators looking into the situation.

[9:07:54 AM](#)

MR. MARTENSEN said that Enstar has told him they do not have the gas to take him on as a customer, but it's not because of a gas shortage. It's related to a negotiated price that the RCA finds acceptable. "It's all a bit over my head; all I care is that I'd like to be able to heat my buildings and go on with business."

[9:08:32 AM](#)

CHAIR FRENCH asked how long his company bought gas from Aurora Power.

MR. MARTENSEN recalled that it's been since 1995 or 1996.

CHAIR FRENCH asked if he has ever had to negotiate a different supply contract with another company.

MR. MARTENSEN said no.

CHAIR FRENCH asked how many employees he has.

MR. MARTENSEN replied he has 200 employees and confirmed that he cannot operate without natural gas.

CHAIR FRENCH asked if the information in the letter Enstar sent was helpful.

MR. MARTENSEN replied it really wasn't, but he doesn't want to throw Enstar under the bus because he ultimately wants to be a customer. Calling Chevron, Conoco, and Marathon led nowhere, he said.

[9:09:47 AM](#)

SENATOR WIELECHOWSKI asked if he originally received gas through Enstar.

MR. MARTENSEN explained he was initially an Enstar customer and he switched when Aurora Gas and Aurora Power came along and sold gas at a cheaper rate. It was a 30-day contract so Continental Auto Group was a customer thru November 2008.

SENATOR WIELECHOWSKI asked what volume of gas his business uses in a month.

MR. MARTENSEN replied he didn't know how much the four dealerships use.

[9:10:41 AM](#)

REPRESENTATIVE DAHLSTROM asked if he was ever offered a one-year contract.

MR. MARTENSEN replied a 30-day contract was presented initially and that's what he signed. Either party could cancel with 30-days notice.

[9:11:01 AM](#)

SENATOR HUGGINS noted that he had received a discounted price from Aurora and asked if he can imagine a scenario where he might pay a premium to ensure he had gas.

MR. MARTENSEN replied absolutely. It was a prudent business decision to pay less, but he would be willing to pay a premium.

[9:11:34 AM](#)

MIKE GORDON, President, JADON Inc., dba Chilkoot Charlies, thanked legislators for the opportunity to testify. He said

there's a saying in Africa that when the elephants fight, only the grass gets trampled, and that's how he feels today. In 39 years of operation he thought he'd dealt with every adversity imaginable in the business world, but this one takes the cake. It doesn't seem right that a public utility could single businesses out and decide that they either do or do not get service. "Frankly, I'd like to know how they decided who got these letters and who didn't." On the surface it seems that they went to people who had been getting service from Aurora. He was told to contact Enstar, which he did. He filled out paperwork and signed an agreement and thought everything was fine until he got the letter from Enstar.

MR. GORDON described the November 10 letter as ambiguous. None of the four options worked. The phone number for Marathon was non-working, Conoco and Union both said they weren't in retail business and couldn't help. The last option was Aurora and they had already told him that he couldn't get gas from them. That's when he called Senator French. "I don't have any solutions to offer, I just feel like this is an outrageous set of circumstances." If he doesn't have gas he couldn't operate and all the pipes in the building would freeze and his property would essentially be destroyed. "I appreciate any help you can give me," he said.

[9:14:55 AM](#)

CHAIR FRENCH asked how long he bought gas from Aurora.

MR. GORDON estimated it was about 10 years. In response to further questions he said he has 120 employees.

CHAIR FRENCH noted that a quick-witted person had suggested that Chilkoot Charlies might run on body heat.

MR. GORDON replied that may work on Friday and Saturday, but not on Sunday.

[9:15:30 AM](#)

TOM TEIBER, representing Northwest Airlines Cargo in Anchorage, thanked the committee for inviting him to give his story. He explained that the business has a 50,000 square foot facility at the Anchorage airport and several hundred employees. As others have testified, he too received a letter from his natural gas provider, Aurora Power, advising that they would not provide gas after December 1, 2008. Subsequently, he signed with Enstar to supply gas to his large commercial accounts. Northwest Airlines Cargo already has small commercial accounts with Enstar, he

added. Then on November 10 he received a letter from Enstar advising that it could only confirm commitment for gas until December 31, 2008. He too contracted three of the four gas suppliers listed in the letter and they all said they could not supply gas. Aurora Power was listed as the fourth alternative, but it didn't make any sense to make that call. He said it's frustrating and his sense is that the elephants are playing these businesses, getting them to come testify and push their agenda.

CHAIR FRENCH asked where Northwest Airlines Cargo is located.

MR. TEIBER explained that it is north of FEDEX and adjacent to the Pen Air hanger.

CHAIR FRENCH asked if he is representing the cargo business and not the space heating needs for the different airlines at the airport.

MR. TEIBER clarified he is not representing the terminal building. Northwest Airlines Cargo is a warehouse facility. Responding to further questions he explained that the facility houses over 100 Northwest employees: 200 pilots that are in the facility at various times, and 70 to 80 contract vender employees. The building is slightly smaller than the UPS facility.

CHAIR FRENCH thanked him for coming to testify on short notice.

[9:18:50 AM](#)

ADAM GALINDO, Vice President and CEO, Taku Local Products in Anchorage, said he has about 20 year-round employees and is probably one of the largest food manufacturers in Alaska. He explained that he had been a customer of Aurora for about 7 years and he too received a letter from Enstar advising that he would not receive gas after the end of the year. On average he uses about 3,000 cubic feet of gas each month. He contacted Don Page at Chevron and others and he learned that they don't sell to individual customers.

MR. GALINDO said that a year ago he spent about \$1.2 million upgrading and automating his facility and without a supply of gas he would go out of business. A 1.6 million BTU/hr oven is essentially scrap metal if there isn't any gas. Without gas he couldn't keep the building from freezing and he couldn't produce any product. Competition is fierce in both retail and wholesale and any lag in producing his product would provide outside

companies an advantage that he might not gain back. "I understand the shortage of gas as well as the economic factors of it, but to use our companies as pawns is just absurd." He said he's willing to pay a higher premium.

MR. GALINDO said that 7 years ago Enstar advised him that he would get a cheaper rate from Aurora, but he never would have switched had he known that it would ultimately put him out of business.

CHAIR FRENCH asked if there are other small gas suppliers doing business in the Anchorage area.

MR. GALINDO replied he isn't aware of any.

[9:22:14 AM](#)

CHAIR FRENCH said that the committee would next hear from Enstar.

[9:22:36 AM](#)

MARK SLAUGHTER, Manager of Gas Supply for Enstar, and DAN DIECKGRAEFF, Manager of Rates and Regulatory Affairs for Enstar, introduced themselves.

MR. SLAUGHTER thanked the committee and said they didn't have prepared testimony; they would respond to questions based on the letter Senator French sent to Enstar.

CHAIR FRENCH noted that Andrew White signed the letter that was sent to customers and he assumed that Mr. White did so after having consulted with other Enstar company members.

MR. SLAUGHTER agreed. The reasoning was that it would be imprudent to take on customers returning from Aurora Power when Enstar didn't have gas available. He reminded members that about two years ago Fairbanks Natural Gas didn't have gas under contract and continued to accept customers. "We did not believe that that was a prudent policy to follow and we did not want to allow our customers have that same situation happen to them."

CHAIR FRENCH conceded that it sounds like a good idea but the solutions offered weren't particularly viable. As one witness pointed out, the number for Marathon Oil Company was not and is not operating.

MR. SLAUGHTER said that was a clerical error and Enstar has since made phone calls providing corrected numbers. He then

pointed out that Marathon, under the Marathon Natural Gas Company, has been and is selling gas to third-party customers. "It's not that these companies do not sell... they have in the past and some of them are right now," he said.

[9:25:40 AM](#)

CHAIR FRENCH conceded that his letter had an error; Marathon has some small customers. He asked if ConocoPhillips sells to retail customers.

MR. DIECKGRAEFF replied they did when they were part of Arco and he believes that continued for a time after the merger. ConocoPhillips currently does not sell to retail customers.

[9:26:32 AM](#)

CHAIR FRENCH asked if he believes that ConocoPhillips has sold to retail gas users within the last decade and if so, on what scale.

MR. DIECKGRAEFF replied his recollection is that they were bundling to large, primarily to governmental, units.

CHAIR FRENCH asked if, prior to sending the letter, anyone from Enstar called ConocoPhillips to ask if they were willing to sell gas to small commercial users in the Anchorage bowl.

MR. SLAUGHTER replied Enstar advised ConocoPhillips and the other suppliers about the letter and the contact information. "We have offered to provide back-office support to these companies in the event that they chose to sell...to these customers." Enstar is trying to ensure that no one goes cold, but it doesn't believe it's proper to tell customers that there is a supply of gas come January when there is not a contract in place. "We wanted to get that information out as soon as possible," he said.

MR. DIECKGRAEFF added that Enstar is aware that Marathon Oil and ConocoPhillips do have the gas that Enstar was contracted to purchase and the RCA has not approved.

CHAIR FRENCH responded saying the contract issues would be addressed later; he's still stuck on the letter. Again he questioned whether Enstar specifically asked ConocoPhillips if it would sell gas to the individuals who were going to receive the letter.

MR. SLAUGHTER said that ConocoPhillips didn't indicate one way or another. In response to a question, he said the same applies to Union/Chevron.

CHAIR FRENCH questioned why Enstar placed Aurora Power on the list.

MR. SLAUGHTER replied Enstar did not want to discriminate. "In the event they changed their mind, they're all on 30-day contracts."

CHAIR FRENCH asked if he believes that it's conceivable that Aurora could change its mind and pick up the customers again.

MR. SLAUGHTER said yes.

[9:28:40 AM](#)

REPRESENTATIVE DAHLSTROM asked for an explanation of Enstar's policy on cutting off service to customers in the winter.

MR. DIECKGRAEFF asked if she's referring to transport customers, supply customers or gas supply customers in general.

REPRESENTATIVE DAHLSTROM replied in general.

MR. DIECKGRAEFF explained that Enstar's tariff provides that during extreme weather conditions it stays the normal tariff for residential customers for disconnection for non-payment. Specifically it's for residential life and safety issues. "We were instructed to put that language in our tariff by the commission several years ago," he said. There is no such protection in the tariff for commercial customers. Unpaid commercial accounts are subject to disconnection.

REPRESENTATIVE DAHLSTROM said she understands that the RCA instructed Enstar to include that language.

MR. DIECKGRAEFF said that's correct. That was Enstar's informal policy and the RCA asked for it to be formalized in the tariff. It's been that way for a long time, he added.

REPRESENTATIVE DAHLSTROM asked what the policy is for customers who paid their bills from Aurora for 7 to 10 years before returning to Enstar as a customer. Will they be cut off January 1?

MR. DIECKGRAEFF reiterated that Enstar's tariff does not permit it to bring on customers if there isn't a gas supply for them. "So we cannot bring the Aurora customers onto our system if we don't have a gas supply for them." It would disrupt other Enstar customers and their tariff prohibits that.

9:31:09 AM

REPRESENTATIVE DAHLSTROM asked if any existing customers would be cut off in the event of an extreme cold spell that resulted in excessive consumption of gas. Where would you get the gas for that?

9:31:37 AM

MR. SLAUGHTER said current Enstar customers won't be cut off; there is gas under contract for them. He continued:

We have enough gas January 1 for Enstar's customers. For these returning customers, these customers are in the forecast that we used to negotiate these contracts. We estimated that they would be coming back to us beginning this year. We thought we would have them back sooner so they're in our plan for 2009. We can't control what Aurora Power does and I think that should be the question. ... Why is Aurora shedding customers at this time?

REPRESENTATIVE DAHLSTROM agreed that is a valid question, and again asked if there is gas for existing customers if usage were to suddenly double.

MR. SLAUGHTER replied yes; Enstar has gas for existing customers.

MR. DIECKGRAEFF added that Enstar's gas supply contracts follow the load. The gas supply is structured such that for 2009 certain companies pick up a certain percentage of the forecasted load. Whether it's a warm or cold day they pick up their pro-rata share as the load moves up and down. The gas supply contracts that Enstar negotiated were approved by the RCA with the conditional amendments that have not yet been negotiated. Those contracts were to supply five percent of the load including the anticipated return of [Aurora] customers. Without the contracts that five percent of the load is not covered. The remaining 95 percent of the forecasted load is covered. He continued:

The way the contracts work is they take care of their pro-rata share of our load regardless of what the weather is. So on a warm summer day one company is providing 60 percent and on a cold day they're providing 60 percent. So our contracts provide the deliverability. So if it gets all of a sudden cold and everybody uses 50 percent more, which in reality between a warm day and a cold day they're using 10 times more. Our existing contracts have that flexibility, and our new contracts would cover that as well. So to answer your question again, for existing customers we have existing contracts that will provide that flexibility between the high and the low. So if it does double, they're - we're - covered.

[9:34:40 AM](#)

CHAIR FRENCH observed that those contracts seem to have room to move a lot more gas if it's needed. He characterized it as more of an accounting issue than a gas supply issue.

MR. DIECKGRAEFF asked what customer should be interrupted if Enstar takes these customers on and it gets cold. "We don't have the gas for the cold days. That's why our tariff specifically states that we cannot bring back returning customers unless we have sufficient gas to cover them on the average day as well as the peak day without disrupting our other customers." The only way to take on the returning customers would be to plan to interrupt existing customers that all along have been paying the gas sales contracts at a higher price than the returning customers paid to third-party marketers. Enstar also feels like it is the grass under the elephants, he said. "If the gas supply contracts that we presented to the commission had been approved, we would not have this situation." Enstar and these customers are stuck between the producers' and the commission's separate desires on pricing.

[9:36:56 AM](#)

CHAIR FRENCH noted that Senator Therriault and Senator Dyson had joined the hearing.

SENATOR WIELECHOWSKI asked how much gas those 400 customers typically use.

MR. DIECKGRAEFF estimated it's between .8 Bcf/year and 1.2 Bcf/year.

SENATOR WIELECHOWSKI asked how much gas the existing customers use.

MR. SLAUGHTER replied the 2009 forecasted purchase is 32.1 Bcf.

SENATOR WIELECHOWSKI asked how much gas is available for Enstar to use each year.

MR. SLAUGHTER restated that the forecast is 32.1 Bcf in 2009. He continued to explain that Enstar buys gas under several contracts: a Marathon APL-4 contract, which is a fixed volume of 5 Bcf; a Unocal contract of 19.5 Bcf for next year; the Beluga contract consisting of three producers - ML&P, Conoco, and Chevron - which is estimated at 4 Bcf. The other two contracts would have supplied about 1.6 Bcf.

[9:39:14 AM](#)

SENATOR WIELECHOWSKI asked if the maximum amount of gas available to Enstar next year is 32.1 Bcf.

MR. SLAUGHTER replied there is some flexibility within the contracts. The way these contracts are structured to work is that gas is purchased on a pro-rata basis based on the daily forecast. This includes the legacy contracts. He continued:

If it's warmer than normal, we might buy 31.5, but everyone's percentage at the end of the year would be equal. If it's colder than normal, with these contracts in place we had agreements - and were working toward agreements with others and one of our other legacy contracts - to go above the 32.1. These contracts were all very specifically tailored to work together with our legacy contracts and it's been a very arduous process that we've been working through with our current suppliers to make sure that these contracts meshed very nicely.

[9:40:23 AM](#)

SENATOR WIELECHOWSKI asked if there would be enough gas for current Enstar customers if the winter is very cold and demand goes up to 35 Bcf.

MR. SLAUGHTER said a 10 percent increase would be a challenge for the suppliers.

SENATOR WIELECHOWSKI asked how confident he is that there is sufficient gas to supply current Enstar customers for the coming winter.

MR. SLAUGHTER replied they've thoroughly reviewed the forecasts with their suppliers and the numbers have been vetted. It's a sound forecast, he said.

SENATOR WIELECHOWSKI asked who gets cut off in the event that Enstar runs out of gas.

MR. SLAUGHTER replied they'd follow the tariff so industrial and interruptible customers would be first. Realistically, the first step would be to ask customers to reduce consumption on cold days.

SENATOR WIELECHOWSKI observed that running out of gas isn't the problem, it's the peak days.

MR. SLAUGHTER responded that it depends on the contract. For example, the APL-4 contract is a set amount; next year it's 7 Bcf. In theory that contract could run out on November 4 if it's a cold year. Enstar has been working to bring flexibility into its contracts to allow purchase of additional gas. Now in 2008 they are targeting to bring in the Marathon APL-4 contract as close to 9 Bcf as possible.

SENATOR WIELECHOWSKI noted that .8 Bcf to 1.2 Bcf is roughly one thirtieth of the total gas supply, and asked if he's saying that Enstar doesn't have that amount of gas available for the 400 customers.

MR. SLAUGHTER replied Enstar does not have enough gas under contract to supply those customers without the two contracts that are open before the commission. "Those are customers that chose to leave the system and have benefited from the lower price of gas that Aurora Power was providing them." With the two contracts there will be available gas.

[9:43:33 AM](#)

SENATOR WIELECHOWSKI asked if the gas that Aurora Power provided ran thru Enstar gas lines.

MR. DIECKGRAEFF said yes, but not all of Aurora's gas runs through Enstar lines. Aurora Power Resources is a third-party marketer that procures gas from Aurora Gas. The businesses are owned separately but have the same president. Aurora Gas sells

to other companies and the gas does not run through the Enstar system.

SENATOR WIELECHOWSKI asked if the gas that Taco Loco and Continental Auto Group receive runs through Enstar gas lines.

MR. DIECKGRAEFF said yes.

SENATOR WIELECHOWSKI asked if Enstar collects a tariff on that.

MR. DIECKGRAEFF said yes; Enstar makes the same amount if they sell their gas or haul someone else's. "We are financially indifferent."

[9:44:43 AM](#)

SENATOR WIELECHOWSKI asked if Enstar knew about this potential problem in July when they were before the RCA.

MR. DIECKGRAEFF said yes.

MR. SLAUGHTER added that there was specific and substantial discussion about Aurora Power returning customers and they were included in the forecast. At that time the Aurora attorney questioned including those customers in the forecast contending that there was no indication that those customers would return. "We believe it was prudent, it was proper to include those volumes because in the past they have returned customers." In November or December 2006 Aurora gave back about 500 customers, and there was reason to believe these [400] customers would be dropped and returned to Enstar.

SENATOR WIELECHOWSKI asked if they were directed to give the attorney general or the RCA a list of those commercial customers.

MR. SLAUGHTER replied he doesn't believe so.

MR. DIECKGRAEFF added that request was not made during the course of the hearing.

SENATOR WIELECHOWSKI asked if there was a reason Enstar didn't send notification in July.

MR. SLAUGHTER replied it's up to Aurora to decide which customers to notify. Enstar has a list of all the Aurora customers but they didn't know which, if any, would be retained.

[9:46:36 AM](#)

SENATOR WIELECHOWSKI opined it is short notice to drop service now if people potentially knew about this in July.

MR. DIECKGRAEFF said that in the hearing Enstar stated the belief that this would happen. During the hearing Aurora's representatives challenged the belief that Aurora would return customers. You're asking the wrong people, he said. He continued:

We were notified by Aurora in October that they were going to return customers effective December 1 and provided us the list just the week of Halloween so we got about as much notice as anyone else other than the fact that we had a strong suspicion, and had for some time, that we would be getting some, if not all, of those customers back.

[9:47:38 AM](#)

SENATOR HUGGINS expressed optimism that this meeting would provide a catalyst to solve the problem. He asked for a description of the timeline starting when Enstar began negotiations leading through the RCA process, with particular emphasis on what the RCA said in late October.

[9:48:22 AM](#)

MR. SLAUGHTER explained that Enstar began negotiating for the 2009 volumes in 2004, bringing the APL-5 Marathon contract forward. Unfortunately, the RCA did not accept the contract.

SENATOR HUGGINS asked if that means that the 2008 contracts are actually the second round.

MR. SLAUGHTER said that's correct.

SENATOR HUGGINS asked the timeframe for the first set of contracts.

MR. DIECKGRAEFF explained that the first contract was with Marathon and it called for starting deliveries in 2009 and filling through 2016. Negotiations began in 2004, were submitted to the RCA for approval in 2005, and were rejected in 2006. "Those contracts would have provided 100 percent of our needs—including gas for returning transport customers if we received any—for 2009 all the way through 2016."

SENATOR HUGGINS asked how the price of gas in that initial contract would compare to contracts in effect at the time and to the new contract.

MR. SLAUGHTER replied that the price for 2009 would be approximately \$8.96, which is the current estimated average cost of gas so it would fall in the middle. Comparatively, the Beluga contract for next year will be priced at \$11.20.

SENATOR HUGGINS asked for an update on the current negotiations.

MR. SLAUGHTER explained that in early 2007 Enstar sent out an RFP for gas. Union said it didn't have gas available. Chevron and Marathon were the other respondents and negotiations began with those companies for 2009 volumes. Contracts were signed and submitted to the RCA in April and the hearing was scheduled for the last week of July. The hearing lasted about two and a half weeks and Enstar requested a final ruling by October 31. The RCA approved the two contracts conditioned on the amendments to change the pricing provisions of both contracts. December 1 is the deadline for updating the RCA as to whether negotiations on the amendments were successful.

SENATOR HUGGINS calculated that there were about 30 days to renegotiate.

MR. SLAUGHTER said that's correct and they have met with both companies.

SENATOR HUGGINS asked about the status of those negotiations.

MR. SLAUGHTER replied they are ongoing and confidential, but they will file with the commission next Monday [December 1].

[9:52:20 AM](#)

SENATOR HUGGINS questioned what would happen on December 1 if the negotiations did not go well. When no response was forthcoming, he turned the question around and asked what would happen on December 1 if the negotiations go well. He added that that's what he believes will happen.

MR. SLAUGHTER replied if negotiations go well there will be something to submit to the commission that it can approve. "Then beginning January 1st we will be on our merry way, and we won't be having this discussion any further."

SENATOR HUGGINS asked for a description of the mechanism for producing extra gas on cold days so everyone's pilot light stays lit. He recalled that diverting gas from the LNG plant is one option.

MR. SLAUGHTER said yes; these contracts had specific language that the producers would agree to divert gas from the LNG plant. There's also specific language that the producers would work with Enstar for regasification so gas can be taken off to help cover those peak days in the future. He reiterated that as Enstar buys gas as it gets colder, it continues to buy proportionately from each supplier so everyone provides their equal share.

SENATOR HUGGINS asked if storage is a potential solution going forward.

MR. SLAUGHTER said yes; the Marathon contract provided the benefit of buying gas for storage at a reduced rate.

[9:54:29 AM](#)

SENATOR HUGGINS referred to the discussion about the amount of gas the 400 customers typically use and asked if .8 is use on an average day and 1.2 use on a cold day.

MR. DIECKGRAEFF clarified that that's the annual usage of those customers. He estimated that the peak daily requirement would be between 7,000 and 8,000 cubic feet. Enstar uses approximately 270,000 Mcf on the absolute peak day, he added.

SENATOR HUGGINS questioned how long it would it take to restart the system if all the pilot lights were to go out.

MR. DIECKGRAEFF said that after a total system crash it would take months to purge the air from and relight or restart every appliance.

[9:56:22 AM](#)

SENATOR HUGGINS said that although he firmly believes this will be solved, it's only an interim solution because it's about supply. We have to look at in-state gas and get on with solving the problem for the long term, he said.

[9:57:04 AM](#)

SENATOR THERRIAULT asked if Enstar disagrees with some of the commission's findings.

MR. DIECKGRAEFF replied they aren't in a position to discuss that since it's still an open docket proceeding. They did agree with the RCA finding that Enstar was prudent in entering into the gas supply contracts.

SENATOR THERRIAULT asked if they have responded to any of the points with public documents.

MR. DIECKGRAEFF replied they filed a petition for reconsideration on extending the time of the order. That's the only thing they've addressed thus far.

SENATOR THERRIAULT noted that on page 32 it says that as part of the settlement agreement, ConocoPhillips and Marathon committed to act in good faith, in their sole discretion, to complete gas supply agreements with Enstar that the commission would find acceptable. He said that leads him to believe that there are ongoing discussions to resolve this issue. If not he believes the state has an action against ConocoPhillips and Marathon for the export license. It's not in the state's best interest to shut that industrial use down, but, he said, it seems that the significant leverage that the state has will play in Enstar's favor. He asked if they have an opinion on that.

[9:59:14 AM](#)

MR. DIECKGRAEFF reiterated that they can't discuss ongoing negotiations. We have had discussions with the Department of Natural Resources, he added.

SENATOR THERRIAULT asked if they believe that the terminology that was in the contract would have led to third-party suppliers coming in.

MR. SLAUGHTER said that Enstar has had discussions with the new independent Armstrong oil company as recently as last week about their new North Fork field. They are very interested in selling gas to Enstar. At this point Armstrong is looking what comes of these contracts to determine their decision process.

SENATOR THERRIAULT asked if Armstrong was agreeable with supplying gas at the rates under the terms of the original contract.

MR. SLAUGHTER replied they were interested in seeing market price for their gas. "That's one of the reasons why they are up here looking in Cook Inlet," he said.

[10:00:46 AM](#)

CHAIR FRENCH asked if they know the rough ratio between gas being exported to Japan as LNG and the amount that's used in the greater Anchorage bowl.

MR. DIECKGRAEFF recalled that at full capacity the plant uses 85-95 Bcf/year and the local utility market for home heating and power is about 70 Bcf/year.

CHAIR FRENCH noted that it's roughly 50:50 with just a little more being exported. He asked for Enstar's total annual sales.

MR. SLAUGHTER replied it will be about 32 Bcf in 2009.

CHAIR FRENCH asked who, other than Enstar, supplies gas to commercial users in the Anchorage bowl.

MR. SLAUGHTER listed: Aurora Power, MainCo, and ConocoPhillips - supplying gas to their building.

CHAIR FRENCH asked if they have an idea of Aurora's volume.

MR. DIECKGRAEFF replied it was about 1.4 Bcf/year before they shed the 400 customers

CHAIR FRENCH observed that that is a large portion of that .8-1.2 Bcf/year.

MR. SLAUGHTER said they aren't going out of business, they simply decided to sell gas to different customers.

CHAIR FRENCH asked if Aurora is picking up other Enstar customers.

MR. SLAUGHTER said no; beginning January 1 they have a contract to sell to Fairbanks Natural Gas and they're selling to one other industrial customer.

CHAIR FRENCH noted that Senator Wielechowski said that Aurora accounts for between three to five percent of the gas sales in the Anchorage bowl.

[10:03:30 AM](#)

MR. SLAUGHTER replied that sounds about right.

SENATOR WIELECHOWSKI asked if Aurora is regulated by the RCA.

MR. SLAUGHTER said no; Aurora Power is a third-party marketer and Aurora Gas is an exploration and production company.

SENATOR WIELECHOWSKI noted that page 33 of the RCA order says that when the LNG export was granted, the producers were allowed to export up to 98.1 Bcf [of LNG between April 2009 and March 2011]. He said he finds it ironic that there's a squabble over .8-1.2 Bcf/year for in-state use when 98.1 Bcf is being exported to Japan.

MR. SLAUGHTER clarified that there is plenty of gas available in Cook Inlet, but the RCA must approve the purchase price of the gas. Enstar is a regulated utility and it has to be able to recover costs to stay in business so those contracts must be approved to go forward. The LNG plant provides backup and is integral to Enstar's future plans, which is one reason they supported that license extension with the state. During the RCA hearing they discussed how the LNG plant figures into the plans to build a line from the Foothills. Without an industrial tenant there isn't enough demand in Cook Inlet to consider any North Slope or Foothills gas. Now Agrium is out the market and the LNG plant isn't running at capacity either. The contracts very clearly stated that there was agreement to divert the gas, but without that plant the deliverability drops and there would be more problems on cold days.

[10:06:47 AM](#)

SENATOR WIELECHOWSKI asked for Agrium's total volume and peak capacity on an annual basis.

MR. DIECKGRAEFF stated that at peak capacity, before any shortages, Agrium was using 55-60 Bcf/year.

SENATOR WIELECHOWSKI asked what they estimate it costs to produce 1 Mcf of gas. He added that he's heard it's between 50 cents and \$1.00.

MR. DIECKGRAEFF responded that isn't realistic. He's seen information in a lawsuit indicating that for a low-cost producer and taking embedded costs into account, it's three to four times higher than that range.

SENATOR WIELECHOWSKI asked if that means that it'd be about \$4.00.

MR. DIECKGRAEFF reiterated that he's seen numbers in a lawsuit that are three to four times higher than the numbers he quoted.

10:08:18 AM

SENATOR WIELECHOWSKI calculated that would be between \$1.50 and \$4.00, and added that Cook Inlet residential users currently are paying \$8.96/Mcf.

MR. DIECKGRAEFF said Enstar's price effective January 1 is \$8.99 and the price for the Beluga field is \$11.96.

10:08:55 AM

REPRESENTATIVE DAHLSTROM asked what Enstar will do and what will happen to the 400 customers come January 1 if these contracts aren't negotiated.

MR. SLAUGHTER replied he has every reason to believe there will be a successful outcome. Gas is available in Cook Inlet; it's just a matter of who supplies the gas and who buys it.

REPRESENTATIVE DAHLSTROM asked if Enstar has made a decision about what it will do in the event of the worst case scenario.

MR. DIECKGRAEFF said that Enstar has discussed the possibility of providing about back-room and billing support if the gas producers were to sell directly to those customers.

REPRESENTATIVE DAHLSTROM asked if she's hearing that there is a plan in place so that these customers won't be shut off.

MR. SLAUGHTER replied that continues to be evaluated. There is no desire for customers to have no gas. December 1 is the deadline and more decisions have to be made thereafter.

REPRESENTATIVE DAHLSTROM said she too hopes the negotiations are successful, and asked if a representative from Aurora would be testifying.

CHAIR FRENCH said Aurora isn't regulated and wasn't invited today.

10:11:21 AM

SENATOR THERRIAULT asked if they believe that Enstar's success is tied to the long-term operation of the LNG plant.

MR. SLAUGHTER said that's correct. His understanding is that it's easier on the wells if production is even and steady, which is why an industrial load is necessary for a bullet line to be feasible. "You're not going to have .5 B/day pipeline and only

run it with a 100 million in there." For that reason Enstar views the LNG plant as an anchor tenant. In the short term it's necessary to have the ability to divert gas going to the plant and they're working with the producers to put regasification equipment on the tanks so gas can be pulled off on cold days in order to meet peak deliverability needs. The producers have agreed to work on that because deliverability continues to be a problem as the Cook Inlet fields decline.

SENATOR THERRIAULT remarked that it's also in the state's best interest to have even steady production. AOGCC would likely step in if production fluctuated wildly.

MR. DIECKGRAEFF added that the flat load helps smooth the utility's wild swings between summer and winter and makes the overall takes easier to handle. It's in the community's best interest and it helps to ensure that everything keeps running.

[10:14:41 AM](#)

SENATOR THERRIAULT commented that although you're engaged in tough negotiations with the producers, you aren't here to cast them as the villains because you need them long term to stay in business.

MR. SLAUGHTER responded that's one way to represent it.

CHAIR FRENCH asked for a summary of one or two points that have to be worked out between now and January 1 to ensure that these 400 customers have a supply of gas.

[10:15:29 AM](#)

MR. SLAUGHTER said the key point is price.

CHAIR FRENCH reminded them that although their customers hope Enstar will negotiate a tough price, ultimately they have to heat their businesses.

MR. SLAUGHTER stated that Enstar believes it brought forward contracts with fairly negotiated prices. The RCA ruled that there needs to be a change in the pricing structure and negotiations with ConocoPhillips and Marathon are ongoing so that there is something ready next week.

SENATOR WIELECHOWSKI asked if it's fair to say that there's enough gas for all Cook Inlet consumers next winter and it comes down to whether or not ConocoPhillips believes it's making enough profit.

MR. SLAUGHTER said he isn't sure that profit is the right word, but there is sufficient gas available. He continued:

Aurora has the gas but they're choosing not to keep those customers. Marathon and Conoco have the gas and we've negotiated what we believe to be a fair price and now we're having to go back and renegotiate again with those two entities.

MR. DIECKGRAEFF summarized that the RCA believes that one price is correct and the producers believe that another price is correct. Enstar doesn't make money either way; it makes money by moving the gas. We brought contracts to the RCA that we thought had reasonable prices and were approvable. The RCA thought otherwise and sent us back to the producers to renegotiate prices that the RCA determined.

10:17:50 AM

CHAIR FRENCH remarked that when he read the order he noted that the RCA admonished Enstar for testifying in favor of an export license before it had taken care of its own customers. It's common sense to make sure you're locked down before you agree with shipping gas to Japan. "95 to 98 percent of the people that operate businesses in the Anchorage bowl rely on Enstar so I guess I would echo that remark I saw in the order," he said. Second, he said he doesn't know who dreamed up the letter that was sent out but from his perspective it wasn't a good idea. It was a ham-handed effort to notify customers of a supply shortage when there really is gas out there. The likelihood that you'll shut the valve on those 400 businesses is vanishingly small and you should work it out, he said.

The four major Anchorage businesses that came here today are represented by people who would be better off at their offices working on what they do best, which is selling cars or cooking tortillas. Senator Huggins is correct that we'll hit this point again and again over the next few years and you need to find a different way to work out your differences with the major producers, he said. Although you may feel that you're part of the grass, he said he doesn't think Enstar is that small. "Maybe you're a baby elephant compared to the bigger elephants, but you're not grass and so I hope you'll take a different approach next time." He thanked Mr. Slaughter and Mr. Dieckgraeff for coming.

10:20:27 AM

CHAIR FRENCH said Mr. Stoller with DOL will talk about RCA Order No. 8.

10:20:40 AM

BOB STOLLER, Assistant Attorney General, Department of Law said his client is the RCA commissioners. He assists with adjudications if the RCA orders are challenged on appeal and defends those orders before the appellate courts. Senator French asked him to provide a layman's summary of Order No. 8. In anticipation of questions, yesterday he emailed a detailed functional outline of the order and a summary of the hearing.

MR. STOLLER relayed that the hearing lasted two and a half weeks and four active parties were in front of the commission with Enstar sponsoring their gas supply contracts. Chugach Electric participated in the proceeding as did Aurora Power Resources through counsel. He noted that the DOL also functions in a consumer protection capacity called regulatory affairs and public advocacy (RAPA) and so to avoid any appearance of a conflict of interest he doesn't talk to RAPA people and they don't talk to him. The sole exception is when they're both on the same side of an issue under appeal.

10:23:03 AM

MR. STOLLER said that the commission takes this very seriously. Since U-08-58 is an open docket in front of the commission, DOL has advised the commissioners not to speak publicly about this matter. And because it could result in litigation, he must be circumspect in what he says. "Nothing that I say here today can in anyway shape or form qualify what is in Order No. 8." The order has to speak for itself and the statutes governing the commission on appeal require that. The statutes substantially say that the commission's conclusions of law must be supported by findings of fact and those must be supported by substantial evidence on the record. The commission states its findings repeatedly throughout the order and the order explicitly sets out the evidence upon which those findings are made.

10:24:27 AM

MR. STOLLER said he first would respond to Representative Dahlstrom's question about what the commission will do about the situation that has developed. The commission has discussed this matter and although he is not at liberty to provide substance to those confidential discussions, the crystallizing event will be what is in Enstar's December 1 filing. Whatever is in that filing, the commission will take swift action thereafter. Either Enstar will have negotiated the price caps that were ordered or

it won't. The rationale for ordering the price caps is that from the commission's perspective, the producers have market power that they use to extract a price that is too high. AS 42.05.431(a) specifies that if the commission finds that anything affecting a rate is not reasonable, the commissioner shall establish a reasonable rate by order. That statute is set out on page 15 of the decision and is the legal basis upon which the decision was made.

MR. STOLLER added that although the factual basis for the decision is set out in great detail, there isn't a statute that specifically requires Enstar to bring the contracts to the commission. The Legislature does not require a utility to make its supply arrangements available to the commission for review and approval in advance. "It's not a matter of statute by which Enstar came to the commission; it's a matter of their tariff." He recalled that in the 1980s Enstar modified its tariff and asked the commission to approve their supply contracts in advance and looking forward rather than coming to the commission in the context of a rate case years after their contracts had been executed and have the commission say that in that context they acted imprudently. Mr. Dieckgraeff spoke to that in his presentation this morning and the reference to that is on page 5, line 10 of the order. The tariff section is cited in footnote 20. In summary he said it's the tariff that brings Enstar to the commission in this context, and it's the statute that gives the commission the power and authority to approve the contracts and require the price cap.

[10:27:17 AM](#)

CHAIR FRENCH asked if the price cap is a dollar limit above which the contract can't go or just a different way of arriving at what the price should be by using different points of measurement.

MR. STOLLER replied you're exactly correct; it's a different mechanism for determining price. The commission characterizes it as a dynamic market-driven cap. It has to do with which markets will be used as the measuring instruments. The commission concluded that the array of markets that the producers selected do not share similar characteristics as those found in the Cook Inlet basin. It is unique in that it is the only natural gas producing area that exports gas to foreign countries and as such the commission concluded that a different set of market tests should be used for the pricing mechanism. He said he is not at liberty to characterize it because he might do so incorrectly and to defend it he must do so as it's written.

10:28:34 AM

SENATOR THERRIAULT said he generally thinks of the tariff as the cost of shipping product through the pipe and the different pricing methodology is the price of the gas going into the pipe. He asked, "Do we have two components here?"

MR. STOLLER clarified that a tariff is the written terms and conditions of service that a utility makes available to members of the public. It includes the whole array of terms and conditions, including price provisions. It is a public document that is available for review on the commission's website. This applies to all utilities that the commission regulates; they all have tariffs. Sometimes tariff is used to mean the price that the utility asks for its service. As Mr. Dieckgraeff pointed out, Enstar makes money transporting the gas not on the cost of the gas. The cost is a pass through.

From the commission's perspective, when it is asked to approve a contract that raises Enstar's weighted average cost of gas (WACOG), Enstar wants the commission to approve in advance. Surprisingly enough, although it is within the Legislature's purview to articulate the standards that the commission should employ in determining how to evaluate gas supply contracts in the future, it has chosen not to do so. Currently the commission makes determinations based on evidence submitted during a public hearing process.

10:31:13 AM

MR. STOLLER relayed that he brought the commission's record for the committee to review. The transcript has about 2,400 pages of testimony and the entire record consists of between 5,000 and 6,000 pages of materials. The commission distilled that information into the 35 page order and three concurring opinions from commissioners Giard, Johnson, and Wilson.

SENATOR THERRIAULT asked for some idea of the difference in price under the commission's methodology versus the negotiated methodology.

MR. STOLLER replied it's enough to be significant but he couldn't supply an authoritative answer right now. "I'll be happy to look that up and get back to you later today if you'd like me to do that," he said.

SENATOR THERRIAULT said he's interested in knowing how much difference there is.

10:32:35 AM

SENATOR WIELECHOWSKI asked what standards the RCA uses to determine a reasonable rate of return for the gas producers. He noted that the FERC sets pipeline rates in the neighborhood of 14 percent.

MR. STOLLER pointed out that the Legislature has not empowered the commission to regulate producers. The production of gas is not a public utility service as defined in AS 42.05.990. The Legislature has defined a public utility service as the transmission and distribution of gas, not the production of gas. The commission was not trying to determine a fair rate of return for ConocoPhillips and Marathon; it was trying to find a fair market surrogate for the gas given that there isn't a wide-open and functioning willing buyer/willing seller market in the Cook Inlet basin. He described that as the crux of the dilemma.

MR. STOLLER said that the commissioners are acutely aware of the situation; once Enstar makes the December 1 report on where it is with the producers, there will be a record upon which to take thoughtful action.

10:34:49 AM

CHAIR FRENCH recognized that Representative Gara had joined the meeting.

SENATOR WIELECHOWSKI said we've heard again and again that we own the gas and oil and we lease it to the producers who are entitled to a reasonable rate of return, and you're saying the commission doesn't currently employ that standard.

MR. STOLLER replied as follows:

The Legislature hasn't given the commission the authority to employ that standard vis-à-vis the producers. The commission is a creature of the Legislature. Ratemaking is a legislative function and the commission is a creature of the statute. And so what the commission may do is a function of what the Legislature has put forth in 42.05 for utilities, 42.06 for pipelines and the powers that are reasonably inferable from the legislative provisions as the Supreme Court has ruled. But the commission cannot act lawfully beyond those confines. If the commission were to attempt to set a rate of return for ConocoPhillips or Marathon through the device of these contracts,

that would be a questionable action. I don't want to second-guess an argument I might have to make on appeal, but as I sit here, I think that it would be a stretch to find that the commission has the authority to do that.

[10:36:50 AM](#)

SENATOR WIELECHOWSKI asked if the state has an action it could take if ConocoPhillips or Marathon were to say they didn't want to sell gas at a particular rate and the state thought the rate was reasonable.

MR. STOLLER replied it's a more appropriate question for the Department of Natural Resources (DNR) and the assistant attorneys general who work with DNR, but he thinks that the state would have some leverage. In the mid 1970s the state did take its royalty share of North Cook Inlet gas in-kind and made it available to Enstar's predecessor. The constitutional constraint is that that resource, upon which the state's in-kind share or in-value share is based, belongs to all people of the state and the constitution provides that the state must manage its natural resources for the maximum benefit of all its people. That means that the state cannot take any less on a sale of royalty in kind than if it took the royalty in value. That issue was litigated for years in the Alaska North Slope royalty litigation.

[10:38:36 AM](#)

CHAIR FRENCH said it puts a damper on the idea that the state can sell gas cheaper to Alaskans than on the market.

MR. STOLLER said that's right. The business problem that the commission was confronted with is how to determine a fair value for the gas when there isn't a functioning market in the local area that has lots of willing buyers and sellers to establish a clear arm's length market price for the gas that Enstar should pay and pass along to the ratepayers. Based on the evidence, including the evidence that ConocoPhillips and Marathon exercised market power and constrained Enstar's ability to negotiate, the commission said it thinks that the pricing mechanism - which is characterized as a cap, but actually is a floating and dynamic mechanism - should be applied in this case.

SENATOR THERRIAULT observed that the right to regulate the utility stems from the fact that the state sovereign established the utility as a monopoly. So it's strange here to reach through

the utility to the producer, but he supposes that it's because it's a component of that tariff.

MR. STOLLER interrupted to agree. It's Enstar's tariff and they don't want to be in a position where they might come in for a rate case several years after they've entered into a gas supply contract and have the commission say that the negotiated price was too high and they aren't allowed to collect that much from the ratepayers. "From Enstar's perspective that would be a terrible conundrum and that's why they modified their tariff and that's the instrument which brings us to this proceeding."

SENATOR THERRIAULT referred to Enstar's letter and pointed out that if the customers had to negotiate their own supplier but they could put the gas on Enstar's transportation system, the RCA would have no control over the price those customers pay for the gas, but the delivery mechanism would still be regulated.

MR. STOLLER agreed; that's the market dynamic by which Aurora has made gas available to its customers. The Legislature hasn't defined the production and sale of the commodity as a public utility service, which is why the commission has not had regulatory authority over Aurora. It is free to enter or exit the market without the same constraints on it that Enstar has. Enstar's perspective is that it is the provider of last resort and they want to be assured that they will be able to recover what they pay for gas. He told Representative Dahlstrom that he will see that she receives a response to her letter.

[10:42:37 AM](#)

SENATOR HUGGINS noted that Mr. Dieckgraeff and Mr. Slaughter testified that the price of gas under the original contract would be in the "shot group" of what their gas is today.

MR. STOLLER said he has no reason to doubt their testimony, but he hasn't done research on it so he can't speculate. He offered to do the research.

SENATOR HUGGINS said he would appreciate that because he'd like to hear about lessons learned from that contract negotiation and ultimate disapproval.

MR. STOLLER agreed to do some research.

[10:44:08 AM](#)

REPRESENTATIVE GARA commented that it's a conundrum that there's enough gas to export yet there's a shortage in Anchorage. He

asked if the state's royalty-in-kind rights extend to the natural gas that's being exported.

MR. STOLLER replied that's outside his area of expertise so he can't speculate. He said he would quibble with the assumption that there's a shortage of gas. There are enough molecules of gas, he said, the issue is the price of the gas and who determines the price.

REPRESENTATIVE GARA asked who would know the answer.

MR. STOLLER referred him to the Department of Natural Resources and the oil, gas and mining section of the Department of Law.

REPRESENTATIVE GARA asked if the RCA will take a position on the next export license.

MR. STOLLER replied that AS 42.05.141 authorizes the RCA to advocate and support the state's interest in proceedings beyond itself, but it would probably have to be coordinated with the administration.

[10:46:34 AM](#)

SENATOR THERRIAULT asked if he knows of any other jurisdiction where the producer of a resource like this has been declared to be a regulated utility.

MR. STOLLER replied there may be, but he isn't aware of any jurisdiction where that's happened.

SENATOR THERRIAULT asked if the statutory directive to the RCA is to look only at the tariff on the resource that's being delivered now or is there also a duty to look at the system to make sure that more of the resource is produced.

MR. STOLLER replied the commission's responsibility is a balance between the lowest reasonable price and continuous reliable service. The commission must exercise its judgment to balance that tension.

CHAIR FRENCH recapped that the next step is for Enstar to take the new pricing mechanism and make a deal with the producers.

MR. STOLLER agreed that is what order No. 8 says. From the commission's perspective the contracts are approved, but the price term set forth was excessive so a new price term should be inserted. The appendices set out in detail what the new price

mechanisms are, and the commission is waiting to hear from Enstar on December 1 as to how it is doing.

CHAIR FRENCH asked if we'd be out of the woods if Enstar, Conoco and Marathon went out in the hall and looked at the new price mechanism and made a deal and shook hands.

MR. STOLLER said yes.

At ease from [10:49:17 AM](#) to [10:59:11 AM](#).

CHAIR FRENCH said that representatives from Conoco and Marathon are next to testify. He noted that some members of the public have signed up to testify but there is only time to hear from those who were specifically invited today. He apologized and suggested that they email their comments. They would be given consideration.

[11:00:05 AM](#)

ERIC ISAACSON, Vice President for Commercial Assets for ConocoPhillips, and DAN CLARK, Manager of the Cook Inlet Assets for ConocoPhillips, introduced themselves.

MR. ISAACSON stated the following into the record:

We at ConocoPhillips have worked diligently with Enstar over the last 22 months and invested a lot of time and effort to develop a gas sales contract. A contract that we believed would be acceptable to the Regulatory Commission of Alaska. And we made that judgment based on indications inherent in the commission's other recent decisions on gas pricing in the inlet, and also upon the recommended pricing by the regulatory affairs and public advocacy group within the attorney general's office, known as RAPA. These decisions and recommendations are as follows:

- In 2001 the RCA approved a 450 Bcf contract between Enstar and Union that used Henry Hub as the price basis. Henry Hub is the major trading hub in the Lower 48.
- In 2006 the RCA rejected the same pricing mechanism when the Enstar Marathon contract was proposed. During that hearing RAPA put forward what is known as the Cook Inlet Composite Index, otherwise known as CICI. They put that forward as

the proposed appropriate price for Cook Inlet gas, which is well below Henry Hub.

- Now in 2008 the RCA rejected what we brought forward, which was CICI, as an appropriate price for as long as LNG is being exported.

By this record, it's very difficult to determine what pricing model the RCA will find acceptable for Enstar to recover their costs. At one time even LNG was being proposed as a possible index. Also consistent with these same past RCA rulings, we removed the current affects of transportation to production taxes and incorporated the self imposed production price cap, the CICI index, that had historically been below Henry Hub.

[11:02:59 AM](#)

The contract that we negotiated with Enstar also set forth the framework for Enstar to work with us on studies for using [the] LNG plant for future gas storage. Basically to secure gas supply here to the Anchorage bowl.

We at ConocoPhillips certainly had no interest in spending all the resource time we did over that 22 months developing a contract that we did not believe would be approved. Please appreciate Mr. Chairman that our job in developing a contract that we thought would be approved is significantly hindered by the lack of clarity and the inconsistent signals that the commission sends to the industry.

Mr. Chairman, what the Cook Inlet needs now for its long-term health is more activity not less. How many independents do you see actively exploring or developing gas in the Cook Inlet today? To attract this activity and in order to keep the Cook Inlet alive into the future, we need to have a transparent pricing mechanism that allows a fair market price for the investment in this basin in the Cook Inlet basin—which has distinct cost issues and distinct risk as compared to the Lower 48 basins, which were proposed as pricing mechanisms.

With all that being said, ConocoPhillips is continuing to work with Enstar to develop contractual terms that we believe will resolve this issue. Additionally, we

would like to address the public's concerns on the gas deliverability that arose after many corporations and businesses received Enstar's written communications.

[11:05:01 AM](#)

The RCA stated that ample gas supplies existed in the proposed contracts. These were scheduled to start January 1, 2009 and supply Enstar's uncontracted gas needs for the next five years. Right now some of the concern is that after January 1 the gas goes away. It's there. In fact, there's an existing RCA approved contract that Enstar can call on for the needed gas in 2009. As many of you know the recent export extension that we received has allowed ConocoPhillips to embark upon the largest development program we have had in the Cook Inlet for some time. In 2008 and 2009 we plan to invest approximately \$250 million gross to drill wells in our North Cook Inlet unit and Beluga River units to increase deliverability and gas resource in the Cook Inlet.

So to conclude, ConocoPhillips is investing significant amounts of new capital in the Cook Inlet. We want to see this issue resolved and are working with Enstar to do so. We see the opportunity for continued business investment in the Cook Inlet, but need to realize a market price commensurate with the realities of the cost and risk environment associated with working in the Cook Inlet basin.

[11:06:38 AM](#)

SENATOR THERRIAULT asked for information on the existing contract that could be called on to fill the shortfall.

MR. ISAACSON explained that it's the Beluga River contract that Enstar alluded to that goes through 2009.

MR. CLARK added that Enstar has the right to call on as much gas as they need or desire. The issue is that above a certain point it isn't guaranteed and what ConocoPhillips is saying is there is a supply that it would make available if they called upon it.

SENATOR THERRIAULT asked what the price mechanism is on that gas.

MR. CLARK said it's indexed to the price of oil; it's the one that was quoted at \$11.20

SENATOR HUGGINS observed that \$11.20 is the highest gas price.

MR. ISAACSON agreed.

CHAIR FRENCH said he can understand the frustration with having the Henry Hub and Cook Inlet pricing mechanisms approved and then disapproved. Now there's a third, RCA approved "basket," pricing mechanism laid out on page 28 of the order that uses price points from the El Paso Permian [Basin]; Panhandle [Tx.-Okla]; El Paso San Juan [Basin]; Kern River [Opal Plant]; and TCPL Alberta, AECO-C. Enstar is now going to ask if you'll buy off on that new pricing mechanism, he said. What it boils down to and why there's a hearing today is that 400 customers out there feel like they're getting levered. Enstar thought it had a deal and it doesn't, and they'll be asking you to agree to a lower price. "If the method that the RCA has suggested to you isn't a good one, what is?" It's a fair question, he said, because if you're going to say no, I need an idea of where you need to go with your gas prices to keep everybody warm and dry this winter.

MR. ISAACSON restated that the contracts they submitted used the pricing mechanism that was recommended by RAPA in 2006 and the market dynamics today also suggest hints of pricing mechanisms. He noted that Chevron/Union has chosen not to renew an option on a contract that was 3 Bcf at Henry Hub price; at a recent conference they basically quoted the high cost of drilling, developing and exploring in the Cook Inlet. The cost to work in the Cook Inlet has to be balanced by the market price to stimulate activity. In comparison, the basket of basins that were referenced in the RCA order are all in the Lower 48. In the industry those are called a resource play because they have almost no risk. "The risk is how cheap you can drill because you step from location to location to location and find gas." In the Cook Inlet the costs are considerably more. "We're drilling 9 wells, \$250 million gross, and there's considerable risk."

CHAIR FRENCH asked how much each well costs.

MR. ISAACSON replied it depends on the location and the field. Currently they're drilling in the North Cook Inlet and the Beluga River field. It isn't a low-cost environment.

MR. CLARK added that it's between \$25 million and \$30 million per well.

CHAIR FRENCH referenced a presentation Chugach [Electric Association, Inc.,] made yesterday about the price difference and asked if the negotiated \$9 price would drop to about \$7.40 under the RCA price cap.

MR. ISAACSON replied that's roughly correct; Enstar is quoting a 15 percent difference.

CHAIR FRENCH observed that the argument is basically over a 15 percent price gap.

MR. ISAACSON replied, "Given a certain set of assumptions about what the various indices will do over time, but yes."

[11:13:25 AM](#)

CHAIR FRENCH asked if he agreed with the characterization that a little over half of the total supply in the Cook Inlet basin is exported and a little less than half is burned locally.

MR. ISAACSON replied it looks like the total export of gas for the basin will be about 45 Bcf in 2008.

CHAIR FRENCH questioned how much will be sold to Enstar assuming the contracts are approved.

MR. CLARK replied it varies over time but for 2009 it's 1.1 Bcf.

CHAIR FRENCH reiterated that he'd trying to get an idea of how much is exported compared to how much is burned locally.

MR. CLARK said the existing contract from the Beluga River field is scheduled to be roughly 4 Bcf for 2009. The contract for 1.1 Bcf is in addition to that.

CHAIR FRENCH calculated that ConocoPhillip's total sales to Enstar for a year would be about 5 Bcf.

MR. ISAACSON said that is what the anticipated sales are for next year.

CHAIR FRENCH commented that Enstar must buy the lion's share of gas for local usage from Marathon.

MR. ISAACSON clarified that the gas actually comes from Union under a previously approved contract.

MR. CLARK added it's the 450 Bcf contract that was referenced before.

[11:15:04 AM](#)

SENATOR WIELECHOWSKI asked if there has to be an adequate supply of gas for in-state use before getting approval for export.

MR. CLARK said that's correct.

SENATOR WIELECHOWSKI asked what ConocoPhillips predicted the Cook Inlet reserves to be when they submitted their export license.

MR. CLARK said he didn't recall.

SENATOR WIELECHOWSKI recalled it was about 1.5 trillion [Bcf].

MR. ISAACSON said he remembers it was about 1.7 [Bcf].

SENATOR WIELECHOWSKI asked if that's roughly a 20-year reserve when weighed against the Cook Inlet demand.

MR. ISAACSON said he believes that's about right.

SENATOR WIELECHOWSKI asked if a typical gas reserve lasts about 8 years.

MR. ISAACSON said he understands that a typical Lower-48 reserve lasts between eight and ten years.

SENATOR WIELECHOWSKI observed that there's plenty of gas in the Cook Inlet.

MR. ISAACSON agreed that the available supply is adequate.

SENATOR WIELECHOWSKI asked if he has an idea what reserves are expected from those nine wells.

MR. ISAACSON said they obviously have an idea after looking at the economics, but from a competitive standpoint that information is confidential. The issue for the Cook Inlet is deliverability and that's the essence of the need for the LNG plant. As previously mentioned, a flat profile is important to keep wells from being damaged by production swings. "Drilling the wells that were being drilled are for deliverability reasons."

SENATOR WIELECHOWSKI asked what Chevron is doing with their gas if they didn't submit a bid to deliver gas to Enstar.

MR. ISAACSON replied, "I wouldn't pretend to know what a competitor is doing."

SENATOR WIELECHOWSKI asked where anyone drilling in the Cook Inlet would sell their gas in a market that, other than the LNG plant, is stranded.

MR. ISAACSON clarified that Chevron didn't exercise a future option; it's not gas for today and he doesn't know what their deliverability status will be in the future.

11:18:19 AM

REPRESENTATIVE GARA said he understands the problem of not exporting the gas, but he's interested in knowing how long the supply of gas that's being exported would last if it were used only in state.

MR. ISAACSON replied it was quoted earlier that the in-state usage is 70 Bcf/year and this year ConocoPhillips expects to export 45 Bcf. The term of the license export is less than 100 Bcf so it would last less than a year.

REPRESENTATIVE GARA asked if what's remaining in those fields would last less than a year.

MR. ISAACSON pointed out that he specifically asked how long the gas that is already approved for export would last.

REPRESENTATIVE GARA clarified that he is interested in the fields that ConocoPhillips is exporting from, and how long that gas would last if it were kept for in-state use.

MR. ISAACSON said it's difficult to say because without exports those fields would be shut down and there's no way of knowing what you'd get back when they're restarted.

REPRESENTATIVE GARA said he was encouraged to hear that negotiations are ongoing. Referring to previous testimony about having difficulty figuring out what standard the RCA applied with the price cap, he asked if they could sit down and work that out directly with the RCA...

MR. ISAACSON clarified that ConocoPhillips isn't a party to the RCA proceedings. Those are between Enstar and the RCA, which is the commission that sets Enstar's rates.

REPRESENTATIVE GARA said what he's trying to get at is whether there's someone at the RCA that ConocoPhillips could talk with since they said earlier that it's difficult to know what the RCA order requires.

MR. CLARK replied that the order itself is clear. The past rulings are confusing and make it difficult to come forward with a contract that could be approved. "With all the effort that we did, obviously we got it wrong."

MR. ISAACSON added that they've understood the guidance all along but the latest ruling has created confusion because it appears to be another change in approach. "Each ruling of itself is clear; the problem is that it's changed over time."

REPRESENTATIVE GARA asked if the current ruling is clear.

MR. CLARK replied the ruling is clear as it's written; what isn't clear is the direction for basing price in a basin that has less and less activity over time.

[11:22:09 AM](#)

CHAIR FRENCH said it's clear to him that the proposal roughly amounts to a 15 percent reduction in his gas bill. That's what he took away from the market basket pricing that the RCA is proposing.

MR. ISAACSON said that Enstar put out information bullets on that and it isn't 15 percent of your gas bill it's 15 percent of this particular contract. For the average consumer the impact of having accepted the contract as originally filed was about \$2.00. With the RCA mandated amendments the average consumer's gas bill would be \$17 lower over a year.

CHAIR FRENCH acknowledged that in his letter he erroneously extrapolated that term onto all the Cook Inlet contracts that would come up in the future.

SENATOR WIELECHOWSKI pointed out that that's for this year but the savings for Cook Inlet consumers would increase rather dramatically in future years.

MR. ISAACSON agreed that the volumes on these contracts increase over time so as a relative proportion it probably would change.

SENATOR WIELECHOWSKI added that there's also precedential value for future contracts for in-state gas use.

MR. ISAACSON agreed. But, he said, it also sets a precedent for attracting exploration and development in the Cook Inlet.

CHAIR FRENCH thanked Mr. Isaacson and Mr. Clark for making time to come and talk to the committee and welcomed the representative from Marathon Oil.

11:24:25 AM

CARRI LOCKHART, Manager of Production Operations for Marathon Oil in Alaska, read the following statement into the record:

Marathon has operated in Alaska for more than 54 years, and we value working with all stakeholders toward achieving improved gas supply security for the people of Southcentral Alaska. To illustrate this, over the past 6 years alone, Marathon has invested more than \$450 million in the Cook Inlet and has drilled 65 producing wells. We have a total of approximately 200 employees and contract personnel carrying out our daily operations, and these are high paying, skilled positions that bring positive economic impact to the Peninsula. We are proud of our long-standing business relationship in the community and our demonstrated track record of helping meet the energy needs of local markets.

Consistent with this commitment, Marathon and Enstar have been engaged in active gas supply negotiations for many years and have produced two completed contracts for RCA approval, APL V and the current APL VI. Unfortunately, neither have been approved despite the hard work and efforts of all parties to achieve the necessary balance of reliable, long-term supply and competitive pricing for the required services. We believed both agreements provided a reasonable and fair solution for Marathon, Enstar, and most of all, for the customers of Enstar - the people of Alaska.

We are not here to bring you the industries' problems to solve. We are here today to continue the effort to find solutions, and as part of this effort, to provide

some added context around this matter in the hopes of increasing understanding of the market realities we are facing and the need for rational, fact-based decision making that will be in the long-term best interest of all stakeholders. The issues we face cannot be boiled down to simplistic solutions. These are complex matters that demand careful consideration of the long term consequences of all decisions that are made. I want to assure you that we are committed to doing our part to reach the best possible outcome for all concerned.

11:26:47 AM

In this regard, we are once again working with Enstar, for the third time, to reach an agreement that will be acceptable to the RCA, and there will undoubtedly be more effort to follow with other Alaskan utilities.

However, I would be remiss if I left you with the impression that all is well. It is not. The process of reaching closure on gas contracting has become very troublesome. The lack of well defined standards has made negotiating a contract difficult, with much uncertainty around what will be acceptable to the regulatory agencies. This, in turn, leads to uncertainty for the utilities, for the gas producers and for the area citizens. For the utilities including Enstar, gas reliability is central to their customer service requirements, yet we sit here today with uncertainty abounding. For Marathon, we face an investment commitment in order to ensure this high reliability, yet at the same time we must strive to find ways to manage subsurface technical risk, operational risk and escalating cost of operations, as well as the market volatility and uncertainty - These all must be managed in a way that enables projects in Cook Inlet to effectively compete with other global projects in our portfolio for finite funding - especially in the challenging economy that we are facing today. It is imperative that all parties to these discussions understand the potential unintended consequences of meddling with such a delicate commercial balance.

Marathon is the minority owner of the Kenai LNG plant with our partner and operator ConocoPhillips. Some have taken the view that this strategic facility

should be closed to that gas export volumes can be kept for local consumption with accompanying price reductions. While on the surface, this might seem to make sense, taking such action could have profoundly negative consequences for Southcentral Alaskan gas customers. As the State recognized, the plant provides critical scale for upstream natural gas investments in the Cook Inlet and is a vital backup supply to the local utilities. It's existence is essential despite potentially different views on future Cook Inlet gas supplies. For example, the partners are investigating the potential for alternatives at the plant as a means to extend its life and add to energy security of cold peak day supplies for Alaskan consumers. It is absolutely essential to understand that while gas resources can be plentiful, it matters very little if the industry is not able to produce, transport, store, and deliver the product at the right place at the right time. This is an industry challenge for all energy participants, not just producers. Nor is the challenge merely to find an immediate solution at the expense of future, long-term gas supply security.

Marathon will continue to work toward a solution in pursuing new gas contracts, but we cannot be expected to do so alone. It takes trust, collaboration, and a desire to understand that solutions will not come from shifting blame from party to party. We look to be a partner with industry, government, and regulators to find these solutions.

[11:29:58 AM](#)

CHAIR FRENCH thanked her for coming and for her statement. He said the last scheduled witnesses are from the Department of Law, regulatory affairs and public advocacy section.

[11:30:28 AM](#)

STEVE DE VRIES, Assistant Attorney General, Civil Division, representing Regulatory Affairs and Public Advocacy (RAPA), Department of Law, introduced himself.

CRAIG TILLERY, Deputy Attorney General, Civil Division, Department of Law, introduced himself.

MR. DE VRIES offered to answer questions.

[11:31:20 AM](#)

CHAIR FRENCH asked him to explain to the public what it is he does. Mr. Stoller touched on how the two roles within the Department of Law (DOL) differ but some background would be helpful.

MR. DE VRIES explained that DOL is authorized by AS 44.23.020(e) to have the attorney general participate as a party before the RCA when the attorney general believes that it's in the public's interest. In those proceedings where it's deemed important for a public advocacy role to be identified, the attorney general participates as a public advocate. That role includes representing the interest of consumers and making sure that utilities get a square deal as well. It's designed to ensure that everybody is treated fairly and that reasonable results come out of commission proceedings in which the attorney general participates.

CHAIR FRENCH asked how to balance the tension between the two needs. Enstar needs to move gas and the consumer needs to pay as little as necessary to keep the gas fields producing.

MR. DE VRIES said that's a critical question and the role is basically to identify what a reasonable price is for gas. To that end an outside economist was hired to look at pricing and the precedent that the commission had established and guidelines it had provided in the past. In 2001, under the Unocal contract, the commission moved toward a market-based structure allowing the use of Henry Hub as a pricing proxy for Cook Inlet gas. Before that time most of Enstar's supply contracts used a base price with escalators. The commission allowed that market-based structure because it was characterized as an exploration contract, not harvesting existing reserves. Unocal had promised to find new reserves to meet the perceived gas supply shortage facing Cook Inlet. The next contract before the commission was the 2003 Northstar gas contract to supply gas to Homer. It too was characterized by the commission as an exploration contract because additional delineation and development was required. The next contract presented to the commission was ATL V Marathon, which the commission rejected in 2006. It was not characterized as an exploration contract. The pricing was based on Henry Hub and the commission rejected it for a number of reasons among which was that a nexus for using Henry Hub for pricing Cook Inlet gas was not demonstrated. Thus the viability of the Unocal precedent didn't apply. The commission did provide some guidance in that order, labeled U-06-2 Order No. 15. It said that any contracts presented to the commission that are based on a market proxy must have some demonstrated nexus to Cook Inlet. In that

docket expert testimony was presented and the attorney general first advanced what has been characterized as the Cook Inlet Composite Index. It provided a legitimate nexus to Cook Inlet by providing five pricing points representing the logical places that Alaska gas would trade if it were ever to be exported to the West Coast.

11:37:08 AM

CHAIR FRENCH referred to page 7 of U-08-58 Order No. 8 and asked if TCPL Alberta [(AECO-C)], Canadian Border [(Sumas)], PG&E Malin, PG&E City Gate [and SoCal Gas] were the pricing points that made up the so-called Cook Inlet Composite Index.

MR. DE VRIES said yes; CICI was the proxy that the attorney general first advanced in the APL V contract that the commission rejected in 2006. He emphasized that was the cap, the price for gas that we thought would be fully compensatory to producers to meet Enstar's substantial swing needs was that composite price. Today ConocoPhillips said they used that price in the current contract, but they used it as the floor rather than the ceiling. They built upon the CICI basket and added tiers that function to increase the price above what RAPA previously recommended.

11:38:46 AM

CHAIR FRENCH asked if he's saying that the tier concept is new in these contracts. "Isn't that a fairly standard natural gas pricing mechanism?"

MR. DE VRIES replied, "Tier contracts are a new concept in Alaska gas contracting for Enstar."

SENATOR WIELECHOWSKI asked if he said that the Unocal contract was the first market-based contract.

MR. DE VRIES said yes; it was the first contract that developed a price by using a Lower 48 natural gas trading hub as a proxy for pricing Cook Inlet gas.

SENATOR WIELECHOWSKI asked on what the RCA based pricing decisions before the Unocal contract.

MR. DE VRIES replied he didn't litigate those cases and so he didn't have an answer.

SENATOR WIELECHOWSKI asked if he agrees or disagrees with the producers' testimony that the commission has been inconsistent in applying pricing standards.

MR. DE VRIES said it could be viewed that way, but there is a thread that explains what the commission has done and why they have done it. Lessons from the earlier Unocal and Northstar contracts were that it would allow Henry Hub based pricing for exploration contracts.

SENATOR WIELECHOWSKI questioned whether Unocal and Northstar actually did much exploration.

MR. DE VRIES replied some figures indicate that Unocal spent in excess of \$200 million, but he can't say how much went toward exploration and exploration related efforts.

SENATOR WIELECHOWSKI asked if the standard the commission adopted will encourage investment in the Cook Inlet for further gas exploration.

MR. DE VRIES replied he isn't qualified to answer that question.

CHAIR FRENCH said it's fair to point out that you're looking at this from the perspective of Enstar and the consumer.

[11:41:43 AM](#)

MR. DE VRIES said that what he can say is that the pricing proxy that the commission structured is competitive with what is obtained in producing hubs in the Lower 48. "So from that perspective it appears to be certainly [a] viable means of comparison."

CHAIR FRENCH asked if it's simpler to say that he doesn't believe that the producers will lose money under this pricing structure.

MR. DE VRIES replied he can't answer that question. "Evidence regarding the producers' cost to do business in the Cook Inlet was not produced nor discussed nor a matter that was before the commission."

SENATOR THERRIAULT remarked that this function of the attorney general is to look out for the consumer, but it isn't done with absolute blinders because driving the cost of gas too low would make it unsustainable. He asked how those things are balanced.

[11:43:26 AM](#)

MR. DE VRIES replied the balance is to consider all the factors that will impact the utility market. In the current case the

attorney general looked at the evidence regarding: existing reserves; a pricing proxy and what was suggested to be compensatory; earlier direction from the commission about what would and would not be reasonable; available information about when Enstar needed gas; and pricing vehicles that could be viewed as a reasonable proxy for Cook Inlet gas. Also, they did not advocate for a pricing structure that, in RAPA's opinion, would not have been reasonable and compensatory.

[11:44:36 AM](#)

SENATOR HUGGINS asked if it's practical to expect that Enstar could call on the existing Beluga field contract and pass \$11 gas on to those 400 customers.

MR. DE VRIES said if that contract is a viable source for additional gas for Enstar, they could call on it and those gas costs would be passed along to consumers.

[11:45:30 AM](#)

REPRESENTATIVE GARA asked if the state is entitled to take as royalty in kind one-eighth of the gas that is exported.

MR. DE VRIES replied he isn't the one who can answer that question.

REPRESENTATIVE GARA asked if there is any advantage to Enstar not to negotiate for a lower price with Marathon and ConocoPhillips and tell consumers that the \$11 gas from Beluga is the available option.

MR. DE VRIES replied it would obviously cost consumers more and he must note that this is the first he's heard that the Beluga contract offered a vehicle for meeting Enstar's 2009 gas needs. He didn't recall that Enstar mentioned that during the course of the proceedings before the commission. "I don't know if Enstar would care to comment on that before the committee, but in any event, I don't know that that's true nor do I know that it's not true."

[11:47:45 AM](#)

REPRESENTATIVE GARA questioned whether consumers should worry that Enstar might appeal leaving the Beluga field and paying more for gas as their only recourse.

MR. DE VRIES replied he had no idea of the advantage that might provide to Enstar.

[11:48:37 AM](#)

CHAIR FRENCH found no further questions and said that on December 2 he'll wake up with a keen eye for developments in the case. He added that he continues to believe that the 400 people who received the letter are caught in the middle, but he has every faith that these big commercial players will work this out before next week.

There being no further business to come before the committee, Chair French adjourned the meeting at [11:49:36 AM](#).