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October 30, 2009

Regulatory Commission of Alaska
701 West Eighth Avenue, Suite 300
Anchorage, Alaska 99501

Dear Commissioners:

Subject: Tariff Advice Letter 181-4

The tariff filing described below is transmitted to you for filing in compliance with the Alaska Public Utilities Commission Act and Section 3 AAC 48.200 – 3 AAC 48.420 of the Alaska Administrative Code:

<u>Number</u>	<u>Tariff Sheet Revision</u>	<u>Cancels Sheet Number</u>	<u>Revision</u>	<u>Schedule or Rule Number</u>
221	Eleventh	221	Tenth	Determination of Gas Cost Adjustment

ENSTAR Natural Gas Company (ENSTAR) is proposing a revision of its Gas Cost Adjustment effective with the first billing cycle of January 2010. The pricing provisions of ENSTAR's gas supply contracts index effective each January 1. Placing this revision into effect will decrease ENSTAR's current Gas Cost Adjustment (GCA) by \$1.7514 per Mcf (from \$8.7457 to \$6.9943 per Mcf). This GCA reflects ENSTAR's estimated cost of gas for 2010 and is applied to all gas sales customers served under ENSTAR's tariff.

ENSTAR estimates that the average residential gas sales customer will see about a 16.7% decrease, a 16.4% decrease for small commercial gas sales customers and the average large commercial gas sales customer will see about a 17.2% decrease. For a residential (Schedule A) customer, the decrease will be about \$25.54 for an average monthly bill.

The decrease in the 2010 GCA reflects the overall drop in energy prices since ENSTAR gas supply contracts last indexed in the fall of 2008.

Approved Base Supply Contracts

APL-4 Calculation

The price of gas delivered under the APL-4 (Marathon) contract for 2010 reflects a decrease in the Base Price from 2009. The Base Price is adjusted each year by the daily average price per barrel of Light Sweet Crude Oil Futures (LSCOF) for the quarter ending September 30 of the year prior to the date of the adjustment divided by a base index of \$18.00 per barrel. The daily average price per barrel of LSCOF for the quarter ended September 30, 2009 was \$67.34. The price for 2010 is computed as follows:

Contract Price

Times

Daily Average Price per Barrel of LSCOF
For the Quarter ended September 30, Year Prior to Adjustment
\$18.00 per Barrel

$$\begin{array}{r} \$1.55 \times \$ \underline{67.34/\text{barrel}} \\ \quad \quad \quad \$ 18.00/\text{barrel} \end{array} = \quad \quad \quad \$ \underline{5.80}$$

The Base Price change is limited by the terms of the contract. The 2009 Annual Base Price is \$9.08 Mcf and the calculated 2010 Annual Base Price is \$5.80 Mcf, which is a 36.1% change. Since the Annual Base Price calculation resulted in change of more than 20%, the yearly price change limited by the “collar” provision of the contract to the price of \$6.76 per Mcf. The 2010 gas purchases under the contract reflect a contractual 2,000,000 Mcf step down in volumes. The estimated gas cost for 2010 is calculated as follows:

2010 Base Price	\$ 6.7600
Estimated Taxes and Other	\$ <u>0.0142</u>
Cost of Gas - APL-4 January 1 to December 31, 2010	\$ <u><u>6.7742</u></u>
Estimated Purchases-January 1 to December 31, 2010	<u>5,000,000</u> Mcf
Estimated Cost of Gas-January 1 to December 31, 2010	\$ <u><u>33,871,000</u></u>

Beluga Contract

2009 is the last full year of the Beluga Contract and no volumes are currently projected for 2010.

Unocal Contract

The gas under the agreement is priced using the Daily Average Price of Henry Hub Natural Gas Futures traded on the New York Mercantile Exchange. The Average Daily Price is calculated from the sum of the “Settle” prices reported for a “Current Trading Month” contract (a contract that is in its final month of trading) during the immediately previous thirty-six month period ended each September 30th of the year prior to the year for which the price will be in effect. The Daily Average Price for the thirty-six month period ended September 30, 2009 is \$6.9230.

The Daily Average Price is then compared with a floor price of \$2.75 per Mcf, adjusted annually for ½ of inflation. The Gross Domestic Product Implicit Price Deflator (GDPIPD) for the second quarter of 2009 was 109.686 and GDPIPD for the second quarter of 2001 was 90.590.¹ The floor price for 2010 is computed as follows:

$$\text{Floor Price} = \$2.75 \times \left[\left(1 + \frac{\text{GDPIPD for the Quarter ended June 30 of the Year}}{\text{GDPIPD for the Quarter ended June 30, 2001 (90.590)}} \right) \div 2 \right]$$

$$\$2.75 \times \left[\left(1 + \frac{109.686}{90.590} \right) \div 2 \right] = \underline{\$3.0398}$$

$$\text{2010 Floor Price} \qquad \qquad \qquad \underline{\$3.0398}$$

Since the Daily Average Price exceeds the Floor Price, the Daily Average Price of \$6.9230 will be the Contract Price for 2010.

The final price includes applicable taxes and any reimbursement for RCA-approved tariffs paid for gas delivered through any pipelines constructed after November 2000. Unocal is delivering its gas to ENSTAR through the Kenai Kachemak Pipeline (KKPL), which had its rates approved by the Commission. ENSTAR has estimated an effective estimated rate of \$0.2277 per Mcf based on the charges for the most recent twelve months. As with the tax estimate, any differences between the actual and estimated transportation fees will be picked up

¹ The U.S. Department of Commerce, Bureau of Economic Analysis revised the base year for the calculation of the Gross Domestic Product and the GDPIPD from 2000 to 2005. Thus the GDPIPD for the quarter ended June 30, 2001 is different in this calculation than in previous years.

in ENSTAR's Gas Cost Balance Account. ENSTAR calculates the Estimated Cost of Gas for the Unocal contract as follows:

2010 Contract Price	\$ 6.9230
Estimated Taxes	\$ 0.0000
Estimated Transportation Fee	<u>\$ 0.2277</u>
Cost of Gas – Unocal January 1 to December 31, 2010	<u>\$ 7.1507</u>
Estimated Purchases – January 1 to December 31, 2010	19,500,000 Mcf
Estimated Cost of Gas – January 1 to December 31, 2010	<u>\$139,438,700</u>

Additional Gas Supply Contracts

ENSTAR's tariff provides that additional contracts "having the effect of decreasing the current average cost of system gas supply become effective immediately without notification."² In U-08-142(2), dated December 17, 2008, the Commission required ENSTAR to revise the format of its "Determination of Gas Cost Adjustment" tariff provisions and pages³ to provide the calculation of the "current average cost of system gas supply".

ENSTAR's calculation of its 2010 "current average cost of system gas supply" as shown on the Eleventh Revision of Sheet 221 (Lines (1) a) – (1) f) is summarized below:

Total 2010 Cost of Approved Base Supply Contracts	\$173,309,700
Total 2010 Estimated Purchases	<u>24,500,000 Mcf</u>
2010 Current Average Cost of System Supply Gas	<u>\$ 7.0739 per Mcf</u>

ConocoPhillips Contract

The ConocoPhillips gas supply contract, dated December 1, 2008, sets the price for a contract year at five cents below the current average cost of system gas for that contract year. As a result, ENSTAR calculates the estimated cost of gas for the ConocoPhillips contract as follows:

2010 Current Average Cost of System Supply Gas	\$7.0739 per Mcf
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² Tariff Section 708(f).

³ Tariff Section 708(e), Sheet 89 and Tariff Section 2301, Sheet 221.

True-up Deduct	<u>-\$0.0500 per Mcf</u>
Cost of Gas – ConocoPhillips	
January 1 to December 31, 2010	<u>\$ 7.0239 per Mcf</u>
Estimated Purchases – January 1 to December 31, 2010	4,100,000 Mcf
Estimated Cost of Gas – January 1 to December 31, 2010	<u>\$28,798,000</u>

Marathon APL-7 Contract

The Marathon APL-7 gas supply contract, dated December 8, 2008, sets the price for a contract year at three cents below the current average cost of system gas for that contract year. As a result, ENSTAR calculates the estimated cost of gas for the APL-7 contract as follows:

2010 Current Average Cost of System Supply Gas	\$7.0739 per Mcf
True-up Deduct	<u>-\$0.0300 per Mcf</u>
Cost of Gas – APL-7	
January 1 to December 31, 2010	<u>\$ 7.0439 per Mcf</u>
Estimated Purchases – January 1 to December 31, 2010	4,100,000 Mcf
Estimated Cost of Gas – January 1 to December 31, 2010	<u>\$28,880,000</u>

Gas Cost Balance Account

ENSTAR's tariff provides that the amount in the Gas Cost Balance Account for September 30th of the year prior to the adjustment will be used in the determination of the gas cost adjustment (Section 708e). At September 30, 2009, the Gas Cost Balance Account reflected an over-collection of \$3,499,138 shown at line (2) a) of the Determination of the Gas Cost Adjustment. The supporting documentation for the activity in the Gas Cost Balance account for the quarter ended September 30, 2009 was filed on October 15.

Customer Notification

Beginning with the first November billing cycle, ENSTAR is printing a message on all of its bills announcing the gas cost rate change. A copy is attached for your information. The message will be printed on all bills for gas sales service in November, December and January. In addition, ENSTAR's December bill stuffers will discuss the rate change. ENSTAR issued a press release regarding the gas cost rate change on October 19, 2009, a copy of which is enclosed. Finally, ENSTAR's web site (www.enstarnaturalgas.com) is being updated with the information concerning the gas cost rate change, as well as an electronic reproduction of this tariff advice letter.

Pursuant to Order No. U-75-86(10), ENSTAR is allowed to place the new gas cost adjustment in effect immediately, which is subject to subsequent Commission review. However ENSTAR is filing its annual change in November to allow the Commission and its Staff time to review the filing prior to its implementation. Therefore, the effective date will be January 7, 2010 and the new adjustment will be applied to all bills beginning with the first billing cycle in January 2010.

Very truly yours,

Daniel M. Dieckgraeff
Manager, Rates and Regulatory Affairs

Enclosures:

Eleventh Revision of Sheet 221
2010 GCA Worksheet
Marathon APL-4 2010 Pricing Letter
Union Oil Company 2010 Pricing Letter
GDPIPD 2001 – Q3 2009
Sample Bill with GCA Change Message
GCA Press Release