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# Alaska State Legislature House of Representatives



May 15, 2008

Anthony A. Price, Chairman  
Regulatory Commission of Alaska  
701 W. Eighth Ave., Suite 300  
Anchorage, AK 99501

Re: Regulation of FNG

Dear Mr. Price,

Fairbanks Natural Gas has enjoyed its status for some time as a rate-deregulated utility. For the reasons listed below, it now seems appropriate for the RCA to consider opening a docket to reverse this decision:

1. In the fiscal year ending December 31, 2007, FNG became a profitable entity as seen from the posting of its president's salary of \$185,192. In 2006, the president's salary was \$69,231.
2. In 2007 FNG posted taxable income of \$583,371 and \$962,810 in depreciation allowances.
3. FNG declined to provide information, in a letter dated March 27, 2008, after a request by Representative Ramras, dated March 5, 2008, which asked for disclosure of the following three items:
  - a. rate of the new Exxon gas contract versus the existing Enstar contract rate;
  - b. cost of LNG facility construction and the potential for a cost overrun (construction risk);
  - c. the cost of pivoting transportation from 300 miles of paved Parks Highway to the 400 miles of the notorious Dalton Highway.

4. With the possibility of an Enstar Pipeline or an AGIA/Denali Pipeline, the potential for an instate bullet line or large diameter line in 5-12 years is real. Will the cost of an antiquated North Slope LNG facility be spread to FNG rate-payers over 30 years? The facility may become obsolete after a pipeline is built but survive as a burden on the FNG rate payers.
5. Although the cost of gas purchased from Enstar has remained constant since late 2006 at \$8.71 per Mcf, since that time, FNG has raised its prices from \$14.00 to \$22.91 per Mcf for an increase of 64%.
6. FNG has failed to disclose its variable costs for liquefaction, transportation, re-gasification, and transmission between its purchased costs of \$8.71 per Mcf, and its sale price of \$22.91 per Mcf, allowing for \$14.20 per Mcf in undisclosed costs.
7. Fuel switching for FNG rate-payers has proven cost prohibitive. Residential customers in particular, cannot afford to migrate from natural gas back to fuel oil.

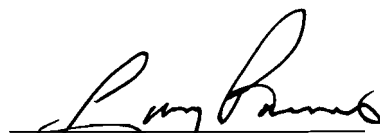
At this cycle in the maturity of FNG as a business interest and the Fairbanks community as a maturing gas market, it is appropriate to ask that FNG join other Fairbanks utilities as a rate-regulated entity. The undisclosed variable costs have led to a rate structure, which is the highest in the U.S., burdening the FNG customer with costs that they cannot understand, delineate, or bear.

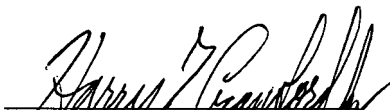
Regulation is a substitute for competition and it is reasonable to conclude that FNG ought to come under the rate-regulated requirement of any certificated monopoly.

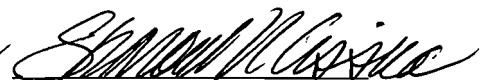
The only way to safeguard the FNG rate-payers is to either allow competition or regulation. Because of their position in the Fairbanks market, it seems that FNG has matured into a healthy, profitable gas monopoly.


We respectfully request the RCA open a docket to consider rate regulation for FNG on behalf of the current and future rate-payers.

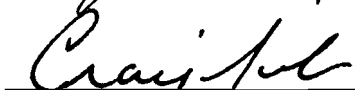
Sincerely,


  
Representative Jay Ramras

  
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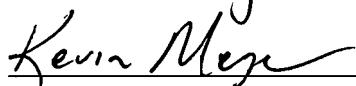
  
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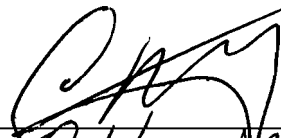

  
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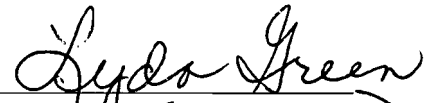
  
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KEVIN MEYER

  
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C. Holmes  
  
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(Holmes)

  
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Lyda Green  
(Green)

JR/jwp

Enclosures: Rep. Ramras letter, March 5, 2008  
Mark Figura letter, March 27, 2008  
Transcript of House L&C Confirmation Hearing RCA re: Commissioner  
Robert Picket

**Chair, House Judiciary  
Labor & Commerce  
Oil & Gas  
Military & Veteran Affairs**

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## Alaska State Legislature House of Representatives



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**Representative Jay Ramras  
District 10**

March 5, 2008

Anthony A. Price, Chairman  
Regulatory Commission of Alaska  
701 W. Eighth Ave., Suite 300  
Anchorage, AK 99501

Dear Chairman Price:

As you know, I have had a sustained interest on behalf of 1,100 customers of Fairbanks Natural Gas (FNG) in the Fairbanks market. I write this letter as a state representative whose district includes natural gas customers. In the interest of full disclosure, I must also declare as a matter of ethics that I am presently a commercial customer of FNG, though these commercial interests are not in my political district.

As you know from previous testimony I have offered to the RCA, that while South Central Alaska enjoys the lowest natural gas prices in the United States, Fairbanks, using the same gas supply, has the highest natural gas prices in the United States. The cost per Mcf in Fairbanks has recently risen to \$22.91 p/Mcf. The rate enjoyed by South Central residents, I believe, remains below \$9.00 p/Mcf.

As you are aware, FNG in the interest of securing supply has recently secured a commitment from Exxon to provide gas to the Fairbanks market (see FNG letters dated 12/21/2007 and 2/29/2008). We all applaud this effort. The commercialization of North Slope gas to an Interior community should be celebrated.

Notwithstanding this extraordinary effort to secure gas supply, I have concerns about FNG making significant changes to their business model, and what the repercussions would be to existing customers and future customers.

In the private sector, if a change in my restaurant business model causes me to fail there are many other businesses to take my place. However, FNG's business model is unique, in that it has no competitors to fill their market share should their business model fail. If FNG goes off a cliff, they will take 1,100 ratepayers with them.

Here are the three main and significant changes FNG is incorporating into their supply chain:

1. Pivoting gas supply from Cook Inlet to North Slope (Enstar to Exxon).
2. Building a new North Slope LNG facility versus using the existing Port McKenzie LNG facility.
3. An acknowledgement from Mr. Dan Britton, President of FNG, that "transportation charges will triple" as the transportation corridor pivots from the shorter, better maintained Parks Highway to the longer, less well maintained Dalton Highway.

These variables represent significant changes to the FNG business model. I worry that, as a rate-deregulated utility, FNG may enter into construction of a fixed asset and that the accompanying variable cost changes may result in permanent pass through cost increases that ultimately will be borne by existing and future FNG customers.

This is a short letter and I am requesting a short response from the RCA and FNG. At this time, I am not asking for FNG to become a regulated utility. They have convinced me that at this time in their growth cycle, there are better ways to employ their capital. However, FNG can, without much effort, articulate these new expenses. This "cost estimate" per Mcf, or in whatever manner you might request the information, will allow existing and future customers to consider the projected cost or savings. This is a major overhaul of the existing FNG business model and may result in additional rate increases or decreases to FNG customers.

If this was a matter of incremental supply chain changes, (i.e., the size of trucks or their replacement, increasing the tank farm, building more transmission lines) I would not think this information would rise to the higher standard of requesting RCA oversight or involvement. The hallmark of the Palin administration is to be "open and transparent" and it is in this context that I make my official request that FNG disclose these new projected cost components.

I believe, after hearing so much public testimony over my years in office about how construction costs of resource development related capital projects on the North Slope often incur huge cost overruns that we could see a considerable "construction-risk" accrue ultimately to current and future rate payers. What would happen if the \$30 million budgeted for the LNG facility ultimately led to significant overruns? What happens to rate payers if the cost comes in 50% to 100% over its projected completion costs for a turnkey facility? We only need consider the Fairbanks and Anchorage proposed fish

hatcheries, which have seen their blended budget increase from \$78 million to approximately \$145 million in the last three years, to see this risk factor in play. This could be a disastrous development if this happened to FNG and subsequently to its rate payer base.

Along the same lines, if a North Slope LNG facility is built with a 30 year amortization, and an Enstar bullet line, AGPA line, AGIA line or Conoco line is built bringing gas to Fairbanks years before that LNG facility is fully amortized, will this have an adverse effect on FNG rate payers? The result may be that it makes the LNG facility instantly antiquated. Once a far less expensive natural gas pipeline take-off point is available for Fairbanks this fixed asset will likely stay on the books, its cost spread over the rate payer base long after the facility may be abandoned.

After seeking this information will the RCA please weigh in on whether it is perhaps in the best interest of Fairbanks rate payers, current and future, for the RCA to direct FNG in revisiting whether its secure gas supply should come from a Cook Inlet supplier? It may be -- as attractive as the commercialization of North Slope gas is, that pursuing this new relationship may be adverse to the best interests of FNG ratepayers.

To summarize, my concerns are:

1. A disclosure of new gas supply costs and terms.
2. The construction risk and long term amortization of a new \$30 million North Slope LNG facility.
3. Transportation corridor costs for pivoting from the Parks Highway to the Dalton Highway.

Ultimately, do these macro changes in the FNG business model significantly help or hurt FNG rate payers? As I stated at the opening of this letter, Fairbanks gas customers are presently paying the highest gas prices of any gas utility in the United States of America.

I look forward to your timely response.

Sincerely,



Representative Jay Ramras

cc: Dan Britton, Fairbanks Natural Gas  
JR/jwp

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March 27, 2008

Mr. Anthony A. Price, Chair  
Regulatory Commission of Alaska  
701 W. 8<sup>th</sup> Avenue, Suite 300  
Anchorage, AK 99501

Re: Fairbanks Natural Gas, LLC  
Our File No. : 2102

Dear Mr. Price:

On March 5, 2008, Representative Jay Ramras wrote to you, suggesting that the RCA seek information and then "weigh in on whether it is perhaps in the best interest of Fairbanks rate payers, current and future, for the RCA to direct FNG in revisiting whether its secure gas supply should come from a Cook Inlet supplier?" The RCA should decline this invitation.

As the RCA is aware, following the October 1, 2006 termination of its supply from Aurora, FNG has had a difficult time arranging for a firm supply of Cook Inlet gas for its Point McKenzie LNG plant. The Special Contract with Enstar runs until June 30, 2008. Following April 1, 2009, FNG has a firm commitment from another supplier, and FNG hopes to bridge that 9-month gap in the near future, but the long term security of a gas supply to the Point McKenzie plant is questionable. In addition, the price of Cook Inlet gas has led to the high rates in Fairbanks of which Representative Ramras complains.

FNG believes that it is absolutely necessary for it to migrate from a Cook Inlet gas supply to a more secure supply. The best alternative is the construction of a new North Slope LNG plant.

In Docket No. U-06-107, the RCA considered FNG's gas supply problems. The Commission strongly encouraged FNG to secure a non-Cook Inlet supply of gas, and imposed reporting requirements until FNG moves its primary operations out of the Cook Inlet basin:

Mr. Anthony A. Price  
March 27, 2008  
Page 2  
FNG/2102

It is essential that FNG secure its new gas supply as soon as practicable. . . . As a condition of Contract approval, we require FNG to provide bi-monthly status reports on its progress in securing a new gas supply, including permitting, supply contracts, construction, and other essential elements of the new supply arrangements. The first report will be filed on May 1, 2007, and subsequent reports on the first business day of every second month thereafter until the new project is completed and FNG no longer relies upon Cook Inlet gas for its primary gas supply.

Order No. U-06-107(5), page 21 (03/22/2007). As indicated in Mr. Britton's bimonthly letters, FNG has worked diligently to migrate to a more secure North Slope gas supply.

The issue raised by Representative Ramras was resolved in Docket No. U-06-107. The RCA directed FNG to move out of the Cook Inlet. FNG is in the process of doing just that. There is no need for the Commission to open an investigation to revisit the issue.

Sincerely,

ROSE & FIGURA



Mark E. Figura

MLF/blc  
Cc: Dan Britton  
Representative Jay Ramras

## House Labor & Commerce Meeting – 4/4/08

### Mr. Robert Picket, RCA Appointee by Governor Palin

#### Dialogue

**Ramras:** The gas utility we have in Fairbanks is a rate-deregulated utility. Fairbanks Natural Gas won't disclose any of its variable pricing presently. In their present capacity, because the Point McKenzie LNG plant is within the Enstar footprint and so they have argued successfully before with the RCA that they are inside the Enstar footprint and therefore under emergency order, Enstar sells them gas at \$8.70/Mcf which is what they sell to any large commercial company. They then liquefy it, put it on trucks, deliver it to Fairbanks, re-gasify it, put it into their existing tank farm, run it through their 70 miles of transmission line and sell it to the 1,100 customers who pay \$22.91 per Mcf for that gas. That may very well be the market, but as a rate-deregulated utility they have declined to disclose any of the variable costs that take the \$8.70 per Mcf gas to \$22.91 per Mcf.

My question for you philosophically is... Does a rate-deregulated utility have an implied obligation to disclose that information to its rate payer since they enjoy the benefits of being rate-deregulated?

**Picket:** That is a challenging question. I guess philosophically, again just speaking in general terms, would a fuel oil company have similar obligations if it has its own distribution networks and was getting its supplies from somewhere in upper Cook Inlet... I don't know... and they're not regulated...

**Ramras:** If there is only one fuel company for the whole community?

**Picket:** You're saying because there is only one natural gas company... one utility.

**Ramras:** So what I'm suggesting is, if you have the privilege, certainly it is a privilege under the auspices of the RCA, it is a privilege to be rate-deregulated as opposed to being rate-regulated. Would you agree with that?

**Picket:** Whether it is a privilege or whether it is allowed as a function of law?

**Ramras:** If a utility had a choice of being rate-regulated or rate-deregulated which do you think they would choose?

**Picket:** Well co-ops have that same option and many have chosen to remain regulated.

**Ramras:** And a co-op is owned by its own members?

**Picket:** A co-op is owned by its own members. So your point is that the utility is owned privately?

**Ramras:** Correct. A privately owned utility for profit that does not enjoy the luxury of having its members vote to be rate-regulated. So if a privately owned company has a choice of being rate-regulated or rate-deregulated which do you think they would prefer?

**Picket:** De-regulated just for the flexibility...definitely.

**Ramras:** Precisely for flexibility. So, if they enjoy the privilege of being rate-deregulated which is a higher standard than being rate-regulated, do they have an implied obligation to the customers they serve in a trapped market to be forthright in disclosing those variable costs or do you think they should be able to cloak themselves behind a corporate veil?

**Picket:** I am just speaking as an individual and I can envision in Anchorage, listening on the teleconference, is a representative of the Attorney General's office going "oh my goodness I hope he doesn't talk".

**Ramras:** I can tell you Mr. Picket, the Attorney General's office knows who I am because this is an issue I continue to pound on because I think customers in Fairbanks are being taken advantage of.

**Picket:** I think there is a definite fairness issue here. I am well aware of the strains on folks in Fairbanks, in my prior life, and just with the seniors and when people on fixed incomes are paying \$750-\$800 a month for fuel oil. It's not right.

**Ramras:** So the concern I have is that if you have a choice of two things and one is when there was an open docket and I made the request to have a rate de-regulated utility become regulated. The defense was "it will cost us a million dollars to go through the process of becoming rate-regulated and defending and articulating our position". I appreciated that because if you passed a million dollars of the cost onto a small pool of customers it raises everybody's rates, and nobody would want to be responsible for that. But if you opt not to subject yourself then to rate regulation because of prohibitive costs of posturing yourself that way to the RCA then isn't the opposite of that then you ought to then hold yourself to a very high standard in disclosing variable costs when you have an \$8.70 published source of gas and you're charging customers \$22.91 for gas and you won't disclose what the variable costs are per Mcf or the increments of liquefying, transporting, re-gasifying and distributing that \$8.70 gas? What sort of an obligation does that utility have to its customers if it intends to remain rate-deregulated?

**Picket:** Just speaking from my personal, philosophical belief, I think they should have a higher responsibility for disclosure.

**Ramras:** Thank you.



Alaska State Legislature  
 REPRESENTATIVE JAY RAMRAS

**Session**

State Capitol, Room 118  
 Juneau, Alaska 99801-1182

**Interim**


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