STATE OF ALASKA

BEFORE THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:	Stephen A. McAlpine, Chairman Paul F. Lisankie Rebecca L. Pauli Robert M. Pickett Janis W. Wilson
In the Matter of the Consideration of the Revenue Requirement Designated as TA 32-733 Filed by COOK INLET NATURAL GAS STORAGE ALASKA, LLC	Docket No. U-18-____

PREFILED DIRECT TESTIMONY
OF
DANIEL M. DIECKGRAEFF
ON BEHALF OF
COOK INLET NATURAL GAS STORAGE ALASKA, LLC

PREFILED DIRECT TESTIMONY
OF
DANIEL M. DIECKGRAEFF

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I. POSITION AND QUALIFICATIONS

Q. State your name, business address, and present position.

A. My name is Daniel M. Dieckgraeff. My business address is 3000 Spenard Road, Anchorage, Alaska 99503. I am the Director of Rates and Regulatory Affairs for ENSTAR Natural Gas Company, a division of SEMCO Energy, Inc. ("SEMCO"), and Alaska Pipeline Company, a subsidiary of SEMCO. For purposes of my testimony, I will refer to these two regulated entities collectively as "ENSTAR." ENSTAR performs management services for Cook Inlet Natural Gas Storage Alaska, LLC ("CINGSA" or "Company") through an Operation and Maintenance Agreement ("the OMA"), and I am appearing in this proceeding on behalf of CINGSA.

Q. Briefly describe your professional experience.

A. I have been employed by ENSTAR since July 12, 1982, and have held various supervisory and managerial positions with responsibility for ENSTAR regulatory matters since then. From 2000 to early 2008, I also had primary responsibility for ENSTAR's gas supply contract negotiation and administration. My resume is attached as Exhibit DMD-1.

Q. Briefly describe your current professional responsibilities.

A. I am responsible for all regulatory matters before the Regulatory Commission of Alaska (the "RCA" or the "Commission") for ENSTAR and for CINGSA.

Q. Have you previously testified before the RCA or any other regulatory commission?

A. Yes, I have testified before the RCA and its predecessor agency numerous times, including in Docket No. U-10-051, which was CINGSA's original certification and tariff proceeding, and CINGSA Dockets No. U-12-153 and No. U-15-016. I also

testified in ENSTAR's 2000 test-year base rate and rate redesign case (Docket No. U-00-088) and in its 2015 test-year base rate and rate redesign case (Docket No. U-16-066). I most recently appeared before the Commission in Docket No. U-18-004 as a witness on behalf of ENSTAR and in Docket No. U-18-005 as a witness for CINGSA.

II. PURPOSE OF TESTIMONY AND BACKGROUND

Q. On whose behalf are you providing testimony?

A. I am providing testimony on behalf of CINGSA.

Q. What is the purpose of your direct testimony?

A. My testimony has several primary functions. First, I will summarize CINGSA's rate history. Second, in compliance with 3 AAC 48.275(a), I am sponsoring CINGSA's revenue requirement, which is included as Attachment B to CINGSA's overall rate filing ("275(a) filing" or "filing"). Third, along with CINGSA witness Ms. Catherine N. Gardner, I sponsor various adjustments to test-year data for the year ended December 31, 2017, to make that data reflect costs to operate CINGSA during the rate-effective period. Fourth, I sponsor CINGSA's submission in compliance with 3 AAC 48.275(h), which consists of a cost-of-service ("COS") study and a derivation of rates, which is included as Attachment C to CINGSA's filing. The COS study allocates CINGSA's requested revenue requirement among the storage functions and calculates firm rates as provided by the Federal Energy Regulatory Commission ("FERC") Cost-of-Service Rates Manual. Fifth, I will discuss the mechanics of CINGSA's proposal for sharing interruptible revenues with its firm customers. Finally, I am also sponsoring the related tariff sheets that present the proposed rates and revenue sharing proposal, included as Attachment D to CINGSA's rate filing.

III. CINGSA'S RATE HISTORY

Q. Briefly summarize CINGSA's rate history since it began operating.

A. CINGSA's Certificate of Public Convenience and Necessity ("CPCN") was granted in Order U-10-051(8), dated December 17, 2010. In Order U-10-051(9), dated January 31, 2011, the Commission approved CINGSA's inception rates and tariff, which in large part were agreed to in stipulations with the Office of the Attorney General's Regulatory Affairs & Public Advocacy Section ("RAPA") and CINGSA's initial customers. The stipulations provided for rate stabilization for the first five years of CINGSA's operation, an initial adjustment to CINGSA's inception rates at the time service was to begin, and a subsequent 2014 true-up for actual costs. The stipulations also required CINGSA to file a rate case. CINGSA witness Mr. John D. Sims also discusses CINGSA's history in his direct testimony.

Q. Did CINGSA file the required initial adjustment to CINGSA's inception rates prior to the time service was to begin?

A. Yes, the initial rate adjustment was filed as TA 3-733 on February 13, 2012, and it reflected a 14.7% reduction in the annual levelized revenue requirement from the original inception rate revenue requirement set out in Docket No. U-10-051. The Commission approved these rates in Letter Order # L1200159, dated March 16, 2012, and they were in effect for CINGSA's first two years of operations.

Q. Did CINGSA file the required true-up for actual costs in 2014?

A. Yes. CINGSA provided the true-up filing in TA 14-733, dated March 27, 2014, and it reflected a further 6.1% reduction to the inception rates that were in effect. The new

rates were approved as proposed by CINGSA in Letter Order # L1400196, dated May 2, 2014, effective May 12, 2014. These rates are currently in effect.

Q. Was this rate case filing required by the stipulations and orders in Docket No. U-10-051?

A. Yes. The supplemental stipulation accepted in Docket No. U-10-051(9) and the order itself required that CINGSA file a rate case based upon a 2016 test year by June 30, 2017. The supplemental stipulation also required CINGSA to file a depreciation study in conjunction with the rate case. On August 18, 2016, CINGSA, ENSTAR, RAPA, Chugach Electric Association, Inc., Municipality of Anchorage d/b/a Municipal Light & Power, Homer Electric Association, Inc., and Alaska Electric and Energy Cooperative, Inc., filed a stipulated request to extend the deadline for CINGSA to file its rate case from June 30, 2017, to August 31, 2017, which was granted in Order U-10-051(12), dated August 30, 2016. On April 12, 2017, CINGSA filed an *Unopposed Motion to Extend Filing Date* for CINGSA's rate case to April 30, 2018, and to revise the test year for the revenue requirement to calendar year 2017. The motion was granted in Order U-10-051(13) dated May 4, 2017.

IV. 3 AAC 48.275(a) FILING

Q. What was your role in the preparation of the schedules submitted in this 275(a) filing?

A. With the assistance of my staff, I prepared the normalized test year and revenue requirement schedules included in this 275(a) filing, which is based on a test year ended December 31, 2017.

Q. Please identify which schedules in the filing meet the requirements of 3 AAC 48.275(a).

A. CINGSA's 275(a) filing is contained in Attachment B to TA 32-733, and includes:

- the computation of the revenue requirement, and revenue deficiency or surplus, in both absolute dollars and as a percentage of revenues, for the normalized test year are presented on page 4;
- the test-year operating revenues and expenses, net pro forma adjustments, and the resulting normalized test-year operating revenues and expenses are presented on page 1, and a summary of the pro forma adjustments is shown on pages 6-9;
- the computations of and narrative explanations for the pro forma adjustments to the actual test-year figures are shown on Schedules A through O while more detailed discussions for many of the pro forma adjustments are contained in my testimony and in the testimony of CINGSA witness Ms. Gardner;
- the computation of the pro forma adjustment for state and federal taxes for the normalized test year is shown on Schedule K;
- the computation of rate base using a 13-month average of all rate base components, except cash working capital allowance, is shown on page 2;
- the pro forma cash working capital requirement based on the normalized test year is calculated on Schedule M;
- the computation of CINGSA's requested weighted cost of capital is shown on page 3;

- the Comparative Statement of Assets, Liabilities and Other Credits for 2017 and 2016 is shown on page 25;
- the Comparative Statement of Income and Operating Expenses for 2017 and 2016 is shown on page 26;
- the Comparative Statement of Changes in Equity Position for 2017 and 2016 is shown on page 27;
- Plant in Service and Accumulated Depreciation for 2016 and 2017 is shown on pages 28 and 29;
- Depreciation Expense for 2016 and 2017 is shown on pages 30 and 31;
- Long-Term Debt Outstanding for 2016 and 2017 is shown on page 32; and
- The Effective Proposed Rate Increases or Decreases are shown on page 33.

Q. Please briefly describe the normalized test year and revenue requirement schedules, which are pages 1-6 of CINGSA's 275(a) filing (Attachment B).

A. Page 1 summarizes the filing and shows the actual results of CINGSA's operations for the year ended December 31, 2017 (column 1), followed by a summary of adjustments (column 2) made to convert the historical test year to a normalized test period representative of CINGSA's ongoing operations (column 3). The adjustments set out on pages 6 – 9 specify the related supporting schedule and identify the primary sponsoring witness(es), respectively.

Page 2 of the filing develops CINGSA's rate base, beginning with 13-month average test-year balances (column 1), followed by a summary of adjustments (column 2) made to reflect the current level of CINGSA's investment in assets used to provide service to customers, followed by the adjusted test-year rate base (column 3). Like the

adjustments to income and expenses, the adjustments to rate base are set out on pages 6 – 9 (Schedules F and L–O) and specify the related supporting schedule, and identify the primary sponsoring witness(es), respectively. The 13-month averages for use in the calculation of rate base are computed on page 5.

Page 3 of the filing displays CINGSA's proposed capital structure, embedded cost of debt, and requested rate of return on equity.

Page 4 of the filing reconfigures the information on pages 1, 2, and 3 into a revenue requirement format. Pages 10 through 24 of the filing provide supporting schedules that detail the various adjustments made on pages 1 through 4 (Schedules A – O). Pages 25 through 32 provide the required historical comparative information.

Q. What types of adjustments were made to CINGSA's historical results of operations for the year ended December 31, 2017?

A. The historical test year serves only as the starting point for evaluating the adequacy of base rates. Various adjustments are required to convert actual test-year revenues, expenses, and rate base to a representative set of test-period data reflective of normalized, ongoing operations.

Adjustments to the historical test year are generally of three types. The first are normalization adjustments designed to eliminate unusual or non-recurring items during the test year. The second are adjustments to reflect known and measurable, or pro forma, changes in test-year revenues, expenses, and rate base (or investment). The third are regulatory adjustments intended to account for items in a manner consistent with currently accepted ratemaking principles and objectives. CINGSA has made various adjustments to average test-year revenues, expenses, and rate base. I will

discuss the adjustments to revenues and rate base in more detail below, and Ms. Gardner will discuss the adjustments to expenses in her direct testimony.

Q. How are the adjustments shown in CINGSA's filing?

A. As discussed above, the second column of pages 1, 2 and 4 of Attachment B shows the summary of adjustments for each main category on the respective schedule. Each adjustment is shown on pages 6-9, Summary of Pro Forma Adjustments, with reference to the schedule where the adjustment is described and the witness who sponsors the adjustment in their testimony.

Q. Please describe the FSS Contract Changes Adjustment shown on Schedule A of the 275(a) filing.

A. This adjustment reflects the scheduled decrease in total Firm Storage Service ("FSS") contract withdrawal quantity that occurred effective April 1, 2017. The Maximum Daily Withdrawal Quantity ("MDWQ") under contract to CINGSA's FSS customers declined from 142,100 thousand cubic feet per day ("Mcf/day") to 138,100 Mcf/day, or by 4,000 Mcf/day. This results in a decrease in revenues to CINGSA, as well as a reduction in billing units for the calculation of the MDWQ billing rate. Since the first three months of 2017 included revenues with the higher billing units, an adjustment to revenues is necessary to reflect the contractual commitments going forward. At CINGSA's current tariff rate of $7.9005 per month of MDWQ, the reduction in monthly revenue is $31,602, totaling $94,806 for the three-month period from January through March.

Q. Is there a pending proceeding that could affect this adjustment?

A. Yes. On December 5, 2017, CINGSA filed for approval of an amendment to the FSS agreement between CINGSA and ENSTAR that increases ENSTAR's MDWQ by 11,900 Mcf/day, to a total of 102,900 Mcf/day (TA 30-733). ENSTAR also made a companion filing in TA 299-4, to include the additional storage fees that the amendment would create as a cost element in its gas cost adjustment. The Commission suspended both filings for further investigation (Dockets Nos. U-18-005 and U-18-004).

Q. What is the status of those proceedings?

A. On March 1, 2018, there were partial stipulations entered into between CINGSA and RAPA in Docket No. U-18-005, and between ENSTAR and RAPA in Docket No. U-18-004 that provided for the original FSS agreement amendment being bifurcated into two amendments with different timeframes. These partial stipulations required two additional amendments to the CINGSA/ENSTAR FSS Agreement (the "Second Amendment" and "Third Amendment"). Pursuant to the partial stipulations and the Second Amendment (as revised), ENSTAR is to receive the additional requested MDWQ from CINGSA for the period of March 15, 2018, to March 31, 2019, so it is available for the 2018-2019 heating season. The Commission accepted the partial stipulations and approved the Second Amendment in Orders U-18-004(5) and U-18-005(5) on March 14, 2018. The Third Amendment is for the period from April 1, 2019, to March 31, 2032, and it is still pending before the Commission. Direct testimony in those dockets was filed on March 9, 2018.

Q. How do the amendments affect this revenue requirement?

A. Only the Second Amendment has been approved and there is no assurance that the Third Amendment for the period beyond March 2019 will be approved. Thus, a change in billing units that results from the Third Amendment is speculative, and not known and measurable. Because the additional contractual MDWQ approved in the Second Amendment will expire in March 2019, and is not assured to continue past that date, inclusion of this additional MDWQ in the determination of rates in this proceeding would not be representative of the MDWQ that would be in effect during the period that the rates from this case would be in effect. CINGSA, therefore, has not reflected this additional MDWQ in the revenue requirement.

Q. Could that change?

A. Yes. If the Third Amendment covering the period from April 1, 2019, to March 31, 2032, is approved in time to be taken into consideration in this rate case (ideally, before CINGSA files its reply testimony), the increased MDWQ and corresponding billing determinants could be reflected during the course of this case as a known and measurable pro forma adjustment to test-year revenues and billing units. Having the additional billing units over which to spread the revenue requirement would result in a lower per unit rate. This would be a financial benefit to CINGSA's other customers, as it would lower the rate for MDWQ service. In addition, since the MDWQ rate is used in the derivation of the Interruptible Storage Service ("ISS") rate, there would be a lower rate for ISS service as well.

Q. What would the effect on rates be if the Third Amendment is approved?

A. As of April 1, 2017, the total contracted MDWQ is 138,100 Mcf/day and if the Third Amendment is approved, the total MDWQ would be 150,000 Mcf/day or an increase of 8.6% (150,000/138,100). The effect on the MDWQ rate is the reciprocal of that, 138,100/150,000 or 92.1%. Thus, an increase in the MDWQ billing units of 8.6% produces a MDWQ rate that is 92.1% of the original rate (*i.e.*, 7.9% lower). For example, if the MDWQ rate is $7.00 per Mcf per Month with 138,100 MDWQ billing units, it would be $6.44 per Mcf per Month with 150,000 MDWQ billing units.

Currently, CINGSA's electric generator FSS customers have contracted for 34.1% of CINGSA's daily deliverability (MDWQ). If the Third Amendment is approved, they would be contracted for 31.4% of the daily deliverability, and thus only would be responsible for that portion of the revenue requirement assigned to the MDWQ service. In determining CINGSA's rates, 49.5% of CINGSA's revenue requirement is assigned to the MDWQ service. Therefore, all things being equal, FSS customers will experience lower rates if the Third Amendment is approved than they will if the request is not approved. The reduction in rates is discussed further in Section V of my testimony.

Q. Please describe the ISS Adjustment on Schedule B of the 275(a) filing.

A. This adjustment removes the current year ISS revenues from the revenue requirement. ISS revenues are erratic, volatile and cannot be reasonably projected. ISS customers have no commitment to use CINGSA's service, and there is no charge to have the service available. CINGSA does not believe it is appropriate to include such speculative revenues in its revenue requirement.

Q. How does CINGSA propose to address any revenues that it receives for ISS service if projected ISS revenues are not accounted for in its rates?

A. As I will describe in more detail in Section VI of my testimony, CINGSA is proposing a new tariff provision that will provide for the sharing of any future collected ISS revenues 50/50 with its FSS customers. The FSS customers would receive the shared ISS revenues as a periodic credit on their bills.

Q. Please describe the ISS Amortization Adjustment shown on Schedule C of the 275(a) filing.

A. As I noted above when discussing CINGSA's rate history, the current rates were set by a "true-up filing" (TA 14-733) required by the stipulations accepted in Order U-10-051(9). CINGSA experienced a significant amount of ISS during the period that the true-up filing was based upon, which affected the revenue requirement and the resulting rates in that filing. Accounting rules provided that those ISS revenues be set up as deferred revenue and amortized over the expected period the rates were to be in effect, which was the remaining three years of the five-year rate stabilization period. The deferred revenue amount was fully amortized as of March 31, 2017. This normalizing adjustment appropriately removes the deferred ISS revenue amortization booked in 2017 from the revenue requirement.

Q. Please describe the Removal of Late Fees Adjustment shown on Schedule D of the 275(a) filing.

A. This adjustment removes all of the late fees received by CINGSA for customers' late payments for service during the test year. Like ISS revenues, these are erratic and cannot be reasonably projected. CINGSA assessed late fees for the first time in 2016.

The test-year dollar amount was about one-third of the fees that were assessed in 2016. Only two ISS customers have incurred late fees, and there were only 11 total occasions of late fees assessed. No late fees have been assessed in 2018 thus far.

Q. Please describe the rate base component of the U-10-051 Amortization Adjustment shown on Schedule F of the 275(a) filing.

A. This adjustment removes the average balance of the unamortized costs of obtaining CINGSA's CPCN and Initial Rates, (Docket No. U-10-051), which were amortized over a five-year period ended April 30, 2017. As Ms. Gardner notes in her testimony, CINGSA has also removed the amortization expense from the test year.

Q. Please describe the Removal of CWIP Adjustment shown on Schedule L of the 275(a) filing.

A. In keeping with Commission precedent, CINGSA has removed the 13-month average of construction work-in-progress ("CWIP") from the rate base calculation. The adjustment decreases rate base by $61,123.

Q. Please describe the Cash Working Capital Adjustment shown on Schedule M of the 275(a) filing.

A. A cash working capital allowance for inclusion in rate base is calculated using the conventional one-eighth (or 45 days) formula applied to normalized operation and maintenance ("O&M") expenses and taxes other than income. This calculation follows the methodology used by the Commission in other rate cases, and is the same methodology used by CINGSA in calculating its inception rates and true-up rates. It increases rate base by $667,203.

Q. Please describe the Deferred Income Tax Adjustment shown on Schedule N of the 275(a) filing.

A. As Ms. Gardner discusses in her direct testimony, CINGSA is not directly subject to income tax expense as it is classified as a partnership for income tax purposes. Since CINGSA does not record income tax expense, it also does not record deferred income taxes. It does, however, compute income tax expense and deferred income tax balances as its members are subject to income taxes. The computation of deferred income tax is made at the end of each year, and as shown on Schedule N, the amount of the pro forma is the average of the beginning of the year (December 31, 2016/January 1, 2017) computation and the end of the year (December 31, 2017) computation.

Q. Has CINGSA reflected the Tax Cuts and Jobs Act of 2017 in its calculation?

A. Yes, as Schedule N details, CINGSA has broken out the Accumulated Deferred Income Tax balances between the deferred income tax balance at the new 21% statutory rate and the Excess Deferred Income Tax Regulatory Liability as provided by this recent federal legislation.

Q. Please discuss the Well Maintenance Reserve Adjustment shown on Schedule O of the 275(a) filing.

A. In CINGSA's true-up filing (TA 14-733), a Reservoir and Well Maintenance Cost Reserve ("Reserve") was established to provide for well clean-out costs and other down hole costs such as subsurface safety valve repairs with an annual accrual of $300,000 (*see* Exhibit B, Schedule 1 to TA 14-733). The 13-month average of the unused balance in the Reserve Account for the test year was $452,650, and the balance at December 31, 2017, was $602,650.

Beginning March 9, 2018, CINGSA experienced a decline in the withdrawal deliverability of one of its wells, Cannery Loop Unit Storage Well 3 ("CLUS-3"), with its flow dropping to zero on March 12, 2018. CINGSA could neither withdraw nor inject into the well, and it was determined that well clean out was necessary. An oil field services contractor was engaged, and well work commenced on April 2, 2018. While the majority of the work has been completed and the well has regained most of its normal production ability, the clean-out project remains ongoing. Costs totaled approximately $840,000 as of April 24, 2018, and are expected to exceed $1,000,000, which more than depletes the current Reserve. If the final costs significantly exceed this amount, CINGSA will need to revisit the cost assumptions for the annual Reserve accrual and may need to request an increase to it.

Given this work and CINGSA's operating experience, it believes the 2017 13-month balance of the Reserve account is not representative of the balance it expects for the period the rates from this filing are expected to be in place. Given CINGSA's current event, and given work on other wells can be anticipated that would also be charged against the Reserve, the Reserve balance is more likely to average zero or be negative. Thus, CINGSA is adjusting the Reserve balance to zero.

Q. What is CINGSA's adjusted rate base for this revenue requirement?

A. As shown at the bottom of column 3, page 2 of the 275(a) filing, after making the various adjustments described above, CINGSA's rate base totals $118,821,484.

Q. Please describe page 4 of CINGSA's 275(a) filing.

A. Page 4 reconfigures pages 1-3 into a revenue requirement format. It calculates the total revenues CINGSA needs in order to earn its requested rate of return of 8.53%, as

calculated by CINGSA witness Ms. Gardner, including a rate of return on equity of 11.875%, as supported by CINGSA witness Mr. Robert B. Hevert.

Q. Based on the changes in O&M expense and income taxes and CINGSA's requested rate of return, what is CINGSA's total revenue requirement?

A. As shown at the bottom of column 3 on page 4, assuming all of the adjustments to operating expenses, state and federal taxes, and return on investment, CINGSA's revenue requirement is $22,716,184. Comparing this with current adjusted normalized revenues of $26,735,674 developed on page 1 of the 275(a) filing, CINGSA is proposing that its current rates decrease by $4,019,490, or 15.03%.

V. 3 AAC 48.275(h) FILING

Q. What was your role in the preparation of CINGSA's 275(h) filing?

A. With the assistance of my staff, I prepared the COS study and Derivation of Rates schedules contained in CINGSA's 275(h) filing, which is based on a normalized test year ended December 31, 2017.

Q. Please identify the individual schedules in CINGSA's 3 AAC 48.275(h) filing.

A. CINGSA's 275(h) filing schedules are contained in Attachment C to TA 32-733. The individual schedules are:

- Classification of Costs (the COS) on page 1;
- Derivation of FSS Rates on page 2; and
- Calculation of Overrun and ISS Rates on page 3.

Q. What cost allocation methodology did CINGSA follow in preparing its classification of costs?

A. CINGSA followed the Storage Service and Rates section of the FERC Cost-of-Service Rates Manual, and utilized the *Equitable* method. As CINGSA witness Mr. Barry E. Sullivan notes in his testimony, FERC requires that storage function costs be classified using the *Equitable* method, which classifies all fixed (demand) costs equally between the "Deliverability" and "Capacity" components. All variable (commodity) costs attributable to the storage function are classified to the "Injection/Withdrawal" component.

Q. Did CINGSA follow the same cost allocation methodology when it prepared its inception rates in Docket No. U-10-051 and in the TA 14-733 true-up filing?

A. Yes.

Q. How did CINGSA determine what portion of its costs were variable costs?

A. As Mr. Sullivan states in his testimony, FERC considers the non-labor portion of FERC Account No. 818 (Compressor Station Expenses), No. 821 (Purification Expenses), and No. 834 (Maintenance of Compressor Station Equipment) to be variable costs and assigns them to the commodity storage function. CINGSA's Classification of Costs schedule lists the expenses booked to Account Nos. 818, 821 and 834; the amount of these costs is equal to 1% of the normalized revenue requirement. The remaining 99% of CINGSA's costs are classified as fixed costs.

Q. How is CINGSA's total revenue requirement allocated between Injections/Withdrawals, Storage Capacity, and Withdrawal Capacity?

A. The breakout of CINGSA's revenue requirement is shown in the first four columns of the Derivation of the FSS Rate Schedule, page 2 of the 275(h) filing. The variable costs, $269,737, or 1%, are allocated to Injections/Withdrawals. The fixed costs that make up the remaining 99% of the revenue requirement are evenly divided (49.5%/49.5%) between Storage Capacity and Withdrawal Capacity ($11,223,223 to each) as provided for under the *Equitable* method discussed above and by Mr. Sullivan in his testimony.

Q. How were the billing units used in the rate calculations derived?

A. The Maximum Storage Quantity ("MSQ") and the MDWQ billing units are based on the contractual commitments in CINGSA's four Commission-approved FSS agreements that will be in effect as of April 1, 2019, the time period when these rates are expected to be in effect. The billing units for Injections/Withdrawals are the actual Injection/Withdrawal quantity for the test year.

Q. How was the Maximum Storage Capacity rate calculated?

A. The revenue requirement allocated to storage capacity of $11,223,223 is divided by the MSQ billing units described above (11 billion cubic feet ["Bcf"] multiplied by 1,000,000 to convert to an Mcf rate) further divided by twelve months to arrive at $0.0850 per Mcf per Month.

Q. How was the Maximum Withdrawal Quantity rate calculated?

A. The revenue requirement allocated to withdrawal capacity, also equal to $11,223,223, is divided by the MDWQ billing units (138,100 Mcf/day) further divided by twelve months to arrive at $6.7724 per Mcf per Month.

Q. How was the Injections/Withdrawals rate calculated?

A. The $269,737 in variable costs are allocated to injections/withdrawals and divided by the injections/withdrawals billing units (11,492,384 Mcf) to arrive at $0.0235 per Mcf.

Q. If the pending Third Amendment to ENSTAR's FSS Agreement for additional MDWQ were approved and incorporated into rates, what would be the effect?

A. The number of billing units for the Maximum Withdrawal Quantity rate would increase to 150,000 Mcf/day and lower the rate to $6.2351 per Mcf per Month.

Q. Is the FSS Overrun Service Rate shown on Sheet 75 calculated the same way as it was for the initial and true-up rate filings?

A. Yes. The overrun rate of $0.2463 is computed in the same way it was computed in the earlier filings, by taking the Reservation Rate (a monthly rate), dividing by the average number days in the month, and adding the injection/withdrawal rate. The calculation is shown at page 3 of Attachment C.

Q. Is the FSS Excess Charge shown on Sheet 75 calculated the same way as it was for the initial and true-up rate filings?

A. Yes. The Excess Charge of $0.0850/Mcf is the FSS Capacity Rate applied each day to every Mcf stored over a FSS Customer's MSQ, as provided for in Section 4.6(a) of CINGSA's Tariff.

Q. How were the ISS rates on Sheet 76 calculated?

A. As with the FSS Overrun Service Rate and the FSS Excess Charge discussed above, CINGSA computed the new ISS rates using the same methodology as was used to compute the ISS rates for the initial and true-up filings. As shown on page 3 of Attachment C, the ISS rate of $0.3078 is computed by first taking the FSS Reservation Rate and dividing it by the average number of days in a month, then adding the FSS Capacity Rate to the result. The ISS Injection/Withdrawal Rate is the same as the FSS Injection/Withdrawal Rate.

Q. Are there any other changes CINGSA is proposing to its FSS and ISS rate schedules?

A. Yes. When CINGSA prepared its original inception tariff, it followed the FERC model that provides for a maximum and minimum tariff rate for each rate component to allow for negotiated rates within a range. This is not the Alaska utility regulatory model. It has been my experience that the Commission considers any deviation by a utility from its full, published cost of service rate a condition that creates a special contract. CINGSA has charged its customers the published full cost of service tariff rate for its services and proposes to delete the "Minimum Rate per Mcf" amounts from both the FSS and ISS rate schedules to avoid any confusion, or the inadvertent creation of a special contract.

VI. ISS REVENUE SHARING MECHANICS

Q. Please discuss the details of CINGSA's ISS revenue sharing proposal.

A. As also discussed by CINGSA witness Mr. Sims, CINGSA proposes to share ISS revenues with its customers. As previously stated, CINGSA's ISS revenues are erratic, volatile and not subject to reasonable projection. Further, CINGSA is aware that some

of its FSS Customers effectively sublease a portion of their CINGSA capacity to others, thereby competing with CINGSA's ISS offering.[1] This makes it difficult to arrive at a representative amount of ISS revenues and volumes that would be reasonably anticipated during the period these rates are expected to be in place to include in the rate-making calculation.

These facts led to CINGSA's determination to remove these revenues from consideration in the revenue requirement. CINGSA does recognize that ISS revenues should in some amount be credited to FSS Customers. Therefore, CINGSA is proposing a new tariff provision that will provide for the sharing of any future ISS rate revenues 50/50 with its FSS Customers. The FSS Customers would receive the shared ISS revenues as a credit on their bills. This concept provides CINGSA an incentive to market ISS when capacity is available and allows CINGSA and its customers to share equally in revenues that might not otherwise be generated.

Q. How would the new tariff provision work?

A. As set out in the proposed Section 37 - Crediting of ISS Revenues to FSS Customers (Sheets 83 and 84) included as Attachment D, CINGSA would credit the bills of its FSS customers for a total of 50% of ISS revenue in the month following its collection.

Q. How would the ISS revenue credits be allocated among the customers?

A. The credits would be allocated on the ratio of each FSS Customer's MSQ to the total of all FSS Customers' MSQ.

[1] For example, see the April 9, 2018, supplement to Chugach Electric Association ("Chugach") TA 456-8, Response to Questions from Commission Staff, April 8, 2018, where Chugach discusses a "Natural Gas Exchange Agreement" between Chugach and Tesoro Alaska Company, LLC ("Tesoro"), which involves the use of Chugach's contracted CINGSA services on behalf of Tesoro. The schedules included in the response indicates Chugach may have, or may have had, a similar arrangement with Furie.

Q. Please discuss the specific provisions of the proposed Section 37.

A. Section 37.1 states when the provision would become applicable. Section 37.2 specifically sets out which revenues will be shared and the sharing percentage, 50%. Only ISS revenues collected will be shared. Section 37.3 outlines the monthly process for determining the ISS revenues to be shared, the allocation methodology, and how the shared ISS revenues will be applied to the FSS Customers' billings. Section 37.4 is an example of how the shared ISS revenues would be calculated and Section 37.5 provides for an annual accounting that will be filed with the Commission.

VII. FUTURE CAPITAL PROJECT

Q. Mr. Sims discusses the future capital project that is the subject of CINGSA's *Petition for Advance Determination of Decisional Prudence and Assurance of Cost Recovery for Redundancy Project* that was filed in April 2018. Have the costs of the project been included in this rate filing?

A. No. As Mr. Sims states in his testimony, CINGSA has not included the costs of the future project in this rate filing at this time.

Q. Were CINGSA to go forward with the project, how could it obtain cost recovery?

A. If the Commission grants CINGSA's petition on the timeline that it approves certificate amendments (six months), CINGSA would have the authority it needs to begin the project by January 1, 2019 and could have the project completed and operational in time for the 2019 withdrawal season. CINGSA could file a new base rate case at that point.

Alternatively, there are several different ways to eliminate a second full rate case, or at least provide for a much more efficient, limited proceeding; many of which have been used in other Commission proceedings. One option would be to incorporate

the costs of the project into this rate case as a Step II increase when the project goes into service, similar to what occurred with ENSTAR's Anchor Point Pipeline in Docket No. U-09-069. Another option could be to use another five-year levelized revenue requirement, as was done with CINGSA's initial rates in Docket No. U-10-051, with a "true-up" to actual construction costs after the project has been completed. A third option could be to agree that the new rate case would only have certain items open for determination, similar to a simplified rate filing used by cooperatives and small pipelines.

VIII. CONCLUSION

Q. Does this conclude your testimony?

A. Yes it does.

Daniel M. Dieckgraeff

EMPLOYMENT

ENSTAR Natural Gas Company/Alaska Pipeline Company, Anchorage, Alaska: 1982 – Present.

Director of Rates and Regulatory Affairs: 2012 – Present

Manager, Rates and Regulatory Affairs: 2008 – 2012

Manager, Regulatory and Gas Supply 2006 – 2008

Manager, Finance and Rates: 2000 – 2006

Manager, Rates and Planning: 1989 – 2000

Rates and Planning Supervisor: 1982 – 1988

Price Waterhouse, Anchorage, Alaska: 1979 – 1982

Staff Accountant: 1979 – 1981

Senior Accountant: 1981 – 1982

EDUCATION

Gonzaga University, Spokane, Washington: Bachelor Business Administration, Major in Public Accounting. 1979

Alaska Pacific University, Anchorage, Alaska: Master of Business Administration, Concentration in Global Finance. 2007

OTHER

Certified Public Accountant (AK), 1982 – present

American Institute of Certified Public Accountants, Member

Alaska Society of Certified Public Accountants, Member

Institute of Management Accountants, Member

Commonwealth North, Member

Spirit of Youth, Board Member

American Gas Association, State Affairs Committee