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11 MR. SAGE: Okay. I'll rephrase the
12 question.

13 MR. O'CONNELL: It's not his rate.

14 MR. SAGE: Okay. I'll rephrase the
15 question, Your Honor.

16 JUDGE MACE: You missed a big motion
17 hearing and all that so --

18 MR. O'CONNELL: It was great.

19 JUDGE MACE: You've been out of the
20 loop in the understanding.

21 MR. SAGE: I apologize, Your Honor.
22 I'll try to rephrase the question and see if this takes
23 care of the objection.

24 Q (BY MR. SAGE, CONTINUING) In your prefiled testimony
25 you reference the Spartan Pipeline and the Spartan --
26 you don't state what rate, but you reference a Spartan
27 Pipeline rate in that category; am I correct?

28 A Yes, sir.

29 Q And likewise you reference the prior proposed MichCon
30 rate of 26 and a half cents; am I correct?

31 A Yes, sir.

32 Q Now my question is, is that, are you stating that
33 Spartan could not lower its existing rate so that it
34 wouldn't present a hardship?

35 A No. What I'm saying is, is that we feel that -- and we

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1 being the Antrim transporter that has to use the Spartan
2 Pipeline to get its gas to the wet header, that this 26
3 and a half cent rate being proposed includes vendored
4 service to go through Saginaw Bay, or CMS, which are
5 like high transporter pipeline and also for CO-2
6 treating.

7 What we feel, to be fair and have a
8 level playing field, is that the Spartan transportation
9 should be as a vendored service also, and rolled into
10 this blanket rate, which would achieve a lower
11 aggregated transportation rate for the producer to get
12 his gas from the field to Kalkaska or any of the other
13 proposed interconnects in this proposal.

14 Q Now, have you arrived at what you believe the Spartan
15 rate should be if it was incorporated into -- or what
16 rate from the Spartan Pipeline transportation should be
17 incorporated into the MichCon proposal?

18 A Well, in my direct testimony I've used 8 cents.

19 Q And that's the reason -- let me ask you a question
20 regarding that. Page 4, line 8, it says .8 cents per
21 Mcf, including Spartan at 8 cents per Mcf?

22 A That's correct.

23 Q And this is going to show my ignorance, but when you use
24 .8 cents, are you saying eight-tenths of a cent?

25 A Im saying that eight-tenths of a cent would be the

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1 component of the total MichCon transportation rate.
2 That's built upon an average taking the 50 thousand Mcf
3 per day flowing over Spartan, at 8 cents and then
4 divided by the 510 thousand Mcf per day that is the
5 total volume proposed to be moving through the
6 expansion.

7 Q Thank you.

8 A So it's a 1 to 10 ratio.

9 Q Okay. Now when you arrived at the eight-tenths of a
10 cent, did you take into consideration the existing zone
11 rates on the Spartan Pipeline?

12 A Yes.

13 Q Okay. In doing that, did you have to or did you
14 determine the volumes that would come into the
15 particular zones on the Spartan Pipeline?

16 A Yes, sir.

17 Q Is there a particular zone on the Spartan Pipeline that
18 more gas comes into that line than another zone?

19 A Yes.

20 Q Which zone has the most volume of gas coming in?

21 A I believe right now it's probably equal between -- well,
22 roughly equal between B, Zone B and C, which would be
23 the middle zone and the eastward or the most easterly
24 zone.

25 The 8 cents is simply the weighted

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1 average rate using the 50 thousand Mcf per day.

2 Q I guess I have to follow up. When you say weighted
3 average, did you take -- so I understand it, did you
4 take into consideration then the volumes coming in Zone
5 A, the 4 cents, the volumes coming in Zone B, I think
6 it's 7 cents?

7 A Seven and a half.

8 Q And the volumes coming in C at 9 cents?

9 A Yes, sir, that's correct.

10 Q And that's how you used the weighted average?

11 A Yes, sir.

12 Q Are you aware of whether or not the zone rates on the
13 Spartan Pipeline can be lowered?

14 A My understanding is that the current tariff in effect
15 provides for the lowering of rates on a non-
16 discriminatory basis.

17 Q And am I correct that the 4, 7 and a half and 9 cents
18 that you utilized were the maximum rates?

19 A That is correct-

20 Q And this question may have been asked when I was out. I
21 have a question on page 4 on line 23. How did you
22 arrive at the 57 cents?

23 If it's been asked already, Your
24 Honor, I'll just look back in the transcript.

25 A The 47 cents --

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1 Q No, 57 cents.

2 A I beg your pardon. 57 cents was the allocation of the
3 40 percent of the cost of the Gustin line for 95 million
4 a day flowing through the Gustin line.

5 Q Now the 40 percent, did you obtain that from other
6 testimony in this proceeding?

7 A Yes, sir, I did.

8 Q Okay. Did you ever do an independent analysis on a
9 cost of service as to whether or not that's accurate?

10 A No, sir, I did not.

11 Q On page 6 of your prefiled testimony at the top, you
12 reference 18.6 percent of the total volumes are
13 attributable to the -- I believe the Gustin pipeline.
14 Did I state that accurately?

15 A The 95 thousand Mcf per day of the total 510 thousand
16 Mcf per day would yield an 18.6 percent.

17 Q Now, did you do any analysis as to what volumes of gas
18 could flow on the proposed Gustin pipeline?

19 A No. I used the volumes that were in the testimony. I
20 did not do any independent verification or analysis,

21 Q You use the term proven reserves on page 6, line 13.
22 Would you please give me your definition of proven
23 reserves?

24 A Well, my definition of proven reserves would probably be
25 something akin to the SEC definition of proven reserves,

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1 which would be drilled, completed and producing
2 commercial reserves.

3 P Would you include in that then a well that's been
4 drilled and completed and tested, but there's no
5 pipeline for which it can be transported on?

6 A Tested with regard to production of natural gas?

7 Q Yes. Im sorry.

8 A If there were production of natural gas, yes.

9 Q Right. But the context of the question, so I make sure
10 I don't confuse you, the context of the question is that
11 there's no pipeline in existence, but there is a test
12 for natural gas that you do on testing wells. Would
13 that -- You would include that in proven reserves?

14 A Yes.

15 Q On that same page you reference 510 thousand Mcf per day
16 on line 23, page 6?

17 A Yea, sir.

18 Q Do you know whether or not included in that figure is
19 gas proposed or and/or coming from the counties of
20 Alcona, Alpena and Oscoda Counties, Michigan?

21 A I believe it's based upon projected possible production
22 from Alpena, Oscoda and Alcona Counties based upon the
23 MOGA producer study that was conducted.

24 Q Does it also include projected possible gas coming from
25 Otsego and Montmorency?

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1 A Yes, sir.

2 Q On that same page you reference an approximate blanket
3 rate of 19.7 cents per Mcf?

4 A Yes.

5 Q Did you testify to that and as well as the 16 cents
6 already in this hearing as to how you arrived at those?

7 A I believe I did.

8 Q Let me just -- since there might be some doubt in your
9 mind, can you tell me as to how you arrived at the 16
10 cents?

11 A Sure, What I did is I reduced by 40 percent the total
12 cost of capital, which would in essence delete the
13 Gustin pipeline, and the corresponding CO-2 facilities.

14 Then I took that number and divided
15 by the annual yearly volumes, which would be 365 times
16 510 thousand Mcf per day. And that resulted in the 16
17 cent per Mcf rate,

18 And then what I did is I reduced the
19 510 thousand Mcf per day total proposed volume by the 95
20 thousand Mcf per day associated with the Gustin line.

21 And that reduces -- or that
22 increases the rate to 19.7 cents. In essence, if those
23 volumes aren't there for the Gustin line, the Gustin
24 line is built, then it increases to 19.7.

25 Q And the 19.7 cents would be regarding the remaining part

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1 of the proposed pipeline that MichCon has proposed
2 initially?

3 A Correct.

4 Q Okay. Why did you reduce it by 95 million per day --
5 strike that.

6 Where do you expect the 95 million
7 per day to be transported if the Gustin pipeline is not
8 constructed?

9 A First of all, I don't know that the 95 thousand is there
10 and there's a need warranted for the Gustin line
11 currently.

12 Q Let me do it this way. Assume for the moment based on
13 the testimony that's been put in that 95 million per day
14 would be available to go into the proposed Gustin
15 pipeline. Are you with me?

16 A Yes, sir.

17 Q Now assume if you would that the Gustin pipeline was not
18 constructed but a lateral would go into that area?

19 A Correct.

20 Q And assume also that the gas from that lateral would be
21 connected to the Spartan Pipeline?

22 A okay.

23 Q If you assume those premises, would you go back to then
24 the 510 million per day when you're arriving at your
25 rate?

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1 A Yes, based on those assumptions I would.

2 Q Your 19 and a half, or 19.7 cents is based on the fact
3 that no gas is coming from any area east of the Spartan
4 Pipeline, correct?

5 A That was the assumption, yes, sir.

6 MR. SAGE: Thank you, Your Honor. I
7 appreciate it.

8 JUDGE MACE: Okay. Mr. Derengoski.

9 MR. DERENGOSKI: Thank you.

10 CROSS-EXAMINATION

11 BY MR. DERENGOSKI:

12 Q Good morning, Mr. Phillips,

13 A Morning, sir.

14 Q In your testimony you refer to Mackinaw Energy Company
15 as simply a subsidiary and a transporter. Can you tell
16 us what the nature of Mackinaw Energy Company actually
17 is?

18 A Mackinaw Energy Company is a Texas general partnership.

19 Q Basically what do they do? What is their line of
20 business other than as a transporter? What does that
21 mean?

22 A They purchase and transport and market natural gas from
23 Antrim producers in the field.

24 Q Do you have a position in Mackinaw Energy Company as
25 well as H.L. Brown?

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1 A Do I personally?

2 Q Yes.

3 A I work -- I'm employed by H.L. Brown, Jr. And H.L.
4 Brown, Jr. is the president of HLB, Inc. And HLB, Inc.
5 is the managing partner and operator of Mackinaw Energy
6 Company.

7 So indirectly I provide and perform
8 service, professional services for Mackinaw Energy
9 Company.

10 Q Okay. What pipelines does Mackinaw Energy Company own,
11 if any?

12 JUDGE MACE: Well, I don't know that
13 you're going to ask the same questions as have already
14 been asked, but Mr. O'Connell has already explored on
15 the record while you were in the prehearing conference
16 the relationship of this witness to Spartan Pipeline,
17 for example.

18 MR. DERENGOSKI: Okay.

19 JUDGE MACE: And the relationship of
20 H.L. Brown, Jr. and HLB, Inc. to Spartan Pipeline. So -
21 -

22 MR. DERENGOSKI: Okay. We can cut
23 out a couple of questions just on that basis. Thank
24 you, Your Honor.

25 JUDGE MACE: Fine.

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1 (BY MR. DERENGOSKI, CONTINUING) Does Mackinaw Energy
2 Company buy Antrim gas?

3 Yes, sir.

4 Do you buy on a firm or interruptible basis?

5 Buy on a firm basis.

6 There's a hypothetical here now we'd like to ask you.

7 Sure.

8 If you assume that Spartan's rate approved by the
9 Commission is not based on cost of service, and you
10 assume also that the CMS pipeline and Saginaw Bay
11 Lovells pipeline rates were determined by the cost of
12 service approach, would you agree that then if the
13 Spartan should be included as a vendored service as you
14 recommend, then Spartan's rates should be based on cost
15 of service also?

16 They --

17 MR. ALSUP: Your Honor, I would
18 object to the question as asking for assumptions that
19 have no foundation in the record.

20 To the extent there is any record
21 evidence, that it is that Spartan's rates are cost of
22 service based, So I would object because there is no
23 foundation for a very important assumption in the
24 question.

25 MR. ERICKSON: Your Honor, I would

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1 object on the grounds that it not only assumes facts not
2 in evidence but it also asks Mr. Phillips to assume that
3 the rates approved by the Commission for those various
4 pipelines are not prima facie valid, and I believe that
5 Section 25 of the Railroad Commission Act, which is
6 applicable, makes those MPSC approved rates prima facie
7 valid and since the question asks him to assume the
8 contrary, it wouldn't be a proper question.

9 JUDGE MACE: Mr. Derengoski.

10 MR. DERENGOSKI: Yes. First of all,
11 we do not claim or mean to infer that either of the
12 Saginaw Bay or the CMS pipelines are invalid for any
13 reason whatsoever.

14 Second basis for the objection is
15 the fact that it's based on items not in evidence, or
16 assumptions that are not in evidence.

17 I think just based on Mr. Erickson's
18 response, the exact contrary is the truth. In the sense
19 that both the CMS and Saginaw Lovells pipelines have
20 been approved by the Commission.

21 So I think we can assume those
22 assumptions are lawful by that very reason that Mr.
23 Erickson stated that they are assumed to be lawful,
24 prima facie lawful.

25 The only one I don't know about is

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1 the Spartan rate. Quite frankly, I just don't know
2 whether or not -- what the situation is on that. It
3 could be one of two things and we're assuming a cost of
4 service not being the basis for that one. So that would
5 be the only presumption that is not addressed at least
6 by implication in the record through a lawful rate as
7 far as I know.

8 MR. ALSUP: May I respond to that,
9 Your Honor.

10 JUDGE MACE: You may.

11 MR. ALSUP: Your Honor, I think in
12 addition to the basis already stated for objecting to
13 this question, that the question and the response would
14 not be relevant to any issue in this proceeding.

15 The rates of Spartan are not at
16 issue in this proceeding. The rates of Spartan are
17 beyond the scope of the issues in this proceeding.
18 Spartan is not a party in this proceeding.

19 Therefore, MER 401 through -- and
20 402 would cause this response not to be relevant and
21 should be inadmissible.

22 In addition, Your Honor, if there
23 should be some reason why there is some relevance that
24 you consider is there, to get into a rate proceeding for
25 Spartan would cause an undue delay and a waste of time

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in violation of Rule MER 403, Your Honor.

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1 And again, I would also suggest
2 that the same reasoning used by Your Honor in ruling
3 on MichCon's motion to strike Mr. Myler's testimony,
4 which appears at Page 2081 of this record, would be
5 applicable, where it is stated that you did not
6 consider the testimony as relevant and then referred
7 to --

8 JUDGE MACE: I remember that.
9 You don't have to say it again.

10 MR. ALSUP: And --

11 MR. ERICKSON: Your Honor, simply
12 stated, Mr. Derengoski apparently isn't aware of the
13 testimony from Mr. Phillips today as well as the fact
14 that we could find from the MPSC files that Spartan
15 has 1993 MPSC approved rates. So that was the
16 assumption that I felt isn't supported by the record,
17 that he was asking Mr. Phillips to assume Spartan
18 rates weren't based on cost of service.

19 And there's no evidence to that
20 effect, and there is evidence in the record
21 indicating Spartan has MPSC approved rates.

22 MR. DERENGOSKI: Your Honor, if
23 I --

24 JUDGE MACE: I'm going to sustain
25 the objection.

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1 Q (BY MR. DERENGOSKI, CONTINUING) Would your concerns
2 about discrimination be eliminated if all pipelines
3 were rolled out of MichCon's proposal and allowed to
4 compete with each other?

5 A On a straight discrimination argument, I would have
6 to say yes. But I would have to condition that
7 answer with the fact that I think that's probably the
8 least cost effective way for the producer to get his
9 production to market.

10 Q Under your proposal to include the Spartan pipeline
11 in the blanket rate of MichCon, would the effect to a
12 producer that did not have any gas that needed to be
13 transported on Spartan be higher than without rolling
14 in the Spartan rate?

15 A Well, I think that argument would hold true for
16 Saginaw Bay, and it would also hold true for CMS.

17 Q But the question was whether or not it would be
18 higher without rolling in the Spartan rate. Do you
19 know whether or not it would be higher?

20 A Well I would assume, using the numbers here, it would
21 be .8 cents higher. But we also have to take into
22 effect and account the CMS rate and also the Saginaw
23 Bay rate.

24 MR. DERENGOSKI: Nothing
25 further.

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1 JUDGE MACE: Mr. O'Connell, did
2 you have anything further?

3 MR. O'CONNELL: No, Your Honor,
4 that didn't prompt any additional questions.

5 JUDGE MACE: Redirect?

6 MR. ALSUP: Your Honor, I just
7 have one question or line of questions.

8 REDIRECT EXAMINATION

9 BY MR. ALSUP:

10 P Mr. Phillips, you were asked questions by Mr.
11 O'Connell regarding the Gustin pipeline. Do you
12 recall that?

13 A Yes, sir.

14 Q And you raised questions regarding the reliability of
15 the 95 million per day being available for that line;
16 is that correct?

17 A Yes, sir.

18 P I believe you were also asked questions regarding
19 other problems you might have with the Gustin
20 pipeline, and whatever the record is will speak for
21 itself. What I would like to ask you, if you will
22 turn to Page 4 and review the question that begins at
23 Line 11 and your response to that question at Line
24 13, if you will do that, please?

25 A Yes, sir.

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1 Q Do you -- whatever responses you may have given to
2 Mr. O'Connell, do you stand by this testimony that
3 says that the Gustin pipeline and related facilities
4 would be too expensive to handle the volumes of
5 Antrim gas for which they are designed?

6 MR. O'CONNELL: Your Honor, I'm
7 going to object. I never asked him a question about
8 Lines 13 through 15. The record speaks for itself.
9 This is improper redirect, There was no ambiguity in
10 my questioning, nor in Mr. Phillips' answer.

11 MR. ALSUP: Well, there may have
12 been some confusion or there may be some ambiguity
13 between whatever responses Mr. Phillips gave to Mr.
14 O'Connell and the answer that begins at Line 13, Page
15 4.

16 JUDGE MACE: I'll allow the
17 answer.

18 THE WITNESS: Yes, I stand by
19 this testimony. And I think I -- Mr. O'Connell's
20 question, I answered half his question. And the
21 other half of that is that we address the 95,000 Mcf
22 per day, and is that there or is that not there. But
23 if it is or isn't doesn't matter. Either way, it's
24 just too doggone expensive.

25 Q (BY MR. ALSUP, CONTINUING) All right, Mr. Phillips.

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1 And you go on to explain that on Page 4, Lines 19
2 through 25. Do you stand by that testimony?

3 A Yes, sir, I do.

4 MR. ALSUP: I have no further
5 questions, Your Honor.

6 JUDGE MACE: Mr. Smith?

7 MR. SMITH: Yes.

8 JUDGE MACE: I'm asking you if
9 you have any recross.

10 MR. SMITH: No, ma'am, I do not.
11 Thank you.

12 JUDGE MACE: Mr. Erickson?

13 MR. ERICKSON: I have none.

14 JUDGE MACE: Mr. Burgess?

15 MR. BURGESS: We have none, Your
16 Honor.

17 JUDGE MACE: Mr. Worman?

18 MR. WORMAN: No, Your Honor.

19 JUDGE MACE: Mr. Gallagher?

20 MR. GALLAGHER: None, Your
21 Honor.

22 JUDGE MACE: Mr. Fields?

23 MR. FIELDS: None, Your Honor.

24 JUDGE MACE: Mr. Ault?

25 MR. AULT: No.

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1 JUDGE MACE: Mr. Sage?

2 MR. SAGE: None, Your Honor.

3 JUDGE MACE: Mr. Derengoski?

4 MR. DERENGOSKI: None, Your
5 Honor.

6 JUDGE MACE: Mr. O'Connell?

7 MR. O'CONNELL: Just briefly.

8 RECROSS - EXAMINATION

9 BY MR. O'CONNELL:

10 Q Mr. Phillips, if I was to understand the import of
11 your redirect, there is also a factor that you would
12 consider in whether or not a particular pipeline
13 service ought to be rolled in, and that is its
14 expense, correct?

15 A Yes, sir.

16 Q Okay. ~~What~~ is the incremental rate for including the
17 Gustin pipeline in MichCon's proposal?

18 A I don't believe I understand the question. Could you
19 define incremental rate for me?

20 Q Well, if you're saying that it would be too expensive
21 as you've responded to Counsel, I want to know how
22 much is it too expensive?

23 MR. ALSUP: Your Honor, I would
24 object to the question for the reason that it goes
25 beyond the scope of the redirect.

PHILLIPS RECROSS O'CONNELL

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1 MR. O'CONNELL: I don't believe
2 it does.

3 JUDGE MACE: I'll allow the
4 answer.

5 THE WITNESS: Well, I think the
6 specific answer to your question is on Page 4, Line
7 19 through 25, which would be the cost of 57 cents
8 per Mcf with 100 percent load factor, and then
9 discounting that somewhat, the 95,000 at a 50 percent
10 factor would yield \$1.14.

11 Q (BY MR. O'CONNELL, CONTINUING) I'm --

12 A Per Mcf.

13 Q I'm asking you if you're suggesting that there's a
14 factor of it being too expensive, that 57 cents is
15 not additive to a 26 1/2 cent or something else, what
16 is the incremental rate associated with the Gustin
17 pipeline which you feel is too expensive?

18 A Sir, you're asking my opinion of a definition of what
19 is too expensive, and I can't give you that. I'm
20 sorry .

21 Q Thank you.

22 A I would just say that --

23 Q Thank you.

24 A These numbers here --

25 JUDGE MACE: No, you've responded

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1 to his question. That's sufficient.

2 MR. O'CONNELL: Nothing further.

3 JUDGE MACE: All right. This
4 witness had no exhibits.

5 Thank you, Mr. Phillips. You're
6 excused.

7 THE WITNESS: Thank you, Your
8 Honor.

9 (Whereupon, the
10 witness was excused.)

11 JUDGE MACE: Is Staff ready to
12 present Mr. Aldrich?

13 MR. DERENGOSRI: Yes, Your
14 Honor.

15 JUDGE MACE: Go ahead.

16 MR. DERENGOSKI: Mr. Aldrich has
17 a single exhibit. It should be marked, would that be
18 203?

19 JUDGE MACE: That would be 5-203,
20 yes.

21 (Whereupon, document
22 marked as Exhibit S-203.)

23 (Whereupon, discussion
24 off the record.)

25 MR. DERENGOSKI: Staff would like

ALDRICH DIRECT DERENGOSKI

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1 to call Mr. William G. Aldrich.

2 WILLIAM G. ALDRICH,
3 after having been first duly sworn by the court
4 reporter, was examined and testified under oath as
5 follows:

6 DIRECT EXAMINATION

7 BY MR. DERENGOSKI:

8 Q Good morning, Mr. Aldrich.

9 A Good morning, Mr. Derengoski.

10 Q Mr. Aldrich, would you please state your full name
11 and business address for the record?

12 A My name is William G. Aldrich. My business address
13 is 6545 Mercantile Way, Lansing, Michigan.

14 Q By whom are you employed and in what capacity?

15 A Im employed as a member of the Michigan Public
16 Service Commission Staff. I work in the Rates and
17 Revenue Requirement Section of the Gas Division.

18 Q In connection with your responsibilities in this
19 case, have you caused to be filed a document entitled
20 the prepared testimony and exhibits of William G.
21 Aldrich OR behalf of the Michigan Public Service
22 Commission Staff?

23 A Yes, I have.

24 Q Does that contain the Part I of qualifications with
25 two pages and a Part II of substantive testimony also

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ALDRICH DERENGOSKI

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1 consisting of two pages?

2 A Yes, it does.

3 Q And are you sponsoring an exhibit which you have
4 marked as WGA-1 and which the court reporter has
5 marked as proposed Exhibit S-203?

6 A Yes.

7 Q As far as the testimony is concerned, are there any
8 additions or corrections which you'd like to make to
9 the testimony?

10 A No.

11 Q Are there any additions or corrections which you'd
12 like to make to the exhibit?

13 A No.

14 Q Is it accurate where *your* exhibit is referred to in
15 the testimony, that those blanks should be filled in
16 S-203?

17 A Yes. There's also a reference to one of Susan C.
18 Devon's exhibits.

19 Q okay.

20 A In *my* testimony. And that one's yet to be numbered
21 yet, so . . .

22 Q Okay. That is on Page 1 of Part 11 of your
23 testimony, at Line 9?

24 A That's correct.

25 MR. DERENGOSKI: Your Honor, at

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1 this time I'd like to ask that the prefiled direct
2 testimony of William G. Aldrich be bound into the
3 record, I request in advance the admission into
4 evidence of proposed Exhibit S-203, and I tender the
5 witness for cross-examination.

6 JUDGE MACE: I'll bind the
7 testimony into the record at this point.

8 (Whereupon, the prepared
9 testimony was bound into
10 the record as follows:)

11
12
13
14

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STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of
MICHIGAN CONSOLIDATED GAS COMPANY
for approval of the constructfon and
operation of the Antrim Expansion
Project consisting of five pipeline
segments and related facilities
in Alcona, Alpena, Clare, Crawford,
Kalkaska, Mecosta, Missaukee, Montcalm,
Montmorency, Osceoda and Otsego Counties,
Michigan.

Case No. U-10547

PREPARED TESTIMONY AND EXHIBITS OF
WILLIAM G. ALDRICH
ON BEHALF OF THE
MICHIGAN PUBLIC SERVICE COMMISSION STAFF

Dated: August 17, 1994

2779

PREPARED TESTIMONY OF WILLIAM G. ALDRICH

CASE NO. U-10547

PART I - QUALIFICATIONS

1 Q. Please state your name and business address.

2 A. My name is William G. Aldrich. My business address is
3 6545 Mercantile Way, P.O. Box 30221, Lansing, Michigan
4 48909.

5 Q. By whom are you employed, and in what capacity?

6 A. I am employed by the Gas Division of the Michigan Public
7 Service Commission Staff. My current position is Gas
8 Cost of Service Specialist for the State of Michigan.

9 Q. What is your employment history with the Commission
10 Staff?

11 A. In 1976, I joined the Commission Staff as an auditor in
12 the Audit Section of the Gas Division. In that position,
13 I participated in numerous audits of gas utilities, and
14 testified before the Commission on a wide variety of rate
15 case accounting issues. In 1979, I transferred to the
16 Rate and Tariff Section of the Gas Division as a tariff
17 analyst and an auditor.. In that capacity, I testified
18 before the Commission on rate design issues in numerous
19 contested rate cases, was involved in the implementation
20 of Act 304 of 1982, conducted many GCR reconciliation
21 audits, and testified on GCR-related issues in both GCR
22 plan cases and GCR reconciliation cases. In 1985, I was
23 promoted to my Current position. In August, 1994, I was
24 reassigned to the Rates and Revenue Requirements Section
25 of the Gas Division.

26 Q. What are your duties as Gas Cost of Service Specialist?

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ALDRICH - PART I

2

1 A. As Gas Cost of Service Specialist, I am the State of
2 Michigan's expert on the technical, economic, and
3 regulatory aspects of the cost of service of the state's
4 natural gas utilities, and the costs of serving the
5 residential, commercial, and industrial customers of
6 those utilities. My primary areas of responsibility
7 include the determination of the costs of serving
8 different classes of customers, natural gas utility rate
9 design in rate case proceedings, and the administration
10 of Commission approved rates.

11 Q. What is your educational background?

12 A. I graduated from Michigan State University in 1976 with
13 a B. A. degree in Business Administration, with a major
14 in Accounting. I have attended the NARUC Annual
15 Regulatory Studies Program. In 1988, I attended the Gas
16 Distribution Engineering course presented by the
17 Institute of Gas Technology. This course concentrated on
18 distribution system capacity design, while also covering
19 such topics as pipeline construction and maintenance,
20 leak detection, corrosion control, and pressure
21 regulation.

22 Q. Are you a member of any professional organizations?

23 A. I am a member of the American Institute of Certified
24 Public Accountants.

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PREPARED TESTIMONY OF WILLIAM G. ALDRICH

CASE NO. U-10547

PART II

- 1 Q. Please explain the purpose of your testimony in this case.
- 2 A. The purpose of my testimony is to support the Staff's proposed rate
- 3 of \$0.073 per Mcf, as shown on Exhibit S-203(WGA-1).
- 4 Q. Please explain how you have calculated the proposed rate of \$0.073
- 5 per Mcf.
- 6 A. Please refer to Exhibit S-203(WGA-i). Line 1 shows the total annual
- 7 cost of service for the first five years of operation. The amounts
- 8 were calculated by Staff witness Susan C. Devon, and are shown on
- 9 her Exhibit S-___(SCD-1). These total amounts were discounted using
- 10 a rate of 10.25%, the estimated overall cost of capital for this
- 11 project. This calculation yields a present value cost of service of
- 12 \$34.9 million for the five year period. Using the Antrim throughput
- 13 volumes developed by Staff witness Donald Mazuchowski, a rate of
- 14 \$0.073 per Mcf is necessary to yield present value revenues of \$34.9
- 15 million.
- 16 Q. Why are you proposing to recover costs over a five year period,
- 17 rather than for a single test year period as rates are typically
- 18 designed by the Commission?
- 19 A. Staff witness Devon discusses Staff's proposal to reexamine the
- 20 rates for this project after a five year period. Setting rates to
- 21 recover projected five year costs is consistent with that proposal.
- 22 Q. Why is it necessary to set rates to recover present value revenues
- 23 equivalent to the present value of the five year cost of service?
- 24 A. Please refer again to Exhibit S-203(WGA-1). Lines 1 and 7 of this
- 25 exhibit show the actual revenues and cost of service for the five
- 26 year period. As you can see, except for Year 4, the revenues and

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ALDRICH - PART II

2

1 costs are not equal. This inequality of revenues and expense can
2 result in additional (or reduced) financing costs that would not be
3 recognized by simply equating nominal revenues to nominal costs.
4 Only by equating the present value of costs and revenues can we be
5 sure that HichCon has a reasonable opportunity to recover its costs.

6 Q. Does this conclude your testimony at this time?

7 A. Yes, it does.

ALDRICH CROSS ERICKSON

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1 JUDGE MACE: Mr. Smith?

2 MR. SMITH: No questions, Your

3 Honor.

4 JUDGE MACE: Mr. Erickson?

5 MR. ERICKSON: Thank you, Your

6 Honor.

7 CROSS-EXAMINATION

8 BY MR. ERICKSON:

9 Q Good morning, Mr. Aldrich.

10 A Good morning, Mr. Erickson.

11 Q Mr. Aldrich, as I understand your testimony and your

12 Exhibit S-203, the 7.3 cent per Mcf rate that you

13 identify is a rate you would recommend to the

14 Commission for recovery of the coats of service

15 identified by Staff witness Susan Devon. Am I

16 correct?

17 A Yes.

18 Q I assume that if the Commission ultimately adopted a

19 different cost of service, that your proposed rate

20 would need to be adjusted accordingly.

21 A That's correct.

22 Q Now looking at Exhibit S-203, it appears to me that

23 if I take the volumes on Line 5 and add them up for

24 the five years, and I take the total cost of service

25 on Line 1 and add those up for the five years and

ALDRICH CROSS ERICKSON

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1 divide, that I get your rate. Is that the method by
2 which you calculated the rate?

3 A No, it isn't.

4 Q Is it purely coincidental that it works that way?

5 A Yes.

6 Q What is the method you used to develop the 7.3 cents?

7 A The method I used to develop the 7.3 cents was to
8 first calculate the number on Line 3, total present
9 value cost of service on my exhibit, the 34.9 million
10 dollars. Then knowing the volumes, I was able to
11 force a rate that would be sufficient to recover,
12 over the five-year period, the total present value
13 cost of service number shown on Line 3.

14 Q Well when I take the volumes on Line 5, add them up
15 and divide those total volumes into 34.9 million
16 dollars, I only get 5.46 cents per Mcf. What kind of
17 a forcing mechanism was involved in getting a result
18 of 7.3 cents instead of the 5.46 cents?

19 A Okay. The number on Line 3 is the amount of costs
20 stated in present -- present dollars, today's
21 dollars- So if you take the sum of the numbers on
22 Line 1, you get a result, probably about 45 million
23 dollars. I haven't done the calculation.

24 But that would be in both present
25 and future dollars. For instance, the number in Year

ALDRICH CROSS ERICKSON

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1 5, 9.4 million dollars, that represents cost of
2 service in Year 5. But expressed in today's dollars,
3 that number would be significantly less. I used a
4 discounting factor of ten and a quarter percent to
5 bring that future cost into today's dollars.

6 Q It appears to me that that development of present
7 value is shown on the bottom Left-hand side of
8 Exhibit S-203; am I right?

9 A Yes. Yes, it is.

10 Q Okay. And when I look at that present value, that is
11 the calculation by which you match the numbers on
12 Line 1 and the numbers on Line 2. Am I right?

13 In other words, your calculation
14 in the columns in that bottom section left-hand side
15 yield the Line 1 and Line 2 numbers, which are then
16 put up on Lines 1 and 2.

17 A Right, they yield the Line 2 numbers. The Line 1
18 numbers come from --

19 Q From the Staff.

20 A -- Staff witness Ms. Devon's exhibit, yeah.

21 Q The Line 1 column with FV underneath it is the same
22 as the Line 1 numbers above which were provided by
23 Ms. Devon. I guess I'm not clear, why do we call
24 that future value if Ms. Devon identified it as a
25 cost of service?

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ALDRICH CROSS ERICKSON

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1 A Well, that's just a term that's used to differentiate
2 between the present value and -- which is stated in
3 today's dollars, and the future value, which is
4 stated in future dollars.

5 Q I guess my confusion is this: Let's use the number
6 of 7.3 million there. The future value in Year 5 of
7 the 7.3 million dollars in Year 1 would be something
8 greater than 7.3 million dollars, as I understand
9 it. And that's where my confusion lies. Could you
10 clarify that for me?

11 A Which particular year were you looking at?

12 Q Using Year 1, the 7.3 million dollar value, if we
13 were going to ask the question about future value, I
14 understood future value would be to take the dollar
15 in Year 1 and state it in terms of value in some
16 subsequent year, And it didn't seem like that's what
17 was being done down at the bottom, and I just
18 wondered if you could clarify that for me.

19 A Yeah. If you wanted to do that, if you wanted to
20 find out what the value of these cash flows or -- or
21 in this case we're talking about the costs. But, you
22 know, what these costs are in terms of Year 5
23 dollars, then you could do that. And you would get a
24 number which is considerably higher.

25 Q Okay. So the future --

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1 A Because a dollar today is worth more than a dollar in
2 Year 5.

3 Q So the heading FV for future value in your
4 calculations of the present value of revenue
5 development cost of service doesn't mean the
6 restating of dollars in one year in terms of the
7 value of dollars in a subsequent year.

8 A I think that's right, yes.

9 Q Okay. Now I understand. Okay. Now, I added up the
10 total cost of service on Line 1 as well as the total
11 revenue on Line 7 of your exhibit. And in both
12 cases, they added up to 46.7 million dollars. Is it
13 purely coincidental that the total revenue sum equals
14 the total cost sum, as well as the total present
15 values are equal?

16 A Yes. Yes, it is.

17 Q And I take it the reason for that coincidence is
18 probably driven by the fact that some of the
19 investment doesn't come in until Year 2.

20 A I didn't really analyze why it works out that way.

21 Q Okay.

22 A The volumes are fairly constant.

23 Q Okay.

24 A I think a number of things just happened to fall into
25 place, so that there really is no difference between

ALDRICH CROSS ERICKSON

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1 doing the present value type calculation that we've
2 done and just picking a rate and using it.

3 Now, I'm still a bit confused about the development
4 of the 7.3 cent rate. Let me ask this question:
5 After you've calculated the total present value of
6 the cost of service, which is 34.9 million dollars,
7 somehow apparently you use the volumes on Line 5 to
8 develop the rate. But I'm still not sure exactly how
9 that works mathematically to get 7.3 cents.

10 Okay.

11 Could you show me the equation relationship between
12 the volumes and the total present value?

13 Okay. As I said before, I forced the rate. By that,
14 what I meant was I started out and I picked a rate,
15 let's say an 8 cent rate. Okay? And then I plugged
16 that into Line 6 across, across on Line 6, the 8 cent
17 rate. And then I calculated what the total revenue
18 would be and what the present value of that total
19 revenue would be. And I came up with a number on
20 Line 9.

21 Using an 8 cent rate, I would
22 have had too high of a revenue. So I might have gone
23 to a 7 cent rate and gone through the same
24 calculation. And so by trial and error, I could just
25 focus in on the 7.3 cent rate.

ALDRICH CROSS ERICKSON

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1 Q Okay. And the reason --

2 A I probably could have done it more scientifically,
3 but that's the method that I used.

4 Q Okay, I understand. And the reason why, when you
5 divide the total volumes on Line 9 into the total
6 cost of service on Line 1 that you get the same 7.3
7 cents is because coincidentally the total revenue
8 value equals the total cost of service value.

9 A Right.

10 Q Okay.

11 MR. ERICKSON: I have nothing
12 further, Your Honor.

13 Oh, wait, I do too. I'm sorry.

14 Q (BY MR. ERICKSON, CONTINUING) Mr. Aldrich, as I
15 understand it if the Commission were to modify the
16 results recommended by Mr. Mazuchowski, Mr. Ballinger
17 or Mr. Berquist, to the extent they are relied upon
18 in Ms. Devon's calculations, that would result in a
19 modification of the number that you developed in
20 S-203. Is that understanding correct?

21 A Yes.

22 Q If you -- if we did change the cost of service
23 numbers for some reason, would you still suggest this
24 methodology for developing the rate?

25 A Yes.

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ALDRICH CROSS ERICKSON

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1 MR. ERICKSON: I have nothing
2 further now. Thank you.

3 JUDGE MACE: Mr. Alsup?

4 MR. ALSUP: I have no questions,
5 Your Honor.

6 JUDGE MACE: Mr. Burgess?

7 MR. BURGESS: I have no
8 questions, Your Honor.

9 JUDGE MACE: Mr. Woman?

10 MR. WOMAN: No questions, Your
11 Honor.

12 JUDGE MACE: Mr. Gallagher?

13 MR. GALLAGHER: None, Your
14 Honor.

15 JUDGE MACE: Mr. Berkemeier?

16 MR. BERKEMEIER: No questions,
17 Your Honor.

18 JUDGE MACE: Mr. Fields?

19 MR. SMITH: Mr. Fields has
20 authorized me to indicate to Your Honor that he has
21 no questions.

22 JUDGE MACE: Mr. Ault?

23 MR. AULT: No questions, Your
24 Honor.

25 JUDGE MACE: Mr. Sage?

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ALDRICH CROSS SAGE

2791

1 MR. SAGE: Just one question,
2 Your Honor.

3 CROSS-EXAMINATION

4 BY MR. SAGE:

5 Q Mr. Aldrich, would you refer to Page 10? I'm sorry,
6 there's no Page 10. Part 11, Line 10, the first
7 page-

8 A Okay.

9 Q All I'd like to know is how did you arrive at the
10 10.25 percent for the overall cost of capital?

11 A That was Mr. Ballinger's number.

12 Q All right. Thank you.

13 MR. SAGE: Nothing further.

14 JUDGE MACE: Mr. O'Connell?

15 MR. O'CONNELL: Thank you.

16 CROSS-EXAMINATION

17 BY MR. O'CONNELL:

18 Q Good morning, Mr. Aldrich.

19 A Good morning.

20 Q Just a few questions. You mention on Page 1, Part II
21 of your testimony, a five-year period in Line 12 and
22 also in Lines 19 through 20, Staff's proposal to
23 re-examine rates for this project after a five-year
24 period.

25 My question initially is was the

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1 present value cost of service for the five-year
2 period driven by Ms. Devon's proposal to re-examine
3 rates after the five-year period?

4 A Yes.

5 Q Okay. So would she be the witness to ask questions
6 regarding the policy and the reasoning behind the
7 five-year period?

8 A Yes.

9 Q Mr. Aldrich, on Lines 16 through 18 of that same
10 page, the question there talks about why are we
11 recovering over a five-year period rather than -- and
12 I quote -- "a single test year period as rates are
13 typically designed by the Commission."

14 And my question is, the single
15 test year period, does that refer to typically
16 utility rates?

17 A Yes, it does.

18 Q Are pipeline transportation rates, to your knowledge,
19 seeking approval under Act 9, typically approved in a
20 single test year period?

21 MR. ERICKSON: Your Honor, I'm
22 going to object to the question on the grounds that
23 there's a significant legal issue that lies
24 underneath the potential answer to that. Michigan
25 Consolidated Gas Company is a utility.

ALDRICH CROSS O'CONNELL

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1 There are two acts relative to
2 certification of pipelines, one being Act 9 of 1929
3 and the other being Act 69 of 1929. And the Act 9
4 applies generally to persons seeking certification of
5 pipelines. Act 69 applies specifically to utilities
6 seeking certification of pipelines.

7 And so I think the handling of
8 those and the typical depends a lot on what
9 interpretation you and the Commission might put on
10 those acts and their applicability. And for that
11 reason, because there's a question of law lying
12 underneath it, the question that is being asked for
13 Mr. Aldrich is one that can't be answered without
14 that legal background as an implicit part of the
15 basis and the answer.

16 And so I believe it's -- it
17 indirectly deals with a legal question.

18 MR. O'CONNELL: Your Honor, I'm
19 really stumped as to what that was all about. My
20 question is related to his testimony on a single test
21 year period as rates are typically designed by the
22 Commission. And I'm asking for a pipeline, under Act
23 9, whether that's typical.

24 JUDGE MACE: I'll allow the
25 answer.

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ALDRICH CROSS O'CONNELL

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1 MR. O'CONNELL: In his
2 knowledge. That's all.

3 THE WITNESS: Well, I don't have
4 a lot of experience in that area. But I have seen
5 several applications for rates under Act 9 for
6 pipeline transportation. And in those instances,
7 there was a multi-year calculation, similar to what
8 we're doing here.

9 (BY MR. O'CONNELL, CONTINUING) Well, would you agree
10 that it is only recently that rates have been --
11 strike that.

12 You say you've seen several
13 applications for rates under Act 9 with multi-year
14 calculations. Do you recall if any of those adopted
15 the methodology as you've set forth in Exhibit S-203?
16 No, no, I don't believe that any of the rates that
17 were ultimately approved were based on a methodology
18 which is precisely the same as what I've shown in
19 S-203.

20 MR. O'CONNELL: Nothing further.

21 JUDGE MACE: Mr. Derengoski?

22 MR. DERENGOSYI: No redirect,
23 Your Honor.

24 JUDGE MACE: Is there any
25 objection to the admission of proposed Exhibit

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1 S-2031 Hearing no objection, I'll admit that
2 exhibit.

3 Thank you, Mr. Aldrich. You're
4 excused.

5 THE WITNESS: Thank you, Your
6 Honor.

7 (Whereupon, the
8 witness was excused.)

9 JUDGE MACE: Is the Staff ready
10 to present Ms. Devon?

11 MR. DERENGOSKI: Yes, Your
12 Honor. Staff would like to call Susan Crimmins Devon
13 to the stand.

14 MR. O'CONNELL: Your Honor, can I
15 just take two or three minutes off the record?

16 JUDGE MACE: Yes, let's go off
17 the record. We'll take a very short recess, just
18 five minutes.

19 (Whereupon, recess
20 taken at 11:38 a.m.)
21 (Whereupon, document
22 marked as Exhibit S-204.)
23
24
25

1 SUSAN CRIMMINS DEVON

2 After having been first duly sworn by the court
3 reporter, was examined and testified under oath
4 as follows:

5 DIRECT EXAMINATION

6 BY MR. DERENGOSKI:

7 Q Good morning, Ms. Devon.

8 A Good morning.

9 Q Ms. Devon, would you please state your full name and
10 business address for the record?

11 A Yes, my name is Susan Crimmins Devon, and my business
12 address is 6545 Mercantile Way, Lansing, Michigan.

13 Q By whom are you employed and in what capacity?

14 A I'm employed by the Michigan Public Service
15 Commission as Supervisor of the Rates and Revenues
16 Requirements Section of the Gas Division.

17 Q In connection with your responsibilities in this
18 case, have you caused to be filed a document
19 entitled, "The Prepared Testimony and Exhibits of
20 Susan Crimmins Devon on Behalf of the Michigan Public
21 Service Commission Staff"?

22 A Yes, I have.

23 Q And are you also sponsoring a single exhibit, which
24 has been marked by the reporter as Proposed Exhibit
25 S-204, and which is listed in your testimony as

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DEVON DIRECT DERENGOSKI

2797

1 Exhibit SCD-1?

2 A Yes, I have.

3 Q Are there any additions or corrections that you'd
4 like to make to your testimony?

5 A No.

6 Q Are there any additions or corrections that you would
7 like to make to the exhibit?

8 A No.

9 Q Throughout your testimony, where it refers to Exhibit
10 SCD-1, do you mean to refer to Proposed Exhibit
11 S-204?

12 A Yes.

13 MR. DERENGOSKI: Your Honor, at
14 this time, I'd like to ask that the direct testimony
15 of Susan Crimmins Devon be bound into the record, I
16 ask in advance for admission into evidence of
17 Proposed Exhibit S-204, and I tender the witness for
18 cross-examination.

19 JUDGE MACE: I'll bind the
20 testimony into the record at this point.

21 (The prefiled direct testimony of
22 Susan C. Devon, consisting of 10
23 pages, is bound into the record as
24 follows.)
25

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2798

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)
MICHIGAN CONSOLIDATED GAS COMPANY)
for approval of the construction and)
operation of the Antrim Expansion)
Project consisting of five pipeline)
segments and related facilities)
in Alcona, Alpena, Clare, Crawford,)
Kalkaska, Mecosta, Missaukee, Montcalm,)
Montmorency, Osceoda and Otsego Counties,)
Michigan)

Case No. U-10547

PREPARED TESTIMONY AND EXHIBITS OF
SUSAN CRIMMINS DEVON
ON BEHALF OF THE
MICHIGAN PUBLIC SERVICE COMMISSION STAFF

Date: August 17, 1994

2799

PREPARED TESTIMONY OF SUSAN CRIMMINS DEVON

CASE NO. U-10547

PART I - QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Susan Crimmings Devon and my business address is 6545 Mercantile Way, Lansing, Michigan 48911.

Q. By whom are you employed and in what capacity?

A. I am employed by the Michigan Public Service Commission. I am the Supervisor of the Rates and Revenue Requirements Section within the Gas Division.

Q. Please describe your educational background.

A. I received a Bachelor of Business Administration Degree with a major in accounting from Western Michigan University in 1976. I attended the National Association of Regulatory Utility Commissioners sponsored short course on regulation in 1980. I am a Certified Public Accountant in the State of Michigan and a member of the American Institute of Certified Public Accountants.

Q. What is your professional background?

A. Upon graduation from Western, I worked as an accountant for the Sonneveldt Co., a distribution company in Grand Rapids, Michigan. I obtained the position of compliance auditor in the Financial and Accounting Standards Section of the Technical Services Division of the Commission in November of 1978. While in this position I conducted field examinations of gas, electric, and telephone utilities for compliance with the Uniform System of Accounts and the orders of the Michigan Public Service Commission. From January 1982 to September 1984, I worked as an auditor in the Gas Audit Section where I was responsible for conducting investigations and testifying on accounting and ratemaking issues in numerous gas utility rates

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DEVON - PART I

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cases including Michigan Consolidated Gas Company's last six general rate proceedings, Cases Nos. U-7298, U-7985, U-8409, U-8812, U-9475, and U-10150. In addition, I have investigated and testified in various Gas Cost Recovery reconciliation proceedings. I became Acting Supervisor of the Gas Audit Section in September of 1984 and Supervisor in April of 1985. As supervisor of the Audit Section, I was primarily responsible for planning, direction and coordination of the gas rate case investigations and case presentations as well as the annual audits and case presentations associated with GCR reconciliations. I was also responsible for the financial monitoring of the gas utilities in Michigan. In July 1994 I became supervisor of the Gas Division's new Rates and Revenue Requirements Section. In addition to the responsibilities I previously had as supervisor of the Gas Audit Section, I am now responsible for planning, directing, and coordinating all activities associated with rate design, cost of service studies, and tariff administration for the Gas Division,

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DIRECT TESTIMONY OF SUSAN CRIMMINS DEVON

CASE NO. U-10547

PART II

1 Q. What is the purpose of your testimony?

2 A. The purpose of my testimony is to present the cost of service
3 associated with the Staff's proposed Antrim pipeline project
4 presented by Staff witness Hazuchowski. I am also responsible for
5 presenting Staff's recommendation regarding future accounting and
6 filing requirements for the dry Antrim pipeline.

7 Q. Are you sponsoring any exhibits in this proceeding?

8 A. Yes, I am sponsoring one exhibit, Staff Exhibit S- (SCD-1) which
9 consists of 2 pages.

10 Q. Please explain page 1 of Exhibit S- (SCD-1).

11 A. Page 1 of this exhibit shows the calculation of average annual rate
12 base as determined using the capital costs associated with Staff's
13 recommended pipeline project. Total capital costs of \$29,580,000
14 were provided by Staff witness Mazuchowski. The rate base
15 calculations are presented in the same format used by Applicant with
16 deferred federal income taxes shown as a reduction to rate base in
17 lieu of the more traditional method of including them in the capital
18 structure. Unit of production depreciation, as recommended by Staff
19 witness Berquist, is used for book depreciation purposes.

20 Q. Please explain page 2 of Exhibit S- (SCD-1).

21 A. Page 2 of this exhibit shows the annual cost of service associated
22 with the Antrim expansion project. The required return on
23 investment is shown on line 2 and is based upon an after tax overall
24 rate of return of 10.25%. The pre-tax rate of return is 13.95%.
25 Lines 3a-3c reflect the costs associated with Antrim gas which will
26 flow through Michigan Consolidated Gas Company's (MichCon) Wet

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1 Header System. Staff's case assumes that the new pipeline will
2 transport up to 260 MMcf/d and that any gas in excess of that
3 capacity will flow on the Wet Header System. The Wet Header costs
4 include MichCon's Wet Header tariff rate of \$0.022 per Mcf, Kalkaska
5 processing charges of \$0.07 per Hcf, and the KIF charge of \$0.01 per
6 Mcf. Staff's case assumes all Antria gas flowing through the Wet
7 Header System will be processed through the Shell plant. Line 4
8 reflects the estimated annual operation and maintenance expenses
9 associate with the project. Line 5 shows the effect of the Single
10 Business Tax (SBT) Capital Acquisition Adjustment associated with
11 the project's capital expenditures. For SBT purposes, capital
12 expenditures are deductible all in the year the plant is initially
13 placed into service. Each year thereafter, depreciation is added
14 back to taxable income for purposes of calculating SBT. Property
15 taxes are shown on line 6 and are based upon Applicant's estimated
16 tax rate of 1.96%. Depreciation on line 7 is based upon a unit of
17 production rate of 0.02114 per Mcf applied to all gas flowing on the
18 new Antrim pipeline.

19 **LOST WET HEADER REVENUES**

20 Q. Does Staff's cost of service include *lost* Wet Header Revenues?

21 A. No it does not. Applicant's witness Stanczak included \$2.2 million
22 of lost Wet Header revenues in the Antrim project's cost of service
23 calculation. According to Mr. Stanczak's direct testimony:

24 "As part of the order in MichCon's most recent rate case, MPSC
25 Case No. U-10150, HichCon had approximately \$2.9 million of
26 Wet Header revenue included in its rates as a cost of service

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1 off-set. HichCon will lose a significant portion of this Wet
2 Header revenue, once the proposed Antrim Expansion Facilities
3 are placed in service, due to the reduction of Antrim gas
4 Roving on the Wet Header. Therefore, this revenue loss must
5 be reflected as a cost of providing service on the new Antrim
6 Facilities. To do otherwise would deny MichCon the
7 opportunity to achieve its authcrized rate of return."
8 (Transcript Volume 9, pages 1773-1774)

9 Q. Does Staff agree with this conclusion?

10 A. No. According to MichCon's application and Mr. Walter's testimony,
11 the Dry Header transportation services Applicant wishes to provide
12 will be offered pursuant to Public Act 9 of 1929, as amended {Act
13 9). Dry Antrim gas transportation services currently provided on
14 the Wet Header system are offered pursuant to MichCon's Rate
15 Schedule TWH-1, Firm Transportation Rate and TWH-2, Interruptible
16 Transportation Rate. These rate schedules were established in
17 MichCon's last general rate case, Case No. U-10150, under Public Act
18 3 of 1939, as amended (Act 3). As noted in Mr. Stanczak's direct
19 testimony, anticipated revenues from Wet Header transportation were
20 Included as a offset to MichCon's cost of service in that rate case.
21 Lost Yet Header rate schedule revenues, due to a reduction in
22 transpartation of Antria, gas on the Wet Header, should not result in
23 higher rates for the transporters of Antrim gas on the new Dry
24 Header system. The loss of revenues to MichCon, due to declining
25 throughput on the Wet Header, is a rate case issue and should be
26 addressed only in the context of a genera rate case. If MichCon

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1 will not be able to earn its authorized rate of return as a result
2 of the anticipated Wet Header revenue loss, then rate relief should
3 be requested through a rate proceeding, not through increased rates
4 for Antrim Dry Header transportation.

5 Q. Isn't that inconsistent with the Commission treatment of lost
6 storage revenues in MichCon's recent supply realignment case, Case
7 No. U-9638?

8 A. No. In Case No. U-9638, the Commission did authorize MichCon an
9 increase in rates, to permit, among other things, recovery of lost
10 storage revenues resulting from the abandonment of MichCon's
11 Interstate Storage Division due to the realignment. However, the
12 supply realignment case was a limited issue rate case, agreed to by
13 all parties, in the settlement of Applicant's general rate case,
14 Case No. U-9475. Case No. U-9638 was, in effect, merely an
15 extension of the general rate proceeding. This case is neither a
16 general rate case nor a negotiated, limited purpose rate proceeding.

17 Q. Did MichCon request that a Dry Header rate schedule tariff be
18 established under Act 3 in this proceeding?

19 A. No it did not. However, Mr. Stanczak did testify that if there was
20 a need to embody the new contract in a tariff, MichCon would provide
21 it¹.

22 Q. If MichCon had requested a Dry Header rate schedule tariff under Act
23 3 would Staff have supported the inclusion of the lost Wet Header
24 revenues in the cost of service of the Antrim project?

25 A. No. MichCon's current Wet Header, Off System, and End Use

26 ¹Transcript, Volume 9, page 1766

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1 transportation rates were established under Act 3 in the Company's
2 last rate case. Staff believes Antrim Dry Header rates could also
3 be established under Act 3 outside of a full rate case. However, a
4 request to establish a tariff rate in such a limited purpose
5 proceeding should simply result in the establishment of the new
6 tariff rate schedule and should not provide for rate relief which
7 otherwise would only be granted in the course of a full rate
8 proceeding.

9 ACCOUNTING REQUIREMENTS

10 Q. Does Staff think it is necessary to embody the new Act 9 Dry Header
11 contract in a tariff?

12 A. No. In fact, Staff does not support the inclusion of this project
13 in Applicant's utility operations at all. According to Mr.
14 Stanczak's direct testimony², since MichCon's retail customers will
15 not receive any direct benefit due to increased Antrim capacity, it
16 would be inappropriate for them to bear the cost related to any
17 facilities which are constructed for the explicit purpose of
18 expanding Antrim capacity. Further Mr. Stanczak testified on cross
19 examination³ that the ratepayers will receive no direct benefit from
20 any of the total project costs. On the other hand, MichCon is
21 proposing that the Antrim Expansion Facilities be included in future
22 general cases of MichCon⁴.

23 ²Transcript, Volume 9, page 1768.

24 ³Transcript, Volume 9, page 1876

25 ⁴MPSC Staff's first discovery request, question 31. (Exhibit
26165)

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1 Staff is concerned about the risks associated with the cost
2 and reserve estimates of this project, as well as the producers'
3 commitments to flow gas through the facilities. Staff is troubled
4 by the possibility that ratepayers may, in some future proceeding,
5 be asked to support the project costs should current estimates of
6 cost, reserves, or pipeline throughput prove to be erroneous. Staff
7 therefore recommends that this project be approved by the Commission
8 contingent upon the establishment of a separate corporate division
9 to account for the Dry Header system. Staff envisions this division
10 to be similar to the Interstate Storage Division where books and
11 records were separately maintained, independent of utility
12 operations. The accounting system should follow the MPSC's Uniform
13 System of Accounts for Major Gas Utilities. It is expected that
14 appropriate cost allocations will be made to the new division as
15 necessary. This accounting is reasonable in that it allows for the
16 separation of this project from utility operations and reduces
17 concerns regarding the transfer of risk associated with the project
18 to utility ratepayers. Finally, Staff recommends that the
19 operations of this new division not be included or "rolled" into
20 utility operations in any future general rate case proceedings.

21 **FUTURE FILING REQUIREMENTS**

22 Q. What is Staff's proposal with respect to future rate filings
23 associated with this project if MichCon constructs the pipeline
24 system described by witness Mazuchowski?

25 A. Due to the uncertainty surrounding cost, reserve, and throughput
26 estimates, Staff believes that rates established in this proceeding

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1 should be reexamined at the end of five years to determine if such
2 rates remain reasonable and continue to provide MichCon with an
3 opportunity to recover its investment in the project. Staff
4 therefore recommends that MichCon be ordered to make a rate filing
5 no later than five years following the initial implementation of
6 rates in this proceeding. This recommendation is not intended to,
7 nor would it, prohibit MichCon from requesting rate relief, if
8 necessary, at any time before the end of five year period.
9 Likewise, this recommendation would not prohibit other parties from
10 requesting a show cause proceeding to reduce rates if such a need
11 arises.

12 **KALKASKA-WOOLFOLK PIPELINE**

13 Q. If the producers indicate a desire for more flexibility south of
14 Kalkaska and wish to support MichCon's proposal for the Kalkaska-
15 Woolfolk pipeline, would Staff support the inclusion of the cost of
16 this pipeline in the Dry Header rate?

17 A. Staff would consider supporting the additional cost in the Dry
18 Header rate if the majority of the producers wish to commit to the
19 pipeline proposal. The cost of the pipeline would be included in
20 the Dry Header system cost or service, and should be accounted for
21 in the same manner as the rest of the Dry Header system since this
22 pipeline would only be built for the benefit of the producers to
23 move Antrim gas to market.

24 Q. Does this complete your testimony?

25 A. Yes it does.

DEVON CROSS SCHMIEGE

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1 JUDGE MACE: Mr. Smith?

2 MR. SMITH: Mr. Schmiede has some
3 questions.

4 JUDGE MACE: Mr. Schmiede?

5 MR. SCHMIEGE: Thank you, Your
6 Honor.

7 CROSS-EXAMINATION

8 BY MR. SCHMIEGE:

9 Q Good morning, Ms. Devon.

10 A Good morning.

11 Q My name is Glen Schmiede, I represent SWEPI, and I'd
12 like to ask you just a few questions regarding your
13 future filing requirement proposal that you refer to
14 at pages 6 through 7 of your testimony?

15 A All right.

16 Q Are you, in this proposal, expressing a concern for
27 whether MichCon will have adequate recovery in five
10 years?

19 A I guess that would be part of it, yes.

20 Q Are you suggesting today that Staff's rate proposal
21 will result in unreasonable rates for MichCon in five
22 years?

23 A No, Staff proposal is based on what we feel are the
24 best estimates that we could come up with, however,
25 they're all estimates, everything involved in the

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DEVON CROSS SCHMIEGE

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1 Staff's case, and all the cases actually, are all
2 estimates of cost, capital, throughput, reserves,
3 everything in the case, they're all estimates. And
4 so the recommendation was based on recognition of
5 those estimates that we'd like to take another look
6 at them within five years to find out if everything
7 -- if the rates that were set are still reasonable.

8 Q I take it that Staff has a concern regarding
9 uncertainty, I see that you've used the term
10 "uncertainty" at line 25 on page 6 of your testimony?

11 A Yes.

12 Q Is that a fair characterization, that Staff is
13 concerned about uncertainty?

14 A Yes.

15 Q And are there certain things that would reduce the
16 risk involved in -- or the risk associated with
17 MichCon's proposal, such as the dedication of
18 reserves?

19 A *That would certainly help, if there was some*
20 *indication of producer support for the proposal.*
21 *Would we haven't seen that at this point, so we are*
22 *concerned about the throughput.*

23 Q But if that were to happen, if there would be
24 producer support, dedication of reserves would help
25 reduce the risk; is that correct?

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DEVON CROSS SCHMIEGE

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1 A It would help reduce the risk, but I don't think it
2 would change the Staff proposal with respect to
3 recommending a review after five years.

4 Q Isn't it also true that the substantial current
5 amount of Antrim production, when compared to the
6 total expected amount of production, also helps
7 reduce the risk?

8 A Could you repeat that?

9 Q Sure. Let me try to rephrase it for you.

10 A Okay.

11 Q There's a certain anticipated amount of Antrim
12 production, either under Staff's proposal or any of
13 the other proposals in the case, and would you agree
14 that today there's a substantial amount of Antrim
15 production compared to the total amount that is
16 expected?

17 A I believe that that's true. I believe Don could
18 answer those questions, Mr. Mezuchowski,

19 Q Well, let me ask you this: Are there other things,
20 such as the unit of production depreciation
21 methodology, that would help to reduce the risk to
22 MichCon?

23 A I guess I'm -- I guess I would have to ask, when you
24 say reduce the risk to MichCon, I guess I'm not clear
25 what your question is. Reduce the risk of what?

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