



**RICHARD P. MIDDLETON, ESQ.**  
Legal Department  
(313) 235-3647

May 19, 2006

Ms. Mary Jo Kunkle  
Executive Secretary  
Michigan Public Service Commission  
6545 Mercantile Way  
Lansing, MI 48909-7721

Re: In the matter of THUNDER BAY GATHERING COMPANY's Application  
for authority to increase transportation rates on its THUNDER BAY pipeline  
MPSC Case No. U-14672

Dear Ms. Kunkle:

Attached for electronic filing is Thunder Bay Gathering Company's Rebuttal Testimony  
of Mark C. Cieslak along with a Proof of Service.

Very truly yours,

**Richard P.  
Middleton**

Richard P. Middleton

Digitally signed by Richard P.  
Middleton  
DN: cn=Richard P. Middleton,  
c=US, o=DTE Energy, ou=Legal -  
Attorney,  
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Date: 2006.05.19 11:48:02 -04'00'

RPM/kbt  
Attachments  
cc: Service List

STATE OF MICHIGAN  
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of THUNDER )  
BAY GATHERING COMPANY's Application)  
for authority to increase transportation )  
rates on its THUNDER BAY pipeline )

Case No. U -14672

REBUTTAL TESTIMONY

OF

MARK C. CIESLAK

MICHIGAN CONSOLIDATED GAS COMPANY  
REBUTTAL TESTIMONY OF MARK C. CIESLAK

Line  
No.

1     **Q.     Are you the same Mark C. Cieslak who previously sponsored**  
2           **testimony in this case?**

3     A.     Yes.

4

5     **Q.     What is the purpose of your rebuttal testimony?**

6     A.     The purpose of my testimony is to address MPSC Staff (Staff) Witness  
7           Droz's calculation of a key determinant used in calculating the Staff's  
8           transportation rate for Thunder Bay Gathering Company (Thunder Bay).  
9           The beginning plant balance at the date of the Applicant's purchase of the  
10          pipeline is understated and should be increased by \$1,128,000.

11

12    **Q.     How does this change in the beginning plant balance affect the**  
13          **transportation rate sponsored by Staff?**

14    A.     This addition to the beginning plant balance will increase the Staff-  
15          sponsored rate by \$.0170 per Mcf, from \$.1054 per Mcf to \$.1224 per Mcf.

16

17    **Q.     Are you sponsoring exhibits in support of your rebuttal position?**

18    A.     Yes. I am sponsoring the following exhibits in support of my rebuttal testimony:

19          Exhibit TB-21 (MCC-10)     Revised Droz Exhibit S-1 (AYD-1) – Modified for  
20                                               New Beginning Plant Balance

21          Exhibit TB-22 (MCC-11)     Revised Janssen Exhibit S-3 (BJ-1) – Modified  
22                                               for New Beginning Plant Balance

Line  
No.

1     **Q.     What is the purpose of these exhibits?**

2     A.     My exhibits, prepared in the same format as the original Staff exhibits,  
3            identify the plant, cost of service components and the transportation  
4            revenue rate impact of modifying the beginning plant balance on the date  
5            the pipeline was purchased by the Applicant. I have shaded the specific  
6            new information on Exhibit TB-21 (MCC-10) that I've modified. The  
7            remaining values were left the same or only changed because the equation  
8            used to calculate a value utilized the new information I am sponsoring.

9

10    **Q.     What starting point for calculating the beginning net plant balance**  
11       **does Mr. Droz use in calculating Thunder Bay's transportation rate?**

12    A.     On Page 6, Line 19 through Page 7, Line 2, Mr. Droz states he used the  
13            pipeline seller's accumulated depreciation balance of \$1,699,657 (\$1.7  
14            million) as the starting point for calculating Thunder Bay's net plant value.  
15            This accumulated depreciation amount should not be used as the starting  
16            point.

17

18    **Q.     Why should this level of accumulated depreciation not be used?**

19    A.     It does not represent the depreciated value of the pipeline over its initial two  
20            years of service, and thus does not represent the book value or the fair  
21            market value of the pipeline.

22

23

Line  
No.

1     **Q.     Who was responsible for recording the initial two years of depreciation**  
2           **on the pipeline asset?**

3     A..    Thunder Bay LLC, a partnership between Terra Energy LTD and Wolverine  
4           Gas and Oil Company, recorded the initial reduction in pipeline value  
5           through depreciation entries on the books of Thunder Bay LLC. Thunder  
6           Bay LLC was the applicant in the original Act 9 case (Case No. U-10782)  
7           approving the construction, unit of transportation depreciation rate and initial  
8           transportation rate for the Thunder Bay pipeline.

9

10    **Q.     What method did Thunder Bay LLC use to depreciate the pipeline asset?**

11    A.    As noted on Mr. Droz's Exhibit S-1 (AYD-1), he utilized a workpaper  
12          provided by Applicant during his audit of Thunder Bay's filing. This  
13          workpaper labeled "Thunder Bay Pipeline, LLC, Schedule of Depreciable  
14          Equipment" identifies Thunder Bay LLC's accumulated depreciation through  
15          December 17, 1997, the date of MichCon's acquisition. This is where the  
16          \$1.7 million was derived. The basis for calculating the depreciation expense  
17          during the initial two years was the use of a tax depreciation methodology,  
18          MACRS with a 15 year life, in lieu of unit of transportation depreciation  
19          method authorized by the Commission.

20

21    **Q.     Why shouldn't book depreciation be based on tax depreciation**  
22          **methodologies and specific to this case, on a 15 year life**  
23          **methodology?**

Line  
No.

1 A. There are three reasons why this tax methodology should not be used for  
2 booked depreciation:

3 1. Tax depreciation is usually an accelerated method of depreciating assets  
4 for tax purposes where the owner of an asset gets some upfront tax  
5 benefit / cash flow savings when paying income taxes in the early years  
6 of an asset's life.

7 2. Book depreciation using a 15 year life when the original case (U-10782)  
8 identified the recoverable reserve period as 30 years does not match the  
9 depreciation timeframe with the useful life of the asset. In effect, this  
10 method would have eliminated the entire asset value 15 years prior to  
11 the end of its expected useful life.

12 3. As highlighted in Mr. Droz's testimony on Page 7, Line 3 and 4, and in my  
13 direct testimony on Page MCC-11, Line 4 through MCC-12, Line 4, the  
14 Commission authorized the use of a unit of transportation depreciation  
15 rate of \$.013 per Mcf in Case No. U-10782 for Thunder Bay LLC. This  
16 was not the method used by Thunder Bay LLC prior to the Applicant's  
17 acquisition of the pipeline.

18

19 **Q. Has the MPSC Staff's method for calculating the 2006 starting net plant**  
20 **balance been handled consistently?**

21 A. No. For the first two years of service (1996 and 1997), Mr. Droz used 5.00%  
22 and 9.50% depreciation rates based on MACRS with 15 years life. Mr. Droz  
23 then used \$.013 per Mcf of transported volume for years 1998 through 2005

Line  
No.

1 consistent with the rate authorized in the Commission order authorizing the  
2 construction of this pipeline.

3

4 **Q. What adjustment are you proposing to Staff's exhibits?**

5 A. Since the original Order authorized a unit of transportation depreciation rate  
6 of \$.013 per Mcf, depreciation expense in 1996 and 1997 should be  
7 calculated using the same methodology. Based on Mr. Dereniewski's  
8 throughput volumes tabulated on Exhibit TB-8 (ED-8), the 1996 and 1997  
9 transported volumes total 43,975 MMcf. Depreciating the pipeline based on  
10 these volumes and a \$.013 per Mcf depreciation rate results in an  
11 accumulated depreciation amount of \$572,000. This is the level of  
12 accumulated depreciation that should be used rather than the \$1.7 million  
13 reflected on the books based on a tax depreciation methodology.

14

15 **Q. Does this conclude your rebuttal testimony?**

16 A. Yes, it does.

STATE OF MICHIGAN  
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of THUNDER )  
BAY GATHERING COMPANY's Application) )  
for authority to increase transportation )  
rates on its THUNDER BAY pipeline )

Case No. U -14672

EXHIBITS  
OF  
MARK C. CIESLAK

Case No: U-14672  
 Witness: M. C. Cieslak  
 Exhibit: TB-21 (MCC-10)  
 Page: 1 of 5

**Cost of Service Derivation**  
 (\$ in 000's)

| Line | Description                       | 2006            | 2007            | 2008            | 2009            | 2010            | Source                   |
|------|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------------------|
| 1    | Average Net Plant                 | \$ 5,834        | \$ 4,925        | \$ 4,109        | \$ 3,375        | \$ 2,710        | Pg. 2 Ln 16              |
| 2    | Rate of Return                    | 11.58%          | 11.58%          | 11.58%          | 11.58%          | 11.58%          | Exh. S-2                 |
| 3    | Return & Income Taxes             | \$ 676          | \$ 570          | \$ 476          | \$ 391          | \$ 314          | Lines 1 * 2              |
| 4    | O&M Expense                       | \$ 462          | \$ 487          | \$ 495          | \$ 505          | \$ 515          | Exh. TB-17, pg. 1, Ln 3  |
| 5    | Depreciation Expense              | \$ 1,177        | \$ 1,027        | \$ 888          | \$ 775          | \$ 678          | Pg. 2, Ln 7              |
| 6    | MSBT Adj for Depreciation @ 1.90% | \$ 22           | \$ 20           | \$ 17           | \$ 15           | \$ 13           | Ln 5* 1.9%               |
| 7    | Property Taxes                    | \$ 37           | \$ 34           | \$ 32           | \$ 30           | \$ 29           | Exh. TB-17, pg 4, Ln 1   |
| 8    | <b>Total Cost of Service (1)</b>  | <b>\$ 2,374</b> | <b>\$ 2,138</b> | <b>\$ 1,908</b> | <b>\$ 1,716</b> | <b>\$ 1,549</b> | Total, Lines 3 through 7 |

(1) Before revenue offsets. See Exhibit TB-22 (MCC-11)

**Projected Depreciation Expense & Net Plant**  
2005 - 2010  
(\$ in 000's)

| Line | Description | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Source |
|------|-------------|------|------|------|------|------|------|--------|
|------|-------------|------|------|------|------|------|------|--------|

**A. Depreciation Expense & Accumulated Depreciation**

Depreciation Rate

|                                                        |                |     |                 |                 |                 |                 |                 |                       |
|--------------------------------------------------------|----------------|-----|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------------|
| 1 Restated Net Plant (Gross Plant - Accumulated Depr.) | \$ 7,677       | (1) |                 |                 |                 |                 |                 | Pg. 3, Ln 11, 2005    |
| 2 Expected Vol., 2006-2025 (Remaining Reserves)        | <u>119,217</u> |     |                 |                 |                 |                 |                 | Exh. TB-8             |
| 3 Unit of Trans Depr. Rate / Mcf                       | \$ 0.0644      |     |                 |                 |                 |                 |                 | Ln1 / Ln 2            |
| 4 Transportation Volume, projected                     |                |     | 18,197          | 15,875          | 13,715          | 11,963          | 10,451          | Exh. TB-8             |
| 5 Depreciation Expense                                 |                |     | \$ 1,172        | \$ 1,022        | \$ 883          | \$ 770          | \$ 673          | Ln3 * Ln 4            |
| 6 Asset Retirement Cost                                |                |     | \$ 5            | \$ 5            | \$ 5            | \$ 5            | \$ 5            | Exh. TB-17, Ln 5      |
| 7 Total Depreciation Expense                           |                |     | <u>\$ 1,177</u> | <u>\$ 1,027</u> | <u>\$ 888</u>   | <u>\$ 775</u>   | <u>\$ 678</u>   | Lns 5 + 6             |
| 8 Incremental Accumulated Depr. Since 12/31/2005       |                |     | <u>\$ 1,177</u> | <u>\$ 2,204</u> | <u>\$ 3,092</u> | <u>\$ 3,867</u> | <u>\$ 4,545</u> | Ln 8, prior yr + Ln 7 |

**B. Adjusted Net Plant (2)**

|                                                        |                 |     |                 |                 |                 |                 |                 |                                           |
|--------------------------------------------------------|-----------------|-----|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------------------------------|
| 9 Restated Net Plant (gross Plant - Accumulated Depr.) | \$ 7,677        | (1) |                 |                 |                 |                 |                 | Pg. 3, Ln 11, 2005                        |
| 10 LESS: Accumulated ARO through 12/31/05              | <u>\$ 190</u>   |     |                 |                 |                 |                 |                 | Pg. 4, Ln 8, 2005                         |
| 11 Net Plant LESS Accum. ARO @ 12/31/05                | \$ 7,487        |     | \$ 7,487        | \$ 7,487        | \$ 7,487        | \$ 7,487        | \$ 7,487        | Ln 9 - Ln 10                              |
| 12 LESS: ARO Incremental Liability (3)                 |                 |     | \$ 12           | \$ 24           | \$ 36           | \$ 48           | \$ 60           | @ \$12 / yr as per Exh TB-13, pg. 2, Ln 9 |
| 13 LESS: Incremental Accumulated Depreciation (3)      |                 |     | \$ 1,177        | \$ 2,204        | \$ 3,092        | \$ 3,867        | \$ 4,545        | Ln 8                                      |
| 14 LESS: DFIT Liability                                | <u>\$ 1,174</u> |     | <u>\$ 943</u>   | <u>\$ 764</u>   | <u>\$ 635</u>   | <u>\$ 544</u>   | <u>\$ 488</u>   | Pg. 5, Ln 8; sign reversed                |
| 15 Adjusted Net Plant                                  | \$ 6,313        |     | <u>\$ 5,355</u> | <u>\$ 4,494</u> | <u>\$ 3,724</u> | <u>\$ 3,027</u> | <u>\$ 2,393</u> | Ln 11 less Lns 12 thru 14                 |
| 16 Average Adjusted Net Plant                          |                 |     | <u>\$ 5,834</u> | <u>\$ 4,925</u> | <u>\$ 4,109</u> | <u>\$ 3,375</u> | <u>\$ 2,710</u> | Avg. of beg. & ending balances, Ln 15     |

(1) @ 12/31/05

(2) Used for return component of cost of service. See pg. 1

(3) since 12/31/05

Case No: U-14672  
 Witness: M. C. Cieslak  
 Exhibit: TB-21 (MCC-10)  
 Page: 3 of 5

**Net Plant**  
 Through 2005 Projection  
 (\$000)

| Line                 | Description                    | @ 12/18/97<br>Purchase<br>1996/1997 | 1998                   | 1999                   | 2000                   | 2001                   | 2002                   | 2003                   | 2004                   | 2005                   | Source          |
|----------------------|--------------------------------|-------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|-----------------|
| <b>Gross Plant</b>   |                                |                                     |                        |                        |                        |                        |                        |                        |                        |                        |                 |
|                      | Beg. Balance                   |                                     |                        |                        |                        |                        |                        |                        |                        |                        |                 |
| 1                    | Pipeline                       | (1) 10,145                          | 10,393                 | 10,430                 | 10,868                 | 10,902                 | 10,902                 | 10,902                 | 10,902                 | 10,902                 | (2)             |
| 2                    | Non-Pipeline                   | \$ -                                | \$ -                   | \$ -                   | \$ -                   | \$ -                   | \$ -                   | \$ 106                 | \$ 106                 | \$ 106                 | Exh TB-12, Ln 2 |
| 3                    | Total                          | <u>\$ 10,145</u>                    | <u>\$ 10,393</u>       | <u>\$ 10,430</u>       | <u>\$ 10,868</u>       | <u>\$ 10,902</u>       | <u>\$ 10,902</u>       | <u>\$ 11,008</u>       | <u>\$ 11,008</u>       | <u>\$ 11,008</u>       | Lns 1 + 2       |
| <b>Net Additions</b> |                                |                                     |                        |                        |                        |                        |                        |                        |                        |                        |                 |
| 4                    | Pipeline                       | \$ -                                | \$ 248                 | \$ 37                  | \$ 438                 | \$ 34                  | \$ -                   | \$ -                   | \$ -                   | \$ -                   | Exh TB-12, Ln 4 |
| 5                    | Non-Pipeline                   | \$ -                                | \$ -                   | \$ -                   | \$ -                   | \$ -                   | \$ -                   | \$ 106                 | \$ -                   | \$ -                   | Exh TB-12, Ln 5 |
| 6                    | Total                          | <u>\$ -</u>                         | <u>\$ 248</u>          | <u>\$ 37</u>           | <u>\$ 438</u>          | <u>\$ 34</u>           | <u>\$ -</u>            | <u>\$ 106</u>          | <u>\$ -</u>            | <u>\$ -</u>            | Lns 4 + 5       |
| <b>End Balance</b>   |                                |                                     |                        |                        |                        |                        |                        |                        |                        |                        |                 |
| 7                    | Pipeline                       | \$ 10,145                           | \$ 10,641              | \$ 10,467              | \$ 11,306              | \$ 10,936              | \$ 10,902              | \$ 10,902              | \$ 10,902              | \$ 10,902              | Lns 1 + 4       |
| 8                    | Non-Pipeline                   | \$ -                                | \$ -                   | \$ -                   | \$ -                   | \$ -                   | \$ -                   | \$ 212                 | \$ 106                 | \$ 106                 | Lns 2 + 5       |
| 9                    | Total Gross Plant              | <u>\$ 10,145</u>                    | <u>\$ 10,641</u>       | <u>\$ 10,467</u>       | <u>\$ 11,306</u>       | <u>\$ 10,936</u>       | <u>\$ 10,902</u>       | <u>\$ 11,114</u>       | <u>\$ 11,008</u>       | <u>\$ 11,008</u>       | Lns 7 + 8       |
| 10                   | LESS: Accumulated Depreciation | \$ 572                              | \$ 985                 | \$ 1,410               | \$ 1,785               | \$ 2,133               | \$ 2,455               | \$ 2,787               | \$ 3,070               | \$ 3,331               | Pg 4, Ln 6      |
| 11                   | <b>Net Plant</b>               | <u><u>\$ 9,573</u></u>              | <u><u>\$ 9,656</u></u> | <u><u>\$ 9,057</u></u> | <u><u>\$ 9,521</u></u> | <u><u>\$ 8,803</u></u> | <u><u>\$ 8,447</u></u> | <u><u>\$ 8,327</u></u> | <u><u>\$ 7,938</u></u> | <u><u>\$ 7,677</u></u> | Ln 9 - Ln 10    |

12 (1) 1997 balance as per books of Thunder Bay LLC (seller of pipeline to Thunder Bay Gathering Company) @ 12/18/97:  
 (\$000)

|    |                                                       |                         |
|----|-------------------------------------------------------|-------------------------|
| 13 | Thunder Bay Pipeline LLC, Property, Plant & Equipment | \$ 16,048               |
| 14 | LESS: Hubbard Lake Plant                              | \$ 3,812                |
| 15 | LESS: Deferred Asset Valuation Allowance              | \$ 2,091                |
| 16 | Adjusted pipeline, gross plant                        | <u><u>\$ 10,145</u></u> |

17 Source: Thunder Bay Pipeline, LLC, Schedule of Depreciable Equipment & Trial Balance, both provided in response to AYD-5.

18 (2) Line 9, prior year

**Depreciation**  
Through 2005 Projected  
(\$ in 000's)

| Line | Description                               | @ 12/18/97<br>Purchase |          |          |          |          |          |          |          |          | Source                |
|------|-------------------------------------------|------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------------------|
|      |                                           | 1996/1997              | 1998     | 1999     | 2000     | 2001     | 2002     | 2003     | 2004     | 2005     |                       |
|      |                                           | (1)                    |          |          |          |          |          |          |          |          |                       |
|      | Depreciation Expenses & Accumulated Depr. |                        |          |          |          |          |          |          |          |          |                       |
| 1    | Transportn Volumes                        | 43,975                 | 31,792   | 32,674   | 28,887   | 26,723   | 24,833   | 22,921   | 21,333   | 19,737   | Exh. TB-8             |
| 2    | Depreciation Rate                         | \$ 0.013               | \$ 0.013 | \$ 0.013 | \$ 0.013 | \$ 0.013 | \$ 0.013 | \$ 0.013 | \$ 0.013 | \$ 0.013 | Exh. Tb-13, Ln 23     |
| 3    | Depreciation Exp.                         | \$ 572                 | \$ 413   | \$ 425   | \$ 376   | \$ 347   | \$ 323   | \$ 298   | \$ 277   | \$ 257   | Lns 1 * 2             |
| 4    | ADD: Asset Ret Cost Amort.                |                        |          |          |          |          |          | \$ 34    | \$ 5     | \$ 5     | Exh. Tb-13, pg2, Ln 6 |
| 5    | Adjusted Depr. Exp.                       | \$ 572                 | \$ 413   | \$ 425   | \$ 376   | \$ 347   | \$ 323   | \$ 332   | \$ 282   | \$ 262   | Lns 3 + 4             |
| 6    | Accumulated Depreciation                  | \$ 572                 | \$ 985   | \$ 1,410 | \$ 1,785 | \$ 2,133 | \$ 2,455 | \$ 2,787 | \$ 3,070 | \$ 3,331 | Line 6 prev yr + Ln 5 |
|      | Asset Retirement Obligation               |                        |          |          |          |          |          |          |          |          |                       |
| 7    | Asset Retirement Obl.                     |                        |          |          |          |          |          | \$ 167   | \$ 11    | \$ 12    | Exh. TB-13, pg2, Ln9  |
| 8    | Accumulated ARO                           |                        |          |          |          |          |          | \$ 167   | \$ 178   | \$ 190   | Ln 8 prev yr + Ln 7   |

9 (1) 1996 and 1997 Accumulated Depreciation based on Case No. U-10782 authorized depreciation rates rather than booked tax depreciation.

10 Source: Thunder Bay Pipeline, LLC, Schedule of Depreciable Equipment & Trial Balance, both provided in response to AYD-5.

**Deferred Federal Income Tax LIABILITY**  
1998 - 2010 (Projections after 2004)  
(\$ in 000's)

| Line                                     | Description                        | 1998     | 1999     | 2000     | 2001     | 2002     | 2003     | 2004       | 2005       | 2006     | 2007     | 2008     | 2009     | 2010     | Source |
|------------------------------------------|------------------------------------|----------|----------|----------|----------|----------|----------|------------|------------|----------|----------|----------|----------|----------|--------|
| <u>Depreciation Tax/Book Differences</u> |                                    |          |          |          |          |          |          |            |            |          |          |          |          |          |        |
| 1                                        | Book Depreciation                  | \$ 413   | \$ 425   | \$ 376   | \$ 347   | \$ 323   | \$ 298   | \$ 277     | \$ 257     | \$ 1,177 | \$ 1,027 | \$ 888   | \$ 775   | \$ 678   |        |
| 2                                        | Tax Deporeciation                  | \$ 1,276 | \$ 797   | \$ 766   | \$ 736   | \$ 685   | \$ 637   | \$ 593     | \$ 590     | \$ 517   | \$ 517   | \$ 517   | \$ 517   | \$ 517   |        |
| 3                                        | Book - Tax                         | \$ (863) | \$ (372) | \$ (390) | \$ (389) | \$ (362) | \$ (339) | \$ (316)   | \$ (333)   | \$ 659   | \$ 510   | \$ 371   | \$ 258   | \$ 161   |        |
| 4                                        | FIT Rate                           | 35%      | 35%      | 35%      | 35%      | 35%      | 35%      | 35%        | 35%        | 35%      | 35%      | 35%      | 35%      | 35%      |        |
| 5                                        | DFIT due to Bk/Tx Depr Differences | \$ (302) | \$ (130) | \$ (137) | \$ (136) | \$ (127) | \$ (119) | \$ (110)   | \$ (117)   | \$ 231   | \$ 178   | \$ 130   | \$ 90    | \$ 56    |        |
| 6                                        | <u>Other Tax/Book Differences</u>  | \$ (61)  | \$ 57    | \$ 9     | \$ (12)  | \$ 102   | \$ (37)  | \$ (54)    | \$ -       | \$ -     | \$ -     | \$ -     | \$ -     | \$ -     |        |
| <u>DFIT</u>                              |                                    |          |          |          |          |          |          |            |            |          |          |          |          |          |        |
| 7                                        | Total Change in DFIT Liability     | \$ (363) | \$ (73)  | \$ (128) | \$ (148) | \$ (25)  | \$ (156) | \$ (164)   | \$ (117)   | \$ 231   | \$ 178   | \$ 130   | \$ 90    | \$ 56    |        |
| 8                                        | Accumulated DFIT Liability         | \$ (363) | \$ (436) | \$ (564) | \$ (712) | \$ (737) | \$ (892) | \$ (1,057) | \$ (1,174) | \$ (943) | \$ (764) | \$ (635) | \$ (544) | \$ (488) |        |

(1) Tax Depreciation  
Gross Plant @ 12/31/2005  
Tax Depreciation Rate  
Tax Depreciation

|          |          |           |          |           |                               |
|----------|----------|-----------|----------|-----------|-------------------------------|
| \$11,008 | \$11,008 | \$ 11,008 | \$11,008 | \$ 11,008 | Exh. S-1, pg. 3 / TB-21, pg 3 |
| 4.70%    | 4.70%    | 4.70%     | 4.70%    | 4.70%     | Exh. TB-17, pg 2, line 9      |
| \$ 517   | \$ 517   | \$ 517    | \$ 517   | \$ 517    |                               |

(2) Negative figures increase DFIT liability, positive figures reduce it.

**THUNDER BAY GATHERING COMPANY**  
**CALCULATION OF TRANSPORTATION RATE**  
\$(000s Omitted)

| Line                              | Description                                | Year 1<br>2006         | Year 2<br>2007  | Year 3<br>2008  | Year 4<br>2009  | Year 5<br>2010  | Source                                             |
|-----------------------------------|--------------------------------------------|------------------------|-----------------|-----------------|-----------------|-----------------|----------------------------------------------------|
| 1                                 | <b>Total Cost of Service</b>               | \$ 2,374               | \$ 2,138        | \$ 1,908        | \$ 1,716        | \$ 1,549        | Exhibit TB-21 (MCC-10), pg 1, Line 8               |
|                                   | LESS:                                      |                        |                 |                 |                 |                 |                                                    |
| 2                                 | Receipt Point Fees                         | \$ 178                 | \$ 178          | \$ 178          | \$ 178          | \$ 178          | Exhibit TB-17 (MCC-6), pg 1 33 meters * \$450 * 12 |
| 3                                 | Administrative Chg Revenues                | \$ 36                  | \$ 36           | \$ 36           | \$ 36           | \$ 36           | Exhibit TB-17 (MCC-6), pg 1 10 cust * \$300 * 12   |
| 4                                 | <b>Net Cost of Service</b>                 | <u>\$ 2,160</u>        | <u>\$ 1,924</u> | <u>\$ 1,694</u> | <u>\$ 1,502</u> | <u>\$ 1,335</u> | Line 1 - Line 2 - Line 3                           |
| 5                                 | <b>Present Value Cost of Service</b>       | <u>\$ 1,990</u>        | <u>\$ 1,633</u> | <u>\$ 1,325</u> | <u>\$ 1,082</u> | <u>\$ 886</u>   | Below                                              |
| 6                                 | <b>Total Present Value Cost of Service</b> | <u><u>\$ 6,916</u></u> |                 |                 |                 |                 | Sum of Line 5                                      |
| <b>Throughput</b>                 |                                            |                        |                 |                 |                 |                 |                                                    |
| 7                                 | Projected Annual Trans. Vol. MMcf          | 18,197                 | 15,875          | 13,715          | 11,963          | 10,451          | Exh. TB-8 (ED-8)                                   |
| <b>Levelized Rate and Revenue</b> |                                            |                        |                 |                 |                 |                 |                                                    |
| 8                                 | 5 yr Levelized Rate \$/Mcf                 | \$ 0.1224              | \$ 0.1224       | \$ 0.1224       | \$ 0.1224       | \$ 0.1224       | Solve for                                          |
| 9                                 | Total Revenues                             | <u>\$ 2,227</u>        | <u>\$ 1,943</u> | <u>\$ 1,679</u> | <u>\$ 1,464</u> | <u>\$ 1,279</u> | Line 7 * Line 8                                    |
| 10                                | Present Value Revenues                     | <u>\$ 2,052</u>        | <u>\$ 1,649</u> | <u>\$ 1,313</u> | <u>\$ 1,055</u> | <u>\$ 849</u>   | Below                                              |
| 11                                | <b>Total Present Value Revenues</b>        | <u><u>\$ 6,918</u></u> |                 |                 |                 |                 | Sum of Line 10                                     |

**Present Value Cost of Service Development**

| Year | Discount Rate | 1 + Disc. | Disc. Fctr | From<br>Line 4 | To<br>Line 5    |                                          |
|------|---------------|-----------|------------|----------------|-----------------|------------------------------------------|
| 1    | 0.0854        | 1.0854    | 0.9213     | \$ 2,160       | \$ 1,990        | Discount Rate from<br>Exhibit S-2 (BB-1) |
| 2    | 0.0854        | 1.0854    | 0.8488     | \$ 1,924       | \$ 1,633        |                                          |
| 3    | 0.0854        | 1.0854    | 0.7820     | \$ 1,694       | \$ 1,325        |                                          |
| 4    | 0.0854        | 1.0854    | 0.7205     | \$ 1,502       | \$ 1,082        |                                          |
| 5    | 0.0854        | 1.0854    | 0.6638     | \$ 1,335       | \$ 886          |                                          |
|      |               |           |            |                | <u>\$ 6,916</u> |                                          |

**Present Value Revenue Development**

| Year | Discount Rate | 1 + Disc. | Disc. Fctr | From<br>Line 9 | To<br>Line 10   |                                          |
|------|---------------|-----------|------------|----------------|-----------------|------------------------------------------|
| 1    | 0.0854        | 1.0854    | 0.9213     | \$ 2,227       | \$ 2,052        | Discount Rate from<br>Exhibit S-2 (BB-1) |
| 2    | 0.0854        | 1.0854    | 0.8488     | \$ 1,943       | \$ 1,649        |                                          |
| 3    | 0.0854        | 1.0854    | 0.7820     | \$ 1,679       | \$ 1,313        |                                          |
| 4    | 0.0854        | 1.0854    | 0.7205     | \$ 1,464       | \$ 1,055        |                                          |
| 5    | 0.0854        | 1.0854    | 0.6638     | \$ 1,279       | \$ 849          |                                          |
|      |               |           |            |                | <u>\$ 6,918</u> |                                          |

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of THUNDER )  
BAY GATHERING COMPANY's Application )  
for authority to increase transportation ) Case No. U -14672  
rates on its THUNDER BAY pipeline )

**PROOF OF SERVICE**

STATE OF MICHIGAN )  
 ) ss.  
COUNTY OF WAYNE )

JENNIFER EVANS, being duly sworn, deposes and says that on the 19<sup>th</sup> day of May, 2006 she served a copy of Thunder Bay Gathering Company's Rebuttal Testimony of Mark C. Cieslak, along with a Proof of Service upon the parties listed on the attached service list via electronic mail.

Jennifer Evans

Digitally signed by Jennifer Evans  
DN: cn=Jennifer Evans, c=US, o=DECO/  
MichCon, ou=Regulatory Affairs,  
email=evansj2@deenergy.com  
Date: 2006.05.18 15:00:23 -04'00'

JENNIFER EVANS

Subscribed and sworn to before  
me this 19<sup>th</sup> day of May, 2006.

Estella R. Branson

Digitally signed by Estella R. Branson  
DN: cn=Estella R. Branson, c=US,  
o=Regulatory Affairs, ou=Detroit Edison/  
MichCon, email=bransone@deenergy.com  
Date: 2006.05.18 15:03:32 -04'00'

Notary Public

**SERVICE LIST**  
**MPSC CASE NO. U-14672**  
**As of May 19, 2006**

**MICHIGAN PUBLIC SERVICE**  
**COMMISSION STAFF**

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**DOMINION MIDWEST ENERGY, INC.**  
**DOMINION RESERVES, INC.**  
**HRF EXPLORATION AND PRODUCTION, LLC**  
**PETROLEUM DEVELOPMENT CORPORATION**  
**QUICKSILVER RESOURCES, INC.**  
**TRENDWELL ENERGY CORPORATION**  
**JORDAN DEVELOPMENT COMPANY, LLC**

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**THUNDER BAY GATHERING COMPANY**

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